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EQUITY VALUATION OF IBERSOL GROUP

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Abstract

Valuation has had an increase in importance since nowadays it is required in many contexts. The main purpose of the present dissertation is to value a Portuguese company, quoted in the Lisbon Exchange Market, Ibersol Group. The year-end 2011 price target derived for the company's stock is **€3,44 per share, an Accumulate recommendation**. The valuation from the present dissertation is compared to the research made by BPI Investment Banking.

Preface

I would like to express my gratitude to Professor José Carlos Tudela Martins, for the availability and helpful feedback; to Bruno Filipe Bessa, the research analyst of BPI Investmentos, for the continuous discussion of ideas and explanations provided to my questions; and to my family, for everything.

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1.Introduction

The main purpose of this report is, firs of all, to understand how equity analysts perform companies' valuation, subsequently, to made an independent valuation providing a buy/sell recommendation and finally to compare it with an Investment Bank. In order to accomplish these steps, the company chosen was Ibersol Group, a company in the restaurant business segment, operating a large range of food chains both in Portugal and Spain. Ibersol brands include Pizza Hut, Burguer King, Pasta Caffé among others.

In the second chapter the literature review was presented. It is mainly focused in the models applied according to the business nature of the company analyzed.

In the third chapter, the company was presented as well as a description of each one of the brand. Ibersol group was born in 1989 in the catering sector with Pizza Hut. Over the years, the group grew by entering in other business areas such as hotels and the sandwich segment as well as developing and expanding their brands through their own facilities or franchising. After the consolidated position assumed in Portugal, they expanded to Spain and more recently to Angola. Ibersol Group is leader in this segment and despite the complex economic environment, the position assumed over the years allowed them to achieve positive results and continuously investing in new units

In the fourth chapter, it is presented the key value drivers and assumptions underlying Ibersol business segment, being that sales, revenues, cost, and working capital among others. It was taken into account not only inside data from the company but also external factors that might have influence in the business and the revenues stream.

After all, the valuation results and the comparison with the Investment Bank, BPI, are presented in the Chapter Five.

Ibersol Group was valued at 3,44€ per share, being traded at 4,25€, 23% higher than the model's value.

2. Literature Review

Valuation in its simplest form is the process of estimating the market value of an asset or liability, where assets can be investments in marketable securities such as stocks, business enterprises or intangible assets such as patents and trademarks, and liabilities can assume the form of a company's bonds. Still, valuation is required in many contexts including investment analysis, capital budgeting, Mergers & Acquisitions transactions, financial reports, tax assessment to determine the proper tax liability and in litigation.

Given the wide range of application of valuation, over the years different valuation methodologies have been developed. The distinction between the several approaches can be made whether the approach is based on discounted cash-flows, relative valuation or contingent claim valuation. The **Cash-Flow Approach** relates the value of an asset to the present value of expected future cash-flows on that asset. According to (Young et al. 1999), it is focalized on either free cash-flow, the cash-flow that belongs to the debt and equity holders (Enterprise Value), or cash-flows to the equity, dividends (Equity Value). The **Relative Valuation** estimates the value of an asset by looking at the pricing of comparable assets in relation to variables such as earnings, cash-flows, book value or sales. The multiples are usually used as an indicator to short-term willingness to pay (Young et al. 1999). The third, liquidation and accounting valuation, uses as a starting point estimates of value or book value in order to build firm value around the value of the existing assets of the firm. Finally, the **Contingent Claim Valuation** uses option pricing models to measure the value of assets that have common characteristics.

We come up with different approaches as the aspects underlined in one valuation can be underestimated in others. Moreover, the increase in the number of different approaches leads to a loss of accuracy in the final message, as stocks appear overvalued and undervalued according to the method chosen. However, according to Young et al. (1999) virtually we are just expressing the same underlying model through a different popular valuation approach and therefore it should be possible to express one method in terms of any other. In fact, choosing the most adequate method for each case should be one of the main issues in a valuation process. Nonetheless, the issue of choosing the appropriate method is immaterial if the assumptions made are not founded. The model to be used in each specific case it is widely accepted where as the assumptions that have to be made are a more subjective matter. Even so, the assumptions made should be aligned with some practical implications: comparison, uniqueness and consistency but without uniformity (Young et al. 1999).

Any valuation is only as accurate as the forecasts it relies on. However, the more detailed the valuation is, the more inputs it needs, increasing the potential for errors.

2.1 Cash Flow Approaches

The cash flow approach, among the other approaches, is the most used methodology. One of the reasons might be the fact that it is the foundation on which all other valuations are built. Another reason might be the fact that many managers believe that who approaches valuation by focusing on long-term cash flow will ultimately be rewarded by higher share prices. Under this outcome is implicit that long –term cash flows give credit for long-term investments, which are not expressed on the stock market. Still, Kaplan and Ruback (2007- empirical analysis) suggest that there is little support showing that a reliable estimate of market value is provided by discounted cash-flows. On the other hand they show that there is strong evidence between the market value of the highly leveraged transactions and the discount value of their corresponding cash flows forecasts.

The cash-flow valuation method tries to estimate the intrinsic value of an asset. According to Damodaran, in certain cases, such as valuing young firms, it can be slightly different from the market prices due to the fact that as it is based on its fundamentals and the uncertainty about the future is very high.

This approach is based on the concept of time value of money, and for that reason assumes that the value of an asset is the present value of the future cash flows on that asset, discounted back at a rate that reflects the riskiness of these cash flows. As shown later, there are different models under this approach and each model uses a different cash flow or a different expected rate of return.

Given the inputs of these models, and considering the valuation of a firm – which is the purpose of this report – the main source of information is the financial statement of a firm: balance sheet, income statement and cash flow statement.

As a result of the cash flow discounted in the valuation, it is possible to group the models in two perspectives: the enterprise and the equity perspective. The first one integrating the Discounted Cash Flow to the Equity model and the Dividend Discount Model, only values the equity of the firm. And the second one integrating the Weighted Average Cost of Capital (WACC) model and the Adjusted Present Value (APV) model, values the firm as a whole assuming debt and equity.

Besides the different perspective and the different inputs, putting aside the different valuation of tax shields associated with debt financing, which affects the measurement of risk and return, if the firm rebalances its debt, all valuation methods should produce the same result (Jacob oded 2007).

A. Equity Perspective

Under the equity perspective it is estimated the value of a firm to equity holders. The equity of a firm should be nothing else but the number of shares multiplied by the shares price. As a result, the stake investors have in a business is valued by discounting the expected cash flow to these investors at a rate of return that is appropriate given the equity risk in the company. This perspective is mostly used to value financial service companies, considering the unique role of debt at these type firms and the fact that this perspective, as mentioned before, only values equity, excluding debt form the calculus.

Dividend Discount Model

This model represents the oldest model of discounted cash flow models. Although it has been less used over the years, since analysts believe it is far too conservative, many of its fundamental principals apply when looking at other discounted cash flow models.

This model is represented by the following formula:

$$Value\ per\ Share\ of\ Stock = \sum_{t=1}^{t=\infty} \frac{E(DPS_t)}{(1+k_e)^t}$$

where the $DPSt_t$ is the expected dividends per share and k_e is the cost of equity.

This model relies on the fact that stockholders expect to get two types of cash flows from their stocks: dividends during the holding period and an expected price at the end of the holding period. Since the expected price is itself determined by the future dividends the value of a stock is the present value of dividends through infinity.

Just like any other model, it is also better suited to a specific type of companies. Companies valued through this model should present a growth rate lower than or equal to the nominal growth in the economy and have a well established dividend payout policy that should intend to continue in the future.

B. FCFE

The free cash flow to the equity model does not represent a radical departure from the traditional dividend discount model. It is used as an alternative to the Dividend Discount Model.

$$Value\ of\ Equity = \sum_{t=1}^{t=n} \frac{CF\ to\ Equity_t}{(1+k_e)^t}$$

"$\mathrm{CF\ to\ equity_t}$" represents the expected cash-flow to equity in period t, "$\mathrm{k_e}$" the cost of equity and "**n**" the life of the asset.

According to Damodaran, the free-cash-flow to equity measures how much cash is available to stockholders after meeting reinvestment needs.

The following formula shows how to determine the amount available to return to stockholders:

Free Cash Flow to Equity = Net Income – (CAPEX – Depreciation) – (Change in NWC) + (Net Debt Issued – Debt Repayments)

The Net Income is the accounting measure of the stockholder's earnings during the period. In order to convert it to a cash-flow measure it is necessary to subtract out Capital Expenditures as they represent cash outflows and add back Depreciation as it represents noncash charges. Moreover, changes in Net Working Capital also influence the flows of the firm. The decrease in working capital increases the cash available to stockholders. Finally, the level of Debt has to be considered. Repaying Debt represents a cash outflow that can be financed by issuing New Debt, which represents a cash-inflow.

By replacing dividends for expected free cash flows to the equity, one assumes that free cash flows to the equity will be paid out to stockholders. This assumption has two consequences: there will be no future cash buildup in the firm, the expected growth in free cash flow to the equity will include growth in income from operating assets and not growth in income from increases in marketable securities.

Said that, it is worthwhile to mention that the FCFE represents the cash left available to be paid as dividends, after the company repays its debt and reinvest enough to maintain the business going.

C. Estimating the Cost of Capital (CAPM)

The capital asset pricing theory (CAPM) was introduced, in 1964, by William Sharpe and John Lintner. According to Fama and French (2004), CAPM allows us to measure the risk and observe the relation between expected return and risk.

