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 - INVESTMENT THESIS AND VALUE CREATION STRATEGY

GONÇALO DIOGO LOPES MARQUES

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Abstract

This work project consists of an investment committee paper on De'Longhi, one of the world's leading firms in the manufacturing of high-end small domestic appliances. Throughout the paper, several value creation strategies are proposed, based on the analysis of the capabilities and resources of the firm and the markets in which it operates. In the final section, the returns for this investment are estimated under different operating scenarios and the potential exit options are discussed.

Keywords

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

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Group Section

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.

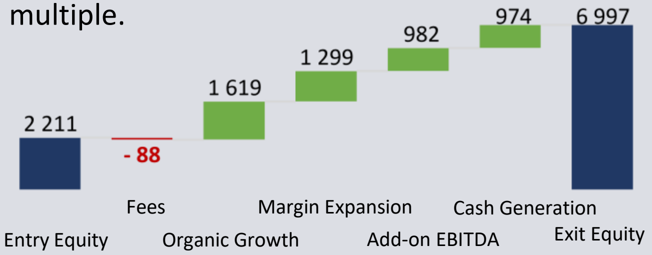
Consolidation of the PCM segment: The highly profitable market of professional espresso machine segment is significantly fragmented. DLG currently has a minority stake in Eversys, a Swiss manufacturer of professional machines, which can be used as a starting point to begin consolidating the industry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

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

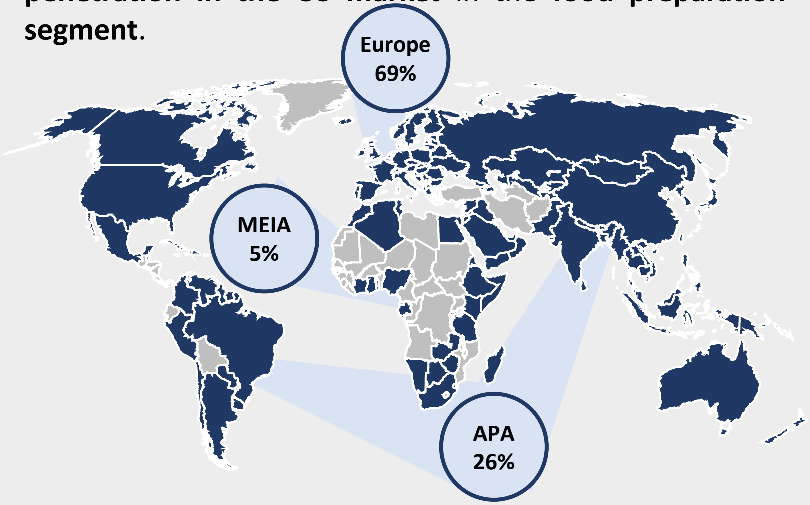
The De' Longhi group operates through **five brands**:

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**.

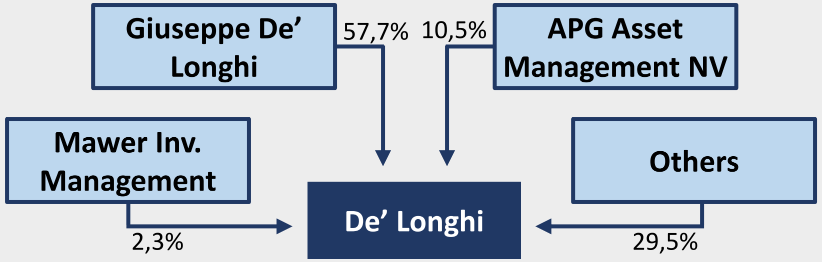


High Level Financials

(€ 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



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

DēLonghi

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.

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

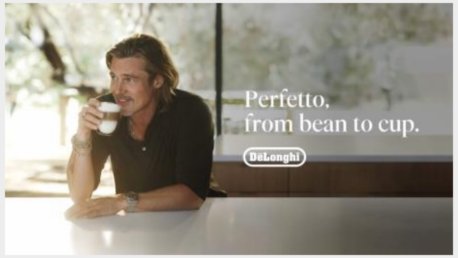
Comfort & Home Care

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

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

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

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

→ **End Consumer**

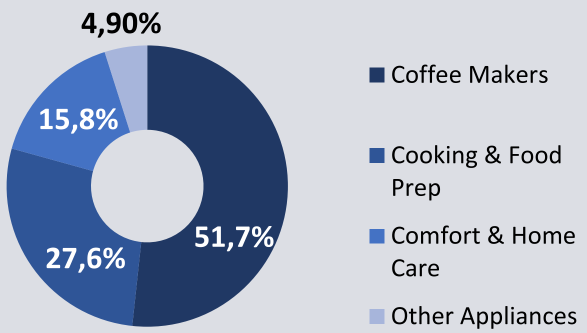
- To **continuously reinvent their products** DLG **devotes 2,5-2,6%** (in the past 4 years) of their **sales** to **R&D investments**.
- DLG purchases raw materials and sends them to the group's production sites and to external suppliers responsible for manufacturing and assembling.
- The process is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

