

Italy – Food and Beverage

Platinum Equity buys Farnese Vini for 10.0x EBITDA

8th January 2019

SECTOR NEWS

RIC: ITWB.MI
BBG: IWB IM

The consolidation process in the industry goes on: Platinum Equity buys 100% of Farnese Vini for € 170m, valuing the prey 10.0x EBITDA₁₉. The transaction multiple highlights the current depressed valuation of IWB, unjustified by the fundamentals.

Rating:

Buy

Price Target:

€ 19.20

Upside/(Downside): 48.8%

Last Price: € 12.90

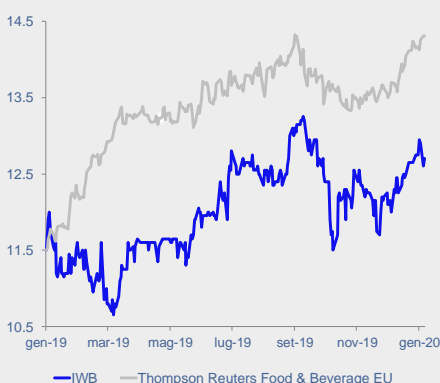
Market Cap.: € 95.8

1Y High/Low: € 13.25/€ 10.50

Free Float: 82.2%

Major shareholders:

Provinco Srl 9.1%
IPOC 8.7%
Praude Assett Management 6.3%



Stock price performance

	1M	3M	12M
Absolute	5.3%	8.4%	12.2%
Rel.to AIM Italia	-1.0%	-3.3%	4.2%
Rel.to EU Sector	1.0%	3.6%	-11.7%

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Platinum Equity pays some € 170m EV for Farnese Vini, i.e. 10.0x EBITDA₁₉

Platinum Equity, a global private equity firm with AuM in excess of \$ 19bn and over 40 companies in its portfolio, has announced the acquisition of 100% of Farnese Vini for an EV consideration of some € 170m from NB Renaissance Partners. The transaction implies an appraisal of the company of 10.0x EBITDA₁₉. This proposal exceeded the one offered by Carlyle through its controlled Australian firm Accolade Wines. In 2016 NB Renaissance Partners purchased Farnese Vini from 21 Investimenti for a total EV of some € 65m, i.e. 9.7x EBITDA₁₅ and 14.3x Earnings (source: Mergermarket).

Farnese Vini: half the size and business model similar to IWB

	Farnese Vini	IWB
Sales (2019e, € m)	76.0	153.0
EBITDA (2019e, € m)	17.5	18.5
EBITDA margin (2019e, %)	23.0	12.1
NFP - Debt/(Cash) (2019e, € m)	23.0	(3.4)
Enterprise Value (€ m)	175.0 (deal appraisal)	92.4 (market value)
Bottles sold (# m)	24.0	60.0
€/bottle	3.1	2.5
Export share (%) -	97%	80%
Countries covered (#)	80	80
Winery ownership	No	Yes
Land ownership	No	No
Wine/grape suppliers (some, #)	200	200
Proprietary Brands	Yes	Yes
Channels	On/off trade	Wholesales/Distance Selling
2016-19 Sales / EBITDA CAGR	13% / 18%	2% / 15%

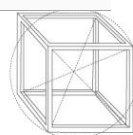
Transaction multiple highlights IWB current undemanding valuation

According to our figures, IWB is projected to produce an average € 11.0m Free Cash Flow per annum in 2019-21. This transaction, once again underlines shares continue to trade at unjustified, undemanding multiples: 5.6x and 4.8x EBITDA₁₉₋₂₀ vs. 8.6x and 7.5x of wine distributors and 14.0x and 11.9x of wine producers. IWB stays focused on cost control and external growth opportunities: IWB is actively on the buy side, searching targets that display economic and balance sheet solidity, business structure coherence similar to IWB and presence in adjacent channels, to leverage on dimension and reach with the aim of getting access to key lucrative markets (namely the US). In addition, we might not exclude, also considering the current excitement in the sector, the possibility of IWB being a target for a player aimed at exploiting synergies with the logistic platform and client/product portfolio. Buy reiterated, 48.8% upside.

