



A multibrand company

## NEWLAT FOOD TO ACQUIRE CENTRALE DEL LATTE D'ITALIA

The deal strategic rationale, structure & economics

MARCH 31ST 2020

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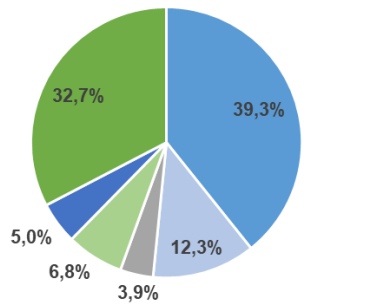
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# CLI: COMPANY STRUCTURE AND SHAREHOLDER BASE

**Centrale del Latte d'Italia (CLI)** is a milk and dairy manufacturer created through the merger of Centrale del Latte di Torino, Firenze, Pistoia and Livorno. The Group has **four production plants** with a **leading presence in Piedmont, Tuscany, Liguria and Veneto**. With 415 employees and circa **119mln litres of milk**, the Group is the **third most important industrial pole in milk & Dairy in Italy**. The Group main shareholder is **Finanziaria Centrale del Latte di Torino**, controlled by the Artom/Pozzoli family.

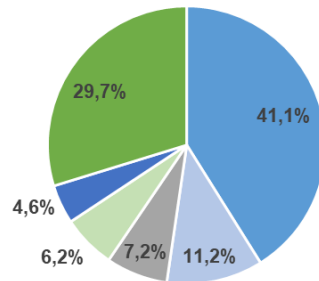


## SHAREHOLDER BASE



- Finanziaria CLI
- Lavia
- Comune di Pistoia
- Comune di Firenze
- Fidi Toscana
- Mercato

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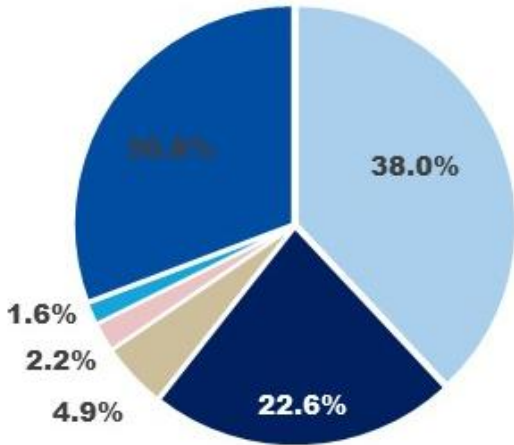


- Finanziaria CLI
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# CLI: KEY PRODUCTS AND BRANDS

The Group offers interesting potential revenue and cost synergies. In particular, it is important to highlight the exposure to the fast growing plant-based category and the important exposure to regions where Newlat is not present with its Milk&Dairy products, like Piedmont and Tuscany. Moreover, the company offers the opportunity to improve the quality of sourcing. On the cost base side, there are interesting opportunities to reduce the incidence of SG&A costs on sales, thus improving profitability.

REVENUES BY CATEGORY



- Fresh Milk
- UHT
- Yogurth
- Milk Bulk
- Plant base
- Others products



The Tapporosso brand is the most famous brand of Centrale del Latte di Torino, while Mukki is the historical brand of Centrale del Latte di Firenze. All of these brands are locally very famous and with an high recognition in terms of quality and customer loyalty.



Centrale del Latte d'Italia also developed several specific brands: "Alta Quota" is a brand used by Centrale del Latte di Vicenza in the distribution of high quality products. "Cappuccino Lovers" is a specific brand for the Café ("Bar") and other Ho.Re.Ca. channels; "LAATTE" is a brand of Centrale del Latte di Torino for special products with A2 beta-casein; Monviso is a high quality brand of Centrale del Latte di Torino.

# NEWLAT FOOD: MILK & DAIRY BUSINESS OVERVIEW

Newlat Food generates 32.3% of revenues in the Milk & Dairy divisions (Milk 21.9% of Group's revenues, Dairy 10.4% of Group's revenues), offering a wide range of products in different regions and through different channels. Both the divisions are generating a good level of profitability (Milk EBITDA mrg 7.8%; Dairy EBITDA mrg 12.2%).

