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VISTA ALEGRE ATLANTIS INVESTMENT COMMITTEE PAPER – EXIT STRATEGY

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Abstract

The proposed Investment Committee Paper is intended for academic purposes only. The project aims to study a private equity deal using a Leveraged Buyout (LBO) for Vista Alegre Atlantis (VAA), a market leader in the ceramic and glass tableware sector. Our goal is to understand how the LBO could be structured, what returns it could provide, and what exit strategies can be pursued. In addition, we will focus on analysing and forecasting the business plan and defining the optimal capital structure. The conclusion is that VAA is an attractive investment opportunity, able to leverage the market's growth.

Keywords

Private Equity, LBO, Valuation, Returns, Exit Strategy, Capital Structure, Tableware Market

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Company Overview

VAA is a prestigious Portuguese tableware company in the **ceramic** and **crystal** sector that operates in four segments: **crystal and glass, earthenware, porcelain, and stoneware**. It is an **export-oriented** company with a diversified multichannel distribution and the most **advanced** and **efficient factories** in the world, making constant investments to promote **energy efficiency** in its processes. Although companies in this sector have an above-average **ESG** risk, VAA performs better than the average of its peers in the sector's most relevant KPIs, namely in the environmental aspect (BPI 2021). The company has been a **strong financial performer**, with one of the **highest EBITDA margins** among its peers. Additionally, its industry-leading position, profitability potential, and B/S strength have led the company to re-emerge stronger after the pandemic. Regarding logistics, VAA has fast delivery across Europe, and privileged access to raw materials at short distances, allowing several cost savings. (BPI 2021)

The Portuguese group offers a **broad** portfolio of **differentiated** products that combine **high-tech** with **handcrafted** elements. These products are sold through various channels, 40% under its brand (33% at retail, 7% at horeca) and 60% under private label to critical customers, such as **IKEA** – the Ria Stone factory is fully used for IKEA production (CaixaBank BPI 2022).

VAA has evolved through time, and from a producer of **high-quality** luxury porcelain, the company has significantly diversified its portfolio to reach **more customers** while maintaining its quality standards. The industry can be segmented into two major groups: (1) the **low-mid-range** market and (2) the **high-end** market. The first segment looks for tableware out of necessity, often looking for smaller, simpler, and cheaper services for daily use – generally reaching a younger audience with relatively low income (e.g., people moving out of their parents' house or starting a small horeca business). On the other hand, the high-end segment seeks prestige, quality, and brand, while looking for broader services (e.g., organizing dinners) and having more than one service. This segment generally covers older and higher income

public, or big horeca players, looking for luxury brands and products. Overall, the low-end and the mid-market are increasing as the demand for smaller, cheaper, and simpler devices is higher. Although VAA is not represented in the low-end, it has contracts that allow it to sell pieces at more affordable prices. For the middle market, VAA offers luxury tableware collections at reasonable prices (e.g., Casa Alegre, Sagres Collection). (Barra 2021). Finally, the high-end market is VAA's initial and strongest market, the one for which the company is most recognized – more expensive and luxury products. Luxury has proven its resilience during recessions, with recoveries dramatically faster and more robust than the non-luxury sectors (Bloomberg 2022). Also, VAA is not the most expensive brand on the market; hence it may gain some **market share** through shifts in customer demand from more expensive brands to VAA products. Finally, VAA has been **successfully acquiring** attractive targets and developing **strategic partnerships**, reinforcing its position in the context of the sector, and of competing companies. The acquisitions of Cerutil and Faianças Artísticas Bordallo Pinheiro in 2018 allowed Vista Alegre to increase its scale and diversity. It should be noted that Grupo Visabeira owns 85.6% of VAA – 3.31% directly and 82.29% through Visabeira Indústria, which is 100% owned by Grupo Visabeira. (Vista Alegre Atlantis, SGPS, SA 2021)

Market Overview

The **global ceramic tableware** market is estimated to be worth **€10.7B in 2021 and to reach €21.0B in 2031**, growing at a **CAGR of 6.7%** until 2031 (Research, Transparency Market 2021). This market is **highly competitive** and dynamic and provides opportunities for players to build a stronger company's competitive position. This market includes dinnerware, cutlery, hotelware, bakeware, and others. On the other hand, the **global glass tableware market** is estimated to be worth **€7.8B in 2021 and to reach €10.9B in 2031, growing at a CAGR of 3.5% until 2031** (Research, Transparency Market 2021). The market is highly **consolidated**,

with a small number of large suppliers controlling most of the industry. Both markets are divided into **residential** and **commercial** sectors (e.g., horeca channel), and both markets have benefited from trends such as the emergence of **e-commerce**, production closer to end-markets, the **growing hospitality** and **home decor** industry, and, finally, the growing number of businesses opting for **durable handmade crockery** instead of mass-produced dinnerware (Research, Transparency Market 2021). Finally, the global ceramic and glass tableware markets have a worldwide presence, with the **United States being the largest importer and China being the largest exporter** (The Observatory of Economic Complexity 2020).

Looking in detail at the Portuguese tableware market, it has been growing and gaining presence worldwide (i.e., second largest ceramic tableware exporter), with AICEP playing a significant role as a financier to improve competitiveness, export capacity and attract foreign investment (European Funds AICEP 2022). The leading importers of Portuguese ceramic tableware are the US, Germany, and France, and Portuguese glassware are France, Angola, and Spain (The Observatory of Economic Complexity s.d.).

The industry has faced some **challenges** regarding its **high production costs**: (i) its **dependence on the energy supply** of natural gas and electricity – the current geopolitical conflict has led to high price volatility; (ii) its **personnel costs**, related to the specialized labour; (iii) the **volatility on its raw material prices**. In addition, VAA has invested heavily to achieve energy efficiency and climate neutrality, improving global competitiveness.

The prominent players in the sector are described in *Table 1*, along with their EBITDA margins.

Historic Financials

With the acquisition of VAA by Grupo Visabeira in 2009, the company's economic performance has been dramatically improving, despite adverse market conditions. Since 2014,

the company has shown **solid growth**, positively influenced by the acquisitions of Cerutil and Bordallo Pinheiro in 2018. VAA's efforts to offer an increasingly diversified range of high-quality products, increase its brand awareness, intensify its international presence, expand partnerships, and improve efficiency, involved significant investments over this period (i.e., around 30M€ in FY18 and 23M€ in FY19), but has also allowed the company to enjoy a robust financial performance in recent years. In fact, the factories expansions and the purchase of new equipment and technologies for the porcelain, crystal, glass, and stoneware sectors, have enhanced greater operational efficiency and reduced costs, reinforcing the positioning of Vista Alegre as the **owner of the most technologically advanced factories in the world** within the mentioned segments. With those investments now largely behind (i.e., CAPEX only accounted for 5% of sales in FY20 and FY21), VAA is entering a CF harvesting phase with positive and growing FCF. (Vista Alegre Atlantis, SGPS, SA 2021)

Although challenging trading conditions during the pandemic, in 2021 VAA sales recovered to close to pre-pandemic levels. For 1Q22 (a quarter already impacted by the Russia-Ukraine conflict), VAA recorded a yoy solid sales growth, reaching pre-pandemic levels (1Q19). As can be seen, even in challenging years, VAA can keep its EBITDA and gross margins high and stable, proving its resilient and solid business model. In FY21, its EBITDA margin reached 22%, the highest margin amongst its peers. (Vista Alegre Atlantis, SGPS, SA 2022)

As for cash flow, Vista Alegre reduced its net debt over the past years and has reached a bondholders agreement setting more relaxed covenants until 2023. Looking in detail at Vista Alegre revenues, porcelain and stoneware are the segments that contribute the most to its growth. Nonetheless, due to the pieces' superior strength, the demand for earthenware has been increasing significantly, mainly from the horeca sector. (BPI 2021)

Investment Thesis

Vista Alegre has been revealing its proven and resilient business model. It is a market leader with recognized and innovative products and one of the most significant and stable EBITDA margins in the sector. Moreover, it has a pool of qualified talent with a well-known and experienced management team and a recognized and adaptable business model, being the oldest and most successful Portuguese producer with a diversified range of products and end-markets. (Vista Alegre Atlantis, SGPS, SA 2021)

Since Grupo Visabeira's acquisition of VAA in 2009, remarkable enhancements have been developed. Notwithstanding, there is still room for operational improvement. Therefore, four key measures were identified: optimize net working capital levels; improve factory layout; maximize capacity utilization rate; and, finally, improve VAA's margin of the least profitable segment – Glass and Crystal – by making investments in innovation and automation in its factory.

