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CREDIT RATING REVIEW

Caola Zrt.

March 2025

CREDIT RATING		Initial	Monitoring	Review	Review	Review
Date of Rating Committee:		11.02.2022	17.02.2023	15.03.2023	15.03.2024	17.03.2025
Date of Publication:		14.02.2022	17.02.2023	17.03.2023	18.03.2024	18.03.2025
Issuer Rating	Long-term rating:	BB-	BB- (under review)	BB-	BB-	BB-
	Outlook:	Stable	-	Stable	Stable	Stable
Bond Rating	Long-term rating:	BB	BB (under review)	BB	BB	BB
	Outlook:	Stable	-	Stable	Stable	Stable

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CONTENT:

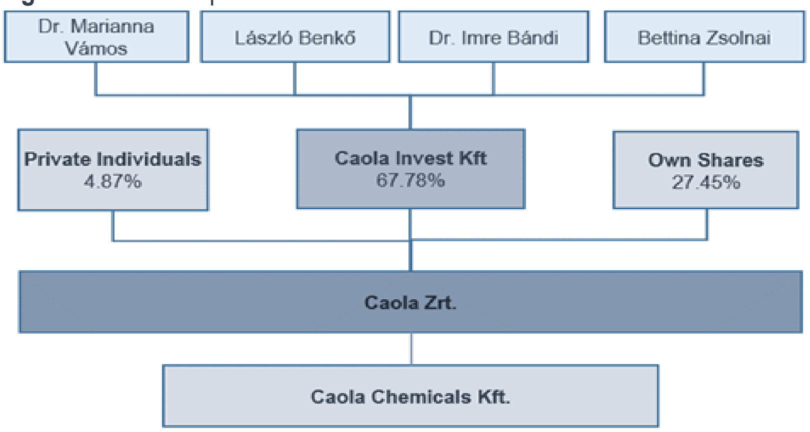
Table 1: General information about the rated entity

Issuer:	Caola Zrt.
Head Office:	Homokbanya ut 77, Diosd, Pest, Hungary
Main Activities:	2042. Manufacture of perfumes and toilet preparations
Registration number:	13-10-041783
Bond ISIN:	HU0000361431

1. Company Overview

Caola Zrt. is one of Hungary's oldest and most esteemed brands, tracing its origins back to 1831. Specializing in the production and distribution of disinfectants, cleaning agents, beauty, and personal care products, Caola has played a pivotal role in shaping the commercial and scientific landscape of the industry in Hungary for nearly two centuries.

Figure 1: Ownership structure of Caola Zrt. as of March 2025



The company remains under Hungarian ownership, though its shareholder structure has evolved over the years. In April 2020, Caola Invest Kft. acquired a majority stake in Caola Zrt. with the strategic objective of reestablishing the brand as a market leader.

Caola Invest Kft. primarily engages in leasing real estate in Diósd to Caola Zrt. Additionally, it holds ownership rights to the Caola brand name, for which Caola Zrt. pays a royalty fee.

In 2022, Caola Chemicals Kft. was established as a wholly owned subsidiary of Caola Zrt. Currently, the company does not perform distributor tasks (non-active entity).

In August 2024, the previous three-member management team of Caola was restructured to two members. Key leadership roles continue to be held by Dr. Imre Bandi, Owner & CEO, and Dr. Anikó Száraz, Deputy CEO, both of whom bring a wealth of knowledge and strategic vision to the company.

Dr. Imre Bandi - Owner & CEO of Caola Zrt.

Mr. Imre Bandi has served as the CEO of Caola Zrt. since April 2020, bringing a strong legal and managerial background to the company. He graduated cum laude from the Faculty of Law and Political Science at Pázmány Péter Catholic University. His career began in 2010 at the Office of the National Assembly, where he worked as an assistant to the National Assembly. In 2012, he transitioned to the Hungarian Research Institute for Public Administration and Organizational Development, initially as a legal officer before advancing to director. In 2016, Mr. Bandi took on the role of Head of the Asset Management Department at the Ministry of National Development, overseeing key state assets. Since 2019, he has served as the Legal Director of MGV Zrt., and in 2021, he was appointed Board Member and Legal Director of Batthyány Capital Fund Manager Zrt. Beyond his executive leadership at Caola, Mr. Bandi holds various positions in executive, supervisory, and board of directors roles across multiple state-owned enterprises, contributing his legal and strategic expertise to public and private sector organizations alike.

Dr. Anikó Szaraz Deputy-CEO of Caola Zrt

.Dr. Anikó Száraz has been Deputy CEO and a Management Board Member at Caola Zrt. since 2020, overseeing daily operations, production planning, product development, and HR. She previously served as Business Director at Novochem Kft., CEO and Board Member at the Hungarian Banknote Printing Company, and held senior leadership roles at BorsodChem Co. Dr. Száraz holds degrees in Business (College of Foreign Trade, Budapest) and European Law (József Attila University, Szeged), bringing extensive experience in business management and strategic planning.

Upon acquiring Caola Zrt., the current leadership inherited a company facing financial challenges. However, through a strategic shift in production, they successfully revitalized the business by capitalizing on the heightened demand for disinfectants during the COVID-19 pandemic. This timely pivot not only stabilized the company's financial position but also repositioned Caola as a key player in the hygiene sector.

Driven by a vision to restore the brand's historical prestige, the management team is actively modernizing Caola's product portfolio, strengthening its presence across personal care, cleaning, and disinfection segments. Furthermore, the company has made a significant market expansion by entering the large-scale livestock farming disinfectant sector, becoming the only Hungarian producer in this specialized field. This strategic move enhances Caola's competitive positioning while reinforcing its long-term growth trajectory.

2. Operating Environment

2.1. Sovereign risk

As Caola Zrt. is headquartered in Hungary and operates all of its production facilities within the country, Hungary's sovereign risk is a critical determinant of the company's financial and operational performance. The assessment of sovereign risk is based on Hungary's unsolicited sovereign rating, as assigned by BCRA. For a comprehensive analysis, including the rating rationale and rating history, refer to the following link: *https://bcra.eu/en/companies/hungary*

2.2. Industry Overview

Caola Zrt. operates within the chemical industry, specializing in the manufacturing of beauty, personal care, home, and laundry care products. The chemical sector is a critical component of Hungary's industrial landscape, consistently contributing approximately 5% of the country's total manufacturing output over the past five years. This segment remains integral to both domestic supply chains and international trade, serving as a key driver of innovation, economic growth, and employment.

Prior to the COVID-19 pandemic, the chemical industry functioned within a highly regulated environment, governed by stringent industry-specific legislation and policy directives aimed at ensuring product safety, environmental sustainability, and compliance with national and EU regulatory frameworks. These standards were designed to uphold consumer protection, enforce best manufacturing practices, and maintain stringent quality control measures, particularly within cosmetics, household chemicals, and disinfectant production.

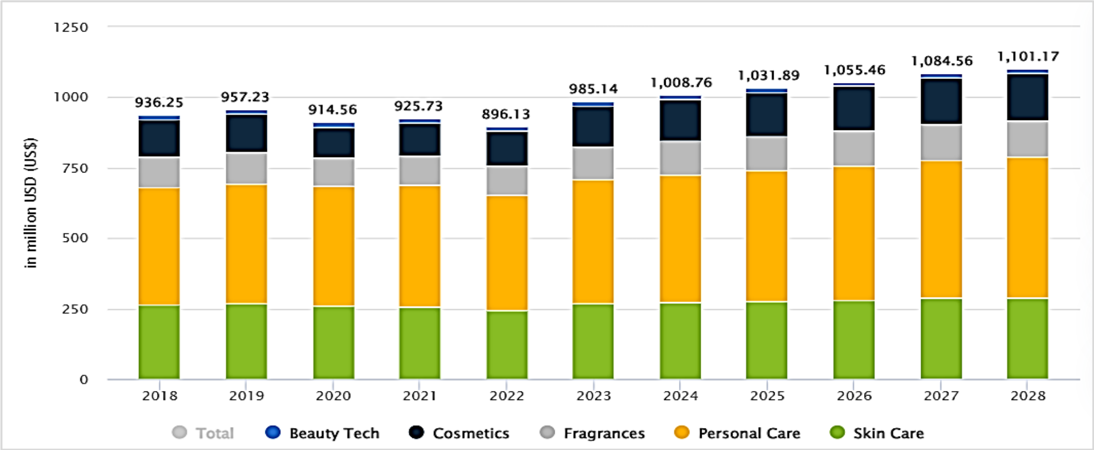
The pandemic fundamentally reshaped the industry's operational landscape, introducing unprecedented challenges and regulatory adaptations. Enterprises were required to swiftly respond to evolving market demands, particularly the surge in hygiene and disinfection product consumption, while ensuring uninterrupted supply chain resilience and production capacity optimization. Concurrently, government interventions and emergency regulatory adjustments placed heightened emphasis on compliance, necessitating rapid adaptation to shifting health and safety mandates.

