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 - BUSINESS PLAN AND VALUATION

ANTÓNIO SANCHES ESTEVES CORREIA BENTES

Work project carried out under the supervision of:

Luís Mota Duarte

Fábio Santos

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Abstract

This work project is based on an investment committee paper regarding De’ Longhi, a leading player in the manufacturing of premium small appliances. The paper covers a preliminary analysis of the company and the markets it operates. Based on these capabilities, several value creation strategies were created and built into a business plan. The final section of the paper includes returns under different possible scenarios and insights regarding the exit and due diligence aspects of the paper.

Keywords

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

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01

Group Work

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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.

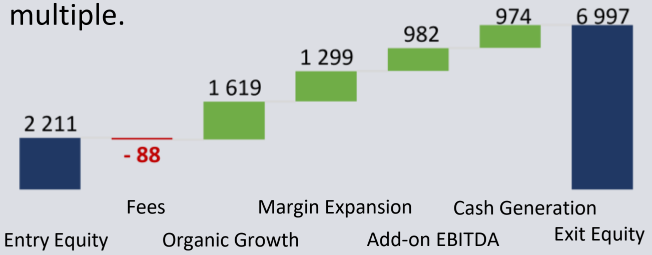
Consolidation of the PCM segment: The highly profitable market of professional espresso machine segment is significantly fragmented. DLG currently has a minority stake in Eversys, a Swiss manufacturer of professional machines, which can be used as a starting point to begin consolidating the industry 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

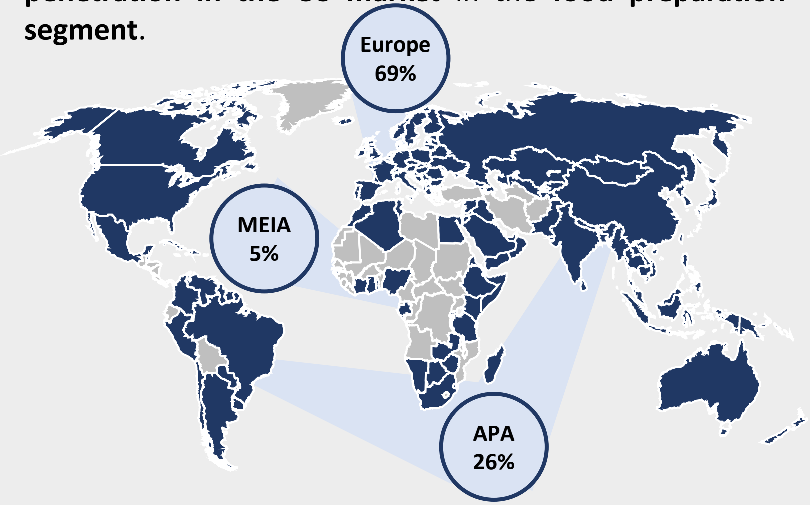
The De' Longhi group operates through **five brands**:

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**[(1)]**.**

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

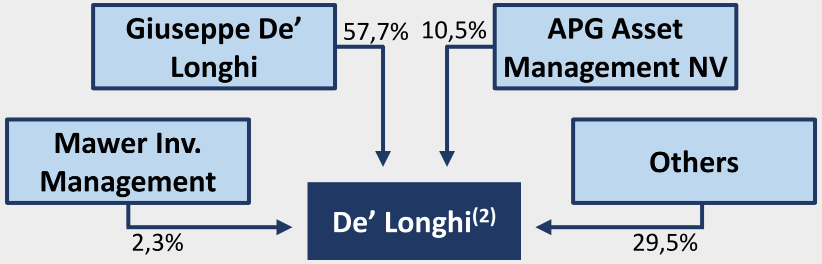


High Level Financials

(€ 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



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?[1]

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.

DēLonghi KENWOOD BRAUN

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**.

KENWOOD BRAUN ariete nutribullet

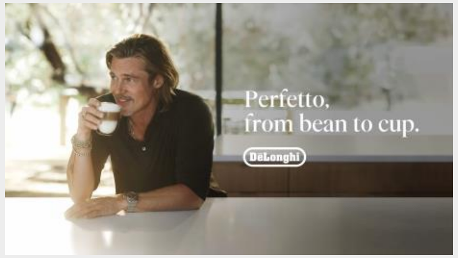
Comfort & Home Care

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.

DēLonghi BRAUN

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[2]

- R&D
- Innovation

→ Raw Materials → Group & Partners production sites → Specialized Centers →

- Physical stores
- Online retail
- Mixed channels

→ End Consumer

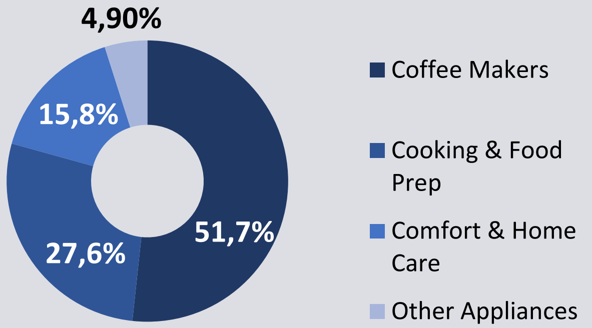
- To **continuously reinvent their products** DLG **devotes 2,5-2,6%** (in the past 4 years) of their **sales** to **R&D investments**.
- DLG purchases raw materials and sends them to the group's production sites and to external suppliers responsible for manufacturing and assembling.
- The process is **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.

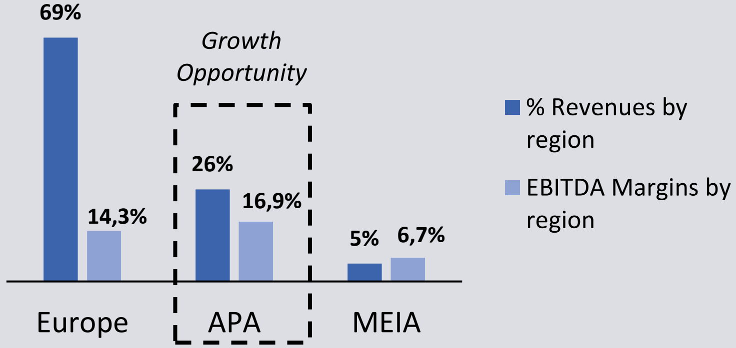
De' Longhi operates in three main segments, where the coffee makers is the largest one, accounting for more than half of the total revenues

DēLonghi

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

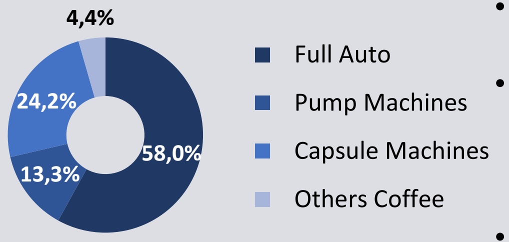


- DLG has three main operating segments: **Coffee Makers**, **Cooking & Food Preparation** and **Comfort & Home Care**.
- It is present in three main regions: **Europe**, **APA** and **MEIA**
- **Europe accounts for the largest share of revenues (69%)**, but **APA has the largest EBITDA Margins** (16,9% 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%).



