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 concentrate industry

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Abstract

This Private Equity project studies the benefits for a private equity firm on acquiring Kompuestos, a producer of masterbatches and other plastic compounds, focused on adapting its business to meet the current environmental concerns. Such premise, aligned with the underlying opportunities inherent to an overall shift from society towards sustainable practices comprises an interesting investment opportunity yielding a 3.3x money multiple.

The importance of plastics is undeniable, and its industry is expected to grow 4.2% annually until 2027, reaching a market value of approximately $ 754bn by 2027.

Kompuestos is a well-established firm within the European plastic compounds market, generating € 46.2m in revenue and an EBITDA of € 3.3m in 2019.

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

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Kompuestos™

Investment Committee Paper

Private Equity Challenge – Group Presentation

A. Introduction | Executive summary

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

Company overview

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

KPIs (in €m)	2020	2021	2022	2023	2024	2025	2026
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

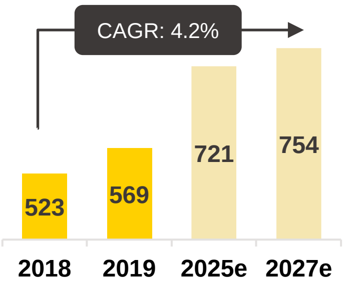
Returns	2021E	2022E	2023E	2024E	2025E	2026E
Management MM	**2.2x**	**3.3x**	**4.5x**	**5.9x**	**8.1x**	**10.7x**
Management IRR	124.8%	82.1%	65.5%	55.9%	53.1%	48.4%
Fund MM	**1.3x**	**1.6x**	**1.9x**	**2.2x**	**2.7x**	**3.3x**
Fund IRR	29.5%	25.1%	23.1%	21.9%	22.0%	21.8%

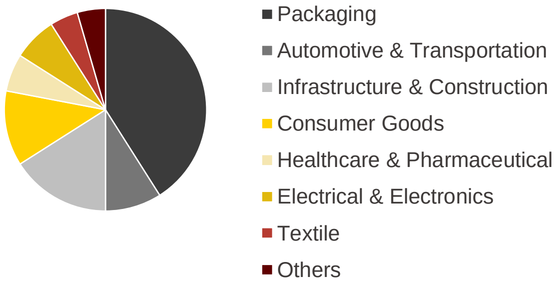
1. Market overview | Plastics market & masterbatches focus

The market is undergoing a transformational period with solid growth expectations

Plastics market overview & outlook

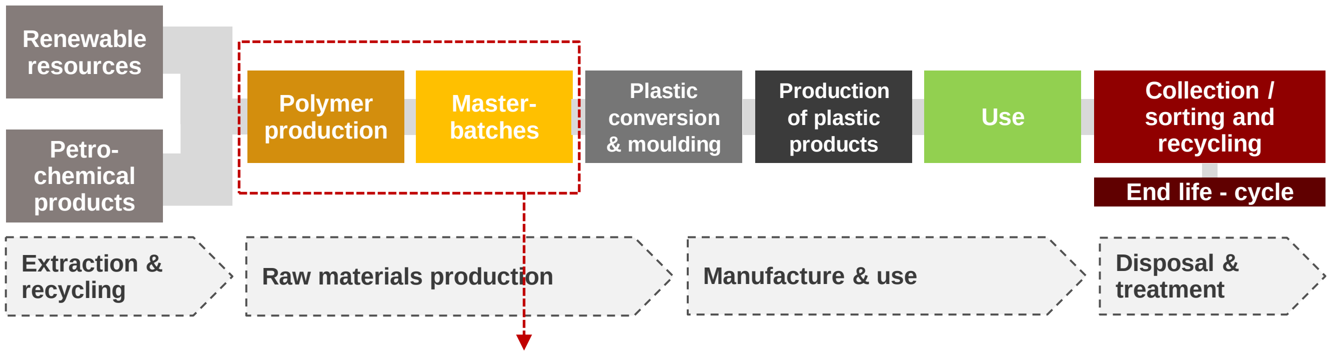
- Plastics are essential in our society, with **+350mT produced annually** used to produce industrial and consumer products
- Plastics have key characteristics such as **versatility, moldability and flexibility**, along with the **cost advantage** and **easy manufacturing nature**
- Polymers (plastics) 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)

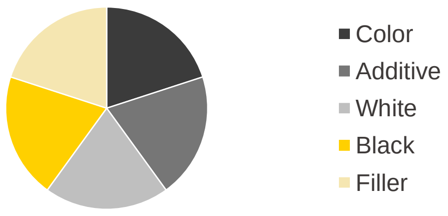
Supply chain



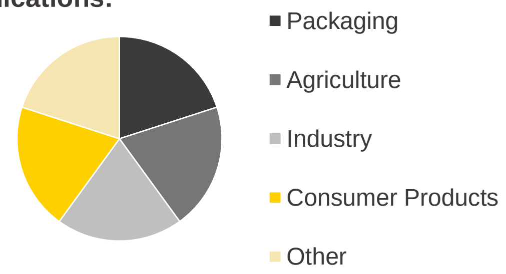
Segment overview: Masterbatches

- 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 | Masterbatches deep-dive

