Ecolumber

EQUITY - SPAIN
Sector: Food - Food Processing

Report date: 10 Jun 2020
Distribution time: 12:30

Initial Coverage
Closing price: EUR 1.05 (9 Jun 2020)

EcoLumber, S.A. (ECO) is a small national group based in Spain (Barcelona), specialised initially in the forestry business. The company has changed strategic direction, positioning itself in the food industry, as a vertically integrated Group, in the production, processing and sale of nuts. It is controlled by the Board of Directors (50.3% of capital)

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

Market Data

Market Cap (Mn EUR and USD)	28.4	32.2
EV (Mn EUR and USD) [1]	30.3	34.3
Shares Outstanding (Mn)	27.0	
-12m (Max/Med/Mín EUR)	1.05 / 0.98 / 0.87	
Daily Avg volume (-12m Mn EUR)	n.m.	
Rotation[2]	0.0	
Thomson Reuters / Bloomberg	ECWI.SCT / ECO SM	
Close fiscal year	31-Dec	

Shareholders Structure (%)[7]

G3T SL	14.0
Brinca 2004 SL	10.8
Onchena	8.0
Acalios	7.3
Free Float	32.2

Financials (Mn EUR)	2019	2020e	2021e	2022e
Adj. nº shares (Mn)	27.0	27.0	29.8	29.8
Total Revenues	13.4	15.2	17.5	19.9
Rec. EBITDA[3]	-2.2	-1.3	-0.4	0.1
% growth	*-24.4*	*42.0*	*69.8*	*136.2*
% Rec. EBITDA/Rev.	*n.a.*	*n.a.*	*n.a.*	*0.7*
% Inc. EBITDA sector[4]	*7.7*	*3.2*	*14.5*	*8.1*
Net Profit	-2.2	-1.8	-0.9	-0.7
EPS (EUR)	-0.08	-0.07	-0.03	-0.02
% growth	*-245.4*	*17.3*	*54.9*	*25.4*
Ord. EPS (EUR)	-0.08	-0.06	-0.03	-0.02
% growth	*-269.7*	*24.9*	*46.2*	*25.4*
Rec. Free Cash Flow[5]	-5.6	-2.5	-3.1	-7.3
Pay-out (%)	*0.0*	*0.0*	*0.0*	*0.0*
DPS (EUR)	0.00	0.00	0.00	0.00
Net financial debt	10.2	10.1	16.7	30.3
ND/Rec. EBITDA (x)	n.a.	n.a.	n.a.	n.a.
ROE (%)	*n.a.*	*n.a.*	*n.a.*	*n.a.*
ROCE (%)[5]	*n.a.*	*n.a.*	*n.a.*	*n.a.*

Ratios & Multiples (x)[6]	2019	2020e	2021e	2022e
P/E	n.a.	n.a.	n.a.	n.a.
Ord. P/E	n.a.	n.a.	n.a.	n.a.
P/BV	1.6	1.5	1.6	1.6
Dividend Yield (%)	*0.0*	*0.0*	*0.0*	*0.0*
EV/Sales	2.25	1.99	1.73	1.52
EV/Rec. EBITDA	n.a.	n.a.	n.a.	n.a.
EV/EBIT	n.a.	n.a.	n.a.	n.a.
FCF Yield (%)[5]	*n.a.*	*n.a.*	*n.a.*	*n.a.*

(1) Please refer to Appendix 3.
(2) Rotation is the % of the capitalisation traded - 12m.
(3) Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 0.0Mn higher due to IFRS 16..
(4) Sector: TR Europe Food Processing.
(5) Please see Anex 2 for the theoretical tax rate (ROCE) and recurrent FCF calculation.
(6) Multiples and ratios calculated over prices at the date of this report.
(7) Others: Jovellanos Cartera 6.3%, Relocation & Exec. Serv. SL 4.8%, Ladan 2002 SL 3.2%, Other Board Members 13.3%

A logical change of strategic direction "only" requiring patience

A CHANGE OF BUSINESS DIRECTION, THAT MAKES SENSE STRATEGICALLY, TOWARDS THE FOOD INDUSTRY (NON-CYCLICAL). ECO is putting to one side its traditional wood business, to reposition itself (via M&A) in an industry niche with good growth prospects (nuts) with a vertically integrated business model that was endorsed in 2019 (rec. revenue >EUR 13Mn, bringing forward break-even to 2022e).

LEVERING ITS KNOW HOW: of agriculture and forestry to optimise the profitability of the industrial business acquired (Grupo Utega, 2018), by capturing all the industrial value chain, enabling the group to lever its structure to sell "in-house" processed nut products (with higher added value).

TO EXPAND THE BUSINESS: via a twofold strategy: 1) expansion of the nut plantations (c.+3x +3y), increasing the self-supply of nuts, and 2) industrial investments to accelerate growth, improving the long-term profitability of the business (processed nut products for the food industry, more profitable).

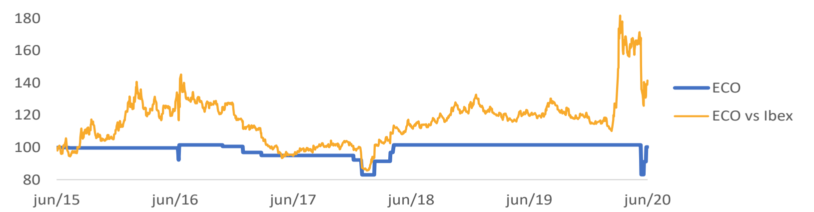
WITH THE RESUMPTION OF THE STRATEGIC PLAN IN THE MIDDLE OF THE "COVID-19" CRISIS, the management of which has, paradoxically, favoured the sector (strong growth in the consumption of "healthy" food), in principle validating ECO's strategy.

BUT WHICH DEPENDS LARGELY ON THE SUCCESS OF THE ONGOING CAPITAL INCREASE. The plan requires c. EUR 23Mn (+3y), with core shareholders having pledged c. EUR 3Mn, c. 15% of the ongoing capital increase (target: EUR 20.8Mn). The degree of success of the capital increase (amount, term, price and dilution) is at present uncertain. And will determine the execution of the business plan and growth.

AS A LOGICAL WAY TO RE-BALANCE THE BALANCE SHEET. The execution of the plan, without raising further money in addition to what is already assured, would increase gearing (175% ND/Equity 2022e, c.+3x vs. 2019). However, raising c. EUR 17Mn (80% of the target) would take Group gearing to acceptable levels (51% ND/Equity 2022e). A "snapshot" that could be improved via the sale of non-core assets.

THE EQUITY STORY IS CLEAR: a change of strategic direction underpinned by know how and, perhaps, even good timing (growth in the nut market niche), bringing forward break even in EBITDA (2022e), The raising of capital is the big "Gordian knot".

Relative performance -5y (Base 100)



Stock performance (%)	-1m	-3m	-12m	YTD	-3Y	-5Y
Absolute	-1.2	-1.2	-1.2	-1.2	5.5	0.3
vs Ibex 35	-13.6	-1.8	17.7	21.7	49.4	41.5
vs Ibex Small Cap Index	-6.5	-5.8	6.2	9.3	-2.6	-12.7
vs Eurostoxx 50	-13.5	-12.0	0.5	11.4	13.9	4.4
vs Sector benchmark[4]	-0.9	-6.6	-3.8	1.7	-12.1	-25.1

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

A logical change of strategic direction but one that is highly dependent on the raising of capital

Ecolumber (ECO) has taken a radical change of direction in its business strategy, beginning in 2016, by extending its activity (forests), to nut production. This process culminated in December 2018, with the acquisition of Grupo Utega, specialised in the processing and sale of nuts.

A) 2016-2019: a change in the direction of the business model, from hardwoods to the food industry

From a business without revenue and very long-term profitability …

An initial business (wood) characterised by cash consumption: the nature of the business in its beginnings, the management of forests to produce wood (with long maturity periods), has shaped the group's financials to date:

- Almost zero contribution from revenues in 2012-2015 and continuous cash consumption (a cumulative EUR -2Mn in terms of recurrent EBITDA 2012-2015; EUR -3Mn in recurrent FCF). The P/L was nourished mainly by the (positive) restatements of the value of the biological assets (a cumulative EUR 1.3Mn in the same period).

- An activity that extends over the very long term: the first felling since the plantations began in Spain (2004) is slated for 2026, with the last ones taking place beyond 2040.

To a sector that will require investment (+3y) but brings forward expectations of generating positive FCF

Which explains the extension of the business into nut growing (2016), via the incorporation of plantations for the production of nuts (an activity that reduces the maturity cycles and extends the operating cycles of the crops). However, this new business has meant higher operating expenses (c. EUR 5Mn in consumption of EBITDA accumulated in 2016-2018) and more investment (average CAPEX of EUR 1Mn/year 2016-2018 vs. an annual average of EUR 0.3Mn in the previous period, excluding acquisitions).

And its subsequent repositioning as an integrated player in the growing nut industry via the acquisition of the industrial group Utega (December 2018), after closing a first round of financing (EUR 7Mn capital increase).

Step-up in scale in revenues (EUR 13.4Mn 2019) via M&A

This change of perimeter is a logical move that seeks: 1) the acceleration of cash generation, 2) a distancing from the wood business and a repositioning in a segment of the food industry (non-cyclical) in expansion ("healthy food"), and 3) improved profitability by levering the know-how acquired from the current plantations, increasing the self-supply of nuts and the sale of new products (more lucrative). The consolidation of the industrial and commercial activity in the P/L since January 2019 marks a turning point for the group, increasing revenue to > EUR 13Mn recurrently, in a growing market, although still with consumption of operating cash (EUR -2.2Mn in Rec. EBITDA).

B) 2020-2022e: a new strategic plan pending execution, with the current "Covid-19" crisis as prelude

The Covid-19 crisis has favoured the food industry

The management of the Covid-19 pandemic has impacted consumer habits, in principle favouring the food industry. This health crisis has boosted consumption of products considered "healthy" (such as nuts). Although during the so-called "week of hysteria" (at the beginning of lockdown) purchases of "supplies" (consumer staples and non-perishable fresh foods) shot up (c. +20% y/y), shopping habits have gradually normalised. But, even so, there has been a significant increase in purchases of snacks and nuts in these months.

The "Covid-19 effect" is sure to have repercussions for the "new normal", both in terms of consumers' priorities and in the moderation of their spending. On the other hand, consumer bias towards product "safety" could validate ECO's play on Km 0 products (sustainable) in a scenario that could benefit the food industry (+2% in spending on food in 2021, according to Deloitte).

With a new business plan, that implies: Revenues +14.0% CAGR 2019– 2022e)…

Against this backdrop ECO relaunched its business plan in May 2020, a plan that envisages: i) the further expansion of plantations (via acquisitions, reducing the dependence on third parties) in order to increase the self-supply of nuts, optimising the value chain, and ii) making the necessary investments to scale up the growth and profitability of the industrial division (repositioning in processed products for the food industry, with higher added value). The first stages of the project will be accompanied by the launch of new, more lucrative products (Airnuts 1Q20), requiring a bigger commercial effort (EUR 1Mn in advertising +5y). In other words, a plan based on growth in the nut business, leaving to one side the wood business.

…With cash consumption at the operating level, and an increase In CAPEX

Our estimates envisage the partial execution of the business plan: with an increase in nut plantations (+350 has., c. 85% almonds) and the execution of the investments necessary to drive the expansion of the industrial business (l/t). The financial requirements for its execution total c. EUR 23Mn: i) EUR 1.7Mn to cover operating cash consumption (Rec. EBITDA and IFRS-16) ii) EUR 10.0Mn in CAPEX, iii) EUR 0.4Mn in working capital investment, and iv) EUR 10.1Mn in non-recurrent payments (associated with restructuring and contingent payments and above all the acquisition of land). This scenario implies reaching break even in EBITDA in 2022e (vs. 2021 if the increase in plantations were to be delayed), against a backdrop of stable prices.

But the change of business has had an unavoidable impact on debt, the main constraint for the current strategy: 2016-2019 saw an inevitable jump in gearing (higher Capex and operating costs with still negative FCF generation). ND increased from 1.5 Mn (2017) and 5.6 Mn (2018, after the acquisition of Utega) to 10.2Mn (2019), stabilising thereafter (EUR 10.1Mn 2020e, 54% ND/Equity), thanks to the contribution to capital pledged by core shareholders (EUR 2.95Mn included in our model in 2020).

and whose execution depends largely on the success of the ongoing capital increase

With the ongoing capital increase, being the logical way to re-balance the balance sheet and finance the execution of the plan (EUR 20.8Mn; 14.2% assured from shareholders). Without the raising of "new money" additional to that already pledged, gearing would be 175% ND/Equity 2022e (c. 3x vs -3y). The success of the capital increase will totally determine ECO's financial position and the speed and degree of execution of its strategic plan.

having the "ace up its sleeve" of the sale of assets

A "snapshot" that could improve with the sale of the non-core biological assets, with the Argentine assets being valued at USD 2.5Mn (2019). In addition, the wood business, the first revenues from which will be delayed until 2026, is valued at EUR 7.2Mn (not currently for sale).

C) Conclusion: a "logical" strategic plan, but one that is highly dependent on the raising of capital, and that will require a certain patience before it comes to fruition

But, what is ECO today? This is perhaps the question of greatest interest and which, in itself, resolves 99% of the doubts that could be raised by the stock as an investment option.

In our opinion ECO has done the most difficult bit: execute a totally logical strategic change of direction, from being a "classic" forestry business to being an integrated company, validating its strategy of positioning itself in the business of the production and sale of nuts (thanks to the purchase of Grupo UTEGA in 2018). A business that has synergies with the forestry activity and whose expected growth rates are higher than the food sector average.

Strengthening its positioning in a food sector that is non-cyclical (with lower risk and volatility), and growing (nuts)…

ECO is redoubling its play on the nut segment, which is now its core business, with a project that is both logical ("on paper") and credible that:

- Improves the profitability of the business by accelerating vertical integration: increasing the productivity of existing own capacity (nuts) and providing additional growth in own production (principally almonds, preferably by acquiring land). This project generates synergies with the experience acquired both with the walnut tree plantations of the original forestry business and with the nut business.
- Levers the industrial business: on the sale (s/t) of in-house products with higher added value (Airnuts) and of intermediate products (l/t) aimed at the food and cosmetics industries with higher returns.