Still, within the operational enhancement, it is expected that VAA will face capacity constraints due to the reactivation of retail and horeca channels (VAA Board of Directors 2022). To mitigate this risk, a Ria Stone expansion (double the plant's current installed capacity) is proposed. Ria Stone has vast potential as it has the highest factory standards in terms of automation as well as innovative single-firing technology (shorter lead times and reduced energy consumption). Besides, it is currently working at full capacity to satisfy VAA's primary client, IKEA (Vista Alegre Atlantis, SGPS, SA 2021). Since this factory was already expanded in the past, it gives us a good proxy for this strategy's returns and costs. This capacity expansion is expected to potentiate recurring solid cash flows to sustain a subsequent buy-and-build strategy.

The final two strategies – internationalization and end-market optimization – are accomplished in parallel with a buy-and-build strategy. By acquiring Grestel, a Portuguese

stoneware company that has two brands – Costa Nova (fashionable and juvenile brand) and Casafina (operating in the US for longer than 40 years) – VAA would not only strengthen its position in weaker end-markets and diversify its base, but also increase its international exposure, with a particular emphasis in the US, allowing it to gain market share.

Business Plan

The proposed business plan includes our value creation strategies and expected market growth, which will be analysed in terms of **revenues, costs, and cash generation**. Three cases were analysed (Bank, Investment, Management), being the ‘Investment’ case presented throughout the paper.

When looking at revenues, we see that **core revenues** are growing at a **CAGR of 5.29%**. The higher growth in the initial forecasts can be explained by: (i) the tendency of large retailers to increasingly bring the supply chain closer to the home market, which will lead to a gain in market share; (ii) the fact that FY21 revenues are almost at pre-pandemic levels, which is a positive indication of the underlying industry demand evolution; (iii) substantial past investments in crystal and glass production (increased capacity, efficiency improvement and modernization) carried out at the Alcobaça plant (€13.6M) explains its accelerated growth in FY22 (37%); (iv) increasing visibility of earthenware segment, due to new design trends (29% growth in 2022). (*See Table 2*) (BPI 2021)

Concerning the **high inflationary pressure** present in FY23, price adjustments were implemented, leading us to directly account for changes in inflation in this year. As for the **long-run**, market growth projections were considered, based on market potential and the long-term inflation rate – with Brazil and the US growing faster, at 3.1% and 2.3%, respectively. (Vista Alegre Atlantis, SGPS, SA 2021) (VAA Board of Directors 2022)

The proposed **add-on revenues** consist of the **expansion of Ria Stone** (incremental revenue accounting for **12% of total revenues**) and of the buy-and-build strategy for the **acquisition of Grestel** (incremental revenue accounting for **15% of total revenues**). (*See Table 2*)

Regarding **costs**, the current macroeconomic and geopolitical context increased COGS in FY22 by 26.7%. Nonetheless, as VAA is largely hedged against price fluctuations, with a variable cost-plus formula on the IKEA contract and electricity contracts, the cost increase is partially mitigated (VAA Board of Directors 2022). Furthermore, considering **past investments** of €7.2M in the **porcelain, stoneware, and crystal and glass** segment, COGS as a percentage of sales are assumed to be slightly lower in FY23 and FY24 for these segments. Subsequently, highly efficient processes and the already minimized cost structure leave small room for improvement, reflected in the stabilization of COGS as a percentage of sales (*See Table 3*). **Crystal and glass COGS** are the most **relevant decrease** – from 37.4% to 35.1% (as a percentage of revenues), as a result of the €3M invested in 2023 for automation and technology. However, the change in this ratio is limited since the segment requires very **demanding materials**. Regarding the SG&A ratio, we expect it to decrease slightly over the years.

Finally, although there are negative FCFs during FY23 and FY24 (i.e., mainly due to the acquisition of Grestel and the expansion of capacity at Ria Stone, which amounted to €55M and €38M, respectively), **solid cash generation is expected**. Additionally, excluding this acquisition and expansion CAPEX, **projections for FCF are expected to grow at 17.7% CAGR** over the investment period and reach €51M in the exit year. Through continued inventory management improvements and greater cash collection efficiency, DIO and DSO are expected to decline by 6% and 8%, respectively. Accordingly, the **NWC will decrease**. These strategies will translate into an **increase in investment**; hence maintenance CAPEX should evolve in line with the company's growth, reaching around €14M in the exit year, with

add-on strategies representing 56% of total maintenance. On the other hand, expansion CAPEX should reach €41M in 2023, reflecting the **increase in capacity at Ria Stone and the investments in crystal and glass automation works. Acquisition CAPEX** is expected to reach €54.6M in 2024, as a result of the **acquisition of Grestel**. (See Table 4).

In short, all these strategies contribute to the growth of VAA. Firstly, the Ria Stone Expansion is expected to reach €7.4M EBITDA in 2024, the Grestel acquisition €10.7M EBITDA in 2025, and the remaining EBITDA growth is expected to be organic – c. 47%. As a result, an overall increase in EBITDA is expected, from €35M in 2022 to €70M in 2027, which allows for a solid and healthy exit in 2027 (See Figure 1).

Valuation

The valuation of VAA was performed using five approaches: trading comparables, 10-year through-the-cycle comparables, selected precedent transactions, and two discounted cash flow (DCF) approaches – Gordon's growth model and exit multiples. The multiple used was the EV/EBITDA, which provides a clearer view of the company and its financial performance. Most of the values used in this procedure were extracted from Bloomberg, Thomson Reuters, and Orbis databases. For both comparables' methods, eight companies were selected based on industry, product offerings, and key financials. For the LTM approach, we collected 2021 multiples (See Table 5). Given the disparities in the relative sizes of the group, the median multiple was calculated, equalling 10.1x in 2021. For the 10-year cycle approach, multiples were collected from 2010 to current values – resulting in an average multiple of 9.2x multiples (See Table 5). Finally, thirteen transactions within the sector were considered for the approach of past transactions, where some of the requirements were to have similar business models, financial performances, and end markets multiples (See Table 6). The multiples paid by

acquirers for these transactions were then used to value VAA, which resulted in a median valuation multiple of 9.4x. Next, the investment value was determined based on the expected future FCF for discounted cash flows. The FCFs were deducted from the calculated WACC (i.e., 7.8%) and resulted in two multiples of 25.9x and 12.5x, respectively (*See Table 8 and Table 10, respectively*).

All the information collected was gathered in a football field graph, which summarizes the range of values of a business based on the various valuation methods used – the range varies from the minimum, passing through the quartiles and maximum (*See Figure 2 and Figure 3*). According to the analysis, comparable trading methods provided a close estimate given the context of the VAA, so they were considered with a higher weight of 45% for each method. The remaining 10% was distributed to precedent transactions. This weight discrepancy is a result of the difficulty in collecting information, as there was a small number of transactions carried out in the sector in recent years and a lack of detail about them. Also, market conditions change over time, and the recent recessions might compromise the accuracy of results. Finally, as DCFs were highly sensitive to future assumptions, they were not considered in the implied multiple. **As a result, VAA was valued at an EV/EBITDA multiple of 9.63x, resulting in a company value of €341M.**

Capital Structure

To determine the capital structure, the **sources and uses** of funds were computed (*See Table 11*). With an **entry multiple of 9.6x** retrieved from the valuation, the enterprise value equalled €341M. Together with fees equivalent to €20M, the **total uses amounted to €362M**. To sustain the uses, senior debt and equity were used. These amounts were defined according to the risk and seniority of each instrument. As senior debt gets paid first, the risk is lower, and

so is the cost. Senior debt includes three tranches: Term loans A, B, and C (*See Table 12*). The mezzanine debt was not considered in the proposed capital structure as it was unnecessary to incur a risk for a needless return increase. Furthermore, an acquisition credit facility was used (*See Table 13*)

