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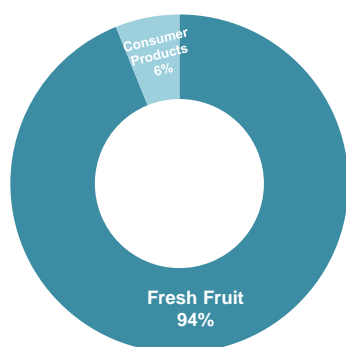
Recommendation

BUY	
Share Price	CLP 2,110
Target Price	CLP 2,378
Upside	+13%

Key Figures

Dividend Yield	0.8%
52w Low	1,325
52w High	2,287
Number of Shares (mm)	525.5
Enterprise Value (BN)	1.6
Free Float (%)	33
LTM EV / EBITDA	32.5
Beta	0.6

Sales by Segment



Major Share Holders

Moller Family	22%
Quevedo Group	17%
Vital Berry Group	18%

Valuation – In CLP

DCF	80%	2,485
Trading Multiples	15%	2,020
Transactions	5%	1,472
Target Price	CLP	2,378

Hortifrut (“HF”) is a pure-play, leading global provider of berries, dedicated to the genetic development, production and distribution of these fruits (mainly in blueberries).

INVESTMENT SUMMARY

We issue a BUY recommendation on HF with a 1-year target price of CLP 2,378 per share; representing a 13% upside from its October 19th, 2018 closing price, of CLP 2,110. Our valuation is based on an 80/15/5 mix of Free Cash Flow to Firm Model, EV/EBITDA multiple analysis and EV/EBITDA multiple from precedent transactions. Our recommendation rests on the following key pillars: (1) structural growth drivers in HF’s markets, (2) strong competitive positioning together with a (3) solid financial position.

HIGH GROWTH EXPECTATION

There is a high growth expectation for blueberries and HF in the coming years. World’s economic scenario is currently being affected by trade wars between China and US, where tariffs are being enforced on foreign products. Under this scenario, HF is exploiting its distribution network to detour the high export tariffs imposed by both the US and the Chinese governments, through local production and global distribution networks, even in the same country as its final customers are located. For other companies, which have not enough strategic alliances, the trade war constitutes a threat although. This complex scenario has not affected the growth prospects for berries. In fact, blueberries are expected to grow at a CAGR of 11.8% for the next 10 years. North America (United States and Canada, “NA”), is a consolidated market and the world’s largest consumer of blueberries in the world, with the highest per capita consumption (1.3 kg). Nevertheless, there are still unexplored markets with important potential, such as China, with a current per capita consumption of 0.1 kg and an impressive forecasted CAGR of 34% during the last 5 years. In 2017, through its Joint Venture with Joy Wing Mau, the largest fresh fruit Company in China, HF planted 30 hectares. By 2020, HF plans to have at least 200 local productive hectares in that country. Additionally, in July 2018 HF acquired Grupo Rocio’s (GR) blueberry business line with 1,450 productive hectares in Peru and plans to double its distributed volume by 2020. HF is the only public company in the agroindustry that is heavily focused on blueberries. Moreover, it is the only financial vehicle in the world for this fruit.

STRONG COMPETITIVE POSITION

The strong competitive position of HF is due to 3 main factors: (1) strong research and development (R&D) investment, (2) excellent diversification in points of production, and (3) quality distribution networks with well positioned companies in their respective markets. HF invests in R&D through its own genetic development programs, with Michigan Blueberries Growers, for example, forming the world’s largest blueberry breeding program. Consequently, it produces a more durable, sweeter, bigger and disease-resistant fruit; but most importantly, high volumes. Through harvesting diversification between both hemispheres and enough volume to supply various markets, HF can provide berries across the world throughout the whole year, taking advantage of the cyclical price behavior. Consequently, HF can create a large distribution network that allows the Company to be present in key markets with the right retailers.

SOLID FINANCIAL POSITION

HF is a dominating market leader through an efficient cost control and counter seasonal production, achieving the highest and stable EBITDA margin of 15% over the peer set (6%) and continues intensive CAPEX to exploit its improved yield per hectare by genetics. From year 2012 to year 2017, HF posted an EBITDA, EBIT and Net profit margin higher than its competitors. This is mainly explained by two facts: (1) taking advantage of price when supply is scarce through counter seasonal harvesting and (2) lower distribution costs, which are absorbed by the retailers, since they are the ones that mediate with the final customer liberating HF to incur in additional costs. In addition, HF is switching its leverage structure to a larger concentration of long-term debt rather than short term, by financing aggressive CAPEX to provide a natural hedge, since assets are long life hectares which increases yield through time, granting an optimal capital structure. HF acknowledges its operational fragility, as workforce is highly required given that automatized berry harvesting is not feasible. Therefore, it ensures good relationships with its temporary harvest workers through standardized contracts and giving them well-being related benefits including their families, which is not an industry standard. Hence, HF has the ability to manage salaries, which represents a 12% of its COGS, and is a key element to an efficient cost control.

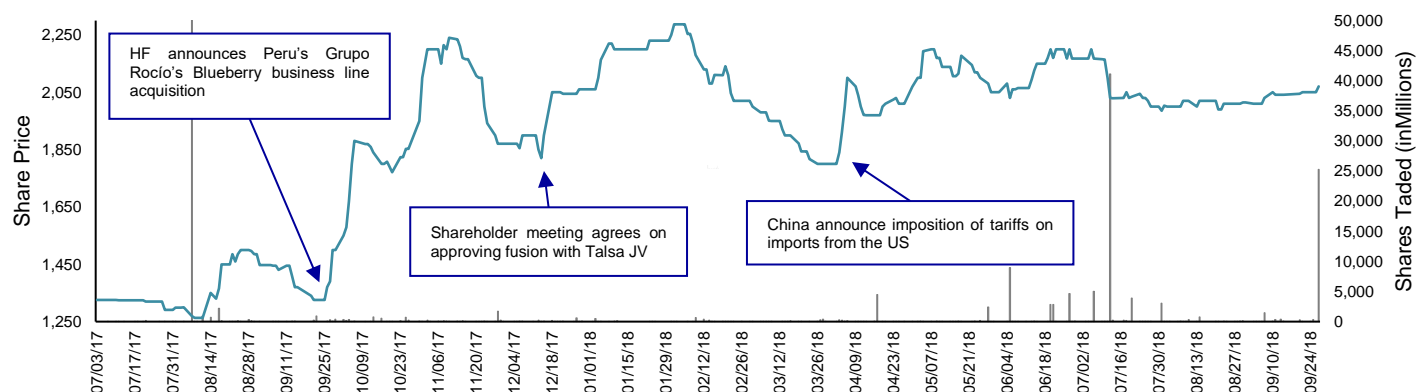
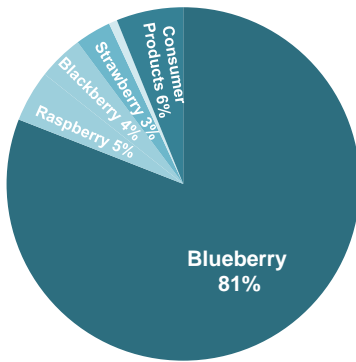
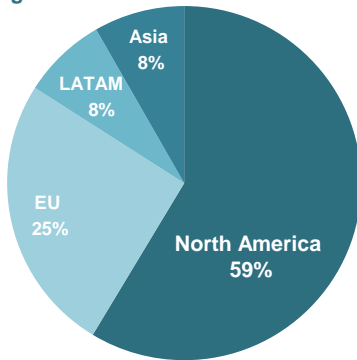


Figure 1: Revenue by Product



Source: Company Data

Figure 2: Revenue by geographical region



Source: Company Data

Figure 3: Points of Production



Source: Company Data

Figure 4: Major Alliances



Source: Company Annual Report

COMPANY OVERVIEW

HF is a global berry supplier headquartered in Chile that develops, produces and sells berries all over the world. Through selective breeding and a reliable distribution network HF delivers a product of quality in a timely fashion, which helps form and maintain solid relationships with its clients, such as Costco, Carrefour and Walmart. The Company was founded in 1980 by Víctor Moller, and it is currently present in 37 countries with over 7,000 employees and production facilities in four continents, with Chile and Peru being the largest producers. In 2017, the Company announced the acquisition of the blueberry business line of GR, one of the largest Peruvian berry producers with 1,450 blueberry productive hectares and two packaging facilities, which among HF's current 750 hectares allows it to export over 45,000 tons from Peru. During the same year, HF started operating in China with its strategic partner Joy Wing Mau (China's fruit distribution leader) exporting berries and an investment in 30 productive hectares. Together with its partners, HF is currently the top provider of blueberries and 2nd across the berry industry on a global scale, accomplishing its mission to supply "berries for the world every day", with an ambitious goal of doubling its distributed volume by 2022.⁽¹⁾

GEOGRAPHICAL AND BUSINESS SEGMENTS

The Company serves two segments: fresh fruit (94%) and consumer products (6%). The main business line of HF is blueberries, which accounts for over 80% of its revenue. Other berries, including raspberry, blackberry and strawberry, generate less than 15% of its revenue while consumer products including berry mixes and frozen fruit, account for 6% of total sales (Figure 1). NA represents the largest market of HF (59%), followed by Europe (25%). Lately, emerging markets such as China and Brazil have had a significant growth on sales and attractive investment opportunities (Figure 2).

PRODUCTS

HF supplies a wide variety of berries that can be consumed on the spot or used in a large set of recipes, mainly desserts and natural beverages. Berries are natural health enhancers due to their low calorie, high antioxidant and vitamin concentration, which contribute on cancer, diabetes and coronary heart disease prevention. Additionally, they provide collagen increase, reduced muscle pain, memory stimulation, intestinal transit acceleration and reduce arthritis pain. Thus, berries are an indispensable component in a healthy diet. Supplying the full spectrum of berries is essential to satisfy its clients base and their demands. HF has also innovated creating ready-to-eat fruit packages in snack sizes that contain portions of berries sometimes along with other berries or fruits and other times packaged with different types of nuts and cheeses, as can be seen on the Naturipe Snacks⁽²⁾. HF's fruits are genetically improved (by cross generation), resulting in a larger size, extended life post-harvest and higher quality due to its strict quality control. In 2017, HF started a subsidiary focused on agricultural innovation in order to maintain its leading position in innovation and genetics.

STRATEGY

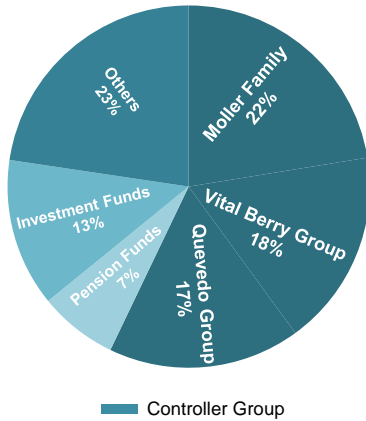
HF seeks to have a broad control over its production through a vertical integration, starting with the crops genetic to distribution. Secondly, HF can produce in all types of land given its global productive presence and, most importantly, in an efficient way, driven by strong investment in R&D and genetic development. The above allows the Company to control high volume production continuously through the year, raising the interest of large retailers (and wholesalers) in forming strategic business alliances. Through these deals, HF gains a wide set of distribution networks and market presence in relevant markets, positioning itself as a global key player and, therefore, receiving diverse, quality feedback across the globe, feeding the Company's Know How. This results in a cycle of large market control. A precise figure of the above can be found in Appendix 1.

VERTICAL INTEGRATION HF can control and re-focus its supply to a specific market at any given time, through its step by step process starting from genetics to dispatching the final product to the wholesalers and retailers. From the breeding of the very best specimens, the Company selects the most suitable crop for its terrains. After berries are harvested, HF exports them to its clients (retailers) which then supply the global consumers. HF controls both the quality and quantity of berries thanks to its high-tech genetic development, resulting in a larger distributed volume in addition to a stunning appearance, size and flavor.

DIVERSIFIED POINTS OF PRODUCTION The Company has over 700 external suppliers located in 7 countries and controls its own hectares in 9 countries, mainly in Chile, Peru, Mexico and Spain (Figure 3). Therefore, HF does not bear the same risks as other producers given its ability to produce in a wide set of places. Its geographical diversification allows the Company to satisfy its clients' demands in both hemispheres even if a specific point is going through rough weather conditions and, above all, ensures production through the whole year. Also, its diversified location helps in partially mitigating the political, operational and macroeconomic risks that may affect any specific country. In addition, besides being a risk mitigation factor, its global production allows HF to produce berries in different time-windows throughout the year as most of local producers can only supply through certain periods. In this way, HF can deliver berries to its partners in periods of time when, for other competitors, the fruit is scarce.

STRATEGIC PARTNERSHIPS HF has a strong position in relevant markets due to its long-term relationships with its strategic partners, such as Munger Brothers (US), Atlantic Blue (Spain), GR (Peru) and Joy Wing Mau (China). On the one hand, this alliance model turns into long-term contracts with wholesalers and retailers due to the 52-weeks-a-year production that HF performs, leaving every client in the world with a steady supply. Thus, for both partners and clients, HF is a key player. This last part helps the Company keep a strong position in the relevant markets offering its products with an excellent service thanks to its solid, all year-round distribution network, even in periods of low supply in which local producers can't provide local fruit (Figure 4).

Figure 5: Ownership



Source: Company Annual Report

Figure 6

Board of Directors	
Victor Moller S.	Juan Luis Alemparte
Andrés Solari	Ulises Quevedo
Andrés Carvallo	Marco Comparini
Victor Moller O.	German Novión
Maria Veronica Morales	

Source: Company Annual Report

HF has exclusive research alliances with a wide set of private institutions and universities in order to develop genetic improvement programs. Currently, HF together with Michigan Blueberry Growers, is developing the world's largest blueberry program of genetic development, Berry Blue LLC, and has already patented 10 new varieties. Additionally, HF holds strategic alliances with Royal Berries (Spain), Naturipe Berry Growers (US) and Michigan State University, among others. HF sells the patented varieties to smaller harvesters signing long-term exclusivity contracts, in which these producers pay a royalty premium for the production of the variety and can provide only to HF for a specified number of years. In this way, HF can link effectively its partnerships between research institutions and harvesters, securing higher quality berries and delegating production in the long run, especially in periods of high demand for the product.

Currently HF has over 400 clients and negotiates one-on-one orders with the largest stores in the world such as Walmart and Costco. This is particularly important, because in the US, for example, 95% of consumers buy their berries at supermarkets, giving a meaningful importance to HF's alliance with them.

CORPORATE GOVERNANCE

SHAREHOLDER STRUCTURE

The Company has 525.5 MM outstanding shares of common stock.⁽³⁾ The founder and largest shareholder are the Moller family that owns 22% of shares. There is a shareholder agreement in place between the Moller family, the Vital Berry group and the Quevedo group (GR) that jointly control 57% of outstanding shares and elects 5 of a total of 9 Board Members. The Company historically has had a 50% dividend policy (Figure 5).

CORPORATE GOVERNANCE STRUCTURE

The Board of Directors consists of 9 members eligible every three years. Víctor Moller is the founder and current Chairman of the Board with over 30 years' experience in the berries industry. He has an important role in the guidance of strategy and key financial decisions of the Company. Nicolás Moller, current corporate vice chairman, has been indispensable in expanding the brand with "Ready to Eat" products, which managed to land agreements with McDonald's and 7-Eleven.⁽⁴⁾ Since year 2016, Juan Allende has been the CEO, and previously he held the position of CCO since year 2013 (Figure 6).