…Logically levering its "know how"

- Uses its know how: ECO is not an "outsider" when it comes to the nut business. It knows it both from its forestry project and from the nut plantations acquired in 2016 with the acquisition of Cododal Agrícola. In addition, its management team, who largely come from Borges, have vast experience in this sector.

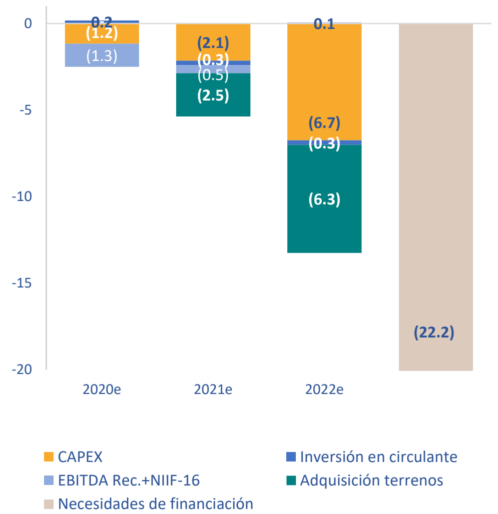
As regards the company's fundamentals, the strategy adopted has four main effects:

Achieving "break even" in 2022e

- It reaches break even in terms of EBITDA that we see as feasible in 2022 (if the increase in new plantations goes ahead) and the company in 2021 (reaching break even in that year would require an increase of c. 5% in the average sale price).

- It increases investment needs (CAPEX and operating expenses) and so financing requirements, meaning that a company with a reasonable level of gearing at present would need a further c. EUR 17Mn to to keep its leverage at reasonable levels (ND/FFPP c. 50% 2022), having assured c. 3Mn with its shareholders.

Chart 1. Estimated financial needs

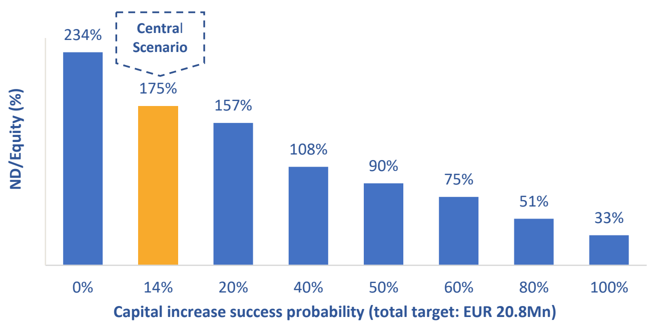


The raising of capital is critical to this process…

Knowing that financing cannot depend exclusively on debt, as gearing would "rocket" (ND/Equity: 175% 2022e; if the strategic plan were financed only with ND and the contribution of EUR 3Mn from its reference partners).

Chart 2. Capital increase success probability vs. 2022e gearing

….in order to leave gearing at acceptable levels (ND/Equity c. 50%)



- It reduces the company's risk profile, increasing its exposure to the food sector (more stable and predictable CF). And with realistic expectations of achieving positive FCF relatively quickly.
- It maintains the potential value of the forestry business which is supposed to be one of the strong points of ECO's plan. This is compatible with unlocking the value of a part (ex Argentina) of its historical investment in wood.

A strictly financial equity story in the short and mid term, in which the raising of capital becomes the "Gordian knot" of the strategic plan, as today the only constraint on the execution of the strategic plan is capital.

The expansion of the nut business, increasing self-supply preferably via the acquisition of new plantations makes sense (by reducing the dependence on third parties) but is highly dependent on the capital required to finance it and on the ability to sell non-core assets. This is a logical move and rightly aimed at value creation but is pending execution, with a delay in the expansion of the nut plantations a possibility, in order to concentrate initially on optimising the industrial/commercial business.

In view of the uncertainty unleashed by Covid-19: what are the floor and the ceiling in 2022e?

Taking FCF to break even end 2022 in its best scenario

The acceleration of the channelling of consumption towards healthy food after the current pandemic will enable an increase in prices (+0.5%/year) and the acceleration of the penetration of ECO's newest and most lucrative products (c. +2x vs. central scenario). This scenario would result in ECO's revenues approaching

EUR 25Mn +2y, considerably improving the profitability of the business, taking the EBITDA/revenue margin to c. 12% (EUR 3Mn Rec. EBITDA 2022e). In addition, if the company managed to obtain 80% of the funds of the current capital increase, the 2022 ND/equity ratio would fall to 39%. Even more importantly, operating CF of EUR 2.2Mn would be generated already in 2022 (which could take FCF to break-even if the agricultural investments expected for that year were to be delayed).

Table 1. 2022e What would happend if…?

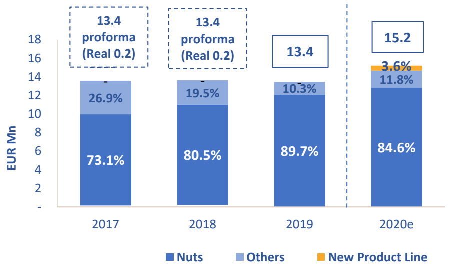
	Worst Case	2022e Current Scenario	Best Case
Total Revenues	17.5	19.9	23.9
2022e Revenues vs 2020e	*19.6%*	*31.0%*	*54.9%*
Rec. EBITDA	(1.6)	0.1	3.0
Rec. EBITDA/Revenues	n.a.	0.7%	12.4%
Capital Increase Success (%)	14.2%	14.2%	80.0%
2022e Net Debt	32.9	30.3	13.5
DN/Equity 2022e	230%	175%	39%
Recurrent OCF	(1.8)	(0.2)	2.2
Recurrent FCF	(8.9)	(7.3)	(5.0)
2022e EV/Sales	1.73	1.52	1.27
Premium / (Discount) vs sector	*35.5%*	19.4%	*-0.3%*

And prolonging operating cash consumption in its worst scenario

A more adverse scenario (greater economic deterioration due to Covid-19) would result in greater pressure on margins, a smaller penetration of new product lines (c. -50% vs. our central scenario) and even the loss of the sales to the Caprabo retail chain (de-consolidation from the Eroski group). This nightmare scenario (which includes the first stage of the agricultural and industrial expansion) would reduce revenue expectations (c. -12% vs. our 2022e central scenario), prolonging cash consumption at the operating level (EUR -1.6Mn in Rec. EBITDA). Gearing, assuming only the capital increase agreed with current shareholders (EUR 2.95Mn) would remain excessively high (2.3x ND/equity), affecting the current business plan.

Repositioning in the growing nut sector

Chart 3. Revenues Mix



Note: Change in the scope of consolidation in december 2018.

Ecolumber (ECO) is a small domestic group (EUR 28.4Mn Market Cap). On its creation in 2004 it specialised in the management of forests in Spain (America black walnut trees) for the production of wood. In 2016 the company made its first change of strategic direction by expanding into the nut business (acquisition of Cododal Agrícola, specialised in the production of walnuts and almonds at a domestic level), followed by the inclusion in its business of the sector's entire value chain with the acquisition of Grupo Utega (December 2018), specialised in the processing, packaging and sale of nuts (mainly walnuts, almonds and pistachios) and dried fruit. ECO has traded since June 2009 (after the Lehman crisis) on the Barcelona Open Outcry Market, changing its corporate name from Eccowood Invest to Ecolumber in 2012.

A radical change of strategic direction that reduces risk,…

ECO's activity revolves around two businesses: i) the agricultural business, that includes its wood business and intensive nut farming and which is managed in Spain by the subsidiary Cododal Agrícola and in Argentina by the subsidiary Pampa Grande, and ii) the industrial and distribution business (carried out by Grupo UTEGA: Uriarte Iturriate and Frutos secos de la Vega).

Chart 4. Corporate Structure

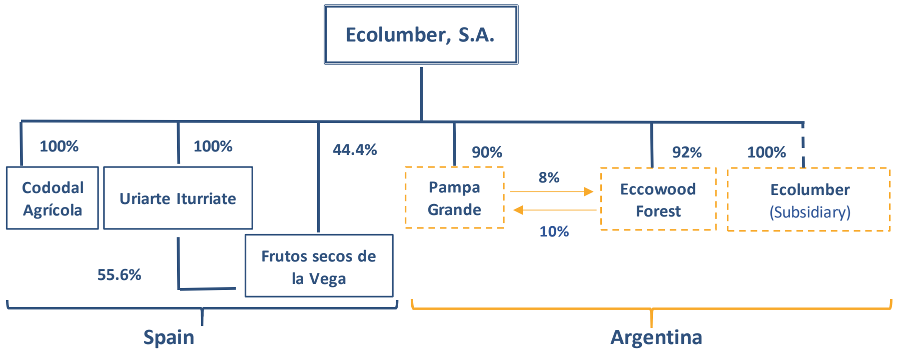
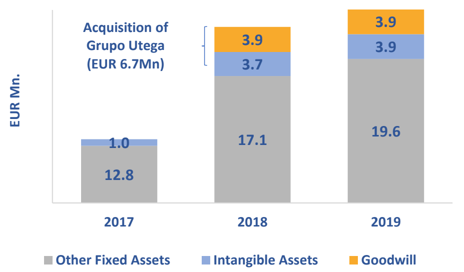


Chart 5. Goodwill and intangible assets generated with the acquisition of Grupo Utega



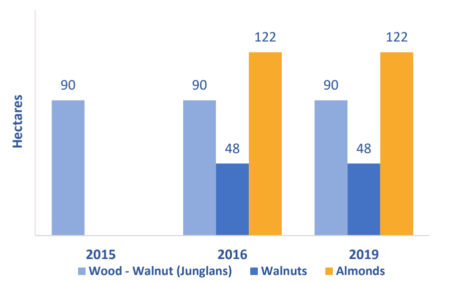
Note: Grupo Utega's acquisition generated (2018) Goodwill (EUR 3.9Mn) and intangilbe assets linked to the qcquired client portfolio (EUR 2.8Mn), susceptible to deterioration.

…is critical to the expansion of the business…

The change of perimeter (integration of Grupo Utega, December 2018) seeks the vertical integration of the industrial value chain, partly offsetting the cash consumption of the forestry and agricultural divisions. It also positions the company in the nut processing business (with higher added value and key to its strategy), a segment which has gained interest in the sector (the number of domestic companies in this segment rose c.20% y/y in 2018)[1]. The Group could lever the industrial structure acquired to launch new products (in-house nut snacks) with larger margins.

The acquisition, which was reasonable in terms of EV/sales c. 1.2x 2018e (EV/EBITDA >40x given the tight sector margins), generated goodwill representing 50% of the cost of the transaction (EUR 7.8Mn). As a result of this operation, the goodwill and the customer portfolio acquired together accounted for 24% of 2019 fixed assets.

Chart 6. Hectares under management: national productive mix



The agricultural division currently manages 260 hectares in Spain: 170 for nut production (Alcover and Villanop, in Tarragona, and Ontiñena, in Huesca, of which 85.3% are cultivated), and 90 hectares for the production of black walnut wood (Oropesa, in Toledo, and Luna, in Zaragoza). ECO owns 13.6% of the nut plantations (23 Ha acquired with the integration of Cododal) and 53% of the forestry assets (Oropesa), leasing the rest of the land with an average lease term of up to 2030. In addition, since 2008 the company has owned 9,914 Ha of agricultural land in Río Negro Argentina (valued at USD 2.5Mn in 2019), initially destined for the production of walnut wood, of which currently 15 Ha remain under cultivation for the production of nuts, and whose contribution to the business has been completely diluted (c. 6% of 2018 consolidated revenue, and c. 0.1% in 2019).

…and brings forward cash generation

Compared to the wood business, which has long maturity periods (c. 25 years until final felling), nut plantations have much shorter maturity periods (5 years for almond trees and 7 for walnut trees), with an average production cycle of c. 25 years.

This factor underlines that the company's forestry business, originally strategic for ECO, has moved into the background, and the sale and/or disinvestment of forestry assets cannot be ruled out in the long term.

In fact, the long maturity periods that characterise this business, together with the financial requirements to maintain the trees, led to the failure of competitors in the past (Fundación Española de la Madera in 2016, Maderas Nobles de la Sierra del Segura in 2017, Bosques Naturales in 2018). ECO plans to dispose of its Argentine business (< 2 years), a process that could be delayed after the current Covid-19 crisis, in order to finance additional expansion of its nut plantations in Spain (almond and walnut trees). This would simultaneously reduce both the risk (country and forex risk) and the Group's financial leverage (ND/Equity 57.5% 2019, vs. c. 55% of the sector).

Chart 7. ND/EV vs. sector average

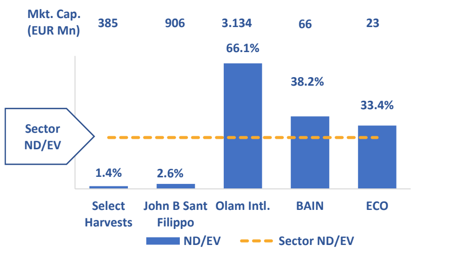
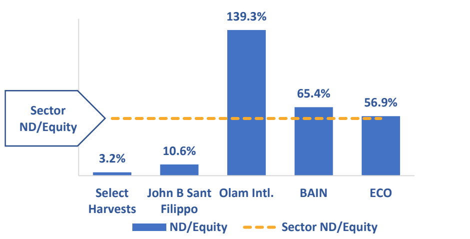


Chart 8. ND/Equity (2019) vs. sector average



Note: Olam Intl.'s high financial leverage is due to a change in perimeter

A step-up in scale both in terms of quantity…

Given the initial nature of its business (forestry), turnover (basically from nut sales), was practically insignificant in 2017-2018 (c. EUR 0.2Mn/year).

