GAM

EQUITY - SPAIN
Sector: Industrial - Equipment Rental

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GAM (GALQ) is a company that specialises in services associated with machinery (it has a fleet of 16,000 pieces of equipment) with a revenue mix diversified by sector and a certain balance between generalist and specialist operator. With 75 branches in 10 countries, it is leader in the Iberian Peninsula (56 branches), where it obtains the bulk of its revenues (>75%), and Latam is the main destination for the company's exports (c.16%).

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Market Data

Market Cap (Mn EUR and USD)	77.6	84.5
EV (Mn EUR and USD)[(1)]	207.0	225.4
Shares Outstanding (Mn)	63.1	
-12m (Max/Med/Mín EUR)	2.12 / 1.40 / 1.00	
Daily Avg volume (-12m Mn EUR)	0.11	
Rotation[(2)]	36.2	
Thomson Reuters / Bloomberg	GALQ.MC / GALQ SM	
Close fiscal year	31-Dec	

Shareholders Structure (%)

Francisco Riberas	54.3
Pedro Luis Fernández	5.8
Indumenta Pueri	5.3
Banco Santander	4.5
Free Float	30.1

Financials (Mn EUR)	2019	2020e	2021e	2022e
Adj. nº shares (Mn)	35.5	63.1	63.1	63.1
Total Revenues	143.1	122.3	135.1	142.5
Rec. EBITDA[(3)]	33.9	22.5	24.8	32.7
% growth	*25.7*	*-33.5*	*10.0*	*32.2*
% Rec. EBITDA/Rev.	*23.7*	*18.4*	*18.3*	*23.0*
% Inc. EBITDA sector[(4)]	*17.6*	*-8.0*	*12.5*	*7.7*
Net Profit	40.0	-4.9	0.4	8.7
EPS (EUR)	1.13	n.a.	0.01	0.14
% growth	*n.a.*	*n.a.*	*n.a.*	*n.a.*
Ord. EPS (EUR)	n.a.	n.a.	0.01	0.14
% growth	*n.a.*	*n.a.*	*n.a.*	*n.a.*
Rec. Free Cash Flow[(5)]	-4.3	0.2	1.4	4.0
Pay-out (%)	*0.0*	*0.0*	*0.0*	*0.0*
DPS (EUR)	0.00	0.00	0.00	0.00
Net financial debt	121.9	118.0	105.3	97.3
ND/Rec. EBITDA (x)	3.6	5.2	4.2	3.0
ROE (%)	*238.9*	*n.a.*	*0.9*	*17.2*
ROCE (%)[(5)]	*6.2*	*0.1*	*2.7*	*7.8*

Ratios & Multiples (x)[(6)]				
P/E	n.a.	n.a.	n.a.	8.9
Ord. P/E	n.a.	n.a.	n.a.	8.9
P/BV	1.5	1.7	1.7	1.4
Dividend Yield (%)	*0.0*	*0.0*	*0.0*	*0.0*
EV/Sales	1.45	1.69	1.53	1.45
EV/Rec. EBITDA	6.1	9.2	8.4	6.3
EV/EBIT	19.0	n.a.	41.3	14.8
FCF Yield (%)[(5)]	*n.a.*	*0.2*	*1.8*	*5.2*

(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 5.7Mn higher due to IFRS 16..
(4) Sector: Eurostoxx 600 Industrial Goods & Services.
(5) Please see Anex 2 for the theoretical tax rate (ROCE) and recurrent FCF calculation.
(6) Multiples and ratios calculated over prices at the date of this report.

Resilience, in the strict sense of the word

2014-2019: TOTAL RESTRUCTURING. The GALQ of 2020 has little (or nothing) in common with that of 2008. For 4 reasons: i) the recovery of high single-digit revenue growth (+7.5%, CAGR 2015-2019); ii) a step-up in EBITDA (+25%, CAGR 2015-2019) and margins, iii) the elimination of the debt problem (-55% since 2014); and iv) a new shareholder, Francisco Riberas, providing stability to GALQ's industrial project.

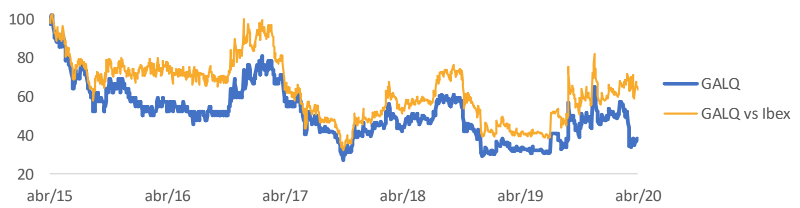
A (STRONG) DECLINE IN 2020 SEEMS INEVITABLE. We estimate a dramatic decline in revenue (EUR 122.3Mn; -14.5% vs 2019) and EBITDA (-33%) due to the brusque reduction in activity in 2Q20 as a result of a global economy in the off position because of Covid-19. With falls of c. 20% ND vs EBITDA 2019 would still remain < 4x.

2021, RECOVERY (ALBEIT PARTIAL) AND 2022, A RETURN TO 2019. There is no visibility 2 years hence. The most rational assumption is the recovery in 24m (post 2020) of similar EBITDA levels to 2019 (c. EUR 33Mn) and margins of 23%. A slower recovery would still allow margins of c.20% in 2022. Why?

OBJECTIVE REASONS FOR GROWTH (AFTER COVID-19). Beyond the restructuring of its debt, GALQ has implemented (-5y) a change in business model which, in itself, is its Equity Story and which underpins our estimates: 1) entry in the long-term rental business; 2) entry in businesses other than rental and without CAPEX (distribution, maintenance); and 3) a positioning in two regions (Spain and Latam) where convergence with vehicle rental utilisation ratios (as opposed to the purchasing of equipment) similar to those of the US and continental Europe (currently 20 p.p higher) can be expected. All this leads us to expect higher growth for GALQ than for the economy as a whole and for its own sector.

CREDIBLE RESILIENCE: A combination of restructuring (concluded) and arguments in favour of long-term growth due to its strategic repositioning, explain GALQ's resilience. In other words, in a strict sense, a credible ability to recover levels of EBITDA of 2019 in two years. GALQ is in an optimum position to exploit the increase in outsourcing (and in renting) that the crisis should cause which implies growth. Trading at c. 6x EV/ EBITDA (2022).

Relative performance -5y (Base 100)



Stock performance (%)	-1m	-3m	-12m	YTD	-3Y	-5Y
Absolute	-26.1	-25.7	17.6	-20.6	-33.9	-62.2
vs Ibex 35	-11.6	1.7	59.7	8.2	-0.5	-36.7
vs Ibex Small Cap Index	-13.7	-5.3	46.0	-0.9	-30.2	-60.3
vs Eurostoxx 50	-16.4	-2.2	41.9	4.0	-19.1	-50.2
vs Sector benchmark[(4)]	-13.1	2.1	41.4	8.6	-28.0	-62.4

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

The Equity Story is not about surviving 2020, but (credible) arguments for long term growth

Our forecasts include adjustments for the application of IFRS 16 from January 2019. In 2019 EBITDA is c. EUR 5.7Mn higher due to the application of IFRS 16.

GALQ is a story of consolidation and restructuring, reflected in recent years by: (i) gradual organic growth at high single-digit rates (Revenues: +7.5% CAGR 2015-2019), (ii) the recovery of profitability (Rec. EBITDA: +25% CAGR 2015-2019) and (iii) the reduction of the company's high debt (ND: -55% vs 2014). The numbers explain simply what has happened. And in turn pose two key questions:

- How will GALQ respond in 2020 to the crisis unleashed so quickly by Covid-19?

- What will be its capacity for recovery after 2020? When will it generate EBITDA similar to that of 2019 again?

Answering these questions requires a minimal analysis both of the restructuring carried out in 2015-2019, and the reorganisation of the company's business. Which will provide a basis for assessing the current position of the company against a backdrop which invites caution.

A) 2015 -2019: Restructuring and consolidation

Reorganisation of the company's business to mitigate the effects of the 2008 financial crisis

2008 was the peak of the previous cycle. GALQ achieved turnover of EUR 378Mn in what would be prove to be the prelude to a turning point for its P&L. The contraction of investment in the construction segment, at the time its main market (> 80% of 2008 revenue), hit the company hard and reduced turnover in 2008-2014 by close to 70%! reflecting the interplay of two factors: (i) the cycle (adverse) and (ii) its hyper-dependence on the construction sector (a result of the business model chosen).

The result was exponential growth in leverage (ND/Rec. EBITDA 2014 > 20x) with 2015 marking a turning point with the beginning of the company's restructuring:

Revenues and Rec. EBITDA, +7.5% y 25.0% (CAGR 2015-2019) with a margin increase …

- **Essentially, the company changed in three ways:** (i) it adopted a very resilient business model with a highly diversified client base in terms of sectors (vs hyper-dependence on the construction sector), (ii) it became more profitable (as a result of operating leverage) and (iii) it became less levered (2019 ND/EBITDA 3.6x vs 7x in 2018).

… with a reduction of the company's high debt (-55% vs 2014)

- **The driving force behind these changes has also been threefold:** (i) the exploitation of its strong commercial position in the Iberian Peninsula where it remains leader (10% market share), at a favourable cyclical moment, (ii) the change of direction towards more stable business segments, based on a strategy of integrating its services into its clients' productive models (facilitating their outsourcing processes over the long term vs the traditional short-term rental) and (iii) the restructuring of debt, which we consider concluded in 2019 after the change of control (Francisco Riberas acquired a 54.3% interest and allowed a 35% reduction in the company's debt).

With a nwe controlling shareholder (Francisco Riberas, 54,3% del capital), stable with a long-term perspective

In our opinion, the entry in the company's capital of Francisco Riberas (Gestamp, Cie Automotive) has not only definitively resolved its capital structure but also given it a core and stable shareholder with a long-term perspective.

B) 2019-2022e: What can be expected "today" of GALQ? in 2020? And in 2021 -2022?

At this new starting point (2019), we believe the repositioning of the business and restructuring can be considered to have been concluded. But today against a backdrop of evident cyclical deceleration aggravated exponentially by the Covid-19 pandemic, the main questions are: is what we have seen so far (- 5y) sustainable and can the levels of profitability achieved in 2019 be maintained in a scenario of sharply falling revenues such as the one we expect for the more immediate future (2020-2021)?

Our opinion for the coming years consists of two parts: on the one hand what we expect for 2020, in a situation in which the visibility of any business is very low, and on the other, the performance we can expect from GALQ in the years following the macro shock brought about by Covid-19.

2020e won't be a good year. Revenues and Rec. EBITDA: -14,5% and -33,5%, respectively…

2020e: an "annus horribilis", completely shaped by the "Covid-19" effect. We estimate a sharp fall in revenues (EUR 122.3Mn; -14.5% vs 2019) caused by a brutal reduction in activity in 2Q20 due to a global economy in the off position, that, although it should show a "mathematical" recovery over the course of the second half (vs a very stressed 1H), will do so slowly, with a level of activity during the second half of the year that will still be well below the level reached in 1Q20. And, of course, even further from levels of 2019.

… but in 2021e our projections envisage a recovery with a theoretical normalisation in 2022e (recovering 2019 levels)

And the "day after"? 2021e, partial recovery and 2022e "theoretical" normalisation: Our projections envisage as central scenario a stabilisation of activity in 2H20, with a slow recovery beginning throughout 2021e and theoretical normalisation from 2022e (recovering 2019 levels).

The foreseeable increase in the outsourcing of services as the main driver of growth

In our view, the main drivers of the business in this period will be: (i) the foreseeable increase in the outsourcing of services (typical of periods of macro crisis); (ii) the ability to take advantage of the gradual economic recovery with a business that has high levels of operating leverage; (iii) the fact that GALQ is facing the crisis with a small impact on the P/L of Net Debt (Financial Expenses, c.20% of EBITDA); and 4) the flexibility of the business in terms of CAPEX, with the company being able to play with both the level of annual investment (22, 10 and 13 Mn EUR, in 2019, 2020e and 2021e, respectively) and divestment on the used machinery market.

All this leads us to expect that, assuming a very severe contraction of turnover (2020) and a very slow recovery (2021 and 2022), FCF will always be positive.

With a net debt position under control (even in a more stressed scenario)

The scenario we envisage should allow GALQ to achieve: (i) revenue of, at least, EUR 140Mn in 2022e (-0.1% CAGR 2019-2022e), (ii) reasonable profitability (Recurrent EBITDA > EUR 30Mn; in line with 2019) and (iii) with debt under control allowing ND to be kept < EUR 130Mn (even in a more stressed scenario), a level that is still sustainable in a context of theoretical normalisation that, while slow, should see the ND/EBITDA ratio return to below 3.5x in 2022e.

What would be the worst case scenario for GALQ when 2022 arrives? The basic idea is that of a company able to withstand the crisis but not that of a company that is unaffected by the cycle nor that of a favourable macro context. If the recovery of economic activity after the "Covid-19" crisis were to take longer than expected, we estimate 2022e revenue of EUR 135Mn, with a Recurrent EBITDA margin of c. 21% (EBITDA EUR 28.3Mn, -16.5% vs 2019).

Table 1. 2022e ¿What if…?

		2022e	
	Slow Recovery	Current Scenario	Fast Recovery
Total Revenues	135.4	142.5	149.7
2022e Revenues vs 2020e	*10.7%*	*16.5%*	*22.4%*
EBITDA	28.3	32.7	37.2
2022e EBITDA vs 2020e	*25.8%*	*45.4%*	*65.1%*
2022e EBITDA vs 2019	*-16.4%*	*-3.4%*	*9.7%*
EBITDA/Revenues	20.9%	23.0%	24.8%
2022e EBITDA Mg. vs 2020e (p.p.)	*2.5*	*4.6*	*6.4*
2022e EBITDA Mg. vs 2019 (p.p.)	*(2.8)*	*(0.7)*	*1.2*
2022e Net Debt	99.8	97.3	94.9
2022e EV/EBITDA	7.3	6.3	5.6
Premium / (Discount) vs Feb. 2020 EV/EBITDA	*2.8%*	*-11.1%*	*-21.7%*

Our central scenario is one of "slow" recovery during 2020e-2022e

In terms of velocity, it could be said that our central scenario (2020-2022) is one of slow recovery. Current micro and macro conditions do not allow for hopes of a quick or explosive recovery. Perhaps the most interesting aspect is that a sensitivity analysis of 2022 estimates, in a more optimistic and pessimistic context, shows the two big benefits of the restructuring carried out: a certain floor if nothing goes right, and the option (which is not our central scenario) of achieving levels of EBITDA of c. EUR 40Mn in 2022.

