

CASE STUDY PALACIOS

PALACIOS | A leading Spanish food manufacturer



Founded in 1960 as a village butcher's shop in the province of La Rioja, Palacios has grown into a leading Spanish food manufacturer.

Palacios sells chorizo, Spanish omelets, pizza, frozen desserts and other ready meals in more than 40 different countries.

The company supplies private-label products to retailers as well as selling under its own brands: Palacios, Fuentetaja, Floristán, Alinaco, San Martín, Naysa and Pastry Factory.

Palacios has an ability to penetrate new product categories, most recently with the successfully entry in frozen desserts where it now maintains co-branding agreements with global players like Unilever or Mondelez.

Palacios has five production sites in Spain and one in the US, with highly efficient operational platform.

KEY FIGURES

- > €240m annual sales
- > c. 60%+ sales between 2015 and 2020
- > c. 1,000 employees

Innovation and international expansion deliver solid growth

Thanks to its very strong management team led by CEO Pedro Domínguez, Palacios is a leader in every category it serves. The company supplies more than 300 customers including major retailers such as Carrefour, Mercadona, Lidl, Casino, Eroski and Dia, as well as global fast-food chains including global food service operators.

The company's strategic development is built on three pillars:

- (i) Strong in-house R&D capabilities: Palacios continuously improves and adapts its products and processes to changing customer preferences with for example new formats, segments and flavors across all categories (i.e. vegan Spanish omelets, lactose-free pizza, organic natural chorizo, Salads, frozen products, etc.). More recently in 2021, Palacios launched "Revolu green", a very promising plant based food brand
- (ii) Proven M&A capability: the company has completed eight acquisitions in the past 10 years and will continue to consolidate the Spanish market and expand internationally.
- (iii) Further international expansion: since 2008, Palacios focused on export growth and now sells in more than 40 countries, with a US production facility in Florida. Today it earns almost a third of its revenues outside Spain.

"Our American adventure began with an importer who bought our chorizo from Puerto Rico. This encouraged us to start a chorizo trading company in the USA, for which we chose Florida as a logistical location. Later, we had the opportunity to buy a small chorizo factory in Florida and the next step was the construction of a new factory in South Florida. In the US, we have built a solid business with a well-established team, which operates on a day-to-day basis with complete independence, to be able to adapt to the local market. In the coming years, we aim to add more products to the portfolio to gradually increase sales and penetration in the US." **Pedro Dominguez, CEO Palacios**

"We are proud to support MCH and very enthusiastic to contribute Ardian's experience and network to Palacios' world-class management team, in its continued successful market consolidation and international expansion strategy." **Carole Barnay, Senior Managing Director within the Ardian Co-Investment team**



Palacios is a leading business group in the Spanish food sector, starting out as a family butcher's that opened in 1960 in Albelda de Iregua. This same Rioja town saw the arrival of Embutidos Palacios in 1983 that initially only made stung chorizos. Palacios owns six production plants, five located throughout the Spanish territory and one in Florida, USA.

> 5 plants in Spain and 1 in the US

Palacios proved its resilience through the Covid-19 crisis

Faced with fast-emptying supermarket shelves, the company kept all its sites running throughout the crisis, added extra shifts and increased production to meet soaring demand. It supported its communities by providing products free of charge to hospitals, care homes and shelters for the homeless. The company also donated food to a Spanish charity that helps children who face hardship during school closures.

"In the early stages of the crisis, there was a lot of uncertainty. But we knew one thing for sure, our mission was needed, and we could not let our consumers or our society down. We had to organize ourselves in the new circumstances and be able to deliver on our obligation to provide food to our consumers and distributors to the best of our ability. Failure was not an option."

Pedro Dominguez, CEO Palacios

"From the outset, Ardian gave us support and encouragement to tackle the new scenario. It was a relief for the team to know that we are well aligned with our partners and the new circumstances, and fortunately, we finished 2020 much better than early expectations would have suggested, even above last year's results." Pedro Dominguez, CEO Palacios

Ardian's key role in securing the deal

Ardian Co-Investment teamed up with MCH Capital for the final round of bids in March 2019, after the majority shareholder, Carlyle, put Palacios up for sale. Ardian was closely involved in every stage of the sale process and was able to move fast in making due diligences and commit alongside MCH, which substantially contributed to MCH success in winning the auction. MCH is a leading Spanish middle market private equity firm with long experience in the food sector.

"It is a pleasure to work together with Ardian throughout the deal. Their diligence and support during the closing of the transaction was extremely relevant for us. Additionally, since our entry, they have been very helpful in bringing us a better understanding of the French market, connecting Palacios management team to their client base, presenting potential build-up opportunities and contributing with their internal network to the development of the knowledge in some specific areas such as in digital." Marta Munoz, MCH

Active support for Palacios' development, including ESG objectives

Ardian is using its network to support the Palacios management team's growth strategy organically and through acquisitions mainly in France, one of Palacios' most important

international market. Ardian also draws on its in-house digital transformation team to accelerate the development of Palacios' sales and marketing capabilities.

"Palacios' management team has a strong ability to innovate, improve product nutrition and promote sustainable agriculture. One example is the launch of a healthy 100% plant based food brand. More broadly, Palacios puts strong focus on ESG such as certifications (food security, environmental, health & safety), corporate governance, environmental topics (including KPIs on water consumption, emissions, waste management and other sustainability aspects) and social topics (food donation to low income communities, trainings and employees turnover, etc.). These are issues that are at the heart of our values and we support Palacios in this process." **Camill Salomon, Investment Manager – Ardian Co-Investment**