On the equity side, there is equity from the **fund**, known as **institutional strip** – which includes a **subordinated loan** (or Fixed Return Instrument (FRI)) and **institutional ordinary shares** – and **equity from the management** team, known as **sweet equity**. (*See Table 12*)

The total **sources of funds amounted to €362M** and were achieved through an equity contribution of **5.7x EBITDA** and leverage of **4.5x EBITDA** (excluding Acquisition Capex Facility). The proposed structure generated a strong **and growing cash cover** (higher than 1) throughout the holding period, with an accelerated reduction after the exit year, corresponding to the repayment of senior bullet debt. Furthermore, the **interest coverage ratio**, ranging from 2.7x to 4.8x during the investment period, reveals a high **ability to meet interest payment obligations** and a **low risk of default**. On the other hand, the **net debt to EBITDA** has been decreasing over the years – from 4.0x in FY23. This downward trend is a combined result of the reduction in net debt and the increase in EBITDA, which is favourable for the company, as the **lower the ratio, the greater the probability that the company will be able to pay off its debt**. In addition, Vista Alegre **is meeting its financial debt covenant** of 5.0x. (*See Table 14*)

This financing structure was chosen by testing four scenarios, selecting the one with the highest exit return, and assuming maximum leverage of 4.5x (*See Table 15*). Overall, the proposed structure (*'Structure 4'*) was the best-case scenario, yielding the highest IRR and Money Multiple at the exit, both for the fund and management. This allowed us to meet all debt covenants, even in the stricter case (i.e., bank case).

Returns

The LBO firm will seek to exit the investment within five years (in FY27).

Considering an exit multiple of **9.6x**, an **exit EBITDA of €70M** and an **enterprise value generation of €331M** throughout the holding period are expected. Hence, an initial investment of €182M corresponds to final proceeds of €571M, leading to an equity value generated of €389M during the same period.

One can divide the returns even further into institutional and management. The fund's returns can also be broken down into the subordinated loan that expects proceeds of €363M in FY27 and ordinary shares, responsible for €198M of the proceeds in the same year. Together they amount to €562M of total institutional proceeds, for an investment of €201M. This implies a **2.80x MM** and a **23% IRR** for the fund. Likewise, the management team also takes advantage of the investment, being highly rewarded. They are incentivized with a package that requires an entry investment of €1.3M in sweet equity and generates proceeds of €9.5M, implying a MM of 7.10x and IRR of 48% (*See Table 16*). The exit waterfall (*See Figure 4*) shows how the proceeds from the exit will be allocated to all shareholders in the company.

Even in the conservative case, we can still have an attractive multiple (2.33x) and IRR (18%) (*See Table 17*).

To break down the different returns' drivers, it is vital to acknowledge the three possible ways to generate returns in private equity: deleveraging, EBITDA growth, and multiple arbitrage. The multiple arbitrage is the most uncertain element and therefore is not considered in our analysis (assumed to be 0.0x).

From the original €187M invested, the **€392M generated** can be split into (*See Figure 5*):

1) 58M from cash generation in the business (net debt decreased from €137M to €101M, increasing total value creation at a multiple of 0.32x). Cash leveraging accounts for a 15% increase in equity value. In fact, VAA has been showing over time a solid ability to generate

cash (CAGR of 29% from FY18 to FY22) that is expected to persist in the future. (CaixaBank BPI 2022)

2) 341M from operating growth (EBITDA grow from €35M to €70M, increasing total value creation at a multiple of 1.82x), which can be further divided into:

(i) **Organic revenue growth:** achieved through market growth and internationalization. It is expected to contribute €100M (26%) to total value creation. Organic revenues grew from €145M at entry to €188M at the exit.

(ii) **Organic operating leverage:** EBITDA margin improvements at an organic level are expected to create €121M (26%). This growth is enabled through various internal restructurings (e.g., NWC improvements, investments in the crystal and glass segment, and Ria Stone Expansion).

(iii) **Inorganic growth:** Inorganic EBITDA is expected to create €110M at a multiple of 0.60x (28%).

As the inorganic growth is unpredictable and riskier, an analysis without the Grestel acquisition was made. This said, even without this strategy, our model is organically robust, generating a MM of 2.44x and 20% IRR.

Exit Strategy

After the end of the holding period, several exit strategies were considered: **strategic sale, secondary sale, IPO, and partial trade sale** (McKinsey 2022). The chosen strategy was a **strategic sale**, which consists of selling the company to a strong strategic player in the luxury tableware market. Beyond the various synergistic opportunities, there is a possibility of VAA consolidating its position in a different market, which would likely lead to a higher exit valuation. As the market is fragmented and shows solid M&A activity, this could translate into numerous potential buyers and an immediate subsequent exit without regulatory

requirements and costs related to other exit options (IPO). On the other hand, the process is slower and heavier, and the acquisition price is more significant.

The **most suitable buyer** must have a **strong** and **renowned brand**, an **unquestionable global presence**, and the **capacity to integrate VAA** products into its retail channels. In addition, VAA would benefit from the opportunity to cooperate with design studios to enhance the exclusivity of its collections, strengthening the brand's positioning as sophisticated and prestigious. Few companies could facilitate business consolidation in a market as fragmented as the luxury one, but we believe that **luxury conglomerates** have the profile and corporate objectives, since they are entering in the tableware sector to grab a bigger share of the global luxury goods market (Vogue 2021).

We looked in detail at **LVMH** and **Kering** group, as both companies stood out for being **stable, long-established** companies with **high investments** in consumer products and luxury and, most importantly, for having brands **already present in the tableware market**, such as Dior (LVMH) and Gucci (Kering). In addition, **VAA has existing relationships with LVMH** and **understands their business mandate to maximize exit proceeds**. For example, VAA is both used and sold in the **Louis Vitton Café** in Osaka, Japan. (Vitton 2022)

Both are European groups highly dependent on Asia, which makes them more fragile, thus, both would benefit from the acquisition of a target with lower logistical risks, carbon footprint, and transportation costs. Additionally, both have a historically successful record of 12 acquisitions in several countries (Mergr 2022). Notwithstanding, we believe **LVMH** stands out as the **safer choice**, as it has higher purchasing capacity, while having a recent strong focus on M&A, with three acquisitions in the last five years and an **already established relationship with VAA**.

Due Diligence

For a successful investment, a profound analysis of various areas is imperative. Therefore, starting from a **commercial** point of view, we must further investigate the following:

(i) Market forecasts and trends, namely, macroeconomic outlook and key growth drivers; VAA's key segments' growth potential, and the overall market size. The upcoming recession, overestimations of market growth, and wrong assessment of risk/return value creation strategies might negatively impact forecasts.

(ii) Competitive landscape and the source of competitive advantage (the emergence of more innovative product offerings by competitors) by analysing the competitors per segment and location and assessing barriers to entry into international markets.

(iii) M&A targets, by performing a detailed analysis of the Grestel acquisition – margins, growth potential, and synergies: there may be challenges in the business integration and/or realization of synergies.

On a more **operational** side, one shall look at the following:

(i) The value chain, where a profitability analysis per segment must be made, checking for inefficient business processes and investments needed to create value, and assessing the operational dependence of VAA on third parties. The possibility of not renewing valuable contracts, like IKEA's, can be a potential red flag by harming the operational performance of the firm.

(ii) Major costs, drivers, and impacts on operations and margins, assessing opportunities to be explored (like digital platforms) and interpreting the impact of raw material price volatility on profit margins and their evolution. The cost structure can face challenges due to the ongoing increase in energy, fuel, and raw materials prices – nonetheless, VAA is being successful in largely mitigating these effects.

Thirdly, (iii) the **legal & tax perspective** is also crucial: by looking in depth at critical contracts, requesting a list of all current litigations in which VAA is involved, assessing compliance regarding licenses to produce and insurance of factory and workers, verifying legal requirements and EU environmental standards compliance and reviewing tax compliance and litigation by assessing unused tax opportunities.