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

Segment overview: masterbatches

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

Main players include:

Key trends

Manufacturers

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

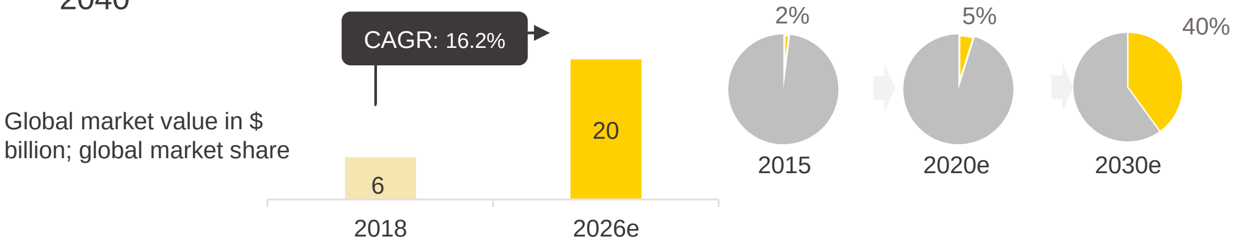
R&D: Perpetual race for the creation of new value-added products and improvement of the production processes

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

Products

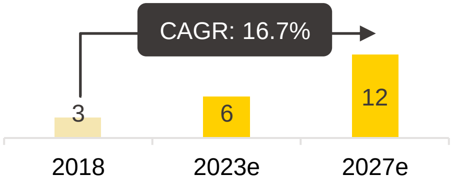
Plastics from renewable resources:

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

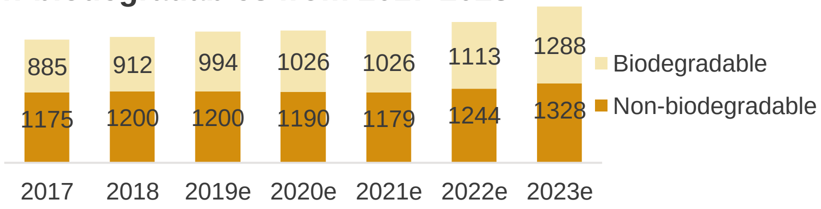


Compostable & biodegradable plastics:

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



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 | Company profile & supply chain position

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

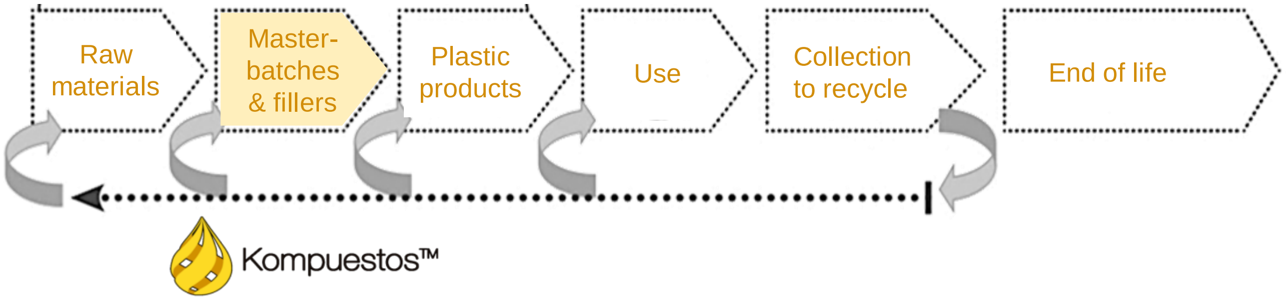
Company profile

- 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 | Product mix, company strategy & growth drivers

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

Product range

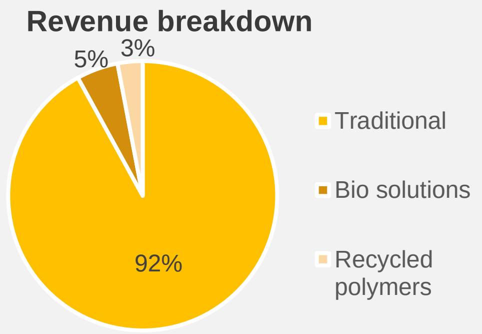
- Kompuestos **produces and sells traditional plastic compounds**, seeking also to develop **greener and more sustainable alternatives**, such as bio-based and biodegradable plastics and plastic recycling technologies

