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**COMTEMP: Financing Expansion through Private Equity?**

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## **Abstract**

**Title:** COMTEMP: Financing Expansion through Private Equity?

COMTEMP – Companhia de Temperos, Lda. is a Portuguese company that produces vinegars (e.g. CRISTAL vinegars), sauces and condiments. This case study aims to analyze its attractiveness to receive a venture capital investment. The main covered topics are arranged into the following sections: foundation, company, industry, competition, industrial kitchen opportunity, financial strategy and decision.

**Keywords:** COMTEMP, Vinegar, Venture Capital and Industrial Kitchen.

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**Index**

<b>1. COMTEMP: Financing Expansion through Private Equity?</b>	<b>1</b>
<b>2. Foundation</b>	<b>2</b>
<b>3. Company Overview</b>	<b>3</b>
3.1 Brands	3
3.2 Financials	4
3.3 COMTEMP Global	5
3.4 Distribution channels	6
<b>4. Industry Characteristics</b>	<b>6</b>
4.1 Portugal	7
4.2 Trends	7
4.3 Prospects	8
<b>5. Competitors</b>	<b>8</b>
5.1 Mendes & Gonçalves	8
<b>6. Industrial Kitchen - The Big Opportunity</b>	<b>9</b>
6.1 Operations	11
<b>7. Financing Strategy</b>	<b>12</b>
<b>8. The Decision</b>	<b>13</b>
<b>9. Discussion Notes</b>	<b>13</b>
<b>Appendices</b>	<b>20</b>
<b>References</b>	<b>25</b>



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## **1. COMTEMP: Financing Expansion through Private Equity?**

Once again, Paulo Santana, Sales Director of COMTEMP, left the meeting with SONAE at the Purchasing Department absolutely discouraged. COMTEMP is a Portuguese company that produces and sells vinegars, sauces and condiments to retailers, namely SONAE, one of its main clients. Driving back home, even the radio station he was listening to seemed to play only sad songs! “I wish I could live without hypermarkets”, he whispered.

The scenario was not very pleasant. To begin with, COMTEMP competitors were tougher than ever in providing gourmet sauces. Secondly, private label products, instead of generating money to the company, were giving low profit margins and losses. Thirdly, an aggressive investment in productive equipment had just been made at COMTEMP. All these ingredients mixed together contributed to a poor liquidity position, a harmful setting for a great opportunity that was emerging – Industrial Kitchen. This could be the last chance to keep the company back on track again and it would be almost impossible for COMTEMP’s shareholders to take advantage of this challenge without financial support!

The possibility to take advantage of this opportunity raised several questions: Is there really an opportunity for COMTEMP in the Industrial Kitchen market? How would it fit the company’s strategy and the existing product portfolio? How valuable could it be? How risky can it become? How could such opportunity be financed on a cash-strapped COMTEMP?

## **2. Foundation**

In the 90s, Indústrias e Comércio de Produtos Alimentares António Silva & Filhos, Lda. (ICPA), José Marques Agostinho, Filhos & C, Lda. (JMA), Mendes & Gonçalves, S.A. (MG) and Vinorte – Vinícola do Norte, Lda. (VN) joined forces to create a business with multiple product lines.

Prior to foundation, they were small enterprises offering diverse products and services: ICPA was a food product manufacturer; JMA offered a wide range of merchandises, from vinegars and wines to petroleum products; MG was a family business of vinegars, sauces and condiments; and lastly, VN was a vinegar and wine producer. These four companies merged with the purpose of achieving economies of scale, creating and exploiting synergies.

During its early years, the business ran into cash deficit and production problems that were putting the whole company in jeopardy. Given this framework, some founders announced the desire to split up the business to thrive and become independent. The “business divorce” occurred right after the announcement: VN and MG decided to become solo entrepreneurs, whereas ICPA and JMA remained together running the existing business.

In August 2000, ICPA and JMA founded a joint venture entitled COMTEMP – Companhia de Temperos. Companhia de Temperos was born out of a dream: placing vinegars and seasonings in consumers’ minds as valuable and healthy options. The business activity jump started six years later, when the construction of the required factory was completed. This arrangement allowed the two corporations to develop a mutual benefit entity, with a cumulative pooling of over 100 years of experience in the production of vinegars, sauces, sparking wines and other food-related products.

COMTEMP had 1,750,000€ of capital stock (**Exhibit 1**). The equity was not spread equally among the two founders, ICPA owned about 40% and JMA the remaining 60%. It made sense: ICPA only had the Lezíria brand, while JMA had Salador, CRISTAL and Magos brands.

On a side note, Mendes & Gonçalves, S.A.<sup>1</sup>, which was one of the four founders, is now a direct and threatening competitor to COMTEMP! More detail on MG competitor will follow.

### 3. Company Overview

COMTEMP<sup>2</sup> is a medium-sized enterprise with 32 workers, located at Entroncamento, city of Santarém. Its product portfolio ranges from vinegars to lupines, olives, sauces, condiments and sparkling wines. As mentioned previously, it lays claim to several brands, which are described below.

#### 3.1 Brands

Companhia de Temperos is essentially known by its CRISTAL vinegars, which are considered a signature product. CRISTAL brand was registered in 1939 and presently, it is more recognized by the community than COMTEMP itself. It is a brand leader in Portugal in what concerns the market of vinegars, having attained 41 % of market share in 2013. In **Exhibit 3** COMTEMP's market shares for each category of vinegar and respective sales can be found. "It is our cash-cow." revealed the Sales Director with pride during the interview, emphasizing that CRISTAL is a brand full of tradition and quality, engaging multiple generations and providing positive cash flows to the company. The

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<sup>1</sup> Mendes & Gonçalves is Portuguese company that produces condiments. It is known by its PALADIN mustard.

