

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: LBO of AUGA Group

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Work project carried out under the supervision of:

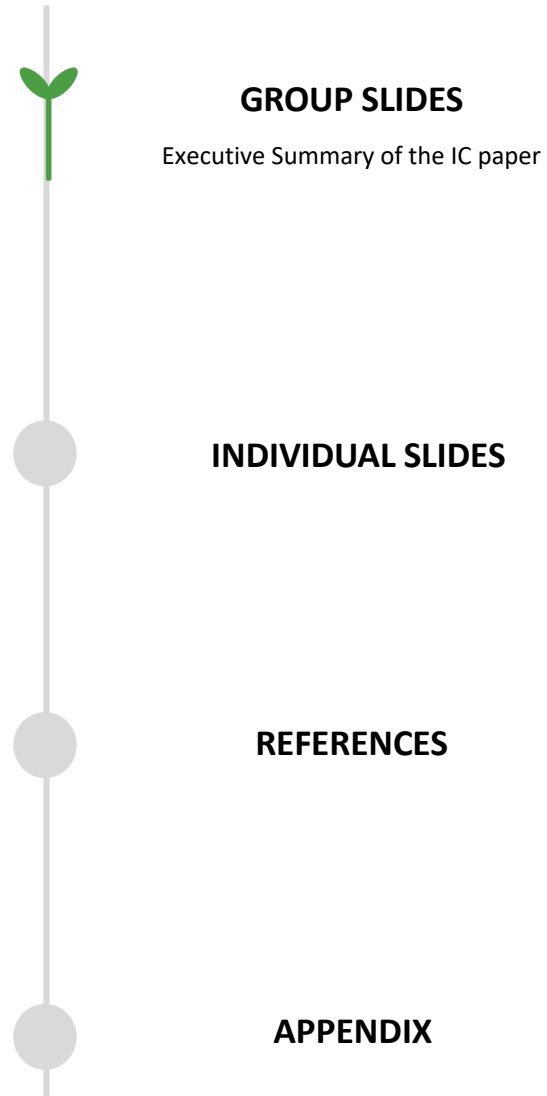
Professor Luís Mota Duarte

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Abstract: This Investment Committee Paper was performed by a group of students from the Master's in Finance Program, being intended for academic purposes only. The core objective of this work project is to assess AUGA's attractiveness as an LBO target. The group elaborated a value creation strategy and an operating model for the investment proposal, backed by a full-blown company and market evaluation, and by the company's valuation. The group suggested an optimal capital structure for the transaction and possible exit strategies, deriving potential returns for the fund on the exit year. This part focuses then particularly on the company in depth analysis, its drivers and dynamics.

Keywords: Private Equity Challenge, Leverage Buyout, Organic Food Industry, AUGA

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Executive Summary



AUGA's pioneering business model and leading position in a thriving market offers a unique opportunity for investment

Company Overview

AUGA Group is the **largest vertically integrated organic food producer** in Europe, and is based in Lithuania. In 2020 revenues amounted to **€83M**, of which **73%** came from exports. AUGA operates across **4 segments: crop growing, dairy, mushrooms and FMCG** overarched by **2 types: commodities and end-user products**. The company operates under an organic farming model that contributes to: i) **economies of scale**, ii) **vertical integration**, iii) **full traceability** and iv) **synergies** across segments.

€15.7M

Adj. EBITDA
(2020)

39.6K ha

of arable land

Products sold in

37

countries

Market Overview

AUGA is inserted amongst the **organic foods market**, which has observed a **continuous positive growth trend** over the past two decades: **10.5% CAGR** (2001-2020). The largest being **North America** and **EU** and accounting for **>90% of revenues** (+€100B). Growth has been driven by increasing consumer inclination towards processes organic foods and policymaker incentives. The market is expected to keep rising at a **12.5% CAGR** until 2025.

€119B

market size

+90%

of revenues in
NA and EU

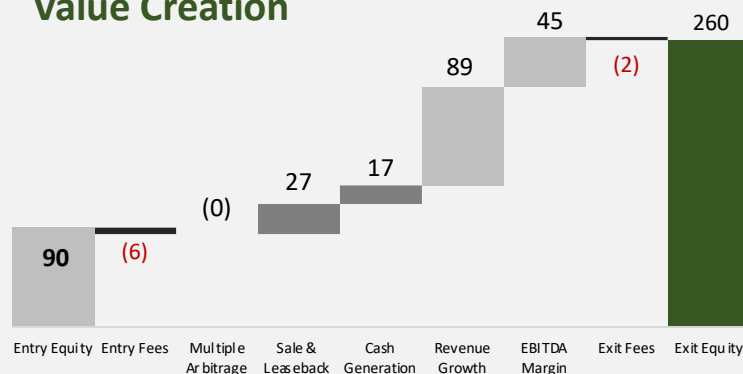
+64%

of sales through
general retailers

Investment Thesis

- Shifting focus towards AUGA's end-user product segments** is our overarching value creation initiative, enabling a path to i) increased brand awareness and ii) a more profitable business.
 - FMCG:** Increase marketing & selling capabilities by forming a dedicated department and hiring a new **Head of Expansion**. The latter will help drive **internationalization strategy to selected markets** and build an **online sales channel**.
 - Mushrooms:** Reshape portfolio mix and transition to fully organic production.
- Operational improvements across the entire business**
 - Sale & Leaseback Operation:** Sell-off remaining owned land (11.9%) and transition to leasing.
 - Working capital optimization:** Improve cash generation

Value Creation



Valuation

After a comprehensive analysis of **multiple valuation methods**, we relied on a **precedent transactions approach** (8-year period) to ensure high comparability with recent industry deals. Consequently, we applied a **11.8x EBITDA multiple** to AUGA's 2020 **adjusted EBITDA** (€15.7M). The latter resulted on a **€185.6M EV** and a **€90M required equity ticket for the investment**.

Transaction

Sources of capital	€ M	%	Uses of capital	
Unitranche	101.8	53.1%	EV	185.6 97%
FRI	84.8	46%	Fees	6.3 3%
Ordinary Equity	5.3	4%		
Institutional Investor	4.8	2%		
Sweet Equity	0.5	0.2%		
Total	192	100%	Total	192 100%

Exit Options

Given the forecasted increase of global organic food demand, we foresee an increased market inclination for organic food producers/manufactures. With that said, we believe the most viable exit option would be a **strategic sale**. With various possible bidders that have experience in managing similar firms and can acquire synergies.

Exit Year	Exit Multiple	IRR	MoM
2025	11.8x	22.4%	2.75x

Company Overview



Largest vertically integrated European organic agribusiness player

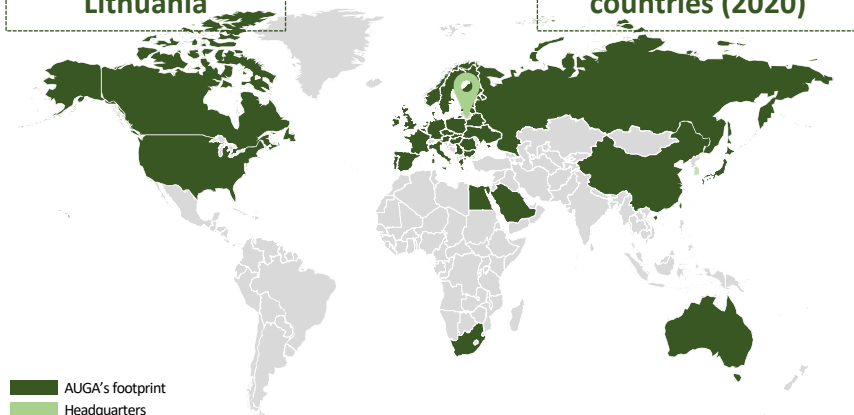
Company Snapshot

- AUGA is the **leading vertically-integrated organic food** producer in Europe. Listed on the **Vilnius and Warsaw stock exchanges**.
- The company was **founded in 1994 in Lithuania**, and started **organic farming in 2015** with organic mushrooms production, in **2018** became a **fully certified organic farming** company.
- AUGA produces a wide range of organic food products going from organic commodities to end-user products
- Workforce of 1,271 employees** with **100% domestic production** and **70% of sales** are exports.
- Shareholder structure formed by **individuals with high track record** in the industry, but also **key institutions such as the EBRD**.

Geographical Footprint

HQs in Vilnius, Lithuania

Exports to 37 countries (2020)



■ AUGA's footprint
■ Headquarters

Baltic Champs, mushroom-growing business, is founded

1994

2014

Starts organic farming, with the supply of organic mushrooms

2015

Merger between Baltic Champs and Agrowill Group

2016

Renamed to AUGA Group and launch of organic packaged vegetables

Fully certified organic farming and launch of organic soups, milk and grain products; €36m SPO conducted

2018

2019

Expansion of export markets and product range; First €20m green bond issued

2020

2020-2025 strategy approved

Key Facts



1,271
Employees as of 2020



39,000
Ha of **organic arable land**



€83.1m
FY20 Revenues
(CAGR '16-'20: 20.33%)



11.9%
Of land owned, with the rest being leased



€15.7m
2020 Adjusted EBITDA
(19% margin)



3,471
Number of **dairy cows** as of 2020

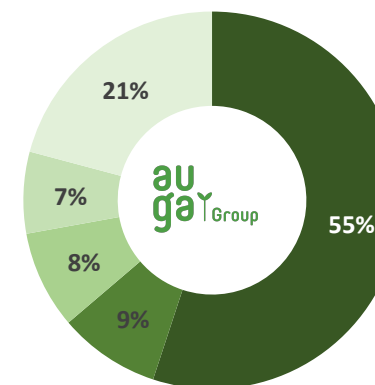


€92.0m
2020 net debt
(5.9x net debt/ EBITDA)



12,900
Tons of **mushrooms sold** in 2020

Shareholder Structure



- Baltic Champs
- European Bank for Reconstruction and Development
- ME Investicija
- Žilvinas Marcinkevičius
- Other Shareholders

Company Overview



AUGA has 4 business segments ranging from raw and processed commodities to end-user goods

Commodities

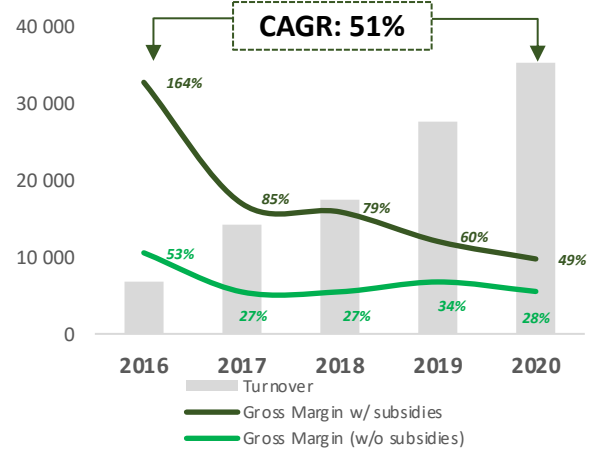
Crop Growing
Dairy

End-User Products

Mushrooms
FMCG

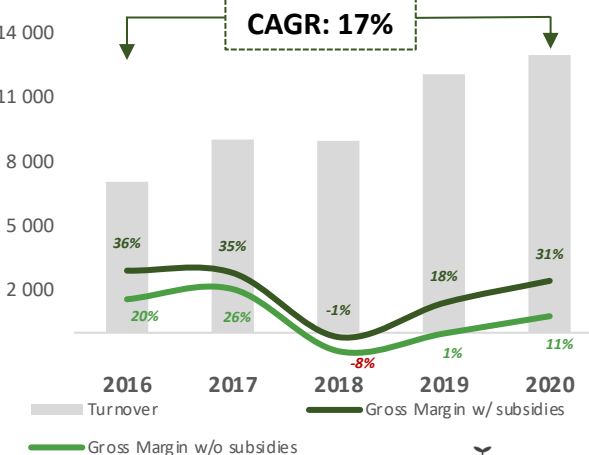
On 39k ha of land, AUGA grows and sells: **Organic Wheat, Organic Vegetables and others** (Cash Crops) and **Organic Feed** for livestock.

- 42% of total turnover in 2020.
- COGS have been increasing at a higher pace than Revenues, with subsidies being a key buffer for the profitability of the segment.
- Accounting for EU subsidies, which reduce the COGS for the segment, Gross Margin reduces substantially until 2018.
- The decrease of gross margins is explained by the decreasing weight of subsidies over total revenues and the 2018 underperforming year due to extreme weather events.



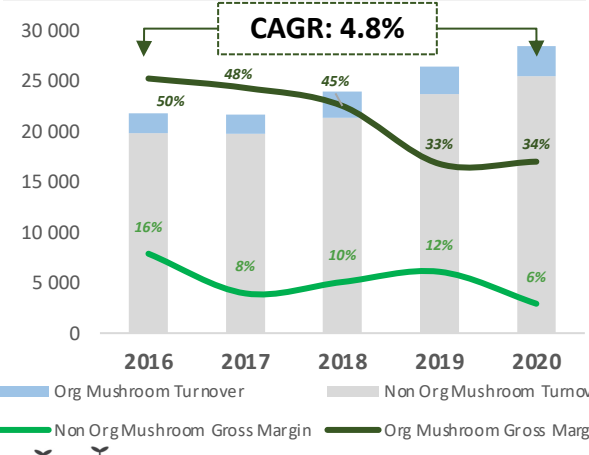
The dairy segment includes **Organic Milk Production, Cattle Raising and Milk Commodities**.

- 15.6% of total turnover in 2020.
- Operates in 18 farms with 3.4k cows. Produces 25k tones of milk per year.
- Revenues driven by rising proportion of organic milk. Share of non-organic milk steeply decreased, representing 4% of the segment's revenues.
- This segment is dependent on subsidies which drove Gross Margin from 11% to 31% in 2020.
- 2018 was directly affected by bad weather which drove the cost of feed to increase substantially lowering the margins in that year.



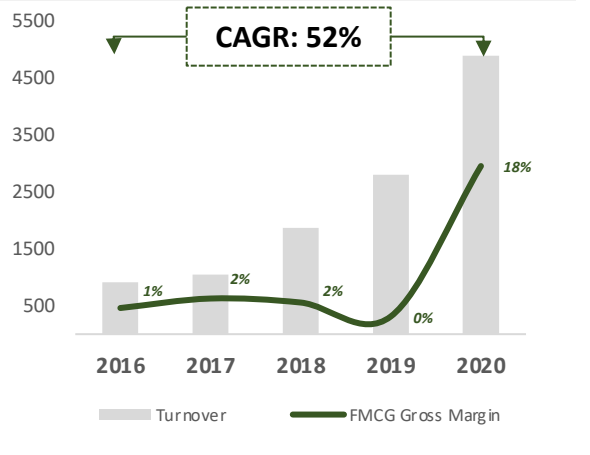
The mushroom segment includes **Non-Organic (93%) & Organic Mushroom (7%) and Seedbed Production**.