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

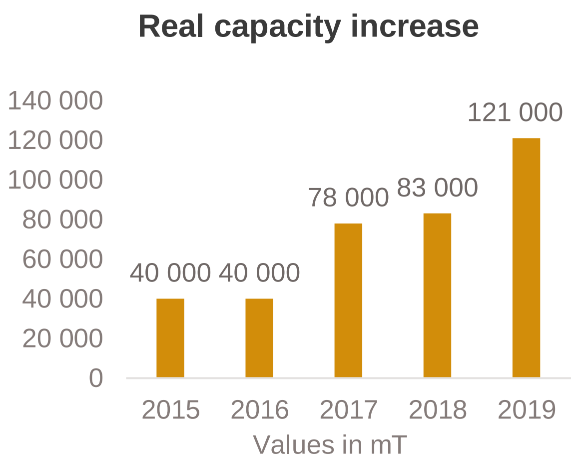
Revenues

- 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 | 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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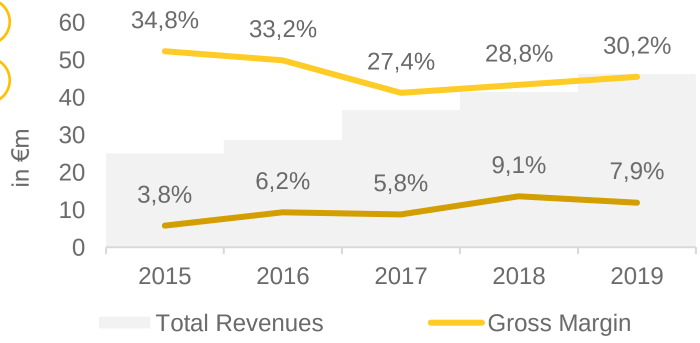


Income Statement

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

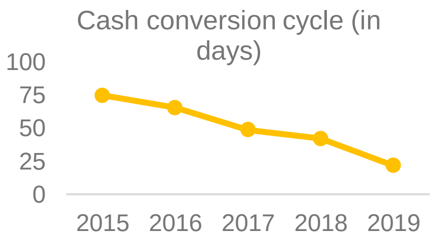
3. Historical financials | Balance sheet & Free Cash Flow

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

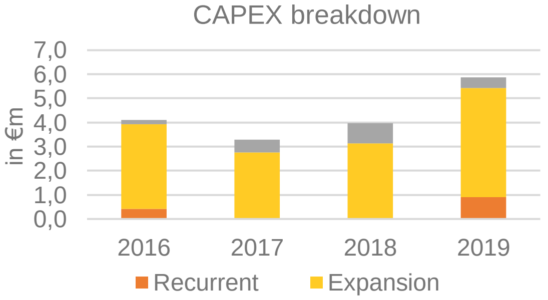
2. 25% decrease in 2019 over the previous year driven by increasing exports with better collection periods, an over-all improvement in customer collection management and a selective usage of factoring financing lines. Decreasing cash conversion cycle towards more efficient levels: 75 days in 2015 fell 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)**

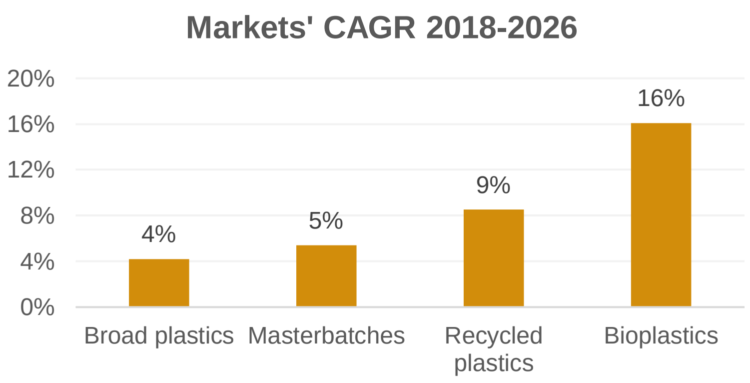
Sources: Company data, GVC Gaesco Beka estimation for Kompuestos

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 | 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 | 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

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%

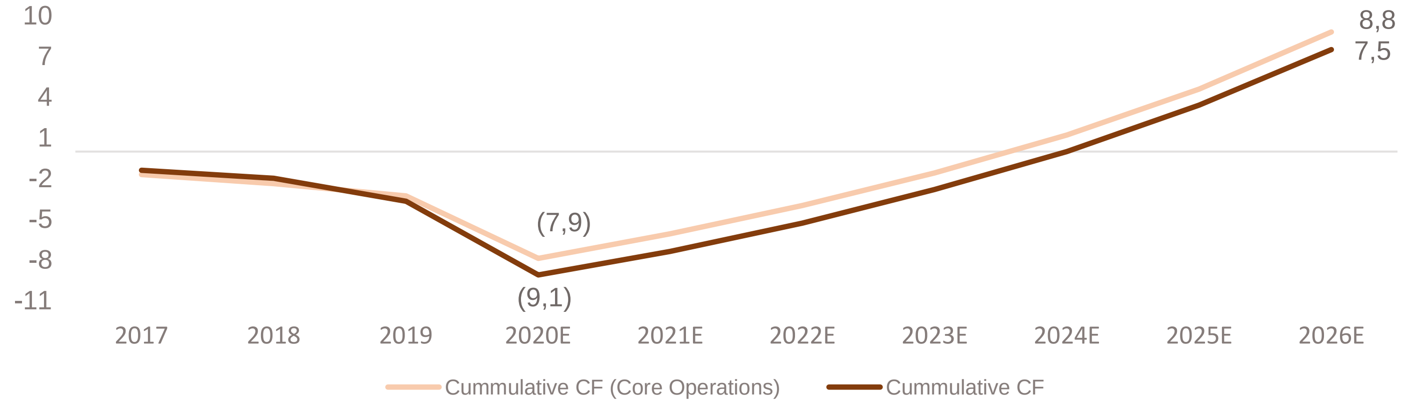
Sources: Team analysis, company data

5. Business plan | Free cash flow

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

	Free Cash Flow (in €m)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	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)



