

A Work Project, presented as part of the requirements for the Award of a Master Degree in Economics / Finance / Management from the NOVA – School of Business and Economics.

PRIVATE EQUITY INVESTMENT COMMITTEE PAPER ON SOGRAPE, S.A. – INVESTMENT THESIS & BUSINESS PLAN

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Abstract

This work project aims to study a private equity deal using a Leverage Buyout Model of the Portuguese company Sogrape, operating in the wine sector. The evaluation of the deal includes the studying of the company and the inherent industry, followed by the description of the investment thesis and the business plan. Then, it is performed a valuation of the company by several methods such as the Discounted Cash Flow, Comparables Multiples and Precedent Transaction Multiples. Later, it is defined the capital structure of the deal, particularly both sources and uses. Next, it is presented the returns for the management and the fund, subject to a sensibility analysis taking into account the various model inputs. To conclude it is evaluated the different exit options regarding the attractiveness and likelihood along with the different matters to be further studied in a due diligence.

In this specific part is defined the investment thesis and the forecasted business plan for the next 7 years. The starting point was the market and company analysis where it was concluded it is needed to take advantage of Sogrape's positioning as a leader in the Portuguese market, promoting consolidation through an acquisition and empower the company positioning as a distributor. Regarding the international markets, part of the strategy involves to change the route-to-market in USA, a key market to this sector. In the other market clusters as growth platforms and mature markets, the plan involves the promotion of sales through an increase in marketing expenses as well as focusing on the segments that is expected to face a higher growth rate in the following years and where Sogrape holds more competitive advantages such as light wines. This strategy also involves cost reduction due to synergies coming from the above mentioned acquisition. In the presented investment case, from the entry year of 2020 until the exit in 2026, the revenues have a CAGR of 12% while EBITDA is growing at 15% CAGR.

Keywords: Private Equity Deal Sogrape

INVESTMENT STRATEGY

Sogrape requires a comprehensive investment thesis that generates revenue increase across international markets

An analysis of Sogrape’s recent performance is an indicator of a simple fact: EBITDA growth has been severely damaged by the lack of revenue increase. This, on the other hand, has been a result of an active strategy of the company to secure longevity through profitability and focus on specific business segments. While this is not damaging to the firm’s **extremely long investment horizon**, it doesn’t allow for **significant short-medium term growth**.

To achieve significant results, Sogrape will need a strategy that impacts **every geographic cluster** and focuses on **revenue expansion** through the **most profitable brands** if possible.

DOMESTIC MARKET

Sogrape’s position in Portugal, as well as the weight that the market has on revenues forces an individual analysis of this segment.

A major take-away from an analysis of the Portuguese market is the **extremely high level of fragmentation** that wine producers and brand owners have. In spite of being market leader, Sogrape only has a **market share of 3%**. This aspect of the market provides **large final retailers with a very strong bargaining power**, which is problematic for Sogrape. This involves **price**, receiving smaller retail margins from both acquirers of products. It also involves **quantity** losses, due to not reaching as many players in the On-Trade, and negotiations failures with Off Trade players. Generally, there are two ways of increasing bargaining power:

- **Volume increase**
- **Variety increase** (in terms of product type and region)

The most effective way to achieve both of these aspects is targeted M&A activity. Due to this, and to being **market leader**, **Sogrape can engage in market consolidation**, through a buy and build.

This would **improve negotiating conditions** with retailers, allowing a more extensive exploration of the current brands, but, most importantly, **generate the required revenue and EBITDA growth**, by acquiring market share.



M&A in the Portuguese Market

FOREIGN MARKETS

USA

Out of international platforms, the USA will prove to be the most promising one. Not only is it the **largest international market** in the world, being worth around €42 bn, it is also expected to grow at a **stable rate** of 2% per year.

Most importantly, industry experts name the USA market as the **most interesting one for Portuguese companies**, particularly **Sogrape**:

- Portugal still holds a low share in the American market, at 0.5%. The country is **now facing the growth others faced before**.
- **Perceptions of quality** towards Portuguese wines, associated with knowledge increase, have been driving consumption growth.
- **Growth drivers are meeting Sogrape’s identity**. In fact, Millennials, who prefer lighter wines, have been growing in representation.

