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Valuation of Corticeira Amorim SGPS, S.A.

Tomás de Antas Guimarães Tavares Moreira

Católica Porto Business School
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by

Tomás de Antas Guimarães Tavares Moreira

Under supervision of
(Ph.D.) Gonçalo Faria

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Abstract

Equity valuation aims to determine a company´s intrinsic value by assessing its current assets, market position and future performance potential, enabling investors to make well-informed investment decisions. A robust valuation requires consistent and well-founded assumptions to accurately reflect the company´s business reality, addressing critical endogenous and exogenous factors that influence its operations. The chosen valuation methodology plays a pivotal role in ensuring the reliability of the results.

This dissertation focuses on the equity valuation of Corticeira Amorim SGPS, S.A., the world´s leading cork-transforming company and one of Portugal´s most international firms. Despite a challenging economic environment, Corticeira Amorim has demonstrated resilience through sustainable growth, positioning it as an attractive investment opportunity amid optimistic prospects in the cork industry.

The primary objective of this study is to provide an investment recommendation based on the estimated intrinsic value of Corticeira Amorim, employing the Discounted Cash Flow (DCF) model with a Free Cash Flow to the Firm (FCFF) approach. The dissertation covers keys topics supporting the valuation, including valuation methodologies, industry and company overviews and forecast assumptions for 2024-2029.

Keywords: Valuation, Capital, Investment, Discounted Cash Flow, Cash Flow, Working Capital, Enterprise Value.

Word counting: 9509 words

Resumo

A avaliação de ações visa determinar o valor intrínseco de uma empresa, avaliando os seus ativos atuais, a sua posição no mercado e o seu potencial de desempenho futuro, permitindo aos investidores tomar decisões de investimento bem informadas. Uma avaliação sólida requer pressupostos consistentes e bem fundamentados que reflitam com precisão a realidade comercial da empresa, abordando fatores endógenos e exógenos críticos que influenciam as suas operações. A metodologia de avaliação escolhida desempenha um papel fundamental para garantir a fiabilidade dos resultados.

Esta dissertação centra-se na avaliação do valor do capital da Corticeira Amorim SGPS, S.A., líder mundial na transformação de cortiça e uma das empresas mais internacionais de Portugal. Apesar de um ambiente económico desafiante, a Corticeira Amorim tem demonstrado resiliência através de um crescimento sustentável, posicionando-a como uma oportunidade de investimento atrativas num contexto de perspetivas otimistas na indústria da cortiça.

O principal objetivo deste estudo é fornecer uma recomendação de investimento baseada no valor intrínseco estimado da Corticeira Amorim, utilizando o modelo de Discounted Cash Flow (DCF) com uma abordagem de Free Cash Flow to the Firm (FCFF). A dissertação aborda os principais tópicos que suportam a avaliação, incluindo as metodologias de avaliação, a visão geral do setor e da empresa e os pressupostos das previsões para 2024-2029.

Palavras-chave: Avaliação, Capital, Investimento, Fluxo de caixa atualizado, Fluxo de Caixa, Working Capital, Valor da Empresa.

Contagem de palavras: 9509 palavras

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Introduction

This dissertation focuses on valuing Corticeira Amorim SGPS, S.A., the global leader in cork industry, to determine its intrinsic share value as of year-end 2025 and provide investment recommendations – sell, hold or buy – based on its market price at 31/12/2024 (8.05€). Accepting this challenge meant acquiring a great deal of conceptual knowledge of corporate finance, as well as learning how to evaluate a company using a financial evaluation model with its own tools and processes.

The dissertation is structured in two main parts. In the first part, the theoretical framework underpinning the Discounted Cash Flow valuation model is presented, with a detailed exploration of fundamental concepts such as the Free Cash Flow (FCF) and the Weighted Average Cost of Capital (WACC). These elements constitute the essential pillars for the rigorous application of this model and are discussed based on solid academic references, complemented by a critical analysis of its advantages and limitations.

The second part of the dissertation focuses on the practical application of this model to the company. Initially, a comprehensive presentation of the company is given, highlighting its history, organizational structure, business units and recent performance.

This is followed by the construction of the valuation model, which involves the projection of critical variables, such as sales, operating cost, capital investments and changes in Net Working Capital, for the period from 2024 to 2029. These projections are based on an analysis of the company´s historical performance, trends in the cork sector and the global economic outlook.

The value of the company is estimated, culminating in an investment recommendation based on a comparison between the calculated fair price and the market value of the shares.

Chapter 1

Literature Review

1.1 Valuation Method

Valuation is a fundamental aspect of finance, as emphasized by Reilly & Damodaran (1995), "valuation can be considered the heart of finance". This concept underscores the pivotal role of valuation in understanding and managing financial assets, as well as in guiding investment decisions.

The valuation of a company is based on two fundamental premises. The first is the company's ability to generate a return on invested capital that exceeds its weighted average cost of capital (WACC). The second premise is its ability to grow and develop sustainably over time (Goedhart et al., 2005). All assets have an inherent value, and effective management requires not only an understanding of their true value, but also an analysis of the variables that drive value creation. This involves identifying the underlying sources of value (Damodaran, 2012).

The quality of a valuation depends largely on the valuer's knowledge of the company. This knowledge includes insight into the company's competitive position, operational strategy and ability to anticipate future developments (Parrino, 2005). However, the dynamic nature of valuation poses challenges. The assumptions made during the valuation process are often subject to significant changes due to fluctuations in the economy, markets and company-specific factors (Damodaran, 2002).

Investors need substantial information to make informed decisions about stock selection. Stock analysts serve as intermediaries in this process, conducting in-depth analyses based on financial and non-financial data (Huang et al., 2018). These analyses culminate in comprehensive analyst reports that synthesize the information into investment recommendations and target prices. These reports reduce uncertainty for investors by combining qualitative and quantitative considerations (Bradley et al., 2014). Analysts add value by conducting private research or simplifying complex public information, thereby empowering investors to make better-informed decisions (Huang et al., 2018).

The focus of this dissertation is to value Corticeira Amorim SGPS, S.A. at year-end 2025, in order to compare it with the market (as of 31 December 2024) and give an investment recommendation to buy, hold or sell the company's shares.

1.2 Discounted Cash Flow Model (DCF)

According to Luehrman (1997), the Discounted Cash Flow model is the best practice for valuing a company.

The DCF model is a financial evaluation technique that aims to estimate the intrinsic value of an asset or company by projecting future cash flows and discounting these values to a current amount. Based on Damodaran (2002), the value of a company is the sum of the present values of all the future cash flows it can generate. This involves three main steps: estimating future cash flows, determining the appropriate discount rate (usually the weighted average cost of capital, WACC) and calculating the present value of the projected cash flows (Brigham & Ehrhardt, 2013)

The accuracy of revenue forecasts is crucial, as emphasized by Steiger (2008), since they determine the results of the DCF. Both forecasts and discount rate calculations are based on assumptions about the macroeconomic environment, industry conditions and company-specific factors (Janiszewski, 2011). These assumptions must be accurate and clear to ensure a reliable and understandable assessment.

However, this model has some disadvantages. According to Anjos & Braga (2014), small variations in key indicators, such as the discount rate or growth projections, can result in substantial differences in the estimated values, which makes the model susceptible to financial manipulation if the analyst has specific interests in achieving a certain result. Another disadvantage of the DCF model is its high sensitivity to underlying assumptions, such as the cost of capital and future cash flow estimates. In accordance with Damodaran (2002b), this sensitivity can jeopardize the reliability of the results, especially in scenarios of high economic uncertainty where financial projections are more difficult to estimate.

There is a family of DCF models, that diverge between them based on their focus of valuation (enterprise or equity) and the way financing and investing decisions interact. The mostly used DCF model in corporate finance is the Free Cash Flow to the Firm (FCFF), which is focused on enterprise valuation and where financing decisions are exclusively considered in the estimated cost of capital (and not in the cash flow metric). In this dissertation we use the FCFF.

1.3 Free Cash Flow to the Firm (FCFF)

Luehrman (1997) considered that Free Cash Flow is the standard model in the Discounted Cash Flow analysis. FCF is defined by Damodaran as a ‘cash flow after taxes and reinvestment needs, but before any debt repayments”, (Damodaran, 2007).

Free Cash Flow (FCF) represents a company's cash flow generated from its operating activity. The first step in calculating FCF is to forecast sales, using a bottom-up strategy based on historical data and management's business strategies, allowing for realistic future projections. After forecasting sales, other values can be estimated as percentages of total sales (percentage of sales method), leading to the calculation of operating income, the starting point for Free Cash Flow.

Projecting sales over the horizon of several years always involves a high degree of uncertainty, as argued by Goedhart et al. (2005). The author emphasizes that customer preferences, technological advances and business strategies are constantly changing, which requires regular adjustments to the estimated values over the forecast period. These adjustments are essential to ensure that the projections remain in line with the company's evolution and with dynamic market conditions.

Fernández (2005) pointed out that the free cash flow for the company could be obtained by first calculating the net operating profit after tax, which corresponds to the operating profit (EBIT) multiplied by (1-tax rate (t)). Then add depreciation back to this figure, as it is a non-cash expense and can be deducted from operating profit. Finally, capital expenditure (CAPEX) and the net change in working capital (ΔNet Working Capital) are subtracted from the figure obtained.

At the same time, Pinto et al. (2010) describes FCFF as the amount of cash flow available, from a given company, that is used to pay the company's creditors and shareholders, after all operating expenses.

$$FCFF = \text{EBIT}\ (1 - \text{t}) + \text{Depreciation} - \text{CAPEX} - \Delta\text{NWC} \tag{1}$$

Through the FCFF it is also possible to determine the value of the company (Enterprise Value) and the Terminal Value (TV).

$$\textbf{Firm Value} = \sum_{t=1}^{t=n} \frac{FCFF_t}{(1+WACC)^t} + \frac{TV_n}{(1+WACC)^n}$$

Figure 1: Enterprise Value formula

$$TV = \frac{FCFFt \times (1+g)}{WACC - g}$$

Figure 2: Terminal Value formula

A fundamental issue in calculating FCF is the separation between investment and financing decisions. The FCF is generated to remunerate all stakeholders (debt and equity) and therefore excludes variables related to financing (changes in equity and debt, interest and dividends).

1.4 Terminal Value (TV)

According to Damodaran (2007), there are three ways of estimating Terminal Value. The first is by liquidation value, which represents the company's market value in the terminal year. The second is by using multiples, based on multiples of comparable companies, an approach more associated with relative valuation and less applied to the Discounted Cash Flow (DCF) model. The third way is the stable growth model, which assumes a perpetuity of long-term growth. In this model, Terminal Value represents most of the company's final value, making it essential that the perpetual growth assumptions consider not only the company's future prospects, but also the expectations of the sector and the economy.

Damodaran (2007) also points out that the perpetual constant growth rate (g) must be less than or equal to the economy's growth rate.

1.5 Weighted Average Cost of Capital (WACC)

According to Fernández (2010), the WACC is seen as the minimum rate of return required by the company's financiers, shareholders and creditors. At the same time, the WACC reflects the overall risk of a company for its financiers, being a weighted average of the cost of capital and debt financing (Vernimmen et al., 2017). Usually, the WACC is calculated assuming that companies will set a target optimal capital structure over time.

To calculate the appropriate discount rate, not only do you need to analyze the company's financial structure in depth, but also the market environment. Companies usually have two different ways of financing themselves, using debt or equity. Therefore, the WACC rate must include the rates of return demanded by debt and equity holders.

1.6 Cost of Equity (rE)

The cost of equity represents the rate of return, associated with the opportunity cost of not investing in other assets, that an investor demands as compensation for investing in the shares of a given company.

The Capital Asset Pricing Model (CAPM) is the most widely used risk and return model for calculating the cost of equity capital (Goedhart et al., 2005). The model assumes that all investors are sophisticated, well-informed and risk-averse, diversifiable or unsystematic risk is eliminated by simply diversifying the portfolio, while systematic/market risk is the only risk to which investors are exposed (Mullins, 1982).

To determine the cost of equity, it is necessary to estimate the risk-free rate, the expected market return and the equity Beta.

1.7 Risk-free Rate (rF)

The risk-free rate (rF) reflects the rate of return that an investor could obtain by investing in an asset considered to be risk-free. This concept is fundamental in evaluating investments and is generally associated with sovereign debt securities issued by countries with high economic and financial stability. For European companies, the most common proxy to estimate the risk-free rate is the 10-year German Eurobond given its high liquidity and low risk whereas for US-based ones, the most common one is the 10-year government bond (Goedhart et al., 2005).

1.8 Beta

Beta measures a company's sensitivity to systematic risk factors. According to Damodaran (2002b), to find the value of a company's beta, it is necessary to consider its financing structures. If the company is financed exclusively by equity, the Unlevered Beta (βu) is used. If it is financed by equity and debt, the Leveraged Beta (βl) is used.

$$\beta l = \beta u \times \left(1 + \frac{D}{E} \times (1 - t) \right) \quad (2)$$

It is important to highlight that, in the equation presented, D/E (Debt to Equity) represents the capital structure.

1.9 Market Risk Premium (E (Rm) – Rf)

According to Damodaran (2023), the equity risk premium determines not only the expected return in relation to the level of risk, but also the price investors are willing to pay for a given risky stock.

Damodaran (2023) points to three possible approaches to estimating market risk premiums: asking investors and managers about the market risk premiums they demand, using historical share premiums in relation to risk-free investments or using forward-looking premiums based on current market prices.

The use of historical premiums is the most common method. Although it is the most popular, Damodaran (2023) argues that it is not the best method to use in some emerging markets, due to the short period of data available, which leads to large standard deviations in the results. The author believes that using a country risk premium adjustment seems obvious, since there is always diversifying risk in emerging markets and markets are not fully correlated with each other.

1.10 Cost of Debt (rD)

Companies should discuss the issue of debt financing thoroughly because there are multiple ways of doing so (Brealey et al., 2017). The same author states that the cost of debt is lower than the cost of capital from the point of view of the nature of its liquidation.

The cost of debt represents the return required by the agent or entity that makes a loan to the company, a concept to which the terminology of interest rate is usually attributed.

According to Steiger (2008), the factor that has the greatest influence on this cost is credit risk translated, for example, into a “credit rating”. A company with an AAA rating can borrow at significantly lower interest rates compared to a company with a lower rating, such as BB-. On the other hand, companies operating in countries with a low credit rating and which have a high interest coverage ratio should consider this discrepancy when calculating the cost of debt, especially if most of their income is generated in the country in question.

The costs associated with interest rates are generally tax-deductible, which means that the effective cost of debt is always lower than the cost resulting from the interest rate, calculated according to accounting standards, and paid to investors.

$$Kd = (Rf + \text{Credit Risk Premium}) \times (1 - T) \quad (3)$$

A critical aspect in estimating the cost of debt is its relationship with the target capital structure. The credit risk premium must be consistent with the company's level of leverage, since a higher proportion of debt in the capital structure increases the risk perceived by creditors, raising the credit spread (Damodaran, 2012).

1.11 Target Capital Structure

The capital structure varies over time. The target capital structure should assign consistent weights to the sources of capital (equity and financial liabilities) to align with the company's medium and long-term strategy. This structure should reflect analysts' expectations of the future capital structure of the company being valued.

Chapter 2

Company Overview

2.1 Company Presentation

Corticeira Amorim was founded in Vila Nova de Gaia, in 1870, for António Alves Amorim, a family business and national leader in the 1930s expanded internationally. In the 1960s, it embraced a strategy of verticalization and diversification, based on the slogan “not just a market, a customer, currency or product” which led to the consolidation of Portugal as the world´s largest cork producer. From the 1970s on, the Group enhanced cork manufacturing in Portugal and in the 1980s, Labcork was created, thus emphasizing quality and innovation.

Under the leadership of António Rios de Amorim (CEO since 2001), the company has been recognized as a sustainability pioneer, having published the first Sector Sustainability Report in 2007. In 2014, it released the Amorim Cork Ventures, a business incubator in the field fostering innovation and new products made from cork. The commitment to sustainability was reinforced, in 2020 and 2021, having been recognized with awards such as the World Finance Sustainability Award.

Currently under the leadership of the fourth generation of the family, Corticeira Amorim is the world’s biggest producer of cork products and worldwide leader in all the cork product segments: corks stoppers, floor and wall coverings, composite cork and insulation cork. It is the most international Portuguese company, not only because of its high exportation level but also because it has different steps of the value chain spread all over the world, including more than 100 countries.

Internally, the company is divided into 3 major divisions, which are subdivided into 5 business units, as suggested by the figure presented below.

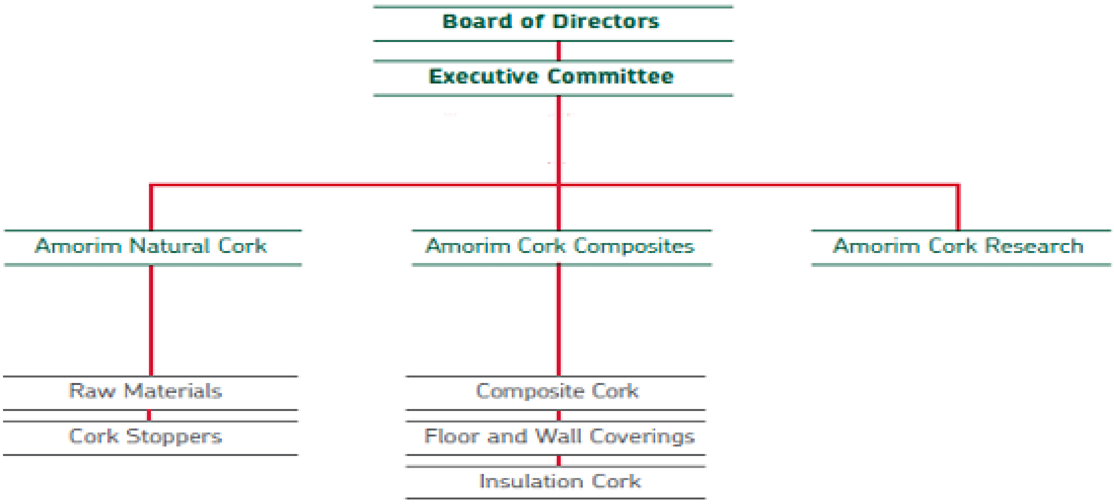

Figure 3: Business Structure of Corticeira Amorim

Regarding the shareholder structure, figure 4 illustrates the shareholder's ownership. Corticeira Amorim integrates the Euronext Lisbon Index and is traded on the PSI 20 index, which includes the best Portuguese companies.

