Lingotes Especiales

Equity Research – Spain
Sector: Automotive – Auto - Parts

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Lingotes Especiales is a small Spanish industrial company specialising in the design, development, casting and machining of steel components, mainly for use in the automotive industry, where it is a market leader in braking systems (60% sales) with a 12% market share in Europe.

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Market Data		
Market Cap (Mn EUR and USD)	126.8	144.4
EV (Mn EUR and USD)	138.7	
Shares Outstanding (Mn)	10	
-12m (High/Avg/Low EUR)	20.70 / 17.10 / 12.68	
Daily Avg volume (-12m Mn EUR)	0.2	
Rotation (%) (1)	31.4	
Thomson Reuters / Bloomberg	LGT.MC / LGT SM	

Shareholders Structure (%)	
Board of Directors	55.0
Mallorquina de Seguros	6.0
Free Float	39.0

Financials (Mn EUR)	**2017**	**2018e**	**2019e**	**2020e**
Total Revenues	104.2	117.8	122.0	124.4
EBITDA	16.7	19.1	21.0	22.7
% growth	*-12.1*	*14.5*	*9.9*	*7.9*
% EBITDA/Revenues	*16.0*	*16.2*	*17.2*	*18.2*
% Inc. EBITDA sector (2)	*2.1*	*0.9*	*7.0*	*5.6*
Net profit	8.9	10.2	11.6	12.9
EPS (EUR)	0.89	1.02	1.16	1.29
% growth	*-14.9*	*14.1*	*13.4*	*11.9*
Ord. EPS (EUR)	0.89	1.02	1.16	1.29
% growth	*-14.9*	*14.1*	*13.4*	*11.9*
Free Cash Flow	0.6	5.2	12.7	14.0
Pay-out (%)	*78.4*	*74.3*	*74.3*	*74.3*
DPS (EUR)	0.70	0.76	0.86	0.96
Net financial debt	10.7	12.5	7.4	1.9
ND/EBITDA (x)	0.6	0.7	0.4	0.1
ROE (%)	21.1	22.4	23.4	24.0
ROCE (%)	18.6	18.2	20.0	22.7
Ratios & Multiples (x)				
P/E	14.2	12.4	11.0	9.8
Ord. P/E	14.2	12.4	11.0	9.8
P/BV	3.0	2.8	2.6	2.4
Dividend Yield (%)	5.5	6.0	6.8	7.6
EV/Sales	1.3	1.2	1.1	1.1
EV/EBITDA	8.3	7.2	6.6	6.1
FCF Yield (%)	0.8	4.1	10.0	11.1

(*) Unless otherwise indicated, all the information contained in this report is based on: The Company, Thomson Reuters and Lighthouse

(1) Total volume traded in the share (Mn EUR) -12m vs Mkt Cap. Represents the % of the capitalisation traded -12m.
(2) Expected EBITDA growth (consensus) for the share's benchmark sector (Stoxx Europe 600 Auto & Auto Parts)
(3) The sector benchmark index refers to the Stoxx Europe 600 Auto & Auto Parts

There is life beyond the cycle

THE CHANGE OF MIX (AND THE CYCLE) HAS BEEN THE MAIN BUSINESS DRIVER (2013-2017) … LGT reported significant growth rates in 2013-2017, with revenue increasing 15.3% and an improvement in the EBITDA/Sales margin of c. 4%p.p. This was mainly due to the change in the mix in favour of products with higher added value (61.4% in 2017 vs 55.1% in 2013) and a favourable cycle backdrop.

… AND WILL CONTINUE TO BE SO IN THE NEXT THREE YEARS (2018E-2020E). LGT's strategy is focused on continuing to grow via improved profitability. We expect the EBITDA/Sales margin to continue to improve, with the potential to reach levels of 18.2% in 2020e (16.0% 2017) thanks to the continuous evolution of the mix in favour of machined components (with higher added value); a driver unaffected by the cycle and capable of offsetting the likely deceleration and its impacts on the auto sector.

LGT WILL CONTINUE TO GROW MORE THAN THE SECTOR. After a significant increase in size (13-17), LGT is seeing growth slow, largely due to the cyclical deceleration. EBITDA growth will halve: +10.7% (CAGR 17-20e; vs +23.6% 13-17) but will remain above that of the sector (stable gap 2pp).

DRAMATIC FALL IN CAPEX FROM 2019E. In 2016 and 2017, LGT implemented an aggressive investment plan (18.9% and 9.6% CAPEX/Sales 16-17) with the aim of improving its machining and casting lines. In the medium term no significant additional investments are required, and we expect recurrent CAPEX to normalise to 3.5% of sales from 2019e.

RECOVERY OF FCF FROM 2018E. The normalisation of CAPEX (another driver unaffected by the cycle) and levels of working capital below 5% of Sales imply a "rebound" in FCF: EUR 0.6 Mn 2017 vs EUR 14.0 Mn 2020e. The FCF Yield would jump to over 11% (vs 9% for the sector).

Relative performance -5y (Base 100)

Stock performance (%)	**-1m**	**-3m**	**-12m**	**YTD**	**-3Y**	**-5Y**
Absoluta	-13.2	-24.6	-26.3	-28.8	38.3	367.5
vs Ibex 35	-14.6	-19.7	-17.8	-19.9	58.6	404.9
vs Ibex Small Cap Index	-11.0	-9.5	-27.3	-24.8	4.5	257.7
vs Eurostoxx 50	-12.2	-18.5	-16.3	-21.2	51.1	353.0
vs Sector benchmark(3)	-13.1	-14.2	-6.0	-9.3	60.5	357.9

Growth despite the cycle?

LGT's performance in the last 5 years has been exceptional from a strictly business generation and profitability point of view. Now there is only one question: is this sustainable? To answer this question, we need to analyse briefly the large increase in scale in 2013-2017 which should allow us to assess whether this "success story" is sustainable.

A. 2013 – 2017: revenue, margins and EBITDA all took off

Revenue & EBITDA, +15.3% and +23.6% (CAGR 2013 – 2017) with EBITDA/Sales margin increase of **+3.9p.p.**

In 2013 - 2017 all profit and loss statement items saw double-digit growth: sales and EBITDA, +15.3% and +23.6% CAGRs, respectively. The EBITDA/Sales margin grew by over 30% (12.1% vs 16.0%), achieving a spread of over +3pp in 2017 vs the sector. The company changed in three ways: 1) size, 2) operating profitability, and 3) business model, moving towards products with higher added value.

In our view, there were also three drivers of these changes: i) the exploitation of a strong trading position at a favourable stage of the cycle (EU auto production during the period: +13.9%); ii) the technological capability to grow in machined components (vs raw), whose margin is larger, changing the revenue mix. The improvement in the EBITDA margin in 2013-2017 was due to the evolution of the sales mix, with machined components reaching 61.4% in 2017 (55.1% at the end of 2013); and iii) the increase in CAPEX, essential to the increase in size, which has held back growth in Free Cash Flow. LGT generated recurrent FCF in 2017 of €0.6Mn vs €8.2Mn in 2013 due to the large investment plan of 2016 and 2017 (€18.1Mn and 10.0Mn respectively) which caused CAPEX/Sales to rocket to 18.9% and 9.6% (vs c. 8% for the sector).

Financially sound: 0.6x ND/EBITDA (2017)

All this change has been self-funded, without the company incurring in risky debt ratios, the ND/EBITDA remaining below 1.0x throughout the period (below the sector's 1.5x), which ensures the financial stability and flexibility to continue growing in a sustainable way.

B. 2018e – 2020e: and now what?

It is logical to question the sustainability of a process of this nature and this requires a review of the current state of the main drivers which have boosted the business in recent years:

Revenue & EBITDA, +6.1% y +10.7% (CAGR 2017 – 2020e) with EBITDA/Sales margin increase of +2.0p.p.

i) The cycle appears to be the main uncertainty: EU GDP 2018e, +2.0% (vs 2.4%, 017), decelerating further in 2019e (+1.9%), and at risk of more downgrades. In addition, there are factors specific to the auto sector, such as the US trade war or regulatory changes in respect of diesel (such as the new WLTP emissions protocol), which could cause European vehicle production to decrease (current expectations for automobile production in 2018e and 2019e, 2.3% and 2.6% respectively; vs 2.6% 2017; but at risk of a downgrade);

ii) The technological capability to create components of higher added value will continue to be the driver of business growth, as we expect the improvement in the sales mix to continue, with a larger weighting of machined parts (lighter, with better margins), which we expect to account for 65% of turnover in 2020e (61.4% in 2017). This should prolong the improvement in the EBITDA/Sales margin (17.2% 019e, 18.2% 020e).