The products are characterized by medium-high positioning and with a high level of brand recognition and customer loyalty. The Group could count on high **quality fresh milk sourced** from certified Italian farms located close to the production plants. The products are available in multiples types: high quality, whole milk, semi-skimmed milk, lactose free, skimmed, with cacao. All the brands are characterized by a wide range of packaging solutions like "REX", "PET", bottle, briks, tetrasquare.

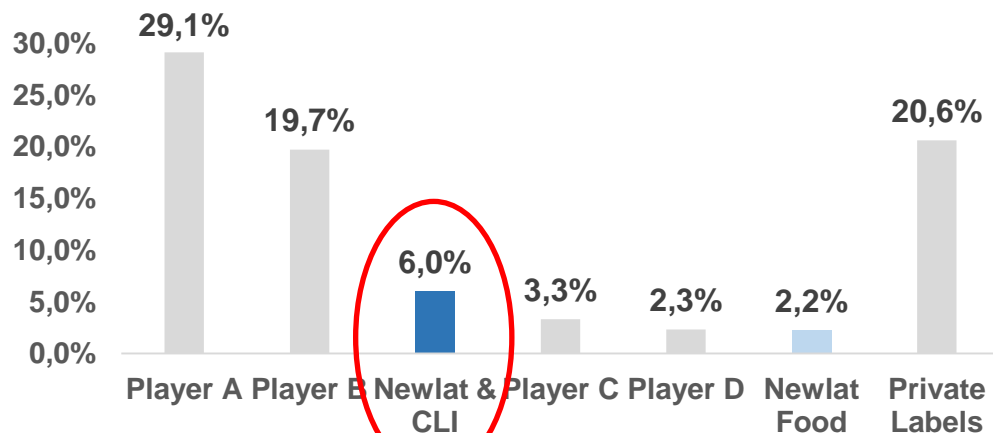
BRAND	POSITIONING	GEOGRAPHICAL PRESENCE	PRODUCT PORTFOLIO
 1870 c.150	Price: Premium, Medium-high, Medium, Medium-low, Low	Italy, EU, USA, Asia and 9 other countries	
 1870 c.150	Price: Premium, Medium-high, Medium, Medium-low, Low	Italy and 23 other countries Singapore	
 1934 >80	Price: Premium, Medium-high, Medium, Medium-low, Low	Italy, European Union	
 1956 >60	Price: Premium, Medium-high, Medium, Medium-low, Low	Italy, European Union	

BRAND	POSITIONING	GEOGRAPHICAL PRESENCE	PRODUCT PORTFOLIO
 1929 c.90	Price: Premium, Medium-high, Medium, Medium-low, Low	Italy	
 1963 >50	Price: Premium, Medium-high, Medium, Medium-low, Low	Italy, European Union, Switzerland	
 1966 >50	Price: Premium, Medium-high, Medium, Medium-low, Low	Italy, European Union	
 1927 >90	Price: Premium, Medium-high, Medium, Medium-low, Low	Italy, European Union	

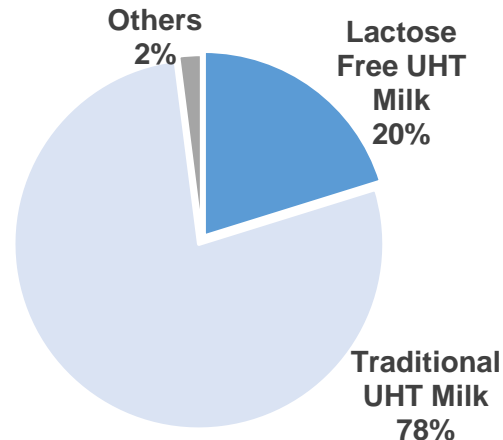
# AN IMPORTANT STEP FORWARD IN MILK MARKET SHARE

Newlat Group now becomes the **third player in UHT and in Fresh milk market** by volume in Italy and the leading player in terms of production capacity together with Granarolo.

