

Spotlight: Aquila - Steady top line growth supports margin resilience

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- Aquila Group is the second largest player in Romania's FMCG distribution sector. Its business model centres around the distribution, complemented by logistics and transport, providing end-to-end supply chain capabilities to their partners.
- With over 29 years of experience, Aquila has a broad distribution network that spans across 67k sales points, covering 90% of the domestic retail universe. Its portfolio includes top-shelf brands in various product categories: sweets, food, coffee, personal care, baby and hygiene products, pet food, frozen vegetables, and canned food.
- The company has one of Romania's most extensive fleets, consisting of more than 1.6k vehicles and a lean logistics network with 24 facilities. It also offers transport services in 20 countries with a fleet of 112 heavy trucks capable of transporting goods in different temperature conditions.
- In 2021, Aquila extended its operations to the Republic of Moldova, where it provides similar services through the acquisition of Trigor AVD.
- Aquila's business model showed its resilience through quite stable margins despite the tough pandemic restrictions with low inflation rates, and it also holds up well in the current inflationary environment.
- The company managed to offset the decline in volumes in 2022 through a substantial increase in prices as well as strategy to develop own brands which compensated and pushed the yoy growth of revenues.



Company data

Price 17.9.2023	0.9 RON/EUR	4.96615
Year low/high (RON)	0.5/0.9 Index	BETI
Shares outstanding eoy (mn)	1200.0 Exchange	Bucharest Stock Exchange
Market capitalisation (EUR mn)	217.5 ISIN code	RO7066ZEA1R9
Free float	0.8 Bloomberg	AQ RO
Free float (EUR mn)	167.2 Reuters	ROAQ.BX
Avg. daily turnover (12M, in mn EUR)	0.0 Website	www.aquila.ro

Source: Bloomberg, Reuters, RBI/Raiffeisen Research

Recent developments and expectations

In 2022, Aquila registered remarkable financial results, despite challenging external factors, including the conflict in Ukraine, inflation and an increase in financing costs, which were reflected in the purchasing power of consumers. The management's budget forecast for 2023 provides a cautious approach due to various factors such as: i) an uncertain economic outlook and the decline in volume caused by price increases; ii) a trend of down trading, particularly in larger store formats and discounters, especially for non-food items; iii) a decrease in the value and number of products in shopping carts; iv) consumers'

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perception of an upcoming recession, leading to a reduction in non-essential spending and an increased search for discounts and offers.

In 2023, Aquila intends to spend RON 63.5 mn (EUR 12.7 mn) on capex for organic growth and is confident that will conclude an M&A transaction by the end of the year.

Aquila group at glance

Aquila was founded in 1994 and has become the second largest player in Romania's fast-moving consumer goods distribution sector, boasting a workforce of around 3k employees. The company's operations are supported by three business lines: distribution, logistics and transport aimed to provide solutions to its associates by marketing complementary products and services.

Since 2021, after the acquisition of Trigor AVD, Aquila has extended its operations to the Republic of Moldova where it provides distribution, storage national and international transport of consumer goods.

With over 29 years of experience, Aquila's distribution network covers 67k sales points, out of which 90% are represented by the traditional retail and organised retail markets.

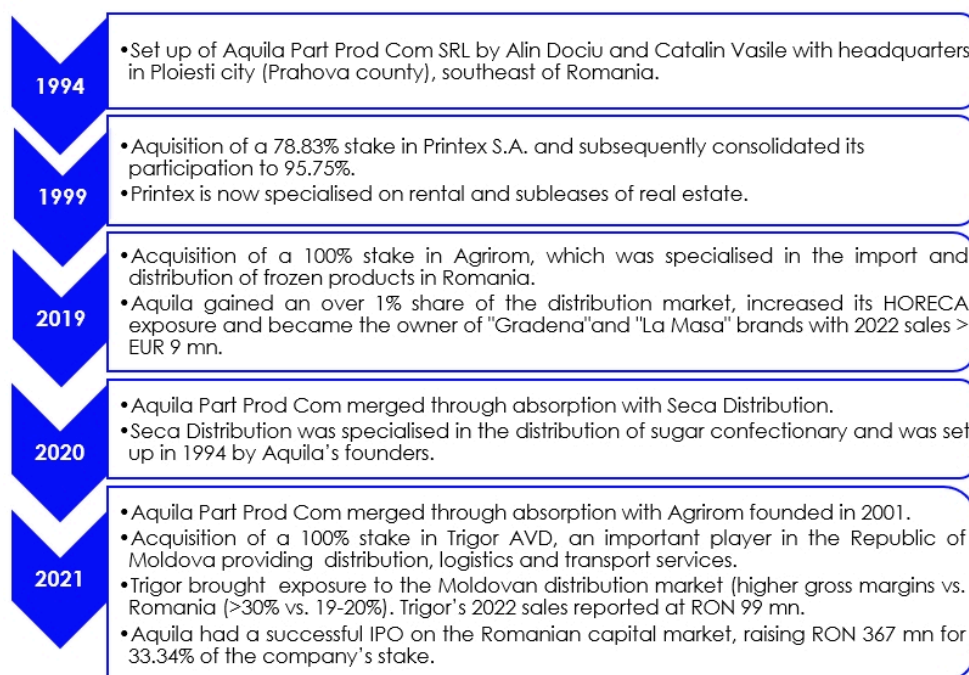
Aquila has a portfolio of around 10k products, including 1k new items introduced in 2022. The company can distribute products of all temperature classes and has a well-established partnership with top suppliers: Unilever, Kimberly Clark, Tchibo and Ferrero. The company has expanded its presence and market share in the frozen fruits & vegetable market through the own brand Gradena and in the ready-meals market through the development of the own brand La Masa.

Over the years, Aquila has experienced growth through both organic means and strategic mergers and acquisitions (M&A). Today, Aquila group includes Aquila Part Prod Com S.A. and two subsidiaries: Printex S.A. (provides rental and subleases of real estate) and Trigor AVD S.R.L.

In November 2021, Aquila had a successful initial public offering (IPO) on the local capital market, raising RON 367 mn for 33.34% of the company's stake.

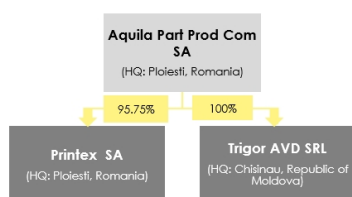
Aquila's 2022 net turnover reached RON 2.2 bn (up by 15% yoy), EBITDA stood at RON 147 mn (surge by 7% yoy), while net profit was the highest since the company's inception at RON 85.2 mn (up 20% yoy).

Aquila's timeline



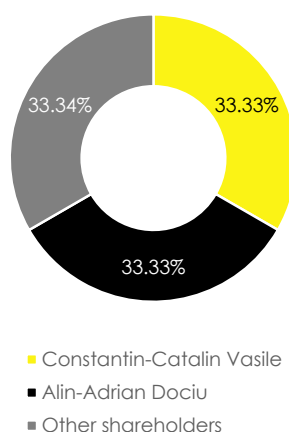
Source: Aquila

Group's main companies, as of December 31, 2022



Source: Aquila

Aquila's shareholding structure as of December 31, 2022



Source: Aquila

The Company's ownership was divided among the founders: Mr. Constantin-Catalin Vasile (33.33% stake) and Mr. Alin-Adrian Dociu (33.33% stake), along with several other shareholders who collectively held a 33.34% stake.

Aquila has been listed on the Bucharest Stock Exchange since November 2021, after an IPO through which the company's shareholders sold 33.34% of the shares for RON 367 mn.

The Bucharest Stock Exchange reference index - BET - and the Global Micro Cap index of FTSE Russell currently include the company's shares (symbol AQ). However, the company's shares were also added to the MSCI Frontier IMI and MSCI Romania IMI indices starting from September 2023.

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Business structure

The business model centres around the distribution segment (represents 90% of total revenues), complemented by logistics and transport, providing end-to-end supply chain capabilities to their partners. With over 29 years of experience, Aquila has a broad distribution network that spans across 67k sales points, covering 90% of the domestic retail universe.

