MASTER'S IN BUSINESS ADMINISTRATION (MBA)

Growth Capital Investment Thesis on the Acquisition of a Company in the Contract Research Organization Industry in the Spanish Middle Market

Author: Manfred Koberg
Supervisor: Borja Oyarzábal

Master's Final Project

Madrid
May 2023

Table of Contents

Index of Figures & Tables

Executive Summary

This investment thesis models the acquisition process for Apices Soluciones, a company in the Contract Research Organization industry in Spain. The project's objective is to help individuals understand the key factors to consider and the necessary steps for a successful growth equity investment that aligns with their risk-return profile. It will enable readers to gain a deeper understanding of the overall process, from choosing a strategy up to structuring the deal.

After studying venture capital, leverage buyout, and growth equity methodologies, the decision is made to proceed with the growth equity strategy. This choice is driven by factors such as the strategy's emphasis on data and quantitative analysis, to achieve information asymmetry.

During strategy implementation, it is found that public data cannot be used to identify a market with favorable systematic risk. The National Classification of Economic Activities (CNAE), though considered reliable, fails to accurately classify industries in which Spanish companies operate. Consequently, big data emerges as the most suitable alternative for achieving information asymmetry and identifying optimal investment opportunities.

After selecting Apices Soluciones as the best investment opportunity, a discounted cash flow analysis determines its valuation to be €62,645,979. To assess the statistical impact of anticipated market growth on the investment return, a sensitivity analysis is conducted.

Finally, to reduce investment uncertainty and account for the impact of operating variables, the art of deal structuring is explained, and a simplified version is carried out. With it, it is determined that an acquisition with a capital structure consisting of 33% debt and 67% equity is the optimal approach to achieve the expected return on equity of 25%.

Key words: Growth equity, risk-return binomial, valuation, sensitivity analysis, deal structuring.

Introduction

Most people believe that private equity, a subcategory of finance that focuses on the acquisition, restructuring, and management of companies, is the field that generates the highest returns on invested capital. However, this is not always true. From June 2000 to June 2020, the S&P 500 slightly outperformed private equity with a performance of an average annual return of 13.99%, compared to 13.77% for private equity. Over a 20-year period, private equity had a lower performance of 10.48%. The S&P 500, which measures the performance of the leading 500 publicly traded companies in the United States, is commonly used as the average market return. It has had an annualized return of 9.28% since its inception in 1923. To be a successful investor in private equity and outperform the markets, it's important to understand that finance is not deterministic. It is a field influenced by an immense number of related and unrelated factors, making it both an art and a science. Therefore, the best way to achieve sustainable value creation is to learn how to balance and take advantage of the scientific and artistic aspects of the field. (Jahn, 2022)

The goal of this master's final project is to develop an investment thesis on the acquisition of a Spanish company that can serve as a framework for individuals to understand the key factors that must be considered and the steps required for a successful investment with a return higher than those in the market. To achieve this, the specific objectives will be:

- Study the key private equity strategies to determine the essential qualities required to be a successful investor in each one of them.
- Identify the acquisition target based on its systematic and specific risk, and determine the tools needed to do so.
- Quantify the value of the company, based on historical data and a series of hypotheses, and transform the value into a statistical result with a sensitivity analysis.
- Explore how the art of deal structuring can be used to achieve the desired investment return profile by optimizing returns and mitigating the risks.

The three main private equity strategies are venture capital (VC), growth equity (GE), and leveraged buyout (LBO). Each has its own objectives and methodology, and they stand at different points on the art-science spectrum. The first chapter of this thesis will focus on identifying the differences and similarities of these strategies, their objectives, and what it takes to be a successful investor in each method. The success of the investment will depend on the personal traits, knowledge, and experience of the investor. Therefore, the first step in any acquisition should be to acknowledge one's strengths and interests and determine where they will be most successful as an investor. The chapter will conclude by selecting the strategy to be used for the investment thesis, based on the success factors that best match the author's own strengths, interests, and risk profile.

The next step in the process is to identify the best investment opportunity. Chapter 2 will focus on the methodology and tools required to find a market with a favorable risk-return binomial and a company, within that market, that has low specific risk. Asymmetry of information is critical in achieving this goal, and therefore, the process will involve understanding whether public data alone can create this asymmetry. To find a favorable systematic risk, science is required, as it involves studying the structure and behavior of markets based on data. Once a market with a promising growth trend is identified, intuition, creativity, and an understanding of human behavior are needed to select the company that minimizes specific risk. This step requires more of an art than a science approach. Chapter 2 will conclude with the selection of the acquisition target.

The third chapter will focus on the financial modeling needed to determine the value of the company based on its potential future cashflows. As this investment thesis will be done mostly with public information, the modeling will be very limited. The cashflows will be forecasted based on assumptions on the behavior that different accounts of the balance sheet and profit and loss statements will have in the following years. On a real acquisition, rather than assumptions, facts gathered through private information are needed to accurately forecast the future cashflows.

After landing on a valuation, a sensitivity analysis will be performed to transform the result into a statistical valuation that considers the effects that different variables can have on it.

On real life acquisitions, the most important step, and the one that requires most of labor is the structuring of the deal. This is the art of understanding the sensitivity analysis and trying to mitigate the effects uncertain events can have on the value of the company, all while trying to increase the return on equity from the investment. The scope of this investment thesis will end with a brief structuring of the deal. The idea is to understand its importance and the effects it can have on the acquisition price and returns of the investment.

This investment thesis will start by addressing the challenge of not knowing how to invest and lead the reader to understand how to structure the deal. Instead of delving into the nuances and complexities of each step of the process, the goal is to provide a top-down analysis so that the reader can comprehend the big picture and all the critical components of a successful and profitable acquisition. Along the way, an investment strategy will be selected and employed, while real data will be examined to identify the best industry and company to invest in. Finally, financial modeling, sensitivity analysis, and deal structuring will be conducted to determine the acquisition value and capital structure required for the deal. This thesis aims to serve as a framework for future investments, enabling the reader to take advantage of both the scientific and artistic aspects of finance to execute high-return investments customized to their risk profile.

CHAPTER 1: Selecting the Investment Strategy

To carry out an investment thesis in private equity, it is crucial to first choose the approach and strategy that will be used and to understand the risks that can affect the risk-return binomial of the investment. Private equity industry is the field of finance in which investors partially or completely buy and manage companies with the objective of generating profit by selling them on a later date. Within this field, there are three main investment philosophies which are: Venture Capital (VC), Growth Equity (GE) and Leverage Buyout (LBO). This chapter will focus on studying the systematic and specific risk and the three strategies with their differences. This will help understand the key features and the competitive success factors of each strategy. By recognizing what it takes to be a great investor in each strategy I will be able to see which one aligns more with my personal interests and strengths and choose the strategy that will be used for the investment thesis.

The different investment philosophies will be studied by analyzing successful investors of each strategy. By reviewing past interviews, we can gain insight into their way of thinking, what they prioritize, and some of their personality traits. But first, the specific and systematic risks must be understood.

Systematic and Specific Risk

Understanding the systematic and specific risk of an investment, their risk-return binomial and how they relate to the scientific and artistic aspects of finance is crucial to carry out an investment under any of the methodologies. The systematic risk refers to the risk inherit to the entire market and is mathematically represented with the capital asset pricing model (CAPM). This model establishes the relationship between the expected return of an asset and its systematic risk. It argues that the expected return of the investment equals the risk-free rate plus the market risk (Beta) multiplied with the market risk premium, which is the expected return on the market minus the risk-free rate (Tramplin, 2023) . An assumption of the model is that the only relevant

risk to measure the return of an asset is the systematic risk. This is not true, because of the specific risk that each company has.

Under the Capital Asset Pricing Model (CAPM), systematic risk is expected to have a direct relationship with the market's expected return. However, the real world is inefficient and characterized by a significant amount of information asymmetry. As a result, it is not possible to accurately represent the real systematic risk of an investment using a mathematical formula. Due to this inefficiency, similar markets may exhibit different returns despite having the same risk on the short and medium term, or they may have the same returns but varying levels of risk. It is only over the long term that markets will adjust to have both the same risk and returns. Consequently, there will always be disequilibrium in the markets, with some exhibiting a more favorable risk-return profile than others. To identify these markets, a scientific approach is required, utilizing data, and leveraging information asymmetry to find these opportunities before they normalize and align with the market's return.

While measuring the systematic risk requires the use of science, measuring the specific risk is an art. This risk is measured by analyzing the company and its management team. It requires doing due diligence on the business to identify all the different variables that can affect the performance of the business and hence affect the risk and return on the investment. The specific risk is an art because it can’t be quantified, and it is not objective.

Venture Capital

Venture capital firms invest in early-stage, high-growth potential companies with innovative and disruptive business models focused on specific products or services. These investments are often made when companies are not yet profitable. Marc Andreessen, founder of Andreessen Horowitz, one of the world's largest VC firms with $28.2 billion in assets under management, describes their investment approach as betting on "micro level fundamental technological and economic changes that happen" (Andreessen, 2021). In the same interview, Andreessen explains

that their goal is to guide companies and help them become "long-lived, enduring, independent standalone institutions," often resulting in these companies going public at some point.

When Andreessen is describing the approach of VC firms, he uses a key word that encapsulates the philosophy: “bet”. By definition, a bet is when someone risks money based on the outcome of an unpredictable event. This philosophy has the highest risk, because the investments are made based on predictions that a company and its management team can be successful because of their business model and core product or service, rather than their financial track record. Harvard Business Review even describes VC as “A gamble and a strategic art.” (Cote, 2021).

This philosophy is the closest finance can get to being an art because investors cannot measure the systematic risk of their investments; they can only assess the specific risk. They require human creativity, skill, and imagination to envision whether a company and its team will be able to create a new market trend, rather than being able to study established markets to measure the risk. Since startups usually invent new business models, they fundamentally create new industries or markets, which means there is no market to quantify the systematic risk.

Venture Capital investors need to have a certain set of capabilities and personality traits that makes them artists. Andreessen describes highly successful VC’s as idiosyncratic and says they have “some set of skills and some set of knowledge and there seems to be a taste component to it that’s really hard to measure and predict.” (Andreessen, 2021). When he refers to knowledge, he is talking about their experience in the field and their understanding of what the market is experiencing and what it needs or will demand based on the current trends. With regards to the taste component, he refers to the art of reading and understanding people and their capabilities and ambitions. The success of a startup does not depend only on their product or service, it has a lot to do with its management team and CEO. Marc goes on to say “Huge part is the competence and capabilities of the founders and the CEO of the company. They deserve 99% of the credit” when talking about what makes a company he invested in successful.

Álvaro Sanz is the Investment Director at The Venture City, a Venture Capital firm in Spain. I interviewed him to get the perspective form an investor of a much smaller firm than Andreessen Horowitz, but under the same investment philosophy. When asked about what he looked for when investing in a startup, he answered "The main thing is the team, their team dynamics and if they are able to motivate others and to be a talent magnet (…) they also need to be people that are committed to sacrifice years of their life making the project work" As a follow up, I asked him other than the team, what does he evaluate in terms of the business, to which he said "Is there a path for a big independent company? How are they growing? How are they retaining users? Does the product or service matter? Is it fundamental? Will people need it?" When asked about the risk factor of investing on companies without financial track record he said they looked for "High Risk, high return potential opportunities". (Sanz, 2023)

Theoretically, higher risk equals higher returns. VC's can achieve very high returns, but it is also the strategy that has highest risk of losing money. Depending on the size of the venture capital firm and the stage of the company at which they are investing, 50-80% of the investments never generate returns. A company the size of Andreessen Horowitz usually has a mortality rate of 50%, because they have the capital to keep investing in the business until it can be self-sufficient. In Marc Andreessen own words: ""We made a commitment to our investors (…) and said look were going to try to get to the moon. We are trying to do the moon shots. You know now every once in a while, we're going to have rockets blew up on the launch pad and put a big crater on the ground" (Andreessen, 2021). Smaller companies, such as The Venture City in Spain, expect a mortality rate in their portfolios of 80%. (Sanz, 2023).

An example of a successful VC investment is Andreessen Horowitz early investment in Airbnb. On July 24, 2011, the company announced they had "led Airbnb's latest financing round, investing $60 million of the total raise of $112 million." (Jordan, 2011). This valued the company at the time at $1 billion. As of March 7, 2023, Airbnb is a public company with a market capitalization of $81.22 billion. This means, their investment today is worth around $5.6 billion. An example of a failed Venture Capital investment is Softbank's $4.4 billion investment in We Work on August

2017. At the time, the investment valued the company at about $20 billion. As of March 7, 2023, We Work has a Market Capitalization of $826.3 million. It is hard to measure the real loss that Softbank made on the investment because they later kept investing to save the company from bankruptcy, but by November 2019, they reported they had taken a $4.6 billion loss from their investments in the company. (Dooley, 2019)

Growth Equity

In the growth equity philosophy, finance becomes more of a science than an art. This strategy focuses on investing in profitable companies, that function in established markets with competitive dynamics. Once there is an industry with a profit pool, the art component of luck and betting in companies based on their teams and products is eliminated. It becomes a science of analyzing the competitive dynamics, following the market trends, and taking advantage of the asymmetry of information to find a segment with favorable systematic risk and find the best investment opportunity before the competitors. By working with science and quantitative analysis, this strategy aims at achieving low risk, high return investments.

To get a sense behind the strategy of a Growth Equity firm, I focused on Orlando Bravo, which is the founder and CEO of Thoma Bravo, a private equity firm with $80 billion in assets under management. And on the guidance of my tutor, Borja Oyarzábal, the founding partner, and CEO of the growth equity firm Tresmares Capital which is one of the largest equity firms in Spain.

On an interview Orlando Bravo gave to Bloomberg Markets and Finance he explains about the mix of art and science of the strategy “Our world is to do due diligence for two months, to get to know a company for 15 years, to get to know how the recurring revenue is doing, their net retention, gross retention and really get to know management (…) we are performance oriented”.

The science is about investigating and analyzing the companies' financials and their past trends and future growth possibilities, and the art involves finding the right people and finding in them traits of successful entrepreneurs. He goes on to explain how they search for mature markets, where competition already exists. Without competition they wouldn't be able to find high rates of EBITDA margins, recurring revenues and positive cashflow companies. Competition also lets them achieve the asymmetry of information needed to compare between companies in the same segment and find the best players. "Thoma Bravo only buys the #1 or #2 players in the most innovative places." (Bravo, 2021)

Growth equity investors have a low risk investing profile. Orlando Bravo puts it best when he says, "We could not invest other people's money in a pipe dream". Through the science, they seek to minimize the risk of the investment and to maximize the returns of it. Based on data given by Borja Oyarzábal, using this strategy, low return investments tend to deliver 2.5x the initial investment, with the best investments returning as much as 3-4 times the amount of the initial investment. Bravo also explains how this strategy is more about the core business, the operations, and their potential rather than about the team "Our mission is to help as many innovative companies become great enterprises, not just great innovators." (Bravo, 2021)

When considering investing in growth equity, investors look for certain attributes in the management team of the recipient company. These include a targeted plan for the allocation of cash proceeds, a repeatable and scalable customer acquisition strategy, and an untapped market opportunity that justifies the investment (Wall Street Prep, 2023).

