

A Work Project, presented as part of the requirements for the Award of a Master's degree in Finance from the Nova School of Business and Economics.

Private Equity Challenge – Kompuestos as an investment opportunity in the plastic sector

Gonçalo Cristovão Torgal da Gama Lobo Xavier

Work project carried out under the supervision of:

Inês Lopo de Carvalho

04-01-2021

Abstract

The project explores the opportunity to invest in Kompuestos, a Spain-based listed company, dedicated to produce and commercialize Masterbatches and other plastics compounds, within the plastic industry. The company recently made a smart shift towards sustainability, changing the paradigm and the bad publicity of plastics, aiming to adapt its business to meet current concerns. The investment yields a 3.3x money multiple. The plastic industry is essential to our society, representing a market expected to grow at a 4.2% CAGR, reaching a market value of approximately \$754b by 2027, being partially explained by the increase in demand for bioplastics. Kompuestos is a well-established firm, generating € 46.2m in revenue and an EBITDA of € 3.3m, as of 2019.

Keywords: Private Equity Challenge, Private Equity, LBO, Valuation, Impact Investments, Plastic Industry, Plastics, Bioplastics

I would like to thank my advisor, Professor Inês Lopo Carvalho, for the guidance and support during the elaboration of the Thesis.

I would like to thank my group members for all the determination and proficiency demonstrated throughout these past months.

Finally, a kind word to all my fellow colleagues that I somehow contacted with during the course of the Master's in Finance.



Kompuestos™

Investment Committee Paper

Private Equity Challenge – Group Presentation



A. Introduction | Executive summary

Kompuestos delivers high returns to institutional investors, yielding a 3.3x MM and a 21.8% IRR

Company overview

- Kompuestos is a Spanish industrial company dedicated to the production and marketing of masterbatches and polymers to the plastic industry. Their revenue is divided in plastic derivatives made from traditional resources and includes a production unit dedicated to the bioplastic solutions
- The company is present in +44 countries has clients from several industries. Kompuestos is based in Catalonia, Spain

KPIs (in €m)	2020	2021	2022	2023	2024	2025	2026
Total revenue	47.2	50.1	53.1	56.4	59.9	63.6	67.7
<i>Growth</i>	2.1%	6.0%	6.1%	6.2%	6.2%	6.3%	6.3%
Gross profit	14.3	15.2	16.1	17.2	18.3	19.5	20.8
<i>Gross profit margin</i>	30.2%	30.3%	30.3%	30.4%	30.4%	30.5%	30.5%
Normalized EBITDA	3.7	4.4	4.9	5.6	6.2	7.3	8.5
<i>EBITDA margin</i>	7.9%	8.8%	9.3%	9.8%	10.4%	11.4%	12.5%
EBIT	0.1	1.9	2.4	3.0	3.6	4.6	5.8
<i>EBIT margin</i>	0.2%	3.8%	4.5%	5.3%	6.0%	7.2%	8.4%

Market overview

- The plastic industry is characterized by a fragmented market where large companies cohabit with smaller ones. The combined global industry is expected to experience strong growth over the investment period and is predicted to reach a market volume of approximately **\$ 721bn by 2025**
- Strongest growth is expected from the **bioplastic solutions market** with an expected **CAGR from 2019 to 2026 of 16%**
- The strong growth is fuelled by several trends in the underlying end markets such as the **rise in demand of recycled plastic, bioplastics and larger focus on R&D**

Entry rationale

1 Robust fundamentals

- Well established company with healthy cash flows after intensive historical Capital expenditure; room for margin optimization; leverageable balance sheet

2 Diversified client pool

- +1,200 cross sector worldwide clients, where the 3 biggest clients account for only 20% of sales

3 Optimistic industry trends

- Actionable mega trends, significant growth projections, increasing demand for strategic products and shift of the market towards sustainability

4 Skilled talent pool

- Leadership with a good track record backed by an experienced sales and R&D team

5 Diversified product range

- Wide range of quality products to fulfil all areas of demand, including sustainable solutions to surf in high growth segments

Exit and returns

Sources	In €m	EBITDA x	Uses	In €m	EBITDA x
Debt	11.5	3.1x	EV	34.9	9.4x
Equity	24.4	6.6x	Fees	1.0	0.3x

- Valued at 9.4x EV/EBITDA at entry and exit, Kompuestos yields a total return of 3.3x MM over the 6-year investment period and a 21.8% IRR

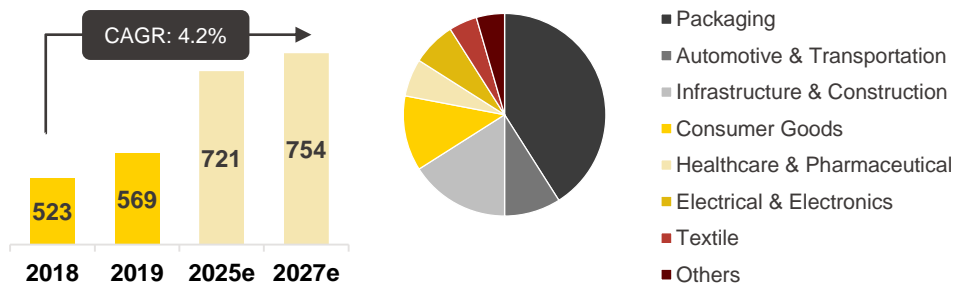
Returns	2021E	2022E	2023E	2024E	2025E	2026E
Management MM	2.2x	3.3x	4.5x	5.9x	8.1x	10.7x
Management IRR	124.8%	82.1%	65.5%	55.9%	53.1%	48.4%
Fund MM	1.3x	1.6x	1.9x	2.2x	2.7x	3.3x
Fund IRR	29.5%	25.1%	23.1%	21.9%	22.0%	21.8%

1. Market overview | Plastics market & masterbatches focus

The market is undergoing a transformational period with solid growth expectations

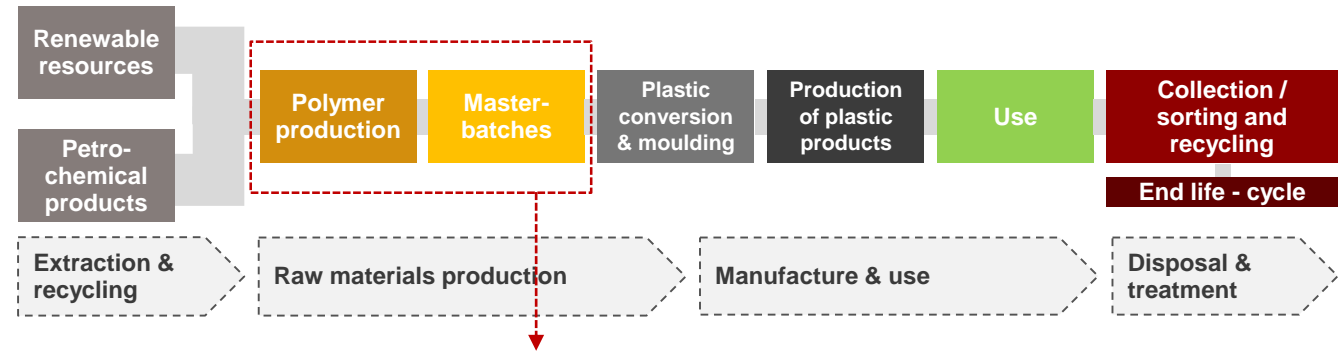
Plastics market overview & outlook

- Plastics are essential in our society, with **+350mT produced annually** used to produce industrial and consumer products
- Plastics have key characteristics such as **versatility, moldability and flexibility**, along with the **cost advantage** and **easy manufacturing nature**
- Polymers (plastics) are mainly derived from petrochemicals (e.g. natural gas, crude oil). Environmental awareness has driven higher demand for **sustainable plastic solutions** as innovative and *cleaner* alternatives are being developed, turning to renewable sources (e.g. food waste, corn starch, biomass, vegetable oil, etc...)
- Global market value of plastics reached **\$ 560bn in 2019** and is estimated to grow at a **4.2% CAGR until 2027**, supported by the increase of the infrastructure & construction, food & beverages, automobile and consumer goods industries



Market value of plastic in \$ billion; global plastic market share by end-user industry (2019)

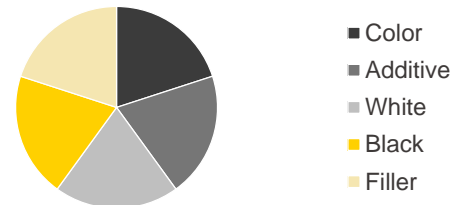
Supply chain



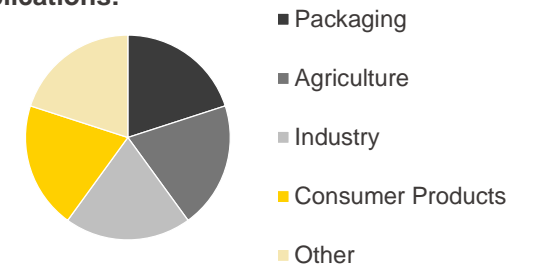
Segment overview: Masterbatches

- Masterbatches are **plastic additives, fillers and resins** that allow manufacturers to **add colour or other enhancing characteristics to their plastic products** (e.g. UV light resistance, flame retardation, anti-microbials)
- It is a cheaper and easier alternative to buying fully compounded materials or compounding directly from raw materials, hence, it reduces costs and increases productivity

Types:



Key applications:



1. Market overview | Masterbatches deep-dive

Commitment to the environment created opportunities for manufacturers, opening new high growth markets

