Desa

EQUITY - SPAIN
Sector: Industrial - Machinery and Equipment

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Desarrollos Especiales de Sistemas de Anclajes (DESA) is a small industrial group with its corporate headquarters in Barcelona (Spain), specialising (>60 years) in the manufacture and sale of fasteners, staples and tools used in the construction, industry and agriculture sectors. It has an international presence (33% of revenue) and is controlled by its core shareholders (c.75% of capital).

Ana Isabel González García, CIIA – ana.gonzalez@lighthouse-ieaf.com
+34 915 904 226

Market Data

Market Cap (Mn EUR and USD)	15.1	16.7
EV (Mn EUR and USD) [1]	30.1	33.4
Shares Outstanding (Mn)	1.8	
-12m (Max/Med/Mín EUR)	8.45 / 8.14 / 7.90	
Daily Avg volume (-12m Mn EUR)	n.m.	
Rotation[2]	n.m.	
Thomson Reuters / Bloomberg	DESA.MC / DESA SM	
Close fiscal year	31-Dec	

Shareholders Structure (%)

Maden S.A.	29.9
SARM S.A.	20.0
Gestión Ixua S.L.	16.3
Board Members	8.9
Free Float	24.9

Financials (Mn EUR)	2018	2019e	2020e	2021e
Adj. nº shares (Mn)	1.8	1.8	1.8	1.8
Total Revenues	41.1	42.7	44.8	47.1
Rec. EBITDA[3]	2.6	2.7	3.0	3.5
% growth	*15.3*	*6.9*	*11.1*	*14.1*
% Rec. EBITDA/Rev.	*6.2*	*6.4*	*6.8*	*7.4*
% Inc. EBITDA sector[4]	*9.5*	*3.6*	*9.1*	*8.0*
Net Profit	1.2	1.2	1.3	1.6
EPS (EUR)	0.69	0.65	0.75	0.92
% growth	*46.9*	*-5.0*	*14.3*	*23.9*
Ord. EPS (EUR)	0.69	0.65	0.75	0.92
% growth	*46.9*	*-5.0*	*14.3*	*23.9*
Rec. Free Cash Flow[5]	-1.2	-1.5	1.0	1.2
Pay-out (%)	*0.0*	*50.0*	*50.0*	*50.0*
DPS (EUR)	0.00	0.33	0.37	0.46
Net financial debt	13.4	15.9	15.6	15.2
ND/Rec. EBITDA (x)	5.2	5.8	5.1	4.4
ROE (%)	*10.1*	*9.1*	*10.1*	*11.8*
ROCE (%)[6]	*5.3*	*4.7*	*5.0*	*6.0*

Ratios & Multiples (x)[7]				
P/E	12.3	12.9	11.3	9.1
Ord. P/E	12.3	12.9	11.3	9.1
P/BV	1.2	1.2	1.1	1.1
Dividend Yield (%)	*0.0*	*3.9*	*4.4*	*5.5*
EV/Sales	0.73	0.71	0.67	0.64
EV/Rec. EBITDA	11.8	11.0	9.9	8.7
EV/EBIT	18.0	18.5	16.4	13.4
FCF Yield (%)[5]	*n.a.*	*n.a.*	*6.3*	*7.7*

(1) Please refer to Appendix 3.
(2) Rotation represents the % of the capitalisation traded - 12m.
(3) Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 0.2Mn higher due to IFRS 16..
(4) Sector: TR Europe Industrial Machinery and Equipment.
(5) Based on recurrent FCF. Please refer to Appendix 2.
(6) Calculated with a theoretical tax rate. Please refer to Appendix 2.
(7) Multiples and ratios calculated over prices at the date of this report.

Chi va piano, va lontano

AFTER ITS MARKET LISTING (2007), THE BURSTING OF THE PROPERTY BUBBLE HIT THE COMPANY'S P&L HARD, COMPELLING IT TO SEEK M&A, as it was fully exposed to the construction sector (c. -40% in revenues and c.-75% in EBITDA 2009 vs 2007). The acquisition of Simes (June 2010), represented a step-up in both quantitative (revenues 2011 > 3.5x vs. -2y) and qualitative (repositioning in the value chain as a manufacturer) terms. And will be decisive in the long term.

THE SIMES PURCHASE HAS CRYSTALLISED IN 2019… 10 years later the effects are evident. Sector diversification via internationalization (c.35% revenues). And a reduction in exposure to construction (which has dropped 10 p.p. in the sales mix, with a weighting of 20.7%), in favour of agriculture (doubling its contribution in 2016).

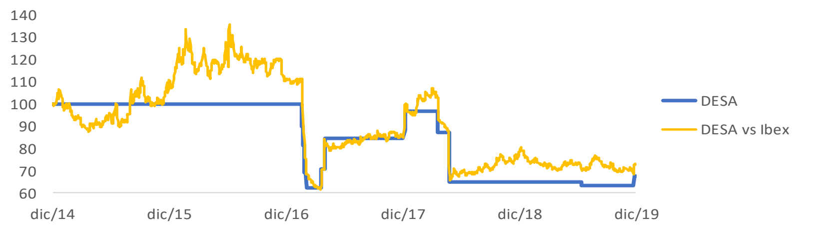
…AND IS VISIBLE IN MARGINS. Numbers -3y speak for themselves. CAGR of c.7% in revenues and c.14% in margin (2x operating leverage), with a 1.5pp margin improvement consolidating the 6% reached in 2018. A long way from pre-crisis levels (>12%) but a level at which FCF of over EUR 1.0 Mn can be achieved recurrently.

A PLAY ON THE NON-CYCLICAL AGRICULTURAL SECTOR AS THE MAIN GROWTH DRIVER… in the mid and long term. We expect growth of c. +60% in the division's revenues +2y, resulting in a CAGR of +5.1% for consolidated revenues +2y (vs. c. 4% for the sector). Despite the inevitable negative impact of the construction and industrial divisions if the economy slows down.

…AND A CONTINUING IMPROVEMENT IN MARGINS, 7.4% Rec. EBITDA /Revenues 2021e (+1p.p. +2y), resulting in a 4.4x ND/EBITDA +2y. The challenge remains to reduce the margin spread vs the sector (still -50%).

PURE LOGIC. The strategy adopted in the wake of the crisis is crystal clear. Growth via M&A, reduction of risk (reducing the weighting of the domestic market and the construction sector) and entry in a new sector (non-cyclical; agriculture) in which added value is credible. Our central scenario is for a continued improvement in margins, with revenue growth (+5% CAGR 2021-2019) higher than that of the sector. And with room for further margin improvement. FCF yield 2021, c.8%. All logical.

Relative performance -5y (Base 100)



Stock performance (%)	-1m	-3m	-12m	YTD	-3Y	-5Y
Absolute	7.0	7.0	4.3	4.3	-32.4	-32.4
vs Ibex 35	2.0	1.5	-7.3	-7.9	-34.3	-27.6
vs Ibex Small Cap Index	5.7	5.7	-4.6	-4.1	-48.9	-56.1
vs Eurostoxx 50	4.3	1.2	-17.1	-17.1	-41.3	-43.8
vs Sector benchmark[4]	-1.1	-9.2	-26.6	-25.1	-49.2	-56.9

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

Reduction of business model risk with margin improvement

Our forecasts include adjustments for the application of IFRS 16 from January 2019. In 2019 EBITDA is c. EUR 0.2Mn higher due to the application of IFRS 16.

DESA is a story of consolidation and restructuring, resulting in a gradual recovery of profitability (with a return to pre-crisis levels). Now the question is what can be expected of the company in the mid and long term. How will it perform in the current context of economic slowdown or in a more adverse scenario than expected?

A) 2013 -2018: Restructuring and diversification, recovering pre-crisis margins

After its market listing (2007), DESA was caught up in the turbulence caused by the economic crisis…, and in particular, the bursting of the Spanish property bubble (August). That same year, turnover peaked (EUR 18.0Mn), prior to the inflection point for the company's P/L. The decline in investment on construction (then its core market) during the economic crisis badly hit the company, whose turnover fell c. 40% two years after its market listing.

Non-organic growth to mitigate the effects of the "property bubble"

…forcing it to turn to M&A in order to mitigate the effects of the economic worsening. Knowledgeable about its market (>60 years of history), in which it operated as a retailer of fastening and anchoring systems (2001-2010), in June 2010 it acquired its rival from Navarra, Grupo Simes, via a capital increase with a non-cash contribution (which resulted in a 38% dilution for core shareholders).

The change in the scope of consolidation has allowed the Group to diversify its revenue mix and recover pre-crisis margins, strengthening its international positioning, achieving a step-up in scale in the sector both in terms of quantity (exceeding the threshold of EUR 35Mn of turnover in 2011, > 3.5x vs. -2y), and quality. The acquisition of Simes has repositioned DESA in the industrial value chain (as a manufacturer of fastening systems), diversifying its product portfolio (via the inclusion in the sphere of consolidation of subsidiaries specialising in the manufacture of staples) and markets, both in terms of geographies (c. 20% of 2018 revenues were generated outside Spain) and sector (to include the industrial and retail sectors).

Revenues fell in proforma terms in the first few years after the merger (proforma 2010-2013 CAGR: -5.3%) and the EBITDA margin hit bottom (<2% recurrent EBITDA/revenues 2012-2103).

Recovering the capacity for organic growth since 2014: The strategy implemented has consolidated DESA's position as a manufacturer/retailer of fastenings, staples and tools, resulting in a CAGR of 6.2% in consolidated revenues in 2014-2018.

CAGR -4y: Revenues +6.2% and recovery of the pre-crisis margin (6.2% EBITDA/Revenues 2018)

The economic recovery, and, in particular, the recovery of domestic construction investment (underpinning the construction division's revenue growth, CAGR +6.2% 2014-2018) and the strong performance of its agricultural division (CAGR 26.0%) have supported this growth. The recovery of the business has resulted in a CAGR of 20.8% for recurrent EBITDA in the same period, returning the 2018 margin and earnings to pre-crisis levels (6.2% recurrent EBITDA/Revenues, vs. 6% -10y, with NP of EUR 1.2Mn).

Still with high debt (> 2x ND/EBITDA vs. sector)

This has considerably reduced the still high debt ratio (5.2x ND/EBITDA 2018, c.-50% vs. 2015).

B) 2019-2021e: The non-cyclical agricultural sector has become the cornerstone of Group growth in the mid term, improving its positioning with respect to the change of cycle.

Today, DESA is better positioned to face the current economic slowdown than it was during the previous crisis. The Group has taken advantage of the economic recovery to reduce the cyclical nature of its core business (construction and industry), with a business line focused on the agricultural sector (16% of 2018 revenues). This line has recorded double-digit growth (CAGR 26.7% -3y), that we expect to continue in the mid term (CAGR +27.4% in 2019-2021e).

The positioning in this market is crucial, levering Group growth to offset the expected worsening of the more cyclical divisions (CAGRs +2y -2.5% and -2.7% respectively in construction and industrial due to the decline in

Slowdown in growth (CAGR +2y: +5.1% in revenues vs. +7.8% -3y),

domestic investment on construction and tougher competition), while in turn reducing the cyclicality of the consolidated business.

As a result, we expect DESA to outperform the industrial sector in the mid term (CAGR +5.1% +2y for revenues, vs. c.4% for competitors and c.3% for the sector).

With accelerated margin recovery (7.4% EBITDA/Revenues 2021e)

Although it is likely to recover the ability to accelerate growth in the mid term … We estimate 6.4% EBITDA/Revenues 2019e. In addition, the acceleration of investment envisaged in 2019 (c. 2.5x y/y) will result in higher debt (ND/EBITDA 5.8x ND/EBITDA 2019e, >2x vs. the sector).

Beyond 2019, the favourable revenue mix (with a growing contribution from the agricultural segment, c. 2x in its contribution to consolidated revenues +2y), will accelerate margin improvement (7.4% EBITDA/Revenues 2021e, +1.0p.p. +2y, vs. an average of c. +2p.p. for peers), leading to a gradual de-leveraging (ND/EBITDA 4.4x +2y) taking ND to below pre-crisis levels.

Which will result in a gradual de-leveraging

…the tight margins with which the company operates (vs. the sector) and its still high debt, will restrict its room for manoeuvre in the event of a more severe economic decline than anticipated. A further 5% decline in its core markets, accompanied by a worsening of collection periods (-10%), could cause Group debt to rocket (>7x ND/EBITDA).

DESA's main challenge: escape from commoditisation (and continue to improve margins: +1p.p, +2y). Which will require more CAPEX. Although DESA has invested in the development of new products, the low entry barriers to the markets in which it operates make it easy for competitors to enter, quickly commoditising relatively new products (restricting their profitability). The potential approval of anti-dumping measures in Europe (not included in our central scenario) would accelerate margin improvement.