Aquila operates in the Republic of Moldova through Trigor AVD, which oversees the distribution, storage and transport of consumer goods nationally and internationally. According to the company, Trigor AVD has a client portfolio of more than 3k.

The company's integrated product portfolio has over 10k products and comprises well-known brands in different categories: sweets (i.e. Kinder, Raffaello, Snickers, Mars and Orbit), food (i.e. Knorr, Hullala, Gran Cucina and Rama), coffee (i.e. Lavazza), personal care (i.e. Rexona, Dove and Zewa), home care (i.e. Domestos, Cif, Dero and Coccolino), hygiene products (i.e. Kleenex, Kotex, Zewa, Tena, Libresse), baby diapers (i.e. Huggies), pet food (i.e. Pedigree and Whiskas), frozen vegetables and canned food (i.e. Bonduelle) as well as fish and fish products (i.e. Frosta).

Aquila's business model



Source: Aquila

1. Distribution activity

The strategic partnerships of over two decades with Ferrero, Mars and Unilever ensure Aquila's presence on all three channels: traditional retail, modern retail and HORECA.

Aquila's distribution activities encompass almost 90% of the traditional retail and organised retail markets, with the ability to distribute products across all temperature categories.

Distribution channels - overview

Channel	Type of Customers	Customers	Details
Traditional Retail	Wholesalers, sub-distributors, Local trade channels, pharmacies, and pharmacy Channels.	Pet Prodexim, Unicarm, Zozo Cafe Distribution, Top Royal Brands, Annabella, Paco Prod Serv.	Sales points: 58,000+.
Modern Channel	Hypermarket, supermarkets chains, discounters, gas stations.	Carrefour, Auchan, Mega Image, Profi.	Sales points: 4,500+. Gas stations: 1,400+. Division consolidated through the M&A with Agrirom (2019). Aquila became a distributor of ambient, chilled and frozen food products and owns several brands.
HORECA Channel	Customers from the gastro industry.	Profi Rom Food, Unicarm, Narida, Eurest Rom, Phoenicia Express, General Agro Com Service.	Points of sales: 5,000+. Storage units: 1,500+.
Travel Retail channel	Customers from: airports, duty-free shops.	Lagardere and Tabac Express locations	Sales points: 2,500+.

Source: Aquila

2. Logistics activity

Complementary to the distribution of consumer goods, Aquila provides logistics services, through storage, (re)packing and internal transport operations in different temperature segments: ambient, refrigerated and frozen.

Aquila provides complete logistics services, consisting of national transport, warehousing, handling, collection, secondary transport, reverse logistics, inventory, pallet management, labelling, packaging and co-packing.

Over the years, the company has developed an extensive logistics network of 4 logistics centres (marked with dark blue in the map on the following page), 13 distribution centres (marked with blue) and 6 cross-docking points (marked with grey).

Aquila has a storage capacity of over 120k pallets, of which 77% are in the ambient environment, 16% in the frozen environment and 7% in the refrigerated environment.

Logistics services include national transport, which is carried out using a fleet of vehicles capable of transporting goods at different temperature conditions. The fleet includes 112 heavy trucks (40 tons), 796 cars for the sales force and 625 vehicles for distribution and internal transport (with less than 40-ton capacity).

To optimise transport and streamline logistics operations, Aquila uses the ORTEC system, which plans delivery routes, ensures the best use of fleet and personnel, and allows clients to track delivery status and download related documents. This system also manages the loading and unloading slots related to each warehouse for optimal warehouse activity.

Aquila's logistics network



Source: Aquila

3. International transport segment

Aquila offers international transport services in more than 20 countries. In recent years, the company has focused on secure transport and investing in complex road train monitoring solutions and systems, according to the requirements of important customers in this field. It is also authorised according to:

- i) TAPA TSR standards (TAPA Requirements regarding the security of the transport of goods by truck), as well as
- ii) V1 security standard, a standard developed to ensure the protection of transported goods and to improve the safety of drivers and vehicles.

The international transport activity involves more than 40 trucks, and according to the management, this number is expected to be increased as this niche will require a higher volume of transport.

Also, the international transport of goods that require controlled temperature is an important segment of activity, which according to the management, might also become stronger in the coming years through long-term strategic partnerships.

In addition, the route planning and optimisation activity is coordinated using a transport management system (TMS) and the monitoring activity is carried out using a telemetry system at the highest standards in terms of monitoring and reporting.

Aquila's transport coverage



Source: Aquila

In terms of fleet maintenance, this activity is carried out through contracts with external and internal partners as well as through Aquila's authorised car repair workshop, registered with the Romanian Auto Registry.

In 2022, the company prioritised the environmental impact. It aims to bring the fleet to the Euro 6 standard by 2026. As a result, by the end of 2022, 70% of the Aquila fleet was equipped with Euro 6 engines.

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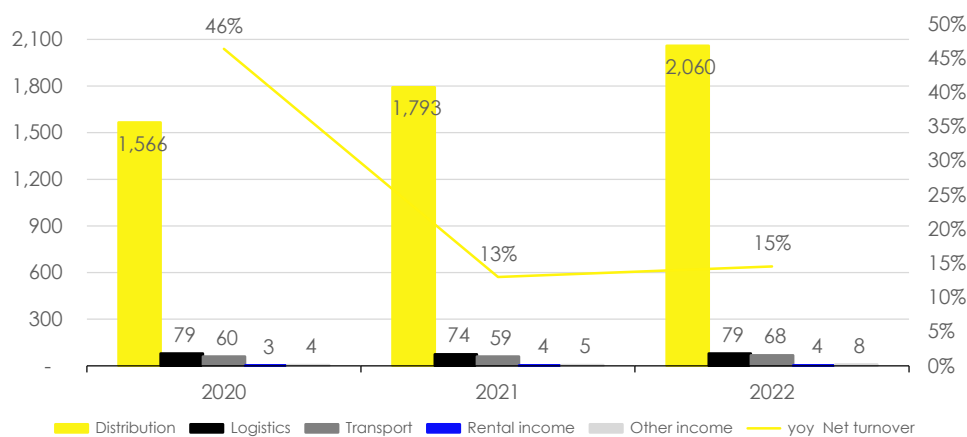
Revenues

Revenues by segment

From the operational perspective, Aquila's revenues are divided mainly between three business segments. The distribution segment accounts for the lion's share with 93% of 2022 net turnover, followed by 4% (logistics) and 3% (international transport).

In the past three years, all the segments had a positive evolution which was reflected in 14% CAGR of net turnover driven mainly by the growth of the distribution segment.

Revenues by segment, RON mn



Source: Aquila

In the past three years, the distribution segment recorded an average upsurge of 15% yoy due the lifting of restrictions, resumption of economic activity, mostly in sectors severely affected by the pandemic, such as foodservice (HORECA) and convenience stores.

Furthermore, the consolidation of Trigor AVD in the middle of 2021 made a substantial contribution (RON 77.7 mn) to the company's advance in distribution sales.

On the other hand, the organic growth in this segment was supported by the growth of the channels: HORECA (7% yoy in 2021 vs. 2020, 38% yoy in 2022 vs. 2021), gas stations (24% yoy in 2021 vs. 2020, 17% yoy in 2022 vs. 2021) as well as own brands (43% yoy in 2022 vs. 2021).

In 2022, things took an exponential turn when the war in Ukraine disrupted the logistics chains in the region, leading to a significant surge in prices. However, even though the distribution segment saw a decline in volumes in 2022, the substantial increase in prices compensated for it and pushed revenues to year-on-year increases.

The **logistics segment** was almost flattish in the past three years. In 2021 vs. 2020, logistics revenues were down by 6% yoy, amid lower volumes, the number of incoming/outgoing pallets falling by 7% yoy, as customer storage behaviour faded because the restrictions imposed due to the pandemic were lifted. In 2022, the logistics revenues of the company recovered, being up by 7% yoy due to tariffs indexing.

During the same period, the **transport segment** registered an average growth of 7% yoy. Aquila managed to compensate for the 1% yoy decline in revenues in 2021, resulting from reductions of: i) the number of heavy trucks from 128 in 2020 to 113 and ii) distances travelled reduced by 809k km. However, in 2022, this segment achieved 15% yoy growth on the back of transport tariff increases.

