Kompuestos

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Kompuestos (KOM), is a Spanish chemical company (Barcelona), that produces mineral based concentrates (fillers) and colour and additive concentrates (masterbatches) for the plastics transformation industry, including resins for the creation of bioplastics. With a nominal production capacity of 220,510 tonnes, it is controlled and run by the founding family (62.2% of capital).

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Might be looking at a four-leaf clover

STRONG ORGANIC GROWTH (2016-2020) THANKS TO ITS POSITIONING IN EXPANDING MARKETS … KOM's strategy of manufacturing compounds with a small carbon footprint for the plastics industry and its international profile (62.2% of 2020 revenue) has resulted in solid growth in revenues (+11.2% CAGR 2016-2020; significantly beating growth in the economy as a whole and in its own sector). However, to achieve this it has been necessary to maintain margin pressure and high debt (due to the investment required to carry out the capacity increases already made).

… THAT WILL CONTINUE IN COMING YEARS (2021e-2023e). Today, KOM can be viewed as a company: (i) with reasons for continued growth (focus on niche products and exposure to macro-trends), (ii) with an option to improve margins (due to the scalability of the capacity increases already made) and (iii) with the capacity to reduce debt.

PLUS THE ADDITIONAL OPTION OF BENEFITING FROM ENTRY IN BIODEGRADABLE PRODUCTS. Although at present this business only represents a marginal percentage in terms of revenue, intuitively it could be a strong additional source of growth and margin improvement (size?, speed?).

OUR CENTRAL SCENARIO. The scenario we envisage is for the consolidation of EUR 5.5Mn of recurrent EBITDA in 2021e-2023e (EBITDA margin c. 8%), with turnover of c. EUR 70Mn (+16.7% CAGR 2021e- 2023e; in line with the growth recorded in 2016-2019) and gearing below 2x ND/EBITDA (vs 3.5x estimated for 2021e). In 2023e this translates to a FCF yield of 5.1% and EV/EBITDA of 7x (vs c. 10x for its most direct peers; in a sector that tends naturally towards concentration).

THE CHALLENGE (AND THE OPPORTUNITY) LIE IN MARGIN IMPROVEMENT. The combination described above suggests KOM might be a "four-leaf clover" (something difficult to find and that brings luck). However, we will have to wait until 2023e to confirm this as the central pillar of KOM's equity story is margin improvement; an improvement that is logical (due to economies of scale and the capacity increases already made) but that reality demonstrates is difficult to achieve.

Market Data

Market Cap (Mn EUR and USD)	28.9	34.2
EV (Mn EUR and USD) (1)	38.9	46.0
Shares Outstanding (Mn)	12.2	
-12m (Max/Med/Mín EUR)	2.76 / 2.57 / 2.20	
Daily Avg volume (-12m Mn EUR)	n.m.	
Rotation(2)	6.5	
Factset / Bloomberg	KOM-ES / KOM SM	
Close fiscal year	31-Dec	

Shareholders Structure (%)

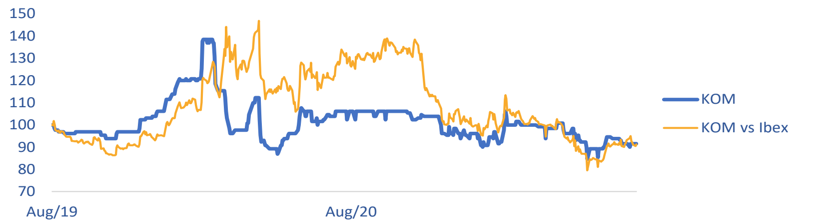
Ignacio Duch and family	62.2
Free Float	37.8

Financials (Mn EUR)	2020	2021e	2022e	2023e
Adj. nº shares (Mn)	12.0	12.2	12.2	12.2
Total Revenues	43.8	54.6	62.0	69.5
Rec. EBITDA	1.4	3.3	4.4	5.6
% growth	*-36.1*	*137.1*	*32.1*	*26.2*
% Rec. EBITDA/Rev.	*3.2*	*6.1*	*7.1*	*8.0*
% Inc. EBITDA sector(3)	*-3.7*	*20.4*	*4.6*	*6.4*
Net Profit	-1.3	0.7	1.6	2.6
EPS (EUR)	-0.10	0.06	0.13	0.22
% growth	*-583.5*	*158.4*	*115.9*	*63.7*
Ord. EPS (EUR)	-0.13	0.06	0.13	0.22
% growth	*-323.7*	*147.9*	*115.9*	*63.7*
Rec. Free Cash Flow(4)	0.8	-0.4	0.5	1.5
Pay-out (%)	*0.0*	*0.0*	*0.0*	*0.0*
DPS (EUR)	0.00	0.00	0.00	0.00
Net financial debt	10.9	11.3	10.8	9.4
ND/Rec. EBITDA (x)	7.8	3.4	2.5	1.7
ROE (%)	*n.a.*	*4.7*	*9.4*	*13.7*
ROCE (%)(4)	*n.a.*	*5.5*	*8.4*	*11.1*

Ratios & Multiples (x)(5)				
P/E	n.a.	39.1	18.1	11.1
Ord. P/E	n.a.	39.1	18.1	11.1
P/BV	1.9	1.8	1.6	1.4
Dividend Yield (%)	*0.0*	*0.0*	*0.0*	*0.0*
EV/Sales	0.89	0.71	0.63	0.56
EV/Rec. EBITDA	27.8	11.7	8.9	7.0
EV/EBIT	n.a.	20.8	13.2	9.5
FCF Yield (%)(4)	*2.8*	*n.a.*	*1.6*	*5.1*

(1) Please refer to Appendix 3.
(2) Rotation is the % of the capitalisation traded - 12m.
(3) Sector: Stoxx Europe 600 Chemicals.
(4) Please see Appendix 2 for the theoretical tax rate (ROCE) and rec. FCF calculation.
(5) Multiples and ratios calculated over prices at the date of this report.

Relative performance (Base 100)



Stock performance (%)	-1m	-3m	-12m	YTD	-3Y	-5Y
Absolute	-3.3	-9.2	-13.8	-4.0	n.a.	n.a.
vs Ibex 35	1.1	-8.6	-28.9	-10.9	n.a.	n.a.
vs Ibex Small Cap Index	1.0	-7.1	-37.6	-8.8	n.a.	n.a.
vs Eurostoxx 50	-1.9	-10.3	-29.9	-16.1	n.a.	n.a.
vs Sector benchmark(3)	-6.6	-13.4	-29.9	-16.9	n.a.	n.a.

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

Kompuestos (KOM) is a BME Growth company

BME Growth is the segment of BME MTF Equity aimed at small and medium sized companies, directed and managed by the Spanish stock market and is subject to the CNMV supervision. BME MTF Equity is not a Regulated Market but instead falls within the classification of a Multilateral Trading Facility (MTF) as defined under the Markets in Financial Instruments Directive (MiFID). In July 2020, BME Growth obtained the status of SME Growth Market, a new category of EU regulations, which in Spain is called Mercado de Pymes en Expansión.

BME Growth is the Spanish equity market for companies of reduced capitalization which aim to grow, with a special set of regulations, designed specifically for them, and with costs and process tailored to their particular features. Operations in BME Growth (former MAB) started in July 2009. There are currently c.120 companies listed on it. Companies listed on the MAB can choose to present their financial statements under IFRS or the General Accounting Plan (PGC) and Royal Decree 1159/2010 (NOFCAC).

Well positioned for further growth. Although the challenge (and the opportunity) is margin improvement

Kompuestos (KOM), is a small chemicals company with family origins based in Barcelona, specialising in the production of calcium carbonate mineral concentrates ("fillers") and colour and additive concentrates ("masterbatches") for the plastics transformation industry, including (since 2019) resins for manufacturing bioplastics. It has an international profile, generating c. 62% of its revenues outside Spain (vs 49% in 2016).

Specialised in plastic concentrates that reduce the carbon footprint, (industrial macro trend)

Put very simply, KOM is a supplier of plastic concentrates, a key component for the manufacture of end products, with a strategy based on producing products with a small carbon footprint. Its clients are manufacturers of plastic products, a sector undergoing transformation due to the environmental impact of the accumulation of plastic waste. This, together with the prospects for growth in demand for plastic, has led to a plethora of regulatory changes in an attempt to accelerate the implementation of the circular economy in the sector (an unstoppable trend).

In this context, what is KOM's positioning today? where is it going in the longer term?

A) 2016-2020: solid organic growth underpinned by an increase in production capacity

In recent years (2016-2020), KOM's strategy has focused on manufacturing compounds and additives with a small carbon footprint for the manufacturing of plastics. This period was characterised by:

Doubling production capacity (vs. -4y),

- **Significant growth in nominal production capacity (doubling 2016 levels),** in order to satisfy the growing demand for mineral concentrates and masterbatches. The last increase was made in the fourth quarter of 2019 (+30% vs previous levels). This took nominal production capacity to 220,510 tonnes (vs 104,150 in 2016).

Boosting revenue (+11.2% CAGR -4y; >2x vs. sector)…

- **… resulting in strong organic growth in revenue (+11.2% CAGR 2016-2020).** This level of growth is well above that associated with the economy as a whole and its own sector (< 5% CAGR during the same period). This gap was maintained in 2020, a year dominated by the impact of Covid-19 (-5.5% in revenue vs c. -10% for the sector).

…although this has not yet fed through to EBITDA

- **Although with margins under pressure (Rec. EBITDA margin < 5%),** due to a very heavy operating structure and the development of R+D projects (e.g. the range of bio products that began to be sold in 2019) that has prevented (so far) the step-up in size in terms of production capacity and revenue being translated to Rec. EBITDA. This has resulted in an underperformance in terms of margins vs the sector (2020 Rec. EBITDA margin < 5% vs > 10% for the sector).

And increasing gearing (2020 ND/Equity: 0.7x)

- **And high levels of debt (2020 ND/Equity: 0.7x),** a result of: (i) heavy investment to carry out production capacity increases in 2015-2020 (cumulative Capex of c. EUR 17Mn) and (ii) R+D activity for the development of new products.

A valid business model with an attractive industrial positioning…

So, KOM is a growth story and what has happened in recent years by itself validates the business model chosen. We highlight: (i) organic revenue growth, significantly outperforming the sector and (ii) its proven capacity to attract capital (both in terms of financing and capital increases) although to achieve this it has been necessary to reduce profitability and maintain high levels of debt.

…with the potential to benefit from the expansion in bioplastics

However, a new ingredient has to be added to what has happened to date (2016-2020): possible entry in a still very nascent business (bioplastics). This invites consideration of the following questions: (i) is the performance to date in terms of revenue sustainable? (ii) will KOM be able to catch up with its sector as regards margins? (iii) what is the capacity for growing the bio solutions business and increasing its weighting in the revenue mix? and (iv) what will be the timing of all this? In other words, are points (ii) and (iii) achievable in the short term or are these very long term targets.

B) 2020-2023e: its positioning in expanding markets will continue to drive the business (s/t) while waiting for the bioplastics market to take off (l/t)

A resilient business thanks to its positioning in calcium carbonate fillers and masterbatches…

After the 2020 slump (2020 revenue: -5.5%; due to the impact of Covid-19), 1H21 results (Revenue: EUR 30Mn; c. +20% vs 1H20) point to a recovery of growth levels. This confirms that the strategy of recent years, on which our revenue estimates are based, is the right one: Specifically, we highlight:

- **A competitive position in the calcium carbonate (CaO3) fillers market…** a business we expect to continue to provide a source of stable resources (favoured by its ability to reduce the environmental impact of the plastics industry).
- **… together with the masterbatches and additives that have already been developed,** that allow KOM to offer genuine customised products with higher added value (reducing its exposure to the cycle).
- **A diversified revenue mix,** both by sectors and geographies.
- **Plus the real option of benefiting from the transformation of the plastics market (a longer term driver).** KOM has a range of already certified bio products. Although this is still very much a fledgling market (c. 1% of the plastics market), growth should accelerate quickly as regulations for traditional plastic products become stricter.
- **And all this underpinned by the increase in production capacity carried out in 2019 (and which has yet to be reflected in the P&L).** Another 51,000 tonnes being added in 4Q19 (+30%) up to a nominal production capacity of 220,510 tonnes (a driver unaffected by the cycle).

…that offers a real option to benefit from the bio transformation (industry)

2021e Rec. EBITDA: EUR 3.3Mn (c. 12x EV/EBITDA)…

What is the central scenario behind our projections for 2021e-2023e? Focusing the spotlight on 2021e, our numbers envisage revenue of c. EUR 55Mn (+25% vs 2020; due to the smaller basis of comparison and the entry of retained demand) and Rec. EBITDA of EUR 3.3Mn (EBITDA margin of 6% vs c. 3% in 2020; due to the higher utilisation of its production capacity) with net debt of c. EUR 11Mn (+4% vs 2020; ND/EBITDA 3.5x) due to the impact on Cash Flow of the normalisation of working capital. Numbers (2021e) that today would be trading at c. 12x EV/EBITDA.

…reaching EUR 5.6Mn 2023e, offering a c. 5% FCF yield and smaller ND/EBITDA

What about 2023e? We estimate the consolidation of levels of Recurrent EBITDA of c. EUR 5.5Mn (EBITDA margin c. 8%), with turnover of c. EUR 70Mn (+16.7% CAGR; in line with the growth recorded in 2016-2019), the capacity to generate free cash flow of, at least, EUR 1.5Mn (2023e FCF yield c. 5%) and gearing < 2x ND/EBITDA (that paves the way for continued growth in capacity or via M&A; an accelerator of growth).