Although it is foreseeable an increase in CAPEX in the long run

At the same time, the business model (improvement in mix and margin) is difficult to maintain over the long term with low levels of CAPEX: these will be acceptable in the next 2 years (after the big effort made in 2019), but should rebound beyond 2021: the levels expected (1.5% CAPEX/Sales, 2020-2021) are well below the pre-2019 average (c.3%) and direct peers (c.5%).

C) Conclusion: mid single digit growth (better than the sector) and mid term margin recovery via an improvement in the revenue mix.

The diversification of business and risk (by committing to the agricultural market), will improve the Group's ability to recover margins, narrowing the spread vs the sector. DESA is well positioned to: 1) accelerate the growth of its agricultural segment (c. 30% of 2021e consolidated revenues, c. 2x +3y), via a greater penetration of its newest products; 2) accelerate margin improvement (via the revenue mix); and 3) continue to reduce debt (ND/EBITDA 4.4x 2021e), which will grant the Group the flexibility to accelerate growth (organic and non-organic). Our central scenario envisages a c. 60% increase in the revenues of the agricultural business line +2y (2x its contribution to consolidated revenues 2021e) and a 10% increase in consolidated revenues, resulting in FCF of EUR 1.2Mn 2021e, with a FCF yield of 7.7% (vs c. 7% for direct peers and in line with the c. 8% offered by the sector).

What would be the best case for DESA? A more positive scenario in which the Group managed increase 30% the revenues included in our central scenario for the agricultural division, would raise consolidated revenues by c.10%, reduce investment to levels similar to those maintained at the beginning of the previous economic crisis (CAPEX/Revenues 1.0%), raise FCF to EUR 1.9Mn (FCF yield > c. 12.5%) and, so, its potential.

With the potential for margin improvement vs. the sector (c. 2x EBITDA/Revenues)

However, at the strategic level, strong organic growth (continuously outperforming the sector) would enable DESA, among other possibilities, to carry out the investment necessary to make an additional step-up in scale and/or achieve the differentiation necessary to narrow even further the margin spread vs the sector (currently c.-50% for EBITDA/Revenues), reducing the FCF yield to that offered by competitors.

On the contrary, a more negative scenario, involving 30% lower growth than expected for the agricultural division (resulting in -10% in the estimated consolidated revenues) accompanied by investment levels of 3.0% (in line with the sector), would prolong the Group's cash consumption, raising debt levels c. 45% (>6x).

Table 1.Recurrent FCF 2021e vs CAPEX/-Sales and revenue variations

Rec. FCF 2021e

Revenues \ CAPEX/Sales	1.0%	1.6%	3.0%
51.8	1.9	1.6	0.8
47.1	1.5	**1.2**	0.5
42.8	0.8	0.5	(0.1)

Profitability

Rec. FCF yield 2021e

Revenues \ CAPEX/Sales	1.0%	1.6%	3.0%
51.8	12.5%	10.3%	5.4%
47.1	9.7%	**7.7%**	3.3%
42.8	5.0%	3.2%	n.a.

Financial Risk

Net Debt/EBITDA 2021e

Revenues \ CAPEX/Sales	1.0%	1.6%	3.0%
51.8	3.5	3.6	3.8
47.1	4.3	**4.4**	4.6
42.8	6.0	6.1	6.3

In conclusion: what can be expected of DESA?

A "green" bet reducing business cyclicality while improving profitability,...

The company has experienced a radical change in the last 10 years, via a strategy of non-organic growth, which has meant multiplying its turnover >4x and diversifying its markets (at both the sector and geographical level). DESA has managed to reduce the risk of its business model (by a smaller exposure to the construction sector, after increasing its portfolio of industrial and retail clients), maintaining a significant commitment to growth in the agricultural business (c. +2x in revenue volumes -5y), as a way of achieving differentiation and reducing the cyclicality of the company (after the impact of the previous crisis on the construction sector).

...narrowing the gap vs. industry)

Its agricultural business line is the main driver of organic growth and of the recovery in margins. DESA's main growth drivers can be summarised as:

1) The greater potential for penetration inherent to its newest products in the agricultural segment (less cyclical), which will be able to lever a more diversified customer portfolio (mix of channels).

2) The consolidation of a floor in margins of c. 6% (EBITDA/sales) in the mid term, with improved profitability in the mid term, that will benefit from a product portfolio with higher added value. After the Group's repositioning (products, markets and margins), it would be logical to expect a gradual narrowing of the margin spread vs the sector (c. +1.5x EBITDA/Revenues).

Perhaps the best way to summarise what DESA is today is the expectation (our central scenario) that it will achieve a FCF yield of c.8% in 2021. This is a direct consequence of the strategic decisions of the last 10 years: purchase of Simes, entry in the agricultural business and reduction of exposure to construction, and an improvement in profitability via investment.

A logical strategy of non-organic growth, business diversification and internationalisation

Chart 1. Sales mix

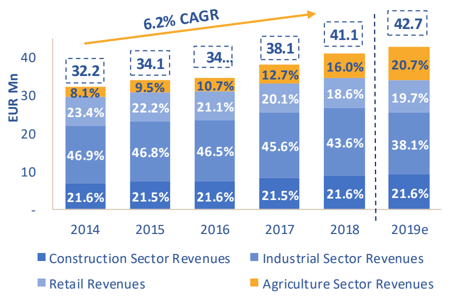


Chart 2. Geographical revenue mix (2018)

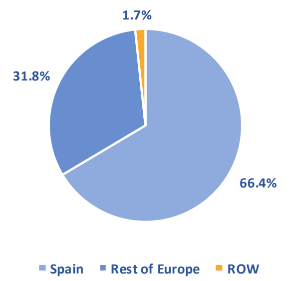
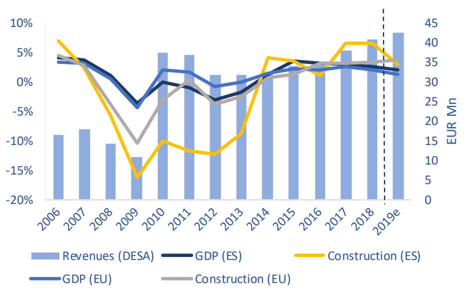


Chart 3. GDP growth rates (EU and Spain) vs. investment on construction



Sources: EC DG for Economic and Financial Affairs, company and LH. Proforma 2010 DESA data.

Our forecasts include adjustments for the application of IFRS 16 from January 2019. In 2019 EBITDA is c. EUR 0.2Mn higher due to the application of IFRS 16.

Desarrollos Especiales de Sistemas de Anclajes S.A. (DESA) is a small international industrial group (EUR 15.1 Market Cap), with its corporate headquarters in Barcelona (Spain), specialising in the manufacture and sale of fasteners, staples and tools used in the construction, industry and agriculture sectors. DESA has over 60 years' experience in the sector, and is a benchmark in the fasteners and anchors segment, in which it has a market share of c. 15% in the Iberian peninsula (for its main brands).

The anchors and fasteners market is highly fragmented with a large number of private operators such as, among others, the Spanish company Index Fixing Systems and the German companies Würth and Lederer, which compete with a host of smaller operators. Listed companies are also present which, in turn, can be classified into: 1) players with a wide range of products, such as the industrial conglomerate International Tool Works (US), Norma Group (Germany), Rawlplug (Poland), Granges and Momentum (Sweden); 2) players specialising in high technology, such as Barnes Group (US), Bufab (Sweden), and SFS Group (Switzerland); and 3) other players specialising in the automotive industry (very residual for DESA) such as Bulten (Sweden) and Feintool International (Switzerland).

The serious crisis in the construction sector is the main driver of change…

Until 2010, DESA carried out the importing (mainly from Asia[1]) and sale of fixing products and materials, with exposure back then mainly to the domestic construction (housing) sector. Revenues peaked in 2007 (EUR 18.0Mn), a year which saw the bursting of the Spanish property bubble (August), prior to an inflection point year. The deterioration of the construction industry during the economic crisis hit the company hard, with revenues declining by c. 40% two years after its stock market debut (2007), at the same time as DESA began to restructure its businesses. By way of illustration, Spanish construction investment fell by 49.6%[2] in 2007-2013 (-55.3% in housing), c. 2.4x the decline recorded in the EU.

In addition, the introduction of provisional anti-dumping measures in Europe (2007) for certain iron and steel fasteners from China (screws), and the subsequent implementation of various EU regulations along the same lines also had an impact (although a smaller one) on DESA's P/L. The company's EBITDA margin shrank c. 60% in one year (to 6% recurrent EBITDA/revenues 2008, -9.7p.p. y/y) due to the combination of both factors.

…and explains the strategy of non-organic growth and diversification…

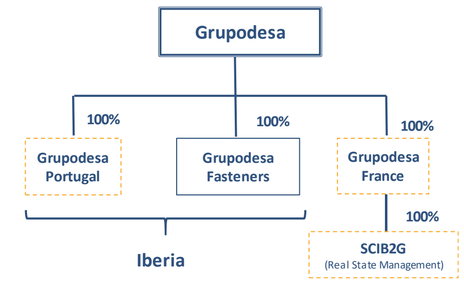
In order to mitigate the impact of both factors (the domestic crisis and protectionism), the company has been active at a corporate level. In June 2010, after 5 years of negotiations, it acquired its Navarre competitor Grupo Simes (with > 60 years of activity in the industry), via a capital increase with a non-monetary contribution of EUR 8.5Mn (with 96% as an issue premium), subsequently executing (2012-2015) several corporate reorganisations that have reduced the corporate structure to 3 directly controlled subsidiaries (vs. 5 in 2010). The Spanish subsidiary, Grupodesa Fasteners, encompasses all the domestic business, and there are two foreign subsidiaries: one in Portugal (Moita, where it has an office), and another in France (La Buisse, Lyon, which has a full infrastructure).

DESA currently has operating platforms in Catalonia and Navarre (45,000 m2 of facilities): a manufacturing plant in Elcano (Navarre) where it produces stapling, ring stapling and bonding systems, and two logistic platforms, one in Valls (Tarragona) with capacity for 4,000 pallets (which it plans to double in 2020), and a second warehouse in Orkoien (Navarre). The

[1] DESA maintained a technical office in Shanghai until 2015 for the initial selection and control of suppliers.

[2] EC DG for Economic and Financial Affairs.

Chart 4. Corporate structure:



enlargement of the Valls facility (EUR 2.5Mn in Group Capex in 2019e) is aimed at the logistic centralisation of the Group in the Iberian peninsula (2020e) and the closure of the Orkoien facility (which will become available for rent to third parties or sale).

While the manufacturing plant has c. 20% surplus capacity, the logistics platform is saturated (DESA sells c. 10,000 items), so the enlargement of the Valls facility will reduce costs and incorporate other revenue (if the Orkoien plant is rented). Since 2010 the Group's properties have been included in the parent which rents them to its subsidiaries.

…which has been successfully implemented: diversifying the revenue mix and recovering pre-crisis margins.

The change in the scope of consolidation[3] has enabled DESA to:

1) Achieve a step-up in scale at the industrial level, exceeding EUR 35Mn in revenue in 2011 (vs. EUR 10.9Mn in 2009, > 3.5x vs. -2y).
2) Reposition itself in the value chain, by including in the scope of consolidation the companies Simes-Senco, S.A. and Comersim, S.L., specialising in the manufacture and sale of fixing systems (screws, staple fasteners, nails, aluminium and steel rivets)[4]. The consolidation of both subsidiaries, in addition to strengthening DESA's marketing activity, represents a step-up in quality for the business by extending its activity to manufacturing (staples).
3) Diversify its business, reducing exposure to the construction sector (which currently accounts for c. 22% of sales), while expanding its market to the industrial sector (c. 43%), the retail segment (c. 19%) and the agricultural market (c. 16%) by diversifying its product portfolio and distribution channels. The group acquired specialises in the manufacture and sale of fixing system products, used in both construction and industry (among others the automotive industry) and in DIY.
4) Enhance its internationalisation by the integration of SIMES's international subsidiaries: positioning itself directly in the Portuguese market (FISIM and IRIS[5], companies specialising in the sale of anchoring systems and hardware) and in France (SDR Fixations, specialising in the sale of hardware products). Since the economic crisis began, the Group has focused on the international business, which contributed 33.4% of revenues in 2018, vs. < 5% pre- 2009.
5) Recover pre-crisis EBITDA/Revenue margins: 6.2% in 2018 in recurrent terms (vs. 6% in 2008-2009), thanks to the diversification of the portfolio of products sold (growing contribution from higher added value products) and the synergies generated by the corporate reorganisation. Even so, the first few years of consolidation have not been easy due, in part, to the necessary reorganisation of the businesses. The decrease in revenues (CAGR 2010-2013: -5.3% in pro-forma terms) due to the economic crisis, together with a residual negative impact of anti-dumping regulations, took the Group's recurrent EBITDA/revenue margin to lows (< 3% 2012-2013).
6) Gradually reduce debt: the Group's exposure to the construction sector (with long collection periods), which it offsets with an active policy of discounting trade bills, explains the Group's high gearing: 5.2x 2018 ND/EBITDA. In fact, the financing of working capital via the discounting of trade bills was responsible for 51% of consolidated debt in 2018 (in line with the -5y average). However, the good business performance since 2013 has enabled the Group, despite increased investment, to gradually reduce its bank exposure (ND/Rec. EBITDA 2018 5.2x, c. -50% vs. levels prior to the merger with Simes), taking the ND/Equity ratio to 105%, a similar level to that of 2013.

