INITIATION OF COVERAGE

# PAPOUTSANIS

## Lathering towards growth

**Among the largest soap manufacturers in Europe; vertical integration & expanding geographic footprint –** Papoutsanis (PAP) is one of the largest soap manufacturers in Europe (and the sole in Greece), operating across four product segments, namely Own brands, Hotel amenities, Private label/Third party and Soap noodles. The company is diversified geographically generating >55% of sales abroad (mostly in Europe). The business model is based on the offering of high-quality, natural ingredient-based products at accessible prices, with a strong focus on sustainability. At the core of the model lies vertical integration, with production at the company's state-of-the-art facilities also including product packaging and storage handling.

**11% sales CAGR in 2023-26e driven by branded products and third party –** After a year of contraction in sales due to a confluence of factors, we expect a return to a 2-digit growth algorithm (c11% CAGR over 2023-26e), in sync with the company's historic track record (>20% CAGR over 2018-23). We expect the bulk of the growth to be accounted for by own branded and third-party products, with Papoutsanis: 1) increasing its share in the local soap market while making a foray in laundry/dishwashing detergents and 2) expanding its portfolio of PL/third party contracts, with mgt having indicated a new contract is underway which will contribute c€6m in sales on an annualized basis.

**… and c18% EBITDA CAGR –** Following a temporary setback in 2022, with EBITDA falling c17% due to input cost pressures, PAP's profitability bounced strongly in 2023e (c31% on our estimates) with EBITDA marking an all-time high and the respective margin bouncing closer to a mid-cycle level (c15%). Looking ahead, we envisage c18% EBITDA CAGR over 2023-26e thanks to the positive pendulum of operating leverage. We expect EBITDA margins to expand c2.7ppts over the next 3 years (to 17.5%) and to reach c18.5% by 2028e. This will be in broad sync with the cross-cycle margin of EU HPC peers.

**FCF inflection in light of abating capex; to pave the way for balanced capital allocation –** PAP has not been very cash-generative in recent years as a result of elevated investments (€25m spent in the last 3 years) aimed at augmenting its capacity (utilization now c50%) and expanding the product portfolio. With most of the investment program completed, we expect capex to trend down to c€5-5.5m annually. As such, we believe that 2023 marked the inflection point for FCF generation, with FCF set to enter an upward trajectory paving the way for rising cash returns. Our model pencils in c35% dividend payout which we believe reflects a well-balanced approach between investing for growth and rewarding shareholders, especially considering the comfortable financial position (2023e net debt/EBITDA at 2.1x).

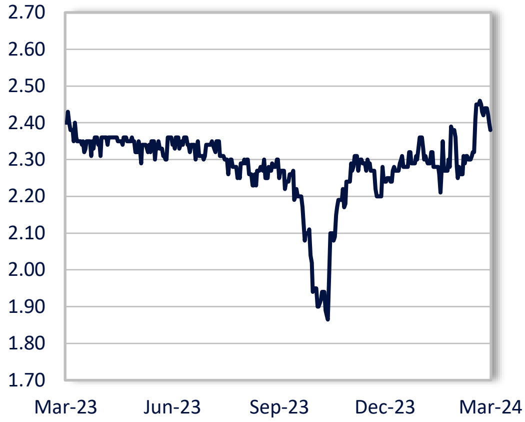
**Valuation –** The stock has had a rather lukewarm performance in the last 2 years, with the shares yet to reflect the bounce in profitability in 2023, the 2-digit growth prospects ahead and the FCF inflection. With the stock at c7.2x EV/EBITDA, namely c35% discount vs the EU HPC sector, we find the current entry point compelling. Our DCF-based valuation (9.5% WACC) generates a PT of €3.0, placing PAP at c8.6x 2024e EV/EBITDA, still >20% discount vs its peers. We thus initiate coverage with a Buy.

| Estimates | | | | | |
|---|---|---|---|---|---|
| **EURm unless otherwise stated** | **2021** | **2022** | **2023e** | **2024e** | **2025e** |
| Revenues | 54.8 | 70.7 | 62.3 | 69.2 | 77.6 |
| Adj. EBITDA | 8.9 | 6.2 | 9.1 | 11.5 | 13.2 |
| Net Profit reported | 4.9 | 3.0 | 3.9 | 6.2 | 7.9 |
| EPS adj. (EUR) | 0.18 | 0.11 | 0.15 | 0.23 | 0.29 |
| DPS (EUR) | 0.05 | 0.04 | 0.05 | 0.08 | 0.10 |
| **Valuation** | | | | | |
| **Year to end December** | **2021** | **2022** | **2023e** | **2024e** | **2025e** |
| P/E | 12.3x | 22.8x | 15.7x | 10.4x | 8.1x |
| EV/EBITDA | 8.0x | 14.0x | 8.9x | 7.2x | 6.1x |
| EBIT/Interest expense | 11.6x | 5.3x | 3.9x | 6.2x | 8.2x |
| Dividend Yield | 2.2% | 1.6% | 2.2% | 3.4% | 4.3% |
| ROE | 20.8% | 11.5% | 14.0% | 19.4% | 21.3% |

Source: Eurobank Equities Research

| | |
|---|---|
| **Recommendation** | **BUY** |
| **Prior Recommendation** | **N/A** |
| **Target Price** | **€3.00** |
| **Prior Target Price** | **N/A** |
| Closing Price (06/03) | €2.38 |
| Market Cap (mn) | €64.5 |
| Expected Return | 26.1% |
| Expected Dividend | 3.4 % |
| Expected Total Return | 29.5% |

### Papoutsanis Share Price




### Stock Data

| | |
|---|---|
| Reuters RIC | PSALr.AT |
| Bloomberg Code | PAP GA |
| 52 Week High (adj.) | €2.50 |
| 52 Week Low (adj.) | €1.80 |
| Abs. performance (1m) | 4.4% |
| Abs. performance (YTD) | 3.9% |
| Number of shares | 27.1mn |
| Avg Trading Volume (qrt) | €15k |
| Est. 3yr EPS CAGR | 38.3% |
| Free Float | 25% |

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*This report was prepared and published in consideration of a fee payable by the European Bank for Reconstruction and Development (EBRD).*

*See Appendix for Analyst Certification and important disclosures.*

## Contents

## Investment Summary

*Leader in manufacturing of soap in Europe, with increasing international footprint*

Papoutsanis is one of the largest soap manufacturers in Europe (and the only one in Greece), operating across four segments: Own brands, Hotel amenities, Private label (PL)/Third party and Soap noodles. The main growth pillars for the company are own-branded products and PL/third-party, which are set to account for c70% of total revenues (combined) in 2024e but will contribute c95% of the top line growth over 2024-2028e on our estimates and are thus most relevant for the thesis. From a geographical perspective, thanks to its increasing export reach, Papoutsanis has broadened its geographical presence generating >55% of its sales abroad (mostly in Europe), thus being less dependent on the domestic economy.

*B2B & B2C distribution; vertical integration at the core of the business model*

The business model is based on the offering of high-quality, natural ingredient-based products at accessible prices, with a strong focus on sustainability. The company leverages both B2C and B2B distribution channels. In B2C, it distributes mass-market branded products through an extensive sales network primarily comprising supermarket chains and beauty stores. For B2B, Papoutsanis forms partnerships with multinational companies through production contracts and engages with numerous local retailers for the manufacturing of private label soaps. The company also holds a leading position in the Greek hotel amenities market. At the core of the business model lies vertical integration, with production at the company's state-of-the-art facilities also including product packaging and storage handling. This integrated approach offers the company a competitive edge, especially in the hotel amenities category, by enabling greater control over costs, quality, and supply chain efficiency.

*Top line set to return to double digit growth (c11% CAGR over 2023-26e)*

The personal care market is an industry poised to grow at c3-4% CAGR in the coming years (as per Statista) underpinned by structural drivers such as the rising interest in wellness and self-care (mainly propelling beauty) and a growing middle class (especially in emerging markets) as well as macroeconomic factors such as the increase in disposable income. In Papoutsanis's case, the historic track record is quite strong (sales CAGR 21% over 2018-23) as the company took advantage of barriers to entry in soap manufacturing and capitalized on its know-how expanding its portfolio of PL/third-party contracts while ramping up its own-branded portfolio. Looking ahead, following a temporary sales decline of 12% in 2023, the business looks set for c11% CAGR over the next three years on market share gains and expansion of its product portfolio (e.g. entering in laundry/dishwashing detergents through the recently acquired ARKADI).

*… translating into c18% EBITDA CAGR in 2023-26e*

Following a temporary setback in 2022, with EBITDA falling c17% yoy due to input cost pressures, Papoutsanis's profitability bounced strongly in 2023e (c31% on our estimates), with EBITDA marking an all-time high (at c€9m in 2023e from just €2.7m in 2018) and the respective margin bouncing closer to a mid-cycle level (c15%). Looking ahead, we expect Papoutsanis to return to a strong growth algorithm, envisaging c18% EBITDA CAGR over 2023-26e thanks to the positive pendulum of operating leverage. We expect EBITDA margins to expand c2.7ppts over the next 3 years (to 17.5%) and to exceed c18% by 2028e. This will be in broad sync with the cross-cycle margin of EU HPC peers.

*FCF inflection in light of abating capex needs; we expect progressive dividend policy and balanced approach between investment for growth and cash returns*

On the FCF front, Papoutsanis has not been very cash-generative in recent years as a result of elevated investments (€25m spent in the last 3 years) aimed at augmenting its capacity (utilization is now near 50%) and expanding the product portfolio, while also adding storage facilities. With the majority of Papoutsanis's investment program completed, particularly since the current capacity is adequate to sustain 2-digit growth for several years, we expect capex to trend down to c€5-5.5m annually. As such, we believe that 2023 marked the inflection point in terms of FCF generation, with FCF set to gradually rise to >€4m in 2025e and >€6m in 2026e. Against this background, we expect management to institute a progressive dividend policy, penciling in dividend payouts near 35%, which we believe reflect a well-balanced approach between investing for growth and rewarding shareholders, especially considering the comfortable financial position (net debt/EBITDA at 2.1x in 2023e).

*Valuation looks palatable in light of upcoming FCF inflection*

The stock has had a weak performance in the last 2 years (-4%), weighed down by setbacks during 2022 (input cost pressures, payback in demand for sanitizers post COVID) and cash burn due to its investment program. The shares are yet to reflect the bounce in profitability in 2023e, the return to the 2-digit growth algorithm and prospects for much lower capex than in the past. As such, the stock is currently trading at c7.2x EV/EBITDA, a whopping c35% discount vs its EU HPC peers. Although we do believe that a discount is warranted by the company's small size and stock's low liquidity, we find this relative valuation gap vs peers excessive given Papoutsanis's superior growth profile. Our DCF-based valuation, predicated on a 9.5% WACC, generates a PT of €3.0 per share, placing the stock at 8.6x 2024e EV/EBITDA, still some 20% discount vs its peers.

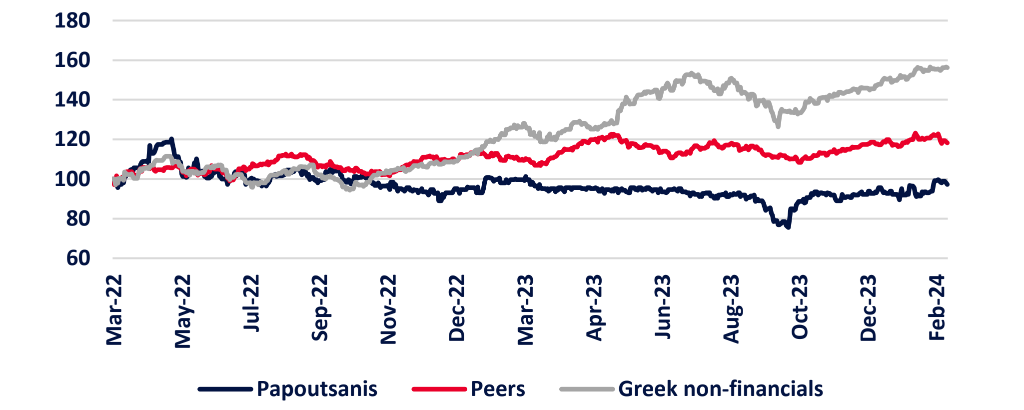
## Share price performance and valuation

### A. Stock price performance

*Tepid performance in the past 2 years…*

Papoutsanis has posted a lukewarm performance over the past two years, with its stock of >20% until the trough of end 2023 in the face of input cost pressures and the payback in demand for sanitisers after the COVID surge. The stock has bounced since the trough but is little changed in the last 2 years underperforming both its EU HPC peers, who have posted just modest returns in the same period, and Greek non-financials, which have been propelled by the strong operating momentum and falling risk premia.

**2-year performance (rebased to 100) – Papoutsanis vs Peers and Greek non-financial companies**

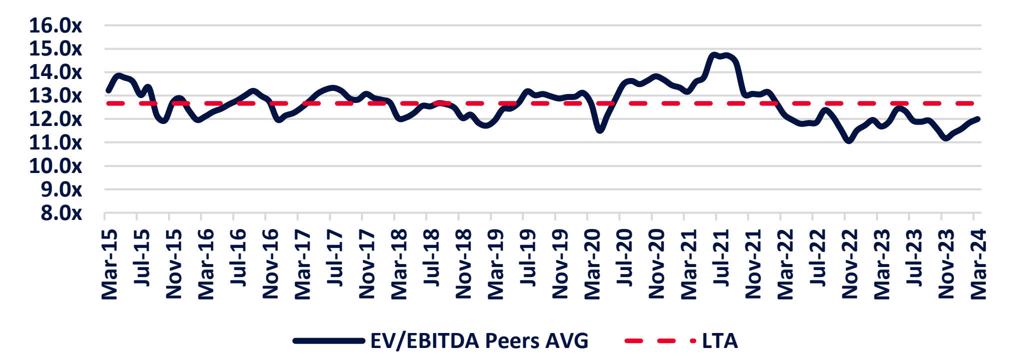



Source: Eurobank Equities Research, Bloomberg.

*Peers' long-term historical average at c13x EV/EBITDA*

From a valuation perspective, personal care peers have historically traded at an average c13x EV/EBITDA, ranging from c11x to c15x depending on growth prospects, pricing vs volume dynamics, and the interest rate environment. Given its cash generative characteristics, the HPC sector has traditionally traded at hefty valuations and at a premium vs the rest of the market, but it has suffered de-rating in the last year (towards the low end of the historic range), due to slower volume growth and disippating price momentum, coupled with monetary policy tigthening.

**12m forward EV/EBITDA valuation – Peer group**

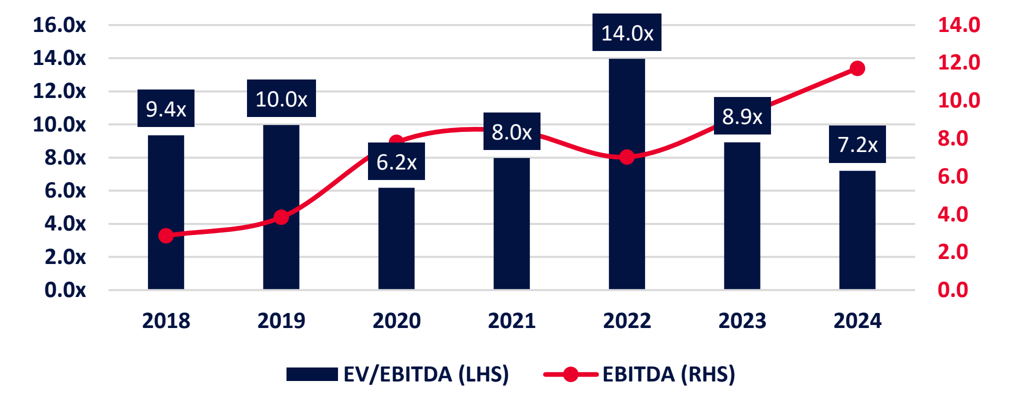



Source: Eurobank Equities Research, Bloomberg.

In Papoutsanis's case, there is limited forward-looking valuation track record since the stock has not been widely covered. That said, using actual adjusted EBITDA figures and average market cap data during each year, we estimate that the stock has traded at c6-9x EV/EBITDA in most recent years, namely some 25% discount (on average) vs the EU HPC sector. The only exception was 2022, when the valuation shot up as the stock was trading on trough earnings (with rampant inflation depressing profitability).

Overall, with the stock down c3% in the last two years, the valuation seems to be out of sync not only with current fundamentals (2023e reported EBITDA c10% higher than 2021) but also with near-term earnings prospects (2-digit CAGR in the next few years). As such, the valuation looks quite attractive at c7.2x 2024e EV/EBITDA, namely a c35% discount vs the median of peer group.

**Papoutsanis: EV/EBITDA valuation (left) and EBITDA (€m, right)**




Source: Eurobank Equities Research, Bloomberg.