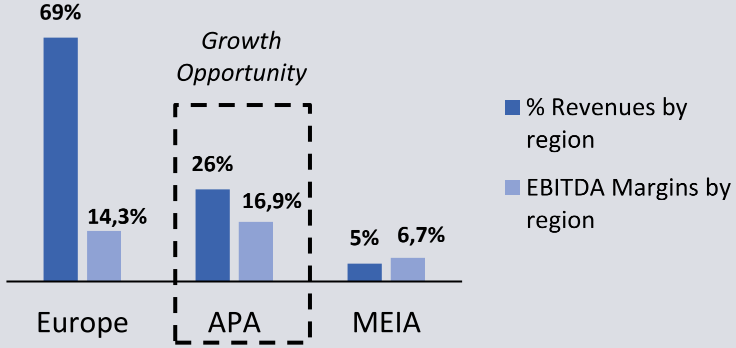
De' Longhi operates in three main segments, where the coffee makers is the largest one, accounting for more than half of the total revenues

DēLonghi

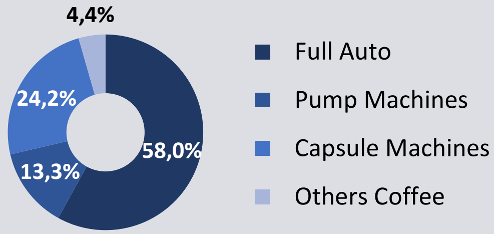
Revenues (~€2 351M) and EBITDA Margins (~14,6%) in 2020



- 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%).

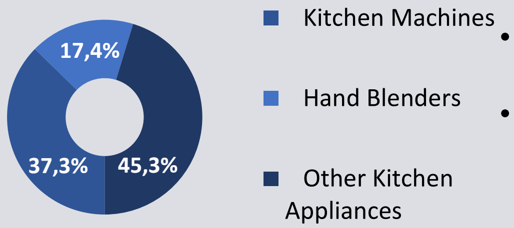


Coffee Makers (~€1 206M)



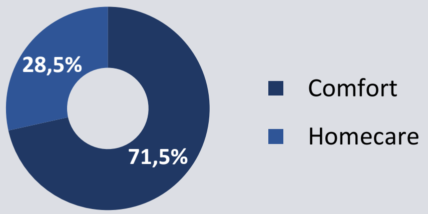
- The **Coffee Makers is the largest segment** in DLG's product range with **52% of total revenues in 2020.**
- From the product mix, **fully-auto machines** account for the **majority of sales (58%), showing that DLG** is **not dependent on the Nespresso brand machines** (capsule machines) to generate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



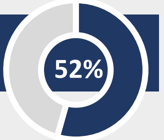
- The **Comfort & Home care is the smallest segment** and represented **16% of total revenues in 2020**.
- From 2017 to 2020, the **Comfort & Home care segment presented a CAGR of approximately 6%**.
- The **products** in this segment are **manufactured** in the two **production facilities in China.**

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

DēLonghi

Espresso Machines



Brands: DēLonghi, KENWOOD, BRAUN

Products:

Full-Automatic

Capsule

Traditional

Key Stats:

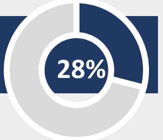
Market Size: **€3,5Bn** (2020)
Historical Growth: **14,5%** (2017-2020)
Forecasted Growth: **8,5%** (2021-2025)
Market Leader: **34,7%** share (2020)

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:

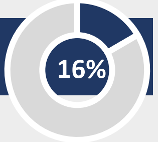
Market Size: **€3,88Bn** (2020)
Historical Growth: **4,0%** (2017-2020)
Forecasted Growth: **6,9%** (2020-2030)
Market Leader: **15,3%** share (2020)

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**

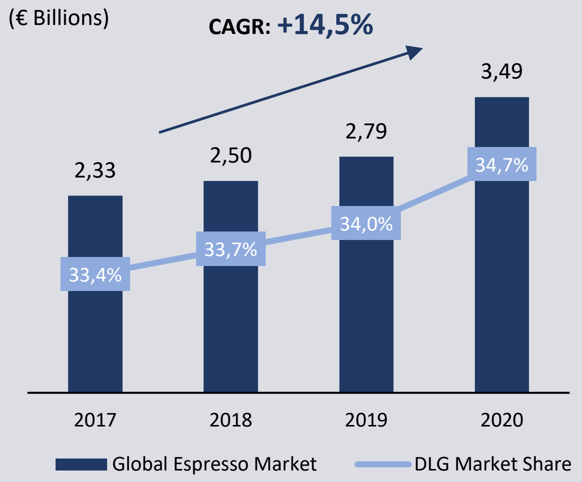
Players: dyson, BOSCH, Electrolux, Whirlpool, PHILIPS, HOOVER

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

1 Leader in Espresso Machines: **35% market share**

1 Leader in Food Processors: **18% market share**

1 Leader in Kitchen Machines: **32% market share**

1 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

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**

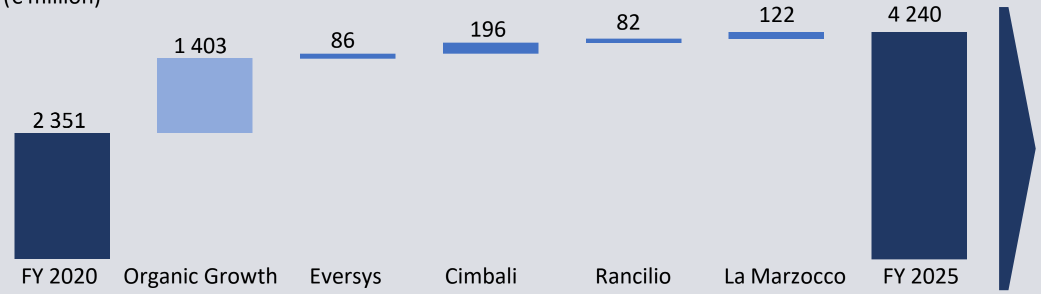
Note: (1) FCF excluded abnormal changes in NWC occurred in 2020