- Produces 12k tones of mushrooms annually.
- 36% of total turnover in 2020.
- Revenues are increasing at 5% on average, driven by an increasing revenue growth of organic mushrooms which still account for only 10% of the segment's revenues.
- Gross Margin of non-organic is unstable and low when compared to organic mushrooms which is substantially higher at 30% over the last two years.



The FMCG segment offers a multitude of products (Soups, Canned Products, others). Strategic segment since it has seen the highest growth across AUGA's portfolio and due to the demand for organic products (long shelf-life products).

- 6% of total turnover in 2020.
- Exporting to 31 countries (vs. 23 in 2019) under AUGA-labelled brand.
- Fastest-growing segment with a 52% CAGR.
- Relatively low Gross Margin until 2019. In 2020, with the acquisition of a manufacturer gross margin increased substantially to 18%, as the firm became less reliant on contract manufacturing.

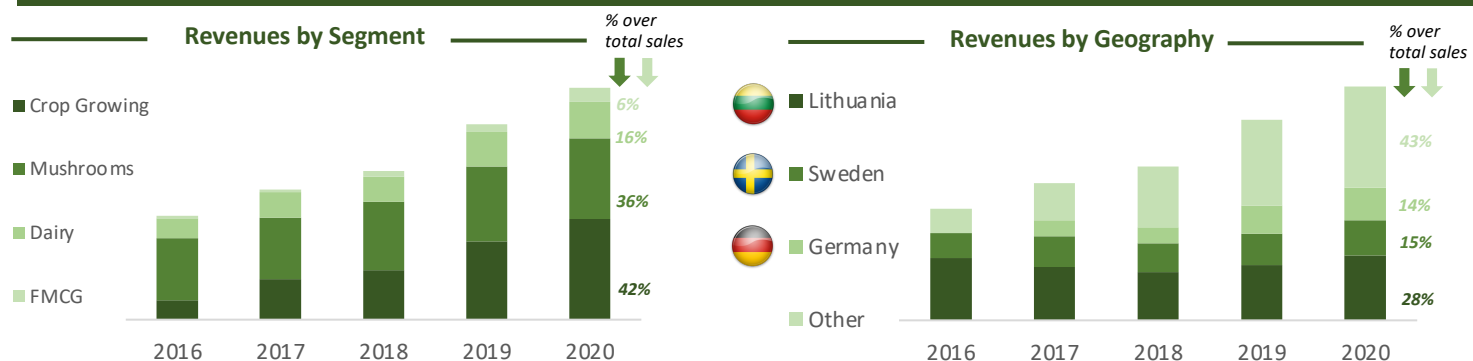


Company Overview

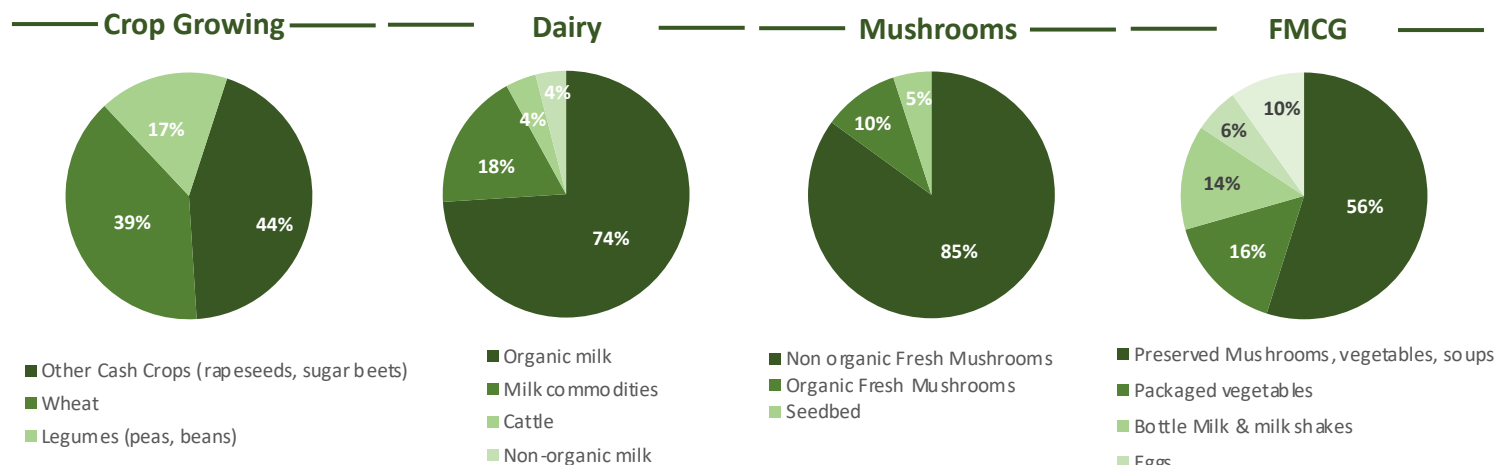


Strong presence in the Baltic region, with Crop growing and Mushrooms accounting for 80% of sales volume in 2020

Group Revenue Breakdown per Segment and Geography



Revenue Breakdown per Segment (2020)



Distribution channels



Subsidies Impact On Auga's Results

- Subsidies are a key component of AUGA's business, a firm who is developing a recent sustainable business model on an industry that, despite its undoubtedly potential, is still not consolidated.
- The European Union, as part of the Green deal set up in 2019, has the Farm to Fork Strategy at the heart of this deal, addressing the challenges of sustainable food systems. EU targets 25% of arable land as organic in 2030 (currently 8%).
- The financing of such subsidies is conducted through the Common Agricultural Policy Funds (CAP). The multiannual financial framework 2021-27 total budget has € 386.6bn to CAP, composed by two funds, the European agricultural guarantee fund (EAGF) - €291.1bn allocation - and the European agricultural fund for rural development (EAFRD) - €95.5bn allocation.
- On average, subsidies are €266/ha among EU members, with AUGA receiving a slightly lower value of €252/ha as of today.
- Starting from 2023, the EU will apply a minimum of € 200/ha for all member-states and expects this value to increase to € 215/ha in 2027 with an increasing support on the organic farming component.

€252/ha

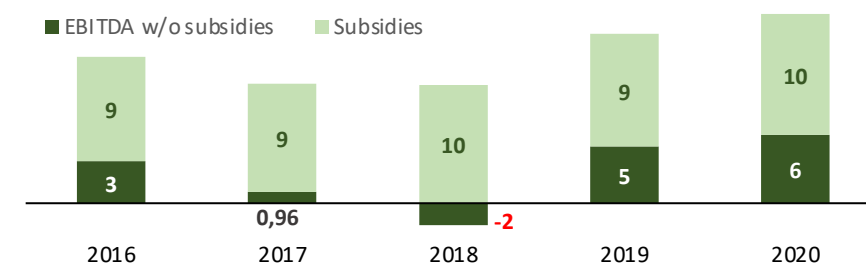
AUGA's subsidies in 2020

€266/ha

Average subsidies across EU

€200/ha

EU Subsidy threshold by 2023

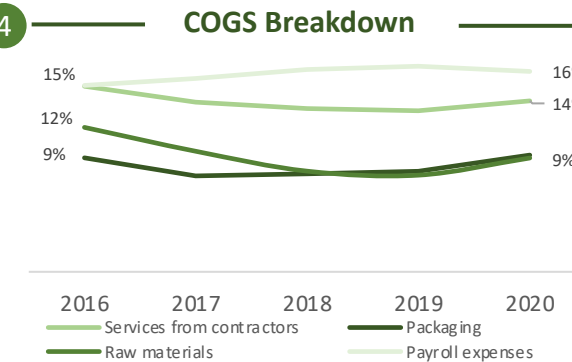
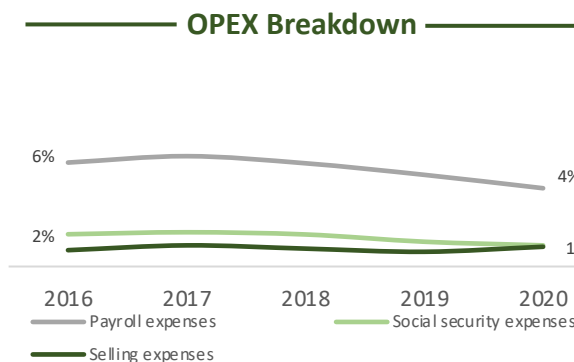
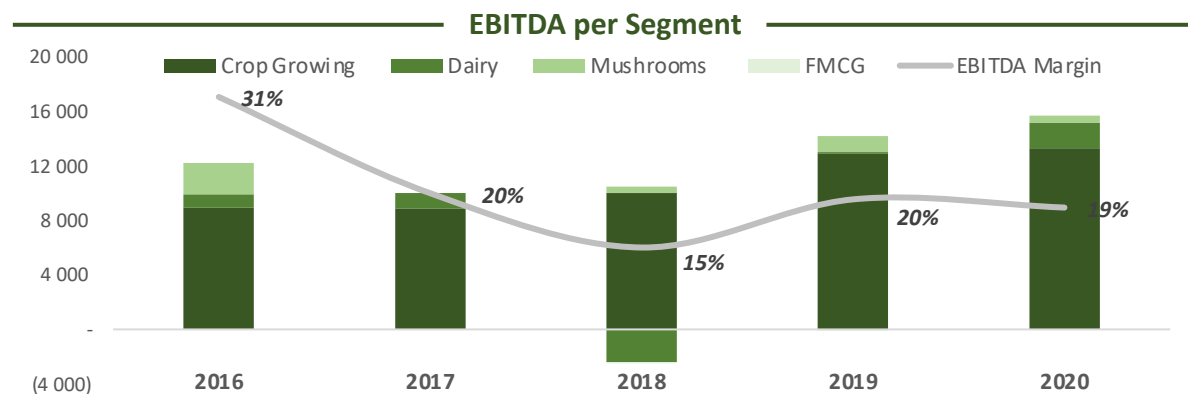


Values in Millions

Historical Financials (1/2)



AUGA has grown steadily in line with the fast-growing organic sector and has reached stable and consistent margins



Income Statement in EUR 000	2016	2017	2018	2019	2020
Revenues	39,630	48,784	54,749	71,134	83,074
COGS	(21,324)	(30,733)	(37,214)	(48,549)	(58,254)
Gross Profit	18,306	18,051	17,535	22,585	24,820
<i>Gross Margin</i>	<i>46%</i>	<i>37%</i>	<i>32%</i>	<i>32%</i>	<i>30%</i>
Operating Expenses	(6,262)	(8,366)	(9,706)	(8,695)	(9,279)
Other Recurring Income	122	260	155	141	122
Adjusted EBITDA	12,166	9,945	7,984	14,031	15,663
<i>EBITDA Margin</i>	<i>31%</i>	<i>20%</i>	<i>15%</i>	<i>20%</i>	<i>19%</i>
Gain (loss) on initial recognition of a biol. asset	(868)	4,159	(5,262)	3,082	5,175
Reported EBITDA	11,298	14,104	2,722	17,113	20,838
Other non-recurring Income	5	91	2,598	603	1,228
One-off provision expense	-	-	-	(2,073)	-
D&A	(6,108)	(6,978)	(8,069)	(13,035)	(13,535)
Write-off, impairment losses	(1,172)	(520)	(1,189)	(1,601)	(1,634)
EBIT	4,023	6,697	(3,938)	1,007	6,897
<i>EBIT Margin</i>	<i>10%</i>	<i>14%</i>	<i>-7%</i>	<i>1%</i>	<i>8%</i>

OPEX breakdown as a % of revenues

COGS breakdown as a % of revenues

Income Statement Highlights

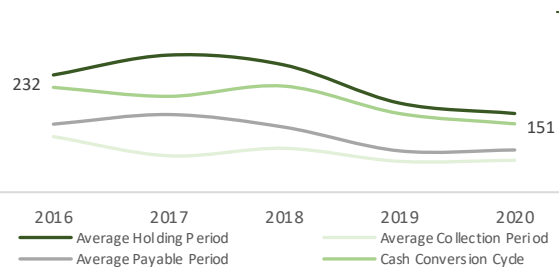
- Revenues grew at a **20.3% CAGR (2016-2020)**, supported by an increase in exporting activity, **increasing crop-growing revenues** and fast-growing **FMCG**.
- 2016: **gross margins around 45%**, mainly due to **entry in organic farming business**. **COGS items (Organic Fertilizers or Seeds) were still low** and the **weight of subsidies was sizeable (22% of Revenues)**.
 - As AUGA scaled (2018)**: subsidies stabilized and costs associated with labour, organic fertilizers, seeds and land rent grew their weight over Revenues. **2018 was a challenging year** as Revenue growth decreased, due to **extreme weather events**. The firm has been able to reach **steady Gross Margins in the last years**.
- Since **2018, AUGA's OPEX as % of revenues has decreased**, which demonstrates the firm's capacity to **stabilize its cost structure whilst growing**.
- The **EBITDA follows the same trend as Gross Profit**. Nonetheless, the gap between Gross and EBITDA Margin shortens throughout the period. **OPEX diminished throughout the period (16% in 2016 to 11% in 2020)**, **EBITDA Margins stabilize in the last two years**.
- AUGA **invested in new machinery and equipment, and made strategic acquisitions, leading to a rise in D&A**. In 2019, the **D&A related to right-of-use assets started to be incorporated, following IFRS 16 standards**.

Historical Financials (2/2)



Recent years show AUGA's growing cash conversion potential, even with a novel business model requiring substantial investments

Balance Sheet in EUR 000	2016	2017	2018	2019	2020
Cash and cash equivalents	1,650	620	2,281	3,732	2,541
Inventory	15,157	25,547	28,708	28,958	30,435
Trade Receivables	13,367	10,765	14,573	13,322	16,084
Current Biological Assets	5,223	10,111	14,390	16,035	17,052
Trade Payables	13,577	20,322	19,997	18,154	21,614
Adjusted NWC	20,170	26,101	37,674	40,161	41,957
<i>Adjusted NWC as a % of Revenues</i>	51%	54%	69%	56%	51%
Property Plant & Equipment	76,262	85,235	92,891	91,897	97,009
Total Assets	122,090	148,548	171,890	206,723	213,702
<i>Return on Assets</i>	32.46%	32.84%	31.85%	34.41%	38.87%
Total Debt	31,990	43,591	55,862	93,993	94,540
Total Net Debt	30,340	42,971	53,581	90,261	91,999
Net Financial Debt (excl. lease obligations)	26,913	36,984	45,692	54,112	58,317
Net Financial Debt/Adjusted EBITDA	2,2x	3,7x	5,7x	3,9x	3,7x



- Regardless of long Cash Conversion Cycle (working capital-intensive business), improving between 2016 and 2020 (-31%).
- Average Holding and Collection period diminish cycles by, respectively, 26% and 42%.