This underlines the idea that cyclical risk has been significantly reduced for GALQ, thanks to its restructuring, but obviously it has not disappeared. An economic collapse extending the Covid-19 effect beyond 2022 would take EBITDA to levels of 2011 (and 2018) but would not jeopardise the company.

C) In conclusion: the Equity Story is the credible resilience of GALQ to the Covid-19 crisis:

One of the meanings of the term "resilience" is the ability to remain on one's feet after a serious mishap, a meaning that is close to the ability to survive or to resist. However, there is another meaning, resilience as "the ability of a material, mechanism or system to return to its initial state when the disturbance to which it has been subjected has ended". This can also be applied to a company (such as GALQ) and to a serious economic disturbance (such as the crisis caused by Covid-19).

The GALQ of today has little in common with the company that faced (and suffered) the Lehman Brothers Crisis of 2008. After its restructuring the company is totally different and this is why we believe that in 2020 the company will be able to withstand a sharp fall in revenues without taking on dangerous levels of debt and maintain EBITDA above EUR 15 Mn, even with sales declining by over 20%.

Best positioned to face a sharp change in the economic cycle

But this is not the most interesting aspect. That would be resistance not resilience. The key lies in the credible arguments for genuine resilience. In other words, in recovering its levels of revenue and EBITDA prior to the Covid-19 crisis. This is what underlies our estimates for 2022: Sales EUR 142.5 Mn (vs 143.1 in 2019) and EBITDA 32.7 Mn (vs 33.9 in 2019). What are these arguments?

- **The change of model,** focused now on the outsourcing of its clients' non-core activities, which provides stability and reduces cyclicality. The conclusion is that the long-term business provides the company with a floor to its levels of activity.
- **Sector diversification.** With more exposure to Industry and Distribution and having "escaped" from specialisation in Construction. Diversification implies less risk and greater growth opportunities. The possibility of entering the last mile logistics business is an example.
- **Entry in "no CAPEX" businesses** (equipment distribution, services and maintenance) as a way of extending the revenue base beyond the single product of equipment rental (in the short or long term).
- **Geographical diversification.** With a reduction in the weighting of Spain vs Latam (16% of weighting in 2019).
- **A real opportunity to benefit from the convergence of its core markets** (Spain and Latam) with vehicle rental utilisation ratios similar to those of the US and continental Europe. Spain and Latam are still 20 p.p behind in percentage of renting (vs purchase of new equipment). The crisis is in itself an accelerator of this convergence.
- **A stable shareholder structure** associated with a shareholder (Francisco Riberas) who has an industrial background, a long-term perspective, and who is able to contribute to the business and to help with its financing.
- **An objectively favourable position from which to take advantage of opportunities for non-organic growth** in the next two years: a comfortable balance sheet and a strategy of geographical and sector diversification.

All the above points are strategic and explain why GALQ is in shape to recover pre-crisis levels of activity and profitability. If the change of business model had not occurred our opinion would necessarily be different, even if it had carried out its debt restructuring and change of shareholder structure.

Resilience: with credible arguments to recover levels of EBITDA prior to the Covid-19

What about the share price? A simple comparison between the "Lehman Crisis" and the "Covid-19 Crisis" provides an evident reading. That is that the arguments for GALQ's resilience and its theoretical ability to return to 2019 levels are already having an effect, both in terms of a smaller fall in the P/L vs 2008 and, probably, real expectations of recovery. There has been a correction of EV/EBITDA vs pre-crisis levels of c. -15% (compared to -35% in 2009).

So, GALQ's Equity Story is not one of merely surviving 2020 but rather one of genuine resilience and an ability to recover levels of EBITDA generation prior to the Covid-19 crisis. In other words, resilience in the strictest sense of the word which at today's prices implies 2022 EV/EBITDA of c.6.3x.

Table 2: Lighthouse 2020e Central Scenario vs 2008 "Lehman" Crisis

	2008	2009	
"Lehman" Crisis	Pre Crisis Year	1 Year since Crisis	Drop (%)
Revenues	378.2	283.5	-25.0%
EBITDA	146.5	77.0	-47.5%
EBITDA/Sales	*38.7%*	*27.2%*	(11.6)

	2019	2020e	
"Covid-19" Crisis	Pre Crisis Year	1 Year since Crisis	Drop (%)
Revenues	143.1	122.3	-14.5%
EBITDA	33.9	22.5	-33.5%
EBITDA/Sales	*23.7%*	*18.4%*	(5.3)

"Lehman" Crisis	Reference	IBEX (Points)	GAM (EUR/share)
Market "Pre Crisis"	2Q 08	12,046.2	102.5
Market "Post Crisis"	1Q 09	7,815.0	28.4
Drop (%)		**-35.1%**	**-72.3%**

"Covid-19" Crisis	Reference	IBEX (Points)	GAM (EUR/share)
Market "Pre Crisis"	feb-20	8,723.2	1.62
Market "Today"	"Today"	7,002.0	1.23
Drop (%)		**-19.7%**	**-24.1%**

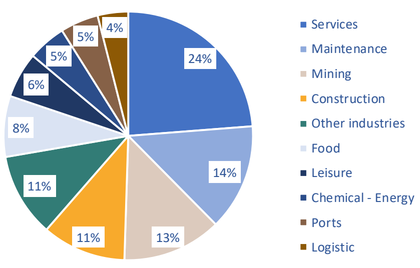
Table 3: Crisis impact in GALQ valuation multiples

	"Lehman" Crisis		"Covid-19" Crisis	
EV/EBITDA	Reference	EV/EBITDA 2008	Reference	EV/EBITDA 2019
Pre Crisis	2Q 08	8.0	feb-20	7.1
Post Crisis	1Q 09	5.3	"Hoy"	6.1
Drop in valuation multiple (%)*		-33.9%		-13.7%

(*) GALQ EV/EBITDA comparison over the year prior to the crisis, understood as the one that best reflects the EBITDA that the company should obtain once the macro collapse has been overcome. Therefore, we use the EBITDA for 2008 and 2019 as references to make the EV/EBITDA comparison between the "Lehman" crisis and that produced by the "Covid-19" effect.

A new GALQ: diversified clients (not just construction), a profitable business (renouncing scale) and lower leverage

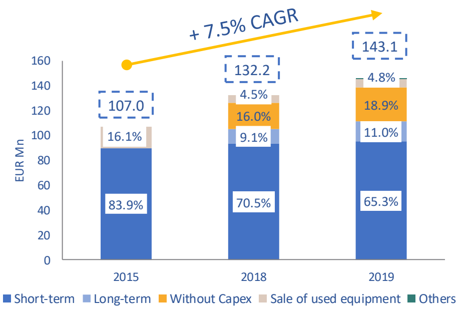
Chart 1. Revenue mix by sector (2019)



GAM (GALQ) is a small Spanish industrial company (Market Cap: c. EUR 78Mn) specialising in machinery hire with a revenue mix that is highly diversified in terms of sectors (Chart 1). At present it has a fleet of over 16,000 pieces of equipment for hire (mainly lifting and handling equipment), 75 branches and a presence in 10 countries, and obtains c. 75% of its revenues in the Spanish market (vs c. 95% in 2008), where it is market leader (10% share), enjoying the following main competitive advantages: (i) the high availability and variety of its equipment, with a good balance between generalist and specialist operator, enabling it to satisfy (almost) any demand niche; and (ii) the most extensive network on the Iberian peninsula and Morocco, covering all the peninsula (56 branches) and allowing for efficient fleet management.

With a light operating structure (c. 55% of total costs are variable vs 45% in 2009), GALQ has over 1,000 employees, of which 62% are logistics and workshop personnel, the rest working in sales (25%) and administration (13%).

Chart 2. Revenue mix by business

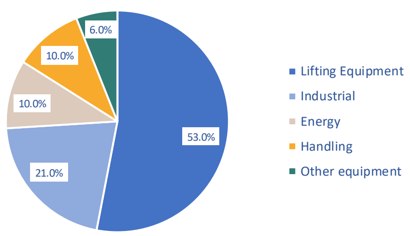


Towards a more robust business model: with a focus on long-term growth…

In recent years GALQ has steered away from the traditional business model of the machinery hire sector centred on the short term (average rental period of 5-8 days) and aimed mainly at the construction sector, focusing instead on: (i) diversifying its revenue mix by sectors (construction: 11% in 2019 vs >80% in 2008) and (ii) moving towards a business model that is more centred on the long term and on businesses which do not require CAPEX, offering a one-stop service to its clients along the entire value chain of the rental business:

- **Short-term business (65.3% of 2019 revenue):** GALQ's traditional business, focused on renting its equipment for short periods of time (usually less than a week) in order to cover temporary requirements. The short-term business model hinges essentially on the degree of use of the fleet (c. 65% in 2019) and the rental price. Its weighting in the revenue mix has declined from > 85% in 2015 to 65.3% at present.

Chart 3. Current fleet by machinery type

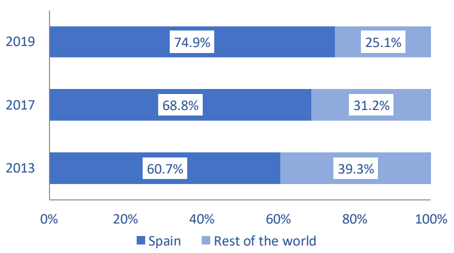


Note: Although specialists in (i) lifting equipment (53% of the current fleet), (ii) industrial (fork lift trucks; 21%) and (iii) energy (10%), GALQ can offer almost any kind of machinery, putting it halfway between a generalist and a specialist operator.

- **Long-term business (11.0% of 2019 revenue),** by which GALQ aims to become part of its clients' production models, making their outsourcing procedures easier. With an average contract duration of c. 5 years, the long-term rental business allows GALQ to: (i) increase its return on capital employed (although the price per contract is lower, occupation is 100%); and (ii) provide greater stability for the company's revenues.

- **Businesses without CAPEX (23.7% of 2019 revenues),** developed on the base of the rental business and exploiting the company's current structure (not requiring additional CAPEX). Among the businesses not requiring CAPEX we would highlight: (i) the use of the company's network of workshops to maintain clients' machinery, (ii) training, (iii) purchases/sales (including the sale of the company's own used equipment) and (iv) the distribution of 10 brands since 2018 via exclusive agreements at a national level with manufacturers such as Hyster, Utilev, Oil & Steel and Magni.

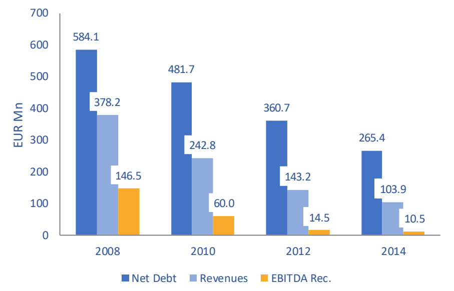
Chart 4. Revenue mix by country



…and which while centred on Spain, maintains significant exposure to emerging economies (an additional and diversified source of growth).

With its head office in Asturias (Spain) and 75 branches in 10 countries (Portugal, Morocco, Latam, and Saudi Arabia), GALQ is one of the 45 largest companies in Europe in its sector by revenue volumes (with the most extensive network in Iberia and Morocco). At present exports represent c. 25% of sales, with LATAM as their main destination (16% o/Sales). Although during the last five years business growth has been boosted by the good performance of the Spanish market (revenues +11.7% CAGR 2014-2019), strategically GALQ aims to replicate the switch towards long term businesses without CAPEX, at present only being carried out in the domestic market, outside Spain.

Chart 5. ND, Revenue and EBITDA 2008 - 2014



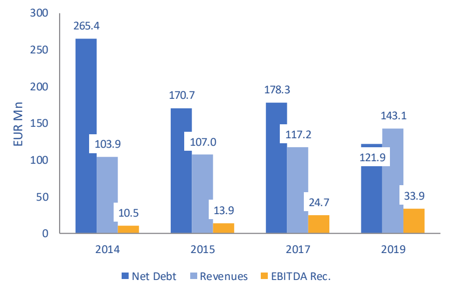
2008 -2014: excess leverage was holding the company back…

After a period of strong growth that ended in 2008, with revenue volumes of EUR 378Mn and EBITDA of EUR 146Mn (Revenues +41% CAGR 2006-2008), GALQ suffered an abrupt change of cycle in 2009 with a significant reduction in revenues (> -25%) and EBITDA (-50% vs 2008). The direct and evident link between GALQ's traditional business in 2008 and the construction sector (>80% of revenues), meant that the profound crisis in the sector especially impacted revenues until 2014 (revenues -70% vs 2008).

During this period, GALQ concentrated its efforts mainly on: (i) diversifying its business both in new geographies (opening of business in Latam, Morocco and Saudi Arabia), and in new sectors, reducing its exposure to the construction sector, (ii) implementing policies aimed at cutting costs in an attempt to maintain positive EBITDA (2014 Rec. EBITDA Margin: 10% vs c. 40% in 2008) and (iii) the restructuring in 2015 of its high debt (Chart 6), involving the conversion of 33% of debt in equity and of 22% in subordinated debt, refinancing the amount outstanding with maturities until 2021.

After the restructuring of debt in 2015, c. 65% of capital was controlled by creditor banks (mainly Banco Santander, Banco Sabadell and Liberbank; together holding 45% of capital) until the agreement reached in 2019 with Francisco Riberas.

Chart 6. ND, Revenue and EBITDA 2014 - 2019



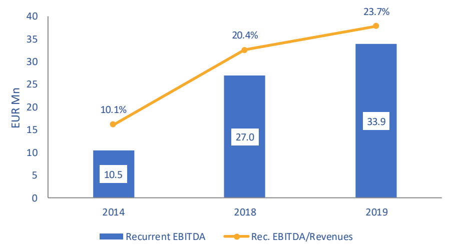
… restructuring finished in 2019

At the end of 2018 GALQ's core shareholders and creditors (7 banks), agreed to sell their controlling stake to Francisco Riberas (controlling shareholder of Gonvarri, Gestamp and Cie Automotive, among other businesses), who acquired his shareholding and launched a takeover bid at a price of 1.72 euros per share (concluded in July 2019 and taken up by 6.9% of the share capital; 24.7% of the shares at which it was aimed), achieving a controlling interest of 54.3% of capital at present.

The refinancing and investment operation carried out in 2019 rests basically on the following pillars:

- **A cash capital increase: (EUR 27.3Mn)** in order to reduce debt and enable the cancellation in this amount of subtranches C1 and C2 of the syndicated financing contract subscribed in the refinancing of 2015.
- **A non-cash capital increase (EUR 2.5Mn)** via the offsetting of credit balances to cancel the debt of the C1 subtranche (held by Indumenta Pueri, shareholder of GALQ).
- **The write-off of the rest of the debt associated with subtranches C1 and C2 (EUR 46.7Mn)** by the creditor banks.