At the same time, Sogrape has been decreasing revenues in this market **purely from distribution strategy shifts**. These are being made to meet the company’s long term goals. However, **they can be changed to generate higher returns in the medium term**.



Change strategy and route-to-market in USA

OTHER MARKETS

While the already established target markets are the most significant ones from a strategic standpoint, they correspond to **less than 50%** of revenues. Therefore, they would **hardly generate enough returns** on their own. This is, in a way, what the company has been doing wrong. It is **necessary to address the company’s other foreign markets**.

MATURE

While **Mature markets** are **not expected to grow much**, it’s necessary to create a strategy that **stops revenue decrease**, such as offering a more appropriate product mix.

GROWTH

Growth Platforms are important levers of growth. **Some tools can be used to maximize the benefits of their growth**, such as deals with better suited and connected **native distributors**.

OTHER MARKETS

Besides the **UK**, where **revenues are expected to return to past values**, the remaining markets, **Portuguese Speaking Opportunities** and **Spain**, are not large enough to generate the required revenue increase. Therefore, they were not addressed with a specific strategy.



Sift mix in Mature Markets and ride Growth Platforms expansion wave by joining with local distributors

An extended investment strategy needs to be put in place, to address both **domestic and foreign markets**. Mainly, this will involve a **consolidation of the Portuguese wine market**, a **shift route-to-market strategy in the USA**, and a **few adjustments to other geographic clusters**

INVESTMENT STRATEGY: PORTUGAL

Several aspects must be considered when deciding the target company

As stated, the core goal of the company's strategy in Portugal is market consolidation. While this will naturally lead to M&A strategy, some criteria for maximization of returns can be applied.

TARGET SELECTION CRITERIA

REVENUE IMPACT

Most of the impact from the acquisition should come from revenues. This involves two aspects of choice of target:

- 1) **Size:** Given Sogrape's leadership position, the target must be **significantly sized** to add value. Size is essential to increase Sogrape's value, not only in Portugal but also in the rest of the world, given that Portuguese companies' tend to export. This will, naturally **affect all other aspects of value generation** through the acquisition.
- 2) **Ability to generate revenue synergies:** Since the main idea of the strategy is market consolidation, the target must **help Sogrape increase its own brands' revenues** through **negotiations improvements**.
 - For negotiation conditions to improve, the target must be connected to a **large distributor**. This will increase the volume that the joined company will present retailers, generating **price as well as quantity synergies**. From a distributor position, this would involve acquiring a company with ties to **Prime Drinks** or **Viborel**, the other largest distributors in Portugal.
 - Besides size, the target must have **variety of products** concerning Sogrape. From a variety standpoint, this would involve acquiring a company with a **strong presence in Alentejo, Lisbon** or even with **drinks other than wine**.

COST IMPACT

- 1) **Production Synergies:** due to economies of scale from increasing **volume in production**. This involves increased **bargaining power** over suppliers, **shared knowledge** and **elimination of redundant costs, increasing margins**. A particularly interesting option would be the region of **Alentejo**, given the **lower cost per kilo of grapes**. The reduction of cost per kilo is expected to be around 18 cents, versus Douro.
- 2) **Distribution Synergies:** the distribution process is also costly. Merging with another large distributor would imply **cost redundancies** and profitability increase as well.

MULTIPLE ARBITRAGE

Since any acquisition in the Portuguese market would involve acquiring a player with a **worse competitive positioning than Sogrape**, this operation could also involve Multiple Arbitrage. For a conservative approach we didn't consider it.

TARGET SELECTION

ESPORÃO

- Esporão is one of the **largest wine companies** in Portugal, significantly contributing to Sogrape's value if acquired.
 - Besides, the company is the **majority shareholder of PrimeDrinks**, the second largest distributor in Portugal. Acquiring Esporão would involve acquiring the distributor, virtually doubling Sogrape Distribuição. This would **improve bargaining conditions from a volume standpoint**.
 - The company focuses on the **Alentejo region**, largely improving Sogrape's **portfolio variety**. As stated, this would improve the company's bargaining conditions as well.
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- Esporão's position across the value chain of wine sector could **potentiate cost synergies**.
 - Besides, acquiring Prime Drinks would allow for **reduction in the human resources size of Sogrape Distribuição**.
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- Esporão could be acquired at a slightly lower multiple, generating some value through arbitrage.

