

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 - Kompuestos as an investment opportunity in the plastic market**

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# Private Equity Challenge - Kompuestos as an investment opportunity in the plastic market \*

## Abstract

This Private Equity project studies the benefits for a private equity firm of acquiring Kompuestos, a Spanish producer of masterbatches and other plastic compounds, aiming to adapt its business to meet current sustainability concerns and become more sustainable. The investment yields a 3.3x money multiple.

Plastics are essential in our society. The market for plastics is fragmented and estimated to grow at a 4.2% CAGR until 2027, reaching a market value of approximately \$ 754bn by 2027.

Kompuestos is a well-established firm, generating € 46.2m in revenue and an EBITDA of € 3.3m in 2019.

**Keywords:** plastic industry, bioplastics, circular economy, impact investments, value creation, valuation, LBO, Private Equity Challenge, Private Equity

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Kompuestos™

# Investment Committee Paper

Private Equity Challenge – Group Presentation



# A. Introduction | Executive summary

## Kompuestos delivers high returns to institutional investors, yielding a 3.3x MM and a 21.8% IRR

### Company overview

- Kompuestos is a Spanish industrial company dedicated to the production and marketing of masterbatches and polymers to the plastic industry. Their revenue is divided in plastic derivatives made from traditional resources and includes a production unit dedicated to the bioplastic solutions
- The company is present in +44 countries has clients from several industries. Kompuestos is based in Catalonia, Spain

KPIs (in €m)	2020	2021	2022	2023	2024	2025	2026
<b>Total revenue</b>	<b>47.2</b>	<b>50.1</b>	<b>53.1</b>	<b>56.4</b>	<b>59.9</b>	<b>63.6</b>	<b>67.7</b>
<i>Growth</i>	2.1%	6.0%	6.1%	6.2%	6.2%	6.3%	6.3%
<b>Gross profit</b>	<b>14.3</b>	<b>15.2</b>	<b>16.1</b>	<b>17.2</b>	<b>18.3</b>	<b>19.5</b>	<b>20.8</b>
<i>Gross profit margin</i>	30.2%	30.3%	30.3%	30.4%	30.4%	30.5%	30.5%
<b>Normalized EBITDA</b>	<b>3.7</b>	<b>4.4</b>	<b>4.9</b>	<b>5.6</b>	<b>6.2</b>	<b>7.3</b>	<b>8.5</b>
<i>EBITDA margin</i>	7.9%	8.8%	9.3%	9.8%	10.4%	11.4%	12.5%
<b>EBIT</b>	<b>0.1</b>	<b>1.9</b>	<b>2.4</b>	<b>3.0</b>	<b>3.6</b>	<b>4.6</b>	<b>5.8</b>
<i>EBIT margin</i>	0.2%	3.8%	4.5%	5.3%	6.0%	7.2%	8.4%

### Market overview

- The plastic industry is characterized by a fragmented market where large companies cohabit with smaller ones. The combined global industry is expected to experience strong growth over the investment period and is predicted to reach a market volume of approximately **\$ 721bn by 2025**
- Strongest growth is expected from the **bioplastic solutions market** with an expected **CAGR from 2019 to 2026 of 16%**
- The strong growth is fuelled by several trends in the underlying end markets such as the **rise in demand of recycled plastic, bioplastics and larger focus on R&D**

### Entry rationale

#### 1 Robust fundamentals

- Well established company with healthy cash flows after intensive historical Capital expenditure; room for margin optimization; leverageable balance sheet

#### 2 Diversified client pool

- +1,200 cross sector worldwide clients, where the 3 biggest clients account for only 20% of sales

#### 3 Optimistic industry trends

- Actionable mega trends, significant growth projections, increasing demand for strategic products and shift of the market towards sustainability

#### 4 Skilled talent pool

- Leadership with a good track record backed by an experienced sales and R&D team

#### 5 Diversified product range

- Wide range of quality products to fulfil all areas of demand, including sustainable solutions to surf in high growth segments

### Exit and returns

Sources	In €m	EBITDA x	Uses	In €m	EBITDA x
<b>Debt</b>	11.5	3.1x	<b>EV</b>	34.9	9.4x
<b>Equity</b>	24.4	6.6x	<b>Fees</b>	1.0	0.3x

- Valued at 9.4x EV/EBITDA at entry and exit, Kompuestos yields a total return of 3.3x MM over the 6-year investment period and a 21.8% IRR

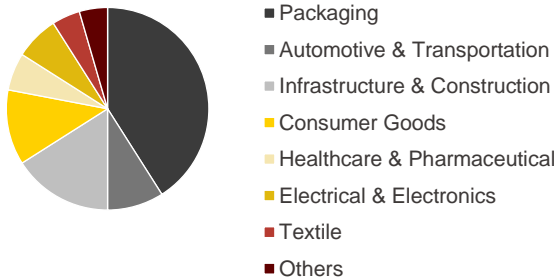
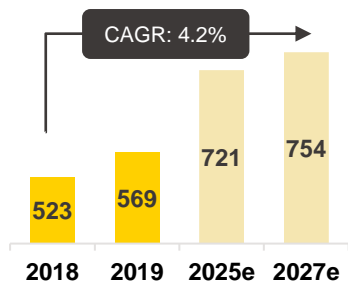
Returns	2021E	2022E	2023E	2024E	2025E	2026E
<b>Management MM</b>	<b>2.2x</b>	<b>3.3x</b>	<b>4.5x</b>	<b>5.9x</b>	<b>8.1x</b>	<b>10.7x</b>
<b>Management IRR</b>	124.8%	82.1%	65.5%	55.9%	53.1%	48.4%
<b>Fund MM</b>	<b>1.3x</b>	<b>1.6x</b>	<b>1.9x</b>	<b>2.2x</b>	<b>2.7x</b>	<b>3.3x</b>
<b>Fund IRR</b>	29.5%	25.1%	23.1%	21.9%	22.0%	21.8%

# 1. Market overview | Plastics market & masterbatches focus

The market is undergoing a transformational period with solid growth expectations

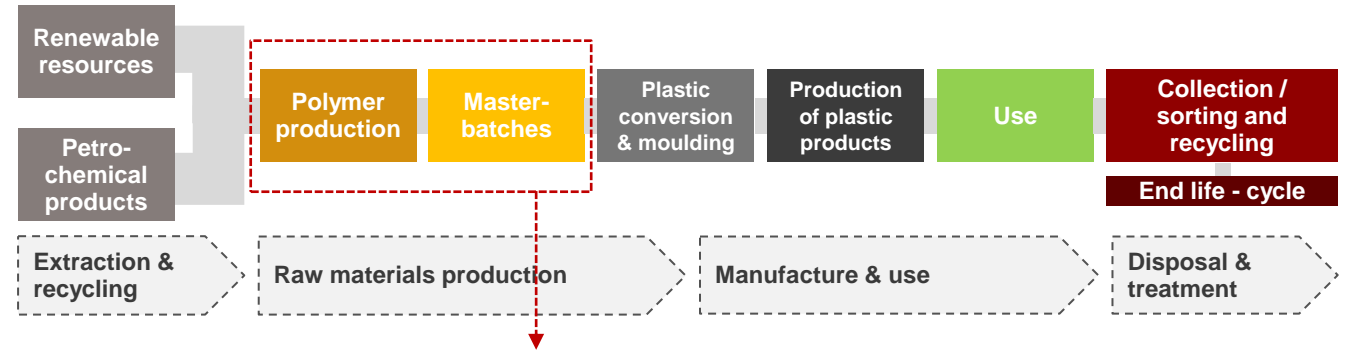
## Plastics market overview & outlook

- Plastics are essential in our society, with **+350mT produced annually** used to produce industrial and consumer products
- Plastics have key characteristics such as **versatility, moldability and flexibility**, along with the **cost advantage** and **easy manufacturing nature**
- Polymers (plastics) are mainly derived from petrochemicals (e.g. natural gas, crude oil). Environmental awareness has driven higher demand for **sustainable plastic solutions** as innovative and *cleaner* alternatives are being developed, turning to renewable sources (e.g. food waste, corn starch, biomass, vegetable oil, etc...)
- Global market value of plastics reached **\$ 560bn in 2019** and is estimated to grow at a **4.2% CAGR until 2027**, supported by the increase of the infrastructure & construction, food & beverages, automobile and consumer goods industries



Market value of plastic in \$ billion; global plastic market share by end-user industry (2019)

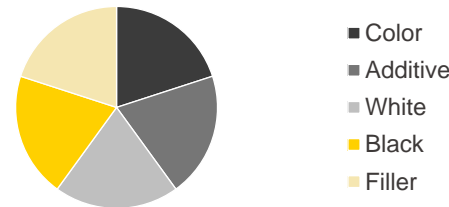
## Supply chain



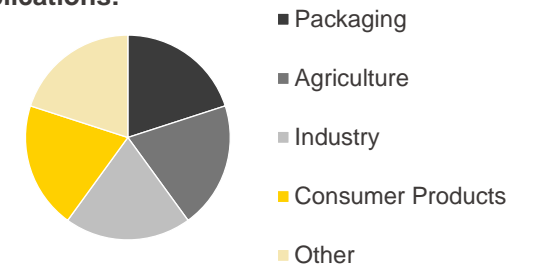
## Segment overview: Masterbatches

- Masterbatches are **plastic additives, fillers and resins** that allow manufacturers to **add colour or other enhancing characteristics to their plastic products** (e.g. UV light resistance, flame retardation, anti-microbials)
- It is a cheaper and easier alternative to buying fully compounded materials or compounding directly from raw materials, hence, it reduces costs and increases productivity

### Types:



### Key applications:



# 1. Market overview | Masterbatches deep-dive

**Commitment to the environment created opportunities for manufacturers, opening new high growth markets**

## Segment overview: masterbatches

- The masterbatch market is expected to reach **\$ 16.4bn by 2026**, growing at a **5.5% CAGR** from 2019-2026, mainly driven by increased activity in the building & construction sectors
- The masterbatch market is quite **fragmented**, with the presence of **numerous players** with varying sizes
  - The larger firms make up 60% of the market, with the rest distributed among smaller players
- The industry is **highly competitive** due to the **low barriers to entry**, as is it not a capital-intensive business and most of segments do not require major technology investments. This results in low bargaining power with both clients and suppliers
- This creates a lot of room for **consolidation**, with companies wishing to expand their distribution network, vertically integrate across the supply chain and diversify their product mix, in order to gain a competitive advantage over other players

Main players include:



## Key trends

Manufacturers



**Circular economy:** Commitment to sustainability, low/zero waste initiatives and use of recycled materials creates high growth opportunities