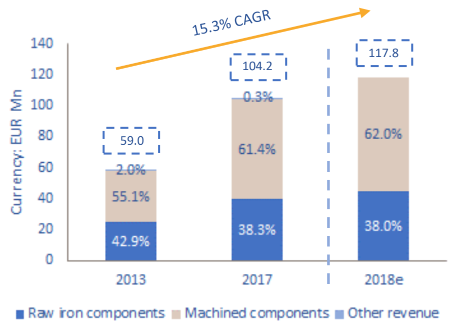
CAPEX normalisation will have a positive impact in 2019e FCF (EUR 4.0Mn)

iii) The normalisation of CAPEX will be the main driver of the recovery of Free Cash Flow in 2019 and 2020. We do not expect the Company to need further significant investment in the following 3 years, which should act as a driver of cash generation with the potential to achieve FCF of EUR 14.0Mn in 2020e.

The conclusion is simple: LGT faces the likely cyclical deceleration with good balance sheet and competitive position conditions, and should be able to maintain the profitability gap vs the sector. The recovery of FCF, with CAPEX falling to less than half (2019e vs 2017), seems unstoppable. This would take the FCF Yield to 10.0% 2019e and 11.1% 2020e (vs a sector FCF Yield of 9.0%).

Rara avis: a profitable auto sector niche …

Chart 1. % Revenues breakdown by business line



Lingotes Especiales (LGT) is a small Spanish industrial company (EUR 130 Mn, Market Cap) specialising in the design, development, casting and machining of steel components, mainly for use in the automotive industry, where it is a market leader in braking systems with a 12% market share in Europe.

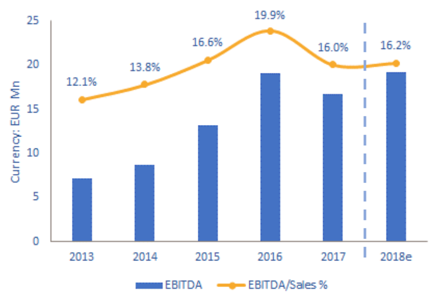
LGT's main clients are large OEMs (Original Equipment Manufacturers) of the automotive industry, its principal products being: brake discs (60%), engine and chassis parts (20%) and other high added value steel components (20%).

European globality

LGT is based in Valladolid (Spain), and supplies its products to the main European vehicle manufacturers of Germany, France, Italy and the UK (70% of the EU's manufacturing capacity). Exports account for between 70 and 80% of turnover, with Europe and Spain being the main revenue sources (67.9% and 26.9% respectively in 2017). The revenue mix has not changed in the last decade. Client concentration is very high (4 European manufacturers represent 75% of sales).

Although in 2014, LGT acquired 20% of Lavacast Private in order to build a casting and machining plant in Kalol (Gujarat, India; EUR 1.2 Mn) it has marginal exposure to emerging economies. And it has no significant track record of inorganic growth.

Chart 2. EBITDA and EBITDA margin evolution

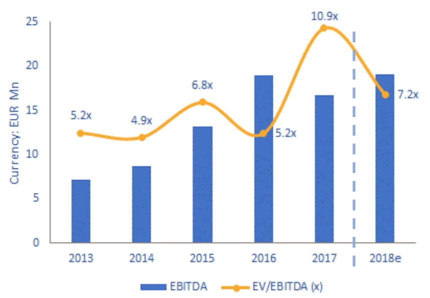


The change in the product mix has been the driver of growth (and will continue to be so)

LGT may be considered a niche operator in a sector in which size is everything (and with a tendency towards concentration, although without benefiting from the upstream integration of the auto sector). LGT produces machined parts (61.4%, 2017; the product with the highest added value and margin) and cast raw steel components (38.3%). In the last five years, the change in mix has been decisive (>7pp increase in the weighting of machined parts since 2013). This aspect is crucial for three reasons:

1. It explains the large increase in the size of the company (revenues doubling 2018e vs 2013);
2. It explains the increase in margins (c. 4pp, EBITDA/Revenue); and
3. It backs LGT's strategy going forward: to continue increasing the weighting of machined parts in the mix (investment of 2%/year of revenue on R+D).

Chart 3. EBITDA vs EV/EBITDA



Increase in size: "done"

In 2016 and 2017, the Company implemented an aggressive investment plan (18.9% and 9.6% CAPEX/Revenues respectively), in order to bring about the change in the mix. This spike in investment is temporary and will revert to the historical average (CAPEX/Revenues, 4-6%) from 2018. The increase in scale is already accomplished. And its effect is clear: CAGRs 13 – 17 of 15.3%, 23.6% and 37.5% for Revenues, EBITDA and net profit, respectively. During the same period, revenues of the sector (auto parts) grew at a CAGR of 6.2%.

All this explains LGT's other increase: from 5.2x EV/EBITDA (2013) to 7.2x at present…

But the increase in size can be considered to have concluded.

Chart 4. Net debt/EBITDA vs CAPEX/Sales

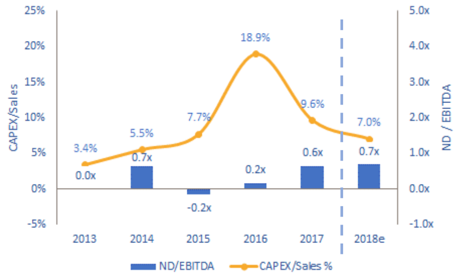
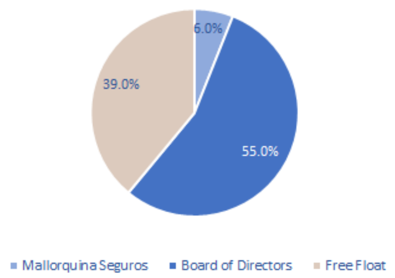


Chart 5. Shareholders structure



Low gearing throughout the cycle

Despite operating in a cyclical sector, the Company's contracts with its main clients provide earnings visibility 3-4 years ahead. The Company is able to pass along to its selling prices any increase in the price of raw material (scrap).

LGT maintains systematically low debt ratios: ND/EBITDA always below 1.0x in the last 5 years (peak of 2.7x in 2009; gearing always below the sector's), even in years of significant CAPEX (2016 and 2017). Balance sheet management, the capital structure and dividend policy do not seem to be either an opportunity or a risk.

An historically stable shareholder structure

The Board holds direct or indirectly c. 55.0% of stock and Previsión Mallorquina de Seguros 6.0%; leaving a free float of over 39.0% (approximately).

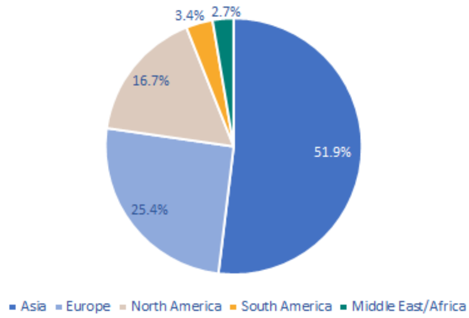
The controlling shareholders have not changed in the last 10 years and seem to be in it for the long run. Changes in the shareholder structure are not, a priori, a factor to take into account.

Which driver to bet on: the cycle, technology or regulations?

The automotive industry is a cyclical industry, capital-intensive and exposed to strong regulatory changes. Furthermore, is undergoing a deep transformation, caused mainly by technological change and its impact on consumer demand. This situation forces the main OEMs and their suppliers (including LGT) to evolve and innovate. As a result, the principal levers that will move the sector going forward will be growth in vehicle manufacturing and technological innovation.

The main OEMs will focus on innovation (connectivity, electric vehicles, and driver assistance). We expect an increase in the outsourcing of products with a smaller technological load, which will favour auto parts suppliers (LGT).

Chart 6. Vehicle production breakdown



Source: ACEA

Europe: an environment of deceleration

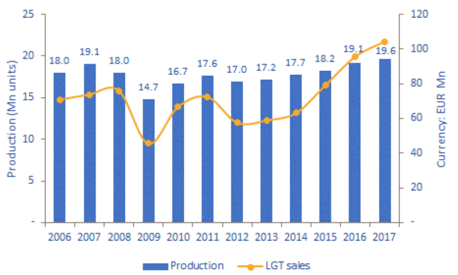
c.95% of LGT's total revenue comes from the principal vehicle manufacturers of Europe, where, according to ACEA (the European Automobile Manufacturers' Association), macro trends remain strong, despite the small cut in GDP estimates to 2.0% for 2018e and 1.9% for 2019e: a consequence of the US's protectionist measures and the Brexit negotiations.

The auto sector: inevitably cyclical

The automobile industry represents 6.8% of the EU's GDP (13.3 Mn jobs, 2017). In 1H18, the European auto sector represented 25.4% of global passenger vehicle production, exceeded only by China with 28.0%.

The auto sector is a typically cyclical one, with a very high correlation between the EU's GDP and vehicle production (19.6 Mn 2017; +2.6% vs 2007; the last cycle peak).