The change of perimeter catapulted revenue to EUR 13.4M in 2019, tying with the 2018 proforma figure. Price pressure (double-digit falls in almonds and walnuts) and the worse revenue mix wiped out strong growth in volumes, leading the subsidiary acquired to operating break even (c. EUR -0.1Mn EBITDA 2019e vs. EUR 0.5Mn -1y). Even so, the increase in the volume of nuts sold has been considerable (+25.0% y/y vs. proforma) reaching 2,061MT (**c**. 80% of the total volume sold and c. 7% of the volume sold by Borges Agricultural and Industrial Nuts). Nuts accounted for 89.7% of sales (23% walnuts, 10% almonds and 56.2% other nuts), with the remaining 10.3% coming mainly from dried fruit.

…and, especially, quality, that will be the key to business growth

The change of corporate strategy has positioned ECO in the food industry (nuts) as a vertically integrated group, enabling it to:

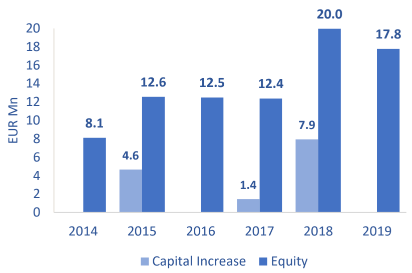
1) Offset the long maturity cycles of the wood business (>30 years) with other shorter ones (nuts), bringing forward break-even (to 2022e, unless the company decides to increase its plantations by more than expected) accelerating cash flow generation in coming years, by increasing the productivity of its crops.
2) Reduce business risk via a positioning in the food industry (nuts, a product with growing demand), encompassing all parts of the industrial value chain via vertical integration.
3) Reduce liquidity risk (thanks to the immediate generation of revenue).
4) Lever the existing structure to launch more innovative products (Airnuts 2020) with higher added value, to accelerate the improvement in productivity.
5) And gain sector visibility.

The strategy adopted is not free of risks. A stand-out risk is the historical dependence of the revenue of the business acquired (Utega) on Grupo Eroski (c.70% of 2019 revenue, -10p.p. y/y), that will need a significant commercial effort to widen the client portfolio. On the other hand, the agricultural business is highly dependent on third parties (lack of purchase option clauses in current land leases) and debt is increasing (ND EUR 10.2Mn 2019) associated with the change in perimeter and the investment needed to increase the land under cultivation.

Bearing in mind the change in strategy which reduces the weight of the wood business, and the lack of equivalent European listed operators in the forestry sector (in Spain Foresta Capital is a reference), ECO's main rivals are to be found in the nut sector, with listed companies such as Borges Agricultural And Industrial Nuts in Spain (belonging to Grupo Borges), Select Harvest (Australia), Olam (Singapore) and John B. Sanfilippo & Son, and many other unlisted companies such as, Wonderful Pistachios and Almonds (formerly Paramount Farms), Mariani Nut

Company, Diamond Foods, Blue Diamond, the Italian company Besana and, domestically, Almendras Llopis.

Chart 9. Equity vs. capital increases

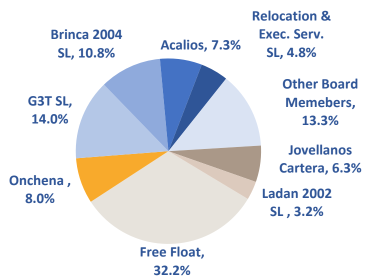


Change of business and growth financed by capital increases

The expansion of ECO's business has been carried out via three capital increases, to which core shareholders have mainly contributed:

1) The first (EUR 4.95Mn, 2015), which took place after a capital reduction process (EUR -1.8Mn, aimed at re-establishing the equity balance), was carried out in order to diversify into the nut production business.
2) The second (EUR 1.4Mn, 2017), was to finance the increase in nut plantations.
3) Finally, in November 2018 ECO announced its largest capital increase to date (aimed at raising up to EUR 21.8Mn), to finance an ambitious expansion plan that included the acquisition of Grupo Utega. This acquisition forced the partial execution of the capital increase that same year (27.3% of the total announced, via the issue of 5.8Mn shares). A second tranche was subsequently executed with an increase of 1.9Mn shares to offset debt in an amount of EUR 2Mn.
4) The ongoing equity raising process has two goals: i) to expand the nut plantations (to improve returns in the longer term), reducing the dependence on third parties (+550 Has. +3y, c. +3x the area currently managed, via the acquisition of land) and ii) to scale up the industrial business by committing to the nut processing business (more lucrative). Covering the financial requirements +3y of this twofold strategy would mean raising c. EUR 23Mn (c. 20% of the total would be allocated to the industrial business and c. 60% to agricultural expansion).

Chart 10. Shareholders structure



Stable shareholder structure committed to the needs of the Group

Brinca 2004, G3T, Arcalios Invest and Ladán are among the shareholders who have held capital in the company since it made its debut on the open outcry market in 2009, having taken part to a greater or lesser extent in the successive capital increases. The capital increases carried out in the last three years have resulted in investment funds such as Onchena and Jovellanos Cartera (8.0% and 6.3% of capital respectively) becoming shareholders. However, the representation agreements allow the Board to maintain control (with c. 50.3% of the votes), with a free float of 32.2%.

Although the current ongoing process to increase capital in 2020 may result in a theoretical dilution of core shareholders' interests, current shareholders are likely to continue to finance a large part of the project (which might be executed in several stages depending on the need for funds).

Strong demand continues to attract investment (and increase supply)

Historical data reflect the strength of demand growth for nuts and dried fruit. The nut market (89.7% of ECO's 2019 revenues) was worth USD 37.4Bn in the 2018/2019 season (+9.4% y/y, excluding the production of in-shell peanuts), after recording a -10y CAGR of +7.4%. The dried fruit market (10.3% of ECO's 2019 turnover) has also recorded solid growth in the past (CAGR +5.1% -10y), reaching USD 9Bn in the 2018/2019 season (+16% y/y), with global production of 3.2 Mn MT (+5% y/y).

In addition, ECO seeks to position itself in the healthy snacks segment (nut processing), a market valued at c. USD 23Bn (2018) and for which annual growth of c. +5% is expected in the mid/long term[2] as these replace other products due to consumers' growing awareness of their nutritional and health properties.

Nut demand is Covid-proof

The growing awareness of the importance of living a healthy lifestyle has increased consumption of what are considered "healthy" foods (walnuts and almonds) as a part of people's diets[3]. Demand for these products increased during the first few months of the "Covid-19" crisis, international management of which has helped to change consumer habits. Consumption of almonds and walnuts (33% of ECO's 2019 revenue, and critical to its business strategy) has continued to benefit from strong retail sales (as consumers seek nutritional foods with a high protein content and long shelf life), while being penalised by the closure of restaurants, bars and hotels.

In addition, the bringing forward of orders due to the potential risk of supply shortages and/or the closure of some international markets (Asia) are some of the factors that have helped to temporarily distort pricing. However, market growth fundamentals are in principle unchanged (c. +6% y/y in US exports since the beginning of the year).

Strong market growth prior to the Covid-19 crisis

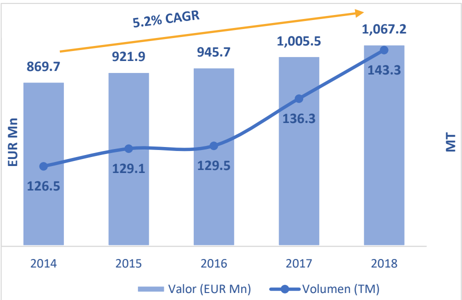
Global production amounted to 4.5 Mn MT in the 2019/2020 season, with a -10y CAGR of +4.1%. Almonds, walnuts, cashews and pistachios account for the bulk of the market (81.3% of revenues, +1.3p.p. y/y).

The US has led world's nut production (c. 41% of the total), being the largest producer of almonds (c. 80%), pistachios (c. 58%) and walnuts (c. 31%), which together account for c. 95% of the country's nut production. It is followed by Asia and the Middle East (c. 19% and 11% of global production respectively). Estimates for 2019/2020 point to a slowing of growth in global production (+2% y/y, c. -4p.p. y/y)[4].

Likely increase in supply in the mid/long term…

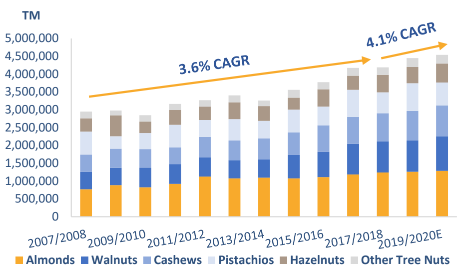
According to the INC (International Nuts Council), the global almond market was worth USD 8,300Mn in 2018/2019 (CAGR +7.8% -10y, boosted by the recovery of the average price in the last year, +14.7% y/y) after moderate growth in production (+1.4% y/y). The US, Australia and Spain lead global production (with c. 80%, 7% and 5% respectively), the former being the reference country for price formation. The EU is one of the main markets for almonds, consuming c. 30% of global production in 2018/2019[5], and importing c. 75% of its requirements (c. 90% from the US., with Spain as the main destination country).

Chart 11. Household consumption of nuts and dried fruit (Spain)



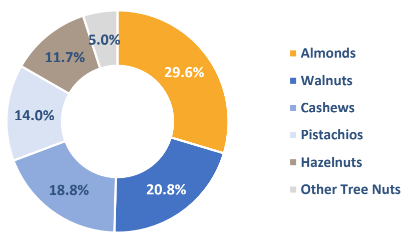
Source: Report on food in consumption in Spain (Spanish Ministry of Agriculture, Fisheries and Food).

Chart 12. Global nut market (metric tonnes produced)



Source: INC (International Nuts Council) 2018/2019.

Chart 13. Global nut market mix (per metric tonnes produced)

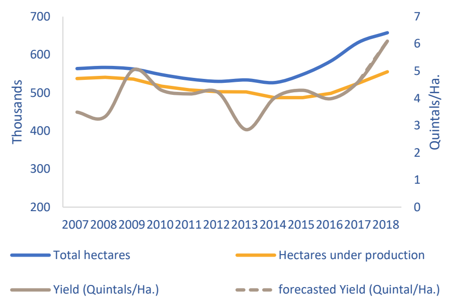


Source: INC (International Nuts Council), datos 2018/2019 (excl. peanuts).

2 Grand View Research poitns to 5.2% CAGR in healthy snacks (c. USD 33Bn in 2025).
3 Nuts help to prevent cardiovascular disease and favour cognitive functioning, among other benefits. Almonds are a source of calcium to prevent osteoporosis.
4 INC (International Nuts Council), November 2019 data.
5 "EU-28 Tree Nuts Annual" Report and INC (International Nuts Council), 2018/2019 Data.

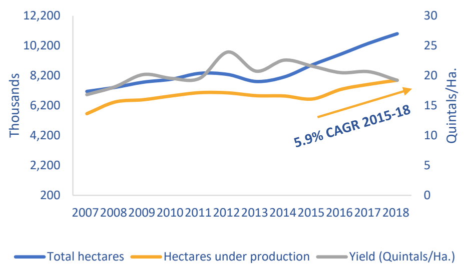
The walnut market (32% of Group revenues) was worth USD 7,100Mn in 2018/2019 (CAGR +7.6% -10y)[6]. China, the US and Chile account for c. 80% of global production, led by the first of these (40% 2018/2019). The increase in cultivation in Chile (c. +3x cultivated area vs. -10y) stands out. The EU imports c. 70% of its consumption requirements[7], with the US being one of its main suppliers (c. 55% of import volumes in 2019).

Chart 14. Total almond tree hectares in Spain (planted and in production) vs. productivity



Source: Spanish Ministry of Agriculture, Fisheries, Food and the Environment (MAPAMA), 2018 data (hectares with regular production).

Chart 15. Total walnut tree hectares in Spain (planted and in production) vs. productivity



Source: Spanish Ministry of Agriculture, Fisheries, Food and the Environment (MAPAMA), 2018 data.

…Both of almonds…

The favourable expectations for demand (c. +6% CAGR +5y) have resulted in the continuous expansion of the area under cultivation. While in the US the increase in the area under cultivation was concentrated in 2010-2015 (c. +40%, CAGR +6.8%) with growth moderating in following years (CAGR 2015-2019: +3.6%, and production of 1.0Mn MT at the end of the period), the boom in growth in Spain occurred in the middle of the last decade (+6.2% CAGR 2015-2018, c. 660 thousand hectares), taking production to all-time highs (c. 339.000Tm. 2018/2019[8], CAGR +17.4% -3y) accounting for c. 70% of European production.

The decline in local production in 2019 (-2.1% y/y) was a one-off (bad weather), with production set to increase significantly in the medium term (c. +20% +3y), associated with: 1) the entry in production of the almond trees planted during the economic crisis, 2) higher productivity (CAGR c. +10% -3y), extremely dependent on the weather, and 3) the development of new plantations (m/t).

…and of walnuts.

The favourable outlook for demand (c. +6% CAGR +5y) has also led to growth in the productive area for walnuts (CAGR 2015-2019: +5.2% in California and +4.2% in Spain) due to the gradual entry into production of the most recently planted plantations. In the local market, the increase in volume of consolidated plantations, plus the incorporation of the production of c. 2,000 Has. of recently planted plantations in 2019 resulted in a c. +20% y/y increase in the last harvest (vs. c.+2% CAGR 2015-2018)[9]. The local production area is expected to double +4y (vs. the current c. 8,000 Has.).

Increasing the risk of a temporary surplus of supply in the sector…

The increase in plantations in recent years, could result in a supply glut (generating imbalances in the mid/long-term) although this is extremely dependent on an increase in productivity (and, so, on the weather), squeezing prices again and discouraging the development of new plantations. Although the US has had to deal with problems of drought in California (where the industry is concentrated) for almost a decade, production has been increasing (c. +60% vs. -5y, with 1.36Bn MT expected for the current harvest, +17.6% y/y)[10]. In addition, Australian production has increased in recent years (c. +35% vs. -3y, which is exported, mainly to China), and productivity in Spain has improved (CAGR -5y >5%).