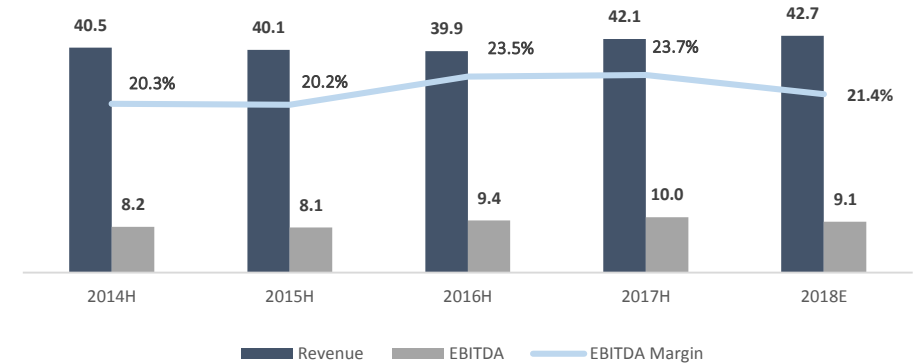
Acquiring Esporão Wines proved to be the best choice of consolidation strategy in Portugal due to a greater ability to increase revenues and operating margins

INVESTMENT STRATEGY: PORTUGAL - ESPORÃO VINHOS

Esporão Vinhos is well positioned across the supply chain



KEY FINANCIAL FIGURES (REVENUE IN € MILLIONS) *



*Financial figures for 2018 were estimated.

Potential synergies in operating costs due to scale and higher negotiating power owned by Sogrape. In costs as Professional Revenues and Rents and operating leases, Esportão has a higher expense in the percentage of revenues potential synergies are willing to happen.

Decrease in Esportão's payroll costs by cutting overlapping departments.

Esportão's revenues are expected to increase due to a higher post-acquisition capacity to invest in marketing.

Due to this, **EBITDA margins** are also **expected to increase**.

Esportão Vinhos is present across the supply chain with an **annual turnover of around €43 million**. The target can **add value in all stages operations**

INVESTMENT STRATEGY: PORTUGAL - DISTRIBUTION ANALYSIS AND OPTIONS

PrimeDrinks is, in size and composition, the most adequate addition to Sogrape Distribuição

WINE DISTRIBUTION SECTOR IN PORTUGAL

ANALYSIS

Key Factors of Success In Relations With Final Retailers

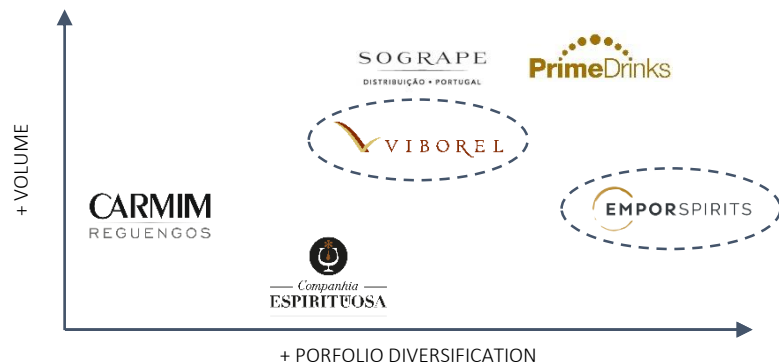
Volume

Volume is a determinant characteristic in this competitive environment. This is particularly true on the **off-trade channel** since dominant retailers are quite larger than distributors. Consequently, this size difference creates substantial constraints to distributors when negotiating. Nonetheless, larger players as Sogrape Distribution and Prime Drinks can still have significantly better margins than their peers.

Portfolio Diversification & Flagship Brands

Portfolio diversification includes not only **variety within wine** (different country origins, region origins, and wine segments) but also in overall **alcoholic beverages** as the offer of spirits. Additionally, the existence of flagship brands increases the bargaining power of distributors. An example is the presence of Mateus Rosé in Sogrape's portfolio or Monte Velho in Prime Drinks'. More diversified distributors also benefit from improved negotiation conditions.