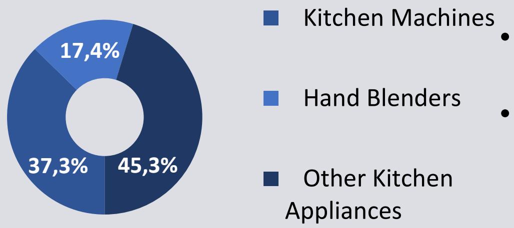
Sources: De' Longhi Website and Annual reports

Coffee Makers (~€1 206M)



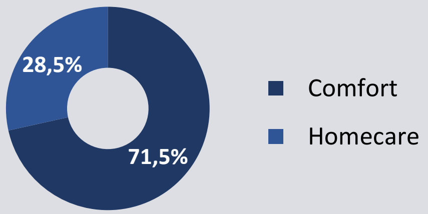
- The **Coffee Makers is the largest segment** in DLG's product range with **52% of total revenues in 2020.**
- From the product mix, **fully-auto machines** account for the **majority of sales (58%), showing that DLG** is **not dependent on the Nespresso brand machines** (capsule machines) to generate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

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

DēLonghi

Espresso Machines (52%)

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 (28%)

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[1] (16%)

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**

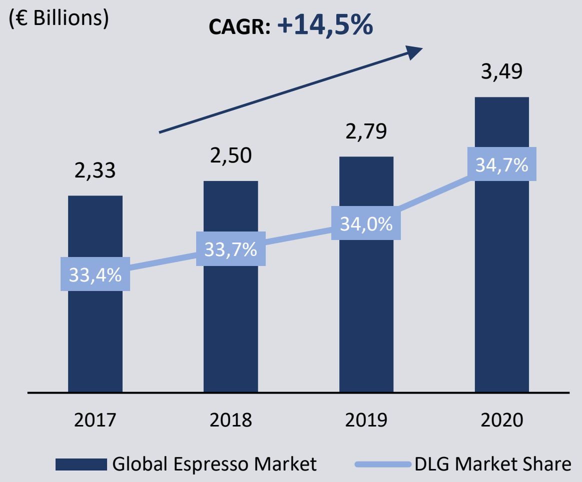
Players: dyson, BOSCH, Electrolux, Whirlpool Corporation, PHILIPS, Hoover

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[1]. 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(1)

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(2)

- 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. Notes: (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

DēLonghi

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

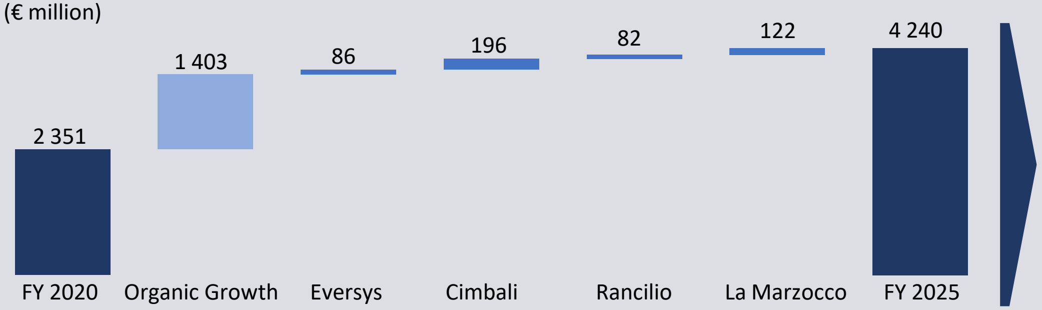
DLG is expected to grow its revenues at a 12,5% CAGR until 2025, from which 9,8% from organic growth and the remaining from acquisitions in the PCM segment

DēLonghi

(€ 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.**

Sources: DLG's annual reports

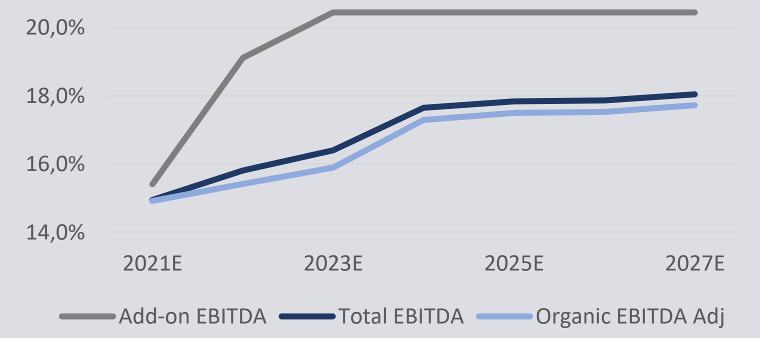
Comments: Profitability

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).**



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

(€ 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%*

Sources: DLG's annual reports

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**

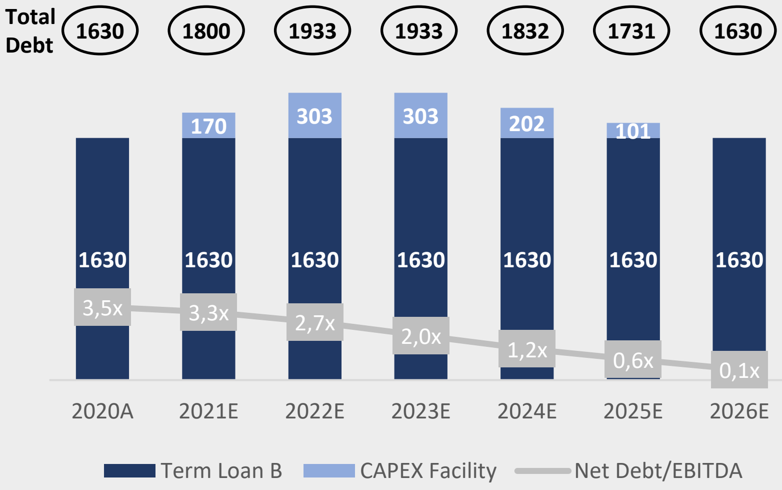
Free Cash Flow to Firm will be **negative in the first year and positive but low in the second** due to the **high cash outflows necessary to complete the buy-and-build operation** in the PCM segment. These acquisitions will be partly financed by capex facility lines (50%) and by DLG's existing cash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

