

A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance from the NOVA – School of Business and Economics.

IBERSOL EQUITY RESEARCH – A
SPECIAL SIT AT THE IBERIAN TABLE

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Abstract

This report aims to provide an independent recommendation based on the valuation of Ibersol. The valuation utilizes the Adjusted Present Value (APV) approach and is supported by detailed sensitivity and scenario analyses. Furthermore, an in-depth analysis of the company and industry landscape has been conducted. According to this assessment, the target price for Ibersol determined in this report is higher than its current market price.

Keywords: Quick-service, valuation, special situations, Iberia

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This report is part of the Ibersol Equity Research report (annexed), developed by Bernardo Martins and Guilherme Mourão and should be read as an integral part of it.

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Introduction

Our goal is to uncover the fair value of Ibersol's shares using the Adjusted Present Value (APV) methodology, while also stress-testing our analysis through sensitivity and scenario modeling. To paint the full picture, we've also looked at Ibersol's strategy, strengths, and position within its industry.

Ibersol's target price, based on our analysis, is higher than its current market price. In fact, we estimate a significant upside of 103%, which supports our strong buy recommendation. This potential comes from Ibersol's efficiency in managing costs, its ability to achieve positive returns on invested capital, and its history of creating value through acquisitions. These factors, combined with its move into promising new segments like Taco Bell and Pret a Manger, make Ibersol a standout opportunity in the market.

This individual report focuses on the company historical background, overview and financial analysis, as well as projections for the future. My partner's part focuses more on the Succession, M&A, comparables and scenario analysis.

Company Overview

Historical Background

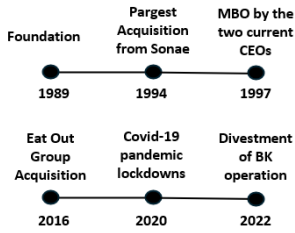


Figure 1 - Ibersol's Timeline

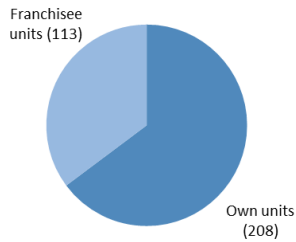


Figure 2 - Eat Out Group's number of restaurants (2015).

Source: Ibersol

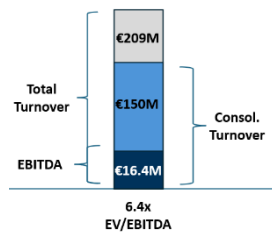


Figure 3 - Eat Out Group's acquisition (2015). Source: Ibersol, MORAM Capital

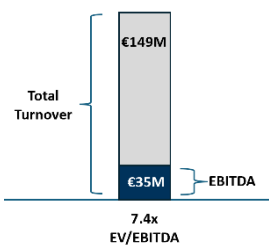


Figure 4 - Burger King financials (2021).

Source: Ibersol

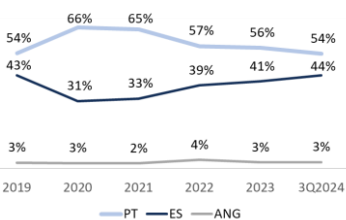


Figure 5 - Revenue distribution proportion per region (2023). Source: Ibersol

Ibersol started its activity in the quick service restaurant business in 1989, as a subsidiary of the Sonae Group, with the goal of developing the Pizza Hut brand in Portugal. Later in 1994, Pargeste decided to acquire Ibersol from the Sonae Group, with the goal of further expanding it into different foodservice and leisure areas¹. Since 1997, Ibersol has been led by António Leal Teixeira and António Pinto Sousa, holding a combined 50.6% of the shares, having carried out the MBO in 1997 (holding 60% of capital at the time)².

In October of 2016, the group expanded its presence in the Spanish Market with the acquisition of the Eat Out Group, a leading foodservice group in Spain, with geographical reach in Spain, Italy and Portugal. With the acquisition, Ibersol became the owner of Pans & Company, Ribs, Santa Maria and FrescoCo, as well as its travel business.

In November of 2022, Ibersol concluded the sale of its Burger King operation to RBI (Restaurant Brands Iberia). At the time, the segment represented 32.2% of the group's turnover. The sale occurred on a cash-free, debt-free basis with Ibersol receiving €244.5M in cash plus an earn-out of €15.5M². As a result, currently, Ibersol holds a net cash position (excluding leases) of around €125.9M (around 40% of market capitalization). Yet, Ibersol became smaller, with less well-known brands, unexposed to the burgers' segment, and potentially lost purchasing power over its suppliers.

Currently, the company manages a portfolio of owned brands, including Pans & Company, Ribs, FrescoCo, Pizza Móvil, and Santa Maria, with a total of 162 units, 60 of which are operated by franchisees. In addition, Ibersol operates franchises of Yum! Brands, specifically Pizza Hut, KFC, and Taco Bell, across 255 units, along with 4 Pret A Manger units. The company also operates concessions, namely food service outlets in airports, motorways, and train stations. These include the aforementioned brands as well as Sol and other regional brands, across 115 units. Furthermore, Ibersol runs a catering division, through the Silva Carvalho Catering and Palace Catering's brands, providing additional revenue streams through event-based and institutional catering services.

Restaurant Brands Overview

¹ Ibersol Group. n.d. "History." Ibersol Group. Accessed July 10, 2024. <https://www.iversol.pt/iversol/history/>.

² Moram Capital. 2023. "Ibersol Analysis - MORAM." Moram Capital. Accessed July 10, 2024. <https://moram.eu/iversol/>.

	3Q24	
	Equity restaurants	Franchisee units
Owned Brands		
Pans & Company	74	32
Ribs	12	15
FresCo	1	2
Pizza Móvil	12	4
Santa Maria	-	3
Franchises		
Pizza Hut	114	-
KFC	117	-
Taco Bell	25	-
Pret A Manger	4	-
Others	120	1

The most relevant owned brand managed by Ibersol (concerning turnover) is **Pans & Company (QSR)**, which Ibersol operates in a counter-service format across both Portugal and Spain. Originally founded in Barcelona in 1991, Pans & Company became part of Ibersol's portfolio in 2016 following the acquisition of the Eat Out Group. It is a fast-food chain specialized in sandwiches³. The brand's topline is stagnated, recording a 0.0% 2017-2023 CAGR.

The group enters into 10-year renewable franchise contracts (12 years for the case of Pret A Manger) with international brands⁴. We highlight the most relevant in terms of turnover.

Pizza Hut (QSR & FSR): owned by Yum! Brands, Ibersol operates it in Portugal, Spain and Angola. Ibersol operates both Pizza Hut counters and FSRs. Turnover associated to Pizza Hut from 2017 to 2023 grew at a 3.8% CAGR.

KFC (QSR): owned by Yum! Brands, Ibersol operates KFC counters in Portugal, Spain and Angola. The segment recorded the highest CAGR of turnover since 2017, 9.4%. The high growth is, partially, attributed to the effort in establishing partnerships with delivery services, as Glovo, Uber Eats and Bolt Food.

Taco Bell (QSR): The group operates Taco Bell franchises in Portugal (owned by Yum! Brands) since the end of 2019. According to management, the Mexican Cuisine concept has been very well accepted by the Portuguese public, which is confirmed by the 64.8% turnover CAGR since 2021. Taco Bell's marketing strategy relies on partnering with brands that establish high level of engagement with youth (targeting Millennials and Generation Z), such as Red Bull, WTF and Sumol.