Lastly, the **financial point of view** should focus on forecasting future NWC investment needs and CAPEX – maintenance and expansion (Grestel's acquisition, Ria Stone expansion, and Crystal investment), focusing on outstanding debt structure and contract terms, and understanding the terms and conditions of public funding – namely AICEP (European Funds AICEP 2022). We should look out for overestimation of forecasts and possible inability to repay debt/covenant breach. Regarding the valuation, an independent valuation should be requested to avoid potential bias while assessing potential buyers and exit routes and running sensitivity and scenario analysis to hedge against over/underestimation.

Exit Strategy

Introduction

This document was elaborated as an in-depth explanation of the exit strategy of the Vista Alegre Atlantis Investment Committee Paper and was structured and elaborated around one simple question “What is the most efficient way of exiting this investment?”.

To answer this question, the document rationale is divided into three main pillars:

- (i) **Theoretical Context:** Explaining the importance of an exit strategy inside the complex business of Private Equity and enumerating the potential exit routes.
- (ii) **Strategy Choice:** Discussion of the main advantages and disadvantages of each form of exit and election of the most effective.
- (iii) **Adequate Buyers:** In-depth analysis of the most suitable buyers inside a pre-selected pool of potential acquirers.

Theoretical Context

An exit strategy is discussed here as a detailed plan and analysis that assures a **safe closure of an investment's holding period**. In the context of this thesis, we are analysing the exit of a **Private Equity LBO investment in Vista Alegre Atlantis (VAA)**, a high-end Portuguese tableware manufacturer. To familiarize any potential reader with these concepts, a theoretical debrief is given in the following paragraphs.

The Private Equity business is generally undertaken through a purchase between partners (General Partners and Limited Partners - further described below) with the goal of owning all or part of a company to achieve growth during the holding period and later sell it to gain returns. These purchases are normally grouped in a fund, and the aforementioned “partners” often include two main parties, the **Private Equity firm (also referred to as General Partners)**, responsible for managing the fund, and the **institutional or accredited investors**

(also referred to as **Limited Partners**). The most common forms of Private Equity are categorized according to the **stage of the company** purchased. From the initial to the final stage of a company's life cycle, we have: Venture Capital, Growth Equity, Mezzanine Fund, Leveraged Buyout, and Distressed Buyout. The most used form is the **Leveraged Buyout (LBO)**, which is also the case in this thesis (which discusses an LBO case). This occurs when the investor takes on **significant debt** for the purchase while using target's assets as collateral, with the goal of paying back using cash generation it gets from the investment.

An LBO is typically associated with more **mature companies** and with large investment amounts, which usually implies a relatively **higher risk**. Thus, it is usual to purchase **all of the company or a major part** to properly **control** the investment's outcome. The larger the stake being purchased, the **larger the stake to be sold** will be so, intuitively, an **exit strategy (plan to sell that large stake)** is particularly important in an LBO.

Simply speaking, General Partners work in a cycle with three main phases: **(i) Gather funds for investments, (ii) invest, (iii) divest**. In this context, the fund managers are responsible for planning or adapting the exit (at maximum) during the **beginning of the investment stage**, thus assuring it incorporates all inputs and restrictions coming from the target's specific profile and any of the parties involved. Furthermore, multiple times, the **exiting of an investment coincides with the fundraising of others** (for new funds), which gives the Private Equity firm an additional incentive to **plan its exit as early as possible** to guarantee the **optimization of returns and fund safety**. Additionally, to ensure a successful exit, there should be constant checking of the exit strategy throughout an investment's life with the purpose of **adapting** to market shifts and any status quo changes.

When exiting an investment, there are four main routes to consider:

- (i) **Strategic Sale (or Trade Sale):** Sell to a strategic player in the market or in a related market. These are recognized as the ones that offer the most certainty. Here, an

- (ii) investor must enumerate potential buyers to perform a regular and effective engagement with these. This way, the fund managers should be able to access and comprehend the criteria required by the potential acquirers and design the target's path while taking that into consideration.
- (iii) **Secondary Sale (or Secondary Buyout):** Sell position to another Private Equity Fund. As Private Equity popularity grows and more players appear, this exit has become more common. Just as in any other route, the new acquirer must have some value to gain from the purchase, and for that, an investor must exit the company at matter, revealing robust and continued shareholder growth.
- (iv) **Initial Public Offering (IPO):** List the company on a stock exchange. This strategy should certainly be considered if it unlocks access to more capital to foster fund growth acceleration or consolidation initiatives. Otherwise, an IPO is harder to consider as it is a route fully dependent on the market's liquidity.
- (v) **Partial Trade Sale:** Separately sell by different business units or facilities. There is a higher probability of having more potential buyers interested in one segment, instead of in the whole business, and more attractive business units might benefit from multiple arbitrage when valued in isolation. (Farazmand 2020).

Knowing this, two main steps stand out in the elaboration of an exit strategy: **choosing the most suitable form of exit** and selecting the **most adequate buyers** to connect with.

Strategy Choice

Regarding the first step, we now proceed to analyse the main advantages and disadvantages of each potential exit route in the context of VAA's investment.

Strategic sale: Starting with the upsides, there are **multiple larger and more diversified players in the luxury market** that would be financially able to acquire VAA. Furthermore,

synergistic opportunities and the possibility of operating/consolidating positions in different markets would likely lead to a **higher exit valuation**. Moreover, the fragmented market at matter has strong M&A activity, which indicates **numerous potential buyers**. Finally, this route would imply an immediate exit **without regulatory requirements** and costs related to other exit options (such as IPO). Other pros include acquirer's strong financing, diversity of opportunities for employees, and new advantages for clients. Regarding downsides, the Due Diligence can be a long process (but not much longer than other potential routes), usually has a large acquisition price, there can be potential of employee reduction – mainly in units of interception between target and acquirer, company culture shifting, and loss of brand.

Companies that have a high share of the **luxury market and that keep expanding their product range are possible buyers**. The main possibilities aligned with those criteria are *LVMH, Kering, Richemont, Puig, and Capri*.

Secondary sale: The main upside comes from dry powder's continuous growth and fundraising record levels. It also is the **fastest process** as there is experience in defining deal terms and risk allocation methods, allowing an immediate full exit. In addition, there is an ability to leverage the industry's growth potential with great prospects of returns. Finally, financial buyers have **higher financing abilities**, accessing larger amounts of funds than average strategic buyers. For the downsides, the attractiveness of follow-on LBO is conditional on value creation strategies' success and cash generation. In addition, it has **no synergy premium** like a typical strategic buyer. Stronger interest expected from strategic buyers can lead to unattractive entry valuations from a PE perspective and potential saturation of leverage. **PE Funds that have invested in luxury brands before** are good options for selling the company; some funds that match these criteria are **KKR, MCP, or Black Rock**.

IPO: This strategy brings a high probability of **maintaining the management team**, giving them more freedom, motivation, and support. Additionally, going public serves as an

advertisement for the firm and gives credibility. As previously listed, VAA is aware of IPO processes and meets the **requirements** since it currently is a public company. Furthermore, selling VAA in a larger market would eliminate the possible **burden of finding buyers**. If public market conditions are favourable, this strategy will yield the highest returns. On the other hand, as this mainly depends on capital markets conditions, it imposes a high level of risk in such **uncertain times**. It is usually **more expensive and slower** and implies full transparency for competitors. It might also come with a non-complete exit, which can lower the value of the remaining shares depending on market reaction. Furthermore, going back to being public may give a **confusing message** to stakeholders. **Euronext Lisbon** stock exchange would solidify the company's Portuguese roots and increase visibility to new investors thanks to its broad network.

Partial Trade Sale: This is attractive as there is a higher probability of having **more potential buyers interested** in specific segments instead of the whole business. Additionally, when valued in isolation, the most attractive business units might benefit from **multiple arbitrage**. Nevertheless, it is not a full exit, which **weakens VAA's position**; it is a **long and difficult process** and comes with a considerable **loss of synergies** between business units, which reduces efficiencies. Finally, it might distract management from continued value creation in other segments. Potential partial buyers would be **Noritake, the largest player in the tableware market**, also present in the tech segment, or **Zwiesel Glas, a company focused on glassware production**. Both companies could benefit from diversification of services, geographies, or capacity expansion by acquiring VAA.

