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 - INVESTMENT COMMITTEE PAPER - DE LONGHI - CAPITAL STRUCTURE, RETURNS AND EXIT

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Abstract

This Work Project consists of an Investment Committee Paper on De' Longhi, elaborated by a group of students from the Masters in Finance Program. De' Longhi is an Italian manufacturer of small domestic appliances. The company has 3 operating segments: Coffee Makers; Cooking & Food Preparation and Comfort & Home Care. The group developed a value creation strategy for the company based on an in-depth analysis of the firm and the markets where it operates, to execute the proposed leveraged buyout. At the end, returns were estimated, key due diligence areas were determined, and several exit options were analysed.

Keywords

Private Equity Challenge, De Longhi, Investment Committee Paper, Leveraged Buyout

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Group Work

De' Longhi generates strong stable cash flows in an attractive industry, providing a profitable investment opportunity with low downside potential. This investment yields a 3,0x MM and 24,7% IRR in 5 years

Overview

De' Longhi (DLG) is an Italian manufacturer of **small domestic appliances**. It operates globally through **3 business units** and **5 manufacturing plants**. DLG is positioned in the **medium to high-end of the market** of the following segments:

- **Coffee Makers (52% of sales):** DLG's portfolio ranges from the most basic coffee machines such as capsule machines to fully-automatic machines (high-end segment). In the next 5 years, this segment is expected to grow organically at a 9,8% CAGR.
- **Cooking & Food preparation (28% of sales)**: DLG's product lines include kitchen machines, hand blenders, juicers and a variety of small kitchen appliances. The expected organic CAGR from 2020 to 2025 in this segment is 6,3%.
- **Comfort & Home Care and Other appliances (20% of sales):** DLG's product line includes heating devices, portable air conditioning, ironing and cleaning solutions, etc. In organic terms, this segment is expected to grow at a CAGR of 4,9% until 2025.

Key Financials (€ m)	2020	2021E	2022E	2023E	2024E	2025E
Organic Revenues Adj.	2 351	2 980	3 183	3 383	3 572	3 755
% growth	*12%*	*16%*	*7%*	*6%*	*6%*	*5%*
Inorganic Revenues		185	386	417	450	486
% growth	-	-	*49%*	*7%*	*7%*	*6%*
Total Revenues	**2 351**	**3 164**	**3 569**	**3 799**	**4 021**	**4 240**
% growth	*12%*	*35%*	*13%*	*6%*	*6%*	*5%*
Organic EBITDA Adj.	383	445	491	538	618	657
% growth	*32%*	*16%*	*10%*	*10%*	*15%*	*6%*
Inorganic EBITDA		28	74	85	92	99
% growth	-	-	*159%*	*16%*	*8%*	*8%*
Total EBITDA	383	473	564	623	710	756
% growth	*32%*	*24%*	*19%*	*10%*	*14%*	*7%*

Investment Rationale

Leadership Position: Global leader in domestic espresso machines since 2008, with a market share as large as the three next players combined, and European leader in several categories of food preparation appliances. Defendable position sustained by superiority of product line and established brand name.

Strong Profitability and Cash Flow Generation: High EBITDA margins of approximately 15% and low capex requirements, translating into high cash flow generation, making the firm an ideal target for a Leveraged Buyout.

Strong Organic Growth Opportunities: Strong growth opportunities, as the firm has a low penetration in the US and China, two markets with a high growth potential. Moreover, Covid is incentivizing people to invest more in domestic appliances, benefiting particularly the high-end segment of the market. DLG can benefit from this trend due to its position in this segment, increasing both revenues and profitability, due to a positive change in the product mix.

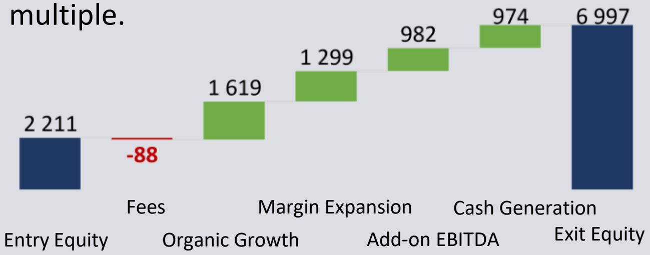
Consolidation of the PCM segment: The highly profitable market of professional espresso machine segment is significantly fragmented. DLG currently has a minority stake in Eversys, a Swiss manufacturer of professional machines, which can be used as a starting point to begin consolidating the industry by acquiring the remaining shares of Eversys and 3 other already identified targets. There is a high potential to explore synergies between the targets and DLG can benefit from the uncertainty related with the pandemic to acquire the firms at a lower valuation.

Transaction Details

At entry (31st December 2020), DLG is valued at an implicit EV of €3 583m using an entry EV/EBITDA multiple of 9,9x and an adjusted EBITDA for the covid-19 effect of €362m.

- **Purchasing Price:** €3 752m (after net debt and other adjustments)

The entry multiple is an average of the 10-year cycle trading multiples of Groupe SEB, as this is the most comparable trading peer, and this method dilutes the covid effect on the entry multiple.



At exit in 2025, it was assumed no multiple arbitrage would be attained, thus making the exit EV/EBITDA multiple equal to 9,9x.

- **EV:** €7 482m
- **Equity:** €6 997m
- **Institutional returns**: 3,0x MM and 24,7% IRR
- **Management returns**: €371,1m

A strategic sale seems to be the most promising exit option but might be difficult to implement given the limited number of interested parties.

De' Longhi is one of the leading players in high-end small domestic appliances and the global market leader of the espresso machines segment

DēLonghi

Company Profile

De' Longhi (DLG) was founded in 1902. It is the **largest European manufacturer** and **one of the world's leading players** in **premium small domestic appliances** associated with Coffee Makers, Cooking & Food Preparation and Comfort & Home Care.

Headquarters: Treviso, Italy

No. Employees: 8 778

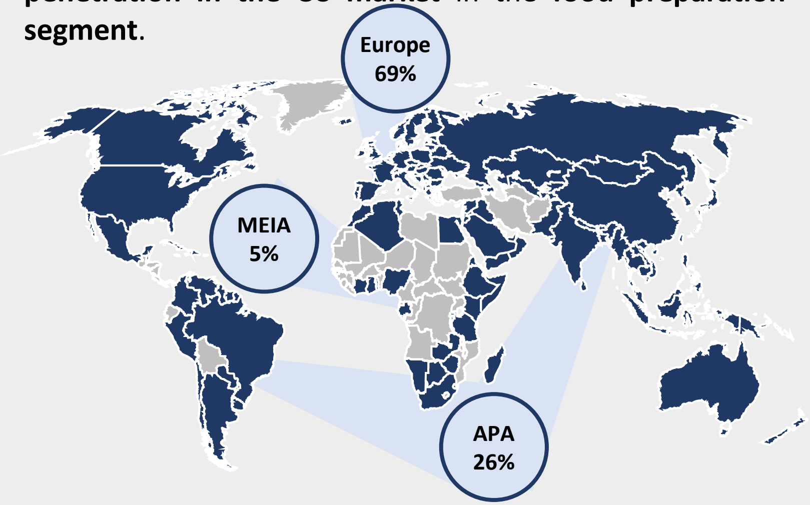
The De' Longhi group operates through **five brands**:

DēLonghi	Espresso Coffee machines, Comfort & Homecare
KENWOOD	Food preparation, Kitchen appliances
BRAUN	Kitchen appliances, Home, Cleaning, Ironing
ariete	Kitchen appliances, Coffee machines
nutribullet	Personal Blenders, Kitchen appliances

Geographic Presence

De' Longhi **operates in 120+ countries** but derives most of its **revenues from Europe** (**69%**). The 2nd and 3rd most important regions for the company in share of revenues are Asia-Pacific and Americas with 26% and Middle East, India and Africa with 5%. The manufacturing and assembly activities are performed at **5 plants** located in **Italy, Romania and China.**

In late 2020, DLG **acquired Capital Brands** to **increase penetration in the US market** in the **food preparation segment**.



High Level Financials

(€ million)	2016	2017	2018	2019	2020
Revenues	1 847	1 973	2 078	2 101	2 351
EBITDA	292	304	304	289	343
EBITDA Adj.	292	304	304	289	383*
EBITDA Margin	15,8%	15,4%	14,7%	13,8%	14,6%
FCF	200	166	139	184	433
Net Debt	-276	-242	-174	-165	81 *
Net Debt/EBITDA	-0,95x	-0,80x	-0,57x	-0,57x	0,24x *

* Due to the acquisition of Capital Brands on Dec 29, 2020. Only DLG's Balance Sheet was consolidated with Capital Brands, so there were no impacts from this acquisition on the Income Statement in 2020. The adjusted EBITDA already accounts for the acquisition of Capital Brands.

Ownership Structure

Giuseppe De' Longhi 57,7%

APG Asset Management NV 10,5%

Mawer Inv. Management 2,3%

Others 29,5%

De' Longhi

Timeline

2001
- Acquisition of Kenwood and Ariete

2004
- Launching of first fully-automatic machine on the market (Magnifica)
- Partnership with Nespresso for the distribution of capsule coffee machines

2008
- 4 years after the launch of Magnifica, DLG established themselves as the market leader in that segment

2012
- DLG acquired the household division of Braun

2017
- Acquisition of 40% of Swiss Group Eversys. Deal marks the entry of DLG into the market for professional espresso coffee machines

2020
- Acquisition of Capital Brands, the US leader in the personal blenders segment with the Nutribullet and Magic Bullet brands.

Sources: De' Longhi Website and Annual reports

DLG's business model is based on continuous innovation and technological development. Its offering is based on high-end products of the utmost quality

What does it sell?

Coffee Makers

DLG **sells all types of coffee machines** to **cover** the individual needs of **different consumers**. Their portfolio in the coffee category ranges from traditional espresso machines and capsule machines of Nespresso or Dulce Gusto, to premium fully automatic machines.

Cooking & Food Preparation

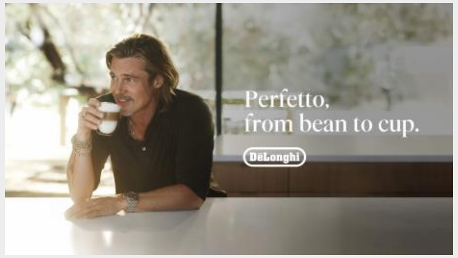
In the **Cooking & Food preparation** segment, the company has a very wide range of offerings for their customers, ranging from **kitchen machines**, **food processors**, **hand blenders**, **personal blenders**, **juicers** and a variety of **small kitchen appliances**.