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

(€ 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

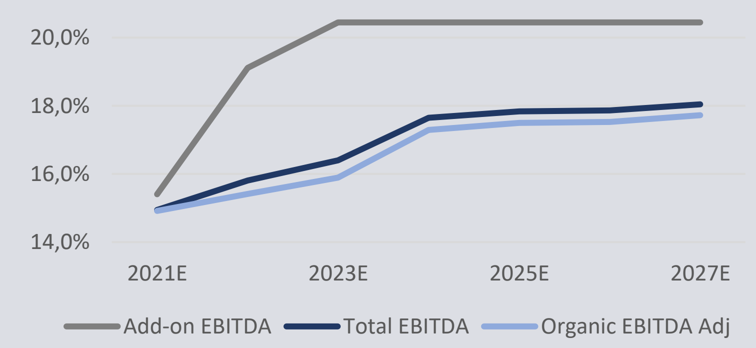
Comments: Profitability

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%*

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.**

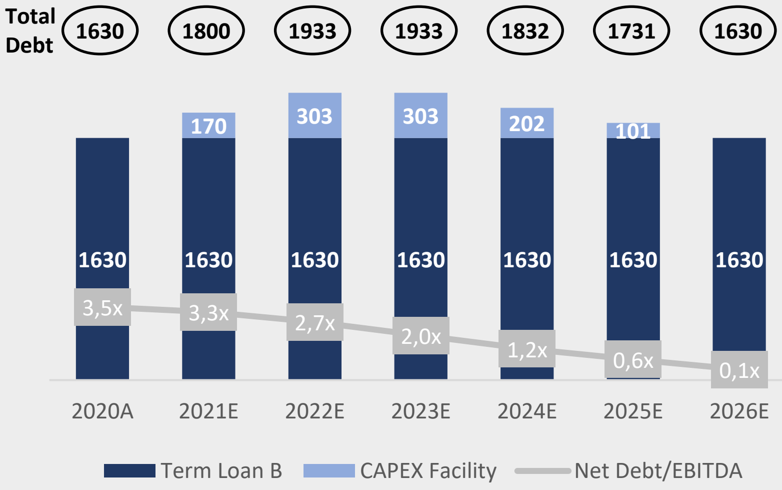
Sources: DLG's annual reports

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**[(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

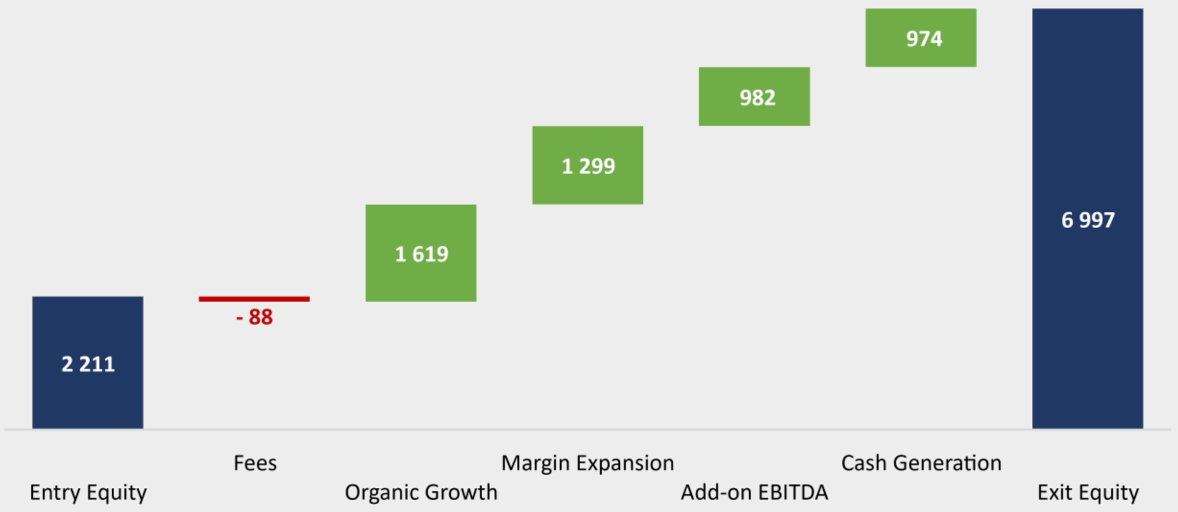
- The sources of funds are used to fund the **Entry Value of €3752M** which includes necessary cash for daily operations and cash needed for the acquisitions and financing **fees of €88M**.
- The **equity purchasing price of €3 563M** is the result of an EV of €3 583M (entry EV/EBITDA of 9,9x) adjusted 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

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

02

Individual Section

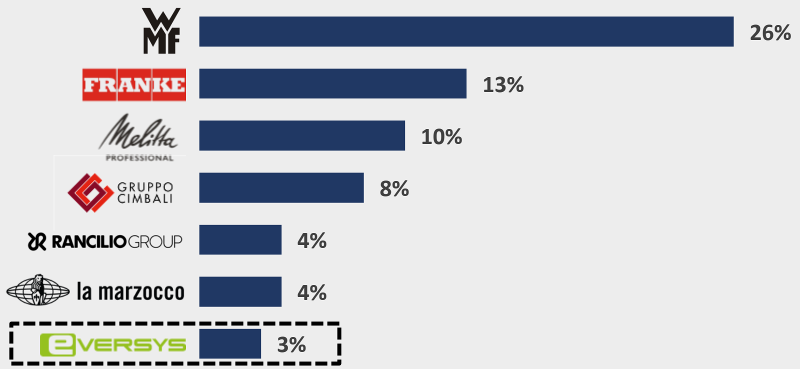
The professional coffee machines (PCM) market provides attractive M&A options for LDG, a market in which DLG already made the first move

