

Italy - Food

Unrivalled distribution of healthy fruit and yields

18<sup>th</sup> April 2017

INITIATION OF COVERAGE

RIC: ORSO.MI  
BBG: ORS IM

Orsero is the leading player in a disciplined oligopoly, with the most complete selling proposition on the market. The fresh resources injected by Glenalta Food will allow the group to further grow, mainly via acquisitions, aiming for nearly € 1.0bn sales by 2018

Rating:

**Buy**

Price Target:

**€ 16.20**

Upside/(Downside): 35.6%

Last Price: € 11.95

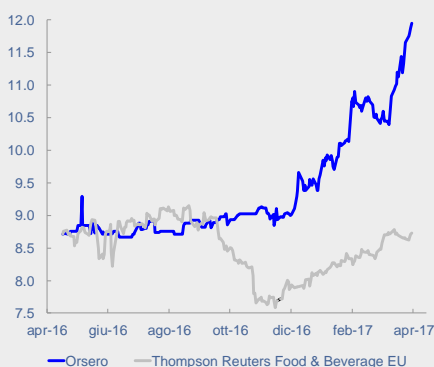
Market Cap.: € 169.6

1Y High/Low: € 12.70/€ 8.62

Free Float: 57.8%

Major shareholders:

FIF Holding 39.4%



**Stock price performance**

	1M	3M	12M
<b>Absolute</b>	12.7%	25.0%	35.1%
<b>Rel.to AIM Italia</b>	7.6%	14.7%	31.1%
<b>Rel.to EU Sector</b>	11.7%	17.6%	34.4%

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**BUY, PT € 16.20/s, upside potential of 35.6%**

CFO Sim initiates coverage on Orsero with a BUY rating and a Price Target of € 16.20s, upside potential of 35.6% determined by peer multiple comparison and corroborated by DCF. We believe the more than 40% Orsero multiple discount to peers is only explained by a difference in size to a degree, but has to be abridged to consider 1) higher than peer growth perspectives and 2) the active role that Orsero can play in this unavoidably consolidating disciplined oligopoly. We confidently consider that the most suitable multiples to look at are EV/EBITDA and PER. After having applied a residual 10.0% size discount, 2017 average EV/EBITDA and PER derived equity value is € 16.20/s FD, 35.6% upside.

**The most complete selling proposition in a disciplined oligopoly**

Orsero is a leading producer and distributor of fresh fruit and vegetables in Mediterranean Europe, firmly controlling the entire value chain of the business. The group distributes more than 300 key products (of a total of some 2,000 items). The firm operates in a quite disciplined and concentrated oligopoly. Orsero is the leading player in Italy and Portugal, the co-leader in Spain and France. It has the most complete selling proposition on the market and ownership of four best in class reefer vessels makes Orsero a cost and service leader and allows "control" of competitors to a certain extent.

**Sales and EBIT CAGR<sub>16-19</sub> of 4.4% and 13.1% in a moderately growing sector**

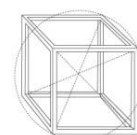
CFO expects total revenues to increase by 4.4% YoY on average in 2017-19 in an as-is scenario. EBIT is expected to grow more than proportionately to top line. The driver of group profitability is the Distribution division thanks to the expansion of the F.Ili Orsero brand into new segments, and better control of some areas. Net profit is projected to show a 6.3% CAGR<sub>16-19</sub>. Thanks to small capex, OCF translates massively in FCF: EBITDA Free Cash Flow conversion is projected above 50% in 2017-19. The substantial cash generation is consequently projected to bring down Net Financial Position and allow Orsero to have € 11.0m positive NFP in 2019.

**Aiming for nearly € 1.0bn revenues**

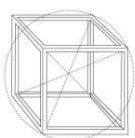
The fresh resources injected by Glenalta Food together with CF will be destined mainly to boost growth via acquisitions, with a few targets already identified and at an advanced stage of negotiations: 1) consolidating in Italy and Spain; 2) grabbing local opportunities in Italy, 3) developing partnership in Europe with local producers and 4) targeting prey in adjacent but consistent bio-vegan product categories. Orsero targets € 1.0bn sales by 2019. The move to the MTA/STAR segment highly likely in 2018 adds appeal to the investment case as well as a recent sector transaction at 13.8x EBITDA, underline stock undemanding valuation.

**Orsero, key financials and ratios**

€ m	2015	2016	2017e	2018e	2019e
Sales	617.4	685.0	711.4	744.2	779.5
EBITDA adj	28.2	35.2	35.4	36.1	37.5
EBIT adj	12.1	17.6	23.5	24.2	25.5
Net profit	13.6	18.2	20.1	20.7	21.8
Net profit adj	16.4	23.7	20.1	20.7	21.8
NFP (cash)/debt	147.0	49.1	28.2	9.1	(11.0)
EPS adjusted FD	0.98	1.42	1.20	1.24	1.31
EPS adj. FD growth	-	45.0%	-15.4%	3.2%	5.4%
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	-	25.3%	12.3%	11.3%	11.8%
PER x	12.2	8.4	9.9	9.6	9.1
EV/Sales x	0.51	0.32	0.28	0.24	0.20
EV/EBITDA x	11.2	6.2	5.6	4.9	4.2
EV/EBIT x	26.3	12.4	8.4	7.4	6.2



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## 1. Investment Summary

Orsero, founded in the 1940s by the Orsero family with headquarters in Albenga (Savona), 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. The group distributes **more than 300 key products** (of a total of some 2,000 items, from apricots to zucchini), mainly bananas, pineapples and citrus fruits, in the five most important markets in Southern Europe (Italy, France, Spain, Portugal and Greece) via eight local distributors, of which 3 are 50-50 owned JVs.

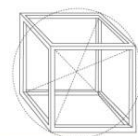
The firm **operates in a quite disciplined and concentrated oligopoly**, with the rest of the pie widely fragmented. GF Group is the leading player in Italy and Portugal, the co-leader in Spain and France. **It has the most complete selling proposition** on the market and the **ownership of four innovative best in class reefer vessels makes Orsero a cost and service leader** and allows "control" of competitors to a certain extent.

Market **volumes are projected to remain basically stable/moderately on the rise**, whilst **prices are set to show a 3/3.5% CAGR<sub>16-19</sub>** thanks to a more favourable product mix. **Orsero is foreseen to outperform the reference market** thanks to 1) **some market share recovery** in particular in France and Portugal, 2) **action on the "F.lli Orsero" brand** with extensions in new segments (i.e. fresh-cut, dried fruit), and 3) **the most complete selling proposition** in the market. In a **business driven by prices**, the weight of raw materials is seen to lessen to a certain extent on total revenues. **D&A are seen to stay mostly flat as of 2016**: the firm shifted the lifespan of its own four reefer vessels to 2024 (previously projected in 2019).

**Import & shipping business is rather volatile in terms of consistency of results**, since subject to several unmanageable aspect, i.e. bunker and USD fluctuations. However, the increasing weight of the distribution division is foreseen to a certain extent to diminish the volatility profile of the group. **CFO expects total revenues to increase by 4.4% YoY** on average in 2017-19 in an as-is scenario, driven by Distribution BU, the core business of Orsero. **EBIT is expected to grow more than proportionately to top line**: +13.1% CAGR in 2016-19. **The driver of group profitability is the Distribution division**, 80% of turnover and 45% of EBITDA in 2016, thanks to the expansion of the F.lli Orsero brand into new segments and to better control of some areas. The **tax burden here is lightened by the tonnage tax regime** applied to the shipping arm of the group, Cosiarma. **Net profit is projected to show a 6.3% CAGR<sub>16-19</sub>**. Thanks to the small amount of capex, **operating cash flow translates massively into free cash flow: EBITDA Free Cash Flow conversion is projected above 50% in 2017-19**. The substantial cash generation is consequently projected to bring down Net Financial Position and allow Orsero to have € 11.0m positive NFP in 2019.