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

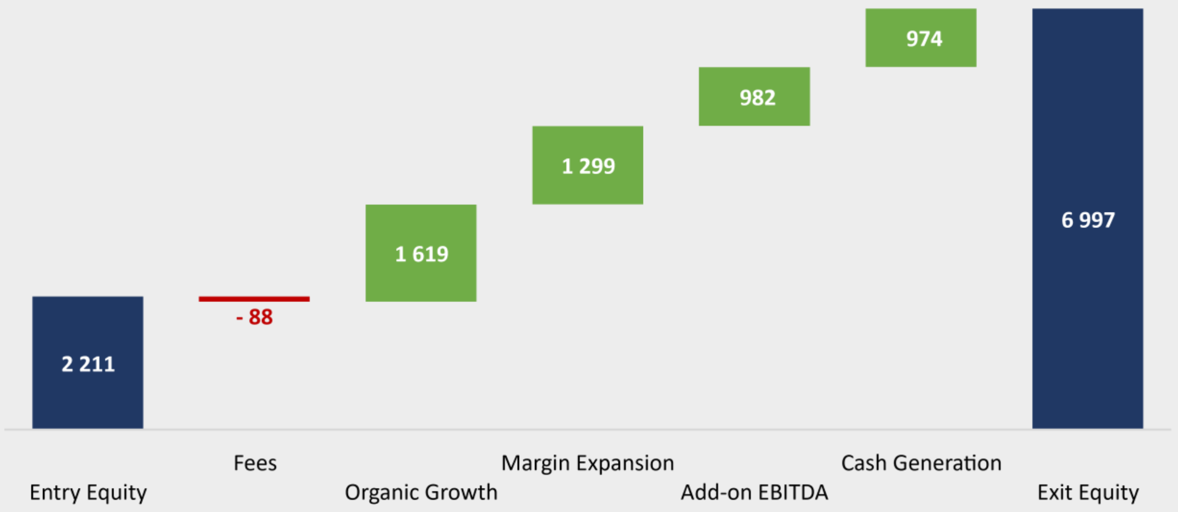
Sources of Funds
- Total **sources of funds amount to €3 841M** as a result of an **equity contribution of €2 211M** (6,1x EBITDA) and **leverage of €1 630M** (4,5x EBITDA). Net Debt amounts to 3,5x EBITDA.
- The **equity strip** is constituted by a **subordinated loan** (fixed return instrument) with 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**[(1)].
- **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%** (1).

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

	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, LG	Hillhouse Capital, KKR, CVC, Blackstone	Borsa Italiana	Electrolux, Haier, SEB, Dyson, Whirlpool, Midea, LG

02

Individual Work

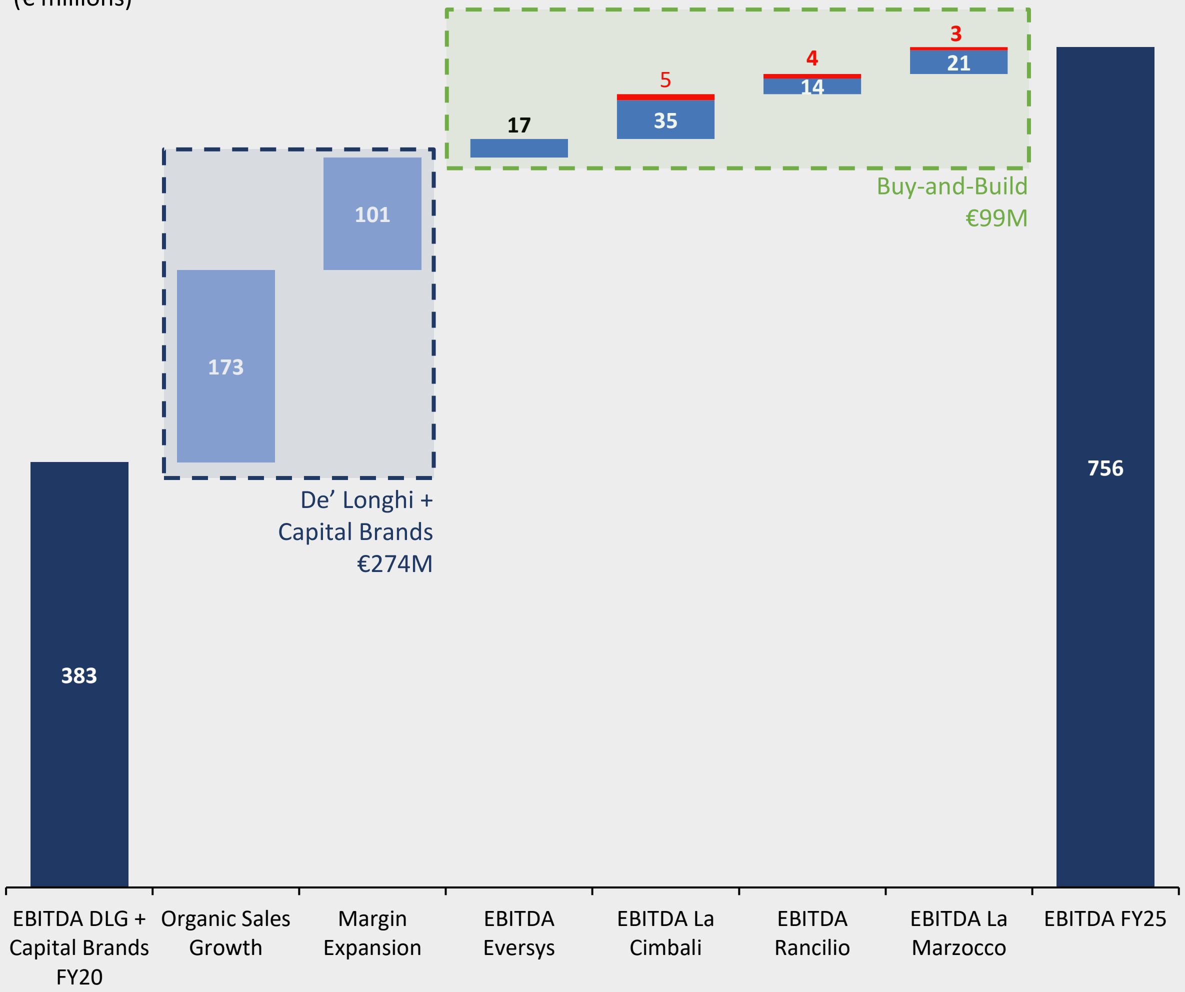
NOVA SCHOOL OF
BUSINESS & ECONOMICS

Until 2025, DLG's EBITDA is expected to increase significantly, supported by strong organic and inorganic growth through the execution of 4 strategic acquisitions