In terms of the companies they target, growth equity investors tend to focus on small and medium-sized enterprises in the lower middle market segment. These companies typically have double-digit year-on-year growth and Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) above 10% margins.

Equity firms typically invest by buying a minority stake in fast-growing companies with the intention of selling the entire company to a third party at the end of the investment period. To ensure that all parties are aligned with the end goal of the investment, it is important to sign contracts with the owners or majority shareholders at the time of investing. The investment period usually lasts between 8 to 12 years, with an average timeframe of 10 years.

Leverage Buyout

Leveraged Buyouts (LBO) are investments done through leverage. The firm uses borrowed money or the acquiring company as leverage to do the acquisitions, this lets them do large acquisitions without committing to much capital to the investment. The funding ratio is usually more than 50% debt. The goal is to do financial engineering in a way that taxes and debt can be used as an advantage, when there is higher debt, there is a higher tax shield, and this can be transformed into cash flow.

On the art-science spectrum, this investment strategy leans closer to the scientific side due to the financial engineering involved. According to Steven Schwarzman, the founder, CEO, and Chairman of Blackstone Group, recognizing patterns is key to identifying investment opportunities. He explains that this process involves understanding patterns and changes through data, like a scientific discovery. (Schwarzman, 2020).

Blackstone Group is the world's largest alternative asset manager, with $975 billion under management and a market capitalization of $105.9 billion as of March 14, 2023 (Blackstone, 2023). In another interview at Oxford Union, Schwarzman emphasizes the importance of conducting extensive studies before making investments, stating that "buying a company isn't supposed to be an adventure, you are supposed to take as much of the adventure out of it."(Schwarzman, Stephen Schwarzman | Full Q&A | Oxford Union, 2016)

This strategy is focused on mature and many of the times public companies, the investing firm usually acquires 100% ownership of the other business or the majority stake. This is key as they must hold controlling share of the company to make management decisions and required changes in the business model of the acquired company. When the investment is done on public companies, most of the time the strategy includes taking them private. With this, the buying part can work on the turnaround and operational improvements without the public markets affecting their decisions or the value of the company.

Kohlberg Kravis Roberts & Co (KKR) is the most known player on this fields, they are even attributed with creating the strategy, in 2023, they hold $504 billion in assets under management. (KKR, 2023). To learn more about the LBO strategy and what are the investors looking for, I searched for interviews of KKR founders. The most insightful was one done to Henry Kravis, one of its three co-founders, by The Academy of Achievement. Kravis describes the challenge of the strategy to be about transforming a business, and the ability to make the company more efficient and to create capital structure to reduce operational risk. When he mentions capital structure, he is referring to the financial engineering mentioned above, where leverage is taken advantage of. He also describes the importance of taking the long-term view to become more competitive, in fact this is many times the reason the companies are taken private once they are bought. In the public markets, they are obliged to report quarterly earnings, about this Kravis says, “Don’t think in quarters, think in 5 years’ time”. (Kravis, 1991)

It is worth mentioning that this strategy can sometimes be described as predatory because the management team doesn’t have to be in favor of the acquisition. If the company is public, they can do the takeover just with the approval of the shareholders and not of the management team.

One of the most successful leverage buyouts in history is the acquisition of Hilton Hotels by Blackstone, in July 2007. Blackstone put together a debt package, provided by many financial institutions of $20.08 billion to acquire and take Hilton Hotels private at a valuation of $26.2 billion. 78,4% of the deal was financed with debt, Blackstone itself just invested $5,07 billion of

its own money. After taking the company private, Blackstone restructured Hilton's management, the operational business and even the debt, taking advantage of the new interest rate levels due to the 2008 financial crisis. In 2013, Blackstone took Hilton public again and made a profit of $8.7 billion, later in 2018 they sold all their remaining stake in the hotel company. It is estimated that in total they made a profit of $14 billion. (Fricke, 2021)

Comparing the Strategies

The Private Equity strategies mentioned before have some similarities and differences that are important to understand to decide which strategy will be used for an investment. The lifecycle of the company at which they are intervened is one of the main differences. This is directly related to the profitability. VC strategy is directed at pre revenue and pre profit companies, GE is usually targeted at slightly profitable companies or pre profit but with a record and proven path to profitability. The LBOs are done on high margin profitable companies, sometimes at the time of the buyout the company is no longer profitable however they were for a long time.

Table 1 shows the number of companies in Spain based on their levels of EBITDA profitability; this illustrates how many opportunities of investment each strategy can find in the country. Although there is a greyline on where each strategy focuses on, usually venture capital will focus on companies in the first to segment of around €1 million EBITDA or less. Growth Equity will usually focus on the companies that have around €4 to €10 million EBITDA and the LBO's will tend to happen in companies that have higher than €10 million EBITDA.

Table 1: Companies in Spain based on Last Available Year's EBITDA	
EBITDA	**Companies**
>€ 50 Million EBITDA	51
>€ 25 Million EBITDA	1,106
>€ 10 Million EBITDA	2,714
>€ 4 Million EBITDA	6,533
>€ 1 Million EBITDA	23,102
<€ 1 Million EBITDA	876,040
Total	**909,546**

Source: Sabi

The amount of money invested varies between the strategies. Venture capital and growth equity usually require lower amounts of capital because they invest in small and middle-sized companies and typically buy only a minority stake. Leverage buyouts, on the other hand, are done on usually large and established companies and require large amounts of capital, which is why they rely on the leverage strategy. (Wall Street Prep, 2023)

Success Factors

The personal characteristics of the investors are key for the success of the investment. They must possess certain knowledge, skills, motives, attitudes, and traits that are essential to perform the investments. To choose the strategy, I will outline the success factors needed for each type of investment.

Venture Capital is a people's business. Investors need to decide and evaluate the success of the business with little financial data, they can't measure the systematic risk. They need soft skills to identify great talent in the individuals and teams that will be managing the business. A person must be a high-risk taker, and prone to fail, because most of their bets will fail and they will have to keep going until they finally succeed. Due to the technological evolution, we are living, most of the successful startups depend and rely on technology, so as Andreesen Horowitz said, a successful venture capitalist must identify and understand the micro level fundamental

technological and economic changes happening and find the inflection points. With this understanding they will be able to find the businesses that will have the best outcomes. Finally, they must be good at making scenarios and forecasting based solely on the fundamentals of the business rather than on a financial analysis. (Andreessen, 2021)

To be a successful growth equity investor, the person must be performance and data driven. The success of this strategy is to reduce the risk of the investment by studying data and finding opportunities before others. Asymmetry of information is key, and this can only be achieved by having more data than the others. They need to be good at pattern recognition and identifying growth trends and understanding the competitive dynamics of the markets to find where value is being created but not at its full potential. Once they find the opportunity, the investors need to be collaborative, because they will have to help the business grow with their operating know how, they must become partners of the management team of the acquired firm.

Like Growth Equity, Leverage Buyout investors rely heavily on data. They need risk management skills, as they are playing a dangerous game by relying on debt, they must do financial engineering to get the best out of the tax shields and the benefits that leverage can bring. They are long-term oriented, and need to have plenty of management and operation experience because they usually acquire mature business that have been already successful and need a turnaround, sometimes the companies are still successful so they must possess self-confidence to go against conventional wisdom and convince the shareholders that change is needed. For this they must identify the discordant not on the business.

Choosing the strategy

Personally, I believe in using quantitative analysis and data to make decisions and assess the systematic risk. Rather than relying on luck and a competent team of founders, I prefer to invest in ventures backed by profitability. Due to the high-risk factors and low data-driven philosophy of venture capitalism, I don't feel I would be a successful venture capitalist. Furthermore, my age

and experience do not equip me with the necessary know-how to turn around a mature business or to carry out the financial engineering required for a successful leverage buyout.

Instead, I am more intrigued by the science of identifying trends in the market and studying the facts to reduce risk and generate expected returns. For this reason, I prefer the private equity investment strategy of Growth Equity investment. I believe that I can carry out this strategy more effectively and enjoyably because of its success factors and methodology. My investment thesis will focus on finding growth trends through data analysis and studying competitive dynamics to identify segments performing better than the market. I will seek out companies with the potential to become big and successful businesses.

Chapter 2: Finding the Best Investment Opportunity

Growth equity investing is about identifying opportunities that can generate higher returns than the average market returns, while minimizing risk. To achieve this, information asymmetry is crucial in identifying markets with favorable systematic risk or risk-return profiles. The most promising investment opportunity lies in acquiring a company operating in a market that is currently in disequilibrium and generating higher returns compared to other markets. By utilizing data and analyzing it to understanding the market dynamics, investors can get an advantage compared to other potential buyers and even possess a better understanding of the market than the target company itself. This information asymmetry enables them to make a low-risk, high-return investment in a growing company that has yet to reach its full potential.

On this chapter I will try to find an acquisition target just using public data. The information will be gathered through qualitative and quantitative analyses on different sources on the web as well as the use of SABI, which is a public database of companies in Spain and Portugal. As this is not ideal, because to get the highest asymmetry of information one needs private data, I will evaluate the results with the use of big data and my own market research. This will be possible thanks to the support of Tresmares Capital, which is a growth-focused alternative investment firm in Spain that uses a mix of public and private information to create big data models. Both methods will be compared and criticized to confirm which is the better way to find the best investment opportunity. Finally, after choosing the acquisition target, I will do a financial analysis on its accounts to confirm it is a good opportunity with relatively low specific risk.

Methodology

The first step to start the analysis is to search in SABI for all the companies in Spain that have earnings before interest, taxes, depreciation, and amortization (EBITDA) greater than €1 million and lower than €8 million for their last 5 available years of operations. To do a fair analysis, the

last available year of information of all companies must be the same. On the date this was written it was 2021.

The EBITDA is an important account because it provides a measure of the company's operating profitability and excludes all the non-operational expenses. By analyzing this metric, an investor can assess the company's ability to generate cashflow form its core business activities. It also has its drawbacks such as the fact that it doesn't reflect if the company is financing its operations with debt or with its own equity.

The EBITDA range is to find companies specifically in the Spanish Middle Market. Businesses that have a proven successful business model that are efficient and mature enough to produce an EBITDA higher than €1 million for at least 5 straight years. The upper limit of the search is €8 million because I want to maximize the return, and for this I need companies that are in their prime-time years of growth, also companies with higher EBITDA would be much more expensive to buy. Another important piece of information needed is the industry, or pure economic segment, each company belongs to.

A pure economics segment is defined as a group of companies that have the same suppliers, customers, and competitive pitch. The competitive pitch becomes important when two or more companies share customers and suppliers but have a different objective. The pitch is easy to determine by going into the company's website and reading about their mission and objectives.

By sharing these three elements, the companies create the competition and the profit pool needed for the sector to have a stable dynamic and a trend that can be measured and studied. The exact customers and suppliers are not easy to determine with public information. To really know who a company works with, the bank transactions are needed to determine from whom they buy and to who they sell their products and services. Without this information, the best tool to find the economic segment of a company should be through the public National Classification of Economic Activities (CNAE for its initials in Spanish) provided by the National Institute of

Statistics. SABI provides the CNAE label of all the companies. Although the CNAE will be used to find the highest growing industry, it is important to evaluate this method and see if it is trustworthy. An investor can't risk making a big investment without evaluating that all the information used to get to the conclusion is accurate.

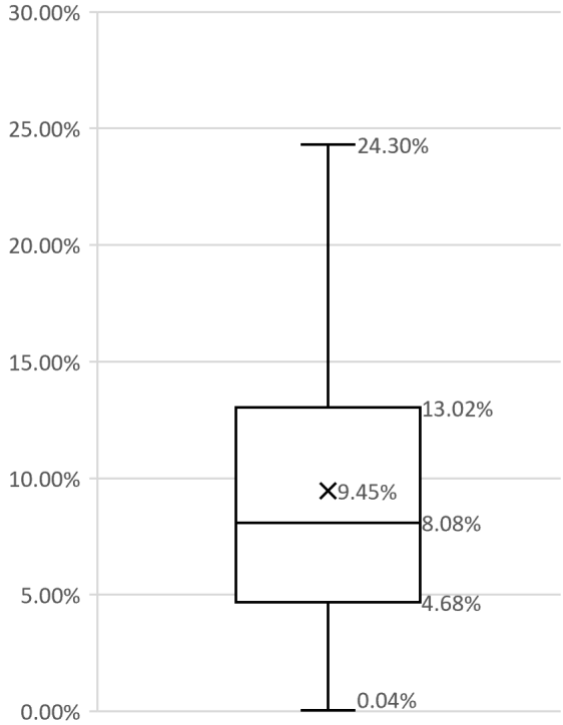
With all the companies that have an EBITDA between €1-€8 million and their industry classification, the next step is to group them by CNAE. This is important because to do a scientific analysis there must be structure and behavior within the economic activity. In this step I will filter out industries that have less than 10 players.

The next step is to quantify the EBITDA's compound annual growth rate (CAGR) that the industries had during the last 5 years in the market. This is a mathematical formula, shown below, that will provide the smoothed rate at which the industry has grown from 2016 (Initial value) to 2021 (Final value) and where "t" is the time-period, in this case 5.

$$CAGR = \left(\frac{Final\ Value}{Initial\ Value}\right)^{\frac{1}{t}} - 1$$

With the CAGR the industries had in their last available years of information, the next step is to filter out all the industries that had a negative compound growth rate or a decline in their EBITDA's. The objective is to find the best industries in the market, that have had the highest growth rate, so once I have all the industries with a positive CAGR, I will order them from highest to lowest growth and separate the results in quartiles. Figure 1 shows this result.

Figure 1: Variation in the 5yr CAGR of the diffrent CNAE's



Source: Sabi

By focusing on the industries with highest CAGR, which is around 24,3%, I am eliminating the luck or of the investment. This confirms that there are industries with systematic growth that are beating the market's average growth rate, and that there is an investment opportunity. In Appendix 1, you can find a table with all the industries, based in the CNAE evaluation, in the highest quartile, the number of companies in each industry and the CAGR that the industry had in the studied period.

After identifying the industries with the highest growth in the Spanish market, research will be conducted on the top two industries according to the CNAE: Wholesale of Flowers and Plants, and Research and Experimental Development of Biotechnology. The research has two objectives: first, to evaluate the national classification of economic activities and determine whether it complies with the criteria of a pure economic segment. Second, to identify an outlier within one

of these segments that can be a provisional acquisition target. However, the acquisition target will only become definitive after a financial analysis has been conducted to confirm that the company is outstanding and that the specific risk of the investment has been reduced as much as possible.

Figure 2 shows a visual representation of the methodology explained above, and how by filtering the results I land on the best two industries in Spain, out of the 543 industries that have an EBITDA between €1 and €8 million.