**CFO Sim initiates coverage on Orsero with a BUY rating and a Price Target of € 16.20/s, upside potential of 35.6%** determined by peer multiple comparison and corroborated by DCF. **Orsero is the smallest** in our list, has a **profitability in line** with the peer average but **offers more growth**. We believe the more than 40% Orsero multiple discount to peers is explained by a difference in size only to a degree, but **has to be abridged** to consider 1) higher than peer growth perspectives and 2) the active role that Orsero can play in this unavoidably consolidating disciplined oligopoly. We confidently consider that the most suitable multiples to look at are EV/EBITDA and PER, since the systematically lighter tax burden vs. peers, represents a valuation strength point that has to be priced into the stock. After having applied a residual 10.0% discount factoring in the smaller size, **2017 average EV/EBITDA and PER derived equity value totals € 270.6m, corresponding to € 16.20/s FD**, implying a **35.6% upside at current prices**. **The highly likely move to the MTA/STAR segment in 2018 adds appeal to the investment case**.

The principal investment **risks** in Orsero include: 1) impacts on economics and balance sheet profile triggered by a deep decline in local and global economic growth, 2) Dilution on profitability stemming from the acquisition campaign, and 3) Impact of sharp fluctuation in the US\$ and bunker



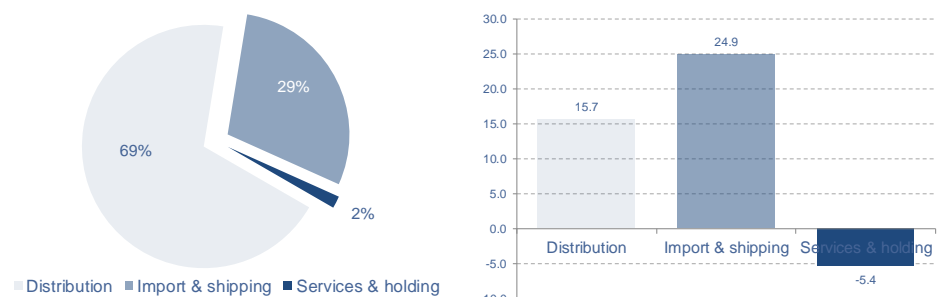
## 2. Orsero company profile

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.

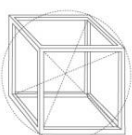
Chart 1 – Orsero, 2016 gross revenues and EBITDA adj. breakdown by division



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 become 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 SpA, a company of GF Group, becoming Managing Director in 2002. From 2003 to 2007, she was also Managing Director at Reefer Terminal S.p.A. 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 Group.

**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 GF Group SpA as Group Chief Financial Officer. Since February 2017 he has been Managing Director and Chief Financial Officer of Orsero Group.

**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 GF Group SpA in November 2015 as Chief Operating Officer.

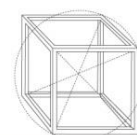
Orsero was listed on the **AIM Italia** (Alternative Investment Market) **on 13-Feb-17** as a result of the merger between Glenalta Food and Orsero. The merger was the final step in the business combination between Glenalta Food and GF Group, as regulated by the agreement signed and announced last 28<sup>th</sup> 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 GF Group, FIF Holding, at an exchange ratio of 43 ordinary shares in Glenalta Food for every 50 ordinary shares in GF Group. Orsero share capital as of today therefore amounts to a nominal € 64.5m, divided into 14,192,183 ordinary shares (including 643,387 treasury shares) and 50,000 special shares. Considering 1) the special shares wholly converted into ordinary shares and 2) the warrants conversion (€ 9.5 strike, € 13.30 cap, 5Y exercise period) into ordinary shares at € 13.30 (max dilution), the total number of shares fully diluted totals 16,704,939.

**Table 1 – Orsero, shareholders structure**

Shareholders	Issued number of shares			Fully diluted number of shares		
	#k shares	%	€ m	#k shares	%	€ m, @ 13.3/s
<b>FIF Holding</b>	<b>5.590</b>	<b>39.4%</b>	<b>66.80</b>	<b>5.590</b>	<b>33.5%</b>	<b>74.35</b>
Anna Chiara Orsero	1.695	11.9%	20.25	1.695	10.1%	22.54
Raffaella Orsero	1.695	11.9%	20.25	1.695	10.1%	22.54
Pierangelo Ottonello	0.759	5.3%	9.07	0.759	4.5%	10.09
Antonio Orsero	0.645	4.5%	7.71	0.645	3.9%	8.58
Lorenzo Ighina	0.398	2.8%	4.76	0.398	2.4%	5.30
Leonardo Ighina	0.398	2.8%	4.76	0.398	2.4%	5.30
<b>Free Float</b>	<b>8.600</b>	<b>60.6%</b>	<b>102.77</b>	<b>11.115</b>	<b>66.5%</b>	<b>147.83</b>
Market	7.357	51.8%	87.91	7.357	44.0%	97.84
Treasury shares	0.643	4.5%	7.69	0.643	3.9%	8.56
Promoters	0.600	4.2%	7.17	0.900	5.4%	11.97
Warrant holders*	-	-	-	2.215	13.3%	29.46
<b>Total</b>	<b>14.190</b>	<b>100.0%</b>	<b>169.57</b>	<b>16.705</b>	<b>100.0%</b>	<b>222.18</b>

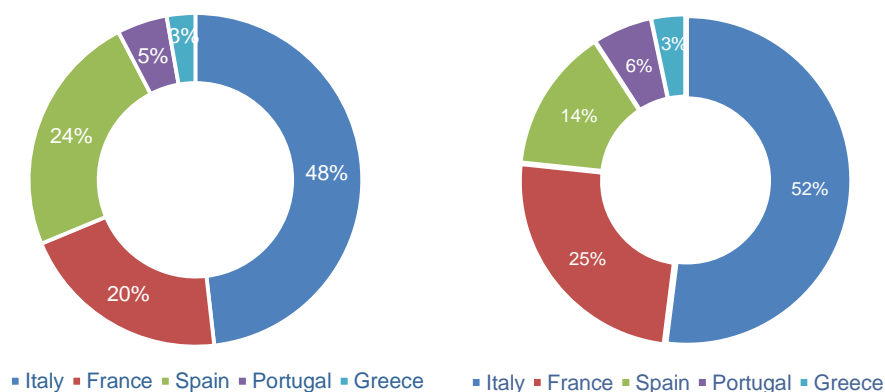
Source: Company data, Glenalta Food, CFO Sim. Hp. warrant conversion at € 13.3/s



## 2.1 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 – 2015 total revenues (incl. 100% of JVs)/revenues by country



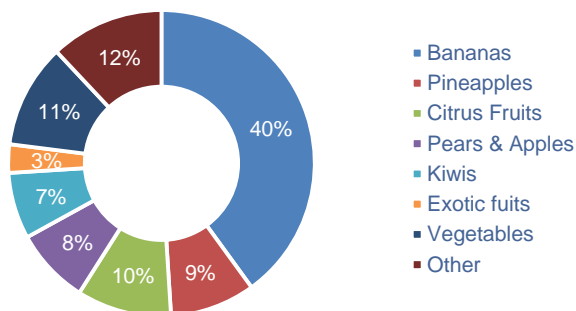
Source: Company data

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.

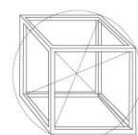
In addition to its own brands, F.lli Orsero and Simba, Orsero is one of the largest distributors in Europe of key fruit and vegetable brands.