<sup>2</sup> See **Exhibit 2**: COMTEMP SWOT Analysis.

price per bottle of CRISTAL vinegar stands out in relation to other vinegars to be able to account for the added quality factor. For instance, a CRISTAL vinegar bottle of 0.5L is 1.20 €, a Paladin vinegar bottle, from MG, is 0.98€ and a private label bottle only 0.48 €.

Unfortunately, CRISTAL sales decreased 5.51 % from 2013 to 2014 (**Exhibit 3**) and ever since the brand has been trying to adapt to the very competitive marketplace, by offering not only the original CRISTAL vinegar, but also new ones, such as CRISTAL 4 Seasons and CRISTAL Gourmet (**Exhibit 4**). Besides the competition, the brand faces another obstacle: vinegars were once a very successful product, but nowadays they are seen as a commodity by the consumers, as picking the cheapest one from the shelves is considered of higher priority than choosing a quality one!

Moreover, COMTEMP is not merely focused on CRISTAL, it owns other brands including Lezíria, Salador, Magos, Cleanvi and private labels. The Lezíria brand accounts for vinegars, sauces, lupines, pickles and olives, whereas Salador only has vinegars and sauces. Magos specializes in sparkling wines produced under a technique called "Charmât Method"<sup>3</sup>. Cleanvi is a brand for cleaning vinegar. Finally, it is imperative to highlight the volume of private label products the firm sells to retailers such as SONAE, Jerónimo Martins and Lidl. **Exhibit 5** shows the ranking of importance of each retailer for COMTEMP, where SONAE can be found at the top of the list, ranking number 1 position.

### 3.2 Financials

COMTEMP's financials cannot be evaluated in isolation, thus to discover insights about company's performance, comparison is key. An analysis focus was made, comparing COMTEMP with two listed companies, SUMOL+COMPAL, a leader in the non-

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<sup>3</sup> Charmât Method, invented in 1916, is a cheap and old mean for pushing wine through a second fermentation.

alcoholic beverages market in Portugal, and Carl Kühne KG (GmbH & Co.), a German company of vinegars, pickles and preserves. The latter is very similar to COMTEMP in terms of identity and business operations. COMTEMP recorded higher growth rates and ROS (return on sales) values than peers, although it had the lowest ones for total assets turnover and ROE (return on equity). See **Exhibit 6** for more details in this comparison.

Furthermore, COMTEMP could be appraised as a company with an urgent need for capital, given the low liquidity levels, low autonomy, and low margins near retailers it holds. This is denoted in **Exhibit 7** and **8** – Balance Sheet and Income Statement of 2013.

### 3.3 COMTEMP Global

COMTEMP exports to over 15 countries, from Europe to South Africa, the United States of America to the Middle East<sup>4</sup>. The company purchases almost everything it needs to operate internally (**Exhibit 9**). Nonetheless, some raw materials have to be imported, such as the Balsamic Vinegar of Modena, from Italy, because this Mediterranean region is the only place where this category of vinegar is legally available for sale.

The firm exerts a lot of effort in order to comply with the specific rules of each religion. For example, COMTEMP products have Kosher and Halal certifications, respectively complying with Jewish diet and Islam religion. The company is also certified by BRC & IFS Food<sup>5</sup> and by EUROFINS<sup>6</sup> as having genuine and reliable products.

Different countries equate with different habits, and COMTEMP is aware of that fact and takes it into account in their activities, by targeting foreign customers with diverse sauces

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<sup>4</sup> Exports to Spain, France, UK, Switzerland, Belgium, Germany, Poland, Angola, Cape Verde, Guinea-Bissau, Mozambique, South Africa, United Arab Emirates, Israel, USA, China, Canada and Morocco.

<sup>5</sup> BRC & IFS Food Safety Certification: Two essential food standards for suppliers and retail.

<sup>6</sup> EUROFINS Scientific is the world leader in food and biopharma product testing.



and vinegars. Paulo Santana argued that in Portugal the white wine vinegar represented around 70% of the demand, being followed by cider vinegar with 20% and the remaining for others. In Germany, France and Poland, the alcohol vinegar was the most preferred one, very distinctly from what happens in Portugal. The same applies for sauces with a higher incidence in the degree of spice.

### 3.4 Distribution channels

Products are available for sale through off-trade channels (e.g. hypermarkets and supermarkets) and on-trade channels (e.g. wholesalers). In Portugal, merchandises can be bought at SONAE, Jerónimo Martins and Lidl retailers, and also near Recheio and EuromadiPort wholesalers.

While retailers offer COMTEMP volume of sales, low buying prices are what the company will get in return. The volume of sales is hampered by the low buying prices charged, especially to SONAE which is one of COMTEMP's main clients. The imbalance of bargaining power is almost cruel to COMTEMP! The bargaining power of the firm to negotiate buying prices near supermarkets is low and this has nothing to do with size. According to reliable sources, GALLO Olive Oil which is much larger than COMTEMP is struggling as well to negotiate and get buying prices increases' near SONAE! Just out of curiosity, GALLO Olive Oil buys the vinegar in bulk to COMTEMP and then, it packages the product internally under GALLO brand.

## **4. Industry Characteristics**

According to Euromonitor International, the world market size for sauces, dressings and condiments in 2013 was 89,069.3€ millions. The leading players on the global market include the Norwegian food company Agra Industrier AS. and Ajinomoto, a Japanese

food and chemical corporation. Although United States and Western Europe account for large markets, they have faced low growth rates. On the opposite end of the spectrum, Middle East and Eastern Europe are emerging markets with giant growth rates in the last few years.

