

Ticker: WLCON

Consumer Sector: Home Improvement and Construction Supplies (HICS)

Current Price: Php 16.00/sh

Valuation Date: 14 Sept 2020

Recommendation: BUY (20.7% Upside)

Price Target: Php 19.32/sh

## WLCON: Buy, Buy, Buy on Build, Build, Build

### Initiating with BUY on dominant market position

We issue a BUY recommendation for Wilcon Depot Inc. (PSE: WLCON). Our DCF-based valuation arrived at a target price of Php 19.32/sh, presenting a 20.7% upside. We like WLCON due to its resilient domestic position, ability to capture industry demand, and its superior profitability. Historically, WLCON traded at 26.3x P/E (2017A-2020A) while its peers traded at 25.8x. WLCON currently trades at 28.9x 2021F P/E and we believe that this premium is justified due to an expected EPS CAGR of 15.9% 2019A-2024F and its PEG ratio of 0.77x.

### Resilient domestic position amidst a global pandemic

The announcement of enhanced community quarantine (ECQ) in Luzon drastically affected WLCON's operations during the 2<sup>nd</sup> quarter. However, since its operations resumed in June, it has experienced a positive SSSG and was even able to open new stores in accordance with their expansion plan. Additionally, WLCON adapted to the new normal by expanding its online presence with a plan of introducing a virtual shopping service by the end of the year. Furthermore, we are also positive that the "accelerated recovery and investments stimulus" or ARISE bill will benefit WLCON as it stimulates the construction industry and consequently increases the demand on construction supply and home furnishing products. Overall, we see WLCON maintain a resilient position compared to other companies.

### Prime position to capture spike in industry demand

WLCON leads the Home Improvement and Construction Supplies (HICS) retailers segment with its market share for home and garden specialists increasing from 7.8% in 2016A to 13.7% in 2019A. We note that the industry is expected to grow faster than its historical rates as the government works on eliminating a house backlog of 6.7 million households by 2030F. WLCON is in prime position to capitalize on this surge of demand with its aggressive expansion plans to expand its physical presence around the country. Together with its consistent same store sales growth, this aggressive expansion plan allows WLCON to continue its double-digit revenue CAGR of 14.72% 2019A-2024F. This strong top-line growth is expected to solidify WLCON's position as the market leader for the HICS retailers sector.

### Superior profitability built on key brand portfolios

WLCON's gross profit margin expanded from 29.7% in 2017A to 33.4% in 2019A. This improvement is attributable to the increased contribution of its high margin in-house and exclusive products over the company's revenue. We are positive that WLCON can continue this trend and increase its gross margin as it targets a 55% revenue mix from its in-house and exclusive products which will result in an estimated gross profit margin of 36.1% in 2025F. Having these exclusive product lines serves a dual purpose as it also provides the company a safeguard against increasing market competition. Furthermore, we believe the increasing size of WLCON will provide it more power over its suppliers as it can negotiate better trade discounts with its larger volume of orders.

### Supply chain, margin management, tax rate are key risks

We identified supply chain management, gross margin, and tax rate as key risks for WLCON. Our valuation model is highly sensitive to changes in gross margin. However, we are positive that WLCON's loyal customer base and power over supplier provide the company ample mitigating measures versus these risks.

|                     | 2018A  | 2019A  | 2020F  | 2021F  | 2022F  | 2023F  | 2024F  |
|---------------------|--------|--------|--------|--------|--------|--------|--------|
| Revenue (Php mn)    | 21,041 | 24,476 | 22,017 | 29,924 | 36,072 | 42,462 | 48,639 |
| EBIT (Php mn)       | 2,183  | 2,780  | 2,131  | 3,452  | 4,442  | 5,530  | 6,635  |
| Net Income (Php mn) | 1,835  | 2,125  | 1,413  | 2,273  | 2,943  | 3,686  | 4,450  |
| Gross Margin (%)    | 31.0%  | 33.0%  | 33.6%  | 34.1%  | 34.6%  | 35.1%  | 35.6%  |
| EPS (Php/sh)        | 0.45   | 0.52   | 0.34   | 0.55   | 0.72   | 0.9    | 1.09   |
| EPS Growth (%)      | 21.6%  | 15.6%  | -33.7% | 60.9%  | 29.5%  | 25.3%  | 20.7%  |
| P/E (x)             | 33.87  | 29.31  | 46.44  | 28.86  | 22.29  | 17.8   | 14.74  |
| ROE (%)             | 14.6%  | 15.2%  | 9.4%   | 14.0%  | 16.2%  | 18.0%  | 19.0%  |

#### COMPANY SNAPSHOT

|                            |          |
|----------------------------|----------|
| Ticker                     | WLCON    |
| Shares Outstanding (mn)    | 4,100    |
| Market Cap (Php mn)        | 63,628bn |
| Adj. 52-Week High (Php/sh) | 19.00    |
| Adj. 52-Week Low (Php/sh)  | 10.50    |
| Free Float (%)             | 33.96%   |

Source: EDGE PSE

#### Relative Share Price Performance (2017A-2020A)



Source: Bloomberg, EDGE PSE

## Business Description

### Leading home improvement and construction supplies retailer

Wilcon Depot Inc. (PSE: WLCON), the country's leading home improvement and construction supplies retailer, offers a wide variety of products that includes both local and international brands of tiles and flooring, plumbing and sanitary wares, building materials, electrical and lighting, paints, hardware and tools, furniture, furnishings and houseware, and appliances. The company offers its products in two retail formats, namely the Depot store format and Home Essentials store format, which are known under the trade names "Wilcon Depot" and "Wilcon Home Essentials," respectively. It is currently operating 60 stores — 53 depots and 7 home essentials stores. Of the 60 stores, 16 are in Metro Manila and 44 are spread across major cities and municipalities all over the country — in Luzon, Visayas, and Mindanao.

Table 1: Snapshot of WLCON Products and Brands

| Products           | Exclusive Brands | Other Brands               |
|--------------------|------------------|----------------------------|
| Appliances         | HEIM, Heritage   | G.E., Haier, Akari         |
| Automotive         | Home Basix       | 3M, Lotus, Outlast         |
| Building Materials | Forest, Woodland | Black and Decker, DeWalt   |
| Doors and Molding  | HEIM             | Timberco                   |
| Electrical         | KAZE, AlphaLux   | Akari, Panasonic           |
| Furniture          | HEIM, Heritage   | Natuzzi                    |
| Hardware           | Direct Hardware  | Haier, Lotus               |
| Home Interior      | HEIM             | Asahi, DETEX               |
| Houseware          | HEIM, Pozzi      | Kohler, Asahi              |
| Outdoor living     | HEIM             | Lotus                      |
| Paint and Sundries |                  | Davies, Rain or Shine      |
| Plumbing           | Pozzi, Sefa      | American Standard, Europak |
| Sanitaryware       | Pozzi, Sefa      | American Standard, Europak |
| Tiles              | Arte, Novabell   |                            |
| Tools              | Direct Hardware  | DeWalt, Lotus              |

Source: Company Information

### Ownership structure

WLCON was incorporated on December 17, 2015 as a subsidiary of Wilcon Corporation (WC) to operate its home improvement and construction supplies retail businesses. It officially started its trading operations on April 1, 2016 when the retail operations including all the retail assets and liabilities were transferred from WC. However, WLCON's retailing business, which it acquired and inherited from WC, has been around since 1977A when Mr. William T. Belo, the founder of WC, opened its first branch in 1977A — a 60-square meter shop offering a variety of local brands of building and finishing materials. A few years after the opening of its first shop, more branches were established and continued to emerge nationwide. In over 40 years, it has become the leading player in the field. WC currently holds 65.38% of the shares while the remaining 33.98% of the shares is owned by the public.

### Consistent profitability record

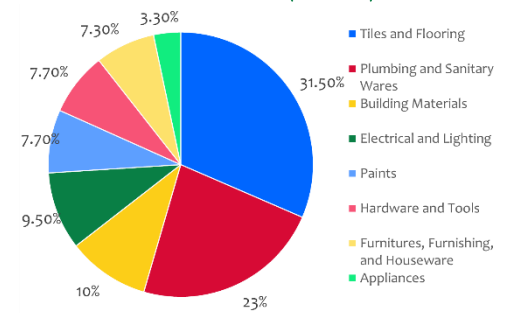
In 2019, WLCON led the home and garden specialist retailers market shares, an aggregation of homewares and home furnishing stores, and home improvement and gardening stores, having a total share of 12% of the market. Since its initial public offering in 2017A, its share price has increased by more than 200%. The company has shown consistent healthy stores sales growth, having a 12.83% CAGR from 2013A to 2019A. WLCON's aggressive store expansion plan of having 100 stores by 2025F is expected to further increase their market share. Moreover, WLCON opened a digital store in 2019A which is a strategic complement to its store-based activity as Filipino consumers are becoming more interested in online retailing. WLCON's depot store format caters to the fast-growing segment of middle to high income homeowners, which are showing increasing demand across new home construction, renovation, repair, and maintenance. By offering a wide-variety of value-priced in-house and international home improvements products and expanding its stores to key cities, WLCON has further boosted its sales and its market presence.

## Industry Overview and Competitive Positioning

### APAC HICS industry outlook expected to remain positive despite COVID-19 situation

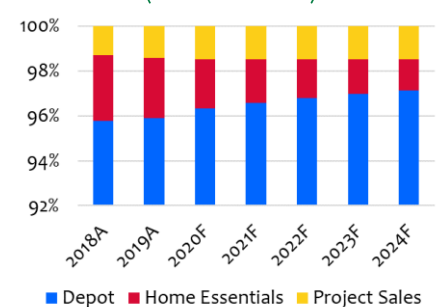
The Home Retail industry in the Asia-Pacific region, especially in developing countries, has experienced positive growth over the past years primarily due to a growing need to modernize living spaces and a rising demand for "Do-it-Yourself" (DIY) projects, expecting to grow by 4.6% CAGR 2019A-2026F. The 'stay-at-home' situation per COVID-19 regulations sparked an increased demand for DIY and interior decor products, in line with the growing need among workers or employees to make home spaces suitable working environments. Additionally, home furnishing e-commerce is an attributing factor, with global online traffic for online home furnishing platforms growing by 8.97% from January to March 2020.

Figure 1: Product Category to Revenue (2019A)



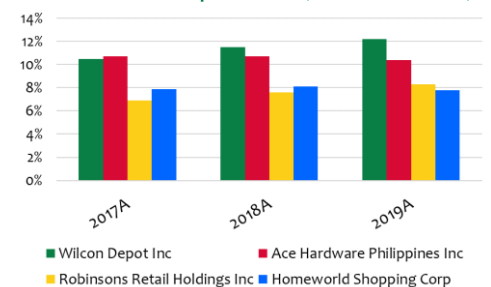
Source: Company Data

Figure 2: Revenue Mix by Segment (2018A-2024F)



Source: Company Data, Team Estimate

Figure 3: WLCON's Historical Market Share vs Competitors (2018A-2024F)



Source: Euromonitor

## Quick post-pandemic recovery of the construction sector to be boosted by government stimulus programs

Since 2015A, the construction industry in the country has increasingly contributed to GDP from 7.7% of real GDP by expenditure in 2015A to 9.0% of GDP in 2019A, amounting to an average annual growth of 10.9%. Even with the slowdown brought by the pandemic, the construction sector is expected to experience a quick recovery as private and public projects resume and the government refocuses its efforts in boosting the sector with its different stimulus programs. The HICS sector is a beneficiary of this recovery in construction as they will be the ones providing both project materials, and the furnishings in the case of houses and offices built.

## Slowdown in retail sector seen as lockdown ensues

The Home and Garden Market in the Philippines grew at a 4.6% CAGR from 2014A to 2019A. However, with the announcement of the ECQ which started on March 16, 2020, businesses and establishments deemed as non-essential by the government, which includes the home improvement sector, were temporarily closed. Foot traffic and activity dropped by as much as 80% in Metro Manila. With the extended general community quarantine (GCQ) period that would most likely span the rest of the year, the Home and Garden Market is expected to contract by 12% according to Euromonitor forecasts. Recovery, however, is expected to be quick as it is expected to post growth of 9% by 2021F which brings it back above pre-COVID levels. Furthermore, a CAGR of 3.8% between 2019A to 2024F is forecasted despite the market disruption brought about by the pandemic.

