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VISTA ALEGRE ATLANTIS INVESTMENT COMMITTEE PAPER - RETURNS

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Abstract

The proposed Investment Committee Paper is intended for academic purposes only. The project aims to study a private equity deal using a Leveraged Buyout (LBO) for Vista Alegre Atlantis (VAA), a market leader in the ceramic and glass tableware sector. Our goal is to understand how the LBO could be structured, what returns it could provide, and what exit strategies can be pursued. In addition, we will focus on analysing and forecasting the business plan and defining the optimal capital structure. The conclusion is that VAA is an attractive investment opportunity, able to leverage the market's growth.

Keywords

Private Equity, LBO, Valuation, Returns, Exit Strategy, Capital Structure, Tableware Market

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Company Overview

VAA is a prestigious Portuguese tableware company in the **ceramic** and **crystal** sector that operates in four segments: **crystal and glass**, **earthenware, porcelain**, and **stoneware**. It is an **export-oriented** company with a diversified multichannel distribution and the most **advanced** and **efficient factories** in the world, making constant investments to promote **energy efficiency** in its processes. Although companies in this sector have an above-average **ESG** risk, VAA performs better than the average of its peers in the sector's most relevant KPIs, namely in the environmental aspect (BPI 2021). The company has been a **strong financial performer**, with one of the **highest EBITDA margins** among its peers. Additionally, its industry-leading position, profitability potential, and B/S strength have led the company to re-emerge stronger after the pandemic. Regarding logistics, VAA has fast delivery across Europe, and privileged access to raw materials at short distances, allowing several cost savings. (BPI 2021) The Portuguese group offers a **broad** portfolio of **differentiated** products that combine **high-tech** with **handcrafted** elements. These products are sold through various channels, 40% under its brand (33% at retail, 7% at horeca) and 60% under private label to critical customers, such as **IKEA** – the Ria Stone factory is fully used for IKEA production (CaixaBank BPI 2022). VAA has evolved through time, and from a producer of **high-quality** luxury porcelain, the company has significantly diversified its portfolio to reach **more customers** while maintaining its quality standards. The industry can be segmented into two major groups: (1) the **low-mid-range** market and (2) the **high-end** market. The first segment looks for tableware out of necessity, often looking for smaller, simpler, and cheaper services for daily use – generally reaching a younger audience with relatively low income (e.g., people moving out of their parents' house or starting a small horeca business). On the other hand, the high-end segment seeks prestige, quality, and brand, while looking for broader services (e.g., organizing dinners) and having more than one service. This segment generally covers older and higher income public, or big horeca players, looking for luxury brands and products. Overall, the low-end and the mid-market are increasing as the demand for smaller, cheaper, and simpler devices is higher. Although VAA is not represented in the low-end, it has contracts that allow it to sell pieces at more affordable prices. For the middle market, VAA offers luxury tableware collections at reasonable prices (e.g., Casa Alegre, Sagres Collection). (Barra 2021). Finally, the high-end market is VAA's initial and strongest market, the one for which the company is most recognized – more expensive and luxury products. Luxury has proven its resilience during recessions, with recoveries dramatically faster and more robust than the non-luxury sectors (Bloomberg 2022). Also, VAA is not the most expensive brand on the market; hence it may gain some **market share** through shifts in customer demand from more expensive brands to VAA products. Finally, VAA has been **successfully acquiring** attractive targets and developing **strategic partnerships**, reinforcing its position in the context of the sector, and of competing companies. The acquisitions of Cerutil and Faianças Artísticas Bordallo Pinheiro in 2018 allowed Vista Alegre to increase its scale and diversity. It should be noted that Grupo Visabeira owns 85.6% of VAA – 3.31% directly and 82.29% through Visabeira Indústria, which is 100% owned by Grupo Visabeira. (Vista Alegre Atlantis, SGPS, SA 2021)

Market Overview

The **global ceramic tableware** market is estimated to be worth **€10.7B in 2021 and to reach €21.0B in 2031**, growing at a **CAGR of 6.7%** until 2031 (Research, Transparency Market 2021). This market is **highly competitive** and dynamic and provides opportunities for players to build a stronger company's competitive position. This market includes dinnerware, cutlery, hotelware, bakeware, and others. On the other hand, the **global glass tableware market** is estimated to be worth **€7.8B in 2021** and to reach **€10.9B in 2031, growing at a CAGR of 3.5% until 2031** (Research, Transparency Market 2021). The market is highly **consolidated**, with a small number of large suppliers controlling most of the industry. Both markets are divided into **residential** and **commercial** sectors (e.g., horeca channel), and both markets have benefited from trends such as the emergence of **e-commerce**, production closer to end-markets, the **growing hospitality** and **home decor** industry, and, finally**,** the growing number of businesses opting for **durable handmade crockery** instead of mass-produced dinnerware (Research, Transparency Market 2021). Finally, the global ceramic and glass tableware markets have a worldwide presence, with the **United States being the largest importer and China being the largest exporter** (The Observatory of Economic Complexity 2020)**.**

Looking in detail at the Portuguese tableware market, it has been growing and gaining presence worldwide (i.e., second largest ceramic tableware exporter), with AICEP playing a significant role as a financier to improve competitiveness, export capacity and attract foreign investment (European Funds AICEP 2022). The leading importers of Portuguese ceramic tableware are the US, Germany, and France, and Portuguese glassware are France, Angola, and Spain (The Observatory of Economic Complexity s.d.).

The industry has faced some **challenges** regarding its **high production costs**: (i) its **dependence on the energy supply** of natural gas and electricity – the current geopolitical conflict has led to high price volatility; (ii) its **personnel costs**, related to the specialized labour; (iii) the **volatility on its raw material prices**. In addition, VAA has invested heavily to achieve energy efficiency and climate neutrality, improving global competitiveness.

The prominent players in the sector are described in *Table 1*, along with their EBITDA margins.

Historic Financials

With the acquisition of VAA by Grupo Visabeira in 2009, the company's economic performance has been dramatically improving, despite adverse market conditions. Since 2014, the company has shown **solid growth**, positively influenced by the acquisitions of Cerutil and Bordallo Pinheiro in 2018. VAA's efforts to offer an increasingly diversified range of high-quality products, increase its brand awareness, intensify its international presence, expand partnerships, and improve efficiency, involved significant investments over this period (i.e., around 30M€ in FY18 and 23M€ in FY19), but has also allowed the company to enjoy a robust financial performance in recent years. In fact, the factories expansions and the purchase of new equipment and technologies for the porcelain, crystal, glass, and stoneware sectors, have enhanced greater operational efficiency and reduced costs, reinforcing the positioning of Vista Alegre as the **owner of the most technologically advanced factories in the world** within the mentioned segments. With those investments now largely behind (i.e., CAPEX only accounted for 5% of sales in FY20 and FY21), VAA is entering a CF harvesting phase with positive and growing FCF. (Vista Alegre Atlantis, SGPS, SA 2021)

Although challenging trading conditions during the pandemic, in 2021 VAA sales recovered to close to pre-pandemic levels. For 1Q22 (a quarter already impacted by the Russia-Ukraine conflict), VAA recorded a yoy solid sales growth, reaching pre-pandemic levels (1Q19). As can be seen, even in challenging years, VAA can keep its EBITDA and gross margins high and stable, proving its resilient and solid business model. In FY21, its EBITDA margin reached 22%, the highest margin amongst its peers. (Vista Alegre Atlantis, SGPS, SA 2022)

As for cash flow, Vista Alegre reduced its net debt over the past years and has reached a bondholders agreement setting more relaxed covenants until 2023. Looking in detail at Vista Alegre revenues, porcelain and stoneware are the segments that contribute the most to its growth. Nonetheless, due to the pieces' superior strength, the demand for earthenware has been increasing significantly, mainly from the horeca sector. (BPI 2021)

Investment Thesis

Vista Alegre has been revealing its proven and resilient business model. It is a market leader with recognized and innovative products and one of the most significant and stable EBITDA margins in the sector. Moreover, it has a pool of qualified talent with a well-known and experienced management team and a recognized and adaptable business model, being the oldest and most successful Portuguese producer with a diversified range of products and end-markets. (Vista Alegre Atlantis, SGPS, SA 2021)

Since Grupo Visabeira's acquisition of VAA in 2009, remarkable enhancements have been developed. Notwithstanding, there is still room for operational improvement. Therefore, four key measures were identified: optimize net working capital levels; improve factory layout; maximize capacity utilization rate; and, finally, improve VAA's margin of the least profitable segment – Glass and Crystal – by making investments in innovation and automation in its factory.

