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 industry

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Abstract

This Private Equity project studies the benefits for a private equity firm of acquiring Kompuestos, a 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.

Founded in 1986, Kompuestos is a Spanish player benefiting from a large and diversified client base, with annual turnover of € 46.2m and an EBITDA of € 3.3m. The plastics market is expected to reach a value of $ 721bn by 2025, with high growth opportunities coming from new segments including bioplastics and biodegradable solutions

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 I 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
Total revenue	**47.2**	**50.1**	**53.1**	**56.4**	**59.9**	**63.6**	**67.7**
Growth	*2.1%*	*6.0%*	*6.1%*	*6.2%*	*6.2%*	*6.3%*	*6.3%*
Gross profit	**14.3**	**15.2**	**16.1**	**17.2**	**18.3**	**19.5**	**20.8**
Gross profit margin	*30.2%*	*30.3%*	*30.3%*	*30.4%*	*30.4%*	*30.5%*	*30.5%*
Normalized EBITDA	**3.7**	**4.4**	**4.9**	**5.6**	**6.2**	**7.3**	**8.5**
EBITDA margin	*7.9%*	*8.8%*	*9.3%*	*9.8%*	*10.4%*	*11.4%*	*12.5%*
EBIT	**0.1**	**1.9**	**2.4**	**3.0**	**3.6**	**4.6**	**5.8**
EBIT margin	*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
Debt	11.5	3.1x	**EV**	34.9	9.4x
Equity	24.4	6.6x	**Fees**	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

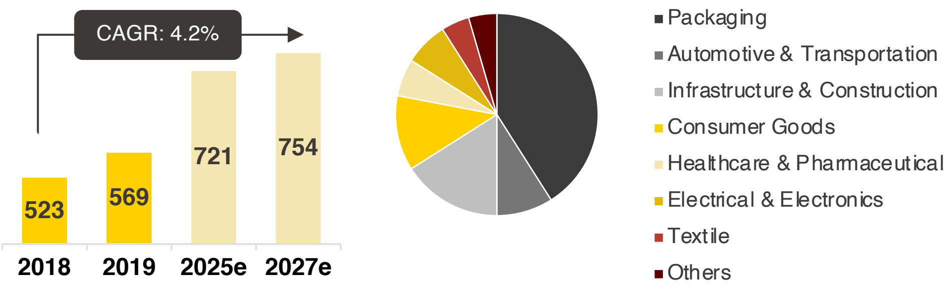
Returns	2021E	2022E	2023E	2024E	2025E	2026E
Management MM	**2.2x**	**3.3x**	**4.5x**	**5.9x**	**8.1x**	**10.7x**
Management IRR	124.8%	82.1%	65.5%	55.9%	53.1%	48.4%
Fund MM	**1.3x**	**1.6x**	**1.9x**	**2.2x**	**2.7x**	**3.3x**
Fund IRR	29.5%	25.1%	23.1%	21.9%	22.0%	21.8%

1. Market overview I Plastics market & masterbatches focus

The market is undergoing a transformational period with solid growth expectations

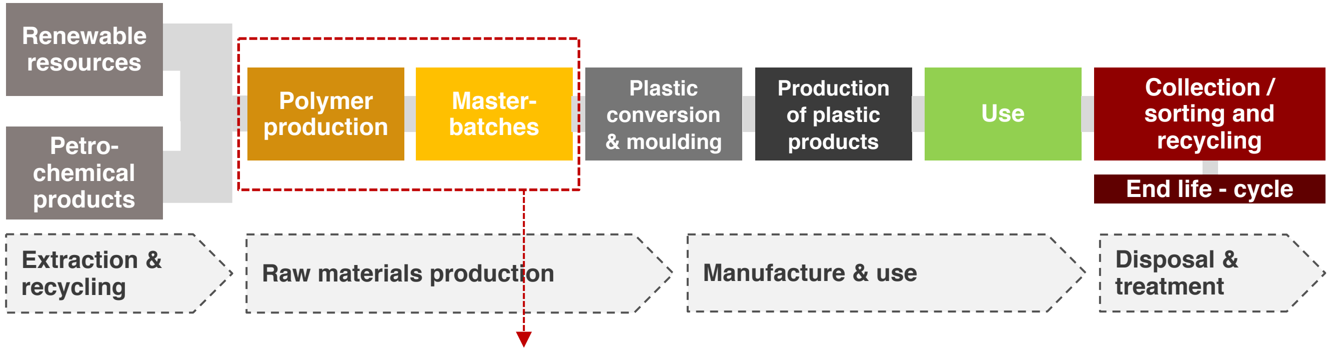
Plastics market overview & outlook

- 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)

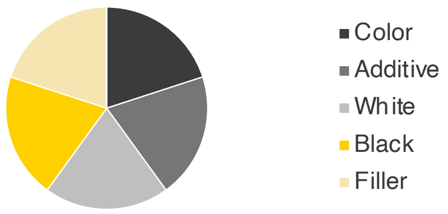
Supply chain



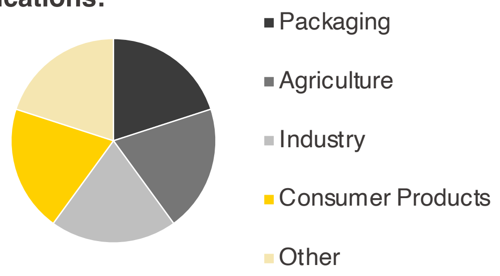
Segment overview: Masterbatches

- 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:



Sources: Statista, GrandViewResearch, Fortune Business Insights

1. Market overview I 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:

AVIENT, A. Schulman, CABOT, PLASTIKA KRITIS S.A., AMPACET Plastics Reimagined, americhem, HCA HOLLAND COLOURS, Hubron, Tosaf, PPM, Dainichiseika, GABRIEL-CHEMIE GROUP

Key trends

Manufacturers

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

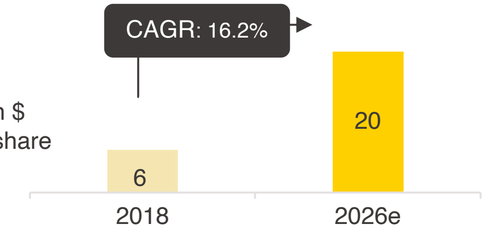
R&D: Perpetual race for the creation of new value-added products and improvement of the production processes

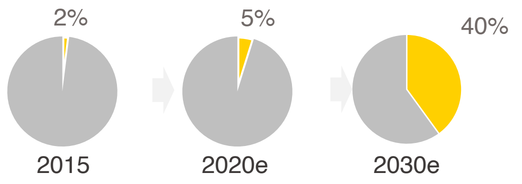
Waste management: Improvement in the waste management systems makes it possible to give a new life to the plastic waste through new sustainable products

Products

Plastics from renewable resources:

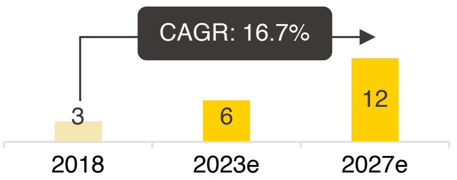
- Bioplastics are expected to grow at an annual rate of **16.2% from 2018-2026,** reaching **$ 20bn,** and increasing its market share in the plastics industry to 40% by 2040



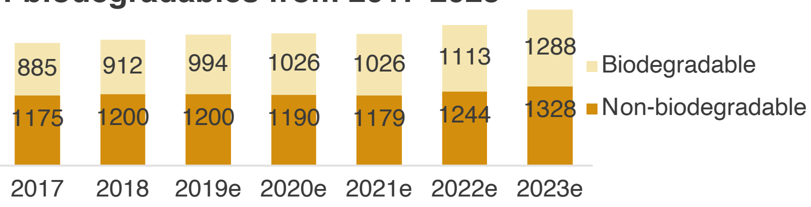


Compostable & biodegradable plastics:

- 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**



Global market value of in $ billion



Global capacity of bioplastic production (in mT tons)