IWB, key financials and ratios

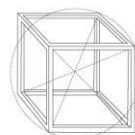
€ m	2017	2018	2019e	2020e	2021e
Sales	149.7	149.9	153.0	158.1	163.0
EBITDA adj.	16.0	14.6	17.4	18.9	20.0
EBITDA	14.2	13.4	16.8	18.9	20.0
EBIT adj.	12.7	11.1	13.7	15.2	16.4
EBIT	10.8	9.9	13.1	15.2	16.4
Net profit adj.	8.1	7.2	9.5	10.5	11.3
Net profit	6.7	6.4	9.0	10.5	11.3
NFP (cash)/debt	2.3	3.4	(3.4)	(12.3)	(21.2)
EPS adjusted FD	1.10	0.98	1.29	1.41	1.53
EPS adj. FD growth	90.6%	-11.1%	32.0%	9.6%	7.8%
DPS ord. €/s	0.40	0.40	0.47	0.54	0.59
Dividend yield	3.1%	3.1%	3.6%	4.2%	4.6%
Free Cash Flow Yield	10.2%	3.1%	10.3%	12.1%	12.6%
PER adj. x *	11.7	13.2	10.5	9.6	8.9
PCF x *	8.9	13.7	7.2	6.9	6.7
EV/Sales x *	0.7	0.7	0.7	0.6	0.5
EV/EBITDA adj. x *	6.1	6.8	5.6	4.8	4.1
EV/EBIT adj. x *	7.7	9.0	8.0	6.3	5.3