Free Cash Flow in EUR 000	2016	2017	2018	2019	2020
Adjusted EBITDA	12,166	9,945	7,984	14,013	15,663
Cash Taxes	-	-	-	-	-
Δ Adjusted NWC	(9,378)	(3,867)	(17,832)	(4,238)	2,559
CAPEX	(4,343)	(6,643)	(6,230)	(3,241)	(7,997)
Maintenance CAPEX	(1,737)	(1,097)	(1,801)	(904)	(2,158)
<i>As a % of Revenues</i>	4%	2%	3%	1%	3%
Expansion CAPEX	(2,606)	(5,546)	(4,429)	(2,337)	(5,839)
<i>As a % of Revenues</i>	7%	11%	8%	3%	7%
Unlevered Free Cash Flow	(1,555)	(565)	(16,077)	6,556	10,225
<i>FCF Conversion (as a % of Adj. EBITDA)</i>	-13%	-6%	-201%	47%	65%

Balance Sheet Highlights

- Two major changes in the cash balance are due to strategic acquisitions in 2017 and 2020, to expand production capacity for crops and FMCG segments. Cash balances remained stable over past years.
- Adjusted NWC includes current biological assets (cultivated crops). High variances in NWC and increase in % of Revenues (2018) due to integration of acquisitions in firm's financial statements. Led to expansion of land and production capacity, leading to increases in current biological assets and inventories
 - NWC dynamics have stabilized with long Cash Conversion Cycle (decreasing from 232 to 151 days) as the firm improved NWC management, optimizing average holding and collection periods.
- Until 2018, the firm increased leverage to fund expansion. EBITDA growth and stabilizing Net Financial Debt over last 2 years, Net Financial Debt/Adjusted EBITDA ratio has decreased, improving liquidity.
 - Interest-bearing debt stable since 2017, with strategy shift from ST to LT financing over past years: 5-Year Green Bond Issuance in 2019 (20 M)

Cash Flow Highlights

- Expansion CAPEX includes strategic acquisitions for expansion of cultivated land area and moving towards FMCG. Stable as % of Revenues with decrease in 2019, (Avg: 7% of Revenues). Strategic acquisitions include:
 - 2017: Acquisition of KTG Group (5.2 million). Total operational and land capacity increased by 30%
 - 2018: Acquisition of UAB Raseiniu (2.42 million), which managed 5,200 ha of land capacity.
 - 2020 – Acquisition of Grybai (4.5 million), increase production capacity in FMCG segment
 - Maintenance CAPEX: renewal of agricultural equipment and machinery. 3% of Revenues on average over the past 5 years
- Unlevered FCF has grown considerably until 2020. Although AUGA no positive CF until 2019 due to early stage in full organic food production, the last two years showcase its growth potential, with 65% of Free Cash Flow generation in 2020

Market Overview

Organic food demand is being driven by consumers and policymakers

Global food system is responsible for 30% of global GHG emission

Changing the way we produce food to lower emissions

Organic food production has been driven by increasing consumer awareness towards the environment and policymaker incentive

Organic Farming

1 Limited environmental impact

→ Promotes and enhances biodiversity, biological cycles and soil biological activity

2 Production using ecologically based pest controls and organic fertilizers (derived from plant and animal waste)

→ The use of synthetic fertilisers in traditional agriculture make up ~80% of global nitrous oxide (N₂O) emissions

→ The average conventional apple contains 4 different pesticides residues

3 Highly regulated production system boosts consumer trust

→ Food must be produced under strict government guidelines

→ **Minimally processed**

→ **The use of GMOs is prohibited**

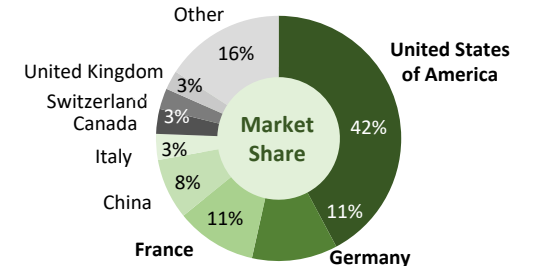
→ **Traceable**

Leading to	Consumer choice	
High quality foods	75%	Would change their consumption habits to reduce environmental impact.
Increased nutritional benefits	71%	Say that sustainability criteria influence their purchasing habits
Longer shelf-life	48%	Plan to change their product choices following sustainability criteria

Market Size

The global Organic Food market is worth over €119B

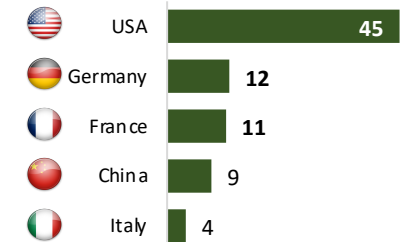
The leading single markets is the **USA** (€54B). Followed by the **EU** (€49B) and **China** (€10B). Similarly, a region overview leads to the same results: **NA** (45%), **EU** (43%) and **Asia** (10%)



Regional Markets

North America is the largest regional Organic Food market and is worth: +€54B

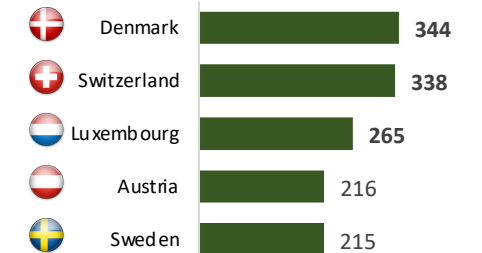
~90% of revenue are made up in North America and Europe. The **largest** organic food retail markets are: the **USA** (€45 bn), **Germany** (€12 bn) and **France** (€11 bn)



Per Capita Consumption

In Denmark, the per capita Organic Food consumption is €344 and €338 in Switzerland

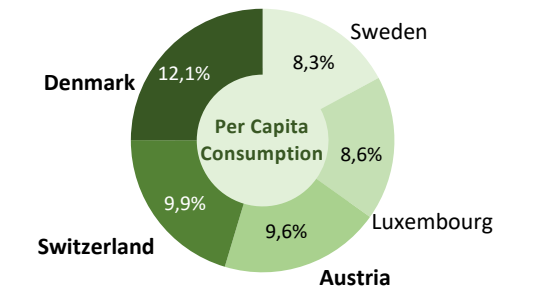
The **European** continent showcases the highest per capita consumptions, globally. **Denmark** and **Switzerland** come first, followed by, **Luxembourg**, **Austria** and **Sweden**.



Organic Food Share

12% of the Danish food market is Organic

The country with the highest organic food share, **globally**, is **Denmark** (12,1%). Followed by **Switzerland** (9,9%), **Austria** (9,6%), **Luxembourg** (8,6%) and **Sweden** (8,3%).



Deal Rationale

A novel & fast-growing industry presenting the right timing for investment

- Organic Food sales **CAGR of 10%** since 2001 and **expected to grow at 12% until 2025**
- Perfect timing for entry** with rising global demand for organically-sourced food products led by the **US** (€45 bn) followed by **Germany** (€12 bn) and **France** (€45 bn)
- Growth accelerated by consumer trends towards **healthier and sustainably-sourced products** and initiatives such as **EU's Farm-to-Fork Strategy** to promote a **net zero carbon continent by 2050**
- Higher demand** for organic **end-user products** such as **ready-to-eat / processed foods** which offer a fast solution to meet customers' rising needs

A differentiated player in Europe with strong projected growth trajectories

- Leading vertically-integrated organic** farm-to-shelf producer in Europe, differentiated through **synergies between segments**, innovative **land cultivation** and **full traceability** from source to end-user products
- Solid Revenue CAGR** between 2016-2020 of 20%
- AUGA has been able to **stabilize its fixed cost structure** over the years and became **less dependent on subsidies** as it grew **in scale** and has **consolidated its position**
- The firm is shifting** towards a business model targeting more **end-user and higher margin products**, reducing its **exposure to volatile organic commodities** and differentiating its own **AUGA-branded products**

Value Creation Initiatives

1 Shift focus towards AUGA's end-user product segments



FMCG

How?

- Strengthen **Marketing and Selling capabilities** to capture **customers** and drive **brand awareness** (experienced **Head of Expansion**)
- Defining a **strategic internationalization roadmap**
- Develop **online sales** channel (Nordic and Baltic regions)
- Increase **production capacity**

Why?

- Less dependent on prices **fluctuation of organic commodities and on wholesalers' bargaining power**
- Strong potential to **differentiate and gain/retain customers** with AUGA's own brand
- Tap **profitable and higher-margin** segments which **reduce subsidies impact**



Mushrooms

How?

- Market Consolidation**
- Portfolio Mix Reshape to **full-organic mushroom production**
- Reduce COGS through the introduction of **robotics technology**

Why?

- Organic mushrooms benefit from **high price premium and higher margins vs. non-organic**
- High labor costs** associated with growing and picking with opportunity for optimization

2 Operational improvements



Overall Company

How?

- Sale & Leaseback** of remaining cultivated land portfolio (**11.9%**).
- Working Capital optimization** through technological tracking of inventory and increased bargaining power with rising end-user products proportion in firm's portfolio

Why?

- Sale & Leaseback** proceeds to fund **future growth initiatives** in the end-user product focus
- Improve cash generation**, providing capability for **deleveraging**

Value Creation



Developing the necessary capabilities to enable scaling AUGA's end-user segment

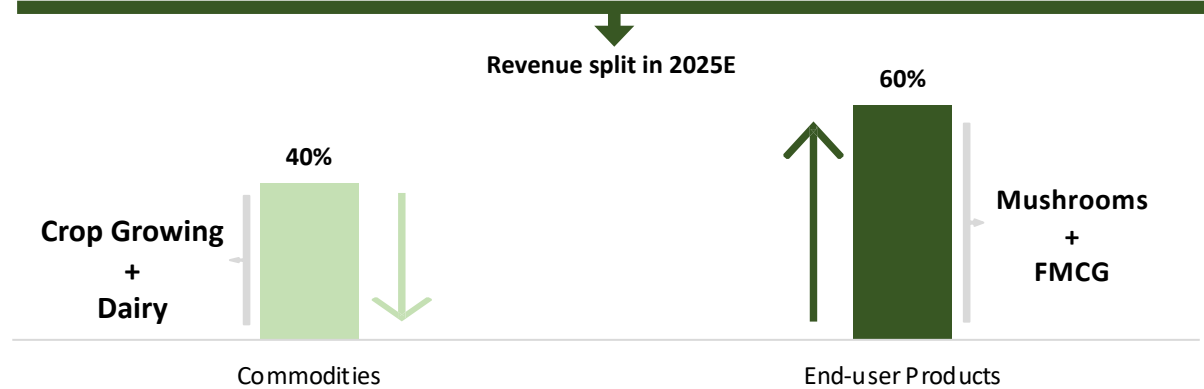
Rationale

The backbone of our value creation strategy is to **expand** AUGA's **end user segment**, by gradually **transitioning** the company's **revenue split**.



Vision

By the end of the holding period we envision **AUGA branded products** will **dominate** the company's annual **revenue**. **Contributing to:** i) a more profitable business model ii) less dependency on subsidies and iii) increased brand awareness across the European organic food spectrum



How?

1.) Establishing a new **Marketing and Selling** department

- **Objective:** Boost in-house marketing and selling capabilities, leveraging external and internal expertise to **drive FMCG expansion** and **increase AUGA's brand awareness**. **How:**
 - i. Consolidate the existing **marketing, commerce** and **business development** departments into one
 - ii. 5-10% of AUGA's annual Operating Expenses will be allocated to the Marketing and Selling department
 - iii. Onboard a **Head of Expansion** to lead department: targeting **Nestle Baltics Senior Marketing Manager** with proven track record in **FMCG** segment
 - iv. Compensation: **~60K** base salary + **2%** Sweet Equity

2.) Defining a strategic **Internationalization Roadmap**

- **Objective:** Establishing a path to scale AUGA's FMCG segment in both **new** and **existing** markets characterized by strong growth trajectories.
- **How:** Undergo a detailed market analysis and implementing a straightforward evaluation to support decision making. Followed by entry strategies in 4 selected markets.

3.) Building an **Online Sales Channel**

- **Objective:** Develop an e-commerce segment to foster AUGA's 'Farm-to-Shelf' strategy, leverage higher margins and establish brand in neighbouring Nordic and Baltic regions
- **How:** i) Create an online AUGA marketplace, ii) building a storage/distribution hub and iii) exploit the novel Marketing and Expansion department efforts to drive online brand awareness campaigns.

