

A Work Project, presented as part of the requirements for the Award of a Master's degree in Finance from the Nova School of Business and Economics.

Private Equity Challenge - DELO Industrial Adhesives

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Abstract

This Field Lab Work Project in form of a Private Equity Challenge aims to take the perspective of private equity funds and their deal process. The objective is to analyze a target company, develop an investment strategy and model a leveraged buyout for the chosen company.

In this case, our group identified “DELO Industrial Adhesives” as an attractive target company. Our following analysis aims at convincing the investment committee to theoretically agree with leveraged buyout of DELO.

Disclaimer

I hereby declare that this master thesis is our own and autonomous work. All sources and aids used have been indicated as such. All used information are publicly available and/or information made available directly by the company. Full bibliographic details are given in the footnotes which also contain internet sources. This work has not been submitted to any other examination authority.

Frankfurt, 04.01.2021



Lukas Lorenz

DELO

INDUSTRIAL ADHESIVES

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1. Executive Summary

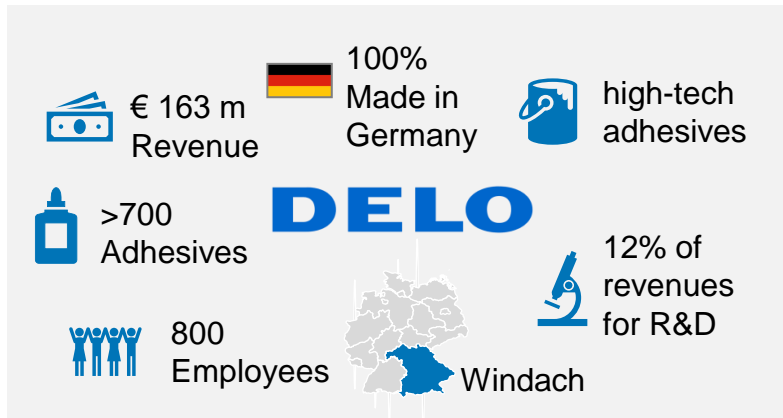
2018: Guinness World Record for heaviest lifted truck with DELO adhesive



Business Overview – DELO At A Glance

DELO is a manufacturer of high-tech adhesives generating more than € 160 million revenue in FY20

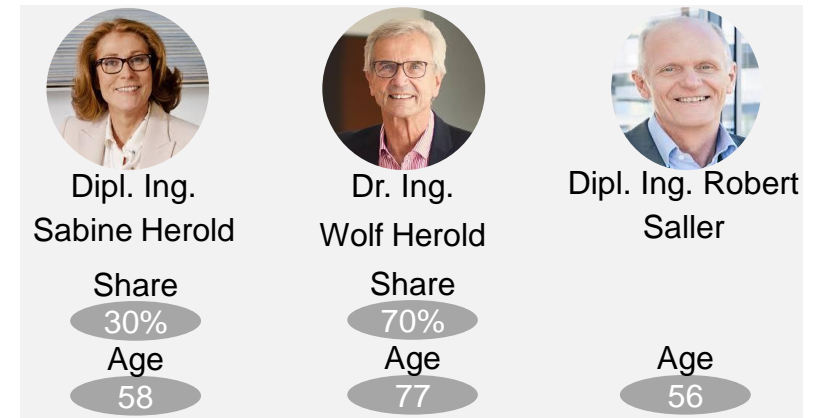
Company Overview



Key Financials

(EURm)	Mar-16A	Mar-17A	Mar-18A	Mar-19A	CAGR 16-19
Revenue	79.8	94.1	158.2	155.6	24.9%
Total output	80.6	96.2	162.1	158.7	25.3%
<i>yoy growth</i>		19.3%	68.5%	(2.1%)	
EBITDA	14.8	19.2	39.7	36.6	35.2%
<i>EBITDA margin</i>	18.5%	20.4%	25.1%	23.5%	
FCF	10.4	13.4	43.2	13.1	7.7%
<i>FCF conversion rate</i>	70.6%	69.6%	108.8%	35.7%	
Total Capex	(5.5)	(5.1)	(7.2)	(6.9)	

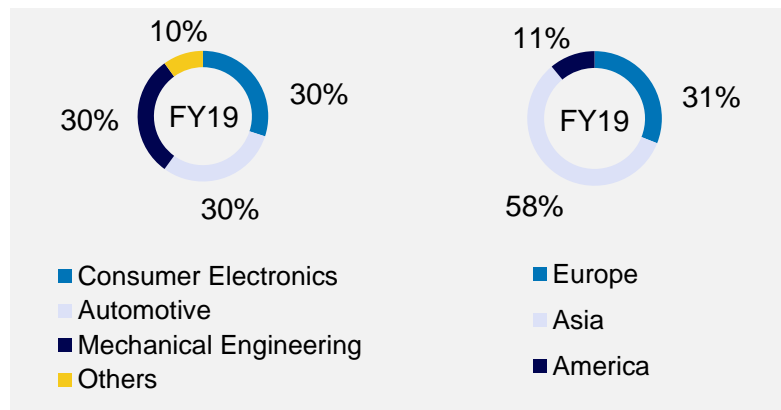
Management Team



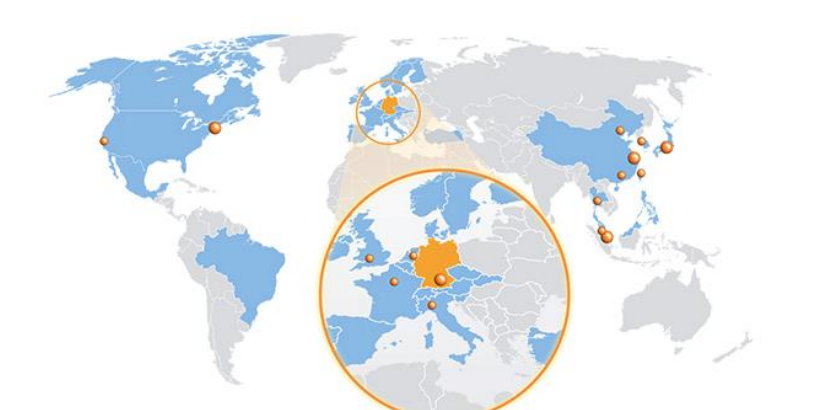
Key Characteristics



Sales Split by Industry & Region



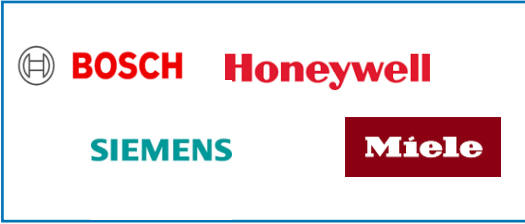



Geographic Footprint



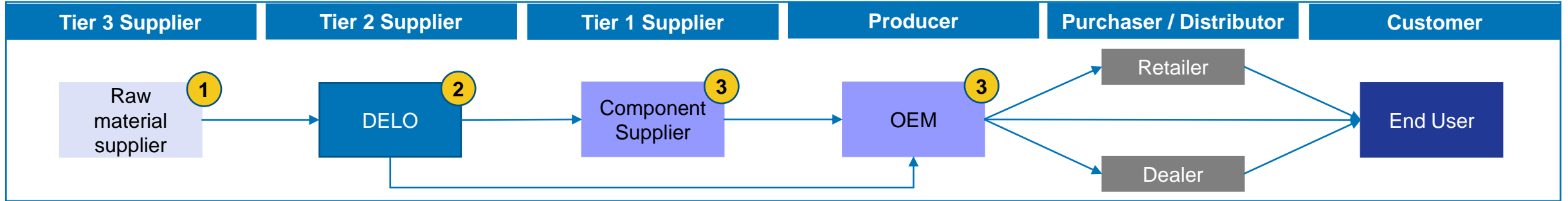
Customers

DELO has a diversified international customer base from three key industries

	Consumer Electronics	Automotive	Mechanical Engineering	Others
Customer Landscape				
% of Revenue	30%	30%	30%	10%
Very fragmented revenue base due to DELO's Balanced Scorecard objective: keep a balanced customer base , no client should contribute more than 10% of DELO's revenue ; 2018 was an exception which will be normalized over the following years				
Geographic Focus	customers are mainly based in Asia	customers are mainly based in Europe and the US	customers are mainly based in Germany	customers are mainly based in Germany
Application Areas	DELO adhesives are now present in more than 50% of all smartphones worldwide	electronic sensors and displays	range from bonding of electric motors to plant manufacturing	Other customers are from the smartcard, chip or photovoltaic sector
Product Cycle	Low customer churn: Customers are very loyal to DELO , some clients work with DELO since more than 15 years – new cooperation always aims on a long and sustainable relationship , while it happens rarely that the product cycle lasts only a few months The product cycle can last from 3 months, which is what it takes to develop a new product and launch it, up to more than 15 years			
Sales Approach	Proactive Sales Approach: Newly developed adhesives will be presented to existing customers in order to sell the latest innovations, thereby replacing old products and ensuring recurring revenues New Customers are approached by DELO's sales team or distributors and are offered an exclusive cooperation to develop a customized product			

Value Chain

DELO is a Tier 2 Supplier, delivering industrial adhesives to OEM's or their component suppliers



- DELO has optimized procurement structures over time. **Gross profit** has constantly **increased** over the years
- Reliable supply chain structure that takes precautions to store critical items on inventory (**avoid bullwhip effect**)
- Composition of adhesive and supplier structure are "well kept secrets"

- DELO currently invests **12% of its revenues back in R&D**, compared to a 3-6% industry average
- This investment yields up to **40 new innovative adhesives** every year
- More than **30% of DELO's revenue** is subsequently generated with **products younger than 3 years**
- The speed of innovation is key for DELO's success