Segment overview: masterbatches

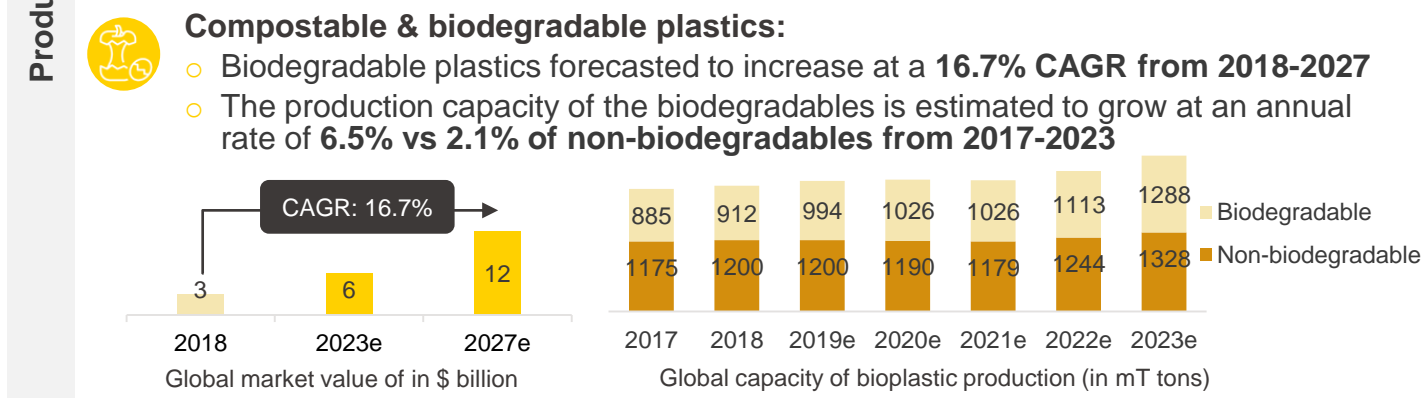
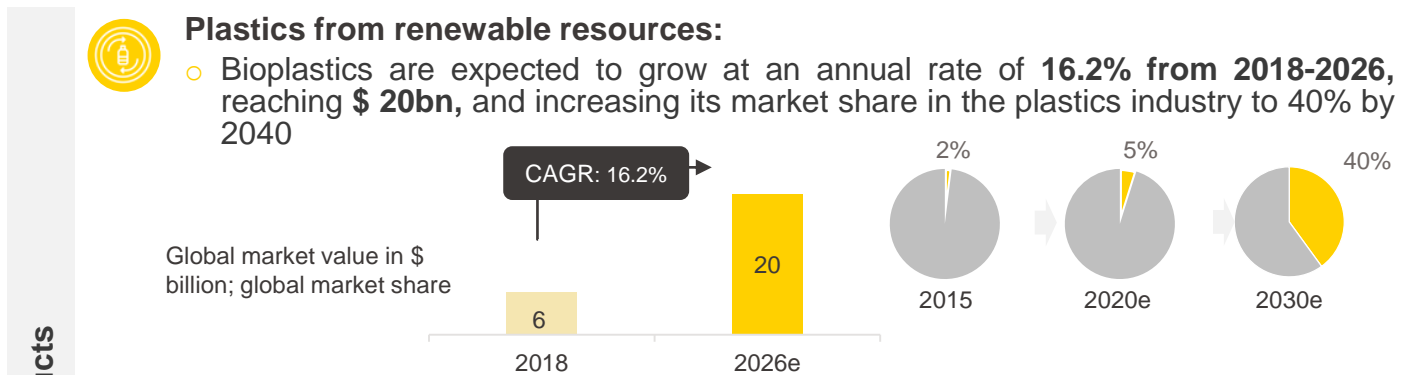
- The masterbatch market is expected to reach **\$ 16.4bn by 2026**, growing at a **5.5% CAGR** from 2019-2026, mainly driven by increased activity in the building & construction sectors
- The masterbatch market is quite **fragmented**, with the presence of **numerous players** with varying sizes
 - The larger firms make up 60% of the market, with the rest distributed among smaller players
- The industry is **highly competitive** due to the **low barriers to entry**, as is it not a capital-intensive business and most of segments do not require major technology investments. This results in low bargaining power with both clients and suppliers
- This creates a lot of room for **consolidation**, with companies wishing to expand their distribution network, vertically integrate across the supply chain and diversify their product mix, in order to gain a competitive advantage over other players

Main players include:



Key trends

- Manufacturers**
- Circular economy:** Commitment to sustainability, low/zero waste initiatives and use of recycled materials creates high growth opportunities
 - R&D:** Perpetual race for the creation of new value-added products and improvement of the production processes
 - Waste management:** Improvement in the waste management systems makes it possible to give a new life to the plastic waste through new sustainable products







2. Company overview | Company profile & supply chain position

Plastic compounds producer moving towards sustainable plastic production with € 46.2m in revenue

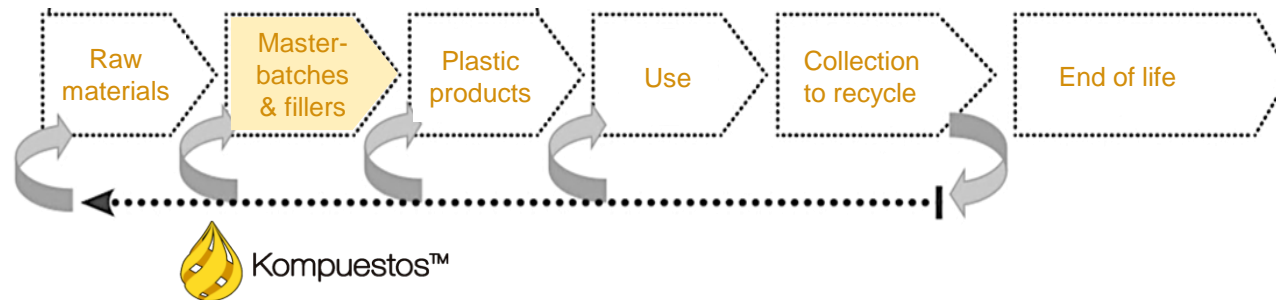
Company profile

- Based in Barcelona, Kompuestos is a **producer of masterbatches** (colour, black, white and additive) and other **plastic compounds** (such as bio resins and recycled polymers), being one of the biggest **European producers of mineral fillers** (with c. 10% market share in Europe and 5% globally globally) Their products, which have a **high natural component**, are globally used as raw materials in many industries to produce all types of plastics
 - Employs +70 employees across 2 production plants, generating a revenue of € 46.2m and an EBITDA of € 3.3m in 2019
- Kompuestos is listed in the **Spanish Alternative Market (MAB)** since 2019; the public offering aimed to **raise capital to finance the expansion** of the bio products' production capacity, following the spike in demand
- The firm's current strategy consists of focusing on the **development of economies of scale in the production of mineral fillers** and the **production of bioplastics**, for which it already attained the necessary certifications
- The company **has strong environmental commitment**, focusing on **adding value to plastics** and on **reducing their carbon footprint** through **sustainable innovation**, developing biodegradable products and **advanced plastic recycling technologies**

Key figures

-  2 production plants
30 lines of production
-  121,000mT production capacity
-  Present in +44 countries
-  +1,200 clients
-  Diversified product portfolio, offering sustainable solutions

Supply chain



Masterbatches, fillers and additives

- **Masterbatches:** concentrated mixture of polymers with pigments and/or additives. Used to colouring plastics or imparting other properties (e.g., antioxidant, UV stabilizers) to them
- **Fillers:** materials added to plastic polymers to reduce the cost of the compound, improve its properties and lower its carbon footprint. Can be combined with additives to obtain the desired product features
- **Additives:** improve the performance of plastics, protecting them against degradation by heat, ultraviolet rays, oxidation or other agents, or providing specific features depending on the use of the final product

2. Company overview | Product mix, company strategy & growth drivers

Kompuestos offers a wide range of quality products, including bio solutions

Product range

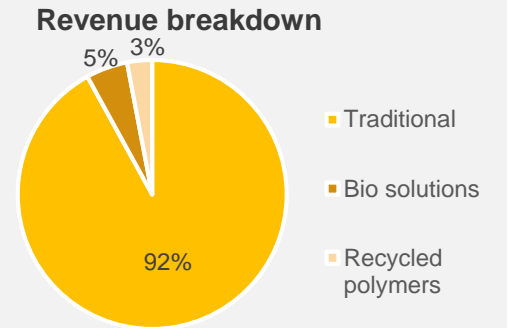
- Kompuestos **produces and sells traditional plastic compounds**, seeking also to develop **greener and more sustainable alternatives**, such as bio-based and biodegradable plastics and plastic recycling technologies

The company offers to its clients a **diversified product portfolio**, allocated to 3 different lines:

- 1. Traditional products:** mineral fillers, colour, black, white and additive masterbatches
- 2. Bio solutions:** biodegradable, compostable and some water soluble bio-based resins
- 3. Recycling & marketing of raw materials:** production and sale of recycled plastic polymers

Revenues

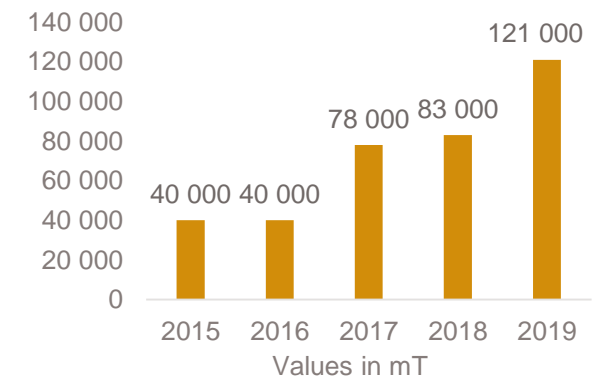
- Kompuestos derives its revenue from the **sale of the different products** included in the previously mentioned product lines
- In 2019, 92% of the firms' revenue came from the **traditional products**, 5% from the **bio solutions** and 3% from the **recycling and marketing of raw materials**



Company strategy and growth drivers

- Kompuestos' strategy is to **bring together** the businesses of traditional plastics and of the bio, compostable and recyclable plastics. The firm aims to move **“towards a sustainable future”** and to **become a leader** in the circular economy of plastics
- **Organic growth** has been Kompuestos' main source of growth over the years
- **Capacity increase and optimization in production lines** to meet demand allowed for a fast revenue growth (real production capacity tripled since 2016)
- **R&D** is a key element of the firm's business model, allowing for a yearly introduction of 100 new formulas. The **development and introduction of new products** has been a vital growth driver in the last few years (as of 2019, 80% of the firm's revenues derived from products released in the last 5 years). Kompuestos was an early identifier of the need to adapt to the growing environmental concerns, doing so by using its R&D strengths to develop bioplastics and plastic recycling techniques
- As of 2019, the bio line of production was roughly 5,000 mT and is expected to keep growing as, in the coming years, **bioplastics are expected to be a significant growth driver**, as they capture new clients and introduce more ecological solutions to the existing ones