**R&D:** Perpetual race for the creation of new value-added products and improvement of the production processes



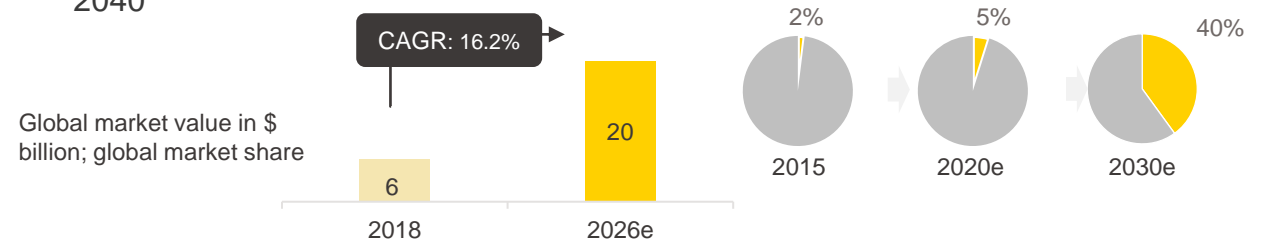
**Waste management:** Improvement in the waste management systems makes it possible to give a new life to the plastic waste through new sustainable products

Products



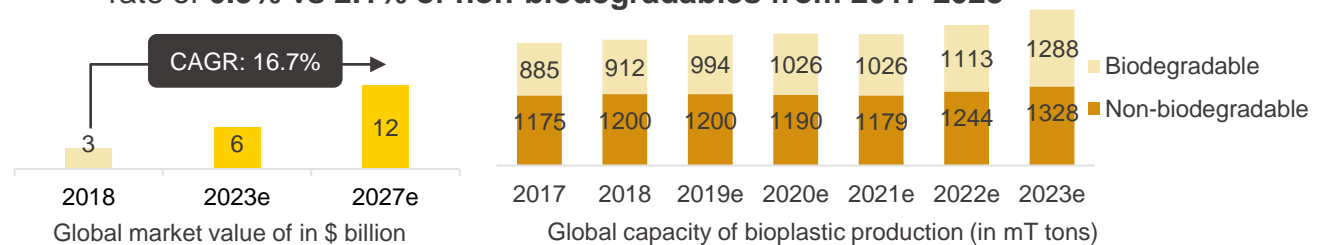
### Plastics from renewable resources:

- Bioplastics are expected to grow at an annual rate of **16.2% from 2018-2026**, reaching **\$ 20bn**, and increasing its market share in the plastics industry to 40% by 2040



### Compostable & biodegradable plastics:

- Biodegradable plastics forecasted to increase at a **16.7% CAGR from 2018-2027**
- The production capacity of the biodegradables is estimated to grow at an annual rate of **6.5% vs 2.1% of non-biodegradables from 2017-2023**








## 2. Company overview | Company profile & supply chain position

Plastic compounds producer moving towards sustainable plastic production with € 46.2m in revenue

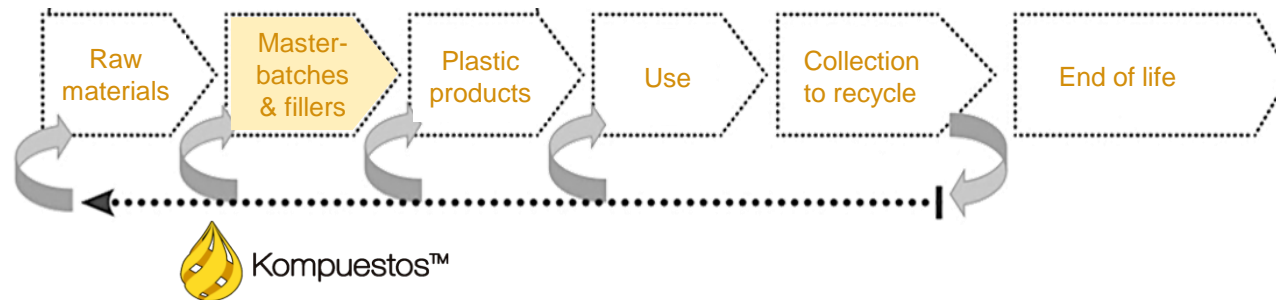
### Company profile

- Based in Barcelona, Kompuestos is a **producer of masterbatches** (colour, black, white and additive) and other **plastic compounds** (such as bio resins and recycled polymers), being one of the biggest **European producers of mineral fillers** (with c. 10% market share in Europe and 5% globally globally) Their products, which have a **high natural component**, are globally used as raw materials in many industries to produce all types of plastics
  - Employs +70 employees across 2 production plants, generating a revenue of € 46.2m and an EBITDA of € 3.3m in 2019
- Kompuestos is listed in the **Spanish Alternative Market (MAB)** since 2019; the public offering aimed to **raise capital to finance the expansion** of the bio products' production capacity, following the spike in demand
- The firm's current strategy consists of focusing on the **development of economies of scale in the production of mineral fillers** and the **production of bioplastics**, for which it already attained the necessary certifications
- The company **has strong environmental commitment**, focusing on **adding value to plastics** and on **reducing their carbon footprint** through **sustainable innovation**, developing biodegradable products and **advanced plastic recycling technologies**

### Key figures

-  2 production plants  
30 lines of production
-  121,000mT production capacity
-  Present in +44 countries
-  +1,200 clients
-  Diversified product portfolio, offering sustainable solutions

### Supply chain



### Masterbatches, fillers and additives

- **Masterbatches:** concentrated mixture of polymers with pigments and/or additives. Used to colouring plastics or imparting other properties (e.g., antioxidant, UV stabilizers) to them
- **Fillers:** materials added to plastic polymers to reduce the cost of the compound, improve its properties and lower its carbon footprint. Can be combined with additives to obtain the desired product features
- **Additives:** improve the performance of plastics, protecting them against degradation by heat, ultraviolet rays, oxidation or other agents, or providing specific features depending on the use of the final product

## 2. Company overview | Product mix, company strategy & growth drivers

**Kompuestos offers a wide range of quality products, including bio solutions**

### Product range

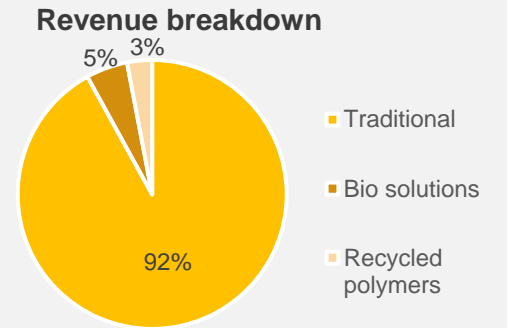
- Kompuestos **produces and sells traditional plastic compounds**, seeking also to develop **greener and more sustainable alternatives**, such as bio-based and biodegradable plastics and plastic recycling technologies

The company offers to its clients a **diversified product portfolio**, allocated to 3 different lines:

- 1. Traditional products:** mineral fillers, colour, black, white and additive masterbatches
- 2. Bio solutions:** biodegradable, compostable and some water soluble bio-based resins
- 3. Recycling & marketing of raw materials:** production and sale of recycled plastic polymers

### Revenues

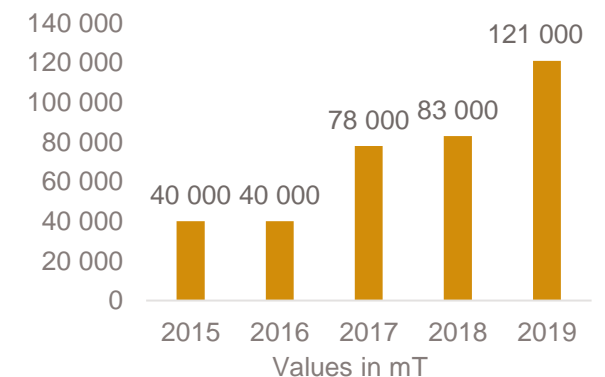
- Kompuestos derives its revenue from the **sale of the different products** included in the previously mentioned product lines
- In 2019, 92% of the firms' revenue came from the **traditional products**, 5% from the **bio solutions** and 3% from the **recycling and marketing of raw materials**



### Company strategy and growth drivers

- Kompuestos' strategy is to **bring together** the businesses of traditional plastics and of the bio, compostable and recyclable plastics. The firm aims to move **“towards a sustainable future”** and to **become a leader** in the circular economy of plastics
- **Organic growth** has been Kompuestos' main source of growth over the years
- **Capacity increase and optimization in production lines** to meet demand allowed for a fast revenue growth (real production capacity tripled since 2016)
- **R&D** is a key element of the firm's business model, allowing for a yearly introduction of 100 new formulas. The **development and introduction of new products** has been a vital growth driver in the last few years (as of 2019, 80% of the firm's revenues derived from products released in the last 5 years). Kompuestos was an early identifier of the need to adapt to the growing environmental concerns, doing so by using its R&D strengths to develop bioplastics and plastic recycling techniques
- As of 2019, the bio line of production was roughly 5,000 mT and is expected to keep growing as, in the coming years, **bioplastics are expected to be a significant growth driver**, as they capture new clients and introduce more ecological solutions to the existing ones

### Real capacity increase

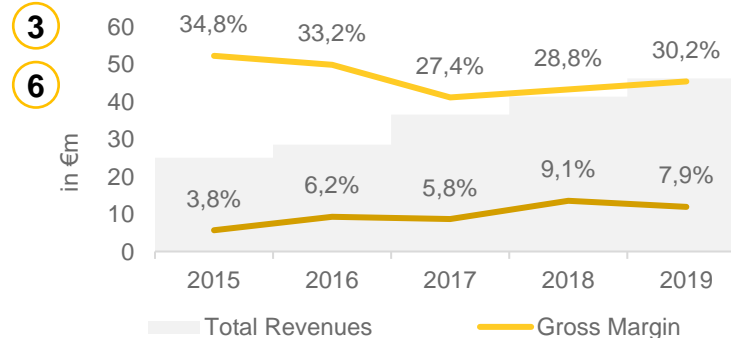


### 3. Historical financials | Income statement

**Kompuestos has experienced a constant growth in revenues sustained by an increase in its production capacity**

#### Comments

- 1 Kompuestos has been experiencing a constant growth in revenues, translating into a CAGR of 16.6% between 2015 and 2019
  - o Increase in production capacity with the creation of a new production line in 2017, enlarging its real capacity from 40,000mT to 78,000mT. As a result, total quantity sold increased 34.1% in 2018, from 37,611mT 50,450mT
  - o Creation and implementation of three new bio lines of products in 2018 and consequent results in 2019 sales-wise, contributing 47.6% to total revenue growth
- 2 **Gross margin has increased c. 2.8% since 2017**
  - o The bio segment implemented in 2019 presents costs that are almost 2.43x higher than the traditional business (€ 1,270 per mT sold) ones **but have a much larger margin** compared to the latter one (€ 723 vs € 222 per mT)
  - o Traditional business **has experienced decreasing costs since 2017**, standing at € 520 per mT in 2019
- 4 Incremental R&D activity since 2017 (for bio solutions development) aligned with the new capitalization process contributed to an increasing self-constructed assets figure
- 5 A 10.7% increase in 2019 was the result of strengthening the company's commercial, research and development and production structure in order to sustain the growth targeted for the coming years. The total number of employees increased from 69 in 2018 to 79 in 2019