Shareholder	Shares Held (quantity)	Holding (%)
Qualified Holdings:		
Amorim Investimentos e Participações, S.G.P.S., S.A.	67 830 000	51.000%
Amorim, Soc. Gestora de Participações Sociais, S.A.	13 414 387	10.086%
A Porta da Lua, S..A..	8 290 767	6.234%
API – Amorim Participações Internacionais, S.A.	2 717 195	2.043%
Vintage Prime – S.G.P.S., S.A.	2 717 195	2.043%
Freefloat (a)	38 030 456	28.594%
Total	**133 000 000**	**100.000%**

Figure 4: Corticeira Amorim´s shareholder structure

2.2 Business Activity

As mentioned above, the Group has five business units: Raw Materials, Cork Stoppers, Floor and Wall Coverings, Composite Cork and Insulation Cork. The following figures show the contribution of each business unit to consolidated sales and EBITDA, respectively.

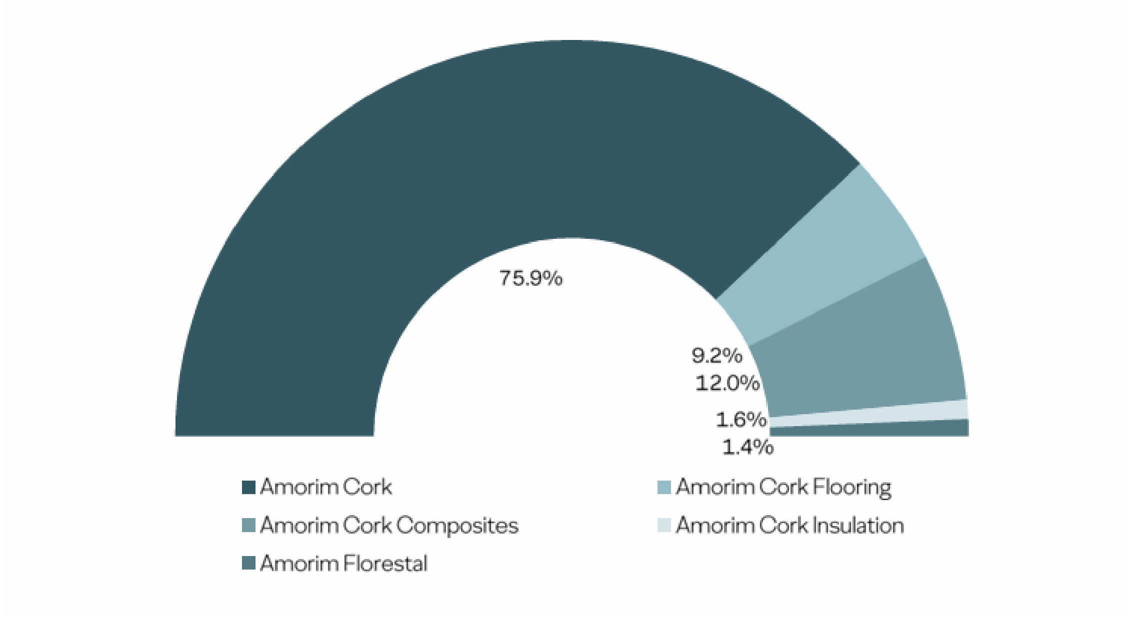

Figure 5: Consolidate sales by business unit

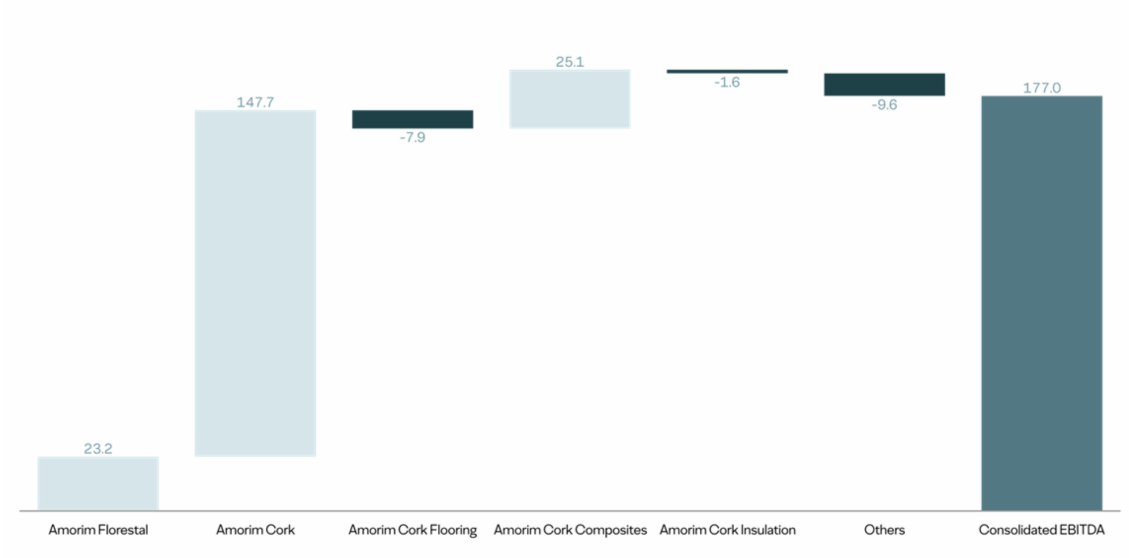

Figure 6: Business units´ contribution to the consolidated EBITDA (million euros)

From 2025, there will be a significant restructuring of the company's business units, with the creation of Amorim Cork Solutions. This new business unit will comprise three areas: Amorim Cork Flooring, Amorim Cork Composites and Amorim Cork Insulation. This change is expected to promote more integrated management of operations, maximizing industrial, commercial and support synergies by sharing resources. In addition, the optimization of installed production capacity and technologies will make it possible to strengthen the 'non-cork' business segment, consolidating the company's competitive position.

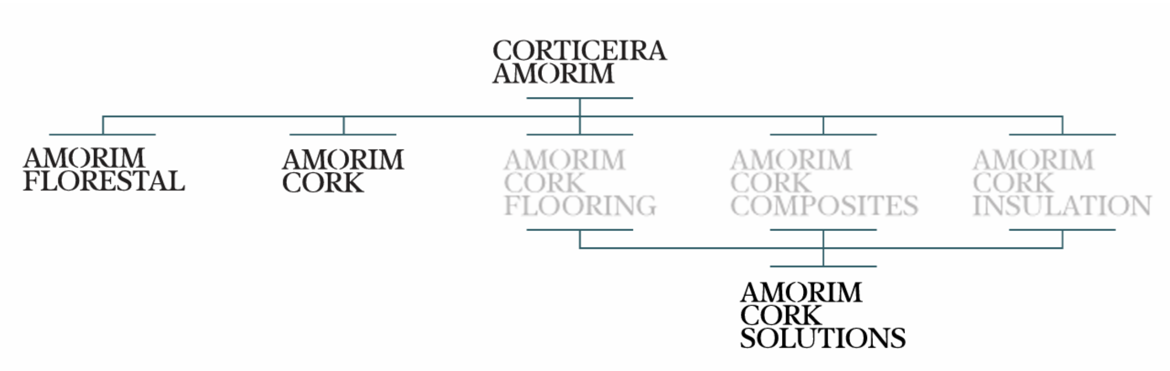

Figure 7: Corticeira Amorim New Organizational Model

2.2.1 Amorim Florestal

Set up at the end of 2002 as a result of organizational restructuring, the company's aim is to procure, sourcing, purchase, stockpile and prepare the raw material cork, supplying Corticeira Amorim's other business units. Corticeira Amorim's mission is to operate in all the countries where cork is produced, and it has business units in Portugal, Spain (which accounts for 90% of global supply), Morocco, Algeria and Tunisia.

Amorim Florestal is also innovating in the processes that involve the entire operation of extracting cork from the cork oak, as well as in its handling until it leaves for the processing plants. These processes, with the introduction of technology, can reduce costs, improve reliability and ensure consistency in the choice of raw material. To this end, the aim is to promote cork oak Research & Development through partnerships with existing producers.

In 2023, this business unit continued to grow steadily, as can be seen in the following figure:

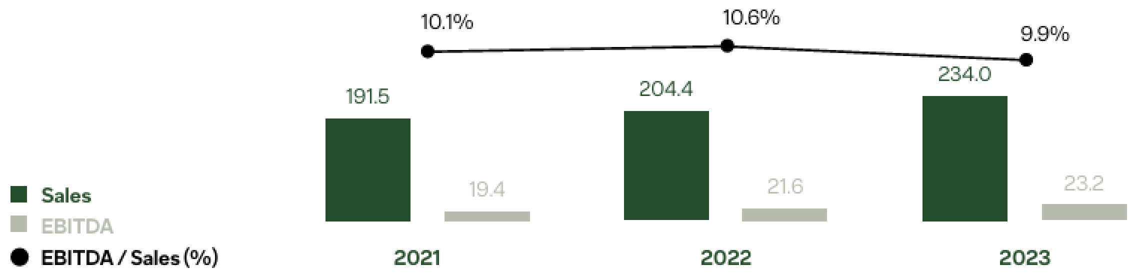

Figure 8: Raw Materials business unit performance

Concerning the evolution of sales, the improvement in the business mix and the increase in cork prices were the main reasons for the growth in sales. From the point of view of the EBITDA margin, the increase in cork consumption prices more than offset the reduction in operating costs (electricity and transport) and the improvement in the sales mix contributed to a marginal reduction in the margin.

2.2.2 Amorim Cork

Founded in 1922 in Santa Maria de Lamas, Amorim Cork is the world's largest producer, supplier and distributor of cork stoppers. Currently present on five continents, it has subsidiaries in the main wine-producing markets such as Spain, Italy, France, South Africa, Chile, Australia and the United States of America. This makes it the largest cork stopper distribution network on a global scale, enabling it to supply the best houses in the wine world with an exceptional portfolio of natural, micro-agglomerated, capsulated, ergonomic and customized stoppers.

Amorim Cork boasts the most advanced production technologies, unprecedented quality control and a strong know-how that guarantees unrivalled security in the supply of state-of-the-art products.

This business unit adds valuable investment in Research & Development and Innovation, especially in the organic nature of cork, resulting in some of the best solutions on the market. Examples include Twin top stoppers, the ideal technical product for high-speed bottling lines; NDtech technology, the most revolutionary quality control technique in the industry; and the Helix system, the first major wine packaging innovation of the 21st century.

The year 2023 was a positive one for Amorim Cork, continuing its growth.

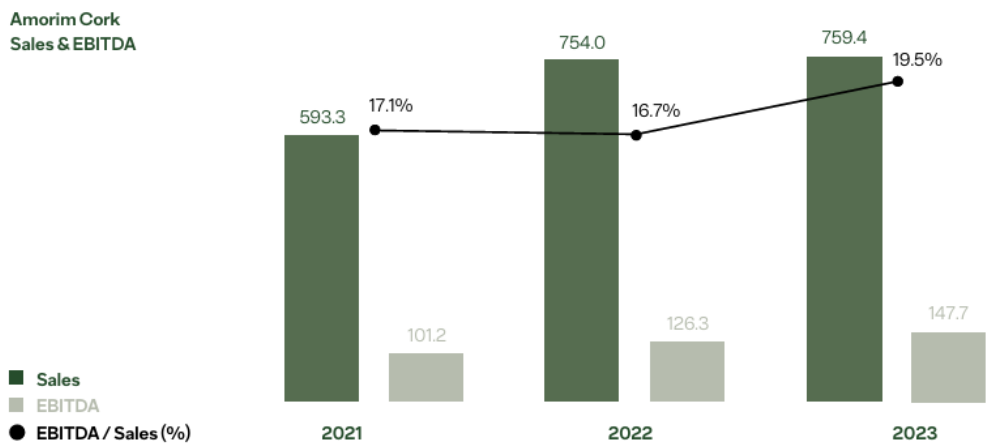

Figure 9: Cork Stoppers business unit performance

Improvements in the product mix and price increases continued to drive sales growth, but sales continued to be negatively affected by volume shortfalls (continued destocking in different wine segments and markets) and the exchange rate.

Despite the significant increase in cork prices, the EBITDA margin evolved very positively, supported by an improvement in the product mix; a reduction in energy and transport costs; a reduction in the prices of non-cork raw materials; and an increase in grinding yields.

Regarding the wine markets, the sparkling wine and spirits segments recorded resilient sales performances, while the still wine segment underperformed as lower consumption had an additional impact on volumes.

2.2.3 Amorim Cork Flooring

Founded in 1966, Amorim Cork Flooring is a global leader in the production and distribution of wall coverings, standing out as a benchmark in sustainable and innovative solutions. Present in more than 100 countries, the business unit offers a wide range of products that combine design, durability and performance, serving both the residential and commercial markets. Its international presence is reinforced by strategic offices, including recent expansions into Canada, where it promotes the Amorim Wise brand, specializing in aero-friendly solutions with a negative carbon balance.

Amorim Cork Flooring stands out for its continuous investment in Research & Development and the adoption of advanced technologies that guarantee the quality and sustainability of its products. Cork, a natural and renewable material, is at the heart of its strategy, in line with the global demand for responsible environmental practices. Examples include modular flooring systems, which are easy to install and maintain, and the integration of technologies that improve thermal and acoustic insulation.

With a strong commitment to the circular economy, the business unit promotes the reuse and recycling of materials, reinforcing its position as a leader in sustainability.

2023 was a negative year for Amorim Cork Flooring, with a drop in sales and in the EBITDA margin.

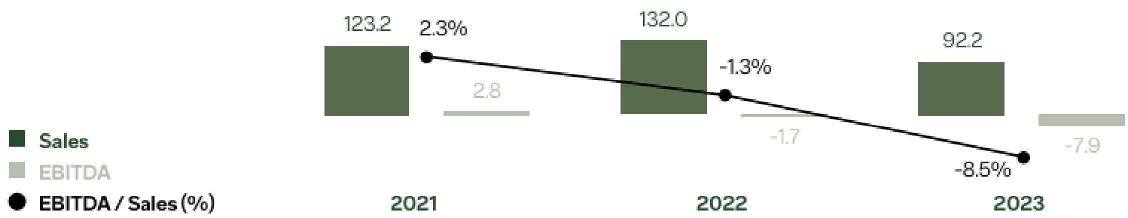

Figure 10: Floor & Wall business unit performance

The decline in the EBITDA margin mainly reflects the negative impact of operational deleveraging, despite having benefited from price increases, improvements in the product mix and a reduction in operating costs. Volume performance was the main reason for the significant decline in sales.

2.2.4 Amorim Cork Composites

Amorim Cork Composites, founded in 2000, is a global leader in the development and production of cork composites, offering innovative and sustainable solutions for a wide range of industries. Present in strategic markets around the world, it stands out for its ability to supply high-performance products to sectors such as automotive, aerospace, construction, renewable energy and sports.

The strong investment in Research & Development and Innovation has led to the creation of pioneering solutions, such as composites for vibration reduction and thermal and acoustic insulation, which are widely used in the automotive and construction industries.

This business unit also stands out for its commitment to sustainability, promoting the use of renewable materials and the circular economy. Notable examples include the development of composites for wind turbine blades, which contribute to energy efficiency and solutions for industrial packaging that reduce environmental impact.

The less favorable economic climate combined with the business unit's lower competitiveness hampered growth in 2023.

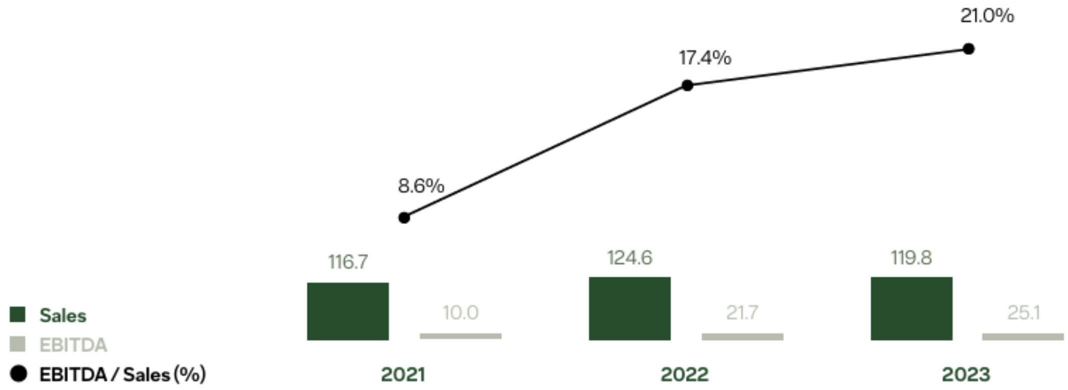

Figure 11: Composite Cork business unit performance

Sales fell by 3.8%, reflecting lower volumes which counteracted the benefits of improvements in the product range and price increases. The EBITDA margin increased significantly, mainly reflecting improvements in the product mix, as the most profitable sectors recorded the best performances in terms of sales, although they were negatively affected by operational deleveraging, higher cork prices and lower grinding yields.

