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Case Study
The mykitchen Divestment

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Abstract

The following case study describes the situation faced by the PE investor Munich Equity Group (thereafter MEG) during the process of a potential investment. The structure is divided into a case narrative as well as a teaching note. The narrative outlines the current market situation of the DACH PE market, the process of MEG to establish an indicative offer, the impact of a detailed DD on the valuation, and lastly, the issuance of a binding offer. It further highlights how quickly an investment opportunity can change from a LBO to a restructuring case. The teaching note derives the investment highlights, explains how to set up the valuations and highlights the impact of the DD on the respective valuations.

Key Words: Case Study; Private Equity; LBO; Restructuring; Valuation; Deal Structuring;

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List of Abbreviations

MEG	– Munich Equity Group
PE	– Private Equity
DACH	– Germany, Austria, and Switzerland
LBO	– Leveraged Buy-out
CAGR	– Compounded Annual Growth Rate
NDA	– Non-Disclosure Agreement
IM	– Information Memorandum
DD	– Due Diligence
SPA	– Share Purchase Agreement
CAPEX	– Capital Expenditures
IC	– Intercompany
EV	– Enterprise Value
LoI	– Letter of Intent
DCF	– Discounted Cash Flows
IRR	– Internal Rate of Return
DSO	– Days Sales Outstanding
DIO	– Days Inventory Outstanding
DPO	– Days Purchases Outstanding
LOC	– Line of Credit
PPA	– Purchase Price Allocation
WC	– Working Capital
CoC	– Cash on Cash

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The mykitchen AG Divestment

On a nice and sunny winter day in the beginning of December 2016, Thomas P. and Armin B., executive board members at Munich Equity Group (thereafter MEG), sit together for lunch in the *Franziskaner Wirtshaus* close to their office. While they are waiting for their meals, Thomas notes, "Do you think that such a bargain purchase price for mykitchen will be accepted?!" Armin replies, "I am not too sure to be honest but let us wait for B-Capital Advisory's¹ response this afternoon."

MEG is an owner-managed industrial holding that operates as an entrepreneurial investor, seeking investments with potential for reorganization. MEG and its portfolio companies generate revenues of roughly €500 million and hold €300 million in investable funds¹ that are pulled purely from own equity as the company does not act as an investor in the interest of a specific fund.

The mykitchen deal seems to be a classical MEG case for the following reasons: Firstly, the attractive purchase price forms the basis for above-average returns – an essential criterion for the acceptance of a deal by MEG. Secondly, leverage points for operational improvements necessary to bring mykitchen back on track are identified and expected to be handled well by MEG's own operations department². Lastly, mykitchen, as a built-in kitchen manufacturer, can be seen as a perfect fit to MEG's current portfolio as it would complement it with respect to house construction components.

"One way or the other, if our offer gets accepted, this will work out to be a successful deal for us – especially when considering the current market conditions", Thomas concludes and redirects his attention towards the lunch just being served.

The Buyer: Munich Equity Group

The PE investor MEG was established in 2003 with some of its founders still represented in the current executive board. With 40 employees in the holding and approximately 2.500 in the group, MEG is currently located in Munich, Germany, and in Vienna, Austria (see company overview in **Exhibit 1**). As an industrial holding the company focuses not only on the acquisition of companies with potential through successions, restructuring, carve-outs and corporate divestments but also on active "hands-on" support for the subsidiaries by the company's own operations team. This

¹ M&A advisory firm responsible for the mykitchen transaction

combination represents a clear differentiation in the competitive PE market. Currently, MEG has five portfolio companies with revenues ranging from €40 to €140 million. Two companies operate in the prefabricated housing market.

MEG targets small to mid-sizedⁱⁱ, mature companies within the industrial sector in the DACHⁱⁱⁱ region that offer room for operational enhancements and on which a controlling majority can be acquired³. With respect to MEG's strategy, leverage plays an insignificant role mainly due to the company's specific focus on targets with room for operational improvements which usually show unattractive cash flow profiles – making it difficult to raise substantial amounts of debt for a transaction. Therefore, MEG does not operate like a pure PE investor that creates a significant part of its return through financial leverage in so-called LBO transactions.

To classify as an MEG investment, the target needs to show clear potential for top-line expansion and / or operational enhancements in order to create value and returns through EBITDA growth accordingly. As Thomas P. notes, "Sometimes we are able to raise debt amounting to 1x EBITDA; however, for companies with no history or in difficult situations this is the maximum banks would lend"⁴. Of course, if cases show positive and attractive cash flow profiles, a cash flow-based leverage up to 50% of the purchase price is theoretically possible. A study within the German mid-cap market proves that most PE companies see revenue growth as well as margin improvement as the most important value levers⁵, which undermines MEG's strategy in the industry. Such value creation is always maximized with an attractive purchase price as a basis. Therefore, MEG puts a clear focus on so-called bargain purchases for which no overpayment is necessary. "We are not characterized by willing to pay a premium for an investment", outlines a board member. MEG's investments are expected to reach the desired value creation within the usual holding period in the PE market (**Exhibit 2**). This makes it inevitable to already consider possible exit strategies, ranging from strategic sales to the sale to other PE companies, from the very start of an investment.

Considering the company's recent deal history, one to two transactions a year can be seen as "objectives met". The year 2015, with the acquisition of a window manufacturer as well as a prefabricated houses producer, proved to be a successful year for the company compared to 2016 where MEG has not been active in the market so far.

ⁱⁱ Consolidated revenues ranging from €30 to 500 million.

ⁱⁱⁱ DACH: Germany, Austria, and Switzerland

The DACH PE Market

MEG's Director of Finance summarized the market situation in 2016, "Nowadays, we operate in a sellers' market where globally \$500 billions of dry powder wait to be invested. The scarcity of attractive investment targets combined with an increasing number of investors drives prices up – 10x EBITDA is not rare anymore"⁶. The market momentum could be compared to the booming years up to 2007 when PE companies had to pay peak prices for their investments and struggled to exit as soon as the market crashed⁷. Therefore, the environment in 2016 was classified by high competition and high activity concerning both transaction value and number of transactions. In Europe, total deal value of PE investments reached approximately €200 billion in 2016⁸. With a corresponding rising activity of main market players, the average value per deal also increased over the years (**Exhibit 3**). Within Europe, the DACH region achieved a CAGR of even 5,2% concerning number of deals since 2011 and reached about 320 deals in 2016 and therefore, managed to outperform the rest of Europe (**Exhibit 4 + 5**).

In the last year, the Brexit has even intensified this rivalry by shifting the investment focus towards the DACH region and in particular to Germany. Whereas UK inbound M&A has seen a decrease following the Brexit vote, the German sector has profited with an increasing number of deals year-on-year⁹ with the majority of transactions closed within the B2B, IT, or consumer goods industry (**Exhibit 6**). The impact was also visible with respect to total deal value in Germany with a record year in 2016¹⁰. The aforementioned developments continuously foster the characteristics of a sellers' market in the DACH region, where several bidders are invited to join the process of a proposed M&A transaction.

As previously stated, these trends drove up valuations measured by increasing EBITDA multiples paid. Indeed, a 2016 study proved that 86% of interviewed PE partners in Germany saw valuations on record levels¹¹. Globally, PE deal valuations increased by nearly 1x EBITDA since 2012 (**Exhibit 7**). Such high prices, in turn, forced buyers to only purchase assets with certain value creation potential in order to achieve the internally required returns. Even though debt market conditions were considered as favorable mainly due to very low interest rates in the market, leverage showed a decreasing importance over the years with respect to return criteria of PE deals. Overall, conditions in the DACH region are still very solid as Bernd T., Managing Director at Harald Quandt, a German family office, noted, it "is a good region for [PE], due to its

skilled workforce, stable conditions, economic growth, and good infrastructure and tech systems”¹². In order to be successful in such an environment it was crucial for a PE company to be sufficiently differentiated, for example through an exclusive, operational hands-on approach which directly matches MEG’s philosophy⁴.

In the DACH region MEG directly competes against similar Munich-based PE houses. Over the last ten years the following could be considered as the top performers with respect to the number of closed deals: DBAG, Orlando Management AG, Bavaria Industriekapital AG, and Aurelius Equity Opportunities (**Exhibit 8**). Overall, total number of deals increased significantly over the last years reaching more than 100 in 2016 which exemplified the aforementioned high competition in a heated market (**Exhibit 9**). With respect to target industries a particular focus was not visible. Nevertheless, on average more than two thirds of all investments were made within the following sectors: industrial operations, materials or consumer goods¹³.

The Seller: Koek Group AB

Koek Group AB, located in Stockholm, Sweden, is a leading kitchen manufacturer in Europe (**Exhibit 10**). The group, led by its CEO Morten F., is the owner of several well-recognized kitchen brands including Marbodol, HTH, Sigdal, rixonway kitchens, and mykitchen. Altogether, the group generated revenues of €1.276 million with an operating margin of 9,6% in 2015¹⁴. Even though the margin was still tight in a competitive market, it showed a slowly improving trend over the years. In order to further streamline its position in the mid-market segment for kitchen furniture, Koek considered additional sales of underperforming stand-alone brands within the group.