Conversely, a reduction in productivity (bad weather) would enable the pace of expansion of plantations of recent years to be maintained. In this respect, the availability of land for cultivation in the Mediterranean belt, together with a lack of significant entry barriers, will contribute to making competition tougher (l/t), leading to greater market fragmentation. Even so, productivity and farm-gate prices remain critical to the business equation (due to pressure on prices from the expected increase in production and imports of cheaper varieties).

…And impacting on prices that are highly dependent on productivity (s/t), now also affected by the Covid-19 crisis

The characteristics of these products lead to a high sensitivity of their price to the higher/lower availability in the market. Prices peaked in the middle of the financial crisis (walnut prices doubled in 2014 vs. -3y, reacing USD 10.7/Kg, with almond prices hitting highs in 2015, USD 7.7/Kg, +55% vs. -4y), while the subsequent increase in supply caused a correction of prices (CAGR 2015-2017 of c. -19% and -9% respectively). However, the moderation of global

[6] INC (International Nuts Council).
[7] "EU-28 Tree Nuts Annual" Report and INC (International Nuts Council), 2018/2019 Data
[8] Spanish Ministry of Agriculture, Fisheries, Food and the Environment (MAPAMA): in-shell production data
[9] Spanish walnut producers' association and Spanish Ministry of Agriculture, Fisheries, Food and the Environment
[10] United States Department of Agriculture National Agricultural Statistics Service "2020 California Almond Forecast".

production in recent years (AAGRs -3y of c. +3.0% and +4.5% respectively for walnuts and almonds) have favoured a recovery of prices.

Reducing the price (2020) of walnuts and almonds, and in principle favouring their consumption

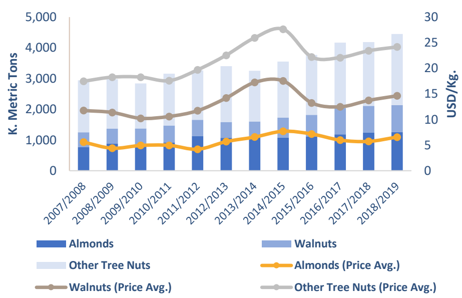
Walnut prices remain stable at c. -20% vs. highs, due, among other factors, to the increase in the production of lower calibre Chilean varieties (>95% is exported).

On the other hand, although almond prices temporarily recovered in 2019 (+14.7% y/y)[11] due to smaller initial expectations for US production (-3% y/y), the pressure on prices caused by the channelling towards Europe (2019 exports +2.4% y/y) of surplus production in California (with higher than anticipated growth, +11.8% y/y), is contributing to the erosion of prices. In addition to this redirecting of US production, caused at first by import tariff tensions with Asia (import duties of 60% on US exports to China), some of its markets closed (India) and exports slowed due to Covid-19.

As a result, the price has fallen c. 16% since the beginning of the year (accumulating c. -10% in February, one of the biggest falls of the last five years in the US), and continues to weaken despite higher demand (< USD 5.3/Kg), squeezing prices for local production.

However, given the sensitivity of demand to fluctuations in price (as these are premium products), the availability of product at lower prices could also speed up the penetration of derivative products (milk, creams, etc.) benefiting the sector. In this respect, ECO aims to scale up its almond processing, targeting the almond ingredients market (CAGR of c. 10% +5y)[12]. The nutritional properties of these foods for an ever older European population, together with the increase in global lactose intolerance and the demand for gluten-free products, underpin market growth.

Chart 16. Global nut production (metric tonnes) vs. global average price



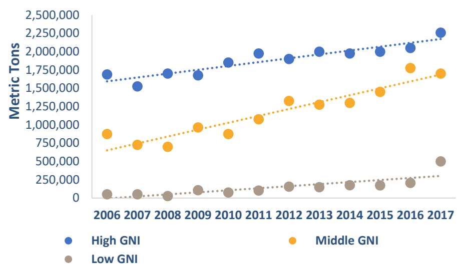
Source: INC (International Nuts Council), 2018/2019 data.

Even so, Asia is still a target as a way to relieve pressure on prices

Although the US-China trade conflict (2018/2019) has enabled progress to be made on EU-China bilateral trade agreements[13], Spanish almonds do not yet have the pertinent commercial authorisation in the country. Asia has been the most dynamic market in recent years (with India and China standing out), thanks to a trend towards a healthier diet among a large part of the growing middle class. The penetration of this market is one of the objectives of the domestic sector, a crucial factor given the considerable increase expected in local production.

Although the trade agreement reached between the US and China (January 2020, lowering tariffs by c-5%, and currently under review due to Covid-19) could reduce the capacity of imports to China from other regions (China imports c. 78,000 MT from the US), the opening of its borders could offer opportunities for intra/extra EU trade for local producers.

Chart 17. Forecasted nut consumption per GNP



Source: INC (International Nuts Council), 2018/2019 data

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

A sector that focuses on production efficiency and innovation

Tougher competition and poor price visibility will force producers to invest in production efficiency (in order to mitigate the fall in prices caused by the increase in volume), in quality (to bring them into line with international standards) and/or in new products based on these nuts that generate higher added value, as levers to protect and/or expand margins. Like other competitors, ECO has developed a new line of "healthy" products based on nuts, with higher added value (Airnuts), a process that will require a stronger sales network.

Besides that, vertical business integration is also on the agendas of producers (being a strategic mainstay for ECO) as a way of creating value (Olam International acquired the almond processing company Hughson Nuts in October 2019).

An industry mainly concentrated in private hands

Leading market players include a large number of private companies both in the walnut (such as Mariani Nut Co., Diamond Foods, Alpine Pacific Nut, Poindexter Nut Company, Guerra Nut Shelling Company, Grower Direct Nut Co. Inc.) and almond (Blue Diamond, Wonderful

[11] Data of the Lonja de Reus.
[12] 10.46% CAGR for almond ingredients (Expert Market Research, USD 16.7Bn 2025).
[13] Spanish table grapes obtained (2019) commercial authorisation in China.

Pistachios and Almonds, Mariani Nut Company, Waterford Nut Co, California Gold Almonds, The Almond Company and the Italian company Besana World) segments, the only listed pure references at the international level being the Australian company Select Harvest and Olam International from Singapore. At the domestic level, ECO competes (2019) with Borges - BAIN and with private companies such as Almendras Llopis.

We consider companies of reference in the nut sector to be the Belgian company Greenyard (specialising in the growing and processing of fruit and vegetables) and the Australian company Select Harvest (specialising in the production of high quality almonds), in addition to the US companies John B. Sanfilippo and Archer-Daniels-Midland (ADM, specialising, among other things, in the processing of seeds and cereals for the food industry), and the Singapore company Olam International (which has a larger portfolio of products for the food industry, such as tea, rice, palm oil, etc.).

Successfully delivering the new business model "only" requires investment…

ECO's short track record as an industrial group prevents a comparison of the current business with the historical one: exclusive management of forestry plantations (hardwoods) pre-2016, branching out from that year to the agricultural business (nuts) and entering the food industry (nuts) as a vertically integrated player in 2019, financing growth with capital increases. The Group maintains its roadmap despite the current crisis: to strengthen its business by increasing vertical integration (reducing dependence on third parties) and diversification of the industrial business (towards more lucrative processed products).

2020e: a global health crisis that has favoured the food industry

There is still a great deal of uncertainty about the final impact that the Covid-19 pandemic will have on an economy that is wobbling, with consumption reduced to the merely necessary and in a scenario which has restricted visits, among other places, to the supermarket. The forecasts issued by the main economic organisations are gloomy.

The Bank of Spain has just reduced its most optimistic forecast for the contraction of domestic GDP to -9.5% y/y in 2020, (-2.9p.p. vs. its most favourable scenario of the end of April, when it was estimating -13.6% in the worst-case scenario[14], vs. -3.8% during the 2009 crisis) The same organisation has warned that the crisis will be longer and more severe than expected, causing structural damage to the economy (and to consumption). On the other hand, there is uncertainty over the efficacy of the economic measures that will finally be adopted (a Marshall plan?).

But the "new normal" will bear the scars of Covid-19, both the economic and social ones, changing consumers' spending priorities. The great uncertainty caused by this crisis (a key factor in family consumption) could result in a moderation of consumption vs. previous crises, with a significant bias towards product "safety", healthy food and value for money.

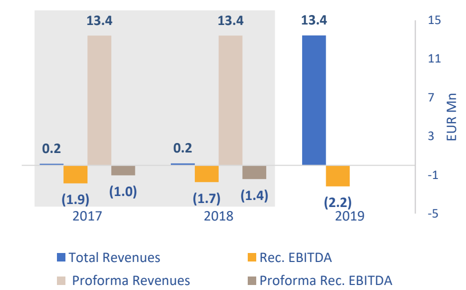
In this scenario and given ECO's short track record as a vertically integrated group, the question is what is its current situation for dealing with this crisis?

2019 (the starting point for the 100% consolidation of the P/L of Grupo Utega), was not easy for ECO. The year was impacted by the financial crisis of the main client of the acquired group, Eroski, which reduced its contribution to the business (c.70% of 2019 revenue, -10p.p. y/y in proforma terms). The retail chain was involved in a difficult bank refinancing process (concluded in July 2019), associated with a demanding restructuring plan. In fact, the potential sale of the Caprabo stores (c. 19% of its 2019 points of sale) remains on the table, which, if it happened, would affect ECO (c. 10% of 2019 revenue).

Even so, the group managed to equal 2018 proforma revenues (EUR 13.4Mn 2019), in a year in which pressure on prices (Eroski?) was the overriding tonic (double-digit fall in almonds and walnuts) along with the worse revenue mix (-2.5p.p. y/y in walnut volumes and +10p.p. for other products with smaller margins), which fully offset the strong increase in sales volumes of nuts (+25% y/y in proforma terms).

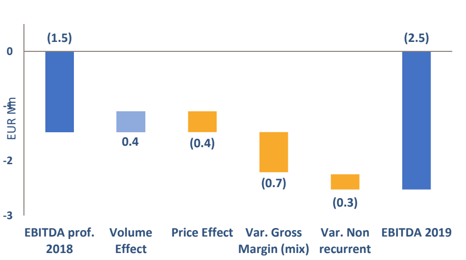
As a result, the subsidiary acquired remained at break-even (c. EUR -0.1Mn Rec. EBITDA 2019e vs. EUR +0.5Mn -1y) with EUR -2.2Mn in consolidated recurrent EBITDA. In addition, the impact of the restructuring carried out (EUR -0.4Mn), and the increase in CAPEX (EUR 2.6Mn, +2.3x y/y) and financial expenses (EUR 0.2Mn) have increased debt (ND EUR 10.2Mn in 2019, c. +2x y/y; 58% of equity).

Chart 18. Revenues vs. EBITDA Rec.



Note: proforma 2017 and 2018.

Chart 19. EBITDA Bridge 2018-2019



Note: proforma 2018 EBITDA.

14 The Bank of Spain in its report "Reference Macroeconomic Scenarios For The Spanish Economy After Covid-19". The most favourable scenario envisages an almost immediate recovery after the lockdown, while the most unfavourable sees the recovery as incomplete at the end of the year (hotel and leisure sectors).

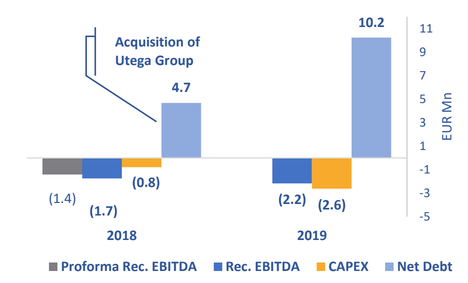
A defensive profile to weather the crisis, with the raising of capital being critical

The Covid-19 crisis has changed consumer habits. During the so-called "week of hysteria"[15], which forced a radical change in consumers' shopping behaviour due to the state of alarm, purchases of consumer staples increased by c. +21% y/y. After the purchase of "supplies" during the first few weeks (of, among other things, non-perishable fresh products, such as nuts), shopping habits have gradually normalised.

ECO's repositioning as an integrated operator in the nut industry, a segment aligned with the growing trend for healthy food (almonds and walnuts), is crucial to weathering this crisis, whilst its forestry business matures. In a survey carried out in the first month of lockdown, c. 70% of those asked said they planned to maintain and/or increase their spending on healthy food. [16]

However, resolving the group's financing (in the medium and long term) is critical. In 2020 the company has ensured its financial requirements thanks to its core shareholders (EUR 2.95Mn), guaranteeing the continuity of the business.

Chart 20. EBITDA Rec. vs. CAPEX and ND



Note: proforma 2018 EBITDA.

Given the extraordinary situation brought about by Covid-19, we have decided to divide our estimates. Firstly, we indicate what can be expected in 2020e, a year especially affected by the measures adopted to contain the pandemic and the phases of de-escalation required to return to a certain "normality". And secondly, the likely performance of ECO in the mid term, after Covid-19.

A 2020 distorted by Covid-19 (which in principle should have a positive impact)

Although the "Covid-19" crisis has paralysed ECO's capital raising process, the new normal will see the resumption of the project, whose main attractions are its defensive nature and the positioning in a market in expansion (healthy food: almonds and walnuts). By way of illustration, these months of confinement have seen an increase in snacks and nuts in consumers' shopping baskets (+78% y/y in April),[17] boosted by the temporary closure of the hotel and catering sector [18].

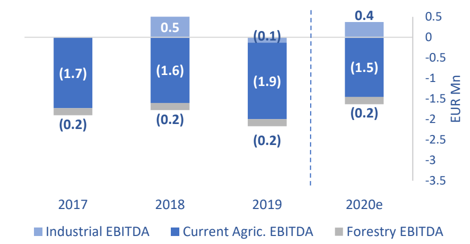
Our central scenario (2020e-2022e) includes: i) the nut plantations and forests currently under management, ii) the launch of new industrial business lines (nut processing), iii) the partial execution of the expansion of the industrial division (for processed products), and iv) the first phase of the expansion of the nut plantations (+100 Has of nut trees in 2021e and +250 Has in 2022e; this land will be acquired not leased), guaranteeing a certain level of self-supply (mainly almonds).