Board members and executives have diverse backgrounds in Business Administration and Agricultural studies and have been involved in this industry through generations. Most of the directors have leadership positions in other companies of the fruit industry which are linked to HF. Although one of GR directors is now in HF's board, any potential cultural conflict between the recently acquired blueberry business line of GR has been ruled out. This is because their relationship started 4 years ago through the Talsa Joint Venture in Peru. Chairman and relevant executives are tied to the controller's group and Board's compensation depends on company performance which diminishes possible agency problems. (Appendix 2)

SUSTAINABILITY AND SOCIAL RESPONSIBILITY

COLLABORATORS HF operations rely on specialized labor, which means collaborators play a fundamental role in the operative performance of the Company. Thus, to ensure its adequate management, HF provides an ethical salary above the minimum required by law, as well as complementary benefits associated with their wellbeing: life, medical and dental insurance, parallel to continuously measuring the workforce satisfaction level.

ENVIRONMENTAL Farms follow international standards, including the optimization of water resources, management of harmful residuals, management of the biodiversity and adequate use of chemical products.

INDUSTRY OVERVIEW

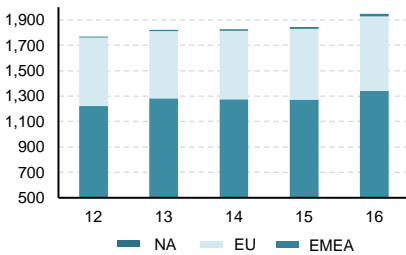
The berry industry is characterized for its narrow margins, high volumes, commodity pricing, cyclical production and perishable product. The industry has been growing slightly at CAGR of 2.5% over the last 5 years, with a worldwide market size over 1,950,000 tons, and is expected to double its actual growth, reaching a CAGR of 5.1% over the next 10 years according to Persistence Market Research, mainly due to the strong interest of emerging markets in berry consumption and healthier eating tendencies⁽⁵⁾ (Figure 7). Specifically, blueberries are having a high impact all over the world due to its low calories, high nutritional values and antioxidant properties.

The blueberry consumption has grown over the last 5 years at a CAGR of 3% in NA, a CAGR of 11% in Europe and an exceptional CAGR of 34% in emerging markets (China, Brazil and Japan, among others). For the next 10 years the expected overall CAGR is 11.8%⁽⁶⁾, which is nearly double the 6.5%⁽⁷⁾ rate for avocado as reported by Research and Markets (Figure 8). This is particularly relevant in the case of HF, given that more than 80% of its revenues consists of the sale of blueberries.

Given the berry's nature, it can only be harvested in specific periods throughout the year, establishing a cyclical industry which ends up in price windows, due to continuous demand over limited local production. Consequently, overcapacity is inevitably reached at certain points in mature markets such as NA, affecting mainly local firms; although not with the same impact on multinationals that are not able to produce constantly through the year. While this may be true, there are unexploited emerging markets, in particular, China.

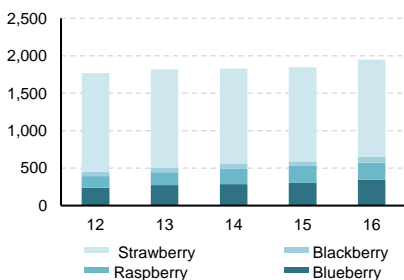
Each berry is going through a different stage of the life cycle depending on the market in which it's traded, but overall berry industry depicts moderate growth. For instance, strawberries, blackberries and blueberries are at 0.4%, 7.8% and 10.3% CAGR, respectively (Figure 9). This means new entrants could be motivated because of the positive CAGR. Now, it would be difficult for them to succeed, because the industry is driven by a low-cost strategy, which is far less approachable than a differentiation one. Minimizing costs requires a high degree of specialization in all company processes, which is hard for a new player to achieve (Appendix 8).

Figure 7: Berries Volume - Main Markets



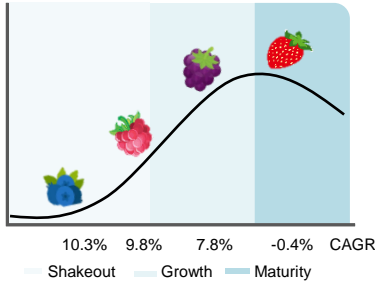
Source: US Department of Agriculture

Figure 8: Demand Composition - Main Markets



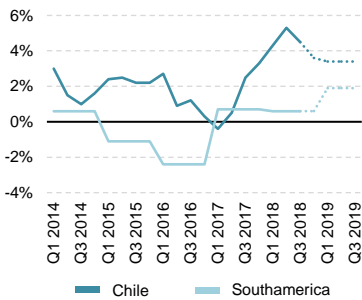
Source: US Department of Agriculture

Figure 9: Main Berries life cycle by volume



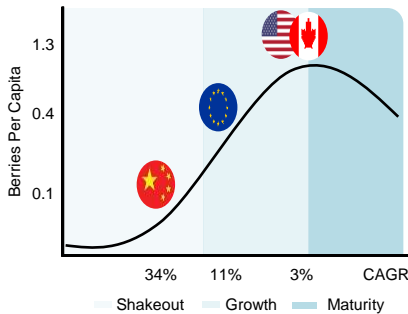
Source: US Department of Agriculture and Team Analysis

Figure 10: Historical GDP growth and Forecast



Source: International Monetary Fund

Figure 11: Market Life Cycle



Source: Company Data and Team Analysis

Figure 12: Global Clients



Source: Company Annual Report

MACROECONOMICS The world is currently being affected by a trade war, where tariffs play a key role in fruit exports. Due to the United States ("US") and China's recent political decisions, several markets have weakened. On one hand, President Donald Trump's current US administration has officially set 25% duties on \$34 MM worth of Chinese goods. On second hand, China implemented retaliatory tariffs on the US shortly after, as a response. Consequently, the US released a list of Chinese goods which would eventually be subjected to 10% tariffs, goods with an annual trade value of approximately \$200 Bn. ⁽⁸⁾ The past trade war had a profound impact on China whilst, according to the latest Fed data, the growth projections are currently rising in the US. Considering that China's economy depends almost solely on its exports, whilst US does on domestic demand, this isn't a strange result at all. ⁽⁹⁾ (Appendix 10)

Expected growth in emerging markets have weakened in the past year. The US policy rate has clearly risen but, at the same time, the well-known commercial war has reduced said growth expectancy. Furthermore, this scenario has developed in a way that favors a stronger dollar, the rise of international rates and the fall of commodity prices. On September, the MSCI World index grew by 0.5% ⁽¹⁰⁾, whilst the MSCI Emerging Markets fell by 0.5%. China's current GDP growth has exceeded market expectations by 0.2%. ⁽¹¹⁾

It is important to highlight that Chile's situation plays a key role for HF investors, due to the fact that most of its productive land is located in this country, as well as the majority of its labor force. The Chilean government has acted as financial supporter for the Company, encouraging R&D. During last year, the Chilean government aided the Company with a sum of CLP 581 MM.

Chile's Central Bank Board has revised and incremented its estimate for expected growth in the country, which would come in a context of greater economic expansion, investment growth and contained underlying investment. Under the government of President Michelle Bachelet, growth in Chile performed well below its potential. Now, under the new government of President Sebastian Piñera, growth has been gradually returning to expected potential due to pro-investment politics. The second quarter, activity grew 5.3% annually, noting an important upward surprise compared to the expected growth in June. There is an unclear scenario regarding Chile's nominal exchange rate ⁽¹²⁾. Even though Chile's Central Bank announced a rise on its current rate (from 2.5% to 2.75%) the members of the Central Bank believe this could continue to rise soon. US rate is also expected to increase in the long run, mitigating Chile's increasing rate.

The macroeconomic analysis is encouraging: GDP growth has reached and outlying 5.3%, although it is expected to drop over the next years to around 3.2% due to global trade wars. Still, this GDP is significantly higher than last years and, compared to other Latin America countries, shows a strong economic framework (Figure 10). Additionally, Chile's inflation is contained within the ranges of tolerance, wage bill has risen and holds the 35th position on the Global Competitiveness Report prepared by the Institute of Administrative Development (IMD), leading Latin America. ⁽¹³⁾

KEY MARKETS FOR HF NA is extremely important, established as its cherished destination and preeminent global consumer with a consumption of 1.3 kg of berries per capita, though marking its way to a mature stage. Europe has a respectable berry consumption rate that should not decrease soon, and HF will easily be able to satisfy the demand of the region through upcoming years. The Chinese market was the next logical step to focus on due to the characteristics of its potential consumers. Through the Joint Venture with Joy Wing Mau, HF will be able to produce berries in China and with current consumption levels of 0.1 kg per capita (Figure 11), the Company could take advantage of the shakeout stage they are currently at. HF's management expects China to approach closer to NA's consumption in the long run which, given the CAGR over the last few years, positions the country as the best growth opportunity in the industry. It can also be used as the base of operations for the rest of Asia.

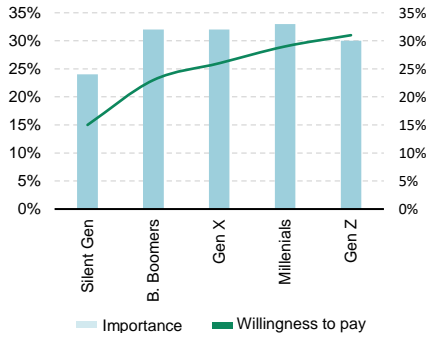
REGULATION Currently, there's a great debate about transgenic foods, which are being strongly regulated and even prohibited in some regions, such as Europe. In Chile, for instance, a law was established, which only allowed transgenic crops to be used to produce export seeds and to perform field tests. ⁽¹⁴⁾ Production was not allowed for internal consumption. In Europe there is a regulation that requires certain obligations for transgenic products such as demonstration of genetic alteration is necessary and useful, characteristics remain in time, they need identifying label that makes it clear that the product has been genetically modified, between others. ⁽¹⁵⁾ HF doesn't interfere with the seed genetics because they naturally cross different types of seeds to get purebred offspring, getting ahead of future potential regulations.

KEY DRIVERS

STRATEGIC ALLIANCES Large food service companies that hold long-term contracts (i.e. supermarket) have bigger costs involving supplier change because it may involve having to re-negotiate and losing key alliances. Most of them are unable to offer berries during the whole year unless they deal with multinationals. These clients (Figure 12) are price givers and have a high bargaining power, yet in between harvest seasons these faculties shorten, opening the way for counter seasonal multinationals to take advantage of the inevitable price increment as global supply weakens. Additionally, the desire to have berries available in stock throughout the year limits the negotiating levels previously mentioned, due to the limited number of large exporting companies that can provide for the whole period. The above implies that multinational berry producing companies can partner up through fair deals with key clients to gain access in the relevant markets, where companies get the best out of each other, providing superior berries through better networks.

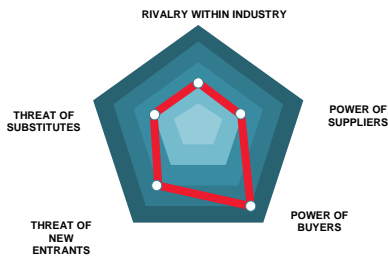
Another strategic alliance that must be considered is the relationship between the harvesting companies and universities or other research facilities that attempt to create improved varieties of berries through cross-breeding.

Figure 13: Global Healthy Eating Tendencies



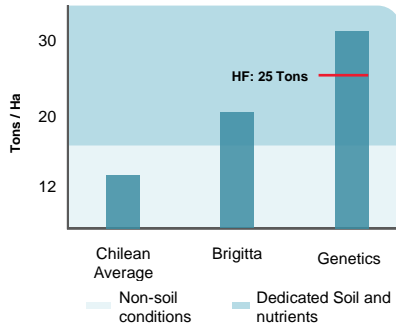
Source: Nielsen

Figure 14: Porter five forces



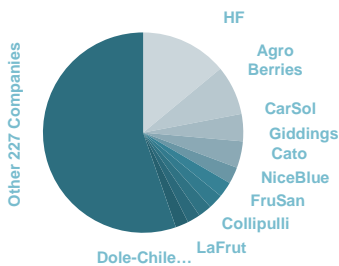
Source: Team Estimates

Figure 15: Genetics impact on Yield by hectare



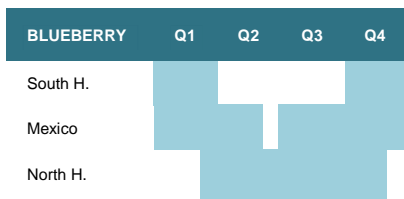
Source: Chilean agricultural research institute (INIA)

Figure 16: Chilean Blueberry Exports Market Share



Source: Asoex & SAC

Figure 17: HF Blueberry Production



Source: Company Annual Report

Even largely integrated companies require allying with smaller producers in order to expand its distributed volume by decentralizing its operations and delegating production to others.

Distribution chains are another important factor to consider in case the company is not vertically integrated. Berries are a product that rots quickly, so the time between harvest and delivery to the supermarket in the other side of the world or country should be even faster. Companies must ally with reliable distributing companies or, otherwise, key food stores will stop working with them.

POINTS OF PRODUCTION Due to the cyclicity and unpredictable climate changes, points of production are one of the key drivers in order to be able to supply throughout the entire year. Although the vast majority of suppliers are young local companies (with a narrow market share), these only provide berries in specific periods of time, and only to small markets due to their lack of international diversification. On the other hand, big players such as HF can take advantage of cyclicity and ally with bigger clients by producing in both hemispheres

HEALTHY EATING TENDENCIES Berries are highly nutritious, especially blueberries, which are scientifically proven to reduce the risk of coronary heart diseases and are rich in vitamins, fiber and antioxidants. According to Nielsen (as of January 2015), 75% of people rely on a healthier diet and 50% is at least slightly willing to pay more for it to keep in shape, which is highly consistent with the CAGR that blueberry consumption over the past years has had. More importantly, over 30% of Generation Z and Millennials believe that healthy attributes are “very important” and are more willing to pay premium than older generations (Figure 13). This is particularly important, given the fact that these are the upcoming customers and seem to be in line with the expected growth of the industry.

RELATIONSHIP WITH EMPLOYEES Industry performance is highly driven by its workforce dependence due to the delicacy of the fruit. During peak harvest seasons, labor is scarce given the high levels of production and, therefore, proper handling is fundamental for the operational health of a firm. HF reinforces these relations by granting equivalent Company benefits to permanent and temporary workers by hiring them with contracts. In such manner, HF ensures good labor availability given its great working conditions and benefits.

COMPETITIVE POSITIONING

HF is worldwide leader in blueberry sales and second overall among the whole berry industry, which accounts for USD 314.65 MM and 388.75 MM annual sales in 2017 respectively for the Company. The industry is characterized by a soft rivalry among competitors in the larger segment, given its concentration of most of the market share among few companies and the remaining fraction in a large group of smaller ones (Appendix 9).

Although there aren't big entry barriers, success barriers are very high within the industry due to the significant CAPEX and R&D investment required in order to properly succeed. This ends up in a weak competitive rivalry among multinational exporting companies, since the clear majority of companies that make up the industry aren't large enough. HF leads market share broadly among Chilean exporters due to its pure play business model encompassing better quality and productivity (Figure 14).