In order to maximize the value of an investment, the exit strategy should be chosen considering the **specific business model of the target**. Illustrating, while a business with **worldwide dimension** and recognition and **high expected revenue** growth can be adequate for an **IPO** or to sell to another **Private Equity** firm, other businesses may not have that level

of recognition yet but do appeal **trade buyers** for having simple and solid business models that are **easy to integrate** and can potentiate **synergies** or have a high strategic impact. On that front, analysing VAA's scenario and the specific product areas in which it operates, a secondary buyout does not seem appealing enough in comparison with a strategic sale since this is a **simple business model** that is easy enough for a strategic buyer to **integrate** and unlock **synergies** and is not yet **globally** recognized enough to assure interest from a **financial buyer**. An **IPO** seems too **risky** in the current highly **unpredictable market** conditions. VAA could consider a **partial sale** of each business unit. Notwithstanding, this route would likely cause a **dissipation of the brand's value** and of the **existing synergies** in the production process.

Thus, the most indicated exit is an integral **strategic sale** of the company to a key luxury player willing to expand its portfolio. The most suitable buyer must have a strong and renowned brand, an unquestionable global presence, and the capacity to integrate VAA products into its retail channels.

The acquirer would be working with some of the **best experts and with state-of-the-art technology** to enhance the exclusivity of VAA's collections, strengthening the competitive positioning of the brand as a top-quality high-end producer. Achieving the consolidation of this business in a market as fragmented as the luxury one is, of course, a challenging task, but if there are companies with resources and high experience for it, are the aforementioned luxury conglomerates *LVMH, Kering, Richemont, Puig* or *Capri Holding*. These have the profile and corporate objectives, since they are entering in the tableware sector to grab a bigger share of the global luxury goods market (Vogue 2021).

Adequate buyers

In this second main step of an exit strategy, an **in-depth analysis** (Yahoo 2022) of the potential buyers for a strategic sale is made to prioritize and reach the most strategic ones.

The following groups are related to the luxury industry and own multiple globally renowned brands.

LVMH: Founded in 1923, it operates as a luxury goods company and is headquartered in Paris. It holds 5556 stores and offers alcoholic beverages, apparel and accessories, perfumes and cosmetics, yachts, daily newspapers, and selective retailing products. Historically, it has acquired twelve companies (three in the last five years) in seven regions, with the largest acquisition of \$16B. Its acquisitions are mainly focused on Consumer products, 34%, and Apparel/textiles, 25% (Mergr 2022). **VAA has existing relationships with LVMH and understands their business mandate to maximize exit proceeds.**

Kering: Founded in 1963, produces apparel and others and sells them through stores and e-commerce sites. It is based in Paris and is in the specific segments of apparel and accessories, and perfumes and cosmetics products. In the past, it has acquired twelve companies in seven regions, with the largest acquisition being \$0,6B. Apparel/textiles comprised 67% and Consumer products 17% (Mergr 2022). Kering has brands such as Gucci, already present in the tableware sector.

Richemont: Founded in 1979, it is in a luxury goods business and headquartered in Bellevue, Switzerland. Its products are offered under various brands and through its own boutiques and online stores. Richemont designs, manufactures, and distributes apparel and accessories. It has a total of five acquisitions (one in the last five years) in four countries focused on Retail, with 40%, and in Apparel/textiles, also with 40% (Mergr 2022).

Capri: Founded in 1981 and headquartered in London, it produces branded apparel and accessories, fragrances, and home furnishings. Selling it through a distribution network, including boutiques, department stores, and e-commerce sites. It has acquired three companies (all in the last five years) in two countries, with its largest acquisition of \$2,1B. Apparel/textiles made up 100% of its acquisitions (Mergr 2022).

Puig: Founded in 1914 in Spain, it is a fashion and fragrance company that sells in 150 countries, being directly present in 26 of them. It focuses on three main segments: Democ Cosmetics, Makeup, and Fragrances. Until today, it has acquired three companies (one in the last five years) in two countries. 67% of these were in the Retail sector and 34% in the Consumer Products sector (Mergr 2022).

Additionally, a general conclusion can be taken regarding the **geographical presence** of these companies (Statista 2022) – (See Tables 18, 19, 20, 21, and 22): They all were **headquartered in Europe** but always had too large of a **dependence on Asia**, with close to half of their sales being from there (except for the last two groups, which do not give such discriminated information and, in general, seem to be mainly present in Europe and America).

After this in-depth analysis of the main potential buyers, two stood out as highly attractive:

LVMH and Kering. Both groups have **features in common** that enhance them:

- (i) Long-established and **stable** firms with high investments in consumer products.
- (ii) Highly **Asia-dependent** European firms, which means a European target could lower logistics risks, carbon footprint, and transportation costs.
- (iii) Both had **twelve acquisitions in multiple countries**, revealing high interest and experience in inorganic growth and geographical diversification.

LVMH still stands out as the most logical buyer due to the following:

- (i) Various **recent acquisitions**, three in the last five years.
- (ii) High **purchase capacity**, with largest acquisition of \$16B.
- (iii) Already present in **the tableware industry**.
- (iv) Strong relationship with VAA, from successful partnerships.

To further quantify the **feasibility** of these potential future sales, an analysis of the **capital structure and profitability of the acquirers** was made (Orbis 2022) (Yahoo 2022). The capital structure of **LVMH** has an adequate debt-to-equity ratio of 1.58, which indicates an

adequate financial position. In terms of profitability, the company has a return on equity of 35%, an EBITDA margin of 35%, and a net profit margin of 27%, revealing strong efficiency. **Kering** has a lower debt-to-equity ratio of 1.26, which reveals a good financial position. The company's profitability shows a return on equity of 28%, a normalized EBITDA margin of 36%. As **LVMH** has a **strong and well-established** business model with **enough stability** to justify ability for **acquisitions in five years**.

Conclusion

In order to successfully sell to these companies, an **equity story** should be told (McKinsey 2019), which is something that various General Partners often forget or do not spend much time on, mainly prioritizing the planning of the LBO acquisition. An equity story is a **way of presenting a company** to potential buyers who should be attracted by the specificities of VAA's background and applicability to their goals and business model. In this case, the equity story both for LVMH and Kering starts with the fact that the purchase of VAA would mean acquiring a top luxury tableware manufacturer with a **high geographical range** and **leading EBITDA margins** coming from a well-established customer base, unique cost benefits, and over two hundred years of expertise. This deep-rooted and proven business model guarantees **recurring cash generation and** is being further **expanded** throughout the holding period. These expansions occur on a **production capacity** and **market range** levels. As a result, VAA will **expand its most efficient factory** and **acquire one of the major players in its domestic market** while increasing its brand name and deepening operations in strong but low presence markets. These strategies appear to be safe and feasible as they are mainly dependent on a **capacity expansion** and an **acquisition**, which are procedures with which VAA's experienced management team is **already familiarized**.

Furthermore, besides the growth achieved during the holding period, there is also **room for growth** in the countries and segments where VAA is present. Moreover, there are **synergies**

from which the buyer could leverage by exploring the existing **distribution and selling channels**. All this turns VAA into a very attractive target to enter the **tableware** sector and improve the **European exposure** for both buyers analysed.

All in all, in this analysis, it was possible to comprehend how an exit strategy **fits** in an **LBO** and in the responsibilities of the **fund managers**. These should constantly **adapt** the strategy whenever they deem it necessary and constantly check up on **requirements** demanded by targeted buyers. Moreover, the main types of exit strategies were presented, and their advantages and disadvantages were discussed in light of VAA's LBO. After a careful analysis, it was concluded that a **strategic sale** would be the best exit route considering VAA's current **size** and **room for growth**. Furthermore, VAA has a business model that is simple enough to **integrate** and **potentiate synergies** (attractive for strategic buyers), and, despite having a global range, it is not yet recognized enough to ensure the purchase of a financial buyer (secondary sale). Finally, an in-depth analysis of key luxury groups was made considering M&A background, geographical presence, business model and financials, reaching *LVMH*.