Still, within the operational enhancement, it is expected that VAA will face capacity constraints due to the reactivation of retail and horeca channels (VAA Board of Directors 2022). To mitigate this risk, a Ria Stone expansion (double the plant's current installed capacity) is proposed. Ria Stone has vast potential as it has the highest factory standards in terms of automation as well as innovative single-firing technology (shorter lead times and reduced energy consumption). Besides, it is currently working at full capacity to satisfy VAA's primary client, IKEA (Vista Alegre Atlantis, SGPS, SA 2021). Since this factory was already expanded in the past, it gives us a good proxy for this strategy's returns and costs. This capacity expansion is expected to potentiate recurring solid cash flows to sustain a subsequent buy-and-build strategy.

The final two strategies – internationalization and end-market optimization – are accomplished in parallel with a buy-and-build strategy. By acquiring Grestel, a Portuguese stoneware company that has two brands – Costa Nova (fashionable and juvenile brand) and Casafina (operating in the US for longer than 40 years) – VAA would not only strengthen its position in weaker end-markets and diversify its base, but also increase its international exposure, with a particular emphasis in the US, allowing it to gain market share.

Business Plan

The proposed business plan includes our value creation strategies and expected market growth, which will be analysed in terms of **revenues, costs, and cash generation**. Three cases were analysed (Bank, Investment, Management), being the 'Investment' case presented throughout the paper.

When looking at revenues, we see that **core revenues** are growing at a **CAGR of 5.29%.** The higher growth in the initial forecasts can be explained by: (i) the tendency of large retailers to increasingly bring the supply chain closer to the home market, which will lead to a gain in market share; (ii) the fact that FY21 revenues are almost at pre-pandemic levels, which is a positive indication of the underlying industry demand evolution; (iii) substantial past investments in crystal and glass production (increased capacity, efficiency improvement and modernization) carried out at the Alcobaça plant (€13.6M) explains its accelerated growth in FY22 (37%); (iv) increasing visibility of earthenware segment, due to new design trends (29% growth in 2022). *(See Table 2)* (BPI 2021)

Concerning the **high inflationary pressure** present in FY23, price adjustments were implemented, leading us to directly account for changes in inflation in this year. As for the **long-run**, market growth projections were considered, based on market potential and the long-term inflation rate – with Brazil and the US growing faster, at 3.1% and 2.3%, respectively. (Vista Alegre Atlantis, SGPS, SA 2021) (VAA Board of Directors 2022)The proposed **add-on revenues** consist of the **expansion of Ria Stone (**incremental revenue accounting for **12%**

of total revenues) and of the buy-and-build strategy for the **acquisition of Grestel** (incremental revenue accounting for **15% of total revenues**). *(See Table 2)*

Regarding **costs**, the current macroeconomic and geopolitical context increased COGS in FY22 by 26.7%. Nonetheless, as VAA is largely hedged against price fluctuations, with a variable cost-plus formula on the IKEA contract and electricity contracts, the cost increase is partially mitigated (VAA Board of Directors 2022). Furthermore, considering **past investments** of €7.2M in the **porcelain, stoneware, and crystal and glass** segment, COGS as a percentage of sales are assumed to be slightly lower in FY23 and FY24 for these segments. Subsequently, highly efficient processes and the already minimized cost structure leave small room for improvement, reflected in the stabilization of COGS as a percentage of sales *(See Table 3).* **Crystal and glass COGS** are the most **relevant decrease** – from 37.4% to 35.1% (as a percentage of revenues), as a result of the €3M invested in 2023 for automation and technology. However, the change in this ratio is limited since the segment requires very **demanding materials.** Regarding the SG&A ratio, we expect it to decrease slightly over the years.

Finally, although there are negative FCFs during FY23 and FY24 (i.e., mainly due to the acquisition of Grestel and the expansion of capacity at Ria Stone, which amounted to €55M and €38M, respectively), **solid cash generation is expected**. Additionally, excluding this acquisition and expansion CAPEX, **projections for FCF are expected to grow at 17.7%** CAGR over the investment period and reach €51M in the exit year. Through continued evolve in line with the company's growth, reaching around €14M in the exit year, with add-on strategies representing 56% of total maintenance. On the other hand, expansion CAPEX should reach €41M in 2023, reflecting the **increase in capacity at Ria Stone and the investments in crystal and glass automation works. Acquisition CAPEX** is expected to reach €54.6M in 2024, as a result of the **acquisition of Grestel.** *(See Table 4)*.

In short, all these strategies contribute to the growth of VAA. Firstly, the Ria Stone Expansion is expected to reach €7.4M EBITDA in 2024, the Grestel acquisition €10.7M EBITDA in 2025, and the remaining EBITDA growth is expected to be organic – c. 47%. As a result, an overall increase in EBITDA is expected, from €35M in 2022 to €70M in 2027, which allows for a solid and healthy exit in 2027 *(See Figure 1)*.

Valuation

The valuation of VAA was performed using five approaches: trading comparables, 10-year through-the-cycle comparables, selected precedent transactions, and two discounted cash flow (DCF) approaches – Gordon's growth model and exit multiples. The multiple used was the EV/EBITDA, which provides a clearer view of the company and its financial performance. Most of the values used in this procedure were extracted from Bloomberg, Thomson Reuters, and Orbis databases. For both comparables' methods, eight companies were selected based on industry, product offerings, and key financials. For the LTM approach, we collected 2021 multiples *(See Table 5)*. Given the disparities in the relative sizes of the group, the median multiple was calculated, equalling 10.1x in 2021. For the 10-year cycle approach, multiples were collected from 2010 to current values – resulting in an average multiple of 9.2x multiples *(See Table 5)*. Finally, thirteen transactions within the sector were considered for the approach of past transactions, where some of the requirements were to have similar business models, financial performances, and end markets multiples *(See Table 6)*. The multiples paid by acquirers for these transactions were then used to value VAA, which resulted in a median valuation multiple of 9.4x. Next, the investment value was determined based onthe expected future FCF for discounted cash flows. The FCFs were deducted from the calculated WACC (i.e., 7.8%) and resulted in two multiples of 25.9x and 12.5x, respectively *(See Table 8 and Table 10, respectively)*.

All the information collected was gathered in a football field graph, which summarizes the range of values of a business based on the various valuation methods used – the range varies from the minimum, passing through the quartiles and maximum *(See Figure 2 and Figure 3)*. According to the analysis, comparable trading methods provided a close estimate given the context of the VAA, so they were considered with a higher weight of 45% for each method. The remaining 10% was distributed to precedent transactions. This weight discrepancy is a result of the difficulty in collecting information, as there was a small number of transactions carried out in the sector in recent years and a lack of detail about them. Also, market conditions change over time, and the recent recessions might compromise the accuracy of results. Finally, as DCFs were highly sensitive to future assumptions, they were not considered in the implied multiple. **As a result, VAA was valued at an EV/EBITDA multiple of 9.63x, resulting in a company value of €341M**.

