Consolidation in the plastic recycling industry

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Abstract

Consumer awareness on environmental issues have vastly increased in the last few years, aided by the instant spread of images through social media. Plastic waste is at the centre of the environmental concern, and multiple plastic-free and similar campaigns, that started locally on diminished scales, now impact the largest consumer brands and retailers globally.
We analyse the plastic recycling sector, understand the major drivers leading to consolidation and propose a potential consolidation in the Iberian market between Repsol, an integrated multinational oil & gas company and two local plastic recycling firms. We describe why this type of deal is necessary for oil & gas and chemical companies to achieve its circular economy targets. Furthermore, we propose a collaborative deal structure that aligns the incentives of acquirers and sellers in achieving a common goal: producing compound plastic resins from virgin and recycled materials, that have the same quality and properties of virgin resins. We quantify the synergy produced within the NewCo, jointly created by Repsol and Targets 1 and 2, however ignore synergy created for Repsol outside this NewCo.
Having observed a similar transaction in the market in late 2019, we believe that several transactions involving oil & gas and chemical companies acquiring plastic recycling companies will happen over the short term.

O aumento da consciência ambiental tem aumentado fortemente nos últimos anos, alimentada pela rápida propagação de imagens nas redes sociais. Os resíduos plásticos são um dos principais pontos preocupação ambiental e têm surgido diversas campanhas contra a utilização de plástico, que embora tenham começado localmente, impactaram a forma como as maiores empresas de produtos grande consumo e retalho globais.
Analisamos o sector dos plásticos reciclados, compreendendo as principais tendências que levam à consolidação, propondo uma transação entre uma empresa petroquímica multinacional com duas empresas de reciclagem de plásticos locais. Descrevemos as principais motivações para realizar a transação do ponto de vista de uma empresa petroquímica e como esta se enquadra no âmbito da economia circular. Propomos uma estrutura de transação colaborativa, que alinha interesses entre as partes para que o objetivo comum de produzir compostos plásticos reciclados com as mesmas propriedades de materiais virgens, seja atingido. Quantificamos as sinergias produzidas na NewCo, criada pela fusão dos dois Targets e pela Repsol, no entanto ignoramos as sinergias que a Repsol pode retirar desta transação, fora da mesma NewCo.
Tendo observado uma transação nos mesmos moldes no final de 2019, acreditamos que num futuro próximo vão existir diversas transações que envolvam empresas petroquímicas e empresas recicladoras de plástico.

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1. Introduction

Over the last few years there has been increased awareness on the waste caused by plastic waste and the impact it has on the environment. This has led consumers to demand plastic-free or reusable plastic products, which in turn has led Governments to act accordingly and multinational consumer products companies to adapt their use of plastic, mostly through changes in packaging.

The goal of this dissertation is to analyse how a potential deal between a large oil & gas company such as Repsol, and two local plastic recycling companies might be structured, creating a leader in recycled compound products in Iberia.

We start with a literature review, in order to provide the readers a theoretical framework on why M&A happens and the main valuation concepts. Secondly, we provide a thorough Industry Review, in which we highlight the main trends in the plastic recycling industry, as well as analysing the supply chain for the plastic life cycle. Subsequently, we describe the acquirer, Repsol, as well as both Target companies, performing valuation exercises through a DCF, LBO, Trading and Precedent Transaction multiples, estimating the potential synergy created by the acquisition. We finalise by discussing the deal rationale, and why we find this deal is important for Repsol in order to achieve its established circular economy metrics.

During this dissertation we will analyse the plastic industry, focusing on how virgin material is produced and how plastic is recycled at the end of its useful life. We will value both Targets using DCF, Trading and Precedent Transaction multiples as well as valuing the combined company with and without synergy. We will explain why this deal is important for Repsol to achieve its established targets, and why we believe that the timing to acquire makes sense.

2. Literature review

The goal of this literature review is to provide the reader with an insight of why and how M&A happens as well as the main theoretical frameworks and approaches used in valuation.

2.1. Why Merge or Acquire

Mergers & Acquisitions happen for a variety of reasons, and according to Andrade, Mitchell, and Stafford (2001) these include efficiency gains, economies of scale, attempts to create market power, market discipline, as in the case of the removal of incompetent target management and to take advantage of diversification opportunities. The authors conclude that these factors reasonably explain part of the M&A activity from the 1940's to the 1980's with different factors having varying weights across different periods. Furthermore, Mitchell and Mulherin (1996) have addressed the issue that M&A activity occurs in waves and within each wave strongly clusters by industry. Bikchandani et al. (1992) offer another explanation of why clustering can happen, attributing it to "information cascades", where the merger informs agents in similar circumstances of profit opportunities in the sector. Another factor that can drive M&A activity is to acquire specific knowledge or know-how, that can be translated into patents or local permits, or specific knowledge within the management team within the targeted companies.

2.2. Synergy

Independently of the reason to acquire, synergy are holy grail of M&A and used many times to justify premiums paid. According to (Eckbo, 2009) the amount paid should not exceed the present value of synergy. Damodaran (2005) categorizes them into operational and financial synergy and defines them as "the increase in value that is generated by combining two entities to create a new more valuable entity".

The author states that operational synergy are usually evidenced by higher expected cash flows, whilst financial synergy such as tax benefits, diversification, capital structure alterations and uses of excess cash can take the form of lower discount rates.

Mergers and Acquisitions can take various forms. In a merger, a new entity is created and both bidder and target receive shares from the new company, in proportions of their perceived value. In tender offers, common on hostile takeovers, acquirer bids for an underperforming target company and tries to increase profitability (Bruner, 2004). The bid is made to the target company shareholders, bypassing the board of directors. Finally, there are acquisitions of specific subsidiaries or certain assets of a company.

2.3. Measuring M&A Profitability

Sirower and Sahni (2006), studied stock market returns upon announcement date between 1995 and 2001 and found that initial persistence is indicative of future returns. The study found out that 67% of initially negative deals were negative in one year's time, and 50% of the positive ones were still positive after the same one-year period. The problem is exacerbated in stock deals, with three out of four deals being negative until one year after the announcement date. Furthermore, the study also found that higher premiums could lead to a worst return for acquiring shareholders. Initially negative companies paid an average premium of 38,4% whilst in the positive group the average premium was 30,7%.

The authors found that although cash deals only represented 12% of deal volume in the 1995-2001 period, they outperformed all stock deals by 4%.

2.3.1. Valuation

The different valuation methods discussed range in complexity and are sometimes applicable in varying circumstances. The main objective of valuation is to correctly quantify the firm's value, and the methods applied should depend on the type of company being analysed.

2.3.2. Intrinsic valuation models

These models are generally accepted as being market independent, as they rely on analyst or management team projections of future cash flows. The main models are DCF, APV and Contingent Claim Valuation (Real Options).

2.3.3. Discounted Cash Flow model

The Discounted Cash Flow model values FCFF, or the total cash flow generated by the firm's assets, to all providers of capital (equity, debt and other). The estimated cash flows can be split into two phases. The projection period, where cash flows are estimated for each period (usually month, quarter or year), and the terminal period, where cash flows are assumed to grow constantly or stabilize into perpetuity. Free cash flow to the firm can be defined below:

$$\textbf{\textit{FCFF}} = EBIT * (1-t) - \Delta \text{ in Working Capital} - \text{Capital expenditures} +- \Delta \text{ in other operating assets and liabilities}$$

The sum of the discounted FCFF's from the projection period and terminal period result in the firm's enterprise value (EV). This is the value of the operating assets of the firm to all investors.

2.3.4. Terminal Value

The terminal value is the value of the company after the projection period, where we assume that operations are stable and grow at a constant rate. When estimating terminal value we should assume Capex to be the same or higher than depreciation (Kaplan and Ruback, 1996), if not, the company would have no cash generating assets. Additionally, perpetuity assumes that operating margins and capital structure remains constant in relative terms. Furthermore, terminal growth rates should be lower than on equal to long-term growth projections for the economies in which the company operates (Damodaran (2008)).

$$\textbf{\textit{Terminal value}} = Cash\ flow\ (t+1) / r - g$$

After determining what are cash flows we should discount them at the appropriate rate of return

2.3.5. Cost of Capital

According to Myers et al. (2001) Investors should demand higher returns for higher risk projects and lower returns for lower risk projects, all else being equal. There are various models for estimating equity risk premiums, or the cost of equity capital, with Koller et al (2010) offering three alternatives: the Arbitrage Pricing Theory (APT), the Fama-French three factor model and the most common Capital Asset Pricing Model (CAPM). This last model

has become an industry standard, due to its simplicity in computing the only risk and return factor, denominated by Beta.

2.3.6. CAPM

Based on two main guidelines, the CAPM assumes investors will try to maximize the expected portfolio return for a certain level of variance, or minimize variance for a certain level of expected return. The CAPM builds on these guidelines, and states that returns should follow a linear function, where the only risk parameter is Beta (Sharpe (1964), Lintner (1965) and Treynor (1961).

$$\boldsymbol{Ke} = Rf + Blev\ (Rm - Rf)$$

where

Ke *=Cost of equity*

Rf *= Risk free return*

Blev *= Levered Beta for the asset*

(Rm - Rf) = *Equity risk premium (expected return premium over the risk-free rate)*

Having been criticized by Roll (1977) and Stambaugh (1982), with the first criticizing that the CAPM cannot be truly tested and the latter arguing that the model is not sensitive to assets that are not common stocks. Furthermore, Lakonishok (1994) and Fama-French (1996) show that correlation between average returns and Betas are not positive. Nevertheless, this is still the most used model in the industry, which according to Damodaran (2002) is due to its simplicity and easy intuition, when compared to the above-mentioned alternatives

2.3.7. Risk-Free Rate

A riskless rate of return is one that "has no covariance with the market" according to Koller et al. (2010). The risk-free rate, as the name implies, has none or very limited credit risk and can be used to measure the time value of money (Cornell and Green 1991). It also serves as comparative factor among investments, with risk premiums being measured against this riskless rate. Copeland et al. (2000) recommend the ten-year bond rate as the risk-free rate. We will therefore use the ten-year Treasury bond when calculating the risk-free rate for both targets.

2.3.8. Discount Rate

The discount rate used represents the opportunity cost of invested capital and should be the same for assets with similar risk (Froot and Kester, (1995)). It can also be measured as a risk premium above riskless rates of return (Luehrman, 1997)).

2.3.9. Market risk premium

The market risk premium reflects the additional return that investors demand for investing their money in the equity markets over the risk-free rate. According to Damodaran (2015) we can compute this risk premium by calculating the difference of stock market returns, over the returns provided by risk-free government securities. For the purpose of this paper we shall use

the equity risk premiums provided by Damodaran for Portugal. This risk premium of 7.37% is higher than for the United States of America (5.20%) or the United Kingdom (5.69%), and can be most likely attributed to Portugal being a smaller market, which investors deem more risky when compared to larger and more established markets.

2.3.10. Beta

Beta is defined as the covariance between stock returns and market returns over time. The formula yields a correlation factor between a stock and the market (Ross 1978) and therefore a Beta above one means that on average the stock price has moved in the same direction as the market, but with a larger variation. A Beta below one means the opposite.
To understand the risk of the company's assets, one should compare companies in the same sector, as according to Koller et al. (2010) companies in the same industry face similar operational risks. In order to make Beta independent from capital structure decisions, it should be unlevered, re-levering it to the target capital structure of the valued company. This method implies that the Beta of debt to be equal to zero (Damodaran 1994). Beta can be levered according to the following:

$$\textbf{\textit{Beta levered}} = Beta\ unlevered * (1 + (1\text{-}t) * (D / E))$$

We sourced our Beta values from Yahoo Finance, computed monthly for a period of five years.

2.3.11. Wacc

The weighted average cost of capital (Wacc) discount rate is the standard rate for discounting cash flows when the capital structure is stable (Brealey at al. (2008)). This discount rate considers the financing structure of the company and its relative weights and costs (Re and Rd). Most common financing sources are Debt (D/V), Equity (E/V) but may also include Preferred stock or other hybrid securities. The WACC rate is also the weighted average expected rate of return for all kinds of providers of capital.

$$\textbf{\textit{WACC}} = E/V * Re + D/V * (1\text{-}t) * Rd$$

2.3.12. Relative Valuation – Multiples

According to Goedhart et al. (2005), multiples are a good way to compare the discounted cash-flow valuations completed previously.
We can broadly separate multiples into two classes, trading and precedent transaction multiples.

2.3.13. Trading multiples

Arriving at a company's value by observing similar listed comparable companies in the public markets. Trading multiples can either consider Enterprise value or equity value.

2.3.14. Transaction multiples

Valuing a target company by selecting similar precedent public or private transactions of controlling stakes in similar companies. Multiples can serve as a valuation method by itself or serve as a complement to comprehensive valuations such as DCF or APV, by allowing the

investor to calibrate his assumptions regarding forecasts and market expectations, according to Liu et al. (2001).

Trading or precedent transaction multiples can refer to Enterprise value or Equity value, and therefore considered unlevered or levered, respectively. Levered multiples should use levered operational metrics for comparison, the opposite applies for unlevered multiples. These multiples include EV/Revenues, EV/EBITDA and EV/EBIT. EV/EBITDA is, according to Fernandez (2001), one of the mostly used metrics in the industry. Furthermore, Kaplan and Ruback (1996) reinforce that multiples that use EBITDA achieve the best results. Levered multiples are affected by the capital structure decisions of management and are therefore less reliable; however, they can be simpler to compute. Some of these multiples include Price/Earnings or Price/Book, computed by dividing the Share price by the earnings per share and share price by the book value of equity per share, respectively. One very important factor when using multiples is the choice of comparable companies. Goedhart et al. (2005) states that Return on Invested Capital (ROIC) should be similar, and so should be growth perspectives. Furthermore, using forward looking multiples rather than current or backward-looking multiples should yield better results.

2.3.15. Private company discount

A liquidity discount should be incorporated, since we are analysing private, non-listed companies, in order to make the comparison fair. Investors are willing to pay more for stakes in listed companies due to the fact that there is the ability to liquidate the position in a short period of time. Liquidity discounts vary, with Silber (1991) proposing an inverse relationship between discount and the size of the company. Although his analysis was performed on restricted and non-restricted securities issued by the same company, we adopted the same rational for the Target companies analysed.

3. Global M&A activity

Global M&A activity was strong throughout the 2009-2019 period, as economies recovered from the global 2008 crisis. Various ingredients aligned to create a very active decade for M&A, such as a reduction in interest rates in the United States and in Europe, as well as a continued period of economic growth. As we can observe, the number of yearly deals in 2019, the peak from at least 2000, was almost three times the number of deals of 2009.

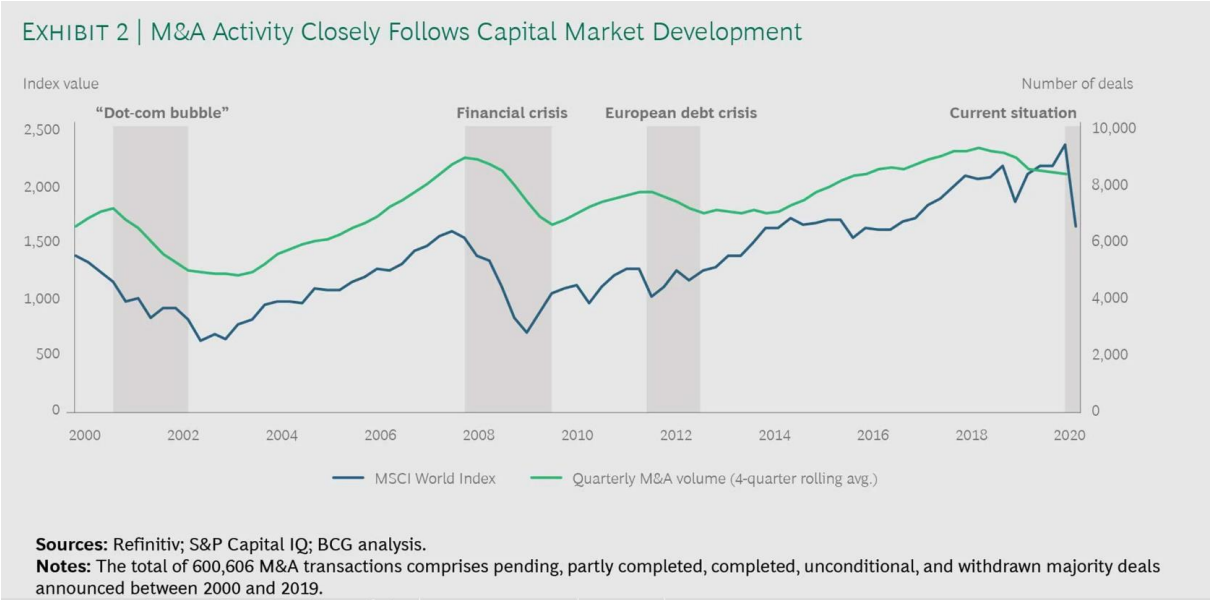

Figure 1 – M&A cycles and capital market development

However, by 2019 global M&A volume started to wind-down due to economic uncertainty, and political trade-wars between China and the Unites States.

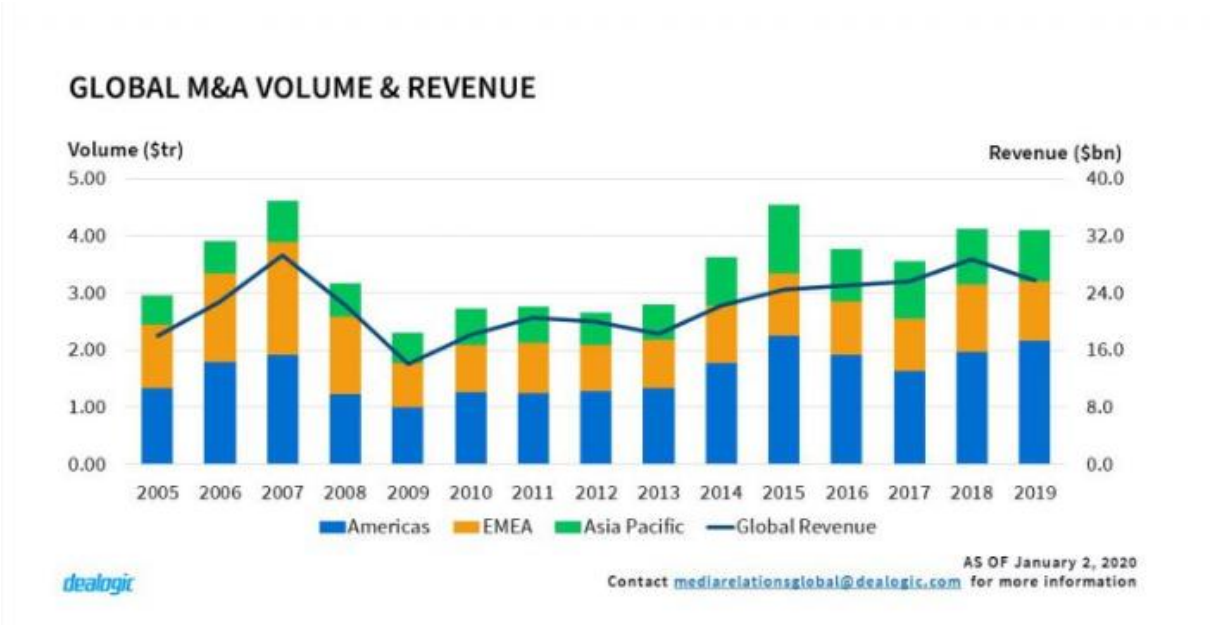

Figure 2 - Global M&A Volume and revenue by region, 2005-2019

Global volume was slightly below 2018 levels, with a 0.5% decrease from $4.11Tr to $4.09Tr, however only supported by the occurrence of a few mega-deals. Mega-deals volume in 2019 (>$10bn deals) reached a total $1.27Tr, representing 31% of total 2019 volume, the highest proportion ever. 70% of 2019 mega-deal volume was announced during H1. In hindsight, we can now observe that the economic growth and M&A momentum where fading from 10 years of continued growth.