Sources: Statista, GrandViewResearch, Fortune Business Insights, Ellen MacArthur Foundation, Plastics Europe, McKinsey & Company, Association of plastics manufacturers, Markets&Markets

2. Company overview I Company profile & supply chain position

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

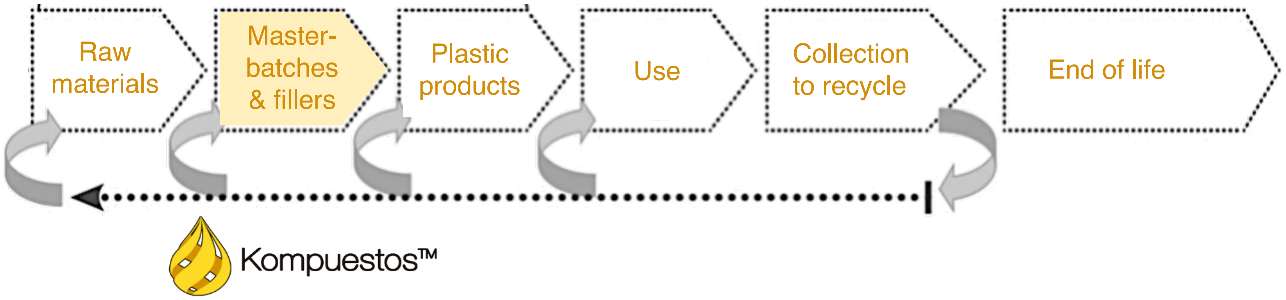
Company profile

- 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

Source: Company data

2. Company overview I 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:

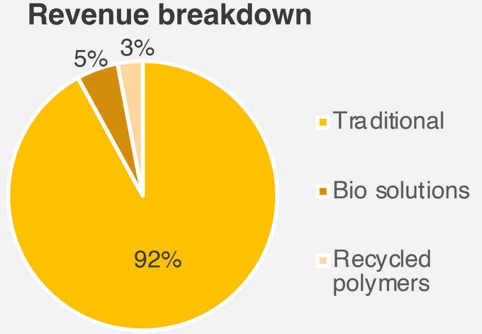
1. Traditional products: mineral fillers, colour, black, white and additive masterbatches

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

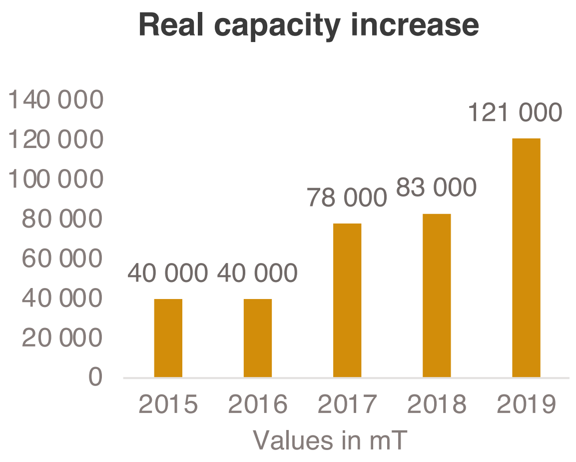
Revenues

- 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



Source: Company data

3. Historical financials I 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

- 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
- 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**

- 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)
- 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

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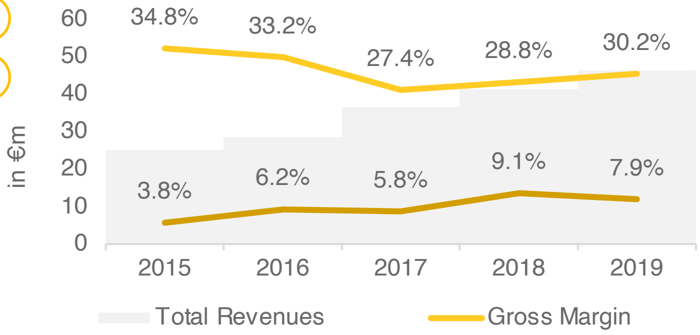


Income Statement

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
1 **Total revenues**	**25.1**	**28.5**	**36.6**	**41.4**	**46.2**
Growth		13.9%	28.1%	13.1%	11.7%
2 Cost of Sales	(16.3)	(19.1)	(26.5)	(29.4)	(32.3)
% of sales	*65.2%*	*66.8%*	*72.6%*	*71.2%*	*69.8%*
3 **Gross profit**	**8.7**	**9.5**	**10.0**	**11.9**	**14.0**
Gross margin	34.8%	33.2%	27.4%	28.8%	30.2%
4 Self-constructed assets	0.1	0.5	1.4	1.2	1.6
% of sales	0.3%	1.6%	3.8%	3.0%	3.5%
5 Personnel expenses	(2.6)	(2.9)	(3.5)	(3.3)	(3.7)
% 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%
6 **Normalized EBITDA**	**1.0**	**1.8**	**2.1**	**3.7**	**3.7**
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)
EBITDA	**1.0**	**1.8**	**2.4**	**3.8**	**3.2**
EBITDA margin	3.9%	6.4%	6.6%	9.1%	6.9%
D&A	0.0	0.0	0.0	0.0	0.0
Net income	**(0.5)**	**0.1**	**0.1**	**0.5**	**0.2**
Net income margin	(1.9)%	0.4%	0.3%	1.2%	0.4%

Source: Company data

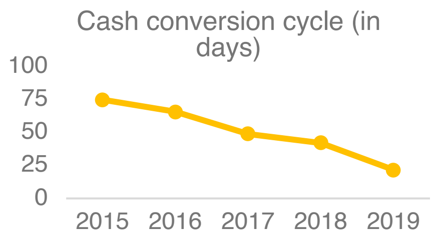
3. Historical financials I Balance sheet & Free Cash Flow

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

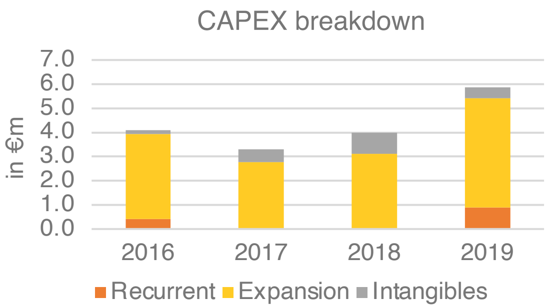
2 25% decrease in 2019 over the previous year driven by increasing exports with better collection periods, an over-all improvement in customer collection management and a selective usage of factoring financing lines. Decreasing cash conversion cycle towards more efficient levels: 75 days in 2015 fell 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
Total non-current assets	**19.6**	**21.1**	**25.2**
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
Total current assets	**11.4**	**14.9**	**13.1**
Total equity	**10.1**	**12.2**	**16.9**
Total non-current liabilities	**6.4**	**7.8**	**9.0**
Trade and other payables	5.7	7.4	8.2
Total current liabilities	**14.5**	**15.9**	**12.4**

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
FCF Core Business	**(1.7)**	**(0.6)**	**(0.9)**
FCF Non Core Business	**0.3**	**0.0**	**(0.7)**
6 **FCF to the firm**	**(1.4)**	**(0.6)**	**(1.6)**

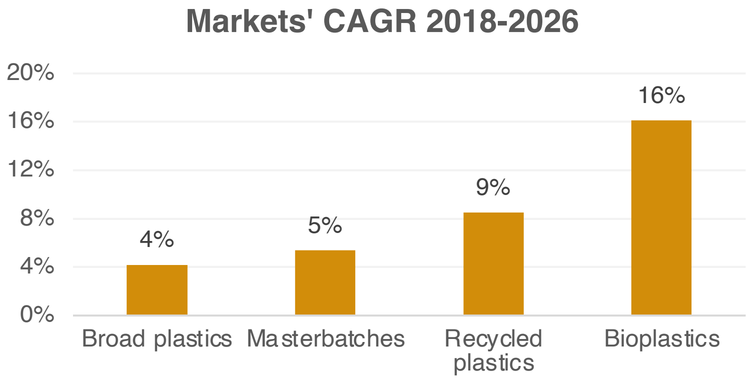
Sources: Company data, GVC Gaesco Beka estimation for Kompuestos