Chart 7. LGT sales vs European vehicle production

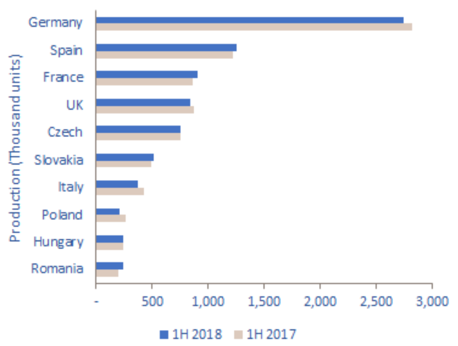


Source: ACEA

Chart 8. Eurpean Vehicle production vs EU GDP evolution

Source: Eurostat and ACEA

Chart 9. Vehicle production breakdown by country (1H17-1H18)



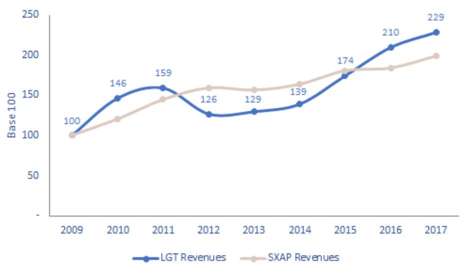
Source: ACEA

According to ACEA, in 1H18, European vehicle production reached 10.2 million units (+2.2% vs 1H17; fully in line with the 2018e GDP), although with small differences among regions. Vehicle production within the European Union rose slightly (+1.6%) while in Russia and Ukraine it increased considerably (+16.5% and +20.1% respectively).

Within the EU, vehicle production grew mainly in France (+5.1%) and Spain (+3.2%), while it decreased in countries like Italy (-11.7%), Germany (-2.9%) and the UK (-2.6%).

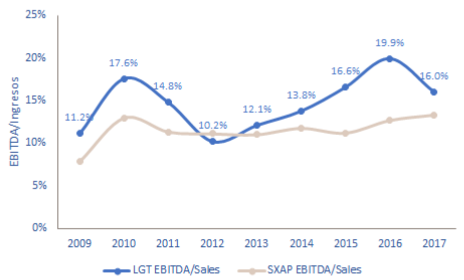
The EU is a net exporter of vehicles (5.4 Mn units, 2017), mainly to the US (20.3% of 2017 exports), so US protectionist measures could have a negative impact on sector estimates, and squeeze margins in the mid and long terms (2019e-2020e).

Chart 10. LGT revenues growth vs SXAP[1] revenues



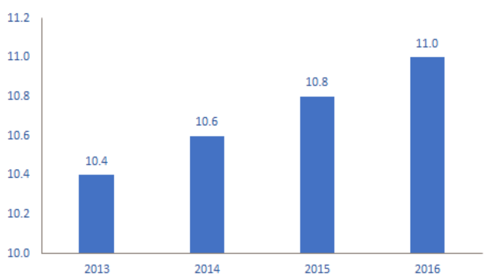
Note 1: SXAP revenues refer to STOXX Europe 600 Automobiles & Parts constituents revenues growth (Ticker: .SXAP)

Chart 11. LGT vs SXAP[1] EBITDA/Sales



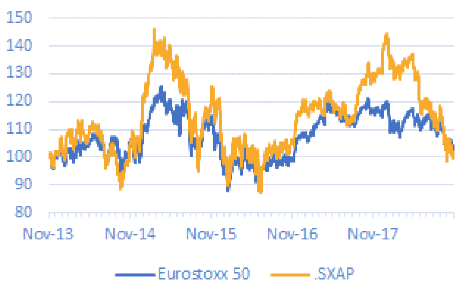
Note 1: SXAP EBITDA/Sales refer to STOXX Europe 600 Automobiles & Parts constituents EBITDA/Sales (Ticker: .SXAP)

Chart 12. Average vehicle age in Europe (years)



Source: ACEA

Chart 14. SXAP[1] index vs Euro Stoxx 50 (-5y)



Note 1: SXAP index refer to STOXX Europe 600 Automobiles & Parts

Auto parts: the drive belt for disruption in the auto sector

In the European auto sector, the value chain comprises: (i) vehicle manufacturers (OEMs), with the 10 largest accounting for c.80% of the market, and (ii) Auto parts suppliers with Gestamp, Cie Automotive, Plastic Omnium, Faurecia, Bosch, Continental and Brembo standing out. Some suppliers (LGT) not only produce and supply directly to the OEMs, but also co-operate decisively with these on product design and development.

The European auto parts industry obtained aprox EUR 373,700 Mn in revenue (2017), of which 1.35% corresponded to braking systems, a segment in which LGT competes, and which showed growth of 14.4% (2017) vs 9.0% for the auto parts sector as a whole (Source: Bloomberg).

Braking systems are being boosted by the growing demand for safety systems and by regulations, resulting in an increase in demand for disc brakes (c.60% of LGT's business volume), as these offer shorter stopping distances, lower maintenance costs and a longer useful life than drum brakes. Another market trend is for lighter vehicles (lower fuel consumption and less pollution) leading auto parts suppliers to invest in R+D to make parts lighter. All changes in the auto sector imply immediate changes in the auto-parts industry.

A mature sector: moderate structural growth and room for niches

The auto parts industry is a mature sector, with low growth (5.9% CAGR, 2007-2017), and reasonable margins (11.3%, 2017).

Under these conditions niches are feasible. If we analyse the development of LGT and of its market, since 2009 LGT has recorded higher growth rates than its reference index (10.9% CAGR vs 9.0% CAGR), with margins that are larger than those of most of its competitors, and very similar to those of Brembo, a manufacturer with a global presence and a capitalisation of c. EUR 3,100 Mn (LGT < EUR 150 Mn).

Table 13. LGT and industry players key indicators

Company	Mkt. Cap	EV	Country	Rev. 12-17	EBITDA/Sales 2017	Debt/EBITDA (x) 2017	P/E (x)
Brembo SPA	3,210.7	3,479.6	Italy	12.1%	18.8%	0.4	12.0
Haldex AB	288.7	322.1	Sweden	-0.2%	9.5%	0.1	17.1
SHW AG	132.3	162.4	Germany	4.2%	10.3%	(0.8)	13.0
Scandinavian brake systems	8.5	68.2	Denmark	-4.9%	8.3%	7.6	2.6
Lingotes Especiales	126.8	138.7	Spain	12.5%	16.0%	0.6	14.2
Brakes Systems				10.7%	15.8%	1.3	14.8
Auto-Parts				5.9%	11.3%	1.5	10.6
Automotive Industry				5.1%	11.8%	1.8	14.9

The current sector outlook is uncertain. Or negative...But the "game" is not the same for all

Current auto sector momentum is not good. The same is true for the components sector: 1) Hypersensitivity to GDP against a backdrop of evident cyclical deceleration; 2) Unfavourable regulations (the diesel example is illustrative); 3) the need to digest the impact of technological change: and 4) a negative impact on consumers, who are delaying purchasing decisions, given the regulatory and technical uncertainty. All this has a multiplier effect on the negative cyclical situation.

Both the downgrade to EU's GDP expectations and specific sector risks point to growth of less than 2% in vehicle production in 2019e.

Despite this situation, there are segments with better prospects than others. Such as braking systems for which the risk of technological change is smaller (there is no impact of the transition from gasoline to hybrid or electric vehicles). And the type of product implies a very stable client/supplier relationship given the enormous quality demands of this kind of component. The risk of losing clients, regardless of the stage of the cycle, is small.

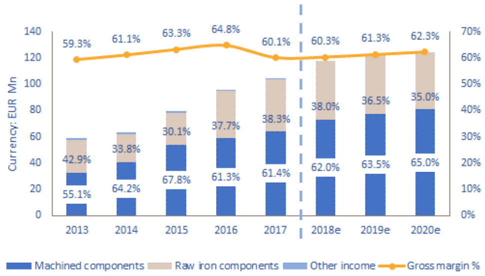
What is the next move after the step-up in scale?

2017 results show revenue growth of 9.0% and the consolidation of the step-up in scale of the last five years (CAGR 2013 – 2017 of 15.3% in revenue).

The increase in revenues in 2017 was boosted both by domestic sales and exports (+15.3% and +6.8% respectively), although with a reduction in the gross margin of over 4pp vs 2016. The decline in the gross margin was due to two causes:

1. A ramp-up period associated with the integration of the 2016-17 investments with the start of the manufacture of new models in Spain.
2. A continuous increase in the cost of steel which has not been 100% passed along to selling prices (due to the policy of the quarterly revision of prices).

Chart 15. Total revenues breakdown by business line (2013 – 2020e)



3Q18 results show growth continues (+17.1% and +21.5% for Revenue and EBITDA, respectively). This growth is much higher than that of car manufacturing in Europe (+ 2.2% 1H18, Source: AECA).

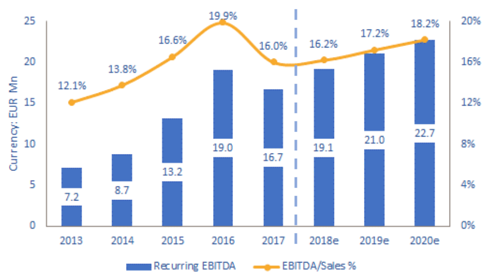
In fact, despite the downgrade to expectations in Europe: EU GDP 2018e, +2.0% (vs 2.4%, 2017), with further deceleration in 2019e (+1.9%), the automotive market should continue to grow strongly (+2.3% and +2.6% in 2018e and 2019e respectively vs 2.6% 2017). Given the 3-4 year advance visibility of LGT's revenues, we consider the company well placed to exploit this growth and we estimate a CAGR of +6.1% for sales in 2017-2020e, to EUR 124.4Mn in 2020e (double the figure for 2013).

