NIKAS S.A.

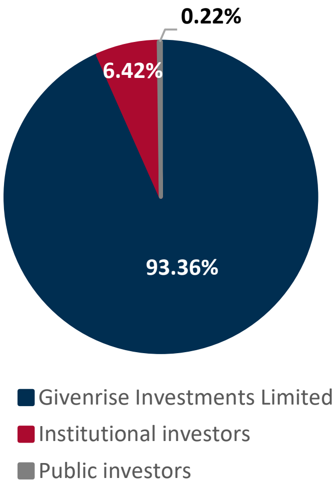
April 2021

Financial Report

Key Figures	
Industry	FOOD PRODUCTION
Sector	COLD CUTS
Bloomberg Ticker	NIKAS:GA
Stock Exchange	ATHEX
Share Price (as of 21/04/21)	€ 1.12
Market Capitalization	€ 59,53mn
52w High	€ 1.80
52w Low	€ 0.60
1-Year change abs.	86.7%
1-Year change rel.	38.6%
Beta	0.996

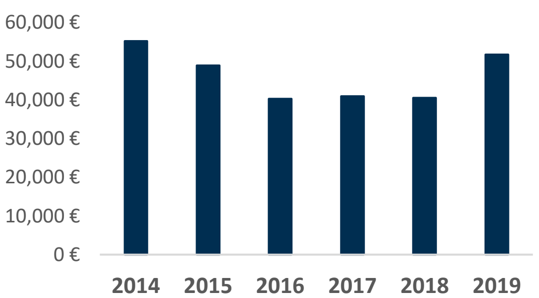
***Source**: Bloomberg | Finance Club Research*

Figure 1: Ownership



***Source:** Company Reports*

Figure 2: Annual Revenue (in thousands)



***Source**: Company Reports*

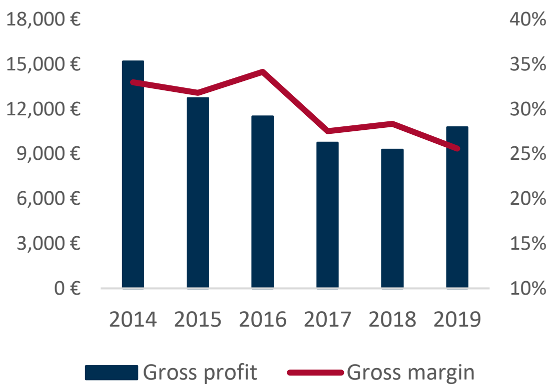
BUSINESS DESCRIPTION

P.G. NIKAS S.A. is an active company in the food production industry and the cold cuts sector, operating in Greece, Bulgaria and Cyprus. The company's products include pork, ham, turkey, chicken, dry salami, sausages, mortadella and bacon. NIKAS was founded in 1966 and presently employs 216 people. Currently holding 20,3% of the market (+3,8% YoY) in terms of value, it is one of the most recognizable brands in the Greek market, since it supplies every major chain store firm in the country, namely: Sklavenitis, Vasilopoulos, MyMarket, et al. Cold cuts constitute approximately $170bn worth market with a current increase of 2,1% regarding the value of total sales, compared to the previous year and is expected to grow at 8% CAGR utill 2024. The firm's subsidiaries are Allantika Makedonias S.A. which is located in northern Greece and is owned by 55%, NIKAS Skopje Ltd. which is located in Northern Macedonia and is owned by 98,45%, NIKAS Bulgaria EAD which is located in Bulgaria and is owned by 100%, and NIKAS Group Limited which is located in Cyprus and is owned by 100%. Since 2017 the group has been under the ownership of CHIPITA S.A. The acquisition has brought several changes in the company, one of them being the restructuring of its distribution network, which is expected to make the firm profitable again, during the upcoming decade.

