Borges - BAIN

EQUITY - SPAIN
Sector: Food Processing

Report date: 11 Apr 2019
Distribution time: 14:00

Initial Coverage
Closing price: EUR 3.84 (10 Apr 2019)

Borges Agricultural & Industrial Nuts, S.A. is a small international group based in Spain (Tarragona), specialising in the agricultural production, processing and B2B marketing of nuts. It has an international presence (58% of 2018 revenue) and is a European benchmark in the almond segment (share of c.7%). Its core shareholder is Borges International Group (89.1% of capital).

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Market Data

Market Cap (Mn EUR and USD)	88.9	100.1
EV (Mn EUR and USD)	131.2	147.7
Shares Outstanding (Mn)	23.1	
-12m (Max/Med/Mín EUR)	5.60 / 4.52 / 3.50	
Daily Avg volume (-12m Mn	n.m.	
Rotation(1)	0.7	
Thomson Reuters / Bloomberg	BAINS.MC / BAIN SM	
Close fiscal year	31-May	

Shareholders Structure (%)

Borges International Group	89.1
Board Members	0.3
Free Float	10.6

Financials (Mn EUR)	2018	2019e	2020e	2021e
Adj. nº shares (Mn)	23.1	23.1	23.1	23.1
Total Revenues	195.7	191.3	201.6	212.1
Rec. EBITDA	5.7	3.0	6.4	10.1
% growth	*-16.0*	*-46.8*	*111.9*	*56.8*
% Rec. EBITDA/Rev.	*2.9*	*1.6*	*3.2*	*4.7*
% Inc. EBITDA sector (2)	*3.4*	*6.4*	*7.3*	*6.4*
Net Profit	3.3	2.3	3.0	4.8
EPS (EUR)	0.14	0.10	0.13	0.21
% growth	*0.4*	*-30.5*	*29.3*	*61.3*
Ord. EPS (EUR)	0.16	0.03	0.13	0.21
% growth	*-1.6*	*-81.6*	*n.a.*	*59.8*
Rec. Free Cash Flow(3)	4.1	-5.4	-3.2	0.9
Pay-out (%)	*0.0*	*0.0*	*0.0*	*0.0*
DPS (EUR)	0.00	0.00	0.00	0.00
Net financial debt	35.0	38.9	40.7	38.5
ND/Rec. EBITDA (x)	6.2	12.8	6.3	3.8
ROE (%)	*6.1*	*4.0*	*4.9*	*7.5*
ROCE (%)(4)	*3.7*	*1.2*	*3.3*	*4.9*

Ratios & Multiples (x)				
P/E	26.9	38.7	29.9	18.6
Ord. P/E	24.6	n.a.	29.2	18.3
P/BV	1.6	1.5	1.4	1.3
Dividend Yield (%)	*0.0*	*0.0*	*0.0*	*0.0*
EV/Sales	0.67	0.69	0.65	0.62
EV/Rec. EBITDA	23.0	43.3	20.4	13.0
FCF Yield (%)(3)	*4.6*	*n.a.*	*n.a.*	*1.0*

(*) Unless otherwise indicated, all the information contained in this report is based on: The Company, Thomson Reuters and Lighthouse

(1) Total volume traded in the share (Mn EUR) -12m vs Mkt Cap. Represents the % of the capitalisation traded -12m.
(2) Expected EBITDA growth (consensus) for the share's benchmark sector (Thomson Reuters Europe Food Processing).
(3) Based on recurrent FCF. Please refer to Appendix 2.
(4) Calculated with a theoretical tax rate. Please refer to Appendix 2.
(5) vs Thomson Reuters Europe Food Processing.
(6) Since "new" BAIN's shares debut on the continuous trading market (Jul. 2017)

The challenge: accelerating margin improvement

VERTICAL INTEGRATION VIA CORPORATE RESTRUCTURING (2016-2017),), with the aim of capturing the higher margin generated by the agricultural divisions in the value chain of the nut sector (91% of 2018 revenue) against a backdrop of tougher competition, which saw the commercial and industrial division suffer a significant worsening of its EBITDA margin (-46% y/y in 2016). The process concluded in 2017 with the reverse merger of BORGES (100% owned subsidiary of the old BAIN).

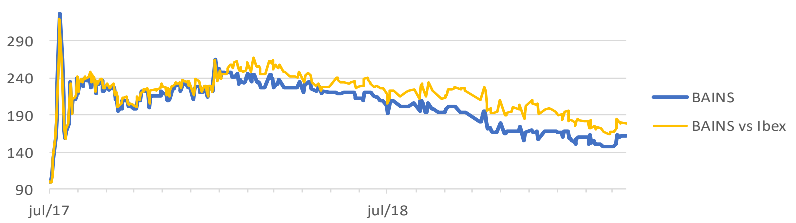
YET TO BEAR FRUIT… deflation of the main products sold (CAGR -10.6% 2016-2018 for almonds, 64% of 2018 revenue) has hit the Group hard (proforma CAGR -4y of -1.8% for revenues and -21.8% for EBITDA).

…WHICH SHOULD BEGIN TO HAPPEN IN COMING YEARS, with a gradual improvement in the EBITDA/Revenue margin (+2.0p.p. 2018-2021E) being likely. This improvement will be based on the increase in the self-supply of nuts (+20% in the same period) associated with the higher productivity of the new plantations. However, high investment needs will hold back recurrent FCF in the short to medium term.

EXPOSED TO PRICE FLUCTUATIONS IN AN INDUSTRY WITH LOW ENTRY BARRIERS. Steady growth in global nut consumption (CAGR +6.5% 2007-2016), together with the increased profitability of these crops (CAGR c.+4% for the average price during the same period), has attracted competitors, accelerating growth in global production (CAGR +6% 2016-2019e, c. 2x the 2007-2016 CAGR) and resulting in the moderation of growth in the average global price of these products (CAGR +2% 2016-2018, and -10% for almond prices). The fall in prices reduced 2018 Group EBITDA by c. 29%.

AND WITH LIMITED ROOM TO ACCELERATE GROWTH: the Group's high debt (ND/Rec. EBITDA: 12.8x 2019e; 6.3x 2020e), will require additional capital to be captured in order to double the self-supply of nuts (to c. 20%) and accelerate margin improvement (to EBITDA/Revenue > 10%), narrowing the gap vs peers.

Comportamiento relativo (base 100) (6)



Stock performance (%)	-1m	-3m	-12m	YTD	-3Y	-5Y
Absolute	6.7	3.2	-28.9	-3.0	n.a.	n.a.
vs Ibex 35	3.2	-6.8	-28.3	-12.3	n.a.	n.a.
vs Ibex Small Cap Index	4.7	-6.0	-24.4	-12.5	n.a.	n.a.
vs Eurostoxx 50	1.9	-11.3	-30.9	-15.3	n.a.	n.a.
vs Sector benchmark(5)	3.4	-10.9	-43.2	-17.5	n.a.	n.a.

The key is the extent and speed of margin recovery

Tougher competition in the nut sector led to the corporate reorganisation of the Borges International Group, accelerating the vertical integration of its nuts division (BAIN) in the industrial value chain via the integration of agricultural subsidiaries (with higher margins), in order to optimise the profitability of its commercial process. Having reached this point, what can we expect from BAIN in the short/medium term?

A) 2016 – 2018: marked by a more competitive environment and higher CAPEX

Proforma revenue and EBITDA, -10% (CAGR 2016 – 2018), with a stagnant EBITDA margin (2.7%)

The change in the scope of consolidation (February 2016) limits the comparability of Group results to 2017 and 2018. BAIN has recorded (-4y) a CAGR in proforma terms of -1.8% for revenue and -21.8% for EBITDA (-0.7% and -15.3% y/y, respectively, in 2018). The worsening has been greater in the last 2 years due to record proforma revenue in 2016, thanks to the good performance of prices for almonds and walnuts (52% and 18% of total volume, respectively). The period 2016-2018 was characterised by:

1. **Pressure on margins,** caused by the fall in the average price of nuts due to the increase in global production (CAGR +5.4% 2016-2018, associated with the increase in plantations with integrated irrigation systems giving higher yields), which impacted BAIN's P/L: proforma CAGR of -10% in 2016-2018 for revenues from nut sales (87% of total sales volumes excluding sales of subproducts). This resulted in a decline in proforma EBITDA (CAGR -10% 2016-2018), that in 2018 fell c. -29% due to lower prices, and the stagnation of the EBITDA/Revenue margin (2.7% in 2018, -0.5p.p. y/y and -2.7p.p. vs. 2015 proforma).

2. **Higher CAPEX,** with c. EUR 21Mn being spent in the last two years, of which c. 70% went on the agricultural division (c. +90% in the area under cultivation in 3 years), resulting in a small increase in the self-supply of nuts (to 6.6% of sales volumes in 2018, +0.2p.p. y/y).

High debt: 6.5x ND/EBITDA 2018, …peaking in 2019 (12.6x)

3. **The worsening of debt,** caused by high investment needs and shrinking margins, which has limited debt reduction to 4.3% in the last 3 years, increasing the Group's debt ratio to 6.5x ND/EBITDA 2018 (+1x. vs. 2016 proforma).

B) 2019 – 2021e: gradual improvement in margins which will take time to trickle down to FCF

Revenues and EBITDA, +2.7% and +23% (CAGR 2018 – 2021e), with an improvement in the EBITDA margin (+2.0 p.p.), leading to +13.2% EPS,

A period characterised by moderate growth in revenue (CAGR +2.7% 2018-2021e), which will bottom out in 2019e (-2.3% y/y), accompanied by an increase in the self-supply of nuts (+1.3 p.p. in the period), linked to the growing contribution of the production of the new plantations from 2019, which will enable: 1) an improvement in Group margins, 2) less dependence on sources of raw material supplies, limiting the impact of price fluctuations, and 3) higher visibility for turnover (inherent to access to third party supply contracts in the longer term).

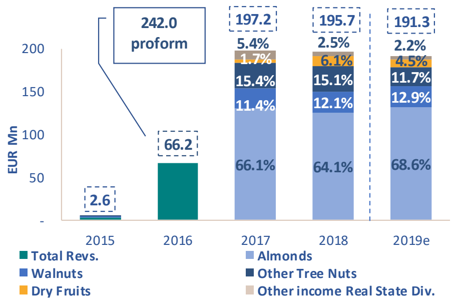
....but before then could see lows (EBITDA/Rev.1.6%) in 2019

The improvement in margins (+2.0p.p. EBITDA/Revenue 2018-2021e), will drive growth in EBITDA (CAGR +23% in the same period), which together with a reduction in CAPEX (CAGR -12.2% 2018-2021e) will lead to a gradual deleveraging of the Group which, even so, will maintain high levels of debt (3.9x in 2021e), contingent on the impact of smaller working capital requirements and potential asset sales.