And with a growing contribution from bio products in the mix

These numbers will continue to be underpinned by the traditional business of calcium carbonate mineral concentrates ("fillers") and colour and additives concentrates ("masterbatches"). And that's because although we estimate significant growth in % terms for bio solutions, their weighting in the revenue mix will remain small (<10%; given their still nascent character in 2020).

Table 1. Main metrics (2019-2023e)

EUR Mn	2019	2020	2021e	2022e	2023e	CAGR 20-23e
Mass production	38.0	35.9	45.3	51.2	56.3	16.1%
Specialties	6.7	7.0	8.0	9.3	11.6	18.6%
Raw materials	1.6	0.8	1.3	1.5	1.6	22.8%
Total Revenues	**46.3**	**43.8**	**54.6**	**62.0**	**69.5**	**16.7%**
Total Revenues growth	*12.0%*	*-5.6%*	*24.8%*	*13.6%*	*12.1%*	
Gross Margin	**14.1**	**13.2**	**16.1**	**18.3**	**20.8**	**16.5%**
Operating Expenses	(11.9)	(11.8)	(12.8)	(14.0)	(15.2)	9.1%
Recurrent EBITDA	**2.2**	**1.4**	**3.3**	**4.4**	**5.6**	**58.2%**
Rec. EBITDA/Revenues	4.7%	3.2%	6.1%	7.1%	8.0%	
Recurrent Free Cash Flow	-1.3	0.8	-0.4	0.5	1.5	
Net financial debt	11.5	10.9	11.3	10.8	9.4	
Net Debt/EBITDA	5.2x	7.8x	3.4x	2.5x	1.7x	
Tonnes sold (000s)	59	56	70	79	88	

C) In conclusion: the capacity for volume growth seems clear but the challenge (and the opportunity) lie in margin improvement that will take 2023e EV/EBITDA to c. 7x.

In our opinion, KOM combines a business that generates resources with a positioning in a still embryonic industry (bioplastics) that, intuitively, appears as a source of growth and additional value (underpinned by social impetus, regulatory changes and the capital market's affinity for investments that meet ESG criteria). As regards the likely evolution of the business, today KOM can be seen as:

KOM combines growth factors, with a capacity to:

- **A company with reasons for continued growth…** given its positioning in expanding markets and focus on niche products that avoid commoditisation. Growth that we estimate will continue to be higher than that of its sector (Revenues: > 15% CAGR 2020-2023e vs < 5% for the sector).

(i) improve its returns (via operating leverage)

- **… with a real option of improving margins,** purely by taking advantage of its operating leverage and the scalability provided by the capacity increases already made. This should make a certain catch-up in margins with the sector feasible (2023e Rec. EBITDA margin: c. 8%).

and (ii) reduce debt

- **And significantly reducing gearing.** This will allow the company to continue to increase capacity over the longer term.

Together with the optionality offered by the expansion of bioplastics (l/t)

- **Plus the additional option of truly benefiting (beyond 2023e) from a positioning in the bioplastics market.** Although the timing and volume of this option are uncertain at present, it appears as additional source of growth and margin improvement. A growth driver that is favoured by the accelerated regulatory roll-out to implement the circular economy in the plastics industry (e.g., from 2021 lightweight and very lightweight plastic carrier bags are prohibited in Spain, except for compostable ones).

Resulting in c. 7x EV/EBITDA in 2023e (c. -45% +2y)

- **With theoretical multiples that decline to c. 7x EV/EBITDA in 2023e,** even though our projections still assume a small weighting of the bio solutions market in the revenue mix (< 10%).

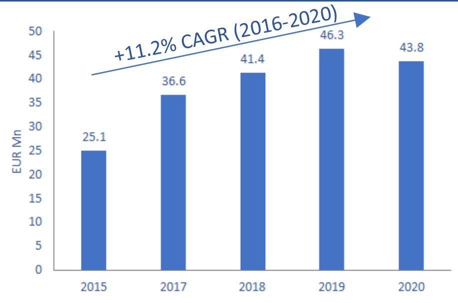
If all the above were to materialise it would make KOM the equivalent of a four-leaf clover

The combination described above (growth, margin improvement, reduction of gearing and low multiples) raises the question of whether we might be looking at a four-leaf clover. However, we will have to wait until 2023e to confirm this. And that's because, in our view, the mainstay of KOM's equity story is margin improvement (for which both size and speed are decisive). A margin improvement that is logical (due to economies of scale) but that reality shows is difficult to achieve: despite double-digit revenue growth in 2016-2020, margins remained under pressure (EBIT margin < 5%).

However, the lure of the potential take-off of margins and EBITDA with which low multiples should arrive as "early" as 2022e (2022e EV/EBITDA: c. 9x vs c. 10x for its most direct peers) advises against losing sight of KOM. After all, who hasn't wanted to find a four-leaf clover?

A business centred on the circular economy of plastic: a growth niche of the chemicals sector

Chart 1. Revenues (2016-2020)



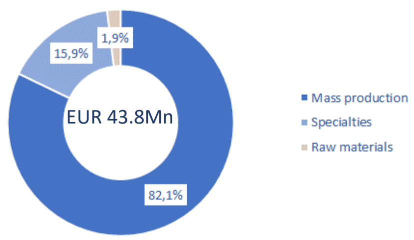
Kompuestos (KOM), is a small chemicals company with family origins based in Barcelona, that produces mineral based concentrates ("fillers") and colour and additive concentrates ("masterbatches") for the plastics transformation industry, including (since 2019) resins for manufacturing bioplastics.

Put very simply, KOM is a supplier of plastic concentrates, a key component for the manufacture of end products, with a strategy based on producing products with a small carbon footprint. Its clients are plastic products manufacturers, which explains why its revenue mix is diversified over a wide range of sectors (automotive, containers, consumer products, construction materials, health, etc.).

By type of product we can distinguish between: (i) traditional products, with the manufacture of fillers (that reduce the cost and carbon footprint of the compound) and colour and additive masterbatches (to give the plastic colour and specific functions) and (ii) bio solutions, a still nascent activity (with a very small impact on results) specialised in the development of biodegradable and compostable resins. After the investment of recent years, KOM has a nominal production capacity of 220,510Tn (vs 104,150Tn in 2016) distributed between two plants in Barcelona.

Specialised in the manufacture of concentrates for the plastics transformation industry (including since 2019 resins for the production of bioplastics)

Chart 2. Revenue mix (2020)



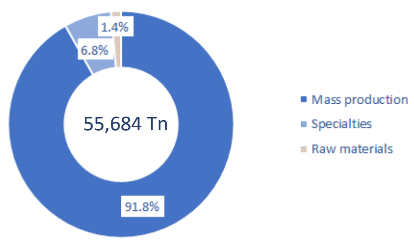
KOM operates through three divisions (based on the machinery and production systems used to manufacture its products):

- **Mass production (82.1% of 2020 revenue).** The traditional business and main growth driver in recent years (+13.1% CAGR 2016-2020), that encompasses the production of: (i) calcium carbonate ($CaCO_3$) and talc fillers, that reduce the use of polymer (by up to 70%) and so the cost and carbon footprint of the end product, and (ii) black and white masterbatches (to colour the plastic). Within this division, we would emphasise the position in the calcium carbonate filler market, where KOM has a c. 10% market share in Europe.

- **Specialities (16.0% of 2020 revenue).** With a CAGR of 5.2% (2016-2020), KOM manufactures higher added value products such as colour masterbatches (with over 20,000 items) and additive masterbatches. These improve the performance of the final plastics, providing specific functions depending on the use of the end product (such as protection against heat degradation, insect repellents for agricultural use, antimicrobials and antibacterials for plastics in contact with food products, etc.).

  In addition, KOM has developed compostable and biodegradable products (certified by TÜV Austria; one of the world's most used certificates for compostability) to position itself in a fledgling industry (bioplastics) that promises strong growth (underpinned both by the social impetus and new EU directives). KOM began selling these products in 2019, although at present their weighting in the revenue mix is still very small.

Chart 3. Mix of tonnes sold (2020)



- **Raw materials (1.9% of 2020 revenue),** this activity consists of the sale of raw materials for the plastics transformation industry. This is currently an occasional and residual business (chart 2), although KOM plans to develop its production capacity for plastic recycling (reactive compounding) to expand this business line. This should allow it to sell the recycled polymers.

Chart 4. Geographic revenue exposure (2020 vs 2016)

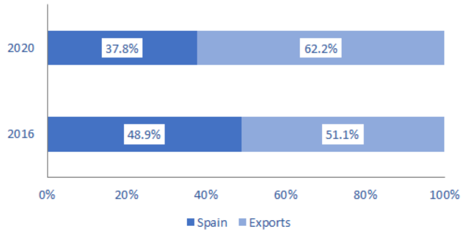
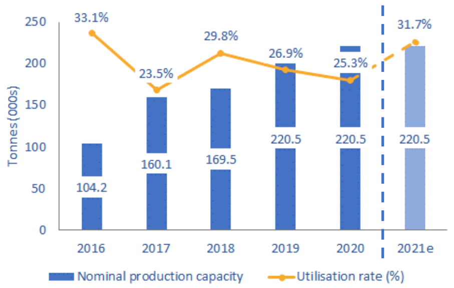


Chart 5. Nominal production capacity vs utilisation rate (2016-2021e)



Note: Nominal production capacity is equivalent to the annual maximum production without maintenance stoppages or bottlenecks which explains why the real production capacity is smaller than the nominal.

Note 2: Percentage utilisation calculated on the nominal production capacity at the close of each year.

Chart 6. Revenues vs Nominal production capacity (2016-2021e)

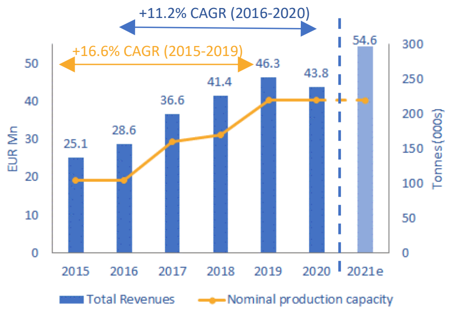
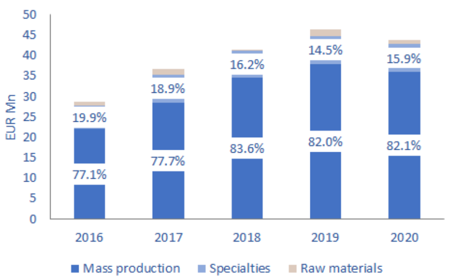


Chart 7. Revenue mix (2016-2020)



With a clearly international profile (in 2020 62% of revenue was generated outside Spain)

KOM has two production plants in Barcelona (one for the manufacture of mass produced products and the other for the manufacture of specialist products, R+D and head office services). Their geographical location close to several quarries that product high quality calcium carbonate ensures access to this raw material that is used to produce fillers (one of the company's main sources of revenue). This gives KOM a competitive edge over other producers.

As regards the geographical revenue mix, while the Spanish market plays a key role (c. 38% of 2020 revenue), exports are growing, accounting for 62% of the revenue mix in 2020 (vs c. 50% in 2016; chart 4). Europe is KOM's core market with Germany and France accounting for 21% and 11% of 2020 revenue, respectively.

And a nominal production capacity that has doubled since 2016…

In order to satisfy the growing demand for fillers and white, black, colour and additive masterbatches, KOM has been continuously increasing its production capacity since 2016; by 55,900 tonnes in 2017 (+54%), 9,460 tonnes of bio solutions in 2019 and 51,000 additional tonnes (+30%) that came on stream in the fourth quarter of 2019 for a total nominal production capacity of 220,510 tonnes (vs 104,200 tonnes in 2016).

As the last increase in production capacity occurred in the fourth quarter of 2019 (+30% vs previous levels), its impact on the generation of operating profits is not yet visible (due to the impact of Covid-19 in 2020). In our opinion, this should allow KOM to double current production levels without the need for significant investment in new capacity.

The capacity increases made in recent years have enhanced KOM's competitive capability, enabling it to meet the increased demand for its products. In 2020, with a nominal production capacity of 220,510 tonnes, KOM sold 55,684 tonnes (+62% vs 2016), that represents a nominal capacity utilisation rate of c. 25% in 2020 (chart 5).

… allowing KOM to maintain double-digit organic growth in recent years (2016-2020 revenue: +11.2% CAGR)

Despite the only to be expected decline in revenue in 2020 as a result of the impact of Covid-19 (-5.6% vs 2019), KOM has been able to maintain a CAGR for revenue of 11.2% in 2016-2020 (rising to c. 17% taking the period 2015-2019) achieving turnover of EUR 43.8Mn in 2020 (chart 6). This growth significantly outperforms that recorded by the chemicals sector in Europe (<5% CAGR during the same period). We see two main reasons for this step-up in size:

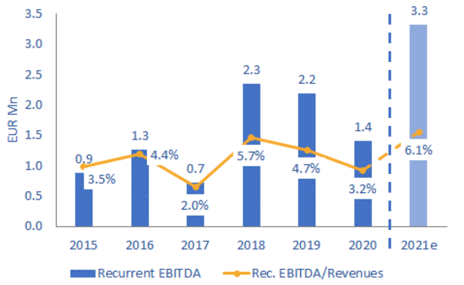
- **The increase in nominal production capacity to 220,510 tonnes (vs 104,150 in 2016)** to meet growing demand for calcium carbonate ($CaCO_3$) fillers and masterbatches.

- **The company's decision to focus on the international market (62% of revenue at the 2020 close, +11p.p. vs 2016),** reinforcing its commercial capacity in 2017 and opening up new markets (with a sales office in Colombia since 2019). This has resulted in a CAGR of 16.7% for exports in 2016-2020, significantly exceeding that recorded at the national level (+4.3% CAGR; a level more in line with that obtained by sector companies).