Figure 2: Visual Representation of the Methodology

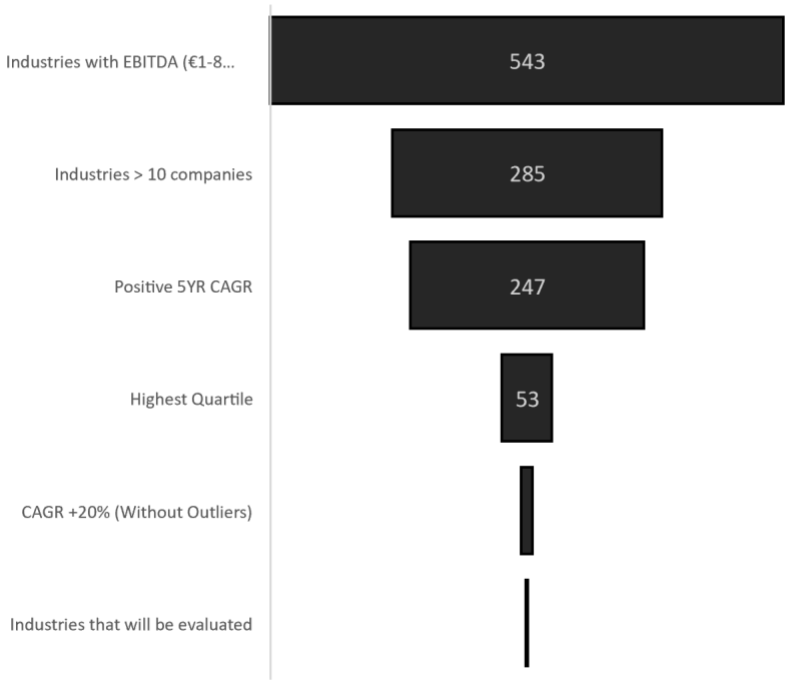


Table 2: Wholesale of Flowers and Plants CAGR E5Y	
Company	**CAGR E5Y**
1. Decora Life SL	120.98%
2. Viveros Medipalm SA	34.73%
3. Actua, Servicios y Medio Ambiente SL	33.53%
4. Bruc Jardi SL	32.50%
5. Verdenatura Levante SL	31.07%
6. El Ejedillo Viveros Integrales SL	29.34%
7. Gradyflor España SA	23.16%
8. Selecta Cut Flowers SA	15.32%
9. Sweet Seeds S.L	10.03%
10. Vivero Las Fresas SL	9.02%
11. Amores Nature SL	7.88%

Source: Sabi

Wholesale of Flowers and Plants is the industry that had the highest compound annual growth rate from 2016 to 2021 in Spain with an average growth of 24,3%. Table 2 shows companies that make up this industry according to CNAE. Although the name seems self-explanatory, to understand what the industry is about and to see if it is a pure economic segment, all the companies need to be studied. Table 3 shows the results of the investigation, where based on public information, I segmented all the companies by their clients, suppliers, and competitive pitch.

Table 3 shows that Wholesale of Flores and Plants instead of being a pure economic segment, it encompasses 7 different industries. Under the same label, you can find Bruc Jardi SL that dedicate to the wholesale and distribution of gardening items and companies like Sweet Seeds SL that describes itself as a Cannabis Seed Bank. There are even companies like Decora Life, which is the business with highest CAGR of 120,98% in the CNAE label, that work in markets that have nothing to do with flowers and plants such as orthopedics.

Table 3: Wholesale of Flowers and Plants - Industry Analysis				
Segment	**Clients**	**Suppliers**	**Competitive Pitch**	**Companies**
Wholesale distribution of gardening Items	Gardening Industry Construction Industry	Gardening items manufacturers	Provide solutions for the garde and alliances with wood or paver professionals.	Bruc Jardi SL
Wholesale distribution of cannabis seeds	Cannabis Growers and Distributors	Cannabis farmers	Marihuana seed bank	Sweet Seeds S.L
Breeding, production and wholesale of Ornamental plants	Horticultural Industry Plant Nurseries Final Consumers	Agricultural product sellers	Hybridization, production and marketing of ornamental plants	Viveros Medipalm SA Selecta Cut Flowers SL Vivero Las Fresas SL
Wholesale and distribution of cut flowers	Flower Nurseries Event Decorators	Cut Flower farmers	Diverse offer of cut flowers, greens and preserved flowers	Verdenatura Levante SL Gradyflor España SL
Wholesale distribution: Orthopedics, office supplies, garden, decoration, outdoor.	Retailers Construction Companies	Brand owners DeWalt Black + Decker	Speed up and unify the administrative management of brands and the management of imports in the Spanish market	Decora Life SL
Gardening, forestry work and environmental and landscape restoration	Architects Construction PMs City Councils	Gardening equipment suppliers Machinery suppliers	Services in the field of gardening, forestry work and environmental landscape restoration	El Ejedillo Viveros Integrales SL Actua, Servicios y Medio Ambiente SL
Wholesale and distribution of natural raw materials	Retailers	Plant farmers Beekeepers	Industrial supplier of natural raw materials with full guarantee of security and transparency.	Amores Nature SL

Source: Company's Website

The previous segment doesn't comply with the requirements needed to quantify the systematic risk on the investment. The second CNAE label with highest CAGR is Research and Experimental Development of Biotechnology. Table 4 shows the 17 companies that make up the segment according to CNAE and the compound annual growth rate they had from 2016 to 2021. The average CAGR was 23,51%. Assuming CNAE labels correctly described the businesses in the respective industry, this segment seems better than the previous one because although it has a lower CAGR by 0,79%, this segment has 6 more companies making it a better sample. To get to know better the companies in the segment, the same market research made for the previous industry was performed. The results are on Table 5.

Table 4: Research and Experimental Development of Biotechnology CAGR E5Y	
Company	**CAGR E5Y**
1. Zeclinics SL	68.26%
2. Ser Mes Planificación SL	57.23%
3. Apices Soluciones SL	56.71%
4. Health in Code Sociedad Limitada	45.31%
5. Special Newfruit Licensing Mediterraneo SL	35.89%
6. Natac Biotech SA	29.80%
7. Avanzare Innovación Tecnologica SL	28.92%
8. BBD Biophenix	27.10%
9. Agroindustrial Kimitec SL	26.01%
10. Biolan Microbiosensores SL	22.98%
11. Innovative Technologies in Biological Systems SL	21.77%
12. Innovaoleo SL	16.45%
13. Proquiga Biotech SA	14.50%
14. Hifas Da Terra SL	12.39%
15. Pivotal SL	10.73%
16. Pharmaceutical Research Associates España SA	4.74%
17. Celgene Research SL	2.85%

Source: Sabi

Once again, the label for Research and Experimental Development of Biotechnology does not represent a pure economic activity. Thirteen subsegments where found, ranging from interpretation of genomic data to the development and production of specialty additives (Avanzare Innovación Tecnologica SL).

Table 5: Research and Experimental Development of Biotechnology - Industry Analysis				
Segment	**Clients**	**Suppliers**	**Competitive Pitch**	**Companies**
Contract Research Organization	Pharmaceutical Industry Biotechnology Companies Public Research Organizations Veterinary Industry	Laboratory equipment distributors	Giving an added value to customer in study design, clinical development planning and successful regulatory timelines to achieve customers milestones	Apices Soluciones SL Ser Mes CRO Pharmaceutical Research Associates España Pivotal SL
Contract Research Organization (Zebrafish)	Pharmaceutical Industry Nutraceutical Industry Cosmetics Industry Agriculture Industry Biotechnology Industry	Laboratory equipment sellers Zebrafish farmers	Zebrafish-expert CRO tailoring solutions for understanding human disease and performing drug and target discovery.	Zeclinics SL BBD Biophenix
Development and manufacturing of natural extracts	Pharmaceutical Industry Cosmetics Industry Veterinary Industry Nutraceuticals Industry	Technical equipment distributors Farmers Agri-food Industry	Research, develop, manufacture and market ingredients of natural origin for their application.	Natac Biotech SA Innovaoleo SL
Development and production of specialty additives	Automotive Industry Aeronautic Industry Footwear Industry Construction Industry	Technical equipment distributors	Provice customers with high-performance nanomaterials and nanotechnology-based solutions.	Avanzare Innovación Tecnologica SL
Development and production of bio stimulants	Pharmaceutical Industry Nutraceutical Industry Animal Nutrition Industry Cosmetics Industry	Farmers Vegetable and fruit waste	Improve the quality of food and permit a healthier lifestyle with biostimulants	Proquiga Biotech SA Agroindustrial Kimitec SL
Development and production of mushroom-based products	Whole sellers Final Consumer	Mushroom farmers Pesticide suppliers	Development of organic nutraceuticals & offer treatment of pathologies.	Hifas da Terra SL
Development and production of pharmaceutical drugs	Healthcare system	Contract Research Organizations Lab equipment distributors	Discover, develop and offer innovative medicines that help patients overcome the most serious diseases.	Celgene Research SL Innovative Technologies in Biological Systems SL
Development and manufacturing of tools for food safety and health diagnostics	Pharmaceutical Industry Food Industry Agricture Industry	Technical equipment distributors Raw materials for the tools	Develop, manufacture and market analytical and diagnostic methods, based on biosensors.	Biolan Microbiosensores SL
Grape breeding and development	Food Industry	Landowners Lab equipment distributors	Leading table grape R&D companies	Special Newfruit Licensing Mediterraneo SL
Interpretation of genomic data	Healthcare system	Lab equipment distributors Patients for testing	Create positive social impact through personalized medicine and improved clinical decision making based on genomic data	Health in Code Sociedad Limitada

Source: Company's Website

Evaluating CNAE

The market research performed shows it is impossible to find a segment with companies that share the same clients, suppliers and competitive pitch using the Spanish National Classification of Economic Activities. I found 17 industries in what should have been just two economic activities.

Some of these industries are similar and share customers and suppliers, differing only in their competitive pitch, as seen in the first two segments in Table 5. However, there are also industries within the same category that do not share any of the three main elements required to create a pure market. For instance, under the Research and Experimental Development of Biotechnology

category, we can find "Special Newfruit Licensing Mediterraneo SL," which has the competitive pitch of being "one of the world's leading table grape research and development companies," with the food industry as their clients and landowners and laboratory equipment distributors as their suppliers. Meanwhile, "Agroindustrial Kimitec SL" works with the nutraceutical, cosmetic, and animal nutrition industries as their clients, with farmers as their suppliers, and has a competitive pitch focused on providing enzymes and natural additives that improve the quality of food and enable a healthier lifestyle.

If the CNAE cannot be trusted, the question becomes: how can a Spanish investor ensure that they are accurately eliminating systematic risk from their investment?

Selecting the Industry

Although the CNAE labels couldn't identify a distinct economic segment, I was able to identify various economic clusters through the performed market analysis. One such cluster with significant growth potential is the Contract Research Organization (CRO) industry. These organizations offer clinical trial services for the pharmaceutical, biotechnology, medical devices, veterinary products, and public research sectors. The CRO industry represents the largest homogeneous cluster of activities within the two CNAE segments analyzed, indicating that the companies all share the same volatility and systematic risk. The higher number of companies that make up an industry the better, as it represents a larger statistical sample. Meaning the results are more trustworthy and less risky.

Upon further examination of their financials and performance, it becomes evident that the Contract Research Organization (CRO) industry is experiencing market disequilibrium. The industry boasts an outstanding compound annual growth rate of 32.35%, as indicated in Table 6. This rate is four times higher than the average market return and even surpasses the returns observed in the CNAE category for Research and Experimental Development of Biotechnology. Consequently, it can be concluded that the CRO industry is one of the fastest-growing sectors in

Spain. Moreover, this market exhibits a favorable risk-return trade-off due to its high profitability and consistent, homogeneous growth.

Table 6: Own Research CRO CAGR E5Y

Company Name	CAGR E5Y
SerMes CRO	57.23%
Apices Soluciones SL	56.71%
Pivotal SL	10.73%
Pharmaceutical Research Associates Esp.	4.74%
Average CAGR E5Y	**32.35%**

Source: Sabi

However, I cannot fully confirm whether the companies I categorized in this segment share customers and suppliers. The best way to do so is by analyzing as much public and private information available to identify patterns, trends, and associations that show these companies compete in the same markets. Big data can offer the solution.

Big Data

For a successful growth equity investment that beats the returns of competitors, it is crucial to outperform in the art and the science of finance. To successfully beat the art, human creative skill and imagination is needed, consequently only a person can beat the art. On the other hand, only a computer will be able to beat the science and get the most out of the study of the structure and behavior of data. A computer can do this through big data. Gartner, a leading technology consulting firm describes big data as “high-volume, high-velocity and/or high-variety information assets that demand cost-effective, innovative forms of information processing that enable enhanced insight, decision making, and process automation.” (Gartner, 2023)

Big data provides the asymmetry of information needed to beat the markets by monitoring the economy from the bottom up. To corroborate that the companies mentioned above belong to

the segment of Contract Research Organization, I will rely on the support of Tresmares Capital and their private big data software.

Their model works by replicating the economy and its behavior from a bottom-up perspective to find growth currents. These currents are made up of clients, suppliers, and the competitive pitch. The system analyzes the inputs and outputs of information in the economy through six key elements: Public accounts, macroeconomy, semantics, banks transactions, taxes, and e-commerce. Based on this analysis and the relationships the system groups the companies into the different growth currents or industries. Once the outliers are identified, the system measures their potential with the metrics of size, growth, margins, volatility of sales and EBITDA, balance sheet, profitability and autonomy or solvency the company has.

Tresmares' big data model identified the companies shown in Table 7, as the ones that most share the clients, suppliers, and competitive pitch of a CRO. Although there are more CRO's in the market, this are the ones that have most in common between them, making it the purest economic segment.

Table 7: CRO According to Big Data CAGR E5Y

Company Name	CAGR E5Y
1. Apices Soluciones SL.	56.71%
2. ICON Clinical Research España SL	18.15%
3. Pivotal SL	10.73%

Source: Tresmares Capital

Big Data Vs CNAE

To continue my investment thesis, I will combine my own research made with public information and the input from big data. I will do it this way because I had privileged access to the big data model, which takes years and a huge investment to build. An independent investor wouldn't be able to access this kind of information. Many private equity firms don't even use big data models, they might use private information, but other than that and the human knowledge they don't

have much advantage over an independent investor. As part of the objective of this thesis is to teach an independent investor how to carry out an acquisition, it is important to continue also using the public information.

Table 8: Big Data Label vs CNAE Label vs Own Research

Company Name	Big Data Label	CNAE Label	Own Research
Apices Soluciones SL	CRO	Research and Experimental Development on Biotechnology	CRO
Pivotal SL	CRO	Research and Experimental Development on Biotechnology	CRO
ICON Clinical Research España SL	CRO	Other Research and Experimental Development on Natural Sciences and Engineering	CRO
Ser Mes CRO	CRO	Research and Experimental Development on Biotechnology	CRO
Pharmaceutical Research Associates España	CRO	Research and Experimental Development on Biotechnology	CRO

Table 8 shows the different industry categorizations that CNAE and big data give the companies I was able to identify as CRO's through my own investigation. It is important to mention that the CRO's according to big data on this table differentiates form the ones on Table 6. Those are purest. This means, they have more characteristics in common between them than with the new CROs added. Ser Mes and Pharmaceutical Research Associates España are still CROs but might not share as many suppliers.