Moreover, the pandemic accelerated long-term shifts in consumer behavior, particularly within the beauty and personal care segments, where preferences evolved from aesthetic-driven choices to safety-oriented selections. Consumers increasingly prioritized hygiene-focused products, with rising demand for antimicrobial formulations, sustainable ingredients, and dermatologically safe alternatives. This transition intensified scrutiny on chemical formulations, compelling manufacturers to reassess product compositions, enhance transparency in labeling, and integrate eco-conscious alternatives to align with emerging sustainability and health-conscious trends.

Looking ahead, the post-pandemic regulatory environment continues to evolve, with greater enforcement of ESG principles, stricter chemical safety protocols, and increased oversight on supply chain traceability. Companies such as Caola must continuously innovate to maintain regulatory compliance, adapt to dynamic market expectations, and leverage sustainable production technologies to secure long-term competitiveness within the Hungarian and broader European chemical markets.

2.2.1. Beauty and Personal Care

Figure 2: Beauty & Personal Care market in Hungary – Estimated revenue by segments: 2018 - 2028



Source: Statista

The Beauty and Personal Care market remains one of the fastest-growing consumer industries, primarily fueled by the cosmetics and skincare segments. This expansion is largely attributed to a generational shift in the consumer base, with younger demographics adopting new shopping behaviors and driving digital transformation within the sector. The rise of social media marketing and e-commerce has revolutionized how beauty brands engage with their audiences, fostering direct-to-consumer (DTC) sales models, influencer-driven brand promotions, and personalized digital experiences.

The importance of online retailing within this market has surged dramatically. In 2023, online sales accounted for 21% of total revenues in Hungary, a significant jump from 8% in 2018. This upward trend is expected to accelerate further, with projections estimating e-commerce penetration to reach 34% by 2025. The shift reflects changing consumer preferences, as digital-savvy buyers increasingly seek convenience, product variety, and tailored shopping experiences through online platforms.

According to Statista, revenues in Hungary's Beauty and Personal Care market are projected to reach USD 1 billion by 2025, with Personal Care emerging as the largest subsector, contributing approximately 45% of total revenues. The market is expected to grow at an annual rate of 2.2% between 2025 and 2030, indicating stable long-term expansion. However, competition remains intense, with multinational and multi-brand corporations maintaining market dominance through aggressive strategies in product development, innovation, and brand differentiation.

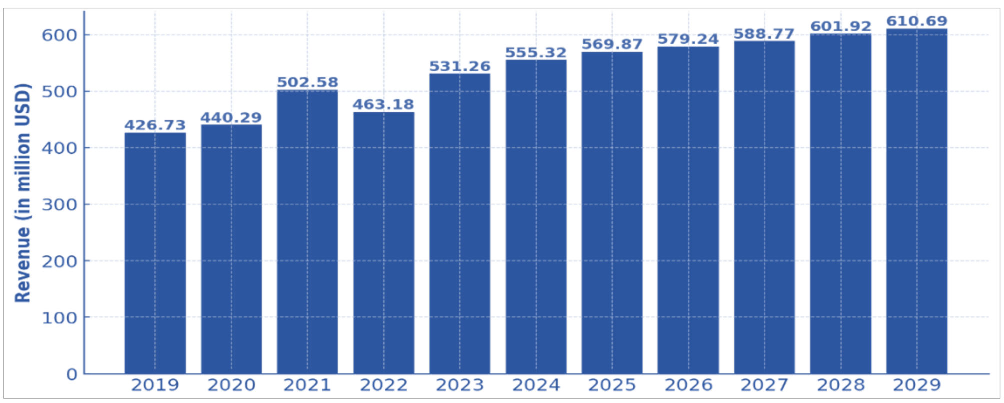
The luxury and prestige cosmetics segment presents the highest growth potential, driven by increasing consumer spending on premium skincare and wellness-oriented beauty solutions. The pandemic significantly influenced buying patterns, with heightened awareness of self-care, health, and wellbeing leading to a surge in demand for clean, sustainable, and functional beauty products. The market has witnessed a pronounced shift toward VEGAN, cruelty-free, and bio-cosmetics, as well as formulations enriched with active ingredients that promote long-term skin health.

Additionally, sustainability and ethical production have become major industry drivers, as brands respond to growing eco-conscious consumer demands. Companies are increasingly investing in environmentally friendly formulations, biodegradable packaging, and carbon-neutral production methods to align with ESG principles. The emphasis on green beauty innovations is not only shaping product development strategies but also influencing regulatory policies and brand positioning in the competitive landscape.

As the Hungarian Beauty and Personal Care market continues to evolve, companies seeking sustained growth and market share expansion must focus on digital engagement, innovative product offerings, personalization, and sustainability-driven initiatives. Those able to adapt to shifting consumer expectations while maintaining regulatory compliance and ethical standards will secure long-term relevance in this dynamic, fast-paced industry.

2.2.2. Home and Laundry Care

Figure 3: Estimated revenue of the Home and Laundry care market in Hungary: 2019 - 2029



Source: Statista

Statista projects that Hungary's home and laundry care market will experience steady revenue growth from 2024 to 2029, with an expected total increase of $55.4 million (+9.98%) over this period. If this trend continues, 2029 will mark the seventh consecutive year of growth, reaching an estimated $610.69 million, setting a new all-time high for the market.

In recent years, both global and Hungarian consumers have exhibited heightened awareness regarding the environmental impact of everyday products. This shift has led to sustainability becoming a pivotal factor in purchasing decisions, often outweighing traditional considerations such as price and brand loyalty. Consequently, there is a growing preference for cleaning agents that are less harmful to both nature and human health. This trend encompasses not only the demand for environmentally friendly and biodegradable ingredients but also a critical focus on sustainable packaging solutions. Attitudes towards plastic usage and recycling have evolved, with consumers increasingly favoring products that align with eco-conscious values. As a result, items emphasizing sustainability have transitioned from niche markets to mainstream popularity.

The Home and Laundry Care market is predominantly controlled by a few multinational corporations, including Procter & Gamble, Unilever, Reckitt Benckiser, Henkel, Kao, and Lion. These companies have established strong brand recognition and extensive distribution networks, enabling them to maintain significant market shares. However, the increasing consumer demand for sustainable products presents opportunities for both existing players and new entrants to innovate and capture market segments by aligning with environmental and health-conscious trends.

The shift towards sustainability in consumer preferences necessitates that manufacturers and retailer adapt their strategies accordingly. This adaptation includes reformulating products to incorporate eco-friendly ingredients, redesigning packaging to reduce environmental impact, and enhancing transparency regarding sourcing and production processes. Companies that proactively embrace these changes are likely to strengthen their market position and resonate with the evolving values of consumers. Conversely, those that fail to adapt may risk losing relevance in an increasingly competitive and environmentally conscious marketplace.

2.2.3. Professional Disinfectants

The global disinfectants market has experienced significant growth, driven by heightened awareness of hygiene and infection control measures, particularly in the wake of the COVID-19 pandemic. According to Transparency Market Research, the market was valued at approximately USD 6.9 billion in 2019 and is projected to reach USD 14.9 billion by 2030, exhibiting a compound annual growth rate (CAGR) of around 7% during the forecast period.

The pandemic has notably expanded the disinfectants market beyond traditional sectors. While healthcare institutions have consistently been primary consumers of disinfectants, the onset of COVID-19 led to increased demand from office buildings, residential complexes, and public facilities, underscoring the critical role of surface disinfectants in mitigating virus transmission.

In response to this surge in demand, manufacturers have adopted various strategies to enhance their market presence and meet consumer needs. These strategies include expanding production capacities, launching new products, forming strategic partnerships, and pursuing acquisitions. Such initiatives aim to capitalize on the growing demand and secure a larger share of the market.

The market exhibits a strong preference for alcohol-based and liquid disinfectants, attributed to their efficacy and ease of application. Liquid disinfectants, in particular, have dominated the market, accounting for approximately 60% of the total share in 2023.