#### 4.1 Portugal

The sauces, dressings and condiments market grew steadily from 2009 to 2013, mainly because of the economic downturn that forced the Portuguese population to eat more often at home. This cost-conscious attitude had an impact on sales: a growth of 4% in current value and 2% in volume terms, reaching 251.5€ million and 48,900 tonnes in 2013 (**Exhibits 10 and 11**).

From 2012 to 2013, the sales of vinaigrettes remained constant, however mayonnaise, ketchup and mustard sales grew, respectively, 2.2%, 3.7% and 0.3%. Mayonnaise had a high penetration in Portugal, being followed by ketchup and mustard. This can be corroborated by the sales of mayonnaise, which were 18.9€ million, followed by Ketchup with 8.5€ million and mustard with 4.3€ million (**Exhibits 12 and 13**).

#### 4.2 Trends

Government's austerity measures led the majority of the population to reduce expenses, namely avoiding going out for meals. Taking home-cooked food to work was the perfect solution and the variety of fancy bags propositioned to fulfil that need was endless. We could say the financial crisis has been beneficial to the success of the seasoning product's category.

According to Mintel's research of 2013, consumers give preference to spicy/hot and ethnic flavors and look for "natural", "no additives and preservatives" claims and kosher

certification. Moreover, today's consumers are seeking healthy food options with a fantastic taste. Health conscious consumers not only want to be healthy but also want to enjoy and have a great tasting experience while eating (low-calories/ lot of taste).

#### 4.3 Prospects

First, the forecasted sales for mayonnaise, ketchup and mustard are facing an upward trend, because they are sauces capable of making food preparation easier (See **Exhibits 14 and 15**). There is an opportunity for COMTEMP to focus on mayonnaise, ketchup and mustard, since the company does not produce these products yet. Secondly, the emerging gourmet trend is also likely to boost the performance of sauces, dressings and condiments, in the near future as well as increase their prices.

#### **Competitors**

The main direct competitor of COMTEMP is Mendes & Gonçalves. As mentioned previously, MG took part in the process of foundation of COMTEMP and currently, it has become a threatening competitor, having totally switched from one side to the other! COMTEMP also faces competition in the Iberian Peninsula from several companies, including Parras, Sabater, La Riojana and Ecovinal.

#### 5.1 Mendes & Gonçalves

Mendes & Gonçalves is a Portuguese company of vinegars, sauces and spices with more than a hundred workers, founded in 1982, by Gonçalves family in Golegã. MG started the business with an innovative product - fig vinegar made with fruit grown by local producers. Besides Creative and Peninsular brands, the most famous brand of the company is PALADIN. PALADIN mustard is characterized by a strong yellow color and it very recognized by the Portuguese people.

The competitive advantage of MG is definitely the embedded creativity and innovation of its products, packaging or even the mixing of flavors and twists used. Mendes & Gonçalves is succeeding in the gourmet trend. Hot sauce with fruit, fig vinegar in spray format and mini packages are some of the outside of the box products they have, which are innovative and practical, capable of enhancing sales.

## **6. Industrial Kitchen – The Big Opportunity**

In the beginning, COMTEMP had only a large-scale production of vinegars and sparkling wines. In recent years, the production has become wider with the introduction of the industrial kitchen for sauces and condiments.

Industrial Kitchen is organized in the following areas: Production, Filling, Maintenance, Quality, Logistics and R&D. The machinery is basically composed of two giant pots (very similar to a “BIMBY”)<sup>7</sup>, one computer and some support facilities, having been built by the workers with available disposable resources. Therefore, we could say it is unique in the marketplace and fits the needs of the personnel in a personalized manner, by allowing tailored recipes to be submitted on the computer in order to come up with the intended customer product.

Industrial Kitchen produces liquid and viscous products without preservatives, using hot and cold techniques and high-pressure technology, since COMTEMP is highly concerned with the stabilization without preservatives and product contamination. Industrial Kitchen at COMTEMP produces several types of vinegars<sup>8</sup>. In addition, it could cook bases for soups/stews, marinades, hot sauce, piri-piri, soy sauce, Worcestershire sauce, barbecue

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<sup>7</sup> Bimby is a kitchen robot that makes cooking much easier and practical for users.

<sup>8</sup> Wine vinegar (red and white), alcohol vinegar, balsamic vinegar of Modena, cider vinegar, fruit vinegar, red fruit vinegar, fig vinegar, rice vinegar, Japanese rice vinegar, malt vinegar and vinegar for pickles.

sauce, blue cheese sauce, Caesar's sauce, sweet chili sauce and yogurt sauce. COMTEMP does not produce mayonnaise, ketchup nor mustard because of the volume and the lack of aseptic packaging equipment!

The majority of the sauces and condiments already made have high levels of vinegar in their composition and since vinegar is an affective natural preservative, there is no need for aseptic packaging in them. Mayonnaise is a different case, it has little vinegar in its composition and because of that the packaging has to be special and aseptic. Products with no preservatives are more expensive, most preferred and higher differentiators to consumers, according to 2013 trends for this market. When compared with the production of vinegar and sparkling wine, we could say that Industrial Kitchen gives much higher and comfortable margins.

With an aseptic machine (See **Exhibit 16** for more costs and specifications), COMTEMP would be able to focus on the production of mayonnaise, ketchup and mustard. This machine would be able to fill, at high temperatures, packages top-down, the most common for these kind of products, ranging from 100ml to 1 kg. COMTEMP would want to offer just 0.5 kg containers in this initial phase. The packaging used is made out of a preform plastic known as PET<sup>9</sup> (**Exhibit 17**) and each unit of top-down package of 0.5 kg costs 0.70€. The machine has a 6 years lifespan and it has a straight line depreciation, with no salvage value.