## Strong demand for HICS foreseen as government tries to eliminate housing backlog

The Home Improvement and Construction Supplies industry grew by 6.6% CAGR from 2017A to 2019A. The strong performance of this industry is brought about by the growth in the residential property market as the housing sector had a CAGR of 8.4% from 2001A-2015A. Moving forward, the demand in this sector is expected to rise as the government aims to eliminate the housing backlog by 2030F. This would mean that an average of at least 1 million homes will be sold annually in the 11 years from 2020F to 2030F, a significant increase from the average of 200,000 homes built and sold annually for the past 5 years. The demand in the HICS industry is expected to benefit from this targeted five-fold increase in homes built annually.

## Peaked e-commerce market growth driven by lockdown protocols

With the implementation of quarantine protocols due to the global pandemic, traditional brick and mortar retailers have become less viable options for consumers as compared to online retailers. Although overall household retail expenditures dropped by 5% during the first quarter of 2020F, Philippine e-commerce utilization has spiked in-line with the stay-at-home protocols in the country. Online shopping platforms such as Lazada, Shopee, and Zalora have reported large boosts in their sales during quarantine periods. Specifically, Shopee identifies home accessories among the top contributors to amplified sales, noting that brands have experienced 40 times more orders through the platform compared to the same period in 2019A. This leads to a reported 48% of the Philippine population planning to focus on online shopping shortly after the onset of the pandemic, which is higher than the global average of 46%. This gives WLCON an opportunity to capitalize on this trend with their online store.

## Expansion continues despite global pandemic

Although expanding its stores amidst this pandemic may pose a challenge, WLCON is not holding back its expansion plan as it successfully opened four stores in 2020F and with two more to be opened by the end of the year. WLCON reiterates that while the store expansion for the year was setback by the pandemic which resulted in 1 less store opening compared to their initial target for 2020F, they are still on pace to open their 65th store by the 1st half of 2021F, ahead of the scheduled year-end 2021F plan. Moreover, their plan to open its 100th store by the end of 2025F remains very achievable given their track record of successful expansion.

## Online platforms launched, to be improved further by year end

With fewer customers going to WLCON's physical stores as a safety precaution, WLCON is expanding its reach through digital platforms. Although they were able to launch their online store by the end of 2019A, there are still some difficulties that arise from this since many of WLCON's customers prefer having physical inspections of the products prior to purchasing them. By the end of 2020F, WLCON is determined to improve their platform by integrating a virtual shopping experience that would allow the online customers to inspect the actual product before purchase and as such improve customer confidence and satisfaction.

Figure 4: Philippine Construction Industry (2018A-2024F)



Source: Euromonitor

Figure 5: Philippine Home and Garden (2018A-2024F)



Source: Euromonitor

Table 2: New Housing Needed (2012A-2030F)

| Market Segment              | Price Range      | Units Needed     | % of Total  |
|-----------------------------|------------------|------------------|-------------|
| Needs Subsidy               | < Php 400k       | 1,449,854        | 23%         |
| Socialized Housing          | < Php 400k       | 1,582,497        | 25%         |
| Economic Housing            | Php 400k - 1.25M | 2,588,897        | 42%         |
| Low Cost Housing            | Php 1.25k - 3M   | 605,692          | 10%         |
| <b>Total Housing Needed</b> |                  | <b>6,226,940</b> | <b>100%</b> |

Total New Need Average:

345,941 housing units per year

Source: Industry.gov.ph

Figure 6: Philippine E-commerce (2018A-2024F)



Source: Euromonitor



## Sales enjoy V-shaped recovery

With the lower levels of foot traffic due to quarantine and lockdown protocols in place, WLCON's sales number for the 2nd quarter took a massive hit. We do note however that after the stores re-opened when quarantine protocols were relaxed, WLCON was able to quickly recover as sales in June were at pre-COVID levels. Moving forward, WLCON's daily sales is expected to grow from the pent-up demand due to closure, resumption of private construction, and increase in demand as a byproduct of the lockdown procedures which has led to increased focus in improving people's own homes. This increase in demand is evidenced by the Philippine Producer Price Index, in which furniture and fixtures continue to be the leading industry category with a 21.4% YoY growth in May and a 19.7% YoY growth in June for 2020F.

## Indirect beneficiary of government stimulus programs

With the Build, Build, Build program facing setback, the administration has expressed its plans to stimulate the economy with the "accelerated recovery and investments stimulus" or ARISE bill. WLCON is seen to be an indirect beneficiary of the said bill which intends to revitalize the government's infrastructure efforts by allocating more than 650 billion of its PHP 1.3 trillion budget. The growth of the construction sector will consequently increase the demand for home improvement and construction supplies which will ultimately benefit the market leader, WLCON.

## Top player in the industry, outperforming the market

WLCON has developed a strong brand presence over the years as a one-stop-shop for home improvement and construction needs. With its 60-store network, it is able to maintain its dominant position in the industry with its physical presence over the country. Furthermore, WLCON's 40 years of experience in the industry makes it the oldest and most established HICS retailer. Over the years, it was able to establish a large network of suppliers and consumers by expanding their product selections. Currently, WLCON offers over 2,000 local and foreign brands and up to 150,000 SKUs. With its large network and long history, WLCON is able to deliver high quality products in large quantities other emerging competitors cannot. WLCON's ability to aggressively expand its store network allows it to be the top player in the industry while also experiencing faster than market growth.

## Large store format provides unique competitive advantage

WLCON has two retail formats, namely "Wilcon Depot" and "Wilcon Home Essentials". Its large-scale home depot format, with an average of 9,260 sqm, contributes to 97% of its revenues. This large-scale format gives WLCON a natural hedge against competitors as the large format is not easily replicable due to its high capital cost, which is currently at 185 million, excluding lot price, per depot for WLCON. The large floor area gives them the ability to offer much bulkier items such as tiles, plumbing, and furniture, which would not be feasible for smaller store formats such as those of hardware retailers inside malls.

## Loyal customer base due to exclusive brand portfolio

WLCON's line of in-house and exclusive products serve the dual purpose of expanding gross margins whilst also developing a loyal customer base for the company. It can be noted that WLCON's exclusive products contributed to 51.2% of sales for the first half of 2020F, as compared to 6% for its next closest competitor. This loyalty from customers can be seen in its steady same store sales growth (SSSG) for the past 3 years which was pegged at 6.9% 2017A-2019A as well as its loyalty card program which was launched in 2011A and currently has 730,548 members. As WLCON continues to expand its brand portfolio and shift its sales mix towards these exclusive brands, more customers will stay loyal to WLCON and thus mitigate the threats of substitute and competition.

## Well-hedged against competitive pressures

Our Porter 5 analysis of WLCON showed that it is well-hedged against competitive pressures. It faces low threats from its suppliers due to the large volume of its purchases as well as its long-standing relationship with its suppliers. WLCON faces moderate threat from new entrants as the HICS industry is capital intensive and requires an established value chain. Additionally, we found WLCON to experience low to moderate threat from its buyers as high cost products will force them to look for substitutes from other retailers. WLCON also faces moderate to high threat from some of its existing competitors as they have similar aggressive expansion plans that allow them to grab WLCON's market shares.

## Investment Summary

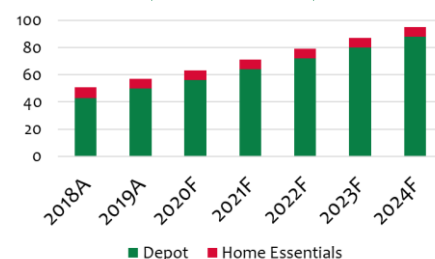
We issue a BUY recommendation on Wilcon Depot Inc. (WLCON) with a DCF-based price target of Php 19.32/sh, presenting 20.7% upside. We are positive on WLCON due to its resilient domestic position, ability to capture industry demand, and superior profitability. We note that WLCON trades at 28.9x 2021F P/E, above its historical valuations of 26.3x P/E (2017A-2020A) and its peers at 25.8x. We believe that this premium is warranted given WLCON's strong ability to post a five-year EPS CAGR of 15.9% 2019A-2024F.

Figure 7: WLCON Revenues (2018A-2024F)



Source: Company Data, Team Estimate

Figure 8: WLCON Store Network (2018A-2024F)



Source: Company Data, Team Estimates

Figure 9: WLCON Porter 5 Analysis



Source: Team Estimates

## Resilient domestic position amidst a global pandemic

WLCON is quick to recover amidst the pandemic since it resumed its operations after the announcement of GCQ. The company has already experienced a positive YoY growth since June and was even able to open new stores in accordance with their expansion plan. Moreover, WLCON is quick to adapt to the new normal when it starts to expand and improve its online store with its plan of introducing a virtual shopping service by the end of the year. Furthermore, the “accelerated recovery and investments stimulus” or ARISE bill is seen to benefit WLCON as it will revitalize the government’s infrastructure efforts thereby increasing demand for home furnishing products. Overall, we see WLCON maintain a resilient position compared to other companies.

## Prime position to capture spike in industry demand

WLCON owns a dominant position in the Home Improvement and Construction Supplies (HICS) retailers segment with its market share for home and garden specialists increasing from 7.8% in 2016A to 13.7% in 2019A. We note that the industry posted growths of 6.6% CAGR from 2017A to 2019A and is expected to grow at a much faster rate as the government works on eliminating a house backlog of 6.7 million households by 2030F. WLCON is in prime position to capitalize on this spike in demand with its aggressive expansion plans to open its 100th store by the year end of 2025F. Coupled with its steady same store sales growth, this aggressive expansion plan should allow WLCON to continue its double digits top-line CAGR of 14.72% 2019A-2024F. The strong top-line growth of WLCON is expected to solidify its position as the market leader for the HICS retailers sector.

## Superior profitability built on key brand portfolios

WLCON continues to improve its gross profit margin from 29.7% in 2017A to 33.4% in 2019A. This performance is largely influenced by its high margin in-house and exclusive products which are increasing their share over the company’s revenue mix. We expect WLCON to continue increasing its gross margin as it targets a 55% revenue mix from in-house and exclusive products thus translating to an overall gross profit margin of 36.1% in 2025F. Having these exclusive product lines serves dual purposes as it also provides the company a safeguard against increasing market competition. Furthermore, we believe that this shift will provide WLCON more power over its suppliers as it can negotiate better trade discounts with its larger volume of orders.

## DCF valuation confirms resilient growth

Our DCF valuation arrived at a target price of Php 19.32/sh, presenting 20.7% upside. Our DCF is based on a WACC of 10.4% and a terminal growth rate of 3.0%. We forecast WLCON to deliver a five-year EPS CAGR 2019A-2024F of 15.9%. We also expect WLCON’s margins to expand due to the increasing share of higher-margin products. These will allow WLCON to deliver sustainable earnings growth in the long run given its aggressive expansion plans.

## Supply chain, gross margin, tax rate are key risks

We identified supply chain management, gross margin, and tax rate as key risks for WLCON. Our valuation showed the highest sensitivity to gross margin changes. We note, however, that WLCON’s loyal customer base and power over supplier provide the company ample mitigating measures versus these risks.

# Valuation

Our computation arrived at a price target of Php 19.32/sh using a DCF-based valuation. We used a DCF model for all WLCON’s segments, depots and home essentials, by applying a WACC of 10.4% and a terminal growth rate of 3.0%. Our forward 2021F P/E for WLCON is 28.9x, above the average P/E of branded regional peers (25.8x).

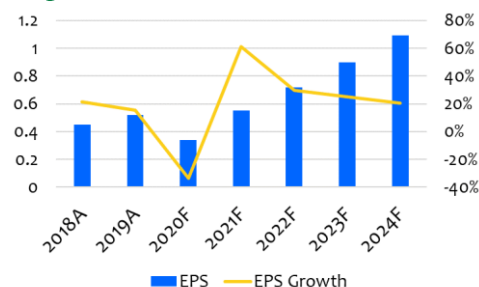
## Revenues

We forecasted WLCON’s revenues using net ticket growth, traffic growth, and new-to-maturity stores ratio increases as key drivers as shown in Table 3. We based our estimates for these figures on its historical growth with adjustments for the years 2020F to 2022F to account for the effects of the pandemic and its subsequent recovery. We noted that traffic growth in 2020F suffered a great decline due to the decrease in foot traffic and consumer confidence, but we expect this to recover over the next 2 years. Long-term forecasted growths were based on expected inflation rates.