* Multiples calculated including the IFRS 16 effect





Income statement (€ m)	2017	2018	2019e	2020e	2021e
Net Revenues	149.7	149.9	153.0	158.1	163.0
Purchasing	(80.8)	(87.2)	(87.0)	(89.8)	(92.1)
Services	(45.9)	(42.0)	(42.0)	(42.5)	(43.8)
Personnel	(9.8)	(8.3)	(7.6)	(7.9)	(8.1)
Other operating expenses	1.0	1.1	0.4	1.1	1.1
EBITDA adjusted	16.0	14.6	17.4	18.9	20.0
EBITDA	14.2	13.4	16.8	18.9	20.0
D&A	(3.4)	(3.5)	(3.7)	(3.7)	(3.6)
EBIT adjusted	12.7	11.1	13.7	15.2	16.4
EBIT	10.8	9.9	13.1	15.2	16.4
Financials	(1.6)	(1.1)	(0.7)	(0.9)	(0.9)
Extraordinary	0.0	0.0	0.0	0.0	0.0
Pre-Tax profit	9.2	8.7	12.4	14.3	15.5
Income taxes	(2.5)	(2.4)	(3.3)	(3.9)	(4.2)
Minorities	0.0	0.0	0.0	0.0	0.0
Net Profit adjusted	8.1	7.2	9.5	10.5	11.3
Net Profit	6.7	6.4	9.0	10.5	11.3
EBITDA adj. Incl. IFRS 16	-	-	18.5	20.0	21.1
EBIT adj. Incl. IFRS 16	-	-	13.0	15.1	16.3
Net Profit adj. Incl. IFRS 16	-	-	9.1	10.0	10.8
Balance sheet (€ m)	2017	2018	2019e	2020e	2021e
Net Working Capital	(4.4)	(4.7)	(5.3)	(4.9)	(4.2)
Net Fixed Assets	99.7	101.8	101.5	100.0	98.6
Equity Investments	0.0	0.0	0.0	0.0	0.0
Other M/L Term A/L	(11.4)	(9.4)	(9.4)	(9.4)	(9.4)
Net Invested Capital	83.9	87.7	86.8	85.7	84.9
Net Financial Position	2.3	3.4	(3.4)	(12.3)	(21.2)
Minorities	0.0	0.0	0.0	0.0	0.0
Group's Shareholders Equity	81.6	84.3	90.3	98.0	106.2
Financial Liabilities & Equity	83.9	87.7	86.8	85.7	84.9
Net Financial Position Incl. IFRS 16	-	-	8.3	(0.6)	(9.5)
Cash Flow statement (€ m)	2017	2018	2019e	2020e	2021e
Total net income	6.7	6.4	9.0	10.5	11.3
Depreciation	3.4	3.5	3.7	3.7	3.6
Other non-cash charges	(1.6)	(3.3)	(0.1)	0.0	0.0
Cash Flow from Oper. (CFO)	8.5	6.6	12.7	14.2	14.9
Change in NWC	2.2	0.4	0.5	(0.4)	(0.7)
FCF from Operations (FCFO)	10.7	7.0	13.3	13.8	14.3
Net Investments (CFI)	(1.0)	(4.0)	(3.4)	(2.2)	(2.2)
Free CF to the Firm (FCFF)	9.7	2.9	9.9	11.6	12.1
CF from financials (CFF)	(6.6)	5.6	(3.0)	(3.6)	(4.0)
Free Cash Flow to Equity (FCFE)	3.1	8.5	6.8	8.0	8.1
Financial ratios	2017	2018	2019e	2020e	2021e
EBITDA margin	9.5%	9.0%	11.0%	12.0%	12.3%
EBIT margin	7.2%	6.6%	8.6%	9.6%	10.1%
Net profit margin	4.5%	4.2%	5.9%	6.6%	6.9%
Tax rate	27.1%	27.3%	27.0%	27.0%	27.0%
Op NWC/Sales	-2.9%	-3.2%	-3.5%	-3.1%	-2.6%
Interest coverage x	0.16	0.12	0.07	0.08	0.08
Net Debt/Ebitda x	0.16	0.25	(0.20)	(0.65)	(1.06)
Debt-to-Equity x	0.03	0.04	(0.04)	(0.13)	(0.20)
ROIC	7.9%	7.4%	10.4%	12.1%	13.2%
ROCE	8.5%	7.1%	9.0%	10.0%	10.3%
ROACE	8.5%	7.4%	9.2%	10.3%	10.5%
ROE	8.5%	7.7%	10.4%	11.1%	11.1%
Payout ratio	38.5%	48.3%	30.0%	30.0%	30.0%
Per share figures	2017	2018	2019e	2020e	2021e
Final N. of shares # m	7.40	7.40	7.40	7.40	7.40
Average N. of shares # m	7.40	7.40	7.40	7.40	7.40
Final N. of shares (fully diluted) # m	7.40	7.40	7.40	7.40	7.40
EPS reported €	0.91	0.86	1.22	1.41	1.53
EPS reported FD €	0.91	0.86	1.22	1.41	1.53
EPS adjusted FD €	1.10	0.98	1.29	1.41	1.53
EBITDA FD €	1.91	1.81	2.28	2.56	2.70
EBIT FD €	0.03	0.01	0.02	0.04	0.04
FCFO FD €	1.45	0.94	1.79	1.86	1.93
FCFF FD €	1.31	0.40	1.33	1.57	1.63
FCFE FD €	0.41	1.15	0.92	1.08	1.09
Dividend €	0.40	0.40	0.47	0.54	0.59



The company at a glance

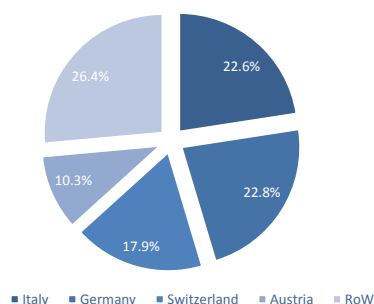
IWB (Italian Wine Brands) is the holding company of a leading producer and distributor in the Italian wine industry. The Group operates through two channels: B2C and B2B.

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.

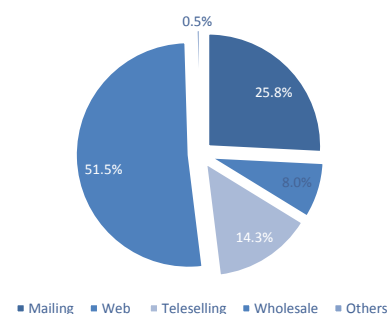
B2B is focused on sale and distribution in the international markets to mass retailers where it distributes both privately labelled and branded products. The B2B arm outsources both the bottling and the logistic activity in order to make its supply operations faster, leaner and more efficient.