2.2.5 Amorim Cork Insulation

Founded in 1969, Amorim Cork Insulation is a global leader in the development and production of cork insulation solutions, standing out as a benchmark in sustainability and energy efficiency. This business unit develops and supplies thermal and acoustic insulation solutions used in pipelines, airports, buildings, wine cellars and the refrigeration industry.

Insulation panels for high-energy buildings and coatings for industrial infrastructures, which help to reduce energy consumption, are examples of strong investment in Research and Development. The commitment to sustainability is clearly visible in examples such as the development of insulation solutions for green buildings and the application of cork in urban regeneration projects, which reduce environmental impact and improve energy efficiency.

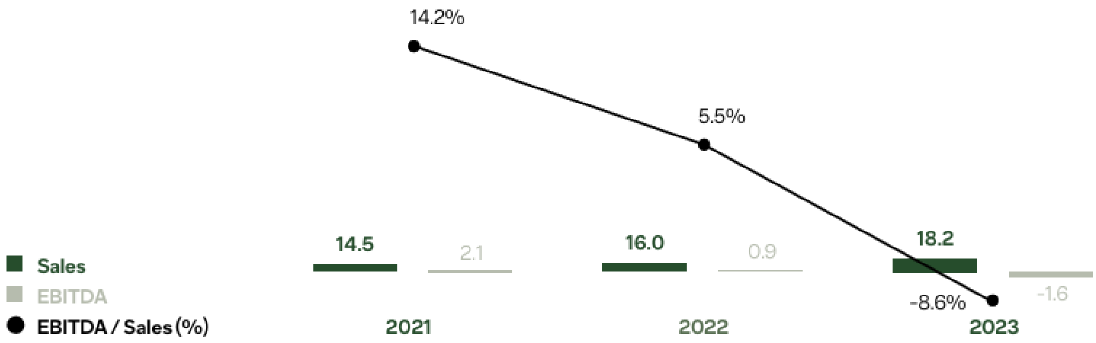

Figure 12: Insulation Cork business unit performance

Sales increased due to higher selling prices and an improved product range. Portugal, the business unit's most important market, recorded robust sales growth and sales performance in the Middle East was also positive. The increase in cork consumption prices and operational deleveraging were the main factors contributing to a significant drop in the EBITDA margin.

2.3 Recent Performance of Corticeira Amorim

In 2023, the world economy grew at a slower rate than the previous year and the average of the last decade pre-pandemic, specifically around 3.1%. This year has posed new challenges for economic agents and supply chain management and has kept additional pressure on the economic climate, above all due to geopolitical instability, with the persistence of the conflict in Ukraine, along with numerous smaller but related conflicts, the levels of price increases have registered rates clearly above the values corresponding to the concept of price stability and monetary policy has proved restrictive. In turn, inflation is thought to have slowed down overall.

In the financial year 2023, Corticeira Amorim recorded a consolidated turnover of 985.5M€, a decrease of 3.5% compared to the same period last year. It should be noted that, excluding the effect of the VMD group, sales would have fallen by 4%.

The unfavorable exchange rate effect helps explain the drop in sales. In geographical terms, the main destination for sales was once again France and there was an increase in the relative weight of sales to Italy due to the integration of the SACI Group in 2022.

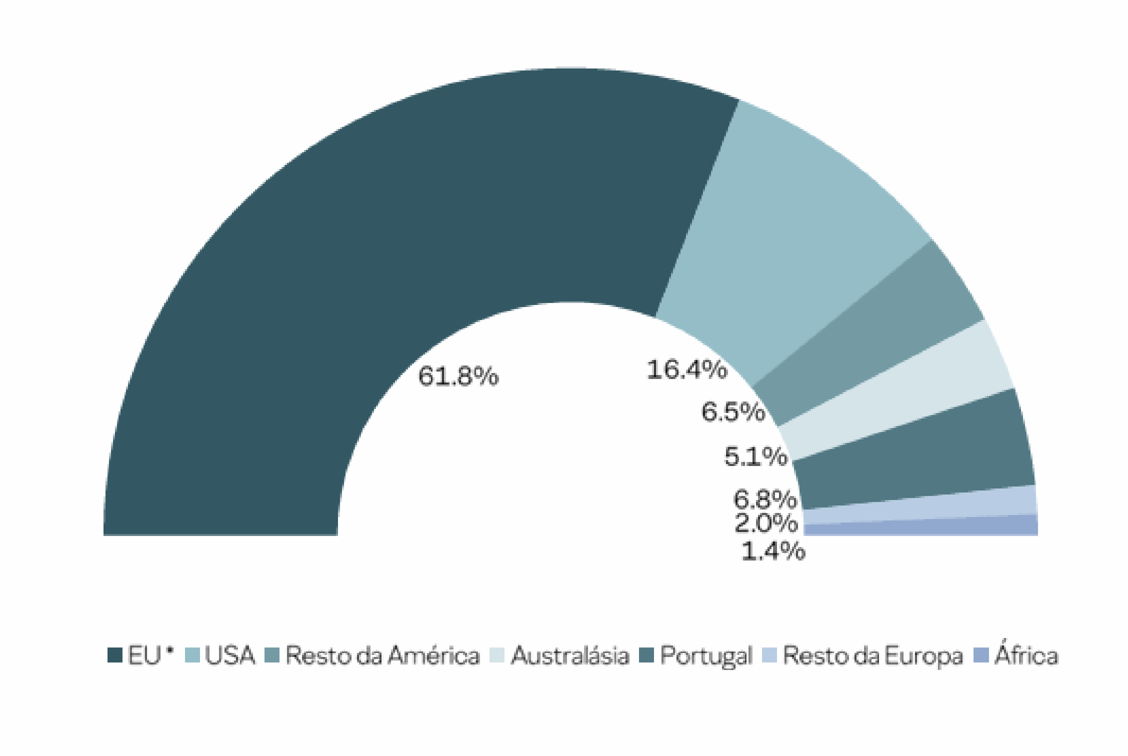

Figure 13: Consolidated sales by region

The gross margin on sales totaled 51.5%, corresponding to an increase of 0.2% compared to 2022. The change in production recorded a positive figure around €7.2M€, with Amorim Cork making the most significant contribution.

As for operating costs, there was a decrease of 6.3%. Supplies and external services fell by 18.9%, with electricity (down 62%) and transport (down 23%) costs being particularly noteworthy. The increase in average remuneration per employee explains the 3.7% rise in personnel costs.

Consolidated EBITDA rose to 177M€ (+7.9%), essentially as a result of an improved sales mix and significant savings in operating costs. Despite the negative impacts of the increase in cork consumption prices and operational deleveraging, the EBITDA margin stood at 18%, representing an increase of 1.9% on the previous year.

Net interest-bearing debt totaled 241M€ (12M22: 129M€), reflecting the payment of the 55% stake in the VMD Group, increases in investment in fixed assets and working capital requirements, as well as the payment of dividends.

Non-recurring results amounted to 0.8M€. These include capital gains of 5.1M€ resulting from the sale of a property in Corroios (investment properties), discontinuation costs of the product line at Amorim Cork Flooring (1.0M€) and restructuring costs (-3.2M€), essentially resulting from the industrial reorganization of a subsidiary at Amorim Cork.

Furthermore, Net Profit decreased to 88.9M€ (9.7%), as the figure for 2022 was positively affected by a favorable decision regarding tax contingency.

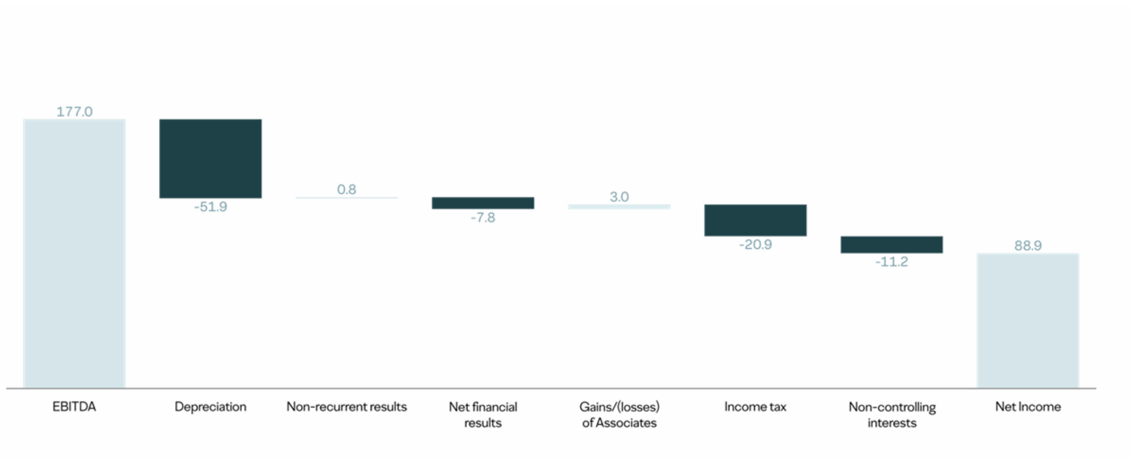

Figure 14: Net profit composition of Corticeira Amorim

Chapter 3

Cork Industry Overview

Cork is the bark of the cork oak tree. It is a totally natural raw material with unique properties that give it an unrivalled character. Cork is impermeable to liquids and gases, light, elastic and compressible, a thermal and acoustic insulator, very resistant to friction and slow burning. It is also totally biodegradable, recyclable and renewable.

Cork's potential continues to be recognized and, in a world where innovation, sustainability and ecology go hand in hand, this material is attracting interest from more and more sectors.

3.1 International Market for Cork

The role of Portugal as the unquestionable world leader in the production, transformation and commercialization of cork is partly explained by the significance of Corticeira Amorim in the cork industry. As the global market leader in every segment it operates, the company plays a crucial role in reinforcing Portugal´s dominance in this sector.

According to APCOR, the Portuguese National Association of Cork, the world cork exports have been growing rapidly, between 2011 and 2022, translating into an increase of almost 60%, surpassing 2000 million euros, as show in the graph below. Exports are highly concentrated geographically, with the top 10 exporters accounting for around 94% of the world total. Portugal is the main player, both in terms of production and exports (figures 16 and 17). However, since 2018, Portugal's share has fallen from 62% to 58.5%.

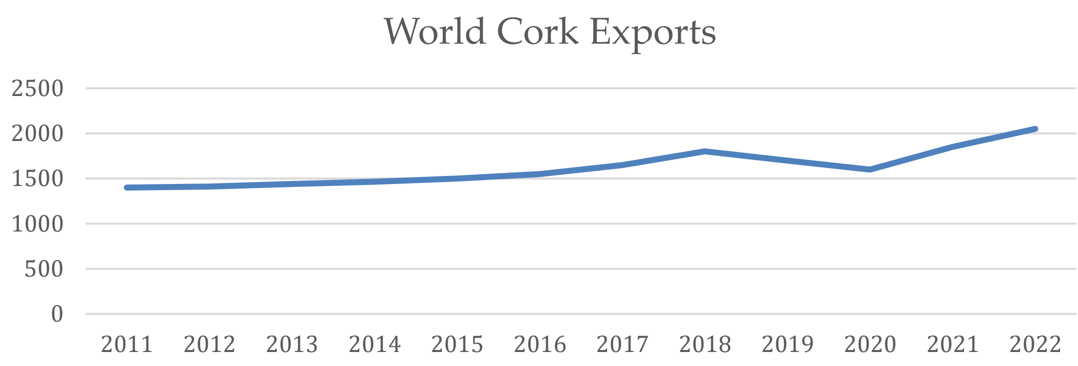

Figure 15: World Cork Exports

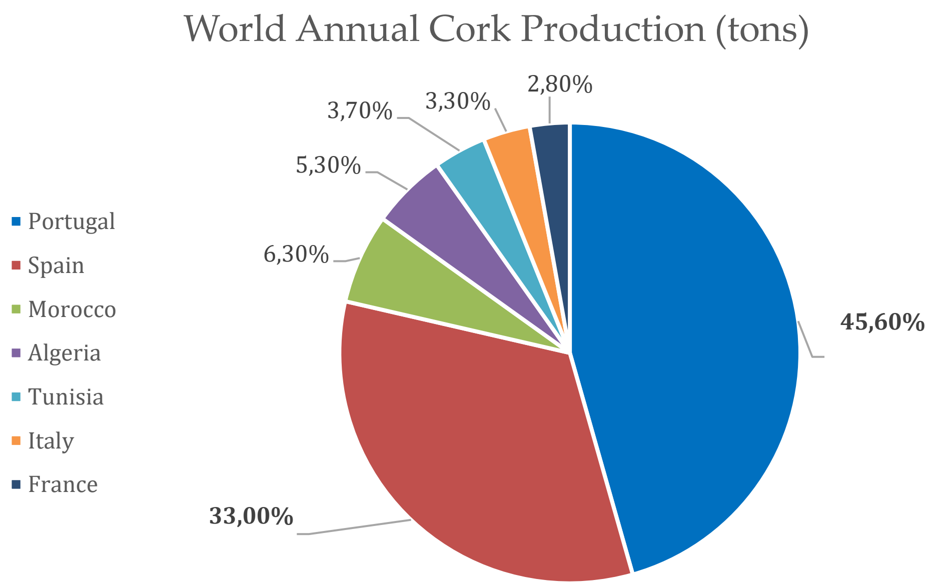

Figure 16: Production of Cork by Country (2022)

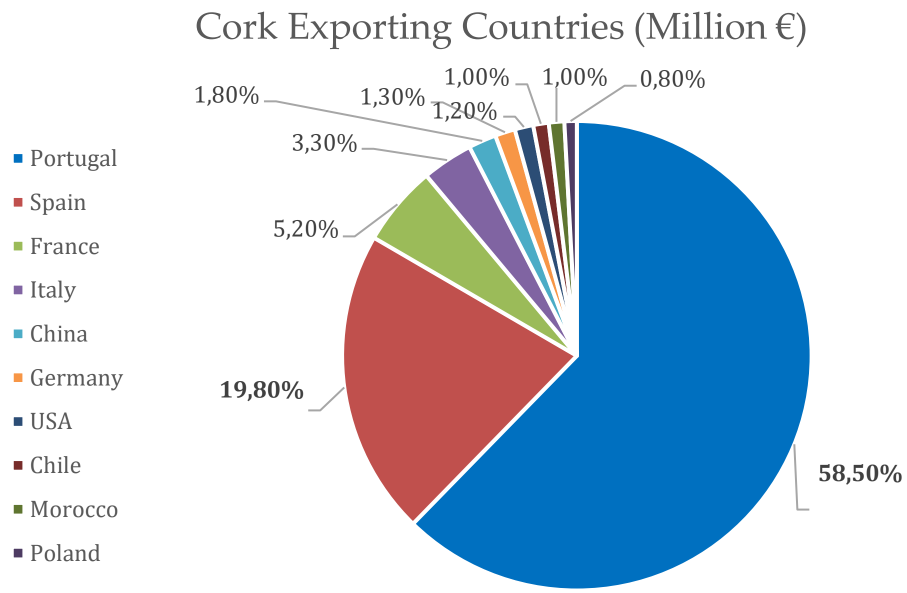

Figure 17: World Cork Exports in 2022

Regarding the world imports of cork, Portugal was the fourth largest importer in 2022 behind France (14.70% market share – 311M€), the USA (14.4% market share – 306M€) and Italy (12,3% market share – 262M€). With 12% market share, Portugal accounted 254M€ in cork imports, standing out for importing, mainly, natural cork to supply its manufacturing industry.

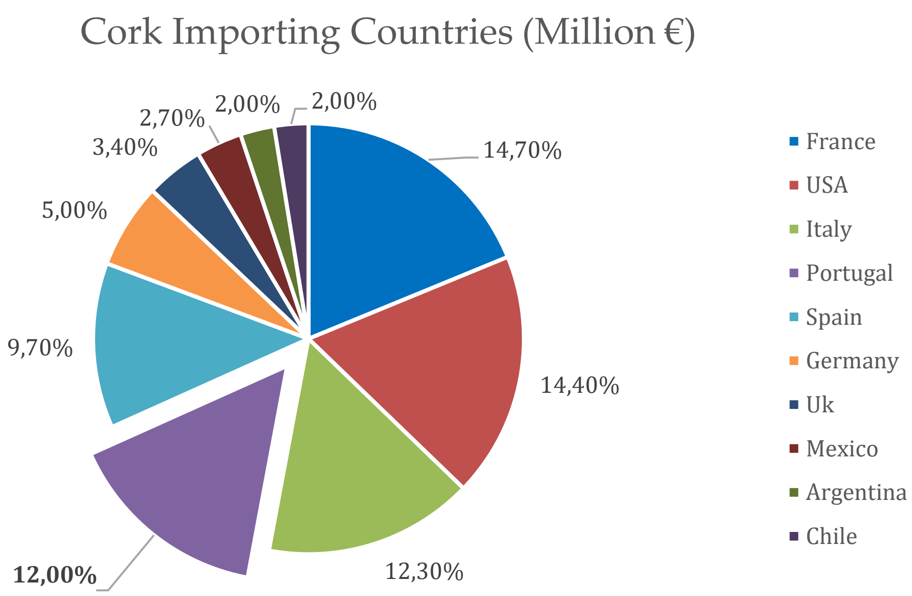

Figure 18: World Cork Imports in 2022

3.2 Portuguese Market for Cork

Portugal's foreign trade in cork and cork products is heavily in surplus, that is, despite the recent growth in imports, the coverage rate is extremely high, at around or exceeding 500%, a unique situation at national level.

