C4 REFERENCE CASES

JANUARY 2021

CAPITAL FOUR

QUALITATIVE SCORING PARAMETERS & REFERENCE CASES

Industry	Industry/Company	Company
Market Dynamics Cyclicality, Secular Trends, Seasonality	**Technology Risk** Disruptor/Disruptee + Industry susceptibility	**Management & Ownership** Experience, Type of Owner, Track Record of Ownership
Competition Pricing Rationality, Consolidation, Barriers to Entry	**Regulatory Environment** Dependency, Political Perception	**Business Model** Diversification, Operational Leverage, Customer Stickiness, Supply Chain
		Competitive Position Market Position, Competitive Advantage, Scale & Scope

	Score: 1	Score: 5
Market Dynamics	Techem	Loxam
Competition	Energizer	Maxeda
Technology Risk	Netflix	Thomas Cook
Regulatory Environment	Colisee	Intrum
Management & Ownership	Merlin	Altice
Business Model	Verisure	Aston Martin
Competitive Position	Froneri	New Look

MARKET DYNAMICS

1

techem

Low Cyclicality: 👍

Positive Secular Trend: 👍

Low Seasonality + Stable WC: 👍

Background	Submetering is an infrastructure like business with long term contractional agreement and non-discretionary nature of demand	Submetering is now required by legislation in EU – roll out to enforce this continues; Growth driven by digitalization and push for energy efficiency	Some seasonality with peak season for reading and billing in the winter period
Rationale	80% of revenue is recurring; high customer loyalty and low churn rates. Consistent EBITDA growth throughout financial crises. 20+ yearr avg contracts	All EU markets potential to become attractive; landlord avoids hassle in terms of billing; Smart meter roll out reduces labor intensity as readings are done remotely	Some NCW fluctuation with the billing cycle; in process of shifting customers from advance to in-arrears invoicing.

5

LOXAM Much More than Rental

Low Cyclicality: 👎

Positive Secular Trend:

Low Seasonality + Stable WC: 👎

Background	Construction equipment rented day-to-day	Increasing outsourcing; large differences between countries: UK 80% outsourced, France 50%	Winter has less outdoor construction activity
Rationale	57% of revenue from Construction equipment; Weak macro historically had high impact on business (-25% EBITDA 2009)	Market growing GDP+ Higher penetration erodes competitive advantage (FR higher margin than UK) Net: Neutral	Limited seasonality in terms of EBITDA timing; Working capital swings considerable (>50% EBITDA)

COMPETITION

1

Energizer

Tendency to price rational: 👍

Highly Consolidated Market: 👍

High Barriers to Entry: 👍

Background	High market concentration and the dominance of branded vs. private label.	Only two major branded players with the remaining being private label in the markets they operate in	Has strong share of shelf space in mass market retailers. Not a space with smaller start-ups; scale game.
Rationale	Historically top players have been able to increase prices through product innovation	Duopoly with Duracell. Together >80% of the market	Barriers to entry assumed to be relatively high

5

maxeda DIY Group

Tendency to price rational: 👎

Highly Consolidated Market: 👎

High Barriers to Entry:

Background	Highly fragmented product offering dominated by non-branded / PL products. Pricing environment has been highly competitive in recent years with Maxeda's competitors driving down prices. As a result, Maxeda's market share dropped as they decided to keep prices unchanged to protect profitability	Highly competitive market with 5 big DIY players. Maxeda is the market leader in Belgium and #2 in the Netherlands. Since 2014, Maxeda's market share has dropped c.5% in both markets to new entrants Bauhaus and Hornbach who drove down prices.	Barriers to entry are relatively high as they sell very technical products, large locations are needed to open stores and the company provides more than 50,000 SKUs However, pure digital players have been entering the market and taking market share (in the B2C segment). B2B segment seen very limited online sales.

