

Italy – Food and Beverage

A few grapes, top money

8th November 2017

2017 HARVEST UPDATE

RIC: ITWB.MI
BBG: IWB IM

Also due to its flexible business model, characterised by a relevant degree of outsourcing, IWB is able to offset the impact of the poor 2017 harvest, which is generating a certain supply price pressure. Shares continue trading at an unjustified, undemanding discount to peers.

Rating:

Buy

Price Target:

€ 17.00 (€ 14.50)

Upside/(Downside): 30.9%

Last Price: € 12.99

Market Cap.: € 73.7*

1Y High/Low: € 13.48/€ 8.25

Free Float: 83.7%

Major shareholders:

| | |
|-------------------------|-------|
| Provinco Srl | 14.1% |
| Otus Capital Management | 6.1% |
| Praude Asset Management | 5.0% |



Stock price performance

| | 1M | 3M | 12M |
|--------------------------|-------------|--------------|--------------|
| Absolute | 8.3% | 18.6% | 42.0% |
| Rel.to AIM Italia | 5.7% | 14.9% | 11.6% |
| Rel.to EU Sector | 9.7% | 18.8% | 26.5% |

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Product scarcity generates supply price pressure...

According to national oenologist associations, the 2017 harvest has been poor: it has been scarce in France, in Italy and in Spain, due to the extreme climatic conditions caused by frost, hail, gusts of wind, heat peaks and droughts, widely reported over the past few months. This has contributed to significantly lowering production: -18% France, -11/25 % in Spain, over -26% in Italy. The decline in available wine is therefore exerting pressure on supplies with a consequent weighty increase in prices on the bulk wine market and a shortage to a certain extent in some types of grape.

...however IWB is able to equipose this tough environment

With the restructuring and integration completed, IWB now acts as a cohesive group: production, purchasing, marketing, logistics and IT are integrated, serving two diverse distributing channels. In this context and market conditions, we believe the group is able to offset the current supply tensions. We think the magnitude of the cost increase should be to the tune of € 15cents per bottle, i.e. a total of some € 7.5m additional costs in 2018. The company has stocks to satisfy at least four months of demand in 2018, purchased at prices not impacted by the recent supply price pressure. Then, usually, when prices soar, demand declines: lower purchasing might alleviate cost pressure. In addition, IWB is able to act on product mix, i.e. pushing more lucrative bottles, and on blend, using comparable quality but lower price alternatives. Therefore, 80% of the cost increase is projected to be offset by these actions, leaving just some 20% impacting economics (with the same top line), i.e. some € 1.5m additional costs in 2018. However, they are projected to be entirely counterbalanced by lighter than anticipated personnel costs, following the sharp further cut in employees in 2017.

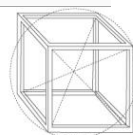
The sharp decline in the free risk boosts valuation: PT of € 17.00 (€ 14.50)

Turnover in the first nine months of 2017 grew 5.6% to € 104.5m, with 75% stemming from foreign countries, and corroborates CFO 2017 projections. H1-17 was the turning point for IWB, with the first tangible results of the B2C restructuring and integration process with B2B. Following the update in estimates (EBITDA mostly unchanged in 2018 and raised by 13% due to the lower personnel costs in 2019), and the update in DCF appraisal criteria (brought the free risk rate up-to-date to 1.80% from 2.12%), valuation delivers a new PT of € 17.00/s (€ 14.50). Shares continue to trade at unjustified, undemanding multiples vs. peers: 5.8x and 3.9x EBITDA₁₈₋₁₉ vs. 13.7x and 12.0x of comparables. We stick to our Buy recommendation on IWB, the move to the STAR segment in 2018, has to zero the AIM Italia discount investors need to apply.