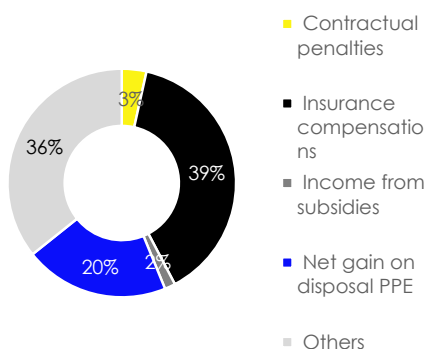
In the past three years, the **rental revenue segment** showed a CAGR of 18% and reached RON 3.5 mn in 2022. This amount also included the rental of investment property of around RON 1.2 mn received by Aquila from third parties.

Other revenues showed a CAGR of 38% between 2020-2022, reaching RON 8.3 mn in 2022 (up by 63 % yoy).

This was mostly due to higher: insurance compensations, net gains on disposal of PPE and other incomes received.

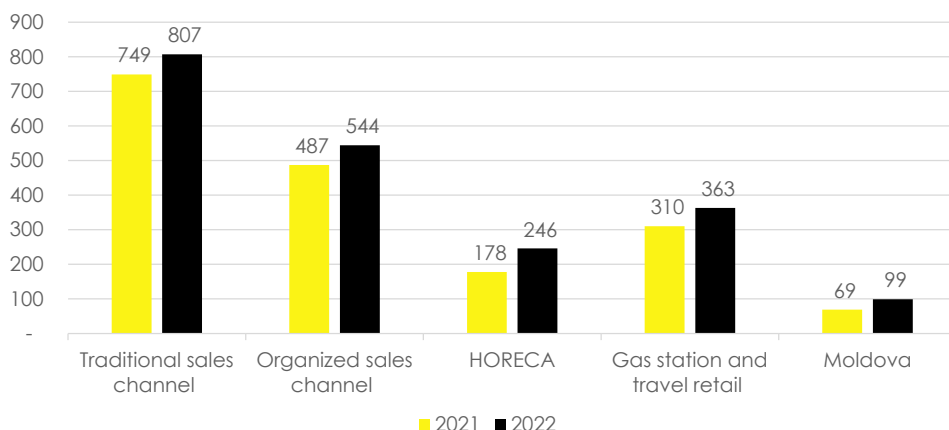
The main revenues components comprised here are related to: contractual penalties, insurance compensations, income from subsidies, net gains on disposal of PPE and other incomes.

Other revenues split in 2022, %



Source: Aquila, RBI/Raiffeisen research computation

Distribution revenues by channel, RON mn



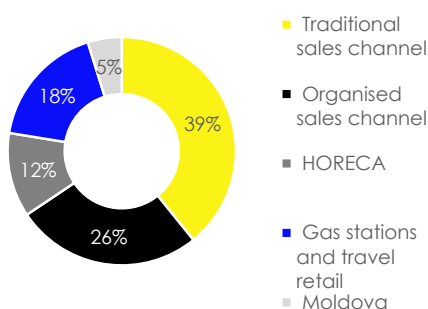
Source: Aquila

Revenues by channel

As of 2022, Aquila's activity was based on five channels, and the top-three channels (traditional, modern channels and travel retail) generated more than 83% of the distribution revenue.

In the coming period, the company intends to shift its focus to more profitable channels in terms of margins (HORECA, gas stations and travel retail) as can be seen in the graph presented above.

Distribution revenues by channel in 2022, %



Source: Aquila, RBI/Raiffeisen Research computation

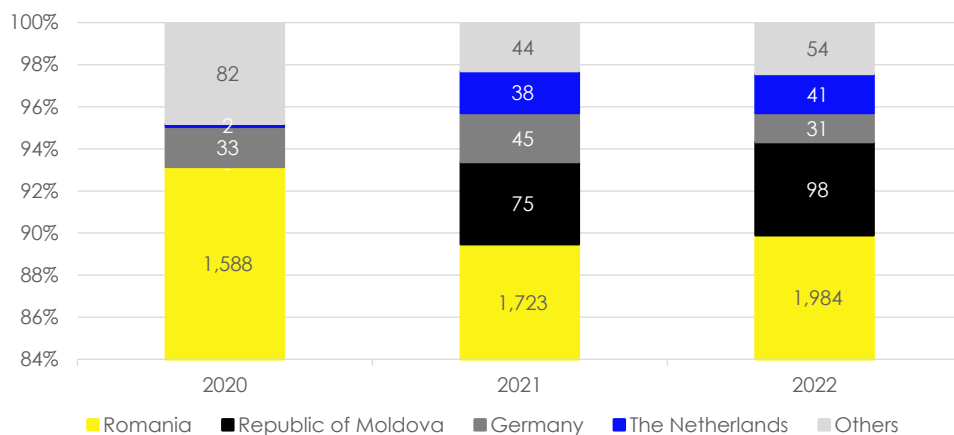
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Revenues by country

Over the years, Aquila has expanded its presence in Europe by entering new countries and enhancing its operations in key markets. As a result, by the end of 2022, Aquila group's services were present in over 20 European countries.

Romania accounted for 90% of net turnover, with the Republic of Moldova following with 4%. The Netherlands, Germany and other countries accounted for less than 2% each.

Revenue by country, RON mn



Source: Aquila

Revenues by own brands

In 2022, the own brands' revenues stood at RON 67.5 mn, having a steady growth of 39% yoy supported mainly by higher volumes sold, new categories of products introduced and packaging redesign.

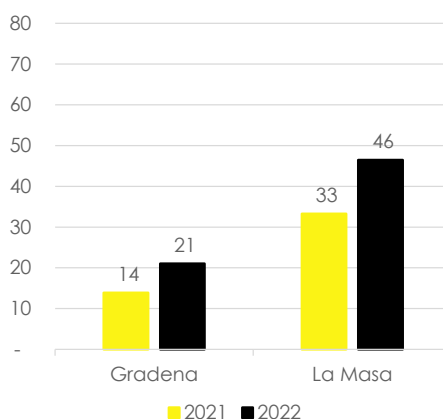
Starting with 2021, Aquila merged with Agrirom (acquired in 2019) through absorption. As a result, Agrirom's own brands (i.e. frozen vegetables, semi-prepared frozen products and frozen fish) became part of Aquila's portfolio. The company's 2022 own brands were composed of:

1. La masa brand has 14 types of ready-meals products that are available in the HORECA and retail channels (in retail available since Q2 22).

In 2022, the "La masa" brand registered an increase in revenues of 40% yoy reaching RON 46.4 mn, while in terms of volumes there was a jump of 24% yoy, reaching 2.2 mn kilograms of products sold.

2. Gradena brand initially included two categories of products: mixed vegetables and mono vegetables. In 2022, the brand was extended by 12 new products and by introducing two new categories: fruit mixes and the frozen dips.

Own brands revenues, RON mn



Source: Aquila

According to the company, the new products meet the needs of consumers and cover new consumption opportunities to strengthen the strategy of brand positioning in several segments, with better visibility.

The products are available in the HORECA and retail channels. Regarding the development of revenues, in 2022, the Gradena brand achieved a jump of 50% yoy reaching RON 21 mn, while the volumes stood at 5 mn kilograms of products sold, 2.2x higher compared with 2021 sales.

3. Yachtis brand is specialised in fish products, frozen and canned. This brand was temporarily removed from the market to benefit from further improvements. According to the management, Yachtis brand will be back starting 2023.