Pret-A-Manger (QSR): Ibersol opened the 2 first counters in the Barcelona airport in 2023, opening 2 more in 2024 in Tenerife and Lanzarote's airports. The concept targets a more sophisticated client with an offering that features healthy options for vegetarians and vegans, a segment to which Ibersol was previously under exposed.

Financial Analysis

To deepen the analysis, we divided Ibersol in 4 segments that compose the core business: Angola equity restaurants, Burger King operation (which was divested in November of 2022), Europe (Iberia) equity restaurants and franchises (with Ibersol as the franchisor).

Turnover

Firstly, it is important to isolate the effect of Burger King's business unit. Excluding

Figure 6 – Number of restaurants by brand and type. Source: Ibersol

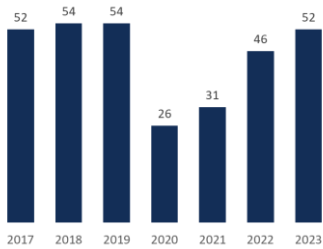


Figure 7 – Pans & Company revenue (in millions of €). Source: Ibersol

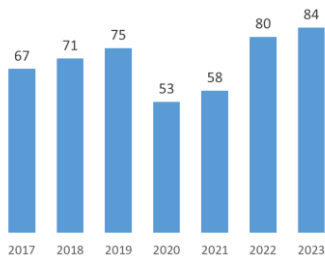


Figure 8 – Pizza Hut's revenue (in millions of €). Source: Ibersol

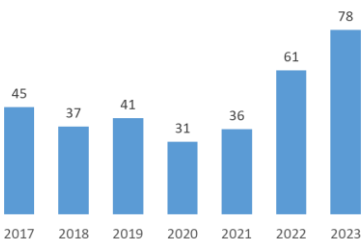


Figure 9 - KFC revenue (in millions of €). Source: Ibersol

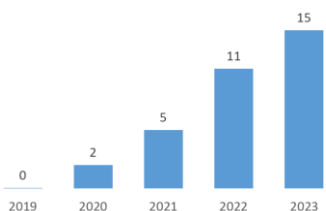


Figure 10 – Taco Bell revenue (in millions of €). Source: Ibersol

³ Ibersol Group. 2024. "2023 Integrated Management Report." Ibersol Group. Accessed June 15, 2024. https://www.ibernol.pt/investidores/relatorio-contas/2023/annual_report_Ibersol_2023.pdf.

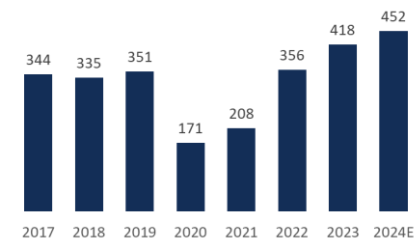


Figure 11 - Ibersol's revenue - excl. BK (in millions of €). Source: Ibersol

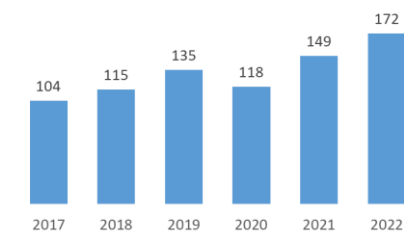


Figure 12 - Burger King's revenues (in millions of €). Source: Ibersol



Figure 13 - Revenue per restaurant by segment (in millions of €). Source: Ibersol and own estimates

the Burger King's unit, from 2017 to 2024, Ibersol's turnover grew at a CAGR of 4.0%. The growth trajectory was affected by the Covid-19 pandemic with Ibersol recording a 51.2% reduction in revenue in 2020, followed by a 21.7% increase in 2021, reaching pre-pandemic levels in 2022. On the other hand, the Burger King business unit showed greater resilience during the lockdown, with revenue only falling by 12.6% in 2020 and surpassing the 2019 level in 2021. Such behavior can be attributed to the strength of Burger King's brand alongside its take-away/drive-through business and lower exposure to shopping malls' counters.

Revenue per equity restaurant operated in Angola, from 2017 to 2024, decreased at a CAGR of 11.8% due to the population's loss of purchasing power amid Kwanza devaluation and economic crisis (associated in part to Real Estate). Furthermore, revenue per equity restaurant in Portugal and Spain, from 2017 to 2024, grew at a CAGR of 2.9% per year (like for like), with total Portuguese and Spanish equity restaurants' revenue growing at a CAGR of 4.9%, due to the increase in the number of units. Moreover, revenue from licensing and merchandise sold to franchisee operated restaurants grew at a CAGR of 22.3% (like for like). Total franchise generated revenue only grew at a CAGR of 6.4%, due to the reduction in the number of franchisee operated units. Ibersol has undertaken a reorganization of the franchisee network, recording 163 units in the beginning of 2017 and only 60 currently. Nonetheless, there is no evidence of the company planning to divest out of its most profitable segment (in terms of EBITDA margins). We believe that the reduction can be explained by the lack of a Spanish local specialized sales' team, pandemic crisis and the increase in interest rates. The last two factors should normalize in the upcoming years.

Profitability

We computed and analyzed the post-IFRS 16 EBITDA, which excludes the rent or lease expense of the restaurants. Furthermore, it also excludes non-core side effects. In the profitability analysis, it is important to isolate the effect of the divested Burger King business. Once again, this business unit seems to be the most resilient, possibly due to the strength of the brand itself, and due to its take-away/drive-through business. On the other hand, the remaining business units in aggregate, before the pandemic, were able to keep EBITDA margins in the double-digits. From 2020 to 2022, the EBITDA margins were very volatile, reaching single-digits, and subsequently recovering to 15.5% in 2023 and, according to our projections, to 18.3% in 2024, mostly due to the ramp-up of new concessions, which are still in conversion. Diving into the core operation of Ibersol, equity restaurants' margins recorded a decreasing trend from 2019 to 2022 (24.5% to 5.2%), having been affected by the lockdown. This unit has recovered to EBITDA margins of over 15% in 2023 and in 2024. The franchisee operated restaurants'

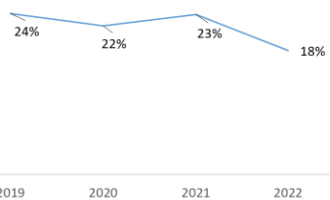


Figure 14 - Burger King EBITDA margin (%)

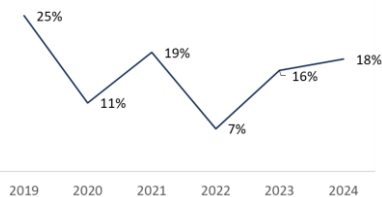


Figure 15 - Ibersol's core EBITDA margin (%). Source: Ibersol and own estimates

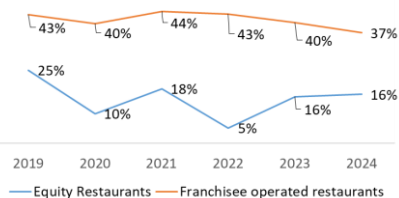


Figure 16 – EBITDA margin per business unit. Source: Ibersol and own estimates

margin has been relatively stable (over 35%), reflecting the profitable nature of this business unit, which has low fixed costs associated with its revenue streams (royalties and sales of merchandise to franchisees).