DēLonghi

Status Quo

- The historical Buy-and-Build strategy has been aimed at **completing DLG's product offer** and on **expanding its geographical coverage**. Major deals include Kenwood (2001), Braun (2012) and Capital Brands (2020).
- In 2017, DLG acquired a **minority stake of 40% in Eversys** (a Swiss professional coffee maker of espresso machines) and owns a calls option on the remaining 60% of the company. This minority acquisition marked **DLG's entry into the professional coffee machines (PCM) market of espresso machines.**

PCM Market – Key Players[1]



Strategy Rationale

Complete the acquisition of Eversys and **acquire three other players** in the PCM market. Leverage on the **negative effects of Covid-19 on valuations.**

Competitive positioning

- The PCM market is **relatively fragmented**, having more than 10 players with a market share ranging between 2 and 4%. This translates in significant **growth opportunities for DLG through M&A.**
- High potential to **realize revenue synergies** by levering on the brand equity of DLG in the coffee industry.

Sales and profitability growth

- The PCM is expected to grow globally at a rate of **8 to 10% over the next 5 years.**
- Overall, the market presents very attractive margins with key players presenting **EBITDA margins of c.15-20%.**

Internationalization

- Acquire players with relevant international exposure to **high-growth geographies** namely **US and Asia.**

Objectives

1 Expand horizontally in the PCM market

- Secure a **top 3 position** in a fast-growing segment.
- **Diversify DLG's portfolio** within the coffee industry.
- Generate cost synergies and share expertise & capabilities between the three new targets and Eversys.

2 Benefit from current industry tempo

- Despite being severely hurt by the Covid-related closure of the hospitality and catering sector, the **PCM market is expected to rebound** as these sectors reopen.
- **Leverage on mega industry trends** supporting attractive growth rates in the PCM market, namely the growing coffee consumption (especially outside Europe), growing demand for better-quality coffee and higher penetration in segments such as offices and hotels.

3 Attain superior growth and returns

- Select targets with strong financials, namely **attractive profitability levels.**
- Benefit from **lower entry multiples to amplify returns.**

Execution

- **Complete the acquisition of Eversys** in 2021
- Acquire at least **3 other selected targets** within the PCM market between 2021-2022, each with a market share ranging between 4-8% and with significant top-line exposure to high-growth regions
- Focus on a strategic integration to **benefit from cost synergies**

Expected results

- Contribution to top-line: **+ €386M in Revenues** (in 2022, when the 4 targets have been acquired)
- Additional EBITDA: **+ €74M** (2022)
- Achieve a **market share of c.19-20%** in the PCM market
- Larger geographic **coverage in attractive regions**

Sources: Orbis, Exane BNP Paribas. Note: (1) Market shares respect to the year of 2019 (pre-Covid) when market size was c. €1,6 Bn

The most promising targets for our Buy & Build in the PCM market include Gruppo Cimbali, Rancilio Group and La Marzocco

DēLonghi

	Gruppo Cimbali	Rancilio Group	La Marzocco	Bravilor Bonamat[1]	La Spaziale[1]
Description	• Group composed by 4 brands that manufactures high-end professional espresso machines • Produces traditional and fully-automatic machines	• Group dedicated to the production of traditional and fully-automatic machines • Cutting-edge product line for both the commercial and domestic segments	• Firm dedicated to the production of traditional espresso machines and grinders for the commercial and domestic segments • Strong focus on design	• Firm dedicated to the production of mid and high-end fully-automatic espresso and quick filter machines • Also acts as an OEM for third parties	• Firm almost entirely focused on the production of traditional espresso machines • All the machines are built with a heat exchange system
Key financials: Revenues (2019)	€155M	€65M	€83M	€72M	€31M
Key financials: EBITDA (2019)	€22,2M	€12,9M	€13,5M	€7,3M	€4,0M
Key financials: EBITDA Margin	14,3%	19,9%	16,4%	10,0%	13,1%
Key financials: Entry Multiple	9,5x	9,5x	9,5x	9,5x	9,5x
Rationale	• Revenue growth & operational improvements • Leverage partnership with American firm *Slayer Espresso* to boost sales in the US	• Revenue growth • Benefit from the firm's 3 highly sophisticated R&D labs to drive technological innovation across all coffee machine brands	• Firm positioned exclusively in the highest end of the market • Expand DLG's product range with traditional espresso machines	• Improve operational efficiency & boost revenues • Leverage the company's technological know-how with machines for robotic welding and laser cutting	• Revenue growth • Increase EBITDA margin via operational improvements • Expand DLG's product range with traditional espresso machines
Fit: Strategic	●●●●○	●●●●●	●●●●●	●●●●○	●●●○○
Fit: Financial	●●●●●	●●●●◐	●●●●◐	●●●○○	●●○○○

Sources: Orbis and Company's websites; Note: (1) Secondary alternatives, not acquired in the investment case

The most promising countries where DLG can increase its presence and benefit from growth opportunities and increasing coffee trends are the US and China