EBITDA Bridge

EBITDA Bridge FY20 – FY25

(€ millions)



Sources: DLG's annual reports

Comments

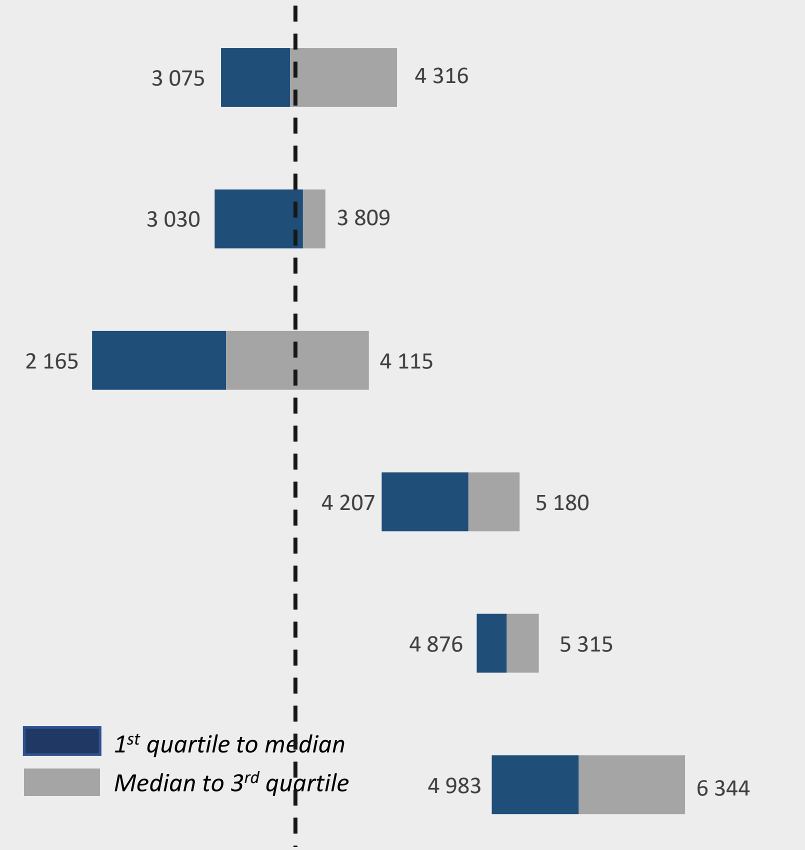
Organic Sales Growth	• The organic increase in sales from **De' Longhi and Capital Brands** contributed **€173M** for the total EBITDA growth. • This increase surges mainly due to **strong revenue growth** in the **coffee segment** and **moderate growth** on the **Food Preparation and Home Care** segments.
Margin Expansion	• **Margin expansion** accounted for a **gain of €101M** in the FY2025 EBITDA. • The **margin increased by 2,7 p.p.** due to an improvement in the **product mix (increasing share of full-automatic machines)**, **operational efficiencies** regarding **other operating expenses** and **payroll costs**.
Buy & Build	• Inorganic growth stems from the acquisition of **4 companies in the professional coffee machines segment**: Eversys, Gruppo Cimbali, Rancilio and La Marzocco. • **Jointly**, the effect of these companies on the final EBITDA amounts to **€99M**, with Gruppo Cimbali being the largest contributor with a FY25 EBITDA of €40M.
Synergies	• The **synergies were driven by the acquisitions** made and only existed between companies present in the professional coffee machines segment. • Synergies were driven by **savings in raw material purchases** due to higher bargaining powers with suppliers, **reduced personnel and operating costs.**
FY 2025 EBITDA	• In 2025, **EBITDA amounted to €756M** as a result of organic growth through De' Longhi and Capital Brands, efficiencies regarding operating costs, inorganic growth in the professional coffee segment and synergies between the targets.

The valuation of DLG suggested an EV of EUR 3 583M and an entry EV/EBITDA multiple of 9,89x

DēLonghi

Methodology	EV/EBITDA range	Comments
Precedent Transactions	**9,83x** 8,49x – 11,92x	• Precedent transactions were selected from the **domestic appliances segment**. All targets were **European based companies** or at least had significant exposure to the European market
Trading Comparables (10Y Average)	**10,08x** 8,37x – 10,52x	• Generally, **multiples increased substantially** in the 10-year period from 2010 until 2020. The higher median EV/EBITDA multiple of comparable companies took place in 2017 amounting to 11,59x
Trading Comparables	**8,59x** 5,98x – 11,36x	• The comparable companies selected include other **incumbents in domestic appliances**. Additional criteria used for this selection included size, geographical footprint and product mix
DFC I (Analysts)	**13,30x** 11,61x – 14,30x	• The DCF based on analysts reflects the intrinsic valuation obtained by the **most renowned banks and boutiques** currently covering DLG's stock (BNP Paribas, Intesa Sanpaolo, Berenberg, and others)
DCF II (Exit Multiple)	**14,05x** 13,46x – 14,67x	• This DCF valuation was based on an **exit multiple of 9,83x** (which represents the median EV/EBITDA **multiple from precedent transactions**) for the calculation of the terminal value
DCF III (Gordon Growth)	**15,45x** 13,76x – 17,51x	• The DCF valuation with Gordon Growth was performed using a **perpetual growth rate ranging from 1% to 3%**. Despite the conservative assumptions this led to the highest valuation

Enterprise Value (€m)