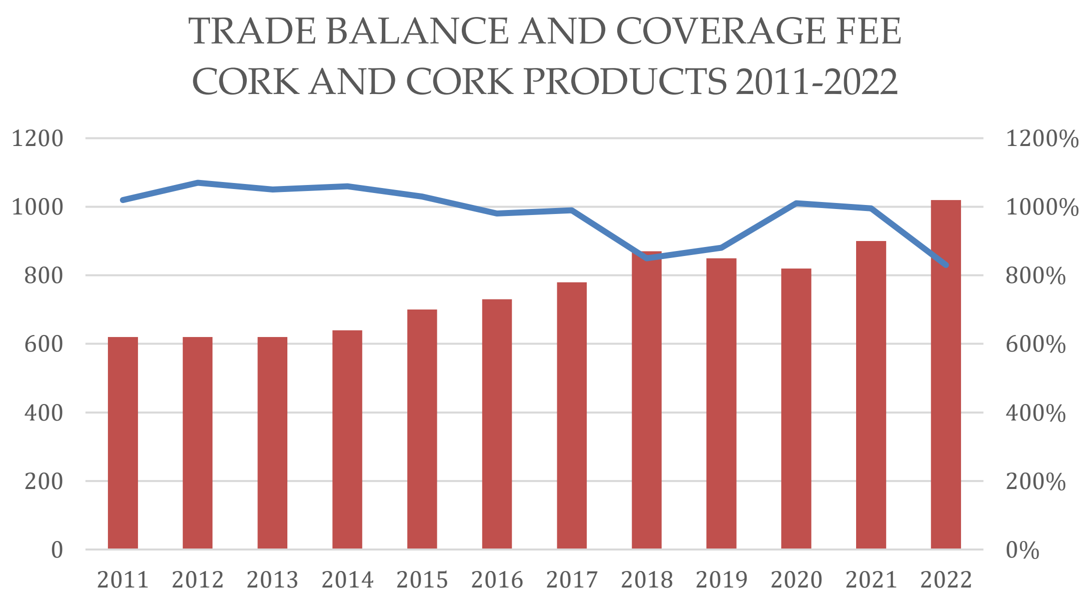

Figure 19: Trade Balance (%) and coverage fee (million €) cork and cork products 2011-2022

3.2.1 Cork Exports

The year 2022 was a new record for Portuguese cork, which, in addition to continuing its growth, exceeded 1212 million euros in exports, representing a growth of 7.6% compared to 2021.

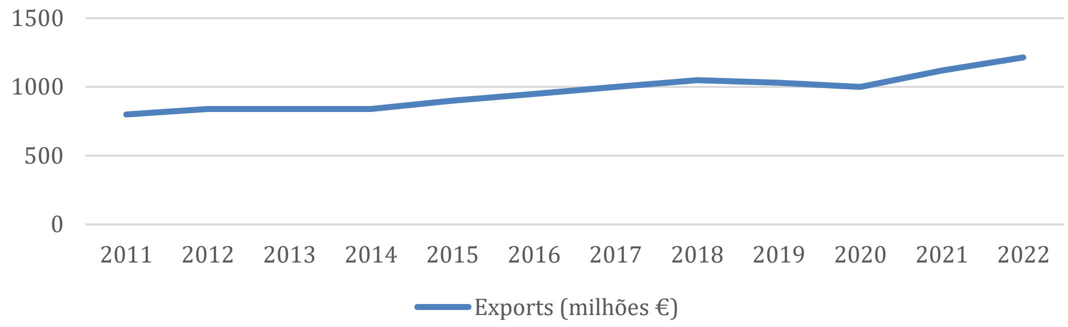

Figure 20: Portuguese cork exports (million €)

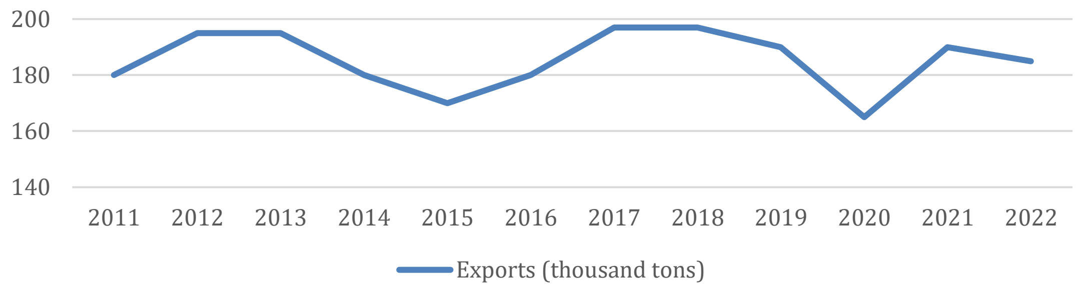

Figure 21: Portuguese cork exports (thousand tons)

Portuguese cork exports represented, in 2022, 1,5% of the total Portuguese exports. In comparative terms, USA and Italy are the countries which have the highest percentage of cork exports in relation to the total Portuguese cork exports, 3.9% and 3.8% respectively. The leading countries represent some of the most important wine markets in the world, expressing the interdependence between the two referred industries.

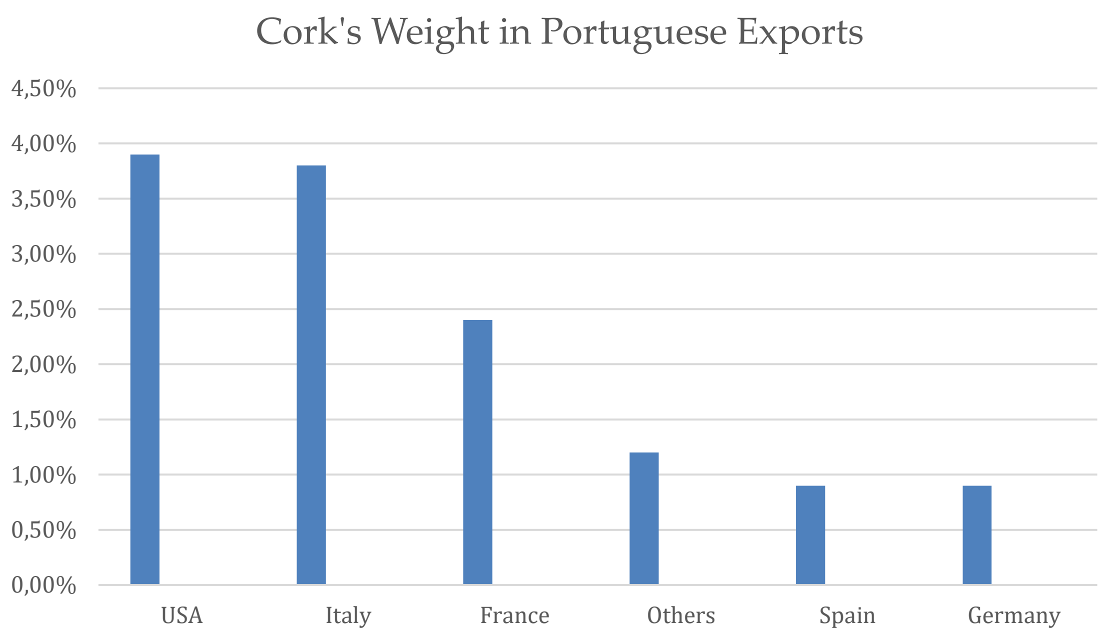

Figure 22: Cork export weights compared to total Portuguese exports

The geography of cork and cork product exports is stable, since the five main export destinations in 2022 were the same as in 2011 and their share varied only slightly from 66.7% to 68.9%. Among the top ten destinations, the only change was the withdrawal of Russia, due to the results of the sanctions imposed on it because of the conflict with Ukraine, in exchange for Mexico.

Main Export Markets

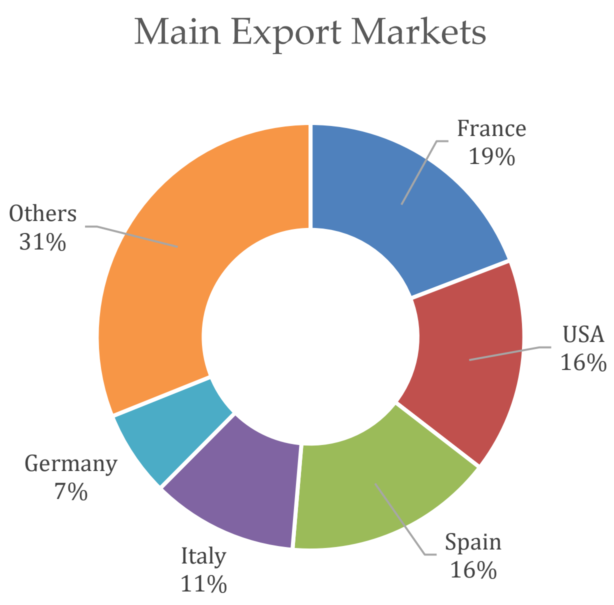

Figure 23: Portuguese Cork Exports by Country of destination

In terms of product categories, they all performed favorably, with cork stoppers being the main product exported by the cork industry, with a 74% share and growth of 8.4% on the previous year. Construction materials grew by 4.7% and account for 24% of the value exported. In recent years, cork stoppers have gradually increased, while building materials have seen residual growth.

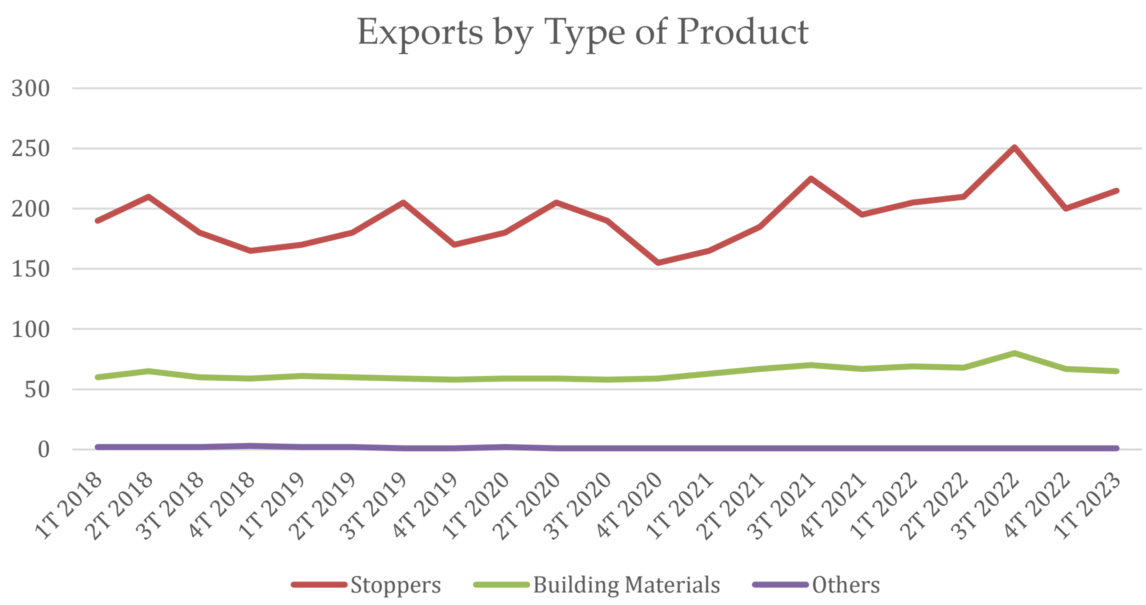

Figure 24: Main Products exported (million €)

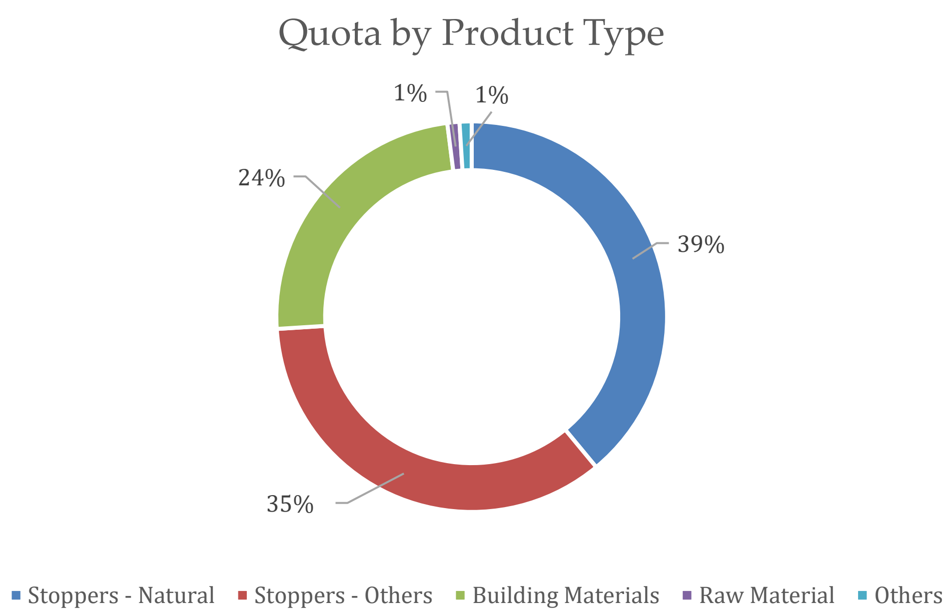

Figure 25: Quota by product type

Within cork stoppers, the trend of recent years was accentuated, with natural cork stoppers gradually losing relative importance compared to agglomerated cork stoppers. Particleboard stoppers accounted for 47% of exports, while natural stoppers accounted for 53%. In other words, since 2011, exports of natural cork stoppers have increased by 31.8% while those of agglomerate stoppers (other than for sparkling wine) have increased by 138.6%.

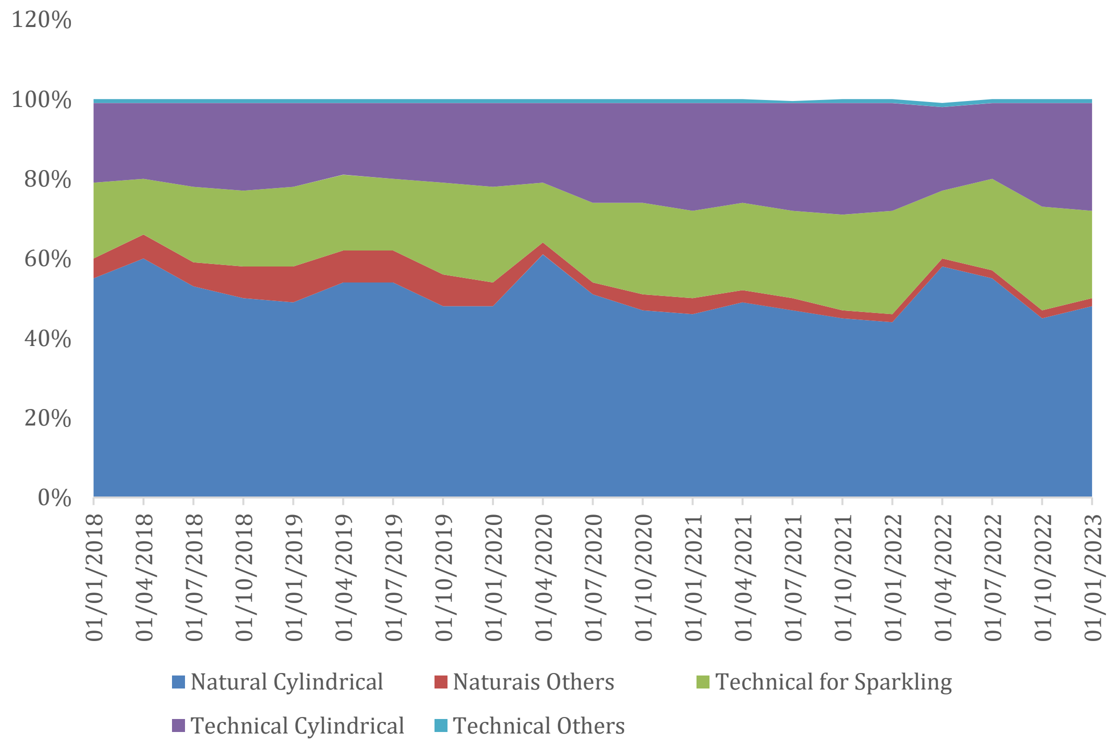

Figure 26: Exports by Type of Cork Stopper

Not only was the growth rate in exports of different types of stoppers different, but the origin of this growth was also different. In the case of natural cork stoppers, the 31.8% growth was due exclusively to the increase in the average value charged, which rose from 25.71 €/kg to 40.47 €/kg (+57.4%). However, the total value exported did not increase to the same extent because the quantity exported fell by 16%.

On the other hand, growth in exports of sparkling wine stoppers and other agglomerate stoppers benefited from a combination of increases in quantity and average value per kilogram, the former being more intense than the latter.