Capital Structure

To determine the capital structure, the **sources and uses** of funds were computed *(See Table 11)*. With an **entry multiple of 9.6x** retrieved from the valuation, the enterprise value equalled €341M. Together with fees equivalent to €20M, the **total uses amounted to €362M**. To sustain the uses, senior debt and equity were used. These amounts were defined according to the risk and seniority of each instrument. As senior debt gets paid first, the risk is lower, and so is the cost. Senior debt includes three tranches: Term loans A, B, and C *(See Table 12)*. The mezzanine debt was not considered in the proposed capital structure as it was unnecessary to incur a risk for a needless return increase. Furthermore, an acquisition credit facility was used *(See Table 13)*

On the equity side, there is equity from the **fund**, known as **institutional strip** – which includes a **subordinated loan** (or Fixed Return Instrument (FRI)) and **institutional ordinary shares** – and **equity from the management** team, known as **sweet equity**. *(See Table 12)*

The total **sources of funds amounted to €362M** and were achieved through an equity contribution of **5.7x EBITDA** and leverage of **4.5x EBITDA** (excluding Acquisition Capex Facility). The proposed structure generated a strong **and growing cash cover** (higher than 1) throughout the holding period, with an accelerated reduction after the exit year, corresponding to the repayment of senior bullet debt. Furthermore, the **interest coverage ratio**, ranging from 2.7x to 4.8x during the investment period, reveals a high **ability to meet interest payment** obligations and a **low risk of default.** On the other hand, the **net debt to EBITDA** has been decreasing over the years – from 4.0x in FY23. This downward trend is a combined result of the reduction in net debt and the increase in EBITDA, which is favourable for the company, as the **lower the ratio**, **the greater the probability that the company will be able to pay off its debt.** In addition, Vista Alegre **is meeting its financial debt covenant** of 5.0x. *(See Table 14)*

This financing structure was chosen by testing four scenarios, selecting the one with the highest exit return, and assuming maximum leverage of 4.5x *(See Table 15)*. Overall, the proposed structure (*'Structure 4'*) was the best-case scenario, yielding the highest IRR and Money Multiple at the exit, both for the fund and management. This allowed us to meet all debt covenants, even in the stricter case (i.e., bank case).

Returns

The LBO firm will seek to exit the investment within five years (in FY27).Considering an exit multiple of **9.6x**, an **exit EBITDA of €70M** and an **enterprise value generation of €331M** throughout the holding period are expected. Hence, an initial investment of €182M corresponds to final proceeds of €571M, leading to an equity value generated of €389M during the same period.

One can divide the returns even further into institutional and management. The fund's returns can also be broken down into the subordinated loan that expects proceeds of €363M in FY27 and ordinary shares, responsible for €198M of the proceeds in the same year. Together they amount to €562M of total institutional proceeds, for an investment of €201M. This implies a **2.80x MM** and a **23% IRR** for the fund. Likewise, the management team also takes advantage of the investment, being highly rewarded. They are incentivized with a package that requires an entry investment of €1.3M in sweet equity and generates proceeds of €9.5M, implying a MM of 7.10x and IRR of 48% *(See Table 16)*. The exit waterfall *(See Figure 4)* shows how the proceeds from the exit will be allocated to all shareholders in the company.

Even in the conservative case, we can still have an attractive multiple (2.33x) and IRR (18%) *(See Table 17)*.

To break down the different returns' drivers, it is vital to acknowledge the three possible ways to generate returns in private equity: deleveraging, EBITDA growth, and multiple arbitrage. The multiple arbitrage is the most uncertain element and therefore is not considered in our analysis (assumed to be 0.0x).

From the original €187M invested, the **€392M generated** can be split into *(See Figure 5)*:

1) 58M from cash generation in the business (net debt decreased from €137M to €101M, increasing total value creation at a multiple of 0.32x). Cash leveraging accounts for a 15% increase in equity value. In fact, VAA has been showing over time a solid ability to generate cash (CAGR of 29% from FY18 to FY22) that is expected to persist in the future. (CaixaBank BPI 2022)

2) 341M from **operating growth** (EBITDA grow from €35M to €70M, increasing total value creation at a multiple of 1.82x), which can be further divided into:

(i) **Organic revenue growth**: achieved through market growth and internationalization. It is expected to contribute €100M (26%) to total value creation. Organic revenues grew from €145M at entry to €188M at the exit.

(ii) **Organic operating leverage**: EBITDA margin improvements at an organic level are expected to create €121M (26%). This growth is enabled through various internal restructurings (e.g., NWC improvements, investments in the crystal and glass segment, and Ria Stone Expansion).

(iii) **Inorganic growth**: Inorganic EBITDA is expected to create €110M at a multiple of 0.60x (28%).

As the inorganic growth is unpredictable and riskier, an analysis without the Grestel acquisition was made. This said, even without this strategy, our model is organically robust, generating a MM of 2.44x and 20% IRR.

Exit Strategy

After the end of the holding period, several exit strategies were considered: **strategic sale, secondary sale, IPO, and partial trade sale** (McKinsey 2022). The chosen strategy was a **strategic sale**, which consists of selling the company to a strong strategic player in the luxury tableware market. Beyond the various synergistic opportunities, there is a possibility of VAA consolidating its position in a different market, which would likely lead to a higher exit valuation. As the market is fragmented and shows solid M&A activity, this could translate into numerous potential buyers and an immediate subsequent exit without regulatory requirements and costs related to other exit options (IPO). On the other hand, the process is slower and heavier, and the acquisition price is more significant.

The **most suitable buyer** must have a **strong** and **renowned brand**, an **unquestionable global presence**, and the **capacity to integrate VAA** products into its retail channels. In addition, VAA would benefit from the opportunity to cooperate with design studios to enhance the exclusivity of its collections, strengthening the brand's positioning as sophisticated and prestigious. Few companies could facilitate business consolidation in a market as fragmented as the luxury one, but we believe that **luxury conglomerates** have the profile and corporate objectives, since they are entering in the tableware sector to grab a bigger share of the global luxury goods market (Vogue 2021).

We looked in detail at **LVMH** and **Kering** group, as both companies stood out for being **stable**, **long-established** companies with **high investments** in consumer products and luxury and, most importantly, for having brands **already present in the tableware market**, such as Dior (LVMH) and Gucci (Kering). In addition, **VAA has existing relationships with LVMH** and **understands their business mandate to maximize exit proceeds.** For example, VAA is both used and sold in the **Louis Vitton Café** in Osaka, Japan. (Vitton 2022)

Both are European groups highly dependent on Asia, which makes them more fragile, thus, both would benefit from the acquisition of a target with lower logistical risks, carbon footprint, and transportation costs. Additionally, both have a historically successful record of 12 acquisitions in several countries (Mergr 2022). Notwithstanding, we believe **LVMH** stands out as the **safer choice**, as it has higher purchasing capacity, while having a recent strong focus on M&A, with three acquisitions in the last five years and an **already established relationship with VAA.**

Due Diligence

For a successful investment, a profound analysis of various areas is imperative. Therefore, starting from a **commercial** point of view, we must further investigate the following:

(i) Market forecasts and trends, namely, macroeconomic outlook and key growth drivers; VAA's key segments' growth potential, and the overall market size. The upcoming recession, overestimations of market growth, and wrong assessment of risk/return value creation strategies might negatively impact forecasts.

(ii) Competitive landscape and the source of competitive advantage (the emergence of more innovative product offerings by competitors) by analysing the competitors per segment and location and assessing barriers to entry into international markets.

(iii) M&A targets, by performing a detailed analysis of the Grestel acquisition – margins, growth potential, and synergies: there may be challenges in the business integration and/or realization of synergies.

On a more **operational** side, one shall look at the following:

(i) The value chain, where a profitability analysis per segment must be made, checking for inefficient business processes and investments needed to create value, and assessing the operational dependence of VAA on third parties. The possibility of not renewing valuable contracts, like IKEA's, can be a potential red flag by harming the operational performance of the firm.

(ii) Major costs, drivers, and impacts on operations and margins, assessing opportunities to be explored (like digital platforms) and interpreting the impact of raw material price volatility on profit margins and their evolution. The cost structure can face challenges due to the ongoing increase in energy, fuel, and raw materials prices – nonetheless, VAA is being successful in largely mitigating these effects.