- All products are **100% manufactured** in the **HQ**
- DELO involves customers from the first idea into the production process
- Customers can use the adhesive for **1/2 a year exclusively** before it is distributed openly
- extensive stress testing** before products are distributed to the market

- To increase awareness, DELO pursues an **active marketing strategy** (2018: Guinness World Record for heaviest lifted truck)
- DELO is actively promoting its position as a **hidden champion** in technical universities and schools to attract relevant talent
- Innovation & culture are presented on DELO's Youtube Channel

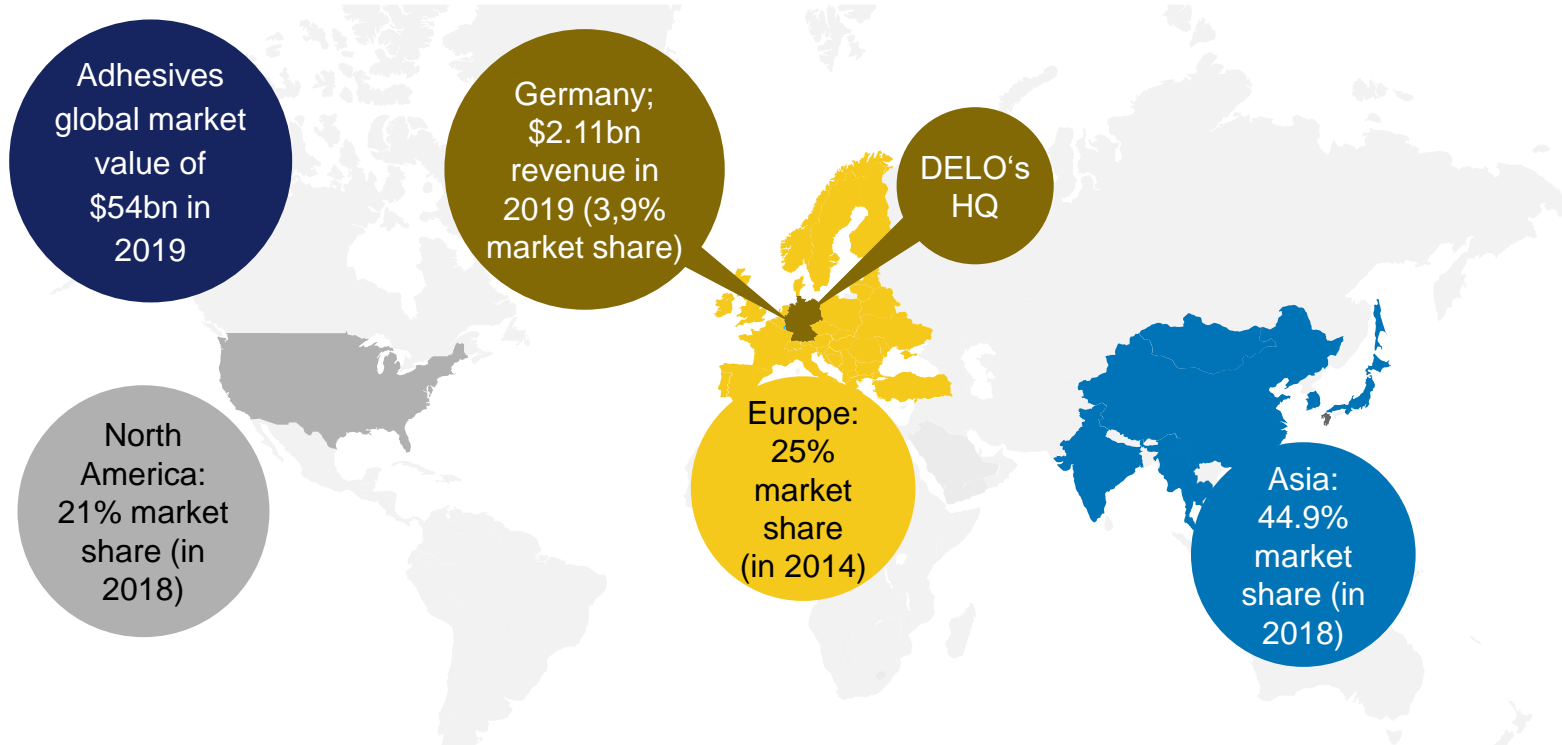
- Today more than **70% of revenue comes from sales outside of Europe**
- DELO has established an international distribution network - Less than 0.5% of Sales are revoked from clients
- Due to the customization, DELO can ask for elevated prices and additionally **cross-sell other product lines (equipment)** together with the actual product

- DELO's customers are original equipment manufacturers or the OEM's component suppliers
- In part, DELO depends on its partner network along the value chain – from supplier to distributor – to keep its competitive advantage
- To stay ahead of the market, DELO constantly needs to **improve its adhesive composition and develop new innovations**

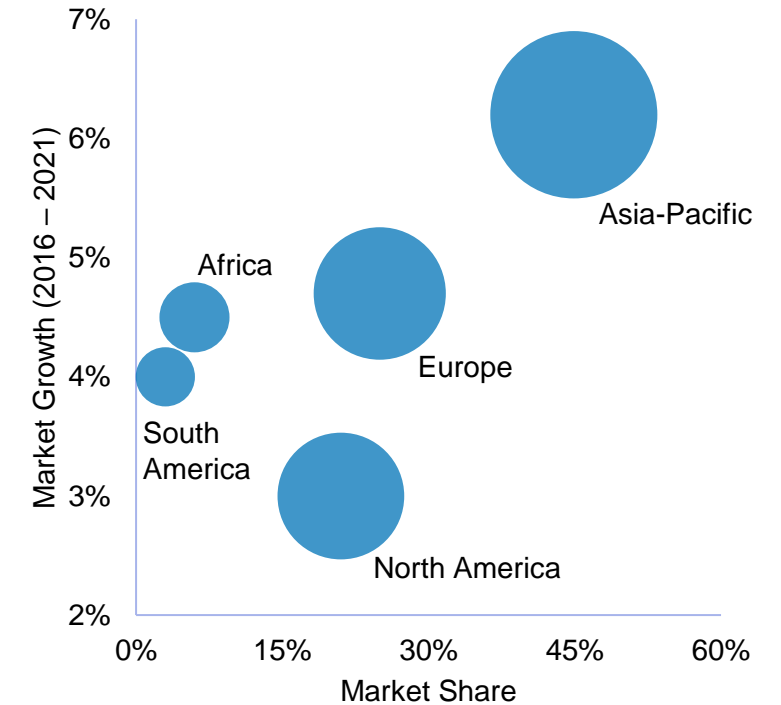
Market Overview (1/2): Regions

Asia-Pacific and Europe belong to the most attractive markets for adhesives manufacturer

Market share by region



Market size & growth by region



- Adhesives and sealants **"Made in Germany"** are enjoying increasing demand worldwide
- DELO** stands out from its competitors as it **sells 80% abroad**, with **China as the largest market (25%)**
- DELO's automotive clients are rather based in Europe** (Bosch, BMW) while its **consumer electronics clients are based in Asia** (Huawei, Foxconn)

- Asia-Pacific clearly outperforms** the rest of the market with the **highest market share (44%) & highest market growth (6.2%)**
- The European market is the second largest, expected to grow at a CAGR of 4.7%

Market Overview (2/2): Competitive Landscape

The market is fragmented with many local and a few global players holding high market shares



"There is no other company as good positioned as DELO. Of course, large adhesive manufacturers have divisions that cover similar business areas. However, I see the biggest competition in small, flexible companies in Asia, which have a knowledge and often offer our customers very good products."

Public / Private	Private	Public	Public	Public (DAX 30)	
HQ	Germany	US	Japan	Germany	
Revenue	€ 163m (May 2020)	€ 97.9m (2018)	€ 492m (2019), expect a CAGR of 5.7% (2018-2023)	€ 9.46bn (2019); adhesives make 47% of total sales	LINTEC Linking your dreams
Growth	CAGR 2015 – 2018: 25%	n/a	CAGR 2015-2018: -1.1%	CAGR 2013 – 2018: 4.01%	Revenue ranges from Euro 1.9 billion to 2.89; Products are rather standardized
EBIT Margin	20.6% (2019)	n/a	n/a	16% (2019)	
# Employees	800 (May 2020)	370 (2018)	2005 (2019)	26,000 (in 2018)	
Application areas	Consumer electronics, automotive, engineering	Automotive (sensors) & Consumer Electronics	Consumer Electronics, Automotive, Medtech	Automotive, goods, electronics; B2B and B2C	
R&D	12% of Sales in 2019	n/a	6,1% in 2018	2.9% of Sales in 2018	
	Direct medium-sized Competitors			Indirect large Competitors	

- DELO offers customized solutions which are innovated and renewed frequently and are no attractive markets for large players such as Henkel and 3M
- Furthermore, DELOs **target markets** have a **revenue potential of € 5-50 m**, which is **not sufficient for larger players** – no economies of scale
- DELO never enters a business where no individual consulting and customization process is applied, these markets are dominated by larger competitors
- Within these niche markets, DELO aims a **market share of > 50% to create market entry barriers** for other competitors

Historic Financials: Cash Flow Statement

Strong FCF partially offset during growth phase as expansion capex and NWC ties up capital

Comments






- 1 Largest change in operating cash flows result from changes in provisions for administrative expenses. DELO mainly uses provisions to best guess additional administrative expenses coming along with the high growth of the company
- 2 Low interest expense, as the company carries effectively no bank debt
- 3 DELO's expansion activities resulted in **total capex investments significantly above D&A each year**, reducing the company's FCFs; Pro-Forma expansion capex equals all capex above D&A
- 4 Over the past periods, DELO was able to **increase its FCFs which currently are at around € 14m** (expansion capex affected)
 - FCF adjustments include: 1) taxes to be paid and 2) deferred administrative expenses, both provision items
- 5 Spike in provisions in FY18 are a result of extensive hiring and are not expected to continue on the same high level in the next years and thus are considered as one-off items
- 6 High cash leakage in FY 18 is attributable to a **€ 18m payout to shareholders**, as a result of an extremely successful year