TECHNOLOGY RISK

1

NETFLIX

Company is a Disruptor: 👍

Low susceptibility to technological changes: 👎

Background	Internet-based subscription service for watching television shows and movies on demand providing alternative to traditional flow tv, where consumers had to watch the shows/movies "on-air"	Tech-enabled catch-up TV and, to a further extend, video on demand services has driven an overall increase in TV consumption, at the same time cannibalized SoW for traditional linear TV (FTA and Pay TV)
Rationale	Disruptor of the traditional consumer TV preference utilizing technology to let the consumer, rather than the broadcaster, decide when and (simply put) what they wanted to watch	The overall entertainment industry is highly susceptible to disruption from new "in" trends. The TV market in particular has proven vulnerable to swifts in consumer preferences

5

Thomas Cook

Company is a Disruptor: 👎

Low susceptibility to technological changes: 👎

Background	Travel and airline operator with own-brand hotels and aircrafts. Offers packaged holidays via stores and websites and flights with a focus on Southern Europe. Had ~700 retail stores on the street in 2017.	The travel and tourism has been a growth sector and expected to remain so, but the rise of online travel offers has changed distribution channels and made it easier for consumers to build their own travel experiences.
Rationale	Disruptee in an industry that experience increasing competition from online travel booking. Low margin business vs. online competitors that invest heavily in technological upgrades and utilize their search technology to challenge traditional tour operators	Traditional Tour Operators are increasingly dependent on differentiated offering as online travel agencies (Expedia, Booking.com), metasearch engines and hotels/airlines own online platforms make "Do-It-Yourself" holiday planning increasingly easy.

REGULATORY ENVIRONMENT

1

COLISEE

Low Dependence on Regulation or is a Beneficiary from Regulation

Supportive Political Perception

Background	1. Increases in accommodation fees for existing residents are capped by the gov. but prices for new residents are not subject to caps. 2. Mainly resident-paid accommodation fee; only c.35% of daily fee government funded. 3. Cap on number of authorized beds.	Ongoing planning for elderly care is regulated at a national level with a high degree of reliance at the governmental level.
Rationale	1. Stable regulatory environment provides highly predictable cash flows, with an innate growth rate 2. Majority of patient revenue is out-of-pocket 3. This is positive for occupancy rates and entry barriers.	Elderly care is political goodwill, but it should be noted that the French state tries to direct people to the most economical solution in terms of public funding (i.e. homecare for the least dependent and medicalized nursing homes for others). Colisee offers both and, hence, shielded from this strategic government focus.

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intrum

Low Dependence on Regulation or is a Beneficiary from Regulation

Supportive Political Perception

Background	Prudential regulation is increasing the cost to banks of holding NPLs on balance sheet, aimed at increasing the sale of NPLs to Debt Purchasers.	Collections are regulated by various authorities and according to various statues in each European country -> all countries aim for customers to be treated “fairly”.
Rationale	Regulation on bank’s non-performing loans is a tailwind supporting supply of new NPL portfolios sold to Debt Purchasers. There is a degree of dependency on this regulation which is considered stable.	Political scrutiny – the company profits of the most vulnerable group and is therefore scrutinized. A trend in laws, rules and regulations requiring increased availability of historic information about receivables in order to collect, a higher degree of consumer protection.

BUSINESS MODEL

1

verisure ALARMS WITH IQ

	Well Diversified (Clients, Products and/or Geography):	Flexible Cost Base:	High Customer Stickiness	Low Dependency on Suppliers
Background	3.5m residential and commercial customers across Europe (+LatAm)	Main cost is customer acquisition - acquired at an upfront cost with a 3.5-year payback period	Upfront €800 Monthly subscription fee €40	Downstream, service only Hardware outsourced
Rationale	Single product company but very low customer concentration, presence in multiple countries	Ability to “take foot off the gas” when required (EBITDA 40% → 50% during Corona)	Extremely high stickiness even in adverse macro environment: 6.5% attrition (15 year avg customer life)	Owns customer relationship + largest player = high bargaining power