Entry Valuation

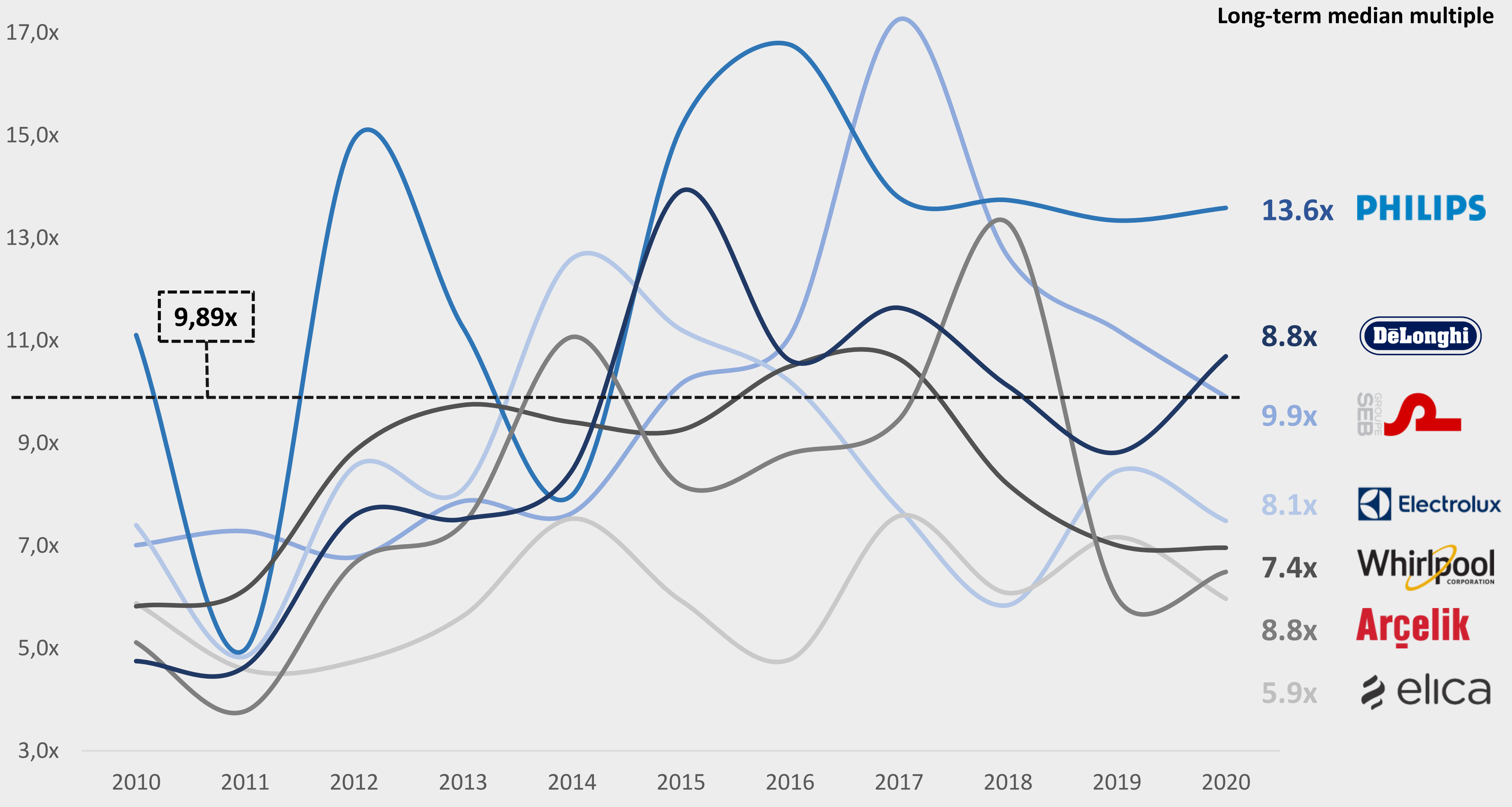
- The EV/EBITDA entry multiple selected was **Group SEB's average multiple through the 10-year cycle**. Group SEB is the main comparable and competitor of DLG.
- The EBITDA used to determine the implied EV was **adjusted to exclude the effect of Covid-19.**

EV/EBITDA: 9,89x
Adjusted EBITDA (2020): EUR 362M
Enterprise Value: EUR 3 583M

Sources: Bloomberg, Thomson Research, Zephyr, Merger Markets.

An analysis of the trading multiples through the cycle suggested an EV/EBITDA multiple of 9,89x, with all comparables increasing their multiples in the 10-year period

Trading Comparables through the 10-year Cycle (EV/EBITDA)

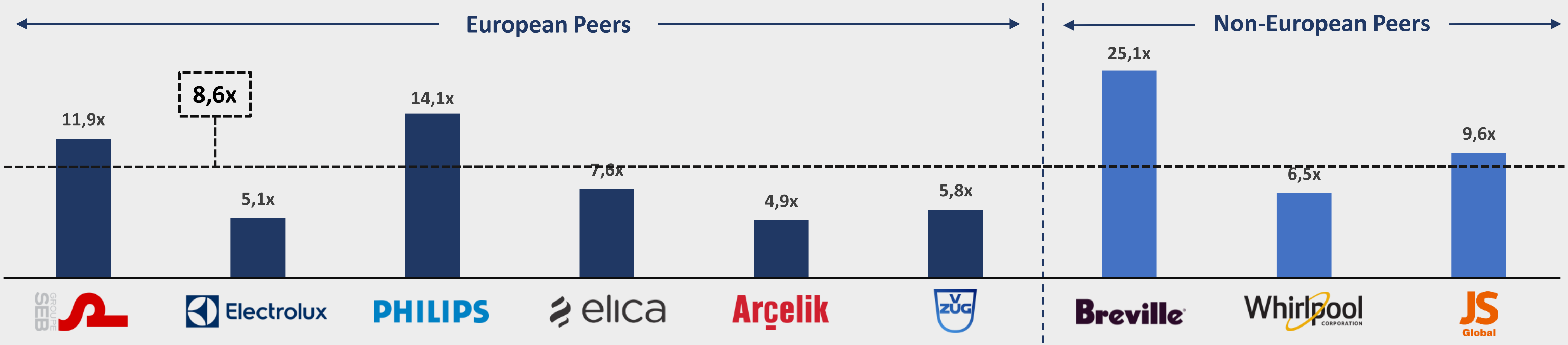


Comments

- **All trading comparables increased** their average yearly EV/EBITDA multiple in the 10-year period between 2010 and 2020.
- The lowest average EV/EBITDA multiple of comparable companies took place in 2011 and corresponded to 5,48x while the higher average EV/EBITDA took place in 2017 amounting to 11,59x.
- This valuation methodology resulted in an **EV/EBITDA multiple of 9,89x** and an implied **EV of 3,79M** for DLG.
- JS Global Lifestyle and V-ZUG Holding AG were not included in this analysis as these two companies only became public in 2019 and 2020, respectively.

