UNIVERSIDADE CATÓLICA PORTUGUESA

Company Valuation and Investment Case

Acerinox

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Católica Porto Business School

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by

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Under supervision of
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Abstract

This study aims to estimate the intrinsic equity value of Acerinox S.A. using a Discounted Cash Flow to the Firm approach. The valuation model covers the forecast period from 2025 to 2029, incorporating detailed assumptions on operational performance, capital expenditures, working capital needs, and macroeconomic conditions. Free Cash Flows to the Firm were discounted using a Weighted Average Cost of Capital (WACC) of 8.18%, calculated from a cost of equity of 10.93% and a cost of debt of 3.9%, with a target capital structure of 61% equity and 39% debt. A terminal growth rate of 2% was applied.

The model estimates an intrinsic value per share of €13,6. At the market price of €9.50 per share on December 31, 2024, this implies an upside potential of 44,4%. Additionally, the acquisition of Haynes International is estimated to add €1,4 per share to the valuation, increasing the standalone equity value from €12.20 to €13,6.

The study concludes with a BUY recommendation, supported by strong cash flow generation, the strategic integration of Haynes, and a solid capital structure that underpins Acerinox's ability to deliver long-term value.

Key-words: Company Valuation, Discounted Cash Flow, WACC

Word Count: 9919

Resumo

Este estudo visa estimar o intrínseco da Acerinox S.A. utilizando a abordagem de Fluxo de Caixa Descontado para a Empresa. O modelo de avaliação abrange o período previsto de 2025 a 2029, incorporando premissas detalhadas sobre desempenho operacional, despesas de capital, necessidades de capital de giro e condições macroeconômicas. Os Fluxos de Caixa Livres para a Empresa foram descontados utilizando um Custo Médio Ponderado de Capital de 8,18%, calculado a partir de um custo de capital próprio de 10,93% e um custo de dívida de 3,9%, com uma estrutura de capital alvo de 61% de capital próprio e 39% de dívida. Foi aplicada uma taxa de crescimento terminal de 2%.

O modelo estima um valor intrínseco por ação de € 13,6. Ao preço de mercado de € 9,50 por ação em 31 de dezembro de 2024, isso implica um potencial de valorização de 44,4%. Além disso, estima-se que a aquisição da Haynes International adicione € 1,4 por ação à avaliação, elevando o valor patrimonial individual de € 12,20 para € 13,6.

O estudo conclui com uma recomendação de COMPRA, apoiada pela forte geração de fluxo de caixa, pela integração estratégica da Haynes e por uma sólida estrutura de capital que sustenta a capacidade da Acerinox de gerar valor a longo prazo.

Palavras-chave: Avaliação de Empresas, Fluxo de Caixa Descontado, Custo de capital médio ponderado

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Introduction

Acerinox S.A., a global player in stainless steel and high-performance alloys, operates in a cyclical and capital-intensive industry shaped by raw material volatility, geopolitical shifts, and industrial demand cycles. Its global footprint and diversification strategy, including the acquisitions of VDM Metals and Haynes International, have enhanced its exposure to more resilient, higher-margin segments such as aerospace, energy, and advanced manufacturing.

The objective of this work is to estimate the intrinsic equity value of Acerinox through a Discounted Cash Flow valuation, supported by a detailed projection of operational performance and financial statements. The analysis also isolates the impact of the Haynes acquisition on shareholder value, offering a comprehensive view of its strategic relevance.

The theme is framed within the broader context of corporate valuation, where accurate cash flow forecasting, risk assessment, and capital structure assumptions are essential. This approach reflects established practices in corporate finance literature and supports a deeper understanding of value creation in cyclical industrial sectors.

The structure of this thesis is divided into seven main chapters. The first chapter presents the theoretical framework, focusing on the Discounted Cash Flow model and the Free Cash Flow to the Firm methodology. The second chapter provides an overview of the stainless steel and high-performance alloys industries in which Acerinox operates. The third chapter analyses the strategic positioning and financial performance of the company, including its recent acquisition of Haynes International. The fourth chapter describes the valuation methodology and data sources. Chapter five details the forecast assumptions

used to project the company's financial performance. In chapter six, the valuation results are presented and discussed, including a comparison between standalone and post-acquisition scenarios. Finally, chapter seven concludes with an investment recommendation based on the valuation findings.

1. Literature Review

Valuation is fundamental in finance, underpinning corporate decision-making, investment strategies, and market efficiency analyses (Damodaran, 2011). The dominant approaches include DCF models, which estimate intrinsic value based on expected future cash flows (Damodaran, 2006), and relative valuation, which derives value by comparing market multiples of similar assets (Lie & Lie, 2002). Additionally, option-based valuation, such as real options theory, accounts for managerial flexibility in investment decisions (Luehrman, 1997).

1.1 Discounted Cash Flow

This model values a company by discounting expected future cash flows to the present. DCF is particularly effective for firms with predictable cash flows and long-term growth prospects. Unlike relative valuation, which benchmarks against peers, this estimates intrinsic value based on cash flow generation alone (Koller, Goedhart, & Wessels, 2015).

To apply the DCF model, three essential variables must be defined: expected cash flows, terminal value, and the discount rate. The expected cash flows represent the forecasted financial performance of the company, derived from historical data, industry trends, and strategic planning. Since businesses are assumed to operate indefinitely, the second component, the terminal value (TV), is included to capture the value beyond the explicit forecast period. The most common approach to estimating terminal value is the Gordon Growth Model (GGM), which assumes a perpetual growth rate and is defined as:

$$TV = \frac{FCF_{n+1}}{r - g} \quad (1)$$

where g represents the expected long-term growth rate of cash flows, and r is the discount rate (Damodaran, 2006). Given that terminal value often constitutes a significant portion of total valuation, its estimation is a crucial factor in the accuracy of the model.

The third variable, the discount rate (r), adjusts future cash flows to their present value, accounting for risk and the time value of money. Represents the opportunity cost of employed capital. It is typically determined using the WACC when valuing the entire firm, or the Cost of Equity (Re) when assessing equity value alone (Penman, 2013).

The general DCF valuation equation is expressed as:

$$Value = \sum_{t=1}^{n} \frac{FCF_t}{(1+r)^t} + \frac{TV}{(1+r)^n} \quad (2)$$

where n represents the final year of the explicit forecast period.

The effectiveness of this method depends on the accuracy of cash flow projections, terminal value assumptions, and the appropriateness of the discount rate. Despite its advantages in determining intrinsic value, the model is highly sensitive to input variables, necessitating careful estimation and scenario analysis to mitigate forecasting errors (Koller et al., 2015).

There is a broad set of discounted cash flow (DCF) models, which differ primarily in their valuation focus and the treatment of financing-investing interaction. First, regarding the valuation focus, models can either estimate the enterprise value or the equity value of a firm. In the enterprise value category, we include the Free Cash Flow to the Firm (FCFF), Capital Cash Flow (CCF), Adjusted Present Value (APV), and Capital APV (CAPV) models. In contrast,

models such as the Free Cash Flow to Equity (FCFE) are designed to estimate the equity value directly.

Secondly, these models also differ in how they handle the interaction between financing and investing decisions. Some models assume these two dimensions are independent, such as FCFF, which treats financing as a separate layer and assumes a target capital structure. Others explicitly incorporate this interaction, capturing how financing decisions impact investment outcomes. This group includes the CCF, CAPV, and FCFE models, where changes in financing affect the valuation directly.

Understanding these distinctions is essential when selecting the appropriate DCF model, as they shape both the interpretation of value and the flexibility to reflect the firm's financial dynamics (Damodaran, 2006).

1.1.1 Free Cash Flow to Firm

The most used DCF model in corporate finance is the FCFF, which targets the valuation of the enterprise value. In this approach, financing choices are reflected solely through the discount rate, not the cash flow projections.

This model calculates the cash available to all capital providers—both debt and equity holders—after covering operational expenses, taxes, and necessary reinvestments. It is particularly appropriate for firms with stable leverage structures where the proportion of debt and equity financing remains relatively constant (Damodaran, 2011). It is commonly used in investment banking, project finance, and M&A transactions, where valuing the entire firm rather than just the equity component is essential.

The FCFF is calculated as:

$$FCFF = EBIT(1-t) + Depreciation - Capex - \Delta Net\ Working\ Capital \quad (3)$$

The FCFF represents the cash generated by a company's core operations that is available to all capital providers before any payments to debt or equity holders

are made. By focusing exclusively on the firm's operating performance, this approach isolates the value creation capacity of the business itself, regardless of how it is financed. This makes it particularly useful for comparing companies across different capital structures and industries.

As this model accounts for the value generated for all sources of capital, the discount rate must represent the required return by both equity and debt holders. For this reason, the Weighted Average Cost of Capital (WACC) is adopted as the discount rate since it reflects both the cost and the relative weight of each source of capital—equity and debt—in the firm's overall capital structure.

$$WACC = We * Re + Wd * Rd(1 - t) \tag{4}$$

Thus, the enterprise value is:

$$Value = \sum_{t=1}^{n} \frac{CF_t}{(1 + WACC)^t} + \frac{TV}{(1 + WACC)^n} \tag{5}$$

1.2 Relative Valuation

Relative valuation is a widely used method in financial analysis that assesses a company's worth by comparing it to similar firms in the market. This valuation relies on market-based multiples to determine whether a company is overvalued or undervalued. This approach is particularly popular among investment bankers and analysts due to its simplicity and ability to reflect current market conditions (Damodaran, 2012).

The process begins with selecting a peer group of comparable firms. The chosen companies should operate within the same industry and exhibit similar risk profiles, growth potential, and cash flow characteristics. However, finding a

perfect comparable is challenging, leading analysts to consider additional factors such as earnings per share, return on equity, and beta coefficients.

The next step involves choosing the appropriate valuation multiples. The most used metrics include the Price-to-Earnings (P/E) ratio and Enterprise Value to EBITDA (EV/EBITDA). P/E ratios provide insights into how much investors are willing to pay for each unit of earnings, EV/EBITDA multiples offer a more comprehensive measure that accounts for a firm's capital structure. Empirical studies suggest that EV multiples, particularly those based on EBITDA, tend to be more reliable than P/E ratios, as they are less sensitive to variations in leverage (Liu, Nissim & Thomas, 2002).

Despite its advantages, relative valuation has limitations. It assumes that market prices correctly reflect fundamental values, which may not always be the case during periods of market inefficiency. Furthermore, selecting an appropriate peer group remains a subjective process that can introduce bias into valuation estimates.

