

## CORTICEIRA AMORIM

FOREST PRODUCTS

STUDENT: TIAGO ARAÚJO

## COMPANY REPORT

03 JANUARY 2017

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**Cork's crème de la crème***Continues to set the pace in the cork industry*

- This report concludes a valuation of the Portuguese company Corticeira Amorim ("ENTXLS:COR") with a **buy** recommendation, valuing COR at €15.63, representing a 51.8% upside vs. the current price of €10.30.
- The price reflects an EV of approximately €2,245m, or 13.7x EBITDA, which stands above consensus' EV of €1,627m, and 10.9x EV/EBITDA multiple.
- My valuation reflects a more bullish development of Corticeira's efficiency, anticipating a 22.27% EBITDA margin in 2018, +249bps above consensus.
- The majority of COR's value comes from its stoppers division, representing c. 65% (€10.11) out of the total price target (€15.63), where Corticeira will keep enjoying from its leading condition as the world's cork stopper #1 player, producing 4.4bn cork stoppers out of a 12bn universe.
- This valuation believes that investors are paying for stoppers today while the rest of divisions are at discount, especially the Coverings segment, which should represent alone c. 20.4% of 2018's price target.
- Biggest risk for COR's profitability will be fires, as they have the capacity to jeopardize the production and reproduction of cork. In case 5% of COR's production gets damaged, a 4.2% decrease in the share price is expected, which compares to a 1.7% drop in price in case of a 5% appreciation of the \$US.

**Recommendation: BUY**Vs Previous Recommendation *n.a***Price Target FY18: 15.63 €**Vs Previous Price Target *n.a***Price (as of 29-Dec-17) 10.30 €**

Capital IQ

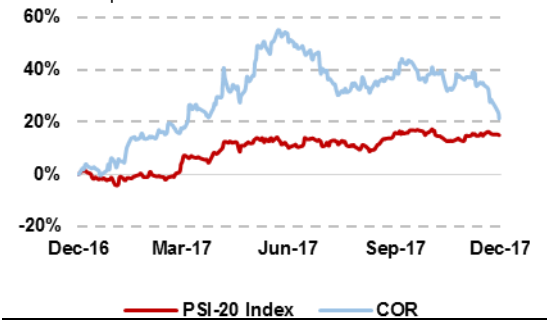
52-week range (€) 8.18-13.30

Market Cap (€m) 1,369.9

Outstanding Shares (m) 133.0

Float 25.1%

Source: Capital IQ



Source: Capital IQ

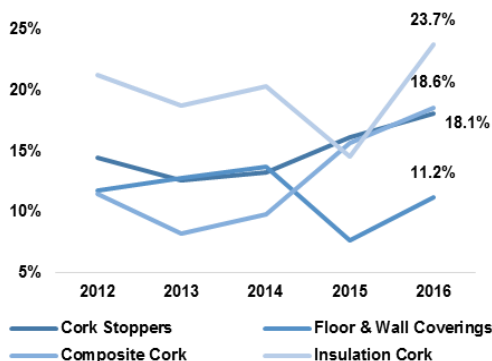
(Values in € millions)	2016	2017E	2018F
Revenues	641,411	688,063	736,677
EBITDA	122,347	149,141	164,052
EBITDA Margin	19.1%	21.7%	22.3%
EBT	142,592	118,745	125,487
Net Profit	104,712	89,059	94,116
Net Debt	35,889	132,343	165,694
Net Debt/EBITDA	0.3x	0.9x	1.0x
Net Capex	34,699	40,000	45,000
EV/EBITDA	17.5x	14.6x	13.7x
EPS	0.79	0.67	0.71
P/E	13.1x	23.0x	22.1x

## Table of Contents

<b>VALUATION .....</b>	<b>3</b>
<b>COMPANY OVERVIEW .....</b>	<b>11</b>
COMPANY DESCRIPTION .....	11
SHAREHOLDER STRUCTURE .....	13
MANAGEMENT TEAM.....	13
<b>WINE INDUSTRY .....</b>	<b>14</b>
<b>CORK INDUSTRY .....</b>	<b>17</b>
<b>FLOOR &amp; WALL COVERINGS INDUSTRY .....</b>	<b>20</b>
<b>TRADE COMPARABLES.....</b>	<b>25</b>
RESEARCH RECOMMENDATIONS.....	28

# Valuation

EBITDA Margin Evolution p/ Business Unit (2012-2016)



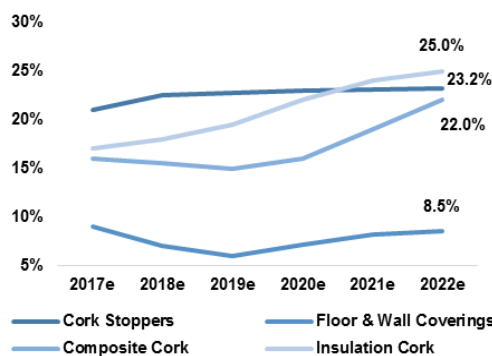
## Corticeira runs at a different pace than any other competitor

Corticeira holds the crown of the Cork industry. Its dominance turns finding a company that we can call “peer” into a hard exercise. The company’s performance moves onwards an upwards, as sales keep growing (+4.7% CAGR 2012-2016 vs. +6.3% CAGR 2017-2022 estimated) and margins improving (from 2016 to 2022 EBITDA margin will improve, on average, 70bps per annum). COR’s cork stoppers are present in more than one-third of the total cork stoppers present in bottles (36.7% in 2016).

## Oeneo, a “kind” of competitor

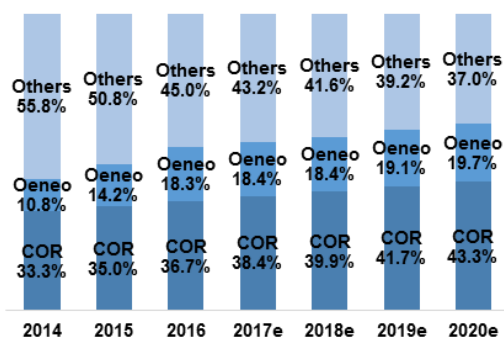
Oeneo stands has the only trading peer whose core activity is the manufacturing and distribution of cork stoppers. The French company puts together two related activities: production of wine and manufacturing of cork stoppers. However, Oeneo stands as a second distant competitor, as it has not proven yet its ability to compete with COR’s worldwide presence.

EBITDA Margin Evolution p/ Business Unit (2017-2022)



If we compare both companies in terms of Revenue (considering only cork stoppers sales and excluding other business units), Corticeira registered Revenue 2.6x larger than Oeneo in 2016. Comparing COR’s Revenue forecast (calculated by me) with Oeneo’s Revenue forecast (based on analysts’ consensus) – taken in account only cork stoppers sales and excluding other business units – we can conclude that the gap between Corticeira and Oeneo will remain considerable. In 2016, COR generated Revenue 2.6x higher than its French peer, and in 2017 the difference will grow to 2.7x. From 2018 onwards, the gap between the world’s number one and number two cork stopper producers will stabilize at 2.8x, translating into approximately a €360m difference by 2020.

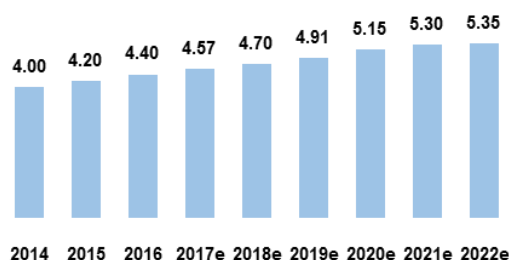
Cork Stoppers Market Share



In terms of units, in 2016 Corticeira Amorim sold 2x more stoppers (4.4bn) than the French company (2.2bn). Assuming a 3% growth in price per unit for both companies (COR’s unit price in 2016: €0.095; Oeneo’s unit price in 2016: €0.073), I conclude that Corticeira will continue to sell between 2.1x to 2.2x more stoppers than Oeneo. Corticeira Amorim will breach the 5bn barrier in 2019.

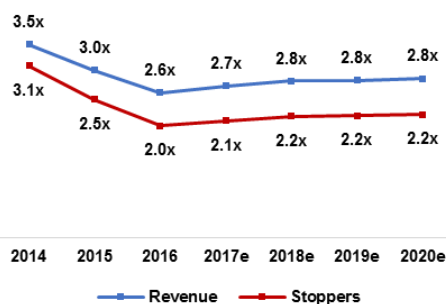
Regarding market shares, the Portuguese company posted a 36.7% market share in 2016, which I believe will grow c. 6.6% until 2020. My forecast assumes a conservative approach that the total market size for

COR's Cork Stoppers Production in billions of units



stoppers will remain unchanged at 12bn units, approximately 66.7% of the total number of bottles in the world – 18bn. Oeneo will also keep growing its market share, however at a different pace than its Portuguese competitor (1.4% from 2016 to 2020). Corticeira will grow from 36.7% in 2016 to 38.4% in 2017, 39.9% in 2018, 41.7% in 2019 and 43.3% in 2020, while Oeneo will grow from 18.3% in 2016 to 18.4% in 2017 and 2018, 19.1% in 2019 and 19.7% in 2020.

COR vs. Oeneo



Given the size of Corticeira and Oeneo – the only cork stopper manufacturers quoted – and their recent history of inorganic growth, (Corticeira Amorim acquired Sodiliège and Bourrasé (60% stake) in 2017, and Oeneo acquired Galileo (52% stake) in 2017, Piedade Group in 2015, Vivelys and Boise France in 2014), additional market share could arise from more acquisitions. The scope for going back to the market is also enlarged by both companies low leverage levels. For the Portuguese firm, Net Debt-to-EBITDA ratio is expected to increase from 0.3x in 2016 to 0.9x in 2017 (0.5x higher than analysts' consensus), and then to 1.0x in 2018 (0.8x higher than analysts' consensus), remaining unchanged until 2022. Regarding Oeneo, there are no estimates for the financial leverage levels from 2017 onwards. Analysts expected the French company to post a 1.1x Net Debt/EBITDA in 2017.

Moreover, due to its endogenous characteristics, the cork industry depends on scarce but highly knowledgeable people, as well as on the tight and long-lasting relations with landlords and wine producers. Therefore, acquiring smaller companies and professionalizing their structures is an easier and faster strategy in comparison with trying to compete locally with incumbents.