Sources:Bloomberg; Notes: Despite not being displayed in the graph, Breville Group was also one of the trading comparables used

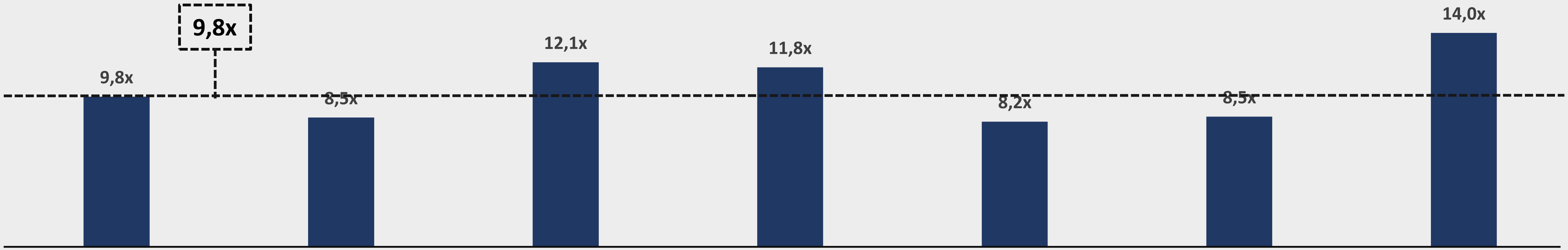
Domestic appliances comparables suggested an EV/EBITDA multiple of 8,6x. This was the methodology providing the lowest valuation for DLG



Country									
Financials	• EV: 9,3 Bn • Rev: 6,9 Bn • Net Debt: 1,5 Bn	• EV: 5,2 Bn • Rev: 11,1 Bn • Net Debt: -229 Mn	• EV: 43,3 Bn • Rev: 19,5 Bn • Net Debt: 3,6 Bn	• EV: 274 Mn • Rev: 453 Mn • Net Debt: 61 Mn	• EV: 2,8 Bn • Rev: 5,2 Bn • Net Debt: 558 Mn	• EV: 425 Mn • Rev: 532 Mn • Net Debt: -100 Mn	• EV: 1,8 Bn • Rev: 578 Mn • Net Debt: -64 Mn	• EV: 12,9 Bn • Rev: 17,1 Bn • Net Debt: 2,8 Bn	• EV: 6,0 Bn • Rev: 3,7 Bn • Net Debt: 220 Mn
Overview	• Global leader in cookware and small electrical appliances with a presence in over 150 countries.	• European leader in large domestic appliances including washers, dryers and ovens.	• Technology company with vital exposure to domestic appliances through its health segment.	• World leader in kitchen hoods with 8 production plants and sales in over 100 countries.	• Third largest white goods player in Europe with a large portfolio of small household appliances.	• Swiss market leader in premium household appliances for private kitchen and laundry.	• Leading provider of small electrical appliances including coffee machines and mixers.	• World's leading kitchen and laundry appliances company with 57 production facilities.	• Number one brand in the US for vacuum cleaners and small kitchen appliances.

Sources: Company's websites, Annual reports, Bloomberg. Notes: (1) All financial figures in EUR and referring to the year of 2020, (2) DLG was also included in the calculation of the median multiple

Past M&A transactions in the domestic appliances space, show a median EV/EBITDA multiple of 9,8x



Target	Indesit company	GE Appliances	Nortek	Caffitaly system	Candy	Capital Brands	Philips Domestic Appliances
Country							
Acquirer	Whirlpool Corporation	Electrolux	Melrose	CNP	Haier	DēLonghi	Hillhouse Capital
Date	Nov - 2014	Dec - 2015	Aug - 2016	Sep - 2017	Sep - 2018	Dec - 2020	Sep - 2021
Deal Overview	Whirlpool has agreed to acquire a 60% stake in Indesit (the current market leader in Italy, UK and Russia) to expand beyond its US home market.	GE Appliances (manufacturer of kitchen and laundry products) agreed to be acquired by Electrolux as the Swedish group seeks to expand in North America.	Nortek, a ventilation and home security products maker, was acquired by Melrose (an engineering turnaround specialist) for USD 2,52 Bn.	CNP (a private investment company with €2 Bn of AUM) acquired Caffitaly (a leading B2B producer of coffee capsules and machines) for €197M.	Haier has agreed to acquire Candy (a producer of large domestic appliances with focus on smart appliances) to boost its competitiveness in Europe	Acquiring Capital Brands is in line with DLG's strategy of geographical expansion as it will strengthen its position in the food segment in the US.	Philips sold its appliances arm to Hillhouse for €3,7 Bn as part of one of they main divestments. Its focus is now on extending leadership in health technology.

Sources: Company's websites, Press releases, Annual reports, Bloomberg. Note: All financial figures in EUR and referring to the year of 2020. Note: The GE appliances deal did not go through.

The DCF valuations yielded the largest multiples among the valuations performed as a result of a robust value creation strategy

DēLonghi

DCF - Gordon Growth Method

(€ in Millions)	2021	2022	2023	2024	2025	2026	2027	TV
EBITDA	439	469	505	571	587	605	616	
D&A	82	91	97	105	110	114	118	
EBIT	**357**	**378**	**408**	**466**	**477**	**491**	**498**	
Notional Taxes	86	91	98	112	114	118	120	
NOPLAT	271	288	310	354	362	373	379	
+D&A	82	91	97	105	110	114	118	
Gross Cash Flow	**353**	**378**	**407**	**459**	**472**	**487**	**496**	
-ΔNWC	-161	42	40	-8	-5	-6	-3	
-CAPEX	-109	-112	-144	-120	-123	-126	-127	
Unlevered FCF	**83**	**308**	**304**	**331**	**345**	**356**	**366**	**6 760**
Discount Factor	1,08	1,16	1,24	1,34	1,44	1,54	1,66	1,66
Discounted FCF	**77**	**267**	**244**	**248**	**240**	**230**	**220**	**4 071**

EV	**5 597**
Adjusted EBITDA 2020	362
EV/EBITDA	**15,45x**

Inputs	
Case	**Bank Case**
Perpetual Growth rate	**2%**
Statutory tax rate	**24%**

Sensitivity Analysis - EV/EBITDA

		Perpetual growth				
		1,0%	1,5%	**2,0%**	2,5%	3,0%
WACC	6,5%	16,3x	17,5x	19,0x	20,9x	23,4x
	7,0%	14,8x	15,9x	17,1x	18,6x	20,4x
	7,5%	13,6x	14,5x	**15,5x**	16,6x	18,1x
	8,0%	12,6x	13,3x	14,1x	15,1x	16,2x
	8,5%	11,7x	12,3x	13,0x	13,8x	14,7x

Sensitivity Analysis - EV

		Perpetual growth				
		1,0%	1,5%	**2,0%**	2,5%	3,0%
WACC	6,5%	5 891	6 344	6 896	7 587	8 473
	7,0%	5 375	5 742	6 182	6 719	7 390
	7,5%	4 938	5 240	5 597	6 025	6 547
	8,0%	4 564	4 816	5 110	5 456	5 872
	8,5%	4 240	4 452	4 697	4 983	5 320

