

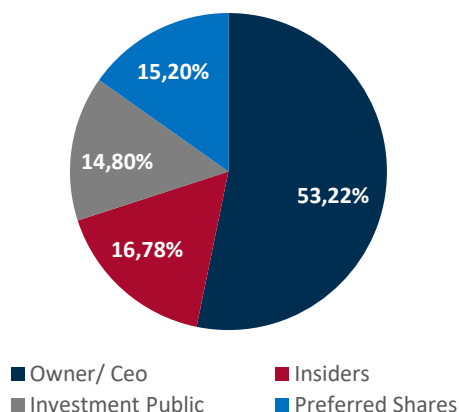
BUSINESS DESCRIPTION

Table 1: Key Figures

Key figures	
Bloomberg Ticker	KMOL:GA
Stock Exchange	ATHEX
Industry	Consumer Staple Product
Sector	Food
Share Price (as of 09/06/21)	€ 3,12
Market Capitalization	€ 29,7mn
52w High	€ 3,80
52w Low	€ 1,40
1-Year change abs.	94%
1-Year change rel.	56%
Beta	0,3

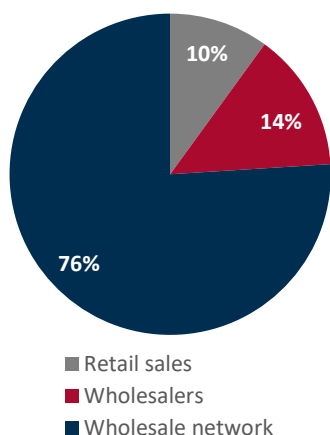
Source: Bloomberg

Figure 1: Ownership



Source: Company Reports

Figure 2: Revenues Breakdown



Source: Company Reports | Finance Club Research

First steps and general information

Karamolegos Bakery S.A. operates in the food sector in Greece and, through its subsidiary, in Romania. It was founded by Ilias Karamolegos in 1950, when he opened his first bakery in the island of Santorini. Several years later, Karamolegos family established another bakery, this time in Athens, and in 1999 the company registered in the Athens Stock Exchange. One year later, Karamolegos S.A. acquired Apollonio S.A. In the years to follow, Karamolegos S.A. invested in new technologies to automate the production process. Its products started filling the shelves of many bakeries and supermarkets. Today the group employs 808 employees, owns 22 retail shops, and plans to expand this number to 40, by 2025.

Business segments and products

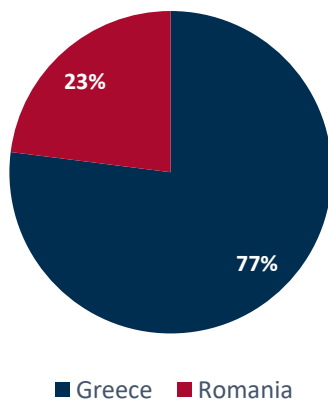
The company produces and delivers bakery and pastry products –mainly different varieties of bread, like toast bread, traditional bread, breadcrumbs, and Greek sweet bread. As far as its clientele is concerned, big supermarket franchises amount for roughly 70% of its sales, and the rest come from small retail shops. Income from wholesale exceeds €16mn, while retail sales are estimated at €30mn. The company's most profitable products are snacks, accounting for 40% of total sales. Furthermore, in 2019, three innovative products were successfully launched, labeled as "Mini", "Slim", "Low Carb with No Extra Sugar/Salt" and accounted for 6% of the company's total sales for that year.

The impact of the pandemic was not strongly felt at a company level

The coronavirus outbreak in the first quarter of 2020, added a significant uncertainty factor, in both macro and microeconomic terms. The lockdown is expected to severely impact clients' creditworthiness, thus increasing companies' credit risk. The size of the pandemic's financial implications heavily depends on the sector of a company and should be examined on a case-by-case basis. Karamolegos Bakery Group managed to limit its liquidity risk, due to Covid-19, unlike its subsidiary Apollonio S.A., which was negatively impacted by the fall in retail sales in Greece. The company has taken serious measures to decrease expenses and keep EBITDA fixed in order to maintain liquidity. More specifically, company's sales in the food market increased, putting away any fears for loss of income during the pandemic. Nevertheless, due to the unpredictable nature of the pandemic, the aforementioned numbers might fluctuate.