For cost projections, we should assume the most extreme scenario, in which the machine would work intensively for 24 hours a day. For that reason, 3 workers would be needed in a daily 8 hours shift basis. The staff cost of the 3 workers per annum is 51,660€. Besides

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<sup>9</sup> PET stands for polyethylene terephthalate which is plastic. PET containers are light, resistant and easily shapeable.

the machine operating and packaging costs, we must focus on the cost of the main ingredients (other could be seen as sunk costs). The firm is going to need grain mustard, which costs 4.38€/kg, to produce mustard, tomatoes, which costs 1€/kg, to produce ketchup and eggs, which costs 1.30€/kg, to produce mayonnaise. The taxes are 26.5%.

COMTEMP intends to grab 8% of the market share for mayonnaise and 5% for both ketchup and mustard within the Portuguese market. The company will reach those market shares gradually over the 6 years.

The estimates for 2019 and 2020 should be similar to 2018 values for simplicity. The Forecast Portugal Sales in Value and in Volume from Euromonitor should be used to make the projections, as well as, the financial statements of the company in the appendices.

### 6.1 Operations

Regarding operations management, the capacity utilization per annum of the factory is around 60%. This value can reach 80% or 90% depending on the production months. The production is seasonal, from May to September, since people eat more salads at this time. COMTEMP has 32 employees, working under a three-shift work system and production costs do not exceed more than 40 % of the total costs.

In the Industrial Kitchen section, each pot has 2000 kg separately and the capacity utilization is far from being used at maximum, with only 10% currently being taken advantage of. The unit has a sleeve labelling machine with no use at all (e.g. B drink packaging).

## 7. Financing Strategy

In 2012, the firm invested a lot on productive equipment and it used banks to source that investment immensely. Founders could not afford the new filling machine investment and they did not want to incur in more loans. COMTEMP knows there are plenty of other places to look for funding, namely near venture capitalists. CA Consult<sup>10</sup> showed interest in COMTEMP some months ago by phone. CA Consult Department takes part of Crédito Agrícola Group, which is a cooperative financial group, embracing several local cooperative banks and specialist companies. The department follows a specific criteria when choosing an investment company (See **Exhibit 18** for more details). This could be a chance of getting the needed capital to recover from the financial difficulties and a way of financing the investment of the new machine!

CA Consult holds Agrocapital 1, a venture capital fund, focused on early-stage companies of the agro-industrial sector with high growth potential. The Agrocapital 1 fund is intended to invest in small and medium enterprises operating in the following eligible sectors: agriculture, animal production, hunting, forestry and agro - industry. Actually, the portfolio companies that the fund has are not public traded, and tend to be more mature than young. Additionally, the Agrocapital 1 fund is held in 66.6% by Crédito Agrícola Group and in 33.3% by IFAP (Instituto de Financiamento da Agricultura e Pescas - IFAP I.P.)

Participations should be a minority in all the investments, since CA Consult doesn't take a hands-on approach near the companies. The amount contributed by Agrocapital 1 fund is between € 200,000.00 and € 2,000,000.00 and beyond this, supplementary supplies

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<sup>10</sup> Crédito Agrícola Consult - Assessoria Financeira e de Gestão, S.A. is a financial and management advisory unit of Crédito Agrícola Group. "The venture capital funds managed by CA Consult have been making several selective investments in Agro-industrial, Healthcare and Energy Sectors".

could be added to the package deal. They want to have an exit strategy in five years' time with returns. Normally, the exit route consists on the purchasing of venture capitalist's share by other investors or promoter, most commonly by the promoter.

## **8. The Decision**

To put it briefly, COMTEMP needs capital to get ahead. The Sales Director Paulo Santana is desperate to find a way out of COMTEMP's financial problems and he realized the board of directors meeting would be just next week! Paulo wanted to inform those attending about CA Consult's phone call contact and he wanted as well to have the right idea/arguments in order to choose the best for the company. What is the best for COMTEMP, anyway?

## **9. Discussion Notes**

### **1. What is the competitive positioning of COMTEMP?**

This question examines the logic of how COMTEMP creates competitive advantage over its rivals. Competitive positioning could be viewed as something unique and valuable a corporation delivers to its customers. The company positions itself as a business with a cumulative experience of over 100 years of activity, when it comes to the tradition of producing vinegars, sauces, condiments and sparkling wines. This reasoning could be easily explained with CRISTAL brand. CRISTAL vinegars were registered in 1939 and they are still selling nowadays, being market leaders in Portugal. CRISTAL brand is associated to traditional and high-quality products, benefits that justify the higher price charged by the company. The price per bottle of CRISTAL vinegar stands out in relation to other vinegars to be able to account for the added quality factor. Pricing above competition generally requires a clear advantage on some non-price constituent, in this case is the quality factor added.



**2. At first glance, the prospect of acquiring an aseptic machine to start the production of mayonnaise, ketchup and mustard appears very attractive. Why does it make sense for COMTEMP to buy this machine right now?**

The purchase of this aseptic machine might be essential to exploit and explore the market conditions and thrive. Currently, a growth above the average of the seasoning industry has been experienced, which is remarkable. Focusing more on Industrial Kitchen (starting the production of mayonnaise, ketchup and mustard) could be a good opportunity for COMTEMP, since it delivers high margins and it corroborates the trend for non-preservative products. Mayonnaise, ketchup and mustard are forecasted to increase in value until 2018. The utilization capacity of the pots in the Industrial Kitchen section of the company is far from being used at maximum, only 10%, as was previously mentioned. The firm is already prepared to produce these three products, but what is lacking is just the aseptic equipment to be able to package them. There is also a sleeve labelling machine with no use at all that could be used to label the new products in a sophisticated manner.