Own brands products



Source: Aquila

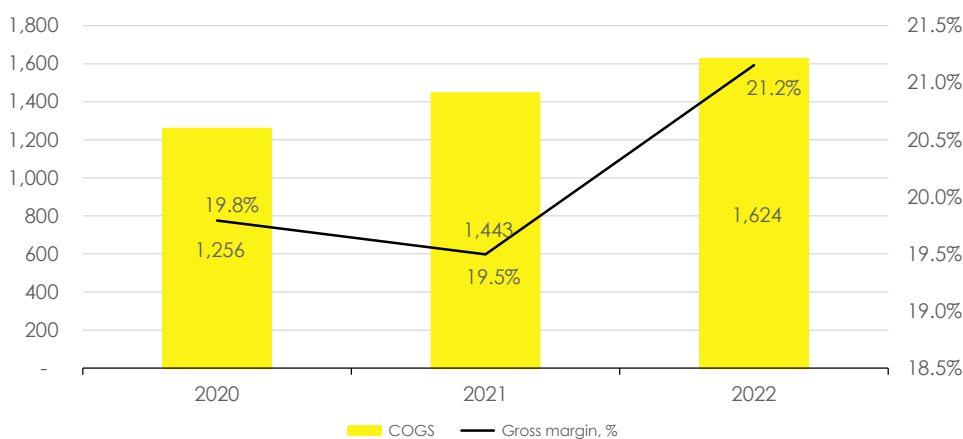
Overall, Aquila’s own brands enjoyed a remarkable growth in 2022. Revenues from these brands recorded an advance of 43% yoy compared to 2021, reaching an amount of RON 67 mn. This growth highlights the success of the own-brand development strategy and the strengthening of Aquila’s position on the market.

In addition to the existing own brands Aquila intends to develop a new own brand that together with the La masa brand is expected to increase the company’s market share to 10% in the ready-meals category in the next five years. At the same time, for the Gradena brand the company targets a market share of 5% in the next five years (from 2% in 2022).

Financial profile

1. Cost of goods sold (COGS) boasted a CAGR of 14% between 2020-2022 and stood at RON 1.6 bn in 2022 in line with the evolution of the distribution segment (15% CAGR). As a percentage of 2022 distribution revenue, COGS improved by 1.64% yoy reaching 78.84% in 2022 (vs. 80.48% in 2021). Aquila's historical figures showed a stable gross margin despite the tough pandemic restrictions with low inflation rates as well as the current inflationary environment. As a result, gross margin stood at 21.2% in 2022, improving by 1.6%p on the back of the mix of products sold and the focus on the best performing channels.

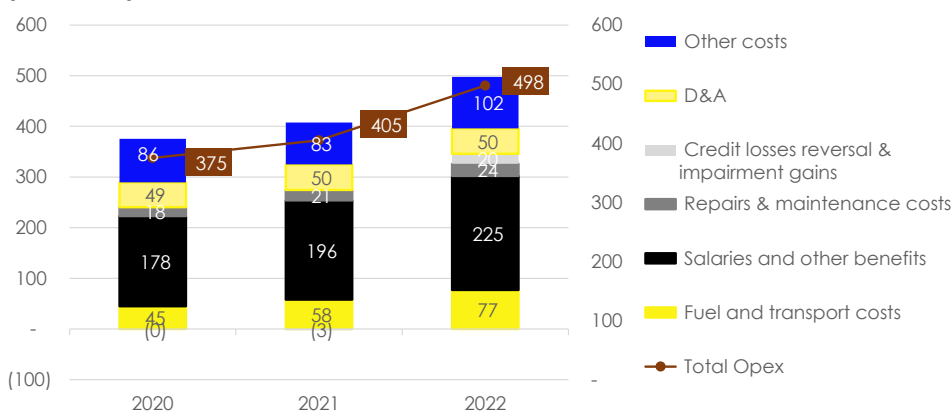
COGS and gross margin evolution, RON mn, %



Source: Aquila, RBI/ Raiffeisen Research computation

2. Operating expenses (other than COGS) registered a CAGR of 15%, slightly in line with the company's turnover growth of 14%. However, in 2022 the inflationary context led to higher growth rates yoy, especially in the costs related to: fuel and transport (up by 33% yoy), salaries and other employee benefits (jumped by 15% yoy) and other operating costs (climbed by 52% yoy).

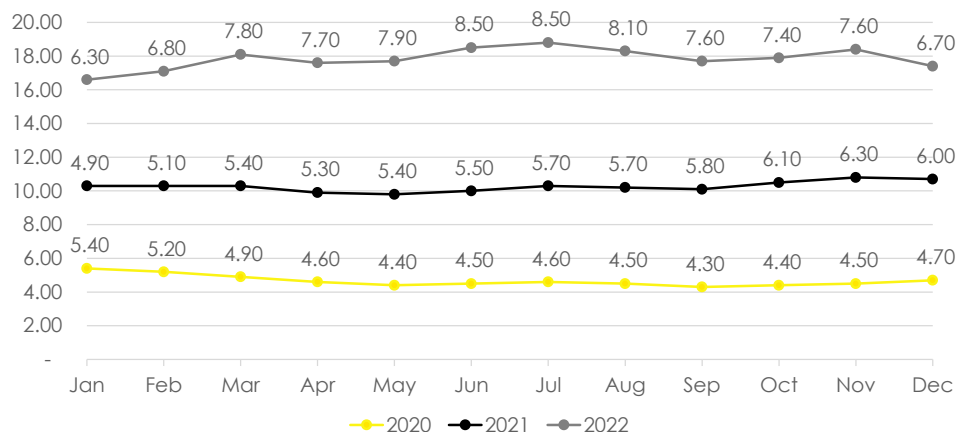
Opex decomposition, RON mn



Source: Aquila

The growth in fuel expenses (i.e. RON 19 mn increase in 2022) associated with transportation services was driven by: i) the rise in the average price of diesel fuel in Romania (27% CAGR between 2020-2022) and ii) the expansion of distribution activity which resulted in longer distances travelled.

Average monthly diesel price, RON/l

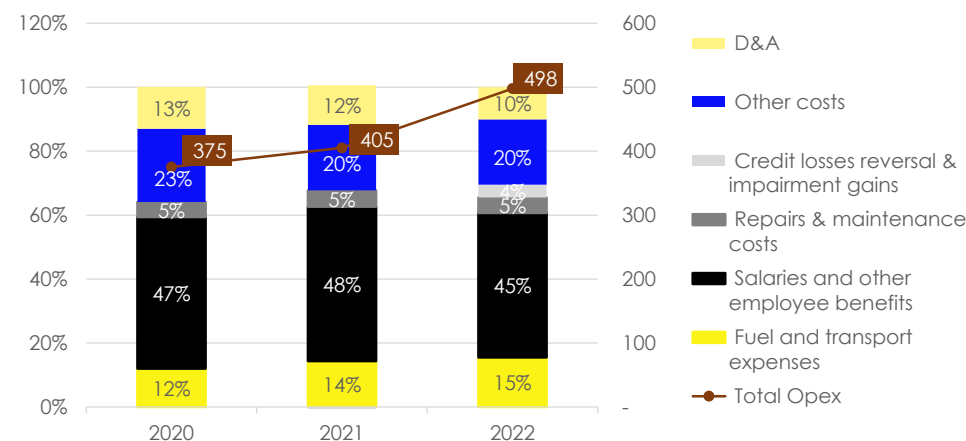


Source: Aquila, European Commission – Weekly Oil Bulletin; Ministry of Energy; * Average monthly price

At the same time, the increase of 15% yoy in salaries and other employee benefits was driven by: i) the inflationary context, which led to a general increase in wages and ii) the 11% yoy increase in the gross minimum wage starting January 2022. However, the average number of employees decreased by 6% yoy to 2,752 in 2022.

The other operating expenses registered a 9% CAGR between 2020-2022. These costs rose significantly to RON 101.7 mn in 2022, being up 23% yoy (i.e. RON 19 mn) due to heightened activity and price increases in general and legal consulting services, utilities, IT and marketing services. Additionally, handling and storage services surged to RON 5.2 mn, which is 6.7x higher yoy due to the subcontracting of logistics services for frozen products.

Opex decomposition, %, RON mn



Source: Aquila, RBI/ Raiffeisen Research computation

Salaries and other employee benefits accounted for the highest share of total opex of 45% as of 2022, slightly lower compared with the previous years, despite the macroeconomic challenges that drove these costs higher. The second largest contributor to the total opex in 2022 were other operating costs with 20%, followed by fuel and transport expenses with a 15% share. In the past three years, we have noticed that these components accounted for over 80% of total opex, while the other components were almost flattish.