COMPETITIVE LANDSCAPE*



PLAYERS

PRIME DRINKS

Prime drinks is, on par with Sogrape Distribuição, the **largest wine distributor in Portugal** with a 2018 turnover around **€70 million** (vs €60 million Sogrape Distribuição) and **4.27% CAGR** in the last 5 years. As already mentioned, 50% of Prime is owned by Esporão being the remaining stake owned in equal parts by **Aveleda and William Grant & Sons**.

The **key factors** for **Prime Drinks' success** are:

1. A quite **diversified portfolio** with Portuguese wines from 6 different production regions. Particularly, Prime Drinks has a very strong portfolio from Alentejo due to Esporão 's wines.
2. **Strong presence** in **spirits segment** offering sparkling wines, whiskeys, brandy, liquors, vodkas, rum, tequila.
3. Very robust and efficient operational **salesforce** which allows a better positioning in the **on-trade channel**.

OTHER PLAYERS

- Represents brands as **Quinta da Bacalhã, e JP**. Additionally, its portfolio offers beers and others including the strong brand **Adega de Favaio**.
- The total company of its brands in 2018 was **€57.3 million**.

- Empor's portfolio includes wines from **various regions in Portugal** with brands as Duorum and Marquês da Borba. The largest part of the value Empor has comes from their **broad portfolio of spirits** such as vodkas, gins and whiskeys.
- Total sales in 2018 were **€ 25.3 million**.

MERGER

SOGRAPE DISTRIBUIÇÃO + PRIME DRINKS

A merger between both distributors would more than **double** the volume that Sogrape Distribuição sells today. For instance, on the still grape wines segment (which represents more than 75% of total volume sales in Portugal) Sogrape Distribuição sells today **2.1%** of the total volume and with this junction, both companies would sell together **4.6%**.

This fusion would grant a very significant **portfolio complementarity**. Firstly, this would join two extremely relevant brands quite relevant in two major production regions (Esporão in Alentejo and Sogrape in Douro) as well as add some production regions the other doesn't have in its portfolio. Secondly, Prime Drinks would bring diverse **spirits beverages** and increase portfolio diversification.

SOGRAPE DISTRIBUIÇÃO + ALTERNATIVE DISTRIBUTOR

A junction between Sogrape Distribuição and Viborel would almost **double** the **volume** this companies have standing alone. Additionally, Viborel brings a very **strong portfolio** in wine production regions as Sogrape does not have a relevant representation as **Península de Setúbal**.

The joint venture between Empor and Sogrape wouldn't add as much volume increase as the previous suggestions. On the other hand, Empor's **portfolio of spirits** would be a **powerful complement** to the **strong wine portfolio** of Sogrape.

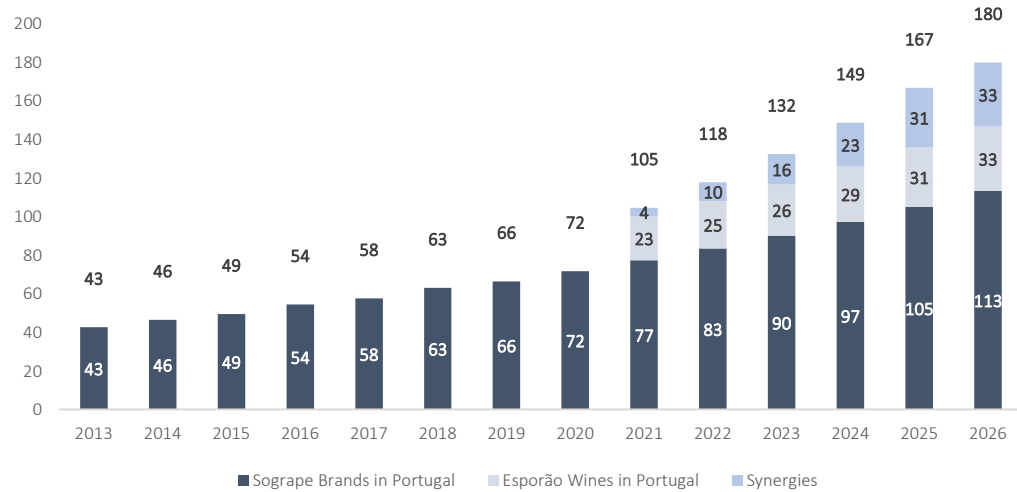
Variety and volume are the key drivers of distributor success. PrimeDrinks is the leading option to fulfill these needs in the market