"Since 2010 Koek has executed against a strategy focusing on growth and efficiency. By taking out cost and complexity, we have significantly improved our value proposition in the mid-market segment in the countries where we do business. We have sold off companies where our market position has been weak. We now take the next step on this journey. mykitchen is a brand with strong reputation worldwide; however, there have been limited synergies to the rest of the group. Koek will continue to drive scale and profitable growth, both organic and acquired”, noted Koek’s CEO with respect to mykitchen’s profitability contribution and thereby announced the process of finding an investor for mykitchen to the group’s shareholders¹⁵.

Due to a worsening profitability of Koek's subsidiary mykitchen, the 2015 group result put additional pressure on the CEO of Koek: mykitchen's net result was jeopardized on the one hand by an inefficient cost structure continuously decreasing operating profitability and on the other hand by considerable impairment losses resulting from an accounting fraud in the US. IFRS allows Koek to show mykitchen's result as discontinued operations in case a sale is sufficiently probable before the closing of 2016 which would significantly improve the executive board's position – not only regarding their performance linked bonus¹⁶. In summary, Koek's strategic rationale for the divestment plan of mykitchen was based on two main pillars: (1) the focus on cutting costs and complexity by emphasizing assets with high synergy potential only and (2) the window dressing of the financial statements by showing mykitchen as discontinued operations¹⁷. The latter put essential time pressure on the proposed transaction and left Koek in a desperate position to sell in order to be able to communicate a success in its streamlining strategy to shareholders and to rescue internal goals at the same time.

The Target: mykitchen AG

mykitchen AG was founded in 1892 in Herford, Germany (**Exhibit 11**), and since then belongs to the oldest and most known kitchen brands worldwide. It is recognized in more than 70 countries with local subsidiaries in the US, UK, France, and Switzerland. Together with its closest competitor Bulthaup, the company can be described as dominating "the high quality mass-production [kitchen furniture] sector"¹⁸.

In 2004, the company was amongst the first in the market to introduce a kitchen as an integrated entertainment and smart technology hub and hence, proved to be a pioneer in the market¹⁹. Three years later it was again mykitchen who introduced the first product brand kitchen in the industry with its Porsche P'7340 design kitchen (**Exhibit 12**). Both examples exemplify mykitchen's market position: offering smart solutions in kitchen furnishings, technology and design on an elegant and luxurious level²⁰. Nowadays, mykitchen's product portfolio comprises seven different kitchen types of which each could be potentially individualized for the specific customer²¹.

In 1998, the company got taken over by the Skanska Group, Sweden - a leading project development and construction company. Twelve years later the group sold mykitchen to Koek which, since then, holds a 98,57% share in mykitchen while remaining minorities belong to founders which are not available for sale²¹.

mykitchen is positioned in the luxury kitchen furniture segment producing kitchen cabinets from its production base in Herford, Germany. While the company focuses on the design and production of core competencies (i.e. the kitchen cabinets), non-core activities such as appliances, sinks, and worktops are outsourced to high quality suppliers²¹. The products are delivered to more than 70 countries all around the globe. The business is divided into four main distribution channels: DOS retail, IRP retail, Own Projects, and External Projects (**Exhibit 13** describes each channel in further detail) with nearly 50% of the business generated in Europe, followed by the US with a share of 29% (**Exhibit 14**). For a few years mykitchen has processed the operations of the third-party brand pronorm^{iv} which added €7 million to mykitchen's turnover in 2015 within the IRP retail segment. However, during the last years, the business of pronorm continuously declined and put additional pressure on its already low margin. In 2015, pronorm's operating margin^v reached a negative record of just 14% as the business was additionally jeopardized with many dealers starting to purchase directly from mykitchen itself. Including all operations, mykitchen employed 504 employees by the end of 2015 with the majority working in Global Sales as well as Supply Chain Management²¹.

mykitchen's top-line continuously increased over the last three years and reached nearly €116 million by 2015^{vi}; nevertheless, historic revenues were significantly higher. The increase was mainly driven by three large projects generated in the US and UK within the Own Projects business line. Furthermore, the company's main channel DOS remained strong with a yearly growth of approximately 5% from 2013 to 2015. On the other hand, the IRP as well as the External Projects channel lost some ground due to mid-market price pressure and a weaker market presence in Africa and Asia respectively. Gross profit was primarily increased due to higher margins in the DOS channel. Nevertheless, in the same period the company's EBITDA margin shrank resulting from inefficient order processing which not only increased assembly, freight and staff costs but also worsened mykitchen's delivery reliability to only 80-85%^{vii}. On top, especially in 2015 unfavorable currency fluctuations led to an extraordinary increase of other operating expenses. From 7,4% in 2013 the margin dropped to only 6,1% in 2015²¹ (see **Exhibit 15** for the consolidated P&L statement).

^{iv} pronorm is a German-based kitchen producer in the mid-market segment whose business solely relies on trading goods. All transactions are currently processed and accounted for by mykitchen

^v Operating margin excluding fixed costs not attributable to pronorm business

^{vi} 31st of December as year-end of mykitchen's financials

^{vii} 15-20% of delivered products arrive late or to wrong customers

mykitchen also experienced a rise of total assets over the years which is attributed to a sharp increase of current assets. Especially, accounts receivables in 2015 significantly surpassed the usual level attributed to business growth which was due to unfavorable payment terms from the project business in the US and UK as well as due to wrong accounting in course of the fraud in the US. The latter led to severe impairment losses in the last three years resulting in a negative equity position of the US subsidiary. The majority of fixed assets is attributed to a well invested factory^{viii}. Koek and all subsidiaries were included in a cash pool agreement in order to decrease credit facility requirements and provide more flexibility to cope with cash shortages. In 2015, mykitchen showed a cash pool receivable of €11 million, indicating a provision of cash to other participants. With respect to financing, mykitchen used recourse factoring to additionally support immediate cash needs. To cover long-term financing requirements mykitchen received a shareholder loan from Koek amounting to €34 million in 2015. To settle the accounting fraud, it had to be increased in 2014 and 2015 respectively²¹. (**Exhibit 16** illustrates the consolidated balance sheet).

The company's free cash flow fluctuated significantly from approximately €7 million in 2014 to only €1 million in 2015 mainly due to much higher capital expenditures. mykitchen only managed to improve its cash balance year-on-year due to increased lending in form of the aforementioned shareholder loan²¹.

Overall, by neglecting non-recurring events, the decreasing operating profitability caused mykitchen to lose track with respect to its competition outlined in **Exhibit 17**. mykitchen achieved not only a lower EBITDA margin in 2015 but also had to cope with a declining trend over the years.

The Luxury Kitchen Furniture Market

mykitchen manufactures luxury built-in kitchens in the luxury, super-premium segment. Within Germany, mykitchen belongs to the top 10 of the most successful luxury brands and ranks second behind Bulthaup with respect to kitchen furniture²². Hence, the company's operations are broadly clustered into the luxury kitchen furniture market where major points of differentiation of the luxury to the premium segment include price (> €35.000), customization and unique design, global reach as well as a focus on

^{viii} According to an actual advisory note, mykitchen's real estate was valued at a market value 30% above book value

project business²¹. As there was no specific market data available, the following analysis was based on trends of the global luxury furniture market as well as the global kitchen market. From a market value of €4 billion in 2015 the global kitchen market is expected to continue its past growth with a CAGR of 2,9% from 2015 to 2017. The growth is mainly attributed to a rise in the number of households, an increasing disposable income, a global real estate boom as well as growth of organized retailing²¹. Even though the luxury furniture market is forecasted to grow at a CAGR of 4,7% until 2019, the luxury kitchen segment is expected to only profit partly from that growth²³. As a conclusion, growth within the global kitchen market mainly stems from the middle-class and premium segment, whereas the luxury segment is expected to grow only slowly with no extraordinary swings - characteristics of a classical consumer goods market. The largest growth market has been China followed by the US. Nevertheless, in the upcoming years, Germany is also expected to follow this trend²¹, which exacerbates competition but also provides companies in the market with future opportunities (**Exhibit 28** outlines growth rates of the global kitchen market).

The Sales Process: Non-Core Divestment of mykitchen AG

In summer 2016, Koek started the process of divesting its subsidiary mykitchen¹⁵. In order to find an appropriate investor, the company mandated the M&A advisory B-Capital Advisory in order to sell mykitchen through an auction in which the asset is sold by soliciting bids from various buyers invited to the process²⁴. In order to increase the chances of receiving a reasonable high bid for mykitchen within the set time constraints, it was assumed that a large number of parties was invited to the process and correspondingly received the respective teaser for the investment opportunity, comprising mykitchen and all its subsidiaries. Potentially interested investors included strategic buyers from Asia as well as financial investors within MEG's competition.