### COR vs. Oeneo

€000s	2014	2015	2016	2017e	2018e	2019e	2020e
<b>Revenue</b>							
COR	353,306	388,493	417,592	450,999	482,569	518,762	555,075
Oeneo	102,300	129,800	161,400	166,571	172,278	184,196	195,094
<b>Units (000s)</b>							
COR	4,000,000	4,200,000	4,400,000	4,613,592	4,792,761	5,002,153	5,196,412
Oeneo	1,300,000	1,700,000	2,200,000	2,204,348	2,213,472	2,297,674	2,362,727
<b>Market Share</b>							
COR	33.3%	35.0%	36.7%	38.4%	39.9%	41.7%	43.3%
Oeneo	10.8%	14.2%	18.3%	18.4%	18.4%	19.1%	19.7%
Combined	44.2%	49.2%	55.0%	56.8%	58.4%	60.8%	63.0%

### **COR's dominance reaches the entire value chain of cork**

Corticeira does not own land, but its long-term experience and relationship with landlords, together with its unassailable purchasing power, places the firm in a privileged position when it comes to purchase raw materials. This factor has tremendous importance in an industry where its raw material is scarce and its reproduction very particular. As its present in the Cork Industry analysis section, *montado* areas are not in danger but it represents a strong structural barrier for players thinking on entering the industry. Long-term relations with landlords are crucial for incumbents to ensure access to a very limited resource.

Besides its tradition, Corticeira benefits from scale, and is present in countries that cover 94.4% of the world's total *montado* area: Portugal, Spain, Algeria, Morocco and Tunisia. Besides COR's and Oeneo's dominant presence – the two companies combined accounted for 55% of the total market share in 2016 – the rest of the market is highly fragmented, been disputed by small and local traditional cork producers, especially in Portugal and Spain, where abundance of cork oak trees is combined with traditionally high per capita wine consumption.

These competitors consist mainly of landlords whose lands are owned by their families for a long time ago, and thanks to the relations developed with wine producers (sometimes they also have their own vineyards), take advantage of their lands' climate and topographic conditions to capitalize the cork oak trees they have sitting there.

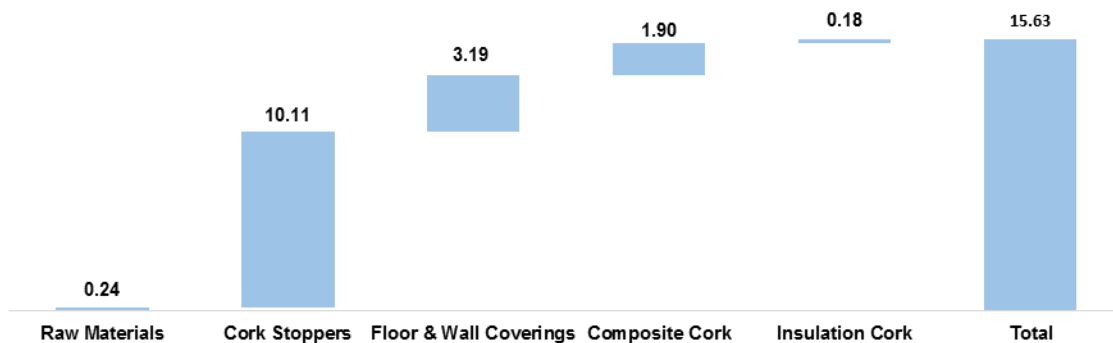
Contrary to other smaller incumbents, Corticeira's scale allows the group to have a strategic presence in both cork producing countries (having a wide architecture of relationships with relevant parties such as landlords) and top wine consuming countries, like France, Italy, or Chile. By having multiple industrial units (30), distribution companies (83) and local agents (248) spread across the globe, COR can allocate its resources and strategies according to each market's trend, as it spreads its costs through the different subsidiaries.

This strategy has allowed the group to i) remain leader in more mature markets such as the Italian market; ii) set foot since the beginning in emerging markets like the Chinese or the South African; iii) and resiliently fight against other popular closure alternatives, like in the Australian screwcap-lover market case.

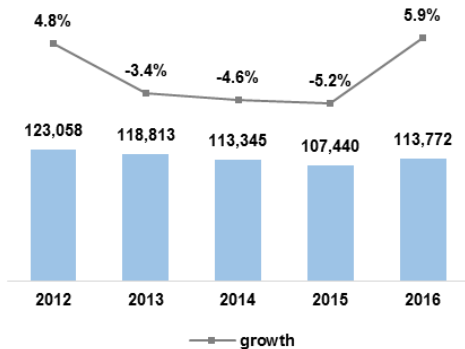
### The cork stoppers market is not saturated and Amorim can keep growing

The wine market is shifting towards more sophisticated wines, as the US and Chinese consumers are increasing their preference over more premium wine options. These premium options will tend to benefit Corticeira, as cork stoppers are preferred by top wine producers to seal their bottles, while more economic wines choose alternative closures. Several market studies point that consumers are willing to pay a premium for a cork-sealed bottle (see Wine Industry section).

Business Unit Contribution for Share Price



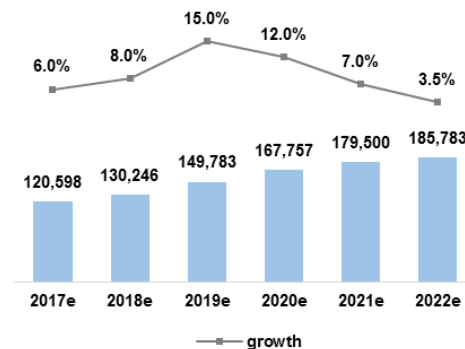
Floor & Wall Coverings Revenue (2012-2016)



### Stoppers will remain providing the floor for COR's consolidation...

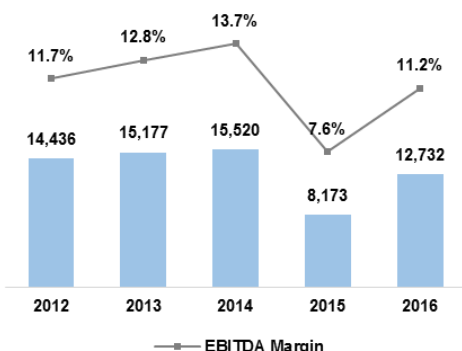
Stoppers double effect of increase in sales and margins will keep fuelling Corticeira's growth. EBITDA margins are expected to reach all-time highs of more than 20% (21.0% in 2017, 22.5% in 2018, 22.7% in 2019 and 23.0% in 2020), combined with 7.0-8.0% growth rates from 2017 to 2020 (8.0% in 2017, 7.0% in 2018, 7.5% in 2019 and 7.0% in 2020). By 2022 I expect cork stoppers sales to reach ~€600m, approximately 94% of 2016's Total Revenue. From 2017 to 2018 COR's core activity will contribute 62% to 67% of the total Group's EBITDA.

Floor & Wall Coverings Revenue (2017-2022)



Regarding contribution for the share price, I expect the stoppers business to contribute with 64.7% of the total €15.63 price, representing €10.11, very close to the current share price. I conclude that the market is pricing fairly the cork stoppers division, while the rest of the businesses are discount. The Coverings Division stands as the segment with the highest untapped potential, thus I anticipate that it will represent €3.19 of 2018's share price (approximately 20%), c. 1.7x larger than COR's third largest division – Composite Cork. The other 2 business segments – Raw

Floor & Wall Coverings EBITDA (2012-2016)



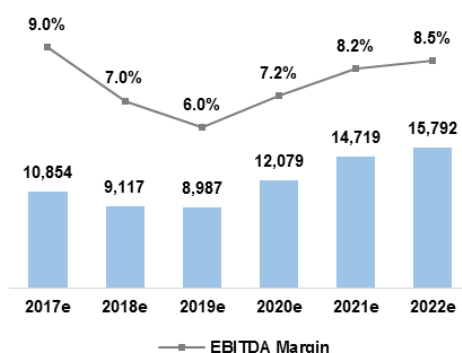
Materials and Insulation Cork, will continue to have residual contribution to COR's value.

**...but more value is expected to be unlocked by Coverings**

This valuation reflects the belief of COR taking advantage of the positive US market for Coverings. By doing so, Floor & Wall Coverings will distance itself as the undisputable 2<sup>nd</sup> business unit of Corticeira Amorim, representing one-fifth of Corticeira's value.

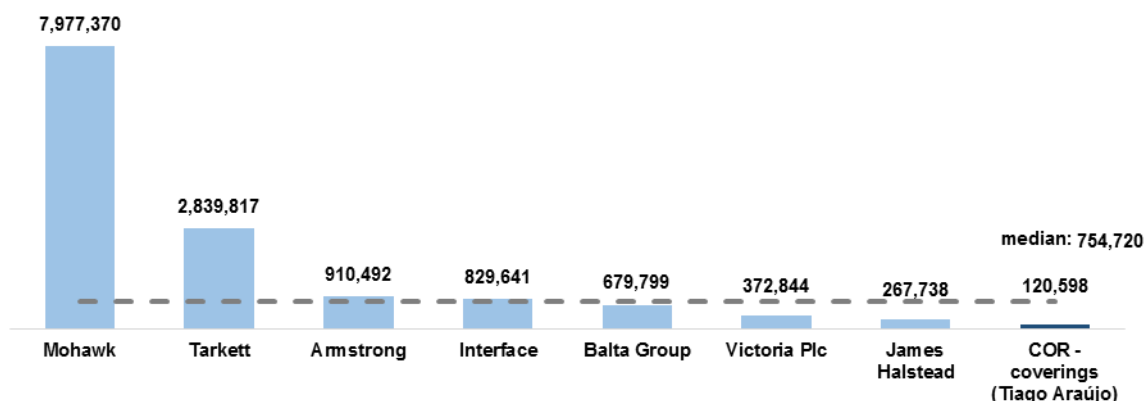
The company already i) occupies the unassailable leading position in the Stoppers business, ii) generates relatively low value from its Raw Materials (represents COR in the earliest stage of the value chain, by supplying the other divisions of the group) and Insulation Cork segments, and iii) I do not forecast any significant change in the complementary industries of the Composite Cork business, meaning that Floor & Wall Coverings stands has the activity with most build-up upside potential.

Floor & Wall Coverings EBITDA (2017-2022)



Corticeira Amorim acts as a relatively small player in a fairly large industry. Top players such as Armstrong, Tarkett or Mohawk, will generate Revenue in 2017 of c. €910m, c. €2,840m, and c. €7,980m, respectively (as per analysts' estimations). Recall that COR's Covering's division posted Revenue of €114m in 2016.