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

Sources: Team analysis, company data

5. Business plan I 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 1st part of the year were relegated to the 2nd. 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	**28.5**	**36.6**	**41.4**	**46.2**	**47.2**	**50.1**	**53.1**	**56.4**	**59.9**	**63.6**	**67.7**
Growth		28.1%	13.1%	11.7%	2.1%	6.0%	6.1%	6.2%	6.2%	6.3%	6.3%
A											
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)	**27.7**	**35.3**	**41.3**	**42.3**	**43.2**	**45.6**	**48.1**	**50.8**	**53.6**	**56.6**	**59.7**
Growth		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											
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)				**2.3**	**2.4**	**2.7**	**3.2**	**3.7**	**4.3**	**5.0**	**5.8**
Growth					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
C											
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)	**0.9**	**1.3**	**0.1**	**1.6**	**1.6**	**1.8**	**1.9**	**2.1**	**2.3**	**2.5**	**2.7**
Growth		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

Sources: Team analysis, company data

5. Business plan I Operating model

Space for margin optimization and growth

EBITDA margin deconstructed forecast

Bio solutions and recycled raw materials → Market growth trend and lower production cost in alternative products

Margin optimization → Margins moving towards peer's average, increasing the company's efficiency

- 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 68.8%
- 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

Sources: Team analysis, company data

EBITDA breakdown

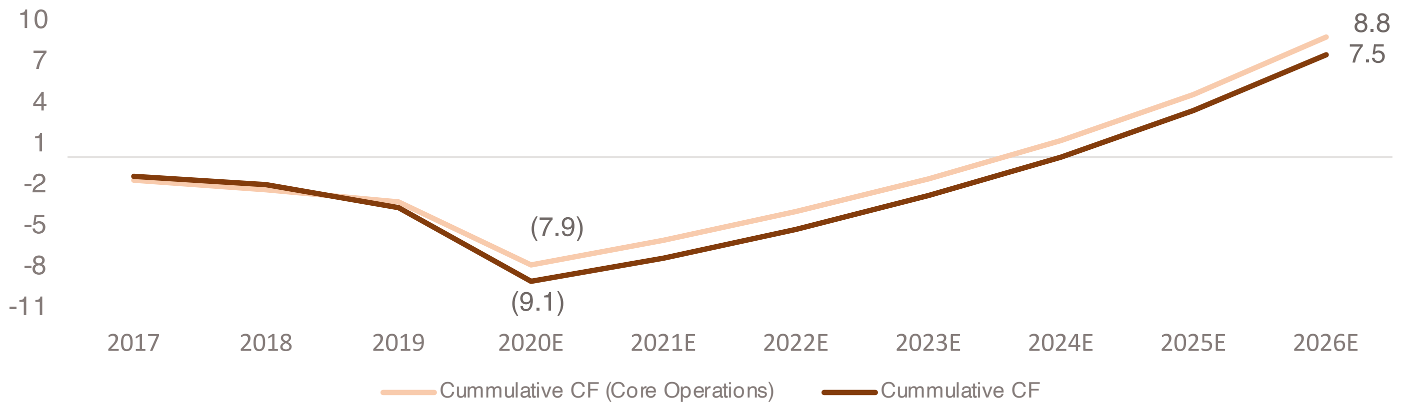
Income Statement (in €m)	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Total revenue	**28.5**	**36.6**	**41.4**	**46.2**	**47.2**	**50.1**	**53.2**	**56.6**	**60.2**	**64.0**	**68.2**
Traditional products COGS	18.5	25.6	29.4	29.7	30.3	32.0	33.8	35.6	37.6	39.7	41.9
% of sales	66.8%	72.6%	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
% of sales				62.8%	62.8%	62.8%	62.8%	62.8%	62.8%	62.8%	62.8%
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
% of sales	66.8%	72.7%	71.2%	68.8%	68.8%	68.8%	68.8%	68.8%	68.8%	68.8%	68.8%
Total cost of sales	**19.1**	**26.5**	**29.4**	**32.3**	**32.9**	**34.9**	**37.1**	**39.4**	**41.9**	**44.5**	**47.4**
% of sales	66.8%	72.6%	71.2%	69.8%	69.8%	69.7%	69.7%	69.6%	69.6%	69.5%	69.5%
Gross profit	**9.5**	**10.0**	**11.9**	**14.0**	**14.3**	**15.2**	**16.1**	**17.2**	**18.3**	**19.5**	**20.8**
Gross profit margin	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
% of sales	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
% of sales	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
% of sales	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
% of sales	4.0%	4.7%	5.6%	4.0%	5.2%	5.0%	4.8%	4.6%	4.4%	4.2%	4.0%
EBIT	**0.7**	**0.7**	**1.8**	**1.9**	**0.1**	**1.9**	**2.4**	**3.0**	**3.6**	**4.6**	**5.8**
EBIT margin	2.4%	2.0%	4.3%	4.1%	0.2%	3.8%	4.5%	5.3%	6.0%	7.2%	8.4%
Normalized EBITDA	**1.8**	**2.1**	**3.7**	**3.7**	**3.7**	**4.4**	**4.9**	**5.6**	**6.2**	**7.3**	**8.5**
EBITDA margin	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
EBITDA	**1.8**	**2.4**	**3.8**	**3.2**	**2.6**	**4.4**	**4.9**	**5.6**	**6.2**	**7.3**	**8.5**
EBITDA margin	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 I 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
	Core Business FCF										
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**

Cumulative cash flows for the firm (€m)



Sources: Team analysis, company data

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)

6. Exit and returns I 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
Senior debt				
Term Loan A	9.3	2.5x	25.8%	2.75%
Term Loan B	2.2	0.6x	6.2%	2.85%
Total debt	**11.5**	**3.1x**	**32.0%**	
Fixed Return Instrument	19.5	4.3x	44.9%	
Ordinary Equity	4.9	1.3x	13.7%	
Institutional Ords	4.2			
Management Sweet Equity	0.7			
Total equity	**24.4**	**6.6x**	**68.0%**	
Total sources	**36.0**	**9.7x**	**100%**	

Uses of funds	(in €m)	%
Normalized EBITDA 2020	3.7	
Multiple	9.4x	
Enterprise value	**34.9**	**97**
Financing fees		
DD fee	0.2	0.5
Arrangement fee	0.2	0.5
Other fees and expenses	0.7	2
Total fees	**1.1**	**3**
Total uses	**36.0**	**100%**

Comments

Sources and uses of funds

- Total funds are sourced from an **equity contribution of 6.6x EBITDA (€ 24.4m) and leverage of 3.1x EBITDA (€ 11.5m)**
- 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
- **Total uses of funds, amounting to € 36.0m**, are to be paid for the **EV of € 34.9m and fees of € 1.1m**
- The **EV** is based on an entry multiple of **9.4x EBITDA**

