IWB SpA

Italy – Food and Beverage

A blend of value, passion and appeal

24th May 2016

INITIATION OF COVERAGE

RIC: IWB.MI
BBG: IWB IM

IWB is the first wine group listed in Italy. In a market characterised by moderate growth, the integration between Giordano Vini and Provinco Italia and related significant synergies, are set to boost profitability. M&A appeal and the move to the MTA main market are additional key triggers to the equity story.

Rating:
Buy

Price Target:
€13.30

Upside/(Downside): 40.0%

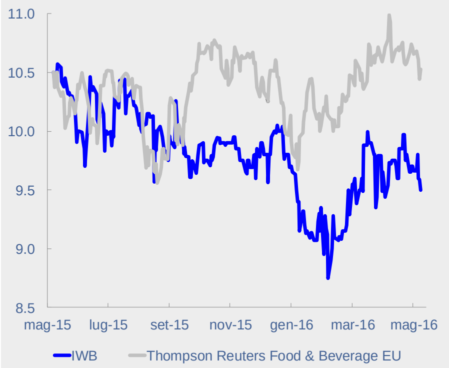
Last Price: € 9.50

Market Cap.: € 60.4m*

1Y High/Low: € 10.63/€ 8.53

Free Float: 63.3%

Major shareholders:
OGV 22.9%
Provinco Italia 12.6%
IPOC 1.3%



Stock price performance

	1M	3M	12M
Absolute	-2.6%	5.6%	-10.1%
Rel.to Milan AIM	-2.1%	-0.9%	-5.4%
Rel.to EU Sector	1.1%	1.3%	-10.4%

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Buy, PT € 13.30/s, 40.0% upside
CFO Sim initiates coverage on IWB with a Buy rating and a Target Price of €13.30/s, potential upside of 40.0%, determined with the DCF. Profitability grows more than proportionately to top line, thanks to the integration synergies between Giordano Vini and Provinco Italia. Additional triggers: 1) move to the MTA to the benefits of liquidity and visibility; and 2) M&A appeal, IWB is active on the buy side looking at some targets to leverage on dimension and reach. In addition, also considering the shareholder structure, IWB can be a target for a player aiming to exploit synergies with IWB's logistics platform.

The 6th player in a fragmented arena where foreign markets drive growth
IWB operates in the wine industry, a worldwide arena. Since winemaking is a traditional activity and needs particular terrain, its production is quite concentrated (82% is produced by the principal 10 countries). The key growth driver for producers, in particular for France, Italy and Spain, is export, which reached a value of €28.3bn in 2015 and which is growing quite remarkably (+10,6% YoY). The largest target markets for producers are the USA, the UK, Germany, China, Canada and Japan.

Giordano-Provinco integration is set to bring in significant synergies
The business model is plain: IWB purchases wines, must and grapes from local producers. Then Giordano Vini produces wine and bottles the liquid. Afterwards IWB markets and distributes the bottles. The company does not own vineyards, the asset characterised by the highest capital intensity in the business, granting flexibility, elasticity to short-term trends and thus employs relatively low capital. The integration of the two companies is set to bring in notable synergies, predominantly arising from scale and rationalisations, not yet visible in IWB numbers because of the new combined entity's short history.

Sales, EBIT and Net Profit CAGR$_{15\text{-}18e}$ of 5.8%, 24.4% and 34.5%
IWB net revenues are expected to show a 5.8% CAGR$_{15\text{-}18e}$, from € 146.4m to €166.6m. EBITDA and EBIT are projected to improve by 17.4% and 24.4% on average in 2015-18e, respectively, more than proportionate to top line trend, mainly due to synergies arising from the integration of Giordano Vini and Provinco Italia. CFO forecasts net profit to grow from €3.6m to €8.7m in 2015-18, 34.4% CAGR. Capex requirements are quite low, FCF generation is notable, stemming from operations and continuing optimization of WC. As a result, NFP is set to diminish to cash positive by 2018.

IWB, key financials and ratios

€ m	2014	2015	2016e	2017e	2018e
Sales	140.4	140.6	151.9	158.7	166.6
EBITDA	13.3	10.8	13.3	15.2	17.4
EBIT	10.5	7.2	9.9	11.7	13.9
Net profit	5.1	3.6	6.1	7.3	8.7
Net profit adjusted	5.1	3.6	6.1	7.3	8.7
Net Fin. Position (cash)/debt	32.7	20.1	12.1	2.5	(9.1)
EPS adjusted FD	0.78	0.55	0.75	0.90	1.08
EPS adj. FD growth	-	-30.2%	37.3%	19.6%	20.0%
DPS ord. €/s	0.00	0.00	0.00	0.00	0.00
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
Free Cash Flow Yield	n.a.	-33.1%	10.4%	12.4%	15.1%
PER x	12.1	17.4	12.7	10.6	8.8
PCF x	n.a.	4.5	7.7	6.7	5.7
EV/Sales x	0.7	0.6	0.5	0.4	0.3
EV/EBITDA x	7.0	7.5	5.5	4.1	2.9
EV/EBIT x	8.9	11.2	7.3	5.4	3.7

* number of shares includes the redeemable shares, net of 216,460 shares in the course of being cancelled

1. Investment Summary

IWB (Italian Wine Brands) is the holding company of **a leading producer and distributor in the Italian wine industry**. The Group operates through two business segments: Giordano Vini, a B2C company and Provinco Italia, a B2B player. IWB was listed on the **Milan AIM** (Alternative Investment Market) **on 29-Jan-15** at € 10/share, corresponding to a market capitalization post money of € 65.7m, through the innovate pre-booking company **IPO Challenger,** whose investors/ex-bondholders were reimbursed in kind with the listed shares and warrant of IWB, becoming direct shareholders and free float.

Giordano Vini'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. Since Giordano does not own any vineyards, it buys raw materials (grapes, must and bulk wine) from Italian vineyards and wine producers, worked in IWB's own two wineries.

Provinco Italia, is focused on sale and distribution to mass retailers in the international markets where it distributes both privately labelled and branded products. Provinco outsources both bottling and logistics in order to make supply operations faster, leaner and more efficient.

IWB operates in the wine industry, a worldwide arena. Since winemaking is a traditional activity and needs particular terrain, its **production is quite concentrated** (82% is produced by the principal 10 countries). **The key growth driver** for producers, in particular for France, Italy and Spain, **is export,** which reached a value of € 28.3bn in 2015 and which is growing quite remarkably (+10,6% YoY). The **largest target markets for producers are the USA, the UK, Germany, China, Canada and Japan**.

The IWB business model is plain: **IWB purchases wines** (Giordano Vini + Provinco Italia), **must and grapes** from local producers (Giordano Vini). Then **Giordano Vini produces wine and bottles the liquid**. Afterwards IWB (Giordano Vini + Provinco Italia) **markets and distributes the bottle**s. IWB does not own vineyards, the asset characterised by the highest capital intensity in the business, granting flexibility, elasticity to short-term trends and thus employs relatively low capital. The integration of the two companies is set to bring in **notable synergies**, predominantly **arising from scale and rationalisations**, **not yet visible in IWB numbers because of the new combined entity's short history**. Purchasing quotations of bottles, labels, corks, grape must and wines are seen to benefit from the two companies' combined entity.