Thirdly, (iii) the **legal & tax perspective** is also crucial: by looking in depth at critical contracts, requesting a list of all current litigations in which VAA is involved, assessing compliance regarding licenses to produce and insurance of factory and workers, verifying legal requirements and EU environmental standards compliance and reviewing tax compliance and litigation by assessing unused tax opportunities. Lastly, the **financial point of view** should focus on forecasting future NWC investment needs and CAPEX – maintenance and expansion (Grestel's acquisition, Ria Stone expansion, and Crystal investment), focusing on outstanding debt structure and contract terms, and understanding the terms and conditions of public funding – namely AICEP (European Funds AICEP 2022). We should look out for overestimation of forecasts and possible inability to repay debt/covenant breach. Regarding the valuation, an independent valuation should be requested to avoid potential bias while assessing potential buyers and exit routes and running sensitivity and scenario analysis to hedge against over/underestimation.

Returns

Within this section, an analysis will be made of the critical outputs of the leveraged buyout (LBO) model:

i. The actual returns generated by the investment
ii. A breakdown of the different drivers of returns
iii. The cash flow dynamics and key credit statistics for the business during its investment period

Actual returns generated by the investment

It is important to acknowledge first the three possible manners to generate returns in private equity. The first one, **deleveraging**, is the easiest one. It represents the cash generation of the company throughout the holding period. However, from an absolute point of view, there is no value creation. This is because the company did not change or increase its size. Though, the equity value increases as the net debt decreases, leaving more to the shareholders.

Contrarily, the other two methods usually involve significant value creation. On the one hand, this can occur as the company becomes more profitable – **EBITDA Growth** – allowing for revenue growth, cost reductions, and margin improvement throughout the ownership of the business. On the other hand, the value can increase if there is an improvement in the valuation multiple applied to the sale of the company – **Multiple Arbitrage**. This can reflect non-company-specific dynamics and might result from general macro movements and/or specific sector movements/cycles. The multiple arbitrage is the most uncertain element and therefore is not considered in our analysis (assumed to be 0.0x).

A key success factor in Private Equity transactions is the alignment of interests between the PE fund and the management team. This alignment is accomplished through suitable remuneration packages, whereby: i) the fund guarantees downside protection, and ii) management receives large cash payments in-line with PE's returns. The more the management makes, the better the returns are. Thus, it is essential to agree on objectives and the business plan with the PE fund and to define a remuneration structure to reflect them. That is the so-called sweet equity. It represents management's (super-charged) equity, the amount they invest in. Within Vista Alegre Atlantis, **management pays 1.3M per 5pp of equity**. The other 95% goes to the fund – institutional ordinary shares. Ordinary equity is a combination of both sweet equity and institutional ordinary shares.

There is also the institutional strip that represents the funds (and co-investors equity injection) and the total equity contribution (ordinary equity and fixed returned instrument). In this case, the fund pays €201M for 95pp of equity. Nonetheless, the fund's equity has a prior return.

To analyse the actual returns generated by the investment, one must look at the investment multiples and IRR.

The Money Multiple (MM) is the ratio of any capital spent to any capital received, i.e., from an investor's point of view, it is the ratio between the investment returned to the limited partner over the initial equity invested. However, it does not consider the timing of cash flows. Alternatively, the Internal Rate of Return (IRR) is the discount rate at which the NPV of all cash flows equals zero. Most private equity investors require an expected return (IRR) higher than or equal to 20% to consider an LBO a potential target company.

The ideal method to best measure private equity performance is to combine both the investment multiples with the IRR. Taken together, the two measures reflect the performance and allow for timing considerations.

Having said this, a detailed analysis of the model can be done. The LBO firm is expected to exit the investment within three to seven years. In this case, **the exit year is planned for FY27** (year 5). As the exit multiple is a highly sensitive core assumption of any investment, it must be chosen wisely. The most common and used methodology was to assume the **exit multiple**

to be the same as the entry multiple, 9.6x (since no multiple arbitrage). This leads to an **exit EBITDA of €70M** and an **enterprise value generation of €331M** throughout the holding period. Hence, an initial investment of €182M corresponds to **final proceeds of €571M**, leading to an **equity value generated of €389M** during the same period.

One can divide the returns even further into institutional and management. The fund's returns can also be broken into the fixed return instrument (called subordinated loan) that expects proceeds of €363M in FY27 and ordinary shares, responsible for €198M of the proceeds in the same year. Together they amount to €562M of total institutional proceeds for an investment of €201M. This implies a **2.80x MM** and a **23% IRR** for the fund. Likewise, the management team also takes advantage of the investment, being highly rewarded. They are incentivized with a package that requires an entry investment of €1.3M in sweet equity and generates proceeds of €9.3M, implying a MM of 7.10x and IRR of 48% *(See Table 16).* The exit waterfall *(See Figure 4)* shows how the proceeds from the exit will be allocated to all shareholders in the company.

Even in the most conservative case (i.e., bank case), we can still have an attractive multiple and IRR. Here, the fund would get a MM of 2.33x and an IRR of 18% (within the typical PE range) *(See Table 17).* In either case, the LBO model generates attractive returns for investors and makes VAA a good candidate. It has predictable free cash flow (FCF) generation, regular revenue, and extreme profit margins from promising unit economics.

As inorganic growth is unpredictable and riskier, an analysis without the Grestel acquisition was made and it was found that even without this strategy, the model is organically robust, generating an MM of 2.44x and 20% IRR.

Another important metric in an LBO is the **envy ratio**. It is used to understand how much the management spent compared to the private equity investors, in proportion to the stake of equity that each party receives. The higher it is, the better the deal is for management, as private equity investors are willing to compensate the company's management for their capability to generate value for the company. Within our mode, the **envy ratio is 7.2x**, which indicates a positive sign for managers.

Since debtholders are tied to a fixed rate, equity holders' benefit. They can boost their returns through high levels of leverage and low liquidity. However, both lead to increased risk creating a trade-off. That is why the purchased company's balance sheet is leveraged: to reduce the investor's cash (equity) commitment and enhance the expected returns to the private equity firm. By putting in as little of their own money as possible, PE firms can achieve a significant return on equity (ROE) and internal rate of return (IRR), assuming all goes according to plan. To generate such high returns without taking on unnecessary risk, senior investment team members are typically solicited to make essential assumptions on the future exit multiple and the maximum amount of debt the target firm can take. Assuming a maximum multiple of 4.5x (Total Debt/EBITDA), VAA's balance sheet will have **44% of the debt**. In any company, the low-leverage scenario is significantly safer; however, it produces poor returns that would presumably be unacceptable by a private equity investment firm.

Note: Assuming multiple arbitrage is feasible but requires solid evidence and a strong rationale. On the other hand, assuming the exact multiple could be a sign of a market/firm becoming less attractive, of a company being overvalued, or of conservative analysis. Hence, a sensitivity analysis was performed to consider the returns on a risk-adjusted basis.

In the main case, if we allow for multiple arbitrage, for the same entry multiple (9.6x), the MM ranges from 2.5x to 3.1x (for an exit multiple of 8.6x and 10.6x, respectively). Hence, it is still attractive to investors *(See Table 18).* The same occurs in the most conservative case (2.0x to 2.6x). *(See Table 19)*

ii. Breakdown of the different drivers of returns

The EBITDA growth can be divided into organic – becoming more profitable internally, using the company's own resources - and inorganic – through acquisitions. In the organic, it is then subdivided into **1) Strong accelerating market growth and potential market share gain**; **2) Internationalization**, and **3) Operational turnaround**.