2. Industry Overview

2.1 Stainless-Steel

The global stainless-steel industry operates in a complex environment shaped by economic shifts, policy changes, and raw material price fluctuations. As a critical material for modern infrastructure, its demand is tied to industrialization and urbanization. However, market volatility persists due to geopolitical tensions, energy costs, and trade policies.

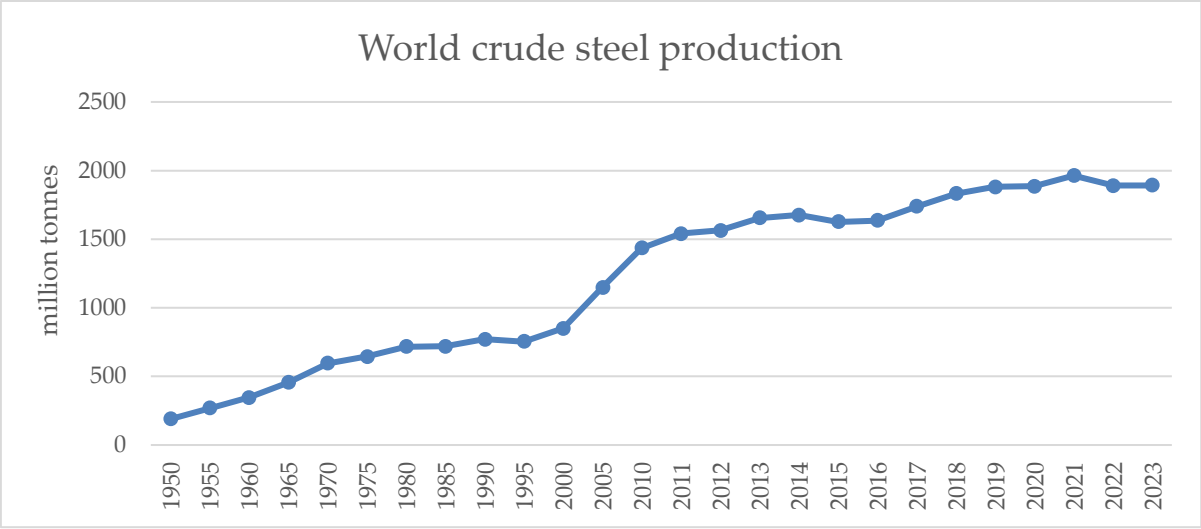

Figure 1-World crude steel production. Source: World Steel Association

Over the past decade, global stainless-steel production has grown steadily, averaging 5% annually. Between 2016 and 2021, rapid industrial expansion, renewable energy demand, and urbanization fuelled consumption. Growth slowed in 2022-2023 due to economic uncertainties, high interest rates, and weaker demand in Western markets. Despite this, future expansion is expected, driven by infrastructure investments and sustainability initiatives.

Asia leads the industry, with China as the dominant producer and consumer. India and Indonesia are expanding capacity, while Japan and South Korea

maintain strong positions through advanced technology and high-quality production.

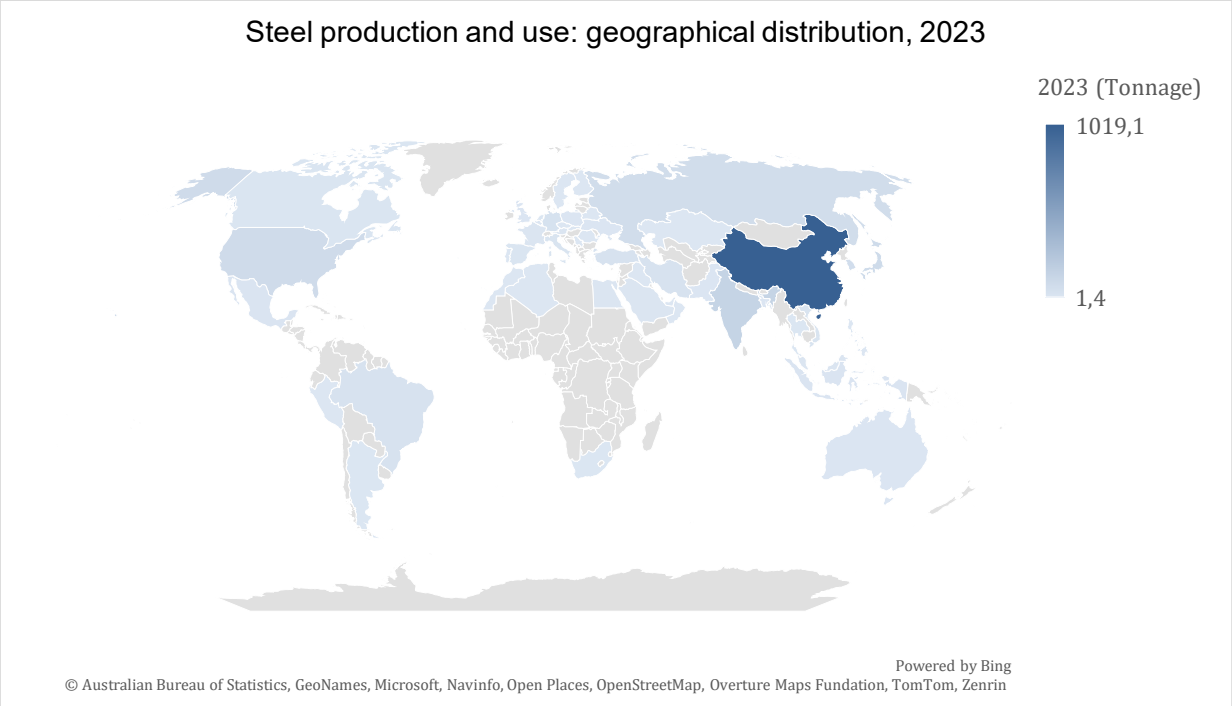

Figure 2-Steel production and use, geographical distribution, 2023. Source: World Steel Association

In Europe, Germany, Italy, and Spain are key consumers and producers. European focus on high-performance alloys and sustainable production, often catering to specialized industries such as aerospace, renewable energy, and medical applications. However, the region faces significant challenges, including rising energy costs, import competition from low-cost Asian producers, and regulatory shifts promoting decarbonization. The European Union has implemented protective measures, such as anti-dumping tariffs on Asian imports, to mitigate the impact of lower-priced imports, but long-term competitiveness remains uncertain.

North America, led by the US, remains a critical but insulated market due to protective tariffs. Demand is primarily driven by the construction, automotive, and renewable energy sectors. Meanwhile, emerging regions such as the Middle East, Africa, and Latin America are seeing increasing demand, but local

production limitations and economic instability make them reliant on imports, particularly from China and India.

The volatility of this market is primarily driven by fluctuations in raw material prices, particularly nickel, chromium, and molybdenum. Nickel, which constitutes a significant portion of the production costs, is especially sensitive to supply chain disruptions, regulatory changes, and speculative trading. Additionally, geopolitical factors, such as tensions in resource-rich regions, further contribute to uncertainty. The industry has also experienced historical cycles of expansion and contraction, often mirroring global economic conditions. Since 2000, production has increased significantly, but periods of sharp price volatility have repeatedly disrupted stability, particularly during economic downturns and trade conflicts. Prices have fluctuated widely, with nickel, for example, experiencing price swings of over 200% in some instances, affecting overall the costs and profitability.

Looking forward, several key factors will define the future trajectory of the stainless-steel market. Demand recovery in Europe and North America is expected in the coming years, particularly as inventory levels stabilize and infrastructure investments regain momentum. Simultaneously, India and Southeast Asia are projected to become the fastest-growing regions, driven by industrial expansion and government-backed infrastructure projects. Sustainability is a major focus, with manufacturers shifting to low-carbon production, circular economy practices, and hydrogen-based steelmaking. Many aim to raise recycled content above 90%, reducing reliance on virgin materials and cutting emissions.

Despite these growth drivers, challenges remain, including trade policy shifts, supply chain risks, and persistent raw material price instability.

2.2 High-performance alloys (HPA)

The HPA market has steadily grown due to its essential applications in industries requiring high-strength, corrosion-resistant materials. This industry is relatively more stable due to its focus on specialized, high-value applications. These alloys, including nickel- and cobalt-based materials, are critical for aerospace, defence, energy, and chemical processing industries that demand extreme mechanical properties and durability.

Historically, demand has been driven by the aerospace, automotive, and energy sectors, with increased adoption in medical and industrial applications. High-performance alloys have a longer production cycle and higher material costs compared to stainless steel, with nickel alone representing up to 50% of total production costs for certain alloys. This necessitates long-term material purchasing strategies and hedging mechanisms to counter price volatility. Furthermore, the market benefits from long-term contracts and stringent certification requirements, making it less susceptible to short-term economic fluctuations.

Market projections indicate continued expansion, fuelled by advancements in manufacturing techniques, such as additive manufacturing and the rising need for sustainable energy solutions. The future of the HPA market will likely be shaped by technological innovation, geopolitical shifts affecting raw material supply, and increasing regulatory demands in high-performance applications.

2.3 Players

2023	Acerinox	Allegheny Technologies Incorporated	Outokumpu Oyj	Aperam SA
Revenue (Turnover)	6 607 978	4 173 700	6 916 000	6 592 000
Invested Capital	4 598 013	3 751 794	4 203 000	3 860 000
EBITDA	701 490	736 398	416 000	293 000

Table 1 -Peer Comparison of Key Financial Metrics. Source: Companies annual reports

Acerinox competes with industry leaders like Outokumpu, Aperam, and ATI, each excelling in stainless steel and high-performance alloys. Outokumpu dominates Europe and North America, Aperam focuses on efficiency and specialty alloys, while ATI leads in aerospace and defence materials. Other key rivals include Jindal Stainless in India and POSCO Stainless Steel in Asia. Despite intense competition, Acerinox strengthens its position through innovation and strategic expansion.

3. Company Overview: Acerinox S.A.

Founded in Spain in 1970, Acerinox S.A. has grown into a global leader in stainless-steel and high-performance alloys, emphasizing technological innovation, operational efficiency, and international expansion. The company has strategically expanded its production capabilities across multiple continents, becoming a key supplier for industries such as automotive, construction, aerospace, and energy.