As a result of the development of foreign markets, web sale channel and to a certain extent exploitation of cross-selling opportunities, **IWB net revenues are expected to show a 5.8% CAGR$_{15\text{-}18e}$**, from € 140.6m to €166.6m. **EBITDA and EBIT are projected to improve by 17.4% and 24.4**% on average in 2015-18e, respectively, more than proportionate to top line trend, mainly due to synergies arising from the integration of Giordano Vini and Provinco Italia, with margins rising by 279 and 319 bps, respectively. **CFO forecasts net profit to grow from € 3.6m to € 8.7m in 2015-18, 34.4% CAGR.** Capex requirements are quite low, **the FCF generation is notable**, stemming from operation and continuing optimization of working capital. As a result, **NFP is set to diminish to cash positive** by 2018.

We initiate coverage on IWB with a **Buy recommendation and a Target Price of € 13.30/s, potential upside of 40.0%**, determined with the DCF model and corroborated by the peers multiple comparison. The business model of the company allows **profitability to grow more than proportionately to top line**, thanks to the integration synergies between Giordano Vini and Provinco Italia, stemming from **rationalization and scale**, to the benefit of cash flow generation. Moreover, in our opinion, additional key triggers to the equity story might arise from the 1) **move to the MTA, main market of Italian Stock Exchange** to the benefits of **liquidity and visibility**; and 2) **M&A appeal**, the company is active on **the buy side** looking at some targets to leverage on dimension and reach. In addition, also considering the shareholders structure, **IWB can be a target** for a player aimed at exploiting synergies with IWB's logistics platform.

2. IWB in a nutshell

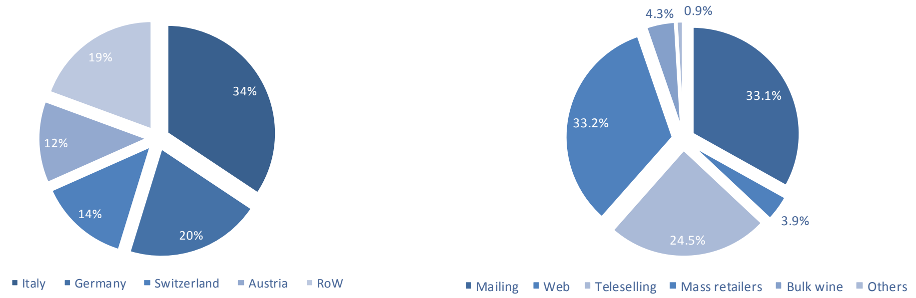
IWB (Italian Wine Brands) is the holding company of **a leading producer and distributor in the Italian wine industry**. The Group operates through two business segments: Giordano Vini, a B2C company and Provinco Italia, a B2B player.

Giordano Vini'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. Giordano boasts a catalogue of over 140 different wines and *spumanti* and 130 traditional Italian food products. Since Giordano 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.

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

Net revenues reached € 140.6m in 2015, +3% YoY. The growth was driven by export, especially in Austria (+32% YoY) and in the UK (+44% YoY) whereas sales in the domestic market are stable. **EBITDA, which includes € 1.8m of non-recurring items, was € 10.8m**, with 7.7% EBITDA margin.

Chart 1 – IWB, 2015 revenues by country and by channel



Source: IWB

IWB was listed on the **Milan AIM** (Alternative Investment Market) **on 29-Jan-15** at € 10/share, corresponding to a market capitalization post money of € 65.7m, through the innovate pre-booking company **IPO Challenger,** whose investors/ex-bondholders were reimbursed in kind with the listed shares and warrant of IWB, becoming direct shareholders and free float of the company. IWB also issued 6.16m warrants, 33% owned by the sponsors of the transaction and 67% owned by public investors.

Table 1 - IWB, Shareholders structure details

	%	# m	€ m
OGV srl*	22.9%	1.45	13.81
Provinco srl	12.6%	0.80	7.60
IPOC (sponsors of the transaction)	1.3%	0.08	0.78
Free Float	63.3%	4.02	38.23
Total	**100.0%**	**6.36**	**60.41**

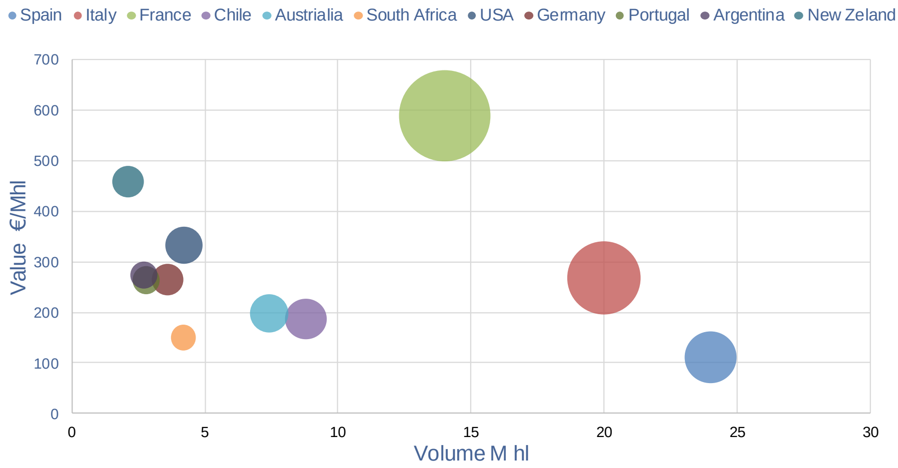
Source: IWB, Consob,
** includes redeemable shares, net of 216,460 shares in the course of being cancelled (already approved)*

3. The reference market

IWB operates in the wine industry, a worldwide arena. Since winemaking is a traditional activity and it needs particular terrain, its **production is quite concentrated** (82% produced by the principal 10 countries). Even though terrain dedicated to grape production worldwide is gradually decreasing, production remains roughly stable around 270m hl, although this is obviously affected by weather trends: for instance in 2013 total production rose by almost 12%.

World wine consumption is estimated at 240m hectoliters in 2015, almost flat compared to the previous years but **still quite far from the 250m hectoliters level of 2008**. **The USA, with a consumption to the tune of 31m hectoliters, is the largest domestic market** characterized by continuous growth in volume with a $CAGR_{2011\text{-}15}$ of 2.3%. On the contrary, in Europe consumption remains basically unchanged.