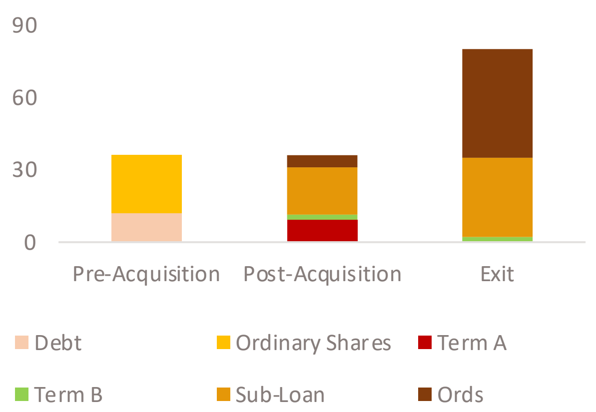
Kompuestos' projected debt conditions

Expected rating:
BB

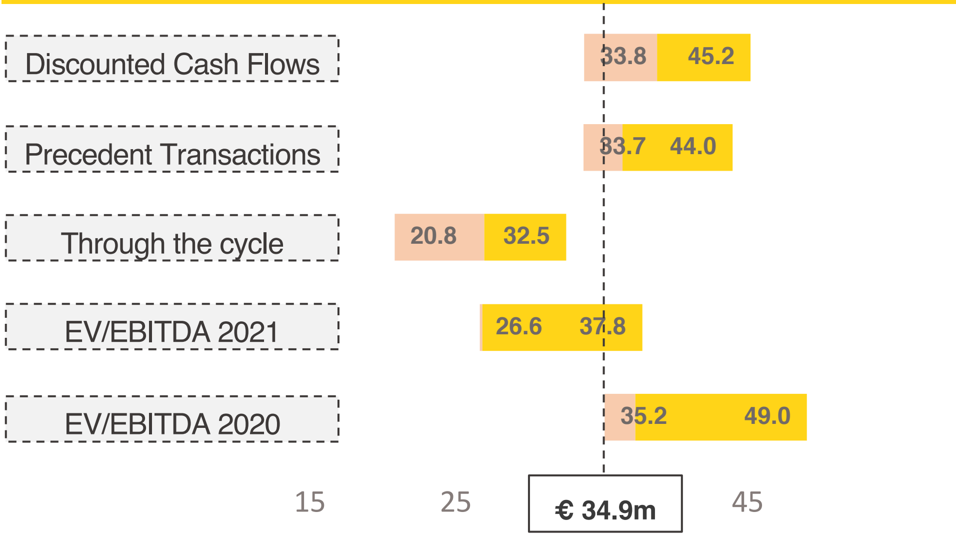
Pricing:
2-3%

- **Type of debt:** Senior debt, tranches A and B, both secured
- **Additional instruments:** Acquisition Capex facility
- **Maximum leverage:** 3.1x EBITDA
- **Pricing:** 2-3% of interest rate
- **Maturity:** 6-7 years

Changes in capital structure (€m)



Valuation references – Football field

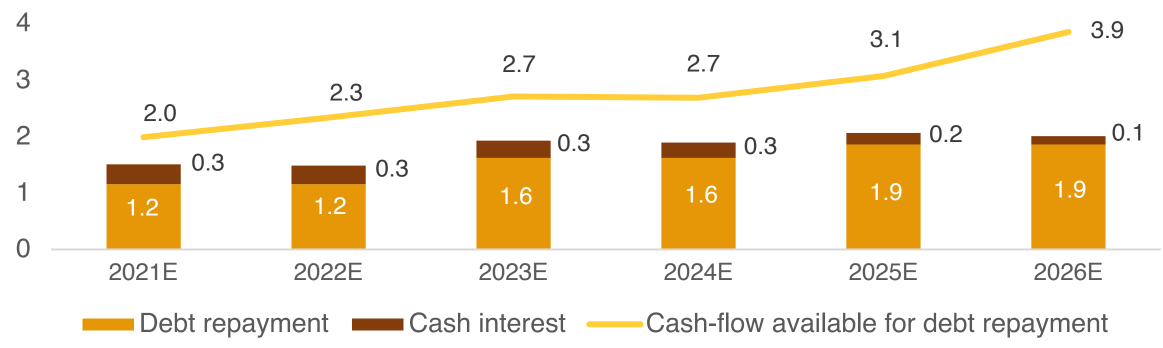


Sources: Team analysis, company data & Santander DCM team advisory

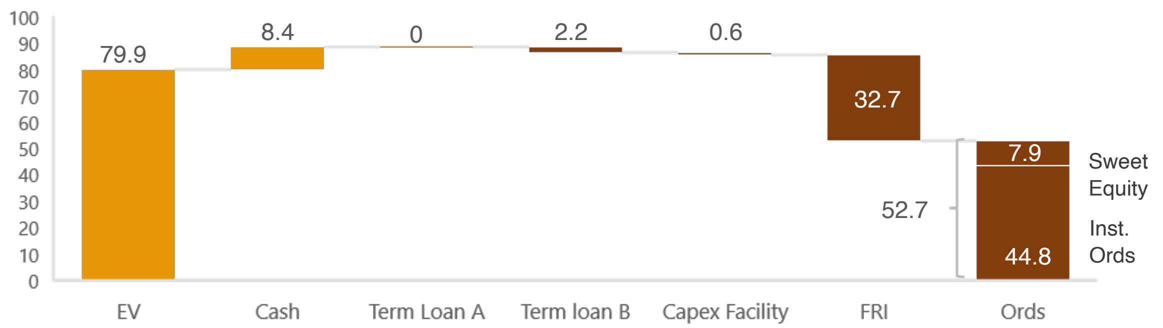
6. Exit and returns I Debt repayment, credit statistics, exit returns & value creation

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)



Exit waterfall 2026 (in €m)



Credit statistics

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

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
Management MM	**2.2x**	**3.3x**	**4.5x**	**5.9x**	**8.1x**	**10.7x**
Management IRR	**124.8%**	**82.1%**	**65.5%**	**55.9%**	**53.1%**	**48.4%**
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
Institutional Investor MM	**1.3x**	**1.6x**	**1.9x**	**2.2x**	**2.7x**	**3.3x**
Institutional Investor IRR	**29.5%**	**25.1%**	**23.1%**	**21.9%**	**22.0%**	**21.8%**

Value creation breakdown (in €m)

Sources: Team analysis, company data

7. Exit strategy I 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

AVIENT · BASF · americhem · lyondellbasell

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

AIAC · CVC · H.I.G. CAPITAL

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

Sources: Team analysis, company data

Kompuestos™

Investment Committee Paper

Private Equity Challenge – Individual Presentation

5. Business Plan

6. Entry Valuation

7. Individual essay

5. Business plan I Normalized EBITDA (1/2)

EBITDA margin improvements stem from sales of higher margin products and operating efficiencies

Expenses (in €m)	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	CAGR 19-26	
Gross profit	**9.5**	**10.0**	**11.9**	**14.0**	**14.3**	**15.2**	**16.1**	**17.2**	**18.3**	**19.5**	**20.8**	**5.8%**	1
Operating income	0.5	1.4	1.2	1.6	1.1	1.7	1.8	1.9	2.1	2.2	2.3		2
Personnel expenses	2.9	3.5	3.4	3.7	3.8	4.1	4.4	4.7	5.0	5.3	5.3		3
Other operating expenses	5.3	5.8	6.3	8.7	9.1	9.1	9.1	9.1	9.1	9.0	9.0		4
Normalized EBITDA	**1.8**	**2.1**	**3.7**	**3.7**	**3.7**	**4.4**	**4.9**	**5.6**	**6.2**	**7.3**	**8.5**	**12.8%**	5
Normalized EBITDA margin	*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	0.0	(0.5)	(1.2)	-	-	-	-	-	-		
EBITDA	**1.8**	**2.4**	**3.8**	**3.2**	**2.6**	**4.4**	**4.9**	**5.6**	**6.2**	**7.3**	**8.5**	**15.1%**	
EBITDA margin	*6.4%*	*6.6%*	*9.1%*	*6.9%*	*5.4%*	*8.8%*	*9.3%*	*9.8%*	*10.4%*	*11.4%*	*12.5%*		

Cost drivers

2 Operating income registered a decrease in 2020 due to the pandemic. In the following years, a recover is expected. Non-financial and other capital gains are almost irrelevant historically, and therefore were extinguished in the forecast. Both self-constructed assets and other operating income were returned to averages in the forecasting

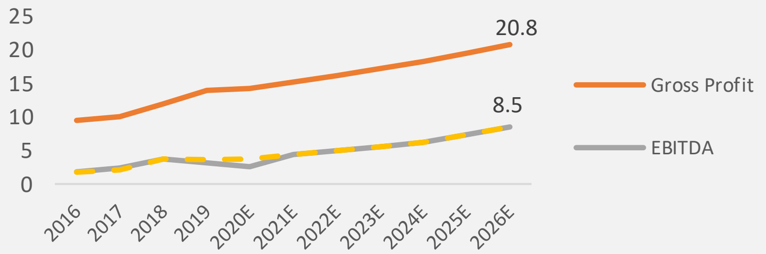
3 Personnel expenses were calculated based on the number of the employees. In relative terms, this item demonstrated an irrelevant shift in 2020. In 2020, there were no job cuts, all the operations continued and the revenue per employee was similar to the historical values. Therefore, the item was returned to the average in the forecasting