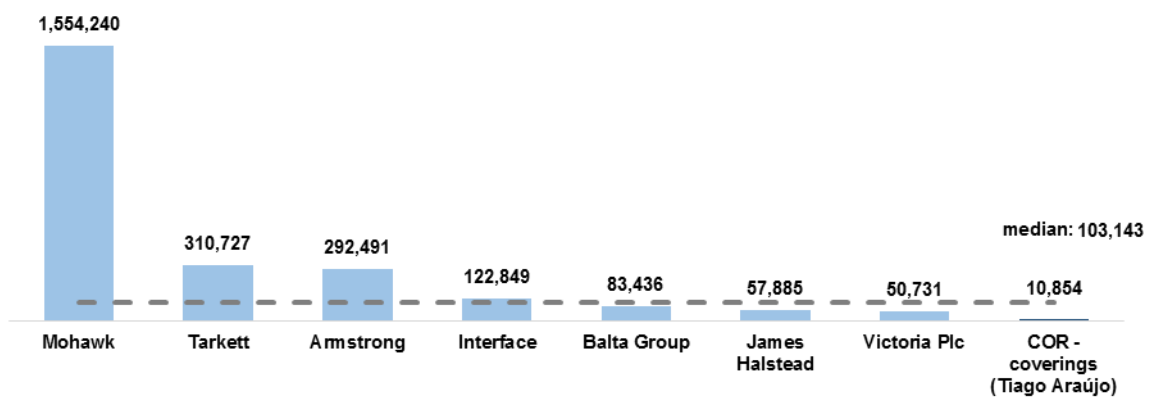
2017 Revenue (€000s)



The present valuation expects COR to capitalize on the industry's positive dual effect growth: growth in price per square meter (from \$US 3.45 per sqm in 2013 to \$US 3.63 per sqm in 2016), and growth in volume (from 5.4bn meters in 2013 to 5.8bn meters in 2016). These dual effects have resulted in interesting growth margins in the last years: 6.4% in 2012, 9.1% in 2013, 6.9% in 2014 and 4.2% in 2015.

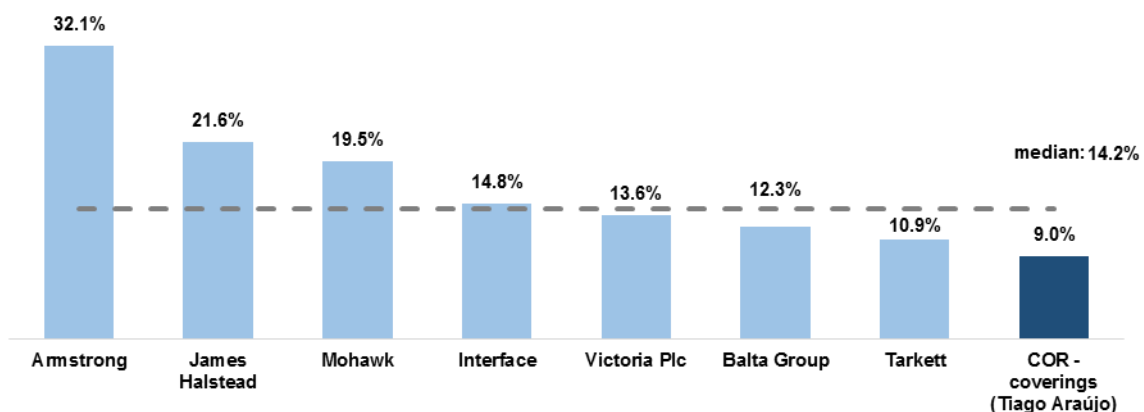
To capitalize current Coverings' sales – I estimate Coverings sales to post 9% CAGR from 2017 to 2022, translating into ~€72m additional Revenue in comparison with 2016's values – I expect Corticeira Amorim to increase its marketing efforts, thus sacrificing margins in exchange for a higher turnover and brand awareness, looking to position themselves as the specialized option for one who is looking for a cork covering, distancing themselves from larger generalist competitors.

2017 EBITDA (€000s)



In the last 5 years, the Coverings segment posted double-digit EBITDA margins in 4 periods (2012: 11.7%; 2013: 12.8%; 2014: 13.7%; 2015: 7.6%; 2016: 11.2%). I estimate that in the next 6 years EBITDA margins will stay below the double-digit mark mainly due to the incremental commercial effect to increase sales. Therefore, I expect the Coverings segment to remain below its peers EBITDA margins.

2017 EBITDA Margin



## Sensitivity Analysis

To analyse the sensitivity of the valuation, I believe the following variables are the most important ones to take into consideration: EBITDA Margin and Weighted Average Cost of Capital (WACC).

### Sensitivity Analysis of COR's share price

		EBITDA Margin						
		-150bps	-100bps	-50bps	-	+50bps	+100bps	+150bps
WACC	9.65%	9.79	9.81	9.83	9.85	9.87	9.89	9.91
	8.65%	11.18	11.20	11.22	11.24	11.26	11.28	11.30
	7.65%	13.02	13.04	13.06	13.08	13.10	13.12	13.14
	6.65%	15.57	15.59	15.61	15.63	15.65	15.67	15.69
	5.65%	19.33	19.35	19.37	19.39	19.41	19.43	19.45
	4.65%	25.47	25.49	25.51	25.53	25.55	25.57	25.59
	3.65%	37.28	37.30	37.32	37.34	37.36	37.38	37.40

EBITDA Margin is directly influenced by the top-line performance of Corticeira Amorim (sales, costs, etc.) which is tightly correlated with Corticeira's efficiency and delivering capacity, as well as with external events that could jeopardize or boost sales (e.g.: fires, droughts, new technologies, cork's superior quality versus other closures, etc.). The other variable which I believe is important to address – WACC – measures the group's capacity in terms of financing conditions that comprise a wide range of factors that go from the market's cost of debt, until a significant variation in the US\$/€ exchange rate.

### Summary WACC Calculation

D/EV@market	4.80%
Risk-Free	2.76%
Market Risk Premium	3.04%
Relevered Beta	0.415
Cost of Capital	4.02%
Cost of Debt @ market	3.76%
Legal Tax Rate	25.00%
Terminal Growth Rate	1.48%
<b>WACC</b>	<b>6.65%</b>

The WACC used in this valuation (6.65%) could be considered high, given the group's current leverage levels and low risk of the business.

**Bull Scenario:** In a bull case scenario, where a favourable development (-10bps) of the cost of capital of the group (triggered by a decrease in the already low leverage levels of the firm, or a cheaper cost of debt, for instance) takes place, together with a boost in efficiency (increase in sales, decrease in costs, synergies from acquisitions, etc.) which would increase the EBITDA margin by 150bps, a €19.45 share price can be expected, representing a ~24.4% upside vs. the current target price.

**Bear Scenario:** If the current landscape changes, and the cost of capital increases by 30 bps, and the company's top-line loses value due to an unexpected decrease in production or sudden drop in demand, causing a 100bps decline in the EBITDA margin, COR's valuation would shrink to €9.81, which translates into a 37.2% downside.



### Consensus Backdrop

My €15.63 per share valuation of Corticeira Amorim, attributes an Enterprise Value of ~€2,246m to the company, placing it above the estimates developed by other analysts. Until the day this report was elaborated, 4 research houses determined that COR's EV should lay between approximately €1,553m and €1,745, setting the consensus bar at c. €1,623m.

#### Estimates vs. Consensus

2017	Revenue	EBITDA	EBITDA Margin	EBIT	Net Debt	EV
<b>Tiago Araújo</b>	<b>688,063</b>	<b>149,141</b>	<b>21.68%</b>	<b>122,176</b>	<b>0.9x</b>	<b>2,179,029</b>
Average	690,700	134,935	19.54%	106,470	0.4x	1,645,903
Median	687,250	134,370	19.55%	105,740	0.4x	1,595,000
JB Capital Markets	692,500	132,400	19.12%	104,200	0.4x	1,595,000
BPI	682,000	134,000	19.65%	106,000	0.3x	n.a
Haitong	709,600	138,600	19.53%	110,200	0.9x	1,773,300
Caixa BI	678,700	134,740	19.85%	105,480	0.1x	1,569,410

I believe that Corticeira's true EV is above the €2,000m mark. Comparing my valuation with others, I assume a more optimistic view of COR's capacity to keep improving its production, thus assuming a higher efficiency level for the Portuguese cork company. In 2017 I predict a 21.68% EBITDA margin, 214bps above consensus, as no other research house believes Corticeira will go over 20% EBITDA margin.

As for sales, for the 3-year period for which I found comparable data (2017, 2018 and 2019), my expectations in terms of Revenue are aligned

#### Estimates vs. Consensus

2018	Revenue	EBITDA	EBITDA Margin	EBIT	Net Debt	EV
<b>Tiago Araújo</b>	<b>736,677</b>	<b>164,052</b>	<b>22.27%</b>	<b>130,922</b>	<b>1.0x</b>	<b>2,245,537</b>
Average	754,368	149,175	19.77%	119,363	0.2x	1,626,630
Median	762,800	151,000	19.80%	121,700	0.1x	1,582,000
JB Capital Markets	773,600	150,000	19.39%	119,700	0.2x	1,582,000
BPI	752,000	152,000	20.21%	125,000	-0.2x	n.a
Haitong	797,400	155,600	19.51%	123,700	0.6x	1,744,700
Caixa BI	694,470	139,100	20.03%	109,050	0.0x	1,553,190

with the remaining analysts who cover Corticeira. My forecast, as well as the forecasts of other analysts, with expectation of Caixa BI, expect Corticeira Amorim to sell above the €700m mark in 2018, and the €800m mark in 2019. Regarding margins, my valuation continues to be the most optimistic, but the remaining will also trade up in 2018 and 2019.

The biggest difference regards to the company's leverage levels. I assume that Corticeira will remain with a considerable low leverage level, near 1.0x EBITDA, however, other analysts believe the company will go even lower, placing their Net Debt/EBITDA ratio close to zero or below. My equity story assumes that in order to reach the Turnover and EBITDA margins presented in this report, Corticeira will need to get back to the market and keep looking for strategic acquisitions, continuing their buy-and-build strategies. I believe it is hardly probable that Corticeira Amorim can support its growth exclusively adopting an organic path. I am not predicting any radical changes in the cork stoppers market landscape that could give COR a significant leap in such short period, and other business units will take time to consolidate. Thus, growing through M&A is the most probable scenario, which explain the higher (but still low) financial leverage levels presented.