My assumption will be that all these companies make a pure economic segment, so by investing in any of them the systematic risk from the investment will favorable. Big data label is the only one that can be fully trusted, because it is the one that uses the greatest number of inputs and outputs of public and private information. CNAE, can't be trusted as shown in the previous analysis. Although they don't say which factors they consider when defining an industry, it seems their analysis and classification is too broad to use. My own investigation is more targeted but was made with limited amount of information.

Company Pick

Once science is applied to find a segment with a good risk-return binomial, art is needed to minimize specific risk in investments by choosing the best acquisition target. The correct approach involves conducting an in-depth qualitative and quantitative analysis of all the companies within the industry, and considering all the factors that affect the specific risk of each

company. With a series of financial forecasts based on this information and considering qualitative data such as management and operational efficiency, investors should be able to choose their target. However, for the purposes of narrowing the scope of this thesis, the company will be selected based on a handful of factors. After making the decision, a financial analysis of its operations will be conducted to confirm whether it is indeed a good opportunity.

Table 9 shows the compound annual growth rate the companies within the industry have had in their EBITDA, this provides a look into the company's profitability and its growth opportunities, without the capital structure, government, and deprecation impact. Removing these expenses also helps compare all the companies in the market under the same conditions. For the investment, I am looking for an opportunity of a company that will outperform the market. The companies that have a growth rate similar or below the market, will be filtered out of the decision. These companies are: Pivotal and Pharmaceutical Research Associates España SA. ICON Clinical Research grows below the industry average, so it will also be discarded.

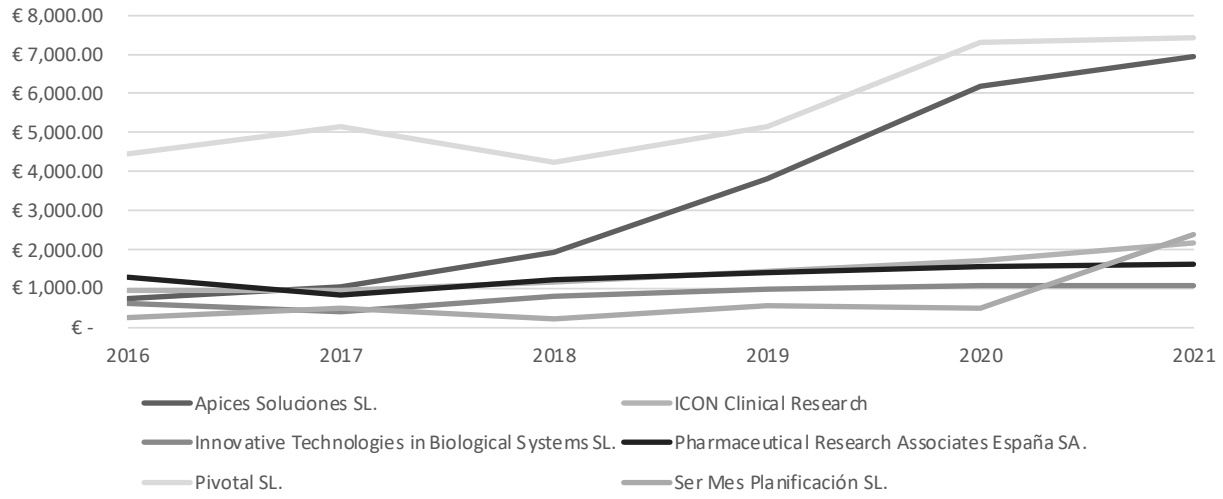
Table 9: Contract Research Organization CAGR E5Y

Company	CAGR E5Y
Apices Soluciones SL.	56.7%
ICON Clinical Research	18.3%
Pharmaceutical Research Associates España SA	4.7%
Pivotal SL	10.7%
Ser Mes SL	57.2%
Average Industry CAGR	**29.6%**

Source: Sabi & Tresmares Capital

Figure 3 shows the EBITDA figure each company had each year. The company that outstands the most on the figure is Apices Soluciones because it shows a big growth in the last years of operations. Although Ser Mes has a higher compound growth rate, it is by just 0,5%. Apices is the one that has had a consistent growth. Ser Mes shows a decrease in their EBITDA in 2018 and 2020, while Apices has grown every year.

Figure 3: CRO's EBITDA Growth 2016-2021



Source: Sabi

Table 10 shows the market share each company had from 2016 to 2021, based on their total sales. Apices Soluciones and ICON Clinical Research are the ones that have been able to grow their market share the most. Although Ser Mes has grown its EBITDA by 57,2%, they haven't been able to grow their market share that efficiently. ICON Clinical Research has been efficient at gaining market share, but not as efficient with their operations and growing their EBITDA.

Table 10: Yearly Market Share of CRO Industry by Company (2016-2021)

COMPANY	2016	2017	2018	2019	2020	2021	Total Growth
Apices Soluciones SL.	5.35%	5.30%	6.89%	8.60%	11.20%	11.60%	**6.25%**
ICON Clinical Research	28.06%	27.24%	30.41%	30.46%	32.26%	35.55%	**7.49%**
Pharmaceutical Research Associates España SA.	27.28%	27.74%	26.32%	24.75%	22.56%	20.66%	**-6.62%**
Pivotal SL.	27.85%	28.88%	25.59%	26.24%	24.65%	20.43%	**-7.41%**
Ser Mes CRO	9.56%	9.30%	9.25%	8.59%	8.04%	10.16%	**0.61%**

Source: Sabi

Based on the brief analysis performed above, Apices Soluciones SL appears to be the best investment opportunity in the industry. It has the second highest EBITDA CAGR among all companies, with an outstanding growth of 56.7% over the last 5 years and has consistently shown growth every year. Additionally, it has the second highest total growth in market share, with a

gain of 6.25% over the last few years. To confirm this decision, a financial analysis of the company will be conducted.

Apices Soluciones SL

Company Overview

Apices was founded in 2009 in Spain as a Contract Research Organization that offers the development and coordination of the necessary activities required to perform clinical research. They focus on clinical research services and provides the customers with study design, clinical development planning and successful regulatory timelines to achieve their milestones. Apices differentiates themselves by offering added value with an experienced team, global resources, therapeutic expertise, quality, and a focus on the customers. Their main customers are in Europe and in America and are pharmaceutical, medical Devices, biotechnology and veterinary product companies and public research organizations among others. Their main objectives, as listed on their website, include improving customer project timelines, quality, and cost, striving to maximize the development and improvement of the customer experience in operational, tactical, and strategic outcomes, ensuring the highest level of data integrity and accuracy, and optimizing procedures to provide an excellent time-quality-price ratio. (Apices Soluciones SL, 2023)

Financial Analysis

Income Statement

Table 11: Apices Soluciones SL Profit & Loss (2016-2021)						
INCOME STATEMENT	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
SALES	**€ 2,720,371**	**€ 3,002,357**	**€ 4,443,829**	**€ 6,618,430**	**€ 9,657,085**	**€ 11,835,517**
Works carried out for other companies	€ (1,295,768)	€ (1,110,393)	€ (1,596,987)	€ (1,520,798)	€ (1,988,849)	€ (3,022,327)
Labour cost	€ (476,394)	€ (550,563)	€ (653,935)	€ (873,402)	€ (1,272,071)	€ (1,579,248)
Other operating costs	€ (213,501)	€ (293,152)	€ (266,955)	€ (412,346)	€ (219,721)	€ (353,838)
Results for disposals and others	€ -	€ -	€ 6,767	€ -	€ -	€ 63,361
EBITDA	**€ 734,709**	**€ 1,048,250**	**€ 1,932,720**	**€ 3,811,884**	**€ 6,176,444**	**€ 6,943,464**
Depreciation	€ (62,121)	€ (29,642)	€ (62,991)	€ (97,532)	€ (155,017)	€ (98,396)
EBIT	**€ 672,587**	**€ 1,018,607**	**€ 1,869,728**	**€ 3,714,352**	**€ 6,021,427**	**€ 6,845,068**
Financial revenue	€ 17,032	€ 2,841	€ 910	€ 1,706	€ 46,112	€ 10,752
Financial expenses	€ (314)	€ (103,276)	€ -	€ (511)	€ (920)	€ (778)
EBT	**€ 689,306**	**€ 918,173**	**€ 1,870,638**	**€ 3,715,548**	**€ 6,066,618**	**€ 6,855,042**
Taxes	€ (172,608)	€ (235,854)	€ (468,119)	€ (928,811)	€ (1,516,566)	€ (1,713,717)
NET INCOME	**€ 516,698**	**€ 682,318**	**€ 1,402,519**	**€ 2,786,737**	**€ 4,550,052**	**€ 5,141,325**

Source: Sabi

Apices Soluciones SL had a compound annual growth rate in sales of 34,19% and in net income of 58,55% from 2016 to 2021, without any decrease in the accounts year over year. This shows they have been able to make their operations more profitable over the years. They have increased their EBITDA margin from 27% in 2016 to 59% in 2021 and their profit margin from 19% to 43%. They have also achieved to reduce their cost of services, the works carried out for other companies, from 48% in 2016 to 26% in 2021.

The P&L shows an outstanding job by the management of the firm to make operations more profitable by reducing their operational costs. They have been able to do this with little financial expenses except for 2017, all while receiving financial revenue form investments not related to their core business.

Balance Sheet & Financial Ratios

Table 12: Financial Ratios Apices Soluciones SL (2016-2021)						
Financial Ratios	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Current ratio	1.52	1.50	1.49	1.45	0.79	0.61
Return on Equity	0.24	0.38	0.56	0.72	2.76	7.46
Return on Assets	0.10	0.16	0.21	0.27	0.46	0.71
Return on Capital Employed	0.32	0.57	0.75	0.95	3.63	9.93
EBITDA Margin	0.27	0.35	0.43	0.58	0.64	0.59
Profit Margin	0.19	0.23	0.32	0.42	0.47	0.43

Source: Sabi

The balance sheet and the financial ratios must be analyzed having in mind that Apices Soluciones is a Contract Research Organization, meaning it is a service company. It is positive that the company has had little long-term debt over the years, currently having none, however the balance sheet shows the company is relying heavily on its short-term borrowing to finance its operations, with current ratio of 0,61 in 2021. Looking at their financial expenses in the P&L, they are paying very little interest for this financing, which is positive. It never stops being a risk relying on debt.

It is normal for a CRO to rely on short-term borrowing because they might need to invest significant amounts of money upfront to conduct research and clinical trials before receiving the payments for their work. A current ratio below 1 still provides certain risk because the company cannot finance its current liabilities with their current assets. The company paid high amounts of dividends in 2020 and 2021, this explains the jump in the debt/equity ratio and in the current ratio from 2019 to 2020. This made their operations much riskier; it would have been less of a risk for them to allocate that cash to their current assets rather than to their investors to have a current ratio above 1 and a lower debt to equity ratio.

Throughout the years, the company has increased its return on assets from 10% in 2016 to 71% in 2021, which shows how efficient they have become in the use of their assets. They have increased their assets significantly over the years, with the big increase coming from their

increase in long term financial investments and their increase in cash and equivalents, generated by the increase in income.

Based on their return on equity and return on capital employed, the company is performing extremely well, producing high net income with low amounts of equity and capital employed, specifically in 2020 and 2021 after they started paying dividends. Although this can be positive, it can also mean they are not investing enough on their operations and are missing out on growth opportunities. By deploying more capital, they could grow faster.

The balance sheet of Apices Soluciones looks healthy overall. Although they are heavily dependent on their short-term obligations, it seems they are paying little interest on them. They have a healthy amount of cash on their hands, that could be easily improved by eliminating the dividends payments. Regarding their assets, Apices has been efficient taking advantage of them to generate profit, each year improving their return on assets. Without private information it is unclear their policy regarding dividends and the low levels of capital employed and equity usage, but this can be turned around easily, to get a better use of the net incomes, which are growing at a steady pace.

Table 13: Apices Soluciones SL Balance Sheet (2016-2021)						
BALANCE STATEMENT	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Fixed Assets	**€ 661,308**	**€ 454,554**	**€ 485,185**	**€ 925,825**	**€ 3,338,654**	**€ 3,250,248**
Tangible fixed assets	€ 398,158	€ 447,904	€ 478,475	€ 854,115	€ 776,527	€ 694,887
Long term financial investments	€ 263,150	€ 6,650	€ 6,710	€ 71,710	€ 2,562,127	€ 2,555,361
Current assets	**€ 4,332,735**	**€ 3,946,995**	**€ 6,136,906**	**€ 9,550,273**	**€ 6,472,684**	**€ 4,001,291**
Stocks	€ 400	€ -	€ 1,536	€ 521	€ 264	€ 17,664
Debtors	€ 777,998	€ 717,883	€ 687,719	€ 1,933,351	€ 3,008,770	€ 1,332,578
Cash & Equivalents	€ 3,554,337	€ 3,229,112	€ 5,447,651	€ 7,616,401	€ 3,463,650	€ 2,651,048
TOTAL ASSETS	**€ 4,994,043**	**€ 4,401,549**	**€ 6,622,091**	**€ 10,476,099**	**€ 9,811,339**	**€ 7,251,539**
Non current liabilities	**€ -**	**€ -**	**€ -**	**€ 12,519**	**€ 10,336**	**€ -**
Long-term debt	€ -	€ -	€ -	€ 12,519	€ 10,336	€ -
Current liabilities	**€ 2,859,205**	**€ 2,625,632**	**€ 4,125,972**	**€ 6,583,242**	**€ 8,153,351**	**€ 6,562,510**
Short term debts	€ -	€ -	€ 1,026	€ 8,333	€ 2,183	€ 10,336
Trade creditors & Accounts Payable	€ 619,361	€ 621,199	€ 671,305	€ 1,097,835	€ 792,187	€ 1,051,316
Short Term Periodifications	€ 2,239,844	€ 1,887,853	€ 3,100,905	€ 4,759,101	€ 6,748,468	€ 5,470,354
Short term debts	€ -	€ 116,580	€ 352,736	€ 717,973	€ 610,513	€ -
Other financial liabilities	€ -	€ -	€ -	€ -	€ -	€ 30,504
TOTAL LIABILITY	**€ 2,859,205**	**€ 2,625,632**	**€ 4,125,972**	**€ 6,595,761**	**€ 8,163,687**	**€ 6,562,510**
Capital	€ 3,006	€ 3,006	€ 3,006	€ 3,006	€ 3,006	€ 3,006
Other shareholders funds	€ 2,131,832	€ 1,772,911	€ 2,493,112	€ 3,877,330	€ 1,644,645	€ 686,022
Reserves	€ 1,615,134	€ 1,090,593	€ 1,090,593	€ 1,090,593	€ 1,090,593	€ 537,630
Retained Earnings	€ 516,698	€ 682,318	€ 1,402,519	€ 2,786,737	€ 4,550,052	€ 5,141,325
Interim Dividend (-)	€ -	€ -	€ -	€ -	€ (3,996,000)	€ (4,992,933)
TOTAL EQUITY	**€ 2,134,838**	**€ 1,775,917**	**€ 2,496,118**	**€ 3,880,336**	**€ 1,647,651**	**€ 689,028**
TOTAL EQUITY + LIABILITY	**€ 4,994,043**	**€ 4,401,549**	**€ 6,622,091**	**€ 10,476,099**	**€ 9,811,339**	**€ 7,251,539**

Source: Sabi

The previous financial analysis shows Apices Soluciones is a good investment opportunity. They have good profit margins with little financial expense to finance their operations. They use their assets in an efficient way to generate their income and can get high returns on equity and capital employed, with potential of generating even higher profits by increasing their cash on hand and lowering their dividends.