Although the long periods needed for the nut plantations to reach optimum productivity (c. 5 years) will weigh on the Group's returns in the short and mid term, the project makes a lot of strategic sense, and is feasible with mixed financing: an increase in capital (in various stages), bank debt and/or the sale of non-strategic assets. Our estimates assume a partial impact of the ongoing capital increase (EUR 2.95Mn guaranteed by core shareholders), without envisaging the sale of other assets (the land in Argentina was valued at USD 2.5Mn in 2019).

- **Strong revenue growth (EUR 15.2Mn, +13.1% y/y).** Several sources point to double-digit growth in 2020 for the food industry (c. +10% y/y), due to the hoarding effect at the beginning of lockdown, and the capture of part of the market share freed up by the hotel and catering sector (due to the restrictions imposed). Paradoxically, the high dependence on Eroski (ECO's main risk factor), became a strength during the first part of the year (c. +20% y/y in 1Q20 revenue, to which Eroski contributed c. 80% of the total, offsetting the "temporary" loss of the hotel and catering sector). However, the return to a certain normality (2H) will lead to a gradual normalisation of consumption, although 4Q could be somewhat more austere (restrained household spending) despite the growing interest in these products.

[15] The week after the declaration of a state of alarm decreed on 14/03/2020 because of Covid-19, due to an unwarranted fear of shortages.
[16] The impact of coronavirus on mood, habits and consumption (Ideas Action Lab, March 2020).
[17] Spanish Ministry of Agriculture, Fisheries and Food: Report on household food consumption (week 14).
[18] Hotels, restaurants and cafeterias.

Chart 21. Rec. EBITDA Mix



Nota: datos EBITDA industrial 2018e proforma.

Chart 22. EBITDA Bridge 2020e

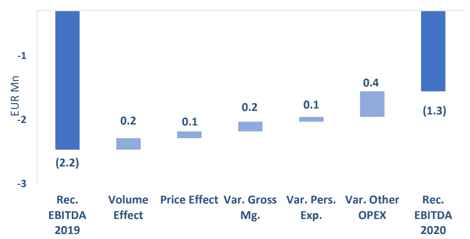


Chart 23. From EBITDA to FCF (2020e)

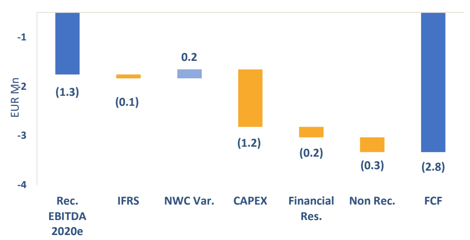
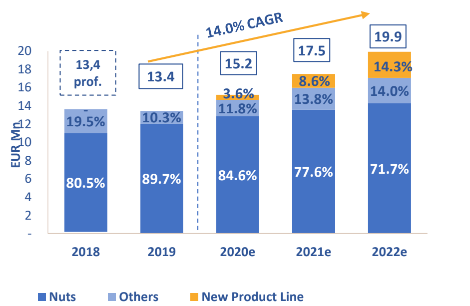
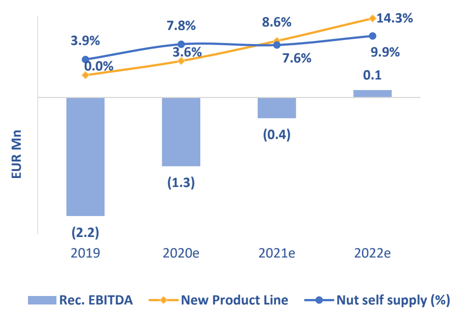


Chart 24. Revenues mix



Note: 2018 proforma data (EUR 0.2Mn reported revenues 2018).

Chart 25. Rec. EBITDA vs. contribution to revenue from new products (%) and nuts self supply (%)



On the other hand, the launch of new products (processed nut products with higher added value) will strengthen revenue growth (3.6% of Group turnover, contributing to c. 30% of growth) and the client portfolio.

- **That reduces the consumption of operating cash (rec. EBITDA EUR -1.3Mn, -42.0% y/y).** Underpinned mainly by the increase in sales volumes and the product mix, and strengthened by cost-cutting (restructuring) and operating leverage. The sales effort required for the new launches will have a small negative impact (EUR -0.3Mn in advertising).

- **Resulting in cash requirements of EUR 2.8Mn in the year,** despite the reduction in investment (EUR 1.2Mn in CAPEX, -55.6% y/y). This will be allocated both to the new product lines (EUR 0.5Mn, after having invested EUR 1Mn in 2019), and to the nut plantations. A negative impact is also likely due to restructuring (EUR -0.3Mn), and the increase in financial expenses.

- **Restraining debt (ND EUR 10.1Mn, 54% ND/equity, -4p.p. y/y), thanks to the new contribution by current shareholders,** who have pledged EUR 2.95Mn (14.2% of the capital increase currently in progress), evidence of their commitment to the project. C. 45% of ND at the end of 2019 had short-term maturities (EUR 5.2Mn), increasing the need to raise capital (and/or seek potential bank refinancing).

Adjustments to the value of the biological assets of the forestry business have been a constant for the company. The impact of these adjustments amounted to EUR 0.9Mn in 2018, >2x vs. their average contribution in 2014-2017, declining to EUR 0.2Mn in 2019. We include these amounts under the capitalised expenses heading. Our 2020-2022e estimates envisage a neutral impact on the group's P/L.

Post Covid-19: what can be expected in the mid term? Acceleration of revenue growth (via new launches and a better mix), with break even in 2022e

As already mentioned, the "Covid-19 effect" could favour a consumer bias towards product safety (validating ECO's play on Km 0 products) and healthy food. Moreover, the food industry could be one of those to benefit, due to increased spending on food products (+2% in 2021 according to Deloitte).

In this scenario, we expect ECO to achieve revenue of c. EUR 20Mn in 2022e (+14.0% CAGR 2019-2022e), reaching EBITDA break even at the end of the period (boosted by a more favourable revenue mix), the main growth drivers being:

- **Solid growth in demand for nuts:** Estimating a CAGR of +5.4% 2020-2022e for sales, which will contribute to the 30.3% revenue growth

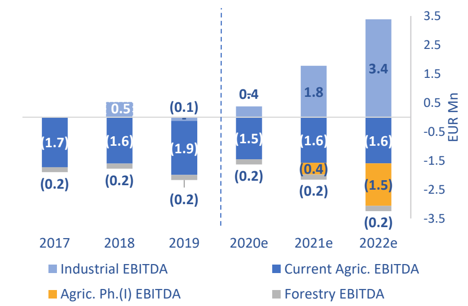
- **The growing penetration of the more innovative** (Airnuts) and lucrative launches, via sales agreements with strategic clients with a significant domestic presence in food retail. We estimate revenue of EUR 2.8Mn at the end of the period (14.3% of Group revenue, contributing to the 48.8% growth in consolidated revenue 2020-2022e).

- **And the diversification of the client portfolio** at present comprised of local clients, underpinned by a strategy of Km 0 products (sustainability), and potential cross-border activity (> l/t).

But EBITDA break even won't be achieved until 2022e.

The vertical integration implemented will make the business profitable, with the long-term improvement in margins levering: i) the gradual entry in productivity of the crops, with an increase in the self-supply of nuts (+9.9% of estimated total sales at the end of the period, +6p.p. vs. -3y); ii) the improvement in productivity (incorporation of new machinery in 2020, with the possibility of adding new shifts in existing lines) and iii) the growing contribution of the new more lucrative product lines (14.3% of 2022e consolidated revenue and > 70% of the industrial/commercial division's EBITDA).

Chart 26. Rec. EBITDA mix



Note: 2018 proforma data. Agric Ph.(I) EBITDA reffers to the agricultural business expansion contemplated in the central scenario.

Chart 27. EBITDA Bridge 2020e-2022e

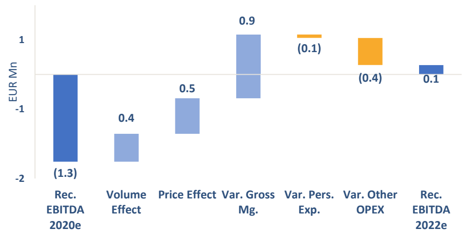
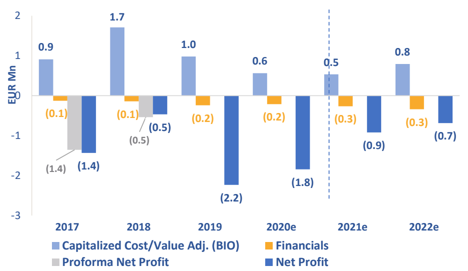
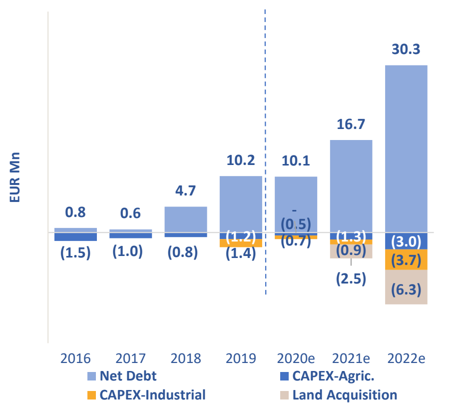


Chart 28. Net Result



Note: 2017 -2018 proforma data.

Chart 29. CAPEX vs. ND



Note: ND increased in 2018 due to the acquisition of Grupo Utega.

The projected gradual improvement in the Rec. EBITDA/Revenue margin of the industrial/commercial division (+17.9 p.p. vs. -3y) will offset the cash consumption of the agricultural business (m/t), despite the sales effort (an addition EUR 0.7Mn in advertising in 2021-2024). In our central scenario, ECO will reach break even in 2022e (EUR 0.1Mn EBITDA). ECO's 2018 accounting policy already envisages IFRS-16, with no impact in 2019.

In fact, the partial development of the strategic plan envisaged in our central scenario (a 350-hectare increase in nut plantations +2y), will increase the cash consumption of the agricultural division (a cumulative EUR -5Mn in rec. EBITDA +2y, to which the planned increase in crops will contribute c.35%). The postponement of this stage would accelerate cash generation in the medium term (bringing forward break even), and reduce the potential for margin improvement associated with an increase in the level of self-supply in the longer term.

Delaying (long term) NP break even

Given the nature of its business, ECO has historically incurred losses (the break-even reached in 2014 and 2016 was mainly due to the capitalisation of expenses and to the restatement of the value of the biological assets), accumulating tax loss carryforwards of EUR 10.8Mn in 2019.

In fact, despite the positive contribution to proforma PBT in 2018 from the capitalisation of expenses and the restatement of the value of the biological assets (EUR +0.5Mn and EUR 1.0Mn respectively), the Group recorded losses in proforma terms (EUR -0.5Mn). The contribution to 2019 PBT of both items amounted to EUR 1Mn (c. 80% from the capitalisation of expenses).

However, the capitalisation of work carried out on the biological assets (an average of c. 5% of proforma revenue -3y), will partly offset operating expenses. Our estimates assume the policy of capitalising expenses will continue with the new plantations (an average of c. 4% of revenue generated over the estimated period). Our numbers include c. EUR 0.5Mn/year in 2020e-2021e, rising to EUR 0.8Mn in 2022e (c. 70% of the increase in plantations will occur in 2022e).

Conversely, we do not include the additional impact which the potential restatement of the value of the company's biological assets would have on EBIT, or that caused by potential extraordinary income from the sale of other non-strategic assets and/or impairments of intangibles (the goodwill and client portfolio associated with the acquisition of Utega).

The total financing of ECO's expansion with debt would increase the financial load (an average of c. 40% of cumulative PBT generated +2y). The raising of capital will reduce financial costs, bringing forward break even in Group results (including a zero tax charge in our scenario).

If, finally, the company decided to cancel the expansion of its agricultural business, the consolidated tax regime would allow it to use the tax credits generated by the agricultural business, keeping the tax rate below 25%. We have not included the possible forex impact on the lower part of the P/L either (the net impact of inefficiencies and/or the lack of forex hedging has been residual in the past).

The sale (not included in our estimates) of the biological assets in Argentina (Pampa Grande, valued at USD 2.5Mn in 2019) would generate extraordinary income (EUR 1.6Mn NBV 2018).

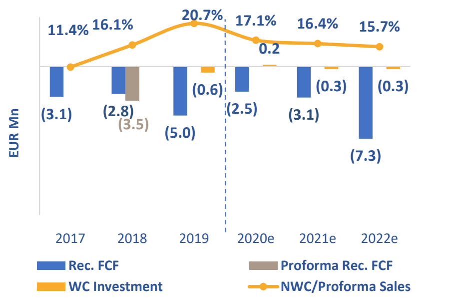
With an inevitable increase in CAPEX in the mid term

ECO has assigned an average of EUR 1.5Mn per year to investment over the last three years (excluding corporate acquisitions). The execution of the business plan envisaged in our central scenario (increase in plantations from 2021e) will require an additional cumulative investment of EUR 8.9Mn +2y, distributed equally between the expansion of the nut plantations and of the industrial division.

Cumulative total investment would amount to EUR 10Mn 2020-2022e, contributing to c. 50% of the increase in ND during the period vs. 2019. In addition, ECO could earmark EUR 8.8Mn +2y to the acquisition of land for nut plantations (mainly almonds).

Apart from the investment in new machinery for the processing of the newest products (EUR 1.0Mn 2019 and EUR 0.5Mn 2020e), the company should not need to make additional investments in the short/medium term, as it has the capacity to double or even triple shifts with the existing machinery. Investment +2y will be very high, with CAPEX/sales 2020-2022 of

Chart 30. Rec. FCF vs proforma NWC/sales



Note: Proforma 2018e rec. FCF considers a CAPEX of the acquired subsidiary equivalet to the amortization.