Free Cash Flow (EURm)	Mar-16A	Mar-17A	Mar-18A	Mar-19A	CAGR 16-19
EBITDA	14.8	19.2	39.7	36.6	35.2%
Corporate income Tax	(4.6)	(6.1)	(13.3)	(11.7)	
Δ NWC	(2.2)	(2.2)	(6.6)	(2.8)	
thereof Δ inventory	(1.6)	(1.1)	(4.9)	(2.9)	
thereof Δ receivables	(0.0)	(2.0)	(3.4)	0.5	
thereof Δ Advance payments received	(0.1)	0.1	0.1	0.0	
thereof Δ Payables	(0.5)	0.8	1.6	(0.4)	
Receivables from affiliated companies	5.7	--	(0.2)	0.1	
Other BS items	2.1	0.5	3.1	(0.5)	
Provisions	0.1	6.9	27.6	(1.8)	
thereof pension provisions and similar	0.1	0.2	0.2	0.3	
thereof tax provisions	0.2	2.5	2.9	4.9	
thereof personel expenses	(0.2)	1.4	3.4	(0.3)	
thereof deferred administrative expenses	5 (0.0)	2.6	21.0	(6.6)	
thereof other provisions	0.1	0.2	0.1	(0.0)	
Operating Cash Flow	1 (15.9)	18.3	50.2	19.9	7.8%
Maintenance Capex	(2.0)	(2.6)	(3.1)	(3.9)	
Expansion Capex	3 (3.4)	(2.5)	(4.1)	(2.9)	
Investing Cash Flow	(5.5)	(5.1)	(7.2)	(6.9)	7.7%
Free Cash Flow	10.4	13.2	43.0	13.0	7.8%
<i>yoy growth</i>		26.7%	226.5%	(69.7%)	
<i>FCF conversion rate (EBITDA)</i>		70.2%	68.6%	108.5%	35.6%
Financial result	2 (0.0)	(0.0)	0.0	0.1	
Δ Equity	(0.1)	0.0	(0.4)	0.7	
Payouts	6 (10.0)	--	(18.0)	--	
Bank debt	--	--	0.2	0.3	
Financing Cash Flow	4 (10.1)	0.0	(18.3)	1.1	
Change in cash	0.3	13.2	24.8	14.2	

Investment Thesis (1/2): Deal Rationale & Value Creation

DELO meets many criteria of an attractive target and offers several approaches for value creation

Deal Rationale

 Robust Financials	 Diversified Business	 Customer Centricity	 Human Talent	 Prosperous Market
<ul style="list-style-type: none"> DELO has profit margins of up to 23.1%, thereby exceeding the industry Revenue is growing, doubling every five years Stable and high cashflows require low debt for CapEx investments 	<ul style="list-style-type: none"> DELO supplies several industries – with major clients from automotive, consumer electronics and mechanical engineering to smartcards and RFID Relying on a fragmented customer base 	<ul style="list-style-type: none"> Consult & customize: DELO tailors the product to specific client needs Product innovation: 12% of revenues reinvested in R&D (industry avg. is 3-6%) Concentration on future-proof market niches 	<ul style="list-style-type: none"> DELO hires highly skilled engineers from renowned universities in Germany The management is reliable for a remarkable growth during the last 10 years – growing from €10m of revenues in 2000 to €156m in 2019 	<ul style="list-style-type: none"> DELO's target industries are growing due to ongoing trends such as E-Mobility, autonomous driving and miniaturizat. in consumer electronics Geographically, Asia-Pacific is and will be a strong growth driver

Value Creation Strategies

1. M&A		2. Organic Growth		3. Operational Improvements	
1.1 Strategic Acquisition	2.1 Geographic Expansion	2.2. CRM Optimization	3.1. Product Optimization	3.2. Brand Building	
<ul style="list-style-type: none"> Further diversify DELO's industry focus by acquiring a player from the med-tech industry – horizontal expansion 	<ul style="list-style-type: none"> Further strengthen Asia-Pacific business with focus on E-mobility and consumer electronics Expand DELO's US business 	<ul style="list-style-type: none"> Improve Customer Relationship Management: increase recurring revenues through constant product innovation 	<ul style="list-style-type: none"> Margin expansion through cost cutting measures: clean up of DELO's product portfolio with focus on high margin & high revenue products 	<ul style="list-style-type: none"> Improve company branding and become well-known employer, with special focus on german schools and universities 	

Investment Thesis (2/2): Acquisition – Target Company

The optional acquisition of Panacol aims at a gain in market shares and further portfolio diversification by region & industry

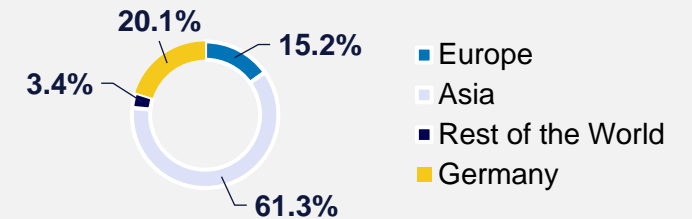
Key Characteristics

Revenue	€ 24.1m (FY 18/19)
Location	Steinbach, Germany
Employees	62 (38,7% in R&D)
Application Areas	MedTech, luxury packaging, consumer electronics, automotive

Company & Product

- Panacol is an **internationally diversified** producer of different adhesives, with focus on the **MedTech** and **luxury packaging** segment
- In addition, Panacol sells UV-curing equipment
- The company's production facilities are in Germany, while sales partners are spread around the globe
- Panacol Elosol is a 100% daughter of the Höhle group, which covers UV devices and systems, UV lamps, dosing devices, UV measuring technology and adhesives

Sales Split & Market Growth

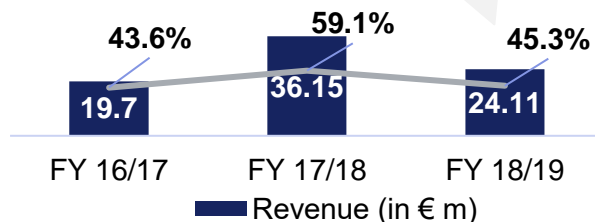


- Asia-Pacific with the highest market share (61.3%) & highest market growth (6.2%)
- Panacol's major industries **grow** at **6.8%** (medical adhesives market) and **8.8%** (luxury packaging) from 2020 - 2025

Financials

Strong EBITDA-margin ranging from **43 to 59%**

Sales decline by **33.3%**, as Consumer Electronics struggles



Strategic Deal Rationale

Top-Line:

- Acquisition of customer base to further diversify DELO's portfolio by region and industry (MedTech & luxury packaging), but also gain market shares
- Revenue growth in new, fast-growing markets
- Expanding equipment segment (cross-selling)

Bottom-Line:

- Synergies through the consolidation of functions: R&D, administration, production, sales
- Increase bargaining power with suppliers

Entry Rationale

- Strong EBITDA margin of Panacol contributes to **margin improvement of the case**
- Despite extremely high margins, Panacol has been struggling with volatile revenue growth and high customer churn in recent years, which might allow for a **relatively cheap buy-in**.
- Intrinsically, we value the add-on at **10.8x EBITDA**, and adjust transaction and trading multiples for the fact that we view Panacol as **slightly less attractive**
- Buy-in envisaged for **one year after DELO acquisition** in order to mitigate risks

Business Plan: Cash Flow Forecast

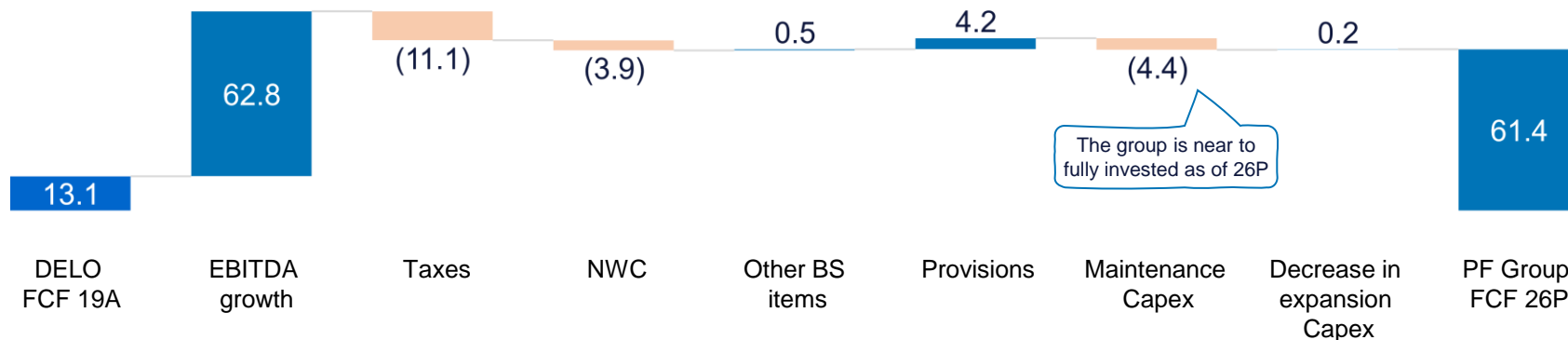
High cash conversion rate of avg. ~52.3% throughout the holding period FY22-26 makes the Group the ideal LBO candidate

