

Italy - Food

Increasing focus on Distribution, weak Import & Shipping

27th September 2017

H1-17 RESULTS RELEASE

RIC: ORSO.MI
BBG: ORS IM

Orsero reported disappointing interim results, heavily plagued by a poor performance of Import & Shipping. The consolidation of the Spanish and Italian JVs is set to sustain the Distribution core business.

Rating:

Buy

Price Target:

€ 13.80 (€ U.R.)

Upside/(Downside): 10.8%

Last Price: € 12.46

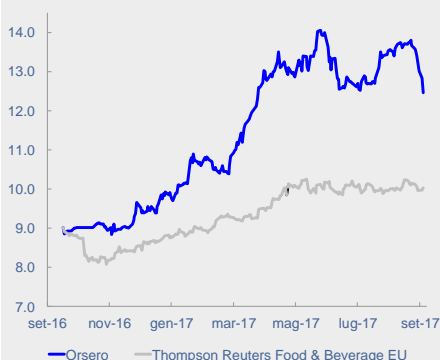
Market Cap.: € 220.3

1Y High/Low: € 14.26/€ 8.81

Free Float: 62.7%

Major shareholders:

FIF Holding 31.6%
Grupo Fernández 5.6%



Stock price performance

	1M	3M	12M
Absolute	-7.0%	-6.0%	39.5%
Rel.to AIM Italia	-11.3%	-7.9%	7.3%
Rel.to EU Sector	-7.6%	-4.8%	33.9%

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BUY confirmed, PT € 13.80/s (U.R.)

Our model now factors in the 100% consolidation of the Spanish and Italian JVs, 2017 interim weak result and more conservative figures for the Import & Shipping division. The result is an average 23% cut in 2017-19 adj. EPS, the bulk of which taking place in 2017. We rolled the valuation from 2017 to 2018, choosing to avoid factoring in the poor Import & Shipping 2017. The new PT stands at € 13.80/s. We expect a certain share price weakness in the coming weeks following the publication of these disappointing figures. However, we think Orsero remains an interesting long term value player, characterised by an increasing focus on the core business of Distribution, further room for increasing market share also via M&A and 2018-19 compelling valuation even if the volatility of Import & Shipping clouds significantly the visibility of group figures. We stick to our long-term positive view on Orsero.

5.2% increase in revenues driven by distribution

Revenues increased by 5.2% to € 355.1m. Distribution soared 9.4%, driven by Italy and France. In Italy, in particular, Orsero enlarged the product range under the "F.lli Orsero" brand, launched the new ready-to-eat line of exotic fruit, started a collaboration with a primary e-commerce platform and increased "fresh cut" sales. This increase more than counterbalanced the decline in the Import & Shipping division, afflicted by lower banana prices, a decline in volume shipped and weak freights.

EBITDA heavily affected by the drop in Import & Shipping – Distribution flat

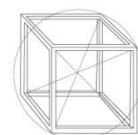
Adjusted EBITDA totalled € 10.6m, 3.0% margin: Distribution remained basically unchanged YoY (adverse market for banana and poor performance of avocado) whilst the Import & Shipping division experienced a sharp decline in profitability linked to: 1) lower profitability for bananas, tied to the prolonged excess on offer which prompted a decline in selling prices; 2) sharp increase in Bunker price (+75% YoY); 3) lower loading factor (84% vs. 92%); 4) some changes in vessel voyage schedule derived from one-off issues generating higher consumption, extra maintenance and transportation costs.

Now targeting revenues in excess of € 1.0bn by 2019

Consistently with its announced strategy, Orsero started to use the fresh resources injected by Glenalta Food together with its cash flow to accelerate growth via acquisitions. The group aims at grabbing some local opportunities in Italy, developing partnership in Europe with local producers and targeting prey in adjacent but consistent bio-vegan product categories. They are on line to reach the target of € 1.0bn sales by 2019. The move to the MTA/STAR segment highly likely in 2018 adds appeal to the investment case. Last sector transaction at 13.8x EBITDA, still underlines stock undemanding valuation, even after this cut in estimates.

Orsero, key financials and ratios

€ m	2015	2016	2017e	2018e	2019e
Sales	617.4	685.0	898.8	938.8	980.7
EBITDA adj	28.2	35.2	29.3	38.6	43.4
EBIT adj	12.1	17.6	30.7	23.6	28.5
Net profit	13.6	18.2	21.6	17.9	22.0
Net profit adj	16.4	23.7	8.8	17.9	22.0
NFP (cash)/debt	147.0	49.1	71.5	55.4	32.3
EPS adjusted FD	0.93	1.34	0.50	1.01	1.24
EPS adj. FD growth	-	45.0%	-62.7%	102.3%	23.1%
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	-	19.4%	-10.2%	7.3%	10.5%
PER x	13.5	9.3	24.9	12.3	10.0
EV/Sales x	0.59	0.39	0.32	0.29	0.26
EV/EBITDA x	13.0	7.7	9.9	7.2	5.8
EV/EBIT x	30.5	15.3	9.5	11.7	8.9



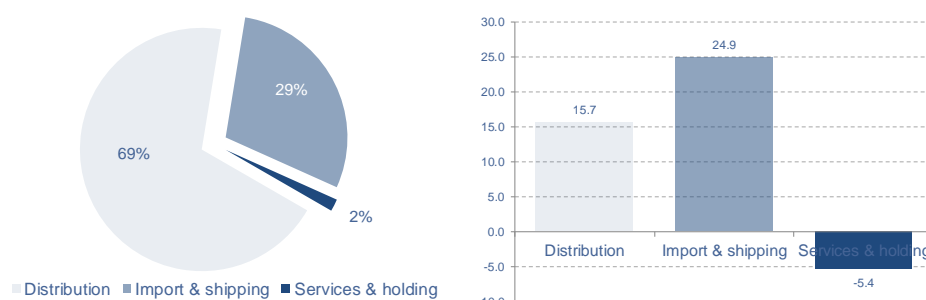
Orsero at a glance

Orsero is an international group headquartered in Albenga (Savona), **operating in the fresh fruit and vegetable import and distribution business** in the Mediterranean area of Europe. The group was founded over 50 years ago by the Orsero family. The current business structure entails besides import and distribution of fresh fruit and vegetables, production and export of fruit together with chilled maritime transportation. Orsero boasts a presence mainly in Italy, France, Spain, Portugal, Greece, Costa Rica and Colombia.

Every year, Orsero sells more than 550,000 tons of fruit and vegetables by selecting only the best, at the right time, in every corner of the planet, through a network of more than 1,500 suppliers in over 70 countries.

During 2012, the group launched the "F.lli Orsero" brand for bananas and pineapples, which expresses the sense of tradition and the passion of a large Italian family company for fruit and vegetables of the highest quality.