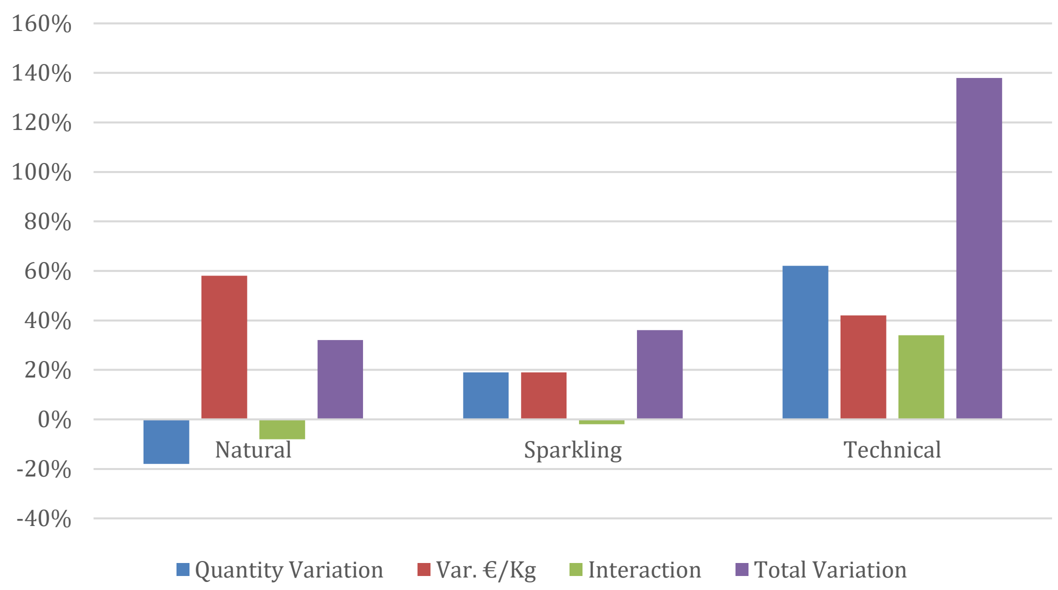

Figure 27: Breakdown of Cork Stopper Growth 2011-2022

3.2.2 Cork Imports

The quantity imported has been on the rise, exceeding 100,000 tons in 2022, with a record value of 256 million euros. In the last decade, these imports have increased by 41% in volume and 93% in value, implying a 37% increase in the average value paid per kilogram. Compared to the previous year, imports increased by 29.1% due to the limited availability of domestically produced raw materials.

As far as importing countries are concerned, there is a very strong geographical concentration with Spain being the largest supplier to the Portuguese market, accounting for around 73% of imports.

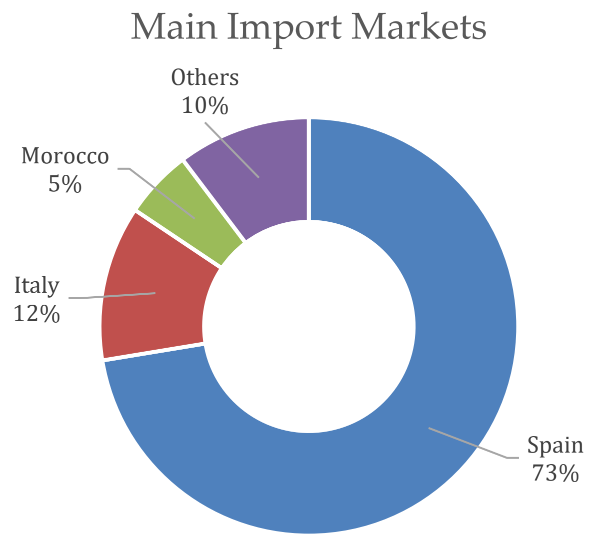

Figure 28: Main Countries of Portuguese Cork Imports

Unlike exports, cork imports are predominantly of raw materials, which usually account for more than half of the value imported, as can be seen in the graph below. It should be noted, however, that imports of cork stoppers have become increasingly important, and in the last three years, for example, have accounted for around a fifth of Portuguese cork imports.

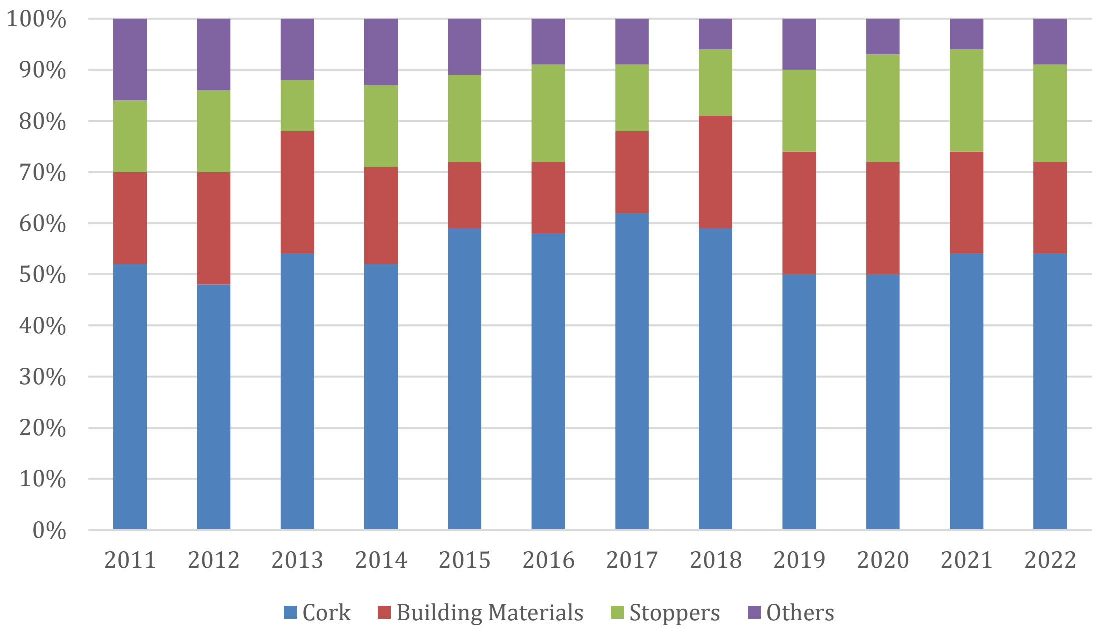

Figure 29: Composition of imports of cork and cork products 2011-2022

3.3 Wine Industry

In 2023, the global vine and wine sector faced tough challenges. With extreme climatic conditions and widespread fungal diseases severely impacted many vineyards worldwide, culminating in a historically low global wine production of 237 million hectoliters. This marked a 10% drop from 2022 and represented the lowest output since 1961. An analysis of the graphs shows that there has been a slight decrease in world wine production, with a more favorable trend in Europe than elsewhere. In the EU, there is a marked geographical concentration in three countries responsible for half the world's production: Italy, France and Spain. Meanwhile, the eight main countries outside the EU account for around a third of the world total, with the USA being the largest producer.

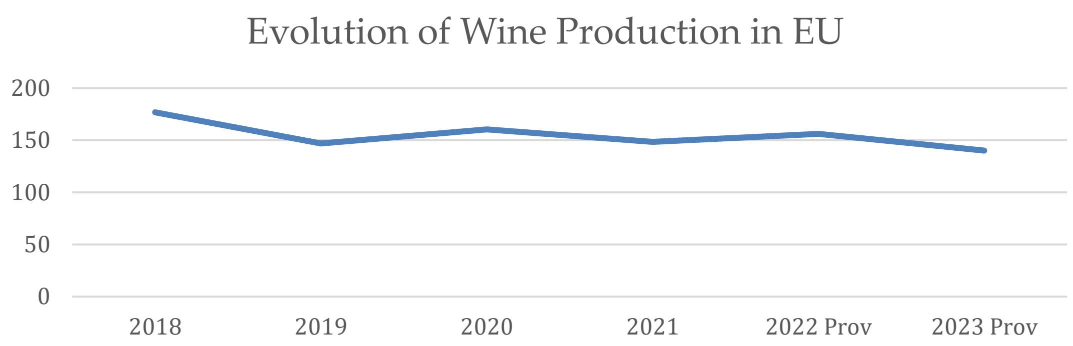

Figure 30: Evolution of Wine Production in EU

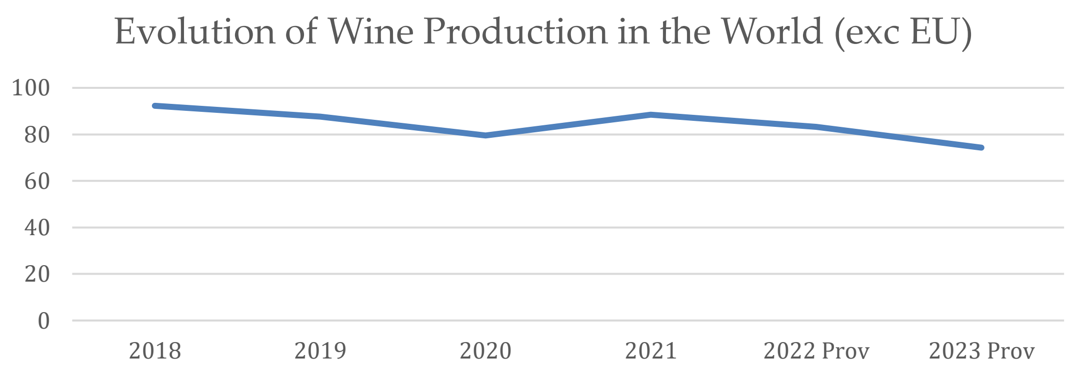

Figure 31: Evolution of Wine Production in the World (exc EU)

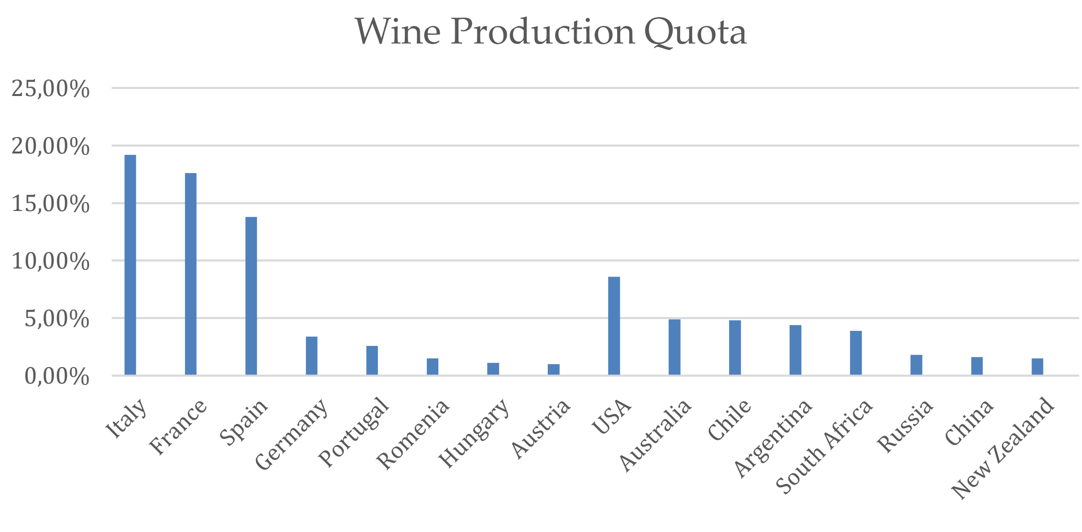

Figure 32: Wine Production Quota

In recent years, global wine consumption has remained relatively stable but has shown a slight downward trend. Wine production has generally remained higher than consumption. According to the figure 33, in 2023, provisional estimates suggest that production and consumption levels are converging.

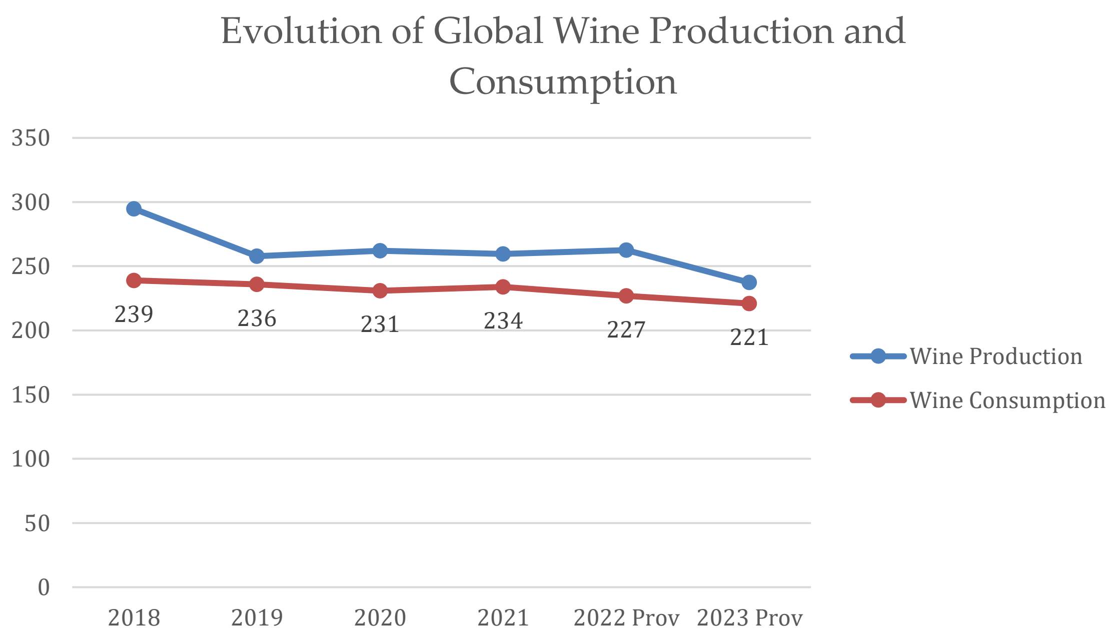

Figure 33: Evolution of Global Wine Production and Consumption

In terms of wine exports, there was a contrast regarding volume and value. The global wine export volume, in 2023, registered the lowest recorded since 2010 with 99,3 mhl, a decrease of 6,3% compared to the previous year. On the other hand, the global wine export value reached 36 billion euros, the second highest ever recorded. This resilient performance was attributed to a significantly high average export price of 3,62€/L, marking a 2% increase compared to 2022. As shown in figure 34, this was the highest price level ever recorded, 29% above the average of 2020.

Figure 34: Evolution of the average price of world wine exports

Figure 35: Main world wine exporters

Figure 36: Main world wine importers

Chapter 4

Cork-related Industry trends and Market Outlooks

4.1 Wine and Spirits Market

Global wine consumption is projected to continue its upward trajectory through 2029, driven by evolving consumer preferences and expanding markets. According to forecasts from the International Wine and Spirit Research (IWSR), the high-priced bottled wine segment, often associated with premium cork closures, is anticipated to be one of the fastest-growing categories by 2029. This growth is fueled by increasing demand for premium and ultra-premium wines, particularly in mature markets like the US, as well as emerging markets in Asia-Pacific.

The major trends shaping the world wine and spirits industry between 2025 and 2029 are presented in **Appendix 1**.

4.2 Construction and Building Materials Industry

One of the major trends in the construction and building industry is the growing demand and focus on "green" materials and "green building". Materials such as wood and cork have been gaining significant importance in the building materials sector, driven by the increasing environmental awareness of the market.

The global green building materials market size was valued at USD 423.10 billion in 2023 and is anticipated to reach around USD 1352.12 billion by 2033, growing at a CGAR of 12,32%. The growth is driven by rising awareness regarding climate change, government regulations encouraging sustainable construction practices and an increasing demand for energy-efficient buildings.

The insulation segment accounted for the dominating share in 2023 and is expected to have a growth rate of 11,5% over the forecast period. The residential segment held the largest share of the market, in 2023, with 54%.

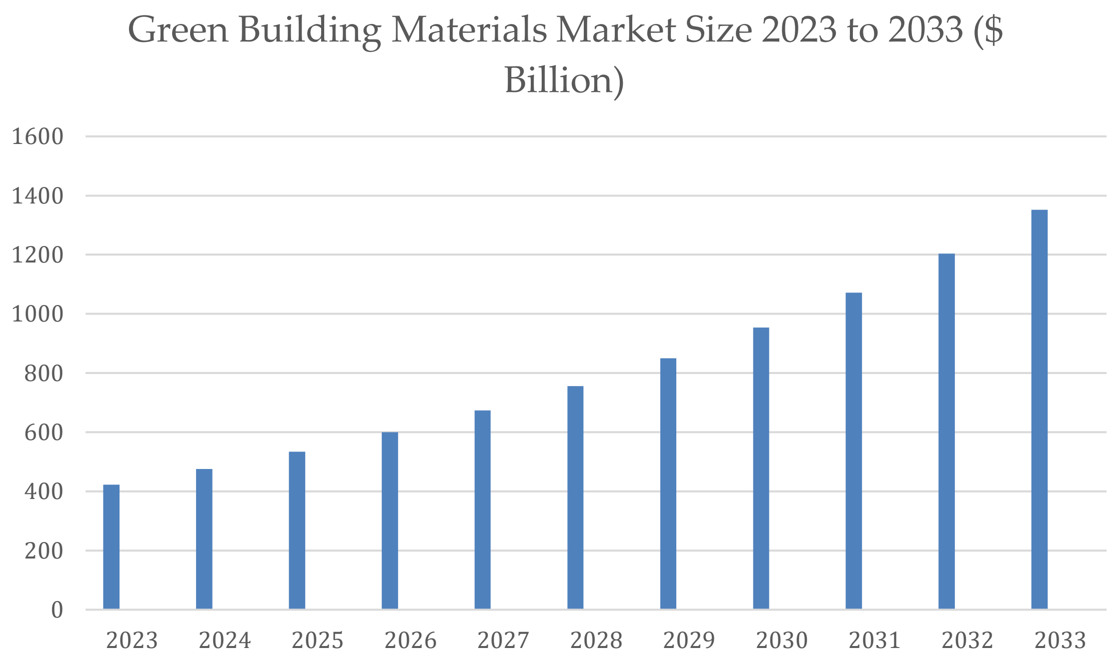

Figure 37: Green Building Materials Market Size

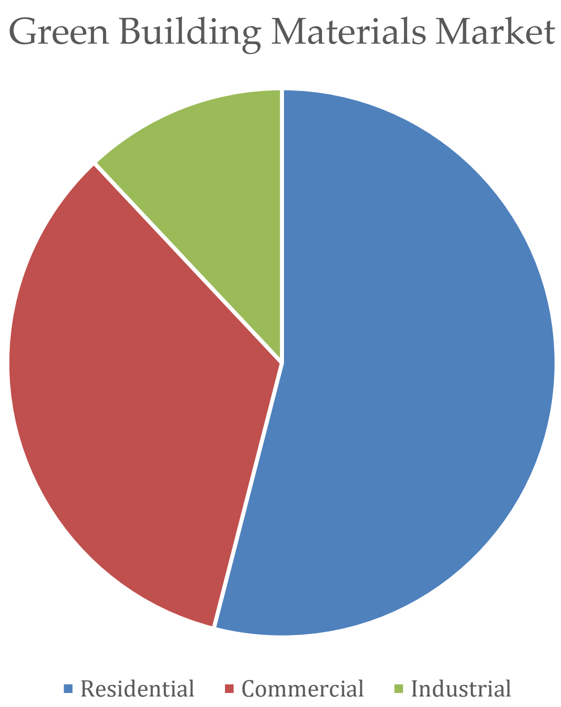

Figure 38: Green Building Materials Market

Chapter 5

Assumptions of the Discounted Cash Flow Valuation Model

5.1 Definition of the Study Period

When defining the study period for analyzing Corticeira Amorim, we sought to select a time interval that would allow us to comprehensively capture the company's main dynamics and transformations. This period was chosen to reflect the strategies implemented, the challenges faced and the results achieved, guaranteeing a robust basis for understanding its historical performance. This approach ensures that the analysis is representative of the company's reality and serves as a solid foundation for future projections. Regarding the number of years to be forecast before calculating the terminal value, the criterion chosen was to include a sufficient period of time for the company's activity to get into cruising speed.

