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CREDIT RATING REVIEW

Caola Zrt.

March 2024

CREDIT RATING		Initial	Monitoring	Review	Review
Date of Rating Committee:		11.02.2022	17.02.2023	15.03.2023	15.03.2024
Date of Publication:		14.02.2022	17.02.2023	17.03.2023	18.03.2024
Issuer Rating	Long-term rating:	BB-	BB- (under review)	BB-	BB-
	Outlook:	Stable	-	Stable	Stable
Bond Rating	Long-term rating:	BB	BB (under review)	BB	BB
	Outlook:	Stable	-	Stable	Stable

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CONTENT:

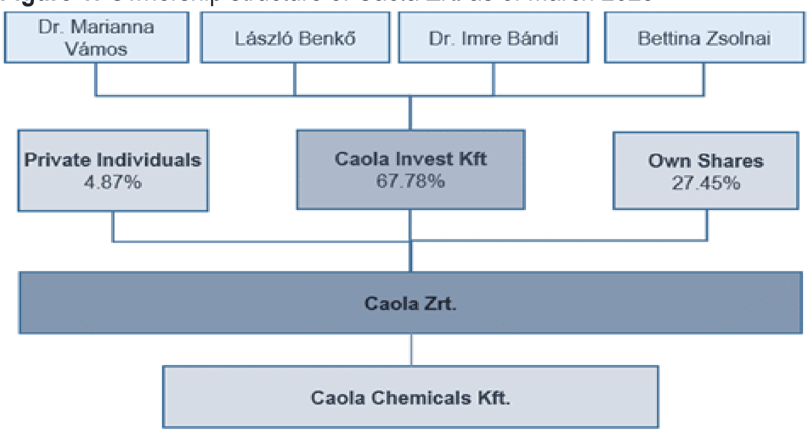
Table 1: General information about the rated entity

Issuer:	Caola Zrt.
Head Office:	Homokbanya ut 77, Diosd, Pest, Hungary
Main Activities:	2042. Manufacture of perfumes and toilet preparations
Registration number:	13-10-041783
Bond ISIN:	HU0000361431

1. Company Overview

Caola is one of the oldest brands in Hungary and Caola Zrt. is the second oldest continuously operating Hungarian company as its legal predecessor was established back in 1831. The company's main activity is producing and selling disinfectants, cleaning, beauty and personal care products. Given its outstanding history, Caola has contributed to the commercial and scientific development of the sector in Hungary over the last one and a half-century.

Figure 1: Ownership structure of Caola Zrt. as of March 2023



Still owned by Hungarian individuals, the ownership of Caola group has changed throughout the years. In April 2020, **Caola Invest Kft.** acquired a majority stake in Caola Zrt. intending to bring the brand back among the market leaders.

The main activity of **Caola Invest Kft.** is leasing the real estate in Diósd to Caola Zrt. In addition, Caola Invest Kft. owns the Caola brand name for the use of which Caola Zrt. pays a royalty fee.

Caola Chemicals Kft. was registered in 2022 and is fully owned by Caola Zrt. Currently, the company does not perform distributor tasks (non-active entity). Based on the negotiations, BVOP (National Penitentiary Command) will be the co-owner of the company, and this company will handle the distribution of Caola products for state orders.

The management team is well qualified with adequate education profiles, long experience, and a wide range of expertise. Key management positions are held by Dr. Imre Bandi (Owner & CEO), Dr. Anikó Szaraz (Deputy CEO), and Gyula Barta-Eke who joined the management team in April 2022 as a Board member.

Dr. Imre Bandi - Owner & CEO of Caola Zrt.

> Mr. Bandi is CEO of Caola Zrt. since April 2020. He graduated cum laude from the Faculty of Law and Political Science of Peter Pazmany Catholic University. From 2010 he worked for the Office of the National Assembly as an assistant to the National Assembly. From 2012 he was the legal officer and then the director of the Hungarian Research Institute for Public Administration and Organizational Development. From 2016 Mr. Bandi headed the Asset Management Department of the Ministry of National Development. Since 2019 he

has been the legal director of MGV Zrt. and since 2021 - a board member and the legal director of Batthyany Capital Fund Manager Zrt. Also, Mr. Bandi holds the positions of executive, supervisory board, and board of directors of several state-owned companies.

Dr. Anikó Szaraz Deputy-CEO of Caola Zrt

Dr. Szaraz is the Deputy-CEO and a member of the Management Board since 2020, and she is responsible for managing daily operations, targets, supervision of production planning, product development, and HR. Before joining Caola Zrt. she was the Business Director of Novochem Kft. (second largest Hungarian chemical distributor). From 2011 she was the CEO and member of the board of the Hungarian Banknote Printing Company. From 1998 she worked for BorsodChem Co., where she became sales director in 2005 and Business Unit Director in 2006. Mrs. Szaraz graduated from Jozsef Attila University in Szeged from the Faculty of European Law in 1999 and graduated from the College of Foreign Trade in Budapest from the Faculty of Business in 1991.

Gyula Barta-Eke - Member of the board of Caola Zrt.

Mr. Barta-Eke has served as a member of Caola Zrt. Board since April 2022 and is also serving as the chancellor of the Budapest University of Technology and Economics and as the CEO of IFKA Kft. Since 2010 he has been Managing Executive and Deputy Director of several companies. He became Managing Director of the Hungarian Enterprise Development Foundation in 1999 where he oversaw the implementation of the Széchenyi Plan and worked as the Deputy Executive Director of the Foundation in 2003-2010

Current leadership acquired the company in a weaker financial position but managed to revive the business via its new strategy shift in production to disinfectants in the depths of the COVID-19 pandemic. The management's mission is to regain the old fame of Caola with a renewed product portfolio of well-known brands. In addition, the group recently entered the market of disinfectants for large-scale livestock farming, being the only Hungarian producer of these products.

2. Operating Environment

2.1. Sovereign risk

Given the fact that Caola is headquartered in Hungary and all of its production capacities are located there, the sovereign risk of Hungary is considered a definitive factor for the company’s performance. The sovereign risk is assessed according to the unsolicited sovereign rating of Hungary assigned by BCRA. The full rationale, as well as the history of ratings, can be found at the following link: https://bcra.eu/en/companies/hungary