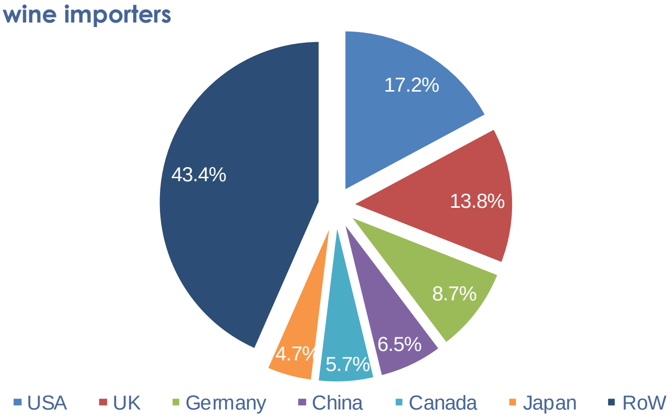
Chart 2 – IWB, global export market



Source: OIV, State of the Vitiviniculture World Market

The key growth driver for producers, in particular for France, Italy and Spain, **is export,** which reached a value of € 28.3bn in 2015 and which is growing quite remarkably (+10,6% YoY). As shown in Chart 2, **Spain is the larger exporter in terms of volumes, although in terms of value France and Italy** lead the competitive arena with market shares of 19% and 29% respectively. The **largest target markets for producers are the USA, the UK, Germany, China, Canada and Japan**.

Chart 3 – Main wine importers

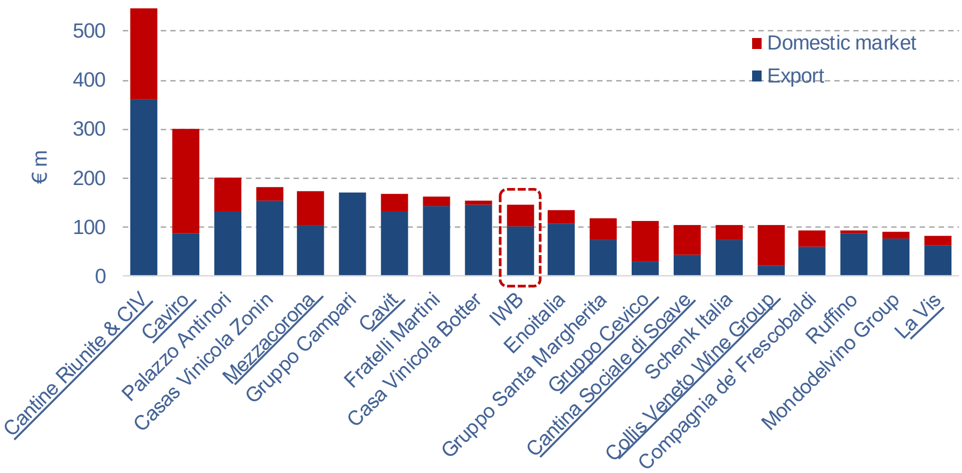


Source: : OIV, State of the Vitiviniculture World Market

4. Competitive arena

The Italian wine market is the largest in terms of production with 48.9m hl in 2014, and is **very fragmented** with hundreds of players operating throughout the country. There are 136 companies with revenues in excess of €25m for a total market value of €6.2bn, of which 35% is generated by the principal 10 companies. **The market in the last years has been characterized by constant growth** with the exception of 2014, driven by an increasing interest in sparkling wine and a focus on foreign market sales. **Export seems to be the most strategic driver for Italian market growth**, in particular for premium wine (price over €25 per bottle), as shown by 2010-2015 CAGR of 8% and by Italian producer expectations for 2016. As regards product type, 72% of market value derives from bottles, 18% from sparkling wine and 10% from bulk wine.

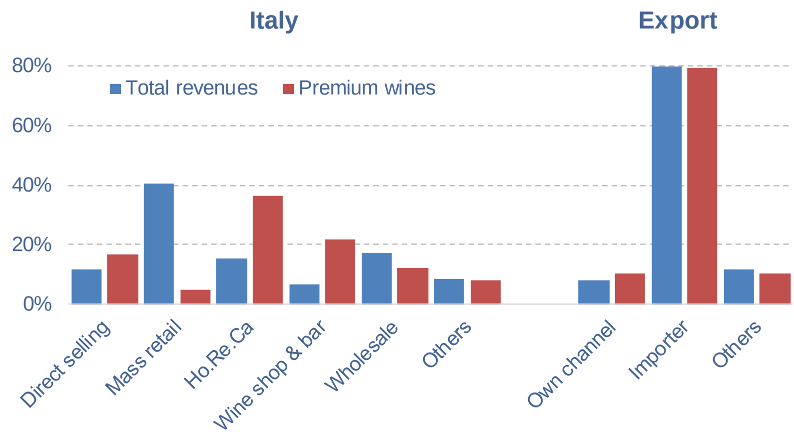
Chart 4 – IWB, the 6th largest player (ex. cooperatives, underlined in the chart)



Source: IWB, Paper on wine sector, Mediobanca Apr-16

Regarding sales channels, **more than 40% of Italian wines are distributed locally through mass market retailers** whereas premium wine sales use mainly hotel, restaurant and catering and wine shop & bar channels. In foreign markets, the distribution is usually assigned to importers.

Chart 5 – Sector turnover breakdown by sales channel (Italy/export)



Source: IWB, Paper on wine sector, Mediobanca Apr-16

5. Porter's 5 Forces

According to Michael Porter the competitive structure and the degree of attractiveness of an industry are a function of the **simultaneous interaction of the five forces**. Their analysis allows the evaluation of the competitive position of a company within a given industry.

- **Competitors**, intensity of competition.
- **Suppliers**, bargaining power.
- **Customers**, bargaining power.
- Potential new **competitors**.
- **Substitute** products.

Wine production and distribution, a market in which IWB operates is a business that can be labelled as **moderately attractive** and characterized by:

- **Quite high intensity level of rivalry**, **a monopolistic competition market,** characterized by fragmentation of demand (in the B2B segment the demand is somewhat more concentrated), offer and mobility of production factors.
- **The absence of weighty suppliers**, the most remarkable costs are purchasing (mainly wine and to a lesser extent add-ons, food, coffee) and services (transports, mailing, advertising) representing some 80% of IWB turnover. Procurements are ruled through yearly contracts, with long term relationship with suppliers.
- **Huge client base**, **with no bargaining power (B2C), few clients with quite relevant bargaining power (B2B)**. The end consumer for Giordano has no power in company pricing policies, the customer base is widely fragmented. Conversely, Provinco clients are rather concentrated, represented by modern distribution players: the main ten clients accounted for some 85% of Provinco FY-15 turnover, i.e. some 23% of IWB sales.
- **A business characterized by low barriers to entry:** size, financing, relationship with distributors, locational constraints, do not represent overwhelming limits. To a certain extent, the brand represents a key strength as well as the client database for the B2C segment.
- **Some alternatives to wine,** the threat of substitution is low in static terms (low cross-elasticity of goods) but variable in dynamic terms (increase of beer consumption in EMEA, increase in wine consumption in other countries).