THE RIGHT CROP IN THE RIGHT SPOT HF's genetic development allows the firm to produce higher volumes than competitors by harvesting the correct variety on the adequate ground, mitigating specific soil and weather discrepancies (Figure 15). Every ground has different qualities and characteristics, requiring different varieties depending on the location and therefore producing at different rates and volumes. Given the above, HF develops different berry varieties in both hemispheres and selects the ideal crop in order to increase its land productivity, allowing it to supply continuously through the 52 weeks of the year in high volumes (Figure 17)

LEADER OF THE PACK HF took 14% of the total Chilean exportations in the blueberry market among local exporters over the last harvest season (as of March 2018), surpassing by almost two times its biggest local competitor and over three times the one after it (Figure 16). Main local exporting competitors, such as Agro-Berries, CarSol and Giddings are private companies. Moreover, Chile, dominated by HF, leads the worldwide blueberry exports according to Gestión, with 24% of the total amount exported in the world, surpassing Spain (13%), Peru (12%) and US (10%), countries in which HF is already operating together with leading companies.

BERRY ORIGINAL & POCKET-FRIENDLY HF strives to constantly improve its fruit quality through its genetic development in order to charm its clients steadily with better varieties. The genetic procedure ends up with larger, juicier and better-looking berries, which attract higher caliber clients who provide outstanding distribution networks. As a result, HF is able to establish strategic alliances with the best clients in the world and provide fresh berries to over 35 countries every day of the year. Additionally, we must emphasize on the fact that bigger fruits mean lower amounts per kg, making production more efficient and lowering costs per kg, which goes in line with a low-cost strategy as management expects.

KNOW-HOW Thanks to their Strategic alliances, HF can receive high quality feedback after each process. Together with producers and suppliers, whose objective is to develop a more competitive market based on co-creation, they have created “Agroid”, a real time system for the control of harvest, and “Blueyes”, an automatic machine for quality control in Blueberries.

Technical expertise is fundamental for competitive advantage, allowing better production, high quality control and a higher level of confidence from future investors. Such consequences are logical due to the core business knowledge from experts. Moreover, the Board of Directors and the high command have a vast experience in the

Figure 18

Valuation – In CLP		
DCF	80%	2,485
Trading Multiples	15%	2,020
Transactions	5%	1,472
Target Price	CLP	2,378

Source: Team Estimates

agricultural world. The Moller family has worked for generations in the agricultural world. All Victor Moller's sons work in the Company, 2 out of 9 of its Directors studied agriculture and Juan Ignacio Allende, the CEO, is also an agricultural engineer.

VALUATION

Our valuation implies a CLP 2,378 target price, driven by 80% weight of our DCF (Free Cash Flow to the Firm), a 15% weight EV/EBITDA trading multiple analysis and 5% weight of the Precedent Transaction approach (Figure 18). The 80% weight assigned to DCF was based on the flexibility to incorporate GR blueberry business and the underlying financial relationships of fresh fruit business with respect to growth and cash flow generation. Market valuations have lower weights due to a scarce amount of comparable public companies to HF. Each method has a price range derived from sensitivity analysis on WACC and terminal growth in case of DCF and due to median / average multiple in market valuation (Figure 19). It is important to note that HF functional currency is USD, but the shares are traded in CLP. Therefore, we worked in a USD model and later adjusted the price of the shares to CLP by the current exchange rate.

5-Yr DCF MODEL

Discounted Free Cash Flow to the Firm valuation model was selected since it allows to have better control over the valuation parameters and forecast based on hectares, land age and technology; assimilating HF vertical integration, genetic development and GR blueberry business acquisition. This method consists of a two-stage growth model. The first phase is based on a specific year-to-year forecast up to 2022, and the second phase of constant growth of 2% (US inflation rate). Based on our DCF analysis, the estimated price is CLP 2,485. (Figure 20 & Appendix 3)

We formulated our base case scenario using historical operating data, industry outlook and Company strategy. The model considers hectare productivity according to land age and technology involved. We took this approach because it allowed us to make a granular financial forecast of the core business, clearly modelling the impact of genetics, Joint Ventures and projects (M&A and China).

The accuracy of the implied enterprise value for the Company is dependent on the following modelling inputs:

WEIGHTED AVERAGE COST OF CAPITAL

It was computed using dollars since the Company's functional currency is the USD and NA is its most relevant market. Also 85% of the Company's outstanding debt is dollar denominated. We used Chile's corporate tax rate since HF consolidates its operations in this country. We derived a WACC rate of 9.3% (Figure 21 & Appendix 4)

The cost of equity was calculated using the modified Capital Asset Pricing Model adjusted to compensate for with size, country and Company specific risks. We selected the 10-year US Treasury bond rate as the risk-free rate, 3.2%.

We used public comparable companies peer sets with similar business models to calculate the median unlevered beta and re-levered it using the median capital structure of the peer group to conclude with a 0.57 re-levered beta. Book value of net debt was used as proxy of debt market value to unlevered betas. We used peer-group betas and an optimal capital structure. The expected market return premium was set at to be 5.1% using Damodaran⁽¹⁶⁾ as a source and S&P500. We included a country risk premium for Chile of 0.7% (spread on sovereign bond adjusted by volatility) and a company specific risk of 2.5% since fresh fruit is a perishable biological product and a size premium of 0.6% based on the Company's market capitalization and the Duff and Phelps analysis. The calculated cost of equity was 9.9% expressed in dollars.

The cost of debt was calculated using the US BBB- Corporate bond yield of 4.6% as a departure point.⁽¹⁷⁾ The bond rating was selected due to HF A+ local credit rating by ICR (International Credit Rating)⁽¹⁸⁾, converted to the international scale using the Chilean sovereign ceiling A. We included an adjusted default premium to Chilean companies that issue debt in USD of 0.7%. We used the Chilean corporate tax rate and arrived at an after-tax cost of debt of 3.8% also expressed in dollar terms. Finally, the weights of after-tax cost of debt and cost of equity were 12% and 88% respectively to conclude on a 9.3% WACC.

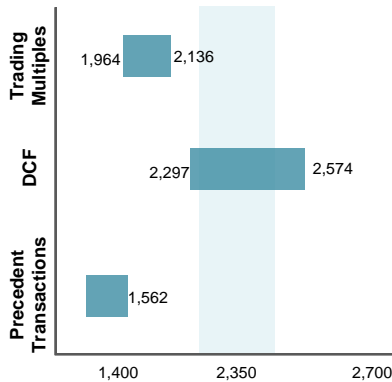
REVENUE GROWTH AND EBITDA

To calculate Revenue Growth, we decided to explore the following cases separately, hectares acquired from GR, new projects, associated companies (we adjusted JV by ownership) and productive hectares owned by HF that do not fall in any of the mentioned categories. Each one of these components has its own productive hectares and a specific age associated to them.

The volume distributed was calculated on a productivity scheme of tons per hectare by age of land (reaching maximum production at year 7), based on the Chilean industry mean. The price was estimated as the average reported by the company, which grew at the inflation rate. Therefore, the volume produced could grow significantly over time only by the maturity of existing hectares. We considered a 1.5-year planting period where the acquired land doesn't produce. The productive scheme considers different yields according to the technology involved, which is required depending on the conditions of the land, the climatic risk and the purposes of genetic implementation (Figure 22).

The EBITDA was computed as volume times mean EBITDA USD per tons of HF and GR. The latter metric was calculated using historical data. We note that the base case revenue, volume and EBITDA forecasts are in-line with blueberry CAGR (adjusted by market share) and management's most recent business goals.

Figure 19: Stock Price: CLP 2,378



Source: Team Estimates

Figure 20

DCF Summary – \$ in Million	
Implied Enterprise Value	\$2,099
Less: Net Debt	\$187
Implied Equity Value	\$1,912
Share Price CLP	CLP 2,485

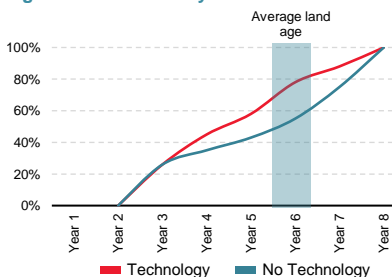
Source: Team Estimates

Figure 21

WACC	
Cost of Equity	
Treasury Bond 10 years	3.2%
Equity Risk Premium	5.1%
Beta (Peers)	0.57
CAPM	6.1%
Country Risk Premium	0.7%
Size Premium	0.6%
Company Specific Risk	2.5%
Cost of Equity	9.9%
Cost of Debt	
US Corporate Bond BBB-	4.6%
Adjusted Default Premium	0.7%
Corporate Tax Rate (Chile)	27%
After Tax Cost of Debt	3.8%
WACC	9.3%
Net Debt to EV (Peers)	12%
WACC	9.3%

Source: Team Estimates

Figure 22: Productivity Scheme



Source: HF's IPO & Team Estimates

Figure 23

Terminal Value Assumptions			
Country	Inflation Target	Revenue	Weighted Inflation
USA	2%	59%	1.2%
EU	2%	25%	0.5%
LATAM	3%	8%	0.3%
China	3%	8%	0.3%
Long Term Growth			2.2%

Source: IMF, China Bank, FED & Company Data

Figure 24

Trading Multiples Valuation	
Proforma LTM 18 EBITDA	\$138
EV / EBITDA Multiple	12.6x
Share Price CLP	CLP 2,020

Source: Team Estimates

Figure 25

Precedent Transaction Valuation	
Proforma LTM 18 EBITDA	\$138
Transaction Multiple	9.6x
Share Price CLP	CLP 1,472

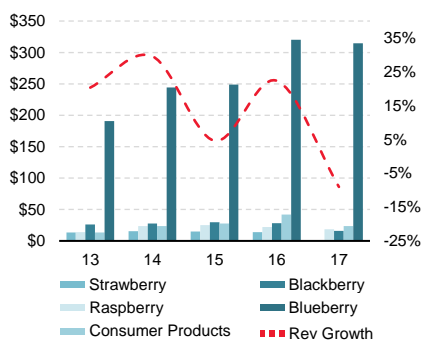
Source: Team Estimates

Figure 26

Precedent Transactions		
Date	Rocio	Dole S. A
Cash	\$340	\$450
Shares	100%	49%
Net Debt	\$77	\$1,287
Implied EV	\$1,825	\$1,626
LTM EBITDA	\$46	\$216
Trans. Multiple	9.1x	10.1x

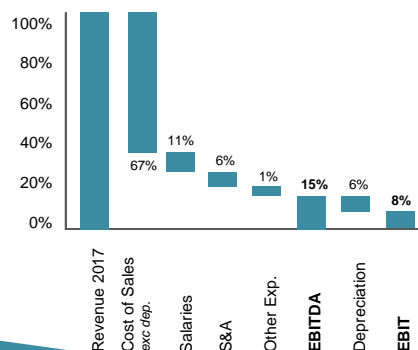
Source: HF's and Total produce data

Figure 27: Revenue Mix



Source: Company Data

Figure 28: Cost Bridge (as % of Sales)



Source: Thomson Reuters

CAPEX

The financial model projects CAPEX in three ways: acquisition of new hectares without technology, acquisition of new hectares with technology, and applying genetics to old hectares. Cost per hectare was calculated with historical CAPEX investments in different lands. The technology cost is the difference between mean CAPEX of lower cost projects and the latest China projects, that required technology due to land conditions.

TERMINAL GROWTH

Terminal growth rate was computed as the inflation target on relevant markets weighted by HF current geographically revenue composition, resulting in a 2.2% inflation rate. Nevertheless, we use 2% USA inflation target as a more conservative approach, since we are working with nominal USD in our model. ⁽¹⁹⁾ Sensitivity range for growth was based on 1.0% to 4.0%, which includes weighted inflation rate, real GDP, nominal GDP and risk-free rate, since each of these could be used as terminal growth rate (Figure 23).

TRADING MULTIPLES

We identified EV to LTM EBITDA as the most appropriated multiple to compare HF to its peers, resulting on a CLP 2,020 share price using a 12.6x adjusted average which has a 15% weight on our target price. We use EV/EBITDA mainly because HF earning was influenced by recent loan to acquire GR. Also, peers operate in different countries and tax regimes. Peers are scarce in berry industry, since companies are mainly private and small farms. Therefore, we selected peers by same subindustry (agricultural foods) and similar business model. Thus, peers are fresh fruit integrated companies that have slightly broader portfolios, including avocados and tangerine, among others, which have similar industry drives. (Figure 24 & Appendix 5).

HF's current EV to EBITDA of 32.5x is not correctly computed. HF's enterprise value considers the acquisition, but EBITDA doesn't. Therefore, we adjusted by Proforma LTM EBITDA which considers HF and GR stand alone, resulting in a 14.8x, which is slightly higher than peers' median of 13.3x. We use adjusted average of 12.6x to our case base, since it controls by outliers in small samples, arriving at the CLP 2,020. Trading multiple valuation range used peers median and average, arriving at a 12.3x to 13.3x range.

PRECEDENT TRANSACTION MULTIPLES

We use implied EV to LTM EBITDA paid in acquisition of fresh fruit companies to deliver a CLP \$1,472 share price with an average multiple of 9.6x which has 5% weight on our target price (Figure 25). We analyzed the last two acquisitions of the industry, Dole Food Company acquired by Total Produce in 2018 in three purchases and the acquisition of GR blueberry business line by HF (Figure 26 & Appendix 6). Dole is a vertically integrated company and one of the largest pineapples and bananas producers. It is important to take notice that it doesn't have berries in its portfolio. Additionally, Dole had over 10 exports recall by bacteria, such as Salmonella and Listeria, indicating poor quality control. Moreover, Dole was sued by its harvesters several times due to illegal pesticide usage and migratory issues, revealing a bad labor management. Therefore, we believe that Dole has a different business model not comparable with HF's. ⁽²⁰⁾

On the other hand, GR's blueberry acquisition should be used as a comparable company because of the business line and the similar vision shared between it and HF, as seen on their Joint Ventures. GR has lower multiples than the peers reported earlier. An explanation for this could be that the peer group and HF use a low cost and high-volume approach, but GR has higher margins with a lower volume. Thus, HF's berries knowhow is critical to GR's growth, resulting in a lower acquisition price. It's possible that HF improves yield per hectare with technology and exploits its distribution network, which GR could not stand alone. We consider GR was acquired on discount due to critical HF's knowhow regarding growth. As such, we decided to establish its weight as the lowest in our valuation.

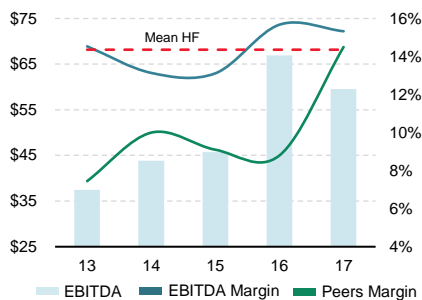
FINANCIAL ANALYSIS

REVENUE STRUCTURE In 2017, HF had total revenues of \$388 MM, and over 80% of it was generated by blueberry sales, which increased its stake in revenue through the years. Therefore, the Company is highly concentrated on blueberry sales, being the key account to inspect. This concentration is natural because blueberry industry is arguably in an embryonic stage and it's a market where HF could exploit its know-how to take advantage of 13.3% CAGR growth between 2013-2017, which outperformed HF total revenue 10.8% CAGR and peers 4% CAGR at same period. It's important to notice that HF last year's growth rate (-9%) is an outlier due to climatic conditions that accelerated the harvest, transferring produce that was expected in 16Q4 to 17Q1. We must notice that revenue growth depends on yield per hectare, which improves along with land age, generating more volume and revenue without CAPEX associated (Figure 27).