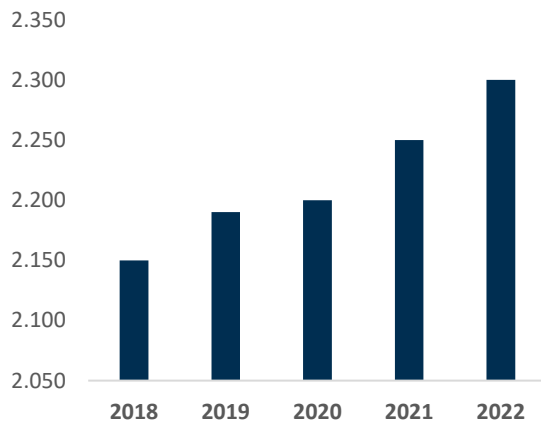
Karamolegos Bakery, like many other companies, took strategic and healthcare measures to maintain its competitive advantage and maintain the employees' safety. Work from home, wherever applicable was implemented, and business travels were put to immediate stop.

Figure 3: Revenues by Area



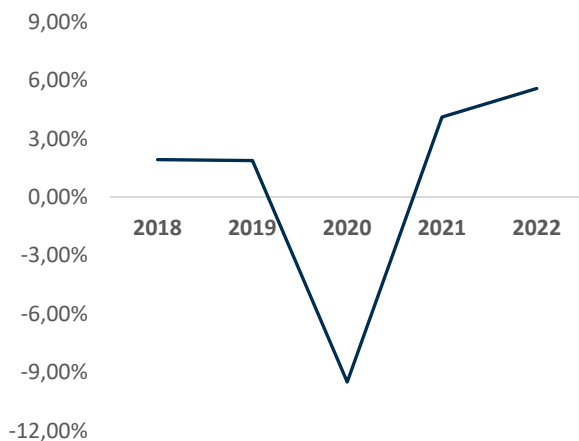
Source: Company Reports

Figure 4: Bread, Fresh Pastry Goods & Cakes Industry Revenues (in million \$)



Source: Statista

Figure 5: Real GDP Growth Rate, Greece



Source: Statista

The COVID-19 crisis has also had an impact on bakery product supply strategies. During the lockdown, the use of bake-off products increased tremendously, while that of scratch baking products plummeted, due to labor shortages and new sanitary constraints. Fresh bakery product sales decreased during the lockdown, due to the difficulties of ensuring daily deliveries. However, in some countries new opportunities have emerged for industrial fresh products.

MARKET OVERVIEW

According to a report by the International Association of Plant Bakers, Greece marks above the European average for bread consumption, as the average Greek consumes approximately 70kg of bread per year. The revenues of bread, fresh pastry goods and cake manufacturers in Greece, registered uneven fluctuations between 2011 and 2016, rising and falling intermittently. In the years to follow, this market is expected to rise steadily, reaching \$2,429mn by 2024, from \$2,171mn in 2017. The revenues in Greece are expected to be at approximately \$17.388mn by 2024. Greece was placed among the top thirty countries globally in terms of per-capita volume sales in 2018. This was due to the increase in volume and thus in market revenue, over the last few years.

The Greek government, in order to protect the market, proceeded to financial reforms through some European programs, aiming to reboot financial cash flow and liquidity. These reforms aside from acting as a protective shield, presented a significant boost as well. Due to the pandemic, European and Greek economies suffered a lot. Europe's GDP, in the second trimester, when pandemic was in its biggest form, fell by 14.7% while in Greece, GDP decreased by 15.2%, compared to last year. However, the food production and retail market showed significant growth.

The food market in Greece was resilient to the financial problems triggered by the pandemic. More specifically, in the first quarter of 2020, the market of organized food retail presented 27.5% growth rate compared to last year. Additionally, the final months of this crucial year came to confirm the positive sign by the aspect of sales and revenues, as, more analytically, the financial turnover, for the organized food retail, increased 5.5% for the second week of October and 7.2% for the third one. In other words, the sales for the second week of October approached €118mn, a significant rise from last year's €112mn. The stability and development of food production and organized food retail market during 2020, can be seen at the revenues of retail stores. More specifically, revenues in stores that are over of 2.500 sqm rose by 20%, those between 2.500 - 1.000 sqm by 7.1%, stores between 1.000-400 sqm by 4.2% and those up to 400 sqm by 3.4%.

A 7% fall in European bakery consumption is reckoned in 2020. In detail, packaged products are anticipated to show a 6% growth in 2021, compared to last year, as consumers have turned towards at-home baking ever since the pandemic began. Consequently, fresh products could drop by 11%, as the same change in purchasing behaviour has turned customers

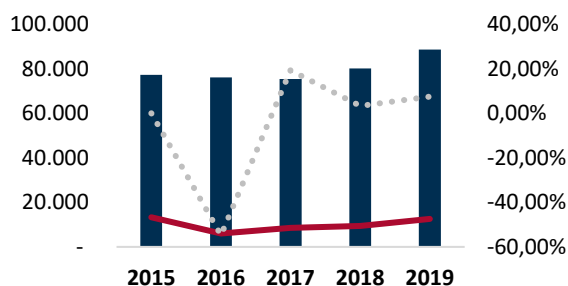


away from fresh bakery goods. Double digit growth has been achieved during lockdown by long-life packaged products and many supermarkets in Europe have invested in packaged bakery products.