3.1 Global Expansion and Market Presence

Acerinox's international expansion has been instrumental in establishing its position as one of the world's leading stainless-steel producers. The company began its industrial journey with Acerinox Europa in Spain, laying the groundwork for its operational excellence and production capabilities. A major milestone came in 1990 with the creation of North American Stainless (NAS) in Kentucky, USA. This investment not only marked its entry into one of the largest and competitive stainless-steel markets but also allowed the company to secure a dominant position in North America.

The company continued to diversify its geographical footprint with the acquisition of Columbus Stainless in South Africa in 2002. This move gave a strategic presence on the African continent and enhanced its exposure to emerging markets with high growth potential. In 2011, the group expanded into Asia through Bahru Stainless in Malaysia. Although the plant ceased operations in 2024 due to a shift in strategic priorities, the venture represented an important phase in its efforts to access the fast-growing Asian market.

In 2020, Acerinox made a significant leap into the high-performance alloys sector by acquiring VDM Metals. This acquisition allowed the company to diversify beyond stainless-steel and enter technologically advanced sectors such as aerospace, chemical processing, and renewable energy. Further strengthening its leadership in this segment, Acerinox acquired Haynes International in 2024 for $970 million, consolidating its footprint in the North American market and enhancing its product offering in high-performance materials.

Today, Acerinox operates production facilities across four continents and maintains a commercial presence in over 80 countries. This global reach provides the company with geographic diversification, access to key markets, and resilience against regional economic fluctuations, making international expansion a cornerstone of its long-term value creation strategy.

3.2 Business Segments and Product Portfolio

Acerinox operates across a diverse range of industries, with its primary markets being automotive, aerospace, construction, and energy. The automotive and aerospace sectors are particularly important, driving strong demand for advanced stainless steel and high-performance alloys due to their stringent technical requirements. The energy sector—especially renewables and nuclear applications—presents a significant growth opportunity, aligning with global decarbonization efforts and the shift toward cleaner energy sources. Meanwhile, the construction and infrastructure segment remains a consistent driver of demand, underpinned by global urbanization and large-scale public works.

The company's operations are structured into two main divisions: stainless steel and high-performance alloys. This dual focus enables Acerinox to meet a

wide spectrum of customer needs, from standard applications to highly specialized industrial uses.

3.3 Financial Performance

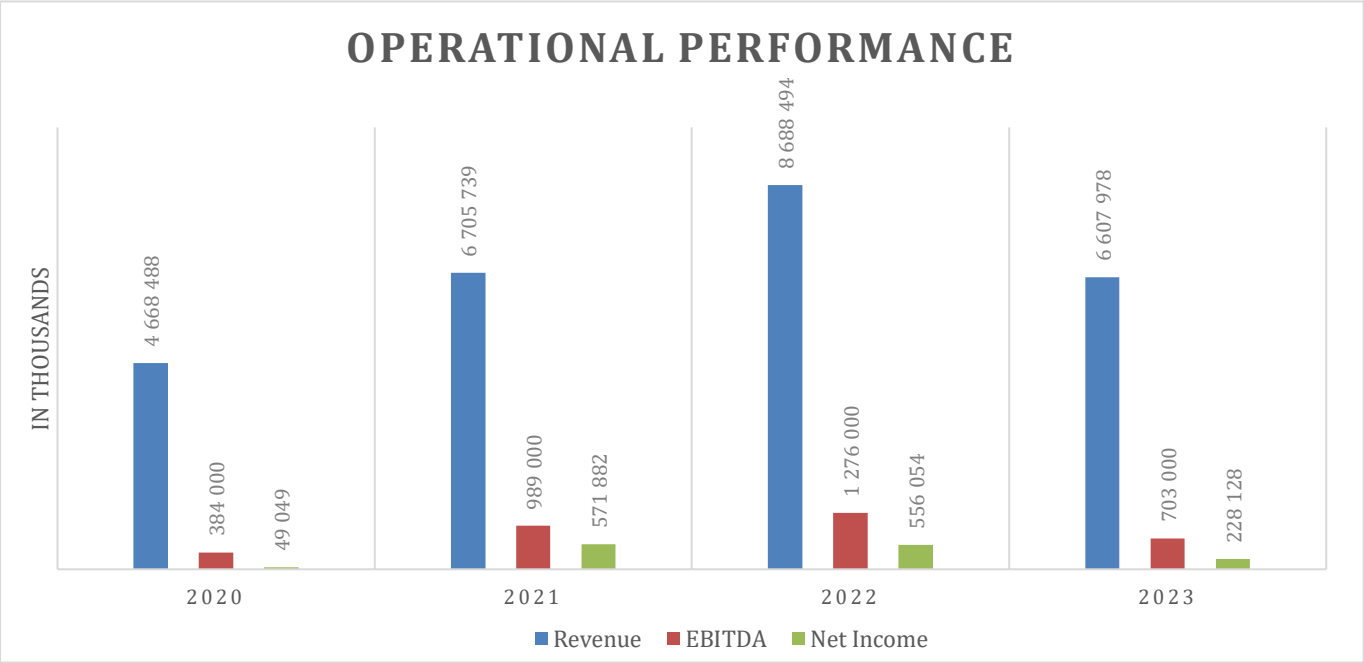

Figure 3-Operational Performance (2020-2023). Source: Acerinox annual report

The figure 3 illustrates the annual evolution of Acerinox's revenue, EBITDA, and Net Income. Revenue has remained relatively stable, while EBITDA and Net Income display more pronounced fluctuations, particularly a sharp decline in the most recent year. This indicates a compression of margins and profitability despite steady top-line performance, driven by the deterioration of global stainless-steel demand and falling alloy surcharges. The divergence between revenue stability and profit contraction highlights the company's exposure to cyclical pressures in the stainless-steel industry.

	2020	2021	2022	2023
Debt	1 689 357	1 853 149	1 988 524	2 134 887
Cash equivalents	917118	1274929	1548040	1793683
Net debt	772 239	578 220	440 484	341 204
Net debt/EBITDA	2,01	0,58	0,34	0,48

Table 2- Evolution of Acerinox's Net Debt and Leverage. Source: Acerinox annual report

Between 2020 and 2023, Acerinox demonstrated a clear improvement in its capital structure. Despite a gradual increase in gross debt, the company significantly boosted its cash reserves, which led to a steady decline in net debt from €772 million in 2020 to €341 million in 2023. This trend reflects efficient cash management and robust operating performance. Most notably, the Net Debt/EBITDA ratio dropped from 2.01x in 2020 to 0.49x in 2023, indicating a considerable reduction in financial leverage and a stronger capacity to cover its liabilities through operating earnings.

3.4 ESG

Acerinox integrates sustainability into its operations through its "Positive Impact 360º" strategy, which addresses environmental performance, circular economy, and ethical governance. The company has set clear targets for emissions, energy, and waste reduction, and part of its leadership incentives to meet these goals. It also adheres to the EU Taxonomy, reflecting a commitment to regulatory compliance and long-term value creation.

These efforts reflect not only compliance but also a proactive approach to decarbonization and sustainable production—key factors for long-term competitiveness and investor confidence in an increasingly regulated and sustainability-conscious environment.

3.5 Challenges

Despite its strong market position, Acerinox faces several structural challenges. Key among them is the volatility of raw material prices—especially nickel, chromium, and molybdenum—which impacts production costs and profit margins. Geopolitical tensions, trade barriers, and regulatory shifts further disrupt global supply chains and add uncertainty. The company also contends with increasing competition from low-cost Asian producers in commodity-grade stainless steel, putting pressure on prices. Lastly, tightening environmental regulations demand significant investment in decarbonization and efficiency, straining margins and capital allocation in the near term.

3.6 Acquisition of Haynes International

3.6.1 About Haynes

Haynes International, Inc. is a leading developer and manufacturer of high-performance alloys primarily based on nickel and cobalt, headquartered in Kokomo, Indiana. With over a century of experience, the company is known for producing advanced materials that offer superior resistance to extreme conditions, catering to industries such as aerospace, power generation, and chemical processing. Central to Haynes' success is its integrated manufacturing and distribution network, which upholds high quality and production efficiency. The company derives approximately 59% of its revenue from proprietary alloys, highlighting its strong emphasis on research and development. In fiscal year 2023, Haynes reported an EBITDA of around $100 million and total revenue exceeding $490 million, with a gross margin of 21.7%. Its strategic financial management has reduced its breakeven point by 25% and improved cash flow.

Haynes is also committed to sustainability, ensuring its innovations contribute to more efficient and environmentally responsible industrial processes. With a legacy of innovation and adaptability, Haynes remains a key player in the high-performance alloys industry, focused on long-term growth and value creation.

3.6.2 Strategic Rationale Behind the Acquisition

Acerinox's acquisition of Haynes International marks a strategic step toward reinforcing its presence in the high-performance alloys sector, diversifying its product offering, and consolidating its position in the U.S. market.

A central rationale for the acquisition is the resilience of the high-performance alloys market, which contrasts with the volatility typical of stainless steel. Through this acquisition, Acerinox expands its technological expertise, product portfolio, and client network, reinforcing its competitive edge globally.

The operation also strengthens Acerinox's presence in the United States, its most stable regional market. In contrast to Europe, where falling prices and sluggish demand have created challenges, the U.S. market has shown resilience. Haynes generates 58% of its sales domestically, providing Acerinox with a firmer base in a critical industrial region.

Financially, Haynes contributed $590 million in revenue in 2023, equivalent to 9% of Acerinox's consolidated turnover. The acquisition enhances both the revenue scale and the profitability of Acerinox's high-performance alloys division. Moreover, integrating Haynes with VDM Metals, Acerinox's existing specialty alloys unit, is expected to yield synergies and reinforce its global leadership in this niche.

3.6.3 Expected Synergies and Cost Savings

This acquisition is expected to generate significant synergies, enhancing cost efficiencies and revenue expansion. Acerinox has projected synergies of

approximately $71 million, with 64% of these deriving from cost reductions and 36% from revenue growth.

These synergies are expected to be gradually realized, with significant progress by 2027 and full integration by 2030. The long-term impact of these efficiencies will enhance Acerinox's profitability, improve its competitive positioning, and create sustainable growth opportunities in the high-performance alloys market.