COST STRUCTURE HF's main costs are salaries, which represented 12% of its total cost (equivalent to 11% of sales). This indicates that temporary harvesters labor cost is one of the most important factors to be successful in a low-cost strategy. Labor cost relevance gravitates in required specialized workforce as automatized harvest isn't feasible. We believe that HF's outstanding relationship with collaborators' policy, improves its ability to control costs, even if it offers salaries well above the minimum wage because this ensures a long-term relation and stable costs (Figure 28)

We noticed total cost of goods sold (including depreciation) was 84% of revenue in 2017, implying a gross margin of 16%, lower than peers' median of 22%, resulting in lower profitability that might be explained by the fruit bought from its subsidiaries (approximately only one third of distributed volume is produced by HF) which is reflected in cost, but its revenue is included before EBITDA. We believe that the cost of the fruit bought will be reduced after GR acquisition, since Peruvian fruit produced by Talsa will be consolidated to HF and will not need to be

Figure 29 EBITDA Margin



Source: Thomson Reuters

purchased. Additionally, competitors sell other fruits with higher prices such as avocados. HF's lower gross margin conclusion remains even adjusting competitors by their blueberry business lines. COGS and S&A have been on average an 84% and 6% in the last five years. This is a signal of the competitive cost structures of HF, which keep constant margins is key in commodities behavior market.

EBITDA MARGIN was 15% between 2013 – 2017, being stable and higher than its peers average of 6% for five years which is mainly because HF sells in both periods when demand is satisfied with internal supply and when they need to export them from producing countries. Consequently, HF has a lower gross margin but higher EBITDA margin, indicating that S&A expenses are lower. This is possible because strategic partners oversee the advertising of the berries and the solid distribution networks among supermarkets, that bring berries closer to the final customer, absorbing distribution costs without HF requiring to incur on additional resources. Hence, it's important to be preferred by clients, which can be achieved by higher quality fruits, since they have a high bargaining power due to their impact in companies cost structure (Figure 29).

The price cyclicity is observed in the quarterly revenue of HF, which is higher in periods of scarce US imports. Hence Q1 and Q4 improves EBITDA margin exploiting the seasonal pattern of the industry by long term contracts and control of supply. HF EBITDA CAGR of 15% over last five years is higher than the 11% of the competitors. We believe that this growth is driven by pure-play berry business and blueberry specialization, since it has an impressive industry 10.3% CAGR and an expected 11.8% CAGR for next ten years (Figure 30).

Another relevant measure in this industry is EBITDA expressed in dollars per kg, which is a more precise indicator of operational margins. This ratio increased from \$1.1 to \$1.3 per kg from 2013 – 2017. This could be explained by a higher price due to improved quality fruit and organic blueberry. Nevertheless, HF EBITDA per kg is extremely inferior in comparison to GR, which reaches 4.3 on LTM basis. We conclude that volume is a key factor. For instance, HF distributed 4x GR volume in 2017, but HF only has approximately 2x of GR productive lands. This is a signal that HF's genetics program has 2 effects: (i) higher yield per hectare or increased size of berries and (ii) an improved quality of fruit. As we established before, better quality grants slightly higher prices and better margins, since highest quality fruit is preferred by largest clients which, at the same time, grants a good distribution network and lower S&A. Quality also provides an extended life after harvest which reduces the cost of perishable biological assets. Larger fruits increase yield per hectare, implies higher costs driven by technology and can be associated with higher CAPEX and specialized workforce. Conclusively, a low-cost strategy that maximizes volume and grants a higher quality fruit and enables a strategic alliance seems to be the appropriated one, due to reduces S&A costs, a slightly higher price and greater volume to exploit the strong distribution networks of partners (Figure 31).

DU PONT ANALYSIS Last year, ROE was equal to peers, at a 11% (Figure 32). Nevertheless, fundamentals are different now. In HF's case, the main drivers were Net Profit and leverage (measured by Asset to Equity) which surpass peers average reaching 7% and 2.4% respectively. This indicates that HF generates more value in cost control strategy, thus its final income line is greater than competitors, as same as EBITDA and EBIT margin. This is consistent with previous analysis.

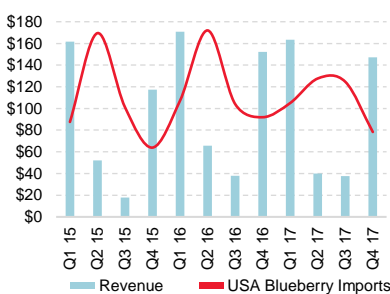
In last five years Asset Turnover is lower than peers average. This indicates that the Company sells less for every dollar of its assets, but the lower turnover is driven by intensive CAPEX in order to exploit new markets. It is important to remember that hectares start producing after one year of being planted, newer assets will produce bigger cash flows as age of land increases without needing to invest in more CAPEX. HF has an aggressive CAPEX, reflected in its CAPEX to Sales rate of 15%, which is five times greater than the 3% its competitors have. In addition, we take notice that the lowest CAPEX to Sales rate of the last five years was 5%, which was higher than the highest peers' ratio of 4% during that same period of time. The higher leverage is also explained due to this intensive CAPEX program, which requires financing new projects. Additionally, the company issued a bridge loan to acquire GR, which increased its debt next to its maximum covenants' levels (Figure 33).

SOLVENCY & LIQUIDITY HF has a 3.4 Altman Z score in 2017, which indicates a strong financial health and low probability of filing for bankruptcy, same conclusion of March 2018 A+ local credit rating (Appendix 7). Nevertheless, during this year the Company issued a bridge loan to acquire GR, exceeding current Net debt to EBITDA covenant of 4 at June, but this situation was exceptional and negotiated with debtholders. We notice an increase in long term debt relative to short term debt goes in line with longer maturity of assets, providing a natural hedge. In contrast, HF cash conversion cycle of 100 days is worse than its competitors cash conversion cycle of 72. This is explained by higher receivables days in comparison to its peers, reaching 87 days. It is important to mention that HF has solid counterparties as global supermarkets which usually extend their payments for as long as possible (Figure 34).

MONTECARLO SIMULATION We executed a Monte Carlo Simulation to understand the sensitivity of our model to variations in our adopted assumptions. For this, we tested key variables for the model, such as yield per hectare, EBITDA / kg, blueberry demand growth and increases in labor cost. Besides that, we considered the possibility of movements in interest rates, long-term growth and foreign exchange rates. We ran 1,000,000 simulations considering feasible variations on these factors. Based on this, we conclude that 63.5% of the simulations are above the current market price. There is an 8.3% probability that our recommendation would be downgraded change to a Sell.

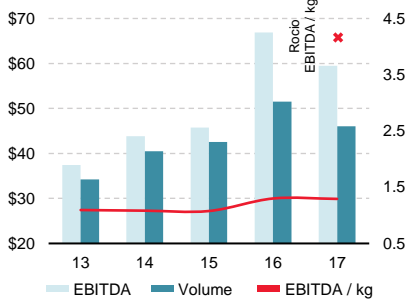
After this simulation, we concluded that the most sensitive variable in our model is yield per hectare, which could be affected by natural risks, such as climate and plagues, or increased by genetics. Hence, HF's diversified points of production is key for mitigate weather risk operating in multiples countries. Also, genetics and monitoring the

Figure 30: Seasonal Revenue



Source: Company Data & USDA

Figure 31 EBITDA \$ / kg



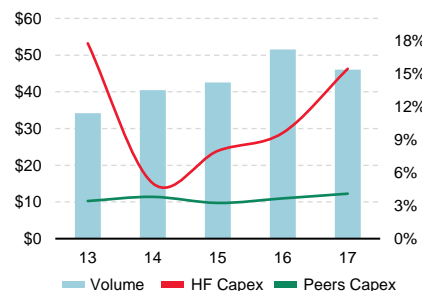
Source: Company Data & USDA

Figure 32 EBITDA \$ / kg

ROE Decomposition			
	2016	2017	Peers
Net Profit Margin	7%	7%	5%
Asset Turnover	0.8	0.7	1.3
ROA	6%	5%	7%
Asset/Equity	2.4	2.4	1.62
ROE	14%	11%	11%

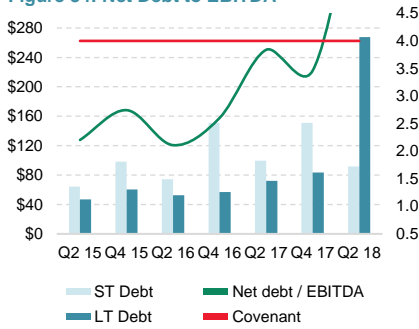
Source: Thomson Reuters

Figure 33: CAPEX to Sales



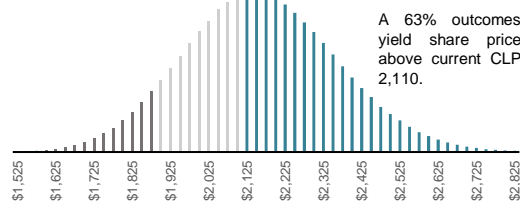
Source: Thomson Reuters

Figure 34: Net Debt to EBITDA



Source: Thomson Reuters

crops is necessary to ensure fruit quality and an improved yield per hectare by larger fruit size and plague control, respectively



SENSITIVITY ANALYSIS

We analyzed the sensitivity of the model in respect to two fundamental pillars. First, the WACC, which includes any change in the level of leverage of the company, corporate taxes, the expected return of equity and any change in macroeconomics factors that could change the risk-free rate. At the same time, the long-term growth rate is one of the most influential factors when valuing future cash flows of the company. Any drastic changes in any of both rates modify the target price of the company. Specifically, with our current 2% of long-term growth rate it is necessary that the WACC increases to 9.9% to change our decision to HOLD, if it goes up to 11.2%, our recommendation changes to SELL. On the other hand, with our current WACC of 9.3%, if the long-term growth rate falls to 1.6% our recommendation changes to HOLD. Given the cash flows of the Company, the only way our recommendation could change to SELL would be if the growth is negative, (-0.4%), which is extremely unlikely. Moreover, our long-term growth rate (US inflation target of 2%) is extremely conservative against what it would be if we used the real GDP of the countries where they operate (2.6%) or even their inflation targets.

INVESTMENT RISK

MARKET RISK

M1: DETERIORATION OF THE EUROPEAN AND NORTH AMERICAN ECONOMIES (IMPACT: HIGH / PROBABILITY: LOW)

The most important markets of HF are NA and Europe, which have 74% of the total sales. A deterioration in one or both economies would cause a sharp drop in the demand for HF products. We consider this has a low chance of happening because NA's and European markets are characterized as growing economies with adequate macroeconomic policies. To mitigate this risk, HF has been expanding their targeted markets and diversifying their clients.

M2: CHANGES IN THE ECONOMIC SITUATION OF KEY EMERGING MARKETS (IMPACT: LOW / PROBABILITY: MEDIUM)

The current GDP Growth Rate of China is 1.8%, and the number is expected to decline mainly due to the increasing economic tensions between them and the US. HF's expansion project is focused mainly on the Chinese market, but we believe that they could successfully shift their target to other countries in the region if the sales fall significantly thanks to the ties they have with their key clients. HF also has presence in other key emerging markets such as Brazil, Singapore and Japan.

M3: SUPPLY INCREASES SIGNIFICANTLY (IMPACT: MEDIUM / PROBABILITY: MEDIUM)

At certain times of the year, an oversupply of berries can be generated because of an increase in hectares produced and favorable climatic conditions for the cultivation of berries. This leads to lower prices of the berries in the destination countries, affecting the profitability of the industry. To mitigate this risk, HF has long-term contracts with their clients and is focusing on countries where there isn't much supply of berries along with a growing demand.

OPERATIONAL RISK

O1: INCREASE IN GENETIC DEVELOPMENT FROM COMPETITORS (IMPACT: MEDIUM / PROBABILITY: HIGH)

The lack of variety within crops may have a negative downside effect in HF's margins and revenues, considering it is an opportunity for new competitors to produce new varieties of berries. To mitigate this risk, the Company has several genetic development programs and strategic alliances throughout the world with prestigious universities and societies within the industry, guaranteeing them exclusive access to a huge range of bushes and varieties.

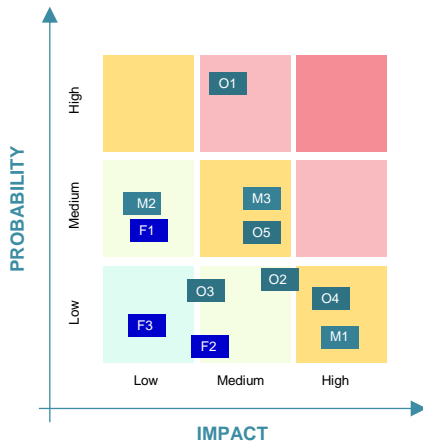
O2: DISEASES AND PLAGUES RISK (IMPACT: MEDIUM / PROBABILITY: LOW)

Through a good control in the monitoring of the crops, HF can detect these risks in an early stage enabling them to eradicate the problem before it expands all over the location. Quarantine has occurred before due to the detection of a certain kind of moth in Chile, but it can be solved by fumigating the fruit on arrival and in a mid-term, working with the authorities on preventive measures ending up on the lift of the quarantine. Other solutions have involved sending the fruit to markets with different phytosanitary restrictions.

O3: WEATHER RISK (IMPACT: MEDIUM / PROBABILITY: LOW)

The climate is an external factor that is hard to control, and which influences the quality and the volume of fruit available to be sold. HF mitigates this risk diversifying geographically, which is the main reason they create societies and subsidiaries all over the countries in which they operate, investing in deep wells to extract water and infrastructures to protect the berries in case of extreme rain, frost, hails and droughts.

Figure 35: Risk Matrix



Source: Team Estimates

Figure 36

Market Risk	Mitigating Factor
Established Economies	Diversify markets and clients
Emerging Markets	Increasing presence in several emerging markets
Supply Increases	Long term contracts

Source: Team Assessments & Company Data

Figure 37

Operational Risk	Mitigating Factor
Increase in Genetic Competitors	Continue innovating
Diseases and plagues	Genetics
Weather Risk	Diversified production
Recall Risk	Quality control
Cost of Labor	Close relationships

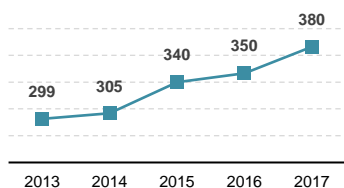
Source: Team Assessments & Company Data

Figure 38

Financial Risk	Mitigating Factor
Interest Rate	Issue more long-term debt
Exchange Rate Risk	Financial Derivatives
Liquidity and Credit Risk	Monitor Debt

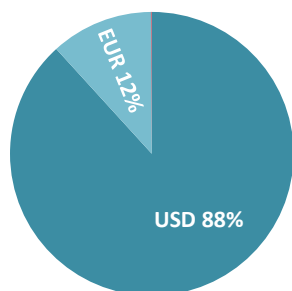
Source: Team Assessments & Company Data

Figure 39: Chile Median Salary (CLP M)



Source: INE

Figure 40: Debt by Currency



Source: Company Data

O4: RECALL RISK (IMPACT: HIGH / PROBABILITY: LOW)

Every crop has the chance of not meeting the required quality or sanitary standards, and, as a result, being withdrawn from the market. Although HF has never faced such scenario, this is not guaranteed in the long term.

They mitigate the impact of a hypothetical recall with its vertical integration by applying high-tech quality control throughout the production process.

