Babeș-Bolyai University of Cluj-Napoca

BUY

RON 25.05
27.8% upside

<table>
<thead>
<tr>
<th>Ticker</th>
<th>WINE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mkt Cap (RON m.)</td>
<td>368</td>
</tr>
<tr>
<td>Mkt Cap (USD m.)</td>
<td>82.5</td>
</tr>
<tr>
<td>Closing price (RON)-March 13, 2020</td>
<td>19.6</td>
</tr>
</tbody>
</table>

Source: BVB, team estimation

CONSOLIDATED BUSINESS MODEL
FAVORABLE MARKET POSITION
CONSISTENT FINANCIAL PERFORMANCE
UPSIDE POTENTIAL
MITIGATING RISKS
CONSOLIDATED BUSINESS MODEL

- Wide geographical diversification
- Outperforming team
- Differentiating wine making process

FAVORABLE MARKET POSITION

- Wine making process

CONSISTENT FINANCIAL PERFORMANCE

- Consistent financial performance

UPSIDE POTENTIAL

- Upside potential

MITIGATING RISKS

- Mitigating risks
Leveraging an optimized value chain

Increasing number of International prizes won

Source: Company data, team analysis
**Geographical coverage**

**WINE - Well-balanced, Intense, Natural, Exquisite**

- **Europe**
  - Romania, Republic of Moldova, Poland, Ukraine, Czech Republic, Slovakia
  - Europe 82%
- **Asia**
  - China, South Korea, Japan
  - Asia 7%
- **Others**
  - USA, Canada
  - Others 11%

---

**CONSOLIDATED BUSINESS MODEL**

**FAVORABLE MARKET POSITION**

**CONSISTENT FINANCIAL PERFORMANCE**

**UPSIDE POTENTIAL**

**MITIGATING RISKS**
Geographical coverage

WINE - Well-balanced, Intense, Natural, Exquisite

Europe 82%

<table>
<thead>
<tr>
<th>Brand</th>
<th>% of Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>PURCARI</td>
<td>40%</td>
</tr>
<tr>
<td>BOSTAVAN</td>
<td>29%</td>
</tr>
<tr>
<td>CRAMA CEPTURA</td>
<td>16%</td>
</tr>
<tr>
<td>BARDAR</td>
<td>15%</td>
</tr>
</tbody>
</table>

Republic of Moldova 23% Sales
Romania 41% Sales
The company's biggest asset

<table>
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</tr>
</tbody>
</table>

**Eugen Comendant**
COO

**Victor Bostan**
CEO, Founder, Executive Director
Founded the Group in 2002
Over 35 years of experience in wine industry

**Vasile Tofan**
Chairman of the board, Non Executive Director

**Victor Arapan**
Executive Director

**Neil McGregor**
Non Executive Director

**Monica Cadogan**
Non Executive Director

**Conflicts of interests**
0%

**Board of Directors (BoD) structure**
90%

**Protection of Shareholder Rights**
100%

**Board skills and experience**
100%

**Committees**
100%
CONSOLIDATED BUSINESS MODEL

FAVORABLE MARKET POSITION

CONSISTENT FINANCIAL PERFORMANCE

UPSIDE POTENTIAL

MITIGATING RISKS

Wide geographical diversification
International growth strategy
Outperforming team
Focus on premiumization
Differentiating wine making process
Strong competitive position
Sustainable expected growth

Worldwide wine revenue (billion USD)

Revenue growth by category, 2019-2023 CAGR

<table>
<thead>
<tr>
<th>Category</th>
<th>Romania</th>
<th>Poland</th>
<th>Czech R.</th>
<th>Slovakia</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wine</td>
<td>4.60%</td>
<td>8.90%</td>
<td>3.70%</td>
<td>3.20%</td>
<td>4.10%</td>
</tr>
<tr>
<td>Spirits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beer</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: OIV, team analysis

Source: Euromonitor, team analysis
Leader in terms of profitability and growth

Mk. Share in Romania, 2018

- Recaș
- Cotnari
- Jidvei
- Purcari Group
- Vincon
- Vrancea
- Zarea SA

Other SMEs and hobbyists

Direct competitors in Romania by 2018 sales

- Recaș
- Purcari Group
- Jidvei
- Zarea SA
- Cotnari
- Vincon Vrancea

Source: Ministry of Finance, team analysis
Survey results - Established consumer base

Alcoholic beverages preferences

- Wine: 67%
- Beer: 14%
- Spirits: 7%
- Don't consume alcoholic beverages: 12%

Wine - Romania - Which wine do you consume more often?
- BOSTAVAN: 22
- CHÂTEAU VARTELY: 74
- MURFATLAR: 94
- CRAMA CEPTURA: 98
- CRICOVA: 132
- COTNARI: 145
- JIDVEI: 185
- PURCARI: 220
- Cramele Recas: 223
- Other: 259

Price category - Moldova - Which wine do you consume more often?
- <RON 30: 36%
- RON (30;60]: 49%
- RON (60;120]: 14%
- >RON 120: 1%