4.) Converging to fully **Organic Mushroom Production**

- **Objective:** Gradually transitioning to organic mushroom production and exploiting higher margins

Focused strategy on end-user products brings about sustained EBITDA growth and improved margins

Income Statement in EUR 000	2020	2021E	2022E	2023E	2024E	2025E	CAGR 21-25
Crop Growing	17,175	19,182	19,093	18,053	17,627	17,849	
Dairy	3,961	3,347	3,496	3,641	3,827	3,776	
Mushrooms	2,807	4,014	5,686	6,781	8,283	10,220	
FMCG	878	1,788	3,365	5,572	8,614	11,409	
Total Gross Profit	24,820	28,330	31,640	34,046	38,351	43,254	11.7%
<i>Gross Margin</i>	<i>30%</i>	<i>31%</i>	<i>33%</i>	<i>34%</i>	<i>34%</i>	<i>35%</i>	
Operating Expenses	(9,279)	(9,892)	(10,949)	(12,248)	(14,306)	(16,417)	
<i>OPEX as % of Revenues</i>	<i>11%</i>	<i>11%</i>	<i>11%</i>	<i>12%</i>	<i>13%</i>	<i>13%</i>	
Other Recurring Income	122	117	134	136	136	158	
EBITDA	15,663	18,556	20,825	21,934	24,181	26,995	11.5%
<i>EBITDA Margin</i>	<i>19%</i>	<i>20%</i>	<i>21%</i>	<i>22%</i>	<i>22%</i>	<i>22%</i>	
Other non-recurring Income	1,228	-	-	-	-	-	
D&A	(13,535)	(11,816)	(12,120)	(11,453)	(11,517)	(11,531)	
Write-off, impairment losses	(1,634)	(2,089)	(2,084)	(1,994)	(1,984)	(1,972)	
EBIT	6,897	6,751	8,715	10,485	12,668	15,468	17.5%
<i>EBIT Margin</i>	<i>8%</i>	<i>7%</i>	<i>9%</i>	<i>10%</i>	<i>11%</i>	<i>13%</i>	

Drivers & Key Assumptions

Gross Margin:

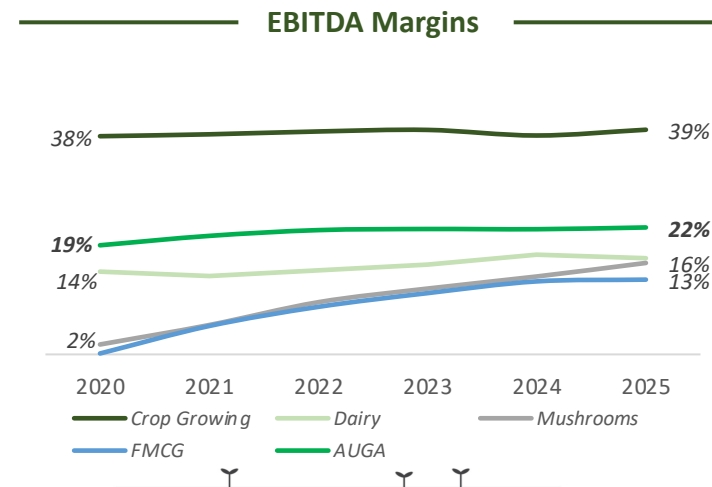
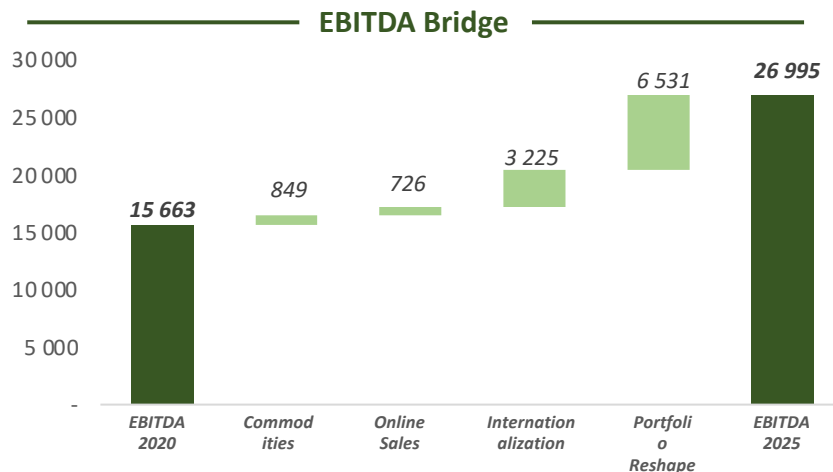
- Throughout the investment period, AUGA **improves its gross margin by 4%** until 2025
- In the Mushroom segment the implementation of **Robotics technology in the production process** lowers payroll expenses, allowing for optimization of Gross Margin for the segment by 3%
- Capacity expansion of the FMCG's existing production unit implemented from 2022** enables a reduced reliance on contract manufacturing towards integrated production and the further development of economies of scale, increasing gross margin by 4% for this segment.

OPEX

- Strengthening the Marketing & Selling Department** focused on the **Internationalization of the FMCG segment**, hiring a senior marketing manager from Nestlé Baltics, making him **Head of Expansion**, contributing to additional operating expenses incurred
- Implementation of AUGA's online marketplace and its e-commerce specialized team** from 2022 onwards pushes OPEX to 13% of Revenues

EBITDA

- EBITDA 71% growth** from €15.6m in 2020 to €27m in 2025.
- Focus on end-user products**, driven by the **restructuring of the mushroom portfolio mix** and the **FMCG expansion to new markets** fuels EBITDA growth and its margin improvements, being AUGA's main **drivers for growth**.



EBITDA growth along with optimized NWC and steady CAPEX enhance a robust cash flow generation

FCF in EUR 000	2020A	2021E	2022E	2023E	2024E	2025E
EBITDA	15 663	18,556	20,825	21,934	24,181	26,995
(-) Cash Taxes	0	(1,013)	(1,307)	(1,573)	(1,900)	(2,320)
(-) Change in Adj. Net Working Capital	2 559	(226)	39	723	(805)	(695)
Change in Trade Receivables	(2 762)	(615)	(310)	109	(862)	(850)
<i>average collection period</i>	71	67	64	61	58	55
Change in Inventory	(1 477)	(1,302)	(728)	(95)	(2,147)	(2,081)
<i>average holding period</i>	191	186	181	177	172	168
Change in Trade Payables	(2 902)	(1,131)	(855)	(520)	(1,752)	(1,789)
<i>average payable period</i>	102	102	102	102	102	102
(-) Maintenance CAPEX	(2 158)	(4,248)	(2,734)	(2,969)	(3,199)	(3,913)
<i>as a % of Revenues</i>	-3%	-5%	-3%	-3%	-3%	-3%
(-) Expansion CAPEX	(5 839)	(8,742)	(6,446)	(3,692)	(2,959)	(2,027)
<i>as a % of Revenues</i>	-7%	-10%	-7%	-4%	-3%	-2%
Unlevered FCF	10,225	4,327	10,377	14,424	15,318	18,039
<i>FCF conversion</i>	65%	23%	50%	66%	63%	67%

Drivers & Key Assumptions

Cash Taxes:

- The **statutory tax rate – 15%** – applied in Lithuania to business companies was assumed during all the holding period
- Until 2020, AUGA had considerable deferred tax assets. We assume **all income to be taxable from 2021 onwards**

Net Working Capital Optimization:

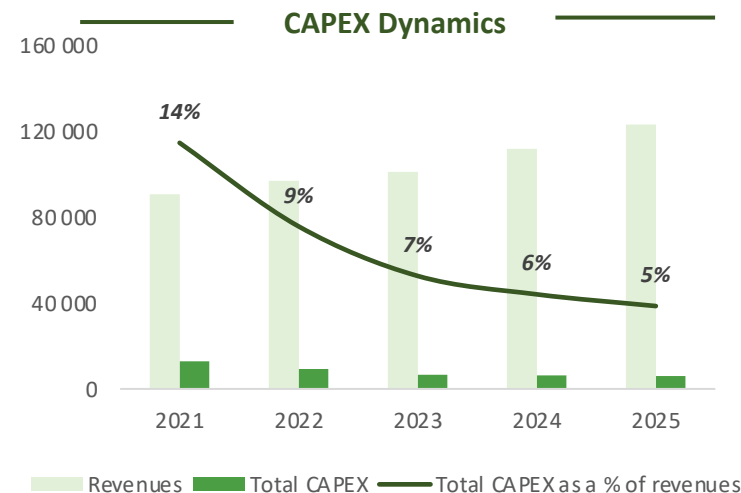
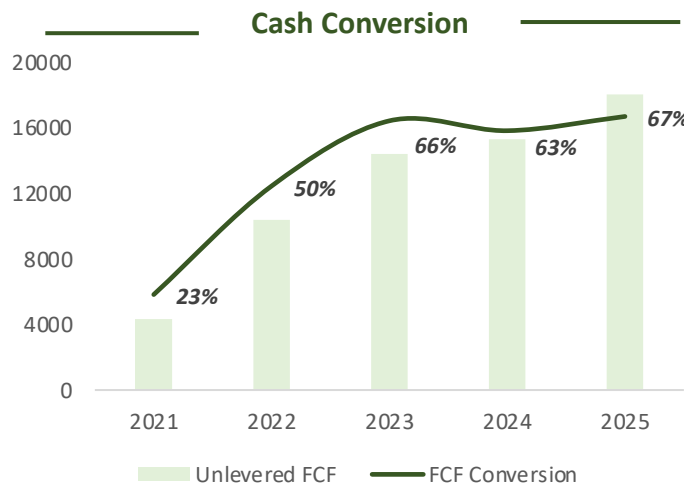
- **Continuous improvement** of cash conversion cycle (51 days decrease), fuelled by **average collection and holding periods** due to:
 - Focus on end-user products brings **bargaining power** given the firm's **differentiation** and **exclusivity** among the products it offers
 - Higher capacity to set more **advantageous supply contracts** with big wholesalers and retailers – **pressure to collect earlier**
 - **Improving inventory monitoring and better sales and demand forecasting** lead to a reduction of average holding period of 21 days towards industry average

CAPEX:

- **Mushroom technological improvements of €1.75m** explain the rise in maintenance CAPEX in 2021. Afterwards, a 3% assumption as % of sales is assumed as per historical figures
- **Investment of €4.6m in the duplication of installed production capacity** of FMCG unit and **investment in the construction of an operational hub for the online distribution channel of €1.3m** drive expansion investment to increase substantially in 2021
- Less expansion requirements from that year on make the **expansion CAPEX as % of sales smoothly decrease** throughout the remaining years

Unlevered FCF:

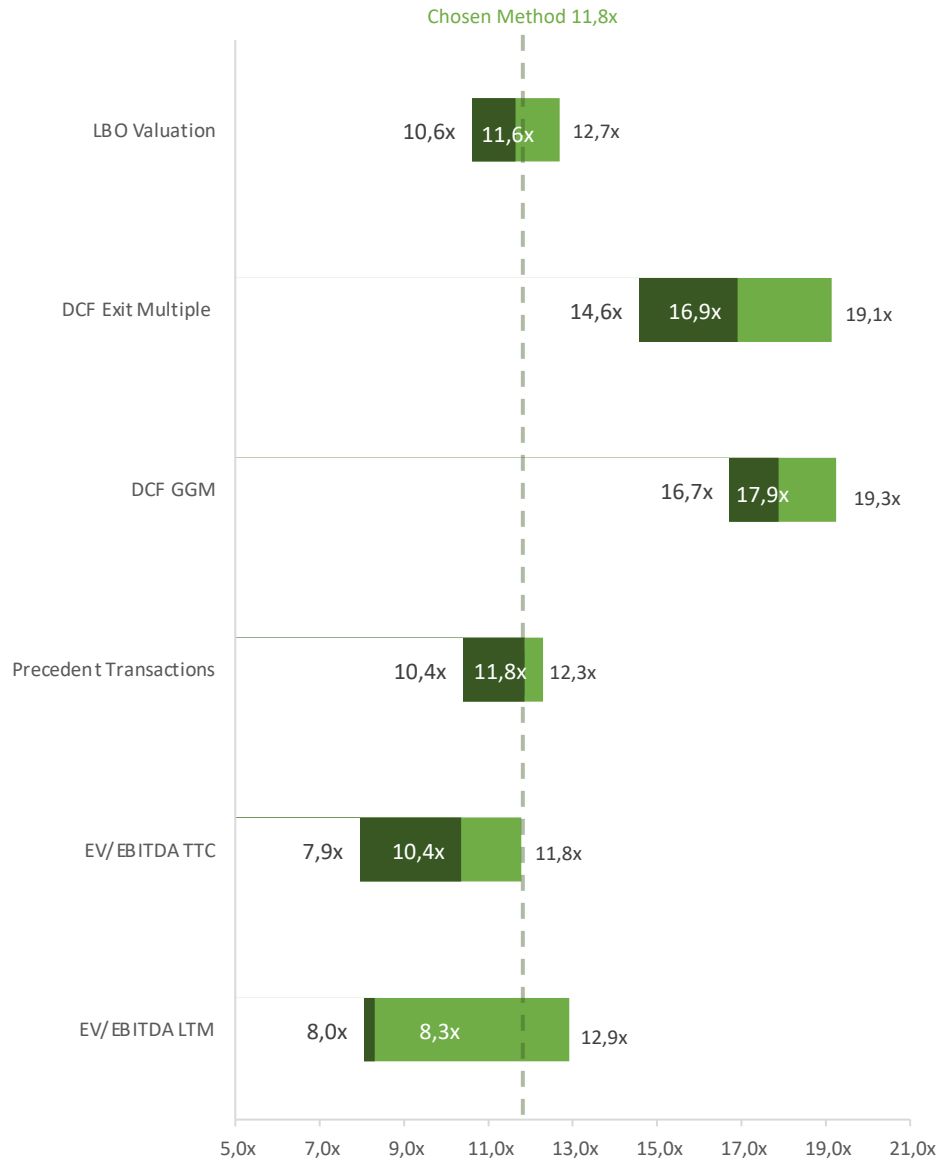
- From the investment period 2020-2025, **FCF increased by c. 77%**, keeping a steady cash conversion as % of EBITDA from 2023 onwards



Valuation



An 11,8x multiple given by Precedent Transactions was selected, ensuring higher comparability with recent industry deals



Final decision

Precedent Transactions (11,8x)
 Analysis of **selected 9 past transactions** in the last 8 year-period, of comparable price considerations and in the same scope on terms of product offering and geography.
 This method gives a more granular view on the appetite of financial sponsors and strategic acquirers for agri-food production firms over the past years. Additionally, we select this method as the most appropriate one for valuation as: 1) majority of transactions are on the **same span in terms of size (mid-market) and geography** and 2) certain transactions selected of **Private Equity firms focused on sustainable agribusiness buying out firms with a very similar profile to AUGA** (e.g. Paine Schwartz Partners)

Other Valuation Methods Considered

EV/EBITDA LTM (8.3x)
Selection of 7 industry peers to understand how the market is valuing firms in the agribusiness span. Analysis performed using Bloomberg metrics comparing size, capital structure, product offering and geographical presence. **This method is not reliable** as AUGA has significant differences in terms of **size, product offering and geographical presence**

LBO Valuation (11,9x)
 Method of valuation comprised of defining certain IRRs and backsolving it, allowing for the calculation of the entry price needed for the target IRR for the investment.
 IRRs defined are in the 20%-30% range

EV/EBITDA Through-The-Cycle (10,4x)
 Same criteria of EV/EBITDA LTM but with the **range of the past 5 years analysed**. We observe a decrease in overall multiples especially in 2020, with a through-the-cycle analysis bringing a more comprehensive overview of the market valuation of the industry in recent years

DCF Gordon Growth (17,9x) / DCF Exit Multiple (16,9x)
Gordon Growth Model: Inputs used were the FCF forecasts, **WACC of 7.1%** using peers' information and **terminal growth rate** as a conservative scenario for Lithuania's Long-term GDP Growth of **1%**
Exit Multiple Method: Terminal Value as an exit EBITDA multiple to the exit year (2025). Assumed no difference in entry/exit multiples (**11,8x**)

Capital Structure



The acquisition will be executed with 53,1% Debt and 46,9% Equity, with a sweet equity component of 531k

Sources of Capital				Uses of Capital		
	€ M	xEBITDA	%		%	€ M
Unitranche Loan	101,8	6,5x	53,1%	EBITDA 2020		15,7
Total Acquisition Debt	101,8	6,5x	53,1%	Entry Multiple	11,8x	
				Enterprise Value		185,6
				Net Financial Debt		58,3
Fixed Return Instrument	84,8	5,4x	44,2%	Lease Obligations (Debt-Like)		33,7
Ordinary Equity	5,3	0,3x	2,8%	Total Net Debt		92,0
Institutional Investor	4,8	0,3x	2,5%	AUGA's Equity Value		93,6
Sweet Equity	0,5	0,03x	0,3%	Total Fees	3,4%	6,3
Total Equity	90,1	5,8x	46,9%	Arrangement Fee	1,0%	1,9
				DD Fees	0,6%	1,1
				M&A Advisor Fees	0,8%	1,5
				Upfront fee	1,0%	1,9
Total Sources	192	12,3x	100%	Total Uses		192

Acquisition Debt

- Unitranche Loan facility from direct lender (e.g. Invesco), 6-year maturity with single bullet principal repayment

Equity

- Fund Equity Ticket (90,1M): Fixed Return Instrument with 8 years PIK interest + Institutional Ordinary Equity
- Management Package
 - Sweet Equity of 531k reflecting senior management and new Head of Expansion's 2x annual salary invested in the equity commitment. Represents **10% of ordinary equity**
 - Equity Ratchet defining an **additional 2% of ordinary equity to management** if the fund achieves IRR above 25%
 - Cash Compensation of **50% of annual salary to management**
 - Residual pre-deal share ownership by top executives of 0,06%¹.