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 – 2015 revenues by product



Source: Company data



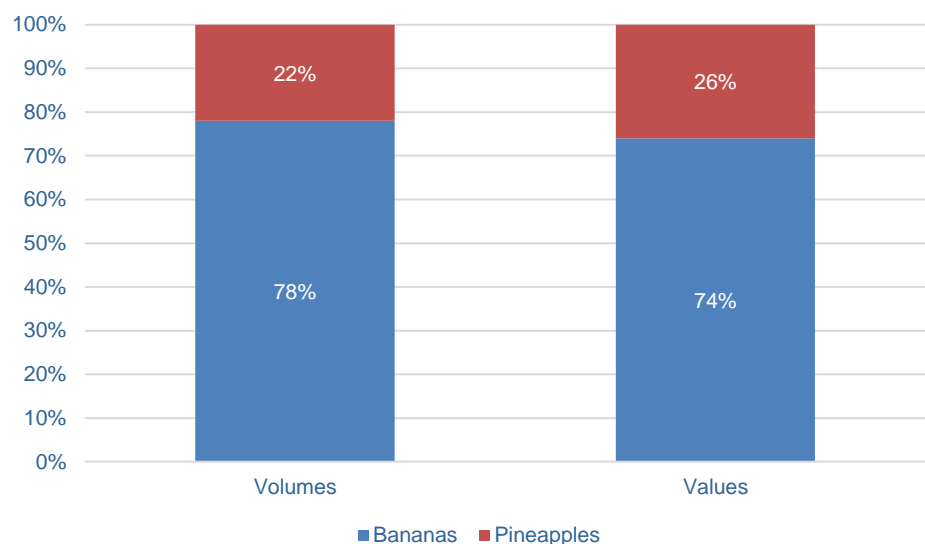
## 2.2 Banana & pineapple import

The “tropical 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**



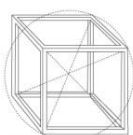
Source: Company data

## 2.3 Production

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 45km<sup>2</sup>, 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.

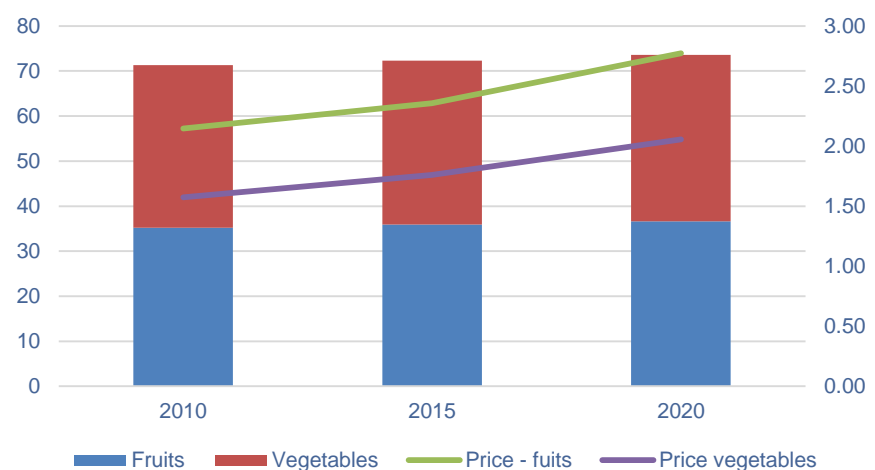


### 3. The reference market

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% CAGR<sub>15-20</sub>).

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%.

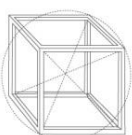
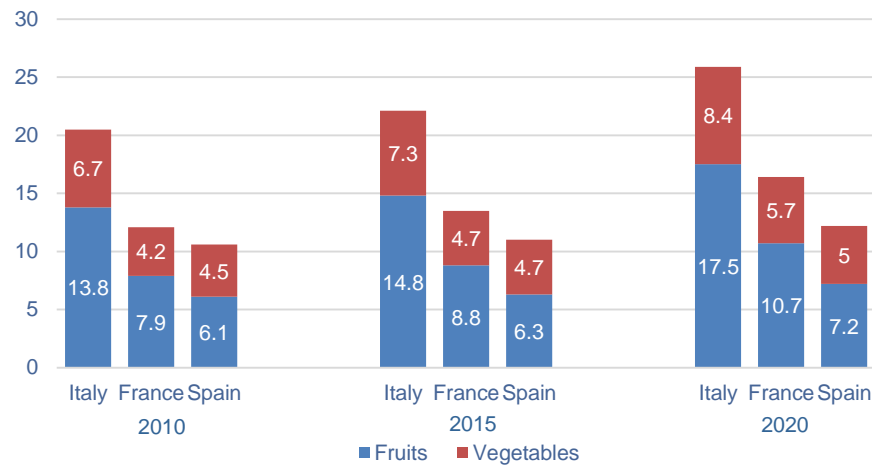




Chart 6 – Fruit & vegetable consumption (€ bn) trend in Southern European key areas



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).

### 3.1 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% CAGR<sub>13-15</sub>. 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.

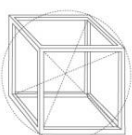
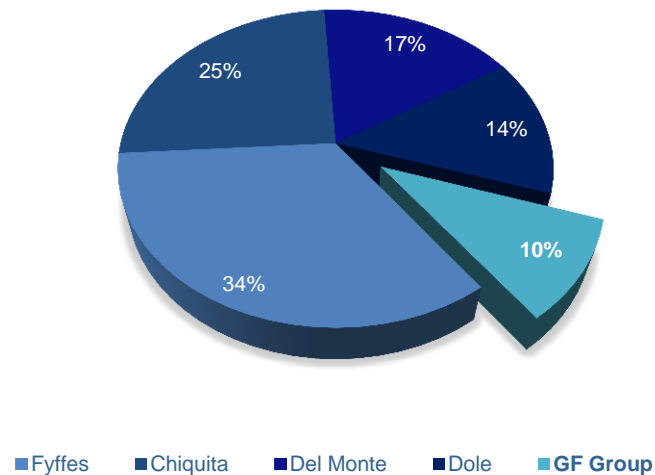


Chart 7 – The five largest banana importers in Southern Europe



Source: Orsero, Euromonitor

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

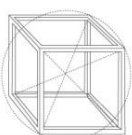
Banana pricing, both to purchase and to sell, is seasonal and depends on several factors, including its availability and quality in relation to competing fresh fruit items. As a result, **prices are typically stronger during the first half of the year and lower in the second half to correspond with the 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
<b>F.lli Orsero</b>	<b>15.47</b>	<b>15.75</b>	<b>16.00</b>	<b>85</b>	<b>86</b>	<b>85</b>
Del Monte	14.45	14.87	15.25	80	81	81
Bonita	14.76	14.89	15.24	81	81	81
<b>Simba</b>	<b>13.56</b>	<b>14.30</b>	<b>14.66</b>	<b>75</b>	<b>78</b>	<b>78</b>
Other brands	12.84	13.41	13.48	71	73	71

Source: Orsero, Euromonitor



## 4. 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

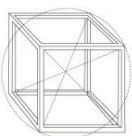
- **Market share recovery** in Italy and in Europe, lost during the years of group crisis 2008-13
- **Further development in the Italian market** in particular in the regions in which Orsero is still not yet at full potential.
- **“F.lli Orsero” brand extension** into new promising higher margin segments, 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



## 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 to evaluate 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.

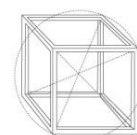
The fresh fruit and vegetable import and distribution sector in which Orsero operates is a business that can be labelled as **attractive** and characterized by:

- **Rather narrow intensity level of competition, a quite disciplined oligopoly.** The reference market is characterized by a few large players and a plethora of local small actors: a rather disciplined price arena. Fragmentation is pretty high, with the five top players accounting for much less than 10% of the pie. Orsero is the leading player in Italy and Portugal, the co-leader in Spain and France.
- **The almost entire absence of weighty suppliers.** Orsero purchases over 2,000 products, from apricots to zucchini, from a vast number of suppliers: the first 5 providers account for 23% of the total COGS. The most relevant cost item is represented by raw materials, some 68% of top line in 2015.
- **Pretty vast client base, with on average broadly limited bargaining power.** The Orsero serves the main southern European super-hypermarket chains and distributes third parties and white label brands. The first 5 clients account for 15% of the total. Orsero is a leading player in its reference market and prices are expected to rise in the future.
- **Barriers to entry represented by logistics and distribution:** handling fresh fruit and vegetables properly and in a timely fashion is far from being easy and therefore represents a key competitive advantage. Additionally, thanks to the ownership of the reefer vessels, Orsero is a cost and service leader.
- **The substantial absence of significant threats of potential substitutes.** Fruit and vegetables are in the midst of an ongoing health trend: they are replacing to a certain extent some outmoded foods with an increase of consumption occasions throughout the day. In the medium term, market volumes are projected to be stable or moderately on the rise. Conversely, prices are estimated to grow firmly.