Following the pandemic, the awareness of sanitation and hygiene is growing as well in Industrial Livestock Farming. The global animal disinfectants market is undergoing rapid transformation, driven by increasing concerns over livestock health, biosecurity, and sustainability. Rising demand for high-quality animal products, coupled with the need to prevent disease outbreaks, has reinforced the importance of effective disinfection protocols. Regulatory pressures, particularly restrictions on hazardous chemicals such as formaldehyde, have accelerated the shift toward safer, eco-friendly disinfectants. This transition aligns with growing consumer preferences for non-toxic, biodegradable solutions that minimize environmental impact.

3. Market Position

The Caola brand is a highly respected Hungarian name, synonymous with quality, stability, and tradition. Caola Zrt. upholds this legacy through a strong and well-diversified product portfolio, catering to various market segments. The company also benefits from longstanding, committed partnerships with both distributors and customers, reinforcing its market presence and ensuring sustained business growth.

Products

In the Beauty & Personal Care and Home & Laundry Care markets, Caola primarily concentrates on the production and sales of Personal Care, Skin Care, and Cosmetic products. However, the company's strongest-performing segments are personal hygiene products and disinfectants, which continue to drive its market success.

Figure 4: Caola's product lines

Professional disinfectants	Retail product portfolio	Professional cleaning productas	Disinfectants for livestock farming
• Disinfectants developed and produced for medical and government institutions	• Beauty & Personal Care Products • Home and Laundry Products	• New products, mainly used during commuting/travelling (eg. bus, train, plane)	• Products that are specialized for fertilization of pig, cow and chicken farm

Shaving products (including shaving cream, foam, and aftershave) represent the largest segment in Caola's commercial portfolio, maintaining their position as the company's core revenue drivers. Following shaving products, talcum powders remain among the most recognized Caola brands, having undergone a brand refresh to modernize their visual identity.

The Barbon Classic product line, redesigned in 2024, retains the iconic color scheme and signature shape of the original, ensuring continuity with its heritage and brand identity. However, the revamped packaging has been meticulously updated to align with modern consumer preferences, offering a refined, contemporary aesthetic that resonates with today's market expectations.

At the end of 2024, Caola Zrt. introduced Barbon Sport, a dynamic new product line tailored specifically for a younger demographic—a generation unfamiliar with traditional Barbon Classic products. Featuring a fresh, modern design, the packaging, color palette, and fragrance profile of Barbon Sport exude energy and vibrancy, making it an appealing choice for active, style-conscious consumers seeking a bold and refreshing grooming experience.

The company’s commitment to Environmental, Social, and Governance (ESG) principles has been reinforced through a strategic focus on sustainability and domestic production. As part of its ongoing packaging development efforts, Caola Zrt. has prominently incorporated the "Domestic Product" certification into its designs, reinforcing consumer confidence by highlighting the local origin of its products and the company’s role in supporting Hungarian jobs and economic growth.

To counteract the declining consumer demand in the cosmetics industry, Caola Zrt. gradually has shifted its focus toward expanding its cleaning product range, introducing new products tailored for industrial and institutional users. A major transformation in product structure took place in 2021, marking a significant expansion of its hygiene and disinfection portfolio.

In recent years, the Caosept product line has undergone significant expansion. The portfolio has been extended to include a broader range of hand sanitizers and surface disinfectants, strengthening the company’s presence in the professional hygiene and medical sectors. A key milestone in this expansion was the successful market introduction of Caosept surgical hand disinfectants, available in both colored and colorless formulations. These products have been integrated into Hungary's centralized hospital procurement system, ensuring seamless accessibility for healthcare institutions.

To address growing market demand, Caola Zrt. developed alcohol-free hand sanitizers in three distinct fragrances, combining in-house innovation with external formulation acquisitions. These products have undergone regulatory approval by Hungarian authorities, ensuring full compliance with national hygiene and safety standards. Similarly, the company successfully introduced and certified Caosept general-purpose surface disinfectant, a dual-action cleaner and disinfectant designed for efficient one-step sanitation.

With the rising incidence of hospital-acquired infections, there has been increasing demand for patient hygiene solutions, prompting Caola to develop and certify two specialized patient cleansing products: Caosept Liquid Soap & Patient Cleanser and Caosept Chlorhexidine Liquid Soap & Patient Cleanser, the latter incorporating a proven active ingredient with longstanding efficacy in clinical settings. Additionally, the company launched Caosept Extra Surface Disinfectant Concentrate, formulated to enhance the cost-effectiveness of hospital sanitation by maintaining bactericidal efficiency even at a 2% dilution, making it a highly economical solution for large-scale institutional cleaning.

To enable the expansion of its product portfolio, Caola has implemented a comprehensive R&D action plan, ensuring compliance with evolving regulatory requirements while advancing product innovation. A key priority was the revision of safety data sheets for all manufactured and distributed products, aligning them with new legislative standards. In parallel, the company pursued the registration of new biocidal products within the PT4 and PT2 categories, broadening its portfolio of professional disinfectants. One of the most significant R&D initiatives was the development of a specialized disinfectant product line tailored for the agricultural sector, reflecting Caola's strategic expansion into new industrial markets.

As part of this strategic shift, Caola. has established a strategic partnership with István Széchenyi University, focusing on collaborative R&D initiatives aimed at pioneering next-generation hygienic disinfection technologies. This collaboration is dedicated to the design, development, and eventual commercialization of advanced disinfection devices, autonomous robotic solutions, and industrial hygiene machinery. The partnership aligns with Caola's broader strategic vision of delivering high-quality, cost-efficient production, a key objective that is expected to be fully realized now with the operational launch of the Martonvásár production facility.

Production Facility

The large-scale factory development in Martonvásár, funded through bond proceeds, was successfully completed in 20224, which resulted in the creation of a new manufacturing, warehouse, and logistics centre, with all assets fully commissioned and operational.

Spanning 2,937 sqm on the ground floor and 427 sqm on the upper floor, the production hall is complemented by a dedicated office space of 226 sqm (ground floor) and 253 sqm (upper floor), ensuring seamless coordination of manufacturing, logistics, and administrative functions.

The facility was developed in line with Industry 4.0 principles, integrating advanced automated manufacturing and packaging systems. The implementation of automated recipe tracking ensures precision and consistency across production lines, while packaging operations are managed through fully automated software-controlled equipment. The system is remotely accessible, allowing for real-time monitoring and control, significantly enhancing operational efficiency, minimizing waste, and optimizing resource utilization.

Following the successful completion of the Martonvásár investment, Caola Zrt. has initiated the utilization process of the Diósd property, which is owned by Caola Invest Kft. The site is currently partially rented out, with ongoing negotiations for potential third-party market participants. According to a valuation report dated December 5, 2023, the Diósd property's estimated market value is HUF 1.456 billion, reinforcing the company's asset portfolio and financial strength.

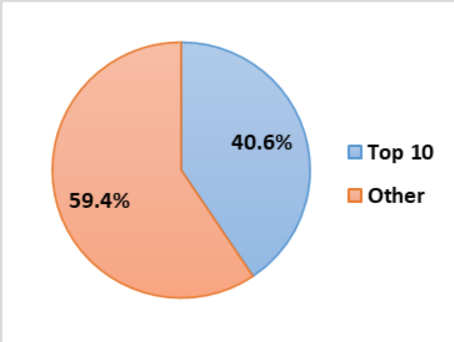
Caola Zrt. remains committed to sustainable and energy-efficient manufacturing, with key investment projects set to enhance the facility's capabilities further. A solar power plant, financed through a EUR 2 million grant (with 45% intensity support from the Hungarian State), is scheduled for mid-2025 completion. Once operational, this installation will allow the company to source 100% of its energy needs from renewable sources, positioning Caola among the few chemical manufacturers in Hungary that operate on a fully sustainable, green energy platform. This transition to renewable energy-powered production will be actively communicated on product packaging, reinforcing the company's commitment to environmental responsibility.

To support technological advancements and production capacity expansion, a new Fryma machine will also be installed in 2025, equipping the facility with the latest hot-mix manufacturing technology. This investment will enhance efficiency, increase output, and facilitate the development of new, high-quality formulations, ensuring that Caola Zrt. remains at the forefront of product innovation.

