Opportunity Summary of the company

PROFIRENT Gépkolcsönző Kft. for

OR·I·E·NS

presented by Barbora Jelinkova

contents

December 2023

COMPANY

&

COMPETITORS

Company profile

Provider of **rental services** catering to the construction industry. Profirent also **sells** construction machines an

tools, small, earthmoving, lifting and heating and cooling machines, construction scaffolding, elevators, winche

conveyor belts, mobile fences, cordons and containers. Lastly, it **consults** its clients to carry out their work in

plannable, predictable and cost-effective manner.

- founded in 2001 - substantial industry knowledge
- 10 000 + machines
- 200 employees
- 19 locations
- diversifying customer base (events, movies, egriculture)
- B2B, B2C

profirent
több mint gépkölcsönző

Competitors & similar comapnies

barrier to entry for new company

- high CAPEX, physical equipment, establish new brand within competitive environment

construction value chain

- Planning and Design→Project Development→**Construction**→Material Supply→Operations and Maintenance→**Renovation and Demolition (can leap back to construction)**→Real Estate Services→Infrastructure and Utilities

Competition in Construction, Mining, and Forestry Machinery and Equipment Rental and Leasing

company	# locations in Hungary*	Net sales revenue*	Total operating revenue*	Operating profit (EBIT)*	EBITDA*
profirent több mint gépkölcsönző	18	35.08%▲	34.01%▲	57.99%▲	39.81%▲
mateco YOUR BETTER WAY UP	8	63.76%▲	64.2%▲	33.04%▲	28.2%▲
maltech	3	2.36%▲	5.6%▲	28.79%▲	19.09%▲
BESTRENT HUNGARY	3	-32.11%▼	32.13%▼	N/A	-95.46%▼
Gepberlet, Wacker Neuson, Rentime	1 or 2				

*Annual growth percentages for latest two years in local currency HUF. Absolute financial data is included in the purchased report

- most competitors concentrated around Budapest
- biggest in the overall industry: United Rentals, LOXAM, Huntraco, Liebherr Group, Caterpillar Inc
- apart from ventures where machine rental is the primary source of income, other companies have it as one of services provided (OBI, BAUHAUS, BOELS)

MARKET ANALYSIS

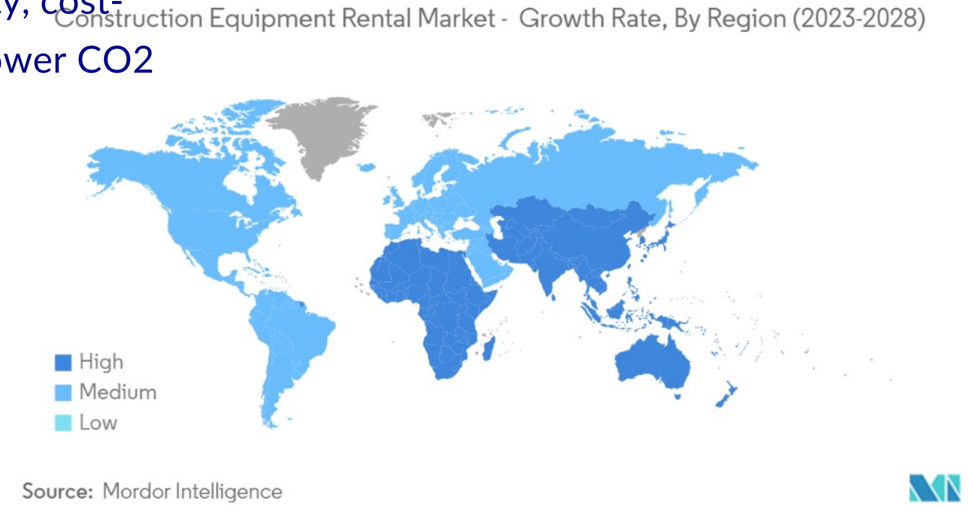
Market

Macrotrends

- rental x ownership (sharing economy, flexibility, cost-effective, lower risk, circular economy, 30% lower CO_2 emissions)
- sustainability, electrification, digitalisation