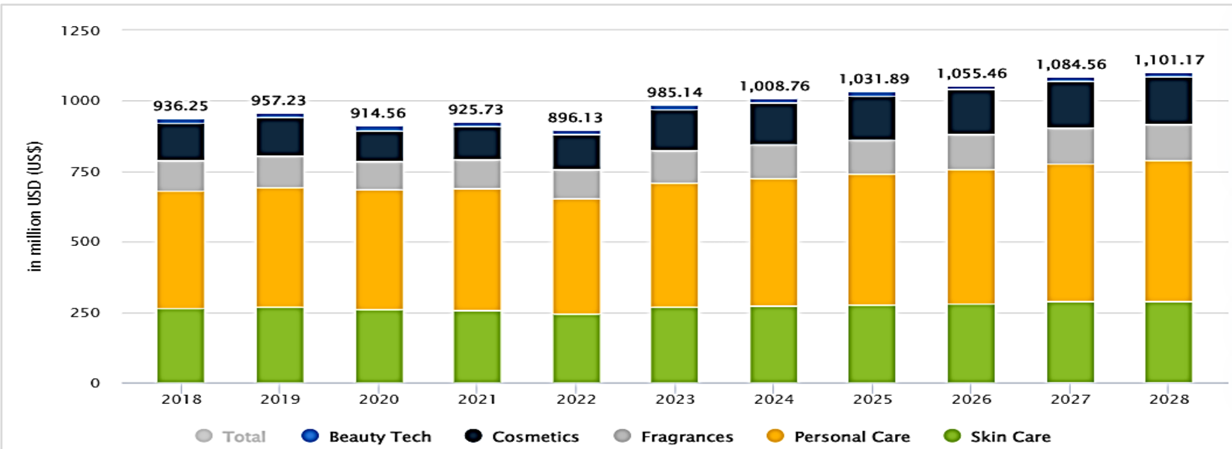
2.2. Industry Overview

Caola Zrt. manufactures beauty, personal, home and laundry care products, being part of the chemical industry. Manufacturing of chemicals and chemical products accounted for ~5% of total Hungarian manufacturing on average in the last five years.

Pre-pandemic, the chemical industry already operated within a highly regulated framework, strict branch legislation, and policy directives that consider a spectrum of factors - from national and general safety to best industry standards observance and client satisfaction adherence. Intra-pandemic, the enterprises had to adapt to the moving targets that such a global event set forth. Various government-initiated and private response mechanisms set adjacent weight on compliance for the companies. Additionally, sensitivity to safety ("less-damaging" beauty products) shifted to focus on personal hygiene as part of public hygiene, intensifying scrutiny on the sector.

Beauty and Personal Care

Figure 2: Beauty & Personal Care market in Hungary – Estimated revenue by segments: 2018 - 2028



Source: Statista

Beauty and Personal Care market is one of the fastest-growing consumer markets mainly driven by the Cosmetics and Skin Care segments. The main reason for the strong growth is the generational shift in the consumer base as young consumers with new shopping habits are entering the market. In this regard, the significance of social media marketing and e-commerce is rapidly increasing. In 2023, about 21% of total revenues in this segment came from online sales in Hungary, compared to 8% in 2018.

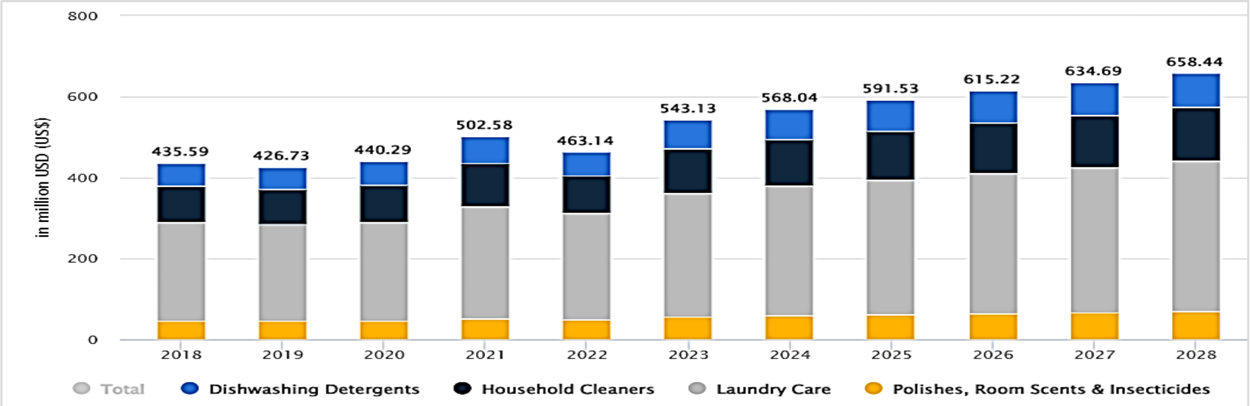
According to Statista, revenues in the Hungarian Beauty & Personal Care market are estimated at USD 985 mln in 2023, in which Personal Care is the largest segment, accounting for about 45% of total revenues. The market is forecasted to grow annually by 2.2% between 2024 and 2028.

Multinational-multibrand companies have sustained market leadership, thus, product development and innovation are key factors to aggressive expansion.

The luxury and prestige cosmetic and personal care segment holds the highest growth potential. During the pandemic, consumer attention has shifted towards self-care and wellbeing, leading to a rise in demand for beauty products that promote wellness and good health, incl. VEGAN and bio cosmetics. Also, a shift to sustainable production and eco-friendly packaging is observed.

Home and Laundry Care

Figure 3: Estimated revenue of the Home and Laundry care market in Hungary: 2018 - 2028



Source: Statista

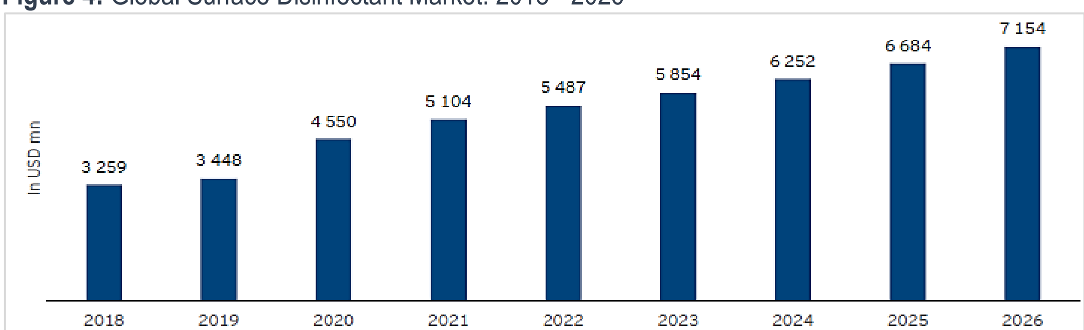
According to Statista, revenues in the Home & Laundry Care market in Hungary are estimated at USD 543 mln in 2022. The largest segment is Laundry Care, accounting for 57% of the total. The market is expected to experience an annual growth rate of 3.8% (CAGR 2024-2028).

Consumers' awareness when purchasing everyday products has increased in recent years. Price and brands are taking a back seat and sustainability is becoming an increasingly important topic for consumers. Even if conventional cleaning agents are the cheaper alternative, more and more consumers are choosing to use cleaning agents that are less harmful to nature and humans. Sustainability not only includes more environmentally friendly and degradable ingredients; packaging is also a key issue. Attitudes towards plastic usage and recycling have changed and are becoming more important to consumers. Products that focus on sustainability have recently developed from niche products to top sellers.

The market for Home and Laundry Care products is dominated by a few big brand manufacturers such as Procter & Gamble, Unilever, Reckitt Benckiser, Henkel, Kao and Lion.