MEG's general process from the deal generation to the closing of a transaction is presented in **Exhibit 19**. Several past transactions have been concluded in collaboration with B-Capital Advisory as the M&A advisor which resulted in a well-established and trusted relationship. Therefore, MEG's investment partners were also informed about the proposed transaction of mykitchen by receiving the respective teaser. The review took only a few days and MEG quickly transmitted its explicit interest in the case. With the signing of the corresponding NDA for the transaction, MEG was officially selected

for the primary round in the auction of mykitchen. Hence, after having received the IM²⁵ from B-Capital Advisory, the deal team started to work on the proposed transaction. Based on the first process letter, the team had to develop a first indicative offer which had to be delivered until the 9th of September 2016²⁶. In line with previous assumptions, approximately a dozen investors remained in the process and were required to submit an indicative offer to B-Capital Advisory.

Indicative Offer

The team required only some days to review the IM in order to prepare an indicative target case (sellers' case^{ix} adjusted by first considerations of the team). From that basis a valuation of the target was performed to see whether the investment would potentially meet the required returns by MEG (**Exhibit 20**). The most important components besides the business plan are the recurring EBITDA for mykitchen in 2016^x, entry and exit EBITDA multiples as well as the potential financing structure of the deal. During the first days of September the indicative valuation based on a first target case was set up and the bid officially transmitted to B-Capital Advisory.

The offer was based on the following assumptions: In 2016 and 2017, mykitchen suffers from a revenue decrease due to the termination of non-recurring UK and US-based projects. However, a stable increase thereafter is expected. The initial decrease in the company's EBITDA from 2016 to 2017 is mainly caused by higher marketing expenses in line with competitive industry levels. From 2017 onwards, the company is expected to regain profitability resulting from the implementation of first efficiency measures in course of a restructuring program to optimize company internal processes. Important balance sheet considerations included the historic IC^{xi} financing with Koek: As information from the IM was limited and potential settlements were still subject to negotiations, cash pool receivables remain at the forecasted €17,9 million from 2016 onwards with no payment made by Koek. Correspondingly, the shareholder loan provided by Koek to mykitchen is not repaid either and remains at €33,6 million. **Exhibit 21** provides a summary of additional projections.

In order to come up with an adequate purchase price, comparable transactions within the furniture retail and furniture manufacturing market as well as industry comparables were used to identify appropriate entry and exit multiples (transaction comparables are

^{ix} Business plan presented by seller and outlined in the IM

^x Estimated 2016 figures serve as the basis for the transaction

^{xi} Within the transaction scope these transactions are not IC and hence, considered as third-party transactions

outlined in **Exhibit 22**). Regarding exit, a multiple arbitrage^{xii} of 2,0x was assumed in line with the past trend of more expensive valuations in the market.

"Multiple arbitrage and operational levers are not the only return drivers. We also need to consider a suitable financing structure for the deal", noted MEG's Head of Finance. "In my opinion, we should expect the usual acquisition financing terms we also have received in the past for comparable transactions with similar cash flow profiles: Therefore, it should be possible to raise up to 2-3x EBITDA in debt. Such a loan is typically charged with an annual interest of 5% considering a flexible amortization schedule within the usual holding period. And of course, financing is subject to meeting the yearly covenants (**Exhibit 23**)". Additionally, a typical line of credit for financing operating cash shortages with a maximum usage of €1 million combined with an interest of 4% annually on the withdrawn amount seemed realistic. All relevant financing parameters are summarized in **Exhibit 24**. For simplicity, the historic factoring line was neglected at the current stage. In order to complete the valuation, the deal team assumed a transaction fee^{xiii} of 5% as well as one-off restructuring costs of €1,8 million in 2016 with the latter considered as a net debt like item.

Even though this bid was officially transmitted to B-Capital Advisory, it was internally doubted that this offer already reflected the true purchase price MEG would be willing to pay. As information from the IM was limited, there were concerns about potential findings in course of the upcoming DD. The sellers' case presented in the IM often reflects an exaggerated state of the target company that justifies a higher indicative bid. Nevertheless, a full DD often reveals additional insights that allow for a downward adjustment of the valuation. "In this scenario we are able to run a tactic of entering high and decreasing the bid in the very end of the auction", noted MEG's Head of DD. Of course, returns always profit from a lower binding equity investment.

This strategy proved to be successful as MEG was one out of a handful of bidders receiving process letter II from B-Capital Advisory asking for a binding offer until the 18th of November²⁷.

Due Diligence

Tough weeks are ahead for the deal team: In order to prepare a binding offer, the investment team needs to conduct a full DD in order to come up with a final target

^{xii} Multiple arbitrage refers to the increase in the exit multiple received compared to the entry multiple paid

^{xiii} Transaction fee typically includes fees for banks, M&A advisors, consultancies as well as tax and legal advisors

business plan for the proposed holding period. With the help of a vendor DD provided by KPMG as well as an internal analysis mainly on commercial, financial and operational aspects, the final target case is based on the following DD findings:

The first important valuation parameter is the entry EBITDA in 2016. Usually, the proposed seller case includes normalizations to uplift the reported EBITDA of the target to achieve a higher valuation. Therefore, all those normalizations need to be reviewed to analyze whether these effects are recurring and hence, are correctly reflected in the company's EBITDA. The thorough DD reveals the following: First of all, the team concludes to negatively adjust the EBITDA by €1 million in order to reflect on average higher future expenses as a standalone company as well as to incorporate the past neglect of operational outlays. Secondly, an upward EBITDA normalization amounting to €1,1 million included by the seller proves to be non-recurring income from a store in Austria as well as from projects in the US and UK. Additionally, costs relating to freight and assembly were excluded as one-off expenses by the seller. Nevertheless, the team concludes to characterize these €1,2 million as recurring for normal business operations. Lastly, actuals from current trading^{xiv} prove a financial performance of €0,9 million below budget which is normalized correspondingly. Altogether, the normalized EBITDA in 2016 equals to €2,9 million as stated in **Exhibit 25**.

As a next step, the development of mykitchen's business in each distribution channel and country, taking into account an informed view from an industry expert, further influences the business plan as follows: Negative top-line adjustments in 2016 and 2017 include the aforementioned factors regarding non-recurring projects, output delays, the pronorm termination as well as channel mix adaptations. From 2017 onwards, MEG implements measures regarding an improved sales force, store refurbishments as well as increased marketing effort in order to regain market share. Please see **Exhibit 26** for respective deviations to the indicative business plan in 2016 and 2017, channel mix adaptations as well as forecasted growth rates per channel. As a new investor, MEG's operations team concludes to be able to achieve a constant gross margin of 65% from 2017 onwards mainly due to the implementation of efficiency measures and a leaner production. The forecast for the remaining operational expense items is straightforward: After the build-up of a stronger workforce mykitchen is able to keep a constant employee level and therefore, personnel expenses are expected to increase just by the

^{xiv} As the deal is structured for YE 2016, mykitchen is obliged to provide current monthly financials during the process to allow the bidders to evaluate the correctness of the forecast

usual 2% salary inflation each year; marketing expenses are increased to reach industry standards at approximately 6% of revenues; economies of scale as well as process optimization lead to a smaller increase in fixed production costs in relation to top-line growth; lastly, distribution costs as well as other operating costs remain at a constant share of revenues with the latter at only 4% of revenues due to the non-recurring nature of exchange rate fluctuations in the past. According to this target case, the deal team concludes that mykitchen is able to make up for historically lost profitability and reaches an EBITDA margin of 7,8% by 2021 – compared to its competitors, such a forecast seems realistic. Standard corporate tax rate of 30% is assumed in case EBT is positive^{xv}. **Exhibit 27** outlines details of forecasted operational and non-operational income and expense items derived during the DD phase²⁸.

Concerning mykitchen's balance sheet items, a clear focus of the DD is put on the company's net working capital requirements^{xvi}. Standardized SPAs always comprise net working capital clauses to account for any unusual deviations to the target level at closing. A lower net working capital is compensated by a negative purchase price adjustment as the corresponding increased cash balance only results from freed up working capital and hence, should not increase the purchase price paid. In case such deviations are recurring each year, a corresponding adjustment also needs to be incorporated at exit. Additionally, any payments outside usual business operations (i.e. dividends) between closing and signing are forbidden. Meetings with management during the M&A process as well as actuals from current trading reveal that mykitchen's net working capital in 2016 is forecasted to be significantly lower than its historical average. Especially the project business is seen as a cause for the high swings identified over the year. "Taking into account the historical swing reaching a minimum level usually in December, we will most likely not receive our desired target net working capital by the end of 2016", noted MEG's Head of DD. Target net working capital for mykitchen is derived from a historic average taking into account normalizations of 2015 figures and hence, is agreed with the seller to be fixed in the SPA at €12,7 million. In order to forecast the working capital from January 2017 onwards, the team set-up the cash conversion cycle of mykitchen in order to precisely analyze upcoming financing needs (**Exhibit 28** highlights the DD findings on working capital). With respect to trade receivables, mykitchen makes use of a recourse factoring line to support operational

^{xv} For negative EBT the forecasted taxes equal zero; loss carryovers are neglected

^{xvi} Net working capital requirements defined as trade receivables plus inventory less trade payables and prepayments

financing which creates a yearly liability of €0,2 million in December. For valuation purposes the DD reveals a maximum usage of €1 million over the year which correspondingly needs to be included to the net debt balance²⁸.