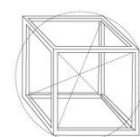
Chart 1 – Orsero, 2016 gross revenues and EBITDA adj. breakdown by division



Source: Company data

Main milestones from 1940 to date

- 1940s Beginning of the fruit distribution business in Italy
- 1970s Launch of a relationship with Del Monte, in order to develop exotic and counter season fruit import and distribution
- 1980s Purchase of plantations in Costa Rica and investments in the banana ripening and distribution business in France
- 1990s Beginning of the shipping business with the construction of "Cala Bianche", the first reefer fleet. Major investments in the Italian, Portuguese and Greek distribution arenas.
- 2000-2006 Acquisition of stakes in certain retail sector businesses in order to expand activities in the Spanish and Italian markets.
- 2007-2013 Diversification into adjacent businesses.
Introduction of the "Fratelli Orsero" brand and interruption of the commercial partnership with Del Monte.
The crisis.
- 2014-2015 Start of the divestment policy to refocus on the group's core business.
In 2015, management reinforcement and organisational review.
- 2016-2017 Acquired by Glenalta Food and listed on AIM Italia



The top management of the group comprises 4 people, with an average age of 44.

Paolo Prudenziati (Chairman, MD and COO) - Born in Milan (Italy) in 1956. After graduating in Agricultural Sciences, in 1981 he began his career at Cargill. In 1989, he joined Chiquita Brands International with various management responsibilities at international level, to then become Senior Vice President of Trading and Emerging Markets and CEO of Chiquita Italia. He joined Orsero in 2016 and was appointed CEO. From Feb-17 he became Chairman, Managing Director and Chief Commercial Officer.

Raffaella Orsero (Deputy Chair, MD and CEO) - Born in Savona in 1966, after graduating in law, she started her career in 1993 at Simba, a company of Orsero Group, becoming Managing Director in 2002. From 2003 to 2007, she was also Managing Director at Reefer Terminal. From September 2013, she was Managing Director of Orsero Group until July 2015. In February 2017 she became Deputy Chair, Managing Director and Chief Executive Officer of Orsero.

Matteo Colombini (MD and CFO) - Born in Bologna in 1983. After graduating in Law and Business Administration and a master's course in General Management at Bocconi University in Milan, he started his career at the Bank of Ireland. In 2008, he went to work at Bain & Company Italy Inc. until 2015 when he joined Orsero as Group Chief Financial Officer. Since February 2017 he has been Managing Director and Chief Financial Officer of Orsero.

Tommaso Cotto (COO) Born in Biella in 1986. He has a degree in Management Engineering from the Polytechnic of Turin and in Business Economics from ESCP-Europe. He started his professional experience at Bain & Company Italy Inc. in 2010 as a consultant. He joined Orsero Group in November 2015 as Chief Operating Officer.

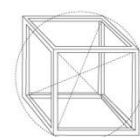
Orsero was listed on the **AIM Italia** (Alternative Investment Market) **on 13-Feb-17** as a result of the merger between Glenalta Food and Orsero. The merger was the final step in the business combination between Glenalta Food and Orsero Group, as regulated by the agreement signed and announced last 28th October 2016.

Glenalta Food implemented the merger by means of a net capital increase of € 55.0m through the issue of 5,590,000 new ordinary shares without par value, assigned to the sole shareholder of Orsero Group, FIF Holding, at an exchange ratio of 43 ordinary shares in Glenalta Food for every 50 ordinary shares in Orsero Group. Orsero share capital as of today therefore amounts to a nominal € 64.7m, divided into 16,682,500 ordinary shares (including 643,387 treasury shares).

Table 1 – Orsero, shareholders structure

Shareholders	#m shares	%	€ m
FIF Holding	5.590	31.6%	69.7
Anna Chiara Orsero	1.695	9.6%	21.1
Raffaella Orsero	1.695	9.6%	21.1
Pierangelo Ottonello	0.759	4.3%	9.5
Antonio Orsero	0.645	3.6%	8.0
Lorenzo Ighina	0.398	2.3%	5.0
Leonardo Ighina	0.398	2.3%	5.0
Grupo Fernandez	1.000	5.7%	12.5
Free Float	11.093	62.7%	138.2
o/w treasury shares	0.643	3.6%	8.0
Total	17.683	100.0%	220.3

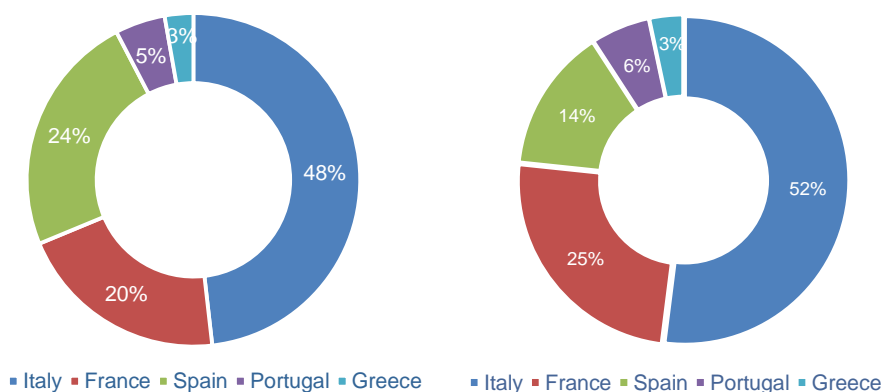
Source: Company data, Glenalta Food, CFO Sim



Business activities: 1) Distribution

The group distributes **more than 300 key products (of a total of some 2,000 items)**, mainly bananas, pineapples and citrus fruits, in the five most important markets in Southern Europe (Italy, France, Spain, Portugal and Greece) thanks to eight local distributors, of which 3 are 50-50 owned JVs.

Chart 2 – 2016 total revenues (incl. 100% of JVs)/revenues by country



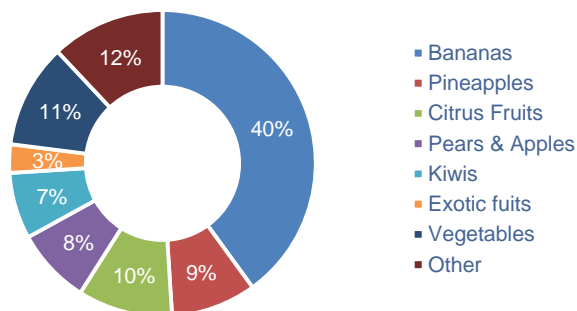
Source: Company data

Orsero boasts a consolidated network of wholesalers and large-scale retail chains where it distributes more than 500,000 tons/y exploiting its platforms specialised in fresh product storage and handling.

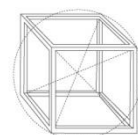
In addition to its own brands, F.lli Orsero and Simba, Orsero is one of the largest distributors in Europe of key fruit and vegetable brands.

The Distribution business has been the main and oldest activity of the group since 1940, This business unit is truly strategic for Orsero thanks to its size (73% of total revenues in 2015) and stable return generation at around 2-3% in terms of EBITDA.