4. Methodology

4.1 Valuation model

The discounted FCFF method was chosen to evaluate Acerinox, as it is widely recognized as the most robust approach for determining a company's intrinsic value (Damodaran, 2011). This model captures Acerinox's true value creation potential by considering future cash flows before the effects of capital structure, ensuring an assessment independent of financing decisions (Koller, Goedhart & Wessels, 2015). Additionally, the steel industry is characterized by economic cycles and commodity price volatility, making it essential to use a method that integrates detailed projections of revenue, costs, and investments (Steiger, 2010). The DCFF is also preferred for industrial companies due to its ability to reflect the impact of factors such as operational efficiency, CAPEX investments, and working capital variations, providing a more accurate and well-founded valuation estimate (Fernández, 2004).

To accurately construct the valuation model, it is essential to forecast the company's financial statements. Given the strategic importance of the 2024 acquisition of Haynes International, the chosen approach was to estimate the

financial statements of Acerinox and Haynes separately. This method enables greater transparency and precision when projecting the standalone performance of each entity. Once both sets of financials were forecasted, they were consolidated. These adjustments, along with the assumptions behind them, will be detailed in the next sections.

4.2 Data Collection

This valuation relies on reliable, publicly available financial data. The primary sources include Acerinox's Annual Reports, Interim Financial Statements, and Quarterly Earnings Reports, which offer insights into the company's financial performance, strategic direction, and prevailing market conditions. Complementary data from Refinitiv and Yahoo Finance provided stock performance indicators, valuation multiples, and industry benchmarks. Additionally, investor presentations and corporate press releases were used to assess recent acquisitions and international expansion initiatives. By integrating internal disclosures with independent financial data, this valuation ensures both accuracy and a comprehensive assessment of Acerinox's financial position and market standing.

5. Forecast Assumptions

Acerinox reveals a strong capacity for adaptation and resilience in the face of adverse market conditions. Throughout its history, the Group has successfully navigated significant disruptions, demonstrating operational flexibility and strategic focus.

In line with its strategy, Acerinox recently acquired Haynes, strengthening its position in the HPA segment. The acquisition supports the Group's strategy to focus on value-added products and increase exposure to premium sectors.

Looking ahead, the stainless-steel market is expected to stabilize before entering a phase of expansion. Simultaneously, the high-performance alloys segment is projected to continue its current growth trajectory. As a result, supported by strategic investments, Acerinox is well-positioned to capture value across both divisions, leading to a projected long-term increase in revenues.

However, a significant risk to margins remains the volatility of raw material prices —particularly nickel, which is currently trading at relatively low levels but has historically exhibited high cyclicality. As such, an eventual increase in nickel prices is likely to lead to a rise in the cost of goods sold, partially offsetting top-line growth.

The debt levels are expected to increase due to the investments in Haynes. Nevertheless, Acerinox has consistently maintained prudent financial discipline, using the net debt-to-EBITDA ratio as a key metric. Although leverage is projected to increase in the short term, it is expected to remain below 1.0x in the long term.

Overall, the company is entering a transition phase, moving from stabilization to gradual growth, driven by a strategic shift toward more stable, high-margin segments that support a more resilient and sustainable long-term outlook.

5.1 Acerinox Assumptions

5.1.1Revenue

Given Acerinox's diverse geographical presence and operational structure, the revenue forecast was segmented both by region (Europe, US, Asia and Africa)

and by business division (stainless-steel and HPA). This segmentation provides a more accurate representation of the company's revenue drivers, accounting for macroeconomic conditions and market-specific dynamics.

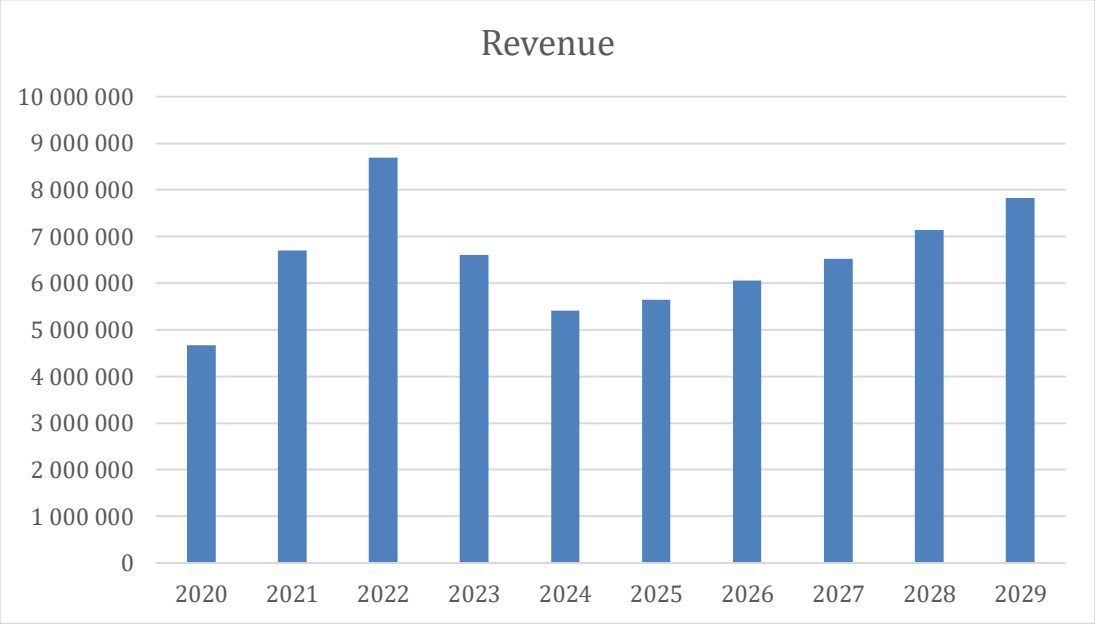

Figure 4-Acerinox revenue. Source: Annual reports and author´s model

5.1.1.1Europe

The stainless-steel market in Europe is currently experiencing challenges due to macroeconomic uncertainties, high energy costs, and weak industrial demand. However, a gradual recovery is expected, driven by infrastructure projects and increasing industrial activity. Consequently, the revenue projections are:

- 2024-2025: 3% growth (stabilization phase amid slow economic recovery and reduced industrial activity).
- 2026-2027: 5% growth (beginning of market recovery as demand for steel products picks up).
- 2028-2029: 10% growth (full recovery phase driven by increasing industrial production, automotive sector rebound, and EU-funded infrastructure projects).

The HPA segment is more stable and benefits from increased demand in high-value applications, particularly in the aerospace, medical technology, and

renewable energy industries. The HPA market has been expanding at a faster pace than traditional steel due to its critical role in high-tech and energy-efficient applications. The forecasted growth rates are:

- 2024-2025: 2% (steady demand from core industries such as aerospace and energy sector advancements).
- 2026-2028: 9% (sustained expansion driven by technological advancements and broader adoption in emerging applications).
- 2029: 7% (stabilization)

While the HPA market is experiencing structural growth, the pace may be slightly moderated due to technological adaptation cycles and competitive pressures. However, Acerinox's continued investment in VDM Metals strengthens its position, enhancing production capabilities and broadening market reach.

5.1.1.2 United States of America

The stainless-steel market in the US has remained relatively stable compared to Europe, avoiding significant downturns. However, growth remains moderate due to steady demand across the industrial, construction, and automotive sectors. Given these conditions, the revenue projections assume:

- 2024-2025: 3% (stabilization period reflecting sustained but measured demand growth).
- 2026-2027: 8% (expansion phase driven by increased infrastructure spending and industrial activity).
- 2028: 7% (reflecting the continuation of infrastructure-led demand and sustained investment in energy and transportation sectors)
- 2029: 6% (reflecting the stabilization of market growth following the post-expansion momentum)

Unlike Europe, the US market did not experience a sharp decline, which limits the potential for a strong rebound.

For the HPA segment, demand has been rising significantly, driven by growth in aerospace, defence, construction, and renewable energy markets. The forecasted growth rate for HPAs in the U.S. is 15%, driven by strong industry expansion. This trend is further reinforced by the growing demand for high-performance alloys in key sectors that require lightweight, corrosion-resistant materials to enhance efficiency and durability. Given Acerinox's expertise and production capacity, the company is well-positioned to capitalize on this expanding market.

5.1.1.3 Asia

The stainless-steel sales in Asia are expected to contract in the short term due to Acerinox's decision to sell its manufacturing facility in the region, leading to a -7% decline in revenue until 2027. This contraction reflects reduced production capacity and an inability to compete with the highly competitive pricing strategies of Chinese and Indonesian producers. As a result, Acerinox has shifted its approach, continuing to serve the Asian market through exports rather than local manufacturing.

Following this decline, the revenue is projected to stabilize, with growth flattening out from 2028 onward, as the company adapts its distribution model and maintains its customer base through alternative supply channels.

In contrast, the HPA segment in Asia is expected to grow at a steady pace, supported by ongoing industrial advancements and demand for specialized materials. The forecasted growth rate in the region is 1% annually, reflecting a more stable trajectory compared to stainless-steel. This growth is supported by demand from industries such as electronics, aerospace, and renewable energy,

which continue to require high-performance materials despite the broader stainless steel market challenges.

5.1.1.4 Africa

The stainless-steel market in Africa is projected to experience a modest growth of 1% annually, driven by gradual infrastructure development, urbanization, and increased industrial activities. Despite logistical and cost-related challenges, demand remains stable, particularly in the construction and transportation sectors.

For the HPA segment, demand is expected to grow at a higher rate of 3% annually, supported by expansion in energy, mining, and industrial manufacturing. Africa's growing investments in renewable energy projects and extraction industries continue to drive the need for corrosion-resistant and high-strength alloys, positioning Acerinox favourably to benefit from these developments.

Additionally, Acerinox maintains a strong presence in Africa through its facility in South Africa, which serves as a key supplier for the domestic and continental markets. This location provides a competitive advantage in distribution and access to raw materials, further supporting Acerinox's ability to meet demand in the region.

5.1.2 Cost of goods sold

Historically, COGS represented 65–70% of revenue, largely due to raw material costs. Nickel, which makes up 50% of raw material expenses, is the most volatile component. Other materials, such as chromium and molybdenum, also impact costs but to a lesser extent. Both segment divisions face fluctuations in raw material prices, but their responses differ. Stainless-steel production is heavily influenced by nickel prices, leading Acerinox to use an alloy surcharge

mechanism to pass cost differences to customers. This approach works effectively in North America and Africa but import pressures in Europe and Asia reduce its effectiveness, requiring more competitive pricing strategies.