This strong revenue growth has been especially underpinned by the production of calcium carbonate fillers (a volume business), increasing the weighting of the mass production division (smaller margin) to 82% in 2020 (vs 77% in 2016; chart 7). That has led to lower profitability (gross margin of 30.1% in 2020 vs 33.3% in 2016).

The c. 3p.p. loss of gross margin, together with the larger operating structure, with an increase in operating costs to EUR 11.8Mn in 2020 (vs EUR 8.3Mn in 2016) prevents (for now) the step-up in size in terms of production capacity and revenue translating to Recurrent EBITDA that, stripping out the effect of capitalised R+D, was EUR 1.4Mn in 2020 (EUR 2.2Mn in 2019; pre-Covid-19). This implies a Rec. EBITDA margin in 2020 of 3.2% (vs c. 5% in 2019).

Chart 8. Recurrent EBITDA and Rec. EBITDA Mg. (2015-2021e)



Note: Recurrent EBITDA excludes R&D capitalised expenses (EUR 1,2Mn in 2020 and EUR 1.6Mn in 2019). For 2021e, we project the capitalization of R&D expenses in an amount of c. EUR 1Mn/year.

However, the loss of profitability at the EBITDA level between 2020 and 2019 is explained mainly by the drop in volume resulting from the impact of Covid-19 (that should revert as early as 2021e; chart 8).

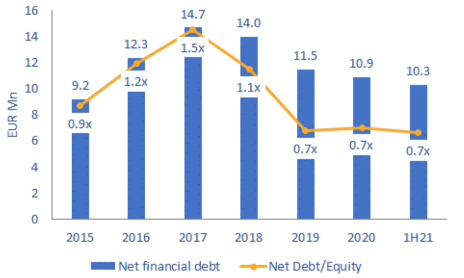
In recent years KOM has kept up intense R+D activity (capitalised in the P&L), investing an average of EUR 1.2Mn/year (peaking in 2019 at EUR 1.6Mn), to develop higher added value additives, new bio-product ranges (that began to be sold in 2019) and "reactive compounding" processes for the recycling of plastics. In 2016-2020, KOM invested c. EUR 6Mn on R+D, which has impacted both the P/L (increasing amortisation) and the operating consumption of cash.

Durante los últimos años, KOM ha mantenido una intensa actividad de I+D (activado en P&L), invirtiendo una media de EUR 1,2Mn/año (máximo alcanzado en 2019 con EUR 1,6Mn), para desarrollar aditivos de mayor valor añadido, nuevas gamas de productos "bio" (que iniciaron su comercialización en 2019) y procesos químicos de "reactive compounding" para el reciclado de plásticos. Durante el período 2016-2020, KOM ha invertido c. EUR 6Mn en I+D, lo que ha marcado tanto el P/L (incrementando la amortización), como el consumo operativo de caja.

How has this growth been funded?

The increases in production capacity carried out in 2015-2020 (CAPEX of c. EUR 17Mn), together with R+D activity to develop new products (c. EUR 6Mn) have required significant investment. At the 1H21 close, KOM's net debt was EUR 10.3Mn (-6% vs 2020 close; chart 9). Given the size and stage of the business, the capital necessary for development has mainly come from:

Chart 9. Net Debt vs ND/Equity (2016-1H21)



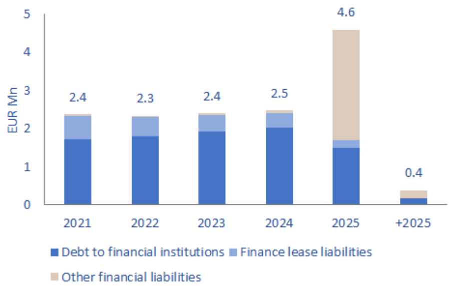
- **Successive capital increases:** (i) EUR 3Mn in 2015 (with the entry of venture capital that would subsequently exit the shareholder base with the market listing in 2019), (ii) EUR 1.9Mn in 2018 (subscribed entirely by the majority shareholder) and (iii) EUR 5Mn in 2019 (associated with the incorporation in BME Growth).

- **Bank financing,** especially a syndicated loan executed in 2019 in an amount of EUR 10Mn distributed in two tranches: (i) EUR 4Mn (a seven-year loan with quarterly repayments and a six-month period of grace, and (ii) EUR 6Mn in the shape of a credit line pledged for three years. Also, in 2020 loans were executed as part of the ICO Avales Covid-19 programme in an amount of EUR 5Mn (maturing in five years and with an average rate of 1.9%).

- **Other sources of financing.** In 2018, KOM obtained EUR 5Mn from Alteralia (a debt fund run by Alantra) that matures in December 2025 (chart 10) with an interest rate indexed to Euribor plus a 6%-7% margin.

  At the 2020 close, the amount outstanding on the Alteralia loan was EUR 4Mn. In 1H21, an early repayment of EUR 1Mn was made, so EUR 3Mn is pending repayment. This will reduce financial expenses.

Chart 10. Debt maturities (2020)



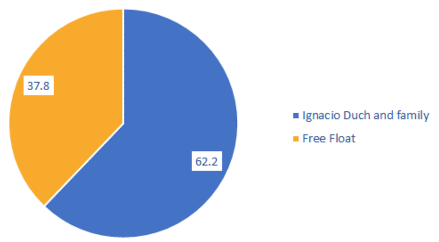
Note: The amount pending repayment in 2025 corresponding to the loan with Alteralia has been reduced to EUR 3Mn (vs EUR 4Mn at the 2020 close) after a EUR 1Mn early repayment made in 1H21.

Both the syndicated loan and the loan with Alteralia include conditions regarding compliance with certain financial ratios (gearing, debt servicing, maximum CAPEX to be invested) and failure to comply with these could lead to these loans being immediately callable.

The founding family dominates the shareholder base (and occupies key positions in the management of the company)

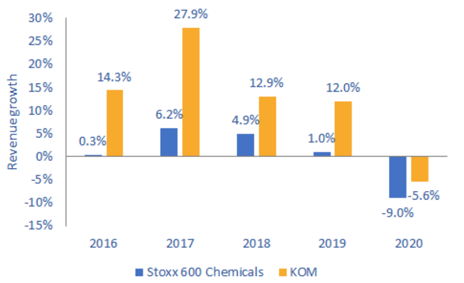
The Duch family, the founder of the company in 1986, is the core shareholder, directly and indirectly controlling c. 62% of the capital. And holding 4 out of the 9 seats on the board and occupying key positions in the management of the company (including, among others, the CEO and president of the company). In principle this implies an alignment of interests with minority shareholders. The free float is c. 38% (chart 11).

Chart 11. Shareholders structure (%)



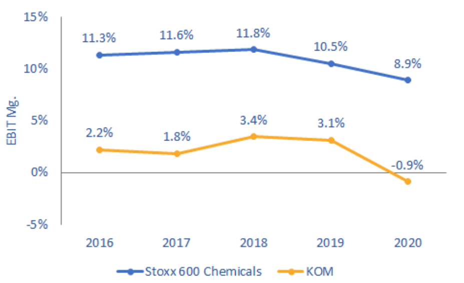
As regards operations with related parties (owned by the majority shareholder), in 2020 the company made net purchases in an amount of EUR 3.9Mn (c. 13% of the value of procurements) and incurred EUR 0.9Mn in expenses for operating leases (c. 12% of other operating costs).

Chart 12. KOM Revenue growth vs Stoxx 600 Chemicals (2016-2020)



Note: The revenue growth of the Stoxx 600 Chemicals index has been calculated as the median of the growth of its components.

Chart 13. KOM EBIT Mg. vs Stoxx 600 Chemicals (2016-2020)



Note: EBIT Mg. of the Stoxx 600 Chemicals index has been calculated as the median of the EBIT Mg. of its components.

In conclusion, what is KOM today? Where is it heading?

Simplifying greatly, and from a strictly descriptive viewpoint, KOM is a small chemicals company with a niche strategy (focus on products with a small carbon footprint), specialised in the manufacture of concentrates for the plastics transformation industry (including resins for the production of bioplastics). Specifically, we highlight:

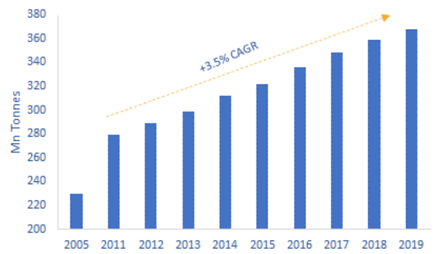
- **The stable generation of revenue by its traditional business.** A business that has generated double-digit organic growth in revenue, well above that of its sector (+11.2% CAGR 2016-2020 vs 0.6% for the Stoxx 600 Chemicals index; chart 12).
- **Scalability of the capacity increases already made… On paper, KOM has the capacity to grow revenue on the existing structure (**the last capacity increase was made in the fourth quarter of 2019; +30% vs previous levels)**.** That should result in an improvement in margins in the long term. And narrow the gap to the sector (EBIT margin of c. 3% in 2019 vs c. 10% for the sector; chart 13).
- **… with a product that "avoids" commoditisation (one of the sector's biggest risks).** KOM maintains a focus on the circular economy of plastic, selling products with a small carbon footprint and biodegradable solutions (already certified by TÜV Austria; one of the company's distinguishing features).
- **And the longer term growth potential of a market that is yet to "take off" (bioplastics)…** underpinned by the transformation of the plastics industry that will tend to replace traditional plastics with a new generation of biodegradable and recyclable products.
- **… that will have the support of already established commercial relationships.** That should facilitate the entry of new products (and the replacement of existing ones by their biodegradable versions).

On paper, KOM's strategy of producing products with a smaller carbon footprint (and entry in bio solutions) as a winning technology in the transformation of the plastics industry is correct. And, in our view, we find two reasons that by themselves validate the business model: (i) the company's organic revenue growth (+11.2% CAGR 2016-2020 vs < 5% for the sector) and (ii) its already proven capacity to attract capital (both in terms of financing and capital increases). However, so far margins have remained under pressure and the level of debt reduces the ability to make significant new investments in the short term.

The above reflects what the company is today. But perhaps the most interesting question to answer is where is it going? In addition to the above there is a new ingredient: the possibility of entering the biodegradable solutions business, a business that whilst today only represents a marginal percentage in terms of revenue, intuitively represents a possible additional source of growth and margin improvement, supported both by social momentum and by regulatory changes (e.g. from 2021 light and very light plastic bags have been prohibited in Spain, except for compostable ones) and the market's affinity for investments that meet ESG criteria.

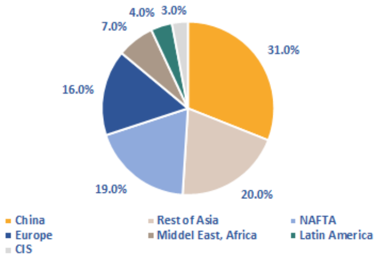
The wind at its back: growing demand and the regulatory framework offer opportunities for the plastics sector (plastic waste, biodegradability…)

Chart 14. Global Plastics Production (2005-2019) Million Tonnes



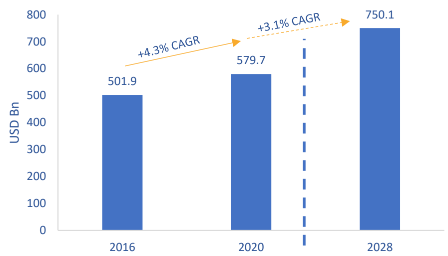
Source: Plastics Europe, "Plastics-The Facts"

Chart 15. Geographical distribution of global plastics production



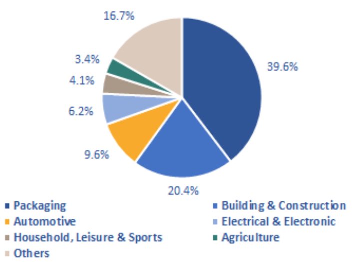
Source: Plastics Europe, "Plastics-The Facts 2020"

Chart 16. Size of the global plastics market (USD Bn)



Source: GrandView Research y Statista (elaborated by LH)

Chart 17. Demand for plastics by sector (2019 EU28 + NO + CH)



Source: Plastics Europe, "Plastics-The Facts 2020"

The plastics sector is one of Europe's principal industries: > 55,000 companies (the majority SMEs) that generated > EUR 350Bn of turnover in 2019. Continuous advances in plastic materials have improved their versatility, durability and adaptability, offering numerous advantages to industry as a whole. They are present in numerous products used in consumption (household, sport), construction, the automotive industry, agriculture, hygiene, etc.

At present, most plastic materials have a fossil origin (oil or gas), the main trend being towards a decoupling from these. Monomers (molecules that comprise plastics), obtained via the refining of oil, natural gas or coal, are subsequently combined to obtain polymers (resins, pastes, dust or grains), that are used to manufacture plastics. To improve their properties, polymers are combined with mineral concentrates (talc or calcium carbonate). This process reduces their cost and the industry's environmental impact (smaller carbon footprint).

In addition, they are also combined with specific additives (masterbatches), that increase their hardness and weather resistance and/or add colour. KOM supplies concentrates (the bulk of its business) and biological solutions for the plastics manufacturing industry.

The plastics industry is continuously growing

Global plastics production has been increasing exponentially since the middle of the last century. The Association of Plastics Manufacturers of Europe reported 368MnTn in 2019 (vs. aprox. 1.5MnTn in 1950; +3.4% CAGR 2005-2019), with China being the main producer (c. 31% of global volumes in 2019; +5p.p. vs. -5y) and with Europe's contribution declining (c. 15.7%, -4p.p. vs. -5y).

At the European level, the packaging sector represented c. 39.6% of demand in 2019, followed by construction (20.4%), the automotive sector (9.6%) and the electrical and electronics industry (6.2% jointly). Germany, France and Spain, KOM's core markets (21%, 11% and 38% of its 2020 turnover respectively), generated 24.2%, 9.5% and 7.8% of demand, respectively.