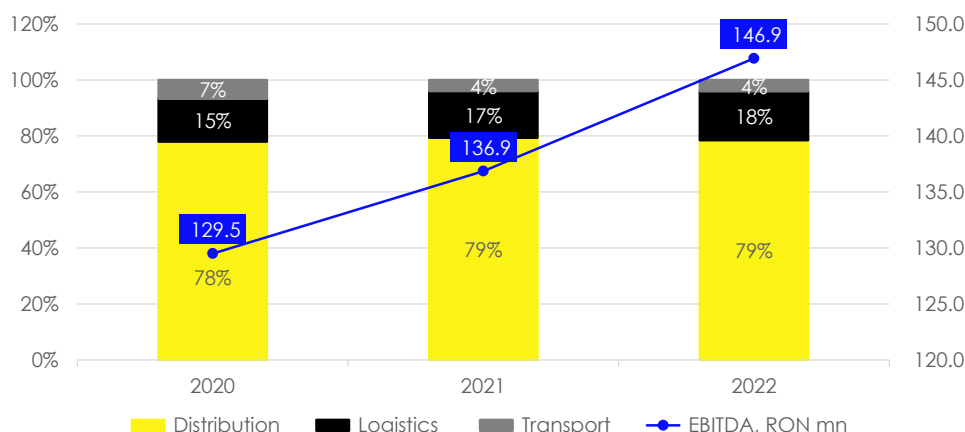
3. Profitability

Between 2020 and 2022, the group's EBITDA CAGR was 7%, driven by growth of the distribution activity's EBITDA at a CAGR of 7%. Additionally, the jump of EBITDA from

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logistics activity (14% CAGR) managed to offset the decline of EBITDA generated by the transport segment (-18% CAGR).

EBITDA decomposition by segment



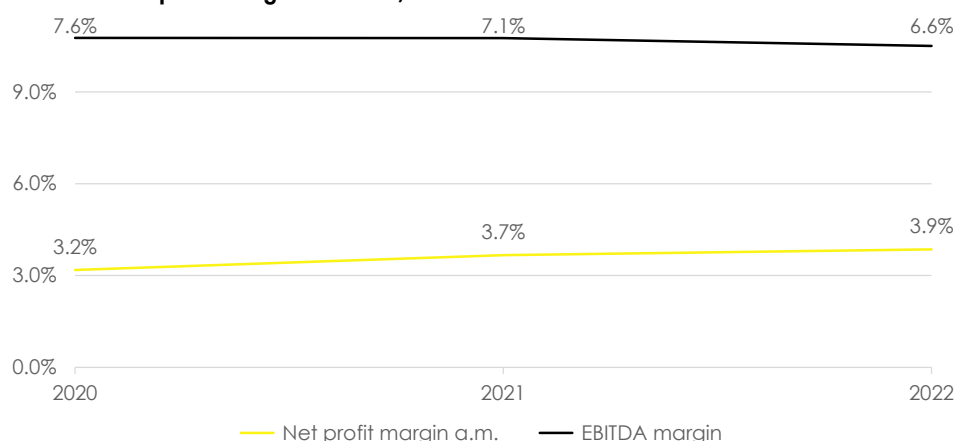
Source: Aquila, RBI/Raiffeisen research computation

The distribution segment has been the primary source of the group's profitability, with a high margin of 6% on average between 2020-2022. This segment contributed 79% of the group's EBITDA, while accounting for an average of 92% of total revenues. On the other hand, the logistics and transport segments registered a lower EBITDA margin of 1.3% and 0.3% on average, respectively, and were generating individually between 3-4% of the group's revenues in the same period.

However, even though the group's turnover exhibited a steady growth over the past three years, operating costs also showed an accelerated increase, which led to a slight deterioration in profit margins.

At the same time, net finance costs improved significantly to RON 3.7 mn in 2022 from a negative balance of RON 15.9 mn, on the back of higher interest rates coming from the company's bank deposits. This contribution was reflected in the company's 2022 net profit and incorporated in the net profit margin, which reached 3.9%.

EBITDA and net profit margin evolution, %



Source: Aquila, RBI/ Raiffeisen Research computation

4. Dividends - Dividends & Net profit

Even if the company's total revenues experienced a steady CAGR of 14% in the period 2020-2022, they were beat by the net profit which showed a remarkable CAGR of 25.2% during the mentioned period. This result was primarily due the company's own brands

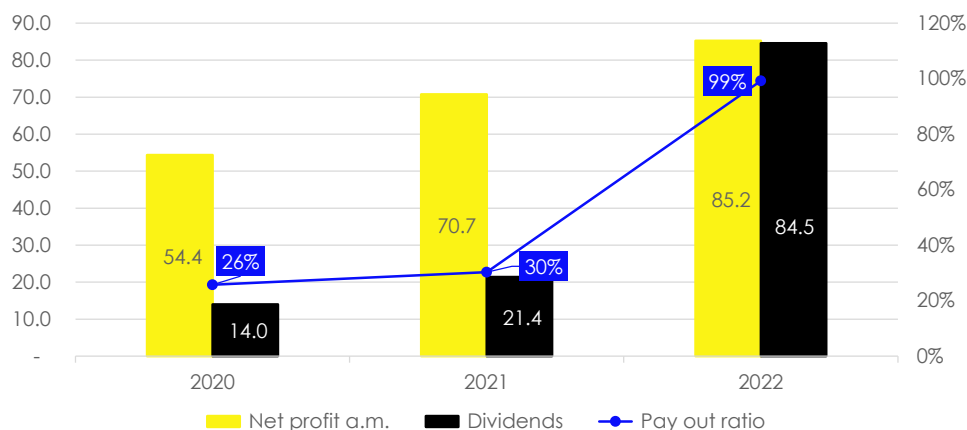
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developments and maximizing exposure in channels with higher growth rates and better margins, as well as to significant price increases witnessed in 2022.

Aquila has distributed dividends in 2022 in amount of RON 84 mn, as management believes that the company's resources availability is sufficient to enable Aquila to continue its operations and settle its obligations in the ordinary course of business without substantial disposal of assets, reversing its operations or similar actions.

According to the dividend policy, Aquila has set a minimum base dividend payout ratio of 40% to maintain pace with the growth in earnings. (i.e. mainly the results brought by the distribution segment).

Dividends & Net Profit, RON mn, %



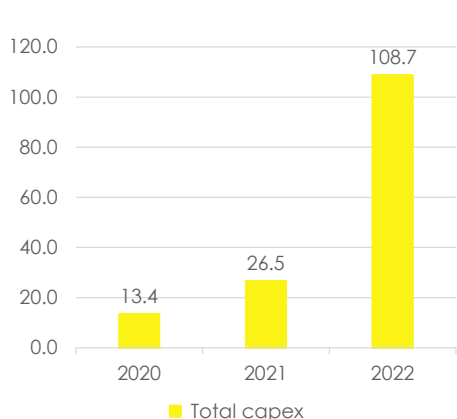
Source: Aquila, RBI/Raiffeisen research computation

5. Capex & Debt evolution

Aquila's capex increased 3.1 times yoy in 2022, amounting to RON 108.7 mn, largely due to investments made in tangible fixed assets such as land and buildings (i.e. RON 81.3 mn) in the leasing system that do not meet the definition of real estate investment. Additionally, equipment purchased through leasing also contributed to the increase in capex.

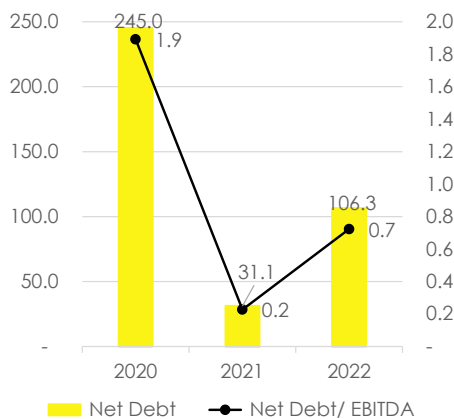
In line with the cautions guidance for 2023, the management has forecast a capex budget of RON 63.5 mn (i.e. EUR 12.7 mn), which will facilitate organic growth within the group, with investments planned for: i) transport fleet (i.e. RON 37.5 mn); ii) storage equipment and automation (i.e. RON 17.6 mn); (i.e. RON 17.6 mn); iii) IT equipment, software and communication (i.e. RON 3.0 mn) as well as iv) other expenditures (i.e. RON 5.3 mn).