Chart 6 – Porter's 5 forces industry summary

Rivalry amongst competitors	High	A monopolistic competition market, offer is vast Demand is fragmented, in B2B it is somewhat more concentrated but competition is fiercer IWB does not own vineyards, lower amount of invested capital vs. some comps	- - +	-
Bargaining power of suppliers	Low	Procurements are ruled by yearly contracts, based on long term relationship with suppliers Providers do not detain key technology assets/expertise Suppliers ideally can vertically integrate	+ + -	+
Bargaining power of customers	Medium	Vast client base with no bargaining power (B2C) Few clients with quite relevant bargaining power (B2B)	+ -	+/-
Threats of new entrants	High	Size, financing, relationship with distributors, locational constraints… No overwelming limits Expected retaliation: low, massive number of players on the market with small individual market shares	- -	-
Threats of potential substitutes	Medium	Low threat of substitution in static terms, low cross-elasticity of goods Moderate in dynamic terms, i.e. increase of beer consumption in EMEA, increase of wine consumption in other countries	+ -	+/-

Source: CFO Sim

6. Business model - strategy

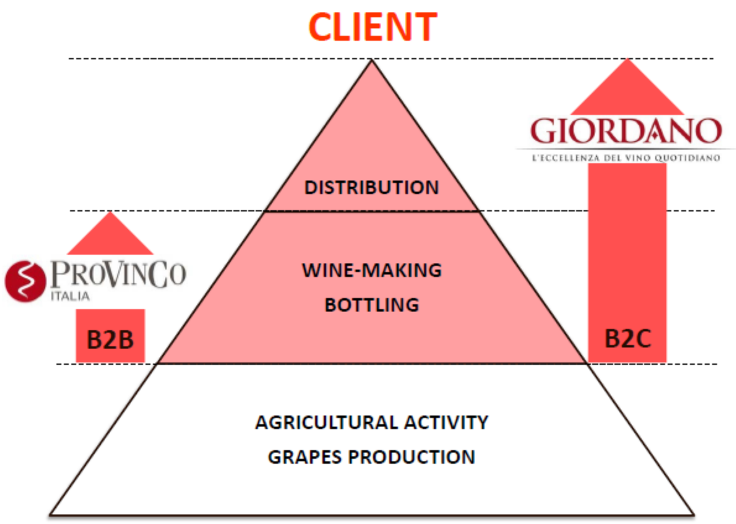
IWB business model is plain: **IWB purchases wine** (Giordano Vini + Provinco Italia), **must and grapes** from local producers (Giordano Vini). Then **Giordano Vini produces wine and bottles the liquid**. Afterwards IWB (Giordano Vini + Provinco Italia) **markets and distributes the bottle**s. IWB does not own vineyards, the asset characterised by the highest capital intensity in the business, granting flexibility, elasticity to short-term trends and thus relatively low capital is employed.

The integration of the two companies is set to bring in **notable synergies**, predominantly **arising from scale and rationalisation not yet visible in IWB numbers because of the short history of the new combined entity**. Purchasing quotations of bottles, labels, corks, grape must and wines are seen to benefit from the two companies' combined entity. Specifically, the company estimates annual saving stemming from **combined wine purchase up to €1.0m**, **€1.25m from glass and labels procurement** and **€0.25m on general structure costs**. In addition, logistics, production and bottling capacity can be exploited more efficiently by Giordano Vini and Provinco as a whole.

IWB strategy can be defined as follow:

- **Foreign markets**: IWB aims to grow and consolidate its positioning abroad, in already known countries and in brand new markets, namely the US and Canada, where the perception of Italian Wine leaves room for further growth.
- **Web sale channel**: currently IWB sells some 20% totally on the web. An enlargement of this channel is set to produce tangible positive impact in term of WC optimization (the client pays by credit card at the order, virtually no credit risk) and simplification of order management.
- **Acquisitions**: IWB is currently the 5th domestic player in the arena, excluding cooperatives, in a business where scale and volumes matter. The group is looking at some targets, ideally with the same business structure, to leverage on dimension and reach.
- **Integration Giordano Vini-Provinco Italia**: continue of the integration process between the two companies, producing significant synergies and developing growth.

Chart 7 – IWB, wine business value pyramid



Source: IWB

7. SWOT Analysis

The SWOT analysis, also known as SWOT Matrix, is a structured planning method used to evaluate the strengths, weaknesses, opportunities and threats involved in a project or in a business venture. A SWOT analysis can be carried out for a product, place, industry or person. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favourable or unfavourable to achieve that objective.

- **Strengths**: characteristics of the business or project that give it an advantage over others.
- **Weaknesses**: characteristics that place the business or project at a disadvantage relative to others.
- **Opportunities**: elements that the project could exploit to its advantage.
- **Threats**: elements in the environment that could cause trouble or be detrimental for the business or project.

S.W.O.T. ANALYSIS

STRENGTHS	WEAKNESSES
Lean structured and well-proven **logistic platform**	**Low brand recognition**
B2C **huge clients database**	Mature arena, **poor** market **growth rates**
Amongst the **highest quality/price ratio** in the market	B2B segment: relevant customers' **bargaining power**
Skilled and motivated **top management**	

OPPORTUNITIES	THREATS
Web sale channel expansion	Changing in the domestic consumption habits, **slowing demand**
Penetration in **new foreign markets**	Competition by **similar initiatives**
Move to **MTA main market** of Italian Stock Exchange	
Acquisitions and/or **development agreements**	
Free float of 63.3%, technically subject to takeover	

8. Recent results: FY-15

Table 2 – IWB, FY-15 results summary

€ m	FY-15	FY-14*	% YoY
Net revenues	**140.6**	**140.4**	***0.2***
Purchasing	(71.0)	(68.0)	
Services	(40.9)	(41.0)	
Personnel	(16.9)	(17.0)	
Other operating expenses	(1.1)	(1.1)	
EBITDA adjusted	**12.6**	**13.3**	***(5.3)***
% margin	*9.0*	*9.5*	
EBITDA reported	**10.8**	**13.3**	***(19.0)***
% margin	*7.7*	*9.5*	
D&A	(3.6)	(2.8)	
EBIT adjusted	**9.0**	**10.5**	***(13.7)***
% margin	*6.4*	*7.5*	
EBIT reported	**7.2**	**10.5**	***(31.2)***
% margin	*5.1*	*7.5*	
Financials	(1.8)	(2.3)	
Extraordinary	0.0	0.0	
Pre-Tax profit	**5.4**	**8.2**	***(34.6)***
Income taxes	(1.8)	(3.1)	
Net Profit	**3.6**	**5.1**	***(30.2)***
% margin	2.6	*3.7*	

*Source: IWB, * pro-forma figures*

2015 is the first year of the combined entity Giordano Vini + Provinco Italia, since IWB was established 27-Nov-2014 and the integration between the two companies took effect on 19-Jan-2015.

Net sales grew 0.2% to € 140.6m, vs. € 140.4m in 2014 pro-forma figures. Top line growth was **driven by mailing and mass retailer channels**, up 6.4% and 6.0% at group level respectively, **and geographically by Austria and RoW** improved by 32.2% and 23.7%. Foreign markets represented 64.9% of consolidated turnover: 51.5% at Giordano Vini and basically 100% at Provinco. **New B2C customers were 186k +15.5% YoY** vs. 161k in 2014.

EBITDA totaled €10.8m, down 19.0% YoY, margin of 7.4% vs. 9.5%. **Adjusted EBITDA** for one-off costs related to IPO-linked expenses and other items mainly related to Giordano Vini, to the tune of € 1.8m, **reached € 12.6m**, 8.7% margin.