O5: COST OF LABOUR (IMPACT: MEDIUM / PROBABILITY: MEDIUM)

As education levels rise, employees' expectations increase, demanding better salaries and working conditions. In Chile, median salary has increased at a 6.2% CAGR from 2013 to 2017 (Figure X). At the end of 2017, permanent and temporary workers remunerations represented a 12% of total COGS for HF, which suggests that higher salary levels would have a high impact on its EBITDAR. Management understands any conflict with them would have great consequences on the Company's operations. To mitigate this risk, HF invests heavily in maintaining good relationships with both their full time and temporary workers and thanks to the exceptional treatment they receive, they are more likely to return the next time their service is required. According to a survey carried out by Target-DDI in 2017, 95.7% of the employees affirmed to be proud of working at HF and 97.83% declared to be proud of their work (Figure 39).

FINANCIAL RISK

F1: INTEREST RATE (IMPACT: LOW / PROBABILITY: MEDIUM)

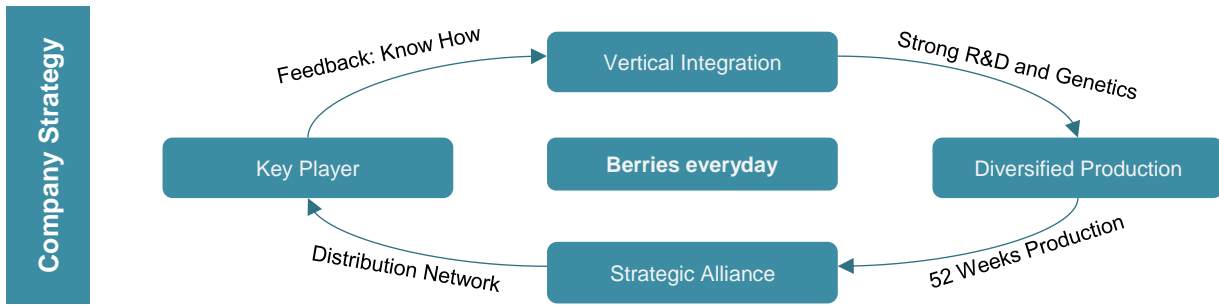
HF has long-term debts linked to long-term fixed-rate investments. It also has short-term debts and, even though they are at fixed rates too, they are exposed to the variation of the current market rate in case of renewal or plans to acquire more debt. HF can mitigate this risk by issuing more long-term debt at a fixed rate.

F2: EXCHANGE RATE RISK (IMPACT: MEDIUM / PROBABILITY: LOW)

HF is exposed to the risk of variations in the exchange rate of the USD versus the currencies of Chile, Mexico, the Company uses derivatives and forwards to mitigate the risk of costs and exposure to price variations, respectively. As the Company reported, the potential effect of a 10% devaluation of the USD against all the other currencies relevant to HF would have reduced the net debt of the Company in approximately \$769 M last year, since over 80% of its debt is denominated in dollars (Figure 40).

F3: LIQUIDITY & CREDIT RISK (IMPACT: LOW / PROBABILITY: LOW)

HF currently has a debt of \$ 222 MM, with over 10 different banks mainly in Chile with their largest obligations owed to 2 Chilean banks: \$ 58 MM to BCI and \$ 33 MM to Banco Santander Chile. To mitigate this risk, HF makes an appropriate distribution, extension of terms and limitation of their amount of debt, while also constantly monitoring the amount of debt their subsidiaries have. With how solid the financial positions of their main clients are, the risk of non-payment is insignificant. HF has a credit risk rating of A+ locally and a credit risk rating of BBB-internationally, according to our transformation method of using the rating of a company with the same credit risk rating in Chile with an issued credit risk rating outside the country. This shows us that the Company has a strong financial position and can answer their financial commitments in a medium term.



1.1

Strong Research and Development

- 18% of HF's EBITDA comes from innovation projects, which mainly consist in genetics and technological solutions.
- Along with Michigan State University through Berry Blue LLC Program, HF was able to create 10 new blueberry varieties.
- Research and innovation have been further improved partially thanks to a CLP 581 MM state funding.



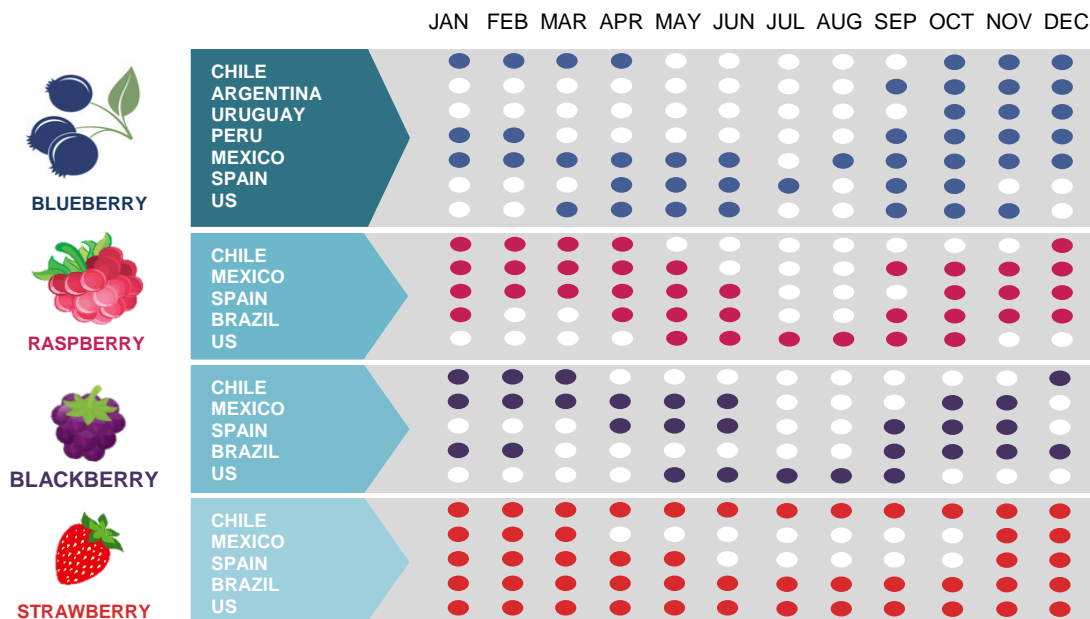
- Thanks to genetics, last year HF was able to create the new varieties Madeleine (Blackberry), 1381 (Raspberry) and Kestrel (Blueberry) in Mexico.
- Own genetic improvement program in blueberries and blackberries called Berry Blue LLC, is now the largest blueberry breeding program in the world.
- Since 2013, HF has the license of the new "Bird" varieties from the University of Florida for Mexico, Peru and Chile, further expanding the varietal offer for early harvesting zones.

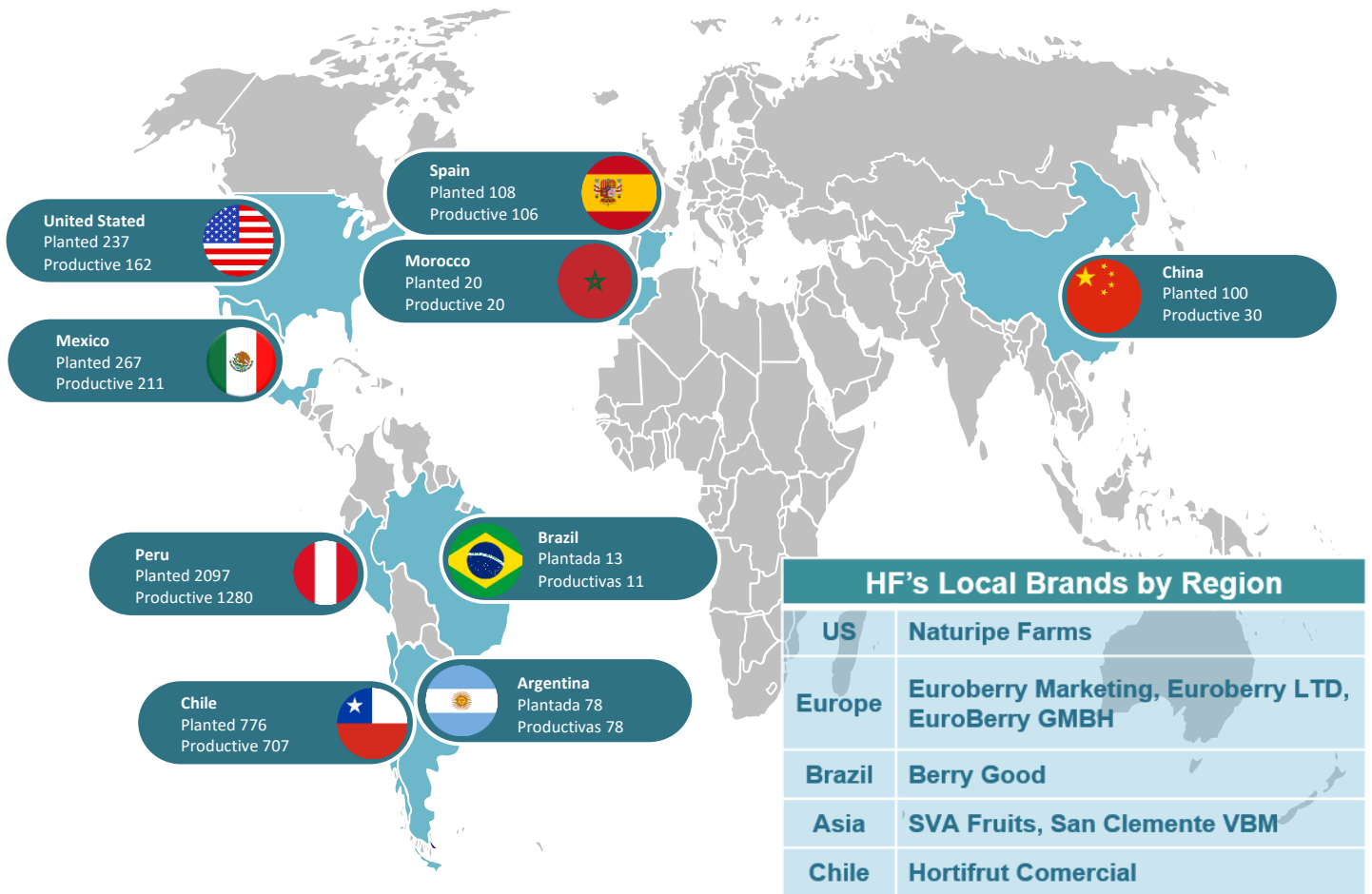
Berry Blue LLC has already patented 10 new proprietary and exclusive Blueberry varieties: Prelude, Presto, Daybreak, Steller, Bliss, Robust, Temptation, Envy, Keepsake and Sensation, with exclusive access for HF producers around the world. HF has its own genetic improvement program called Pacific Berry Breeding developed in conjunction with Naturipe Berry Growers, creating new varieties of raspberry. Currently 100% of the production located in Mexico, Spain and Morocco from HF is made with any of these owned varieties.



1.2

Monthly Production by Country





Is the second biggest distributor of berries on a global scale with its brand Naturipe and the first in the world of blueberries, with revenues for 713 MM during 2017 which represented 150 MM kg sold.



Serves the European market through its brands Southern Sun and Berry Collection in all the countries of Continental Europe, as well as England and Ireland.



Produces, imports, sells and distributes berries in Brazil to the main supermarkets and client food-service. With 7 years in the market, supplying berries the 52 weeks of the year, serving over 670 points of sale.



Through this brand, HF sells most of its "Ready to Eat" fruit packs worldwide.



HF enters to the US in 2016 due to a Joint Venture with Munger Brothers.

One of the biggest blueberry and pistachio producer of US.

Supplies throughout the whole year blueberries, raspberries, strawberries and blackberries

Is one of the four partners of Naturipe.



HF's Partner since 2000

Biggest blueberry producer in Spain

Has developed new varieties of blueberries, blackberries and raspberries through to its subsidiary Royal Berries

Created Euroberry Marketing together with HF in 2004, responsible for the distribution and commercialization of its berries.



JOYVIO Is Legend Holdings only investment vehicle in the food industry. With more than 1 bn yuan investment from Legend, JOYVIO is currently in the peruse of vertical integration, starting from harvesting to retailing.

Produces blueberries and Kiwis in China.

This partnership allowed HF to plant 30 hectares of blueberries in China's Soil in 2017, with other 170 between years 2018 and 2019.



In 2017 HF announced a merge with Grupo Rocío which took effect in July 2018, adding 1450 hectares of blueberries and 2 packaging facilities.

Founded in 1967 and mainly dedicated to poultry, agriculture and livestock.

Biggest chicken product in Peru and second biggest avocado producer in Peru

In return for the entire blueberry business, the Shareholders of GR will receive a cash payment of US \$ 160 million, 17.13% of the shares of HF and future conditioned payment on the results of the Blueberry Business between 2017 and 2021.



Fight Diabetes – Blueberries are proven to help human body process glucose efficiently, managing blood sugar and increasing insulin sensitivity. According to Harvard School of Public Health (HSPH), whole fruit consumption, specifically blueberries, was scientifically associated to lower risk of type 2 diabetes. HSPH's study revealed that consuming at least two servings per week, would reduce risk for type 2 diabetes by 23% compared to those who ate less than a serving monthly

Heart Health – Blueberries are a significant source of anthocyanins. A study carried out by HSPH in the U.S. and the University of East Anglia in the U.K. analysed 93,600 US women ages 25 to 42 and revealed that a high intake of anthocyanins would decrease by 34% the risk of suffering a heart attack. Blueberries are proven to lower blood pressure, make blood vessels more elastic and reduce arterial pressure. Research reports showed that obese patients with metabolic disorders experienced a 4-6% reduction in their blood pressure after eating blueberries for two weeks.



Helps improve Vision Problems – A study carried out by Tufts University concluded that blueberries may reduce risk of cataracts and Glaucoma. According to Journal of Orthomolecular, vitamin C reduces intraocular pressure, which decreases potential developing of Glaucoma.

Brain Health - According to the National Center for Biotechnology Information (NCBI), Anthocyanins found in blueberries have been associated with increased neuronal signaling within brain centers and improved glucose disposal, both being expected factors to forestall neurodegeneration. NCBI affirmed that anthocyanins have been identified in the hippocampus and neocortex, fundamental cerebral regions for cognitive function.

A study carried out by University of Cincinnati, involving 47 adults over 68 years old with cognitive impairment, concluded that 100% of the studied people who consumed blueberries demonstrated improved memory and access to words and concepts, compared to the ones who did not.



High Nutrient Value – Blueberries are “nutrient-dense foods”, which according to the US Department of Health & Human Services are low calorie foods that provide a high amount of nutrients. A cup of blueberries has approximately 84 calories, 3,6 g fiber, 28,6 mg vitamin K (36% daily value), 0,5 mg manganese (25% daily value), 14,4 mg Vitamin C (24% daily value).