P.G. NIKAS S.A. has been under the ownership of Chipita S.A. since 2017. NIKAS had issued convertible bonds, the majority of which was purchased by GIVENRISE INVESTMENTS LIMITED, a Chipita's subsidiary. In 2017, the bonds were turned into shares and from that point on, Chipita, through GIVENRISE, owns the 93,36% of NIKAS, while 6,42% belongs to Institutional Investors, such as ORASIS FUND SPC (3,14%), CREDIT SUISSE (1,71%) and EUROBANK ERGASIAS (1,34%). The rest 0,22% belongs to the General Investment Public (as of 2019). Chipita is a Greek corporation in the Food Industry, founded in 1973. The Corporation owns other popular brands, such as 7DAYS, Fineti and Chipicao, whose products are being exported worldwide. It is clear that, by the acquisition of NIKAS, Chipita is trying to expand its market share in the Food Industry in all sectors possible. Apart from the bonds' conversion and its subsequent debt relief of NIKAS, the company sold 70% of its subsidiary DOMOKOS S.A. to OPTIMA S.A., a deal that generated €2,7mn, from which €1,6mn were allocated into further debt reduction.

Food production and distribution are the company's main source of revenue. From 2014 to 2016, sales figures were going down, whereas in 2017-2018 remained relatively steady. In 2019 the company reported a 27,75% increase in sales, compared to 2018 figures. This performance turnaround is mainly attributed to the financial distress of Creta Farm, one of the group's major domestic competitors, and their subsequent absence from the Greek market, during the second half of 2019. In addition, a major factor to this sales growth was the adoption of a new pricing policy and the revision of its distribution network in pursuit of making it more cost-efficient, as well as the launch of new products. All these factors contributed to higher sales while costs were being reduced.

Figure 3: Gross Profit & Gross Margin



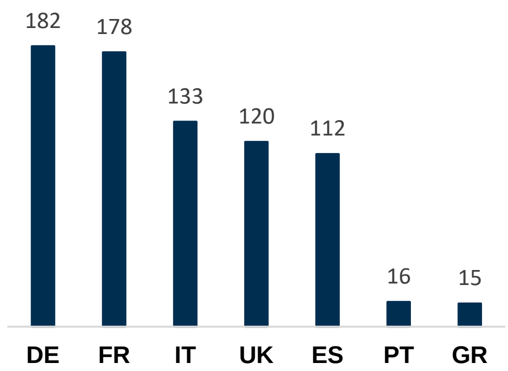
***Source**: Company Reports*

P.G. NIKAS S.A. is steadily recovering and is estimated to become profitable again in 2020. The acquisition by Chipita, accompanied with the further strategic actions, is expected to boost efficiency and profits. Even though the company's gross margin slightly decreased, due to the rising prices of pork and turkey globally during the first half of 2019, by the first half of 2020 gross margin was up 40,83% (compared to the first half of 2019). The fact that pork and turkey prices are back to normal levels, may signal a profitable 2020 fiscal year.

P.G. NIKAS S.A. was not significantly impacted by the effects of Covid-19. Although the group expressed concerns in its 2019 Financial Report over the potential setbacks the coronavirus pandemic might have, no significant effects were eventually noticed. In its Financial Report for the first half of 2020, the group reported €28,3mn in sales, a 43,65% increase compared to €19,7mn of 2019 first half. This has been attributed to the rise of sales in chain stores, which prevailed over the high uncertainty in the whole economy and the expected reduced consumption.

MARKET OVERVIEW

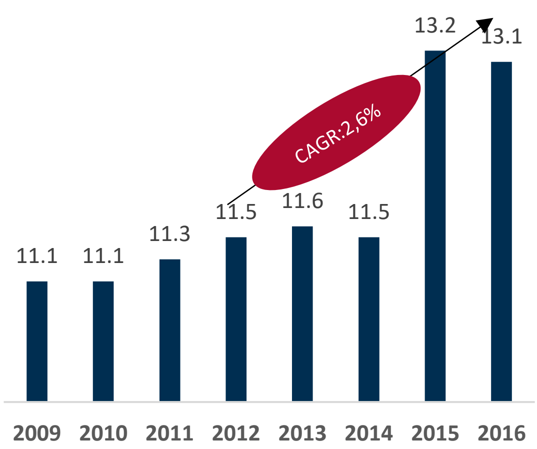
Figure 4: Manufacturing Revenue Food & Drinks 2018 (€ billions)