Chart 3 – 2016 revenues by product



Source: Company data



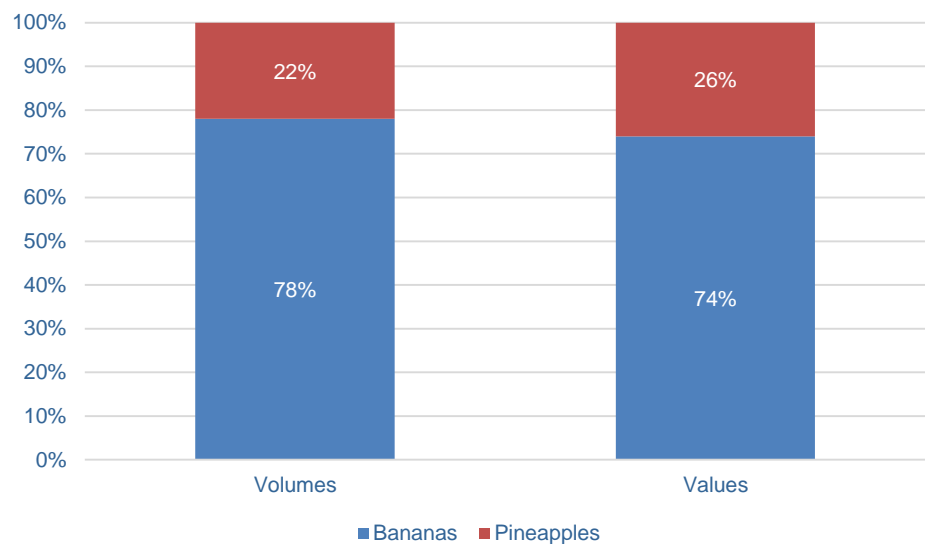
Business activities: 2) Import and Shipping

The division is responsible for the import and transportation of bananas and pineapples from five different countries of Central America to Europe. The subsidiary Simba buys the products from local producers who can supply a constant amount of fruit all year long, then bananas and pineapples begin a one-week trip to Europe on the four fully owned reefer vessels.

Due to some technical characteristics of the ships, the round trip is 25% faster than competitors thanks to the cruise speed of 22 knots as well as the average time of unloading, respectively 20% and 50% faster than competitors. This is a unique competitive advantage, which leads other major international importers to entrust the transportation of their products to Orsero's vessels.

These features make the fleet a strategic asset for the group, which ensures high profitability of the business unit. The ownership of the reefer vessels makes Orsero a cost and service leader and allow "control" of competitors to a certain extent.

Chart 4 – 2015 products breakdown by volumes/values

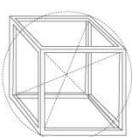


Source: Company data

The group is also active in the production of bananas and avocados through a JV in Costa Rica and a wholly owned subsidiary in Mexico.

Orsero owns 4,500 hectares of land, corresponding to 45km², of which 2,500 are currently active.

After the spinoff of the production company in Argentina, Mono Azul, which reported heavy losses during recent years, the production business unit will be marginal in terms of revenues (5% of total revenues) with decent margin and profit levels.

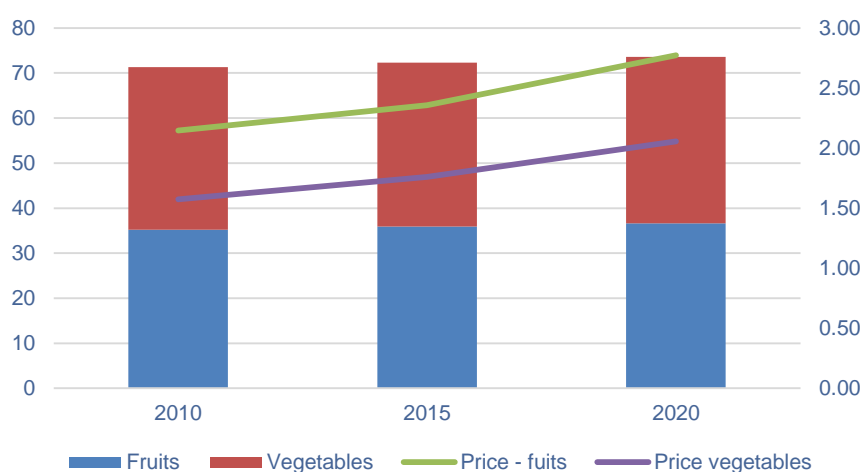


The reference market

Over the last five years, European production and consumption of fresh fruit and vegetables has been stable, but **market volumes are expected to grow slightly to 73.6mtons in 2020**, of which 36.6mtons of fruit, representing almost 50% of the total market (+0.4% CAGR₁₅₋₂₀).

In the coming years, major **shifts in dietary patterns are expected to occur in Europe**: with diets becoming lighter and lower in fats, even in relation to the consumption of staples. In fact, **people are becoming more and more interested in food and health related issues**, as they try to pay attention to a safe and healthy diet.

Chart 5 – Fruit & vegetable consumption (mtons) and prices (€/kg) in Europe



Source: Orsero, Euromonitor

In addition, there is a new concern for environmental issues, which leads to a more conscious way of eating. Average life expectancy has increased too, and **people eat more frequently during the day**, encouraging the consumption of fresh fruit, which represents 62% of the global snacks market.

Due to the aforementioned reasons, even if market volumes are expected to remain basically stable, **prices are set to increase at 3.3% pa**, also because of the more favourable product mix.

In Italy, the market is forecasted to grow from € 14.8bn to € 17.5bn by 2020, with an increase in consumption of exotic and organic fruit. Apples are the most popular fruit item consumed, representing 17% of the overall market, whereas bananas account for approximately 9%. Looking at the channel of fresh fruit distribution, 40% of Italian fruit is sold by domestic producers with direct access to the market.

On the other hand, 91.7% of the fruit trade is controlled by the large retail chains in France. Bananas account for 20% of the total fruit market, expected to reach a peak of € 10.7bn by 2020. Furthermore, **organic food represents a key emerging trend**, as consumers are willing to pay a more elevated price for local and natural products.

The same trend can be observed in Spain, where the demand for organic products increased by 3% last year. Oranges and mandarins have the largest share and account for almost 26% of the Spanish market, whereas bananas total 10%.

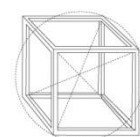
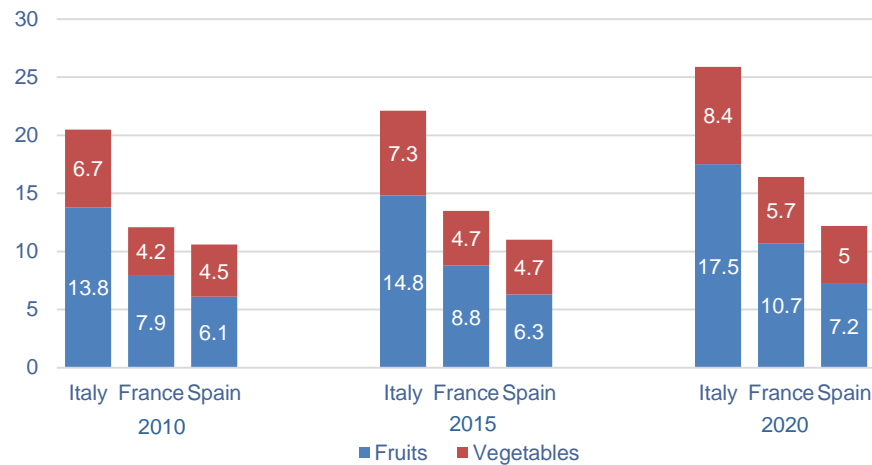


Chart 6 – Fruit & vegetable consumption (€ bn) trend in Southern European key areas



Source: Orsero, Euromonitor

With regards to the vegetable market, its value is expected to increase by 2-3% in all the countries considered, thanks to the increased popularity of healthy natural products, as well as the increased importance of corporate social responsibility.