As a next step, CAPEX necessary for the on-going business operations is analyzed and forecasted. In order to achieve the aforementioned top-line expansion as well as operational bottom-line improvements, the company needs to invest according to a pre-defined investment plan on top of its usual replacement investments as outlined in **Exhibit 29**. Over the years, total expenditures mainly relate to IT and supply chain investments to enhance efficiency as well as to design upgrades and refurbishments of DOS stores. Therefore, with significant investments in 2017 and 2018, amounting to €6,2 and €4,6 million respectively, mykitchen is able to uplift its store presence and further ensures for a well-invested production facility. In turn, investment needs for the years after are decreased to a moderate level at just above €4 million per year²¹.

Another important aspect concerns mykitchen's original financing structure, especially with respect to IC financing with Koek and other group subsidiaries. The aforementioned historical IC financing structure comprised a shareholder loan provided to mykitchen as well as IC receivables against Koek and other subsidiaries. Both items are subject to heavy discussions during the DD phase because MEG, as the potential new owner, has no interest in taking over such a high liability against Koek. Especially, when considering the loan increase to settle the accounting fraud in 2015. Therefore, the team proposes a reclassification of €33,3 million of the shareholder loan to equity and a repayment of the remainder as a pre-transaction resolution to cure the negative equity position of mykitchen in the US. In this scenario, MEG is not required to repay the loan at a later stage. Nevertheless, Koek, due to the exchange of debt to equity, receives repayment through the purchase price of the transaction as the loan is not considered as net debt anymore²⁹. Of course, IC cash pool receivables also need to be settled pre-closing in order to ensure a smooth exit from the cash pool agreement. The last important points of discussion with Koek relate to mykitchen's pension obligations as well as other non-operational liabilities. After several rounds of negotiations, the proposed solution is as follows: Non-operational liabilities such as severance payments from last years are repaid before closing if MEG agrees to take over all pension obligations relating to mykitchen's work force²⁸. Overall, all those settlements and reclassifications result in an increase of mykitchen's cash balance in 2016 which is

subject to be taken over by the new investor. The projection of further selected balance sheet items is outlined in **Exhibit 30**.

Binding Offer

With the established business plan, the team is now able to conduct a detailed valuation on the target. The 2016 entry EBITDA is already normalized downwards significantly compared to the first target case and includes all findings from the thorough analysis during the last weeks. Nevertheless, the deal team still does not believe it fully reflects the true operating income of the company especially when considering the termination of the pronorm business as there should be an additional effect for 2016 resulting from the business generated in that year. Even though these revenues have actually been attained, the resulting fraction of the 2016 EBITDA is not achievable for MEG in the future. Hence, a one-off normalization of pronorm's operating margin in 2016 is included as an extraordinary normalization of the entry EBITDA in the final valuation.

Additionally, the team has to evaluate one-off expenses for restructuring, mainly relating to compensations for employees as well as costs that will be incurred by MEG's operations team, in greater detail compared to the indicative valuation. In order to fully reflect all initial cash needs for restructuring an increase of €0,3 million from the indicative €1,8 million is anticipated. Furthermore, the proposed valuation needs to account for a transaction fee of €534 thousand.

Lastly, the final financing structure for the binding offer needs to be negotiated with banks. MEG's Head of Finance notes: "Realistically, we need to expect that no bank would make any modifications to the covenant profile used for the indicative offer; hence, it reflects the basis of whether or not there is any possibility to raise external acquisition financing". On top, the maximum utilization of the line of credit needs to be increased to €5 million to cover working capital financing needs. As the final target case reveals significant liquidity shortages on top of working capital financing needs, additional external financing is necessary. Therefore, a bank presentation is prepared in order to receive a facility at a reasonable interest rate. "The attractiveness of mykitchen for external financing is based on a high current cash position, the settlement of major liabilities pre-transaction, an above average equity ratio, its outstanding position in the market as a reference brand as well as its world-wide presence and awareness. Together with MEG, with its experience in restructuring of companies, a rising top-line as well as bottom line improvements will be achieved to reach an overall reasonable credit score. I

personally expect that banks provide a total external financing line at an average yearly interest of 3% with a maximum utilization of €9 million” (**Exhibit 31**), states MEG’s Head of Finance³⁰. Together with the transferred cash position mykitchen should be fully financed with the proposed structure.

Just a few days left to the 18th of November and only details are missing to finalize the offer for mykitchen. It is internally believed that there could only be a small number of potential investors left in the process. Several bidders stepped out as they did not believe to be capable of handling the required restructuring measures, including strategic buyers from Asia which typically pay above average multiples. Taking additionally into account the aforementioned time pressure of Koek regarding the closing date, MEG sees itself in quite a strong position for final negotiations and it is expected that Koek clearly has to accept a discount for mykitchen compared to the indicative valuations received.

With the 2016 entry EBITDA for the transaction being already fixed, the final EV of mykitchen only depends on the entry multiple paid. The analysis made for the indicative offer based on transaction and industry comparables clearly does not hold true for the binding offer. “The current situation of the company as well as the forecasted business plan, taking into account the future operational financing needs, does not justify a multiple on the level of comparables. By looking at mykitchen’s profitability in comparison to industry averages it becomes obvious that we are only able to offer a purchase price based on a multiple discount”. Of course, this needs to be explained properly to B-Capital Advisory in order to not lose a trustful position in the M&A process. Nevertheless, the team agrees to expect an increase in the multiple paid for mykitchen at exit in case planned top-line expansion as well as operational enhancements prove to be successful and the company gets back on track.


Everything set up, Armin B. reflects, “Are we capable of handling all identified restructuring measures? Does the agreed financing line prove to be sufficient? How valid is the market assumption of a multiple arbitrage of 2,0x?” Thomas P. adds with respect to the upcoming decision, “I agree, all identified DD findings clearly change the situation”. Should MEG submit a binding offer for mykitchen and should the deal still be considered as attractive? If yes, what is a reasonable price for mykitchen?

Questions:

1. Do you consider mykitchen as an attractive target for a LBO transaction?
2. Why is Munich Equity Group interested in purchasing a majority stake in mykitchen AG? What are the key investment highlights based on indicative information on mykitchen AG and the market?
3. Based on the information given, please prepare the indicative offer for the acquisition of 98,57% of mykitchen AG's shares. By taking into account Munich Equity Group's return requirements, do you think the deal is attractive?
 - a. Preparation of the business plan for the indicative target case
 - b. Preparation of the forecasted cash flow statement
 - c. Preparation of the LBO model including a Sources & Uses table
 - d. Preparation of the returns breakdown for the proposed transaction
 - e. How could a suitable financing structure contribute to the offered purchase price?
4. How did the full due diligence change the valuation from the indicative offer to the binding offer? What were the most significant findings?
5. Based on the information given for the final target case, please prepare the binding offer for the acquisition of 98,57% of mykitchen AG's shares. By taking into account Munich Equity Group's return profile, would you – as a member of the investment committee at Munich Equity Group – invest?
 - a. Preparation of the business plan for the final target case
 - b. Preparation of the forecasted cash flow statement
 - c. Preparation of the LBO model including a Sources & Uses table
 - d. Preparation of the returns breakdown for the proposed transaction
 - e. How could a suitable financing structure contribute to the offered purchase price?