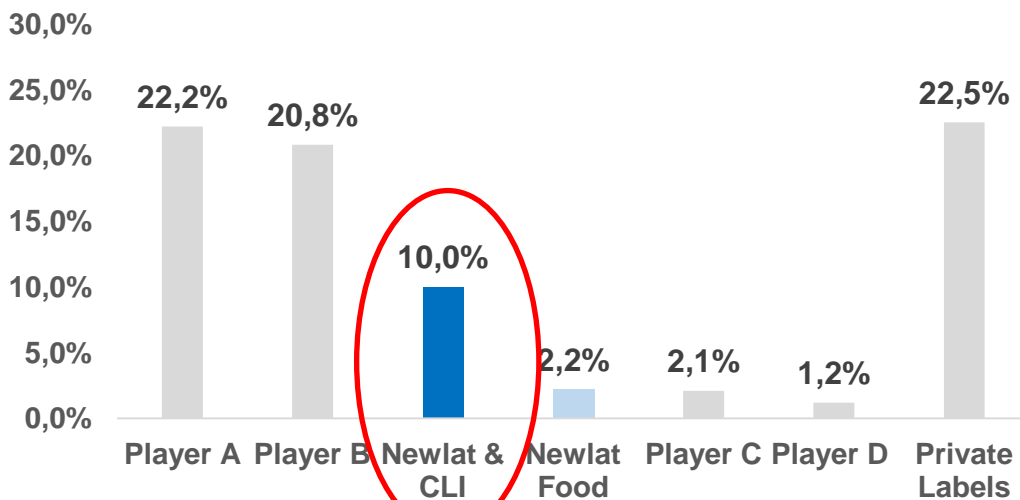
COMPETITIVE LANDSCAPE UHT MILK



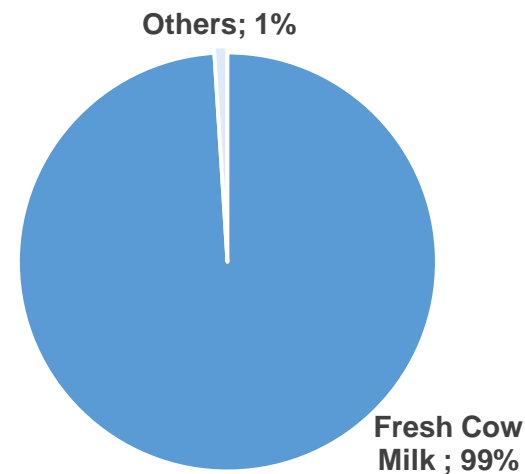
COMPETITIVE LANDSCAPE UHT MILK



COMPETITIVE LANDSCAPE FRESH MILK



MARKET BREAKDOWN BY SUB-SEGMENT



Sources: IRI, company information

Note: (1) Others include Concentrated milk, Infant milk and Goat milk

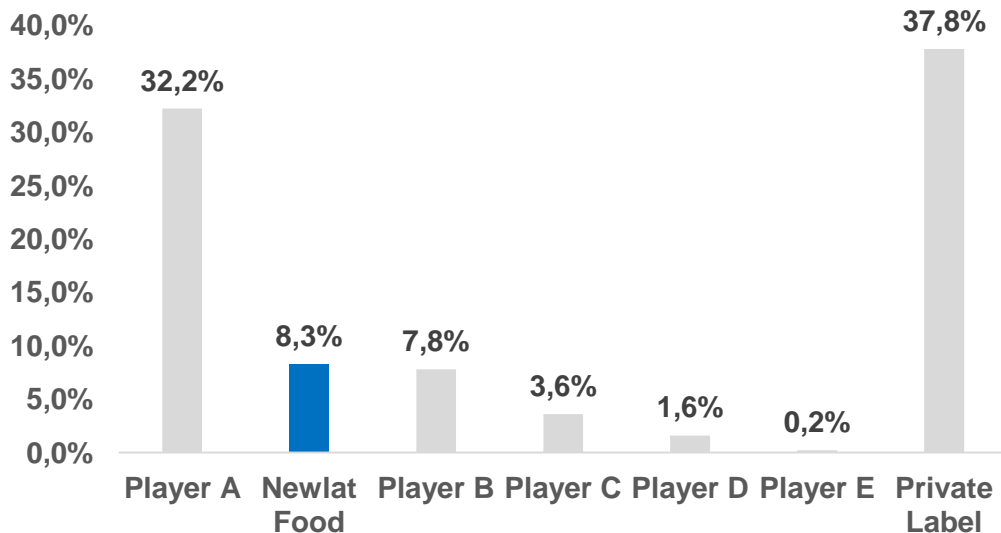
# AN IMPORTANT BASE FOR FURTHER DEVELOPMENT IN DAIRY

The combination of CLI and Newlat Food, with the development of new regions, should allow the combined entity to become a leading player in the Milk & Dairy segment in aggregate. Newlat Food's dairy business is mainly focused on Mascarpone, which is one of the highest-growing categories worldwide in the dairy segment. In the past two years, the "creamy cheese" segment increased on average by 5.5%. Today, Newlat Food has a market share of ca.8.5% in this segment in Italy, and it is the second player by sales volumes behind the market leader, which today holds 32.2% of MS.