Chart 7. EBITDA and EBITDA Rec.



What is the situation since 2018? KPIs have "progressed satisfactorily"

We believe that after the change of control carried out in 2019, the adjustment process begun years ago has concluded, leaving the company with: (i) bearable debt (2019 ND/EBITDA 3.8x vs 5.9x in 2018), (ii) a business that is growing (2015-2019 revenues: CAGR +7.5%) and (iii) is profitable (Recurrent EBITDA Margin of c. 24% in 2019; +11p.p. vs 2015).

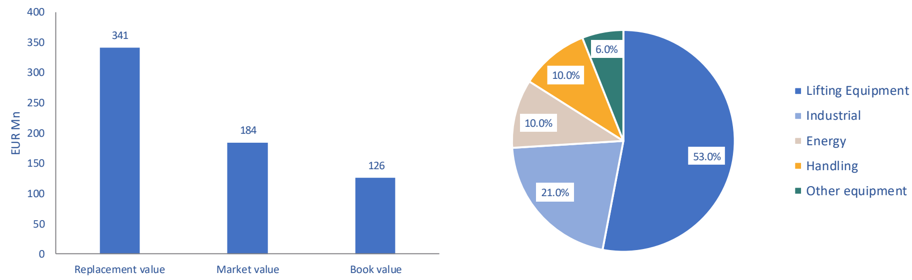
Francisco Riberas' corporate transaction has eliminated all the company's subordinated debt (EUR 76.5Mn at June 2019), definitively resolved its capital structure, and also given it a core and stable shareholder with a long-term perspective, which should enable GALQ to carry out its industrial project under better conditions (for example: Francisco Riberas granted GALQ a EUR 20Mn financing line for the acquisition of Clem in January 2020; of which EUR 10Mn still available).

Current fleet: diversified and valued at EUR 184Mn

Currently, GALQ has a rental fleet of over 16,000 pieces of equipment and, although specialists in (i) lifting equipment (53% of the current fleet), (ii) industrial (fork lift trucks; 21%) and (iii) energy (10%), it can offer almost any kind of machinery, putting it halfway between a generalist and a specialist operator.

With a useful life of c. 12 years, the current fleet has an average age of 8-9 years and a replacement value of EUR 341Mn (and a market value of EUR 184Mn on the used industrial vehicles market: a global, transparent and extraordinarily liquid market; GALQ made divestments of used equipment worth c. EUR 190Mn during 2008-2015).

Chart 8. GALQ current fleet valuation and distribution by machinery type

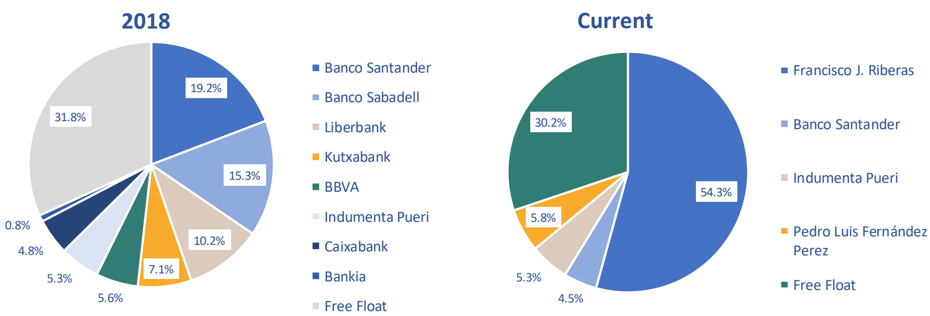


New industrial partner: with a long-term perspective and fully involved in the business

As a result of the restructuring and investment agreement of 2019, a significant change occurred in GALQ's shareholder structure, which until then had been controlled by a pool of creditor banks (Chart 9).

Francisco Riberas, the new controlling shareholder, is also a core shareholder of companies such as Gestamp and CIE Automotive and became a GALQ shareholder through his family office (Gestión de Activos y Maquinaria Industrial; GAMI). At present he controls 54.3% of capital (with two seats on the Board), and brings an industrial project, whose interests and long-term perspective are in line with those of minority shareholders. The free float is c. 30%.

Chart 9. Changes in the shareholder structure (2018 – present)



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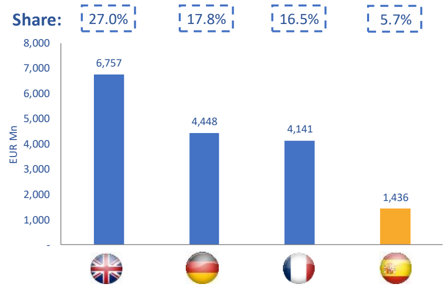
A fragmented industry tending towards concentration

GALQ is the leading equipment rental company in Spain and Portugal both by volume of revenues and geographical presence. The sector is necessarily cyclical, capital intensive (average CAPEX/sales -5y c. 15%) and fragmented: in Europe the 50 largest companies control 50% of the market and the top 10 c. 25%. In order to reduce the cyclicality of its business, GALQ reduced its exposure to the construction sector to 11% in 2019 (vs >80% in 2008), increasing the weighting of less cyclical sectors like food in its revenue mix (8% of sales 2019).

At present, the main sector drivers are still growth in construction sector demand (c. 60% of demand in mature markets such as the UK) and industrial production. In addition, the outsourcing of those productive processes unconnected to the "core business" of each industry is shaping up to be one of the main levers of sector growth, with renting offering a number of advantages over ownership, among which we would highlight: (i) a more efficient use of capital by reducing lessees' investment requirements increasing their return on capital employed, (ii) greater flexibility, guaranteeing the availability of equipment when needed and (iii) the transformation into variable costs of fixed costs generated by the storage, transport and maintenance of the fleet.

Competition in the equipment rental business tends to be based mainly on: (i) geographical proximity, (ii) the availability and quality of the equipment and (iii) price. GALQ's main competitors include both small regional and national companies (>70% of the revenue generated in Spain corresponds to companies with fewer than 50 employees) and large international groups with a presence in Spain (such as Loxam, through LoxamHune). GALQ competes with national rental companies via the greater availability of its equipment as it has a larger logistical and service capacity thanks to a more extensive branch network. Logistics is the main entry barrier in the sector.

Chart 10. Market share by country

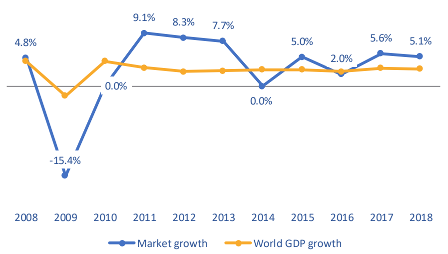


Source: ERA (2018)

A mature sector with moderate structural growth (but still higher than GDP)…

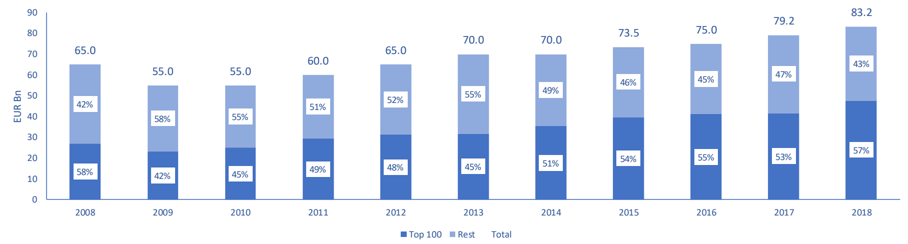
In 2018 the global equipment rental market was worth more than EUR 800 Mn (+5.1% vs 2017; chart 12), with the US and Europe as the main consumers accounting for c. 80% of the total market value. Looking at the largest 100 equipment rental companies (chart 12), these had a total market share of c. 57% in 2018 (+4p.p. vs 2017), mainly as a result of sector concentration led by the largest companies; the top 100 recorded growth of 10.6% (vs +5.1% for the industry). The US recorded higher growth: US companies saw average growth of 20% vs 7% for European ones (International Rental News - IRN100 2018). Among the main industry leaders by volume of revenues are companies such as United Rentals (USA), Ashtead Group (UK), Aktio Corp (Japan), Aggreko (UK), Herc Rentals (USA) and Loxam (France).

Chart 11. Global growth of the equipment rental industry vs world GDP growth



Source: Worldbank data

Chart 12. Global growth of the equipment rental industry and market share of the 100 largest companies (GALQ ranked 75th vs 80th in 2018)

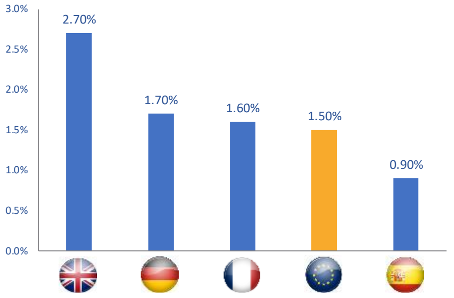


Source: IRN100 (2018)

The main driver of growth in sector demand in 2013-2018, was the recovery of the non-residential construction sector, enabling the sector to maintain a +1.5p.p. positive growth differential vs global GDP.

In the EU, according to the European Rental Association (ERA), sector turnover was EUR 26 Bn in 2018 (+4.4% vs 2017), with the UK holding a dominant market position (27% share; chart 10), followed by Germany (17.8%) and France (16.5%). Spain ranked fifth by size of market (together with Italy) with a share of c. 6%. Although with slightly smaller growth than the US (-0.6 p.p. in 2018), the European sector has recorded sustained growth above that in the GDP, with growth of 4.4% in 2018 vs 2.0% for the GDP, this being higher in countries such as France (5.7%), the Netherlands (5.2%) and Spain (5.1%; where GALQ holds a leadership position).

Chart 13. Rental market penetration rates in Europe (2017)



Source: European Rental Association (Market report 2018).

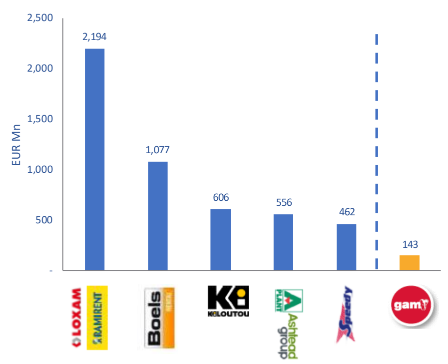
… although with very different penetration rates: it's not a level playing field

The equipment rental market can be considered a mature market in countries like the UK (27% of the European market) which recorded growth of 2.1% in 2018, although we think there is still room for sector growth to continue to outstrip that of the economy in general, especially in those countries with low penetration rates for the equipment rental business (chart 4).

In Spain (c. 75% of GALQ's sales), the rate of penetration of equipment rental (measured as the sector's total turnover vs construction sector production), remains below the European average (0.9% vs 1.5%; still much smaller than in the UK, 2.7%) due to the deep-rooted culture of ownership and the traditional importance of fleets of machinery in construction sector companies.

However, these factors are beginning to weaken vs the advantages that renting offers over ownership, which should result in an increase in equipment rental penetration rates in Spain until these, at least, converge with the European average. This factor, the convergence of penetration rates, is a compelling argument to continue seeing growth in the domestic equipment rental market outstrip that in the GDP.

Chart 14. Key players in Europe by revenues[1]



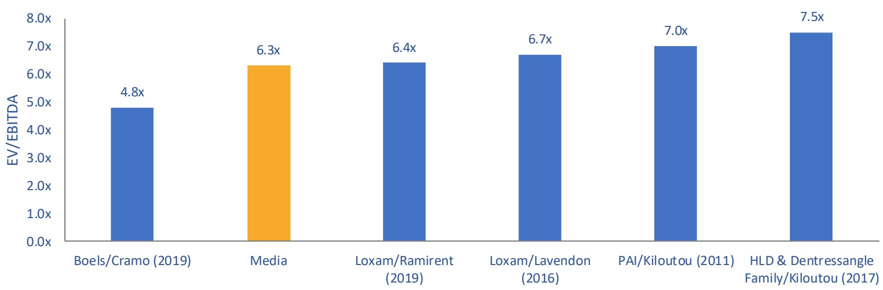
Note: GALQ is ranked 25 out of the 50 leading companies in the sector in Europe by revenues (IRN100, 2018), with a leading position in the Iberian Peninsula and Morocco (Market share of c. 10% followed by LoxamHune; turnover of c. EUR 119Mn in 2019).
(1) Revenues base on latest available figures. 2019: GAM. 2018: Loxam (PF including Ramirent acquisition), Asthead and Speedy. 2017: Kiloutou and Boels.

In a sector in which M&A is on the rise

The sector is not immune to trade conflicts, with economic slowdown being the current tonic: a situation made worse by the Covid-19 crisis.

Tougher competition against this backdrop will again favour concentration and strategic alliances in a sector focused on diversifying its business both in sector and geographical terms, strengthening its positioning, increasing margins and, in brief, reducing its cyclicality. And with growing corporate interest (M&A) in small companies with evident growth potential due to their specialisation in a specific market niche (Target EV: < EUR 1,500Mn); for example, in January 2020 GALQ announced the acquisition of Clem (a company specialising in the Automated Guided Vehicles niche).

Chart 15. M&A: Transactions have been completed at a 6.3x EBITDA on average



Between 2016 and 2019 there were numerous corporate transactions: Cramo (acquired by Boels), Ramirent and Lavendon (Loxam) and Kiloutou (HDL & Dentressangle Family); the average EV/EBITDA ratio of the main transactions being 6.3x (although with significant dispersion: 4.8x for the acquisition of Cramo vs 7.5x paid in 2017 for Kiloutou). The macro scenario caused by Covid-19 will presumably accelerate the M&A trend in the sector.

2020e: an "*annus horribilis*" (and "unrepeatable"); 2021e: "partial" recovery and 2022e, "theoretical" normalisation

Our forecasts include adjustments for the application of IFRS 16 from January 2019. In 2019 EBITDA is c. EUR 5.7Mn higher due to the application of IFRS 16.

After going through a serious crisis (2009 – 2014), with valuable lessons for the future, and a tough debt restructuring process which we consider concluded with the restructuring and investment agreement of 2019, in our view GALQ is a totally different company compared to what it was until 2014, with: (i) "tolerable" debt (2019 ND/EBITDA 3.6x; vs >10x -5y), (ii) and a business that is growing (2015-2019 revenues: +7.5% CAGR) and (iii) profitable (2019 ROCE, 6.2%; +1.1p.p. vs 2018).