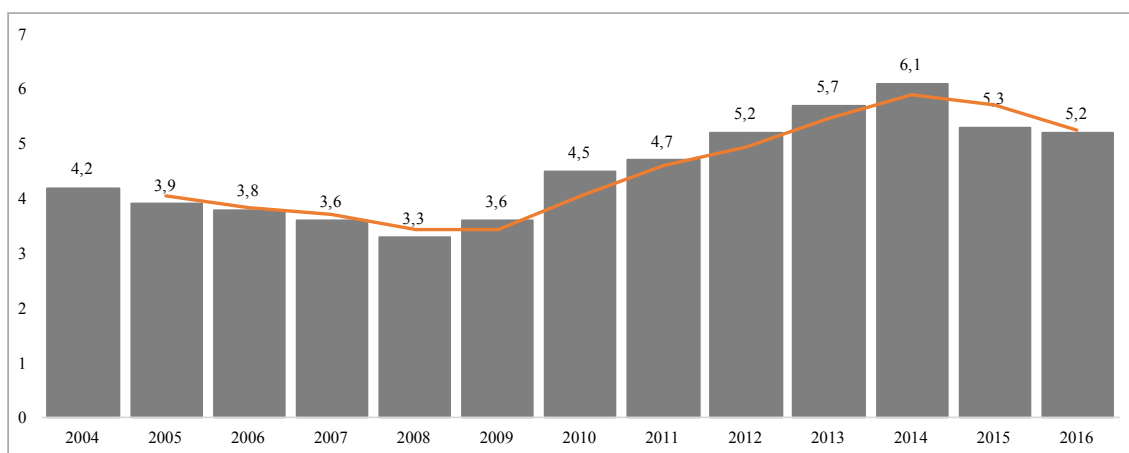
Appendix Case Description

Exhibit 1: MEG Company Overview

Category	Information
	<p>Munich Equity Group AG Marienplatz 7 80333 Munich, Germany</p> <p>Munich Equity Group AG – Branch Austria Am Getreidemarkt 15 1060 Wien, Austria</p>
Executive Board	Dr. Florian M. (Co-Founder); Armin B.; Stefan W.; Thomas P. (Co-Founder); Dr. Philipp G.
Facts	<p>Investor for the DACH mid-cap market</p> <ul style="list-style-type: none"> - Owner-managed industrial holding - €500 million in revenues with 2.500 employees worldwide - €300 million in investable equity - Clear plan for continued strong growth
Work	<p>Entrepreneurial investor with long-term investment horizon</p> <ul style="list-style-type: none"> - Acquisition of companies with potential for reorganization (incl. successors, carve-outs, and corporate divestments) - Active operational support for subsidiaries
Target Criteria	<p>Investments into businesses with potential for reorganization</p> <ul style="list-style-type: none"> - Revenues between €30 - €500 million - Mature business in the industrial sector - Clear potential for future development - Controlling majority
References	<p>A history of success</p> <ul style="list-style-type: none"> - Since 2003 strong track record in the market - Successful transactions with international companies / Trusted partner of mid-sized companies
Portfolio	<p>Five current investments</p> <ul style="list-style-type: none"> - Two prefabricated housing companies - Revenues ranging from €40 to €140 million - All current investments made from 2013 onwards
Team	<p>Interdisciplinary team of 40 experts in the holding company</p> <ul style="list-style-type: none"> - Investment team: 10 employees - Operational team: 15 employees - Holding team: 15 employees

Source: Company Information

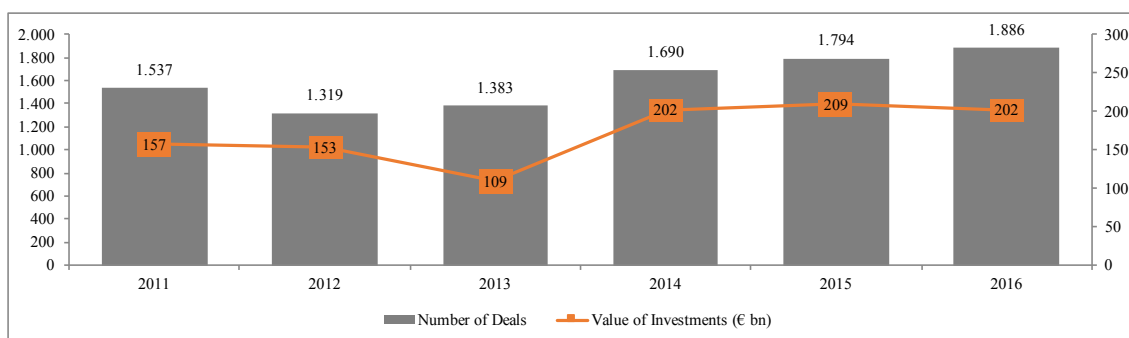
Exhibit 2: Median Holding Period of Global PE Investments (Years)



Source: Amended from:

- Bain (2017). Global Private Equity Report. Retrieved from: http://go.bain.com/rs/545-OFW-044/images/BAIN_REPORT_Global_Private_Equity_Report_2017.pdf. Accessed on 19.09.2017

Exhibit 3: European PE Transactions (Investment Value and Number of Deals)



Source: Amended from:

- Invest Europe (2016). 2016 European Private Equity Activity. Retrieved from: <https://www.investeurope.eu/media/651727/invest-europe-2016-european-private-equity-activity-final.pdf>. Accessed on 19.09.2017

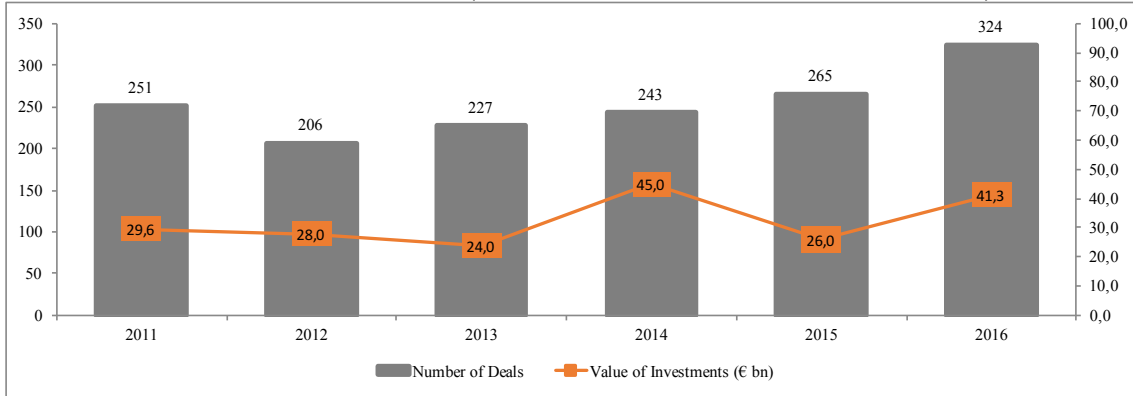
Exhibit 4: Percentage Share of PE Deals by Country 2011 - 2016

Region	Share 2011-2014	# of Deals (Annualized)	Share 2015-2016	# of Deals (Annualized)
Austria & Switzerland	3%	44	3%	55
SEE	2%	30	1%	18
UK & Ireland	25%	371	21%	386
France	17%	252	19%	350
Nordics	13%	193	13%	239
CEE	6%	89	6%	110
Iberia	5%	74	6%	110
Italy	7%	104	7%	129
Benelux	10%	148	10%	184
Germany	12%	178	14%	258

Source: Amended from:

- PWC (2017). Private Equity Trend Report. Retrieved from: https://www.pwc.de/de/finanzdienstleistungen/assets/41733_Studie_PETR_2017_170224_SCR_EEN.pdf. Accessed on 19.09.2017

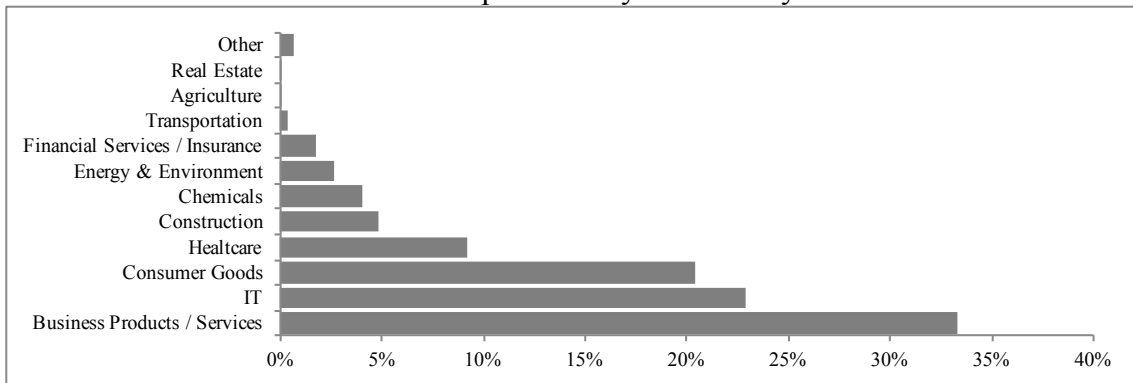
Exhibit 5: DACH PE Transactions (Investment Value and Number of Deals)



Source: Amended from:

- PWC (2017). Private Equity Trend Report. Retrieved from: https://www.pwc.de/de/finanzdienstleistungen/assets/41733_Studie_PETR_2017_170224_SCR_EEN.pdf. Accessed on 19.09.2017