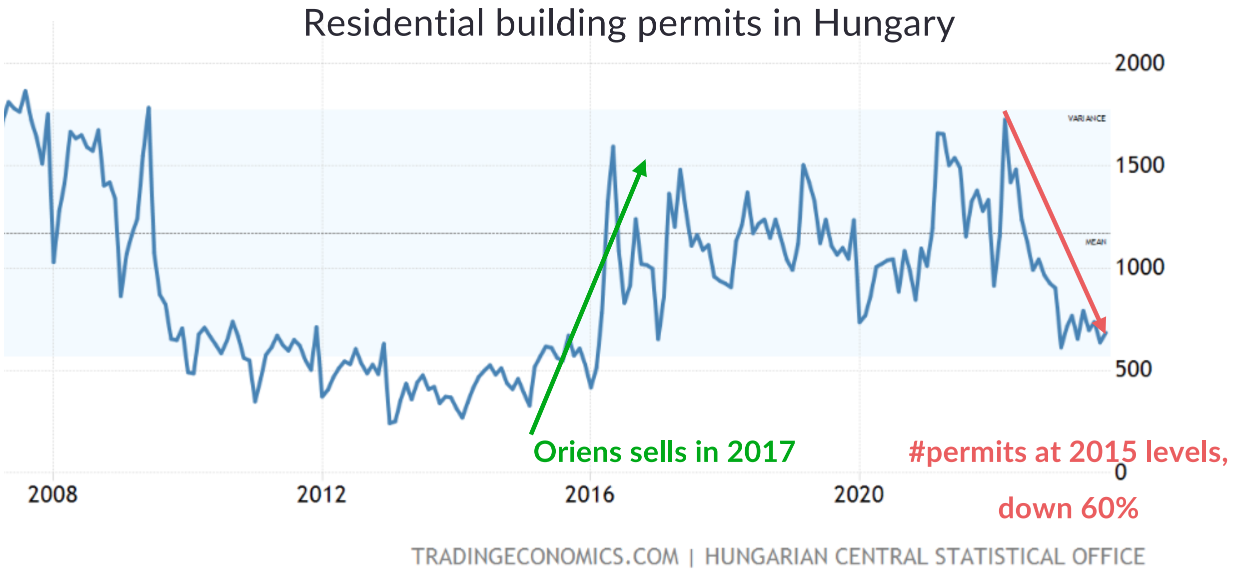
The Machinery Rental And Leasing Market

- expected to grow from USD 123.07 billion i USD 158.35 billion by 2028
- CAGR of 5.17% (2023-2028)
- primarily due to emerging markets such as ASEAN countries and Africa



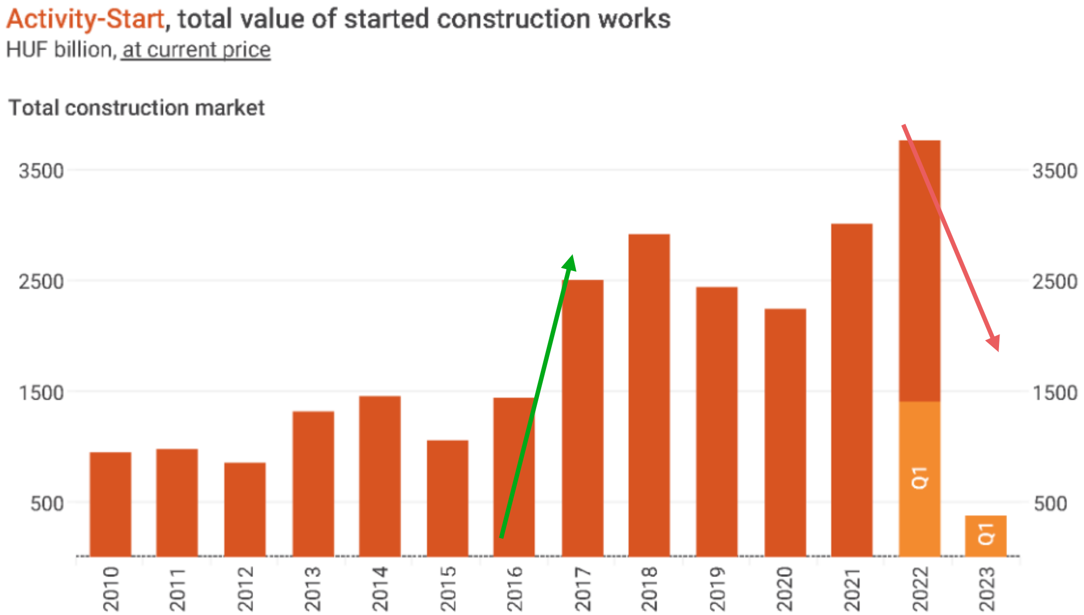
Zooming in ...