Professional Disinfectants

Figure 4: Global Surface Disinfectant Market: 2018 - 2026



Source: emis.com

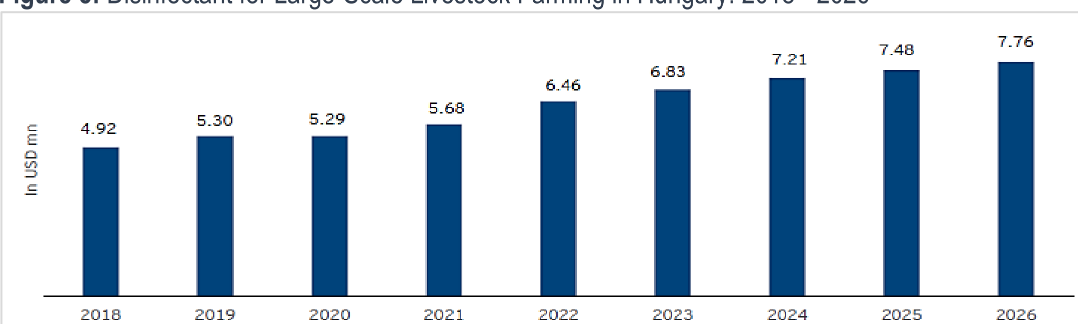
Global disinfectants market is expected to grow significantly over the forecast period, driven by increasing awareness among consumers about industrial hygiene. In healthcare institutions, disinfectants were already in high demand, but in the case of a pandemic, office and residential buildings became possible end-consumers. As a result, the COVID-19 situation has greatly increased the potential for the development of surface disinfectants. Manufacturers in the sector are actively adopting strategies such as expansions, acquisitions, new product launches, and partnerships to capitalize on this growing demand and secure a larger market share.

Mass supply is an outstanding form of product supply on the market primarily through industrial B2B sales channels. While challenges related to chemical disinfectants exist, the market is poised for expansion, with a particular emphasis on alcohol-based and liquid disinfectants.

Disinfectants for Industrial Livestock Farming

Following the pandemic, the awareness of sanitation and hygiene is growing as well in Industrial Livestock Farming. The size of the Hungarian market of disinfectants for livestock farming is estimated at USD 6.8 mln in 2023 and is expected to annually expand by 4% in 2023-2029.

Figure 5: Disinfectant for Large-Scale Livestock Farming in Hungary: 2018 - 2026



Source: emis.com

Increasing concerns regarding animal health and welfare, coupled with the rising demand for safe and high-quality animal products, have propelled the adoption of effective measures in the livestock industry. This measure includes the use of disinfectants as a vital remedy for the well-being of animals. Disease outbreaks, both in developed and developing economies have highlighted the need for robust disinfection protocols to prevent the spread of pathogens. Additionally, technological advancements and research investments have also contributed to the development of innovative and more efficient disinfection solutions.

The demand for biological disinfectants is expected to increase during the forecast period on account of the rising consumer inclination toward non-toxic disinfectants coupled with the rising livestock production globally. The general consumer perception is toward the toxic nature of synthetic formulations that farmers are seeking to avoid and adopt biological solutions. The recent change in the regulatory requirements in the developed markets, including the classification of formaldehyde as a possible carcinogen, is a key factor expected to propel the demand for biological disinfectants.

3. Market Position

The brand Caola is a respected Hungarian brand that is associated with quality, stability and tradition. Accordingly, Caola Zrt has a strong, well-diversified product portfolio and committed partnerships with distributors and customers.

Products

Regarding the Beauty Personal Care and Home Laundry Care market, Caola mainly focuses on the production and sales of Personal Care, Skin Care and Cosmetic products, while its most successful business segments are personal hygiene products and disinfectants. A snapshot of the company's flagship product lines is presented in the following figure.

Figure 6: Caola's flagship product lines

Professional disinfectants	Retail product portfolio	Professional cleaning productas	Disinfectants for livestock farming
• Disinfectants developed and produced for medical and government institutions	• Beauty & Personal Care Products • Home and Laundry Products	• New products, mainly used during commuting/travelling (eg. bus, train, plane)	• Products that are specialized for fertilization of pig, cow and chicken farm

Caola Zrt. remains focused on expanding its presence in both public and industrial procurement markets. In 2023, CaolaZrt. introduced 5 new disinfectant products and began supplying them through the State Procurement Agency (KEF). The innovative alcohol-free Caosept Nanoglyde surface disinfectant is set to be patented in 2024, potentially facilitating substantial market expansion.

Caosept Nanoglyde - the alcohol-free surface disinfectant liquid is a new generation of modern disinfectants, produced using nano-technology. Active oxygen exerts an immediate antimicrobial effect on surfaces and solutions in a very broad spectrum. This antimicrobial effect is extended over time by the silver particles for several days. The product has a bactericidal, fungicidal, and selective virucidal effect. It can also be used in healthcare. It can be used excellently for air space and surface disinfection by spraying. The licensing process for the sporicidal effect spectrum is underway, such a high-level disinfectant is currently only distributed by foreign companies in Hungary. According to the management of Caola, the laboratory results are encouraging, and the license is expected by the end of Q1 2024. Caola plans to patent the product line and the prices of the products are planned to be lower than those of foreign competitors (Ecolab, Braun, Schülke), so the company expects significant market turnover from the product line.

Moreover, CaolaZrt.'s strategic partnership with István Széchényi University involves collaborative R&D efforts aimed at developing and later commercializing hygienic disinfection devices, robots, and machinery. The overarching strategic objective is to achieve high-quality production at low costs, a goal that is expected to be realized with the commencement of operations at the Martonvásár factory.

Targeting in the Retail segment is well-diversified among the generation groups, as Caola offers from classic cosmetics to household products and baby care products. The retail strategy relies on product development and rebranding. New logos, new portfolio outlets, and changes in packaging are in the pipeline. Reflecting the above-mentioned market trends, the management aims to increase B2C marketing through online communication channels and promotion campaigns with wholesalers. Also, a new marketing initiative for 2024 involves CaolaZrt.to form an advertising and marketing collaboration with a Hungarian athlete of international renown to promote the Barbon product line and rejuvenate the brand.

Production Sites

Caola Group currently has 1 production site in Hungary in Diósd. After the completion of the new factory in Martonvásár, all machinery and equipment will be moved to it. The Budapest plant was closed in December 2022, and production was carried out at the Diósd factory from then on with contract manufacturing.

In Martonvásár, the actual production will start in H1 2024 with the production of dusting powder. The production of the other product categories will start gradually after that. Diósd factory will then cease operations and Caola Zrt. will no longer have to pay a leasing fee to its parent company. After that, Caola Invest Kft. will use its property in a different way, which generates revenue for it through rental income or sales.

Caola has 3 different production technologies in line with its product portfolio:

1) Liquid products - Shower gels, mouthwashes, disinfectants, and cleaning products;
2) Gel and cream products - Face and body lotions;
3) Powder products - Talcum powder.