Free Cash Flow PF consolidated (EURm)	COVID impact		Consolidation of Panacol acquisition						CAGR	CAGR
	Mar-19A	Mar-20P	Mar-21P	Mar-22P	Mar-23P	Mar-24P	Mar-25P	Mar-26P	16-19	19-26
EBITDA	36.6	38.4	36.7	42.6	66.3	75.8	86.9	99.4	35.2%	15.3%
Taxes (LBO taxes from FY22)	(11.7)	(12.3)	(11.6)	(6.7)	(13.4)	(16.0)	(19.2)	(22.7)		
Δ NWC	(2.7)	0.4	(4.2)	(1.5)	(2.4)	(5.2)	(5.9)	(6.6)		
thereof Δ Inventory	(2.9)	1.1	(4.3)	(0.2)	0.0	(2.9)	(3.3)	(3.7)		
thereof Δ Receivables	0.5	(0.9)	(0.8)	(1.3)	(31.5)	(3.0)	(3.4)	(3.8)		
thereof Δ Advance payments received	0.0	(0.0)	0.0	0.0	0.0	0.0	0.0	0.0		
thereof Δ Payables	(0.4)	0.3	1.0	0.1	0.0	0.7	0.8	0.9		
thereof Δ Receivables from affiliated companies	0.1	(0.0)	(0.0)	(0.0)	29.1	(0.0)	(0.0)	(0.0)		
Δ Other BS items	(0.5)	(0.1)	0.0	0.0	(0.0)	0.0	0.0	0.0		
Δ Provisions	(1.8)	0.3	0.6	1.0	1.5	1.9	2.2	2.4		
Operating Cash Flow	19.9	26.7	21.5	35.4	52.0	56.5	64.0	72.5	7.9%	20.3%
Maintenance Capex	(3.9)	(4.1)	(4.5)	(4.9)	(6.9)	(7.4)	(7.8)	(8.3)		
Expansion Capex	(2.9)	(1.8)	(2.1)	(2.1)	(2.7)	(2.7)	(2.7)	(2.8)		
Investing Cash Flow	(6.9)	(5.9)	(6.6)	(7.0)	(9.6)	(10.1)	(10.6)	(11.1)	7.7%	7.1%
FCF	13.1	20.8	14.9	28.4	42.5	46.4	53.4	61.4	8.0%	24.7%
FCF conversion rate (% of EBITDA)	35.7%	54.3%	40.7%	66.6%	64.1%	61.2%	61.4%	61.8%		

FCF 18A: €43 m

Higher future FCF mainly driven by higher tax shields

FCF Bridge in €m



The group is near to fully invested as of 26P

Comments

- DELO expects to significantly increase its growth in EBITDA through the drivers of **revenues growth, internal optimization and the acquisition of Panacol**
- The adjustments taken in the section of accounts receivables are caused by the consolidation of Panacol's A/R to affiliated companies and the **overall A/R of DELO and Panacol combined**
- Maintenance capex tends to grow according to revenue over time as DELO expands its position as **market-leading producer of innovative high-tech adhesives**, which tends to be cost intense
- Current provisions will decrease over time, driven by lowering advanced administrative expenses

LBO Scenario - Base Case (incl. Panacol)

Investor case, based on management outline, is yielding a 3.0x MoM or 25.8% IRR

Key Financials (EURm)	COVID impact		Incl. Panacol			Holding period			CAGR	CAGR
	Mar-19A	Mar-20P	Mar-21P	Mar-22P	Mar-23P	Mar-24P	Mar-25P	Mar-26P	16-19	19-26
Total Output	158.7	163.0	172.6	187.5	239.7	268.8	302.1	339.1	25.3%	11.5%
<i>y-o-y growth</i>		2.7%	5.9%	8.7%	27.8%	12.2%	12.4%	12.3%		
EBITDA	36.6	38.4	36.7	42.6	66.3	75.8	86.9	99.4	35.2%	15.3%
<i>EBITDA-margin</i>	23.1%	23.5%	21.3%	22.7%	27.7%	28.2%	28.8%	29.3%		
Taxes (LBO taxes from FY22)	(11.7)	(12.3)	(11.6)	(6.7)	(13.4)	(16.0)	(19.2)	(22.7)		
Δ NWC	(2.7)	0.4	(4.2)	(1.5)	(2.4)	(5.2)	(5.9)	(6.6)		
Δ Other BS items	(0.5)	(0.1)	0.0	0.0	(0.0)	0.0	0.0	0.0		
Δ Provisions	(1.8)	0.3	0.6	1.0	1.5	1.9	2.2	2.4		
Operating Cash Flow	19.9	26.7	21.5	35.4	52.0	56.5	64.0	72.5	7.9%	20.3%
Maintenance Capex	(3.9)	(4.1)	(4.5)	(4.9)	(6.9)	(7.4)	(7.8)	(8.3)		
Expansion Capex	(2.9)	(1.8)	(2.1)	(2.1)	(2.7)	(2.7)	(2.7)	(2.8)		
Total Capex	(6.9)	(5.9)	(6.6)	(7.0)	(9.6)	(10.1)	(10.6)	(11.1)		
Investing Cash Flow	(6.9)	(5.9)	(6.6)	(7.0)	(9.6)	(10.1)	(10.6)	--	7.7%	7.1%
FCF	13.1	20.8	14.9	28.4	42.5	46.4	53.4	72.5	8.0%	24.7%
<i>FCF conversion rate (% of EBITDA)</i>	35.7%	54.3%	40.7%	66.6%	64.1%	61.2%	61.4%	61.8%		
Cash Interest	--	--	--	(12.9)	(17.3)	(16.6)	(15.5)	(14.5)		
FCF available for debt repayment	13.1	20.8	14.9	15.5	25.2	29.8	37.9	58.0		

Net Debt (bank view)			201.8	187.1	236.8	208.0	171.2	125.4
Cash Cover			--	1.6	1.4	1.1	1.3	1.6
Leverage Cover			5.5	4.4	3.6	2.7	2.0	1.3
Interest Cover			--	3.3	3.8	4.6	5.6	6.8

Cash Flows	Mar-21P		Apr-22P	Mar-26P		MoM	IRR
	Share common equity	Entry DELO	Entry Panacol	Exit	Cap gain		
Sponsor	95.8%	(307.7)	(85.2)	1,181.7	788.8	3.0	25.8%
Mr Saller & Mr Bitzer (DELO)	1.6%	(2.0)	--	12.6	10.6	6.3	44.5%
DELO 2nd level management	1.6%	(2.0)	--	12.6	10.6	6.3	44.5%
Panacol 1st level management	0.5%	--	(1.0)	3.7	2.7	3.7	39.1%
Panacol 2nd level management	0.5%	--	(1.0)	3.7	2.7	3.7	39.1%

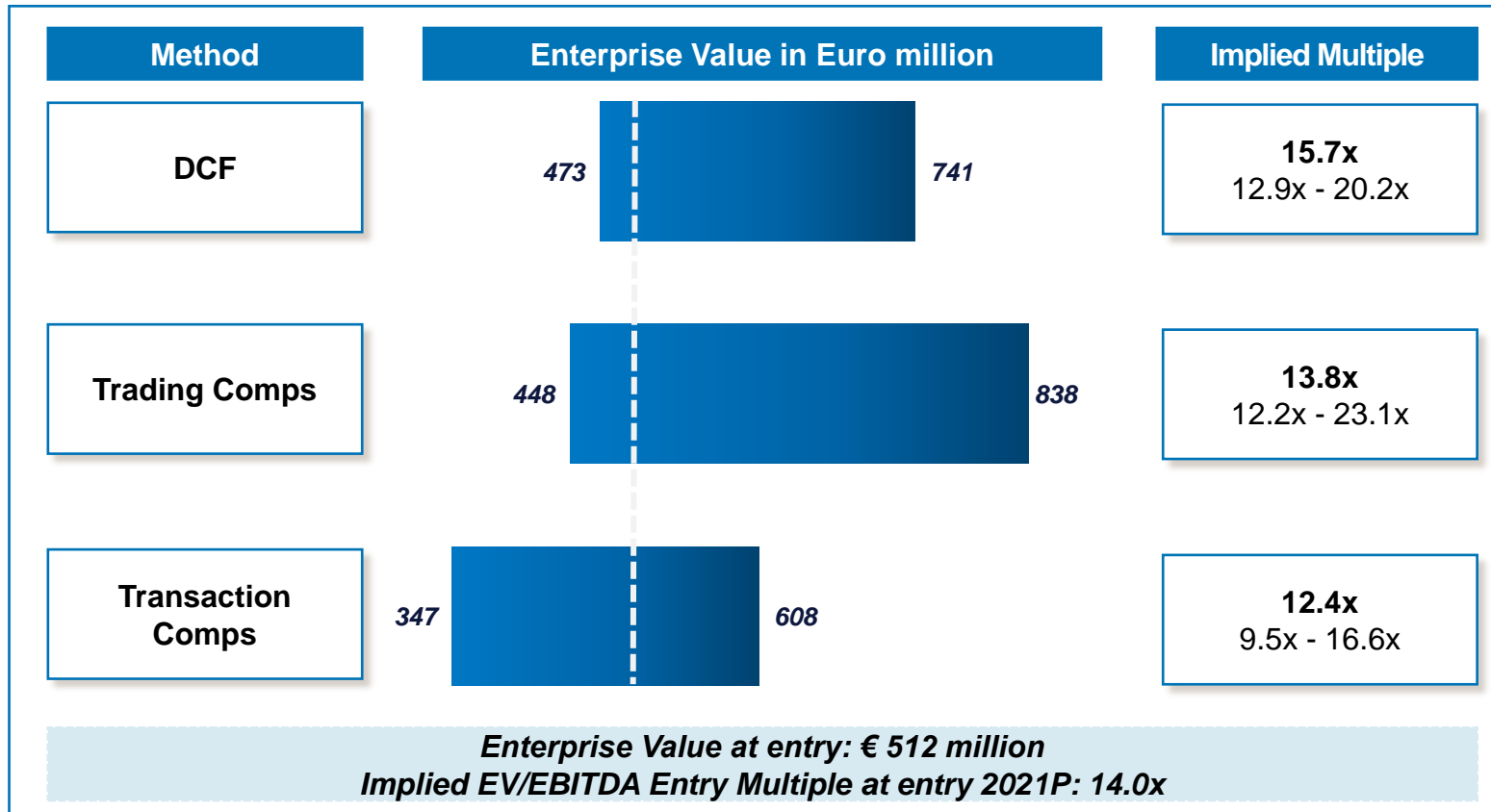
Comments

- Target to double revenues every 5 years seems too optimistic due to the ongoing COVID pandemic, nevertheless the management is confident to be able to **grow total output 11.5% per annum** as DELO proved to be **resilient** during the crisis of 2008 and is focusing on **future industries** (f.e. e-mobility)
- EBITDA-Margin improvement** from 21-24% in FY19-21 to **29.3% in FY26** mainly relates to margin expansion through Panacol and fix overhead cost
- Increasing FCF-conversion** rates from FY22 is mainly driven by **lower tax expenses** as DELO was not benefiting from interest rate deductibility historically
- 3.0x or 26% IRR is in line with our return expectations and we thus view the deal as attractive