## Margins

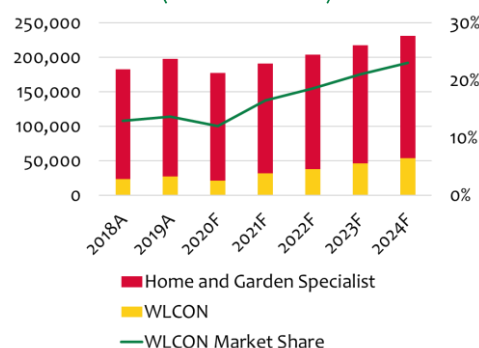
We estimated WLCON’s average gross margin by products using its historical record. For the year 2020F, we assumed a gross margin of 45% for its in-house and exclusive products and a gross margin of 21.5% for its other brands. In the long run, we expect WLCON to improve its margins to 48% and 21.5% for its in-house and exclusive products and other brands, respectively. In computing its average gross margin, we noted that in-house and exclusive products will continue to contribute more to its sales mix. In 2020F, we expect WLCON to achieve 51.5% of its sales from its high margin products and continue to increase until a level of 55% by 2025F.

Figure 10: WLCON EPS (2018A-2024F)



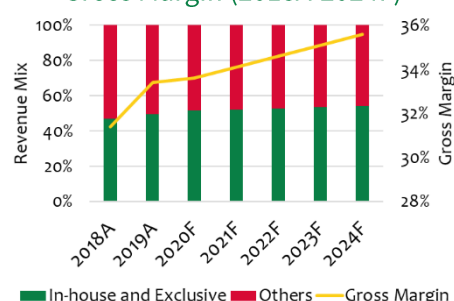
Source: Company Data, Team Estimates

Figure 11: WLCON Market Share (2018A-2024F)



Source: Company Data, Euromonitor, Team Estimates

Figure 12: WLCON Revenue Mix and Gross Margin (2018A-2024F)



Source: Company Data, Team Estimates

Table 3: Same Store Sales Growth Breakdown and New-to-Maturity Ratio (2020F-2023F)

|                           | 2020F  | 2021F | 2022F | 2023F |
|---------------------------|--------|-------|-------|-------|
| SSSG                      | -23.2% | 15.0% | 7.6%  | 4.5%  |
| Traffic Growth            | -20.0% | 10.0% | 4.0%  | 3.0%  |
| Average Net Ticket Growth | -4.0%  | 4.5%  | 3.5%  | 1.5%  |
| New-to-Maturity           | 30.0%  | 40.0% | 40.0% | 40.0% |

Source: Company Information, Team Estimates

Table 4: Revenue Mix and Gross Margin (2018A-2024F)

|                                      | 2018A        | 2019A        | 2020F        | 2021F        | 2022F        | 2023F        | 2024F        |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Revenue Mix (In-house and exclusive) | 46.9%        | 49.5%        | 51.5%        | 52.2%        | 52.9%        | 53.6%        | 54.3%        |
| Revenue Mix (Other)                  | 53.1%        | 50.5%        | 48.5%        | 47.8%        | 47.1%        | 46.4%        | 45.7%        |
| GPM (In-house and exclusive)         | *            | *            | 45.0%        | 45.6%        | 46.2%        | 46.8%        | 47.4%        |
| GPM (Other)                          | *            | *            | 21.5%        | 21.5%        | 21.5%        | 21.5%        | 21.5%        |
| <b>Gross Margin</b>                  | <b>31.4%</b> | <b>33.4%</b> | <b>33.6%</b> | <b>34.1%</b> | <b>34.6%</b> | <b>35.1%</b> | <b>35.6%</b> |

\*No data given by the company

Source: Company Data, Team Estimates

## Terminal growth rate

Our terminal growth rate of 3.0% is based on long-run inflation in the Philippines and the growth rate of the HICS industry in mature markets with a CAGR of 4% (US).

## Weighted average cost of capital (WACC)

We applied a WACC of 10.4% for our DCF valuation for WLCON, using a risk-free rate of 4.5%, adjusted beta of 0.82, and a debt-to-equity level of 30%. We present our comprehensive WACC assumptions below:

Table 5: WACC Assumptions

| Assumptions          | Rate         | Methodology   |
|----------------------|--------------|---|
| Risk-Free Rate       | 4.5%         | Forward yield of 10-year Philippine government bond |
| Market Risk Premium  | 8.0%         | Bloomberg data                                      |
| Unadjusted Beta      | 0.73         | Bloomberg data                                      |
| Cost of Equity       | 12.4%        | Calculated via CAPM                                 |
| Pre-tax Cost of Debt | 5.5%         | WLCON's interest rate on existing debt              |
| Tax Rate             | 32.8%        | WLCON's effective tax rate                          |
| Debt-to-Equity       | 30.0%        | WLCON's historical D/E                              |
| <b>WACC</b>          | <b>10.4%</b> |   |

Source: Company Data, Bloomberg, Team Estimates

## Relative valuation

Our valuation model expects WLCON to register an EPS of Php 0.55/sh by 2021F. Additionally, we calculated the average P/E of peer companies to be 25.82x implying a fair price of Php 14.30/sh via relative valuation for WLCON. However, we believe that this premium is warranted given WLCON's growth prospects. Factoring in growth relative to the P/E ratio, WLCON is expected to present a PEG ratio of 0.77x which shows that it is trading at a lower multiple and is currently being undervalued by the market.

# Financial Analysis

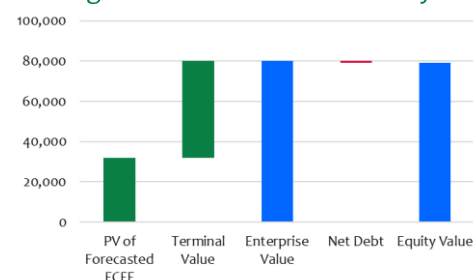
## Product mix to sustain gross margin expansion

We expect WLCON to be able to continually expand its gross margins as sales mix shift towards the higher margin in-house and exclusive products. We note that while in 2019A, exclusive products contributed to less than 50% of their sales, we expect these exclusive products to grow to 55% of their revenue mix as the company continuously expands its brand portfolio. This is in-line with the company's 2025F goal of having 55% of their revenue coming from the high margin exclusive products. Moreover, with the increasing size of WLCON, they would be able to increase their bargaining powers and as such, we estimate these effects to translate to a 36.1% gross margin for 2025F from the current level of 33.4%.

## Strong expansion plans allowing double-digit top-line growth

As part of their expansion policy, WLCON plans to open 6 new stores by the end of 2020F despite the pandemic. On top of this, expansion plans of 9 stores a year extends until 2025F to reach their targeted 100-store network nationwide. This expansion would allow WLCON to capture the expected increase in demand as the government focuses on increasing the amount of housing projects. Coupled with same store sales growth brought about by its loyal customer base created by the growing exclusive product line, this expansion plan is expected to drive WLCON's double digit growth top line growth. Moreover, we also expect WLCON to increase their online presence, having already launched their online store last 2019A. We expect WLCON to improve on these features with their planned launch of a virtual shopping experience to capitalize on the e-commerce boom brought about by the pandemic. With all these taken into account, we forecast a 14.7% 5-year revenue CAGR 2019A-2024F which would allow WLCON to cement its position as the market leader for the HICS industry.

Figure 13: Valuation Summary



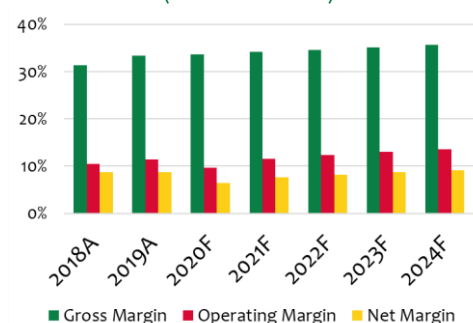
Source: Team Estimates

Table 6: Relative Valuation Peer Table

| Ticker           | Company                      | P/E (x) |       |
|------------------|------------------------------|---------|-------|
|                  |                              | 2020F   | 2021F |
| HOME PM Equity   | ALLHOME CORP                 | 20.78   | 12.89 |
| RRHI PM Equity   | ROBINSONS RETAIL HOLDINGS IN | 23.37   | 19.43 |
| GLOBAL TB Equity | SIAM GLOBAL HOUSE PCL        | 43.23   | 35.61 |
| HMPRO TB Equity  | HOME PRODUCT CENTER PCL      | 39.05   | 32.44 |
| ACES IJ Equity   | ACE HARDWARE INDONESIA       | 33.01   | 25.82 |
| Median           |                              | 25.82   |       |

Source: Bloomberg, Team Estimates

Figure 14: Gross, Operating, Net Margin (2018A-2024F)



Source: Company Data, Team Estimates



Table 7: Key Financial Ratios (2018A-2024F)

|                | Units  | 2018A  | 2019A  | 2020F  | 2021F  | 2022F  | 2023F  | 2024F  |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Gross Margin   | %      | 31.40% | 33.40% | 33.60% | 34.10% | 34.60% | 35.10% | 35.60% |
| Net Margin     | %      | 8.70%  | 8.70%  | 6.40%  | 7.60%  | 8.20%  | 8.70%  | 9.10%  |
| Current Ratio  | x      | 2.70   | 2.10   | 2.20   | 2.20   | 2.20   | 2.20   | 2.30   |
| Debt to Equity | %      | 0.00%  | 37.40% | 30.60% | 27.60% | 24.10% | 20.40% | 16.60% |
| CFO to Revenue | %      | 9.90%  | 10.30% | 13.60% | 9.50%  | 10.00% | 10.60% | 11.40% |
| P/E            | x      | 35.56  | 30.77  | 46.44  | 28.86  | 22.29  | 17.80  | 14.74  |
| EPS            | Php/sh | 0.45   | 0.52   | 0.34   | 0.55   | 0.72   | 0.90   | 1.09   |

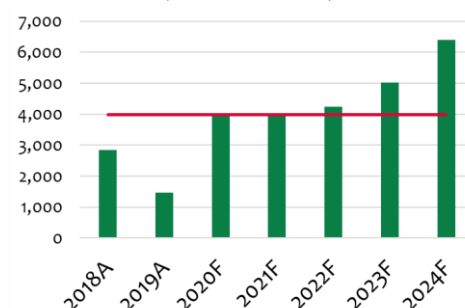
### Robust balance sheet supportive of future expansion

We are optimistic that WLCON still has potential for further expansion after reaching their 100th store. WLCON has maintained a robust balance sheet since its IPO in 2017A. The IPO proceeds were used to pay off most of its outstanding debt and fund its initial 29 store expansion plan. As of 2019A, WLCON had a cash position of 1.4bn and 2.254bn worth of retail treasury bonds maturing in 2020F. This helps WLCON stay resilient against economy shocks such as the ongoing pandemic. Moreover, together with its ability to generate strong cash flow which can be seen in its CFO/Revenue ratio of 10.30% in 2019A, we are confident that WLCON would be able to sustainably execute its future expansion plans.

### Increasing profitability to ensure quality returns

We expect WLCON to deliver a 5-year EPS CAGR of 15.9% 2019A-2024F due to 1.) product mix strategy that is expected to sustain its gross margin expansion 2.) its ability to deliver on its expansion plans with its robust balance sheet, and 3.) double digit revenue growth driven by said store expansions.

Figure 15: WLCON Cash Balance (2018A-2024F)



Source: Company Data, Team Estimates

## Investment Risk

### Industry Risk 1 (IR1) | Supply Chain Risk

WLCON sources 70% of its inventory from China. If the situation of the pandemic in the country does not ease soon, it could potentially disrupt the global supply chain including shipments of WLCON's inventories from China. As a result, WLCON faces the risk of having supply disruptions for its products. However, we believe that the company can mitigate this risk by shifting to its local suppliers in the short run to keep up with the demand.