4 This item includes external services, pre-EBITDA taxes, impairments, provisions and other operating expenses. In 2020, this item increased in relative terms, corresponding to one-off increases of impairments, provisions and safety & hygienic expenses to fight Covid-19. A portion of these changes was considered in the normalization adjustments

Comments

Gross margin improvements will stem from 2 sources: 1

- Increasing portion of sales from high margin products
- Margin optimization by increasing efficiency of operations



5

EBITDA growth comes from:

- Strong revenue growth across high-margin segments
- Efficiencies accomplished at overhead levels
- Perpetually growing gross margins

Normalization adjustments in 2019 corresponded to the syndicated refinancing of the company's debt and the expenses related to the IPO process. Lack of growth in total EBITDA FY20 comes from the effect of the pandemic. In this period, extraordinary provisions and impairments were recorded. Furthermore, unusual spending was recorded to keep the safety measures and hygiene requirements. All of these expenses were added back to the EBITDA to obtain the normalized EBITDA

Source: Team analysis, company data

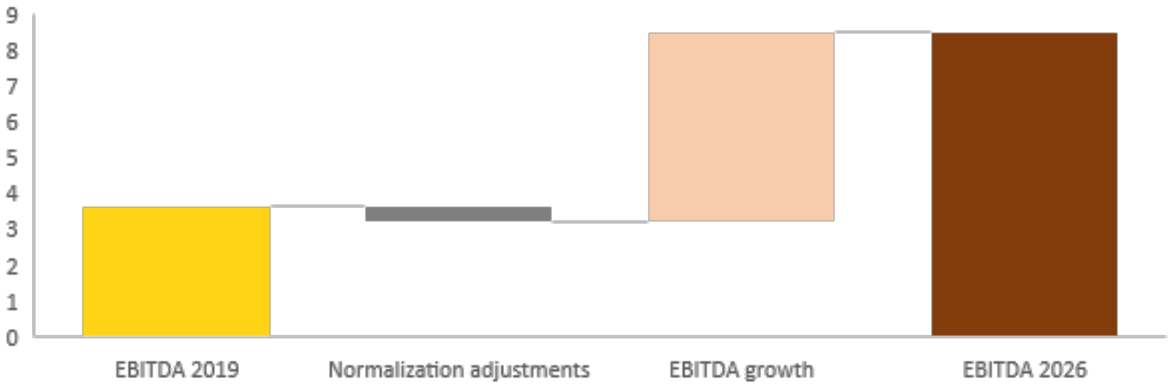
5. Business plan I Normalized EBITDA (2/2)

After accounting for the normalization adjustments, normalized EBITDA grows at 1.3% YoY in 2020

Reported to Adjusted EBITDA (in €m)	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Normalized EBITDA	**1.8**	**2.1**	**3.7**	**3.7**	**3.7**	**4.4**	**4.9**	**5.6**	**6.2**	**7.3**	**8.5**
% growth	-	20.2%	77.1%	(2.1)%	1.3%	18.0%	12.7%	12.5%	12.2%	17.1%	16.3%
1 Grant	-	0.3	0.3	-	-	-	-	-	-	-	
2 Syndicated refinancing of the Company's debt	-	-	-	(0.1)	-	-	-	-	-	-	
3 Expenses related to the process of the IPO	-	-	-	(0.4)	-	-	-	-	-	-	
4 Other adjustments	0.1	0.0	(0.3)	-	(1.2)	-	-	-	-	-	
Total normalization adjustments	**0.1**	**0.3**	**0.0**	**(0.5)**	**(1.2)**	-	-	-	-	-	
EBITDA	**1.8**	**2.4**	**3.8**	**3.2**	**2.6**	**4.4**	**4.9**	**5.6**	**6.2**	**7.3**	**8.5**
% growth	-	32.9%	55.9%	(15.1)%	(19.7)%	71.4%	12.7%	12.5%	12.2%	17.1%	16.3%

EBITDA bridge (in €m)

The increase in EBITDA is due to the growth in Kompuestos' operation and the margin improvements implemented by Kompuestos' management



Source: Team analysis, company data

Comments

1. Non-financial and other capital grants are recognized as income and considered a one-off gain as it is not recurrent for Kompuestos to receive these forms of assistance. When there is reasonable assurance that there will be compliance with a grant's conditions and it will be received, the grant is recognized

2. Expenses related with the capital increase transaction for listing on the growth segment of the Alternative Equity Market, in 2019

3. Non-recurring expense that corresponds to the syndicated refinancing of the company's debt, formalized in March 2019

4. **EBITDA 2020**

For 2020 some expenditures were one off events, that necessarily must be considered when calculating the normalized EBITDA. The high other operating expenses as % of sales in the 1H 2020 was an odd event. However, part of this costs one-off expenses that must be accounted to calculate the normalized EBITDA

It was added to the normalization adjustments all the extraordinary recording of provisions, impairments losses, costs with safety and hygiene, special costs with transportation, one-off external services expenses

5. Business plan I Capex and NWC

Null expansion expenditures expected to reduce Capex drastically in the next years

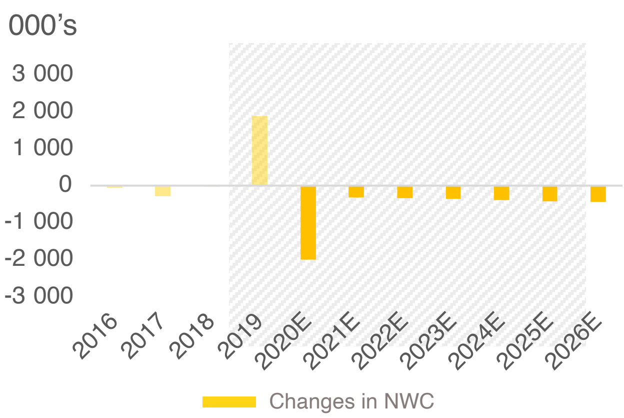
Forecast explained

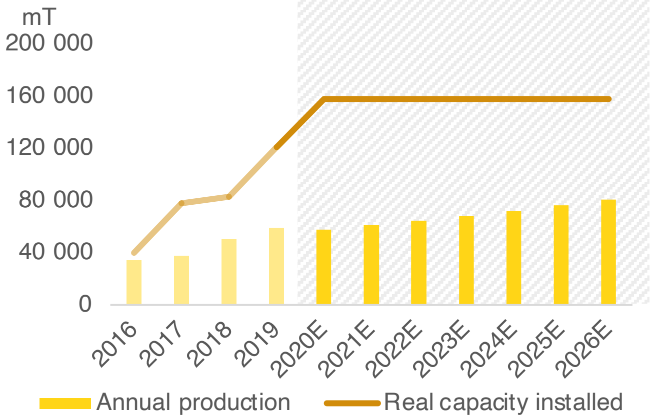
- **Operating NWC** is expected to grow throughout the forecasted period at a **6.3% CAGR** sustained by the incremental figures of inventories and accounts payable (driven by COGS) and also by accounts receivable (driven by revenues). As % of sales, it will stabilize at c. 12%
- **Cash conversion cycle** increased from 22 days at entry to 38 days at exit: AHP increased from 79 days to 80 days, ACP increased from 34 days to 47 days while APP decreased from 92 days to 89 days
- In 2016, the Capex value was driven by the **investment in two different machines**: to produce mineral based plastics and bio solutions
- From 2017 until 2020, Capex as percentage of sales increased exponentially, peaking precisely in 2020, when Kompuestos incurred in multiple investments(1). Such investments were one off events, so **Capex is expected to stabilize in the following years** (c. 3.5% of sales following a major drop compared to 2020)
- Part of the **investment in increasing the bio solutions segment capacity** (started in 2019) was made in 2020 at the same conditions (Capex per mT installed of 0,12) resulting in an expansion Capex of € 4.4m
- The **projected total annual production, which will grow at a c. 5.9% CAGR**, is not expected to surpass the 158,000 mT mark, meaning that further increases in the capacity installed will no longer be required, translating into a null expansion Capex from 2021 onwards