Real capacity increase

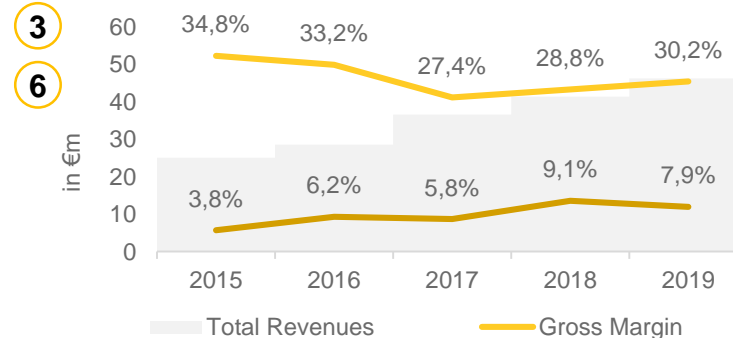


3. Historical financials | Income statement

Kompuestos has experienced a constant growth in revenues sustained by an increase in its production capacity

Comments

- 1 Kompuestos has been experiencing a constant growth in revenues, translating into a CAGR of 16.6% between 2015 and 2019
 - o Increase in production capacity with the creation of a new production line in 2017, enlarging its real capacity from 40,000mT to 78,000mT. As a result, total quantity sold increased 34.1% in 2018, from 37,611mT 50,450mT
 - o Creation and implementation of three new bio lines of products in 2018 and consequent results in 2019 sales-wise, contributing 47.6% to total revenue growth
- 2 **Gross margin has increased c. 2.8% since 2017**
 - o The bio segment implemented in 2019 presents costs that are almost 2.43x higher than the traditional business (€ 1,270 per mT sold) ones **but have a much larger margin** compared to the latter one (€ 723 vs € 222 per mT)
 - o Traditional business **has experienced decreasing costs since 2017**, standing at € 520 per mT in 2019
- 4 Incremental R&D activity since 2017 (for bio solutions development) aligned with the new capitalization process contributed to an increasing self-constructed assets figure
- 5 A 10.7% increase in 2019 was the result of strengthening the company's commercial, research and development and production structure in order to sustain the growth targeted for the coming years. The total number of employees increased from 69 in 2018 to 79 in 2019



Income Statement

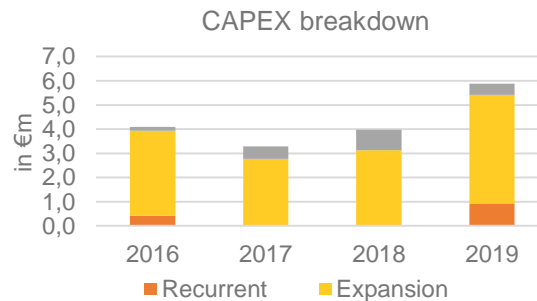
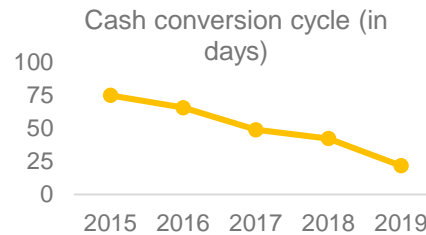
Income Statement (in €m)	2015	2016	2017	2018	2019
Traditional products		27.7	35.3	41.3	42.3
Quantity sold (mT)		33 722	36 545	50 381	56 752
Bio solutions					2.3
Quantity sold (mT)					1 181
Recycling and marketing of raw materials		0.9	1.3	0.1	1.6
Quantity sold (mT)		726	1 066	69	1 355
1 Total revenues	25.1	28.5	36.6	41.4	46.2
Growth		13.9%	28.1%	13.1%	11.7%
2 Cost of Sales	(16.3)	(19.1)	(26.5)	(29.4)	(32.3)
% of sales	65.2%	66.8%	72.6%	71.2%	69.8%
3 Gross profit	8.7	9.5	10.0	11.9	14.0
Gross margin	34.8%	33.2%	27.4%	28.8%	30.2%
4 Self-constructed assets	0.1	0.5	1.4	1.2	1.6
% of sales	0.3%	1.6%	3.8%	3.0%	3.5%
5 Personnel expenses	(2.6)	(2.9)	(3.5)	(3.3)	(3.7)
% of sales	10.4%	10.2%	9.5%	8.1%	8.0%
Other operating expenses	(5.2)	(5.3)	(5.8)	(6.1)	(8.2)
% of sales	20.9%	18.5%	16.0%	14.7%	17.8%
6 Normalized EBITDA	1.0	1.8	2.1	3.7	3.7
Normalized EBITDA margin	3.8%	6.2%	5.8%	9.1%	7.9%
Grants			0.3	0.3	
Non-recurring income (expenses)	0.0	0.1	0.0	(0.3)	(0.5)
EBITDA	1.0	1.8	2.4	3.8	3.2
EBITDA margin	3.9%	6.4%	6.6%	9.1%	6.9%
D&A	0.0	0.0	0.0	0.0	0.0
Net income	(0.5)	0.1	0.1	0.5	0.2
Net income margin	(1.9)%	0.4%	0.3%	1.2%	0.4%

3. Historical financials | Balance sheet & Free Cash Flow

Kompuestos exhibits a healthy financial profile

Comments

- 1 Growing intangible assets driven by heavy investments in R&D and consequent increasing number of patents registered by Kompuestos
- 2 25% decrease in 2019 over the previous year driven by increasing exports with better collection periods, an over-all improvement in customer collection management and a selective usage of factoring financing lines. Decreasing cash conversion cycle towards more efficient levels: 75 days in 2015 fell to 22 days in 2019
- 3 Large cash balance to enable growth through product development and expansion Capex
- 4 NWC decreased 36.7% following a decrease in accounts receivables and increase in accounts payable in 2019. Apart from 2019, Kompuestos has generally kept the NWC at stable values
- 5 77%-86% of Capex values were related to expansion which has been one of Kompuestos' main growth drivers. Such increase in the real production capacity of the company (made to keep up with the current and future growing demand for plastics) is expected to continue until 2020, and then stop. Consequently, Capex is expected to decrease going forward, driven by a null Expansion Capex
- 6 Core operations do not take into consideration the one-off effects of non-recurring items, finance income or exchange rate gains/losses. Through this breakdown it is possible to verify the CF from the company's core operations. In 2019 the FCF was impacted by a large investment in the expansion of the production capacity, IPO costs and costs related with the refinancing of debt



Balance Sheet & Free Cash Flow

Balance Sheet (in €m)	2017	2018	2019
1 Intangible assets	1.9	2.7	3.6
Property, plant and equipment	17.2	18.1	21.1
Total non-current assets	19.6	21.1	25.2
Inventories	5.4	6.7	7.1
2 Trade and other receivables	5.5	5.8	4.3
3 Cash and cash equivalents	0.3	2.2	1.1
Total current assets	11.4	14.9	13.1
Total equity	10.1	12.2	16.9
Total non-current liabilities	6.4	7.8	9.0
Trade and other payables	5.7	7.4	8.2
Total current liabilities	14.5	15.9	12.4
Change in Net Working Capital	(0.3)	0.0	1.9
4 Net Working Capital	5.1	5.1	3.2
Investment in Op NWC as % of Sales	(0.82)%	(0.07)%	4.43%
Total Debt	14.9	16.2	12.9
Net debt	14.6	14.0	11.9
Growth%	17%	(4)%	(15)%
Net debt/EBITDA	6.11x	3.64x	3.60x

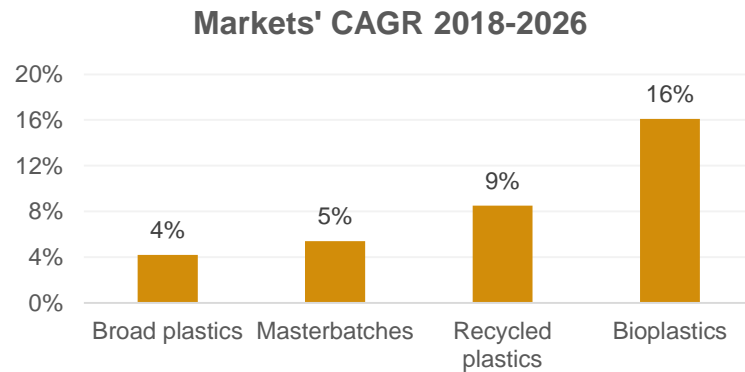
Free Cash Flow (in €m)	2017	2018	2019
Operating profit	0.4	1.4	1.8
Recurrent Capex	0.0	0.0	(0.9)
5 Expansion Capex	(2.8)	(3.1)	(4.5)
Intangibles Capex	(0.5)	(0.9)	(0.5)
Working capital needs	(0.5)	(0.1)	1.8
FCF Core Business	(1.7)	(0.6)	(0.9)
FCF Non Core Business	0.3	0.0	(0.7)
6 FCF to the firm	(1.4)	(0.6)	(1.6)

4. Investment thesis

Kompuestos is a well-established firm, operating in a growing market, with growing sustainability concerns

Deal rationale

Operations in a growing and fragmented market



Diversified client base and product range, with sustainable solutions offered



Potential **European leader in fillers and bio solutions**, present in +44 countries



+1,200 long-term clients, with no evidences of a specific sector dependency: **diversification of clients** hedge against sector specific risks



Diversified product portfolio, offering sustainable solutions



Ability to be a **main player in bio solutions** due to a superior position to attack the shifts in the market, **high innovation capability** and industry expertise

Well-established company with attractive financials

- Growing company, with a sustained growth in revenues – **CAGR of 17% (2016-2019)** – a rising gross profit (13% CAGR) and stable gross margins (c. 30%, in line with the peers' average)
- **Growing normalized EBITDA** (28% CAGR – 2016-2019) sustained by an overall expansion of the firm
- **Net debt to EBITDA ratio has been decreasing** driven by incremental EBITDA and diminishing debt
- Negative CF generation in the last 3 years due to high investment in Capex, expected to invert in the next years

Proficient management team

- Highly qualified professionals with relevant industry expertise

Growth strategy and drivers

Meet traditional business demand

- The traditional business expects a steady growth, with the firm adapting its production to a future growing demand
- Traditional products' clients are important to the bio solution range commercialization

Increase bio solutions' production

- Take advantage of the early identification of the market shift to bio plastics, the current constraints imposed by regulations and the knowledge acquired through R&D to deliver higher quantities of bio solutions, with increased quality and diversification