Total Capex evolution, RON mn



Source: Aquila

Net debt vs. Net debt/EBITDA, RON mn



Source: Aquila

Aquila's 2022 net debt position (including leases) was 3.4 times higher and stood at RON 106.3 mn due to a 175% yoy surge in long-term leasing. However, during the past three years, net debt improved significantly (negative CAGR of 34.1%) as the company decided to pay off debt (around RON 165 mn) with most of the cash raised during the IPO. Also, another part of the cash collected in the IPO was used for dividend distribution (RON 84.5 mn with a 99% payout ratio in 2022).

As a result, the company's 2022 Net debt/EBITDA ratio stands at a comfortable level of 0.7 providing enough space for organic or inorganic financing for the company.

Customers and market share

According to management, in 2022, the Group had no distribution customers that accounted for more than 10% of sales. However, in 2021, there was only one such client, which accounted for 10.3% (RON 185 mn) of total sales.

Aquila operates within a fragmented distribution market (130 companies in total), where the top-five players accounted for 45% of total sales. According to management, in 2021, Aquila Part Prod was the second largest player with 10% market share (RON 1.88bn) on the FMCG and HORECA distribution market, after the leading player Interbrands Marketing & Distribution (21% market share).

However, management is confident that Aquila can increase its market share, as between 2022-2026 the company's development strategy is linked to the market growth forecast for HORECA (13% CAGR for 2023-2026) and modern trade (5.5% CAGR 2023-2026), even though the traditional trade segment is expected to be down by a 0.2% CAGR.

2022, the best year since foundation

The initial year of being listed on the Bucharest Stock Exchange happened to align with the most profitable year for Aquila. The remarkable 2022 results were due to a steady growth over the past three decades, which has allowed Aquila to become the dominant player in Romania's fast-moving consumer goods market.

After a successful IPO on the local capital market, raising RON 367 mn in November 2021, Aquila spent a year adjusting to the new status as a publicly listed company amidst a challenging economic and geopolitical climate. This development has laid the foundation for a new phase of growth, partnering with new shareholders to drive the company forward.

In terms of operations, Aquila has pursued an organic growth strategy focused on expanding the distribution segment and product portfolio, including the launch of own brands. The company is also actively pursuing an acquisition transaction which is expected to be completed by the end of 2023.

Aquila's portfolio currently consists of around 10k products, with an additional 1k launched in 2022. The company has successfully increased its presence and market share in the frozen fruits and vegetables market and in the ready-meals market.

Aquila's 2022 net profit increased by 20% yoy to RON 85.2 mn, the highest profit since the company's inception. This result was mainly driven by a 15% surge in operating revenue that reached RON 2.2 bn. The distribution segment made a notable contribution to the revenues through the sales in the HORECA and proximity channels as well as Aquila's own brands.

However, all the business segments experience growth (12% yoy climb on average), while own-brand products registered a significant increase of 43%, reaching RON 67.5 mn in 2022.

The company's gross margin also improved by 1.6% pp to 21.2% due to a strategic focus on high-performing sales channels and a well-managed product mix.

Aquila managed to improve its profitability despite a challenging external environment, with various factors impacting the market, such as the conflict in Ukraine, inflation and increasing financing costs.

Q2 23 results

Aquila reported the results for the second quarter of 2023 on August 28. The company's net turnover increased by 14% yoy, reaching RON 559 mn. The distribution segment was the main contributor to the net turnover growth, being up by 14% yoy (i.e. RON 65 mn) on the back of the traditional and HORECA channels. The logistics segment also recorded a notable increase of 44% yoy on the back of tariff indexation.

Following the trend of the distribution segment, COGS was up by 17% yoy (i.e. RON 59 mn) and accounted for 79% of the distribution revenues vs. 77% in Q2 22.

Operating expenses (apart from COGS) were up by 8% yoy to RON 129.5 mn, with the main drivers being salaries costs (i.e. +10% yoy) as well as other opex (up by 17%). On the flip side, fuel and transport costs came down by 19% yoy.

As a result, the company's margins were quite below the same period last year, gross profit margin stood at 20.9% vs. 22.8% in Q2 22 and the EBITDA margin reached 5.6% vs. 7% in Q2 22. Net profit reached RON 15.1 mn, down by 37% yoy, while the net profit margin stood at 2.7% from 4.9% in the same period last year.

Aquila Q2 23 results

in RON mn	Q2 23	Q2 22	yoy	Q1 23	+/- %
Sales	561.2	493.8	13.6%	564.6	-0.6%
Gross profit	109.7	104.7	4.8%	115.9	-5.4%
EBITDA	29.4	32.1	-8.7%	40.5	-27.4%
EBIT	18.5	19.6	-5.7%	28.0	-34.0%
EBT	20.6	22.0	-6.6%	31.4	-34.4%
Net profit	15.2	24.3	-37.4%	26.6	-42.8%
EPS	0.04	0.02	105.9%	0.02	59.1%
Gross margin	20.9%	22.8%		22.1%	
EBITDA margin	5.6%	7.0%		7.7%	
EBIT margin	3.5%	4.3%		5.3%	
Net profit margin	2.7%	4.9%		4.7%	

Source: Aquila, RBI/Raiffeisen Research

2023 guidance and new developments

According to the management, Aquila remains committed to its objective of doubling its EBITDA by 2026, and it aims to achieve this goal through a combination of mergers and acquisitions as well as organic growth, with a particular focus on the distribution segment, own brands developments and maximising exposure in channels with higher growth rates and better margins (i.e. HORECA, gas stations).

For the logistics segment outlook, the company announced in the last conference call a new partnership with an important supplier of IT products (HAMA brand) which is expected to make a notable contribution to the segment growth.

Regarding the outlook for the second half of 2023, management recognised that the assumptions used to create the budget have significantly changed, but they will try to achieve the guidance (2023 net profit budgeted at RON 70.1 mn vs. RON 41.8 mn in H1 23).

In terms of margins, despite the unpredictable market conditions, Aquila is expecting to maintain its gross margin between 20-21% and the profit margin at approx. 3% (vs. 4% in 2022), while the EBITDA margin should stand around 6%.

M&A outlook

During the conference call organised for the Q2 23 results, Aquila's management announced that they had completed the due diligence phase for one of the targets and remained optimistic that Aquila will conclude the transaction by the end of 2023. According to the management, the successful completion of the deal may lead to an increase in the share price and multiples of Aquila, resulting in a positive outcome for investors.

Aquila's main targets

Target	Activity	Sales (as of 2021)	EBITDA (as of 2021)	Negotiation status
1	Production	EUR 35 mn	EUR 9 mn	Price negotiation
2	Distribution	EUR 95 mn	EUR 3 mn	Prospecting
3	Distribution	EUR 34 mn	EUR 2 mn	NBO
4	Production	EUR 10 mn	EUR 1 mn	NBO
5	Distribution	EUR 7.5 mn	n.a	Prospecting

Source: Aquila

Management and group structure

Aquila is headed by a Board of Directors (BoD) whose members are appointed for a four-year term, with the possibility of re-election for subsequent terms of four years, except for the first members of the BoD, whose terms of office are two years and started on April 7, 2021.

Aquila's BoD is composed of five members, two of which are the company's founders and have also executive roles and three are independent members.

Alin-Adrian Dociu – BoD President, Executive

Mr. Dociu is one of the two founders of Aquila, and he currently also holds the position of Deputy General Manager. Mr. Dociu has over 29 years of experience in the distribution industry and was elected as BoD President on April 7, 2021. He pursued his higher education at the Faculty of Well Drilling and Deposit Exploitation at the University of Ploiesti, where he earned an engineering degree in the oil field, with a specialisation in well drilling and exploitation of oil and gas deposits.