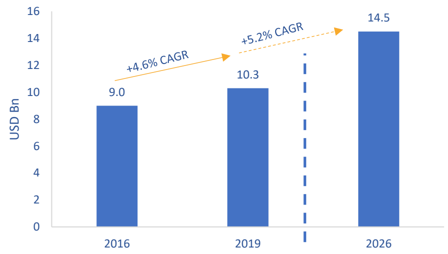
The global plastics market, valued at USD 568.9Bn (2019; Grand View Research), will maintain a CAGR of +3.1% up to c. USD 750Bn (2028e). As in other industries, growth will be led by the Asia-Pacific region. The main sectors that will drive growth are construction, the automotive industry (regulations favour the reduction of the weight of vehicles and improved fuel efficiency) and the electrical and electronic components industry.

Although the Covid-19 pandemic negatively impacted the industry (production/demand being paralysed in 2Q20), the sector recovered in 2H20. Besides this, management of the pandemic itself has driven demand for plastics in the health sector. Grand View Research estimates this market segment will amount to c. USD 48.3Bn in 2028 (+7.5% CAGR +7y), which is causing the industry to increase its production capacity (in 2020 ExxonMobil increased its installations by c. 12,000Tn to satisfy demand).

Specialising in mineral concentrates, a key market niche that contributes to reducing the carbon footprint

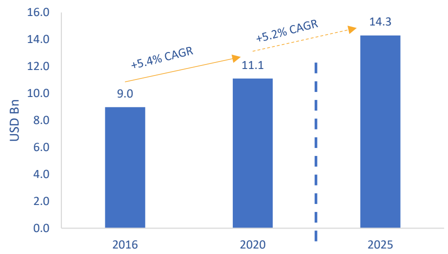
The mineral concentrates ("fillers") for plastics market is key for KOM (> 70% of revenue). Fillers are mineral concentrates containing calcium carbonate or talc on a polymeric base, whose incorporation: 1) makes the processing of plastics easier, 2) cheapens the cost (by reducing the use of polymers by up to c.70%) and 3) improves their properties and multi-functionality. But perhaps the most significant factor given the increasing importance of sustainable investment (European Green Deal, the 2030 Agenda for Sustainable Development) is their ability to reduce the industry's environmental impact.

Chart 18. Global mineral concentrates ("fillers") market (USD Bn)



Source: Grand View Research (elaborated by LH)

Chart 19. Global masterbatch market (USD Bn)



Source: Grand View Research and Markets & Markets (elaborated by LH)

Various sources calculate this market at c. USD 10Bn in 2019 at a global level, estimating a CAGR of c. +5% +5y, to c. USD 14.5Bn in 2026. KOM is well positioned in the calcium carbonate segment (its Exfill products are used in the range of plastics with greatest demand). The management team estimates European production at c. 350,000Tn, with KOM having a c. 10% market share. The high stability and performance of calcium carbonate, plus the increased demand for lighter materials (packaging and automotive sectors) will drive market growth.

and in masterbatches

Masterbatches are concentrated mixtures of pigments or additives dispersed in a carrier resin. The advantage of these products (vs. dust pigments) is they don't stain and are not volatile, so their use reduces pollution.

KOM mainly supplies the plastics industry with black and white masterbatches, and residually (c. 16% of revenue) masterbatches with pigments and/or other additives. The masterbatches market, valued at c. USD 11.1Bn in 2020 by Markets & Markets, will record a similar CAGR to that of mineral concentrates (+5.1% CAGR +5y), reaching c. USD 14.3Bn in 2025e.

The increased demand in the packaging sector and in the automotive industry (replacement of metal by plastic due to its technical superiority) will be the main growth driver (the use of colour and additives masterbatches is widespread in both industries). APAC will lead market growth, that, on the other hand, will continue to be limited by competition from cheaper products (of worse quality).

Markets that are active in M&A, in which large conglomerates compete with numerous smaller companies.

In the calcium carbonate concentrates market listed conglomerates such as BASF (Germany), Imerys (France), Evonik Industries (Germany), Plastika Kritis (Greece), Clariant (Switzerland), and Ferro Corp. (US) operate alongside a host of unlisted companies such as Ampacet -Corp. (US) Teknor Apex Co. (Iceland) and Kärntner Montanindustrie (Austria).

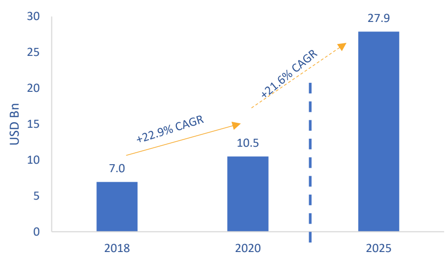
In the masterbatches segment listed operators include BASF (Germany), Avient Corp. (formerly Polyone; US), Cabot Corp. (US), LyondellBasell (US), Plastika Kritis (Greece), and Plastiblends India (India), operating alongside unlisted companies such as, among others, Ampacet Corp. (US), Tosaf Group (Israel), Penn Color Inc. (US), Kunstoff-Kemi (Denmark) and Colorplasticchemie (Germany).

In 2020 Polyone (Avient) acquired the masterbatches division of the Swiss company Clariant for USD 1.44Bn (11.1x EV/Rec. EBITDA, 7.6x including expected synergies). Ferro Corp has recently reached an agreement to be acquired by Prince Intl. Corp. (USD 2.1Bn). These deals reflect the industry's appetite for both market segments.

With non-biodegradability being the plastics industry's main challenge

If the current rhythm is maintained, global plastics production could reach c. 600MnTn +10y (c. 1.6x vs. current levels). The non-biodegradability of the bulk of production (meaning it cannot be decomposed into natural chemical elements by the action of biological agents) represents a challenge for the plastics industry. C. 30-50% of production is destined for single-use applications. While inorganic calcium carbonate (KOM's main product) inhibits the biodegradability of plastic products, organic calcium carbonate favours this process. The latter is found in the structures of living organisms (algae, mollusc shells, egg shells, etc.). The bulk of the masterbatches (pigments and additives) currently used in recyclable plastics are not biodegradable either. However, KOM's embryonic BIO-Solutions division is developing products in response to this challenge.

Chart 20. Global Bioplastic and biopolymers market (USD Bn)



Source: Markets & Markets (elaborated by LH)

So bioplastics and biodegradable plastics are emerging as a potential solution, leading market growth…

Bioplastics (polymers produced from biological raw materials) try to provide an answer to the environmental crisis caused by plastic waste. The global bioplastics and biopolymers market is worth around c. USD 10.5Bn (2020; Markets & Markets). Key industry players switching to these products (compliance with environmental standards) will maintain double-digit growth rates, up to USD 27.9Mn in 2025e (c. +21.5% CAGR +5y).

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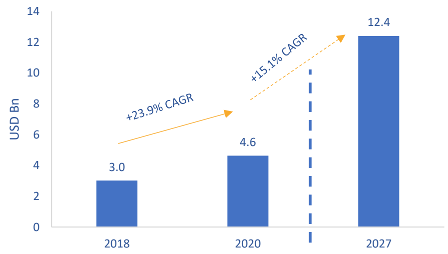
Chart 21. Global biodegradable plastics market (USD Bn)



Source: Markets & Markets (elaborated by LH)

…the focus being on the development of biodegradable plastics

The biodegradable plastics segment is worth around USD 4.6Bn (2020), representing < 50% of the market. The proliferation of regulations to do away with non-biodegradable plastics and innovation will drive growth in this market, that will exceed the USD 10Bn barrier +5y (c. 2x its current size), with their high price being the main obstacle. In addition, products sold on the market require certifications from regulated agencies (such as TÜV Austria and DIN CERTCO). In the very long term, it is likely that most plastics will be produced from alternative raw materials, such as recycled oils, secondary plastics, socially responsible biomass and even CO_2.

Thermoplastic products such as polylactic acid (PLA) and polyhydroxyalkanoates (PHAs), together with mixtures of starch and biodegradable polyesters (used mainly in the packaging industry) stand out. KOM markets its range of biodegradable resins. Whilst the PLAs need industrial composting to accelerate their decomposition, the full biodegradability of the PHAs places them among the industry's main alternatives (US company Danimer Scientific plans to invest USD 100Mn +2y to enlarge its processing installations). Biodegradable products are used, among other things, in the manufacture of bottles, bowls and flexible sheets.

The main players operating in this segment are NatureWorks (US), BASF (Germany), Ampacet (US), Total Corbion PLA (the Netherlands), Mitsubishi Chemical Corporation (Japan) and Biome Bioplastics (UK), together with other smaller companies such as BioSphere (US).

Waste management (in the spotlight): a business opportunity…

Plastic recycling (an activity to be developed by KOM) is another alternative. Currently, less than 9% of plastic waste generated globally is recycled. In Europe, c. 43% of plastic waste is reused for energy generation, c. 33% is recycled and the rest accumulates in landfills. The elimination of landfills is critical to achieving a circular economy in the industry. Besides this, the masterbatches currently used in recycled plastics are damaging to the environment, so their gradual replacement by biodegradable masterbatches will drive growth in the industry.

C. 50% of the plastic waste recovered in the EU is exported outside Europe for processing, due, mainly, to the lack of installed capacity and of technology. In 2018 c.29MnTn were recovered in the EU-28 for processing (c. +2x vs. 2006). In the same year the production of recycled plastics in Europe was c. 5MnTn, of which c. 80% was reintroduced in the European economic circuit (production of new products), and the rest exported. KOM plans to diversify its business via the marketing of recycled polymers ("reactive compounding").

…although still with limitations

The diversity of materials in plastic waste (due to the multiple adaptations to the various sector requirements) makes recycling more difficult, raising production costs and reducing quality vs. traditional plastics ("down-cycling"), factors that have limited its penetration. The calcium carbonate concentrates developed by KOM make the recycling of plastics easier (accelerating the process).

The development of new recycling technologies will allow the market to grow (l/t). Despite the increase in the demand for recycled plastics, these only account for c. 6% of European demand for plastics.

but favoured by the accelerated regulatory roll-out to implement the circular economy in the plastics industry.

In 2018 the European Parliament approved Directive (2018/852), amending Directive 94/62/EC, that established among its objectives a minimum threshold for recycled plastic of 65% of the weight of packaging and 50% of the weight of the total plastics used in 2025. These thresholds were increased to 70% and 55% respectively by 2030 (European Green Deal).

The European Directive on Lightweight Plastic Carrier Bags (EU 2015/720) limits their use, having subsequently been transposed into the legislation of the various European countries. In Spain, Royal Decree 293/2018, prohibits the use of non-compostable lightweight and very lightweight (<50 microns) plastic bags from 2021.

European Directive (EU) 2019/904 on single-use plastics, bans the sale of various products made from expanded polystyrene and of products made from oxo-degradable plastics. This measure will significantly impact the packaging sector. The same directive establishes a recycling target of 90% of plastic bottles (2029) and a minimum recycled plastic content of 25% in the production of PET bottles (2025) and of 30% (2030) for all bottles. This directive should be transposed to national legislation no later than July 2021.

Besides these, a European tax has recently been fixed (EUR 0.80/Kg of non-recycled plastic waste). Other measures considered include the potential reduction of VAT on recycled plastics and the development of quality standards for these products.

In conclusion, replacement by bio-degradables is the main challenge facing the plastics industry, that represents an opportunity for its suppliers (such as KOM)

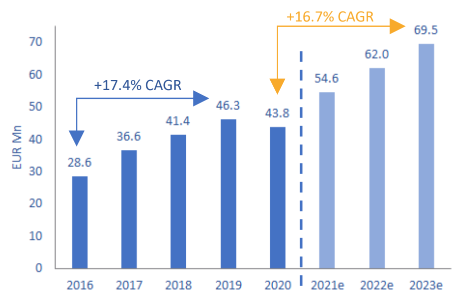
The expected growth in demand for plastic products will favour this industry (and KOM), that will enjoy solid growth (l/t). However, the environmental crisis caused by the accumulation of plastic waste, together with the prospects for growth in demand for these products, has led to a proliferation of regulations (EU), in an attempt to accelerate the implementation of the circular economy in the sector.

This regulatory context encourages the penetration of recycled plastics in the industry (s/t), favouring the use of calcium carbonate mineral concentrates. KOM is developing technologies for the recycling of plastics based on reactive compounding. In the longer term, the development of bio-degradable compounds (on which KOM's division, BIO-Solutions, is focused) will be the main driver of industry growth (KOM could lever its growth more immediately on its current customer portfolio).

And without forgetting that, in a scenario with attractive growth, the industry tends to adopt strategies (organic/inorganic) to accelerate its expansion.

2021e-2023e: a return to double-digit revenue growth will make a very significant margin improvement feasible

Chart 22. Revenues (2016-2023e)



KOM's strategy of selling compounds and additives with a small carbon footprint for the manufacturing of plastics, plus its international profile (62% of 2020 revenue), has resulted in double-digit growth in revenue (-5y), with turnover of c. EUR 44Mn in 2020 (+11.2% CAGR 2016-2020). These levels of growth are well beyond those associated with the economy as a whole and its own sector (with revenue growth of < 5% CAGR during the same period). This gap was maintained in 2020, a year dominated by the impact of Covid-19 (2020 revenue: -5.5% vs c. -10% for the sector).

So, KOM is a growth story and its numbers for the last five years explain what has happened although margin improvement remains a work in progress. However, in addition to what has happened to date (2016-2020) there is a new ingredient: possible entry in the still very nascent bioplastics business. This invites consideration of two key questions: (i) can the levels of growth seen to date be projected over the long term and (ii) is a catch-up in margins to levels closer to those of the sector possible?