Number of respondents: 841

Survey results - Established consumer base

- Favorable market position
- Consistent financial performance
- Upside potential
- Mitigating risks
<table>
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<td>Wide geographical diversification</td>
<td>International growth strategy</td>
<td>Long-run profitability</td>
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<td></td>
</tr>
<tr>
<td>Outperforming team</td>
<td>Focus on premiumization</td>
<td>Healthy growth strategy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Differentiating wine making process</td>
<td>Strong competitive position</td>
<td>Strict cost management</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Pillars supporting future profitability

- **Skyrocketing Net Profit 2016-2019**: 1.9x
- **Double digit revenue growth 2016-2019**: 23.1%
- **Strong EBITDA growth 2016-2019**: 1.8x
- **Delivering on the promise**: 100%

**CONSOLIDATED BUSINESS MODEL**

**FAVORABLE MARKET POSITION**

**CONSISTENT FINANCIAL PERFORMANCE**

**UPSIDE POTENTIAL**

**MITIGATING RISKS**
**Debt to Equity**

4.0

**26.5%**

**31.8%**

**2.0**

**1310 bps**

**14.6% CAGR**

**Key Financial Ratios**

<table>
<thead>
<tr>
<th>FY 2019A</th>
<th>FY 2024F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating margin</td>
<td>29.7%</td>
</tr>
<tr>
<td>Debt to Equity</td>
<td>0.6</td>
</tr>
<tr>
<td>Return on Equity</td>
<td>31.8%</td>
</tr>
<tr>
<td>Earnings per share (RON/sh)</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Source: Company data, team analysis

**Consolidated Business Model**

**Favorable Market Position**

**Consistent Financial Performance**

**Upside Potential**

**Mitigating Risks**
Healthy growth strategy

**Forecasted Revenues Increase 2019A-2024F**

14.6% CAGR

**Forecasted EPS Increase 2019A-2024F**

14.9% CAGR

**Key Financial Ratios**

- **Operating margin**: FY 2019A 29.7% \(\rightarrow\) FY 2024F 27.8%
- **Debt to Equity**: FY 2019A 0.6 \(\rightarrow\) FY 2024F 0.6
- **Return on Equity**: FY 2019A 31.8% \(\rightarrow\) FY 2024F 26.5%
- **Earnings per share (RON/sh)**: FY 2019A 2.0 \(\rightarrow\) FY 2024F 4.0

Source: Company data, team analysis

---

**Financials**

- **Forecasted Revenues Increase 2019A-2024F**: 14.6% CAGR
- **Forecasted EPS Increase 2019A-2024F**: 14.9% CAGR
- **Basic and diluted EPS (RON/sh) (LHS)**
- **EPS growth YoY (RHS)**: 35%
- **Source**: Company data, team analysis
Long-run profitability

**Key Financial Ratios**

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<td>27.8%</td>
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<td>26.5%</td>
</tr>
<tr>
<td>2.0 Earnings per share (RON/sh)</td>
<td>4.0</td>
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Source: Company data, team analysis
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<tr>
<td>Outperforming team</td>
<td>Focus on premiumization</td>
<td>Healthy growth strategy</td>
<td>Favorable domestic perspectives</td>
<td></td>
</tr>
<tr>
<td>Differentiating wine making process</td>
<td>Strong competitive position</td>
<td>Strict cost management</td>
<td>Strong brand recognition</td>
<td></td>
</tr>
</tbody>
</table>
27.8% Upside potential

TARGET PRICE
RON 25.05/sh

DCF
RON 24.72/sh

20% Relative Valuation
RON 26.39/sh

RON 19.6/sh
March 13, 2020

BUY

CONSOLIDATED BUSINESS MODEL
FAVORABLE MARKET POSITION
CONSISTENT FINANCIAL PERFORMANCE
UPSIDE POTENTIAL
MITIGATING RISKS
Cost of Debt 4.6%
Cost of Equity 12.5%
WACC 9.3%
Terminal Growth Rate 3.2%
Terminal value 494.9
Enterprise Value 602.9
Net Debt 108.5
Equity value 494.3
12m TP RON 24.72/sh
Upside 26.1%
TARGET PRICE: RON 24.72
DCF Yields positive upside
CONSOLIDATED BUSINESS MODEL
FAVORABLE MARKET POSITION
CONSISTENT FINANCIAL PERFORMANCE
UPSIDE POTENTIAL
MITIGATING RISKS
WINE trades at a discount to peers

Target Price: RON 26.39

P/E

Peer median: 12.49

<table>
<thead>
<tr>
<th>Company</th>
<th>P/E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ambra SA</td>
<td>9.32</td>
</tr>
<tr>
<td>VV Tikves AD Skopje</td>
<td>9.48</td>
</tr>
<tr>
<td>Ktima Lazaridis SA</td>
<td>10.52</td>
</tr>
<tr>
<td>Masi Agricola SpA</td>
<td>11.45</td>
</tr>
<tr>
<td>Italian Wine Brands SpA</td>
<td>11.90</td>
</tr>
<tr>
<td>Advini SA</td>
<td>13.08</td>
</tr>
<tr>
<td>Bodegas Riojanas SA</td>
<td>16.21</td>
</tr>
</tbody>
</table>