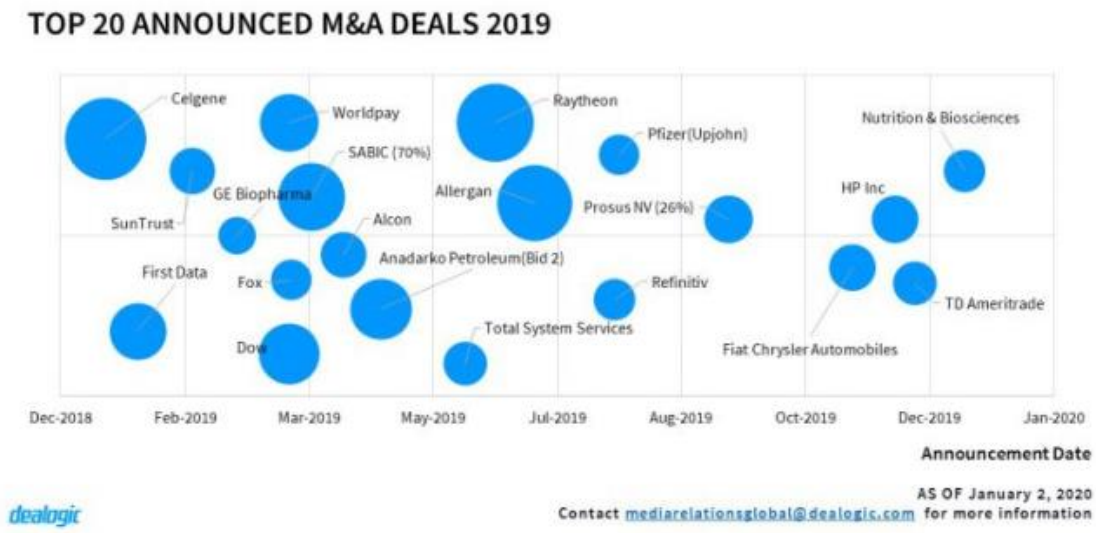

Figure 3 – Top 20 announced deals in 2020

4. Industry review

This industry review aims to provide the reader with an understanding of the plastic recycling market, its supply chain, the major players and the trends that ultimately impact M&A activity within the sector.

Plastics are derived from natural materials, such as cellulose, coal, natural gas and crude oil. The process of distillation of crude oil separates it into fractions. One of these fractions is naphtha, the most important compound to produce plastics. For this paper we will focus on companies producing thermoplastics, with a focus on Polyolefins: Polyethylene's, Polypropylenes and PET.

The global polymer industry has developed incredibly since the 1950's, having grown at a CAGR rate of +8.4% until 2015. As can be observed in figure 4, the initial production of 2Mtn per year grew to the current level of 381Mtn (as of 2015). This results in a cumulative global polymer production since the inception of the industry of 7.82Bntn. Today, plastics are a daily part of our life and are used across a wide range of applications.

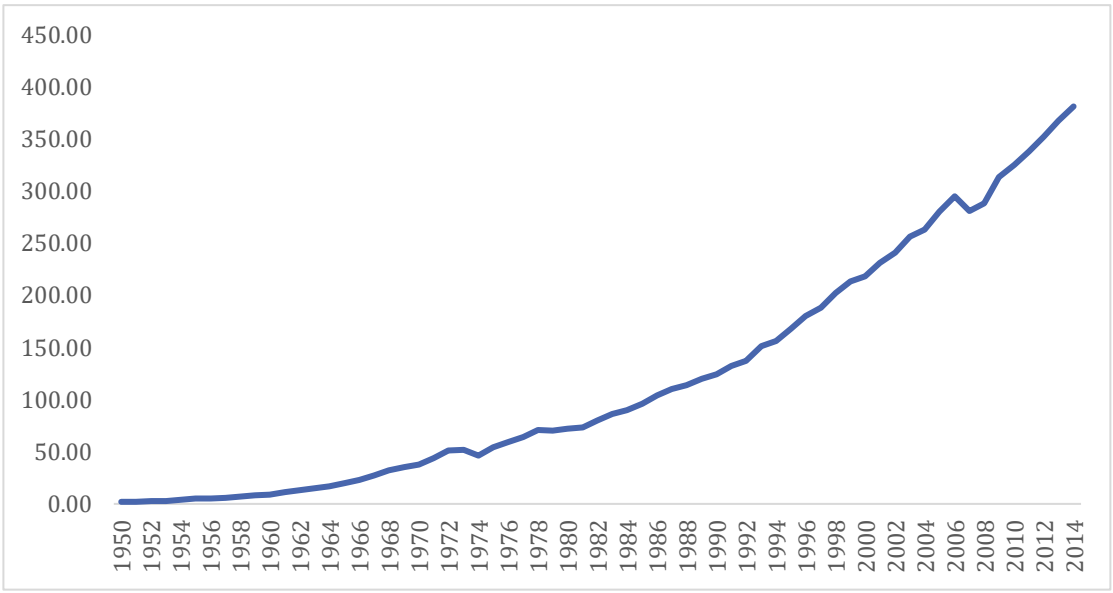

Figure 4 – Global plastics production, 1950-2015, in Million Tonnes

4.1. Global plastic recycling

The current level of production raises other concerns, such as what happens to the waste caused by the disposal of used plastic parts. Until the 1980's the waste disposal was negligible, however the stock of disposed plastic was already significant. Since 1980 there are statistics that indicate where plastic waste ends up after it is used. In figure 5 we can observe that after discarding, incineration was the initial preferred method of disposal. It has decreased in relative terms, giving share to plastic recycling. As of 2015, recycled plastic represented 18.80% or 12.85mtn of cumulative production, incinerated 24.80% and discarded the remaining 56.40%.

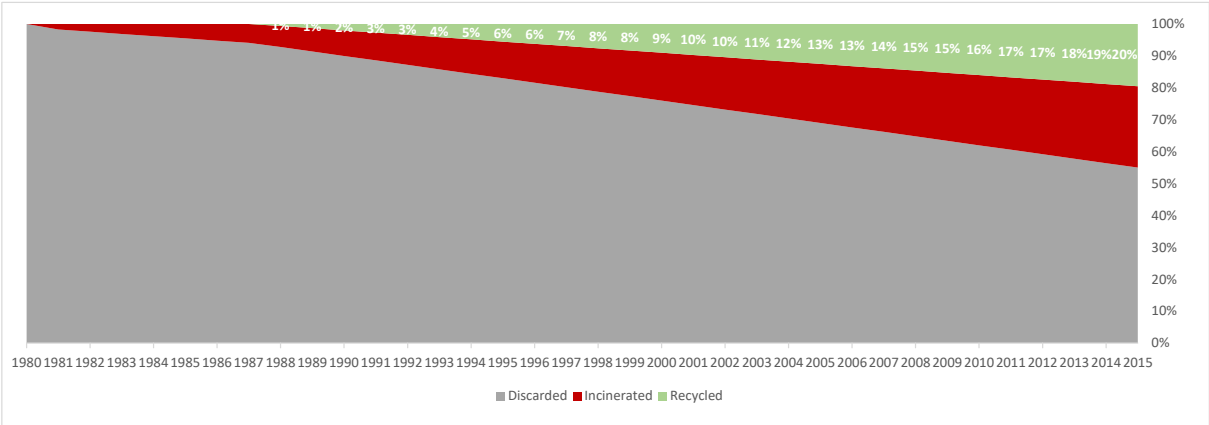

Figure 5 – Global plastic waste by disposal, 1980-2015, in %

Analysing the waste side, however, includes a few additional variables. Due to the historical accumulation of waste and the different lifetimes of various plastic applications, cumulative waste figures may have a non-linear relationship with consumption. These are shown on figure 6.

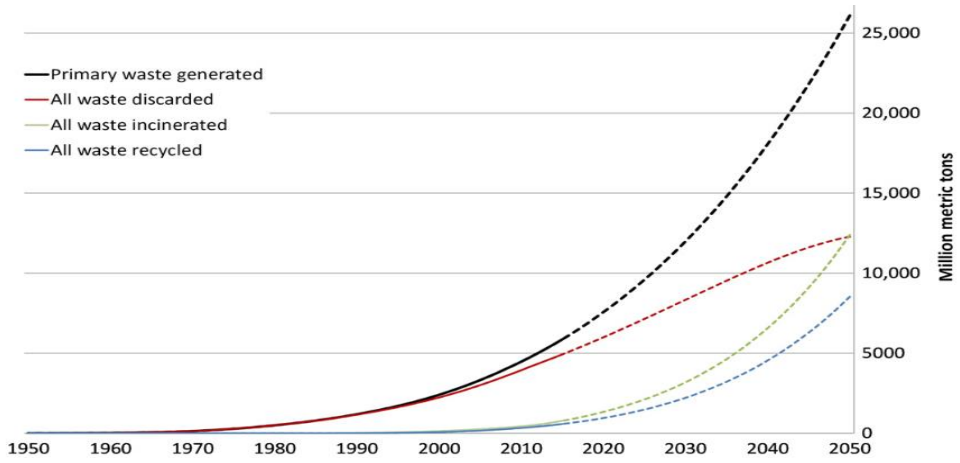

Figure 6 – Global cumulative plastic waste 1950-2015, in Million Tonnes

We can observe that packaging is the sector with higher consumption of plastic, representing 42% (146mtn) of consumed plastics, with the second largest consumption attributable to building and construction, with 19% (65mtn) consumption. There is not a direct relationship between consumption and waste across sectors, as different applications have varying lifetimes and different polymer types have different levels of recyclability.

When we observe plastic waste by sectors, packaging has the highest proportion of waste generation when compared to its yearly production output (96%). This can be easily explained by the short lifetime of packaging plastic, which is used on average for six months or less. The inverse happens in the building and construction sector, with an average lifetime use of plastic of 35 years, and therefore waste represents only 20% of its yearly production.

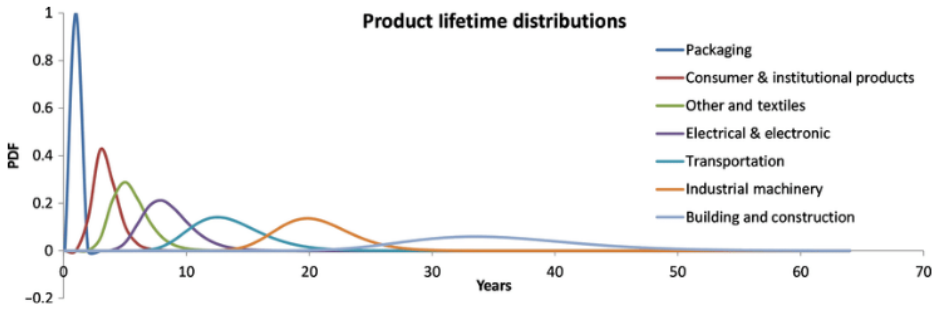

Figure 7– Product lifetime distribution for plastic applications, in years

4.2. Plastic recycling in Europe

As of 2018, there was an estimated global plastic production of 358mtn, of which 61.8mtn produced in Europe (14.5%). When looking at plastic conversion, Europe had a demand of 51.2mtn of which 39.9% was used for packaging, 19.8% for building and construction, 16.7% for other uses (including medical) and 9.9% for the Auto industry.

When looking at specific resin types, half of total demand in Europe is largely for PP (19.3%) and PE (29.7%). These materials, together with PET, are the most widely recycled.

4.3. Consumers push towards a more circular economy

Consumers are becoming more aware of the problems caused by the mismanagement of plastic waste, with social media entries increasing greatly. Below we can observe the evolution in the number of tweets about plastic waste between Q1 2017 and Q1 2018.

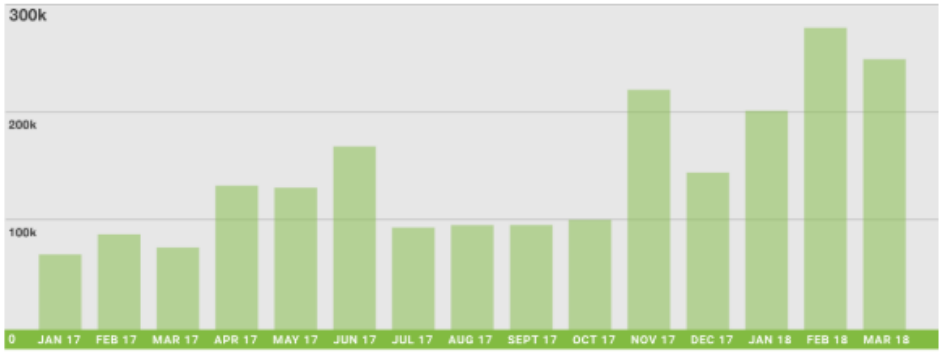

Figure 8 – Number of tweets mentioning plastic waste, Q1 2017- Q1 2018

A similar Effect can be observed by the increase in the number of Google searches on the topic:

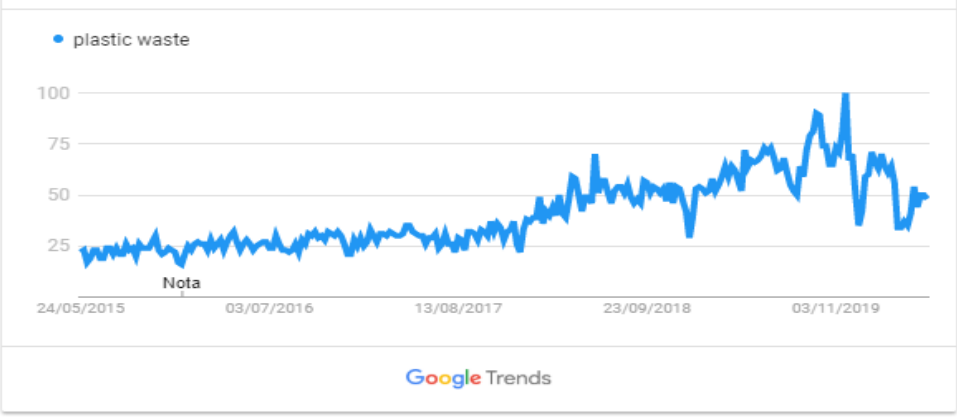

Figure 9 – Number of google searches mentioning plastic waste, 2015- 2019

Consequently, major consumer brands have publicly stated ambitious goals of incorporation of recycled plastic into their products.

Coca-Cola, currently incorporates 9% of post-consumer plastic content in its packaging and has set targets of 50% for primary packages until 2030. Coca-Cola currently consumes c.3mtn per year in plastic. Pepsi Co is currently incorporating 3% of recycled material and has established a goal of using 25% of its 2.3mnt by 2025. Other consumer giants also have similar targets, with Unilever, Mars, L'Oréal and Nestlé committing to 15%-40% of recycled incorporation, above the current levels of between 0% and 5%. Not only are brands that sell packaged goods committing to incorporating recycled materials, footwear brand Nike currently incorporates varying degrees of recycled plastic fibres in 75% of their products.

The other major driver is regulatory, with the EU setting ambitious targets for the use of recycled plastics in consumer products. The working paper *"Assessment report of the voluntary pledges under Annex III of the European Strategy for Plastics in a Circular Economy"* states

that by 2025 it is expected that an additional 10mtn of recycled plastic should be incorporated into products. Jointly, the demand side, composed of plastic converters and brand owners, have pledged to use an additional 6.4mtn of recycled plastic. These figures indicate that the market for recycled plastics is expected to increase 60% until 2025.

Selected directives such as, the revised Directive on Waste10 foresees new separate collection obligations and improved producer responsibility systems. The amended Packaging and Packaging Waste Directive11 introduces targets for the recycling of plastic packaging of 50% by 2025 and 55% by 2030. The agreement by co-legislators on the Directive on single use plastic items12 provides that PET beverage bottles shall contain 25% recycled PET on average in each Member State by 2025 and 30% by 2030. It also sets the target to collect separately 77% of single use plastic beverage bottles by 2025 and 90% by 2029

4.4. M&A in the plastic recycling industry

The M&A activity in the plastic recycling industry has been strong in the past 4 years, with different acquirers positioning themselves to capture growth and prepare for changes across the supply chain. Investors can be split into four major groups: Waste Management companies, Petrochemical companies, Plastic converters and Financial sponsors.

#	Date	Target Company	Target country	Bidder Company	Bidder country	Bidder company sector	Deal Value EUR - €m	Enterprise Value - €m
1	29/11/2019	Lucro Plastecycle Private Limited	India	Ocean Fund Holding Pte. Ltd.	USA	Financial sponsor	5	N.A.
2	21/08/2019	Pakufol Folienprodukte GmbH	Germany	REMONDIS Recycling GmbH & Co. KG	Germany	Recycler	N.A.	N.A.
3	29/05/2019	FISCHER Rohstoffe GmbH	Germany	RVG GmbH & Co. KG	Germany	Recycler	N.A.	N.A.
4	01/03/2019	Kruschitz Gesellschaft m.b.H.	Austria	Steinbeis Holding GmbH	Germany	Financial sponsor	N.A.	N.A.
5	18/02/2019	Synova SAS	France	Total S.A.	France	Petrochemical	N.A.	N.A.
6	09/01/2019	Perpetual Recycling Solutions, LLC	USA	DAK Americas, LLC	USA	Chemicals & plastics	N.A.	N.A.
7	15/08/2018	PLASgran Limited	UK	RPC Group Plc	UK	Plastic converter	N.A.	N.A.
8	24/07/2018	Plastic Recycling Zeitz GmbH & Co. KG	Germany	Remondis SE & Co. KG	Germany	Waste management	N.A.	N.A.
9	17/01/2018	Blue Sky Plastic Recycling Ltd.	UK	Enva	Ireland	Waste management	N.A.	N.A.
10	22/08/2017	Abakus Serve GmbH	Germany	SL-Logistik GmbH	Germany	n.a.	N.A.	N.A.
11	22/06/2017	MBA Polymers Austria Kunststoffverarbeitung GmbH	Austria	Muller-Guttenbrunn Group	Austria	Waste management	N.A.	N.A.
12	19/06/2017	MBA Polymers Inc.	USA	Elephant Equity GmbH	Germany	Financial sponsor	N.A.	N.A.
13	30/04/2017	Matco Glas N.V.	Belgium	Undisclosed bidder	n.a.	n.a.	N.A.	N.A.
14	28/04/2017	KWP Recycling GmbH; Bracke Umweltservice GmbH	Germany	Schonmackers Umweltdienste GmbH &	Germany	Waste management	N.A.	N.A.

Table 1 – European deals in the plastic recycling sector, 2017-2019

The major drivers for M&A in the plastic recycling industry are capturing growth and re-align strategically with consumers, aligning brand values of sustainability, the circular economy and environmental responsibility.

Looking at table 1 we can observe that Waste management companies are the largest acquirers of plastic recycling businesses with 29% of observed deals. The rational is to incorporate a new revenue stream that is exposed to higher growth, whilst in the meantime creating synergy due to their established base of waste collection and sorting.

Secondly, we can observe plastic recyclers acquiring to gain scale inside their industry.

Thirdly, plastic converters, integrating vertically. Although this is uncommon across the sector, it may provide an edge in technology and R&D.

Finally, an acquisition made by a petrochemical company with Total's acquiring Synova SAS, a deal similar to our proposed transaction. According to the transaction's press release Synova produces c.20mtn per year of PP, directed at the automotive sector. The acquisition rational is described by Bernard Pinatel, President of Refining & Chemicals "*The acquisition of Synova is a concrete proof of our commitment to developing plastic recycling. It reinforces the activities we already carry out in recycling and contributes to Total's ambition to be the responsible energy major*." Total is a committed producer of recycled plastic compounds, already producing a 50% recycled compound (Circular Compounds ®) that offers the same properties of virgin polymers. We expect to see further similar transaction in the next few years, as the demand for packaging made from recycled compounds increases.

4.5. Plastic recycling Industry in Portugal

Domestic consumption of virgin plastic is estimated to be at least 600mtn per year in Portugal, with 46 companies engaged in the valorisation of non-metallic residues, with revenues above €1m per year[1]. Of these companies, we estimate that 23 participate actively in plastic recycling. Although it is impossible to know the exact breakdown activity of these private companies, the total revenue from this group of companies totals €118.6m as of 2018.