All these three organic sources played an essential role in Vista Alegre's EBITDA growth. Concerning the first one, the **1) European market is booming due to recent trends**. However, the complex logistic issues seen since the beginning of the pandemic have been strongly limiting the availability of products. Besides, there is an increasing demand for local product content, leading large international companies to rethink their focus on sourcing from low-cost Asian countries to a diversified global supply chain. Both problems, which elevated significantly at the beginning of the pandemic, made large retailers increasingly bring the supply chain closer to the home market – Europe and favoured the European market growth. Furthermore, Vista Alegre still has room to expand since it only has a 5% home market share, and it is a well-positioned business able to rapidly capture market share based on clear, sustainable competitive differentiation. (CaixaBank BPI 2022)

Regarding **2) internationalization**, there will be an increased sales effort to expand VAA from the home market into adjacent foreign markets, with a particular emphasis on Brazil and USA. Brazil for its historical and cultural connection to Portugal. In fact, this country already recognizes Vista Alegre as a luxury brand with high-quality standards, and no marketing would be required. Furthermore, there is low competition for this luxury segment in the country, and, hence, small barriers to entry. The US, as it is a massive player in the ceramic sector, responsible for 17.3% of total imports. In addition, 24.3% of these imports comes from China. As such, VAA could take advantage of current geopolitical tensions between the US and China to replace the latter and meet part of USA's needs. (The Observatory of Economic Complexity 2020)

Lastly, the **3) operational turnaround**. Even though VAA is already very efficient and with very high and stable margins (highest EBITDA margin amongst its competitors ~22%) due to the past investments made, it is still able to improve even further, especially by optimizing the working capital levels and increase the crystal and glass margins. In addition, the average holding period for the company's inventories is ~50 days above the average of its comparable peers' group (comparable companies were selected based on input received from VAA's Head of Investors Relations). The collection period is also higher than the average one but by a smaller amount (~10 days). By decreasing these levels to reach the average industry in the steady state and leveraging the crystal and glass segment on its investments towards innovation and automation to continue increasing the productivity of its plants, the company will be able to extract a more considerable amount of free cash flows.

Still, within the operational enhancement, it is expected that VAA should sooner rather than later face capacity constraints. Actually, at the beginning of FY22, the company won new relevant contracts that increased sales in the retail and horeca channels. Considering the expected reactivation of retail and horeca sales post-pandemic, this gives an idea of the potential installed capacity constraints VAA could face under a scenario of no capacity expansion. To mitigate this risk, the last organic method contributing to the EBITDA growth is the **Ria Stone factory expansion**, which would double the current installed capacity. Ria Stone is currently working at full capacity to satisfy VAA's primary client, IKEA. Besides, it has vast potential as it has the highest factory standards in terms of automation as well as innovative single-firing technology (shorter lead times and reduced energy consumption). Moreover, it has already been expanded in the past, giving us a good proxy for this strategy's returns and costs. (BPI 2021)

At last, a **buy-and-build strategy** was considered within the inorganic growth with three main purposes. First, VAA has always been associated to a high-end luxury porcelain producer that only older people with higher purchasing power could afford. Throughout time, the company has been making extreme efforts to diversify its portfolio towards daily-use products to reach more customers, keeping its quality standards. However, this has not been enough. Therefore, the first goal would be to make a transition and increase focus on middle-market customers. The second would be to increase the horeca channel, which only accounted for 7% of VAA's revenues in FY21 (Vista Alegre Atlantis, SGPS, SA 2021). In fact, we have been witnessing an increasing long-term trend of having fewer meals at home, propelling the horeca business's tableware demand (Research, Transparency Market 2021). Finally, the last objective would be to facilitate the expansion to new markets through a company that already operates there.

The perfect target to achieve all these results is Grestel, a Portuguese company that manufactures and designs tableware and accessories made of fine stoneware (Grestel S.A 2022). Grestel has two brands: Costa Nova and Casafina. Costa Nova has a powerful horeca channel, and contrary to VAA, it is a more affordable, fashionable, and juvenile brand. On the other hand, Casafina offers a wide range of high-quality, sustainable products, from kitchenware, bakeware, tableware, and gifts. Moreover, Casafina has been operating in the USA for more than 40 years. Therefore, by acquiring Grestel, Costa Nova would support the end market transformation (through the horeca channel and middle-end-market) and the growth of its own brand products and Casafina would support the increase in the USA exposure (internationalization strategy).

To sum up, from the original €182M invested, the €389M generated can be split into *(See Figure 5)*:

1) €58M from **cash generation** in the business (net debt decreases from €137M to €101M, increasing total value creation at a multiple of 0.32x). Cash leveraging accounts for a 15%

increase in equity value. In fact, VAA has been showing over time a solid ability to generate cash (CAGR of 29% from FY18 to FY21) that is expected to persist in the future. (CaixaBank BPI 2022)

2) €341M from **operating growth** (EBITDA grows from 35 to 70, increasing total value creation at a multiple of 1.82x), which can be further divided into:

i) Organic revenue growth: Achieved through market growth and internationalization and expected to contribute €100M (26%) to total value creation. Organic revenues grew from €145M at entry to €188M at the exit.

ii) Organic operating leverage: EBITDA margin improvements at an organic level are expected to create €121M (31%). This growth is enabled through internal restructuring, i.e., NWC improvements, investments in the crystal and glass segment, and the Ria Stone Expansion. The Ria Stone Expansion itself is responsible for 0.57x of the returns (26%) out of the 0.67x generated with organic operating leverage.

iii) Inorganic growth: Inorganic EBITDA, achieved through the Grestel acquisition, is expected to be the most significant return driver as a standalone strategy, creating €110M at a multiple of 0.60x (28%).

iii. Cash flow dynamics and key credit statistics

When considering an appropriate capital structure for an LBO transaction, it is crucial to target realistic credit statistics.

The financial covenants are essential financial tests measured quarterly and determined when the company is acquired, and due diligence is being done. The covenants must be met within the entire investment period and will determine how much debt the company can have. The maximum leverage and covenants are set on the Bank Case.

Looking in detail at the key covenants, we will start by analysing the **Net Debt to EBITDA**. This ratio has decreased over the years, from 4.0x to 1.6x at the exit. From FY23 to FY24, the decrease is lower due to the lower amount of amortizing debt, and due to the relevant acquisition CAPEX required. The downward trend is a combined result of net debt decreasing and EBITDA increasing, which is favourable and a good sign for the company. The lower the ratio, the higher the probability of the firm successfully paying off its debt. Besides, Vista Alegre is meeting its financial debt covenant of 5.0x, as it must comply with the financial covenants in connection with the issuance of the 50 million euros bond loan contracted in October 2019. (Vista Alegre Atlantis, SGPS, SA 2021)

The second key covenant analysed, and the most important is the **Cash Cover**. It measures whether the CF available for that service is sufficient every year to pay interest and repay the principal that's due to that year. It is calculated by dividing the cash flow generated over LTM by the debt service (cash interest and debt repayments). For the company to show a sufficient ability to pay, the ratio should be substantially greater than 1. However, a high ratio may indicate that a company must seek opportunities to magnify its earnings through leverage. In all three cases (bank, investment, and management), VAA has a cash cover higher than 1.0x. This means that the company is taking advantage of debt and can pay for all the debt services.

The last covenant is the **interest coverage ratio** – a debt and profitability ratio used to determine how easily a company can pay interest on its outstanding debt. The interest coverage ratio is calculated by dividing a company's EBITDA by its interest expense during a given period. Typically, it requires a minimum of 2.0x EBITDA/Cash interest expense. The higher the interest coverage ratio, the stronger the firm's financial health. The interest coverage ratio, ranging from 2.7x to 4.8x during the investment period, reveals a high ability to meet interest payment obligations and a low risk of default.

Appendix

Table 1 – Prominent players in the sector, along with their EBITDA margins

Key Players	EBITDA Margin
VAA	22%
Libbey	n.a.
Fiskars	16%
Villeroy & Boch	14%
Baccarat	20%
BHS Tabletop	n.a.
Portmeirion	11%
Noritake	11%
Churchill China	14%
Degrenne	n.a.