Constantin-Catalin Vasile – BoD Vice President, Executive

Mr. Vasile is also one of the two founders and is the General Manager of Aquila. He was elected as BoD Vice President on April 7, 2021. Mr. Vasile also has a broad experience in the FMCG distribution market. He graduated from the Faculty of Machinery and Equipment for Constructions within the Institute of Constructions Bucharest. He has an engineering degree in the mechanical field with a specialisation in technological equipment.

Ion-Lucian Mihalache - BoD Independent Member, Non-executive

Mr. Ion-Lucian Mihalache is an independent administrator of Aquila. He was also elected on April 7, 2021. He graduated from the Faculty of Letters and Sciences at the University of Oil and Gas Ploiesti, where he obtained a degree in economics. Mr. Mihalache has more than twenty years of experience in various business fields and has been successful in the capital market since 1996.

Daniela Mândru-Petrovici - BoD Independent Member, Non-executive

Mrs. Mandru has been an administrator within the Company since February 23, 2022. She has over 14 years of experience in evaluating businesses and identifying potential trends to provide advice to institutional investors at the Bucharest Stock Exchange, with an advisory track record for transactions worth over EUR 1 billion (IPOs, SPO's). Mrs. Mândru has an MBA degree from the Romanian Canadian MBA Program of ASE's Graduate School of Management Bucharest accredited by the MBA Association.

Vlad Alexandru Deliu - BoD Independent Member, Non-executive

Mr. Vlad Alexandru Deliu has been an independent administrator within Aquila since February 23, 2022. He holds the title of Chartered Financial Analyst (CFA) awarded by the CFA Institute. He is PRM certified by the Professional Risk Manager's Association and has graduated from the University of Economic Studies. Years of interaction with top executives and board members of the CEE gave him experience in improving organisational processes, optimising costs and configuring products.

In addition, Aquila's management is performed by an executive team which is delegated by the BoD under mandate contracts or under employment contracts for an indefinite period (in the case of Directors and Mr. Iene). The team consists of: General Director (Mr. Constantin-Cătălin Vasile), Deputy General Manager (Mr. Alin-Adrian Dociu), Financial Director (Mr. Sorin Bașcău), Commercial Director (Mr. Daniel Băluș), Operational Director (Mr. Petre Bogdan), Transport Director (Mr. George Dragomir) and Iosif Iene (General Manager of Trigor AVD).

Furthermore, the BoD has approved the establishment of an Audit Committee and a Nomination and Remuneration Committee, both being conducted by Mrs. Mandru and Mr. Deliu.

Aquila group organisational chart



Source: Aquila

Capital snapshot

In February 2022, after the listing on the Bucharest Stock Exchange, Aquila conducted an increase in the share capital of RON 150 mn to support the company's activity. Thus, the number of new shares issued in the share capital increase was 1 bn shares. As a result, each shareholder of Aquila received 5 newly issued shares for each share held.

Currently, the subscribed and paid-up capital of the company stands at RON 180 mn, divided into 1.2 bn registered, ordinary, indivisible shares, which are freely transferable. The shares, which are issued in dematerialised form, have a nominal value of RON 0.15, and provide owners with equal rights.

Aquila's shareholding overview

Shareholder	No. of shares	Share in total capital
Alin-Adrian Dociu	399,960,800	33.33%
Constantin-Cătălin Vasile	399,960,800	33.33%
Free float	400,080,800	33.34%
Total	1,200,002,400	100%

Source: Aquila

ESG report & guidance

According to the ESG Research Reports which were independently prepared by Sustainalytics, based on a collaboration with the Bucharest Stock Exchange, Aquila has obtained the following scores:

- i) ESG Risk Rating: 22.4 – Medium ESG Risk;
- ii) ESG Rating: 51/95 top 54% - Average Performer;
- iii) Exposure: 33.3;
- iv) Management: 37.2;
- v) Momentum: n.a.

Key ESG Performance Indicators

Total carbon footprint (location-based)	Total energy consumption from electricity, natural gas and fuel	Amount of waste generated by the activity (tons)
-6.5% vs. 2021	-3.1% vs. 2021	-19% vs. 2021
Renewable energy within Aquila Part Prod Com S.A	Energy efficiency in relation to turnover	GHG intensity (location-based) in relation to turnover
53%	15.4% vs. 2021	18.4% vs. 2021
Fleet vehicles	Euro 6 standard vehicle fleet	International transport in
1,600	70%	15 countries
Expenses on salaries and benefits	Percentage of women employed	Number of training hours
15% vs. 2021	39%	4,300

Source: Aquila

For Aquila ESG principles are a priority, with targets the company assumed within the Sustainability Strategy published in 2022, after a first year of non-financial reporting. As a result, Aquila is committed to the following ESG pillars to accomplish by the end of 2026:

- i) Decreasing the carbon footprint by 10% annually through optimisation of delivery routes and transport capacity, utilising renewable energy for warehousing and investing in electric vehicles for the sales force.
- ii) Reducing waste via warehouse management systems, implementing projects for reusable packaging and working towards certification for their first eco-warehouse with specific requirements for ecological goods.
- iii) Lowering the level of pollution by aiming for a 100% Euro 6 fleet (currently at 70%) by 2024.

Financial statements

Statement of Income, RON mn	2020	2021	2022
Net turnover	1,707.9	1,929.7	2,210.3
Gross profit	310.0	349.5	435.7
EBITDA	129.5	136.9	146.9
EBIT	80.7	86.4	96.8
Net finance costs	-15.9	-6.9	3.7
Earnings before taxes	64.8	79.5	100.6
Net profit before minorities	54.4	70.8	85.2
Net profit after minorities	54.4	70.7	85.2
Cash flow, RON mn			
Operating cash flow before w.c.	131.3	133.1	165.0
Net operating cash flow	84.7	105.5	68.9
Capex PPE and intangible assets	-9.6	-9.0	-15.0
Investing cash flow	-7.6	-213.0	36.1
Financing cash flow	-58.0	124.3	-129.6
Cash at the end of the year	26.5	43.3	18.9
Balance Sheet, RON mn			
Property, plant and equipment	143.9	116.8	176.9
Intangible assets	7.1	6.6	6.2
Loans related to third parties LT	58.3	52.1	33.6
Deferred tax assets	1.2	4.5	3.8
Investment property	13.2	13.9	13.7
Total non-current assets	224.0	194.2	234.9
Inventory	123.4	133.7	158.4
Loans related to third parties ST	7.6	6.7	3.6
Trade receivables	229.4	197.7	247.8
Cash	26.5	43.3	18.9
ST deposits	0.0	195.0	160.0
Prepayments	5.9	33.2	28.9
Other receivables	17.7	4.2	1.4
Total current assets	410.5	613.8	619.0
Total assets	634.6	808.0	853.9
Share capital	3.6	30.6	180.6
Share premium	0.0	345.7	195.7
Reserves	1.1	5.0	9.4
Retained earnings	93.7	102.7	98.7
Shareholders' Equity	98.8	483.4	483.8
LT borrowings	4.4	2.1	0.0
LT lease liability	64.5	32.8	90.1
LT trade payable	3.3	1.7	0.1
Deferred tax liability	0.7	2.3	1.0
Total LT liabilities	73.3	39.0	91.5
ST borrowings	165.4	2.5	2.1
ST leasing	37.1	37.1	32.9
Trade payables	224.7	196.0	193.9
Employee benefits	21.5	24.3	26.6
Current tax liabilities	2.8	1.8	5.0
Other payables	10.2	23.6	17.9
Total ST liabilities	462.5	285.6	278.6
Total equity and liabilities	634.6	808.0	853.9

Source: Aquila

Market overview

Romania is the second-largest EU member in Eastern Europe with a 2022 estimated population of 19.7 mn. According to the data presented by the Economist Intelligence Unit (EIU) in the industry report “Consumer goods and retail 2nd Quarter 2023”, the disposable personal income per capita in Romania is only around USD 10.4k in consumption levels that fall well below the EU average. In addition, the GDP per capita in 2022 in Romania has reached USD 15.8k vs. the EU level of USD 37.2k, according to Work Bank data.