### Industry Risk 2 (IR2) | Competition Risk

Local and international retail chain operators pose a threat of grabbing WLCON's market share. The various competitors are positioned in different ways — as large and comprehensive stand-alone depots, as mall-based and smaller stores, or as specialized stores inside the depots and stores. Currently, WLCON's biggest threat is from the entry of IKEA, an international big brand name from Sweden, into the Philippine market in 2021F. This will pose a threat to WLCON since this will be the largest IKEA store in the world — with a size of 65,000 sqm. Moreover, international home improvement brands, such as Ace Hardware, True Value, and Handyman Do it Best, and local brands, such as the SM Retail, Robinsons Retail Holdings, Inc. and All Home, also compete with WLCON. However, we believe WLCON is not heavily affected because the market is fragmented and competitors do not have the presence and scale of WLCON. Moreover, customer loyalty is expected as WLCON's exclusive products contribute to more than half of its sales.

### Market Risk 1 (MR1) | Slower Economic Activity Risk

The decrease in consumers' disposable income and the slowdown of government infrastructure projects is likely to affect WLCON's recovery as these will decrease the demand for WLCON's products. However, we are positive that this risk can be mitigated with the government's implementation of the ARISE bill which can result in an upward pressure on the demand of WLCON's product.

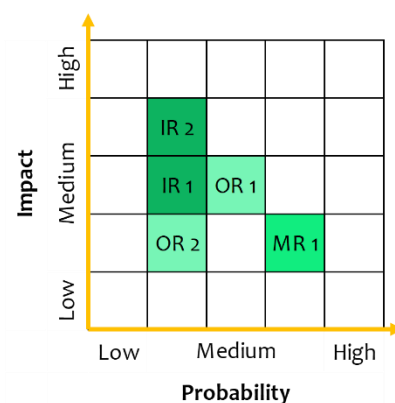
### Operations Risk 1 (OR1) | Slow Growth Risk

Much of WLCON's growth prospects are dependent on its ability to expand its store network in key locations. With the pandemic, consumers are opting to shop online, thus eliminating the need to go to physical stores to buy WLCON's products. Moreover, the pandemic also poses a threat to the original plan of opening 100 stores by 2025F. However, we are positive that WLCON's physical stores can still bring in more revenue post-pandemic due to the nature of WLCON's product which requires physical inspection, something customers are unable to do in online stores without a virtual shopping service.

### Operations Risk 2 (OR2) | Store Network Risk

WLCON runs the risk of not diversifying its store network since most of its stores are located in Luzon. We note that quarantine protocols implemented in Luzon areas highly affected WLCON's revenues as it makes up 85% of the company's total revenue. However, we believe that WLCON is already mitigating this risk with their plan to establish more store networks in the Visayas and Mindanao regions.

Figure 16: Investment Risk Matrix



Source: Team Estimates

# Sensitivity and Scenario Analysis

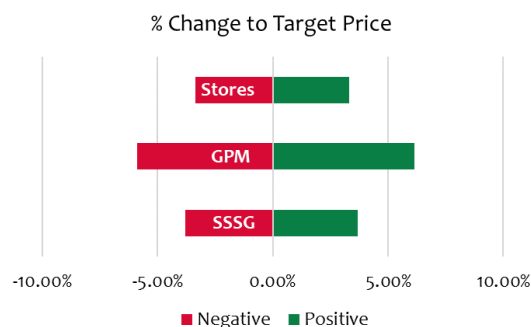
We identify a) gross profit margin, b) same store sales growth, and c) new store rollout as key variables to our forecasts. Our base case scenario shows the highest sensitivity to gross profit margin, but we believe in WLCON's ability to manage the gross margin as it has bargaining power over its suppliers. We summarize the results of our analysis below:

Table 8: Sensitivity Analysis of Key Assumptions

|                                      | Base Case | Positive Case | Negative Case |
|--------------------------------------|-----------|---------------|---------------|
| Long-run Same Store Sales Growth     | 3.00%     | 4.00%         | 2.00%         |
| Long-run Gross Margin                | 36.10%    | 37.10%        | 35.10%        |
| Annual New Store Rollout before 2025 | 8         | 9             | 7             |

Source: Team Estimates

Figure 17: Sensitivity Analysis of Key Assumptions



Source: Team Estimates

We also ran a sensitivity analysis to check a) the impact of changes to the Philippine corporate tax regime and b) the effect of changes to our WACC and terminal growth assumptions.

## Tax reform sensitivity

We estimated the effect of the tax provisions on the price target of WLCON. Our sensitivity analysis shows that the price target increased by 8.75% with the new tax rate of 25.0%.

Table 9: Sensitivity Analysis of Changes in Tax Rate

|                | Tax Rate | Target Price | % Change |
|----------------|----------|--------------|----------|
| Current Regime | 32.8%    | 19.54        | -        |
| CREATE         | 25.0%    | 21.01        | 8.75%    |

Source: Team Estimates

## WACC and terminal growth rate scenario analysis

We note that an increase between 75 bps to 171bps to our WACC, presenting a target price with 7% upside to 7% downside, turns our recommendation into a HOLD and an increase of more than 171 bps, presenting 7% downside or more, turns it into a SELL.

Table 10: Target Price of Scenario Analysis

| Terminal Growth Rate | Weighted Average Cost of Capital |       |        |        |        |
|----------------------|----------------------------------|-------|--------|--------|--------|
|                      | 9.40%                            | 9.90% | 10.40% | 10.90% | 11.40% |
| 2.00%                | 20.92                            | 19.27 | 17.83  | 16.56  | 15.43  |
| 2.50%                | 21.91                            | 20.10 | 18.53  | 17.15  | 15.93  |
| 3.00%                | 23.06                            | 21.05 | 19.32  | 17.81  | 16.50  |
| 3.50%                | 24.40                            | 22.14 | 20.22  | 18.57  | 17.13  |
| 4.00%                | 25.99                            | 23.42 | 21.27  | 19.44  | 17.86  |

Source: Team Estimates

Table 11: Change in Target Price of Scenario Analysis

| Terminal Growth Rate | Weighted Average Cost of Capital |        |        |         |         |
|----------------------|----------------------------------|--------|--------|---------|---------|
|                      | 9.40%                            | 9.90%  | 10.40% | 10.90%  | 11.40%  |
| 2.00%                | 8.28%                            | -0.26% | -7.71% | -14.29% | -20.13% |
| 2.50%                | 13.41%                           | 4.04%  | -4.09% | -11.23% | -17.55% |
| 3.00%                | 19.36%                           | 8.95%  | 0.00%  | -7.82%  | -14.60% |
| 3.50%                | 26.29%                           | 14.60% | 4.66%  | -3.88%  | -11.34% |
| 4.00%                | 34.52%                           | 21.22% | 10.09% | 0.62%   | -7.56%  |

Source: Team Estimates

# Corporate Governance

## Corporate governance and social responsibility

WLCON ensures compliance with its Revised Manual on Corporate Governance and practices social responsibility. WLCON continues to support its long-time partner, Green Architecture Advocacy Philippines (Green AP) with the idea of "Sustainability for All: A Decade and Beyond".

## Board independence and diversity

WLCON has taken steps to move towards board independence. Currently, WLCON's board of directors consists of seven members. Four out of seven members are non-executive, and all four members are also independent directors. We note that WLCON is compliant with the stipulated qualifications in the SEC Corporation Code for corporate succession. This is seen in WLCON's commitment to the principle of, "all board appointments being based on merit, in the context of skills, experience, independence and knowledge, and candidates will be considered against objective criteria"

## Related party transactions kept at an arm's length basis

WLCON has a related party transactions (RPT) committee that is primarily tasked with the reviewing of all material related party transactions. We also note that WLCON adopted a Policy on Material Related Party Transactions in compliance with SEC Memorandum Circular No. 10 series of 2019 on the stipulated rules regarding material related party transactions for publicly listed companies.



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# Glossary of Terms

| Abbreviation | Full Term   |
|--------------|---|
| WC           | Wilcon Corporation                                    |
| WLCON        | Wilcon Depot, Inc.                                    |
| BSP          | Bangko Sentral ng Pilipinas                           |
| CAGR         | Compounded Annual Growth Rate                         |
| Capex        | Capital Expenditures                                  |
| CIT          | Corporate Income Tax                                  |
| CREATE       | Corporate Recovery and Tax Incentives for Enterprises |
| CTRP         | Comprehensive Tax Reform Program                      |
| D/E          | Debt to Equity Ratio                                  |
| DCF          | Discounted Cash Flow                                  |
| ECQ          | Enhanced Community Quarantine                         |
| EPS          | Earnings per Share                                    |
| GDP          | Gross Domestic Product                                |
| GPM          | Gross Profit Margin                                   |
| HICS         | Home Improvement and Construction Supplies            |
| NCR          | National Capital Region                               |
| P/E          | Price-to-Earnings Ratio                               |
| RPT          | Related Party Transactions                            |
| SEC          | Securities and Exchange Commission                    |
| SSSG         | Same Stores Sales Growth                              |
| TP           | Target Price  |
| TRAIN        | Tax Reform for Acceleration and Inclusion             |
| WACC         | Weighted Average Cost of Capital                      |
| YoY          | Year-on-Year  |

## Appendix A: Financials

### Appendix A-1: Income Statement

|                                | 2018A        | 2019A        | 2020F        | 2021F         | 2022F         | 2023F         | 2024F         |
|--------------------------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|
| Net Sales                      | 21,041       | 24,476       | 22,017       | 29,924        | 36,072        | 42,462        | 48,639        |
| Cost of Goods Sold             | 14,438       | 16,300       | 14,619       | 19,726        | 23,604        | 27,574        | 31,341        |
| <b>Gross Profit</b>            | <b>6,603</b> | <b>8,176</b> | <b>7,398</b> | <b>10,198</b> | <b>12,469</b> | <b>14,887</b> | <b>17,298</b> |
| Operating expenses             | 4,256        | 4,262        | 4,056        | 5,334         | 6,413         | 7,538         | 8,635         |
| <b>EBITDA</b>                  | <b>2,347</b> | <b>3,913</b> | <b>3,343</b> | <b>4,864</b>  | <b>6,056</b>  | <b>7,349</b>  | <b>8,662</b>  |
| Depreciation and amortization  | 165          | 1,133        | 1,212        | 1,412         | 1,614         | 1,819         | 2,027         |
| <b>Operating Profit</b>        | <b>2,183</b> | <b>2,780</b> | <b>2,131</b> | <b>3,452</b>  | <b>4,442</b>  | <b>5,530</b>  | <b>6,635</b>  |
| Interest Expense               | 2            | 300          | 188          | 189           | 185           | 178           | 166           |
| Other income (expense), net    | 359          | 463          | 158          | 117           | 120           | 130           | 149           |
| <b>Income before Tax</b>       | <b>2,540</b> | <b>2,943</b> | <b>2,101</b> | <b>3,380</b>  | <b>4,377</b>  | <b>5,482</b>  | <b>6,619</b>  |
| Provision for income taxes     | 726          | 964          | 689          | 1,108         | 1,434         | 1,796         | 2,169         |
| Deferred tax benefit (expense) | -22          | -146         | -            | -             | -             | -             | -             |
| <b>Net Income</b>              | <b>1,835</b> | <b>2,125</b> | <b>1,413</b> | <b>2,273</b>  | <b>2,943</b>  | <b>3,686</b>  | <b>4,450</b>  |