#### Income Statement

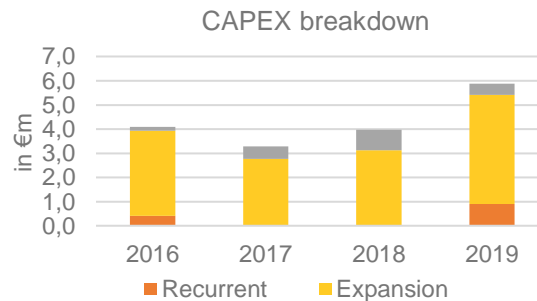
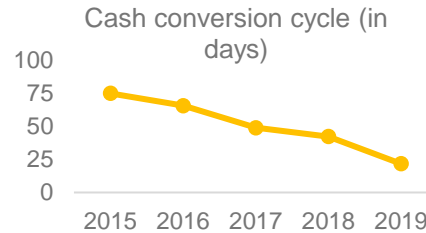
Income Statement (in €m)	2015	2016	2017	2018	2019
Traditional products		27.7	35.3	41.3	42.3
Quantity sold (mT)		33 722	36 545	50 381	56 752
Bio solutions					2.3
Quantity sold (mT)					1 181
Recycling and marketing of raw materials		0.9	1.3	0.1	1.6
Quantity sold (mT)		726	1 066	69	1 355
<b>1 Total revenues</b>	<b>25.1</b>	<b>28.5</b>	<b>36.6</b>	<b>41.4</b>	<b>46.2</b>
Growth		13.9%	28.1%	13.1%	11.7%
<b>2 Cost of Sales</b>	<b>(16.3)</b>	<b>(19.1)</b>	<b>(26.5)</b>	<b>(29.4)</b>	<b>(32.3)</b>
% of sales	65.2%	66.8%	72.6%	71.2%	69.8%
<b>3 Gross profit</b>	<b>8.7</b>	<b>9.5</b>	<b>10.0</b>	<b>11.9</b>	<b>14.0</b>
Gross margin	34.8%	33.2%	27.4%	28.8%	30.2%
<b>4 Self-constructed assets</b>	<b>0.1</b>	<b>0.5</b>	<b>1.4</b>	<b>1.2</b>	<b>1.6</b>
% of sales	0.3%	1.6%	3.8%	3.0%	3.5%
<b>5 Personnel expenses</b>	<b>(2.6)</b>	<b>(2.9)</b>	<b>(3.5)</b>	<b>(3.3)</b>	<b>(3.7)</b>
% of sales	10.4%	10.2%	9.5%	8.1%	8.0%
Other operating expenses	(5.2)	(5.3)	(5.8)	(6.1)	(8.2)
% of sales	20.9%	18.5%	16.0%	14.7%	17.8%
<b>6 Normalized EBITDA</b>	<b>1.0</b>	<b>1.8</b>	<b>2.1</b>	<b>3.7</b>	<b>3.7</b>
Normalized EBITDA margin	3.8%	6.2%	5.8%	9.1%	7.9%
Grants			0.3	0.3	
Non-recurring income (expenses)	0.0	0.1	0.0	(0.3)	(0.5)
<b>EBITDA</b>	<b>1.0</b>	<b>1.8</b>	<b>2.4</b>	<b>3.8</b>	<b>3.2</b>
EBITDA margin	3.9%	6.4%	6.6%	9.1%	6.9%
D&A	0.0	0.0	0.0	0.0	0.0
<b>Net income</b>	<b>(0.5)</b>	<b>0.1</b>	<b>0.1</b>	<b>0.5</b>	<b>0.2</b>
Net income margin	(1.9)%	0.4%	0.3%	1.2%	0.4%

### 3. Historical financials | Balance sheet & Free Cash Flow

#### Kompuestos exhibits a healthy financial profile

##### Comments

- 1 Growing intangible assets driven by heavy investments in R&D and consequent increasing number of patents registered by Kompuestos
- 2 25% decrease in 2019 over the previous year driven by increasing exports with better collection periods, an over-all improvement in customer collection management and a selective usage of factoring financing lines. Decreasing cash conversion cycle towards more efficient levels: 75 days in 2015 fell to 22 days in 2019
- 3 Large cash balance to enable growth through product development and expansion Capex
- 4 NWC decreased 36.7% following a decrease in accounts receivables and increase in accounts payable in 2019. Apart from 2019, Kompuestos has generally kept the NWC at stable values
- 5 77%-86% of Capex values were related to expansion which has been one of Kompuestos' main growth drivers. Such increase in the real production capacity of the company (made to keep up with the current and future growing demand for plastics) is expected to continue until 2020, and then stop. Consequently, Capex is expected to decrease going forward, driven by a null Expansion Capex
- 6 Core operations do not take into consideration the one-off effects of non-recurring items, finance income or exchange rate gains/losses. Through this breakdown it is possible to verify the CF from the company's core operations. In 2019, the FCF was impacted by a large investment in the expansion of the production capacity, IPO costs and costs related with the refinancing of debt



##### Balance Sheet & Free Cash Flow

Balance Sheet (in €m)	2017	2018	2019
1 Intangible assets	1.9	2.7	3.6
Property, plant and equipment	17.2	18.1	21.1
<b>Total non-current assets</b>	<b>19.6</b>	<b>21.1</b>	<b>25.2</b>
Inventories	5.4	6.7	7.1
2 Trade and other receivables	5.5	5.8	4.3
3 Cash and cash equivalents	0.3	2.2	1.1
<b>Total current assets</b>	<b>11.4</b>	<b>14.9</b>	<b>13.1</b>
<b>Total equity</b>	<b>10.1</b>	<b>12.2</b>	<b>16.9</b>
<b>Total non-current liabilities</b>	<b>6.4</b>	<b>7.8</b>	<b>9.0</b>
Trade and other payables	5.7	7.4	8.2
<b>Total current liabilities</b>	<b>14.5</b>	<b>15.9</b>	<b>12.4</b>
Change in Net Working Capital	(0.3)	0.0	1.9
4 Net Working Capital	5.1	5.1	3.2
Investment in Op NWC as % of Sales	(0.82)%	(0.07)%	4.43%
Total Debt	14.9	16.2	12.9
Net debt	14.6	14.0	11.9
Growth%	17%	(4)%	(15)%
Net debt/EBITDA	6.11x	3.64x	3.60x

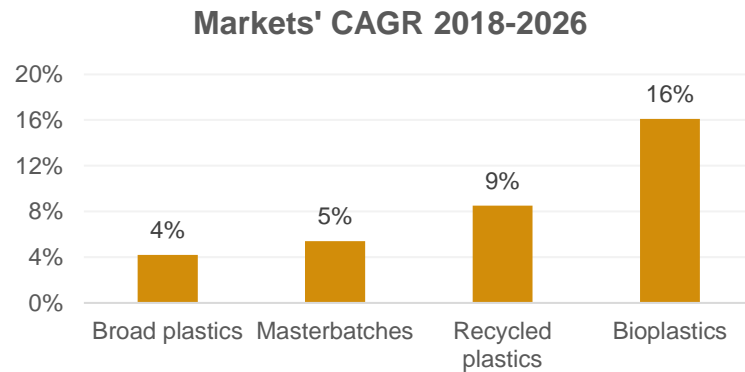
Free Cash Flow (in €m)	2017	2018	2019
Operating profit	0.4	1.4	1.8
Recurrent Capex	0.0	0.0	(0.9)
5 Expansion Capex	(2.8)	(3.1)	(4.5)
Intangibles Capex	(0.5)	(0.9)	(0.5)
Working capital needs	(0.5)	(0.1)	1.8
<b>FCF Core Business</b>	<b>(1.7)</b>	<b>(0.6)</b>	<b>(0.9)</b>
<b>FCF Non Core Business</b>	<b>0.3</b>	<b>0.0</b>	<b>(0.7)</b>
6 <b>FCF to the firm</b>	<b>(1.4)</b>	<b>(0.6)</b>	<b>(1.6)</b>

# 4. Investment thesis

**Kompuestos is a well-established firm, operating in a growing market, with growing sustainability concerns**

## Deal rationale

### Operations in a growing and fragmented market



### Diversified client base and product range, with sustainable solutions offered



Potential **European leader in fillers and bio solutions**, present in +44 countries



**+1,200 long-term clients**, with no evidences of a specific sector dependency: **diversification of clients** hedge against sector specific risks



Diversified product portfolio, offering sustainable solutions



Ability to be a **main player in bio solutions** due to a superior position to attack the shifts in the market, **high innovation capability** and industry expertise

### Well-established company with attractive financials

- Growing company, with a sustained growth in revenues – **CAGR of 17% (2016-2019)** – a rising gross profit (13% CAGR) and stable gross margins (c. 30%, in line with the peers' average)
- **Growing normalized EBITDA** (28% CAGR – 2016-2019) sustained by an overall expansion of the firm
- **Net debt to EBITDA ratio has been decreasing** driven by incremental EBITDA and diminishing debt
- Negative CF generation in the last 3 years due to high investment in Capex, expected to invert in the next years

### Proficient management team

- Highly qualified professionals with relevant industry expertise

## Growth strategy and drivers

### Meet traditional business demand

- The traditional business expects a steady growth, with the firm adapting its production to a future growing demand
- Traditional products' clients are important to the bio solution range commercialization

### Increase bio solutions' production

- Take advantage of the early identification of the market shift to bio plastics, the current constraints imposed by regulations and the knowledge acquired through R&D to deliver higher quantities of bio solutions, with increased quality and diversification

### Recycled plastic polymers production

- Producing polymers from recycled plastics creates a new source of revenue for the firm, while contributing to reduce the consumption of virgin polymers in the industry and allowing Kompuestos to increase the share of sustainability in its business