Despite all this, the revenue growth seen in the last five years (2013-17), with a "freakish" figure in 2018e (+13.1%) thanks to the momentum of the last investments of 2017, should normalise in 2019e (+3.5%) and 2020e (+2.0%); falling into line with the performance of EU GDP (highly correlated with vehicle production).

The improvement in margins continues despite the normalisation of revenues

An evident strength of LGT are its margins, with an EBITDA/Sales margin of over 10% throughout the period 2013-2017 with a high of 19.9% in 2016, well above the sector average. These margins are very similar to those of Brembo, a manufacturer with a global presence and a capitalisation of c. EUR 3,100 Mn (Sales of 2.5 Bn).

Chart 16. EBITDA and EBITDA margin evolution (2013 – 2020e)



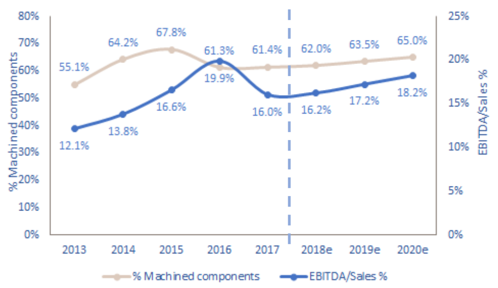
The increase in margins in 2013 - 2017 (> 4pp) was due (in addition to the increase in size) to the change in the sales mix, with a larger weighting of machined parts (increase > 7pp since 2013) which have higher added value and, so, higher margins than raw components.

In addition, despite the decline in the EBITDA margin in 2017 with respect to 2016, 3Q18 results show a slight improvement already, with growth in the EBITDA margin of 0.6pp vs 3Q17, beginning to reflect that the start-up of the new projects, and the integration of the investments made in 2016 and 2017 are turning out to be good for the business.

Table 17. LGT EBITDA margin (%) vs Brake systems companies

Compañía	2013	2014	2015	2016	2017
Brembo SPA	13.5%	15.1%	16.9%	19.0%	18.8%
Haldex AB	10.7%	12.4%	12.2%	9.7%	9.5%
SHW AG	9.8%	9.5%	9.2%	10.7%	10.3%
Scandinavian brake systems	7.3%	6.5%	8.3%	6.4%	8.3%
Lingotes Especiales	**12.1%**	**13.8%**	**16.6%**	**19.9%**	**16.0%**

Chart 18. Revenues mix evolution vs EBITDA margin (2013-2017)



We believe the Company's strategy of increasing the weight of machined parts in the sales mix is crucial, and we expect these to represent 65% of turnover in 2020e (61.4% in 2017), prolonging the improvement in the EBITDA/Sales margin (+2.2pp vs 017), which will act as a lever for EBITDA growth (CAGR of 10.7% for 2017 – 2020e).

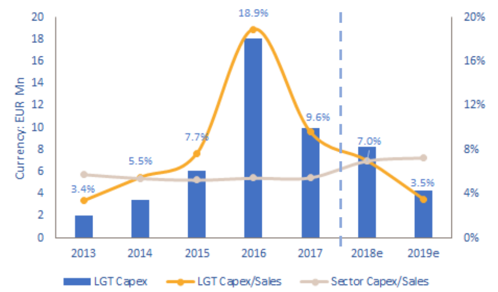
Net profit: a purely industrial (and in no way financial) story

In the case of LGT, there are no surprises below the EBIT line. No significant P/L impact of financial costs. No associates. And with a stable and predictable tax expense (25%). The equity story rests almost exclusively on the company's ability to capitalise on its competitive position; in other words, to continue to grow margins and EBITDA.

In this context, expected EBITDA growth should translate into very similar growth in terms of Net Profit (CAGR 17-20e, +13.1%).

Despite its evident exposure to the cycle, and (perhaps) thanks to its size, LGT has high cost flexibility which allows it to adapt quickly to the market situation. This has enabled the company to generate net profit for the last 10 years (for further details, please refer to appendice 3.), even during the global economic crisis (2009-2012). In 2009 (at the peak of the crisis) the 40.1% fall in revenue was offset by a 35.6% reduction in operating costs. The company's capacity to generate profits is very consistent.

Chart 19. CAPEX vs Sales (LGT vs sector[1])



Note 1: Sector Capex/Sales refer to STOXX Europe 600 Automobiles & Parts index constituents

CAPEX 2019e: a return to normality…

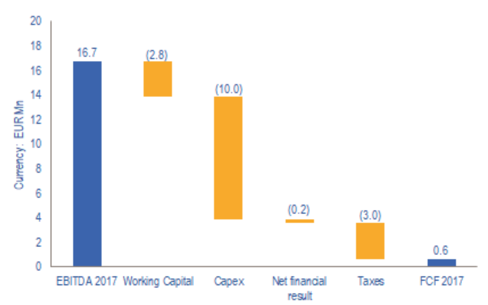
LGT invested an average of 9.0% of turnover on CAPEX in 2013-2017 vs 5.5% in the sector. Investment on CAPEX was especially significant in 2016 and 2017 with the goal of increasing the production capacity and technology of the company's plants to reduce costs and improve the manufacturing process for higher added value components.

This effort has allowed LGT to increase both its production capacity and portfolio of products, including new material compositions in 2017, and to increase the number of higher added value components. The smelting plant has induction furnaces capable of smelting 170,000 Tn of raw steel, and is currently operating at 95% of its total capacity. Given the significant investments made in previous years, we expect CAPEX to normalise in 2019e and 2020e at rates of around 3.5% of turnover (temporarily below depreciation but tending to move into line with this in the long term).

Working capital management: crucial in terms of FCF

Given LGT's exposure to the automotive sector, its working capital is relatively volatile depending on the stage of ongoing projects, with a gap of EUR 7.7Mn in 2013-2017 (max of EUR 6.8Mn 014 and min of EUR -0.9Mn in 2016). However, despite the large step-up in scale during the period, working capital requirements remained relatively stable (EUR 4.5Mn in 2013 vs EUR 3.6Mn in 2017). Over the long term we assume a zero impact of working capital in terms of FCF.

Chart 20. 2017 Free Cash Flow breakdown



Free cash Flow: boosted by EBITDA growth and control of CAPEX

LGT's cash generation was negatively impacted in 2016 and 2017 by the CAPEX effort; with a negative impact of close to 60% of EBITDA generated in 2017.

The normalisation of CAPEX and growth in EBITDA (CAGR 10.7% 2017-2020e) will be the main drivers of growth in cash flow generation (EUR 14.0Mn in 2020e vs EUR 5.2Mn in 2018e).

Chart 21. Net debt evolution

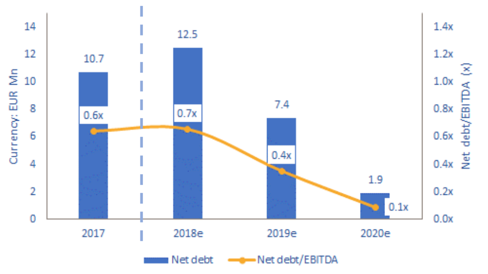
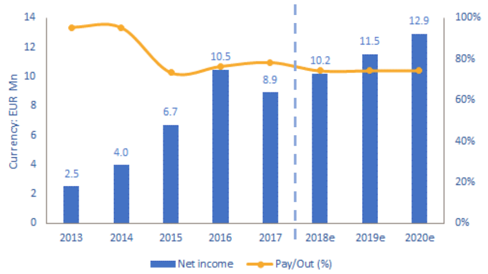


Chart 22. Net income and Pay/Out evolution



Financially sound: ND/EBITDA below 1.0x

LGT maintains systematically low debt ratios, with ND/EBITDA always below 1.0x in the last 5 years (peak of 2.7x in 2009; 0.6x at the end of 1H18).

We assume the Company's ability to generate cash in 2017-2020e will allow it to maintain ND/EBITDA levels below 1.0x (below the sector average: 1.5x), and with the possibility of reducing these until net cash levels are achieved from 2021. LGT's financial position is especially interesting given the sector environment in coming years with the potential need to invest to adapt its products to technological changes in the sector. And with opportunities for consolidation within its own segment (Automotive Components - Brakes).

Pay-out: stable and established above 70%

In June 2018, LGT paid a dividend (2017) of EUR 0.70/share (yield 5.5%, Pay/Out 78.4%). LGT has consolidated a pay-out of over 70%.

We assume a pay-out of 74.3% for 2018e-2020e (initial yield of over 6.0%; gradually increasing to 7.6% in 2020e).