Chart 5. Recurrent EBITDA vs Rec. EBITDA/Revenue

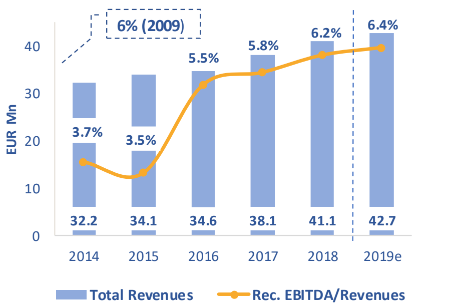
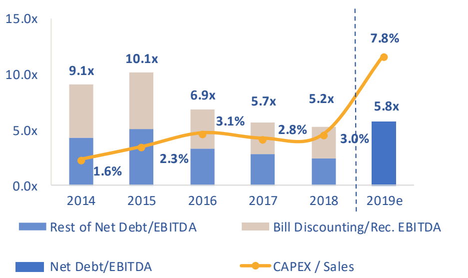


Chart 6. ND/EBITDA vs. CAPEX/Sales



Positioning itself in the agricultural market, its main (mid term) growth driver

The group's commitment to this division is clear (concentrating the bulk of R+D+i in recent years), doubling in size in the last 5 years, and representing 16.0% of consolidated revenues in 2018. The contribution in sales of its most innovative developments will maintain double-digit revenue growth in this division, boosting consolidated growth.

[3] Grupo Simes has been consolidated in the P/L since June 2010.
[4] The two companies became part of Grupodesa Fasteners in 2015.
[5] Name prior to the corporate reorganisation.

Chart 7. Geographical revenue performance

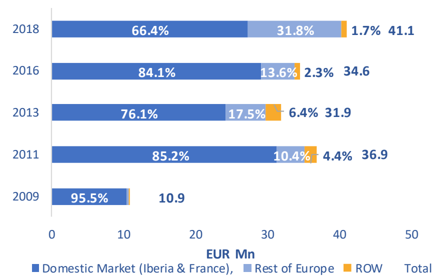
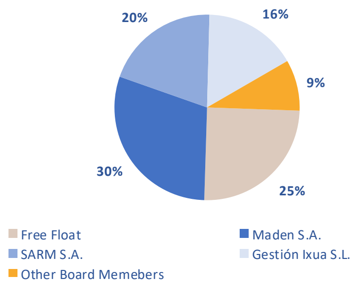


Chart 8. Shareholder structure



Obvious international ambitions, strengthened by Simes

Since the start of the economic crisis in 2008, DESA has been committed to the geographical diversification of its revenues. The external business reported by the company (which excludes Spain, France and Portugal, where DESA has a corporate structure), accounted for 20.3% of 2018 revenues (of which c. 92% were generated in the rest of Europe). The business in the rest of Europe (external market) has shown more dynamism, with an AAGR of +8.3% and +27.3%, respectively, -5y and -2y (vs. +6.2% and +6.1% in the internal market) In fact, revenue growth in the other European countries accelerated in 2018, +32% y/y (boosted by expansion in non-euro zone markets), offsetting the deceleration of the internal business (+3.5% y/y in 2018).

And a stable shareholder structure

Since its market listing, DESA has always been controlled by its founders (basically Maden SA and Sarm SA) and the Board (>90% 2009). The Group has other stable shareholders (Laimpa SL and Neil SL). With the acquisition of Grupo Simes (2010) the controlling shareholders had to dilute their interests to allow Gestión Ixua S.L and the rest of the shareholders of Grupo Simes into the hard core of shareholders, these receiving 38% of capital (19% for Gestión Ixua). However, control remains in the hands of DESA's historical hard core, which holds c.50% of capital. In fact, the reduction in the shareholding of Gestión Ixua in 2018 (-2.7p.p.) was fully absorbed by Maden. Core shareholders and the Board currently control 58.8% of capital, with a free-float of c. 25%.

In conclusion: What is DESA today?

The company has changed radically in the last 10 years: 1) Purchase of Grupo Simes (2010) resulting in a large step-up in scale and diversification; and 2) the impact of the crisis on the construction sector and a change of direction in the company's strategy.

DESA today is a different animal to 2008. Not only is it larger (increasing turnover >4x), but it has also committed to three new growth drivers:

1) Consolidation of a floor in margins of c. 6% (EBITDA/sales), benefiting from a more profitable product portfolio.

2) Extension of markets, eliminating the ceiling that the domestic market represents via internationalisation (sales outside core markets -Spain, France and Portugal- already account for 20%).

3) Reduction of business model risk via a smaller exposure to the construction sector (c.22% of 2018 revenues), with a commitment to the agricultural sector (where the company is pro-active in R+D+i, to diversify its product portfolio) and the retail channel (c.16% and 22% of 2018 revenues respectively) as alternatives that reduce the company's cyclical nature. The agricultural sector has increased 2x its weight of the sales mix in the last five years (-c. 8% 2018).

After this transformation process, the company continues to sell the same product, having expanded its customer portfolio. It could be said that DESA has consolidated/strengthened its position as a manufacturer/retailer of fasteners, staples and tools. However, its repositioning in the last decade (products, markets and, as a consequence, margins) has changed the company which is still waiting for these changes to continue boosting organic growth, resulting in a gradual improvement in profitability.

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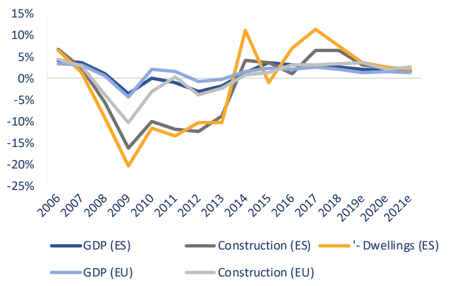
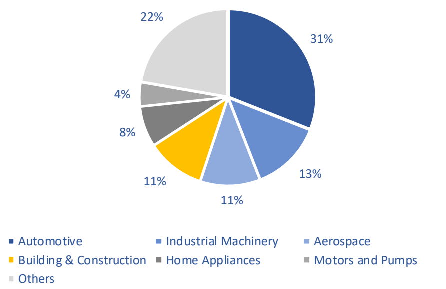
Diversification of markets in response to the slowdown/contraction in construction and industry

Chart 9. GDP vs. investment in construction and dwellings (EU vs Spain)



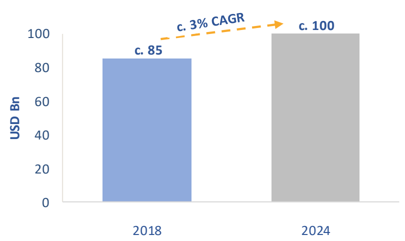
Source: EC DG for Economic and Financial Affairs, Bank of Spain SEOPAN (Association of Infrastructure Contractor and Concessionaires).

Cahrt 10. Sector distribution of the global fasteners industry



Source: Grandviewresearch, elaborated LH

Chart 11. Global fasteners industry expected performance



Source: Grandviewresearch, elaborated LH

DESA's products are aimed mainly at the construction (principally building) and industrial sectors (65% of 2018 consolidated revenue). Demand dynamics in both markets is key, as it directly impact the industrial fixings market. With the goal of mitigating the cyclicality of its core business, the Group has diversified its market (c. 18% of revenues being generated in the retail channel), incorporating to its portfolio products with higher added value aimed at the non-cyclical agricultural sector (the other 16% of 2018 revenue). DESA is especially proud of its leadership (Iberian Peninsula) of the stapling and ring-stapling business (own design and manufacture), with its products being used both in industry (masonry, upholstery, automotive, furniture, etc.), and in construction and agriculture.

Growth in the fasteners and anchors industry is expected to slow down

The market enjoyed significant growth in the past, thanks to increased investment in construction and greater demand from the automotive and manufacturing industries (electronics, textiles, furniture, medical equipment, etc.). Industry sources put the global market at c. USD 85Bn in 2018[6] (c. 40% in Europe), after recording mid single-digit growth (historical CAGR of 5%-6%). The same sources point to a slowdown of growth of c. -2p.p. in coming years (CAGR 3%-4% until 2025) until the USD 100Bn threshold is exceeded at the end of the period, boosted mainly by demand growth in Asian countries (CAGR c. 6%).

In turn, the industry is highly fragmented and competition is becoming fiercer (especially in segments such as aerospace). Market participants include global operators (such as Grupo Fischer, SFS Group or Precision Castparts Corp, the last of these being acquired by Berkshire Hathaway in 2015) and a large number of smaller players (the bulk of which are private).

…while still preserving growth "drivers", that will accentuate its dichotomy

The diversity of products sold by the industry (screws, nuts, bolts, etc.) represents a minimal cost in relation to the end product, these commodity products (high volume and low cost production sold by local retailers) representing the bulk of the market. However, in recent years a growing segment of manufacturers specialising in high technology and high performance products has begun to emerge (with smaller volumes and larger margins) aimed at industry, in which fasteners' quality is key.

The market will continue to benefit from innovation (forms/uses) in these products, with research focusing on the raw material in order to improve durability, hardness, conductivity, resilience (temperature/pressure) and efficiency. Steel remains king in the manufacture of fasteners due to its resilience and mechanical properties, with fluctuations in this raw material being critical for the industry. However, the continued emergence of alternative methods (clamps, adhesives, tapes, welds, etc.) are slowing its use.

The industry trend is towards more demanding quality standards for these products (increase in product withdrawals in the automotive industry due to fastener failures, etc.), along to its growing use(electrical equipments, electronics, aerospace and machinery), together with industrial innovation, will underpin market growth.

In addition, a greater emphasis in industry on the availability of almost "immediate" delivery, means that logistics efficiency (Industry 4.0) is a hot topic in the agenda of leading suppliers.

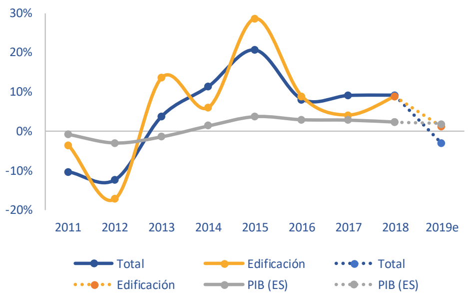
[6] Global Industrial Fastener Market 2014-2018, Technavio Insights referenced in "Analysis of challenges in global Industrial Fastener Markets" (MIRD- Industry Focus).

Faced with a complex national and international context which restrains its two key markets (construction and industrial)

The economic deterioration arising from political and economic uncertainty at the global level especially impacts the construction industry. The forecasted investment in construction within the EU will peak in 2019 (+3.8% y/y, +0,4p.p. y/y). The impact of Brexit and the prolongation of trade tariff conflicts will result in a deceleration of the industry, with expected growth of 2.1% in 2020 (-1.7 y/y).

In Spain, strong investment in housing (AAGR +9.6% -2y) has underpinned growth in total construction investment, which peaked in 2018 (+6.6% y/y), with an AAGR of 6.3% -2y (+2.9p.p. vs. the EU). However, forecasts for the country point to growth of 3.1% in 2019 (-3.5p.p. y/y) below that expected for the EU (+3.8p.p.). In fact, figures released at 9m show a decline in total contracting of 3.2% since the beginning of the year (-4.3% y/y in September), with growth in building of 1.1% (-7.8p.p. y/y). Moreover, the CCI[7] for November (-12.3 points, -8.9 points m/m) rules out a recovery in the short term.