Chapter 3: Company Valuation

Profit & Loss and Balance Sheet Forecast

Once the target company is identified, the next step is to determine the price that will be paid for Apices Soluciones on the acquisition. The present value represents the value of the future streams of cashflow under an expected rate of return. To determine the future cashflows you need to forecast the Profit and Loss (P&L) Statement and the Balance Sheet (BS) based on their previous financial records and on a series of assumptions and hypotheses. The P&L and BS of Apices Soluciones from 2016 until 2021, which is the last available year under public information, are on the Appendix # 2.

Since I am working with public information, many assumptions will have to be made that might not correctly represent their policies. Private Equity firms usually work with private information when they are valuating companies, they might work with different tools such as big data platforms, with other institutions such as banks that can provide them more information and sometimes directly with the target company to get the most accurate information and valuation. Because of this, I will do an outside-in analysis based on all the public information I can gather. Throughout the chapter and in each step of the forecast, I will explain the assumptions and hypothesis used.

The first assumption is that I will carry out a cash-free, debt-free acquisition. This means that all the debt and financial investments will be paid or sold before acquiring the company. Because of this, there won't be any forecast on the short- and long-term debt account and on the financial investments account. Due to this structure, the company will use the € 2.651.048 of Cash and Equivalents in 2021 as operating cash.

The process will be the following: first I will forecast all the accounts in the P&L up to the earnings before interest, taxes, depreciation, and amortization. Next, I will forecast the assets (except cash

and equivalents), deprecation, capital expenditure and the working capital. With the working capital I will get the accounts payable which is the only account under liabilities that will have a forecast. With all this information I will be able to finish the P&L analysis and get the forecast for the net profit of the business. With the profit I will finish the equity forecast and move to the free cash flow which will give me the change in cash of each year. This change in cash will be the last calculation needed to forecast the account of cash and equivalents in the assets. All these steps will be repeated for the 5 years that will be forecasted. The final forecast of the P&L and BS are in Appendix # 3.

With the complete forecast of the financial statements, I will find the present value of the company by discounting its future cashflows. Finally, a sensitivity analysis will be modeled to turn the result into a statistical analysis where different scenarios are taken into consideration.

Sales Forecast

For the sales forecast, three variables were considered: the Contract Research Organization market sales in Spain, Apices market share growth and inflation. The first variable is important because it helps understand and forecast the trend of the whole market. If it keeps growing, it is assumed that Apices will get a share of that growth, and for this the second variable is needed. How much share of the market a company gets, depends on its ability to take customers away from its competitors and this will directly affect its growth. Finally, inflation is important because it represents the general increase in prices in the economy, if a company doesn't adapt its prices to it, they would be receiving less value for each dollar they get.

Table 14: Total Market Sales and Market Growth of CRO Industry (Th.) (2016-2021)

COMPANY	2016	2017	2018	2019	2020	2021
Apices Soluciones SL.	€ 2,720	€ 3,002	€ 4,444	€ 6,618	€ 9,657	€ 11,836
ICON Clinical Research	€ 14,271	€ 15,422	€ 19,620	€ 23,448	€ 27,811	€ 36,279
Pharmaceutical Research Associates España SA.	€ 13,876	€ 15,703	€ 16,977	€ 19,052	€ 19,455	€ 21,086
Pivotal SL	€ 14,163	€ 16,346	€ 16,507	€ 20,199	€ 21,254	€ 20,850
Ser Mes CRO	€ 4,860	€ 5,267	€ 5,965	€ 6,610	€ 6,932	€ 10,372
Total Sales of the Market	**€ 49,890**	**€ 55,739**	**€ 63,512**	**€ 75,927**	**€ 85,108**	**€ 100,423**
Market Growth		11.72%	13.95%	19.55%	12.09%	17.99%
Average Market Growth Last 5 Years	**15.06%**					

Table 14 shows the sales of each company in the market from 2016 to 2021. With this information the year over year growth is calculated to get the average market growth of those 5 years, which is 15.06%. Table 15 shows the market share each company has had throughout the years. This data illustrates how fast the company has grown its market share, from 5.45% to 11.79% in 5 years, proving they are good at taking advantage of the general market growth.

Table 15: Market Share by Company in the CRO Industry (2016-2021)

COMPANY	2016	2017	2018	2019	2020	2021
Apices Soluciones SL.	5.45%	5.39%	7.00%	8.72%	11.35%	11.79%
ICON Clinical Research	28.60%	27.67%	30.89%	30.88%	32.68%	36.13%
Pharmaceutical Research Associates España SA.	27.81%	28.17%	26.73%	25.09%	22.86%	21.00%
Pivotal SL.	28.39%	29.33%	25.99%	26.60%	24.97%	20.76%
Ser Mes CRO	9.74%	9.45%	9.39%	8.71%	8.14%	10.33%

With the previous information and with inflation, the sales of the next 5 years are forecasted on Table 16. For the total market share forecast, the hypothesis used was that in the next 5 years the market would experience a constant growth of 15.06%. The same level as the average market growth of the previous 5 years. The second hypothesis used is that Apices will gain 1% of market share per year over the 11.79% they had in 2021. The final hypothesis was on inflation. As I am writing this in 2023, the real inflation number for 2022 was used and the current forecast for 2023. 2024 is expected to be a transitionary year and the next two years it is expected the European Bank get the number back to their goal of 2%.

Table 16: Apices Soluciones Sales Forecast (2022-2026)

	G YoY	2022	2023	2024	2025	2026
Total Market Sales	15.06%	€ 115,547,789	€ 132,950,135	€ 152,973,401	€ 176,012,319	€ 202,521,066
Apices' Market Share	11.79%	12.79%	13.79%	14.79%	15.79%	16.79%
Inflation		5.70%	4.40%	3.00%	2.00%	2.00%
Apices' Sale Forecast		**€ 15,615,600**	**€ 19,134,443**	**€ 23,296,620**	**€ 28,340,342**	**€ 34,674,321**

Cost of Services Forecast

Similar as the sales forecast, the cost of services is forecasted using the market as a point of reference. Table 17 shows the cost of services of the segment. This information together with

the sales in Table 14 is used to calculate the total sales margin the segment had each year and the margin that Apices had, the results are shown in table 18.

Table 17: Cost of Sales of Companies in the CRO Industry (Th.) (2016-2021)						
Company Name	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Apices Soluciones SL.	€ 1,296	€ 1,110	€ 1,597	€ 1,521	€ 1,989	€ 3,022
ICON Clinical Research	€ 9,328	€ 10,149	€ 12,902	€ 15,464	€ 18,761	€ 24,838
Pharmaceutical Research Associates España SA.	€ 126	€ 96	€ 78	€ 127	€ 185	€ 67
Pivotal SL.	€ 4,899	€ 6,954	€ 7,346	€ 8,934	€ 8,446	€ 7,097
Ser Mes CRO	€ 1,729	€ 2,045	€ 2,176	€ 2,317	€ 2,828	€ 3,820
Total	**€ 17,378**	**€ 20,354**	**€ 24,099**	**€ 28,363**	**€ 32,208**	**€ 38,845**

Table 18: CRO Industry and Apices Sales Margin (2016-2021)						
Company Name	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Market Sales Margin	65.17%	63.48%	62.06%	62.64%	62.16%	61.32%
Apices' Sales Margin	52.37%	63.02%	64.06%	77.02%	79.41%	74.46%
Market Average	62.80%					
Apices' Average	68.39%					

On the last three years, in the previous table, it can be observed that Apices had a big positive difference with its market in terms on the sales margin. Because of this, for the forecast shown in Table 19, it is assumed that after the margin in 2021 of 74.46%, the company's behavior will converge over the years towards the markets average. This is why each year it decreases until it reaches a similar level as the market in 2026.

Table 19: Apices' Cost of Services Forecast					
	2022	**2023**	**2024**	**2025**	**2026**
Sales Margin	72%	70%	68%	66%	64%
Cost of Sales	**€ 4,372,368**	**€ 5,740,333**	**€ 7,454,918**	**€ 9,635,716**	**€ 12,482,755**

Selling, General & Administrative Costs Forecast

To forecast the accounts of labor cost, other operating costs and results for disposals and others, the first step was to figure out their historical relationship with sales, and the tendency they had (Table 20). As the first two accounts had a similar percentage of sales during the years, the ratio of 2021 was used as the base number for the forecast. For labor cost, the hypothesis used was that each year they would become more efficient, and thus decrease their cost in relationship to

the total sales, so I forecast they will decrease .5% per year during the next 5 years. For other operating cost the assumption made was that they were fixed costs, and the company would also become more efficient each year with their use. In 2021 they are already very low, so for the forecast they were reduced .1% each year. The third account is the one that varies the most through the years, and because we have limited information, there is no way to correctly predict its behavior in the future, so for the forecast the same percentage of sales of 2021 was used for the coming years. The percent of sales used can be found in table 21 and on the next table the final cost forecast for the accounts.

Table 20: Selling General & Administrative Expenses Apices Soluciones (2016-2021)

	%	2016	2017	2018	2019	2020	2021
Sales		€ 2,720,371	€ 3,002,357	€ 4,443,829	€ 6,618,430	€ 9,657,085	€ 11,835,517
Labor Cost	13.34%	€ (476,394)	€ (550,563)	€ (653,935)	€ (873,402)	€ (1,272,071)	€ (1,579,248)
Other operating costs	2.99%	€ (213,501)	€ (293,152)	€ (266,955)	€ (412,346)	€ (219,721)	€ (353,838)
Results for disposals and others	0.54%	€ -	€ -	€ 6,767	€ -	€ -	€ 63,361

Table 21: Percentage of Sales of the SG&A Expenses

P&L Account	2022	2023	2024	2025	2026
Labor Cost	12.84%	12.34%	11.84%	11.34%	10.84%
Other operating costs	2.89%	2.79%	2.69%	2.59%	2.49%
Results for disposals and others	0.54%	0.54%	0.54%	0.54%	0.54%

Table 22: Forecast of Selling General & Administrative Expenses

P&L Account	2022	2023	2024	2025	2026
Labor Cost	€ 2,005,557	€ 2,361,820	€ 2,759,087	€ 3,214,728	€ 3,759,838
Other operating costs	€ 451,233	€ 533,781	€ 626,593	€ 733,911	€ 863,263
Results for disposals and others	€ 83,598	€ 102,436	€ 124,718	€ 151,719	€ 185,628

Fixed Assets & Capital Expenditure Forecast

For the Capital Expenditure (Capex) forecast, its historical value was studied and the direct impact it had in the sales of the company. These are investments the company makes to acquire or upgrade the Property Plant and Equipment (PP&E) with the objective to increase the efficiency of the company in the short and long term. Depending on their relationship with the sales, companies can have expansionary capex or maintenance capex, the latter meaning they are just spending to sustain current revenue and profit. Table 23 shows there was big variations on the Capex to sales ratio over the years, however they all led to an increase in sales. Because of their

positive impact on sales, Apices has had an expansionary capex. To forecast the future capital expenditure, the average ratio of the last 5 years was used, which is 3.18% of sales assuming they will continue the philosophy of expansionary capex.

Table 23: Historical Capex/Sales Ratio of Apices Soluciones

	2016	2017	2018	2019	2020	2021
Sales	€ 2,720,371	€ 3,002,357	€ 4,443,829	€ 6,618,430	€ 9,657,085	€ 11,835,517
PP&E	€ 398,158	€ 447,904	€ 478,475	€ 854,115	€ 776,527	€ 694,887
Depreciation	€ (62,121)	€ (29,642)	€ (62,991)	€ (97,532)	€ (155,017)	€ (98,396)
CAPEX		€ 79,388	€ 93,563	€ 473,172	€ 77,429	€ 16,756
Capex/Sales Ratio		2.64%	2.11%	7.15%	0.80%	0.14%
Average of Capex/Sales	3.18%					

After forecasting the capex, which can be found in Table 25, the next step is to forecast the value of PP&E and the deprecation the assets will have over the years. A depreciation schedule was done in Table 24, to chart the loss in value of the assets over a period. The linear depreciation method was used with the hypothesis that the assets would depreciate over a period of 5 years. On the first row, the current value of PP&E is depreciated and on the following rows the value of the new capital expenditure.

Table 24: Depreciation Schedule (2022-2026)

Property Pland & Equipment	**2022**	**2023**	**2024**	**2025**	**2026**
€ 694,887	€ 138,977	€ 138,977	€ 138,977	€ 138,977	€ 138,977
€ 495,824		€ 99,164.85	€ 99,164.85	€ 99,164.85	€ 99,164.85
€ 1,051,734			€ 210,346.81	€ 210,346.81	€ 210,346.81
€ 1,421,146				€ 284,229.16	€ 284,229.16
€ 1,712,368					€ 342,473.52
Total Depreciation	**€ 138,977**	**€ 238,142**	**€ 448,489**	**€ 732,718**	**€ 1,075,192**

As mentioned before, the capital expenditure is done to acquire or maintain the PP&E, and the depreciation is the value those assets lose over time. Based on this, the value of the company will have in PP&E on the following years is the sum of the closing value of PP&E plus the new capex minus the depreciation of the period. These calculations and the final forecast are on Table 25.

Table 25: Capex & PP&E Forecast										
Property Pland & Equipment		**2022**		**2023**		**2024**		**2025**		**2026**
Opening value (PP&E)	€	694,887	€	1,051,734	€	1,421,146	€	1,712,368	€	1,879,508
CAPEX	€	495,824	€	607,554	€	739,711	€	899,858	€	1,100,974
Depreciation	€	(138,977)	€	(238,142)	€	(448,489)	€	(732,718)	€	(1,075,192)
Closing value (PP&E)	€	1,051,734	€	1,421,146	€	1,712,368	€	1,879,508	€	1,905,290

This is a very simplistic way to forecast the value of the fixed assets, but it is the only way to do it without private information, by creating a hypothesis. I couldn't find any public information that talked about their capital expenditure policies or forecasts. The actual time they use to depreciate their assets and the value of each individual asset is also private information.