Finally, the total volume of fruit and vegetables produced in Portugal and Greece, account for 1.9 and 2.4 mtons respectively, with a slight increase in the consumption of fruit forecasted in Greece (+0.1% CAGR 15-20).

Pineapple and banana markets

The world pineapple and banana markets can be labelled as oligopolies. In fact, four companies Fyffes, Chiquita, Del Monte and Dole hold the vast majority of the pie and are vertically integrated all over the chain. **The remainder is highly fragmented** and divided among a plethora of several other small fruit companies.

Italy imports almost 130mtons of pineapples per annum, with Spain and France following suit. **The pineapple market in Europe is expanding rapidly:** consumption showed a +5.0% CAGR₁₃₋₁₅. In particular, consumption in Greece and Spain is growing more than twice the average of countries served by Orsero.

Fresh Del Monte is the world's largest dealer of pineapples, distributing nearly 53% of all cases exported worldwide. The second player is Dole, with almost 31% of all cases, whereas all the other players hold significantly lower market shares.

The vast majority of bananas come from Central and South America: Ecuador, Guatemala and Costa Rica are the main producers, accounting for more than 70% of world production.

In Europe, nearly 3mtons of bananas are consumed each year; Italian consumption accounts for almost 700,000tons, with Spain and France following with 500,000tons.

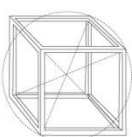
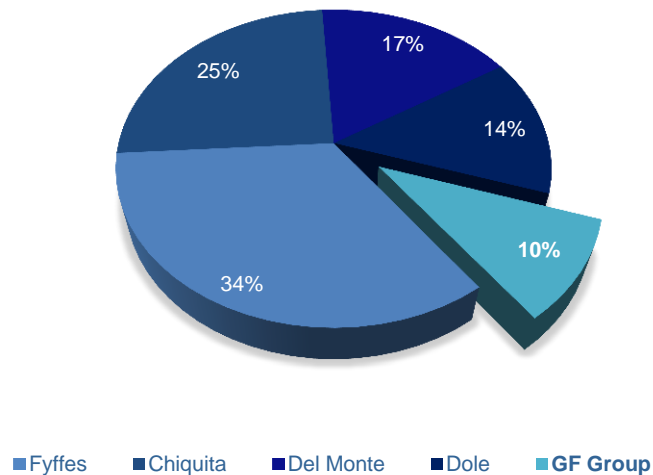


Chart 7 – The five largest banana importers in Southern Europe



Source: Orsero, Euromonitor

Orsero is the fifth largest banana importer in Europe, with the other major fruit companies ruling the world supply chain.

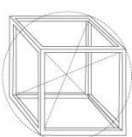
Banana pricing, both to purchase and to sell, is seasonal and depends on several factors, including its availability and quality in relation to competing fresh fruit items. As a result, **prices are typically stronger during the first half of the year and lower in the second half to correspond with the seasonal supply-and-demand dynamics.**

Due to the strength of the "Chiquita" brand, the company obtains a premium price for its products: 18,85 EUR/box compared to 16,00 EUR/box charged by F.lli Orsero. As a result, **F.lli Orsero pricing is 15% lower than Chiquita's, but it is still higher than Del Monte** (€ 15.25/box) and in line with Dole (€ 16.15/box). The cheapest brands are subject to higher periodical price fluctuations than price leaders.

Table 2 – Orsero, price positioning vs. competitors (bananas)

€/box	Price per unit			Price index (Chiquita=100)		
	2013	2014	2015	2013	2014	2015
Chiquita	18.11	18.33	18.85	100	100	100
Dole	15.53	16.01	16.15	86	87	86
F.lli Orsero	15.47	15.75	16.00	85	86	85
Del Monte	14.45	14.87	15.25	80	81	81
Bonita	14.76	14.89	15.24	81	81	81
Simba	13.56	14.30	14.66	75	78	78
Other brands	12.84	13.41	13.48	71	73	71

Source: Orsero, Euromonitor



Business model & strategy

The business model here is plain: Orsero is a leading producer and distributor of fresh fruit and vegetables in Mediterranean Europe, firmly controlling the entire value chain of the business, from production to end customer distribution.

Sourcing: long term relationships and partnerships with key leading providers of each segment in which the group operates;

Import: logistic efficiency thanks to the reefer fleet directly owned which grants massive cost and service competitive advantages vs. other players;

Quality check: constant continuous quality checks of the whole value chain of the business;

Storage: the group owns 25 warehouses in Southern Europe for product storage and control;

Ripening: Orsero owns and runs 20 specialised centres in Southern Europe dedicated to banana maturation;

Trade: daily sales via traditional and modern distribution channels in each reference market;

Distribution: daily deep-rooted distribution and custom made solutions.

The group strategy can be structured in three major pillars: organic growth, acquisitions and increased operating efficiency.

1) Organic growth

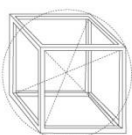
- **Market share recovery** in Italy and in Europe, lost during the years of group crisis 2008-13
- **Further development in the Italian market** in particular in the regions in which Orsero is still not yet at full potential.
- **“F.lli Orsero” brand extension** into new promising higher margin segments, for instance fresh cut, dried fruit, exotic products and berries, characterised by a marked consistency with main consumer trends (namely, fresh cut and dried fruit).
- **Scouting and development of new channels**, that is to say vending machines for fresh cut and bananas and HORECA.

2) External growth

- **Consolidation of key markets**, namely Italy and Spain.
- In Italy, a highly fragmented market and in the course of consolidation, Orsero can **leverage its leading position to grab market opportunities**.
- In Europe development of **partnerships with local producers** of specific items characterised by outlier growth rates.
- Possible **targets in adjacent but consistent bio-vegan product categories** with the aim to expand the current group product portfolio.

3) Increase operating efficiency

- **Redefinition and reorganisation of procedures**, with the aim of standardising them at group level.
- Implementation of a **new performing integrated ERP software**, to the benefit of central management control.
- **Focus on logistics:** appropriate centralised management and dimensioning of distribution platforms



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 and 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.

The technique is credited to Albert Humphrey, who led a research project at Stanford University between the 60's/70's using Fortune 500 data.