Today we are looking at an indebted company in an industry with low entry barriers and with limited room to accelerate margin improvement. A company which, after approaching break even (EBITDA 2019), should see a gradual improvement in FCF in the next 2 years. The recovery of the FCF yield (1%, 2021e) will have to wait for the investment in self-supply to become profitable and gradually impact margins (this is still a long way from its potential: EBITDA/Sales > 10%, on doubling the level of self-supply). The potential implied by convergence with sector margins is BAIN's equity story.

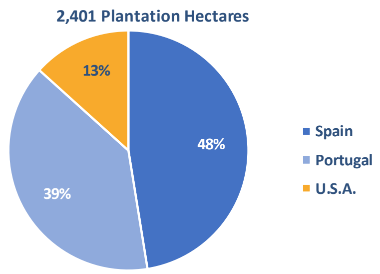
European co-leader among almond producers

Chart 1. Revenues Mix



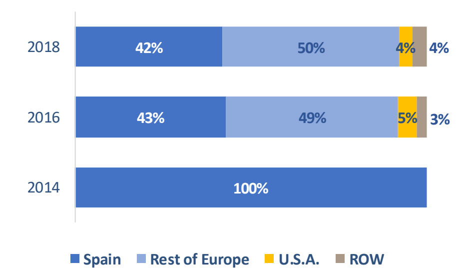
Note: change of consolidation perimeter in February 2016

Chart 2. Plantation hectares geographic split



Note: Data as at 1H 2019

Chart 3. Geographic Revenues Split



First of all we would point out that the company closes its financial statements on 31 May, so any reference to the results of a certain year refers to the period between 1 June of the previous year and 31 May of the corresponding year.

Borges Agricultural & Industrial Nuts (BAIN) is an international group (present in Spain, the US and Portugal), small in size (EUR 89Mn Market Cap), that belongs to the Borges International Group. Since 2016 it is the only vertically integrated listed European sector company: specialising in agricultural production (walnuts, almonds and pistachios) and in the processing, packaging and B2B marketing of nuts (mainly walnuts, almonds and pistachios). BAIN is a European benchmark in the marketing of almonds and walnuts (market shares of c.7% and 3% respectively).

Currently, its agricultural division manages 2,401 hectares of proprietary plantations on the Iberian peninsula and the US, billing EUR 195.7Mn at the 2018 close from the processing and marketing of 36.4 tonnes of nuts (87% of the total excluding subproducts, due to its marginal EBITDA contribution, with almonds representing 54% and walnuts 16%), dried fruit (11%) and other products (2%, mainly various snacks).

Its main rivals include publicly traded companies such as Select Harvest (Australia) and Olam (Singapore), and many other non-listed companies such as John B. Sanfilippo & Son, Wonderful Pistachios and Almonds -prior Paramount Farms-, Mariani Nut Company, Diamond Foods, Blue Diamond, the Italian company Besana and, domestically, Almendras Llopis.

An international presence

The Group has subsidiaries in Spain (the central headquarters are in Tarragona), the US and Portugal. BAIN has five production plants in Spain, located close to the plantations in order to ensure product quality and freshness: two in Reus, for nut processing and packaging (with a capacity of 55,000 Tns/year), a shelling plant in Castellón (Altura, with a capacity of 17,000 shelled Tns /year) and two additional processing plants, one in Badajoz and the other in Granada (with a capacity of 1,500 Tns and 300 Tns a year respectively).

The agricultural division manages 2,401 hectares of plantations (+31% vs. 2017), mainly for growing walnuts, almonds and pistachios, the bulk being located on the Iberian peninsula (47.5% in Spain and 39.2% in Portugal) and the rest in the US (California).

At the 2018 close, BAIN was operating in 65 countries (+11 vs. 2016), with 42% of sales being made to Spain and 50% to other European countries.

A step-up in size in several stages with a change in the perimeter of consolidation

The company has implemented a far-reaching corporate reorganisation which began in 2016, prior to an attempted capital increase aimed at obtaining EUR 23.6Mn to finance the Group's expansion plan, and which has taken place in various stages.

Firstly, in June 2015, Borges International Group (the parent company of the group to which BAIN belongs) acquired 77.85% of the capital of Agrofuse Mediterranean Agricultural Group (Agrofuse Agrícola de Frutos Secos SA, the agricultural subsidiary owned until then by Frusesa Frutos Secos Españoles, also controlled by the Pont family), and in 2016 carried out a EUR 50.6Mn capital increase via the non-monetary contribution of all its direct interests in companies involved in the agricultural production, processing and B2B marketing of nuts and private and third party brands, subsequently changing the corporate name of Agrofuse Mediterranean Agricultural Group to Borges Agricultural & Industrial Nuts (the old BAIN). This operation involved 2,421,010 new ordinary shares being put into circulation and an increase in the stake of the parent (Borges International Group) to 94.5% of capital. This first stage

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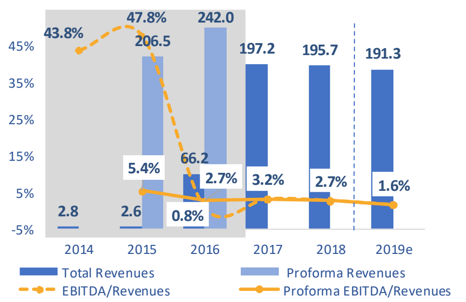
multiplied the revenue generated in 2015 25x (>90x in proforma terms). According to proforma information provided by the Group, margins on the commercial and industrial business deteriorated considerably (EBITDA/Revenue 2016 c. 1.8%, -1.5p.p. y/y).

In March 2016 the first stage of the capital increase began with the aim of financing the expansion of the business, accelerating the Group's vertical integration in the value chain of the nut sector (via the acquisition and/or renting of agricultural land and plantations) in order to optimise the profitability of the commercial process. If this operation had been successful, the founding family's stake would have been diluted to 70% of capital, increasing the stock's liquidity. However, the lack of investor interest (the target subscription was not completed in its entirety) meant the capital increase was cancelled.

Chart 4. Revenues vs. EBITDA/revenues

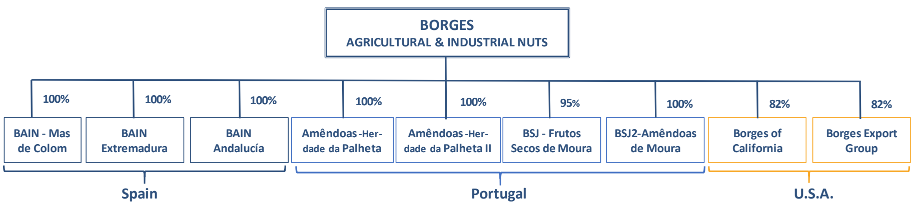


Subsequently, in May 2017 the shareholders at the AGM approved a new corporate reorganisation aimed at improving Group efficiencies by incorporating most of the Group's operating, commercial and management structure into the parent. This was implemented in two stages:

1) A first stage involved the merger through absorption of four of the businesses contributed by Borges International Group the year before: Frutos Secos Andaluces (a 82.67% stake), Frusesa-Frutos Secos Españoles (99.73%), Palacitos (72.38%) and Almendras de Altura (90%). The activity of the first three subsidiaries was the management of nut plantations and the fourth the purchase/sale, preparation, shelling, processing and marketing of almonds. The merger was executed in July 2017 with the minority shareholders of the merged companies being incorporated into the parent's shareholder structure.

2) In a second stage, a reverse merger was carried out between the old BAIN and its subsidiary Borges S.A.U., the latter being the holder of authorisations, registrations and licences for the Group's international marketing and having greater international recognition. Prior to this transaction, this company accounted for 97% of Group sales, being the owner of the three processing plants in which 90% of the Group's nuts were processed, and accounting for 75% and 76% of Group employees and assets, respectively.

As a result, the structure of the current BAIN (for which only the last two financial years are comparable) is as follows:



The corporate reorganisation has enabled:

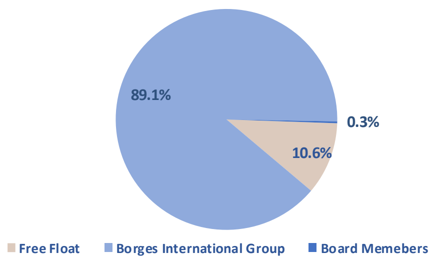
1) The positioning of Borges (BAIN) as the only vertically integrated publicly traded European company in the nut sector, consolidating its position as a European market leader (with a market share of c.7.2% in the almond segment, +0.5p.p. in two years).

2) The company to join the continuous trading market: in July 2017 the shares of the new BAIN made their debut on the continuous trading market, within the framework of the reverse merger of Borges S.A.U., with the acquirer for accounting purposes retaking the corporate name of the listed Group (the old BAIN) which had traded as Agrofuse on the open outcry market since 1987.

3) The strengthening of vertical integration in the value chain of the nut sector: historically, the returns obtained by the agricultural subsidiaries have been high (the average EBITDA margin of Agrofuse in 2011-2015 was 32%, peaking at the end of that period at 47.8%, thanks to the increase in the price of walnuts, which at the time

accounted for 82% of its production). The agricultural business contributed c. 35% of 2018 EBITDA.

Chart 5. Shareholders structure



A stable shareholder structure in the hands of the founding family

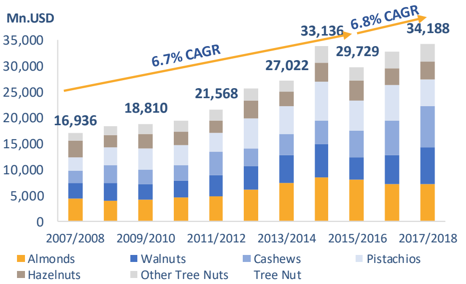
BAIN is part of the Borges International Group S.L.U. group, which is fully controlled by the holding company of the Pont family, to which Borges Branded Foods (a subgroup specialising in the marketing of the Group's products through the Retail and Food Service channel) and Borges Agricultural & Industrial Edible Oils (a subgroup specialising in the production, processing and B2B marketing of olive oil and seed oils) belong.

Since its beginnings the company has been controlled by the Pont Creus family (the current generation being the third since 1957) although they no longer take part in the management of the business. Agrofuse (the old BAIN), was originally controlled by Frusesa - Frutos Secos Españoles SA (77.85%), a company belonging to the Borges corporation, whose sole shareholder was Borges Holding, the current Pont Family Holding (belonging to the founding family), the Group's ultimate parent.