Working Capital and Liquidity

Ibersol, due to the nature of its business, receives most of the proceeds from its customers in the restaurants immediately and can delay payments to suppliers, resulting in historically negative working capital. From 2018 to 2024, the cash conversion cycle (CCC) has decreased from -210 days to -264 days. In this case, this is linked to the average payment period having increased from 272 days in 2018 to 335 days in 2024. The company's perceived creditworthiness from the reduction in leverage after the sale of the Burger King operation is a factor of confidence to suppliers, possibly allowing Ibersol to extend payment terms. Regarding liquidity, during the pandemic crisis, in 2021, Ibersol was partially unable to operate. Therefore, the board decided to issue €29.4M in equity funding, diluting the position of existing shareholders. The company was able to raise €40M⁴. After 2022, with the Burger King's unit divestment (which generated a cash inflow of €244.5M plus an earn-out of €15.5M²) the company started to record net cash (excluding lease liabilities) on its balance sheet.

ESG

E (Environmental Performance)

Ibersol's ESG goals are aligned with initiatives targeted at promoting a lighter cost structure. Yet, periodically, such goals may conflict. Ibersol's proportion of packaging material consumed made of paper/cardboard decreased in 2023 from 91% to 83%³, with plastic consumption rising. Despite Ibersol's comparables not disclosing their packaging mix, we can expect a similar trend as pulp prices significantly increased throughout 2022 (+9.5%⁵) while plastic prices have steadily decreased during the same period (-14.2%⁶). Despite cardboard input prices having normalized, since worldwide inventories of corrugated card are low, we expect some price pressure. Ibersol's future financial performance may be temporarily affected, specially as there is an increasing number of regulatory frameworks (as the Spanish Circular Economy Law) that set standards for packaging inputs sustainability and product recyclability.

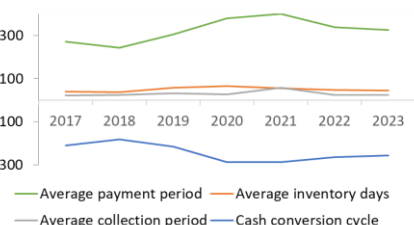


Figure 17 – Cash conversion cycle analysis (in days). Source: Ibersol and own estimates

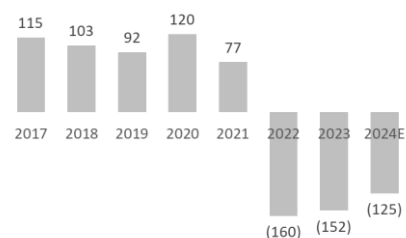


Figure 18 – Net debt excluding leases (in millions of €). Source: Ibersol and own estimates

⁴ Ibersol Group. 2021. "Ibersol, SGPS, S.A. Share Capital Increase." Ibersol Group. Accessed September 30, 2024. https://www.iversol.pt/investidores/aumento-capital/Ibersol_Anuncio_Resultados_Oferta_final_EN.pdf.

⁵ Trading Economics. 2022. "Kraft Pulp - 2022 Data - 2018-2021 Historical - 2023 Forecast - Price - Quote - Chart." Trading Economics.com. Accessed November 17, 2024. <https://tradingeconomics.com/commodity/kraft-pulp>.

⁶ Plasteurope. 2023. "Plastixx – data & charts – Plastics Information Europe." Plasteurope.com. Accessed November 17, 2024. <https://pieweb.plasteurope.com/default.aspx?pageid=2111&typ=100069>.

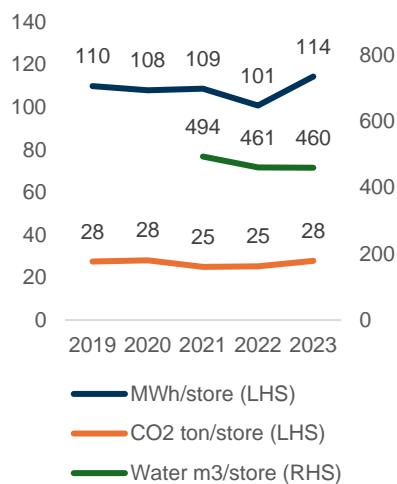


Figure 19 – Ibersol’s resource consumption per store. Source: Ibersol

Looking at Ibersol’s resource consumption in 2023 (figure 19), it appears that the company has become less energy efficient than in 2022. Nonetheless, despite the 13.5% increase in MWh/store, CO₂ ton/store (from electricity consumption) has increased by slightly less (10.5%), which is partially explained by the installation of an undisclosed number of solar panels. The company hasn’t yet disclosed any “Net Zero” target. The comparables of Ibersol do not disclose the metrics aforementioned.

The granularity of ESG information provided by Ibersol is uncommon in the industry (selected peers do not disclose resource consumption metrics, for instance) and can be seen as a material factor to support multiples’ expansion, as comprehensive reporting sets a standard for comparability, incentivizing management to improve ESG metrics each Fiscal Year. According to empirical data, a company that increases its ESG score by 10 points experiences an increase of approximately 1.8x in its EV/EBITDA multiple⁷.

Methodology

To value Ibersol, we started by dividing both the income statement and balance sheet of the group into core, non-core and financial. Non-core items are related with elements as interest rate hedging instruments, Angolan bonds, among other items unrelated with the core foodservice activity. Lastly, financial items include cash and cash equivalents (excluding operating cash, set at 2% of revenues), as well as financial debt (“bank debt” plus leases). Furthermore, we divided the core business into four segments, being (1) Angolan equity restaurants, (2) Burger King discontinued operation, (3) Portuguese/Spanish equity restaurants and (4) franchisee operated units.

Allocation of captions for the core segments’ balance sheets and income statements followed this selection order criteria: (1) allocation based on available official reported information (as seen in annual reports or subsidiaries’ SABI INFORMA reports); (2) Allocation based on business model logic (e.g., zero PP&E for franchisor business model); (3) Margin allocation based on closest peers (e.g.,

Input	12-month change	Expected Price CAGR	Final Year	Source/Proxy
Corrugated Packaging	1.4%	1.9%	2025	KSP1 COMB Comdty GER
Glass	n.a.	0.0%	2032	Wholesale Prices Flat Glass; Statista
Maize	-1.5%	-0.4%	2027	EPH5 Comdty
Natural Gas	9.9%	1.8%	2034	NG1 COMB Comdty
Water	8.5%	3.9%	2030	ERSAR; CLSBE O H5 COMB Comdty
Oats	-0.4%	2.8%	2026	KSP1 COMB Comdty
Paper	1.4%	1.9%	2025	POLZ4 COMB Comdty
Polyethylene	1.4%	-4.2%	2025	RR1 COMB Comdty
Rice	-14.7%	-7.9%	2025	S F5 COMB Comdty
Soybean	-18.8%	1.0%	2028	TRCZ4 COMB Comdty
Thermal Coal	0.0%	0.0%	2025	W Z4 COMB Comdty
Wheat	-17.7%	4.6%	2027	IMF World Comdty
Meat	8.2%	0.1%	2029	Commodity Meat Price

Figure 28 – Expected CAGRs for inputs. Final Year indicates the last year forecasted. Source: Bloomberg⁸,^{9,10}, Statista¹¹, ECO¹², CLSBE¹³

⁷ Deloitte. 2022. “Does a Company’s ESG Score Have a Measurable Impact on Its Market Value?.” Deloitte Switzerland. Accessed November 7, 2024. <https://www2.deloitte.com/ch/en/pages/financial-advisory/articles/does-a-company-ESG-score-have-a-measurable-impact-on-its-market-value.html>.

⁸ Bloomberg. 2024. “Futures Contract Table (CACT Bloomberg).” Bloomberg. Accessed November 17, 2024.

⁹ Bloomberg. 2024. “Line Chart – Germany Wholesale Prices Flat Glass.” Bloomberg. Accessed November 17, 2024.