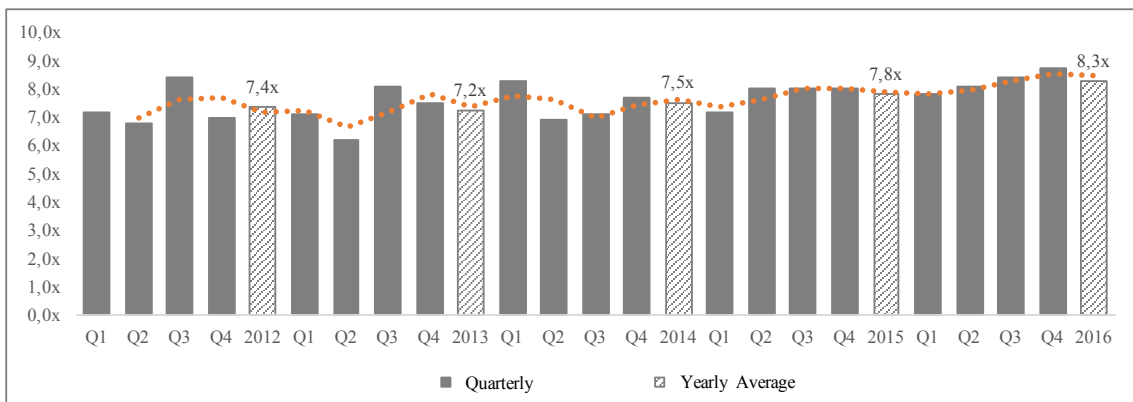
Exhibit 6: Share of PE Transactions per Industry in Germany in 2016



Source: Amended from:

- BVK. (2016). Der Deutsche Beteiligungsmarkt 2015 und Ausblick 2016. Retrieved from: http://www.bvkap.de/sites/default/files/press/20160222_praesentation_statistik2015_pk_final.pdf. Accessed on 19.09.2017

Exhibit 7: Global Median EV / EBITDA Buy-Out Multiples



Source: Amended from:

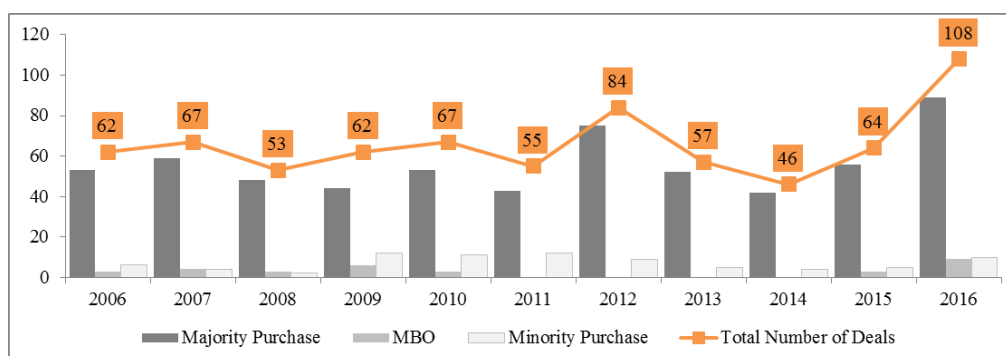
- <http://www.valuwalk.com/2016/12/median-buyout-ev-ebitda-ratios-rising/> Accessed on 19.09.2017

Exhibit 8: Number of Deals for Most Active Companies within DACH PE Market

Company	Number of Deals (2006-2016)
Munich Equity Group AG	10
DBAG Deutsche Beteiligungs AG	34
Orlando Management AG	18
Bavaria Industriekapital AG	25
Aurelius	70
Total	157
% of Total Sample (excl. MEG)	14%


Source: Company Information

Exhibit 9: Number of Deals by Type within MEG's Direct Competition




Source: Company Information

Exhibit 10: Company Profile Koek Group AB

Category	Information										
	Koek Group AB Stockholm, Sweden										
Business Model	Koek sells and manufactures kitchens in three regions – the Nordics, the UK and Central Europe										
Brands	Marbodan HTH Sigdal rixonway kitchens mykitchen										
Consolidated Financials 2015	<table border="0"> <tr> <td>Revenues</td> <td>€1.276 million</td> </tr> <tr> <td>Operating Profit</td> <td>€124 million</td> </tr> <tr> <td>Cash</td> <td>€80 million</td> </tr> <tr> <td>Operating Cash Flow</td> <td>€119 million</td> </tr> <tr> <td>Employees</td> <td>5.906</td> </tr> </table>	Revenues	€1.276 million	Operating Profit	€124 million	Cash	€80 million	Operating Cash Flow	€119 million	Employees	5.906
Revenues	€1.276 million										
Operating Profit	€124 million										
Cash	€80 million										
Operating Cash Flow	€119 million										
Employees	5.906										

Source: <https://www.██.com>. Accessed on 19.09.2017

Exhibit 11: mykitchen AG Company Overview

Category	Information
	mykitchen AG Südring 1 32051 Herford GERMANY
Subsidiaries	mykitchen US mykitchen UK mykitchen France mykitchen Switzerland
Industry, Markets	Luxury Kitchens More than 70 countries
Key Consolidated Financials (2015)	Revenues €116 million EBITDA €7 million Total Assets €85 million Employees approx. 500
Distribution Channels	DOS – Own Stores IRP – Retail Partners Own Projects External Projects

Source: Company Information

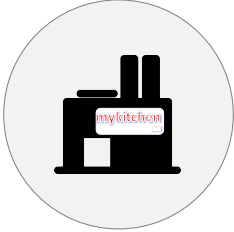

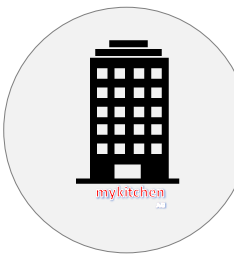

Exhibit 12: Illustrative Example of mykitchen’s Porsche Design Kitchen



Series: P /350 mykitchen Porsche Design; from € 98.000 (depending on customization)

Source: Company Information

Exhibit 13: mykitchen's Distribution Channels

Division		Description	Revenue 2015 (%Share)
	DOS	Directly Owned Stores: Exclusive distribution of mykitchen kitchens in self-managed stores including After-Sales service. mykitchen owns 36 own stores in nine different countries which all cover retail business as well as projects.	€50 million (43%)
	IRP	Independent Retail Partner: Distribution of mykitchen kitchens through IRP. mykitchen itself has no customer contact. Approximately 350 retail partner in 70 countries worldwide (either mono-brand or multiple brands).	€27 million (23%)
	Own Projects	Own Strategic Projects: Sale of mykitchen kitchens for specific building projects (10 to 100 kitchen units). Directly supervised projects which are acquired through own marketing subsidiaries or own stores.	€23 million (20%)
	External Projects	IRP Strategic Projects: Projects are acquired through external retail partners (majority in Asia). Distribution of mykitchen kitchens to independent network of stores (up to 15.000 kitchen units). Customers: luxury building construction such as hotels	€16 million (14%)

Source: Company Information

Exhibit 14: Consolidated Revenue Split of mykitchen in 2015 (€ thousands)

Channel / Country	USA	Europe	APAC	RoW	Total
DOS Retail	20.009	29.013	1.000	0	50.022
IRP Retail	2.166	14.888	5.143	4.872	27.069
Own Projects	10.906	11.815	0	0	22.721
External Projects	0	797	13.388	1.753	15.938
Total	33.081	56.513	19.531	6.625	115.750
% Share	29%	49%	17%	6%	

Source: Company Information

Exhibit 15: mykitchen Financials Consolidated P&L (€ thousands)

Year	2013	2014	2015
Revenues	97.499	105.342	115.750
Cost of Sales	-39.185	-40.663	-43.394
Gross Profit	58.314	64.679	72.356
Personnel Expenses	-29.848	-31.857	-35.530
Distribution Costs	-4.630	-4.709	-6.187
Production Costs Fix	-8.963	-10.194	-11.303
Marketing Expenses	-6.327	-5.557	-5.013
Other Operating Expenses	-1.324	-4.576	-7.273
EBITDA	7.222	7.787	7.051
Depreciation	-2.886	-2.998	-3.197
EBIT	4.335	4.789	3.853
Cash Interest	229	281	375
Interest Shareholder Loan	-3.207	-1.901	-2.674
EBT	1.356	3.169	1.554
Non-recurring event	-15.158	1.744	-10.071
Restructuring Costs	0	0	0
EBT after non-recurring items	-13.802	4.913	-8.517
Taxes	-1.021	-1.180	-826
Net Income	-14.823	3.733	-9.343

Source: Company Information

Exhibit 16: mykitchen Financials Consolidated Balance Sheet (€ thousands)

Year	2013	2014	2015
<u>Non-Current Assets</u>			
Fixed Assets	12.967	13.050	13.510
Intangibles	1.439	1.420	1.540
Financial Assets	13.501	8.855	8.958
	27.907	23.325	24.008
<u>Current Assets</u>			
Inventory	7.532	6.910	8.671
Trade Receivables	16.901	17.506	23.698
Cash Pool Intercompany	-2.125	11.573	10.872
Other Receivables	7.052	9.428	8.611
Cash	5.718	7.027	9.373
	35.079	52.445	61.225
Total Assets	62.985	75.770	85.233
<u>Equity</u>			
Equity	14.542	15.805	15.998
<u>Provisions</u>			
Pensions	6.273	6.722	6.570
<u>Liabilities</u>			
Factoring	700	900	200
Shareholder Loan	21.571	31.141	33.628
Short-term Financing Line (LOC)	0	0	0
Trade Payables	4.935	5.270	6.066
Prepayments	4.523	5.890	11.987
Other Operational Liabilities	927	244	235
Other Non-Operational Liabilities	9.029	9.056	10.076
Tax Liabilities	485	742	473
	42.170	53.243	62.665
Total Equity & Liabilities	62.985	75.770	85.233