Considering the established purpose, a ten-year study period was chosen, in which the first four years (2020, 2021, 2022 and 2023) correspond to the company's history, based on the available accounts reports. The following six years (2024, 2025, 2026, 2027, 2028 and 2029) represent the projection period, where the values of the accounting balance sheet and profit and loss account lines were estimated. It should be noted that at the time this analysis was carried out, the accounts report for 2024 was not yet available.

5.2 Sales Forecast

Sales forecasting is one of the key elements in the cash flow estimation process.

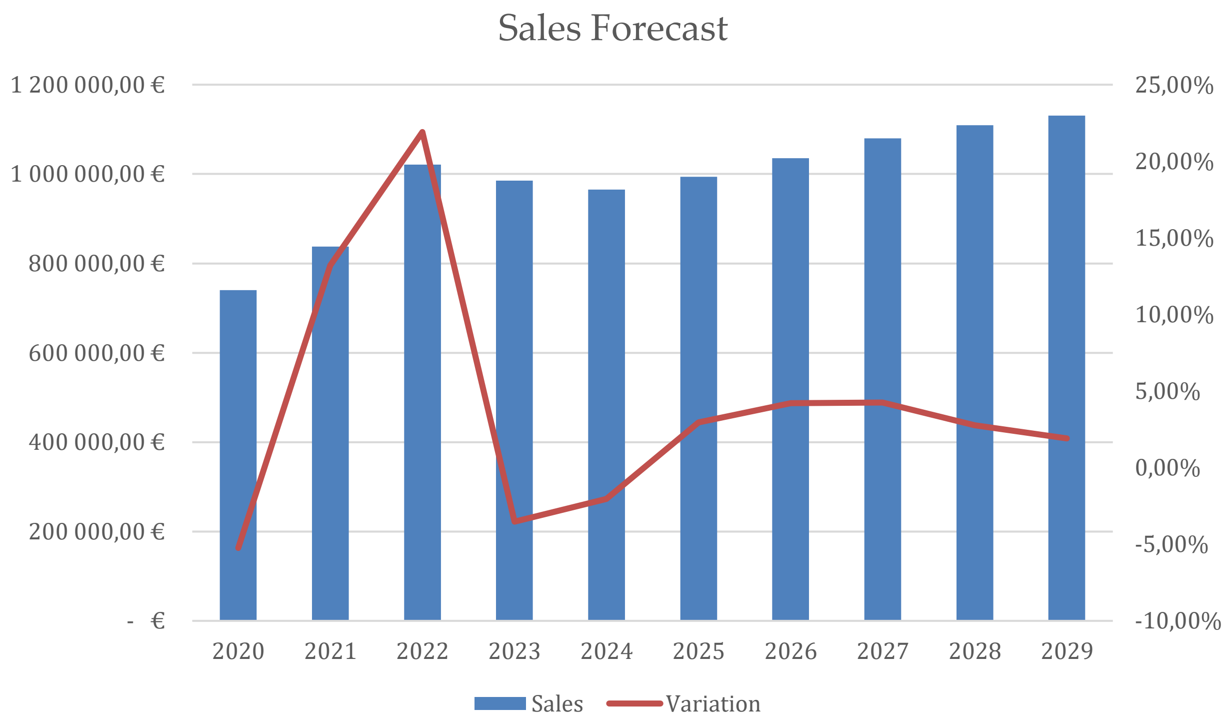

Figure 39: Sales forecast

In view of this, a growth rate of 2% was set as the cruising speed, supported by growth starting in 2025, after a difficult 2024, and settling down over the years.

This forecast was made in accordance with the company's future planning, which is why it was split into two parts. As previously mentioned, at the time of this valuation exercise, the accounts report for 2024 was not yet available, so it was necessary to estimate sales.

To do this, the ratio between sales at the end of the first half and sales at the end of the respective year was analyzed. This percentage was analyzed for the four years studied and, adding to the constraints of the company and the sector, the figure for 2024 was estimated.

For the remaining years, the strategic change outlined by the company for the business units was considered. Based on the company's outlook and my view on the company’s future evolution, the impact this change would have on the company's life was estimated, and the sales figures were then estimated.

As far as the “cork stopper” business is concerned, improvements to the product mix, initiatives to improve the cost structure, gains in operational efficiency and the development of multiple projects should result in increased profitability.

Regarding the “non-cork stopper” business, Amorim Cork Solutions' new organizational model should guarantee greater operational flexibility, optimize existing assets and enhance the value of cork as a benchmark raw material, thus strengthening the business. It is also important to highlight the synergies that will be boosted by this reorganization and the adoption of a new distribution model for coverings, giving priority to an international network of distributors rather than its own distribution companies.

Synergies can have a significant impact on a company's sales by boosting revenue generation through the strategic integration of resources, competences and markets. Porter (1998) argues that coordination between business units and the sharing of value chains can expand cross-selling opportunities and improve competitive positioning, resulting in an increase in sales volume.

5.3 Forecasting Operating Costs

After performing a sales forecast, by each business unit, in the last chapter, the next step in the DCF Valuation is to analyze the Group’s operating expenses, within the previous 4 years, and use this data to estimate such costs for the 6 years that will follow.

The estimate of the operating costs with the greatest weight in the calculation of EBITDA (CMVMC, ESS and Personnel Costs) was made in a precise and specific way for each of these items, as well as taking into account the company's strategy for them.

The CMVMC forecast was obtained from the ratios, calculated from 2020 to 2023, between the value of this cost and the value of sales. The value of the average for these years was lowered a little, since the value of the Gross Margin was increasing and therefore a correction was necessary. This value was kept constant for the rest of the years.

For the Personnel Expenses item, the company's reality and its forecast for salary increases were considered. There has been a tendency for salaries to grow steadily and this is the pace that is expected until the end of our study period.

The strategy outlined by the company for the Business Units was the main factor in estimating the ESS item. The company increasingly intends to be able to produce its resources without having to resort to third parties, which is why growth is constant throughout the period. The year 2024, as it is still before the implementation of this new strategy, was estimated according to the projections and the situation at the end of the first half of 2024.

5.4 EBITDA forecast

As can be seen in figure 40, the EBITDA values don't show major variations, only a slight continuous increase over the years, which would be expected given the increase in sales along with the increase in costs.

The EBITDA margin, in turn, will evolve significantly from 2024 onwards, as a result of the consolidation of the strategy implemented by Corticeira Amorim. This strategy was based on fundamental pillars such as the optimization of production processes to increase operational efficiency and the diversification of the portfolio of products with greater added value (for example, high-quality cork stoppers for premium wines and innovative cork solutions for sustainable construction). In addition, the company implemented sustainability initiatives that not only reduced operating costs, but also strengthened its reputation as a leader in ESG practices.

The EBITDA margin reached its maximum value in 2027, reflecting the high point of the strategy's consolidation. After this year, there is a slight stabilization, reflecting the sustainability of the improvements implemented. In 2023, Corticeira Amorim had an EBITDA value of 176,985 thousand euros, while in the last year of the forecast, 2029, the EBITDA value reached 210,438 thousand euros, translating into a growth of approximately 19%. This increase in EBITDA is consistent with the evolution of the EBITDA margin and the growth in sales, demonstrating the company's ability to improve its operating profitability while expanding its operations.

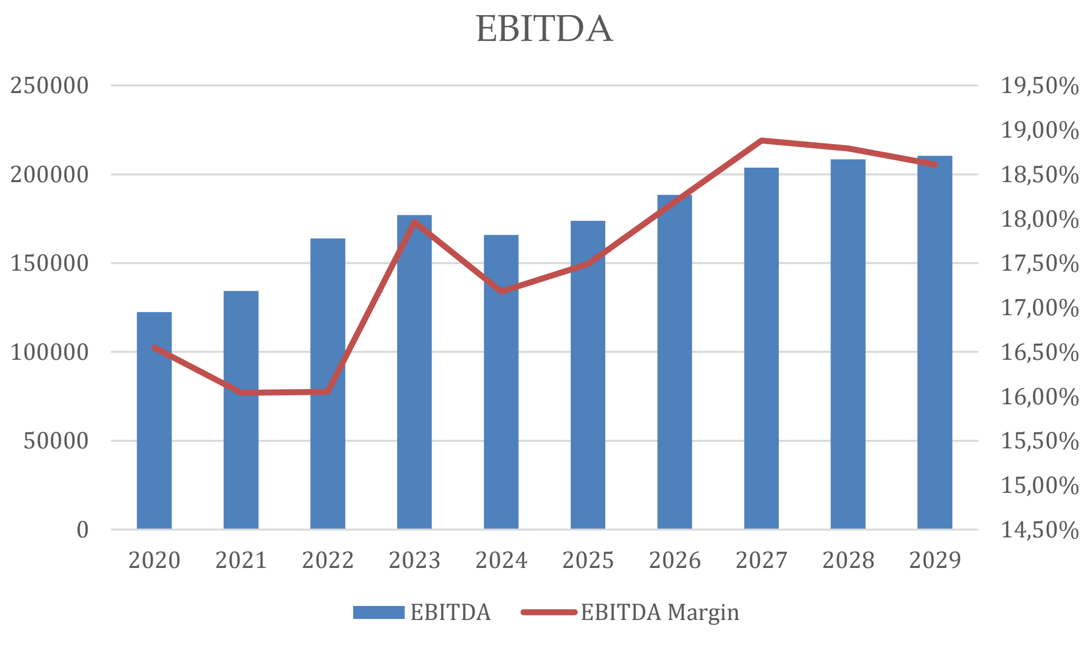

Figure 40: EBITDA forecast

Table 1: Projection of the Income Statement

Income Statement	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Revenues	740113	837820	1021391	985467	965257	993711	1035533	1079562	1109430	1130498
CMVMC	350210	410354	512131	485063	468150	481950	502234	523588	538074	548292
Change in manufactured inventories	13540	11649	14506	7229	7428	7633	7844	8060	8283	8511
Gross Margin	376363	415817	523766	507633	504535	519394	541143	564034	579639	590718
Selling, General and Administrative Expenses	123200	142554	186475	151167	155702	158038	159618	161214	162826	164455
					3,00%	1,50%	1,00%	1,00%	1,00%	1,00%
Personnel Expenses	138054	146098	182950	189732	193527	198365	204316	210445	217811	225434
					2,00%	2,50%	3,00%	3,00%	3,50%	3,50%
Impairments of assets	645	2249	157	1195	1187	1188	1189	1190	555	565
Other income	13509	11915	20936	20088	20456	20830	21211	21599	20303	20688
Other costs	6752	6930	11166	8651	8731	8812	6894	6977	10318	10514
EBITDA	122511	134399	163954	176985	165844	173821	188337	203807	208433	210438
D&A	36332	40282	48416	51471	54422	57058	59822	62720	65759	68946
	3,28%	10,87%	20,19%	6,31%	5,73%	4,84%	4,84%	4,84%	4,85%	4,85%
Operating Income	86179	94117	115538	125514	111422	116763	128515	141087	142673	141492
Non-recurrent results	5816	6386	804	782	782	782	782	782	782	782
Financial income	227	102	590	1494	579	596	621	648	666	713
	0,03%	0,01%	0,06%	0,15%	0,06%	0,06%	0,06%	0,06%	0,06%	0,06%
Financial costs	2368	1688	3375	9319	13701	14211	14969	15823	16675	17639
Gains (losses) in associates	2105	2995	4846	3011	3475	3577	3728	3886	3994	4070
Profit before tax	80327	101912	116795	121482	102558	107507	118678	130580	131440	129417
Income tax	11502	18422	5939	20903	32306	33865	37383	41133	41404	40766
					31,50%	31,50%	31,50%	31,50%	31,50%	31,50%
Profit after tax	68825	83490	110856	100579	70252	73642	81294	89447	90036	88651
Non-controlling interests	4285	8281	12238	11239	6765	7092	7829	8614	8671	8537
	6,20%	9,92%	11,04%	11,17%	9,63%	9,63%	9,63%	9,63%	9,63%	9,63%
Net Income	64540	75209	98618	89340	63487	66550	73466	80833	81366	80114

5.5 Capital Goods Investment Forecast

The forecasts for Investment in Capital Goods between 2024 and 2029 are based on the annual change in net fixed assets plus the respective amortizations for the year as a whole.

It is estimated that investment in capital goods will be higher in the first few years of the forecast and that, thereafter, its growth rate will tend to converge with the growth rate of sales. The growth and expansion of Corticeira Amorim's economic activity and the proactive business strategy geared towards improving customer value and continuous investment in research and development and innovation (R&D+I) are two important strategic guidelines for Corticeira Amorim which justify the CAPEX figures estimated for the coming years. The recent acquisition of 50% of Cold River's Homestead, S.A. is a good example of Corticeira Amorim's strategic path for the coming years, with a view to sustainable growth.

In 2023, CAPEX represented around 10% of the value of sales for that year. At the end of the forecast, it is estimated that this figure will fall to 4%, bringing it closer to the expected growth in sales. On the other hand, the Capex growth rate in 2029 is approximately 1.90%, in line with the perpetual sales growth rate.

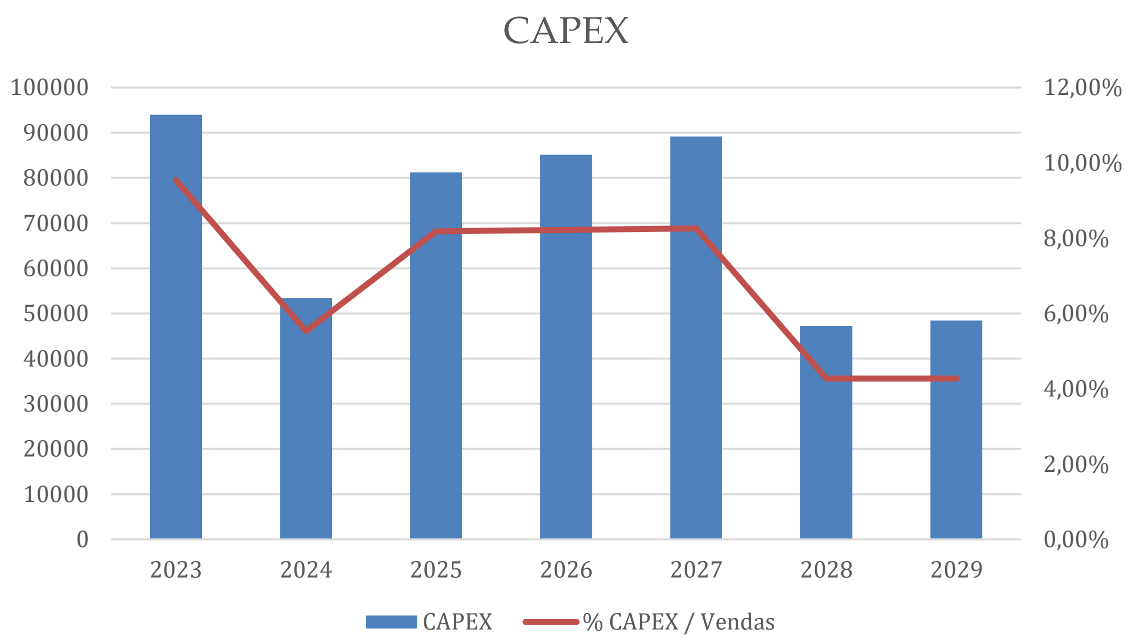

Figure 41: Projection of the evolution of the growth rate of investment in capital goods

5.6 Depreciation and Amortization Forecasts

The depreciation forecast was determined, for each category of Gross Fixed Assets, based on the calculation of a depreciation rate, which results from the average weight of the depreciated value per period, referring to an annual financial year, in the gross value of the Gross Fixed Assets of the respective category for the last four years. These depreciation rates have remained constant over the years that make up the period studied, and this regularity was the basis for drawing up the forecast of depreciation values, ending up with a constant depreciation rate of approximately 4.20%.