Target 1 and Target 2 are the top two players in this sector, and combined, represent €29.1m in revenues or 28.1% of the domestic market[2] as of 2018.

4.6. The market demand for recycled compound products

The demand for products which have a relevant percentage of recycled material has been increasing and is expected to increase further, based on consumer demand and regulatory guidelines, as described above. The incorporation of recycled material in consumer products has happened for a long time, with converters mixing it in-house on an ad-hoc basis as a way to i) incorporate their production waste ii) lower the raw material costs. Incorporating non-virgin material in production lines is always a challenge for converters, as materials will achieve different melting points, fluidity levels and will cause higher production down times. Furthermore, when clients demand that a consistent large quantity of recycled material is to be introduced into production, problems arise due to the consistency of specification of the recycled material.

The solution lies therefore in producing a controlled compound of recycled and virgin material that can deliver consistent performance under various applications.

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[1] Search by activity code, considering companies with yearly revenues above €1m, 2018 data

[2] Although we estimate a 28.1% market share of both companies in terms of revenues, Target 1 exports 37% and Target 2 65%. Therefore, this should be considered a market share of production and not of revenues.

This compound would include a relevant percentage of recycled material (25%-50%), however, would be mixed with virgin resin under controlled conditions, using the technology available at oil & gas or chemical companies, guaranteeing the reliability of the final resin. The virgin resin used for the compound would be specifically adjusted prior to manufacturing to ensure that the final mix would have similar qualities to regular resin.

Converters would purchase raw materials from their usual suppliers (distributers for small and medium converters and petrochemical companies for large converters) and would satisfy their costumers needs, knowing that the raw materials would be readily available with consistent specifications. This is, in our view, the best way to achieve the above mentioned recycling targets established by large consumer goods companies and the EU.

5. Company profiles

5.1.1. Acquirer profile - Repsol

Repsol is Iberia's largest Petrochemical company with 2019 consolidated revenues of €49.3bn. Being an integrated petrochemical company, Repsol engages in the exploration and production (upstream) of oil & gas, as well as refining and distribution of oil & gas, lubricants, chemicals and other derivative products (downstream). The chemicals division engages in the production and distribution of a wide variety of basic and complex products. Its production facilities are in Spain (Puertollano, Tarragona and Monzón) and Portugal (Sines) and its products are distributed in more than 95 countries. Repsol Chemicals is the leading producer and distributor of Polyolefins (Polypropylene and Polyethylene) in Iberia and the Southern European region and sits within the broader downstream reporting segment and there is limited financial information. However, there is relevant operational information on installed capacities for the polyolefin's divisions (PP and PE polymers):

Repsol	2018		2019	
Revenues	€'000	%	€'000	%
Upstream	5,182	10.4%	4,684	9.5%
Downstream	46,712	93.7%	46,325	93.9%
Other	(2,021)	(4.1%)	(1,681)	(3.4%)
Total segment	49,873	100.0%	49,328	100.0%
Spain	25,332	50.8%	26,175	53.1%
United States	3,095	6.2%	3,052	6.2%
Peru	2,941	5.9%	2,846	5.8%
Portugal	2,673	5.4%	2,611	5.3%
Other	15,832	31.7%	14,644	29.7%
Total geographical	49,873	100.0%	49,328	100.0%

Table 2– Repsol revenue distribution by segment and geography, 2017-2019

Repsol	2018		2019	
Results from operations - €'000	2,514	68.7%	1,969	53.8%
Europe, Africa and Brazil	1,614	44.1%	1,326	36.2%
Latin America-Caribbean	726	19.8%	522	14.3%
North America	273	7.5%	96	2.6%
Asia and Russia	465	12.7%	371	10.1%
Exploration & other	(564)	(15.4%)	(346)	(9.5%)
Downstream	2,143	58.5%	1,928	52.7%
Europe	2,039	55.7%	1,822	49.8%
RoW	104	2.8%	106	2.9%
Corporate and other	(261)	(7.1%)	(236)	(6.4%)
Total	4,396	120%	3,661	100%

Table 3 – Repsol operational results distribution by segment and geography, 2017-2019

Production capacity	Units	Sines	Tarragona	Total
PE	ktn	295	650	945
PP	ktn	-	380	380
Total		295	1,030	1,325

Table 4 – Repsol's PE and PP installed production capacity in Iberia, 2017-2019

5.1.2. Repsol and the circular economy

Repsol has implemented numerous measures to reduce its environmental impact and to become more engaged towards the circular economy. We highlighted selected measures below, catering to the plastics division:

- Zero project, in which plastic waste is chemically recycled to obtain synthetic crude
- Joining Plastics 2030 Voluntary commitment launched by the Plastics Europe manufacturers association, with the goal of 30% of packaging sold in the EU to be recyclable or reusable by 2030
- Adherence to Circular Plastics Alliance (CPA), an EU initiative from 2018 that targets an increase of recycled plastic usage to 10mtn until 2025 (compared to 3.8mtn in 2016), with the global objective of producing compound materials with similar properties of virgin material
- Launch of Repsol 25RXPP086Y1E polypropylene grade (PP), for applications in non-woven fabrics, incorporating 25% of post-industrial recycled material
- Recyclex project (Repsol 50RX2805), a 50-50 compound of recycled and virgin material, for the use in wrapping plastic on the packaging of packs of bottles, cans and cardboard boxes
- Achieving ISCC plus certification in the Puertollano manufacturing facility, enabling the launch of the first line of circular polyolefins during 2020. Repsol is certifying both Tarragona and Sines' facilities in order to achieve 20% recycled of all polyolefins produced until 2030

6. Target companies

6.1.1. Target 1 company profile

The company is incorporated in central Portugal, established in 2000 and dedicated to the recycling of polymers, more specifically Polyethylene (HDPE and LDPE) and in a smaller extent Polypropylene. The company is owned by individual investors, which compose the BoD and act as the Management team. The company has grown at high single digit from 2010 to 2018 (CAGR: +9.3%), with revenues increasing from €4.6m to €9.4m and EBITDA increasing from €0.85m to €2.74m (CAGR: +16.3%).

The company sells its products to domestic (63.4%) and international plastic converters (36.6%) who either produce plastic products fully in recycled material or, more commonly, incorporate a varying amount of recycled material in their end products.

The company also engages in additional activities such as manufacturing recycled plastic products for costumers (service rendering) as well as some plastic bale trading activity and compound manufacturing.

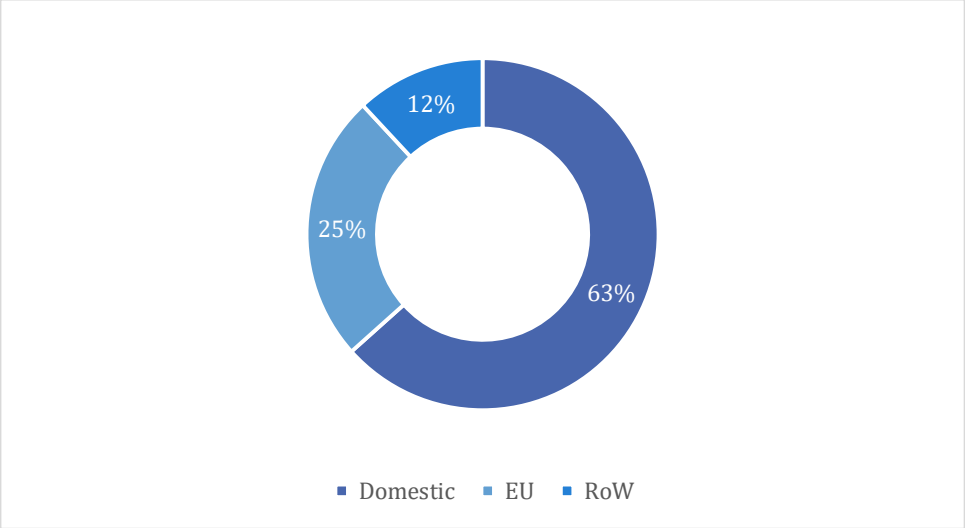

Chart 1– Target 1 geographical distribution of revenues, 2019

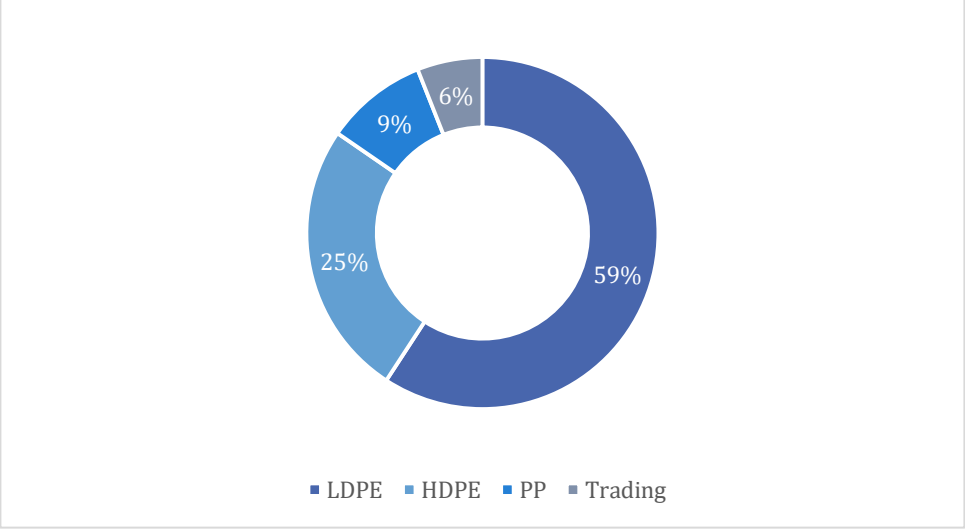

Chart 2 – Target 1 distribution of revenues by product, 2019

6.1.2. Target 2 company profile

Target 2 is a company incorporated in central Portugal, established in 1974, and is currently owned and managed by a controlling family. The company has grown strongly, increasing revenues from €7.2m to €19.7m (CAGR +13.4%) and EBITDA from €1.1m to €3.7m (CAGR +16.0%) in the 2010 to 2019 period.

The company is dedicated to recycling plastic, with a strong focus on Polyethylene (HDPE and LDPE) as well as PP and other non-discriminate products. The company also engages in trading activities and on the production of specific polymer compounds.

The company sells its products to domestic (34.6%) and international plastic converters (65.4%) who either produce plastic products fully in recycled material or, more commonly, incorporate a varying amount of recycled material in their end products.

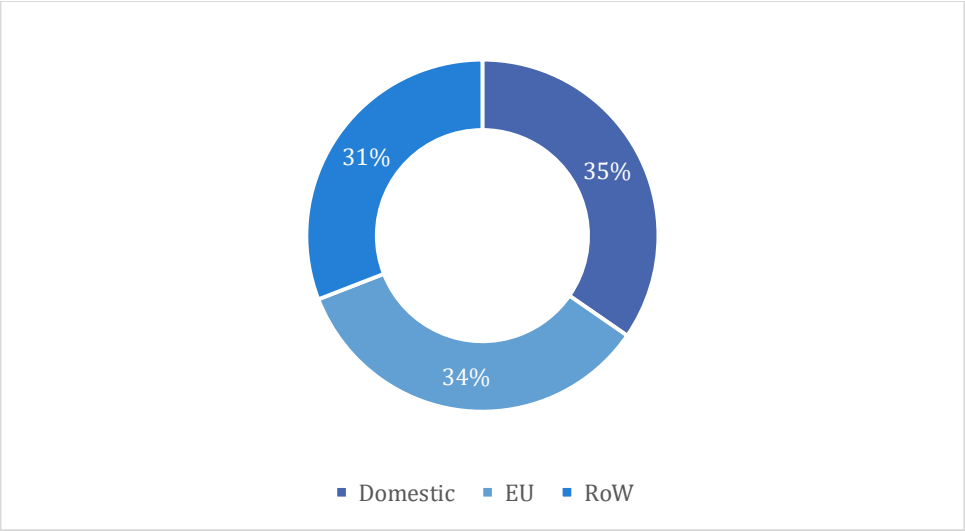

Chart 3 – Target 2 geographical distribution of revenues, 2019

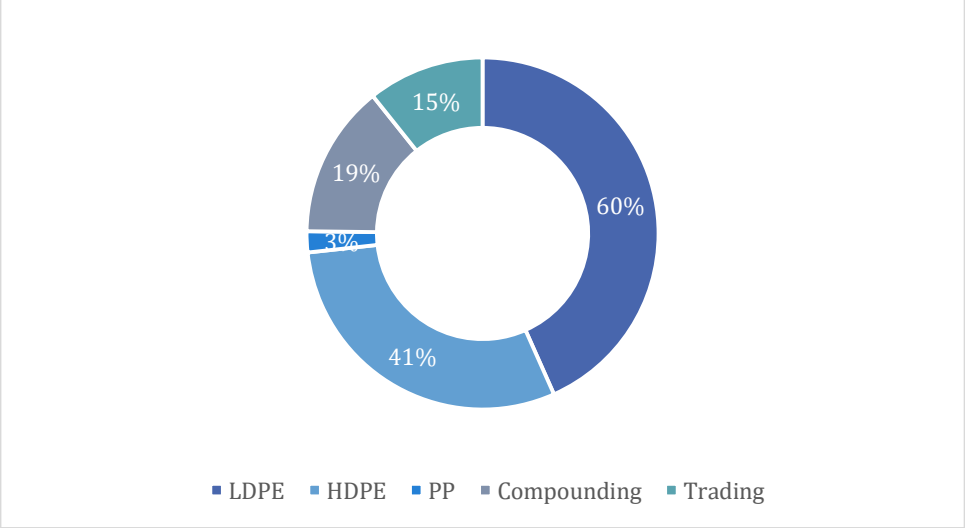

Chart 4 – Target 2 distribution of revenues by product, 2019

6.2. Business model

Both companies operate similar business models. The companies purchase raw materials from 3 major sources, the national waste recovery system, waste from industrial companies and agricultural waste. The sourcing of materials can be described below:

6.2.1. Sourcing of raw materials

National waste recovery system:

This represents the plastic waste from domestic consumption. The material collected from the yellow bin selection points is pre-selected for major contaminants at several selection points and is brought to auction every three months. Plastic recyclers are free to bid for the material at each auction and there are 3 factors that determine price i) price of comparable virgin material for the same period ii) raw material quality (uniformity, contamination level) and iii) bid competition at each auction. If the raw material is low quality and / or there is low competitive pressure at auction, prices can be negative. In such case, the recycler that is willing to receive the lowest euro amount will get to keep the material.

Industrial waste:

This raw material is plastic waste from industries that use plastic, however this is not the core of their activity. The sources for this material are industries which use plastic to package its products (glass industry, food industry, retail) or who receive raw materials or finished goods in packaged products. This type of material is usually sought after due to its high quality, given the low contamination, high homogeneity, and no degradation. Both targets regularly acquire raw materials from these suppliers under market conditions or under bilateral agreements.

Agricultural waste:

This material is recovered from farmers that use pipes to irrigate their crops, plastic fibre twines to wrap straw bales as well as plastic film for greenhouses and other applications. It is usually purchased seasonally, after each crop season, under bilateral agreements.

6.2.2. Production Process

The recycled plastic production process and production yield is described below:

Inspection and warehousing:

After arriving on premises each bale is inspected for contaminants and specification. The material is admitted and weighted if it matches specifications and rejected or renegotiated if the specification is lower than expected. After reception, the material is stored in warehouses, usually by end-application or quality level.

Crushing and sorting:

Plastic bales are deposited in a conveyor belt that feeds a crusher, smashing and cutting the plastic into small pieces. During this step large contaminants (metal, rocks) are separated manually or mechanically.

Washing & drying:

The raw material is washed until most of the contaminants are separated. The most common contaminants are sand, dirt, metal and paper (from labels). After the material achieves the desired level of homogeneity it is sent to dry in an air blower. Between the weighing at admission and the weight after drying there can be a weight difference of up to 30%. Plastic from domestic waste collection can be washed more than once until it reaches the desired level of quality to pass onto the next phase. On the other hand, plastic from industrial waste does not always need to go through the washing phase.

Both companies have an internal wastewater treatment system that works in a closed loop, guaranteeing that water waste is minimal.

Extrusion / mineral compounding and finishing:

After the material is clean from contamination and dry it can be introduced into the extrusion or compounding machines. During this process, the material will be heated until it reaches a melting temperature and is then extruded / compounded in a mechanical process that enables the final product to become uniform. The final product are small plastic pellets or plastic powder that are warehoused in big bags or silos, waiting to be shipped to clients. Compounding differs from extrusion as usually a mineral charge is mixed into the plastic (ex: calcium carbonate) so that the resin can better serve its end use application. Other additives may be added to the material depending on its end use. Common additives are masterbatches (colour), chemicals to reduce humidity and UV protectors.

Inspection:

Pellets and visual powder are visually inspected, and samples are selected for laboratory quality control testing. The lab runs small-scale pipe extrusion, film extrusion and injection machines that simulate the end use of the material at the clients' premises. The lab also serves for R&D and product development.

Production yield:

With the goal of profitability, companies in the PCR business focus on optimizing the production yield, measured as the output plastic resin produced divided by the input plastic introduced in the system. The higher the quality of the raw materials entering the production system, the higher the output yield and the lower the transformation costs, however, higher quality raw materials have higher purchase prices than lower quality, dirtier ones. The manager of a plastic recycling production unit therefore aims to maximise profitability considering the various customer requests and production variables. The production yield is measured at 2 major points, after washing and after extrusion / compounding. The major losses arise in washing where the loss can be up to 30%. Smaller losses occur in extrusion / compounding,

typically in the 2%-6% range. Occasionally the extrusion / compounding scraps can be re-used for very low-quality products.

7. Deal rationale

The acquisition follows the strategic rational of Repsol in becoming a strong player in the circular economy, namely in the plastics division a sub-division within chemicals. As displayed above, Repsol is already committed to the circular economy through various initiatives, with the goal of increasing its share of products that incorporate post-consumer plastic (recycled compounds). Repsol has already commercialized selected compound products with various degrees of recycled material. Furthermore, Repsol is committed to producing all polyolefins with at least 20% recycled plastic until 2030 as well as becoming the first global petrochemical with all manufacturing plants certified for the circular economy by the end of 2020.

Repsol chemicals is the leading manufacturer and distributor of polymers in Iberia, with a strong share of the polyolefins market. The acquisition of Target 1 and Target 2 will provide Repsol Chemicals with:

- Leading presence in the plastic recycling in Iberia, with a platform for R&D and instant production in recycled compounds (Almost 50ktn of recycled plastic installed capacity as of 2020 and 9ktn of recycled compound capacity, c.30% of production capacity in Portugal)
- Acquire recycling know-how and industry expertise at a faster pace, enabling it to produce high quality recycled compounds before its foreign competitors and fulfilling the growing market demand
- Replicate its market leading position in the distribution of virgin polymers into the distribution of compound and 100% recycled products
- Become a fully circular company in plastics, incorporating waste from its consumers into a product that is sold back to the market

We believe that acquiring both Target 1 and Target 2 is advantageous, even though we only plan to introduce a recycling compounding line in target 2's premises, due to:

- Dominant market share gives economies that translate in clear bargaining power when purchasing, increasing price delta and profitability
- Enables Repsol to adopt production best-practices existent within the top-2 players
- Access to a wider portfolio of costumers, from small to large, benefitting from more data points and faster understanding of the market
- Access to a wider array of suppliers, increasing the possibility of finding adequate materials to compound and/or increasing raw material consistency
- First-mover advantage: by acquiring the top-2 players, Repsol effectively blocks competitors from effectively gaining scale in Iberia, as other players are much smaller in size and sophistication

We therefore advocate for the acquisition of both companies, as in our view this is the only way to realistically generate the considerable synergy projected below.

8. Valuation

The valuation of both companies takes into account historical operational and financial information, which was then extrapolated to create projections for a 5 year period from 2020 to 2024.We use the latest available audited accounts as of the 31st of December 2018. For 2019, figures are estimated for the Fiscal year end based on actual levels of production and observed prices. Figures for 2020-2024 are projections that encompass our assumptions on growth in installed capacity, capacity utilization, production yield and a fixed price gap between the purchasing and selling of the raw materials and final PCR, respectively.