Valuation inputs

Valuation inputs – Discounted Cash Flow

DCF - Valuation inputs	2018e		2019e	2020e	Terminal value		Best Case	Worst Case
Free Cash Flow "To the Firm"	5.4		13.0	14.2	257.0			
Market Cap	126.8	At the date of this report						
Net financial debt	10.7	Debt net of Cash (last financial year)						
Cost of Debt	1.2%	Net debt cost					1.0%	1.5%
Effective tax rate (T)	25.1%	T (last financial year)					=	=
Cost of Net Debt	0.9%	Kd = Cost of Net Debt * (1-T)					0.7%	1.1%
Risk free rate (rf)	1.6%	Rf (10y Spanish bond yield)					=	=
Equity risk premium	6.0%	R (own estimate)					5.5%	6.5%
Beta (B)	1.0	B (Thomson Reuters)					0.9	1.1
Cost of Equity	7.6%	Ke = Rf + (R*B)					6.6%	8.8%
Equity / (Equity + Net Debt)	92.2%	E (Market Cap as equity value)					=	=
Net Debt / (Equity + Net Debt)	7.8%	D					=	=
WACC	7.1%	WACC = Kd*D + Ke*E					6.1%	8.2%
G "Razonable"	1.5%						2.0%	1.0%

Valuation inputs - Multiples

Company	Mkt. Cap	P/E 18e	EPS 18e-20e	EV/EBITDA 18e	EBITDA 18e-20e	EV/Sales 18e	Revenues 18e - 20e	EBITDA/Sales 18e	FCF yield 18e	FCF 18e-20e
CIE Automotive	2,930.9	13.6	-10.9%	8.3	8.0%	1.4	5.8%	17.2%	6.6	15.4%
Gestamp	3,225.8	13.5	15.0%	6.5	9.2%	0.7	7.3%	11.3%	n.a.	n.a.
Faurecia	5,673.3	9.0	10.1%	3.3	7.6%	0.4	6.1%	11.2%	8.4	15.9%
Voestalpine	5,255.2	7.1	7.6%	5.0	4.2%	0.7	1.2%	13.3%	11.8	-2.3%
Auto-Parts	-	10.8	5.4%	5.8	7.3%	0.8	5.1%	13.3%	8.9	9.6%
Haldex AB	288.7	14.2	18.6%	6.5	11.6%	0.7	6.6%	10.0%	2.9	88.9%
Brembo SPA	3,210.7	11.2	6.5%	6.9	4.8%	1.3	5.2%	19.0%	3.4	36.7%
SHW AG	132.3	11.0	23.3%	4.6	17.1%	0.4	9.8%	8.2%	n.a.	n.a.
Brake Systems	-	12.2	16.1%	6.0	11.2%	0.8	7.2%	12.4%	3.2	62.8%
Lingotes Especiales	126.8	12.4	12.6%	7.2	8.9%	1.2	2.7%	16.2%	4.1%	63.8%

Valuation inputs – Free Cash Flow sensitivity analysis (2019e)

A) EBITDA and EV/EBITDA sensitivity to changes in EBITDA/Sales

Scenario	EBITDA/Sales 019e	EBITDA 019e	EV/EBITDA 019e
Max	18.2%	22.2	6.6x
Central	17.2%	21.0	7.0x
Min	16.2%	19.8	7.4x

B) FCF and FCF – Yield sensitivity to changes in EBITDA and CAPEX/sales

FCF sensitivity analysis (2019e)

	CAPEX/Sales 19e		
EBITDA 19e	2.5%	3.5%	4.5%
22.2	15.2	13.9	12.7
21.0	13.9	12.7	11.5
19.8	12.7	11.5	10.3

Scenario	FCF - Yield 19e		
Max	12.0%	11.0%	10.0%
Central	11.0%	10.0%	9.1%
Min	10.0%	9.1%	8.1%

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What could go wrong?

We consider risks to be those that could have a significant negative impact on our projections, mainly those for operating profit and free cash flow:

1. **A slowing of the change of mix**. In recent years the change in mix in favour of machined parts (61.4% 2017 vs 55.1% 2013) has proved decisive in the increase in the size of the Company and is the main driver of the improvement in the EBITDA/Revenue margin (18.2% 2020e vs 16.2% 2018e) in our projections. A 2% decline in the weighting of machined parts in 2019e (61.4% vs the estimated 63.5%) would have a negative impact on Free Cash Flow of EUR 1.9 Mn (-14,7% of projected FCF in 2019e).

2. **CAPEX does not decrease**. After the increase in investment in 2016-17 we expect CAPEX to normalise, reverting to 3.5% of Revenue in 2019e and 2020e. An increase in investment requirements to 7-8% of revenue would have a negative impact on Free Cash Flow of EUR 4.3Mn – EUR 5.4Mn (c. 40% of FCF 2019e).

3. **Working capital management.** Despite the increase in its size, LGT has been able to maintain its working capital requirements stable (EUR 4.5Mn 2013 vs EUR 3.6Mn 2017). However, working capital will fluctuate according to the stage of ongoing projects, with a gap of EUR 7.7Mn between the high reached in 2014 and the low of 2016 (EUR 6.8Mn and EUR -0.9Mn, respectively).

4. **Customer concentration.** Around 75% of LGT's revenues come from four clients. The loss of one of its main clients, or the loss of market share of these due to changes in market trends and regulatory changes (pressure on diesel in Spain and the new WLTP protocol in Europe) would negatively impact our revenue estimates.

5. **Passing along raw material and energy costs.** LGT passes along increases in raw material (scrap) and energy costs to its customers. However, selling prices are not changed immediately, but rather on a quarterly basis, squeezing margins during periods of continuous increases in steel prices. In our model we assume an EBITDA/Sales margin of 17.2% for 2019e (+1.2p.p. vs 2017). A 10% increase in raw material costs (not passed along to selling prices), would reduce the margin by 4.0pp, with a 28.8% decline in FCF.

6. **A cyclical sector.** LGT operates in a cyclical sector, influenced both by the deceleration of European growth and by factors specific to the automotive industry (the trade war in the US, regulatory changes affecting diesel in Europe, Brexit). Any contraction of the automotive sector would negatively impact LGT's volume of revenues. A 10% decline in EBITDA in 2019e vs 2018e would have a negative impact on FCF of close to 22%.

7. **Technology.** A longer term risk. Although technological changes anticipated by consumers could affect demand in the short and mid terms.

Nothing but stability (Board, management team, dividend policy, etc.)

LGT's Corporate Governance is reasonable and with zero tendency to change. The Board of Directors is, basically, the “owner” (c.55% of share capital; directly or indirectly). There is only a small presence of “pure” executive directors (without significant shareholdings).

1. **LGT has a very stable Board of Directors** *(no significant changes in the last ten years). According to the company's bylaws, the position of director is held for four years, with half of the board being renewed every two years so that there is never a total renewal of the Board. However, there is no de facto mandate limitation.*

2. **The remuneration of the directors is established at 8% of net profits** (always provided a minimum equivalent to 9% of share capital is paid out in dividends), limited to a maximum amount (and total) of EUR 350,000. In 2009, as a result of the economic recession, the Board decided to suspend their remuneration, thereby demonstrating their alignment with shareholders’ interests.

3. **The Board of Directors remains the core shareholder**, controlling close to 55% of capital. There is full alignment of interests with minority shareholders.

4. **The management team has significant experience of the automotive sector and lengthy service in the company.** Fully focused on organic growth. 2014 saw the only “significant” corporate transaction (-10y): the acquisition of 20% of Lavacast Private in order to build a casting and machining plant in India (EUR 1.2Mn; 14% of 2014 EBITDA). The investment track record is one of “industrial” (as opposed to financial), “recurrent business” (as opposed to inorganic growth) and “self-funding” (as opposed to gearing).

5. **There is no management team incentive in the shape of a bonus for achieving objectives**, but the steering committee has high exposure to the share price (directly or indirectly controlling c.20% of capital).

6. **Very stable dividend policy**, with pay-outs of over 70% in the last 5 years and a high yield (dividend yield, 5.5% 2017). The only exceptions were in 2012 and 2009, when the economic crisis led the Board to suspend the dividend for reasons of prudence.