Source: Company Data, Team Estimates

## Appendix A-2: Common Size Income Statement

|                                   | 2018A      | 2019A      | 2020F      | 2021F      | 2022F      | 2023F      | 2024F      |
|-----------------------------------|------------|------------|------------|------------|------------|------------|------------|
| Net Sales                         | 100%       | 100%       | 100%       | 100%       | 100%       | 100%       | 100%       |
| Cost of Goods Sold                | 69%        | 67%        | 66%        | 66%        | 65%        | 65%        | 64%        |
| <b>Gross Profit</b>               | <b>31%</b> | <b>33%</b> | <b>34%</b> | <b>34%</b> | <b>35%</b> | <b>35%</b> | <b>36%</b> |
| Operating expenses                | 20%        | 17%        | 18%        | 18%        | 18%        | 18%        | 18%        |
| <b>EBITDA</b>                     | <b>11%</b> | <b>16%</b> | <b>15%</b> | <b>16%</b> | <b>17%</b> | <b>17%</b> | <b>18%</b> |
| Depreciation and amortization     | 1%         | 5%         | 6%         | 5%         | 4%         | 4%         | 4%         |
| <b>Operating Profit</b>           | <b>10%</b> | <b>11%</b> | <b>10%</b> | <b>12%</b> | <b>12%</b> | <b>13%</b> | <b>14%</b> |
| Interest Expense                  | 0%         | 1%         | 1%         | 1%         | 1%         | 0%         | 0%         |
| Other income (expense), net       | 2%         | 2%         | 1%         | 0%         | 0%         | 0%         | 0%         |
| Income before Tax                 | 12%        | 12%        | 10%        | 11%        | 12%        | 13%        | 14%        |
| <b>Provision for income taxes</b> | <b>3%</b>  | <b>4%</b>  | <b>3%</b>  | <b>4%</b>  | <b>4%</b>  | <b>4%</b>  | <b>4%</b>  |
| Deferred tax benefit (expense)    | 0%         | -1%        | 0%         | 0%         | 0%         | 0%         | 0%         |
| <b>Net Income</b>                 | <b>9%</b>  | <b>9%</b>  | <b>6%</b>  | <b>8%</b>  | <b>8%</b>  | <b>9%</b>  | <b>9%</b>  |

Source: Company Data, Team Estimates

## Appendix A-3: Balance Sheet

|   | 2018A         | 2019A         | 2020F         | 2021F         | 2022F         | 2023F         | 2024F         |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Assets</b>   |               |               |               |               |               |               |               |
| Cash and cash equivalents                                 | 2,842         | 1,462         | 4,005         | 3,978         | 4,232         | 5,019         | 6,407         |
| Short-term investments                                    | -             | 616           | -             | -             | -             | -             | -             |
| Investments in retail treasury bonds                      | -             | 2,254         | -             | -             | -             | -             | -             |
| Trade and other receivables                               | 307           | 440           | 410           | 456           | 550           | 648           | 742           |
| Merchandise inventories                                   | 7,331         | 9,518         | 8,851         | 10,214        | 12,222        | 14,278        | 16,229        |
| Other current assets                                      | 644           | 733           | 733           | 733           | 733           | 733           | 733           |
| <b>Current assets</b>                                     | <b>11,123</b> | <b>15,022</b> | <b>14,000</b> | <b>15,381</b> | <b>17,737</b> | <b>20,677</b> | <b>24,111</b> |
| Financial assets  | 2,907         | -             | -             | -             | -             | -             | -             |
| Property, plant and equipment - net                       | 2,767         | 4,981         | 5,714         | 6,771         | 7,779         | 8,739         | 9,648         |
| ROU assets - net  | -             | 5,260         | 5,073         | 4,990         | 4,803         | 4,510         | 4,113         |
| Net deferred tax assets                                   | 138           | 334           | 334           | 334           | 334           | 334           | 334           |
| Other noncurrent assets                                   | 567           | 639           | 654           | 664           | 671           | 674           | 674           |
| <b>Noncurrent assets</b>                                  | <b>6,379</b>  | <b>11,215</b> | <b>11,774</b> | <b>12,759</b> | <b>13,587</b> | <b>14,258</b> | <b>14,769</b> |
| <b>Total Assets</b>                                       | <b>17,502</b> | <b>26,237</b> | <b>25,774</b> | <b>28,140</b> | <b>31,325</b> | <b>34,935</b> | <b>38,879</b> |
| <b>Liabilities</b>  |               |               |               |               |               |               |               |
| Trade and other payables                                  | 4,001         | 5,530         | 5,207         | 5,783         | 6,919         | 8,083         | 9,188         |
| Income tax payables                                       | 170           | 283           | 283           | 283           | 283           | 283           | 283           |
| Current portion of term debt / lease liabilities          | -             | 1,423         | 818           | 923           | 1,028         | 1,133         | 1,238         |
| <b>Current liabilities</b>                                | <b>4,171</b>  | <b>7,236</b>  | <b>6,308</b>  | <b>6,989</b>  | <b>8,230</b>  | <b>9,499</b>  | <b>10,708</b> |
| Long-term debt / Non current portion of lease liabilities | 0             | 4,063         | 3,876         | 3,793         | 3,606         | 3,313         | 2,916         |
| Net retirement liabilities                                | 118           | 276           | 276           | 276           | 276           | 276           | 276           |
| <b>Noncurrent liabilities</b>                             | <b>118</b>    | <b>4,339</b>  | <b>4,152</b>  | <b>4,069</b>  | <b>3,882</b>  | <b>3,589</b>  | <b>3,191</b>  |
| <b>Total Liabilities</b>                                  | <b>4,290</b>  | <b>11,576</b> | <b>10,459</b> | <b>11,058</b> | <b>12,112</b> | <b>13,088</b> | <b>13,900</b> |

|                                   | 2018A         | 2019A         | 2020F         | 2021F         | 2022F         | 2023F         | 2024F         |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Equity</b>                     |               |               |               |               |               |               |               |
| Capital stock                     | 4,100         | 4,100         | 4,100         | 4,100         | 4,100         | 4,100         | 4,100         |
| Additional paid-in capital        | 5,374         | 5,374         | 5,374         | 5,374         | 5,374         | 5,374         | 5,374         |
| Retained earnings                 | 3,656         | 5,125         | 5,778         | 7,546         | 9,676         | 12,310        | 15,443        |
| Other comprehensive income (loss) | 83            | 63            | 63            | 63            | 63            | 63            | 63            |
| <b>Total Equity</b>               | <b>13,212</b> | <b>14,662</b> | <b>15,315</b> | <b>17,083</b> | <b>19,213</b> | <b>21,847</b> | <b>24,979</b> |

|                                     |               |               |               |               |               |               |               |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Total Liabilities and Equity</b> | <b>17,502</b> | <b>26,237</b> | <b>25,774</b> | <b>28,140</b> | <b>31,325</b> | <b>34,935</b> | <b>38,879</b> |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|

Source: Company Data, Team Estimates

## Appendix A-4: Common Size Balance Sheet

|                                      | 2018A         | 2019A         | 2020F         | 2021F         | 2022F         | 2023F         | 2024F         |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Assets</b>                        |               |               |               |               |               |               |               |
| Cash and cash equivalents            | 16.2%         | 5.6%          | 15.5%         | 14.1%         | 13.5%         | 14.4%         | 16.5%         |
| Short-term investments               | 0.0%          | 2.3%          | 0.0%          | 0.0%          | 0.0%          | 0.0%          | 0.0%          |
| Investments in retail treasury bonds | 0.0%          | 8.6%          | 0.0%          | 0.0%          | 0.0%          | 0.0%          | 0.0%          |
| Trade and other receivables          | 1.8%          | 1.7%          | 1.6%          | 1.6%          | 1.8%          | 1.9%          | 1.9%          |
| Merchandise inventories              | 41.9%         | 36.3%         | 34.3%         | 36.3%         | 39.0%         | 40.9%         | 41.7%         |
| Other current assets                 | 3.7%          | 2.8%          | 2.8%          | 2.6%          | 2.3%          | 2.1%          | 1.9%          |
| <b>Current assets</b>                | <b>63.6%</b>  | <b>57.3%</b>  | <b>54.3%</b>  | <b>54.7%</b>  | <b>56.6%</b>  | <b>59.2%</b>  | <b>62.0%</b>  |
| Financial assets                     | 16.6%         | 0.0%          | 0.0%          | 0.0%          | 0.0%          | 0.0%          | 0.0%          |
| Property, plant and equipment - net  | 15.8%         | 19.0%         | 22.2%         | 24.1%         | 24.8%         | 25.0%         | 24.8%         |
| ROU assets - net                     | 0.0%          | 20.0%         | 19.7%         | 17.7%         | 15.3%         | 12.9%         | 10.6%         |
| Net deferred tax assets              | 0.8%          | 1.3%          | 1.3%          | 1.2%          | 1.1%          | 1.0%          | 0.9%          |
| Other noncurrent assets              | 3.2%          | 2.4%          | 2.5%          | 2.4%          | 2.1%          | 1.9%          | 1.7%          |
| <b>Noncurrent assets</b>             | <b>36.4%</b>  | <b>42.7%</b>  | <b>45.7%</b>  | <b>45.3%</b>  | <b>43.4%</b>  | <b>40.8%</b>  | <b>38.0%</b>  |
| <b>Total Assets</b>                  | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> |

|   |              |              |              |              |              |              |              |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Liabilities</b>  |              |              |              |              |              |              |              |
| Trade and other payables                                  | 22.9%        | 21.1%        | 20.2%        | 20.5%        | 22.1%        | 23.1%        | 23.6%        |
| Income tax payables                                       | 1.0%         | 1.1%         | 1.1%         | 1.0%         | 0.9%         | 0.8%         | 0.7%         |
| Current portion of term debt / lease liabilities          | 0.0%         | 5.4%         | 3.2%         | 3.3%         | 3.3%         | 3.2%         | 3.2%         |
| <b>Current liabilities</b>                                | <b>23.8%</b> | <b>27.6%</b> | <b>24.5%</b> | <b>24.8%</b> | <b>26.3%</b> | <b>27.2%</b> | <b>27.5%</b> |
| Long-term debt / Non current portion of lease liabilities | 0.0%         | 15.5%        | 15.0%        | 13.5%        | 11.5%        | 9.5%         | 7.5%         |
| Net retirement liabilities                                | 0.7%         | 1.1%         | 1.1%         | 1.0%         | 0.9%         | 0.8%         | 0.7%         |
| <b>Noncurrent liabilities</b>                             | <b>0.7%</b>  | <b>16.5%</b> | <b>16.1%</b> | <b>14.5%</b> | <b>12.4%</b> | <b>10.3%</b> | <b>8.2%</b>  |
| <b>Total Liabilities</b>                                  | <b>24.5%</b> | <b>44.1%</b> | <b>40.6%</b> | <b>39.3%</b> | <b>38.7%</b> | <b>37.5%</b> | <b>35.8%</b> |

|                                   |              |              |              |              |              |              |              |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Equity</b>                     |              |              |              |              |              |              |              |
| Capital stock                     | 23.4%        | 15.6%        | 15.9%        | 14.6%        | 13.1%        | 11.7%        | 10.5%        |
| Additional paid-in capital        | 30.7%        | 20.5%        | 20.8%        | 19.1%        | 17.2%        | 15.4%        | 13.8%        |
| Retained earnings                 | 20.9%        | 19.5%        | 22.4%        | 26.8%        | 30.9%        | 35.2%        | 39.7%        |
| Other comprehensive income (loss) | 0.5%         | 0.2%         | 0.2%         | 0.2%         | 0.2%         | 0.2%         | 0.2%         |
| <b>Total Equity</b>               | <b>75.5%</b> | <b>55.9%</b> | <b>59.4%</b> | <b>60.7%</b> | <b>61.3%</b> | <b>62.5%</b> | <b>64.2%</b> |

|                                     |               |               |               |               |               |               |               |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Total Liabilities and Equity</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|