In the table below, we contrast Papoutsanis's current valuation against that of the peer group. **As can be seen Papoutsanis trades at c35% discount on traditional metrics such as PE and EV/EBITDA, while offering comparable dividend yield.**

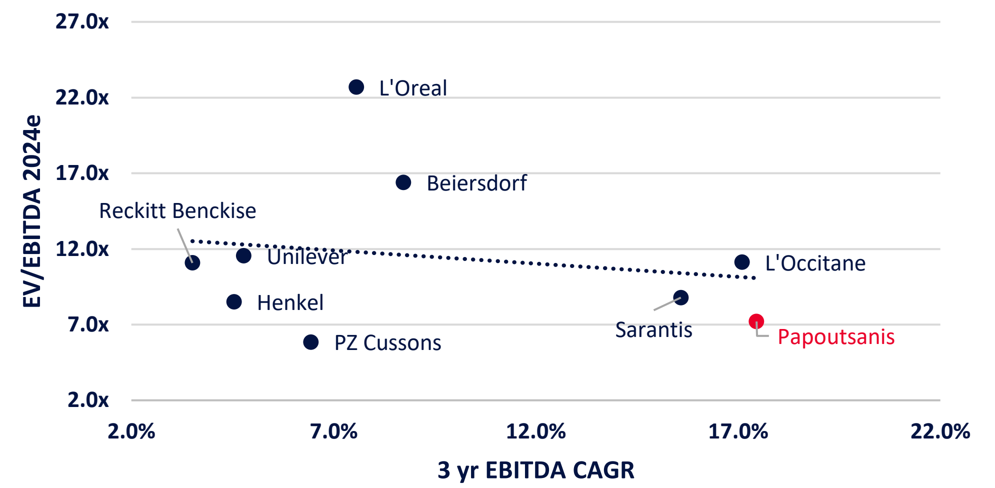
**Peer group valuation**

| | | PE | | EV/EBITDA | | Dividend yield | | Net debt/EBITDA |
|---|---|---|---|---|---|---|---|---|
| **Stock** | **Mkt Cap** | **24cy** | **25cy** | **24cy** | **25cy** | **24cy** | **25cy** | **24cy** |
| **PAPOUTSANIS** | **64** | **10.4x** | **8.1x** | **7.2x** | **6.1x** | **3.4%** | **4.3%** | **1.6x** |
| L'OREAL | 236,188 | 33.9x | 31.4x | 22.8x | 21.1x | 1.6% | 1.7% | 0.1x |
| BEIERSDORF AG | 33,403 | 29.7x | 26.9x | 16.5x | 15.3x | 0.7% | 0.7% | -3.0x |
| RECKITT BENCKISE | 41,555 | 15.0x | 13.7x | 10.8x | 10.2x | 4.0% | 4.2% | 1.8x |
| L'OCCITANE INTL | 5,170 | 18.6x | 15.2x | 11.3x | 9.8x | 1.7% | 2.4% | 0.4x |
| UNILEVER PLC | 112,890 | 16.4x | 15.4x | 11.5x | 10.9x | 4.0% | 4.1% | 2.0x |
| HENKEL AG -PREF | 28,606 | 14.9x | 13.7x | 8.5x | 8.0x | 2.8% | 3.0% | 0.2x |
| PZ CUSSONS PLC | 501 | 11.5x | 10.9x | 6.1x | 5.7x | 5.5% | 4.2% | 1.0x |
| SARANTIS | 613 | 13.0x | 11.8x | 8.4x | 7.7x | 2.4% | 2.6% | 0.3x |
| **Peer group median** | | **15.7x** | **14.5x** | **11.0x** | **10.0x** | **2.6%** | **2.8%** | **0.4x** |
| ***Premium / (Discount) vs peers*** | | ***-34%*** | ***-44%*** | ***-35%*** | ***-39%*** | | | |

Source: Eurobank Equities Research, Bloomberg.

Having in mind that the range of valuation multiples may reflect differences in companies' growth profile, we have also examined the current valuation of the broad peer group in conjunction with the 3-year profit outlook (2023-26e). As can be seen, Papoutsanis's valuation looks quite compelling considering it also enjoys among the strongest growth profiles amid its international peer group.

**Papoutsanis and peer group – 2024e valuation vs 3-year expected growth**




Source: Eurobank Equities Research, Bloomberg.

## B. Valuation

***DCF-based valuation indicates significant upside***

We value Papoutsanis using a DCF-based valuation attempting to capture the medium-term growth profile of the business following the earnings reset of 2023e. Our base case DCF yields a €3.0/share 12-month price target and is predicated on the following assumptions:

- Sales CAGR of c9.0% over 2023-2028e, driven by increasing sales of branded products both domestically and, gradually, aboard. Our numbers are based on volume-led growth, with neutral pricing and slightly positive mix (given higher growth in branded products).
- EBITDA CAGR of c14% over 2023-2028e, underpinned by the positive pendulum of operating leverage. We model low-single digit growth thereafter, assuming sustainable EBITDA margins near 15%, namely c2-3ppts lower than HPC peers' cross cycle margins.
- We use a long-term growth rate of 1% based on a reinvestment rate of 14% and mid-single-digit perpetual incremental ROIC, assuming that the company's competitive advantage will fade in the long run.
- We end up with an implied FCF EBITDA cash conversion (FCF/EBITDA) of c50% over the forecast horizon, a level we consider feasible given the nature of the industry.
- We use a 9.5% WACC, which we believe captures the relative risk profile of the business vis-à-vis the rest of our coverage universe while also considering factors such as stock liquidity.

| **DCF** | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EURmn unless otherwise stated** | **2024E** | **2025E** | **2026E** | **2027E** | **2028E** | **2029E** | **2030E** | **2031E** | **2032E** | **2033E** | **2034E** | **TV** |
| NOPAT | 7.5 | 9.0 | 9.7 | 10.6 | 11.4 | 11.4 | 11.5 | 11.2 | 11.1 | 11.0 | 10.7 | 10.8 |
| Depreciation | 2.6 | 2.9 | 3.1 | 3.3 | 3.6 | 3.6 | 3.6 | 3.6 | 3.6 | 3.7 | 3.7 | 3.7 |
| Working Capital/other | (1.3) | (1.0) | 0.3 | (0.1) | (0.1) | (1.5) | (1.6) | (1.6) | (1.6) | (1.7) | (1.7) | (1.7) |
| Capex | (5.5) | (5.0) | (5.3) | (5.5) | (5.8) | (3.5) | (3.7) | (3.8) | (4.0) | (4.1) | (4.2) | (3.5) |
| **Unlevered Free Cash Flow** | **3.4** | **5.9** | **7.8** | **8.3** | **9.1** | **10.0** | **9.9** | **9.4** | **9.2** | **8.9** | **8.6** | **9.3** |
| Sum of PV of FCF | 56.8 | | | | | | | | | | | |
| PV of terminal value | 43.9 | | | | | | | | | | | |
| **Enterprise Value** | **100.6** | | | | | | | | | | | |
| Net debt/other claims | (18.7) | | | | | | | | | | | |
| **Equity value ex-div** | **82.0** | | | | | | | | | | | |
| no. Of shares | 27.4 | | | | | | | | | | | |
| Per share (year end) | 3.0 € | | | | | | | | | | | |
| **12-month fair value per share ex div** | **3.0 €** | | | | | | | | | | | |

Source: Eurobank Equities Research

Our PT places Papoutsanis at c8.6x 2024e EV/EBITDA, still at >20% discount vs the current valuation of the peer group.

A basic sensitivity on a combination of WACC and terminal growth rates is presented in the table below. As can be seen, flexing our WACC and perpetuity growth inputs by 0.5% each yields a fair value range between c€2.7 and c€3.4 per share, effectively pointing to a very compelling risk-reward skew.

**DCF Sensitivity of our calculated company fair value per share to the WACC and LT growth assumptions**

| | | WACC | | | | |
|---|---|---|---|---|---|---|
| | | 10.5% | 10.0% | 9.5% | 9.0% | 8.5% |
| **Terminal growth** | 2.0% | 2.9 | 3.1 | 3.3 | 3.6 | 3.9 |
| | 1.5% | 2.7 | 2.9 | 3.2 | **3.4** | 3.7 |
| | 1.0% | 2.6 | 2.8 | **3.0** | 3.2 | 3.5 |
| | 0.5% | 2.5 | **2.7** | 2.9 | 3.1 | 3.3 |
| | 0.0% | 2.4 | 2.6 | 2.7 | 2.9 | 3.1 |

Source: Eurobank Equities Research.

## Papoutsanis overview

*A leading manufacturer of soap in Greece and one of the largest in Europe*

Papoutsanis is among the largest soap and liquid cosmetics manufacturers in Europe. The company's long history and expertise combined with its state-of-the-art production facilities and an ever-expanding product portfolio, position it well to capitalize on its competitively priced products and to further increase its market share. This is evidenced by its financial performance over recent years, with sales CAGR >20% over 2018-23e.

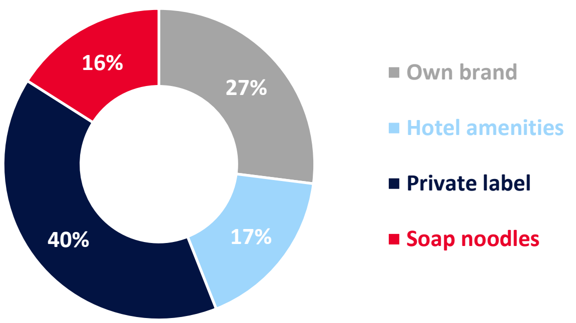
*Four product categories*

The company's product portfolio comprises 4 categories, namely: 1) **Owned Brands** (e.g. KARAVAKI, Natura, Aromatics and ARKADI), 2) **Hotel Amenities** for both the Greek and international markets, 3) **Private Label/Third Parties** manufacturing for international suppliers and retailers, and 4) **specialized Soap Noodles** for industrial clientele. On the profitability side, hotel amenities enjoy the highest profit margin, while the other categories have somewhat lower operating margins.

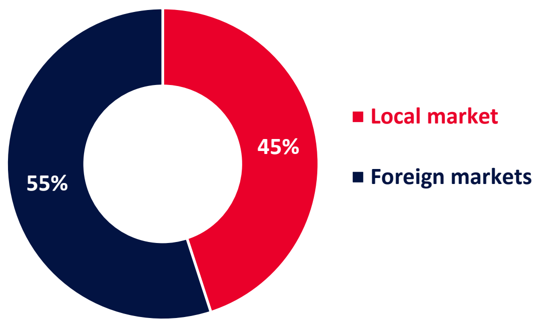
*Europe is the main revenue contributor (89%)*

The company's geographic exposure is skewed to Europe, which contributes 89% of total revenue, with Greece accounting for 45%. The remaining 11% (as of FY23) stems from N. America (c6%) and Asia(c5%). Regarding the geographical distribution across the product categories, branded products and hotel amenities predominantly serve the Greek market, while the majority of private label and soap noodles relate to foreign markets.

**Papoutsanis product mix breakdown - % of sales (FY23)**




**Papoutsanis geographical breakdown - % of sales (FY23)**




Source: Eurobank Equities Research, Company data.

*Acquisition of Arkadi*

Of note is that during 2022 Papoutsanis proceeded to the acquisition and absorption of ARKADI SA, a company based in Greece involved in the production of laundry detergents and general-purpose cleaners with natural, vegan and internationally certified products. The two companies already had an existing collaboration envisaging the production of ARKADI products at Papoutsanis's facilities. With this acquisition Papoutsanis aims to tap into the category of laundry and dishwashing detergents by further expanding the portfolio of the "ARKADI" brand.

### A. The product portfolio and competitive landscape

We describe the main components of the sales mix in more detail below:

1) **Own Brand:** This segment focuses on the production and distribution of own-branded soap and liquid cosmetics products, including shampoos, conditioners, bath & shower gels, bar soaps, body lotions, antiseptics, etc. It is tilted to the domestic market.
   - Papoutsanis's own brands include Karavaki, Natura, Aromatics, Arkadi, Papoutsanis Glycerine and Papoutsanis Green Olive Soap.
   - Main competitors in this category are predominantly mass-market brands owned my multinationals such as L' Oreal, P&G, Unilever, Johnson & Johnon etc.
2) **Private Label / Third-Party:** This division is the backbone of Papoutsanis's profitability and is built on long-term partnerships with other parties.

- Private Label products are typically manufactured on behalf of supermarket chains and carry the trademark of the particular retailer. In Greece, the company's private label market share for the categories in which it operates (soap, liquid soap, shower gel) is over 35%, experiencing a consistently increasing growth rate.
- Products for Third Parties are specialised products mainly for multinational companies which bear the particular client's brand name. They are developed in collaboration with Papoutsanis's R&D department so as to meet each client's specifications.
- The company has forged enduring partnerships with prominent leaders in the sector, including Unilever and Henkel. Additionally, it has secured multiple private label contracts specifically designed for the local market, serving clients such as Sklavenitis, Lidl, etc.

3) **Hotel Amenities:** This category includes the production of personal care products for hotels and can be further segmented into 4 sub-divisions:

   i. Own brands (OLIVIA, OLIVIA THINKS, OLIVE CARE, SARBACANE, KARAVAKI, Skin Essentials, Papoutsanis Kids, etc.) mainly distributed in major hotels in Greece.
   ii. Contracted production for other companies (third party) such as Korres and Apivita hotel amenities.
   iii. Selling of products aboard through strategic partners like Sysco Guest Supply.
   iv. Exclusive partnerships with international chains such as Hilton, Sheraton and Marriott.

   - Hotel amenities enjoy higher margins compared to the other segments. Key advantage from the perspective of hotel clients is Papoutsanis's ability of offering a holistic product including the packaging, thanks to its vertically integrated facility. Moreover, PAP is the sole manufacturer of hotel amenities in Greece.

4) **Soap Noodles:** This category relates to the production of raw material for industrial use.

   - Soap noodles are tailor-made soap flakes used as raw material for the production of soaps, solid and liquid cosmetics, and other specialized applications.
   - Papoutsanis has managed to establish itself as one of the main suppliers of special soap masses in the international market, with long-lasting cooperations with key players including L'Occitane, Zobele Group and Cremer.
   - The company's edge compared to Asian producers lies in the capacity to produce high quality, tailor-made products adhering to each client's specifications. This distinctiveness is achieved by incorporating a variety of oils as well as syndet soap base (used in the production of solid shampoo).

## B. Business model and strategy

The company's strategic focus is on producing high-quality, natural, and sustainable products in its own facilities and then offering them at competitive prices under both its owned brands and private labels. We point to the following as the core pillars of the business model:

- **State of the art & vertically integrated plant**: The company's plant is located in Ritsona (close to the Attica region) and is one of the largest vertically integrated manufacturing units for soap and hotel cosmetics in Europe, with high level of automation. More specifically, after having completed a 3-year investment plan of €25m (over 2020-22) Papoutsanis has effectively doubled its soap production capacity at its 20K sqm plant. The latter includes automated warehouses and production lines for bar soap, syndet, liquid cosmetics, filling and packaging and has been instrumental in driving a reduction of unit costs recently. Moreover, there is a pipeline of additional capex of €15m for a seven-year period which aims to further upgrade production and reduce energy consumption needs.

- **Affordable price**: Papoutsanis positions its own brands within the mass market, ensuring affordability. The company's personal care products are usually priced competitively, typically at a lower rate than their international counterparts. This pricing strategy aims to foster brand loyalty by delivering compelling value for money, underpinned by the assurance of high-quality products.

- **Extensive sales points (more than 6,000):** Papoutsanis boasts a vast network of sales points, exceeding 6K locations. This expansive reach is a testament to the company's successful rebranding of its own brands and its reinforced presence within supermarket chains, strategies that have significantly augmented its market share in Greece in recent years. Concerning its route-to-market approach, starting from 2021, Papoutsanis has been directly servicing major retail chains, further streamlining its distribution and strengthening its position in the market.

- **Sustainable innovation & in-house R&D:** A fundamental pillar of Papoutsanis's strategy is the promotion of sustainable products, such as solid soaps, which are lightweight and require less space during transportation, consequently reducing carbon emissions. Additionally, they necessitate less water usage in production and are available in recyclable paper packaging. Papoutsanis's in-house R&D team is involved in the development of these products. We stress that in recent years the company has indeed reduced significantly the required raw materials and energy consumed per unit of product.

**Materials used and energy consumed**

| | 2020 | 2021 | 2022 |
|---|---|---|---|
| Units of production | 194,763,179 | 230,812,020 | 323,460,563 |
| Change % | | 18.5% | 40.1% |
| Raw and packaging materials (Tn) | 17,800 | 20,000 | 20,200 |
| Change % | | 12.4% | 1.0% |
| Total energy consumption (KWh) | 17,598 | 20,814 | 21,345 |
| Change % | | 18.3% | 2.6% |

Source: Papoutsanis ESG report 2022

- **Long-lasting partnerships:** The backbone of the company's profitability is Private Label / Third party production, which is based on long-lasting partnerships with leading multinational companies. The caveat is that there is an inherent risk associated with the potential non-renewal of these contracts, which in its turn underscores the need for strategic relationship management and continuous quality assurance.

- **A product of Greek heritage - Advertising**: The products of Papoutsanis have their roots in the traditional green olive oil bar soap, which is made of Greek olive oil, and are associated with pure raw materials and Mediterranean ingredients. In recent years, the company underwent a rebranding initiative through advertising (e.g. campaigns on TV, social media, influencers), packaging alterations, and strengthening of its private label product portfolio.

- **Growth strategy:**

  - For **Own Brands** the company plans to continue repositioning and launching new products. This includes expanding into the laundry and dishwashing detergents through the acquired brand "ARKADI". In general, the goal is to increase market penetration and grow market shares in Greece and gradually in Europe.

  - For **Private Label and Third-Party** segments, the company aims to expand its strategic collaborations with multinational players and attract new clients capitalizing on the increased production capacity and on the enrichment of its portfolio with new products. These initiatives seek to capitalize on the opportunity presented by the financial constraints of the largest soap noodles producer in Europe.

  - For **Hotel Amenities**, new collaborations for market share growth in Greece and internationally with well-known hotel chains.

– In the Specialty **Soap Noodles segment,** the company is recognized as one of the primary producers and aims to establish new partnerships with leading soap manufacturers.