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)

Sources: Team analysis, company data

6. Exit and returns | Capital structure

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

Sources of funds	(in €m)	x EBITDA	%	Interest
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**

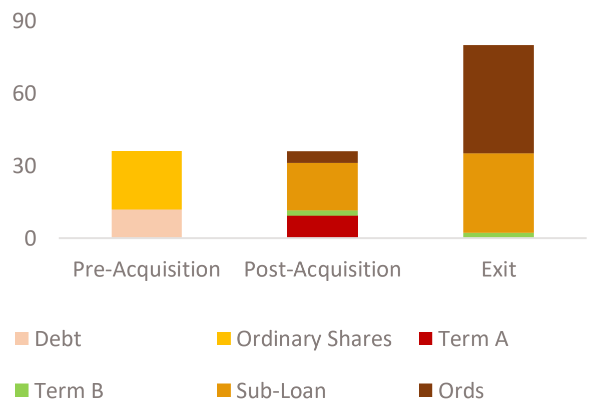
Kompuestos' projected debt conditions

Expected rating:
BB

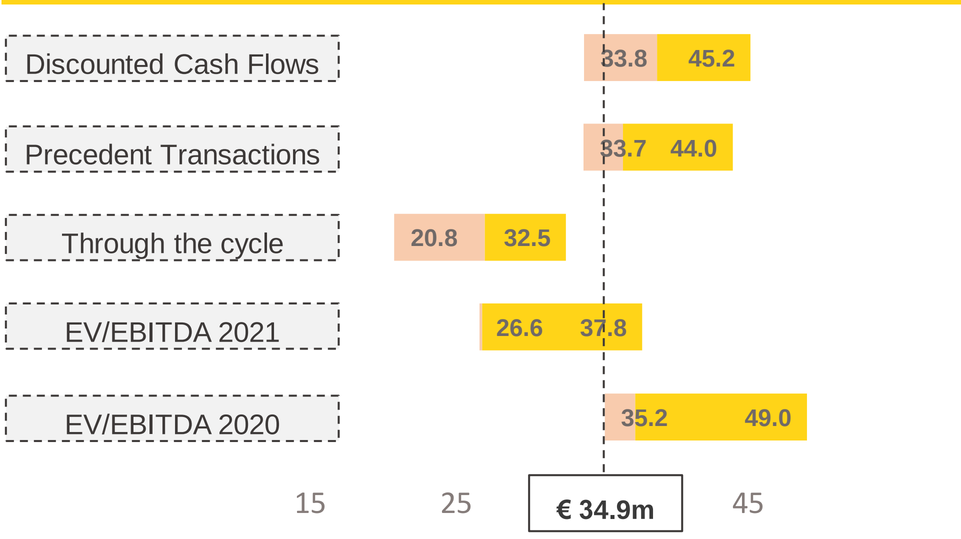
Pricing:
2-3%

- **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

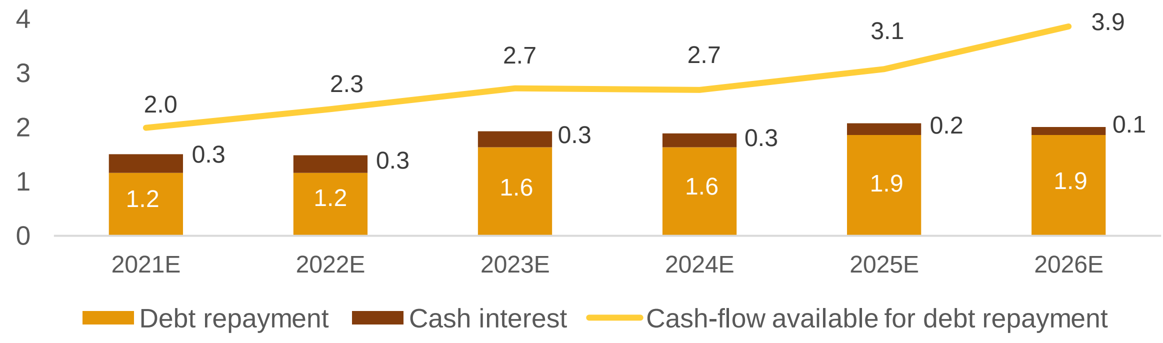


Sources: Team analysis, company data & Santander DCM team advisory

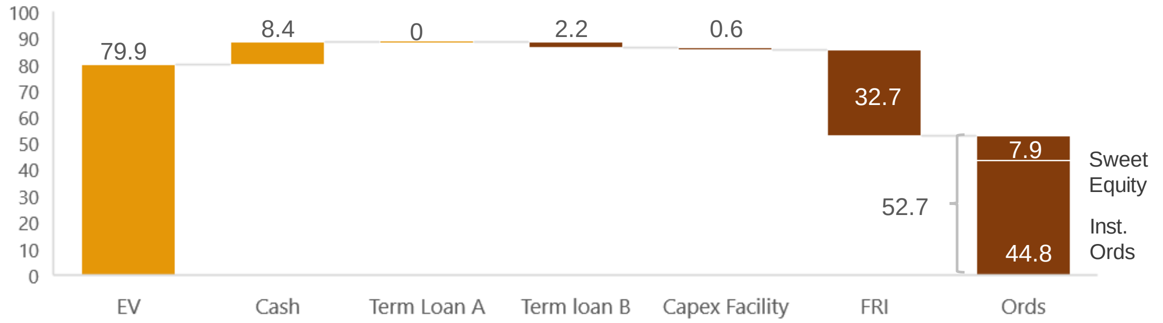
6. Exit and returns | Debt repayment, credit statistics, exit returns & value creation

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)



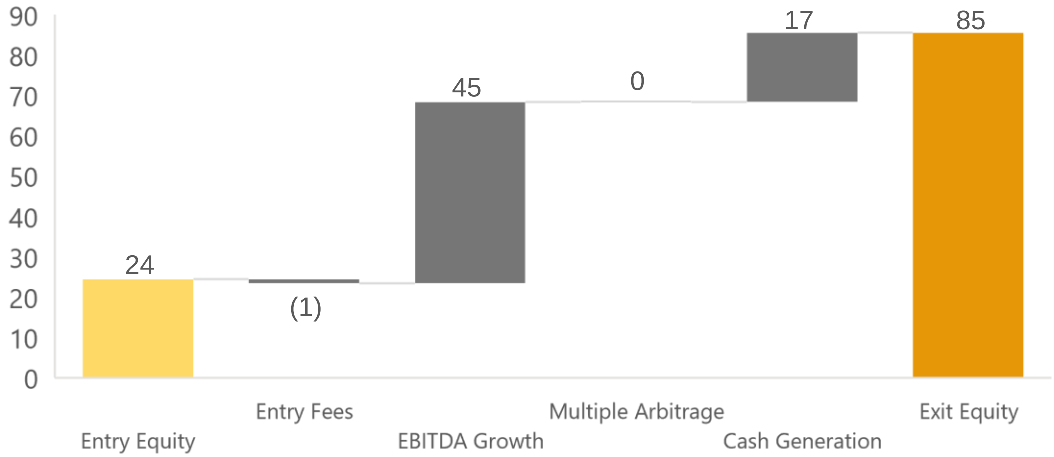
Credit statistics

	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 | Valuable strategic sale

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

Strategic sale

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

Secondary sale

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

IPO & other alternatives

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

AVIENT BASF americhem lyondellbasell

AIAC CVC H.I.G. CAPITAL