In contrast, the HPA division relies on specialized metals such as titanium, cobalt, and nickel-based superalloys, which are less volatile but more expensive. Since pricing in this segment is often fixed through long-term contracts, Acerinox mitigates cost volatility using futures contracts and hedging strategies, ensuring price stability and reducing financial risk. Additionally, Acerinox recycles over 90% of its raw materials, lowering its dependency on virgin resources and contributing to cost stabilization. This approach supports long-term cost control and enhances sustainability.

Given the cyclical nature of nickel prices, which are currently at a low point and expected to rise, the projected COGS percentage reflects a gradual increase over time. Starting at 67% of revenue in 2025 and rising to 72% by 2029, this forecast aligns with historical trends while accounting for anticipated increases in costs. In the long run, COGS is expected to stabilize at around 72% of revenue, consistent with the upper bound of the historical range.

5.1.3 Staff Costs

Historically, staff costs represented 7-10% of revenue, fluctuating based on operational efficiency and workforce structure. For the forecast, it was assumed that staff costs would initially decrease in absolute terms in 2025 due to the sale of the Malaysian facility, leading to a reduced workforce and lower overall expenses. However, as operations expand, absolute staff costs are expected to increase over time.

Although total staff costs rise, their proportion relative to revenue is projected to decline, as revenue is expected to grow at a higher rate. The forecast assumes

that staff costs will represent 9.5% of revenue in 2025, decreasing to 8.0% by 2029, reflecting efficiency improvements and economies of scale. This assumption aligns with the expectation that Acerinox will optimize workforce allocation while benefiting from increased operational productivity.

5.1.4 Other Operating Expenses

Other operating expenses have historically represented 13-14% of revenue, reflecting costs associated with logistics, maintenance, administrative expenses, and other indirect costs. Given the stability of these expenses as a percentage of revenue over time, the forecast assumes that they will continue to follow this trend. Thus, these were projected at 13% of revenue across the forecast period, maintaining consistency with historical performance.

5.1.5 Capex and Amortization/Depreciations

The capital expenditures (CapEx) forecast is composed of investments allocated to different asset categories, including property, plant, and equipment (PPE), rights-of-use assets, investment property, and other intangible assets. Each of these asset types follows distinct depreciation and amortization schedules, impacting future expense projections.

A baseline annual maintenance Capex of EUR 175 million was assumed to ensure the upkeep of Acerinox's existing production capacity and facilities. In addition to this, the forecast incorporates strategic investment projects planned by the company.

Some of the key investments included in the CapEx forecast are:

North American Stainless: A USD 244 million investment (2024-2025) to expand the melting shop, cold rolling mill, and annealing/pickling lines.

VDM Metals: EUR 67 million allocated to expand HPA production

Acerinox Europa: EUR 39 million dedicated to production capacity.

Columbus Stainless: EUR 21.2 million for infrastructure upgrades.

Beyond Excellence Plan (2024-2026): EUR 100 million in EBITDA improvements

Depreciation and amortization are projected based on historical rates, with each asset category having a distinct amortization percentage. The forecast assumes that new investments will follow the depreciation trends observed in past years, ensuring consistency in the valuation model.

In the final year of the forecast, CapEx is assumed to be equal to depreciation and amortization, reflecting the company's transition into a steady-state phase. This assumption ensures that the company is maintaining its existing asset base without further expansion, aligning with the long-term stability of operations.

5.1.6 Working Capital

5.1.6.1 Inventory

Historically, inventories have ranged between 24-28% of revenue, but the company has faced significant challenges in managing stock levels due to market conditions. Given the destocking phase initiated in late 2022 and extended throughout 2023, Acerinox reduced its inventory to historically low levels to optimize working capital. This adjustment was driven by excess inventory in the supply chain and reduced demand, which kept inventory pressure high.

For the forecast, it was assumed that inventory as a percentage of revenue will decline over time as supply chain normalization occurs. In 2025, inventory is projected at 30% of revenue, reflecting a higher percentage due to lower revenue. As revenue recovers, inventory levels will gradually decrease as a percentage of

revenue, reaching 23% by the end of the forecast period, aligning with historical trends while maintaining operational efficiency.

5.1.6.2 Receivables

Accounts receivable have fluctuated between 7-13% of revenue, making it difficult to predict based solely on revenue percentages. Therefore, the forecast was based on the average Days Sales Outstanding (DSO) of 39 days, reflecting past collection efficiency trends. This assumption considers Acerinox's credit policies, factoring use, and market conditions.

In recent years, the company's DSO increased from 24 days in 2022 to 31 days in 2023, indicating a slowdown in customer payments. Given ongoing market uncertainties and supply chain adjustments, assuming a 39-day average DSO provides a conservative yet realistic estimate, aligning with historical variations while accounting for potential collection delays. Additionally, Acerinox mitigates credit risk through credit insurance covering 53% of net sales and factoring agreements that improve cash flow predictability.

5.1.6.3 Payables

Historically, accounts payable have ranged between 63-73 Days Payable Outstanding (DPO), with a clear trend of decreasing over time. Given this trend, the forecast assumes a DPO range of 66-58 days, reflecting a continued but controlled decline in supplier payment periods.

The decision to forecast using DPO is justified by the structured nature of supplier agreements, which are more closely tied to procurement cycles and raw material costs rather than revenue fluctuations. Additionally, Acerinox's supplier relationships and contractual obligations provide stability in payment

terms, making a DPO-based approach more appropriate for projecting working capital movements.

5.1.6.4 Cash and Cash Equivalents

The forecast for cash and cash equivalents follows the approach used in Acerinox's cash flow statement, ensuring a realistic representation of liquidity movements. The calculation is as follows:

$$Cash_{t+1} = Cash_t + Operating\ CF - CapEx - Debt\ Payment - Dividens - Interest\ Payments + Interest\ Income + New\ Debt \quad (6)$$

This method incorporates the operating cash flow generated, adjusted for CapEx, financing activities, and shareholder distributions. Given Acerinox's financial stability and strong liquidity position, this approach ensures that cash levels reflect actual business operations, considering the ability to generate free cash flow and manage debt effectively.

5.1.7 Debt

Acerinox has historically followed a structured approach to debt management, consistently renewing a portion of its maturing debt to maintain a stable liquidity position. The company ensures that its leverage remains at sustainable levels, with a strong focus on maintaining a healthy Net Debt/EBITDA ratio.

The debt forecast follows the equation:

$$Debt_{t+1} = Debt_t + New\ Debt\ Issued - Debt\ repayments \quad (7)$$

The company has a consistent policy of ensuring that cash reserves and liquidity levels are sufficient to support debt servicing and investment plans. Given this approach, the forecast incorporates scheduled amortizations based on past repayment structures while also considering debt renewals to align with

historical refinancing patterns. The objective was to ensure that the company's liquidity position remained strong enough to allow for strategic flexibility in debt repayment while maintaining operational and financial efficiency.

One key assumption is that at least 60% of CapEx would be financed through new debt issuances. This reflects the company's historical reliance on a mix of internal cash flow and external borrowing to fund investments, ensuring that expansion and modernization efforts are not constrained by cash limitations.

To further strengthen financial stability, the forecast assumes a gradual shift from short-term debt to long-term debt, reducing refinancing risks and mitigating the potential impact of interest rate fluctuations or liquidity crises. In 2025, short-term debt accounts for 46% of total debt, progressively declining to 30% by the end of the forecast period. This strategic shift ensures that Acerinox is less exposed to short-term financing volatility while benefiting from more predictable and stable debt servicing costs.

5.1.8 Financial Expenses

The financial expenses projection assumes that the cost of debt will remain at 5%. This rate reflects the most recent financing conditions of the company, which have been slightly higher than in previous years due to an increased debt level. While interest rates have fluctuated historically, the assumption to maintain a fixed 5% rate is justified by the current debt structure and expected financing conditions.

The interest expense calculation is directly linked to the total debt balance in each forecasted year, ensuring that financial costs accurately reflect the company's leverage position. Since Acerinox has gradually transitioned towards a higher proportion of long-term debt, this strategy is expected to provide greater

financial stability and minimize the risks associated with interest rate fluctuations.

5.1.9 Taxes

Acerinox has a tax rate of 25% that has remained consistent across recent years so it was the tax used in the forecast. The company's operations across different jurisdictions have not significantly altered this rate.

5.1.10 Dividends

Acerinox has historically maintained a commitment to shareholder returns, ensuring that dividend payments remain sustainable while balancing financial flexibility. The company has prioritized a stable payout policy, aligning dividends with its profitability and liquidity position.

For the 2025 forecast, a 66% payout ratio was assumed, ensuring that shareholder returns remain consistent with past practices. In the following years, dividend projections were adjusted dynamically, balancing liquidity levels and cash equivalents while ensuring that the absolute value of dividends never decreased. This approach reflects Acerinox's strategy of maintaining shareholder distributions even during periods of lower earnings, demonstrating confidence in future cash flow generation.

By aligning dividend projections with liquidity constraints, cash flow availability, and financial stability, the forecast ensures that Acerinox continues to reward shareholders while maintaining operational flexibility and debt management priorities.

5.1.11 Financial

The "Other Non-Current Financial Liabilities" and "Other Non-Current Financial Assets" accounts reflect Acerinox's financial risk management strategy, including hedging activities, long-term financial commitments, and various financial instruments beyond raw materials.

The "Other Non-Current Financial Liabilities" account includes long-term derivative liabilities, lease liabilities, deferred financial obligations, and structured financing arrangements. This account is assumed to increase until 2026, driven by the accumulation of long-term derivative contracts linked to commodity hedging, foreign exchange risk, and interest rate swaps. Additionally, long-term leasing commitments and financing arrangements contribute to the upward trend in demand. In 2027, as market conditions evolve and previously secured financial contracts mature, this account is expected to decline, reflecting a shift in the company's financial obligations and a more stabilized risk exposure.

Conversely, the "Other Non-Current Financial Assets" account includes long-term financial investments, hedging derivatives classified as assets, fixed-income securities, and deposits. This account is expected to increase consistently over time, benefiting not only from hedging instruments related to raw materials but also from financial investments and structured financial assets. These assets are expected to appreciate steadily, driven by risk management strategies designed to optimize financial positioning and asset valuation.