Chart 31. Operating CF, CAPEX, Rec. FCF and FCF

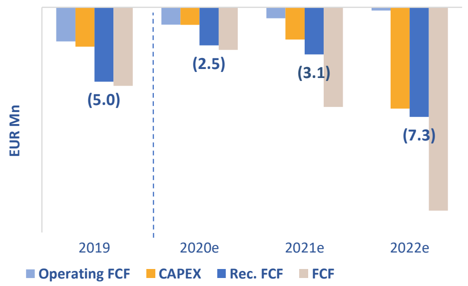
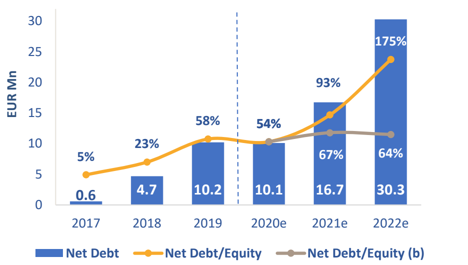


Chart 32. ND/Equity vs Net Debt



Note: ND/Equity (b) considers the current business (excluding the agricultural expansión and additional industrial inverstments to those executed up to date).

19%. It is reasonable to assume that from then on this will converge with the sector average (c. 8% CAPEX/sales), boosting FCF and enabling the reduction of gearing.

And a gradual improvement in working capital

Average working capital investment increased to 20.7% of 2019 revenue (+4.6p.p. vs. the proforma 2018e figure), with an improvement in the ratio being likely. The improvement will be greater in 2020e due to strong sales growth (17.1% 2020e, -3.6p.p. y/y), with a tendency to stabilise (c. 16% +2y, due to the increase in inventories for the launch of the new products). Control of inventory management and of the supplier payment period (which could be improved via a larger self-supply of raw materials) will be crucial.

The commitment to expand the business will require high cash consumption

The operating cash requirements of the agricultural division and CAPEX, which shaped recurrent FCF 2019, will persist (on idle) in 2020e, increasing +2y (the CAPEX by itself explains why FCF is “in the red”). In addition, we envisage non-recurrent cash outflows: i) EUR -0.3Mn in 2020e (restructuring), ii) EUR 1.0Mn in 2021e (contingency payment associated with the acquisition of Grupo Utega, subject to the ECO share price) and iii) c. EUR 10Mn for the acquisition of land for plantations (2021-2022e).

Logically, the medium/long term financial requirements will mean maintaining a pay-out zero, in line with the policy of recent years.

However, the delaying or cancellation of the execution of this first stage of the expansion plan for the agricultural division (for which we estimate cash consumption of EUR 1.9Mn of EBITDA in 2020-2022e) would bring forward cash generation to 2021, in detriment to lower profitability in the longer term. Even so, in this scenario projected recurrent FCF would continue in the red (vs. a c. 4.5% FCF yield for Select Harvest).

An ongoing capital increase that could mitigate the debt problem

Given the cash consumption envisaged in our central scenario, ECO’s gearing (58% ND/equity 2019, vs an average of c.55% in the sector), is critical over the next two years. Despite the ongoing capital increase (c. EUR 21 Mn), our estimates only include the raising of capital that is certain and already pledged by shareholders (14.2% of the target), so the ratio would decline to 54% in 2020e (ND EUR 10.1Mn in line vs. -1y), but shoot up +2y (175%), evidencing the risk involved in financing the business plan entirely with debt in the current economic situation.

Any improvement in the percentage of success of the 2020 capital increase would ease the pressure on financial expenses and mean more capacity to generate FCF and accelerate growth. In addition to this, the potential sale of the Argentine assets (USD 2.5Mn) and/or of the forests in Spain (valued at EUR 7.2Mn in the strategic plan) would reduce gearing. Our central scenario can be seen as a worst case in terms of financing the growth plan. The only obstacle to ECO’s business plan is not strategic (as the planned vertical integration in nuts is logical). Or even macro (as the situation for the nut segment is favourable). But exclusively financial (the only constraint for a swift execution of the plan).

In view of the uncertainty unleashed by Covid-19: what is the floor and the ceiling in 2022e?

The acceleration of the channelling of consumption towards healthy food after the current pandemic will enable an increase in prices (+0.5%/year) and the acceleration of the penetration of ECO's newest and most lucrative products (c. +2x vs. central scenario). This scenario would result in ECO’s revenues approaching EUR 25Mn +2y, considerably improving the profitability of the business, taking the EBITDA/revenue margin to c. 12% (EUR 3Mn Rec. EBITDA 2022e). In addition, if the company managed to obtain 80% of the funds of the current capital increase, the 2022 ND/equity ratio would fall to 39%. And, even more importantly, operational CF of EUR 2,2Mn would already be generated in 2022 (which could bring the FCF yield to break-even, if the agricultural investments estimated for that year are delayed).

Tabla 2. 2022e What would happend if…?

	Worst Case	2022e Current Scenario	Best Case
Total Revenues	17.5	19.9	23.9
2022e Revenues vs 2020e	*19.6%*	*31.0%*	*54.9%*
Rec. EBITDA	(1.6)	0.1	3.0
Rec. EBITDA/Revenues	n.a.	0.7%	12.4%
Capital Increase Success (%)	14.2%	14.2%	80.0%
2022e Net Debt	32.9	30.3	13.5
DN/Equity 2022e	230%	175%	39%
Recurrent OCF	(1.8)	(0.2)	2.2
Recurrent FCF	(8.9)	(7.3)	(5.0)
2022e EV/Sales	1.73	1.52	1.27
Premium / (Discount) vs sector	*35.5%*	19.4%	*-0.3%*

A more adverse scenario (greater economic deterioration due to Covid-19) would result in more pressure on margins, a smaller penetration of new product lines (c. 50% vs. our central scenario) and even the loss of the sales to the Caprabo retail chain (de-consolidation from the Eroski group). This nightmare scenario (which includes the first stage of the agricultural and industrial expansion) would reduce revenue expectations (c. -12% vs. our 2022e central scenario), prolonging cash consumption at the operating level (EUR -1.6Mn in EBITDA). Gearing (assuming only the capital increase agreed with current shareholders: EUR 2.95Mn) would remain high (2.3x ND/equity), affecting the current business plan.

In conclusion: the strategic plan is logical and implies more growth. But depends on the capacity to obtain funds. The capital increase is critical.

The recent change in the perimeter is the means by which ECO has repositioned itself in the non-cyclical food industry, as a vertically integrated player, putting aside the wood business (previously core). This move will optimise the business acquired (Utega, 2018), improving margins in the long term via the increase in the self-supply of nuts (drawing on the know how accumulated with the current plantations) and the sale of new products with higher added value. However, investment requirements and the agricultural production cycles associated with the development of the strategic plan will delay the generation of positive recurrent EBITDA until 2022e.

We estimate financial requirements (2020-2022e) of c. EUR 23Mn to implement its strategy: i) EUR 1.5Mn to cover the consumption of operating cash (Rec. EBITDA) ii) EUR 10.0Mn in CAPEX, iii) EUR 0.4Mn in working capital investment, iv) EUR 1.3Mn in non-recurrent cash outflows (for restructuring and contingent payments associated with the acquisition of Utega), and v) the acquisition of land (EUR 8.8Mn in the period).

The capital raising target of ECO's current strategic plan is EUR 20.8Mn (vs. EUR 11.4Mn in 2019). Group debt will increase more or less depending on the capital raised in this present round. If the capital increase were to reach 80% of the target, Group leverage would be at acceptable levels (51% ND/Equity 2022e).

ECO's equity story is clear: a strategic change of direction towards a food sector niche with good growth prospects (vertical integration in nuts). A change of direction being carried out with prior experience (forestry business, management) and (paradoxically) perhaps good timing, as the market is growing towards this segment. The impact on sales and EBITDA will be visible in two years at most (with break even in EBITDA already in 2022; and significant room to continue growing). The only problem is the financing of the plan. The degree of success of the capital increase is essential to knowing the speed and extent of the execution of a logical strategic change of direction.

1Q20 results support the business strategy

Q1 was affected by the declaration of the state of alarm in Spain (March). Even so, the results reflect the resilience of the business (EUR 3.2Mn in revenues, +22.3% in YoY, with +38% in volume), although the less favourable revenue mix (greater contribution from less profitable products) results in a contraction of the gross margin (-3.2p.p. y/y, in line with 2020e). The growing contribution of its newest launches (Airnuts) during the 2H should make it possible to defend or improve margins.

On the other hand, the reinforcement of its structure has led to an increase of 18.4% y/y in personnel costs (including commercial), which is transferred to the lower part of the income statement resulting in a contraction of recurrent EBITDA (EUR -0.5Mn, -1.4x y/y) and NP (EUR -0.6Mn, -2.3x YoY), which has also been affected by the restructuring expenses implemented (EUR -0.1Mn) and the increase in financial costs (c. +2x y/y). In addition, the increase in inventories to ensure the supply during the Covid-19 crisis has resulted in a "one-off" increase in debt (ND 12.8Mn, c. +25% vs. that recorded at the end of 2019), which should revert in the year thanks to the new contribution of its current partners (c. EUR 3Mn).

Valuation inputs

Inputs for the DCF Valuation Approach

	2020e	2021e	2022e	Terminal Value [1]	Best Case	Worst Case
Free Cash Flow "To the Firm"	**(2.3)**	**(6.4)**	**(13.2)**	**n.s.**		
Market Cap	**28.4**	At the date of this report				
Net financial debt	**10.2**	Debt net of Cash (12m Results 2019)				
Cost of Debt	2.3%	Net debt cost			2.0%	3.0%
Tax rate (T)	20.0%	T (Normalised tax rate)			=	=
Net debt cost	**1.9%**	**Kd = Cost of Net Debt * (1-T)**			**1.6%**	**2.4%**
Risk free rate (rf)	0.6%	Rf (10y Spanish bond yield)			=	=
Equity risk premium	9.0%	R (own estimate)			8.5%	9.5%
Beta (B)	0.8	B (Thomson Reuters and Lighthouse)			0.8	1.0
Cost of Equity	**7.8%**	**Ke = Rf + (R * B)**			**7.4%**	**10.1%**
Equity / (Equity + Net Debt)	73.5%	E (Market Cap as equity value)			=	=
Net Debt / (Equity + Net Debt)	26.5%	D			=	=
WACC	**6.3%**	**WACC = Kd * D + Ke * E**			**5.9%**	**8.1%**
G "Fair"	**2.0%**				**2.5%**	**1.5%**

(1) The terminal value, calculated on the level of revenues and FCF of 2022, is not meaningfull, as the business is in a phase of expansion (far from its maturity) and still affected by the consumption of cash (extraordinary) necessary to implement the current business plan.
(2) ECO has non-strategic assets (land in Argentina valued at USD 2.5Mn) and forestry assets (EUR 7.2Mn), as well as a negative tax base (EUR 10.8Mn 2019).

Inputs for the Multiples Valuation Approach

Company	Ticker Reuters	Mkt. Cap	P/E 20e	EPS 20e-22e	EV/EBITDA 20e	EBITDA 20e-22e	EV/Sales 20e	Revenues 20e-22e	EBITDA/Sales 20e	FCF Yield 20e	FCF 20e-22e
Greenyard NV	GREENY.BR	259.8	33.6	n.a.	8.8	1.5%	0.2	1.5%	2.7%	16.2%	n.a.
Sipef NV	SIFB.BR	495.1	36.8	84.4%	9.0	30.3%	2.2	11.6%	24.2%	n.a.	n.a.
Vilmorin & Cie SA	VILM.PA	1,073.7	14.1	11.2%	7.5	6.4%	1.7	3.5%	22.8%	4.5%	11.5%
BAIN	BAINS.MC	64.8	27.9	36.0%	15.9	32.8%	0.6	6.0%	3.1%	n.a.	n.a.
Pharming Industry			28.1	43.9%	10.3	17.7%	1.2	5.6%	13.2%	10.3%	11.5%
ADM	ADM	20,760.0	15.0	14.7%	10.0	11.7%	0.5	2.6%	4.7%	6.8%	3.1%
Olam Intl.	OLAM.SI	3,098.0	8.7	0.9%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
John B Sant Filippo	JBSS.O	873.0	25.0	8.9%	13.9	n.a.	1.2	5.4%	8.6%	6.9%	n.a.
Select Harvests	SHV.AX	393.2	16.6	17.6%	13.2	14.0%	3.6	4.9%	27.5%	4.3%	34.2%
Non European International players			16.3	10.5%	12.4	12.9%	1.8	4.3%	13.6%	6.0%	18.7%
ECO	ECWI.SCT	28.4	n.a.	42.0%	n.a.	44.5%	2.0	14.5%	n.a.	n.a.	n.a.

What could go wrong?