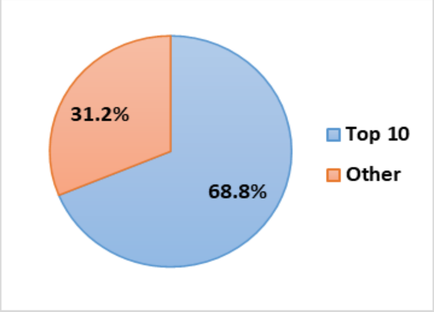
In the new factory in Martonvásár, the production of liquid hygienic products can be significantly increased for Surgical disinfectants, Hand and skin disinfectants, Instrument and tool disinfectants, and Surface disinfectants.

At the beginning of 2023, Caola Zrt, won a EUR 2 mln state grant (45% intensity) to establish a solar power plant at the newly developed Martonvásár factory. Thanks to the investment, the factory would turn into a self-sufficient green factory. Significant cost reduction can be realized not only for cosmetics and hygiene product production but for packaging material production as well. Packaging is a significant cost item for Caola, hence, the management is keen to produce packaging in-house. The operation of the solar power plant is planned to start in Q2-Q3 2024.

Suppliers

Caola maintains good relations and cooperation with a range of suppliers of contracted manufacturing, raw materials, and packaging materials. The company does not rely on any single key supplier whose potential loss would jeopardize its operations. The concentration is only slightly elevated as the Top 10 suppliers accounted for 68.7% of total operational supplies in 2023 but the vast majority of the supplier costs were associated with the construction of the new factory.

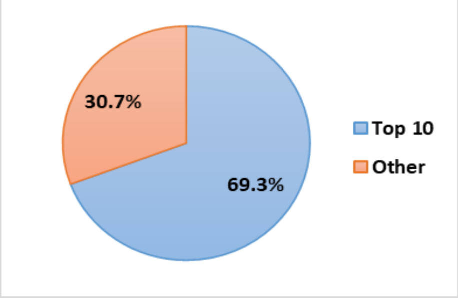
Figure 7: Suppliers concentration in 2023



Customers

Caola has maintained trusted, over decades-long relationships with customers. Besides the appearance of a new significant customer, the customer base remains relatively fragmented and well-diversified with the Top 10 customers accounting for 69.3% of total sales revenues in 2023.

Figure 8: Customer concentration in 2023



The company has a strong sales pipeline in the B2B channel based on online communication and promotional campaigns in partnership with wholesalers. Most significant retail stores in Hungary are among the top customers which provide a reliable source of income. To enhance existing contracts with multinational supermarkets and drugstores (DM, Rossmann, Auchan, Lidl), the objective of the management is to negotiate price increases.

Caola Zrt. has been successful in state procurement tenders. The company already won a one-year framework agreement of HUF 4.3 bn that was signed in 2023. The current public procurement tender is also expected to be extended until 2025, as the state seeks to support Hungarian suppliers in the healthcare sector.

Caols is still a new player in the Disinfectants for Livestock Farming market and growth started slower than planned. However, revenues are planned to increase in 2024 with reputed customers being in the pipeline, e.g. Talentis Agro Group, Master Good Group, Tolnatej Zrt., and Hunland Group.

The sale of professional cleaning products is constantly rising and new contracts with major domestic and international players have been signed. With the cooperation of the Thai embassy, CaolaZrt. sold exclusive distribution rights to a Thai company for Thailand, Malaysia, Laos, Cambodia, and Vietnam. The fee to be paid is EUR 400,000 per country and the contract has already been signed (for a total of EUR 2 mln in 2023). Accordingly, additional sales revenue of EUR 2-3 million per year is expected through export.

Competition

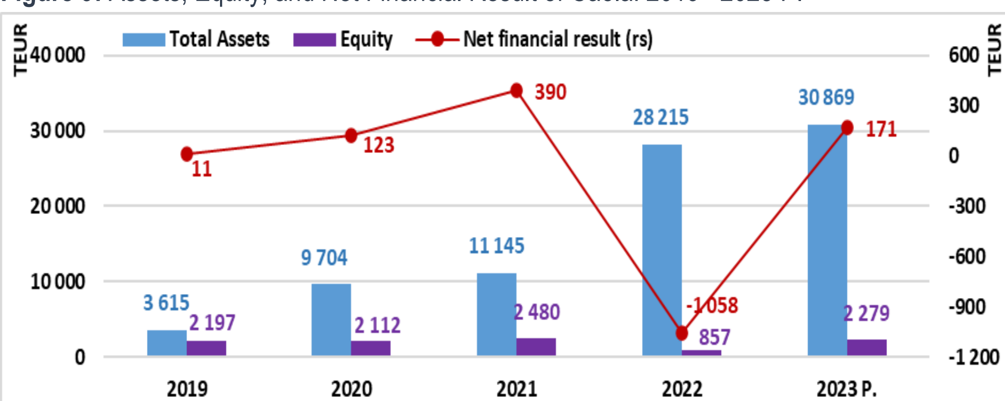
Traditionally the retail market is ruled by multinational companies (Unilever, P&G, Henkel, Avon, and Johnson&Johnson), thus, Caola occupies an insignificant relative market share of about 1%. On the other hand, the rated company has specific strengths compared to multinational competitors, as its brand is well-known, nationally trusted, and can quickly respond to local consumer trends.

Caola has managed to become one of the TOP 5 market players regarding professional disinfectants in Hungary and has established strategic partnerships that represent a competitive advantage for further expansion of its market reach.

Regarding the Disinfectants for the livestock farming segment, Caola is a new player with an insignificant share, however, it has a strong track record of developing innovative products that meet the specific needs of the market, such as bio-cosmetics or eco-friendly disinfectants. Also, Caola's manufacturing processes might be highly flexible and responsive, allowing them to quickly adapt to changing market demands and introduce new products.

4. Financial Analysis

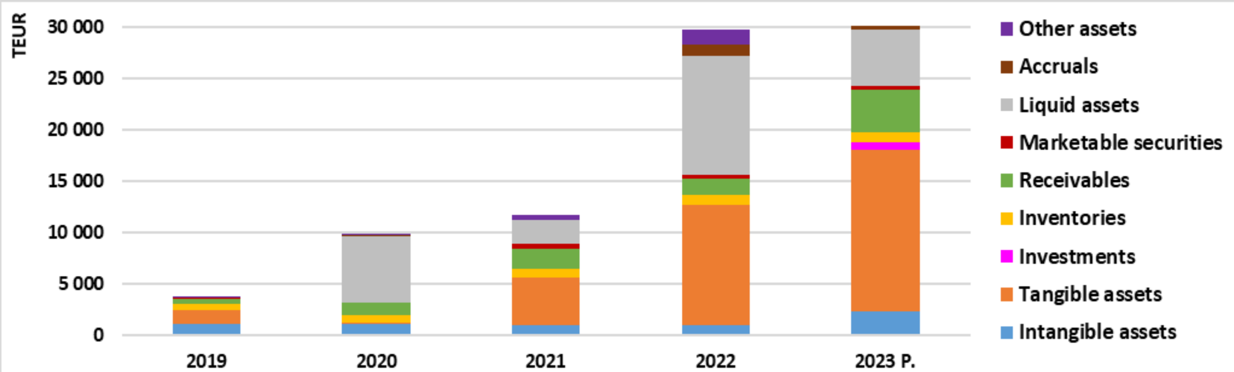
Figure 9: Assets, Equity, and Net Financial Result of Caola: 2019 –2023 P.