Source: Company Data, Team Estimates



## Appendix A-5: Cash Flow Statement

|  | 2018A        | 2019A        | 2020F        | 2021F        | 2022F        | 2023F        | 2024F        |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>CASH GENERATED BY OPERATING ACTIVITIES</b>          |              |              |              |              |              |              |              |
| Income before income tax                               | 2,540        | 2,943        | 2,101        | 3,380        | 4,377        | 5,482        | 6,619        |
| Adjustments for:                                       |              |              |              |              |              |              |              |
| Depreciation and amortization                          | 165          | 1,133        | 1,212        | 1,412        | 1,614        | 1,819        | 2,027        |
| Interest expense                                       | 2            | 300          | -            | -            | -            | -            | -            |
| Interest income  | - 195        | - 151        | -            | -            | -            | -            | -            |
| Provision for inventory write-down and losses          | -            | - 33         | -            | -            | -            | -            | -            |
| Retirement benefits                                    | 24           | 23           | -            | -            | -            | -            | -            |
| Provision for expected credit losses on receivables    | 26           | 12           | -            | -            | -            | -            | -            |
| Gain on sale on investment in retail treasury bond     | -            | - 2          | -            | -            | -            | -            | -            |
| Direct write-off of receivables                        | 0            | -            | -            | -            | -            | -            | -            |
| Offer expense  | -            | -            | -            | -            | -            | -            | -            |
| <b>Operating income before working capital changes</b> | <b>2,562</b> | <b>4,225</b> | <b>3,313</b> | <b>4,792</b> | <b>5,991</b> | <b>7,301</b> | <b>8,645</b> |
| Changes in operating assets and liabilities:           |              |              |              |              |              |              |              |
| Merchandise inventories                                | - 363        | - 2,153      | 666          | - 1,363      | - 2,008      | - 2,056      | - 1,950      |
| Other current assets                                   | - 86         | - 202        | -            | -            | -            | -            | -            |
| Trade and other receivables                            | - 31         | - 151        | 30           | - 46         | - 94         | - 97         | - 94         |
| Other noncurrent assets                                | 106          | 41           | -            | -            | -            | -            | -            |
| Trade and other payables                               | 510          | 1,677        | - 323        | 576          | 1,137        | 1,164        | 1,104        |
| <b>Net cash generated from operations</b>              | <b>2,698</b> | <b>3,355</b> | <b>3,685</b> | <b>3,959</b> | <b>5,026</b> | <b>6,312</b> | <b>7,705</b> |
| Income tax paid  | - 582        | - 803        | - 689        | - 1,108      | - 1,434      | - 1,796      | - 2,169      |
| Contributions to retirement plan                       | - 38         | - 32         | -            | -            | -            | -            | -            |
| Retirement benefits paid                               | - 2          | - 2          | -            | -            | -            | -            | -            |
| Interest received from cash in bank                    | 1            | 1            | -            | -            | -            | -            | -            |
| <b>Cash Flow from Operations</b>                       | <b>2,079</b> | <b>2,520</b> | <b>2,997</b> | <b>2,851</b> | <b>3,592</b> | <b>4,515</b> | <b>5,536</b> |

|   |                |                |              |                |                |                |                |
|---|----------------|----------------|--------------|----------------|----------------|----------------|----------------|
| <b>CASH GENERATED BY (USED IN) INVESTING ACTIVITIES</b>       |                |                |              |                |                |                |                |
| Additions to:   |                |                |              |                |                |                |                |
| Property and equipment  | - 2,066        | - 2,618        | - 1,111      | - 1,526        | - 1,572        | - 1,619        | - 1,668        |
| Computer software   | - 32           | - 30           | - 30         | - 30           | - 30           | - 30           | - 30           |
| Investment in retail treasury bonds                           | -              | -              | -            | -              | -              | -              | -              |
| Net proceeds from sale of investment in retail treasury bonds | -              | 752            | 2,254        | -              | -              | -              | -              |
| Adjustments in:   |                |                |              |                |                |                |                |
| Short-term investments  | 601            | - 616          | 616          | -              | -              | -              | -              |
| Advances to contractors                                       | - 100          | - 63           | -            | -              | -              | -              | -              |
| Interest received from investments                            | 200            | 157            | -            | -              | -              | -              | -              |
| <b>Cash Flow from Investing</b>                               | <b>- 1,396</b> | <b>- 2,420</b> | <b>1,728</b> | <b>- 1,556</b> | <b>- 1,602</b> | <b>- 1,649</b> | <b>- 1,698</b> |

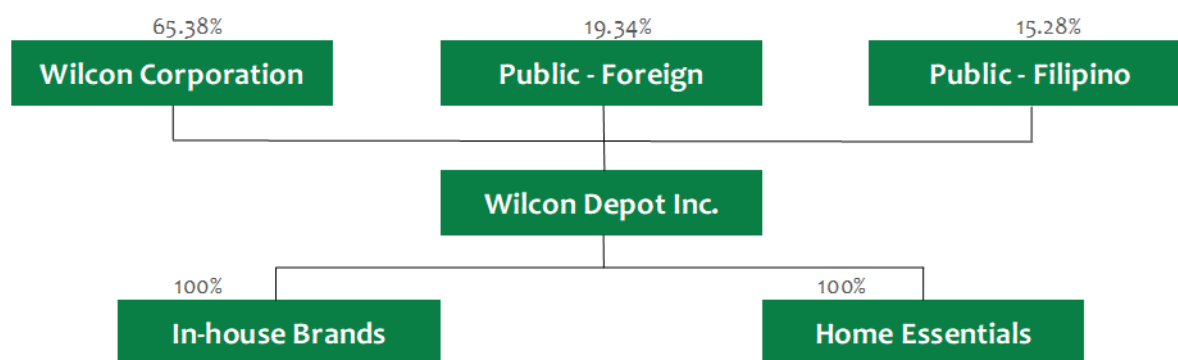
|                                    | 2018A | 2019A | 2020F | 2021F | 2022F | 2023F | 2024F |       |       |       |       |       |   |       |
|------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|---|-------|
| CASH USED IN FINANCING ACTIVITIES  |       |       |       |       |       |       |       |       |       |       |       |       |   |       |
| Net payments of:                   |       |       |       |       |       |       |       |       |       |       |       |       |   |       |
| Lease liabilities                  | -     | -     | 824   | -     | 818   | -     | 923   | -     | 1,028 | -     | 1,133 |       |   |       |
| Cash dividends                     | -     | 451   | -     | 656   | -     | 759   | -     | 505   | -     | 812   | -     | 1,052 | - | 1,317 |
| Interest on long-term debt         | -     | 3     | -     | 0     | -     | -     | -     | -     | -     | -     | -     | -     | - | -     |
| Long-term debt                     | -     | 403   | -     | -     | -     | -     | -     | -     | -     | -     | -     | -     | - | -     |
| Short-term debt                    | -     | -     | -     | -     | -     | -     | -     | -     | -     | -     | -     | -     | - | -     |
| Proceeds from:                     |       |       |       |       |       |       |       |       |       |       |       |       |   |       |
| Issuance of capital stock          | -     | -     | -     | -     | -     | -     | -     | -     | -     | -     | -     | -     | - | -     |
| Availments of long-term borrowings | -     | -     | -     | -     | -     | -     | -     | -     | -     | -     | -     | -     | - | -     |
| Cash Flow from Financing           | -     | 857   | -     | 1,480 | -     | 2,182 | -     | 1,322 | -     | 1,735 | -     | 2,079 | - | 2,450 |

|  |       |         |       |       |       |       |       |
|--|-------|---------|-------|-------|-------|-------|-------|
| Cash and cash equivalents, beginning             | 3,017 | 2,842   | 1,462 | 4,005 | 3,978 | 4,232 | 5,019 |
| Increase (decrease) in cash and cash equivalents | - 175 | - 1,380 | 2,543 | - 28  | 255   | 787   | 1,389 |
| Restricted cash                                  | -     | -       | -     | -     | -     | -     | -     |
| Cash and cash equivalents, ending                | 2,842 | 1,462   | 4,005 | 3,978 | 4,232 | 5,019 | 6,407 |

Source: Company Data, Team Estimates

## Appendix B: Company Description

### Appendix B-1: Corporate Structure



Source: Company Information

### Appendix B-2: Segment Description

#### Home Improvement and Construction supplies

As the Philippines' leading HICS retailer, WLCON's products cater to home construction, renovation, repair and maintenance to home improvement, furnishing and design. These products consist of local and international brands of tiles, sanitary wares and plumbing, hardware and tools, and other DIY items such as electrical and lighting, paints and building materials, doors and moldings, and also household items such as furniture and home interiors, appliances and housewares, among others.

| Segment         | Description   | % of Revenues (2019A) |
|-----------------|---|-----------------------|
| In-house brands | WLCON's in-house segment consists of products that are wholly owned by WLCON.   |                       |
| Exclusives      | WLCON's exclusives segment consists of brands such as: Kohler sanitarywares, Grohe, Pozzi bathroom solutions, and HEIM among others. that WLCON has exclusive distribution rights to. | 49.50%                |
| Other Products  | This segment refers to local and international brands under the HICS industry that are available to other HICS retailers.   | 50.50%                |

Source: Company Information

## Appendix B-3: Store Branches



Source: Company Information (as of 2019A)

## Appendix B-4: Awards and Accreditation

| Awarding Body                    | Year | Award/Recognition   |
|----------------------------------|------|---|
| FAPRA                            | 2019 | Excellence in Customer Service                                      |
| ASEAN-Business Advisory Council  | 2018 | Priority Integration Sector in Retail                               |
| Philippine Retailers Association | 2017 | Patriarch of Home Building Retail<br>Outstanding Specialty Retailer |

Source: Company Information

## Appendix C: Industry and Competitive Positioning

### Appendix C-1: Porter's Five Forces Analysis

| Porter's Forces                 | Threat           | Reason   |
|---------------------------------|------------------|--|
| Bargaining power of Buyers      | Moderate         | The customers have generally no influence over the prices of WLCON's products. As of 2019, WLCON has 730,548 registered members of its loyalty card program launched in 2011. Additionally, no single customer contributes a significant share of WLCON's annual revenues. Therefore, there is no pressure to lower the prices of its products as it has a big and diversified customer base.  |
| Bargaining power of Suppliers   | Low              | WLCON's 425 local and international suppliers enables it to provide its customers with a wide array of local and international brands. Its major suppliers include Mariwasa Siam Ceramics, Inc., Hocheng Philippines Corp., and Lixil Philippines Ltd. Because of the large number of suppliers, WLCON is not heavily influenced by the price changes of any one supplier. Moreover, suppliers of WLCON's in-house and exclusive products are constrained to supply to WLCON alone; thus it cannot significantly increase prices without dramatically decreasing demand.   |
| Threat of New Entrants          | Moderate         | Since its inception 43 years ago, WLCON has continued to expand nationwide. Hence, new entrants will have a difficulty competing with WLCON's brand presence. Furthermore, the HICS market is capital intensive and highly risky. While these factors may discourage domestic entrants, well-established foreign companies still pose a threat. Currently, IKEA, a foreign home furnishing retailer, is WLCON's biggest threat. However, we note that WLCON's well-earned reputation would be an edge over IKEA and other foreign entrants. We further note that the products offered by the two companies are generally differentiated thus catering to separate needs. |
| Threat of Substitute            | Low to Moderate  | WLCON offers a wide selection of quality, value-priced in-house brands, and renowned international and local brands and is only continuing to expand its brand portfolio, giving it an advantage over its competitors. We also note that in 2019, these products accounted for 49.5% of total net sales. These exclusive and high-quality products make it difficult for customers to find a substitute product. However, WLCON still needs to be wary since customers can opt to switch to other brands from other retailers should prices increase significantly.  |
| Rivalry of Existing Competitors | Moderate to High | Existing competitors, such as All Home, have started to aggressively expand its physical presence with its 20 new store rollouts in 2019A. Moreover, other local and international companies, such as Ace Hardware and SM Retail, have also started to become more aggressive and competitive in this market segment. Furthermore, the company encounters significant competition in key provincial cities outside Metro Manila especially those areas already dominated by independent local operations. However, we note that WLCON's product portfolio and competitive prices gives it an advantage over its competitors.   |

Source: Team Analysis



## Appendix C-2: SWOT Analysis

| Strengths   | Weaknesses   |
|---|--|
| <ul style="list-style-type: none"> <li>Market leader in a high-growth industry</li> <li>Profitability built on key brand portfolios</li> <li>Loyal consumer base</li> </ul> | <ul style="list-style-type: none"> <li>High sensitivity to gross profit margin changes</li> </ul>  |
| Opportunities   | Threats  |
| <ul style="list-style-type: none"> <li>Expansion into E-commerce</li> <li>Room for growth in Vis-Min</li> <li>Government elimination of housing backlog</li> </ul>          | <ul style="list-style-type: none"> <li>Local and foreign competition risk</li> <li>Online retail competition risk</li> <li>Slower store rollouts</li> <li>Local and Foreign supply risk</li> </ul> |

Source: Team Analysis

## Appendix C-3: Corporate Recovery and Tax Incentives for Enterprises Act (CREATE)

The Corporate Recovery and Tax Incentives for Enterprises Act aims to bring the country's corporate income tax rate closer to that of our peers in ASEAN. By doing so, the government estimates 42B pesos of tax savings for 2020 that may be used towards boosting the efforts of enterprises to protect jobs and recover from the global pandemic. We also note that CREATE aims to bring corporate income tax down to 20%, lower than the average ASEAN CIT rate of 23%, by 2027. We expect this act to lead to growth in different industries that would lead to an expansion of the real estate industry and the HICS segment.