Exit and Returns (1/4): Entry Valuation

Different valuation methodologies combined suggest an entry multiple of 14.0x for the investment in DELO

Valuation methods and results



Comments

DCF

- Intrinsically, DELO is valued at **15.7x EBITDA at 2021P** and primarily derives its value from strong growth prospects

Trading Comps

- Competitors were clustered into **pure adhesive players**, as well as **large diversified chemical conglomerates** and trade at a median of **13.8x EBITDA at 2020P**

Panacol with lower entry multiple at 12.8x

Transaction Comps

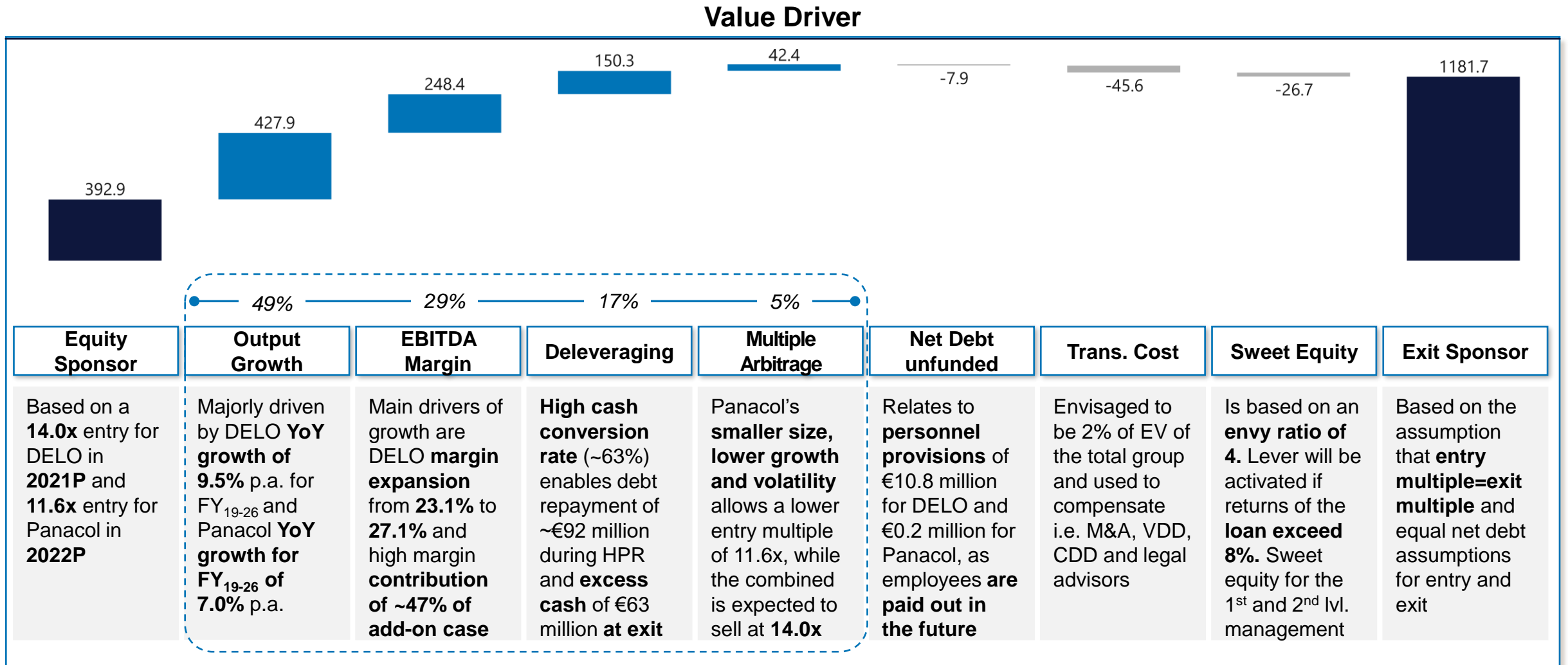
- Transactions were filtered for a closing date **after 2017** and included mostly transactions **within the last year**
- The median of conducted transactions from investors amounts to **12.4x**

Panacol with lower entry multiple at 11.4x

- All valuation methods yield robust enterprise values in the range of 12x-16x EBITDA 2021P. Consequently, the average of aforementioned valuation methods suggest an enterprise value of € 512 million at entry for DELO

Exit and Returns (2/4): Value Drivers

Extensive growth and significant margin expansion offer an opportunity to make > 25% IRR and MoM of 3.0



Exit and Returns (3/4): Management Incentive and Rationale

The LBO offers an attractive opportunity for DELO's existing management

Executive Management



Age
56
Years with DELO
30

Dipl.-Ing. Mr Robert Saller
CEO with focus on strategy,
sales and IT



Age
49
Years with DELO
13

Ph.D., Mr Karl Bitzer
Co-CEO with focus on R&D
and product

New specialized CFO will be implemented after the LBO
Former role of Mr. Herold

n/a
CFO (preferably sourced internal)

Strategic Incentives for the Deal

Once in a lifetime deal and gain additional responsibilities

Shape DELO's future through strong growth and expansion

Attractive cash compensation of 44.5% IRR in the base case

Herolds transition to the advisory board



Strategic incentives for the new role

The couple is eyeing **retirement** with Sabine turning 58 and Wolf Herold 77 years in 2021

Option to **continue to advise DELO** through two board seats

Offer to make use of **rollover** option to re-participate with **minority stake**

Panacol Management with similar return incentives if the add-on proves to be strategically relevant in DD-phase

Entry Multiple

	Base Case	Exit Multiple				
		12.0x	13.0x	14.0x	15.0x	16.0x
12.0x	45.3%	49.3%	52.9%	56.2%	59.3%	
13.0x	40.7%	44.8%	48.5%	51.9%	54.9%	
14.0x	36.4%	40.7%	44.5%	47.9%	51.0%	
15.0x	32.4%	36.8%	40.7%	44.2%	47.4%	
16.0x	28.5%	33.1%	37.1%	40.7%	44.0%	


IRR achieved based on entry=exit multiple


- Additionally, comprehensive performance-based equity and bonus options for employees in management positions planned to achieve involvement with personnel in place

Exit and Returns (4/4): Sensitivities

Extremely attractive investment case with additional upside stemming from Panacol acquisition

MoM and IRR including Panacol acquisition⁽¹⁾

MOM						
						
Exit Multiple						
	12.0x	13.0x	14.0x	15.0x	16.0x	
Entry Multiple	12.0x	3.1x	3.4x	3.7x	3.9x	4.2x
	13.0x	2.8x	3.0x	3.3x	3.6x	3.8x
	14.0x	2.5x	2.8x	3.0x	3.2x	3.5x
	15.0x	2.3x	2.5x	2.8x	3.0x	3.2x
	16.0x	2.1x	2.3x	2.5x	2.7x	2.9x

IRR						
						
Exit Multiple						
	12.0x	13.0x	14.0x	15.0x	16.0x	
Entry Multiple	12.0x	26.7%	29.0%	31.3%	33.4%	35.4%
	13.0x	23.8%	26.1%	28.3%	30.3%	32.3%
	14.0x	21.3%	23.6%	25.7%	27.7%	29.6%
	15.0x	19.1%	21.3%	23.4%	25.3%	27.2%
	16.0x	17.1%	19.3%	21.3%	23.2%	25.0%

MoM and IRR DELO standalone

MOM						
Exit Multiple						
	12.0x	13.0x	14.0x	15.0x	16.0x	
Entry Multiple	12.0x	3.5x	3.8x	4.1x	4.4x	4.8x
	13.0x	3.1x	3.3x	3.6x	3.9x	4.2x
	14.0x	2.7x	3.0x	3.2x	3.4x	3.7x
	15.0x	2.4x	2.7x	2.9x	3.1x	3.3x
	16.0x	2.2x	2.4x	2.6x	2.8x	3.0x

IRR						
Exit Multiple						
	12.0x	13.0x	14.0x	15.0x	16.0x	
Entry Multiple	12.0x	28.4%	30.7%	32.8%	34.7%	36.6%
	13.0x	25.0%	27.2%	29.2%	31.1%	32.9%
	14.0x	22.1%	24.2%	26.2%	28.0%	29.8%
	15.0x	19.5%	21.6%	23.5%	25.3%	27.1%
	16.0x	17.2%	19.2%	21.2%	23.0%	24.7%

- While the standalone case of DELO already offers a lucrative investment opportunity, the acquisition of Panacol adds another option to efficiently deploy capital and increase potential upside from strategic diversification in attractive end-markets of med-tech and luxury packaging

Exit Strategy: Options

A strategic Sale is the preferred exit strategy – but high interest is expected from all fields

I. Strategic Investor

Potential **strategic investors** comprise larger competitors from the **industrial adhesives** sector