Working Capital Forecast

The working capital is what they use on their daily operations, and it is dependent on the accounts receivables, accounts payables and their stock. To forecast it, it is crucial to understand the collection policy the company has regarding its accounts receivables and the days of payments policy they have regarding the accounts payables. These calculations are done in Table 26.

Table 26: Apices' Accounts Payable and Receivable (2016-2021)												
Accounts		**2016**		**2017**		**2018**		**2019**		**2020**		**2021**
Sales	€	2,720,371	€	3,002,357	€	4,443,829	€	6,618,430	€	9,657,085	€	11,835,517
Cost of Sales	€	1,295,768	€	1,110,393	€	1,596,987	€	1,520,798	€	1,988,849	€	3,022,327
Accounts Receivable	€	777,998	€	717,883	€	687,719	€	1,933,351	€	3,008,770	€	1,332,578
Accounts Payable	€	619,361	€	621,199	€	671,305	€	1,097,835	€	792,187	€	1,051,316
Collection Period		104		87		56		107		114		41
Days of Payments		174		204		153		263		145		127

Although in 2021, the company had a collection period of 41 days, which is the lowest on the last 5 years, the historical average is of 85 days. For the forecast, the average was used. The same was done with the forecast of the accounts payable, which had an average of 178 days. With

both accounts, it is assumed that after 2022, the company reversed to the mean, shown in Table 27.

As they are a service company, they don't depend on selling goods to generate revenue, in 2021 they have very little stock, just €17,664 out of the total sales of almost €12 million, which means this is a very insignificant account for their operations, so rather than forecast this account, I assume it will stay the same for the following five years.

The following table shows the working capital forecast for the following years. Considering the hypotheses explained above, the difference between accounts receivables and accounts payables plus the stock, shows the capital the company will have to spend of their daily operations on the following year.

Table 27: Forecast Accounts Payables and Receivable (2022-2026)

Accounts	2022	2023	2024	2025	2026
Accounts Receivable	€ 3,633,515	€ 4,452,297	€ 5,420,772	€ 6,594,371	€ 8,068,192
Accounts payable	€ 2,132,278	€ 2,799,395	€ 3,635,549	€ 4,699,062	€ 6,087,481
Stocks	€ 17,664	€ 17,664	€ 17,664	€ 17,664	€ 17,664
Working Capital	€ 1,518,901	€ 1,670,566	€ 1,802,888	€ 1,912,973	€ 1,998,376
Collection Period	85				
Days of Payments	178				

Equity Forecast

Table 28: Apices' Equity Forecast (2022-2026)

Equity	2022	2023	2024	2025	2026
Capital	€ 3,006	€ 3,006	€ 3,006	€ 3,006	€ 3,006
Other shareholders funds	€ 10,233,569	€ 12,115,606	€ 14,177,829	€ 16,554,340	€ 19,443,993
Reserves	€ 5,678,955	€ 15,912,525	€ 28,028,131	€ 42,205,960	€ 58,760,300
Retained Earnings	€ 10,233,569	€ 12,115,606	€ 14,177,829	€ 16,554,340	€ 19,443,993
Interim Dividend (-)	€ -	€ -	€ -	€ -	€ -

Regarding the capital, the company has had the same amount on the last years, so it is assumed they are going to maintain the same policy where no extra funds are paid into the business by shareholders. The retained earnings are the net profit of the period. This is calculated on the Profit and Loss in Appendix 3. I assume that after buying the company there won't be any dividends, at least for the following five years, so the reserves are the retained earning plus the reserves of the previous period.

Free Cashflow Forecast

Table 29: Apices' Free Cashflow Forecast (2022-2026)

Cashflow	**2022**	**2023**	**2024**	**2025**	**2026**
EBIT*(1-t)	€ 10,233,569	€ 12,115,606	€ 14,177,829	€ 16,554,340	€ 19,443,993
Depreciation	€ 138,977	€ 238,142	€ 448,489	€ 732,718	€ 1,075,192
- Delta WCR	(1,219,975)	(151,665)	(132,322)	(110,086)	(85,402)
- CAPEX	(495,824)	(607,554)	(739,711)	(899,858)	(1,100,974)
FCF	**€ 8,656,748**	**€ 11,594,530**	**€ 13,754,285**	**€ 16,277,114**	**€ 19,332,808**
Net Borrowing	€ 2,037,100	€ -	€ -	€ -	€ -
After tax expenses	€ -	€ -	€ -	€ -	€ -
CFe	€ 10,693,847	€ 11,594,530	€ 13,754,285	€ 16,277,114	€ 19,332,808
Dividends	€ -	€ -	€ -	€ -	€ -
Change in cash	**€ 10,693,847**	**€ 11,594,530**	**€ 13,754,285**	**€ 16,277,114**	**€ 19,332,808**

The final step of the Profit and Loss and Balance Sheet forecast is to estimate the change in cash for each year. The result will go into the Cash & Equivalents account under Current Assets. Once the Change in Cash is added, the Total Assets must be equal to the sum of Total Equity and Liability, if this happens it is an indicator that the forecast was done in the correct way. The cashflow connects the P&L with the BS because we are taking the EBIT from the P&L and the depreciation, working capital and capex from the BS. As shown in the calculations above the working capital is related with the account's payables, accounts receivables and the Stock. The capital expenditure is related with the Property Plant & Equipment account. Finally, the Net Borrowing, represents the difference between the income and outflows related to the debt, which can be found in the Liabilities. The total forecast from 2022 to 2026 for Apices Soluciones can be found in the Appendix #3.

In Cashflow Forecast on Table 29, the first step is to get the forecast of Earnings Before Interest and Taxes from the Profit and Loss and multiply it by (1-tax) to remove the tax effect. After this you need to add the depreciation forecasted, the change in working capital and capital expenditure. If there is an increase in Working Capital or Capital Expenditure, then the number needs to be negative, because it represents an outflow of cash for the company or an increase in spending. The depreciation needs to be added because it doesn't represent a cash outflow for the company, and we had subtracted it in the P&L. The sum of the accounts will result in the total Free Cashflow of the company without considering the debt. As debt and financial investments result in an interest income or expense and a tax shield, they need to be taken into consideration to know what the leftover cash at the end of the year is.

When companies pay dividends, they get the money from the free cashflow so it must be subtracted to get the final change in cash, however, as stated above, after the acquisition Apices will have a 0-dividend policy.

Discounted Cash Flow

To value Apices Soluciones, I considered there would be a perpetual growth of 2%, this number is based on the inflation goal the European Bank has. The expected return I want form the investment is 25% and I am expecting Apices to grow its market share at a rate of 1% each year. The corporate tax rate in Spain is 25%.

The steps to get to the discounted cashflow are like the ones explained for the free cashflow Forecast, with two main differences. The first is that I am not considering the effects of debt and financial investments, so I don't include the Net Borrowing income of 2022. The second in the terminal value.

$$TV = \frac{FCF_{n+1}}{Ke - g}$$

To value the company, I assume it will keep growing after 2026, so I need to forecast the perpetual growth. This is done with the terminal value shown above. On the nominator I need to include a reasonable future cashflow, for this rather than including deprecation, working capital and capex, I just consider the last EBIT forecast minus the taxes, which is correct to assume the tax rate in Spain will stay the same. The result of this calculation is shown in Table 30, under Proforma. I don't consider depreciation and capital expenditure because it is not correct to assume that my assets will grow forever, especially in this case that I am considering an expansionary capex. Regarding depreciation, there is a point where assets are completely depreciated and have a book value of 0, so it is not correct to assume that the company will always have deprecation and at a constant level. For perpetual growth I also must assume a steady working capital, so I don't take it into account for the future cashflow calculation. Ke represents the return I am expecting form the investment (25%) and "g" the growth rate (2%). The result of the calculation is under the year 2026 on the TV line in Table 30.

After discounting all the cashflows by the expected rate of return and adding them up, I will get the enterprise value, which represents the money I will have to pay to acquire it, this calculation is presented in Table 30. This value will represent what the company is worth to me after taking into consideration all the hypotheses and variables used to forecast the Profit and Loss, Balance Sheet, and Discounted Cashflow.

The present value of Apices Soluciones will be €62,645,979. To know if this is a fair and reasonable value, it is important to compare it with the value of other companies in the same segment of Contract Research Organizations. To normalize the differences that companies can have in capital structure, taxation, and fixed assets the EBITDA/EV value is used. It simply divides the last real EBITDA, in this case 2021 by the forecasted enterprise value of the company. The multiple of EBITDA under my valuation is 9.02, this makes sense according to the mid-size CRO multiple in the market.

Jason Monteleone, president of a strategic financial consulting firm serving the Clinical Research Industry, analyzed many CRO's and concluded that: "Typical valuations range from 5x (for smaller, slower growing, riskier CROs) up to 14x (highly attractive desired assets). Mid-size CROs tend to be valued in the 8x-14x range." (Monteleone, 2023)

Table 30: Apices' Discounted Cashflow

		2022		2023		2024		2025		2026	
EBIT	€	13,644,643	€	16,154,005	€	18,903,611	€	22,072,266	€	25,925,103	
(-) Taxes	€	(3,411,074)	€	(4,038,398)	€	(4,725,782)	€	(5,517,926)	€	(6,481,110)	
(+) Depreciation	€	138,977	€	238,142	€	448,489	€	732,718	€	1,075,192	
Delta W.C	€	(1,219,975)	€	(151,665)	€	(132,322)	€	(110,086)	€	(85,402)	
(-) Capex	€	(495,824)	€	(607,554)	€	(739,711)	€	(899,858)	€	(1,100,974)	**Proforma**
TV									€	86,229,880	€ 19,443,993
FCF	**€**	**8,656,748**	**€**	**11,594,530**	**€**	**13,754,285**	**€**	**16,277,114**	**€**	**105,562,688**	
Discounted Cash Flow	€	6,925,398	€	7,420,499	€	7,042,194	€	6,667,106	€	34,590,782	
Enterprise Value	**€**	**62,645,979**									
Multple of EBITDA		**9.02**									

From a simplistic approach, the enterprise value of a company can be measured by the present value of the future cashflows and assets or by the debt market value plus its equity value. The balance sheet serves as a visual representation of this, where assets always have to equal equity and liabilities. The valuation done for Apices' Soluciones was made under the assumption that all the debt would be paid, and the financial investments would be sold before acquiring the company, this meant the company was valued at an equity value. With an unlevered enterprise value, the expected return on the investment is the return on equity (ROE) which is the same as the return on assets (ROA), in this case, the expected ROA and ROE is 25%.

Chapter 4: Sensitivity Analysis and Deal Structuring

The sensitivity analysis turns the result into a statistical analysis by considering the variables that have the greatest impact on the valuation and measuring their elasticity and sensitivity. It shows how different values of independent variables affect a dependent variable under a set of assumptions. The sensitivity analysis helps understand the impact of different influencing factors and reduce uncertainty, as it models what would happen when different scenarios play out. The art of recognizing the effect of these variables and how to diminish their impact on the valuation is the art of structuring.

Structuring a deal is a way to align the investor's risk-return binomial with the seller's interests, based on the expected performance of the business. It will help land the price at which the company will be acquired. Sometimes there are multiple investors bidding for a company, so the structuring can help increase the offer price, while maintaining the expected return, as I will show on the simplified structuring performed later on the chapter.

The acquiring party must structure to generate a confidence interval of the results and valuation that the company can achieve, considering the potential impact and risks associated with various economic, operational, and financial variables. By designing the transaction accordingly, the aim is to achieve the desired return on equity while accounting for the systematic and specific risks.

In a real-life acquisition, the sensitivity analysis and deal structuring are critical stages of the process. The level of complexity involved depends on the number of variables being tested for their elasticity and sensitivity to valuation. Although I will expand on some operating and financial variables that could be considered, I will not be doing the structuring on all of them due to the limited scope of this thesis.

Operating Variables

In the context of acquiring a Contract Research Organization (CRO), several operating variables should be considered. Firstly, the aggregate value captured or destroyed by each study depending on its success or failure. CROs undertake highly complex scientific studies, and any misstep or wrong direction in the process can lead to the complete failure of a study. Such failures can damage the credibility of the CRO, impacting its sales. Conversely, success and efficiency in conducting studies will attract more clients. Secondly, talent retention and attraction for key managerial and scientific positions are essential factors to evaluate. The industry demands highly educated individuals, making it a competitive environment to attract and retain top talent. A team of skilled scientists and medical professionals can significantly influence the success or failure of a project. It is also important to consider specialization or focus the topics that the CRO will undertake. For instance, if the organization aims to concentrate more on cancer studies rather than autoimmune diseases, it should strategically align its focus accordingly.

Additionally, regulatory considerations are vital due to the industry's close involvement with healthcare and pharmaceutical drugs. The CRO must comply with strict regulations, as its operations are highly regulated and dependent on regulatory compliance. Lastly, scalability and gaining market share are critical in this competitive and clustered industry. Competitors can easily seize market share, so the CRO must prioritize strategies for expansion and increasing its market presence.

Financial Variables

The financial variables that should be considered for an acquisition will be more generic than the operating ones. The capital structure to finance the acquisition and its future operations is one of the most important ones. If the company decides to finance itself with debt it must analyze the impact that the debt structures will have on the cashflows depending on their interest rates

and tax shields, as well as the impact it will have on the value of the company and the added risk on the operations.

The value of a company is related to its capital structure, and when the equity value is the same as the asset value, the return on equity is not being optimized. The way to optimize it is with leverage, increasing leverage can increase the expected returns on equity even if the return on assets decreases. Including leverage in the acquisition can introduce benefits in the transaction such as a lower cost of capital and tax shields in the future cashflows. However, there must be a limit to leverage because it will also increase the risk of default and the cost of bankruptcy. Based on these assumptions, which are part of the Modigliani-Miller Theorem about corporate finance, the maximum value of a company is achieved when the tax shields are offset by the bankruptcy cost. (Corporate Finance Institute, 2023)

Other financial variables that can be considered include capital expenditure (capex) and the dividends/retained earnings policy. For capex, the company can choose between expansionary capex or maintenance capex. Opting for expansionary capex would enable them to continue growing, although with a higher level of risk. Consistent investments can help the company adapt to the latest technological and medical trends, as well as expand its operations. As for dividends, the company can decide each year whether to reinvest net income or distribute it to shareholders. Paying dividends can impact the company's value by reducing its cash reserves and potentially necessitating debt financing instead of relying on internally generated cash.

Sensitivity Analysis

The sensitivity analysis turns the valuation result into a statistical analysis by considering the variables that have the greatest impact on the valuation and measuring their elasticity and sensitivity. It shows how different values of independent variables affect a dependent variable under a set of assumptions. The sensitivity analysis helps understand the impact of different

influencing factors and reduce uncertainty, as it models what would happen when different scenarios play out.