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Appendix 1. Financial Statements

Balance Sheet (EUR Mn)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Intangible Assets	0.8	1.0	0.3	0.2	0.4	0.4	0.4	0.4
Fixed Assets	30.5	30.6	31.6	45.6	49.5	52.4	51.3	50.3
Other Non Current Assets	0.4	0.8	0.9	0.7	0.6	0.6	0.6	0.6
Financial Investments	0.0	1.2	1.2	0.9	0.7	0.7	0.7	0.7
Goodwill & Other Intangilbles	-	-	-	-	-	-	-	-
Current Assets	15.6	17.8	18.4	20.6	28.8	29.5	30.2	30.5
Total assets	**47.3**	**51.3**	**52.4**	**68.0**	**80.1**	**83.7**	**83.2**	**82.6**
Equity	33.3	32.1	35.8	41.4	42.3	45.4	49.4	53.8
Minority Interests	-	-	-	-	-	-	-	-
Provisions & Other L/T Liabilities	2.9	2.6	2.3	2.0	1.9	1.9	1.9	1.9
Net financial debt	0.0	5.7	(2.2)	3.1	10.7	12.5	7.4	1.9
Current Liabilities	11.1	11.0	16.5	21.5	25.2	23.8	24.5	24.9
Equity & Total Liabilities	**47.3**	**51.3**	**52.4**	**68.0**	**80.1**	**83.7**	**83.2**	**82.6**

P&L (EUR Mn)	2013	2014	2015	2016	2017	2018e	2019e	2020e	CAGR 13-17	CAGR 17-20
Total Revenues	**59.0**	**63.3**	**79.5**	**95.6**	**104.2**	**117.8**	**122.0**	**124.4**	**15.3%**	**6.1%**
Total Revenue growth	n/a	7.3%	25.5%	20.3%	9.0%	13.1%	3.5%	2.0%		
COGS	(24.0)	(24.6)	(29.2)	(33.7)	(41.6)	(46.8)	(47.2)	(46.9)		
Gross Margin	**35.0**	**38.7**	**50.3**	**62.0**	**62.6**	**71.0**	**74.8**	**77.5**	**15.7%**	**7.4%**
Gross Margin (o/Revenues)	59.3%	61.1%	63.3%	64.8%	60.1%	60.3%	61.3%	62.3%		
Personnel Expenses	(15.8)	(17.2)	(19.9)	(24.1)	(26.7)	(30.2)	(31.3)	(31.9)		
Other Operating Expenses	(12.1)	(12.8)	(17.2)	(18.9)	(19.2)	(21.7)	(22.4)	(22.9)		
Recurrent EBITDA	**7.2**	**8.7**	**13.2**	**19.0**	**16.7**	**19.1**	**21.0**	**22.7**	**23.6%**	**10.7%**
Recurrent EBITDA growth	n/a	22.0%	50.8%	44.6%	-12.1%	14.5%	9.9%	7.9%		
Rec. EBITDA/Revenues	12.1%	13.8%	16.6%	19.9%	16.0%	16.2%	17.2%	18.2%		
Restructuring Expenses	-	-	-	-	-	-	-	-		
Other non-recurrent Costs	-	-	-	-	-	-	-	-		
EBITDA	**7.2**	**8.7**	**13.2**	**19.0**	**16.7**	**19.1**	**21.0**	**22.7**	**23.6%**	**10.7%**
EBITDA growth	n/a	22.0%	50.8%	44.6%	-12.1%	14.5%	9.9%	7.9%		
EBITDA/ Revenues	12.1%	13.8%	16.6%	19.9%	16.0%	16.2%	17.2%	18.2%		
Depreciation & Provisions	(3.7)	(3.6)	(4.0)	(3.8)	(5.0)	(5.3)	(5.4)	(5.3)		
Capitalized Expense	0.1	0.2	-	-	0.6	-	-	-		
EBIT	**3.5**	**5.3**	**9.2**	**15.2**	**12.4**	**13.8**	**15.6**	**17.4**	**36.8%**	**12.0%**
EBIT growth	n/a	51.0%	72.2%	65.8%	-18.8%	11.7%	13.0%	11.4%		
EBIT/ Revenues	6.0%	8.4%	11.5%	15.9%	11.9%	11.7%	12.8%	14.0%		
Impact of Goodwill & Others	-	-	-	-	-	-	-	-		
Net Financial Result	(0.3)	(0.3)	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)	(0.1)		
Income by the Equity Method	-	-	-	(0.8)	(0.2)	-	-	-		
Ordinary profit	**3.2**	**5.0**	**8.9**	**14.2**	**11.9**	**13.6**	**15.4**	**17.3**	**39.0%**	**13.1%**
Ordinary Profit Growth	n/a	57.1%	77.7%	59.3%	-16.1%	14.1%	13.4%	11.9%		
Extraordinary Results	-	-	-	-	-	-	-	-		
Profit Before Tax	**3.2**	**5.0**	**8.9**	**14.2**	**11.9**	**13.6**	**15.4**	**17.3**	**39.0%**	**13.1%**
Tax Expense	(0.7)	(1.0)	(2.2)	(3.7)	(3.0)	(3.4)	(3.9)	(4.3)		
Effective Tax Rate	21.2%	20.7%	24.5%	26.1%	25.1%	25.1%	25.1%	25.1%		
Minority Interests	-	-	-	-	-	-	-	-		
Discontinued Activities	-	-	-	-	-	-	-	-		
Net Profit	**2.5**	**4.0**	**6.7**	**10.5**	**8.9**	**10.2**	**11.6**	**12.9**	**37.3%**	**13.1%**
Net Profit growth	n/a	58.1%	69.1%	56.0%	-14.9%	14.1%	13.4%	11.9%		
Ordinary Net Profit	**2.5**	**4.0**	**6.7**	**10.5**	**8.9**	**10.2**	**11.6**	**12.9**	**30.9%**	**13.1%**
Ordinary Net Profit growth	n/a	58.1%	69.1%	56.0%	-14.9%	14.1%	13.4%	11.9%		

Cash Flow (EUR Mn)	2013	2014	2015	2016	2017	2018e	2019e	2020e	CAGR 13-17	CAGR 17-20
Recurrent EBITDA						**19.1**	**21.0**	**22.7**	**23.6%**	**10.7%**
Working Capital Increase						(2.1)	0.0	0.1		
Recurrent Operating Cash Flow						**17.1**	**21.0**	**22.8**	**5.4%**	**18.0%**
Capex						(8.2)	(4.3)	(4.4)		
Net Financial Result affecting the Cash Flow						(0.2)	(0.2)	(0.1)		
Taxes						(3.4)	(3.9)	(4.3)		
Recurrent Free Cash Flow						**5.2**	**12.7**	**14.0**	**n/a**	**n/a**
Restructuring Expense & Others						-	-	-		
- Acquisitions / + Divestments						-	-	-		
Extraordinary Inc./Exp. Affecting Cash Flow						-	-	-		
Free Cash Flow						**5.2**	**12.7**	**14.0**	**n/a**	**n/a**
Capital Increase						-	-	-		
Dividends						(7.0)	(7.6)	(8.6)		
Net Debt Variation						**1.8**	**(5.1)**	**(5.4)**		