INVESTMENT STRATEGY: RESULTS IN PORTUGAL

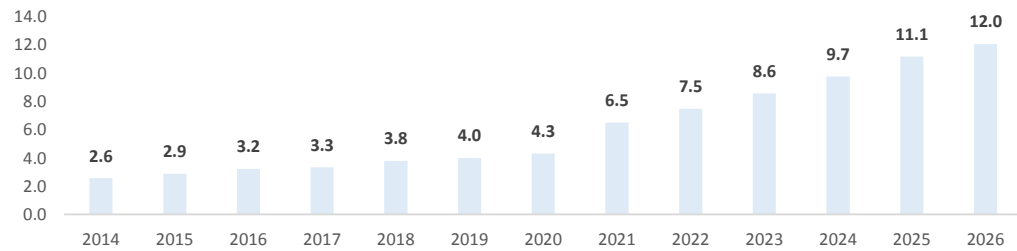
Joining Sogrape and Esporão generates significant results in Portugal

Revenue creation in Portugal comes mostly from 3 sources: Increase in Sogrape Brands revenues, increase in Esporão Brands revenues and revenue synergies

REVENUES (€ MILLIONS)



GROSS PROFIT (€ MILLIONS)



1) Sogrape Brands Base Revenue Growth

Based on competitive advantages, such as owning a leading distributor, a wide portfolio and effective marketing campaigns, Sogrape's revenue growth in Portugal **tends to be superior to the market's**. This growth surplus, however, is **not always stable**. In fact, in the past two years, in which marketing expenses reduced as a percentage of revenues, Sogrape only surpassed the market by 2 percentage points. Therefore, **part of the strategy proposed for Sogrape is increasing Marketing Expenses to 8% of revenues**. Due to this, Sogrape would return to the excess growth of the years in which it invested more, 2014 to 2016. In this period, the company's growth surpassed the market by 4..5 pp. Based on this, as well as expert estimates for market growth, Sogrape Brands are expected to grow at an 8% CAGR.

2) Esporão Brands Base Revenue Growth

After the acquisition, Esporão would be inserted in the Sogrape "machine", benefiting from all the previous factors and growth rates.

3) Revenue Synergies

Revenue synergies will occur due to **bargaining conditions improvement** by joining forces between Sogrape Distribuição and Prime Drinks, the largest distributors in the market. Based on industry experts, these synergies are expected to be progressively materialized in:

- **Off Trade price synergies:** improvement of commercial margins to 77.5%, increasing 7.5pp to Sogrape and 12.5pp to Esporão;
- **Off Trade quantity synergies:** increase of the percentage of deals that go through, decreasing to 5% of revenues the loss from canceled deals.
- **On Trade price synergies:** the same logic as with Off Trade applies, leading to a 10pp improvement for Sogrape and 15pp for Esporão.
- **On Trade quantity synergies:** increase in the number of reached establishments by Sogrape and Esporão due to the sharing of previous exclusive deals. After accounting for cannibalization, this involves a 5% increase in revenue for Sogrape and 7.5% to Esporão.

Gross Profit in Portugal **is expected to increase largely**. This will not only be driven by an increase in revenues but also by an increase in Gross Margins.

In fact, Esporão is slightly more profitable than Sogrape, having a gross margin of 62.2% instead of 60%. Besides, the existence of revenue synergies in the price side introduces revenues that are not subject to COGS. This will even further increase Gross Margins.

Due to this, Sogrape's **Gross Margin increases by 5pp to 65%**.

Besides Gross Margin, EBITDA Margin is also expected to increase, which will be demonstrated later.

Revenue increase in Portugal comes from the acquisition of Esporão, superior growth rates due to competitive advantage and revenue synergies

INVESTMENT STRATEGY: USA

The USA is the most impactful international market in the investment strategy

Given the recent performance in the USA, there is need to conduct an analysis of route to market options in the market.

Revenues from the USA have been decreasing in the past years due to changes in distribution processes. It is necessary to understand if the current option is reasonable. Overall, there are two groups of options in the route to market strategy:

THIRD PARTY DISTRIBUTOR

Most companies use outsider distributors to sell their products in the USA. This is because the market is extremely large and it is very hard to compete with already established players in that field.