Recycled plastic polymers production

- Producing polymers from recycled plastics creates a new source of revenue for the firm, while contributing to reduce the consumption of virgin polymers in the industry and allowing Kompuestos to increase the share of sustainability in its business

Increase efficiency

- Increasing production of recycled polymers and bio solutions allows for a slight decline in COGS as a percentage of revenues
- EBITDA margin expansion to meet its peers' average, mainly through the optimization of other operating expenses

5. Business plan | Revenue model

Solid revenue streams with strong opportunities to grow, notably from the bio segment

Revenue forecast

Key Value Drivers



Traditional business as a key driver



Satisfy Biosolutions demand



Movement towards sustainability



Installed production facility and previously increased real production capacity allows a quicker expansion across all business units

- Sales grew at a **16.6% CAGR from 2015-2019**, with Covid-19 disrupting Kompuestos of achieving a double-digit growth in 2020. 2H 2020 sales were computed based on a 2.1x multiplication factor, easily **explained by the fewer restrictive rules and increased economic activity**, as the normal deals of the 1st part of the year were relegated to the 2nd. Being closely correlated with the food retail business, a sector registering a +10% growth in 2020, the **2% growth projected is surely not underestimating the Covid-19 impact**
- Traditional sales, the backbone of the company, grew at a **15.2% CAGR from 2016-2019**, and are expected to follow the same pace of the masterbatches market (5.5%) from 2021 onwards
- Bio solutions are forecasted to follow the market growth of **16.1%** from 2021 onwards as the Kompuestos is in a good position to attack the **growing demand**, and seize the opportunity given **their new bio production line, increased capacity installed and R&D efforts**
- Recycled raw materials experienced some oscillations; however, the production facilities are ready to mass produce this product, meeting the **market demand** and the **8.5% expected market growth**

Revenue breakdown

Revenue Breakdown (in €m)	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Traditional total quantity sold (mt)	34.4	37.6	50.5	59.3	57.8	61.1	64.6	68.3	72.2	76.4	80.9
Total sales	28.5	36.6	41.4	46.2	47.2	50.1	53.1	56.4	59.9	63.6	67.7
<i>Growth</i>		28.1%	13.1%	11.7%	2.1%	6.0%	6.1%	6.2%	6.2%	6.3%	6.3%
A											
Traditional total quant. sold (mT)	33 722	36 545	50 381	56 752	55 200	58 181	61 323	64 634	68 125	71 803	75 681
Traditional sales (in €m)	27.7	35.3	41.3	42.3	43.2	45.6	48.1	50.8	53.6	56.6	59.7
<i>Growth</i>		27.6%	17.0%	2.5%	2.1%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Revenue per mT	0.8	1.0	0.8	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8
B											
Bio solutions total quant. sold (mT)				1 181	1 206	1 400	1 625	1 887	2 190	2 543	2 952
Bio solutions sales (in €m)				2.3	2.4	2.7	3.2	3.7	4.3	5.0	5.8
<i>Growth</i>					2.1%	16.1%	16.1%	16.1%	16.1%	16.1%	16.1%
Revenue per mT				2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
C											
Recycled raw materials total quant. sold (mT)	726	1 066	69	1 355	1 383	1 501	1 629	1 767	1 917	2 080	2 257
Raw materials sales (in €m)	0.9	1.3	0.1	1.6	1.6	1.8	1.9	2.1	2.3	2.5	2.7
<i>Growth</i>		46.8%	-93.5%	1851.3%	2.1%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Revenue per mT	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2

5. Business plan | Operating model

Space for margin optimization and growth

EBITDA margin deconstructed forecast



- The traditional business is the one with the highest COGS as % sales, with no significant changes in this ratio since 2016
- Regarding bio solutions, the peer average COGS as % of sales was considered, being at a lower % when compared to the traditional
- In general, the gross profit margin of the recycled raw materials is higher than the traditional. In 2019, the COGS as % of sales in this segment were calculated by difference, resulting in a COGS as % of sales of 68.8%
- Operating income margin was calculated using an average of the last 3 years (3.4%), except for 2020, where the company was impacted by Covid-19, registering 2.4% for the 1H 2020. In order to avoid underestimations of the pandemic this same value was used for the FY 2020. This item includes self constructed assets and nonfinancial and other capital gains, the first one (non-cash income), decline due to the deceleration of R&D, and the second declined due to the decrease in capital gains
- Personnel expenses were calculated based on the number of employees and revenue per employee, depreciation was calculated based on the real production capacity installed and amortization based on the R&D expenses

EBITDA breakdown

Income Statement (in €m)	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Total revenue	28.5	36.6	41.4	46.2	47.2	50.1	53.2	56.6	60.2	64.0	68.2
Traditional products COGS	18.5	25.6	29.4	29.7	30.3	32.0	33.8	35.6	37.6	39.7	41.9
<i>% of sales</i>	66.8%	72.6%	71.2%	70.2%	70.2%	70.2%	70.2%	70.2%	70.2%	70.2%	70.2%
Bio solutions COGS				1.5	1.5	1.7	2.0	2.3	2.7	3.1	3.6
<i>% of sales</i>				62.8%	62.8%	62.8%	62.8%	62.8%	62.8%	62.8%	62.8%
Recycled raw materials COGS	0.6	0.9	0.1	1.1	1.1	1.2	1.3	1.4	1.6	1.7	1.8
<i>% of sales</i>	66.8%	72.7%	71.2%	68.8%	68.8%	68.8%	68.8%	68.8%	68.8%	68.8%	68.8%
Total cost of sales	19.1	26.5	29.4	32.3	32.9	34.9	37.1	39.4	41.9	44.5	47.4
<i>% of sales</i>	66.8%	72.6%	71.2%	69.8%	69.8%	69.7%	69.7%	69.6%	69.6%	69.5%	69.5%
Gross profit	9.5	10.0	11.9	14.0	14.3	15.2	16.1	17.2	18.3	19.5	20.8
<i>Gross profit margin</i>	33.2%	27.4%	28.8%	30.2%	30.2%	30.3%	30.3%	30.4%	30.4%	30.5%	30.5%
Other operating income	0.5	1.4	1.2	1.6	1.1	1.7	1.8	1.9	2.1	2.2	2.3
<i>% of sales</i>	1.6%	3.8%	3.0%	3.5%	2.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%
Personnel expenses	2.9	3.5	3.3	3.7	3.8	4.1	4.4	4.7	5.0	5.3	5.6
<i>% of sales</i>	10.2%	9.5%	8.1%	8.0%	8.0%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%
Other operating expenses	5.3	5.8	6.1	8.2	7.9	8.4	8.6	8.9	9.2	9.1	9.0
<i>% of sales</i>	18.5%	16.0%	14.7%	17.8%	16.7%	16.7%	16.2%	15.7%	15.2%	14.2%	13.2%
D&A	1.1	1.7	2.3	1.8	2.5	2.5	2.5	2.6	2.6	2.7	2.7
<i>% of sales</i>	4.0%	4.7%	5.6%	4.0%	5.2%	5.0%	4.8%	4.6%	4.4%	4.2%	4.0%
EBIT	0.7	0.7	1.8	1.9	0.1	1.9	2.4	3.0	3.6	4.6	5.8
<i>EBIT margin</i>	2.4%	2.0%	4.3%	4.1%	0.2%	3.8%	4.5%	5.3%	6.0%	7.2%	8.4%
Normalized EBITDA	1.8	2.1	3.7	3.7	3.7	4.4	4.9	5.6	6.2	7.3	8.5
<i>EBITDA margin</i>	6.2%	5.8%	9.1%	7.9%	7.9%	8.8%	9.3%	9.8%	10.4%	11.4%	12.5%
Normalization adjustments	0.1	0.3	0.4	0.1	(1.2)	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	1.8	2.4	3.8	3.2	2.6	4.4	4.9	5.6	6.2	7.3	8.5
<i>EBITDA margin</i>	6.4%	6.6%	9.1%	6.9%	5.4%	8.8%	9.3%	9.8%	10.4%	11.4%	12.5%

5. Business plan | Free cash flow

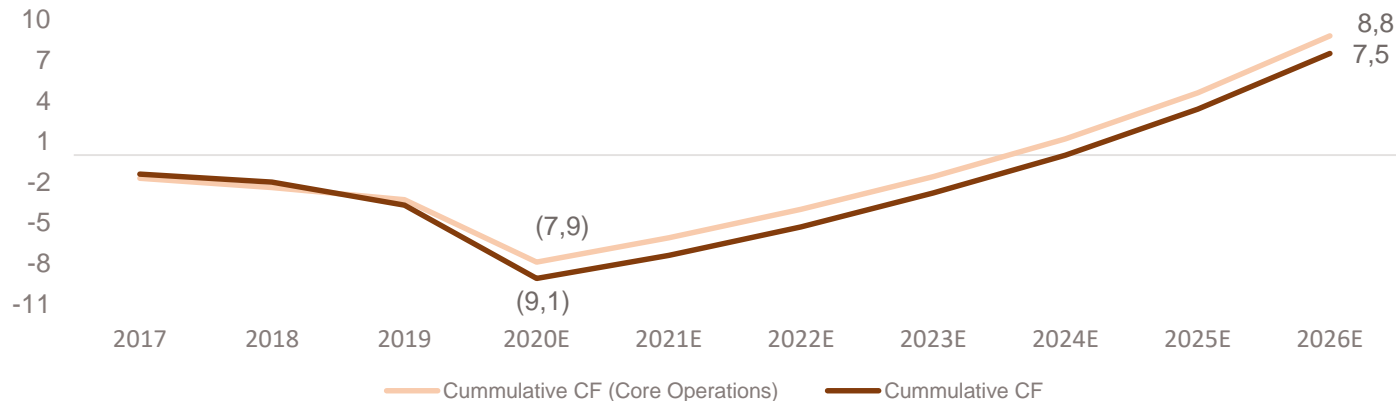
Kompuestos is expected to continuously generate cash, while EBITDA is expected to grow at a 15% CAGR