Suppliers

Caola has a diverse network of suppliers for contract manufacturing, raw materials, and packaging materials, ensuring operational stability and flexibility. The company is not reliant on any single key supplier, reducing supply chain risks and safeguarding continuity. The concentration of top suppliers has declined, with the Top 10 suppliers accounting for 40.6% of total operational supplies, down from 68.7% in 2023. This shift reflects a more balanced supplier distribution, as the majority of previous costs were linked to the construction of the new production facility.

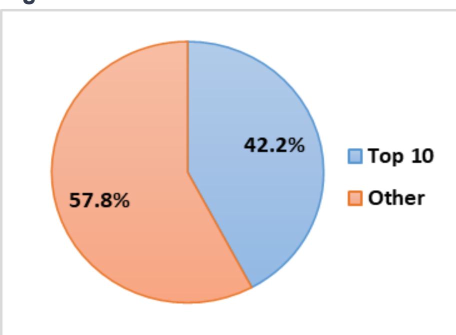
Figure 5: Suppliers' concentration in 2024



Customers

Caola has cultivated long-standing, trusted relationships with its customers over several decades. While a new key customer has emerged *(Annamajori Kft.),* the overall customer base remains well-diversified, ensuring stability and resilience in revenue streams. The relative share of Top 10 customers declined from 69.3% of total sales revenue in 2023 to 42.2% in 2024, demonstrating a more balanced distribution of clientele while maintaining strategic partnerships with major buyers.

Figure 6: Customer concentration in 2024



Caola's retail strategy is designed to appeal to a broad consumer base, spanning multiple generations through a diverse product portfolio that includes classic cosmetics, household essentials, and baby care products. The company's approach is centered on product innovation and rebranding, with ongoing initiatives such as logo redesigns, portfolio expansion, and packaging enhancements aimed at strengthening brand recognition and market positioning. With evolving market trends, Caola is intensifying its B2C marketing efforts, leveraging digital communication channels, promotional campaigns, and strategic collaborations with wholesalers to enhance consumer engagement and drive sales growth

Its client portfolio includes Hungary's leading retail chains, ensuring a stable and recurring revenue stream. To further strengthen its relationships with multinational supermarket and drugstore chains such as DM, Rossmann, Tesco, and Auchan, management is actively pursuing negotiations for price adjustments, aiming to enhance contract value and improve overall profitability while maintaining long-term strategic partnerships.

Caola Zrt. employs a cost-oriented pricing strategy, where the direct costs of production serve as the foundation for price determination. In addition to covering manufacturing expenses, the company strives to incorporate an increasing share of operational costs into its pricing structure to ensure long-term financial sustainability.

The microeconomic environment plays a crucial role in shaping pricing decisions. Factors such as consumer demand and competitive market offerings significantly influence pricing strategies. Recognizing these dynamics, Caola Zrt. applies differentiated pricing across its customer base, tailoring its approach based on each buyer's market position and competitive landscape. Pricing evaluations are conducted systematically to ensure that negotiated rates accurately reflect customers' market standing while maintaining profitability and competitiveness.

Caola Zrt. has been a regular supplier to state hospitals, consistently securing contracts through successful participation in public procurement tenders for state institutions each year. However, liquidity challenges faced by public institutions pose a risk to the company, necessitating strategic organizational restructuring and the development of a new business strategy to mitigate market uncertainties.

In 2023, the company established a strategic partnership with the National Penitentiary Command (BVOP) to support the Hungarian government's initiative to maximize inmate employment while providing a competitive domestic alternative to imported hygiene products. This collaboration enables incarcerated individuals to engage in productive labour while ensuring a stable supply of high-quality cleaning and disinfection solutions to key sectors such as healthcare, transportation, education, and social services. Currently, 35 to 40 full-time employees and 15 to 20 incarcerated individuals participate in production, manufacturing VIVACLEAN-branded hygiene products supplied directly to state institutions. This initiative reduces procurement costs for public institutions, enhances self-sufficiency by allowing inmates to contribute toward their living expenses, and strengthens Caola's role in Hungary's HUF 26 billion state hygiene market.

Sales are facilitated through *Annamajori Kft.,* a fully state-owned enterprise, ensuring efficient distribution while generating additional revenue. By government mandate, Caola supplies hygiene and disinfectant products to all public schools, hospitals, social institutions, transportation services, tourism facilities, and state-owned agricultural enterprises, securing a stable demand base and reinforcing its long-term market position and financial sustainability.

Concurrently, Caola remains a relatively new entrant in the Disinfectants for Livestock Farming market, with initial growth progressing at a slower-than-anticipated pace. However, the company is positioned for gradual revenue expansion in the coming period, supported by a strong pipeline of prospective clients, including Talentis Agro Group, Master Good Group, Tolnatej Zrt., and Hunland Group.

Completive Landscape

The Hungarian retail market for beauty, personal care, and household products is traditionally dominated by multinational corporations such as Unilever, Procter & Gamble, Henkel, Avon, and Johnson & Johnson, leaving Caola Zrt. with a relatively modest market share of approximately 1%. Despite this, the company benefits from distinct competitive advantages, including a strong national brand reputation, deep-rooted consumer trust, and the ability to swiftly adapt to local market trends—a flexibility that multinational corporations often lack.

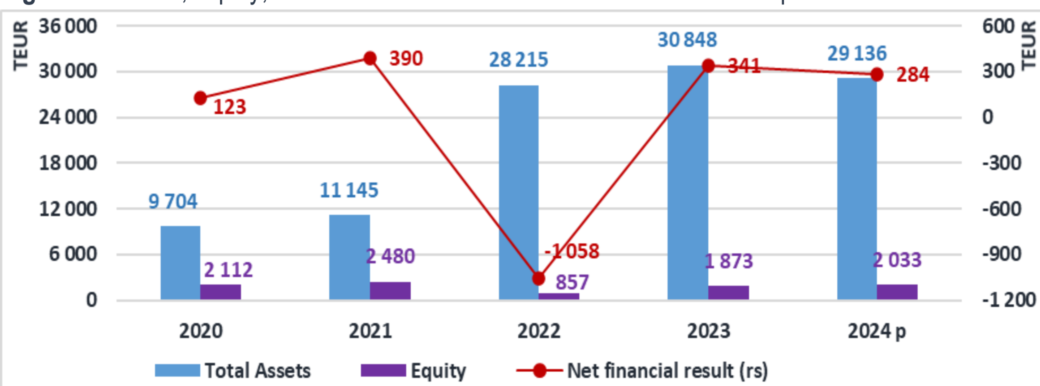
In the professional disinfectants segment, Caola has successfully positioned itself among the top five market players in Hungary, a significant achievement that underscores its growing presence in the industry. The company has also established strategic partnerships that strengthen its competitive positioning and enhance its market reach, providing a foundation for further expansion.

Concerning the livestock farming disinfectants market, Caola remains an emerging player with a limited market share. However, the company has demonstrated a strong track record of innovation, particularly in the development of bio-cosmetics and eco-friendly disinfectants. Its ability to formulate specialized, high-quality solutions tailored to evolving industry needs presents a significant opportunity for market penetration. Moreover, Caola's flexible and responsive manufacturing processes enable it to swiftly adjust to shifting consumer preferences and regulatory requirements, allowing for the rapid introduction of new and innovative products.

While multinational competitors continue to hold a dominant presence in the broader market, Caola's agility, brand legacy, and commitment to product innovation provide it with key differentiators that can be leveraged to expand its market footprint and drive long-term growth.

4. Financial Analysis

Figure 7: Assets, Equity, and Net Financial Result of Caola: 2020 –2024 p.



Following the significant expansion in 2022 (+174.6%), the growth of total assets at Caola has moderated, yet maintaining a positive trajectory. According to the preliminary financial statements for 2024, total assets reached TEUR 29 136, posting a modest annual increase of 1.2%[1]. Simultaneously, the accumulation of retained earnings has continued to strengthen equity, which expanded to TEUR 2 033, up from TEUR 1 873 at the end of 2023, underscoring the company's sustained financial stability and capital reinforcement.

Tangible assets have further solidified their dominant position within the asset structure. Driven by the substantial capital investment associated with the Martonvásár factory development, the value of tangible assets surged to TEUR 20 383 by the end of 2024 (+28.2% YoY), comprising 70% of total assets, a notable increase from 55.2% in the previous year

The shift in asset composition reflected also the reduction in liquid assets, which declined from TEUR 5 438 to TEUR 742, with their relative share contracting from 17.6% to 2.5%. The high bank balance in 2023 was primarily attributable to grant funding, which was strategically allocated throughout the following year to support investment projects and operational enhancements.