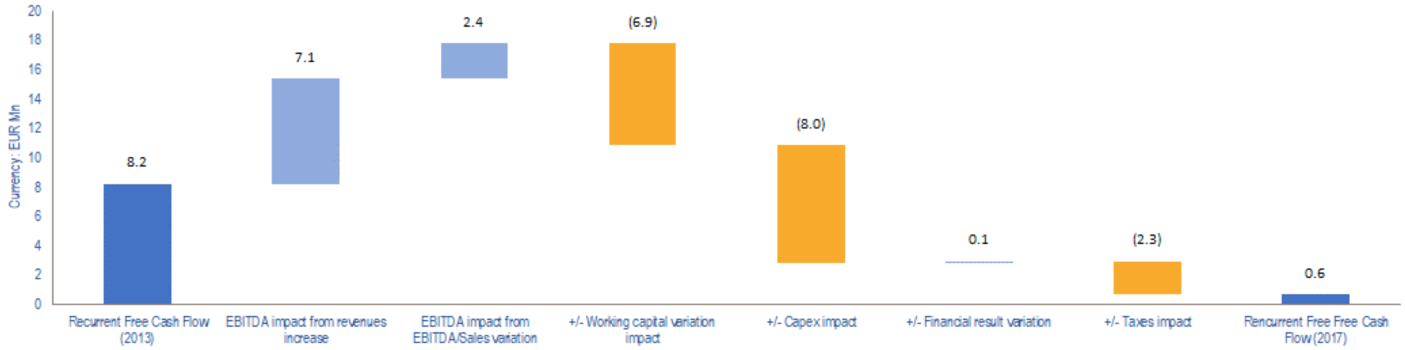
Appendix 2. Free Cash Flow

A) Cash Flow Analysis (EUR Mn)	2014	2015	2016	2017	2018e	2019e	2020e	CAGR 13-17	CAGR 17-20
Recurrent EBITDA	**8.7**	**13.2**	**19.0**	**16.7**	**19.1**	**21.0**	**22.7**	**24.2%**	**10.7%**
Recurrent EBITDA growth	22.0%	50.8%	44.6%	-12.1%	14.5%	9.9%	7.9%		
Rec. EBITDA/Revenues (%)	13.8%	16.6%	19.9%	16.0%	16.2%	17.2%	18.2%		
+/- Working Capital increase	(0.7)	1.8	2.5	(2.8)	(2.1)	0.0	0.1		
= Recurrent Operating Cash Flow	**8.0**	**15.0**	**21.5**	**13.9**	**17.1**	**21.0**	**22.8**	**20.2%**	**18.0%**
Rec. Operating Cash Flow growth	-28.8%	87.2%	43.9%	-35.6%	23.2%	23.1%	8.5%		
Rec. Operating Cash Flow / Sales	12.6%	18.8%	22.5%	13.3%	14.5%	17.2%	18.3%		
- Capex	(3.5)	(6.1)	(18.1)	(10.0)	(8.2)	(4.3)	(4.4)		
- Net Financial Result affecting Cash Flow	(0.3)	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)	(0.1)		
- Taxes	(1.0)	(2.2)	(3.7)	(3.0)	(3.4)	(3.9)	(4.3)		
= Recurrent Free Cash Flow	**3.2**	**6.4**	**(0.5)**	**0.6**	**5.2**	**12.7**	**14.0**	**-41.4%**	**n.a.**
Rec. Free Cash Flow growth	-61.5%	102.1%	-107.8%	-227.4%	720.3%	143.4%	10.2%		
Rec. Free Cash Flow / Revenues	5.0%	8.0%	-0.5%	0.6%	4.4%	10.4%	11.3%		
- Restructuring expenses & others	-	-	-	-	-	-	-		
- Acquisitions / + Divestments	(0.9)	0.9	(0.2)	0.4	-	-	-		
+/- Extraordinary Inc./Exp. affecting Cash Flow	-	-	-	-	-	-	-		
= Free Cash Flow	**2.3**	**7.3**	**(0.7)**	**1.0**	**5.2**	**12.7**	**14.0**	**-23.7%**	**n.a.**
Cto. Free Cash Flow	-73.4%	223.7%	n.a.	n.a.	n.a.	143.4%	10.2%		
Recurrent Free Cash Flow - Yield (s/Mkt Cap)	2.5%	5.0%	-0.4%	0.5%	4.1%	10.0%	11.1%		
Free Cash Flow Yield (s/Mkt Cap)	1.8%	5.7%	-0.5%	0.8%	4.1%	10.0%	11.1%		

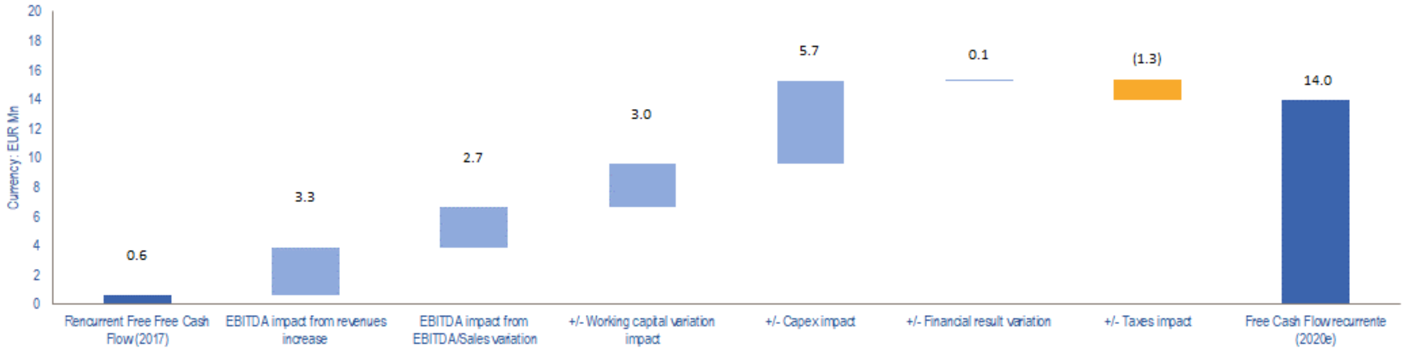
B) Analytical Review of Annual Recurrent Free Cash Flow Performance (Eur Mn)	2014	2015	2016	2017	2018e	2019e	2020e
Recurrent FCF (FY -1)	**8.2**	**3.2**	**6.4**	**(0.5)**	**0.6**	**5.2**	**12.7**
EBITDA impact from revenue increase	0.5	2.2	2.7	1.7	2.2	0.7	0.4
EBITDA impact from EBITDA/Sales variation	1.1	2.2	3.2	(4.0)	0.2	1.2	1.2
= Recurrent EBITDA variation	**1.6**	**4.4**	**5.9**	**(2.3)**	**2.4**	**1.9**	**1.7**
+/- Working capital variation impact	(4.8)	2.5	0.7	(5.3)	0.8	2.1	0.1
= Recurrent Operating Cash Flow variation	**(3.2)**	**7.0**	**6.6**	**(7.7)**	**3.2**	**3.9**	**1.8**
+/- Capex impact	(1.5)	(2.6)	(12.0)	8.1	1.8	4.0	(0.1)
+/- Financial result variation	0.0	0.0	0.0	(0.0)	0.0	0.0	0.1
+/- Tax impact	(0.4)	(1.1)	(1.5)	0.7	(0.4)	(0.5)	(0.5)
= Recurrent Free Cash Flow variation	**(5.1)**	**3.2**	**(6.9)**	**1.1**	**4.6**	**7.5**	**1.3**
Recurrent Free Cash Flow	**3.2**	**6.4**	**(0.5)**	**0.6**	**5.2**	**12.7**	**14.0**

C) "FCF to the Firm" (pre debt service) (EUR Mn)	2014	2015	2016	2017	2018e	2019e	2020e	CAGR 13-17	CAGR 17-20
EBIT	**5.3**	**9.2**	**15.2**	**12.4**	**13.8**	**15.6**	**17.4**	**32.4%**	**12.0%**
** Effective Tax Rate*	20.7%	24.5%	26.1%	25.1%	25.1%	25.1%	25.1%		
= Taxes (pre- Net Financial Result)	**(1.1)**	**(2.3)**	**(4.0)**	**(3.1)**	**(3.5)**	**(3.9)**	**(4.4)**		
Recurrent EBITDA	**8.7**	**13.2**	**19.0**	**16.7**	**19.1**	**21.0**	**22.7**	**24.2%**	**10.7%**
+/- Working Capital increase	(0.7)	1.8	2.5	(2.8)	(2.1)	0.0	0.1		
= Recurrent Operating Cash Flow	**8.0**	**15.0**	**21.5**	**13.9**	**17.1**	**21.0**	**22.8**	**20.2%**	**18.0%**
- Capex	(3.5)	(6.1)	(18.1)	(10.0)	(8.2)	(4.3)	(4.4)		
- Taxes (pre- Financial Result)	(1.1)	(2.3)	(4.0)	(3.1)	(3.5)	(3.9)	(4.4)		
=Recurrent Free Cash Flow (To the Firm)	**3.4**	**6.6**	**(0.6)**	**0.8**	**5.4**	**12.9**	**14.1**	**-39.2%**	**n.a.**
Rec. Free Cash Flow (To the Firm) growth	-59.8%	93.2%	n.a.	n.a.	n.a.	139.1%	9.7%		
Rec. Free Cash Flow (To the Firm) / Revenues	0.1	0.1	(0.0)	0.0	0.0	0.1	0.1		
- Acquisitions / + Divestments	(0.9)	0.9	(0.2)	0.4	-	-	-		
+/- Extraordinary Inc./Exp. affecting Cash Flow	-	-	-	-	-	-	-		
= Free Cash Flow "To the Firm"	**2.6**	**7.6**	**(0.7)**	**1.1**	**5.4**	**13.0**	**14.2**	**-23.7%**	**n.a.**
Free Cash Flow (To the Firm) growth	-71.2%	196.5%	n.a.	n.a.	n.a.	139.0%	9.7%		
Rec. Free Cash Flow To the Firm Yield (o/EV)	2.5%	4.8%	-0.4%	0.6%	3.9%	9.3%	10.2%		
Free Cash Flow "To the Firm" - Yield (o/EV)	1.8%	5.5%	-0.5%	0.8%	3.9%	9.3%	10.3%		

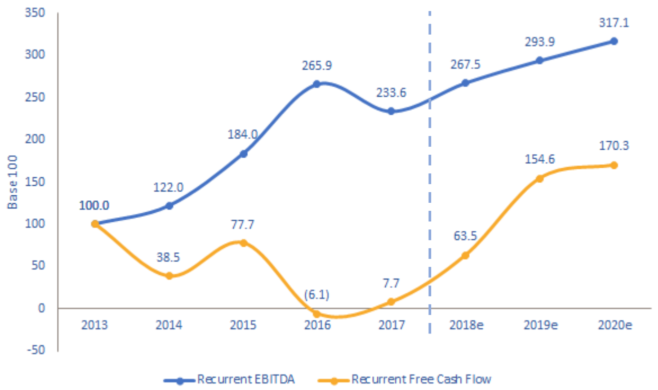
Recurrent Free Cash Flow accumulated variation analysis (2013 – 2017)