Chart 12. GDP vs Contracting in construction (total and building) in Spain



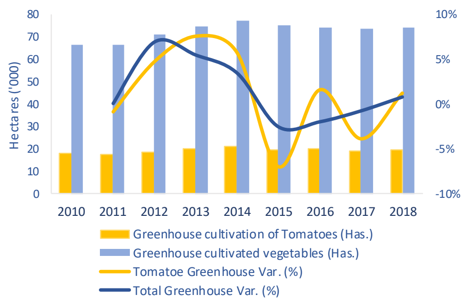
Sources: Statistics National Institute (INE) and Ministry of Public Works and Transport

...motivating the strategic "turn" towards the agricultural industry, with which to reduce the "cyclicality" of the business

After the last economic crisis, DESA turned (2013) towards the agricultural market, and has become a benchmark for greenhouse tying systems. The company sells an innovative system of tying used in greenhouses, having most recently launched a novel product developed in-house.

Spain ranks second globally (after China) in the amount of agricultural land area dedicated to fruit and vegetable cultivation in permanent greenhouses (74,100 Has. and c. 82,000 Has. respectively in 2018). Greenhouse crop cultivation accounts for c. 20% of arable land use in Spain, with c. 26% being used to grow tomatoes. Improving productivity and efficiency are crucial in the agricultural industry.

Chart 13. Hectares of greenhouse crop cultivation in Spain (tomatoe vs. total vegetables)



Source: Ministry of Agriculture, Fisheries and Food

According to the company, its novel tying system, used mainly for Greenhouse crop cultivation, reduces tying time (-40%, reducing labour costs), prevents damage to the plant (which affects productivity), and also reduces recycling costs (vs. other plastic systems).

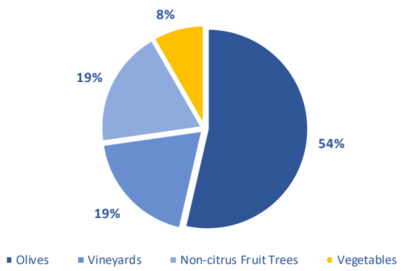
An industry heading for concentration and strategic alliances

The industry is not immune to trade conflicts, with economic deceleration being the tonic at a global level: there has been a further downgrade to estimated EU GDP growth for 2019e to 1.4% (vs. a previous estimate of 1.5% which had already been downgraded -0.4p.p.).

This is an industry in which integrated players (such as Bulten, Fischer Group and SFS Group) compete with suppliers of intermediate products (Bossard, Trifast, Bufab), with an average EBITDA/Revenue margin > 12%.

Tougher competition in this context will again favour concentration and strategic alliances[8] in an industry struggling to broaden its product portfolio and geographical scope, to strengthen its positioning and margins. In fact, 2017 was especially intense in terms of M&A: among others, ST Fastening Systems (acquired by Hillman Group), MW Industries (American Securities), Cooper & Turner (Watermill Group), Space-Lok (Novaria Group) and Macon (Bolts & Nuts).

Chart 14. Cultivated hectares split (Spain)



Source: Ministry of Agriculture, Fisheries and Food

7 Construction Confidence Indicator

8 In 2018 Bulten announced the creation of a joint venture with Ramco Specialties

Table 2. Main peers - EBITDA/Revenue margin

Company	Country	2014	2015	2016	2017	2018
RAWLPLUG SA	Poland	8.3%	9.9%	11.8%	11.4%	11.6%
NORMA GROUP SE	Germany	20.2%	19.9%	17.5%	20.8%	16.1%
JOH FRIEDRICH BEHRENS AG	Germany	6.8%	7.6%	8.7%	6.0%	5.2%
GRANGES AB	Sweden	12.9%	13.6%	13.2%	11.4%	10.5%
MOMENTUM GROUP AB	Sweden	n.a.	n.a.	1.6%	4.9%	5.8%
CHRISTIAN BERNER TECH TRADE AB	Sweden	4.0%	6.4%	6.5%	5.5%	9.0%
TRIFAST PLC	United Kingd	9.9%	10.2%	11.1%	11.0%	9.9%
ILLINOIS TOOL WORKS INC	United States	23.5%	25.0%	25.9%	26.9%	27.4%
Broad Range players		**12.2%**	**13.2%**	**12.1%**	**12.2%**	**11.9%**
BARNES GROUP INC	United States	20.7%	20.7%	22.3%	20.6%	22.2%
BUFAB AB	Sweden	10.1%	9.4%	11.0%	10.8%	10.8%
SFS GROUP AG	Switzerland	19.6%	19.5%	20.9%	19.8%	19.2%
GEORG FISCHER AG	Switzerland	10.4%	11.2%	11.9%	11.8%	11.7%
BERGMAN & BEVING AB	Sweden	4.9%	5.9%	6.3%	7.2%	6.3%
BOSSARD HOLDING AG	Switzerland	13.8%	12.5%	13.1%	13.7%	13.8%
Highg Tech Specialty players		**13.3%**	**13.2%**	**14.2%**	**14.0%**	**14.0%**
DESA	Spain	3.7%	3.8%	5.3%	5.8%	6.2%
TR. Industrial Machinery & Equipment(1)		**13.5%**	**13.4%**	**13.4%**	**13.3%**	**14.9%**

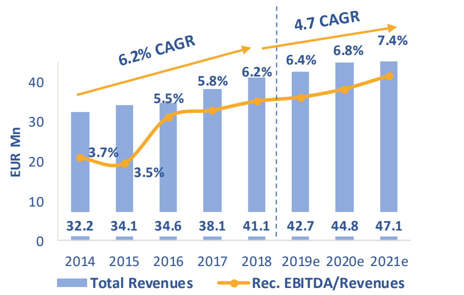
(1) Thomson Reuters Sector Category (aggregated data)

Change of mix to escape sector commoditisation (and improve margins)

Our forecasts include adjustments for the application of IFRS 16 from January 2019. In 2019 EBITDA is c. EUR 0.2Mn higher due to the application of IFRS 16.

DESA has enjoyed solid growth in revenues in recent years (CAGR -3y: +6.4%), mainly on the back of the positive performance of domestic investment on construction (AAGR -3y: +4.5%). Growth in Group revenues peaked in 2017 (+9.9% y/y), underpinned by: 1) the momentum of growth in new building work in the local market (AAGR +6.5% -2y) driving growth in sales of the construction division (+9.2% y/y), 2) the expansion of the portfolio of industrial clients (+7.8%) and 3) the good performance of its agricultural division (+30.3%).

Chart 15. EBITDA/Revenue vs. Revenue



The Group again recorded high single digit growth in revenues in 2018 (+7.8% y/y), driven mainly by its construction (+8.4% y/y) and agricultural divisions (+35.4%).

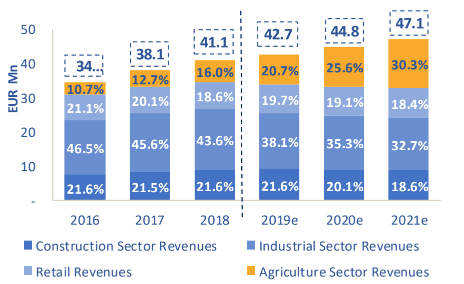
However, 9M19 results reflected the effects of the global economic slowdown, putting the brakes on growth (+3.3% y/y -5.5p.p. vs. 1Q19), with implied growth in revenues of 6.1% y/y in 3Q19, which offset the worse performance of 2Q (-4.4% y/y, affected by the fall in exports caused by the difficult economic context). The agricultural division (key to the company's diversification strategy), again recorded double-digit growth.

2019 -2021: The agricultural division will drive growth in consolidated revenues, compensating for the slowdown in the company's more cyclical divisions

The delay to investment decisions caused by the political stalemate at the domestic level and the economic deceleration will continue to impact the Group's P&L in the short/mid-term. We estimate growth of 3.9% in 2019 revenues (-3.9p.p. y/y), and a CAGR of +5.1% for 2019-2021e (vs. +3.9% for listed peers and higher than the c. +3% expected for the sector).

The agricultural division will be the main growth driver, due to the increased penetration of its fixing system for agricultural use (with higher added value): we expect its sales to double by the end of the estimated period, with double-digit growth (CAGR +27.4% +2y, contributing c. 30% of 2021e consolidated revenues).

Chart 16. Revenue Mix



Conversely, lower investment on construction and tougher competition against a backdrop of economic slowdown, plus a potential scenario of falling prices warrants our more conservative position for the construction and industrial segments (CAGRs +2y: -2.5% and -2.7% respectively), whilst we estimate a CAGR for the retail channel of 1.6% (in line with the macro scenario).

On the other hand, taking into account the high commodity component of the industry, it is not impossible that the lower cost of the company's main raw material will be largely passed on to the end client (steel prices have accumulated a decline of c. -14.5% since the beginning of the year). We estimate a 0.2p.p. worsening of the gross margin in 2020e (in line with the industry).

In the mid-term the Group aims to incorporate products with higher added value to its portfolio enabling it to accelerate growth in the business. On the other hand, the potential introduction of anti-dumping measures in Europe for staples (a move promoted by the industry), could accelerate growth in sales of these products, helping to improve margins. None of these factors has been included in our numbers.

Recovery of margins, highly dependent on the revenue mix

The bursting of the Spanish property bubble (2007) resulted in DESA recording (proforma) EBITDA losses in 2009-2012, with several corporate restructurings being necessary to exceed break even (EUR 0.4Mn EBITDA 2013). Since then, the Group has recorded improvements in the EBITDA/Revenues margin in five consecutive years (+4.9p.p. in 2014-2018), reaching 6,2% at the end of the period.

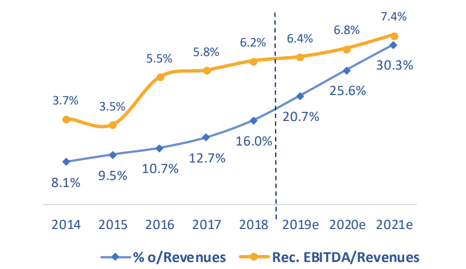
Constant improvements in efficiency (since 2013 DESA has invested c. EUR 1.5Mn on operating improvements) have helped the recovery of the margin, despite the increase in the headcount (+13.5% in the same period).

In 2019, the impact of IFRS 16 (a EUR 0.2Mn reduction in operating expenses) will result in a 0.3p.p improvement in the Group margin (Recurrent EBITDA/Revenues 6.4% 2019e, c. -50% vs. the industry; ex IFRS the margin would have been 5.9%).

The favourable revenue mix will result in a gradual improvement in the EBITDA/Revenues margin (7.4% 2021e, +1p.p. +2y) below that expected for the sector (c.+1.5p.p. in the same period).

The growing contribution to revenues from the agricultural division (c. 30% of 2021e revenues, c. 2x vs. 2018) associated with the sale of higher margin products, will offset the worse performance expected by the other divisions. By the same token, the cost savings and operating efficiencies generated by the concentration of logistics in Valls (2020e) will help reduce the operating expenses/revenues ratio in the mid term (c.32.5% of revenues +2y, c. -1.5p.p. vs. 2018), supporting the expected margin recovery.

Chart 17. Sales contribution of the agricultural line (%) vs. EBITDA/Revenue

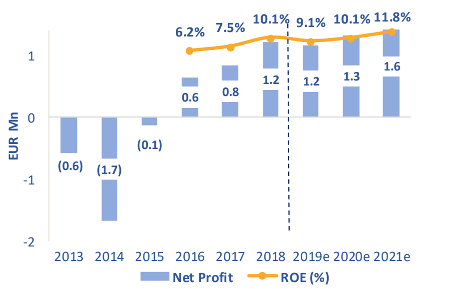


Ordinary Net Profit: double-digit organic growth that is attractive in the sector

The tight margin with which the Group operates (characteristic of the most commoditised industrial segments) amplifies the negative impact of financial expenses on the P&L. In fact, since the business began its recovery (2013), financial expenses have consumed c. 20% of the EBITDA generated (against a backdrop of falling interest rates).

However, the continuous financial de-leveraging caused by a favourable economic context has reduced the net financial impact (c. -65% in 2015-2018), with financial expenses representing 6.5% of 2018 EBITDA (vs. 32.2%. in 2015). The funding of CAPEX together with the (residual) impact of IFRS-16 will result in a one-off increase in financial expenses (6.8% of 2019e EBITDA), these gradually decreasing thereafter (<6% at the end of the projected period).

Chart 18. NP vs. ROE

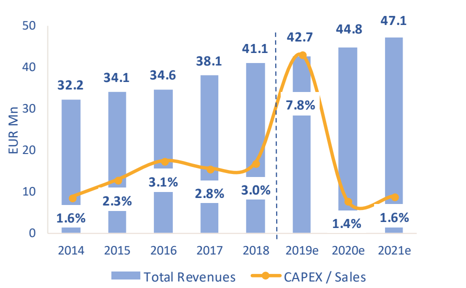


On the other hand, the use of tax loss carryforwards (the company had EUR 9.3Mn off the balance sheet at the 2018 close) will allow it to maintain tax rates below the corporate tax rate. We expect an average tax rate of 19% (in line with 2018).