Appendix

Table 1 – Prominent players in the sector, along with their EBITDA margins

Key Players	EBITDA Margin
VAA	22%
Libbey	n.a.
Fiskars	16%
Villeroy & Boch	14%
Baccarat	20%
BHS Tabletop	n.a.
Portmeirion	11%
Noritake	11%
Churchill China	14%
Degrenne	n.a.

Table 2 – Projected Revenue Growth (Investment Case)

Revenues (€M)	2021	2022E	2023E	2024E	2025E	2026E	2027E
Porcelain	42,5	48,9	54,2	58,0	61,0	63,5	65,9
Stoneware	50,4	64,5	69,8	74,4	77,3	79,6	81,4
Crystal and glass	11,7	16,0	17,0	17,9	18,8	19,6	20,4
Earthenware	12,4	16,0	17,1	18,0	18,9	19,7	20,4
Core Revenues	117,0	145,4	158,2	168,4	175,9	182,4	188,1
<i>% Growth</i>	6,0%	24,3%	8,8%	6,5%	4,5%	3,7%	3,1%
Ria Stone Expansion	-	-	-	29,7	29,7	29,7	31,5
Buy-and-build	-	-	-	-	38,4	39,4	40,2
Add-ons Revenues	0,0	0,0	0,0	29,7	68,1	69,1	71,7
Total Revenues	117,0	145,4	158,2	198,1	244,0	251,5	259,8
<i>% Growth</i>	6,0%	24,3%	8,8%	25,3%	23,2%	3,1%	3,3%

Table 3 – Projected Costs and EBITDA Growth (Investment Case)

Costs (€M)	2021	2022E	2023E	2024E	2025E	2026E	2027E
Total COGS	38,6	48,9	51,8	54,4	56,7	58,9	60,7
COGS as % of Sales	33,0%	33,6%	32,8%	32,3%	32,3%	32,3%	32,3%
Core Gross Profit	79,8	96,5	106,4	114,0	119,2	123,6	127,4
SG&A	64,0	67,9	71,9	75,7	78,7	81,4	83,9
Core EBITDA	25,8	35,4	40,2	43,6	44,6	46,3	47,7
Ria Stone Expansion	-	-	-	7,4	7,9	8,4	10,7
Ria Stone Margin %	-	-	-	25,0%	26,6%	28,3%	33,9%
Buy-and-build	-	-	-	-	10,7	11,1	11,4
Buy-and-build Margin %	-	-	-	-	27,8%	28,1%	28,3%
Add-ons EBITDA	0,0	0,0	0,0	7,4	18,6	19,4	22,1
Group Cash EBITDA	25,8	35,4	40,2	51,0	63,1	65,8	69,8
<i>% EBITDA Margin</i>	22,0%	24,4%	25,4%	25,7%	25,9%	26,2%	26,9%

Table 4 – Projected FCF Growth (Investment Case)

FCF (€M)	2021	2022E	2023E	2024E	2025E	2026E	2027E	CAGR
Total EBITDA	€25,8	€35,4	€40,2	€51,0	€63,1	€65,8	€69,8	14,52%
Taxes	-€2,0	-€5,2	-€2,3	-€3,7	-€5,2	-€5,8	-€6,8	
Other adjustments to FCF	€0,5	€0,5	€0,6	€0,6	€0,6	€0,6	€0,6	
Maintenance CAPEX	-€6,0	-€6,0	-€6,0	-€7,5	-€13,6	-€13,7	-€13,8	
Expansion CAPEX	-	€0,0	-€41,0	€0,0	€0,0	€0,0	€0,0	
Acquisition CAPEX	€0,0	€0,0	€0,0	-€54,6	€0,0	€0,0	€0,0	
(minus) Changes in NWC	-€0,7	-€2,4	-€0,7	-€0,2	€0,3	€0,5	€0,7	
Free Cash Flow to Firm	€17,6	€22,4	-€9,3	-€14,5	€45,2	€47,4	€50,6	17,74%
% Growth		27%	-141%	-56%	412%	5%	7%	
Free Cash Flow to Firm (excl. acq. and exp. CAPEX)	€17,6	€22,4	€31,7	€40,1	€45,2	€47,4	€50,6	17,74%
% Growth		27%	42%	26%	13%	5%	7%	

Table 5 – Trading Comparables, 10-year Through-the-Cycle Comparables

Companies (without Villeroy & Boch)	2021	2021 Multiple Average	10 Year Median	10 Year Multiple Median Average
BACCARAT AS	7,49x	10,12x	14,58x	8,39x
BHS Tabletop AG	-	10,12x	4,02x	8,39x
Churchill China PLC	24,59x	10,12x	9,40x	8,39x
Degrenne	-	10,12x	9,50x	8,39x
FISKARS OYJ ABP	10,26x	10,12x	11,61x	8,39x
LIBBEY INC	-	10,12x	7,04x	8,39x
NORITAKE CO LTD	6,70x	10,12x	8,35x	8,39x
Portmeirion Group PLC	10,14x	10,12x	8,94x	8,39x
Median	10,14x		9,17x	

Table 6 – Precedent Transactions

Ann. Date	Target	Acquirer	Deal Value (million)	EV/EBITDA
13/10/2011	Universal Industries Corporation	Ethos Private Equity	€74,00	9,40x
21/05/2012	KCM Corp	Noritake Co Ltd/Nagoya Japan	€35,99	0,98x
01/12/2012	Royal Copenhagen	Fiskars	€66,00	8,00x
10/05/2015	WWrd	Fiskars	€406,00	10,00x
02/06/2015	LONGTU KOREA Inc	King Power International Group Co Ltd, LongTu Game HK Ltd,Far creative Ltd	€17,47	8,19x
14/12/2015	Jarden Corp	Newell Brands Inc	€16,0t	19,34x
21/03/2016	Hydro Flask	Helen of Troy	€192,00	12,00x
05/05/2016	Wax lyrical Limited	Portmeirion	€21,42	8,30x
06/02/2017	Baccarat	Fortune Fountain Capital Ltd	€164,00	16,31x
22/12/2017	Filament Brands	Lifetime Brands	€277,47	6,30x
25/02/2019	Furlong Mills Limited	Churchill China	€3,80	10,40x
17/07/2019	Nambé LLC	Portmeirion	€12,24	10,90x
31/12/2021	Hunter Douglas NV	Private Investor,3G Capital Inc	€390,27	7,34x
Median	9,40x			

Table 7 – DCF (Gordon’s Growth Model) – Enterprise Value

		Terminal growth rate				
		0,9%	1,4%	1,9%	2,4%	2,9%
WACC	6,8%	€921	€989	€1,071	€1,172	€1,299
	7,3%	€861	€919	€987	€1,069	€1,171
	7,8%	€810	€859	€917	€985	€1,068
	8,3%	€764	€807	€857	€915	€984
	8,8%	€724	€762	€805	€855	€913

Table 8 – DCF (Gordon’s Growth Model) – EV/EBITDA Multiple

		Terminal growth rate				
		0,9%	1,4%	1,9%	2,4%	2,9%
WACC	6,8%	26,0x	27,9x	30,2x	33,1x	36,7x
	7,3%	24,3x	25,9x	27,9x	30,2x	33,0x
	7,8%	22,8x	24,2x	25,9x	27,8x	30,1x
	8,3%	21,6x	22,8x	24,2x	25,8x	27,8x
	8,8%	20,4x	21,5x	22,7x	24,1x	25,8x

Table 9 – DCF (Exit Multiples) – Enterprise Value

		Exit Multiple				
		8,6x	9,1x	9,6x	10,1x	10,6x
WACC	6,8%	452	465	477	490	503
	7,3%	437	449	461	473	485
	7,8%	422	433	445	456	467
	8,3%	408	418	429	440	451
	8,8%	394	404	415	425	436

Table 10 – DCF (Exit Multiples) – EV/EBITDA Multiple

		Exit Multiple				
		8,6x	9,1x	9,6x	10,1x	10,6x
WACC	6,8%	12,8x	13,1x	13,5x	13,8x	14,2x
	7,3%	12,3x	12,7x	13,0x	13,3x	13,7x
	7,8%	11,9x	12,2x	12,5x	12,9x	13,2x
	8,3%	11,5x	11,8x	12,1x	12,4x	12,7x
	8,8%	11,1x	11,4x	11,7x	12,0x	12,3x