Source: Company Information

Exhibit 17: Overview Financials of Closest Competitors (€ thousands)

Closest Competitor	EBITDA Margin 2012	EBITDA Margin 2013	EBITDA Margin 2014	EBITDA Margin 2015	Revenues 2015	Enterprise Value 2015
SCAVOLINI S.P.A.	4,3%	7,3%	6,7%	7,5%	173.740	115.583
POLIFORM - S.P.A.	6,5%	7,6%	7,3%	7,6%	161.013	128.291
BULTHAUP GMBH & CO KG	10,9%	14,8%	16,6%	16,6%	136.014	314.075
BOFFI S.P.A.	4,2%	5,1%	5,2%	6,1%	78.871	42.739
DADA S.P.A.	12,0%	11,5%	11,4%	13,7%	64.522	77.869
EGGERSMANN KÜCHEN	6,4%	8,7%	5,3%	4,8%	18.779	7.607
Average	7,4%	9,2%	8,8%	9,4%	105.490	114.361

Source: Company Information

Exhibit 18: Growth Rates of Kitchen Furniture Market

Country	CAGR (2009 – 2014)	CAGR (2014 – 2018)	mykitchen Sales Share (2015)
China	18,4%	7,0%	21%
US	4,3%	5,0%	18%
UK	1,8%	1,8%	12%
Germany	2,9%	5,0%	12%
Switzerland	5,3%	1,5%	4%
APAC	1,5%	1,5%	17%
RoW	1,5%	1,5%	16%

Source: Company Information

Exhibit 19: Process Map (based on Limited Auction³¹)

Step	Description
Lead Generation	Active screening of various industries to identify new deal opportunities, including: <ul style="list-style-type: none"> - Calls / personal meetings with potential targets - Exchange of information with M&A advisors
Teaser	M&A advisor distributes a teaser about the proposed transaction in order to attract potential investors
Signing of NDA	After confirming one's interest, a signed NDA is obligatory in order to receive the IM from M&A advisor
Process Letter I	M&A advisor provides the IM alongside with the process letter stating the next steps, including: <ul style="list-style-type: none"> - Deadline for indicative offer - Details about format of offer

Initial screening of the target (“Light DD”)	Deal team starts high-level screening of potential target, including: <ul style="list-style-type: none"> - Informed view based on IM - Other primary information (internal and external) - Focus on financial DD - Potential restructuring topics - EBITDA bridge
Decision about Letter of Intent ^{xvii} (LoI)	Responsible team member decides whether to issue a LoI, including: <ul style="list-style-type: none"> - Potential estimation of target - Discussion about content of LoI - Set-up of indicative (non-binding) offer - Set-up of indicative financing structure
Process Letter II	All parties selected based on their transmitted indicative offer receive a second process letter, including: <ul style="list-style-type: none"> - Dates for management presentation, expert calls - Deadline for a binding (confirmed) offer
Management presentations and site visits	The seller invites the potential buyers to a management presentation, including: <ul style="list-style-type: none"> - Potential site visits - Detailed presentation about target - In-person meetings with management
DD approval	Set-up of DD guidelines, including: <ul style="list-style-type: none"> - Internal vs. external DD - Establishment of DD budget
Start of Full DD	Detailed analysis of the target, including: <ul style="list-style-type: none"> - DD areas (Legal, Tax, Operations, Commercial, Financial) - Establishment of detailed financial model - Make use of data room^{xviii}
Development of transaction	Based on previous analysis, the transaction details need to be set up, including: <ul style="list-style-type: none"> - Valuation methods (mainly multiples with a potential DCF as support) - Analysis of financial needs and the option of external financing - Finalizing transaction structure
Binding (confirmed) Offer	In case of approval by the investment committee, the binding offer is established based on the previous analysis
Confirmatory DD	Still open questions are discussed and analyzed in exchange with M&A advisor
Contract negotiations	Establishment of SPA

^{xvii} Official declaration that two parties are in a negotiation process about a possible transaction

^{xviii} A cloud in which the seller provides business information to potential buyers (each buyer has its own access)

Finalization of financing agreements	Agreements about potential bank loans, loans from private debt funds, etc.
Final decision about contract signing	Investment committee meeting, including: <ul style="list-style-type: none"> - Updates to potential DD findings - Opportunities & Threats - Current status of SPA - Other recommendations <p style="margin-left: 20px;">➔ Investment committee makes final decision</p>
Signing & Closing	

Source:

- Company Information
- <http://www.manager-magazin.de/unternehmen/karriere/a-466297.html>. Accessed on 19.09.2017
- <https://www.centerdevice.de/data-room-fuer-ma-transaktionen/>. Accessed on 19.09.2017
- <https://www.divestopedia.com/definition/933/management-presentation>. Accessed on 19.09.2017

Exhibit 20: MEG's Required Returns by Risk Class

Required Returns

Capital Gain	Equity Investment (€ million)			
	Risk Profile	up to 7,5	7,5 - 15	greater than 15
Low		15	18	33
Medium		15	24	44
High		20	48	n/a

IRR	Equity Investment (€ million)			
	Risk Profile	up to 7,5	7,5 - 15	greater than 15
Low		32%	20%	20%
Medium		32%	25%	25%
High		38%	38%	n/a

Cash Multiple	Equity Investment (€ million)			
	Risk Profile	up to 7,5	7,5 - 15	greater than 15
Low		4,0x	2,5x	2,5x
Medium		4,0x	3,0x	3,0x
High		5,0x	5,0x	n/a

Risk Classification	Description
Low	Only DACH investment Stable historic cost- and result development No significant dependence on clients / suppliers Serious vendor
Medium	Only partly DACH investment Positive historic EBITDA Clear potential for operational improvement Serious vendor
High	High-risk industry Negative historic EBITDA Only minor operational improvements realistic Low exit potential

Source: Company Information

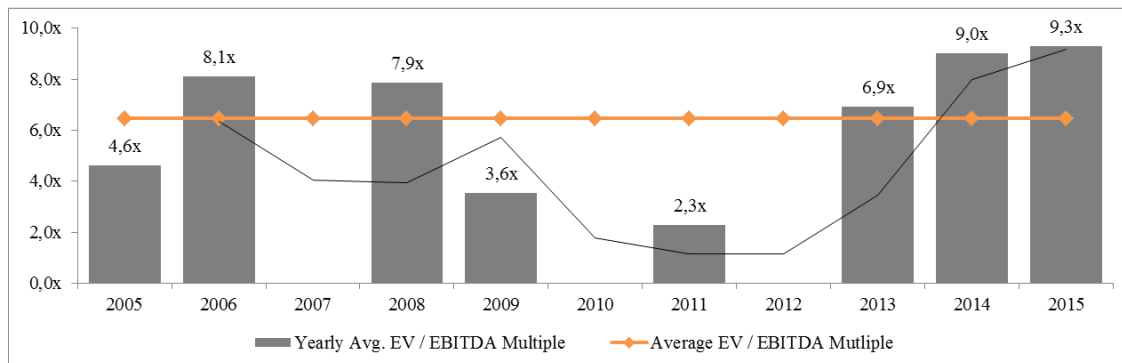
Exhibit 21: Target Case Indicative Offer 9th of September (€ thousands)

Selected P&L Items	2016	2017	2018	2019	2020	2021
Revenue Growth	-1,5%	-1,4%	3,0%	4,0%	5,0%	5,0%
Gross Margin	62,5%			constant		
EBITDA Margin	6,2%	5,5%	6,5%	7,0%	7,5%	8,0%
Depreciation (% of revenues)	3%			constant		
Interest IC Loan	5%			constant		
Interest Current Accounts	4%			constant		
Taxes	30%			constant		
CAPEX (Fixed Assets)	2.809	4.171	5.231	2.785	3.283	3.408
Days Sales Outstanding	61			constant		
Days Inventory Outstanding	67			constant		
Days Purchases Outstanding	47			constant		
Selected BS Items						
Intangible Assets	1.540	1.540	1.540	1.540	1.540	1.540
Financial Assets	8.958	8.958	8.958	8.958	8.958	8.958
Intercompany Cash Pool Receivables	17.900	17.900	17.900	17.900	17.900	17.900
Other Receivables	8.268	8.006	7.897	7.834	7.852	7.870
Pensions	6.600	6.732	6.867	7.004	7.074	7.144
Shareholder Loan	33.589	33.589	33.589	33.589	33.589	33.589
Prepayments	9.659	9.880	10.552	11.141	11.550	11.958
Other Liabilities (incl. Factoring)	12.581	11.251	11.498	12.360	12.938	13.516
Tax Liabilities	0	0	0	0	0	0

