

## Italy – Luxury Engineering

## 2021 preliminary sales largely exceeded our estimate

15<sup>th</sup> February 2022

### FY-21 PRELIMINARY RESULTS

RIC: PTRN.MI  
BBG: PTR IM

FY-21 turnover grew in excess of 30% YoY and came in € 7.0m better than our forecast. After a rather weak first part of the year, H2 confirmed the recovery trend of the luxury market started towards the end of H1. Thanks to the recent acquisitions, Pattern is definitely becoming the leading Italian hub for luxury fashion engineering.

#### Rating:

**Buy**

#### Price Target:

**€ 8.50**

Upside/(Downside): 46.6%

Last Price: € 5.80

Market Cap.: € 79.5m

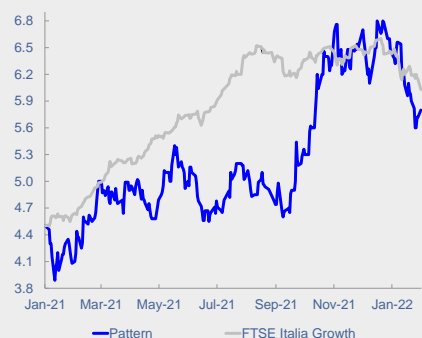
1Y High/Low: € 6.94 / € 4.05

Avg. Daily Turn. (3M, 6M): € 26k, € 31k

Free Float: 27.6%

#### Major shareholders:

Bo.Ma. Holding Srl	53.4%
Fulvio Botto	6.4%
Francesco Martorella	6.4%
Otus Capital (Free Float)	4.9%
Camer (S.M.T. shareholders)	2.5%
Anna Maria Roscini	2.0%
Luca Sburlati (CEO)	1.7%



#### Stock price performance

	1M	3M	12M
<b>Absolute</b>	-9.1%	-13.2%	42.2%
<b>Rel.to FTSE IT Growth</b>	-5.5%	-6.8%	-7.0%
<b>Rel.to Sector</b>	-6.1%	-6.5%	14.7%

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#### Estimates and PT confirmed. Buy recommendation reiterated, 46.6% upside

Pattern reported significantly better 2021 preliminary sales than CFO SIM's forecast while NFP came in slightly lower than our projection mainly on the back of higher-than-expected capex. Sales generated in H1-H2 confirmed the typical business seasonality, namely 45%-55%. In anticipation of the release of FY-21 complete results on 28-Mar, we have kept our estimates unchanged. On the back of sales exceeding expectations, we believe Pattern may positively surprise us also in terms of profitability. PT and Buy rating are confirmed.

#### Preliminary sales at € 69.5m, +32% YoY and € 7.0m better than CFO SIM's projection

€ m	H1-21	H1-20	% YoY	H2-21	H2-20	% YoY	FY-21	FY-20	% YoY
Total Revenues	31.1	24.5	26.8	38.3	28.0	36.7	69.5	52.6	32.1
% of FY revenues	45%	47%	-	55%	53%	-	100%	100%	-
Net Financial Position	(5.0)	(3.9)	27.0	-	-	-	(2.7)	(8.8)	(69.2)
Capex	2.8	3.9	-	6.0	1.3	-	8.8	5.2	-

Sources: Company data, CFO SIM analysis

In 2021, consolidated revenues totalled € 69.5m, up by 32.1% YoY. FY-21 preliminary sales came in € 7.0m better than our forecast of € 62.5m. It is worth noting that our FY-21 sales forecast does not include the consolidation of IDEE (acquired in Nov-21), while it is included for one month in the group's consolidated figure. We estimate that IDEE contributed about € 1.5m to the group's turnover in 2021, thus we expect that Pattern grew c. 30% YoY organically. FY-21 preliminary sales confirmed the recovery trend of the luxury market started towards the end of H1-21: in H1 Pattern reported sales of € 31.1m, up by 26.8% YoY, while in H2 sales increased by 36.7% YoY, totalling € 38.3m.

#### Net Cash at € 2.7m after capex and M&As for a total of € 8.8m

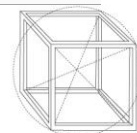
Net Financial Position totalled € 2.7m cash from € 8.8m cash at end-20, on the back of 1) total investments for € 8.8m (€ 5.2m in FY-20), including the payment for the acquisition of the additional 29% stake in S.M.T. for € 2.6m and of 54% of IDEE for € 4.0m, and 2) a significant CF generation. The difference compared to our projection of € 3.4m cash is mainly related to higher-than-expected capex (€ 8.8m vs our forecast of € 7.2m).