Chart 8 – Porter's 5 forces industry summary

<b>Rivalry amongst competitors</b>	Low	An oligopoly: a few large players, then a plethora of small local actors The group holds leading positioning in all the markets in which it operates	+	+
<b>Bargaining power of suppliers</b>	Low	A vast product list purchased from a large numbers of suppliers Providers do not detain key distinctive assets: fruit and vegetables are a commodity No possibility for suppliers to vertically integrate, two different jobs	+	+
<b>Bargaining power of customers</b>	Medium	Fragmented client base Despite large chains being key clients, product prices are expected to rise	+	+/-
<b>Threats of new entrants</b>	Low	Barriers represented by logistics, distribution and fresh product handling capabilities Economies of scale make the difference when purchasing and moving goods around the world GF Group is a cost and service leader thanks to the ownership of the reefer vessels	+	+
<b>Threats of potential substitutes</b>	Low	Natural products with no potential substitutes Fruit and vegetables are replacing some outmoded foods, gaining market share	+	+

Source: CFO Sim, Company data



## 6. 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

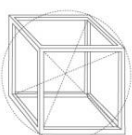
- ❑ Currently still **limited F.lli Orsero brand awareness** on end consumers
- ❑ **Exposure to USD/EUR**, in particular for maritime transport segment
- ❑ **Market share recovery**, may be more complicated than expected

#### 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



## 7. Recent results, FY-16

Table 2 – Orsero, FY-16 results summary

€ m	2016	2015	% YoY	2016e	% Diff.
<b>Total Revenues</b>	<b>685.0</b>	<b>617.4</b>	<b>10.9</b>	<b>680.0</b>	0.7
<b>EBITDA adj.</b>	<b>35.2</b>	<b>28.2</b>	<b>25.0</b>	<b>36.6</b>	(3.9)
% margin	5.1	4.6		5.4	
<b>EBIT</b>	<b>17.6</b>	<b>12.1</b>	<b>46.0</b>	<b>18.2</b>	(3.1)
% margin	2.6	2.0		2.7	
<b>Pre-Tax profit</b>	<b>21.1</b>	<b>7.3</b>	<b>187.4</b>	<b>11.0</b>	91.2
% margin	3.1	1.2		1.6	
<b>Net Profit</b>	<b>18.2</b>	<b>13.6</b>	<b>33.8</b>	<b>8.8</b>	105.5
% margin	2.7	2.2		1.3	

FY-16 figures are based on Orsero pro-forma consolidated financial statements reflecting the first time IFRS adoption. FY-15 has been adjusted accordingly too. Orsero reported a good set of results in FY-16, characterized by **solid top line growth** and a **much more than proportional rise in profitability**. As a result of operating cash flow generation and of the effect of Glenalta Food rights issue, NFP diminished to € 49.1m, or 1.4x EBITDA.

**FY-16 total revenues grew 10.9%** to € 685.0m, mainly driven by distribution in Italy, France and Portugal. **Top line trend in this businesses is slightly seasonal**, with H1 revenues normally totaling some 55% of FY total figure. Top line was in line with our projection.

EBITDA reported was adjusted by a total of € 6.3m non-recurring charges mainly linked to costs related to the restructuring of the French subsidiary and the listing costs.

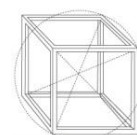
EBITDA adj. increased to € 35.2m, +25.0% YoY, margin of 5.1% i.e. +50bps, thanks to the **lower-than-proportional progression of direct costs** (material expenses and services) compared to the evolution of volumes. The efficiency and cost reduction measures have started to bring in tangible results.

Margin trends present strong seasonality: normally 65-70% of FY EBITDA is produced in the first six months of the year. This is mainly due to the competition of local fresh products in the period Jun-Sept. At operating level, the higher EBITDA and lower D&A, contributed to boost profitability: **EBIT reached € 21.1m**, 2.6% margin +60bps, vs. € 12.1m in FY-15. Both **EBITDA and EBIT were broadly in line with our forecasts**.

As a result of the full deployment of debt rescheduling finalised in 2015, and impact of the Glenalta interest income on cash deposit, **financial charges diminished drastically** to € 1.4m from € 6.1m.

Consistent with the evolution of operating performance and further boosted by a light tax burden (tax rate of 13.5%), **Net Profit reached € 18.2m**, 2.7% margin, vs. € 13.6m in FY-15.

**Net Financial Position improved significantly to € 49.1m from € 146.9m**, reflecting substantial operating cash flow and to a greater extent, the inflow stemming from the € 73.8m Glenalta Food right issue (o/w € 25m destined to buy-out bank equity-like instruments) and the sale of non-core activities.



## 8. Financials

Orsero is an international player headquartered in Albenga (Savona), operating in the **fresh fruit and vegetable production, import and distribution** businesses in the Mediterranean area of Europe. Market **volumes are projected to remain basically stable/moderately on the rise**, whilst **prices are set to show a 3/3.5% CAGR<sub>16-19</sub>** in the main markets (Italy, France and Spain) thanks to a more favourable product mix.

In this context, **Orsero is foreseen to outperform the reference market** thanks to 1) **some market share recovery** in particular in France and Portugal, 2) **action on the “F.lli Orsero” brand** with extensions into new segments (i.e. fresh-cut, dried fruit) a 360-degree brand, 3) **the most complete selling proposition** in the market.

FY-16 figures are based on Orsero pro-forma consolidated financial statements reflecting the first time IFRS adoption. FY-15 has also been adjusted accordingly. As a result of the effect of the significantly **lower D&A** following IFRS first time adoption, and a **lighter-than-expected tax rate**, **net profit estimates are now some 10% higher than previous forecasts**.

**Import & shipping business is rather volatile in terms of consistency of results**, since subject to several unmanageable aspect, i.e. bunker and USD fluctuations. However, the increasing weight of the distribution division is foreseen to a certain extent to diminish the volatility profile of the group. **CFO expects total revenues to increase by 4.4% YoY** on average in 2017-19, driven by Distribution BU, the core business of Orsero totalling almost 80% of total revenues. The Import and shipping division, which includes Cosiarma, the shipping arm of the group, is projected to slow down growth rates since 2016 was an outstanding year in terms of load factor, seen to the tune of 92-93%, and rather difficult to replicate.

**Table 4 – Orsero, 2015-18e top line growth evolution breakdown**

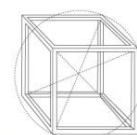
€ m	2015	2016	2017e	2018e	2019e	CAGR <sub>16-19</sub>
<b>Total Revenues € m</b>	<b>617.4</b>	<b>685.0</b>	<b>711.4</b>	<b>744.2</b>	<b>779.5</b>	<b>4.4%</b>
Distribution	490.0	556.0	581.0	611.8	645.5	<b>5.1%</b>
Import & shipping	227.0	234.0	239.9	247.0	254.5	<b>2.8%</b>
Services & holding	14.0	13.0	13.3	13.5	13.8	<b>2.0%</b>
Intercompany	(113.6)	(118.0)	(122.7)	(128.2)	(134.2)	
<b>% YoY</b>						
<b>Total Revenues</b>	-	<b>10.9</b>	<b>3.9</b>	<b>4.6</b>	<b>4.7</b>	
Distribution	-	13.5	4.5	5.3	5.5	
Import & shipping	-	3.1	2.5	3.0	3.0	
Services & holding	-	(7.1)	2.0	2.0	2.0	
Intercompany	-	3.9	4.0	4.5	4.7	
<b>% on total</b>						
<b>Total Revenues</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	
Distribution	79.4	81.2	81.7	82.2	82.8	
Import & shipping	36.8	34.2	33.7	33.2	32.6	
Services & holding	2.3	1.9	1.9	1.8	1.8	
Intercompany	(18.4)	(17.2)	(17.2)	(17.2)	(17.2)	

Source: Company data, CFO Sim estimates

**The most relevant cost is material expenses**, mainly purchasing of fresh fruit and vegetables. As above-mentioned, it is a business driven by prices rather than volumes, which is why the weight of raw materials is seen to lessen to a certain extent on total revenues. As a result Gross Profit margin is anticipated to increase as of 2015-16 and to remain broadly stable to the tune of 10.8% in 2017-19.