[1] Cited growth rates are calculated using the original values in forints, while the data presented in the report is converted into EUR using the official NBH's EoP exchange rate.

Figure 8: Assets of Caola: 2020 – 2024 p.

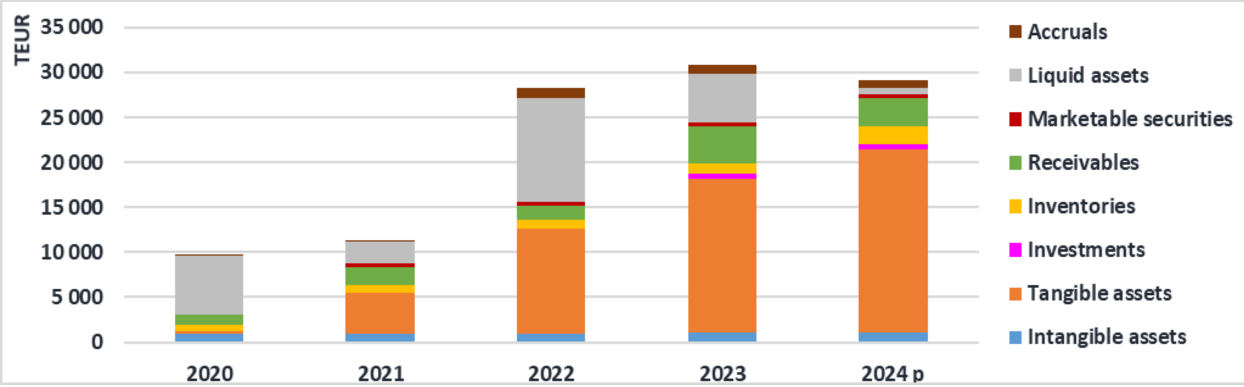
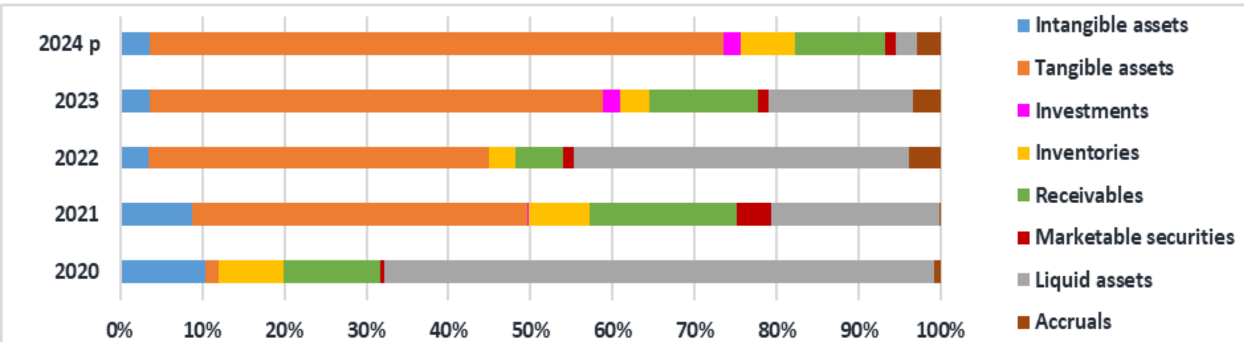
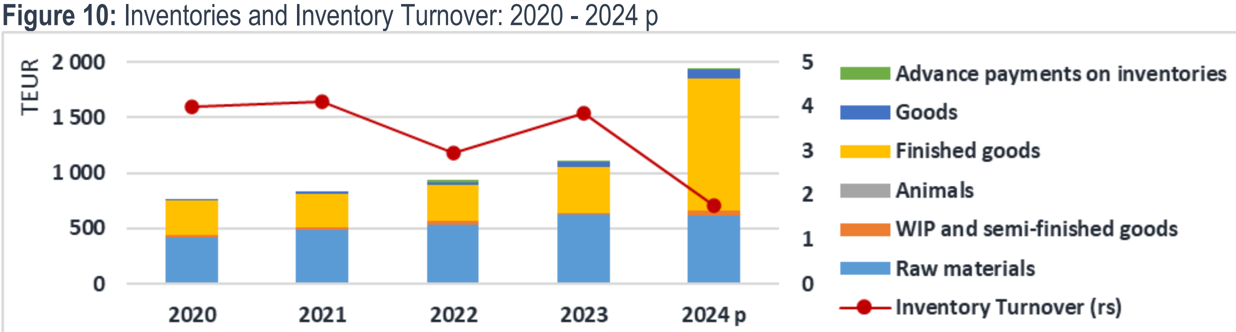


Figure 9: Structure of assets: 2020 – 2024 p.



As of the end of 2024, receivables ranked third within the company's asset structure, with their relative share declining by 2.3 percentage points YoY, settling at 10.9%. This moderation reflects a decrease in absolute value, with total receivables contracting from TEUR 4 095 to TEUR 3 188, of which TEUR 543 was attributed to related-party transactions. Despite ongoing efforts to optimize working capital management, the Trade Receivables Collection Period remained elevated, further deteriorating to 223 days in 2024, highlighting persistent challenges in collection efficiency.

Figure 10: Inventories and Inventory Turnover: 2020 - 2024 p



In parallel, inventories surged significantly, registering an 87.7% YoY increase to TEUR 1 932 or 6.6% of total assets. This sharp expansion primarily reflected the accumulation of unsold finished goods, stemming from a decline in sales performance. Consequently, the inventory turnover ratio deteriorated, dropping from 3.9 to 1.8, indicating a slower conversion of inventory into sales and highlighting heightened stockholding costs and potential liquidity constraints.

Figure 11: Liabilities of Caola: 2020 – 2024 P.

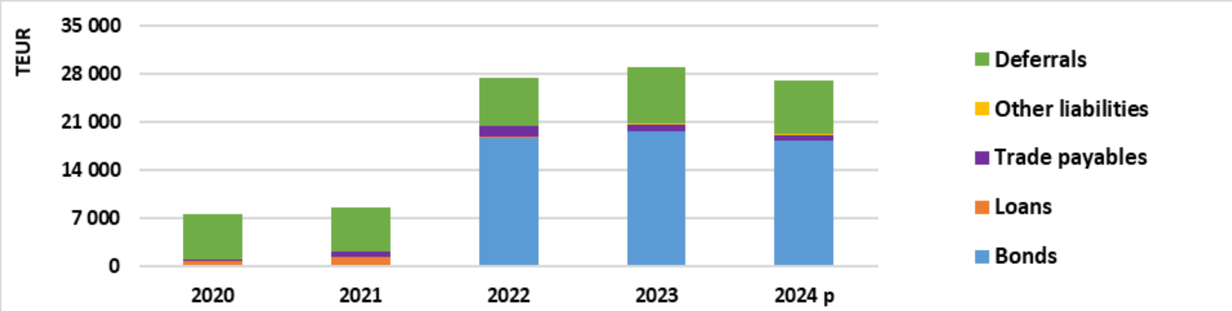
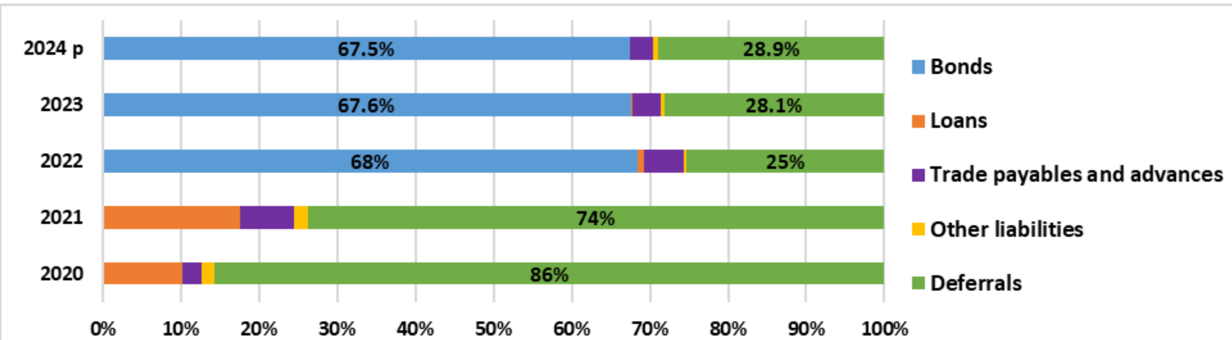


Figure 12: Structure of liabilities of Caola: 2020 – 2024 p.