### Increase efficiency

- Increasing production of recycled polymers and bio solutions allows for a slight decline in COGS as a percentage of revenues
- EBITDA margin expansion to meet its peers' average, mainly through the optimization of other operating expenses

## 5. Business plan | Revenue model

### Solid revenue streams with strong opportunities to grow, notably from the bio segment

#### Revenue forecast

##### Key Value Drivers



Traditional business as a key driver



Satisfy Biosolutions demand



Movement towards sustainability



Installed production facility and previously increased real production capacity allows a quicker expansion across all business units

- Sales grew at a **16.6% CAGR from 2015-2019**, with Covid-19 disrupting Kompuestos of achieving a double-digit growth in 2020. 2H 2020 sales were computed based on a 2.1x multiplication factor, easily **explained by the fewer restrictive rules and increased economic activity**, as the normal deals of the 1<sup>st</sup> part of the year were relegated to the 2<sup>nd</sup>. Being closely correlated with the food retail business, a sector registering a +10% growth in 2020, the **2% growth projected is surely not underestimating the Covid-19 impact**
- Traditional sales, the backbone of the company, grew at a **15.2% CAGR from 2016-2019**, and are expected to follow the same pace of the masterbatches market (5.5%) from 2021 onwards
- Bio solutions are forecasted to follow the market growth of **16.1%** from 2021 onwards as the Kompuestos is in a good position to attack the **growing demand**, and seize the opportunity given **their new bio production line, increased capacity installed and R&D efforts**
- Recycled raw materials experienced some oscillations; however, the production facilities are ready to mass produce this product, meeting the **market demand** and the **8.5% expected market growth**

#### Revenue breakdown

Revenue Breakdown (in €m)	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Traditional total quantity sold (mt)	34.4	37.6	50.5	59.3	57.8	61.1	64.6	68.3	72.2	76.4	80.9
Total sales	<b>28.5</b>	<b>36.6</b>	<b>41.4</b>	<b>46.2</b>	<b>47.2</b>	<b>50.1</b>	<b>53.1</b>	<b>56.4</b>	<b>59.9</b>	<b>63.6</b>	<b>67.7</b>
<i>Growth</i>		28.1%	13.1%	11.7%	2.1%	6.0%	6.1%	6.2%	6.2%	6.3%	6.3%
<b>A</b>											
Traditional total quant. sold (mT)	33 722	36 545	50 381	56 752	55 200	58 181	61 323	64 634	68 125	71 803	75 681
Traditional sales (in €m)	<b>27.7</b>	<b>35.3</b>	<b>41.3</b>	<b>42.3</b>	<b>43.2</b>	<b>45.6</b>	<b>48.1</b>	<b>50.8</b>	<b>53.6</b>	<b>56.6</b>	<b>59.7</b>
<i>Growth</i>		27.6%	17.0%	2.5%	2.1%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Revenue per mT	0.8	1.0	0.8	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8
<b>B</b>											
Bio solutions total quant. sold (mT)				1 181	1 206	1 400	1 625	1 887	2 190	2 543	2 952
Bio solutions sales (in €m)				<b>2.3</b>	<b>2.4</b>	<b>2.7</b>	<b>3.2</b>	<b>3.7</b>	<b>4.3</b>	<b>5.0</b>	<b>5.8</b>
<i>Growth</i>					2.1%	16.1%	16.1%	16.1%	16.1%	16.1%	16.1%
Revenue per mT				2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
<b>C</b>											
Recycled raw materials total quant. sold (mT)	726	1 066	69	1 355	1 383	1 501	1 629	1 767	1 917	2 080	2 257
Raw materials sales (in €m)	<b>0.9</b>	<b>1.3</b>	<b>0.1</b>	<b>1.6</b>	<b>1.6</b>	<b>1.8</b>	<b>1.9</b>	<b>2.1</b>	<b>2.3</b>	<b>2.5</b>	<b>2.7</b>
<i>Growth</i>		46.8%	-93.5%	1851.3%	2.1%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Revenue per mT	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2

## 5. Business plan | Operating model

### Space for margin optimization and growth

#### EBITDA margin deconstructed forecast



- The traditional business is the one with the highest COGS as % sales, with no significant changes in this ratio since 2016
- Regarding bio solutions, the peer average COGS as % of sales was considered, being at a lower % when compared to the traditional
- In general, the gross profit margin of the recycled raw materials is higher than the traditional. In 2019, the COGS as % of sales in this segment were calculated by difference, resulting in a COGS as % of sales of 68.5%
- Operating income margin was calculated using an average of the last 3 years (3.4%), except for 2020, where the company was impacted by Covid-19, registering 2.4% for the 1H 2020. In order to avoid underestimations of the pandemic this same value was used for the FY 2020. This item includes self constructed assets and nonfinancial and other capital gains, the first one (non-cash income), decline due to the deceleration of R&D, and the second declined due to the decrease in capital gains
- Personnel expenses were calculated based on the number of employees and revenue per employee, depreciation was calculated based on the real production capacity installed and amortization based on the R&D expenses

#### EBITDA breakdown

Income Statement (in €m)	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E
<b>Total revenue</b>	<b>28.5</b>	<b>36.6</b>	<b>41.4</b>	<b>46.2</b>	<b>47.2</b>	<b>50.1</b>	<b>53.2</b>	<b>56.6</b>	<b>60.2</b>	<b>64.0</b>	<b>68.2</b>
Traditional products COGS	18.5	25.6	29.4	29.7	30.3	32.0	33.8	35.6	37.6	39.7	41.9
<i>% of sales</i>	66.8%	72.6%	71.2%	70.2%	70.2%	70.2%	70.2%	70.2%	70.2%	70.2%	70.2%
Bio solutions COGS				1.5	1.5	1.7	2.0	2.3	2.7	3.1	3.6
<i>% of sales</i>				68.8%	68.8%	68.8%	68.8%	68.8%	68.8%	68.8%	68.8%
Recycled raw materials COGS	0.6	0.9	0.1	1.1	1.1	1.2	1.3	1.4	1.6	1.7	1.8
<i>% of sales</i>	66.8%	72.7%	71.2%	68.8%	68.8%	68.8%	68.8%	68.8%	68.8%	68.8%	68.8%
<b>Total cost of sales</b>	<b>19.1</b>	<b>26.5</b>	<b>29.4</b>	<b>32.3</b>	<b>32.9</b>	<b>34.9</b>	<b>37.1</b>	<b>39.4</b>	<b>41.9</b>	<b>44.5</b>	<b>47.4</b>
<i>% of sales</i>	66.8%	72.6%	71.2%	69.8%	69.8%	69.7%	69.7%	69.6%	69.6%	69.5%	69.5%
<b>Gross profit</b>	<b>9.5</b>	<b>10.0</b>	<b>11.9</b>	<b>14.0</b>	<b>14.3</b>	<b>15.2</b>	<b>16.1</b>	<b>17.2</b>	<b>18.3</b>	<b>19.5</b>	<b>20.8</b>
<i>Gross profit margin</i>	33.2%	27.4%	28.8%	30.2%	30.2%	30.3%	30.3%	30.4%	30.4%	30.5%	30.5%
Other operating income	0.5	1.4	1.2	1.6	1.1	1.7	1.8	1.9	2.1	2.2	2.3
<i>% of sales</i>	1.6%	3.8%	3.0%	3.5%	2.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%
Personnel expenses	2.9	3.5	3.3	3.7	3.8	4.1	4.4	4.7	5.0	5.3	5.6
<i>% of sales</i>	10.2%	9.5%	8.1%	8.0%	8.0%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%
Other operating expenses	5.3	5.8	6.1	8.2	7.9	8.4	8.6	8.9	9.2	9.1	9.0
<i>% of sales</i>	18.5%	16.0%	14.7%	17.8%	16.7%	16.7%	16.2%	15.7%	15.2%	14.2%	13.2%
D&A	1.1	1.7	2.3	1.8	2.5	2.5	2.5	2.6	2.6	2.7	2.7
<i>% of sales</i>	4.0%	4.7%	5.6%	4.0%	5.2%	5.0%	4.8%	4.6%	4.4%	4.2%	4.0%
<b>EBIT</b>	<b>0.7</b>	<b>0.7</b>	<b>1.8</b>	<b>1.9</b>	<b>0.1</b>	<b>1.9</b>	<b>2.4</b>	<b>3.0</b>	<b>3.6</b>	<b>4.6</b>	<b>5.8</b>
<i>EBIT margin</i>	2.4%	2.0%	4.3%	4.1%	0.2%	3.8%	4.5%	5.3%	6.0%	7.2%	8.4%
<b>Normalized EBITDA</b>	<b>1.8</b>	<b>2.1</b>	<b>3.7</b>	<b>3.7</b>	<b>3.7</b>	<b>4.4</b>	<b>4.9</b>	<b>5.6</b>	<b>6.2</b>	<b>7.3</b>	<b>8.5</b>
<i>EBITDA margin</i>	6.2%	5.8%	9.1%	7.9%	7.9%	8.8%	9.3%	9.8%	10.4%	11.4%	12.5%
Normalization adjustments	0.1	0.3	0.4	0.1	(1.2)	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBITDA</b>	<b>1.8</b>	<b>2.4</b>	<b>3.8</b>	<b>3.2</b>	<b>2.6</b>	<b>4.4</b>	<b>4.9</b>	<b>5.6</b>	<b>6.2</b>	<b>7.3</b>	<b>8.5</b>
<i>EBITDA margin</i>	6.4%	6.6%	9.1%	6.9%	5.4%	8.8%	9.3%	9.8%	10.4%	11.4%	12.5%

