IPO Research – ING-GRAD

InterCapital Research

Construction 24 February 2025

Lean, Mean Construction Machine!

In EURm	2024A	2025E	2026E	2027E	2028E	2029E
Total revenue	129	169	182	185	192	198
Sales revenue	121	165	178	182	188	194
EBITDA	22	30	31	29	28	28
EBIT	20	27	27	25	24	25
Net income	17	23	23	22	21	22
EBITDA margin (%)*	18%	18%	18%	16%	15%	14%
EBIT margin (%)*	17%	16%	15%	14%	13%	13%
Net income margin (%)*	14%	14%	13%	12%	11%	11%
Dividend per share (EUR)	0.45	2.60	2.67	2.74	2.77	2.80
Dividend yield (%)**	n.a.	6.3%	6.4%	6.6%	6.7%	6.8%

Source: ING-GRAD, InterCapital Research estimates
*Margins calculated as % of sales revenue
**At the mid range of the IPO price

In this Company Analysis, we introduce the newest IPO on the Zagreb Stock Exchange – ING-GRAD – which is arranged by InterCapital. ING-GRAD is one of the most prominent construction companies in Croatia, specializing in the restoration of cultural heritage, energy, infrastructure, and environmental projects, as well as commercial and residential projects. Our view of the Company is based on the following factors:

Top line strongly supported by the backlog, with above-average margins: ING-GRAD has been involved in two hundred projects throughout its history. Right now, it's involved in 10 major projects, with 2 more in the pipeline. The total backlog for these projects amounts to EUR 316.1m as of YE 2024. Currently, over 80% of its projects focus on restoring cultural heritage, due to the consequences of the recent earthquakes in Central Croatia, for which the Company has both the know-how and references. During the projection period, we expect 1-2 additional major projects per year, with the restoration of cultural heritage representing the majority of the revenue mix until 2027, after which we expect the energy, infrastructure, and environmental protection segment and residential and commercial segment taking more of the revenue mix. Given its lean business model (more details in the "Company Overview"), as well as its expected M&A, the Company should maintain stable revenue growth, as well as above-average margins in the sector.

M&A could lead to higher revenue and stable margins stemming from op. efficiency & synergies, however even with them included, a lot of cash is not used to its full potential: As stated by the Company, it aims to acquire EUR 50m in the IPO, by selling 30% of its treasury shares (34% held in total, acquired for EUR 23m in 2024 from its owner). This would allow it to achieve 3 objectives, i.e. M&A, enable employee participation in the ownership, and a more robust capital structure. We expect EUR 23.8m for M&A, with the expected consolidation of ING-JET (ING-GRAD current share: 19%), and a potential for 3 more M&A. We expect 2 of these in 2025, and 2 in 2026. Even incl. M&A, we were quite conservative with the amounts allocated, due to uncertainty with them. As such, we expect ING-GRAD will have a lot of cash, which could be invested in fin. assets, at 2-3% returns, below what could be expected if this cash was used for investments or M&A. However, due to the lack of visibility regarding this, there is a potential that this doesn't occur, and more cash is used in operations.

Stable cash flows offer opportunities for strong dividend payments: With the IPO and the number of projects the Company is involved in, cash flows should be quite stable, reducing the need for debt. This would allow the Company to pay out on average 50% of its net income in our projected period. The Company already communicated its intention to pay out EUR 2.60 per share in 2025, (c. 60% payout ratio), which at the mid-range of the IPO price (EUR 41.50) implies a DY of 6.25%. Going forward, we expect the DY at between 6.3% and 6.8%, making the Company one of the highest dividend payers currently on the Zagreb Stock Exchange.

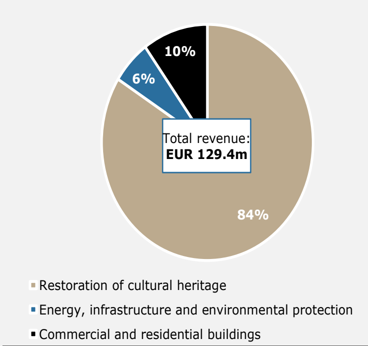
Shares outstanding: 3,833,400
IPO shares offered: 1,200,000

Upper IPO price range: EUR 46.00
Lower IPO price range: EUR 37.00

Company & IPO data	
Start of trading:	10 March 2025
% of share capital offered	30%
3y revenue CAGR*	30.2%
3y EBITDA CAGR	42.2%
3y EBIT CAGR	43.3%
3y EBT CAGR	44.1%
3y net income CAGR	38.0%
Avg. 3y ROA**	19.2%
Avg. 3y ROE**	48.8%
Website	https://www.ing-grad.hr/en/

*3y period from 2021-2024
**3y average from 2022-2024

ING-GRAD revenue breakdown by segment in 2024



CAGR	2024 - 2029
Total revenue	8.8%
Sales revenue	9.9%
EBITDA	4.8%
EBIT	4.2%
EBT	5.3%
Net income	5.3%
Backlog (as of YE 2024)	EUR 316.1m

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Company Overview

ING-GRAD, "the Company", is a well-known Croatian construction company based in the City of Zagreb. Having been first established all the way back in 1985, the Company has been operating under its current name since 1991. With the leadership of Mr. Branislav Brizar, MSc in Economics, the Company became one of the leading firms in the Croatian construction sector, being recognized for its stability, consistent growth, and development across several segments. Following the Global Financial Crisis of 2008 and the Euro Debt Crisis starting in 2009 before escalating in the 2010 to 2012 period, many Croatian construction companies went under, leaving room for new companies to take their place, but also a gap in the overall market's efficiency. This has been the case not just following these crises, but a theme present until 2015, when Croatia as one of the biggest laggards finally came out of the recession and started to develop and catch up with the rest of the EU. These periods have been volatile for the Company, but it has still managed to maintain stable cash flows, and in the latter period, also improve its efficiency and operating results. The Company itself is known within the construction sector as a highly diversified and specialized company. Its focus has been on three segments: **Restoration of the cultural heritage,** which includes complex restorations of historical buildings, including examples such as the reconstruction of the St. Mark's Church in Zagreb, the rehabilitation and restoration of the Euphrasian Basilica in Poreč, the restoration of the Amphitheatre in Pula. In total, this segment includes over 70 projects worked on throughout its history, several of which are also currently in the process. Further supporting this is the fact that ING-GRAD holds several certificates that enhance its qualifications for reconstruction projects, particularly the restoration of cultural heritage. These certificates include the ISO 9001, ISO 14001, ISO 45001, and the SCCp. The 2nd most important segment involves **Energy, infrastructure, and environmental protection.** Besides highly specialized works required in the restoration of cultural heritage, this segment includes a diverse range of projects, especially energy and infrastructure projects. Some of the examples of the projects the Company worked on or is currently in the process of working on are the Wind Farm Bogoslovec in North Macedonia, the Biogas Plant in Gregurovac, and the Revitalization of the Hot Watter Network in Zagreb. The Company also helped with the construction of the "Most dr. Franje Tuđmana, Dubrovnik" (eng. Dr. Franjo Tuđman Bridge, Dubrovnik), as well as several other noteworthy bridge projects. Lastly, the Company also has operations in the **Commercial and residential buildings** segment, with several dozen projects involving commercial projects, such as the Svjetlost Polyclinic, renovation and upgrade of Pliva Croatia's business office in Zagreb, as well as additional construction of a business/office building at Agroproteinka's production site in Sesvetski Kraljevac. Furthermore, the Company also participated or is participating in 17 projects related to residential construction, with almost all of the constructions in the city of Zagreb.

Following the earthquakes in Zagreb and Petrinja in 2020, there has been a significant rise in demand for reconstruction, especially of older and culture-centered buildings. This has been especially true in the city of Zagreb, where an estimate of EUR 11.5bn of damages was done by the said earthquake, while the earthquake in Petrinja caused app. EUR 4.8bn of damages. As a result, ING-GRAD was uniquely positioned to not only help with the restoration but also to expand its areas of operations due to its expertise. This is the reason why in the last couple of years, there has been a far larger focus on the restoration of the cultural heritage within the Company, and this is expected to continue for the next 2-3 years at least as well. Of this, app. EUR 1.38bn relates to damage on the cultural heritage sites, with the estimated amount needed for total reconstruction and renovation in this segment at EUR 2.27bn. The Croatian Government has reacted rather quickly with the reconstruction funds and allocation, allocating app. EUR 3.8bn for the reconstruction, which was further supported by various EU funds, which added another EUR 1.73bn to the reconstruction tally. Due to these dynamics, ING-GRAD itself also switched its focus more on the reconstruction efforts, a process that is still ongoing as of the latest data and is unlikely to change in the coming period.

ING-GRAD, a prominent Croatian construction company has been founded in 1985, operating under its current name since 1991.

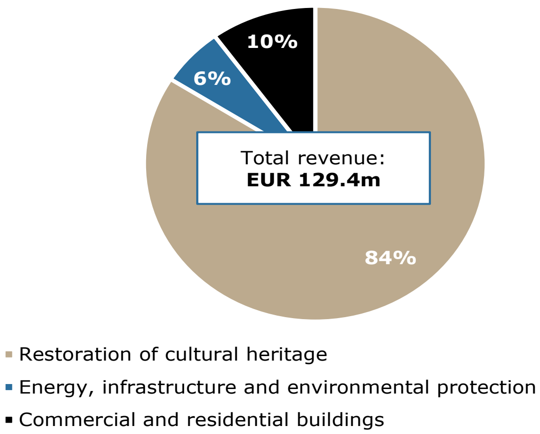
Despite the harsh conditions during 2008 GFC and 2009-2012 Euro Debt Crisis, the Company managed to keep its operations going.

The Company focuses on three segments: Restoration of the cultural heritage, Energy, infrastructure and environmental protection, and the Commercial and residential buildings.

Notable projects include the Pula Amphitheatre, Dr Franjo Tuđman Bridge, St Mark's Church in Zagreb, Euphrasian Basillica in Poreč, among dozens of others.

With its expertise in restoration, ING-GRAD was uniquely positioned to aid reconstruction efforts following the 2020 earthquakes.

ING-GRAD revenue breakdown by segment (2024, % of the total revenue)



Source: ING-GRAD, InterCapital Research

During 2024, most of the Company's revenue came from restoration of cultural heritage works.