| Provision                      | CITRA  | CREATE (Revised CITRA)  |
|--------------------------------|--|---|
|                                | Tax Benefit for Business Enterprises   |   |
| Accelerated CIT rate reduction | 1 ppt per year:<br>29% – 2020;<br>28% – 2021;<br>27% – 2022;<br>26% – 2023;<br>25% – 2024;<br>24% – 2025;<br>23% – 2026;<br>22% – 2027;<br>21% – 2028;<br>20% – 2029 onwards | Outright drop to 25% until 2022; followed by a 1 ppt reduction yearly until 2027:<br>25% – July 1, 2020<br>25% – 2021<br>25% – 2022<br>24% – 2023<br>23% – 2024<br>22% – 2025<br>21% – 2026<br>20% – 2027 onwards |

Source: Department of Finance

## Appendix D: Valuation

### Appendix D-1: DCF Valuation

|   | 2021F        | 2022F        | 2023F        | 2024F        | 2025F        | 2026F        | 2027F        | 2028F        | 2029F        | 2030F        | 2031F         |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Cash Flow from Operations               | 2,851        | 3,592        | 4,515        | 5,536        | 6,566        | 7,427        | 8,083        | 9,012        | 9,776        | 10,571       | 11,405        |
| Add: After-tax Interest Expens          | 127          | 125          | 120          | 112          | 101          | 79           | 150          | 149          | 150          | 149          | 146           |
| Less: Capital expenditures              | (1,556)      | (1,602)      | (1,649)      | (1,698)      | (1,748)      | (1,136)      | (1,169)      | (1,203)      | (1,239)      | (1,275)      | (1,312)       |
| <b>Free Cash Flow to Firm</b>           | <b>1,422</b> | <b>2,114</b> | <b>2,985</b> | <b>3,950</b> | <b>4,919</b> | <b>6,370</b> | <b>7,063</b> | <b>7,958</b> | <b>8,688</b> | <b>9,445</b> | <b>10,239</b> |
| Year                                    | 1            | 2            | 3            | 4            | 5            | 6            | 7            | 8            | 9            | 10           | 11            |
| Discount factor                         | 0.91         | 0.82         | 0.74         | 0.67         | 0.61         | 0.55         | 0.50         | 0.45         | 0.41         | 0.37         | 0.34          |
| <b>Present value of free cash flows</b> | <b>1,288</b> | <b>1,734</b> | <b>2,218</b> | <b>2,658</b> | <b>2,998</b> | <b>3,516</b> | <b>3,531</b> | <b>3,603</b> | <b>3,563</b> | <b>3,508</b> | <b>3,444</b>  |

Source: Team Estimates

#### Valuation Breakdown

|                         | Value         | Value/Shr    | % of Value    |
|-------------------------|---------------|--------------|---------------|
| PV of FCFE              | 32,061        | 7.82         | 40.5%         |
| Terminal Value          | 47,869        | 11.68        | 60.4%         |
| <b>Enterprise Value</b> | <b>79,930</b> | <b>19.50</b> | <b>100.9%</b> |
| Less: Net Debt          | - 738 -       | 0.18         | -0.9%         |
| <b>Equity Value</b>     | <b>79,191</b> | <b>19.32</b> | <b>100.0%</b> |

Source: Team Estimates

### Appendix D-2: Relative Valuation Peer Table

| Ticker           | Company                      | P/E (x) |       | P/Sales (x) |       | EPS G (%) |       | ROE (%) |       |
|------------------|------------------------------|---------|-------|-------------|-------|-----------|-------|---------|-------|
|                  |                              | 2020F   | 2021F | 2020F       | 2021F | 2020F     | 2021F | 2020F   | 2021F |
| HOME PM Equity   | ALLHOME CORP                 | 20.78   | 12.89 | 1.77        | 1.25  | -21.28    | 61.24 | 6.40    | 10.40 |
| RRHI PM Equity   | ROBINSONS RETAIL HOLDINGS IN | 23.37   | 19.43 | 0.54        | 0.50  | 0.36      | 20.25 | 5.19    | 5.99  |
| GLOBAL TB Equity | SIAM GLOBAL HOUSE PCL        | 43.23   | 35.61 | 3.17        | 2.77  | -3.71     | 21.40 | 12.15   | 13.47 |
| HMPRO TB Equity  | HOME PRODUCT CENTER PCL      | 39.05   | 32.44 | 3.42        | 3.16  | -14.47    | 20.40 | 24.49   | 27.86 |
| ACES IJ Equity   | ACE HARDWARE INDONESIA       | 33.01   | 25.82 | 3.63        | 3.14  | -16.64    | 27.85 | 17.38   | 19.74 |
| Peer Average     |                              | 25.24   |       | 2.16        |       | 30.23     |       | 15.49   |       |
| Peer Median      |                              | 25.82   |       | 2.77        |       | 21.40     |       | 15.49   |       |

Source: Bloomberg

## Appendix E: Scenario and Sensitivity Analysis

### Appendix E-1: Scenario Analysis

#### Sensitivity Analysis Assumptions

|                                      | Base Case | Positive Case | Negative Case |
|--------------------------------------|-----------|---------------|---------------|
| Long-run Same Store Sales Growth     | 3.00%     | 4.00%         | 2.00%         |
| Long-run Gross Margin                | 36.10%    | 37.10%        | 35.10%        |
| Annual New Store Rollout before 2025 | 8         | 9             | 7             |

## Annual EPS of Sensitivity Analysis

|                      | 2020F | 2021F | 2022F | 2023F | 2024F | 2025F | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F |
|----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Positive Case</b> |       |       |       |       |       |       |       |       |       |       |       |       |
| SSSG                 | 0.34  | 0.55  | 0.72  | 0.90  | 1.09  | 1.31  | 1.51  | 1.75  | 1.91  | 2.10  | 2.31  | 2.53  |
| GPM                  | 0.34  | 0.55  | 0.72  | 0.90  | 1.09  | 1.29  | 1.47  | 1.68  | 1.82  | 1.98  | 2.15  | 2.33  |
| Stores               | 0.34  | 0.55  | 0.72  | 0.91  | 1.11  | 1.34  | 1.53  | 1.76  | 1.90  | 2.06  | 2.24  | 2.42  |
| <b>Negative Case</b> |       |       |       |       |       |       |       |       |       |       |       |       |
| SSSG                 | 0.34  | 0.55  | 0.72  | 0.90  | 1.09  | 1.28  | 1.43  | 1.62  | 1.73  | 1.85  | 1.99  | 2.13  |
| GPM                  | 0.34  | 0.55  | 0.72  | 0.90  | 1.09  | 1.29  | 1.47  | 1.68  | 1.82  | 1.98  | 2.15  | 2.33  |
| Stores               | 0.34  | 0.55  | 0.72  | 0.88  | 1.06  | 1.25  | 1.41  | 1.61  | 1.74  | 1.90  | 2.06  | 2.24  |

Source: Team Estimates

## Appendix F: Corporate Governance

### Appendix F-1: Board of Directors

| Name                      | Years of Affiliation | Position                        | Affiliations   |
|---------------------------|----------------------|---------------------------------|--|
| Bertram B. Lim            | 4                    | Independent Director, Chairman  | <ul style="list-style-type: none"> <li>Chairman of United Neon Advertising, Inc.</li> <li>Chairman of the Center for Community Transformation</li> <li>Board Treasurer of the Trinity University/St Luke's Health Sciences Consortium</li> </ul> |
| Lorraine Belo - Cincochan | 21                   | Director, President and CEO     | <ul style="list-style-type: none"> <li>President, CEO, Director of Wilcon Corp.</li> <li>Non-Executive Director of Anstay Realty &amp; Development Corp.</li> </ul>  |
| Mark Andrew Y. Belo       | 17                   | Director, Treasurer             | <ul style="list-style-type: none"> <li>CFO, Treasurer of Wilcon Corp.</li> <li>Non-Executive Director of Anstay Realty &amp; Development Corp.</li> </ul>  |
| Careen Y. Belo            | 17                   | Director, Chief Product Officer | <ul style="list-style-type: none"> <li>Director of Wilcon Corp.</li> <li>Non-Executive Director of Anstay Realty &amp; Development Corp.</li> <li>Executive VP-Sales &amp; Product Development of Coral-Agri Venture Farm, Inc.</li> </ul>       |

|                         |   |                      |   |
|-------------------------|---|----------------------|---|
| Ricardo S. Pascua       | 5 | Independent Director | <ul style="list-style-type: none"> <li>• Independent Director of Boulevard Holdings, Inc.</li> <li>• Chairman of Caelum Developers, Inc.</li> <li>• Chairman of Readyfoods Manufacturing Corp.</li> <li>• Chairman of Biometrix Technology Philippines Corp.</li> <li>• Chairman of Facilities &amp; Property Management Technologies, Inc.</li> <li>• Chairman and President of Happy Communications, Inc.</li> <li>• Chairman of E-Cuisine Restaurant Concepts, Inc.</li> <li>• Chairman of Ascencion Phildevelopers, Inc.</li> <li>• President of Bancom II Consultants, Inc.</li> <li>• Director of Costa de Madera Corp.</li> <li>• Director of JP Latex Technology, Inc.</li> <li>• Director of Friday's Puerto Galera, Inc.</li> <li>• Director of Central Luzon Doctors' Hospital, Inc.</li> <li>• Director of Latex Holdings, Inc.</li> <li>• Director of Quicksilver Satcom Ventures, Inc.</li> </ul> |
| Rolando S. Narciso      | 5 | Independent Director | <ul style="list-style-type: none"> <li>• Member of The Management Association of the Philippines</li> <li>• Member of Financial Executives Institute of the Philippines</li> </ul>  |
| Delfin “Jing” L. Warren | 4 | Independent Director | <ul style="list-style-type: none"> <li>• Director of Bancom II Consultants, Inc.</li> <li>• Chairman of Buggy’s Sports Bar and Bistro</li> <li>• Chairman of One Incentive Systems Advocates, Inc.</li> <li>• Chairman of Warren &amp; Nolasco Realty</li> </ul>  |

Source: Company Information

## Appendix F-2: Senior Management

| Name            | Years of Affiliation | Position                   | Affiliations  |
|-----------------|----------------------|----------------------------|---|
| William T. Belo | 44                   | Founder, Chairman Emeritus | <ul style="list-style-type: none"> <li>• President of Coral-Agri Venture Farms, Inc.</li> <li>• President of Waj Realty Development, Inc.</li> <li>• Chairman of Wilcon Builders Foundation, Inc.</li> <li>• Chairman of Wilcon Corp.</li> <li>• Director of Designo Atelier, Inc.</li> <li>• Non-Executive Director of Anstay Realty &amp; Development Corp.</li> <li>• Director of Lomarkeen Realty, Inc.</li> <li>• Treasurer of Crocodylus Porosus Philippines, Inc.</li> </ul> |



|                                    |    |  |  |
|------------------------------------|----|--|--|
| Rosemarie Bosch-Ong                | 44 | Senior Executive Vice President, Chief Operating Officer                   | <ul style="list-style-type: none"> <li>• President of Wilcon Builders Foundation, Inc.</li> <li>• Director of Philippine Retailers Association</li> <li>• Director of Philippine Constructors Association</li> </ul>   |
| Atty. Sheila P. Pasicolan-Camerino | 5  | Assistant Vice President - Corporate Lawyer, Assistant Corporate Secretary | -  |
| Grace A. Tiong                     | 25 | VP for Human Resources, Compliance Officer                                 | -  |
| Eden M. Godino                     | 14 | VP for Product Development   | -  |
| Michael D. Tiong                   | 10 | VP for Global Sourcing   | -  |
| Mary Jean G. Alger                 | 2  | VP for Investor Relations  | <ul style="list-style-type: none"> <li>• Assistant VP for Budget and Cost Control of Benguet Corp.</li> <li>• Assistant VP of Bancpros, Inc.</li> </ul>  |
| Atty. Arthur R. Ponsaran           | -  | Corporate Secretary  | <ul style="list-style-type: none"> <li>• Secretary &amp; Chief Information Officer of Waterfront Philippines, Inc.</li> <li>• Director of Philippine Estates Corporation</li> <li>• Director of Acesite Hotel Corporation</li> <li>• Non-Executive Director of Forum Pacific, Inc.</li> <li>• Secretary of Chemrez Technologies, Inc.</li> <li>• Director of Iloilo City Development Bank</li> <li>• Secretary of Producers Rural Banking Corp.</li> <li>• Secretary of Wellex Group, Inc.</li> <li>• Secretary &amp; Director of MRL Nickel Philippines, Inc.</li> <li>• Director of Cebuana Lhuillier Bank</li> <li>• Director of New Kanlaon Construction, Inc.</li> <li>• Director of Philsteel Holdings Corp.</li> <li>• Director of Davao Insular Hotel, Inc.</li> </ul> |