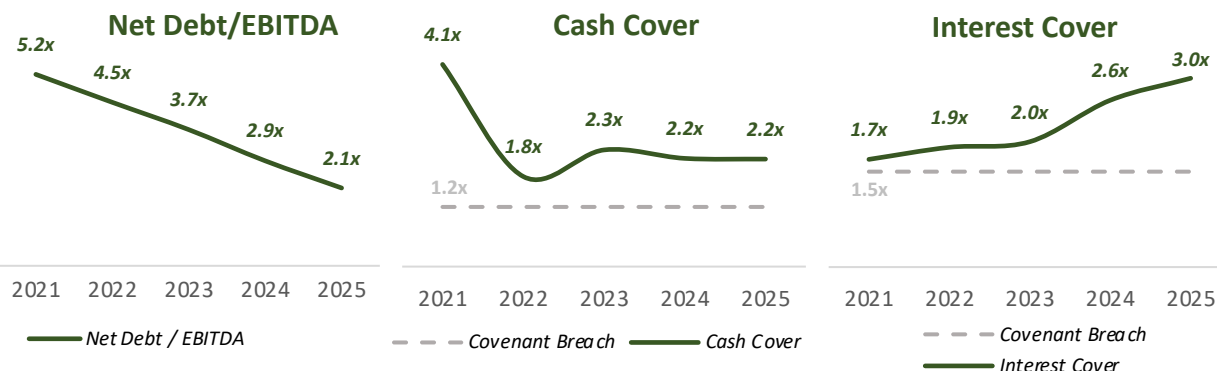
Interests and Repayments

- Unitranche Loan: 7% + EURIBOR, 6-year bullet repayment
- Fixed Return Instrument: 8% PIK (payment-in-kind) element

Bank Case Covenants

- Net Debt/EBITDA:** The leverage ratio decreases quickly, fostered by the **Sale & Leaseback transaction and strong cash generation**, ending at a low level of 1,1x EBITDA in 2025
- Cash Cover:** Set at a limit of 1,2x, it is continuously well above this level, with the worst year being at 2,4x demonstrating firm's **solid cash generation ability**
- Interest Cover:** Covenant respected during the holding period and interest-paying ability increased through the years

Bank Case Credit Statistics



Notes: (1) CEO (Kestutis Juscus) owns a controlling share of 55% of AUGA pre-deal, which is not accounted in senior management's ownership. More information on ownership structure in page 6

Strategic sale would be the most appealing exit option to sell at a competitive multiple

Exit multiple – **11.8x**

- The forecasted exit multiple is **11.8x**, the same as the entry multiple. Although AUGA will focus more on own branded end-user products, those segments already **account for 40% of sales** and were planned to be **triggered before the acquisition**. Moreover, AUGA will **keep its commodities business** active, thus maintaining its “traditional organic agricultural producer” nature. As such, we see the firm well positioned to **keep its high multiple** given the the trendy organic food market but **not moving to higher multiples**

1	Strategic sale – <i>International players</i>	2	Secondary sale - <i>Financial sponsors</i>	3	IPO		
	<ul style="list-style-type: none"> ▪ <u>Upside:</u> <ul style="list-style-type: none"> ➢ Worldwide leading consumer food end-user products, willing to acquire a key organic producer in Europe ➢ Take advantage from their facilities and multiple distribution channels ▪ <u>Downside:</u> <ul style="list-style-type: none"> ➢ Buyer may be hostile and does not promote a smooth acquisition and transition process 	<table border="1"> <thead> <tr> <th>Global industry funds</th> <th>Agri-business funds</th> </tr> </thead> <tbody> <tr> <td> <ul style="list-style-type: none"> ▪ <u>Upside:</u> Funds with diversified risk and experience with leveraging positions in investments with tickets of hundreds of millions ▪ <u>Downside:</u> The scope and rationale behind these PE’s investment strategy </td> <td> <ul style="list-style-type: none"> ▪ <u>Upside:</u> PEs with historical track record creating value within agriculture related companies. ▪ <u>Downside:</u> Less capacity to stay competitive among an organized acquisition process </td> </tr> </tbody> </table>	Global industry funds	Agri-business funds	<ul style="list-style-type: none"> ▪ <u>Upside:</u> Funds with diversified risk and experience with leveraging positions in investments with tickets of hundreds of millions ▪ <u>Downside:</u> The scope and rationale behind these PE’s investment strategy 	<ul style="list-style-type: none"> ▪ <u>Upside:</u> PEs with historical track record creating value within agriculture related companies. ▪ <u>Downside:</u> Less capacity to stay competitive among an organized acquisition process 	<ul style="list-style-type: none"> ▪ <u>Upside:</u> Higher market liquidity and opportunity for a broader range of investors. ▪ <u>Downside:</u> Uncertainty regarding global IPO environment, with interest rates likely to rise
Global industry funds	Agri-business funds						
<ul style="list-style-type: none"> ▪ <u>Upside:</u> Funds with diversified risk and experience with leveraging positions in investments with tickets of hundreds of millions ▪ <u>Downside:</u> The scope and rationale behind these PE’s investment strategy 	<ul style="list-style-type: none"> ▪ <u>Upside:</u> PEs with historical track record creating value within agriculture related companies. ▪ <u>Downside:</u> Less capacity to stay competitive among an organized acquisition process 						

Strategic sale – *exit option decision*

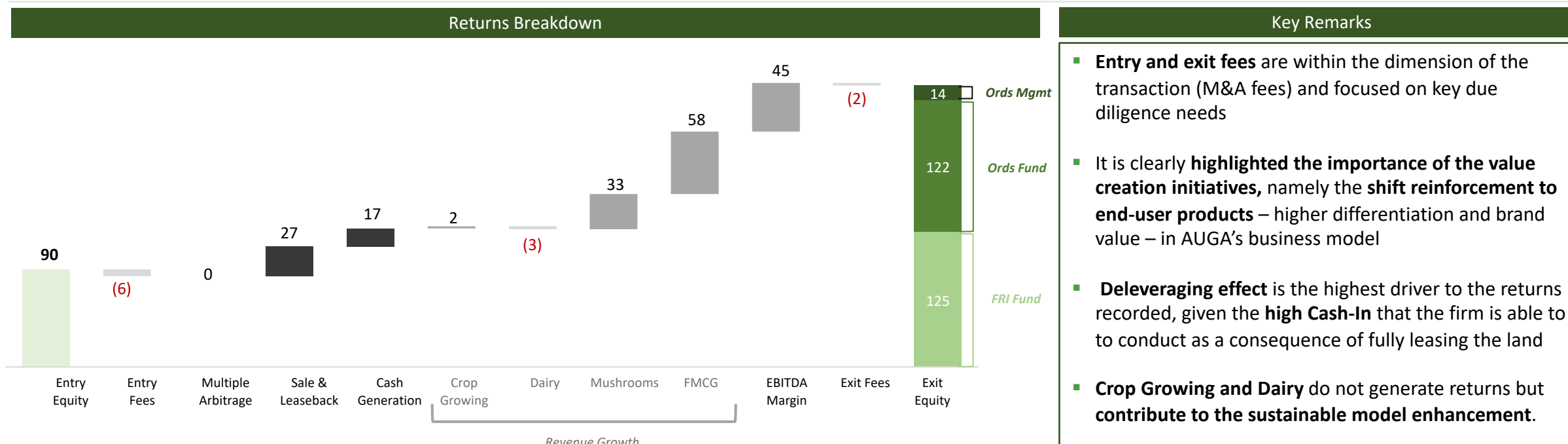
- **M&A activity has been breaking records**, as a consequence of low interest rates and a post-pandemic scenario with many financial sponsors and big corporate groups with huge cash reserves to deploy into the economy (**€1.5 trillion of unspent cash only on the PE side**). Although some variables might change (namely the likely interest rates rise until our exit year), we believe that by **hiring an Investment Bank to conduct an organized sell-side M&A process (around €1-2 million cost)**, AUGA would benefit from **key Strategic Players** entering into stage and considering acquiring a leading player in the European organic farming,



Returns



The LBO acquisition of AUGA would give the fund an IRR of 22.4% and returns of 2,75x within a 5-year holding period



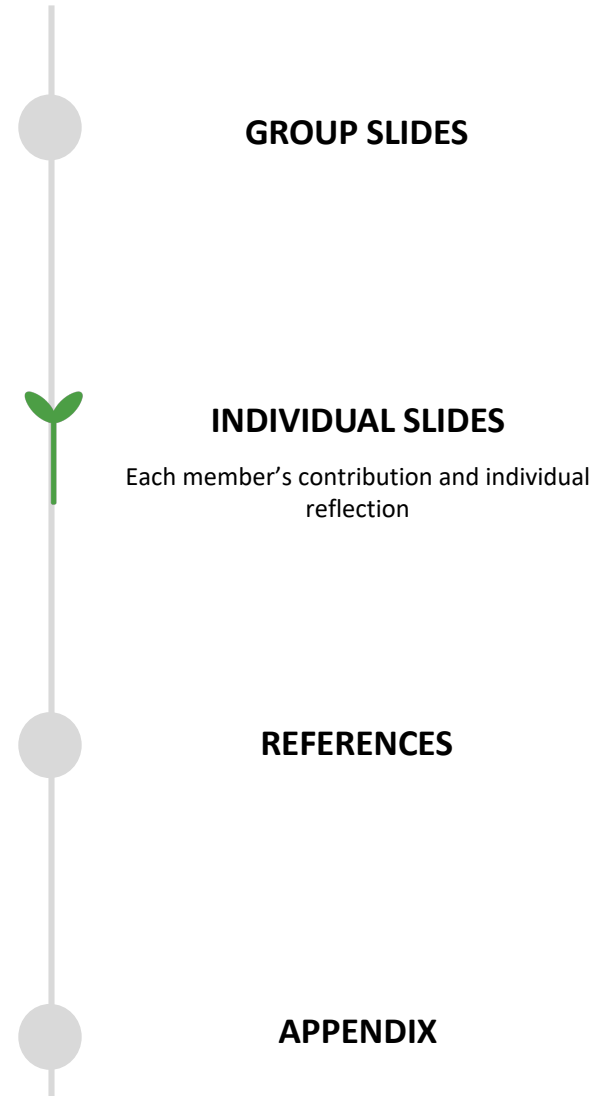
Institutional & Management Returns

Returns	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Mgmt Exit Ords Proceeds	2	5	7	10	14	17	21
Mgmt Equity	0,5	0,5	0,5	0,5	0,5	0,5	0,5
Management Returns	3,1x	8,9x	12,4x	18,4x	25,4x	31,3x	40,0x
IRR Management		199%	131%	107%	91%	78%	69%
Funds Proceeds (Sub loans+Ords)	106	141	166	203	246	284	336
Fund Equity	90	90	90	90	90	90	90
Fund Returns	1,2x	1,6x	1,9x	2,3x	2,7x	3,2x	3,8x
IRR Fund		26%	23%	23%	22%	21%	21%

- Management team expected to be highly rewarded by the fulfilment of the projected business plan, earning in 2025 around **€10M**, corresponding to **25,4x Management Returns** and an **IRR of 91%**
- Regarding the fund, **returns of 2,75x and IRR of 22,4%** are expected in a base scenario, i.e., with no multiple arbitrage, translating into **€246M**.