Following the substantial expansion in 2022, that resulted from the bond issuance, Caola's total liabilities have largely stabilized, with their overall structure remaining broadly unchanged. As of the end of 2024, total liabilities stood at TEUR 28 590, marking a marginal decline from TEUR 28 975 in the previous year. This reduction was primarily attributed to lower deferrals and trade payables.

Bond obligations have consistently represented the dominant component of the company's liabilities, accounting for more than two-thirds of the total over the past three years. Deferred income, primarily derived from grant funding, constituted 29% of total liabilities, underscoring the company's continued access to various funding programs. In this regard, leases and loans accounted for below 1% ot total obligations. This well-structured liability composition reflects Caola's stable financial framework and strategic use of external financing to drive growth and operational efficiency.

Figure 13: Term structure of liabilities: 2020 – 2024 p.

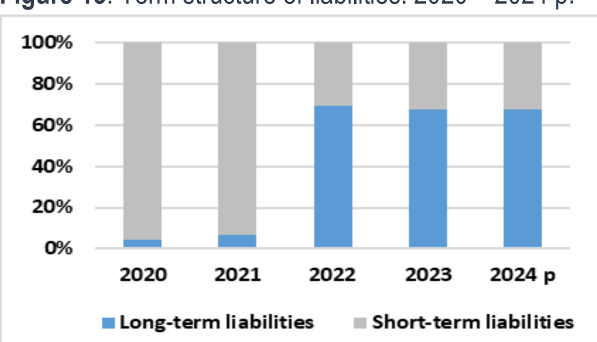
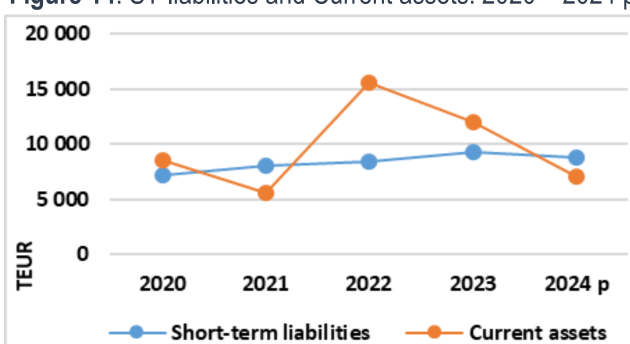


Figure 14: ST-liabilities and Current assets: 2020 – 2024 p.



Trade payables and advance payments continued their downward trajectory, declining to TEUR 774, representing 2.9% of total liabilities as of the end of 2024. As a result, the Trade Account Payment Period further improved, decreasing to 83 days, a notable enhancement from 184 days in 2022.

Until 2022, Caola's liabilities were primarily short-term, dominated by passive accruals and current obligations. However, with the accumulation of bond liabilities, the company's debt structure underwent a significant transformation, shifting toward long-term financing, which now accounts for 67% of total liabilities.

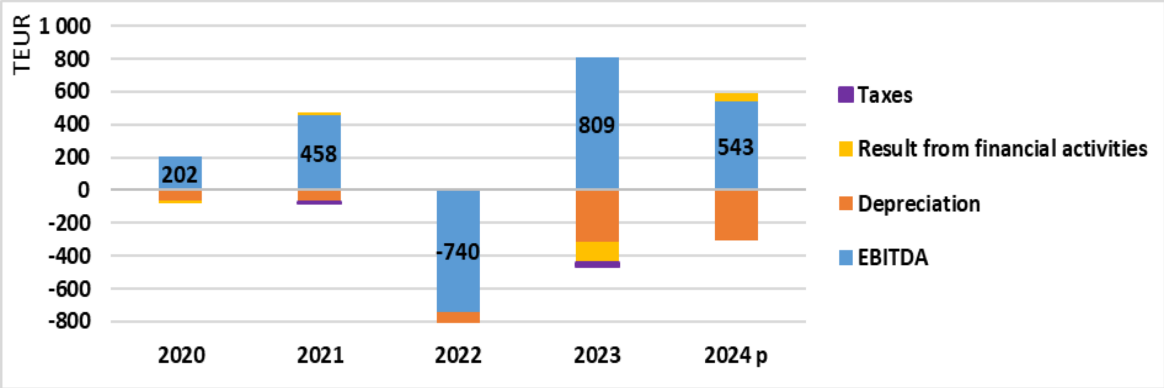
The influx of unspent bond proceeds and grant funding temporarily inflated cash reserves, leading to a spike in the current liquidity ratio before it adjusted to 80% by the end of 2024. However, to mitigate the effects of the high inflationary environment, Caola strategically invested its excess liquidity in investment certificates preserving asset value while maintaining financial agility. These investments are booked as fixed final assets (TEUR 610 as of end-2024), but can be readily converted into cash, ensuring that the company can swiftly respond to any liquidity needs that may arise.

Table 2: Income statement of Caola - main items: 2020 – 2024 p.

TEUR	2024 p.	2023	2022	2021	2020
Operating revenues	**4 210**	**4 444**	**2 939**	**3 852**	**4 424**
Net sales revenues	3 390	4 251	2 792	3 409	3 038
Capitalised value of own performance	642	-208	-142	-7	159
Other revenues	177	401	288	450	1 226
OPEX	**3 976**	**3 948**	**3 987**	**3 464**	**4 282**
Material expenses	2 273	1 750	2 242	2 441	2 189
Personnel expenses	1 315	1 080	820	700	655
Depreciation	309	313	308	70	60
Other expenses	79	805	617	254	1 378
Operating Result	**234**	**495**	**-1 048**	**389**	**142**
EBITDA	**543**	**809**	**-740**	**458**	**202**
Financial revenues	171	52	162	73	7
Financial expenditures	121	176	167	61	26
Interest paid	108	118	124	34	6
Result from financial activities	**50**	**-124**	**-5**	**12**	**-19**
Gross financial result	284	371	-1 053	401	123
Tax expenses	0	31	5	11	0
Net financial result	**284**	**341**	**-1 058**	**390**	**123**

According to the preliminary financial statements for 2024, Caola maintained profitability, recording a net financial result of TEUR 284. While this represents a decline from TEUR 341 in the previous year, the company's ability to remain in positive financial territory underscores its adaptability in a challenging market environment, characterised by lower sales volumes and a temporary rise in operating expenditures.

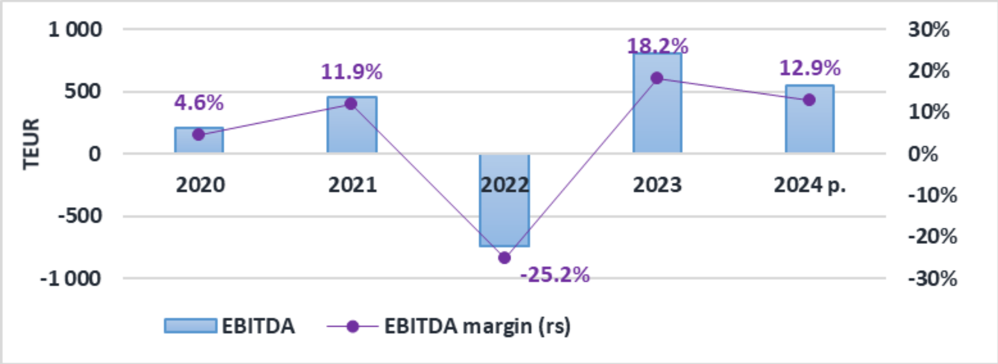
Figure 15: Structure of net financial result: 2020–2024 P



Following an exceptional annual growth of 45.6% in 2023, net sales experienced a 14.6% decline in 2024, primarily driven by a contraction in domestic sales. In contrast, export sales surged at TEUR 1 037 and accounted for approximately 30% of total sales revenue, marking a significant step towards diversifying the company's market exposure. While the downturn in domestic sales represents a temporary setback, it aligns with broader economic trends affecting sector's demand in Hungary during 2024.

In parallel to the drop in sales, OPEX increased by 7.9% YoY, primarily driven by a temporary surge in material costs and higher personnel expenses. Material expenditures rose sharply by 39.1%, reflecting one-time cost spikes associated with the finalization of the new factory development and the installation of the solar power plant. Concurrently, personnel costs increased by 30.4%, due to inflation-driven wage adjustments and the expansion of the workforce, including a higher number of employed prisoners.

Figure 16: EBITDA and EBITDA margin: 2020 – 2024 p.