Choosing this case would involve selling products through a mixture of National and Regional distributors:

PROS

- **Extremely large reach:** Third party distributors are, usually, players that **fully focus on distribution**. Therefore, all of their growth efforts goes towards that goal. Using them leads to reaching a very **large number of establishments**.
- **Extremely varied reach:** Besides larger reach, these distributors can enter in **many different markets within the country**. This allows the company to target specific markets or states without much effort.
- **Wider Knowledge:** Once again, third party distributors' focus enables them to develop advantages in the field. These companies have a **larger set of buyer contacts**, which enables, once again, the company to sell to more clients.
- **Stronger Bargaining Power Over Final Retailers:** Due to their size and vast portfolios, these distributors hold a **much stronger bargaining power over final retailers** than company owned distributors do. While this might also mean that they hold higher bargaining power over production companies, it will be seen that the effects tend to favor this option.

COMPANY OWNED DISTRIBUTOR

Some companies, however, usually the largest wine sellers, own their distribution processes. This enables them to control distribution to a larger extent and eliminate middle players, increasing margins.

Sogrape has been preferring this option in the past years, with the transfer of the portfolio to Evaton.

PROS

- **Sales Control:** Owning a distributor in a market is, generally a very good way to explore that market. In fact, the company can **pick and choose the specific products** it sells to final retailers rather than accommodate the desires of a larger distributor. Control over sales allows for a **more tailored and independent strategy**.
- **Higher Margins:** By eliminating a player in the supply chain, companies can **capture the value** that used to remain for said player. Usually, by selling directly to retailers, rather than using a distributor, the company increases final margins.
- **Selling Third Party Brands:** Owning a distributor allows a company to be a intermediary for brands of smaller companies. These companies, which do not have the size to own a relevant distributor must lose some of the value they would, otherwise, generate to sell at all.
- **Longevity:** The sort of control and profitability that a company owned distributor provides tends to help a **company with long term aspirations**. This is why most established players have a distributor of their own in their respective markets.

Overall, **owning a distributor only** makes sense in markets in which the company already has a significant size. Otherwise, the margin increase will not be relevant to fight the revenue decrease. **Sogrape should focus on third party distributors**

INVESTMENT STRATEGY: USA

The strategic approach to the USA will, as seen, involve route to market shifts

In the past years, Sogrape has shifted USA products towards Evaton portfolio. This, however, has damaged revenues due to Evaton’s lower reach. Therefore, the major shift in the USA market will involve a modification in the route to market. In general, there are three levers to approach the route to market in the USA:

STRATEGY

ACTIONS

IMPACT

NATIONAL DISTRIBUTORS

This type of distribution uses a **considerable larger supply chain**. It reaches the entire country, usually through large retailers.

This channel is best suitable for wines that keep a good record **regarding turnover, volume and margins**. Moreover, to satisfy the overall market it is necessary to use brands that are easily and rapidly produced (third-party grapes and no staging needs).

Due to lack of a better alternative, Sogrape’s **“general” wines** will be transferred to this sort of distributor, **seeking volume**.

The second use of this instrument, however, will be much more targeted. Given **Mateus** versatility, it will be explored through a tailored campaign across the USA. This will involve marketing efforts, as well as nation wide distributors.

- 1) Transfer General Wines to Nation Wide distributors.
- 2) Engage in extensive marketing campaign of Mateus Rosé based on previous entrance by competitor “Whispering Angel”.

Based on previous experiences, transferring products to national distributors yields an immediate **increase of over 10% in revenues**. After that, general wines will increase revenues based on **market growth rate, previous growth surplus** in years of targeted investment in this market, related to marketing expenses, and **growth surplus provided continuously** by Nation Wide distributors. All of this will yield a **12% CAGR** in general wines. Mateus Rosé will grow due to a **market share gain strategy**, using Whispering Angel as an example of intensive market share gain through **marketing and distributor shifts**.

STATE DISTRIBUTORS

Regional distributors are companies that focus on importing and distributing wines across one **specific state**. Since they focus on one location, they tend to have a **significant bargaining power there**. This option to enter the market should be explored only if the company can identify certain states that could serve as a platform to explore specific wine brands. To use this type of channel, there is **need to match brands and products to states**.