In 2019 the growth begun years ago continued with high single-digit growth in revenues (+8.2% vs 2018), driven mainly by the long-term business (+33.3%) and the "no CAPEX" businesses (+25.9%), on which GALQ maintains the focus of its strategy. In terms of EBIT, in 2019 GALQ achieved profitability of 7.6% of revenues (EBIT EUR 10.9Mn; vs negative EBIT of EUR 8.5Mn in 2014) as a result of: (i) the boost from businesses with better margins (industry vs construction), (ii) the exit from unprofitable countries (Brazil and Poland) and (iii) the levering on fixed costs (45% of total costs).

But today against a backdrop of cyclical deceleration aggravated exponentially by the Covid-19 pandemic, which will lead to a very significant decline in activity (of unknown duration and extent), the main questions are: is what we have seen so far (- 5y) sustainable? can current margins be maintained in a scenario of sharply falling revenues (2020-2021? And, finally, but no less importantly, what can be expected from GALQ in a theoretical scenario of macro normalisation in 2022e? Answering these questions required a systematic analysis of the company's current balance sheet structure, P&L and recurrent cash generation.

Chart 16. Revenues (2015 – 2022e)

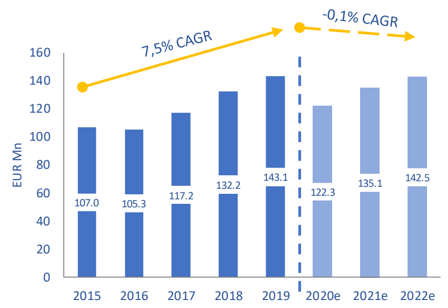
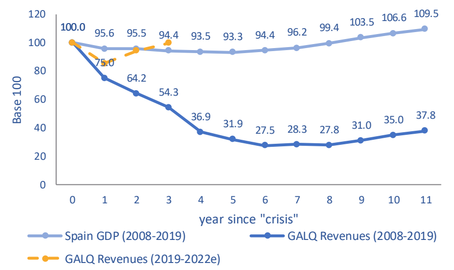


Chart 17. GALQ 2019-2022e estimated revenues vs GALQ revenue and spanish GDP during 2008-2019



Note: 2019-2022e estimated revenues (yellow line; Base 100 = 2019) vs: (i) 2008-2019 GALQ revenues (dark blue line) and (ii) 2008-2019 Spain GDP since the 2008 Great Recession (Base 100 = 2008).

What kind of shape is the company in today to deal with the Covid-19 crisis? Is the current situation comparable to 2008?

The Great Recession of 2008 caused GALQ's 2019 revenue to fall by 25% (vs -4.4% for the Spanish GDP), accumulating a decline of > 70% until 2014 given an inability to stabilise its business due to: (i) extreme dependence on a sector that had collapsed (construction >80% of 2008 revenue) and (ii) a capital structure (2008 ND/EBITDA >4x) with significant debt maturities between 2009 and 2014 (c. EUR 400Mn).

Table 1. Spain GDP vs GALQ Revenues and EBITDA (2008-2019)

				Revenues		EBITDA		
Year since "crisis"	Year	Spain GDP growth	Base 100	EUR Mn	Base 100	EUR Mn	Base 100	EBITDA/Revenues
0	2008		100.0	378.2	100.0	146.5	100.0	38.7%
1	2009	-4.4%	95.6	283.5	75.0	77.0	52.5	27.2%
2	2010	-0.1%	95.5	242.8	64.2	60.0	40.9	24.7%
3	2011	-1.2%	94.4	205.3	54.3	24.0	16.4	11.7%
4	2012	-0.9%	93.5	139.6	36.9	14.5	9.9	10.4%
5	2013	-0.2%	93.3	120.8	31.9	11.5	7.9	9.5%
6	2014	1.2%	94.4	103.9	27.5	14.3	9.8	13.8%
7	2015	1.9%	96.2	107.0	28.3	7.9	5.4	7.4%
8	2016	3.3%	99.4	105.3	27.8	14.2	9.7	13.5%
9	2017	4.1%	103.5	117.2	31.0	23.3	15.9	19.8%
10	2018	3.0%	106.6	132.2	35.0	24.3	16.6	18.4%
11	2019	2.7%	109.5	143.1	37.8	32.8	22.4	22.9%

However, the restructuring of debt (concluded in 2019) leads us to believe the company is now better prepared to tackle a brusque change of cycle. Among the main differences we would highlight: (i) its diversification by sector (vs hyper-dependence on a single sector) and geography (with greater international exposure enabling more efficient fleet management), (ii) a business model based on the outsourcing of clients' non-core activities (in theory more stable) and (iii) bearable debt (2019 ND/EBITDA 3.6x), with the support of a solvent controlling shareholder with a long-term perspective. This means our structure of estimates is very different to that seen in 2009-2014 (chart 17).

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Basically, we expect a very strong fall in revenue and EBITDA in 2020, a certain recovery in 2021 (but a long way off pre-crisis levels) and a return to 2019 in 2022.

2020e: an "*annus horribilis*", totally conditioned by the "Covid-19" effect

Making estimates about the effects of Covid-19 means assuming maximum uncertainty, associated with key variables: (i) the duration of the confinement, (ii) the gradual nature of the lifting of restrictions, (iii) the likelihood of a new outbreak in the autumn and (iv) the effectiveness of the policies adopted in Spain and the rest of the world (among others). Against this backdrop, where the level of uncertainty is maximum what is the central scenario behind Lighthouse's projections for 2020e?

- **A sharp fall in revenues (122.3Mn; -14.5% vs 2019)...** caused by a brutal reduction in activity in 2Q20 due to a global economy in off that, although it should show a "mathematical" recovery over the course of the second half (vs a very stressed 1H), will do so slowly, with a level of activity during the second half of the year that will still be well below the level reached in 1Q20 (with a "Covid-19" impact only in the second half of March). And, of course, even further from levels of 2019.

  By business line, we think the biggest impact will be on the short-term business (65% of 2019 revenue), with this falling c. -30% due to: (i) very low utilisation rates in 2Q20 (-40% vs 2019) and (ii) the stagnation of its activity given its exposure to more cyclical sectors such as infrastructure, construction and events.

  Although "no CAPEX" and long-term businesses will also suffer as a result of the industrial stoppage (-16.0% and -8.0%, respectively; especially because of the distribution activity), these will help to "contain" the fall in consolidated revenue. For example, although cancellations of long-term contracts cannot be ruled out, we think that as these play a vital role in the productive processes outsourced by the company's clients, they should show a certain "network" effect and allow a more vigorous recovery in 2H20 in a scenario of a theoretical reactivation of the economy.

  In addition, we expect the company to increase the volume of sales of its used equipment (associated in a normal situation with the necessary renewal of its fleet, and which in a growth phase would be c. EUR 5-6Mn), with the disposal of c. 9% of its fleet in 2020e (an activity we expect to intensify in 2021e up to 11%) and estimated 2020e revenue of c. EUR 13.8Mn (45% of the sold machinery replacement value).

- **... which will "sink" EBITDA in 2020e (EUR 22.5Mn; -31.2% vs 2019).** The estimated fall in revenue (EUR 20.8Mn) will have a negative impact of EUR 4.9Mn on EBITDA (43% of the total decline in EBITDA), the rest of the fall (EUR 6.4Mn) being a result of the company's operating structure as c. 45% of costs are fixed and so it is not able to offset the fall in revenue resulting from a "sudden" interruption of activity (especially in 2Q20e).

  However, in terms of personnel costs (36.2% of total costs), we think GALQ could apply for a temporary reduction of employment (c.70% for 3 months) which would mean savings of c. EUR 3Mn in 2020e. Which would "cushion" the fall in margins (impact of c. 2.5p.p. on the EBITDA margin; already included in our forecasts).

- **The reduction of CAPEX will allow FCF to be "contained"...** we do not believe the company will invest more than necessary to maintain activity in its short-term business (c. EUR 9.8Mn, CAPEX/sales 8%; 12.5% taking into account improvements to equipment, capitalised in the P&L), with "zero" investment on growth. We would underline the counter-cyclical nature of the company's cash generation as the reduction of investment in new equipment (CAPEX -55% vs 2019) provides a certain cushion for FCF in low cycle periods.

Chart 18. Revenues (2019 – 2020e)

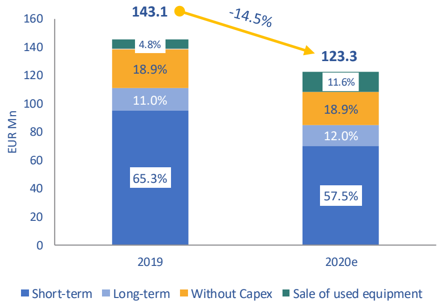


Chart 19. Cost structure (2019 – 2020e)

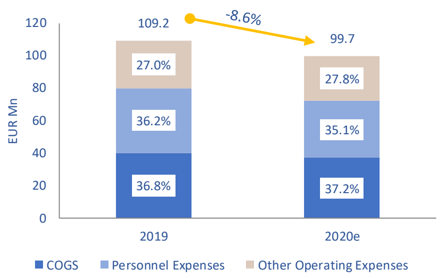


Chart 20. 2020e EBITDA bridge

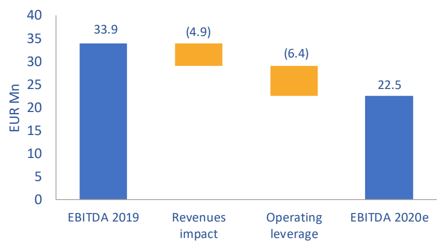


Chart 21. From EBITDA to FCF 2020e

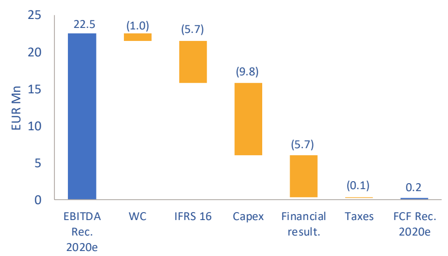
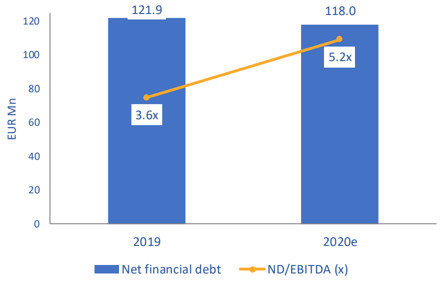


Chart 22. Net financial debt and ND/EBITDA (2019 – 2020e)



- **... and a sustainable level of debt to be maintained.** The company's leverage peaked in 2014 (>20x ND/Rec. EBITDA) with net debt of over EUR 260Mn, restricting its ability to grow organically and forcing it to carry out various restructurings (2015 and 2019). The restructuring and investment agreement of 2019 enabled all outstanding subordinated debt to be eliminated (EUR 76.5Mn), leaving GALQ with net debt of EUR 121.9Mn (-35% vs 2018); 2019 ND/EBITDA of 3.6x vs 7x in 2018.

  GALQ's current financial position is especially interesting, as, despite the adverse conditions (2020e revenue and EBITDA: -17.6% and -31.9%, respectively), the reduction in CAPEX (-55% vs 2019) and higher sales of used equipment (EUR 13.8Mn in 2020e vs 6.5Mn in 2019 with a practically full impact on FCF; tax rate 12%) as a result of the decline in activity, will allow the company to maintain net debt "apparently" under control at levels of EUR 120Mn (in line with 2019).

What would happen in an even worse scenario in 2020?

If the economy were to remain in "off" for too long it would fall into a cycle of economic contraction with an additional impact to that seen in our projections. Given that uncertainty regarding the current macro scenario is maximum, the question to be answered now is what to expect from 2020e numbers in an even worse situation.

Table 2. 2020e: P&L, Cash Flow and ND main figures vs changes in the Current Scenario

		2020e	
	Worst Case	Current Scenario	Best Case
Total Revenues	110.3	122.3	127.9
Revenues growth vs 2019	*-22.9%*	*-14.5%*	*-10.6%*
Growth. vs Current Scenario	*-10.0%*		*5.0%*
EBITDA	15.1	22.5	26.0
Growth vs 2019	*-55.5%*	*-33.5%*	*-23.3%*
Growth vs Current Scenario	*-33.0%*		*15.4%*
EBITDA/Revenues	*13.7%*	*18.4%*	*20.3%*
EBITDA Mg. increase vs 2019 (p.p.)	(10.0)	(5.3)	(3.4)
EBIT	(7.2)	0.2	3.7
Growth vs 2019	*-166.4%*	*-98.2%*	*-66.5%*
Growth vs Current Scenario	*n.a.*		*n.a.*
EBIT/Revenues	*n.a.*	*0.2%*	*2.9%*
EBIT Mg. Increase vs 2019 (p.p.)	n.a.	(7.4)	(4.8)
Increase in Days Sales Outst. (days)	21.9	11.3	5.3
Working Capital Increase	(3.6)	(1.0)	0.9
Rentals (IFRS 16 impact)*	(5.7)	(5.7)	(5.7)
Effective Tax Rate	*n.a.*	*n.a.*	*n.a.*
Taxes	(0.4)	(0.1)	(0.0)
=Recurrent Operating Cash Flow	5.8	15.8	21.2
Capex/Sales	*-9.0%*	*-8.0%*	*-8.0%*
-CAPEX	(9.9)	(9.8)	(10.2)
=FCF to the firm	(4.1)	6.0	11.0
Growth vs FCF 2019	-253.7%	*127.1%*	313.9%
ND	128.5	118.0	112.9
ND/EBITDA 2019**	3.8x	3.5x	3.3x

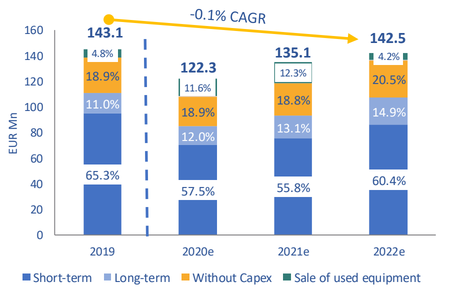
Note: (*) Recurrent Operating Cash Flow calculated as: EBITDA Rec. – Rentals (IFRS 16 impact) +/- Working capital increase. (**) A comparison is made with 2020e Net Debt and 2019 EBITDA (vs 2020e) as we consider 2020e EBITDA is excessively penalised (-31.9% vs 2019) and does not reflect the reality of a normalised context.

With a decline in revenue of close to -23% (vs -14.5% in our projections), we estimate an EBITDA margin of c. 14% (still higher than that achieved by GALQ in 2011-2016). And although the FCF to the firm is negative in this scenario, the company is able to keep the ND < EUR 130Mn, still tolerable in a scenario of recovery that, although slow, should see the ND/EBITDA ratio back below 4x in 2022e. Perhaps this is the most interesting aspect when valuing the result of all the efforts to restructure the company.