Table 2 – Projected Revenue Growth (Investment Case)

Revenues (€M)	**2021**	**2022E**	**2023E**	**2024E**	**2025E**	**2026E**	**2027E**
Porcelain	42,5	48,9	54,2	58,0	61,0	63,5	65,9
Stoneware	50,4	64,5	69,8	74,4	77,3	79,6	81,4
Crystal and glass	11,7	16,0	17,0	17,9	18,8	19,6	20,4
Earthenware	12,4	16,0	17,1	18,0	18,9	19,7	20,4
Core Revenues	**117,0**	**145,4**	**158,2**	**168,4**	**175,9**	**182,4**	**188,1**
% Growth	6,0%	24,3%	8,8%	6,5%	4,5%	3,7%	3,1%
Ria Stone Expansion	-	-	-	29,7	29,7	29,7	31,5
Buy-and-build	-	-	-	-	38,4	39,4	40,2
Add-ons Revenues	**0,0**	**0,0**	**0,0**	**29,7**	**68,1**	**69,1**	**71,7**
Total Revenues	**117,0**	**145,4**	**158,2**	**198,1**	**244,0**	**251,5**	**259,8**
% Growth	6,0%	24,3%	8,8%	25,3%	23,2%	3,1%	3,3%

Table 3 – Projected Costs and EBITDA Growth (Investment Case)

Costs (€M)	2021	2022E	2023E	2024E	2025E	2026E	2027E
Total COGS	**38,6**	**48,9**	**51,8**	**54,4**	**56,7**	**58,9**	**60,7**
COGS as % of Sales	33,0%	33,6%	32,8%	32,3%	32,3%	32,3%	32,3%
Core Gross Profit	79,8	96,5	106,4	114,0	119,2	123,6	127,4
SG&A	64,0	67,9	71,9	75,7	78,7	81,4	83,9
Core EBITDA	25,8	35,4	40,2	43,6	44,6	46,3	47,7
Ria Stone Expansion	-	-	-	7,4	7,9	8,4	10,7
Ria Stone Margin %	-	-	-	25,0%	26,6%	28,3%	33,9%
Buy-and-build	-	-	-	-	10,7	11,1	11,4
Buy-and-build Margin %	-	-	-	-	27,8%	28,1%	28,3%
Add-ons EBITDA	**0,0**	**0,0**	**0,0**	**7,4**	**18,6**	**19,4**	**22,1**
Group Cash EBITDA	**25,8**	**35,4**	**40,2**	**51,0**	**63,1**	**65,8**	**69,8**
% EBITDA Margin	22,0%	24,4%	25,4%	25,7%	25,9%	26,2%	26,9%

Table 4 – Projected FCF Growth (Investment Case)

FCF (€M)	2021	2022E	2023E	2024E	2025E	2026E	2027E	CAGR
Total EBITDA	**€25,8**	**€35,4**	**€40,2**	**€51,0**	**€63,1**	**€65,8**	**€69,8**	**14,52%**
Taxes	-€2,0	-€5,2	-€2,3	-€3,7	-€5,2	-€5,8	-€6,8	
Other adjustments to FCF	€0,5	€0,5	€0,6	€0,6	€0,6	€0,6	€0,6	
Maintenance CAPEX	-€6,0	-€6,0	-€6,0	-€7,5	-€13,6	-€13,7	-€13,8	
Expansion CAPEX	-	€0,0	-€41,0	€0,0	€0,0	€0,0	€0,0	
Acquisition CAPEX	€0,0	€0,0	€0,0	-€54,6	€0,0	€0,0	€0,0	
(minus) Changes in NWC	-€0,7	-€2,4	-€0,7	-€0,2	€0,3	€0,5	€0,7	
Free Cash Flow to Firm	**€17,6**	**€22,4**	**-€9,3**	**-€14,5**	**€45,2**	**€47,4**	**€50,6**	**17,74%**
% Growth		27%	-141%	-56%	412%	5%	7%	
Free Cash Flow to Firm (excl. acq. and exp. CAPEX)	**€17,6**	**€22,4**	**€31,7**	**€40,1**	**€45,2**	**€47,4**	**€50,6**	**17,74%**
% Growth		27%	42%	26%	13%	5%	7%	

Table 5 – Trading Comparables, 10-year Through-the-Cycle Comparables

Companies (without Villeroy & Boch)	2021	2021 Multiple Average	10 Year Median	10 Year Multiple Median Average
BACCARAT AS	7,49x	10,12x	14,58x	8,39x
BHS Tabletop AG	-	10,12x	4,02x	8,39x
Churchill China PLC	24,59x	10,12x	9,40x	8,39x
Degrenne	-	10,12x	9,50x	8,39x
FISKARS OYJ ABP	10,26x	10,12x	11,61x	8,39x
LIBBEY INC	-	10,12x	7,04x	8,39x
NORITAKE CO LTD	6,70x	10,12x	8,35x	8,39x
Portmeirion Group PLC	10,14x	10,12x	8,94x	8,39x
Median	10,14x		9,17x	

Table 6 – Precedent Transactions

Ann. Date	Target	Acquirer	Deal Value (million)	EV/EBITDA
13/10/2011	Universal Industries Corporation	Ethos Private Equity	€74,00	9,40x
21/05/2012	KCM Corp	Noritake Co Ltd/Nagoya Japan	€35,99	0,98x
01/12/2012	Royal Copenhagen	Fiskars	€66,00	8,00x
10/05/2015	WWrd	Fiskars	€406,00	10,00x
02/06/2015	LONGTU KOREA Inc	King Power International Group Co Ltd, LongTu Game HK Ltd,Far creative Ltd	€17,47	8,19x
14/12/2015	Jarden Corp	Newell Brands Inc	€16,0t	19,34x
21/03/2016	Hydro Flask	Helen of Troy	€192,00	12,00x
05/05/2016	Wax lyrical Limited	Portmeirion	€21,42	8,30x
06/02/2017	Baccarat	Fortune Fountain Capital Ltd	€164,00	16,31x
22/12/2017	Filament Brands	Lifetime Brands	€277,47	6,30x
25/02/2019	Furlong Mills Limited	Churchill China	€3,80	10,40x
17/07/2019	Nambé LLC	Portmeirion	€12,24	10,90x
31/12/2021	Hunter Douglas NV	Private Investor,3G Capital Inc	€390,27	7,34x
Median	**9,40x**			

Table 7 – DCF (Gordon's Growth Model) – Enterprise Value

		Terminal growth rate				
		0,9%	**1,4%**	1,9%	**2,4%**	**2,9%**
WACC	**6,8%**	€921	€989	€1,071	€1,172	€1,299
	7,3%	€861	€919	€987	€1,069	€1,171
	7,8%	€810	€859	€917	€985	€1,068
	8,3%	€764	€807	€857	€915	€984
	8,8%	€724	€762	€805	€855	€913

Table 8 – DCF (Gordon's Growth Model) – EV/EBITDA Multiple

		Terminal growth rate				
		0,9%	**1,4%**	1,9%	**2,4%**	**2,9%**
WACC	**6,8%**	26,0x	27,9x	30,2x	33,1x	36,7x
	7,3%	24,3x	25,9x	27,9x	30,2x	33,0x
	7,8%	22,8x	24,2x	25,9x	27,8x	30,1x
	8,3%	21,6x	22,8x	24,2x	25,8x	27,8x
	8,8%	20,4x	21,5x	22,7x	24,1x	25,8x

Table 9 – DCF (Exit Multiples) – Enterprise Value

		Exit Multiple				
		8,6x	**9,1x**	9,6x	**10,1x**	**10,6x**
WACC	**6,8%**	452	465	477	490	503
	7,3%	437	449	461	473	485
	7,8%	422	433	445	456	467
	8,3%	408	418	429	440	451
	8,8%	394	404	415	425	436

Table 10 – DCF (Exit Multiples) – EV/EBITDA Multiple

		Exit Multiple				
		8,6x	**9,1x**	9,6x	**10,1x**	**10,6x**
WACC	**6,8%**	12,8x	13,1x	13,5x	13,8x	14,2x
	7,3%	12,3x	12,7x	13,0x	13,3x	13,7x
	7,8%	11,9x	12,2x	12,5x	12,9x	13,2x
	8,3%	11,5x	11,8x	12,1x	12,4x	12,7x
	8,8%	11,1x	11,4x	11,7x	12,0x	12,3x

Table 11 – Sources and Uses

Sources	M€	x EBITDA	%
Senior Debt			
Term Loan A	18	0,5x	5%
Term Loan B	53	1,5x	15%
Term Loan C	89	2,5x	24%
Subordinated Debt			
Mezzanine	0	0,0x	0%
Total Debt	**159**	**4,5x**	44%
Shareholder Loan (FRI)	173	**4,9x**	48%
Ordinary Equity	29,3	**0,8x**	8%
Institutional	27,9		95%
Sweet Equity	1,3		5%
Total Equity	**202**	**5,7x**	56%
Total Sources	**362**	**10,2x**	**100%**