As a result, the EBITDA narrowed from TEUR 809 in 2023 to TEUR 543 in 2024 and its margin moderated from 18.2% to 12.9%, however, remaining at a good level for the sector.

Table 3: Key financial indicators of Caola Zrt.: 2020–2024 p.

TEUR	2024 p.	2023	2022	2021	2020
Total assets	29 136	30 848	28 215	11 145	9 704
Fixed assets	22 046	18 792	12 662	5 539	1 171
Current assets	6 222	11 022	14 455	5 590	8 445
Equity	2 033	1 873	857	2 480	2 112
Net sales revenues	3 390	4 251	2 792	3 409	3 038
Gross financial debt	18 293	19 655	18 938	1 521	767
Net financial debt	17 551	14 217	7 418	-775	-5 728
EBITDA	543	809	-740	458	202
ratios					
ROE	0.14	0.18	-1.24	0.16	0.06
EBITDA Margin	0.13	0.18	-0.25	0.12	0.05
Total Leverage (TL /TA)	0.93	0.94	0.97	0.78	0.78
Net Debt-to-Equity	8.63	7.59	8.66	-0.31	-2.71
Net Debt-to-EBITDA	32.34	17.58	-10.02	-1.69	-28.29
EBITDA interest coverage	5.04	6.85	-5.99	13.65	35.61
Current Liquidity	0.80	1.29	1.85	0.69	1.18
Cash Liquidity	0.08	0.58	1.37	0.28	0.90

Despite macroeconomic challenges and operational adjustments in 2024, Caola demonstrated resilience, effectively managing cost pressures while maintaining operational profitability. The company's strategic long-term investments in production capacity expansion and renewable energy projects are expected to enhance cost efficiency and drive future revenue growth, reinforcing its competitive positioning in key markets.

Total leverage (TL/TA) remained at a stable, albeit still elevated level of 0.93, but with risk balancing maturity profile of debt. Moreover, EBITDA interest coverage remained solid at 5x, ensuring strong debt servicing capacity and financial flexibility.

Following BCRA's Corporate Rating Methodology, Caola's key financial indicators were benchmarked against a selected reference group of direct competitors in the Hungarian market, including Florin Kft., Molar Chemicals Kft., and PBS Hungaria Kft.. These companies operate within comparable market segments, providing a relevant basis for competitive assessment. The analysis indicates that Caola Zrt. holds a favorable position within the peer group, demonstrating strong operational fundamentals and financial resilience.

5. Financial Forecast

A financial forecast for the period 2024–2026 has been developed, incorporating preliminary results for 2024 and a business plan provided by Caola's management. This forecast is deemed relevant and broadly attainable, considering the company's historical performance and strategic direction. The projections are based on the following key assumptions:

<u>Operating revenues</u>

- Net sales revenue is projected to experience a substantial increase of 140% in 2025, driven primarily by a strategic cooperation agreement with BVOP, which is expected to contribute approx. HUF 2 billion in annual revenue. Additionally, the company anticipates continued expansion in the retail segment, generating an estimated HUF 1.5 billion in annual revenue, further strengthening its market position and overall growth trajectory.

- Other revenues include subsidy reversal in the forecast period.

<u>OPEX</u>

- The Martonvásár production facility commenced full-scale operations in 2024, marking a significant transition for Caola Zrt. As part of this shift, the Budapest site was closed, leading to cost savings through the termination of the lease agreement. Additionally, the Diósd facility is now fully utilized, contributing to both revenue generation and operational cost reduction for the Caola Group.
- The installation of new machinery is expected to enhance production efficiency, leading to a reduction in manufacturing costs. Furthermore, the solar park investment is projected to yield additional energy cost savings from 2025 onward.
- The company has also planned for wage growth exceeding inflation (10%), ensuring competitive compensation and workforce retention.
- From 2025, higher amortization expenses are anticipated due to the capitalization of the Martonvásár investment.

<u>CAPEX</u>

- The financing of a potential acquisition is not included in the forecast for Caola Zrt. as it is planned to be acquired by the parent company - Caola Invest Kft.

<u>Financing</u>

- No additional bank borrowings are anticipated throughout the forecast period;
- Bond amortization will commence in 2027, with an annual repayment of 10% of the principal (HUF 750 million)
- Other principal repayments, coupon payments, and interest expenses are scheduled in accordance with the approved repayment terms, ensuring financial predictability and strict adherence to debt obligations.
- No dividend distributions are planned for Caola Zrt.'s shareholders between 2025 and 2027, reinforcing the company’s commitment to reinvestment and financial stability.

The forecasted cash flows are outlined in the following table. To ensure consistency and eliminate exchange rate fluctuations, the original estimates in HUF have been converted to EUR using a fixed exchange rate projection of HUF/EUR = 400.

Table 4: Financial Forecast of Caola Zrt.

TEUR	2024 P	2025 F	2026 F	2027 F
Cash at the beginning of the period	**5 204**	**734**	**1 225**	**2 384**
Net sales revenues	3 475	8 436	10 411	11 412
Other revenues	840	1 357	1 497	1 669
Total operating revenues	4 316	9 794	11 908	13 081
OPEX	-4 076	-7 507	-8 580	-8 989
Operating Income (EBIT)	**240**	**2 286**	**3 329**	**4 092**
Depreciation	316	1 080	1 134	1 190
EBITDA	**556**	**3 366**	**4 463**	**5 282**
Taxes	-26	-124	-218	-296
∆ Net working capital	-308	-1 347	-1 411	-796
Cash Flow from Operating activities (CFO)	**222**	**1 896**	**2 834**	**4 190**
Net CAPEX	-3 848	-83	0	0
Cash Flow from Investing activities (CFI)	**-3 848**	**-83**	**0**	**0**
∆ Loans	-55	-8	0	0
∆ Bonds	0	0	0	-1 875
∆ Other liabilities	0	0	0	0
∆ Passive Accruals (incl. subsidies)	248	-402	-763	-687
Financial expenses	-1 212	-1 088	-1 088	-979
Financial income	176	176	176	176
Cash Flow from Financing activities (CFF)	**-843**	**-1 322**	**-1 675**	**-3 365**
Total Cash Flow	**-4 470**	**490**	**1 159**	**825**
Cash at the end of the period	**734**	**1 225**	**2 384**	**3 209**
Gross Financial Debt	18 758	18 750	18 750	16 875
Net Financial Debt	18 024	17 525	16 366	13 666
Net Debt-to-Equity	8.65	5.26	2.96	1.60
EBITDA Margin	0.13	0.34	0.37	0.40
EBITDA interest cover	0.46	3.10	4.10	5.40
Net Debt-to-EBITDA	32.39	5.21	3.67	2.59
Leverage (TL/TA)	0.93	0.89	0.83	0.75

If sales targets are successfully met, Caola Zrt. is poised for sustained EBITDA growth, increasing from TEUR 556 in 2023 to TEUR 5 282 by 2027. This expansion will be fueled by penetration into new customer segments, increased state institutional sales, and enhanced operational efficiency. Notably, improvements in the turnover-to-material expenses ratio will drive profitability, reinforcing the company's competitive position. The EBITDA margin is projected to stabilize at approximately 35%, ensuring a solid financial foundation to facilitate the timely repayment of bond obligations

From 2025 onwards, no additional sizeable CAPEX investments are planned, allowing the company to focus on organic growth and debt reduction. Consequently, the Net Debt-to-EBITDA ratio is set to decrease sharply, falling from 32.4 in 2024 to just 2.6 by the end of the forecast horizon, significantly strengthening the company's financial position and credit profile.

In conclusion, Caola Zrt. is expected to generate sufficient cash flow to sustain its operations and fulfill its financial commitments without difficulty. This is further substantiated by the EBITDA interest coverage ratio, which is projected to remain above 3x throughout the forecast period, reflecting the company's strong debt servicing capacity.

6. Bond Rating

Table 5: Main bond parameters

Issuer	Caola Zrt.
Date of issue	04.04.2022
ISIN	HU0000361431
Face value	HUF 7.5 bln
Discounted value	HUF 7.06 bln
Currency	Forint (HUF)
Tenor	10 years (04.04.2032)
Coupon	fixed, 5.8% p.a.
Amortization	10% p.a. from the fifth year
Balloon	50% on maturity
Guarantor	Target company (yet not acquired)

In April 2022, Caola Zrt. issued a 10-year bond with a face value of HUF 7.5 billion (with a HUF 0.4 billion discount) through an auction under the Bond Funding for Growth program initiated by the National Bank of Hungary. The bond features a fixed annual coupon rate of 5.8%, with a principal repayment schedule that includes 10% annual amortization starting in the fifth year after issuance and a 50% balloon payment at final maturity.