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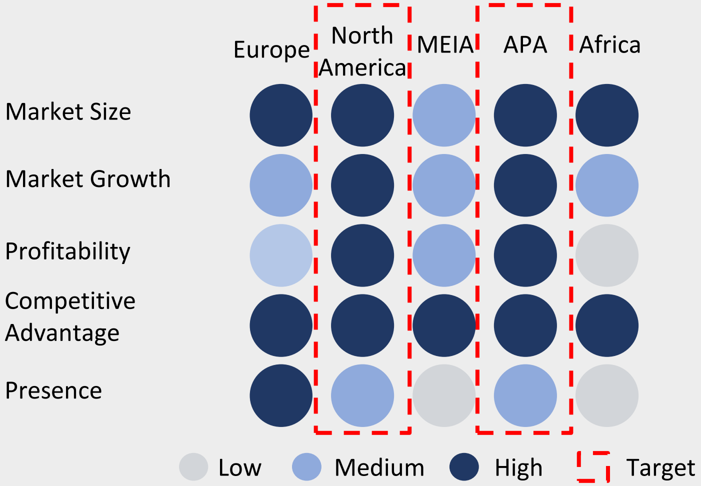
Status Quo

- DLG **operates at a global scale** having most of the production in Europe. The European market covers most of its revenues, but the **APA region currently offers the most potential for growth** due to a **larger consumer market** and **greater margins.**
- Recently in 2020, DLG has **acquired an American company** in the blenders segment, identifying a **strategic opportunity** in this market.



Strategy Rationale

Expanding its operations into US and China will allow DLG to benefit from the current consumption trends and significant growth opportunities.

China

- Extensive **potential consumer market** with a **growing middle-income class** (48% in 2020 vs 5% in 2010).
- Increasing **trends of coffee consumption and house & food comfort.**
- **High e-commerce penetration** in China fits with DLG strategy of shifting to digital and data driven markets.

United States of America

- DLG is **one of the two accredited suppliers of Nespresso** capsules machines in a growing capsule segment.
- Increasing **coffee consumption trends** and **large consumer** and coffee machines **market potential**.
- Currently, DLG's **penetration** in this market is relatively low.

Objectives

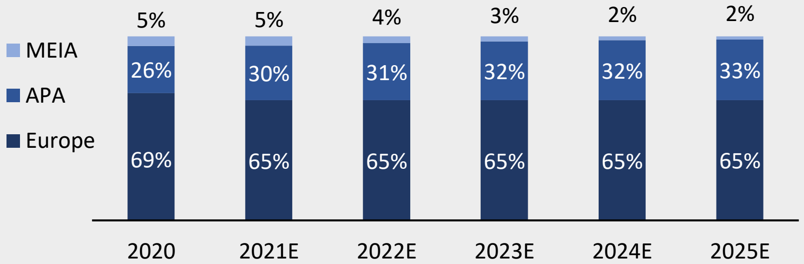
1 Increase brand awareness

- **Launch advertising campaigns** to promote DLG's extensive portfolio in markets with low penetration, which will be reflected in an **increase** in **Advertising & Promotion** from 12,5% of sales to **13,5%** by taking advantage of digital channels and brand ambassadors.

2 Benefit from Capital Brands acquisition

- **Leverage Capital Brands relationships** with **major retailers in the US**, to distribute other DLG products, such as coffee makers and kitchen appliances.
- **Open new commercial subsidiaries** in **US** and **China** in strategic locations.

Estimated Sales Mix by Region



Execution

- **Broaden geographical presence** by reaching underserved regions, such as Asia and America
- **Open new commercial subsidiaries** in the **US** and **China** to assist sales
- **Increase top line growth** to consolidate market leadership
- **Launch advertising campaigns** in **US** and **China**

Forecasted Results

- **Brand recognition at a global scale** and moving towards regions where coffee consumption and coffee appliances trends are rising
- **Increase sales** from **APA region** from 26% to **33%** in 2025
- **Reduced dependence on European market** by **4 p.p. until 2025**

Sources: *Statista;* DLG's annual reports and presentations

Margin expansion will be achieved through a combination of a change in product-mix towards higher margin products and through operational improvements and optimizations

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Status Quo

% of Sales	2016	2017	2018	2019	2020
Materials Consumed	43,0%	42,9%	44,1%	45,1%	43,0%
Payroll Costs	12,9%	12,9%	12,9%	12,8%	12,8%
Services and Other Operating Expenses	27,5%	28,3%	27,7%	27,7%	28,7%
EBITDA Margin	**15,8%**	**15,4%**	**14,7%**	**13,8%**	**14,6%**

- Management efforts to increase EBITDA margins have failed due to an increase in production costs. Nonetheless, DLG margins are still higher than its peers.
- **Full-automatic machines** represent **58% of DLG's coffee segment revenues**, a **market** that has been **consistently growing** in the **last decade**[1].
- Currently, DLG has **5 production facilities**, from which **two** are in **Romania**, two in China and one in Italy.
- In the last 5 years, the **Cash Conversion Cycle** totalled, on average, **52 days**, having experienced improvements in the last 2 years.