¹⁰ Bloomberg. 2024. “Line Chart – IMF World Commodity Meat Price Index.” Bloomberg. November 17, 2024.

¹¹ Statista. 2024. “Pricing for fabricated flat glass worldwide from 2012 to 2022, with a forecast for 2027 and 2032, by market segment” Statista. Accessed 17 November 2024.

¹² Batalha Oliveira, Ana. 2023. “Preço Da Água Deve Subir Em Média 8,5% Em 2024.” Capital Verde - ECO. Accessed November 17, 2024. <https://eco.sapo.pt/2023/12/29/preco-da-agua-deve-subir-em-media-85-em-2024/>.

¹³ Cruz, Nuno Moreira. 2024. “A Água Como Desafio Estratégico Para Portugal.” CATÓLICA-LISBON. Accessed 17 November 24, 2024. <https://clsbe.lisboa.ucp.pt/pt-pt/noticias/agua-como-desafio-estrategico-para-portugal>.

Deal Value (approximate)	105.0
Sales EOG Total 2015	209.4
Sales EOG Franchise 2015	58.7
Transaction TV/Sales	0.50x

EOG Franchise TV/Sales	0.50x
EOG Franchise TV	29.4

Total recorded intangible assets	34.0
Total recorded goodwill	71.0
Premium	209%

EOG Franchise Intangible assets	9.5
EOG Franchise Goodwill	19.8

EOG amortization period (in years) 20

EOG Franchise Intangible assets 2017	8.9
EOG Franchise Goodwill 2017	19.8

Figure 29 – Intangible assets allocation for franchise segment based on the Eat Out Group Acquisition (in millions of €). The unit was considered unlevered (due to lack of physical collateral). This allocation does not reflect the assets of the equity restaurants segments of the Eat Out Group (which includes Net Working Capital captions, tangible assets, among others)

the margins for the franchisee operated units were obtained by analyzing the margins of McDonald's, Yum! Brands and Wendy's¹⁴); (4) Allocation in accordance with segment's revenue. A notable exception was the projection of the intangible assets of the franchise segment. We consider that the European Franchise segment of Ibersol was a result of the acquisition of the Eat Out Group (before the company only had 18 franchises and post-acquisition the company was a franchisor of 163 units). The details of our allocation process for the intangible assets of this segment can be found in figure 28.

The methodology to forecast in 2024 revenue (from continued operations), cost of sales, external supplies and services, personnel costs, depreciation and amortization differs from the one used from 2025, as the former was based on YoY growth rates (3Q 2023 vs. 3Q 2024). In the case of leases, net bank debt and equity expansion CapEx, forecasts were based on the figures as of 3Q 2024.

As a final disclaimer on methodology, note that we analyzed and projected Equity Restaurants Angola segment's caption in Euros, so growth rates are Euro-denominated (unless otherwise stated).

Market values were last updated as of December 1, 2024

Forecasts and Valuation

Number of Restaurants and Topline

- Europe Equity Restaurants

For QSR and Full-service equity restaurants in Europe, we assumed that the number of venues will increase according to the following formula:

$$\% \text{ change} = \text{average}(\% \Delta \text{ transactions PT}, \% \Delta \text{ transactions ES})$$

This formula relies on the underlying assumption that Ibersol's average restaurant doesn't have a "ramp up" period, given brand recognition. So, as the number of transactions increases in the industry, new restaurants are opened (at the same rate). Estimates were based on transaction volume projections according to GlobalData available in the industry analysis. We estimate, until 2034, 48 openings of QSRs and 69 new FSRs. The projected fast growth in the number of FSRs in Portugal, in 2025 and 2026, is in line with the rationale that, as Portuguese families are very price sensitive, a reduction in interest rates and higher savings rate results in higher consumer discretionary spending. As for equity restaurants categorized as "Travel" (mainly venues located in airports), projections for new openings were

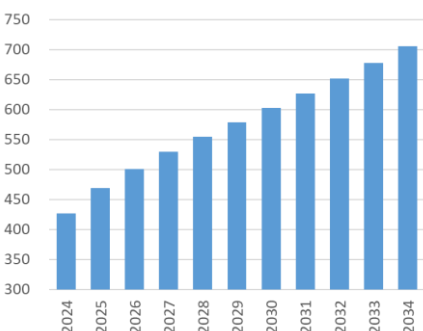


Figure 30 – Total revenue for EU equity restaurants (in millions of €). Source: own projections

¹⁴ Bloomberg. 2024. "MCD, YUM, WEN margins - Relative Valuation/Financial Analysis (RV/FA Bloomberg)." Bloomberg. Accessed November 20, 2024.

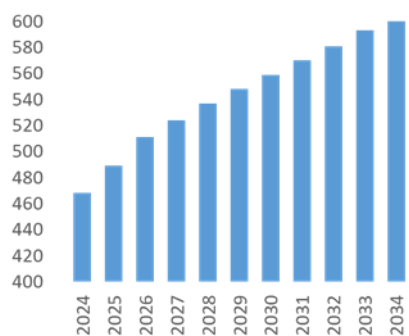


Figure 31 – Nr. of EU equity restaurants (in units). Source: own projections

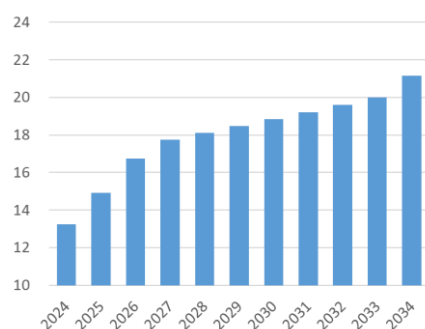


Figure 32 – Total revenue of Angola equity restaurants (in millions of €). Source: own projections

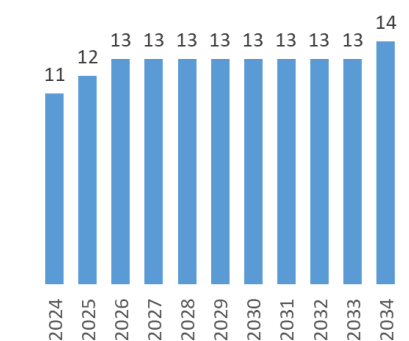


Figure 33 – Nr. of Angolan equity restaurants (in units). Source: own projections

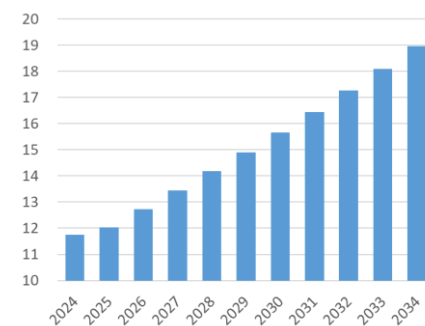


Figure 34 – Total revenue of franchisee operated restaurants (in millions of €). Source: own projections

based on the projected percentual change in air traffic¹⁵.

$$\% \text{ change} = \text{average}(\% \Delta \text{ air traffic PT}, \% \Delta \text{ air traffic ES})$$

We estimate an increase of 20 equity restaurants in areas under ANA and AENA concession.