Sources: Team analysis, company data

Kompuestos™

Investment Committee Paper

Private Equity Challenge – Individual Presentation

Business Plan (Part I)

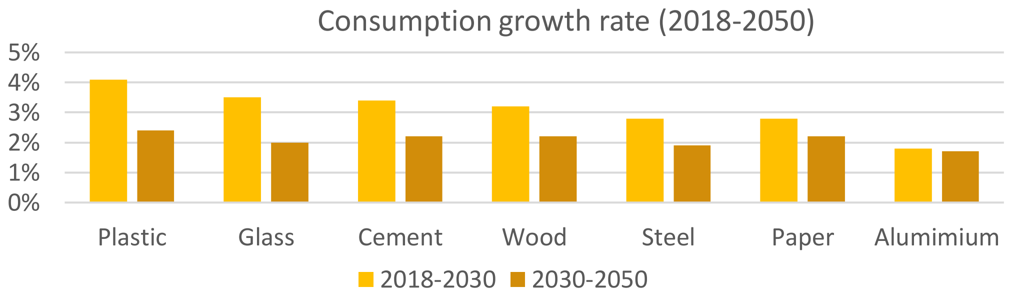
Business plan | Value creation: traditional products

Global masterbatches market expecting a 5.4% CAGR, mainly from packaging, construction and automotive industries

Strategy reasoning (1)

Growing demand

- Global masterbatches market is expected to grow at a 5.4% CAGR
- In Europe, the market growth comes mainly from three segments: packaging, construction and automotive, which together represent more than two thirds of the market



Opportunity to expand the mineral concentrates market share

- Mineral concentrates fillers are an important revenue source for Kompuestos, being a low cost and low footprint product. The firm can use of its strong market position to expand its fillers sale further

Wide range of continuously innovated products

- Production of a huge variety of products, with constant innovation introduced. Innovation is a key factor since it allows the firm to differentiate itself from its competitors and it is valuable to clients (in 2019, 80% of the company's turnover comes from products formulated in the last 5 years)

Strategy execution (2)