Strategy Rationale

1 Margin Expansion

- **Improve product-mix** towards a **higher proportion** of **fully-automatic machines** whose **prices and margins are higher**, supported by **higher investment in product development** (50% increase in capitalized R&D costs).
- **Other operating expenses** as a **% of sales** are forecasted to decrease due to **economies of scale** and to the **opening of a new production facility** in **2023** in **Romania** that will lead to a reduction of transportation costs, as most of the company's sales are in Europe.
- **Payroll costs** as a % of sales will be reduced due to an **increased share of production coming from Romania.**

2 Optimization of CCC

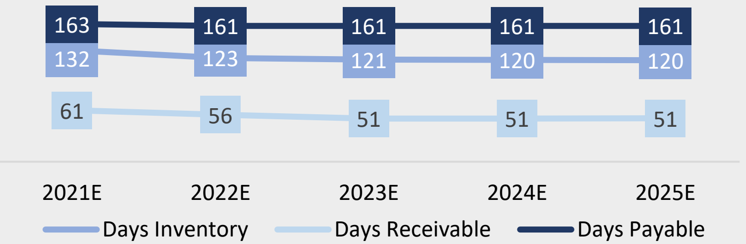
- **Decrease in DIO** is sustained by **cutting production** and **delivery time**, due to increased use of the installed capacity in the 25k sqm facility in Romania acquired in 2020, and the plant that will be operational in 2023.
- **Decrease in DSO** through a **higher market power** due to the projected growth for DLG and its consolidation strategy in the B&B in the PCM segment.

Objectives

- Increase the **share of revenues of fully-automatic machines** within the coffee segment from **58%** to **64,1%**, which combined with **operational improvements** and **economies of scale** will result in an **expansion** of **EBITDA margin** by **2,9 p.p.** to **17,5%.**

% of Sales	2020	2025E
Materials Consumed	43,0%	41,5%
Payroll Costs	12,8%	12,3%
Services and other Operating Expenses	28,7%	27,9%
EBITDA Margin	**14,6%**	**17,5%**

- **Decrease the Cash Conversion Cycle from 52** (5-year historic average) to **11 days** (2025) by decreasing days receivable and days inventory to 51 days and 120 days, respectively, to ranges closer to peers' average.



Execution

- Increase **promotional campaigns** focused on **fully-automatic machines**
- **Increase investment in product development** to sustain a higher share of full-automatic machines
- **Optimization of the CCC,** through **reduced time to market** as a result of increased production in Romania and **a decrease in DSO**

Forecasted Results

- Reduction in materials consumed by 1,5 p.p., reduction in payroll costs by 0,5 p.p. and other operating expenses by 0,8 p.p.
- The **product mix change** combined with **operational improvements** will **expand EBITDA margins** from **14,6**% in 2020 to **17,5**% in 2025

Sources: Exane BNP Paribas, Company's information

Although the professional espresso market was temporarily hurt by the pandemic, the market is expected to continue expanding as the economies start reopening.

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Espresso Market in 2019: Before Covid-19 Pandemic

Espresso Machines

€4,4 Bn

7,3%

Household

€2,8 Bn 6%

Professional (PCM)

~€1,6 Bn 8-10%

- Domestic espresso machines are different from professional machines. They have a lighter structure, run on lower voltage and are considerably more sensitive to heavy usage.
- **This segment was growing at a rate of 6% prior to the pandemic**, driven by increasing penetration of household appliances, increasing consumption of coffee and mix improvement.

- Professional espresso machines are more resilient than domestic machines. They are designed for restaurants and cafés and can withstand preparing +100 servings per day.
- This segment was expected to **grow at a rate of 8-10% p.a.** prior to the pandemic, driven by **increasing popularity of cafés**, rising demand for high-quality coffee (benefiting mostly the high-end PCM brands) and **increasing penetration in offices and hotels.**

Impact of Covid-19 Pandemic on Espresso Market

+25% YoY
Household Segment

-21% YoY
Professional Segment

- In the **domestic segment**, the **pandemic** was the **main market driver in 2020, which grew 25%**. The lockdowns resulted in **record levels of at-home coffee consumption.** This shift led to an unprecedent growth in espresso machine sales and resulted in a mix improvement, as consumers became more willing to trade up and invest in high quality machines.
- The Covid-19 accelerated the shift to **hybrid work models** in many industries **reinforcing the expected growth of the household espresso industry.**
- The **professional segment was hurt by the lockdowns**, with clients postponing their orders. However, due to the successful vaccination rollouts and the suspension of the harsher social distancing measures, **this segment is expected to return to its normative growth of 8-10% p.a.**

- Household and professional machines cannot substitute each other, due to different *"hardware"*.
- **Rising coffee consumption and disposable income** and the prevalence of busy lifestyles are growing both segments. Additionally, high end segment are gaining relevance in both markets.
- DLG has only a small presence in the **highly profitable PCM segment** where **considerable growth opportunities** are expected in the next decade, and which **could benefit from consolidation.**

Sources: Exane BNP Paribas

Eversys produces high-end full-automatic expresso machines for the professional segment. The firm presented sales of c.€60M in 2020 with an EBITDA margin of 18,5%

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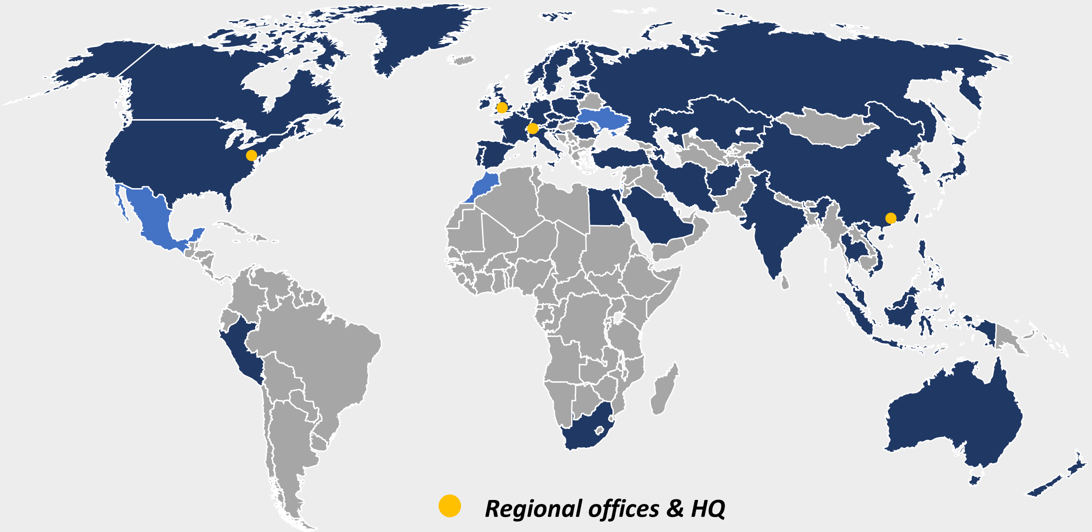
Company Overview