And the "day after"? 2021e should see recovery (albeit slow) and 2022e a "theoretical" normalisation …

Our forecasts envisage as central scenario a stabilisation of activity in 2HS20, with a slow recovery beginning throughout 2021e and theoretical normalisation from 2022e (recovering 2019 levels).

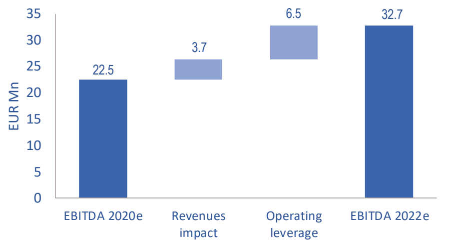
Chart 23. Revenue Mix (2019 – 2022e)



This scenario would allow GALQ to obtain revenues of, at least, EUR 142.5Mn in 2022e (-0.1% CAGR 2019-2022e). By business lines, we think revenue growth will be led by the long-term business (+20% CAGR 2020e-2022e) and the "no CAPEX businesses (+12.5% CAGR 2020e-2022e) as a result of the company's focus on integrating its rental services into its clients' productive models, enabling the outsourcing of their "non-core" processes; an activity that will presumably accelerate after the macro situation caused by Covid-19, in which companies will reduce their investment on new equipment as much as possible, replacing this with rented equipment. In addition, with the goal of maintaining an efficient fleet, we expect the company to accelerate the sale of used equipment in 2020e and 2021e, offsetting the decline in revenue (impact of EUR 9.2Mn and EUR 12.7Mn, respectively vs EUR 6.6Mn in 2019), normalising in 2022e to a level we consider recurrent for the necessary renewal of the fleet of equipment (c. EUR 5Mn).

Our forecasts also envisage growth, albeit smaller, in the short-term business (+10.6% CAGR 2020e-2022e), as a result of the resumption of economic activity (especially in 2022e; +14%) and an increase in its utilisation rates that should lead to a volume of c. EUR 86Mn in 2022e (still 9% below 2019 levels).

Chart 24. EBITDA bridge (2020e-2022e)



…which should see margins return to reasonable levels

We believe the company achieved optimal operating profitability in 2019, obtaining a gross margin of c. 72%, with its main variable costs being: (i) those associated with the new equipment distribution business (c. 30% of the cost of sales; which explains the c. 8p.p. loss of gross margin between 2017 and 2019), (ii) the acquisition of spare parts (24%), (iii) the re-hiring of equipment (23%) and (iv) fuel (12%).

The company's cost structure that will start from 2020e with a high fixed cost base (c. 45% of 2020e total costs), will allow GALQ to exploit significant economies of scale in 2021e and 2022e, levering the rebound in revenue on its current cost structure, boosting 2022e EBITDA to EUR 32.7Mn (in line with the figure for 2019). The 2021e EBITDA margin will be comparatively prejudiced vs 2020e as it will not have the cost savings obtained via the temporary personnel reduction policies of 2020e (impact of c. 3p.p. on the EBITDA margin).

Chart 25. Cost structure (2019 – 2020e) and Recurrent EBITDA (2019 – 2022e)

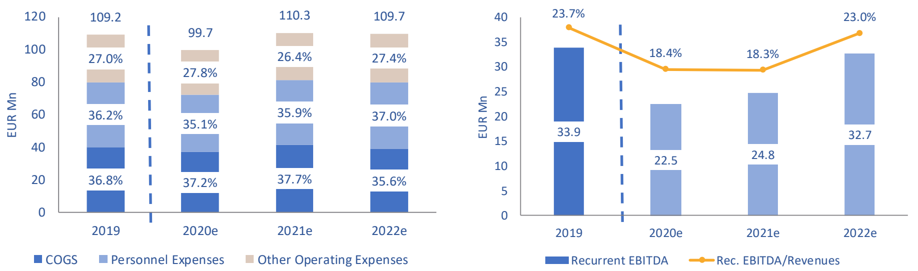
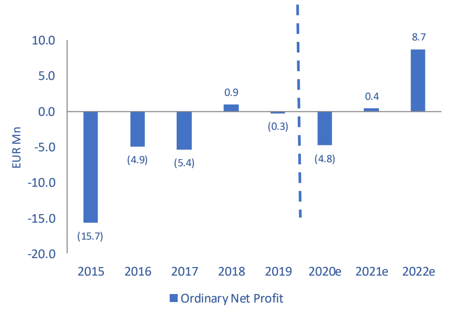


Chart 26. Ordinary Net profit (2015-2022e)



Note: Ordinary Net Profit excludes: non recurrent income and expenses and extraordinaries; using a normalised tax rate.

and cause ord. NP to exceed breakeven (2022e) after more than a decade of losses

After practically a decade of negative net profit, due to financial expenses that were too big for its EBIT, GALQ flirted with break even at the ordinary net profit level in 2018 and 2019. However, due to the “Covid-19” effect, we expect a return to negative net profit in 2020e and 2021e, reaching the break even in 2021e and rebounding strongly in 2022e as a result of the recovery of EBITDA (+32% vs 2021e).

The reduction of financial expenses from 2020e (c. -15%; as a result of the restructuring carried out in 2019) and a tax rate of 12% will boost ordinary net profit to c. EUR 9Mn in 2022e (vs break even in 2019) which showcases the efforts to restructure the company's capital structure. In addition, GALQ has unused prior years’ deferred tax assets in an amount of EUR 90Mn. Their use would result in a significant reduction in the tax expense going forward.

Chart 27. EBIT, Net financial Result and Ordinary Net Prodift (2015-2022e)

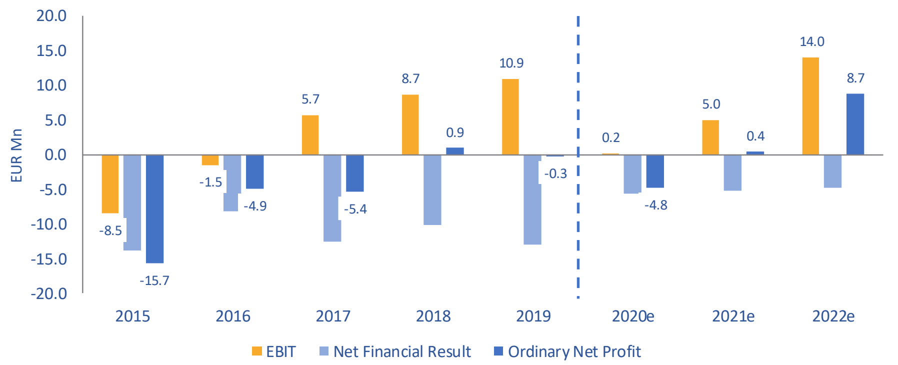
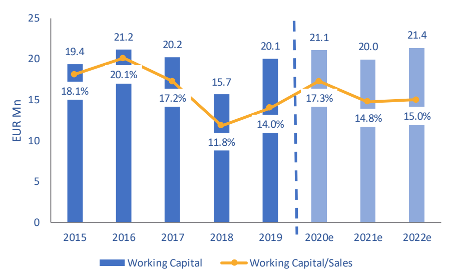


Chart 28. Working Capital/Sales (2015-2022e)

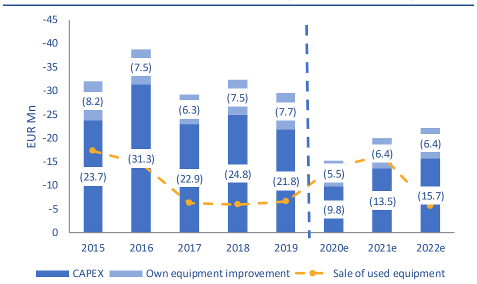


Working capital management: critical in terms of FCF…

During 2015-2019 the company managed to reduce its Working Capital/Sales ratio by 4.1p.p. (18.1% in 2015 vs 14.0% in 2019) thanks to the improvement in its clients’ credit conditions, allowing a reduction in collection days.

As the “Covid-19” effect will inevitably lead to a significant reduction in economic activity, in 2020e we assume a worsening of the credit conditions of GALQ’s clients, who will try to delay paying their bills for as long as possible, with an inevitable impact on GALQ’s cash generation (c. 3p.p. increase in Working Capital/Sales; partly offset by an increase in the supplier payment period). From 2021e we assume the normalisation of the collection period with a positive impact on FCF of EUR 1.5Mn (6% of 2021e EBITDA).

Chart 29. Total Investments (2015-2022e)



Nota: Las inversiones realizadas durante los últimos años permitirán reducir el CAPEX e incrementar la venta de maquinaria usada en 2020e y 2021e.

… with CAPEX in the spotlight

Given the nature of its business, GALQ has maintained high levels of CAPEX in recent years (average -5y CAPEX/Sales 20% vs 16% for its main listed peers) in order to adapt its fleet to the company’s growth during this period (+7.5% CAGR 2015-2019). In addition to maintenance and growth CAPEX, the company needs to make an annual recurrent investment on improving its own equipment (an expense carried directly in the P&L and capitalised; c. 6% of sales), which takes the cash outflow for investment to c. EUR 30Mn in 2019.

The expected reduction in investment in 2020e will take CAPEX to lows not seen since 2014 (virtually zero; a consequence of the difficult situation in which the company found itself at that time), so we necessarily expect a rebound in investment in 2021e and 2022e (CAPEX/Sales 10% and 11%, respectively) with total investment of at least EUR 20Mn in 2021e and EUR 22Mn in 2022e; a level of investment we consider necessary to maintain the current level of the company’s activity (and the average age of its fleet at c. 9 years).

Chart 30. Operating CF, CAPEX and FCF Rec.

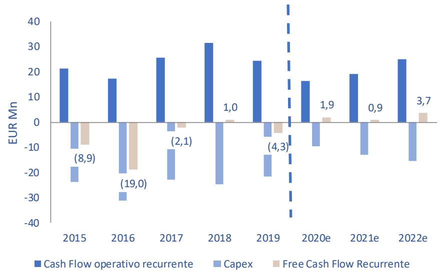
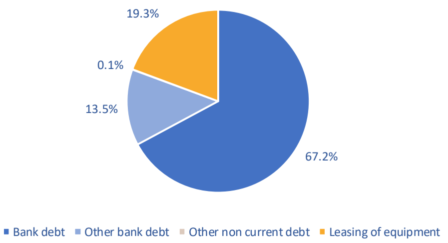


Chart 31. Total Debt breakdown (2019)



What FCF will GALQ generate?

FCF -5y has been impacted by high investment levels to adapt the company's fleet to the growth of its businesses (2015-2019 revenues 7.5% CAGR), with virtually all operating cash flow being used up on CAPEX (for maintenance and growth), resulting in negative recurrent FCF throughout the period.

For 2020e we expect a sharp decline in investment (-55% vs 2019) to levels of recurrent CAPEX of c. EUR 15.5Mn, which, together with the costs incurred in improvements to assets (EUR 6.5Mn; capitalised in the P&L) will result in total investment of, at least, EUR 22Mn (still below the EUR 30Mn of 2019).

Although in 2022e we envisage EBITDA in line with that in 2019, we estimate 2022e Rec. FCF of c. EUR 4.0Mn (FCF yield c.5%) as a result of: (i) lower CAPEX (EUR 6.1Mn) as there will be no significant investment on growth, (ii) smaller working capital investment (impact of EUR 3.0Mn) due to the normalisation of working capital consumption at c. EUR 1.5Mn (vs 4.4Mn in 2019) and (iii) a small reduction of net financial losses with an impact on cash flow (due to the reduction of debt).

In shape to maintain tolerable levels of debt

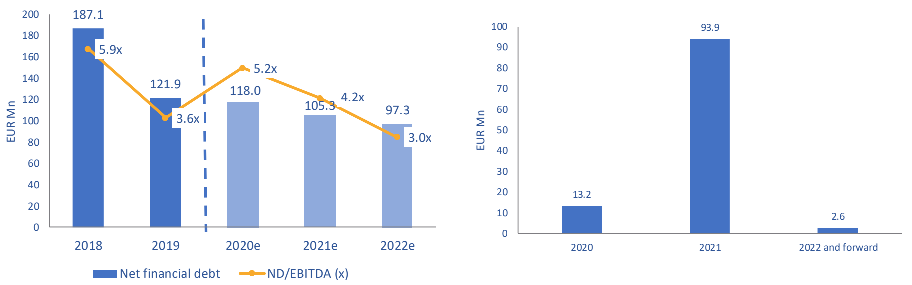
GALQ closed 2019 with total net financial debt of EUR 122Mn, comprised mainly of bank loans (67%; with maturities of EUR 75.7Mn in 2021e), equipment leasing (classified as debt due to its operating nature; 19.3%) and other debt (mainly drawn down credit lines).

The reduction of CAPEX together with the increase in sales of used equipment in 2020e-2022e should keep debt under control, with a 2022e ND/EBITDA ratio of c. 3.0x (vs Loxam c. 5x and Kiloutou, c. 4.5x).

Although we believe the current level of debt is sustainable (even with a sharp fall in activity in 2020e), GALQ has to refinance payment of the outstanding amount of the syndicated loan (EUR 75Mn) maturing in 2021e and that we believe can be resolved over 2020 by converting the 2021e bullet repayment into a schedule of annual payments over 5 years (thereby slightly reducing the cost of debt; currently at a fixed interest rate of 3.5%).

Also, if necessary, the company can count on additional liquidity via: (i) its controlling shareholder (Francisco Riberas), who at the end of 2019 granted a EUR 20Mn credit line (of which we estimate c. EUR 10Mn remains available), and (ii) the used industrial vehicle market: a global, transparent and extraordinarily liquid market. This should act as a buffer to get through the sharp contraction of activity in 2020e.

Chart 32. Net Debt and ND/EBITDA and bank debt payments outsanding



And if the recovery were slower than expected?

The basic idea is that of a company with a certain resilience but not that of a company that is unaffected by the cycle nor that of a favourable cycle. If the recovery of economic activity after the "Covid-19" crisis was to take longer than expected, we estimate 2022e revenue of EUR 135Mn (-5.4% vs 2019; -5% vs our central scenario), with an EBITDA margin of c. 21% (EBITDA EUR 28.3Mn).

Table 3. 2022e ¿What if…?