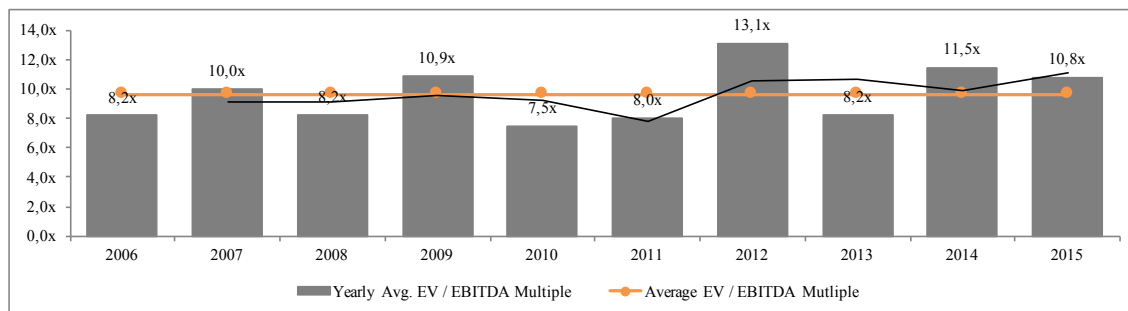
Source: Company Information

Exhibit 22: Transaction Multiples

Retail Furniture Industry*



Manufacturing Furniture Industry*



* Deal Size: €8 - €200 million

Source: Amended from:

- <http://www.mergermarket.com/Common/Mergermarket/Deals/DealsSearchResults.aspx?currencyCode=EUR>. Accessed on 01.09.2017

Exhibit 23: Minimum Covenants to Secure Financing

Minimum Covenants	2017	2018	2019	2020	2021
Net Debt (NewCo) / EBITDA	2,5x	2,5x	2,5x	2,5x	2,5x
Debt Service Coverage	1,0x	1,0x	1,0x	1,0x	1,0x
Cash Cover	1,0x	1,0x	1,0x	1,0x	1,0x
Interest Cover	1,0x	1,0x	1,0x	1,0x	1,0x

Source: Company Information

Exhibit 24: Indicative Offer: Financing Parameters (€ thousands)

Financing Parameters	2016	2017	2018	2019	2020	2021
Acquisition Financing (x EBITDA)	2 -3x					
Acquisition Interest	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%
Repayment Horizon (years)	5			Flexible Schedule		
Line of Credit Maximum Usage	1.000	1.000	1.000	1.000	1.000	1.000
Line of Credit Interest	4,0%	4,0%	4,0%	4,0%	4,0%	4,0%
Shareholder Loan (Raising (-); Repayment (+))	-39	0	0	0	0	0
Shareholder Loan Interest	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%
Cash Interest	4,0%	4,0%	4,0%	4,0%	4,0%	4,0%

Source: Company Information

Exhibit 25: Due Diligence Findings: Normalized EBITDA 2016 (€ thousands)

Normalized EBITDA 2016 Sellers' Case	7.030
General stand-alone adjustments and past neglect of operational output	-1.000
Current Trading	-861
Reversal of one-off expenses (freight and assembly)	-1.200
Reversal of one-off income (store Austria / projects US & UK)	-1.100
Normalized EBITDA 2016 Target Case MEG	2.869

Source: Company Information

Exhibit 26: Due Diligence Findings: Top-Line Forecast (€ thousands)

Revenue	2016	2017
Indicative Target Case	113.976	112.359
Final Target Case	106.960	102.178
pronorm revenue	7.140	

Channel Mix	from 2017
DOS Retail	45%
IRP Retail	20%
Own Projects	13%
External Projects	21%

Revenue Growth	2018	2019	2020	2021
DOS Retail	8%	16%	10%	9%
IRP Retail	According to country-specific market trend			
Own Projects	10%	8%	4%	4%
External Projects	13%	-12%	0%	0%

Source: Company Information

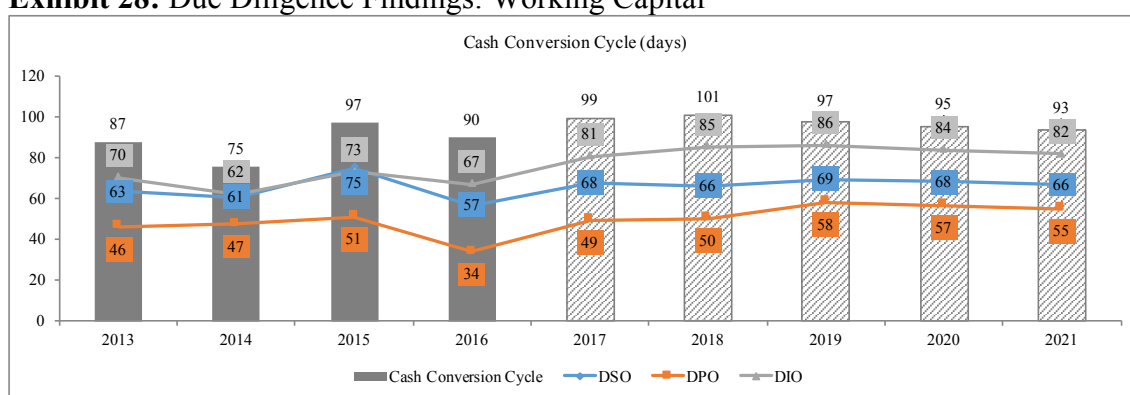
Exhibit 27: Due Diligence Findings: Bottom-Line Forecast (as % of revenues)

Selected Income & Expense Items	2016	2017	2018	2019	2020	2021
Gross Margin	63%	65%	65%	65%	65%	65%
Personnel Expenses	34%	36%	34%	33%	32%	31%
Distribution Costs	6%	6%	5%	5%	5%	5%
Production Costs Fix	13%	14%	13%	13%	12%	12%
Marketing Expenses	4%	6%	6%	6%	6%	6%
Other Operating Expenses	4%	4%	4%	4%	4%	3%
Depreciation	3%	3%	3%	3%	3%	3%
Non-Recurring Interest Income		116				363
Restructuring	-2.200	-2.000	-2.000	-1.000	-1.000	

Source: Company Information

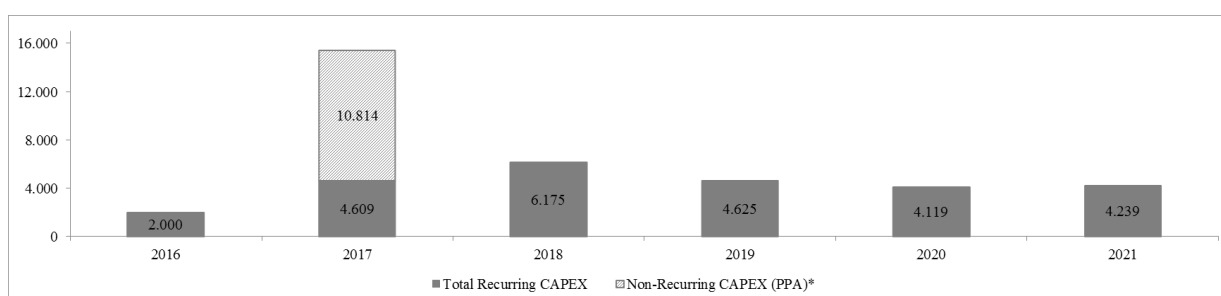
* Basis: Absolute value in 2017

Exhibit 28: Due Diligence Findings: Working Capital



Source: Company Information

Exhibit 29: Due Diligence Findings: Investment Plan Fixed & Intangible (€ thousands)



Source: Company Information

* Non-recurring CAPEX relates to PPA amounting to €10.814 thousands derived by subtracting the negative goodwill of €36 million from 2016 equity

Exhibit 30: Due Diligence Findings: Selected Balance Sheet Items (€ thousands)

Selected Balance Sheet Items	2016	2017	2018	2019	2020	2021
Intangibles	1.540	1.540	1.540	2.540	3.040	3.540
Financial Assets	8.958	8.958	8.958	8.958	8.958	8.958
Other Receivables	8.611	8.611	8.611	8.611	8.611	8.611
Pensions	6.570	6.570	6.570	6.570	6.570	6.570
Factoring	200	200	200	200	200	200
Other Operational Liabilities	713	783	847	998	1.104	1.210
Other Non-Operational Liabilities	0	0	0	0	0	0
Prepayments	12.500	8.250	8.500	8.750	8.875	9.000
Tax Liabilities	0	0	0	0	0	0

Source: Company Information

Exhibit 31: Due Diligence Findings: Proposed Financing Line (€ thousands)

Financing Parameters	2016	2017	2018	2019	2020	2021
Maximum Utilization	9.000	9.000	9.000	9.000	9.000	9.000
Yearly Interest	1,1%	1,5%	1,7%	3,1%	3,8%	6,5%
Average Interest	3,0%					
Repayment	Bullet repayment at exit					
Cash Interest	1,1%	1,5%	1,7%	3,1%	3,8%	6,5%
Average Interest	3,0%					

Source: Company Information