The assets of Caola demonstrated a firm upward trend during the last five years. According to the preliminary financial statements for 2023, total assets peaked at a record high of TEUR 30 869, while their annual growth moderated to 4.6%[1], after the extraordinary increase of 174.6% in 2022. Concurrently, the shareholders' equity restored a positive trend, increasing to TEUR 2 279, from TEUR 857 at the end of 2022. Changes in equity during the last year reflected the booking of funds in the revaluation reserve account as well as the improved financial result.

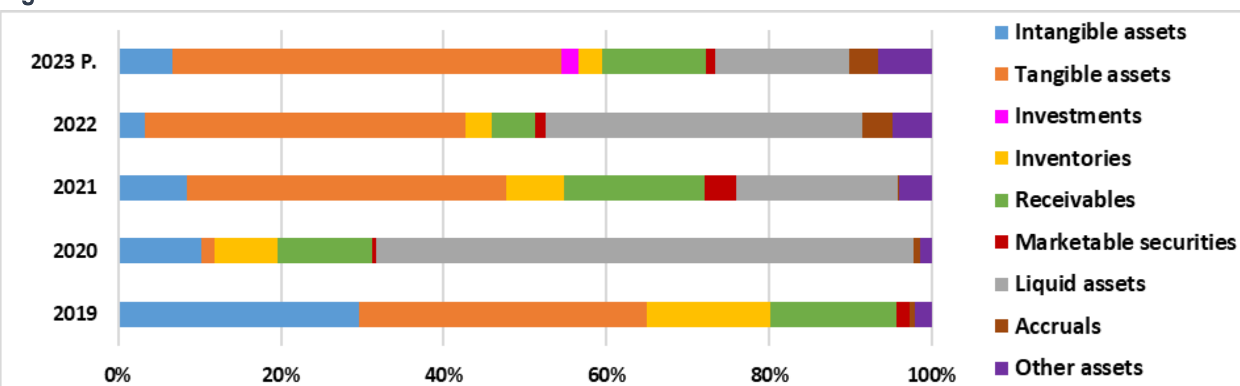
[1] Cited growth rates are calculated using the original values in forints, while the data presented in the report is converted into EUR using the official NBH's EOP exchange rate.

Figure 10: Assets of Caola: 2018 – 2023 P.



Tangible assets have strengthened their leading position in the structure of assets. Given the high construction costs of the Martonvásár factory, tangible assets gradually peaked at TEUR 15 806 as of end-2023, representing 51.2% of total assets, up from 41.4% a year ago. In parallel, liquid assets declined from TEUR 11 520 to TEUR 5 447 at the end of 2023 and their relative share annually fell by 23.2 pp. to 17.6%. Unspent bond proceeds in 2022-2023 were short-term deposited and generated stable income that partially covers the annual bond coupon payment.

Figure 11: Structure of assets: 2019 – 2023 P.



Receivables accounted for about 13% of total assets on average in 2019-2023, while in absolute terms their amount expanded from TEUR 574 at the beginning of the analysed period to TEUR 4 212 by the end of it. In line with the expansion of sales, the most pronounced accumulation of receivables (+148.1% YoY growth) was recorded namely in the last financial year. Trade Receivables Collection Period deteriorated to 220 days in 2023 but over 90% of outstanding claims were within the 0-30 day timeframe.

Inventories amounted to TEUR 985 or 3.2% of total assets at the end of 2023. In the meantime, the inventories turnover ratio improved to 4.2 (from 3 in 2022), as the stocks stagnated and sales revenues rose by 42.7% in annual terms.

Figure 12: Liabilities of Caola: 2019 – 2023 P.

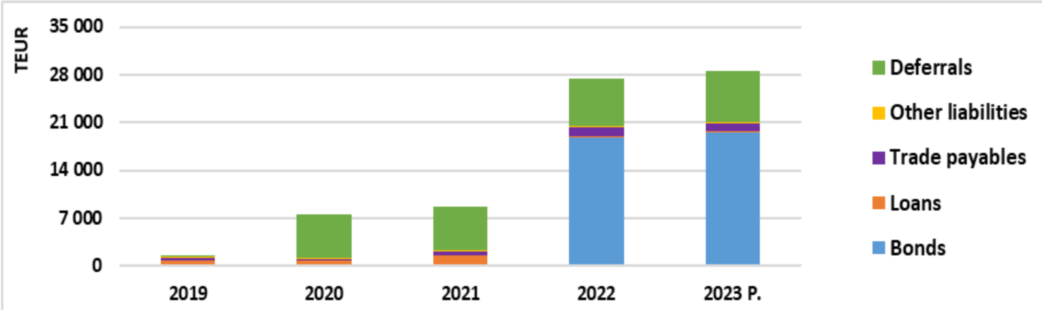
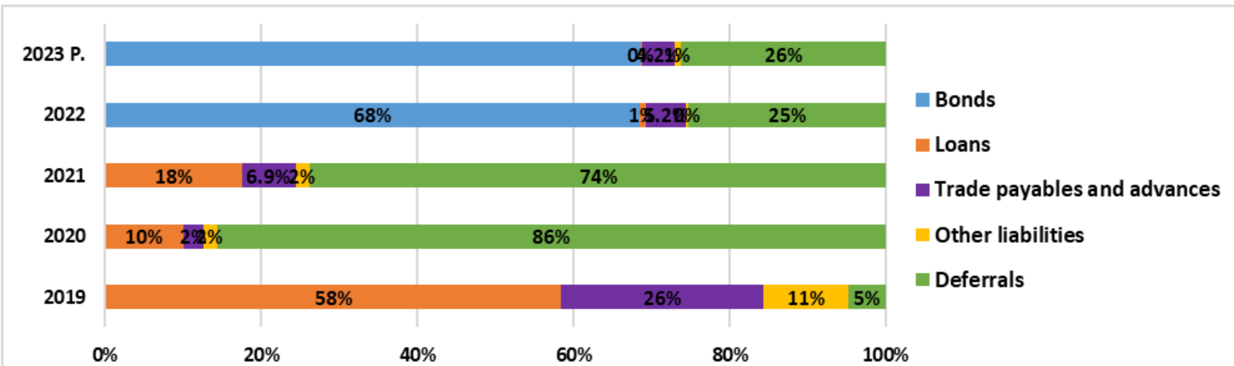


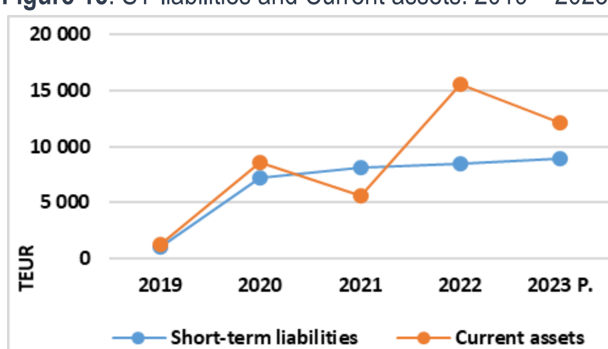
Figure 13: Structure of liabilities of Caola: 2019 – 2023 P.