Chart 23. Revenues vs Nominal production capacity (2015 -2023e)

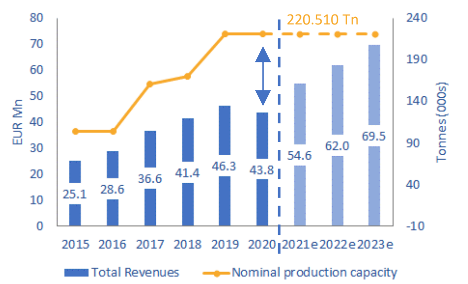


Chart 24. Revenue mix (2019-2023e)

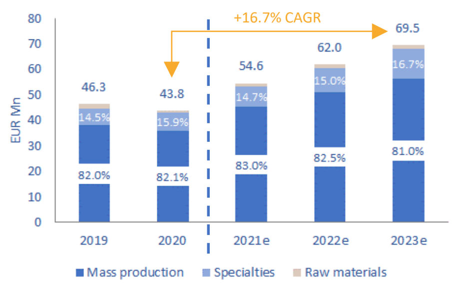
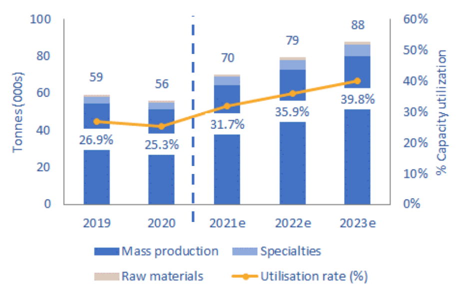


Chart 25. Tonnes sold vs % Utilisation rate (2019-2023e)



A return to double-digit revenue growth (2020-2023e: +16.7% CAGR)...

After the slump in business in 2020 (chart 22), 1H21 results (Revenue: EUR 30Mn; c. +20% vs 1H19, pre Covid-19) show a recovery of growth levels. This validates the strategy of recent years, on which our revenue estimates are based, and that has consisted of:

- **A competitive position in the calcium carbonate (CaO3) fillers market …** a business we expect to continue to generate a source of stable resources due to growing demand for mineral concentrates that reduce the cost and the carbon footprint of plastic products.
- **… together with masterbatches and additives that have already been developed,** that allow KOM to offer genuinely customised products (with higher added value and margins), reducing the business' cyclical exposure.
- **And a diversified revenue mix.** Both by sectors and geographies (with a reduction in the weighting of Spain; c. 38% in 2020 vs c. 50% in 2016).
- **In addition to the very real option of benefiting from the transformation of the plastics market,** with a range of bio products already certified by TÜV Austria (one of the most widely used certifications in compostability at a global level). Although this is still very much a fledgling market (c. 1% of the plastics market), growth should accelerate quickly as regulations become stricter for traditional plastic products (levering on the already established customer base of the traditional business).
- **And all this underpinned by the increase in production capacity carried out in 2019 (and which has yet to be reflected in the P&L),** with an additional 51,000 tonnes being added in 4Q19 (+30%) for a total nominal production capacity of 220,510 tonnes (chart 23) with which it could recover the levels of growth seen until 2019 with a larger installed capacity (a driver unaffected by the cycle).

We envisage the recovery of organic growth with revenue of EUR 70Mn in 2023e (+16.7% CAGR; chart 23). This would imply production of c. 88,000 Tn (+48% vs 2019; chart 25), something that would be possible without the need for very significant investments bearing in mind the c. 30% increase in capacity in 4Q19 (a year in which production reached nominal utilisation rates of c. 35%).

By activity, we expect the mass production division to continue to record high rates of growth (+16% CAGR 2020-2023e), especially in 2021e (+25%; due to the smaller basis for comparison of 2020 and the demand held back by Covid-19) although decelerating to c. 10% in 2023e (converging with estimated growth for the mineral concentrates industry). But, despite the slowdown in revenue in 2023e, its weighting of the mix will remain very high (c. 80% in 2023e; chart 24)

Conversely, we expect the specialities division to see a significant acceleration of growth (+20% CAGR 2020-2023e vs +5% CAGR 2016-2020) driven by the growth of bio solutions, that should contribute c. 6% of the revenue mix in 2023e (vs a marginal contribution in 2020). This will offset the smaller growth of the rest of the specialities division's products (colour and additive masterbatches; c. 5% CAGR 2020-2023e), helping the specialities division (with higher added value and margins) achieve a weighting in the revenue mix of c. 17% in 2023e (vs c. 16% in 2020 and c. 15% in 2019).

… that will result in a significant improvement in margins (purely by taking advantage of the business' operating leverage)

Although in 2021e we estimate a small contraction of the gross margin in percentage terms (-0.6p.p vs 2020; chart 26) due to rising raw material prices and the increased weighting of the mass production division (smaller margin) in the revenue mix, we estimate a significant improvement in the Recurrent EBITDA margin (that excludes the impact of the capitalisation of R+D) to 6% (vs 3% in 2020 and 3.6% in 2019). Why?

In our opinion, the nominal production capacity increases made in 2016-2019 (the last of these coming on stream in 4Q19) give KOM the capacity to generate significant economies of scale from current levels (with a much smaller EBITDA margin than the sector average). Specifically, we highlight:

- **The capacity for the generation of synergies among the various divisions.** The mineral concentrates and black and white masterbatches activities share production lines and logistics so these can be used for each product depending on needs. The same is true for the production lines for colour and additive masterbatches and for bio solutions.

- **A gradual increase in nominal production capacity utilisation (c. 40% in 2023e vs c. 25% in 2020),** that will result in the dilution of fixed costs (chart 27) enabling an improvement in the Recurrent EBITDA margin (purely by taking advantage of the operating leverage).

Our 2021e estimates envisage an increase in structural costs to EUR 12.8Mn (c. 23.5% of 2021e revenue), resulting from personnel costs of c. EUR 3.9Mn (+9% vs 2020) and other operating costs of c. EUR 8.9Mn (+10% vs EUR 8.2Mn in 2020). Accordingly, the strong revenue growth estimated for 2021e (+25% vs 2020 and +18% vs 2019) could be achieved without significantly increasing the current cost structure (c. 9% vs 2020) that should drive 2021e Recurrent EBITDA to c. EUR 3.3Mn (EBITDA margin of 6% vs 3.2% in 2020).

Chart 26. Gross margin vs mass production weight in revenues (2018-2023e)

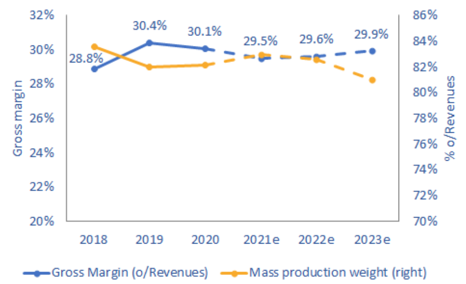


Chart 27. Cost structure as a percentage over revenues (2019-2023e)

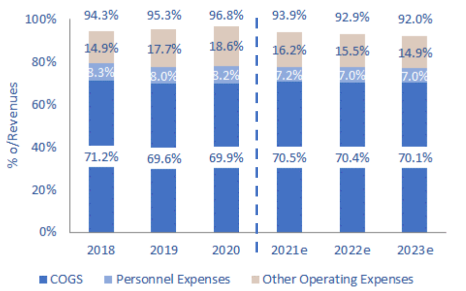


Chart 28. Recurrent EBITDA vs Rec. EBITDA Mg. (2018-2023e)

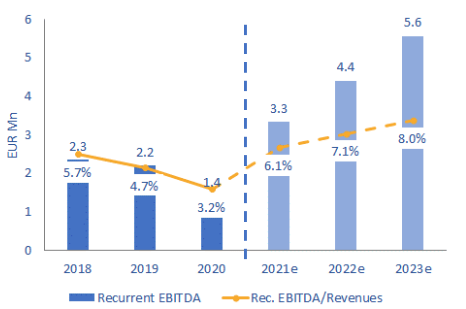
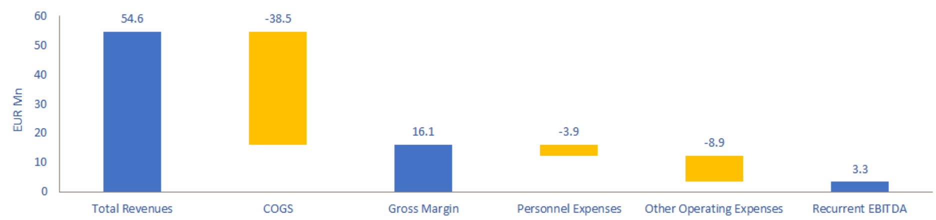


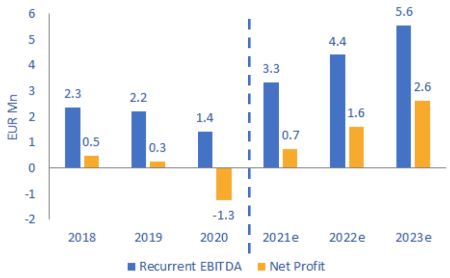
Chart 29. From Revenue to Rec. EBITDA (2021e)



What about 2023e? Estimated volume growth (+16.7% CAGR 2020-2023e) will dilute the current high fixed cost structure over a larger revenue base. We estimate this will allow KOM to generate EBITDA of c. EUR 5.5Mn in 2023e (chart 28) driving the Rec. EBITDA margin to 8% (although still below that obtained by the sector: >10%).

However, as we do not expect the bioplastics business (with a higher margin) to generate enough critical mass until, at least, 2023e (% of the revenue mix >5%) we think at present the main driver that will make margin improvement feasible will be growth in volumes. So, given the current fixed cost structure, slower than expected growth in revenue volumes would have a very significant impact in terms of EBITDA. Revenue growth of 10% (vs a 16.7% estimated CAGR) would have a very negative impact on our estimates (2023e EBITDA: c. -40% vs our initial estimate).

Chart 30. Rec. EBITDA vs Net Profit (2018-2023e)



And will drive net profit above breakeven levels (although this will have to wait until 2022e)

Below the EBITDA line, the main items included in our estimates for 2021e-2023e are:

- **An amortisation expense of c. EUR 2.5Mn/year (c. 10% of net assets)…** of which c. 40% will correspond to the amortisation of the intangibles generated by the capitalised R+D (with a useful life of < 4 years, that accelerates their amortisation).

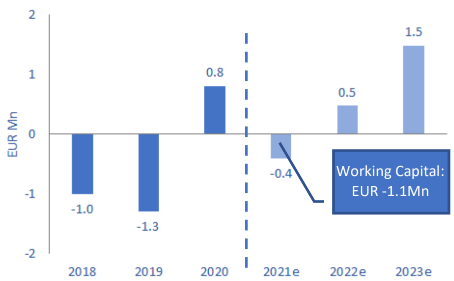
- **… together with the continuation of the policy of capitalising R+D (EUR 1Mn/year).** Given the nature of the company, we believe R+D will continue to be a priority (with a special focus on sustainable biopolymers and compounds). Accordingly, we project the capitalisation of R+D expenses in an amount of c. EUR 1Mn/year.

- **With c. EUR 1Mn of financial expenses,** although this figure will tend to gradually decrease for two reasons: (i) the reduction of net debt from 2022e and (ii) the early repayment of EUR 2Mn of the Alteralia (Alantra) loan between 2020 and 2021 (at a cost of c. 7-8%).

- **And a tax rate of c. 20%,** similar to that recorded in 2018-2020.

In this context, we think the estimated level of Rec. EBITDA will keep Net Profit < EUR 1Mn in 2021e. This will change from 2022e and 2023e, when the generation of Rec. EBITDA > EUR 4Mn will allow KOM to leave breakeven behind (Net Profit of c. EUR 2.5Mn and P/E of 11x: but not until 2023e).

Chart 31. Recurrent Free Cash Flow (2018-2023e)



Free Cash Flow: EBITDA growth will accelerate FCF generation (although in 2021e this will be affected by the normalisation of working capital)

In 2020, liquidity measures to deal with the impact of Covid-19 (increased use of factoring and confirming) led to an increase in FCF generation, supported by a significant reduction in the collection period (resulting in a c. 40% reduction in accounts receivable vs 2019) and an increase in the payment period (increasing accounts payable by c. 10%). All this reduced working capital/sales to c. 2.5%.

In terms of Rec. FCF, our estimates revolve around: (i) the normalisation of working capital/sales (c. 5.5% in 2023e vs c. 2.5% in 2020) and (ii) a reduction in capex to c. EUR 2Mn/year, as we do not think significant investment will be required after the 30% capacity increase in 4Q19.

Our scenario should allow KOM to generate Rec. FCF of, at least, EUR 1.5Mn in 2023e (chart 31), driven mainly by the improvement in the Rec. EBITDA margin that translates to a 2023e Rec. FCF yield of c. 5% (in line with the sector).