EBIT was €7.2m, 5.0% of turnover vs. 5.7% in 2014. EBIT adj. was €10.4m, 7.2% margin, broadly in line with 2014. Bottom line came to €3.6m, vs. €5.1m in FY-14, **net profit adj.** for one-off costs aforementioned **was € 5.5m,** on the rise YoY.

Net financial position improved to € 20.1m from € 32.7m in 2014 thanks to the massive cash flow generation stemming from WC optimization (mainly inventories), resulting in an operating cash flow of € 13.8m.

9. Financial forecasts

As a result of the development of foreign markets, web sale channel and to a lesser extent exploitation of cross selling opportunities, **IWB net revenues are expected to show a 5.8% CAGR$_{15\text{-}18e}$**, from € 140.6m to €166.7m. Channel wise, **mailing and web are set to drive top line growth**, with B2B and B2C improving basically at similar pace. From a geographical point of view, the domestic market is anticipated to remain basically stable (increase by a mere 1.5% CAGR in the period), **with export**, namely Germany and RoW (the US and Canada) **driving group expansion**.

Table 3 - IWB, 2014-18e revenues evolution

€ m	2014	2015	2016e	2017e	2018e	CAGR$_{15\text{-}18}$
Mailing	45.6	48.5	51.7	54.7	56.3	***5.1***
Web	5.8	5.6	8.4	12.6	18.9	***50.0***
Adv	0.0	0.1	0.5	0.5	0.5	***71.4***
Teleselling	35.2	35.9	32.6	29.7	27.0	***(9.0)***
Mass retailers	45.9	48.6	50.7	52.8	55.0	***4.2***
Cask wine	6.9	6.4	6.6	6.9	7.2	***4.4***
Others	1.1	1.4	1.4	1.5	1.6	***4.4***
Total	**140.4**	**146.6**	**151.9**	**158.7**	**166.6**	**4.4**
B2C	86.5	90.1	93.2	97.5	102.8	***4.5***
B2B	52.8	55.0	57.3	59.7	62.3	***4.2***
Others	1.1	1.4	1.4	1.5	1.6	***4.4***
Total	**140.4**	**146.6**	**151.9**	**158.7**	**166.6**	**4.4**
Italy	50.8	51.4	52.1	52.9	53.7	***1.5***
Foreign markets	89.6	95.2	99.8	105.8	112.9	***5.9***
Germany	32.0	29.5	31.4	33.5	35.6	***6.5***
Switzerland	21.2	19.6	21.1	22.7	24.4	***7.5***
Austria	13.5	17.8	18.8	19.8	20.9	***5.5***
RoW	22.8	28.2	28.4	29.8	32.0	***4.2***
Total	**140.4**	**146.6**	**151.9**	**158.7**	**166.6**	**4.4**

Source: Company data, CFO Sim estimates

EBITDA and EBIT are expected to improve by 17.4% and 24.4% on average in 2015-18e, respectively, more than proportionate to top line trend, mainly due to synergies arising from the integration of Giordano Vini and Provinco Italia, with margins rising by 279 and 319 bps respectively. Specifically, on the back of IWB indications, CFO estimates annual saving stemming from **combined wine purchase up to € 1.0m**, **€ 1.25m from glass and labels procurements** and **€ 0.25m on general structure costs**. In addition, logistics, production and bottling capacity can be exploited more efficiently by Giordano Vini and Provinco Italia as a whole.

Table 4 - IWB, 2013-17e figures evolution between turnover and EBIT

€ m	2014	2015	2016e	2017e	2018e	CAGR$_{15\text{-}18}$
Net revenues	**140.4**	**140.6**	**151.9**	**158.7**	**166.6**	**5.8**
Purchasing	(68.0)	(71.0)	(77.4)	(80.1)	(83.2)	
Services	(41.0)	(40.9)	(43.5)	(45.4)	(47.7)	
Personnel	(17.0)	(16.9)	(17.3)	(17.6)	(17.9)	
Other operating expenses	(1.1)	(1.1)	(0.4)	(0.4)	(0.4)	
EBITDA	**13.3**	**10.8**	**13.3**	**15.2**	**17.4**	**17.4**
% margin	*9.5*	*7.7*	*8.7*	*9.6*	*10.5*	
D&A	(2.8)	(3.6)	(3.4)	(3.5)	(3.6)	
EBIT	**10.5**	**7.2**	**9.9**	**11.7**	**13.9**	**24.4**
% margin	*7.5*	*5.1*	*6.5*	*7.4*	*8.3*	

Source: Company data, CFO Sim estimates

CFO forecasts net profit to grow from € 3.6m to € 8.7m in 2015-18, 34.4% CAGR: financial charges are projected to diminish thanks to full positive impact of the intragroup financing, tax rate to stabilize at 35%.

Table 5 - IWB, 2013-17e estimates below EBIT

€ m	2014	2015	2016e	2017e	2018e	$CAGR_{15-18}$
EBIT	**10.5**	**7.2**	**9.9**	**11.7**	**13.9**	***24.4***
% margin	*7.5*	*5.1*	*6.5*	*7.4*	*8.3*	
Financial income	0.4	0.7	0.3	0.4	0.5	
Financial charges	(2.6)	(2.5)	(0.9)	(0.9)	(1.0)	
Extraordinary	0.0	0.0	0.0	0.0	0.0	
Pre-Tax profit	**8.2**	**5.4**	**9.4**	**11.2**	**13.4**	***35.8***
Income taxes	(3.1)	(1.8)	(3.3)	(3.9)	(4.7)	
Tax rate	*37.3%*	*33.1%*	*35.0%*	*35.0%*	*35.0%*	
Net Profit	**5.1**	**3.6**	**6.1**	**7.3**	**8.7**	***34.5***
% margin	*3.7*	*2.6*	*4.0*	*4.6*	*5.2*	

Source: Company data, CFO Sim estimates

Capex requirements are quite low, to the tune of € 2.0m entailing mostly maintenance capital expenditures. **The FCF generation is notable**, stemming from operations and continuing optimization of working capital. As a result, **net financial position is set to diminish to cash positive** by 2018. Financial solidity is therefore strong, with the NFP/EBITDA ratio from 1.9x to 0.3x in 2015-17e and NFP/equity from 0.5x to 0.1x in the same period.