# Market Overview

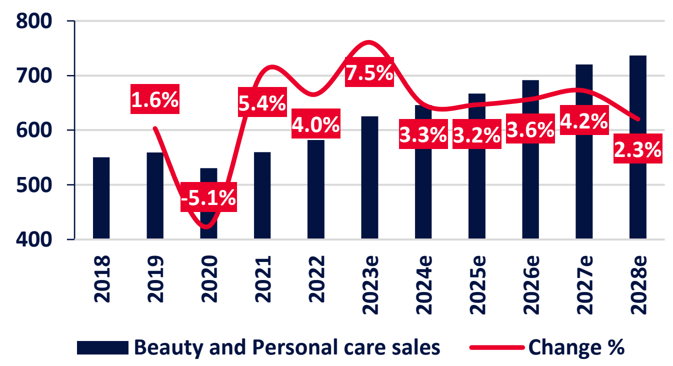
## A. Personal Care Market

***Global Beauty and personal care market: >3% CAGR through to 2028***

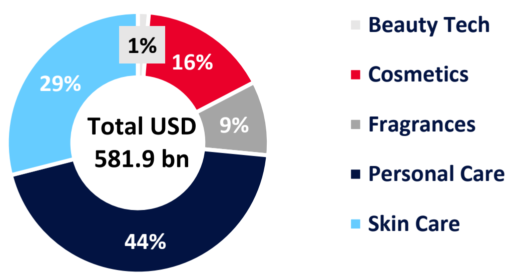
The global beauty and personal care market is worth > USD 581bn according to Statista. This comprises cosmetics (face, eyes, lips etc.), fragrances, personal care (hair care, oral care, deodorants, shaving, shower & bath), skin care (baby, body, face etc.) as well as beauty tech, with personal care representing by far the largest category worth cUSD 259bn.

With respect to the industry growth dynamics, in 2021 the worldwide beauty and personal care market bounced 5% effectively fully retracing its pre-COVID level. 2023e looks set to see c7.5% growth thanks to pricing. Looking ahead, the broad sector is headed for c3.3% CAGR, mostly driven by beauty. Structural dynamics driving this growth are the rising interest in wellness and self-care (mainly propelling beauty) as well as a growing middle class (especially in emerging markets) and increasing disposable income.

**Global Beauty & Personal Care revenue (in $ bn.)**




**Global Beauty & Personal care market breakdown**

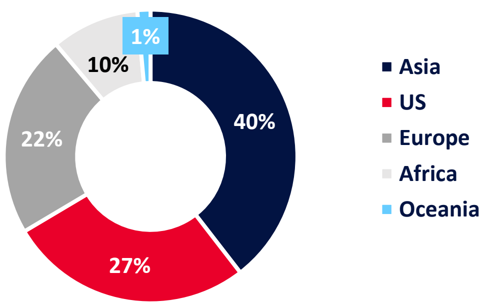



Source: Eurobank Equities Research, Statista

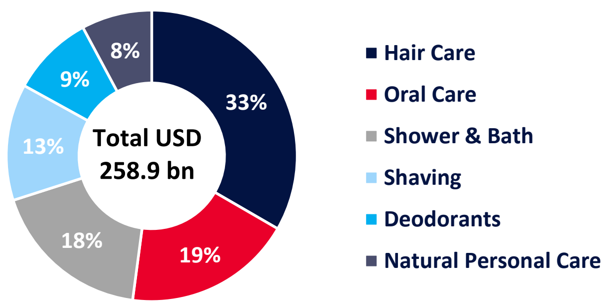
***Europe accounts for 22% of the global beauty and personal care market***

From a geographic perspective, Asia represents 40% of the global market, followed by the US with 27%, while Europe and Africa contribute 22% and 10% respectively. The personal care market – the biggest subset within the broad beauty and personal care industry – can be broken down into six main subcategories, as presented in the following chart. Hair care is the largest one accounting for c33%, followed by oral care and shower & bath.

**Global Beauty & Personal care market by region (2022)**




**Personal care by product globally in 2022**

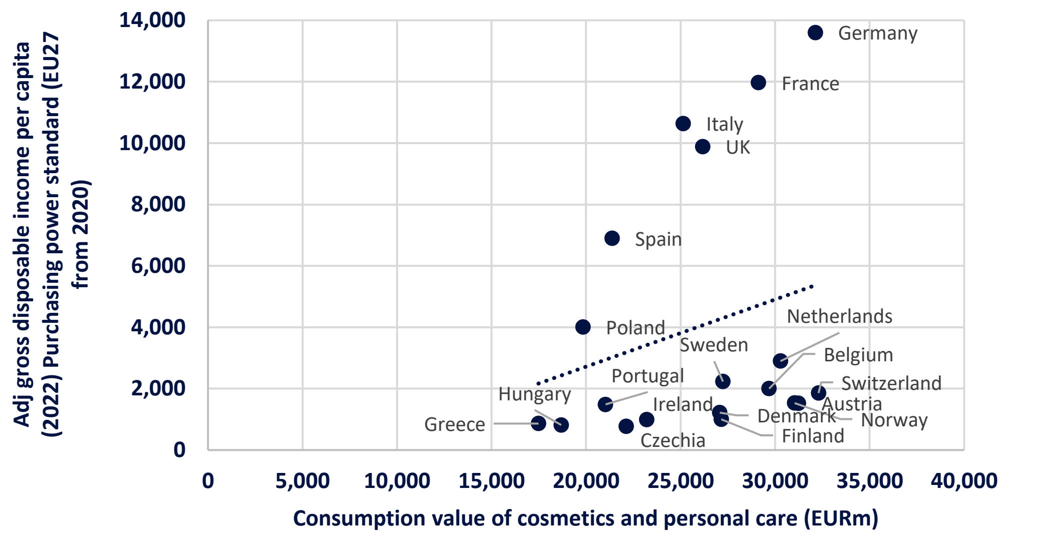



Source: Eurobank Equities Research, Statista.

Focusing on Europe, which constitutes the primary geographical region in which Papoutsanis operates, the personal care market is set to grow at c2.4% CAGR through to 2028. Effectively

Europe is a rather mature market in which players strive for market share based on price and product differentiation. It must be noted that c58% of the cosmetics and personal care consumption in Europe comes from Germany, France, Italy and UK, among the countries where Papoutsanis has presence.

**Disposable income per capita and industry's consumption value in Europe, by country (in € m)**




Source: Statista, Eurostat.

## B. Home and Laundry Care Market

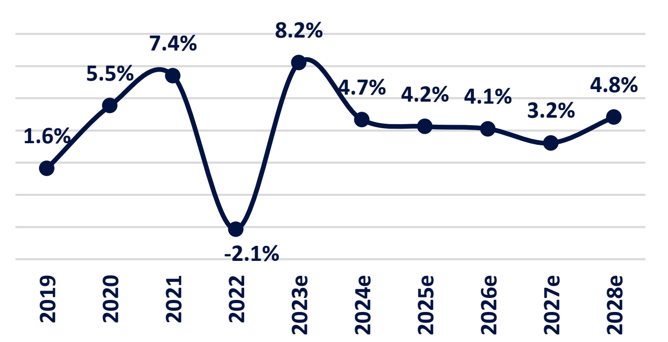
***Global Home and Laundry care market set to grow at >4% CAGR through to 2028***

The worldwide market for home and laundry care products is valued at over USD 195 bn. This includes laundry care, household cleaners, dishwashing detergents, polishes, room scents, and insecticides, with laundry care being the largest category, worth approximately USD 100 bn.

Regarding the growth patterns within the industry, the global Home and Laundry care market witnessed a strong rebound in 2023, after a mild drop in 2021. According to Statista, the category is headed for a compound annual growth rate (CAGR) of c4%, albeit with differing outlooks for distinct categories and geographic regions.

**Global Home and Laundry Care revenue (in $ bn.)**


**Annual growth in global Home and Laundry Care market**

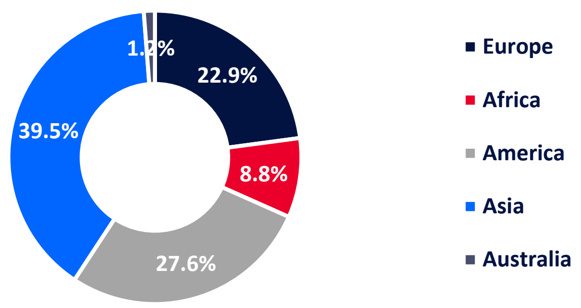



Source: Eurobank Equities Research, Statista.

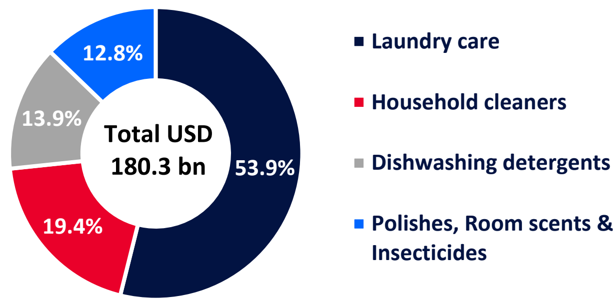
***Laundry and dishwashing detergents represent 54% and 14% respectively of total market***

From a geographic perspective, Asia represents 40% of the global market, followed by the US with 28%, while Europe and Africa contribute 23% and 9% respectively. Across the categories, the market is dominated by laundry care, which makes up c54% of the overall industry. Household cleaners and dishwashing detergents follow next accounting for c19% and c14% respectively.

**Global Home and Laundry Care market by region (2022)**




**Global Home and Laundry Care by product globally (2022)**



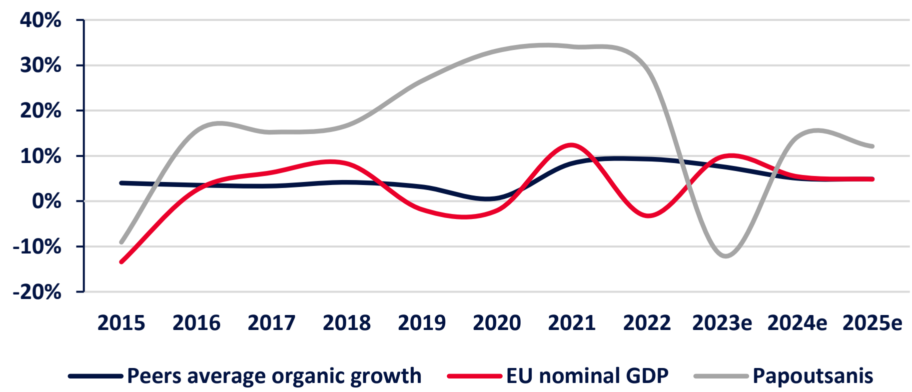

Source: Eurobank Equities Research, Statista.

## C. Market drivers

Key driver for the growth of the broad HPC market is obviously economic expansion. The diagram below affirms the close correlation between nominal EU GDP and the organic growth delivered by Papoutsanis's peers (Henkel, Beirsdorf, Reckits, Unilever, L'Oreal) in the last few years. Companies that have managed to deliver superior growth consistently are – as one would expect – L'Oreal and Beiersdorf (mid to high single-digit on average) thanks to premium pricing and geographic exposure. On its part Papoutsanis has delivered 2-digit growth in most years, with its brands still in the early stages of expansion and development.

Looking forward to 2024-2025, the anticipated growth for Papoutsanis's peer companies aligns closely with prospective GDP growth rates. On the other hand, we envisage continuation of the 2-digit growth algorithm for Papoutsanis, as the company further scales and expands its brand presence.

**Nominal GDP growth vs. HPC peers' organic growth and Papoutsanis growth**




Source: Eurobank Equities Research, IMF, Bloomberg

***Demand drivers***

Besides the general macroeconomic environment, factors underpinning the growth in the personal care market are:

- **Demographics:** The increase in the population is one of the main factors driving demand for personal care products, but this is more relevant for emerging markets (where the population is growing). Changing demographic trends also play a key role, with the accelerating desire for personalization having led to the creation of products catering to specific age groups, genders, and personal preferences. From anti-aging products targeting older consumers to gender-neutral and inclusive beauty lines, personalization enhances consumer engagement and loyalty, contributing significantly to market growth.

- **Consumer spending**: Economic growth tends to lead to increased disposable income among consumers, which in its turn drives higher consumer spending fueling demand for beauty and personal care products. With more money to spend, consumers are effectively more willing to invest in personal care products.
- **Mass social commerce revolution:** The rise of e-commerce and digital marketing has made personal care products more accessible to a global audience. Online platforms allow consumers to easily research, compare, and purchase a wide array of products from anywhere, at any time. Social media and influencer marketing have also played pivotal roles in shaping consumer preferences and driving awareness of new trends and products. According to L'Oreal, Generations Y and Z are projected to contribute 62% of global social commerce spending by 2025.
- **Wellness focused beauty:** During the pandemic, an increasing number of individuals focused on self-care, contributing to the growth of the wellness market. An emerging trend is "ingestible beauty", which encompasses products enriched with vitamins offering benefits such as weight loss and enhanced skin clarity. Initially prevalent in Asia, the trend of inner/outer beauty is gaining global interest, with consumers opting for solutions that prioritize health, wellness, and naturalness.

***Sector's challenges***

In recent years, the personal care market has been undergoing several changes, such as changes in consumer preferences, digitalization, and sustainability. As a result, HPC manufacturers have been faced with numerous challenges including inflationary pressures due to rising raw material and energy prices, retail consolidation and high competition. We briefly describe some of these issues below:

- **Digitalization:** Consumers are increasingly using the online channel to purchase/search for personal care products, making digital transformation important for sustainable organic sales growth. This is particularly important for luxury cosmetic manufacturers, but mass-market producers such as Papoutsanis have also been looking to enhance digital experience and attract new customers using social media.
- **Sustainability:** As consumers become more conscientious about their ecological footprint, the demand for sustainable personal care products has surged. The beauty and personal care industry, traditionally linked with significant resource consumption and waste production, is under pressure to adopt eco-friendly practices. Sustainable personal care products prioritize the use of renewable resources, the reduction of their carbon footprints, and the minimal environmental damage across their life cycles. Brands embracing sustainability not only aid environmental preservation but also resonate with eco-conscious consumers, building loyalty and ensuring long-term success.
- **Retail consolidation:** Retail consolidation, especially noticeable in Western Europe, signals a trend where manufacturers are becoming increasingly reliant on a limited number of key retailers that dominate most sales points. This shift amplifies the bargaining power of retailers, consequently exerting pressure on manufacturers' profit margins as they try to secure shelf space for their products.
- **Personalization and active ingredients:** The incorporation of personalization and active ingredients in personal care products marks a significant advancement in the beauty industry. Personalization, driven by technology, allows consumers to tailor products to their specific needs, enhancing the overall user experience. Similarly, the emphasis on active ingredients highlights the industry's shift towards offering products with targeted benefits. This trend signifies a move towards individualized and effective solutions in personal care, ushering in a new era of customized beauty routines.

As far as Papoutsanis's position is concerned:

- **Category exposure:** Papoutsanis's products are mainly functional in nature (e.g. bath soap, shampoo). This implies that the prospects for growth in demand for these categories within developed nations are relatively limited. This is in stark contrast to developing or emerging economies, where consumers, more sensitive to value, are inclined to increase their consumption as their disposable income rises. In these markets, the appeal of functional personal care products is significantly higher due to the direct impact of economic growth on consumer purchasing behavior, offering a broader avenue for Papoutsanis to expand its market presence.

- **Geographic exposure:** From a geographical perspective, Papoutsanis has presence mainly in the European market. While this implies a limited scope for overall market expansion due to the mature nature of European economies, there exist significant structural growth opportunities. These are particularly evident in the increasing consumer interest in wellness and self-care, sectors where demand continues to rise, offering potential for growth even within a generally stable market environment.
- **Channel exposure:** The mass retail channel (B2C), where Papoutsanis has established a relatively strong brand presence in the local market, contributes c27% of total revenue. This segment faces challenges due to retail consolidation, which can lead to limited shelf space and pressure on pricing. The remaining 73% of sales effectively stems from wholesale customers, with the majority of whom Papoutsanis maintains long-term partnerships, thus mitigating some of the challenges faced in the B2C sector.
- **Management:** Management adaptability has played a crucial role in Papoutsanis's success, particularly in response to market changes and opportunities arising from the pandemic. The company's strategic pivot to produce disinfectants and further promote its existing product range to a broader audience exemplifies effective management flexibility. This ability to quickly adjust to changing market conditions and capitalize on emerging opportunities has been instrumental in sustaining and enhancing the company's market position during challenging times.

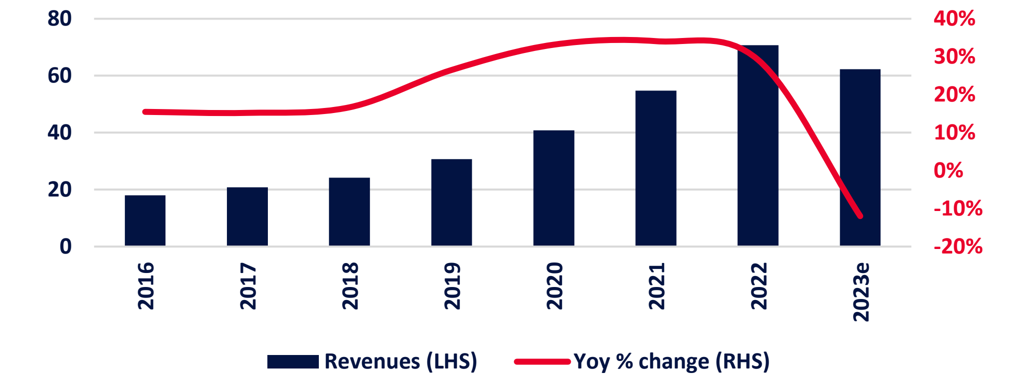
# Financial overview

## A. Historical performance

*Consistent 2-digit track record*

Papoutsanis maintains a solid track record of top line expansion since 2016, with consistent double digit annual growth rates. 2020 was a significant milestone for the company, which sought to capitalize on the increased demand for disinfectants by incorporating these into its production. This move drove an impressive 85% increase in sales of branded products in 2020, thus largely offsetting the drop in the company's hotel amenities business, which was naturally affected by the lockdowns. During the same period and in the light of increased demand for soap, Papoutsanis strengthened its existing partnerships while forging new ones with multinational companies for the categories of private label/third parties and soap noodles, thus bolstering the sales of the respective business lines, which saw their revenue base more than double by the end of 2021 (vs their pre-COVID level).