IRR	Exit Year					
	2023	2024	2025	2026	2027	
22.4%						
Exit Multiple	10.8x	17,8%	19,3%	19,9%	19,3%	19,3%
	11.3x	20,3%	21,0%	21,2%	20,3%	20,0%
	11.8x	22,8%	22,7%	22,4%	21,2%	20,8%
	12.3x	25,2%	24,3%	23,6%	22,1%	21,5%
	12.8x	27,5%	25,8%	24,7%	23,0%	22,2%

Exit year

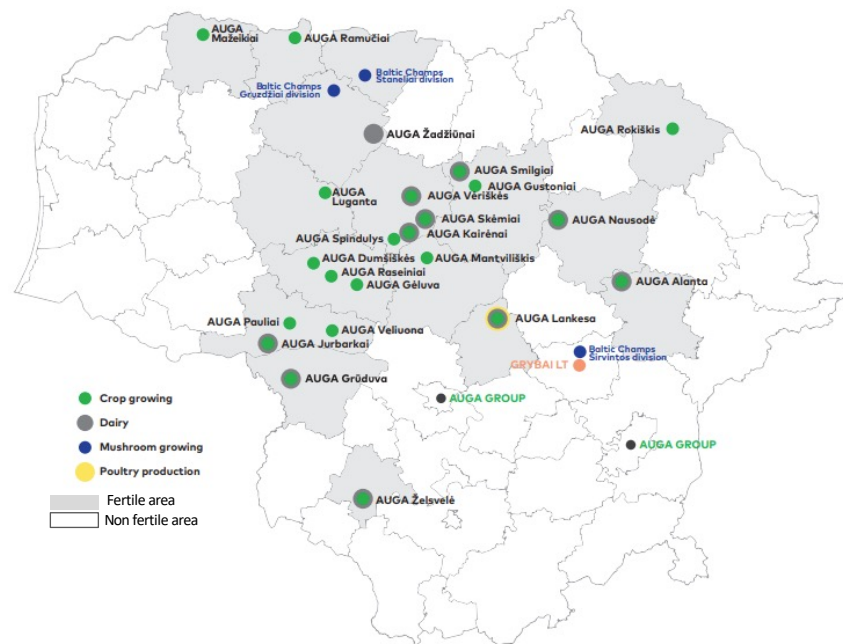


Company Overview

A sustainable business model across the most fertile lands in Lithuania



Geographical Footprint Of Production

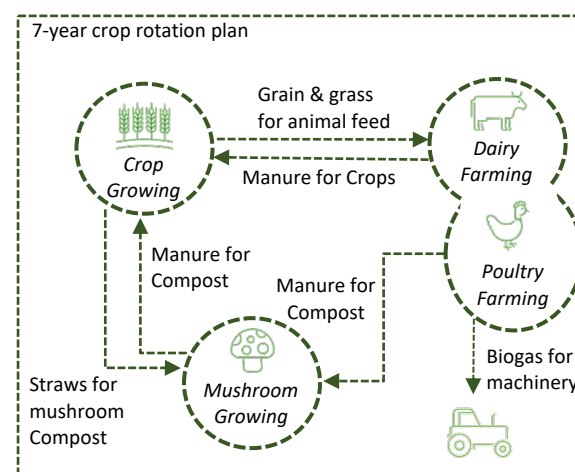


- 39,000**
Ha of managed of organic arable land
- 21**
Crop growing plants
- 18**
Plants for dairy
- 1**
Poultry plant
- 3**
Plants for mushroom growing



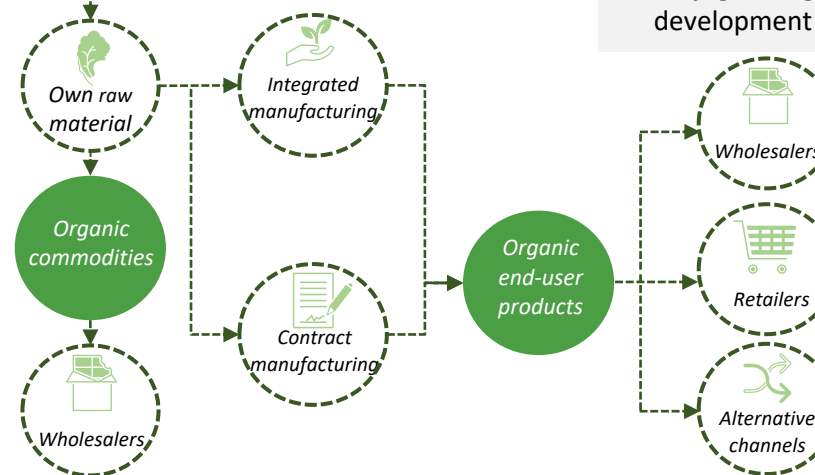
- Crop growing distribution by hectares: **Cash Crops - Wheat (30%), Legumes (21%), Fallow (2%), Other cash crops (24%) and Forage Crops (23%)**
- AUGA group **gains efficiency** of returns through **leasing of land (9.3%)** rather than **owning**, as **owning the farmlands is often capital intensive**
- **Farming camps are exclusively in Lithuania and within the most fertile areas**, which are located in the **North and Center of the country**. The **Western region** is composed by lowlands, uplands and plateaus zone, whereas the **Eastern part** comprises hilly uplands areas. Finally the **South** has the biggest urban areas
- **Crop growing** represents the **highest share of plant production** across Lithuania, followed by **Dairy. Mushrooms and Poultry** have less cultivated areas

Business Units Integration



Sustainable Business Model

- The company is developing a **closed-loop organic farming model** which aims to **achieve synergies** among different branches of its business.
- The **crop growing** segment provides **feed for the cattle**, as well as **straws for the mushrooms**
- The **dairy and mushroom segments** provide the **manure for the crops growing**. The dairy also allows the **development of biogas**
- The **machinery** gives the necessary **energy for the crop growing**. Finally, **all segments** are within the development of the **end-consumer goods**.



- The vertical business model ensures: **supply of organic raw materials; a large scale cost-efficient end-product production; premium profitability** (due to higher margins for end-products compared to raw materials); and **traceability of the whole production chain**

SOIL EROSION

EFFICIENCY

ENVIRONMENTAL IMPACT

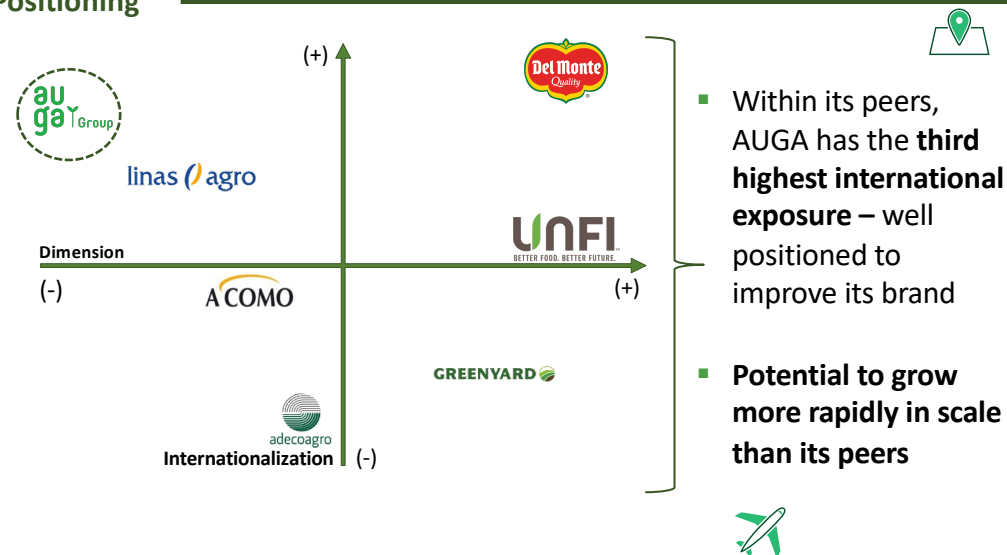
Company Overview



Excellent customer base and strong features that differentiate the firm

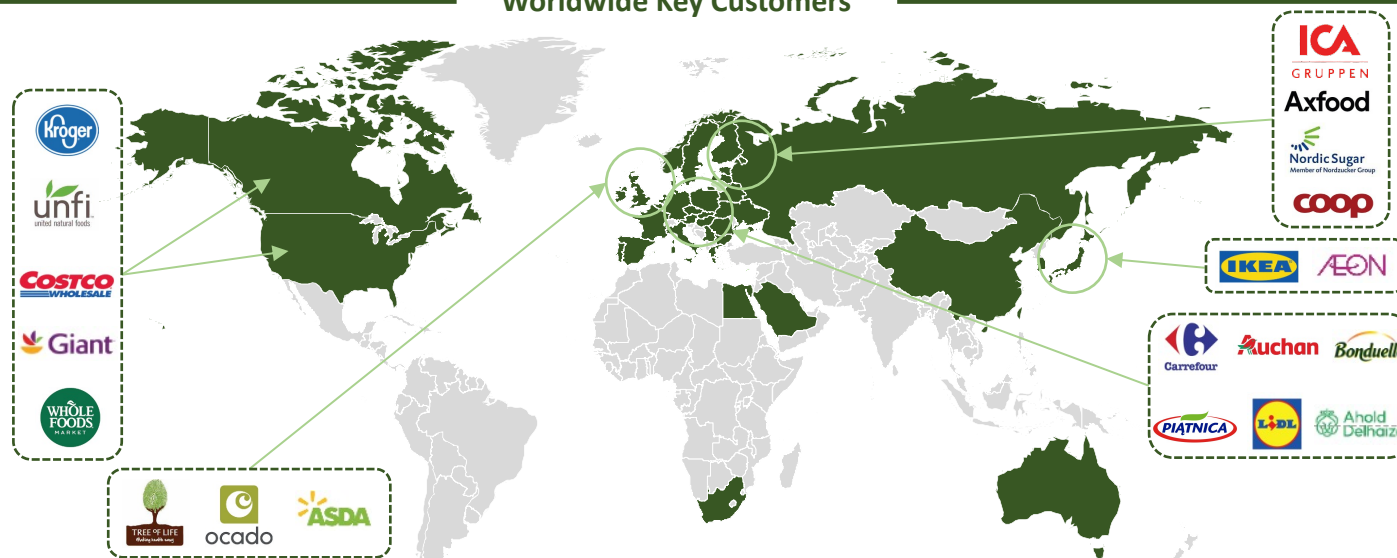
Comparative Advantages & Competitive Positioning

Economy of Scale	<ul style="list-style-type: none"> The Group's farms are all placed in Lithuania within the most fertile soils and produce which, aligned with still lower labour costs and economies of scale, are able to gain a significant cost advantage
Vertical Integration	<ul style="list-style-type: none"> The Group operates on large areas of land and therefore grows a wide range of organic products, offering a variety of final consumer products
Full Traceability	<ul style="list-style-type: none"> The business model allows full traceability from seed to pack and ensures the quality of the products, as it is controlled by the Group. This helps to gain trust from private label producers, retailers
Synergies	<ul style="list-style-type: none"> The internal integration between dairy and mushrooms, creates the possibility to obtain sufficient quantities of organic farming compliant fertilizers (manure) for crop growing.



Worldwide Key Customers

- Strong and diversified customer base**, mostly in **central and Northeast Europe**, but also in **North America** – markets with the highest growth in organic food
- AUGA currently supplies some of the **world's biggest wholesalers and retailers**, such as **Costco, Auchan, Lidl and Whole Foods Market**



- The group's largest customers are **ICA** (buyer of mushrooms) – **8.59%** (of total sales), **Nordic Sugar** (buyer of crops) – **7.81%** and **Piatnica** (buyer of milk) – **6.43%**
- Main Customers are located in **Baltic region and Central Europe**, in line with the firm's main markets – **Lithuania, Sweden and Germany**

Appendix - Company Overview



Experienced executive team with clear vision and projects to improve AUGA's business

Executive Committee



Mindaugas Ambrasas
CFO



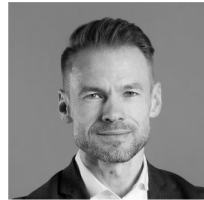
Kęstutis Juscius
CEO



Laurynas Miskinis
Sales manager



Armandas Simulis
Head of Asset Management



Gediminas Judzentas
Marketing manager



Elina Chodzkaitė-Barauskienė
Business development manager



Viktorija Gruzauskienė
Head of human resources



Tadas Baliutavicius
Managing director

- Executive committee with **combined management experience of +50 years**.
- Responsible for key decisions** – Rebranding the company, entrance in organic industry, internationalization.
- In addition to executive committee, AUGA has a **non executive board (unique case in Lithuania)**.

AUGA's Vision and Initiatives

- In 2020, the Company took a new step and developing a **new standard for sustainable organic food** in the food value chain. This is focused on **building environmental and long-term sustainability** for the AUGA community

Vision

Consumers

a more sustainable way to eat



Farmers

a more sustainable way to work



Private and institutional lenders

a more sustainable way to invest



Shareholders

a more sustainable way to receive financial returns



Vision

Synonym for sustainable food and lifestyle

Mission

Become 1st carbon neutral organic farmer

Initiatives

Biogas agricultural machinery

- The M1 tractor, presented by AUGA in October 2020¹ is the **world's first hybrid biomethane and electric tractor for professional farm use**.

Robotics technology in mushroom growing

- A robotization and implementation of AI** in the mushroom growing segment in order to surpass the high labour cost hurdles the segment presents.

Specialized feed technology

- Innovative processes and technologies** associated with proprietary feed production and treatment to **reduce methane emissions from bovine enteric fermentation**.

Key initiatives to foster AUGA's business model

Appendix - Subsidies

Direct Subsidies linked to EU goals for Sustainable Food Production are expected to continue for the foreseeable future



New Common Agricultural Policy

Overview

- Starting from 2023, **the new CAP will be implemented**, substituting the previous one, offering new reforms regarding direct payments in form of subsidies to food production
- Total Budget 2021-2027 of 387 bn
- Financed through two funds: **European Agricultural Guarantee Fund** and **European Agricultural Fund for Rural Development**. The EAGF finances basic payment schemes to farmers

Greener Policy

- Strong focus to support a **transition to a more sustainable food system**, in line with the European Green Deal and its strategies such as Farm to Fork
- Objectives include the reduction of chemical and hazardous pesticides, reduce the usage of fertilizers and **ensure the transition to 25% of total farmland to organic in 2030 (currently 8%)**

Types of Subsidies

Direct Payments amounted to 41 bn a year, representing 72% of the Total CAP 2014-2020 budget. **On average, direct payments/ha in EU are 266/ha.**

Basic Payment

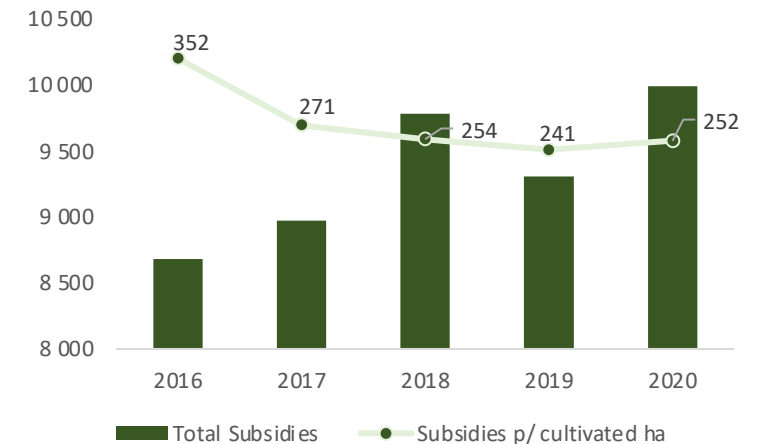
- Flat Rate of direct subsidies** which will be applied to all EU-Member States paid annually to farmers **directly linked to size in hectares and to respect for environment, plant health and welfare.**
- With External Convergence, there will be a progressive reduction in the difference of these payments across all member states with a **minimum of 200/ha in 2022 and 215/ha in 2027**