		2022e	
	Slow Recovery	**Current Scenario**	**Fast Recovery**
Total Revenues	135.4	142.5	149.7
2022e Revenues vs 2020e	*10.7%*	*16.5%*	*22.4%*
EBITDA	28.3	32.7	37.2
2022e EBITDA vs 2020e	*25.8%*	*45.4%*	*65.1%*
2022e EBITDA vs 2019	*-16.4%*	*-3.4%*	*9.7%*
EBITDA/Revenues	20.9%	23.0%	24.8%
2022e EBITDA Mg. vs 2020e (p.p.)	*2.5*	*4.6*	*6.4*
2022e EBITDA Mg. vs 2019 (p.p.)	*(2.8)*	*(0.7)*	*1.2*
2022e Net Debt	99.8	97.3	94.9
2022e EV/EBITDA	7.3	6.3	5.6
Premium / (Discount) vs Feb. 2020 EV/EBITDA	*2.8%*	*-11.1%*	*-21.7%*

This all underlines the argument that cyclical risk has been significantly reduced for GALQ thanks to its restructuring but obviously it has not disappeared. An economic collapse extending the Covid-19 effect beyond 2022 would take EBITDA to levels of 2011 (and 2018) although it would not jeopardise the company.

Valuation inputs

Inputs for the DCF Valuation Approach

	2020e	2021e	2022e	Terminal Value (1)
Free Cash Flow "To the Firm"	**9.7**	**17.5**	**12.2**	**180.5**

			Best Case	Worst Case
Market Cap	**77.6**	At the date of this report		
Net financial debt	**121.9**	Debt net of Cash (12m Results 2019)		
Cost of Debt	3.2%	Net debt cost	3.0%	3.5%
Tax rate (T)	20.0%	T (Normalised tax rate)	=	=
Net debt cost	**2.6%**	**Kd = Cost of Net Debt * (1-T)**	**2.4%**	**2.8%**
Risk free rate (rf)	0.7%	Rf (10y Spanish bond yield)	=	=
Equity risk premium	9.0%	R (own estimate)	8.5%	10.0%
Beta (B)	1.2	B (Thomson Reuters)	1.1	1.2
Cost of Equity	**11.5%**	**Ke = Rf + (R * B)**	**10.1%**	**12.7%**
Equity / (Equity + Net Debt)	38.9%	E (Market Cap as equity value)	=	=
Net Debt / (Equity + Net Debt)	61.1%	D	=	=
WACC	**6.1%**	**WACC = Kd * D + Ke * E**	**5.4%**	**6.7%**
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.
(2) GALQ has unused prior years' deferred tax assets in an amount of EUR 90Mn. Their use would result in a significant reduction in the tax expense going forward.

Inputs for the Multiples Valuation Approach

Company	Ticker Reuters	Mkt. Cap	P/E 20e	EPS 20e-22e	EV/EBITDA 20e	EBITDA 20e-22e	EV/Sales 20e	Revenues 20e-22e	EBITDA/Sales 20e	FCF Yield 20e	FCF 20e-22e
Ashtead Group	AHT.L	9,597.5	12.0	16.4%	6.2	10.8%	2.9	8.9%	46.3%	11.5%	1.3%
Aggreko	AGGK.L	1,524.5	11.3	3.1%	3.7	-0.6%	1.2	0.1%	33.8%	8.8%	22.6%
Cramo	CRA1V.HE	592.6	13.1	16.9%	4.9	2.2%	1.6	2.8%	32.6%	9.4%	-13.8%
VP	VP.L	291.3	6.5	6.5%	4.7	3.6%	1.4	6.4%	29.1%	10.5%	n.a.
Speedy Hire	SDY.L	320.6	14.1	n.a.	4.7	n.a.	1.1	n.a.	24.1%	4.4%	n.a.
HSS Hire Group	HSS.L	55.6	7.3	n.a.	3.2	n.a.	0.6	n.a.	19.5%	0.2%	n.a.
Europe			**10.7**	**10.7%**	**4.6**	**4.0%**	**1.5**	**4.5%**	**30.9%**	**7.5%**	**3.4%**
United Rentals	URI	7,342.5	7.0	24.8%	4.9	6.2%	2.2	3.2%	44.5%	23.2%	-8.1%
Herc Rentals	HRI	568.8	8.9	24.3%	3.9	4.4%	1.4	2.8%	35.9%	4.8%	211.1%
Mobile Mini	Mini.O	969.7	10.8	12.2%	7.7	5.9%	3.1	5.0%	40.3%	14.7%	6.9%
H&E Equipment Services	HEES.O	482.6	6.3	9.2%	3.7	-1.6%	1.3	3.0%	34.1%	n.a.	n.a.
GALQ	**GALQ.MC**	**77.6**	**n.a.**	**n.a.**	**9.2**	**20.6%**	**1.7**	**8.0%**	**18.4%**	**0.2%**	**43.3%**

(1) Please note that peers data is as the date of this report and consensus could not fully reflect the impact in estimates of the Covid-19 effect.

Free Cash Flow sensitivity analysis (2021e)

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

Scenario	EBITDA/Sales 21e	EBITDA 21e	EV/EBITDA 21e
Max	**20.3%**	**27.5**	**7.5x**
Central	**18.3%**	**24.8**	**8.4x**
Min	**16.3%**	**22.1**	**9.4x**

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

Rec. FCF EUR Mn	CAPEX/Sales 21e		
EBITDA 21e	9.0%	10.0%	11.0%
27.5	**5.5**	**4.1**	**2.8**
24.8	**2.8**	**1.4**	**0.1**
22.1	**0.1**	**(1.3)**	**(2.6)**

Scenario	Rec. FCF/Yield 21e		
Max	**7.0%**	**5.3%**	**3.6%**
Central	**3.6%**	**1.8%**	**0.1%**
Min	**0.1%**	**n.a.**	**n.a.**

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:

Cyclicality of the sector and possible squeezing of margins: Although in recent years GALQ has focused on diversifying its business both geographically and by sectors (construction currently represents 11% of revenues vs > 80% in 2008), the inherent cyclicality of the machinery rental business has not disappeared.

An extended period of industrial stoppage due to the coronavirus crisis could plunge the EU into a lengthy recession that would almost necessarily mean a significant decline in activity in the main sectors to which GALQ rents machinery (services, installations and maintenance, construction, metals and mining and food, among others), negatively impacting the profitability of the company as an equipment provider. A 10% decline in revenue (in respect of our 2020 estimates) would have an additional negative impact on EBITDA of c. 33%.

Entry of machinery manufacturers in the rental market. Although this trend mainly affects large customers and operators (especially in the lifting equipment sector), the entry in the rental market of large machinery manufacturers such as Caterpillar (via Barloworld Mera), Linde, Volvo, Toyota, etc., will cause an increase in supply that may lead to surplus capacity, pushing rental prices down in the short term. In general terms, manufacturers' downstream integration represents a long-term strategic risk for the sector against which there are no significant entry barriers.

Volume of debt and the evolution of interest rates. Although the company significantly reduced debt in 2019, the estimated decrease in 2020e EBITDA mean ND/EBITDA will be c. 5x in 2020e. With c. EUR 5.5Mn of financial expenses (providing little room for reaction if operating margins shrink as they are almost certain to do in a strong macro recession arising from the COVID-19 crisis). All the company's debt is tied to fixed interest rates (c. 3.5%) so at present there is no risk associated with the evolution of interest rates. 2020e financial expenses (cash)/EBITDA ratio, 25% (an additional 10% decline in 2020e revenue would take the financial expenses (cash)/EBITDA ratio to c. 35%).

Working capital management: This is a critical factor in the machinery rental business due to the gap between accounts receivable (c. 80 days) and payable (c. 60 days), which ate up c. 10% of the recurrent EBITDA generated in 2019 mainly as a result of a c. EUR 4Mn reduction in supplier accounts. For this reason, and as a way of offsetting the reduction in the payment period, effective management of collections and inventories (with a rotation of c. 90 days mainly associated with the retail business) will be crucial. The experience of the crisis of 2009-2014 (increase of c. 30 days in Days Sales Outstanding) suggests the gap will widen in 2020 with an additional impact on GALQ's leverage. Our central scenario envisages a increase in the gap between accounts receivable and payable of c. 10 days (2020e).

Exposure to emerging markets (mainly Latam): GALQ's presence in Mexico, Colombia, Chile, Peru, Panama, the Dominican Republic, Morocco and Saudi Arabia represents exposure both to certain risks not present in more mature markets and to each region's macro. A larger weighting in the mix of revenues from non Eurozone countries (c.25% of 2019 revenues) would increase exposure mainly to the dollar and the Mexican peso. Company policy is to fund operations in each country with debt denominated in the local currency, and not to hedge FX risk via derivatives.

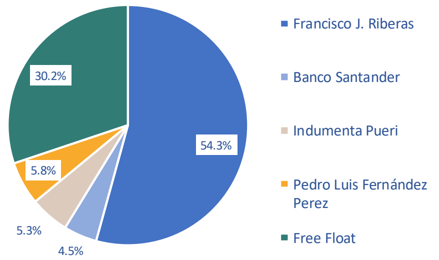
Obsolete machinery: The machinery rental sector is undergoing a transformation towards a more environmentally sustainable model, replacing diesel equipment with electric equipment (64% of the current fleet). In addition, GALQ's pool of machinery has an average age of 8-9 years (vs a European sector average of 6-7 years). Although the company considers the current pool of machinery to be efficient, a 2.5pp increase in CAPEX/sales in 2020e (to 10,5% of sales vs the 8% estimated) would have an impact on recurrent FCF of c.EUR 3Mn.

New industrial partner (Francisco Riberas) with a controlling interest and a long-term perspective

Table 4. Board of Directors

Name	Category	Appointed date	% Capital
Francisco José Riberas Mera	Propietary	sep-19	54.3%
Patricia Riberas López	Propietary	sep-19	0.0%
Pedro Luis Fernández Perez	Executive	july-03	5.8%
Jacobo Cosmen	Independent	jun-16	0.0%
Verónica Pascual Boé	Independent	may-18	0.0%
Ignacio Moreno Martinez	Independent	sep-19	0.0%
Total			**60.1%**

Chart 33. Shareholders setructure



While GALQ's management team has remained relatively stable in recent years, the Board of Directors was partially modified in 2019 with the entry of a new controlling shareholder, Francisco Riberas (54.3% of capital), an industrial partner (controlling shareholder of Gestamp and Cie Automotive, among other businesses) in replacement of the stake held by the banks as a result of the restructuring of GALQ's debt in 2015. The position of Managing Director is held by Pedro Luis Fernández, who has over 20 years' experience in the sector (founding partner of GALQ in 2003; current stake of 5.8% of capital).

A new Board of Directors… comprised of 6 members (vs 7 in 2018): 1 executive, 2 proprietary and 3 independent directors. Only one director has been with the company since before 2016. 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). Independent directors may only be re-elected twice.

… That controls 60.1% of capital with the entry in 2019 of Francisco J. Riberas, a new controlling shareholder that acquired 54.6% of GALQ's capital from various creditor banks (although Banco Santander maintains a 4.5% stake) through its Family Office (GAMI; Gestora de Activos y Maquinaria Industrial).

After the mandatory takeover bid made in July and the EUR 27.3Mn capital increase at the end of 2019, Francisco Riberas controls 54.3% of capital, has two seats on the Board, and brings an industrial project whose interests and long-term perspective are in line with those of minority shareholders. The free float is c. 30%.

The compensation of non-executive board members approved in October 2019 consists of a fixed payment of EUR 39k for sitting on the Board, EUR 12k for sitting on each of the Board's committees (audit and nomination and remuneration) and EUR 6k for holding the position of Chair of the Board of Directors or of either of the Board's committees. In 2019 the compensation of the Board of Directors amounted to EUR 0.3Mn (not including the remuneration of the Managing Director for performing his executive functions).

The remuneration of the Managing Director for carrying out his executive functions consists of: (i) a fixed payment of EUR 533k, (ii) an annual variable payment of EUR 200k (vs a maximum of EUR 390k in previous years) to be accrued when certain EBITDA and net debt targets are met (provided a minimum level of 70% accomplishment is achieved), (iii) a EUR 350k retention bonus (a net payment of EUR 70K a year for five years), (iv) remuneration in kind in an amount of EUR 33k and (v) a long-term incentive linked to fulfilment of the 2020-2023 business plan in an amount of EUR 1.4Mn.

With incentives for the rest of the management team in the form of bonuses. GALQ has a system of variable compensation for key personnel aimed at keeping their focus on the generation of value for the company in the medium and long term, measured as the ability to grow EBITDA without a worsening of leverage. The incentive scheme, based on fulfilment of the 2020-2023 business plan with reasonable levels of leverage, acts as a deterrent against "strategies" aimed at meeting targets via unprofitable, non-organic growth.

No shareholder remuneration in the short/mid term. Our projections envisage the continuation of the current dividend policy (Pay Out, 0%) with the cash generated being reinvested in the business. The company has made no commitment to start dividend payments. However, after the change of core shareholder, dividend payments cannot be ruled out if the business situation allows.