In this scenario, 2019e EBIT would be EUR 1.6Mn (-2.8% y/y), with similar NP to the previous year (EUR 1.2Mn, -5.0%), and with a ROE of 9.1% (vs. c. 13% for peers). We expect double-digit organic growth in operating profit (CAGR 2019-2021e: +17.3%), that would translate to NP (+19.0% in the same period), due to lower financial expenses (vs. c.+10% for peers), enabling an improvement in the ROE in the mid term (11.8% 2021e).

CAPEX: after the effort of 2019, below sector investment levels in the long term

Chart 19. CAPEX/Sales vs Revenues



DESA allocated approximately EUR 5Mn in 5 years to improvements in operating efficiencies and maintenance, taking the CAPEX/Revenues ratio to c. 3% in recent years. However, the company plans to increase investment in 2019 (EUR 3.3Mn), allocating c. EUR 2.5Mn at the end of 2H to improvements in its logistics centre at Valls (+2x capacity 2020), which will increase the ratio to 7.8% in the year (vs. c. 5% for its most direct peers). After the investment of 2019 a reduction is likely in the next two years (estimated CAPEX/Sales of c. 1.5%, well below the industry trend).

Given tougher competition, the trend in the fasteners industry is for more investment in operating improvements (average CAPEX/Revenues for the industry: c. 9% -2y).

Working capital: collection management in its most cyclical divisions in the spotlight

The Group's high exposure to the construction sector and the presence of its products in large DIY outlets explain the Group's high investment in working capital (an average of c. 30% of revenues in recent years). The figures reported at 9M19 show a worsening of the ratio (+0.7p.p. y/y), due to an increase in inventories.

Chart 20. Recurrent FCF vs NWC/Sales

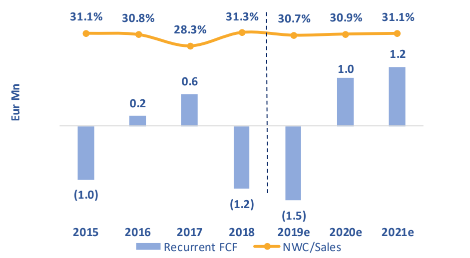


Chart 21. Free Cash Flow impacts 2018

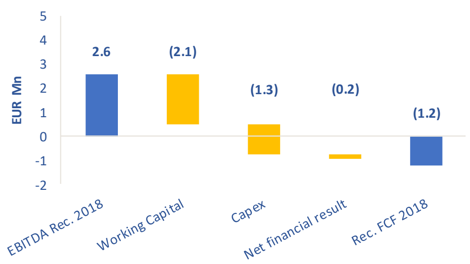


Chart 22. Free Cash Flow impacts 2019e

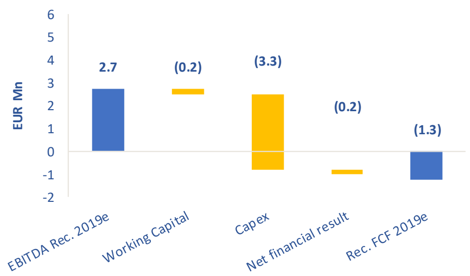
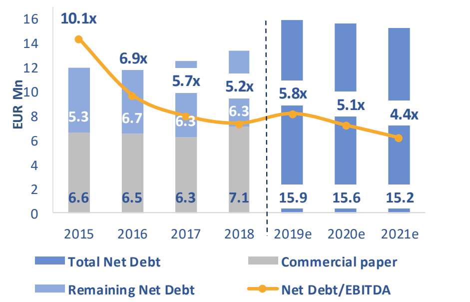


Chart 23. ND/EBITDA vs Net debt



We expect a 0.6p.p. improvement in the ratio in 2019 (30.7% working capital/revenues), slightly below that recorded at September, due to the favourable revenue mix. However, we maintain a neutral scenario for the mid term, when we expect the positive impact of the revenue mix to practically offset potential worsenings in the most cyclical segments (construction and industrial), this ratio stabilising in the mid term (c. 31% of revenues). In the current situation of economic slowdown, improvements to collection management policy will remain crucial.

FCF 2021: "yield" of c.8%

While cash flow generation was mainly affected by the increase in working capital investment in 2018, 2019 will be shaped by the increase in CAPEX (EUR 3.3Mn, 1.4x the EBITDA generated in the year). Also, after 8 years without paying a dividend, DESA plans to pay out a total of EUR 1Mn in 2019 against earnings for 2018. The dividend policy is likely to continue (Pay-Out of 50%, 2019e and stable in the mid term).

We estimate cash consumption of EUR -1.3Mn in 2019e (due to CAPEX) but FCF of EUR 1.0 Mn in 2020e and a FCF Yield of 6.3% (vs. c. 7% for peers), which will reach highs in 2021 (7.7%, above direct peers and in line with the sector), dependent on the commercial success of the agricultural division and the efficacy of working capital management.

Gradual financial de-leveraging (mid term) raising the capacity for organic growth

Financial gearing peaked in 2015 (10.1x ND/EBITDA, 54% of debt being trade bills). The good business performance of the last 5 years, together with the improvement in margins due to operating efficiencies, has increased cash generation, with a gradual reduction of gearing (5.2x 2018, 51% of debt in trade bills). The ratio was 5.1x at 9M19, +1.6x y/y. The increase in CAPEX in 2H19, together with the dividend payment will cause the ratio to rise again at the end of the year (5.8x ND/EBITDA 2019e).

While high debt will restrict the Group's capacity for organic growth in the shorter term (the sector average is <2.5x), likely de-leveraging in the mid term (-1.4x ND/EBITDA +2y), will improve the Group's capacity to accelerate growth (leverage below pre-crisis levels: 5x ND/EBITDA 2008).

Valuation inputs

Inputs for the DCF Valuation Approach

	2019e	2020e	2021e	Terminal Value [1]
Free Cash Flow "To the Firm"	**(1.3)**	**1.1**	**1.3**	**27.9**

			Best Case	Worst Case
Market Cap	**15.1**	At the date of this report		
Net financial debt	**14.4**	Debt net of Cash (9m Results 2019)		
Cost of Debt	3.4%	Net debt cost	3.2%	4.9%
Tax rate (T)	20.0%	T (Normalised tax rate)	=	=
Net debt cost	**2.7%**	**Kd = Cost of Net Debt * (1-T)**	**2.6%**	**3.9%**
Risk free rate (rf)	0.4%	Rf (10y Spanish bond yield)	=	=
Equity risk premium	7.0%	R (own estimate)	6.5%	7.5%
Beta (B)	1.1	B (Thomson Reuters)		
Cost of Equity	**8.1%**	**Ke = Rf + (R * B)**	**0.4%**	**0.4%**
Equity / (Equity + Net Debt)	51.2%	E (Market Cap as equity value)	=	=
Net Debt / (Equity + Net Debt)	48.8%	D	=	=
WACC	**5.5%**	**WACC = Kd * D + Ke * E**	**1.5%**	**2.1%**
G "Fair"	**2.0%**		**2.0%**	**1.5%**

(1) Terminal value calculated on the recurrent Free Cash Flow "to the Firm" of the last estimated year using the normalised tax rate (T) indicated in the upper table.

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
RAWLPLUG SA	RWLP.WA	61.4	8.0	0.0%	6.7	3.3%	0.7	2.5%	10.9%	n.a.	n.a.
NORMA GROUP SE	NOEJ.DE	1,210.8	14.0	9.3%	9.1	7.2%	1.5	1.8%	16.7%	5.7%	20.5%
GRANGES AB	GRANG.ST	715.5	11.8	17.7%	8.3	15.9%	0.9	11.6%	10.7%	n.a.	n.a.
MOMENTUM GROUP AB	MMGRb.ST	309.0	13.8	7.2%	7.1	-2.1%	0.7	1.2%	9.4%	4.5%	39.6%
CHRISTIAN BERNER TECH TRADE AB	CBTTb.ST	47.0	14.5	15.2%	8.5	10.8%	0.9	5.0%	10.6%	8.6%	3.5%
TRIFAST PLC	TRFT.L	268.7	14.6	2.4%	10.8	2.1%	1.3	3.1%	11.6%	4.5%	22.0%
ILLINOIS TOOL WORKS INC	itw	52,313.4	23.7	5.2%	16.6	2.8%	4.5	1.3%	27.5%	4.7%	-0.3%
Broad Range players			14.3	8.1%	9.6	5.7%	1.5	3.8%	13.9%	5.6%	17.0%
BARNES GROUP INC	B	2,832.8	19.4	8.7%	11.6	6.1%	2.6	3.9%	22.6%	5.6%	12.6%
BUFAB AB	BUFAB.ST	476.8	17.6	12.1%	13.3	7.9%	1.6	7.1%	12.2%	n.a.	n.a.
SFS GROUP AG	SFSNCHF.xbc	3,205.6	18.6	5.8%	11.1	6.4%	2.0	3.7%	17.9%	2.6%	33.3%
GEORG FISCHER AG	FIN.S	3,675.1	19.4	13.4%	11.4	12.9%	1.2	2.3%	10.4%	3.9%	23.9%
BERGMAN & BEVING AB	BERGb.ST	201.2	12.0	15.1%	8.1	9.4%	0.8	3.2%	9.9%	13.0%	5.7%
BOSSARD HOLDING AG	BOS.S	1,070.3	19.0	5.4%	12.1	5.7%	1.6	2.8%	12.8%	2.5%	46.6%
Highg Tech Specialty players			17.7	10.1%	11.3	8.1%	1.6	3.8%	14.3%	5.5%	24.4%
DESA	DESA.MC	15.1	12.9	19.0%	11.01	12.6%	0.71	5.1%	6.4%	n.a.	n.a.

Free Cash Flow sensitivity analysis (2020e)

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

Scenario	EBITDA/Sales 20e	EBITDA 20e	EV/EBITDA 20e
Max	**7.8%**	**3.5**	**8.6x**
Central	**6.8%**	**3.0**	**9.9x**
Min	**5.8%**	**2.6**	**11.6x**

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

Rec. FCF EUR Mn	CAPEX/Sales 20e		
EBITDA 20e	0.4%	1.4%	2.4%
3.5	**1.8**	**1.4**	**1.0**
3.0	**1.4**	**1.0**	**0.5**
2.6	**1.0**	**0.5**	**0.1**

Scenario	Rec. FCF/Yield 20e		
Max	**12.2%**	**9.3%**	**6.3%**
Central	**9.3%**	**6.3%**	**3.3%**
Min	**6.3%**	**3.3%**	**0.4%**

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. **Business cyclicality,** inherent to the company's still high dependence on the construction and industrial sectors (c. 65% of 2018 consolidated revenue). A prolonged period of economic slowdown could lead to tougher competition in both sectors, negatively impacting on the Group's profitability as a supplier. A further 5% fall in revenues from both segments (industrial and construction), would result in a 3.1% decline in Group revenues, reducing estimated EBITDA by 13.5%.

2. **Margin recovery dependent on the agricultural sector.** The recovery of the EBITDA/Revenue margin (+1,0 p.p. 2019-2021e), is based on a more profitable revenue mix (increased penetration of higher added value products of the agricultural division). 5% lower growth than expected in this segment's revenues, would result in a 0.8% decline in consolidated revenues, and a 2.8% decrease in EBITDA.

3. **Raw material**. Although the industry usually passes on increases in raw material costs to end clients fairly effectively, this is not immediate and can cause margin disturbances. The 2017 increase in the price of steel, the company's main raw material (c.80% of total), resulted in a 1.4p.p. loss of gross margin. The remaining 20% are oil derivatives. A 10% increase in raw material costs would lead to a 1.4p.p. narrowing of the gross margin, reducing consolidated EBITDA to EUR 2.2Mn (-21.2%). However, after three years of continual increases in steel prices (c. +35% in 2015-2018), these turned downwards in 2019, accumulating c. -15% since the beginning of the year.

4. **High dependence on Asian suppliers.** Although the Group has reduced its exposure to Asian suppliers, this remains high, with c. 25% of the products sold (2019) coming from this continent (vs. c. 70% in 2007). The potential implementation of protectionist trade policies at a European level could harm the Group's margins.