Table 11 – Sources and Uses

Sources	M€	x EBITDA	%	Uses	%	€ M
Senior Debt				EBITDA 2022		35
Term Loan A	18	0,5x	5%	Entry EV/EBITDA		9,6x
Term Loan B	53	1,5x	15%	Enterprise Value		341
Term Loan C	89	2,5x	24%			
Subordinated Debt				Net debt (excess cash)		-61
Mezzanine	0	0,0x	0%	Debt Like Items		-20
Total Debt	159	4,5x	44%	Purchase VAA		261
				Equity		
Shareholder Loan (FRI)	173	4,9x	48%			
Ordinary Equity	29,3	0,8x	8%	Financing Fees	3,5%	11,9
Institutional	27,9		95%	Arrangement Fees	2,3%	7,8
Sweet Equity	1,3		5%	DD Fees	0,2%	0,7
Total Equity	202	5,7x	56%	Fees	6,0%	20
Total Sources	362	10,2x	100%	Total Uses	100%	362

Table 12 – Debt and Equity Terms and Pricing

Instrument	Term (Years)	Type of Amort.	x EBITDA	€ Millions	Interest Rate
Term Loan A	6	amort	0,5x	18	8,29%
Term Loan B	7	bullet	1,5x	53	8,39%
Term Loan C	8	bullet	2,5x	89	8,46%
Shareholder Loan (FRI)	9	bullet	4,9x		16% PIK Element
Ordinary Share Institutional Investor				27,9	
Ordinary Shares Management				1,3	

Table 13 – Acquisition Credit Facility Details (Investment Case)

Acquisition Credit Facility	
Size	€96M
% Funded	70%
Interest Rate	7,90%
Commitment Fee	1,60%
Drawdown Period (years)	2
Repayment Period (years)	4

Table 14 – Proposed Covenants (Investment Case)

	2023E	2024E	2025E	2026E	2027E
Cash	26,1	32,5	41,8	52,9	66,1
Cash Flow	4,1	6,4	9,3	11,1	13,2
Cash Cover	1,26x	1,36x	1,47x	1,55x	1,63x
Interest Cover	2,72x	3,04x	3,56x	4,04x	4,77x
Net Debt / EBITDA	4,03x	3,80x	2,64x	2,08x	1,45x

Table 15 – Evaluated Capital Structures (Investment Case)

Instrument	Structure 1	Structure 2	Structure 3	Structure 4
Term Loan A	0,0x	1,5x	0,0x	0,5x
Term Loan B	1,0x	1,0x	2,0x	1,5x
Term Loan C	2,5x	1,0x	2,0x	2,5x
Mezzanine	1,0x	1,0x	0,5x	0,0x
Total Debt	4,5x	4,5x	4,5x	4,5x
Equity Contribution	5,7x	5,7x	5,7x	5,7x
Total Sources of Funds	10,2x	10,2x	10,2	10,2x
<i>Management Returns</i>	<i>6,44x</i>	<i>6,48x</i>	<i>6,74x</i>	<i>7,10x</i>
<i>Institutional Returns</i>	<i>2,70x</i>	<i>2,71x</i>	<i>2,75x</i>	<i>2,80x</i>
<i>IRR</i>	<i>22,0%</i>	<i>22,1%</i>	<i>22,4%</i>	<i>22,8%</i>

Table 16 – Institutional and management returns in the Investment Case

	2022	2023	2024	2025	2026	2027
Management Entry Value	€1	€1	€1	€1	€1	€1
Management Exit Value	€1	€1	€3	€8	€8,3	€9,3
Management MM	1,05x	0,84x	2,20x	5,85x	6,28x	7,10x
Management IRR		-16%	48%	80%	58%	48%
Institutional Investors Equity	€201	€201	€201	€201	€201	€201
Institutional Investors Proceeds	€202	€224	€294	€433	€488	€562
Fund Money Multiple	1,01x	1,12x	1,46x	2,16x	2,43x	2,80x
Fund IRR		11,6%	21,0%	29,2%	24,9%	22,8%

Table 17 – Institutional and management returns in the Bank Case

	2022	2023	2024	2025	2026	2027
Management Entry Value	€1	€1	€1	€1	€1	€1
Management Exit Value	€1	€0	€1	€5	€4,8	€4,9
Management MM	1,05x	0,21x	0,54x	3,96x	3,67x	3,72x
Management IRR		-79%	-27%	58%	38%	30%
Institutional Investors Equity	€201	€201	€201	€201	€201	€201
Institutional Investors Proceeds	€202	€207	€248	€381	€416	€467
Fund Money Multiple	1,01x	1,03x	1,23x	1,89x	2,07x	2,33x
Fund IRR		2,8%	11,0%	23,7%	19,9%	18,4%

Table 18 – LVMH’s sales by region

Region	Sales (in €B)	%
Europe	€ 14B	22%
Asia	€ 27B	42%
North America	€ 17B	26%
Other	€ 7B	11%

Table 19 – Kering’s sales by region

Region	Sales (in €B)	%
Europe	€ 4B	22%
Asia	€ 8B	44%
North America	€ 5B	28%
Other	€ 1B	6%

Table 20 – Richmond’s sales by region

Region	Sales (in €B)	%
Europe	€ 4B	23%

Asia	€ 9B	47%
North America	€ 4B	22%
Other	€ 2B	8%

Table 21 – Capri’s sales by region

Region	Sales (in €B)	%
EMEA	€ 2B	33%
Asia	€ 1B	17%
America	€ 3B	50%

Table 22 – Puig’s sales by region

Region	Sales (in €B)	%
EMEA	€ 2B	63%
Asia	€ 0,2B	6%
America	€ 1B	31%

Figure 1 – EBITDA bridge

Evolution of EBITDA on the investment period, Expected increase in EBITDA from €35M in 2022 to €70M in 2027.

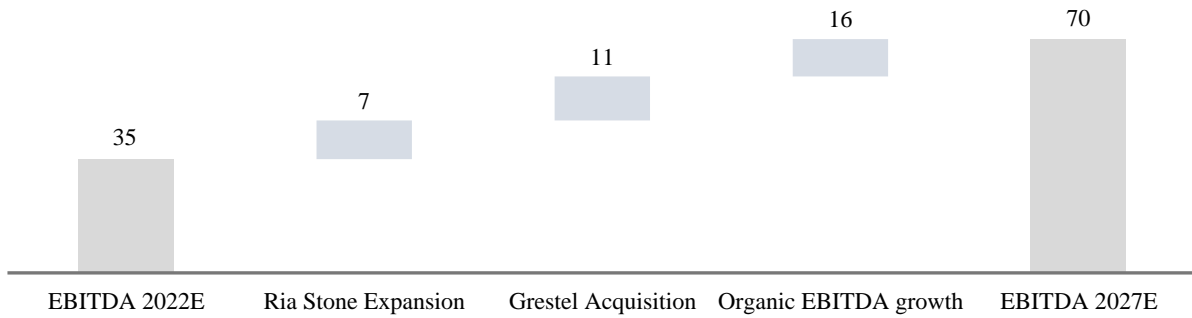


Figure 2 – Football Field Chart (EV/EBITDA Multiples)

Summary of the range of values of a business based on the five valuation methods. VAA was valued at an EV/EBITDA multiple of 9,63x.