ING-GRAD is also the owner of VILA-GRAD JORDANOVAC (100%), and partially owns INGOMONT (50%) and ING-JET (19%)

As of 2024, the Company has app. 84% of its revenue coming from the restoration of cultural heritage, 6% coming from Energy, infrastructure, and environmental protection, and 10% coming from Commercial and residential buildings. In 2025 and 2026, we expect that the percentage held by the restoration of cultural heritage will remain stable, something which we will provide more detail on in our "Financial Overview" segment. Besides the core Company, ING-GRAD, the Company also has subsidiaries, both fully and partially owned. These include VILA-GRAD JORDANOVAC, 100% owned by ING-GRAD, INGOMONT, 50% owned by ING-GRAD, and ING-JET, which is 19% owned by ING-GRAD. As of right now, The Company has 12 ongoing major projects, most of which are slated for the 2025/2026 deadline, with 2 slated for 2027 completion. Due to this, as of YE 2024, the Company has a backlog of projects in the amount of EUR 316.1m, which would support its revenue & operating results for years to come (more details on the revenue recognition method the Company uses in the "Financial Overview").

ING-GRAD's business model could be considered asset-light, or a lean business model.

This means that due to its relationships with subcontractors, it can complete far more projects than its employee numbers would suggest.

ING-GRAD's business model should also be emphasized, as it represents a significant upside for the Company. They operate an asset and labour-light construction model, which has proven to be a quite lean business model. The principle is both simple and risk-averse: ING-GRAD as a Company has a certain number of employees with which it can complete a certain number of projects in the area of erecting mere construction (concrete works). However, this business model allows it to effectively increase the number of projects it's working on, as it can outsource a lot of the work to its subcontractors (such as installation, HVAC, facade, finishing works, etc.) with whom it cooperates well. In other words, this allows the Company to rely more on subcontractors than an extensive in-house workforce, allowing it to take on significantly more projects than its direct employees count would suggest. For example, the Company besides its own 221 employees operates with app. 1,000 employees from its subcontractors on their projects. This creates a high degree of operating leverage, meaning that it has a manageable fixed cost base, related to employees and core operations, which supports a much larger volume of work, executed by subcontractors. This leads to low fixed costs, but high variable costs (as indicated by advances given to subcontractors in the balance sheet). This means that the Company is both scalable and flexible, meaning that it can ramp up or down its operations based on demand, without being burdened by large, fixed overhead. This also allows the Company to focus on managing contracts, and relationships and ensuring quality control, rather than directly employing skilled labour. Through this approach, ING-GRAD has built and continues to build a lot of brand recognition, which is especially important in the restoration construction business, as this segment has relatively few companies that can compete.

This model allows flexibility and scalability, keeping the fixed costs low, while variable costs are higher, but are still more manageable.

The variable part of these costs is something that can be seen as advances given in the balance sheet.

Furthermore, during economic upswings, it can take on more projects and increase revenue, without proportionally increasing costs. While risks do exist during downswings, such as high subcontractor costs while revenues decline, the flexibility of the model allows the Company to tap and expand the pool of subcontractors during positive periods, while winding down operations during neutral, or negative periods of the economic cycle. When you combine this with know-how and brand recognition in the more profitable restoration business (as compared to energy, infrastructure projects to a lesser extent, and commercial and residential projects to a greater extent), it means that not only can the Company scale operations on demand, but it has a certain shield against competition, as there aren't many companies who can do the more complex projects, especially restoration ones.

Due to this model, brand recognition, and its know-how, especially in the restoration segment, the Company has a solid shield against many competitors in Croatia.

Lastly, it should be noted that there are several reasons why ING-GRAD is doing an IPO: Firstly, they aim to use the money to do acquisitions, especially in the geotechnical sector, and they also aim to consolidate smaller construction and engineering companies. Secondly, they aim to use a portion of these funds towards implementing an employee ownership program to reward and incentivize key employees, as well as to attract top talent in the construction sector. Finally, they aim to use the IPO proceeds to secure long-term capital for business growth and development. Strengthening the Company's capital structure in this way will also provide support for issuing bank guarantees and potentially securing additional bank financing in the future. In terms of the IPO itself, according to the latest available public data, the Company aims to offer 30% out of the 34% of treasury shares it holds during the IPO, representing 1.2m shares. This 34% stake was acquired by the Company in H2 2024, from the owner Mr. Brizar, for app. EUR 23m. While the final price is yet to be determined, the Company aims to raise app. EUR 50m through this action. If successful, not only will the above-mentioned goals be possible, but the Company could also increase its revenue by EUR 50m, and its EBITDA by EUR 6m, in the next couple of years. Furthermore, this would imply a stable EBITDA margin of between 16-19% during this period.

ING-GRAD has 3 goals for its IPO: use the proceeds to do M&A, especially of geotechnical, but also other specialized companies, better employee rewards and retention, and the improvement of the Company's capital structure.

Macroeconomic & Industry Overview

To put the Company's performance and future prospects into perspective, a look at the macroeconomic and industry-specific indicators is prudent. Starting off with the macroeconomics first, Croatia has since the end of the recession in 2015, and especially after the end of the pandemic, experienced a significant expansion in its GDP, supported by the various EU funds, which have in the 2014-2020 Financial Framework allocated app. EUR 10.7bn to Croatia. In the 2021-2027 Financial Framework, Croatia is allocated an additional EUR 9bn from the Cohesion Policy funds. In total, combining allocations from the Multiannual Financial Framework, as well as the Next Generation EU instrument, Croatia is allocated app. EUR 25bn in funding until 2027, making it one of the largest users and absorbers of EU funding. Besides EU funds, Croatia's economic growth was also supported by the tourism industry, which before the pandemic was a key driver of growth. This trend also continued after the pandemic, although Croatian tourism needed a year or two to recover the numbers (number of arrivals & overnight stays). Despite this, it still recorded significant revenue and profitability growth. Private consumption has also been one of the key drivers of growth, supported by the growth in public sector spending, primarily due to the higher wages that have grown by double-digit levels, especially in the last year, year and a half. Despite the high inflationary pressures recorded post-pandemic (with many indicators pointing towards the real inflation rate being higher than the official numbers), one would expect that the real wage growth would have a hard time keeping up.

Croatia has been allocated EUR 10.7bn in the 2014-2020 Financial Framework from the EU.

Under the 2021-2027 Financial Framework, Croatia is allocated an additional EUR 9bn, bringing total funding to EUR 25bn when combined with the Multiannual Financial Framework and Next Generation EU funds.

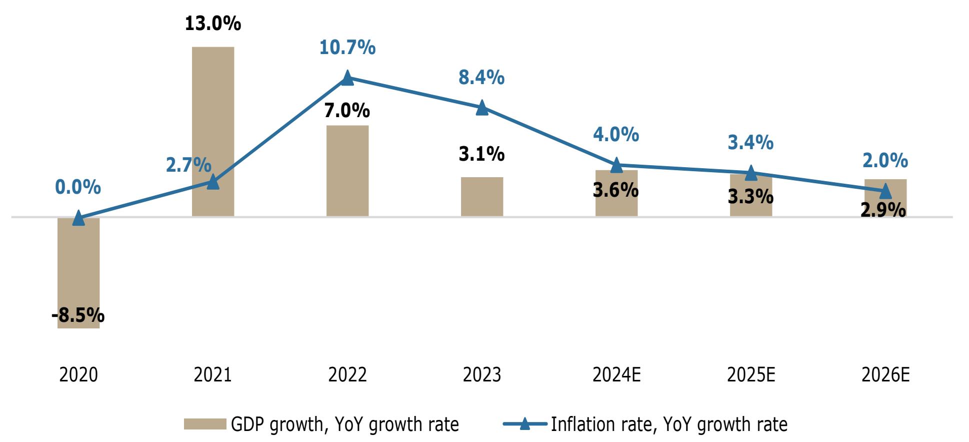
However, wage growth in real terms continued throughout the period, and at the moment, EU funding presents one the strongest drivers of growth for Croatia. Exports, which are more focused in Croatia on services (e.g. tourism) also remained resilient during the period, and even though the economic shocks were felt by all, especially main trading partners in the EU, the effect has not been as significant in Croatia thus far. The war in Ukraine also contributed significantly to inflation, as rising energy prices reverberated across many of the industries of the economy, making general goods prices higher.

GDP growth was supported by wage increases, driven largely by inflation, and higher exports, boosted by strong tourism revenues.

However, it has to be noted that GDP growth driven by private consumption, especially in the context of continual wage growth does spur inflation, both due to higher Government spending and higher disposable incomes. There is a certain self-repeating cycle here too, as high inflation means people are more likely to spend their money than save it, which in turn, spurs more inflation growth as higher demand outstrips supply, especially in certain sectors such as construction.

However, growth was also impacted by the war in Ukraine, high inflation, and broader macroeconomic and geopolitical uncertainty.

Croatian GDP, inflation growth rate (YoY, %, 2020 – 2026E)



Source: HNB, European Commission, InterCapital Research

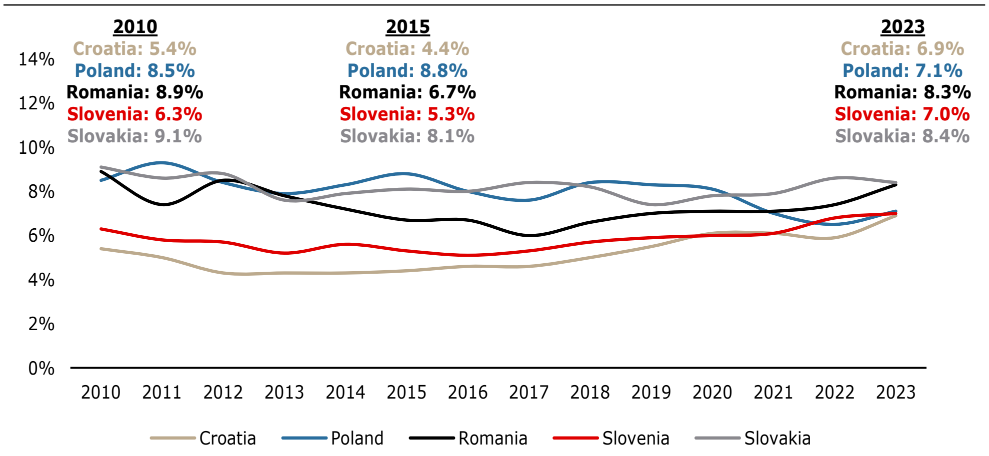
GDP growth is expected at above EU average levels, but so is inflation.

GDP growth in the coming period would be supported by continued EU funding, but also by private consumption.

The growth in the coming period is expected to continue, as EU funds continue to flow into the country, supporting investments. Private consumption, with the modest stabilization of inflation (still above the 2% target!) would also remain one of the key drivers of growth. Finally, if the macroeconomic and geopolitical situation in Europe improves, which could be supported by the end of the War in Ukraine, or the recent election of a new Government in Germany, or the possible trade deals to avoid tariffs from the US could all have positive impacts on the EU growth in general. For Croatia, these factors are less pronounced but would manifest in lower energy prices, cost stabilization, and possibilities of higher exports towards countries in the region (for example, by utilizing and expanding the Krk LNG Terminal to an even greater extent).

