

Business Description

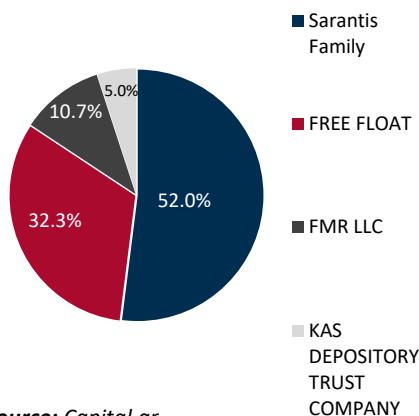
Figure 1: Key Figures

Key Figures	
Bloomberg Code	SAR: GA
Market Capitalization (in millions)	513.599 €
Share Price (08/04/2020)	7,35 €
52w High	9,20 €
52w Low	6,35 €
Stock Exchange	ATHEX

Source: Bloomberg

Sarantis Group is one of the largest companies for cosmetic and household products in South and Central-Eastern Europe. The Group has developed a strong international presence, exporting to 40 countries, and a distribution network that covers more than 109,000 points of sale. It was founded in Constantinople in 1930 and transferred its headquarters in Athens in 1956. In 1994, the company was enlisted in the Athens Stock Exchange market and currently the chairman of the company is Grigoris Sarantis. Sarantis Family has maintained the 52% of Sarantis shares, while the remaining 48% is owned by domestic and foreign investors. Furthermore, it is notable that Sarantis Group has managed to diversify its revenue sources in terms of Geography since it has set its foothold throughout Eastern Europe thanks to its 12 subsidiaries. From Fragrances and Cosmetics to Personal and Health Care as well as Household Products. Sarantis Group owns a strong and well diversified product portfolio with a range of high-quality brands that are primary in consumers' choices.