***Source**: Eurostat, Structural Business Statistics*

The manifestation of the African plague in China during August 2018 led to a dramatic reduction in the pig population. Nearly 40 million animals were slaughtered and as a result a huge stock had been accumulated in the meat market in China and the nearby countries. The subsequent following gap in meat supply was rushed to be filled by meat processors supplying Asia with large quantities of meat. The consequence was a tighter supply to the U.S. and European markets, pushing prices upwards. The prices of pork and turkey had increased by 35% and 25%, respectively. These series of events did not leave NIKAS unaffected. Even though the company increased its gross profit in 2019, the gross margin decreased by 2,1%, from 28,3% in 2018 to 25,6% in 2019 due to the aforementioned increase in the purchase price of raw materials, mainly pork and turkey, internationally. In order to mitigate the risk of future increase in prices of raw materials, the company has signed contracts with international houses for fixed purchase prices and has established strategic partnerships with domestic producers. The firm has also set operating costs at such level that would allow it to be competitive, despite the challenges the industry is facing.

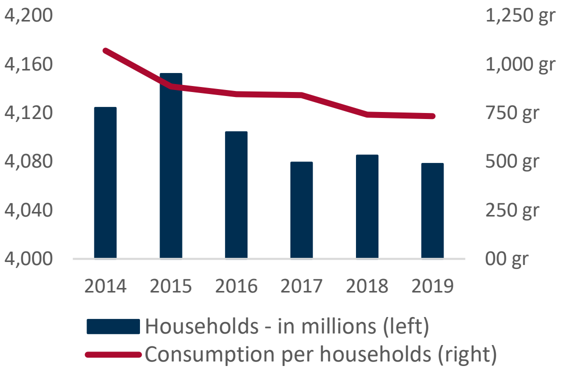
Figure 5: Food Revenue Cycle (€ billions)



***Source**: Eurostat, Structural Business Statistics*

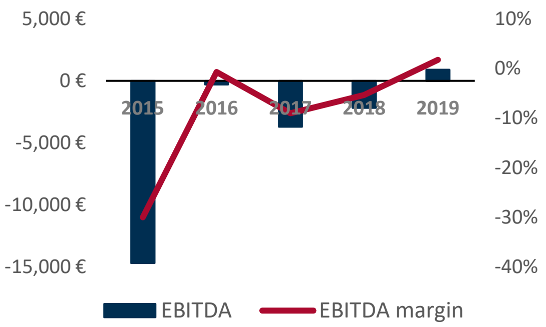
A major risk factor for NIKAS is that of the private label products. Those are products that are manufactured on behalf of major chain store firms and are relatively low in price. There are no indications that NIKAS has any agreement with major chain store firms about producing private label products or that NIKAS is intending to enter this field. Although in 2016 these products were dominant in most of the European market, domestic sales of private label products have been kept low. For instance, while those products accounted for more than 50% of market share in Switzerland, in Greece the share was about 20%. However, over the past three years, an increase of 50% of the Greek private label market share has been observed. According to a recent survey of *minimarketmag.gr*, the uncertainty of the pandemic and the lack of liquidity might lead consumers to turn towards cheaper and lower quality products. A number of habits adopted due to the onset of the COVID-19 crisis are expected to be maintained by the consumer public, which will also affect the private label category.

Figure 6: Average Monthly Household Consumption of Cold Cuts, Greece



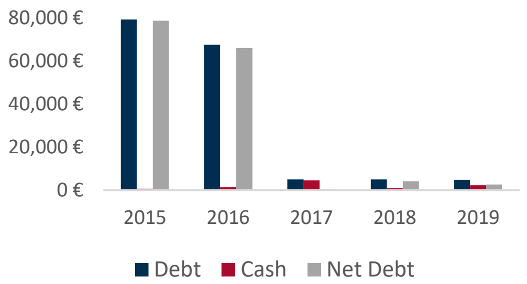
***Source**: Elstat*

Figure 7: EBITDA & EBITDA Margin



***Source**: Company Reports*

Figure 8: Net Debt



***Source**: Company Reports*

The well-being lifestyle has been trending the last years and as a result, consumers have become more selective of what they consume. This has led NIKAS to enhance its product portfolio with healthier solutions, such as gluten-free products and products low in fat and salt. In fact, according to a *Technavio* survey, the global cold cuts market is expected to show an average annual growth rate of 11% by 2021, which will be largely fueled by gluten-free products. Despite the innovations that the company has applied, it does not yet provide any alternative for the vegetarian/vegan consumers as well as for those who wish to reduce their meat consumption. Given that the global "vegetable-meat" market is growing annually by 15,8% and is estimated to reach $35,4bn in 2027, NIKAS may have to consider any potential opportunity this market may offer.

