

## Italy – Food and Beverage

## Poised to become the largest private domestic player

17<sup>th</sup> July 2018

PARIS ROADSHOW

RIC: ITWB.MI  
BBG: IWB IM

On the road with the CEO in Paris for a full-day roadshow, meeting ten key investors. IWB is well positioned to drive consolidation in the wine industry, aiming to become the first privately owned wine group in Italy in three years. Main points to take away from the meetings:

Rating:

**Buy**

Price Target:

**€ 19.60**

Upside/(Downside): **58.7%**

Last Price: **€ 12.35**

Market Cap.: **€ 91.3**

1Y High/Low: **€ 14.75/€ 10.43**

Free Float: **83.2%**

Major shareholders:

Provinco Srl	9.1%
IPOC	8.7%
Praude Asset Management	5.2%



### Stock price performance

	1M	3M	12M
<b>Absolute</b>	-4.3%	-10.8%	10.1%
<b>Rel.to AIM Italia</b>	-3.6%	-17.6%	-4.3%
<b>Rel.to EU Sector</b>	-7.6%	-9.0%	13.3%

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### Able to mitigate the supply price pressure generated by the meagre 2017 harvest

The 2017 harvest was among the poorest of recent decades, due to the extreme climatic conditions caused by frost, hail, gusts of wind, heat peaks and droughts. This contributed to significantly lower production: -18% France, -11/25 % in Spain, over -26% in Italy. The decline in available wine therefore exerted 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. We believe the group is able to mitigate these 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 in Q4-17 had stocks to satisfy at least four months of demand in 2018, purchased at prices not impacted by the supply price pressure. In addition, IWB is able to act on product mix, i.e. pushing more lucrative bottles, and on blend. Therefore, in our opinion, 80% of the cost increase is projected to be offset by these actions, leaving just some 20% impacting economics, i.e. some € 1.5-2.0m additional costs in 2018, projected to be counterbalanced by lighter personnel costs.

### To become the first private wine group in Italy

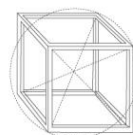
With the B2B/B2C restructuring and integration completed, M&A is a priority for the group. Ideal value adding targets show economic and balance sheet solidity, a business structure coherent with that of IWB and presence in adjacent channels, to leverage on dimension and reach and to get access to key lucrative markets (namely the US/Canada). Valuations might be higher than current depressed IWB multiples, but synergies arising from the combined entity could be significant. The aim is to become the largest domestic private player in the arena in the next three years, thus exceeding € 200m turnover. In addition, we might not exclude the possibility of IWB being a target on the back of the group's well rooted logistic platform and clients/products portfolio.

### Shares trade at 5.0x EBITDA<sub>18</sub>: a real value stock unjustifiably inexpensive

According to our figures, IWB is projected to produce an average € 11.0m Free Cash Flow to Equity per annum in 2018-20. CFO SIM has confirmed estimates and DCF valuation: PT is € 19.60/share, with an upside of 58.7% at current prices. Shares continue to trade at unjustified, undemanding multiples vs. peers: 5.0x and 3.5x EBITDA<sub>18-19</sub> vs. 15.3x and 14.0x of comparables. We reiterate our Buy rating on IWB, the move to the STAR segment in 2019, has to zero the AIM Italia discount that investors need to apply.

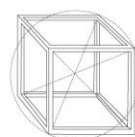
### IWB, key financials and ratios

€ m	2016	2017	2018e	2019e	2020e
Sales	145.9	149.7	154.2	158.7	164.3
EBITDA adjusted	11.3	16.0	16.5	20.7	23.0
EBITDA	9.3	14.2	16.5	20.7	23.0
EBIT adjusted	8.1	12.7	13.3	17.6	19.9
EBIT	6.1	10.8	13.3	17.6	19.9
Net profit adjusted	4.7	8.1	9.5	12.7	14.5
Net profit	4.3	6.7	9.5	12.7	14.5
NetF (cash)/debt	10.5	2.3	(8.1)	(19.0)	(31.8)
EPS adjusted FD	0.58	1.09	1.28	1.71	1.95
EPS adj. FD growth	-31.2%	89.3%	17.3%	33.3%	14.4%
DPS ord. €/s	0.20	0.40	0.50	0.66	0.76
Dividend yield	1.6%	3.2%	4.0%	5.3%	6.2%
Free Cash Flow Yield	9.7%	10.5%	13.7%	15.0%	18.0%
PER x	21.4	11.3	9.6	7.2	6.3
PCF x	9.7	8.6	6.7	6.2	5.2
EV/Sales x	0.7	0.6	0.5	0.5	0.4
EV/EBITDA x	10.9	6.6	5.0	3.5	2.6
EV/EBIT x	16.8	8.7	6.3	4.1	3.0