5. **Forex risk.** Very low in terms of exports (c.2% of revenues are generated outside Europe) and more significant in terms of costs. C. 40% of 2018 sale costs were generated in USD. As imports (mainly from Asia) are made in the short term and in USD, to date DESA has adopted an effective hedging policy, minimising the forex impact on the lower part of the P&L statement. On the other hand, an increase in the cost of sales resulting from a 5% appreciation of the USD (not passed on to end clients), would result in a 20% fall in EBITDA.

6. **WC management.** A critical factor for a retailer of fixing systems. In 2018, WC investment consumed c. 82% of the EBITDA generated, due both to the procurement of inventories (+9.3%) and the reduction in the average payment period (c. -9%). The sale of specialised products and/or those of higher quality may require shorter payment periods increasing WC investment. For this reason, and in order to compensate the reduction of the payment periods, an efficient collection management in the company's most cyclical divisions (construction and industrial) will be crucial.

7. **Interest rate risk.** Investment needs will increase the Group's gearing to 5.8x ND/EBITDA 2019e (> 3x vs. peers), so depressed margins (vs. the industry) leave little room for manoeuvre. To date the Group has benefited from falling interest rates.

8. **Low entry barriers that encourage competition**. The almost total lack of technological barriers in the segment in which the company operates facilitates the entry of competitors, quickly commoditising relatively innovative products.

9. **M&A risk.** The context of economic deceleration could reactivate corporate activity in the industry. Interest in small players with growth potential may result in increased competition in acquisition processes, generating significant goodwill for the acquirers (risk of value destruction). DESA counts with a solid track record in M&A.

Always in the same hands

DESA has a large board (13 board members) with a lengthy business track record and average seniority of 10 years in their positions. The managing director (with > 20 years' seniority in the company), was appointed as such in 2009, and since June 2019 has also held the position of vice-chairman of the board (replacing the posthumous Vice-President).

1. **A stable board of directors with a strong financial background,** comprising the vice-chairman and managing director, 7 proprietary directors (54% of its members) and 4 independent directors (30.8% of the total, half of whom have a legal background). Board members have a strong financial background: the latest independent director (incorporated in 2018) is a certified public accountant (the one he replaced had a similar background). There is also an outside board member (an auditor of accounts and former independent board member of the group from 2007). 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), the bylaws stipulating a limit to the number of terms an independent director can serve of 12 years. In addition, board regulations limit the participation of its members on governing bodies (individual or collegiate) of listed companies to a maximum of 5.

2. **The board controls 58.8% of capital,** guaranteeing its interests are aligned with those of minority shareholders. Its hard core has remained constant since the creation of the company (1987). The core shareholders Sarm S.A and Maden S.A., both family offices that together hold 49.9% of the voting rights, are directly (Sarm) and indirectly (Maden) represented on the board, being controlled by its chairman[9] and sole female board member, respectively[10]. Gestión Ixúa S.L., also a core shareholder since its merger with Grupo Simes (16.3% of capital in 2018), has no seat on the board. In addition, the managing director's stake has remained stable since the company was listed (3.1% in 2018)[11], maximising the alignment of management and minority shareholders' interests. Board members may vote in representation of a maximum of 3 other directors, and there are no shareholder agreements.

3. **Performance incentives for board members are "moderate" and dependent on "the company's results",** in accordance with board regulations. Board compensation in 2013-2015 was limited to the managing director, representing an average of 2.3% of personnel costs during the period. In 2016 per diems began to be paid to board members and variable compensation to the managing director, taking the amount paid for these items to c. 4.5% of personnel costs, declining to 3.7% in 2018 (after the managing director's variable compensation was discontinued).

4. **Currently, the management team receives no bonuses,** with variable compensation being limited to the commercial department (and linked to results). The compensation system does not include long term savings plans and there is no stock options plan for the management team.

5. **Although there is a golden parachute clause for the managing director,** who could receive c. EUR 1Mn in the event of unfair dismissal or a change in corporate control. In the latter case, the severance payment is linked to the share price at the time of the transaction, with a maximum amount equivalent to that to be received in the event of dismissal.

6. **Dividend payments were resumed in 2018:** after the threshold of EUR 1Mn of NP was exceeded (after a decade without dividend payments; the previous dividend was paid in 2007). The board has approved a dividend payment of EUR 1Mn against 2018 earnings, already been paid. Although the company has no commitment in respect of future dividend payments, the dividend policy is likely to stabilise in the mid term (Pay Out of 40%-60%). We have assumed a Pay Out of 50% in our estimates.

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[9] The board regulations stipulate that the chairman may not be an executive director.

[10] Good governance recommendations establish that by 2020 female directors should represent at least 30% of the total board members.

[11] Having been diluted solely as a result of the business combination carried out in 2010.

Appendix 1. Financial Projections(1)

Balance Sheet (EUR Mn)	2014	2015	2016	2017	2018	2019e	2020e	2021e
Intangible assets	0.3	0.4	0.5	0.5	0.6	0.7	0.6	0.5
Fixed assets	9.1	9.0	10.8	11.2	11.4	13.8	13.5	13.4
Other Non Current Assets	2.6	2.6	2.5	2.3	2.0	2.0	2.0	2.0
Financial Investments	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Goodwill & Other Intangilbles	-	-	-	-	-	-	-	-
Current assets	17.8	18.5	19.2	20.5	22.2	22.7	23.9	25.1
Total assets	**30.0**	**30.6**	**33.0**	**34.4**	**36.2**	**39.3**	**40.1**	**41.0**
Equity	10.1	10.1	10.7	11.5	12.7	12.9	13.6	14.4
Minority Interests	-	-	-	-	-	-	-	-
Provisions & Other L/T Liabilities	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.7
Other Non Current Liabilities	-	-	-	-	-	0.2	0.2	0.2
Net financial debt	10.9	12.0	13.2	12.6	13.4	15.9	15.6	15.2
Current Liabilities	8.3	7.9	8.5	9.7	9.3	9.7	10.1	10.5
Equity & Total Liabilities	**30.0**	**30.6**	**33.0**	**34.4**	**36.2**	**39.3**	**40.1**	**41.0**

									CAGR	
P&L (EUR Mn)	**2014**	**2015**	**2016**	**2017**	**2018**	**2019e**	**2020e**	**2021e**	**14-18**	**18-21e**
Total Revenues	**32.2**	**34.1**	**34.6**	**38.1**	**41.1**	**42.7**	**44.8**	**47.1**	***6.2%***	***4.7%***
Total Revenues growth	*1.1%*	*5.7%*	*1.7%*	*9.9%*	*7.8%*	*3.9%*	*5.0%*	*5.1%*		
COGS	(19.1)	(20.8)	(20.6)	(23.2)	(24.5)	(25.6)	(27.0)	(28.3)		
Gross Margin	**13.2**	**13.2**	**14.0**	**14.9**	**16.6**	**17.1**	**17.8**	**18.8**	***5.9%***	***4.3%***
Gross Margin/Revenues	*40.8%*	*38.8%*	*40.5%*	*39.0%*	*40.3%*	*40.0%*	*39.8%*	*39.8%*		
Personnel Expenses	(6.7)	(6.9)	(7.2)	(7.4)	(7.7)	(7.8)	(8.0)	(8.3)		
Other Operating Expenses	(5.3)	(5.0)	(5.0)	(5.2)	(6.3)	(6.5)	(6.7)	(7.0)		
Recurrent EBITDA	**1.2**	**1.3**	**1.8**	**2.2**	**2.6**	**2.7**	**3.0**	**3.5**	***20.8%***	***10.6%***
Recurrent EBITDA growth	*44.3%*	*8.8%*	*39.3%*	*21.8%*	*15.3%*	*6.9%*	*11.1%*	*14.1%*		
Rec. EBITDA/Revenues	*3.7%*	*3.8%*	*5.3%*	*5.8%*	*6.2%*	*6.4%*	*6.8%*	*7.4%*		
Restructuring Expenses	-	(0.1)	0.1	-	-	-	-	-		
EBITDA	**1.2**	**1.2**	**1.9**	**2.2**	**2.6**	**2.7**	**3.0**	**3.5**	***20.8%***	***10.6%***
Depreciation & Provisions	(0.8)	(0.8)	(0.8)	(0.9)	(1.0)	(1.0)	(1.1)	(1.1)		
Capitalized Expense	-	-	-	-	0.1	0.1	0.1	0.1		
Rentals (IFRS 16 impact)	-	-	-	-	-	(0.2)	(0.2)	(0.2)		
EBIT	**0.4**	**0.4**	**1.1**	**1.3**	**1.7**	**1.6**	**1.8**	**2.2**	***40.6%***	***10.1%***
EBIT growth	*229.7%*	*-13.1%*	*191.9%*	*17.1%*	*31.5%*	*-2.8%*	*12.6%*	*22.1%*		
EBIT/Revenues	*1.3%*	*1.1%*	*3.1%*	*3.3%*	*4.1%*	*3.8%*	*4.1%*	*4.8%*		
Impact of Goodwill & Others	-	-	-	-	-	-	-	-		
Net Financial Result	(0.6)	(0.5)	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)		
Income by the Equity Method	-	-	-	-	-	-	-	-		
Ordinary Profit	**(0.1)**	**(0.1)**	**0.8**	**1.1**	**1.5**	**1.4**	**1.6**	**2.0**	***n.a.***	***10.4%***
Ordinary Profit Growth	*83.0%*	*8.3%*	*702.8%*	*40.8%*	*42.0%*	*-5.0%*	*14.3%*	*23.9%*		
Extraordinary Results	-	-	-	-	-	-	-	-		
Profit Before Tax	**(0.1)**	**(0.1)**	**0.8**	**1.1**	**1.5**	**1.4**	**1.6**	**2.0**	***n.a.***	***10.4%***
Tax Expense	(1.5)	(0.0)	(0.1)	(0.2)	(0.3)	(0.3)	(0.3)	(0.4)		
Effective Tax Rate	*n.a.*	*n.a.*	*14.4%*	*21.7%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*		
Minority Interests	-	-	-	-	-	-	-	-		
Discontinued Activities	-	-	-	-	-	-	-	-		
Net Profit	**(1.7)**	**(0.1)**	**0.6**	**0.8**	**1.2**	**1.2**	**1.3**	**1.6**	***n.a.***	***10.4%***
Net Profit growth	*-193.4%*	*92.1%*	*590.0%*	*28.8%*	*46.8%*	*-5.0%*	*14.3%*	*23.9%*		
Ordinary Net Profit	**(0.1)**	**0.0**	**0.6**	**0.8**	**1.2**	**1.2**	**1.3**	**1.6**	***n.a.***	***10.4%***
Ordinary Net Profit growth	*66.4%*	*101.0%*	*n.a.*	*47.4%*	*46.8%*	*-5.0%*	*14.3%*	*23.9%*		

									CAGR	
Cash Flow (EUR Mn)	**2014**	**2015**	**2016**	**2017**	**2018**	**2019e**	**2020e**	**2021e**	**14-18**	**18-21e**
Recurrent EBITDA						**2.7**	**3.0**	**3.5**	***20.8%***	***10.6%***
Rentals (IFRS 16 impact)						(0.2)	(0.2)	(0.2)		
Working Capital Increase						(0.2)	(0.8)	(0.8)		
Recurrent Operating Cash Flow						**2.3**	**2.1**	**2.5**	***-18.4%***	***74.6%***
CAPEX						(3.3)	(0.6)	(0.8)		
Net Financial Result affecting the Cash Flow						(0.2)	(0.2)	(0.2)		
Tax Expense						(0.3)	(0.3)	(0.4)		
Recurrent Free Cash Flow						**(1.5)**	**1.0**	**1.2**	***-5.6%***	***n.a.***
Restructuring Expense & Others						-	-	-		
- Acquisitions / + Divestures of assets						-	-	-		
Extraordinary Inc./Exp. Affecting Cash Flow						-	-	-		
Free Cash Flow						**(1.5)**	**1.0**	**1.2**	***-5.6%***	***n.a.***
Capital Increase						-	-	-		
Dividends						(1.0)	(0.7)	(0.8)		

Net Debt Variation	**2.5**	**(0.3)**	**(0.3)**

Note 1: Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 0.2Mn higher due to IFRS 16.