- ✓ Strategic buyers will probably pay a higher acquisition price due to synergy effects
- ✗ Potentially slower acquisition process
- ✗ Full integration of DELO in the acquirer's portfolio might lead to slower future growth than as a stand-alone company



Highest return potential due to synergy possibilities



II. Public Listing

DELO could be **listed** on the **German stock exchange** through the sale of shares to several investors

- ✓ A public listing is a good source for future equity – no obstacles to find a potential buyer
- ✗ Long and cost-intensive process with no guarantee of success
- ✗ New burdens, f.e. through guidelines for the publication of company information



High costs and uncertainty of returns on the exit – dependency on capital market conditions



III. Private Equity Investor

DELO could be of interest for a **secondary buyout**. Leading PE firms can be seen as possible acquirers

- ✓ Attractive target for Private Equity firms with plenty of dry powder, PE firms have shown strong interest in the sector lately
- ✗ Usually achieves lower multiples than the other options



Limited return potential except strategic add on case



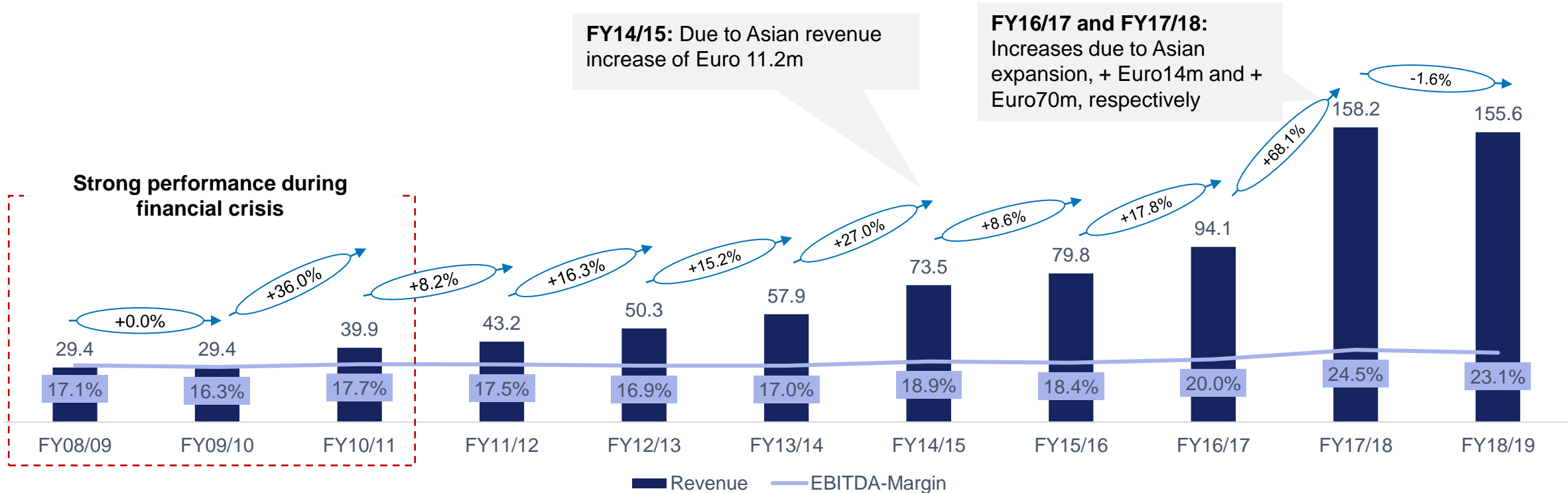
2. Individual Part – LBO, Exit and Returns



Historic Financials - Crisis Performance

...very resistant during financial crisis

Long-Term Performance (in €m)



- **No decline in revenue during global financial crisis** and strong growth in subsequent years (potentially driven by smart phone and other consumer electronics boom)
- **FY18/19:** According to the annual report revenue was forecasted to be slightly higher, however, management was satisfied to **stabilize high revenue after historic growth record** of FY17/18

LBO - Sources and Uses comparison

Full integration into DELO, allows for a high debt proportion in Acquisition Financing of Panacol

DELO				Panacol					
Uses	Sources		in %	Uses	Sources		in %		
Equity purchase price	570.4	Equity	311.7	59%	Equity purchase price	165.0	Equity	87.2	54%
Net Debt to be funded	(69.2)	Common Equity	77.9	①	Net Debt to be funded	(9.4)	Common Equity	21.8	①
Net Debt NOT to be funded	10.8	- thereof sponsor	73.9	95%	Net Debt NOT to be funded	0.2	- thereof sponsor	19.8	91%
		- thereof Mr Saller & Mr Bitzer	2.0	3%			- thereof Panacol 1st level management	1.0	5%
		- thereof DELO 2nd level management	2.0	3%			- thereof Panacol 2nd level management	1.0	5%
Transaction cost	12.4	Shareholder loan	233.8		Transaction cost	5.5	Shareholder loan	65.4	
		- thereof sponsor	233.8	100%			- thereof sponsor	65.4	100%
		- thereof Mr Saller & Mr Bitzer	--	0%			- thereof Panacol 1st level management	--	0%
		- thereof DELO 2nd level management	--	0%			- thereof Panacol 2nd level management	--	0%
		Debt	201.8	38%			Debt	73.9	46%
		TLA	91.7	45%			TLA	33.6	45%
		TLB	36.7	18%			TLB	13.4	18%
		TLC	36.7	18%			TLC	13.4	18%
		Mezzanine	36.7	18%			Mezzanine	13.4	18%
		Net Debt NOT to be funded	10.8	2%			Net Debt NOT to be funded	0.2	0%
Total Uses	524.4	Total Sources	524.4	100%	Total Uses	161.3	Total Sources	161.3	100%

Comments

- ① By applying a **Sweet Equity component** for the new management, the sponsor is capable to **align interests between different stakeholders** and thereby generate possibly higher returns in the future. Important to mention is the multiplier effect of management equity, which will lead to a share multiplication at exit time of 4.0x
- ② DELO and Panacol use multiple debt tranches, **which allows for an optimal finance structure given most favourable interest conditions**
- ③ Net Debt not to be funded includes mostly **provisions of personnel expenses and pension provisions, which have been seen by the sponsor as required for operations.** As a result they will be taken over into the investment process.

Exit and Returns: Financing

Strong business fundamentals lead to extensive debt application of 5.5x EBITDA

Financing Structure

Financing Schedule in €m

Financial Year	Mar-21P	Mar-22P	Mar-23P	Mar-24P	Mar-25P	Mar-26P
Cash before Repayment	--	② 15.5	36.1	53.4	66.2	88.0
Beginning Debt Balance	--	① 201.8	198.0	260.3	236.3	212.3
DELO Shareholder Loan	--	207.6	--	--	--	--
DELO Common Equity	--	69.2	--	--	--	--
New Debt DELO	--	201.8	--	--	--	--
Repayment TLA DELO	--	② (4.6)	(9.2)	(18.3)	(18.3)	(18.3)
Repayment other DELO	--	--	--	--	--	--
Panacol Shareholder Loan	--	--	65.4	--	--	--
Panacol Common Equity	--	--	21.8	--	--	--
New Debt Panacol	--	--	① 73.9	--	--	--
Repayment TLA Panacol	--	--	② (3.4)	(6.7)	(6.7)	(6.7)
Repayment other Panacol	--	--	--	--	--	--
PIK Comp. Mezzanine	--	(0.7)	(1.0)	(1.0)	(1.1)	(1.1)
Closing Debt Balance	--	198.0	260.3	236.3	212.3	188.3
Cash after Repayment	--	③ 10.9	23.6	28.3	41.1	63.0
Debt Covenants						
Cash Cover	--	③ 1.6	1.4	1.1	1.3	1.6
Leverage Cover	⑤ 5.5	4.4	3.6	2.7	2.0	1.3
Interest Cover	--	④ 3.3	3.8	4.6	5.6	6.8

Comments

- ① To structure the acquisition of DELO and Panacol a **5.5x EBITDA debt leverage** was applied for both companies. **This leads to 38.5% debt financing for DELO and 45.8% for Panacol.**
- ② The debt structure focus **with 2.5x EBITDA highly on the senior tranche A (TLA)**, since high cashflows enable the company to repay most of this financing over its lifetime.
- ③ Both acquisitions are structured in a way, to allow for volatility in returns, **without breaking any coverage** or run into a cash illiquidity. A proportional high debt financing approach requires Cash Covers to be over 1.
- ④ To additionally avoid any form of illiquidity in interest payment or creating any form of Credit Risk, **interest cover** is even at the beginning of both acquisitions **always above 3**. This allows financing parties to get comfortable with the high acquisition leverage, even after the significant impacts of COVID-19 on the global economy.
- ⑤ The continuous **growth in revenue and the strong cashflow growth**, allows for an ongoing **decreasing leverage ratio, even after the acquisition of Panacol in 2022**. In the Exit Year of 2026, the leverage ratio is only slightly at 1.3x EBITDA which supports the strong positioning of the company.