There are several assumptions underlying this model. First of all, the investors are risk averse. Second, they take into account only the mean and the variance of their one-period investment. This means that given the trade-off between risk and expected return, they choose the portfolio that will minimize the variance given the expected return, and maximize the expected return given the variance. Finally, no matter the amount borrowed or lent it happens at the risk-free rate. (Fama and French 2004)

Since, the CAPM assumes that the market portfolio must be on the minimum variance frontier, it implies that, as it is shown below, what holds for any minimum variance portfolio, holds for the market.

$$E(R_i) = R_f + \beta_{iM}[E(R_M) - E(R_{ZM})]$$

The Rf stands for the risk free rate. β is the Beta of the asset. (E Rm −Rf) represents the risk premium.

According to Fama and French (2004) the β is "*the covariance risk of asset **i** in M measured relative to the average covariance risk of assets, which is just the variance of the market return".* The cost of Equity reveals the expected return for equity investors including a premium for the equity risk in the investment.

Beta is equal to zero is the risky asset's return is uncorrelated with the market. The expected return on assets that are uncorrelated with the market return, must equal the R_f under the condition of risk-free borrowing and lending. According to Damoradan there are three ways to estimate the Beta: i) by using historical data on market prices for individual investments; ii) by using the fundamentals characteristics of the investment; iii) by using accounting data.

The CAPM expresses the cost of Equity the expected return for equity investors including a premium for the equity risk in the investment.

2.2 Entreprise Perspective

The enterprise perspective as the name suggests values the entire firm, which includes not only the equity, but all the claimholders in the firm.

The Free Cash-Flow to the Firm Model estimates the value of the firm by discounting expected cash-flows to the firm at the weighted average cost of capital (WACC). It represents the cost of different components of financing used by the firm, weighted by their market value proportions.

$$\text{Value of firm } = \sum_{t=1}^{t=n} \frac{\text{CF to firm}_t}{(1 + \text{WACC})^t}$$

$\boldsymbol{CF\ to\ firm_t}$ represents the expected cash-flow to the firm in period t, **WACC** the weighted average cost of capital and **n** the life of the asset.

The cash flow considered is the Free Cash Flow to the Firm (FCFF), represents the sum of the cash-flows to all claim holders in the firm, including stockholders, bondholders and preferred stockholders.

FCFF = EBIT (1-Tax rate) + Depreciation – Capital Expenditures - Δ Working Capital

By using this formula we are estimating the cash-flows before any claims, starting with the earnings before interest and taxes, net out taxes and reinvestment needs. We are not considering the tax benefits as it is shown later there are considered when estimating the cost of debt in the weighted average cost of capital.

As shown in the formula it possible to get from firm value to equity value by netting out the value of all non-equity claims from firm value.

This perspective is more appropriate when valuing firms that have unstable leverage, given that it does not require cash flow projections from interest and principal payments changes and is less sensitive to errors in estimating leverage. The cost of capital calculation requires an estimate of debt ratio, but the cost of capital itself does not change much as consequence of changing leverage (Damodaran, 2002).

In order to use this approach, the growth rate assumed in the model needs to be less than or equal to the growth rate in the economy and the characteristics of the firm to be consistent with assumptions of stable growth.

Three main problems: the FCFE are much more intuitive as it can be analyzed, while the FCFF is a hypothetical question based on the premise of no debt or associated payments; the Second Problem is that it can be covering real problems associated with high levels of debt.; finally, some assumptions may not be reasonable in order to estimate the debt ratio in the cost of capital.

A. Weighted Average Cost of Capital (WACC)

The WACC model is the most used variant of the DCF valuation, since it requires in principle fewer calculations and therefore is easier to compute.

As it can be verified, all sort of cash flows are discounted by the same rate, a weighted average cost of capital. This rate is calculated through the formula bellow:

$$WACC = r_e * \frac{E}{EV} + r_d * \frac{D}{EV} * (1 - T)$$

where re is the rate of return the shareholders require, computed through the CAPM; $\frac{D}{EV}$ stands for the financial leverage and should employ market values; rd is the cost of debt and T is the income tax rate.

By discounting the Cash Flows at the WACC rate, it is implicit that the cost of capital captures both the tax benefits of borrowing and the expected bankruptcy costs.

This model separates the present value of cash flows into stages according to the growth phases of the company. These phases depend on the moment the company reaches stable growth. Since the model is sensitive to capital expenditures which may change with the growth rate and consequently influence the debt ratio the stages should reflect not only different growth rates but also different discounting rates. Related to the discounting rates is the D/E ratio. As debt levels change over a company's lifetime one has to give its valuation model the capability of adjusting the discount rate as the financing structure changes. It should be able to adjust through the WACC variants mentioned above.

B. Adjusted Present value

The Adjusted Present Value model is not more than a variant of the WACC model that provides an alternative way to compute the EV of company, by dividing the valuation in two parts: "Base case value" + "Value of all financing side effects" (Luehrman, 1997). Some authors have declared that Adjust Present Value is a better method than the traditional WACC model by arguing that this model allows to see all the components of value in the analysis (Luehrman, 1997).

Through this way we consider the firm in pieces, beginning with the operations and adding the effects on value of debt and claims other than equity. As debt is added to the firm, the net effect on value is examined by considering both the benefits and the cost of borrowing. To do this, it is assumed that the primary benefit of borrowing is a tax benefit, and that the most significant cost of borrowing is the added risk of bankruptcy.

Through this method we begin by valuing the equity in the firm considering an all-equity firm. Then, we consider the net effects of debt by calculating the present value of the tax benefits that flow from debt and the expected bankruptcy costs.

Value of the firm = Value of all-equity financed firm + PV of tax benefits + Expected Bankruptcy Costs

This first part of the equation is the value of the firm unlevered.

One gets the value of the unlevered firm by discounting the expected free cash-flow to the firm at the unlevered cost of equity.

To compute the unlevered cost of equity we can use the unlevered beta of the firm through the following formula:

$$\beta_{\text{unlevered}} = \frac{\beta_{\text{current}}}{[1 + (1 - t)\, D/E]}$$

$\boldsymbol{\beta_{\text{unlevered}}}$ represents the unlevered beta of the firm, $\boldsymbol{\beta_{\text{current}}}$ the current equity beta of the firm, **t** the tax rate for the firm an **D/E** the current debt/equity ratio.

Furthermore, we estimate the present value of the tax benefits associated with the money borrowed. It is a function of the tax rate and interest payments of the firm and is discounted at the cost of debt to reveal the riskiness of the cash-flow.

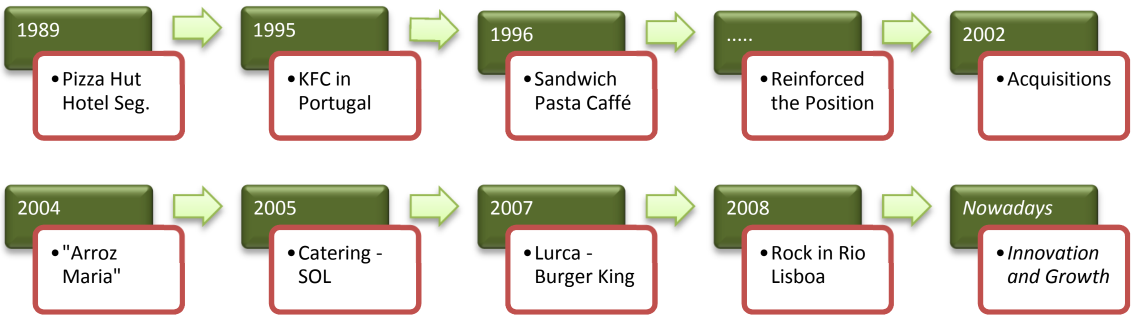
Finally, we consider the expected bankruptcy costs associated with the amount of money borrowed. It is required the estimation of the probability of default with the additional debt and the direct and indirect cost of bankruptcy. Since neither the probability of bankruptcy nor the costs can be estimated directly this constitutes the main problem of using this evaluation method. However, they can be approached indirectly through the bond rating or a statistical process. Besides that, the APV method has other limitations, as pointed by Luehrman (1997). First, investors can be taxed at a different rate, which leads to overinvestment. Second, analysts usually ignore the financial distress costs that arise due to corporate leverage. Benninga and Sarig (1997) also state that the differences between personal and corporate tax rates should lead to differences. As a result, the present value of tax shields must be calculated using the after-personal-tax rate as the discount one. At the end, the analyst decision of using the APV method instead of the WACC should rely on a crucial company's characteristic: the firm's capital structure. If the ratio D/E is almost constant or if its changes do not affect drastically, the WACC figure is a better method. Instead, if the capital structure changes considerably along the forecasted period, the analyst should compute a different WACC for every year or significant period, or decide to use the APV model.

3. The company

3.1 History

"Ibersol is a multi-concept group established in the Iberian Peninsula which is engaged in the organized foodservice business, respecting the values of Quality, Safety and the Environment, based on qualified and motivated Human Resources committed to the full satisfaction of the consumer needs, thus ensures Shareholders a proper return on their investment."[1]

Figure 1: Ibersol Group History



Ibersol Group initiated its activity **in 1989** in the catering sector with Pizza Hut. The following years were spent in developing other sectors in the hotel business segment. However, **in 1995,** they decided to focus on those with a higher profitability in the long-term. According to that, they decided to establish an agreement with Pepsico in order to set up KFC in Portugal.