IWB, key financials and ratios

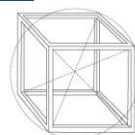
| € m | 2015 | 2016 | 2017e | 2018e | 2019e |
|----------------------|--------|--------|-------|--------|--------|
| Sales | 144.8 | 145.9 | 154.4 | 161.1 | 169.1 |
| EBITDA adjusted | 13.4 | 11.3 | 14.3 | 15.7 | 20.1 |
| EBITDA | 10.8 | 9.3 | 12.8 | 15.7 | 20.1 |
| EBIT adjusted | 9.8 | 8.1 | 11.2 | 12.5 | 17.0 |
| EBIT | 7.2 | 6.1 | 9.7 | 12.5 | 17.0 |
| Net profit adjusted | 5.5 | 4.7 | 6.8 | 9.0 | 12.3 |
| Net profit | 3.6 | 4.3 | 6.8 | 9.0 | 12.3 |
| NFP (cash)/debt | 20.1 | 10.5 | 0.5 | (13.3) | (30.5) |
| EPS adjusted FD | 0.84 | 0.58 | 0.91 | 1.20 | 1.66 |
| EPS adj. FD growth | 7.1% | -31.2% | 58.2% | 31.9% | 37.7% |
| DPS ord. €/s | 0.00 | 0.20 | 0.25 | 0.30 | 0.35 |
| Dividend yield | 0.0% | 1.5% | 1.9% | 2.3% | 2.7% |
| Free Cash Flow Yield | -24.2% | 9.2% | 9.1% | 12.9% | 16.0% |
| PER x | 23.8 | 24.3 | 14.2 | 10.8 | 7.8 |
| PCF x | 6.2 | 10.2 | 10.1 | 7.3 | 5.9 |
| EV/Sales x | 0.7 | 0.6 | 0.5 | 0.4 | 0.3 |
| EV/EBITDA x | 8.7 | 9.0 | 5.8 | 3.9 | 2.2 |
| EV/EBIT x | 13.0 | 13.9 | 7.7 | 4.8 | 2.5 |

* Market capitalisation excluding redeemable shares. Cancellation subject to EGM approval