**Papoutsanis revenue evolution in EURm**




Source: Eurobank Equities Research, Company data.

Papoutsanis's top line has been almost entirely driven by organic growth, which in its turn is the result of increased volumes and price/mix. Volumes seem to have been the main force behind growth in most recent years on our estimates. 2022 also saw inorganic growth, following Papoutsanis's acquisition of Malikoutis SA/Arkadi SA. The latter had recorded an average turnover of €2.5m during FY2020 and FY2021, while being on track to deliver c€3m in 2023e. Through this strategic acquisition Papoutsanis entered the detergents production, as mentioned in the previous sections.

During 2022, there was a notable rise in the costs of raw materials, transportation, and energy, which was partly passed on to consumers through pricing. This helped drive a 29% increase in turnover in 2022, with volume growth (14%) further bolstered by c15% increase in sales prices on our estimates. That said, despite the pricing taken, profit margins contracted substantially as cost inflation outpaced price/mix.

In 2023, revenues fell c12% as a result of a confluence of factors including the following:

- The hotel amenities segment suffered a c21% drop owing to diminished demand from international markets in comparison to 2022, when sales had spiked as economies emerged from the pandemic. The resulting de-stocking of Papoutsanis's products by the hoteliers thus weighed on this segment's revenue generation in 2023.
- Private label/third party products also saw a c18% yoy decrease as a result of the discontinuation of product lines by some multinational corporations in response to inflationary pressures, which led to reduced production.
- As for soap noodles, sales plunged c30% because of lower demand. This downturn was partially attributed to the leveling of transportation costs and delivery times for Papoutsanis and producers in Southeast Asia. In the previous year, 2022, Papoutsanis capitalized on lower comparative costs and delivery times to augment its sales figures and forge new partnerships.

In what follows, we set out the dynamics and historical performance of each product category:

*Branded products set to increase in the mix*

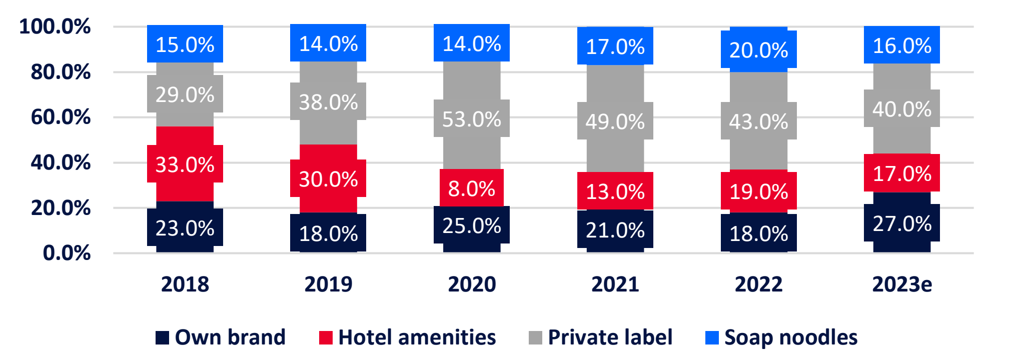
**Own brands:** In 2021, the presence of Own Brands in domestic supermarket chains was further strengthened. Additionally, in 2022 the "Arkadi" brand was incorporated into the company's portfolio. The Own brand category accounted for c18% of sales in FY22 but increased to a whopping c27% of the overall mix in 2023e as a result of substantial underlying growth – driven by share gains and the group's personal care portfolio resonating well with consumers – which more than offset the negative effect from the decline in the antiseptic market.

**Private label and third parties:** Private label and production for third parties have historically been the main source of revenue for the company contributing >40% of total sales since 2020, having increased from c29% in 2018. The rising contribution of this category in the overall mix is the result of reinforced collaboration with multinational corporations, focusing on product manufacturing, customer base expansion, continuous diversification of the product range and the financial constraints of Kappus, Papoutsanis's main competitor in the production of soap bases.

**Hotel amenities:** Hotel amenities generated sales of c€8-9m prior to the COVID period, troughed at c€3m in 2020 while bouncing notably in both 2021 and 2022 propelled by the re-opening impulse. In 2023, sales retreated to c€11m, with strong activity in Greece more than offset by the de-stocking effect internationally, as per our comments above. It is worth emphasizing that this segment enjoys superior margins vs the other segments within the portfolio.

**Soap noodles:** These products, primarily intended for exports, bolster Papoutsanis's status as a key supplier of specialized soap formulations in the European market. The category has grown from <€4m sales in 2018 to c€10m in 2023 underpinned by an expanding customer base, continuous enhancement of the product lineup and the launch of innovative synthetic soap formulations.

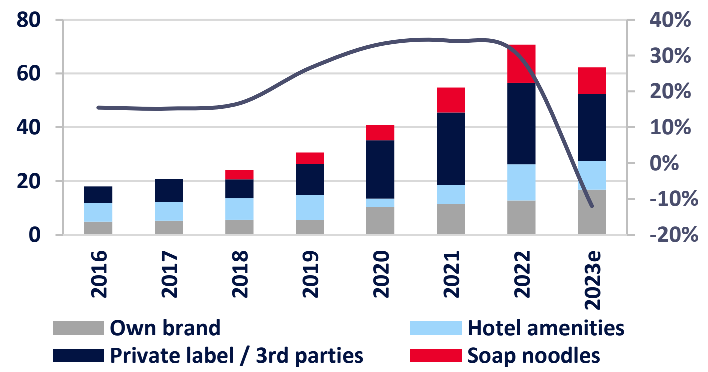
**Papoutsanis evolving sales mix**



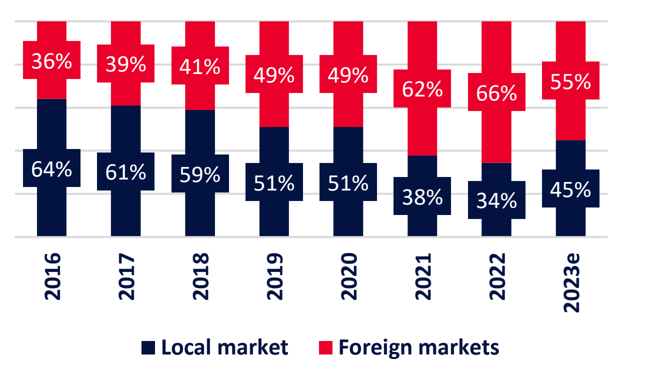

Source: Eurobank Equities Research, Company data.

As indicated by the figures below, the company's extroversion has increased significantly in the last few years mainly due to the acceleration of Private label/Third Parties and Soap Noodles sales.

**Papoutsanis sales evolution (€m)**




**Papoutsanis export activity historically (% in the sales mix)**

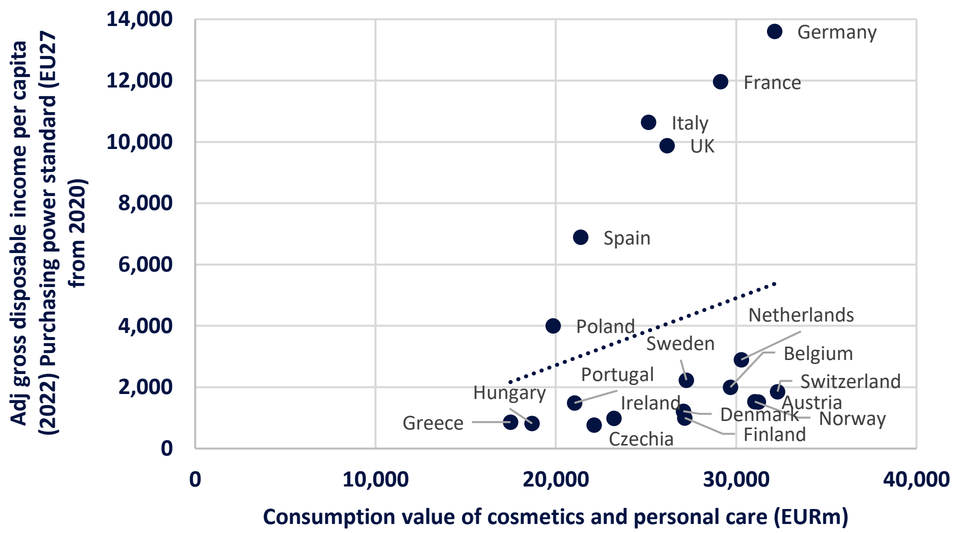



Source: Eurobank Equities Research, Company.

## B. Top line drivers

1) **Volume growth**: As mentioned previously, the main top line growth pillar for Papoutsanis is volume growth. We believe that there are four ways to deliver higher volumes:
   - ✓ **Increase of brand penetration:** Papoutsanis's current market opportunities lie in increasing its market share. This can be supported by strategic marketing initiatives and the development of its product portfolio, including the introduction of novel categories. Maintaining a balance between quality and affordability is crucial for success in bolstering the brand penetration.
   - ✓ **Entry in home and laundry care market:** We expect that the foray into this segment through the ARKADI brand represents a strategic move which could significantly enhance volume growth. Effectively, PAP hopes that through the broadening of the product portfolio, it will be able to enjoy higher volume growth. The ARKADI brand is well-positioned to capture market share, we reckon.
   - ✓ **Demographic factors:** Demographic factors also influence demand. These include age, income levels, population growth, urbanization, cultural norms, and health awareness, among others. Regarding income levels, as we present in the diagram below, most of the countries where the company exports have low disposable income. As economies grow, disposable income in these lower-income countries is likely to increase over time. Companies that have established a strong market presence early on can benefit from increased consumer spending as economic conditions improve.

**Consumption value of cosmetics and personal care (2021) vs. disposable income (2022)**




Source: Eurobank Equities Research, Eurostat.

   - ✓ **Expansion of distribution network aboard:** For beauty and personal care companies like Papoutsanis, broadening the distribution network is a key strategy for enhancing geographic penetration and minimizing transshipment and redistribution costs. Indicatively, Papoutsanis's distribution network for branded products includes supermarket chains in the local market, but far more limited reach abroad. Looking ahead, we anticipate that expanding exports to developing countries could significantly drive the company's sales growth. The expansion of the distribution network is also crucial for the growth of the hotel amenities sector. Further cooperation with international hotel chains or distributors from other countries could drive sales and profitability on a larger scale.
   - ✓ **New partnerships:** For B2B product categories (private label and third parties, Hotel amenities and soap noodles), strengthening existing partnerships and establishing new ones is crucial for driving profitability. Within this framework, strategically

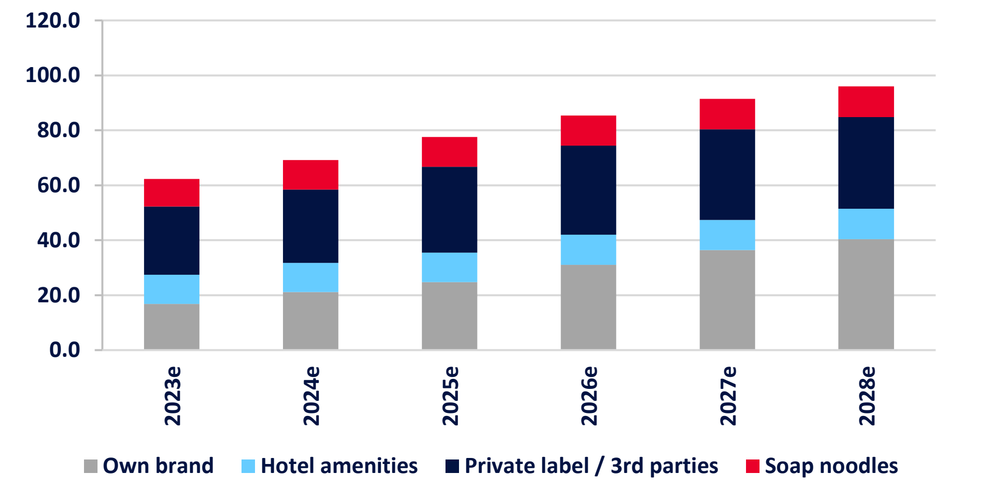
capitalizing on the benefits offered by Greece's tourism sector becomes particularly important.

2) **Price/mix:** In general, pricing has not been an overriding driver of top line growth (with the exception of 2022), as one would expect given the value nature of the product proposition. With this in mind, we do not envisage material price swings in the coming years, barring any substantial move in raw material inflation. On the mix front, product mix – namely the balance between own-branded products and B2B product categories – is likely to shift gradually, with branded products progressively claiming a larger proportion of total sales, aligning with the strategic direction set forth by management. However, it is important to note that private label offerings and partnerships with third-party entities will still play a significant role in the company's portfolio, especially in terms of bottom line.

## C. Looking ahead: Double-digit top line growth prospects through to 2026e

Looking ahead over 2023-2026e, we have assumed c11% CAGR (followed by c6% growth afterwards) propelled by: 1) >20% CAGR in branded products thanks to Papoutsanis's entry in the detergents category and a further expansion of its market share in the personal care market; 2) the company's new contract with a multinational company which is set to boost third party sales by c€6m on a yearly basis starting from the first quarter of 2024.

**Papoutsanis revenue over 2023-28e (€m)**




Source: Eurobank Equities Research, Company data.

**Overall, as can be seen below our forecasts envisage most of the growth to be driven by the company's own-branded portfolio, something which ought to be margin-accretive as we argue below.**

**Papoutsanis revenue over breakdown 2018-28e**

| Per product category (€m) | 2018 | 2019 | 2020 | 2021 | 2022 | 2023e | 2024e | 2025e | 2026e | 2027e | 2028e |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Own brand | 5.6 | 5.5 | 10.2 | 11.5 | 12.7 | 16.8 | 21.1 | 24.8 | 31.1 | 36.4 | 40.4 |
| *Growth (%)* | *7.3%* | *-1.0%* | *85.0%* | *12.6%* | *10.7%* | *32.0%* | *25.7%* | *17.2%* | *25.5%* | *17.2%* | *10.9%* |
| Hotel amenities | 8.0 | 9.2 | 3.3 | 7.1 | 13.4 | 10.6 | 10.6 | 10.7 | 10.9 | 11.0 | 11.0 |
| *Growth (%)* | *13.2%* | *15.0%* | *-64.5%* | *117.9%* | *88.8%* | *-21.2%* | *0.5%* | *0.9%* | *1.4%* | *0.7%* | *0.8%* |
| Private label / Third party | 7.0 | 11.7 | 21.6 | 26.8 | 30.4 | 24.9 | 26.7 | 31.2 | 32.4 | 32.9 | 33.4 |
| *Growth (%)* | *-17.5%* | *65.8%* | *85.7%* | *24.0%* | *13.4%* | *-18.1%* | *7.0%* | *17.0%* | *4.0%* | *1.5%* | *1.3%* |
| Soap noodles | 3.6 | 4.3 | 5.7 | 9.3 | 14.1 | 10.0 | 10.8 | 10.9 | 11.0 | 11.1 | 11.2 |
| *Growth (%)* | *n/a* | *18.1%* | *33.2%* | *62.8%* | *52.0%* | *-29.6%* | *8.0%* | *1.0%* | *1.0%* | *1.0%* | *1.0%* |
| **Total revenue** | **24.2** | **30.7** | **40.8** | **54.8** | **70.7** | **62.3** | **69.2** | **77.6** | **85.4** | **91.4** | **96.0** |
| *Growth (%)* | | *26.5%* | *33.2%* | *34.1%* | *29.2%* | *-12.0%* | *11.1%* | *12.1%* | *10.1%* | *7.1%* | *5.0%* |

Source: Eurobank Equities Research, Company data.

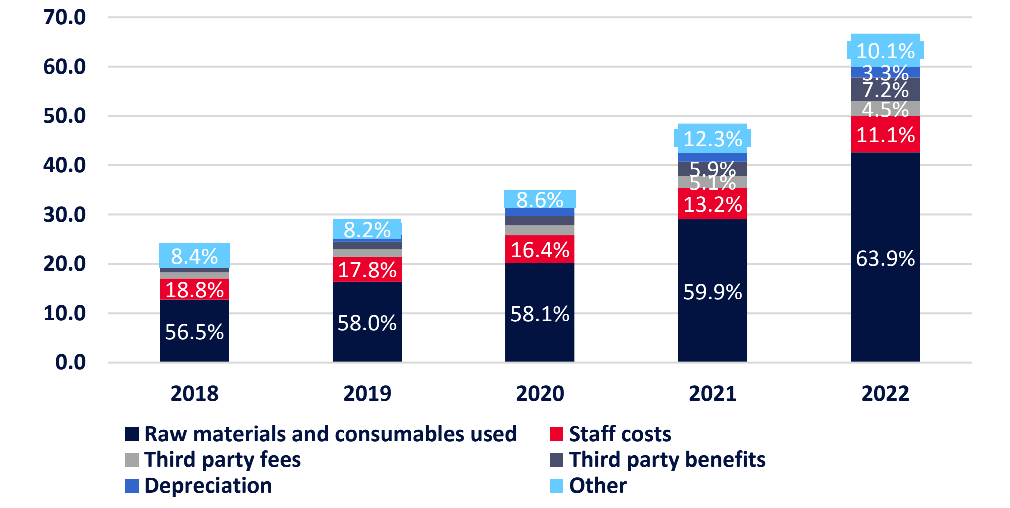
## D. Cost base and margins

*Cost base naturally consists mainly of raw material costs*

Papoutsanis's cost structure is similar to that of typical manufacturers (i.e. mainly comprised of raw material costs, energy costs and SG&A). Consequently, expenses are closely tied to fluctuations in raw material prices.