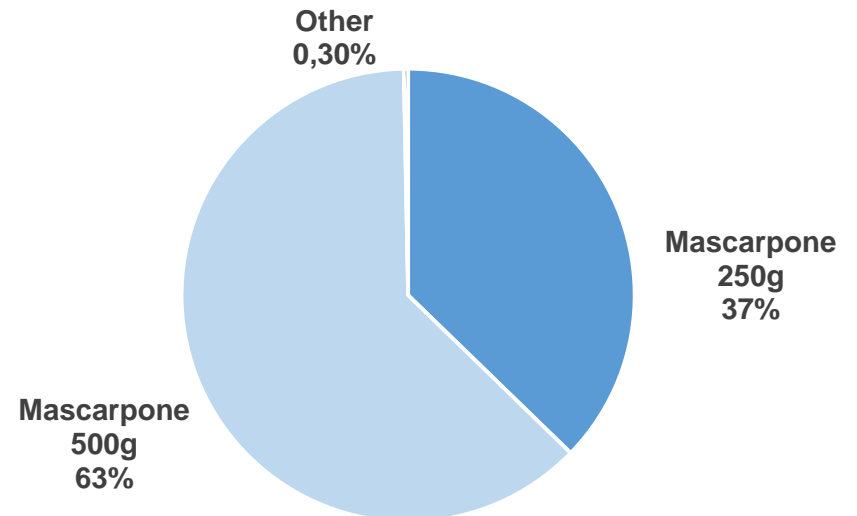


- Newlat Food offers a comprehensive product range in this category, with various recipes: **35%-38% of fat, 40%-42% of fat, light, lactose-free, organic.**
- The products are sold across **B2C, B2B and Ho.Re.Ca.** channels in various packaging formats – cup (up to 500g), basin (2kg) pillow (10kg), Bucket (10/20kg).

## COMPETITIVE LANDSCAPE MASCARPONE



## MARKET BREAKDOWN BY SUB-SEGMENT



Sources: IRI, company information

Note: (1) Others include Concentrated milk, Infant milk and Goat milk



# CLI / NEWLAT – BUSINESS DEVELOPMENT & VALUE CREATION

The combination of Newlat Food and CLI will allow the new entity to benefit from **important strategic opportunities and industrial synergies** that we summarized in the Ansoff Matrix below, which highlights the four main ways to optimize the business model starting from the optimization of the existing product and by a **strong focus on product innovation, geography and category diversification**.

		Products	
		Present	New
Markets	Present	<p><b>MARKET PRODUCT AND BRAND OPTIMIZATION</b></p> <p>The two companies <b>do not have any overlapping</b> in terms of regions, with <b>Newlat Group</b> showing a <b>more structured and a better market position</b> in specific products in <b>dairy</b> (like the strong position in the Mascarpone niche) with the opportunity to <b>develop a better cross selling in the new combined entity portfolio among the existing customers in the existing regions and using the existing products and brands</b>. Moreover, with a wide range of products and brands with different positioning, <b>the new combined entity could optimize the sourcing utilization</b>, with high quality raw materials utilized only for high positioning products.</p>	<p><b>PLANT BASED AND PROBIOTIC: THE MODERN DAIRY OPPORTUNITY</b></p> <p>The combination of the two entities offers the <b>opportunity to develop and distribute new product in the existing market and through the existing customer base</b>. This is the case of the development of the <b>"plant based" dairy business</b> which is one of <b>the fastest growing category in the dairy world</b> and that represent today a very small portion of the business. Centrale del Latte d'Italia made important investments in the past years and now it offers modern and efficient lines for the plant based production.</p>
	New	<p><b>THE "MUGELLO" ORGANIC HIGH QUALITY SUPPLY CHAIN</b></p> <p>The wide range of products and brands could give an <b>important further boost in the development of the foreign countries, especially through the brands that could emphasize further more the idea of organic/high quality product made in Italy</b>. This is for example the case of the brand Mukki, which is linked to <b>Tuscany tradition and the Mugello valley</b>. Moreover, the Mugello supply chain in particular could give additional boost to the <b>project with certified high quality and organic supply chain that Newlat Food is developing in baby food</b>.</p>	<p><b>A STRONG BRAND PLATFORM IN PARTNERSHIP WITH THE MODERN TRADE</b></p> <p>The size of the combined entity and the coverage of the most important regions in Italy could allow the Group to strenght its relationship with the main players of the modern trade. The partnership with the modern trade chians is <b>very important to find shelf space for new product launches and new marketing initiatives, not only in the Milk &amp; Dairy segment but for the entire product platform offered by Newlat Food</b>.</p>