Given the new US administration, Croatia as part of the EU faces difficulties, but also some unique opportunities.

Percentage of the construction sector in GDP (2010 – 2023)



Source: DZS, InterCapital Research

The Croatian construction sector has historically contributed significantly to GDP, though below EU peers (% of total). Since emerging from recession in 2015, it has steadily grown and recovered.

Turning our attention to the construction sector, while it hasn't been the largest driver of added value creation in the GDP, it has been consistently recording mid-single digit levels, as % of GDP. However, when we compare the sector to other countries in the region or other EU peers, we can see that the added value created in this sector lags behind EU countries. In 2010, Croatia's construction sector share in GDP amounted to 5.4%, which at the time was 1 to several p.p. lower than comparable countries.

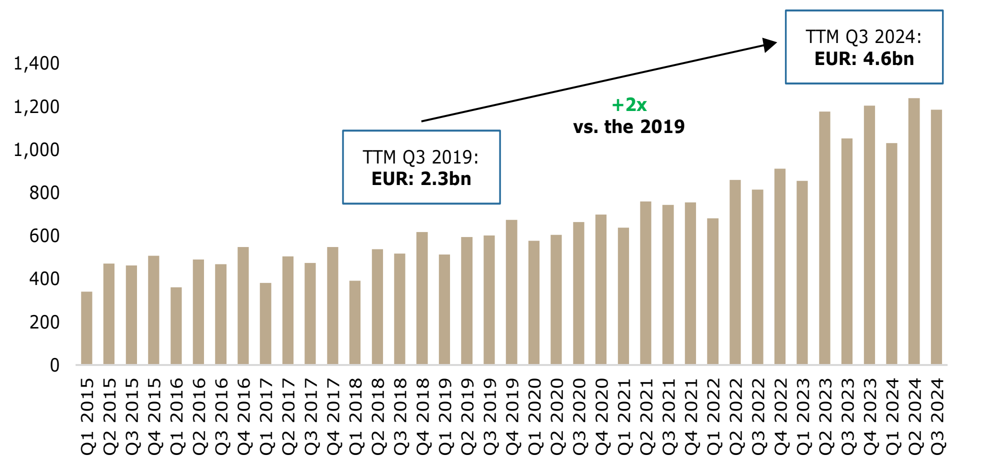
The construction sector benefits from Croatians' strong preference for home ownership and real estate as a key savings and investment opportunity.

Following years of recession, by 2015 it accounted for only 4.4%, and while other countries also recorded lower shares, they were still higher than the level recorded in Croatia. By 2023, the strong demand for real estate, the expansion of the economic activity, and the continued investments into the sector have increased this sector's share of Croatian GDP, to an estimated 6.9%, in line with peers such as Slovenia or Poland. This is unlikely to change in the medium term, as demand for real estate, be it private or corporate is still extremely high, and it's unlikely to meet supply, as we can see by the continual price appreciation.

The demand for real estate is unlikely to change in the medium to long term, as there's still strong demand, and with the continued reduction in interest rates, a larger volume of loan production could be expected, further supporting this.

Several factors work in the industry's favor, and point towards this growth continuing: Firstly, the fact that Croatians have historically seen real estate not only as a necessity but also as a form of investment and savings. Recent legislation did increase the costs of real estate ownership, especially for people who own several different real estates, but it is unlikely to drastically affect this. Also, even though there are many discussions about reforming the Government support-related programs such as APN, at the moment even without this support, Croatians continue to use housing loans to a great extent to finance these acquisitions.

Value of completed construction works, EURm



Source: DZS, InterCapital Research

The demand is also evident in the value of completed construction works, which doubled in TTM Q3 2024 as compared to 2019.

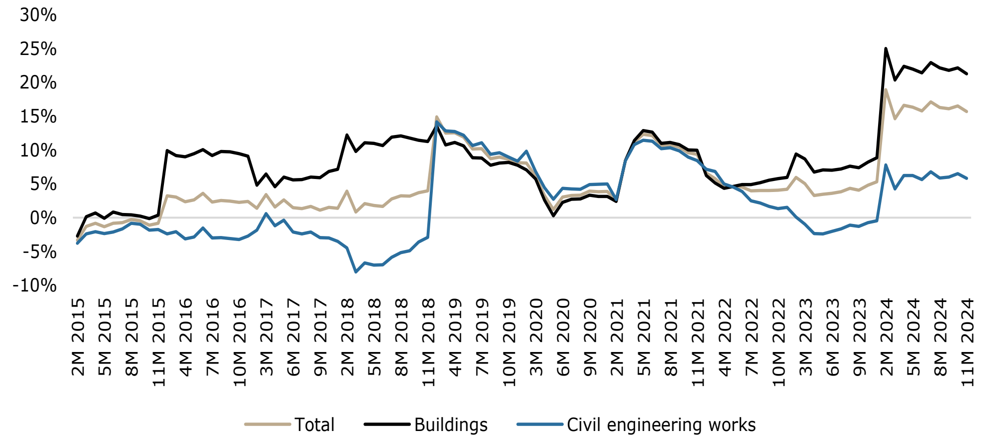
The increase in the share of construction in the total value added is also visible if we look at the value of completed construction works. This metric, which hovered at around EUR 500m of completed works value per quarter in the 2015 – 2019 period, has after the height of the pandemic (2021 onwards) amounted to EUR 926m on average per quarter, implying an increase of 85% in just a few years.

This would mean that as of the latest data, the value of completed construction amounted to EUR 4.6bn, while the average for the quarter amounted to EUR 926m from 2021 onwards, exceeding the pre-pandemic 2015-2019 quarterly average by 85%.

Furthermore, if we look at the latest available data, the total amount of completed construction in the last twelve months ending in Q3 2024 amounted to EUR 4.6bn, while the same period before the pandemic, i.e. TTM ending in Q3 2019 amounted to EUR 2.3bn, implying a doubling in the value of construction works! A similar trend is present in the volume of construction works, which it should be noted are quite cyclical – as are the construction projects themselves. Despite this, the volume of construction works has also recorded mid-to-high single-digit growth levels YoY, which combined with the higher value of these works would imply that not only are more things being constructed, but also that the construction that's being done is one at higher prices, or in general, involves larger projects.

While the volume of construction works is quite cyclical, it too has recorded significant growth in the last couple of years.

Volume of construction works (2015 – November 2024, % change YoY)



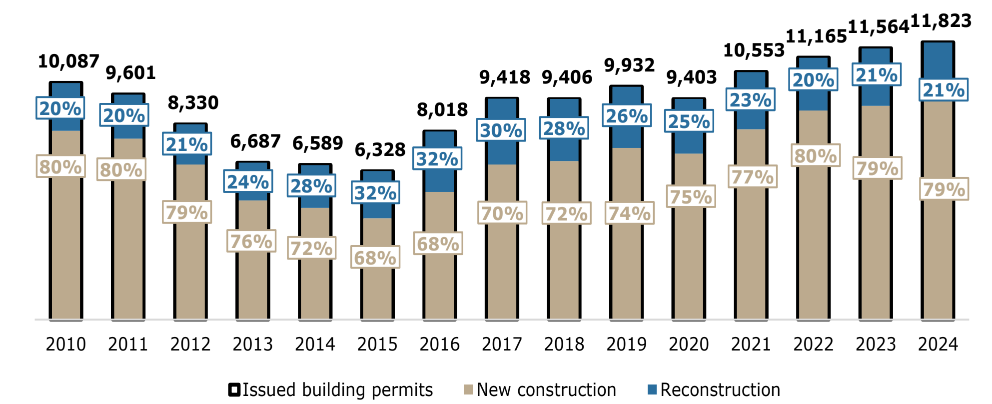
Source: DZS, InterCapital Research

The latest increase was supported by large Government spending, especially in infrastructure.

This trend is also evident if we look at the number of issued building permits, and to what type of construction are those permits issued (new construction or reconstruction).

The issued building permits also tell a similar story, with the total number of issued building permits in 2024 exceeding the 2015-2019 average by 37%.

Issued building permits, type of construction (2010 – 2024)



Source: DZS, InterCapital Research

Building permits for reconstruction have increased, but with recent reconstruction efforts, this number is expected to decline in the coming years.

The average number of issued building permits in the 2015 – 2019 period amounted to 8.6k, and as we can see from the graph there has been a recovery and stabilization following the recession. In 2024, the number of issued building permits exceeded that average by 37%, with reconstruction constituting over 20% of all the issued building permits.

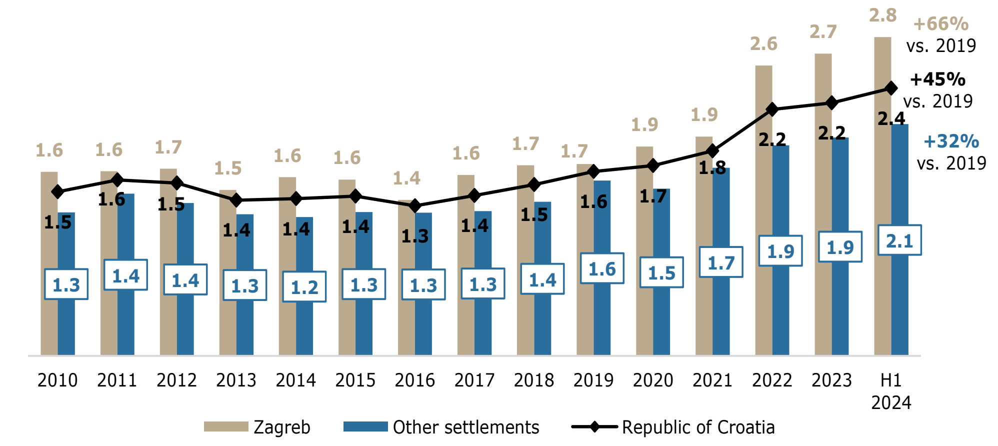
Through this, we can see that reconstruction efforts have expanded to historically high levels, but beyond that, the overall scale of construction has also grown significantly. The sheer volume of work and the size of the projects indicate a shift toward larger, more complex developments. Furthermore, these numbers imply that a lot of the construction is yet to take place, which at these higher values would mean that there is a significant backlog of projects to be completed in the coming period. Support from the EU funds is also set to play a crucial role here, especially until 2027. Given Croatia's convergence to the EU average, it is unclear how much funds will Croatia be allocated after 2027. While it is too early to tell how this will affect the whole industry, it could mean that diversification across more segments would allow the economy to better withstand this reduction in support.

Support from the EU funds is also set to play a crucial role, but as of this moment it is unknown how much will Croatia be allocated, especially after 2027.