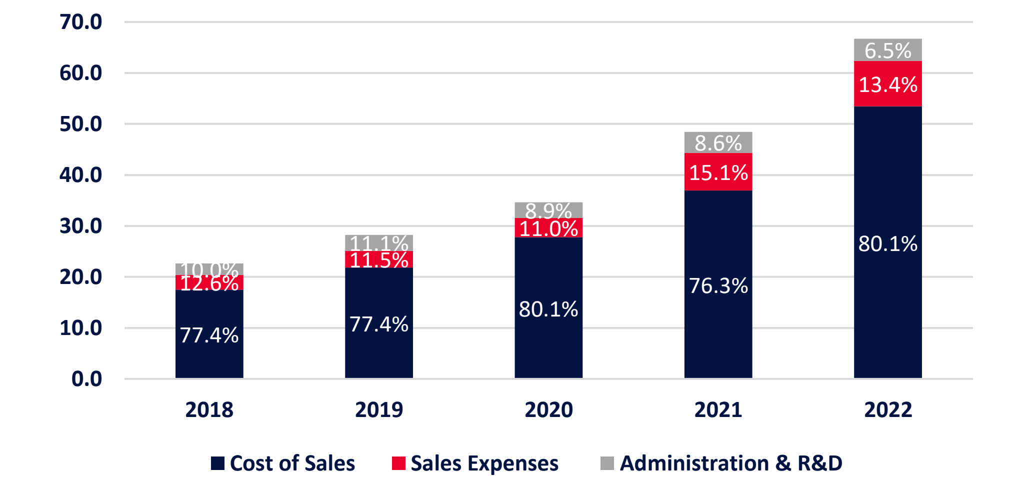
The company's cost base for 2022 totaled c€67m. We estimate that c64% is related to raw and packaging materials, while an additional c11% is accounted for by staff costs. The third largest cost category relates to other expenses, which represent c10% of the cost base and include transportation expenses and advertising. The remaining c15% is a mixture of third-party fees (c5%), third-party charges (c7%) and depreciation (c3%).

**Papoutsanis historical cost breakdown (by nature), €m**




Source: Eurobank Equities Research, Company data.

**Papoutsanis historical cost breakdown (by function), €m**




Source: Eurobank Equities Research, Company data.

*Raw and packaging material make up c80% of COGS*

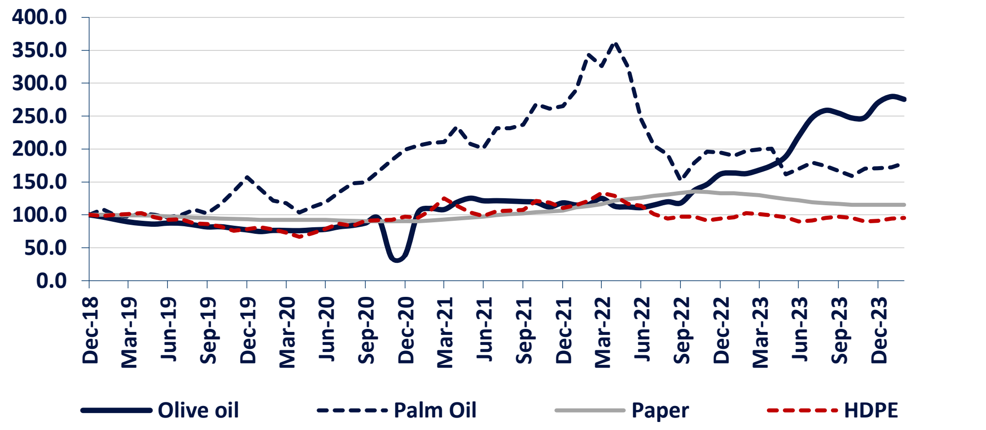
Focusing on Papoutsanis's cost of goods (COGS), we estimate that raw materials and packaging costs account for c80% of COGS. The main materials used in the production are oils (palm oil, coconut oil, olive oil), plastic (PET, HDPE & PP), sodium laureth sulfate (SLES) and paper. The remaining 20% relates mainly to staff costs, energy, depreciation and overheads.

Among the aforementioned materials, paper, oils and chemicals (used for production of personal care products) typically exhibit limited volatility, while plastics tend to experience higher fluctuations. However, in 2021-22, prices for various materials (e.g. Palm oil) saw a notable uptick driven by post-pandemic inflationary pressures and geopolitical unrest (supply disruptions from the Black Sea region). More recently, since early 2023, the price of olive oil has experienced a twofold increase, primarily attributable to constrained production resulting from drought conditions. We stress though that the company's exposure in olive oil is rather limited.

Papoutsanis sources a significant part of raw materials (30%) including palm and olive oil from the Greek company Soya Hellas, which imports them mainly from Malaysia and Indonesia and is a member of "Roundtable on Sustainable Palm Oil" (RSPO), adhering to the relevant environmental and safety regulations. For its other raw materials, PAP engages in forward contracts on a rolling basis (every 3 months) or contracts prices with suppliers a few months in advance to build safety stock (e.g. for chemicals/perfumes).

In an attempt to gauge raw material dynamics for Papoutsanis and prospects for 2024 costs, we look at the evolution of key raw material prices or a proxy of those (e.g. polyethylene for packaging costs). Although Papoutsanis does not disclose the exact weight of each raw material category within its own input costs, we use commentary from other HPC companies to gauge the cost outlook for Papoutsanis. As seen below, with the exception of olive oil, spot prices have retreated substantially in the last few months, pointing to a tailwind for PAP's margins in 2024 which we discuss below.

**Historical Key raw material pricing (rebased)**




Source: Eurobank Equities Research, Bloomberg.

### 1. Gross margins: set to expand on positive mix and input cost normalization

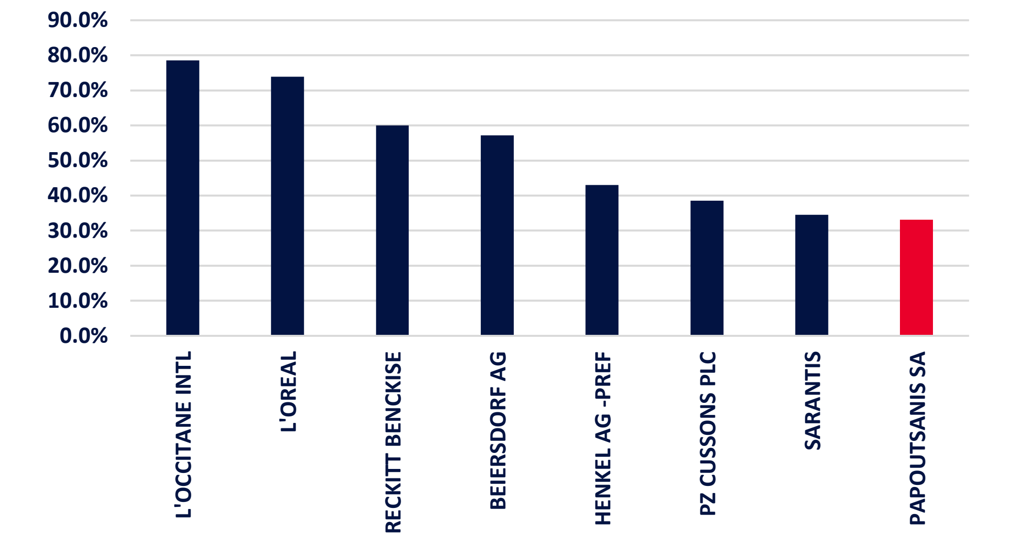
Taking into account that the impact of commodity prices has 2-3 quarters lag on actual input costs (given the timing effect related to forward-buying and hedging contracts), we estimate that Papoutsanis started seeing a material decrease in the blended cost of raw materials since mid-2023. We expect this input cost tailwind coupled with positive mix (increase in own-branded products) to drive a c8.7ppts gross profit margin accretion to c33% in 2023e. Effectively, this means that gross margins will return to levels seen in 2020-21, bouncing from the ultra-low mark of 2022 (24%).

Looking further out, we model a gradual expansion of gross margins to c35% by 2028e with positive mix further enhanced by energy efficiencies and optimization of production.

***Papoutsanis's gross margins stand at the lower end of peer group…***

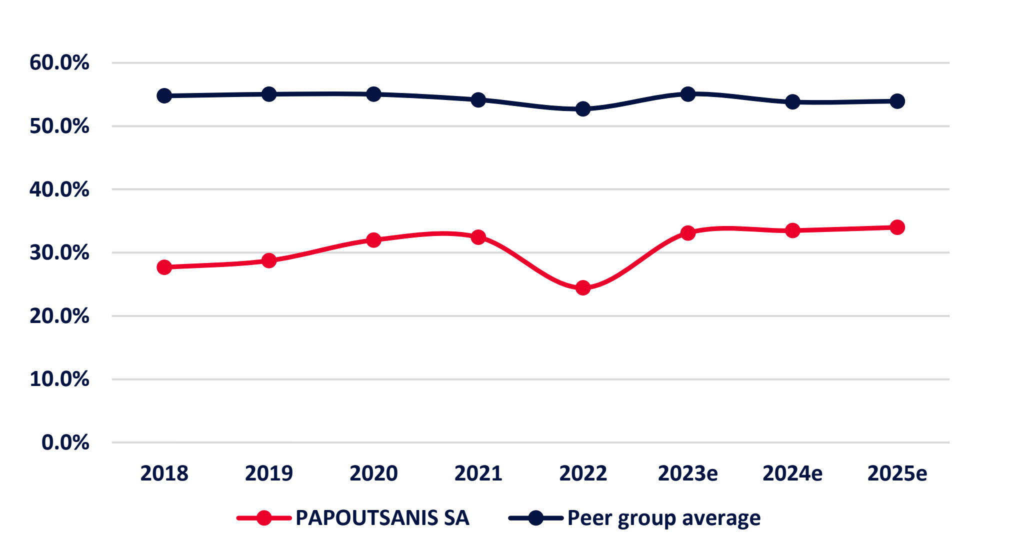
Given that raw and packaging materials account for a greater portion of PAP's cost of goods than is the case for other HPC peers (for whom the bulk of the cost base is composed of advertising and marketing expenses), its gross margins seem to be at the low end of the peer group. We exemplify this in the chart below. We believe that the low gross profit margins are also attributed to the company's smaller size/scale, lower pricing than that of other peers (given the value concept of the positioning) as well as its product mix.

**Peer group gross profit margins, 2023e**




Source: Eurobank Equities Research, Bloomberg.

**Gross margin evolution**



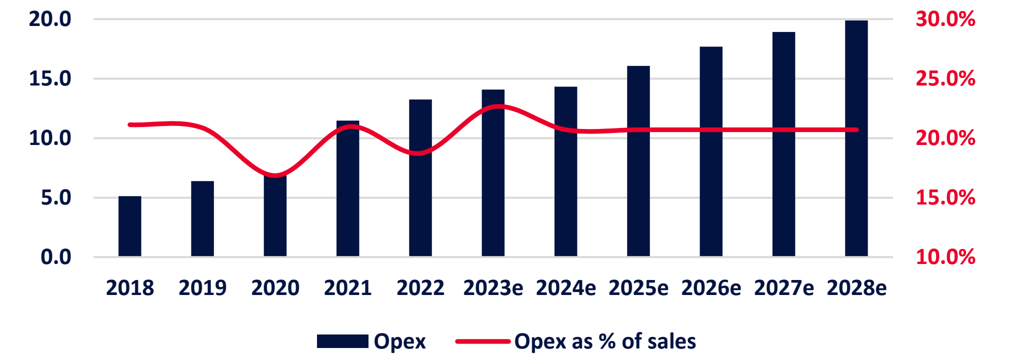

Source: Eurobank Equities Research, Company data, Bloomberg.

### 2. Opex outlook

As for operating expenses, these have been representing c19-21% of sales in recent years (and c20-24% of total costs). This category includes mainly staff costs, advertising, and transportation expenses. We note that R&D costs correspond to c1.5% of sales, a level which is below that of larger beauty peers (c3%) but in sync with other multinational companies such as L'Occitane and Unilever (c1.5%).

As shown below, following a rise in the opex/sales ratio in 2023e due to the negative operating leverage effect (depressed revenues during the year, as explained in the relevant section), we expect normalization of opex/sales in the 20-21% area, modeling limited variation in the future. Effectively, we assume that volume-driven top line growth will require somewhat higher marketing/advertising and R&D spending than in prior years, preferring to leave the benefit of positive operating leverage as upside risk at the current juncture. Of note is that part of the R&D expenses will be financed from EBRD in the context of PAP's €15m 7-year investment program.

**Operating expenses in €m (left) and as % of sales (right), 2018-2028e**

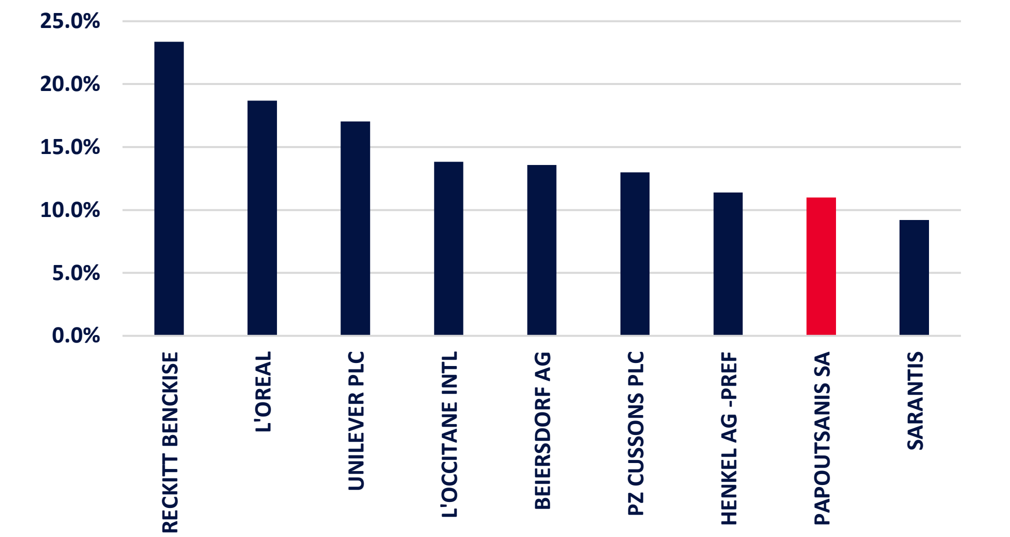



Source: Eurobank Equities Research, Company data.

### 3. Operating margins

The cost structure described above for Papoutsanis coalesces into EBITDA and EBIT margins near 15% and 11% respectively (2023e). As one would expect, this is at the low end of the HPC peer group, as higher scale results in significant competitive advantages and efficiencies related to the supply chain, logistics and distribution.

**HPC peers - EBIT margins (2023e)**




Source: Eurobank Equities Research, Company data, Bloomberg.

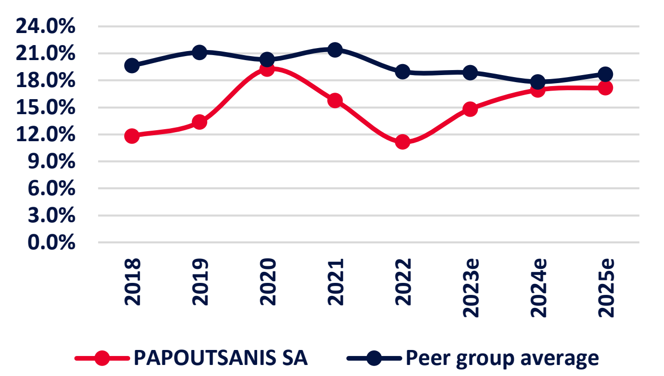
In addition, beauty and personal care companies' margins are affected by other drivers such as:

- **Brand positioning:** premium brands clearly command a price premium over mass products, thereby generating higher margins. However, brand positioning does not refer solely to the brand per se. It has a broader meaning and relates to the bargaining power of the HPC producer. On that basis, the degree of concentration of retailers in a particular market exerts a major impact on margins, as it affects their bargaining power vis-à-vis HPC companies.
- **Category exposure:** The Home and Personal Care sector (HPC) is quite diverse encompassing a wide range of subcategories such as home care, consumer health, personal care, beauty etc. In general, operating profit margins for mass market personal care products tend to be lower than those for beauty products. This is because consumers often have a stronger affinity for beauty products, which are typically more specialized and designed to meet specific consumer needs.