Meanwhile, "Other Current Financial Liabilities" include short-term derivative liabilities, foreign exchange hedging contracts, short-term financing obligations, and short-term interest rate swaps. These liabilities are assumed to fluctuate over time, reflecting the dynamic nature of short-term hedging and financial commitments. Given Acerinox's exposure to multiple financial variables, including short-term financing, commodity derivatives, and currency hedging, periodic fluctuations are expected as market conditions change. This volatility

underscores the company's proactive risk management approach in responding to immediate financial exposures.

Similarly, "Other Current Financial Assets" consist of short-term financial derivatives, hedging instruments classified as assets, liquid investments, and short-term financial deposits. These assets are expected to follow a moderate upward trajectory, influenced by short-term hedging instruments, financial investments, and changes in the valuation of financial contracts. While periodic fluctuations will occur due to market conditions, the overall trend aligns with Acerinox's strategy of maintaining liquidity and optimizing short-term financial positioning.

From 2028 onward, assuming financial conditions stabilize, the "Other Non-Current Financial Liabilities" account is expected to remain at lower levels, while "Other Non-Current Financial Assets" will continue to reflect gains from strategic financial management. The volatility of "Other Current Financial Liabilities" will persist due to the ongoing need for short-term risk adjustments, while "Other Current Financial Assets" will maintain a stable yet flexible valuation, reflecting the company's ability to navigate financial market dynamics effectively.

Overall, these accounts illustrate Acerinox's comprehensive financial strategy, which extends beyond commodity hedging to include structured financial instruments, lease obligations, and investment-driven asset growth. This integrated approach ensures long-term financial stability while maintaining flexibility to respond to changing economic and market conditions.

5.1.12 Long-Term provisions

The long-term provisions of Acerinox have fluctuated over time rather than following a linear trend. The increase in provisions reflects rising legal liabilities, including ongoing tax disputes, environmental compliance costs, and

restructuring obligations. Conversely, the subsequent decreases indicate the resolution of some disputes, reductions in restructuring costs, and financial adjustments after facility closures, such as Bahru Stainless.

5.1.13 Deferred Income

Deferred income has been steadily increasing in recent years due to long-term contractual agreements and government incentives. The resolution of the Acerinox Europa strike has restored production stability, leading to higher customer prepayments and stronger order commitments.

While overall demand remains subdued, Acerinox continues to secure advance payments from industrial clients looking to ensure supply stability. Additionally, government incentives promoting sustainability and industrial modernization further support deferred income growth.

Given its consistent historical increase and these supporting factors, a 10% annual growth rate for deferred income is a well-founded assumption, reflecting Acerinox's ability to secure long-term commitments.

5.2 Haynes Assumptions

To estimate the future financial performance of Haynes International, the company's financial statements were projected independently by extending recent historical trends. This method emphasized consistency and realism, leveraging observable past performance to guide assumptions, particularly given Haynes' operational stability and its limited weight within the overall valuation of Acerinox.

Haynes operates predominantly in the North American market, a region that typically offers greater economic and industrial stability. Combined with its focus on high-performance alloys—a segment that typically shows more stable demand patterns and less cyclical volatility—this geographical and sector exposure makes historical performance a particularly reliable basis for projections.

The financial projection was constructed using a set of standardized assumptions derived from recent historical data. Revenue growth was estimated by applying historical growth rates observed in recent years. Similarly, expense lines were modelled based on historical cost structures, preserving the typical margin profile of the company. Depreciation and amortization were forecasted by applying the historical percentage of these costs over the assets, ensuring consistency with the company's capital intensity and avoiding speculative assumptions regarding future investment patterns.

Other operating components were projected based on their respective nature and data availability. Working capital was estimated using historical ratios, reflecting the company's operational patterns in managing receivables, payables, and inventories. In contrast, CapEx was projected based on the company's forward-looking investment plans as disclosed in its annual reports. This distinction ensures the use of the most relevant and reliable information for each item. The approach avoids introducing unnecessary complexity, as the objective was not to model Haynes in isolation with excessive detail but rather to estimate its contribution to Acerinox's consolidated cash flows in a balanced and proportionate manner. This ensures that the model remains both analytically sound and aligned with the overall objective of delivering a realistic valuation of the group.

5.3 Consolidation of balance sheets

Given that Haynes operates in U.S. dollars and Acerinox in euros, the first step was to convert all Haynes financial statements to euros using the exchange rate prevailing at the time of acquisition.

The next step involved incorporating key adjustments. First, the goodwill arising from the acquisition was calculated and added to Acerinox's balance sheet, reflecting the premium paid over Haynes's net assets. Following this, the income statements of both companies were consolidated to facilitate the incorporation of synergies.

Revenue synergies were progressively added to the revenue line, distributed over the projected years to align with Acerinox's expected integration benefits. Similarly, cost synergies were achieved by gradually reducing operational costs in line with Acerinox's synergy forecasts. These adjustments ensured that the anticipated financial efficiencies of the acquisition were accurately reflected.

For the remaining income statement components, the projected figures from both companies were simply aggregated, as their financials had already been forecasted independently. To maintain consistency, Acerinox's tax rate was applied to the consolidated entity, ensuring a uniform approach to taxation in the valuation.

Then, we must adjust the balance sheet. The new CapEx projection consists of three components: the initially forecasted for Acerinox as a standalone entity plus the projected for Haynes based on its historical financial data and an additional $200 million investment that Acerinox allocated specifically for upgrading Haynes' facilities and assets. This increase reflects planned improvements in operational capacity and technology upgrades.

Capex was allocated across PPE, Other Intangible Assets, Investment Property, and Right-of-Use Assets to reflect the different nature of the

investments. Given this higher CapEx, depreciation and amortization schedules were also recalculated across these asset categories to properly distribute the added investment over time.

Following the methodology previously applied in the final projected year, Capex was set equal to depreciation and amortization to reflect a steady-state scenario.

The working capital was initially summed in the first year of integration to reflect the immediate impact of the acquisition. From 2025 onward, projections were calculated using the same methodology previously applied to Acerinox, leveraging revenue-based ratios to estimate future working capital needs. For cash and cash equivalents, the approach remained consistent with prior projections, using cash flow movements as the primary determinant to ensure that liquidity levels accurately reflect operational and investment activities.

Similarly, debt was initially consolidated in the first year to capture the total obligations of both companies. However, for subsequent years, debt was treated as a unified entity, with amortization and refinancing patterns adjusted based on Acerinox's historical practices and available liquidity. This approach ensures that the financial model accounts in a way that aligns with Acerinox's established capital management strategy. As a result, financial expenses were also calculated dynamically based on the level of debt and the applied debt interest rate, ensuring that financing costs were aligned with Acerinox's liquidity strategy and historical trends.

Due to the acquisition and the resulting decrease in cash levels, Acerinox's Net Debt/EBITDA ratio initially increased above 1, as expected by the company. Over time, as cash flow generation strengthened and debt gradually amortized, this ratio began to decline. Hence, the Net Debt/EBITDA will reach the company's preferred threshold of being under 1 by 2027. This trajectory aligns with Acerinox's financial management strategy, ensuring that leverage remains

within acceptable levels while maintaining the company's investment capabilities.

These were the main modifications in the balance sheet and income statement. The remaining accounts were calculated by summing the projected figures of both companies. This approach ensures completeness and consistency in the post-merger analysis. Thus, the model accurately reflects the combined entity's financial position while maintaining a clear and transparent valuation process.

5.4 WACC

5.4.1 Cost of equity

The cost of equity (Re) represents the return required by investors to compensate for the risk of holding Acerinox's stock. It is determined using the Capital Asset Pricing Model (CAPM), which is expressed as:

$$Re = Rf + \beta_{levered}(Rm - Rf) \quad (8)$$

where:

- Rf = Risk-free rate; for this valuation, a 30-year government bond rate of 2.5% was used.
- β = Levered beta, which accounts for both business and financial risk.
- (Rm-Rf) = Market risk premium, representing the additional return expected by investors for taking on market risk. The assumed market risk premium is 6.07%, sourced from Damodaran's database, widely recognized for its academic credibility and country-specific adjustments based on long-term historical data.

The unlevered beta was calculated as the average between the mean unlevered beta of five comparable companies, obtained from Infront, and the industry unlevered beta, sourced from Damodaran. This blended approach aims to

mitigate company-specific biases while capturing the overall sector risk. The resulting estimate provides a more robust and representative measure of Acerinox's business risk, aligned with its target capital structure.

The next step is to re-lever the beta to reflect the financial risk associated with the company's target capital structure. For this purpose, the following formula was used:

$$\beta_{levered} = \beta_{unlevered} \times \left(1 + \frac{D}{E} \times (1 - T)\right) \quad (9)$$

The debt-to-equity ratio applied in the formula was computed based on the target capital structure projected for 2029, as defined in the valuation model.

The following table presents the key inputs used in the beta estimation process.

Unlevered Beta	
Industry	0,98
Peer companies	0,85
Acerinox	0,91
Debt-to-Equity Ratio	70%
Tax Rate	25%
Levered Beta	1,39

Table 3- Unlevered Betas. Source: Author´s Model

Having determined all the necessary inputs, the cost of equity was calculated by applying Equation 8, resulting in 10,93%. This represents the expected return that Acerinox's shareholders demand based on the company's risk profile. It reflects both the business risk captured through the unlevered beta and the financial risk introduced by leverage.

5.4.2 Cost of debt

The cost of debt is also a key component of the WACC calculation, representing the effective interest rate paid on the company's borrowings. The pre-tax cost of debt is determined using the following formula:

$$Rd = Rf + spread \tag{10}$$

where:

- Rf = Risk-free rate 2.5%
- Spread = 2.7%

The 10-year German bond is chosen as the risk-free rate due to Acerinox's debt structure, which includes medium- and long-term financing. This approach ensures that the borrowing cost aligns with the duration of its obligations. To estimate the appropriate spread, historical spreads over the risk-free rate were analysed across multiple years. Since the cost of debt is influenced by the company's leverage, it is important to align the selected spread with the debt levels assumed in the target capital structure. The most recent year reflects a debt level most consistent with the targeted capital structure assumed in the valuation model. Therefore, the spread observed in the latest available year was deemed the most appropriate proxy, as it best represents the company's current and forward-looking credit risk profile under the target leverage.

Since interest expenses are tax-deductible, the after-tax cost of debt is adjusted as follows:

$$Rd_{after-tax} = Rd \times (1 - T) \tag{11}$$

Thus, as calculated in table 4, the cost of debt is 3,9%.