The founders of BAIN have an indirect shareholding of 89.1%, with a free float of 10.6% of capital. However, we do not rule out further attempts to capture capital resulting in the dilution of core shareholders' holdings and an improvement in the liquidity of the stock.

Strong market growth attracts competitors

Chart 6. Global nut market mix



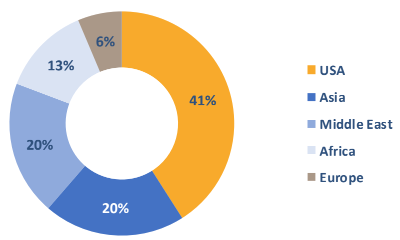
Source: INC (International Nuts Council). Data from season 2017/2018.

The market for nuts (91.3% of BAIN's turnover) amounted to USD 34.2Bn in the 2017/2018 season (excluding the production of in-shell peanuts), after having recorded a CAGR of 6.7% in the last decade. Almonds, walnuts, cashews and pistachios make up the bulk of the market, contributing 80% of revenue.

The US is the world's biggest nut producer, accounting for c. 39% of global production: it is the leading producer of almonds (62% of total production), pistachios (17%) and walnuts (16%), the agricultural business pursued by BAIN. It is followed by Asia and the Middle East (with c. 19% and 18% of global production respectively).

The dried fruit market, more residual for BAIN (6% of turnover) has also shown solid growth in the past (CAGR +4.9% 2010-2018), reaching USD 7.8KMn in the 2017/2018 season, with global production of 2.8KTns. The market is dominated by Asia-Pacific, where Turkey is market leader (c 18% of global production), followed by the US (c.12%). As is also the case for nuts, the health benefits of dried fruit are driving consumption, with an acceleration of market growth (CAGR 5.1% in 2016-2018).

Chart 7. Global nut production geographic split



Source: INC (International Nuts Council). Data from season 2017/2018.

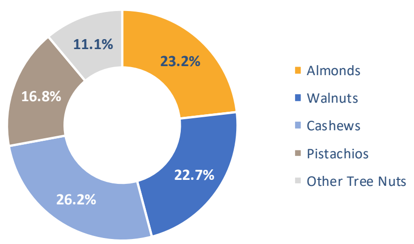
The nut industry is highly fragmented with low entry barriers

Given BAIN's revenue mix, we focus on the almond and walnut markets. Both markets are highly fragmented. By way of example, in California, the world's leading producer of almonds (c. 80% of global production, exporting to over 90 countries), some 6,000 farmers cultivate c. 283,000 hectares. Moreover, the lack of entry barriers will continue to fragment the market, intensifying competition.

The INC (International Nuts Council) valued the almond market (64% of BAIN's turnover) at USD 7,132Mn in 2018 (CAGR +5.2% in 2008-2018, after having recorded annualised declines of 5.5% in 2016-2018). Various sources point to annualised growth of c. 7% in the next decade.

The EU is one of the main producers (given its favourable geographical location in terms of climate) and consumers of almonds, being the biggest regional importer of Californian almonds (led by Spain). In fact, despite the increase in domestic production (84,000 Tns in the 2018/2019 season[1],CAGR +18% 2016-2019e), production is insufficient to meet local demand (c. 27% of European consumption in 2016). Even so, price remains a key factor (due to pressure from cheaper imports).

Chart 8. Global nut market split by product



Source: INC (International Nuts Council). Data from season 2017/2018.

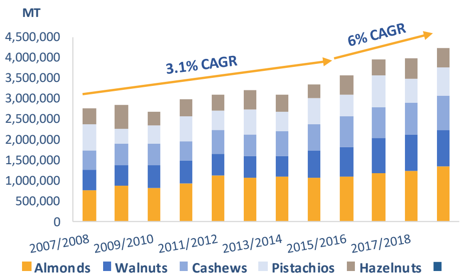
The INC valued the walnut market (12% of Group revenue) at USD 6,975Mn in 2018 (CAGR of 8.8% in 2008-2018), with growth accelerating significantly in the last two years (CAGR 2016-2018: +27%). Various sources point to a CAGR of c. 4% until 2025. The Asian market should continue to lead growth, with China being the main producer of walnuts (42% of global production in the 2017/2018 season).

The main growth driver for both segments will continue to be the increasing use of almonds and walnuts in the food, pharmaceutical and cosmetic industries with all of BAIN's products being destined for the first of these. Also, the global increase in lactose intolerance is causing a shift in consumption away from cow's milk and towards milk made from, among other things, almonds and walnuts, driving demand growth.

Leading market players include a large number of private companies both in the walnut segment (such as Mariani Nut Co., Diamond Foods -bought in 2015 by Blue Road Capital-, Alpine Pacific Nut, Poindexter Nut Company, Guerra Nut Shelling Company, Grower Direct Nut Co. Inc.), and in the almond segment (Blue Diamond, Wonderful Pistachios and Almonds, Mariani Nut Company, Waterford Nut Co, California Gold Almonds, The Almond Company and the Italian company Besana World, the only publicly traded points of reference being the

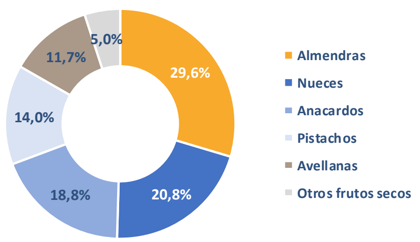
[1] Spanish Ministry of Agriculture, Fisheries, Food and the Environment (MAPAMA): in-shell production figures.

Cahrt 9. Global nuts market (metric tonnes produced)



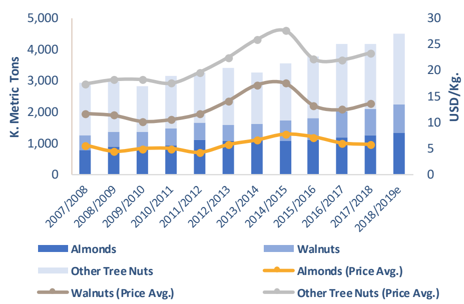
Source: INC (International Nuts Council).

Chart 10. Global nut market mix (per metric tonnes produced)



Source: INC (International Nuts Council).

Chart 11. Global nut production (metric tonnes) vs. global average price



Source: INC (International Nuts Council).

Australian company Select Harvest and Olam International from Singapore. Domestically, Borges competes with private companies such as Almendras Llopis. We would point out that although the listed Spanish company Ecolumber has c. 160 hectares of walnut and almond plantations, its core business is forestry management for the wood industry.

We consider benchmark companies to be the Belgian company Greenyard (specialising in growing and processing fruit and vegetables) and the Australian company Select Harvest (specialising in the production of high quality almonds), although the latter's margins are closer to those of Agrofuse (the old BAIN before the inclusion of the marketing and processing businesses). Other leading companies include US company Archer-Daniels-Midland (ADM, specialising, among other things, in the processing of seeds and cereals for the food industry), and the Singapore company Olam International (which, in addition to producing and processing nuts, has a large portfolio of food industry products, such as tea, rice, palm oil, etc.).

Table 1. BAIN's' EBITDA/Revenues vs. main peers

Company	Country	2014	2015	2016	2017	2018
Pharming Industry						
Greenyard NV	Belgium	9.0%	9.4%	3.6%	3.4%	3.3%
Sipef NV [(1)]	Bélgica	22.1%	29.1%	64.2%	33.0%	28.4%
Vilmorin & Cie SA	France	22.8%	20.8%	21.2%	23.4%	22.4%
Non European International players						
Select Harvests	Australia	20.4%	23.7%	34.0%	19.0%	22.0%
ADM	U.S.A.	4.6%	4.3%	4.1%	4.1%	4.6%
Olam Intl.	Singapore	5.5%	5.6%	5.6%	4.7%	3.7%
BAIN [(3)]	Spain	43.8%	5.4%	2.7%	3.2%	2.7%
TR. Food Processing. [(2)]	**n.a.**	**15.5%**	**14.9%**	**15.8%**	**16.1%**	**16.8%**

[(1)] Data as at 31/12/2017

[(2)] Thomson Reuters Sector Category (aggregated data)

[(3)] 2014 data is no comparable (prior to the corporate restructuring). Proforma 2015 & 2016 data

Source: Thomson Reuters

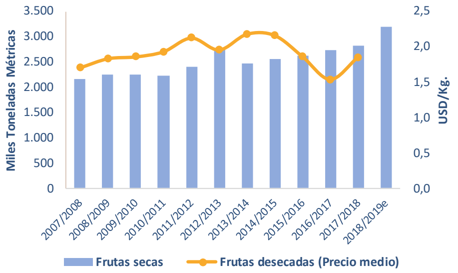
Even so, the past shows demand to be somewhat inelastic

Despite the industry not being cyclical in nature, periods when prices have risen excessively (the price of walnuts doubled in 2014 vs 2011, reaching USD 10.7/Kg, while almond prices peaked in 2015, USD 7.7/Kg, +55% vs. 2011), have been followed by periods when prices have fallen (a CAGR of -18.7% in 2015-2017 for walnuts, and -9.4% for almonds to 5.7 USD/Kg in 2018) caused by shrinking demand due to high prices and the subsequent surplus supply (almond production grew at an average annual rate of 4.8% and walnut production at 10.0% in 2015-2018), revealing a certain inelasticity of demand. In addition, the impact of the trade war between the US and China could continue to squeeze prices in other regions.

Moreover, tougher competition will be accompanied by greater investment requirements in order to improve productivity and product quality (to bring this into line with international standards), with the international sales network growing in importance.

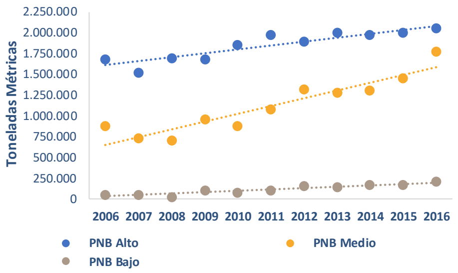
On the other hand, the launch of new products based on almonds/walnuts with higher added value (BAIN is developing a new almond butter production line) will enlarge the customer base.

Chart 12. Global dried fruits production (metric tonnes) vs. global average price



Source: INC (International Nuts Council).

Chart 13. Forecasted nut consumption per GNP



Sourece: INC (International Nuts Council).