Chart 32. Recurrent Free Cash Flow accumulated variation analysis (2020-2023e)

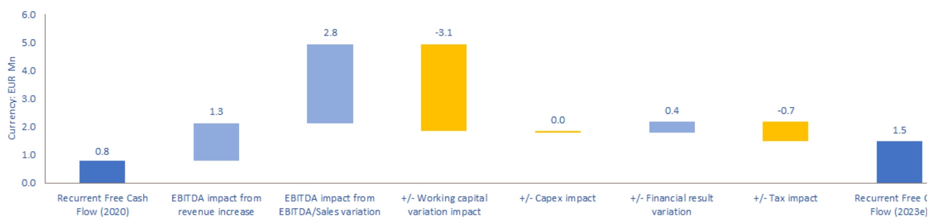


Chart 33. Net Debt vs ND/Rec. EBITDA (2019-2023e)

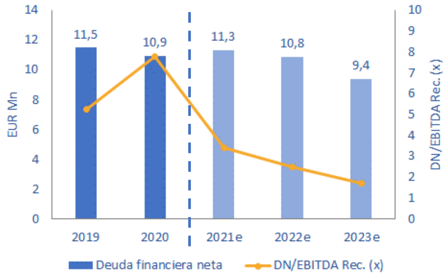
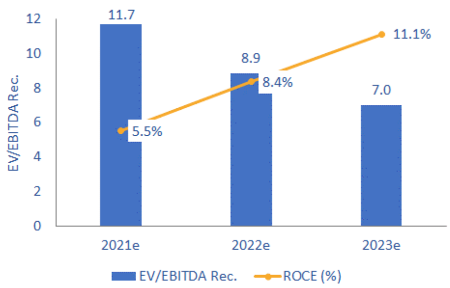


Chart 34. EV/EBITDA vs ROCE (2021e-2023e)



Which, together with the "take-off" of EBITDA, should allow a return to more reasonable levels of leverage (2022e ND/Rec. EBITDA: c.3x)

At the 1H21 close, KOM's net debt declined to c. EUR 10.3Mn (-6% vs 2020). Despite this, the cash outflow we estimate necessary to normalise levels of working capital in 2021e should mean an increase in Net Debt to c. EUR 11Mn (+4% vs 2020; chart 33). A level of debt (2021e ND/Equity of c. 0.7x) that reduces the company's ability to make significant new investments in the short term but that we consider bearable (as 30% of its maturity is concentrated in 2025e).

Looking further ahead, the "take-off" of EBITDA (that will reduce leverage), together with cash generation (that will gradually reduce Net Debt) will result in more reasonable levels of debt (2022e ND/EBITDA: c. 2.5x, declining to < 2x in 2023e).

In conclusion: double-digit revenue growth accompanied by a very significant margin improvement. That would take 2023e EV/EBITDA to c.7x.

The snapshot is that of a company that presents credible arguments for recovering pre Covid-19 levels of growth, making feasible a very significant improvement in margins (up to now much smaller than those seen in the sector) simply by taking advantage of its operating leverage.

Today, our central scenario is for the consolidation of c. EUR 5.5Mn of recurrent EBITDA in 2021e-2023e (EBITDA margin c. 8%), with turnover of c. EUR 70Mn (+16.7% CAGR; in line with the growth recorded in 2016-2019) and gearing below 2x ND/EBITDA in 2023e. All this underpinned by a positioning in the plastics industry as a supplier of compounds that reduce both the price and the carbon footprint of the end products (a positioning that has allowed the company to maintain a growth differential vs its sector in recent years).

However, in addition to the above there is the option of truly benefiting (beyond 2023e) from a positioning in the bioplastics market (our numbers point to growth in the bio segment to c. 6% of revenue in 2023e). This is a market that is yet to "wake up" and is underpinned by the transformation of the plastics industry that will tend to replace traditional plastics with a new generation of biodegradable and recyclable products. This intuitively points to a possible additional source of growth supported by social and regulatory factors and by the capital market's affinity for investments that meet ESG criteria.

KOM is currently trading at 12x 2021e EV/EBITDA, declining to c. 7x EV/EBITDA in 2023e (vs c. 10x for its most direct peers); multiples underpinned by a capacity for revenue growth of c. 17% CAGR (vs c. 5% for the sector).

Valuation inputs

Inputs for the DCF Valuation Approach

	2021e	2022e	2023e	Terminal Value [1]
Free Cash Flow "To the Firm"	**0.3**	**1.2**	**2.1**	**n.a.**

			Best Case	Worst Case
Market Cap	**28.9**	At the date of this report		
Net financial debt	**10.3**	Debt net of Cash (6m Results 2021)		
Cost of Debt	5.5%	Net debt cost	5.3%	5.8%
Tax rate (T)	20.0%	T (Normalised tax rate)	=	=
Net debt cost	**4.4%**	**Kd = Cost of Net Debt * (1-T)**	**4.2%**	**4.6%**
Risk free rate (rf)	0.3%	Rf (10y Spanish bond yield)	=	=
Equity risk premium	9.0%	R (own estimate)	8.5%	9.5%
Beta (B)	1.2	B (own estimate)	1.1	1.3
Cost of Equity	**11.1%**	**Ke = Rf + (R * B)**	**9.6%**	**12.6%**
Equity / (Equity + Net Debt)	73.8%	E (Market Cap as equity value)	=	=
Net Debt / (Equity + Net Debt)	26.2%	D	=	=
WACC	**9.3%**	**WACC = Kd * D + Ke * E**	**8.2%**	**10.5%**
G "Fair"	**3.0%**		**3.0%**	**2.0%**

(1) The terminal value calculated beyond the last FCF estimate does not reflect the company's growth potential (positive/negative) at the date of publication of this report.

Inputs for the Multiples Valuation Approach

Company	Ticker Factset	Mkt. Cap	P/E 21e	EPS 21e-23e	EV/EBITDA 21e	EBITDA 21e-23e	EV/Sales 21e	Revenues 21e-23e	EBITDA/Sales 21e	FCF Yield 21e	FCF 21e-23e
BASF	BAS-DE	61,611.6	12.1	2.8%	7.5	2.5%	1.1	1.3%	14.6%	5.7%	7.6%
LyondellBasell	LYB-US	28,002.6	5.9	-10.4%	5.6	-9.1%	1.2	-0.2%	21.5%	13.9%	-9.0%
Clariant	CLN-CH	5,878.4	24.1	14.5%	11.2	8.7%	1.9	5.6%	16.7%	3.2%	22.4%
Specialty Chemicals			**14.0**	**2.3%**	**8.1**	**0.7%**	**1.4**	**2.2%**	**17.6%**	**7.6%**	**7.0%**
Avient Corporation	AVNT-US	3,694.2	16.6	17.4%	10.2	8.5%	1.3	3.8%	12.9%	6.4%	n.a.
Cabot Corporation	CBT-US	2,567.0	10.9	7.8%	6.5	2.6%	1.3	4.0%	20.1%	4.4%	31.0%
Ferro Corporation	FOE-US	1,449.8	18.6	13.3%	10.1	7.4%	1.8	4.2%	17.8%	2.1%	62.1%
Close peers			**15.3**	**12.8%**	**8.9**	**6.2%**	**1.5**	**4.0%**	**16.9%**	**4.3%**	**46.6%**
KOM	**KOM-ES**	**28.9**	**39.1**	**88.0%**	**11.7**	**29.2%**	**0.7**	**12.8%**	**6.1%**	**n.a.**	**n.a.**

Free Cash Flow sensitivity analysis (2022e)

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

Scenario	EBITDA/Sales 22e	EBITDA 22e	EV/EBITDA 22e
Max	**7.8%**	**4.8**	**8.1x**
Central	**7.1%**	**4.4**	**8.9x**
Min	**6.4%**	**4.0**	**9.8x**

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

Rec. FCF EUR Mn	CAPEX/Sales 22e		
EBITDA 22e	2.2%	2.5%	2.8%
4.8	**1.1**	**0.9**	**0.7**
4.4	**0.7**	**0.5**	**0.3**
4.0	**0.2**	**0.0**	**(0.1)**

Scenario	Rec. FCF/Yield 22e		
Max	**3.8%**	**3.1%**	**2.5%**
Central	**2.3%**	**1.6%**	**1.0%**
Min	**0.8%**	**0.1%**	**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:

1. **Slower than expected take-off of the specialities division (15% of 2021e revenue),** that includes the bio solutions business. Our estimates assume the specialities division will see growth accelerate to +18.6% (vs a 6% CAGR in 2016-2019) boosted mainly by the take-off of the bio solutions business (a still marginal weighting in 2020). A reduction in the growth of the specialities division to levels close to those of the past (c. 6% CAGR; in line with expected growth for the masterbatches market) would mean a reduction in our 2022e revenue estimate of c. 3% (and of c. 10% in EBITDA).

2. **Tougher competition.** The market in which KOM operates is highly competitive (boosted by the increased demand for solutions that reduce the carbon footprint of plastic products) and that could squeeze margins. A 5% across-the-board fall in price of the products sold would reduce 2022e Rec. EBITDA by c. 15%.

3. **Passing along raw material and energy costs.** KOM passes along increases in the price of its raw materials to its clients. However, selling prices are not changed immediately, squeezing margins during periods of continuous increases in raw material prices (such as that seen in the first half of 2021). In our model we assume a gross margin of 29.5% for 2021e (-0.6p.p. vs 2020). A reduction in the gross margin to 29% would mean a 9% reduction in terms of 2021e EBITDA (EBITDA margin of 5.5% vs 6.0% estimated).

4. **Exploiting economies of scale is essential to margin improvement.** We estimate a reduction in the weighting of operating costs (personnel expenses plus other operating costs) to 22.5% of 2022e revenue (vs 26% in 2019; a year in which nominal production capacity was increased by c. 30%). An increase in operating costs/revenue to 24.5% (+2p.p. vs our central scenario) would imply a c. 20% reduction in estimated EBITDA in 2022e.

5. **Capex does not decrease.** After significant investment in 2015-2019 (Capex c. 15Mn; EUR 4.2Mn in 2019) we expect Capex to normalise, reverting to levels of c. 3% of revenue in 2021e. An increase in investment requirements to levels of 4% (close to the levels of its most direct peers) would imply Capex of EUR 2.5Mn (vs EUR 1.5Mn estimated).

6. **Level of indebtedness and cost of debt.** KOM closed 1H21 with net debt of EUR 10.3Mn, that we estimate will increase to c. EUR 11Mn at the 2021e close (due to increased working capital investment). For 2022e, our estimates assume a reduction in the cost of debt to c. 6% (vs c. 8% in 2020) due to the early repayment of 40% of the Alteralia loan (between 2020 and 1H21). A cost of debt of c. 8% (+2p.p. vs our estimate) would imply a reduction of c. 20% in 2022e net profit.

7. **Dilution risk.** Although KOM has systematically maintained positive EBITDA in recent years, accelerating growth in the business could raise capital requirements (2012e ND/Rec. EBITDA: c. 3.5x). Given KOM's size/sector/business situation, access to new capital to fund growth could mean additional equity increases (implying dilution for current shareholders).

8. **Risk from regulatory changes.** This is a risk inherent to the chemicals industry where legal requirements are increasingly demanding, both in Europe and in Spain. A change in regulations could impact KOM's procedures and profitability and giving rise to new CAPEX requirements.

A renewed board, due to the market listing, controlled by the founding family

Table 2. Board of Directors

Name	Category	Date	Voting Rights
Corp. Chimique International [1]	*CEO, Chairman*	25/06/2020	*26.6%*
Clara Duch	*Executive*	25/06/2020	*0.0%*
CCP Masterbatch S.L. [2]	*Proprietary*	25/06/2020	*35.5%*
Albert de la Riva	*Independent*	25/06/2020	*0.0%*
Iñigo Gallo	*Independent*	24/07/2019	*0.0%*
Sandra Duch	*Other, external*	24/07/2019	*0.0%*
Gant Finance S.A.	*Proprietary*	14/02/2020	*5.0%*
Gestión y Adm. Inmob. S.A.	*Proprietary*	14/02/2020	*5.1%*
Total			***72.3%***

Note 1: Owned by Ignacio Duch, founder and CEO of KOM.
Note 2: Owned by the Duch family.

The board has gradually been enlarged to the 9 current members (vs. 5 before the listing), to admit new shareholders, the founding family occupying 4 seats and being involved in the running of the company.

1. **The Duch family (the founder of the company) maintains control of the board:** 4 of its 9 members, with 62.1% of the voting rights, implying, in principle, an alignment of interests with those of minority shareholders. Ignacio Duch, founder and CEO of KOM, is the Chair of the company. He indirectly holds 44.4% of the voting rights (17.8% through CCP Masterbatch). The only two female board members are Clara Duch and Sandra Duch, with the categories of executive director and external director, respectively. Carlos Argenté (independent board member and Chair of the Audit Committee until 2019), has since 2020 represented CCP Masterbatch (a company that belongs to the founding family). The vacancy arising from the departure of David Villaró Pontones (General Director and Board Member of KOM since its market listing) could be occupied by co-option.

   Prior to its market listing, Caixa Innvierte Industria S.C.R. (CaixaBank) and the Institut Català de Finances (manager of Capital Expansió; belonging to the government of Catalonia) held 2 of the 5 seats on the board (as proprietary directors: 12.48% and 8.44% of the capital respectively).

2. **With a qualified management team that is specialised in the industry:** 2 out of the 5 members of the Steering Committee are chemical/biochemical engineers. The rest of the members have an economic/financial profile.

3. **A still small presence of independent board members and no remuneration and appointments committee.** There are only 2 independent board members (with a financial and industrial profile).

   The bylaws have recently been amended to bring them into line with regulations pertaining to listed companies, limiting the maximum term for which the position of director can be held to 4 years (previously 5), renewable for periods of equal duration (in accordance with prevailing legislation). At the date of this report no code of conduct is known to exist.

4. **There are no golden parachute clauses for board members and senior management, and incentives in the form of bonuses are envisaged for both** via shares (or share options) or remuneration indexed to the value of the shares, although this has not been exercised to date. The remuneration of the board has on average (-2y) represented c.6% of personnel costs (including the remuneration of senior executives). The variable remuneration lacks *bonus-malus* / claw-back clauses.

5. **Commitment to the environment:** KOM has signed the New Plastics Economy Global Commitment (promoted by the Ellen MacArthur foundation within the framework of the UN's Environment Programme).