Table 6 - IWB, 2014-18e Net Financial Position and financial solidity

€ m	2014	2015	2016e	2017e	2018e
Year-end NFP (Cash)/Debt	32.7	20.1	12.1	2.5	(9.1)
Average (Cash)/debt	0.0	26.4	16.1	7.3	(3.3)
EBITDA	13.3	10.8	13.3	15.2	17.4
Shareholders' equity	68.0	72.0	78.1	85.4	94.1
Interest charges (net)	(2.3)	(1.8)	(0.5)	(0.5)	(0.4)
NFP/Equity	0.5	0.3	0.2	0.0	(0.1)
NFP/EBITDA	2.5	1.9	0.9	0.2	(0.5)
EBITDA/charges	5.9	5.9	24.2	31.1	44.3

Source: Company data, CFO Sim estimates

10. Valuation & risks

We initiate coverage on IWB with a **BUY recommendation and a Target Price of €13.30/s, potential upside of 40.0%**, determined with the DCF model and corroborated by the peers multiple comparison. The business model of the company allows **profitability to grow more than proportionately to top line**, thanks to integration synergies between Giordano Vini and Provinco Italia, stemming from **rationalization and scale**, to the benefit of cash flow generation. Moreover, in our opinion additional key triggers to the equity story might arise from the:

- **Move to the MTA, main market of the Italian Stock Exchange,** CFO expects in the short-term, and depending on market conditions, benefits of **liquidity and visibility**;
- **M&A appeal**, since the company is active on **the buy side** looking at some targets, ideally with the same business structure, to leverage on dimension and reach. In addition, we might not exclude, also considering shareholder structure, **IWB can be a target** for a player aimed at exploiting synergies with IWB logistic platform.

10.1. DCF

In the valuation via the DCF method, explicit estimates until 2020 and a long-term growth of 1.0% were used. Cash flows were discounted back at a weighted average cost of capital calculated according to the following parameters:

Table 7 - WACC derived from:

Interest costs, pre-tax	2.5%
Tax rate	35.0%
Int. costs, after taxes	**1.6%**
Risk premium, incl. small size premium	9.0%
Risk-free (10Y Italian Gov. Bond 2W average)	1.50%
Beta levered (x)	1.00
Required ROE	**10.5%**

Source: CFO Sim

Table 8 - IWB, DCF model

€ m	2016e	2017e	2018e	2019e	2020e	Term. Val.
EBIT	9.9	11.7	13.9	14.3	14.8	
Tax rate	35.0%	35.0%	35.0%	35.0%	35.0%	
Operating profit (NOPAT)	**6.5**	**7.6**	**9.0**	**9.3**	**9.6**	
Change working capital	(0.4)	0.2	0.7	0.7	0.7	
Depreciation	3.4	3.5	3.6	2.9	2.0	
Investments	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	
Free Cash Flows	**7.4**	**9.3**	**11.3**	**10.9**	**10.3**	**133.8**
Present value	7.1	8.2	9.0	8.1	7.0	**90.9**
WACC	8.8%	8.8%	8.8%	8.8%	8.8%	
Long-term growth rate	**1.0%**					

Source: CFO Sim

Table 9 – IWB, DCF per share derived from:

Total EV present value € m		130.2
	thereof terminal value	*69.8%*
NFP last reported FY-15		(20.1)
Pension provision FY-15		(1.7)
Equity value € m		108.4
#m shares fully diluted		8.13
Equity value €/s		**13.30**
% upside/(downside)		*40.0%*

Source: CFO Sim

The application of the model produces an equity value of € 108.4m, which corresponds **to € 13.30/s, with a potential upside of 40.0%**.

The following tables illustrate that 1) sensitivity to changes in the terminal growth rate produces an equity value per share of between € 11.96 – 15.11 (perpetuity range of between 0.00% and 2.00%), while 2) sensitivity to changes in the free risk rate produces an equity value/s of € 15.15–11.85 (free risk range of between 0.50% and 2.50%) and 3) sensitivity to changes in the risk premium, including small size premium, results in an equity value/s of € € 17.44-10.63 (risk premium range of between 7.0% and 11.0%).

Table 10 – IWB, equity value sensitivity to changes in terminal growth rate

€ m	0.00%	0.25%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%
Present value of CF	39.3	39.3	39.3	39.3	39.3	39.3	39.3	39.3	39.3
PV of terminal value	79.7	82.3	85.0	87.8	90.9	94.2	97.6	101.4	105.4
Total value	**119.0**	**121.5**	**124.2**	**127.1**	**130.2**	**133.4**	**136.9**	**140.6**	**144.7**
NFP FY-15A	(20.1)	(20.1)	(20.1)	(20.1)	(20.1)	(20.1)	(20.1)	(20.1)	(20.1)
Pension provision	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)
Equity value	**97.2**	**99.8**	**102.5**	**105.3**	**108.4**	**111.7**	**115.1**	**118.9**	**122.9**
Equity value €/s	**11.96**	**12.27**	**12.60**	**12.95**	13.30	**13.73**	**14.16**	**14.62**	**15.11**

Source: CFO Sim

Table 11 – IWB, equity value sensitivity to changes in free risk rate

€ m	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%	2.25%	2.50%
Present value of CF	40.1	39.9	39.7	39.5	39.3	39.1	38.9	38.7	38.5
PV of terminal value	104.9	101.1	97.5	94.1	90.9	87.8	85.0	82.2	79.6
Total value	**145.0**	**141.0**	**137.2**	**133.6**	**130.2**	**126.9**	**123.9**	**120.9**	**118.2**
NFP FY-15A	(20.1)	(20.1)	(20.1)	(20.1)	(20.1)	(20.1)	(20.1)	(20.1)	(20.1)
Pension provision	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)
Equity value	**123.2**	**119.2**	**115.4**	**111.8**	**108.4**	**105.2**	**102.1**	**99.2**	**96.4**
Equity value €/s	**15.15**	**14.66**	**14.19**	**13.75**	13.30	**12.93**	**12.55**	**12.19**	**11.85**

Source: CFO Sim

Table 12 – IWB, equity value sensitivity to changes in risk premium

€ m	7.00%	7.50%	8.00%	8.50%	9.00%	9.50%	10.00%	10.50%	11.00%
Present value of CF	40.8	40.4	40.1	39.7	39.3	38.9	38.5	38.2	37.8
PV of terminal value	122.8	113.3	104.9	97.5	90.9	85.0	79.6	74.8	70.4
Total value	**163.6**	**153.7**	**145.0**	**137.2**	**130.2**	**123.9**	**118.2**	**112.9**	**108.2**
NFP FY-15A	(20.1)	(20.1)	(20.1)	(20.1)	(20.1)	(20.1)	(20.1)	(20.1)	(20.1)
Pension provision	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)
Equity value	**141.9**	**132.0**	**123.2**	**115.4**	**108.4**	**102.1**	**96.4**	**91.2**	**86.4**
Equity value €/s	**17.44**	**16.23**	**15.15**	**14.19**	13.30	**12.55**	**11.85**	**11.21**	**10.63**

Source: CFO Sim

10.2. Market multiples

We have included 10 peers in the sample, operating in the wine producing and distribution arena. What characterizes our sample is the almost totality of turnover stemming from wine sales: from the 91.2% of Treasury Wine Estates to the 100% of Lanson, Lauent Perrier, Masi and Schloss. Our sample for wine producers comprises: **Baron de Ley (ES), Lanson (FR), Laurent Perrier (FR), Masi Agricola (IT, listed on the Milan AIM), Schloss Wachenheim (D), Treasury Wine Estates (AU), Vina Concha (ES)** and **Vranken Pommery Monopole (FR)**. In addition we have included two players involved purely in distribution of wine: **Majestic Wine (UK)** and **Hawesko (D)**.