Free Cash Flow (in €m)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Core Business FCF										
1 Core Result (NOPLAT)	0.3	1.1	1.4	0.9	1.4	1.8	2.2	2.7	3.5	4.3
2 Depreciation & Amort.	1.7	2.3	1.8	2.5	2.5	2.5	2.6	2.6	2.7	2.7
Operational Cash flow	2.0	3.4	3.2	3.4	3.9	4.4	4.8	5.3	6.2	7.1
Recurrent Capex	0.0	0.0	(0.9)	(0.9)	(1.0)	(1.0)	(1.1)	(1.2)	(1.3)	(1.3)
3 Expansion Capex	(2.8)	(3.1)	(4.5)	(4.4)	0.0	0.0	0.0	0.0	0.0	0.0
Intangibles Capex	(0.5)	(0.9)	(0.5)	(0.7)	(0.8)	(0.8)	(0.9)	(0.9)	(1.0)	(1.0)
4 Working Capital needs	(0.5)	(0.1)	1.8	(2.0)	(0.4)	(0.4)	(0.4)	(0.5)	(0.5)	(0.6)
5 FCF Core Business	(1.7)	(0.6)	(0.9)	(4.6)	1.8	2.1	2.4	2.8	3.4	4.1
6 FCF Non-Core Business	0.3	0.0	(0.7)	(0.9)	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow to the firm	(1.4)	(0.6)	(1.6)	(5.5)	1.8	2.1	2.4	2.8	3.4	4.1

Comments

- 1 Very strong EBITDA growth at c. 15% CAGR enabled through margin optimization and growth of core operations
- 2 D&A dependent on the real capacity installed and investments made in intangibles
- 3 Recurrent and Intangibles Capex is based on % sales, growing in line with overall growth of the company. Expansion Capex is dependent on the real capacity installed, that is projected to remain constant after the capacity increase made in 2020. The majority of the historical Capex was attributed to the Expansion Capex, that is projected to be no longer required
- 4 NWC remains negative during the investment period
- 5 The FCF from Core Business includes the operating activities took by the company without the effect of one-off items. From this it is possible to have an idea of the CF from the normal activity of the company, with the effect of the Core operating income and the Core invested capital
- 6 Accounts with one-off items such as grants and other non-recurrent expenses take into account the increase in non-core invested capital (current and noncurrent investments made by the company that have nothing to do with the Core operations of the company)

Cumulative cash flows for the firm (€m)



6. Exit and returns | Capital structure

Debt schedule consists of senior loans A and B priced at 2.75% and 2.85% respectively, with a leverage of 3.1x EBITDA

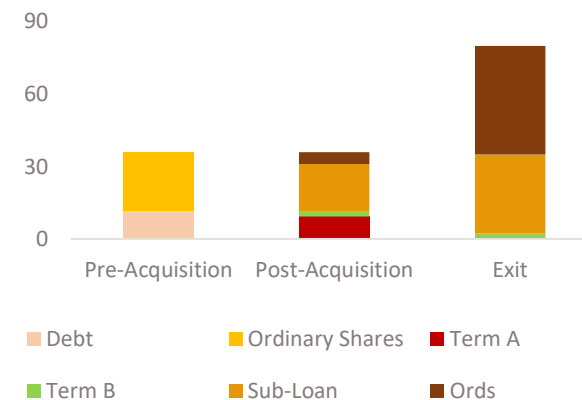
Sources of funds	(in €m)	x EBITDA	%	Interest	Uses of funds	(in €m)	%
Senior debt					Normalized EBITDA 2020	3.7	
Term Loan A	9.3	2.5x	25.8%	2.75%	Multiple	9.4x	
Term Loan B	2.2	0.6x	6.2%	2.85%			
Total debt	11.5	3.1x	32.0%		Enterprise value	34.9	97
Fixed Return Instrument					Financing fees		
Ordinary Equity	4.9	1.3x	13.7%		DD fee	0.2	0.5
Institutional Ords	4.2				Arrangement fee	0.2	0.5
Management Sweet Equity	0.7				Other fees and expenses	0.7	2
Total equity	24.4	6.6x	68.0%		Total fees	1.1	3
Total sources	36.0	9.7x	100%		Total uses	36.0	100%

Comments
<p>Sources and uses of funds</p> <ul style="list-style-type: none"> Total funds are sourced from an equity contribution of 6.6x EBITDA (€ 24.4m) and leverage of 3.1x EBITDA (€ 11.5m) Total debt is composed by Tranche A with € 9.3m of amortizable senior debt, and Tranche B with € 2.2m of senior debt to be fully repaid in 2027. The equity strip comprises a subordinated loan of € 19.5m and ordinary equity of € 4.9m. Management team's sweet equity contribution of € 0.7m is 100% of their combined yearly salary Total uses of funds, amounting to € 36.0m, are to be paid for the EV of € 34.9m and fees of € 1.1m The EV is based on an entry multiple of 9.4x EBITDA

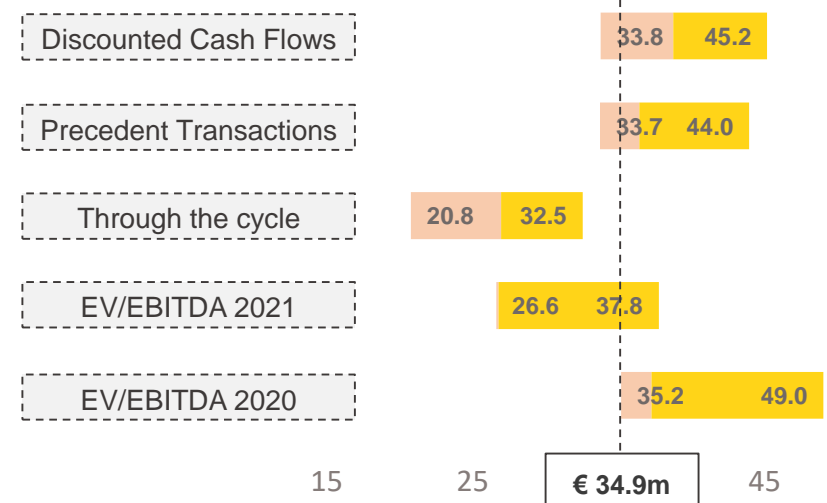
Kompuestos' projected debt conditions

Expected rating: BB	<ul style="list-style-type: none"> Type of debt: Senior debt, tranches A and B, both secured Additional instruments: Acquisition Capex facility Maximum leverage: 3.1x EBITDA Pricing: 2-3% of interest rate Maturity: 6-7 years
Pricing: 2-3%	

Changes in capital structure (€m)



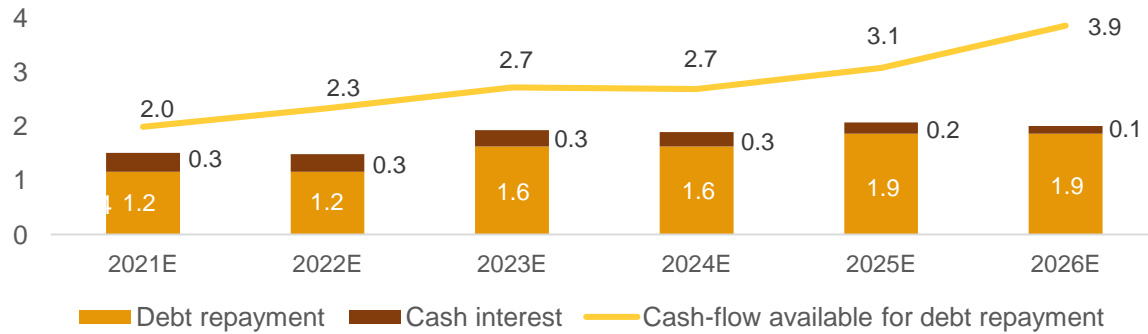
Valuation references – Football field



6. Exit and returns | Debt repayment, credit statistics, exit returns & value creation

Exiting in 2026 delivers a 3.3x MM to institutional investors and a 10.7x MM to the management team

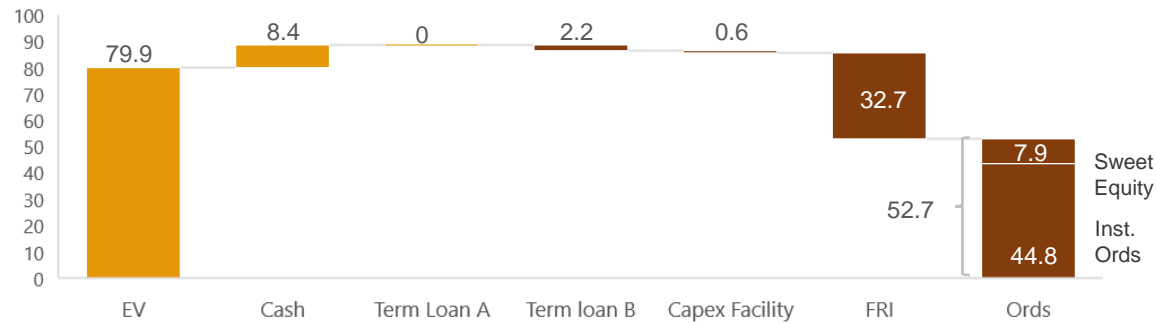
Cash-flows for debt service and repayment (in €m)



Institutional and management returns

Returns (€ m)	2021E	2022E	2023E	2024E	2025E	2026E
Management Exit Proceeds	1.7	2.5	3.4	4.4	6.0	7.9
Management Equity	0.7	0.7	0.7	0.7	0.7	0.7
Management MM	2.2x	3.3x	4.5x	5.9x	8.1x	10.7x
Management IRR	124.8%	82.1%	65.5%	55.9%	53.1%	48.4%
Institutional Investor Exit Proceeds	30.7	37.1	44.3	52.3	64.1	77.6
Institutional Investor Equity	23.7	23.7	23.7	23.7	23.7	23.7
Institutional Investor MM	1.3x	1.6x	1.9x	2.2x	2.7x	3.3x
Institutional Investor IRR	29.5%	25.1%	23.1%	21.9%	22.0%	21.8%