Comfort & Home Care

In the **Comfort & Home Care** segment, the firm provides an extensive portfolio of products to their customers, going from **portable air conditioning** and **heating devices** to **ironing** and **cleaning** solutions.

How does it sell?

- The company sells its products in **physical stores**, **online** or through **mixed channels**, like Brick&Click stores.
- The company promotes their products using brand ambassadors (such as the Brad Pitt campaign), traditional channels like TV and also digital channels (in 2020, **49% of the investment in Advertising & Promotion was done through digital channels**), which shows how important the e-commerce is for DLG's value proposition.
- To continue to conquer market share, **DLG has been increasingly allocating a higher proportion of its revenues on Advertising & Promotion** activities (from 9,4% of sales in 2015 to 12,5% of sales in 2020).



Manufacturing & Distribution

- **R&D**
- **Innovation**

Raw Materials

Group & Partners production sites

Specialized Centers

- **Physical stores**
- **Online retail**
- **Mixed channels**

End Consumer

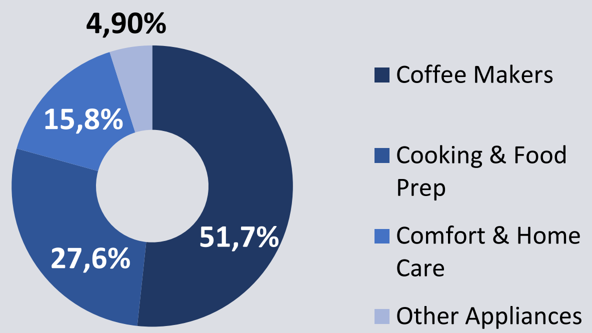
- To **continuously reinvent their products** DLG **devotes 2,5-2,6%** (in the past 4 years) of their **sales** to **R&D investments**.
- DLG purchases raw materials and sends them to the group's production sites and to external suppliers responsible for manufacturing and assembling.
- The process is **structured around specialized centers**, which means that every production plant is focused on the manufacturing of certain products.
- At the end, **products are tested to guarantee the highest quality standards** before shipping them to warehouses to be distributed across DLG network of sales.

Sources: De' Longhi Website and Annual reports

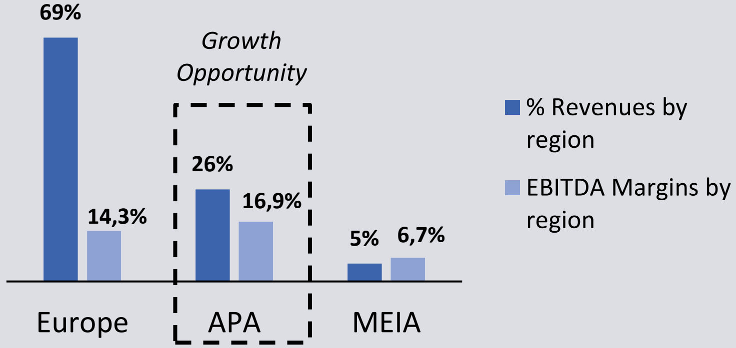
De' Longhi operates in three main segments, where the coffee makers is the largest one, accounting for more than half of the total revenues

DēLonghi

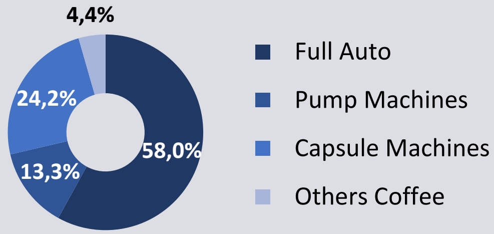
Revenues (~€2 351M) and EBITDA Margins (~14,6%) in 2020



- DLG has three main operating segments: **Coffee Makers**, **Cooking & Food Preparation** and **Comfort & Home Care**.
- It is present in three main regions: **Europe**, **APA** and **MEIA**
- **Europe accounts for the largest share of revenues (69%)**, but **APA has the largest EBITDA Margins** (16,9% versus 14,3%) while contributing for **26% of total revenues**.
- **Revenues in MEIA account for only 5%** and hold the **smallest EBITDA Margins** (6,7%).

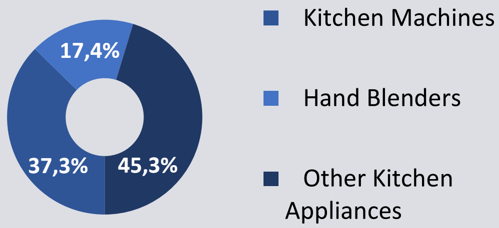


Coffee Makers (~€1 206M)



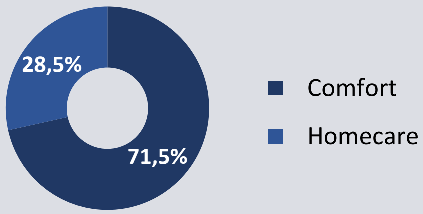
- The **Coffee Makers is the largest segment** in DLG's product range with **52% of total revenues in 2020.**
- From the product mix, **fully-auto machines** account for the **majority of sales (58%), showing that DLG** is **not dependent on the Nespresso brand machines** (capsule machines) to generate revenues.
- This segment has presented the **highest growth with a CAGR of 11%** from 2017 to 2020.

Cooking & Food Preparation (~€644M)



- The **Cooking & Food Preparation segment is the second largest** and accounted for **28% of total revenues** in 2020.
- The Cooking & Food Preparation segment is composed of kitchen machines, hand blenders and other kitchen appliances and **has declined its share in total revenues.**

Comfort & Home Care (~€369M)

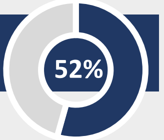


- The **Comfort & Home care is the smallest segment** and represented **16% of total revenues in 2020**.
- From 2017 to 2020, the **Comfort & Home care segment presented a CAGR of approximately 6%**.
- The **products** in this segment are **manufactured** in the two **production facilities in China.**

Sources: De' Longhi Website and Annual reports

DLG is the market leader of the global espresso machine market for households, which is bound to grow at a CAGR of 8,5%. The Global Food Preparation and Comfort and Homecare markets also present promising growth opportunities

Espresso Machines



Brands: DēLonghi, KENWOOD, BRAUN

Products:

Full-Automatic

Capsule

Traditional

Key Stats:

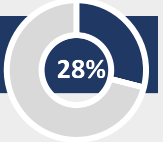
Market Size: **€3,5Bn** (2020)
Historical Growth: **14,5%** (2017-2020)
Forecasted Growth: **8,5%** (2021-2025)
Market Leader: **34,7%** share (2020)

Key Drivers:

- Increasing consumption of coffee at home
- Increasing **penetration of espresso machines** (in relation to filter coffee machines)
- Mix Improvements: **Increasing share of fully-automatic** machines

Players: KRUPS, jura, Sage, Melitta, Saeco, BOSCH, SIEMENS

Global Food Preparation



Brands: KENWOOD, ariete, nutribullet, BRAUN

Products:

Kitchen Machines

Food Processors

Blenders

Key Stats:

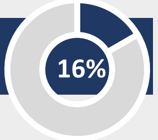
Market Size: **€3,88Bn** (2020)
Historical Growth: **4,0%** (2017-2020)
Forecasted Growth: **6,9%** (2020-2030)
Market Leader: **15,3%** share (2020)

Key Drivers:

- **Increase in the consumption** of bakery and dairy food products
- **Growing demand for convenience food** due to fast-paced lifestyles
- Increasing interest **in health and wellbeing**

Players: PHILIPS, KitchenAid, WMF, B/S/H/, Breville, magimix

Comfort and Homecare



Brands: DēLonghi, BRAUN

Products:

Air Conditioners

Heating Devices

Ironing solutions

Key Stats:

Market Size: **€726Mn** (2021) | Air Conditioners
F. Growth: **4,5%** (2021-2027) | Air Conditioners
Market Size: **€5,2Bn** (2021) | Heating Devices
F. Growth: **4,5%** share (2020-2024) | Heating Devices

Key Drivers:

- **Cost effective solutions**, easy to move and install when comparing with regular devices
- Increasing investment in household appliances
- Innovation such as the development of **smart devices**, which can be **controlled remotely**

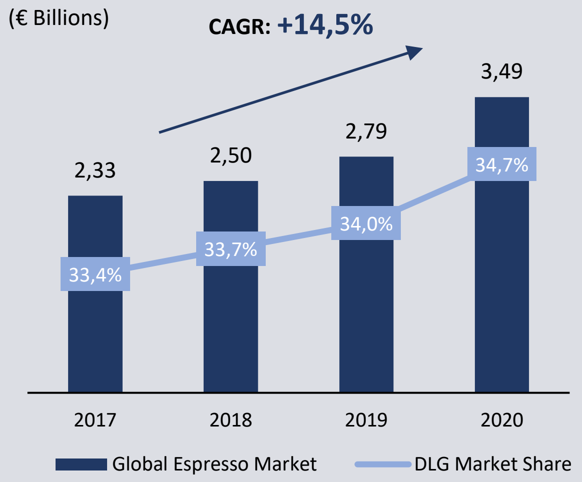
Players: dyson, BOSCH, Electrolux, Whirlpool Corporation, PHILIPS, Hoover

With a market share of 34,7%, De' Longhi is the undisputed leader of the global espresso coffee machine market for households since 2008

Espresso Machines: Market Definition

- The coffee machine market encompasses both **espresso** and **filter** coffee machines. Within the espresso coffee machines market, it is possible to segment the market by type of machine (traditional, capsule and fully automated machines) or by application (household and professional).
- Although DLG sells **filter machines** under Braun and Kenwood, they represent **less than 2% of total sales in 2020**. As DLG's **product line** is essentially composed by **espresso machines for households** this will be defined as the **market.**

Market Size



- In 2020, the global espresso machines market for households (excluding the US) generated **€3,49 Bn** of revenues.
- The market has been growing at a CAGR of **14,5% per year** (2017-2020).
- The market is forecasted to grow at a CAGR of approximately **8,5%,** between 2021 and 2025.
- **Western Europe** is the **largest geographical market** (c. 65% of revenues).
- The espresso market is significantly **concentrated** with the **top 6 players accounting for approximately 86% of the total industry revenues**.
- **DLG** is the **market leader** with a share of **34,7%** and almost the same dimension as the 3 next players combined (35,4%). DLG has been the market leader in the espresso machine segment since 2008 due to the superior quality and design of its machines and its strong brand name.

