

Views on DIA

Western Gate

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Western Gate – Who we are

Western Gate is an investment branch belonging to the Family Office of Luis Amaral and invests in private and listed companies principally in the retail and consumer goods sector. These are sectors in which the team has extensive experience and has developed its own vision on how it sees the future of these markets.

Our long-term investment philosophy has as its aim the building of a sound and sustainable performance so that wealth is preserved and transferred to future generations. The focus of investments is on corporations with a sound business model, an entrepreneurial strategy, a solid governance model, and adequate accountability and ethical standards. Always bearing in mind that fact based, data driven decisions and risk taking are key to success.

We aim to invest in companies when we sense there is space for value creation for all stakeholders, namely employees, customers, suppliers, shareholders and communities in which the company operates.

Why DIA?

Sound Operational Model

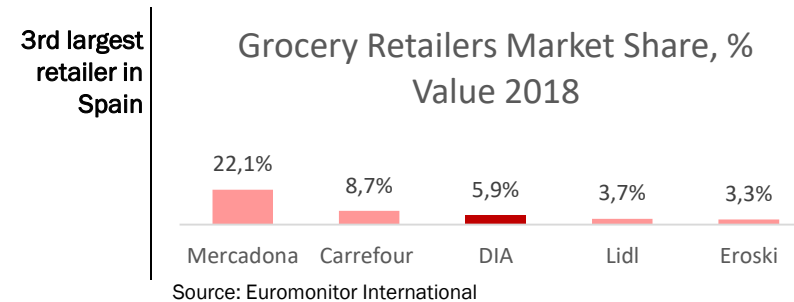
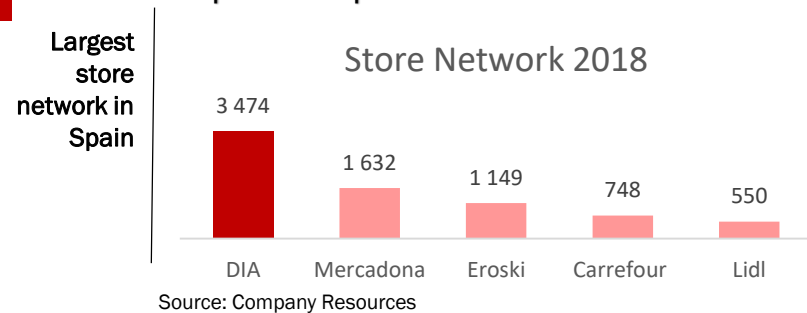
- Western Gate believes in DIA's business model and that the convenience format towards which DIA is moving is the best way forward and the future of retail if the strategy is well executed. Convenience and Data are the two key words we look for in a retail company. We now hold c.2% of the company.

Financial Stress to be solved through a Rights Issue

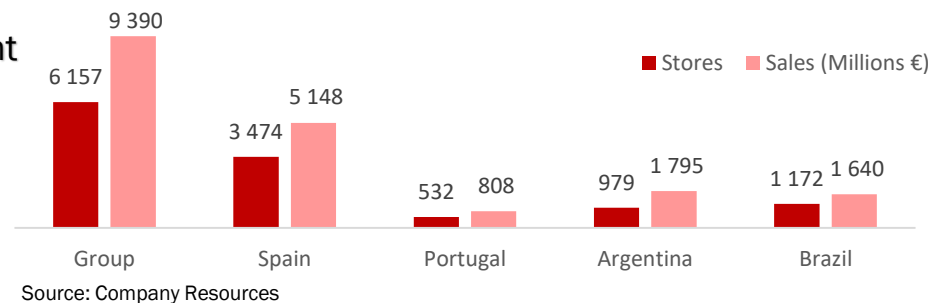
- We feel that DIA is suffering from financial problems within a sound business model that can easily be made much more efficient, and will therefore benefit hugely from a Rights Issue resulting in a decrease in net debt and a resulting solid platform from which to implement the strategy defined by the management board.