This principle could also be applied to construction, with the gradual reduction in the number of projects involving reconstruction, and higher potential for projects involving infrastructure and energy, with stable and increasing, although not to a similar extent, levels of investments into residential and commercial buildings. In regards specifically to the restoration of the cultural heritage segment of construction, as many of the projects are completed, a gradual slowdown in the number of projects is expected, especially in the medium to long term. Furthermore, once completed, these projects are expected to last for a while, meaning only rudimentary or maintenance works would have to be done.

While investments into reconstruction are expected to continue, a gradual decrease in the number of projects is expected in the medium to long term.

Average selling price of new apartments (2010 – H1 2024, EUR '000/m²)



Source: DZS, InterCapital Research

Residential real estate also recorded significant growth in the last couple of years, in line with the trend in rest of the EU.

The trend of growing construction values is also visible in the residential real estate market, with the average prices growing significantly in the last couple of years. This is a trend that not only affects Croatia but the EU in general as well, although due to the wage differences between Croatia with the EU, this incurs a significant cost, especially for younger people. As of H1 2024, the average selling price of a new apartment has grown by 45% as compared to 2019 in Croatia, by 66% in Zagreb, and by 32% in other settlements of the country. Given the still strong demand, restrained supply, and Croatians' preference for real estate ownership and investments as a form of savings, this trend is unlikely to change any time soon. Government interventions could possibly have a positive effect, stemming the price growth, however, previous measures were quite ineffective, and as such there's little that could be expected from the Government in this regard.

As of H1 2024, prices of new apartments in Croatia have grown by 45% in the country, 66% in Zagreb, and 32% in other settlements of Croatia, as compared to 2019.

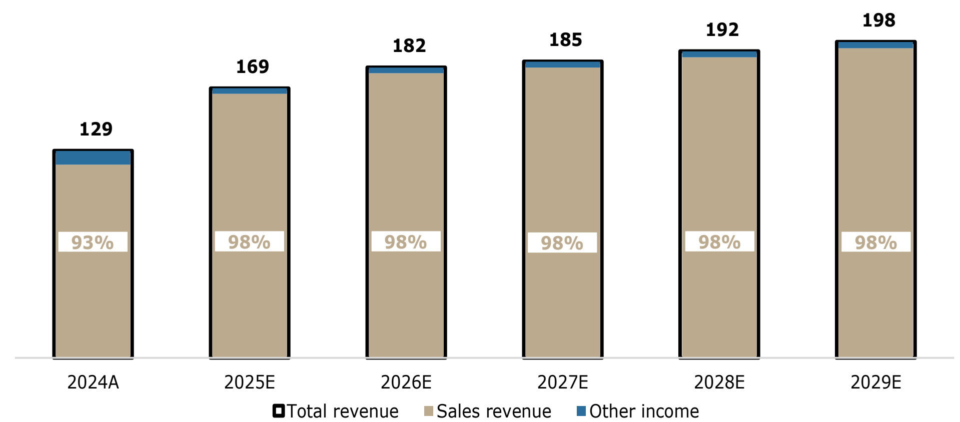
Financial Overview

For the financial overview of the Company, a couple of things should be noted first. The Company uses revenue recognition based on the percentage of the completion rate of any given project. The same is applied to costs. This differs from usual revenue recognition models as revenue is not recorded at the point it's made – it's recorded based on the percentage of the completion of that project. For example, if the Company has a EUR 100m project, with EUR 80m of costs, and has completed 50% of the project, it will recognize EUR 50m as revenue, and EUR 40m as costs. Of course, adjustments are constantly made over the period as each project can either land at the expected value or above it (the opposite can also occur, but it is usually rare). While there are benefits to this model as it reflects the true state of the produced goods or services (in this case construction projects), it can lead to fluctuations throughout the years. This can occur when a large number of projects are completed within a year, leaving the next year with a lower number of projects, or when projects are delayed for any reason. As such, volatility in the revenue and costs can be expected to occur.

For our analysis of ING-GRAD, we have also implemented this model of revenue recognition. This could lead to volatility in the margins, especially EBITDA & net income, but it does not take away from the general position – while revenue and margins might fluctuate throughout the period, a growth trend is clearly visible. In total, in 2023/2024 and going forward, ING-GRAD has 12 major projects (out of 21 in total) in various stages of development. Some of these projects include the reconstruction of the Justice Square Parking, the reconstruction of the parts of Ilica and Gundulićeva streets, Pavillion IV restoration projects, reconstruction of the archives of the Municipal Court in Zagreb. Most of these projects are slated for 2025 and 2026 completion dates, while 2 new projects, including the reconstruction of the Croatian Parliament, are currently in the pipeline, in line with the 2027 completion dates.

As of YE 2024, the Company's backlog (contracts already signed but not recognized as revenue) amounts to EUR 316.1m. Furthermore, the 2024 total revenue amounted to EUR 129m, increasing by 33% YoY. Of this, the Company recorded a noteworthy EUR 8.5m in other op. income, which relates to one-offs such as the sale of non-core assets, income from damage claims in legal disputes, collection of previously written-off receivables, and income from penalties for non-fulfillment of obligations by counterparties, among other items. We expect it to decrease to 2% of the total revenue in 2025 and going forward.

Total revenue (EURm), and its components (% of total revenue, 2024A – 2029E)



Source: ING-GRAD, InterCapital Research estimates

For the remainder of the period, we expect that the Company will be able to consistently hit its targets when it comes to execution, with only slight possible delays that would not have any material impact.

ING-GRAD, like many other construction companies uses the revenue recognition model that's based on the completion rate of projects (same with costs).

While this presents a more precise recognition model, it could also lead to volatility in revenue and costs, as they depend entirely on the projects' completion rates.

As of 2024, ING-GRAD has 12 major projects in development.

Most of these projects are slated for 2025 and 2026 completion, with 2 new projects in the pipeline, slated for 2027 completion.

Due to these projects, ING-GRAD has app. EUR 316.1m of backlog as of YE 2024.

As such, 2024 revenue amounted to EUR 129m, a 33% increase YoY.

The growth until 2026 is based on the projects already announced, which include 12 major projects. Going forward, due to the nature of the business, we expect the Company will be able to add 1-2 major projects each year through the projection period. Furthermore, we expect that the Company's medium-term revenue mix will also undergo a change, in 2025 – 2027 the largest focus should be on the restoration of cultural heritage projects, but starting in 2027, an increase in the energy and infrastructure projects is also estimated, as we expect that there will be a lot of incentives and focus in this segment, in line with the EU's current focus energy expansion, especially in the context of the dependence on Russia for energy resources. Lastly, we expect a larger share of commercial and residential projects, as demand from both corporate and private clients is still quite high in this segment and is unlikely to change any time soon.

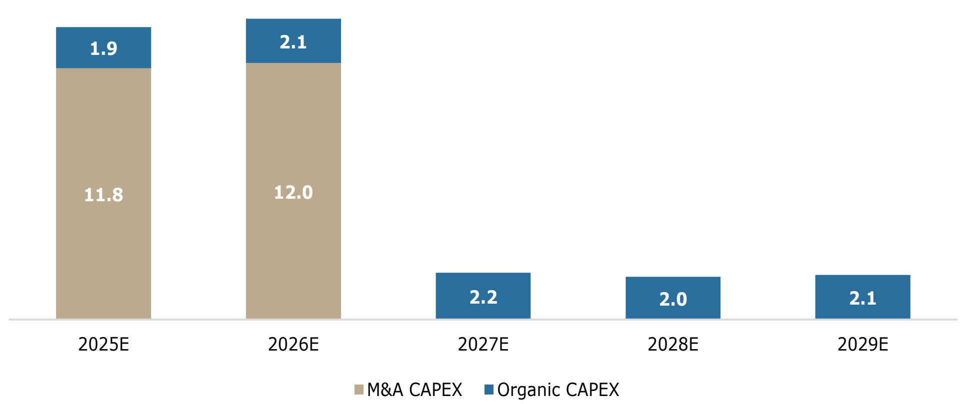
Up until 2027, the revenue is based on the already announced projects.

If this occurs, the Company could record significant revenue improvements over the next 4-5 years, and we would also like to note that the IPO itself is targeted towards this. The Company aims to raise app. EUR 50m during the process (subject to final IPO price), with which it aims to, among other goals, acquire smaller companies in Croatia, especially ones with geotechnical specializations, but also other specialized construction companies, including some of their subcontractors. This would lead to improved efficiencies and a higher volume of work that could be conducted. We estimate the Company will spend just over EUR 23.8m for M&A, which would include the full M&A and integration of ING-JET (ING-GRAD currently holds 19%), as well as 3 other M&A. Of these, 2 M&A could occur in 2025, and 2 could occur in 2026.

Due to the strong demand in the construction sector, especially in the Restoration of cultural heritage and Energy, infrastructure and environmental protection segments, we expect the Company will be able to add 1-2 major projects each year throughout the projection period.

If this is achieved, the Company will be able to complete all the current and new projects, increasing its revenue by EUR 50m in the next couple of years as compared to pre-IPO levels, but also achieve synergies and cost reductions, as it will be in more control of the entire construction pipeline, instead of subcontracting much of the work to other, outside companies.

CAPEX, incl. M&A (EURm, 2025E – 2029E)



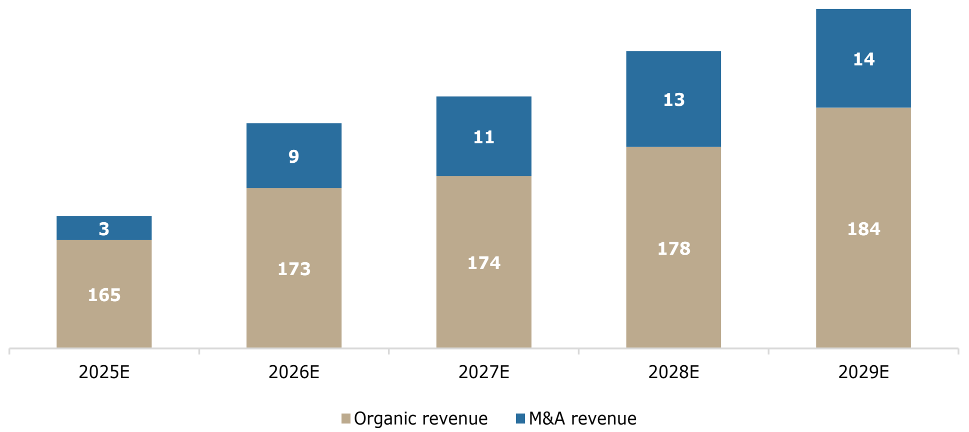
Source: InterCapital Research estimates

CAPEX includes M&A, notably the full consolidation of ING-JET and three additional acquisitions. Two of these M&A are expected in 2025, with the remaining two in 2026.