Market Segments

Indicator	Full-Automatic	Capsules	Traditional
Av. Price (€)	**523**	**78**	**142**
Volume	**21%**	**67%**	**12%**
Value	**61,3%**	**29,2%**	**9,5%**
Size (€ bn)	**2,14**	**1,02**	**0,33**

- There are three types of espresso machines: fully-automatic, capsules and traditional.
- **Fully-Automatic** are the most sophisticated espresso machines. Despite accounting for only approximately **21%** of all units sold, they represent **61%** of the industry's revenues (**€2,14 Bn**) as they have the highest average selling price: **€523.**
- **Capsule machines** are the most sold machines representing **67%** of volume sales. Due to their lower average retail price (**€78**), they account for only **29%** of the market (**€1,02 Bn**).
- **Traditional pump machines** are the smallest segment, representing only **12%** of volume sales and **9,5%** of the market (**€0,33 Bn**). These are the most authentic machines and sell for an average price of €142.
- De' Longhi is the **leader** in the **full-automatic** and **traditional segments.**

Sources: De'Longhi Analyst Day, Exane BNP Paribas

DLG competes mainly in the high-end market and relies on its competitive advantage to sustain a leadership position in key products with greater margins than peers

Positioning

Market Leader in 4 product categories

- Leader in Espresso Machines: **35% market share**
- Leader in Food Processors: **18% market share**
- Leader in Kitchen Machines: **32% market share**
- Leader in Hand Blenders: **26% market share**

* Financial metrics: Benchmark Analysis

	EV	Revenues	Net Debt/ EBITDA	Gross margin	EBITDA margin	Selling & Maketing	R&D	CCC
Group SEB	9 287	6 227	2,1x	39%	12%	5%	1,9%	76
Breville	1 841	440	-0,5x	34%	15%	4%	2,3%	78
Electrolux	5 246	12 016	0,0x	20%	9%	10%	2,8%	2
**** Philips**	3 700	2 200	n.a	n.a	12%	n.a	n.a	n.a
Whirlpool	12 874	18 258	2,3x	18%	11%	n.a	n.a	2
DLG	**3 667**	**2 039**	**-0,8x**	**56%**	**15%**	**11%**	**2,5%**	**52**

* Apart from the EV (which refers to 2020), all the presented metrics show an average of the past 5 years

** These financials refer to the Domestic Division of Philips in the year of 2020

Leader in Quality and Innovation

- Across the different product categories, DLG's sophisticated product line and established brand name allow it to be positioned in the **mid-to-high price range**. This positioning is unique in the domestic appliances industry and helps to sustain a higher profitability. Furthermore, by focusing **almost exclusively on the higher end of the market**, the firm is able to **sustain a strong brand equity**.

Market Leader with higher margins

- DLG stands out from its peers in the domestic appliances industry by having a **greater operational efficiency**, highlighted in the **higher gross and EBITDA margins**.
- DLG also displays a **higher investment in R&D and Selling & Marketing expenses** relative to its peers in the high-end market, which reflects the importance placed on innovation and its trademark (some of the key pillars of DLG's competitive advantage).

Sources: Company Websites, Annual Reports, Bloomberg. Note: (1) In the positioning graphical representation, the logo of DLG is representing all the brands of the group;

DLG presents a leading position in markets with strong growth prospects and high profitability, with headroom to grow both organically and inorganically

Deal Rationale

Strong Financials

- **Strong cash flow generation** before debt service (€210M[1] in 2020) and **EBITDA margin above peers** (15%)
- **Limited Capex requirements** (3,75% of sales) and **leverageable BS**
- **DLG's revenue diversification and strong cash flow generation** presents an attractive opportunity with limited downside potential

Leading Market Position

- **Global Market leader** in the **Espresso machines segment** (c. 34,7% market share)
- **Leader in the Global Food Preparation** segment (excluding US)
- Defendable position due to **superior product-line** (focus on design, durability and innovation) and **established brand name**

Strong Growth Opportunities

- Strong **organic growth opportunities**, especially within the coffee segment (**8,5% CAGR '21-'25**)
- Growing demand for **premium small domestic appliances**
- Opportunity to grow organically and inorganically in **non-core geographies**

Skilled Management Team

- **Proven leadership & industry knowledge** across many segments
- **Management team** characterized by **stability** and **longevity** (78% of the members are at DLG since 2016)
- Proven ability to **create value through recent M&A activity** in both Coffee and Food segments

Value creation strategies

Buy-and-Build

- The **professional espresso coffee machine (PCM) market** has **attractive margins** (c. 15-20% of EBITDA margin) and is expected to **grow** at a **CAGR** of **8 to 10%**, in the following years
- DLG already has a minority stake of 40% in Eversys, a Swiss manufacturer of PCM, and a call option on the remaining 60%
- Opportunity to **acquire the remaining equity stake of Eversys and other targets** in this market to **explore synergies**
- Can be partly financed with the cash flow generated by DLG's current operations

Internationalization

- **Increase penetration in strategic markets** such as China and the US
- **Acquisition of Capital Brands** in 2020 provides a **significant growth opportunity** in the food preparation and espresso segments
- Expected **growing middle-class in the Asia Pacific market** will increase market size substantially

★★★ Margin & Structural Improvements

- **Change product mix towards** a larger share of sales of **fully automatic coffee machines**
- **Optimization of De' Longhi cost structure**
- **Decrease NWC needs** by **optimizing the Cash Conversion Cycle**

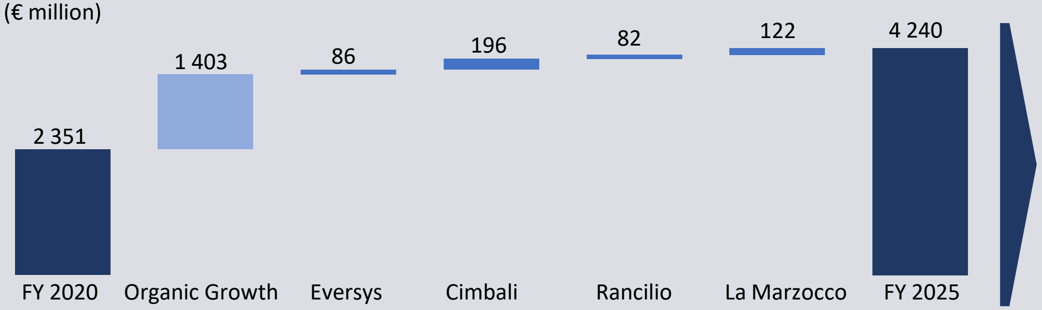
Note: (1) FCF excluded abnormal changes in NWC occurred in 2020

DLG is expected to grow its revenues at a 12,5% CAGR until 2025, from which 9,8% from organic growth and the remaining from acquisitions in the PCM segment

(€ million)	2019	2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E		CAGR 20-25
Organic Growth											
Coffee Makers	**1 043**	**1 206**	**1 481**	**1 592**	**1 704**	**1 811**	**1 925**	**2 031**	**2 122**	1	**9,8%**
Full Auto	579	700	887	981	1 065	1 146	1 233	1 304	1 366		12,0%
Capsule Machines	252	292	349	376	403	423	445	467	486		8,8%
Others (incl. Pump machines)	212	215	245	235	236	242	247	260	270		2,9%
Cooking & Food Prep	**599**	**644**	**708**	**754**	**799**	**839**	**873**	**899**	**926**	2	**6,3%**
Comfort & Home Care	**335**	**369**	**394**	**418**	**439**	**461**	**479**	**494**	**508**	3	**5,4%**
Other revenues	**124**	**133**	**138**	**144**	**148**	**154**	**158**	**163**	**167**		**3,6%**
Organic Revenues	**2 101**	**2 351**	**2 721**	**2 908**	**3 091**	**3 265**	**3 436**	**3 586**	**3 723**		**7,9%**
Capital Brands			258	275	292	306	319	328	338	2	6,3%
Organic Revenues Adjusted	**2 101**	**2 351**	**2 980**	**3 183**	**3 383**	**3 572**	**3 755**	**3 914**	**4 061**		**9,8%**
Buy-and-Build											
Eversys			64	69	74	80	86	92	95		8,0% [2]
Gruppo Cimbali			121	155	168	181	196	208	216		12,8% [2]
Rancilio Group			0	65	70	75	82	86	90		8,0% [3]
La Marzocco			0	97	105	113	122	129	135		8,0% [3]
Inorganic Revenues			**185**	**386**	**417**	**450**	**486**	**515**	**536**	4	**27,4%**
Total Revenues	**2 101**	**2 351**	**3 164**	**3 569**	**3 799**	**4 021**	**4 240**	**4 429**	**4 597**		**12,5%**
% growth		*12%*	*22% [1]*	*13%*	*6%*	*6%*	*5%*	*4%*	*4%*		

Revenue Bridge FY 2020 – FY 2025

(€ million)



- **74%** of total growth is **Organic**
- **26%** of total growth is **Inorganic** (PCM acquisitions)

Comments

1. **DLG's coffee makers segment** is expected to **grow** at a **CAGR of 9,8% until 2025**, driven by the 12% expected CAGR on full-automatic machines and **increasing penetration in strategic key markets, such as US and China**. The global espresso market is expected to grow at a 8,5% CAGR until 2025. This growth will be sustained by the **increasing consumption of coffee**, **increasing penetration of espresso machines** and **the higher penetration of premium machines**, such as full-automatic machines.
2. The **Cooking & Food Preparation** segment is expected to **grow at a 6,3% CAGR until 2025**. The market growth will be sustained by: the Kitchen machines segment benefiting from an **increasing demand for baked goods and dairy products**; the hand-blenders and food processors appliances segment benefiting from **increased interest in healthy lifestyles and wellbeing**. Capital Brands' revenues are also assumed to grow at the same rate as the market.
3. The **Comfort & Home Care** segment is expected to **grow at a 5,4% CAGR until 2025**, driven by the **growing urbanization, increasing investment in household appliances** and **increased demand for smart devices**, which can be controlled remotely (given the momentum of IOT).
4. DLG will grow inorganically though acquisitions in the **Professional Coffee Segment** through the **exercise of the call option on the remaining 60% of Eversys** (DLG has previously acquired a 40% stake in 2017) and the acquisition of **3 strategic companies operating in the Professional Coffee Machines (PCM)** sector (**Gruppo Cimbali** which is expected to be acquired on January 1, 2021 and **Rancilio** and **La Marzocco**, expected to be acquired on January 1, 2022). In 2025, it is estimated that the **PCM segment** will account for **11,5% of the group's sales**.