**D&A are seen to diminish significantly vs. our previous publication**, since following IFRS first time adoption, the lifespan of the four fully owned reefer vessels has been shifted to 2024 (previously projected in 2019) together with the capitalization of dry-docking costs. As a results, D&A are projected at € 10.3m in the 2017-19 period.

As a result, **EBIT is expected to grow more than proportionately to top line: +13.1% CAGR** in 2016-19, vs. 4.4% of turnover.



The breakdown by business unit shows how **the driver of group profitability growth is the Distribution division**, some 80% of turnover and 45% of EBITDA in 2016, thanks to the expansion of the F.lli Orsero brand to new segments, and better control of some areas.

**Table 5 – Orsero, 2016-19e profitability evolution**

€ m	2015	2016	2017e	2018e	2019e	CAGR <sub>16-19</sub>
<b>Revenues</b>	<b>617.4</b>	<b>685.0</b>	<b>711.4</b>	<b>744.2</b>	<b>779.5</b>	<b>4.4%</b>
COGS	(553.4)	(612.3)	(633.7)	(663.5)	(695.9)	
<b>Gross Profit</b>	<b>64.0</b>	<b>72.7</b>	<b>77.8</b>	<b>80.7</b>	<b>83.6</b>	<b>4.8%</b>
% margin	10.4	10.6	10.9	10.8	10.7	
SG&A	(48.4)	(49.5)	(48.9)	(51.0)	(52.4)	
Other	(3.6)	(5.6)	(5.4)	(5.5)	(5.7)	
<b>EBIT</b>	<b>12.1</b>	<b>17.6</b>	<b>23.5</b>	<b>24.2</b>	<b>25.5</b>	<b>13.1%</b>
% margin	2.0	2.6	3.3	3.3	3.3	
D&A	(10.5)	(9.8)	(10.3)	(10.3)	(10.3)	
Provisions	(2.5)	(1.5)	(1.6)	(1.7)	(1.7)	
Non-recurring	(3.2)	(6.3)	0.0	0.0	0.0	
<b>Adjusted EBITDA</b>	<b>28.2</b>	<b>35.2</b>	<b>35.4</b>	<b>36.1</b>	<b>37.5</b>	<b>2.1%</b>
% margin	4.6	5.1	5.0	4.9	4.8	
<b>Adjusted EBIT</b>	<b>15.2</b>	<b>23.9</b>	<b>23.5</b>	<b>24.2</b>	<b>25.5</b>	<b>2.1%</b>
% margin	2.5	3.5	3.3	3.3	3.3	

Source: Company data, CFO Sim estimates

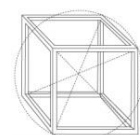
**Table 6 – Orsero, 2016-19e profitability breakdown**

€ m	2015	2016	2017e	2018e	2019e	CAGR <sub>16-19</sub>
<b>EBITDA</b>	<b>28.2</b>	<b>35.2</b>	<b>35.4</b>	<b>36.1</b>	<b>37.5</b>	<b>2.1%</b>
Distribution	11.1	15.7	18.0	19.0	20.0	8.4%
Import & shipping	21.5	24.9	22.8	22.7	23.2	-2.4%
Services & holding	(4.4)	(5.4)	(5.4)	(5.5)	(5.7)	1.6%
<b>% margin</b>						
<b>EBITDA</b>	<b>4.6</b>	<b>5.1</b>	<b>5.0</b>	<b>4.9</b>	<b>4.8</b>	
Distribution	2.3	2.8	3.1	3.1	3.1	
Import & shipping	9.5	10.6	9.5	9.2	9.1	
Services & holding	(31.4)	(41.5)	(41.0)	(41.0)	(41.0)	
<b>% YoY</b>						
<b>EBITDA</b>	-	<b>25.0</b>	<b>0.4</b>	<b>2.2</b>	<b>3.8</b>	
Distribution	-	41.4	14.7	5.3	5.5	
Import & shipping	-	15.8	(8.5)	(0.3)	1.9	
Services & holding	-	22.7	0.7	2.0	2.0	
<b>% on total</b>						
<b>EBITDA</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	
Distribution	39.4	44.6	50.9	52.5	53.3	
Import & shipping	76.3	70.7	64.4	62.9	61.7	
Services & holding	(15.6)	(15.3)	(15.4)	(15.3)	(15.1)	

Source: Company data, CFO Sim estimates

The company **pays on average some 200bps spread** to Euribor6M on its debt facilities. At results from investments level, we find **the pro-quota net profit of the 50-50 JVs consolidated according to the equity method**. The three companies reported a total turnover of € 242m, EBITDA of € 6.1m (2.5% margin), a net profit of € 1.3m and a net financial position of € 14.4m in 2015. However, 2015 was a particularly poor year; in 2016 it is reasonable to expect a definitely better operating performance: CFO Sim projects turnover of € 244m, EBITDA of € 8.0m (3.2% margin), net profit of € 3m and NFP of € 6m.

In France, the group has concluded negotiations with trade unions and local authorities for **the activation of a “social plan” allowing a reduction of personnel units** aimed at cost reduction and the recovery of appropriate margins. The € 6.3m extraordinary charges in 2016 are mainly related to this restructuring process, to be completed by the end of this year, with benefits as of 2017, and to the listing expenses.





The **tax burden here is lightened by the some 5% tonnage tax regime** applied to the shipping arm of the group, Cosiarma. At a consolidated level CFO expects a 16% (previously 20%) tax rate in the coming years.

**Table 7 – Orsero, 2016-19e figures evolution below EBIT**

€ m	2015	2016	2017e	2018e	2019e	CAGR <sub>16-19</sub>
<b>EBIT</b>	<b>12.1</b>	<b>17.6</b>	<b>23.5</b>	<b>24.2</b>	<b>25.5</b>	<b>13.1%</b>
% margin	2.0	2.6	3.3	3.3	3.3	
Financials	(6.1)	(1.4)	(2.2)	(2.2)	(2.2)	
Results from investments	1.3	4.9	2.7	2.8	2.8	
<b>Pre Tax Profit</b>	<b>7.3</b>	<b>21.1</b>	<b>24.0</b>	<b>24.8</b>	<b>26.1</b>	
% margin	1.2	3.1	3.4	3.3	3.4	<b>2.8%</b>
Taxes	6.1	(2.9)	(3.8)	(4.0)	(4.2)	
Tax Rate	-82.5%	13.6%	16.0%	16.0%	16.0%	
Discontinued	0.2	0.0	0.0	0.0	0.0	
Minorities	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	
<b>Net Profit</b>	<b>13.6</b>	<b>18.2</b>	<b>20.1</b>	<b>20.7</b>	<b>21.8</b>	<b>6.3%</b>
% margin	2.2	2.7	2.8	2.8	2.8	
<b>Adjusted Net Profit</b>	<b>16.4</b>	<b>23.4</b>	<b>20.1</b>	<b>20.7</b>	<b>21.8</b>	<b>-2.3%</b>
% margin	25.6	32.2	25.8	25.7	26.1	

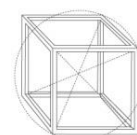
Source: Company data, CFO Sim estimates

Thanks to the relatively small amount of capex (€ 10.5m per annum in 2017-19), the **operating cash flow translates massively into free cash flow. EBITDA Free Cash Flow conversion is projected above 50% in 2017-19**. The substantial cash generation is consequently projected to bring down Net Financial Position and allow Orsero to have € 11.0m positive NFP in 2019.