We valued both targets using a DCF methodology, precedent transaction multiples, trading multiples and LBO valuations. We then valued the combined entity with a DCF including all the synergy, subtracted the combined DCF value of both individual targets and arrived at the value of synergy.

8.1. Projections

Given the private nature of the companies analysed in this paper we do not have analyst estimates to base our forecasts of revenues and earnings, therefore we analysed historical financial and operational information on the companies and the market and used it to create our best estimate of future revenues, operating earnings and cash flows.

8.1.1. Target 1 valuation

The company operates a single production plant, with an output capacity that increased from 11.9ktn in 2016 to 16.2ktn per year of recycled plastic granules in 2020. The company has also recently invested in a new mineral compounding line that will work in parallel to the extrusion lines and deliver an additional 3.9ktn of recycled plastic output. We estimate this compounding line to gradually occupy its installed capacity from 50% in 2020 to 98% in 2024, in line with historical figures of utilizing capacity to a maximum.

Since we do not have detailed information on margins per product, we analysed historical information on an aggregate basis. By analysing total revenues by operating activity and total volume be operating activity we reach an average sales price per Tn. The same occurs with COGS, where we divide the COGS by total input quantities for the period to arrive at an estimated cost per Tn.

Revenues are therefore a function of capacity utilization, product mix and price:

P&L	Units	2017	2018	2019	2020	2021	2022	2023	2024
Quantity	ktn	13.4	15.1	18.0	19.4	20.5	21.4	21.5	21.7
Aggregate €/tn	€/Tn	635	624	519	532	539	547	556	564
Revenues	€'000	8,507	9,431	9,320	10,351	11,033	11,695	11,969	12,252
Gross margin	€'000	4,605	5,882	6,081	6,837	7,283	7,641	7,685	7,720
Gross margin %	*%*	*54%*	*62%*	*65%*	*66%*	*66%*	*65%*	*64%*	*63%*
Fixed costs	€'000	(1,559)	(1,707)	(1,862)	(1,922)	(1,937)	(1,954)	(1,971)	(1,988)
Variable costs	€'000	(1,703)	(1,730)	(1,706)	(1,862)	(2,004)	(2,141)	(2,203)	(2,224)
Other	€'000	162	295	-	-	-	-	-	-
EBITDA	€'000	1,505	2,740	2,513	3,054	3,342	3,546	3,511	3,507
EBITDA %	*%*	*18%*	*29%*	*27%*	*30%*	*30%*	*30%*	*29%*	*29%*

Table 5 – Target 1's key profit and loss items, 2017-2024

Gross margin is crucial in the plastic recycling business, as a slight change in the delta between the purchase and selling prices can greatly impact profitability and valuation. From historical

periods of 2017-2019 we can observe that delta has varied between €373 and €415, for an average of €388 per Tn. Given that forecasting prices of raw materials accurately is nearly impossible, we assumed the historical delta will prevail for the 2020-2024 projection period.

When analysing operational costs, we decided to split them into fixed and variable, enabling us to more easily understand the effects of capacity utilization on profitability. Fixed costs are projected to grow from 2019 base levels and increase by inflation.

Variable costs are line items that depend on the level of capacity utilization and therefore are forecasted based on historical levels of €/Tn projected based on future production levels.

EBITDA (margin %) is expected to increase from a 2017 level of €1.5m (17.7%) to €3.5m (28.6%) whilst the total production cost per Tn will decrease €283 in 2017 to €210 in 2024. The reduction in unit costs and increase in EBITDA margin can be explained by two factors: a dilution in fixed costs with an increase in production and a reduction in production costs of the new extrusion and compounding lines (non-linear relationship with washing).

8.1.2. Balance sheet

8.1.2.1. Working capital

Working capital management in the plastic recycling industry is a crucial item, as there is the need to carry large amounts of inventory in order to i) be less affected by large changes in market prices ii) have the necessary raw materials to supply costumers (many raw materials such as the ones prevenient from agriculture are seasonal). Therefore, we projected working capital levels for 2020-2024 in line with historical levels. This means clients would pay in 80 days of sales and raw material inventory would be 200 days of sales. Suppliers are typically paid in 60 days. The net working capital represents 28% to 34% of yearly revenues.

Working capital		Units	2017	2018	2019	2020	2021	2022	2023	2024
Inventory	(+)	€'000	1,577	1,803	2,352	2,473	2,605	2,790	2,957	3,138
Clients	(+)	€'000	1,997	2,038	1,532	1,701	1,814	1,922	1,968	2,014
Advances to suppliers	(+)	€'000	23	137	177	187	197	211	223	237
State & other public entities	(+)	€'000	43	0	0	0	0	0	0	0
Other receivables	(+)	€'000	240	276	511	567	605	641	656	671
Deferrals	(+)	€'000	116	36	36	36	36	36	36	36
Suppliers	(-)	€'000	(810)	(858)	(839)	(876)	(908)	(953)	(994)	(1,037)
Advances from clients	(-)	€'000	-	(1)	-	-	-	-	-	-
State & other public entities	(-)	€'000	(120)	(278)	(255)	(284)	(302)	(320)	(328)	(336)
Other payables	(-)	€'000	(492)	(509)	(461)	(482)	(500)	(524)	(546)	(570)
Net working capital			2,574	2,644	3,053	3,323	3,546	3,803	3,972	4,153
% revenues			*30.3%*	*28.0%*	*32.8%*	*32.1%*	*32.1%*	*32.5%*	*33.2%*	*33.9%*

Table 6 – Target 1's working capital, 2017-2024

8.1.2.2. Capex and net PP&E

Given the strong capex from historical periods (€4.1m from 2015 to 2018) and the moderate increase in installed capacity projected for 2020-2024 the business will not require major investments in net PP&E:

Capex	Units	Total	2019	2020	2022	2023	2024
Capex	€'000	1,780	-	580	400	400	400
% of revenues	*%*		*0.0%*	*5.6%*	*3.4%*	*3.3%*	*3.3%*
Net fixed assets	€'000	23,056	5,221	4,632	4,709	4,410	4,085
Depreciation & amortization	€'000	(3,582)	(820)	(893)	(812)	(515)	(542)

Table 7 – Target 1's capex and net PP&E, 2019-2024

8.1.2.3. Net debt

The company has a moderate level of net debt, that has decreased from 2.2x in 2017 to 0.3x EBITDA in 2019. The company has several short-term and long-term financing lines with domestic banks with a weighted average cost of 1.67% as of 2019. For the projection period we assume that all FCF and existing cash balance is used to repay debt, with priority given to short-term debt. We also assume that the company always has a minimum cash balance of €1.5m or c.16% of 2020 revenues.

Net debt	Units	2017	2018	2019	2020	2021	2022	2023	2024
Net (debt) / cash	€'000	(3,301)	(2,352)	(682)	1,276	2,890	5,224	7,624	10,023
Net debt / EBITDA	x	2.2x	0.9x	0.3x	(0.4x)	(0.9x)	(1.5x)	(2.2x)	(2.9x)

Table 8 – Target 1's net debt, 2017-2024

8.1.2.4. FCFF

Cash flow	Units	2018	2019	2020	2021	2022	2023	2024
EBITDA	€'000	2,740	2,513	3,054	3,342	3,546	3,511	3,507
Taxes	€'000	(330)	(377)	(477)	(577)	(704)	(701)	(703)
Δ in working capital	€'000	(160)	(409)	(270)	(223)	(257)	(169)	(181)
Capex	€'000	(1,373)	(9)	(303)	(889)	(216)	(218)	(217)
FCFF	€'000	877	1,719	2,004	1,652	2,370	2,422	2,406
Cash conversion	*%*	*32%*	*68%*	*66%*	*49%*	*67%*	*69%*	*69%*

Table 9 – Target 1's FCFF and cash conversion, 2018-2024

Projected FCFF for the projection period of 2020-2024 period evolves in line with the revenue increase, as there are no major investments or divestments in fixed assets, working capital or other operational assets and liabilities. Taxes used are the effective tax rate from the P&L. We can observe that cash conversion for the projected period averages 65% vs 28% for the 2017-2019 historical period.

For the terminal value we estimate that net working capital will be 1.5% of revenues, close to the figures during the projection period. We estimate terminal depreciation to be the average of the 2020-2024 projection period depreciation and that capex will be equal to depreciation in perpetuity. Taxes in perpetuity are assumed to be the average tax rate for the 2020-2024 projection period.

8.1.2.5. Cost of capital

Cost of capital	Debt %	Equity %	D/E	Tax rate %	B Unlev.	Beta Lev.	MRP	Size	COE	COD	WACC
Peer group	32%	68%	48%	20%	0.9	1.2	6.0%	0.0%	8.5%	3.5%	7.0%
Target 1	23%	77%	30%	21%	1.1	1.3	7.4%	4.2%	14.1%	1.7%	11.0%
Target 2	27%	73%	38%	21%	1.1	1.4	7.4%	4.2%	15.1%	2.5%	12.0%
Combo	26%	74%	36%	21%	1.1	1.4	7.4%	4.2%	14.9%	2.1%	11.0%

Table 10 – Target 1's cost of capital vs target 2 and peer group

The input figures for the estimation of the weighted average cost of capital are the following:

- Risk-free rate: 10-year bond yield for Portugal as of November 2019, 0.33%
- Beta: median unlevered beta from the peer group (0.9), levered to the target's 2019 capital structure, resulting in 1.05
- Equity risk premium: Damodaran's equity risk premium for Portugal of 7.37%, which is decomposed in a 5.20% equity risk premium for a mature equity market, plus a 2.17%

country risk premium derived using the country's default spread (Moody's) multiplied by a volatility multiplier. We added an additional factor for size (4.16%), given that the company is smaller than the average size of listed companies in Portugal. An additional liquidity premium could have been added, given the company is privately held and will continue to be for the foreseeable future, however we feel that to better compare the valuation with the trading comparable companies we should apply an illiquidity discount to the price.

- Debt / Equity: 30%
- Tax rate: 21%
- Cost of equity: 14.07%
- Cost of debt: 1.67% (pre-tax), 1.32% (post tax)
- Equity / EV: 77%
- Debt / EV: 23%
- WACC: 11.16%, rounded to 11.0%

8.1.2.6. Enterprise value and Equity value

By discounting the free cash flows to the firm at the WACC rate we achieve an Enterprise value of €40.2m. Terminal value is achieved by using a 2.5% perpetual growth rate, as projected by the world bank for 2020 and is €31.4m, 78% of total value.

We reach equity value from Enterprise value by reducing net debt and adding financial investments, achieving a value of €39.6m

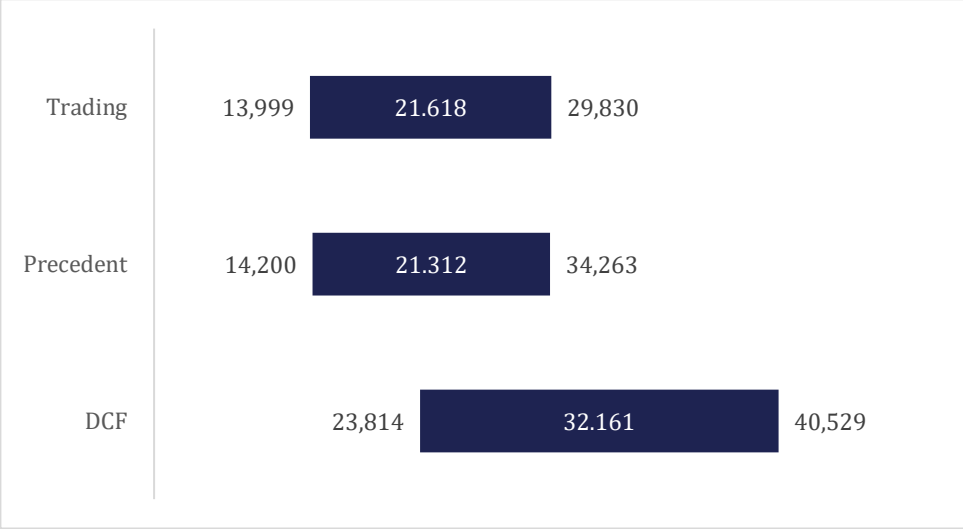

Chart 5 – Target 1 EV valuation range by different valuation methods in €'000

Minimum and maximum values for Trading and Precedent transaction multiples were achieved by multiplying the target's EBITDA by the lower and upper multiples of the observed range. For the DCF valuation we arrived at minimum and maximum EV by changing delta by + €50/tn and - €50/tn.

Figures for Trading multiples and DCF include a 20% liquidity discount.

8.2. Target 2 valuation

The company operates a single production plant, with an output capacity of 42kTn. Output capacity is an approximate figure of the total amount of plastic granules the business can produce in one year. It is calculated taking into consideration the number of weekly shifts (17), hours per shift (8), weeks worked per year, machine input capacity and production yield. A change in these variables can lead to a significant change in output capacity.

Since we do not have detailed information on margins per product, we analysed historical information on an aggregate basis. By analysing total revenues by operating activity and total volume be operating activity we reach an average sales price per Tn. The same occurs with COGS, where we divide the COGS by total input quantities for the period to arrive at an estimated cost per Tn. Similarly, to Target 1, Target 2 has recently invested in compounding line that started to operate in 2017 and engages in some trading activity. Given the small relative contribution of these two business lines we projected a growth of 10.0% per year for the compounding activity and 5.5% growth per year for the trading activity. Combined, these two activities will produce 6.0kTn in 2020 and increase to 8.2kTn in 2024, representing less than 20% of business volume throughout the projection period.

Revenues are therefore a function of capacity utilization, product mix and price:

P&L	Units	2017	2018	2019	2020	2021	2022	2023	2024
Quantity	ktn	34.3	30.4	31.4	34.0	36.9	40.1	41.8	43.0
Aggregate €/tn	€/Tn	385	659	517	532	532	532	535	541
Revenues	€'000	13,218	20,028	16,216	18,119	19,648	21,307	22,367	23,230
Gross margin	€'000	8,297	11,284	11,524	13,028	14,124	15,314	16,119	16,805
Gross margin %	*%*	*63%*	*56%*	*71%*	*72%*	*72%*	*72%*	*72%*	*72%*
Fixed costs	€'000	(2,908)	(3,259)	(3,510)	(3,542)	(3,584)	(3,634)	(3,685)	(3,737)
Variable costs	€'000	(3,571)	(4,526)	(4,636)	(5,068)	(5,524)	(6,015)	(6,312)	(6,548)
Other	€'000	339	168	314	-	-	-	-	-
EBITDA	€'000	2,157	3,666	3,693	4,419	5,016	5,664	6,122	6,521
EBITDA %	*%*	*16%*	*18%*	*23%*	*24%*	*26%*	*27%*	*27%*	*28%*

Table 11 – Target 2's key profit and loss items, 2017-2024

We estimate a CAGR growth of revenues of a conservative 7.5%, considering that the company has grown its revenues at 16.3% in the 2017-2019 period and that the market in Europe is expected to grow 60% until 2025, or c.10% per year.

Gross margin is crucial in the plastic recycling business, as a slight change in the delta between the purchase and selling prices can greatly impact profitability and valuation. From historical periods of 2017-2019 we can observe that delta has varied between a low of €237 and €617, for an average of €410 per Tn. Given that forecasting prices of raw materials accurately is nearly impossible, we assumed the historical delta of €410 will prevail for the 2020-2024 projection period.

Gross margin improves from the 56%-70% of the historical period to 71%-72% during the 2020-2024 projection period.

When analysing costs, fixed costs are projected to grow from 2019 levels and increase by inflation. Fixed costs will be diluted from 18.5% of revenues in 2020 to 13.5% in 2024.

Variable costs are line items that depend on the level of capacity utilization and therefore are forecasted based on historical levels of €/Tn and forecast production levels. Variable costs should remain stable in relative terms as c.25% of revenues.

EBITDA (margin %) is expected to increase from 2017 level of €2.2m (15.8%) to €6.5m (28.1%) whilst the total production cost per Tn will stay relatively constant form €263 in 2017 to €264 in 2024. The increase in EBITDA margin can be explained by two factors: a dilution in fixed costs with an increase in production and a reduction in production costs of the new extrusion and compounding lines (non-linear relationship with washing).

8.2.1. Balance sheet

8.2.1.1. Working capital

Working capital is a crucial aspect in the plastic recycling business and the need to carry large raw material inventories is necessary, as described above. The net working capital of Target 2 is projected to represent c.32% of revenues during the 2020-2024 projection period.

Working capital		Units	2017	2018	2019	2020	2021	2022	2023	2024
Inventory	(+)	€'000	2,159	2,565	2,700	2,929	3,178	3,448	3,595	3,696
Clients	(+)	€'000	3,229	4,869	4,443	4,964	5,383	5,837	6,128	6,364
Advances to suppliers	(+)	€'000	-	-	-	-	-	-	-	-
State & other public entities	(+)	€'000	33	81	222	248	269	292	306	318
Other current assets	(+)	€'000	130	100	222	248	269	292	306	318
Deferrals	(+)	€'000	45	43	222	248	269	292	306	318
Suppliers	(-)	€'000	(1,302)	(2,011)	(955)	(1,036)	(1,124)	(1,219)	(1,271)	(1,307)
Advances from clients	(-)	€'000	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)
State & other public entities	(-)	€'000	(184)	(355)	(444)	(496)	(538)	(584)	(613)	(636)
Other payables	(-)	€'000	(2,574)	(406)	(1,157)	(1,255)	(1,362)	(1,478)	(1,541)	(1,584)
Deferrals	(-)	€'000	(88)	(28)	(28)	(28)	(28)	(28)	(28)	(28)
Net working capital		*€'000*	1,416	4,824	5,192	5,789	6,283	6,819	7,156	7,427
% revenues		*%*	*10.7%*	*24.1%*	*32.0%*	*32.0%*	*32.0%*	*32.0%*	*32.0%*	*32.0%*

Table 12 – Target 2's working capital, 2017-2024

8.2.1.2. Capex and net PP&E

Given the strong capex from historical periods of €7.1m and no increase in installed capacity projected for 2020-2024 the business will not require major investments in net PP&E:

Capex	Units	Total	2019	2020	2022	2023	2024	2024
Capex	€'000	7,450	*1,200*	1,250	1,250	1,250	1,250	1,250
% of revenues	*%*		*7.4%*	*6.9%*	*6.4%*	*5.9%*	*0.0%*	*5.6%*
Net fixed assets	€'000	51,021	*9,837*	9,637	9,187	8,487	7,537	6,337
Depreciation & amortization	€'000	(8,500)	*(1,200)*	(1,450)	(1,700)	(1,950)	(2,200)	(2,450)

Table 13 – Target 2's capex and net PP&E, 2019-2024

8.2.1.3. Net debt

The company has a moderate level of net debt, that has decreased from 1.7x in 2017 to 0.8x EBITDA in 2019. The company has short-term and long-term financing lines with an average cost of 2.5% as of 2019. For the projection period we assume that all FCF and existing cash balance is used to repay debt, with priority given to short-term debt. We also assume that the company always has a minimum cash balance of €3.5m or c.18% of 2020 revenues.

Net debt	Units	2017	2018	2019	2020	2021	2022	2023	2024
Net (debt) / cash	€'000	(3,681)	(4,787)	(3,429)	(1,679)	744	3,723	7,362	11,430
Net debt / EBITDA	x	1.7x	1.3x	0.9x	0.4x	(0.1x)	(0.7x)	(1.2x)	(1.8x)

Table 14 – Target 2's Net debt, 2017-2024

8.2.1.4. FCFF

Cash flow	Units	2018	2019	2020	2021	2022	2023	2024
EBITDA	€'000	3,666	3,693	4,419	5,016	5,664	6,122	6,521
Taxes	€'000	(505)	(619)	(720)	(720)	(830)	(896)	(932)
Δ in working capital	€'000	(3,409)	(367)	(597)	(494)	(536)	(337)	(270)
Capex	€'000	(995)	(1,261)	(1,250)	(1,250)	(1,250)	(1,250)	(1,250)
FCFF	€'000	(1,242)	1,445	1,852	2,552	3,048	3,639	4,068
Cash conversion	*%*	*(34%)*	*39%*	*42%*	*51%*	*54%*	*59%*	*62%*

Table 15 – Target 2's FCFF and cash conversion, 2018-2024

FCFF for the projection period of 2020-2024 period evolves in line with the revenue increase, as there are no major investments or divestments in fixed assets, working capital or other operational assets and liabilities. Taxes used are the effective tax rate from the P&L that averages 23%. We can observe that cash conversion for the projected period averages 51% vs 41% for the 2017-2019 historical period.