In 1996, they entered in the sandwich segment by creating a company with Agrolimen, a Spanish Group who owned Pans & Company. At the same time as they were developing the Pasta Segment through Past Caffé concept they strengthened the Pizza Hut expansion in the market.

The 27th November 1997, Ibersol was listed in the market stock exchange. At this time they were operating 65 outlets and employed 1993 workers.

In 1998, Ibersol Group was present in the Pizza, Chicken, Sandwich, Brazilian Food, Pasta, Traditional Catering, Hamburger and American Food Segments. They reached 104 outlets and were one the main employers with 2770 workers.

In 1999, they owned 124 outlets and employed about 3000 workers. And in **2000** they increased the number of outlets by 10 and the number of employees by almost 50.

In 2001, they were operating 162 outlets and the number of employees grew up to 3400 people, making them one of the leading employers. In this year they also defined there Quality System by structuring the most relevant business processes.

[1] 2010, Annual Report

2002 was characterized by some acquisitions. They acquired not only 60% of the Restmon Portugal, who had the franchise in Portugal of the brand Cantina Mariachi, but also they became a majority shareholder of Vidisco, who operated 55 outlets in Spain under the name of Pizza Mobil. By the end of the year, Ibersol Group was operating 257 outlets, being 228 owned and 19 franchised. **In 2003**, they were operating 303 outlets (265 owned and 38 franchised).

In 2004, they launched the "Arroz Maria" restaurant in Lisbon, exclusively dedicated to rice dishes. They also started to expand the business to the North of Portugal. The two digits growth registered this year was mainly supported by Pizza Hut, Pans & Company, Burger King and Pasta Caffé in Portugal and by Pizza Móvil in Spain.

In 2005, besides the beginning of the crisis felt both in Spain and Portugal, Ibersol Group kept growing. They opened new outlets of Pizza Hut, Pans & Company and Burger King. The Group also expanded to the Autonomous Regions (Azores and Madeira) by opening 5 units. Also in Spain they registered the same tendency growing in sales and increasing the number of Pasta Caffé units. This year also illustrated a new concept developed by the Group, the catering in service areas under the name of "Sol".

In 2006, the group maintained the growth strategy through acquisition by buying Lurca, the company that exploited 31 units of Burger King in Spain. This year was marked by the consolidation in the Iberian market.

In 2007, they strengthened the continuous investment in advertising. They also concentrate efforts in product innovation and launched a new pizza concept, Cheesy Bites. Moreover, the acquisition of Lurca in 2007 proved to be a good decision as the sales rose about 20%. Also in 2007, they launched an educational programme to promote healthy lifestyles.

In 2008, they reinforced the educational programme launched last year under the theme "Eating well brings health and prizes" and over 80.000 consumers participated in this initiative. One of the distinction this year was the event Rock in Rio Lisboa with Ibersol Group assuring all the food supply.

In 2009, in order to guarantee their high quality level they certified 9 more units with ISO 22000 Certification, being the only commercial catering group in Portugal with this certification. They launched the Ibersol School in order to reinforce the training of its collaborators.

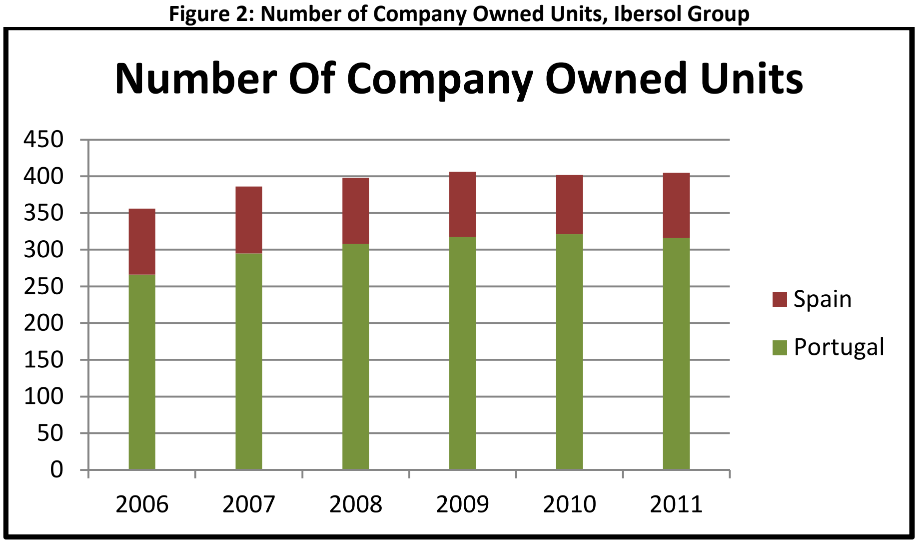
3.2 Nowadays (2010, 2011)

Ibersol is continuously enlarging its portfolio, by offering a larger range of food service. They expanded into healthy and gourmet foods in order to reach a different consumer segment.

Ibersol Group continued to implement its internationalization strategy looking for new emerging markets. In this way they set up Ibersol Angola and take the first steps towards this promissory market. They granted the authorization, chosen the locations and negotiated to establish the first units.

Ibersol's business in 2010 and 2011 was evidently affected by the behavior of the Iberian economies. The crisis felt both in Portugal and Spain led to significant changes in consumer habits. Due to this factor, Ibersol kept a rigid control over operating costs in order to reduce the impact of the revenues reduction.

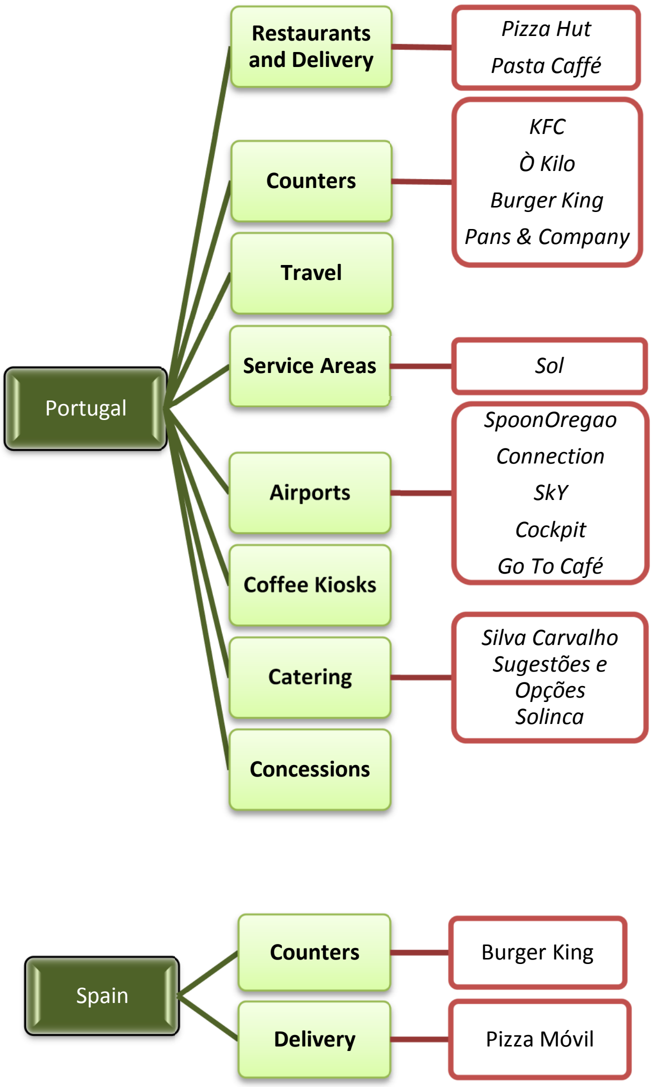
Figure 2: Number of Company Owned Units, Ibersol Group



3.3. Portfolio

Ibersol Group Portfolio can be summarized according to the following figure:

Figure 3: Ibersol Group Portfolio



A. Portugal – Portugal Restaurants and Delivery

<u>Pizza Hut</u>

At the end of 2010, Pizza Hut had 99 outlets, and a turnover of 64,8million Euros, and €60,4M in 2011, 6,5% less. In 2010, they not only expanded into new units such as Sintra Retail Park but they also refurbished existing ones as Norte Shopping, CascaisShopping, Forum Almada, Fontes Pereira de Melo and Gaiashopping, a policy continued in 2011. In addition they closed down the Segunda Circular and Exponor in Matosinhos. Pizza Hut also introduced two new services: the online ordering system in the home delivery segment and a Skype-based telephone service.

Throughout 2010 and in order to commemorate its 20th anniversary Pizza Hut launched several campaigns such as “Menu 20”, “It’s raining Free Pizzas”, “Pizza Rodizio”, “Fun and Friendly” among others. During 2010, the “Fun and Friendly” position was continued.

In order to promote the brand they participated in several events as Rock In Rio, Queima das Fitas in Oporto, the mares Vivas Festival, the Paredes de Coura Festival and also on Facebook. Pizza Hut also took part in activities directed toward children such as Sapo Cod Bits and the annual launch of the PES videogame.

As a result of all the campaigns, promotions and activities Pizza Hut brand is recognized by 98% of the Portuguese population according to a Restaurants Market Study.

Pasta-Caffé

At the end of 2010, Pasta Caffé operated 17 units in Portugal and 5 in Spain, in 2011 they closed a unit in Portugal. They had about 216 employees. In 2010, in the same way as for Pizza Hut, Pasta-Caffé also increased their revenues despite the adverse climate faced in Portugal. The total turnover reached 7,1 million Euros. However in Spain due to the closure of five units the turnover dropped to 2 million Euros. In 2011, due to the adjustments made in their cost structure turnover stood at €6,4M in Portugal and €1,4M in Spain.