Our estimates for the average growth of revenue per restaurant are based on average projected transaction value in Portugal and Spain, weighted by the number of restaurants per type (QSR or FSR):

$$\% \text{ change} = \sum \frac{\# \text{restaurants per type}}{\# \text{total restaurants}} \text{avg.} (\% \Delta \text{ avg. transaction per type PT \& ES})$$

Based on projections from GlobalData, we forecast a CAGR of revenue per restaurant from 2024 to 2034 of 2.1%, which is in line with the medium-long term target of inflation rate in the Eurozone. Overall, considering the effect of both new openings and increase in the revenue per restaurant, we forecast that revenues from EU equity restaurants will increase from €396.3 million in 2023 to €705.4 million in 2034, which represents a CAGR of 5.1%, similar to the CAGR recorded from 2017 to 2024 (4.9%).

- Angola Equity Restaurants

Due to uncertainty regarding monetary policy and kwanza devaluation, the growth of revenue per Angola restaurant was set equal to the forecasted real GDP growth (2.2%, 2.7% and 3.2% in 2024, 2025 and 2026^{Error! Bookmark not defined.}). From 2025 to 2034, we forecast 3 new net openings. The projections were based on revenue saturation per venue (we assumed could not be higher than €1.5M, the historical 3rd quartile). We expect a revenue CAGR between 2024 and 2034 of 4.8%

- Europe Franchise

Given the lack of guidance regarding the company's franchise strategy and growth plan, we estimated the growth of venues in Europe through the same underlying rationale and formulas as we did for Equity Restaurants, since the economics of opening a restaurant are very similar for a chain and for a franchisee (especially if the latter benefits from access to the franchisor's software and marketing infrastructure). We forecast 20 new restaurants being opened after the 2024 (10 new QSRs and 10 new FSRs). Ibersol does not report the payment structure underlying to the franchises. As a franchisor, Ibersol charges royalties (fixed fee + proportion of franchisee revenue) and sells merchandise to franchisees. Since 2018, Ibersol generated revenue from an average franchisee restaurant of between 16.4% and 27.9% of the revenue generated by an average Europe Equity

¹⁵ Eurocontrol. 2024. "Traffic Forecasts | Aviation Intelligence Portal." Eurocontrol – Traffic Forecasts. Accessed October 10, 2024. <https://ansperformance.eu/traffic/statfor/>.

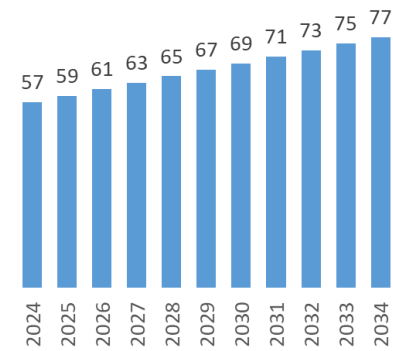


Figure 35 – Nr. of Franchisee operated restaurants (in units). Source: own projections

Restaurant. Based on a median computed with data from the 7 historical years, we project that, each year, an Ibersol average (“model”) franchisee restaurant generates revenues for the franchisor corresponding to 21.2% of the average (“model”) Europe Equity Restaurant corresponding sales. We estimate a 4.9% revenue CAGR from 2024 to 2034 in Ibersol’s franchise segment.

Cost of Sales

We estimate the cost of sales on a per restaurant basis. Based on Bloomberg Supply Chain Analysis and Ibersol ESG report we considered the following inputs for the cost of sales estimation: maize, oats, rice, soybean corrugated packaging, polyethylene, wheat and meat. Estimates can be found in figure 35. We considered the same cost structure for the franchise unit, as Ibersol supplies franchisees (“merchandise”). In the absence of visibility, a 2.0% inflation growth rate was applied.

External Supplies and Services

We applied the same methodology for external supplies and services and considered the following inputs: natural gas, paper, thermal coal, water and glass.

Payroll Costs

Most of the workforce of Ibersol is part of the restaurant staff, whose compensation we expect to be close to the minimum salary. In Portugal, the minimum salary has increased by 7.9% in 2024 and will increase by 6.1% in 2025¹⁶. After 2025 we project it to grow at the medium-term expected growth rate of inflation (2%). Moreover, in Spain, minimum salary increased by 5.0% in 2024¹⁷. Afterwards, we estimate payroll per restaurant to increase at the projected inflation rate of the country. Lastly, for Angola, we used the expected GDP growth rate as a proxy for the payroll cost per restaurant. Moreover, in the Portuguese and Spanish equity restaurants business unit, we used the weighted average considering the expected inflation of the minimum salary in Portugal and Spain, weighted by the number of restaurants in each country. Lastly, to project payroll costs associated with the franchisee operated restaurants, only the projected rate for Spain was considered (as the franchise segment is concentrated in the country).

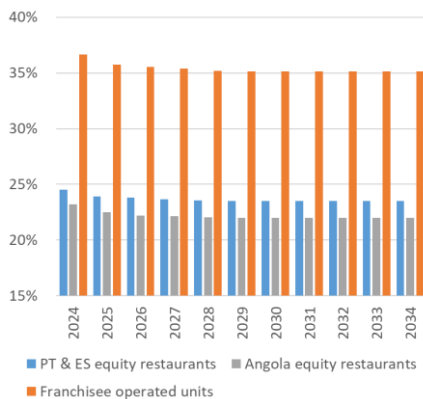


Figure 36 – Total cost sales per segment (as % of revenues). Source: own projections

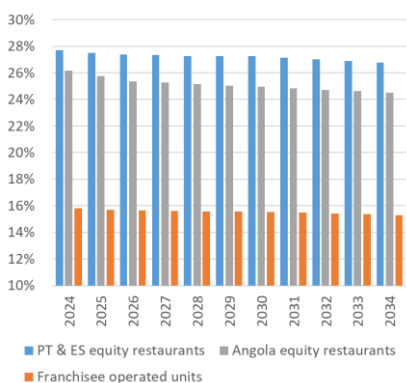


Figure 37 – Total external supplies and services (as % of revenues). Source: own projections

¹⁶ Pinto, Ilídia, and José Rodrigues. 2024. “Governo Consegue Acordo Para O Salário Mínimo Antes Do OE2025.” Diário de Notícias. Accessed October 12, 2024. <https://www.dn.pt/2941405994/governo-consegue-acordo-para-o-salario-minimo-antes-do-oe2025/>.

¹⁷ Agência Lusa. 2024. “Espanha Sobe Salário Mínimo Em 5% Para 1134 Euros: ‘Subir Os Salários Não Destrói Emprego, Torna-Nos Um País Melhor.’” Expresso. Accessed October 12, 2024. <https://expresso.pt/internacional/2024-01-12-Espanha-sobe-salario-minimo-em-5-para-1134-euros-Subir-os-salarios-nao-destroi-emprego-torna-nos-um-pais-melhor-82f518c8>.

EBITDA

The EBITDA projections result from the previous estimates. For Angola equity restaurants, we are projecting EBITDA margins of 22.8%, growing to 24.5% in 2034. Such margin expansion is associated to the reduction in costs associated to the devaluation of the monetary base due to Kwanza depreciation. Regarding Portuguese and Spanish equity restaurants, we are projecting an EBITDA margin of 16.5%, growing up to 17.8% in 2034. Such margin is still lower than the margin projected in Angola, mainly due to the higher expected increase in personnel costs in 2024 and 2025. Lastly, regarding the franchisee operated restaurants, we project EBITDA margins of around 40%, which is in line with the average 2023 EBITDA margin of McDonald's, Yum! Brands and Wendy's (39.2%). EBITDA margin in 2024 is 81% due to non-recurrent supplementary income (€5.2M) associated with performance clauses related to franchisee supportive infrastructure (e.g., increase in traffic in highway where a franchisee is located).