Sources: DLG's annual reports, Exane BNP Paribas; Notes: (1) Growth rate in 2021 was calculated on a like-for-like basis (including Cap. Brands revenues in 2020); (2) CAGR from 2021 to 2025; (3) CAGR from 2022 to 2025

Margin improvement stems from the changes in the standalone product mix, the implemented operational improvements, and the higher margins in the PCM segment

(€ Millions)	2019	2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	CAGR 20-25	
Materials consumed	-947	-1 011	-1 171	-1 237	-1 299	-1 356	-1 427	-1 490	-1 546		
% of Sales	*45,1%*	*43,0%*	*43,0%*	*42,5%*	*42,0%*	*41,5%*	*41,5%*	*41,5%*	*41,5%*	**-0,7%**	1
Payroll costs	-268	-301	-346	-370	-393	-415	-430	-449	-459		
% of Sales	*12,8%*	*12,8%*	*12,7%*	*12,7%*	*12,7%*	*12,7%*	*12,5%*	*12,5%*	*12,3%*	**-0,4%**	2
Services and other expenses	-583	-674	-787	-841	-894	-911	-959	-1 001	-1 039		
% of Sales	*27,7%*	*28,7%*	*28,9%*	*28,9%*	*28,9%*	*27,9%*	*27,9%*	*27,9%*	*27,9%*	**-0,5%**	3
Provisions	-14	-22	-17	-17	-17	-17	-17	-17	-17		
Organic EBITDA	**289**	**343**	**401**	**444**	**488**	**566**	**603**	**630**	**662**	**11,9%**	4
% margin	*13,8%*	*14,6%*	*14,7%*	*15,3%*	*15,8%*	*17,3%*	*17,5%*	*17,6%*	*17,8%*		
EBITDA Capital Brands	-	40	44	47	50	52	54	56	57		
Organic EBITDA Adj	**289**	**383**	**445**	**491**	**538**	**618**	**657**	**686**	**720**	**11,4%**	
Eversys	-	-	12	13	14	16	17	18	19		
Gruppo Cimbali	-	-	16	29	34	37	40	43	44		
Rancilio	-	-	-	14	16	17	18	19	20		
La Marzocco	-	-	-	18	21	22	24	25	27		
Add-on EBITDA	**-**	**-**	**28**	**74**	**85**	**92**	**99**	**105**	**109**	**36,7%**	4
Total EBITDA	**289**	**383**	**473**	**564**	**623**	**710**	**756**	**791**	**829**	**14,6%**	4
% margin	*13,8%*	*14,8%*	*14,9%*	*15,8%*	*16,4%*	*17,6%*	*17,8%*	*17,9%*	*18,0%*		

Comments: Cost Drivers

1 Materials Consumed

Materials consumed as a percentage of sales are expected to **decrease in relation to pre-covid levels** due to an improved product mix containing a **larger share of full-automatic machines.**

Further **economies of scale** are also expected to amplify this impact.

2 Payroll Costs

Payroll costs are expected to slightly decrease as a percentage of sales due to an **increased share of production coming from China and Romania** (lower cost per labor hour) and **additional sales staff** required to boost awareness in high-growth geographies.

3 Services and other expenses

A slight decrease is expected due to the combination of the following factors: **improvement in production mix** which leads to lower production costs as a percentage of sales; increase spending in Advertising & Promotion activities due to **international marketing campaigns.**

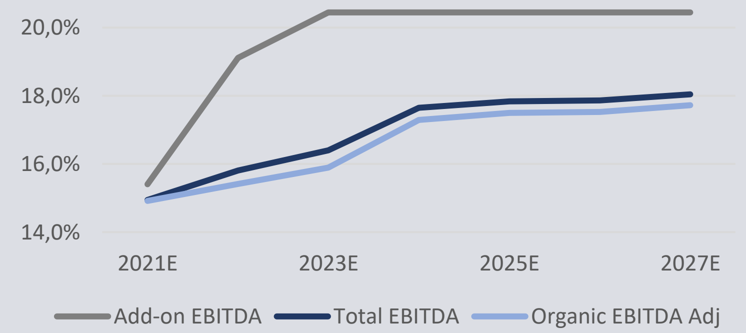
Comments: Profitability

4 EBITDA

Standalone EBITDA increases at a **CAGR of 11,9%** (versus 7,9% for revenues), between 2020 and 2025. The EBITDA margin is increasing from 14,6% (2020) to 17,5% (2025) mainly due the **larger share of sales from full-automatic machines and operational improvements.**

The B&B operation in the PCM segment is expected to contribute an **aggregate EBITDA of €379M**, between 2021 and 2025. The EBITDA margin from the B&B (including Eversys) is expected to **increase from 15,4% (2021) to 20,4% (2025)** mainly due the rebound of the PCM market taking place in 2022 and the **cost synergies** that will be shared by the 4 companies in this segment.

Overall, EBITDA increases from €383M in 2020 to €756M in 2025, while **EBITDA margin increases from 14,8% (2020) to 17,8% (2025).**



Sources: DLG's annual reports

DLG will have a strong cash flow generation which will be used to acquire targets in the PCM segment and to sustain the debt repayment

DēLonghi

(€ Millions)	2019	2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E
EBITDA De'Longhi	**289**	**343**	**445**	**491**	**538**	**618**	**657**	**686**	**720**
EBITDA Margin	*13,8%*	*14,6%*	*14,9%*	*15,4%*	*15,9%*	*17,3%*	*17,5%*	*17,5%*	*17,7%*
			30%	10%	10%	15%	6%	4%	5%
Eversys			12	13	14	16	17	18	19
Gruppo Cimbali			16	29	34	37	40	43	44
Rancilio				14	16	17	18	19	20
La Marzocco				18	21	22	24	25	27
EBITDA Buy-and-Build			**28**	**74**	**85**	**92**	**99**	**105**	**109**
EBITDA Margin PCM			*15,4%*	*19,1%*	*20,4%*	*20,4%*	*20,4%*	*20,4%*	*20,4%*
Total EBITDA	**289**	**343**	**473**	**564**	**623**	**710**	**756**	**791**	**829**
EBITDA Margin	13,8%	14,6%	14,9%	15,8%	16,4%	17,6%	17,8%	17,9%	18,0%
Taxes	-31	-41	-71	-88	-100	-118	-128	-135	-142
Investment in NWC	4	223	-152	10	30	-22	-22	-19	-14
Changes in Other Assets and Liabilities			9	-4	-4	-4	-4	-3	-3
Cash from Operations	**262**	**524**	**258**	**481**	**549**	**565**	**602**	**634**	**670**
% EBITDA	*91%*	*153%*	*55%*	*85%*	*88%*	*80%*	*80%*	*80%*	*81%*
Maintenence Capex	-78	-92	-124	-142	-150	-156	-162	-167	-171
% of sales	*3,7%*	*3,9%*	*3,9%*	*4,0%*	*4,0%*	*3,9%*	*3,8%*	*3,8%*	*3,7%*
Expansion Capex					-26				
Acquisition Capex	0	-330	-340	-267					
Cash from Investing	**-78**	**-421**	**-463**	**-409**	**-176**	**-156**	**-162**	**-167**	**-171**
% of EBITDA	*27%*	*123%*	*98%*	*73%*	*28%*	*22%*	*21%*	*21%*	*21%*
FCF	**184**	**103**	**-205**	**72**	**373**	**410**	**440**	**467**	**499**
% of EBITDA	*64%*	*30%*	*-43%*	*13%*	*60%*	*58%*	*58%*	*59%*	*60%*

Comments

1 **Working Capital**

Optimization of DLG's DIO, with a gradual **decrease** from **144** to **120 days,** between 2020 and 2025**.** This decrease is sustained by **cutting production and delivery time**, due to increased use of the installed capacity in the 25k sqm facility in Romania acquired in early 2020 and the new plant that will be operational in 2023. By producing in Europe, the firm can distribute its appliances more efficiently, as it is closer to the main end-markets: Germany, France and the UK. This reduction in DIO helps to minimize investment in NWC, despite strong top-line growth throughout the holding period.

2 **Cash from Operations**

Cash from operations will increase from **€258M** in 2021 to **€602M** in 2025**,** driven by organic and inorganic growth and operational improvements.

3 **Maintenance Capex & Expansion Capex**

Maintenance Capex was estimated at **3,7 to 4,0% of total sales**, in accordance with historical values. To support growth in sales, a new facility will be acquired in Romania in 2023, for an estimated cost of c. €26M. This expense was estimated using the cost per sqm of the facility completed in 2020.

4 **Acquisition Capex**

In early 2021, DLG will start its expansion to the **professional coffee machine segment** by exercising its call option for the remaining 60% of Swiss firm **Eversys**, for a total offer value of **€127M** (including debt). Additionally, **Gruppo Cimbali** will also be acquired by an estimated offer value of **€212M.** Altogether, **expansion Capex** will be c. **€340M** in the first year of the business plan.