In the last two years, they focused their attention in operations improvement, communications and consequently the overall profitability. Alongside with this goal they introduced a new communication strategy: “Una Casa de Famiglia” that aims to lead the consumer to a complete Italian atmosphere. The brand strategy was based in this concept of Italian Culinary Specialities but with a significant improvement in quality in order not only to attract new targets but also to enhance customer loyalty.

Pasta-Caffé also re-launched specific Theme Events such as “Pizza Rodizio” and “A Temporada do Risotto”, and created a new menu with photographs enhancing the high quality. Moreover they set up its page on Facebook and joined Pizza Hut in the Campaign to Fight Hunger (AMI).

B. Portugal – Counters

KFC

In 2010 KFC grew 15,3% reaching a total of 17 outlets with 226 employees and a turnover of 9,8 million Euros. Despite the adverse environment they grew by 0,7% in 2011 , with 18 units and 206 employees.

In line with what was developed internationally it was introduced in Portugal the concept of establishing a closer relationship with the customer through the “Taste the Difference”. They also incorporated international successful items such as the "Box Meal", "Variety Buckets" and "snack Attack" formats and launched new ones as the BBQ Bacon Boxmaster and BBQ Wrapstar.

As Pasta Caffé and other restaurants of the group they opened several new units namely in Colombo, Cascais, and Azores.

KFC is one of the brands included in the Ibersol program "Viva Bem", aiming to offer to the customer healthy food choices. Consumers can choose a range of new products such as green salad or coleslaw.

KFC also follows some rules in order to ensure the best environmentally friendly practices like control energy consumption, namely through collected used oil.

Ò Kilo

At the end of 2010, Ò Kilo managed 17 outlets. Even though the €5,1M registered in sales, it represents a drop of 7,3% against 2009. In 2011, the scenario was unchanged with 14 units, 3 less than in the previous year, 130 employees, and €4,3M in sales, 14,6% less.

In "Ò Kilo" customers can choose a large variety of elements to combine their dishes according to their personal taste. The diversity is ensured by updating continually the product range in order to offer a perception of variety.

In 2011, they readjusted their prices in order to reach a larger customer segment. However, they follow the same product quality by choosing the right raw ingredients in order to keep their standards and success.

Burger King

In 2010, Burger King had 38 Units with €24M in sales, a growth of 18,9% compared to 2009, for which contributed in a large scale the presence in Rock in Rio Lisboa, and a total of 530 employees. In 2011, they were operating the same number of units, however with a decrease in sales of 5%, to €22,6M.

In the course of 2011, the brand invested in advertising at a level never registered before, namely trough Cable TV Channels and radios.

Burger King gives the opportunity to customer to create their own hamburger – "Have it your way". Besides that, it continues to innovate and launches new products within the gourmet hamburger segment.

Pans & Company

At the end of the year, the brand managed 60 units of Pans & Company and 2 Bocatta stores with a turnover of €21,6M, a decrease of 5,7%. In December the brand had around 450 employees, 50 less than in the previous year.

In 2011 they continued the "Pans Experience" category, created in 2010, in order to position the brand as a specialist in sandwiches. The range of products was also improved in order to offer additional products and a larger variety of desserts.

In 2011, they kept the slogan "what is good between two slices", looking for quality and freshness of ingredients, however what led the sales growth was not only products as well as effective communications and price strategies.

C. Portugal – Travel

This segment is characterized by a multi-brand management concept, offering a wide range of products according to the place and moment. The investment in this sector was around € 0,7M.

D. Portugal – Services Areas

SOL

The motorway services areas represents a significant business segment for Ibersol Group, with a total of 33 units, sales of €11M and 312 employees.

With this business segment Ibersol aims to differentiate their offers from conventional coffee-restaurants in service areas. They offer a large range of fast food and some of them incorporate other brands of the group such as Pans & Company or Burger King. The area also provides other services like lounge areas, free Wi-Fi connectivity, and a shop selling newspapers.

Besides the successful business model adopted, the Group expects the need to change it recently due to the introduction of tolls on some of the previously toll-free motorway (Scuts), which reduced significantly the traffic and the number of consumers.

E. Portugal – Airports

This business segment contains 12 units with a total value of €7,7M in sales and 130 employees.

The Group maintains the investment in this area with the same business model developed previously by investing in the progressive modernization of existent units. It was introduced in the Lisbon Airport Terminal 1, the Clock's concept with the signature of Chef Chakall.

F. Portugal – Coffee Kiosks

At the end of 2011, the brand managed 10 units and registered net sales of €2,6M, one unit less than in 2010 and a drop of €0,4M in sales. The coffee kiosks operate under the brand Delta. They aim to be known as specialists in serving coffee.

In 2011, they were mainly focused on consolidation and customer service training due to the decrease in sales resulting from the prohibition of smoking in closed spaces introduced in 2010.

G. Portugal – Catering

Catering business segment registered a turnover of €5M in 2011, €2,5M less than in 2010. The Group operates all over the country with its own production and storage centers. In 2010, they organized 398 events in Oporto and about 350 in Lisbon serving approximately 70.000customers. In 2011, 787 events were prepared and 230.000 customers served. The capacity of managing large scale events along with quality differentiates them from other services. Besides this they were also hired externally for other events. The events were not only corporate but also private social events such as weddings and birthday parties.

During 2010, they also acquired the Solinca Eventos e Catering, S.A. and in 2011 according to Ibersol Group they were fully integrated in the group, being involved in 251 events and serving about 43.500 customers.

H. Portugal - Concessions

Additionally to their own business the group also operates areas under concession agreements like Serralves Museum, Casa da Música and Palácio de Cristal. At the end of 2011, the turnover totaled €2,4M 5% less than in 2010, however with an increase in quality and profitability.

I. Spain – Counters

Burger King

The Group currently operates 33 Burger King brand units with a turnover of €29,4M and 538 employees.

During this year there was a significant investment in advertising, mainly through television. They wanted to increase the level of customer satisfaction with high levels of quality service. They re-launched the children's menu segment.

They followed a strong low price strategy due to the aggressive commercial environment in Spain and adopted a strategy of number of transactions above the average receipt, namely through a low cost product line – King Ahorro – 3,30€.

J. Spain – Delivery

Pizza Móvil

At the end of 2011, the brand managed 66 units, 23 were franchises and had 684 employees. The brand, Pizza Móvil, is the third –largest Spanish operator in the pizzeria segment, with a market share of 4%. The main sales channel in this segment was trough home delivery.

In terms of advertising, the brand followed a strategy already initiated in 2010, by promoting the brand on social networks.

4. Valuation

4.1 – Valuation Methodology

To value Ibersol Group, the Discounted Cash-Flow model was followed. The FCFF was computed according several assumptions and then discounted at its WACC.

Due to the uncertainty of the industry where Ibersol operates, the assumptions were mostly supported by subjective judgment, even though not neglecting historical data.

The valuation was made from 2012 to 2020 in order to cover different economic environment.

WACC was computed according the following assumption:

Figure 4: WACC Calculation

Wacc		Note
Wacc	**11,86%**	
Ke		
Risk Free Rate	6,77%	[A]
Market Premium	6%	[B]
Beta Assets	0,9	[C]
Beta Levered	1,1	[D]
Tax Rate	26,50%	[E]
Rd	9,00%	[F]
D/EV	20%	[G]

[A] In order to compute the Risk-Free Rate it was taken into account the 10'Year Treasury Bond in Portugal and Spain weighted by the correspondent turnover – Source: Bloomberg for Spain and "*Instituto de Gestão da Tesouraria e do Crédito Público – IGCP*" for Portugal.

Figure 5: Risk-free Rate

	Turnover	10 Year Treasury Bond
Portugal	147.400.000	7,10%
Spain	47.000.000	5,75%
	Average	**6,77%**

[B] Damodaran

[C] Damodaran

[D] Beta Levered computed taking into account the Beta Asset.

[E] According to the Ibersol Annual Report and Consolidated accounts, the tax rate in Portugal is 26,5%. Therefore, it was assumed the same rate due to the lower representativeness of Spain.

[F] According to the Annual Report of Ibersol Group, they recorded an average cost of debt of 3,8% in 2011. However, due to the international environment and the cost of debt evolution it was assumed a more conservative rate – 9%.

[G] Assumed according to Market Values.

4.2 - Key Value Drivers and Assumptions

A. Sales Growth and Revenues

Analysis

The turnover totaled 212,5M€ in 2010, a rise of 2,5% compared to 2009, however with operating results of 21,3M€, a fall of 4,3%. This was mainly due to the context felt in Spain given that in Portugal Ibersol registered a growth of 5%. In 2011, the turnover totaled 194,5M€, showing a decrease of 8,3%. Operating results registered a reduction of 50% compared to 2010.