## 5. Business plan | Free cash flow

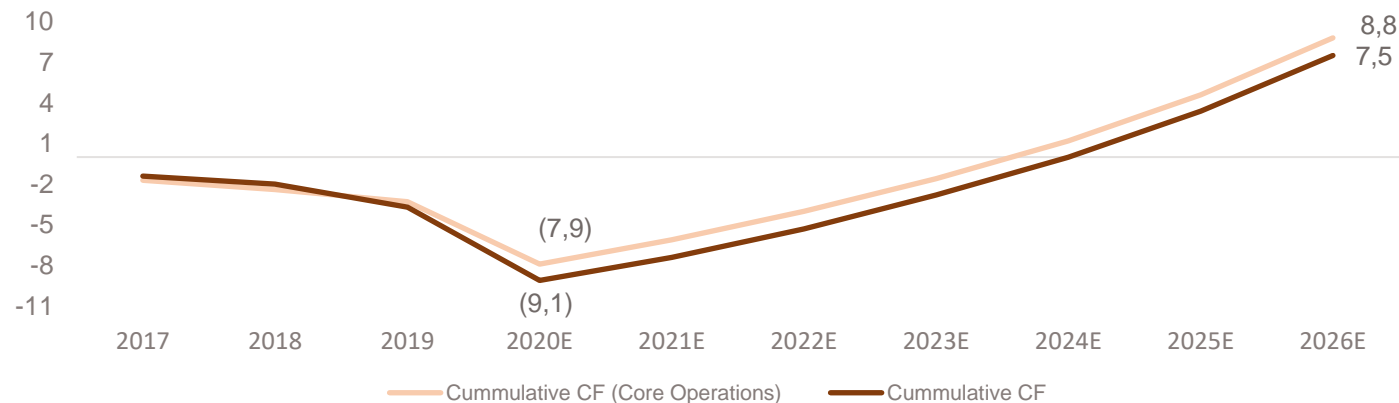
Kompuestos is expected to continuously generate cash, while EBITDA is expected to grow at a 15% CAGR

Free Cash Flow (in €m)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
<b>Core Business FCF</b>										
1 Core Result (NOPLAT)	0.3	1.1	1.4	0.9	1.4	1.8	2.2	2.7	3.5	4.3
2 Depreciation & Amort.	1.7	2.3	1.8	2.5	2.5	2.5	2.6	2.6	2.7	2.7
Operational Cash flow	2.0	3.4	3.2	3.4	3.9	4.4	4.8	5.3	6.2	7.1
Recurrent Capex	0.0	0.0	(0.9)	(0.9)	(1.0)	(1.0)	(1.1)	(1.2)	(1.3)	(1.3)
3 Expansion Capex	(2.8)	(3.1)	(4.5)	(4.4)	0.0	0.0	0.0	0.0	0.0	0.0
Intangibles Capex	(0.5)	(0.9)	(0.5)	(0.7)	(0.8)	(0.8)	(0.9)	(0.9)	(1.0)	(1.0)
4 Working Capital needs	(0.5)	(0.1)	1.8	(2.0)	(0.4)	(0.4)	(0.4)	(0.5)	(0.5)	(0.6)
5 FCF Core Business	(1.7)	(0.6)	(0.9)	(4.6)	1.8	2.1	2.4	2.8	3.4	4.1
6 FCF Non-Core Business	0.3	0.0	(0.7)	(0.9)	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow to the firm	(1.4)	(0.6)	(1.6)	(5.5)	1.8	2.1	2.4	2.8	3.4	4.1

### Comments

- 1 Very strong EBITDA growth at c. 15% CAGR enabled through margin optimization and growth of core operations
- 2 D&A dependent on the real capacity installed and investments made in intangibles
- 3 Recurrent and Intangibles Capex is based on % sales, growing in line with overall growth of the company. Expansion Capex is dependent on the real capacity installed, that is projected to remain constant after the capacity increase made in 2020. The majority of the historical Capex was attributed to the Expansion Capex, that is projected to be no longer required
- 4 NWC remains negative during the investment period
- 5 The FCF from core business includes the operating activities took by the company without the effect of one-off items. From this it is possible to have an idea of the CF from the normal activity of the company, with the effect of the core operating income and the core invested capital
- 6 Accounts with one-off items, such as grants and other non-recurrent expenses, take into account the increase in non-core invested capital (current and noncurrent investments made by the company not related with the core operations of the company)

### Cumulative cash flows for the firm (€m)



## 6. Exit and returns | Capital structure

**Debt schedule consists of senior loans A and B priced at 2.75% and 2.85% respectively, with a leverage of 3.1x EBITDA**

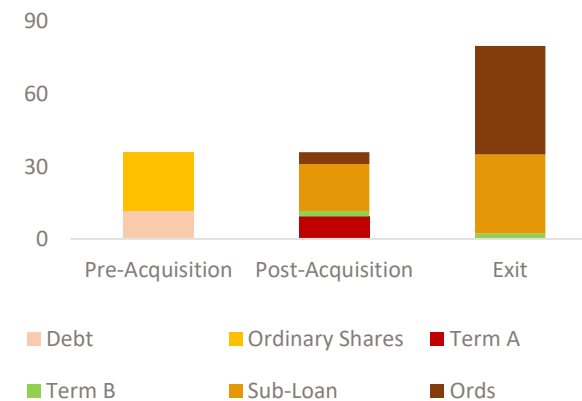
Sources of funds	(in €m)	x EBITDA	%	Interest	Uses of funds	(in €m)	%
<b>Senior debt</b>					Normalized EBITDA 2020	3.7	
Term Loan A	9.3	2.5x	25.8%	2.75%	Multiple	9.4x	
Term Loan B	2.2	0.6x	6.2%	2.85%			
<b>Total debt</b>	<b>11.5</b>	<b>3.1x</b>	<b>32.0%</b>		<b>Enterprise value</b>	<b>34.9</b>	<b>97</b>
<b>Fixed Return Instrument</b>					Financing fees		
<b>Ordinary Equity</b>	4.9	1.3x	13.7%		DD fee	0.2	0.5
Institutional Ords	4.2				Arrangement fee	0.2	0.5
Management Sweet Equity	0.7				Other fees and expenses	0.7	2
<b>Total equity</b>	<b>24.4</b>	<b>6.6x</b>	<b>68.0%</b>		<b>Total fees</b>	<b>1.1</b>	<b>3</b>
<b>Total sources</b>	<b>36.0</b>	<b>9.7x</b>	<b>100%</b>		<b>Total uses</b>	<b>36.0</b>	<b>100%</b>

Comments
<p><b>Sources and uses of funds</b></p> <ul style="list-style-type: none"> <li>Total funds are sourced from an <b>equity contribution of 6.6x EBITDA (€ 24.4m) and leverage of 3.1x EBITDA (€ 11.5m)</b></li> <li>Total debt is composed by Tranche A with € 9.3m of amortizable senior debt, and Tranche B with € 2.2m of senior debt to be fully repaid in 2027. The equity strip comprises a subordinated loan of € 19.5m and ordinary equity of € 4.9m. Management team's sweet equity contribution of € 0.7m is 100% of their combined yearly salary</li> <li><b>Total uses of funds, amounting to € 36.0m</b>, are to be paid for the <b>EV of € 34.9m and fees of € 1.1m</b></li> <li>The <b>EV</b> is based on an entry multiple of <b>9.4x EBITDA</b></li> </ul>

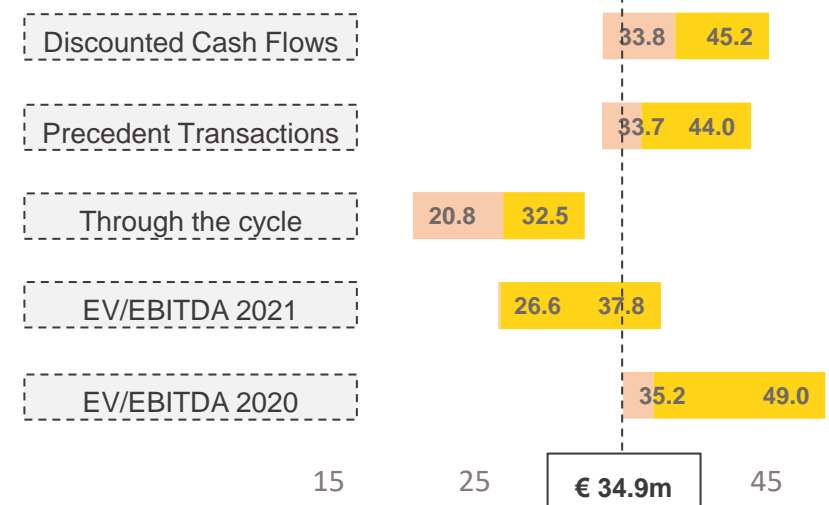
### Kompuestos' projected debt conditions

Expected rating: <b>BB</b>	<ul style="list-style-type: none"> <li><b>Type of debt:</b> Senior debt, tranches A and B, both secured</li> </ul>
Pricing: <b>2-3%</b>	<ul style="list-style-type: none"> <li><b>Additional instruments:</b> Acquisition Capex facility</li> <li><b>Maximum leverage:</b> 3.1x EBITDA</li> <li><b>Pricing:</b> 2-3% of interest rate</li> <li><b>Maturity:</b> 6-7 years</li> </ul>

### Changes in capital structure (€m)



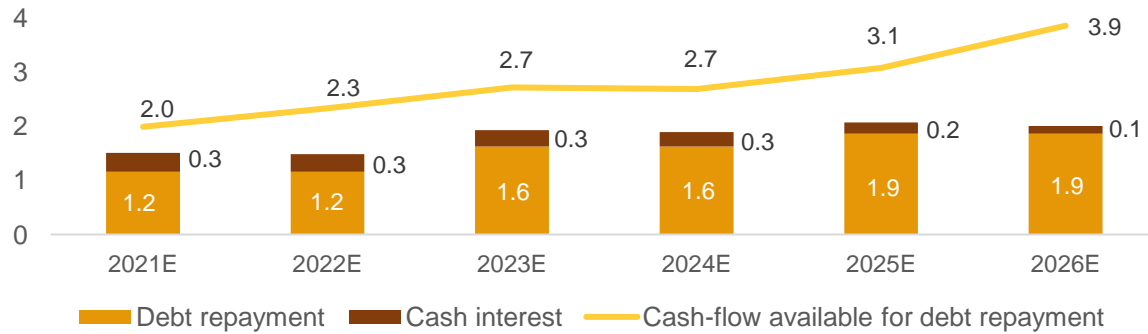
### Valuation references – Football field



## 6. Exit and returns | Debt repayment, credit statistics, exit returns & value creation

Exiting in 2026 delivers a 3.3x MM to institutional investors and a 10.7x MM to the management team

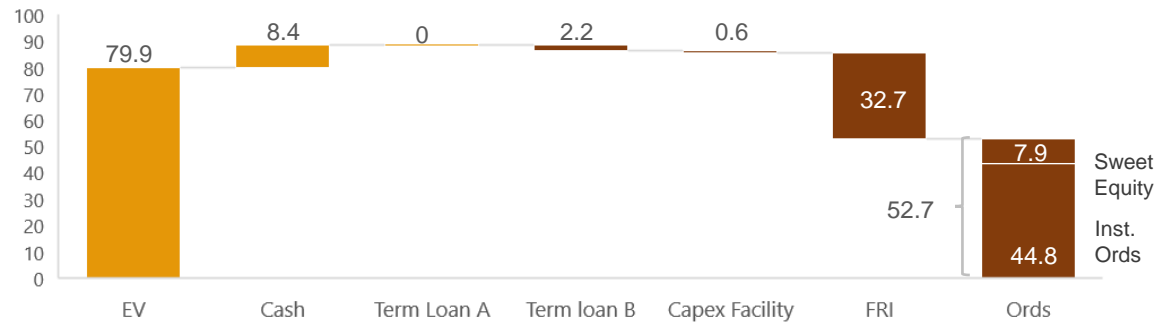
### Cash-flows for debt service and repayment (in €m)