States with low presence of Portuguese wine and high purchasing power that want to be educated and branch out from the norm are strong candidates for **Sogrape’s premium brand positioning**. California, Florida, Illinois, Massachusetts, New Jersey, New York and Texas are states that appear as good opportunities to follow this strategy.

- 3) Transfer Premium Wines to Distributors from New York, Illinois, California, Massachusetts and Florida. Specific distributors have been identified and are included in Appendix 9.

State distributors are expected to hold as **much power in their respective states** as national distributors do around the country. Therefore, growth rates in premium wine revenues will be similar to general wines, benefiting, however, from **higher market growth rates**.

COMPANY OWNED DISTRIBUTORS

This is the option currently explored by Sogrape. Generally, this involves **slightly higher margins** and more **control over sales**. It is seen as a good long term option for firms who seek longevity. However, in the **medium and short term, it blocks revenues**. In fact, shifting brands from larger distributors to Evaton has cost Sogrape decreases of 10% in revenue from said brand. Given the medium-short term investment horizon, Evaton is not the best strategy.

- 4) Cease Operations of Evaton.

Decreasing **Payroll and Distribution Costs**.

Shifts in Routes to Market as well as increased marketing expenses will be the basis of USA increased value

INVESTMENT STRATEGY: CONSOLIDATED EBITDA

Due to synergies, EBITDA will increase even more than revenues

(€ Millions)	2014H	2015H	2016H	2017H	2018H	2019E	2020F	2021F	2022F	2023F	2024F	2025F	2026F
Revenue	202	206	209	199	191	196	211	277	302	329	359	393	423
% Growth		2.0%	1.5%	-5.1%	-3.8%	2.7%	7.5%	31.4%	8.9%	9.0%	9.2%	9.3%	7.6%
Strategic Focus													
Portugal	75	82	86	85	90	94	104	144	163	184	207	232	254
USA	28	33	31	28	27	27	32	40	45	51	58	65	74
Other Markets	127	124	123	113	101	102	107	133	139	146	153	160	169
COGS	(90)	(86)	(86)	(84)	(76)	(78)	(85)	(110)	(118)	(128)	(138)	(149)	(161)
Gross Profit	112	120	124	115	115	118	126	167	184	201	221	243	262
Gross Margin (%)	55.3%	58.3%	59.1%	57.9%	60.1%	60.1%	59.6%	60.4%	60.8%	61.2%	61.5%	62.0%	62.0%
Operating Expenses	(26)	(27)	(27)	(30)	(28)	(27)	(29)	(35)	(38)	(41)	(44)	(48)	(51)
% Revenues	(12.8)%	(13.2)%	(13.1)%	(15.0)%	(14.6)%	(13.9)%	(13.7)%	(12.6)%	(12.5)%	(12.4)%	(12.3)%	(12.2)%	(12.1)%
Payroll	(33)	(40)	(35)	(39)	(36)	(36)	(36)	(43)	(45)	(49)	(53)	(58)	(63)
% Revenues	(16.5)%	(19.2)%	(16.9)%	(19.5)%	(18.9)%	(18.4)%	(17.1)%	(15.6)%	(14.9)%	(14.9)%	(14.9)%	(14.9)%	(14.9)%
Other Income And Expenses	(18)	(17)	(20)	(13)	(13)	(14)	(16)	(26)	(29)	(31)	(35)	(38)	(41)
% Revenues	(8.7)%	(8.2)%	(9.6)%	(6.4)%	(7.0)%	(7.3)%	(7.6)%	(9.5)%	(9.5)%	(9.5)%	(9.6)%	(9.7)%	(9.7)%
G&L In Associated Companies	.0	.0	.0	.261	.377	1.510	1.512	1.666	1.673	1.680	1.687	1.694	1.701
% Revenues	0.0%	0.0%	0.0%	0.1%	0.2%	0.8%	0.7%	0.6%	0.6%	0.5%	0.5%	0.4%	0.4%
Provisions	.028	(3.265)	(1.819)	.959	(.721)	(.527)	(.527)	(.527)	(.527)	(.527)	(.527)	(.527)	(.527)
% Revenues	0.0%	(1.6)%	(0.9)%	0.5%	(0.4)%	(0.3)%	(0.2)%	(0.2)%	(0.2)%	(0.2)%	(0.1)%	(0.1)%	(0.1)%
G&L Related With Other Investments	.049	.047	.069	.022	-.023	.033	.033	1.192	1.192	1.192	1.192	1.192	1.192
% Revenues	0.0%	0.0%	0.0%	0.0%	(0.0)%	0.0%	0.0%	0.4%	0.4%	0.4%	0.3%	0.3%	0.3%
Operating Assets Impairment	(.189)	(.353)	.001	(.413)	(.096)	(.179)	(.210)	(.269)	(.291)	(.315)	(.342)	(.370)	(.399)
% Operating Assets	(0.1)%	(0.2)%	0.0%	(0.2)%	(0.0)%	(0.1)%	(0.1)%	(0.1)%	(0.1)%	(0.1)%	(0.1)%	(0.1)%	(0.1)%
EBITDA	35	33	39	35	37	41	46	65	74	82	91	101	109
% Growth		(5.0)%	18.2%	(11.2)%	6.1%	11.7%	10.9%	43.0%	14.1%	10.9%	10.3%	11.1%	7.7%
EBITDA Margin (%)	17.2%	16.0%	18.6%	17.4%	19.2%	20.9%	21.6%	23.5%	24.6%	25.1%	25.3%	25.7%	25.8%