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ASTON MARTIN

	Well Diversified (Clients, Products and/or Geography):	Flexible Cost Base:	High Customer Stickiness	Low Dependency on Suppliers
Background	Some similar-sized peers have SUV, front-engine GT, sedan and mid-engine cars (Bentley, Rolls, Ferrari, [Porsche]) Aston only present in GT and SUV (starting 2020)	Low flex in cost base; Thin margins; Scaling operations requires capex and years of runway; Nature of Auto model cycle demands constant R&D expenditure / Capex Aston also overinvested in capacity far exceeding demand, now reducing again	Very little recurring revenue; Brand loyalty may create some stickiness, but high dealer incentives (discounts) does not support notion of strong pricing power Revenues can be considered lumpy; revenues fluctuate greatly depending on model launch timing	Weak bargaining position due to insufficient scale / relative size compared to suppliers (e.g. buys drivetrain from Mercedes). Medium/ high switching cost in switching suppliers

MANAGEMENT & OWNERSHIP

1

MERLIN ENTERTAINMENTS

Experienced Management Team

Ownership incl. PE, Pension Fund and/or listed without concentrated ownership

Conservative & transparent owner-ship style with solid track record

Background	CEO has +20 years of experience in the company Led management buy-out in 1999 and been with the company since	Blackstone, Kirkbi and CPPIB – a mix of PE and family fund. Kirkbi owns 50% and is not part of management	Previously jointly owned by Blackstone and Kirkbi from 05-13 and played a crucial role in scaling the business (CAGR of 12.5%). IPO'd in 2013
Rationale	Some key person risk but mitigated by the fact that CEO has strong relationship with owners having worked closely with them during previous ownership tenure	Blackstone investing through Core fund (10-15 yr investment horizon) Kirkbi long-term investor in Merlin and majority owner of Lego	There is limited concern due to pension involvement Previous track record mitigates execution risk

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altice

Experienced Management Team

Ownership incl. PE, Pension Fund and/or listed without concentrated ownership

Conservative & transparent owner-ship style with solid track record

Background	Management team has extensive experience in the Cable and Telecommunication industry. Head of board, Patrick Drahi has +20yrs experience owning C+T companies	In process of being de-listed. Prior to this, one person had voting majority through class A-shares i.e. should be viewed as family owned (but at least G1)	1) Altice is notorious for its aggressive leverage profile 2) Intergroup leakage 3) Use of financial engineering to improve EBITDA and place debt "off-balance"
Rationale	Potentially some key person risk from owner Drahi but structure too big to be fully reliant on a single person. Several members in top management with extensive relevant experience	Family ownership are expected to have less "dry powder" to support investment, if needed and likely to run it less professionally then e.g. a PE-owner	1) Patrick Drahi quote *"I bought everything on credit… I didn't take much risk. It's the banks that lent everything"*. 2) Removed neg. EBITDA Pay TV subsidiary from reporting group, sale-and-lease back HQ to Quadrans (P.D owned), FTTH JV. 3) Repaid €1.4bn of subordinated debt in FY'19 despite of neg. FCF i.e. based on sr. secured debt

COMPETITIVE POSITION

1

FRONERI

Leading position and/or gaining market share

Clear Value Proposition

Power to withstand price undercutting or protect against new competitors

	Leading position and/or gaining market share	Clear Value Proposition	Power to withstand price undercutting or protect against new competitors
Background	2nd largest ice cream manufacturer globally with leading market positions in 20+ geographical markets	Sales are 87% branded with iconic brands such as Haagen Dazs (#1 in the US) Long-term (5+yr) licensing contracts with established brands such as Oreo, Milka	Strong geographical diversification with 31 manufacturing facilities in 23 countries
Rationale	#2 ice cream manufacturer globally #1 in Europe #1 in private label (PL) globally At least #3 position in all geographical markets	They have established brands and the ability to offer PL which distinguishes them from Unilever (#1) Also present in all target segments (premium, value, etc.)	Highly fragmented market outside Unilever and Froneri Track record of successful consolidation