### Institutional and management returns

Returns (€ m)	2021E	2022E	2023E	2024E	2025E	2026E
Management Exit Proceeds	1.7	2.5	3.4	4.4	6.0	7.9
Management Equity	0.7	0.7	0.7	0.7	0.7	0.7
<b>Management MM</b>	<b>2.2x</b>	<b>3.3x</b>	<b>4.5x</b>	<b>5.9x</b>	<b>8.1x</b>	<b>10.7x</b>
<b>Management IRR</b>	<b>124.8%</b>	<b>82.1%</b>	<b>65.5%</b>	<b>55.9%</b>	<b>53.1%</b>	<b>48.4%</b>
Institutional Investor Exit Proceeds	30.7	37.1	44.3	52.3	64.1	77.6
Institutional Investor Equity	23.7	23.7	23.7	23.7	23.7	23.7
<b>Institutional Investor MM</b>	<b>1.3x</b>	<b>1.6x</b>	<b>1.9x</b>	<b>2.2x</b>	<b>2.7x</b>	<b>3.3x</b>
<b>Institutional Investor IRR</b>	<b>29.5%</b>	<b>25.1%</b>	<b>23.1%</b>	<b>21.9%</b>	<b>22.0%</b>	<b>21.8%</b>

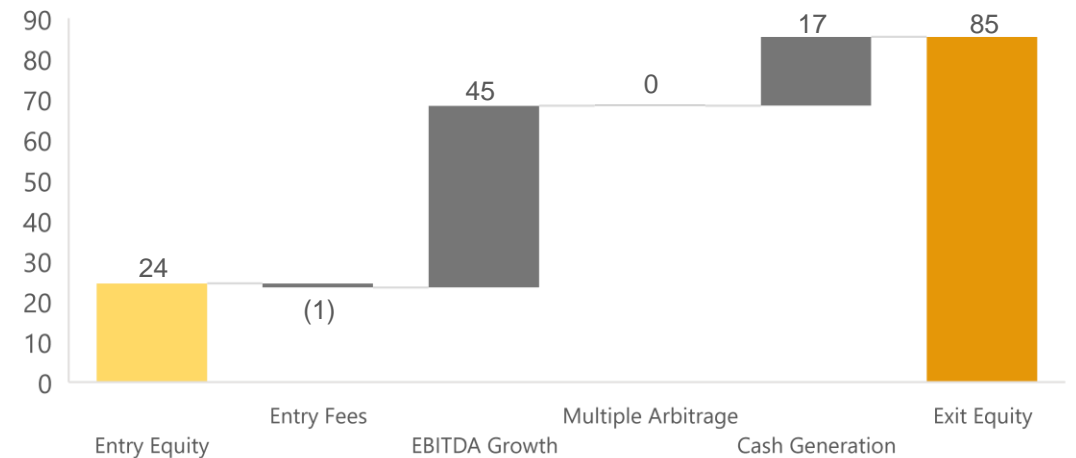
### Exit waterfall 2026 (in €m)



### Credit statistics

	2021E	2022E	2023E	2024E	2025E	2026E
<b>Cash Cover</b>	1.5x	1.8x	1.5x	1.5x	1.6x	2.0x
<b>Net Debt / EBITDA</b>	2.0x	1.4x	0.8x	0.3x	(0.2)x	(0.7)x
<b>Interest Cover</b>	13.4x	16.7x	21.2x	28.9x	47.7x	116.2x

### Value creation breakdown (in €m)



## 7. Exit strategy | Valuable strategic sale

The most attractive strategy is to pursue a strategic sale as potential synergies translate in a higher exit multiple

### Strategic sale

- Sale to a **direct competitor** or a **company along the supply chain**, with the aim of expanding its product mix or geographical reach, or looking to vertically integrate its operations
  1. Direct competitor looking to expand to the European market, improve logistics or obtain access to a large and diversified client base
  2. Plastics good manufacturer aiming to increase control over processes or improve efficiencies by acquiring a supplier
- Synergies created **support a higher exit multiple** following the potential for value creation incentivizing **buyers to pay a higher premium**
- Given the **highly fragmented nature of the market**, in 5-7 years, a wave of mergers and acquisitions is highly probable

### Secondary sale

- Sale to a private equity firm as the **market is expected to remain attractive with potential to implement alternative value added strategies**
- Financial sponsors are likely to continue to have large amounts of capital to invest following increased demand from investors
- This exit usually allows for an **easier and faster process**, with more flexible agreements, but the **price may not be as favourable when compared to the strategic sale** given that synergies are less likely
- An ideal buyer would include a PE firm operating company involved in the plastics industry looking to pursue “buy-and-build” strategies, or in similar geographies allowing for potential synergies to be created

### IPO & other alternatives

- **IPO**: A public offering on the **Madrid Stock Exchange** has the potential to expose the firm to a larger pool of investors, yet it is subject to a **high regulatory framework** and highly **dependent on market conditions** (e.g. investor sentiment). Additionally, the transactions **costs involved**, time required and restrictions imposed by standard **lock-up agreements** reduce this option’s attractiveness, specially considering the size of Kompuestos
- **Direct Listing**: Alternative to traditional IPO when there is no need to raise capital, being, given the lack of underwriters, a **cheaper option**. Additionally, there are **no lock-up agreements**, yet it is still very **dependant on market conditions** and investors’ perceptions
- **Sale to the management/ founding family**: Management or founding family may be interested in taking control of the company, however, this is highly unlikely given the size of the transaction
- **Dual-track process**: Filling the IPO prospectus while searching for a strategic buyer allows to gain perception of both capital markets’ sentiment and strategic buyers’ interest. This may increase returns, yet it is very costly





Kompuestos™

# Investment Committee Paper

Private Equity Challenge – Individual Presentation

1. Market overview
2. Company overview
3. Historical financials
4. Individual essay



# 1. Market overview | Global trends: detailed information (1/2)

## Commitment to the environment has created opportunities for manufacturers, opening new high growth markets

### 1 Circular economy of plastics

- Plastic pollution and waste have been affecting the environment and creating social pressures across the industry; however, the material should not be stigmatized as replacements are often less energy efficient, and thus, another system for producing and using them should be adopted instead
- The circular economy is a more efficient and a sustainable **alternative to the traditional linear economy model**. The idea is to move from a “make – use – dispose” model to a “make – use – return” model
- The goal is to incentivise companies and consumers to **keep the resources in use** for the maximum period of time possible, by reusing and re-purposing them, as well as to recover and regenerate the materials at the end of their service life
- Solutions range from **producing plastics from non-fossil fuels materials**, developing **compounds that reduce the amount of plastic** needed to produce a product, **increase product longevity and new ways of reusing and disposing plastic products**

#### New opportunities:

- Companies are becoming more responsible and sustainable, doing so by working together with plastic suppliers that seek low or inexistent levels of waste and **use recycled inputs** in plastic production
- The circular economy model has also **created opportunities for masterbatch producers**, with the opening of new **high growth markets**
  - Examples include the development of mineral fillers that diminish carbon footprint of the final product and the production of bio-based plastics

### 2 R&D

- The current economic and environmental framework, **created the need for the plastic industry to adapt** to the growing competitiveness, with firms delivering more and more differentiated and quality products to their customers. The adaptation is being made through increasing R&D in order to be able to present to clients plastic goods of superior value added
- In order to be able to improve production methods, enter new sectors and try to replace traditional plastic materials, the plastics industry must be able to **keep up** with the new R&D trends that are currently being developed
- In the field of materials, the big tendencies that have been developing in the last years are marked mainly by two appearances:

#### 1. Environmental sustainability

#### 2. Discovery of new properties in traditional materials

There is also an increase in the research and in the demand for of biodegradable and biological materials

#### Race to research and development



*“Singapore’s RWDC raising \$ 133m to make biodegradable plastic substitute”*

“Singapore-based RWDC Industries Ltd said on Tuesday it is raising \$ 133 million in fresh funding to produce a biodegradable material that can be substituted for single-use plastic in products such as straws, bottle caps and plates.”

Source: Reuters

# 1. Market overview | Global trends: detailed information (2/2)

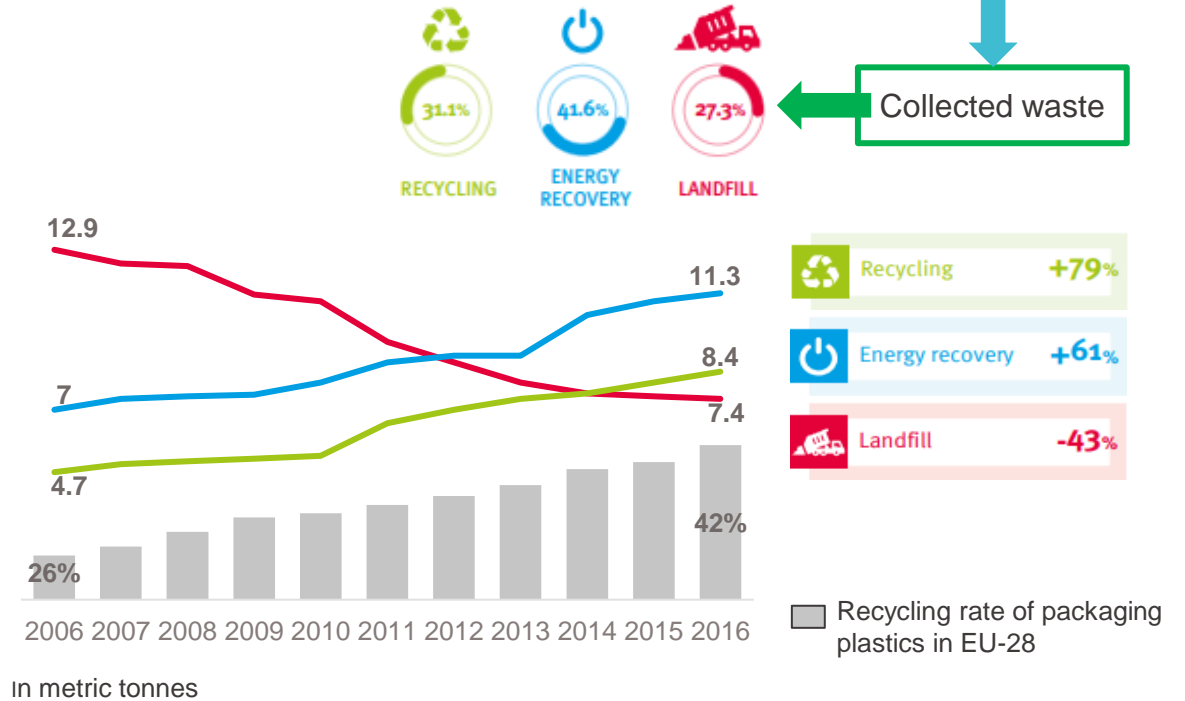
Plastic waste recycling has increased by roughly 80% in the last 10 years