- High income economies: per capita GNP >= 12.746 USD (Australia, Chile, U.S.A.,…).
- Middle income economies: per capita GNP from 1.046 USD to 12.746 USD (China, Ivory Coast, India, South Africa,…).
- Low income economies: per capita GNP <= 1.406 USD (Afghanistan, Burkina Faso, Kenya, Zimbawe,…).

However, the industry outlook remains bright

The growing trend towards living a healthy lifestyle has increased consumption of what are considered “healthy” products. The publication of numerous studies on the health benefits of eating nuts has also encouraged growth in their consumption as part of a healthy diet[2] (boosted by the favourable opinion of nutritionists due to their lack of cholesterol and the fact they provide vitamin E, mono and polyunsaturated fats and, among others things, fibre).

In recent years the Asian market (especially India) has become the main driver of demand, thanks to the trend for healthier eating habits in a significant proportion of the growing middle class.

However, the publication of certain reports warning about the side effects of excessive nut consumption[3], could moderate the expected growth for the industry.

[2] Nuts help to prevent cardiovascular disease and favour cognitive functioning, among other benefits. Almonds are a source of calcium to prevent osteoporosis.

[3] Reactions with medications (as a result of the excessive consumption of almonds), vitamin E overdoses and/or gastrointestinal problems, among others.

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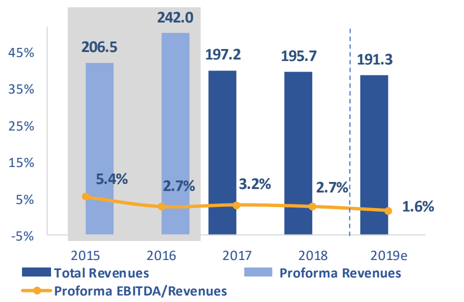
High debt and depressed margins limit the acceleration of growth

Chart 14. Proforma EBITDA/Revenues vs. Revenues



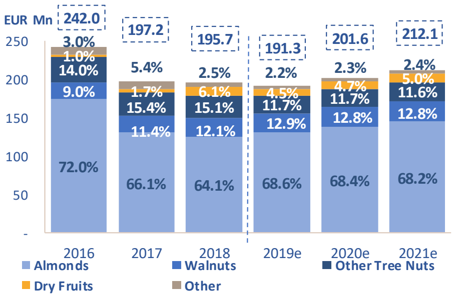
Note: 2015 and 2016 proforma data.

The company closes its financial statements on 31 May, so any reference to the results of a certain year refers to the period between 1 June of the previous year and 31 May of the corresponding year.

BAIN's turnover is highly sensitive to fluctuations in the prices of nuts (this drained -4.6p.p. from growth in 2018), in particular walnuts and almonds. Results to November 2018 saw the decline in turnover accelerate to 14.8% (-14.4% 1Q 2019), 38% in terms of PBT which, if it had not been for the capital gain obtained from the sale of a popcorn packaging plant (EUR 2Mn), would have gone into the red slightly (EUR -0.03Mn), due, among other reasons, to the increase in the costs of the new plantations (not yet profitable).

Results include an implicit decline of 7.4% in sales volumes and 7.3% in prices, mainly due to the worse performance of almonds (responsible for c. 58% of the decline in business) and walnuts (9%, under pressure from falling prices due to a record walnut harvest in California[4]), with other nuts contributing 30% of the decline (due to a smaller production of pistachios as these are the "vecedera" [5] variety). The impact of the increase in the self-supply of nuts (16% of total sales, +2p.p. vs 1H 2018) went unnoticed against a backdrop of tough competition, with the international business being especially affected (-17.6% y/y).

Chart 15. Revenues Mix

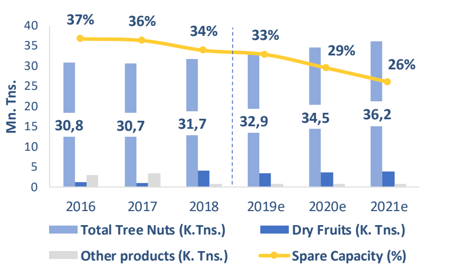


Note: 2016 proforma data.

Since the first company reorganisation at the beginning of 2016, turnover has been declining (CAGR of -10.1% in 2016-2018 proforma, decreasing to -1.8% in 2015-2018), evidencing tougher competition in the Group's main markets. The record for proforma sales in 2016 (+17.2% y/y), was due to significant increases in walnut and almond prices (both peaked at this time).

Despite 1H 2019 results, the Group is likely to increase marketing efforts in order to raise sales in 2H, which would partly offset the weak 1H. The seasonality of the agricultural business means that intermediate data cannot be extrapolated to the rest of the year, as they are affected by the harvest period, with the corresponding impact in terms of inventories and self-supply of raw materials, as well as personnel expenses (due to the temporary hiring of day labourers). We expect an acceleration of the annual decline in revenue in 2019 (EUR 191.3 Mn, -2.3% y/y).

Chart 16. Marketed tonnes vs. spare capacity



Note: 2016 proforma data.

2018 – 2021e: gradual improvement in margins associated with increased self-supply and operating efficiencies

Our estimates envisage moderate revenue growth (CAGR of +2.7% 2018-2021e), with average volume growth of 3.8% (+5% for almonds and +1.7% for walnuts) and no change in prices over the medium term. The increase in nut sales will be accompanied by a gradual reduction in processing capacity to 26% in 2021e (-8p.p. vs. 2018).

We forecast a CAGR 2018-2021e of 23% for EBITDA (no forex impact). However, we would underline the importance of the impact which fluctuations in prices have had on Group EBITDA in the past (draining EUR 1.5Mn from 2018 EBITDA, despite the positive impact of the increase in sales volumes). Our estimates envisage a negative impact of c. 40% of EBITDA generated in 2019e for the same reason.

[4] A region which produced 690,000 tonnes, c. +9.5% y/y.

[5] Characterised by a year with a large harvest being followed by a year with a smaller one ("off year"), in which production falls 30%-40%.

Chart 17. Effects in EBITDA 2018

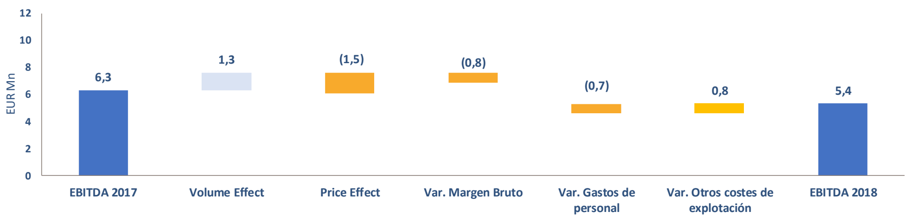
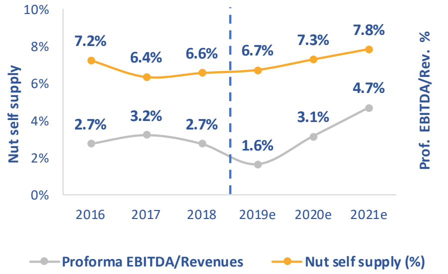


Chart 18. EBITDA/Proforma Revenues vs. nut self supply (%)



Note: 2016 proforma data.

However, the main factors underpinning the improvement in the EBITDA/Revenue margin (4.7% in 2021e, +2p.p. vs. 2018) are the increase in the self-supply of nuts (an estimated 7.8% of total sales, +1.3p.p. vs. 2018, to which the new almond plantations will contribute 69%) and improved productivity (to which the company allocates 50% of CAPEX). In addition, the future launch of new higher added value products (not included in our model) should support this improvement.

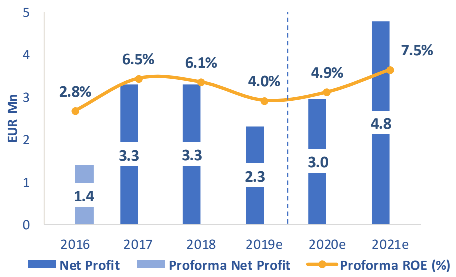
NP won't turn the corner until 2020

While earnings for the last two financial years have remained stable (EUR 3.3Mn), the worsening of the business in 1H 2019 will seriously impact earnings for the year, for which we expect NP to decline by 30.5% (EUR 2.3 Mn. 2019e). Stripping out the extraordinary profit from the sale of the popcorn packaging plant (EUR 2 Mn) and non-recurrent expenses, ordinary net profit fell to EUR 0.7Mn. (vs. EUR 3.6Mn. in 2018).

BAIN capitalises work carried out on its biological assets (an average of 0.7% of revenue and 22.5% of EBITDA in the last two years). Our projections assume this accounting practice will continue, including capitalisations that will contribute c. 30% of the EBIT generated in 2019-2021e.

In addition, BAIN's high gearing (6.5x ND/EBITDA in 2018, which will increase to 12.6x in 2019e, due to the significant worsening of margins during the year), will increase the year's financial expenses (20.4% of 2019e EBITDA, +6.4 p.p. y/y). We forecast ND of EUR 38.9Mn in 2019e, which does not include EUR 2.7Mn of property assets held for sale. However, it is likely that this financial burden will gradually lighten (8% of 2021e EBITDA). On the other hand, the Group's refinancing scheme has led to additional financial expenses which have negatively impacted recurrent EBITDA by 6.4% on average in the last two years, and are likely to continue to do at an average of c. 1%/year.

Chart 19. NP vs. ROE



The inclusion of tax credits linked to the agricultural business will keep the corporate tax rate below 25%: we estimate 23% until 2021.

We would point out that our estimates do not include the impact of the coming into force of IFRS 16 (January 2019). This regulatory change will result in an increase on the balance sheet of assets linked to operating leases on agricultural land and the associated debt, with the consequent increase in financial expenses and depreciation. Conversely, lease expenses, which currently represent c. 0.4% of Group revenue, will decrease. This impact should be felt with the reporting of 3Q 2019 results.

We have not projected the possible forex impact on the lower part of the income statement going forward either. For informational purposes, the net impact of forex hedging inefficiencies and/or the lack of hedgings contributed 24% and 20% of 2017 and 2018 net profit respectively.