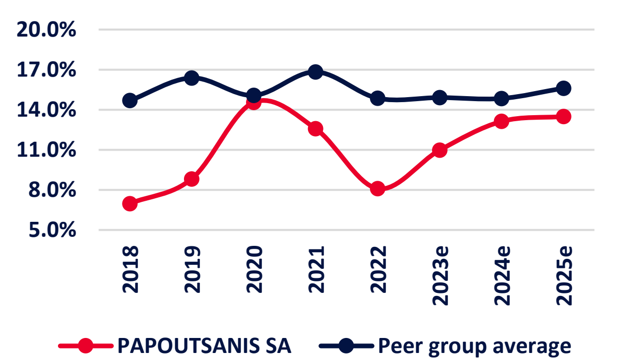
From a historical viewpoint, Papoutsanis's EBIT margins have oscillated between 7% and 14% in the last 5 years. In 2020 EBIT margins marked a record high for the group exceeding 14% (propelled by Papoutsanis's foray into biocides and disinfectants in the aftermath of COVID), but troughed in 2022 at 7% in the light of input cost pressures. 2023e is likely to see margins return to more "normalized" levels, bouncing to c11% on our estimates.

Looking ahead our forecasts envisage EBIT margins near the 13-15% level, as we expect the company to narrow the gap vs the peer group thanks to operational efficiencies (fewer SKUs than foreign peers and a smaller product portfolio), continued focus on cost control and positive mix (higher growth for branded products).

**EBITDA margin evolution**




**EBIT margin evolution**




Source: Eurobank Equities Research, Company data, Bloomberg.

In the table below, we lay out our estimates through to 2026e. As can be seen, we envisage c11% revenue CAGR over 2023-26e filtering through to c20% EBIT CAGR over the same period on c2.9ppts margin expansion thanks to the positive pendulum of operating leverage.

**Profitability evolution**

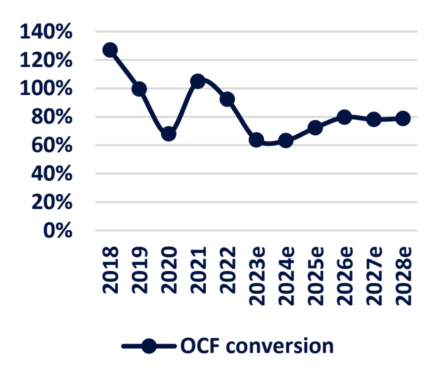
| EURm | 2018 | 2019 | 2020 | 2021 | 2022 | 2023e | 2024e | 2025e | 2026e | 3y CAGR |
|---|---|---|---|---|---|---|---|---|---|---|
| **Sales** | **24.2** | **30.7** | **40.8** | **54.8** | **70.7** | **62.3** | **69.2** | **77.6** | **85.4** | **11.1%** |
| COGS | -17.5 | -21.9 | -27.8 | -37.0 | -53.5 | -41.7 | -46.0 | -51.2 | -55.9 | |
| **Gross profit** | **6.7** | **8.8** | **13.1** | **17.8** | **17.3** | **20.6** | **23.2** | **26.4** | **29.5** | **12.6%** |
| *Gross profit %* | *27.7%* | *28.7%* | *32.0%* | *32.5%* | *24.4%* | *33.1%* | *33.5%* | *34.0%* | *34.5%* | |
| Other income | 0.4 | 0.5 | 0.7 | 0.8 | 1.7 | 0.9 | 0.9 | 0.9 | 0.9 | |
| Opex | -5.5 | -6.8 | -7.9 | -11.9 | -14.2 | -14.7 | -15.0 | -16.8 | -18.5 | 8.0% |
| *Opex/sales* | *22.5%* | *22.2%* | *19.3%* | *21.8%* | *20.0%* | *23.6%* | *21.7%* | *21.7%* | *21.7%* | |
| **EBIT** | **1.7** | **2.5** | **5.9** | **6.7** | **4.9** | **6.8** | **9.1** | **10.5** | **11.9** | **20.2%** |
| *EBIT %* | *7.0%* | *8.0%* | *14.4%* | *12.2%* | *6.9%* | *11.0%* | *13.1%* | *13.5%* | *13.9%* | |
| D&A | -1.2 | -1.4 | -1.9 | -1.7 | -2.2 | -2.4 | -2.6 | -2.9 | -3.1 | |
| **Reported EBITDA** | **2.9** | **3.8** | **7.8** | **8.4** | **7.0** | **9.2** | **11.7** | **13.3** | **14.9** | **17.5%** |
| *% change* | | *34.1%* | *103.1%* | *7.9%* | *-16.6%* | *31.3%* | *27.0%* | *13.7%* | *12.2%* | |
| *EBITDA %* | | *43.6%* | *59.8%* | *47.4%* | *40.6%* | *44.7%* | *50.6%* | *50.5%* | *50.7%* | |
| Financial expenses | -0.6 | -0.6 | -0.6 | -0.6 | -0.9 | -1.8 | -1.5 | -1.3 | -1.1 | |
| **PBT** | **1.1** | **1.9** | **5.3** | **6.1** | **3.9** | **5.1** | **7.6** | **9.2** | **10.7** | **28.5%** |
| Income tax | 0.0 | -0.5 | -1.4 | -1.2 | -0.9 | -1.1 | -1.4 | -1.3 | -2.0 | |
| **Net Profit** | **1.1** | **1.3** | **3.9** | **4.9** | **3.0** | **3.9** | **6.2** | **7.9** | **8.7** | **30.1%** |
| **EPS (EUR)** | **0.04** | **0.05** | **0.16** | **0.18** | **0.11** | **0.15** | **0.23** | **0.29** | **0.32** | **30.1%** |
| **DPS (EUR)** | **0.01** | **0.02** | **0.12** | **0.05** | **0.04** | **0.05** | **0.08** | **0.10** | **0.11** | **31.0%** |

Source: Eurobank Equities Research, Company data

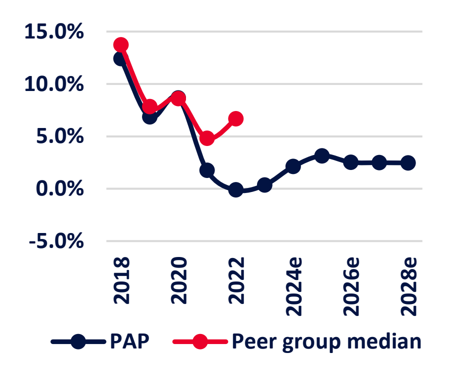
## E. Balance sheet, cash flow and returns

The group has a track record of quite healthy cash flow generation at operating level, with operating cash conversion (OCF/EBITDA) at times exceeding 100%. This has mainly been the result of increasing profitability (consistently since 2016, with the exception of 2022) and efficient management of working capital. Overall, Papoutsanis operates with a minimal working capital/sales ratio, which is probably as efficient as it can get. This corresponds to an operating cash cycle <10 days in 2023e, improved from c35 days in 2018. These figures were significantly affected in 2022 due to the inflationary pressures that drove a spike in raw material prices which were not fully passed on to selling prices. Looking ahead, we conservatively pencil in a small increase in the cash conversion cycle (vs 2023 levels), which will still correspond to a robust cash conversion ratio of 60-80%.

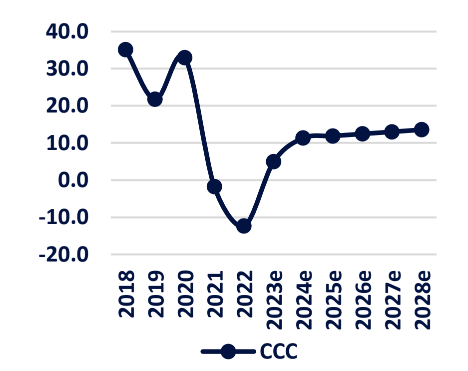
Operating cash conversion (OCF/EBITDA)




Working capital as % of sales




Cash conversion cycle in days



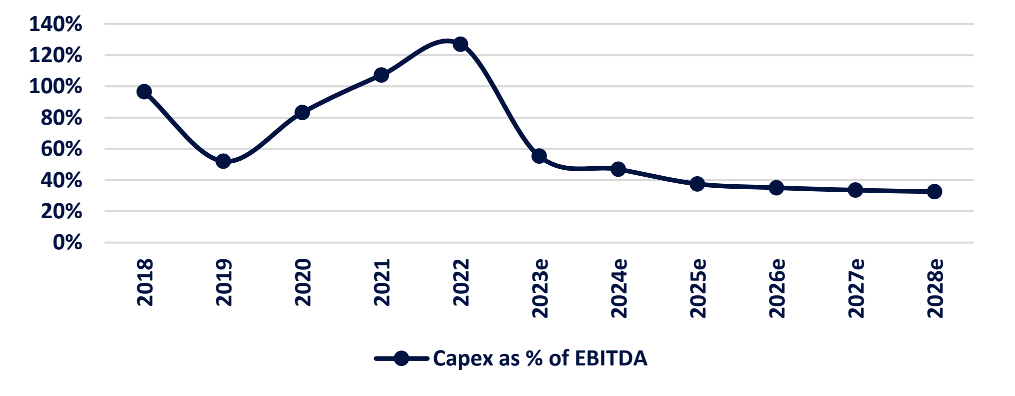

Source: Eurobank Equities Research, Company data, Bloomberg

*Majority of investments completed, capex to trend down in the coming years…*

On the investment front, Papoutsanis has spent almost €25m during the last 3 years (2020-2022) with the goals of increasing productivity, expanding its product portfolio, and adding storage facilities. Effectively, capex during the period increased from c€2-4m annually to c€7-8m, with the 3-year investment absorbing all EBITDA generated throughout this period as Papoutsanis invested for future growth.

With the majority of Papoutsanis's investment program completed, particularly since the current capacity is adequate to sustain 2-digit growth for several years, we expect capex to trend down to c€5-5.5m annually. The €16m capex envelope embedded in our numbers in the next 3 years, partially funded through RRF, includes investments allocated for the improvement of energy efficiency, further vertical integration, and optimisation of the manufacturing process.

Capex as % of EBITDA

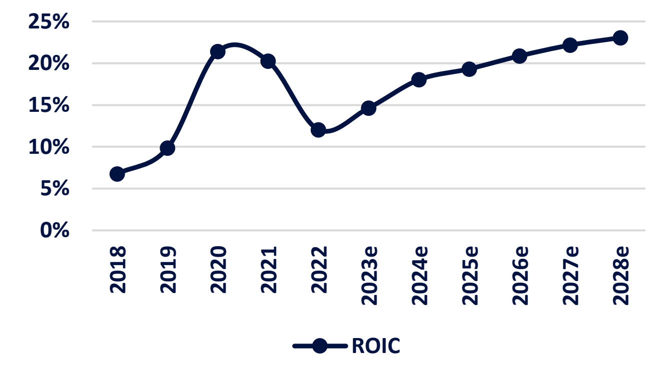



Source: Eurobank Equities Research, Company data.

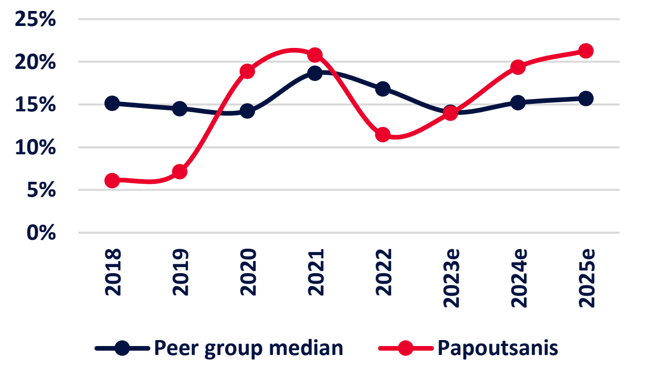
*… thus driving expansion in ROIC/ROE in the coming years*

Examining the returns generated by these investments, they do seem to have indeed already brought about substantial incremental returns. Indicatively EBIT since 2019 has increased by >€4m, translating into a c15% return (pre-tax) on investment, which is quite compelling considering that the latest capex program is yet to translate into a profit boost. As such, our model envisages ROICs expanding by c8pps through 2028e. On its turn, this will mean that Papoutsanis's ROE is likely to exceed that of its peers.

**PAP ROIC (pre-tax): we envisage rising returns as capex abates**




**…ROE peer group companies**

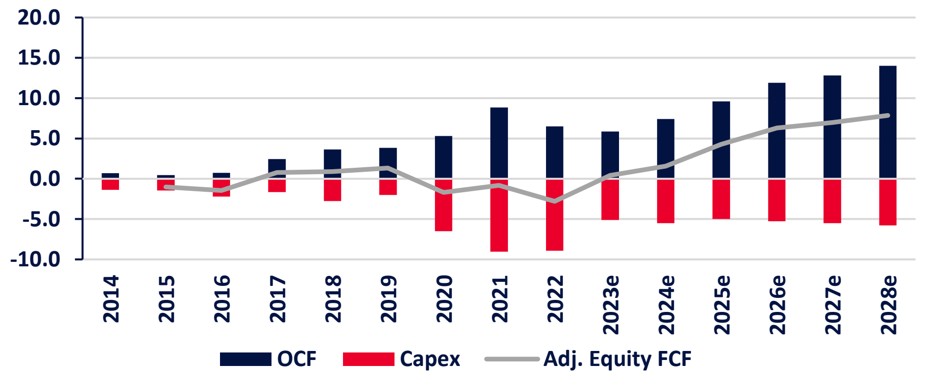



Source: Eurobank Equities Research, Company, Bloomberg.

*2023 is likely to mark the inflection point in FCF as capex needs dissipate*

Regarding overall cash flow generation, in the period spanning 2020-2022, when Papoutsanis implemented its previous €25m investment program, it incurred negative Free Cash Flow ranging from €0.8m to €2.8m. On its turn, this led to an escalation in leverage, as we show below. 2023 is likely to mark the inflection point in terms of FCF generation, and, in the light of waning capex needs, we expect gradually rising FCF from 2024e onwards.

**Papoutsanis Equity FCF in €m**

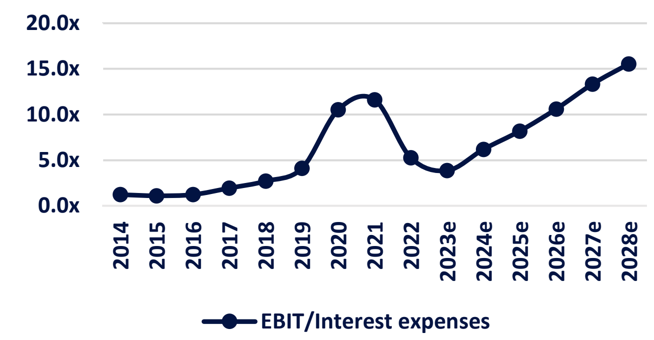



Source: Eurobank Equities Research, Company data.

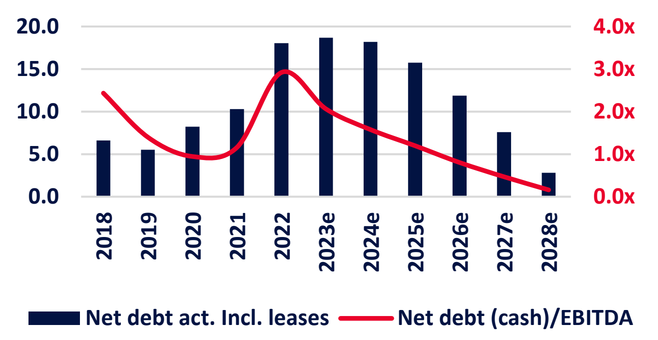
*We expect leverage to trend down as the EBITDA base increases and capex needs fall*

As far as leverage is concerned, net debt increased from €6.6m in 2018 to €18.1m in 2022, with the respective net debt/EBITDA ratio peaking at 2.9x in 2022 (as profitability retreated during that year while the investment program was in full swing). In 2023e, we expect the group to have ended with net debt/EBITDA near 2.1x, quite a comfortable financial position. Looking further ahead, given the combination of rising profitability and normalized capex, we anticipate strong FCF generation to lead to falling net debt levels, with net debt/EBITDA falling below 1x by 2026e. This capital structure would be more in sync with other HPC peers (L'Oreal, Henkel, PZ Cussons at <1x).

**Papoutsanis EBIT coverage (EBIT/ interest expense)**




**Net debt / (cash) in €m (left) and ratio over EBITDA (right)**

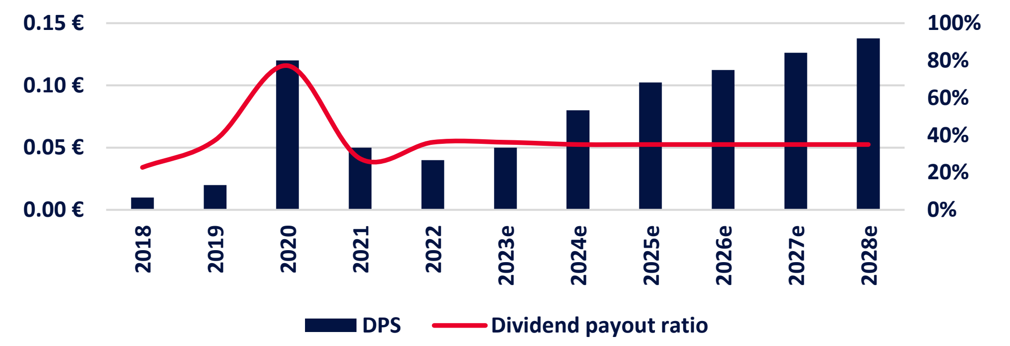



Source: Eurobank Equities Research, Company data.

***We envisage progressive dividends and overall, a balanced approach between investing for growth and rewarding shareholders***

Despite the skew of capital allocation towards investments, Papoutsanis has been consistently rewarding shareholders in recent years. The payout has varied but has usually been >20% of net income since 2018 and >33% in 2022-23. Recently, in light of continuous improvement of the operating results, the BoD announced an interim dividend of €0.03/share for 2023 (paid in December 2023) which is set to be followed by an additional €0.02/share in 2024, both in relation to the 2023 results. Looking ahead we have assumed a similar payout, namely near 35-36%, with shareholder remuneration based on progressive distribution (i.e. dividend payments growing in sync with earnings) which we believe reflects a well-balanced approach between investing for growth and rewarding shareholders.