Sales reached € 149.9m in 2018, +0.1% YoY. The figure was characterised once again by a strong performance in B2B and mixed results in B2C: B2B division up by some 11.8% and B2C down by circa 8.9%. EBITDA, which includes € 1.2m of non-recurring items, was € 13.4m, with 8.9% margin.

2018 revenues by country and...



...by channel



Shareholder structure

	%	# m
Provinco	9.08%	0.67
IPOC	8.69%	0.64
Free Float, o/w Praude Asset Management	82.2%	6.09
	6.33%	0.47
Total	100.0%	7.40

Source: company data

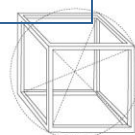
Peer group absolute performance

	1D	1W	1M	3M	6M	YTD
Baron de Ley SA	1.0	(1.9)	(2.3)	0.0	1.9	(2.8)
Concha y Toro Winery Inc	(0.5)	4.1	1.7	1.1	2.1	2.6
Lanson BCC SA	(0.8)	(6.8)	0.0	(8.9)	(16.9)	(6.8)
Laurent Perrier SA	1.1	1.6	3.0	(1.3)	(3.3)	0.7
Masi Agricola SpA	(0.6)	1.3	3.2	(2.5)	(19.7)	1.3
Schloss Wachenheim AG	0.0	(1.5)	(1.5)	(7.0)	(0.3)	(1.2)
Treasury Wine Estates Ltd	(1.7)	0.6	(4.6)	(8.7)	2.0	0.6
Vranken Pommery Mon	1.0	1.0	0.0	(4.2)	(10.5)	2.5
Wine producers median	(0.3)	0.8	0.0	(3.3)	(1.8)	0.6
Hawesko Holding AG	0.6	2.3	(3.8)	7.3	(2.2)	(0.6)
Naked Wines PLC	(0.2)	(0.4)	5.4	(7.3)	(13.8)	(2.0)
Wine distributors median	(0.2)	(0.4)	5.4	(7.3)	(13.8)	(2.0)
IWB	2.4	2.0	5.3	8.4	2.4	1.2

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	16.3	17.2	19.3	8.5	7.4	6.4	11.0	9.7	8.5
Concha y Toro Winery Inc	22.0	18.2	15.0	13.8	11.7	9.6	18.1	13.5	11.5
Lanson BCC SA	12.5	10.0	11.0	22.9	19.7	20.6	29.2	23.8	26.1
Laurent Perrier SA	20.7	19.1	17.4	15.0	14.0	13.4	17.3	16.3	15.5
Masi Agricola SpA	18.3	16.8	17.1	10.2	9.5	8.9	16.1	14.2	12.8
Schloss Wachenheim AG	12.3	10.9	10.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Treasury Wine Estates Ltd	22.5	18.6	16.3	14.0	11.9	10.7	16.2	13.6	11.8
Vranken Pommery Mon. SA	22.0	20.0	15.3	20.3	19.4	18.0	28.7	26.6	24.7
Wine producers median	19.5	17.7	15.8	14.0	11.9	10.7	17.3	14.2	12.8
Hawesko Holding AG	18.5	16.3	14.9	8.1	n.a.	6.4	14.1	12.2	10.6
Naked Wines PLC	n.a.	n.a.	n.a.	9.1	7.5	n.a.	13.4	9.9	n.a.
Wine distributors median	18.5	16.3	14.9	8.6	7.5	6.4	13.8	11.0	10.6
IWB	10.5	9.6	8.9	5.5	4.4	3.7	7.0	5.5	4.6

Source: CFO Sim, Thomson Reuters Eikon



ANALYST CERTIFICATION

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DATE	TARGET PRICE	RATING
08/01/2020	€19.20	BUY
17/09/2019	€19.20	BUY
02/04/2019	€18.60	BUY
18/09/2018	€18.60	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.