Chart 20. Effects in NP 2018

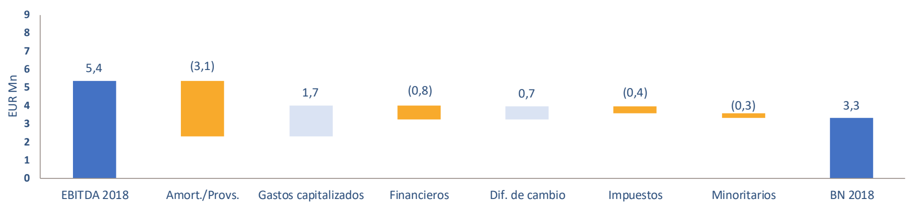


Chart 21. CAPEX/Sales

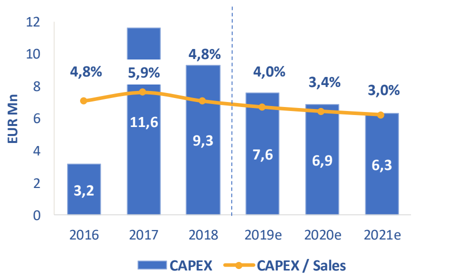


Chart 22. Recurrent FCF proforma NWC/Sales

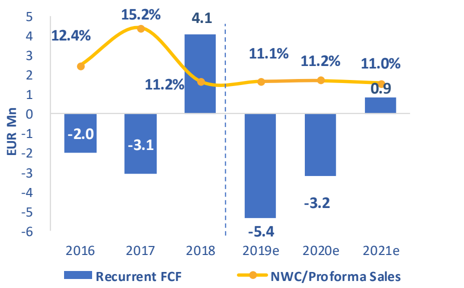


Chart 23. Free Cash Flow effects 2018

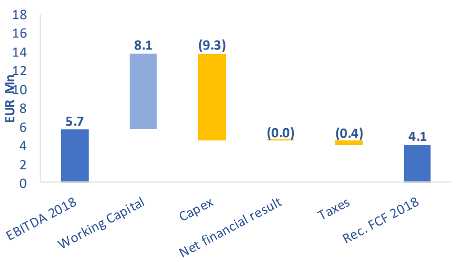
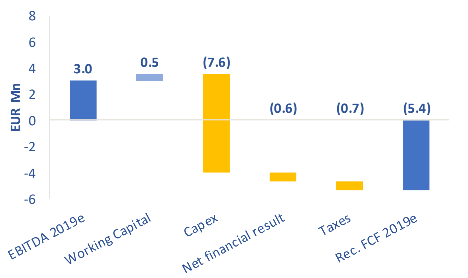


Chart 24. Free Cash Flow effects 2019



In this scenario, it is likely that EBIT will grow at a CAGR of 19.7% in 2018-2021, not before bottoming out in 2019e (EUR 1.6Mn, -60.5% y/y), subsequently increasing to EUR 6.8Mn in 2021e.

We estimate a CAGR of 13.2% in 2018-2021e for NP, the ROE declining to 4% in 2019e (-2.1p.p. y/y), before reaching 7.5% in 2021e.

CAPEX will moderate in the medium term

BAIN has set aside for investment 5.5% of the revenue generated in the last two years. Investment has gone mainly into the development of the company's agricultural project (project PALM), which commenced in December 2015 with the aim of increasing the company's almond plantations by 2,500 hectares, 46% of the project having been completed to date. CAPEX was EUR 9.3 Mn in 2018, after having peaked the year before (EUR 11.6 Mn).

As BAIN has surplus production capacity (34% in 2018), the increase in sales should not require further investments in processing plants. Consequently, it is likely that, despite the investment required to develop the agricultural project, this will moderate in the medium term, to 3% of revenue in 2021e (-1.8 p.p. vs. 2018). This ratio would be lower than the sector average (c.4.1% in 2021e), which could be explained by the heavy investment made in previous years.

The investments made will take the level of self-supply to c. 10% (the very long term target being c. 20%).

Working capital should remain stable

Average working capital investment has been c.13% of revenue (-3y), showing a certain seasonality in 2Q due to the impact of the harvest on inventories. Going forward, we estimate a neutral impact of working capital, which we expect to remain at an average of 11.1% (in line with 2018), with control of supplier payment management being critical (the average payment period lengthened 8% in 2018), something that could improve as the self-supply of raw material increases.

Free Cash Flow impacted by CAPEX

FCF was affected in 2018 by the increase in investment (EUR 9.3Mn), over 85% of which was financed by the improvement in working capital (the change in the latter represented 1.4x of 2018 recurrent EBITDA). In 2019 CF will be affected by CAPEX (EUR 7.6Mn 2019e) and a smaller working capital contribution (16.9% of 2019e recurrent EBITDA), taking recurrent FCF into negative numbers (EUR -5.4Mn 2019e).

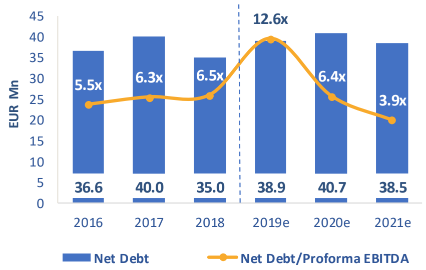
The sale of the popcorn packaging plant (EUR 4.4Mn) implies a cash inflow of EUR 1.5Mn in 2019 (the rest of the collection being deferred until 2021) which reduces cash consumption to EUR -3.9Mn.

Dividends: we estimate a zero pay-out, in line with the policy of recent years. Despite improving margins and declining CAPEX, FCF generation will not be consolidated until 2021 (EUR 2.2Mn in 2021e, EUR 0.9Mn in recurrent terms). In this scenario, the FCF Yield would be 2.5% at the end of the estimated period (1% in recurrent terms), a similar level to that of the Belgian company Sipef and the Australian company Select Harvest, although well below the sector's 6.3%.

In conclusion: high debt that leaves little room to accelerate growth in the medium term

The change in the Group's scope of consolidation in 2016 took proforma debt to 5.5x (vs. <3x for European peers). Since the new BAIN began trading (2017) this ratio has remained above 6x, being likely to peak in 2019e (12.6x), due to worsening EBITDA (-42.2%).

Chart 25. ND/EBITDA vs Net Debt



For this reason, taking into account the large investments required to execute the rest of the Group's agricultural project (dependent on the Group's ability to capture capital) and the scant room for manoeuvre given the low margins, full execution is likely to delayed, ruling out the incorporation of new plantations in the medium term.

Table 2. BAIN vs main peers

Company	Mkt. Cap	EV	Country	Rev. Growth 13-18	EBITDA/Rev 2018	ND/EBITDA 2018	EV/EBITDA
Pharming Industry							
Greenyard NV	146.7	664.1	Belgium	-0.3%	3.3%	2.9x	4.8
Sipef NV [(1)]	57.4	556.9	Bélgica	2.0%	28.4%	1.3x	7.4
Vilmorin & Cie SA	1,096.6	2,375.3	France	-1.0%	22.4%	2.5x	7.9
Non European International players							
Select Harvests	408.7	446.1	Australia	-23.7%	22.0%	4.0x	48.3
ADM	21,483.6	27,204.4	U.S.A.	2.0%	4.6%	2.2x	10.6
Olam Intl.	4,223.6	10,083.9	Singapore	3.6%	3.7%	7.7x	13.8
BAIN	88.9	131.2	Spain	n.a.	2.7%	6.5x	24.5
Food Processing Industry [(2)]	**n.a.**	**n.a.**	**n.a.**	**2.9%**	**16.8%**	**1.5x**	**12.4x**

[(1)] As at Dec. 2017

[(2)] Thomson Reuters European Sector Category (aggregated data)

Fuente: Thomson Reuters

Valuation inputs

Inputs for the DCF Valuation Approach

	2019e	2020e	2021e	Terminal Value (1)
Free Cash Flow "To the Firm"	**(3.0)**	**(1.3)**	**2.8**	**137**

			Best Case	Worst Case
Market Cap	**88.9**	At the date of this report		
Net financial debt	**35.0**	Debt net of Cash (last financial year)		
Cost of Debt	2.4%	Net debt cost	1.9%	2.9%
Effective tax rate (T)	23.0%	T (Normalised tax rate)	=	=
Net debt cost	**1.8%**	**Kd = Cost of Net Debt * (1-T)**	**1.5%**	**2.2%**
Risk free rate (rf)	1.1%	Rf (10y Spanish bond yield)	=	=
Equity risk premium	6.0%	R (own estimate)	5.5%	6.5%
Beta (B)	0.8	B (Thomson Reuters)	0.7	0.9
Cost of Equity	**6.0%**	**Ke = Rf + (R * B)**	**5.0%**	**7.0%**
Equity / (Equity + Net Debt)	71.7%	E (Market Cap as equity value)	=	=
Net Debt / (Equity + Net Debt)	28.3%	D	=	=
WACC	**4.8%**	**WACC = Kd * D + Ke * E**	**4.0%**	**5.6%**
G "Razonable"	**2.0%**		**2.5%**	**1.5%**

(1) Residual value calculated on the discounted recurrent Free Cash Flow ""to the Firm"" 2025e, in order to reflect the impacto of the normalized EBITDA/Revenues (6.4%), with 9.1% level of raw material coverage (+1.3p.p. vs. 2021e)

Inputs for the Multiples Valuation Approach

Company	Ticker Reuters	Mkt. Cap	P/E 19e	EPS 19e-21e	EV/EBITDA 19e	EBITDA 19e-21e	EV/Sales 19e	Revenues 19e-21e	EBITDA/Sales 19e	FCF Yield 19e	FCF 19e-21e
Greenyard NV	GREENY.BR	146.7	NaN	-67.8%	4.1	-25.8%	0.2	-4.4%	3.7%	-75.2%	9.9%
Sipef NV (1)	SIFB.BR	517.3	21.1	61.5%	6.1	33.3%	1.9	14.9%	31.4%	2.0%	124.9%
Vilmorin & Cie SA	VILM.PA	1,096.6	13.7	4.2%	7.8	8.6%	1.7	3.3%	21.4%	4.1%	57.0%
Pharming Industry			17.4	-0.7%	6.0	5.4%	1.2	4.6%	18.8%	-23.0%	63.9%
Select Harvests	SHV.AX	408.7	20.1	8.1%	10.6	8.4%	2.5	1.7%	23.7%	2.6%	11.1%
ADM	ADM	21,483.6	12.6	6.2%	8.4	0.0	0.5	0.0	0.1	0.1	n.a.
Olam Intl. (2)	OLAM.SI	4,223.6	12.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Non European International players			16.3	8.1%	10.6	8.4%	2.5	1.7%	23.7%	2.6%	11.1%
BAIN		88.9	38.7	44.4%	42.38	79.4%	0.69	5.3%	1.6%	n.a.	n.a.