According to our estimates, the Company's organic CAPEX should amount to app. EUR 2m on average, per year. Combined with the M&A CAPEX, of EUR 23.8m, we expect the Company will be able to increase its revenue even faster while maintaining good margins. This would allow the Company to effectively expand and take on even more projects, especially the more complex ones for which they have many accreditations. In total, our estimates are in line with the Company's own strategy, including the EUR 50m of revenue increase in the next couple of years coming from these investments.

We estimate ING-GRAD will allocate EUR 23.8m for M&A, targeting smaller construction companies, particularly those specializing in geotechnical services.

Revenue breakdown, organic and M&A* related (2025E – 2029E, EURm)



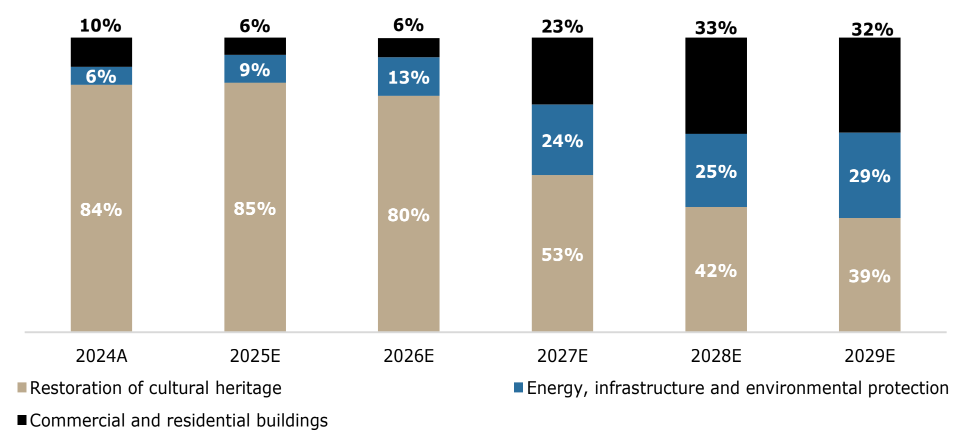
Source: InterCapital Research estimates
*M&A related revenue refers to the expected revenue that the Company could achieve once it completes its M&As

Initially, the bulk of the revenue is expected to come from the restoration of cultural heritage segment.

While we expect this amount to initially be small, it should amount to app. 5% of the overall revenue in the latter years. In terms of revenue by segment, in line with the Company's backlog, we expect the majority of the revenue to come from the restoration of cultural heritage in 2025 and 2026. Afterward, we project that more projects involving energy and infrastructure, as well as more projects in the commercial and residential segments will occur. As such, these 3 categories should balance out in the medium term. If all goes as planned, the Company will achieve significant revenue growth in 2025 and 2026, after which we expect it to moderate, as the lack of visibility regarding future projects means we are quite conservative in our estimates. As such, we expect total revenue to amount to EUR 197.6m by 2029, implying a CAGR of 8.8% in the 2024A – 2029E period.

In 2027 and onwards, a higher focus should come towards Energy, infrastructure and environmental protection projects, as well as commercial and residential projects.

Revenue breakdown by segment (2024A – 2029E, % of the total)



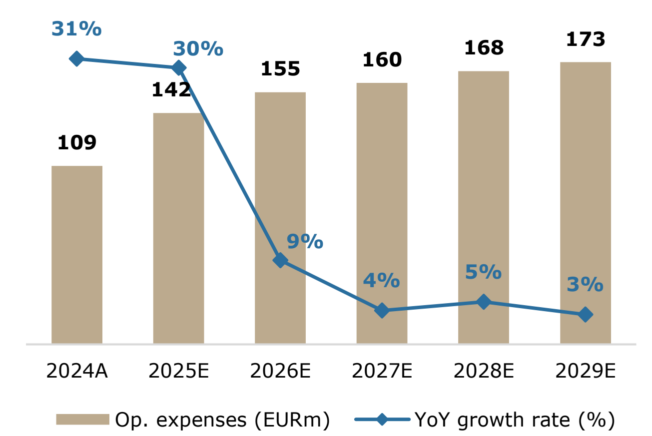
Source: ING-GRAD, InterCapital Research estimates

If all goes as planned, the Company could come end up with a total revenue of EUR 197.6m by 2029, implying a CAGR of 8.8% in the 2024A – 2029E period.

Moving on to expenses, we estimate that their growth will be in line with revenue, as we expect several things to occur: Firstly, inflation to moderate in the medium-term, leading to both lower prices (for example of construction material) but also slowed down wage growth. Secondly, with the acquisition and integration of the companies we explained above, ING-GRAD will be able to more effectively leverage its potential. As such, while cost growth is expected at mid-single-digit to mid-teen-levels, it should be noted that this is in line with the revenue for that period as well, due to the aforementioned revenue recognition model.

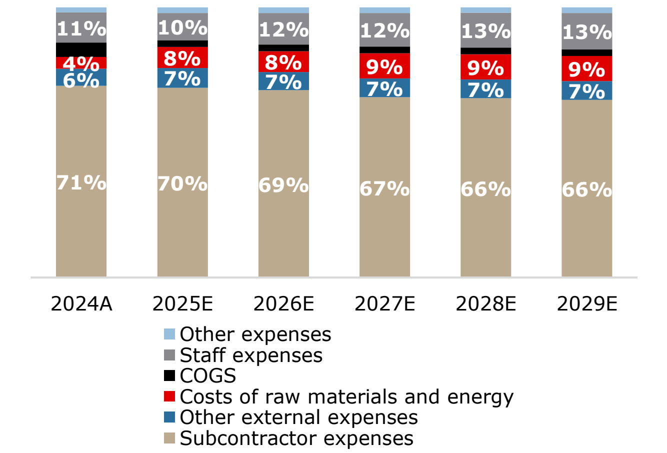
In terms of expenses, they're expected to grow in 2025 and 2026, mainly related to integration costs of the newly acquired companies.

Op. expenses (EURm), YoY growth rate (%) (2024A – 2029E)



Source: ING-GRAD, InterCapital Research estimates

Op. expenses breakdown (% of the total, 2024A – 2029E)



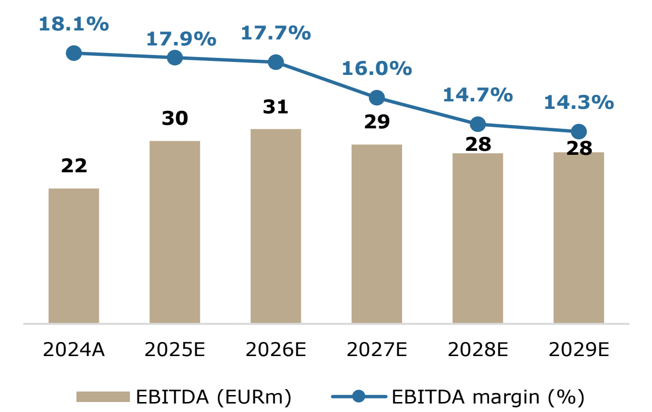
Source: ING-GRAD, InterCapital Research estimates

Furthermore, after the initial costs related to integration, synergies should kick in in 2027 and afterward, thus leading to lower overall cost growth. In terms of cost drivers, we expect growth across all cost categories, with the most noteworthy increases in staff costs, as we not only expect wage growth (even if moderate) but also an increase in the number of employees, which could amount to several dozen to over a hundred based on the companies that are chosen for M&A. Subcontractor costs should also experience an increase in absolute numbers but should represent a lower percentage of the total costs, especially after the new companies get integrated. Costs of raw materials and energy should also go up, but this is more volume-based (higher number of projects) than it is based on higher prices/costs. As such, we expect the operating expenses to increase at a CAGR of 9.6% in the 2024A – 2029E period.

Op. expenses are set to grow across all lines, primarily higher staff costs, subcontractor costs as well as costs of raw materials and goods.

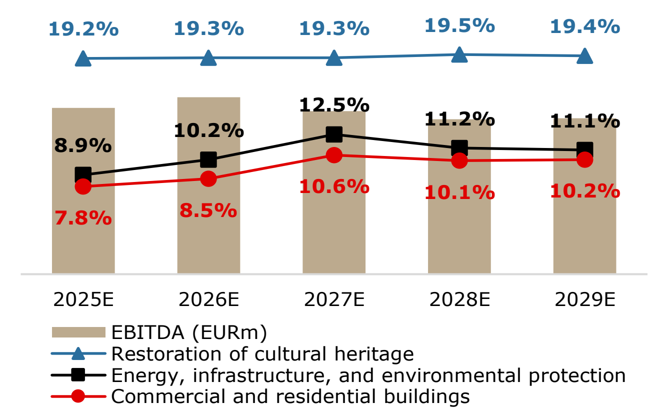
OPEX CAGR of 9.6% in the 2024A – 2029E period.

EBITDA (EURm), EBITDA margin (%)* (2024A – 2029E)



Source: ING-GRAD, InterCapital Research estimates
*EBITDA margin as % of sales revenue

EBITDA (EURm), EBITDA margin by segment* (2025E – 2029E)



Source: InterCapital Research estimates
*Segment EBITDA margins as % of segment revenue

Moving on to EBITDA, we expect it at EUR 29.6m in 2025, representing an increase of 35% YoY, mostly on the back of two things: firstly, the Company's Management has been quite conservative when making budgets for the projects they're involved in. This would also mean that the results in the coming period could end up better than expected. Secondly, the Company is involved primarily at the moment with restoration projects, which due to the nature and complexity of the works, as well as the fact that there aren't many companies that could provide these services, do end up bringing in higher profitability.

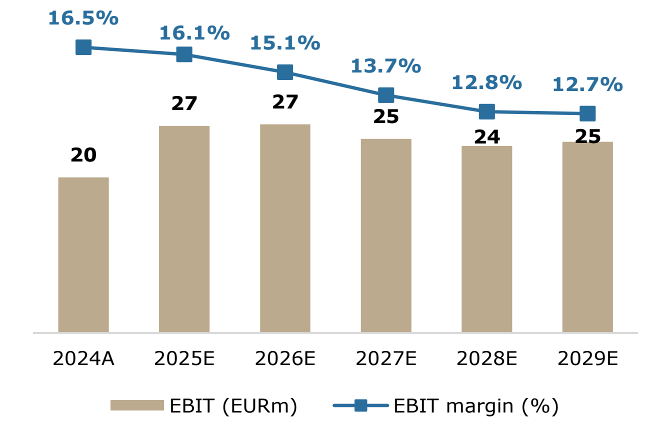
EBITDA growth until 2027 supported by higher margin restoration of cultural heritage projects.