Name	Information
Chairman and President of the Board: Victor Moller S. (Founder, in HF since 1980)	4th generation agricultural producer, founder of Hortifrut. Winner of the entrepreneur prize of the year 2017 by EY and El Mercurio in Chile. Winner of the ICARE prize for being a prominent businessman in Chile in 2007. President of Hortifrut S.A., Director of Naturipe Farms, Naturipe Foods LLC., Marbella CC., Corporación Cultural Virquenco e Inversiones IMG Ltda., Business Counselor Sistema B and Association Counselor of Entrepreneurs of Chile.
CEO: Juan Ignacio Allende (in HF since 2015)	With more than 25 years of experience in the berries industry, he is currently the Commercial Corporate Manager of Hortifrut SA and Director in 5 of HF international subsidiaries. Previously, he served as General Manager of Vital Berry Marketing S.A. Agricultural Engineer, Pontificia Universidad Católica de Chile.
CFO: Ignacio Larraín (in HF since 2014)	Has more than 30 years of experience in finance having held the positions of CFO in Acoger, and Sipsa. Worked in the Ministry of Foreign Affairs, managing human and financial resources. He is also the Finance Manager of Hortifrut's subsidiaries. Business Administration, Universidad de Chile.
Vice-President of the Board: Andrés Solari (in HF since 2013)	Extensive experience in the agricultural market, real estate and supermarkets, having also worked as a banking director. General Manager of Algeciras Ltda. Vicepresidente de Banco Internacional and Patio group. Director of Autosummit S.A., Bredenmaster S.A., Nexxo S.A., Inmobiliaria Alquife SAC, Algeciras S.A., Atton S.A. Degree in Business Administration, UAI, MBA Universidad de Los Andes.
Independent Director: María Verónica Morales (in HF since 2013)	With over 38 years of experience in the agroindustry. She worked in both private management and government positions: Research and Development Manager of IANSA company (1980-2010). National Agricultural Society Manager (2004-2005). Advisor to Chile's Ministry of Agriculture (2010-2012). Degree in Business Administration, Pontificia Universidad Católica de Chile.
Director: Germán Novión (in HF since 2007)	Agriculturist. He has been director of HF for over 10 years. President of Viveros Hortifrut Chile SA Director of Hortifrut Comercial S.A, Hortifrut Chile S.A, Hortifrut S.A de CV y Inversiones Hortifrut S.A. Degree in Business Administration, Pontificia Universidad Católica de Chile, MBA Anderson School at UCLA.
Director: Víctor Edmundo Moller Opazo (in HF since 2008)	Son of the founder and has been related to the industry since his childhood. General Manager Hortifrut LATAM, Executive Holding IMG. Degree in Agricultural Administration, Escuela Agrícola de Paine, Postgraduate in Pontificia Universidad Católica de Chile.
Director: Marco Comparini (in HF since 2013)	He has extensive experience as a Banco Penta Director and has had a successful career in the financial area. He also served as director of AFP CUPRUM. Director of Inversión y Negocios Empresas Penta; Director of Penta Vida, Banco Penta, Penta Financiero and Energía Latina S.A. Degree in Business Administration, Pontificia Universidad Católica de Chile.
Director: Andrés Carvallo (in HF since 2017)	He has great experience in the agricultural field with more than 20 years working for a company that exports fruit (Exportadora BAIKA S.A). General Manager of Exportadora BAIKA S.A. and San José Farms S.A. Degree in Agricultural Engineering and MBA Universidad Mayor.
Director: Juan Luis Alemparte (in HF since 2018)	Solid financial background working as CFO of Grupo Rocío. Co-founder of Axxon Mining as well as other companies such as Drake Capital, Banchile City. Investment Manager of Algeciras and Director of Grupo Rocío S.A. y Tal S.A. Degree in Industrial Civil Engineering, Pontificia Universidad Católica de Chile.
Director: Ulises Quevedo Berastain (in HF since 2018)	Has had a long career in the agroindustry, both in Grupo Rocío and Avo Peru, and in the berries business having worked at Berries de Chao Sac. Executive President of the Grupo Rocío. Vice President of Asociación de Gremios de Productores Agrarios del Perú (AGAP). Degree in Industrial Engineering, Universidad de Lima. MBA, Kellogg School of Management on Northwestern University.



Proforma income statement is the sum of HF and GR Income statements. This approach was selected, since GR and HF have different metrics, being the most important the EBITDA \$ / kg of \$4.3 and \$1.3, respectively. Hence, GR is more profitable until it reaches a higher volume, when its EBITDA \$ / kg would fall to maximize volume, as in a low-cost strategy. For tax purposes, we used Chile's corporate tax rate, given its where HF consolidates its operations.

HORTIFRUIT CONSOLIDATED PROFORMA

INCOME STATEMENT	2018F	2019F	2020F	2021F	2022F	2023F	Terminal
Revenue	\$499	\$559	\$657	\$787	\$895	\$1,015	\$1,035
Cost of Goods Sold	(\$342)	(\$379)	(\$440)	(\$516)	(\$587)	(\$659)	(\$672)
Gross Margin	\$157	\$180	\$217	\$271	\$309	\$356	\$363
Selling, General and Administrative	(\$31)	(\$34)	(\$40)	(\$47)	(\$49)	(\$55)	(\$56)
Depreciation and Amortization	(\$36)	(\$41)	(\$49)	(\$58)	(\$66)	(\$75)	(\$77)
EBIT	\$90	\$105	\$129	\$166	\$193	\$226	\$230
Taxes	\$24	\$28	\$35	\$45	\$52	\$61	\$62
Unlevered Net Income	\$66	\$76	\$94	\$121	\$141	\$165	\$168
EBITDA	\$126	\$146	\$177	\$225	\$260	\$301	\$307

FREE CASH FLOW

Unlevered Net Income	\$66	\$76	\$94	\$121	\$141	\$165	\$168
Add: Depreciation and Amortization	\$36	\$41	\$49	\$58	\$66	\$75	\$77
Less: Capital Expenditures	(\$54)	(\$61)	(\$58)	(\$58)	(\$53)	(\$54)	(\$55)
Less: Change in Net Working Capital	(\$5)	(\$4)	(\$7)	(\$9)	(\$6)	(\$6)	(\$7)
Unlevered Cash Flow	\$43	\$53	\$78	\$113	\$148	\$180	\$183
Terminal Growth Rate	2.0%						
Terminal Value							\$2,524
WACC	9.3%						
Present Value Factor (Mid-Year Convention)	99.3%	95.0%	86.9%	79.6%	72.8%	66.6%	
PV of Unlevered Cash Flow	\$7	\$51	\$68	\$90	\$108	\$1,801	
Implied Enterprise Value	\$2,099						

Implied Equity value was calculated using HF net debt as a proxy of market value of debt. Later it was divided by outstanding shares after the acquisition and adjusted by Chilean exchange rate, since HF's share is traded in CLP. We note that 15.2x Implied EV to EBITDA is slightly higher than current adjusted EV to EBITDA of 14.9x

DCF Summary – \$ in Million

Implied Enterprise Value	\$2,099
LTM Q2 18 EBITDA <i>Adjusted</i>	\$138
<i>Implied EV / LTM 18 Q2 EBITDA</i>	15.2x
Implied Enterprise Value	\$2,099
Less: Net Debt	(\$188)
Implied Equity Value	\$1,911
Outstanding Shares (MM)	525.5
Exchange Rate CLP	683
Share Price CLP	CLP 2,485

KEY FINANCIALS

	2017	2018F	2019F	2020F	2021F	2022F	2023F
EBITDA %	15%	25%	26%	27%	29%	29%	30%
Net Profit %	8%	13%	14%	14%	15%	16%	16%
Revenue Growth	-9%	29%	12%	18%	20%	14%	13%

Capex Estimation

CAPEX per hectare was estimated as a mean based on historical investment, where we distinguish between the use of plant pots due to climatic or soil conditions and other types of technology such as “Agroid” and “Blueeyes” that help checking and controlling the state of the harvest in real time. The technology cost is the difference between the two CAPEX. We note that using technology and genetics boosts yield per hectare, but it has a cost associated.

Historical Capex

- In 2014, HF and GR started a Joint Venture that consisted of 700 blueberry hectares in Peru and a production facility in Peru. The estimated investment was \$86 MM.
- In 2015, HF started a second operation in Peru named Olmos, which included 407 blueberry hectares in Peru. The estimated investment was \$54.2 MM.
- In 2016, it was started a Joint Venture between HF and Munger Brothers to develop new blueberry business in US. This project considers new technology, such as plant pots on 237 hectares at an estimated cost of \$80 MM.
- In 2017, HF started a Joint Venture with Joy Wing Mau to develop new blueberry business in China. The project considered 30 hectares at a \$7.3 MM estimated cost. In 2018, HF purchased 70 additional hectares at a cost of \$15 MM. Both projects consider planters technology.

CAPEX Estimation

No technology	Hectares	Price	CAPEX per Hectare
Trujillo – 2014	700	\$86,000	\$123
Olmos – 2015	407	\$54,200	\$133
			\$128
Proforma LTM EBITDA			
Munger – 2016	277	\$80,000	\$289
China – 2017	30	\$7,300	\$243
China – 2018	70	\$15,000	\$214
			\$249
			Technology Costs
			\$121

The following years CAPEX, estimated as hectares acquisitions of hectares, was based on the last five years CAGR of the productive hectares, 4.2%. Estimated productive hectares are 80% of the total hectares of HF, since the Company ensures productive slack with planted but non-productive hectares. We assumed that GR would acquire hectares at the same rate as HF. For Joint Ventures, aside of China, no growth was assumed. China project considered the 200 productive hectares management expected to be bought by that year. About technology, HF and GR acquisitions do not consider it, since Peru past investments had a significant lower cost per hectare. On the other hand, China projects consider technology usage, since plant pots were used in previous investments. We note that 2023 estimated hectares are equal to current total hectares of HF.

Productive Hectares Forecast

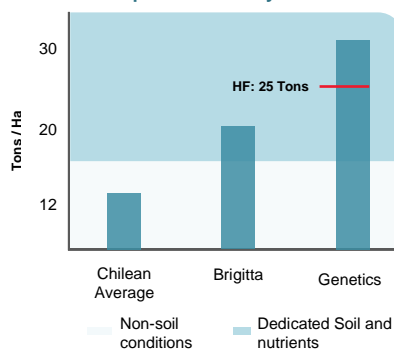
	2013	2014	2015	2016	2017	18E	19E	20E	21E	22E	23E
Hortifrut	998	1,051	1,122	1,063	1,177	1,185	1,235	1,286	1,338	1,390	1,441
Rocío						1,450	1,511	1,571	1,632	1,693	1,754
Joint Ventures		147	143	475	696	715					
China								200	300	400	

Distributed Volume Estimation

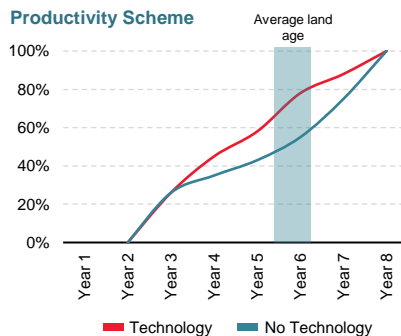
HF is a vertically integrated Company that produces and distributes berries. Thus, we considered own produced berries and bought from other suppliers. Historically the Company has declared that it only produces one third of its distributed volume. Another thing to consider is that, HF regularly bought berries from Talsa S.A., which now belongs 100% to HF, after the acquisition of GR blueberry business line. Hence, we adjusted the amount purchased, since the 50% Talsa production will not need to be purchased anymore. This 50% stake in Talsa 2018 volume represented a 9% of HF LTM distributed volume by June 2018. Therefore, we forecasted a constant production ratio of 42%, so produced volume is divided by production ratio to arrive at the distributed volume. The distributed volume from JV was adjusted by HF stake on them.

To estimate yield per productive hectare we focused on the national mean of blueberries in Chile and management guidance. The maximum Tons / ha of non-technology hectare in Chile is of 12 tons, meanwhile a technology applied hectare has a 25 Tons maximum yield, based on CFO statements. HF has a higher yield per hectare due to plant pots and genetics to increase size, this yield is in a middle point between Brigatta blueberry variant and an ideal genetically modified blueberry as reported by Chilean agricultural research institute (INIA). Each year productivity per hectare is different, we consider that the first 1.5 years yield no produce and that maximum capacity is reached at year seven. The yield curve and average age of land was estimated by IPO reported information. We assume that GR has same average land age, for JV we use their starting year as year 1. We consider that same yield curve is appropriated to HF, GR, JV and China hectares. Estimated distributed volume is lower than industry blueberry forecasted volume (at an 11.8% CAGR) adjusted by HF market share range of 20% - 25% and near to the management’s 100,000 tons 2020 goal.

Genetics impact on Yield by hectare



Productivity Scheme



Yield per hectare by year

	1	2	3	4	5	6	7
No Technology		4.2	5.2	6.6	9.0	12.0	
Technology		6.5	11.3	14.5	19.5	25.0	

Distributed Volume - Forecast

Kilo-Tons	2017	18E	19E	20E	21E	22E	23E
	46.1	57.3	63.1	72.7	85.6	95.6	108.7

Revenue and EBITDA Estimation

Revenue was estimated with the price times volume formula, where volume was estimated as described before, meanwhile price was estimated as the average reported by the Company, which grew at 2% US inflation rate. This growth is below the 4.45% last five years CAGR, so we forecasted a conservative price growth.

EBITDA was calculated by average EBITDA \$ / tons for HF and GR using reported LTM data. Each EBITDA was calculated separately, because they of the different margins to then finally consolidate both in a proforma income statement. Nevertheless, under HF control we believe that GR hectares will follow HF's low-cost strategy. Thus, we forecasted a decaying EBITDA \$ / kg for GR as volume increases. HF-Tal is expected to follow the same trend as GR. A weighted EBITDA metric is provided to show that even if GR has a higher margin, its relative volume is lower than HF's.

EBITDA \$ / tons Estimation

	LTM Q3 17	LTM Q4 17	LTM Q2 18	Average
Hortifrut				
EBITDA	62	60	48	
Volume	49	39	39	
EBITDA \$ / kg	1.3	1.6	1.2	1.4
Grupo Rocío				
EBITDA	46	36	53	
Volume	13	6	11	
EBITDA \$ / kg	3.5	6.0	4.8	4.8
HF - Tal				
EBITDA	22	46	37	
Volume	5	10	8	
EBITDA \$ / kg	4.4	4.6	4.7	4.6

Revenue

		2017	18E	19E	20E	21E	22E	23E
Average Price	2%	8	9	9	9	9	9	10
EBITDA \$ / kg								
HF		1.3	1.4	1.4	1.4	1.4	1.4	1.4
Rocio / Talsa		4.6	4.4	4.2	4.0	3.8	3.6	3.4
Weighted EBITDA		2.3	2.3	2.4	2.4	2.3	2.3	2.2

Other relevant valuation parameters are expected to follow HF historical averages. Thus, we assumed they are also applicable to former GR hectares. In case that key accounts were not stable, we took the average of the last three years. The Net Working Capital was estimated by the change of receivables plus the inventory and minus payable, calculated using days metrics. Additionally, key ratios are provided to fully understand the company's financial analysis thoroughly.

Key Valuation Assumptions

Depreciation to Revenue	6%
Receivables Days	46
Inventory Days	46
Payable Days	55
Chilean Corporate tax rate	27%
Outstanding shares (MM)	525.5
Exchange Rate	CLP 683

HF Key Ratios

	2013	2014	2015	2016	2017
Profitability Analysis					
EBITDA Mg	13%	13%	14%	16%	15%
EBIT Mg	13%	12%	8%	6%	8%
Net Income	7%	7%	5%	7%	7%
ROA	5%	5%	4%	6%	5%
ROE	14%	14%	10%	13%	11%
Efficiency					
Asset Turnover	0.8	0.8	0.8	0.9	0.7
Receivables Days	83	49	46	36	43
Inventory Days	62	55	51	57	49
Payable Days	102	67	57	61	55
Leverage Analysis					
Net Debt / EBITDA	2.5	2.5	3.0	2.6	3.5
Interest Coverage	14	10	9	13	8
Assets to Equity	2.6	2.7	2.7	2.9	2.8
Debt to Equity	0.9	1.0	0.9	1.1	1.1
Liquidity Analysis					
Current Ratio	1.0	1.1	1.1	0.9	0.9
Quick Ratio	0.7	0.8	0.7	0.6	0.6
Cash Cycle	91	88	94	85	99



WACC was computed using USD rates through the adjusted CAPM and a corporate bond yield adjusted by country default premium.