(1) Data as at december 2018 and growth 2018-2020e

(2) No available data

Free Cash Flow sensitivity analysis (2020e)

A) EBITDA and EV/EBITDA sensitivity to changes in EBITDA/Sales

Scenario	EBITDA/Sales 20e	EBITDA 20e	EV/EBITDA 20e
Max	4.2%	8.4	15.6x
Central	3.2%	6.4	20.4x
Min	2.2%	4.4	29.8x

B) Rec. FCF and Rec. FCF - Yield sensitivity to changes in EBITDA and CAPEX/sales

	CAPEX/Sales 20e		
EBITDA 20e	2.4%	3.4%	4.4%
8.4	0.8	(1.2)	(3.2)
6.4	(1.2)	(3.2)	(5.2)
4.4	(3.2)	(5.2)	(7.3)

Scenario	FCF/Yield 20e		
Max	0.9%	-1.4%	-3.6%
Central	-1.4%	-3.6%	-5.9%
Min	-3.6%	-5.9%	-8.2%

What could go wrong?

We consider risks to be those that could have a significant negative impact on our projections, mainly those for operating profit and free cash flow:

1. **The business is highly sensitive to fluctuations in nut prices.** Some 93.2% of Group revenue comes from sales of nuts, mainly almonds (73.6%) and walnuts (13.8%), with international prices for these products being critical. A fall of 5% in the prices of both products would reduce 2019e EBITDA to EUR 2.2Mn (-28.9% vs. our estimates). However, BAIN hedges sales to minimise the impact of these fluctuations.

2. **Margin improvement is dependent on the production of the agricultural division.** The improvement in the EBITDA/Revenue margin (+2.0 p.p. 2018-2021e) is based on a gradual increase in the self-supply of nuts (+1.3 p.p. in the same period). On these assumptions, a 20% decrease in total self production would reduce the EBITDA generated in the period by 45% (negative FCF EUR -5.8 Mn 2019e).

3. **Dependence on the weather.** The weather impacts both the volume and quality of the agricultural division's production. Despite improvements to irrigation techniques, long periods of drought could give rise to new restrictions on water consumption affecting the productivity of the plantations. In order to reduce this risk, BAIN has strategically located its plantations on the Iberian mainland (86.7% of the total, mainly irrigated land) in mild areas with a stable climate and next to large reservoirs. For example, c. 35% of its plantations are located in the province of Badajoz, which has one of the largest reserves of freshwater in Spain (currently accounting for c. 12% of the country's reservoir water supply)[6].

4. **Diseases and pests.** To date, BAIN's production has not been greatly affected by this risk. However, the *Xylella fastidiosa* bacterium remains a serious threat to domestic nut production as it devastates both the trees and the fruit. The outbreak that began in 2016 in the Balearic Islands has continued to spread, affecting Valencia (2017), and more recently Madrid and Andalusia (2018).

5. **Regulatory risk.** European legislation imposes limits on nut producers as regards residue levels and permitted pesticides (EC Regulations Nº. 1107/2009 and Nº. 396/2005), establishing strict requirements in respect of tolerance levels on imports of these products. The regulator carries out frequent reviews of accepted levels (in accordance with article 12 of Regulation 396/2005) which may result in restrictions on sales.

6. **Competition.** Growing global consumption of nuts (led by Asia) and the industry's low entry barriers have led to growth in the global cultivation of these products given their high margins (CAGR +6% for global nut production in 2016-2019, higher in the case of almonds and walnuts, +6.7% and +7.7% respectively), which could continue pushing prices down.

7. **Forex risk.** The Group is exposed both via international transactions and the consolidation of subsidiaries whose reporting currency is not the Euro. In order to lessen the impact on the bottom of the P/L, BAIN hedges raw material acquisitions. Increased exposure to clients from countries outside the Eurozone (25% of revenues at 6M 2019) would imply greater forex risk.

[6] According to information available in Embalses.net.

A stable board, controlled by the founding family

During the company reorganisation carried out in 2016, the number of members of the Group's board was increased in order to admit independent board members (since 2017 these represent 28.6% of board members). The company has an executive managing director (with over 26 years' service in the Group) and plans to appoint female board members before 2020.

1. **The board is controlled by the founding family,** as its proprietary directors (57% of board members), including the Chairman, belong to the third generation of the Pont Grau family, who have an average of 40 years' professional experience in the Borges Group. The Managing Director (appointed in 2014), is currently the CEO of the Borges International Group (core shareholder with 89.1% of capital), a company 100% owned by the Pont family's holding company. According to the company's bylaws, the position of director is held for a maximum term of four years, renewable for periods of equal duration (in accordance with prevailing legislation), without the bylaws stipulating a limit to the number of terms a director can serve or the procedure for the renewal of this body (maximum percentage of members to be renewed simultaneously and/or time limits).

2. **Performance incentives for the board are limited to the Managing Director.** Although the bylaws envisage compensation in the form of shares and share options, the current system consists of payment of a fixed amount (for non-executive board members) and a variable amount (for all board members) comprising attendance per diems. The compensation system has remained stable to date at around 2% of total personnel costs, in line with the limit established by the Appointments and Remuneration Committee, the Corporate Bylaws and the regulations of the Board of Directors, which limit annual compensation paid to the board as a whole to EUR 0.3 Mn. The Managing Director has an annual and multi-year variable compensation scheme (the former limited to 150% of his fixed remuneration) linked to performance. Even so, control of the board by the core shareholders ensures the board's interests align with those of shareholders.

3. **Executive incentives via bonuses.** BAIN's management team has over 20 years' experience in the nut sector and since 2007 most of them do not have any ties to the founding family. The Group has a variable compensation scheme for key personnel which encourages a focus on results, balancing short-term achievements and mid/long term corporate profitability. However, the compensation scheme lacks long term savings schemes and resignation or severance indemnity clauses. The Group does not envisage paying compensation via shares, share options or rights or instruments indexed to the share price.

4. **No shareholder remuneration in the short/mid term.** Our projections envisage the continuation of the dividend policy (Pay Out, 0%) and the Group has made no commitment as regards beginning to pay dividends. However, potential dividend payments cannot be ruled out once the Group reaches a reasonable level of profitability (dependent on when the new plantations are in full production).

Appendix 1. Financial Statements

Close fiscal year: 31-May

Balance Sheet (EUR Mn)	2014	2015	2016(*)	2017	2018	2019e	2020e	2021e
Intangible assets	-	-	0.2	0.3	0.2	0.0	(0.1)	(0.2)
Fixed assets	7.2	7.4	56.5	65.0	71.9	75.7	80.9	84.2
Other Non Current Assets	0.3	0.4	2.6	2.4	2.1	5.1	3.6	2.1
Financial Investments	0.0	0.0	0.3	0.3	0.5	0.5	0.5	0.5
Goodwill & Other Intangilbles	-	-	0.0	0.0	0.0	0.0	0.0	0.0
Current assets	4.3	0.6	76.1	66.8	61.5	60.6	63.3	65.5
Total assets	**11.9**	**8.4**	**135.6**	**134.7**	**136.2**	**142.0**	**148.2**	**152.2**
Equity	9.9	10.8	49.1	52.6	56.4	58.7	61.7	66.5
Minority Interests	0.6	0.6	3.0	2.2	2.2	2.2	2.2	2.2
Provisions & Other L/T Liabilities	-	0.0	3.3	3.1	2.9	2.9	2.9	2.9
Net financial debt	0.8	(3.6)	36.6	40.0	35.0	38.9	40.7	38.5
Current Liabilities	0.7	0.6	43.7	36.8	39.7	39.3	40.7	42.1
Equity & Total Liabilities	**11.9**	**8.4**	**135.7**	**134.7**	**136.2**	**142.0**	**148.2**	**152.1**

									CAGR	
P&L (EUR Mn)	**2014**	**2015**	**2016**	**2017**	**2018**	**2019e**	**2020e**	**2021e**	**14-18**	**18-21e**
Total Revenues	**2.8**	**2.6**	**66.2**	**197.2**	**195.7**	**191.3**	**201.6**	**212.1**	***n.a.***	***2.7%***
Total Revenues growth	*44.8%*	*-6.9%*	*n.a.*	*n.a.*	*-0.7%*	*-2.3%*	*5.3%*	*5.2%*		
COGS	(1.0)	(0.7)	(57.8)	(163.7)	(163.2)	(161.2)	(168.1)	(173.6)		
Gross Margin	**1.8**	**1.9**	**8.4**	**33.5**	**32.5**	**30.1**	**33.4**	**38.5**	***n.a.***	***5.8%***
Gross Margin/Revenues	*63.6%*	*71.5%*	*12.7%*	*17.0%*	*16.6%*	*15.7%*	*16.6%*	*18.1%*		
Personnel Expenses	(0.3)	(0.3)	(3.8)	(11.9)	(12.6)	(13.2)	(13.3)	(13.1)		
Other Operating Expenses	(0.3)	(0.3)	(4.1)	(14.8)	(14.2)	(13.9)	(13.8)	(15.3)		
Recurrent EBITDA	**1.2**	**1.2**	**0.5**	**6.8**	**5.7**	**3.0**	**6.4**	**10.1**	***46.8%***	***20.9%***
Recurrent EBITDA growth	*171.5%*	*1.9%*	*-56.3%*	*n.a.*	*-16.0%*	*-46.8%*	*111.9%*	*56.8%*		
Rec. EBITDA/Revenues	*43.8%*	*48.0%*	*0.8%*	*3.4%*	*2.9%*	*1.6%*	*3.2%*	*4.7%*		
Restructuring Expenses	-	-	-	-	-	-	-	-		
Other non-recurrent Income / Costs	-	(0.0)	0.0	(0.5)	(0.3)	0.1	(0.1)	(0.1)		
EBITDA	**1.2**	**1.2**	**0.5**	**6.3**	**5.4**	**3.1**	**6.3**	**10.0**	***44.6%***	***23.0%***
EBITDA growth	*171.5%*	*1.7%*	*-56.0%*	*n.a.*	*-15.3%*	*-42.2%*	*104.0%*	*57.7%*		
EBITDA/Sales	*43.8%*	*47.8%*	*0.8%*	*3.2%*	*2.7%*	*1.6%*	*3.1%*	*4.7%*		
Depreciation & Provisions	(0.2)	(0.2)	(0.7)	(3.0)	(3.1)	(3.2)	(3.4)	(3.5)		
Capitalized Expense	0.2	0.2	0.5	0.9	1.7	1.7	1.6	0.4		
EBIT	**1.2**	**1.2**	**0.4**	**4.2**	**4.0**	**1.6**	**4.5**	**6.8**	***35.6%***	***19.7%***
EBIT growth	*184.2%*	*1.6%*	*-66.2%*	*n.a.*	*-4.7%*	*-60.5%*	*184.4%*	*52.7%*		
EBIT/Revenues	*42.2%*	*46.1%*	*0.6%*	*2.1%*	*2.0%*	*0.8%*	*2.2%*	*3.2%*		
Impact of Goodwill & Others	-	-	-	-	-	-	-	-		
Net Financial Result	0.1	0.1	(0.2)	(0.0)	(0.0)	(0.6)	(0.6)	(0.6)		
Income by the Equity Method	-	-	-	-	-	-	-	-		
Ordinary Profit	**1.3**	**1.3**	**0.2**	**4.2**	**4.0**	**0.9**	**3.9**	**6.2**	***32.3%***	***16.3%***
Ordinary Profit Growth	*141.4%*	*3.3%*	*-84.1%*	*n.a.*	*-4.8%*	*-76.1%*	*307.6%*	*61.3%*		
Extraordinary Results	-	-	-	-	-	2.0	-	-		
Profit Before Tax	**1.3**	**1.3**	**0.2**	**4.2**	**4.0**	**3.0**	**3.9**	**6.2**	***32.3%***	***16.3%***
Tax Expense	(0.1)	(0.4)	(0.1)	(0.7)	(0.4)	(0.7)	(0.9)	(1.4)		
Effective Tax Rate	*9.7%*	*27.0%*	*44.3%*	*16.7%*	*9.3%*	*23.0%*	*23.0%*	*23.0%*		
Minority Interests	(0.1)	(0.1)	(0.0)	(0.2)	(0.3)	(0.0)	-	-		
Discontinued Activities	-	-	-	-	-	-	-	-		
Net Profit	**1.1**	**0.9**	**0.1**	**3.3**	**3.3**	**2.3**	**3.0**	**4.8**	***31.4%***	***13.2%***
Net Profit growth	*216.1%*	*-19.6%*	*-88.5%*	*n.a.*	*0.3%*	*-30.5%*	*29.3%*	*61.3%*		
Ordinary Net Profit	**1.1**	**0.9**	**0.1**	**3.7**	**3.6**	**0.7**	**3.0**	**4.9**	***34.4%***	***10.4%***
Ordinary Net Profit growth	*193.7%*	*-17.0%*	*-84.6%*	*n.a.*	*-1.7%*	*-81.6%*	*357.4%*	*59.8%*		