This is also reflected in the EBITDA margin, which overall should end up around 18% in 2025 and 2026, mainly as a result of these higher profitability projects in the restoration of the cultural heritage segment. In terms of EBITDA by segment, we expect the restoration of cultural heritage to remain around 19%, while other segments should experience a slight improvement in margins going forward. However, as we expect a higher number of projects in energy, infrastructure, and environmental protection, as well as a higher number of commercial and residential projects, especially in 2027 and afterward, the EBITDA margin should be on a declining trend. We would also like to note that the "organic" EBITDA margin would decline to app. 11-12% in the medium term, however, we expect that after integration of these M&A, synergies and operational efficiencies should kick in, supporting the EBITDA margin with several p.p. each year. As such, we expect the EBITDA margin at 16% in 2027, before dropping below 15% in 2028 and 2029. Due to all of these factors, we estimate the EBITDA at EUR 27.7m by 2029, and an EBITDA CAGR of 4.8% in the 2024A – 2029E period.

Afterward, we expect more projects in the energy, infrastructure and environmental protection segment, as well as commercial and residential buildings segment, which due to lower margin should lower the overall EBITDA margin.

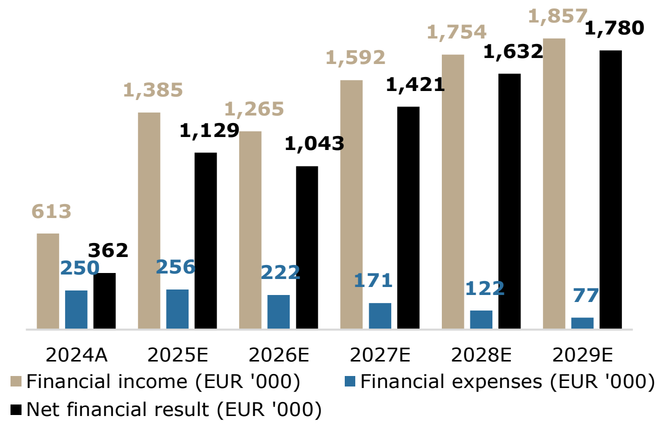
EBITDA CAGR expected at 4.8% in the 2024A – 2029E period.

EBIT (EURm), EBIT margin (%)* (2024A – 2029E)



Source: ING-GRAD, InterCapital Research estimates
*EBIT margin as % of sales revenue

Net fin. result, incl. components (2024A – 2029E, EUR '000)



Source: ING-GRAD, InterCapital Research estimates

EBIT tells us a similar story and is under the influence of similar effects, the only difference being the depreciation. We expect a double-digit increase in depreciation, with a CAGR of 10.3% in the 2024A – 2029E period. This would be under the influence of M&A and consolidation of all of the potential companies, but also due to organic expansion of assets that we envisage for the Company going forward. The depreciation rate should end up quite high, as most of the depreciable assets are related to tools and equipment that depreciate at a quite fast rate. As such, the EBIT margin should be on a downward trend by the end of the projection period, ending up at around 12-13%. This would also imply an EBIT CAGR of 4.2% in the 2024A – 2029E period.

In terms of the net financial result, we expect a significant increase in it, especially on the financial income side. In our estimates, we were quite conservative with the Company's M&A potential, and given the uncertain nature of those in general, we expect that the Company will have a lot of cash available. While a part of this will also be used to support the business operations, a lot of it could be invested into financial assets, especially deposits and/or investment funds, which we expect will yield a return of 2-3% per year, however, this could end up lower due to lower ECB interest rates. While this will boost financial income, supporting the bottom line, it is still unclear how much exactly will be invested on this side, as it mostly depends on the M&A amounts and the number of companies acquired. Due to this, a lot of cash will be left in this form. As such, we expect the total financial assets at EUR 34.5m in 2025, before increasing to over EUR 61.8m by the end of 2029.

EBIT to grow at a CAGR of 4.2% in the 2024A – 2029E period.

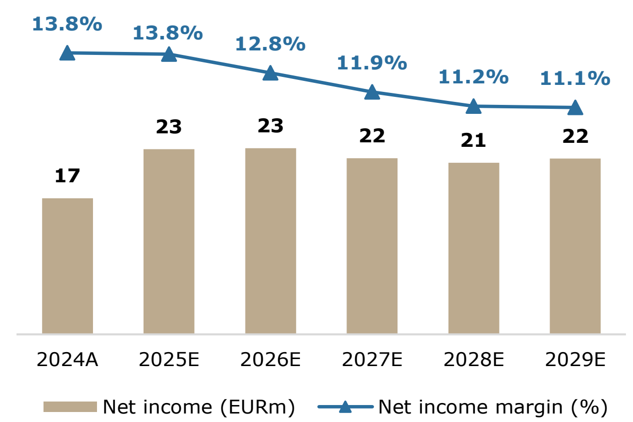
Even with the M&A included, the Company is expected to have a lot of cash, which we expect will be invested in financial assets, especially deposits and investment funds.

We expect the financial assets to grow to EUR 34.5m in 2025, and all the way up to EUR 61.8m by 2029.

This number could end up lower, as more investments are made into tangible and intangible assets. On the other hand, fin. expenses are expected to drop, both due to lower interest rates on loans, under the same influence as income, but also due to the repayment of loans. We expect that the Company will repay the majority of them, decreasing them from EUR 9.8m in 2024 to EUR 2.4m in 2029, with the largest share repaid in 2025. This is due to the fact that the owner gave the Company a EUR 5.5m loan in 2024, which we expect will be repaid in full by the end of 2025. If all of this occurs, the net financial result could support the bottom line with app. EUR 1m to EUR 1.8m per year, which while positive, still undermines the potential that this cash could be used for.

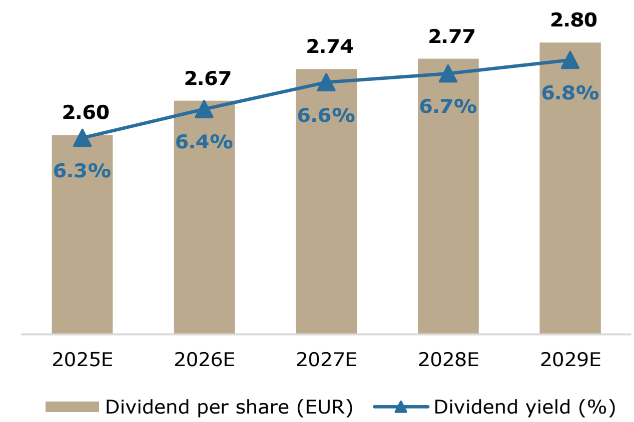
The potential for higher M&A exists however, which would yield better returns than the 2-3% expected returns on financial assets.

Net income (EURm), net income margin (%)* (2024A – 2029E)



Source: ING-GRAD, InterCapital Research estimates
*Net income margin as % of sales revenue

Dividend per share (EUR), dividend yield (%) (2025E – 2029E)



Source: ING-GRAD, InterCapital Research estimates
*At the mid range of the IPO price

In terms of net income, in 2024, it amounted to EUR 16.7m, an increase of 45% YoY. Unlike EBIT or EBITDA, we expect that net income margin should remain stable, despite the effects on other operating lines. This is due to the support from the net financial result and contributing app. EUR 1m – EUR 1.8m per year. As such, the net income margin should decrease to around 11-13% in the projected period. Due to these factors, we expect the net income at EUR 21.6m by 2029E, implying a CAGR of 5.3% in the 2024A -2029E period. Moving on to dividends, as communicated by the Company, they aim to pay out EUR 2.60 per share in 2025, which at the mid-range of the IPO price (EUR 41.50) would imply a DY of 6.3%. Moving forward, we expect an increase in the dividends, as we expect a payout ratio of around 50% during the projection period. At the mid-range of the IPO price, this would imply a DY of between 6.0% and 7.0% during the projection period. We find this to be quite realistic, as the Company's operational cash flows will be more than enough to support these payments. If this occurs, ING-GRAD would be one of the highest dividend payers on the Zagreb Stock Exchange, which is certainly positive news for investors.

Net income CAGR expected at 5.3% in the 2024A – 2029E period.

We expect an average payout ratio of 50%, implying a DY of between 6.0% and 7.0%, based on the mid-range of the IPO price.

Valuation

In our valuation of ING-GRAD, we have used two models: discounted cash flow to the firm (DCF) as well as the peer group analysis. While the DCF model usually gives the best overview of a given Company's operations and future cash flows, due to the cyclical and volatile nature of the construction sector, we have decided to give it 50% weight, instead of the 80% we would usually give. On the other hand, the peer group model has been given 50% weight, and the full explanation for this reasoning is available below in the peer group valuation.

In our valuation, we have used two models: discounted cash flow to the firm, and the peer group analysis. Each model was given 50% weight.

Valuation – DCF Model

The DCF model is usually a strong one for many Croatian and regional companies, however, the construction sector is an exception. While we have visibility on the Company's operations in the next several years based on the backlog, afterward it falls off in prediction efficiency, as the sector's operations are based on contracted projects, which are almost impossible to predict. Furthermore, the sector is quite cyclical and volatile, highly dependent on the overall macroeconomic activity.

For DCF, it is given a 50% weight in the valuation, and we find this reasonable, as the construction sector is quite volatile, especially in the medium to long term.

For the model itself, we have used the Croatian ERP of 5.9%, based on the datasets acquired for Damodaran. The risk-free rate is based on the 10y Croatian Government bond yield. Furthermore, the unlevered beta from Damodaran, of 0.87 was used, which was then adjusted for the Company's effective tax rate and the debt-to-equity ratio, thus giving us the levered beta. Lastly, due to construction sector volatility, something that we find is not reflected well in beta, we have increased the overall CoE to reflect this higher risk level. Based on these factors, we have reached our cost of equity, cost of debt, and WACC. For CoE and WACC, we do not expect major changes, even in the TV, while the cost of debt is expected to decrease, in line with the Company's repayment of debts. As a result of these calculations, as of 31 March 2025, we have reached the present value of free cash flows of EUR 80.6m, while in the terminal period, we estimate the value of cash flows at EUR 101m. Furthermore, we expect app. EUR 50m of IPO proceeds for the Company. **Through the DCF model, we estimate ING-GRAD's equity value at EUR 237.1m as of 31 March 2025.**

Through our DCF valuation, we have reached the equity value as of 31 March 2025 of EUR 237.1m.

The full breakdown of the DCF model is available below.