We use comparable companies' method for vertical integrated fresh fruit producers to derive beta and the optimal capital structure for this subsector. Steps included un-levering of betas for individual companies, and re-levering the median unlevered comparable companies' beta for the median subsector capital structure. Peer selection focused on similar business model of vertical integration and fruit price cyclicality, thus betas reflect similar business risk. Peer set considers 8 companies, since median is preferred over average, due to less be sensitive to outliers in small sample sets. Median was preferred over average for being less sensitive to outliers.






Important assumptions:

- Risk-free rate is assumed to be the 10-year USD Treasury bond yield.
 - Beta is calculated on a monthly, five-year historical basis.
 - Market return is the implied premium for the S&P 500 by Damodaran (2018).
 - Size premium estimated on HF market capitalization and the ten-decile analysis provided by Duff and Phelps (2017).
 - Country risk premium for Chile was estimated by computing the spread of Chilean USD bond over same maturity USD treasury yield, adjusting by relative equity market volatility, which is calculated as standard deviation in Chile equity index (IPSA) divided by Chile USD bond standard deviation.
 - Company specific risk of 2.5% reflect scarce of exclusives berries investments vehicles, since competitors are mainly private companies, so shareholders must be compensated by imperfect diversification. Also, berries are a biological asset that requires specialized know how and its subjected to plague and climate risk which an investor cannot diversify.
 - Capital structure is computed with current market public data and not the implied value per the valuation methodology. Net debt at book values is used as proxy of market value of debt.
 - We believe that peers' beta and optimal capital structure is more accurate, since currently HF has higher leverage than the historical leverage due to the bridge loan required to acquire GR, so current beta reflects a non-optimal capital structure.
 - WACC calculations used a 27% Chilean corporate tax rate applicable to HF, which increased from 25.5% in 2017.
- The presented Data is in \$US MM, for comparability purposes**

Comparable Companies Analysis (Subsector Unlevered Beta and Optimal Capital Structure)

Company Name	Market Cap	Net Debt	Enterprise Value	Corporate Tax Rate	Beta	Debt/Equity	Debt / EV	Unlevered Beta
Hortifrut S.A.	\$1,339	\$207	\$1,546	25.5%	0.89	15.4%	13.4%	0.80
Vertical Integrated Fruit Fresh producers								
Fresh Del Monte Produce Inc	\$1,714	\$333	\$2,047	28.0%	0.57	19.4%	16.2%	0.50
Costa Group Holdings Ltd	\$1,585	\$131	\$1,716	30.0%	0.96	8.2%	7.6%	0.91
United Plantations Bhd	\$1,365	(\$211)	\$1,155	24.0%	0.47	(15.4%)	-18.2%	0.53
Kernel Holding SA	\$1,080	\$474	\$1,554	18.0%	0.36	43.9%	30.5%	0.26
Mehadrin Ltd	\$163	\$96	\$259	24.0%	0.26	58.7%	37.0%	0.18
Sociedad Agrícola la Rosa Sofruco SA	\$36	\$44	\$80	25.5%	0.39	122.8%	55.1%	0.20
Fruticola Viconto SA	\$31	\$3	\$34	25.5%	1.21	9.2%	8.4%	1.13
Hob Co Ltd	\$6	(\$1)	\$5	30.9%	0.73	(21.5%)	-27.4%	0.86
Average						28.2%	13.7%	0.57
Median						14.3%	12.3%	0.51

We use Chilean sovereign credit rating of A as a ceiling for Chilean companies that issue debt, such as HF. At the same time, we searched for Chilean based companies that issue debt in USD and have local and international credit rating. Hence, we conclude that HF's A+ is equivalent to BBB-, so USD bond BBB-yield curve is the appropriated to derive cost of debt.

CREDIT RISK RATING	LOCAL	INTERNATIONAL
	AAA	A
	AA+	BBB+
	AA-	BBB
	A+	BBB-
	A+	BBB-



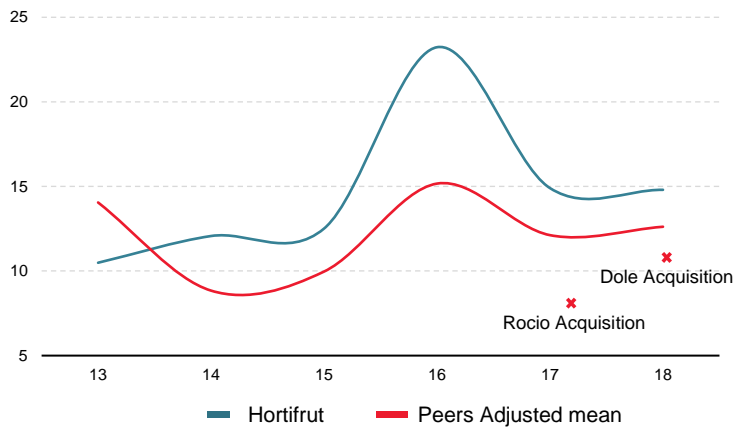
Trading multiple valuation base case considers adjusted average EV to LTM EBITDA. We use adjusted average, which do not consider the lowest and highest sample value, since a small sample of low liquidity stocks must be controlled by outliers. It is important to note that negative EBITDA does not provide a multiple for that year and Costa IPO occurred in 2015.

Even after adjustment HF trades at a premium to its Fresh Fruit peers and precedent transactions for last 3 years. We believe that a pure play berry company trade at much higher valuation given their more attractive growth / margin profiles.

EV / LTM EBITDA Peers						
Company Name	2013	2014	2015	2016	2017	2018
Hortifrut S.A.	10.5	12.1	12.5	23.2	11.9	11.3
Fresh Del Monte Produce Inc	10.7	10.8	11.5	12.8	16.6	11.7
Costa Group Holdings Ltd				16.2	16.8	16.3
United Plantations Bhd	11.4	11.1	10.7	11.6	8.9	10.3
Mehadrin Ltd	21.5	35.3	21.1	19.7	8.9	15.3
Fruticola Viconto SA		7.7		57.0	17.3	15.2
Hob Co Ltd	36.7	3.1	9.2			
Adjusted Average	14.5	10.4	11.6	18.0	13.6	13.4
Median	11.4	11.0	11.5	17.9	14.3	13.5
Average	18.1	13.4	13.0	23.4	13.4	13.4

Even after adjustment HF trades at a premium to its Fresh Fruit peers and precedent transactions for last 3 years. We believe that a pure play berry company trade at much higher valuation given their more attractive growth / margin profiles.

EV to LTM EBITDA



EV / LTM EBITDA Peers

Proforma LTM EBITDA	2017	2018
Hortifrut EBITDA	\$60	\$48
Rocio EBITDA	\$46	\$53
Talsa EBITDA	\$36	\$37
Proforma LTM EBITDA	\$142	\$138
EV Hortifrut	\$1,703	\$1,561
Adjusted Multiple	11.9	11.3



\$450,000,000

49% Stake

Fresh Fruit Company

February 2018

In 2018, Total Produce, a European leading fresh produce company announced multiples agreements to acquire 100% equity stake in Dole Food Company through three transactions. The last of these transactions consisted of \$450,000,000 paid for 49% Dole stake, implying a 2 bn enterprise value. There are a few important points to consider in this acquisition:

- Dole is a leading banana and pineapple producer. The logic behind the agreement was to consolidate two larger banana industry players.
- Dole had several exports recall by bacteria and sues by illegal pesticide usage and harvester's migratory situation.
- Current management team will continue to operate its business as before acquisition.
- Transaction implies a 10.1x EV to EBITDA.



\$340,000,000

100% Blueberry Business

Agricultural Products

December 2017

In 2017, Hortifrut announced an agreement to acquire Grupo Rocio blueberry business line for \$160,000,000 cash and \$180,000,000 in HF shares.

- GR is a Peruvian diversified food company and relevant player in blueberry Peruvian market with 1,450 productive hectares.
- HF and GR have known and worked with each other since 2014, through the Joint Venture of Talsa S.A., a shared berry producer that operates in Peru.
- GR and Talsa EBITDA / kg are higher than HF's but distribute a considerably lower berry volume.
- GR is not a blueberry pure player, allocating their know-how in other products, such as chicken.
- HF management team will now operate GR's blueberry business line, with a GR's director joining HF as a board member.
- Transaction implies a 9.1x EV to EBITDA.



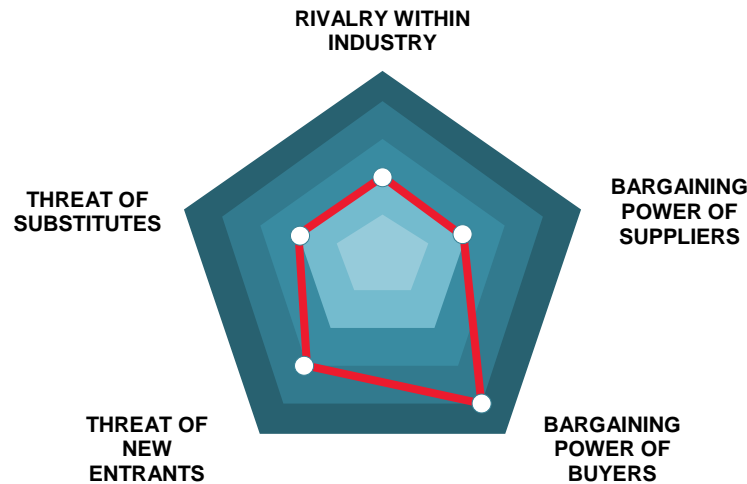
The Altman Z-Score indicates a Company's financial health and its probability of filing for bankruptcy. A Z-Score below 1.81 indicates that the firm has a high probability of bankruptcy, while a score over 2.99 indicates a financially strong firm that is far from bankruptcy probability. The formula is $(1.2 \cdot X_1) + (1.4 \cdot X_2) + (3.3 \cdot X_3) + (0.6 \cdot X_4) + (1.0 \cdot X_5)$.

Altman Z score – US MM					
	2014	2015	2016	2017	
Current Assets	187	163	196	188	
Current Liabilities	171	154	224	211	
Total Liabilities	255	266	317	329	
Total Assets	450	471	546	573	
Retained Earnings	37	25	40	71	
Revenues	334	349	427	388	
Operating Income	40	28	39	32	
Market Capitalization	445	400	895	1,339	
DERIVED VARIABLES					
	Weight				
X ₁ Working Capital / Total Assets	1.2	0.0	0.0	-0.1	0.0
X ₂ Retained Earnings / Total Assets	1.4	0.1	0.1	0.1	0.1
X ₃ EBIT / Total Assets	3.3	0.1	0.1	0.1	0.1
X ₄ Market Capitalization / Total Liabilities	0.6	1.7	1.5	2.8	4.1
X ₅ Revenue / Total Assets	1	0.7	0.7	0.8	0.7
ALTMAN Z-SCORE		2.24	1.94	2.76	3.43

Result: HF does not face a possible bankruptcy scenario. Instead, the Company is financially healthy with a Z-score over 2.99 and shows a considerable improvement over previous year.



Legend:
0 No Threat
1 Very Low
2 Low
3 Moderate
4 High
5 Very High



RIVALRY WITHIN INDUSTRY – LOW

This is an industry with few competitors with a high percentage of market share, but at the same time with many competitors with a very low market share. This creates a highly concentrated industry with few companies in control, making a stable and healthy competition. It is safe to say rivalry isn't that intense, thanks to high stability among competitors. While this may be true, exit barriers for big companies are relatively high, due to the large investment that companies make with respect to technology and genetics, which cannot be easily transferred to another geographical sector or business line.

There is overcapacity in some periods of the year, but this should not be a major problem for companies that produce all year. In addition to this, there are many markets, such as China, which are in an embryonic stage, so the offer is far from exceeding the demand.

THREAT OF NEW ENTRANTS – MODERATE

It is necessary to make the distinction between the strategic groups within the industry of berries. Although arriving to the industry having a small farm with few hectares is easier, getting in the game as a vertically integrated company is much more challenging due to the high capital requirement needed to operate and the expertise needed to produce in high volumes. There's a broad difference between entering the market and succeeding on it. Most of the barriers involved in the business are success barriers rather than entry barriers.

Each berry is in a different phase of the life cycle depending on the country where you are selling, but in overall there is a moderate CAGR. This means that there is a motivation for new entrants, but it is not very strong. The economy of scale is driven by a low-cost strategy, that is much less approachable than a differentiation strategy, minimizing your costs requires a high degree of specialization in all company processes, which is hard for a new company to achieve.

BARGAINING POWER OF BUYERS – HIGH

Buyers are price givers due to what they are buying, essentially a commodity. This is the reason why they can demand at lower prices given the lack of differentiation between competitors. Given the fact that berries aren't a first need product for big food chains such as supermarkets, they have a high bargaining power. Nevertheless, the necessity for big clients to stock up with berries throughout the year limits their bargaining capacity, due to the shortage of large exporting companies who can provide the whole period.

The only switching cost worth mentioning is the renegotiation of long-term contracts, in the worst-case scenario would involve the loss of a whole year berry producer, which could be replaced by local farmers or another big company.

BARGAINING POWER OF SUPPLIERS – LOW

The industry is full of suppliers, from smaller to bigger. Due to their high availability and limited differentiation (commodity product), the bargaining power of suppliers is low. In the case of HF, it is easy hopping to another supplier if necessary, although it may involve adapting long term agreements. Berries are a standardized product provided by local farmers, who have no intentions (or power) of integration and therefore are no threat for big exporting companies.

THREAT OF SUBSTITUTES – LOW

Threat of substitutes is low. Berries may have nutritional similarities with other fruits, such as kiwis and tangerines. However, what makes berries special is their combination of high nutritional properties (including low calories), flavor and ease to eat, making them unique within the food industry. Although there's a high elasticity produced by price variations, it happens the same with other fruits and vegetables (commodities) which play a similar role as berries; yet, this may be a risk worth considering.

Main Categories	Subcategories	Assessment
Threat of new entrants	Product Differentiation	Berries behave as commodities, so it's difficult to create value for fresh fruits. The only differentiation possible is size, sweetness and extended life after being harvested. In the specific case of HF, berries generate over 90% of its revenue.
	Product Life Cycle	Relevant markets are in different stages of the life cycle. By looking at 5 years of CAGR: NA 3%, EU 12% and China 34%. We conclude that NA is approaching a "mature" phase, EU is moving through "shakeout" and China is beginning the "growth" phase.
	Capital Requirements	Capital requirements for integrated berry companies are significant, due to the heavy investment in terrains and genetics to diversify climatic risk and be able to supply clients 52 weeks a year. For example, HF invested US 21mm planting 100ha in China.
	Distribution Channels	Largest multinational groceries stores have already established long term contracts with the main suppliers that can serve them berries on a regular basis. New entrants could not meet volume requirement since they cannot harvest berries all year around.
	Expertise	High barriers to entry for unexperienced companies. There is a know-how for each fruit that takes years to master. For example, HF has over 30 years of experience in berries business with strong R&D investment and know how in soil, organic varieties and harvest.
	Economies of Scale	Creating value in this business is difficult, the driver of this commodity industry is a mass production and low-cost approach.
	Legal and Regulatory Barriers	Berries are subjected to different regulations regarding the quality of the fruit depending on the countries that receive the product.
Rivalry within the industry	Industry Growth	The industry is expected to have a moderate growth of 5.1% CAGR (2018-2024).
	Exit Barriers	This is a high Capex driven business due to land cost. The companies that are highly specialized in a fruit, is difficult for them to change fruits that aren't similar. Especially for companies that invest heavily in technology and in specific genetics, which cannot be transferred to another land or other line of business easily. This results in a huge sunk cost for companies such as HF. For small farmers exit barriers are low, but for big companies are high.
	Concentration	There are few companies that have a high market share, and many small farmers with very low market share. HF has been a worldwide leader in blueberry sales and 2 nd in berry sales over the last six years, achieving 25% market share. it's highly concentrated.
	Overcapacity	Nowadays, there is an oversupply in some specific points of the year, but there is also room to increase the berry per capita consumption in the emerging markets.
	Diversity of Competition	Chile is the largest blueberry producer with 24% market share, followed by Spain (13%), Peru (12%) and USA (10%). HF produces in all these countries. Most of the relevant competitors are privately held companies.
	Strategic Stake	Companies can maintain their leadership in the industry thanks to their vertical integration and specialization. This last can be accomplished by high Volumes, thanks to genetic investment and geographic diversification. But the high concentration in a specific berry (as HF with the blueberries, which represent 80% of their income) makes the company vulnerable in changes of sentiment towards this fruit.
	Fixed Cost	A large majority of companies within the industry have more variable costs than fixed. Most of the workforce needs some degree of specialization to not damage the product while harvesting. In countries without access to enough specialized workers, companies might end up fighting for their services. Over 93% of HF costs apart from terrain cost are variable costs and most of it is made up by the labor costs.
	Product Differentiation	It's difficult for competitors to differentiate. They have the same patent usage for berries and some are even planted in regions with similar characteristic. With enough capital, it's not so hard to compete.