**Table 8 – Orsero, 2016-19e Net Financial Position and financial solidity**

€ m	2015	2016	2017e	2018e	2019e
Year-end NFP (Cash)/Debt	147.0	49.1	28.2	9.1	(11.0)
Average (Cash)/debt	147.0	98.0	38.6	18.6	(1.0)
EBITDA	28.2	35.2	35.4	36.1	37.5
Shareholders' equity	45.7	115.8	135.7	156.3	178.1
Interest charges	(6.1)	(1.4)	(2.2)	(2.2)	(2.2)
NFP/Equity	3.2	0.4	0.2	0.1	(0.1)
NFP/EBITDA	5.2	1.4	0.8	0.3	(0.3)
EBITDA/charges	4.6	25.0	16.2	16.7	17.4

Source: Company data, CFO Sim estimates



## 9. Valuation & risks

CFO Sim initiates coverage on Orsero with a **BUY recommendation and a Target Price of € 16.20, potential upside of 35.6%**, determined by peer multiple comparison and corroborated by DCF.

### 9.1. 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 € 2.8bn market value, € 3.9bn sales with an 8.3% EBITDA margin expected for 2017; 2) Total Produce has a size of € 628m, has € 3.8bn revenues and a 2.2% 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 CAGR<sub>16-19</sub> of 2.1%, 13.1% and 4.3%, respectively vs. 1.2%, 3.9% and -1.7% of the peer average.

**Orsero trades at more than 40.0% discount** vs. peers considering price and enterprise value multiples at all metrics. 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 <sub>16-19</sub>	EBITDA CAGR <sub>16-19</sub>	EBIT CAGR <sub>16-19</sub>	EPS CAGR <sub>17-19</sub>	NFP FY1	NFP /EBITDA
Fresh Del Monte Produce Inc	2,823	3,947	328	8.3%	2.0%	-5.3%	-6.8%	-9.0%	135	0.4
Total Produce PLC	631	3,791	83	2.2%	6.8%	7.8%	14.7%	5.5%	56	0.7
<b>Average</b>	<b>1,727</b>	<b>3,869</b>	<b>205</b>	<b>5.2%</b>	<b>4.4%</b>	<b>1.2%</b>	<b>3.9%</b>	<b>-1.7%</b>	<b>96</b>	<b>0.5</b>
<b>Orsero</b>	<b>170</b>	<b>711</b>	<b>35</b>	<b>5.0%</b>	<b>4.4%</b>	<b>2.1%</b>	<b>13.1%</b>	<b>4.3%</b>	<b>28</b>	<b>0.8</b>

Source: Thomson Reuters Eikon, CFO Sim

Table 10 – Orsero, peer group multiples table

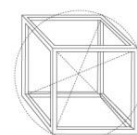
EV & Price multiples x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3	PER FY1	PER FY2	PER FY3
Fresh Del Monte Produce Inc	0.75	0.72	0.72	9.0	8.5	10.2	13.7	12.8	16.5
Total Produce PLC	0.18	0.17	0.17	8.3	7.7	7.2	18.8	17.6	16.9
<b>Average</b>	<b>0.47</b>	<b>0.45</b>	<b>0.45</b>	<b>8.7</b>	<b>8.1</b>	<b>8.7</b>	<b>16.2</b>	<b>15.2</b>	<b>16.7</b>
<b>Orsero</b>	<b>0.28</b>	<b>0.24</b>	<b>0.20</b>	<b>5.6</b>	<b>4.9</b>	<b>4.2</b>	<b>9.9</b>	<b>9.6</b>	<b>9.1</b>
% premium/(discount) to peers	-40.3%	-46.1%	-54.4%	-35.4%	-38.9%	-51.6%	-38.7%	-36.6%	-45.2%

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
<b>Peer average</b>	<b>0.47</b>	<b>0.45</b>	<b>0.45</b>	<b>8.7</b>	<b>8.1</b>	<b>8.7</b>	<b>16.2</b>	<b>15.2</b>	<b>16.7</b>
Orsero metrics	711.4	744.2	779.5	35.4	36.1	37.5	1.20	1.24	1.31
NFP	28.2	9.1	(11.0)	28.2	9.1	(11.0)			
% discount applied	10.0%								
<b>Orsero Equity Value</b>	<b>269.8</b>	<b>289.1</b>	<b>324.0</b>	<b>247.4</b>	<b>254.0</b>	<b>305.6</b>	<b>292.3</b>	<b>284.0</b>	<b>327.4</b>
<b>Orsero Equity Value €/s FD</b>	<b>16.20</b>	<b>17.30</b>	<b>19.40</b>	<b>14.80</b>	<b>15.20</b>	<b>18.30</b>	<b>17.50</b>	<b>17.00</b>	<b>19.60</b>
% upside/(downside)	35.6	44.8	62.3	23.8	27.2	53.1	46.4	42.3	64.0

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. After having applied a residual 10.0% discount factoring in the smaller size, **2017 average EV/EBITDA and PER derived equity value totals € 270.6m, corresponding to € 16.20/s FD**, implying a **35.6% upside at current prices**.

## 9.2. 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.

## 9.3. 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 12 - Orsero, WACC derived from:**

Interest costs, pre-tax	2.5%
Tax rate	16.0%
<b>Int. costs, after taxes</b>	<b>2.1%</b>
Risk premium, incl. small size premium	10.0%
Risk-free (10Y Gov. Bond 2W average)	2.30%
Beta levered (x)	0.56
<b>Required ROE</b>	<b>7.9%</b>

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 0.56x** 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	23.5	24.2	25.5	26.1	26.7
Tax rate	16.0%	16.0%	16.0%	16.0%	16.0%
<b>Operating profit (NOPAT)</b>	<b>19.7</b>	<b>20.3</b>	<b>21.4</b>	<b>21.9</b>	<b>22.5</b>
Change working capital	0.9	(1.1)	(1.3)	(1.3)	(1.3)
Depreciation	10.3	10.3	10.3	10.0	10.5
Investments	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)
<b>Free Cash Flows</b>	<b>20.4</b>	<b>19.0</b>	<b>19.9</b>	<b>20.1</b>	<b>21.2</b>
Present value	19.4	16.9	16.6	15.6	15.4
WACC	7.1%	7.1%	7.1%	7.1%	7.1%
<b>Long-term growth rate</b>	<b>1.0%</b>				

Source: CFO Sim

**Table 14 – Orsero, DCF equity value derived from:**

Total EV present value € m	339.9
<i>thereof terminal value</i>	75.3%
NFP FY-16	(49.1)
Pension provision H1-16	(5.7)
<b>Equity value € m</b>	<b>285.1</b>
#m shares fully diluted	16.70
<b>Equity value €/s</b>	<b>17.10</b>
<i>% upside/(downside)</i>	43.1%

Source: CFO Sim

**The application of the model produces an equity value of € 285.1m, corresponding to € 17.10/share fully diluted.** Since the figures adopted in the model do not factor in the 50-50 JVs, the equity value obtained do not take into account the value of the 50-50 JVs included in the consolidation perimeter subjected to the business combination.

The following tables illustrate that sensitivity 1) compared to changes in the terminal growth rate produces an equity value of between € 14.76–20.28/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 € 14.57-20.39/s (free risk range of between 3.30% and 1.30%) and 3) compared to changes in the risk premium, including small size premium results into an equity value of € 14.32-20.85/s (risk premium range of between 12.00% and 8.0%).