Uses	%	€ M
EBITDA 2022		35
Entry EV/EBITDA		**9,6x**
Enterprise Value		**341**
Net debt (excess cash)		-61
Debt Like Items		-20
Purchase VAA Equity		**261**
Financing Fees	3,5%	11,9
Arrangement Fees	2,3%	7,8
DD Fees	0,2%	0,7
Fees	**6,0%**	**20**
Total Uses	**100%**	**362**

Table 12 – Debt and Equity Terms and Pricing

Instrument	Term (Years)	Type of Amort.	x EBITDA	€ Millions	Interest Rate
Term Loan A	6	amort	0,5x	18	8,29%
Term Loan B	7	bullet	1,5x	53	8,39%
Term Loan C	8	bullet	2,5x	89	8,46%
Shareholder Loan (FRI)	9	bullet	4,9x		16% PIK Element
Ordinary Share Institutional Investor				27,9	
Ordinary Shares Management				1,3	

Table 13 – Acquisition Credit Facility Details (Investment Case)

Acquisition Credit Facility	
Size	€96M
% Funded	70%
Interest Rate	7,90%
Commitment Fee	1,60%
Drawdown Period (years)	2
Repayment Period (years)	4

Table 14 – Proposed Covenants (Investment Case)

	2023E	2024E	2025E	2026E	2027E
Cash	26,1	32,5	41,8	52,9	**66,1**
Cash Flow	4,1	6,4	9,3	11,1	**13,2**
Cash Cover	1,26x	1,36x	1,47x	1,55x	**1,63x**
Interest Cover	2,72x	3,04x	3,56x	4,04x	**4,77x**
Net Debt / EBITDA	4,03x	3,80x	2,64x	2,08x	**1,45x**

Table 15 – Evaluated Capital Structures (Investment Case)

Instrument	Structure 1	Structure 2	Structure 3	Structure 4
Term Loan A	0,0x	1,5x	0,0x	0,5x
Term Loan B	1,0x	1,0x	2,0x	1,5x
Term Loan C	2,5x	1,0x	2,0x	2,5x
Mezzanine	1,0x	1,0x	0,5x	0,0x
Total Debt	**4,5x**	**4,5x**	**4,5x**	**4,5x**
Equity Contribution	**5,7x**	**5,7x**	**5,7x**	**5,7x**
Total Sources of Funds	**10,2x**	**10,2x**	**10,2**	**10,2x**
Management Returns	*6,44x*	*6,48x*	*6,74x*	*7,10x*
Institutional Returns	*2,70x*	*2,71x*	*2,75x*	*2,80x*
IRR	*22,0%*	*22,1%*	*22,4%*	*22,8%*

Table 16 – Institutional and management returns in the Investment Case

	2022	2023	2024	2025	2026	2027
Management Entry Value	€1	€1	€1	€1	€1	€1
Management Exit Value	€1	€1	€3	€8	€8,3	€9,3
Management MM	**1,05x**	**0,84x**	**2,20x**	**5,85x**	**6,28x**	**7,10x**
Management IRR		**-16%**	**48%**	**80%**	**58%**	**48%**
Institutional Investors Equity	€201	€201	€201	€201	€201	€201
Institutional Investors Proceeds	€202	€224	€294	€433	€488	€562
Fund Money Multiple	**1,01x**	**1,12x**	**1,46x**	**2,16x**	**2,43x**	**2,80x**
Fund IRR		**11,6%**	**21,0%**	**29,2%**	**24,9%**	**22,8%**

Table 17 – Institutional and management returns in the Bank Case

	2022	2023	2024	2025	2026	2027
Management Entry Value	€1	€1	€1	€1	€1	€1
Management Exit Value	€1	€0	€1	€5	€4,8	€4,9
Management MM	**1,05x**	**0,21x**	**0,54x**	**3,96x**	**3,67x**	**3,72x**
Management IRR		**-79%**	**-27%**	**58%**	**38%**	**30%**
Institutional Investors Equity	€201	€201	€201	€201	€201	€201
Institutional Investors Proceeds	€202	€207	€248	€381	€416	€467
Fund Money Multiple	**1,01x**	**1,03x**	**1,23x**	**1,89x**	**2,07x**	**2,33x**
Fund IRR		**2,8%**	**11,0%**	**23,7%**	**19,9%**	**18,4%**

Table 18 – Multiple Arbitrage in the Investment Case

Multiple Arbitrage – Investment Case						
		Entry Multiple				
	2,8x	8,6x	9,1x	**9,6x**	10,1x	10,6x
Exit Multiple	8,6x	3,1x	2,7x	2,5x	2,3x	2,1x
	9,1x	3,3x	2,9x	2,6x	2,4x	2,2x
	9,6x	3,5x	3,1x	**2,8x**	2,6x	2,4x
	10,1x	3,7x	3,3x	3,0x	2,7x	2,5x
	10,6x	3,9x	3,5x	3,1x	2,9x	2,6x

Table 19 – Multiple Arbitrage in the Bank Case

Multiple Arbitrage – Bank Case						
		Entry Multiple				
	2,3x	8,6x	9,1x	**9,6x**	10,1x	10,6x
Exit Multiple	8,6x	2,5x	2,2x	2,0x	1,9x	1,7x
	9,1x	2,7x	2,4x	2,2x	2,0x	1,8x
	9,6x	2,9x	2,6x	**2,3x**	2,1x	2,0x
	10,1x	3,0x	2,7x	2,5x	2,3x	2,1x
	10,6x	3,2x	2,9x	2,6x	2,4x	2,2x

Figure 1 – EBITDA bridge

Evolution of EBITDA on the investment period, Expected increase in EBITDA from €35M in 2022 to €70M in 2027.

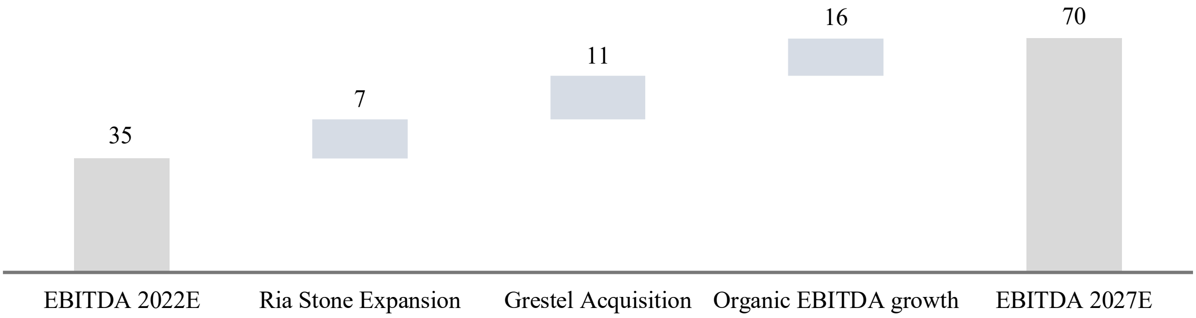


Figure 2 – Football Field Chart (EV/EBITDA Multiples)

Summary of the range of values of a business based on the five valuation methods. VAA was valued at an EV/EBITDA multiple of 9,63x.