## 3 Waste management



### Additional considerations









































- To be able to understand the life cycle of plastics, one must be aware of that fact that, not only plastic products are not all the same, but also that plastics have not the same application and/or utilisation purpose
- Plastic waste recycling** has increased by roughly 80% in the last 10 years
- Between 2006 and 2016, there was a 79% increase in the collected volumes of plastic waste, a 43% decrease in landfill and a 61% increase in energy recovery
- In 2016, there was a total collection of **27.1m tones of plastic waste** under the responsibility of the EU-28. In this same year, there was, for the first time, a higher share of plastic waste being recycled when compared to the landfilled share
- The recycling rates of developed countries are steadily increasing, contributing to a more sustainable world and to the possibility of reutilization of these resources from plastic manufacturers



# 1. Market overview | A look into the main players in the masterbatches market

Large chemical corporations and smaller specialized masterbatches producers coexist in the market

## Key players in the masterbatches segment


















		 AVIENT	 A. Schulman	 CABOT	 Dainichiseika	 AMPACET	 PMP	 americhem.	 PLASTIKA KRITIS S.A.	 Tosaf	 HCA HOLLAND COLOURS
Headquarters											
Revenue (2019)		€ 2,551m	€ 2,310m	€ 2,286m	€ 1,220m	€ 274m	€ 330m	€ 316m	€ 289m	€ 144m	€ 102m
# of plants		106	-	42	22	25	5	10	6	15	8
# of employees		9,400	-	4,500	3,870	2,000	694	500	950	+1,000	400
Masterbatch type	Color	✓	✓	✗	✓	✓	✓	✓	✓	✓	✓
	White	✓	✓	✗	✗	✓	✓	✗	✓	✓	✗
	Black	✓	✓	✓	✗	✓	✓	✗	✓	✓	✗
	Additive	✓	✓	✗	✗	✗	✓	✓	✓	✓	✓
	Filler	✗	✗	✗	✗	✗	✗	✗	✓	✗	✗
		 GABRIEL-CHEMIE GROUP	 kunststof-kemi a/s	 GRAFE	 Kompuestos™	 Hubron.	 galloplast	 plasper	 GCR GROUP	 NEXAM CHEMICAL	 GPC
Headquarters											
Revenue (2019)		€ 100m	€ 68m	€ 68m	€ 46m	€ 30m	€ 26m	€ 25m	€ 19m	€ 12m	€ -m
# of plants		9	2	4	2	1	1	1	-	1	1
# of employees		+600	74	320	79	47	78	72	-	43	95
Masterbatch type	Color	✓	✓	✓	✓	✗	✓	✓	✗	✓	✓
	White	✓	✗	✓	✓	✗	✓	✓	✗	✗	✓
	Black	✓	✗	✓	✓	✓	✓	✓	✗	✗	✓
	Additive	✓	✓	✓	✓	✓	✓	✗	✗	✓	✓
	Filler	✗	✗	✗	✓	✗	✗	✓	✓	✗	✗

Sources: Company data, Capital IQ, Thomson Reuters, Orbis

# 1. Market overview | Recent transactions

Companies have been exploiting this growing market, aiming to expand and diversify their product offer

## 2019-2020 transactions in the masterbatches and plastic recycling sector

Target					
<b>Target description</b>	Producer of customizable compounds and masterbatches	Specialist in polymer raw materials and masterbatches from production waste	Manufacturer of engineering plastics and resins, colour & additive masterbatches producer	Color and masterbatches business of Clariant	Producer of polyethylene recycler and plastic products
<b>Target revenue (€m)</b>	-	-	€ 80m	-	€ 18m
<b>Date</b>	Aug. 2020	Feb. 2020	Feb. 2020	Dec. 2019	Feb. 2019
<b>Target country</b>					
<b>EV (€m)</b>	€ 27m	-	€ 56m	€ 1,332m	-
<b>Buyer</b>		<b>Siemer &amp; Lefa (Financial Sponsor)</b>			
<b>Buyer description</b>	US manufacturer of customized colour and additive solutions for polymeric products	Two private equity houses	US manufacturer of chemicals, polymers, fibers and nylon plastics	International player specialized in providing polymer materials & services solutions	Lithuanian polyethylene recycler and plastic film products maker
<b>Seller</b>		Shareholders	Gruppo D'Ottavio		
<b>Transaction rationale</b>	Controlled Polymers will integrate Americhem's portfolio in medical devices and applications	Acquisition will expand Siemer and Lefa's portfolios and allow them to explore the new growth segments in the plastic sector	With this acquisition, Ascend will expand its business to cover other engineering plastics, recycled resins and masterbatches	PolyOne acquired the masterbatch division of Clariant, forming a new company called Avient, a major player in the masterbatches market	Acquisition will reinforce Plasta's production, channels in the Nordic region and boost sales

## 2. Company overview | Product mix: detailed information

**Kompuestos offers a wide range of quality products, including bio solutions**

### Product range

- Kompuestos produces and sells **traditional plastic compounds**, seeking also to develop *greener* alternatives, such as **biodegradable plastics and plastics recycling technologies**
- The company offers to its clients a **diversified product portfolio**, allocated to 3 different lines:

#### 1. Traditional products

- Exfill Mineral Fillers
- Kroma, Black, White and Additive Masterbatches

#### 2. BIO solutions

- Biokomp®
- Okean®
- Bioexfill®

#### 3. Recycling & marketing of raw materials



### Traditional products

**Exfill®** – high-performance mineral (calcium carbonate) based concentrates, that allow to reduce the portion of petroleum-derived polymers without jeopardizing the mechanical features of the packaging. Can be used in blow moulding of bottles, barrels or containers; in blow film to manufacture garbage, industrial and shopping bags, hygienic, agriculture and paper-like film and transportation packaging; in injection moulding; in producing raffia, ropes, pipes and cables

**Kroma** – used in production of coloured plastics

**Black** – can be combined with additives to provide the product with other characteristics such as ultraviolet protection or conductivity

**White** – widely used in blow moulding, manufacturing of blow and cast film, sheet and profile extrusion

**Additives** – allow the industry to meet all clients' requirements and are used to improve the performance of plastics, protecting them against degradation by heat, ultraviolet rays or oxidation

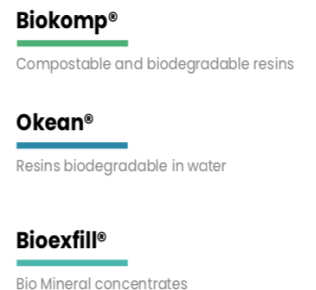
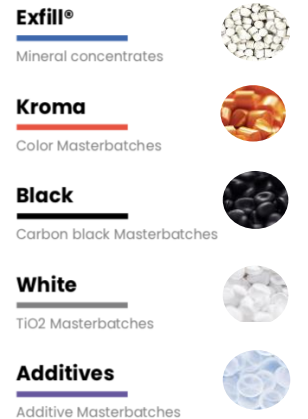
### Bio solutions and recycling and marketing of raw materials

**Biokomp®** – resins (produced from corn, potatoes and cereal starch) that are totally biodegradable and compostable and that can replace traditional plastics in producing mulch film, single use-plastics and fruit bags, organic waste bags or other food packaging

**The Okean®** – water soluble resins designed to preserve the planet waters and marine lives, as many plastics end up being improperly disposed. Being bio-based, its production of carbon dioxide is lower than the one of fossil-based polymers, which helps stopping global warming

**Bioexfill®** – biodegradable and compostable filler masterbatches

**Recycling & marketing of raw materials** – the firm wants to boost the production and sale of recycled plastic polymers and is investigating new and more effective ways of recycling plastics



## 2. Company overview | Business model: detailed information

The company has a strong international presence and has a network of 1200 clients and 91 suppliers

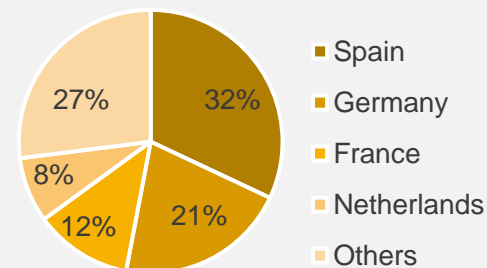
### Clients: additional information

- Kompuestos **sells plastic composites** that serve as **inputs to a wide range of industries**
- As of 2018, the firms' **major client represented 13.7% of sales** and the second and third that followed represented 3.3% and 3%, respectively. These **3 clients generated 20% of sales**. No other client represented more than 3% of sales.
- **Biggest Clients:** Armando Álvarez Group (largest Spanish transformer of plastic film) , Doplá Group (Italian leader in the production of disposable tableware and biodegradable food containers), Sphere Group (French leader in sustainable bags and films production), Papier Mettler (European leader in paper and plastic packaging, focusing on ecological solutions) and Polivouga (Portuguese manufacturer of agricultural films and sleeves and geomembranes)

### International presence: exports

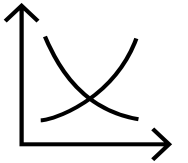
- Kompuestos assumes itself as being **internationally present** since 1992
- In the early 2000's, the company's international business income accounted for more than 50% of its sales revenues. This amount continued to **grow**, reaching 60% in 2018
- In 2019, 68% of the firm's production was exported
- Kompuestos exports mainly for Europe, but also to America, Africa and Middle East

Revenue breakdown by geography - 2019



### Suppliers

- Kompuestos carefully **selects its suppliers**, based on **the quality and price criteria** and on the availability of inputs
- Additionally, the firm seeks to always have **several suppliers for the same inputs**, to avoid shortages and **amplify its bargaining power**. However, as **the main suppliers are big multinational firms**, it is not always easy to use this bargaining power
- As of 2018, the company received raw materials from **91 suppliers**, 2 of which supplied more than 10% but less than 20% of the required inputs **and 86 of which did not supply more than 5% of the required inputs**