In early 2022, DLG will complete two more acquisitions: **La Marzocco (€145M)** and the **Rancilio Group (€122M)**, consolidating its position in the professional segment and becoming the **number 2 player in sales.**

5 **Free Cash Flow to Firm**

Free Cash Flow to Firm will be **negative in the first year and positive but low in the second** due to the **high cash outflows necessary to complete the buy-and-build operation** in the PCM segment. These acquisitions will be partly financed by capex facility lines (50%) and by DLG's existing cash balance. In the following years, **FCFF will be at c. 60% of EBITDA.**

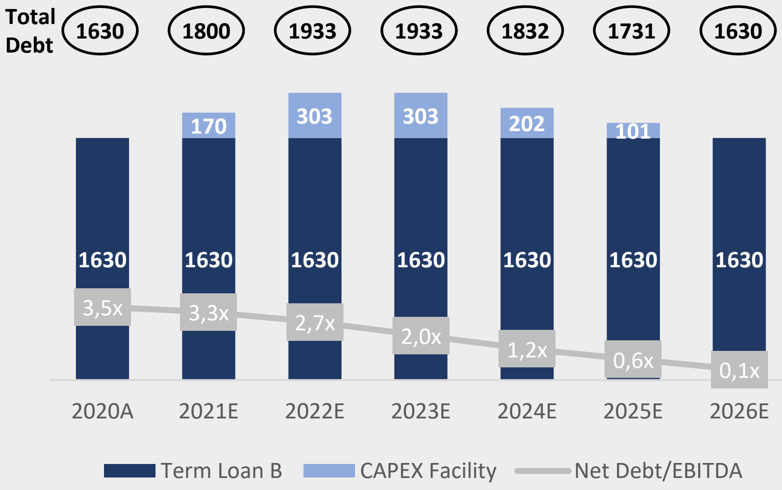
Sources: DLG's annual reports

The Entry value of €3 752M will be funded only using a 4,5x EBITDA tranche B worth €1 630M and priced at EURIBOR + 375bp, and €2 211M of equity

Sources of Funds	(€M)	xEBITDA	% total	Rates
Senior debt				
Term Loan A	0	0,0x	0,0%	3,00%
Term Loan B	1 630	4,5x	42,2%	3,25%
Term Loan C	0	0,0x	0,0%	3,50%
Total debt	**1 630**	**4,5x**	**42,2%**	
Fixed Return Instrument	1 994	5,5x	51,9%	10,0%
Ordinary Equity	217	0,6x	5,7%	
Institutional Ords	195		**Split to mng**	
Sweet Equity	22		10,0%	
Total Equity	**2 211**	**6,1x**	**57,6%**	
Total Sources	**3 841**	**10,6x**	**100,0%**	

Uses of Funds	(€M)	% total	xEBITDA
Purchase of equity	**3 563**		**9,8x**
Net debt	**-162**		**-0,4x**
Operational cash	52		0,1x
Cash needed post deal	300		0,8x
Entry Value	**3 752**		**10,4x**
Fees	**88**	**2,3%**	**0,2x**
IB	36		0,1x
Banking	33		0,1x
Arrangement	18		0,0x
DD	2		0,0x
Total Uses	**3 841**		**10,6x**

Debt Projections



Term loan B

- This tranche will be the only one used to finance the DLG acquisition. It is bullet repayment with a maturity of 7 years, which means that throughout the holding period it will not be repaid.

CAPEX Facility

- The first two acquisitions (La Cimbali and Eversys) occur in the beginning of 2021 and require 50% funding using capex facility, which amounts to €170M.
- In the beginning of 2022, La Marzocco and Rancilio are forecasted to be acquired, using an additional capex facility amounting to €133M.

Net Debt

- It is 3,5x EBITDA at entry and it decreases over time.

Comments

Sources of Funds

- Total **sources of funds amount to €3 841M** as a result of an **equity contribution of €2 211M** (6,1x EBITDA) and **leverage of €1 630M** (4,5x EBITDA). Net Debt amounts to 3,5x EBITDA.
- The **equity strip** is constituted by a **subordinated loan** (fixed return instrument) with a **10% PIK interest**, and a **variable component**, ordinary equity composed by sweet equity and institutional ordinary shares.
- **Sweet equity is 2x the yearly salary** of the management team and **represents 10% of the ordinary equity split**.
- **Total debt is only composed by tranche B** as advised by an Invesco expert. Tranche B is a bullet repayment with a 7-year term.

Uses of Funds

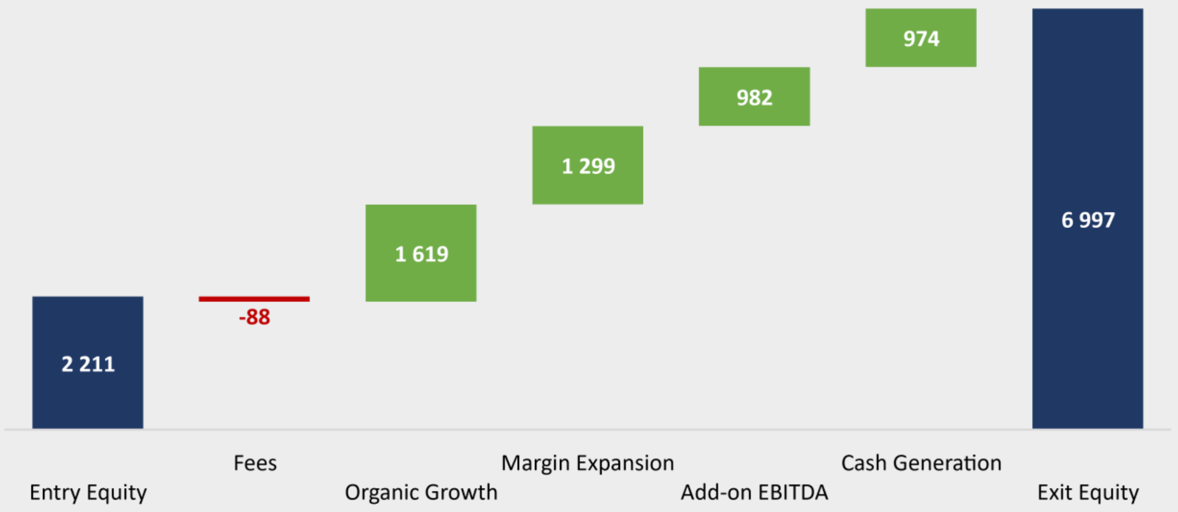
- The sources of funds are used to fund the **Entry Value of €3752M** which includes necessary cash for daily operations and cash needed for the acquisitions and financing **fees of €88M**.
- The **equity purchasing price of €3 563M** is the result of an EV of €3 583M (entry EV/EBITDA of 9,9x) adjusted for total debt, cash and other adjustments, such as pension liabilities and working capital adjustments.
- For the daily operations of the company, a minimum operational cash will be considered, and a cash needed post deal will be used to fund the acquisitions.

Additional Funding

- **In 2021, a capex credit facility will be required** to fund 50% of the Buy-and-Build strategy.

The acquisitions in the PCM segment have a significant impact on value creation, with an expected MM of 2,7x on the cash invested

Equity Value Creation (in € M)



- **Total Equity Value Creation** of **€4,87 Bn** throughout the 5-year holding period, yielding an **IRR** of **25,7%** and a **MM** of **3,1x for the investment as a whole.**
- DLG's **organic revenue growth** of **€1,17 Bn** (including the already integrated Capital Brands) generated **Equity Value** of **€1,62 Bn**, **34%** of total value creation.
- **Margin Expansion in DLG (+3,5pp)** generated **€1,30 Bn** in Equity Value, being responsible for **27% of the value created.**
- The **acquisitions in the PCM segment** are expected to generate **€99M in EBITDA** in the exit year, which corresponds to **€982M of Equity Value** and **21%** of all additions in value.
- The remaining value was a result of **cash generation** by both **De' Longhi and the acquired firms** during the holding period: **€974M** (**20%** of **all value creation**).

Impact on Returns of Buy-and-Build Strategy

	Investment Case	Without B&B	B&B Operation
EBITDA	€756 M	€657 M	€99 M
MM	3,0x	2,8x	2,7x
IRR	24,7%	22,9%	24,0%

- Without the acquisitions in the PCM segment, the **MM** and the **IRR** would be **2,8x** and **22,9%**, respectively. The **acquisitions contributed to an increase of the IRR of +1,8pp.**
- The **acquisitions** were **financed** with a **credit facility (50%)** and with **DLG's existing cash (50%)**. The **MM** on the cash invested is **2,7x and the IRR 24,0%**.

Returns on Cash Invested for Acquisitions

	Cimbali	Eversys	La Marzocco	Rancilio
MM	3,2x	2,1x	2,6x	2,4x
IRR	26%	16%	27%	25%

- The acquisitions of **Gruppo Cimbali** and **Eversys** will be completed in **early 2021**, and **La Marzocco** and the **Rancilio group** will be acquired in **early 2022**.
- Eversys generates the lowest return due to value destruction associated with negative multiple arbitrage, as the price of this acquisition was fixed since 2017. The **remaining acquisitions generate an IRR between 25% and 27%.**

Before finalizing the transaction, a thorough analysis on commercial, financial, operational and legal aspects must be conducted to reduce risk

	Area	Key analysis topics	Potential red flags	Impact
Commercial	**Market Growth & Trends**	• Deep analysis on the global market trends per business unit and regional market trends per business unit	❖ Overestimation of market trends in key growth segments ❖ Overestimation of growth rates of key segments, once Covid-19 effect disappears	●●●●●
Commercial	**M&A targets**	• Complete due diligence to all selected acquisition targets • In-depth analysis of possible synergies, growth perspectives, potential trends and the financials of the targets	❖ Inability to realize synergies ❖ Inability to complete the acquisitions due to external factors or difficult integration of targets within the group	●●●●●
Commercial	**Competitive position**	• Comparison of pricing strategy among competitors • Benchmark analysis on competitor's portfolio and product lines	❖ Inability to outperform competitors ❖ Loss of key licensing agreements, proprietary technology or patents	●●●●○
Financial	**Financial Reporting**	• Analysis on the capital expenditures needed to build the new production facility in Romania and maintenance expenditures of the operational assets • Further detail on all financial statements, namely on a per region and business unit level, as well as production levels	❖ Underestimation of the capital expenditures needed to build new production facilities and/or in the maintenance expenditures of the operational assets ❖ Material misstatements in the company's financial statements	●●●●○
Operational	**Value Chain Optimization R&D**	• Thorough analysis of the complete value chain of the company • Comprehensive study of the ability for the optimization of operational processes • Analyze the role of R&D in innovation and the ability to follow market trends	❖ Large dependency from a low number of suppliers and/or large impact from raw materials price fluctuations ❖ Inability to optimize cost structure and eliminate inefficiencies ❖ Lack of innovation and/or inefficient R&D investments	●●●●○
Legal	**Legal & Environmental**	• Evaluation of the political stability of the countries where DLG operates and to perform a detailed analysis of local regulations • Assessment of conditions required by Antitrust Regulators to allow the M&A transactions to successfully go through • Thorough analysis of compliance to ESG practices	❖ High political risk in relevant countries for DLG, which could lead to breach of contracts or expropriation ❖ Antitrust Regulators not approving the expected M&A activity to go through ❖ Bad ESG practices that can harm the group's image or result in litigation claims	●●●●○

A strategic sale seems to be the most promising option but might be difficult to implement given the limited number of interested parties