## CLI: KEY HISTORICAL NUMBERS

After a still difficult 2018, CLI reported a not exciting FY19, highlighting the same structural difficulties in terms of profitability and cash conversion:

- **Net Revenues decrease -4.4% YoY to €175mn**, confirming the decreasing volume trend already experienced in 3Q.
- The **EBITDA reached €6,5mn**, -15% YoY vs. the €7.7m figure reported in 2018. The Group reached also a dilution in profitability (EBITDA margin at 3.7% vs. the 4.3% in 2018) despite the cost cutting plan put in place during the year.
- The Group reached a **negative Net Income of €-6.5mn in the FY19** (€-0.4mn in 2018).
- **Net Debt** reached **€77.2mn** including the IFRS 16 impact of €4.3mn with a ratio of 11.9x ND/EBITDA.

According to the analyst covering the stock, current **interest cost level is unsustainable** for the company and **current industrial plan does not offer any chance to improve profitability and FCF**. On this basis, deleveraging is not possible and a capital increase is needed to reduce debt.

Main Economics €mn	2017A	2018A	2019A
Revenues	178,2	183,1	175,1
<i>YoY</i>	<i>n.m.</i>	<i>0,5%</i>	<i>-4,4%</i>
<b>EBITDA</b>	<b>7,2</b>	<b>7,8</b>	<b>6,5</b>
<i>margin</i>	<i>4,1%</i>	<i>4,3%</i>	<i>3,7%</i>
<b>Net Debt @ beginning</b>	<b>47,6</b>	<b>62,4</b>	<b>73,7</b>
Net Income	-0,3	0,4	-6,5
<i>D&amp;A</i>	<i>6,6</i>	<i>6,6</i>	<i>9,5</i>
Gross CF	-6,8	7,0	3,0
Change in NWC	1,5	-1,4	7,6
<b>Operating CF</b>	<b>-5,3</b>	<b>5,6</b>	<b>10,6</b>
CAPEX	-9,5	-16,4	-12,0
<i>% of revenues</i>	<i>5,3%</i>	<i>9,0%</i>	<i>6,9%</i>
<b>FCF</b>	<b>-14,8</b>	<b>-10,8</b>	<b>-1,4</b>
Change in NFP	-14,8	-11,4	-1,4
<b>ND at the end</b>	<b>62,4</b>	<b>-73,8</b>	<b>77,2</b>
<b>ND/EBITDA (inc. IFRS16)</b>	<b>8,6</b>	<b>9,5</b>	<b>11,9</b>
Net Financial Position	2017A	2018A	2019A
Financial Debt	87,9	86,8	91,9
Cash & Equivalents	25,5	13,0	19,0
<b>Net Debt</b>	<b>62,4</b>	<b>73,8</b>	<b>73,0</b>
<b>ND/EBITDA (excluding IFRS16)</b>	<b>8,6</b>	<b>9,5</b>	<b>11,2</b>
IFRS16	n.a.	n.a.	4,3
<b>ND including IFRS16</b>	<b>n.a.</b>	<b>n.a.</b>	<b>77,3</b>

# THE STRATEGIC RATIONALE OF THE ACQUISITION

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The rationale of the aggregation is based on the following themes:

- In a business in which **volumes are the most important strategic factors** for economies of scale in production, distribution and sourcing, **Newlat Food and CLI together will become the leading Group in Italy in terms of production capacity** together with Granarolo.
- Newlat Food and CLI operate in completely different regions and **the aggregation offers the opportunity to have a full coverage of the most important Italian Regions** like Piedmont, Lombardy, Liguria, Veneto, Tuscany, Campania, Puglia and Lazio. The increase of proximity will also be important to increase relationships and negotiating power with the most important modern trade players, that could be helpful for the cross selling of the other products and brands included in the Newlat Food platform.
- With the acquisition of CLI, **Newlat Food will have a direct and full access to a very high quality supply structure**, with important organic/high quality centre of sourcing, **like the Mugello supply chain in Tuscany**. The Group will have the opportunity to increase the percentage of sales related to organic and high quality products, the growing category in the traditional milk & dairy business.
- With the aggregation with CLI, **Newlat Food acquires important and modern production plants**, in particular in Turin and Florence, **in which the Group made important investments in the past years**. Moreover, CLI could share also **the production line dedicated to the plant-based beverages**, a category that is part of the so called “modern dairy “ and that is **growing double digit per year**.
- **The CLI structure offers a lot of potential synergies related to the reorganization of the Group** that is today based on three separated entities, different IT systems and different strategies. We believe there are no reasons why the CLI could not have at least the same profitability of Newlat’s Milk & Dairy (between 8% and 9%).

## NEWLAT OFFER STRUCTURE - OVERVIEW

Newlat Group reached an **agreement with Finanziaria Centrale del Latte di Torino (FCLT) to acquire all the shares of Centrale del Latte d'Italia (CLI) owned by FCLT and by its shareholders.** Newlat Group will pay **€3.0 cash + 1 share Newlat Food every 3 CLI shares.** Newlat Group will transfer to Newlat Food at the date of closing and at the same condition all the CLI shares. **Reaching ca. 47.6% stake in CLI, Newlat Food will launch a tender offer for all the remaining shares of CLI at the same conditions.** Moreover, Newlat Food will launch a **capital increase for maximum 4.66mn new shares** (11.5% of existing shares) to pay for part of the transaction.

	Price	n. shares	MC	ND	EV
Newlat Food	5,18	40,7	210,8	-48,6	162,2
CLI	2,51	14,0	35,1	77,3	112,4

CLI Shareholders	Stake eco.	mn shares econ.	voting rights	mn.sh. voting	Offer	Cash	mn shares NF	NF value €mn	Stake in NF
Finanziaria CLI	39,3%	5,5	41%	6,3	15,0	5,5	1,8	9,5	4,0%
Comune di Firenze	12,3%	1,7	11%	1,7	4,7	1,7	0,6	3,0	1,3%
Lavia	3,9%	0,6	7%	1,1	1,5	0,6	0,2	1,0	0,4%
Fidi Toscana	6,8%	1,0	6%	1,0	2,6	1,0	0,3	1,7	0,7%
Comune di Pistoia	5,0%	0,7	5%	0,7	1,9	0,7	0,2	1,2	0,5%
Market	32,7%	4,6	30%	4,6	12,5	4,6	1,5	7,9	3,4%
<b>Total</b>	<b>100%</b>	<b>14,0</b>	<b>100%</b>	<b>15,4</b>	<b>38,2</b>	<b>14,0</b>	<b>4,67</b>	<b>24,2</b>	<b>10,3%</b>

At the end of the transaction, in case of full success of the tender offer on the remaining shares of CLI, **Newlat food will have a total maximum cash out of circa €14mn** and the **issue of total 4.67mn of new shares.** At the end, the old CLI shareholders will have, all together, a total stake of 10.3% in Newlat Food. The higher stake, ca. 4.8% will be held by FCLT and its shareholders.

## NEWLAT OFFER STRUCTURE – VALUATION

As showed in the table below, at current price, the exchange rate, including the €1 cash for each CLI share seems substantially in line with Newlat's offer (1 Newlat Food share every three CLI shares).

	Price	n. shares	MC
Newlat Food	5,18	40,7	210,8
CLI	2,51	14,0	35,1
Exchange at current price	0,48		
<b>Cash for each CLI share</b>			
	1		
<b>CLI "CUM"</b>	<b>1,51</b>		
<b>Exchange ratio at current price "CUM"</b>	<b>0,29</b>		
Effective exchange rate of the offer	0,33		
<b>Newlat Investment</b>			
Cash (for CLI all shares)	14,0	36,7%	
Shares	24,2	63,3%	
<b>Total investment</b>	<b>38,2</b>	<b>100%</b>	

The **total equity investment of €38.7mn** (cash + shares) implies a **8.83% premium vs. current CLI market value**. If we consider the YTD average CLI stock price at the date of the first rumors (circa €2.40), the average premium would be around 13%. The 2020 transaction multiple, **post synergies**, is **(7.3x EV/EBITDA vs. 8.5x average mid size EU food peers)**.