- Acquisition of high-quality inputs to produce fillers, due to its geographical position
- Efficient production, through economies of scale in acquisition of raw materials and production brought by the market shared detained in the mineral concentrates
- Take advantage of the synergies in the production of mineral concentrates and black and white masterbatches (shared production line)
- Usage of the installed capacity that is not being used to meet future growing demand
- Apply R&D findings on the introduction of product modifications to confer them higher quality and diversity

Eurostar awarded additives project

Project Repelplas: Development of masterbatches with repellent properties to protect crops of high economic value against common pests and swimming pools against mosquitos

Expected outcome (3)

- Meet future growing demand, selling improved products
- Increase market share for fillers

Source: Team analysis

Business plan | Value creation: bio solutions

Kompuestos will further develop and diversify its bioplastics products using R&D findings and know-how

Strategy reasoning (1)

New market trend

- Growing environmental concern and increasing regulations have been putting pressure on the plastics industry. Companies aim to shift from traditional to bio-based plastics
- In 2015, bioplastics made up 2% of the industry. This share is expected to increase 20x by 2040

Firm's sustainability goals

- Kompuestos has a strong environmental commitment and, for that reason, is betting on developing bio solutions to move towards a more and more sustainable business

Strategy execution (2)

- Strong R&D investment to design, implement and improve the bio solutions offered: Kompuestos is not only focused on developing bioplastics but also on ensuring that they are as close substitutes as possible to the traditional ones. R&D is crucial to ensure product quality and business success given that certain characteristics of traditional plastics are harder to incorporate in bio-based plastics, due to the difference in the raw materials used to produce them
- Acquisition of a new machinery to efficiently produce bioproducts (28 000 mT capacity) using the IPO proceeds
- Market positioning by obtaining certifications for its products from TÜV Austria. Currently, the firm holds 10 certifications and is on the process of obtaining 23 more.

Expected outcome (3)

- Kompuestos will be able to sell its bio solutions to its current customers, as they will need to adapt their production to this new sustainability concern and will rely on the firm to help them doing so
- The firm will also most likely gain new clients, attracted by the environmentally friendly business model
- In what regards costs, the production cost of this solution is slightly higher than the traditional one. However, the selling price is higher as well, paying-off in relative terms, revelling to be a product with a better margin

Source: Team analysis

Business plan | Value creation: production and sale of recycled polymers

Cost saving, revenue generating and sustainability-oriented process

Strategy reasoning 1

New market trend

- The global recycled plastic market size is expected to witness significant growth backed by increasing demand from the packaging industry, with a **CAGR of 8.5%** between 2019 and 2026

Firm's sustainability goals

- As the firm included the circular economy philosophy in its business model, it would be advantageous to exploit the possibility of producing masterbatches from recycled plastics

Cost purposes

- The cost of virgin polymers depends on the cost of crude oil and can vary significantly across the year. Recycled polymer prices are not affected by this fluctuation, as they are not directly connected to such price
- Historically, recycled plastics are cheaper than virgin ones. However, the fall in oil prices in 2019 made virgin plastic cheaper. While, financially, it might be better for brands to use virgin plastic sometimes, doing so may cause long-term damage to them, impacting consumer trust and loyalty

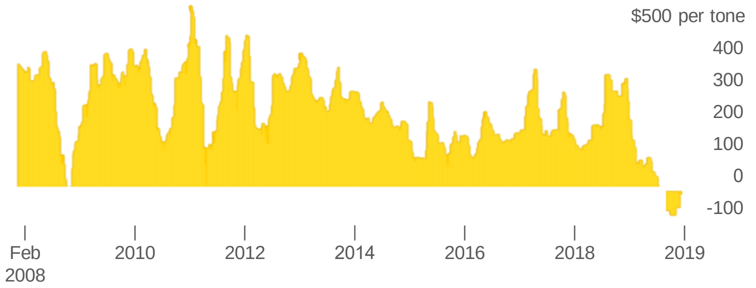
Strategy execution 2

- Kompuestos developed several R&D projects in order to integrate the recycled polymers manufacturing activity into its current business
- Kompuestos developed new technologies that facilitate the process of recycling and reuse of plastics as the "reactive extrusion" (differs from conventional extrusion because, during the reactive extrusion process, not only the components are mixed, but there is also a chemical reaction that affects their chemical structure, generating new branches in the polymer chain)

Expected outcome 3

- Production, at a lower cost, of materials that are more sustainable and environmentally friendly, allowing both the firm and its clients to move towards sustainability in plastic production
- Generation of a new source of income by selling recycling polymers
- Reduction of the consumption of virgin polymer in the industry