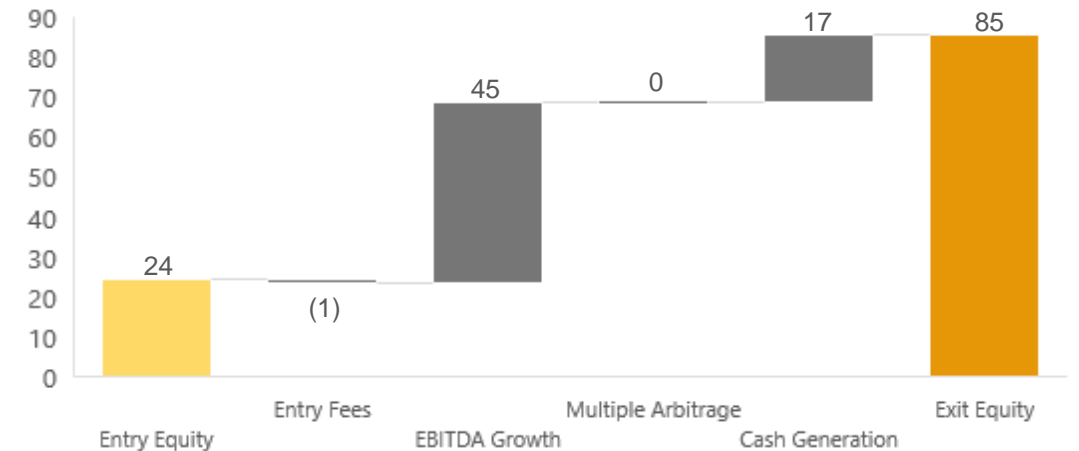
Exit waterfall 2026 (in €m)



Credit statistics

	2021E	2022E	2023E	2024E	2025E	2026E
Cash Cover	1.5x	1.8x	1.5x	1.5x	1.6x	2.0x
Net Debt / EBITDA	2.0x	1.4x	0.8x	0.3x	(0.2)x	(0.7)x
Interest Cover	13.4x	16.7x	21.2x	28.9x	47.7x	116.2x

Value creation breakdown (in €m)



7. Exit strategy | Valuable strategic sale

The most attractive strategy is to pursue a strategic sale as potential synergies translate in a higher exit multiple

Strategic sale

- Sale to a **direct competitor** or a **company along the supply chain**, with the aim of expanding its product mix or geographical reach, or looking to vertically integrate its operations
 1. Direct competitor looking to expand to the European market, improve logistics or obtain access to a large and diversified client base
 2. Plastics good manufacturer aiming to increase control over processes or improve efficiencies by acquiring a supplier
- Synergies created **support a higher exit multiple** following the potential for value creation incentivizing **buyers to pay a higher premium**
- Given the **highly fragmented nature of the market**, in 5-7 years, a wave of mergers and acquisitions is highly probable

Secondary sale

- Sale to a private equity firm as the **market is expected to remain attractive with potential to implement alternative value added strategies**
- Financial sponsors are likely to continue to have large amounts of capital to invest following increased demand from investors
- This exit usually allows for an **easier and faster process**, with more flexible agreements, but the **price may not be as favourable when compared to the strategic sale** given that synergies are less likely
- An ideal buyer would include a PE firm operating company involved in the plastics industry looking to pursue “buy-and-build” strategies, or in similar geographies allowing for potential synergies to be created

IPO & other alternatives

- **IPO**: A public offering on the **Madrid Stock Exchange** has the potential to expose the firm to a larger pool of investors, yet it is subject to a **high regulatory framework** and highly **dependent on market conditions** (e.g. investor sentiment). Additionally, the transactions **costs involved**, time required and restrictions imposed by standard **lock-up agreements** reduce this option’s attractiveness, specially considering the size of Kompuestos
- **Direct Listing**: Alternative to traditional IPO when there is no need to raise capital, being, given the lack of underwriters, a **cheaper option**. Additionally, there are **no lock-up agreements**, yet it is still very **dependant on market conditions** and investors’ perceptions
- **Sale to the management/ founding family**: Management or founding family may be interested in taking control of the company, however, this is highly unlikely given the size of the transaction
- **Dual-track process**: Filling the IPO prospectus while searching for a strategic buyer allows to gain perception of both capital markets’ sentiment and strategic buyers’ interest. This may increase returns, yet it is very costly





Kompuestos™

Investment Committee Paper

Private Equity Challenge – Individual Presentation

6. Exit and returns

7. Exit strategy



6. Exit and returns | Capital structure

Kompuestos' internal factors and optimistic market prospects allow for a BB rating

Capital structure – key takeaways

- **Operating Model:** the operating model is a key input to the LBO model because of all the previously explained growth forecasts and assumptions that greatly affect the model
- **Enterprise Value:** The multiple for 2020, considering both relative and intrinsic valuation, was that of 9.4x. Despite the plastics market is expected to grow, the exit multiple will be kept equal to the entry one
- **Capital structure:** Given the current company status (although there is no dependency from a specific sector, the majority of sales comes from packaging in the food industry), starting point to estimate debt instruments and consequent pricing based on plastics debt market
 - Max. leverage of c. **3.1x EBITDA**, since there are no significant Capex requirements in the future
 - Debt rating, average: BB (following peer's average credit rating)
 - Debt should be **amortized and issued in Spain, priced at 2-3%**
 - Senior debt is advisable, with **max. 2 tranches**, and a maturity of 6 to 7 years
 - Payments regarding debt are constantly made up of principal repayments and interest expenses
 - The Fixed Return Instrument (FRI) will be paid exclusively in PIK interest
 - Capex facility of 50% with a drawdown period of four years and a repayment period of another four

Kompuestos' leverage determinants

Cash flows	Plastic market is expected to grow, sales are contractual and predicted	☑
	No regional concentration and sector dependency	☑
	Historically volatile FCF due to investments made in Capex	☒
	No significant expected NWC and Capex outflows	☑
Assets	High hard fixed assets and valuable intangibles assets	☑
Growth & market	Diversified end-markets reduce cyclically exposure	☑
	High growth in end market segments, both traditional and sustainable solutions market are expected to grow	☑
	Unpredictability of the effects of the global pandemic	☒

Kompuestos' projected debt conditions

Expected rating:
BB

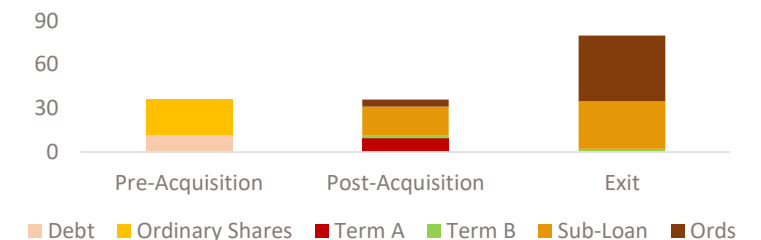
Pricing:
2-3%

- **Type of debt:** Senior debt, tranches A and B, both secured
- **Additional instruments:** Acquisition Capex facility
- **Maximum leverage:** 3.1x EBITDA
- **Pricing:** 2-3% of interest rate
- **Maturity:** 6-7 years

Rational behind rating

- No revenue exposure to highly cyclical markets
- No regional concentration
- Expectations of moderate revenue growth and margin optimization
- Stable to modest growth in traditional business and high growth in bio solutions segment

Changes in capital structure (in €m)



6. Exit and returns | Returns

Returns in the investment case are robust and sensitive to exit year

Investment case

MM assuming 9.4x entry multiple

		Exit Year				
		2024	2025	2026	2027	2028
Exit Multiple	7.4x	1.8x	2.2x	2.7x	2.9x	3.2x
	8.4x	2.0x	2.4x	3.0x	3.2x	3.5x
	9.4x	2.2x	2.7x	3.3x	3.6x	3.9x
	10.4x	2.4x	3.0x	3.6x	3.9x	4.2x
	11.4x	2.7x	3.2x	3.9x	4.2x	4.5x

IRR assuming 9.4x entry multiple

		Exit Year				
		2024	2025	2026	2027	2028
Exit Multiple	7.4x	15.2%	16.9%	17.7%	16.6%	15.7%
	8.4x	18.7%	19.6%	19.9%	18.3%	17.1%
	9.4x	21.9%	22.0%	21.8%	19.9%	18.5%
	10.4x	24.9%	24.3%	23.7%	21.4%	19.7%
	11.4x	27.7%	26.4%	25.4%	22.8%	20.8%

MM assuming 12.5% exit EBITDA margin

		Exit Year				
		2024	2025	2026	2027	2028
Exit Multiple	10.5%	2.2x	2.6x	2.9x	3.2x	3.5x
	11.5%	2.3x	2.6x	2.9x	3.2x	3.4x
	12.5%	2.6x	3.0x	3.3x	3.6x	4.0x
	13.5%	2.7x	3.0x	3.3x	3.6x	3.9x
	14.5%	2.9x	3.2x	3.5x	3.8x	4.1x

Base case

MM assuming 9.4x entry multiple

		Exit Year				
		2024	2025	2026	2027	2028
Exit Multiple	7.4x	1.6x	2.0x	2.4x	2.7x	2.9x
	8.4x	1.8x	2.2x	2.7x	3.0x	3.2x
	9.4x	2.0x	2.5x	3.0x	3.3x	3.5x
	10.4x	2.2x	2.7x	3.3x	3.6x	3.8x
	11.4x	2.4x	3.0x	3.6x	3.9x	4.1x

IRR assuming 9.4x entry multiple

		Exit Year				
		2024	2025	2026	2027	2028
Exit Multiple	7.4x	12.3%	14.6%	15.9%	15.0%	14.2%
	8.4x	15.9%	17.4%	18.1%	16.7%	15.7%
	9.4x	19.1%	19.9%	20.1%	18.4%	17.1%
	10.4x	22.2%	22.2%	22.0%	19.9%	18.3%
	11.4x	25.0%	24.3%	23.7%	21.3%	19.5%

MM assuming 11.5% exit EBITDA margin

		Exit Year				
		2024	2025	2026	2027	2028
Exit Multiple	10.5%	2.1x	2.4x	2.7x	3.0x	3.2x
	11.5%	2.2x	2.4x	2.7x	3.0x	3.2x
	12.5%	2.5x	2.8x	3.2x	3.4x	3.7x
	13.5%	2.6x	2.8x	3.1x	3.4x	3.6x
	14.5%	2.8x	3.0x	3.4x	3.6x	3.9x

Bank case

MM assuming 9.4x entry multiple

		Exit Year				
		2024	2025	2026	2027	2028
Exit Multiple	7.4x	1.5x	1.8x	2.3x	2.5x	2.7x
	8.4x	1.7x	2.1x	2.5x	2.8x	3.0x
	9.4x	1.9x	2.3x	2.8x	3.0x	3.3x
	10.4x	2.1x	2.6x	3.1x	3.3x	3.6x
	11.4x	2.3x	2.8x	3.4x	3.6x	3.9x