Greening

- The “green” direct payment **supports farmers who contribute to EU’s climate goals**
- EU countries dedicate **30% of total subsidies to “greening”** and **organic farmers automatically receive this direct payment** as their production practices **benefit the environment** and comply with the **objectives of the EU Green Deal**



- ✓ AUGA currently receives **9,99M in total subsidies**, of which **25% of the income support comes from organic farming subsidies**, in line with EU member-states
- ✓ **Average of 252/ha**, slightly below EU average and we assume a conservative scenario where we maintain this level
- ✓ **Risks of a partial reduction or loss of subsidies are mitigated** by the introduction of the new CAP which targets ambitious green milestones
- ✓ AUGA has delivered and the plan is to **continue to deliver on the transition to sustainable and organic food production practices**



Appendix – Balance Sheet

High Tangible Asset Base and decreasing Working Capital Requirements compose AUGA's leverageable Balance Sheet

Balance Sheet in EUR 000	2016	2017	2018	2019	2020
Property, plant and equipment	1 76.262	85.235	92.891	91.897	97.009
Right-of-use assets	-	-	-	2 36.211	35.543
Intangible assets	19	839	2.427	14	3.477
Long term receivables	2.599	3.497	5.642	5.676	446
Available for sale investments	286	286	57	57	57
Associates	-	355	355	355	-
Deferred tax asset	669	890	1.438	1.069	1.359
Biological assets	6.858	8.029	9.128	9.397	9.699
Non-Current Assets	86.693	99.131	111.938	144.676	147.590
Inventory	15.157	25.547	28.708	28.958	30.435
Trade receivables, advance payments and other receivables	13.367	10.765	14.573	13.322	16.084
Biological assets	3 5.223	10.111	14.390	16.035	17.052
Trade Payables	(8.796)	(14.467)	(14.681)	(13.433)	(16.335)
Other payables and current liabilities	(4.781)	(5.855)	(5.316)	(4.721)	(5.279)
NWC	4 20.170	26.101	37.674	40.161	41.957
Assets held for sale	-	2.374	-	-	-
Total Capital Employed	106.863	127.606	149.612	184.837	189.547
Share capital	54.351	54.351	65.951	65.951	65.951
Share premium	7.890	738	6.707	6.707	6.707
Revaluation reserve	4.179	5.889	7.155	8.488	9.213
Legal reserve	579	579	1.649	1.834	1.834
Reserve to provide shares for employees	-	-	957	1.624	2.509
Currency exchange differences	(217)	(165)	-	-	-
Retained earnings / (accumulated deficit)	5.163	17.241	8.937	5.102	6.237
Non-controlling interest	293	382	359	369	366
Total Equity	72.238	79.015	91.715	90.075	92.817
Other non-current liabilities	4.285	4.313	4.316	4.501	4.731
Liabilities directly associated with assets held for sale	0	1.307	-	-	-
Long-Term Debt	20.365	22.522	21.718	56.819	74.175
Short-Term Debt	11.625	21.069	34.144	37.174	20.365
Cash and Cash Equivalents	(1.650)	(620)	(2.281)	(3.732)	(2.541)
Net Debt	5 30.340	42.971	53.581	90.261	91.999
Total Equity and Net Debt	106.863	127.606	149.612	184.837	189.547

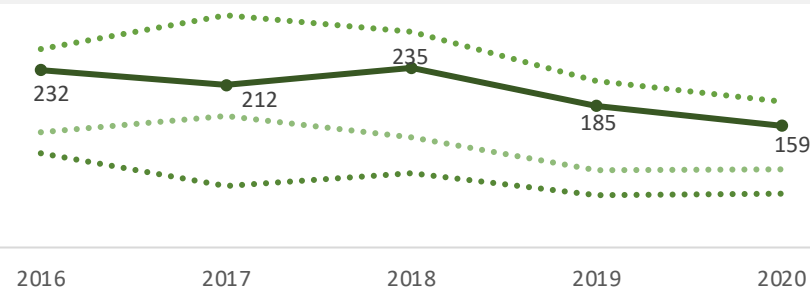
- Property, Plant and Equipment increases considerably** over the years, reflecting the investments in expanding land and operating capacity and incorporates the several strategic acquisitions the firm has made. **High tangible asset base remaining steady at 45% of Total Assets**
- The incorporation of IFRS 16 in 2019 **included leased** (right-of-use) assets in the Balance Sheet. Note that this value is considerable for AUGA as **only 11,9% of land capacity is owned**
- Non-current biological assets include dairy cows and mycellium cultivation used for mushroom growing. **Remained steady over the last 3 years**
- Net Working Capital includes current biological assets composed of cultivated crops. **High Cash Conversion Cycle of 152 days** which has decreased from 232 in 2016, showcasing better cash management
 - **Average Holding Period of 191 days** and improving over the years (Still far from Industry average of 68 days)
 - **Average Collection Period of 71 days** and improving across the period (vs. Industry average of 37 days)
 - **Average Payable Period of 102 days (vs. Industry average of 32 days)**
- Net Debt increased substantially** from 30 to c. 92 million
 - Until 2018, increased leverage to **fund growth of land capacity through strategic acquisitions** and other expansion initiatives
 - **2019's inclusion of lease obligations** in Balance Sheet **propelled debt** but current and non-current **bank borrowings remained relatively stable**
 - **Refinancing of Debt in 2019**, with the issuance of the **first tranche (20M) of a Green Bond**, changing strategy from short-term to long-term financing

Appendix - Cash Flow Statement

Improving cash generation brought about by years of strategic acquisitions and better cash management

Cash Flow Statement in EUR 000	2016	2017	2018	2019	2020
Adjusted EBITDA	12.156	9.945	7.985	14.035	15.663
Cash Taxes	-	-	-	-	-
Interest Paid	1 1.897	(1.802)	(1.747)	(4.384)	(4.846)
Change in NWC	2 (9.378)	(3.867)	(17.832)	(4.238)	2.559
Net Cash Flows from Operating Activities	881	4.276	(11.594)	5.413	13.376
Maintenance CAPEX	3 (1.733)	(1.097)	(1.801)	(904)	(2.158)
Expansion CAPEX	(2.600)	(5.546)	(4.429)	(2.337)	(5.839)
Proceeds from sales of investment property, PPE	4 403	616	210	383	147
Proceeds from sales of subsidiary, net of cash disposed	-	-	985	-	-
Other investing cash adjustments	5.285	(437)	(892)	415	622
Net Cash flow from investing activities	1.355	(6.464)	(5.927)	(2.443)	(7.228)
Net proceeds from bank financing	(1.749)	6.209	2.749	5 (8.169)	4.271
Finance Lease Repayments	(2.054)	(3.504)	6 (5.135)	(7.953)	(8.022)
Proceeds from bond issuing	-	-	-	18.523	-
Proceeds from issue of shares	-	-	17.569	-	-
Other financing cash adjustments	(851)	(1.547)	4.000	(3.920)	(3.588)
Net cash flow from financing activities	(4.654)	1.158	19.183	(1.519)	(7.339)
Cash increase / (decrease)	(2.418)	(1.030)	1.662	1.451	(1.191)
Cash at 1 January	4.068	1.650	620	2.281	3.732
Cash at 31 December	1.650	620	2.282	3.732	2.541

- Interest Expenses increase in 2019 with the addition of interest relating to operating leases. **Interest paid is 5% on average of Total Debt**
- Unpredictable changes in NWC** justified by the high growth experienced, leading to an **increase of Inventory and Current Biological Assets**. In 2020, this item amounted to **3% of Revenues**
- Maintenance CAPEX linked to **renewal of machinery and equipment suitable for organic farming**. Average at 3% of Total Revenues
 - High Expansion CAPEX directed to **acquisition activity** directed to expanding land and operational capacity. 2019 was an atypical year as CAPEX was constrained due to the underperforming past year. **Averaged at 7% of Total Revenues**.
- Includes **sale of ZVF Group**, its land managing entity which had over 6k há. Demonstrates the firm's strategy to lease lands vs. owning
- First tranche of **Green Bond issuance**, being the first firm in the Baltics to issue a bond with a green framework
- Seasoned Equity Offering in 2018** of 80 million shares, for an aggregate amount of 36M. 50% of shares were newly issued by the firm

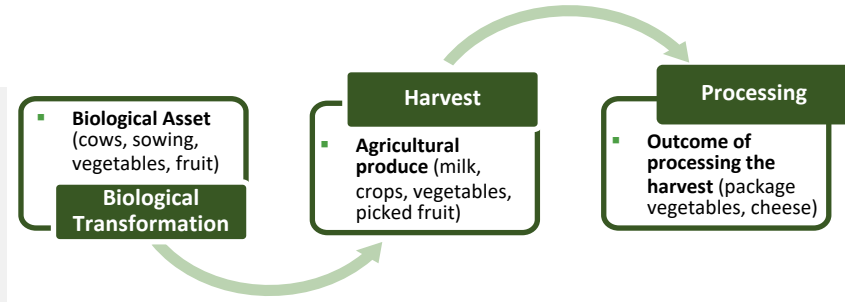


Appendix - Revaluation of Biological Assets



The Revaluations of Biological Assets of the crop growing segment is essential for the financial assessment of the segment

	Crop Growing	Dairy	Mushrooms	FMCG	Comments
Revaluation of Biological Assets	●	●	○	○	The Revaluation of Biological assets is an important adjustment for Dairy and the Crop Growing segments.
Subsidies	●	◐	○	○	Subsidies are important to crop growing, but not as much in dairy, as gross margins with/without subsidies are closer in Dairy.



- Illustration depicts the valuation mode.
- AUGA follows model and measures fair value - estimated costs biological assets.
- IAS 41 and IAS 2 Accounting standards.

Fair Value of Biological Assets – Crop Growing

Crop Growing

Legumes

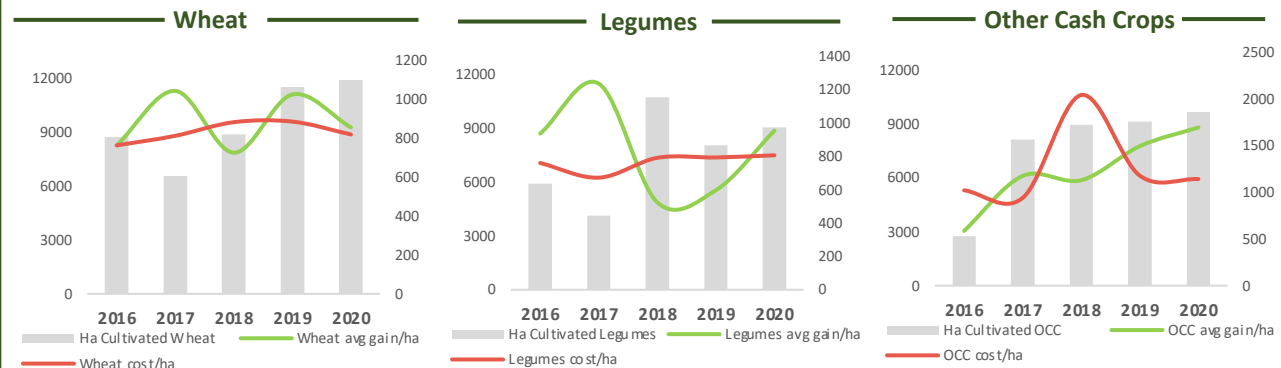
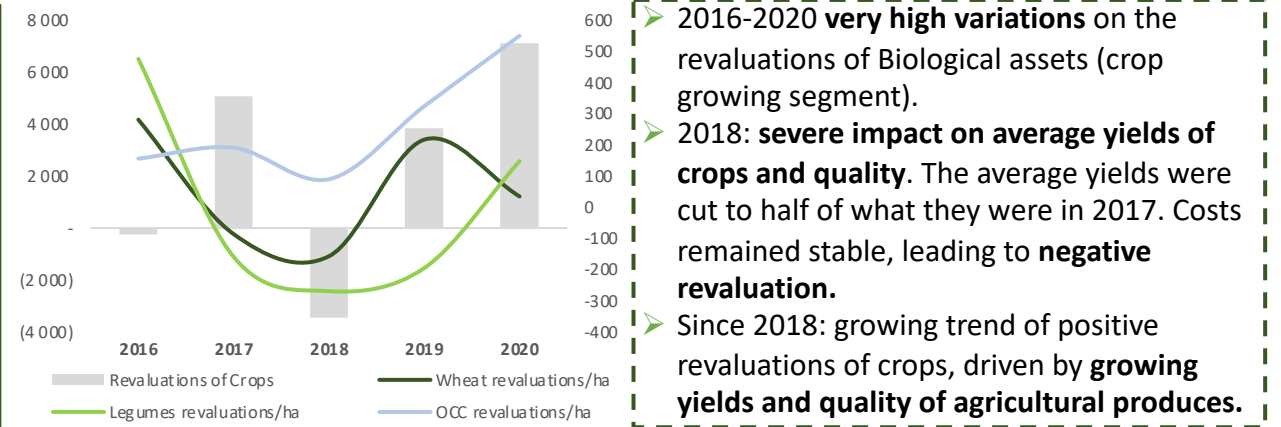
Other Cash Crops

$$\text{Crop Growing Fair value} = \text{Costs} + \text{cultivated}_{ha} * (\text{est. avg yield}_{ton\ per\ ha} * \text{est. grain price}_{ton} - \text{est. cost}_{ha}) * T * (1 - x)$$

- **Costs:** incurred costs for crop during the past season and the current year.
- **Cultivated ha:** Cultivated area where crop was seeded and harvested.
- **Estimated average yield as tonnes per ha:** expected yield for a particular crop.
- **Estimated grain price per ton:** average sales prices in contracts from the past season harvest
- **Estimated cost per hectare:** level of accumulated costs per ha.
- **T:** portion of time that has already passed from sowing date.
- **X :** adjustment parameter for possible unexpected negative effects to the harvest, such as adverse weather conditions, in 2020 this adjustment was 20%.

Forage Crops

- Forage Crops are the **main synergy between Crop and Dairy segment.**
- Forage crops are valued at **production cost: always zero.**
- 2020: 20% of the entire cultivated land area.