Acquisition of Esporão

Gross Profit margin decreases in 2020 since the strategy for the USA implies a decrease in margins due to the **route-to-market shift** from an **owned distributor** to a **third party**.

From 2021 on, the gross profit margin increases since the company started to have revenues from a **higher negotiating power** in Portugal (after joint venture with Prime drinks) as well as the integration of **Esporão** which has a higher gross profit margin.

Operating expenses decrease **1.3 pp** in the percentage of revenues until 2024 mainly due to **cost synergies** in expenses as Repair & Maintenance, Rents & Operating Leases, Transport of goods and Communication. These items were selected and the reduction was measured based on the last **relevant acquisition** done by Sogrape in 2011 when it was acquired **Bodegas LAN**.

Payroll **decreases** by **3.5 pp** until 2024. To do so, the analysis includes the dismiss of **80% of Evaton's** workers in 2020 since this subsidiary will close operations. In 2021, when **Esporão** is acquired, **10%** of the workers who belong to administrative departments are also dismissed. Still on the same year, after the joint venture with Prime Drinks, it was estimated that **40% of Sogrape's Distribuição employees** are overlapping. Additionally, the inherent **costs of firing** are included in 2020 and 2021, and together sum up more than **€ 2.5 million**.

In other operating income and expenses, the increase in the percentage of revenues is caused by an increase in **marketing expenses** for both companies from **6% on average** to more than **8%** in the percentage of total revenues. On the other hand, **costs with distribution** will decrease as a result of shutting down **Evaton**.

Increase in gross margins as well as a reduction of payroll, distribution and operating costs will yield a large EBITDA growth

PERSONAL REFLECTION

The main reasons I presented to myself to carry out the Private Equity Challenge were the challenge to understand how to study in detail a Private Equity deal and the challenge of working in group which is so important and more close to what we can find out in the job market. This two main goals were achieved and I was able to face exactly I was expecting

The main skill this project allowed to develop was the capability to work in group. Doing a work project in group with the importance and complexity inherent to a master thesis made us being very organized and focus in order to get the best out of each member of the group. Additionally, it allowed me to develop my knowledge about how to get more insights from industry experts since it was needed different meetings to achieve a better understanding about the industry under study. Finally, regarding soft skills, I improved significantly my knowledge in capital structure since we had the opportunity to get guiding from Nuno Caetano. This was specially important because this is an area where information is very reduced and it was the filed of expertise I felt it was less worked in the Private Equity course. As a recommendation for the future, I would like to suggest the university to provide an expert for the Due Diligence which can help the group to understand which are the main drivers in this area.

In retrospect, I would pass more time trying to find the best target to study, paying more attention to details as how many markets is the company included in, how many stages of the supply chain it has and complexity involved or how many business units/products the company has. This would be very useful since not only to have a better understanding about the workload involved but also to help the students to reflect about the knowledge that a certain industry demands and how can they obtain it. Additionally, I would manage the time allocated to each chapter of the work in more efficient way.

Therefore, I am really fulfilled after performing this Work Project since it allowed me to work both soft and hard skills in Private Equity area were this are main assets to succeed.

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