#### The leading Italian hub for luxury fashion engineering

Thanks to the recently completed acquisitions, Pattern is definitely delivering what it announced at the time of the IPO: the creation of an Italian leading hub for luxury fashion engineering. The group has proven itself to be amongst the few industry players worldwide able to internally manage different product categories (fabric, knitwear and leather) and hybrids, complex garments made from different materials and through various processes.

#### Pattern, key financials and ratios

€ m	2019	2020	2021e	2022e	2023e
Value of Production	55.3	54.0	62.7	86.4	99.3
EBITDA	5.9	5.4	6.9	10.6	13.1
EBIT	5.5	3.6	4.8	7.9	10.4
Net profit	3.8	2.3	2.8	4.4	6.0
NFP (cash)/debt	(12.4)	(8.8)	(3.4)	(6.0)	(11.0)
EBITDA margin	10.7%	10.0%	11.0%	12.2%	13.2%
EBIT margin	9.9%	6.6%	7.6%	9.1%	10.5%
EPS	0.27	0.16	0.20	0.31	0.42
EPS growth	7.6%	-40.1%	25.4%	55.5%	34.5%
Dividend	0.05	0.00	0.07	0.11	0.15
Dividend Yield	0.9%	0.0%	1.3%	1.9%	2.6%
ROCE	24.1%	9.3%	11.5%	17.3%	20.7%
NWC/Sales	4.6%	6.1%	7.7%	7.4%	7.3%
Free Cash Flow Yield	2.6%	-0.1%	-6.7%	4.4%	8.3%
PER x	10.9	30.2	27.9	18.0	13.4
EV/Sales x	0.69	0.85	1.22	0.85	0.69
EV/EBITDA x	5.4	9.2	11.1	7.0	5.2
EV/EBIT x	5.7	14.6	16.0	9.3	6.6



## The Company at a Glance

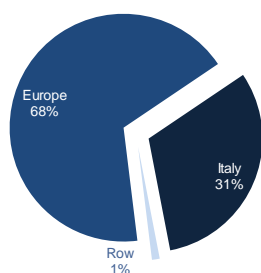
Founded in 2000 by Fulvio Botto and Francesco Martorella (group directors and major shareholders with a 34.3% stake each), Pattern is the second Italian player (CFO SIM estimate) specialised in the modelling, engineering, grading, prototyping and production of luxury clothing for men and women, and the undisputed leader in the outerwear niche, operating in the catwalk segment and among the top lines of the most prestigious global luxury brands. The firm manages the entire engineering and production cycle from patterns to prototypes, from the creation of ready-to-wear garments to successive productions. Pattern operates the high value added engineering and prototyping phases whilst production is outsourced to a plethora of suppliers ('façonists').

Pattern's global export sales reached almost 70% of total revenues in 2020. 88% of revenues come from production while engineering processes account for 11%. Female apparel contributes 49% of the total thanks to the acquisition of Roscini Atelier in 2017, whereas male apparel now accounts for some 51% of total revenues. In terms of products, most of the group's production comes from knitwear, namely 50% of the total, whereas outerwear accounts for 37% and the remainder is represented by upper wear and light wear.

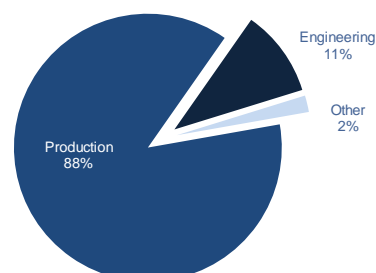
Since 2015, Pattern has voluntarily been drawing up sustainability reports in accordance with the reporting guidelines of the Global Reporting Initiative (GRI Standards), focusing its attention on Corporate Social Responsibility principles.

In 2020, revenues were € 52.6m, EBITDA was € 5.4m, 10.0% margin. EBIT stood at € 3.6m and Net Income totalled € 2.3m. NFP was cash positive by € 8.8m, thanks to strong OpCF generation, limited Capex and WC needs

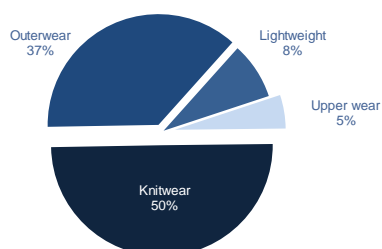
### 2020 breakdown by geography...