S.W.O.T. ANALYSIS

STRENGTHS

- ❑ Well established business model **vertically integrated** from production to distribution-logistic. **Strong trade brand**
- ❑ Substantial **cash flow generation** and **sound balance** sheet allow external growth opportunities
- ❑ **Vessel ownership** is a distinctive competitive advantage with significant 15Y residual life

WEAKNESSES

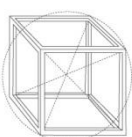
- ❑ Currently still **limited F.lli Orsero brand awareness** on end consumers
- ❑ **Exposure to USD/EUR**, in particular for maritime transport segment
- ❑ **Market share recovery**, may be more complicated than expected

OPPORTUNITIES

- ❑ **Penetration and aggregation prospects** in the domestic market
- ❑ 360-degree **developments of F.lli Orsero brand** in new adjacent segments (fresh-cut, dried fruits) with substantial growth/return profile
- ❑ **Foreign markets** further expansion
- ❑ Increase in **fruit consumption frequency, times, occasions, places**

THREATS

- ❑ Expansion via external growth might erode **marginality** to a certain extent
- ❑ Maritime transportation is **highly related to freights** and ancillary business lines



Recent results, H1-17

Table 2 – Orsero, H1-17 results summary and pro-forma figures

€ m	H1-17	H1-16	% YoY	H1-17 PF
Revenues	355.1	337.6	5.2	473.4
COGS	(326.4)	(293.8)		
Gross Profit	28.7	43.8	(34.5)	38.1
% margin	8.1	13.0		8.0
SG&A	(24.9)	(22.7)		
Other	(0.8)	(3.4)		
EBIT	3.0	17.7	(83.0)	6.2
% margin	0.8	5.2		1.3
Financials	(1.5)	(1.2)		
Results from investments	1.3	1.9		
Pre Tax Profit	2.8	18.4	(84.6)	22.9
% margin	0.8	5.4		4.8
Taxes	(2.0)	(2.6)		
Tax Rate	69.3%	14.3%		
Discontinued	0.0	(4.4)		
Minorities	(0.2)	0.0		
Net Profit	0.7	11.4	(94.1)	20.0
% margin	0.2	3.4		4.2
D&A	(5.0)	(4.9)		
Provisions	(0.6)	(0.5)		
Non recurring income	0.5	0.3		
Non recurring expenses	(2.4)	(3.5)		
Adjusted EBITDA	10.6	26.3	(59.7)	15.6
% margin	3.0	7.8		3.3

Source: Orsero

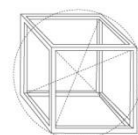
H1-17 revenues increased by 5.2% to € 355.1m. The **Distribution business arm soared 9.4%**, driven by Italy and France. In Italy, in particular, Orsero enlarged the product range under the “F.lli Orsero” brand, launched the new perfectly ripened and ready-to-eat line of exotic fruit, started a collaboration with a primary e-commerce platform and enhanced “fresh cut” sales. This performance more than counterbalanced the decline in the **Import & Shipping division** that was **afflicted by lower banana prices, a decline in volume shipped and weak freights.**

Adjusted EBITDA totaled € 10.6m, 3.0% margin: Distribution remained basically unchanged YoY whilst the Import & Shipping division experienced a sharp decline in profitability linked to:

- **Lower profitability for bananas**, tied to the prolonged excess on offer which prompted a decline in selling prices;
- **Sharp increase in Bunker Fuel price** (\$ 308/mton vs. \$ 175/mton in H1-16);
- **Lower loading factor** (some 84% vs. 92%);
- **Some changes in vessel voyage schedule** derived from one-off issues linked to some port renovations generating higher fuel consumption, extra maintenance and transportation expenses.

EBIT was € 3.0m, 0.8% of turnover vs. € 17.7m in H1-16 and **Net Profit dropped to € 0.7m** vs. € 11.4m in H1-16. **NFP reached € 60.2m.**

Orsero reported also H1-17 pro-forma figures, factoring in the 100% consolidation of the Spanish and Italian JVs **as of 1-Jan.** The main difference vs. the reported results, apart from the € 120m increase in top line, is the € 18m non-recurring income due to the revaluation, pursuant to IFRS 3 “Step Acquisition” principle, of fair value of the shareholdings already owned by Orsero in the acquired JVs (i.e. increase in goodwill). **Pro-forma net financial position was € 76.8m**, and reflects the € 20.4m acquisition cash out , net of the capital increase and cash flow from operations.



Estimates, valuation & risks

Our model now factors in 1) **the 100% consolidation** of the Spanish and Italian JVs, adding € 220m turnover and € 9m EBITDA, 3) **2017 interim results**, heavily penalised by the poor figures of the Import & Shipping division and 3) **more conservative estimates for the highly volatile Import & Shipping division**, i.e. somewhat lower than 10Y average profitability (€ 17-18m EBITDA). The combined result is a 23% cut on average in 2017-19 adj. EPS the bulk of which taking place in 2017. Since we value Orsero by applying **average EV/EBITDA and PER** peer multiples, we decided **to roll the valuation year from 2017 to 2018**, choosing to avoid factoring in the poor Import & Shipping 2017 results. As a consequence, **the new PT stands at € 13.80/s (U.R.)**. We expect **a certain share price weakness in the coming weeks following the publication of these weak H1-17 figures**. However, we think Orsero remains an interesting long term value player, characterised by an **increasing focus on the core business of the Distribution** of fruit and vegetables, **further room for increasing market share also via M&A** and a 2018-19 **compelling valuation** even if the high volatility of the Import & Shipping division results clouds the visibility of group figures. **We stick to our long-term positive stance on Orsero.**

Market multiples

We have included 2 peers in the sample, operating in global fresh fruit and vegetable production and distribution. Our sample now comprises only **Fresh Del Monte Produce and Total Produce**, since Fyffes was bought out in Dec-16 by Sumitomo at 13.8x EBITDA. Size varies quite a bit in terms of market capitalization and figures, as well as profitability: 1) Fresh Del Monte shows a € 2.0bn market value, € 3.8bn sales with an 7.7% EBITDA margin expected for 2017; 2) Total Produce has a size of € 730m, has € 3.8bn revenues and a 4.9% EBITDA margin projected for 2017.

Orsero is the smallest in the list in terms of turnover, has a **profitability in line** with the peer average but **offers more growth**: EBITDA, EBIT and Net Profit CAGR₁₆₋₁₉ of 7.2%, 6.1% and 57.8%, respectively vs. 1.8%, 2.4% and -0.5% of the peer average.

Orsero trades at a double digit discount vs. peers considering price and enterprise value multiples at all metrics in 2018-19. We believe this gap is only to a degree explained by a difference in size, but **has to be abridged** to a certain extent considering 1) higher than peers growth perspectives and 2) the active role that Orsero can play in this unavoidably consolidating disciplined oligopoly.