Depreciation and Amortization

We assumed a straight-line depreciation period of 20 years as, since 2020, around 5% of the outstanding units are remodeled per year. With regards to intangible assets and goodwill, these were amortized across a 10-year period, as per company guidelines. Lastly, regarding the Rights of Use assets, we assumed the depreciation was simply an historical % of the outstanding assets under rights of use.

CapEx

CapEx can be categorized as expansion CapEx, remodeling CapEx and other additional recurring CapEx. The CapEx required to open a Burger King restaurant is around €1.5M¹⁸ given the nature of such venues, which are normally larger and have other facilities, such as parking spots, drive-through, among others. Therefore, we considered this reported CapEx to estimate the opening CapEx of Burger King restaurants in the past and then obtain the implied opening CapEx for the remaining (continued operations) restaurants. In Angola, Ibersol operates KFC restaurants and 1 Pizza Hut unit. Most of these restaurants offer parking spots and drive-through which, alongside the higher-than-average revenue per restaurant observed in Angola, lead us to assume that the opening CapEx per restaurant would be similar to Burger King's (€1.5M per restaurant in 2023). For the equity

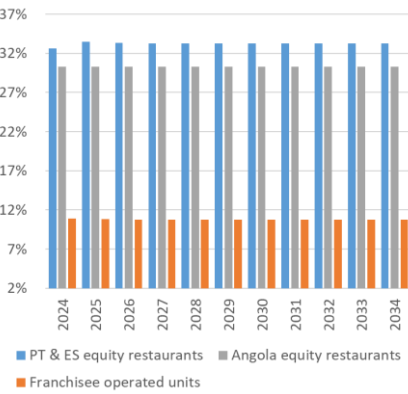


Figure 38 – Total payroll costs (as % of revenues). Source: own projections

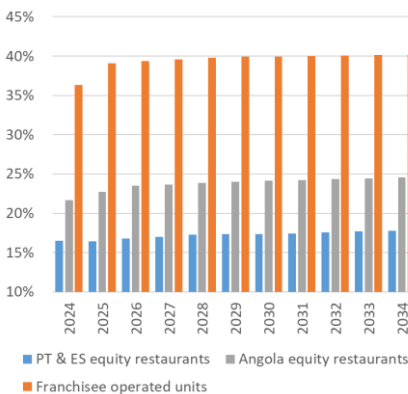


Figure 39 – EBITDA Margin per segment. Source: own projections

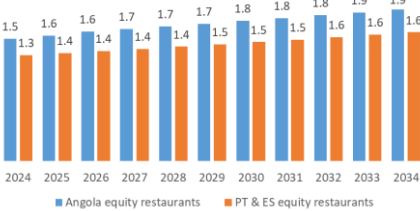


Figure 40 – Ibersol's CapEx per new unit (in millions of €). Source: own projections

¹⁸ Larguesa, António. 2022. "Novos Donos Do Burger King Abrem 90 Restaurantes Em Portugal." ECO. Accessed September 20, 2024. <https://eco.sapo.pt/2022/08/03/novos-donos-do-burger-king-vao-abrir-90-restaurantes-em-portugal-ate-2025/>.



Figure 41 – Ibersol's gearing ratio (Net Financial Debt to TV). Source: Ibersol

Historical Ibersol Beta	Raw	Adjusted	Unlevered
Levered Beta	0.55	0.70	0.54
95% confidence interval:			
Upper Limit	0.78	0.85	0.67
Lower Limit	0.32	0.55	0.46
Cost of debt			
Coverage Ratio	7.7		
Fitch corresponding Rating	A+		
10Y Yield	3.3%		
Source of Fair Value Yield Curve	EUR Europe A+ Composite		
Recovery Rate	79% ¹		
Annualized Probability of Default	0.0000		

Figure 42 - Cost of Capital Calculation inputs. Source: Bloomberg, Global Credit Data

restaurants in Portugal and Spain, we estimate an historical CapEx of around €743 thousands per new restaurant (inflation-adjusted). For future openings, given that Ibersol is not opening a significant number of new counters (possibly due to shopping food court areas' saturation), we estimate higher CapEx. Based on new openings in 2024, expansion CapEx per restaurant stands at €1.3M, which will be the base for our projections in Iberia. Regarding remodeling CapEx, we estimate an annual CapEx amount per remodeled unit of €157 thousand and, historically, 5% of total units are remodeled every year. Remaining CapEx which is not

allocated to expansion or remodeling, considered as additional recurring CapEx, amounts to €12.3 thousand per year. All projections are inflation-adjusted.

Assets under Rights of Use and Lease Liabilities

Regarding assets under rights of use, these are projected on a per restaurant basis, growing at the average inflation rate of Portugal and Spain (weighted by the number of restaurants in each geography). We estimate Lease liabilities to grow at the same rate as the total assets under rights of use.

Cashflows and Economic Value Added

- Cost of Capital

Ibersol reports targeting a Gearing Ratio (Net Financial Debt to Total Value) between 50% and 75%. Nonetheless, the company is traditionally well below the target (underlevered). It would be expected that, after the sale of Burger King, and considering the conservative company expansion strategy, dividend payouts and shares buyback programs would be more aggressive. Nonetheless, the company only distributed around €39.0M in 2022 and 2023 to shareholders. Historically, distribution payout ratios are below 20%. At such rate, the company will not reach

its targeted Gearing Ratio in our estimation window. Given the unrealistic assumption behind using a single WACC, an APV model was used. A levered raw equity beta of 0.55 was obtained from slope of the regression between Ibersol and the market portfolio (Stoxx 600 Index in Euros). The unlevered beta of 0.54 is similar to the unlevered beta of the peers (figure 42) which adds confidence to our anal

ysis. The unlevered beta was computed considering also the cost of debt of Ibersol, which was derived since the company doesn't issue bonds in financial markets. We estimate that company's robust creditworthiness position (7.7x interest coverage ratio) and perceived future conservative leverage profile allows it to obtain debt financing at a spread of 121 bps relative to the 10y Bunds. Such interest rate was used to discount the present value of the tax shield. The selected

Comparables	Adjusted equity beta (W/2Y)	Unlevered Beta
Amrest Holdings	0.90	0.51
Sphera Franchise Group	0.53	0.47
Collins Foods	0.81	0.53
El Pollo Loco	0.58	0.41
Ibersol	0.70	0.54

Figure 43 - Comparables Unlevered Beta. Source: Bloomberg, own projections

Unlevered cost of equity	
Risk Free Rate	2.09%
Unlevered Beta	0.5
Tax Rate (applicable to tax shields)	22.5%
Market Risk Premium	4.7%
Unlevered cost of equity	4.6%

Figure 44 - Unlevered cost of equity output. Source: Bloomberg, own projections

peers are also estimated to fund themselves at a low cost of debt (estimated average cost of debt of 3.2%), which can be justified by traditionally conservative leverage profiles, collateralized debt (PP&E) and reliance on leases (asset-backed instrument).