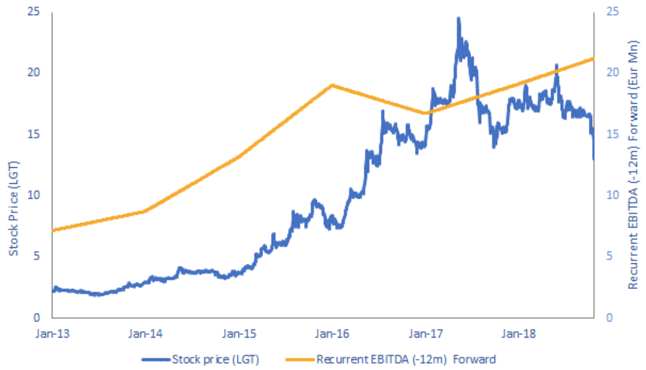
Recurrent Free Cash Flow estimated variation analysis (2017 – 2020e)



Recurrent EBITDA vs Recurrent Free Cash Flow (FY13A – FY22e)



Stock performance vs EBITDA 12m forward (Jan13 – Nov18)



Appendix 3. Historical performance[1]

Historical Performance[1] (EUR Mn)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018e	CAGR 07-17
Total Revenues	73.8	76.1	45.6	66.7	72.4	57.6	59.0	63.3	79.5	95.6	104.2	117.8	*3.5%*
Total Revenues growth	*4.2%*	*3.1%*	*-40.1%*	*46.3%*	*8.6%*	*-20.4%*	*2.4%*	*7.3%*	*25.5%*	*20.3%*	*9.0%*	*13.1%*	
EBITDA	10.2	10.1	5.1	11.7	10.4	5.0	7.2	8.7	13.2	19.0	16.7	19.1	*5.1%*
EBITDA growth	55%	*-0.3%*	*-49.6%*	*129.5%*	*-11.6%*	*-51.3%*	*42.0%*	*22.0%*	*50.8%*	*44.6%*	*-12.1%*	*14.5%*	
EBITDA/Revenues	*13.8%*	*13.3%*	*11.2%*	*17.6%*	*14.3%*	*8.7%*	*12.1%*	*13.8%*	*16.6%*	*19.9%*	*16.0%*	*16.2%*	
Net Profit	3.4	3.1	0.7	4.4	3.6	0.3	2.5	4.0	6.7	10.5	8.9	10.2	*10.3%*
Net Profit growth	173%	*-8.3%*	*-78.3%*	*561.3%*	*-17.9%*	*-92.9%*	*876.0%*	*58.1%*	*69.1%*	*56.0%*	*-14.9%*	*14.1%*	
CAPEX/Sales %	*4.8%*	*7.8%*	*8.8%*	*8.9%*	*3.9%*	*4.6%*	*3.4%*	*5.5%*	*7.7%*	*18.9%*	*9.6%*	*7.0%*	
CAPEX	(3.5)	(5.9)	(4.0)	(5.9)	(2.8)	(2.7)	(2.0)	(3.5)	(6.1)	(18.1)	(10.0)	(8.2)	
Free Cash Flow	3.9	(2.0)	2.7	7.1	1.8	2.0	8.5	2.3	7.3	(0.7)	1.0	5.2	*-12.8%*
ND/EBITDA (x)	1.3x	1.7x	2.7x	0.6x	0.7x	1.4x	0.0x	0.7x	-0.2x	0.2x	0.6x	0.7x	
P/E (x)	11.7x	10.5x	48.1x	7.3x	7.4x	93.8x	13.1x	9.4x	12.5x	13.5x	19.9x	12.4x	
EV/Sales (x)	0.7x	0.6x	1.0x	0.6x	0.5x	0.5x	0.6x	0.7x	1.0x	1.5x	1.8x	1.2x	
EV/EBITDA (x)	5.2x	4.9x	9.1x	3.3x	3.3x	6.2x	5.2x	4.9x	6.8x	5.2x	10.9x	7.2x	
Absolute performance (LGT)	*-44.3%*	*-15.1%*	*-1.0%*	*-2.6%*	*-16.8%*	*-9.4%*	*36.7%*	*24.8%*	*123.3%*	*69.0%*	*25.4%*	*-28.8%*	
Relative performance vs Ibex 35	*-48.1%*	*40.2%*	*-23.7%*	*18.0%*	*-4.2%*	*-4.9%*	*12.6%*	*20.4%*	*140.5%*	*72.5%*	*16.7%*	*-19.9%*	

Note 1: Multiples refer to historical data unless for 2018e, in which multiples are presented as of the day of this report. Absolute and relative performance refer to each fiscal year (01, Jan – 31, Dec).

Appendix 4. Main Competitors[1]

		Auto-Parts					*Brake Systems* [2]			
	Currency: EUR Mn	***CIE Automotive***	**Gestamp**	**Faurecia**	**Voestalpine**	**Average peers**	**Brembo SPA**	**Haldex AB**	**SHW AG**	**Lingotes Esp.**
Market Data	**Ticker (Reuters)**	CIEA.MC	GEST.MC	EPED.PA	VOES.VI		BRBI.MI	HLDX.ST	SW1.DE	LGT.MC
	Country	España	España	Francia	Austria		Italia	Suecia	Alemania	España
	Market cap	2,930.9	3,225.8	5,673.3	5,255.2	4,271.3	3,210.7	288.7	132.3	126.8
	Enterprise value (EV)	4,423.8	6,299.3	6,505.4	9,023.6	6,563.0	3,479.6	322.1	162.4	138.7
Basic financial information	**Total Revenues**	3,082.5	8,577.2	17,870.2	13,446.4	10,744.1	2,636.5	495.3	427.5	117.8
	Total Revenues growth	*-17.2%*	*4.6%*	*5.4%*	*4.3%*	*-0.8%*	*7.0%*	*9.2%*	*6.7%*	*13.1%*
	2y CAGR (2018e - 2020e)	*5.8%*	*7.3%*	*6.1%*	*1.2%*	*5.1%*	*5.2%*	*6.6%*	*9.8%*	*2.7%*
	EBITDA	531.3	972.0	1,995.1	1,789.3	1,321.9	501.8	49.5	35.0	19.1
	EBITDA growth	*-1.5%*	*9.7%*	*3.8%*	*12.5%*	*6.1%*	*8.2%*	*14.9%*	*-15.2%*	*14.5%*
	2y CAGR (2018e - 2020e)	*8.0%*	*9.2%*	*7.6%*	*4.2%*	*7.3%*	*4.8%*	*11.6%*	*17.1%*	*8.9%*
	EBITDA/Revenues	*17.2%*	*11.3%*	*11.2%*	*13.3%*	*13.3%*	*19.0%*	*10.0%*	*8.2%*	*16.2%*
	Net Profit	372.8	268.1	745.1	644.5	507.6	263.2	21.3	7.0	10.2
	Net Profit growth	*44.4%*	*-6.9%*	*11.5%*	*-21.2%*	*6.9%*	*-1.7%*	*165.2%*	*-31.1%*	*14.1%*
	2y CAGR (2018e - 2020e)	*-10.9%*	*15.0%*	*10.1%*	*7.6%*	*5.4%*	*6.5%*	*18.6%*	*23.3%*	*12.6%*
	CAPEX/Sales %	*7.6%*	*9.7%*	*6.4%*	*7.3%*	*7.7%*	*9.8%*	*5.2%*	*7.6%*	*7.0%*
	Free Cash Flow	192.9	(202.8)	479.2	619.4	272.2	110.7	8.3	(1.7)	5.2
	Net financial debt	892.6	2,220.6	197.6	3,347.1	1,664.5	172.4	72.5	19.0	12.5
	ND/EBITDA (x)	1.7	2.3	0.1	1.9	1.5	0.3	1.5	0.5	0.7
	Pay-out	*20.5%*	*28.6%*	*24.0%*	*37.3%*	*27.6%*	*28.2%*	*27.0%*	*27.1%*	*74.3%*
Multiplos and Ratios	**P/E (x)**	13.6	13.5	9.0	7.1	10.8	11.2	14.2	11.0	12.4
	P/BV (x)	2.6	1.8	1.7	0.9	1.7	3.1	1.8	1.1	2.8
	EV/Sales (x)	1.4	0.7	0.4	0.7	0.8	1.3	0.7	0.4	1.2
	EV/EBITDA (x)	8.3	6.5	3.3	5.0	5.8	6.9	6.5	4.6	7.2
	ROE	*35.2*	*15.6*	*20.6*	*10.4*	*20.4*	*23.0*	*15.0*	*8.9*	*22.4*
	FCF Yield (%)	*6.6*	*n.a.*	*8.4*	*11.8*	*8.9*	*3.4*	*2.9*	*n.a.*	*4.1*
	Dvd Yield	*2.6%*	*2.4%*	*3.2%*	*4.6%*	*3.2%*	*2.4%*	*2.0%*	*1.4%*	*6.0%*

Note 1: Financial data, Multiples and Ratios base on 2018e market consensus (Thomson Reuters). In the case of the Company analyzed, estimates were base on Lighthouse analysis.
Note 2: No market data is included for Scandinavian Brake Systems (Ticker: SBS.CO) as there is no market consensus for 2018e and following.

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22-nov.-18	n.a.	12.68	n.a.	n.a	Initiation of Coverage	David López Sánchez