For the terminal value we estimate that net working capital will be 1.5% of revenues, close to the figures during the projection period. We estimate terminal depreciation to be the average of the 2020-2024 projection period depreciation and that capex will be equal to depreciation in perpetuity. Taxes in perpetuity are assumed to be the average tax rate for the 2020-2024 projection period.

8.2.1.5. Cost of capital

The input figures for the estimation of the weighted average cost of capital are the following:

- Risk-free rate: 10 year bond yield for Portugal as of November 2019, 0.33%
- Beta: 1.11
- Cost of equity: 15.12%
- Cost of debt: 2.5% (pre-tax), 1.98% (post tax)
- Equity / EV: 73%
- Debt / Value: 27%
- WACC: 11.5%, rounded to 12.0%

Cost of capital	Debt %	Equity %	D/E	Tax rate %	B Unlev.	Beta Lev.	Size	COE	COD	WACC
Peer group	32%	68%	48%	20%	0.9	1.2	0.0%	8.5%	3.5%	7.0%
Target 1	23%	77%	30%	21%	1.1	1.3	4.2%	14.1%	1.7%	11.0%
Target 2	27%	73%	38%	21%	1.1	1.4	4.2%	15.1%	2.5%	12.0%
Combo	25%	75%	33%	21%	1.1	1.4	4.2%	14.5%	2.1%	11.0%

Table 16 – Target 2's cost of capital vs Target 1 and peer group

8.2.1.6. Enterprise value and Equity value

By discounting the free cash flows to the firm at the WACC rate we achieve an Enterprise value of €54.1m. Terminal value is achieved by using a 2.5% perpetual growth rate, as projected by the world bank for 2020 and is €42.2m, 71% of total value.

We reach Equity value from Enterprise value by reducing net debt and adding financial investments, achieving a value of 50.7m

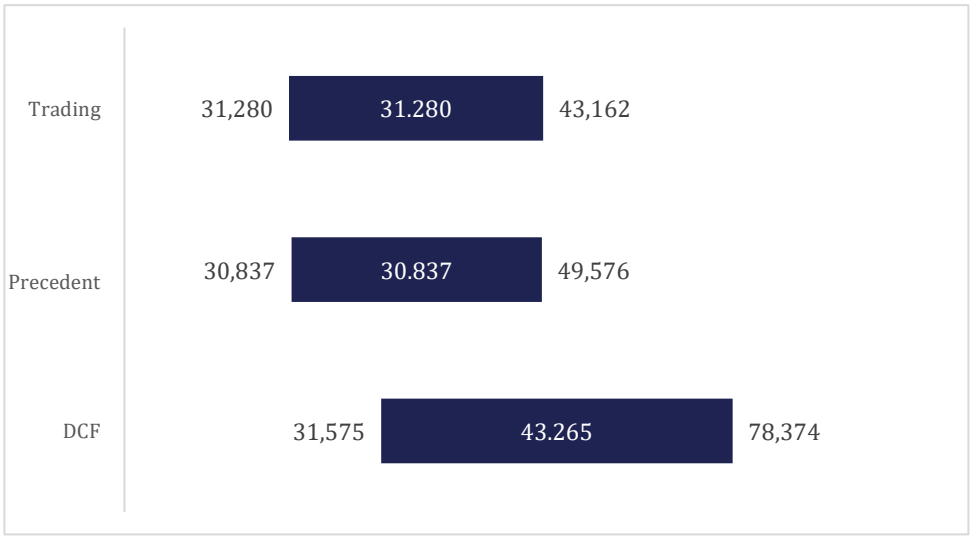

Chart 6 – Target 2's EV valuation range by different valuation methods, in €'000

Minimum and maximum values for Trading and Precedent transaction multiples were achieved by multiplying the target's EBITDA by the lower and upper multiples of the observed range. For the DCF valuation we arrived at minimum and maximum EV by changing delta by + €50/tn and - €50/tn. Figures for Trading multiples and DCF include a 20% liquidity discount.

8.2.1.7. Valuation of the combined entity – Pre-synergy

We value the combined entity using a variety of valuation methods: DCF, Precedent Transaction multiples, Trading multiples and LBO.

8.2.1.8. DCF

The value of the combined entity is the sum of both individual companies' DCF values. If we sum the EV of Target 1 of €40.2m with the EV of Target 2 of €54.1m we arrive at a total Enterprise value of €94.2m for the combined entity, achieved through two individual DCF valuations. Considering the consolidated net debt and other adjustments we arrive at a combined equity value of €90.4m.

This value represents an implied EV/EBITDA multiple of 12.6x and a P/E of 23.8x.

Given the private nature of the companies and the lack of liquidity, we assume a 20% discount to these valuation arriving at a combined EV of €75.4m and Equity value of €72.3m, implying a 10.1 EV / EBITDA and 19.1x P/E multiples, respectively.

8.2.1.9. Precedent transactions

When analysing precedent transactions, we should consider companies as similar as possible to the targets we are valuing in terms of business model, industry, growth prospects, geography and size. However, in real life there are several limitations. The first criteria we identified is size. Small companies which are private, family-owned and/or managed should not be compared to large companies with a professional management team and listed-company levels of corporate governance. In this sense, we reduced our search scope to companies below €1bn in Enterprise value, generally considered to be part of the *mid-market.* Secondly, we searched

for transactions of controlling stakes, as minority stakes in non-listed companies are worth much less than controlling stakes due to lack of control. Finally, we searched for companies in the plastic recycling industry. Given the very small sample, we decided we would have to open the scope of criteria in order to use this valuation method. We therefore considered industrial transactions in Europe inside the size and majority criteria. We picked the transactions that are similar to the Target companies we are valuing, arriving at the table below:

Completion Date	Target Company	Target description	Target country	Bidder Company	Bidder Country	EV €m	Revenue €m	Revenue Multiple	EBITDA Multiple
Jul.19	Demap S.r.l (90% Stake)	Plastic treatment plant with 75kTn of installed capacity	Italy	Acea SpA	Italy	20.0	9.0	2.2x	5.7x
Sep.18	Resiquimica, S.A.	Manufacturer of water-based, solvent-based and polymer - based chemicals for a variety of industries	Portugal	Omnova Solutions Inc.	USA	28.0	42.0	n.a	7.0x
Jul.18	Parenco B.V; Reparco Nederland B.V.	Paperboard companies, to be converted in recycling paper units post-acquisition	Netherlands	Smurfit Kappa Group Plc	Ireland	460.0	n.a.	n.a	11.2x
Dec.17	Aliplast SpA (40% Stake)	Plastic recycling unit with 80 KTn of installed capacity	Italy	HERAmbiente S.p.A.	Italy	133.4	100.0	1.3x	6.5x
Jun.17	Probos - Plasticos, S.A.	Portugal-based company engaged in the production of thermoplastic edgeband for the furniture industry	Portugal	Dollken-Kunststoffverarbeitung GmbH	Germany	99.0	66.5	1.5x	9.0x
Oct.14	PIMAS Plastik Insaat Malzemeleri A.S. (81.23% Stake)	Manufacturer of plastic window frames and blinds	Turkey	Deceuninck NV	Netherlands	39.8	60.1	0.7x	7.3x
Ago.14	Straight Plc	Provider of waste recycling products and services	UK	IPL Plastics PLC	UK	13.3	31.4	0.4x	5.5x
Sept.19	OSS Group, Ltd.	Oil waste collection and oil recycling activities	UK	Hydrodec Group Plc	UK	5.5	35.1	0.2x	4.7x
Jun.12	Itelyum Purification S.R.L. (82% Stake)	Chemicals producer	Italy	Clessidra SGR S.p.A.	Italy	102.0	115.0	0.9x	5.9x
Average						€100.1m	€57.4m	1.0x	7.0x
Median						€39.8m	€51.0m	0.9x	6.5x
Min						€5.5m	€9.0m	0.2x	4.7x
Max						€460.0m	€115.0m	2.2x	11.2x

Table 17 – Precedent comparable transaction multiples, Europe, 2012-2019

Using the average EBITDA multiple from the selected transactions of 7.0x and applying it to the 2020 combined EBITDA of €7.7m we arrive at an Enterprise value of €53.9 and an Equity value of €49.8m

8.2.1.10. Trading multiples

When selecting a peer group for we should consider companies with similar characteristics of size, business model, geography, and growth prospects. Since recycled plastic companies are still mostly regional in scope and not listed, we selected companies that are exposed to similar risks. Firstly, we selected companies in the waste management sector

Company	Ticker	Currency	Unit	Country	Market cap.	Net debt	EV	Revenue	EBITDA	EBITDA %	Net income	EV / Revenue	EV / EBITDA	P/E
Clean harbours	CLH	USD	Bn	USA	2.8	1.4	4.2	3.22	0.46	*14.1%*	0.04	1.3x	9.2x	66.7x
Republic services	RSG	USD	Bn	USA	24.3	8.9	33.2	10.07	2.75	*27.3%*	0.92	3.3x	12.1x	26.5x
Dow Inc	DOW	USD	Bn	USA	24.6	17.0	41.6	37.82	5.62	*14.9%*	1.40	1.1x	7.4x	17.6x
Basf	BAS	EUR	Bn	Germany	40.1	16.5	56.7	56.66	7.95	*14.0%*	3.34	1.0x	7.1x	12.0x
LG Chem	051915.KS	KRW	Bn	South Korea	25,625.0	6,520,000.0	6,545,625.0	5,844,308.04	536,087.22	*9.2%*	850.76	1.1x	12.2x	30.1x
Lanxess	LXS	EUR	Bn	Germany	3.6	1.8	5.3	6.65	0.93	*14.0%*	0.25	0.8x	5.7x	14.5x
SCG	SCC	THB	Bn	Tahiland	387.6	183.2	570.8	439.08	69.87	*15.9%*	30.69	1.3x	8.2x	12.6x
Average												1.4x	8.8x	25.7x
Median												1.1x	8.2x	17.6x
Min												0.8x	5.7x	12.0x
Max												3.3x	12.2x	66.7x

Table 18 – Precedent comparable trading multiples, Europe, April 2020

Secondly, we selected petrochemical and chemical companies that produce virgin plastic resins. These companies, although not single focused in the production of plastic resins, are exposed

to the same chemical cycle (Ethylene price volatility) and face the same challenges: volatility in the price of raw material inputs and volatility in the finished product price. If we assume virgin plastic manufacturers and recycled plastic manufacturers are parallel in the value chain, serve the same end industries and clients, their risks should be similar, therefore the expected returns on their shares should be similar.

Taking the average EBITDA multiple from the comparable set of 8.8x and applying it to the combined EBITDA of €7.7m we arrive at an Enterprise value of €66.1m and an Equity value of €62.1m. However, we find that when comparing large listed companies with market capitalisations higher than €1bn, diversified operations, professional management teams and high standards of corporate governance and daily liquidity with regional, unlisted, family-operated companies. We therefore apply a 20% discount to the valuation, arriving at an average EV/EBITDA multiple of 7.1x, implying an EV of €52.9m and an equity value of €48.9m.

8.2.1.11. LBO

This method of valuation is used by financial investors to understand how much leverage a target company can sustain and what level of returns an investor would achieve depending on the amount of leverage, purchase price and exit price.

Given the considerable amount of companies being purchased by financial investors during the past 10 years (in Portugal, out of 56 transactions in the broader chemicals and manufacturing sectors since 2010, 25 have involved financial investors) and the probability that financial sponsors would try to bid for both targets, we should estimate at what level they would bid. Assuming that typical mid-market private equity investors target >20%-25% returns we estimate that a private equity firm would pay, at a maximum approximately 7.3x 2020 EBITDA, assuming a debt level of 25% or approximately 1.8x 2020 EBITDA. Whilst 1.8x leverage may seem conservative, given the high volatility in raw material input prices and sales prices, as well as its great impact on valuation, we find this to level of debt to be appropriate for the industry.

Other assumptions include a five-year holding period, no dividend recapitalizations, a senior amortizing debt tranche over 5 five years and an interest rate on debt of 2.5%.

Uses	€'000	%
Target Equity	50,617	*92%*
Existing net debt - refinance	4,111	*8%*
Advisory & financing fees	0	*0%*
Total uses	**54,728**	***100%***

Sources	€'000	%
Equity:	41,091	75%
New senior debt	13,637	25%
Revolver	0	0%
Total sources	**54,728**	**100%**

Deal multiples
EBITDA entry multiple
7.30x
Exit multiple
7.3x
New debt multiple
1.8x

Table 19 – Sources & uses, entry, exit and new debt multiple for LBO valuation of combined entity

Returns			2020	2021	2022	2023	2024
Exit proceeds				61,011.6	67,234.7	70,317.7	73,202.4
Net debt / (cash)			9,968.2	5,959.4	652.5	(5,381.5)	(11,886.0)
Equity value			(41,090.7)	55,052.2	66,582.2	75,699.1	85,088.5
IRR	2024	20.0%	(41,090.7)	-	-	-	85,088.5
IRR	2023	22.6%	(41,090.7)	-	-	75,699.1	-
IRR	2022	27.3%	(41,090.7)	-	66,582.2	-	-
IRR	2021	34.0%	(41,090.7)	55,052.2	-	-	-
MM	2024		-	-	-	-	2.1x
MM	2023		-	-	-	1.8x	-
MM	2022		-	-	1.6x	-	-
MM	2021		-	1.3x	-	-	-

Table 20 – LBO IRR and MM returns for LBO valuation of the combined entity

8.2.1.12. Valuation summary

The valuation of the combined entity pre-synergy can be summarized in the chart 7 below. To define intervals for maximum and minimum values for each valuation method we used the following criteria:

Trading and precedent transactions – we selected the minimum and maximum values from the selected transactions.

For the LBO valuation we defined a range of possible returns for the PE investor, with the price of €54.5m or 7.3x EBITDA considering the target return of 20.0%.

As we can observe the DCF valuation has the highest range of possible values. We defined the intervals by sensitizing the delta by €50 positively and negatively from its projected value for each target. We could have sensitized the cost of capital, terminal growth rates or other variables, however we feel that for this business, delta is the most important value driver and the one with the largest impact on the valuation. As we can observe, a €50 change in delta (approximately 12% change in delta margin) has the effect of doubling or reducing to half the Enterprise value of the combined companies.

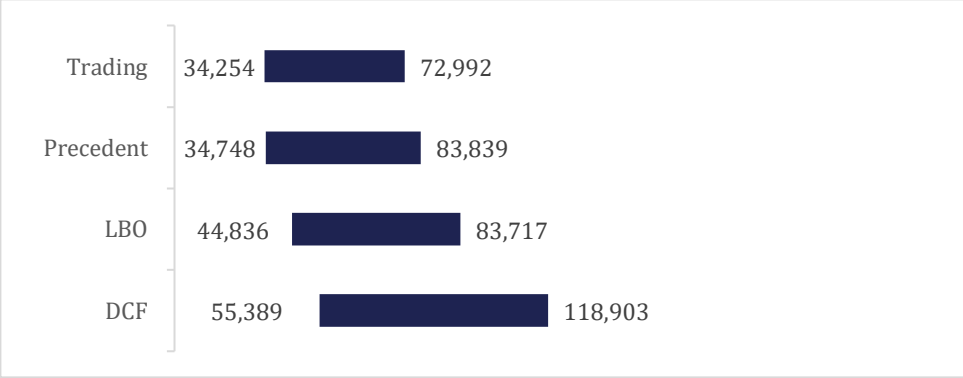

Chart 7 – EV Valuation summary for the combined entity in €'000

As discussed in the literature review, we assumed a 20% reduction in valuation for trading multiples and DCF valuations due to the fact that firms are private instead of listed (Silber, 1991). We only considered this price reduction for the trading multiples and DCF as the other valuation methods already consider that the firm is private.

8.2.2. Synergy

Synergy are the holy grail of M&A, and many times the justification for excessive purchase prices. We believe that synergies are hard to achieve, however we feel that for this specific transaction synergies are probable and realistic. We can break down synergy value into three major buckets:

- Cost reductions (+)
- Pricing power optimizations (+)
- Integration costs (-)
- New business streams (+)

8.2.2.1. Cost reductions

Cost reductions are pure eliminations that occur due to the duplication of tasks post-merger. In our case this include the headquarter functions and operational functions such as HR, Accounting, Finance as well as middle management positions in operations and logistics.

We calculate we can eliminate three people in each company six months to one year after the transaction is executed. This amounts to less than 5.5% of the combined workforce of 109 people.

We compute the benefit as a reduction of three multiplied the average FTE salary for each company in perpetuity. The one-off cost is accounted assuming that the employees have an average tenure of 10 years at each company and are paid 18 days per year of salary as compensation.

We also estimate that minor cost reductions can be implemented by renegotiating existing contracts with suppliers, increased purchasing power and adopting best practices form each company. We estimate that for 2022-2024 a reduction of total operating costs (excluding wages) of 1.5%, 2.0% and 2.5% respectively can occur at each company.

8.2.2.2. Pricing power optimizations

We considered that the two combined entity will have a substantial power in the local market as it will become by far the largest company supplying recycled plastics with an approximate market share of production of 30%.

We quantified this pricing power from two major sources. The first one is delta optimization, where we compared the raw material to selling price delta for Target 1 (€388) and Target 2 (€404) and assumed the largest delta would prevail going forward. This represents a 4% increase on average deltas, which is we believe to have little to no impact on sales, as consumers can pass-through the price increase.

The second source of pricing power value is a progressive increase of delta from 2022-2024 and into perpetuity. We believe that as of 2022 the combined entity can increase delta by an additional €5, increasing to €10 and €15 in 2023 and 2024, respectively. We believe this is only possible due to the large scale of the combined entities and the local dynamics of the market. Whilst it is possible to import recycled plastic raw materials, most of the purchasing is local.

Having a larger size makes the combined entity the effective only buyer for some of the suppliers can increase the leverage in purchasing. The same can be said on the revenue side, with customers (plastic converters) preferring to buy from suppliers who can support them technically and create specific products when necessary. Furthermore, a Repsol branding of same product will work in favour of any price increases. All-in, both delta increases amount to €31 in 2024, still only 7.8% of the average delta for both companies. This creates more than €3m of synergy value over the 2021-2024 period alone for the combined entity.

Furthermore, these synergies could be achieved without the entry of a third party in the shareholder structure. Whilst we find the simple combination of target 1 and target 2 could make sense and create value for both shareholders, we would only propose such transaction at lower multiples.

8.2.2.3. New business synergy

New business synergies are the major reason for this transaction and involve the third party, Repsol. We feel that these synergies can only be achieved by combining the know-how, R&D capabilities and overall resources of a multinational enterprise with the local knowledge of the recycling market dynamics and the manufacturing expertise of the local shareholders.

This new business would consist of implementing a new production line at Target 2's plant that would produce a plastic compound consisting of 25% recycled material and 75% virgin material. The recycled material would be provided by both targets and the virgin material by Repsol. Although theoretically both Target 1 and 2 could mix virgin material with recycled, the compound would not be optimal as they would not control the chemical properties of the virgin material. This could lead to a very long time of trial and error experiments without guaranteeing any success in the final compound. The same could be said for Repsol, which could purchase recycled plastics from Target 1 and 2 and combine them with their virgin material to produce a working compound. However, they too would potentially walk into difficulties as the recycled component of the material could lack consistency and/or availability, hindering the final product. We fill that the best way to produce a leading compound material that could serve the market's demand for consistent quality products is to create an entity in which experts are economically incentivised to work together towards the same goal.