The Romanian retail sector has experienced a setback due to the COVID-related lockdown and subsequent reduction of income levels and employment. Even as Romania started to recover economically between 2021-2022, the crisis between Russia and Ukraine has resulted in inflation and increased commodity and energy expenses in 2022. The EIU data predicts that the economy will grow by 2.4% in 2023 (compared to 4.7% in 2022) due to the ongoing global slowdown and high commodity prices that will continue to limit economic growth.

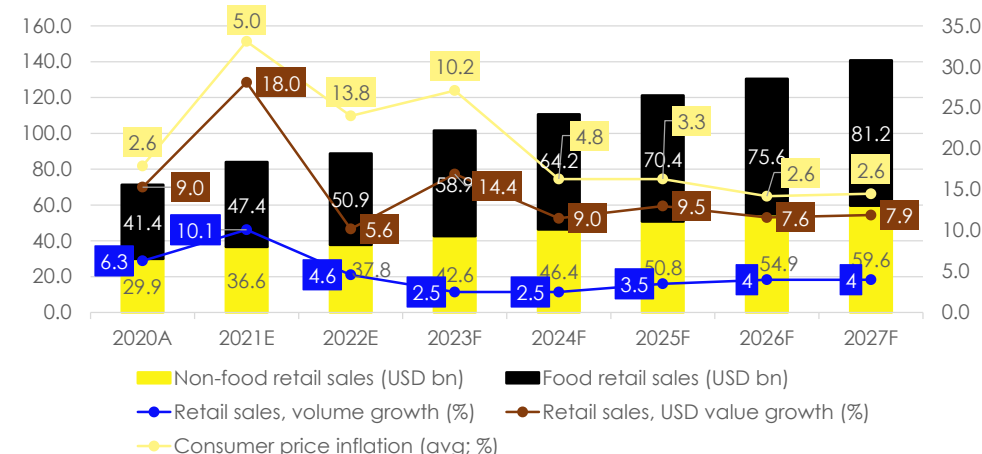
These are some of the key factors which should be considered in the evolution of the retail sector in the coming period:

i) high inflation rates that will constrain consumers' discretionary spending in 2023, despite the significant decline in the inflation rate (10.2% in 2023 to a more moderate level from 2024), because of: stabilisation of energy costs, resolution of supply-chain disruptions and prior monetary policy tightening. As a reminder, in 2022, consumer price inflation reached 13.8%, prompting the National Bank of Romania to raise interest rates to cover inflation, while external demand in Europe slowed down.

ii) market projections that indicate a 2.5% growth in retail volumes in 2023, primarily on the back of sales related to food and essential items. According to EIU, retail sales in local currency terms increased by an estimated 19% in 2022, driven by high food prices.

iii) inflation is expected to decline starting from 2023 until 2027 due to anticipated moderation in food and energy prices, along with an expected relaxation of monetary policy from Q1 24. The ongoing war in Ukraine has led to a surge in commodity prices, including food, contributing to inflation.

Retail consumption, USD bn



Source: EIU data

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Romanian FMCG distribution market

Modern retail accounts for two-thirds of sales in Romania, being dominated by international chains. Retail sales had been increasing significantly before the COVID-19 outbreak, backed by a reduction in value-added tax (VAT) on food, an improving job market and fiscal easing. However, due to high inflation and a weakening economy caused by high interest rates and a slowdown in external demand, growth is expected to slow down in 2023.

Despite the COVID-19 restrictions, the food market has demonstrated more resilience than the non-food sector, which is anticipated to continue during the ongoing war in Ukraine and high inflation.

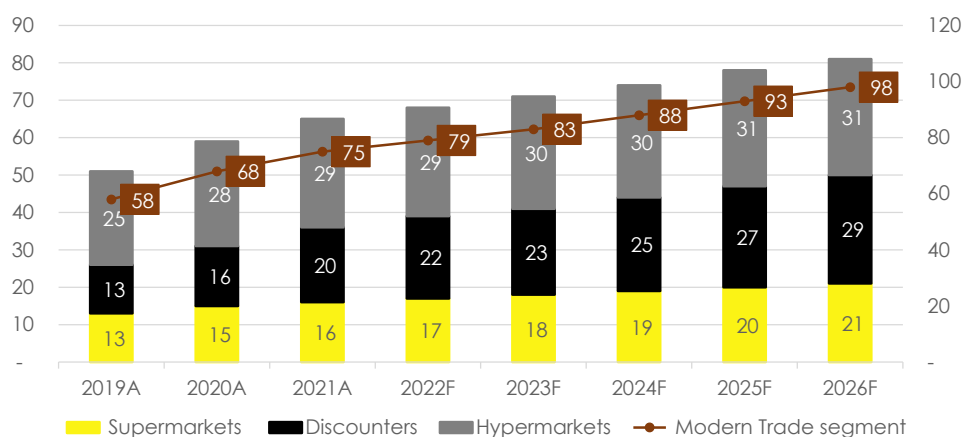
In 2023, food sales growth is expected to surpass the non-food sales growth, which is expected to exhibit a downward trend on the back of high interest rates and inflation rates as well as a decelerating economy. As a result, consumers will have limited room for discretionary spending, as they will allocate a greater proportion of income to food and energy bills.

However, the growth of non-food products is likely to pick up in 2025 due to improved economic growth, higher household incomes and more optimistic consumer sentiment. According to EIU data, this segment will reach a CAGR of 7.8% between 2023-2027 in localcurrency terms.

Nonetheless, the EIU's projections indicates that total retail sales will increase to USD 140.8 bn by 2027, growing at a 8.5% CAGR from 2023 to 2027, primarily due to high food prices.

Retail sales volumes are expected to grow at an annual average of 3.3% during the 2023-2027 period as food prices are anticipated to moderate only from 2024.

Modern trade evolution, RON bn



Source: Aquila, Euromonitor International

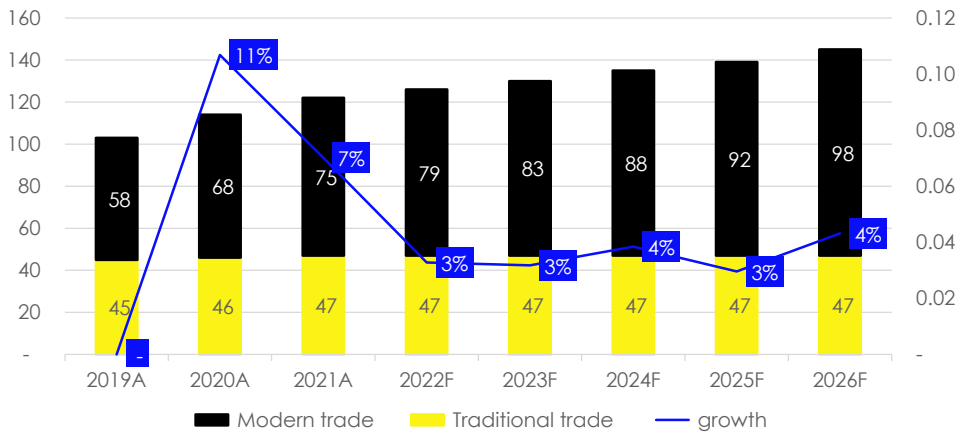
According to Euromonitor data, the modern trade market is expected to grow at a 5.3% CAGR between 2023-2026, where the main outperforming components are convenience stores (10.1% CAGR), discounters (8.0% CAGR) and supermarkets (5.3%).

On the flip side, the traditional trade segment is expected to have a flattish performance in the period between 2023-2026.

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Regarding the HORECA segment another addressable market for Aquila's distribution activity is expected to reach RON 28 bn with a CAGR of 13.8%, according to Euromonitor data.

Modern and traditional trade evolution, RON bn



Source: Aquila, Euromonitor International

Moreover, modern trade is projected to continue its expansion until 2027 as international chains with ample capital forge ahead with their store expansion strategies. In light of these trends, Aquila's development strategy is well-aligned with consumer consumption habits and markets trends.

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