Table 9 – Orsero, peer group summary table

€ m	Mkt Cap	Sales FY1	EBITDA FY1	EBITDA %	Sales CAGR ₁₆₋₁₉	EBITDA CAGR ₁₆₋₁₉	EBIT CAGR ₁₆₋₁₉	EPS CAGR ₁₇₋₁₉	NFP FY1	NFP /EBITDA
Fresh Del Monte Produce Inc	1,963	3,812	292	7.7%	2.0%	-5.3%	-6.8%	-2.2%	135	0.5
Total Produce PLC	730	3,833	83	2.2%	5.1%	8.8%	11.7%	1.2%	91	1.1
Average	1,347	3,822	187	4.9%	3.5%	1.8%	2.4%	-0.5%	113	0.8
Orsero	220	899	29	3.3%	12.7%	7.2%	6.1%	57.8%	72	2.4

Source: Thomson Reuters Eikon, CFO Sim

Table 10 – Orsero, peer group multiples table

EV & Price multiples x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3	PER FY1	PER FY2	PER FY3
Fresh Del Monte Produce Inc	0.55	0.52	0.51	7.2	7.5	7.2	11.0	11.6	11.5
Total Produce PLC	0.21	0.20	0.21	9.9	9.2	8.1	19.0	19.9	18.6
Average	0.38	0.36	0.36	8.5	8.3	7.7	15.0	15.8	15.0
Orsero	0.32	0.29	0.26	9.9	7.2	5.8	24.9	12.3	10.0
% premium/(discount) to peers	-15.1%	-18.5%	-28.1%	16.4%	-14.0%	-24.0%	66.2%	-21.8%	-33.4%

Source: Thomson Reuters Eikon, CFO Sim

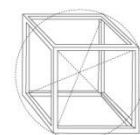


Table 11 – Orsero, equity value assessment

x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3	PER FY1	PER FY2	PER FY3
Peer average	0.38	0.36	0.36	8.5	8.3	7.7	15.0	15.8	15.0
Orsero metrics	898.8	938.8	980.7	29.3	38.6	43.4	0.50	1.01	1.24
NFP	71.5	55.4	32.3	71.5	55.4	32.3			
% discount applied	10.0%								
Orsero Equity Value	237.8	249.1	283.9	154.2	233.2	267.1	118.5	252.9	297.1
Orsero Equity Value €/s	13.40	14.10	16.10	8.70	13.20	15.10	6.70	14.30	16.80
% upside/(downside)	7.5	13.2	29.2	(30.2)	5.9	21.2	(46.2)	14.8	34.8

Source: Thomson Reuters Eikon, CFO Sim

We confidently consider that the most suitable multiples to look at are EV/EBITDA and PER, since the systematically lighter tax burden vs. peers thanks to the application of the **5% tonnage tax regime** to the profits stemming from the shipping arm of the group, represents a valuation strength point that has to be priced into the stock. We decided to **roll the valuation year from 2017 to 2018**, choosing to avoid factoring in the poor Import & Shipping 2017 results. After having applied a residual 10.0% discount factoring in the smaller size, **2018 average EV/EBITDA and PER derived equity value totals € 243m, corresponding to € 13.80/s**, implying a **10.8% upside at current prices**.

Recent sector deal at 13.8x EBITDA

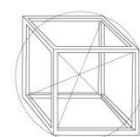
In Dec-16, the Japanese trading company **Sumitomo agreed to buy Fyffes for € 751m**. The price offers a 49% premium to the previous day closing price, 53% premium to previous 30 days volume weighted average share price and 37% to Fyffes' all time high.

With annual turnover in excess of € 1.1bn Fyffes has operations in Europe, the USA, Canada, South America and Asia. Fyffes activities include the production, procurement, shipping, ripening, distribution and marketing of bananas, pineapples, melons and mushrooms. It boasts several well-known brands including Fyffes, Sol, Turbana, Hoya, Highline and All Seasons and employs in excess of 17,000 people worldwide.

The acquisition appraisal of € 2.23 cash per share (€ 1.65 the previous day close) valued **Fyffes at 13.8x EV/EBITDA and 17.4x PER 2016**. Before the bid, Fyffes was trading at 9.9x and 11.6x EV/EBITDA and PER 2016.

It is important to note that the Glenalta Food-Orsero transaction assessed Orsero equity value at € 80.0m, **corresponding to an EV/EBITDA16e of 4.4x and adj. PER16e fully diluted post money of 9.9x** vs. a peer median of 9.7x and 15.4x respectively at the time of the deal.

Simply **applying the multiples paid for Fyffes to Orsero**, the equity value obtained is massively higher than current market value. Even if the Sumitomo offer included a takeover majority premium, **we believe the Orsero current multiple discount to peers is not fully justified** and has somewhat to fill the valuation gap, also considering higher than peer growth perspectives.



DCF

In the valuation via the DCF method explicit estimates until 2021 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 12 - Orsero, WACC derived from:

Interest costs, pre-tax	2.5%
Tax rate	25.0%
Int. costs, after taxes	1.9%
Risk premium, incl. small size premium	10.0%
Risk-free (10Y Gov. Bond 2W average)	2.10%
Beta levered (x)	0.59
Required ROE	8.0%

Source: CFO Sim

Risk premium at 10.0% factors in the minute size of the company and basically all AIM Italia market segment related concerns and disquiets that an investor might have. **Beta at 0.59x** has been calculated taking peer group specific levered beta for each competitor, deleveraging it using each peer precise D/E structure, then leveraging it for Orsero 30/70 debt/equity long term sustainable balance sheet structure.

Table 13 - Orsero, DCF model

€ m	2017e	2018e	2019e	2020e	2021e	Term. Val.
EBIT	14.7	23.6	28.5	29.3	30.0	
Tax rate	25.0%	16.0%	16.0%	16.0%	16.0%	
Operating profit (NOPAT)	11.0	19.9	24.0	24.6	25.2	
Change working capital	(15.3)	1.0	(0.9)	1.0	1.0	
Depreciation	12.6	12.8	12.7	10.0	10.5	
Investments	(45.2)	(15.5)	(10.5)	(10.5)	(10.5)	
Free Cash Flows	(36.9)	18.2	25.2	25.1	26.2	458.5
Present value	(36.3)	16.8	21.9	20.4	20.0	346.9
WACC	6.8%	6.8%	6.8%	6.8%	6.8%	
Long-term growth rate	1.0%					

Source: CFO Sim

Table 14 – Orsero, DCF equity value derived from:

Total EV present value € m	389.7
<i>thereof terminal value</i>	89.0%
NFP last reported	(76.8)
Pension provision last reported	(5.8)
Equity value € m	307.1
#m shares	17.68
Equity value €/s	17.40
% upside/(downside)	39.6%

Source: CFO Sim

The application of the model produces an equity value of € 307.1m, corresponding to € 17.40/share.

The following tables illustrate that sensitivity 1) compared to changes in the terminal growth rate produces an equity value of between € 14.31–21.72/s (perpetuity range of between 0.00% and +2.00%), while 2) compared to changes in the free risk rate produces an equity value of € 14.36-21.35/s (free risk range of between 3.10% and 1.10%) and 3) compared to changes in the risk premium, including small size premium results into an equity value of € 13.89-22.21/s (risk premium range of between 12.0%% and 8.0%).