Figure 2: Shareholders' Structure

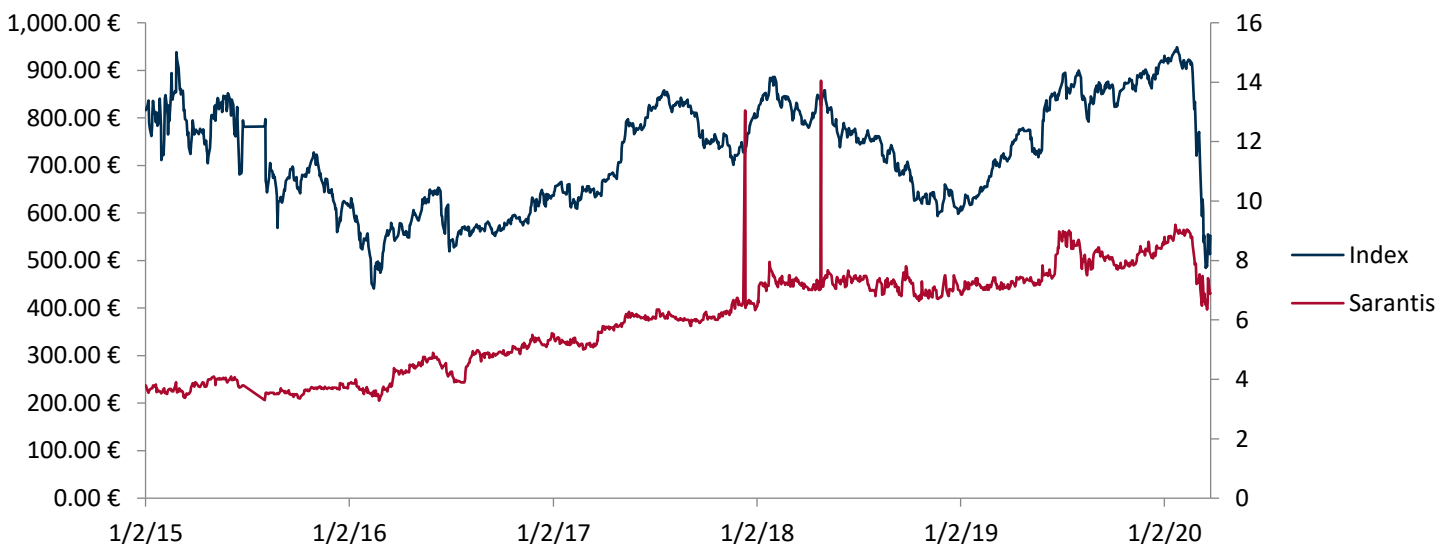


Source: Capital.gr

Geographic and Business Segments

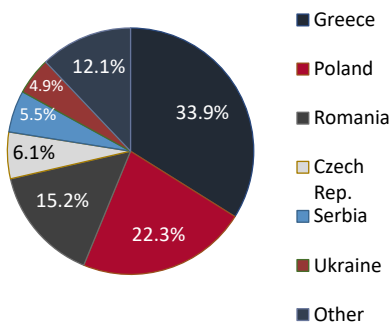
In terms of geographical reach, aside from the Greek market from which Sarantis Group receives 33.9% of its total revenues, the Group also operates in other countries with its 12 subsidiaries. Among these countries, Poland and Romania have the highest revenue contributions, with 22.3% and 15.2%, respectively, Czech Republic (6.1%), Serbia (5.5%), Ukraine (4.4%), Bulgaria (4.1%), Slovakia (1.4%), North Macedonia (1.2%), Bosnia (0.9%), Portugal (0.6%) and Russia(0.6%).

Figure 3: Share Price vs ASE Index



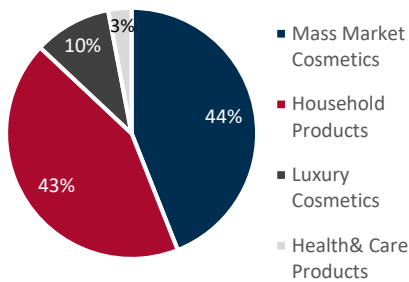
Source: Capital.gr

Figure 4: Revenues by country



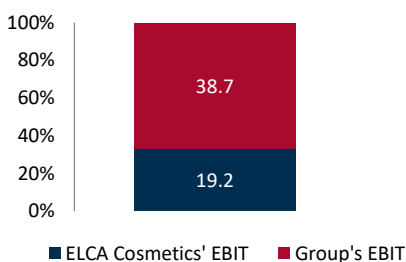
Source: Bloomberg

Figure 5: Business units



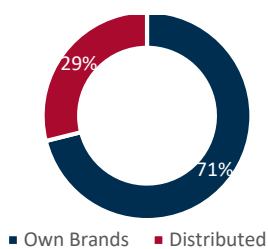
Source: Company Reports

Figure 6: Group's and ELCA'S EBIT (€ mn)



Source: Company Reports

Figure 7: Turnover Own Vs Distributed Brands



Source: Company Reports

In 2018, a very promising acquisition was announced. Sarantis Group in Cyprus Ltd acquired 90% of the share capital of the Ukrainian company Ergopack. Despite its financial problems, Ergopack Group still has significant export activity and a strong presence in the Ukrainian market. This acquisition aims to expand the product portfolio and the group's geographical presence.

In August 2019 Sarantis acquired the Polish company Luskja for GBP 9.222mn. LUSKJA holds strong position in the Polish market with sales amounting to €16mn in 2018. As part of the agreement, Sarantis will become the sole representative of PZ CUSSIONS in Central and Eastern Europe.

In 2019, Sarantis Group and Estee Lauder entered into negotiations for the future of their Joint Venture. In July 2019, Sarantis Group and Estée Lauder Companies Inc. agreed to modify the shareholders agreement that entails ELCA extending it from its original termination in June 2021 to June 2028. They also agreed to include the Moldavian part of Estée Lauder business to their sales and distribution network. Based on the new agreement, Sarantis Group gives Estee Lauder the option to acquire the remaining 49% of ELCA in parts over the next 8 years and as a result Estee Lauder can increase its equity in ELCA up to 100% by acquiring shares in June of 2020, 2024 and 2027 by 9%, 25% and 15% respectively. The group's strategy, which includes taking advantage of the liquidity that will be created and the implementation of new representation and distribution agreements, is expected to compensate for the JV's profitability which will be potentially lost.