The economics of the new business are the following:

- Initial investment of €5m in a new production line
- 75% Virgin sourced at cost from Repsol, assuming at €125/tn less than selling price in the market of €928/tn
- Existing delta of €408.5/ tn
- 25% recycled purchased from Target 1 and 2, at cost
- Virgin material sells for c.€930/ tn
- Margin for Repsol of €250/ tn
- Cost for NewCo of €678/tn
- New compound selling price of €1,043/tn (+12.5% compared to standard virgin)

- COGS: 75% * recycled purchase price (€145/ tn) + 25% * virgin purchase price (€678/tn)
- Gross margin of 62%
- Additional wage costs
- Additional variable costs of €168/tn

New business	Units	2020	2022	2023	2024	2024
Sale price	€/tn	1,043	1,043	1,043	1,043	1,043
Quantity	tn	-	3.5	5.2	8.3	9.2
Revenues	€'000	-	3,606	5,409	8,655	9,616
Gross margin	€'000	-	1,879	2,818	4,510	5,011
Gross margin	*%*	*0%*	*52%*	*52%*	*52%*	*52%*
Additional FTE's	#	2	4	6	12	16
Additional FTE' cost	€'000	(59)	(120)	(182)	(367)	(495)
Additional variable costs	€/tn	(167)	(168)	(168)	(168)	(168)
Additional variable costs	€'000	-	(580)	(872)	(1,395)	(1,550)
Additional EBITDA	€'000	(59)	1,179	1,765	2,747	2,966
Additional EBITDA	*%*	*NM*	*33%*	*33%*	*32%*	*31%*

Table 21 – Major assumptions for new business line

To compute the value of synergies we can compute the yearly additional cash flow that is generated since the companies are combined, discounting it at the appropriate rate of return. We can also compute the value of synergies by adding the respective value of both companies (DCF based valuation) and comparing it to the value of the combined entity with synergy. As can be observed chart 8, we expect total synergy to amount to €32.4m

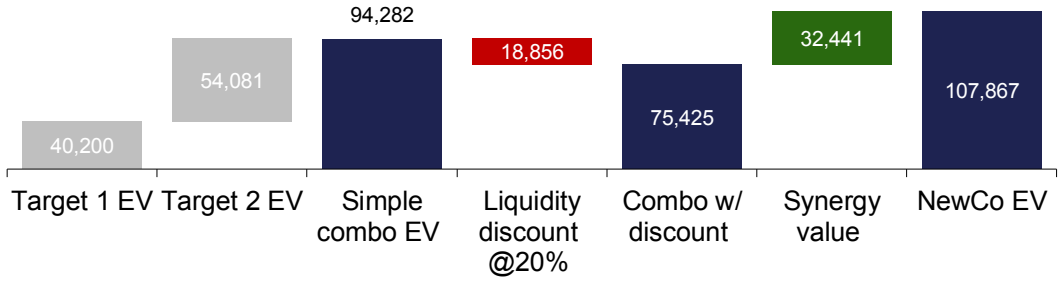

Chart 8 – Valuation waterfall for the combined entity in €'000

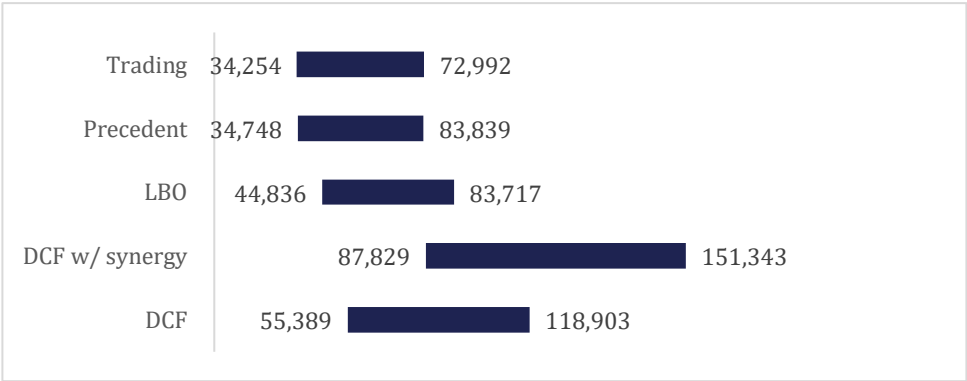

Chart 9 – Valuation summary for the combined entity, including synergy, in €'000

9. Purchase price and deal structure

Due to the relevant value of synergy (30% of the combined Enterprise value) and the majority of the synergy being revenue-based from a new business segment, all parties should be aligned in maximizing value for the NewCo, and therefore deal structure is a very relevant factor. We

The price paid for the Target companies should sit in a range where: the minimum would be the theoretical minimum price that the shareholders are willing to sell, if above our valuation estimates and the maximum, the combined value of both targets plus the whole value of synergy. With this range in mind we propose the following purchase prices:

Acquisition price	EBITDA 2020	EV / EBITDA	EV	Net debt	Other adj.	Equity value	Weight %
Target 1	3,054	8.1x	24,654	-682	117	24,089	42.7%
Target 2	4,419	8.1x	35,672	-3,429	61	32,304	57.3%
Total acquisition price	7,473	8.1x	60,326	-4,111	178	56,393	100%

Table 22 – Purchase price consideration for Target 1 and Target 2

The 8.1x 2020 EBITDA multiple represents the average of the individual valuations carried out with DCF, Trading and Precedent transaction multiples. The 8.1x multiple is above the feasible maximum multiple paid by a Private Equity player, that we estimate would bid at c.7.3x for a 20.0% IRR. Furthermore, when looking at precedent transactions in Europe we observe a median multiple of 6.5x and an average of 7.0x EBITDA. When looking at trading multiples we observe that peers are trading at 8.8x on average and 8.2x median EBITDA multiples. After a liquidity discount of 20% multiples are reduced to 7.1x and 6.5x, respectively. We believe these multiples are lower than if we took a five-year average, as they were observed in April 2020, when very low WTI oil prices were at approximately $20 per barrel and the Covid-19 crisis had a strong impact on global demand. However, we still feel that multiples are applicable, as these are the opportunity cost options for the same period.

With this background we feel confident that a €60.3m and 8.1x 2020 EBITDA offer price is generous, however we are confident in proposing such value, as:

- It assures a high certainty of closing both transactions. Acquiring just one company could make the deal and synergies less expressive (especially if only Target 1, the smaller company, could be acquired)
- It should detract Private Equity players to bid too closely, as their highest offer value would be at 7.3x EBITDA, according to our calculations
- The 8.1x EBITDA is still below the DCF stand-alone valuations of 10.5x and 9.8x for Target 1 and Target 2, respectively, leading Repsol to capture all synergy
- Repsol is still dependant on the management to deliver the business plan and the recycled market transfer of knowledge, therefore paying fairly may encourage in maintaining a good relationship post-deal
- Payment of the same multiple for both companies, creating a transparent platform for future cooperation between both selling shareholders branches and Repsol

We propose a cash offer for 100% of the shares in both Targets.

Offer structure	Stake %	Reinvestment	Payment
Target 1	100.0%	0.0%	Cash
Target 2	100.0%	0.0%	Cash

Table 23 – Price consideration terms for Target 1 and target 2

Goodwill - 100% acquisition	Stake %	Net asset BV	Equity value	Goodwill
Target 1	100%	7,593	24,089	16,496
Target 2	100%	11,599	32,304	20,705
Total acquisition goodwill	100%	19,192	56,393	37,201

Table 24 – Goodwill calculation for the combined entity

NewCo shareholding	Stake %	Equity	Total equity
Repsol	100%	56,392.6	56,393
Target 1 shareholders	0%	-	-
Target 2 shareholders	0%	-	-
Total	100%	56,392.6	56,392.6

Table 25 – NewCo shareholder structure post-transaction

To ensure alignment of interests post transactions we propose the following measures:

- CEO position to be chosen preferably among the existing management team, and if from outside, selling shareholders would have a vote
- Selling shareholders to maintain their operational positions in the company
- CFO to be appointed by Repsol
- The CEO and selling shareholders, plus the CFO and potentially additional roles, would compose the Management Team for the 2020-2024 period
- BoD representation of at least two members of the selling shareholders, one from each shareholder
- Compensation plan for the CEO and Management Team with equity-like characteristics in case of overdelivering on the proposed business plan
- Payment of 30% of the purchase price to be deferred in 4 equal instalments, to be paid-out if the business plan is accomplished by the selling shareholders. This guarantees that the selling shareholders are aligned with Repsol in delivering the proposed returns and sharing their knowledge of recycled plastics whilst managing the company.

Payment terms	2020	2021	2022	2023	2024	Total
Repsol disbursements	(28,196)	(7,049)	(7,049)	(7,049)	(7,049)	(56,393)
Payment timeline	*50%*	*12.5%*	*12.5%*	*12.5%*	*12.5%*	*100.0%*
Target 1 shareholders proceeds	12,044	3,011	3,011	3,011	3,011	24,089
Target 2 shareholders proceeds	16,152	4,038	4,038	4,038	4,038	32,304

Table 26 – Payment terms to selling shareholders

We believe such deal structure benefits all parties proportionately. Repsol can extract the best industry know-how from the two leading players in Portugal and extend its dominant market position into a new segment.

10. Transaction risks

Below we highlight the major risks for the transaction and our assessment on how to mitigate them:

1. Failing to fully realize synergy:
    - A clear possibility, given the large amount relative to the transaction EV. Not delivering synergy will impact returns and Repsol's transformation into a strong

player in the circular economy, however, the underlying plastic recycling business would still be operating, probably profitable and in last resort possible to be divested

2. Overpaying:
    - This is a serious risk, as Trading and Transaction multiples indicate we are paying a premium and we may have over-estimated our DCF projections. We feel that given the potential synergy extracted outside the NewCo and into Repsol (not quantified in this paper), plus the small relative size of the transaction for Repsol (€60.3m EV, versus €50.2bn in Revenues and €2.9bn in cash at FYE 2019 for Repsol) the real consequences in case of overpaying are negligible.
3. Competition authority failure to approve both transactions:
    - At first glance it may seem we are acquiring a c.30% market share by acquiring both companies, however, given the domestic revenues only account for 63% in Target 1 and 35% in Target 2, this reduces our effective market share in Portugal to c.12%. Notification to the Competition Authorities (AC) would still be mandatory, given that Repsol has more than €100m in Revenues in Portugal, however with market share of Targets far below 30%, we are confident in the swift approval of the transaction .
4. Lack of efficient cooperation with selling shareholders post-deal:
    - This is a real possibility, mitigated in contractual and purchase price payment terms, by aligning selling shareholders with Repsol.

11. Conclusion

The plastic recycling industry is undergoing strong changes, underpinned by the public negative reactions to the way plastic waste is impacting the environment we live in. The public opinion has led various types of consumer brands to dissociate from traditional plastic applications and to focus on finding alternatives that are sustainable, without sacrificing product quality and mechanical properties. In addition, EU legislators have regulations and guidelines in place for plastic recycling and ambitious recycling levels are targeted for the next decade. We believe that the most effective and timely manner to achieve the set targets is for large oil & gas and chemical companies engaged in plastic production to acquire plastic recycling companies. The disruptions within the supply chain and the amount of R&D needed to achieve quality recycled compound products is such, that success will be more easily achieved when combining larger integrated players with local recyclers. We believe that this deal would benefit Repsol in achieving its goals for the circular economy as well as consolidating its position in the production and distribution of plastic resins in Iberia. The valuation approaches discussed, highlight the large valuation range for both targets, which are greatly exacerbated by i) The current level of low trading multiples; ii) the large impact that small changes in price delta have on a DCF based valuation of both targets. We propose a €60.3m acquisition price for both companies, implying a 8.1x 2020 EBITDA multiple. We believe the purchase price is generous, however that synergies of €43.6m, if realized, will compensate the price paid. We further believe that strategically this a transaction that Repsol should execute, as these are the only

relevant recycling targets in Iberia. Failing to acquire said companies can put at risk Repsol's circular economy strategy as well as enabling a competitor to have a first-mover advantage.

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12. Appendix

P&L - €m	2017	2018	2019
Sales	41,242	49,701	49,006
Income from services rendered and other income	426	172	322
Changes in inventories of finished goods and work in progress	206	130	11
Reversal of impairment provisions and gains on disposals of assets	864	62	147
Allocation of grants on non-financial assets and other grants	-	-	
Other operating income	710	1,073	725
Operating Revenue	**43,448**	**51,353**	**50,211**
Purchases	(30,251)	(38,056)	(36,803)
Amortisation of non-current assets	(2,399)	(2,140)	(2,434)
Personnel expenses	(1,892)	(1,874)	(1,946)
Impairment loss provisions recognized and losses on disposal of assets	(922)	(1,066)	(5,322)
Other operating expenses	(3,281)	(3,696)	(4,755)
Transport and freights	(1,072)	(1,114)	(1,314)
Supplies	(842)	(739)	(888)
Operating Expenses	**(40,659)**	**(48,900)**	**(53,462)**
EBITDA	**5,188**	**4,593**	**(817)**
EBITDA margin %	*11.9%*	*8.9%*	*(1.6%)*
Operating Income	**2,789**	**2,453**	**(3,251)**
Net Interest	(288)	(230)	(243)
Change in fair value of financial instruments	34	200	216
Exchange gains (losses)	151	467	(27)
Impairment of financial instruments	(1)	(370)	6
Other finance income and expenses	(208)	(240)	(253)
Financial Result	**(312)**	**(173)**	**(301)**
Income investments accounted for using the equity method	630	1,053	351
Net Income Before Tax	**3,107**	**3,333**	**(3,201)**
Income tax	(1,220)	(1,386)	(588)
Profit from continuing operations	1,887	1,947	(3,789)
Income from continuing operations attributated to non-controlling interest	(40)	(18)	(27)
Income From Continuing Operations Attributed To The Parent	**1,847**	**1,929**	**(3,816)**
Net income for the period from discontinued operations after taxes	-	-	-
Net income for the period from discontinued operations attributable to minority interes	-	-	-
Income From Discontinued Operations Attributed To The Parent	**274**	**412**	**-**
Total Income Attributable To The Parent	**2,121**	**2,341**	**(3,816)**

Table 27 - Repsol's consolidated P&L statement, 2017-2019

Balance sheet - €m	2017	2018	2019
Non-Current Assets	**45,086**	**43,484**	**41,408**
Intangible assets (6)	4,584	5,096	4,470
Property, plant and equipment	24,600	25,431	23,145
Investment properties	67	68	66
Investments accounted for using the equity method	9,268	7,194	7,237
Non- current assets held for sale subject to expropriation		-	-
Non-current financial assets	2,038	1,103	1,125
Deferred tax assets	4,057	3,891	4,050
Other non-current assets	472	701	1,315
Current Assets	**14,771**	**17,294**	**16,487**
Non-current assets held for sale	22	6	5
Inventories	3,797	4,390	4,597
Trade receivables and other receivables	5,912	6,105	5,911
Other current assets	182	296	195
Other current financial assets	257	1,711	2,800
Cash and cash equivalents	4,601	4,786	2,979
Total Assets	**59,857**	**60,778**	**57,895**
Total Equity	**30,063**	**30,914**	**25,209**
Share capital	1,556	1,559	1,566
Share premium and reserves	25,541	25,894	26,731
Treasury shares and own equity investments	(45)	(350)	(1,170)
Net income for the year attributable to the parent	2,121	2,341	(3,816)
Other equity instruments	1,024	1,024	1,024
Shareholders´equity	**30,197**	**30,468**	**24,335**
Equity instruments with changes through other comprehensive income		13	24
Hedging transactions	(163)	(106)	(109)
Translation differences	(241)	253	678
Other cumulative comprehensive income	**(404)**	**160**	**593**
Attributable to equity holders of the parent	-	-	-
Non-controlling interests	**270**	**286**	**281**
Non-Current Liabilities	**17,759**	**17,054**	**17,601**
Grants	**-**	**-**	**-**
Non-current provisions	4,829	3,431	3,912
Non-current financial liabilities	10,080	10,818	10,929
Deferred tax liabilities	1,051	2,335	2,375
Other non-current liabilities	1,799	470	385
Current Liabilities	**12,035**	**12,810**	**15,085**
Liabilities related to non-current assets held for sale	1		-
Current provisions	518	500	865
Current financial liabilities	4,206	4,486	6,538
Trade payables and other payables:	7,310	7,824	7,682
Total Equity and Liabilities	**59,857**	**60,778**	**57,895**

Table 28 – Repsol's consolidated balance sheet statement, 2017-2019

Cash flow statement - €m	2017	2018	2019
I. Cash Flows from Operating Activities [5]	**5,113**	**4,579**	**4,849**
Net income before tax	**3,107**	**3,333**	**(3,201)**
Adjusted result:	**2,146**	**2,360**	**8,632**
Amortisation of non current assets	2,399	2,140	2,434
Other adjustments to net profit/(losses)	(253)	220	6,198
Changes in working capital	**(110)**	**(389)**	**137**
Other Cash Flows from/ (Used in) operating activities:	**(30)**	**(725)**	**(719)**
Dividends received	511	472	464
Income taxes received/ (paid)	(320)	(762)	(975)
Other proceeds from/ (payments for) operating activities	(221)	(435)	(208)
II. Cash Flow Used in Investing Activities [5]	**(2,789)**	**(1,359)**	**(4,407)**
Payments for investment activities:	**(3,094)**	**(5,501)**	**(6,390)**
Group companies, associates and business units	(327)	(807)	(107)
Property, plant and equipment, intangible assets and investment properties	(2,300)	(2,661)	(3,227)
Other financial assets	(467)	(2,033)	(3,056)
Proceeds from divestments:	**254**	**4,074**	**1,895**
Companies of the group and associates	16	3,372	17
Propierty, plant and equipment, intangible assets and property investment	78	119	133
Other financial assets	160	583	1,745
Other cash flows	**51**	**68**	**88**
III. Cash Flows from/ (Used in) Financing Activities [5]	**(2,361)**	**(3,032)**	**(2,289)**
Proceeds and (payments) on equity instruments:	**(293)**	**(1,595)**	**(1,844)**
Acquisition	(304)	(1,808)	(1,911)
Disposal	11	213	67
Proceeds and (payments) on financial liability instrument::		**(796)**	**412**
Issue	10,285	18,127	13,213
Return and amortization	(11,448)	(18,923)	(12,801)
Payments on stockholder remuneration and other equity instruments	**(332)**	**(297)**	**(396)**
Other cash flows from financing activities:	**(573)**	**(344)**	**(461)**
Interest payments	(537)	(454)	(467)
Other proceeds from/(payments for) financing activities	(36)	110	6
Exchange Rate Fluctuations Effect	**(49)**	**(3)**	**40**