**Payout ratio (% of earnings, RHS) and dividend per share (LHS)**




Source: Eurobank Equities Research, Company data.

Below we summarize the main cash flow pillars for the company for 2018-2026e. As can be seen, we expect the EBITDA increase to filter through to rising operating cash flow in excess of €7m post 2024e. This will allow the company to fund investments of c€16m over 2024e-26e, institute a progressive dividend payout policy and deleverage the balance sheet.

**Cash Flow statement**

| EURm | 2018 | 2019 | 2020 | 2021 | 2022 | 2023e | 2024e | 2025e | 2026e |
|---|---|---|---|---|---|---|---|---|---|
| Adj. EBITDA | 2.7 | 3.9 | 8.7 | 8.9 | 6.2 | 9.1 | 11.5 | 13.2 | 14.8 |
| Change in NWC/Other | 1.5 | 1.1 | -1.7 | 1.6 | 2.0 | -0.3 | -1.3 | -1.0 | 0.3 |
| Tax | 0.0 | -0.5 | -1.4 | -1.2 | -0.9 | -1.1 | -1.4 | -1.3 | -2.0 |
| Net interest paid | -0.6 | -0.7 | -0.3 | -0.5 | -0.8 | -1.8 | -1.5 | -1.3 | -1.1 |
| **Operating Cash Flow** | **3.6** | **3.8** | **5.3** | **8.8** | **6.5** | **5.9** | **7.4** | **9.6** | **11.9** |
| Capex | -2.8 | -2.0 | -6.5 | -9.0 | -8.9 | -5.1 | -5.5 | -5.0 | -5.3 |
| Other | 0.1 | 0.0 | 0.0 | 0.1 | -2.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Investing Cash Flow** | **-2.7** | **-2.0** | **-6.5** | **-9.0** | **-11.4** | **-5.1** | **-5.5** | **-5.0** | **-5.3** |
| Dividends paid | -0.3 | -0.5 | -1.3 | -1.9 | -1.4 | -1.4 | -1.4 | -2.2 | -2.8 |
| Other | -0.2 | -0.2 | -0.3 | -0.1 | -1.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Net inflow (outflow)** | **0.5** | **1.1** | **-2.7** | **-2.1** | **-7.7** | **-0.6** | **0.5** | **2.4** | **3.9** |
| **Net debt / (cash) (incl. leases)** | **6.6** | **5.5** | **8.2** | **10.3** | **18.1** | **18.7** | **18.2** | **15.8** | **11.9** |
| **Equity FCF** | **0.9** | **1.3** | **-1.7** | **-0.8** | **-5.2** | **0.4** | **1.6** | **4.3** | **6.3** |

Source: Eurobank Equities Research

## Estimates and main assumptions overview

*2-digit growth + abating capex = Strong cash flow story*

On the revenue front, our forecasts are grounded in the expectation that Papoutsanis will maintain its strategy focus on delivering double-digit growth in branded products category while continuing to forge agreements with multinational corporations with the goal of expanding private label / third parties and soap noodles categories.

**Key estimates**

| EURm | 2018 | 2019 | 2020 | 2021 | 2022 | 2023e | 2024e | 2025e | 2026e | 2027e | 2028e |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Turnover** | **24.2** | **30.7** | **40.8** | **54.8** | **70.7** | **62.3** | **69.2** | **77.6** | **85.4** | **91.4** | **96.0** |
| *yoy growth* | *16.7%* | *26.5%* | *33.2%* | *34.1%* | *29.2%* | *-12.0%* | *11.1%* | *12.1%* | *10.1%* | *7.1%* | *5.0%* |
| ***Own brand*** | 5.6 | 5.5 | 10.2 | 11.5 | 12.7 | 16.8 | 21.1 | 24.8 | 31.1 | 36.4 | 40.4 |
| *yoy growth* | 7.3% | -1.0% | 85.0% | 12.6% | 10.7% | 32.0% | 25.7% | 17.2% | 25.5% | 17.2% | 10.9% |
| ***Hotel amenities*** | 8.0 | 9.2 | 3.3 | 7.1 | 13.4 | 10.6 | 10.6 | 10.7 | 10.9 | 11.0 | 11.0 |
| *yoy growth* | 13.2% | 15.0% | -64.5% | 117.9% | 88.8% | -21.2% | 0.5% | 0.9% | 1.4% | 0.7% | 0.8% |
| ***Private label / 3rd parties*** | 7.0 | 11.7 | 21.6 | 26.8 | 30.4 | 24.9 | 26.7 | 31.2 | 32.4 | 32.9 | 33.4 |
| *yoy growth* | -17.5% | 65.8% | 85.7% | 24.0% | 13.4% | -18.1% | 7.0% | 17.0% | 4.0% | 1.5% | 1.3% |
| ***Soap noodles*** | 3.6 | 4.3 | 5.7 | 9.3 | 14.1 | 10.0 | 10.8 | 10.9 | 11.0 | 11.1 | 11.2 |
| *yoy growth* | n/a | 18.1% | 33.2% | 62.8% | 52.0% | -29.6% | 8.0% | 1.0% | 1.0% | 1.0% | 1.0% |
| **Gross profit** | **6.7** | **8.8** | **13.1** | **17.8** | **17.3** | **20.6** | **23.2** | **26.4** | **29.5** | **32.0** | **34.1** |
| *Gross margin* | *27.7%* | *28.7%* | *32.0%* | *32.5%* | *24.4%* | *33.1%* | *33.5%* | *34.0%* | *34.5%* | *35.0%* | *35.5%* |
| Net opex | -5.0 | -6.4 | -7.2 | -11.1 | -12.4 | -13.8 | -14.1 | -15.9 | -17.6 | -18.9 | -19.9 |
| *Net opex/sales* | *20.7%* | *20.7%* | *17.6%* | *20.3%* | *17.6%* | *22.1%* | *20.4%* | *20.5%* | *20.6%* | *20.7%* | *20.7%* |
| **Adj. EBITDA** | **2.7** | **3.9** | **8.7** | **8.9** | **6.2** | **9.1** | **11.5** | **13.2** | **14.8** | **16.3** | **17.6** |
| *yoy growth* | *22.6%* | 44.6% | 121.4% | 2.0% | -30.4% | 46.5% | 27.5% | 13.9% | 12.4% | 10.0% | 8.3% |
| *Adj. EBITDA margin* | *11.2%* | 12.8% | 21.3% | 16.2% | 8.7% | 14.5% | 16.7% | 17.0% | 17.3% | 17.8% | 18.3% |

Source: Eurobank Equities Research, Company data.

Looking at each division in more detail:

- **Own brand:** We model a revenue CAGR of c19% across 2023-28e for own brand products, based on the assumption that Papoutsanis will continue to expand its portfolio and gain market share. This growth is likely to come from the enrichment of the product range, the enhancement of advertising efforts, the strengthening of in-store presence, as well as the venturing into new product categories such as detergents, primarily under the ARKADI brand. The company's management is primarily focusing on the Greek market for these initiatives. We note that this segment will face a regulatory headwind in 2024, as, starting from March 2024, pricing of branded products has been subject to regulation as part of the government's effort to combat inflationary pressures in some segments. Our understanding is that the company will seek to mitigate the impact through self help actions (e.g. lower discounts). Should the regulation become more stringent, this could negatively affect the group's top line relative to what our estimates incorporate.
- **Hotel amenities:** We posit that the development of this category will closely align with prevailing tourism trends in Greece, where the long-term trend indicates annual inbound tourism growth near 2-3%. At the same time, management is seeking to expand the geographical coverage through the establishment of new collaborations abroad. It is noteworthy to underscore the company's competitive edge within this category, derived from its vertically integrated production process, which includes packaging. This strategic integration aids in achieving superior profit margins. Overall, we are looking for c1% CAGR in this subcategory over 2023-28e as we conservatively pencil in just limited growth in foreign markets.
- **Private label / third parties:** Our assumptions are based on the role of this category as the cornerstone of the company, as it constitutes the largest part of sales. Having in mind management's commentary regarding an imminent new partnership, which will contribute c€6m revenue on an annualized basis, we model c7% growth in 2024 and 17% in 2025 (full year contribution from the new partnership). This will be followed by c2.3% average growth for the period 2025-2028e.
- **Soap noodles:** Being cognizant of the competitive advantage of Asian producers, given their proximity to raw materials, and acknowledging that their transportation costs and delivery times, which were disturbed due to the pandemic, have now normalized, we

anticipate just mild growth for this category following an 8% bounce in 2024e. We stress that Papoutsanis's competitive advantage in this category is the production of high-quality tailor-made soap noodles, primarily catering to premium soap producers such as L'Occitane.

Incorporating all the above, we are eyeing c11% and c12% revenue growth in 2024e and 2025e respectively, following the temporary sales drop of 12% in 2023. We expect 2-digit growth to be sustained in 2026e fading to a mid to high single-digit figure thereafter.

In terms of profitability, having completed a 3y investment plan of €25m while planning additional investments aimed at minimizing energy costs (e.g. PV installation), Papoutsanis looks primed for positive operating leverage as fixed costs get spread over a larger production output. On its turn, this is set to filter through to higher profit margins and earnings growth. We have thus modeled gross profit margin expansion to the tune of c2.4pps over 2023-28e translating into c3.8% adj. EBITDA margin expansion over the same period.

On the cash flow front, we expect the EBITDA increase to filter through to operating cash flow of >€7m in 2024e and >€10m post 2026e, and to be coupled with lower capex needs, thus leading to robust FCF generation. On its turn, this provides plenty of optionality for Papoutsanis to: 1) endorse a progressive dividend policy and 2) deleverage its balance sheet.

## Q3'23 and FY'23e overview

***9M'23 increasing trend in branded products and improved profitability margins***

Papoutsanis reported a -10.9% yoy decline in revenues for the nine-months to end September 2023, with a similar dynamic registered in the full 12-month period (-12%, as per the company's trading update). That said, gross margins expanded markedly on the back of abating raw material prices, more than fully offsetting the impact of lower revenues.

As such, EBITDA remained relatively stable at €6.7m (+1% yoy), with the respective margins expanding by 1.7ppts yoy. Higher depreciation (as a result of the company's increased investments) and elevated financial expenses led to a c22% decline in net income to €2.8m.

**Papoutsanis 9M'23 results overview**

| | 9M'22 | 9M'23 | yoy% |
|---|---|---|---|
| **Revenue** | **53.3** | **47.4** | **-10.9%** |
| *Own brand* | *8.5* | *12.8* | *50.3%* |
| *Hotel amenities* | *12.2* | *9.5* | *-22.5%* |
| *Private label / 3rd parties* | *21.8* | *18.0* | *-17.4%* |
| *Soap noodles* | *10.7* | *7.1* | *-33.2%* |
| - COGS | -39.4 | -31.8 | |
| **Gross Profit** | **13.9** | **15.6** | **12.7%** |
| *Gross margin* | *26.1%* | *33.0%* | 7pps |
| - Operating expenses | -8.7 | -10.7 | |
| **EBIT** | **5.2** | **5.0** | -4.0% |
| *EBIT margin* | *9.7%* | *10.5%* | 1pps |
| + Depreciation | 1.4 | 1.7 | |
| **Adj. EBITDA** | **6.6** | **6.7** | **1.0%** |
| *EBITDA margin* | *12.4%* | *14.1%* | 2pps |
| **PBT** | **4.6** | **3.6** | **-22.0%** |
| - Taxes | -1.1 | -0.8 | |
| **Net profit** | **3.6** | **2.8** | **-22.4%** |

Source: Eurobank Equities Research, Company data.

Across the product categories:

- **branded products** bounced c50% in the 9M'23 thanks to share gains for personal products, rising contribution from exports and the entrance into new categories.
- **Hotel amenities** recorded a decrease of 22.5% cycling a tough comparative on a yoy basis given the re-opening impulse.
- The decrease (-17.4% yoy) of **private label and third-party products** is attributed mainly to the removal of specific product codes by some multinational companies due to inflationary pressures.
- **Soap noodles** fell 33.2% as competitive dynamics normalized, with southeast Asia producers seeing their transportation costs and delivery times return to normal. During 2022, Papoutsanis had taken advantage of these circumstances to increase its sales and enter new partnerships.

As far as FY23e results are concerned, Papoutsanis has preannounced full year figures revealing that revenues decreased 12.0% yoy to €62.3m. We expect gross margins to expand substantially yoy – as evidenced by the 9M trend – and are thus looking for FY23e EBITDA of €9.1m, +32% yoy (broadly in line with mgt guidance of c€9m), thanks to the decrease of raw material prices, energy costs and the optimisation of production.

With regard to Papoutsanis's financial position, we expect the company to finish 2023 with a net debt position of c€19m in FY'23e, just slightly higher than the respective position in the previous year, with operating cash flows being weighed down by repayment of trade payables (high due to increased raw material prices in the previous period).

| Papoutsanis FY23e results overview | | | |
|---|---|---|---|
| EURm unless otherwise stated | FY'22 | FY'23e | yoy% |
| **Revenue** | **70.7** | **62.3** | **-12.0%** |
| Own brand | 12.7 | 16.8 | 32.0% |
| Hotel amenities | 13.4 | 10.6 | -21.2% |
| Private label / 3rd parties | 30.4 | 24.9 | -18.1% |
| Soap noodles | 14.1 | 10.0 | -29.6% |
| - COGS | -53.5 | -41.7 | |
| **Gross Profit** | **17.3** | **20.6** | **19.2%** |
| *Gross margin* | *24.4%* | *33.1%* | 8pps |
| - Operating expenses | -12.4 | -13.8 | |
| **EBIT** | **4.9** | **6.8** | 40.6% |
| *EBIT margin* | *6.9%* | *11.0%* | 3pps |
| + Depreciation | 2.0 | 2.2 | |
| **Adj. EBITDA** | **6.9** | **9.1** | **32.2%** |
| *EBITDA margin* | *9.7%* | *14.5%* | 4pps |
| **PBT** | **3.9** | **5.1** | **28.7%** |
| - Taxes | -0.9 | -1.1 | |
| **Net profit** | **3.0** | **3.9** | **31.8%** |

Source: Eurobank Equities Research, Company data.

## History, BoD & Shareholding structure

*Long history of involvement in soap manufacturing*

Papoutsanis's history dates back to 1870 when Dimitris Papoutsanis founded the first steam-engine olive oil and soap factory on the island of Lesvos. In 1913, the company transferred its operations to the port of Piraeus with the construction of one of the first soap factories in Greece. Gradually, it started to produce green laundry soap, Marseilles soap, aromatic soap with the brand name "Karavaki" and glycerin soap, innovating in the Greek market. In 1967 the company transferred its operations to south Kifissia and expanded into new business units.

In 1972, the company was listed on the Athens Stock Exchange (ASE). In 2001, Papoutsanis established its new factory facilities in Ritsona of Evia, which is currently one of the largest and technologically most advanced soap and hotel amenities factories in Europe, and the only one in Greece.

Regarding the company's BoD, this consists of 3 executive members and 3 non-executive members. In particular:

Mr. G. Gkatzaros is the company's Chairman (executive member) and has held his position since 2010. He holds a degree in Mechanical Engineering from the National Technical University of Athens. He was the founder of Gageo SA which was absorbed by Papoutsanis SA in 2009 when he became principal shareholder.

Mr. M. Tassopoulos is Managing Director (executive member) since 2010. He holds a PhD and MPhil in Engineering & Applied Science from Yale University, a Master's degree in Industrial Engineering & Management Science from Columbia University and a Master's degree in Chemical Engineering from Worcester Polytechnic Institute. He also holds a degree in Chemical Engineering from the National Technical University of Athens and multi-year experience in similar positions. He is also a principal shareholder.

Mrs. M. Iskalatian (executive member) is the company's Chief Financial Officer. Mrs Iskalatian holds an MBA from Strathclyde University of Scotland and a degree in Economics from the National Kapodistrian University of Athens. In 2000, she became a Financial Controller of the Papoutsanis Group. From 2009 until today, she has held the position of Chief Financial Officer and in 2013 she became an executive member of the Board of Directors of the company.

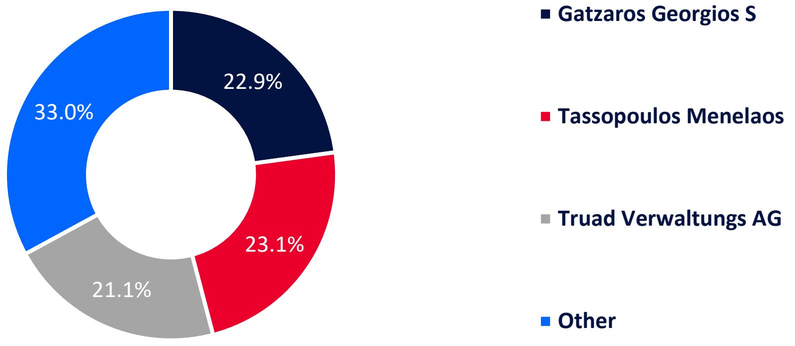
Mr. C. Georgalis, (non-executive, independent member) holds a degree from the Supreme School of Economics and Business (SSEB) and has been registered with the Economic Chamber of Greece since 2001.

Mr. D. Papoutsanis, Vice-Chairman (non-executive member) has studied Business Management with major in Marketing and Communications at Adelphi University.