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NEW LOOK

Leading position and/or gaining market share

Clear Value Proposition

Power to withstand price undercutting or protect against new competitors

	Leading position and/or gaining market share	Clear Value Proposition	Power to withstand price undercutting or protect against new competitors
Background	*Crowded UK mkt space *2% overall UK apparel share - 3% in Womenswear which is New Look's main focus *Mid price, Mid quality	*Physical stores mid mkt, UK focused *Competing with large global players like H&M and Inditex (Zara) with faster supply chains and discounters like Primark and fast growing online like Boohoo and Asos	*Effectively only UK (int. EBITDA negative) *c. GBP 1bn – vs comps including multiple +20bn players
Rationale	*Very fragmented and competitive market *Structural pressures as consumer spending switches to towards experience over goods incl. clothing	*Squeezed by discount/premium, larger and more agile fast fashion players and switch towards online and multibrand - Neither cheapest, trendiest, highest quality or offering widest selection	*Dwarfed by key comps like H&M, Inidtex, Asos, Next and Primark *Very concentrated on UK, mid market, apparel, physical retail

APPENDIX - CRITERIA

Market Dynamics

Score	1	5
Cyclicality	The majority of the revenue is derived from non-cyclical products	The majority of the revenue is derived from above average cyclical products
Secular Trend	Positive trend (Demographics, consumer, preferences, structural)	Negative trend (Demographics, consumer, preferences, structural)
Seasonality	Limited seasonality and stable working capital	Seasonal industry and volatile working capital

Competition (Define Market)

Score	1	5
Pricing Rationality	The market has historically shown rational pricing	The market has not shown rational pricing
Consolidation	Top three to five have the majority of the market share and limited fragmentation of remainder of the market	Highly fragmented market with no or only one clear market leader if this market leader is the issuer
Barriers to Entry	High	Low

Technology Risk

Score	1	5
Disruptor/disruptee in susceptible industry	The company is a disruptor an/or beneficiary, and the industry is susceptible to technological advances	The company is a disruptee and not a beneficiary, and the industry is susceptible to technological advances

Regulatory Environment

Score	1	5
Dependency on regulation	The company has low dependency on regulation or is a beneficiary from regulation in a stable regulatory environment	The company has high dependency on regulation or is a beneficiary from regulation in an unstable regulatory environment
Political Attention	The industry has a low degree of regulatory scrutiny (goodwill)	The industry has a high degree of regulatory scrutiny

Management & Ownership

Score	1	5
Management experience	The company has an experienced management team (substantial amount of time) with limited key person risk	The company has recently changed management team and/ or there is perceived high key person risk
Type of owner	• Industry experienced PE owner • Pension funds • Listed companies without concentrated ownership (voting)	• Family offices, second generation (excluding family ownership without being part of management) • Listed companies with concentrated ownership (voting)
Track record of ownership	Does not have a track record of being aggressive (M&A, Recap, Leverage, Preferential treatment of equity)	Aggressive ownership style with mixed track record

APPENDIX - CRITERIA

Business Model

Score	1	5
Product and/or geographical diversification combined with degree of customer concentration	High product and/or geographical diversification with low degree of customer concentration	Low product and geographical diversification and/or a high degree of customer concentration
Operational Leverage	Flexible cost-base (+capex)	Unchangeable cost-base (+capex)
Customer stickiness	Subscription-based business model and/or longer-term contractual relationships/high degree of aftersales	Project-based revenues Lumpy revenues
Supply Chain	Low dependency on suppliers/ low supplier concentration Strong negotiating power	Dependency on suppliers / high supplier concentration Weak negotiating power Raw material exposure

Competitive Positioning (Define Market)

Score	1	5
Market position	Leading position or gaining market share	Market challenger
Competitive Advantage	Clear value proposition/purpose of existence that is expected to last in the medium term. This could also include patent protection, branding or other differentiating capabilities	Highly commoditized offering with no unique value proposition
Scale & Scope	Power to withstand price undercutting or protect against new competitors, e.g. through consolidation	Competitors perceived to have better financial power