									CAGR	
Cash Flow (EUR Mn)	**2014**	**2015**	**2016**	**2017**	**2018**	**2019e**	**2020e**	**2021e**	**14-18**	**18-21e**
Recurrent EBITDA						**3.0**	**6.4**	**10.1**	***46.8%***	***20.9%***
Working Capital Increase						0.5	(1.2)	(0.8)		
Recurrent Operating Cash Flow						**3.5**	**5.2**	**9.2**	***n.a.***	***-12.6%***
CAPEX						(7.6)	(6.9)	(6.3)		
Net Financial Result affecting the Cash Flow						(0.6)	(0.6)	(0.6)		
Tax Expense						(0.7)	(0.9)	(1.4)		
Recurrent Free Cash Flow						**(5.4)**	**(3.2)**	**0.9**	***n.a.***	***-40.7%***
Restructuring Expense & Others						0.1	(0.1)	(0.1)		
- Acquisitions / + Divestures of assets						1.5	1.5	1.5		
Extraordinary Inc./Exp. Affecting Cash Flow						-	-	-		
Free Cash Flow						**(3.9)**	**(1.9)**	**2.2**	***n.a.***	***-11.9%***
Capital Increase						-	-	-		
Dividends						-	-	-		
Net Debt Variation						**3.9**	**1.9**	**(2.2)**		

Appendix 2. Free Cash Flow

Close fiscal year: 31-May

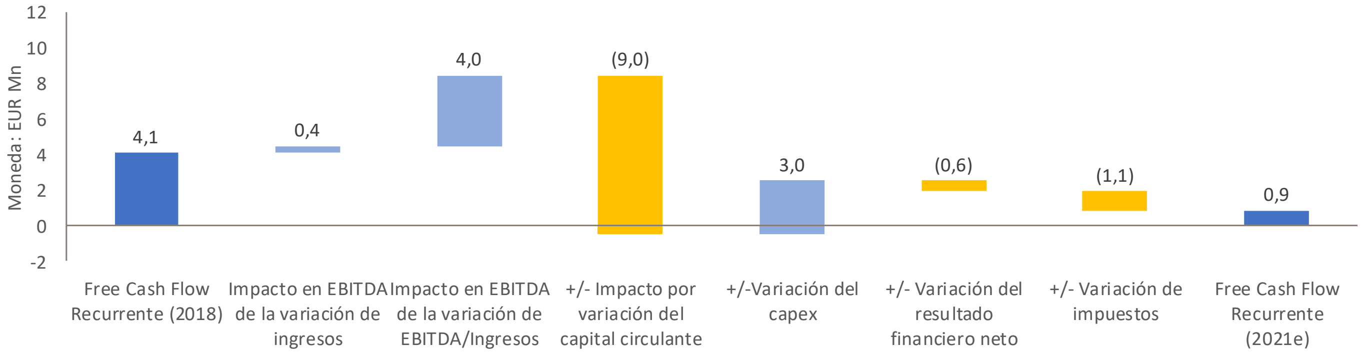
A) Cash Flow Analysis (EUR Mn)	2015	2016	2017	2018	2019e	2020e	2021e	CAGR 15-18	CAGR 18-21e
Recurrent EBITDA			**6.8**	**5.7**	**3.0**	**6.4**	**10.1**	*65.8%*	*20.9%*
Recurrent EBITDA growth			*n.a.*	*-16.0%*	*-46.8%*	*111.9%*	*56.8%*		
Rec. EBITDA/Revenues			*3.4%*	*2.9%*	*1.6%*	*3.2%*	*4.7%*		
+/- Working Capital increase			2.5	8.1	0.5	(1.2)	(0.8)		
= Recurrent Operating Cash Flow			**9.2**	**13.8**	**3.5**	**5.2**	**9.2**	*42.1%*	*-12.6%*
Rec. Operating Cash Flow growth			*n.a.*	*49.4%*	*-74.4%*	*46.3%*	*77.9%*		
Rec. Operating Cash Flow / Sales			*4.7%*	*7.0%*	*1.8%*	*2.6%*	*4.3%*		
- CAPEX			(11.6)	(9.3)	(7.6)	(6.9)	(6.3)		
- Net Financial Result affecting Cash Flow			(0.0)	(0.0)	(0.6)	(0.6)	(0.6)		
- Taxes			(0.7)	(0.4)	(0.7)	(0.9)	(1.4)		
= Recurrent Free Cash Flow			**(3.1)**	**4.1**	**(5.4)**	**(3.2)**	**0.9**	*-1.6%*	*-40.7%*
Rec. Free Cash Flow growth			*-91.2%*	*n.a.*	*n.a.*	*-40.1%*	*n.a.*		
Rec. Free Cash Flow / Revenues			*n.a.*	*2.1%*	*n.a.*	*n.a.*	*0.4%*		
- Restructuring expenses & others			(0.6)	(0.6)	0.1	(0.1)	(0.1)		
- Acquisitions / + Divestments			(0.0)	(0.2)	1.5	1.5	1.5		
+/- Extraordinary Inc./Exp. affecting Cash Flow			-	-	-	-	-		
= Free Cash Flow			**(3.8)**	**3.2**	**(3.9)**	**(1.9)**	**2.2**	*-7.9%*	*-11.9%*
Free Cash Flow growth			*-89.3%*	*n.a.*	*n.a.*	*-51.8%*	*n.a.*		
Recurrent Free Cash Flow - Yield (s/Mkt Cap)			*n.a.*	*4.6%*	*n.a.*	*n.a.*	*1.0%*		
Free Cash Flow Yield (s/Mkt Cap)			*n.a.*	*3.6%*	*n.a.*	*n.a.*	*2.5%*		

B) Analytical Review of Annual Recurrent Free Cash Flow Performance (Eur Mn)	2015	2016	2017	2018	2019e	2020e	2021e
Recurrent FCF(FY - 1)				**(3.1)**	**4.1**	**(5.4)**	**(3.2)**
EBITDA impact from revenue increase				(0.0)	(0.1)	0.2	0.3
EBITDA impact from EBITDA/Sales variation				(1.0)	(2.5)	3.2	3.3
= Recurrent EBITDA variation				**(1.1)**	**(2.7)**	**3.4**	**3.6**
+/- Working capital variation impact				5.7	(7.6)	(1.7)	0.4
= Recurrent Operating Cash Flow variation				**4.6**	**(10.3)**	**1.6**	**4.0**
+/- CAPEX impact				2.3	1.7	0.7	0.6
+/- Financial result variation				(0.0)	(0.6)	-	0.0
+/- Tax impact				0.3	(0.3)	(0.2)	(0.5)
= Recurrent Free Cash Flow variation				**7.2**	**(9.5)**	**2.2**	**4.1**
Recurrent Free Cash Flow				**4.1**	**(5.4)**	**(3.2)**	**0.9**

