Vita Group and Foam market Update - Growth Outlook & Competitive Assessment

* Let’s start with a Foam market Update
  + Volumes - drivers/challenges and future outlook for 2023 onwards including YOY percentage 5 year growth outlook? **Market grew over the last couple of years always around 2-3% —> double GDP. 2022 for the first time in 15 years the market did shrink with 8.3%. When we exclude Turkey and Eurasia the market did even shrink with 10.4% Volume wise we talk about total market for flexible foams in 2022 1.57 Mio tons of which flexible PU Slabstock foam was 1.33 Mio Tons. Drivers of the market were influenced by growth/decline of the automotive industry and housing industry which consequently causes a lot of pick up of furniture and matresses. Further challenges in the last couple of years were the availability of Raw materials and the pricing of raw materials which were in a roller coaster. The limited availability in Europe of Raw materials caused PU foamers to buy directly in Asia like China and Korea. Furthermore it is very difficult to follow the price roller coasters into adapted pricing in the market as OEMs often allow adaptations only with a delay.**
  + Pricing - drivers/challenges and future outlook for 2023 onwards including YOY percentage 5 year growth outlook? **In my opinion 2023 will show again a decline. Influencing factors are War Ukraine, High gass and electricity prices (which are influencing the PU making industry not only directly but also the costs of raw materials , Inflation for household (Example of costs for families like enigers etc). I think that 2023 will show a decline again of around 10%. 2024 the market will botten out and eventual 2025 can show an increase again but not more than double GDP per country.**
  + Industry challenges noting supply chain: Cost outlook for polymers etc and sourcing of raw materials? **Polymers are now very low in pricing due to weak demand compared to installed capacity. This will change also partly driven by more growth outside Europe in the PU markets.**
  + sectoral trends and geographical region trends noting sustainability also? **Yes we see that furniture and matresses is under presssure and automotive is slightly recovering for the moment mainly driven by the change to EV.**  Who's winning in the sustainability race? **The ones who will find the optimal balance between the different recycling technologies Mechanical, chemical and thermo chemical recycling combined with design for recycling. Meeting the EU targets on recycling will be a must. In my opinion it will start with a proven recycled content in products of 25% and will slowly move up up till 50% and higher as from 2030 onwards. People who will not fulfill these targets will probably be penalised.**
  + What does sustainable product mean for profitability and total market size of the industry? **The market size will not significantly change except for mentioned earlier. However I think that the costs for recycling and sustainability needs to be given further on in the markets. In the beginning when this is all in a premature phase this will puts margins under pressure but later it will go with the general accepted flow of inflation increases prices.**
  + Thoughts on recent M&A consolidation? **View on recent take over Carpenter. Room for specialists but also further consolidation in the markets by backwards and forward integration like for example PU foamers producing and selling mattresses and producing certain RM like re-Polyol themselves.**
    - What growth opportunities does the industry have for the next 5-10 years? **Expand geographical scopes to areas where there is still growth in te PU markets like MEA and Asia certain countries. Ride the wave of change in sustainability and even with this cast out other non-PU products which can be more difficult to recycle. Jumbo on new market segments like EV, change on living consequently new business models for mattresses, furniture but also the excellent properties which PU have to contribute to more comfort for daily life like clean water, clean air, less sound pollution, contribute to enable greener in cities like roof and Wall greening. PU foamers like for example Vita have to adapt there product portfolios to these change in end (consumer) markets.**
* Vita Group’s competitive positioning…
  + How does your role tie into Vita? **I have been working more than 35 years in this industry. Almost 20 years in Recticel and 10 years as CEO of the biggest competitor of technical foams at Vita. Furthermore, I am now almost 8 years President of the European PU association.**
  + Can you summarise the comp landscape ordering major players by revenue size and market share and market positioning?

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| --- | --- | --- | --- |
|  | **Europe incl Russia; Excluding Turkey** |  |  |
|  |  |  | *Only Flexfoam including Bonded foams, mobilty products, Living & care.* |
| **Ranking** | **Company** | **2020 Turnover in Mio €** | **Comment** |
| **1** | Vita Group | 880 | Entire group turnover incl recent acq IMPE Italy |
| **2** | **NEVEON** | 600 | Including Eurofoam effect |
| **3** | Recticel | 600 | Only FlexFoam business. Including Eurofoam and Foampartner- effect, interco bedding 50 Mio and minority in ORSA Italy |
| **4** | Carpenter Europe | 300 | Including the sales of import US goods in the UK |
| **5** | Foamline Russia | 270 | Total estimated volume 90KT. 10 Factories, 7 cutting centres |
| **6** | OLMO Group | 250 | Incl TG-Group |
| **7** | Flex 2000 Portugal | 135 | Main sales in Portugal/Spain and S.America exports Main client Aquinos Group |
| **8** | Correct | 120 | Total estimated Produced 35KT. Main client Ikea |
| **9** | Ikano | 110 | Total estimate produced 30KT. Main client Ikea |
| **10** | Egida | 100 | Total produced estimated at 30KT |
| **11** | Aramis | 80 | Total estimate produced 20KT. Main client Ikea |
| **12** | Orsafoam Italy | 75 | Confirmed |
| **13** | Organika | 70 | Manly Poland but also SE Europe 8 Plants 20-25KT |
| **14** | Breckle Nordheim | 65 | Only matresses and bed systems. Main clients Jysk and Dänsisch Bettenlager |
| **15** | Ciech Pianki | 60 | Estimate produced volume 30KT |
| **16** | Dominari Lithouwen | 60 | Confirmed |
| **17** | Ametist Russia | 50 | confirmed |
| **18** | Plamapur | 40 | Confirmed |
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* + How do you view them compared to other suppliers? Strengths and weaknesses? **Strength Purchase power, Geograpical presence, Development capacity/Power, Weaknesses overhead costs, agility to quickly reach on changing market circumstances, local tie-in at customers.**
    - Portfolio and M&A wise? **See table when discussed competitors**
    - Pricing / quality of service? **More or less the same**
    - Cost structure of manufacturing plants? **The bigger the plant the more volume the less fixed/variable costs per kg**
    - asset utilisation challenges and positioning in expansion market like Poland/Turkey? **Poland Vita is well positioned. In turkey not like many other EU players are not positioned.**
* Thoughts on Margin outlook for Vita versus the average margins for the industry - positioned better or worse? **Apparently the bigger foamers have more difficulties to adapt prices and due to there fixed costs and plants they have some difficulty to adapt to volume changes.**
* Thoughts on Further M&A prospects and industry consolidation?
* Thoughts on  Future of Vita - should it be a strategic buyer or a PE buyer? Why / why not?
  + Potential synergies?
  + Thoughts on current leadership?
  + Competitive Markets Authority considerations?