➔ A solid opportunity to increase value to stakeholders

A Solid Footprint in Spain



A Solid Global Footprint



Voluntary Tender Offer (VTO) Undervalues DIA

- It is Western Gate's belief that Letterone's offer undermines the share value of DIA, and that Letterone has made use of the confusion from the significant write-offs and FX effects of 2018 to launch its VTO for DIA at a low price.
- Impairments tests led to write-offs of 79,9M EURO, Deferred Tax Assets were reduced by 170M EURO and the adverse FX effects including a -4% effect on net profit and -15,7% on inventories. These one-off items contributed to the negative equity of -166M EURO.
- Company value has been depressed by financial stress, one-off accounting items, profit warnings an unstable governance model at board level.

Impact of Voluntary Tender Offer

Reduction of Net Debt by 500M €

- The 500M EURO cash injection proposed by Letterone will be used to reduce debt and more importantly to pay the July 2019 bond of 306M EURO. This will reduce net debt to 952M EURO, and a leverage ratio of 2,47x EBITDA.

Restore Confidence of Suppliers

- On top of the consequent reduction in net debt, we note that in 2018 there was a shortening of the average payment days by suppliers which should be reversed after the cash injection – leading to a further reduction in net debt.
- Assuming Letterone's capital increase of 500M EURO is passed, we ran a conservative scenario whereby:
 - I. 2/3 of the decrease in payables 2018 is reversed

Effect of Rights Issue on Share Value

Average payment days effect reversed by 2/3

Effect on Net Debt	Million EURO	2018	Post Rights Issue
Change in Negative Trade Working Capital		-274	-228,6
Rights Issue		0	500
Change in Net Debt		-506,1	663,5
Net Debt		1451,6	788,1
Net Debt / EBITDA		3,77x	2,05x

	Dec 2017	Q2 2018	Dec 2018	VTO ² L1 ³	Peers ¹
EV / EBITDA (x)	6,28	5,39	4,52	4,85	7,3
EBITDA	385	385	385	385	385
Enterprise Value	2 418	2 075	1 740	1 867	2 811
Net Debt after capital increase	788	788	788	788	788
Equity Value	1 630	1 287	952	1 079	2 022
Value per Share after capital increase	2,62	2,07	1,53	1,73	3,25
Letterone Voluntary Tender Offer	0,67				
Discount of Letterone VTO: 0,67€	74%	68%	56%	61%	79%
Exit multiple	2,91x	2,09x	1,28x	1,59x	3,85x

Letterone offer versus value of company and peers

- Considering the end of 2018 EV/EBITDA, the offer represents 56% of the company's valuation after the rights issue
- Considering the Peer group, the offer represents 79% discount on the valuation after the rights issue.
- This means that at 0,67€, the upside for Letterone could be 3,85x.

Management's Rights Issue

- In our opinion, the cash injection from the 600M EURO rights issue will, in its view, restore company credibility from the banking system, bond holders and suppliers, and will therefore provide a solid foundation for implementing the strategy of the new management team and also take care of the negative equity situation.
- The same exercise has been done considering a 600M cash injection and the effect from the reversal of the decrease in payables.