   The main commitments made by KOM (for 2025) are: (i) to increase the recycling of raw materials to 20% (vs. c. 16% at present), (ii) to increase the use of compostable and renewable products to 20% (today still marginal), (iii) to increase the production of mineral concentrates with a small carbon footprint to 70% (vs. c. 55% at present), (iv) to reduce the percentage of production destined for single-use plastics to 30% (vs. 53% at present) and (v) to increase the portfolio of sustainable solutions to 70% of the total (vs. 55% at present).

6. **Transactions with the majority shareholder.** In 2020 EUR 3.9Mn in procurements (13% of the total) were acquired from Melnik SL and Advance Color Systems (owned by Ignacio Duch), incurring in EUR 0.9Mn of expenses for operating leases (11% of other operating expenses) in favour of the property companies Ferlevel and Sotal Premium (that also belong to Ignacio Duch).

7. **No shareholder remuneration is envisaged in the short and mid terms.** The company has made no commitment in respect of dividend payments. Today, the main focus of KOM is the consolidation of the business' organic growth. The focus of attention, then, in the short and mid term is to accelerate and make profitable the growth in the business. Accordingly, we estimate a pay-out of 0% for at least the next two years.

   The loan executed in 2018 with Alteralia in an amount of EUR 5Mn (of which EUR 2Mn has already been repaid early) that falls due in December 2025 includes covenants related with the company's gearing that impact: (i) the financial cost (+1p.p. if the gearing rises > 2.5x) and (ii) the dividend policy (nothing if the gearing post-dividend is >3x and limited with thresholds that range between 25% and 50% if the gearing is between 2x and 3x). The last dividend was paid out in 2015 (EUR 0.4Mn).

Appendix 1. Financial Projections

Balance Sheet (EUR Mn)	2016	2017	2018	2019	2020	2021e	2022e	2023e
Intangible assets	0.9	1.9	2.7	3.6	3.6	3.6	3.6	3.6
Fixed assets	16.6	17.2	18.1	21.1	21.2	21.4	21.5	22.0
Other Non Current Assets	0.5	0.4	0.2	0.3	0.6	0.6	0.6	0.6
Financial Investments	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Goodwill & Other Intangilbles	-	-	-	-	-	-	-	-
Current assets	12.0	11.0	12.6	11.6	10.1	12.2	14.6	16.7
Total assets	**30.1**	**30.6**	**33.7**	**36.8**	**35.7**	**37.9**	**40.4**	**42.9**
Equity	10.3	10.1	12.2	16.9	15.5	16.2	17.8	20.4
Minority Interests	-	-	-	-	-	-	-	-
Provisions & Other L/T Liabilities	0.3	0.2	0.1	0.2	0.2	0.2	0.2	0.2
Other Non Current Liabilities	-	-	-	-	-	-	-	-
Net financial debt	12.3	14.7	14.0	11.5	10.9	11.3	10.8	9.4
Current Liabilities	7.1	5.6	7.4	8.2	9.2	10.2	11.6	12.9
Equity & Total Liabilities	**30.1**	**30.6**	**33.7**	**36.8**	**35.7**	**37.9**	**40.4**	**42.9**

									CAGR	
P&L (EUR Mn)	**2016**	**2017**	**2018**	**2019**	**2020**	**2021e**	**2022e**	**2023e**	**16-20**	**20-23e**
Total Revenues	**28.6**	**36.6**	**41.4**	**46.3**	**43.8**	**54.6**	**62.0**	**69.5**	***11.2%***	***16.7%***
Total Revenues growth	*14.3%*	*27.9%*	*12.9%*	*12.0%*	*-5.6%*	*24.8%*	*13.6%*	*12.1%*		
COGS	(19.1)	(26.5)	(29.4)	(32.3)	(30.6)	(38.5)	(43.6)	(48.7)		
Gross Margin	**9.5**	**10.1**	**11.9**	**14.1**	**13.2**	**16.1**	**18.3**	**20.8**	***8.4%***	***16.5%***
Gross Margin/Revenues	*33.3%*	*27.6%*	*28.8%*	*30.4%*	*30.1%*	*29.5%*	*29.6%*	*29.9%*		
Personnel Expenses	(2.9)	(3.5)	(3.4)	(3.7)	(3.6)	(3.9)	(4.3)	(4.9)		
Other Operating Expenses	(5.4)	(5.9)	(6.2)	(8.2)	(8.2)	(8.9)	(9.6)	(10.4)		
Recurrent EBITDA	**1.3**	**0.7**	**2.3**	**2.2**	**1.4**	**3.3**	**4.4**	**5.6**	***2.6%***	***58.2%***
Recurrent EBITDA growth	*43.8%*	*-42.8%*	*223.6%*	*-6.4%*	*-36.1%*	*137.1%*	*32.1%*	*26.2%*		
Rec. EBITDA/Revenues	*4.4%*	*2.0%*	*5.7%*	*4.7%*	*3.2%*	*6.1%*	*7.1%*	*8.0%*		
Restructuring Expense & Other non-rec.	0.1	0.3	0.2	(0.5)	(0.1)	-	-	-		
EBITDA	**1.3**	**1.0**	**2.5**	**1.7**	**1.3**	**3.3**	**4.4**	**5.6**	***0.4%***	***60.5%***
Depreciation & Provisions	(1.1)	(1.7)	(2.3)	(1.8)	(3.0)	(2.5)	(2.5)	(2.5)		
Capitalized Expense	0.5	1.4	1.2	1.6	1.2	1.0	1.0	1.0		
Rentals (IFRS 16 impact)	-	-	-	-	-	-	-	-		
EBIT	**0.6**	**0.7**	**1.4**	**1.4**	**(0.4)**	**1.9**	**2.9**	**4.1**	***-27.2%***	***n.a.***
EBIT growth	*371.4%*	*5.5%*	*112.6%*	*1.4%*	*-127.2%*	*575.5%*	*57.3%*	*38.8%*		
EBIT/Revenues	*2.2%*	*1.8%*	*3.4%*	*3.1%*	*n.a.*	*3.4%*	*4.7%*	*5.9%*		
Impact of Goodwill & Others	-	-	-	-	-	-	-	-		
Net Financial Result	(0.5)	(0.5)	(0.8)	(1.1)	(1.2)	(0.9)	(0.9)	(0.8)		
Income by the Equity Method	-	-	-	-	-	-	-	-		
Ordinary Profit	**0.1**	**0.1**	**0.6**	**0.3**	**(1.6)**	**0.9**	**2.0**	**3.3**	***-95.1%***	***59.5%***
Ordinary Profit Growth	*118.3%*	*5.0%*	*350.5%*	*-45.0%*	*-580.4%*	*158.1%*	*115.9%*	*63.7%*		
Extraordinary Results	-	-	-	-	-	-	-	-		
Profit Before Tax	**0.1**	**0.1**	**0.6**	**0.3**	**(1.6)**	**0.9**	**2.0**	**3.3**	***-95.1%***	***59.5%***
Tax Expense	(0.1)	(0.0)	(0.1)	(0.1)	0.3	(0.2)	(0.4)	(0.7)		
Effective Tax Rate	*43.5%*	*28.7%*	*19.1%*	*21.6%*	*n.a.*	*20.0%*	*20.0%*	*20.0%*		
Minority Interests	-	-	-	-	-	-	-	-		
Discontinued Activities	-	-	-	-	-	-	-	-		
Net Profit	**0.1**	**0.1**	**0.5**	**0.3**	**(1.3)**	**0.7**	**1.6**	**2.6**	***n.a.***	***59.9%***
Net Profit growth	*115.1%*	*32.5%*	*410.8%*	*-46.7%*	*-583.1%*	*159.0%*	*115.9%*	*63.7%*		
Ordinary Net Profit	**0.1**	**(0.2)**	**0.4**	**0.7**	**(1.5)**	**0.7**	**1.6**	**2.6**	***n.a.***	***54.8%***
Ordinary Net Profit growth	*107.5%*	*-404.7%*	*317.6%*	*94.2%*	*-323.5%*	*148.4%*	*115.9%*	*63.7%*		

									CAGR	
Cash Flow (EUR Mn)	**2016**	**2017**	**2018**	**2019**	**2020**	**2021e**	**2022e**	**2023e**	**16-20**	**20-23e**
Recurrent EBITDA						**3.3**	**4.4**	**5.6**	***2.6%***	***58.2%***
Rentals (IFRS 16 impact)						-	-	-		
Working Capital Increase						(1.1)	(1.0)	(0.7)		
Recurrent Operating Cash Flow						**2.2**	**3.4**	**4.9**	***34.2%***	***8.3%***
CAPEX						(1.5)	(1.5)	(2.0)		
Net Financial Result affecting the Cash Flow						(0.9)	(0.9)	(0.8)		
Tax Expense						(0.2)	(0.4)	(0.7)		
Recurrent Free Cash Flow						**(0.4)**	**0.5**	**1.5**	***22.5%***	***22.5%***
Restructuring Expense & Other non-rec.						-	-	-		
- Acquisitions / + Divestures of assets						-	-	-		
Extraordinary Inc./Exp. Affecting Cash Flow						-	-	-		
Free Cash Flow						**(0.4)**	**0.5**	**1.5**	***21.6%***	***36.6%***
Capital Increase						-	-	-		
Dividends						-	-	-		
Net Debt Variation						**0.4**	**(0.5)**	**(1.5)**		

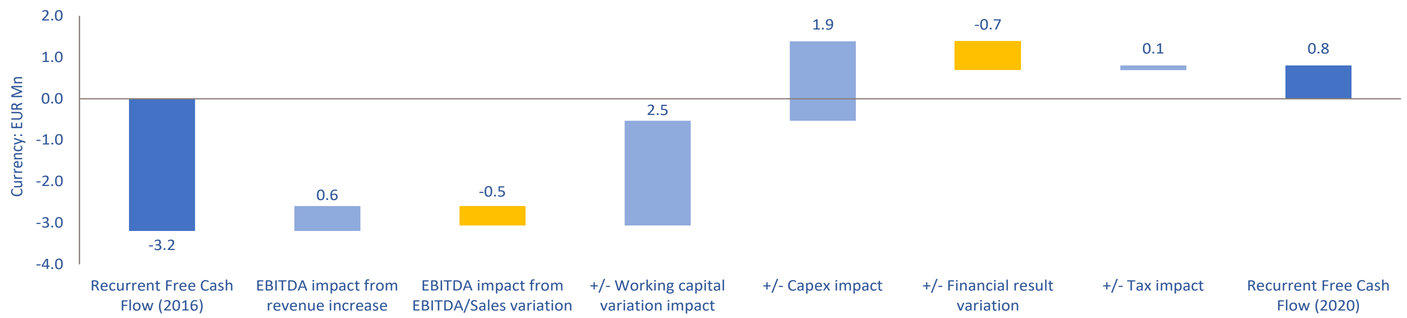
Appendix 2. Free Cash Flow

A) Cash Flow Analysis (EUR Mn)	2017	2018	2019	2020	2021e	2022e	2023e	CAGR 17-20	CAGR 20-23e
Recurrent EBITDA	**0.7**	**2.3**	**2.2**	**1.4**	**3.3**	**4.4**	**5.6**	***24.6%***	***58.2%***
Recurrent EBITDA growth	*-42.8%*	*223.6%*	*-6.4%*	*-36.1%*	*137.1%*	*32.1%*	*26.2%*		
Rec. EBITDA/Revenues	*2.0%*	*5.7%*	*4.7%*	*3.2%*	*6.1%*	*7.1%*	*8.0%*		
- Rentals (IFRS 16 impact)	-	-	-	-	-	-	-		
+/- Working Capital increase	(0.5)	0.2	1.8	2.4	(1.1)	(1.0)	(0.7)		
= Recurrent Operating Cash Flow	**0.2**	**2.5**	**4.0**	**3.9**	**2.2**	**3.4**	**4.9**	***n.a.***	***8.3%***
Rec. Operating Cash Flow growth	*-79.2%*	*914.5%*	*59.8%*	*-3.9%*	*-41.7%*	*49.8%*	*45.4%*		
Rec. Operating Cash Flow / Sales	*0.7%*	*6.1%*	*8.6%*	*8.8%*	*4.1%*	*5.4%*	*7.0%*		
- CAPEX	(2.0)	(2.7)	(4.2)	(1.9)	(1.5)	(1.5)	(2.0)		
- Net Financial Result affecting Cash Flow	(0.5)	(0.7)	(1.1)	(1.2)	(0.9)	(0.9)	(0.8)		
- Taxes	(0.0)	(0.0)	0.1	0.1	(0.2)	(0.4)	(0.7)		
= Recurrent Free Cash Flow	**(2.3)**	**(1.0)**	**(1.3)**	**0.8**	**(0.4)**	**0.5**	**1.5**	***33.0%***	***22.5%***
Rec. Free Cash Flow growth	*29.3%*	*55.7%*	*-29.7%*	*161.7%*	*-151.5%*	*214.3%*	*212.3%*		
Rec. Free Cash Flow / Revenues	*n.a.*	*n.a.*	*n.a.*	*1.8%*	*n.a.*	*0.8%*	*2.1%*		
- Restructuring expenses & others	-	-	-	-	-	-	-		
- Acquisitions / + Divestments	0.1	0.0	(0.3)	(0.0)	-	-	-		
+/- Extraordinary Inc./Exp. affecting Cash Flow	(0.1)	(0.2)	(0.5)	(0.2)	-	-	-		
= Free Cash Flow	**(2.3)**	**(1.2)**	**(2.1)**	**0.6**	**(0.4)**	**0.5**	**1.5**	***31.0%***	***36.6%***
Free Cash Flow growth	*25.6%*	*48.2%*	*-76.5%*	*127.2%*	*-171.4%*	*214.3%*	*212.3%*		
Recurrent Free Cash Flow - Yield (s/Mkt Cap)	*n.a.*	*n.a.*	*n.a.*	*2.8%*	*n.a.*	*1.6%*	*5.1%*		
Free Cash Flow Yield (s/Mkt Cap)	*n.a.*	*n.a.*	*n.a.*	*2.0%*	*n.a.*	*1.6%*	*5.1%*		