IRR assuming 9.4x entry multiple

		Exit Year				
		2024	2025	2026	2027	2028
Exit Multiple	7.4x	10.4%	13.0%	14.5%	13.7%	13.1%
	8.4x	14.0%	15.8%	16.8%	15.6%	14.6%
	9.4x	17.3%	18.4%	18.8%	17.2%	16.0%
	10.4x	20.3%	20.7%	20.7%	18.7%	17.3%
	11.4x	23.1%	22.9%	22.5%	20.2%	18.5%

MM assuming 10.5% exit EBITDA margin

		Exit Year				
		2024	2025	2026	2027	2028
Exit Multiple	10.5%	2.0x	2.3x	2.6x	2.8x	3.0x
	11.5%	2.1x	2.3x	2.6x	2.8x	3.0x
	12.5%	2.4x	2.7x	3.0x	3.2x	3.5x
	13.5%	2.5x	2.7x	3.0x	3.2x	3.5x
	14.5%	2.7x	2.9x	3.2x	3.5x	3.7x

6. Scenario manager | LBO output – Base case

A base case business model delivers a return of 3.00x for a 20.1% IRR

Sources of funds	(in €m)	x EBITDA	%	Interest	Uses of funds	(in €m)	%
<u>Senior debt</u>					Normalized EBITDA 2020	3.7	
Term Loan A	9.3	2.5	25.8%	2.75%	Multiple	9.4x	
Term Loan B	2.2	0.6	6.2%	2.85%			
Total debt	11.9	3.1x	32.0%		Enterprise value	34.9	97%
Fixed Return Instrument	19.5	4.3	44.9%		Financing fees		
Ordinary Equity	4.9	1.3	13.7%		DD fee	0.2	0.5%
Institutional Ords	4.2				Arrangement fee	0.2	0.5%
Management Sweet Equity	0.7				Other fees and expenses	0.7	2%
Total equity	24.4	6.6x	68.0%		Total fees	1.1	3%
Total sources	36.0	9.7	100%		Total uses	36.0	100%

Uses of funds	(in €m)
Entry EBITDA 2020 (normalized)	3.7
Entry EBITDA multiple	9.4x
Exit EBITDA multiple	9.4x
IRR	20.1%
MM	3.00x
Operating case	Base
Selected structure	2
Exit year	2026

	2021E	2022E	2023E	2024E	2025E	2026E
Cash Cover	1.3x	1.5x	1.3x	1.2x	1.2x	1.6x
Net Debt / EBITDA	2.3x	1.7x	1.2x	0.7x	0.2x	(0.3)x
Interest Cover	12.4x	15.2x	18.8x	24.6x	38.0x	75.5x

Summary financial data

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Revenue	46.2	47.2	50.0	53.0	56.2	59.6	63.3	67.2	69.8	72.5
<i>Revenue growth</i>	11.7%	2.1%	5.9%	6.0%	6.0%	6.1%	6.2%	6.2%	3.9%	3.9%
EBITDA	3.2	2.6	4.1	4.7	5.2	5.9	6.9	8.1	8.4	8.7
<i>EBITDA margin</i>	5.4%	8.3%	8.3%	8.8%	9.3%	9.9%	10.9%	12.0%	12.0%	12.0%
EBIT	1.4	0.1	1.6	2.1	2.7	3.3	4.3	5.3	5.5	5.8
<i>EBIT margin</i>	2.9%	0.2%	3.3%	4.0%	4.8%	5.5%	6.7%	7.9%	7.9%	7.9%
Maintenance Capex % sales			2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Expansion Capex % sales			2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%

6. Scenario manager | LBO output – Bank case

With a very conservative business plan returns are of 2.81x for a 18.8% IRR

Sources of funds	(in €m)	x EBITDA	%	Interest	Uses of funds	(in €m)	%
<u>Senior debt</u>					Normalized EBITDA 2020	3.7	
Term Loan A	9.3	2.5	25.8%	2.75%	Multiple	9.4x	
Term Loan B	2.2	0.6	6.2%	2.85%			
Total debt	11.9	3.1x	32.0%		Enterprise value	34.9	97%
Fixed Return Instrument	19.5	4.3	44.9%		Financing fees		
Ordinary Equity	4.9	1.3	13.7%		DD fee	0.2	0.5%
Institutional Ords	4.2				Arrangement fee	0.2	0.5%
Management Sweet Equity	0.7				Other fees and expenses	0.7	2%
Total equity	24.4	6.6x	68.0%		Total fees	1.1	3%
Total sources	36.0	9.7	100%		Total uses	36.0	100%

Uses of funds	(in €m)
Entry EBITDA 2020 (normalized)	3.7
Entry EBITDA multiple	9.4x
Exit EBITDA multiple	9.4x
IRR	18.8%
MM	2.81x
Operating case	Bank
Selected structure	2
Exit year	2026

	2021E	2022E	2023E	2024E	2025E	2026E
Cash Cover	1.1x	1.3x	1.1x	1.0x	1.0x	1.3x
Net Debt / EBITDA	2.4x	1.9x	1.4x	1.0x	0.5x	0.0x
Interest Cover	11.8x	14.2x	17.2x	21.9x	32.5x	58.1x

Summary financial data

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Revenue	46.2	47.2	49.9	52.7	55.8	59.0	62.5	66.3	68.6	71.1
<i>Revenue growth</i>	11.7%	2.1%	5.7%	5.7%	5.8%	5.8%	5.9%	6.0%	3.6%	3.6%
EBITDA	3.2	2.6	4.0	4.5	5.1	5.7	6.7	7.8	8.1	8.3
<i>EBITDA margin</i>	5.4%	8.3%	8.0%	8.5%	9.1%	9.6%	10.7%	11.7%	11.7%	11.7%
EBIT	1.4	0.1	1.5	2.0	2.5	3.1	4.0	5.1	5.3	5.5
<i>EBIT margin</i>	2.9%	0.2%	3.0%	3.8%	4.5%	5.2%	6.5%	7.7%	7.7%	7.7%
Maintenance Capex % sales			2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Expansion Capex % sales			2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%

6. Exit and returns | Management incentives

Management incentives include a 15% stake of the ordinary equity

Sweet equity

- Kompuestos' acquisition must take into account the management team and those who currently have an important role in running the business, in order to **align interests and goals** between the fund and the management team
- **Offering a share of the obtained returns** is a good way to incentivize the team to work towards meeting the growth that is expected, since if such happens, the management team will also benefit (otherwise, they also loose money). It is also a way to incentivize the largest shareholder, who is also CEO & Chairman to sell his stake.
- The management team will be able to take part of the transaction, investing 100% of its annual salary (€ 740,000m) and benefiting from a **15% stake of the ordinary equity**
- This translates into a return of **10.7x at the exit year** (€ 7.9m of proceeds)
- The **envy ratio of 5.8** shows that the deal is highly favorable to management
- The annual salaries exhibited in the table below were estimated taking into account the position of each member and the average salaries in Spain for each position

Name	Responsibility	Annual salary
Ignacio Tuesta	CEO & Chairman	€ 130,000
David Pontones	GM & Director	€ 80,000
Núria Matellán	CFO	€ 80,000
Carlos Cordomí	Director	€ 75,000
Luis Antas	Director	€ 75,000
Sandra Burgues	Director	€ 75,000
Adria Burgues	Director	€ 75,000
Santiago Roca	Director	€ 75,000
Inigo Martinez	Director	€ 75,000
Total		€ 740,000

Annual salary estimation

















Required fixed return instrument

- The required **fixed return rate** (required return by the fund before the management receives any proceeds) was set at 9%
- This value is in **line with the calculated WACC (9.5%)** and is generous to the management, in the sense that they should be able to collect proceeds easier, as the required return by the fund could have been set to a higher value
- On one hand, a higher fixed return rate would incentivize the management team to work harder towards achieving better results, in order to be able to benefit from the remaining proceeds. On the other hand, a lower fixed return rate allows the management team to receive more proceeds, which are highly dependent on their performance
- A required **fixed return rate of 9%** was found to be **fair for both** the **fund** and the **management team**, allowing for a suitable compensation of the risk that the fund is being exposed to (as the calculated WACC is 9.5%) and for the management to receive higher proceeds from their investment
- The table below illustrates the management proceeds receives at the exit (2026) and the returns obtained if the fixed return rate was higher

	9 %	12 %
Management proceeds	€ 7.9m	€ 7.0m
Management returns	10.7x	9.6x













7. Exit strategy | Potential buyer overview (1/2)

Four peers expected to show strong interest in Kompuestos aiming to access its rich client network

Potential strategic buyer									
Name	Country	Ownership	Sales '19 (€bn)	EBITDA '19 (€bn)	Firepower	Description	M&A deals (L10Y)	Comments	Assessment
 AVIENT		Listed	2.6	0.3		<ul style="list-style-type: none"> Provides specialised polymer materials, services, and solutions worldwide Offers specialty polymer formulations, services, and solutions for designers 	6	<ul style="list-style-type: none"> High overlap of end markets making Kompuestos an attractive target to increase market position Strong financial profile and a solid acquisition history, specially in Spain, with the acquisition of IQAP 	
 lyondellbasell		Listed	30.9	4.9		<ul style="list-style-type: none"> Operates as a chemical company worldwide, part of the advanced Polymer Solutions market Produces plastic solutions, such as plastics compounds and masterbatches 	5	<ul style="list-style-type: none"> Strong financial position and acquisition history, acquiring A. Schulman, a European player in the masterbatches industry, in 2018 On the other hand, it is a very large and diversified player with focus on other segments 	
 BASF		Listed	59.3	7.1		<ul style="list-style-type: none"> Multinational chemical company Offers advanced materials such as polymer dispersions, pigments, resins and bioplastics 	21	<ul style="list-style-type: none"> Very strong financial position and acquisition history On the other hand, is a very large and diversified player with focus on other segments 	
 americhem.		Private	0.2	-		<ul style="list-style-type: none"> Manufactures and supplies masterbatches, high performance plastics and polymer additives 	1	<ul style="list-style-type: none"> Player with a smaller dimension Recently bought Controlled Polymers, European player in the masterbatch industry, allowing the company to grow in the European masterbatch market 	

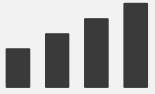
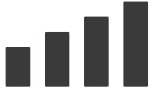