#### Estimates vs. Consensus

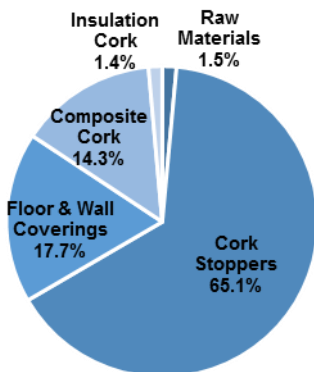
2019	Revenue	EBITDA	EBITDA Margin	EBIT	Net Debt	EV
<b>Tiago Araújo</b>	<b>800,746</b>	<b>175,651</b>	<b>21.94%</b>	<b>140,994</b>	<b>1.0x</b>	<b>2,290,321</b>
Average	793,660	161,925	20.40%	131,443	0.0x	1,614,303
Median	809,350	166,500	20.57%	134,300	0.1x	1,595,000
JB Capital Markets	817,700	164,500	20.12%	134,000	0.3x	1,595,000
BPI	801,000	172,000	21.47%	145,000	-0.4x	n.a
Haitong	846,200	168,500	19.91%	134,600	0.3x	1,711,600
Caixa BI	709,740	142,700	20.11%	112,170	-0.1x	1,536,310

## Company overview

### Company description

Corticeira Amorim (COR) is the world's leading producer of cork products, being responsible for approximately 35% of the world cork manufacturing. The Portuguese company has its origins dating back to 1870, and since its establishment, the firm has remained in the hands of its founding family – Amorim family – which stands as one of the most entrepreneurial groups in

Revenue Breakdown 2016

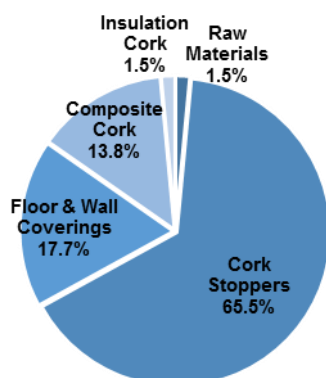


Portugal. COR’s international footprint can be found in more than 100 countries, spread across all continents, where the firm counts with 248 key distribution players, 83 companies and 30 industrial units.

Corticeira has its activity divided by 5 different business units: Raw Materials, Cork Stoppers, Floor & Wall Coverings, Composite Cork, and, Insulation Cork.

The core activity of the firm is the production of Cork Stoppers for the wine industry. The company is the undisputed leader of global cork stopper production, having manufactured approximately 4.4bn cork stoppers in 2016, representing a 36.7% market share. Its end-customers are mainly wine producers, but its products are also present in sparkling and spirits bottles. COR has been consolidating its leading position benefiting not only from its scale – which places the company in a privileged position, namely in terms of market information and raw materials sourcing capabilities – but also from its innovation capacity and the fact that consumers are increasing their preference over cork stoppers.

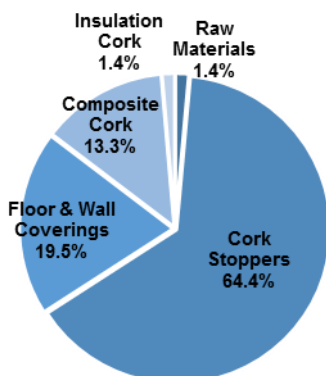
Revenue Breakdown 2018



The Raw Materials business unit allows Corticeira to take advantage from the most initial stage of the value chain. Created to enhance synergies between the various units and to improve the optimisation of the flow of raw materials, this division develops proactive efforts to ensure the availability, diversification, quality and sustainability of its supply.

Regarding the Floor & Wall Covering business unit, COR is the world leader in the production and distribution of cork floor and all coverings. Amorim’s annual production reaches 8m square meters of cork floor and wall coverings, truly state-of-the-art products with innovative technologies embedded. Under its premium brand Wicanders, COR sells to the residential, commercial, and temporary exhibitions segments.

Revenue Breakdown 2020



Accounting for approximately 14% of the Group’s turnover, Composite Cork is a technologically advanced area that provides solutions for the transport, construction, and spacecraft industries, among many others. Its client base goes from home and office end-customers to NASA or the European Space Agency.

Insulation Cork is the smallest business unit of Corticeira, and is responsible for developing acoustic and thermal insulation agglomerates for construction and derivatives such as furniture. Despite the premium quality of its products, the fact that COR only uses cork as a raw material,

### PSI-20 Performance

Company	Change in sh/p <sup>1</sup>
Jerónimo Martins	3794.7%
Altri	1780.0%
Semapa	1163.9%
<b>Corticeira Amorim</b>	<b>1010.7%</b>
Mota-Engil	330.3%
Sonae	277.7%
Navigator	248.3%
Galp	165.5%
EDP	-7.3%
EDP Renováveis	-11.1%
REN	-28.9%
Ibersol	-33.8%
Sonae Capital	-40.6%
CTT	-41.6%
NOS	-68.7%
Pharol	-89.1%
BCP	-99.8%

<sup>1</sup> Performance since Day 1

reduces its offer in terms of product line, making the company a niche player in a large market.

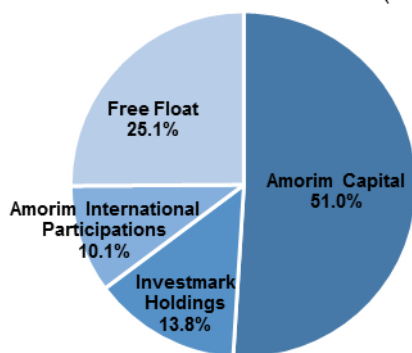
## Shareholder structure

COR, formally registered as Corticeira Amorim, S.G.P.S., S.A., entered Euronext Lisbon Stock Exchange (at the time BVLP – Bolsa de Valores de Lisboa e Porto) in 1991. Corticeira's current share capital amounts to EUR 133m, and is represented by 133m ordinary shares with a nominal value of EUR 1, which grants the right to dividends.

Each share corresponds to 1 voting right, which means that the pie chart presented in the left, corresponds to both stakes and voting rights. The Amorim family stands as the majority shareholder controlling c. 74.9% of the Group though the family offices Amorim Capital (51%), Investmark Holdings (13.8%) and Amorim International Participations (10.1%). Approximately 25.1% of the share capital is free float, which translates in low liquidity – 0.06m average 3-m daily volume – and relatively low market capitalization – €1,452m<sup>1</sup>.

Amorim family managed to find the balance between growing the business to reach worldwide leadership and keeping most of the share capital in the hands of the family, financing its investments through operational proceeds, rather than opening the share capital to other investors. Corticeira has also kept its financial leverage levels low, meaning that radical changes in the share capital of the company are extremely unlikely.

COR's Shareholder Structure (2016)



## Management Team

Like was already mentioned, Corticeira Amorim remained in the hands of its founding family – Amorim – since its establishment. Since the beginning the family played an active role in running the day-to-day operations of the company, revealing strong professionalism and unassailable expertise in the cork industry, by which they are highly regarded.

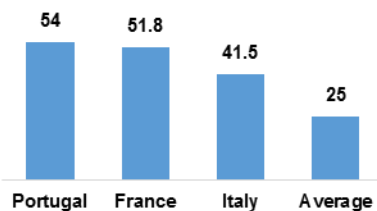
The management team is now in its 4<sup>th</sup> generation, and has the responsibility to keep Corticeira as one of the most-well managed Portuguese companies – in the last 5 years Corticeira's share price grew

<sup>1</sup> As of 22<sup>nd</sup> of December 2017

by more than 7x. COR's development has made the cork firm one of Portugal's top performers, a fact by which they have been rewarded by the market. Since its IPO, COR's share price increase by more than 11x, the best performance in PSI-20, only behind Jerónimo Martins, Altri and Semapa, that multiplied their stock price by ~39x, ~19x and ~13x, respectively.

## Wine Industry

Wine Consumption per Capita by Top-3 Country (2016, liters)

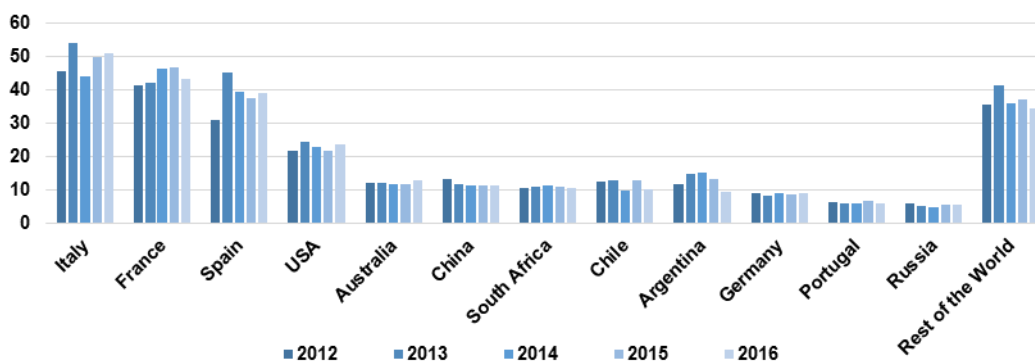


In order to analyse the future trends of the cork stopper market, is paramount to understand the Wine industry. Approximately 70% of wine producers choose cork to seal their product, which translates into c. 12bn bottles. From this universe, Corticeira Amorim's cork stoppers are present in 36.7% of all wine bottles. A change in price, volume, product, or consumer pattern, could have a significant impact in COR's results.

### Wine production remains stable despite a small contraction in 2016

Despite a small decrease in comparison with last year (-3.3% y-o-y), the global wine production continued stable. From 2012 to 2016, wine production posted a 0.9% compounded annual growth rate. Traditionally specialized countries such as Italy, France and Spain, remained the top producers, a fact that Corticeira Amorim is well aware. The firm has its Cork Stopper business unit present in all of the top-10 wine countries, a long-term strategy placed in order to capitalize its relationship with a wide range of selected wine producers.