Source: Company Information

## Appendix F-3: Corporate Governance Scoreboard

To evaluate the company's quality of corporate governance, each committee of the board is evaluated on a scale of 1 to 4 based on the roles that they have to fulfill and criteria corresponding to these roles as enumerated in CFA Institute Corporate Governance Manual for Investors. The following table summarizes the analysis:

Legend:

- 1 - The company did not follow the criteria at all,
- 2 - The company did not follow the criteria,
- 3 - The company followed the criteria,
- 4 - The company has excellent policies on this criterion.

| Criteria                   | Description  | Rating | Company Policies  |
|----------------------------|--|--------|---|
| <b>Executive Committee</b> |  |        |   |
| Independence               | Board members must be predominantly independent to lessen the likelihood of biased decision-making by management.  | 4      | Majority of the board are independent and non-executive. (4 out of 7)   |
| Accountability             | Governance practices should reflect a board that is answerable to its owners.  | 4      | The board has a charter that clearly defines its accountabilities in carrying out its role.   |
| Responsiveness             | Directors must be responsive to the wishes of its shareholders as expressed through elections or votes on shareholder proposals and respond accordingly.     | 4      | It is indicated in the Corporate Governance Manual that shareholders are granted voting rights, pre-emptive rights, rights of inspection, and appraisal rights.                             |
| Competence                 | Directors must be competent and have the necessary qualifications to effectively lead the business through their respective roles.                           | 4      | The directors have various experiences in different fields and industries.  |
| Elections                  | Annually elected directors   | 4      | WLCON's directors are elected annually during the annual stockholders meeting.  |
| Board Attendance           | Adequate attendance at board and committee meetings.   | 3      | Only 3 out of 7 directors had perfect attendance in the 23 meetings in 2019. The highest number of absences of a board member is 4.   |
| Directorship               | Reasonable number of board directorships.  | 4      | The board is composed of 7 members which meets the Corporation Code.  |
| Directorship               | Directors should ideally have served individually on the board for less than 10 years in order to prevent instances in which they fail to act independently. | 3      | WLCON is a family-owned business and members of the family have retained in positions over 10 years. However, the highest number of years as an independent director as of 2019 is 3 years. |

|                                     |  |             |  |
|-------------------------------------|--|-------------|--|
| Directorship                        | Board members must not serve on an excessive number of boards for other companies in order to give adequate focus on each board. | 2           | Most of the board are affiliated to other companies' boards that ranges from 2 to 4 and one exceeding 10.                            |
| Related Party Transactions          | Absence of material related party transactions.  | 3           | The board ensures a group-wide policy and system governing related party transactions and other infrequently occurring transactions. |
| Board Members                       | Board of at least 5 but no more than 15 members.   | 4           | The board is composed of 7 members.  |
| Independent Members                 | Board must have greater of: 2 independent directors or 20% independent members of the board.                                     | 4           | The board has 4 out of 7 independent members, which accounts to 57% of the board.  |
| Independent Members Role Delegation | Role of CEO and chair should be separate   | 4           | The CEO is Lorraine Belo-Cincochan, and the Chair is William Belo.   |
| Committee                           | Established Executive, Audit, Compensation, Nominating, and Compliance Committee   | 4           | The board has established an executive committee, audit committee, nomination committee, and compliance committee.                   |
| <b>Average Score</b>                |  | <b>3.64</b> |  |

#### Audit Committee

|                         |  |   |  |
|-------------------------|--|---|--|
| Independent Audit       | Auditor should provide an impartial and professional opinion. Independence is compromised when the auditor receives significant payments for non-audit work.   | 4 | Members of the audit committee must have adequate understanding and competence in the financial management system of the company and in the field of accounting, audit, and finance.     |
| Independent Audit       | Board's Audit Committee should be Independent in order not to compromise the credibility of the company's financial statements.  | 4 | The Audit Committee is composed of 3 independent directors. The chairman of the Audit Committee is also independent.   |
| Integrity of Financials | Company's financials should have integrity. (Items that raise concerns include changes in auditors, irregularities over many years, material weaknesses in the company's controls, certain restatements, and excessive fees paid for non-audit work) | 4 | The external auditor of WLCON is Reyes Tacandong Co., which is known for its due diligence in the field. The auditor committee is then tasked to oversee, review, and monitor the audit. |
| Selection of Auditor    | Company should allow shareholders to ratify the selection of the external auditor  | 4 | Shareholders are given the rights to ratify the appointment of auditor.  |

**Average Score**

**4**

| Renumeration and Compensation Committee |  |             |   |
|---|--|-------------|---|
| Performance Metrics                     | Remuneration policies should encourage executives to make decisions that benefit shareholders. | 4           | The board aligns the remuneration of the officers and board members to its long-term interests of the company.  |
| Performance Metrics                     | Performance Metrics should be regularly communicated to shareholders                           | 3           | The board, independent members, and committees are subject to annual self-assessment to be disclosed through the annual report or a separate report.              |
| Performance Metrics                     | Shareholders should have an advisory vote on executive compensation                            | 3           | Compensations should be approved by stockholders or provided in the by-laws. The board may also approve from time to time a per diem that a director may receive. |
| Performance Metrics                     | Executive remuneration in the form of equity should not be excessive.                          | 4           | Compensation Committees are tasked to ensure the compensation policies and practices are consistent.  |
| <b>Average Score</b>                    |  | <b>3.5</b>  |   |
| Protection of Shareholder Rights        |  |             |   |
| Election                                | One share, one vote policy   | 4           | WLCON's shareholders have one vote per share.   |
| Shareholder Rights                      | Right to dividend  | 4           | WLCON adheres to its Dividend Policy.   |
| Shareholder Rights                      | Absence of supermajority vote requirements   | 4           | The board ensures to treat all shareholders fairly and equitably. All shareholders are to be recognized, protected, and have the power to exercise their rights.  |
| Shareholder Rights                      | Right of shareholders to call special meetings   | 4           | Minority shareholders are granted the rights to call for a special meeting and add to the agenda.   |
| Shareholder Rights                      | Information  | 4           | The company ensures full, fair, accurate, and timely disclosures to the public.   |
| Shareholder Rights                      | Appraisal rights   | 4           | Shareholders are granted appraisal rights.  |
| <b>Average Score</b>                    |  | <b>4</b>    |   |
| <b>Overall Score</b>                    |  | <b>3.79</b> |   |

Source: Team Estimates



## Appendix F-4: Corporate Social Responsibility and Sustainability

WLCON's CSR practices aim to promote stronger, safer, more sustainable homes and buildings as everyone improve their lives with WLCON's long-lasting quality products and solutions. As WLCON expands, the company manages their resources responsibly, while creating value for everyone and sharing its growth to its stakeholders. With its growth, WLCON has also cultivated the development and success of its employees. WLCON focuses on 3 major aspects, namely its economic, environmental, and social & governance responsibilities.

### **Economy**

#### Preferred HICS for its stakeholders

By being attentive and responsive to the customer's evolving needs, WLCON has revolutionized the HICS industry in the Philippines that enhances customer experience. WLCON has been offering innovative solutions, having strong and exclusive line-up of quality, value-priced in-house products and renowned international and local brands as well.

#### Working with sustainable partners

WLCON is built by its capacity to source products both in-house products and exclusive products and other brands. WLCON has a sustainable procurement program, which is used for materiality assessment. WLCON promotes suppliers that offer more eco-friendly solution products to customer and even train salespeople to deliver HICS solutions that offer more environmental benefits.

#### Committing to responsible business

WLCON promotes accountability and transparency, protecting the shareholder value with its corporate governance. At the same time, WLCON has a Code of Business Conduct and Ethics that guides its members, which also constitutes the Anti-Bribery and Anti-Corruption Policy to protect its stakeholders. The company also has Related Party Transactions Charter and Committee to protect against conflicts of interest and misappropriation of resources for the long-term interests of the company.

### **Environment**

#### Shaping the market towards green solutions

WLCON has been expanding its line of green products, which includes low flush dual flush water-saving fixtures, lower consumption more light longer life energy-efficient lighting, clean-air products, circular economy which includes the use of recyclable materials and renewable sources. They have also participated in events that promote sustainable solutions like the Green Architecture Advocacy Philippines' 16th Green Forum, Philippine School for Interior Design's HUGIS ATBP, and Philippine Institute of Interior Designers' Asia Interior Design Institute Association International School Workshop.

#### Working on waste

WLCON generates minimal waste in their stores. WLCON also partnered with their local government units for the proper sorting of solid waste materials and with facilities for hazardous waste like light bulbs and oils. WLCON also has a take-back program with some suppliers in order to recycle or repurpose inventory that are damaged or do not meet the standards of the company.

#### Greening our branches

WLCON has started to use solar power solutions in 2016 in order to reduce energy consumption and lessen its carbon footprint. WLCON also uses high-volume low-speed fans in their stores to minimize the use of air-conditioning. WLCON also maximizes the use of natural light in its stores and uses battery powered equipment.

## **Social Data**

### **Management Approach**

WLCON has a compensation and benefit program and Work Life Program, which aims to foster the advancement, productivity, fair treatment, physical and mental health safety, and the well-being of its employees. WLCON also provides allowances, subsidies, insurance, and incentives to ensure its duty of care and dignity of its people. One of WLCON's goals is to empower its people by providing them a medium for daily communication and even a whistleblower policy and grievance mechanism for labor unions.

### **Prioritizing health and safety**

WLCON has a health and safety governance structure, composed of occupational health and safety officers and pollution officers, which ensures the safety and maintenance of product displays, equipment, and stocks, use of caution ropes and signages for warning zones, procedures for emergencies, the use of protective equipment, and review of safety policies for contractors. WLCON's occupational health and safety manual is based on DOLE's requirement. WLCON also provides compressed workweeks with flexible working hours.

### **Learning continuous improvement**

Structured training programs on different aspects are given to employees to provide them more opportunity to lead and excel. This includes on-the-job learning, formal training sessions, 23 technical training modules that can be accessed anytime by the employees. WLCON does not have contractual labor, but the company has outsourced manpower on a per-need basis and promo-merchandisers from independent contractors. They also have access to training activities, that would enable them to grow and upgrade their skills in Wilcon.

### **Award-winning Customer Service**

WLCON was recognized by Federation of Asia-Pacific Retailers Association with the International Award for Excellence in Customer Service in 2019. WLCON's Customer Relationship Management program aims to bring innovative products to different markets using market strategies developed by in-house marketing team. WLCON focuses on innovation, customer satisfaction, and service excellence to meet the evolving needs of its customers.

WLCON also has an online store and a Wilcon Loyalty Mobile App for the convenience and benefit of its customers. WLCON also offers a Design Hub, which allows customers to create 3D layouts of their desired interiors. WLCON also launched its ABCDE Lounge where Architects, Builders, Contractors, Designers, and Engineers can meet with their clients and other professionals. WLCON has been recognized for its outstanding achievements in retail for "most innovative retail concept, best marketing campaign, green retailer, best effort in retail employee training, and customer service excellence."

## **Community**

### **Improving local communities**

WLCON has been extending financial assistance to Eastern Regional Organization: for Planning and Human Settlement. This is to encourage them for better planning, development, and management in order to further improve quality of life and sustainability of human settlements. WLCON also donated cash, equipment, and products to several institutions like the I-Love Foundation, Wilcon Foundation, local government units, etc.

Through its expansion, WLCON also brings more infrastructures and job opportunities, which can bring growth and development in urban areas. WLCON also offers scholarships to the indigent communities to provide people with opportunities, specifically on masonry, carpentry, and electrical installation through its technical school accredited by TESDA. This addresses the growing need for workers in the construction industry.