### Kompuestos' goals and firm's reliance on R&D to achieve them

- Kompuestos seeks to **pursue continuous innovation** to be able to adapt to market trends and consumers' demands. To ensure this, Kompuestos invests, on a yearly basis, a significant part of its profits in **new equipment and R&D resources**. Additionally, the firm works hand in hand with its customers and suppliers and also with universities and technological centers, such as the Plastic Technological Institute and the Leitat Technological Center. The R&D team is responsible not only for developing new products but also for improving the existing ones
- According to the **current context**, traditional plastics are proved to be harming the environment, making it necessary for the **plastic industry to change**. Kompuestos has the **need and the opportunity to adapt**, doing so by using its R&D strengths to develop products that can be recycled and biodegradable

## 2. Company overview | Competitive advantages and strategy: detailed information

### Kompuestos was an early identifier of the need to move towards more sustainable products

#### Competitive advantages

##### General

- Largely **diversified** and continuously **innovated** portfolio sold to a wide range of countries (over 44)
- Operations based in Spain, where the **cost of labour is relatively cheaper** when compared to the majority of other European countries
- **Large client base** and **long-term relationships** with clients across all product lines
- Tackles the **niche of bio solutions**, being one of the first firms to do so
- Strong investment in R&D and wide industry know-how
- Management team composed of highly qualified professionals with industry specific knowledge

##### Traditional Business

- Ability to acquire **high quality inputs** to produce calcium carbonate concentrates, due to its geographical position
- The **market shared detained** in the calcium carbonate concentrates (10% and 5% at European and global level, respectively) allows the company to enjoy from economies of scale in acquisition of raw materials and production
- **Strong investment in R&D** to continuously develop innovative products
- **Synergies** in the production of mineral concentrates and black and white masterbatches (shared production line)

##### Bio and sustainable business

- **Early identification** of market trends and new opportunities enabled the firm to develop its own new sustainable products
- **Access to clients** from the traditional business, many of which will probably become leaders in ecological plastics production
- **Experience and know-how** in the R&D field and within the industry



#### Strategy: moving towards a sustainable future

- Kompuestos' strategy is to **bring together** the **traditional plastic business** and the **emerging bio, compostable and recyclable plastics business**, moving towards a sustainable future
- For the **traditional business**, the company seeks to be able to **meet future demand** and take advantage of its **reinforced and improved commercial network** to help on passing the image that Kompuestos is a firm that **creates solutions for its customers**
- For the **sustainable business**, the firm seeks to **use R&D knowledge** to keep **developing new environmentally friendly products and solutions** and cheaper and more efficient ways of producing them
- Additionally, Kompuestos is working to develop a way to **use recycled polymers as inputs for its own products**, which is good for environmental and cost purposes

## 8. Appendix IV | Company overview: swot analysis & company pillars

**Well established and innovative firm, with a large client base, working towards sustainable plastic production**

### Swot analysis

- Large and diversified client base and long-term relationships with clients of all product lines and countries (over 44)
- Diversified portfolio with continuous upgrades and innovations introduced
- Strong investment in R&D and wide industry know-how
- Commercialization of bio solutions certified by TÜV Austria
- Early identification of emerging market trends that pointed towards the need to produce sustainable and recyclable plastics
- Management team composed of highly qualified professionals with specific industry knowledge

#### Strengths

- Biodegradable plastics are still expensive to produce but they continue to be improved (in order to attain economies of scale). Besides, its features are not yet as well developed as the ones of the traditional plastics
- Some clients and suppliers are huge multinationals, diminishing the firm's bargaining power
- Plastic sector is highly regulated, which can impact the firm's operations and revenues

#### Weaknesses

- Further develop the bio solutions to become a market leader
- Increase the production of bio products in order to achieve economies of scale in both acquisition of raw materials and production
- Gradually replace the traditional plastics for sustainable ones
- Assume itself as a role model in the market and within the supply chain
- Take advantage of the close collaboration with technology centres and universities

#### Opportunities

#### Threats

- Variations in the availability, delivery timings and prices of raw materials
- The new products developed are subject to approval before being commercialized and this may take longer than expected and be more costly than planned
- Bigger firms in the market might be able to sell their products for a lower price
- Imposition of restrictions in the traditional plastic consumption/production may compromise the growth of the traditional business and increase the need to exploit bio solutions further, which might increase costs a lot on the short run

### Company pillars



**Innovation:** Engaged in constant development of sustainable solutions to meet customers' needs



**Circular economy & sustainability:** Environmental commitment and sustainable solutions are vital for the future of the plastic industry



**International vision & business excellence:** International presence and commercial excellence have been crucial since the beginning



**Productive excellence:** Production technologies allow for the offer of a diversified product portfolio; constant investment facilitates continuous growth

### 3. Historical financials | Free cash flow: detailed information

Kompuestos' operating cash flow has been increasing over the last 3 years

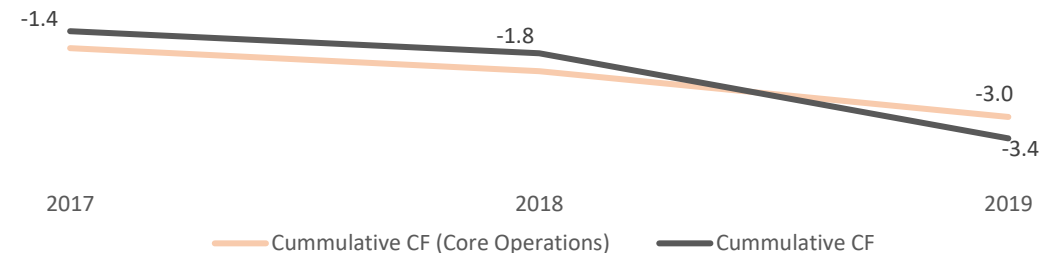
Balance sheet (in €m)	2017	2018	2019
1 Cash and cash equivalents	0.3	2.2	1.1
2 NWC excl. Cash	5.1	5.1	3.2
3 Total debt	14.9	16.2	12.9
Net Debt	14.6	14.0	11.9
Net Debt / EBITDA	6.07x	3.74x	3.72x

Free Cash Flow (in €m)	2017	2018	2019
<b>Core Business FCF</b>			
Core Result (NOPLAT)	0.3	1.1	1.4
Depreciation & Amort.	1.7	2.3	1.8
Operational Cash flow	2.0	3.4	3.2
Recurrent Capex	0.0	0.0	(0.9)
4 Expansion Capex	(2.8)	(3.1)	(4.5)
Intangibles Capex	(0.5)	(0.9)	(0.5)
2 Working Capital needs	(0.5)	(0.1)	1.8
5 FCF Core Business	(1.7)	(0.6)	(0.9)
FCF Non Core Business	0.3	0.0	(0.7)
Free Cash Flow to the firm	(1.4)	(0.6)	(1.6)

#### Comments

- 1 To ensure growth through expansion capex and product development, the firm sustains a large cash balance
- 2 Kompuestos' non-cash NWC decreased significantly following a decrease in accounts receivables (and decrease in the average collection period) and increase in accounts payable in 2019. Apart from 2019 Kompuestos has generally kept the NWC at stable values
- 3 Kompuestos has been issuing debt to fund the Capex of expansion, increasing the real capacity installed of the company. In addition to a decrease in long-term debt, Kompuestos has been refinancing its debt
- 4 Capex has been increasing mainly driven by the increase in the real production capacity of the company that is expected to increase until 2020, and then stop. This capacity increase was made to keep up with the current and future growing demand for plastics. Thus, expansion Capex is expected to end in 2020
- 5 Core operations do not take into consideration the one-off effects of non-recurring items, finance income or exchange rate gains/losses. Through this breakdown it is possible to verify the CF from the company's core operations. In 2019 the FCF was impacted by a large investment in the expansion of the production capacity, IPO costs and costs related with the refinancing of debt

#### Cumulative cash flows for the firm (in €m)



## 4. Individual essay | The future of Private Equity investments in the plastic industry

### Plastic industry is expected to remain attractive to Private Equity firms

#### Industry attractiveness

- Plastic industry has been attracting investors and experiencing considerable M&A activity in the past few years. The industry is expected to remain attractive to investors in the Private Equity business
- The industry is quite fragmented, the biggest percentage of firms being small firms offering specific products in reduced quantities
- Furthermore, it is a well-established but still growing industry, the growth being mainly sustained by the increased usage of plastics in fast-growing industries such as construction, automotive, aerospace and electronics. Additionally, plastics are being used to replace materials such as steel and aluminum. The industry growth is also sustained by the constant innovation that firms seek to develop, in order to offer their customers new and improved plastics to serve a wide range of traditional and new applications
- The plastic industry, producing many goods to end markets such as healthcare, food and hygiene has proved to be a relatively resilient industry, specially when considering the packaging sector (the current pandemic framework sustains the industry resilience)

#### Main industry challenges

- Despite its attractiveness, the plastic industry has been increasingly more exposed to the need to respond to the growing environmental and sustainability concerns and demands. The industry is going through a process of adaptation, in order to handle and integrate both government legislation and changing consumers' preferences, needs and requirements
- Although traditional plastics cannot be replaced for some uses, since there are no direct substitutes, some of their uses are being constrained, as in the case of single-use plastics
- Consequently, firms operating in the plastic industry may face increased costs to adapt and suffer from higher competitive pressures. These factors might result in decreased margins if not properly controlled and overcome
- Additionally, it is important to focus on the price fluctuations of raw materials that serve as inputs to the plastic industry. Plastics are mostly made from oil and natural gas. Thus, their availability and price are highly dependent on the price and availability of the two raw materials (being their price volatile), meaning that the industry is exposed to price fluctuations

#### The role of sustainability in the industry

- Despite creating challenges to the plastic industry, the growing sustainability and environmental concerns also represent an opportunity to the market to grow and innovate, offering its clients new and more sustainable ways of producing and consuming plastics
- Bio-based and biodegradable plastics represent an important trend within the sector, along with the recycled plastic polymers and their use in the production of plastic products

#### Conclusion

- Summing up, despite the challenges that the plastic industry faces, there is more than room for firms operating in the industry to succeed, specially if considering the opportunities that the current more sustainable framework is bringing. Additionally, the plastic industry fills the requirements from Private Equity investors in terms of market growth, fragmentation and resilience
- This opens space for Private Equity firms to make good future deals and derive considerable high returns within the plastic industry



Kompuestos™

# Investment Committee Paper

Private Equity Challenge

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