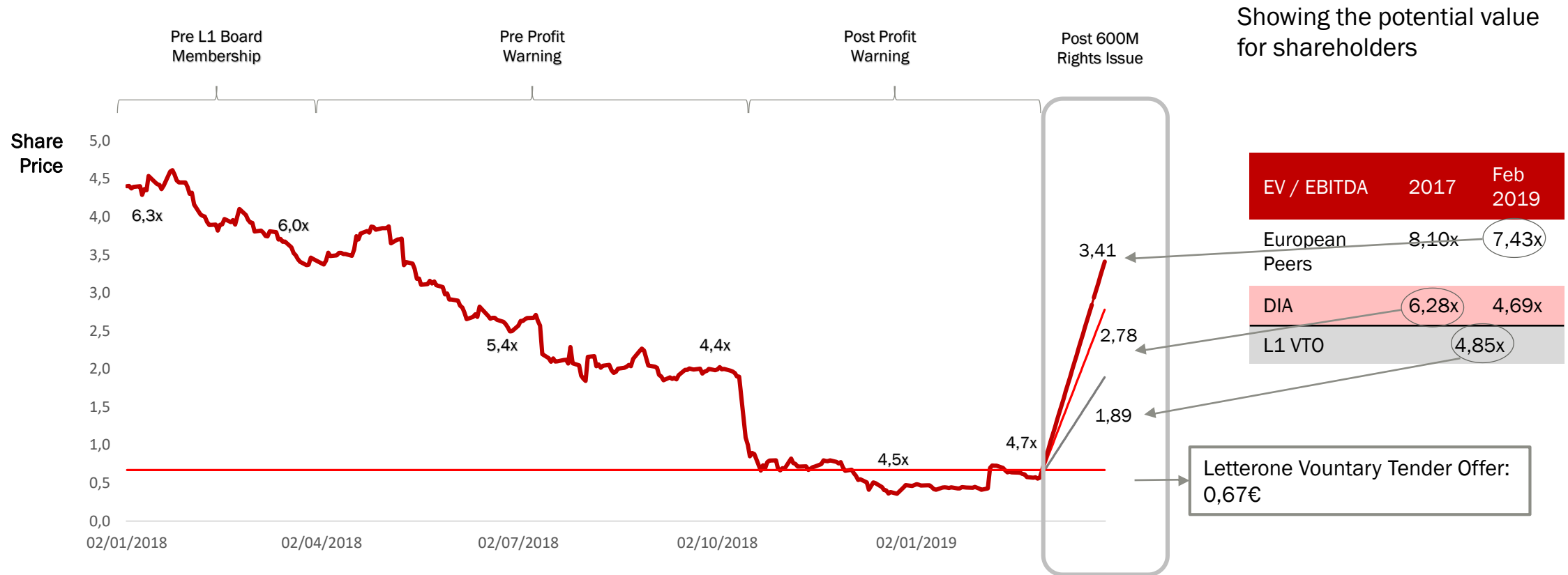
Management's Rights Issue

In the case of the management's solution, Shareholders will be the ones to capture the upside in the short and long term.

Rather than receiving 0,67€ from Letterone, Shareholders' value would increase in the very short term to 1,69€ with the potential upside of reaching 3,41€.

	Dec 2017	Q2 2018	Dec 2018	VTO ² L1 ³	Peers ¹
EV / EBITDA (x)	6,28	5,39	4,52	4,85	7,3
EBITDA	385	385	385	385	385
Enterprise Value	2 418	2 075	1 740	1 867	2 811
Net Debt after capital increase	688	688	688	688	688
Equity Value	1 730	1 387	1 052	1 179	2 122
Value per Share after capital increase	2,78	2,23	1,69	1,89	3,41
Letterone Voluntary Tender Offer	0,67				
Discount of Letterone VTO: 0,67€	76%	70%	60%	65%	80%
Exit multiple	3,15	2,33	1,52	1,83	4,09

Share Price in 2018 and Multiples



Peers: Tesco, Carrefour, Jerónimo Martins, Metro AG

Remarks

- It is Western Gate's opinion that Letterone's Offer does not adequately reflect the value of the company. The capital increase will allow Letterone to at least double their value and potentially triple it at the expense of shareholders.
- Western Gate will support management's rights issue of 600M EURO on the condition that, before the General Meeting, they provide clarity on the nature of the capital increase. Management's Capital increase has to take into account the pre-money valuation of the company (c.400M EURO). The dilution of the shareholders has to assure that the post-money valuation is c.1 000M EURO.
- Western Gate believes that the management's proposal is the one that best provides value to shareholders in the short, medium and long-term. Therefore, we will be supporting the management in the capital increase if an adequate valuation and fair dilution of shareholders takes place.