Spread	**Rf**	**Tax Rate**	**Cost of debt**
2,7%	2,5%	25%	3,9%

Table 4-Cost of Debt. Source: Author´s Model

5.4.3 Target Structure

The WACC calculation is based on Acerinox's projected 2029 capital structure, serving as the target mix. This approach reflects the company's long-term optimal financing rather than short-term fluctuations. Using the target structure ensures WACC aligns with strategic financial planning, minimizing distortions. The assumed structure is 61% equity and 39% debt.

5.4.4 WACC

Using Equation 5, Table 5 illustrates the calculation of WACC, which reflects the average cost of capital from both equity and debt sources, weighted by their respective proportions in the firm's capital structure.

	Cost	Weight
Debt	3,9%	39%
Equity	10,9%	61%
WACC	**8,18%**	

Table 5-Calculation of WACC. Source: Author´s Model

6. Valuation

6.1 Valuation Analysis: With Haynes

After establishing all relevant assumptions and completing the necessary projections, the FCFF is calculated. As outlined in Equation 3, FCFF represents the cash flow generated by the company's operating activities that remains available to all capital providers—both equity and debt—after deducting taxes, capital expenditures, and changes in working capital while adding back non-cash expenses such as depreciation and amortization.

	2025	2026	2027	2028	2029
Operating Income (EBIT)	503 233	505 641	477 315	495 294	438 212
Tax on EBIT	125 808	126 410	119 329	123 824	109 553
Amortization, depreciation	192 366	208 728	225 783	235 296	241 600
Gross Cash Flow	**569 791**	**587 959**	**583 769**	**606 767**	**570 259**
Change in inventories	-68 220	-50 304	85 273	-41 656	-29 757
Change in accounts receivable	58 501	52 291	2 338	-7 403	28 735
Change in accounts payable	58 386	20 654	173 850	-40 674	104 821
Change in cash and cash equivalents	110 931	-131 185	136 349	-87 237	147 338
Change in Working Capital	**42 826**	**-149 852**	**50 110**	**-95 623**	**41 495**
CAPEX	333 227	353 030	374 084	354 905	241 600
FREE CASH FLOW	**193 738**	**384 781**	**159 576**	**347 484**	**287 163**

Table 6- FCF Calculation of FCF in EUROS. Source: Author´s Model

The TV reflects the firm's capacity to generate cash flows beyond the explicit forecast horizon. As indefinite forecasting is impractical, it serves as a proxy for the company's ability to sustain long-term cash flow generation into perpetuity and is computed using Equation 1.

The applied growth rate of 2% is consistent with long-term inflation expectations, ensuring that projected cash flows increase at a conservative and

sustainable pace aligned with macroeconomic fundamentals. This standard assumption mitigates the risk of overstating future growth potential.

Free Cash Flow 2029	287 163€
WACC	8,18%
Perpetual growth rate	2%
Terminal Value	**4 736 766€**

Table 7-Terminal Value. Source: Author´s Model

The Enterprise Value is obtained by summing the present values of all discounted FCFFs and the discounted TV.

	2025	*2026*	*2027*	*2028*	*2029*	*TV*
WACC				8,18%		
N	0	1	2	3	4	4
Discount factor	100%	92,4%	85,4%	79%	73%	73%
Present value		355674€	136346€	274442€	209644€	3 458 184€
Enterprise Value				4 434 184€		

Table 8-Enterprise Value. Source: Author´s Model

The Equity Value is obtained by subtracting Net Debt and Minority Interests from the EV, as presented in Table 9. These figures are based on the estimated values for 2025. The resulting Equity Value is then divided by the number of outstanding shares to calculate the Equity Value per Share, resulting in the estimated value attributable to each share of 13,6€.

Enterprise value	4 434 184€
Value of excess cash	1 499 011€
Financial Investments	775€
Debt value	2 497 926€
Minority interests	35 658€
Equity value (group)	3 400 386€
Equity value per share	**13,6€**
Current value per share (31/12/2024)	**9,5€**
Upside/downside	44,4%

Table 9-Results. Source: Author´s Model

The results obtained indicate that Acerinox is currently trading below its estimated intrinsic value, suggesting a potential investment opportunity. The model yields an equity value per share of €13.6, whereas the company's prevailing market price stands at €9,50. This translates into an implied upside of approximately 44,4%, which reflects a substantial margin between the theoretical valuation and the market's current pricing. This divergence may indicate that investors are underestimating the company's capacity to generate sustainable value over the long term or that prevailing market conditions—such as economic uncertainty, cyclical pressures in the steel industry, or geopolitical factors—are leading to a cautious assessment of the company's prospects.

6.2 Valuation Analysis: Without Haynes

In addition to the base-case valuation, a separate scenario was constructed to isolate the impact of the Haynes International acquisition. The same DCF model was employed, with all macroeconomic assumptions and operating projections maintained. The WACC was adjusted to reflect the target capital structure estimated for the company, and the only variation introduced was the exclusion

of Haynes' financials. This ensured methodological consistency while isolating the specific impact of the acquisition on the company's valuation. This allowed for a direct and controlled comparison, quantifying the incremental contribution of the acquisition to Acerinox's equity value.

As shown in Table 10, the results of the adjusted model reveal that the exclusion of Haynes International leads to a lower implied share price of €12,2 compared to €13,6 in the base-case scenario. This implies that the acquisition increased the equity value per share by €1,4€, highlighting its positive impact on shareholder value.

WACC	8,1%
Perpetual growth rate	2%
Terminal Value	3 707 763€
PV FCFS	1 133 864€
Enterprise Value	3 853 305€
Value of excess cash	1 672 299€
Financial Investments	775€
Debt value	2 285 753€
Minority interests	36 305€
Equity value (group)	3 204 321€
Equity value per share	**12,2€**

Table 10-Solo valuation. Results. Source: Author´s Model

7. Investment Recommendation

The valuation for Acerinox indicates a promising investment opportunity. A Discounted Cash Flow analysis estimates the intrinsic value at €13,6 per share, a 44,4% premium over the current market price of €9,50. This suggests that the market price may not fully reflect the company's fundamentals, including stable free cash flows and strategic positioning in the stainless steel and specialty alloy markets. Using a conservative framework, the analysis applies a WACC of 8,18% and a perpetual growth rate of 2%. The forecasts include modest revenue growth and normalized margins but are sensitive to changes in interest rates or industrial demand. The recent acquisition of Haynes International is expected to add around €1,4 to the intrinsic value per share, enhancing Acerinox's exposure to high-performance alloys. However, integration risks may impact short-term margins. Despite these risks, the significant valuation gap, strong balance sheet, and strategic expansion create a favourable risk-return profile. Therefore, the investment recommendation is a BUY.

Conclusion

This valuation study of Acerinox S.A. highlights the company's solid fundamentals and strategic direction, supported by a detailed FCFF model. The results indicate that Acerinox is currently undervalued by the market, with an intrinsic value per share of €13,6 versus a market price of €9,50, representing a 44,4% upside. The acquisition of Haynes International alone contributes approximately €1,4 per share to this value, validating the strategic importance of the deal.

The study contributes to the understanding of how intrinsic valuation can capture the long-term potential of companies operating in cyclical and capital-intensive sectors. For investors, the findings reinforce the relevance of detailed forecasting and capital structure analysis in identifying undervalued opportunities.

Nevertheless, the valuation is subject to limitations. The model depends heavily on assumptions regarding growth rates, margins, and discount rates. Volatility in raw material prices—especially nickel—remains a key risk to cost projections. The integration of Haynes also introduces uncertainty around synergy realization and operational execution.

Future research could explore alternative valuation approaches, such as real options, to assess risk more dynamically. Overall, this thesis supports a BUY recommendation, grounded in a robust valuation and a clear strategic trajectory for Acerinox.

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Appendices

Appendice I- Projections of financial statements of Acerinox solo

Balance Sheet:

	2025	2026	2027	2028	2029
Non-current assets					
Goodwill	51064	51064	51064	51064	51064
Other intangible assets	48133	46489	50014	53715	54363
Property, plant and equipment	1596268	1692429	1703012	1710680	1710680
Property, plant and equipment	271750	271750	196750	195000	188175
Property, plant and equipment- depreciation	163705	175590	186167	187331	188175
Investment property	9426	9185	8943	8701	8460
depreciation	242	242	242	242	242
Capex			242	242	242
Rights of use assets	19248	19868	20508	21168	21168
Rights of use assets- capex	9 179	9 474	9 779	10 094	10 419
Rights of use assets- amortisation	8 578	8 854	9 139	9 434	10 419
Investments accounted for using the equity method	390	390	390	390	390
Financial assets at fair value through other comprehensive	385	385	385	385	385
Deferred tax assets	273482	233576	195364	247132	240488
Other non-current financial assets	16819	18674	20553	23059	25894
total non-current assets	2015216	2072060	2050232	2116295	2112893
Current assets					
Inventories	**1692563**	**1695089**	**1629174**	**1714311**	**1831416**
Trade and other receivables	**633745**	**646854**	**697637**	**763221**	**835941**
Other current financial assets	32427	34372	36778	41263	42881
Current income tax assets	13 390	13 792	14 205	14 632	15 071
Cash and cash equivalents	**1672299**	**1605320**	**1661223**	**1664535**	**1644279**
total current assets	4044424	3995427	4039018	4197961	4369587
TOTAL ASSETS	6059640	6067487	6089250	6314256	6482480

Non-current liabilities					
Deferred income	50502	58552	61108	67218	75940
Long-term debt	**1220003**	**1037003**	**1088853**	**1257188**	**1257188**
Long-term provisions	193 676	209 959	181 396	154 318	254 332
Deferred tax liabilities	196 937	208 845	208 930	215 198	268 654
Other non-current financial liabilities	20477	21170	19860	14760	14667
TOTAL NON-CURRENT LIABILITIES	1681596	1535529	1560147	1708682	1870782
Current liabilities					
Short-term debt	**1065750**	**959175**	**863258**	**733769**	**550327**
Trade and other payables	959119	1089700	1044667	1285733	1355238
Current income tax liabilities	13 105	13 629	14 174	14 741	15 331
Other current financial liabilities	70 997	85 754	97 524	79 522	93 990
TOTAL CURRENT LIABILITIES	2108971	2148258	2019623	2113765	2014886
TOTAL LIABILITIES	3790567	3683788	3579770	3822448	3885668
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY	2232769	2345561	2469329	2451939	2555263
Non-controlling interests	36305	38139	40152	39869	41549
TOTAL EQUITY	2269074	2383700	2509481	2491808	2596812
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	6059641	6067488	6089251	6314256	6482480
	0	0	0	0	0