LBO Scenario - Optimal Case (incl. Panacol)

An optimal scenario is yielding a 3.2x MoM or 27.0% IRR

Key Financials (EURm)	COVID impact		Incl. Panacol				Holding period		CAGR	CAGR
	Mar-19A	Mar-20P	Mar-21P	Mar-22P	Mar-23P	Mar-24P	Mar-25P	Mar-26P	16-19	19-26
Total Output	158.7	163.0	175.8	191.4	249.5	282.9	321.4	364.4	25.3%	12.6%
<i>y-o-y growth</i>		2.7%	① 7.9%	8.8%	30.3%	13.4%	13.6%	13.4%		
EBITDA	36.6	37.4	44.1	50.9	78.7	91.0	105.5	121.8	35.2%	18.7%
<i>EBITDA-margin</i>	23.1%	23.0%	② 25.1%	26.6%	31.6%	32.2%	32.8%	33.4%		
Taxes (LBO taxes from FY22)	(11.7)	(12.0)	(14.3)	(8.3)	(15.9)	(19.3)	(23.4)	(28.0)		
Δ NWC	(2.7)	3.8	(3.0)	(1.3)	(2.6)	(5.2)	(6.0)	(6.7)		
Δ Other BS items	(0.5)	0.2	0.1	0.1	(0.0)	(0.0)	(0.0)	(0.0)		
Δ Provisions	(1.8)	1.4	0.9	1.1	1.8	2.4	2.7	3.0		
Operating Cash Flow	19.9	30.9	27.7	42.5	62.0	68.8	78.8	90.2	7.9%	24.1%
Maintenance Capex	(3.9)	(4.1)	(4.5)	(4.9)	(6.9)	(7.4)	(7.9)	(8.4)		
Expansion Capex	(2.9)	(1.7)	(2.1)	(2.1)	(2.7)	(2.8)	(2.8)	(2.8)		
Total Capex	(6.9)	(5.8)	(6.7)	(7.1)	(9.6)	(10.2)	(10.7)	(11.2)		
Investing Cash Flow	(6.9)	(5.8)	(6.7)	(7.1)	(9.6)	(10.2)	(10.7)	--	7.7%	7.2%
FCF	13.1	25.1	③ 21.0	35.4	52.4	58.7	68.1	90.2	8.0%	29.3%
<i>FCF conversion rate (% of EBITDA)</i>	35.7%	67.0%	47.7%	69.6%	66.6%	64.4%	64.6%	64.8%		
Cash Interest	--	--	--	(15.4)	(20.5)	(19.6)	(18.4)	(17.2)		
FCF available for debt repayment	13.1	25.1	21.0	20.0	31.9	39.0	49.7	73.0		

Net Debt (bank view)	242.3	223.2	277.4	239.6	191.1	130.6
Cash Cover	--	1.7	1.5	1.2	1.4	1.7
Leverage Cover	5.5	4.4	3.5	2.6	1.8	1.1
Interest Cover	--	3.3	3.8	4.6	5.7	7.1

Comments

- ① During the optimal scenario, a higher revenues growth is realized, driven by lower impact of COVID and higher synergy potential between DELO and Panacol.
- ② Margin uplift is realized as revenues increase by 12.6%, while overhead cost grow at lower levels, leading to higher adj. EBITDA-margins (>30%) compared to base case scenario.
- ③ FCF-conversion rate grows analogous to revenue and margin performance above base case.
- ④ Profitability increases lead to higher MoM return potential, which is significant for Management participation with a increase of 0.4x, while the financial sponsor receives an increase of 0.2x.

Cash Flows	Mar-21P	Apr-22P	Mar-26P				
	Share common equity	Entry DELO	Entry Panacol	Exit	Cap gain	MoM	IRR
Sponsor	96.5%	(369.7)	(97.6)	1,478.6	1,011.2	3.2	27.0%
Mr Saller & Mr Bitzer (DELO)	1.3%	(2.0)	--	13.4	11.4	④ 6.7	46.3%
DELO 2nd level management	1.3%	(2.0)	--	13.4	11.4	6.7	46.3%
Panacol 1st level management	0.4%	--	(1.0)	4.0	3.0	4.0	41.3%
Panacol 2nd level management	0.4%	--	(1.0)	4.0	3.0	4.0	41.3%

LBO Scenario - Downside Case Covid-19 (incl. Panacol)

Strong cashflows lead to high returns of 2.5x MoM and 21.5% IRR even considering a significant impact of COVID-19

Key Financials (EURm)	COVID impact		Incl. Panacol					CAGR 16-19	CAGR 19-26	
	Mar-19A	Mar-20P	Mar-21P	Mar-22P	Mar-23P	Mar-24P	Mar-25P			Mar-26P
Total Output	158.7	163.0	163.6	176.7	218.9	237.6	258.4	281.4	25.3%	8.5%
<i>y-o-y growth</i>		2.7%	① 0.4%	8.0%	23.9%	8.6%	8.8%	8.9%		
EBITDA	36.6	39.4	27.5	31.8	50.4	55.6	61.4	67.9	35.2%	9.2%
<i>EBITDA-margin</i>	23.1%	24.1%	16.8%	18.0%	23.0%	23.4%	② 23.8%	24.1%		
Taxes (LBO taxes from FY22)	(11.7)	(12.7)	(8.3)	(4.7)	(10.1)	(11.6)	(13.3)	(15.2)		
Δ NWC	(2.7)	(3.1)	(4.4)	(1.5)	(1.3)	(3.8)	(4.2)	(4.6)		
Δ Other BS items	(0.5)	(0.3)	0.0	0.0	(0.0)	(0.0)	(0.0)	0.0		
Δ Provisions	(1.8)	(0.8)	0.1	0.8	0.9	1.1	1.2	1.4		
Operating Cash Flow	19.9	22.5	14.9	26.4	39.9	41.3	45.2	49.5	7.9%	13.9%
Maintenance Capex	(3.9)	(4.1)	(4.5)	(4.9)	(6.8)	(7.3)	(7.7)	(8.1)		
Expansion Capex	(2.9)	(1.8)	(1.9)	(2.0)	(2.5)	(2.5)	(2.5)	(2.5)		
Total Capex	(6.9)	(5.9)	(6.4)	(6.9)	(9.3)	(9.8)	(10.2)	(10.7)		
Investing Cash Flow	(6.9)	(5.9)	(6.4)	(6.9)	(9.3)	(9.8)	(10.2)	--	7.7%	6.5%
FCF	13.1	16.7	8.5	19.6	30.6	31.6	34.9	49.5	8.0%	16.8%
<i>FCF conversion rate (% of EBITDA)</i>	35.7%	42.3%	③ 30.9%	61.5%	60.7%	56.8%	56.9%	57.1%		
Cash Interest	--	--	--	(9.7)	(13.4)	(12.9)	(12.1)	(11.3)		
FCF available for debt repayment	13.1	16.7	8.5	9.9	17.2	18.7	22.9	38.2		

Net Debt (bank view)			151.4	142.1	188.3	170.5	148.4	121.8
Cash Cover			--	1.5	1.3	1.0	1.1	1.3
Leverage Cover			5.5	4.5	3.7	3.1	2.4	1.8
Interest Cover			--	3.3	3.7	4.3	5.1	6.0

Comments

- ① The downside case reflects a **more severe impact of COVID-19** than the base case already does and thus the **top-line includes a stagnation of growth in 2021**, a slight increase 2022 and full recovery in 2023.
- ② COVID majorly impacted **COGS** due to **disrupting supply chains** globally, further personnel expenses remained at high levels as DELO is not forced to reduce its workforce but has a long-term strategy and enough cash reserves. Fix cost in other operating expenses further prevent DELO's high historic margins during the crisis. Consequently **EBITDA-margins decrease to 16.8%**, however, recovery to lower EBITDA-margins compared to base case in FY 26.
- ③ DELO still generates high FCFs with a **long-term FCF conversion rate of ~57%** as less expansion capex will be needed.

Cash Flows	Mar-21P		Apr-22P	Mar-26P		MoM	IRR
	Share common equity	Entry DELO	Entry Panacol	Exit	Cap gain		
Sponsor	94.6%	(230.4)	(72.5)	767.9	465.0	2.5	21.5%
Mr Saller & Mr Bitzer (DELO)	2.1%	(2.0)	--	9.4	7.4	4.7	36.4%
DELO 2nd level management	2.1%	(2.0)	--	9.4	7.4	4.7	36.4%
Panacol 1st level management	0.6%	--	(1.0)	3.0	2.0	3.0	31.3%
Panacol 2nd level management	0.6%	--	(1.0)	3.0	2.0	3.0	31.3%

Sponsor with remaining high IRR of >20% and MoM return of 2.5x

Exit and Returns: Exit Returns

Strong business fundamentals lead to extensive debt application of 5.5x EBITDA

Exit EV Bridge 2026 in €m (except multiples)

EV - Equity Bridge

EBITDA 2026	99.4
EBIT 2026	90.2
EBITDA Multiple	14.0x
Implied EBIT Multiple	15.4x
Enterprise Value	1,386.5
Less Net Debt	(125.4)
Transaction cost	(27.7)
Net debt not to be funded	(19.0)
Equity Value (100%)	1,214.4
Shareholder Loan	(432.5)
Equity Value (Common stock)	781.9

Returns based on year of exit in €m (except MoM and IRR)

Mar-21P	Mar-22P	Mar-23P	Mar-24P	Mar-25P	Mar-26P	MoM	IRR
(307.7)	378.1	Panacol acquisition		--	--	1.2	22.9%
(307.7)	(85.2)	643.5	--	--	--	1.6	31.4%
(307.7)	(85.2)	--	795.2	--	--	2.0	28.6%
(307.7)	(85.2)	--	--	975.3	--	2.5	27.0%
(307.7)	(85.2)	--	--	--	1,181.7	3.0	25.8%

Exit EV Bridge in €m (except percentages and MoM)

Cash Flows		Mar-21P	Apr-22P	Mar-26P			
		Entry DELO	Entry Panacol	Exit	Cap gain	MoM	IRR
Sponsor	95.8%	(307.7)	(85.2)	1,181.7	788.8	3.0	25.8%
Management 1	1.6%	(2.0)	--	12.6	10.6	6.3	44.5%
Management 2	1.6%	(2.0)	--	12.6	10.6	6.3	44.5%
Management 3	0.5%	--	(1.0)	3.7	2.7	3.7	39.1%
Management 4	0.5%	--	(1.0)	3.7	2.7	3.7	39.1%

Comments

- ① A 5 year holding period optimally aligns IRR and MoM and offers a unique investment opportunity from a risk-return perspective.
- ② Previously mentioned strong business case and alignment of financial sponsor and management interest, leads to high return structure with **MoM of 3.0** for the financial sponsor and **6.3 (3.7)** for the management participation. **IRR return figures above 25%, underline strong business fundamentals, even considering COVID-19 effects.**
- ③ A realistic modelling assumption of entry=exit multiple allows for multiple arbitrage as a result of the relatively cheap Panacol acquisition.