DēLonghi

	1 Strategic Sale	2 Secondary Sale	3 IPO	4 Sale in Parts
Outline	• Selling De' Longhi to **a large strategic player** in the domestic appliances market	• Selling De' Longhi to another **private equity firm**	• Listing De' Longhi on **the stock exchange via an IPO**	• **Separate sale of the 3 business units**: Coffee, Food Preparation, Comfort & Home Care
Pros +	• Significant **potential to yield a larger valuation** when compared to other options due to the **substantial synergies** • **Opportunity for non-European players to consolidate their position in the European market** by acquiring DLG	• DLG's strong CF generation makes it an **attractive target for a buyout** • Recent acquisition of Philips' Domestic Appliance Division shows interest of PE firms in the industry • **Possibility of partnership between PE firms or PE and strategic buyers** to acquire DLG	• Could potentially lead to the **highest returns if market conditions are favorable** • **High profile exit**, it can motivate the management team and can increase awareness about De' Longhi • Provides access to future liquidity	• **Large number of potential buyers** (some of DLG's direct competitors do not have the financial strength to acquire the company as a whole) which can lead to a **more competitive bidding process** • Opportunity to **realize synergies** and **consolidate a leadership position** in various markets
Cons −	• Given the large acquisition price, there is a **limited number of potential buyers** that have the required firepower to acquire DLG • Very time-consuming process (extensive due diligence)	• Considering the estimated valuation at exit of c. €7,8 Bn, **only a select number of PE firms would be able to acquire a firm this size**, which could potentially affect negatively the selling price	• The fund can only sell a portion of its stake, until the end of the "lock-up" period • **Uncertainty of returns**, as they are highly dependent on market conditions	• The **destruction of existing synergies between different business units** can lead to a lower overall valuation (when compared to a strategic sale) • Difficult to find the right buyers
Potential Buyers	Midea, Haier, Whirlpool Corporation, LG Life's Good	Hillhouse Capital, KKR, CVC, Blackstone	Borsa Italiana	Electrolux, Haier, Groupe SEB, dyson, Whirlpool Corporation, Midea, LG Life's Good

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02

Individual Work

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Management incentives package includes a 10% sweet equity deal, which provides for a total management return equal to 18,1x MM at the expected exit time (2025)

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Name	Title	Total compensation in 2020	% invested	Expected cash-out in 2025
Massimo Garavaglia	CEO / General Manager	€ 5,90M	54,4%	€ 213,6M
Paul Accornero	Chief Commercial Officer	€ 0,75M *	6,9%	€ 27,1M
Stefano Biella	Chief Financial Officer	€ 1,50M *	13,8%	€ 54,3M
Fabrizio Campanella	Chief Marketing Officer	€ 1,20M *	11,1%	€ 43,4M
Marco Cenci	Chief Strategy & Control Officer	€ 0,75M *	6,9%	€ 27,1M
Nicola Serafin	Chief Operating and Technology Officer	€ 0,75M *	6,9%	€ 27,1M
Total		**€ 10,85M**	**100%**	€ 392,8M

*Estimated total compensation (including Bonus and stock options plan). Total compensation of Massimo Garavaglia was retrieved from Bloomberg and includes Bonus and stock options plan.

Vesting rules	2021E	2022E	2023E	2024E	2025E	2026E
% of Sweet Equity vested per year	0%	20%	40%	70%	100%	100%
Vested equity stake	**0,0%**	**2,0%**	**4,0%**	**7,0%**	**10,0%**	**10,0%**

Returns under vesting rules	2021E	2022E	2023E	2024E	2025E	2026E
Management Exit Proceeds	0,0	35,0	96,3	235,2	392,8	437,8
Management Equity - Entrance	21,7	21,7	21,7	21,7	21,7	21,7
Management returns under vesting rules	**0,0x**	**1,6x**	**4,4x**	**10,8x**	**18,1x**	**20,2x**
IRR	-100,0%	26,9%	64,3%	81,4%	78,4%	65,0%

Comments

- **All members of the De' Longhi family will be excluded from the Management Team after the LBO** since it is unlikely for them to be incentivized after cashing out c.€2,1 Bn from the sale of their equity. Moreover, **DLG's management was already transitioning**, with Massimo Garavaglia being nominated DLG's CEO in 2020, Fabio De' Longhi's position since 2005. Additionally, the previous roles of De' Longhi's family members in the management were not significant with: Giuseppe De' Longhi (Chairman of the group) being already 82 years old; Fabio De' Longhi being an Executive Member in 2020 to smooth the transition to the new CEO and with Silvia De' Longhi being the Chief Corporate Services Officer, a position that will be filled with the help of a top headhunter.
- It is believed that the **chosen management team will not lead to a loss of company culture** and that it has the right skills for the job with a **proven leadership and industry knowledge** across DLG's segments and a **great track record at creating value through M&A activity**.
- To guarantee an alignment of interests between managers and shareholders, a **10% sweet equity stake at the firm** will be given as an **incentive package to the management team**. This sweet equity will be under vesting rules to ensure that the management team is adequately incentivized to stay until the estimated exit year (2025). This way, the proportion of sweet equity will be increasing up to 10% in 2025. Without vesting rules, the management team would have a very high return in the short-term (4,2x in the first year).
- Moreover, the sweet equity will be subject to a "**bad leaver provision**" stating that **if a manager** is accused of fraud/bad behavior or has hurt the firm's reputation, it would **lose** the right to **all of its equity**.
- The management team equity investment will be equivalent to **2x their total compensation** received in 2020 (includes annual salary and bonus), amounting to a total of **€21,7M** for a total combined stake of 10% at DLG at the end of 2025.
- **Management's investment** will yield a **total return** equal to **18,1x MM** at the estimated exit year (2025), or **392,8M€** in capital proceeds, thus returning an **IRR** of **78,4%**.

Sources: DLG's website, DLG's Annual Reports, Bloomberg

Despite the medium level of debt to be issued, DLG's strong cash flow generation and revenue diversification will reduce its credit risk, result in a spread between 325-425 bps

Debt Comparable Transaction

PHILIPS — Sale of Philips' Domestic Appliances business to Private Equity Firm Hillhouse Capital

Sales 2020: **€2,2Bn**
EBITDA 2020: **€264M**
Industry: **Small Domestic Appliances**
Geographical footprint: **Global**

According to Bloomberg the LBO was financed with the following debt issuance:

Security Description	Issued in	Maturity	Size (M€)	Interest rate
1st Lien Secured Loan	23/06/21	7 years	1,213.8	3.50%
Secured Bonds	23/06/21	7 years	606.9	3.13%
Total debt issued for LBO			**1,820.7**	

Net Leverage
5,1x EBITDA

Determining factors of DLG's leverage

Cash Flows — Strong cash flow generation (Average FCF over the past 5 years = €224M) with medium to low volatility

M&A — The Buy-and-Build strategy will be executed with additional debt (50% of the total amount invested) and the remaining with the cash flows generated by DLG's operations

Diversification — DLG has a diversified portfolio across products (3 main categories with several sub-categories), production facilities (in 3 different countries) and countries where it operates (120+ countries)

Based on these factors and on the company's operational characteristics, **Invesco's expert** advised that a **net leverage level between 3,5x-4,5x EBITDA** would be **adequate**

Expert Opinion from Invesco Capital Management

- According to an expert from Invesco, Nuno Caetano, the **debt comparable transaction** of **Philips' Domestic Appliances** acquisition by Hillhouse Capital is an **adequate** and **relevant** comparable transaction and useful as a starting point to determine DLG's spread and debt conditions.
- Only one tranche of debt is advisable (**Tranche B**), with **bullet repayments** and a **maturity of 7 years**.
- Debt should be **issued in euros.**
- Based on the company's financials, operating characteristics and the comparable transaction analyzed, the expert from Invesco estimated that a reasonable **spread** would be calculated as **375bps** over **EURIBOR**.

DLG's expected LBO debt conditions

- Debt to be issued will likely result in a **spread** between **325-425 bps**, based on Invesco's expert opinion, a value that is also in line with the comparable transaction of Philip's Domestic Appliances that resulted in 5,1x Net Debt/EBITDA. This net leverage level is above the more conservative level chosen for DLG's LBO (3,53x).
- **Type of debt:** Senior Secured Tranche B
- **Additional instruments:** Acquisition Capex facility to finance 50% of the acquisition capex needed to execute Buy-and-Build strategy
- **Maximum leverage:** 4,5x
- **Maturity:** 7 years for Tranche B
- **Pricing:** EURIBOR + Spread (325-425 bps)

Sources: DLG annual reports, Invesco Expert, Philips' Domestic Appliances Official Press Release, Bloomberg

The investment case generates a MM of 3,0x and an IRR of 24,7% for the institutional investor, with a holding period of 5 years

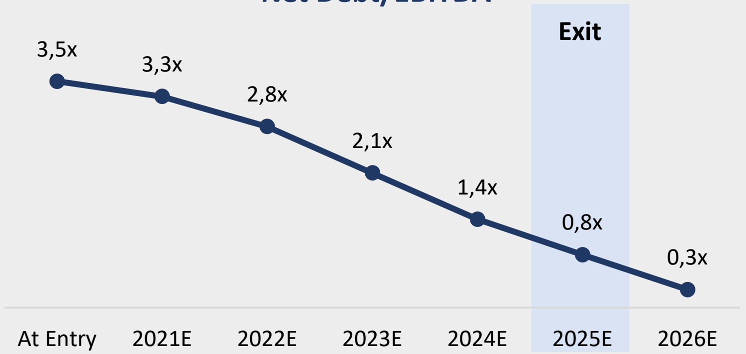
Institutional and Management Returns

Returns	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Management Exit Proceeds	0,0	35,0	96,3	235,2	392,8	437,8	486,2
Management Equity - Entrance	21,7	21,7	21,7	21,7	21,7	21,7	21,7
Management Returns	**0,0x**	**1,6x**	**4,4x**	**10,8x**	**18,1x**	**20,2x**	**22,4x**
IRR	-100,0%	26,9%	64,3%	81,4%	78,4%	65,0%	55,9%
Institutional Investor Exit Proceeds	3 008	4 018	4 846	5 915	6 604	7 316	8 089
Institutional Investor Equity	2 189	2 189	2 189	2 189	2 189	2 189	2 189
Institutional Returns	**1,4x**	**1,8x**	**2,2x**	**2,7x**	**3,0x**	**3,3x**	**3,7x**
IRR	37,4%	35,5%	30,3%	28,2%	24,7%	22,3%	20,5%