- Cash Flow Generation and Return on Capital

For European Equity Restaurants we expect NOPLAT to grow at a CAGR (2023-2034) of 8.5% driven by 181 new net openings and a 1.9% CAGR of revenue per restaurant. Such growth is expected not to materialize in rapid free cashflow generation. Instead, we expect equity restaurants to turn unlevered free cashflow positive only by 2029, the year we expect the average transaction value per restaurant in Iberia to stabilize and, consequently, new restaurants' openings. Low ROIC (between 3.8% and 4.0% from 2025 onwards) and high CapEx per new opening and for maintenance shall result in negative free cashflow generation and condemn the Franchise segment to subsidize equity restaurants' expansion until 2028 (as reinvestment rate of the EU equity segment is above 100% until 2028). On the bright side, we expect RONIC to converge to 5.0% mainly due to EBITDA margin expansion, symptomatic of economies of scale and expectations of slowdown in payroll costs per restaurant growth (we expect it to grow by 4.0% and 4.9% in 2024 and 2025, based on Year-on-Year growth in 3Q2024 and increase of the minimum salary in Portugal in 2025 by 6.1%). We argue that it is only economically attractive to open new restaurants when these are funded by debt (lowers cost of capital, given increase of tax shield) and/or there are complementary business units that are "willing" to finance these openings since, in the long-term, overall company value can be maximized. In the case of Ibersol, we believe a large equity restaurants' segment maximizes the value of the Franchise segment due to network economies of scale. Instead of opening new equity venues in poor performing locations, foodservice operators prefer to "sub-franchise" to local entrepreneurs, expanding brands' market shares and customer loyalty, while yielding a "passive" income from royalties and building a recurrent B2B customer pipeline for ingredients and merchandise. For Angolan Equity Restaurants, we expect NOPLAT to grow at a CAGR (2023-2034) of 25.8%, driven by the opening of 3 new restaurants and growth of revenue per restaurant (CAGR of 2.5%). Unlevered free cash flow is projected to be stable from 2029 to 2033, given our projections of zero new restaurants opened during this period. We estimate that revenue per restaurant in 2033 (€338k) will exceed the 3rd historical quartile and, hence, we consider that Ibersol may open a new restaurant to add overall capacity and avoid overcrowded restaurants. Therefore, we expect that around 2034, a new equity restaurant will be opened, resulting in a non-recurrent negative free cash flow due to expansion CapEx. Long-term ROIC of this segment is projected to be

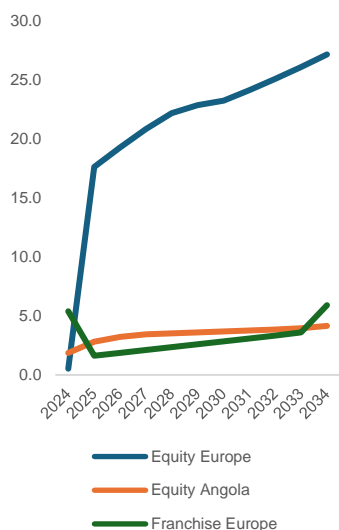


Figure 45 – NOPLAT (in millions of €). Source: own projections

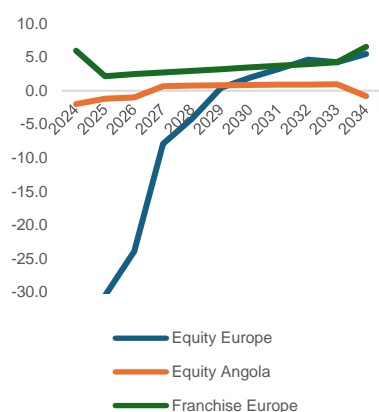


Figure 46 – UFCF (in millions of €). Source: own projections. In 2024, FCF is biased due to adjustment to incorporate restaurants from the acquisition of the remaining capital of Medfood Invest as organic growth

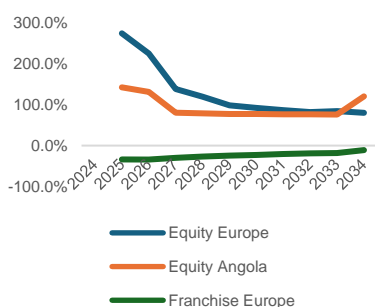


Figure 47 – Reinvestment Rate. Source: own projections

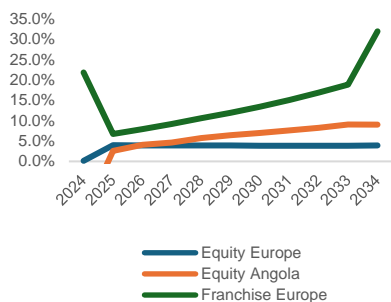


Figure 48 - ROIC. Source: own projections

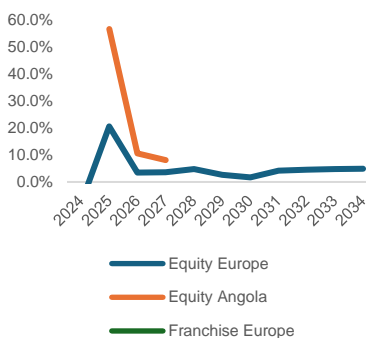


Figure 49 - RONIC. Source: own projections

	RONIC	Reinvestment Rate	LT Growth Rate
Equity EU	5.0%	42.1%	2.1%
Equity Angola	9.0%	23.2%	2.1%
Franchise EU	16.9%	12.3%	2.1%

Figure 50 - Terminal Value inputs. Source: own projections

	Base CashFlow	PV	% of Unlev. EV
Equity EU	16.3	409.9	113.1%
Equity Angola	0.5	13.7	87.7%
Franchise EU	5.1	127.5	82.6%

Figure 51 - Terminal Value key metrics. Source: own projections

superior to the European Equity one, mainly due to larger EBITDA margins. Similarly to the European equity counterpart, expansion in Angola is projected to be subsidized by the Franchise segment cash flow generation and/or on debt raising, as confirmed by the above 100% reinvestment rates amid the opening of new restaurants. Finally, the stabilization trend of the reinvestment rate between 70% and 80% when the number of new openings stabilizes (or is zero) shared by the European and Angolan Equity segments yields robustness to the forecasts as these appear to guarantee that the segments are highly comparable (despite being forecasted separately). For the Franchise segment, we estimate NOPLAT to grow at a CAGR (2023-2034) of 6.4% driven by the addition of 20 new franchisees from 2024 onwards and turnover per franchisee growth. Unlevered free cash flow is expected to grow similarly at a 5.9% rate. Given the low investment required to maintain the business model, the cash flow generation profile should be smooth, and we expect invested capital to start decreasing (due to the amortization of intangibles). We forecast ROIC to stabilize between 17% and 19% (2034 ROIC is an outlier due to the full amortization of the intangibles caption). The estimated

long-term ROIC is in line with McDonald's (17% to 19% from 2021 to 2023). The projected negative reinvestment rate illustrates our view that this segment is structured inside the holding as a "cash cow" that subsidizes the remaining segments and provides steady income to shareholders in the form of payouts. To ensure the sustainability of this segment, we expect, in the long-run, positive reinvestment rates.

Terminal Value

We consider that the foodservice industry growth rate will converge in the long-term to the nominal GDP growth rate. The industry is considered as consumer discretionary, a sector heavily dependent on income growth. As the risk-free rate reflects expectations on the real return required by investors (influenced by the real growth of the economy) and the inflation premium, we set the long-term growth rate of the core segments equal to the risk-free rate. We consider that the terminal growth rate of the franchise segment is equal to the equity restaurants' as the underlying business model (of the franchisee) is similar to the one of the restaurants operated by Ibersol.

Dividend Policy and Tax Shield

Ibersol does not disclose specific medium/long term guidance regarding its transfers to shareholders (in the form of dividends and shares buybacks). In 4 out of the 6 past fiscal years, Ibersol's full payout ratio was between 17% and 20%.