Appendix 1. Financial Projections[1]

Balance Sheet (EUR Mn)	**2015**	**2016**	**2017**	**2018**	**2019**	**2020e**	**2021e**	**2022e**
Intangible assets	2.3	2.6	2.0	1.2	22.1	22.1	22.1	22.1
Fixed assets	131.1	131.0	125.1	132.8	138.5	130.2	120.5	121.4
Other Non Current Assets	5.9	4.8	4.8	3.8	3.6	3.6	3.6	3.6
Financial Investments	0.8	0.6	0.4	-	0.9	1.6	2.3	3.0
Goodwill & Other Intangilbles	16.2	16.2	16.3	16.5	16.4	16.4	16.4	16.4
Current assets	52.5	52.7	48.9	47.6	47.4	46.3	47.1	48.6
Total assets	**208.7**	**208.0**	**197.5**	**202.0**	**228.9**	**220.1**	**211.9**	**215.1**
Equity	1.7	(8.7)	(10.5)	(17.6)	51.1	46.1	46.5	55.3
Minority Interests	0.6	0.6	0.6	0.2	0.2	0.2	0.2	0.2
Provisions & Other L/T Liabilities	2.6	2.7	0.4	0.3	8.2	8.2	8.2	8.2
Other Non Current Liabilities	-	-	-	-	20.2	22.4	24.6	26.8
Net financial debt	170.7	181.8	178.3	187.1	121.9	118.0	105.3	97.3
Current Liabilities	33.1	31.6	28.7	31.9	27.4	25.2	27.1	27.3
Equity & Total Liabilities	**208.7**	**208.0**	**197.5**	**202.0**	**228.9**	**220.1**	**211.9**	**215.1**

									CAGR	
P&L (EUR Mn)	**2015**	**2016**	**2017**	**2018**	**2019**	**2020e**	**2021e**	**2022e**	**15-19**	**19-22e**
Total Revenues	**107.0**	**105.3**	**117.2**	**132.2**	**143.1**	**122.3**	**135.1**	**142.5**	***7.5%***	***-0.1%***
Total Revenues growth	*3.0%*	*-1.6%*	*11.4%*	*12.8%*	*8.2%*	*-14.5%*	*10.5%*	*5.5%*		
COGS	(18.5)	(18.2)	(24.3)	(34.2)	(40.2)	(37.1)	(41.5)	(39.1)		
Gross Margin	**88.6**	**87.1**	**93.0**	**98.1**	**102.9**	**85.2**	**93.5**	**103.4**	***3.8%***	***0.2%***
Gross Margin/Revenues	*82.8%*	*82.7%*	*79.3%*	*74.2%*	*71.9%*	*69.7%*	*69.3%*	*72.6%*		
Personnel Expenses	(33.3)	(33.4)	(33.3)	(36.7)	(39.5)	(35.0)	(39.6)	(40.6)		
Other Operating Expenses	(41.4)	(34.5)	(35.0)	(34.4)	(29.5)	(27.7)	(29.1)	(30.1)		
Recurrent EBITDA	**13.9**	**19.1**	**24.7**	**27.0**	**33.9**	**22.5**	**24.8**	**32.7**	***25.0%***	***-1.1%***
Recurrent EBITDA growth	*32.7%*	*37.6%*	*29.4%*	*8.9%*	*25.7%*	*-33.5%*	*10.0%*	*32.2%*		
Rec. EBITDA/Revenues	*13.0%*	*18.2%*	*21.1%*	*20.4%*	*23.7%*	*18.4%*	*18.3%*	*23.0%*		
Restructuring Expense & Other non-rec.	(6.0)	(4.9)	(1.5)	(2.6)	(1.1)	-	-	-		
EBITDA	**7.9**	**14.2**	**23.3**	**24.3**	**32.8**	**22.5**	**24.8**	**32.7**	***42.6%***	***0.0%***
Depreciation & Provisions	(24.6)	(23.2)	(23.9)	(23.2)	(21.7)	(19.9)	(18.3)	(17.3)		
Capitalized Expense	8.2	7.5	6.3	7.5	7.7	5.5	6.4	6.4		
Rentals (IFRS 16 impact)	-	-	-	-	(7.9)	(7.9)	(7.9)	(7.9)		
EBIT	**(8.5)**	**(1.5)**	**5.7**	**8.7**	**10.9**	**0.2**	**5.0**	**14.0**	***n.a.***	***8.8%***
EBIT growth	*43.7%*	*82.1%*	*475.1%*	*51.4%*	*25.9%*	*-98.2%*	*n.a.*	*179.4%*		
EBIT/Revenues	*n.a.*	*n.a.*	*4.9%*	*6.5%*	*7.6%*	*0.2%*	*3.7%*	*9.8%*		
Impact of Goodwill & Others	-	-	-	-	-	-	-	-		
Net Financial Result	(13.8)	(8.3)	(12.6)	(10.2)	(13.0)	(5.7)	(5.3)	(4.8)		
Income by the Equity Method	-	-	-	-	0.7	0.7	0.7	0.7		
Ordinary Profit	**(22.3)**	**(9.8)**	**(6.9)**	**(1.6)**	**(1.4)**	**(4.8)**	**0.5**	**9.9**	***-50.1%***	***n.a.***
Ordinary Profit Growth	*29.5%*	*56.1%*	*29.3%*	*77.1%*	*12.7%*	*-247.5%*	*109.4%*	*n.a.*		
Extraordinary Results	18.0	-	-	-	44.9	-	-	-		
Profit Before Tax	**(4.3)**	**(9.8)**	**(6.9)**	**(1.6)**	**43.5**	**(4.8)**	**0.5**	**9.9**	***n.a.***	***-38.9%***
Tax Expense	(2.2)	(1.3)	(0.9)	(2.4)	(3.5)	(0.1)	(0.1)	(1.2)		
Effective Tax Rate	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*8.0%*	*n.a.*	*12.0%*	*12.0%*		
Minority Interests	0.6	(0.1)	0.0	(0.1)	(0.0)	-	-	-		
Discontinued Activities	-	-	-	-	-	-	-	-		
Net Profit	**(5.8)**	**(11.1)**	**(7.7)**	**(4.0)**	**40.0**	**(4.9)**	**0.4**	**8.7**	***n.a.***	***-39.8%***
Net Profit growth	*79.4%*	*-91.5%*	*30.5%*	*47.9%*	*n.a.*	*-112.4%*	*108.1%*	*n.a.*		
Ordinary Net Profit	**(15.7)**	**(4.9)**	**(5.4)**	**0.9**	**(0.3)**	**(4.8)**	**0.4**	**8.7**	***-63.9%***	***n.a.***
Ordinary Net Profit growth	*38.9%*	*68.6%*	*-9.4%*	*117.3%*	*-128.6%*	*n.a.*	*108.3%*	*n.a.*		

									CAGR	
Cash Flow (EUR Mn)	**2015**	**2016**	**2017**	**2018**	**2019**	**2020e**	**2021e**	**2022e**	**15-19**	**19-22e**
Recurrent EBITDA						**22.5**	**24.8**	**32.7**	***25.0%***	***-1.1%***
Rentals (IFRS 16 impact)						(5.7)	(5.7)	(5.7)		
Working Capital Increase						(1.0)	1.1	(1.4)		
Recurrent Operating Cash Flow						**15.8**	**20.2**	**25.6**	***3.3%***	***1.6%***
CAPEX						(9.8)	(13.5)	(15.7)		
Net Financial Result affecting the Cash Flow						(5.7)	(5.3)	(4.8)		
Tax Expense						(0.1)	(0.1)	(1.2)		
Recurrent Free Cash Flow						**0.2**	**1.4**	**4.0**	***-16.7%***	***n.a.***
Restructuring Expense & Other non-rec.						-	-	-		
- Acquisitions / + Divestures of assets						3.7	11.3	3.9		
Extraordinary Inc./Exp. Affecting Cash Flow						-	-	-		
Free Cash Flow						**3.9**	**12.8**	**7.9**	***28.9%***	***-46.2%***
Capital Increase						-	-	-		
Dividends						-	-	-		
Net Debt Variation						**(3.9)**	**(12.8)**	**(7.9)**		

Note 1: Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 5.7Mn higher due to IFRS 16.

Appendix 2. Free Cash Flow[1]

A) Cash Flow Analysis (EUR Mn)	2016	2017	2018	2019	2020e	2021e	2022e	CAGR 16-19	CAGR 19-22e
Recurrent EBITDA	**19.1**	**24.7**	**27.0**	**33.9**	**22.5**	**24.8**	**32.7**	*21.0%*	*-1.1%*
Recurrent EBITDA growth	*37.6%*	*29.4%*	*8.9%*	*25.7%*	*-33.5%*	*10.0%*	*32.2%*		
Rec. EBITDA/Revenues	*18.2%*	*21.1%*	*20.4%*	*23.7%*	*18.4%*	*18.3%*	*23.0%*		
- Rentals (IFRS 16 impact)	-	-	-	(5.1)	(5.7)	(5.7)	(5.7)		
+/- Working Capital increase	(1.8)	0.9	4.6	(4.4)	(1.0)	1.1	(1.4)		
= Recurrent Operating Cash Flow	**17.4**	**25.7**	**31.5**	**24.4**	**15.8**	**20.2**	**25.6**	*12.1%*	*1.6%*
Rec. Operating Cash Flow growth	*-19.2%*	*48.0%*	*22.7%*	*-22.5%*	*-35.3%*	*27.9%*	*26.8%*		
Rec. Operating Cash Flow / Sales	*16.5%*	*21.9%*	*23.8%*	*17.1%*	*12.9%*	*15.0%*	*18.0%*		
- CAPEX	(31.3)	(22.9)	(24.8)	(21.8)	(9.8)	(13.5)	(15.7)		
- Net Financial Result affecting Cash Flow	(4.4)	(4.4)	(4.4)	(5.5)	(5.7)	(5.3)	(4.8)		
- Taxes	(0.6)	(0.5)	(1.2)	(1.5)	(0.1)	(0.1)	(1.2)		
= Recurrent Free Cash Flow	**(19.0)**	**(2.1)**	**1.0**	**(4.3)**	**0.2**	**1.4**	**4.0**	*-39.1%*	*n.a.*
Rec. Free Cash Flow growth	*112.5%*	*-88.8%*	*n.a.*	*n.a.*	*n.a.*	*637.9%*	*184.4%*		
Rec. Free Cash Flow / Revenues	*n.a.*	*n.a.*	*0.8%*	*n.a.*	*0.2%*	*1.0%*	*2.8%*		
- Restructuring expenses & others	(4.9)	(1.5)	(2.6)	(1.1)	-	-	-		
- Acquisitions / + Divestments*	16.1	7.0	6.0	4.2	3.7	11.3	3.9		
+/- Extraordinary Inc./Exp. affecting Cash Flow	-	-	(1.5)	52.0	-	-	-		
= Free Cash Flow	**(7.8)**	**3.4**	**2.9**	**50.8**	**3.9**	**12.8**	**7.9**	*n.a.*	*-46.2%*
Free Cash Flow growth	*n.a.*	*n.a.*	*-14.2%*	*n.a.*	*-92.4%*	*230.5%*	*-37.9%*		
Recurrent Free Cash Flow - Yield (s/Mkt Cap)	*n.a.*	*n.a.*	*1.3%*	*n.a.*	*0.2%*	*1.8%*	*5.2%*		
Free Cash Flow Yield (s/Mkt Cap)	*n.a.*	*4.4%*	*3.7%*	*65.5%*	*5.0%*	*16.4%*	*10.2%*		

B) Analytical Review of Annual Recurrent Free Cash Flow Performance (Eur Mn)	2016	2017	2018	2019	2020e	2021e	2022e
Recurrent FCF(FY - 1)	**(8.9)**	**(19.0)**	**(2.1)**	**1.0**	**(4.3)**	**0.2**	**1.4**
EBITDA impact from revenue increase	(0.2)	2.2	3.2	2.2	(4.9)	2.4	1.4
EBITDA impact from EBITDA/Sales variation	5.5	3.4	(1.0)	4.7	(6.4)	(0.1)	6.6
= Recurrent EBITDA variation	**5.2**	**5.6**	**2.2**	**6.9**	**(11.4)**	**2.2**	**8.0**
- Rentals (IFRS 16 impact) variation impact	-	-	-	(5.1)	(0.6)	-	-
+/- Working capital variation impact	(9.3)	2.7	3.6	(8.9)	3.4	2.2	(2.6)
= Recurrent Operating Cash Flow variation	**(4.1)**	**8.3**	**5.8**	**(7.1)**	**(8.6)**	**4.4**	**5.4**
+/- CAPEX impact	(7.6)	8.4	(1.9)	3.1	12.0	(3.7)	(2.2)
+/- Financial result variation	1.8	(0.0)	0.0	(1.1)	(0.2)	0.4	0.5
+/- Tax impact	(0.2)	0.2	(0.8)	(0.2)	1.3	0.1	(1.1)
= Recurrent Free Cash Flow variation	**(10.1)**	**16.9**	**3.1**	**(5.3)**	**4.5**	**1.2**	**2.6**
Recurrent Free Cash Flow	**(19.0)**	**(2.1)**	**1.0**	**(4.3)**	**0.2**	**1.4**	**4.0**

C) "FCF to the Firm" (pre debt service) (EUR Mn)	2016	2017	2018	2019	2020e	2021e	2022e	CAGR 16-19	CAGR 19-22e
EBIT	**(1.5)**	**5.7**	**8.7**	**10.9**	**0.2**	**5.0**	**14.0**	*n.a.*	*8.8%*
** Theoretical Tax rate*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*12.0%*	*12.0%*		
= Taxes (pre- Net Financial Result)	-	-	-	-	-	(0.6)	(1.7)		
Recurrent EBITDA	**19.1**	**24.7**	**27.0**	**33.9**	**22.5**	**24.8**	**32.7**	*21.0%*	*-1.1%*
- Rentals (IFRS 16 impact)	-	-	-	(5.1)	(5.7)	(5.7)	(5.7)		
+/- Working Capital increase	(1.8)	0.9	4.6	(4.4)	(1.0)	1.1	(1.4)		
= Recurrent Operating Cash Flow	**17.4**	**25.7**	**31.5**	**24.4**	**15.8**	**20.2**	**25.6**	*12.1%*	*1.6%*
- CAPEX	(31.3)	(22.9)	(24.8)	(21.8)	(9.8)	(13.5)	(15.7)		
- Taxes (pre- Financial Result)	-	-	-	-	-	(0.6)	(1.7)		
= Recurrent Free Cash Flow (To the Firm)	**(14.0)**	**2.8**	**6.7**	**2.7**	**6.0**	**6.1**	**8.3**	*n.a.*	*46.2%*
Rec. Free Cash Flow (To the Firm) growth	*519.2%*	*n.a.*	*139.8%*	*-60.2%*	*127.1%*	*1.5%*	*35.5%*		
Rec. Free Cash Flow (To the Firm) / Revenues	n.a.	2.4%	5.0%	1.9%	4.9%	4.5%	5.8%		
- Acquisitions / + Divestments*	16.1	7.0	6.0	4.2	3.7	11.3	3.9		
+/- Extraordinary Inc./Exp. affecting Cash Flow	-	-	(1.5)	52.0	-	-	-		
= Free Cash Flow "To the Firm"	**2.1**	**9.8**	**11.2**	**58.9**	**9.7**	**17.5**	**12.2**	*n.a.*	*-40.8%*
Free Cash Flow (To the Firm) growth	*-93.1%*	*356.1%*	*14.0%*	*428.2%*	*-83.5%*	*80.1%*	*-30.1%*		
Rec. Free Cash Flow To the Firm Yield (o/EV)	*n.a.*	*1.3%*	*3.2%*	*1.3%*	*2.9%*	*3.0%*	*4.0%*		
Free Cash Flow "To the Firm" - Yield (o/EV)	*1.0%*	*4.7%*	*5.4%*	*28.5%*	*4.7%*	*8.4%*	*5.9%*		

Note 1: Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 5.7Mn higher due to IFRS 16.
(*) 2020e Acquisitions / Divestments line reflects the net effect between: EUR 9,7Mn related to sales of used machinery and an estimated cash out due to inorganic growth.