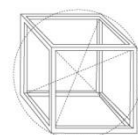


Table 15 – Orsero, equity value sensitivity to changes in terminal growth rate

€ m	0.00%	0.25%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%
Present value of CF	42.9	42.9	42.9	42.9	42.9	42.9	42.9	42.9	42.9
PV of terminal value	292.7	304.7	317.6	331.6	346.9	363.5	381.7	401.7	423.8
Total value	335.6	347.5	360.5	374.5	389.7	406.3	424.5	444.5	466.6
NFP last reported	(76.8)	(76.8)	(76.8)	(76.8)	(76.8)	(76.8)	(76.8)	(76.8)	(76.8)
Pension provision last reported	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)
Equity value	253.0	264.9	277.9	291.9	307.1	323.7	341.9	361.9	384.0
Equity value/share €	14.31	14.98	15.72	16.51	17.40	18.31	19.34	20.47	21.72

Source: CFO Sim

Table 16 – Orsero, equity value sensitivity to changes in free risk rate

€ m	1.10%	1.35%	1.60%	1.85%	2.10%	2.35%	2.60%	2.85%	3.10%
Present value of CF	44.4	44.0	43.6	43.2	42.9	42.5	42.1	41.7	41.4
PV of terminal value	415.7	396.5	378.7	362.2	346.9	332.6	319.3	306.8	295.1
Total value	460.1	440.5	422.3	405.4	389.7	375.1	361.4	348.6	336.5
NFP last reported	(76.8)	(76.8)	(76.8)	(76.8)	(76.8)	(76.8)	(76.8)	(76.8)	(76.8)
Pension provision last reported	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)
Equity value	377.5	357.9	339.7	322.8	307.1	292.5	278.8	266.0	253.9
Equity value/share €	21.35	20.24	19.21	18.26	17.40	16.54	15.77	15.04	14.36

Source: CFO Sim

Table 17 – Orsero, equity value sensitivity to changes in risk premium

€ m	8.00%	8.50%	9.00%	9.50%	10.00%	10.50%	11.00%	11.50%	12.00%
Present value of CF	44.7	44.2	43.8	43.3	42.9	42.4	42.0	41.5	41.1
PV of terminal value	430.6	406.7	384.9	365.1	346.9	330.1	314.7	300.4	287.2
Total value	475.3	450.9	428.7	408.4	389.7	372.6	356.7	342.0	328.3
NFP last reported	(76.8)	(76.8)	(76.8)	(76.8)	(76.8)	(76.8)	(76.8)	(76.8)	(76.8)
Pension provision last reported	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)
Equity value	392.7	368.3	346.1	325.8	307.1	290.0	274.1	259.4	245.7
Equity value/share €	22.21	20.83	19.57	18.42	17.40	16.40	15.50	14.67	13.89

Source: CFO Sim

Stock performance

Glenalta Food was listed on the AIM Italia (Alternative Investment Market) on 10th Nov 2015 at € 10.0/share, corresponding to a market capitalization of € 80.0m. Its target Orsero was listed on the **AIM Italia** (Alternative Investment Market) **on 13-Feb-17** as a result of the merger between Glenalta Food and Orsero. Orsero stock reached the 1Y maximum of € 14.26/s on 10th May and the 1Y minimum of € 8.81 on 28st Sept 2016. The stock has consistently underperformed the FTSE AIM Italia, the European sector and the peer in the last three months.

Table 18 - Orsero, peers group and indexes absolute performance

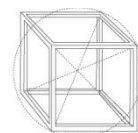
%	1D	1W	1M	3M	6M	YTD	1Y
Fresh Del Monte Produce Inc	(0.9)	(0.4)	(2.0)	(7.6)	(21.4)	(23.8)	(22.5)
Total Produce PLC	(0.7)	1.8	4.4	6.4	16.5	15.0	37.8
Peers Median	(0.8)	0.7	1.2	(0.6)	(2.5)	(4.4)	7.6
Orsero Spa	(3.0)	(7.9)	(7.0)	(6.0)	13.5	32.8	39.5
FTSE AIM Italia	(0.1)	0.5	4.3	1.9	15.8	26.7	32.2
Thomson Reuters Food & Beverage EU	0.7	(0.6)	0.6	(1.2)	8.1	17.6	5.6

Source: Thomson Reuters Eikon

Table 19 – Orsero, relative performances

%	1D	1W	1M	3M	6M	YTD	1Y
Orsero Spa to peers	(2.2)	(8.6)	(8.2)	(5.4)	16.0	37.1	31.9
Orsero Spa to FTSE AIM Italia	(2.8)	(8.4)	(11.3)	(7.9)	(2.3)	6.1	7.3
Orsero Spa to EU Sector	(3.6)	(7.3)	(7.6)	(4.8)	5.4	15.2	33.9

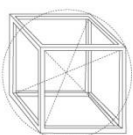
Source: Thomson Reuters Eikon



Risks

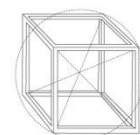
The principal investment **risks** in Orsero include:

- impacts on economics and balance sheet profile triggered by a deep decline in local and global economic growth,
- Dilution on profitability stemming from the acquisition campaign,
- Impact of sharp fluctuation in the US\$ and bunker