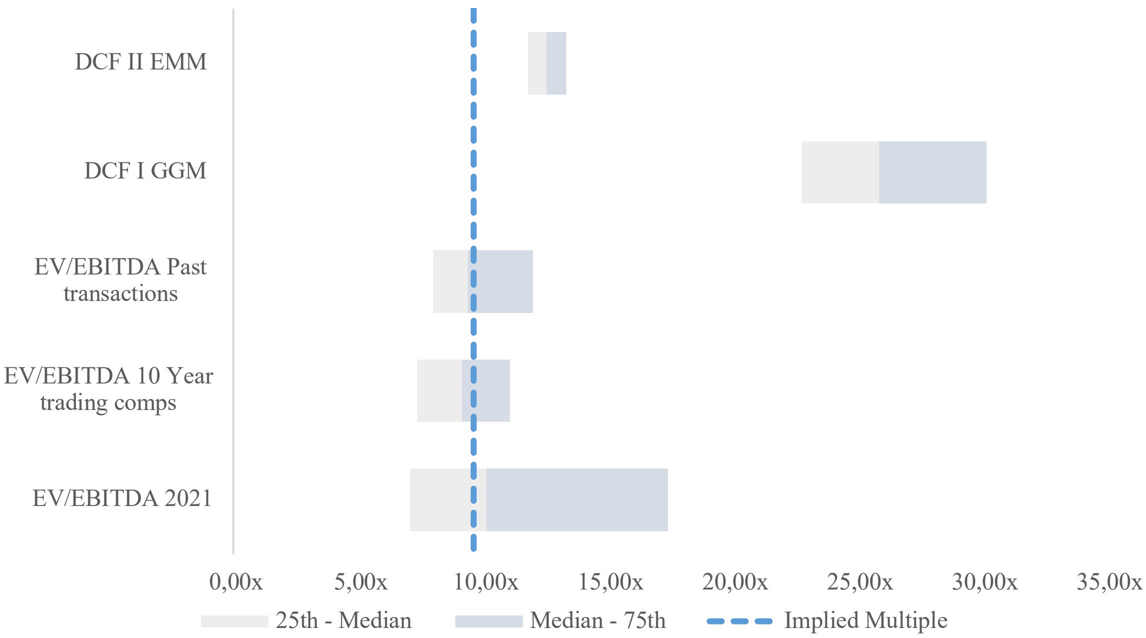


Figure 3 – Football Field Chart (Enterprise Value)

Summary of the range of values of a business based on the five valuation methods. Vista Alegre was valued at an enterprise value of €341 million.

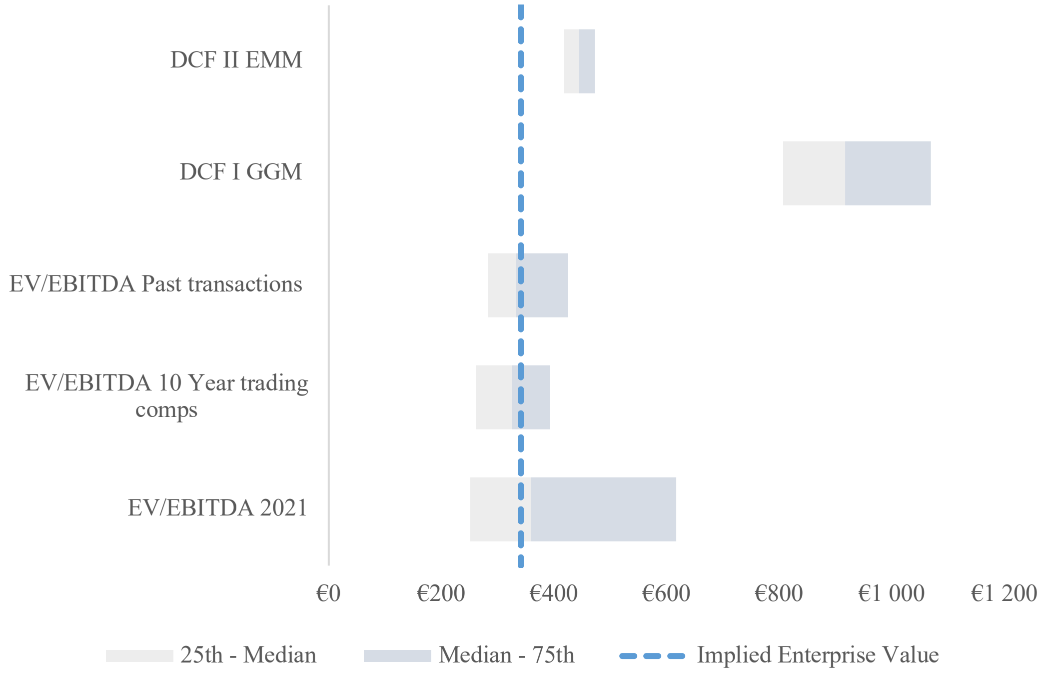


Figure 4 – Exit Waterfall

From the €672M generated in Enterprise Value, €562M corresponds to institutional proceeds and €9.3M corresponds to management proceeds. The remaining proceeds go to debt.

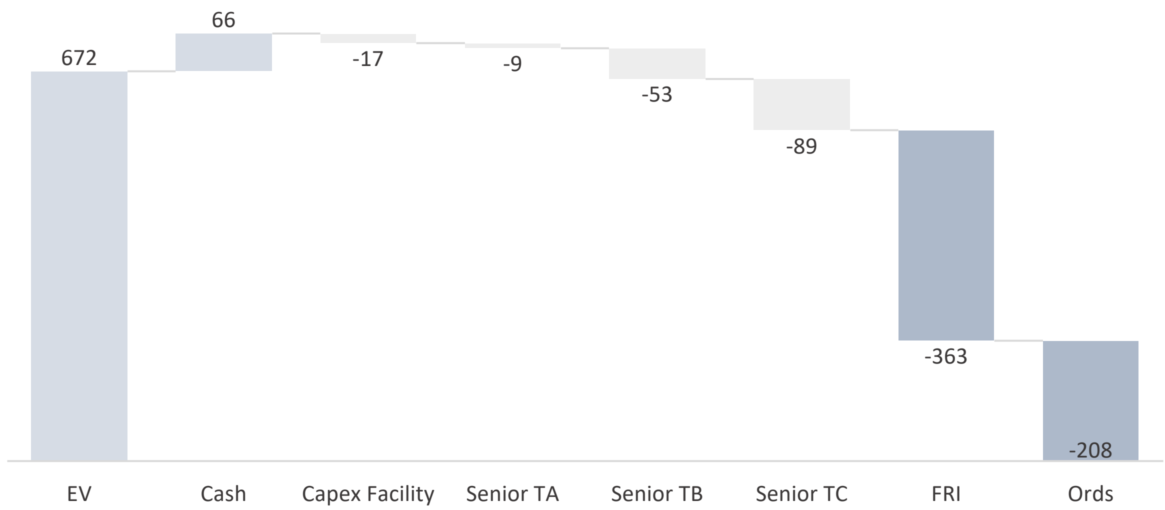
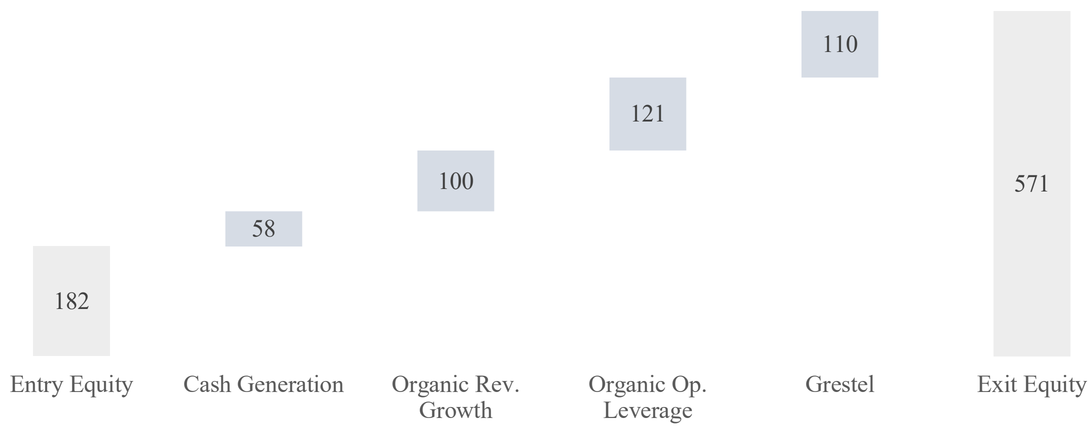


Figure 5 – Equity Returns

Organic operating leverage is the main driver for returns generation, responsible for 31% of value creation. Next is Grestel acquisition, creating 28% additional value.



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