Figure 6: 2011, Economic Indicators - Source Ibersol Group

	Turnover	Operating Results	Pre-Tax Profit	Net Profit
2010/2011				
Mn Euros	194,5	10,4	9,1	6,5
Var%	-8,2%	-51,0%	53,6%	56,3%

As happened in 2010, Foodservice Sales was the major contributor to the turnover registered in 2011, with 190,59M€. Merchandises sales represented 3,15M€ and Services Provided 0,78M€. The variation is illustrated in the following figure:

Figure 7: Sales Distribution – Source Ibersol Group

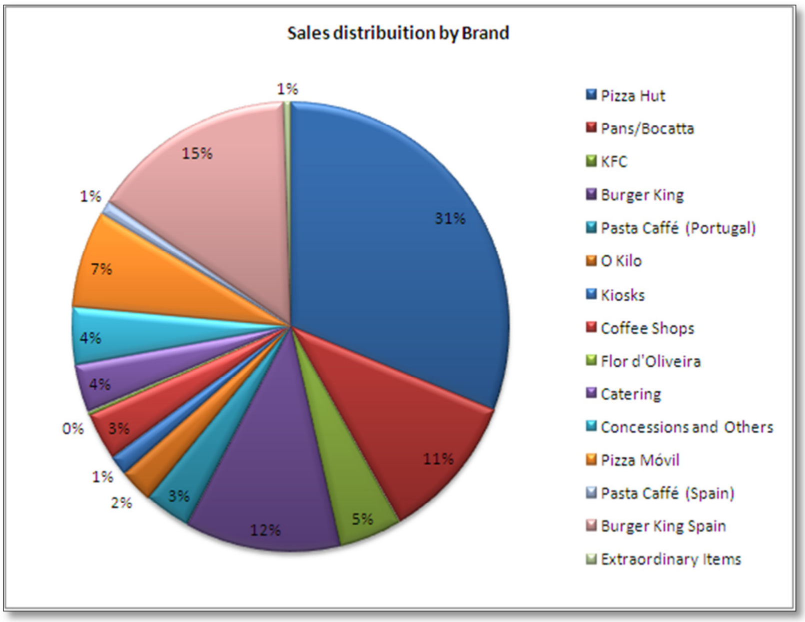
	2010/2011	
	Millions of Euros	Variation
Fodservice Sales	190,59	-8,10%
Merchandise Sales	3,15	-10,80%
Services Provided	0,78	-30,40%
Turnover	194,52	-8,30%

The turnover fell mainly due to Merchandise Sales with a decrease of Pizza Móvil Franchisees, and Services Provided.

Foodservice sales by concept were distributed according to the following table:

Figure 8: Sales Distribution by Brand

Sales	2010/2011 Millions of Euros	2010/2011 Variation
Pizza Hut	60,45	-6,5%
Pans/Bocatta	20,81	-5,4%
KFC	9,73	0,7%
Burger King	22,63	-5,0%
Pasta Caffé (Pt)	6,4	-9,8%
O Kilo	4,33	-14,6%
Kiosks	2,63	-10,8%
Coffee Shops	5,52	-22,6%
Flor d'Oliveira	0,43	-5,9%
Catering	4,89	-31,6%
Concessions and Others	8,15	-5,0%
PORTUGAL	**145,97**	**-7,9%**
Pizza Móvil	13,76	-5,4%
Pasta Caffé (Spain)	1,4	-29,2%
Burger King Spain	29,46	-5,8%
SPAIN	**44,62**	**-6,7%**
Extraordinary Items		
Foodservice Total	**190,59**	**-8,1%**



In 2010, the positive result for Portugal shown in the previous figure was mainly due to the acquisition of the Solinca catering business contributing to 1,6% of the growth in Portugal representing €2,4M, the continuous growth of sales at Burger King and KFC, the positive development of the Pizza Hut home delivery segment, the recovery of Pasta Caffé, the increase in traffic at the airports and the positive trend at Ó Kilo. The presence at “Rock in Rio Lisboa” was a major event and increased foodservice sales by 0,5%.

On the other side the decrease in Spain was mainly justified to the crisis in 2010. They closed 5 units of Pasta Caffé in Spain and other 11 company owned units as the market was less attractive.

In 2011, the sales reduced significantly both in Spain and Portugal. This was mainly due to external factors such as the consumer’s reduction in shopping centers, the traffic reduction at service stations and generally the decline in the economic situation. Moreover, 3 Ò Kilo Units were closed in 2011 and the number and catering events also decreased being this the major drop in sales.

<u>Assumption</u>

The following figure illustrates the turnover evolution in the last years.

Figure 9: Turnover (mn€) – Source Ibersol Group, 2011

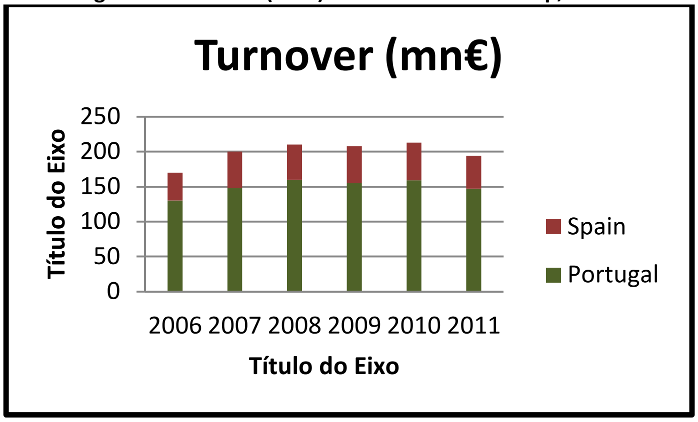


Figure 10: Sales Growth Evolution

	2007	2008	2009	2010	2011	*Average Growth*
Sales (€)	200.633.115	212.165.691	205.582.649	210.970.961	193.738.152	
Sales Growth		*5,75%*	*-3,10%*	*2,62%*	*-8,17%*	***-0,73%***

By analyzing historical data we can observe an average growth of -0,73% supported by an increase in 2008 and 2010, a slightly decline in 2009 and a significant reduction in 2011. This can apparently be contradictory as the crisis popped up in 2008. However, due to the fact that the fast food segment benefits from a trade-down in consumption the effects are only visible afterwards. As the available income of families gets lower they tend to choose more often fast food instead of expensive restaurants.

Even though the growth average of -0,73%, which is especially affected by the decrease in 2011, the assumption underlying sales evolution was based mostly according to the economic environment expected for the following years instead of historical data.

According to "Banco de Portugal" projections, the Portuguese economy registered a contraction in 2011 and expects a similar tendency for 2012, followed by stagnation in 2013. This environment leads to a significant decrease in domestic demand and consequently impacts the available income of families.

Consequently, it was assumed a decrease in 2012, a trend that remains in 2013 enlarged in 3p.p due to the austerity policies felt both in Portugal and Spain. In 2014, it is expected a consolidation of the economy and a growth similar to previous records is considered to be a good approach. From 2014 forward it was assumed a growth rate close to the one registered before the crisis.

The sales growth assumption is summarized in the following figure:

Figure 11: Sales Growth Assumption

	2012	2013	2014	2015	...	2020
Growth Assumption	*-5,00%*	*-8,00%*	*3,00%*	*5,00%*	...	10,00%
Sales (€)	184.051.244	169.327.145	174.406.959	183.127.307	...	279.108.145

In line with the previous assumption the revenues were stated as a percentage of sales.

Figure 12: Revenues Growth Evolution

	2007	2008	2009	2010	2011	*Average Growth*
Revenues (€)	206.036.195	218.072.495	211.276.552	215.930.381	198.158.664	
Revenues as a % of Sales	102,69%	102,78%	102,77%	102,35%	102,28%	***102,58%***

Figure 13: Revenues Growth Assumption

	2012	2013	2014	2015	...	2020
Revenues (€)	188.792.096	173.688.729	178.899.390	187.844.360	...	286.297.504

B. Costs Growth

Analysis

The operating expenses totalled €194,6M in 2010, representing a rise of 3% compared to the previous year and €187,7M in 2011. Even though the total amount has been reduced in the last year they increased their weight in sales in 3p.p.

The following figure illustrates the cost variation over the last years according to the different nature:

Figure 14: Costs Growth Evolution

	2007	2008	2009	2010	2011
Cost of Merchandise and Raw Materials			*21,00%*	*21,80%*	*22,60%*
Remuneration and Personnel Costs			*32,40%*	*32,00%*	*33,50%*
Supplies and External Services			*28,10%*	*31,60%*	*32,70%*
Other Operating Expenses			*4,80%*	*1,63%*	*1,44%*
Costs as a % of Sales			*86,30%*	87,03%	90,24%
Costs	173.671.792	183.121.825	177.415.001	183.614.585	174.838.963

Operating expenses can be separated in:

a) Cost of Merchandise and Raw Materials. It represented in 2010 21,8% of the total turnover and 22,6% in 2011. From 2009 to 2010 the increase registered was mainly due to adjustments in prices of some raw materials while in 2011 the issue was related to pressure on sales prices.

   Even though the reduction in sales in 2012 was close to the previous year, the cost of merchandise is assumed to increase however not as much as in 2011 as this year the alteration of the sales mix with a higher weight of counters concept is offset. The same reasoning is applied for 2013. In 2014 forwards, the weight is expected to be reduced as the sales growth will compensate costs.

b) Remunerations and personnel costs. Even though the increase in raw materials, the personnel costs reduced over the last 3 years, however increasing their weight in turnover in the last year. This can be explained by a decision making of the company as the capacity was not reduced despite the fact that the sales were dropping. It is assumed for 2012 and 2013 a growth in weight and from 2014 forward it was kept at the same level as before.

c) Supplies and External Services. Similar to what occurred with personnel costs, also supplies and External Services reduced in absolute terms, however increased their weight in terms of sales. Even though the control of some costs in existent units, this was not enough to cover the fixed costs such as rents. The evolution for the following years is based in the same reasoning as for raw materials and personnel costs.

d) Other Operating Expenses. The major cost included in this group is related to the closing of some existent units, representing both in 2010 and 2011 almost 50% of the total.