World Wine Production (2012-2016, millions of hl)

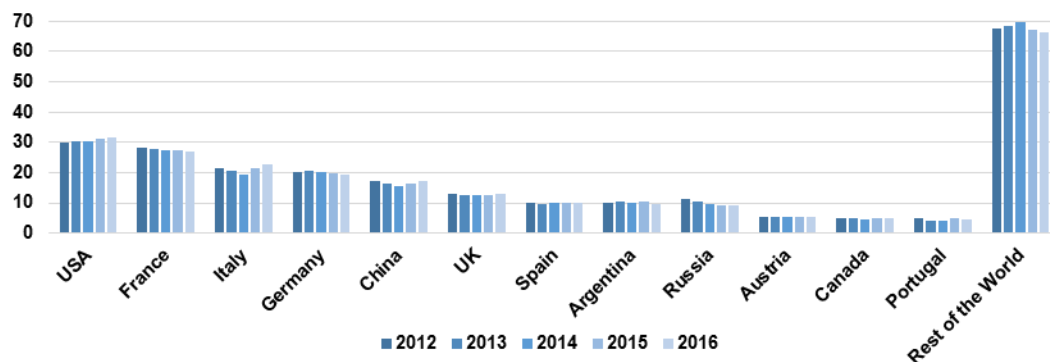


Source: OIV's 2017 Annual Report

### Traditional wine markets together with China provide floor for the recovery of consumption

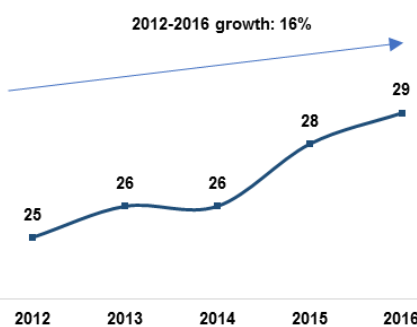
Regarding consumption, according to the latest values released by the International Organization of Vine and Wine (OIV), global consumption continued its recovery, and is expected to continue to grow at a slow pace, as top consuming countries such as USA, Italy, UK, as well as strong economies with new consumer patterns such as China, are increasing their wine consumption levels (see below).

World Wine Consumption (2012-2016, millions of hl)



Exports Value Growth (2012-2016, €)

Source: OIV's 2017 Annual Report

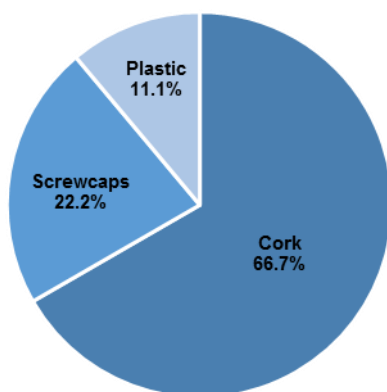


Source: OIV's 2017 Annual Report

### Wine consumers are paying for quality

Taking into consideration the existing stable evolution of both wine production and consumption, the considerable increase in price (+16% vs. 2012) suggests that the consumer pattern is shifting towards a more premium offer. According to wine specialized literature, due to the cultural change occurring in countries such as the US or China, wine producers are investing more in high-end wines (fine wines), which by default have strong preference over cork closers, than other cheaper alternatives such as plastic or screwcaps. Bottled wine is the type of wine with the highest grow, approximately 4% compounded annual growth from 2012 to 2016.

Closure Market (2016)



Source: Corticeira Amorim

### Consumer patterns are shifting towards cork's target

The closure market continues to be highly dominated by cork. According to COR, in 2016 there were produced 18bn bottles, of which c.12bn were sealed using cork, 4bn closed with screwcaps and the remaining 2bn used plastic. Once again, the growth registered in terms of consumption in both China and the US remains a key factor to justify cork closures performance, and to strongly believe in continuous market share increase. As different consumer studies point out, these markets are very in favor of cork-stoppered bottles, and have the particularity of being composed by an

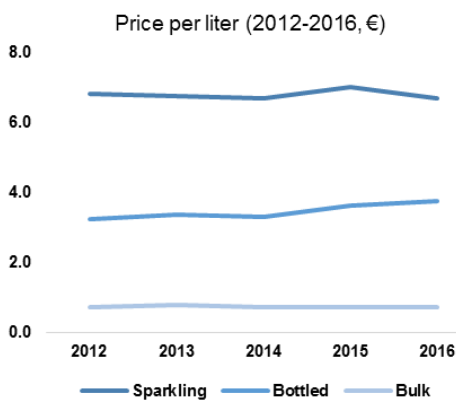
increasing range of consumers that prefer fine wines, and are also expanding their sparkling wine taste, two categories that use cork seals. Thanks to its innovative capacity, sustainability concern and recognized quality, cork reached the undisputed status of premium solution when it comes to seal a wine bottle. According to information collected by Nielsen's Track Scan Data, US wine lovers are willing to pay US \$4.31 more for a bottle sealed with cork. Moreover, Australia and New Zealand's slowdown in the last years, two markets where screwcaps are dominant, have also damaged artificial closures market shares.

#### Consumers' Closure Preferences

Country	% Prefers Cork	Source
United States	94%	Tragon Corporation
France	89%	Ipsos
Italy	85%	AstraRierche
China	85%	CTR Market Research
Spain	92%	Cork Project
Brazil	80%	Conecta/lbope

#### Cork finds in innovation its cornerstone to reach its gold standard status

Cork has fought for many years against its biggest threat: cork tainting. This popular term refers to a wine defect characterized by a set of undesirable smells or tastes. Cork stoppers manufacturers have been developing solutions to prevent, or significantly reduce the occurrence of this phenome, that has the potential to jeopardize a valuable wine, thus losing popularity to artificial closures. Its inconvenience is aggravated by the fact that only after bottling, aging, and opening, is possible to detect that the wine is tainted ("corky"). Cork taint main cause is the presence of the chemical compound most commonly known by TCA. Corticeira Amorim has invested €10m and 5 years in Research & Development, to create a state-of-the-art premium quality control technology – ND Tech. Developed together with a specialist firm based in Cambridge, UK, this technology assumes itself as the world's first natural cork with a non-detectable TCA guarantee. ND Tech individually tests each wine cork for TCA, using unprecedented fast chromatography technology, which reduces testing time from 14 minutes to a few seconds. ND Tech represents a unique achievement for the industry, proving at the same time Corticeira's ability to grow, not only by capitalizing on its scale, but also by investing in its own capacity to innovate. By virtually eliminating TCA, artificial closures find less arguments to compete against cork stoppers.



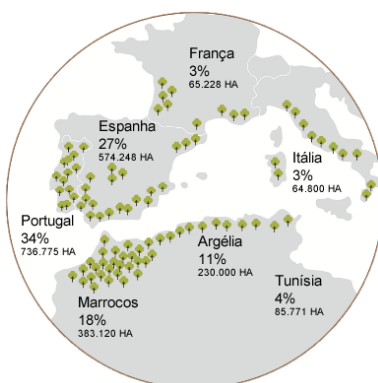
Source: OIV's 2017 Annual Report

### Favorable trends in wine guarantee cork its gold status

Despite some wine consumption contraction in the past, and some competition from artificial closures, the wine industry has shown very positive signs. I believe this signs will positively impact Corticeira Amorim, and keep its Cork Stoppers business unit in the growing track, thus continuing its consolidation strategy. I am strongly convinced that the following key drivers will set the base for COR's growth:

- i) USA and China's increased consumption of wine
- ii) Growing interest over high-end wine, which historically use cork stoppers
- iii) General price increase of wine
- iv) Cork perception as a premium solution, which consumers are willing to pay a premium for
- v) Definitive distancing in relation to artificial competitors boosted by innovation

Presence of *Montado*



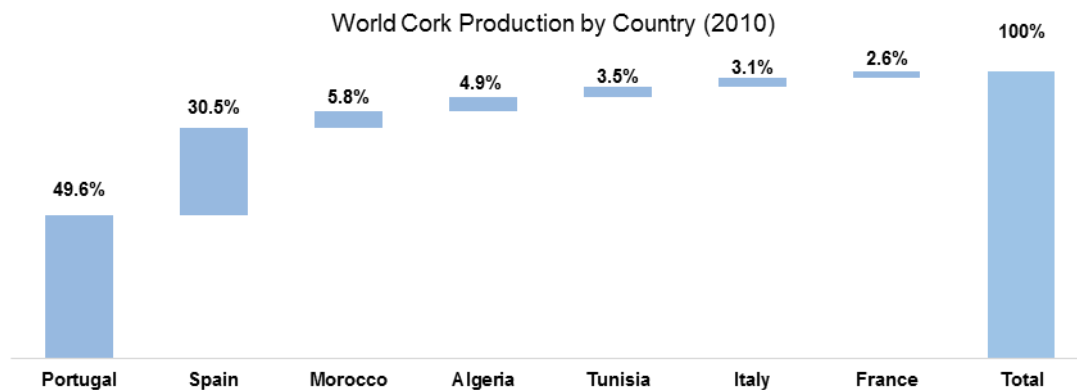
Source: APCOR

## Cork Industry

Cork is the outer bark of the cork oak tree *Quercus Suber* which is located in the Mediterranean Region. Cork is a popular and eco-friendly resource whose characteristics are ideal for a wide range of appliances, namely acoustic and thermal solutions, insulation, and of course, cork stoppers.

### Corticeira lives in the heart of cork

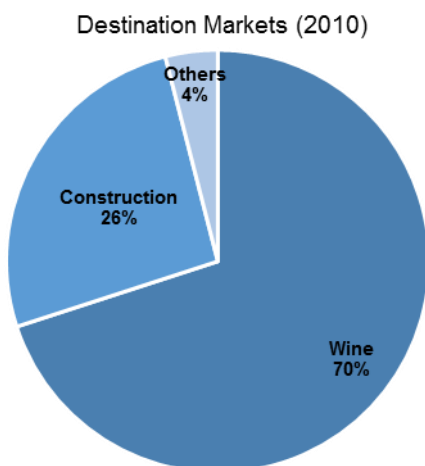
According to Portugal's official cork association, APCOR, Portugal is responsible for the world's largest area of cork oak – *montado*. *Montado* is an area populated with trees, chiefly cork oak. Portugal has c. 34% of the world's total *montado* area, followed by Spain that accounts for 27%. The area of *montado* has grown by about 3% in the past ten years, as a result of some reforestation programs. More than 130 thousand hectares have been planted in Portugal and Spain in the last ten to fifteen years, with a density of approximately 120 to 150 cork trees per hectare. Corticeira Amorim has industrial units in countries that represent 94.4% of the total *montado* area.



Source: APCOR

**Iberia region concentrates more than half of the total cork production**

Regarding production, Portugal arises as the leading cork producer country with approximately 100,000 tons, half of the world’s cork production (world’s cork production: 201,428 tons). Portuguese companies have been successful in managing such a scarce resource as cork, developing sustainable strategies to ensure its availability and commercial value. The cork oak tree is the only in the world whose bark can be removed multiple times without compromising the life of the tree. These trees live, in average, 200 years, and over the course of its lifetime, the cork oak may be stripped around 17 times, at intervals of at least nine years, which means that the harvesting of the cork will last 150 years, on average. However, its first stripping (*desboia*) can only take place when the cork oak is 25 years old and the trunk has reached a diameter of 70 centimeters, measured 1.3 meters from the ground. But the first two strippings are too rigid in order to allow cork to reach the standard of quality required to produce stoppers. Only at the age of c. 40 years the cork oak tree is in condition to supply quality cork for stoppers. Due this particular issue, COR does not own trees, as this would imply a lower ROCE given the large investment in land, and the initial 40 year period that one has to wait until it starts to bark quality cork. For my analysis, the most updated data is from 2010, however, due to the intrinsic conditions surrounding the whole process of stripping the cork, I believe that the amount of cork tons produced annually did not changed much.