Income statement (€ m)	2015	2016	2017e	2018e	2019e
Revenues	617.4	685.0	898.8	938.8	980.7
COGS	(553.4)	(612.3)	(798.7)	(843.0)	(877.8)
Gross Profit	64.0	72.7	100.1	95.8	102.9
SG&A	(51.9)	(55.0)	(69.3)	(72.1)	(74.3)
EBIT	12.1	17.6	30.7	23.6	28.5
Financials	(6.1)	(1.4)	(2.2)	(2.2)	(2.2)
Results from investments	1.3	4.9	0.5	0.0	0.0
Pre Tax Profit	7.3	21.1	29.0	21.4	26.4
Taxes	6.1	(2.9)	(7.3)	(3.4)	(4.2)
Discontinued	0.2	0.0	0.0	0.0	0.0
Minorities	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)
Net Profit	13.6	18.2	21.6	17.9	22.0
D&A	(10.5)	(9.8)	(12.6)	(12.8)	(12.7)
Provisions	(2.5)	(1.5)	(2.0)	(2.1)	(2.2)
Non recurring items	(3.2)	(6.3)	16.0	0.0	0.0
Adjusted EBITDA	28.2	35.2	29.3	38.6	43.4
Adjusted EBIT	15.2	23.9	14.7	23.6	28.5
Adjusted Net profit	16.4	23.7	8.8	17.9	22.0
Balance sheet (€ m)	2015	2016	2017e	2018e	2019e
Net Working Capital	22.6	27.4	42.8	41.7	42.7
Net Fixed Assets	122.4	95.9	157.7	160.2	157.8
Equity Investments	36.7	39.2	10.0	10.2	10.4
Other M/L Term A/L	12.1	3.0	(0.8)	(0.7)	(0.6)
Net Invested Capital	193.8	165.6	209.7	211.5	210.4
Net Financial Debt/(cash)	147.0	49.1	71.5	55.4	32.3
Minorities	1.1	0.7	0.9	1.0	1.1
Group's Shareholders Equity	45.7	115.8	137.3	155.0	176.9
Financial Liabilities & Equity	193.8	165.6	209.7	211.5	210.4
Cash Flow statement (€ m)	2015	2016	2017e	2018e	2019e
Total net income	-	18.2	21.6	17.9	22.0
Depreciation	-	9.8	12.6	12.8	12.7
Other non-cash charges	-	9.1	3.8	(0.1)	(0.1)
Cash Flow from Oper. (CFO)	-	37.0	38.1	30.6	34.5
Change in NWC	-	(4.9)	(15.3)	1.0	(0.9)
FCF from Operations (FCFO)	-	32.2	22.8	31.6	33.6
Net Investments (CFI)	-	10.7	(45.2)	(15.5)	(10.5)
Free CF to the Firm (FCFF)	-	42.8	(22.5)	16.1	23.1
CF from financials (CFF)	-	(32.7)	0.0	0.0	0.0
Free Cash Flow to Equity (FCFE)	-	10.1	(22.5)	16.1	23.1
Financial ratios	2015	2016	2017e	2018e	2019e
EBITDA adj. margin	4.6%	5.1%	3.3%	4.1%	4.4%
EBIT margin	2.0%	2.6%	3.4%	2.5%	2.9%
Net profit margin	2.2%	2.7%	2.4%	1.9%	2.2%
Tax rate	n.m.	13.6%	25.0%	16.0%	16.0%
Interest coverage x	0.50	0.08	0.07	0.09	0.08
Net Debt/EBITDA adj. x	5.22	1.39	2.44	1.44	0.75
Debt-to-Equity x	3.21	0.42	0.52	0.36	0.18
ROIC	7.0%	11.0%	10.3%	8.5%	10.5%
ROCE	4.8%	7.5%	5.7%	8.5%	9.6%
ROACE	4.8%	7.2%	6.0%	8.8%	9.9%
ROE	29.7%	15.7%	15.8%	11.5%	12.4%
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Per share figures	2015	2016	2017e	2018e	2019e
Number of shares # m	17.68	17.68	17.68	17.68	17.68
Number of shares Fully Diluted # m	17.68	17.68	17.68	17.68	17.68
Average Number of shares Fully Diluted	17.68	17.68	17.68	17.68	17.68
EPS stated FD €	0.77	1.03	1.22	1.01	1.24
EPS adjusted FD €	0.93	1.34	0.50	1.01	1.24
EBITDA €	1.59	1.99	1.66	2.18	2.45
EBIT €	0.68	1.00	1.74	1.34	1.61
FCFO €	n.a.	1.82	1.29	1.79	1.90
FCFF €	n.a.	2.42	(1.27)	0.91	1.31
FCFE €	n.a.	0.57	(1.27)	0.91	1.31
Dividend €	0.00	0.00	0.00	0.00	0.00



The company in a nutshell

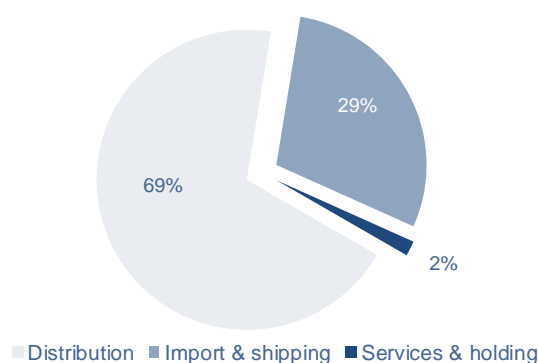
Orsero is an international group headquartered in Albenga (Savona), operating in the fresh fruit and vegetable import and distribution business in the Mediterranean area of Europe. The group was founded over 50 years ago by the Orsero family. The current business structure entails besides import and distribution of fresh fruit and vegetables, production and export of fruit together with chilled maritime transportation. Orsero boasts a presence mainly in Italy, France, Spain, Portugal, Greece, Costa Rica and Colombia.

During 2012, the group launched the "F.lli Orsero" brand for bananas and pineapples, which expresses the sense of tradition and the passion of a large Italian family company for fruit and vegetables of the highest quality.

2016 Orsero highlights: € 685m revenues, EBITDA of € 35.2m (5.1% margin), € 18.1m net profit and € 49.0m net financial position (1.3x EBITDA).

Orsero was listed on the AIM Italia (Alternative Investment Market) on 13-Feb-17 as a result of the merger between Glenalta Food and Orsero. The merger was the final step in the business combination between Glenalta Food and GF Group, as regulated by the agreement signed and announced last 28th October 2016.

2016 Gross Turnover...



...and EBITDA by business



Shareholder structure

	%	# m	€ m
Orsero family	31.6%	5.59	69.7
Grupo Fernandez	5.7%	1.00	12.5
Free Float	62.7%	11.09	138.2
o/w treasury shares	3.6%	0.64	8.0
Total	100.0%	17.68	220.3

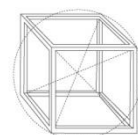
Peer group absolute performance

	1D	1W	1M	3M	6M	YTD
Fresh Del Monte Produce Inc	-0.9	-0.4	-2.0	-7.6	-21.4	-23.8
Total Produce PLC	-0.7	1.8	4.4	6.4	16.5	15.0
Peers Average	-0.8	0.7	1.2	-0.6	-2.5	-4.4
Orsero Spa	-3.0	-7.9	-7.0	-6.0	13.5	32.8
FTSE AIM Italia	-0.1	0.5	4.3	1.9	15.8	26.7
EU Sector	0.7	-0.6	0.6	-1.2	8.1	17.6
Orsero Spa to peers	-2.2	-8.6	-8.2	-5.4	16.0	37.1
Orsero Spa to FTSE AIM Italia	-2.8	-8.4	-11.3	-7.9	-2.3	6.1
Orsero Spa to EU Sector	-3.6	-7.3	-7.6	-4.8	5.4	15.2

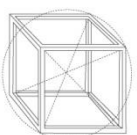
Peers group multiples table

Price & EV multiples x	PER FY1	PER FY2	PER FY3	PCF FY1	PCF FY2	PCF FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3
Fresh Del Monte Produce Inc	11.0	11.6	11.5	7.8	8.3	8.0	7.2	7.5	7.2
Total Produce PLC	19.0	19.9	18.6	12.2	12.1	10.5	9.9	9.2	8.1
Average	15.0	15.8	15.0	10.0	10.2	9.3	8.5	8.3	7.7
Orsero Spa	24.9	12.3	10.0	10.9	6.7	6.0	9.9	7.2	5.8
% (Discount)/Premium to peer average	66.2%	-21.8%	-33.4%	8.8%	-34.0%	-35.6%	16.4%	-14.0%	-24.0%

Source: CFO Sim, Thomson Reuters Eikon



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DATE	TARGET PRICE	RATING
27/09/2017	€13.80	BUY
28/07/2017	U.R.	BUY
18/04/2017	€16.20	BUY
13/02/2017	-	not rated
25/11/2016	-	not rated

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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.

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