- from 2016 - 2022, there was a huge construction expansion in Hungary
- fall in 2022 ~ 2009



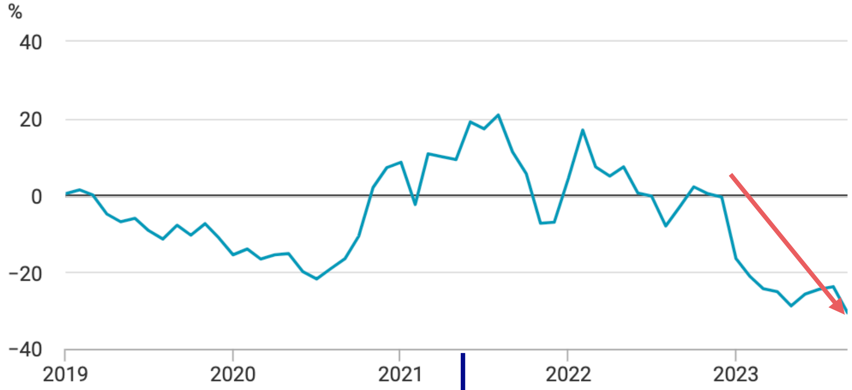
Zooming in …

- Core inflation in Hungary - 11% in 2023
- Hungary at the end of technical recession in Q4 2023 (2xQ)



Volume change of the stock of contracts in construction at the end of the reference period

(compared to the same period of the previous year)



Poor Q1 2023 construction Activity-Start in Hungary

Bad news from Hungary's economy: construction, industry fall

Q4 22 SEES A LOW VALUE OF CONSTRUCTION START IN HUNGARY

Warren Buffett once said that it's wise for investors to "be fearful when others are greedy and to be greedy only when others are fearful."

State of the economy can offer an opportunity to buy at much lower price as the business depreciated in recession.

POTENTIAL INVESTMENT

Investment

potential buyers

LAXOM, Modulaire Group, Zeppelin, Boels

comparable transactions

- Norwegian general rental company Mylift, aquired by Renta Group

predicting CAPEX

- high if demand picks up →diversified customer base, electrification
- inflation pressures on wages
- 34% increase in machinery in 2022 - what are they going to use it for now? Equipment will sit and wait.

Investment + LBO

- EBITDA multiple 6x

Model A - my assumptions

EV	*mHUF*	17 554					19 654
Net debt (cash)	*mHUF*	1 439	8 328	7 332	6 004	4 310	2 398
Net debt / EBITDA	*x*		*3,9x*	*3,0x*	*2,2x*	*1,4x*	*0,7x*
Equity value	*mHUF*	16 116					17 257
Investor cash flow	*mHUF*	**(6 446)**					**17 257**
IRR	*%*	21,7%					
MoM	*x*	2,7x					

Model B - without predictions

EV	*mHUF*	20 652					27 087
Net debt (cash)	*mHUF*	1 439	9 901	8 014	5 861	3 435	729
Net debt / EBITDA	*x*		*2,7x*	*2,1x*	*1,4x*	*0,8x*	*0,2x*
Equity value	*mHUF*	19 214					26 359
Investor cash flow	*mHUF*	**(7 685)**					**26 359**
IRR	*%*	36,1%					
MoM	*x*	3,4x					

Risks

- Emission regulation →Profirent has almost **no electric machinery** (Boels with 80%)
- Inflation stays high, Hungary falls into deeper and longer recession, **creating uncertainty**
- **Low demand, foreign direct investment slumps**
- Limited to **local demand, one economy, one cycle**→ Profirent has to keep a diversified customer base
- **Hungary won't receive EU Funds** (dispute over civil rights and the rule of law)→ no large projects
- Hungary leaves EU (Hungary becomes full payer after balkan states join the union)

- war in Ukraine... an opportunity to scale?

Value creation opportunities

- electrification (although very expensive)
- **rental app**
- expansion to Ukraine after war
- merging with construction materials company
- **further diversification**
  - events
  - movie makers
  - industrial companies
  - **agriculture (gvt transfers, war, weather)**

SUMMARY

Porter's 5

yes

threat of new entry

online rental, market expansion, multinational companies entering the market

Mateco, Maltech, Bestrent, Boels, RenTime, LOXAM ...

competition

so so

no

supplier power

Profirent has a good position against the suppliers as a dominant market player

demand for rental pushes prices down, making companies fight for lower prices

customer power

yes

no

substitution threat

owning instead of borrowing not a thread

Summary

- The Hungarian economy is currently undertaking a bumpy ride
- Deflationary technical recession is **clearing the market like a storm,** leaving opportunity for Profirent in the coming years
- Profirent has **unique position on the market, spread over the country**
- At the same time, we probably **won't see the same 3-year upswing in the near term**
- Oriens and Profirent have a good partnership fit, since the company operates within Oriens' field of knowledge, besides, they already were under the management of Oriens once before.