Income statement (€ m)	2016	2017	2018e	2019e	2020e
Net Revenues	145.9	149.7	154.2	158.7	164.3
Purchasing	(79.0)	(83.2)	(85.3)	(85.8)	(87.2)
Services	(47.8)	(45.9)	(46.1)	(46.0)	(47.6)
Personnel	(12.0)	(9.8)	(7.0)	(7.1)	(7.3)
Other operating expenses	2.2	3.4	0.8	0.8	0.9
EBITDA adjusted	11.3	16.0	16.5	20.7	23.0
EBITDA	9.3	14.2	16.5	20.7	23.0
D&A	(3.3)	(3.4)	(3.2)	(3.1)	(3.1)
EBIT adjusted	8.1	12.7	13.3	17.6	19.9
EBIT	6.1	10.8	13.3	17.6	19.9
Financials	(1.6)	(1.6)	(0.3)	(0.1)	(0.0)
Extraordinary	0.0	0.0	0.0	0.0	0.0
Pre-Tax profit	4.4	9.2	13.1	17.4	19.9
Income taxes	(0.1)	(2.5)	(3.5)	(4.7)	(5.4)
Minorities	0.0	0.0	0.0	0.0	0.0
Net Profit adjusted	4.7	8.1	9.5	12.7	14.5
Net Profit	4.3	6.7	9.5	12.7	14.5
Balance sheet (€ m)	2016	2017	2018e	2019e	2020e
Net Working Capital	(2.2)	(4.4)	(5.2)	(4.1)	(4.0)
Net Fixed Assets	100.4	99.7	97.5	95.4	93.3
Equity Investments	0.0	0.0	0.0	0.0	0.0
Other M/L Term A/L	(11.6)	(11.4)	(11.4)	(11.5)	(11.6)
Net Invested Capital	86.6	83.9	80.8	79.7	77.7
Net Financial Position	10.5	2.3	(8.1)	(19.0)	(31.8)
Minorities	0.0	0.0	0.0	0.0	0.0
Group's Shareholders Equity	76.2	81.6	88.9	98.7	109.5
Financial Liabilities & Equity	86.6	83.9	80.8	79.7	77.7
Cash Flow statement (€ m)	2016	2017	2018e	2019e	2020e
Total net income	4.3	6.7	9.5	12.7	14.5
Depreciation	3.3	3.4	3.2	3.1	3.1
Other non-cash charges	(3.9)	(1.6)	0.1	0.1	0.1
Cash Flow from Oper. (CFO)	3.7	8.5	12.8	15.9	17.7
Change in NWC	6.6	2.2	0.8	(1.1)	(0.1)
FCF from Operations (FCFO)	10.4	10.7	13.7	14.8	17.6
Net Investments (CFI)	(0.7)	(1.0)	(1.0)	(1.0)	(1.0)
Free CF to the Firm (FCFF)	9.7	9.7	12.6	13.8	16.6
CF from financials (CFF)	(4.9)	(6.6)	(1.9)	(2.6)	(4.5)
Free Cash Flow to Equity (FCFE)	4.8	3.1	10.7	11.3	12.1
Financial ratios	2016	2017	2018e	2019e	2020e
EBITDA margin	6.4%	9.5%	10.7%	13.0%	14.0%
EBIT margin	4.1%	7.2%	8.6%	11.1%	12.1%
Net profit margin	3.0%	4.5%	6.2%	8.0%	8.9%
Tax rate	1.8%	27.1%	27.0%	27.0%	27.0%
Interest coverage x	0.28	0.16	0.05	0.04	0.03
Net Debt/Ebitda x	1.12	0.16	(0.49)	(0.92)	(1.38)
Debt-to-Equity x	0.14	0.03	(0.09)	(0.19)	(0.29)
ROIC	4.9%	7.9%	11.6%	15.8%	18.5%
ROCE	4.7%	8.5%	9.9%	12.1%	12.8%
ROACE	4.7%	8.5%	10.2%	12.5%	13.3%
ROE	5.9%	8.5%	11.2%	13.6%	14.0%
Payout ratio	26.1%	33.7%	30.0%	30.0%	30.0%
Per share figures	2016	2017	2018e	2019e	2020e
Final N. of shares # m	6.36	5.67	5.74	5.74	5.74
Average N. of shares # m	6.47	6.02	5.71	5.74	5.74
Final N. of shares (fully diluted) # m	8.13	7.45	7.45	7.45	7.45
EPS reported €	0.67	1.12	1.67	2.22	2.53
EPS reported FD €	0.53	0.90	1.28	1.71	1.95
EPS adjusted FD €	0.53	0.90	1.28	1.71	1.95
EBITDA FD €	1.15	1.90	2.22	2.78	3.09
EBIT FD €	0.01	0.02	0.06	0.07	0.09
FCFO FD €	1.28	1.44	1.83	1.99	2.36
FCFF FD €	1.19	1.30	1.70	1.86	2.23
FCFE FD €	0.59	0.41	1.44	1.51	1.62
Dividend €	0.20	0.40	0.50	0.66	0.76



## The company at a glance

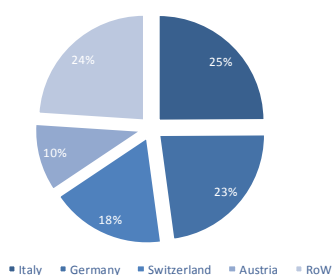
IWB (Italian Wine Brands) is the holding company of a leading producer and distributor in the Italian wine industry. The Group operates through two channels: B2C and B2B.