**3. Would you invest in the machine? Would it be a beneficial investment? The risk-free rate is 3 percent, the market risk premium is 6 percent and the Food Processing unlevered beta is 0.69. (Hint: Discounted Cash Flow - DCF)**

Capital budgeting with discounted cash flows is the planning process used to determine whether a company's long-term investment, such the purchasing of new machine, is worth pursuing or not, based on the time value of money.

COMTEMP: Financing Expansion through Private Equity?

DCF	2014	2015	2016	2017
Mayonnaise Sales Revenue (+)		384 000,00 €	780 000,00 €	1 182 000,00 €
Mustard Sales Revenue (+)		88 000,00 €	132 000,00 €	180 000,00 €
Ketchup Sales Revenue (+)		174 000,00 €	267 000,00 €	360 000,00 €
Total Sales Revenue		646 000,00 €	1 179 000,00 €	1 722 000,00 €
Cost of ingredients (-)		237 790,04 €	416 298,66 €	595 904,20 €
Packaging (-)		222 124,00 €	397 656,00 €	574 602,00 €
Staff salaries (-)		51 660,00 €	51 660,00 €	51 660,00 €
Energy costs (-)		3 412,46 €	3 412,46 €	3 412,46 €
Maintenance costs (-)		2 000,00 €	2 000,00 €	2 000,00 €
Total Operating Costs		516 986,50 €	871 027,12 €	1 227 578,66 €
EBITDA	0,00 €	129 013,50 €	307 972,88 €	494 421,34 €
Depreciation (-)		20 000,00 €	20 000,00 €	20 000,00 €
Taxes (-)		28 888,58 €	76 312,81 €	125 721,65 €
NOPAT	0,00 €	80 124,92 €	211 660,06 €	348 699,68 €
Depreciation (+)		20 000,00 €	20 000,00 €	20 000,00 €
CAPEX (-)	120 000,00 €			
NWC	154 807,17 €	282 535,07 €	412 659,36 €	544 461,13 €
Change in NWC (-)	154 807,17 €	127 727,90 €	130 124,29 €	131 801,77 €
Free Cash Flow	-274 807,17 €	-27 602,98 €	101 535,77 €	236 897,91 €

DCF	2018	2019	2020
Mayonnaise Sales Revenue (+)	1 592 000,00 €	1 592 000,00 €	1 592 000,00 €
Mustard Sales Revenue (+)	225 000,00 €	225 000,00 €	225 000,00 €
Ketchup Sales Revenue (+)	455 000,00 €	455 000,00 €	455 000,00 €
Total Sales Revenue	2 272 000,00 €	2 272 000,00 €	2 272 000,00 €
Cost of ingredients (-)	774 718,60 €	774 718,60 €	774 718,60 €
Packaging (-)	750 933,40 €	750 933,40 €	750 933,40 €
Staff salaries (-)	51 660,00 €	51 660,00 €	51 660,00 €
Energy costs (-)	3 412,46 €	3 412,46 €	3 412,46 €
Maintenance costs (-)	2 000,00 €	2 000,00 €	2 000,00 €
Total Operating Costs	1 582 724,46 €	1 582 724,46 €	1 582 724,46 €
EBITDA	689 275,54 €	689 275,54 €	689 275,54 €
Depreciation (-)	20 000,00 €	20 000,00 €	20 000,00 €
Taxes (-)	177 358,02 €	177 358,02 €	177 358,02 €
NOPAT	491 917,52 €	491 917,52 €	491 917,52 €
Depreciation (+)	20 000,00 €	20 000,00 €	20 000,00 €
CAPEX (-)			
NWC	544 461,13 €	544 461,13 €	0,00 €
Change in NWC (-)	0,00 €	0,00 €	-544 461,13 €
Free Cash Flow	511 917,52 €	511 917,52 €	1 056 378,65 €

## COMTEMP: Financing Expansion through Private Equity?

First, future free cash flow projections should be computed for a 6 years horizon and then, they must be discounted to the present, using the unlevered cost of capital,  $R_u$ . The  $R_u$  of an unlevered company (a company without debt) could be expressed as a function of risk free-rate of return and market risk premium:

$$R_u = R_f + \beta_u(R_m - R_f) = 0.03 + 0.69(0.06) = 0.07 = 7\%$$

where:

$R_u$  is the expected rate of return on stock of an unlevered company;  $\beta_u$  is the beta coefficient for an unlevered company;  $R_f$  is the risk-free rate of return and  $(R_m - R_f)$  is the equity market risk premium.

Finally, the net present value can be computed using the following formula:

$$NPV = \frac{CF_1}{(1+R_u)^1} + \frac{CF_2}{(1+R_u)^2} + \dots + \frac{CF_n}{(1+R_u)^n} = 1\,430\,027.92 \text{ €}$$

where:

$CF$  is the cash flow amount;  $R_u$  is the expected rate of return on stock of an unlevered company and  $n$  the number of periods.

Yes, I would invest in this aseptic machine. It would be a beneficial investment because the present value of future cash flows is 1 430 027.92 € which is a positive number. But this does not imply that the financial support has to come from CA Consult investor!

#### **4. Paulo Santana received with surprised the phone call of the venture capitalist CA Consult to schedule a meeting. Should he be surprised?**

Yes, COMTEMP should be surprised with this phone call, because it was not the typical venture capitalist target. Venture capitalists are interested in funding startup businesses with exceptional potential for growth and innovation. COMTEMP is not a startup but a mature business with more than 100 years of accumulated experience. The company is

not innovative, it produces vinegars, sauces and condiments in a traditional way. In this case, it does not matter the products the company conveys, the firm could produce them as well and be innovative. Even though, COMTEMP's financials showed a sales growth tendency, this rate of growth is not very high. Venture capitalists want scalability because it is the only way a company will ever produce valuable returns. They have an interest in ensuring the company's triumph, since they only succeed if their investment companies succeed. Adding to this, COMTEMP is not a listed enterprise, and venture capitalists are not interested in businesses that have no potential buyers or won't be able to go public.