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

1. **The business is highly sensitive to fluctuations in the prices of nuts,** which accounted for 89.7% of 2019 revenue: walnuts (23%), almonds (10%) and other kinds of nut (56.7%), with the other 10.3% of revenue coming from dried fruit. Given the specialisation of the agricultural business in walnuts and almonds, a 5% decline in the price of both products would reduce 2020e EBITDA in EUR 0.5Mn.
2. **High dependence of the business on Eroski:** c.70% 2019 revenue (higher in 2020e due to the Covid-19 impact). Some 20% of Eroski's points of sale are Caprabo outlets and the potential sale of the Caprabo chain (due to financial difficulties) could negatively impact ECO's revenue (it contributed c. 10% of 2019 revenue).
3. **Margin improvement is dependent on the sale of new products (mid term).** Reaching breakeven (2022e) mainly rests on the sale of new products with higher added value (2022e revenue of EUR 2.8Mn), as agricultural expansion will only become profitable over the longer term, as crop production increases (self-supply of nuts: 10.6% 2022e, +6.6p.p. vs. -3y). A smaller than expected commercial success of new products (-50% vs. forecast) would reduce 2022e EBITDA by EUR -1.0Mn.
4. **Execution risk** due to delays in capturing equity and/or in the sale of assets with which to finance the business plan (the disposal of Argentine assets could be delayed and there is also uncertainty over the repatriation of capital). In addition, the agricultural business' high dependence on the leasing of land leaves the group exposed to its ability to renegotiate the renewal of current leases. Some 50% of its lumber business is carried out on leased land and this figure rises to 86.5% for nut plantations.
5. **Dependence on the weather.** The weather impacts both the volume and quality of the agricultural division's production. ECO hedges the risk of declines in production caused by adverse weather conditions affecting its plantations (hedging 32% of the hectares managed and 100% of production), and partly hedges the risk of damages to its forestry plantations. In addition, despite improvements to irrigation techniques, long periods of drought could give rise to restrictions on water consumption, affecting productivity.
6. **Risk of diseases, pests and damage reducing the value of the biological assets.** ECO does not hedge against the risk of diseases and pests. The Xylella Fastidiosa bacteria is one of the main threats to nut production, devastating both the trees and the fruit. The outbreak that began in 2016 in the Balearic Islands has spread in recent years, affecting Valencia (2017), and more recently Madrid and Andalusia (2018).
7. **Competition.** Growing global nut consumption (led by Asia) and the industry's low entry barriers have led to growth in the global cultivation of these products given their high margins (CAGR 2016 - 2019: +6% for global nut production, with +7.3% for walnuts and +17.4% for domestic walnut production), which could put downward pressure on prices.
8. **Forex risk.** With exposure at three levels: via the acquisition of raw materials (c.60% of the total in USD), the consolidation of non-Euro subsidiaries (Argentina), and via fluctuations in the USD affecting the valuation of forestry assets, without hedges to mitigate the impact.
9. **Regulatory risk.** EC regulations Nº. 1107/2009 and Nº. 396/2005 regarding restrictions on levels of waste and the products allowed to protect nut plantations.

A stronger Board (with experience in the sector), although as yet without incentives to create value

Characterised by being comprised of a large number of directors (> 10 since 2015), after the 2018 capital increase the number of members of the board was increased to 14, with independent directors and female directors accounting for 21% and 14% of members, respectively.

1. **A board controlled by core shareholders,** as, after the last capital increase, proprietary directors (64% of board members, +14 p.p. y/y), including the Chairman (Mr. Pi Llorens, appointed in 2014), control 50.25% of voting rights. According to the company's bylaws, the position of director is held for a maximum term of four years, renewable for periods of equal duration (in accordance with prevailing legislation), without the bylaws stipulating a limit to the number of terms a director can serve or the procedure for the renewal of this body (maximum percentage of members to be renewed simultaneously and/or time limits).

2. **Improved compensation of the Board to retain talent, but without performance-linked variable incentives.** Since 2015 the company bylaws envisage both monetary compensation for the Board and shares and stock options. Average -3y compensation has remained below 3.5% of personnel costs, in line with the limit established by the Appointments and Remuneration Committee, the Corporate Bylaws and the regulations of the Board of Directors (maximum annual compensation for the Board as a whole: EUR 0.06Mn, with a -2y average consumption of 27.3% of this). This limit was only exceeded in 2016 due to commitments entered into with the former Managing Director, linked to the success of the capital increase carried out that year.

   However, shareholders at the last AGM resolved to raise the monetary compensation of the Board to EUR 0.2Mn for 2019-2021 (in order to attract and retain directors with the desired profile), without envisaging additional variable compensation. Even so, control of the Board by the core shareholders ensures the Board's interests are aligned with those of minority shareholders.

3. **An experienced senior management team, but lacking incentives for value creation.** Until 2017 senior management tasks were performed by the former Managing Director without his receiving compensation for this. The current senior management team (most of whom were renewed in 2018) have wide experience of the food industry (> 20 years), and in particular of the nut sector. The corporate restructuring carried out in 2018 brought with it the appointment that same year of a former executive of the acquired subsidiary (Utega) as Executive Managing Director (> 10 years' experience at Utega and > 23 years' experience in the nut segment, and at what is now his competitor BAIN, a member of the Borges Group). In addition, both the Industrial Director (external) and the Agricultural Director (not currently on the payroll) were also executives at Borges Group International.

   After the recent redirection of the Group's business towards the nut sector, a system of variable compensation for key personnel that acts as an incentive to achieve results has yet to be implemented. The Group's compensation system lacks long-term savings schemes and resignation or severance indemnity clauses and does not envisage compensation via shares, share options or rights or instruments indexed to the share price either.

4. **No shareholder remuneration in the mid/long term.** Our projections envisage the continuation of the dividend policy (Pay Out, 0%) over the long term as the Group has made no commitment as regards beginning to pay dividends. However, the potential distribution of dividends in the long term would be linked to profitability targets associated with the development of the various stages of the strategic plan, and could be accelerated by the potential sale of non-strategic assets (such as the black walnut plantations).

Appendix 1. Financial Projections[1]

Balance Sheet (EUR Mn)	2015	2016	2017	2018	2019	2020e	2021e	2022e
Intangible assets			1.0	3.7	3.9	3.8	3.8	3.7
Fixed assets			12.8	16.9	19.4	20.6	25.1	37.7
Other Non Current Assets			0.0	0.1	0.1	0.1	0.1	0.1
Financial Investments			-	0.1	0.1	0.1	0.1	0.1
Goodwill & Other Intangilbles			-	3.9	3.9	3.9	3.9	3.9
Current assets			0.4	5.0	5.9	5.8	6.2	6.6
Total assets			**14.3**	**29.7**	**33.3**	**34.4**	**39.2**	**52.2**
Equity			12.4	20.0	17.8	18.9	18.0	17.3
Minority Interests			-	-	-	-	-	-
Provisions & Other L/T Liabilities			-	1.4	1.3	1.3	0.3	0.3
Other Non Current Liabilities			0.9	0.9	0.8	0.8	0.8	0.8
Net financial debt			0.6	4.7	10.2	10.1	16.7	30.3
Current Liabilities			0.4	2.8	3.1	3.2	3.3	3.5
Equity & Total Liabilities			**14.3**	**29.7**	**33.3**	**34.4**	**39.2**	**52.2**

P&L (EUR Mn)	2015	2016	2017	2018	2019	2020e	2021e	2022e	CAGR 19-22e
Total Revenues			**0.2**	**0.2**	**13.4**	**15.2**	**17.5**	**19.9**	***14.0%***
Total Revenues growth			*n.a.*	*27.4%*	*n.a.*	*13.1%*	*15.1%*	*13.9%*	
COGS			(0.5)	(0.5)	(11.3)	(12.6)	(13.8)	(15.5)	
Gross Margin			**(0.3)**	**(0.3)**	**2.2**	**2.6**	**3.7**	**4.5**	***26.9%***
Gross Margin/Revenues			*n.a.*	*n.a.*	*16.2%*	*17.2%*	*21.4%*	*22.4%*	
Personnel Expenses			(0.3)	(0.5)	(1.6)	(1.5)	(1.6)	(1.6)	
Other Operating Expenses			(1.2)	(1.0)	(2.7)	(2.3)	(2.5)	(2.7)	
Recurrent EBITDA			**(1.9)**	**(1.7)**	**(2.2)**	**(1.3)**	**(0.4)**	**0.1**	***n.a.***
Recurrent EBITDA growth			*n.a.*	*6.7%*	*-24.4%*	*42.0%*	*69.8%*	*136.2%*	
Rec. EBITDA/Revenues			*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*0.7%*	
Restructuring Expense & Other non-rec.			(0.1)	(0.1)	(0.4)	(0.3)	-	-	
EBITDA			**(2.0)**	**(1.8)**	**(2.5)**	**(1.6)**	**(0.4)**	**0.1**	***n.a.***
Depreciation & Provisions			(0.1)	(0.2)	(0.5)	(0.6)	(0.7)	(1.2)	
Capitalized Expense			0.9	1.7	1.0	0.6	0.5	0.8	
Rentals (IFRS 16 impact)			(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	
EBIT			**(1.3)**	**(0.3)**	**(2.2)**	**(1.6)**	**(0.7)**	**(0.3)**	***45.9%***
EBIT growth			*n.a.*	*75.0%*	*-564.3%*	*24.8%*	*60.0%*	*47.3%*	
EBIT/Revenues			*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	
Impact of Goodwill & Others			-	-	-	-	-	-	
Net Financial Result			(0.1)	(0.1)	(0.2)	(0.2)	(0.3)	(0.3)	
Income by the Equity Method			-	-	-	-	-	-	
Ordinary Profit			**(1.4)**	**(0.5)**	**(2.4)**	**(1.8)**	**(0.9)**	**(0.7)**	***34.3%***
Ordinary Profit Growth			*n.a.*	*67.4%*	*-415.7%*	*23.5%*	*50.2%*	*25.4%*	
Extraordinary Results			-	-	-	-	-	-	
Profit Before Tax			**(1.4)**	**(0.5)**	**(2.4)**	**(1.8)**	**(0.9)**	**(0.7)**	***34.3%***
Tax Expense			-	-	0.2	-	-	-	
Effective Tax Rate			*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	
Minority Interests			-	-	-	-	-	-	
Discontinued Activities			-	-	-	-	-	-	
Net Profit			**(1.4)**	**(0.5)**	**(2.2)**	**(1.8)**	**(0.9)**	**(0.7)**	***32.5%***
Net Profit growth			*n.a.*	*67.4%*	*-377.5%*	*17.3%*	*50.2%*	*25.4%*	
Ordinary Net Profit			**(1.3)**	**(0.4)**	**(2.1)**	**(1.5)**	**(0.9)**	**(0.7)**	***30.7%***
Ordinary Net Profit growth			*n.a.*	*69.3%*	*-411.0%*	*24.9%*	*40.5%*	*25.4%*	

Cash Flow (EUR Mn)	2015	2016	2017	2018	2019	2020e	2021e	2022e	CAGR 19-22e
Recurrent EBITDA						**(1.3)**	**(0.4)**	**0.1**	***n.a.***
Rentals (IFRS 16 impact)						(0.1)	(0.1)	(0.1)	
Working Capital Increase						0.2	(0.3)	(0.3)	
Recurrent Operating Cash Flow						**-1.2**	**-0.7**	**-0.2**	***58.1%***
CAPEX						(1.2)	(2.1)	(6.7)	
Net Financial Result affecting the Cash Flow						(0.2)	(0.3)	(0.3)	
Tax Expense						-	-	-	
Recurrent Free Cash Flow						**(2.5)**	**(3.1)**	**(7.3)**	***-9.5%***
Restructuring Expense & Other non-rec.						(0.3)	-	-	
- Acquisitions / + Divestures of assets						-	(3.5)	(6.3)	
Extraordinary Inc./Exp. Affecting Cash Flow						-	-	-	
Free Cash Flow						**(2.8)**	**(6.6)**	**(13.5)**	***-32.5%***
Capital Increase						3.0	-	-	
Dividends						-	-	-	
Net Debt Variation						**(0.1)**	**6.6**	**13.5**	

Note 1: Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 0.0Mn higher due to IFRS 16.

Appendix 2. Free Cash Flow[(1)]

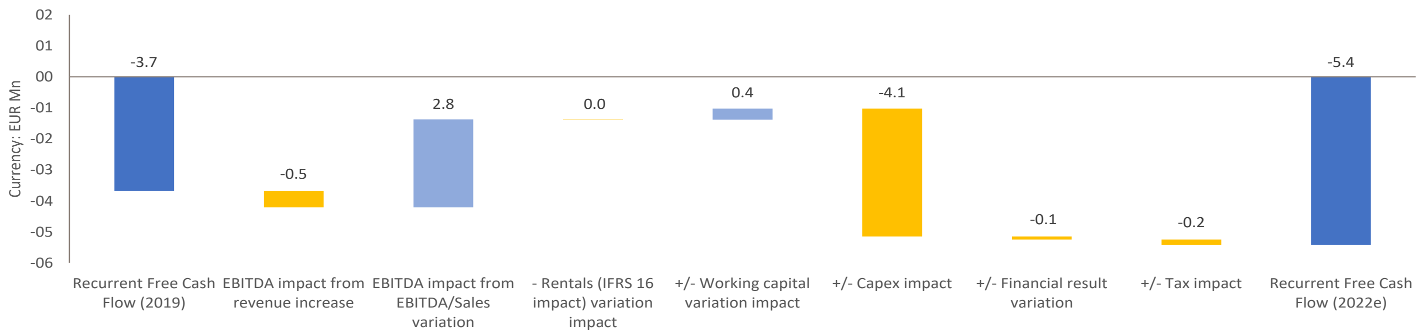
A) Cash Flow Analysis (EUR Mn)	2016	2017	2018	2019	2020e	2021e	2022e	CAGR 19-22e
Recurrent EBITDA			**(1.7)**	**(2.2)**	**(1.3)**	**(0.4)**	**0.1**	***n.a.***
Recurrent EBITDA growth			*6.7%*	*-24.4%*	*42.0%*	*69.8%*	*136.2%*	
Rec. EBITDA/Revenues			*n.a.*	*n.a.*	*n.a.*	*n.a.*	*0.7%*	
- Rentals (IFRS 16 impact)			(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	
+/- Working Capital increase			-	(0.6)	0.2	(0.3)	(0.3)	
= Recurrent Operating Cash Flow			**(1.8)**	**(2.9)**	**(1.2)**	**(0.7)**	**(0.2)**	***58.1%***
Rec. Operating Cash Flow growth			*-3.0%*	*57.7%*	*-59.7%*	*-37.2%*	*-70.9%*	
Rec. Operating Cash Flow / Sales			*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	
- CAPEX			(0.8)	(2.6)	(1.2)	(2.1)	(6.7)	
- Net Financial Result affecting Cash Flow			(0.1)	(0.2)	(0.2)	(0.3)	(0.3)	
- Taxes			-	0.2	-	-	-	
= Recurrent Free Cash Flow			**(2.8)**	**(5.6)**	**(2.5)**	**(3.1)**	**(7.3)**	***-9.5%***
Rec. Free Cash Flow growth			*47.0%*	*101.3%*	*-54.4%*	*23.7%*	*132.8%*	
Rec. Free Cash Flow / Revenues			*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	
- Restructuring expenses & others			0.2	(0.4)	(0.3)	-	-	
- Acquisitions / + Divestments			(5.0)	0.1	-	(3.5)	(6.3)	
+/- Extraordinary Inc./Exp. affecting Cash Flow			-	-	-	-	-	
= Free Cash Flow			**(7.5)**	**(5.8)**	**(2.8)**	**(6.6)**	**(13.5)**	***-32.5%***
Free Cash Flow growth			*301.9%*	*-22.7%*	*-51.4%*	*134.2%*	*104.2%*	
Recurrent Free Cash Flow - Yield (s/Mkt Cap)			*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	
Free Cash Flow Yield (s/Mkt Cap)			*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	