Evolution of price differential – Virgin PET minus Recycled PET Flake



Source: Team analysis, S&P Global Platts

Business plan | Value creation: operating efficiency

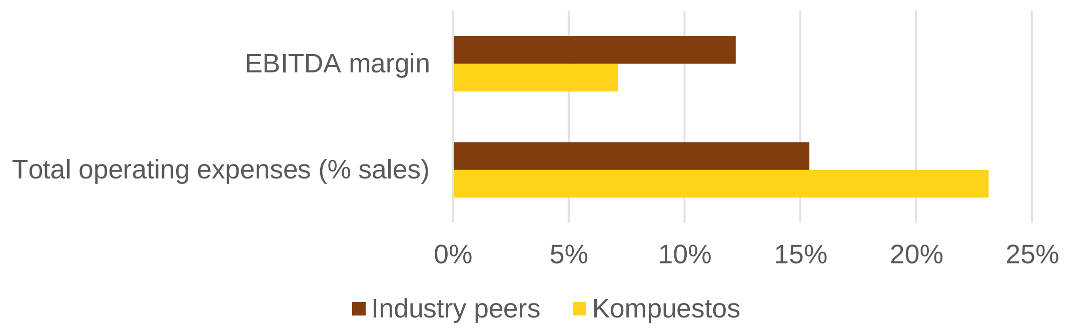
Opportunity to improve the EBITDA margin, mainly through the contention of the other operating expenses

Strategy reasoning 1

Identification of opportunities for improvements

- Although Kompuestos' average gross profit margin is in line with its peers' average, its average EBITDA margin is lower (7% versus 10%)
- Kompuestos has been spending more on total operating expenses than the peers' average (23% versus 18%) on recent years and has still not been able to cut these expenses and come closer to its peers

Industry peers comparison (2016-2019)

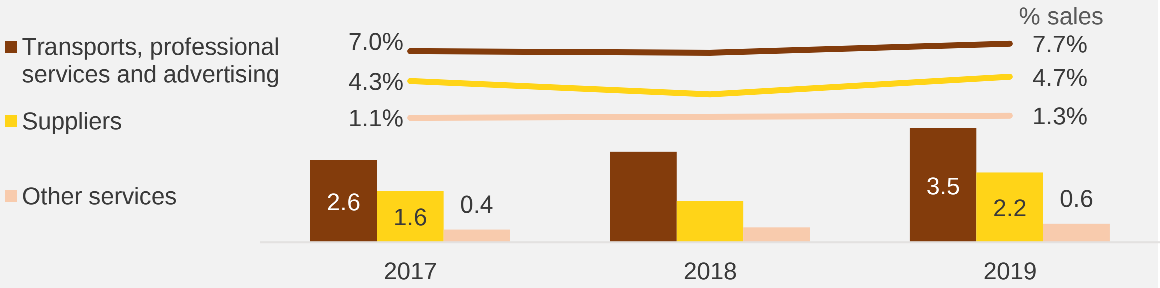


Bio solutions branch requires special attention

- The firm is tackling this business line for the first time and thus, it must be particularly cautious to ensure as much production efficiency as possible
- Even though profit margins for bio solutions are higher, it is necessary to ensure that the bio solutions branch will evolve, at least, in line with the industry results

Strategy execution 2

- Other operating expenses is the most relevant item in the cost structure and is far from reaching optimal levels. This includes external services, taxes and losses, impairment, and variation of provisions for commercial operations. Within the External services, it is possible to proceed the optimization through three items: transportation, professional services and advertisement, suppliers and other services



- The company is in an expansion phase to follow the demand for plastics and, due to this, it is losing efficiency in some key areas. The costs are to be decreased, by increasing scale, arranging better deals with services providers and increasing the firm's bargaining power. In the past the company proved that a better efficiency can be achieved

Expected outcome 3

- Increased EBITDA margin
- Higher margins on the bio solutions business when compared to the traditional business

Source: Team analysis

Business plan | Covid-19 impact

Geographical and client diversification allowed Kompuestos to limit the Covid-19 impact on revenue

Main effects of the pandemic on the industry

Halted government action

As lawmarkers had to shift all their focus to Covid-19, several actions aimed at reducing plastic consumption were paused

Temporary high reliance on single-use plastics

The pandemic increased demand for single-use plastics from the food packaging and healthcare industries

Recession fears

With several countries facing recession alarms, plastic's afordability and practicality outweighs environmental concerns

Cheaper raw materials

Drop in global production and the Russia-Saudi Arabia price war caused oil prices to collapse, making plastic cheaper to produce

Kompuestos: impact & action

- Kompuestos has presented, in early March 2020, a **protocol with preventive measures** to ensure production continuity and preserve the safety of its staff
- **Both production plants are operating** to ensure that the firm's supply is not affected
- The firm is continuously **taking actions** to guarantee the continuation of its operations under the current **market uncertainty** and the **creation of value** for its shareholders
- Following the Coronavirus outbreak, during 1H 2020, revenue decreased 8.2% compared to the same period of 2019
- There was a **drop in demand from manufacturers in non-core industries**, such as automotive and furniture, however, this decrease was partly offset by **a spike in orders from clients connected to healthcare & hygiene as well as packaging**

Three of Kompuestos' largest clients, Armando Álvarez Group (largest Spanish transformer of plastic film), Dopla Group (producer of disposable tableware and biodegradable food containers) and Papier Mettler (leader in paper and plastic packaging), saw a jump in demand following the new sanitary concerns during the pandemic