- The **exit** is planned for **2025**, after a holding period of **5 years**, at an exit multiple of **9,9x EBITDA**: no multiple arbitrage was assumed for the acquisition of DLG.
- At exit, **EBITDA** is forecasted at **€756M**, leading to an **EV** of **€7,48 Bn.**
- At the expected exit year of 2025, **management proceeds** are **€392,8M**, yielding a MM of **18,1x** on the initial investment of €21,7M and an **IRR** of **78,4%.**
- Institutional investor proceeds are **€6,6 Bn**, corresponding to a **MM** of **3,0x** and an **IRR** of **24,7%.**

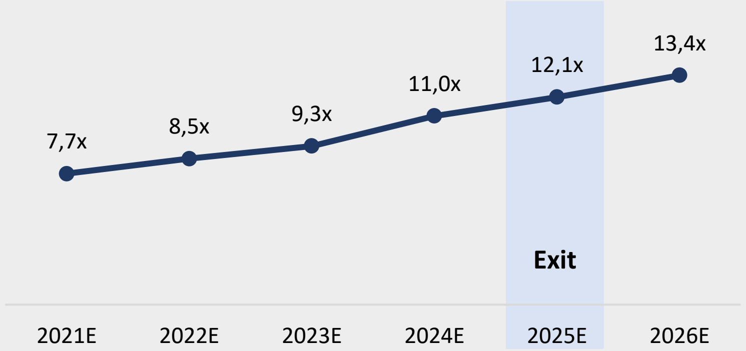
Credit Statistics (Bank Case)

Net Debt/EBITDA



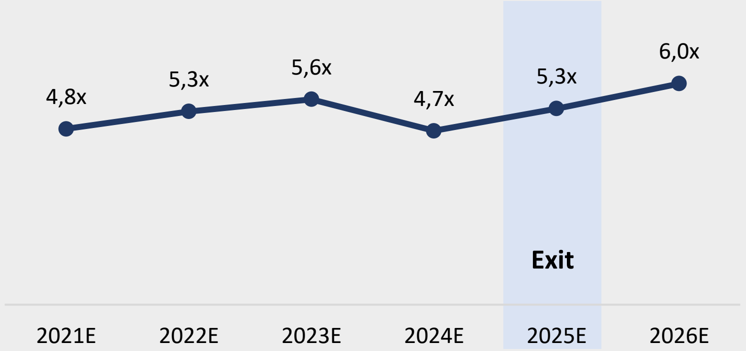
- In the bank case, **Net debt / EBITDA** including the acquisition capex facility **decreases throughout the holding period from 3,5x at entry to 0,8x at exit**.
- This decrease is a result of both cash generation and EBITDA growth during the holding period.

Interest Cover



- In the bank case, the **interest cover** increases continuously from **7,7x** in 2021 to **12,1x** at exit, due to EBITDA growth.

Cash Cover



- In the bank case, the **cash cover is always above 4,5x** as the firm is generating strong cash flows, which are more than sufficient to repay the capex facility and pay interests on debt.

In our base case scenario, we expected to generate a MM of 3,0x and an IRR of 24,7% when exiting in 2025

Investment Case

MM		Exit year				
		2023E	2024E	2025E	2026E	2027E
Exit Multiple	8,9x	1,9x	2,4x	2,7x	3,0x	3,4x
	9,4x	2,1x	2,6x	2,9x	3,2x	3,5x
	9,9x	2,2x	2,7x	**3,0x**	3,3x	3,7x
	10,4x	2,4x	2,9x	3,2x	3,5x	3,9x
	10,9x	2,5x	3,0x	3,3x	3,7x	4,0x

IRR		Exit year				
		2023E	2024E	2025E	2026E	2027E
Exit Multiple	8,9x	24,7%	24,5%	22,0%	20,2%	18,9%
	9,4x	27,6%	26,4%	23,4%	21,3%	19,7%
	9,9x	30,3%	28,2%	**24,7%**	22,3%	20,5%
	10,4x	33,0%	30,0%	26,0%	23,2%	21,3%
	10,9x	35,5%	31,6%	27,2%	24,2%	22,1%

Value Creation		Exit year				
		2023E	2024E	2025E	2026E	2027E
Exit Multiple	8,9x	2 109	3 230	4 030	4 752	5 536
	9,4x	2 421	3 585	4 408	5 147	5 950
	9,9x	2 732	3 940	**4 786**	5 543	6 365
	10,4x	3 043	4 294	5 164	5 939	6 779
	10,9x	3 355	4 649	5 542	6 334	7 194

Comments

- At the year of exit, FY2025, the MM amounts to 3,0x. Although exiting later would yield higher money multiples, leaving earlier results in a higher IRR and is more coherent with reality in PE transactions.
- Leaving earlier also decreases the risk of the investment as it is less exposed to potential downsides that may affect the industry De' Longhi operates in.
- Overall, depending on the exit year and exit multiple, the money multiple to investors can range between 2,6x and 3,5x.

- IRR results in 24,7% in the year of exiting the investment.
- The IRR increases as the exiting multiple increases and decreases as the exit year is delayed
- There is little downside risk potential of exiting below 9,9x which is the same as the entry multiple. The reason for this is because the median transaction multiple of the past years is 9,8x and De' Longhi presents stronger financials and better growth opportunities compared to its peers.

- Capital gains are expected to reach €4 786M by 2025.
- Although exiting in later years would increase the capital gains it decreases the IRR obtained on the invested capital.

To account for changes in our forecast, a sensitivity analysis was conducted on three different scenarios: Bank case, a case Without Buy-and-Build and a Management case

Bank Case

MM		Exit year				
		2023E	2024E	2025E	2026E	2027E
Exit Multiple	8,9x	1,8x	2,2x	2,4x	2,7x	2,9x
	9,4x	1,9x	2,3x	2,6x	2,8x	3,0x
	9,9x	2,1x	2,5x	**2,7x**	3,0x	3,2x
	10,4x	2,2x	2,6x	2,8x	3,1x	3,3x
	10,9x	2,3x	2,8x	3,0x	3,3x	3,5x

IRR		Exit year				
		2023E	2024E	2025E	2026E	2027E
Exit Multiple	8,9x	21,7%	21,9%	19,3%	17,8%	16,4%
	9,4x	24,6%	23,8%	20,6%	18,8%	17,3%
	9,9x	27,3%	25,6%	**21,9%**	19,8%	18,1%
	10,4x	29,9%	27,3%	23,2%	20,8%	18,8%
	10,9x	32,4%	29,0%	24,4%	21,7%	19,6%

Value Creation		Exit year				
		2023E	2024E	2025E	2026E	2027E
Exit Multiple	8,9x	1 796	2 771	3 322	3 908	4 428
	9,4x	2 091	3 102	3 665	4 263	4 791
	9,9x	2 386	3 434	**4 008**	4 618	5 153
	10,4x	2 681	3 765	4 351	4 974	5 516
	10,9x	2 976	4 097	4 694	5 329	5 879

Without Buy-and-Build

MM		Exit year				
		2023E	2024E	2025E	2026E	2027E
Exit Multiple	8,9x	1,8x	2,3x	2,5x	2,8x	3,1x
	9,4x	2,0x	2,4x	2,7x	2,9x	3,3x
	9,9x	2,1x	2,5x	**2,8x**	3,1x	3,4x
	10,4x	2,2x	2,7x	2,9x	3,2x	3,6x
	10,9x	2,3x	2,8x	3,1x	3,4x	3,7x

IRR		Exit year				
		2023E	2024E	2025E	2026E	2027E
Exit Multiple	8,9x	22,7%	22,7%	20,5%	18,8%	17,6%
	9,4x	25,2%	24,5%	21,7%	19,7%	18,4%
	9,9x	27,7%	26,1%	**22,9%**	20,7%	19,1%
	10,4x	30,1%	27,7%	24,1%	21,6%	19,8%
	10,9x	32,3%	29,3%	25,2%	22,4%	20,5%

Value Creation		Exit year				
		2023E	2024E	2025E	2026E	2027E
Exit Multiple	8,9x	1 893	2 921	3 618	4 240	4 932
	9,4x	2 162	3 230	3 947	4 583	5 292
	9,9x	2 431	3 539	**4 275**	4 926	5 652
	10,4x	2 700	3 848	4 604	5 269	6 012
	10,9x	2 969	4 157	4 932	5 612	6 372

Management Case

MM		Exit year				
		2023E	2024E	2025E	2026E	2027E
Exit Multiple	8,9x	2,3x	2,9x	3,2x	3,6x	4,1x
	9,4x	2,5x	3,0x	3,4x	3,8x	4,3x
	9,9x	2,6x	3,2x	**3,6x**	4,0x	4,5x
	10,4x	2,8x	3,4x	3,8x	4,2x	4,7x
	10,9x	2,9x	3,5x	4,0x	4,4x	4,9x

IRR		Exit year				
		2023E	2024E	2025E	2026E	2027E
Exit Multiple	8,9x	32,3%	30,1%	26,5%	24,0%	22,2%
	9,4x	35,2%	32,0%	27,9%	25,1%	23,1%
	9,9x	37,9%	33,8%	**29,2%**	26,1%	23,9%
	10,4x	40,6%	35,6%	30,5%	27,1%	24,7%
	10,9x	43,1%	37,3%	31,7%	28,0%	25,4%

Value Creation		Exit year				
		2023E	2024E	2025E	2026E	2027E
Exit Multiple	8,9x	2 962	4 314	5 339	6 277	7 287
	9,4x	3 315	4 719	5 776	6 739	7 775
	9,9x	3 667	5 124	**6 213**	7 201	8 264
	10,4x	4 020	5 530	6 650	7 663	8 752
	10,9x	4 372	5 935	7 088	8 125	9 240

Before finalizing the transaction, a thorough analysis on commercial, financial and operational aspects must be conducted to reduce risk