For the sensitivity analysis shown on Table 31, the independent variables I will take into consideration are the market share growth that Apices will have in the coming years and the expected return on the investment. This way I will combine a financial need with an operating need. The dependent variable will be the enterprise value of the company expressed as an EBITDA multiple. For the first independent variable I consider scenarios ranging from the possibility that Apices will not grow its market share, all the way to the consideration that it can have a growth of 2% year over year. Regarding the return on equity, I model scenarios that range from a return of 19% on the investment all the way to 31%. The variables I used for the of the valuation above where a market share growth of 1% and an expected return of 25%.

Table 31: Sensitivity Analysis 1

Expected Return	Market Share Growth				
	0.0%	0.5%	1.0%	1.50%	2.00%
19%	9.53	11.15	12.78	14.41	16.03
22%	7.99	9.30	10.61	11.92	13.23
25%	6.86	7.94	9.02	10.11	11.19
28%	5.99	6.91	7.82	8.73	9.65
31%	5.31	6.09	6.88	7.66	8.44

The sensitivity analysis above helps me understand how much I should pay, depending on the different scenarios. My goal is to have a return of 25% by paying a multiple of EBITDA of 9,02, as this is a reasonable multiple where I could do a competitive bid for the company. However, if by any reason the company grows its market share at a slower rate than 1% and I want a return of 25%, the value of the company and the multiple would decrease down to 6,83, considering the market share stays flat on the coming years. Under the same scenario, If I want to maintain my bid of 9,02 then I would have to decrease my expected return on the investment down to 19%. There is no way to receive a return of 25% on the investment with a negative scenario, the company would have to grow its market share at least 1% each year. On an opposite scenario, if

the company has a higher market share growth, I will have to increase my bid for the company, as it would become more valuable.

With the negative scenarios analyzed there is a tradeoff where I would need to decrease the valuation and biding price to maintain the return I want, and risk losing the company to other bidders or decrease my expected return to 19% to have a valuation with a multiple of 9.53 and where the sellers would find my offer attractive, a return so low is no longer attractive for me.

Simplified Structuring

For this particular investment thesis, the structuring will be simplified and will be done for the financial variable of leverage and the operational variable of market growth. The sensitivity analysis on table 31 reveals that the company's valuation is significantly impacted by the operating variable of market share growth that it is expected to achieve in the coming years. To mitigate this impact on the expected return, it is recommended to structure the acquisition with leverage.

For the analysis, I will assume perpetuity and constant cash flows. For debt, I will not consider the effect of tax shields on future cash flows, only the interest payment based on the cost of debt (Kd). Assuming an interest rate of 8% on the debt and adjusting for tax deductibility, the Kd will be 6%.

For the cost of capital, I will use 19%. This is because it represents the return on assets shown in the sensitivity analysis of market growth in Table 31, under the pessimistic assumption that the company did not increase its market share in the following years.

Table 32: Sensitivity Analysis 2

DEBT \ Return on Assets	19.00%	22.00%	25.00%	28.00%	31.00%
15%	21.29%	24.82%	28.35%	31.88%	35.41%
20%	22.25%	26.00%	29.75%	33.50%	37.25%
25%	23.33%	27.33%	31.33%	35.33%	39.33%
30%	24.57%	28.86%	33.14%	37.43%	41.71%
35%	26.00%	30.62%	35.23%	39.85%	44.46%

Table 32 presents the return on equity that investors can expect from the acquisition, based on different scenarios of returns on assets and the capital structure used, as well as the amount of leverage required to make the deal competitive at a multiple of 9.02 or higher. The table shows that there is a possibility to obtain a ROE higher than 25% under any ROA scenario. For instance, under a negative scenario, I would have to leverage the deal up to 33% to get the expected return, however as the ROA increases, by need of debt decreases.

With leverage, the return on equity (ROE) will always be higher than the return on assets (ROA), as indicated in Table 32. By leveraging the deal with at least 33% debt or higher, the acquisition would consistently generate a return on equity surpassing 25%. It is important to note that 33% is the minimum debt required to achieve a return on equity of 25% in a scenario where the return on assets is 19%. Additionally, higher debt levels would result in greater returns on both assets and equity, but this also implies an elevated risk of defaulting on the investment. It is crucial for investors to consider that employing debt to finance operations could lead to financial distress if the company fails to generate sufficient profits for debt repayment. Therefore, it is vital to recognize that when utilizing leverage, a higher return on equity corresponds to a greater investment risk.

Although this approach to deal structuring is limited and simplistic, it helps to demonstrate how an investor can use debt to mitigate the uncertain effects the economy can have on the value of the company and expected returns on the investment. After determining the best capital structure for the expected return of this acquisition, where both the buyer and seller are satisfied with the acquisition price and the return, the final step is to proceed with the transaction.

Conclusion

Following the framework developed in this investment thesis, should help the reader carry out an acquisition of a company in Spain, or any other country, that generates above average returns on the investment. All the specific objectives set out at the beginning of the project where accomplished and served as steps to model a growth equity investment using real data and educate the reader along the way.

By modeling a real-life acquisition, I was able to determine that acquiring Apices Soluciones, within the contract research organization industry in Spain, at a valuation of €62,645,979. and a deal structured with 33% debt and 67% equity is a good investment opportunity that will generate a return on equity of 25%, around 3 times the average market return. The project also helped me gain deeper knowledge about acquisitions in private equity and understand better how finance can be both and art and a science. The most important key takeaways and findings of each step of the process will be summarized in the following paragraphs.

After studying the venture capital, growth equity and leverage buyout strategies, I chose growth equity to carry out the investment because I believe in data and in using quantitative analysis to take the decisions; it also is the one that best suites my low risk profile. Venture capital is too much of an art, it requires intuition and soft skills to determine the best team and opportunity, rather than data do determine the best business. It is a high risk – high return strategy. Leverage buyouts can also have a high risk due to the use of leverage in the deal. LBOs are more science than art. They require high level financial engineering for the structuring of the deal and deep business knowledge to turn around a mature business. Growth equity is the strategy that better balances the use of art and science to maximize the returns on the investment at the lowest risk possible.

I tried to use just public data to identify the acquisition target and find a market in disequilibrium that was performing better that the rest, however this was not possible. One of the key findings

of the second chapter was that the CNAE can't be trusted nor used as data source to carry out an investment. It incorrectly classifies the different industries in the Spanish market. Although they don't say what arguments they use, it is clear they don't classify an industry as one that has the same clients, suppliers, and competitive pitch.

The best way to find an industry growing at higher rates than the market and a company that is outperforming its peers is with big data models. Big data is the best solution because it doesn't depend on assumptions, it replicates the economy bottom up to find the growth currents of pure economic segments and the outliers in the industries. To reach the asymmetry of information needed to find the best investment opportunity, private data such as the companies bank transactions and tax payments, is needed. Big data models are the best tool to analyze and synthesize all the private and public data to generate the most accurate findings.

Financial modeling is key to forecast the present value of the company that wants to be acquired, however finance is not deterministic so a sensitivity analysis needs to be done to understand the effects that different variables can have on the valuation of the company. By turning the valuation into a statistical result, you are removing risk from the investment and turning it into a scientific approach. The economy is always changing, and no one can correctly predict how it will unfold in the future. The sensitivity analysis will help the investor be ready for all the different impacts that changes in the economy can have con the value of the company and on the future cashflows on the investment.

The art of understanding the sensitivity analysis is the art of structuring the deal and for the investor to know what he doesn't know. Structuring the deal helps to see the effects that variables will have on the value of the company, and structuring helps to prepare yourself for the effects of those variables. Deal structuring is crucial to get the desired profile of return out of the investment while mitigating the risks, such as a negative economic scenario. It helps the investor take advantage of leverage to increase the return on equity in case the return on assets decreases thanks to the effects of a financial or operational variable. By leveraging the acquisition, the

investor can achieve the desired return on equity even if the company is impacted by negative externalities.

The purpose of presenting a top-down perspective of the acquisition process is to enable readers to grasp how it functions from start to finish and encourage them to further explore the steps that interest them the most. I hope for this investment thesis to educate readers on finance, with a particular emphasis on acquisitions, much like it has broadened my understanding of the subject.

Bibliography

About. (2023). Retrieved from SNFL Group: https://snflgroup.com/all_locations/mediterranean/

About Amorós. (2023). Retrieved from Amoros Nature Technology: https://amorosnature.com/en/about-amoros.html

About Hifas. (2023). Retrieved from Hifas da Terra: https://hifasdaterra.com/en/about-hifas/

About Us. (2023). Retrieved from VerNatura: https://verdnatura.es/en/about/

Andreessen Horowitz. (2023). *About*. Retrieved from Andreessen Horowitz: https://a16z.com/about/

Andreessen, M. (2021, August 4). Bloomberg Wealth with David Rubenstein: Marc Andreessen. (D. Rubenstein, Interviewer)

Apices Soluciones SL. (2023). *Apices Clinical Support Research in Europe*. Retrieved from Who We Are: https://www.apices.es/about-us/

Avanzare Innovación Tecnologica SL. (2023). *Discover Avanzare*. Retrieved from Avanzare Inventing the Future : https://www.avanzarematerials.com/avanzare/

Biolan Microbiosensores SL. (2023). *Biolan*. Retrieved from Sobre Nosotros : https://biolanmb.com

Blackstone. (2023, March 14). *The Firm* . Retrieved from Blackstone: https://www.blackstone.com/the-firm/

Bravo, O. (2021, June 30). Private-Equity Secrets of Thoma Bravo's Billionaire Boss. (E. Schatzker, Interviewer)

Bristol Myers Squib(Celgene Research). (2023). *Our Company* . Retrieved from Bristol Myers Squib : https://www.bms.com/about-us/our-company.html

Compañia - Nosotros . (2023). Retrieved from Selecta Cut Flowers: https://www.selectacutflowers.com/es/home

Corporate Finance Institute. (2023, March 14). *M&M Theorem*. Retrieved from Corporate Finance Institute: https://corporatefinanceinstitute.com/resources/valuation/mm-theorem/#

Cote, C. (2021, July 13). *3 Key Types of Private Equity Strategies*. Retrieved from Harvard Business School Online: https://online.hbs.edu/blog/post/types-of-private-equity

Dooley, B. (2019, November 6). *The New York Times*. Retrieved from SoftBank Takes a $4.6 Billion Hit From WeWork. Its C.E.O. Remains Defiant.: https://www.nytimes.com/2019/11/06/business/softbank-loss-wework.html

Empresa . (n.d.). Retrieved from Vivero Las Fresas: https://www.vlasfresas.com/empresa/

Emrpesa. (2023). Retrieved from Actúa: https://actuasm.es/empresa/

Fricke, F. (2021, March 5). *Hilton Leveraged Buyout — The Hospitality Buyout of the Century*. Retrieved from Medium: https://novavcpeclub.medium.com/hilton-leveraged-buyout-the-hospitality-buyout-of-the-century-45a6c0f932ce

Gartner. (2023). *Big Data*. Retrieved from Gartner: Gartner.com

Gold Standard Diagnostics (Eurofins Ingenasa SA). (2023). *Gold Standard Diagnostics*. Retrieved from Sobre Nosotros: https://www.goldstandarddiagnostics.es/home-es/sobre-nosotros/

Innovaoleo SL. (2023). *Proyecto Innolivo*. Retrieved from Natac Science to Market : https://natacgroup.com/es/noticias/proyecto-innolivo/

Jahn, M. (2022, July 10). *How Do Returns on Private Equity Compare to Other Investment Returns?* Retrieved from Investopedia: https://www.investopedia.com/ask/answers/040615/how-do-returns-private-equity-investments-compare-returns-other-types-investments.asp#:~:text=Private%20equity%20produced%20average%20annual,S%26P%20500%2C%20and%20venture%20capital.

Jordan, J. (2011, July 24). *Meet Our Newest Portfolio Company, Airbnb*. Retrieved from Andreessen Horowitz: https://a16z.com/2011/07/24/meet-our-newest-portfolio-company-airbnb-2/

Kimitec. (2023). *Kimitec Bioinnovation that Cares*. Retrieved from Discover Kimitec Group: https://kimitec.com/en/about-us/

KKR. (2023, March 14). *KKR Today*. Retrieved from KKR: https://www.kkr.com/kkr-today

Kravis, H. (1991, February 12). Henry Kravis, Academy Class of 1987, Full Interview. (T. A. Achievement, Interviewer)

Maverik, J. (2023, April 5). *S&P 500 Average Return*. Retrieved from Investopedia: https://www.investopedia.com/ask/answers/042415/what-average-annual-return-sp-500.asp

Monteleone, J. (2023). *CRO Consolidations - Does 1 + 1 = 3?* Retrieved from Pivotal Financial Consulting : https://www.pivotalfinancialconsulting.com/single-post/2016/11/25/cro-consolidations-does-1-1-3#:~:text=CROs%20tend%20to%20be%20valued,in%20the%208x%2D14x%20range.

Natac. (2023). *Natac Science to Market* . Retrieved from About Us : https://natacgroup.com/about-us/

Pevesa. (n.d.). *Welcome to Pevesa* . Retrieved from Pevesa a Kerry Company: https://explore.kerry.com/pevesa.html

Pivotal SL. (2023). *Pivotal*. Retrieved from Who We Are: https://pivotalcr.com/who-we-are/

Presentation. (2023). Retrieved from Innoprot: https://innoprot.com/presentation/

Proquiga Biotech. (2023). *Proquiga Biotech*. Retrieved from Proquiga Group : https://proquiga.es/en/biotecnologia-alimentacion/food-additives-and-preservatives/gmx-niv29.htm

Qué Hacemos . (2023). Retrieved from El Ejidillo: http://www.ejidillo.com

Quienes Somos . (2023). Retrieved from Grupo Decora Life S.L.: https://www.decoralife.com/es/

Quienes Somos . (2023). Retrieved from Gradyflor: https://www.gradyflor.com/es/quienes-somos

Quiénes somos. (2023). Retrieved from Health in Code : https://healthincode.com/sobre-health-in-code/

Sanz, Á. (2023, January 18). Venture Capital Strategy. (M. Koberg, Interviewer)

Schwarzman, S. (2016, December 15). Stephen Schwarzman | Full Q&A | Oxford Union. (O. Students, Interviewer)

Schwarzman, S. (2020, May 15). Stephen Schwarzman: Going Big in Business, Investing, and AI | Lex Fridman Podcast #96. (L. Fridman, Interviewer)

Semillas de Canabis . (2023). Retrieved from Sweet Seeds: https://sweetseeds.es/es/#

Sobre nosotros . (2023). Retrieved from Biolanmb: https://biolanmb.com/biolan/

Sobre Nosotros . (2023). Retrieved from Bruc Jardí: https://www.brucjardi.com

The 3Rs are fundamental for ZeClinics:. (2023). Retrieved from ZeClinics: https://www.zeclinics.com/about-us/

Tramplin, T. (2023, March 29). *Capital Asset Pricing Model (CAPM) Overview*. Retrieved from Finance Strategists : https://www.financestrategists.com/wealth-management/valuation/capital-asset-pricing-model/#:~:text=The%20formula%20for%20CAPM%20is,is%20the%20market%20risk%20premium).