| Income statement (€ m) | 2015 | 2016 | 2017e | 2018e | 2019e |
|--|--------|--------|--------|--------|--------|
| Net Revenues | 144.8 | 145.9 | 154.4 | 161.1 | 169.1 |
| Purchasing | (71.0) | (79.0) | (78.6) | (84.0) | (85.4) |
| Services | (40.9) | (47.8) | (49.8) | (52.5) | (54.5) |
| Personnel | (16.9) | (12.0) | (11.6) | (8.8) | (9.0) |
| Other operating expenses | (5.3) | 2.2 | (1.6) | (0.1) | (0.1) |
| EBITDA adjusted | 13.4 | 11.3 | 14.3 | 15.7 | 20.1 |
| EBITDA | 10.8 | 9.3 | 12.8 | 15.7 | 20.1 |
| D&A | (3.6) | (3.3) | (3.1) | (3.1) | (3.1) |
| EBIT adjusted | 9.8 | 8.1 | 11.2 | 12.5 | 17.0 |
| EBIT | 7.2 | 6.1 | 9.7 | 12.5 | 17.0 |
| Financials | (1.8) | (1.6) | (0.4) | (0.3) | (0.1) |
| Extraordinary | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pre-Tax profit | 5.4 | 4.4 | 9.3 | 12.3 | 16.9 |
| Income taxes | (1.8) | (0.1) | (2.5) | (3.3) | (4.6) |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Profit adjusted | 5.5 | 4.7 | 6.8 | 9.0 | 12.3 |
| Net Profit | 3.6 | 4.3 | 6.8 | 9.0 | 12.3 |
| Balance sheet (€ m) | 2015 | 2016 | 2017e | 2018e | 2019e |
| Net Working Capital | 4.5 | (2.2) | (1.5) | (2.5) | (3.1) |
| Net Fixed Assets | 102.0 | 100.4 | 98.1 | 95.8 | 93.5 |
| Equity Investments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other M/L Term A/L | (14.4) | (11.6) | (11.9) | (12.1) | (12.4) |
| Net Invested Capital | 92.0 | 86.6 | 84.6 | 81.2 | 78.0 |
| Net Financial Position | 20.1 | 10.5 | 0.5 | (13.3) | (30.5) |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Group's Shareholders Equity | 72.0 | 76.2 | 84.1 | 94.5 | 108.5 |
| Financial Liabilities & Equity | 92.0 | 86.6 | 84.6 | 81.2 | 78.0 |
| Cash Flow statement (€ m) | 2015 | 2016 | 2017e | 2018e | 2019e |
| Total net income | 3.6 | 4.3 | 6.8 | 9.0 | 12.3 |
| Depreciation | 3.6 | 3.3 | 3.1 | 3.1 | 3.1 |
| Other non-cash charges | (2.8) | (3.9) | 0.3 | 0.2 | 0.3 |
| Cash Flow from Oper. (CFO) | 4.3 | 3.7 | 10.2 | 12.3 | 15.7 |
| Change in NWC | 9.5 | 6.6 | (0.7) | 0.9 | 0.6 |
| FCF from Operations (FCFO) | 13.8 | 10.4 | 9.6 | 13.2 | 16.3 |
| Net Investments (CFI) | (34.5) | (0.7) | (0.8) | (0.8) | (0.8) |
| Free CF to the Firm (FCFF) | (20.7) | 9.7 | 8.8 | 12.4 | 15.5 |
| CF from financials (CFF) | 43.5 | (4.9) | 2.5 | 2.2 | 2.9 |
| Free Cash Flow to Equity (FCFE) | 22.8 | 4.8 | 11.3 | 14.7 | 18.3 |
| Financial ratios | 2015 | 2016 | 2017e | 2018e | 2019e |
| EBITDA margin | 7.4% | 6.4% | 8.3% | 9.7% | 11.9% |
| EBIT margin | 5.0% | 4.1% | 6.3% | 7.8% | 10.1% |
| Net profit margin | 2.5% | 3.0% | 4.4% | 5.6% | 7.3% |
| Tax rate | 33.1% | 1.8% | 27.0% | 27.0% | 27.0% |
| Interest coverage x | 0.35 | 0.28 | 0.08 | 0.06 | 0.05 |
| Net Debt/Ebitda x | 1.86 | 1.12 | 0.04 | (0.85) | (1.52) |
| Debt-to-Equity x | 0.28 | 0.14 | 0.01 | (0.14) | (0.28) |
| ROIC | 3.7% | 4.9% | 7.9% | 10.8% | 15.5% |
| ROCE | 5.5% | 4.7% | 7.1% | 8.4% | 10.3% |
| ROACE | 5.4% | 4.7% | 7.3% | 8.8% | 10.9% |
| ROE | 5.1% | 5.9% | 8.5% | 10.0% | 12.2% |
| Payout ratio | 0.0% | 26.1% | 20.9% | 19.0% | 16.1% |
| Per share figures | 2015 | 2016 | 2017e | 2018e | 2019e |
| Final N. of shares # m | 6.58 | 6.36 | 5.67 | 5.67 | 5.67 |
| Average N. of shares # m | 6.58 | 6.47 | 6.02 | 5.67 | 5.67 |
| Final N. of shares (fully diluted) # m | 6.58 | 8.13 | 7.45 | 7.45 | 7.45 |
| EPS reported € | 0.55 | 0.67 | 1.13 | 1.58 | 2.17 |
| EPS reported FD € | 0.55 | 0.53 | 0.91 | 1.20 | 1.66 |
| EPS adjusted FD € | 0.55 | 0.53 | 0.91 | 1.20 | 1.66 |
| EBITDA FD € | 1.64 | 1.15 | 1.72 | 2.11 | 2.70 |
| EBIT FD € | 0.11 | 0.01 | 0.05 | 0.07 | 0.10 |
| FCFO FD € | 2.10 | 1.28 | 1.29 | 1.78 | 2.19 |
| FCFF FD € | (3.15) | 1.19 | 1.18 | 1.67 | 2.08 |
| FCFE FD € | 3.46 | 0.59 | 1.52 | 1.97 | 2.46 |
| Dividend € | 0.00 | 0.20 | 0.25 | 0.30 | 0.35 |





The company at a glance

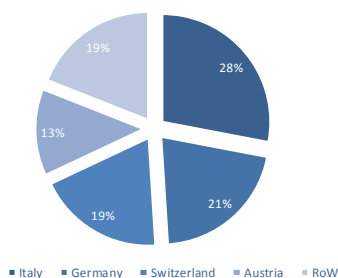
IWB (Italian Wine Brands) is the holding company of a leading producer and distributor in the Italian wine industry. The Group operates through two channels: B2C and B2B.