Looking at these figures, it emerges that growth on offer on the market is limited, to the tune of 3.4% for producers and 8.1% for distributors. IWB is the smallest in terms of market capitalization and amongst the smallest in terms of turnover. However, thanks to Giordano Vini & Provinco integration benefits, it offers much higher than median peers' projected profitability growth in 2015-18.

Table 13 - IWB, peers group summary table

€ m	Mkt Cap	Wine % of Sales	Sales FY1	EBITDA FY1	EBITDA %	Sales $CAGR_{15-18}$	EBITDA $CAGR_{15-18}$	EBIT $CAGR_{15-18}$	EPS $CAGR_{16-18}$	NFP	NFP/ EBITDA
Baron de Ley SA	446	99.0%	95	32	34.0%	2.9%	12.6%	17.0%	6.7%	(111)	(3.4)
Lanson BCC SA	224	100.0%	276	38	13.7%	3.4%	9.3%	10.3%	8.9%	466	12.3
Laurent Perrier SA	429	100.0%	243	49	20.2%	4.4%	8.3%	9.0%	10.0%	277	5.6
Masi Agricola SpA	143	100.0%	63	16	25.8%	3.4%	3.8%	3.6%	17.0%	4	0.2
Schloss Wachenheim	109	100.0%	293	27	9.2%	2.3%	3.0%	4.1%	-3.5%	41	1.5
Treasury Wine Estates	4,896	91.2%	1,623	282	17.4%	14.9%	27.9%	38.2%	24.9%	314	1.1
Vina Concha y Toro SA	1,097	91.7%	916	143	15.6%	7.4%	7.2%	9.7%	4.3%	339	2.4
Vranken Pommery	225	97.6%	313	45	14.3%	2.6%	5.9%	8.3%	5.9%	630	14.1
Wine producers median	**327**	**99.5%**	**285**	**41**	**16.5%**	**3.4%**	**7.7%**	**9.4%**	**7.8%**	**296**	**1.9**
Majestic Wine PLC	402		507	29	5.7%	14.0%	1.2%	1.8%	31.7%	36	1.2
Hawesko Holding AG	359		481	36	7.5%	2.1%	13.0%	16.6%	6.8%	(5)	(0.1)
Wine distr. median	**380**		**494**	**33**	**6.6%**	**8.1%**	**7.1%**	**9.2%**	**19.2%**	**15**	**0.5**
IWB	**60**	**100.0%**	**152**	**13.3**	**8.7%**	**5.8%**	**17.4%**	**24.4%**	**19.8%**	**12**	**0.9**

Source: CFO Sim, Thomson Reuters Eikon

Table 14 - IWB, 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	16.7	15.7	14.6	10.4	9.2	8.9	13.6	11.7	11.0
Lanson BCC SA	14.4	12.7	12.1	18.2	16.2	15.5	21.8	19.2	18.8
Laurent Perrier SA	17.2	15.6	14.2	14.4	13.1	11.9	15.7	14.3	13.0
Masi Agricola SpA	19.7	19.1	14.4	9.1	8.3	n.a.	12.5	11.9	n.a.
Schloss Wachenheim	9.3	10.0	10.0	5.5	5.1	4.9	7.7	7.0	6.6
Treasury Wine Estates	35.7	26.4	22.9	18.4	14.1	12.6	22.8	16.7	14.3
Vina Concha y Toro SA	14.5	13.6	13.3	10.0	9.3	9.6	12.8	11.8	12.2
Vranken Pommery	17.2	14.7	15.3	19.1	18.0	20.4	25.5	23.7	26.7
Wine producers median	**16.9**	**15.2**	**14.3**	**12.4**	**11.2**	**11.9**	**14.6**	**13.1**	**13.0**
Majestic Wine PLC	29.8	24.4	17.2	15.1	13.8	10.9	20.5	18.5	14.0
Hawesko Holding AG	18.9	17.6	16.5	9.8	9.1	9.0	12.5	11.6	11.1
Wine distr. median	**24.3**	**21.0**	**16.9**	**12.4**	**11.4**	**10.0**	**16.5**	**15.1**	**12.5**
IWB	**12.7**	**10.6**	**8.8**	**5.5**	**4.1**	**2.9**	**7.3**	**5.4**	**3.7**
% prem.(disc.)to prod.	*-25.2%*	*-30.3%*	*-38.3%*	*-56.1%*	*-63.1%*	*-75.2%*	*-50.1%*	*-59.1%*	*-71.6%*
% prem.(disc.)to distr.	*-47.9%*	*-49.6%*	*-47.6%*	*-56.1%*	*-63.8%*	*-70.5%*	*-55.8%*	*-64.3%*	*-70.5%*

Source: CFO Sim, Thomson Reuters Eikon

IWB trades at a huge discount vs. peer medians – producers and distributors - at all levels considering EV multiples and PER. This can be partially explained by lower size, trading volumes and listing on the Milan AIM. Even if comparing IWB with Masi Agricola, also listed on the Milan AIM, and which offers higher margins but lower projected growth, it trades at discount. We believe this is not justified and the stock has to fill somewhat the valuation gap compared to its peers.

10.3. Stock performance

IWB was listed on the **Milan AIM** (Alternative Investment Market) **on 29-Jan-15** at €10/share, corresponding to a market capitalization post money of € 65.7m, through the innovate pre-booking company **IPO Challenger,** whose investors/ex-bondholders were reimbursed in kind with the listed shares and warrant of IWB, becoming direct shareholders and free float of the company. IWB also issued 6.16m warrants, 33% owned by the sponsors of the transaction and 67% owned by public investors. The stock now trades **below the IPO price**, and reached the maximum of € 10.72/s on 20-May-15 and the minimum of €8.53 on 17-Feb-16. IWB consistently underperformed peers, except at 3M.

Table 15 - IWB, peers group absolute performance

	1D	1W	1M	3M	6M	YTD	1Y
Baron de Ley SA	(0.1)	(0.6)	1.8	10.2	6.1	(6.3)	17.7
Lanson BCC SA	1.6	1.6	5.0	8.6	5.0	2.1	(11.6)
Laurent Perrier SA	2.7	0.3	(2.4)	(5.9)	(9.6)	(13.0)	(14.5)
Masi Agricola SpA	1.3	0.0	(0.5)	7.8	(0.4)	3.6	NULL
Schloss Wachenheim AG	(1.3)	0.3	(1.4)	(4.2)	(9.5)	(8.7)	8.1
Treasury Wine Estates Ltd	1.0	2.5	10.3	8.9	34.4	24.2	99.9
Vina Concha y Toro SA	0.4	(1.3)	2.0	(1.2)	2.5	7.8	(4.3)
Vranken Pommery Monopole SA	0.0	0.9	2.9	9.6	(6.3)	(10.0)	(12.1)
Wine producers median	**0.7**	**0.3**	**1.9**	**8.2**	**1.0**	**(2.1)**	**(4.3)**
Majestic Wine PLC	0.8	1.1	0.2	11.1	28.9	46.5	1.0
Hawesko Holding AG	0.0	(0.6)	0.0	(0.5)	(7.4)	(3.6)	0.1
Wine distrubutors median	**0.4**	**0.2**	**0.1**	**5.3**	**10.7**	**21.5**	**0.5**
IWB	**(0.9)**	**(1.7)**	**(2.6)**	**5.6**	**(1.6)**	**(5.4)**	**(10.1)**