	Area	Key analysis topics	Potential red flags	Impact
Commercial	**Market Growth & Trends**	• Deep analysis on the global market trends per business unit and regional market trends per business units • Particular focus on the regions of expansion, North America and China, as well as Europe	❖ Overestimation of market trends in key growth segments ❖ Overestimation of growth rates of key segments, once Covid-19 effect disappears ❖ Negative macroeconomic conditions, which could impact negatively the firm's sales and cash flow generation	●●●●●
Commercial	**M&A targets**	• Complete due diligence to all selected acquisition targets • In-depth analysis of possible synergies, growth perspectives, potential trends and the financials of the targets • Detailed analysis of the Professional Coffee Segment and its key growth drivers and trends	❖ Inability to realize synergies ❖ Inability to complete the acquisitions due to external factors ❖ Difficult integration of targets within the group ❖ Overestimation of growth prospects in the Professional Coffee Segment	●●●●●
Commercial	**Competitive position**	• Comparison of pricing strategy among competitors • Benchmark analysis on competitor's portfolio and product lines • Detailed analysis of contracts/licensing agreements with key partners, such as Nespresso	❖ Inability to outperform competitors and lose market share ❖ Loss of key licensing agreements, proprietary technology or patents	●●●●○
Financial	**Financial Reporting**	• Analysis on the capital expenditures to build the new production facility in Romania and maintenance expenditures of the operational assets • Further detail on all statements, namely on a per region and business unit level, as well as production levels • Detailed analysis on contingent liabilities • Identification of one-off or non-recurring items • Evaluation of the fair value of tangible and intangible assets	❖ Underestimation of the capital expenditures needed to build new production facilities ❖ Material misstatements in the company's financial statements ❖ Overestimation of tangible and/or intangible assets ❖ Significant amount of unexpected liabilities	●●●●○
Financial	**Assets Optimization**	• Detailed description of assets and their current use and capacity	❖ Unachievable growth due to capacity exhaustion ❖ Inability to foster production in higher margins regions	●●○○○

Before finalizing the transaction, a thorough analysis on commercial, financial and operational aspects must be conducted to reduce risk

	Area	Key analysis topics	Potential red flags	Impact
Operational	**Value Chain**	• Evaluate DLG's level of dependency on the supply of key components • Thorough analysis of the complete value chain of the company • Study impacts of raw materials prices fluctuations	❖ Large dependency from a low number of suppliers ❖ Large impact from small raw materials price fluctuations	●●●●○
	Optimization	• Comprehensive study of the ability for the optimization of operational processes • Detailed analysis over capital expenditures to find potential inefficiencies and identify improvements in the cost structure	❖ Inability to optimize cost structure and eliminate inefficiencies	●●●●○
	R&D	• Analyze the role of R&D in innovation and the ability to follow market trends	❖ Lack of innovation and/or inefficient R&D investments	●●●●○
Legal	**Regulations**	• Evaluation of the political stability of the countries where the firm has relevant operations including the countries where the firm has manufacturing facilities • Thorough analysis of local regulations in the countries with relevant operations for the company • Assessment of conditions required by Antitrust Regulators to allow the M&A transactions to successfully go through	❖ Changes in local regulations or laws ❖ High political risk of relevant countries for DLG's operations, which could lead to more unstable demand and potentially to breach of contracts or expropriation ❖ Antitrust Regulators not approving the expected M&A targets to go through	●●●○○
	Environmental Laws	• Comprehensive analysis of environmental laws applicable • Assessment of the expected costs of CO_2 emission allowances • Thorough analysis of compliance to ESG practices	❖ Significant changes in environmental laws that could put DLG's emissions over the allowed limit ❖ Potential litigation claims from bad environmental practices ❖ Bad ESG practices that can harm the group's image and impact the demand for its products	●●●●○

Haier and Midea group appear to be the most well positioned strategic buyers while Hillhouse Capital and KKR are the best secondary buyers

DēLonghi

	Strategic Buyers				Secondary Buyers			
	Haier	Midea	Whirlpool Corporation	LG Life's Good	Hillhouse Capital	KKR	CVC	Blackstone
Country	China	China	USA	South Korea	China	USA	Luxembourg	USA
Financials	• EV: 29,7 Bn • Rev: 26,6 Bn • EBITDA: 2,0 Bn • ND/EBITDA: -0,53x	• EV: 90,7 Bn • Rev: 36,3 Bn • EBITDA: 4,0 Bn • ND/EBITDA: 1,19x	• EV: 12,9 Bn • Rev: 17,1 Bn • EBITDA: 2,2 Bn • ND/EBITDA: 1,35x	• EV: 47,9 Bn • Rev: 30,1 Bn • EBITDA: 5,3 Bn • ND/EBITDA: 1,53x	• AUM: $69 Bn • Portfolio Firms: NA	• AUM: $252 Bn • Portfolio Firms: 109	• AUM: $97 Bn • Portfolio Firms: 111	• AUM: $120 Bn • Portfolio Firms: 104
Overview	• World leader in domestic appliances, operating in 160 countries and with 122 plants	• Largest producer of home and commercial electric appliances	• World's leading kitchen and laundry appliances company with 57 production facilities	• Conglomerate with a global presence, which sells large domestic appliances	• Asian-focused PE firm with investment at a global level and expertise in CRH and TMT	• One of the world's leading investment companies, which focuses on alternative investments	• CVC is a global leader in PE, which invests in firms in Europe, the Americas and Asia	• Leading investment firm with a strong focus on private equity and real estate
Rationale	• DLG would be an excellent complement for Haier's product line • The firm has a track record of growing through M&A	• Midea is pursuing an international expansion in the home appliances space (rumors of acquiring Electrolux)	• Only 22% of Whirlpool's sales in EMEA and more than 80% of sales concern large appliances (opportunity to diversify)	• LG has a small presence in small domestic appliance • DLG could be an interesting acquisition to diversify the product line	• Experienced in the industry • Acquired Philips' domestic appliances business unit in 09/2021 for $4,4 Bn	• Invested in GE Appliances alongside Haier, one of the possible strategic buyers, with the highest potential	• DLG fits the profile of CVC's "Strategic Opportunities Division" due to its high and stable CF and large EV	• DLG is in line with the "Tactical Opportunities Division" • Blackstone's technological expertise is a plus to DLG

Sources: Company's website, Bloomberg. Notes: The financials of the strategic buyers are presented in EUR and refer to the year of 2020, The value of AUM and number of portfolio firms of the secondary buyers only includes private equity investments

03

Essay

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The coffee industry is trying to leverage current positive trends to continue to grow by offering consumers types of coffee that are produced sustainably and of the utmost quality

This essay aims to study the future of the coffee industry and what possible trends, challenges and opportunities are expected to impact this industry in the future.

Coffee is one of the most popular drinks, with an estimated consumption of 2,25 billion cups worldwide per day (Watts, 2016). There are some factors that can lead the coffee industry to continue to grow, such as the low penetration of coffee in some regions, consumers placing a higher value into quality and consumers being more environmentally conscious. On the other hand, the coffee industry will also face some major challenges, with the climate change seeming to be the largest one.

An opportunity that can still make the coffee industry continue to grow is its low penetration in some regions, such as China, for example, where there seems to exist evidence that coffee is becoming more popular and accepted by the Chinese, especially among the middle and upper classes populations living in urban centers (Gaujacq, 2021).

Another trend that can positively impact the coffee industry is the way consumers are placing a higher value on improving the quality of the coffee they drink. This trend was further accelerated with the Covid-19 pandemic as people saw their beloved local coffee shops closed and had no alternative but to drink coffee at home. To do so, people have tried to recreate the high-quality coffee they usually had outside. The evidence seems to suggest that consumers are willing to spend more in better equipment and in coffee beans of superior quality to enhance the quality of the coffee made at home (Perfect Daily Grind, 2020).

Furthermore, consumers seem to be more conscious about what they are buying and are looking for ways to make their lifestyles sustainable. This trend seems to be getting traction and can result in a growing demand for more authentic and unique types of coffee such as specialty coffees, a type of coffee whose top priority is the quality and freshness of the beans (Roughan, 2020). According to the US National Coffee Association, 53% of Americans want to buy coffee that is good not only for the environment, but also that has positive impacts on the coffee producers and its communities (Foley, 2020). This trend can add value to the industry in the sense that consumers might be willing to pay more for sustainable products.

(1) Watts, Corey. 2016. “A Brewing Storm: The climate change risks to coffee”. *Fairtrade*; (2) Gaujacq, Camile. 2021. “Has China’s coffee market already reached its full potential?”. *Daxue Consulting*; (3) Grant, Tasmin. 2020. “How Covid-19 Changed Home Coffee Consumption”. *Perfect Daily Grind*; (4) Roughan, Greg. 2020. “The Key Coffee Industry Trends For 2022 & Beyond”. *Unleashed*. (5) Foley, Sinead. 2020. “NCA releases Atlas of American Coffee”. *National Coffee Association USA*.

Coffee producers must incorporate solutions to try to adapt to climate change into their long-term strategies to tackle effectively this issue or the climate change could have devastating consequences for millions of people worldwide

On the other hand, one should note that the coffee industry will also face some major challenges, especially in the long-term, with the climate change seeming to be the largest one. Coffee producers might be severely impacted by climate change, as the plants that produce the coffee beans are very sensitive to the climate, requiring amene temperatures ranging from 15ºC to 24ºC and also an abundancy of rain (Robson, BBC). Therefore, there could be a significant shift in the traditional places that are known for producing coffee as its weather might become unsuitable for its production. Climate change is expected to cut the suitable areas to cultivate coffee in about 50% until 2050 (Watts, 2016). This may generate significant social and economic impacts in these regions, as it is estimated that more than 120 million people on the planet depend on the coffee industry as a way of living (Watts, 2016).

Nonetheless, one should not discard that with the rising rate of innovation and scientific developments, the coffee industry comes up with strategies to overcome this issue. However, as most coffee producers are located in poorly developing countries and the size of these producers is typically not very large (Watts, 2016), only few of them have the capital and the education needed to plan and implement strategies to adapt their businesses to the rising temperatures and to deal with more volatile weather conditions that are predicted to be caused as a result of the climate change in the next decades. If coffee producers are not able to develop strategies to adapt to climate change, it will likely lead to consumers experiencing supply shortages as the suitable areas are expected to decrease sharply over the next decades. This would have harmful impacts not only on the communities that depend on coffee for their livelihoods and countries whose economies rely heavily on coffee exports, but also on consumers all around the world as they would have to pay higher prices for this commodity and experience a decrease in the quality of the coffee beans due to less adequate climate conditions. If this happens, it is difficult to infer the possible effects of such disruptions in consumer behavior, given that many consumers that drink their coffee everyday might not be willing to pay higher prices for a product whose quality is not the same as they were used to experience. Even though these challenges are only projected to have substantial effects in the long-term, coffee producers must already start considering this issue into their long-term strategies or the potential consequences could be devastating for the millions of workers who directly or indirectly depend on this commodity to live.

(1) Watts, Corey. 2016. "A Brewing Storm: The climate change risks to coffee". *Fairtrade;* (6) Robson, David. "Made on Earth: How the world came to run on coffee". *BBC*; (7) "Coffee Farmers". *Fairtrade Foundation*.