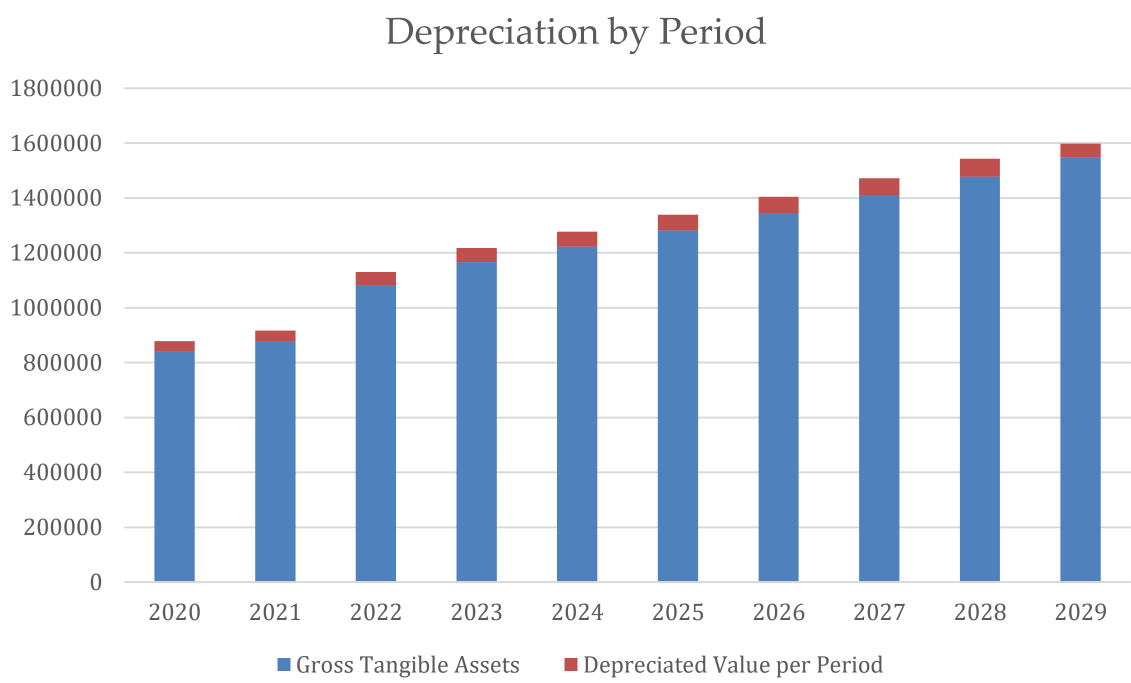

Figure 42: Forecast year depreciation of Corticeira Amorim

Table 2: Projection of Net Tangible Fixed Assets

Fixed Assets	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Land and Buildings	291734	296569	380562	399510	421629	442078	463519	486000	509571	534285
Equipments	485471	519249	593792	670248	700922	734917	770560	807932	847117	888202
Other Tangible Assets	38207	38960	54791	60341	58818	61670	64661	67798	71086	74533
Tangible Assets in Progress	26536	20838	52189	36160	41087	43080	45169	47360	49657	52065
Gross Tangible Assets	841948	876743	1081334	1166259	1222823	1282129	1344313	1409512	1477873	1549550
Accumulated Depreciation (Beginning of Period	542340	560272	592753	688745	727962	795691	834282	874744	917169	1004954
Depreciation Rate	3,81%	3,97%	3,78%	3,75%	3,83%	3,83%	3,83%	3,83%	3,83%	3,83%
Period Depreciation	32072	34788	40898	43727	46834	49106	51487	53984	56603	59348
Accumulated Depreciation (End of Period)	560272	592753	688745	727962	795691	834282	874744	917169	1004954	1098011
Net Tangible Assets	281676	283990	392589	438297	427132	447848	469568	492343	472919	451539
Gross Intangible Assets	25934	30239	44551	46958	49235	51623	54127	56752	59505	62391
	39,33%	16,60%	47,33%	5,40%						
Accumulated Depreciation (Beginning of Period	7761	9764	12974	22564	28940	28940	28940	28940	28940	28940
Depreciation Rate	7,30%	9,76%	11,80%	13,69%	10,64%	10,64%	10,64%	10,64%	10,64%	10,64%
Period Depreciation	1894	2951	5258	6427	5238	5492	5758	6037	6330	6637
Accumulated Depreciation (End of Period)	9764	12974	22564	28940	23736	24888	26095	27360	30764	34371
Net Intangible Assets	16170	17265	21987	18018	25499	26736	28032	29392	28741	28020
Gross Investment Properties	22121	22121	13936	6403	6092	5797	5516	5248	4994	4752
	0,02%	0,00%	-37,00%	-54,05%						
Accumulated Depreciation (Beginning of Period	16730	16718	16810	9970	4163	4388	4176	3973	3780	3770
Depreciation Rate	0,51%	0,42%	0,28%	1,14%	0,59%	0,59%	0,59%	0,59%	0,59%	0,59%
Period Depreciation	113	92	39	73	36	34	33	31	29	28
Accumulated Depreciation (End of Period)	16718	16810	9970	4163	4388	4176	3973	3780	3770	3748
Net Investment Properties	5403	5311	3966	2240	1704	1621	1543	1468	1223	1004
Gross Right of Use Assets	11531	13114	12610	13584	14243	14934	15658	16417	17214	18048
	13,19%	13,73%	-3,84%	7,72%						
Accumulated Depreciation (Beginning of Period	4150	5289	6941	8045	8538	8027	8417	8825	9253	10123
Depreciation Rate	19,54%	18,69%	17,61%	9,16%	16,25%	16,25%	16,25%	16,25%	16,25%	16,25%
Period Depreciation	2253	2451	2221	1244	2314	2427	2544	2668	2797	2933
Accumulated Depreciation (End of Period)	5289	6941	8045	8538	8027	8417	8825	9253	10123	11331
Net Right of Use Assets	6242	6173	4565	5046	6216	6517	6833	7165	7090	6718

5.7 Forecast of Changes in Working Capital

This variable serves as an indicator of a company's operational efficiency, since a company's working capital needs or requirements is commonly referred to as net working capital, since it may be obtained by the result of the subtraction of its operating current liabilities (accounts payable) to its operating current assets (inventories and accounts receivable). Whereas a company with a positive net working capital is currently exceeding its current liabilities and has, in a general way, a potential for growth and future development.

The inventory forecast was based on the assumption (Average Inventory Days/365)*COGS. By incorporating the average storage time and the real cost of goods sold, it provides an accurate and realistic estimate of inventory and also connects inventory to the operating cycle, making it relevant for managing Net Working Capital. Between 2024 and 2029, the value of this item is expected to increase by approximately 17%.

Meanwhile, the forecast for Customers and Suppliers was based on the ratio between these items and the value of sales, using the average between 2020 and 2023 as a reference value. Along with inventories, these two items showed the same growth.

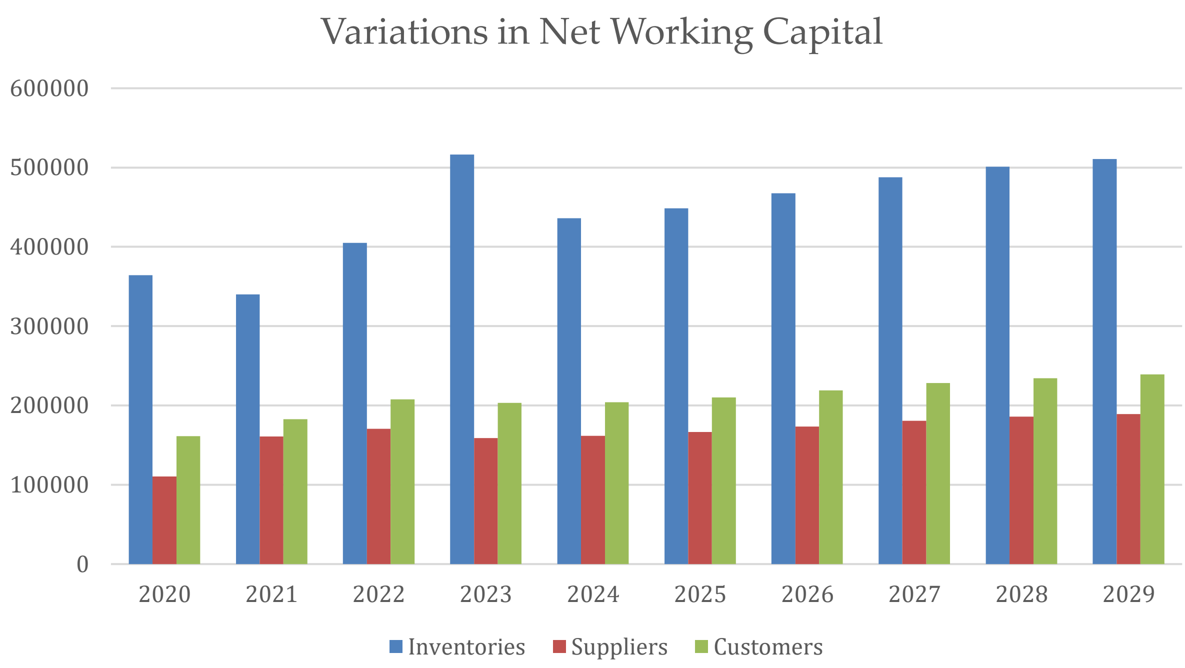

Figure 43: Projection of changes in Net Working Capital

Regarding the average time to receive payment from customers, the value remained constant, thus seeking to maintain long-term relationships with strategic customers, which makes the level of distrust and uncertainty in receiving the value of this item very low.

As for suppliers, the average payment period remained constant at 117 days, apart from 2021. This period reflects a payment policy that balances preserving liquidity with maintaining stable relationships with suppliers, many of whom are local cork producers. The reduction in operating costs (e.g. electricity and transport) combined with technological innovation suggest that the company has been able to negotiate favorable conditions while maintaining consistent payment terms.

Corticeira Amorim SGPS, S.A. establishes contracts with suppliers that allow payments to be made with a term of approximately 4 months, while most contracts with customers have an average payment term less than three months.

This relationship between the indicators enables the company to finance its purchases from suppliers with the amounts received from customers.

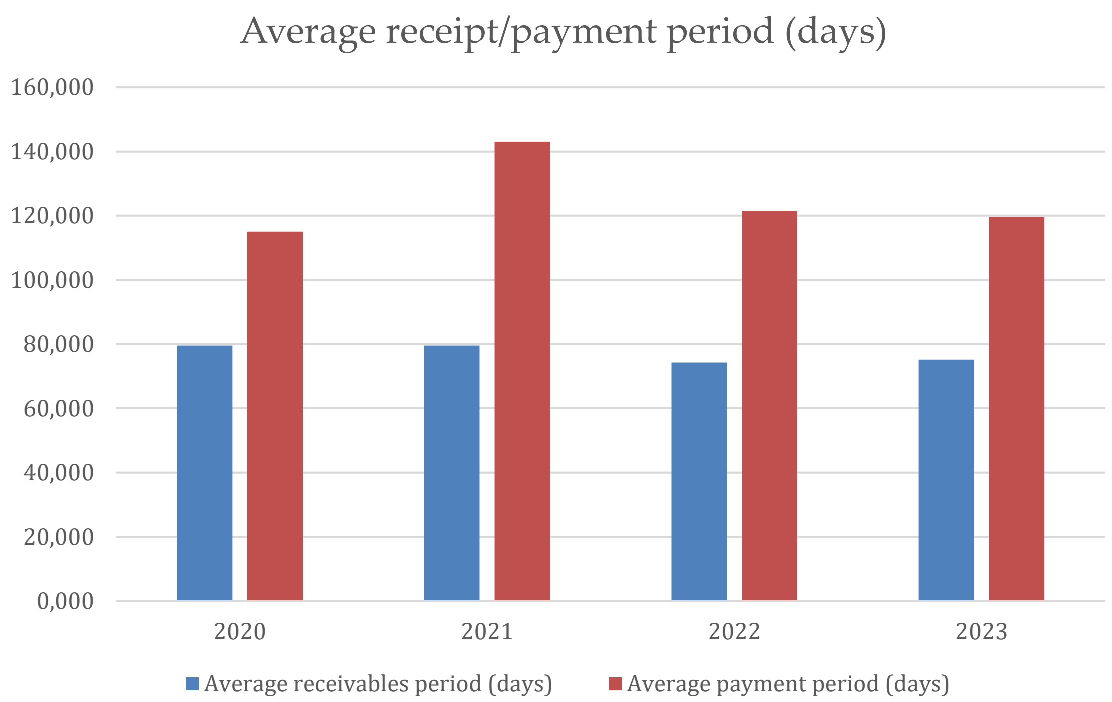

Figure 44: Evolution of average payment and receipt periods

Table 3: Inventory Turnover and Average Receipt and Payment Periods

Working Area	2020	2021	2022	2023
Average inventory turnover (days)	0,99	1,24	1,38	1,07
Average receivables period (days)	79,578	79,574	74,256	75,217
Average payment period (days)	115,064	143,050	121,552	119,644

Table 4: Projection of changes in Net Working Capital

Demonstração dos Fluxos de Caixa	2020	2021	2022	2023	Average	Forecast D	2024	2025	2026	2027	2028	2029
Current Assets	532709	535707	649512	749465			662020	681535	710218	740415	760900	775350
Inventários	364109	340167	405229	516497			435956	448808	467696	487582	501072	510587
	49,20%	40,60%	39,67%	52,41%	45,47%	45,47%						
Trade Receivables	161360	182653	207792	203080			204055	210071	218912	228219	234534	238987
	21,80%	21,80%	20,34%	20,61%	21,14%	21,14%						
Income tax assets	4838	10398	12370	7951			9460	9738	10148	10580	10872	11079
	0,65%	1,24%	1,21%	0,81%	0,98%	0,98%						
Other current assets	2402	2489	24121	21937			12548	12918	13462	14034	14423	14696
	0,32%	0,30%	2,36%	2,23%	1,30%	1,30%						
Current Liabilities				238763								
Trade Payables	110402	160825	170549	159000			161584	166347	173348	180719	185719	189245
	14,92%	19,20%	16,70%	16,13%	16,74%	16,74%						
Other borrowings and creditors	58454	63517	70337	75817			72491	74628	77769	81075	83318	84900
	7,90%	7,58%	6,89%	7,69%	7,51%	7,51%						
Income tax liabilities	1767	4421	6661	3946			4344	4472	4660	4858	4992	5087
	0,24%	0,53%	0,65%	0,40%	0,45%	0,45%						
Net Working Capital	362086	306944	401965	510702			423601	436088	454442	473764	486871	496117
Changes in Working Capital	-	-55142	95021	108737			-87101	12487	18353	19322	13108	9246
Working Capital % sales	49%	37%	39%	52%	44%	44%	44%	44%	44%	44%	44%	44%

Table 5: Projection of the Balance Sheet

Balance Sheet	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
Tangible Assets (Property, plant & equipment	281676	283990	392588	438297	427132	447848	469568	492343	472919	451539
Intangible assets	16170	17266	21987	18018	25499	26736	28032	29392	28741	28020
Right of use	6241	6173	4564	5046	6216	6517	6833	7165	7090	6718
Goodwill	13746	9843	18874	23872	23872	23872	23872	23872	23872	23872
Biological assets	23	62	913	4952	4952	4952	4952	4952	4952	4952
Investment property	5403	5311	3966	2241	1704	1621	1543	1468	1223	1004
Investment in associates	24046	42401	32083	32630	32630	32630	32630	32630	32630	32630
Other financial assets	1603	1867	1947	2097	2027	2087	2175	2267	2330	2374
	0,22%	0,22%	0,19%	0,21%	0,21%	0,21%	0,21%	0,21%	0,21%	0,21%
Deffered tax assets	14672	12131	13235	20203	20203	20203	20203	20203	20203	20203
Other debtors	3405	3237	2509	1895	1895	1895	1895	1895	1895	1895
Non-current assets	366985	382281,002	492666,002	549251,002	546130	568361	591703	616186	595856	573206
Inventories	364109	340167	405229	516497	435956	448808	467696	487582	501072	510587
Biological assets	0	0	0	1391	1391	1391	1391	1391	1391	1391
Trade receivables	161360	182653	207792	203080	204055	210071	218912	228219	234534	238987
Income tax assets	4838	10398	12370	8394	9460	9738	10148	10580	10872	11079
Non-current assets held for sale	0	0	298	0	0	0	0	0	0	0
Other debtors	35938	54151	42196	41724	41724	41724	41724	41724	41724	41724
Other current assets	2402	2489	24121	21937	12548	12918	13462	14034	14423	14696
Cash and cash equivalents	70266	109604	84867	73394	212945	240326	268778	299560	381132	464888
Current assets	638913	699462	776873	866417	918080	964976	1022111	1083090	1185147	1283353
Total Assets	1005898	1081743	1269539	1415668	1464209	1533336	1613815	1699276	1781003	1856559
Equity										
Share Capital	133000	133000	133000	133000	133000	133000	133000	133000	133000	133000
Other Reserves	352382	388191	434192	488311	539081	575764	614217	656665	703371	750384
Net Income	64540	75209	98618	89340	63487	66550	73466	80833	81366	80114
Non-Controlling Interest	26948	27336	79339	89835	94335	98835	103335	107835	112335	116835
Total Equity	576870	623736	745149	800486	829903	874149	924017	978333	1030071	1080333
Liabilities										
Interest-bearing debt	92192	87573	104869	101793	101793	101793	101793	101793	101793	101793
Other financial liabilities	21436	14644	11899	8300	16051	16524	17219	17952	18448	18799
	2,90%	1,75%	1,16%	0,84%						
Provisions	3348	3698	4473	7942	7942	7942	7942	7942	7942	7942
Post-employment benefits	2068	2185	2602	3228	3228	3228	3228	3228	3228	3228
Deferred tax liabilities	50570	51041	44014	42716	42716	42716	42716	42716	42716	42716
Non-current liabilities	169614	159141	167857	163979	171730	172203	172898	173631	174127	174478
Interest-bearing debt (Long Term)	88791	70103	108986	212440	224158	241536	261122	280660	302775	322516
Trade payables	110402	160825	170549	159000	161584,02	166347	173348	180719	185719	189245
Other financial liabilities	41238	45883	46871	51497	50265	51747	53925	56217	57773	58870
Other liabilities	17216	17634	23466	24320	22226	22881	23844	24858	25545	26030
Income tax liabilities	1767	4421	6661	3946	4344	4472	4660	4858	4993	5087
Current liabilities	259414	298866	356533	451203	462577	486983	516899	547312	576805	601749
Total Liabilities	429028	458007	524390	615182	634306	659186	689797	720942	750932	776226
Total Liabilities and Equity	1005898	1081743	1269539	1415668	1464209	1533335	1613815	1699276	1781003	1856559

Chapter 6

Valuation

6.1 Free Cash Flow

All the future elements of the Free Cash Flow have been duly projected, making it possible to calculate the annual FCF over the period of analysis, from 2024 to 2029.