Assumption

According to the analysis explained before, it was assumed the following cost variation:

Figure 15: Cost Growth Assumption

	2012	2013	2014	2015	...	2020
Cost of Merchandise and Raw Materials	*23,60%*	*23,60%*	*21,00%*	*20,00%*		*20,00%*
Remuneration and Personnel Costs	*35,00%*	*35,00%*	*32,40%*	*31,40%*		*31,40%*
Supplies and External Services	*33,70%*	*33,70%*	*28,10%*	*27,10%*		*27,10%*
Other Operating Expenses	*1,50%*	*1,50%*	*4,80%*	*3,80%*		*3,80%*
Costs as a % of Sales	**93,80%**	**93,80%**	**86,30%**	**82,30%**	**...**	**82,30%**
Costs	172.640.067	158.828.862	150.510.809	150.711.257	...	229.702.168

C. Net Working Capital

Analysis

As it can be observed in the following figure the Current Assets are growing significantly across the years while the Current Liabilities are suffering a reduction. This leads to a Working Capital positive in a very short period of time.

Figure 16: Current Assets ans Liabilities Evolution

	2007	2008	2009	2010	2011
Current Assets	27.425.049	28.626.069	37.809.894	47.287.016	41.786.018
Current Liabilities	85.440.297	88.428.330	83.801.571	65.398.410	57.298.183

This can also be supported by the fact that retail companies usually receive promptly and have a DPO between 30 and 90 days, so it is normal that the WC contributes positively to the Cash-Flow.

Assumption

By looking to historical data, we can observe that despite the variation in sales, the WC is kept almost constant. From 2012 forwards there was a slightly reduction as explained before. No other assumption was made according to the economic cycle, as this will not affect the NWC directly.

Figure 17: NWC Assumption

	2007	2008	2009	2010	2011
WC as a % of Sales	-19,38%	-13,28%	-17,20%	-16,12%	-16,27%
Working Capital	-38.886.325	-28.165.165	-35.355.822	-33.998.920	-31.514.893
NWC		10.721.160	-7.190.657	1.356.902	2.484.027

	2012	2013	2014	2015	...	2020
WC as a % of Sales	*-16,27%*	*-17,27%*	*-18,27%*	*-19,27%*	...	*-21,27%*
Working Capital	-29.939.148	-29.237.288	-31.858.476	-35.282.673	...	-67.730.465
NWC	1.575.745	701.860	-2.621.188	-3.424.197	...	-8.694.662

D. Capex

In 2010, the investment was mainly focused in modernization and refurbishment of existent units representing 5M€. Moreover, 7units were opened in Portugal with a total cost of 3,5M€, and US$500.000 were spent to set up Ibersol Angola, SA. Additionally, 2,8M€ were spent in various current assets. In 2011, Ibersol Group kept the same tendency by opening 6 new units in Portugal and Spain and acquiring a property of pizza Hut, totaling 4,3M€. In addition, 2.6M€ were spent in the construction of a unit in Angola, 3,6M€ in the modernization and renovation of sales points and 2,3M€ in other current assets.

The cash flow registered during 2010 was 26M€ and 19,2M€ in 2011, an amount higher than the investment and consequently sufficient for financial coverage of CAPEX in both years.

In order to calculate the capital expenditures, it was initially assumed the net tangible assets evolution. The historical average of assets turnover was considered and applied for the subsequent years.

Figure 18: Tangible Assets Evolution

	2007	2008	2009	2010	2011	*Average Growth*
Tangible fixed Assets	113.757.719	118.483.939	120.120.387	121.039.747	123.224.419	
Assets Turnover	176,37%	179,07%	171,15%	174,30%	157,22%	**171,62%**

Figure 19: Tangible Assets Assumption

	2012	2013	2014	…	2020
Tangible Fixed Assets	107.242.751	98.663.331	101.623.231	…	162.630.389
Δ Tangible Fixed Assets	-15.981.668	-8.579.420	2.959.900	…	14.784.581

The depreciation was obtained through an historical average as a percentage of Tangible Fixed Assets and then replicated to the following years, obtaining the following values:

Figure 20: Depreciation Evolution

	2007	2008	2009	2010	2011	*Average Growth*
Depreciation	10.408.594	11.324.732	11.608.744	11.025.848	12.894.484	
Depreciation as a % of TFA	9,15%	9,56%	9,66%	9,11%	10,46%	**9,59%**

Figure 21: Depreciation Assumption

	2012	2013	2014	…	2021
Depreciation	10.283.633	9.460.943	9.744.771	…	15.594.819

According to the Tangible Fixed Assets and the Depreciation, the Capex assumption is the following:

Figure 22: CAPEX Assumption

	2012	2013	2014	...	2020
CAPEX	10.000.000	10.000.000	12.704.671	...	15.000.000
Capex / Sales	5,91%	7,28%	8,36%	...	5,37%

An exception was made for 2012 and 2013 as the sales decrease assumed is considerable. Due to this fact it was assumed the biggest value between the method explained above and 10M€ which is considered to be a reasonable value according to the historical evolution. By considering values obtained through the method above for these years we would obtain negative values, which would not be realistic according to the fact that despite the decrease in sales, Ibersol Group keeps investing in new units and refurbishing existent ones even if at a slowest path. Moreover, according to the following table this will lead to a Capex over sales almost constant over the years.

Figure 23: Capex/Sales – Historical Data

	2008	2009	2010	2011
Capex	16.050.952	13.245.192	11.945.208	15.079.156
Capex / Sales	7,57%	6,44%	5,66%	7,78%

E. Dividend Paid

The dividends were analyzed historically as a % of the FCFF, representing between 2 to 4%, growing in the last years. This tendency was preserved in the subsequent years, considering in 2012 the same distribution in 2011 increased in 1p.p. as for 2013. From 2015 forwards, it was considered a rate close to 2007 as this is a reference of a stable situation.

Figure 24: Dividends Evolution

	2007	2008	2009	2010	2011
Dividend Paid	1.003.098	990.180	990.000	1.183.500	990.000
Dividends as a % of FCFF	4,41%	-46,52%	5,07%	10,66%	90,30%

Figure 25: Dividends Assumption

	2012	2013	2014	...	2020
Dividends as a % of FCFF	90%	80%	80%	...	6%
Dividend Paid	986.711	901.567	734.588	..	1.868.243

F. Others

In terms of other cash-flow transactions as capital increase, there was no evidence in the past and consequently this item was considered to be zero.

5. Results

According to both analysis, the assumptions made in this report are more conservative compared to the bank analysis. This is explained by each one of the assumptions underlying the model stated as follows:

1. Sales and Revenues

Figure 26: Sales, Valuation vs Bank

	2012	2013	2014	2015
Valuation				
Growth Assumption	*-5,00%*	*-8,00%*	*3,00%*	*5,00%*
Sales (€)	184.051.244	169.327.145	174.406.959	183.127.307
Bank - BPI				
Growth Assumption	*-2,91%*	*-8,61%*	*-2,68%*	*4,66%*
Sales (M€)	188	172	167	175

Figure 27: Revenues, Valuation vs Bank

	2012	2013	2014	2015
Valuation				
Revenues (€)	188.792.096	173.688.729	178.899.390	187.844.360
As a % os Sales	102,58%	102,58%	102,58%	102,58%
Bank - BPI				
Revenues (M€)	192	176	171	179
As a % os Sales	102%	102%	102%	102%

In line with the final price the sales variation is less aggressive in the BPI Scenario. It was assumed a value for sales almost 5M€ lower than the Bank in 2012 which affect significantly the result and all the assumptions. From 2012 forwards both analyses tend to converge both in Sales and Revenues.

2. Costs

Figure 28: Costs, Valuation vs Bank

	2012	2013	2014	2015
Valuation				
Costs as a % of Sales	93,80%	93,80%	86,30%	82,30%
Costs (€)	172.640.067	158.828.862	150.510.809	150.711.257
Bank - BPI				
Costs as a % of Sales (M€)	90%	91%	90%	87%
Costs	169.000.000	156.000.000	150.000.000	153.000.000

Although sales present a large difference, the costs are similar, due to the costs nature explained above and the fact that the decrease in sales doesn't reduce costs as Ibersol keeps the same structure.

3. Working Capital

Figure 29: NWC, Valuation vs Bank

	2012	2013	2014	2015
NWC				
Valuation	1.575.745	701.860	-2.621.188	-3.424.197
Bank	2.227.000	2.783.000	383.000	-1.179.000

The Net Working Capital in terms of expectations presents the same variation across the years. According to the analysis done previously, and keeping in mind the business segment where the company operates, it is expected a positive contribution of the working capital to the Cash-flow.

4. Capex

Figure 30: CAPEX, Valuation vs Bank

	2012	2013	2014	2015
CAPEX				
Model	10.000.000	10.000.000	12.704.671	15.313.171
Bank BPI	9.800.000	10.859.000	11.735.000	14.117.000

The difference is not considerable. Both methods suggest that despite the decrease in sales the company will continue to invest in some new openings and in the restructuration of existing ones.

5. Dividend Paid

Figure 31: Dividend, Valuation vs Bank

	2012	2013	2014	2015
Dividends Paid				
Model	986.711	901.567	734.588	689.628
Bank BPI	990.000	1.080.000	702.000	702.000

The model is more conservative than BPI in 2012 and 2013 and increases the amount in the following years. However, as explained above, according to the percentage of FCFF, it was assumed the same tendency and therefore even with profits decreasing, the distribution keeps constant.