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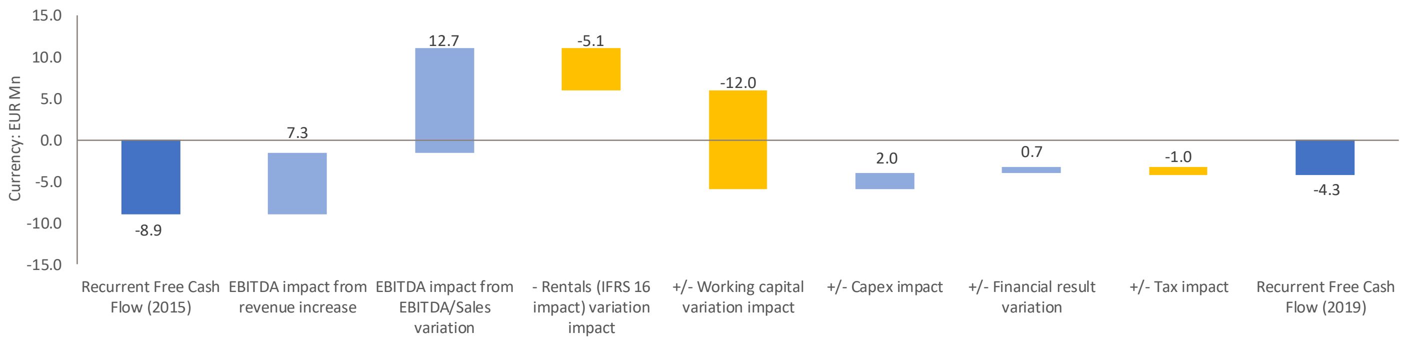
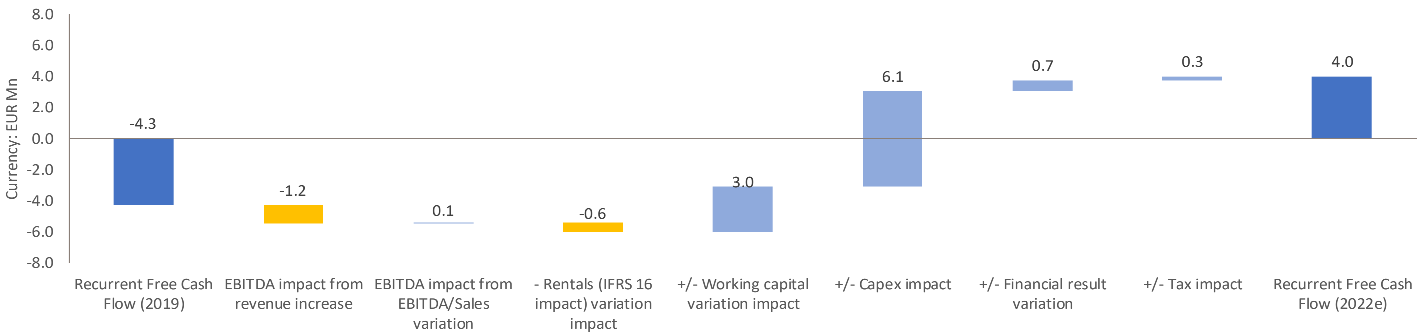
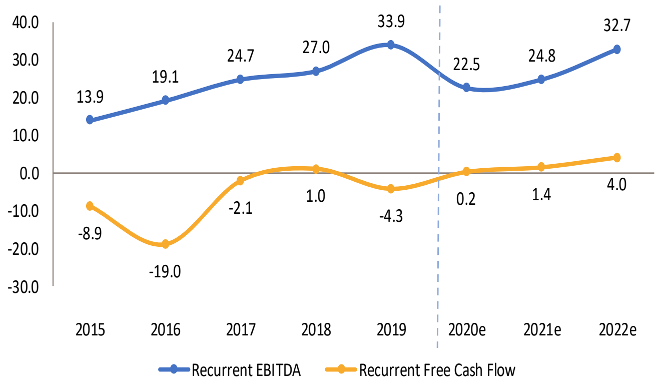
Recurrent Free Cash Flow accumulated variation analysis (2015 - 2019)



Recurrent Free Cash Flow accumulated variation analysis (2019 - 2022e)



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	77.6	
+ Minority Interests	0.2	12m Results 2019
+ Provisions & Other L/T Liabilities	8.2	12m Results 2019
+ Net financial debt	121.9	12m Results 2019
- Financial Investments	0.9	12m Results 2019
+/- Others	-	12m Results 2019
Enterprise Value (EV)	**207.0**	

Appendix 4. Historical performance(1)(2)

Historical performance (EUR Mn)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e	CAGR sep-20	CAGR 19-22e
Total Revenues	**283.5**	**242.8**	**205.3**	**139.6**	**120.8**	**103.9**	**107.0**	**105.3**	**117.2**	**132.2**	**143.1**	**122.3**	**135.1**	**142.5**	***-6.6%***	***-0.1%***
Total Revenues growth	*-25.0%*	*-14.3%*	*-15.4%*	*-32.0%*	*-13.5%*	*-14.0%*	*3.0%*	*-1.6%*	*11.4%*	*12.8%*	*8.2%*	*-14.5%*	*10.5%*	*5.5%*		
EBITDA	**77.0**	**60.0**	**24.0**	**14.5**	**11.5**	**14.3**	**7.9**	**14.2**	**23.3**	**24.3**	**32.8**	**22.5**	**24.8**	**32.7**	***-8.2%***	***0.0%***
EBITDA growth	*-47.5%*	*-22.1%*	*-60.0%*	*-39.6%*	*-20.5%*	*24.1%*	*-44.5%*	*79.3%*	*63.6%*	*4.7%*	*34.5%*	*-31.2%*	*10.0%*	*32.2%*		
EBITDA/Sales	*27.2%*	*24.7%*	*11.7%*	*10.4%*	*9.5%*	*13.8%*	*7.4%*	*13.5%*	*19.8%*	*18.4%*	*22.9%*	*18.4%*	*18.3%*	*23.0%*		
Net Profit	**(8.9)**	**(62.9)**	**(128.1)**	**(61.3)**	**(17.3)**	**(28.6)**	**(5.8)**	**(11.1)**	**(7.7)**	**(4.0)**	**40.0**	**(4.9)**	**0.4**	**8.7**	***n.a.***	***-39.8%***
Net Profit growth	*-165.6%*	*-604.0%*	*-103.5%*	*52.1%*	*71.8%*	*-65.0%*	*79.6%*	*-91.5%*	*30.5%*	*47.9%*	*n.a.*	*-112.4%*	*108.1%*	*n.a.*		
Adjusted number shares (Mn)	3.9	5.6	5.8	5.8	5.8	6.4	24.1	42.8	43.0	43.0	35.5	63.1	63.1	63.1		
EPS (EUR)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.13	n.a.	0.01	0.14	*n.a.*	*-50.3%*
EPS growth	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*		
Ord. EPS (EUR)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.02	n.a.	n.a.	0.01	0.14	*n.a.*	*n.a.*
Ord. EPS growth	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*		
CAPEX	(10.0)	(5.0)	(3.6)	(0.7)	(0.3)	(0.3)	(23.7)	(31.3)	(22.9)	(24.8)	(21.8)	(9.8)	(13.5)	(15.7)		
CAPEX/Sales %)	*3.5%*	*2.1%*	*1.8%*	*0.5%*	*0.2%*	*0.2%*	*22.2%*	*29.7%*	*19.5%*	*18.8%*	*15.2%*	*8.0%*	*10.0%*	*11.0%*		
Free Cash Flow	**74.7**	**45.0**	**33.1**	**42.0**	**38.4**	**16.5**	**18.4**	**(7.8)**	**3.4**	**2.9**	**50.8**	**3.9**	**12.8**	**7.9**	***-3.8%***	***-46.2%***
ND/EBITDA (x)(3)	*7.1x*	*8.3x*	*18.7x*	*6.8x*	*4.0x*	*18.3x*	*21.5x*	*12.8x*	*7.7x*	*7.7x*	*3.7x*	*5.2x*	4.2x	3.0x		
P/E (x)	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	n.a.	8.9x		
EV/Sales (x)	*2.4x*	*2.3x*	*2.3x*	*0.8x*	*0.7x*	*2.7x*	*2.3x*	*2.6x*	*2.0x*	*1.7x*	*1.5x*	*1.7x*	1.5x	1.5x		
EV/EBITDA (x)(3)	*9.0x*	*9.4x*	*19.4x*	*8.0x*	*7.0x*	*19.4x*	*31.6x*	*19.3x*	*10.0x*	*9.4x*	*6.7x*	*9.2x*	8.4x	6.3x		
Absolute performance	*-10.9%*	*-66.2%*	*-74.8%*	*5.3%*	*80.0%*	*-70.8%*	*14.3%*	*16.7%*	*-41.1%*	*-22.4%*	*56.3%*	*-20.6%*				
Relative performance vs Ibex 35	*-31.4%*	*-59.1%*	*-71.0%*	*10.4%*	*48.2%*	*-71.9%*	*23.1%*	*19.1%*	*-45.1%*	*-8.8%*	*39.8%*	*n.a.*				

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 5.7Mn higher due to IFRS 16.
Note 3: All ratios and multiples on EBITDA refer to total EBITDA (not to recurrent EBITDA).

Appendix 5. Appendix 5. Main Competitors 2020e

		Europe							USA					
	EUR Mn	Ashtead Group	Aggreko	Cramo	VP	Speedy Hire	HSS Hire Group	Average	United Rentals	Herc Rentals	Mobile Mini	H&E Equipment Services	Average	GALQ
Market data	Ticker (Reuters)	AHT.L	AGGK.L	CRA1V.HE	VP.L	SDY.L	HSS.L		URI	HRI	Mini.O	HEES.O		GALQ.MC
	Country	UK	UK	Finland	UK	UK	UK		USA	USA	USA	USA		Spain
	Market cap	9,597.5	1,524.5	592.6	291.3	320.6	55.6		7,342.5	568.8	969.7	482.6		77.6
	Enterprise value (EV)	15,849.3	2,192.9	973.9	590.3	505.0	252.5		17,789.8	2,450.4	1,767.6	1,537.6		207.0
Basic financial information	Total Revenues	5,531.6	1,758.7	609.8	434.1	441.9	402.2		8,191.7	1,741.3	566.6	1,211.0		122.3
	Total Revenues growth	-3.4%	-7.8%	-0.5%	2.0%	-1.4%	3.4%	-1.3%	-1.8%	-2.4%	3.7%	0.7%	2.7%	-14.5%
	2y CAGR (2020e - 2022e)	8.9%	0.1%	2.8%	6.4%	n.a.	n.a.	4.5%	3.2%	2.8%	5.0%	3.0%	4.5%	8.0%
	EBITDA	2,559.6	595.3	199.0	126.3	106.4	78.4		3,646.9	625.0	228.5	413.0		22.5
	EBITDA growth	-6.3%	-9.2%	6.3%	3.5%	-5.0%	5.5%	-0.9%	-2.5%	-2.4%	12.6%	-0.4%	2.7%	-31.2%
	2y CAGR (2020e - 2022e)	10.8%	-0.6%	2.2%	3.6%	n.a.	n.a.	4.0%	6.2%	4.4%	5.9%	-1.6%	4.6%	20.6%
	EBITDA/Revenues	46.3%	33.8%	32.6%	29.1%	24.1%	19.5%	30.9%	44.5%	35.9%	40.3%	34.1%	36.8%	18.4%
	EBIT	1,268.3	268.6	70.3	63.2	37.1	27.4		1,706.3	173.8	154.2	160.7		0.2
	EBIT growth	-18.1%	-1.7%	23.0%	11.7%	-18.4%	12.4%	1.5%	-11.2%	-21.3%	10.1%	-4.3%	-3.9%	-98.2%
	2y CAGR (2020e - 2022e)	19.0%	-2.4%	12.5%	5.5%	n.a.	n.a.	8.7%	15.1%	10.4%	6.3%	0.5%	9.1%	734.0%
	EBIT/Revenues	22.9%	15.3%	11.5%	14.6%	8.4%	6.8%	13.3%	20.8%	10.0%	27.2%	13.3%	18.8%	0.2%
	Net Profit	840.6	144.2	45.9	43.4	37.3	4.5		1,009.1	90.2	89.6	72.6		(4.9)
	Net Profit growth	-14.5%	-5.5%	25.2%	15.1%	7.5%	300.0%	54.6%	-3.6%	113.0%	20.0%	-6.7%	34.0%	-112.4%
	2y CAGR (2020e - 2022e)	18.4%	-0.6%	16.2%	11.3%	n.a.	n.a.	11.3%	18.3%	4.5%	12.2%	11.2%	11.5%	n.a.
	CAPEX/Sales %	-17.3%	-15.5%	-19.2%	-17.5%	-7.7%	-11.7%	-14.8%	-14.4%	-35.5%	-4.5%	-22.2%	-18.4%	-8.0%
	Free Cash Flow	1,105.3	134.3	55.4	31.9	13.4	0.1		1,717.9	27.4	142.6	n.a.		3.9
	Net financial debt	4,310.5	563.9	380.5	156.9	69.1	211.6		9,240.0	1,767.4	722.9	1,401.2		118.0
	ND/EBITDA (x)	1.7	0.9	1.9	1.2	0.6	2.7	1.5	2.5	2.8	3.2	3.4	2.2	5.2
	Pay-out	25.5%	48.4%	54.8%	35.8%	23.9%	0.0%	31.4%	0.0%	0.0%	53.9%	51.3%	21.9%	0.0%
Multiples and Ratios	P/E (x)	12.0	11.3	13.1	6.5	14.1	7.3	10.7	7.0	8.9	10.8	6.3	7.6	n.a.
	P/BV (x)	2.6	0.9	1.4	1.2	1.1	n.a.	1.4	1.8	n.a.	1.6	1.5	1.3	1.7
	EV/Revenues (x)	2.9	1.2	1.6	1.4	1.1	0.6	1.5	2.2	1.4	3.1	1.3	1.6	1.7
	EV/EBITDA (x)	6.2	3.7	4.9	4.7	4.7	3.2	4.6	4.9	3.9	7.7	3.7	4.2	9.2
	EV/EBIT (x)	12.5	8.2	13.8	9.3	13.6	9.2	11.1	10.4	14.1	11.5	9.6	10.4	n.a.
	ROE	22.3	9.0	11.0	n.a.	3.8	n.a.	11.5	26.6	10.5	15.7	20.5	18.2	n.a.
	FCF Yield (%)	11.5	8.8	9.4	10.5	4.4	0.2	7.5	23.2	4.8	14.7	n.a.	20.7	0.2
	DPS	0.45	0.27	0.56	0.39	0.02	0.00	0.28	0.00	0.00	1.09	1.04	0.45	0.00
	Dvd Yield	2.1%	4.6%	4.2%	5.4%	2.8%	0.0%	3.2%	0.0%	0.0%	5.0%	7.7%	2.7%	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).
Note 3: Please note that peers data is as the date of this report and consensus could not fully reflect the impact in estimates of the Covid-19 effect.

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Recommendation History

Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
08-Apr-2020	n.a.	1.23	n.a.	n.a.	Initial Coverage	David López Sánchez