Ev/EBITDA

Peer median: 8.74

<table>
<thead>
<tr>
<th>Company</th>
<th>Ev/EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>VV Tikves AD Skopje</td>
<td>2.99</td>
</tr>
<tr>
<td>Ambra SA</td>
<td>6.29</td>
</tr>
<tr>
<td>Italian Wine Brands SpA</td>
<td>7.77</td>
</tr>
<tr>
<td>Masi Agricola SpA</td>
<td>8.33</td>
</tr>
<tr>
<td>Ktima Lazaridis SA</td>
<td>8.42</td>
</tr>
<tr>
<td>Bodegas Riojanas SA</td>
<td>9.05</td>
</tr>
<tr>
<td>Advini SA</td>
<td>16.67</td>
</tr>
<tr>
<td>Vranken Pommery Monopole SA</td>
<td>22.12</td>
</tr>
</tbody>
</table>

Source: Thomson Reuters, team analysis
Monte Carlo simulation and sensitivity analysis

### Sensitivity analysis

<table>
<thead>
<tr>
<th>Terminal growth rate</th>
<th>Weighted Average Cost of Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>8.5%</td>
</tr>
<tr>
<td>4.0%</td>
<td>35.18</td>
</tr>
<tr>
<td>3.6%</td>
<td>32.19</td>
</tr>
<tr>
<td><strong>3.16%</strong></td>
<td>29.43</td>
</tr>
<tr>
<td>2.8%</td>
<td>27.48</td>
</tr>
<tr>
<td>2.0%</td>
<td>23.92</td>
</tr>
<tr>
<td>CONSOLIDATED BUSINESS MODEL</td>
<td>FAVORABLE MARKET POSITION</td>
</tr>
<tr>
<td>----------------------------------------------------</td>
<td>----------------------------------------------</td>
</tr>
<tr>
<td>Wide geographical diversification</td>
<td>International growth strategy</td>
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<td>Outperforming team</td>
<td>Focus on premiumization</td>
</tr>
<tr>
<td>Differentiating wine making process</td>
<td>Strong competitive position</td>
</tr>
</tbody>
</table>
No high impact and high probability risk

1. Political risk
2. Financing issues
3. Competition Risk
4. FX Risk
5. Natural risk
6. Prolonged global pandemic

Consolidated Business Model
Favorable Market Position
Consistent Financial Performance
Upside Potential
Mitigating Risks

Impact
Low
Medium
High

Occurrence Probability
Low (<25%)
Medium (25-75%)
High (>75%)
Global pandemic spreading beyond boundaries

Driver

Global pandemic spreads more than predicted

Mitigating factors

Decreased sales

Developing online channels and e-commerce

Increased indoors consumption

Feb '20 vs Jan '20

↑ 34% increase in online sales

Source: Bloomberg, team analysis
Forex headwinds weigh on Group`s earnings

**EUR/RON – Exchange rate**

- **Driver**
  - RON depreciation
  - Direct impact on net profit

- **Mitigating factors**
  - Offsetting borrowings with cash collected
  - Balanced net profit margins

**Impact of 5% appreciation of USD and EUR against RON and MDL on Net Profit**

- Source: National Bank of Romania, company data, team analysis

---

**CONSOLIDATED BUSINESS MODEL**

**FAVORABLE MARKET POSITION**

**CONSISTENT FINANCIAL PERFORMANCE**

**UPSIDE POTENTIAL**

**MITIGATING RISKS**

---
Climate change is reshaping the wine-making world

**Driver**
- Natural shifts in temperature frontiers
- Unable to produce a variety of grapes

**Mitigating factors**
- Geographic diversification of production platforms
- Adapting production and sales mix

---

**Average growing season temperatures for different grapes varieties**

<table>
<thead>
<tr>
<th>Temperature Range</th>
<th>Pinot Gris</th>
<th>Riesling</th>
<th>Pinot Noir</th>
<th>Chardonnay</th>
<th>Sauvignon Blanc</th>
<th>Tempranillo</th>
<th>Merlot</th>
<th>Malbec</th>
<th>Syrah</th>
<th>Table Grapes</th>
<th>Cabernet Sauvignon</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cool 12.5 - 15°C</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intermediate 15-17°C</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Warm 17 - 19.5°C</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hot 19.5 - 22°C</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

Source: OIV, team analysis
Wine has been a part of our civilization for over 8000 years, and although society will not be driving cars in twenty or thirty years from now, we will assuredly be drinking wine” — Zachary Elfman

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<tr>
<td>Outperforming team</td>
<td>Focus on premiumization</td>
<td>Healthy growth strategy</td>
<td>Favorable domestic perspectives</td>
<td>Reshaping sales mix</td>
</tr>
<tr>
<td>Differentiating wine making process</td>
<td>Strong competitive position</td>
<td>Strict cost management</td>
<td>Strong brand recognition</td>
<td>Accretive acquisitions</td>
</tr>
</tbody>
</table>

BUY 27.8% UPSIDE
Target price 25.05 RON/sh