Following the large expansion in 2022 that resulted from the successful HUF 7.5 bln bond issuance, total liabilities (incl. accruals and deferrals) of Caola stagnated and their structure remained broadly unchanged. As of end-2023, they stood at TEUR 28 590, in which bond liabilities accounted for 68.5%. Passive accruals related to the received subsidies occupied the second largest stake (26.3%), while loan liabilities (leases) amounted to TEUR 66 or below 1% of total liabilities.

Figure 14: Term structure of liabilities: 2019 – 2023 P

Figure 15: ST-liabilities and Current assets: 2019 – 2023 P



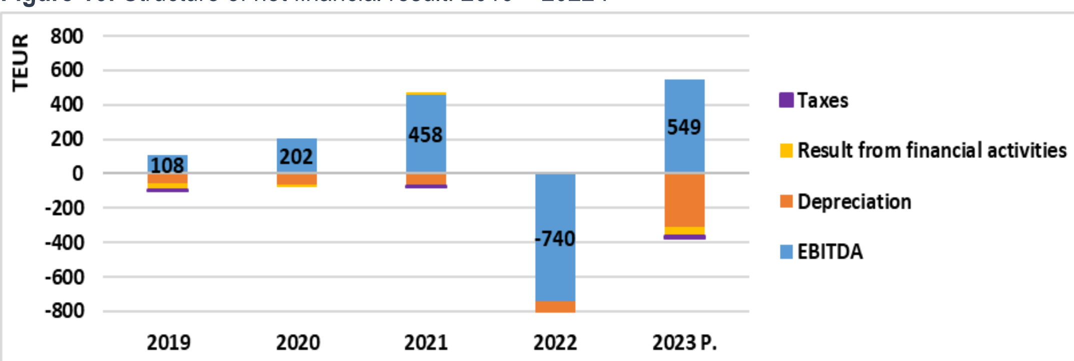
The relative share of Trade payables and advances declined to 4.2% in 2023 as their absolute value fell by 19.3% YoY, to TEUR 1 191. As a result, the Trade Account Payment Period improved to 104 days, from 184 days in 2022.

The term structure of Caola's liabilities has been traditionally dominated by short-term liabilities (incl. passive accruals), however, it changed in 2022 due to the accumulation of long-term bond liabilities. As the unspent bond proceeds inflated the cash, the current liquidity ratio only temporarily peaked at 184.7% in 2022, (compared to 102% on average in 2019-2021) and then fell to 136.4% at the end of 2023.

Table 2: Income statement of Caola - main items: 2019 – 2023 P

TEUR	2023 P	2022	2021	2020	2019	2018
Operating revenues	**4 184**	**2 939**	**3 852**	**4 424**	**2 930**	**4 575**
Net sales revenues	4 167	2 792	3 409	3 038	2 263	2 782
Capitalised value of own performance	-390	-142	-7	159	56	128
Other revenues	408	288	450	1 226	611	1 666
OPEX	**3 947**	**3 987**	**3 464**	**4 282**	**2 881**	**4 539**
Material expenses	1 807	2 242	2 441	2 189	2 161	2 275
Personnel expenses	1 057	820	700	655	488	747
Depreciation	311	308	70	60	60	76
Other expenses	772	617	254	1 378	173	1 441
Operating Result	**237**	**-1 048**	**389**	**142**	**49**	**36**
EBITDA	**549**	**-740**	**458**	**202**	**108**	**112**
Financial revenues	14	162	73	7	5	6
Financial expenditures	64	167	61	26	39	29
Interest paid	4	124	34	6	23	15
Result from financial activities	**-50**	**-5**	**12**	**-19**	**-33**	**-22**
Gross financial result	188	-1 053	401	123	15	14
Tax expenses	17	5	11	0	4	0
Net financial result	**171**	**-1 058**	**390**	**123**	**11**	**14**

Figure 16: Structure of net financial result: 2019 – 2022 P



In the five years before 2022, Caola has achieved positive net financial results but in 2022 a loss of TEUR 1 058 was recorded. The deterioration reflected the combined effect of the negative EBITDA achieved and the pickup in depreciation, arising from the renewal of machinery and equipment in the new factory. According to the preliminary statements for 2023, the performance of the company rapidly improved and the net financial result returned to a positive value, amounting to TEUR 171.

After the drop of 11.2% in 2022, net sales revenues expanded by an impressive annual rate of 42.7%, reaching a record high of TEUR 4 167. The upward dynamic has been driven by export sales which rose 14 times in annual terms, while domestic sales fell by 24.7%. Concurrently, despite the expansion of sales, total OPEX declined by 5.3% determined by the reduction in material expenditures. The ratio of turnover to material expenses decreased significantly in 2023 compared to the previous year - from 80% to 43%, due to efficiency improvements, the closure of the Budapest factory (cost savings due to the termination of the lease agreement), and the consolidation of energy prices. Accordingly, the EBITDA peaked at TEUR 549, compared to a loss of TEUR 740 in 2022.

Table 3: Key financial indicators of Caola Zrt.: 2019 – 2022 P

TEUR	2023	2022	2021	2020	2019
Total assets	30 869	28 215	11 145	9 704	3 615
Fixed assets	18 680	12 662	5 539	1 171	2 402
Current assets	11 030	14 455	5 590	8 445	1 192
Equity	2 279	857	2 480	2 112	2 197
Gross financial debt	19 659	18 938	1 521	767	829
Net financial debt	14 212	7 418	-775	-5 728	827
EBITDA	549	-740	458	202	108
ratios					
ROE	0.07	-1.24	0.16	0.06	0.01
EBITDA Margin	0.13	-0.25	0.12	0.05	0.04
Total Leverage (TL /TA)	0.93	0.97	0.78	0.78	0.39
Net Debt-to-Equity	6.24	8.66	-0.31	-2.71	0.38
Net Debt-to-EBITDA	25.91	-10.02	Net cash	Net cash	7.64
EBITDA interest coverage	135.03	-5.99	13.65	35.61	4.62
Current Liquidity	1.37	1.85	0.69	1.18	1.20
Cash Liquidity	0.61	1.37	0.28	0.90	0.00

Profitability indicators and some key credit metrics of Caola temporarily deteriorated in 2022 but the substantial improvement in operating activity in 2023 ceased the negative dynamics. The reduction in the cost of production formed a favourable EBITDA margin of 13.1% which is the highest rate recorded by the company in the last five years. Because of the pickup in equity, the Net Debt-to-Equity ratio improved by 2.4 pp. to 6.2 in 2023, and total leverage (measured as total liabilities/total assets) slightly decreased – from 0.97 to 0.93, amid the sustained assets growth.