Source: Team analysis, company data

Capex & NWC breakdown

Capex & NWC (in €k)	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Operating NWC	**4 931**	**5 257**	**5 478**	**3 676**	**5 684**	**6 035**	**6 411**	**6 814**	**7 246**	**7 711**	**8 210**
Change in operating NWC	(25)	326	222	(1 802)	2 008	351	376	403	432	465	500
% of sales	*(0.09)%*	*0.89%*	*0.54%*	*(3.90)%*	*4.25%*	*0.70%*	*0.71%*	*0.71%*	*0.72%*	*0.73%*	*0.73%*
Capex	**4 096**	**3 287**	**3 977**	**5 874**	**6 039**	**1 740**	**1 849**	**1 965**	**2 089**	**2 223**	**2 367**
% of sales	*14.35%*	*8.99%*	*9.61%*	*12.70%*	*12.79%*	*3.47%*	*3.47%*	*3.47%*	*3.47%*	*3.47%*	*3.47%*
Recurrent	418	0	0	904	923	979	1 040	1 106	1 176	1 251	1 332
Expansion	3 511	2 768	3 125	4 518	4 399	0	0	0	0	0	0
Intangibles	167	519	852	452	717	761	808	859	913	972	1 035
Real capacity installed (mT)	40 000	78 000	83 000	121 000	158 000	158 000	158 000	158 000	158 000	158 000	158 000
Capacity added (mT)		38 000	5 000	38 000	37 000						
Annual production (mT)	34 448	37 611	50 450	59 288	57 789	61 082	64 577	68 288	72 232	76 426	80 890





(1) Between the list of investments, we may find: New machine to produce fillers (traditional business) started in 2018 and finalized in 2019; New machine to produce bioplastic solutions BioKomp and Okean; Investments related to the safety (anti-fire) of the production facilities; Increase in intangibles driven by R&D

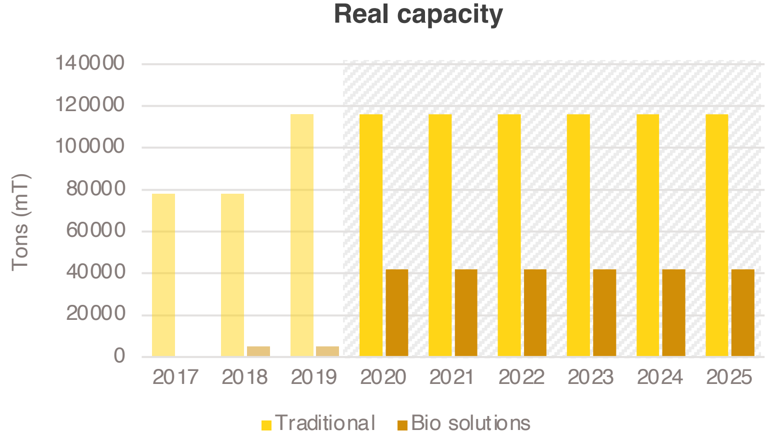
5. Business plan I Expansion capex: Investment research insights

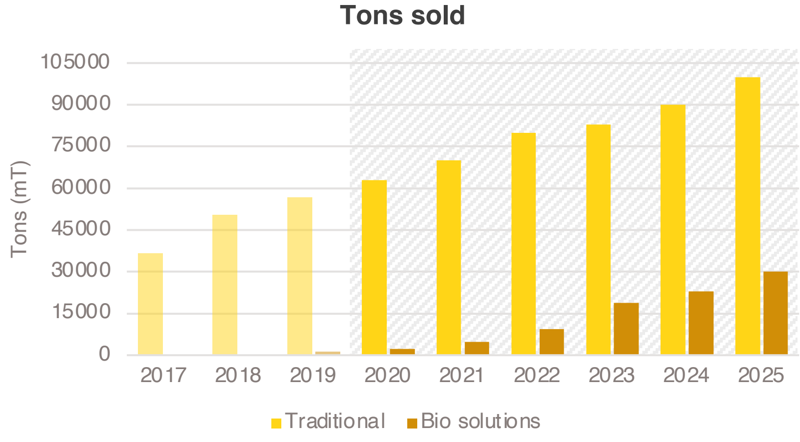
Even with higher sales and production, null expansion Capex are still expected for the next years

GVC Gaesko Beka forecast: real capacity installed and annual production

Investment research conducted by GVC Gaesko Beka in 2019 exhibits higher projections for Kompuestos' sales (both in the traditional and on the bio solutions segments) and, as such, higher numbers for the produced tons

GVC Gaesko Beka forecasts	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E
Real capacity installed (mT)	**78 000**	**83 000**	**121 000**	**158 000**	**158 000**	**158 000**	**158 000**	**158 000**	**158 000**
Traditional Business	78 000	78 000	116 000	116 000	116 000	116 000	116 000	116 000	116 000
Bio solutions		5 000	5 000	42 000	42 000	42 000	42 000	42 000	42 000
Annual Production (mT)	**36 545**	**50 381**	**57 933**	**65 362**	**74 724**	**89 448**	**101 896**	**113 000**	**130 000**
Recurrent	36 545	50 381	56 752	63 000	70 000	80 000	83 000	90 000	100 000
Intangibles			1 181	2 362	4 724	9 448	18 896	23 000	30 000





- GVC Gaesko and other researchers (such as Intermoney Valores) anticipate a much higher revenue and production expansion when compared to the previously presented forecasts (more conservative and in line with market growth and demand predictions). The drivers used by the researchers to conduct the estimations are unknown
- The predictions made by GVC Gaesko are in line with the **massive expansion in real capacity that has been taking place since 2016**, in order to ensure enough capacity of production to meet future accelerating demand. According to their research paper, although tons sold grow substantially, the **total production will not surpass the installed capacity in the next 5 years**
- Although presenting higher sales and production values, the conclusions derived from the analysis of GVC Gaesko's research in terms of Expansion Capex are the same as the ones presented in the previous slide: **the firm's production is not expected to surpass the 158,000 mT mark**, implying a **null expansion Capex requirements from 2021 onwards**