In Europe, a 15% decrease in artisanal fresh bakery product production has been forecasted for 2021, while the reduction at industrial production may only be a slight 5%.

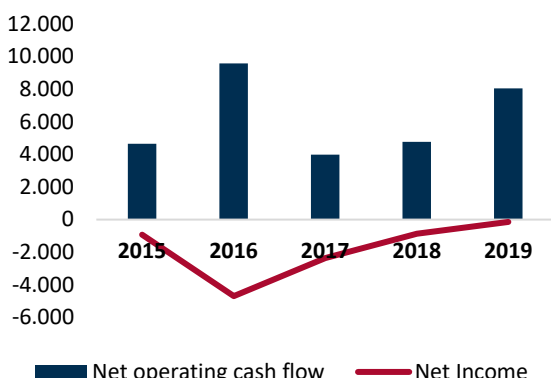
In the future, manufacturers willing to diversify their services and product specialization, and those with the adaptability to switch to the appropriate technology (i.e., fresh vs packaged) will be the big winners of this sector.

Figure 6: Revenues, EBITDA & EBITDA CAGR
(in thousands €)



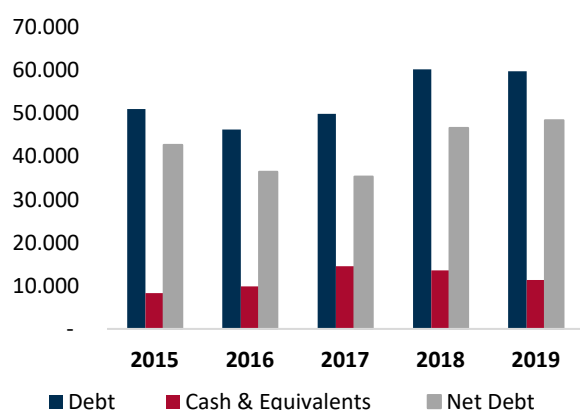
Source: Company Reports | Finance Club Research

Figure 7: Operating Cash Flow & Net Income
(in thousands €)



Source: Company Reports | Finance Club Research

Figure 8: Debt, Cash & Net Debt
(in thousands €)



Source: Company Reports | Finance Club Research

FINANCIAL ANALYSIS

The inevitable increase of costs, such as D&A, did not suppress margins as the company's revenue has been rising steadily these 5 years, achieving an €11mn increase from 2015 to 2019.

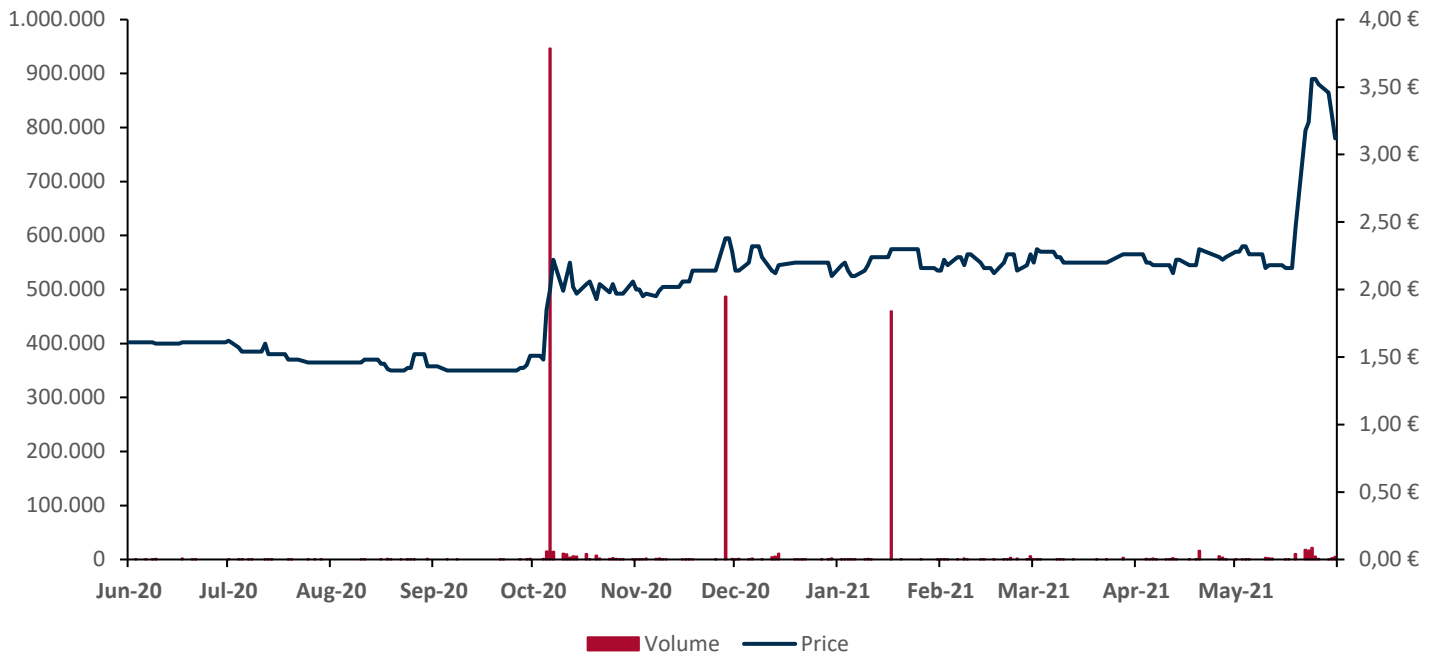
From 2015 to 2019, the company developed negative Net Debt to Equity ratio, meaning that the cash the company holds exceeds its debt. Starting at -6% in 2015, it took a sharp fall, hitting -53% in 2018, and in 2019 it stood at -38%. Even though it was increased in 2019, a negative Debt to Equity ratio signifies low risk for the company.