Viveros Medipalm . (2023). Retrieved from Viveros Medipalm : http://www.medipalm.com/en/

Wall Street Prep. (2023). *Growth Equity Guide*. Retrieved from Wall Street Prep: https://www.wallstreetprep.com/knowledge/growth-equity-guide/

Who We Are. (2023). Retrieved from Sermes CRO: https://www.sermescro.com/?page_id=1121&lang=en

Appendix 1: Industries in Highest Quartile of CAGR in EBITDA

Industries in Highest Quartile of CAGR in EBITDA		
Industry	**Businesses**	**CAGR EY5**
Wholesale of flowers and plants	12	24,30%
Research and experimental development on biotechnology	21	23,51%
Manufacture of kitchen furniture	12	23,34%
Wholesale of metals and metal ores	114	22,54%
Recovery of sorted materials	22	22,34%
Retail sale via mail order houses or via Internet	16	22,32%
Other manufacturing n.e.c.	20	21,42%
Manufacture of builders' ware of plastic	15	21,34%
Dismantling of wrecks	12	20,61%
Retail sale of medical and orthopaedic goods in specialised stores	26	20,57%
Renting and leasing of construction and civil engineering machinery and equipment	73	20,56%
Demolition	12	20,45%
Manufacture of ready-mixed concrete	15	18,83%
Sawmilling and planning of wood	21	18,51%
Manufacture of wooden containers	32	18,43%
Manufacture of bricks, tiles and construction products, in baked clay	16	18,32%
Plumbing, heat and air-conditioning installation	41	18,19%
Agents involved in the sale of machinery, industrial equipment, ships and aircraft	15	17,55%
Retail sale of hardware, paints and glass in specialised stores	21	17,54%
Manufacture of metal forming machinery	11	17,29%
Support activities for animal production	11	16,90%
Site preparation	46	16,79%
Agents specialised in the sale of other particular products	22	16,70%
Retail sale of sporting equipment in specialised stores	16	16,57%
Shaping and processing of flat glass	15	16,45%
Cutting, shaping and finishing of stone	10	16,39%
Growing of cereals (except rice), leguminous crops and oil seeds	25	16,36%
Computer facilities management activities	19	16,21%
Construction of other civil engineering projects n.e.c.	24	16,09%
Dental practice activities	24	15,72%
Manufacture of agricultural and forestry machinery	24	15,34%
Agents involved in the sale of fuels, ores, metals and industrial chemicals	17	15,09%
Agents involved in the sale of a variety of goods	34	14,96%
Computer consultancy activities	98	14,83%
Other retail sale in non-specialised stores	14	14,73%
Growing of pome fruits and stone fruits	12	14,47%
Wholesale of hardware, plumbing and heating equipment and supplies	74	14,24%
Wholesale of solid, liquid and gaseous fuels and related products	30	14,10%
Manufacture of doors and windows of metal	56	14,00%
Aluminium production	14	13,97%
Mixed farming	23	13,95%
Other research and experimental development on natural sciences and engineering	40	13,81%
Manufacture of electronic components	27	13,77%
Operation of gravel and sand pits; mining of clays and kaolin	23	13,58%
Growing of vegetables and melons, roots and tubers	54	13,57%
Manufacture of concrete products for construction purposes	22	13,39%
Wholesale of chemical products	151	13,38%
Other transportation support activities	137	13,37%
Residential buildings construction	148	13,35%
Trade of electricity	16	13,31%
Manufacture of fertilisers and nitrogen compounds	44	13,31%
Wholesale of computers, computer peripheral equipment and software	39	13,30%
Wholesale of electronic and telecommunications equipment and parts	85	13,25%

Appendix 2: Apices Soluciones S.L. Profit & Loss Statement and Balance Sheet (2016-2021)

Apices Soluciones SL Balance Sheet (2016-2021)						
BALANCE STATEMENT	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Fixed Assets	**€ 661,308**	**€ 454,554**	**€ 485,185**	**€ 925,825**	**€ 3,338,654**	**€ 3,250,248**
Tangible fixed assets	€ 398,158	€ 447,904	€ 478,475	€ 854,115	€ 776,527	€ 694,887
Long term financial investments	€ 263,150	€ 6,650	€ 6,710	€ 71,710	€ 2,562,127	€ 2,555,361
Current assets	**€ 4,332,735**	**€ 3,946,995**	**€ 6,136,906**	**€ 9,550,273**	**€ 6,472,684**	**€ 4,001,291**
Stocks	€ 400	€ -	€ 1,536	€ 521	€ 264	€ 17,664
Debtors	€ 777,998	€ 717,883	€ 687,719	€ 1,933,351	€ 3,008,770	€ 1,332,578
Other Current Assets	€ 3,554,337	€ 3,229,112	€ 5,447,651	€ 7,616,401	€ 3,463,650	€ 2,651,048
Cash & Equivalents	€ 359,640	€ 1,765,952	€ 4,285,401	€ 6,382,340	€ 3,383,901	€ 2,566,823
Other	€ 3,194,697	€ 1,463,160	€ 1,162,250	€ 1,234,061	€ 79,749	€ 84,225
TOTAL ASSETS	**€ 4,994,043**	**€ 4,401,549**	**€ 6,622,091**	**€ 10,476,099**	**€ 9,811,338**	**€ 7,251,538**
Non current liabilities	**€ -**	**€ -**	**€ -**	**€ 12,519**	**€ 10,336**	**€ -**
Long-term debt	€ -	€ -	€ -	€ 12,519	€ 10,336	€ -
Current liabilities	**€ 2,859,205**	**€ 2,625,632**	**€ 4,125,972**	**€ 6,583,242**	**€ 8,153,351**	**€ 6,562,510**
Short term debts	€ -	€ -	€ 1,026	€ 8,333	€ 2,183	€ 10,336
Trade creditors & Accounts Payable	€ 619,361	€ 621,199	€ 671,305	€ 1,097,835	€ 792,187	€ 1,051,316
Short Term Periodifications	€ 2,239,844	€ 1,887,853	€ 3,100,905	€ 4,759,101	€ 6,748,468	€ 5,470,354
Short term debts	€ -	€ 116,580	€ 352,736	€ 717,973	€ 610,513	€ -
Other financial liabilities	€ -	€ -	€ -	€ -	€ -	€ 30,504
TOTAL LIABILITY	**€ 2,859,205**	**€ 2,625,632**	**€ 4,125,972**	**€ 6,595,761**	**€ 8,163,687**	**€ 6,562,510**
Capital	€ 3,006	€ 3,006	€ 3,006	€ 3,006	€ 3,006	€ 3,006
Other shareholders funds	€ 2,131,832	€ 1,772,911	€ 2,493,112	€ 3,877,330	€ 1,644,645	€ 686,022
Reserves	€ 1,615,134	€ 1,090,593	€ 1,090,593	€ 1,090,593	€ 1,090,593	€ 537,630
Retained Earnings	€ 516,698	€ 682,318	€ 1,402,519	€ 2,786,737	€ 4,550,052	€ 5,141,325
Interim Dividend (-)	€ -	€ -	€ -	€ -	€ (3,996,000)	€ (4,992,933)
TOTAL EQUITY	**€ 2,134,838**	**€ 1,775,917**	**€ 2,496,118**	**€ 3,880,336**	**€ 1,647,651**	**€ 689,028**
TOTAL EQUITY + LIABILITY	**€ 4,994,043**	**€ 4,401,549**	**€ 6,622,091**	**€ 10,476,099**	**€ 9,811,339**	**€ 7,251,539**
Number of employees	45	39	23	17	13	13
WORKING CAPITAL	€ 1,350,243	€ 3,009,034	€ 1,933,872	€ 689,255	€ 717,883	€ 778,398

Apices Soluciones SL Profit & Loss (2016-2021)						
INCOME STATEMENT	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
SALES	**€ 2,720,371**	**€ 3,002,357**	**€ 4,443,829**	**€ 6,618,430**	**€ 9,657,085**	**€ 11,835,517**
Works carried out for other companies	€ (1,295,768)	€ (1,110,393)	€ (1,596,987)	€ (1,520,798)	€ (1,988,849)	€ (3,022,327)
Labour cost	€ (476,394)	€ (550,563)	€ (653,935)	€ (873,402)	€ (1,272,071)	€ (1,579,248)
Other operating costs	€ (213,501)	€ (293,152)	€ (266,955)	€ (412,346)	€ (219,721)	€ (353,838)
Results for disposals and others	€ -	€ -	€ 6,767	€ -	€ -	€ 63,361
EBITDA	**€ 734,709**	**€ 1,048,250**	**€ 1,932,720**	**€ 3,811,884**	**€ 6,176,444**	**€ 6,943,464**
Depreciation	€ (62,121)	€ (29,642)	€ (62,991)	€ (97,532)	€ (155,017)	€ (98,396)
EBIT	**€ 672,587**	**€ 1,018,607**	**€ 1,869,728**	**€ 3,714,352**	**€ 6,021,427**	**€ 6,845,068**
Financial revenue	€ 17,032	€ 2,841	€ 910	€ 1,706	€ 46,112	€ 10,752
Financial expenses	€ (314)	€ (103,276)	€ -	€ (511)	€ (920)	€ (778)
EBT	**€ 689,306**	**€ 918,173**	**€ 1,870,638**	**€ 3,715,548**	**€ 6,066,618**	**€ 6,855,042**
Taxes	€ (172,608)	€ (235,854)	€ (468,119)	€ (928,811)	€ (1,516,566)	€ (1,713,717)
NET INCOME	**€ 516,698**	**€ 682,318**	**€ 1,402,519**	**€ 2,786,737**	**€ 4,550,052**	**€ 5,141,325**

Appendix 3: Apices Soluciones S.L. Profit & Loss Statement and Balance Sheet Forecast (2022-2026)

Apices' Income Statement Forecast (2022-2026)						
INCOME STATEMENT	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
SALES	**€ 11,835,517**	**€ 15,615,600**	**€ 19,134,443**	**€ 23,296,620**	**€ 28,340,342**	**€ 34,674,321**
(Cost of Sales)	€ (3,022,327)	€ (4,372,368)	€ (5,740,333)	€ (7,454,918)	€ (9,635,716)	€ (12,482,755)
Labour cost	€ (1,579,248)	€ 2,005,557	€ 2,361,820	€ 2,759,087	€ 3,214,728	€ 3,759,838
Other operating costs	€ (353,838)	€ 451,233	€ 533,781	€ 626,593	€ 733,911	€ 863,263
Results for disposals and others	€ 63,361	€ 83,598	€ 102,436	€ 124,718	€ 151,719	€ 185,628
EBITDA	**€ 6,943,464**	**€ 13,783,621**	**€ 16,392,147**	**€ 19,352,100**	**€ 22,804,984**	**€ 27,000,295**
Depreciation	€ (98,396)	€ (138,977)	€ (238,142)	€ (448,489)	€ (732,718)	€ (1,075,192)
EBIT	**€ 6,845,068**	**€ 13,644,643**	**€ 16,154,005**	**€ 18,903,611**	**€ 22,072,266**	**€ 25,925,103**
Financial revenue	€ 10,752	€ -	€ -	€ -	€ -	€ -
Financial expenses (Interest)	€ (778)	€ -	€ -	€ -	€ -	€ -
EBT	**€ 6,855,042**	**€ 13,644,643**	**€ 16,154,005**	**€ 18,903,611**	**€ 22,072,266**	**€ 25,925,103**
Taxes	€ (1,713,717)	€ (3,411,074)	€ (4,038,398)	€ (4,725,782)	€ (5,517,926)	€ (6,481,110)
NET INCOME	**€ 5,141,325**	**€ 10,233,569**	**€ 12,115,606**	**€ 14,177,829**	**€ 16,554,340**	**€ 19,443,993**

Apices' Balance Sheet Forecast (2022-2026)						
BALANCE SHEET	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Fixed Assets	**€ 3,250,248**	**€ 1,051,734**	**€ 1,421,146**	**€ 1,712,368**	**€ 1,879,508**	**€ 1,905,290**
Tangible fixed assets (PP&E)	€ 694,887	€ 1,051,734	€ 1,421,146	€ 1,712,368	€ 1,879,508	€ 1,905,290
investments)	€ 2,555,361	€ -	€ -	€ -	€ -	€ -
Current assets	**€ 4,001,291**	**€ 16,996,075**	**€ 29,409,387**	**€ 44,132,147**	**€ 61,582,860**	**€ 82,389,489**
Stocks	€ 17,664	€ 17,664	€ 17,664	€ 17,664	€ 17,664	€ 17,664
Debtors (Account Receivables)	€ 1,332,578	€ 3,633,515	€ 4,452,297	€ 5,420,772	€ 6,594,371	€ 8,068,192
Cash & Equivalents	€ 2,651,048	€ 13,344,896	€ 24,939,426	€ 38,693,711	€ 54,970,825	€ 74,303,633
TOTAL ASSETS	**€ 7,251,538**	**€ 18,047,809**	**€ 30,830,532**	**€ 45,844,515**	**€ 63,462,368**	**€ 84,294,779**
Non current liabilities	**€ -**	**€ -**	**€ -**	**€ -**	**€ -**	**€ -**
Current liabilities	**€ 6,562,510**	**€ 2,132,278**	**€ 2,799,395**	**€ 3,635,549**	**€ 4,699,062**	**€ 6,087,481**
Short term debts	€ 10,336	**€ -**	**€ -**	**€ -**	**€ -**	**€ -**
Trade creditors & Accounts Payable	€ 1,051,316	€ 2,132,278	€ 2,799,395	€ 3,635,549	€ 4,699,062	€ 6,087,481
Short Term Periodifications	€ 5,470,354	€ -	€ -	€ -	€ -	€ -
Short term debts	€ -	€ -	€ -	€ -	€ -	€ -
Other financial liabilities	€ 30,504	€ -	€ -	€ -	€ -	€ -
TOTAL LIABILITY	**€ 6,562,510**	**€ 2,132,278**	**€ 2,799,395**	**€ 3,635,549**	**€ 4,699,062**	**€ 6,087,481**
Capital	€ 3,006	€ 3,006	€ 3,006	€ 3,006	€ 3,006	€ 3,006
Reserves	€ 537,630	€ 5,678,955	€ 15,912,525	€ 28,028,131	€ 42,205,960	€ 58,760,300
Retained Earnings	€ 5,141,325	€ 10,233,569	€ 12,115,606	€ 14,177,829	€ 16,554,340	€ 19,443,993
Dividends	€ (4,992,933)	€ -	€ -	€ -	€ -	€ -
TOTAL EQUITY	**€ 689,028**	**€ 15,915,531**	**€ 28,031,137**	**€ 42,208,966**	**€ 58,763,306**	**€ 78,207,298**
TOTAL EQUITY + LIABILITY	**€ 7,251,539**	**€ 18,047,809**	**€ 30,830,532**	**€ 45,844,515**	**€ 63,462,368**	**€ 84,294,779**