Main Categories	Subcategories	Assessment
Supplier power	Harvest Season	Harvesters are temporary workers that require specialized knowledge and skills to handle the berries. This limits their availability during peak harvesting periods. Thus, workforce bargain power rises in times of production. It's also a difficult to organize the temporary workers.
	Supplier Concentration	The industry is full of providers, mainly small farmers. In the case of HF, it is widely diversified and has long-term relationships with over 700 suppliers, mitigating its dependence.
	Product Differentiation	Low for berries, which behave as commodities. This means there's no big difference among suppliers because they cannot differ a lot from others, therefore they are price takers.
	Dependence on the Industry	Many small farmers produce to supply berry exporting companies.
	Forward Integration	Many suppliers are comfortable within their business lines and have no intentions of integrating with others in order to compete with bigger companies such as HF. Moreover, they haven't got the power or resources to do it.
Buyer power	Buyer Concentration	Even with mildly concentration of buyers (400+), buyers are price givers due to the nature of what they are buying (commodity).
	Product Differentiation	Exportable fruit must meet certain standards This is the only differentiation they have and is not much. Genetics helps increasing volumes, but it also helps improving the quality of the fruit.
	Switching Cost for Buyers	In the big picture, berry industry involves low costs for changing provider. Paradoxically in the case of companies with long term contracts (Supermarkets) there are big costs involving supplier change because this means having to re-negotiate and losing key alliances.
	Use of Multiple Sources	Most companies do not produce berries during the whole year. Therefore, if buyers aspire to have fresh fruit in stock during all 12 months they need to deal with companies like HF that produce during the whole year.
	Backward Integration	Due to the complexity of the business and the amount of resources needed to start a company, clients such as supermarkets are not inclined to integrate backwards.
Threat of substitutes	Importance to Buyers	Berries are not essential for most food stores, although large food chains such as Costco or Walmart, with more ambitious business models, will be keener in having berries trying to cover a diversified set of products. In this way, the limited possibility that small clients have a wide variety of products gives them a negligently greater power than large chains, since they will not be willing to pay them as much to expand their food mix.
	Direct Substitutes	Low threat level for berries, but very low for blueberries due to their well-known antioxidant properties; high nutrient value (fiber, manganese and vitamins C and K) and coronary disease prevention. Although you may find some of these properties in other fruits such as kiwis or tangerine, they are way different in terms of flavor and usage of berries.
	Elasticity	Berries are a high elasticity product, since final consumer's demand is very sensitive to the price and are not a first need product in their daily requirements.
	Relative Quality	The high standards of the blueberry and their prices makes it difficult to find suitable substitutes. Other berries have more substitutes among fruits and other healthy products.
	Format Change/ Indirect Substitutes.	New products or format shifts in other products could attract customers to other industries that offer the same benefits and qualities as the berries, such as healthy desserts or drinks.



- Vertical integration from genetic to distribution which enables strong supply control.
- Worldwide leaders in blueberry industry with dominant market position and great distribution channels.
- Diversified geographic production among both hemispheres enables countercyclical production.
- Continuous supply throughout 52 weeks of the year allows long term relationship with main clients.
- Strong R&D and Genetics that improve yield per hectare and extend life after harvest.
- Experimented board of directors and management.
- Natural genetic cross is not considered transgenic.
- Collaborators loyalty programs and benefits.
- Production is planned with clients.
- Reputation of the brand with supermarkets



S

- High labor costs (10% of revenue) due to required specialization to harvest.
- Harvesters increases their bargain power in peak harvest of production due to limited labor supply.
- Revenues are highly concentrated (over 70% of revenue) in one product (blueberries) last five years.
- Berries production requires significant capex due to land and technology.
- Earnings exposed to cyclicity of production in different hemispheres.
- Berries are a perishable product; thus, supply must be controlled spot.



W

- High growth expectations in emerging markets with double digit YoY Berries Growth and strong GDP in Asian.
- Automate production could reduce labor costs, increase yield per hectare.
- Starts new business line associated with fruits to diversify supply.
- Demand is driven by healthy food trends.
- Current debate in Chilean senate about corporate tax reduction.
- Global expansion to India and other emerging countries through strategic alliances.



O

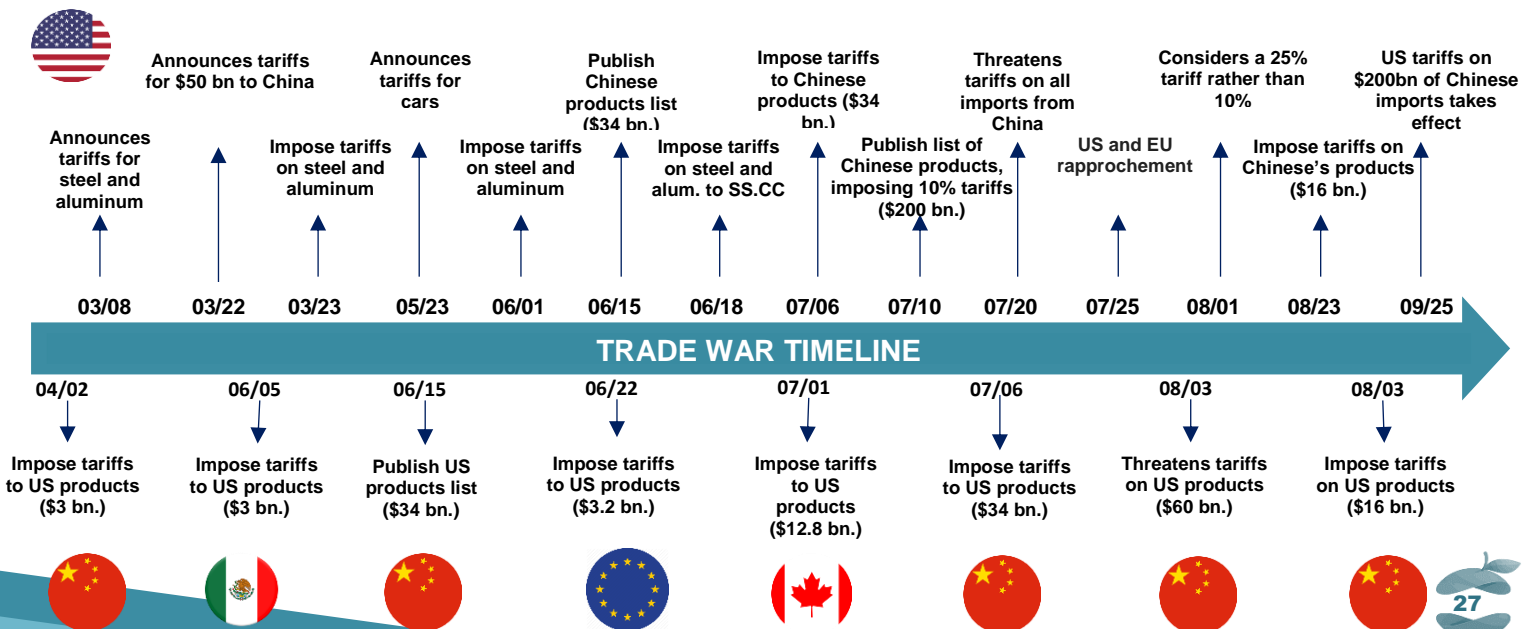
- Climatic and plague risk diminish volume and harvest yield if production is geographically concentrated.
- Exchange rate risk such as depreciation of the USD or appreciation of CLP.
- Quality control and food regulation, such as zero transgenic law in main market.
- High elasticity in blueberry price and increased commoditization.
- Current overcapacity in some markets due to growing competitive pressure of small farmers.
- Lack of added value in fresh fruit due to a commodity behave product.

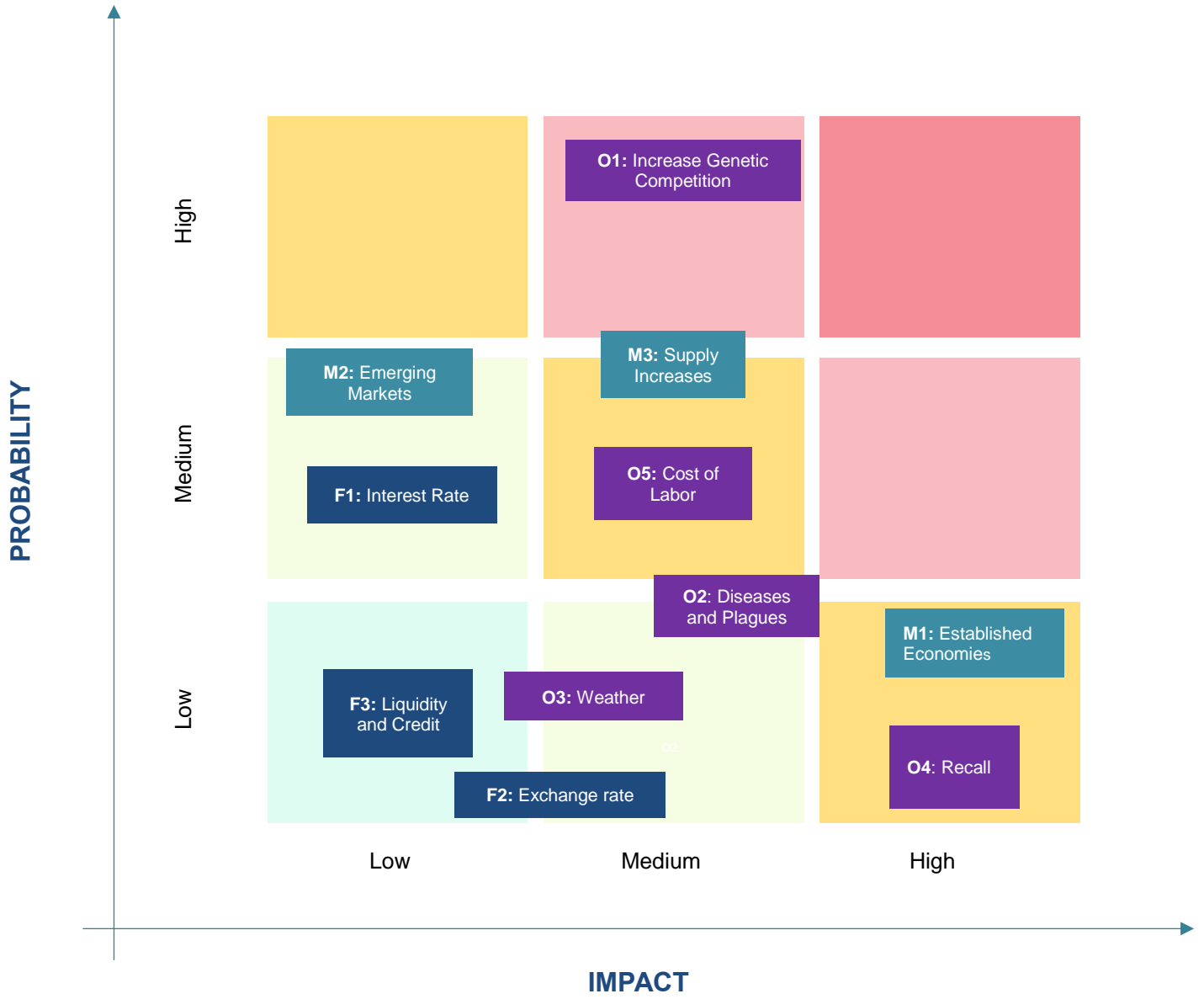


T



 <p>CHINA</p>	RATE	China's current rate is 4.35%, which has been identical since October 2015.
	GDP	On the second trimester of 2018, up to June, the Chinese economy grew by 1.8%, in comparison to the 1.4% of the first trimester, and besting the 1.6% growth market estimates. Nevertheless, the GDP's forecast for the following 2 years shows an upcoming decrease.
	UNEMPLOYMENT	Is currently at 3.83%, 0.06% lower than the percentage of the second quarter of 2018. This is the lowest rate recorded since 2002. However, the market forecast indicated steady growth levels for the next 2 years.
	INFLATION	Due to higher costs, particularly that of food and fuel, China's consumer price index grew by a 2.3% year over year in August 2018.
 <p>NORTH AMERICA</p>	RATE	In the U.S., the Fed announced a 2.25% rate for September 2018, a 0.25% growth of that of June, analysts suggest this rate will progressively increase, reaching 3% in 2020. On the other hand, the Bank of Canada announced a steady 1.5% rate since July, that hasn't changed since.
	GDP	NA has increased its rates 4.5% annually, the fastest pace of increment since 2014's third quarter. All the while, the Canadian economy expanded 2.4% year over year in July 2018, when the expectations were for a 2.2%.
	UNEMPLOYMENT	Canadian unemployment rate has decreased, from 6.0% in August to a 5.9% in September 2018. In the U.S., there was also a reduction from 3.7% to 3.9% in the same indicated months.
	INFLATION	U.S. August's inflation was of 2.7%, a reduction from that of July (2.95%). On the other hand, Canadian inflation also fell from 3.0% to 2.8% on the same months, being 3.0% the highest rate since September 2011.
 <p>CHILE</p>	RATE	The central bank of Chile recently announced a rise to its monetary policy rate from 2.5% to 2.75%, this being the first increase in the last 3 years. It is expected to be maintained in the near future and rise in the long run. In line with other central Banks such as the FED.
	GDP	GDP of Chile in the second quarter of 2018 has grown 0.7% with respect to the previous quarter. This rate is 5 tenths lower than that of the first quarter of 2018. In the second quarter, the activity grew 5.3% annually, noting an important upward compared to the expected in June.
	UNEMPLOYMENT	In Chile, the unemployment level rose up to 7.3% on the May-July quarter, the highest rate recorded since July-September 2011 quarter. This is due to the 2.2% growth of the mass bill.
	INFLATION	The monthly variation of the CPI (Consumer Price Index) was 0.3%, so that the accumulated inflation in 2018 is 2.3%. This number is according to the tolerance range of the central bank. It's worth mentioning that inflation has risen almost steadily since February







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***All Links worked by October 19th 2018**