Karamolegos has seen serious decrease in equity, from 2015 to 2018 however in 2019 it almost remained unchanged, marking the first positive sign in equity, during these 5 years. The last dividends paid to investors were in 2015.

Company's net income fell sharply in 2016, from €-0.78mn to €-4.7mn, but has recovered since then, standing at €-0.18mn in 2019. This can be attributed to an overall increase in revenues, as well as a decrease in interest expenses, during the last 5 years. Similarly, the return on equity (ROE) of the company saw a fall in 2016 and has been on the rise ever since. Return On Capital Employed (ROCE), a figure that shows how well a company generates profit and how efficiently it manages its capital, fell from 8% in 2015 to -4% in 2016. The company's ROCE has yet to recover but has been on an upwards trajectory from 2017 and was at 6% in 2019.

Enterprise Value to EBITDA dropped from 2016 to 2018, falling from 2.4 to 0.3 with a small increase to 0.4 in 2019. The drop was due to Karamolegos not paying any financial liabilities between these two years, while more cash was generated and thus enterprise value fell. Company's EBITDA has been steadily rising since 2016, which along with 2019's huge rise in its Free Cash Flow yield provided investors with some good news. Free Cash Flow Yield in 2019, rose by 62.4% compared to 2018, from the low of -35.9% and it has fluctuated a lot in the past years. This means that the company in 2019 could stand in a firm financial ground, as it showcased its ability to satisfy its obligations.

Figure 9: Share Price & Volume, 1 year



Source: Company Reports | Finance Club Research

Table 2: Key Financials

Key Financials											
	2015	2016	2017	2018	2019		2015	2016	2017	2018	2019
Margins						Solvency					
Gross margin	52%	53%	49%	47%	51%	Leverage Ratio	1,98	2,11	2,18	3,92	4,03
EBITDA margin	17%	8%	11%	12%	14%	Net Debt / Equity	106%	103%	105%	181%	189%
EBIT marign	7%	-3%	1%	3%	5%	Net Debt / EBITDA	321%	606%	413%	493%	383%
Net margin	-1%	-6%	-3%	-1%	0%	Efficiency					
Growth rates						Assets turnover	65%	69%	71%	63%	69%
Sales growth	-	-2%	-1%	6%	10%	FCF yield	-30%	32%	-2%	-36%	27%
Equity growth	-	-12%	-5%	-23%	-1%	Dividends					
Assets growth	-	-8%	-3%	19%	2%	Divident per share	0,01 €	0,01 €	0,00 €	0,00 €	0,00 €
Performance						Divident yield	0,9%	0,5%	0,0%	0,0%	0,0%
ROE	-2%	-13%	-7%	-3%	-1%	Liquidity					
ROA	-1%	-4%	-2%	-1%	0%	DSO	200	165	113	120	114
ROCE	8%	-4%	1%	3%	6%	DIO	12	16	18	32	35
"Multipliers"						DPO	182	197	165	249	253
P / E	-13,9x	-4,1x	-9,8x	-19,2x	-85,0x	Cash Conv. Cycle	31	-17	-34	-96	-104
EV / EBITDA	0,6x	2,4x	1,1x	0,3x	0,4x	Current Ratio	2,0	1,8	0,9	0,9	0,9
P / BV	0,3x	0,5x	0,7x	0,6x	0,6x	Cash Ratio	0,3	0,4	0,3	0,3	0,2

Source: Company Reports | Finance Club Research

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