- Founded in 2009, Eversys is a **Swiss professional coffee maker of espresso machines**. The company is **specialized in fully-automatic models** and has developed a remarkably innovative technology that ensures a positioning at the **high-end of the sector**.
- In 2019, Eversys moved to a new factory in Sierre, Switzerland with 7.250m^2 and an **annual production capacity of 15.000 units** (an investment of c.€12M was required).
- It displays a **notable growth trajectory in the US** where it sold 1.000 machines in 2019 (20% of overall sales volume). Popular clients include Silicon Valley offices such as Expedia, LinkedIn and Pinterest.
- In 2017, DLG acquired a minority stake of 40% in Eversys and a call option on the remaining 60% can be **exercised until June 30, 2021**.

Geographical Footprint



Key Geographies

New Geographies (2020)

Key Figures

- **Ownership:** 60% Founding team, 40% De'Longhi Group (2020)
- **FTEs:** 154 (in 2019)
- **Sales & production:** 5k units (in 2019)
- **Sales:** c.€60M in 2020 (c.23% growth relative to 2019)
- **EBITDA:** c.€11M in 2020 (margin of 18,5%)

Product Split

Full-Automatic Espresso Machines


Enigma


Cameo


Shotmaster

Sources: Eversys corporate presentation, Eversys website, DLG press release on the acquisition of Eversys

None of the top 3 players in the PCM market (WMF, Franke Coffee Systems and Melitta Professional) presents itself a reliable target for DLG

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1 WMF — 26%

Overview

- WMF is the **current world leader** of the fast-growing PCM market, having established several **partnerships with restaurateurs, hoteliers and airlines** all over the world (its integrated service network reaches **113 countries**).
- WMF's sells Automatic portafilter, Fully Automatic and Filter coffee machines.

Acquisition Limitations

GROUPE SEB

WMF

- WFM was acquired by Groupe SEB in 2016 who also saw an attractive opportunity to enter the PCM segment.
- Being Group SEB the main direct competitor of DLG, acquiring WMF isn't an option.

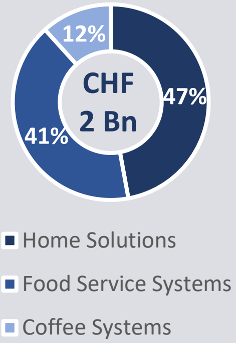
2 Franke Coffee Systems — 13%

Overview

- Based in Switzerland, Franke Coffee Systems is mainly exposed to the European market and produces **fully automatic machines** that are sold to **cafés, canteens and luxury hotels**.
- Franke's machines are sold in more than **50 countries** and are widely recognized for their design, functionality and quality.

Acquisition Limitations

FRANKE



- Franke Coffee Systems is one of the three divisions of Franke Group and accounts for only 12% of its revenues (CHF 232,3M).
- The only option seems to be acquiring Franke Group, which isn't in line with our strategy.

3 Melitta Professional — 10%

Overview

- Based in Germany, Melitta Professional offers tailored solution to its commercial clients that include **Restaurants & Hotels, Institutional Catering, Work & Office**, among others.
- Its core business is the development, production and distribution of **fully automatic and filter coffee machines**.

Acquisition Limitations

Melitta®

Melitta PROFESSIONAL

- Melitta professional is one of the several brands of The Melitta Group.
- Being Melitta Group a direct competitor of DLG with €1,7M in sales (2020), acquiring Melitta Professional isn't an option.

Key Takeaway

- Given the **inherent limitations** associated with acquiring any of the three main players of the PCM market, our strategy will encompass the **acquisition of three smaller players** who's aggregate market share enable the **emergence of a top 3 player**.

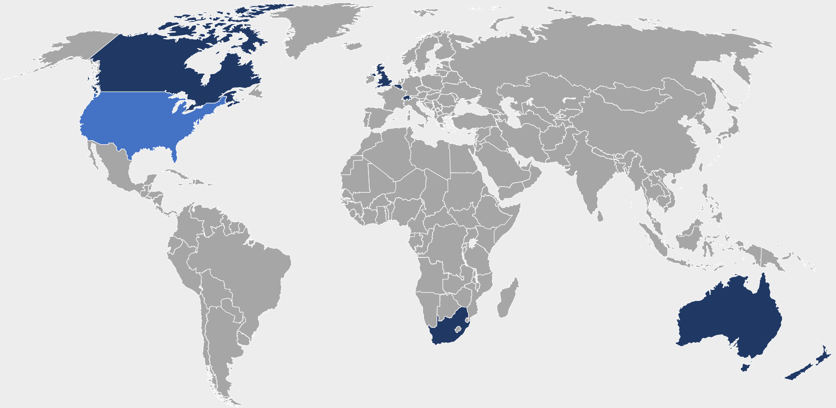
Sources: Company's websites, Orbis, Annual Reports