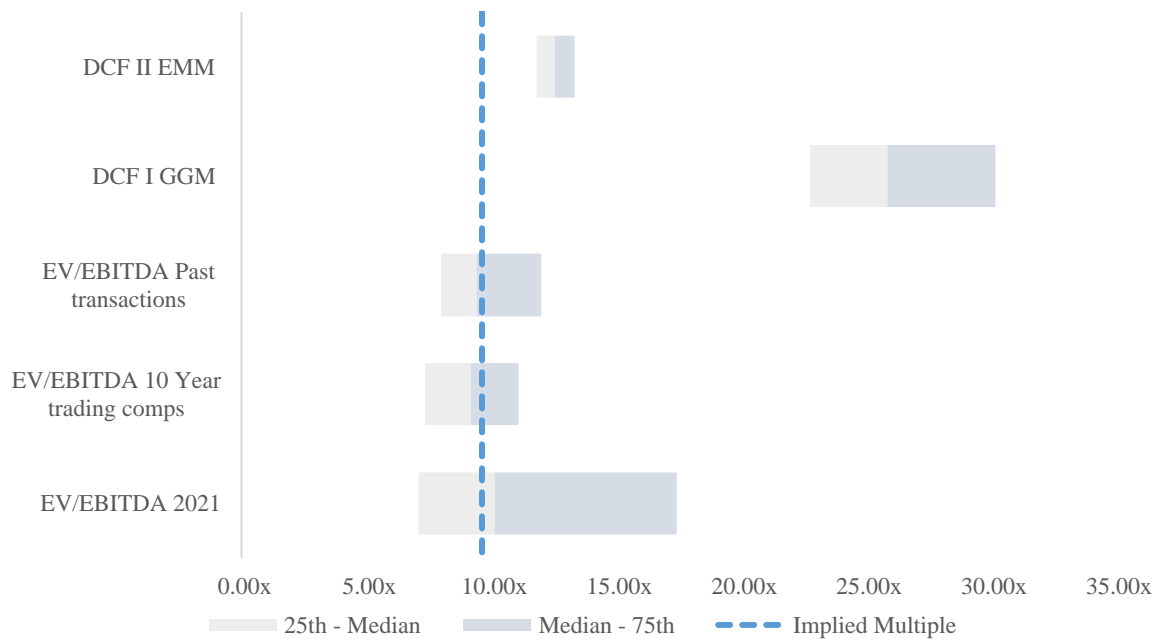


Figure 3 – Football Field Chart (Enterprise Value)

Summary of the range of values of a business based on the five valuation methods. Vista Alegre was valued at an enterprise value of €341 million.

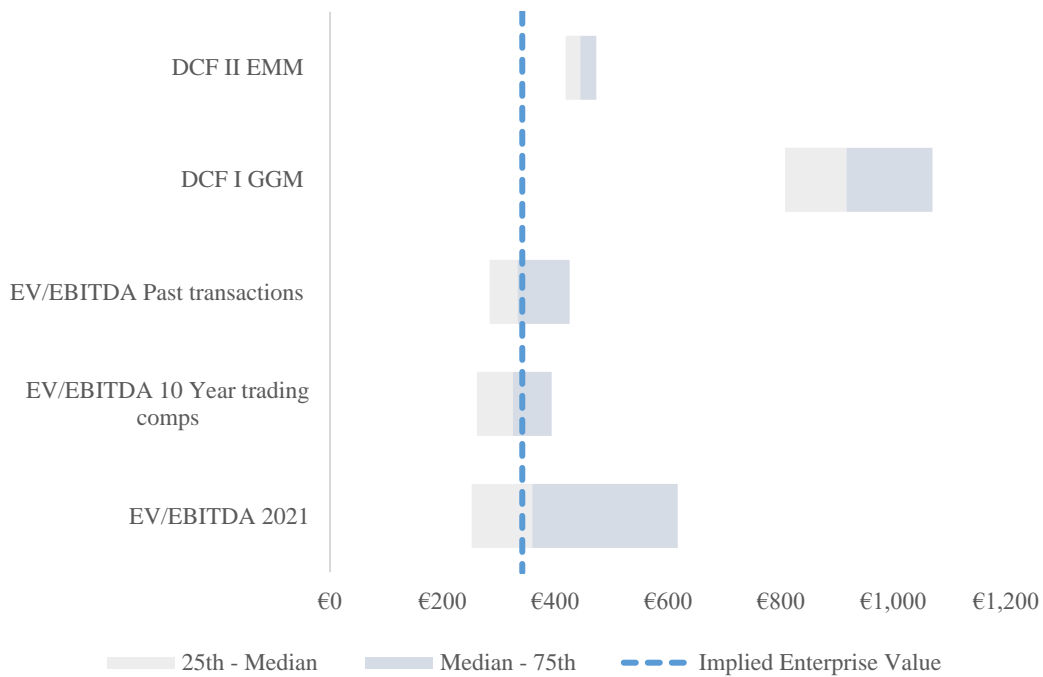


Figure 4 – Exit Waterfall

From the €672M generated in Enterprise Value, €562M corresponds to institutional proceeds and €9.3M corresponds to management proceeds. The remaining proceeds go to debt.

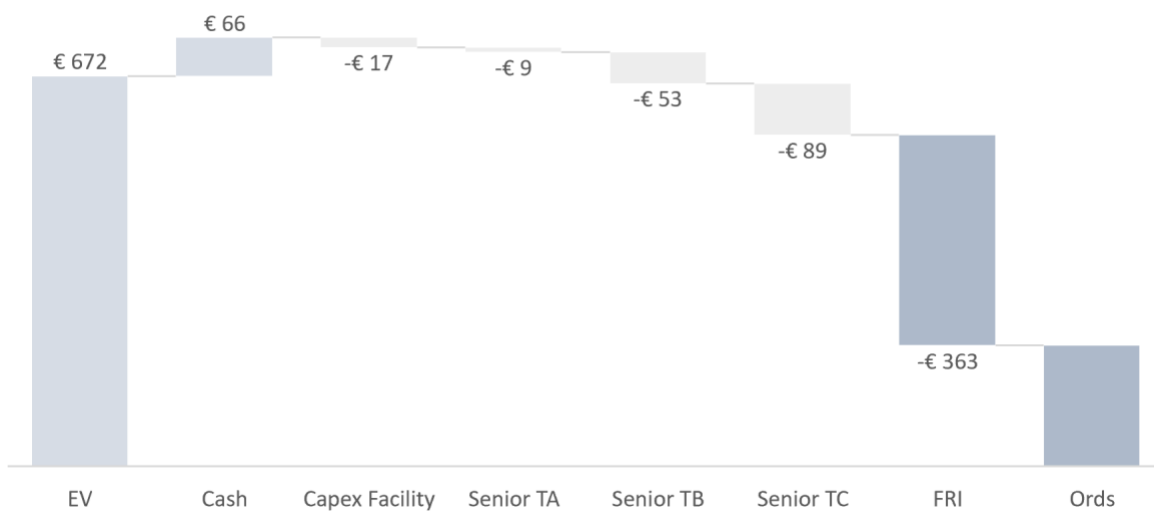
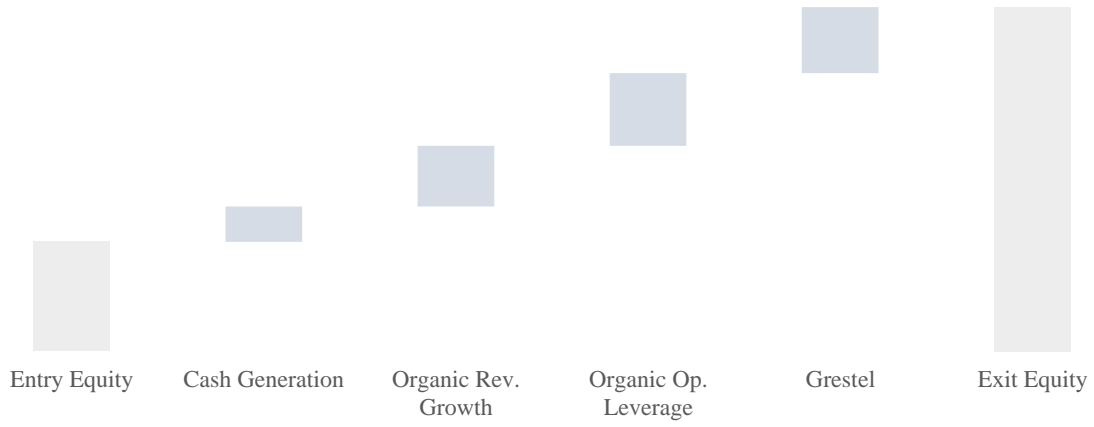


Figure 5 – Equity Returns

Organic operating leverage is the main driver for returns generation, responsible for 31% of value creation. Next is Grestel acquisition, creating 28% additional value.



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