Source: APCOR

**Wine remains strong, but the construction market has plenty of untapped potential to be explored**

Wine is the primary market for cork products, concentrating more than two-thirds of the total products (c. 70%), followed by Construction (26%) and

minor markets (4%). This disproportional outcome for cork happens due to the fact that the cork industry is a small industry and is dominated by traditional players with strong connections to wine producers. The idiosyncratic lack of raw materials of the industry forces its players to rationalize and target their resources to valuable opportunities. The process of collecting cork from trees and transforming it into something, is a very specialized job that requires unique and scarce expertise. Therefore, the advantages of directing cork's features into other ends rather than stoppers, is a relatively new approach. Construction appears as a distant second output, and at the moment there is plenty untapped potential for this segment. Cork is increasing its popularity across the globe (a few decades ago was not perceived as good material to use), and more than just from its characteristics – acoustic, thermal, etc. – it is also benefiting from a shift in the way it is now perceived as a premium material to have, namely as a covering or a furniture supply.

### **Cork's unquestionable leader keeps on the growing track, sailing at cruising speed**

Corticeira Amorim gathers all the necessary conditions to remain as the undisputed leader of cork. Its long-experienced and knowledgeable management team as lead the company to achieve one of the best performances of the entire Portuguese Stock Index. Due to the developed strategies, Corticeira Amorim has managed to increase its scale, making it two times bigger than its only listed peer Oeneo (~2.6x larger in Revenue and ~2.0x in EBITDA, for 2016 values). I believe that the following factors: will contribute to leverage COR's dominant position and keep the company on the growing track:

#### **i. Unassailable management of raw materials sourcing**

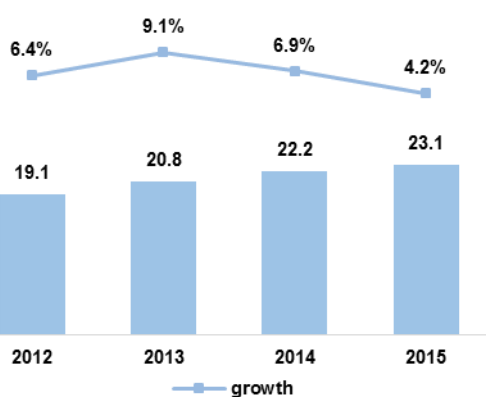
- a. The company does not own land, avoiding direct exposure to risks such as fire or droughts**
- b. By not owning land, COR's ROCE is not damaged by the long-time horizon of oak trees profitability dynamics**
- c. Amorim's scale allows the company to control and have privileged access to information regarding the availability of cork**

**d. Presence of the Raw Materials business unit in almost (94.4%) all countries with *montado*'s areas**

- ii. **Cork stoppers are gold, but the firm offers a diversified product line, which helps capitalizing cork leftovers that do not gather the needed quality to be used as stoppers**
- iii. **Leading R&D role, with proven results, namely cutting-edge quality control technologies**
- iv. **Very close to develop irrigation systems (drop-by-drop) that will shorten oak trees first barking cycle from 25 years to 8, and eventually the following barking cycles of 9 years**

## Floor & Wall Coverings Industry

Total Revenue (2012-2015, \$US bn)



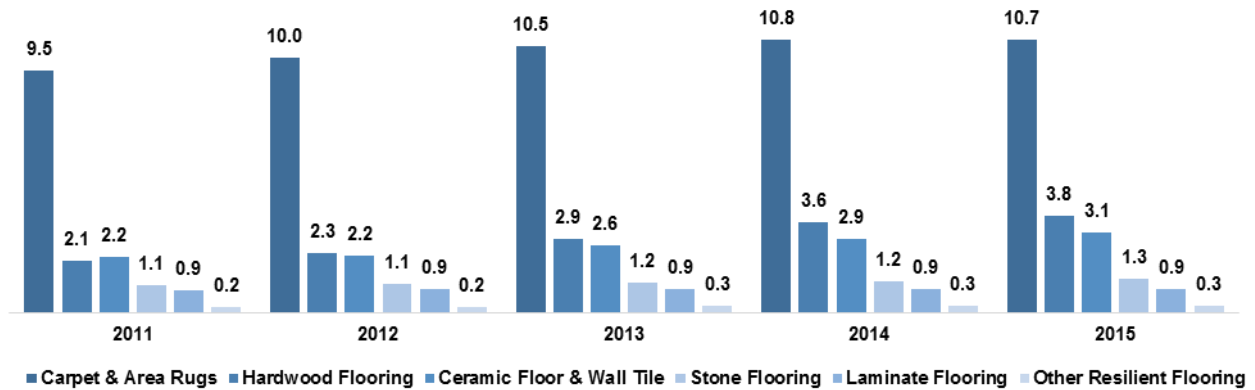
Source: Floor Covering Weekly

Floor & Wall Coverings is the business unit where COR has more potential to expand. The industry itself is very large, and at the moment Corticeira is a niche player among several large competitors. Top Coverings players generate multi-billion revenues, while the Portuguese company accounted approximately €114m in Coverings sales. Corticeira can benefit from increasing both scale and efficiency, and the market has shown plenty of room for growth, especially in COR's segment – Vinyl Sheet and Floor Tile.

### The Coverings industry is trading-up in size, price and volume

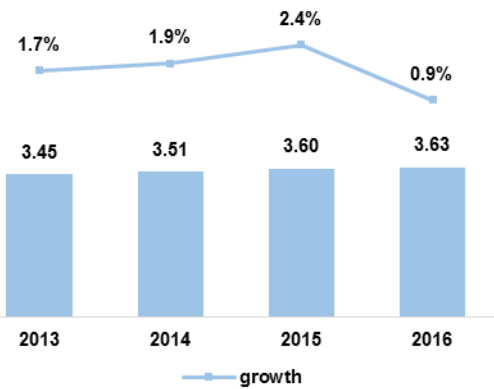
According to Floor Coverings Weekly (due to the lack of more information, I based my analysis on the US market), the industry is been evolving positively, registering a 6.6% CAGR. In 2015, the Coverings industry registered total sales of US \$23.1bn, representing a 4.2% increase in comparison with last year's results, and a 21.4% in comparison with 2012 values. Both volume and prices are also in the growing path. In terms of volume, in 2016 approximately 5.8bn square meters were produced, c. 4.2% more than in 2015. From 2012 to 2016 volumes posted a 3% CAGR. Regarding price, the price per square meter increased c. 7%, and it reached US \$3.63 per square meter. The CAGR for prices was 2%.

Turnover per Segment (2011-2015, \$USbn)



Source: Covering Weekly

Price p/ Square Meter (2013-2016, \$US)

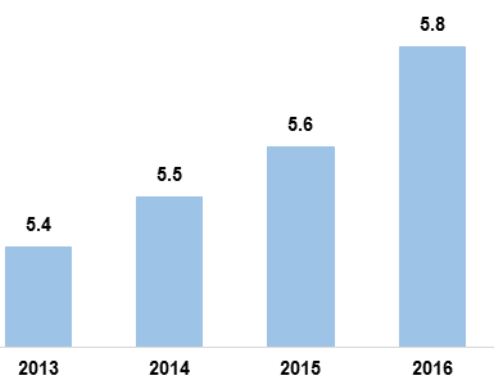


Source: Floor Covering Weekly

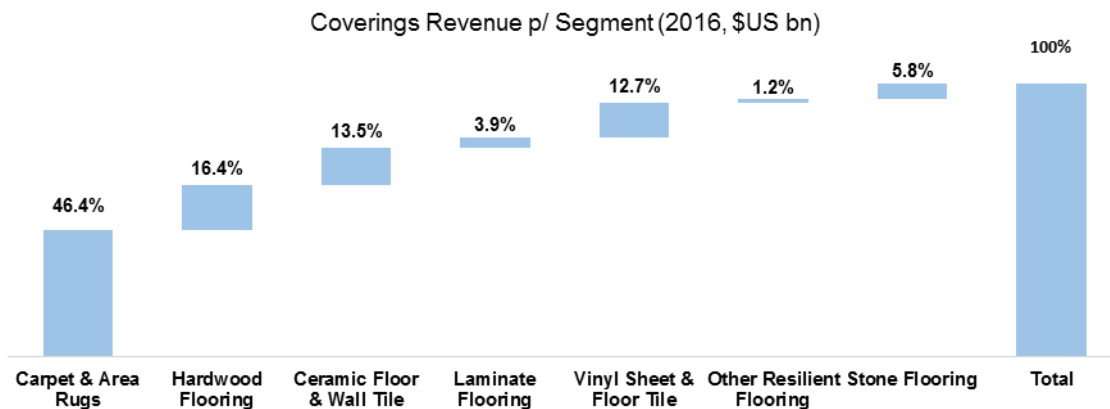
### Great potential comes from the Vinyl Tile Segment

The leading segment continues to be Carpet & Areas Rugs with c. 46% of the total Coverings revenue, however, Vinyl Tile – the market where COR operates – stands as one of the fastest growing segments. This particular segment is tightly correlated with the Construction and Real Estate industries. Therefore, I believe Corticeira will eventually address its products to a more high-end clientele. Due to the premium acoustic and thermal characteristics of cork, as well as its sustainable feature, it will be possible to attract a more sophisticated audience, which will protect COR from external shocks (the luxury market is less volatile) and at the same time, allow the company to charge a higher price. Corticeira Amorim will have to undertake an extra effort in their commercial and marketing strategy, and due to its small size in this segment, Corticeira will not be able to benefit from scale. Thus, I assume that in the first 3 years COR will boost their sales in Floor & Wall Coverings at the cost of a lower EBITDA margin. In 2017, EBITDA margins should drop from the 11.2% registered in 2016 to 9.0%, and will continue to drop in 2018 and 2019 to 7.0% and 6.0% respectively. As for sales, these should increase 6.0% from c. €114m in 2016 to c. €120m in 2017. By 2018 revenue from Floor & Wall Coverings will reach €130m and in 2019 €150m. As COR increases its scale, its operations will start to become more efficient and its EBITDA margin will go up to approximately 8.0-8.5%, still below industry leaders' such as Mohawk (19.0% in 2016) and Interface (14.4% in 2016). Amorim's later increase on EBITDA margins will be supported by 2 critical factors: i) costs will be diluted as COR increases its scale; ii) having a luxury product will allow Corticeira to charge a higher premium.