7. Exit strategy | Potential buyer overview (2/2)

PE firms are showing an increasing interest in the plastic sector

Potential secondary sale buyer								
Name	Country	Ownership	AuM (€ bn)	Firepower	Description	Deals (L10Y)	Comments	Assessment
		Private	-		<ul style="list-style-type: none"> Private equity firm investing in manufacturing companies with revenues between USD 5m to USD 500m 	19	<ul style="list-style-type: none"> Recently acquired a UK-based company engaged in producing recycled plastics compounds Kompuestos' valuation is within the boundaries of the average ticket of AIAC 	
		Private	114		<ul style="list-style-type: none"> Private equity firm focused on buyouts and growth capital transactions across Europe, Asia & North America 	+50	<ul style="list-style-type: none"> Deep interest in the plastic market, recently acquired an US-based manufacturer of resin chemistries for composites and cast polymer applications Strong experience in Iberia A potential downside may be the dimension of the Kompuestos that may fall too short for its average ticket 	
		Private	34		<ul style="list-style-type: none"> Private equity firm focused on small and mid-sized companies pursuing a value creation strategy 	11	<ul style="list-style-type: none"> Strong expertise in the Chemical sector Closed its 3rd European Middle Market fund in November 2020 (€ 1.1bn), with a focus on Western Europe 	

7. Exit strategy | Key Due Diligence areas

Validation of commercial, financial and environmental aspects is crucial to proceed with the transaction

	Key Aspects	Main Risks	Relevance
Commercial	<ul style="list-style-type: none"> ○ Further investigate the European market for plastics, particularly for the bioplastics and the recycled polymers ones ○ Assess the ability to differentiate itself on the market and Kompuestos' pricing strategy of products and compare it with competitors ○ Determine the company's current market share and realistic competitors ○ Evaluate real impact from COVID-19 and consequences 	<ul style="list-style-type: none"> ▼ Business' high dependency on raw materials and corresponding availability and price ▼ Customers: inability to satisfy clients and to sign long-term contracts ▼ Mandatory certification for new products developed takes time and is not certain 	
Financial	<ul style="list-style-type: none"> ○ Analyse non-recurrent income (expenses) figure and validate its values when computing the normalized EBITDA ○ Understand the major changes in NWC within the 2019-2020 period ○ Analyse thoroughly the balance sheet, taking into consideration the recurrent WC requirements and net debt position ○ Validate projections concerning EBITDA, NWC and Capex, and the underlying assumptions ○ Analyse the "self-constructed assets" figure 	<ul style="list-style-type: none"> ▼ Lower profit margin in the bioplastic and recycled polymers businesses than expected ▼ Extremely high fixed costs ▼ Inefficient management of working capital ▼ Overestimation of self-constructed assets 	
Operational	<ul style="list-style-type: none"> ○ Investigate if the R&D is being efficiently and timely applied on the development of new/increased quality products ○ Explore the efficiency of production and usage of assets (mainly machinery) ○ Conduct an analysis to identify excessive supplier dependences and evaluate ways of redesigning contracts to derive benefits for the firm 	<ul style="list-style-type: none"> ▼ Inability to properly apply R&D findings, especially when compared to peers ▼ Inefficient usage of production machinery ▼ Excessive supplier dependences and/or extremely low bargaining power 	
Legal	<ul style="list-style-type: none"> ○ Verify company's licenses, product certifications and registered patents ○ Review the contracts that provide assurance for the firm, its assets and employees ○ Confirm Kompuestos' low exposure to single-use plastics regulation 	<ul style="list-style-type: none"> ▼ Future limiting regulations concerning plastics may undermine the traditional business which is still the main source of revenue ▼ R&D-oriented industry may lead to litigation processes involving IP rights 	
Management Team	<ul style="list-style-type: none"> ○ Conduct a deep analysis of the management team, focused on their expertise, core competences and suitability ○ Assess the areas of strengths of the team 		
Environmental	<ul style="list-style-type: none"> ○ Assess the compliance with current environmental policies and investigate potential future environmental exigencies 	<ul style="list-style-type: none"> ▼ Lack of compliance with tax and environmental legislation requirements ▼ Future environmental or other legal constraints that jeopardize the overall business 	

Individual reflection | Key takeaways

Challenging work project in a particular environment to enhance success in a future work experience

Personal contribution

- The Private Equity Challenge was a major milestone in my life, not only because it meant that the Masters in Finance provided by Nova SBE had come to an end, but also because I was able, alongside the other group members, to get in touch with a subject of interest, such as Private Equity. Being able to perform a thesis in something that actually matters to me was an amazing and defying opportunity
- The first substantial adversity was the company selection, we took some time to successfully surpass this hazard, understanding that this step was vital in order to prosper in the next phases. A PE target has to have peculiar characteristics and the work performed by the group, which included talking with CEO's, upset senior management staff of important companies, etc., until we get the final decision motivated me to overcome the rest of the project
- Secondly, understanding the importance of the group was crucial if in the beginning I was reluctant in working in group, since it is not that common to ear about thesis in groups, after the first hurdle, it became clear to me the necessity of other group members, not only because of the quality of the work demonstrated by them but also to motivate me when things get tough
- Finally, all the deadlines established during the elaboration period were essential in order to better organize and divide the required work. All of them were accomplished triumphantly, also because of the help of the serious and smart guiders' advice

Covid-19 impact

- Probably this is the first time that the PE Challenge is developed under these moulds. We are living in strange times and the capacity to innovate and to show resilience was surely tested. Covid-19 not only affected interactions among the group members but also raised dilemmas related to the project itself. In addition to the impossibility of human physical interaction within the group, we had to deal with situations where unpredictable forecasts had to be made, devastating consequences had to be quantified and risks had to be better accessed. For all of this, the group showed a great capacity to eclipse these issues and perform a best in class project

Private Equity and the plastic industry

- PE investments in EMEA grew 25% YoY, from €21.4b in Q3 2019 to a total of €26.7b, in Q3 2020. However, the number of completed deals declined 8% YoY, from 1,303 in Q3 2019 to 1,202 in Q3 2020. The growth in aggregate deal value was partly aided by deals involving German and Southern European targets, meaning that despite Covid-19, there is a clear evidence that the PE sector was not aggressively affected by it. PE firms must be able to navigate the developments across all sectors, being required investments in companies that are the best in class within each industry, capable of moving towards sustainability and aligning it with a maintainable growth. A company such as Kompuestos tackles the bad publicity around the plastics industry and makes us feel more optimistic about the future



Kompuestos™

Investment Committee Paper

Private Equity Challenge

References



- KPMG. 2019. “The plastic recycling opportunity: an industry ready for consolidation.” Accessed December 26
<https://assets.kpmg/content/dam/kpmg/xx/pdf/2019/10/the-plastic-recycling-opportunity.pdf>
- Financial Times. 2019. “Investors must look hard at the future of plastics.” Accessed December 26
<https://www.ft.com/content/0a21d8b6-42af-3b99-b320-c6131b07be86>
- Brown Gibbons Lang & Company. 2016. “Plastics & Packaging Insider – Private Equity Sees Value in Plastics”. Accessed December 26
<https://www.bglco.com/research/bgl-plastics-packaging-insider-private-equity-sees-value-in-plastics/>
- Kompuestos. 2019. “The circular economy of plastics”. Accessed September 25
https://uploads-ssl.webflow.com/5c4748e31fc9b5eb2457c7fb/5f156db8a1dac6a4726d7b42_Kompuestos_Company_PPT_ENG_V20200210.pdf
- BME Growth. 2019. “Documento informativo de incorporación al mercado alternativo bursátil, segment para empresas en expansion (“Mab-ee”) de las acciones de Plásticos Compuestos, S.A.” Accessed September 25.
https://www.bmegrowth.es/docs/documentos/Otros/2019/06/05425_Folleto_20190626.pdf
- BME Growth. 2019. “Plásticos Compuestos: investment research.” Accessed October 2
https://www.bmegrowth.es/docs/analisis/2020/01/05425_Analisis_20200115.pdf?dsXGJQ
- Grand View Research, 2020. “Plastic Market Size, Share & Trends Analysis Report By Product, By Application, By Region, And Segment Forecasts, 2020 – 2027”. Accessed November 23
<https://www.grandviewresearch.com/industry-analysis/global-plastics-market>
- Global Markets Insights, 2018. “Masterbatch Market Size By Type, By End-user, Industry Analysis Report, Regional Outlook, Application Growth Potential, Price Trends, Competitive Market Share & Forecast, 2019 – 2026”. Accessed November 23
<https://www.gminsights.com/industry-analysis/masterbatch-market>
- Fortune Business Insights, 2019. “Plastics Market Size, Share & Covid-19 Impact Analysis, by type, by end-use industry, and regional forecast, 2020-2027. Accessed November 23
<https://www.fortunebusinessinsights.com/plastics-market-102176>
- Fortune Business Insights, 2019. “Recycled Plastic Market Size, Share & Industry Analysis, By Type, By Application, and Regional Forecast, 2019-2026”. Accessed November 23
<https://www.fortunebusinessinsights.com/recycled-plastic-market-102568>
- IHS Markit , 2019. “Population Growth and Materials Demand Study”. Accessed November 23
<https://plastics.americanchemistry.com/IHS-Economic-Growth-and-Materials-Demand-Executive-Summary.pdf>
- Markets and Markets, 2019. “Biodegradable Plastics Market worth \$12.4 billion by 2027”. Accessed November 23
<https://www.marketsandmarkets.com/PressReleases/biodegradable-plastics.asp>

- McKinsey & Company. 2016. “The circular economy: Moving from theory to practice”. Accessed November 20
<https://www.mckinsey.com/~media/McKinsey/Business%20Functions/Sustainability/Our%20Insights/The%20circular%20economy%20Moving%20from%20theory%20to%20practice/The%20circular%20economy%20Moving%20from%20theory%20to%20practice.pdf>
- Ellen MacArthur Foundation. “New Plastics Economy: A circular economy for plastic in which it never becomes waste”. Accessed November 20
<https://www.ellenmacarthurfoundation.org/our-work/activities/new-plastics-economy>
- Pri. “The plastics landscape: regulations, policies and influencers”. Accessed October 30
<https://www.unpri.org/plastics/the-plastics-landscape-regulations-policies-and-influencers/4953.article>
- Plastics Europe. 2020. “Plastics – the Facts 2020”. Accessed October 15
https://www.plasticseurope.org/application/files/5716/0752/4286/AF_Plastics_the_facts-WEB-2020-ING_FINAL.pdf