Table 29– Repsol's consolidated cash flow statement, 2017-2019

P&L - €'000	2017	2018	2019	2020	2021	2022	2023	2024
Total revenues	8,506.7	9,431.2	9,320.0	10,350.7	11,032.6	11,694.8	11,969.3	12,252.5
Growth %		*10.9%*	*(1.2%)*	*11.1%*	*6.6%*	*6.0%*	*2.3%*	*2.4%*
Other	92.1	110.4						
Cost of raw materials	(3,901.9)	(3,549.5)	(3,239.0)	(3,513.2)	(3,749.7)	(4,054.0)	(4,284.2)	(4,532.6)
as a % of revenues	*45.9%*	*37.6%*	*34.8%*	*33.9%*	*34.0%*	*34.7%*	*35.8%*	*37.0%*
Gross margin	4,604.8	5,881.7	6,081.0	6,837.5	7,282.9	7,640.8	7,685.2	7,719.9
as a % of revenues	*54%*	*62%*	*65%*	*66%*	*66%*	*65%*	*64%*	*63%*
Variable costs	(1,702.6)	(1,730.3)	(1,705.5)	(1,861.6)	(2,003.9)	(2,140.6)	(2,203.4)	(2,224.4)
as a % of revenues	*(20.0%)*	*(18.3%)*	*(18.3%)*	*(18.0%)*	*(18.2%)*	*(18.3%)*	*(18.4%)*	*(18.2%)*
Fixed costs	(1,558.7)	(1,706.7)	(1,862.1)	(1,922.0)	(1,937.2)	(1,954.0)	(1,971.1)	(1,988.4)
as a % of revenues	*(18.3%)*	*(18.1%)*	*(20.0%)*	*(18.6%)*	*(17.6%)*	*(16.7%)*	*(16.5%)*	*(16.2%)*
	-3192	*-3252*						
Total operating expenses	(3,261.3)	(3,437.0)	(3,567.6)	(3,783.6)	(3,941.0)	(4,094.6)	(4,174.4)	(4,212.8)
as a % of revenues	*-71%*	*-58%*	*-59%*	*-55%*	*-54%*	*-54%*	*-54%*	*-55%*
Per MT	(283)	(287)	(219)	(212)	(210)	(208)	(210)	(210)
Other income	144.3	290.3	-	-	-	-	-	-
Other costs	(74.6)	(105.7)	-	-	-	-	-	-
EBITDA	1,505.3	2,739.7	2,513.4	3,053.9	3,341.9	3,546.3	3,510.7	3,507.1
EBITDA margin %	*17.7%*	*29.0%*	*27.0%*	*29.5%*	*30.3%*	*30.3%*	*29.3%*	*28.6%*
Depreciation & amortisation	(555.5)	(821.1)	(820.2)	(892.5)	(812.2)	(515.4)	(542.1)	(542.1)
EBIT	949.8	1,918.6	1,693.2	2,161.4	2,529.7	3,030.9	2,968.6	2,965.0
EBIT margin %		*20.3%*	*18.2%*	*20.9%*	*22.9%*	*25.9%*	*24.8%*	*24.2%*
Net interest expense	(62.7)	(43.1)	(48.4)	(45.5)	(37.9)	(36.0)	(22.1)	(7.0)
EBT	887.1	1,875.5	1,644.8	2,115.9	2,491.8	2,994.9	2,946.6	2,958.0
Taxes	(177.5)	(329.8)	(376.7)	(477.4)	(577.4)	(703.6)	(701.2)	(703.2)
Tax rate %		*17.6%*	*22.9%*	*22.6%*	*23.2%*	*23.5%*	*23.8%*	*23.8%*
Net inome	709.6	1,545.7	1,268.2	1,638.4	1,914.4	2,291.3	2,245.4	2,254.8

Table 30 – Target 1's P&L statement, 2017-2024

Balance sheet - €'000	2017	2018	2019	2020	2021	2022	2023	2024
Tangible fixed assets	5,344.8	5,901.1	5,081.0	4,478.5	4,541.3	4,225.9	3,883.8	3,541.7
Existant			5,081.0	4,262.5	3,714.5	3,530.0	3,345.5	3,161.0
New			-	216.0	826.8	695.9	538.3	380.7
Intangible fixed assets	20.3	30.3	28.0	31.1	33.1	35.1	35.9	36.8
Financial investment - Equity method	89.8	94.2	103.8	111.6	121.8	133.7	147.9	161.8
Financial investment - other	1.4	2.2	3.9	5.3	7.1	9.2	11.7	14.2
Other financial assets	-	-	-	-	-	-	-	-
DTA	24.6	4.7	4.7	5.2	5.5	5.8	6.0	6.1
Total LT assets	**5,480.8**	**6,032.4**	**5,221.3**	**4,631.6**	**4,708.7**	**4,409.6**	**4,085.2**	**3,760.5**
Inventory	1,576.7	1,803.4	2,351.6	2,472.5	2,605.1	2,790.0	2,957.2	3,137.5
Clients	1,996.9	2,038.3	1,532.1	1,701.5	1,813.6	1,922.4	1,967.6	2,014.1
Advances to suppliers	23.4	136.6	177.5	186.6	196.6	210.6	223.2	236.8
State & other public entities	42.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other receivables	240.5	275.7	510.7	567.2	604.5	640.8	655.9	671.4
Deferrals	115.5	36.4	36.4	36.4	36.4	36.4	36.4	36.4
Suppliers	(810.0)	(858.2)	(838.5)	(875.8)	(908.3)	(952.9)	(993.6)	(1,037.2)
Advances from clients	-	(0.9)	-	-	-	-	-	-
State & other public entities	(120.2)	(278.2)	(255.3)	(283.6)	(302.3)	(320.4)	(327.9)	(335.7)
Other payables	(492.1)	(509.2)	(461.2)	(481.7)	(499.5)	(524.1)	(546.5)	(570.5)
Working capital	**2,573.7**	**2,644.0**	**3,053.2**	**3,323.2**	**3,546.2**	**3,802.9**	**3,972.3**	**4,152.8**
LT debt	(2,148.1)	(2,228.2)	(2,228.2)	(2,228.2)	(2,155.2)	(1,321.5)	(421.2)	-
ST debt	(1,383.4)	(669.5)	(499.4)	(41.3)	-	-	-	-
DTL	(104.8)	(103.7)	(103.7)	(103.7)	(103.7)	(103.7)	(103.7)	(103.7)
Financial assets held for trading	27.6	37.6	37.6	37.6	37.6	37.6	37.6	37.6
Other current financial assets	-	-	-	-	-	-	-	-
Non-current assets held for sale	3.5	82.0	82.0	82.0	82.0	82.0	82.0	82.0
Cash	304.8	529.7	2,029.6	3,529.6	5,029.6	6,529.6	8,029.6	10,007.4
Net debt	**(3,300.5)**	**(2,352.1)**	**(682.0)**	**1,276.0**	**2,890.3**	**5,224.0**	**7,624.4**	**10,023.3**
Share capital	600.0	600.0	600.0	600.0	600.0	600.0	600.0	600.0
Other equity instruments	399.6	399.6	399.6	399.6	399.6	399.6	399.6	399.6
Legal reserves	120.0	154.8	154.8	154.8	154.8	154.8	154.8	154.8
Other reserves	916.4	1,276.4	1,276.4	1,276.4	1,276.4	1,276.4	1,276.4	1,276.4
Retained earnings	1,624.8	1,982.3	3,528.2	4,796.3	6,434.7	8,349.1	10,640.4	12,885.8
Revaluations	364.2	365.4	365.4	365.4	365.4	365.4	365.4	365.4
Other equity movements	19.1	-	-	-	-	-	-	-
Net income	709.8	1,545.8	1,268.2	1,638.4	1,914.4	2,291.3	2,245.4	2,254.8
Total equity	**4,754.0**	**6,324.4**	**7,592.5**	**9,231.0**	**11,145.3**	**13,436.6**	**15,682.0**	**17,936.8**

Table 31 – Target 1's balance sheet, 2017-2024

Cash flow - €'000		2018	2019	2020	2021	2022	2023	2024
EBITDA		2,739.7	2,513.4	3,053.9	3,341.9	3,546.3	3,510.7	3,507.1
Taxes		(329.8)	(376.7)	(477.4)	(577.4)	(703.6)	(701.2)	(703.2)
Capex		(1,372.7)	(9.0)	(302.9)	(889.3)	(216.3)	(217.7)	(217.4)
Δ in Working Capital		(160.1)	(409.2)	(270.0)	(223.0)	(256.7)	(169.4)	(180.6)
FCFF		877.1	1,718.5	2,003.6	1,652.1	2,369.7	2,422.4	2,406.0
		32%	68%	66%	49%	67%	69%	69%
Debt (repaid) / issued		(633.9)	(170.2)	(458.1)	(114.3)	(833.7)	(900.4)	(421.2)
Interest expense		(43.1)	(48.4)	(45.5)	(37.9)	(36.0)	(22.1)	(7.0)
Debt service (Interest expenses + changes in debt)		(676.9)	(218.5)	(503.6)	(152.1)	(869.7)	(922.4)	(428.2)
CF after debt service		200.2	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0	1,977.8
Share capital		-	-	-	-	-	-	-
Other equity instruments		-	-	-	-	-	-	-
Legal reserves		34.8	-	-	-	-	-	-
Other reserves		360.0	-	-	-	-	-	-
Retained earnings		(352.3)	-	-	-	-	-	-
Revaluations		1.2	-	-	-	-	-	-
Other equity movements		(19.1)	-	-	-	-	-	-
Equity movements		24.6	-	-	-	-	-	-
FCFE		224.8	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0	1,977.8
Cash BoP		*304.8*	*529.6*	*2,029.6*	*3,529.6*	*5,029.6*	*6,529.6*	*8,029.6*
Cash EoP	*304.8*	*529.6*	*2,029.6*	*3,529.6*	*5,029.6*	*6,529.6*	*8,029.6*	*10,007.4*

Table 32 – Target 1's cash flow statement, 2017-2024

P&L - €'000	2017	2018	2019	2020	2021	2022	2023	2024
Total revenues	13,657.4	19,699.4	16,216.3	18,119.2	19,647.6	21,306.6	22,367.0	23,229.9
Growth %		*44%*	*-18%*	*12%*	*8%*	*8%*	*5%*	*4%*
Other	(439.4)	328.8	-	-	-	-	-	-
Cost of raw materials	(4,920.8)	(8,744.2)	(4,692.0)	(5,090.8)	(5,523.6)	(5,993.1)	(6,247.8)	(6,424.8)
as a % of revenues	*(36.0%)*	*(44.4%)*	*(28.9%)*	*(28.1%)*	*(28.1%)*	*(28.1%)*	*(27.9%)*	*(27.7%)*
Gross margin	8,297.2	11,284.0	11,524.3	13,028.4	14,124.0	15,313.5	16,119.3	16,805.1
as a % of revenues	*61%*	*57%*	*71%*	*72%*	*72%*	*72%*	*72%*	*72%*
Variable costs	(3,570.9)	(4,526.5)	(4,635.9)	(5,068.1)	(5,524.2)	(6,015.4)	(6,312.3)	(6,547.8)
as a % of revenues	*(26.1%)*	*(23.0%)*	*(28.6%)*	*(28.0%)*	*(28.1%)*	*(28.2%)*	*(28.2%)*	*(28.2%)*
Fixed costs	(2,908.4)	(3,259.3)	(3,509.9)	(3,541.5)	(3,584.0)	(3,634.2)	(3,685.1)	(3,736.7)
as a % of revenues	*(21.3%)*	*(16.5%)*	*(21.6%)*	*(19.5%)*	*(18.2%)*	*(17.1%)*	*(16.5%)*	*(16.1%)*
Other	25.4	(5.4)						
Total operating expenses	(6,453.9)	(7,791.2)	(8,145.9)	(8,609.6)	(9,108.2)	(9,649.5)	(9,997.4)	(10,284.5)
as a % of revenues	*47.3%*	*39.6%*	*50.2%*	*47.5%*	*46.4%*	*45.3%*	*44.7%*	*44.3%*
Per Mt	(263.7)	(290.9)	(292.3)	(284.3)	(276.8)	(269.8)	(266.4)	(264.2)
Other revenues and gains	394.4	428.3	463.7	-	-	-	-	-
Other expenses and losses	(80.4)	(255.2)	(149.6)	-	-	-	-	-
EBITDA	2,157.3	3,666.0	3,692.5	4,418.7	5,015.9	5,664.0	6,121.9	6,520.6
EBITDA margin %	*15.8%*	*18.6%*	*22.8%*	*24.4%*	*25.5%*	*26.6%*	*27.4%*	*28.1%*
Depreciation & amortisation	(1,216.4)	(1,923.3)	(1,200.0)	(1,450.0)	(1,700.0)	(1,950.0)	(2,200.0)	(2,450.0)
EBIT	940.8	1,742.7	2,492.5	2,968.7	3,315.9	3,714.0	3,921.9	4,070.6
EBIT margin %	*6.9%*	*8.8%*	*15.4%*	*16.4%*	*16.9%*	*17.4%*	*17.5%*	*17.5%*
Net interest expense	(51.9)	(39.5)	(201.9)	(201.6)	(129.5)	(68.9)	-	-
EBT	888.9	1,703.2	2,290.6	2,767.1	3,186.4	3,645.1	3,921.9	4,070.6
Taxes	(200.6)	(329.2)	(504.8)	(619.1)	(719.7)	(829.8)	(896.2)	(932.0)
Tax rate %	*-23%*	*-19%*	*-22%*	*-22%*	*-23%*	*-23%*	*-23%*	*-23%*
Net income	688.3	1,374.1	1,785.9	2,148.0	2,466.7	2,815.2	3,025.6	3,138.7

Table 33 – Target 2's P&L statement, 2017-2024

Balance sheet - €'000	2017	2018	2019	2020	2021	2022	2023	2024
Tangible fixed assets	10,634.4	9,714.4	9,775.6	9,575.6	9,125.6	8,425.6	7,475.6	6,275.6
Existing			9,775.6	8,575.6	7,375.6	6,175.6	4,975.6	3,775.6
New			-	1,000.0	1,750.0	2,250.0	2,500.0	2,500.0
Intangible	-	-	-	-	-	-	-	-
Investments - Equity method	8.1	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Investments - other methods	-	-	-	-	-	-	-	-
Other financial assets	51.4	53.3	53.3	53.3	53.3	53.3	53.3	53.3
DTA	10.3	-	-	-	-	-	-	-
Total LT assets	**10,704.1**	**9,775.6**	**9,836.9**	**9,636.9**	**9,186.9**	**8,486.9**	**7,536.9**	**6,336.9**
Inventory	2,159.2	2,564.6	2,699.5	2,929.0	3,177.9	3,448.1	3,594.6	3,696.5
Clients	3,229.0	4,869.2	4,442.8	4,964.2	5,382.9	5,837.4	6,128.0	6,364.4
Advances to suppliers	-	-	-	-	-	-	-	-
State & other public entities	32.8	81.2	222.1	248.2	269.1	291.9	306.4	318.2
Other current assets	130.5	99.7	222.1	248.2	269.1	291.9	306.4	318.2
Deferrals	44.8	43.1	222.1	248.2	269.1	291.9	306.4	318.2
Suppliers	(1,302.4)	(2,011.1)	(954.7)	(1,035.8)	(1,123.8)	(1,219.4)	(1,271.2)	(1,307.2)
Advances from clients	(32.6)	(32.6)	(32.6)	(32.6)	(32.6)	(32.6)	(32.6)	(32.6)
State & other public entities	(184.0)	(355.3)	(444.3)	(496.4)	(538.3)	(583.7)	(612.8)	(636.4)
Other payables	(2,573.5)	(405.8)	(1,156.9)	(1,255.3)	(1,362.0)	(1,477.7)	(1,540.5)	(1,584.2)
Deferrals	(87.9)	(28.5)	(28.5)	(28.5)	(28.5)	(28.5)	(28.5)	(28.5)
Working capital	**1,415.9**	**4,824.5**	**5,191.8**	**5,789.2**	**6,283.1**	**6,819.2**	**7,156.1**	**7,426.6**
LT debt	(7,549.1)	(6,578.9)	(6,568.2)	(5,178.8)	(2,756.0)	-	-	-
ST debt	(1,170.1)	(1,496.5)	(1,496.5)	-	-	-	-	-
DTL	-	-	-	-	-	-	-	-
Financial assets held for trading	-	-	-	-	-	-	-	-
Other current financial assets	-	-	-	-	-	-	-	-
Non-current assets held for sale	-	-	-	-	-	-	-	-
Cash	5,038.6	3,288.7	4,635.3	3,500.0	3,500.0	3,723.1	7,361.8	11,430.0
Net debt	**(3,680.6)**	**(4,786.7)**	**(3,429.4)**	**(1,678.8)**	**744.0**	**3,723.1**	**7,361.8**	**11,430.0**
Share capital	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0
Other equity instruments	-	-	-	-	-	-	-	-
Legal reserves	1,571.3	1,806.4	1,806.4	1,806.4	1,806.4	1,806.4	1,806.4	1,806.4
Other reserves	2,630.2	2,661.5	2,661.5	2,661.5	2,661.5	2,661.5	2,661.5	2,661.5
Retained earnings	(449.6)	(27.7)	1,346.4	3,132.2	5,280.3	7,746.9	10,562.2	13,587.8
Revaluations	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)
Other equity movements	-	-	-	-	-	-	-	-
Net income	688.3	1,374.1	1,785.9	2,148.0	2,466.7	2,815.2	3,025.6	3,138.7
Equity	**8,439.4**	**9,813.4**	**11,599.3**	**13,747.3**	**16,214.0**	**19,029.2**	**22,054.8**	**25,193.5**

Table 34 – Target 2's balance sheet, 2017-2024

Cash flow - €'000	2017	2018	2019	2020	2021	2022	2023	2024
EBITDA		3,666.0	3,692.5	4,418.7	5,015.9	5,664.0	6,121.9	6,520.6
Taxes		(329.2)	(504.8)	(619.1)	(719.7)	(829.8)	(896.2)	(932.0)
Capex		(994.9)	(1,261.3)	(1,250.0)	(1,250.0)	(1,250.0)	(1,250.0)	(1,250.0)
Changes in working capital		(3,408.6)	(367.3)	(597.4)	(493.9)	(536.1)	(337.0)	(270.4)
FCFF		(1,066.7)	1,559.2	1,952.2	2,552.2	3,048.1	3,638.6	4,068.3
Debt (repaid) / issued		(643.8)	(10.6)	(2,885.9)	(2,422.8)	(2,756.0)	-	-
Interest expense		(39.5)	(201.9)	(201.6)	(129.5)	(68.9)	-	-
Debt service (Interest expenses + changes in debt)		(683.3)	(212.5)	(3,087.6)	(2,552.2)	(2,824.9)	-	-
CF after debt service		(1,750.0)	1,346.6	(1,135.3)	-	223.1	3,638.6	4,068.3
Share capital		-	-	-	-	-	-	-
Other equity instruments		-	-	-	-	-	-	-
Legal reserves		235.1	-	-	-	-	-	-
Other reserves		31.3	-	-	-	-	-	-
Retained earnings		(266.4)	-	-	-	-	-	-
Adjustements in financial assets		-	-	-	-	-	-	-
Other equity changes		-	-	-	-	-	-	-
Equity FCF		0.0	-	-	-	-	-	-
FCFE		(1,750.0)	1,346.6	(1,135.3)	-	223.1	3,638.6	4,068.3
Cash BoP		*5,038.6*	*3,288.7*	*4,635.3*	*3,500.0*	*3,500.0*	*3,723.1*	*7,361.8*
Cash EoP	*5,039*	*3,288.7*	*4,635.3*	*3,500.0*	*3,500.0*	*3,723.1*	*7,361.8*	*11,430.0*

Table 35 – Target 2's cash flow statement, 2017-2024

Simple combo P&L - €'000	2017	2018	2019	2020	2021	2022	2023	2024
Total revenues	22,164.1	29,130.6	25,536.3	28,470.0	30,680.2	33,001.4	34,336.4	35,482.4
Growth %		*31%*	*(12%)*	*11%*	*8%*	*8%*	*4%*	*3%*
Other	(347.3)	439.2	-	-	-	-	-	-
COGS	(8,822.7)	(12,293.7)	(7,931.0)	(8,604.1)	(9,273.3)	(10,047.0)	(10,532.0)	(10,957.4)
Gross margin	12,994.1	17,276.1	17,605.3	19,865.9	21,407.0	22,954.3	23,804.4	24,525.0
as a % of revenues	*59%*	*59%*	*69%*	*70%*	*70%*	*70%*	*69%*	*69%*
Variable costs	(5,273.5)	(6,256.7)	(6,341.5)	(6,929.7)	(7,528.0)	(8,155.9)	(8,515.7)	(8,772.2)
as a % of total costs								
Fixed costs	(4,467.1)	(4,966.1)	(5,372.0)	(5,463.5)	(5,521.2)	(5,588.2)	(5,656.1)	(5,725.1)
as a % of total costs								
Other	25.4	(5.4)	-	-	-	-	-	-
Total operating expenses	(9,715.1)	(11,228.2)	(11,713.5)	(12,393.3)	(13,049.2)	(13,744.1)	(14,171.8)	(14,497.3)
Other income	538.6	718.7	463.7	-	-	-	-	-
Other costs	(155.0)	(360.9)	(149.6)	-	-	-	-	-
EBITDA	3,662.6	6,405.7	6,205.9	7,472.6	8,357.8	9,210.2	9,632.6	10,027.7
EBITDA margin %	*16.5%*	*22.0%*	*24.3%*	*26.2%*	*27.2%*	*27.9%*	*28.1%*	*28.3%*
Depreciation & amortisation	(1,771.9)	(2,744.4)	(2,020.2)	(2,342.5)	(2,512.2)	(2,465.4)	(2,742.1)	(2,992.1)
EBIT	1,890.6	3,661.3	4,185.7	5,130.1	5,845.5	6,744.8	6,890.5	7,035.7
EBIT margin %	*8.5%*	*12.6%*	*16.4%*	*18.0%*	*19.1%*	*20.4%*	*20.1%*	*19.8%*
Net interest expense	(114.7)	(82.5)	(250.2)	(247.1)	(167.3)	(104.9)	(22.1)	(7.0)
EBT	1,776.0	3,578.8	3,935.5	4,883.0	5,678.2	6,640.0	6,868.4	7,028.6
Taxes	(378.1)	(659.0)	(881.4)	(1,096.5)	(1,297.2)	(1,533.4)	(1,597.5)	(1,635.2)
Tax rate %	*-21%*	*-18%*	*-22%*	*-22%*	*-23%*	*-23%*	*-23%*	*-23%*
Net income	1,397.9	2,919.8	3,054.0	3,786.4	4,381.0	5,106.5	5,271.0	5,393.5