Total industry Volume in billion meters (2013-2016)



Source: Floor Covering Weekly



Source: Floor Covering Weekly

### US market stands as the opportunity land for Coverings players

My valuation assumes that Corticeira will develop strategies to take advantage of the favorable development in Vinyl Sheet & Floor Tile, and try to leverage its small scale to a more sizable position in the large industry of Coverings. Therefore, my expectations regarding COR's performance on this segment will depend on the following factors:

- i) **Corticeira targets the US market, as it already has an important presence there, and this geography offers better opportunities to expand the business**
- ii) **COR's marketing and sales team position the firm's product as a luxury solution against other less expensive, but lower quality materials**
- iii) **Corticeira will allocate more resources, namely cork leftovers to this particular segment. COR's presence with other business units in the US, namely through stoppers, will help dilute fixed costs and turn the business more efficient**

Portuguese *Montado* Location

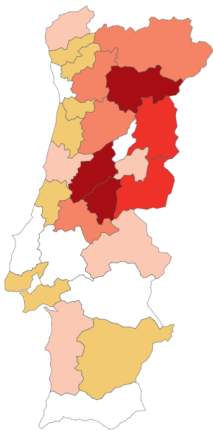


## Risks

### Fire remains the #1 enemy

The reproduction of cork, like was already mentioned through this report, is a very particular art. Cork oaks cultivation and their respective preservation is a complex process that requires knowledgeable and experienced professionals. However, the biggest threat to cork's sustainability comes from fires, rather than from the lack of skilled labor. *Montado's* are located in countries with Mediterranean climates, such as Portugal, Spain, France

Portuguese Burned Area



Source: EFFIS

(South region), and North African countries like Morocco. These countries tend to register high temperatures in the summer, together with relatively long drought periods. These endogenous characteristics provide floor for the occurrence of fires, and in the cases of Portugal and Spain, fires are even more likely to occur, given those geographies topographic and forest features.

Between the 1<sup>st</sup> of January and the 17<sup>th</sup> of October, approximately 500k hectares burned in Portugal, being by far the country in the entire European Union with the largest burned area, despite being one of the smallest members<sup>2</sup>. Luckily for Corticeira, the fires did not affected the Portuguese *montado*'s, as most of the fires (including the most sizable ones) took place in the North and Center of Portugal, and the majority of the *montado* region is located in the South of the country, namely in the Alentejo area.

#### Effects of Fires in COR's Production (2018)

Decrease in Production	2.5%	5.0%	7.5%	10.0%	12.5%	15.0%
Units (000s)	4,583,510	4,465,984	4,348,458	4,230,932	4,113,406	3,995,880
Revenue (€000s)	470,505	458,441	446,377	434,312	422,248	410,184

The following table reveals how fires could jeopardize COR's value. Assuming that prices would remain constant, in case of a fire that destroys 2.5% of the *montado* region, and therefore its production, a €0.32 reduction in the share price is expected, namely from €15.63 to €15.31. In case 10% of the area is damaged, an 8.3% decrease in the share price is expected, representing a decline from €15.63 to €14.33.

#### Effects of Fires in COR's share price (2018)

Decrease in Production	2.5%	5.0%	7.5%	10.0%	12.5%	15.0%
Share Price (€)	15.3	15.0	14.7	14.3	14.0	13.7
Decrease in Share Price	2.0%	4.2%	6.3%	8.3%	10.4%	12.5%

### Ensuring cork's sustainability

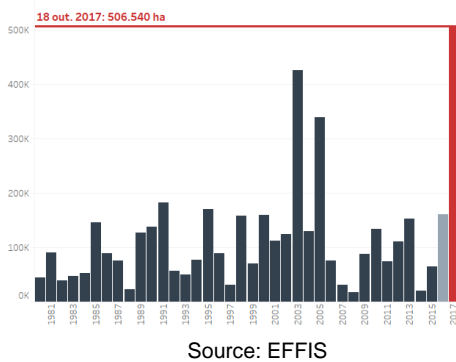
Other potential event that could jeopardize COR's operational performance is the availability of raw materials. This event is related with the first risk identified, however, it is accessed using a long-term perspective, rather than measuring the consequences of a one-off event such as a catastrophe like a fire or a drought.

Cork oak trees need to be surgical managed in order to balance the current need in terms of raw materials, and ensuring the future sustainability of the specie. Corticeira's management team needs to

<sup>2</sup> According to EFFIS, EU's research group for the evaluation of forest fire danger

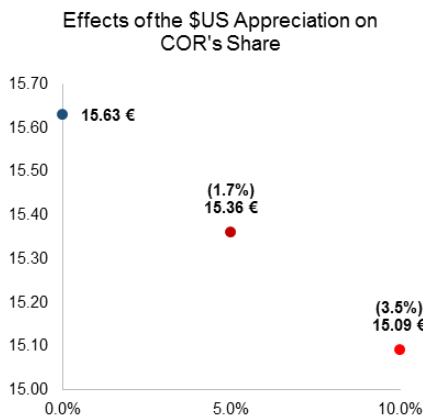
undertake efforts to reduce the mortality of trees (fight against adverse meteorological conditions) and provide incentives for landlords to increase their plantation levels. There are 2.2m hectares of cork oak trees spread across the basin of the Mediterranean, and in Portugal, approximately 10k hectares are planted each year.

Portuguese Burned Area (ha, 2017)



Despite not being possible to quantify if the current landscape provides the necessary match between cork supply and demand, I believe that Corticeira Amorim is in a favorable position to ensure its share of the global cork extraction. Besides promoting cork oak trees plantation, the firm is also developing the following measures: i) drop-by-drop irrigation system to reduce the first stripping from 25 years to 9, and the flowing harvests from 9 to 4; ii) optimization of non-efficient landscapes (e.g.: Andalusia); iii) capitalizing on their architecture of relationships, namely with wine producers, to anticipate cork purchases, and therefore maximizing the value generated by each stripping.

**Currency risk (USD/EUR)**



Corticeira Amorim is present in all 5 continents. Assuming that the percentage of sales in foreign currencies correspond to each country's Revenue contribution, Euro (€) is by far the largest contributor with 60.6% of total sales, followed by the US Dollar (US\$) which accounts for 20.8%. The fluctuation of the US\$ against the € impacts considerably COR's value. A 5% appreciation of the US\$ would result in 1.1% drop in Revenue, and in a 1.73% depreciation in the 2018 Target Price. As for a potential 10% increase of the US\$, this would translate into a 3.5% drop in 2018 Target Price.

**Effects of the \$US Appreciation (2018)**

€000s	Estimated	5% Appreciation	10% Appreciation
Revenue	736,677	728,795	720,912
EBITDA	164,052	162,297	160,542
Target Price	15.63	15.36	15.09

## Trade Comparables<sup>3</sup>

### Trade Comps - Operational

€000s	Revenue			EBITDA			EBITDA Margin		
	2017	2018	2019	2017	2018	2019	2017	2018	2019
<b>Cork Stoppers</b>									
<b>COR - cork stoppers (Tiago Araújo)</b>	<b>450,999</b>	<b>482,569</b>	<b>518,762</b>	<b>94,710</b>	<b>108,578</b>	<b>117,759</b>	<b>21.0%</b>	<b>22.5%</b>	<b>22.7%</b>
Oeneo <sup>4</sup>	246,629	262,973	281,052	55,795	60,048	65,985	22.6%	22.8%	23.5%
Average	348,814	372,771	399,907	75,252	84,313	91,872	21.8%	22.7%	23.1%
<b>Coverigns Europe</b>									
<b>COR - coverings (Tiago Araújo)</b>	<b>120,598</b>	<b>130,246</b>	<b>149,783</b>	<b>10,854</b>	<b>9,117</b>	<b>8,987</b>	<b>9.0%</b>	<b>7.0%</b>	<b>6.0%</b>
James Halstead	267,738	283,905	289,538	57,885	58,471	60,668	21.6%	20.6%	21.0%
Tarkett	2,839,817	2,906,829	2,997,559	310,727	338,754	367,999	10.9%	11.7%	12.3%
Balta Group	679,799	712,002	742,583	83,436	90,450	99,723	12.3%	12.7%	13.4%
Victoria Plc	372,844	469,504	606,745	50,731	70,236	118,089	13.6%	15.0%	19.5%
Average	1,040,050	1,093,060	1,159,106	125,695	139,478	161,620	14.6%	15.0%	16.5%
<b>Coverigns US</b>									
Mohawk	7,977,370	8,568,288	9,072,967	1,554,240	1,746,621	1,937,112	19.5%	20.4%	21.4%
Armstrong	910,492	904,831	927,328	292,491	310,503	335,622	32.1%	34.3%	36.2%
Interface	829,641	865,755	909,136	122,849	133,329	145,481	14.8%	15.4%	16.0%
Average	3,239,168	3,446,291	3,636,477	656,527	730,151	806,071	22.1%	23.4%	24.5%
<b>Insulation</b>									
<b>COR - insulation (Tiago Araújo)</b>	<b>10,176</b>	<b>10,990</b>	<b>11,540</b>	<b>1,730</b>	<b>1,978</b>	<b>2,250</b>	<b>17.0%</b>	<b>18.0%</b>	<b>19.5%</b>
Kingspan	3,662,050	4,132,053	4,397,926	447,738	503,951	547,939	12.2%	12.2%	12.5%
Average	1,836,113	2,071,522	2,204,733	224,734	252,964	275,095	14.6%	15.1%	16.0%
<b>Corticeira Amorim</b>									
<b>COR (Tiago Araújo)</b>	<b>688,063</b>	<b>736,677</b>	<b>800,746</b>	<b>149,141</b>	<b>164,052</b>	<b>175,651</b>	<b>21.7%</b>	<b>22.3%</b>	<b>21.9%</b>
COR (Consensus)	690,700	754,368	793,660	134,935	149,175	161,925	19.5%	19.8%	20.4%