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.

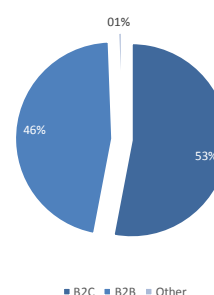
B2B is focused on sale and distribution in the international markets to mass retailers where it distributes both privately labelled and branded products. The B2B arm outsources both the bottling and the logistic activity in order to make its supply operations faster, leaner and more efficient.

Sales reached € 149.7m in 2017, +2.6% YoY. The figure was characterised once again by a strong performance in B2B and mixed results in B2C: B2B division up by some 14.0% and B2C down by circa 6.0%. EBITDA, which includes € 1.9m of non-recurring items, was € 14.2m, with 9.5% margin.

## 2017 revenues by country and...



## ...by channel



## Shareholder structure

	%	# m
Provinco	9.08%	0.67
IPOC	8.67%	0.64
Free Float, o/w	82.3%	6.09
Praude Asset Management	5.20%	0.38
<b>Total</b>	<b>100.00%</b>	<b>7.40</b>

Source: company data

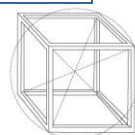
## Peer group absolute performance

	1D	1W	1M	3M	6M	YTD
Baron de Ley SA	(0.9)	(0.9)	(1.3)	(3.1)	0.0	1.0
Lanson BCC SA	0.6	(3.7)	(8.8)	0.6	(5.5)	(5.6)
Laurent Perrier SA	3.5	8.3	5.5	7.4	21.2	24.8
Masi Agricola SpA	(0.7)	(2.9)	0.9	1.4	(1.4)	(1.8)
Schloss AG	0.8	2.1	(1.3)	(7.0)	(10.4)	(5.4)
Treasury Wine Est.	(0.2)	(2.1)	0.3	(0.2)	20.6	10.4
Vina ConchaYToro	0.7	0.0	2.4	0.4	12.3	18.0
Vranken Pommery M.	0.0	1.3	1.7	1.3	(0.4)	0.0
<b>Wine producers median</b>	<b>0.3</b>	<b>(0.4)</b>	<b>0.6</b>	<b>0.5</b>	<b>(0.2)</b>	<b>0.5</b>
Majestic Wine PLC	(1.4)	(5.0)	(4.7)	15.9	(2.4)	0.7
Hawesko Holding AG	(0.5)	0.5	(3.3)	1.5	2.5	1.5
<b>Wine distributors median</b>	<b>(0.9)</b>	<b>(2.3)</b>	<b>(4.0)</b>	<b>8.7</b>	<b>0.0</b>	<b>1.1</b>
<b>IWB</b>	<b>(1.2)</b>	<b>0.0</b>	<b>(4.3)</b>	<b>(10.8)</b>	<b>(4.3)</b>	<b>(1.8)</b>

## 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	17.1	17.3	n.a.	7.7	7.8	n.a.	9.6	10.1	8.6
Lanson BCC SA	18.4	17.0	2.1	27.1	24.5	22.7	35.0	31.7	28.4
Laurent Perrier SA	24.4	23.6	20.3	17.6	16.8	15.2	20.1	19.3	16.9
Masi Agricola SpA	18.6	16.4	15.5	10.9	10.3	8.7	12.7	11.9	11.4
Schloss Wachenheim	13.5	12.6	12.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Treasury Wine Estates	34.6	27.1	22.7	20.6	16.6	14.3	24.8	19.3	16.0
Vina Concha y Toro SA	19.0	16.4	12.7	12.3	10.9	8.9	15.6	14.3	n.a.
Vranken Pommery	27.8	21.0	n.a.	21.7	20.2	18.9	30.4	27.7	25.5
<b>Wine producers median</b>	<b>18.8</b>	<b>17.1</b>	<b>14.1</b>	<b>17.6</b>	<b>16.6</b>	<b>14.7</b>	<b>20.1</b>	<b>19.3</b>	<b>16.5</b>
Majestic Wine PLC	27.5	20.4	14.0	14.8	12.2	9.9	21.5	16.6	12.2
Hawesko Holding AG	22.1	20.5	19.2	11.4	10.5	9.9	14.2	13.1	12.2
<b>Wine distr. median</b>	<b>24.8</b>	<b>20.5</b>	<b>16.6</b>	<b>13.1</b>	<b>11.4</b>	<b>9.9</b>	<b>17.8</b>	<b>14.8</b>	<b>12.2</b>
<b>IWB</b>	<b>9.6</b>	<b>7.2</b>	<b>6.3</b>	<b>5.0</b>	<b>3.5</b>	<b>2.6</b>	<b>6.3</b>	<b>4.1</b>	<b>3.0</b>

Source: CFO Sim, Thomson Reuters Eikon



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DATE	TARGET PRICE	RATING
17/07/2018	€19.60	BUY
26/03/2018	€19.60	BUY
08/11/2017	€17.00	BUY
18/09/2017	€14.50	BUY

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- 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.