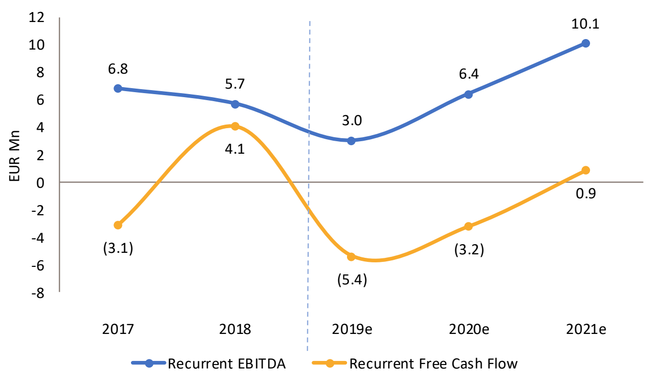
C) "FCF to the Firm" (pre debt service) (EUR Mn)	2015	2016	2017	2018	2019e	2020e	2021e	CAGR 15-18	CAGR 18-21e
EBIT			**4.2**	**4.0**	**1.6**	**4.5**	**6.8**	*49.4%*	*19.7%*
** Theoretical tax rate*			*16.7%*	*9.3%*	*23.0%*	*23.0%*	*23.0%*		
= Taxes (pre- Net Financial Result)			(0.7)	(0.4)	(0.4)	(1.0)	(1.6)		
Recurrent EBITDA			**6.8**	**5.7**	**3.0**	**6.4**	**10.1**	*65.8%*	*20.9%*
+/- Working Capital increase			2.5	8.1	0.5	(1.2)	(0.8)		
= Recurrent Operating Cash Flow			**9.2**	**13.8**	**3.5**	**5.2**	**9.2**	*42.1%*	*-12.6%*
- CAPEX			(11.6)	(9.3)	(7.6)	(6.9)	(6.3)		
- Taxes (pre- Financial Result)			(0.7)	(0.4)	(0.4)	(1.0)	(1.6)		
= Recurrent Free Cash Flow (To the Firm)			**(3.1)**	**4.1**	**(4.4)**	**(2.7)**	**1.3**	*-0.7%*	*-31.3%*
Rec. Free Cash Flow (To the Firm) growth			*-91.2%*	*n.a.*	*n.a.*	*-38.2%*	*n.a.*		
Rec. Free Cash Flow (To the Firm) / Revenues			n.a.	0.0	n.a.	n.a.	0.0		
- Acquisitions / + Divestments			(0.0)	(0.2)	1.5	1.5	1.5		
+/- Extraordinary Inc./Exp. affecting Cash Flow			-	-	-	-	-		
= Free Cash Flow "To the Firm"			**(3.1)**	**3.9**	**(3.0)**	**(1.3)**	**2.8**	*-2.1%*	*-10.4%*
Free Cash Flow (To the Firm) growth			*-91.1%*	*n.a.*	*n.a.*	*-57.0%*	*n.a.*		
Rec. Free Cash Flow To the Firm Yield (o/EV)			*n.a.*	*3.1%*	*n.a.*	*n.a.*	*1.0%*		
Free Cash Flow "To the Firm" - Yield (o/EV)			*n.a.*	*3.0%*	*n.a.*	*n.a.*	*2.1%*		

(*) En 2016 tuvo lugar un cambio de perímetro, no siendo comparable la información. En 2017 se realizó la fusión inversa de Borges S.A.U.

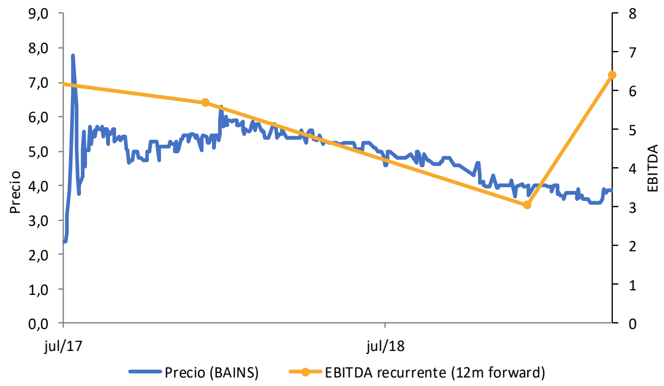
Recurrent Free Cash Flow accumulated variation analysis (2018 - 2021e)



Recurrent EBITDA vs Recurrent Free Cash Flow



Stock performance vs EBITDA 12m forward



Appendix 3. Historical performance [1]

Close fiscal year: 31-May

Historical performance (EUR Mn)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019e	2020e	2021e	CAGR 08 - 18	CAGR 18-21e
Total Revenues										197.2	195.7	191.3	201.6	212.1	*63.9%*	*2.7%*
Total Revenues growth										*n.a.*	*-0.7%*	*-2.3%*	*5.3%*	*5.2%*		
EBITDA										6.3	5.4	3.1	6.3	10.0	*36.9%*	*23.0%*
EBITDA growth										*n.a.*	*-15.3%*	*-42.2%*	*104.0%*	*57.7%*		
EBITDA/Sales										*3.2%*	*2.7%*	*1.6%*	*3.1%*	*4.7%*		
Net Profit										3.3	3.3	2.3	3.0	4.8	*76.9%*	*13.2%*
Net Profit growth										*n.a.*	*0.3%*	*-30.5%*	*29.3%*	*61.3%*		
Adjusted number shares (Mn)										23.1	23.1	23.1	23.1	23.1		
EPS (EUR)										0.14	0.14	0.10	0.13	0.21		
EPS growth										*n.a.*	*0.4%*	*-30.5%*	*29.3%*	*61.3%*		
Ord. EPS (EUR)										0.16	0.16	0.03	0.13	0.21		
Ord. EPS growth										*n.a.*	*-1.6%*	*-81.6%*	*n.a.*	*59.8%*		
CAPEX										(11.6)	(9.3)	(7.6)	(6.9)	(6.3)		
CAPEX/Sales %)										*5.9%*	*4.8%*	*4.0%*	*3.4%*	*3.0%*		
Free Cash Flow										(3.8)	3.2	(3.9)	(1.9)	2.2	41.4%	-11.9%
ND/EBITDA (x) [2]										*6.3x*	*6.5x*	*12.6x*	6.4x	3.9x		
P/E (x)										*38.3x*	*27.7x*	*38.7x*	n.a.	n.a.		
EV/Sales (x)										*0.9x*	*0.7x*	*0.7x*	0.7x	0.6x		
EV/EBITDA (x) [2										*27.1x*	*24.5x*	*42.4x*	20.8x	13.2x		
Absolute performance										*129.1%*	*-27.3%*	*-3.0%*				
Relative performance vs Ibex 35										*113.3%*	*-14.5%*	*-12.3%*				

Note 1: The multiples are historical, calculated based on the price and EV at the end of each year, except (if applicable) in the current year, when multiples would be given at current prices. The absolute and relative behavior corresponds to each exercise (1/1 to 31/12). The source, both historical multiples and the evolution of the price, is Thomson Reuters. Data are provided from 2017 (reverse merger of Borges), previous years not being comparable due to the change of perimeter implemented in February 2016.
Note 2: All ratios and multiples on EBITDA refer to total EBITDA (not to recurrent EBITDA).

Appendix 4. Main Competitors 2019e

	EUR Mn	European Industry: *Greenyard NV*	European Industry: Sipef NV	European Industry: Vilmorin & Cie SA	Average	Benchmark: Select Harvests	Global players: ADM	
Market data	**Ticker (Reuters)**	GREENY.BR	SIFB.BR	VILM.PA		SHV.AX	ADM	BAINS.MC
Market data	**Country**	Belgium	Belgium	France		Australia	U.S.A.	Spain
Market data	**Market cap**	146.7	517.3	1,096.6	586.9	408.7	21,483.6	88.9
Market data	**Enterprise value (EV)**	664.1	556.9	2,375.3	1,198.8	446.1	27,204.4	131.2
Basic financial information	**Total Revenues**	4,296.7	291.1	1,417.0	2,001.6	176.9	58,987.7	191.3
Basic financial information	**Total Revenues growth**	*2.9%*	*9.7%*	*5.3%*	*5.9%*	*320.4%*	*5.1%*	*-2.3%*
Basic financial information	**2y CAGR (2019e - 2021e)**	*-4.4%*	*14.9%*	*3.3%*	*4.6%*	*1.7%*	*2.1%*	*5.3%*
Basic financial information	**EBITDA**	160.5	91.3	303.4	185.1	42.0	3,251.5	3.1
Basic financial information	**EBITDA growth**	*14.9%*	*21.1%*	*0.6%*	*12.2%*	*n.a.*	*26.1%*	*-42.2%*
Basic financial information	**2y CAGR (2019e - 2021e)**	*-25.8%*	*33.3%*	*8.6%*	*5.4%*	*8.4%*	*2.1%*	*79.4%*
Basic financial information	**EBITDA/Revenues**	*3.7%*	*31.4%*	*21.4%*	*18.8%*	*23.7%*	*5.5%*	*1.6%*
Basic financial information	**Net Profit**	39.3	37.9	96.2	57.8	20.5	1,775.1	2.3
Basic financial information	**Net Profit growth**	*n.a.*	*56.4%*	*25.1%*	*40.8%*	*n.a.*	*14.2%*	*-30.5%*
Basic financial information	**2y CAGR (2019e - 2021e)**	*-64.4%*	*59.2%*	*3.4%*	*-0.6%*	*8.8%*	*7.3%*	*44.4%*
Basic financial information	**Capex**	*60*	*60*	*206*	*108.4*	*16*	*823*	*7.6*
Basic financial information	**CAPEX/Sales %**	*1.4%*	*20.4%*	*14.5%*	*12.1%*	*9.3%*	*1.4%*	*4.0%*
Basic financial information	**Free Cash Flow**	33.1	15.0	37.6	28.5	15.7	1,492.7	(3.9)
Basic financial information	**Net financial debt**	351.3	100.6	784.6	412.2	36.5	4,754.6	38.9
Basic financial information	**ND/EBITDA (x)**	2.2	1.1	2.6	2.0	0.9	1.5	12.8
Basic financial information	**Outstanding Shares**	42.8	10.5	22.9		95.2	567.0	23.1
Basic financial information	**Pay-out**	*0.0%*	*26.9%*	*33.7%*	*20.2%*	*51.8%*	*40.2%*	*0.0%*
Multiples and Ratios	**P/E (x)**	n.a.	21.1	13.7	17.4	20.1	12.6	38.7
Multiples and Ratios	**P/BV (x)**	0.3	0.9	0.9	0.7	1.6	1.2	1.5
Multiples and Ratios	**EV/Revenues (x)**	0.2	1.9	1.7	1.2	2.5	0.5	0.7
Multiples and Ratios	**EV/EBITDA (x)**	4.1	6.1	7.8	6.0	10.6	8.4	42.4
Multiples and Ratios	**ROE**	*(1.1)*	*4.2*	*6.2*	*3.1*	*8.2*	*9.2*	*4.0*
Multiples and Ratios	**FCF Yield (%)**	*(75.2)*	*2.0*	*4.1*	*(23.0)*	*2.6*	*7.6*	*n.a.*
Multiples and Ratios	**DPS**	-	*1.0*	*1.4*	*0.8*	*0.1*	*1.3*	-
Multiples and Ratios	**Price Close**	*3.3*	*49.0*	*47.9*		*4.3*	*38.4*	*3.8*
Multiples and Ratios	**Dvd Yield**	*0.0%*	*2.0%*	*3.0%*	*1.6%*	*2.6%*	*3.3%*	*0.0%*

Note 1: Financial data, multiples and ratios based on market consensus (Thomson Reuters). In the case of the company analyzed, own estimates (Lighthouse).
Note 2: All ratios and multiples on EBITDA refer to total EBITDA (not to recurrent EBITDA).

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Recommendation History

Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
11-Apr-2019	n.a.	3.84	n.a.	n.a.	Initial Coverage	Ana Isabel Gonzalez Garcia