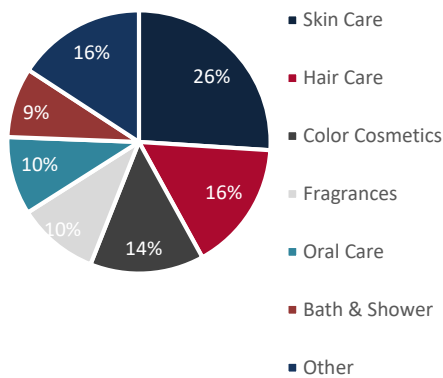
In July 2019 Sarantis Group announced its new representation and distribution deal with COTY, a Luxury Cosmetics brand. The deal includes the representation and distribution of the following brands: BALENCIAGA, BOTTEGA VENETA, BURBERRY, CALVIN KLEIN, CHLOE, DAVIDOFF, ESCADA, GUCCI, HUGO BOSS, JIL SANDER, JOOP, LACOSTE, LANCASTER, MARC JACOBS, MIU MIU, NIKOS, PHILOSOPHY, ROBERTO CAVALLI, STELLA MCCARTNEY and TIFFANY & CO. Through this deal, which is in-line with the group's strategy, Sarantis Group enriches its product portfolio further in the Greek Market, while simultaneously strengthening its sales and profitability in the luxury products category.

Products

Sarantis has a well-diversified product portfolio which is comprised of 2 main categories: 1) Mass Cosmetics & Toiletries and 2) Household Products. The first category consists of toiletries such as fragrances, deodorants, shaving lotions, bath & shower gels, face care, body care and sun care products. The main brands of the group in this category are STR8, Carroten, Kolastyna and Noxzema. The second category is composed of food packaging products, plastic bags, cleaning items, dish-washing liquids and WC care. Sarantis main brands are Finom, Teza and AVA. In the market of luxury cosmetics, Sarantis exclusively represents a number of global brands such as La Prairie and Cartier while in the healthcare market its portfolio is comprised of products such as vitamins and nutrition supplements.) The first two categories represent the basic growth pillars of the Group, as they account for c.90% of its total sales, numbering to over 80 different brands. They include own well-known brands and exclusive representation agreements as the Group also maintains a large product portfolio of distributed brands.

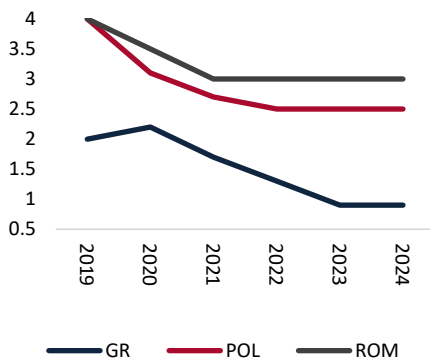
Market Overview

Figure 8: Segments of the HPC Sector



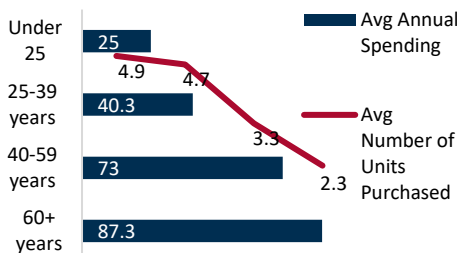
Source: Industry Report

Figure 9: Forecast in real GDP % change



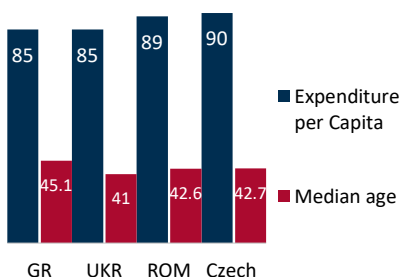
Source: IMF

Figure 10: European Women's Average Annual Expenditure



Source: Cosmetics Europe with support from (RPA)

Figure 11: Median Age and Expenditure per Capita



Source: Industry Report

HPC industry outlook. HPC sector stands for health and personal care. It is comprised mostly of cleansing products, cosmetics and fragrances. The market's key revenue drivers are economic growth, demographics and urbanization. Global HPC sector reached approximately the size of €500bn in 2019 sparking optimistic signals after a stagnant 4-year period since 2014. Skin care accounts for c.€125bn, hair care products generated approximately €80bn in revenue, while color cosmetics and fragrances accounted for a turnover of €70bn and €50bn respectively. In Greece, the HPC sector suffered a prolonged decline between 2007 and 2013 affected by the global and domestic financial crisis. Since 2016, the sector has shown signs of improvement as the country's economy is gradually recovering. Industry's market size for 2019 in Greece is estimated about €500mn. Lastly, despite inflation in Europe is at zero levels, a high growth of 3.5% CAGR is expected until 2025.