DCF valuation summary

WACC	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**	**TV**
Country ERP	5.9%	5.9%	5.9%	5.9%	5.9%	5.7%
Cost of Equity	11.1%	11.0%	11.0%	10.9%	10.9%	10.7%
Cost of Debt	2.7%	3.3%	2.8%	2.4%	2.1%	2.1%
WACC	**10.5%**	**10.6%**	**10.6%**	**10.7%**	**10.7%**	**10.5%**
Cash flows (EURm)	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**	**TV**
Revenue	165	178	182	188	194	198
EBITDA	30	31	29	28	28	31
EBITDA margin (%)	17.9%	17.7%	16.0%	14.7%	14.3%	15.5%
Tax rate (%)	18%	18%	18%	18%	18%	18%
NOPAT	27	28	26	25	25	29
Depreciation	3.0	4.7	4.1	3.5	3.2	2.0
CAPEX	-14	-14	-2.2	-2.0	-2.1	-2.0
Change in WC	-0.7	-1.9	-0.5	-1.1	-1.2	-1.5
Free cash flow to firm	**15.8**	**16.4**	**27.0**	**25.2**	**25.0**	**27.5**
Cumulative WACC	1.1	1.2	1.3	1.5	1.6	1.8
Discounted FCFF	**14.4**	**13.6**	**20.2**	**17.0**	**15.3**	**15.2**

Valuation (EURm)	**31 Mar 2025**
Present value of FCFFs	**80.6**
Terminal FCFF	15.2
Terminal growth rate	2.0%
Terminal WACC	10.5%
Present value of residual	**101.0**
Enterprise value	**181.6**
Net debt	-5.5
IPO proceeds	-50.0
Equity value	**237.1**
Shares outstanding	3,833,400

Source: InterCapital Research

DCF sensitivity analysis

Terminal growth rate \ Terminal Cost of Equity	10.4%	10.4%	10.4%	10.4%	10.4%	10.4%	10.7%	10.9%	11.2%	11.4%	11.7%	11.9%	12.2%	12.4%	12.7%
0.8%	224.5	224.5	224.5	224.5	224.5	224.5	221.9	219.4	217.1	214.8	212.7	210.6	208.7	206.8	205.0
1.0%	227.4	227.4	227.4	227.4	227.4	227.4	224.6	222.0	219.5	217.2	214.9	212.8	210.7	208.8	206.9
1.3%	230.4	230.4	230.4	230.4	230.4	230.4	227.5	224.7	222.1	219.6	217.3	215.0	212.9	210.8	208.9
1.5%	233.6	233.6	233.6	233.6	233.6	233.6	230.5	227.6	224.8	222.2	219.7	217.4	215.1	213.0	210.9
1.8%	237.0	237.0	237.0	237.0	237.0	237.0	233.7	230.6	227.7	225.0	222.3	219.8	217.5	215.2	213.1
2.0%	240.6	240.6	240.6	240.6	240.6	240.6	237.1	233.8	230.8	227.8	225.1	222.4	219.9	217.6	215.3
2.3%	244.4	244.4	244.4	244.4	244.4	244.4	240.7	237.2	234.0	230.9	227.9	225.2	222.5	220.1	217.7
2.5%	248.5	248.5	248.5	248.5	248.5	248.5	244.5	240.8	237.4	234.1	231.0	228.1	225.3	222.7	220.2
2.8%	252.8	252.8	252.8	252.8	252.8	252.8	248.6	244.7	241.0	237.5	234.2	231.1	228.2	225.4	222.8
3.0%	257.5	257.5	257.5	257.5	257.5	257.5	253.0	248.8	244.8	241.1	237.6	234.3	231.2	228.3	225.5
3.3%	262.4	262.4	262.4	262.4	262.4	262.4	257.6	253.1	248.9	245.0	241.2	237.8	234.5	231.4	228.4
3.5%	267.8	267.8	267.8	267.8	267.8	267.8	262.6	257.8	253.3	249.1	245.1	241.4	237.9	234.6	231.5

Source: InterCapital Research

Valuation – Peer Group Analysis

For our Peer Group analysis, we would emphasize that there is a clear lack of construction companies that are publicly listed on the Zagreb Stock Exchange in Croatia. As such, the peer group we have selected consists of 10 European construction companies. Many of these companies are far larger than ING-GRAD, however their operations overlap with ING-GRAD's in one segment or another. For the market cap, as well as P/E and EV/EBITDA multiples, we have used the latest TTM 2024 numbers, while for EBITDA margin and net income margin, we have used the 2024 numbers, although several of the companies' numbers are based on estimates, as they are yet to publish their FY 2024 results. We would like to emphasize several things in this comparison; while the P/E and EV/EBITDA multiples are usually given a 50% weight in the final peer valuation, in our valuation we have given the P/E multiple 75% weight, while EV/EBITDA was given a 25% weight. Our reasoning is the following: for investors, the P/E multiple is a better point of comparison, as it looks at net income, from which dividends are paid out, rather than EBITDA, which is further burdened by interest expense, tax expense, and other operating items. Furthermore, if we compare the peer group's median EBITDA and net income margin, both end up significantly lower than ING-GRAD's. A similar story is present with the 3-year EBITDA CAGR, which ING-GRAD posted double the median average. We also included the net income to EBITDA ratio, i.e. how much net income is "left" from EBITDA after we deduct all the interest, tax expenses, depreciation, etc. As we can see, ING-GRAD passes over 26 p.p. higher amounts into net income from EBITDA than comparable companies. To put this into perspective, if a peer group company earns an EBITDA of EUR 100m, it would pass only EUR 47.6m into the net income. ING-GRAD meanwhile, would pass EUR 74.1m to net income. In other words, ING-GRAD passes significantly more of its operating profitability to net income compared to its peer group. As such, we find the 75% weight for the P/E multiple justified. Furthermore, besides the cyclicality of the construction business, which makes the long-term planning for DCF notoriously hard, we find that all of these arguments also support a higher-than-usual weight for the peer group in the total valuation. We have also added the EUR 50m of expected IPO proceeds to this valuation, to match the 31 March 2025 valuation date. However, given the size differences between the peer group and ING-GRAD, we have also applied a 15% discount on the price reached through multiples, to offset this difference. **With all of this considered, we have reached an equity value of EUR 198.8m as of 31 March 2025 for ING-GRAD based on this analysis.**

10 European construction companies were selected and compared through the P/E and EV/EBITDA multiples in the peer analysis.

75% weight was given to the P/E, and 25% weight to the EV/EBITDA multiple in the final calculation, as we find the P/E to be far more representative and a better point of comparison for investors.

ING-GRAD achieves far better EBITDA, net income margins, and EBITDA to net income conversion than its peers.

Due to its smaller size, a 15% discount was applied to the final value, thus reaching an equity value of EUR 198.8m for ING-GRAD as of 31 March 2025.

Peer group valuation summary

Peer Group	TTM 2024			2024*		3-year EBITDA CAGR**	Net income to EBITDA***
31 March 2025	Market cap (EURm)	P/E	EV/EBITDA	EBITDA margin	Net margin		
Skanska AB	9,628	18.99	10.30	4.8%	2.8%	-11.4%	58%
Peab AB	2,229	10.10	8.11	7.6%	3.9%	-3.7%	51%
Ncc AB	1,722	11.98	6.30	5.4%	2.5%	-1.3%	48%
Veidekke ASA	1,704	15.74	6.62	6.5%	3.1%	3.0%	48%
Implenia AG	755	5.20	6.35	6.4%	2.3%	21.8%	36%
Heijmans NV	954	11.55	6.53	7.5%	3.2%	26.1%	48%
Strabag	6,207	8.15	3.23	8.3%	3.6%	4.6%	44%
PORR	878	9.47	3.87	5.9%	1.5%	23.0%	25%
Budimex	3,496	19.80	12.82	9.9%	7.1%	11.2%	72%
Hochtief	11,944	16.04	10.29	5.4%	2.4%	21.7%	44%
Median	**1,976**	**11.77**	**6.58**	**6.5%**	**3.0%**	**7.9%**	**47.6%**
ING-GRAD price based on multiples******		**64.40**	**50.60**	**16.0%**	**11.8%**	**13.2%**	**74.1%**
ING-GRAD equity value based on multiples (EURm)			**233.8**				
Size discount applied on peer group			15%				
ING-GRAD equity value (EURm)			**198.8**				

Source: Bloomberg, ING-GRAD, InterCapital Research
*2024 margins for several companies based on estimates
**2021-2024
***2024 numbers, several companies based on estimates
****P/E and EV/EBITDA multiples adjusted for EUR 50m of expected IPO proceeds

Investment Summary

In general, ING-GRAD's IPO represents a positive development for the Croatian capital market, and it's unfortunate thing that more companies aren't getting listed, especially in the last couple of years. The Company itself has many pros and several cons.

Overall, the IPO is positive news for the Croatian capital markets.

Pros:

ING-GRAD has many pros as a Company, which should allow it to expand and grow in the next couple of years.

- **Extensive Experience:** Years of proven expertise in the restoration segment, supported by various certifications and dozens of successful projects.
- **Specialized Competence:** Among thousands of Croatian construction companies, only a small fraction can handle complex cultural heritage projects, and to a slightly higher extent, energy, infrastructure, and environmental projects.
- **Strong Brand Recognition:** Well-known in the industry, leading to continued demand for the Company's services.
- **Lean Business Model:** Offers significant scalability and flexibility, which doesn't happen often in the Croatian construction sector.
- **Historical Resilience:** Demonstrated the ability to navigate both prosperous and challenging economic times, maintaining operations during crises when many competitors failed.
- **Stable Financial Performance:** Consistent operating cash flows and margins, with potential for improvement through M&A integration.
- **Growth Potential:** An IPO could provide substantial cash for investments, better employee rewards, and a more robust capital structure, fostering further expansion.
- **Future Upside:** Our estimates were quite conservative, especially with M&A, leaving the possibility for higher investments, especially in 2027 and beyond.
- **Attractive Dividend Payouts:** A strong cash position and stable cash flows make it possible to pay high annual dividends, positioning the stock as one of the best dividend payers on the Exchange.

These include a lean business model, which allows for flexibility and scalability, brand recognition and history of know-how, especially in the restoration of cultural heritage, stable cash flows and margins, which allow for strong dividend payments, and a robust balance sheet.

Cons:

Cons include limited strategic transparency, emerging competition, variable cost vulnerability, dependence on subcontractor performance, and underutilization of cash reserves.

- **Limited Strategic Transparency:** Uncertainty regarding projects and overall strategy beyond 2027, which should be better communicated, especially post-IPO.
- **Emerging Competition:** Although currently holding a competitive edge in specialized segments (especially cultural heritage restoration), higher-margin areas may attract new competitors, potentially pressuring long-term margins.
- **Variable Cost Vulnerability:** While fixed costs are low, variable costs could increase significantly during economic downturns, impacting profitability.
- **Dependence on Subcontractor Performance:** The Company's success is partly reliant on the efficiency of its subcontractors; economic challenges could lead to increased advances or even the risk of subcontractors reducing operations or exiting the market.
- **Underutilization of Cash Reserves:** Due to the lack of a clear medium-to-long-term strategy, there is a risk that significant cash reserves remain underutilized in deposits or investment funds, although this could change with future acquisitions or organic growth.