Appendix 2. Free Cash Flow[1]

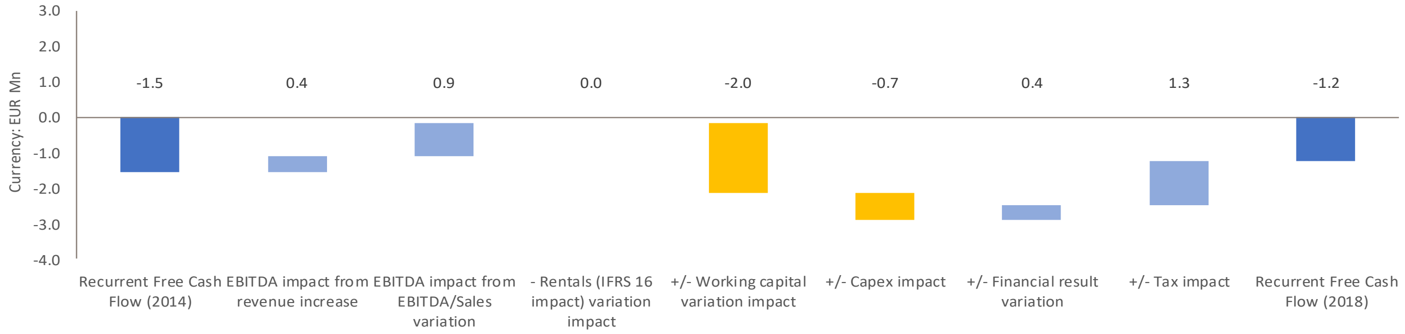
A) Cash Flow Analysis (EUR Mn)	**2015**	**2016**	**2017**	**2018**	**2019e**	**2020e**	**2021e**	**CAGR 15-18**	**CAGR 18-21e**
Recurrent EBITDA	**1.3**	**1.8**	**2.2**	**2.6**	**2.7**	**3.0**	**3.5**	***25.1%***	***10.6%***
Recurrent EBITDA growth	*8.8%*	*39.3%*	*21.8%*	*15.3%*	*6.9%*	*11.1%*	*14.1%*		
Rec. EBITDA/Revenues	*3.8%*	*5.3%*	*5.8%*	*6.2%*	*6.4%*	*6.8%*	*7.4%*		
- Rentals (IFRS 16 impact)	-	-	-	-	(0.2)	(0.2)	(0.2)		
+/- Working Capital increase	(1.1)	(0.1)	(0.1)	(2.1)	(0.2)	(0.8)	(0.8)		
= Recurrent Operating Cash Flow	**0.2**	**1.7**	**2.1**	**0.5**	**2.3**	**2.1**	**2.5**	***23.7%***	***74.6%***
Rec. Operating Cash Flow growth	*-76.6%*	*593.5%*	*23.9%*	*-78.0%*	*391.3%*	*-10.2%*	*20.6%*		
Rec. Operating Cash Flow / Sales	*0.7%*	*5.0%*	*5.6%*	*1.1%*	*5.4%*	*4.6%*	*5.3%*		
- CAPEX	(0.8)	(1.1)	(1.1)	(1.3)	(3.3)	(0.6)	(0.8)		
- Net Financial Result affecting Cash Flow	(0.5)	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)		
- Taxes	(0.0)	(0.1)	(0.2)	(0.3)	(0.3)	(0.3)	(0.4)		
= Recurrent Free Cash Flow	**(1.0)**	**0.2**	**0.6**	**(1.2)**	**(1.5)**	**1.0**	**1.2**	***5.6%***	***n.a.***
Rec. Free Cash Flow growth	*-32.5%*	*n.a.*	*212.3%*	*n.a.*	*18.3%*	*n.a.*	*22.5%*		
Rec. Free Cash Flow / Revenues	*n.a.*	*0.6%*	*1.7%*	*n.a.*	*n.a.*	*2.1%*	*2.5%*		
- Restructuring expenses & others	(0.1)	0.1	-	-	-	-	-		
- Acquisitions / + Divestments	-	(1.7)	-	-	-	-	-		
+/- Extraordinary Inc./Exp. affecting Cash Flow	-	-	-	-	-	-	-		
= Free Cash Flow	**(1.2)**	**(1.4)**	**0.6**	**(1.2)**	**(1.5)**	**1.0**	**1.2**	***1.6%***	***n.a.***
Free Cash Flow growth	*-24.3%*	*19.6%*	*n.a.*	*n.a.*	*18.3%*	*n.a.*	*22.5%*		
Recurrent Free Cash Flow - Yield (s/Mkt Cap)	*n.a.*	*1.3%*	*4.2%*	*n.a.*	*n.a.*	*6.3%*	*7.7%*		
Free Cash Flow Yield (s/Mkt Cap)	*n.a.*	*n.a.*	*4.2%*	*n.a.*	*n.a.*	*6.3%*	*7.7%*		

B) Analytical Review of Annual Recurrent Free Cash Flow Performance (Eur Mn)	**2015**	**2016**	**2017**	**2018**	**2019e**	**2020e**	**2021e**
Recurrent FCF(FY - 1)	**(1.5)**	**(1.0)**	**0.2**	**0.6**	**(1.2)**	**(1.5)**	**1.0**
EBITDA impact from revenue increase	0.1	0.0	0.2	0.2	0.1	0.1	0.2
EBITDA impact from EBITDA/Sales variation	0.0	0.5	0.2	0.2	0.1	0.2	0.3
= Recurrent EBITDA variation	**0.1**	**0.5**	**0.4**	**0.3**	**0.2**	**0.3**	**0.4**
- Rentals (IFRS 16 impact) variation impact	-	-	-	-	(0.2)	-	-
+/- Working capital variation impact	(0.9)	1.0	0.0	(2.0)	1.9	(0.5)	0.0
= Recurrent Operating Cash Flow variation	**(0.8)**	**1.5**	**0.4**	**(1.7)**	**1.8**	**(0.2)**	**0.4**
+/- CAPEX impact	(0.3)	(0.3)	0.0	(0.2)	(2.1)	2.7	(0.1)
+/- Financial result variation	0.1	0.2	0.1	0.0	(0.0)	-	(0.0)
+/- Tax impact	1.5	(0.1)	(0.1)	(0.1)	0.0	(0.0)	(0.1)
= Recurrent Free Cash Flow variation	**0.5**	**1.2**	**0.4**	**(1.9)**	**(0.2)**	**2.4**	**0.2**
Recurrent Free Cash Flow	**(1.0)**	**0.2**	**0.6**	**(1.2)**	**(1.5)**	**1.0**	**1.2**

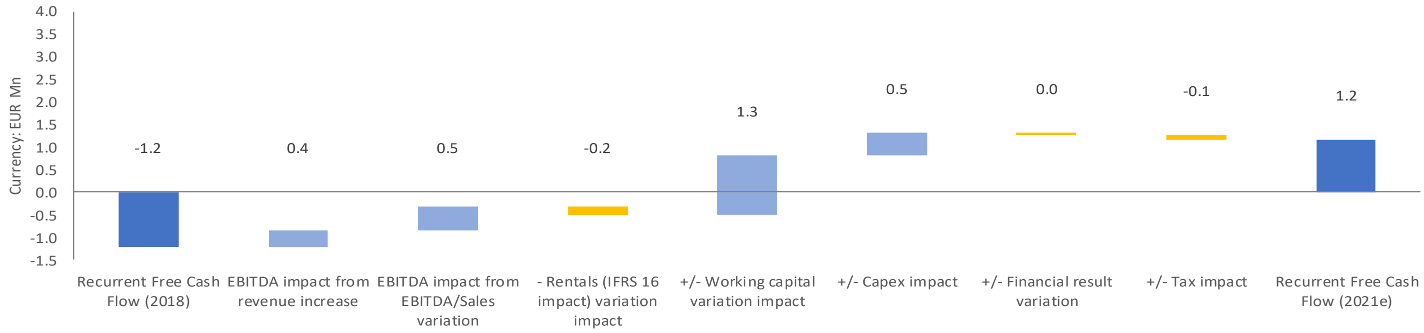
C) "FCF to the Firm" (pre debt service) (EUR Mn)	**2015**	**2016**	**2017**	**2018**	**2019e**	**2020e**	**2021e**	**CAGR 15-18**	**CAGR 18-21e**
EBIT	**0.4**	**1.1**	**1.3**	**1.7**	**1.6**	**1.8**	**2.2**	***65.0%***	***10.1%***
** Theoretical Tax rate*	*0.0%*	*14.4%*	*21.7%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*		
= Taxes (pre- Net Financial Result)	-	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)	(0.4)		
Recurrent EBITDA	**1.3**	**1.8**	**2.2**	**2.6**	**2.7**	**3.0**	**3.5**	***25.1%***	***10.6%***
- Rentals (IFRS 16 impact)	-	-	-	-	(0.2)	(0.2)	(0.2)		
+/- Working Capital increase	(1.1)	(0.1)	(0.1)	(2.1)	(0.2)	(0.8)	(0.8)		
= Recurrent Operating Cash Flow	**0.2**	**1.7**	**2.1**	**0.5**	**2.3**	**2.1**	**2.5**	***23.7%***	***74.6%***
- CAPEX	(0.8)	(1.1)	(1.1)	(1.3)	(3.3)	(0.6)	(0.8)		
- Taxes (pre- Financial Result)	-	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)	(0.4)		
= Recurrent Free Cash Flow (To the Firm)	**(0.5)**	**0.5**	**0.8**	**(1.1)**	**(1.3)**	**1.1**	**1.3**	***26.8%***	***n.a.***
Rec. Free Cash Flow (To the Firm) growth	*n.a.*	*n.a.*	*63.5%*	*n.a.*	*18.3%*	*n.a.*	*20.4%*		
Rec. Free Cash Flow (To the Firm) / Revenues	n.a.	1.4%	2.1%	n.a.	n.a.	2.5%	2.8%		
- Acquisitions / + Divestments	-	(1.7)	-	-	-	-	-		
+/- Extraordinary Inc./Exp. affecting Cash Flow	-	-	-	-	-	-	-		
= Free Cash Flow "To the Firm"	**(0.5)**	**(1.2)**	**0.8**	**(1.1)**	**(1.3)**	**1.1**	**1.3**	***26.8%***	***n.a.***
Free Cash Flow (To the Firm) growth	*n.a.*	*125.0%*	*n.a.*	*n.a.*	*18.3%*	*n.a.*	*20.4%*		
Rec. Free Cash Flow To the Firm Yield (o/EV)	*n.a.*	*1.6%*	*2.6%*	*n.a.*	*n.a.*	*3.7%*	*4.4%*		
Free Cash Flow "To the Firm" - Yield (o/EV)	*n.a.*	*n.a.*	*2.6%*	*n.a.*	*n.a.*	*3.7%*	*4.4%*		

Note 1: Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 0.2Mn higher due to IFRS 16.

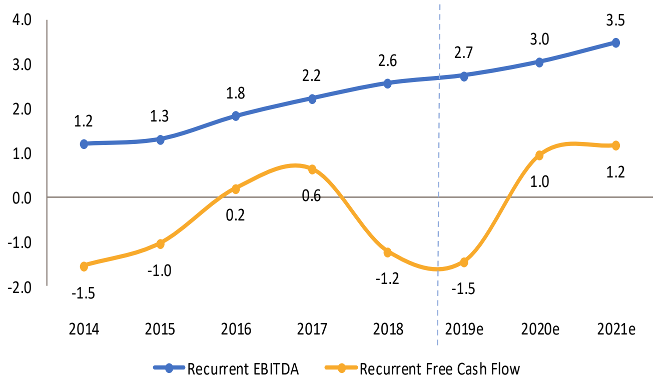
Recurrent Free Cash Flow accumulated variation analysis (2014 - 2018)



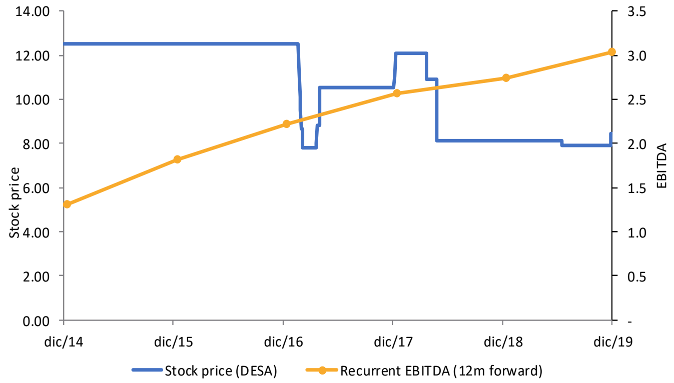
Recurrent Free Cash Flow accumulated variation analysis (2018 - 2021e)



Recurrent EBITDA vs Recurrent Free Cash Flow



Stock performance vs EBITDA 12m forward



Appendix 3. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	15.1	
+ Minority Interests	-	9m Results 2019
+ Provisions & Other L/T Liabilities	0.7	9m Results 2019
+ Net financial debt	14.4	9m Results 2019
- Financial Investments	0.0	9m Results 2019
+/- Others		
Enterprise Value (EV)	**30.1**	