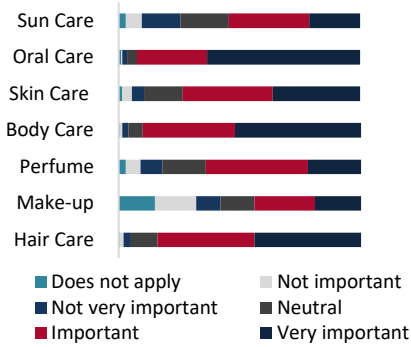
HPC and GDP. As consumers' disposable income increases, demand for HPC products rises and the opposite. Rise of GDP in emerging market economies, especially countries of Latin America, China and India, the past decade has boosted up sales of HPC products. In Europe the low but steady growth of GDP has enabled the sector's sales to rise. This favorable economic environment has contributed to Sarantis growth the past years. This is very important since Sarantis is well established not only in the Greek market but has significant activity through its subsidiaries in other European countries too. Nonetheless, the recent outbreak of novel COVID 19 is estimated to affect negatively the GDP of the affected countries due to prolonged lockdowns.

Urban growth effect. Consumption is tightly aligned with urban growth. The past century there has been a tremendous shift in global population towards cities. More than 1 out of 2 people live today in urban areas and the number of city dwellers is expected to increase another 15% the next decades. Eastern European cities are less populated than those in Western Europe. Moving forward the wave of urbanization will be stronger in Eastern Europe. As a result, HPC sector in Eastern Europe is expected to grow with a CAGR of 2.5%, while the respective CAGR for Western Europe is expected to be c.2%. What is more, Eastern Europe's sector market size accounts for the world's 5% with an average annual expenditure per person c.100€. On the other hand, Western Europe's market size accounts for 20% of global sales with an average annual expenditure around 230€.

Demographics and the future of the sector. While urbanization is a considerable factor of HPC sales growth, demographics as well, play an important role. The proportion of population over 65 years old is expected to increase exponentially the following years and almost double until 2040. This fact is a positive sign for HPC industry sales, since elderly people tend to consume more cosmetics and pharmaceutical products than younger people. Europe is the continent with the highest median age population and Greece in particular ranks among the ten countries with the most aged populations globally. Consequently, in Greece the demand for HPC products is expected to grow.

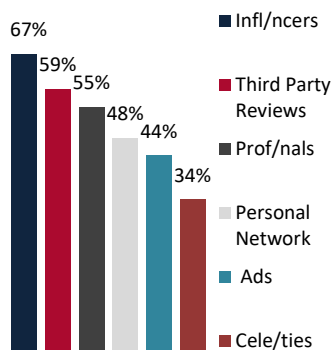
Despite Greece's high median age, expenditure per capita on cosmetics falls behind in comparison with other countries, a fact that could be explained from the severe economic crisis that Greece has been through since 2010. Pre crisis level of expenditure was about 40% higher, an indication strengthening the aforementioned argument.

Figure 12: Importance of personal care and cosmetics in daily life (in %)



Source: Cosmetics Europe with support from (RPA)

Figure 13: Product Information Source of Beauty



Source: Harvard Business School Study

Technology can be crucial. In terms of the distribution channels, shopping stores and particularly grocery stores lead the race. In the meanwhile, digitalization and the spread of e-commerce have created a new distribution channel that industry's leading players seem to considerably take into account. Apart from online platforms that make possible any purchase without the need of physical presence, social media and influencers take online shopping a step ahead. Social Media advertisements can offer a company's marketing strategy a competitive edge, as they allow firms' products to reach a high number of customers in a low-cost way. What's more on certain Social Media, there is the capability to even target users by specific characteristics like sex, age, hobbies and with the use of cookies also. Anyone who has visited the company's website, can become a potential target. According to studies, people are as likely to try a product promoted by an influencer, as if a friend had recommended it. Sarantis's practices towards this issue are considered highly modernized since the company has created an online shop platform and its successful marketing strategy helps the company grow its sales and obtain new distribution channels. For example, STR8 is promoted by the famous NBA star, Giannis Antetokounmpo. Furthermore, in some cases it has been observed that social media's smart advertisements and mobilization of influencers can boost a company's annual sales up to 20%. This type of promotion seems to be more appealing to younger ages for the time being, but as older ages familiarize themselves more with technology and Social Media, its impact is expected to surge.