The integration of CLI won't have any negative impact on the consolidated financial structure of Newlat Food, which remained substantially **under-levered vs. the food sector**, with a **ND/EBITDA of 0.8x the day of the closing (sector average around 2x), with no synergies** and excluding the 2020 contribution in terms of cash generation.

If we consider the Newlat Food usual conversion of more than 80% of EBITDA in FCF (pre-tax), and the circa €6mn cost synergies expected from CLI in FY20, **the Net Debt FY20 of the Group will be circa €23mn or 0.5x ND/EBITDA**.

# DEBT REFINANCING AND STRUCTURE REORGANIZATION

The first important strategic step is based on two important actions on the financial structure and the reorganization of the company.

- **REFINANCING OF EXISTING DEBT**

Newlat Group already has a preliminary agreement for the existing debt refinancing with a Group of different banks which will provide new debt lines diversified into different products.

- **WORKING CAPITAL SUPPORT FROM NEWLAT FOOD CASH POOLING**

- **REORGANIZATION OF CURRENT CLI GROUP STRUCTURE**

Newlat sees several different areas of synergies, first of all in terms of inefficient Group structure. The first strategic action will be the merger of the three separate entities into the CLI group (Centrale del Latte di Firenze, Centrale del Latte di Torino and Centrale del Latte di Vicenza), eliminating the inefficiencies related to:

- **three separated board & supervisory board;**
- **different commercial strategies;**
- **different and/or not fully integrated IT systems**

The Newlat management believes that a full integration and the optimization of the operations could generate circa **€10mn of cost synergies, of which circa €6mn already during the first 12M after the acquisition.** The combined entity could also generate **circa €4mn of additional revenues synergies** for €14mn of total synergies.

# THE VALUE CREATION FOR NEWLAT FOOD SHAREHOLDERS

The integration of Newlat Food and CLI could **create value for Newlat Food Shareholders starting from FY2020**. Even if the ROCE of Newlat Food will be materially reduced for the classic «J» curve effect in the first years of investments, it is important to highlight that starting **from FY21 the ROCE trend for the combined entity should start to gain circa 400bps of improvement** reaching the **12.6% (post tax)**. In other words, in FY21 the difference between the ROCE post tax and the WACC of the combined entity should start to be positive (circa 350bps above the WACC level).

**In terms of EPS accretion**, including the Newlat Food capital increase (the maximum level of 4,66mn new shares), the table show the **combined multiple circa 30% below current level in FY21 and circa 9% below current level already in FY20**.

	Newlat Food 2020e	CLI post Syn 2020e	NF + CLI 2020e	Newlat Food 2021e	CLI post Syn 2021e	NF + CLI 2021e
Equity	102,5	59,6	186	114,4	66,5	181
Net Debt	-63,8	73,0	23,2	-80,0	62,8	-3,2
<b>Capital Employed</b>	<b>38,6</b>	<b>132,6</b>	<b>209</b>	<b>34,4</b>	<b>129,3</b>	<b>178</b>
<b>NOPAT</b>	<b>14,7</b>	<b>3,9</b>	<b>18,6</b>	<b>15,7</b>	<b>6,7</b>	<b>22,4</b>
ROCE	<b>38,0%</b>	n.m.	<b>8,9%</b>	<b>45,6%</b>	<b>5,2%</b>	<b>12,6%</b>
ROE	10,7%	n.m.	7,2%	10,4%	n.m.	10,4%
<b>Current Share price</b>	<b>4,3</b>		<b>4,3</b>	<b>4,3</b>		<b>4,3</b>
<b>P/E</b>	<b>16,0</b>		<b>14,5</b>	<b>14,6</b>		<b>10,4</b>

	NF alone FY20	Combined FY20	Combined FY21
ROCE-WACC	28,8%	0,6%	3,5%
<b>ROCE</b>	<b>38,0%</b>	<b>8,9%</b>	<b>12,6%</b>
Equity	100%	88%	100%
Debt	0%	12%	0%
<b>WACC</b>	<b>9,2%</b>	<b>8,3%</b>	<b>9,2%</b>





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