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

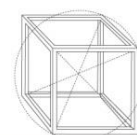
€ m	0.00%	0.25%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%
Present value of CF	83.9	83.9	83.9	83.9	83.9	83.9	83.9	83.9	83.9
PV of terminal value	217.6	226.1	235.3	245.3	256.0	267.7	280.5	294.4	309.7
<b>Total value</b>	<b>301.5</b>	<b>310.0</b>	<b>319.2</b>	<b>329.2</b>	<b>339.9</b>	<b>351.6</b>	<b>364.3</b>	<b>378.3</b>	<b>393.6</b>
NFP FY-16	(49.1)	(49.1)	(49.1)	(49.1)	(49.1)	(49.1)	(49.1)	(49.1)	(49.1)
Pension provision FY-16	(5.7)	(5.7)	(5.7)	(5.7)	(5.7)	(5.7)	(5.7)	(5.7)	(5.7)
<b>Equity value</b>	<b>246.6</b>	<b>255.2</b>	<b>264.4</b>	<b>274.3</b>	<b>285.1</b>	<b>296.8</b>	<b>309.5</b>	<b>323.4</b>	<b>338.8</b>
<b>Equity value/share €</b>	<b>14.76</b>	<b>15.28</b>	<b>15.83</b>	<b>16.42</b>	<b>17.10</b>	<b>17.77</b>	<b>18.53</b>	<b>19.36</b>	<b>20.28</b>

Source: CFO Sim

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

€ m	1.30%	1.55%	1.80%	2.05%	2.30%	2.55%	2.80%	3.05%	3.30%
Present value of CF	85.6	85.2	84.7	84.3	83.9	83.4	83.0	82.6	82.2
PV of terminal value	309.8	294.7	280.8	268.0	256.0	245.0	234.7	225.0	216.0
<b>Total value</b>	<b>395.4</b>	<b>379.9</b>	<b>365.6</b>	<b>352.3</b>	<b>339.9</b>	<b>328.4</b>	<b>317.7</b>	<b>307.6</b>	<b>298.2</b>
NFP FY-16	(49.1)	(49.1)	(49.1)	(49.1)	(49.1)	(49.1)	(49.1)	(49.1)	(49.1)
Pension provision FY-16	(5.7)	(5.7)	(5.7)	(5.7)	(5.7)	(5.7)	(5.7)	(5.7)	(5.7)
<b>Equity value</b>	<b>340.6</b>	<b>325.1</b>	<b>310.7</b>	<b>297.4</b>	<b>285.1</b>	<b>273.6</b>	<b>262.8</b>	<b>252.8</b>	<b>243.3</b>
<b>Equity value/share €</b>	<b>20.39</b>	<b>19.46</b>	<b>18.60</b>	<b>17.80</b>	<b>17.10</b>	<b>16.38</b>	<b>15.73</b>	<b>15.13</b>	<b>14.57</b>

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	85.9	85.3	84.8	84.4	83.9	83.4	82.9	82.4	82.0
PV of terminal value	317.2	299.8	283.9	269.4	256.0	243.7	232.4	221.8	212.0
<b>Total value</b>	<b>403.1</b>	<b>385.2</b>	<b>368.8</b>	<b>353.8</b>	<b>339.9</b>	<b>327.1</b>	<b>315.3</b>	<b>304.3</b>	<b>294.0</b>
NFP FY-16	(49.1)	(49.1)	(49.1)	(49.1)	(49.1)	(49.1)	(49.1)	(49.1)	(49.1)
Pension provision FY-16	(5.7)	(5.7)	(5.7)	(5.7)	(5.7)	(5.7)	(5.7)	(5.7)	(5.7)
<b>Equity value</b>	<b>348.2</b>	<b>330.3</b>	<b>313.9</b>	<b>298.9</b>	<b>285.1</b>	<b>272.3</b>	<b>260.4</b>	<b>249.4</b>	<b>239.2</b>
<b>Equity value/share €</b>	<b>20.85</b>	<b>19.77</b>	<b>18.79</b>	<b>17.89</b>	<b>17.10</b>	<b>16.30</b>	<b>15.59</b>	<b>14.93</b>	<b>14.32</b>

Source: CFO Sim

## 9.4. Stock performance

Glenalta Food was listed on the AIM Italia (Alternative Investment Market) on 10<sup>th</sup> Nov 2015 at € 10.0/share, corresponding to a market capitalization of € 80.0m. 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 € 12.70/s on 13<sup>th</sup> Apr and the 1Y minimum of € 8.62 on 1<sup>st</sup> Jul. The stock has consistently outperformed the FTSE AIM Italia, the European sector and the peer average.

**Table 18 - Orsero, peers group and indexes absolute performance**

%	1D	1W	1M	3M	6M	YTD	1Y
Fresh Del Monte Produce Inc	1.4	(0.1)	0.7	(4.8)	(4.0)	(2.3)	40.6
Total Produce PLC	(1.3)	0.5	0.8	11.6	14.2	0.0	22.8
<b>Peers Median</b>	<b>0.1</b>	<b>0.2</b>	<b>0.8</b>	<b>3.4</b>	<b>5.1</b>	<b>(1.2)</b>	<b>31.7</b>
<b>Orsero Spa</b>	<b>0.6</b>	<b>3.9</b>	<b>12.7</b>	<b>25.0</b>	<b>32.5</b>	<b>27.3</b>	<b>35.1</b>
FTSE AIM Italia	0.0	0.2	4.7	8.8	14.3	11.9	3.9
Thomson Reuters Food & Beverage EU	0.4	1.7	0.7	8.3	3.7	9.4	0.1

Source: Thomson Reuters Eikon

**Table 19 – Orsero, relative performances**

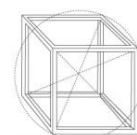
%	1D	1W	1M	3M	6M	YTD	1Y
Orsero Spa to peers	0.5	3.7	12.0	21.6	27.4	28.5	3.4
Orsero Spa to FTSE AIM Italia	0.6	3.7	8.1	16.2	18.2	15.4	31.2
Orsero Spa to EU Sector	0.2	2.2	12.0	16.8	28.8	17.9	35.0

Source: Thomson Reuters Eikon

## 9.5. Risks

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

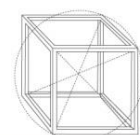
- impacts on economics and balance sheet profile triggered by a deep decline in local and global economic growth,
- Dilution on profitability stemming from the acquisition campaign,
- Impact of sharp fluctuation in the US\$ and bunker