Income Statement:

	2025	2026	2027	2028	2029
Revenue	5641878	6053891	6529168	7142964	7823547
Cost of good solds	3780058	4116646	4505126	5000075	5632954
Gross Margin	1861820	1937245	2024042	2142889	2190593
Other operating income	56419	60539	65292	71430	78235
Staff costs	535978	544850	587625	607152	625884
Other operating expenses	733444	787006	848792	928585	1017061
EBITDA	648816	665928	652917	678582	625884
Depreciation and amortisation charge	172525	184686	195549	197007	198836
Operating Income	**476291**	**481242**	**457368**	**481575**	**427048**
Finance Income	24260	26032	28075	30715	33641
Finance expense	172639	99809	97606	99548	90376
Exchange differences	3385	3632	3918	4286	4694
Revaluation of financial instruments at a fair value	2257	2422	2612	2857	3129
Profit Before Income Tax	329041	408676	389144	414170	371878
Income tax expenses	82260	102169	97286	103543	92970
Profit of the year	246781	306507	291858	310628	278909
non-controling interests	3455	4291	4086	4349	3905
Net Income	243326	302216	287772	306279	275004
Dividens	160000	170000	180000	190000	200000

Appendice II- Projections of financial statements of Haynes International solo

Balance Sheet

Current assets:	**2024**	**2025**	**2026**	**2027**	**208**	**209**
Cash and cash equivalents	10809	11349	11917	12513	13138	13795
Accounts receivable, less allowance for credit los	101048	106100	111405	116975	122824	128965
Inventories	418298	439213	461174	484232	508444	533866
Income taxes receivable	2232	2187	2143	2100	2058	2017
Other current assets	6484	6808	7149	7506	7881	8275
Total current assets	538870	565657	593787	623326	654346	686919
Property, plant and equipment, net	148342	148792	149185	149529	149829	149829
Capex	28800	19200	19200	19200	19200	19200
depreciation	17296	18750	18807	18857	18900	19200
Deferred income taxes	3464	3464	3464	3464	3464	3464
Other assets	10607	11138	11694	12279	12893	13538
Goodwill	4597	4597	4597	4597	4597	4597
Other intangible assets, net	5572	5707	5836	5960	6078	6078
Capex	672	679	686	692	699	706
Amortization	529	543	556	569	581	707
Total non-current assets	172582	173698	174777	175828	176861	177505
Total assets	711452	739355	768564	799155	831206	864424

LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Accounts payable	54974	57723	60609	63639	66821	70162
Accrued expenses	23217	24378	25597	26876	28220	29631
Income taxes payables	510	533	557	582	609	637
Accrued pension and postretirement benefits	3465	3639	3820	4011	4212	4423
Deferred revenue - current position	2400	2400	2400	2400	2400	2400
Total current liabilities	84566	88672	92983	97510	102263	107253
Revolving credit facilities - Long-term		134089	132827	126186	119877	113883
Long-term obligations (less current portion)		10615	11146	11703	12288	12903
Long-term debt	125832	134089	132827	126186	119877	113883
Deferred revenue (less current portion)	10109	10615	11146	11703	12288	12903
Deferred income taxes	3539	3539	3539	3539	3539	3539
Operating lease liabilities	320	294	271	249	229	211
Accrued pension benefits (less current portion)	12112	10901	9811	8830	7947	7152
Accrued postretirement benefits (less current port	44177	41084	38208	35534	33046	30733
Total non-current liabilities	196089	200523	195802	186040	176926	168420
Total liabilities	280655	289195	288785	283550	279188	275673
Total stockholders' equity	430797	450160	479779	515605	552018	588751
Total liabilities and stockholders' equity	711452	739355	768564	799155	831206	864424
	0	0	0	0	0	0

Income Statement

Income Statememt	2024	2025	2026	2027	2028	2029
Net revenues	594676	624409	655630	688411	722832	758974
Cost of sales	499854	524847	551089	578644	607576	637955
Gross profit	94821,23	99562,3	104540,4	109767,4	115256	121019
Selling, general and administrative expense	61264	64327	67543	70920	74466	78190
Research and technical expense	5147	5405	5675	5959	6256	6569
Operating income	28410,38	29830,9	55422	57606	34533	36260
Nonoperating retirement benefit expense (income	-1796	-1832	-1868	-1906	-1944	-1983
Interest income	-51	-49	-46	-44	-42	-39
Interest expense	7436	7585	7736	7891	8049	8210
Income before income taxes	22821,49	24126,77	57614	51902	40596	42447
Provision for income taxes	5705,372	6031,693	14403,5	12975,5	10149,1	10611,87
Net income	17116,12	18095,08	43210,5	38926,5	30447	31836

Appendice III- Projections of financial statements of Acerinox after the acquisition of Haynes International

Balance Sheet

	2024	2025	2026	2027	2028	2029
Non-current assets						
Goodwill		181482	181482	181482	181482	181482
Other intangible assets		48133	46489	50014	53715	54363
Other intangible assets capex		1179	1186	1192	1199	775
Other intangible assets amortisation		557	619	676	728	775
Property, plant and equipment		1744611	1887968	2035112	2153589	2153589
Property, plant and equipment		322870	342370	362870	343370	230164
Property, plant and equipment- depreciation		182989	199013	215726	224893	230164
Investment property		9426	9185	8943	8701	8460
depreciation		242	242	242	242	242
Capex				242	242	242
Rights of use assets		19248	19868	20508	21168	21168
Rights of use assets- capex		9179	9474	9779	10094	10419
Rights of use assets- amortisation		8578	8854	9139	9434	10419
Investments accounted for using the equity method		390	390	390	390	390
Financial assets at fair value through other comprehensive		385	385	385	385	385
Deferred tax assets		246481	209509	188558	169702	152732
Other assets (from haynes)		11138	11694	12279	12893	13538
Other non-current financial assets		16819	18674	20553	23059	25894
total non-current assets		2278114	2385645	2518225	2625085	2612001
Current assets						
Inventories	**2199996**	**2131776**	**2081473**	**2166746**	**2125090**	**2095332**
Trade and other receivables	**681345**	**739845**	**792136**	**794474**	**787070**	**815806**
Other current financial assets		32427	34372	36778	41263	42881
Other current assets		6808	7149	7506	7881	8275
Current income tax assets		15265	15935	16306	16690	17088
Cash and cash equivalents	**1388080**	**1499011**	**1367826**	**1504175**	**1416938**	**1564277**
total current assets		4425133	4298891	4525985	4394932	4543659
TOTAL ASSETS		6703247	6684536	7044210	7020018	7155660

Non-current liabilities						
Deferred income		67229	76668	80092	87457	97727
Long-term debt	**1481391**	**1466577**	**1393248**	**1351451**	**1351451**	**1216306**
Long-term provisions		193676	209959	181396	154318	254332
Deferred tax liabilities	209440	196873	185061	173957	163520	155344
Operating lease liabilities		294	271	249	229	211
Accrued pension benefits (less current portion)		10901	9811	8830	7947	7152
Accrued postretirement benefits (less current portion)		41084	38208	35534	33046	30733
Other non-current financial liabilities		20477	21170	19860	14760	14667
TOTAL NON-CURRENT LIABILITIES		1997112	1934396	1851368	1812728	1776472
Current liabilities						
Short-term debt	**1011126**	**1031349**	**928214**	**835392**	**776915**	**815761**
Trade and other payables	**955707**	1014093	1034747	1208597	1167923	1272744
Deferred revenue		2400	2400	2400	2400	2400
Current income tax liabilities		13615	14162	14732	15324	15940
Accrued expenses +posre		26682	28016	29417	30888	32432
Other current financial liabilities		70997	85754	97524	79522	93990
TOTAL CURRENT LIABILITIES		2159136	2093293	2188062	2072972	2233267
TOTAL LIABILITIES		4156248	4027689	4039431	3885699	4009739
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		2511341	2619650	2962712	3090438	3101878
Non-controlling interests		35658	37196	42067	43880	44043
TOTAL EQUITY		2546999	2656846	3004779	3134318	3145921
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		6703247	6684536	7044210	7020018	7155660
		0	0	0	0	0

Income Statement

		2025	2026	2027	2028	2029
Revenue		6271195	6714428	7222487	7870703	8587428
Cost of good solds		4296181	4659011	5075045	5598926	6262184
Gross Margin		1975014	2055417	2147441	2271777	2325244
Other operating income		56419	60539	65292	71430	78235
Staff costs		535978	544850	587625	607152	625884
Other operating expenses		733444	787006	848792	928585	1017061
Selling, general and administrative expense		61264	64327	67543	70920	74466
Research and technical expense		5147	5405	5675	5959	6256
EBITDA		**695599**	**714369**	**703098**	**730590**	**679812**
Depreciation and amortisation charge		192366	208728	225783	235296	241600
Operating Income		**503233**	**505641**	**477315**	**495294**	**438212**
Finance Income		24311	26081	28122	30759	33683
Finance expense		180075	107394	105342	107439	98425
Exchange differences		3385	3632	3918	4286	4694
Nonoperating retirement benefit expense (income)		1796	1832	1868	1906	1944
Revaluation of financial instruments at a fair value		2257	2422	2612	2857	3129
Profit Before Income Tax		350394	427370	403269	421948	376979
Income tax expenses		87599	106843	100817	105487	94245
Profit of the year		262796	320528	302452	316461	282734
non-controling interests		3679	4487	4234	4430	3958
Net Income		**259116**	**316040**	**298218**	**312031**	**278776**
Dividens		155470	173822	164020	156015	153327

Disclosure of AI-Assisted Writing Tools

During the preparation of my written dissertation, "Company Valuation and Investment Case-Acerinox", I used Grammarly and ChatGPT to support, guide my research process and improve the writing. A detailed list of the prompts used throughout the research process is included in the Al Prompts List section at the end of this document. After using this tool, I carefully reviewed and edited all content to ensure its accuracy and academic integrity, and I take full responsibility for the final version of the submitted work.

I also declare that I am aware of and comply with the Al Code of Conduct of Católica Porto Business School.

AI Prompts List

1. “Can you rewrite this paragraph more professionally”

2. “Can you check the writing”
3. “What do you think I can do to improve”
4. “Can you cut the numbers of words in this paragraph without taking any information”