- **Kompuestos' geographical diversification** contributed to avoid a sharp decline in revenues as observed across various companies following the lockdowns
- Additionally, **client diversification** and the lack of reliance on particular industries allowed Kompuestos to limit the impact of the pandemic, given that some clients were positively and others negatively affected

Source: Team analysis

Business plan | Identified risks

The value creation might be jeopardized by external effects, such as industry regulations and changes in preferences

Main risk per business line

1 Traditional business

- Imposition of restrictions in the traditional plastic consumption/production may compromise the growth of the traditional business and increase the need to exploit bio solutions further, which might increase costs in the short run

2 Recycled polymers business

- Inability to compete with virgin polymers prices in case of sustained decreases in oil prices
- Inability to obtain recycled polymers with the same features of virgin ones

3 Bio solutions business

- Biodegradable plastics generally have higher manufacturing costs than conventional plastics, since their production processes are still in the refinement phase and economies of scale have not yet been achieved
- Furthermore, biodegradable plastics have not yet reached a level of technical development similar to that of conventional plastics, especially in areas such as heat and impact resistance and gas permeability. These factors could limit the market share of biodegradable plastics, which could affect the sales of the company's bio solutions business
- New products developed are subject to approval before being commercialized and this may take longer than expected and be more costly than planed

Overall risks

Changes in consumer preferences

- Increased promotion of anti-plastic campaigns by activist and environmentalists could constrain overall demand for plastic, regardless of their origin, type of product or biodegradability levels, leading to demand-side challenges from manufacturers. Single use plastic are to be extinguished, however, Kompuestos do not have a great exposure to this market and the company have no dependency from a specific industry

New sources of competition

- The development of a new material as energy efficient and practical as plastic could result in an overall drop in demand

Loss of clients

- Most of Kompuestos' clients are SMEs which tend to be more affected by macroeconomic events as these do not have the resources necessary to cope with sharp drops in demand and liquidity shortages. Losing clients if these go out of business would put the company's growth strategy at risk

Operating efficiency

- Inability to control operating expenses, due to higher rents and/or transportation costs, failing to move towards peers' EBITDA margin

Source: Team analysis

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Investment Committee Paper

Private Equity Challenge – Individual Presentation

Private Equity – Investment opportunities for PE firms on a post pandemic scenario

Private Equity | Investment opportunities for PE firms on a post pandemic scenario

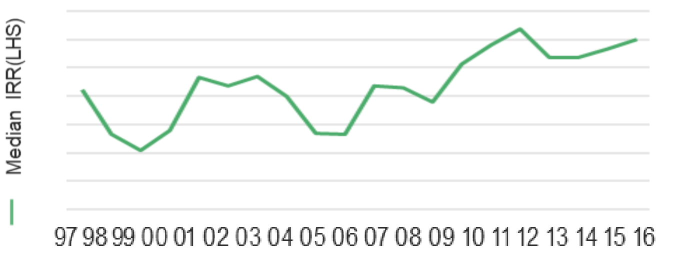
Despite the economic recession originated by the pandemic, there are still investment opportunities for PE firms

There is room for favorable valuations under a pandemic scenario and consequent favorable returns, contrasting with the descending trend affecting the majority of businesses around the world. As a result, Private Equity firms may stand as a distinctive source of capital tailored to assist businesses recover from the Covid-19 pandemic

Main reasons

- The long-term horizon underlying PE investments creates room for recovery, exponential growth and consequent returns for investors. This feature aligned with firms' valuations negatively affected by the pandemic presupposes opportunities to invest in attractive businesses at a lower entry multiple, increasing exit margins

Coronavirus and Private Equity Investing | Morgan Stanley [1]



"In the past two decades, funds that started deploying cash following a crisis performed 68% higher than funds whose vintage years fell during late-cycle peak economic growth (such as 1998 to 2000 or 2005 to 2007). This may be due, in part, to private equity funds getting more favorable deal pricing during market downturns" [1]

- Covid-19 has impacted companies in many areas, from their workforces to the underlying supply chain, from the relation with customers to the revenue streams. Consequently, there was a boost demand-wise for the persevering and also flexible capital offered by the private equity industry, and this may exceed the inherent supply. Such dynamic has characterized prior cycles, with the returns from private equity commitments made after global crises outperforming those made during other periods [1]

- Businesses that previously presented great prospects but were not for sale may be considering additional funding alternatives, something PE funds can offer followed by a well-structured path towards recovery [2]

- "All PE funds, including credit and growth capital, have amassed an estimated $1.4 trillion war chest, ready for immediate deployment. Private credit funds (…) have grown into an $800 billion industry" [3]. Such money is now available to support firms in ways that were not possible in previous crises

Source: (1) Morgan Stanley Investment Management. 2020. "The case for Private Equity investing amid the crisis"
(2) Menghi, J. Abrol, B. Savoy, E. 2020. "How can private equity firms help reverse the economic damage"
(3) Segal, J. 2020. "Private Equity Firms Won't Waste Another Crisis"

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Investment Committee Paper

Private Equity Challenge

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