DCF – Exit Multiple Method

(€ in Millions)	2021	2022	2023	2024	2025	TV
EBITDA	439	469	505	571	587	
D&A	82	91	97	105	110	
EBIT	357	378	408	466	477	
Notional Taxes	86	91	98	112	115	
NOPLAT	271	288	310	354	362	
+D&A	82	91	97	105	110	
Gross Cash Flow	353	378	407	459	472	
-ΔNWC	-161	10	9	10	-4	
-CAPEX	-109	-112	-142	-120	-123	
Unlevered FCF	**83**	**308**	**304**	**331**	**345**	**5 766**
Discount Factor	1,07	1,16	1,24	1,34	1,44	1,44
Discounted FCF	**77**	**267**	**244**	**248**	**240**	**4 014**

EV	**5 089**
Adjusted EBITDA 2020	362
EV/EBITDA	**14,05x**

Inputs	
Case	**Bank Case**
Perpetual Growth rate	**2%**
Exit Multiple	**9,83x**

Sensitivity Analysis - EV/EBITDA

		Exit Multiple				
		8,83x	9,33x	**9,83x**	10,33x	10,83x
WACC	6,5%	13,5x	14,1x	14,7x	15,3x	15,9x
	7,0%	13,2x	13,8x	14,4x	14,9x	15,5x
	7,5%	12,9x	13,5x	**14,1x**	14,6x	15,2x
	8,0%	12,7x	13,2x	13,8x	14,3x	14,9x
	8,5%	12,4x	12,9x	13,5x	14,0x	14,5x

Sensitivity Analysis - EV

		Exit Multiple				
		8,83x	9,33x	**9,83x**	10,33x	10,83x
WACC	6,5%	4 887	5 101	5 315	5 529	5 743
	7,0%	4 783	4 992	5 201	5 410	5 619
	7,5%	4 681	4 885	5 089	5 293	5 498
	8,0%	4 582	4 782	4 981	5 180	5 380
	8,5%	4 486	4 681	4 876	5 071	5 265

Comparable Analyst DCF Valuations

Investment Bank	Date	EV	EV/EBITDA
Intesa SanPaolo	nov/20	4 117	10,75x
Kepler Cheuvreux	out/20	3 547	9,26x
Banco Akros	dez/20	5 157	13,47x
Berenberg	jan/21	5 187	13,55x
BNP Paribas	jul/20	4 476	11,69x
Our estimate	**dez/20**	**5 597**	**15,45x**

	EV	EV/EBITDA
Min	3 547	9,8x
1st Percentile	4 207	11,6x
Median	**4 817**	**13,3x**
3rd Percentile	5 180	14,3x
Max	5 597	15,5x

The entry EV/EBITDA multiple used in our Buy & Build was based on previous PCM market transactions that suggest a median multiple of 9,5x

Target	Target overview	Acquirer	Transaction date	Financials	Deal rationale (Acquirer)
RANCILIO GROUP	**Leading player** in the PCM market, offering both **traditional and fully automatic machines**. Rancilio was in over 100 counties and had c.220 employees.	Ali GROUP	Sep - 2013	• EV: 76,5 Mn • EBITDA: 8,8 Mn • **EV/EBITDA: 8,7x**	"This acquisition further strengthens our **position and visibility in the food market** and adds a new dimension and **another business segment** to our brand portfolio."
WMF	**World leader in the PCM market** with a service network reaching over **113 countries**. It sells Automatic portafilter, Fully Automatic and Filter coffee machines.	Finedining Capital	Mar - 2013	• EV: 544,8 Mn • EBITDA: 73,5 Mn • **EV/EBITDA: 7,4x**	Not Applicable (Finedining Capital is a Financial Sponsor)
WMF	**World leader in the PCM market** with a service network reaching over **113 countries**. It sells Automatic portafilter, Fully Automatic and Filter coffee machines.	GROUPE SEB	Nov - 2016	• EV: 1585 Mn • EBITDA: 118 Mn • **EV/EBITDA: 13,4x**	"It will allow us to strengthen our position in small domestic equipment **within Germany**. It is an excellent opportunity to **enter the highly attractive PCM market**."
EVERSYS	Producer of espresso PCM, with focus on **full-automatic models**. Eversys developed highly innovative technology that ensures a **positioning at the high end of the sector**.	DēLonghi	Pending Approval	• EV: 125,6 Mn • EBITDA: 10,4 Mn • **EV/EBITDA: 12,1x**	"At DLG we admire the passion for excellence, quality and the strong ability to innovate, values that guided the founders of Eversys in fulfilment of their dream."
DALLA CORTE	Italian producer of **traditional portafilter espresso machines** in the **premium segment** for private and professional use.	FRANKE	Jul - 2019	• EV: 13,5 Mn • EBITDA: 1,3 Mn • **EV/EBITDA: 10,4x**	"With this strategic partnership, the Franke Group is **expanding the brand product range** of its Franke Coffee Systems division with **traditional espresso machines**."
Curtis	**Second largest American manufacturer** of professional coffee equipment with a focus on filter coffee and cappuccino machines. Wilbur Curtis **sales exceeded $90M**.	GROUPE SEB	Feb - 2019	• EV: 126,8 Mn • EBITDA: 16,7 Mn • **EV/EBITDA: 7,6x**	"As a **specialist in filter coffee machines in the US**, Wilbur Curtis presents itself as a very valuable **strategic complement** to its product offering and customer portfolio."

Sources: Company's websites, Press releases, Financial press, Zephyr. Note: All financial figures are in EUR

To purchase DLG from the current shareholders the offer value is €3 563M. The joint offer value to comply with the buy-and-build value creation strategy will be €606M (including call option on Eversys)

DēLonghi

De' Longhi Offer Values

De' Longhi	
EV/EBITDA multiple	9,89x
EBITDA Adjusted (2020)	362
Transaction value (EV)	**3 583**
Total debt	-744
Cash and Cash Equivalents and ST Investments	906
Pension liabilities	-28,13
WC Adjustment	-153,74
Offer value (equity)	**3 563**

On 31st December 2020, De' Longhi will be acquired through a leveraged buyout with an **EV/EBITDA of 9,89x**. As the year of 2020 is affected by the covid pandemic, and has impacted this particular industry positively, we will consider an **adjusted EBITDA** to account for recurring years unlike 2020. This way an adjusted EBITDA of €362M was used to reach an EV of €3,6Bn. After adjustments **the offer value for De' Longhi shareholders is €3 563M.**