Appendix 4. Historical performance(1)(2)

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	**14.4**	**10.9**	**23.7**	**36.9**	**31.9**	**31.9**	**32.2**	**34.1**	**34.6**	**38.1**	**41.1**	**42.7**	**44.8**	**47.1**	***11.0%***	***4.7%***
Total Revenues growth	*-19.8%*	*-24.3%*	*117.3%*	*55.4%*	*-13.4%*	*-0.1%*	*1.1%*	*5.7%*	*1.7%*	*9.9%*	*7.8%*	*3.9%*	*5.0%*	*5.1%*		
EBITDA	**1.9**	**(0.0)**	**(0.7)**	**1.7**	**(0.2)**	**0.4**	**1.2**	**1.2**	**1.9**	**2.2**	**2.6**	**2.7**	**3.0**	**3.5**	***3.3%***	***10.6%***
EBITDA growth	*-33.7%*	*-101.4%*	*n.a.*	*331.8%*	*-113.1%*	*295.2%*	*177.4%*	*-1.8%*	*62.4%*	*15.7%*	*15.3%*	*6.9%*	*11.1%*	*14.1%*		
EBITDA/Sales	*12.8%*	*n.a.*	*n.a.*	*4.6%*	*n.a.*	*1.4%*	*3.7%*	*3.5%*	*5.5%*	*5.8%*	*6.2%*	*6.4%*	*6.8%*	*7.4%*		
Net Profit	**0.7**	**(0.7)**	**0.4**	**0.0**	**(1.0)**	**(0.6)**	**(1.7)**	**(0.1)**	**0.6**	**0.8**	**1.2**	**1.2**	**1.3**	**1.6**	***5.7%***	***10.4%***
Net Profit growth	*-45.2%*	*-205.7%*	*157.2%*	*-91.8%*	*n.a.*	*41.4%*	*-193.4%*	*92.1%*	*590.0%*	*28.8%*	*46.8%*	*-5.0%*	*14.3%*	*23.9%*		
Adjusted number shares (Mn)	1.1	1.1	1.5	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8		
EPS (EUR)	0.63	n.a.	0.29	0.02	n.a.	n.a.	n.a.	n.a.	0.36	0.47	0.69	0.65	0.75	0.92		
EPS growth	*-45.2%*	*n.a.*	*n.a.*	*-93.3%*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*29.1%*	*46.9%*	*-5.0%*	*14.3%*	*23.9%*		
Ord. EPS (EUR)	n.a.	n.a.	0.18	0.04	n.a.	n.a.	n.a.	0.00	0.32	0.47	0.69	0.65	0.75	0.92		
Ord. EPS growth	*n.a.*	*n.a.*	*n.a.*	*-75.8%*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*47.7%*	*46.9%*	*-5.0%*	*14.3%*	*23.9%*		
CAPEX	(0.4)	(0.3)	(0.7)	(0.1)	(0.4)	(0.5)	(0.5)	(0.8)	(1.1)	(1.1)	(1.3)	(3.3)	(0.6)	(0.8)		
CAPEX/Sales %	*2.6%*	*2.8%*	*3.2%*	*0.4%*	*1.2%*	*1.6%*	*1.6%*	*2.3%*	*3.1%*	*2.8%*	*3.0%*	*7.8%*	*1.4%*	*1.6%*		
Free Cash Flow	**(2.6)**	**1.4**	**0.8**	**(0.7)**	**0.6**	**(0.0)**	**(1.5)**	**(1.2)**	**(1.4)**	**0.6**	**(1.2)**	**(1.5)**	**1.0**	**1.2**	**-7.3%**	**n.a.**
ND/EBITDA (x)(3)	*5.1x*	*n.a.*	*n.a.*	*7.6x*	*n.a.*	*24.9x*	*9.1x*	*10.1x*	*6.9x*	*5.7x*	*5.2x*	*5.8x*	5.1x	4.4x		
P/E (x)	*19.7x*	*n.a.*	*42.2x*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*34.5x*	*25.8x*	*11.8x*	*12.9x*	11.3x	9.1x		
EV/Sales (x)	*1.6x*	*1.7x*	*1.5x*	*1.0x*	*1.1x*	*1.1x*	*1.0x*	*1.0x*	*1.0x*	*0.9x*	*0.7x*	*0.7x*	0.7x	0.6x		
EV/EBITDA (x)(3)	*12.6x*	*n.a.*	*n.a.*	*21.4x*	*n.a.*	*n.a.*	*28.1x*	*29.6x*	*18.8x*	*15.7x*	*11.1x*	*11.0x*	9.9x	8.7x		
Absolute performance	*25.0%*	*-20.0%*	*22.5%*	*2.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*-3.2%*	*-33.1%*	*4.3%*				
Relative performance vs Ibex 35	*106.4%*	*-38.4%*	*48.4%*	*17.4%*	*4.9%*	*-17.6%*	*-3.5%*	*7.7%*	*2.1%*	*-9.9%*	*-21.3%*	*-7.9%*				

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.
Note 2: Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 0.2Mn higher due to IFRS 16.
Note 3: All ratios and multiples on EBITDA refer to total EBITDA (not to recurrent EBITDA).

Appendix 5. Main Competitors 2019e

		Broad Range players							Highg Tech Specialty players						
	EUR Mn	NORMA GROUP SE	RAWLPLUG SA	GRANGES AB	MOMENTUM GROUP AB	TRIFAST PLC	BERGMAN & BEVING AB	Average	GEORG FISCHER AG	BOSSARD HOLDING AG	BUFAB AB	SFS GROUP AG	BARNES GROUP INC	Average	DESA
Market data	Ticker (Reuters)	NOEJ.DE	RWLP.WA	GRANG.ST	MMGRb.ST	TRFT.L	BERGb.ST		FIN.S	BOS.S	BUFAB.ST	SFSNCHF.xbo	B		DESA.MC
	Country	Germany	Poland	Sweden	Sweden	UK	Sweden		Switzerland	Switzerland	Sweden	Switzerland	USA		Spain
	Market cap	1,210.8	61.4	715.5	309.0	268.7	201.2		3,675.1	1,070.3	476.8	3,205.6	2,832.8		15.1
	Enterprise value (EV)	1,660.8	139.4	1,026.8	397.7	305.8	307.7		4,092.2	1,246.0	653.6	3,274.1	3,551.2		30.1
Basic financial information	Total Revenues	1,090.3	190.5	1,162.1	591.2	243.7	382.0		3,449.2	802.8	405.9	1,648.1	1,354.1		42.7
	Total Revenues growth	*0.6%*	*5.4%*	*-8.6%*	*2.3%*	*0.4%*	*0.9%*	*0.2%*	*-15.1%*	*3.7%*	*8.8%*	*6.8%*	*3.8%*	*1.6%*	*3.9%*
	2y CAGR (2019e - 2021e)	*1.8%*	*2.5%*	*11.6%*	*1.2%*	*3.1%*	*3.2%*	*3.9%*	*2.3%*	*2.8%*	*7.1%*	*3.7%*	*3.9%*	*4.0%*	*5.1%*
	EBITDA	181.7	20.8	123.9	55.7	28.3	37.8		360.4	102.8	49.3	294.9	305.5		2.7
	EBITDA growth	*4.4%*	*-0.8%*	*-7.3%*	*66.3%*	*17.4%*	*47.6%*	*21.3%*	*-23.9%*	*-3.9%*	*23.0%*	*-0.2%*	*5.7%*	*0.1%*	*6.9%*
	2y CAGR (2019e - 2021e)	*7.2%*	*3.3%*	*15.9%*	*-2.1%*	*2.1%*	*9.4%*	*6.0%*	*12.9%*	*5.7%*	*7.9%*	*6.4%*	*6.1%*	*7.8%*	*12.6%*
	EBITDA/Revenues	*16.7%*	*10.9%*	*10.7%*	*9.4%*	*11.6%*	*9.9%*	*11.5%*	*10.4%*	*12.8%*	*12.2%*	*17.9%*	*22.6%*	*15.2%*	*6.4%*
	EBIT	121.7	13.3	81.7	30.9	25.3	23.4		238.7	84.9	36.4	209.2	217.6		1.6
	EBIT growth	*10.0%*	*-8.4%*	*-17.4%*	*6.8%*	*27.2%*	*3.2%*	*3.6%*	*-30.4%*	*-8.4%*	*3.8%*	*-3.1%*	*5.2%*	*-6.6%*	*-2.8%*
	2y CAGR (2019e - 2021e)	*11.4%*	*3.4%*	*23.1%*	*3.4%*	*1.6%*	*14.4%*	*9.6%*	*18.2%*	*5.8%*	*11.1%*	*7.7%*	*5.8%*	*9.7%*	*17.3%*
	EBIT/Revenues	*11.2%*	*7.0%*	*7.0%*	*5.2%*	*10.4%*	*6.1%*	*7.8%*	*6.9%*	*10.6%*	*9.0%*	*12.7%*	*16.1%*	*11.0%*	*3.8%*
	Net Profit	84.7	7.2	59.5	23.1	19.5	15.8		176.8	63.9	25.6	172.7	148.3		1.2
	Net Profit growth	*-7.7%*	*-24.5%*	*-12.2%*	*4.2%*	*37.1%*	*-2.6%*	*-0.9%*	*-28.7%*	*-15.8%*	*2.1%*	*0.2%*	*0.8%*	*-8.3%*	*-5.0%*
	2y CAGR (2019e - 2021e)	*9.2%*	*4.7%*	*23.7%*	*3.7%*	*0.3%*	*17.5%*	*9.8%*	*17.0%*	*5.6%*	*12.1%*	*5.3%*	*7.2%*	*9.5%*	*19.0%*
	CAPEX/Sales %	*-5.4%*	*-6.5%*	*-11.2%*	*-3.9%*	*-2.1%*	*-1.3%*	*-5.1%*	*-5.5%*	*-4.4%*	*-1.5%*	*-7.6%*	*-3.7%*	*-4.5%*	*-7.8%*
	Free Cash Flow	69.5	n.a.	(15.3)	13.5	12.1	26.0		142.7	26.8	n.a.	82.1	157.5		(1.5)
	Net financial debt	374.5	55.6	311.9	70.0	14.2	145.6		167.4	136.8	156.5	(24.5)	694.9		15.9
	ND/EBITDA (x)	2.1	2.7	2.5	1.3	0.5	3.9	2.1	0.5	1.3	3.2	(0.1)	2.3	1.4	5.8
	Pay-out	*36.5%*	*42.0%*	*37.4%*	*38.1%*	*32.4%*	*49.3%*	*39.3%*	*47.7%*	*55.5%*	*42.2%*	*42.3%*	*20.8%*	*41.7%*	*50.0%*
Multiples and Ratios	P/E (x)	14.0	8.0	11.8	13.8	14.6	12.0	12.4	19.4	19.0	17.6	18.6	19.4	18.8	12.9
	P/BV (x)	1.9	0.6	1.9	2.3	2.4	1.2	1.7	2.7	3.9	2.7	2.7	2.5	2.9	1.2
	EV/Revenues (x)	1.5	0.7	0.9	0.7	1.3	0.8	1.0	1.2	1.6	1.6	2.0	2.6	1.8	0.7
	EV/EBITDA (x)	9.1	6.7	8.3	7.1	10.8	8.1	8.4	11.4	12.1	13.3	11.1	11.6	11.9	11.0
	EV/EBIT (x)	13.7	10.5	12.6	12.9	12.1	13.2	12.5	17.1	14.7	18.0	15.7	16.3	16.3	18.5
	ROE	*12.3*	*7.4*	*15.8*	*18.1*	*n.a.*	*n.a.*	*13.4*	*13.3*	*21.7*	*17.0*	*15.2*	*13.3*	*16.1*	*9.1*
	FCF Yield (%)	*5.7*	*n.a.*	*n.a.*	*4.5*	*4.5*	*13.0*	*7.0*	*3.9*	*2.5*	*n.a.*	*2.6*	*5.6*	*3.6*	*n.a.*
	DPS	*0.97*	*0.09*	*0.29*	*0.31*	*0.05*	*0.29*	*0.34*	*20.62*	*3.88*	*0.29*	*1.95*	*0.58*	*5.46*	*0.33*
	Dvd Yield	*2.6%*	*5.0%*	*3.1%*	*2.8%*	*2.3%*	*3.8%*	*3.3%*	*2.3%*	*2.4%*	*2.3%*	*2.3%*	*1.0%*	*2.1%*	*3.9%*

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
23-Dec-2019	n.a.	8.45	n.a.	n.a.	Initial Coverage	Ana Isabel González García, CIIA