In the pursuit of realistic assessment of the current market, investment analysis, risks and trends, I sought view from three industry experts. Their insights and experience were invaluable to my understanding.

Antonín Jelínek

Stavebniny Kolumbus, 40+ years in market

- Rental is a huge opportunity (owners have to use equipment daily to get return)
- Profirent buy for low price in 2024
- Opportunity with many MSE in CEE

Csilla Gergely

ID&PARTNERS, Hungary, 15+ years in market

- many companies cannot afford to buy their own equipments/work on bigger projects having not enough equipments → renting prices are good
- there is a sharp decline in new projects

Peter Virovacz

Chief Economist – ING Hungary

- "More than a few quarters have to pass for sectors such as industry, trade and construction to get back on their foot."

Inverstment summary

for	against
rental x ownership, sustainability macrotrend	global issues
company's knowledge	high inflation
partnership fit	not following electrification trend
solid market position	prolonged recession in Hungary
opportunity to buy low	risk and uncertainty too high

Financially, economically and environmentally rental might be a solution for today, but mainly the solution for tomorrow. Strategically, it might be worth reconsidering buying Profirent within the next decade.

My recommendation is to not buy now. When the economy seeks recovery, follow the construction cycle and possibly buy in ~2025-9.

APPENDIX

Appendix
Model A - my assumptions

Operational metrics		2023	2024	2025	2026	2027	2028
Revenue growth (p.a.	%	-15,0%	2,5%	3%	4%	5%	5%
EBITDA margin	%	19,0%	*21%*	*23%*	*25%*	*27%*	*27%*
Cash conversion	%	26,0%	100,0%	70,0%	70,0%	70,0%	70,0%
Transactional metrics							
Entry EBITDA multiple	x	6,0x					
Exit EBITDA multiple	*x*	6,0x					
Leverage metrics							
Entry leverage	%	60,0%					
x EBITDA	*x*	*3,6x*					
Interest expense	%	10,0%					

Case 2: with leverage		**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
Revenue	*mHUF*	10 022	10 273	10 581	11 004	11 555	12 132
YoY growth	*%*		*2,5%*	*3%*	*4%*	*5%*	*5%*
EBITDA	*mHUF*	2 926	2 157	2 434	2 751	3 120	3 276
margin	*%*	19,0%	*21%*	*23%*	*25%*	*27%*	*27%*
FCFF	*mHUF*	838	2 157	1 704	1 926	2 184	2 293
cash conversion	*%*	*26%*	*100%*	*70%*	*70%*	*70%*	*70%*
EV	*mHUF*	17 554					19 654
Net debt (cash)	*mHUF*	1 439	8 328	7 332	6 004	4 310	2 398
Net debt / EBITDA	*x*		*3,9x*	*3,0x*	*2,2x*	*1,4x*	*0,7x*
Equity value	*mHUF*	16 116					17 257
Investor cash flow	*mHUF*	**(6 446)**					**17 257**
IRR	*%*	21,7%					
MoM	*x*	2,7x					

Debt schedule			2024	2025	2026	2027	2028
Starting debt	*mHUF*		9 669	8 461	7 252	6 043	4 835
Tenure	*years*	8,0					
Debt repayment	*mHUF*		(1 209)	(1 209)	(1 209)	(1 209)	(1 209)
Ending debt	*mHUF*		8 461	7 252	6 043	4 835	3 626
Interest expense	*mHUF*		(907)	(786)	(665)	(544)	(423)
Tax rate	*%*	*10%*					
Interest expense (after tax)	*mHUF*		(816)	(707)	(598)	(490)	(381)
Cash EOP	*mHUF*		*133*	*(79)*	*39*	*525*	*1 229*

Appendix

Modeal B - without predictions

Case 2: with leverage		**2023**	**2024**	**2025**	**2026**	**2027**	**2027**
Revenue	*mHUF*	11 791	12 381	13 000	13 650	14 332	15 049
YoY growth	*%*		*5%*	*5%*	*5%*	*5%*	*5%*
EBITDA	*mHUF*	3 442	3 714	3 900	4 095	4 300	4 515
margin	*%*	*29%*	*30%*	*30%*	*30%*	*30%*	*30%*
FCFF	*mHUF*	**838**	2 600	2 730	2 866	3 010	3 160
cash conversion	*%*	*24%*	*70%*	*70%*	*70%*	*70%*	*70%*
EV	*mHUF*	20 652					27 087
Net debt (cash)	*mHUF*	1 439	9 901	8 014	5 861	3 435	729
Net debt / EBITDA	*x*		*2,7x*	*2,1x*	*1,4x*	*0,8x*	*0,2x*
Equity value	*mHUF*	19 214					26 359
Investor cash flow	*mHUF*	**(7 685)**					**26 359**
IRR	*%*	36,1%					
MoM	*x*	3,4x					