#### **5. CA Consult is a venture capitalist company. Isn't it?**

The definition of venture capital and private equity is not very consensual. The European definition, distinguishes the two based on the target company's life cycle. Venture capitalists provide funding for startups, whereas private equity deals with more mature firms often under-performing. Private equity (PE) usually targets all industries alike, while venture capital (VC) is more prone to high-growth industries, namely high-tech and biomedical. The liquidity horizon tends to be 6 to 10 years for PE, and 4 to 7 years to VC. The amount of shares acquired by the investors also differs, PE often controls around 100%, while VC usually takes minority stakes of the company. PE investors may be passive with respect to management, while VC investors work alongside entrepreneurs providing advice, monitoring, know-how and networking.

CA Consult is presently investing the majority of the Agrocapi 1 fund in mature companies. COMTEMP is an example of a mature business which doesn't belong to the high-tech industry. CA Consult liquidity horizon is 5 years which is closer to the range of VC liquidity horizon. CA Consult is a minority investor as VC suggests, but the involvement is not active (does not take a hands on approach near companies). What

Consult does doesn't make it a venture capitalist, accordingly to the European definition, but a private equity company or more specifically, a growth capital one. Growth capital is a private equity investment, often a minority investment that occurs near mature companies. These companies want to restructure operations or finance a certain acquisition without changing the control of the business. This is exactly what CA Consult is doing!

**6. Let's suppose the following scenario: CA Consult offers 700,000€ to COMTEMP for a certain minority stake. Should COMTEMP accept CA Consult financial support or not?**

In order to answer this question we need to compute the enterprise value of COMTEMP without the machine investment (*EVO*) and with the machine investment (*EVI*). First, we must calculate the *EVO* which is determined by simply multiplying the EBITDA multiple by COMTEMP's EBITDA of 2013. The EBITDA multiple of SUMOL+COMPAL is around 9.23 (value at 03-10-2014).

$$**EVO = Multiple * EBITDA 2013 = 9.230825 * 581 671€ = 5 369 303.01€**$$

Then, the calculation of *EVI* is merely the sum of the *EVO* with the NPV value of the investment, previously computed in question number 3.

$$**EVI = EVO + NPV = 5 369 303.01€ + 1 430 027.92€ = 6 799 330.93€**$$

After that, we need the net debt of the firm, which is the sum of long-term debt of 2013 and the short-term debt of 2013:

$$**Net Debt = 5 160 930€ + 1 728 784€ = 6 889 714 €**$$

Finally, to attain the equity value we have to subtract from the new enterprise value the value of debt:

$$\begin{aligned} \text{Equity Value} &= EV1 - \text{Net Debt} = 6\,799\,330.93\text{€} - 6\,889\,714\text{€} \\ &= -90\,383.07\text{€} \end{aligned}$$

This equity value is not very attractive for investors (especially to CA Consult), since it is a negative value. COMTEMP has more liabilities than assets, consequently this could be a sign of a misfortune ahead. This negative shareholder equity should serve as a warning sign to CA Consult before investing. The equity of -90 383.07 € exposes what the shareholders of COMTEMP would be left with, if all assets were sold and all debts were paid. In this situation, the shareholders (CA Consult shareholders also included if the investment proceeds) hypothetically would owe money to the firm, instead of receiving money from it.

The current level of COMTEMP's debt is not appealing to private equity investors. CA Consult investor would only be willing to invest, in exchange for a giant stake of the business. In this fashion, the firm of vinegars would lose the control of the business.

Adding to this critical scenario, CA Consult hopes to sell its equity in 5 year horizon, ideally through the purchasing of the venture capitalist's share by the firm's promoter. When an enterprise is private, the shares cannot be sold as easily as when a firm is publicly traded on a stock exchange. Therefore, COMTEMP, being a private enterprise, would not be able to make the buy-back of the CA Consult shares easily.

In conclusion, COMTEMP should not accept CA Consult financial support for the purchase of the aseptic machine. This does not mean COMTEMP is giving up on the machine investment, but that it is delaying the purchase until finding other sources of finance more suitable because the aseptic machine is beneficial.

**Appendices**

**Exhibit 1: Capital Stock Evolution**

Capital Stock - 1.750.000,00€					
Value €	2013	2012	2011	2010	2009
<b>Capital Stock</b>	2,750,000.00€	2,750,000.00€	2,750,000.00€	2,750,000.00€	1,750,000.00€

Source: Ignios Report 2013.

**Exhibit 2: COMTEMP SWOT Analysis**

<p><b>Strengths</b> Brand CRISTAL; Industrial kitchen high margins; Exports.</p>	<p><b>Weaknesses</b> Low liquidity levels; Low focus on sauces; Capacity utilization is not being fully explored.</p>
<p><b>Opportunities</b> Global Economy; Health conscious mindset of the consumers; Industrial Kitchen.</p>	<p><b>Threats</b> Global Economy; Strong competitors; Substitute products.</p>

**Exhibit 3: COMTEMP' sales of vinegars and respective market shares**

Value €	Sales 2012	Sales 2013	Sales 2014	Var. % 2013/2014	Market Share 2013
<b>Vinegar DIA+LIDL</b>	9,209,324.00€	9,634,319.00€	9,851,464.00€	2.25%	36%
<b>Distributor Brands</b>	4,355,382.00€	4,813,250.00€	5,295,905.00€	10.03%	33%
<b>CRISTAL Brand</b>	4,853,944.00€	4,821,075.00€	4,555,559.00€	-5.51%	41%

Source: Nielsen Report 2013.