6. <u>WACC</u>

Figure 32: WACC, Valuation vs Bank

Wacc	Valuation	Bank - BPI
Wacc	11,86%	10,60%
Ke		
Risk Free Rate	6,77%	6,65%
Market Premium	6%	6%
Beta Assets	0,9	
Beta Levered	1,1	0,9
Tax Rate	26,50%	29,50%
Rd	9,00%	8,60%
D/EV	20%	20%

The cost of capital reached though the two different methods is similar. According to the Bank the Beta Levered is lower, however the model considers first of all the Beta Assets and then calculates de Beta Levered. There is also a slightly difference in the Cost of Debt, however not significant, both assumptions are conservative according the economic environment.

The following table presents the conclusion resulting from the above factors:

Figure 33: NPV, Valuation vs Bank

	Valuation	Bank - BPI
NPV	82.193.187	134.367.000
WACC	11,86%	10,60%
Equity	68.879.846	76.722.037
Shares Outstanding	20.000.000	20.000.000
Price per Share (€)	**3,44**	**3,84**
Last Price (03-01-2012)	*4,25*	*4,25*
Price per share estimation=NPV/ Price per share	4,1097	6,7184

Mainly due to the Sales and Revenues assumption the NPV is much lower in the Valuation scenario rather than the BPI Bank. The Bank would suggest a ***Buy Recommendation,*** however, I would suggest an ***Accumulate Recommendation***.

B) Multiples

The multiples valuation is used to estimate the value of an asset by comparing it to the values get through the market for similar companies. Even though relative valuation faces numerous limitations due to the comparison between companies, it also gives us a good framework to make value judgments.

	EV/EBITDA		P/E	
	2012	2013	2012	2013
Autogrill	5,00	4,60	12,70	13,00
Domino's Pizza UK & IRL PLC	13,50	12,00	20,50	17,70
Domino's Pizza	11,10	10,10	17,80	15,60
Starbuck's	13,30	11,30	26,00	21,20
MacDonald's	10,90	10,20	17,50	15,90
Yum Brands	10,50	9,40	19,00	16,70
Peer Group (excluding Ibersol)	10,72	9,60	18,92	16,68

Source: Bloomberg, BPI Equity Research

	EV/EBITDA		EV/EBIT		P/E	
	2012	2013	2012	2013	2012	2013
Ibersol Group	**3,57**	**4,11**	**7,11**	**9,32**	**20,22**	**22,50**

The EV/EBITDA ratio shows a value of 3,57, lower than the peer group considered above, meaning that the company valuation is below the market valuation of its peer group. This is one of the most used multiple as it is unaffected by the changes in the capital structure, however this can also constitute a constraint as the changes in capital expenditure, depreciation and the value creation through tax are also ignored.

The P/E ration in line with the peer group shows how the market is willing to pay for the company's earnings. According to the valuation and the analysis done before this could mean that despite the results faced by the company and the difficult economic environment the market expects a higher stock price. This multiple has a limitation as the earnings per share are subject to different accounting policies.

6. Conclusion

In this report I tried to provide an approaching into the practices of valuation. For this, a literature review was made in order to compute the Valuation of Ibersol Group.

The company was value through the DCF methodology as it proved to be the most adequate due to the nature of the business.

The revenues stream and all assumptions underlying the Group valuation were analyzed and taken into account.

The market value reached through the model is 3,44€ per share, 23% lower than the market value. However, it is considered a good approach as the results published in the first trimester keep showing a significant decrease (82% according to CMVM). Moreover the investment bank reached a value of 3,84€.

Finally, considering the business nature and the economic environment faced nowadays, any forecast provided is affected by negativism. However, Ibersol group is investing in emerging markets to reverse this situation and keep a solid position in the market.

7. Appendix

Balance Sheet

ASSETS	2007	2008	2009	2010	2011
Non-current					
Tangible fixed assets	113.757.719	118.483.939	120.120.387	121.039.747	123.224.419
Consolidation differences	44.293.117	44.246.954	42.369.581	42.903.548	43.034.262
Intangible assets	19.841.435	18.561.657	18.826.684	17.636.188	16.205.541
Deferred tax assets	1.641.494	1.066.159	934.938	606.486	1.054.915
Financial assets available for sale	436.085	436.085	511.165	1.004.417	733.685
Other non-current assets	749.072	1.060.114	1.575.686	1.740.203	1.710.740
Other non-current assets	**180.718.922**	**183.854.908**	**184.338.441**	**184.930.589**	**185.963.562**
Current					
Stocks	4.076.723	4.127.633	4.170.721	4.169.134	3.590.104
Cash and cash equivalents	12.691.939	7.332.731	20.649.468	29.361.466	29.316.069
Other	10.656.387	17.165.705	12.989.705	13.756.416	8.879.845
Total current assets	**27.425.049**	**28.626.069**	**37.809.894**	**47.287.016**	**41.786.018**
TOTAL ASSETS	***208.143.971***	***212.480.977***	***222.148.335***	***232.217.605***	***227.749.580***

EQUITY AND LIABILITIES					
EQUITY					
Capital and reserves attributable to shareholders					
Share capital	20.000.000	20.000.000	20.000.000	20.000.000	20.000.000
Own shares	-11.146.811	-11.179.644	-11.179.644	-11.179.644	-11.179.644
Consolidation differences	156.296	156.296	156.296	156.296	156.296
Reserves and retained results	43.301.587	55.268.517	68.255.660	81.878.302	95.293.425
Net profit in the year	12.790.269	13.688.813	14.612.638	14.616.510	6.125.138
	65.101.341	**77.933.982**	**91.844.950**	**105.471.464**	**110.395.215**
Minotiry interests	4.642.194	4.997.029	3.477.604	3.861.147	4.449.991
Total equity	**69.743.535**	**82.931.011**	**95.322.554**	**109.332.611**	**114.845.206**
LIABILITIES					
LIABILITIES					
Non-current					
Loans	39.082.537	26.954.396	30.113.106	45.420.024	44.331.622
Deferred TAX LIABILITIES	8.161.608	9.291.754	10.191.272	10.647.703	10.820.760
Provisions for other risks ans charges	183.549	346.419	33.257	33.257	33.257
Other non-current liabilities	5.532.445	4.529.067	2.686.575	1.385.600	420.552
Total non-current liabilities	**52.960.139**	**41.121.636**	**43.024.210**	**57.486.584**	**55.606.191**
Current					
Loans	31.820.862	38.969.827	31.285.323	13.473.940	13.313.341
Accounts payable to suppl. And accrued costs	40.792.661	34.091.424	37.440.532	31.373.517	29.712.622
Other current liabilities	12.826.774	15.367.079	15.075.716	20.550.953	14.272.220
Total current liabilities	**85.440.297**	**88.428.330**	**83.801.571**	**65.398.410**	**57.298.183**
Total liabilities	**138.400.436**	**129.549.966**	**126.825.781**	**122.884.994**	**112.904.374**
TOTAL EQUITY AND LIABILITIES	***208.143.971***	***212.480.977***	***222.148.335***	***232.217.605***	***227.749.580***

Income Statement

	2007	2008	2009	2010	2011
Operating Income					
Sales	200.633.115	212.165.691	205.582.649	210.970.961	193.738.152
Rendered Services	2.748.604	2.390.557	1.759.045	1.574.748	784.993
Other operating income	2.654.476	3.516.247	3.934.858	3.384.672	3.635.519
Total operating income	**206.036.195**	**218.072.495**	**211.276.552**	**215.930.381**	**198.158.664**
Operating costs					
Cost of sales	45.240.240	47.113.091	43.547.827	46.006.474	43.839.992
External supplies and services	63.831.696	66.767.927	64.844.735	67.106.290	63.658.074
Personnel costs	62.761.789	67.283.375	67.240.259	68.097.200	65.087.845
Amortisation, depreciation and impairment losses	10.408.594	11.324.732	11.608.744	11.025.848	12.894.484
Other oprating costs	1.838.067	1.957.432	1.782.180	2.404.621	2.253.052
Total operating costs	**184.080.386**	**194.446.557**	**189.023.745**	**194.640.433**	**187.733.447**
OPERATING INCOME	***21.955.809***	***23.625.938***	***22.252.807***	***21.289.948***	***10.425.217***
Net financing cost	-3.838.281	-4.157.899	-1.871.017	-1.482.825	-1.234.680
Pre-tax income	**18.117.528**	**19.468.039**	**20.381.790**	**19.807.123**	**9.190.537**
Income tax	4.853.878	5.254.221	5.320.300	4.807.070	2.640.900
Afther-tax income	**13.263.650**	**14.213.818**	**15.061.490**	**15.000.053**	**6.549.637**
Consolidated profit for the period	**13.263.650**	**14.213.818**	**15.061.490**	**15.000.053**	**6.549.637**
Other income	0	0	0	0	0
Total other income	**0**	**0**	**0**	**0**	**0**
TOTAL COMRPEENHENSIVE INCOME FOR THE PERIOD	***13.263.650***	***14.213.818***	***15.061.490***	***15.000.053***	***6.549.637***
Profit attributable to:					
Shareholders	12.790.269	13.688.813	14.612.638	14.616.510	6.125.138
Minotiry interests	473.379	525.005	448.851	383.543	424.499
Total comprehensive income attrbutable to:					
Shareholders		13.688.813	14.612.638	14.616.510	6.125.138
Minotiry interests		525.005	448.851	383.543	424.499
Earnings per share					
Basic	0,7	0,76	0,81	0,81	0,34
Diluted	0,7	0,76	0,81	0,81	0,34