Overall, we find that pros do outweigh the cons in the projection period, and through our analysis we have reached an equity value of EUR 217.9m for ING-GRAD as of 31 March 2025.

Overall, ING-GRAD has many strengths and opportunities in the medium to long term, while its weaknesses are more related to the economy, and the construction sector itself. Threats might occur in the long term, although at the moment due to its brand recognition and know-how, they remain low. As such, we find the Company's positives are currently outweighing the negatives. **Lastly, through our analysis, we have reached an equity value of EUR 217.9m for ING-GRAD as of 31 March 2025, and as such we find that the Company has a lot of potential up its sleeve.**

ING-GRAD income statement, balance sheet and cash flow statement (2024A – 2029E, EUR ‘000)

Income statement (EUR' 000)	2024A	2025E	2026E	2027E	2028E	2029E
Operating income	**129,440**	**168,597**	**181,591**	**185,325**	**191,725**	**197,625**
Revenue	120,900	165,225	177,959	181,619	187,891	193,673
Other op. income	8,540	3,372	3,632	3,707	3,835	3,953
Operating expenses	**109,473**	**141,987**	**154,777**	**160,377**	**167,688**	**173,077**
Subcontractor expenses	75,177	99,858	107,357	107,186	111,411	113,899
Other external expenses	6,628	10,365	10,386	11,018	11,621	11,942
Cost of raw materials & energy	4,590	11,075	11,995	14,915	15,595	16,096
Cost of goods sold	5,672	3,550	3,869	4,009	4,192	4,327
Staff expenses	11,759	14,244	18,049	20,036	21,552	23,274
Other expenses	1,954	2,894	3,121	3,212	3,317	3,539
EBIT	**19,967**	**26,610**	**26,814**	**24,948**	**24,037**	**24,548**
Depreciation & amortisation	1,954	2,977	4,678	4,063	3,550	3,188
EBITDA	**21,921**	**29,588**	**31,492**	**29,011**	**27,587**	**27,736**
Financial income	613	1,385	1,265	1,592	1,754	1,857
Financial expenses	250	256	222	171	122	77
Net financial result	**362**	**1,129**	**1,043**	**1,421**	**1,632**	**1,780**
Share of profit from associates & JVs	49	0	0	0	0	0
EBT	**20,378**	**27,739**	**27,857**	**26,370**	**25,669**	**26,328**
Income tax expense	3,668	4,993	5,014	4,747	4,620	4,739
Net income	**16,710**	**22,746**	**22,843**	**21,623**	**21,049**	**21,589**
Balance sheet (EUR '000)	**2024A**	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**
Intangible assets	1,158	8,279	14,612	13,868	13,295	12,855
o/w: Concessions, patents, licenses, & other rights	1,034	1,634	3,741	2,997	2,425	1,984
o/w: Goodwill	124	6,646	10,871	10,871	10,871	10,871
Tangible assets	3,532	7,106	10,160	9,039	8,064	7,409
Non-current financial assets	21	21	20	19	18	17
Deferred tax assets	88	88	88	88	88	88
Non-current assets	**4,800**	**15,494**	**24,880**	**23,014**	**21,465**	**20,369**
Inventories	1,588	2,563	3,065	3,492	3,717	3,949
Current receivables	48,516	58,912	59,857	53,876	55,129	56,738
o/w: Current trade receivables	40,436	46,872	48,680	44,783	46,329	47,755
o/w: Advances given	5,801	7,867	7,687	7,514	7,826	8,014
Current financial assets	11,574	34,513	42,063	52,963	58,363	61,813
o/w: Loans, deposits and similar items	783	813	1,041	941	841	791
o/w: Other current financial assets	10,791	33,700	41,022	52,022	57,522	61,022
Cash & cash equivalents	3,738	22,232	21,561	29,622	34,283	38,795
Current assets	**65,416**	**118,220**	**126,545**	**139,953**	**151,491**	**161,295**
Prepaid expenses and accrued income	**1,670**	**2,529**	**2,830**	**2,887**	**3,354**	**3,462**
Total assets	**71,886**	**136,243**	**154,255**	**165,853**	**176,311**	**185,126**
Share capital	3,990	3,990	3,990	3,990	3,990	3,990
Treasury share reserves	23,018	2,657	2,657	2,657	2,657	2,657
Treasury share deduction	-23,018	-2,657	-2,657	-2,657	-2,657	-2,657
Retained earnings	219	6,987	19,497	31,832	42,860	53,174
Net income for the year	16,710	22,746	22,843	21,623	21,049	21,589
Other reserves	0	50,000	50,000	50,000	50,000	50,000
Equity & reserves	**20,919**	**83,723**	**96,330**	**107,446**	**117,899**	**128,753**
Provisions for pensions, severeance payments & similar	272	356	451	501	539	698
Provisions for ongoing legal disputes	183	183	184	185	186	187
Provisions for warranty-related costs	3,184	826	890	908	939	968
Provisions	**3,639**	**1,365**	**1,525**	**1,594**	**1,664**	**1,853**
Non-current liabilities to banks and other fin. institutions	999	1,157	1,355	1,155	855	555
Non-current liabilities	**999**	**1,157**	**1,355**	**1,155**	**855**	**555**
Current liabilities for loans, deposits & similar items	5,266	766	645	545	445	345
Current liabilities to banks and other fin. institutions	3,505	3,692	3,465	2,965	2,215	1,465
Current liabilities for advances received	0	276	609	276	276	276
Current trade payables	19,267	24,342	26,591	25,569	26,582	27,195
Other current liabilities	5,798	5,977	5,433	5,772	6,197	6,679
Current liabilities	**33,837**	**35,054**	**36,743**	**35,127**	**35,715**	**35,960**
Accrued expenses and deferred income	**12,491**	**14,944**	**18,302**	**20,532**	**20,178**	**18,004**
Total liabilities	**50,966**	**52,520**	**57,925**	**58,408**	**58,412**	**56,373**
Total equity & liabilities	**71,886**	**136,243**	**154,255**	**165,853**	**176,311**	**185,126**
Cash flow statement (EUR '000)	**2024A**	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**
Profit for the year	16,710	22,746	22,843	21,623	21,049	21,589
Depreciation & amortisation	1,954	2,977	4,678	4,063	3,550	3,188
Changes in:						
Provisions	-383	-2,274	160	69	70	189
Inventories	2,116	-975	-502	-427	-225	-232
Trade receivables	-34,270	-6,437	-1,808	3,898	-1,547	-1,426
Trade payables	10,141	5,074	2,250	-1,023	1,013	613
Other items of WC	-327	-3,504	651	2,090	718	299
Changes in prepayments & accrurals	4,731	1,594	3,056	2,173	-821	-2,281
Net cash flow from operating activities	**672**	**19,202**	**31,329**	**32,465**	**23,807**	**21,940**
Intangible assets	275	-7,121	-6,333	744	572	440
Tangible assets	-1,432	-6,551	-7,732	-2,942	-2,574	-2,533
Net cash flow from investment activities	**-1,157**	**-13,672**	**-14,065**	**-2,198**	**-2,002**	**-2,093**
Non-current financial liabilities	-384	158	199	-200	-300	-300
Financial assets	-7,173	-22,938	-7,549	-10,899	-5,399	-3,449
Current liabilities for loans and deposits	5,190	-4,500	-121	-100	-100	-100
Current liabilities to banks and other fin. institutions	2,838	187	-228	-500	-750	-750
Dividend payments	-1,714	-9,943	-10,236	-10,508	-10,595	-10,735
Other changes in equity	-23,018	50,000	0	0	0	0
Net cash flow from financial activities	**-24,262**	**12,964**	**-17,935**	**-22,207**	**-17,144**	**-15,334**
Cash and cash equivalents at period beginning	28,484	3,738	22,232	21,561	29,622	34,283
Changes in cash & cash equivalents	-24,746	18,494	-671	8,061	4,661	4,513
Cash & cash equivalents at period end	**3,738**	**22,232**	**21,561**	**29,622**	**34,283**	**38,795**

Source: ING-GRAD, InterCapital Research estimates

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The author of the fundamental analyses in this report is Mihael Antolić who is employed in InterCapital Securities Ltd registered in Zagreb, Masarykova 1. InterCapital Securities Ltd is supervised by the Croatian Financial Services Supervisory Agency (HANFA).

Mihael Antolić has no ownership interest in ING-GRAD and neither do his immediate family members.

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Fundamental rating values of a listed Issuer are given according to the following scale:

Strong buy - equities with expected absolute revenue of more than 20% in the monitored time period

Buy - equities with an expected absolute return of 10%-20% in the monitored time period

Hold - equities with an expected absolute return of -10% to 10% in the monitored time period

Sell - equities with an expected absolute return below -10% in the monitored time period

Under review - an issuer might be placed Under Review due to new information that is not included in the analysis.

Up to August 14, 2014, the Hold recommendation was used for equities with an expected return of 0% to 10%, while the Sell recommendation was used for equities with an expected negative absolute return. Criteria for other recommendations remained unchanged.

Q4 2024 (30 September - 31 December 2024)	Number	Share	Companies which InterCapital provided investment banking service within last 12 months
Strong Buy	3	27.3%	-
Buy	2	18.2%	HT CZ
Hold	1	9.1%	-
Sell	0	0.0%	-
Under Review	5	45.5%	-

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Before entering into any transaction in financial instruments, please take into consideration what you might assume, as a result of transactions in such instruments, financial commitments, and other additional obligations, including contingent liabilities, in addition to the cost of acquiring the instruments. Investment in financial instrument may assume risks involved in trading such instruments, such as: Market risk (the risk that changes in market prices have adverse effect on financial instrument), Liquidity risk (the risk that an investor cannot easily sell or buy a specific financial instrument at a certain point in time, or is only able to do so on terms that are considerably poorer than the norm in an active market at any time), Interest rate risk (the risk that changes in interest rates have adverse effect on the value of a financial instrument), Currency risk (exchange rates fluctuate and financial instruments that are registered in foreign currency can entail currency risk), Economic risk (risk of economic fluctuations, including risk between countries and different economies, on the value of financial instruments), Country risk (this refers to the economic factors that could have a significant impact on the business environment in the country in which the financial instrument is registered), Counterparty risk (the risk that a counterparty will not meet his contractual obligations in full), Settlement risk (the risk related to a counterparty not meeting the contractual obligations on the settlement date). More specifically, risks associated with shares may involve the following risks: Company risk (in the event of bankruptcy, the shareholder may lose the funds that it originally contributed since priority is not given to shareholders' claims during bankruptcy proceedings), Price risk (the price of shares may fall and/or rise without it being possible to predict the timing or duration of such fluctuations), Dividend risk (the amount of dividends, if any, which investors receive from their shareholdings, is determined by the profits of the company in question and its dividend policy. Dividend payments may cease should the company suffer losses.)

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