Capital Brands is the number one brand in personal blending worldwide with sales of $290M in 2020 and a strong regional focus in North America, UK and Australia

Company Overview

- Based in the US (Los Angeles), Capital Brands is the **number one brand in personal blending** worldwide. Its two main trademarks are the **NutriBullet and Magic Bullet brands**.
- The company presented **revenues of $290m in 2020** with an adjusted **EBITDA margin of 17%.**
- Product offering of blenders and other kitchen products is complemented with recipe books and nutrition food as there is a **strong focus on healthy nutrition.**
- Most sales are concentrated in three geographies: **North America, UK and Australia.**

*Key Geographies



1# Player in Personal Blenders

1# Player in Blenders

*** Capital Brands is present in +100 countries, yet its sales are highly concentrated in the highlighted regions**

Social Media presence

2,5M users	+400k users	+210k users	+70k users

Connected with a highly engaged, young and loyal customer base (c.3,2M followers on major social media platforms of NutriBullet and Magic Bullet brands)

Product Split

Personal Blenders

Juicers

Other Kitchen Products

Acquisition Synergies & Opportunities

- **Leverage DLG's distribution network** to expand Capital Brand's footprint in Europe and Asia (exposure still very limited to English speaking countries).
- **Leverage DLG's technology** (namely in the hand blender category) to expand NutriBullet and Magic Bullet product offering.
- DLG can get **access to the expensive expertise in digital market** possessed by capital brand's team.

Sources: Capital Brands website and social media, DLG's press release on the acquisition of Capital Brands, Exane BNP Paribas

03

Essay

Essay: Buy-and-build strategy (1/2)

Buy-and-build strategy

- Buy-and-build strategies are often a core component of the value creation pitch in private equity deals. The mechanism is simple, begin by acquiring a platform company and then proceed to annex various companies (normally smaller) so that a few years later the GP is able to sell a relatively enlarged entity.
- Bolt-on acquisitions have experienced a substantial and steady growth over the past decades, accounting for 71,7% of PE deals in the US in 2020 (compared with only 43,2% in 2002)[(1).] This is also a strategy that tends to be more attractive in crisis times. In 2020, for example, part of the increase in buy-and-build was fuelled by the abnormally high volume of dry powder. It is therefore interesting to analyse why this value creation strategy has become so popular (especially given its relevance in our investment committee paper).
- Buy and build strategies can have various objectives: expand to new geographies, consolidate market leadership in core markets, expand vertically to benefit from synergies across the supply chain, among others. However, the majority of the reputation regarding this strategy still lies within multiple arbitrage.

Multiple Arbitrage

- Normally, one can expect smaller companies to present lower multiples when compared to larger ones. One of the reasons why this is the case relates to a much less competitive biding process for smaller companies as they often go unnoticed by the deal sourcing radars. Given this discrepancy in multiples, it can be very compelling to pursue a buy-and-build strategy with the purpose of compounding returns by entering at lower multiples and exiting at a higher one.
- By looking at our committee paper, it is easy to realize that the arbitrage effect is not astronomic. The exit multiple for DLG was set at 9,9x (equal to entry) while the entry multiple for the three B&B targets was 9,5x. If we include Eversys (acquired at a multiple of 12,1x following the call option) we go further to observe a negative aggregate arbitrage effect. This implies that the perceived success of our B&B strategy isn't liked with multiple arbitrage, instead it relies heavily on EBITDA growth and cash generation.
- It is therefore relevant to see if there are evidence showing the appropriateness of buy-and-buid to obtain operational synergies and improvement of overall performance.

Note: (1) Coller Research Institute. 2021. "Private equity findings - insights from private equity research worldwide"

Empirical Evidence

- Empirical evidence suggests that, on average, buy-and-builds appear to deliver improvements in operational efficiency that are consistent with the definition of synergies, both in sort-term exits (2-4 years) and long-term exits (+5 years)[(1)]. Nevertheless, there is also a significant amount of underperforming B&B strategies. Some of the main challenges to the pursuit of successful buy and build strategies include the following:

1. **Raising the necessary capital to pursue the acquisitions**
2. **Define a strategy resulting in synergies and growth**
3. **Convincing management from targets to buy-in**
4. **Selection of an appropriate number of add-on targets**
5. **Ability to execute and effective integration**

Key success factors in buy-and-build strategies[(2)]

Industry dynamics: It is imperative that the reference industry is able to supply a reasonable number of targets and appropriate conditions to pursue the acquisitions: Fragmented industries are more likely to provide a reasonable number of targets with the right size; Given that such acquisitions will be (at least partially) financed by the platform company, strong and sustainable cash-flows would be preferred while industries that are cyclical would be perceived as less attractive.

Solid platform company: Platform companies should present healthy free cash flows to support acquisitions; Established infrastructure to ensure a smooth integration (strong IT systems, scalable sales and distribution systems, replicable operating model, among others); Demonstrated ability of the management team in creating value through acquisitions.

Targets selection: Ensure an appropriate strategic fit – the whole should be worth more than the sum of the parts; Identify relevant synergies and overall operational improvements due to the buy-and-build; Select targets in which the platform company can add value (eg: foster top-line growth, decrease time-to-market, share capabilities and key technology, improve commercial capabilities, among others).

Notes: (1) Coller Research Institute. 2021. “Private equity findings - insights from private equity research worldwide”; (2) Bain & Company. 2019. “Global private equity report 2019”.

04

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