Cash-Flow Statement

	2007	2008	2009	2010	2011
Cash Flows from Operating Activities					
Flows from Operating Activities	**36.098.675**	**26.331.502**	**36.545.951**	**29.667.895**	**19.171.328**
Cash Flows from Investment Activities					
Receipts from:					
Financial Investments	1.341.287	0	69.791	0	0
Tangible assets	172.743	1.066.474	842.449	257.716	19.323
Intangible assets	248528	0	0	5.807	0
Investment benefits	0	0	89.140	0	0
Interest receives	175.576	262.760	165.302	277.023	1.290.661
Dividends received	0	0	0	0	0
Other	0	0	0	0	0
Payments for:					
Financial Investments	-290.711	1.592.140	575.079	493.251	114.151
Tangible assets	11.720.482	15.759.970	11.090.397	12.624.602	10.827.055
Intangible assets	1.610.809	2.291.585	2.301.665	985.192	751.007
Other					
Flows from Investment Activities	**-11.102.446**	**-18.314.461**	**-12.800.459**	**-13.562.499**	**-10.382.229**
Cash Flows from Financing Activities					
Receipts from:					
Loans obtained	6.500.305	13.748.722	11.000.000	11.000.000	11853898
Financial leasing contracts	0	0	0	0	0
Sale of own shares	126560	0	0	0	0
Other	0	0	0	0	0
Payments for:					
Loans obtained	0	0	10.270.905	6.794.477	16.701.378
Amortisation of financial leasing contracts	1.698.253	2.684.188	2.409.561	1.963.408	1.589.456
Interest and similar costs	3.942.579	4.660.917	2.271.898	1.742.025	2.445.990
Dividends paid	1.003.098	990.180	990.000	1.183.500	990.000
Capital reduction ans supplement entries	0	0	0	0	0
Acquisition of own shares	2746226	32.832	0	0	0
Other		0	0	0	0
Flows from financing activities	**-2.763.291**	**5.380.605**	**-15.942.364**	**-683.410**	**-9.872.926**
Change in cash & cash equivalent	22.232.938	13.397.646	7.803.128	15.421.986	-1.083.827
Effect of exchange rate differences					325.417
Cash & Cash equivalent at the start of the period	-29.615.851	-7.382.913	6.014.733	13.817.861	29.239.847
Cash & Cash equivalent at the end of the period	**-7.382.913**	**6.014.733**	**13.817.861**	**29.239.847**	**28.481.437**

Valuation – DCF (1)

	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenues	188.792.096	173.688.729	178.899.390	187.844.360	200.993.465	217.072.942	236.609.507	260.270.458	286.297.504
Costs	172.640.067	158.828.862	150.510.809	150.711.257	161.261.045	174.161.929	189.836.503	208.820.153	229.702.168
EBITDA	16.152.029	14.859.867	28.388.581	37.133.103	39.732.420	42.911.014	46.773.005	51.450.305	56.595.336
(-)Depreciation+Amortization	10.283.633	9.460.943	9.744.771	10.232.010	10.948.250	11.824.110	12.888.280	14.177.108	15.594.819
EBIT	5.868.396	5.398.924	18.643.810	26.901.093	28.784.170	31.086.903	33.884.725	37.273.197	41.000.517
(+)Net Financials	-1.234.680	-1.234.680	-1.234.680	-1.234.680	-1.234.680	-1.234.680	-1.234.680	-1.234.680	-1.234.680
Pre-tax Income	4.633.716	4.164.244	17.409.130	25.666.413	27.549.490	29.852.223	32.650.045	36.038.517	39.765.837
Tax	1.227.935	1.103.525	4.613.420	6.801.599	7.300.615	7.910.839	8.652.262	9.550.207	10.537.947
Net Profit	3.405.781	3.060.719	12.795.711	18.864.814	20.248.875	21.941.384	23.997.783	26.488.310	29.227.890

Valuation – DCF (2)

	2012	2013	2014	2015	2016	2017	2018	2019	2020
EBIT for tax purposes	4.633.716	4.164.244	17.409.130	25.666.413	27.549.490	29.852.223	32.650.045	36.038.517	39.765.837
(-) Tax	1.227.935	1.103.525	4.613.420	6.801.599	7.300.615	7.910.839	8.652.262	9.550.207	10.537.947
(+) Depreciation + Amortization	10.283.633	9.460.943	9.744.771	10.232.010	10.948.250	11.824.110	12.888.280	14.177.108	15.594.819
Cash Flow from Operations	13.689.414	12.521.662	22.540.482	29.096.823	31.197.125	33.765.494	36.886.063	40.665.418	44.822.709
-NWC	1.575.745	701.860	-2.621.188	-3.424.197	-4.429.249	-5.293.173	-6.357.137	-7.673.570	-8.694.662
-Capex	10.000.000	10.000.000	12.704.671	15.313.171	15.000.000	15.000.000	15.000.000	15.000.000	15.000.000
Free Cash Flow From Operations	2.113.670	1.819.802	12.456.999	17.207.849	20.626.374	24.058.667	28.243.200	33.338.988	38.517.371
Cash Flow from Non-Operational Sources									
(-) Dividend Paid	986.711	901.567	734.588	689.628	971.765	1.156.278	1.347.344	1.582.279	1.868.243
(+/-) Equity	0	0	0	0	0	0	0	0	0
(+/-) Other	0	0	0	0	0	0	0	0	0
FCFF	1.126.959	918.235	11.722.411	16.518.221	19.654.610	22.902.389	26.895.856	31.756.709	36.649.128
WACC	11,86%								
Present Value of FCFF	1.007.511	733.901	8.376.117	10.551.907	11.224.682	11.693.172	12.276.621	12.958.982	13.370.294

NPV	82.193.187
Equity	68.879.846
Shares Outstanding	20.000.000
Price per Share (€)	**3,444**
Last Price (03-01-2012)	4,250
Price per share estimation=NPV/ Price per share	4,110

Bank – BPI (1)

	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenues	192.000.000	176.000.000	171.000.000	179.000.000	196.762.024	212.502.986	231.628.254	254.791.080	280.270.188
Costs	169.000.000	156.000.000	150.000.000	153.000.000	153.000.000	153.000.000	153.000.000	153.000.000	153.000.000
EBITDA	23.000.000	20.000.000	21.000.000	26.000.000	43.762.024	59.502.986	78.628.254	101.791.080	127.270.188
(-)Depreciation+Amortization	11.441.000	11.177.000	11.669.000	12.266.000	10.948.250	11.824.110	12.888.280	14.177.108	15.594.819
EBIT	11.559.000	8.823.000	9.331.000	13.734.000	32.813.774	47.678.875	65.739.974	87.613.972	111.675.369
(+)Net Financials	-1.234.680	-1.234.680	-1.234.680	-1.234.680	-1.234.680	-1.234.680	-1.234.680	-1.234.680	-1.234.680
Pre-tax Income	10.324.320	7.588.320	8.096.320	12.499.320	31.579.094	46.444.195	64.505.294	86.379.292	110.440.689
Tax	3.045.674	2.238.554	2.388.414	3.687.299	9.315.833	13.701.038	19.029.062	25.481.891	32.580.003
Net Profit	7.278.646	5.349.766	5.707.906	8.812.021	22.263.261	32.743.158	45.476.232	60.897.401	77.860.686

Bank – BPI (2)

	2012	2013	2014	2015	2016	2017	2018	2019	2020
EBIT for tax purposes	10.324.320	7.588.320	8.096.320	12.499.320	31.579.094	46.444.195	64.505.294	86.379.292	110.440.689
(-) Tax	3.045.674	2.238.554	2.388.414	3.687.299	9.315.833	13.701.038	19.029.062	25.481.891	32.580.003
(+) Depreciation + Amortization	11.441.000	11.177.000	11.669.000	12.266.000	10.948.250	11.824.110	12.888.280	14.177.108	15.594.819
Cash Flow from Operations	18.719.646	16.526.766	17.376.906	21.078.021	33.211.511	44.567.268	58.364.513	75.074.509	93.455.505
-NWC	2.227.000	2.783.000	383.000	-1.179.000	-4.429.249	-5.293.173	-6.357.137	-7.673.570	-8.694.662
-Capex	9.800.000	10.859.000	11.735.000	14.117.000	15.000.000	15.000.000	15.000.000	15.000.000	15.000.000
Free Cash Flow From Operations	6.692.646	2.884.766	5.258.906	8.140.021	22.640.761	34.860.441	49.721.650	67.748.079	87.150.166
Cash Flow from Non-Operational Sources	0	0	0	0	0	0	0	0	0
(-) Dividend Paid	990.000	1.080.000	702.000	702.000	971.765	1.156.278	1.347.344	1.582.279	1.868.243
(+/-) Equity	0	0	0	0	0	0	0	0	0
(+/-) Other	0	0	0	0	0	0	0	0	0
FCFF	5.702.646	1.804.766	4.556.906	7.438.021	21.668.996	33.704.163	48.374.306	66.165.800	85.281.924
WACC	10,60%								
Present Value of FCFF	5.156.099	1.475.403	3.368.253	4.970.921	13.093.723	18.414.197	23.896.201	29.552.386	34.439.818

NPV	134.367.000

Equity	76.722.037
Shares Outstanding	20.000.000
Price per Share (€)	**3,836**
Last Price (03-01-2012)	4,250
Price per share estimation=NPV/ Price per share	6,718

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