Debt schedule							
Starting debt	*mHUF*		11 528	10 087	8 646	7 205	5 764
Tenure	*years*	8,0					
Debt repayment	*mHUF*		(1 441)	(1 441)	(1 441)	(1 441)	(1 441)
Ending debt	*mHUF*		10 087	8 646	7 205	5 764	4 323
Interest expense	*mHUF*		(1 081)	(937)	(793)	(648)	(504)
Tax rate	*%*	*10%*					
Interest expense (after tax)	*mHUF*		(973)	(843)	(713)	(584)	(454)
Cash EOP	*mHUF*		*186*	*632*	*1 344*	*2 329*	*3 595*

Appendix

Model A - my assumptions

		Revenue growth				
		0%	**3,0%**	**6,0%**	**9,0%**	**12,0%**
EBITDA margin	**20,0%**	21%	21%	21%	21%	21%
	22,0%	21%	21%	21%	21%	21%
	24,0%	22%	22%	22%	22%	22%
	26,0%	22%	22%	22%	22%	22%
	28,0%	22%	22%	22%	22%	22%

Modeal B - without predictions

Sensitivity analyses (IRR)

		Revenue growth				
		0%	**3,0%**	**6,0%**	**9,0%**	**12,0%**
EBITDA margin	**26,0%**	16%	24%	31%	37%	43%
	28,0%	21%	28%	35%	41%	47%
	30,0%	25%	32%	38%	45%	51%
	32,0%	28%	35%	42%	48%	54%
	34,0%	31%	38%	45%	51%	57%

		Cash conversion				
		20,0%	**40,0%**	**60,0%**	**80,0%**	**100,0%**
EBITDA margin	**26,0%**	12%	19%	25%	31%	36%
	28,0%	16%	23%	30%	35%	40%
	30,0%	20%	27%	33%	39%	43%
	32,0%	24%	31%	37%	42%	47%
	34,0%	27%	34%	40%	45%	50%

		Exit multiple				
		3,0x	**5,0x**	**7,0x**	**9,0x**	**11,0x**
Entry multiple	**3,0x**	56%	70%	82%	92%	100%
	5,0x	25%	40%	52%	61%	69%
	7,0x	3%	21%	33%	42%	50%
	9,0x	-21%	4%	18%	28%	36%
	11,0x	n/a	-13%	4%	16%	25%

		Entry leverage				
		0,0%	**20,0%**	**40,0%**	**60,0%**	**80,0%**
Interest rate	**2,0%**	21%	25%	30%	40%	60%
	4,0%	21%	25%	30%	39%	58%
	6,0%	21%	24%	29%	38%	57%
	8,0%	21%	24%	29%	37%	55%
	10,0%	21%	24%	28%	36%	53%

Sources

Supporting research

https://docs.google.com/document/d/1-chp5lu17OkdtMuXGAJteTWZ8fnu0r9YmAs7C88jsVk/edit?usp=sharing

Creating my assumptions

EBITDA MARGIN

$\frac{12}{7} = \frac{29}{x}$

x = 17% E margin in construction

profirent

68% construction

32% other

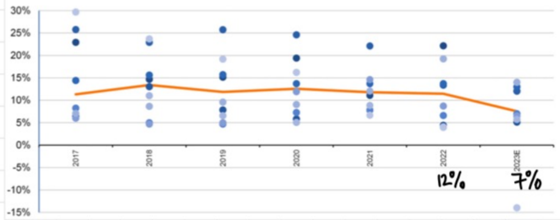
not as big hit, though still substantial

I guess for the other domains

23% = 32%

17% = 68%

1156 + 736 = 2084/100 = ~20%



CASH CONVERSION

inventory - min + 300 000
receivables - min + 300 000
payables - min - 300000
other - min - 300000

investment CF =

Chang in WC = anulujese ~ 0

CAPEX = ~2107 snížíse, ale ne o tolik (inflace)

Operating CF = 2861

if they had to change to electric machinery, CAPEX would increase, ICF decrease. But, if they don't, they can focus on customers

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THANK YOU