B2C's activity deals with the production and distribution of wine through distance selling channels such as mailing, telesales or internet, addressed to end consumers in Italy, the UK, Germany, Switzerland, Holland, Austria, France and the USA. B2C division boasts a catalogue of over 140 different wines and spumanti and 130 traditional Italian food products. Since the B2C arm does not own any vineyards, it procures raw materials (grapes, must and bulk wine) from Italian vineyards and wine producers, which it works in its own two proprietary wineries.

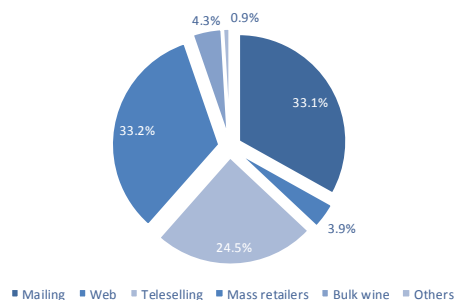
B2B is focused on sale and distribution in the international markets to mass retailers where it distributes both privately labelled and branded products. The B2B arm outsources both the bottling and the logistic activity in order to make its supply operations faster, leaner and more efficient.

Sales reached € 145.9m in 2016, +0.8% YoY. The figure was characterised once again by a strong performance in B2B and mixed results in B2C: B2B division up by some 11.0% and B2C down by circa 6.0%. EBITDA, which includes € 2.2m of non-recurring items, was € 11.3m, with 7.7% margin.

2016 revenues by country and...



...by channel



Shareholder structure

| | % | # m |
|-------------------------|---------------|-------------|
| Provinco srl | 14.1% | 0.80 |
| Free Float, o/w | 83.7% | 4.75 |
| Otus Capital Management | 6.1% | 0.35 |
| Praude Asset Management | 5.0% | 0.28 |
| Total | 100.0% | 5.67 |

Total number of share

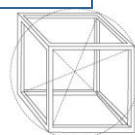
Peer group absolute performance

| | 1D | 1W | 1M | 3M | 6M | YTD |
|---------------------------------|--------------|--------------|------------|-------------|-------------|-------------|
| Baron de Ley SA | 0.9 | 0.8 | 3.4 | 2.8 | (1.8) | (7.1) |
| Lanson BCC SA | 1.1 | 0.4 | (0.6) | (2.5) | 1.2 | (2.7) |
| Laurent Perrier SA | 0.6 | 2.5 | 1.8 | 7.4 | 14.3 | 14.6 |
| Masi Agricola SpA | (2.0) | (0.3) | 2.1 | 0.4 | 4.1 | 3.0 |
| Schloss AG | 0.2 | 3.9 | 7.5 | 19.0 | 35.1 | 47.1 |
| Treasury Wine Est. | (0.1) | 2.3 | 12.8 | 25.4 | 23.1 | 49.0 |
| Vina ConchaYtoro | (0.3) | (0.8) | (2.5) | 4.1 | 2.7 | 3.8 |
| Vranken Pommery M. | 0.5 | (0.2) | 4.5 | (0.1) | 5.8 | 6.9 |
| Wine producers median | 0.4 | 0.6 | 2.7 | 3.4 | 5.0 | 5.4 |
| Majestic Wine PLC | (6.0) | (1.8) | 4.5 | 12.0 | (3.1) | 15.5 |
| Hawesko Holding AG | (0.6) | 0.5 | 0.7 | 2.1 | 7.4 | 17.6 |
| Wine distributors median | (3.3) | (0.7) | 2.6 | 7.1 | 2.1 | 16.6 |
| IWB | 0.5 | 3.1 | 8.3 | 18.6 | 27.1 | 49.3 |