FINANCIAL ANALYSIS

NIKAS has recuring losses since 2006. Those accumulated losses, for more than a decade, resulted in the dramatic reduction of the company's equity, from €26,5mn in 2006, to €-54,6mn, in 2016. Under the new administration and the €23mn debt write-off in 2017 from the convertible bonds, the shareholder's equity was significantly improved up to €-1,8mn in 2019. Furthermore, the losses after taxes have been reduced by 50%, from €6mn in 2018 to €3mn 2019. In fact, for the 2020 fiscal year, the firm is expected to have positive operating and net income. No dividend has been paid to investors since 2015.

CAPEX has been significantly increased since 2017, while a considerable net debt reduction has taken place, which indicates that the company, under the new management, is investing in PP&E in order to enhance its production capacity, efficiency, competitiveness, and profitability. At the same time, the net debt has shown a significant decrease from €78,7mn in 2015 to €2,5mn in 2019, resulting in interest-related cost reduction. Although most indicators have fluctuations due to the restructuring and reorganization that the company is undergoing during the last three years, in general, the company is showing fundamental improvements.

The company's assets yield on average 1,16x annual revenue during the last five years, while the average 5-year ROA is -6,3%. Improvement in the mean receivables period (DSO), from 131 days in 2015 to 96 days in 2019, may indicate better negotiations with clients and should lead to a lower risk of losses from doubtful claims and shorter cash conversion cycle. Nevertheless, NIKAS' liquidity is low and more volatile during the last three years, while averages of current and cash ratios are at 1,26 and 0,16, correspondingly.

Key Financials

	2015	*2016*	*2017*	*2018*	*2019*		*2015*	*2016*	*2017*	*2018*	*2019*
Margins						***Efficiency***					
Gross margin	32%	34%	28%	28%	26%	*Assets turnover*	0,97	1,27	1,03	1,21	1,31
EBITDA margin	-30%	-1%	-9%	-5%	2%	***Liquidity***					
EBIT margin	-36%	-6%	-13%	-11%	-3%	*DSO*	131	124	133	117	96
Net margin	-48%	-6%	47%	-15%	-6%	*DIO*	31	46	39	42	56
Growth rates						*DPO*	187	210	120	145	125
Sales growth	-11%	-18%	2%	-1%	28%	*Cash Conv. Cycle*	-25	-39	52	14	28
Equity growth	82%	5%	-113%	-84%	-260%	*Current Ratio*	0,2	0,2	1,5	1,0	1,2
Assets growth	-27%	-38%	26%	-16%	18%	*Cash Ratio*	0,01	0,02	0,3	0,1	0,1
Performance						***CAPEX***					
ROA	-46%	-8%	49%	-18%	-8%	*(in thousands)*	1.149 €	480 €	624 €	1.817 €	1.671 €

**Due to the ongoing restructuring of the firm, some metrics resulted in unorthodox figures, so were excluded.*

Authors:

Dimitris Paschalidis
Head of Corporate Finance Dept.

Christos Loukopoulos
Senior Corporate Finance Analyst

Athina Kallitsari
Member of Corporate Finance Dept.

Alexandros Maihos
Member of Corporate Finance Dept.

Giannis Zisis
Member of Corporate Finance Dept.

Konstantinos Petris
Member of Corporate Finance Dept.

Nikos Malakasis
Member of Corporate Finance Dept.

Nikos Syrigos
Member of Corporate Finance Dept

Stratos Sdrollas
Member of Corporate Finance Dept – Law Consultant

Disclaimer