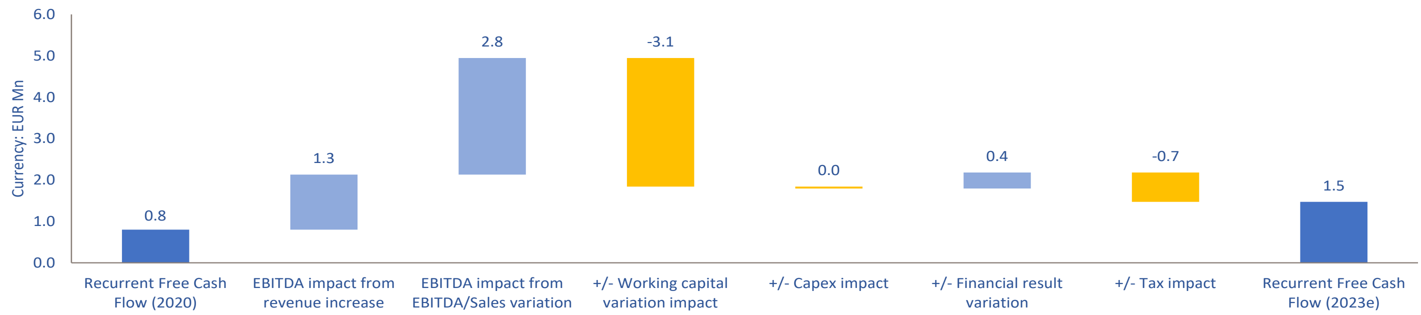
B) Analytical Review of Annual Recurrent Free Cash Flow Performance (Eur Mn)	2017	2018	2019	2020	2021e	2022e	2023e
Recurrent FCF(FY - 1)	**(3.2)**	**(2.3)**	**(1.0)**	**(1.3)**	**0.8**	**(0.4)**	**0.5**
EBITDA impact from revenue increase	0.4	0.1	0.3	(0.1)	0.3	0.5	0.5
EBITDA impact from EBITDA/Sales variation	(0.9)	1.5	(0.4)	(0.7)	1.6	0.6	0.6
= Recurrent EBITDA variation	**(0.5)**	**1.6**	**(0.2)**	**(0.8)**	**1.9**	**1.1**	**1.2**
- Rentals (IFRS 16 impact) variation impact	-	-	-	-	-	-	-
+/- Working capital variation impact	(0.4)	0.6	1.7	0.6	(3.5)	0.0	0.4
= Recurrent Operating Cash Flow variation	**(0.9)**	**2.3**	**1.5**	**(0.2)**	**(1.6)**	**1.1**	**1.5**
+/- CAPEX impact	1.9	(0.8)	(1.5)	2.3	0.4	(0.0)	(0.4)
+/- Financial result variation	0.0	(0.2)	(0.4)	(0.1)	0.3	0.0	0.1
+/- Tax impact	0.0	(0.0)	0.1	(0.0)	(0.2)	(0.2)	(0.3)
= Recurrent Free Cash Flow variation	**0.9**	**1.3**	**(0.3)**	**2.1**	**(1.2)**	**0.9**	**1.0**
Recurrent Free Cash Flow	**(2.3)**	**(1.0)**	**(1.3)**	**0.8**	**(0.4)**	**0.5**	**1.5**

C) "FCF to the Firm" (pre debt service) (EUR Mn)	2017	2018	2019	2020	2021e	2022e	2023e	CAGR 17-20	CAGR 20-23e
EBIT	**0.7**	**1.4**	**1.4**	**(0.4)**	**1.9**	**2.9**	**4.1**	***-37.3%***	***n.a.***
** Theoretical Tax rate*	*0.0%*	*19.1%*	*21.6%*	*0.0%*	*20.0%*	*20.0%*	*20.0%*		
= Taxes (pre- Net Financial Result)	-	(0.3)	(0.3)	-	(0.4)	(0.6)	(0.8)		
Recurrent EBITDA	**0.7**	**2.3**	**2.2**	**1.4**	**3.3**	**4.4**	**5.6**	***24.6%***	***58.2%***
- Rentals (IFRS 16 impact)	-	-	-	-	-	-	-		
+/- Working Capital increase	(0.5)	0.2	1.8	2.4	(1.1)	(1.0)	(0.7)		
= Recurrent Operating Cash Flow	**0.2**	**2.5**	**4.0**	**3.9**	**2.2**	**3.4**	**4.9**	***n.a.***	***8.3%***
- CAPEX	(2.0)	(2.7)	(4.2)	(1.9)	(1.5)	(1.5)	(2.0)		
- Taxes (pre- Financial Result)	-	(0.3)	(0.3)	-	(0.4)	(0.6)	(0.8)		
= Recurrent Free Cash Flow (To the Firm)	**(1.7)**	**(0.5)**	**(0.6)**	**1.9**	**0.3**	**1.2**	**2.1**	***46.2%***	***3.0%***
Rec. Free Cash Flow (To the Firm) growth	*39.0%*	*71.1%*	*-10.2%*	*453.4%*	*-82.4%*	*257.3%*	*73.1%*		
Rec. Free Cash Flow (To the Firm) / Revenues	n.a.	n.a.	n.a.	4.4%	0.6%	2.0%	3.1%		
- Acquisitions / + Divestments	0.1	0.0	(0.3)	(0.0)	-	-	-		
+/- Extraordinary Inc./Exp. affecting Cash Flow	(0.1)	(0.2)	(0.5)	(0.2)	-	-	-		
= Free Cash Flow "To the Firm"	**(1.8)**	**(0.7)**	**(1.4)**	**1.7**	**0.3**	**1.2**	**2.1**	***43.6%***	***7.2%***
Free Cash Flow (To the Firm) growth	*35.0%*	*60.7%*	*-96.1%*	*224.6%*	*-80.1%*	*257.3%*	*73.1%*		
Rec. Free Cash Flow To the Firm Yield (o/EV)	*n.a.*	*n.a.*	*n.a.*	*5.0%*	*0.9%*	*3.1%*	*5.4%*		
Free Cash Flow "To the Firm" - Yield (o/EV)	*n.a.*	*n.a.*	*n.a.*	*4.4%*	*0.9%*	*3.1%*	*5.4%*		

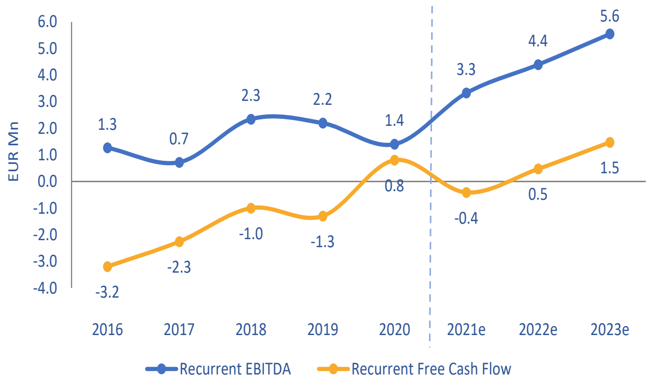
Recurrent Free Cash Flow accumulated variation analysis (2016 - 2020)



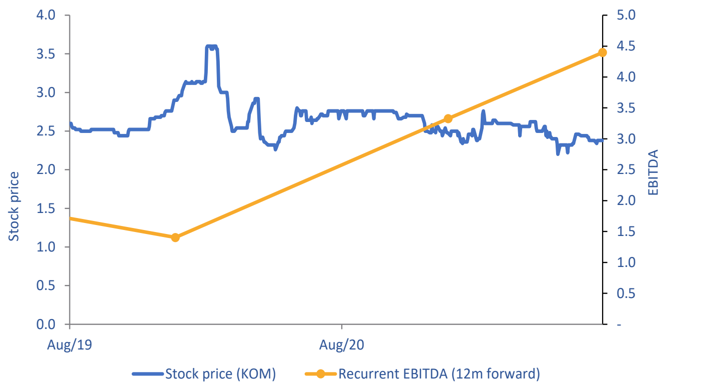
Recurrent Free Cash Flow accumulated variation analysis (2020 - 2023e)



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	28.9	
+ Minority Interests	-	12m Results 2020
+ Provisions & Other L/T Liabilities	0.2	12m Results 2020
+ Net financial debt	10.3	6m Results 2021
- Financial Investments	0.1	12m Results 2020
+/- Others[1]	(0.3)	Lighthouse
Enterprise Value (EV)	**38.9**	

(1) Related to the market value of Treasury Stock.

Appendix 4. Main peers 2021e

	EUR Mn	Specialty Chemicals BASF	Specialty Chemicals LyondellBasell	Specialty Chemicals Clariant	Average	Close peers Avient Corporation	Close peers Cabot Corporation	Close peers Ferro Corporation	Average	KOM
Market data	Ticker (Factset)	BAS-DE	LYB-US	CLN-CH		AVNT-US	CBT-US	FOE-US		KOM-ES
	Country	Germany	UK	Switzerland		USA	USA	USA		Spain
	Market cap	61,611.6	28,002.6	5,878.4		3,694.2	2,567.0	1,449.8		28.9
	Enterprise value (EV)	78,366.6	40,609.2	6,948.6		4,855.3	3,518.3	1,668.9		38.9
Basic financial information	Total Revenues	71,617.8	33,989.5	3,725.5		3,691.8	2,686.3	927.3		54.6
	Total Revenues growth	*21.1%*	*44.8%*	*4.3%*	*23.4%*	*34.7%*	*21.5%*	*14.4%*	*23.5%*	*24.8%*
	2y CAGR (2021e - 2023e)	*1.3%*	*-0.2%*	*5.6%*	*2.2%*	*3.8%*	*4.0%*	*4.2%*	*4.0%*	*12.8%*
	EBITDA	10,467.0	7,310.2	622.2		476.1	540.6	165.3		3.3
	EBITDA growth	*47.2%*	*151.0%*	*2.5%*	*66.9%*	*69.1%*	*81.6%*	*49.0%*	*66.6%*	*148.0%*
	2y CAGR (2021e - 2023e)	*2.5%*	*-9.1%*	*8.7%*	*0.7%*	*8.5%*	*2.6%*	*7.4%*	*6.2%*	*29.2%*
	EBITDA/Revenues	*14.6%*	*21.5%*	*16.7%*	*17.6%*	*12.9%*	*20.1%*	*17.8%*	*16.9%*	*6.1%*
	EBIT	6,526.7	5,754.0	381.1		346.9	403.2	128.7		1.9
	EBIT growth	*97.5%*	*230.5%*	*6.5%*	*111.5%*	*104.3%*	*145.8%*	*66.6%*	*105.5%*	*575.5%*
	2y CAGR (2021e - 2023e)	*2.7%*	*-9.7%*	*13.3%*	*2.1%*	*11.6%*	*2.9%*	*10.4%*	*8.3%*	*47.7%*
	EBIT/Revenues	*9.1%*	*16.9%*	*10.2%*	*12.1%*	*9.4%*	*15.0%*	*13.9%*	*12.8%*	*3.4%*
	Net Profit	4,687.2	4,793.6	231.2		207.1	241.6	79.9		0.7
	Net Profit growth	*422.4%*	*297.5%*	*171.7%*	*297.2%*	*85.6%*	*220.0%*	*226.0%*	*177.2%*	*159.0%*
	2y CAGR (2021e - 2023e)	*3.6%*	*-12.3%*	*12.3%*	*1.2%*	*17.8%*	*3.5%*	*10.8%*	*10.7%*	*88.0%*
	CAPEX/Sales %	*5.2%*	*5.0%*	*8.8%*	*6.3%*	*1.9%*	*4.7%*	*4.4%*	*3.6%*	*2.8%*
	Free Cash Flow	3,488.9	3,897.3	188.2		236.3	113.3	30.2		(0.4)
	Net financial debt	15,497.1	9,399.4	794.8		975.4	792.1	140.2		11.3
	ND/EBITDA (x)	1.5	1.3	1.3	1.3	2.0	1.5	0.8	1.5	3.4
	Pay-out	*66.6%*	*25.4%*	*68.5%*	*53.5%*	*31.7%*	*21.2%*	*n.a.*	*26.4%*	*0.0%*
Multiples and Ratios	P/E (x)	12.1	5.9	24.1	14.0	16.6	10.9	18.6	15.3	39.1
	P/BV (x)	1.7	2.8	2.8	2.4	2.4	3.4	3.2	3.0	1.8
	EV/Revenues (x)	1.1	1.2	1.9	1.4	1.3	1.3	1.8	1.5	0.7
	EV/EBITDA (x)	7.5	5.6	11.2	8.1	10.2	6.5	10.1	8.9	11.7
	EV/EBIT (x)	12.0	7.1	18.2	12.4	14.0	8.7	13.0	11.9	20.8
	ROE	*14.1*	*47.1*	*11.6*	*24.2*	*14.3*	*31.1*	*17.2*	*20.9*	*4.7*
	FCF Yield (%)	*5.7*	*13.9*	*3.2*	*7.6*	*6.4*	*4.4*	*2.1*	*4.3*	*n.a.*
	DPS	*3.40*	*3.65*	*0.48*	*2.51*	*0.73*	*0.90*	*n.a.*	*0.82*	*0.00*
	Dvd Yield	*5.1%*	*4.4%*	*2.7%*	*4.0%*	*1.8%*	*2.0%*	*n.a.*	*1.9%*	*0.0%*

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

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Notes and Reports History

Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
28-Jul-2021	n.a.	2.38	n.a.	n.a.	Initiation of Coverage	David López Sánchez