able to discuss with them:

1. *Market description / definition*
   1. *How does the business model of the PU foams producers look like?*
      1. ***Buying raw materials, foaming, converting this and selling blocks or converted products. Sometime they make also ready products like mattresses****,*
   2. *In brief words – how does the production process/cycle look like?* ***Go along the chain, Polyol, Isocyanite, Water additives, mixed in low or high pressure, laid on a belt, exotherm temperature, cooling down like a bread but than sometime 100 meter to 3 km long, 2 meter width and 1-1,50 meter high. There are different grades like hard, soft, reactive (Visocelastic), open cell, closed cell, absorbant,***
   3. *How the distribution look like and what are the key sales channels?* ***Biggest markets are furniture, bedding, automotive and industrial applications. Spec in at OEM than supply to tear 1,2,3 in the value chain or directly***
   4. *Who are the key (direct) clients of the producers?* ***As mentioned above give examples per segment***
   5. *What are the main uses of PU foams?* ***Building & construction, transportation, furniture & bedding, Packaging, footwear, appliances, electronics***
   6. *What are the most important characteristics of foams for its clients?* ***Soft vs hard, closed cell vs open cell, fluid retention vs revoking, noise/vibration absorbtion, comfort (cushioning)***
2. *Market size*
   1. *Market size in Poland and in Europe (as of 2022 or the most recent data available);*
      1. *In PLN / EUR terms and* ***Europe €5,1 Bio (=22,7 Bio PLN) in revenue over 168 plant, 24K employees. Poland €500 Mio (2.2 Bio PLN)***
      2. *In volumes* ***Europe1,58 Mio tons of which. Poland 208K tons Poland is the biggest producing country in Europe second is turkey with 200KT and 3rd***
   2. *Export size for Poland and its dynamics.* ***75% is exported in furniture and mattresses industry. Average thumb rule 1-1.3 kg per inhabitant usage. Therefore, autonomous consumption is roughly between 40-52K Tons of foams***
   3. *What are the key market segments?* ***For Poland Furniture, mattresses and automotive***
   4. *Is Poland a strong player among other European countries in respect of PU foams production?* ***It is the largest producing country with 208KT. Also Poland experienced a decline 2021🡪 2022 of -10%. Ranking Poland in EEA+UK is Nr 1 with 20.4% including Eurasia and Turkey ranking is also Nr 1 with 15.3%***
3. *Market growth*
   1. *Historical market growth rates over last few years;* ***Market grwoths ranging 2-5% over the last 6 years. 2022 showed first time a decline with approx. 10%. 2023 will probably not be better***
   2. *Expected market growth going forward and its drivers;* ***Still decline expected till end 2023. 2024 stableised out on levels of 2023. 2025 potential upturn. Drivers are raw material prices % availibilty, drive for sustainable products, economic trust in economic growth depending on rise in costs for househlds, inflation, war Ukraine***
   3. *Cyclicality – is market growth cyclical?* ***Follow the automotive, furniture and bedding industry. Ingerneral markets of durable consumer goods***
4. *How does the ecosystem / value chain look like?*
   1. *Participants of the value chain and relationships between each step of the value chain*
   2. *Offshoring risk (risk of moving production to other countries with cheaper work force)*
   3. *Bargaining power vs. customers and suppliers*
5. *Profitability*
   1. *What are the key profitability drivers?* ***RM, scale, efficiency in Prod processes***
   2. *Typical EBITDA and EBIT margins of the producers?* ***EBIT raging between 4-7%. EBITDA raging between 6-10% best 15%. Worst 5%***
   3. *Typical size of CAPEX and investments in working capital* ***example FP 14 mio on 3-4% on revenue***
   4. *Profitability trends over the last couple of years (is it increasing/decreasing/stable?)*
6. *Competitive landscape*
   1. *How many PU foams producers there are in PL and in EU?* ***EU 168, Poland 13***
   2. *Are the PL and the EU markets consolidated or fragmented?* ***Partly consolidated. In Poland fragmented***
   3. *key players and their market position* ***see list excell***
7. *Market Consolidation*
   1. *What are the consolidation benefits?* ***scale-synergies, positioning in other geo areas***
   2. *What are interesting directions for a potential consolidation? E.g. adjacent verticals, technical solutions / products, geographies?* ***Backward-Foreward integration***
8. *What are the key factors to be successful on this market? What are the key market risks and opportunities?* ***Proximity to OEM’s in development of new products, scale in purchasing RM, Focus on a couple of segments and not all***