Appendix - Revaluation of Biological Assets

The Revaluation of Biological assets in the dairy segment is mainly done through DCF model

Dairy Cows			
Dairy Cow DCF	Year 1	Year 2	Year 3
Milk Price	0,43	0,43	0,43
Milk Production Yield	9.297	9.297	9.297
Cow sold for meat			493
Total Revenues	3.998	3.998	4.490
Feed Costs	2.848	2.848	2.848
Medicine Costs	503	503	503
Total COGS	3.350	3.350	3.350
Gross Profit	647	647	1.140
EBITDA	647	647	1.140
EBIT	647	647	1.140
Taxes	-97	-97	-171
Free Cash Flow	550	550	969
WACC		7,58%	
Present Value (per Dairy cow)		1.818 €	
PV of the Herd		6.310 €	

- Due to agricultural produce, fair value of dairy cows cannot be determined using the market approach. As such biological assets are not traded in the active market and thus it is not possible to use their market value.
- Fair value is determined using a DCF model.
- The free cash flow is discounted with the Group's post-tax WACC of 7.58%. Obtained results showed that the value of cow herd was EUR 6,310 thousand as of 31 December 2020.

Other Livestock

$$\text{Other Livestock Fair value} = \frac{\text{Average price of meat per kg} \times \text{Total other livestock weight}}{\text{per kg}}$$

- The fair value of livestock (other than dairy cows) is determined based on level 2 of fair value hierarchy. For determining the fair value of other livestock, the Group uses the average price of meat per kilo.
- The fair value of livestock (other than dairy cows) as of 31 December 2020 amounted to EUR 3,390 thousand (2019: EUR 3,654 thousand). A 10% change in market price of meat would result in EUR 337 thousand (2019: EUR 328 thousand) change in the fair value of the Group's livestock (other than dairy cows).

Dairy Cows			
	Dairy Cows	Other Livestock	Total
As of 31 December 2018	5.275	3.853	9.128
Additions		32	32
Increase (birth)		104	104
Makeweight		3.509	3.509
Reclassifications from other groups	2.302	-2.302	0
Sales	-470	-246	-716
Natural mortality	-336	-125	-461
Gain (loss) fair value of biol. assets	-1.028	-1.171	-2.199
As of 31 December 2019	5.743	3.654	9.397
Additions		123	123
Increase (birth)		110	110
Makeweight		3.711	3.711
Reclassifications from other groups	2.707	-2.707	0
Sales	-523	-224	-747
Natural mortality	-247	-131	-378
Gain (loss) fair value of biol. Assets	-1.371	-1.146	-2.517
As of 31 December 2020	6.309	3.390	9.699

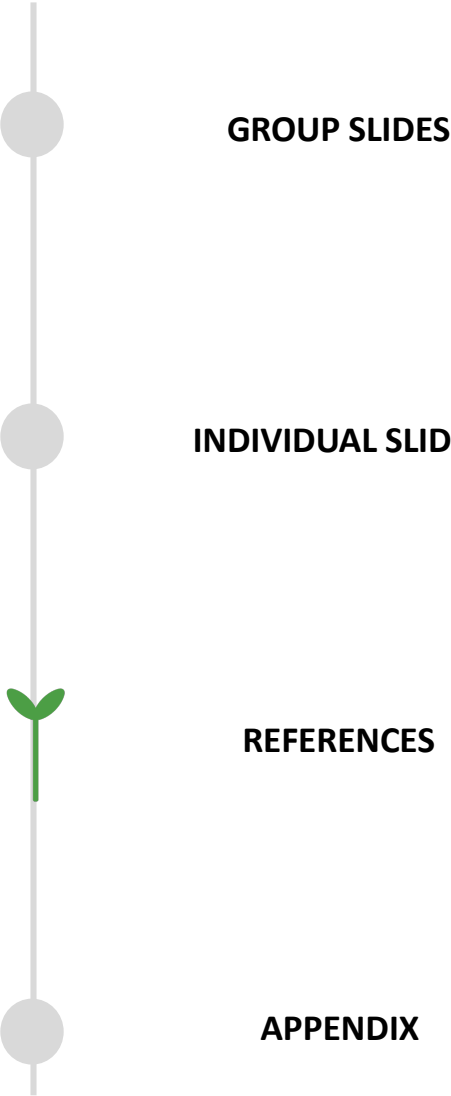
- The gain (loss) on fair value of biological assets is the result of the two valuation methods applied, the DCF for the dairy cows and the price per kg method for the other livestock.
- These valuation methods are applied at the end of each year. During the next year the changes in the herd such as natural mortality, sale, reclassifications from other groups, makeweights and births will be recorded and the fair value of the herd adjusted.
- At the end of the year, a new valuation is performed and the difference between the adjusted beginning of the year valuation and the end of year valuation is reflected as the "Gain (loss) fair value of biological assets", so that the final value correctly depicts the current value of these assets.

Private Equity and how to tackle with Climate Change phenomena

- The Private Equity (PE) industry particularly has become an important contributor to urge climate change topics. Due to the nature of PE, after an acquisition of a portfolio company, the interest often shifts to other issues rather than climate issues during the holding period of a company. However, there is no doubt that the PE industry plays a crucial role in the global economy. Hence, in order to prepare for the future, sustainability criteria should be integrated into all asset classes across an entire portfolio and PE should be included.
- One investment case that has recently been discussed are climate resilient investments. They refer to adapting and preparing the economy to respond and recover from the effects of climate change. At the end, given what was just stated plus the common sense of the ongoing climate change scenario worldwide, I believe everyone realizes how important climate resilience investments are from a society’s point of view, but what about on a pure investment case perspective?
- Firstly, investing in climate resilience is differentiated and adds value to fast-growing companies that will grow even faster due to the increasing macro trend. Secondly, climate resilience investments serve as a natural hedge against climate risks, as climate risks evolution along the years impacts all asset classes, hence the demand for companies within climate resilience themes should grow. Thirdly, investments in climate resilience are likely to be less correlated with other investments since the growth of climate resilience companies is likely to be more connected to the rising outcomes of climate change than to changes in trade barriers of interest rates for example. Fourthly, climate resilience investments enhances investors’ knowledge of other investments they may have within their portfolios. For instance, a firm analysing natural disasters can identify specific investments in targeted regions and industries that have increasing risk.

Private Equity and how to tackle with Climate Change phenomena

- At this stage, one could definitely ask: so why to invest in private equity and not in public market investments that build climate resilience? To foster climate resilience investments within many asset classes is much needed. Investing in climate solutions in the PE asset class enables diversification, both in sector and stage.
- Moreover, PE is an efficient way to invest since it allows engagement and active investment in companies over a period of three to five years, which can in turn support those firms to extend their focus in tackling climate risks and extending their scope.
- A recent evidence from what has been argued is the Lightsmith Group, a PE based in New York that pursues superior financial returns along with measurable social and environmental impacts by investing in growth-stage companies that tackle major societal needs. Their focus areas include climate resilience, food and agriculture as well as energy solutions.
- They developed the investment strategy CRAFT – the world’s first investment strategy that is focused on climate resilience investments. CRAFT was able to point out twenty market segments where private sector businesses are ready for scale, including areas like disaster risk modelling, distributed water solutions and weather analytics, cumulating to \$130 billion of current market size. Most of the firms in these sectors do not identify themselves as climate resilience companies, but their products and services can help to understand and prepare for the challenges of climate change.
- Those segments already show a growth rate of 20-30% per year, but the partners of Lightsmith predict that they will grow faster in the coming years. At this point in time, the firm has identified over 800 companies that have solutions to manage climate change risks. Lightsmith also developed a system that enables them to track how their investments in climate resilience companies support society in preparing for what is yet to come.



Company reports, presentations and initiation coverage:

- Consolidated Annual Reports: <https://auga.it/wp-content/uploads/2021/04/AUGA-group-Annual-Report-EN.pdf>
- Strategy Presentation: https://auga.it/wp-content/uploads/2020/09/Strategy-2025-presentation_EN-1.pdf
- Enlight Research Report: <https://auga.it/wp-content/uploads/2021/03/20210310-AUG-Q4-20-Update-Published.pdf>

Market Analysis and Overview:

- EU Trade Organic Food Products: https://ec.europa.eu/info/food-farming-fisheries/farming/organic-farming/trade_en
- Organic Food Industry in US: <https://www.statista.com/topics/1047/organic-food-industry/>
- Organic Food Sector Overview: <https://www.alliedmarketresearch.com/organic-food-beverage-market>
- Organic Food Requirements EU: https://ec.europa.eu/info/food-farming-fisheries/farming/organic-farming/organic-production-and-products_en
- Global Organic Food Market: <https://www.globenewswire.com/en/news-release/2021/08/16/2281266/0/en/Global-Organic-Food-Market-Expected-to-Garner-Revenue-of-4-16-049-7-Million-at-a-CAGR-of-12-4-from-2019-2027-Exclusive-Report-Pages-137-by-Research-Dive.html>
- The New Organic Normal: <https://www.earthboundfarm.com/blog/who-chooses-organic-food/>
- Organic Forecast: <https://www.industryarc.com/Report/18141/organic-farming-market.html>

Market Analysis and Overview (cont.):

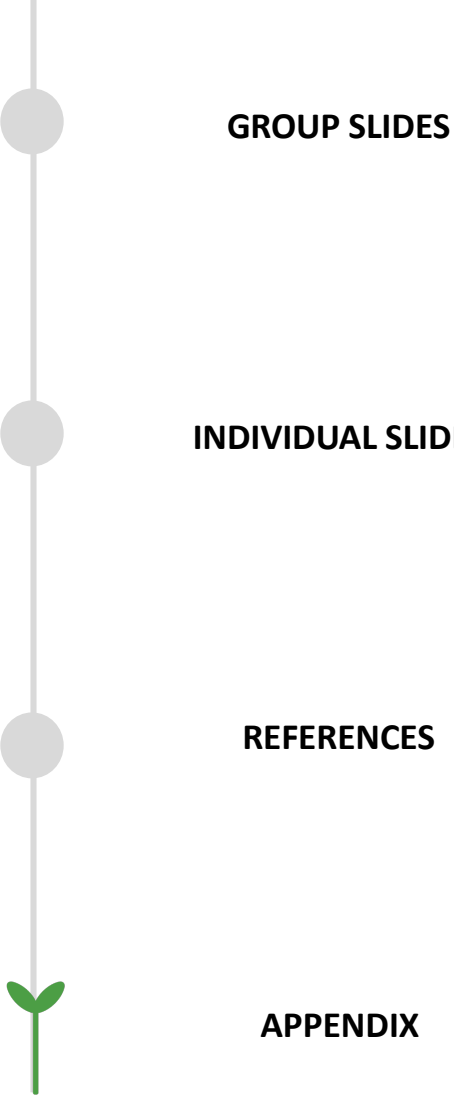
- Organic Food Statistics: <https://healthcareers.co/organic-food-statistics/>
- Organic Farming Definitions: <https://www.britannica.com/topic/organic-farming>
- EU Common Agricultural Policy: https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy_en

Direct Lending (Unitranche):

- Unitranche facilities: https://www.linklaters.com/media/files/linklaters/pdf/mkt/london/gc5945_unitranche_facilities_bafs_final_screen.ashx?rev=ff80572f-8abd-467f-b113-ae001a4a81f0
- Unitranche vs. Syndicated Loans: <https://www.fitchratings.com/research/corporate-finance/structure-series-unitranche-versus-syndicated-loans-unitranche-borrowers-eye-simple-execution-despite-variety-of-risks-01-10-2019>
- Rise in Private Credit: <https://www.reuters.com/article/unitranche-size-idUSL1N2AJ15Q>
- Introduction to Unitranche Market: <https://www.privateequityinternational.com/an-introduction-to-the-unitranche-market/>
- Senior or Unitranche: https://www.twincp.com/wp-content/uploads/2018/07/RC_FINAL_Keynote_QAndA.pdf

Value Creation:

- FMCG Retailing: <https://www.unfi.com/services>
- Grocery Supply Chain: <https://www.datexcorp.com/how-the-grocery-supply-chain-works/>
- Market Analysis of Organic Foods in Nordic and Baltic Countries: <https://norden.diva-portal.org/smash/get/diva2:1386343/FULLTEXT01.pdf>
- EU Controls on imported products: https://ec.europa.eu/food/horizontal-topics/official-controls-and-enforcement/imported-products_en
- IMF Forecast 2021: <https://www.imf.org/en/Publications/WEO/Issues/2021/10/12/world-economic-outlook-october-2021#:~:text=The%20global%20economy%20is%20projected,than%20in%20the%20July%20forecast.&text=This%20is%20partially%20offset%20by,emerging%20market%20and%20developing%20economies.>



Appendix - Product Mix

Organic commodities sourced from AUGA's vast arable land area



Commodities

Organic Grain



Organic wheat



Organic spelt



Organic oats



Organic malt barley



Organic rape seed



Organic peas



Organic fava beans



Organic soy beans



Organic corn grains

Organic Grain Products



Organic gluten



Organic wheat starch



Organic oat flakes



Organic wholegrain spelt flour



Organic barley groats



Organic wholegrain rye flour



Organic wholegrain wheat flour

Organic Dairy



Organic skimmed milk powder



Organic sweet cream butter

Organic Feed



Organic pelleted feed



Organic loose feed



Organic extruded feed

Appendix - Product Mix

AUGA offers a diverse set of organic processed goods



End-User Product Segment

Organic Mushrooms



Organic grill champignons



Organic white champignons



Organic chestnut mushrooms



Organic baby button mushrooms



Organic eringi mushroom



Organic portobello mushrooms



Organic shiitake mushrooms

Organic Grain Products



Organic oatmeal porridge with banana and strawberries



Organic oatmeal porridge with wild berries



Organic oatmeal porridge with apples and cinnamon



Organic wholegrain spelt flour



Organic oatmeal porridge with apricots and banana



Organic oatmeal porridge with apples and raspberries



Organic wholegrain instant oat flakes



Organic rapeseed oil



Organic wholegrain oat flakes



Organic wholegrain wheat flour



Organic wholegrain rye flour

Organic Canned Products



Organic potatoes



Organic beetroots



Organic carrots



Organic cabbages



Organic onions



Organic red onions



Organic Jerusalem artichokes



Organic parsnips

Organic Mushrooms



Organic milk 3.5% fat



Organic milk 2.5% fat



Organic lactose free milk drink 2.5%

Organic Eggs



Organic brown eggs

Organic Soups



Organic vegan chilli bean soup with quinoa



Organic sauerkraut soup



Organic sweet corn soup



Organic cold tomato soup Gazpacho



Organic creamy butternut squash soup



Organic spicy curry soup



Organic three lentil soup



Organic beetroot borsch soup



Organic creamy carrot soup with coconut milk



Organic creamy champignon soup



Organic vegetable Minestrone soup



Organic creamy tomato soup