Call Option Offer Value

Eversys	
Call Option Equity (60%)	102
- Total debt	29
+ Cash	5
+ Minimum Cash	1,2
Total Offer Value	**127**

In 2017, DLG acquired 40% of Everys with a **call option** to acquire the **remaining 60%**. In the value creation strategy, it is predicted this would occur in 2021. By pricing it according to the deal previously established, it is possible to reach an **offer value of €127M.**

Buy-and-Build Offer Values

Cimbali	
EV/EBITDA multiple	9,5x
EBITDA (2019)	22,2
Transaction value (EV)	**212**
- Total debt	31
+ Cash	51,1
+ WC Adjustment	-2,8
Total Equity	**230**
Purchase of Equity	230
Net Debt	-20,5
Minimum Cash	3,1
Total Offer Value	**212**

Rancilio	
EV/EBITDA multiple	9,5x
EBITDA (2019)	12,9
Transaction value (EV)	**123**
- Total debt	0
+ Cash	11,0
+ WC Adjustment	-2,2
Total Equity	**132**
Purchase of Equity	132
Net Debt	-11,0
Minimum Cash	1,3
Total Offer Value	**122**

La Marzocco	
EV/EBITDA multiple	9,5x
EBITDA (2020)	14,8
Transaction value (EV)	**141**
- Total debt	11
+ Cash	33,4
+ WC Adjustment	1,9
Total Equity	**166**
Purchase of Equity	166
Net Debt	-22,4
Minimum Cash	1,71
Total Offer Value	**145**

To enter these **3 companies in the PCM coffee segment** we have considered an **EV/EBITDA of 9,5x** as this is the median of precedent comparable transactions.

In 2021, **Cimbali** will be acquired for **€212M**.

In 2022, **Rancilio** and **La Marzocco** will be acquired for **€122M** and **€145M**, respectively.

Sources: DLG's Annual Reports, Orbis, DLG's press release on Eversys acquisition

03

Essay

NOVA SCHOOL OF BUSINESS & ECONOMICS

During the pandemic private equities have faced two major hurdles with their portfolios: finding ways to salvage companies severely affected by covid-19 and looking for investment opportunities in firms that may thrive with covid-19

How Covid-19 affected Private Equity deals?

Current Status of Covid

The global crisis we are facing is unprecedent. Covid-19 has created a healthcare emergency responsible for disrupting the economy and causing worldwide impact on the civilizations' way of living. Not only has it brought tremendous concern over the epidemiological event as it also continues to bring uncertainty for the foreseeable future as the virus spreads and waves of lockdown are implemented, shutting down economies and devastating businesses. Unlike previous recessions, this pandemic is likely to have a deeper impact than just from an economic standpoint. It will affect business models, policies at local and national levels, consumer behaviors and value chain operations. To counter what could be a massive economic downturn, central banks across the globe are injecting as much as $9 trillion into the economies, $7 million more than in the 2008-09 financial crisis.

However, Private Equities are already adapting to these new environments by:

1. Looking for ways to rescue their current investments in firms which have been negatively affected by covid-19
2. Looking for opportunities in businesses and industries which may thrive with the impact of the pandemic, mainly with the emergence of new market trends, and a preference for companies already deep in automation and digitalization

Impact on PE dynamics

The returns in the Private Equity industry have naturally been affected with the spread of the pandemic. Namely, the holding period of companies has suffered significantly. Firms expected to have an exit during these years, have seen the divestment been delayed to achieve what could be higher returns in the future once the pandemic fades away, leading to higher average holding periods among the private equity industry. Additionally, the P/E multiple fell across nearly every sector in March 2020. Additionally, amid uncertainty, Private Equity managers are closing some businesses that still have adequate reserves by passing these over to banks before the scenario turns worst.

More recently in 2021, after some of the existing uncertainty had been cleared with the hope that the pandemic would vanish away, the private equity industry has increased its participation in the deal volume at a global scale in the first semester of 2021. This boost in private equity activity is indicative of the current and rising availability of funding and investment appetite. Across the industry it is possible to notice an accumulation of dry powder, meaning a lot of capital committed by investors which has not yet been invested or allocated, given the low cost of leverage (low interest rates) and the growing popularity of SPACs (Special Purpose Acquisition Companies), which are the factors driving this capital accumulation.

Sources: MacArthur, Hugh., Et al., April 2020, "The Impact of Covid-19 on Private Equity", Bain & Company; Dalmia, Peeyush., Et al., September 2020, "A rolling disruption: Covid-19's implications for private equity and portfolio companies", McKinsey & Company

The EV/EBITDA multiple has been significantly influenced by the pandemic leading to risks and opportunities to be taken by private equities and to a great need of adaptability when performing valuations to potential targets

How Covid-19 affected Private Equity deals?

EV/EBITDA Multiples

At the end of 2020, EV/EBITDA were severely affected, as the profitability in firms decreased, leading to lower 2020 EBITDAs and the stock markets recovering, resulting in higher EVs and as a consequence EV/EBITDA multiples have experienced an increase during this period and have reached pre-pandemic levels by April 2021. The current volatility challenges the use of multiples for the valuation of firms and may generate misleading results. This way, to find consistency between periods, normalizations have become more important. Nevertheless, this volatility and uncertainty has brought some advantages to private equities by allowing in some cases more attractive valuations.

Post Covid Implications

Private Equities play an important role in the economy by cooperating with firms to achieve extraordinary growth and generate returns to investors. In times of crisis, this becomes even more relevant as the role to strive for growth is bigger while providing companies with industry and capital expertise. Their role will involve mostly debt refinancing and financing expertise in general, but also key changes in the supply chains, data analytics and capabilities will have to be made.

Individual Reflection

Financial Modelling: developing intricate and complex financial models capable of replicating a real case scenario of a Leveraged Buyout made by a Private Equity.

Research: conducting extensive research on the company and the market and industries it operates to develop deep knowledge of the competitive environment.

Strategy: creating value to the target acquisition by setting a defined strategy that would lever its capabilities to the maximum and a detailed business plan to reflect it.

Time and Task Management: setting target dates, managing schedules and distributing tasks among team members to comply with university final deadlines.

Communication and Teamwork: actively engaging with team members to provide help and ask for assist in particular tasks and problem-solving challenges.

Sources: Bacani, Louis., December 2021, “Insight Weekly”, SPGlobal; November 2020, “Valuation & Capital Markets Impact Monitor”, Deloitte; February 2021; “Private Equity Firms Position for Post-Pandemic Growth”; Deloitte

04

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