<sup>4</sup> includes wine business

### Trade Comps - Market

€000s	Price	YTD Perform.	Market Cap	EV	EV/EBITDA			P/E		
					2017	2018	2019	2017	2018	2019
<b>Cork Stoppers</b>										
Oeneo	10.39	36.7%	650,740	714,316	12.0x	11.4x	11.0x	21.4x	21.0x	18.9x
<b>Coverigns Europe</b>										
James Halstead	4.95	-9.3%	1,028,596	969,638	16.9x	16.6x	16.0x	24.9x	24.5x	23.6x
Tarkett	34.76	3.1%	2,203,574	2,636,474	8.5x	7.8x	7.2x	19.5x	17.2x	15.1x
Balta Group	8.60	n.a.	309,113	555,092	6.7x	6.1x	5.6x	14.5x	10.3x	8.3x
Victoria Plc	9.21	122.1%	1,083,906	1,193,196	18.2x	17.0x	10.1x	28.6x	27.3x	17.5x
Average	14.38	38.6%	1,156,297	1,338,600	12.6x	11.9x	9.7x	21.9x	19.8x	16.1x
<b>Coverigns US</b>										
Mohawk	229.96	22.0%	17,095,033	19,340,505	12.4x	11.1x	10.0x	20.2x	18.4x	16.2x
Armstrong	50.46	24.2%	2,668,769	3,292,034	11.3x	10.6x	9.8x	21.0x	18.6x	15.8x
Interface	20.44	13.6%	1,231,316	1,362,847	11.1x	10.2x	9.4x	21.1x	18.0x	16.0x
Average	100.29	19.9%	6,998,373	7,998,462	11.6x	10.6x	9.7x	20.8x	18.4x	16.0x
<b>Insulation</b>										
Kingspan	36.58	42.9%	6,561,891	7,051,091	15.7x	14.0x	12.9x	22.6x	20.0x	18.2x
<b>Corticeira Amorim</b>										
<b>COR (Tiago Araújo)</b>	<b>15.63</b>	<b>38.3%</b>	<b>1,399,160</b>	<b>2,245,537</b>	<b>14.6x</b>	<b>13.7x</b>	<b>13.0x</b>	<b>23.0x</b>	<b>22.1x</b>	<b>21.0x</b>
COR (Consensus)	n.a.	n.a.	1,399,160	1,103,220	11.1x	9.9x	9.1x	17.8x	15.1x	14.4x

<sup>3</sup> As of 28th of December, 2017

## Trade Comps - Leverage

€000s	Net Debt			Net Debt/EBITDA		
	2017	2018	2019	2017	2018	2019
<b>Cork Stoppers</b>						
Oeneo	57,182	32,664	12,913	1.0x	0.5x	0.2x
<b>Coverigns Europe</b>						
James Halstead	NM	NM	NM	NM	NM	NM
Tarkett	439,853	357,851	267,254	1.4x	1.1x	0.7x
Balta Group	234,567	231,091	204,037	2.8x	2.6x	2.0x
Victoria Plc	106,137	277,887	243,150	2.1x	4.0x	2.1x
<i>Average</i>	<i>260,186</i>	<i>288,943</i>	<i>238,147</i>	<i>2.1x</i>	<i>2.5x</i>	<i>1.6x</i>
<b>Coverings US</b>						
Mohawk	1,942,496	1,339,403	606,680	1.2x	0.8x	0.3x
Armstrong	574,211	429,916	357,186	2.0x	1.4x	1.1x
Interface	103,935	34,615	NM	0.8x	0.3x	NM
<i>Average</i>	<i>873,547</i>	<i>601,311</i>	<i>481,933</i>	<i>1.4x</i>	<i>0.8x</i>	<i>0.7x</i>
<b>Insulation</b>						
Kingspan	412,623	363,345	NM	0.9x	0.7x	NM
<b>Corticeira Amorim</b>						
<b>COR (Tiago Araújo)</b>	<b>132,343</b>	<b>165,694</b>	<b>179,229</b>	<b>0.9x</b>	<b>1.0x</b>	<b>1.0x</b>
COR (Consensus)	n.a	n.a	n.a	0.4x	0.2x	0.0x

## Summary Corticeira Amorim

€000s	2016	2017e	2018e	2019e	2020e	2021e	2022e
<b>P&amp;L</b>							
Revenue	641,411	688,063	736,677	800,746	861,298	904,954	931,710
<i>Growth</i>	<i>6.1%</i>	<i>7.3%</i>	<i>7.1%</i>	<i>8.7%</i>	<i>7.6%</i>	<i>5.1%</i>	<i>3.0%</i>
<b>EBITDA</b>	<b>122,347</b>	<b>149,141</b>	<b>164,052</b>	<b>175,651</b>	<b>192,467</b>	<b>207,722</b>	<b>218,960</b>
<i>EBITDA Margin</i>	<i>19.1%</i>	<i>21.7%</i>	<i>22.3%</i>	<i>21.9%</i>	<i>22.3%</i>	<i>23.0%</i>	<i>23.5%</i>
EBIT	96,037	122,176	130,922	140,994	156,083	169,879	179,704
EBT	142,592	118,745	125,487	133,900	148,515	161,850	171,549
<b>Balance Sheet</b>							
Operating Assets	627,038	793,129	778,375	769,654	761,727	765,777	765,925
<b>Total Assets</b>	<b>726,873</b>	<b>878,289</b>	<b>864,371</b>	<b>834,337</b>	<b>821,414</b>	<b>827,914</b>	<b>834,098</b>
Operating Liabilities	122,558	175,993	175,993	160,993	140,993	130,993	120,993
Total Liabilities	315,822	428,693	456,036	447,126	438,020	448,416	449,452
<b>Shareholders' Equity + Liabilities</b>	<b>726,873</b>	<b>878,289</b>	<b>864,371</b>	<b>834,337</b>	<b>821,414</b>	<b>827,914</b>	<b>834,098</b>
<b>Leverage</b>							
Debt	102,900	132,992	166,336	179,426	192,320	214,715	227,752
Debt/EBITDA	0.8x	0.9x	1.0x	1.0x	1.0x	1.0x	1.0x
Net Debt	35,889	132,343	165,694	179,229	192,239	214,601	227,540
<b>Net Debt/EBITDA</b>	<b>0.3x</b>	<b>0.9x</b>	<b>1.0x</b>	<b>1.0x</b>	<b>1.0x</b>	<b>1.0x</b>	<b>1.0x</b>
<b>Market</b>							
EV	2,142,749	2,179,029	2,245,537	2,290,321	2,329,210	2,361,870	2,396,819
EV/EBITDA	17.5x	14.6x	13.7x	13.0x	12.1x	11.4x	10.9x
EPS	0.79	0.67	0.71	0.76	0.84	0.91	0.97
P/E	14.4x	23.0x	22.1x	21.0x	19.2x	17.7x	16.9x
<b>Target Price</b>		<b>15.38</b>	<b>15.63</b>	<b>15.87</b>	<b>16.07</b>	<b>16.14</b>	<b>16.31</b>
Upside		49.2%	51.6%	53.9%	55.8%	56.6%	58.2%
Shareholders' Expected Return		52.9%	61.5%	62.8%	64.2%	65.7%	67.2%

## Appendix

### Summary Consolidated Income Statement

€000s	2016	2017e	2018e	2019e	2020e	2021e	2022e
Revenue	641,411	688,063	736,677	800,746	861,298	904,954	931,710
Gross Profit	54.11%	53.55%	53.11%	51.39%	51.63%	52.43%	53.21%
<b>EBITDA</b>	<b>122,347</b>	<b>149,141</b>	<b>164,052</b>	<b>175,651</b>	<b>192,467</b>	<b>207,722</b>	<b>218,960</b>
EBITDA margin	19.07%	21.68%	22.27%	21.94%	22.35%	22.95%	23.50%
EBIT	96,037	122,176	130,922	140,994	156,083	169,879	179,704
Net Financial results	88	0	0	0	0	0	0
Operational result	141,733	120,676	129,422	139,494	154,583	168,379	178,204
EBT	142,592	118,745	125,487	133,900	148,515	161,850	171,549
Income tax	-37,880	-29,686	-31,372	-33,475	-37,129	-40,462	-42,887
<b>Consolidated Net Profit</b>	<b>104,712</b>	<b>89,059</b>	<b>94,116</b>	<b>100,425</b>	<b>111,387</b>	<b>121,387</b>	<b>128,662</b>

### Summary Consolidated Balance Sheet

€000s	2016	2017e	2018e	2019e	2020e	2021e	2022e
Working Cash	1,022	650	642	197	81	114	212
Fixed Assets	201,230	243,605	247,548	256,224	262,795	270,733	279,314
Goodwill	0	6,682	4,678	3,274	2,292	1,604	1,123
Total Operating Assets	627,038	793,129	778,375	769,654	761,727	765,777	765,925
<b>Total Assets</b>	<b>726,873</b>	<b>878,289</b>	<b>864,371</b>	<b>834,337</b>	<b>821,414</b>	<b>827,914</b>	<b>834,098</b>
Operating Liabilities	122,558	175,993	175,993	160,993	140,993	130,993	120,993
Financial Debt	102,900	132,992	166,336	179,426	192,320	214,715	227,752
Total Liabilities	315,822	428,693	456,036	447,126	438,020	448,416	449,452
Shareholders' Equity	411,051	449,596	408,335	387,211	383,393	379,499	384,646
<b>Total Liabilities and Equity</b>	<b>726,873</b>	<b>878,289</b>	<b>864,371</b>	<b>834,337</b>	<b>821,414</b>	<b>827,914</b>	<b>834,098</b>

### Summary Free Cash Flow Statement

€000s	2016	2017e	2018e	2019e	2020e	2021e	2022e
EBIT	96,037	122,176	130,922	140,994	156,083	169,879	179,704
Gross Free Cash Flow	96,105	118,597	131,322	140,402	153,446	165,252	174,034
Net Capex	-34,699	-40,000	-45,000	-50,000	-55,000	-60,000	-65,000
Change in Net Working Capital	25,711	112,657	-14,754	6,279	12,074	14,050	10,148
<b>Operating Free Cash Flow</b>	<b>87,117</b>	<b>191,254</b>	<b>71,567</b>	<b>96,681</b>	<b>110,520</b>	<b>119,301</b>	<b>119,182</b>
Non-Operating Free Cash Flow	204	-24,383	6,749	7,779	2,812	2,845	2,880
<b>Net cash / (Debt)</b>	<b>65,082</b>	<b>145,001</b>	<b>-26,668</b>	<b>-8,194</b>	<b>6,471</b>	<b>14,363</b>	<b>6,592</b>

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<b>Buy</b>	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
<b>Hold</b>	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
<b>Sell</b>	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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