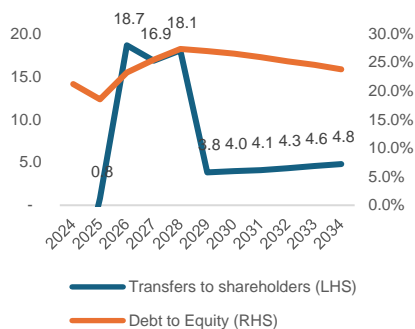


Figure 52 - Transfers to shareholders (in millions of €) and D/E ratio. Source: own projections. In 2024, transfers to shareholders are negative (equity inflow from Ibersol) due to an adjustment made to consider the new restaurants from the fully acquired Medfood (previously a minority position) as CapEx contingent. We do not expect an equity injection in 2024.

Item	Valuation Method
Investment in associated and joint ventures	Book Value
Debt instruments at amortized costs	Fair value (according with yield with risk premium)
Surplus Assets (non-financial)	Book Value
Investment Property	Fair Value (according with commercial property yield)
Surplus Assets (financial)	Book Value

Figure 53 – Valuation methodologies applied to non-core items

In the other two years, the payout ratio was influenced by the equity injection (2020) and post-covid recovery (2021). We consider plausible that the management (majority shareholders) targets in the future a 17-20% payout, since even in abnormal circumstances (e.g., sale of Burger King segment) the payout ratio has not increased materially. We believe that future distributions will be closer to the upper limit of the interval (20%) due to the increasing vocal support from minority investors as Bestinver for higher dividend distribution, as well as willingness of the majority shareholders to revise upward initial distribution proposals (as in May

2024¹⁹). Therefore, we forecast that Ibersol's payout ratio will be set at 20% each year, unless ROIC is below the cost of equity, as in that case the company has an incentive to finance new openings with leverage (to reduce the cost of equity) instead of relying on generated income. In the latter case, a payout of 100% was assumed (and materialized in our forecasts for 2026-2028). Logically, from 2025 to 2028, the leverage ratio is projected to increase, decreasing the cost of capital. From 2029 onwards, we expect leverage to decrease in simultaneous with an increase in transfers to shareholders fuelled by positive generation of consolidated unlevered free cash flows. We consider that in the long-run, net debt should grow at the same pace as the company's free cash flows. Overall, we estimate that the use of leverage (namely through lease contracts) increases Ibersol's EV by €122.1M (€2.94 per share).

Non-core Items

Non-core items were valued separately as their cost of capital differs from the core segments and there is lack of information granularity to correctly assess their value. The valuation method used to assess these items value can be found in table x. Unlevered EV of the non-core segment is estimated to amount to €40.8M.

Valuation Output (Base Case Scenario)

In our base case scenario, we estimate Ibersol's intrinsic equity value per share to be €13.40 by the end of 2024. By the end of 2025, we estimate it to be €14.99 and forecast a dividend of €0.02 per share. Hence, we expect a 100.1% one-year return (considering a current share price of €7.50). Our valuation implies an EV/EBITDA₂₄ of 5.2x and 5.4x for equity restaurants segments in Portugal and Angola, respectively, and of 16.2x for the franchise segment (in line with the 16.6x average current EV/EBITDA of McDonald's, Yum Brands and Wendy's).

¹⁹ Ferreira, Leonor Mateus. 2024. "Ibersol 'Tem Demasiada Liquidez' E 'Não é Provável' Que Invista." *Jornal de Negócios*. Accessed December 10, 2024. <https://www.jornaldenegocios.pt/mercados/detalhe/ibersol-tem-demasiada-liquidez-e-nao-e-provavel-que-invista>.

SUM OF PARTS

VALUATION	31/12/2024	31/12/2025
Enterprise Value Core	654.4	711.5
Enterprise Value Non-Core	40.8	42.6
Net Debt	139.0	132.0
Non-Controlling Interests	0.0	0.0
Equity	556.1	622.2

Intrinsic share price	13.40 €	14.99 €
Dividend per share		0.02 €

Sensitivity Analysis

The main sources of uncertainty in the base case scenario relate to the terminal growth rates of the European segments, the unlevered beta and cost of debt beta of these

segments, and, finally, CapEx per new equity restaurant (which we believe is the main positive differentiator factor of Ibersol relative to the comparables). From the sensitivity analysis on terminal growth rates (that ranged from 0% to 3.38%, the OECD Euro Area long term growth rate forecast in nominal terms²⁰), we notice that intrinsic value increases with the terminal growth rates of the segments, which is logic as long-term RONIC exceeds the unlevered cost of capital. Intrinsic value is more sensible to differences in the terminal growth rate for EU Equity Restaurants than for the Franchise segment, given the larger size (in terms of value and cashflows) of the former. Regarding the unlevered equity beta, we tested it over the 95% historical confidence interval obtained from the regression of Ibersol returns against market portfolio returns. We found this to be the input that introduces more uncertainty in our valuation. Intrinsic value presents deltas up to €6.83 across the 95% unlevered beta range. Nonetheless, the fact that all comparables record unlevered betas below 0.54 introduces robustness in our projection. We found that the effect of different debt betas is negligible. Finally, we varied CapEx per new equity restaurant (inflation adjusted) between its historical value (as of 2023) and CapEx per new opening of the comparable El Pollo Loco (most capital intensive across the comparables selection). At the upper limit of CapEx per new opening, Ibersol's intrinsic value becomes close to the implied value by the comparables (as it can be seen in the "Comparables Analysis" chapter), which suggests that Ibersol's capacity of superior value creation is driven by its lower CapEx per new opening.

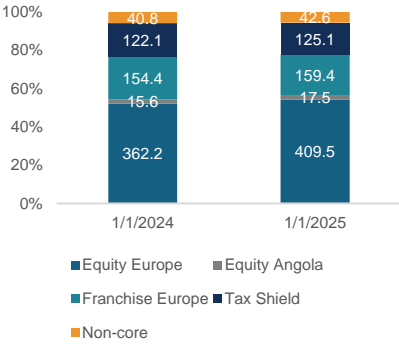


Figure 54 – Base case scenario valuation output and EV breakdown. In millions of € (except per share figures)

		Terminal Growth Rate EU Equity Restaurants				
		0.00%	1.04%	2.09%	2.73%	3.38%
Terminal Growth Rate Franchise	0.00%	11.73	11.91	12.25	12.64	13.43
	1.04%	12.14	12.32	12.65	13.04	13.84
	2.09%	12.88	13.06	13.40	13.79	14.58
	2.73%	13.75	13.94	14.27	14.66	15.45
	3.38%	15.53	15.71	16.05	16.44	17.23

		Unlevered Beta				
		0.46	0.50	0.54	0.61	0.67
Cost of Debt	3.05%	17.05	15.62	13.86	12.38	11.15
	3.17%	17.54	15.20	13.60	12.02	10.71
	3.30%	16.95	14.84	13.39	11.70	10.34
	3.32%	16.55	14.79	13.37	11.66	10.28
	3.34%	16.47	14.74	13.34	11.62	10.23

Expansion CapEx 2024 per equity restaurant	0.7 M	15.18
	1.0 M	14.31
	1.3 M	13.40
	1.9 M	11.57
	2.4 M	9.59

Figure 55 – Sensitivity analysis applied to intrinsic share price as of 31/12/2024 (in €). Source: own projections. CapEx is inflation-adjusted

²⁰ OECD. 2024. "Real GDP Long-Term Forecast." OECD. Accessed June 20, 2024.

<https://www.oecd.org/en/data/indicators/real-gdp-long-term-forecast.html?oeecdcontrol-eb3e37581e-var1=G20EME>.