Table 36 – Combo P&L pre-synergy, 2017-2024

Simple combo BS - €'000	2017	2018	2019	2020	2021	2022	2023	2024
Tangible fixed assets	15,979.1	15,615.4	14,856.6	14,054.1	13,666.9	12,651.5	11,359.4	9,817.4
Intangible fixed assets	20.3	30.3	28.0	31.1	33.1	35.1	35.9	36.8
Financial investment - Equity method	97.8	102.2	111.7	119.6	129.8	141.6	155.8	169.8
Financial investment - other	1.4	2.2	3.9	5.3	7.1	9.2	11.7	14.2
Other financial assets	51.4	53.3	53.3	53.3	53.3	53.3	53.3	53.3
DTA	34.8	4.7	4.7	5.2	5.5	5.8	6.0	6.1
Total LT assets	**16,184.9**	**15,808.0**	**15,058.1**	**14,268.5**	**13,895.6**	**12,896.5**	**11,622.1**	**10,097.4**
Inventory	3,735.9	4,368.0	5,051.1	5,401.5	5,783.0	6,238.1	6,551.8	6,834.0
Clients	5,226.0	6,907.5	5,974.9	6,665.7	7,196.5	7,759.9	8,095.5	8,378.5
Advances to suppliers	23.4	136.6	177.5	186.6	196.6	210.6	223.2	236.8
State & other public entities	75.7	81.2	222.1	248.2	269.1	291.9	306.4	318.2
Other receivables	370.9	375.4	732.8	815.4	873.7	932.7	962.3	989.6
Deferrals	160.3	79.5	258.6	284.7	305.6	328.3	342.8	354.7
Suppliers	(2,112.3)	(2,869.3)	(1,793.2)	(1,911.6)	(2,032.1)	(2,172.3)	(2,264.7)	(2,344.4)
Advances from clients	(32.6)	(33.5)	(32.6)	(32.6)	(32.6)	(32.6)	(32.6)	(32.6)
State & other public entities	(304.2)	(633.5)	(699.6)	(780.0)	(840.6)	(904.1)	(940.7)	(972.1)
Other payables	(3,065.6)	(915.0)	(1,618.1)	(1,736.9)	(1,861.5)	(2,001.8)	(2,087.0)	(2,154.7)
Deferrals	(87.9)	(28.5)	(28.5)	(28.5)	(28.5)	(28.5)	(28.5)	(28.5)
Working capital	**3,989.5**	**7,468.5**	**8,245.0**	**9,112.4**	**9,829.3**	**10,622.0**	**11,128.4**	**11,579.4**
LT debt	(9,697.2)	(8,807.0)	(8,796.4)	(7,407.0)	(4,911.3)	(1,321.5)	(421.2)	-
ST debt	(2,553.6)	(2,166.0)	(1,995.9)	(41.3)	-	-	-	-
DTL	(104.8)	(103.7)	(103.7)	(103.7)	(103.7)	(103.7)	(103.7)	(103.7)
Financial assets held for trading	27.6	37.6	37.6	37.6	37.6	37.6	37.6	37.6
Other current financial assets	-	-	-	-	-	-	-	-
Non-current assets held for sale	3.5	82.0	82.0	82.0	82.0	82.0	82.0	82.0
Cash	5,343.5	3,818.4	6,665.0	7,029.7	8,529.7	10,252.9	15,391.5	21,437.5
Net debt	**(6,981.1)**	**(7,138.8)**	**(4,111.3)**	**(402.7)**	**3,634.4**	**8,947.3**	**14,986.2**	**21,453.4**
Share capital	4,600.0	4,600.0	4,600.0	4,600.0	4,600.0	4,600.0	4,600.0	4,600.0
Other equity instruments	399.6	399.6	399.6	399.6	399.6	399.6	399.6	399.6
Legal reserves	1,691.3	1,961.3	1,961.3	1,961.3	1,961.3	1,961.3	1,961.3	1,961.3
Other reserves	3,546.6	3,937.9	3,937.9	3,937.9	3,937.9	3,937.9	3,937.9	3,937.9
Retained earnings	1,175.2	1,954.6	4,874.5	7,928.6	11,715.0	16,096.0	21,202.5	26,473.5
Revaluations	363.3	364.5	364.5	364.5	364.5	364.5	364.5	364.5
Other equity movements	19.1	-	-	-	-	-	-	-
Net income	1,398.1	2,919.8	3,054.0	3,786.4	4,381.0	5,106.5	5,271.0	5,393.5
Total equity	**13,193.3**	**16,137.7**	**19,191.8**	**22,978.3**	**27,359.3**	**32,465.8**	**37,736.8**	**43,130.2**

Table 37 – Combo Balance sheet pre-synergy, 2017-2024

Synergy combo CFS - €'000		2018	2019	2020	2021	2022	2023	2024
EBITDA		6,405.7	6,205.9	7,472.6	8,357.8	9,210.2	9,632.6	10,027.7
Taxes		(659.0)	(881.4)	(1,096.5)	(1,297.2)	(1,533.4)	(1,597.5)	(1,635.2)
Capex		(2,367.6)	(1,270.3)	(1,552.9)	(2,139.3)	(1,466.3)	(1,467.7)	(1,467.4)
Δ in Working Capital		(3,479.0)	(776.5)	(867.4)	(716.9)	(792.8)	(506.4)	(451.0)
FCFF		(99.8)	3,277.7	3,955.8	4,204.4	5,417.7	6,061.0	6,474.2
Debt (repaid) / issued		(1,367.4)	(180.8)	(3,344.0)	(2,537.0)	(3,589.7)	(900.4)	(421.2)
Interest expense		(82.5)	(250.2)	(247.1)	(167.3)	(104.9)	(22.1)	(7.0)
Debt service		(1,449.9)	(431.0)	(3,591.1)	(2,704.4)	(3,694.6)	(922.4)	(428.2)
CF after debt service		(1,549.8)	2,846.6	364.7	1,500.0	1,723.1	5,138.6	6,046.0
Share capital		-	-	-	-	-	-	-
Other equity instruments		-	-	-	-	-	-	-
Legal reserves		269.9	-	-	-	-	-	-
Other reserves		391.3	-	-	-	-	-	-
Retained earnings		(618.7)	0.1	0.0	0.0	0.0	(0.0)	-
Revaluations		1.2	-	-	-	-	-	-
Other equity movements		(19.1)	-	-	-	-	-	-
Equity movements		24.6	0.1	0.0	0.0	0.0	(0.0)	-
FCFE		(1,525.2)	2,846.7	364.7	1,500.0	1,723.1	5,138.6	6,046.0
Cash BoP		*5,343.5*	*3,818.3*	*6,665.0*	*7,029.7*	*8,529.7*	*10,252.9*	*15,391.5*
Cash EoP	*5,343*	*3,818.3*	*6,665.0*	*7,029.7*	*8,529.7*	*10,252.9*	*15,391.5*	*21,437.5*

Table 38 – Combo Cash flow statement pre-synergy, 2018-2024

Synergy combo P&L - €'000	2017	2018	2019	2020	2021	2022	2023	2024
Total revenues	22,164.1	29,130.6	25,536.3	28,470.0	34,654.3	39,068.7	43,944.1	46,360.8
Target 1	*8,506.7*	*9,431.2*	*9,320.0*	*10,350.7*	*11,032.6*	*11,694.8*	*11,969.3*	*12,252.5*
Target 2	*13,657.4*	*19,699.4*	*16,216.3*	*18,119.2*	*19,647.6*	*21,306.6*	*22,367.0*	*23,229.9*
Synergies				-	3,974	6,067	9,608	10,878
Other	(347.3)	439.2	-	-	-	-	-	-
COGS	(8,822.7)	(12,293.7)	(7,931.0)	(8,604.1)	(9,273.3)	(10,047.0)	(10,532.0)	(10,957.4)
Target 1	*(3,901.9)*	*(3,549.5)*	*(3,239.0)*	*(3,513.2)*	*(3,749.7)*	*(4,054.0)*	*(4,284.2)*	*(4,532.6)*
Target 2	*(4,920.8)*	*(8,744.2)*	*(4,692.0)*	*(5,090.8)*	*(5,523.6)*	*(5,993.1)*	*(6,247.8)*	*(6,424.8)*
Synergy				-	(1,727)	(2,591)	(4,145)	(4,606)
Gross margin	12,994.1	17,276.1	17,605.3	19,865.9	25,381.0	29,021.6	33,412.1	35,403.4
as a % of revenues	*59%*	*59%*	*69%*	*70%*	*73%*	*74%*	*76%*	*76%*
Variable costs	(5,273.5)	(6,256.7)	(6,341.5)	(6,929.7)	(7,528.0)	(8,155.9)	(8,515.7)	(8,772.2)
Target 1	*(1,702.6)*	*(1,730.3)*	*(1,705.5)*	*(1,861.6)*	*(2,003.9)*	*(2,140.6)*	*(2,203.4)*	*(2,224.4)*
Target 2	*(3,570.9)*	*(4,526.5)*	*(4,635.9)*	*(5,068.1)*	*(5,524.2)*	*(6,015.4)*	*(6,312.3)*	*(6,547.8)*
Synergy				(59)	(700)	(1,054)	(1,762)	(2,045)
Fixed costs	(4,467.1)	(4,966.1)	(5,372.0)	(5,463.5)	(5,521.2)	(5,588.2)	(5,656.1)	(5,725.1)
Target 1	*(1,558.7)*	*(1,706.7)*	*(1,862.1)*	*(1,922.0)*	*(1,937.2)*	*(1,954.0)*	*(1,971.1)*	*(1,988.4)*
Target 2	*(2,908.4)*	*(3,259.3)*	*(3,509.9)*	*(3,541.5)*	*(3,584.0)*	*(3,634.2)*	*(3,685.1)*	*(3,736.7)*
Synergy				(330)	(265)	(166)	(150)	(134)
	25.4	(5.4)	-	-	-	-	-	-
Total operating expenses	(9,715.1)	(11,228.2)	(11,713.5)	(12,723.3)	(13,314.3)	(13,910.4)	(14,321.6)	(14,630.8)
Other income	538.6	718.7	463.7	-	-	-	-	-
Other costs	(155.0)	(360.9)	(149.6)	-	-	-	-	-
EBITDA	3,662.6	6,405.7	6,205.9	7,083.3	9,639.6	11,467.0	13,183.2	14,122.0
EBITDA margin %	*16.5%*	*22.0%*	*24.3%*	*24.9%*	*27.8%*	*29.4%*	*30.0%*	*30.5%*
Target 1	*1,505.3*	*2,739.7*	*2,513.4*	*3,053.9*	*3,341.9*	*3,546.3*	*3,510.7*	*3,507.1*
Target 2	*2,157.3*	*3,666.0*	*3,692.5*	*4,418.7*	*5,015.9*	*5,664.0*	*6,121.9*	*6,520.6*
Synergy				(389)	1,282	2,257	3,551	4,094
Depreciation & amortisation	(1,771.9)	(2,744.4)	(2,020.2)	(3,342.5)	(3,512.2)	(3,465.4)	(3,742.1)	(3,992.1)
Synergy				(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
EBIT	1,890.6	3,661.3	4,185.7	3,740.8	6,127.4	8,001.6	9,441.1	10,129.9
EBIT margin %	*8.5%*	*12.6%*	*16.4%*	*13.1%*	*17.7%*	*20.5%*	*21.5%*	*21.9%*
Net interest expense	(114.7)	(82.5)	(250.2)	(247.1)	(167.3)	(104.9)	(22.1)	(7.0)
EBT	1,776.0	3,578.8	3,935.5	3,493.6	5,960.0	7,896.8	9,419.1	10,122.9
Taxes	(378.1)	(659.0)	(881.4)	(845.9)	(1,474.8)	(1,796.6)	(2,215.2)	(2,408.8)
Target 1	*(177.5)*	*(329.8)*	*(376.7)*	*(477.4)*	*(577.4)*	*(703.6)*	*(701.2)*	*(703.2)*
Target 2	*(200.6)*	*(329.2)*	*(504.8)*	*(619.1)*	*(719.7)*	*(829.8)*	*(896.2)*	*(932.0)*
Synergy				251	(178)	(263)	(618)	(774)
Net income	1,397.9	2,919.8	3,054.0	2,647.8	4,485.2	6,100.2	7,203.8	7,714.1

Table 39 – Combo P&L statement with synergy, 2018-2024

Synergy combo BS - €'000	2017	2018	2019	2020	2021	2022	2023	2024
Tangible fixed assets	15,979.1	15,615.4	14,856.6	14,054.1	13,666.9	12,651.5	11,359.4	9,817.4
	-	-	-	4,000	3,000	2,000	1,000	-
Goodwill				37,200.7	37,200.7	37,200.7	37,200.7	37,200.7
Intangible fixed assets	20.3	30.3	28.0	31.1	33.1	35.1	35.9	36.8
Financial investment - Equity me	97.8	102.2	111.7	119.6	129.8	141.6	155.8	169.8
Financial investment - other	1.4	2.2	3.9	5.3	7.1	9.2	11.7	14.2
Other financial assets	51.4	53.3	53.3	53.3	53.3	53.3	53.3	53.3
DTA	34.8	4.7	4.7	5.2	5.5	5.8	6.0	6.1
Total LT assets	**16,184.9**	**15,808.0**	**15,058.1**	**55,469.3**	**54,096.4**	**52,097.3**	**49,822.9**	**47,298.2**
Inventory	3,735.9	4,368.0	5,051.1	5,401.5	5,783.0	6,238.1	6,551.8	6,834.0
Clients	5,226.0	6,907.5	5,974.9	6,665.7	7,196.5	7,759.9	8,095.5	8,378.5
Synergy				-	3,332	4,613	6,896	7,286
Advances to suppliers	23.4	136.6	177.5	186.6	196.6	210.6	223.2	236.8
State & other public entities	75.7	81.2	222.1	248.2	269.1	291.9	306.4	318.2
Other receivables	370.9	375.4	732.8	815.4	873.7	932.7	962.3	989.6
Deferrals	160.3	79.5	258.6	284.7	305.6	328.3	342.8	354.7
Suppliers	(2,112.3)	(2,869.3)	(1,793.2)	(1,911.6)	(2,032.1)	(2,172.3)	(2,264.7)	(2,344.4)
Synergy				-	(913)	(1,243)	(1,882)	(2,068)
Advances from clients	(32.6)	(33.5)	(32.6)	(32.6)	(32.6)	(32.6)	(32.6)	(32.6)
State & other public entities	(304.2)	(633.5)	(699.6)	(780.0)	(840.6)	(904.1)	(940.7)	(972.1)
Other payables	(3,065.6)	(915.0)	(1,618.1)	(1,736.9)	(1,861.5)	(2,001.8)	(2,087.0)	(2,154.7)
Deferrals	(87.9)	(28.5)	(28.5)	(28.5)	(28.5)	(28.5)	(28.5)	(28.5)
Working capital	**3,989.5**	**7,468.5**	**8,245.0**	**9,112.4**	**12,248.4**	**13,992.2**	**16,141.9**	**16,797.6**
LT debt	(9,697.2)	(8,807.0)	(8,796.4)	(7,407.0)	(4,911.3)	(1,321.5)	(421.2)	-
ST debt	(2,553.6)	(2,166.0)	(1,995.9)	(41.3)	-	-	-	-
DTL	(104.8)	(103.7)	(103.7)	(103.7)	(103.7)	(103.7)	(103.7)	(103.7)
Financial assets held for trading	27.6	37.6	37.6	37.6	37.6	37.6	37.6	37.6
Other current financial assets	-	-	-	-	-	-	-	-
Non-current assets held for sale	3.5	82.0	82.0	82.0	82.0	82.0	82.0	82.0
Cash	5,343.5	3,818.4	6,664.9	1,890.9	2,076.0	4,841.8	11,269.9	20,431.9
Net debt	**(6,981.1)**	**(7,138.8)**	**(4,111.5)**	**(5,541.5)**	**(2,819.4)**	**3,536.2**	**10,864.7**	**20,447.8**
Share capital	4,600.0	4,600.0	4,600.0	56,392.6	56,392.6	56,392.6	56,392.6	56,392.6
Other equity instruments	399.6	399.6	399.6	-	-	-	-	-
Legal reserves	1,691.3	1,961.3	1,961.3	-	-	-	-	-
Other reserves	3,546.6	3,937.9	3,937.9	-	-	-	-	-
Retained earnings	1,175.2	1,954.6	4,874.5	-	2,647.8	7,133.0	13,233.1	20,437.0
Revaluations	363.3	364.5	364.5	-	-	-	-	-
Other equity movements	19.1	-	-	-	-	-	-	-
Net income	1,398.1	2,919.9	3,054.0	2,647.8	4,485.2	6,100.2	7,203.8	7,714.1
Total equity	**13,193.3**	**16,137.8**	**19,191.8**	**59,040.3**	**63,525.6**	**69,625.7**	**76,829.5**	**84,543.7**

Table 40 – Combo balance sheet with synergy, 2018-2024

Synergy combo CFS - €'000		2018	2019	2020	2021	2022	2023	2024
EBITDA		6,405.7	6,205.9	7,083.3	9,639.6	11,467.0	13,183.2	14,122.0
Taxes		(659.0)	(881.4)	(845.9)	(1,474.8)	(1,796.6)	(2,215.2)	(2,408.8)
Capex		(2,367.6)	(1,270.3)	(6,552.9)	(2,139.3)	(1,466.3)	(1,467.7)	(1,467.4)
Δ in Working Capital		(3,479.0)	(776.5)	(867.4)	(3,136.0)	(1,743.7)	(2,149.7)	(655.7)
FCFF		(99.8)	3,277.7	(1,182.9)	2,889.4	6,460.4	7,350.6	9,590.2
Debt (repaid) / issued		(1,367.4)	(180.8)	(3,344.0)	(2,537.0)	(3,589.7)	(900.4)	(421.2)
Interest expense		(82.5)	(250.2)	(247.1)	(167.3)	(104.9)	(22.1)	(7.0)
Debt service		(1,449.9)	(431.0)	(3,591.1)	(2,704.4)	(3,694.6)	(922.4)	(428.2)
CF after debt service		(1,549.8)	2,846.6	(4,774.0)	185.0	2,765.8	6,428.1	9,162.0
Share capital		-	-	-	-	-	-	-
Other equity instruments		-	-	-	-	-	-	-
Legal reserves		269.9	-	-	-	-	-	-
Other reserves		391.3	-	-	-	-	-	-
Retained earnings		(618.7)	-	-	-	-	-	-
Revaluations		1.2	-	-	-	-	-	-
Other equity movements		(19.1)	-	-	-	-	-	-
Dividends paid - 50%		-	-					
		24.6	-	-	-	-	-	-
FCFE		(1,525.2)	2,846.6	(4,774.0)	185.0	2,765.8	6,428.1	9,162.0
Cash BoP		*5,343.5*	*3,818.3*	*6,664.9*	*1,890.9*	*2,076.0*	*4,841.8*	*11,269.9*
Cash EoP	*5,343*	*3,818.3*	*6,664.9*	*1,890.9*	*2,076.0*	*4,841.8*	*11,269.9*	*20,431.9*

Table 41 – Combo cash flow statement with synergy, 2018-2024

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