Following the Corporate Rating Methodology of BCRA, key financial indicators of Caola were compared with those achieved by a defined competing reference group of companies, incl. Florin Kft., Molar Chemicals Kft. and PBS Hungaria Kft. The selected peers are companies with similar business profiles that are direct competitors of Caola in the Hungarian market.

In general, Caola Zrt. positions favourably among the reference group of peer companies and demonstrates prerequisites for gaining an even stronger market position in the medium term while preserving its financial soundness.

5. Financial Forecast

A financial forecast for the period 2024 – 2026 has been prepared, based on preliminary results for 2023 and a business plan provided by Caola's management which is considered relevant and broadly achievable given the company's track records. Namely, the following key assumptions have been adopted:

<u>Operating revenues</u>

- In 2022, Caola Zrt. secured a KEF tender, and in January 2023, a one-year framework agreement worth HUF 4.3 billion was signed. The public procurement tender has been extended until mid-2024 and further extension is expected.
- After the 43% increase in net sales revenue in 2023, a similar rate is expected for 2024 as well. The projected revenue growth is explained by the strengthening of new product lines, new contracts, and partnerships in the field of professional cleaning and disinfection products for livestock;
- In March 2024, Caola Zrt. and Global Stat and Services Ltd. signed a Letter of Intent to Purchase in the amount of HUF 1.5 billion for Caosept products.
- Other revenues include subsidy reversal in the forecast period.

<u>OPEX</u>

- Full production at the Martonvásár plant is slated to commence in H1 2024. As part of this transition, the site in Budapest has been closed, resulting in cost savings due to the termination of the lease agreement. Additionally, following the relocation, the site in Diósd will be properly utilized and will serve as an income-increasing and cost-reducing factor for the Caola Group.
- Due to solar park, the cost of energy is expected to further decrease from 2024/2025.
- The number of employees is expected to expand from 38 in 2023 to 67 by 2025 which will increase wage costs.
- Inflation in Hungary is projected at 6.5% in 2024 and 5.5% in 2025.

<u>CAPEX</u>

- CAPEX in 2023 are related to the new factory in Martonvásár
- Caola Zrt. will provide an intercompany loan to Caola Invest Kft. to finance the upcoming acquisition. The assumed purchase price is ca. HUF 1.125 bln (75% of the shares) which is planned to be made in two installments. The interest rate on the IC loan is planned to be set at 7.5%.

<u>Financing</u>

- No additional bank borrowing is assumed in the forecasted period. Potential funding for new investments will be provided by the owners with no interest payment during the term of the bond.
- The business plan assumes that Caola Zrt. will not pay dividends to its owners between 2024 and 2026;

- Interest income to be received for the IC loan granted to Caola Invest Kft. The debt service of Caola Invest Kft. is secured by dividends from the acquisition target company.

The forested cash flows are presented in the following table. Original estimates in HUF are converted to EUR by using a fixed exchange rate projection (HUF/EUR=400) to eliminate variations in values due to FX changes.

Table 4: Financial Forecast of Caola Zrt.

HUF '000	2023 P	2024 F	2025 F	2026 F
Cash at the beginning of the period	**12 046**	**5 213**	**3 498**	**1 147**
Net sales revenues	4 167	5 413	8 279	11 478
Other revenues	18	310	641	797
Total operating revenues	4 184	5 722	8 919	12 275
OPEX	-3 947	-4 833	-6 951	-8 309
Operating Income (EBIT)	**237**	**889**	**1 968**	**3 966**
Depreciation	311	872	1 805	1 895
EBITDA	**549**	**1 761**	**3 773**	**5 861**
Taxes	-17	-38	-95	-276
∆ Net working capital	-2 699	-458	267	-1 007
Cash Flow from Operations (CFO)	**-2 167**	**1 266**	**3 945**	**4 579**
Net CAPEX	-3 400	-3 657	-4 571	-1 326
incl. intercompany loan to Caola Invest	0	-2 109	-703	0
Cash Flow from Investing (CFI)	**-3 400**	**-3 657**	**-4 571**	**-1 326**
∆ Loans	-209	0	0	0
∆ Bonds	0	0	0	0
∆ Other liabilities	60	2 685	-400	-400
∆ Passive Accruals (incl. subsidies)	304	-995	-415	-419
Financial expenses	-1 200	-1 135	-1 141	-1 141
Financial income	14	121	232	239
Cash Flow from Financing (CFF)	**-1 031**	**676**	**-1 724**	**-1 721**
Total Cash Flow	**-6 598**	**-1 715**	**-2 351**	**1 533**
Cash at the end of the period	**5 447**	**3 498**	**1 147**	**2 680**
Gross Financial Debt	19 661	18 750	18 750	18 750
Net Financial Debt	14 214	15 252	17 603	16 070
Net Debt-to-Equity	6.24	5.86	4.83	2.48
EBITDA Margin	0.13	0.31	0.42	0.48
EBITDA interest cover	0.46	1.55	3.31	5.14
Net Debt-to-EBITDA	25.91	8.66	4.67	2.74
Leverage (TL/TA)	0.93	0.92	0.89	0.81

If sales targets are successfully met, Caola is expected to record a constantly increasing EBITDA- expanding from TEUR 549 in 2023 to TEUR 5 861 in 2026. Due to the improvement in the turnover to material expenses ratio, the profitability of operations will improve with the EBITDA margin reaching 30-40%. This provides a solid foundation for repaying the bond funds from 2024.

Gross financial debt is expected to decrease as no further sizable investment is planned in the forecast period. Accordingly, the Net Debt-to-EBITDA ratio is set to rapidly fall from 25.9 in 2023 to 2.7 at the end of the forecasted period. Caola Zrt. is able to generate sufficient cash flow to maintain operations and timely service its obligations without difficulties. This is proved by the estimated EBITDA interest coverage, ranging between 1.5 and 5x in the forecast period.

6. Bond Rating

Table 5: Main bond parameters

Issuer	Caola Zrt.
Date of issue	04.04.2022
ISIN	HU0000361431
Face value	HUF 7.5 bln
Discounted value	HUF 7.06 bln
Currency	Forint (HUF)
Tenor	10 year
Coupon	fixed, 5.8% p.a.
Amortization	10% p.a. from the fifth year
Baloon	50% on maturity
Guarantor	Target company (yet not acquired)

In April 2022, Caola Zrt. issued a 10-year bond with a face value of HUF 7.5 bln (and HUF 0.4 bln discount) in an auction within the framework of the Bond Funding for Growth, launched by the National Bank of Hungary. The principal repayment schedule envisages a 10% annual amortisation starting from the fifth year after issuance and a 50% balloon payment at final maturity. The bond has a fixed annual coupon of 5.8%

Bond proceeds are earmarked to 1) indirectly finance Caola Invest Kft's (parent company) acquisition, and 2) partially finance the investment of the new production factory in Martonvásár. Following the acquisition, the acquired company will be established as a guarantor of the bond, according to the prospectus.