B) Analytical Review of Annual Recurrent Free Cash Flow Performance (Eur Mn)	2016	2017	2018	2019	2020e	2021e	2022e
Recurrent FCF(FY - 1)				**(2.8)**	**(5.6)**	**(2.5)**	**(3.1)**
EBITDA impact from revenue increase				(118.6)	(0.3)	(0.2)	(0.1)
EBITDA impact from EBITDA/Sales variation				118.2	1.2	1.1	0.6
= Recurrent EBITDA variation				**(0.4)**	**0.9**	**0.9**	**0.5**
- Rentals (IFRS 16 impact) variation impact				(0.0)	(0.0)	(0.0)	(0.0)
+/- Working capital variation impact				(0.6)	0.8	(0.4)	(0.0)
= Recurrent Operating Cash Flow variation				**(1.0)**	**1.7**	**0.4**	**0.5**
+/- CAPEX impact				(1.8)	1.5	(1.0)	(4.6)
+/- Financial result variation				(0.1)	0.0	(0.1)	(0.1)
+/- Tax impact				0.2	(0.2)	-	-
= Recurrent Free Cash Flow variation				**(2.8)**	**3.0**	**(0.6)**	**(4.2)**
Recurrent Free Cash Flow				**(5.6)**	**(2.5)**	**(3.1)**	**(7.3)**

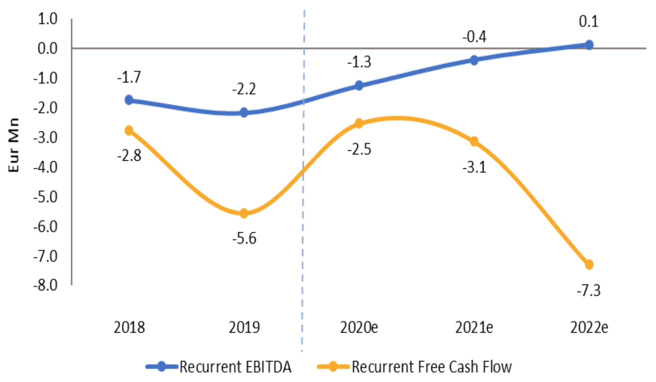
C) "FCF to the Firm" (pre debt service) (EUR Mn)	2016	2017	2018	2019	2020e	2021e	2022e	CAGR 19-22e
EBIT			**(0.3)**	**(2.2)**	**(1.6)**	**(0.7)**	**(0.3)**	***45.9%***
** Theoretical Tax rate*			*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	
= Taxes (pre- Net Financial Result)			-	-	-	-	-	
Recurrent EBITDA			**(1.7)**	**(2.2)**	**(1.3)**	**(0.4)**	**0.1**	***n.a.***
- Rentals (IFRS 16 impact)			(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	
+/- Working Capital increase			-	(0.6)	0.2	(0.3)	(0.3)	
= Recurrent Operating Cash Flow			**(1.8)**	**(2.9)**	**(1.2)**	**(0.7)**	**(0.2)**	***58.1%***
- CAPEX			(0.8)	(2.6)	(1.2)	(2.1)	(6.7)	
- Taxes (pre- Financial Result)			-	-	-	-	-	
= Recurrent Free Cash Flow (To the Firm)			**(2.6)**	**(5.5)**	**(2.3)**	**(2.9)**	**(7.0)**	***-8.2%***
Rec. Free Cash Flow (To the Firm) growth			*39.5%*	*109.8%*	*-57.7%*	*23.6%*	*142.4%*	
Rec. Free Cash Flow (To the Firm) / Revenues			n.a.	n.a.	n.a.	n.a.	n.a.	
- Acquisitions / + Divestments			(5.0)	0.1	-	(3.5)	(6.3)	
+/- Extraordinary Inc./Exp. affecting Cash Flow			-	-	-	-	-	
= Free Cash Flow "To the Firm"			**(7.6)**	**(5.4)**	**(2.3)**	**(6.4)**	**(13.2)**	***-34.7%***
Free Cash Flow (To the Firm) growth			*306.1%*	*-29.0%*	*-57.1%*	*174.5%*	*107.3%*	
Rec. Free Cash Flow To the Firm Yield (o/EV)			*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	
Free Cash Flow "To the Firm" - Yield (o/EV)			*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	

Note 1: Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 0.0Mn higher due to IFRS 16.
Note 2: The company closed its fiscal year on 30 September until 2016, changing the closing date to 31 December from 2017 (inclusive), so the years prior to 2017 are not comparable. In addition, the company changed its scope of consolidation in 2018 (acquisition of Utega Group in December 2018). P/L 2019 consolidates 100% of Utega.
Note 3: 2021e acquisitions and divestments include EUR -1Mn corresponding to the contingent disbursement linked to the acquisition of Grupo Utega.

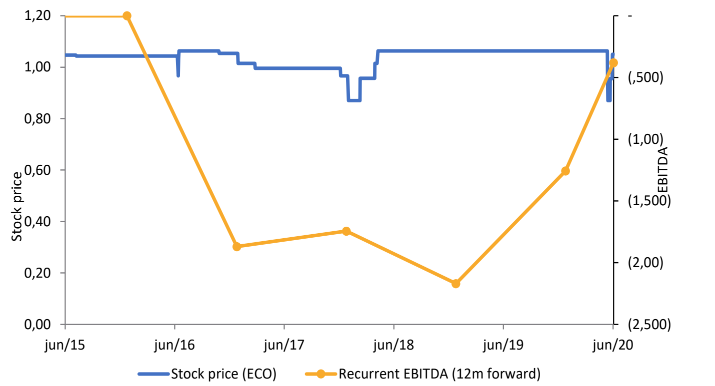
Recurrent Free Cash Flow accumulated variation analysis (2019 - 2022e)



Recurrent EBITDA vs Recurrent Free Cash Flow



Stock performance vs EBITDA 12m forward



Appendix 3. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	28.4	
+ Minority Interests	-	3m Results 2020
+ Provisions & Other L/T Liabilities	1.3	3m Results 2020
+ Net financial debt	10.2	12m Results 2019
- Financial Investments	0.1	3m Results 2020
+/- Others	(9.5)	Lighthouse and company
Enterprise Value (EV)	**30.3**	

Note 1: Non stretegical assets (Land in Argentina valued at USD 2.5Mn) and forestry assets in Spain (EUR 7.2Mn),

Appendix 4. Historical performance[(1)(2)]

Historical performance (EUR Mn)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e	CAGR 19-22e
Total Revenues									0.2	0.2	13.4	15.2	17.5	19.9	14.0%
Total Revenues growth									n.a.	27.4%	n.a.	13.1%	15.1%	13.9%	
EBITDA									(2.0)	(1.8)	(2.5)	(1.6)	(0.4)	0.1	n.a.
EBITDA growth									n.a.	9.3%	-39.5%	38.3%	75.6%	136.2%	
EBITDA/Sales									n.a.	n.a.	n.a.	n.a.	n.a.	0.7%	
Net Profit									(1.4)	(0.5)	(2.2)	(1.8)	(0.9)	(0.7)	32.5%
Net Profit growth									n.a.	67.4%	-377.5%	17.3%	50.2%	25.4%	
Adjusted number shares (Mn)									18.5	19.5	27.0	27.0	29.8	29.8	
EPS (EUR)									-0.08	-0.02	-0.08	-0.07	-0.03	-0.02	34.7%
EPS growth									n.a.	69.2%	n.a.	17.3%	54.9%	25.4%	
Ord. EPS (EUR)									-0.07	-0.02	-0.08	-0.06	-0.03	-0.02	32.9%
Ord. EPS growth									n.a.	70.9%	n.a.	24.9%	46.2%	25.4%	
CAPEX									-	(0.8)	(2.6)	(1.2)	(2.1)	(6.7)	
CAPEX/Sales %									0.0%	409.6%	19.5%	7.7%	12.2%	33.8%	
Free Cash Flow									(1.9)	(7.5)	(5.8)	(2.8)	(6.6)	(13.5)	-32.5%
ND/EBITDA (x)[(3)]									n.a.	n.a.	n.a.	n.a.	n.a.	220.5x	
P/E (x)									n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
EV/Sales (x)									n.a.	n.a.	1.4x	2.0x	1.7x	1.5x	
EV/EBITDA (x)[(3)]									n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Absolute performance									0.9%	-8.3%	10.0%	-1.2%			
Relative performance vs Ibex 35									-6.0%	7.9%	-1.6%	21.7%			

Note 1: The multiples are historical, calculated based on the price and EV at the end of each year, except (if applicable) in the current year, when multiples would be given at current prices. The absolute and relative behavior corresponds to each exercise (1/1 to 31/12). The source, both historical multiples and the evolution of the price, is Thomson Reuters.
Note 2: Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 0.0Mn higher due to IFRS 16.
Note 3: All ratios and multiples on EBITDA refer to total EBITDA (not to recurrent EBITDA).
Nota 4: For modelling purposes, we contemplate a theoretical capital increase of EUR 2.95Mn in December 2020, through the issue of 2.8Mn shares (considering that the capital increase was carried out at the market price on the date of this report).

Appendix 5. Main Competitors 2020e

		European Industry					Other international peers			
	EUR Mn	Greenyard NV	Sipef NV	Vilmorin & Cie SA	BAIN	Average	Select Harvests	John B Sanfilippo	ADM	ECO
Market data	Ticker (Reuters)	GREENY.BR	SIFB.BR	VILM.PA	BAINS.MC		SHV.AX	JBSS.O	ADM	ECWI.SCT
	Country	Belgium	Belgium	France	Spain		Australia	USA	USA	Spain
	Market cap	259.8	495.1	1,073.7	64.8		393.2	873.0	20,760.0	28.4
	Enterprise value (EV)	997.7	590.1	2,487.6	101.1		597.2	926.9	27,694.7	30.3
Basic financial information	Total Revenues	4,149.3	269.4	1,448.1	182.3		164.6	770.8	58,912.5	15.2
	Total Revenues growth	3.6%	21.6%	4.1%	2.5%	8.0%	-10.9%	0.3%	2.1%	13.1%
	2y CAGR (2020e - 2022e)	1.5%	11.6%	3.5%	6.0%	5.6%	4.9%	5.4%	2.6%	14.5%
	EBITDA	113.7	65.3	330.4	5.7		45.3	66.5	2,776.9	(1.6)
	EBITDA growth	13.7%	61.1%	10.2%	199.0%	71.0%	-19.4%	7.4%	17.1%	38.3%
	2y CAGR (2020e - 2022e)	1.5%	30.3%	6.4%	32.8%	17.7%	14.0%	n.a.	11.7%	44.5%
	EBITDA/Revenues	2.7%	24.2%	22.8%	3.1%	13.2%	27.5%	8.6%	4.7%	n.a.
	EBIT	39.0	30.6	112.8	3.6		34.3	51.5	1,678.1	(1.6)
	EBIT growth	165.9%	747.4%	25.6%	287.0%	306.5%	-21.2%	6.0%	13.0%	24.8%
	2y CAGR (2020e - 2022e)	n.a.	52.3%	8.6%	32.3%	31.1%	17.6%	n.a.	17.5%	54.1%
	EBIT/Revenues	0.9%	11.4%	7.8%	2.0%	5.5%	20.8%	6.7%	2.8%	n.a.
	Net Profit	7.5	13.9	76.2	2.3		23.1	34.7	1,478.8	(1.8)
	Net Profit growth	n.a.	n.a.	-2.2%	-2.8%	-2.5%	-29.6%	12.8%	16.9%	17.3%
	2y CAGR (2020e - 2022e)	59.2%	86.2%	12.5%	36.0%	48.5%	18.1%	n.a.	11.7%	39.1%
	CAPEX/Sales %	-1.2%	-20.8%	-14.6%	-3.3%	-10.0%	-12.8%	-1.7%	-1.3%	-7.7%
	Free Cash Flow	42.0	(3.0)	48.1	(0.1)		16.6	10.9	1,473.4	(2.8)
	Net financial debt	396.5	147.6	903.3	38.6		8.2	23.8	5,306.7	10.1
	ND/EBITDA (x)	3.5	2.3	2.7	6.1	3.6	0.2	0.4	1.9	n.a.
	Pay-out	0.0%	57.0%	44.0%	0.0%	25.3%	51.5%	15.9%	50.6%	0.0%
Multiples and Ratios	P/E (x)	33.6	36.8	14.1	27.9	28.1	16.6	25.0	15.0	n.a.
	P/BV (x)	0.6	0.9	0.8	1.1	0.8	1.5	4.0	1.2	1.5
	EV/Revenues (x)	0.2	2.2	1.7	0.6	1.2	3.6	1.2	0.5	2.0
	EV/EBITDA (x)	8.8	9.0	7.5	15.9	10.3	13.2	13.9	10.0	n.a.
	EV/EBIT (x)	25.6	19.3	22.0	27.8	23.7	17.4	18.0	16.5	n.a.
	ROE	3.9	1.8	6.2	3.9	3.9	9.3	15.9	7.9	n.a.
	FCF Yield (%)	16.2	n.a.	4.5	n.a.	10.3	4.3	6.9	6.8	n.a.
	DPS	0.00	0.76	1.46	0.00	0.56	0.12	0.48	1.33	0.00
	Dvd Yield	0.0%	1.6%	3.1%	0.0%	1.2%	3.0%	0.6%	3.6%	0.0%

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

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Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
10-Jun-2020	n.a.	1.05	n.a.	n.a.	Initial Coverage	Ana Isabel González García, CIIA