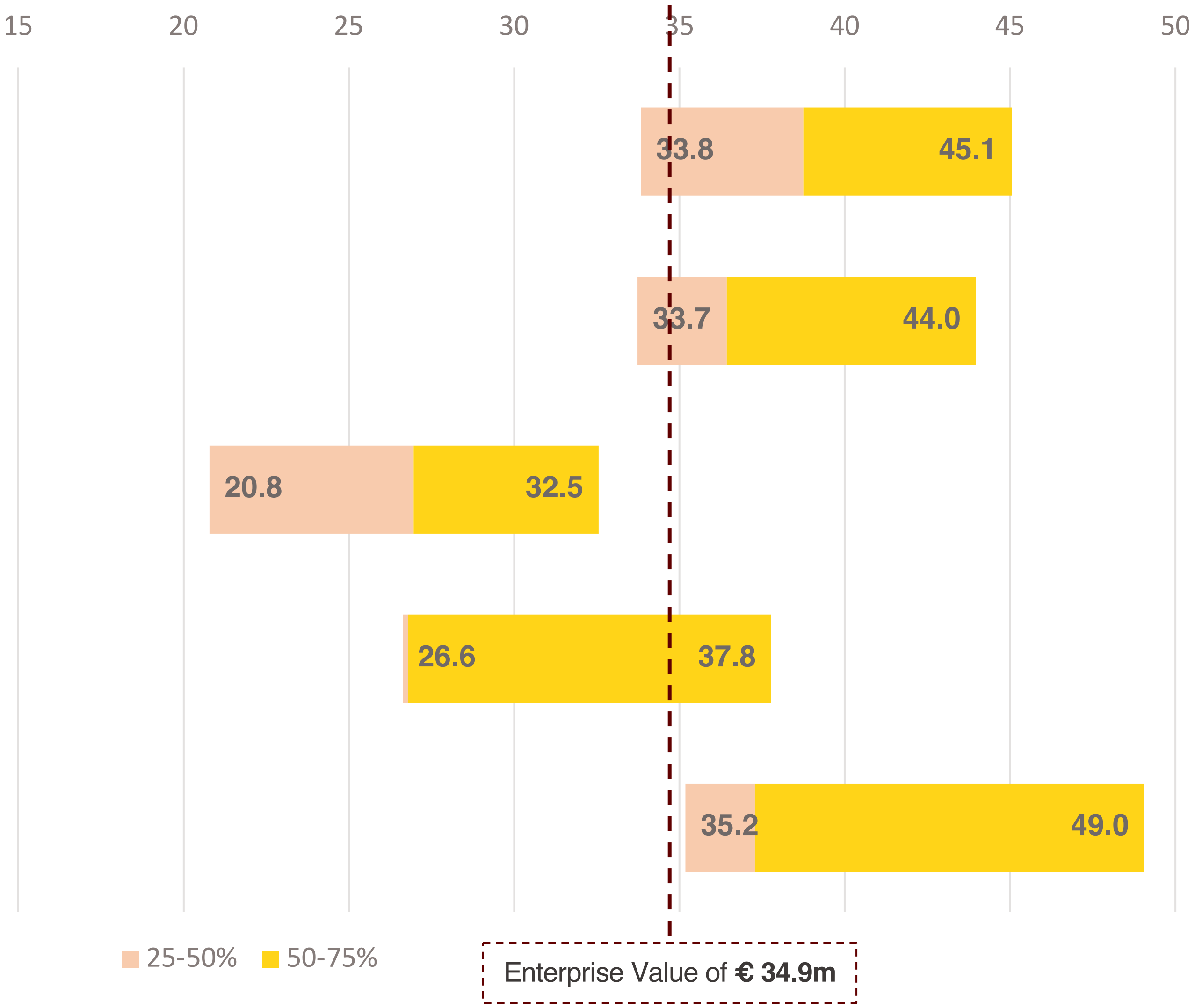
Source: Team analysis, company data & GVC Gaesko Beka estimates

6. Exit and returns I Entry valuation (1/5)

Analysis of valuation considerations indicate an enterprise value of € 34.9m at an EV/EBITDA multiple of 9.4x

Valuation references – Football field

		EV/EBITDA multiple range
Discounted Cash Flows	DCF valuation considering a terminal growth rate of 0.6% and a WACC of 9.5%	10.4x – 12.1x
Precedent Transactions	Based on comparables transactions in the masterbatches sector since 2015	9.8x – 11.8x
Through the cycle	Over the last 5 years, the average peers' EV/EBITDA has been quite stable	7.3x – 8.8x
EV/EBITDA 2021	Multiples of 2021 considered to understand valuations post pandemic	7.2x – 10.2x
EV/EBITDA 2020	Comparable companies selected based on similar business model and size	10.0x – 13.2x



Source: Team analysis, company data

6. Exit and returns I Entry valuation (2/5)

Multiples valuation

Trading comps

	Price (€)	Market cap. (€ bn)	EV (€ bn)	EV/Revenue		EV/EBITDA		P/E		Dividend Yield (%)	% of 52-week high	LTM EBITDA margin (%)
				2020	2021	2020	2021	2020	2021			
Kompuestos	2.5	0.03	0.04	0.7x	0.5	10.0	7.1	41.7	38.5	-	69%	5.2%
Avient Corp.	32.3	2.96	4.04	1.6x	1.3x	13.4x	10.3x	24.5	17.9x	2.2%	100%	9.5%
Cabot Corp.	35.5	2.01	2.91	1.3x	1.2x	9.3x	6.9x	22.1x	12.7x	3.3%	88%	14.8%
Wacker Chemie	106.7	5.57	6.14	1.3x	1.2x	9.6x	7.3x	n.m.	21.8x	0.5%	97%	-
Nexam Chemical	0.8	0.07	0.07	5.1x	3.3x	n.m.	n.m.	-	12.8x	-	79%	1.1%
Hexpol	8.5	2.82	2.96	2.3x	2.1x	13.3x	11.5x	22.2x	18.0x	2.6%	93%	16.8%
Elkem	2.7	1.59	2.32	1.0x	0.9x	10.1x	7.2x	n.m.	14.9x	2.1%	96%	9.8%
			Median	1.4x	1.2x	10.0x	7.2x	22.0x	16.1x	2.2%	-	9.8%
			Average	2.1x	1.7x	11.0x	8.5x	22.6x	16.1x	2.1%	-	10.4%

*Analysing trading comparable companies operating in the **masterbatches sector**, the **2020 median EV/EBITDA** multiple period is **10.0x***

Source: Thomson Reuters (as of December 5th, 2020)

6. Exit and returns I Entry valuation (3/5)

Precedent transactions

Comparable precedent transactions

Announcement date	Acquirer	Target	Deal Value (€m)	Stake acquired	EV/EBITDA	EV/Revenue	EBITDA margin
Fev-20	Ascend Performance Materials Operations	Poliblend & Esseti Plast GD	56	100%	5.1x	0.7x	13.7%
Mar-20	OMV AG	Borealis	5,712	39%	11.9x	1.5x	12.6%
Dec-19	Avient Corporation	Clariant (Masterbatches Division)	1,348	100%	12.1x	-	-
Dec-19	Avient Corporation	Clariant Chemicals India (Masterbatches Division)	54	100%	17.3x	-	-
Aug-19	DIC Corp	BASF SE (Pigments Division)	1,150	100%	9.6x	1.2x	12.5%
Oct-19	Sinochem International & private investor	ELIX Polymers	195	100%	9.6x	0.9x	9.4%
Aug-18	LyondellBasell Industries	A. Schulman	2,311	100%	17.1x	1.2x	7.0%
Jan-18	Avient Corporation	IQAP Masterbatches Group	67	100%	8.9x	1.5x	16.9%
Apr-17	Aurica Capital Desarrolllo	Delta Tecnic	20	40%	10.0x	1.4x	14.0%
Dec-15	Avient Corporation	Magenta Master Fiber	20	100%	6.8x	-	-
		Median	131	-	9.8x	1.2x	12.6%
		Average	1,093	-	10.8x	1.2x	12.3%

Analysing disclosed comparable transactions in the ***masterbatches sector****, the* ***median EV/EBITDA*** *multiple over the 2015-2020 period is* ***8.9x***