Bond proceeds remain partially unspent due to a delay in the originally planned acquisition. As of end-2023, about HUF 5.3 billion were spent to cover the investment in Martonvásár and working capital requirements, while unspent proceeds were deposited to alleviate financial pressures by ensuring a consistent cash flow from interest income.

Caola Invest Kft. originally planned to purchase Florin Zrt., but as the actual and projected performance of the target firm deteriorated significantly, Caola Invest Kft. has extended the transaction scope to include the entire BradoLine Group (Florin Zrt. and BradoChem Kft.), and was renegotiating the originally planned purchase price. In the meantime, the actual profitability of the company group continued to deteriorate, and the management of Caola decided to withdraw from the acquisition.

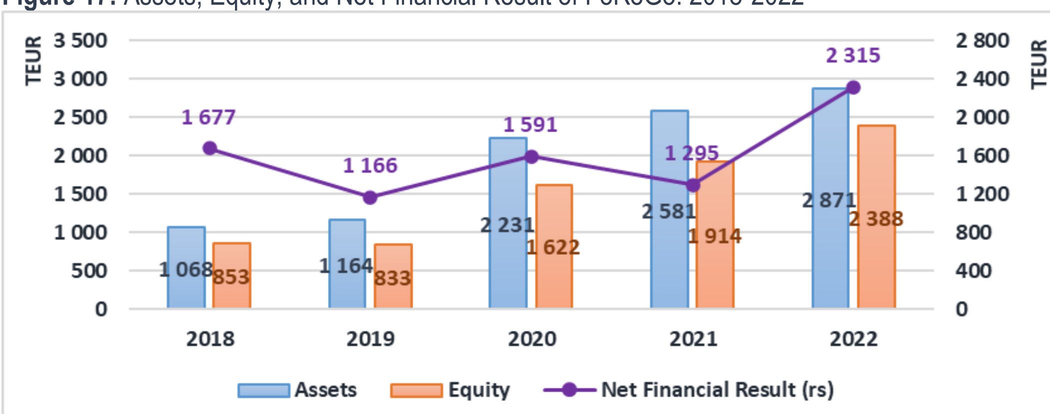
Accordingly, a new acquisition target has been identified. The company is FoReGo Kft., which deals with the recycling of hazardous and non-hazardous materials. According to the management of Caola, negotiations are in the final stages, and the signing of the deal is anticipated by the end of the first half of 2024. The assumed purchase price is ca. HUF 1.125 billion (75% of FoReGo's shares) and is planned to be paid in two installments. To finance the acquisition, Caola Zrt. will provide an intercompany loan to its parent company. Its servicing will be ensured by dividends received from FoReGo. Following the acquisition, Caola Invest Kft. will not merge with the acquired company and will not have audited consolidated financial data.

FoReGo Kft. owns a built-in, unique collection system with durable and well-functioning containers of ca. 34,000. Thus, it is dominating 98% of the battery waste market share. Waste management has been outsourced in Hungary via a concession to MOHU MOL Hulladékgazdálkodási Zrt. („MOHU") which collaborates with subcontractors under a budget of HUF 30 billion. FoReGo secured an exclusive contract with MOHU for 2.5+2 years. The projected net revenue for this contract alone in 2024 amounts to HUF 1.1 billion.

FoReGo Kft. and Caola Zrt. have synergies that can be leveraged for mutual benefit, leading to a substantial enhancement in the operational efficiency of the companies. FoReGo Kft. specializes in plastic packaging recycling, allowing Caola to utilize recycled materials in its packaging, in line with Caola's commitment to sustainability. Concurrently, Caola has formulated remediation chemicals that facilitate FoReGo in waste destruction and possesses the infrastructure necessary to seamlessly transfer its capacity to this endeavor.

Additionally, the waste market is experiencing substantial growth due to the adoption of circular economy principles by both the EU and Hungary. The EU directive mandates a doubling of the collection obligation within the next 2-3 years, further driving growth in the waste market.

Figure 17: Assets, Equity, and Net Financial Result of FoReGo: 2018-2022



To define the bond rating, BCRA has assessed the creditworthiness of the potential guarantor as well. FoReGo Kft. marks a strong financial performance with sustained assets and equity growth in the period 2018-2022 (*Figure 17*). Operating results and net financial results have been strictly positive, supporting the assets' expansion, while the leverage has been maintained at a low level of about 20%. Both sales, EBITDA, and net financial result peaked in 2022 and their upward trend is expected to sustain at an accelerated rate, according to the provided business plan. FoReGo doesn't have long-term financial obligations to external creditors, only short-term liabilities. The medium-term financial forecast shows that it has a good capacity to service additional commitments that may arise in case of activation of its guaranty on Caola's bond issue.

The combined key credit metrics of the issuer (Caola Zrt.) and the guarantor company (FoReGo) are presented in the following table:

Table 6: Forecasted aggregated metrics of Caola + FoReGo (guarantor of the bond)

TEUR	2023 P*	2024 F	2025 F	2026 F
Assets	29 540	36 799	38 887	41 282
Equity	2 181	2 603	3 642	6 493
Gross Financial Debt	18 815	18 750	18 750	18 750
Net Financial Debt	13 702	13 464	14 308	16 170
EBITDA	525	3 153	5 241	7 411
ratios				
Net Debt-to-Equity	6.28	5.17	3.93	2.49
EBITDA Margin	0.13	0.36	0.45	0.49
EBITDA interest cover	0.60	2.90	4.80	6.70
Net Debt-to-EBITDA	26.10	4.30	2.70	2.20

**Standalone Caola Zrt., before the acquisition*

The combined credit metrics of the Issuer and the potential guarantor company show that the debt service of the bond will be well secured by EBITDA interest coverage of above 290% during the forecasted period and a Net Debt-to-EBITDA ratio falling to 2.2 in 2026. The forecasted aggregated metrics are better than the stand-alone metrics of Caola Zrt., thus, providing a stronger foundation for repaying bond funds.

The long-term credit rating of the **guaranteed bond issue** is based on the rating assigned to the issuer, adjusted with BCRA's assessment for the capacity of the guarantor to back the timely servicing of the bond obligations. Accordingly, BCRA has applied a one-notch upgrade on the long-term issuer rating "**BB-**" of Caola Zrt., affirming the "**BB**" long-term rating of the guaranteed bond issue.

General Conclusions:

The **outlook is stable**, indicating that risks are broadly balanced. The **issuer credit rating** of Caola Zrt. is backed by its longstanding history of successful business development and sound credit metrics. On the other hand, the track record of moderate profitability and slightly elevated leverage represent rating constraints.

The following factors could lead to a **positive change in outlook** and/or a **rating upgrade**;
1) strengthening of the company's market position through further expansion of business activities;
2) higher profitability of operations;
3) reduction in leverage.

The following factors could lead to a **negative outlook change** and/or a **rating downgrade**:
1) unreached revenue targets in case of unsuccessful business development of new product lines and/or market turmoil, leading to sustained negative financial results;
2) increase in leverage.