Mr. A. Barounas is a non-executive independent member. He has graduated from the Deree College of Greece and Denver University where he studied Information System Technology and Computer Science. He has a long experience and a successful career in the field of General Management and he has worked for some well-known technology companies in Greece and abroad.

The aforementioned executives hold c46% of the total share capital. As far as the rest of the shareholder structure is concerned, c21% is held by Truad Verwaltungs (Leventis Family) and the remaining 33% by other investors, mostly local institutionals.

**Papoutsanis shareholding structure**




Source: Eurobank Equities Research, Company data.

## ESG Overview

Recognizing the increasing significance of ESG considerations for investors, we have expanded our analysis to include an overview of noteworthy findings derived from the company's ESG data. Our focus primarily centers on Papoutsanis's approach to addressing environmental sustainability concerns, ethical responsibilities towards employees and suppliers, and adherence to best practices in corporate governance.

### A. Environmental overview

Papoutsanis goes beyond mere adherence to regulations in its dedication to sustainability, actively working to diminish energy consumption, minimize waste, and maximize the utilization of recycled and recyclable raw materials. The company has firmly committed to reducing carbon emissions in its operations by primarily relying on reusable energy sources, implementing reverse osmosis units to decrease water consumption, and developing more sustainable products like solid shampoo. In 2022, 7.1% of the raw materials for packaging were sourced from recycled PET, while the remaining 92.9% consisted of recyclable PET, HDPE, and PP. Furthermore, as part of its quality policy, the company ensures safety and quality through adherence to internationally recognized standards.

| Environmental overview | 2021 | 2022 |
|---|---|---|
| **Raw materials** | | |
| Units of production | 230,812,020 | 323,460,563 |
| Mass of raw materials per unit of production | 0.000087 | 0.000062 |
| **Energy & Co2** | | |
| Electricity Consumption (MWh) | 6,852.9 | 8,228.7 |
| Energy consumption from RES (% of total) | 33% | 37% |
| Scope 1 & Scope 2 gross GHG emissions (market based - tn Co2) | 2,935 | 2,892 |
| *GHG emissions per unit of packaging material* | *0.000025* | *0.000022* |
| Source: Eurobank Equities Research | | |

### B. Social overview

Papoutsanis acknowledges the significance of social responsibility and has established a comprehensive business ethics code to uphold values such as anti-discrimination, occupational health and safety, and quality assurance for both suppliers and end-consumers. The company promotes a culture of equal opportunities and gives priority to well-trained employees. Regarding workforce diversity, the proportion of female employees rose to 30.0% in 2022, up from 28.0% in 2021, with 21% occupying managerial positions. In terms of employee development, higher-salaried employees underwent approximately 40 hours of training in 2022, while lower-salaried employees received around 10 hours of training.

| Social overview | 2021 | 2022 |
|---|---|---|
| % of female employees | 28.0% | 30.0% |
| % of male employees | 72.0% | 70.0% |
| Number of employees | 177 | 200 |
| Avg training man-hours per employee (10% higher salaried employees) | 15.9 | 39.6 |
| Avg training man-hours per employee (90% lower salaried employees) | 8.8 | 11.4 |
| Salary difference between the two genders | 11% | 7% |
| Source: Eurobank Equities Research | | |

### C. Corporate governance overview

As far as corporate governance in concerned, we have applied our own framework to assess adherence to best practices, as outlined in the Greek Code of Corporate Governance, as published in June 2021. Our analysis has concentrated on essential governance metrics that we consider important to investors, such as board composition and independence, executive compensation, and oversight through independent committees. It is worth mentioning that we have conducted a comparable analysis for all stocks within our coverage universe, enabling us to evaluate Papoutsanis's relative positioning in comparison to other companies.

The KPIs we have used to measure performance in each broad category related to corporate governance are the following:

1. **BoD Structure**
   a. **BoD size:** Best practice suggests that the BoD should be made up of 7-15 members (3-15 stipulated under the Greek law). In the case of Papoutsanis, the BoD consists of 6 members.
   b. **Chairman/CEO separation:** We consider best practice the separation of the two roles, in line with the corporate governance framework in the vast majority of OECD jurisdictions.
   c. **Term of BoD members (period of election):** we consider best practice cases where BoD members are submitted for election every 4 years or less (in sync with the Code).
   d. **Average tenure of BoD members:** we score more highly companies where directors serve on the board for an average period of 3 years or less. Although shorter average tenure may not be directly linked to operational performance, it does reinforce internal discipline and control while also minimizing the likelihood of director misconduct.
   e. **BoD diversity:** One of the main features of a diverse group of BoD members is gender representation, with the law suggesting that this should be 25% at minimum. In our analysis we give credit to companies that go a bit beyond this level (min 30%).
2. **Board Independence and System of Internal Controls**
   a. **% of independent directors in the BoD:** The most recent law for corporate governance suggests that independent directors should account for at least 1/3 of the members of the board. That said, the recommendation included in the Code calls for a minimum of 50% independent directors (e.g. Australia, UK, Sweden, Austria, France, Denmark, Netherlands, Portugal), something which would be in sync with the framework in other jurisdictions and which we also consider as best-practice.
   b. **% of non-executive members in the BoD:** A board of directors in which non-executive members constitute at least 60% is the best practice principle we assess.
   c. **Independent vice-chairman:** Credit is given to companies that have an independent Vice-Chairman who safeguards the independence of the board.
   d. **Independence of remuneration committee:** The Greek law was recently amended to not only make the existence of a remuneration committee mandatory but also to safeguard its independence (majority independent members), as a way of introducing a mechanism for normative controls on management's pay. We credit companies where all members of the remuneration committee are independent.
3. **Alignment of Incentives**
   a. **Granularity on executive remuneration:** alignment of the various stakeholders' incentives is facilitated through a good level of disclosure regarding executive pay, e.g. how remuneration of executive directors is determined, balance between fixed and variable components, KPIs for executive bonus, other contractual arrangements (pensions, stock options, long-term incentive schemes etc.).
4. **Audit Firm Quality**
   a. **Big-6:** Our exercise rewards listed entities audited by Big-6 accounting firms.

We lay out a snapshot of our findings for Papoutsanis in the table below. Overall, we do observe some deviations from several key standards, such as the long-term tenure of the BoD (albeit typical for many Greek-listed corporations), the low female representation and the marginal compliance with BoD independence provisions. On the other hand, we commend the separation of the CEO/Chairman roles and are reassured by the engagement of a Big-6 company as auditor.

Overall, relative to the rest of our Greek universe, Papoutsanis seems to stand at the lower end of the spectrum in terms of compliance with typical corporate governance performance indicators. That said, although these deviations could be seen as a reason for investor skepticism, we do not believe they signal inadequate internal controls or misalignment with the interests of minority shareholders but are mainly the result of the family-type of shareholding ownership, as is typical for many Greek-listed corporations in the small cap space.

| Papoutsanis \| Corporate Governance overview | |
|---|---|
| **Board Structure** | |
| Board Size | 6 |
| CEO/Chairman separation? | Yes |
| Board duration | 3 |
| Tenure of the CEO | Long-term |
| Average Tenure of BoD | Long-term |
| Female representation in the BoD | 17% |
| | |
| **Board Independence and system of internal controls** | |
| % of non-executive directors on the BoD | 50% |
| % of independent directors on the BoD | 33% |
| Independent directors on compensation committee | 50% |
| Independent Deputy Chair? | Yes |
| | |
| **Alignment with minority shareholders** | |
| Granularity on CEO max compensation | Yes |
| Criteria for CEO bonus | Yes |
| | |
| **Quality of auditor** | |
| Big 6? | Yes |

Source: Eurobank Equities Research.

## Papoutsanis Financial Statements

| EURmn | | | | | |
|---|---|---|---|---|---|
| **Group P&L** | **2021** | **2022** | **2023e** | **2024e** | **2025e** |
| **Sales** | **54.8** | **70.7** | **62.3** | **69.2** | **77.6** |
| Opex | -45.9 | -64.6 | -53.2 | -57.6 | -64.4 |
| **Adj. EBITDA** | **8.9** | **6.2** | **9.1** | **11.5** | **13.2** |
| *% change* | *2.0%* | *-30.4%* | *46.5%* | *27.5%* | *13.9%* |
| *EBITDA margin* | *16.2%* | *8.7%* | *14.5%* | *16.7%* | *17.0%* |
| **EBIT** | **6.7** | **4.9** | **6.8** | **9.1** | **10.5** |
| Financial income (expense) | -0.6 | -0.9 | -1.8 | -1.5 | -1.3 |
| Exceptionals/other income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **PBT - reported** | **6.1** | **3.9** | **5.1** | **7.6** | **9.2** |
| Income tax | -1.2 | -0.9 | -1.1 | -1.4 | -1.3 |
| Non-controlling interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Net Profit - reported** | **4.9** | **3.0** | **3.9** | **6.2** | **7.9** |
| **EPS - adjusted (EUR)** | **0.18** | **0.11** | **0.15** | **0.23** | **0.29** |
| **DPS (EUR)** | **0.05** | **0.04** | **0.05** | **0.08** | **0.10** |
| **Group Cash Flow Statement** | **2021** | **2022** | **2023e** | **2024e** | **2025e** |
| Adj. EBITDA | 8.9 | 6.2 | 9.1 | 11.5 | 13.2 |
| Change in Working Capital | 0.7 | 1.6 | -0.3 | -1.3 | -1.0 |
| Net Interest | -0.5 | -0.8 | -1.8 | -1.5 | -1.3 |
| Tax | -1.2 | -0.9 | -1.1 | -1.4 | -1.3 |
| Other | 0.9 | 0.5 | 0.0 | 0.0 | 0.0 |
| **Operating Cash Flow** | **8.8** | **6.5** | **5.9** | **7.4** | **9.6** |
| Capex | -9.0 | -8.9 | -5.1 | -5.5 | -5.0 |
| Other investing | 0.1 | -2.5 | 0.0 | 0.0 | 0.0 |
| **Net Investing Cash Flow** | **-9.0** | **-11.4** | **-5.1** | **-5.5** | **-5.0** |
| Dividends | -1.9 | -1.4 | -1.4 | -1.4 | -2.2 |
| Other (incl. capital repayment of leases) | -0.1 | -1.4 | 0.0 | 0.0 | 0.0 |
| **Net Debt (cash)** | **10.3** | **18.1** | **18.7** | **18.2** | **15.8** |
| **Free Cash Flow (adj.)** | **-0.8** | **-5.2** | **0.4** | **1.6** | **4.3** |
| **Group Balance Sheet** | **2021** | **2022** | **2023e** | **2024e** | **2025e** |
| Tangible Assets | 39.6 | 47.8 | 50.5 | 53.4 | 55.7 |
| Intangible Assets | 0.2 | 1.5 | 1.5 | 1.4 | 1.4 |
| Other Long-term assets | 0.3 | 2.1 | 2.2 | 2.2 | 2.2 |
| **Non-current Assets** | **40.1** | **51.4** | **54.2** | **57.1** | **59.2** |
| Inventories | 7.2 | 9.7 | 8.1 | 9.0 | 10.1 |
| Trade Receivables | 7.5 | 6.5 | 4.7 | 6.0 | 6.7 |
| Other current assets | 2.5 | 3.8 | 2.5 | 2.8 | 3.1 |
| Cash & Equivalents | 6.4 | 11.7 | 5.6 | 6.1 | 6.1 |
| **Current assets** | **23.5** | **31.7** | **21.0** | **23.9** | **26.1** |
| **Total Assets** | **63.6** | **83.2** | **75.1** | **80.9** | **85.3** |
| Shareholder funds | 25.3 | 26.9 | 29.5 | 34.3 | 40.0 |
| Non-controlling interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total Equity** | **25.3** | **26.9** | **29.5** | **34.3** | **40.0** |
| Long-term debt | 12.7 | 22.5 | 20.8 | 19.7 | 18.7 |
| Other long-term liabilities | 5.4 | 6.4 | 6.2 | 6.0 | 5.9 |
| **Long Term Liabilities** | **18.1** | **28.8** | **27.0** | **25.8** | **24.6** |
| Short-term debt | 4.0 | 7.3 | 3.5 | 4.6 | 3.1 |
| Trade Payables | 12.4 | 16.1 | 10.5 | 11.3 | 12.6 |
| Other current liabilities | 3.8 | 4.0 | 4.6 | 5.0 | 4.8 |
| **Current liabilities** | **20.2** | **27.4** | **18.7** | **20.9** | **20.6** |
| **Equity & Liabilities** | **63.6** | **83.2** | **75.1** | **80.9** | **85.3** |
| **Key Financial Ratios** | **2021** | **2022** | **2023e** | **2024e** | **2025e** |
| P/E | 12.3x | 22.8x | 15.7x | 10.4x | 8.1x |
| P/BV | 2.4x | 2.5x | 2.1x | 1.9x | 1.6x |
| EV/EBITDA | 8.0x | 14.0x | 8.9x | 7.2x | 6.1x |
| EBIT/Interest expense | 11.6x | 5.3x | 3.9x | 6.2x | 8.2x |
| Net Debt (cash)/EBITDA | 1.2x | 2.9x | 2.1x | 1.6x | 1.2x |
| Dividend Yield | 2.2% | 1.6% | 2.2% | 3.4% | 4.3% |
| ROE | 20.8% | 11.5% | 14.0% | 19.4% | 21.3% |
| Free Cash Flow yield | -1.3% | -7.7% | 0.7% | 2.4% | 6.6% |
| Payout Ratio | 27.4% | 36.2% | 36.2% | 35.0% | 35.0% |

Source: Eurobank Equities Research

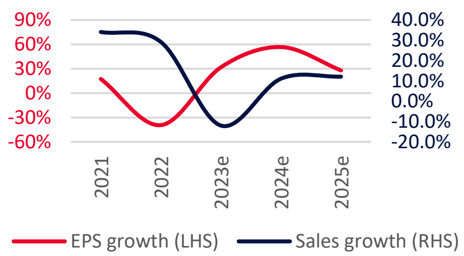
### Company description

Papoutsanis is a company operating in the manufacturing of soap and liquid cosmetics. It holds the leading position in Greece while being one of the largest soap producers in Europe. The company's product portfolio comprises 4 categories, namely owned brands, hotel amenities, private label and specialized soap noodles. PAP generates >60% of sales internationally.

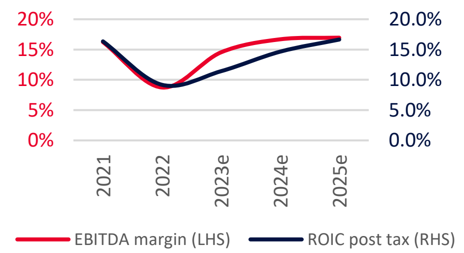
### Risks and Sensitivities

- **Macro:** PAP sales depend on the consumer environment, and, on that basis, a potential deterioration in consumer dynamics in key markets could weigh on growth, especially since the portfolio has discretionary characteristics.
- **Input costs:** With >63% of costs stemming from raw materials, a key risk has to do with an abrupt spike in commodity prices, as was evident in 2022. This is especially true as there is usually a lag between cost inflation and pricing actions.
- **Regulations:** Pricing of mass market products is often regulated (e.g. recently in Greece); should these regulations become more stringent, it could weigh on the branded products' revenue.
- **Industry structure:** Three out of four product categories are based on contracts mainly with multinational or large companies. This dependency poses a risk of revenue loss if any of these collaborations were to be terminated.
- **Changing consumer dynamics:** The consumer environment is evolving at a rapid pace and results in shifting preferences and a shorter product lifecycle, although this is more of an issue for beauty. PAP seeks to address these dynamics through innovation, continuous product development, rebranding and marketing support but product portfolio enrichment may prove less successful than our estimates envisage.
- **Sensitivity:** We estimate that a 1% change in sales drives a c2% change in EBITDA.

### Sales and EPS growth




### Profitability and returns



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Regulated by the Hellenic Capital Markets Commission
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This report has been written by analysts Christiana Armpounioti and Stamatios Draziotis (CFA).

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Eurobank Equities Investment Firm S.A. provides updates on Papoutsanis based on the terms of the agreement between Eurobank Equities Investment Firm S.A. and EBRD and at least but not limited to bi-annually after the publication of the financial statements of Papoutsanis.

**12-month Rating History of Papoutsanis**

| Date | Rating | Stock price | Target price |
|---|---|---|---|
| 07/03/2024 | Buy | € 2.38 | € 3.00 |

**Eurobank Equities Investment Firm S.A. Rating System:**

| Stock Ratings | Coverage Universe | | Investment Banking Clients | | Other Material Investment Services Clients (MISC) - as of 15th Jan 2024 | |
|---|---|---|---|---|---|---|
| | Count | Total | Count | Total | Count | Total |
| **Buy** | 22 | 71% | 2 | 9% | 11 | 61% |
| **Hold** | 1 | 3% | 0 | 0% | 2 | 100% |
| **Sell** | 0 | 0% | 0 | 0% | 0 | 0% |
| **Restricted** | 1 | 3% | 0 | 0% | 0 | 0% |
| **Under Review** | 2 | 6% | 1 | 50% | 2 | 100% |
| **Not Rated** | 5 | 16% | 1 | 20% | 1 | 20% |
| **Total** | **31** | **100%** | | | | |

**Coverage Universe:** A summary of historic ratings for our coverage universe in the last 12 months is available here.

**Analyst Stock Ratings:**

| | |
|---|---|
| Buy: | Based on a current 12-month view of total shareholder return (percentage change in share price to projected target price plus projected dividend yield), we recommend that investors buy the stock. |
| Hold: | We adopt a neutral view on the stock 12-months out and, on this time horizon, do not recommend either Buy or Sell. |
| Sell: | Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock. |
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