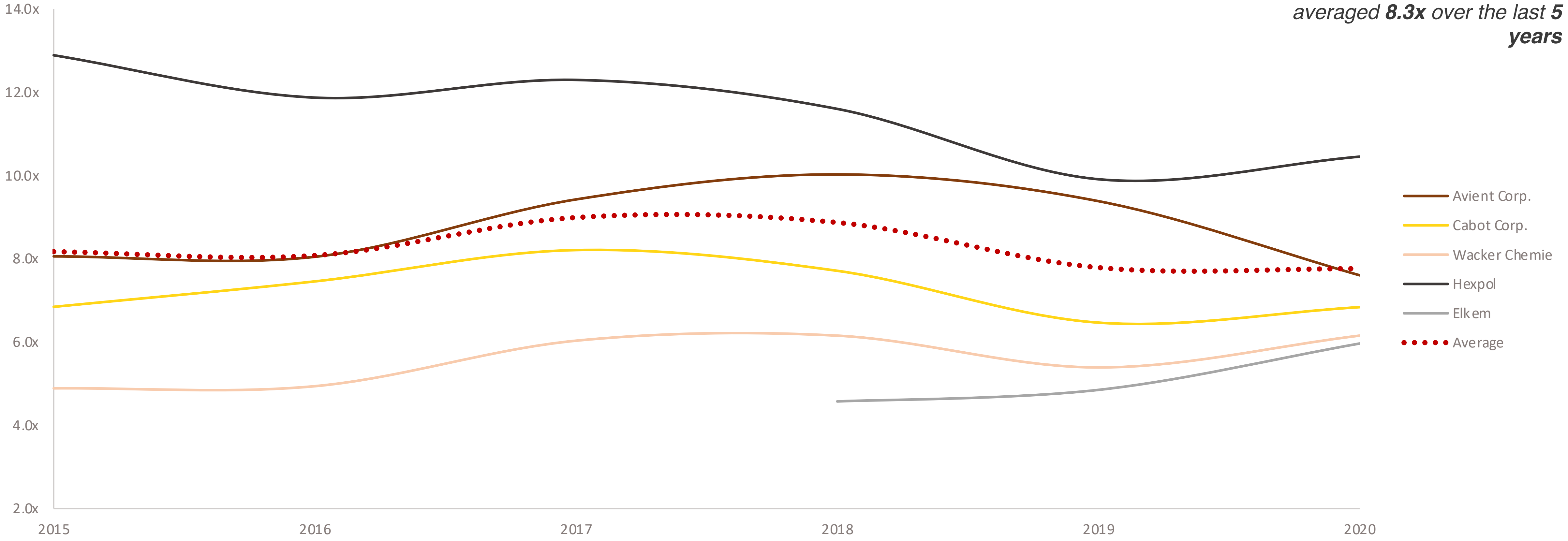
Source: Mergermarket

6. Exit and returns I Entry valuation (4/5)

Multiples valuation

Through-the-cycle trading multiples

*EV/EBITDA across peers in the masterbatch segment has averaged **8.3x** over the last **5 years***



Source: Thomson Reuters (as of December 5th, 2020)

Note: Nexam Chemical was excluded from this analysis given the lack of meaningful EV/EBITDA multiples

6. Exit and returns I Entry valuation (5/5)

Intrinsic valuation

Discounted cash flows & WACC

Free Cash Flow (in €m)	2021	2022	2023	2024	2025	2026	Terminal value
Core Result (NOPLAT)	1.4	1.8	2.2	2.7	3.5	4.3	
Depreciation & Amort.	2.5	2.5	2.6	2.6	2.7	2.7	
Operational Cash flow	3.9	4.4	4.8	5.3	6.2	7.1	
Recurrent Capex	(1.0)	(1.0)	(1.1)	(1.2)	(1.3)	(1.3)	
Expansion Capex	0.0	0.0	0.0	0.0	0.0	0.0	
Intangibles Capex	(0.8)	(0.8)	(0.9)	(0.9)	(1.0)	(1.0)	
Working Capital needs	(0.4)	(0.4)	(0.4)	(0.5)	(0.5)	(0.6)	
FCF Core Business	**1.8**	**2.1**	**2.4**	**2.8**	**3.4**	**4.1**	
FCF Non Core Business	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	
Free Cash Flow to the firm	**1.8**	**2.1**	**2.4**	**2.8**	**3.4**	**4.1**	**4.1**
Enterprise Value	**38.7**						

Sensitivity analysis

g / WACC	7.5%	8.0%	8.5%	9.0%	9.5%	10.0%	10.5%	11.0%	11.5%
0.0%	48.4	45.0	42.0	39.4	37.0	34.9	33.0	31.3	29.7
0.2%	49.3	45.8	42.7	40.0	37.6	35.4	33.5	31.7	30.1
0.4%	50.4	46.7	43.5	40.7	38.2	35.9	33.9	32.1	30.4
0.6%	51.4	47.6	44.3	41.3	38.7	36.4	34.4	32.5	30.8
0.8%	52.6	48.6	45.1	42.1	39.4	37.0	34.8	32.9	31.1
1.0%	53.8	49.6	46.0	42.8	40.0	37.5	35.3	33.3	31.5
1.2%	55.1	50.7	46.9	43.6	40.7	38.1	35.8	33.8	31.9

METHODOLOGY

- Future cash flows discounted at cost of capital, reflecting risk-return assessment based on a multi-year business plan
- The growth rate of the last year forecasted (2026) was considered a good proxy for the terminal growth rate, at 0.6%
- To arrive at the weighted-average-cost-of-capital, firstly, an analysis of peers' betas was performed to arrive at the unlevered equity beta, which measures the riskiness of the firm's operations. That beta was later on levered considering Kompuesto's capital structure
- Given the lack of official credit ratings, a synthetic rating was computed, later on used to understand the cost of debt
- Kompuesto's weighted-average-cost-of-capital was calculated as 9.5%, which is relatively in line with analysis estimates
- Appropriate sensitivity analysis were performed to understand the impact of the key inputs

Key assumptions	
WACC	**9.5%**
Terminal growth rate	0.6%

Source: Company data, Thomson Reuters

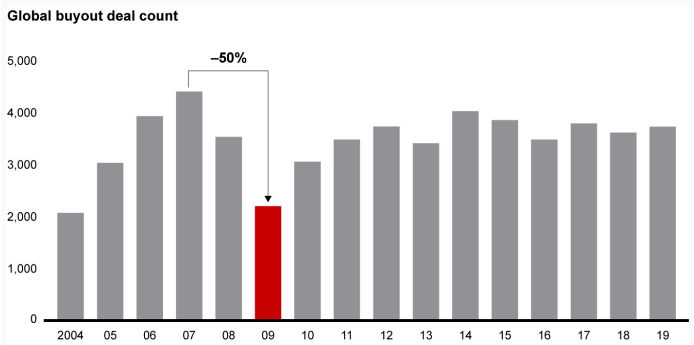
7. Individual Essay I Covid-19 impact on the Private Equity industry

Covid-19 expected to create new attractive opportunities for financial sponsors despite high uncertainty levels

Overview of the Private Equity industry

- The private equity industry reached **record high levels of available capital in 2019**, amounting to **$ 1.5tr,** as investors turn to alternative investments in search of higher returns. This resulted in higher valuations and more competition with dry powder rising, creating a **tougher marker situation**, which was **made even more difficult by the sharp economic shock of the Covid-19 pandemic**
- The lockdown months had a **severe effect on consumer behaviour**, **impacting economic activity** and **rising uncertainty** at a global level as the long-term effects of the pandemic are yet to be established, which makes cash flow forecasting and valuation more challenging
- Nevertheless, throughout 2020, the **Private Equity industry has shown its resilience**, with activity picking up in Q3 2020 after GPs focused on helping portfolio companies adapt during the 1st half of 2020
- Despite the increased uncertainty, the PE market is expected to **take advantage of the low interest environment and the $ 1.7tr in dry power** available to invested in new growth markets, outperforming public markets just like it did in previous global economic downturns

Steep recovery after the 2009 global financial crisis



Source: Individual analysis, McKinsey & Company, Bain & Company, S&P Global, Bloomberg

Key Covid-19 takeaways: Opportunities and challenges

New opportunities

1. New consumer habits developed during the pandemic, as well as to the acceleration of certain trends already initiated before Covid-19 (e.g., digitalization, analytics driven marketing), **created new attractive opportunities**

2. Sector expertise is expected to have a higher impact on value creation in order to tackle the current challenges, providing as an even bigger advantage to win deals – leading many PE houses to partner with strategic buyers

3. New opportunities in distress investing as the pandemic affected the liquidity position of many companies

Valuation

4. Current **macro and sector environment must be evaluated before pursuing an investment or an exit decision** – during crises, some sectors' multiples take a big fall (e.g., real estate, hospitality, aviation), hence, investment periods may be extended in order to avoid a large cut in exit pricing

5. Many private owners may be reluctant to sell during this time following lower valuations, increasing the **importance of relationship building**

Portfolio

6. Private equity houses invested in companies heavily affected by the pandemic may need to **reconsider the business models previously designed** and **assess the long-term viability of the business** (e.g., logistics, real estate)

7. Portfolio companies may require capital injections in order to deal with liquidity concerns, which may leave less capital available for new investments

Kompuestos™

Investment Committee Paper

Private Equity Challenge

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