Lastly, a factor that couldn't be absent from our list is the recent pandemic of Covid-19 and the devastating effects it brings on global economy that cannot be estimated yet. Overall, demand for Sarantis's Health & Care Products is expected to increase while Luxury Cosmetics may decrease as these products aren't a priority for people right now.

Figure 14: Revenues and EBITDA (€mn)

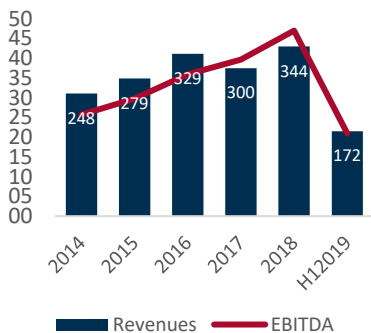
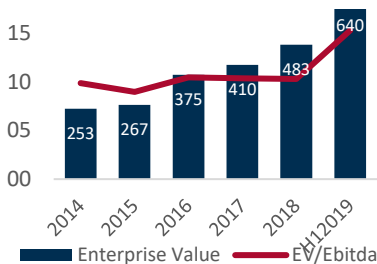


Figure 15: Enterprise Value and EV/EBITDA



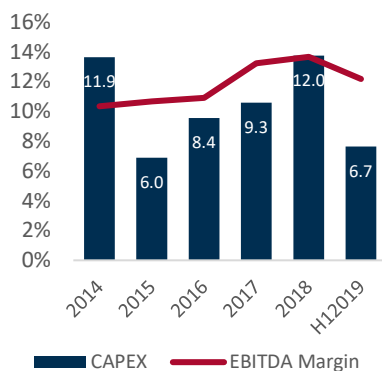
Source: Bloomberg

Financial Analysis

Sarantis's revenue rose from €248.4mn in 2014 to €344mn in 2018, showing a very significant increase of 38.4%. Earnings before Taxes, Interest and Depreciation (EBITDA) stood at €47mn in 2018, showing a significant increase of 83.3% compared to 2014 EBITDA of €25.6mn. Moreover, EBITDA Margin reached 13.7% in 2018 from 10.1% in 2014. The results for H1 2019 are also very optimistic and correspondingly high compared to those in H1 2018, as sales reached €172.2mn when in H1 2018 amounted to €160.3mn. EBITDA also increased by 17.7% to €21mn from €17.9mn in H1 2018. EBITDA Margin increased to 12.2% in H1 2019 from 11.1% in the corresponding period of 2018. Moving forward, EV/EBITDA was estimated to stand at 15.3x for FY 2019 whilst in 2018 it stood at 10.3x. However, due to the recent pandemic of Covid-19, Sarantis stock price has suffered a massive fall from €9.20 per share to €6.35 per share, a downfall that has driven EV/EBITDA again to former levels as market capitalization has dropped dramatically. It's a downfall that no one knows for how long will continue, as there is no clue about the duration of the pandemic and the economic consequences accompanied.

Sarantis Group continues to generate strong organic growth on its strategic business units, while efficiently managing costs and thus leading to higher than expected profitability. Brand-supporting initiatives, the continuous renewal of

Figure 16: CAPEX and EBITDA Margin



Source: Bloomberg

the brand portfolio and the increased penetration across its distribution channels support further brand engagement and drive growth. The Group's commitment behind continued productivity improvement, increasing operating leverage and exploiting synergies behind acquisitions resulted in significant profitability growth.

It is impressive that Sarantis Group has managed to achieve steady organic growth combined with a healthy financial position. At a glance, one can note that the Group has managed to develop while maintaining three strong foundations in its financial statements. 1) Sound management of working capital, 2) Growing profitability measures and 3) Balanced capital expenditure. The strong cash flows generated by the business are further invested in initiatives to stimulate more growth, either organically or through acquisitions. Over the last 5 years, Sarantis has maintained a CAPEX of €10mn on average in order to ensure it remains in the top position in its market. What is more, as of the end of 2018 the Group maintains a net debt position of €11.5mn vs a net cash position of €16mn at the end of 2017. This is partly due to an increase in the total debt position of the Group by c. €14mn and partly due to cash outflow driven by the Group's investment plan.

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