**Exhibit 4: CRISTAL vinegars**



Source: COMTEMP PowerPoint Presentation.

**Exhibit 5: COMTEMP's ranking of preferred retailers**

Retailers Ranking	Number of Clients	Purchasing Frequency	Average Purchase Value
SONAE	1	2	1
Jerónimo Martins	2	1	3
LIDL	3	4	4
DIA %	4	3	5
Auchan	5	5	2

Source: Nielsen Report.

**Exhibit 6:** Analysis Focus: Comparison with SUMOL+COMPAL and CARL KUHNE

<b>Current Ratio</b>	<b>SUMOL&lt;COMTEMP&lt;CARL</b>
<b>Growth</b>	<b>CARL&lt;SUMOL&lt;COMTEMP</b>
<b>Total Assets Turnover</b>	<b>COMTEMP&lt;SUMOL&lt;CARL</b>
<b>Inventory Turnover</b>	<b>CARL&lt;COMTEMP&lt;SUMOL</b>
<b>ROS</b>	<b>SUMOL&lt;CARL&lt;COMTEMP</b>
<b>ROA</b>	<b>SUMOL&lt;COMTEMP&lt;CARL</b>
<b>ROE</b>	<b>COMTEMP&lt;SUMOL&lt;CARL</b>
<b>D/E</b>	<b>COMTEMP&lt;SUMOL</b>
<b>Interest Coverage Ratio</b>	<b>SUMOL&lt;COMTEMP&lt;CARL</b>

Company	Current Ratio	Growth	Total Assets Turnover	Inventory Turnover	ROS	ROA	ROE	Debt to Equity Ratio	Interest Coverage Ratio
COMTEMP	0.88	17%	0.45	3.64	6%	3%	2%	2.35	1.31
SUMOL+COMPAL	0.63	2%	0.53	10.09	1.5%	0.8%	4%	208.34	0.35
CARL KUEHNE	1.81	0.3%	1.94	3.00	3%	6%	1000%	n.d	3

**Exhibit 7:** COMTEMP Balance Sheet of 2013

<b>Balance Sheet of 2013</b>				
	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Cash and cash equivalents</b>	47 353 €	61 932 €	152 835 €	707 706 €
<b>Trade Receivables</b>	1 569 803 €	1 419 840 €	1 164 974 €	1 156 724 €
<b>Inventories</b>	939 937 €	2 001 994 €	1 788 708 €	1 341 310 €
<b>Prepaid expenses and other assets</b>	467 884 €	417 300 €	1 243 849 €	1 804 315 €
<b>Current income tax expenses</b>	52 583 €	31 754 €	214 788 €	165 358 €
<b>Current Assets</b>	<b>3 077 560 €</b>	<b>3 932 820 €</b>	<b>4 565 154 €</b>	<b>5 175 413 €</b>
<b>Property and equipment</b>	7 116 374 €	6 335 547 €	6 637 061 €	4 686 151 €
<b>Intangible assets</b>	2 066 525 €	2 086 490 €	2 196 318 €	1 962 178 €
<b>Deferred income tax expenses</b>	65 448 €	144 290 €	179 445 €	213 561 €
<b>Other assets</b>	500 €	500 €	43 301 €	433 800 €
<b>Non-Current Assets</b>	<b>9 248 847 €</b>	<b>8 566 827 €</b>	<b>9 056 125 €</b>	<b>7 295 690 €</b>
<b>Total Assets</b>	<b>12 326 407 €</b>	<b>12 499 647 €</b>	<b>13 621 279 €</b>	<b>12 471 103 €</b>
<b>Accounts payable</b>	1 460 783 €	1 349 231 €	849 086 €	1 116 351 €
<b>Loans</b>	1 728 784 €	1 153 321 €	936 593 €	1 126 049 €
<b>State and other public bodies</b>	40 176 €	78 994 €	16 259 €	14 198 €
<b>Accrued Costs</b>	109 214 €	63 449 €	107 495 €	76 139 €
<b>Other debtors and creditors</b>	144 056 €	223 758 €	1 040 870 €	702 507 €
<b>Current Liabilities</b>	<b>3 483 013 €</b>	<b>2 868 753 €</b>	<b>2 950 303 €</b>	<b>3 035 244 €</b>
<b>Provisions</b>	0 €	0 €	0 €	0 €
<b>Long-term debt</b>	5 160 930 €	5 303 781 €	5 969 066 €	4 477 535 €



COMTEMP: Financing Expansion through Private Equity?

<b>Non-Current Liabilities</b>	<b>5 160 930 €</b>	<b>5 303 781 €</b>	<b>5 969 066 €</b>	<b>4 477 535 €</b>
<b>Total Liabilities</b>	<b>8 643 943 €</b>	<b>8 172 534 €</b>	<b>8 919 369 €</b>	<b>7 512 779 €</b>
<b>Total Equity</b>	<b>3 682 463 €</b>	<b>4 327 114 €</b>	<b>4 701 909 €</b>	<b>4 958 324 €</b>
<b>Total Equity and Liabilities</b>	<b>12 326 406 €</b>	<b>12 499 648 €</b>	<b>13 621 278 €</b>	<b>12 471 103 €</b>

Source: Ignios Report 2013.