Source: Thomson Reuters Eikon

Table 16 – IWB, reference sector index and Italian Market performances

	1D	1W	1M	3M	6M	YTD	1Y
FTSE AIM All Share	0.7	0.5	(0.4)	6.4	(0.4)	(1.5)	(4.7)
Thomson Reuters Food & Beverage	0.8	(1.2)	(3.6)	4.2	2.4	0.7	0.3
IWB	**(0.9)**	**(1.7)**	**(2.6)**	**5.6**	**(1.6)**	**(5.4)**	**(10.1)**

Source: Thomson Reuters Eikon

10.4. Risks

The principal investment **risks** in IWB may include:

- impact on economics and balance sheet profile triggered by a **deep decline in local and global economic growth**,
- **Competition** by similar initiatives
- **Changing in consumers habits,** slowing demand**.**

Income statement (€ m)	2014	2015	2016e	2017e	2018e
Net revenues	140.4	140.6	151.9	158.7	166.6
Purchasing	(68.0)	(71.0)	(77.4)	(80.1)	(83.2)
Services	(41.0)	(40.9)	(43.5)	(45.4)	(47.7)
Personnel	(17.0)	(16.9)	(17.3)	(17.6)	(17.9)
Other operating expenses	(1.1)	(1.1)	(0.4)	(0.4)	(0.4)
EBITDA	13.3	10.8	13.3	15.2	17.4
D&A	(2.8)	(3.6)	(3.4)	(3.5)	(3.6)
EBIT	10.5	7.2	9.9	11.7	13.9
Financial income	0.4	0.7	0.3	0.4	0.6
Financial charges	(2.6)	(2.5)	(0.9)	(0.9)	(1.0)
Extraordinary	0.0	0.0	0.0	0.0	0.0
Pre-Tax profit	8.2	5.4	9.4	11.2	13.5
Income taxes	(3.1)	(1.8)	(3.3)	(3.9)	(4.7)
Minorities	0.0	0.0	0.0	0.0	0.0
Net Profit	5.1	3.6	6.1	7.3	8.7
Net Profit Adjusted	5.1	3.6	6.1	7.3	8.7

Balance sheet (€ m)	2014	2015	2016e	2017e	2018e
Net Working Capital	14.1	4.5	4.8	4.6	3.9
Net Fixed Assets	100.6	102.0	100.6	99.1	97.6
Equity Investments	0.0	0.0	0.0	0.0	0.0
Other M/L Term A/L	(14.0)	(14.4)	(15.4)	(15.9)	(16.5)
Net Invested Capital	100.8	92.0	90.1	87.9	85.0
Net Financial Position	32.7	20.1	12.1	2.5	(9.1)
Minorities	0.0	0.0	0.0	0.0	0.0
Group's Shareholders Equity	68.0	72.0	78.1	85.4	94.1
Financial Liabilities & Equity	100.8	92.0	90.1	87.9	85.0

Cash Flow statement (€ m)	2014	2015	2016e	2017e	2018e
Total net income	-	3.6	6.1	7.3	8.7
Depreciation	-	3.6	3.4	3.5	3.6
Other non-cash charges	-	(2.8)	0.9	0.5	0.6
Cash Flow from Oper. (CFO)	-	4.3	10.4	11.3	13.0
Change in NWC	-	9.5	(0.4)	0.2	0.7
FCF from Operations (FCFO)	-	13.8	10.0	11.5	13.6
Net Investments (CFI)	-	(34.5)	(2.0)	(2.0)	(2.0)
Free CF to the Firm (FCFF)	-	(20.7)	8.0	9.5	11.6
CF from financials (CFF)	-	43.5	0.1	3.4	2.1
Free Cash Flow to Equity (FCFE)	-	22.8	8.1	13.0	13.7

Financial ratios	2014	2015	2016e	2017e	2018e
EBITDA margin	9.5%	7.7%	8.7%	9.6%	10.5%
EBIT margin	7.5%	5.1%	6.5%	7.4%	8.3%
Net profit margin	3.7%	2.6%	4.0%	4.6%	5.2%
Tax rate	37.3%	33.1%	35.0%	35.0%	35.0%
Interest coverage x	0.25	0.35	0.09	0.08	0.07
Net Debt/Ebitda x	2.46	1.86	0.91	0.17	(0.52)
Debt-to-Equity x	0.48	0.28	0.15	0.03	(0.10)
ROIC	5.1%	3.7%	6.7%	8.2%	10.1%
ROCE	7.8%	5.5%	7.2%	7.9%	8.6%
ROACE	7.8%	5.4%	7.4%	8.2%	8.9%
ROE	7.6%	5.1%	8.1%	8.9%	9.7%
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%

Per share figures	2015	2015	2016e	2017e	2018e
Final N. of shares # m	6.58	6.58	6.36	6.36	6.36
Average N. of shares # m	6.58	6.58	6.47	6.36	6.36
Final N. of shares (fully diluted) # m	6.58	6.58	8.13	8.13	8.13
EPS reported €	0.78	0.55	0.94	1.15	1.38
EPS reported FD €	0.78	0.55	0.75	0.90	1.08
EPS adjusted FD €	0.78	0.55	0.75	0.90	1.08
EBITDA FD €	2.02	1.64	1.63	1.87	2.14
EBIT FD €	0.05	0.11	0.04	0.05	0.07
FCFO FD €	-	2.10	1.23	1.42	1.68
FCFF FD €	-	(3.15)	0.98	1.17	1.43
FCFE FD €	-	3.46	0.99	1.60	1.69
Dividend €	0.00	0.00	0.00	0.00	0.00

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This is to certify that the views expressed on the companies mentioned in this document reflect the analyst's personal opinions and that no direct or indirect recompense has been, or will be, received by the analyst further to the views expressed herein.

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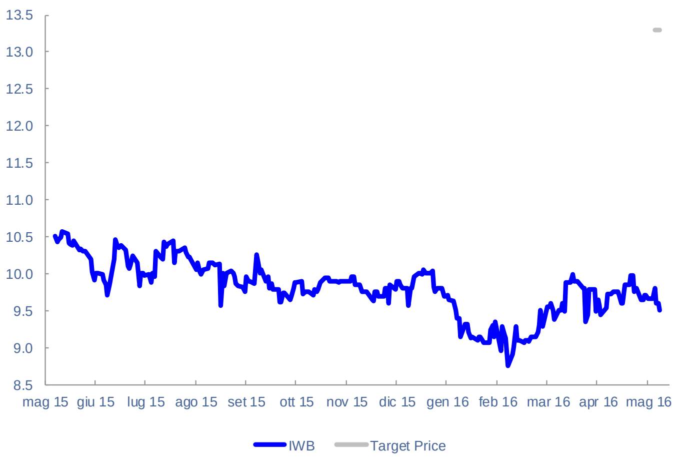

DATE	TARGET PRICE	RATING
24/05/16	€ 13.30	BUY

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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.