Income statement (€ m)	2015	2016	2017e	2018e	2019e
Revenues	617.4	685.0	711.4	744.2	779.5
COGS	(553.4)	(612.3)	(633.7)	(663.5)	(695.9)
Gross Profit	64.0	72.7	77.8	80.7	83.6
SG&A	(51.9)	(55.0)	(54.3)	(56.5)	(58.2)
EBIT	12.1	17.6	23.5	24.2	25.5
Financials	(6.1)	(1.4)	(2.2)	(2.2)	(2.2)
Results from investments	1.3	4.9	2.7	2.8	2.8
Pre Tax Profit	7.3	21.1	24.0	24.8	26.1
Taxes	6.1	(2.9)	(3.8)	(4.0)	(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	20.1	20.7	21.8
D&A	(10.5)	(9.8)	(10.3)	(10.3)	(10.3)
Provisions	(2.5)	(1.5)	(1.6)	(1.7)	(1.7)
Non recurring items	(3.2)	(6.3)	0.0	0.0	0.0
Adjusted EBITDA	28.2	35.2	35.4	36.1	37.5
Adjusted Net profit	16.4	23.7	20.1	20.7	21.8
Balance sheet (€ m)	2015	2016	2017e	2018e	2019e
Net Working Capital	22.6	27.4	26.6	27.7	28.9
Net Fixed Assets	122.4	95.9	95.4	94.8	94.2
Equity Investments	36.7	39.2	40.0	40.8	41.6
Other M/L Term A/L	12.1	3.0	2.8	3.1	3.4
Net Invested Capital	193.8	165.6	164.7	166.4	168.1
Net Financial Debt/(cash)	147.0	49.1	28.2	9.1	(11.0)
Minorities	1.1	0.7	0.8	0.9	1.1
Group's Shareholders Equity	45.7	115.8	135.7	156.3	178.1
Financial Liabilities & Equity	193.8	165.6	164.7	166.4	168.1
Cash Flow statement (€ m)	2015	2016	2017e	2018e	2019e
Total net income	-	18.2	20.1	20.7	21.8
Depreciation	-	9.8	10.3	10.3	10.3
Other non-cash charges	-	9.1	0.2	(0.3)	(0.3)
Cash Flow from Oper. (CFO)	-	37.0	30.6	30.7	31.9
Change in NWC	-	(4.9)	0.9	(1.1)	(1.3)
FCF from Operations (FCFO)	-	32.2	31.4	29.6	30.6
Net Investments (CFI)	-	10.7	(10.5)	(10.5)	(10.5)
Free CF to the Firm (FCFF)	-	42.8	20.9	19.1	20.1
CF from financials (CFF)	-	(32.7)	0.0	0.0	0.0
Free Cash Flow to Equity (FCFE)	-	10.1	20.9	19.1	20.1
Financial ratios	2015	2016	2017e	2018e	2019e
EBITDA adj. margin	4.6%	5.1%	5.0%	4.9%	4.8%
EBIT margin	2.0%	2.6%	3.3%	3.3%	3.3%
Net profit margin	2.2%	2.7%	2.8%	2.8%	2.8%
Tax rate	n.m.	13.6%	16.0%	16.0%	16.0%
Interest coverage x	0.50	0.08	0.09	0.09	0.08
Net Debt/EBITDA adj. x	5.22	1.39	0.80	0.25	(0.29)
Debt-to-Equity x	3.21	0.42	0.21	0.06	(0.06)
ROIC	7.0%	11.0%	12.2%	12.5%	13.0%
ROCE	4.8%	7.5%	9.2%	8.8%	8.5%
ROACE	4.8%	7.2%	9.6%	9.1%	8.9%
ROE	29.7%	15.7%	14.8%	13.2%	12.3%
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Per share figures	2015	2016	2017e	2018e	2019e
Number of shares # m	14.19	14.19	14.19	14.19	14.19
Number of shares Fully Diluted # m*	16.70	16.70	16.70	16.70	16.70
Average Number of shares Fully Diluted	16.70	16.70	16.70	16.70	16.70
EPS stated FD €	0.81	1.09	1.20	1.24	1.31
EPS adjusted FD €	0.98	1.42	1.20	1.24	1.31
EBITDA €	1.69	2.11	2.12	2.16	2.25
EBIT €	0.72	1.05	1.41	1.45	1.52
FCFO €	n.a.	1.93	1.88	1.77	1.83
FCFF €	n.a.	2.56	1.25	1.14	1.20
FCFE €	n.a.	0.61	1.25	1.14	1.20
Dividend €	0.00	0.00	0.00	0.00	0.00

\* Number of shares fully diluted: hp. warrant conversion at € 13.3/s (max dilution)



## The company in a nutshell

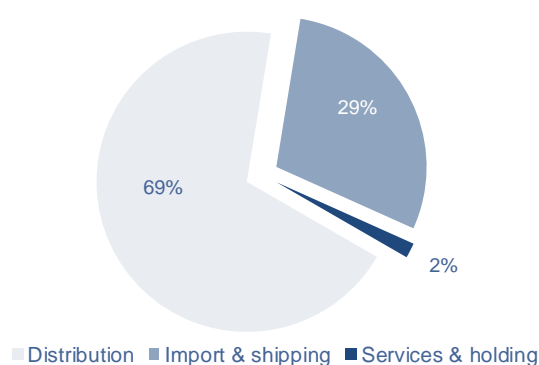
Orsero is an international group headquartered in Albenga (Savona), operating in the fresh fruit and vegetable import and distribution business in the Mediterranean area of Europe. The group was founded over 50 years ago by the Orsero family. The current business structure entails besides import and 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
Orsero family	39.39%	5.59
Free Float	60.61%	8.60
o/w treasury shares	4.53%	0.64
<b>Total</b>	<b>100.00%</b>	<b>14.19</b>

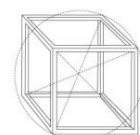
## Peer group absolute performance

	1D	1W	1M	3M	6M	YTD
Fresh Del Monte Produce Inc	1.4	-0.1	0.7	-4.8	-4.0	-2.3
Total Produce PLC	-1.3	0.5	0.8	11.6	14.2	0.0
<b>Peers Average</b>	<b>0.1</b>	<b>0.2</b>	<b>0.8</b>	<b>3.4</b>	<b>5.1</b>	<b>-1.2</b>
<b>Orsero Spa</b>	<b>0.6</b>	<b>3.9</b>	<b>12.7</b>	<b>25.0</b>	<b>32.5</b>	<b>27.3</b>
FTSE AIM Italia	0.0	0.2	4.7	8.8	14.3	11.9
EU Sector	0.4	1.7	0.7	8.3	3.7	9.4
Orsero Spa to peers	0.5	3.7	12.0	21.6	27.4	28.5
Orsero Spa to FTSE AIM Italia	0.6	3.7	8.1	16.2	18.2	15.4
Orsero Spa to EU Sector	0.2	2.2	12.0	16.8	28.8	17.9

## 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	13.7	12.8	16.5	9.8	9.3	11.5	9.0	8.5	10.2
Total Produce PLC	18.8	17.6	16.9	12.2	11.4	10.6	8.3	7.7	7.2
<b>Average</b>	<b>16.2</b>	<b>15.2</b>	<b>16.7</b>	<b>11.0</b>	<b>10.3</b>	<b>11.1</b>	<b>8.7</b>	<b>8.1</b>	<b>8.7</b>
<b>Orsero Spa</b>	<b>9.9</b>	<b>9.6</b>	<b>9.1</b>	<b>6.3</b>	<b>6.1</b>	<b>5.9</b>	<b>5.6</b>	<b>4.9</b>	<b>4.2</b>
% (Discount)/Premium to peer average	<b>-38.7%</b>	<b>-36.6%</b>	<b>-45.2%</b>	<b>-43.1%</b>	<b>-40.9%</b>	<b>-46.8%</b>	<b>-35.4%</b>	<b>-38.9%</b>	<b>-51.6%</b>

Source: CFO Sim, Thomson Reuters Eikon



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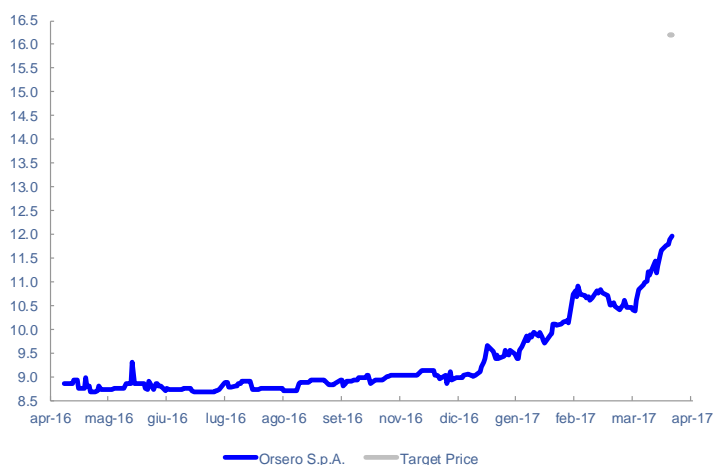
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DATE	TARGET PRICE	RATING
18/04/2017	€16,20	BUY
13/02/2017	-	not rated
25/11/2016	-	not rated

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