Exit and Returns: Case scenario sensitivities

Even with more conservative operating assumptions, the case yields an IRR of well over 20% and 2.5x MoM

MoM and IRR in downside case scenario⁽¹⁾

MOM						
		Exit Multiple				
		12.0x	13.0x	14.0x	15.0x	16.0x
Entry Multiple	12.0x	2.6x	2.8x	3.1x	3.3x	3.6x
	13.0x	2.3x	2.5x	2.8x	3.0x	3.2x
	14.0x	2.1x	2.3x	2.5x	2.7x	2.9x
	15.0x	2.0x	2.1x	2.3x	2.5x	2.7x
	16.0x	1.8x	2.0x	2.2x	2.3x	2.5x

IRR						
		Exit Multiple				
		12.0x	13.0x	14.0x	15.0x	16.0x
Entry Multiple	12.0x	22.0%	24.4%	26.7%	28.8%	30.8%
	13.0x	19.4%	21.7%	23.9%	26.0%	27.9%
	14.0x	17.0%	19.3%	21.5%	23.5%	25.4%
	15.0x	15.0%	17.2%	19.3%	21.3%	23.1%
	16.0x	13.1%	15.3%	17.4%	19.3%	21.1%

MoM and IRR in an optimal case scenario⁽¹⁾

MOM						
		Exit Multiple				
		12.0x	13.0x	14.0x	15.0x	16.0x
Entry Multiple	12.0x	3.3x	3.6x	3.9x	4.2x	4.5x
	13.0x	2.9x	3.2x	3.5x	3.7x	4.0x
	14.0x	2.7x	2.9x	3.2x	3.4x	3.7x
	15.0x	2.4x	2.7x	2.9x	3.1x	3.3x
	16.0x	2.3x	2.5x	2.7x	2.9x	3.1x


















IRR						
		Exit Multiple				
		12.0x	13.0x	14.0x	15.0x	16.0x
Entry Multiple	12.0x	28.2%	30.5%	32.7%	34.8%	36.8%
	13.0x	25.2%	27.5%	29.7%	31.7%	33.6%
	14.0x	22.7%	24.9%	27.0%	29.0%	30.9%
	15.0x	20.4%	22.6%	24.7%	26.6%	28.4%
	16.0x	18.4%	20.5%	22.5%	24.4%	26.2%

- The downside case accounts for a more severe topline impact of COVID-19 and increasing operating costs, the upside case on the other hand accounts for potential synergies achieved through the add-on acquisition and a stronger than expected recovery from the crisis caused by COVID-19

Exit Strategy: Potential Strategic Buyers

Strong interest is expected from Henkel, a major German competitor with a similar application focus

I. Strategic Investor

Company	HQ	Revenue [€ bn]	Growth [CAGR]	Application Areas	M&A activity	Strategic Fit
 Henkel		9.46 (2019); adhesives make 47% of total company sales	2013 – 2018: 4.01%	Automotive, consumer goods, construction, electronics; B2B and B2C	11 acquisitions in the past 5 years – Thereof 5 deals in the adhesives industry	
		7.48 (2019)	2016 – 2018: 11.01%	Bonding technologies for the building sector & automotive industry	21 acquisitions in the past 5 years	
		27.38 (2018)	2013 – 2018: 3.48%	Adhesive tapes for several industries; 10 core adhesive brands	3 acquisitions in the past 3 years	
		8.70 (2019)	2013 – 2019: 3.20%	Bostik produces adhesives and sealants as subsidiary of Arkema	8 acquisitions in the past 5 years – Bostik Adhesives as one of these acquisitions	
		2.42 (2019)	2018 – 2019: - 4.70%	From electronic devices and building materials to packaging and filters	5 acquisitions in the past 3 years	
 LINTEC <i>Linking your dreams</i>		1.84 (2019)	2017 – 2018: - 7.90%	Main products are adhesive papers and films for seals and labels	3 acquisitions in the past 3 years	

Exit Strategy: Due Diligence Areas

An extensive due diligence of commercial, financial and further areas is crucial before proceeding with the deal

Area	Topic	Detailed assessment required	Potential red flags
Commercial	Growth outlook	<ul style="list-style-type: none"> ▪ Closer analysis of the target markets with validation of expansion plans (11.5% CAGR FY19-26 plausible) ▪ Evaluate DELO's dependency on original equipment manufacturers (OEM) and the demand by end users 	<ul style="list-style-type: none"> ▶ Hampered market growth due to COVID-19 might decrease DELO's growth prospects – DELO might not be able to outperform the market ▶ Dependency on large customers from Asia-Pacific
	Product Development	<ul style="list-style-type: none"> ▪ Analysis of potential for further product innovation and critical assessment of existing portfolio of >700 adhesives 	<ul style="list-style-type: none"> ▶ DELO's success relies on constant innovation – High efforts required to keep this position
	Competition	<ul style="list-style-type: none"> ▪ Analysis of competitive advantages: Benchmarking of price, quality and service offerings with competitors 	<ul style="list-style-type: none"> ▶ No possibility to increase market share
Financial	Revenue growth	<ul style="list-style-type: none"> ▪ Unusual dynamics in 2018 with a strong revenue increase 	<ul style="list-style-type: none"> ▶ DELO's revenue increase might be a one-off spike instead of a step change
	Deferred administrative expenses	<ul style="list-style-type: none"> ▪ Understand accounting logic behind large historic volatility in deferred administrative expenses on the balance sheet 	<ul style="list-style-type: none"> ▶ Dilution of cash flow
	EBITDA Margin & FCF	<ul style="list-style-type: none"> ▪ Is an EBITDA-margin expansion plausible and will DELO be able to generate the envisaged FCFs 	<ul style="list-style-type: none"> ▶ n/a
Legal	Contracts	<ul style="list-style-type: none"> ▪ Review of existing distribution agreements with sales partners and the assoc. risks for new agreements ▪ Review of major supplier contracts 	<ul style="list-style-type: none"> ▶ No room for contract improvements or the implementation of long-term contracts
Other	Management	<ul style="list-style-type: none"> ▪ Analysis of the management team and their abilities to conduct an LBO with aggressive growth 	<ul style="list-style-type: none"> ▶ Shareholders and management may have diverging interest on DELO's future development

Private Equity Challenge – Personal Reflection

Executing investment opportunities to generate top-quartile IRR performance in the private equity industry

Target identification and deal flow: The adhesive industry is an ideal fit for private equity (“PE”) investments as it is 1) a **growth market** with more than 5% CAGR globally, 2) is **fragmented** (potential for buy & build) and 3) profits from **substitution effects** (adhesive instead of small screws in miniaturized products). DELO has a very strong **competitive advantage** within the adhesive industry and is a great investment opportunity due to 1) its **sustainable innovation and R&D strength and thus growth above market**, 2) its **employees who develop industry-leading products** in short cycles to **meet customer’s key purchasing criteria**, 3) its **end-industry and customer diversification** 4) the **focus on the newest (niche) industry trends** (e. g. photonics in smartphones or e-mobility in automotive), 5) its **resilience in crisis and non-cyclicality** (DELO with no topline decline in financial crisis FY08/09). Every PE investment is based on a realistic entry price and since our outside-in analysis reveals **no material red flags concerning the sustainability of DELO’s growth outlook, margin expansion and cashflows**, we view a 14.0x FY21 EBITDA multiple (15.9x EBIT) a **fair succession solution for the Herold family**, who will ensure a **smooth transition by staying in the advisory board**. The investment is still subject to a **thorough due diligence** to gain confidence in business model drives and LBO model assumptions. Particularly considering the current COVID crisis, we advise the IC to invest in the crisis-resilient DELO business. Besides the careful target assessment, abnormal returns can be achieved by **gaining internal industry knowledge within the deal team** to have better access to business-owners and management of adhesive companies like DELO, either for **proprietary deal flow** of small- and mid-cap deals or when they become for sale in structured M&A auction processes.

Value creation and business plan execution during the holding period: While historically IRRs above 20% were largely driven by sheer financial leverage, nowadays a **clear strategic positioning and operational measures** are indispensable to achieve high returns in M&A markets with ever **increasing PE capital commitments and consequently higher valuations**. Most importantly **management is driving the business’s strategic success** and thus after a comprehensive due diligence of the key people, the **1st and 2nd management level has to be incentivized** by letting them invest at a preferred valuation (e. g. DELO LBO with sweet equity and an envy ratio of 4.0x). Management will be supported by an **advisory board consisting of valuable industry experts, the former business owners** and a PE deal team representative to steer the company. To reduce illiquidity risk and covenant breaches but still increase equity IRRs, **leverage levels should be viable for the respective company’s cash flow stability**. Beyond strategic initiatives, operational measures such as focusing on, amongst others, **digitization, recurring revenues and stable cash flows, future industries and products with high EBIT-margins** are necessary to **improve the business’ exit suitability**, preferably for a strategic buyer.

Master thesis – personal reflection

It proved to be very useful to work with a **smart and reliable team during the thesis** and shows me, once again, the importance of great teamwork. Due to my **prior experience within two PE-funds** and multiple other M&A internships, I was able to **contribute a lot to the overall master thesis’ outcome**. Besides the overall business and industry understanding of every group member regarding DELO, **I was particularly focusing my contribution on the LBO and operating modelling**. The master thesis was **enhancing my personal PE knowledge** and will be of great value for landing a PE job in the future. Through the thesis, **my interest in PE grew considerably**.