Table 6: Calculation of Free Cash Flow

Corticeira Amorim SGPS S.A.	2024	2025	2026	2027	2028	2029
EBIT (1-t)	76324	79983	88033	96645	97731	96922
D&A	54422	57058	59822	62720	65759	48280
NWC	462937	476583	496641	517758	532081	542186
ΔNWC	-92400	13646	20058	21117	14323	10104
CAPEX	53396	81254	85103	89137	47394	48280
FCFF	169751	42140	42695	49110	101773	86818

As you can see, the evolution of Free Cash Flow is estimated to be variable. After an initial peak in 2024, there is a period of stabilization until 2027 and then a rise that never reaches the initial values.

As highlighted in the literature review, the Free Cash Flow of the last year of the projection has a significant impact on the valuation, as it is crucial for estimating the terminal value. The calculation of this value must reflect the company's activity at cruising speed. To do this, the value of depreciation is equal to that of investments in capital goods, cancelling each other out when calculating the FCF for the year in question. This approach avoids artificially inflating the terminal value and, consequently, overvaluing the company.

6.2 Weighted Average Cost of Capital

The Weighted Average Cost of Capital is calculated using the following equation:

$$WACC = D * Kd + E * (1 – D) \tag{4}$$

Where:

WACC, Weighted Average Cost of Capital

D, Debt Ratio

Kd, Cost of Debt

E, Cost of Equity

After calculating the values for the Cost of Equity, for the Cost of Debt and for the Target Capital Structure it is possible to determine the WACC using the following equation:

$$WACC = D * Kd + E * (1 – D)$$

$$= [0.2820 * 0.0177 + 0.0953 * (1 – 0.2820)] * 100$$

$$= 7.34\%$$

Table 7: Elements used to calculate the Weighted Average Cost of Capital (WACC)

	WACC		
Risk-Free Rate of Return	2,19%	Risk-Free Rate of Return	2,19%
Msrket Risk Premium	5,75%	Spread	0,40%
Beta	1,07	Corporate Tax Rate	31,50%
Equity Beta	1,28	Cost of Debt	1,77%
Cost of Equity	9,53%	Target Capital Structure	28,20%
WACC	7,34%		

6.2.1 Cost of Equity

The Cost of Equity is made up of the risk-free rate of return, the market risk premium and the beta value of equity, as shown in the equation below.

$$E = Rf + Equity\ Beta * MRP \tag{5}$$

Where:

Rf, Risk-free Rate of Return

MRP, Market Risk Premium

6.2.1.1 Risk-free Rate of Return

The proxy used for the risk-free asset was the 10-year German Bond. Because the company is Portuguese and very international, it seems suitable for the case of Corticeira Amorim. The risk-free rate is 2.19%, according to the market information (data from mid-November, 2024).

6.2.1.2 Market Risk Premium

To estimate the Market Risk Premium of Corticeira Amorim SGPS S.A., we chose an approach that weighs the MRP of each region where the company operates based on the percentage of sales generated in that same region. The Market Risk Premium values associated with each region were presented by Damodaran on its website with values updated in 2024. (pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html)

By weighting each region's MRP based on sales, the approach incorporates, in a proportionate manner, the specific risk of each market where the company operates. Regions with higher contribution to revenues have a proportionally greater weight in the calculation of weighted MRP.

Table 8: Forecasted Market Risk Premium

Área	% Sales	MRP (Área)	MRP (Weighted)
Portugal	6,80%	6,35%	0,43%
UE	61,80%	5,44%	3,36%
Resto da Europa	2,00%	5,66%	0,11%
USA	16,40%	4,60%	0,75%
Resto da América	6,50%	10,86%	0,71%
Austrália/Ásia	5,10%	5,12%	0,26%
África	1,40%	9,00%	0,13%
Total	100,00%		5,75%

Based on the calculations, the market risk premium is 5.75%.

6.2.1.3 Equity beta

The company's beta reflects its sensitivity to market fluctuations and degree of dependence on it. The value of 1,07 assigned as beta of Corticeira Amorim, is aligned with the evaluation of the Paper/ Forest Products sector presented by Damodaran on its website, with updated data for 2024.

However, it is necessary to make an adjustment to this calculated beta, so we calculate the Equity Beta. If the company has debt, the Beta of equity will be higher than the Beta of the company, since equity is more sensitive to risk due to its residual nature. Using equation 2, presented in the literature review, for a company's Beta of 1,07, an effective tax rate of 31.50% and a target capital structure of 28.19%, the Equity Beta estimated is 1,28.

Thus, the cost of equity is:

$$E = Rf + \text{Equity Beta} * MRP$$

$$= (0.0219 + 1.28 * 0.0575) = 9.53\%$$

6.2.2 Cost of Debt

To calculate the Cost of Debt, the spread must be added to the Risk-Free Rate of Return. In the Cost of Debt forecast, a spread of 0.40% was considered. To make the spread more forward-looking, the average Euribor for the period 2024-2029 was projected, based on market expectations and the forecasts of the European Central Bank (ECB). According to the ECB (2024), the 12-month Euribor is expected to stabilize at around 2.80% from 2025 onwards.

Corticeira Amorim´s average interest rate was projected based on its historical rate and the credit risk associated with the target capital structure. Thus, for the 2024-2029 period, an average interest rate of 3.20% was determined. This rate was then discounted to the company's average interest rate.

Given the equation 6 and, knowing that in Portugal, the corporate tax rate is 31.5%, the Cost of Debt is:

$$\text{Cost of Debt} = (1 - T) * (Rf + \text{Spread}) \tag{6}$$

$$= [(1 - 0.315) * (0.0219 + 0.0040)] * 100$$

$$= 1.77\%$$

Where:

Rf, Risk-free Rate of Return

T, Corporate Tax Rate

6.2.3 Target Capital Structure

The company maintained a consistent capital structure of 22% until 2023 with slight variations in this period. During 2023, the adopted strategic decisions together with company expansion caused long-term debt to increase, thus raising the capital structure to 28,19%.

6.3 Terminal Value

To determine the Terminal Value, it is necessary to use the Weighted Average Cost of Capital calculated previously, the value of the Free Cash Flow, not discounted, of the last forecast year, that is 2029 and, finally, the Growth Rate in the perpetuity of the Free Cash Flows (g).

$$TV = \frac{FCFF\,t \times (1 + g)}{WACC - g}$$

Figure 45: Terminal Value formula

6.3.1 Growth Rate of Free Cash Flows in perpetuity – g

The value of g should be defined with caution, since different values of g result in significantly different terminal values. Therefore, the growth was calculated according to the sales volume of each country/area, using a weighted average of the growth.

Table 9: Pondered growth

Área	% Sales	g (Área)	g (Weighted)
Portugal	6,80%	1,80%	0,12%
UE	61,80%	1,24%	0,77%
Resto da Europa	2,00%	1,93%	0,04%
USA	16,40%	2,10%	0,34%
Resto da América	6,50%	1,47%	0,10%
Austrália/Ásia	5,10%	3,38%	0,17%
África	1,40%	3,80%	0,05%
Total	100,00%		1,59%

The percentage of sales in each country, given by the company itself, was multiplied by the expected growth for its area, thus obtaining g.

This value, relative to the end of 2024, is below the inflation rate in the Eurozone, which allows for a conservative and realistic final value. In relation to the discount factor is used the corresponding to the last forecast year.

With the Growth Rate in perpetuity of Free Cash Flows already determined it is possible to calculate the Terminal Value. Returning to the equation previously presented, we conclude that, the Terminal Value is equal to 1,536,435 thousand euros.

6.4 Enterprise Value and Equity Valuation

The value of the company is calculated by adding the discounted value of cash flows and the estimated terminal value using, for this purpose, the weighted average cost of capital determined previously.

Table 10: FCFF Calculation

Corticeira Amorim SGPS S.A.	2024	2025	2026	2027	2028	2029
EBIT (1-t)	76324	79983	88033	96645	97731	96922
D&A	54422	57058	59822	62720	65759	48280
NWC	462937	476583	496641	517758	532081	542186
ΔNWC	-92400	13646	20058	21117	14323	10104
CAPEX	53396	81254	85103	89137	47394	48280
FCFF	169751	42140	42695	49110	101773	86818
Perpetual Growth	1,59%					
Present Value of FCF	2024	2025	2026	2027	2028	2029
Mid-Year Conversion		0	1	2	3	4
Discount Factor	0,00	0,00	0,93	0,87	0,81	0,75

Table 11: Enterprise Value of Corticeira Amorim (in thousand euros)

PV of Terminal Value	1,1547,34
Sum of the PVs of the Cash-Flows	230,069
Enterprise Value	1,384,804

Therefore, the value of the company in year-end 2025 is 1,384,804 thousand euros. The value of equity has been estimated considering the value of the company, net debt (that includes the effect of the 2025 FCFF on the cash balance), minority interests and financial investments for 2025. The value obtained, also for year-end 2025, was 1,261,444 thousand euros.

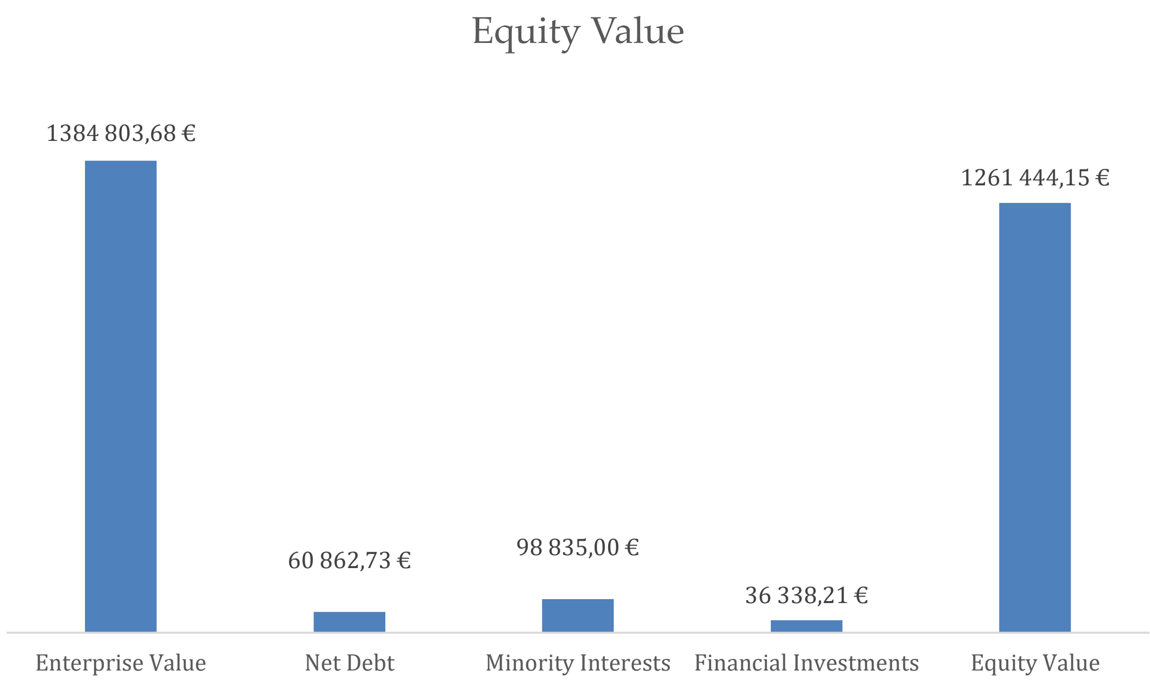

Figure 46: Equity Value and its Breakdown into EV, Net Debt, Minority Interests and Financial Investments (in thousand euros)

Dividing the Enterprise Value by the total number of shares, we obtain a price per share of Corticeira Amorim SGPS S.A. of 9.48€, in year-end 2025.

6.5 Recommendation

Based on this dissertation and the implicit assumptions, the stock price of Corticeira Amorim has potential for appreciation over time, being currently undervalued. Therefore, the recommendation for investors is to BUY.

Table 12: Current vs fair price and suggestion

Current Price (31/12/2024)	Fair Value	Decision

8.05	9.48	**Buy**

Conclusion

The history and performance of Corticeira Amorim SGPS, S.A. served as the basis for identifying the critical variables that drive its value creation and projecting future cash flows. The definition of these variables made it possible to carry out a detailed forecast of the company´s operating activity, as well as to draw up an investment plan for capital goods and working capital for the projected period.

After thoroughly explaining the DCF valuation model and analyzing the assumptions underlying the estimation of the Weighted Average Cost of Capital, including the cost of equity, the cost of debt and the target capital structure, the estimated value of the company, at year-end 2025, was calculated. This value reflects the sum of the discounted cash flows and the terminal value, culminating in a price per share of 9.48€, higher than the market price of 8.05€ on 31 December 2024. Based on this analysis, the recommendation for investors is to buy, suggesting that Corticeira Amorim´s shares are currently undervalued. This evaluation exercise reflects exclusively my vision of the company.

For future research, it is recommended to complement the DCF model with an alternative valuation approach, such as relative valuation (using multiples like EV/EBITDA) or the Dividend Discounted Model (DDM), to provide a more comprehensive analysis of Corticeira Amorim´s value. Employing another method could enhance the reliability of the results by offering a different perspective, addressing the DCF model´s sensitivity to assumptions like growth rates and discount rates, and providing investors with a more robust foundation for decision-making.

Declaration of generative AI and AI-assisted technologies in the writing process

During the preparation of my written work/thesis, "Valuation of Corticeira Amorim SGPS, S.A", ChatGPT was used for tasks related to improving writing quality and providing information related to the company. The prompts used are listed at the end of the document in the Prompts List section. After using this tool, I reviewed and edited the content as necessary, and I take full responsibility for the content of the work presented.

I also declare that I am aware of and respect the Artificial Intelligence Rules of Conduct of Católica Porto Business School.

List of Prompts:

- How can I make this paragraph clearer and more objective?
- Can you rephrase this text to improve its cohesion?
- Can you suggest ways to improve the academic tone of my dissertation?
- Can you provide insights into Corticeira Amorim´s strategic positioning in the global market?

- Can you provide information about the cork industry trends to support my analysis of Corticeira Amorim?
- Can you provide an overview of the global market for sustainable materials relevant to a cork-transforming company?

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Appendices

7.1 Appendix 1: Cork-related Industry trends and Market Outlooks

7.1.1 Wine and Spirits Market

The global wine and spirits industry is poised for significant evolution between 2025 and 2029 influenced by shifting consumer preferences and market dynamics. One of the most prominent trends is the growth of high-priced bottled wine. This shift reflects a growing appreciation for luxury and craftsmanship, which directly supports the use of natural cork closures. As highlighted in the Silicon Valley Bank´s 2025 State of the US Wine Industry Report, consumers worldwide are increasingly opting for higher-quality wines, with a notable surge in demand for bottles priced above $15 USD in the US and comparable premium tiers in other markets.

Sustainability is another key driver shaping the industry during this period. The global push toward eco-friendly practices are fostering innovation in wine packaging, with cork emerging as a preferred closure due to its biodegradable and renewable properties.

The rise of white wine and sparkling varieties represents an additional trend with implications for the cork-related industry. These categories frequently rely on cork-closures to preserve flavor and enhance the drinking experience, driving further demand for cork products. There is also the rise of health-conscious and low/no-alcohol trends that is reshaping the wine and spirits landscape with implications that extent into 2029. The popularity of these wines is projected to grow 31% by 2024 and maintain momentum thereafter.

Emerging markets, especially in the Asia-Pacific region, are also set to play a crucial role in the industry´s growth through 2029. Led by countries like China and India, this region is expected to experience significant increases in wine consumption, contributing to a projected global compound annual growth rate of 5,5% from 2025 to 2033, with much of this growth concentrated by 2029. As new consumers in these markets embrace premium bottled wines, the demand for cork closures is likely to rise, supporting the cork industry´s expansion.