Peers group multiples table

| Price & EV multiples x | PER FY1 | PER FY2 | PER FY3 | EBITDA FY1 | EBITDA FY2 | EBITDA FY3 | EBIT FY1 | EBIT FY2 | EBIT FY3 |
|------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Baron de Ley SA | 18.3 | 18.2 | 17.5 | 10.2 | 9.2 | 8.4 | 13.0 | 11.6 | 10.6 |
| Lanson BCC SA | 26.0 | 21.3 | 20.4 | 27.2 | 25.2 | 27.4 | 37.8 | 33.4 | 38.9 |
| Laurent Perrier SA | 20.5 | 18.1 | 16.4 | 16.3 | 14.2 | 14.7 | 17.8 | 15.8 | 14.6 |
| Masi Agricola SpA | 22.9 | 21.2 | 16.9 | 10.5 | 10.2 | 9.6 | 15.3 | 14.9 | 13.7 |
| Schloss Wachenheim | 14.5 | 13.9 | 14.1 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Treasury Wine Estates | 34.0 | 27.7 | 23.7 | 19.1 | 16.0 | 14.0 | 22.9 | 18.7 | 15.8 |
| Vina Concha y Toro SA | 20.2 | 18.3 | 16.6 | 10.7 | 9.6 | 8.8 | 14.1 | 11.7 | 12.3 |
| Vranken Pommery | 25.2 | 19.7 | 17.9 | 23.0 | 21.1 | 20.4 | 31.7 | 28.4 | 27.1 |
| Wine producers median | 21.7 | 19.0 | 17.2 | 16.3 | 14.2 | 14.0 | 17.8 | 15.8 | 14.6 |
| Majestic Wine PLC | 20.1 | 16.9 | 14.4 | 10.6 | 9.2 | 8.2 | 15.4 | 12.7 | 11.1 |
| Hawesko Holding AG | 23.0 | 21.3 | 18.5 | 11.6 | 10.6 | 9.6 | 14.6 | 13.4 | 12.1 |
| Wine distr. median | 21.6 | 19.1 | 16.4 | 11.1 | 9.9 | 8.9 | 15.0 | 13.1 | 11.6 |
| IWB | 14.2 | 10.8 | 7.8 | 5.8 | 3.9 | 2.2 | 7.7 | 4.8 | 2.5 |

Source: CFO Sim, Thomson Reuters Eikon



ANALYST CERTIFICATION

This publication was prepared by **LUCA ARENA**, Head of the Equity Research Department of "Corporate Family Office SIM S.p.A." ("CFO SIM").

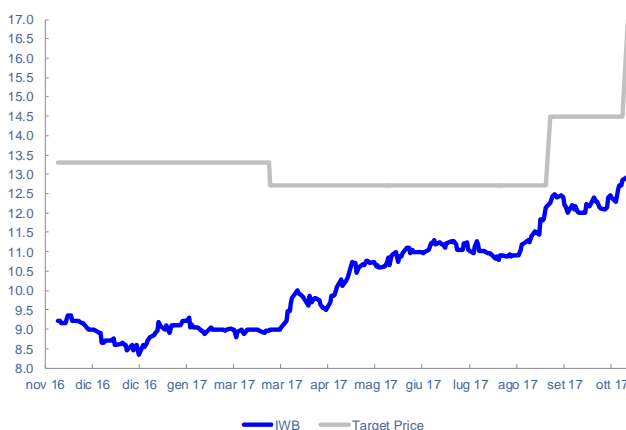
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| DATE | TARGET PRICE | RATING |
|------------|--------------|--------|
| 8/11/2017 | €17.00 | BUY |
| 18/09/2017 | €14.50 | BUY |
| 24/03/2017 | €12.70 | BUY |
| 16/09/2016 | €13.30 | BUY |
| 24/05/2016 | €13.30 | BUY |

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- a **BUY** rating is assigned if the target price is at least 15% higher than the market price;
- a **SELL** rating is assigned if the target price is at least 15% lower than the market price;
- a **NEUTRAL** rating is assigned if the difference between the current price and target price lies within the +/-15% bands identified using the preceding criteria.

The rating is determined on the basis of the **expected absolute return 12 months forward** and not on the basis of the estimated out/underperformance relative to a market index. Thus, the rating can be directly linked with the estimated percentage difference between current price and target price. The prices of the financial securities mentioned in the report (also used for the calculation of market capitalisation and market multiples) are the reference prices of the stock market trading day preceding the publication date of the report, otherwise stated.