By the end of 2024, HUF 6.3 billion of the issued bond proceeds had been allocated to the development of the Martonvásár production facility. The remaining funds are designated to indirectly finance the acquisition by Caola Invest Kft., the company's parent entity. In accordance with the bond prospectus, the acquired company is expected to be formally established as a **guarantor of the bond**, further reinforcing the financial structure and risk mitigation framework associated with the transaction.

Over the last three years, Caola Invest Kft. has actively pursued an acquisition-driven growth strategy, engaging in preliminary discussions with multiple potential targets to explore opportunities that align with its long-term vision of market expansion and service portfolio enhancement. While several companies emerged as promising candidates due to their strategic fit with Caola's objectives, in-depth evaluations and negotiations have thus far not resulted in any finalized transactions. However, the company remains committed to identifying acquisitions that generate tangible financial and operational value, ensuring sustainable long-term growth.

Currently, Caola Invest Kft. is engaged in advanced negotiations with Chem-System, a target that closely aligns with its strategic direction and operational synergies. Chem-System, a leading Hungarian manufacturer of professional cleaning, hygiene, and disinfection products, has been serving the market for over two decades. With a product portfolio exceeding 200 types of cleaning and disinfectant solutions, amounting to an annual production volume of approximately 5,400 tonnes, the company has established a strong market presence across key sectors, including healthcare, food processing, hospitality, and industrial manufacturing. Chem-System's commitment to compliance with EU standards and HACCP requirements ensures that its products meet the highest safety and efficacy benchmarks, making it a trusted supplier to thousands of clients nationwide, including hospitals, industrial facilities, and major retail chains.

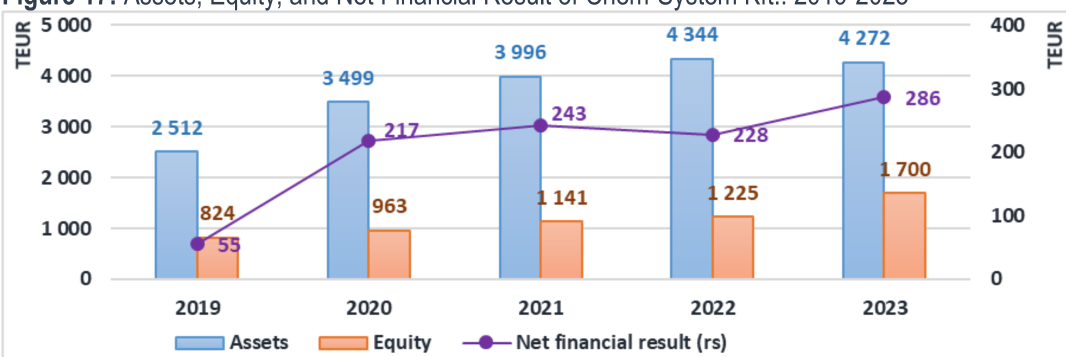
Beyond its product capabilities, Chem-System's management team brings extensive expertise in hygiene product manufacturing, which is expected to enhance the operational efficiency and profitability of Caola Zrt. The target company holds exclusive contracts with key clients such as

Bonafarm Group and B+N Referencia Zrt., two of Hungary's largest corporate entities, with annual revenues of HUF 324 billion and HUF 112 billion, respectively, in 2023. The retention of these contractual agreements for at least five years is a fundamental condition of the proposed transaction.

The proposed acquisition structure envisions Caola Invest Kft. acquiring 100% of Chem-System's shares for a total consideration of HUF 2.36 billion, payable in two instalments. The first 50% of the purchase price is expected to be settled at closing in 2025, while the remaining 50% will be contingent upon the target company achieving predefined business plan milestones in 2026. Furthermore, a management buy-in option is included, allowing the existing leadership team to acquire a 20% stake within four years, ensuring strategic alignment and long-term operational continuity. The transaction timeline is set for completion in the first half of 2025, following which Chem-System will serve as a guarantor of Caola's outstanding bond obligations in accordance with the bond prospectus. Importantly, Caola Invest Kft. does not intend to merge with Chem-System post-acquisition, nor will it prepare audited consolidated financial statements following the transaction.

According to Caola's management, negotiations have reached an advanced stage, with both parties demonstrating a strong commitment to finalizing the agreement under mutually beneficial terms. The successful completion of this acquisition would not only reinforce Caola's market position but also significantly expand its production capacity, particularly in the chemical sector, while providing opportunities to introduce new product lines. The company remains vigilant in evaluating further acquisition opportunities and industry trends to ensure that each strategic decision contributes to its overarching objective of long-term growth and market leadership.

Figure 17: Assets, Equity, and Net Financial Result of Chem-System Kft.: 2019-2023



To determine the bond rating, BCRA has conducted a comprehensive assessment of the creditworthiness of the potential guarantor, Chem-System Kft. The company has demonstrated strong financial performance, characterized by consistent asset and equity growth over the period 2019–2023. Operating results have remained consistently positive, with net financial results reinforcing asset expansion, while leverage, as measured by *Total Liabilities to Total Assets*, has been maintained at a moderate level, declining to 60% by the end of 2023.

Chem-System Kft. recorded its highest levels of sales, EBITDA, and net financial results in 2023, and according to the provided business plan, this upward trajectory is expected to accelerate further. The medium-term financial projections indicate a robust capacity to absorb additional financial commitments, ensuring that the company remains well-positioned to meet its obligations in the event of the activation of its guarantee on Caola Zrt.'s bond issue.

Table 6: Forecasted aggregated metrics of Caola Zrt. (Issuer) + Chem-System Kft. (Potential Guarantor)

TEUR	2024 P*	2025 F	2026 F	2027 F
Assets	29 871	35 914	38 655	39 736
Equity	2 084	5 786	8 555	12 108
Gross Financial Debt	18 758	19 718	20 021	18 091
Net Financial Debt	18 024	17 547	16 350	13 189
EBITDA	556	4 212	5 372	6 234
ratios				
Net Debt-to-Equity	8.64	3.03	1.91	1.09
EBITDA Margin	0.16	0.29	0.32	0.34
EBITDA interest cover	0.50	4.00	5.10	6.80
Net Debt-to-EBITDA	32.30	4.20	3.00	2.10

**Standalone Caola Zrt., before the acquisition*

The combined financial metrics of Caola Zrt. (Issuer) and Chem-System Kft. (Potential Guarantor) indicate a substantially improved debt service capacity, ensuring strong support for bond repayment obligations. The EBITDA interest coverage ratio is projected to exceed 4.0x from 2025 onward, reaching 6.80x by 2027, reflecting a significant enhancement in earnings relative to interest expenses. Additionally, the Net Debt-to-EBITDA ratio is expected to decline sharply to just 2.1x in 2027, demonstrating a marked improvement in leverage and financial stability. The forecasted aggregated metrics outperform the standalone financial position of Caola Zrt., reinforcing a stronger financial foundation for servicing bond obligations.

The long-term credit rating of the **guaranteed bond issue** is based on the rating assigned to the issuer, adjusted with BCRA's assessment for the capacity of the guarantor to back the timely servicing of the bond obligations. Accordingly, BCRA has applied a one-notch upgrade on the long-term issuer rating "**BB-**" of Caola Zrt., affirming the "**BB**" long-term rating of the guaranteed bond

GENERAL CONCLUSIONS

The outlook is **stable**, indicating that risks are broadly balanced. The **issuer credit rating** of Caola Zrt. is supported by its longstanding track record of business development and sound credit metrics. However, constraints on the rating include a historical trend of moderate profitability and relatively elevated leverage profile.

A **positive outlook revision or rating upgrade** may be considered if:

1) The company strengthens its market position through continued business expansion and diversification.
2) Profitability improves, driven by higher operational efficiency and margin expansion.
3) Leverage decreases.

Conversely, a **negative outlook revision or rating downgrade** may occur in the event of:

1) Underperformance in revenue generation, particularly if new product lines fail to achieve expected growth or adverse market conditions negatively impact financial results.
2) A deterioration in the leverage profile.

The long-term credit rating of the **guaranteed bond** is anchored in **the particular acquisition plan and the financial strength of the potential bond guarantor,** as currently outlined by Caola's management.