**Exhibit 8: COMTEMP Income Statement of 2013**

<b>Income Statement of 2013</b>				
	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Revenues</b>	5 522 172 €	4 728 531 €	4 034 720 €	3 095 907 €
<b>Cost of Goods Sold (COGS)</b>	3 110 270 €	2 584 029 €	2 304 745 €	1 871 396 €
<b>Supplies and External Services</b>	1 420 060 €	1 258 940 €	1 185 295 €	962 463 €
<b>Employee Costs</b>	666 246 €	595 816 €	580 729 €	465 434 €
(...)				
<b>Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)</b>	581 671 €	581 925 €	591 275 €	451 944 €
<b>Depreciation/Amortization</b>	253 888 €	225 906 €	217 160 €	187 065 €
<b>Operating Profit (EBIT)</b>	327 782 €	356 019 €	374 115 €	264 879 €
<b>Finance Costs</b>	249 994 €	269 157 €	177 302 €	77 025 €
<b>Profit Before Income Taxes (EBT)</b>	77 789 €	86 862 €	196 813 €	187 853 €
<b>Income Tax Expenses</b>	10 747 €	13 675 €	40 222 €	50 406 €
<b>Net income</b>	67 041 €	73 188 €	156 591 €	137 447 €

Source: Ignios Report 2013.

**Exhibit 9: Imports: Sourcing markets (Purchases)**

<b>Purchases</b>	<b>2013</b>		<b>2012</b>	
	Value	%	Value	%
<b>Europe</b>	853,198€	27.7%	470,184€	19.1%
<b>Outside Europe</b>	43,532€	1.4%	39,196€	1.6%
<b>Portugal</b>	2,180,017€	70.9%	1,953,843€	79.3%

Source: Ignios Report 2013.

**Exhibit 10: Sales of Sauces, Dressings and Condiments by Category in Portugal: Volume 2008-2013**

<b>Sales (Tonnes)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Sauces, Dressings and Condiments</b>	46,633.3	46,948.3	47,391.3	47,862.9	48,006.5	48,893.0

Source: Euromonitor International April.

**Exhibit 11: Sales of Sauces, Dressings and Condiments by Category in Portugal: Value 2008-2013**

<b>Sales (Value)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Sauces, Dressings and Condiments</b>	215.4	219.8	223.8	227.6	240.8	251.5

Source: Euromonitor International April.

**Exhibit 12:** Sales of Sauces, Dressings and Condiments by Category in Portugal: Volume 2008-2013

Sales (Tonnes)	2008	2009	2010	2011	2012	2013
<b>Vinaigrettes</b>	30.0	30.0	30.1	30.0	28.4	27.7
<b>Ketchup</b>	2,553.4	2,540.9	2,560.1	2,528.9	2,612.3	2,602.3
<b>Mayonnaise</b>	4,626.4	4,707.3	4,834.3	4,720.8	4,658.5	4,577.7
<b>Mustard</b>	769.7	786.7	826.0	815.7	797.0	768.3

Source: Euromonitor International April.

**Exhibit 13:** Sales of Sauces, Dressings and Condiments by Category in Portugal: Value 2008-2013

Sales (Value € million )	2008	2009	2010	2011	2012	2013
<b>Vinaigrettes</b>	0.2	0.2	0.2	0.2	0.2	0.2
<b>Ketchup</b>	7.0	7.1	7.3	7.4	8.2	8.5
<b>Mayonnaise</b>	16.4	16.9	17.4	17.5	18.4	18.9
<b>Mustard</b>	3.6	3.8	4.0	4.1	4.3	4.3

Source: Euromonitor International April.

**Exhibit 14:** Forecast Sales of Sauces, Dressings and Condiments by Category: Volume 2013-2018

Sales (Tonnes)	2013	2014	2015	2016	2017	2018
<b>Vinaigrettes</b>	27.7	27.3	27.4	27.6	28.0	28.5
<b>Ketchup</b>	2,602.3	2,603.5	2,607.9	2,615.3	2,623.9	2,632.9
<b>Mayonnaise</b>	4,577.7	4,566.0	4,559.2	4,566.6	4,576.9	4,584.7
<b>Mustard</b>	768.3	766.6	765.9	763.9	762.5	759.2

Source: Euromonitor International April.

**Exhibit 15:** Forecast Sales of Sauces, Dressings and Condiments by Category in Portugal: Value 2013-2018

Sales (Value € million )	2013	2014	2015	2016	2017	2018
<b>Vinaigrettes</b>	0.2	0.2	0.2	0.2	0.2	0.2
<b>Ketchup</b>	8.5	8.6	8.7	8.9	9.0	9.1
<b>Mayonnaise</b>	18.9	19.1	19.2	19.5	19.7	19.9
<b>Mustard</b>	4.3	4.3	4.4	4.4	4.5	4.5

Source: Euromonitor International April.

**Exhibit 16:** Aseptic Machine from AFINOMAQ: Specifications and Costs

## COMTEMP: Financing Expansion through Private Equity?

- Energy 3.5 Kw
- Filling capacity from 0,100 to 5L
- Filling speed up to 2000 packages / hour

<b>Cost of the new machine (assembly costs included)</b>	<b>120 000€</b>
<b>Lifespan of the machine</b>	6 years
<b>Maintenance Costs (per annum)</b>	2 000€
<b>Energy – 3.5 Kw/h (per annum)</b>	3 412.46€

Source: AFINOMAQ.

### Exhibit 17: PET preform unit



Source: COMTEMP PowerPoint Presentation.

### Exhibit 18: Check List - Crédito Agrícola Consult Criteria to choose an investment

Agrocapital 1 Venture Capital Fund only intervenes under certain conditions:

- Small and medium-sized enterprises (Sales <50M€; Total Assets <43M€; Employees <250);
- Agricultural or agro-industrial companies;
- Located and managed at Portuguese territory;
- No debt to Social Security;
- Independent audits;
- Willingness to provide economic, financial and management information to the Crédito Agrícola Bank;
- Accept being monitored.

Source: CA Consult official documents.

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<sup>11</sup> All the references that are in the case are made in due place. This page is merely to be used as a summary of the general references used during the elaboration of this work.