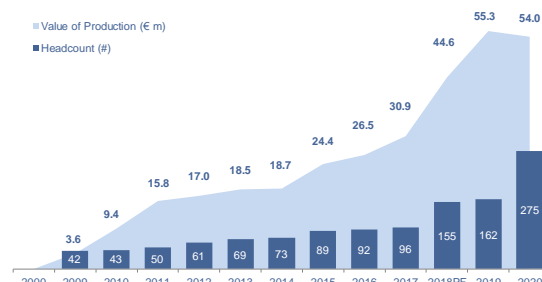
### ... by service...



### ...and by product line



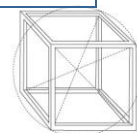
### Top line and headcount evolution



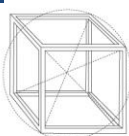
### Peer group multiple table

EV multiples x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3	EBIT FY1	EBIT FY2	EBIT FY3
Burberry Group PLC	2.46	2.28	2.09	9.3	8.4	7.5	13.9	12.4	10.9
Capri Holdings Ltd	2.90	2.64	1.39	8.7	7.6	6.0	10.5	9.1	7.2
Compagnie Financiere Richemont	3.32	3.01	2.71	12.3	10.8	9.5	17.0	14.8	13.0
Hermes International SCA	13.40	11.67	10.39	30.5	27.3	24.2	35.2	31.4	27.6
Kering SA	4.72	4.23	3.75	13.2	11.7	10.1	16.8	14.7	12.7
LVMH Moet Hennessy Louis Vuitton	4.84	4.41	3.87	14.3	12.9	11.0	18.2	16.2	13.9
<b>Median Luxury</b>	<b>4.02</b>	<b>3.62</b>	<b>3.23</b>	<b>12.7</b>	<b>11.2</b>	<b>9.8</b>	<b>16.9</b>	<b>14.7</b>	<b>12.8</b>
Brembo SpA	1.60	1.44	1.31	8.7	7.6	6.8	15.0	12.4	10.8
Eurotech SpA	2.38	1.54	1.08	n.m.	8.4	4.3	n.m.	11.2	5.0
Fine Foods & Pharmaceuticals	1.31	1.24	1.10	10.2	8.9	7.7	20.3	16.5	13.5
Sabaf SpA	1.21	1.15	1.09	6.4	5.7	5.4	9.3	8.3	7.8
<b>Median domestic B2B</b>	<b>1.46</b>	<b>1.34</b>	<b>1.09</b>	<b>8.7</b>	<b>8.0</b>	<b>6.1</b>	<b>15.0</b>	<b>11.8</b>	<b>9.3</b>
<b>Pattern SpA</b>	<b>1.22</b>	<b>0.85</b>	<b>0.69</b>	<b>11.1</b>	<b>7.0</b>	<b>5.2</b>	<b>16.0</b>	<b>9.3</b>	<b>6.6</b>

Sources: CFO Sim, Eikon



Income statement (€ m)	2019	2020	2021e	2022e	2023e
Revenues	55.6	52.6	62.5	86.3	99.1
Value of Production	55.3	54.0	62.7	86.4	99.3
Raw material and processing	(16.5)	(15.5)	(18.2)	(25.1)	(28.8)
Services	(23.0)	(19.0)	(23.2)	(32.2)	(37.1)
Personnel expenses	(9.2)	(12.4)	(13.8)	(17.7)	(19.2)
Other opex	(0.7)	(1.7)	(0.6)	(0.9)	(1.0)
EBITDA	5.9	5.4	6.9	10.6	13.1
D&A	(0.5)	(1.8)	(2.1)	(2.7)	(2.7)
EBIT	5.5	3.6	4.8	7.9	10.4
Financials	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Re/(Devaluation) of financial assets	0.0	(0.0)	0.0	0.0	0.0
Extraordinary	0.0	0.0	0.0	0.0	0.0
Pre-Tax profit	5.4	3.5	4.7	7.9	10.4
Income taxes	(1.6)	(0.5)	(1.4)	(2.4)	(3.1)
Minorities	0.0	(0.7)	(0.5)	(1.1)	(1.3)
Net Profit	3.8	2.3	2.8	4.4	6.0
Net Profit adj.	4.7	1.8	2.8	4.4	6.0
EBITDA Adjusted	7.2	4.9	6.9	10.6	13.1
Balance sheet (€ m)	2019	2020	2021e	2022e	2023e
Net Working Capital	2.5	3.3	4.8	6.4	7.2
Net Fixed Assets	2.5	10.7	15.8	15.5	13.9
Equity Investments	1.1	0.2	0.2	0.2	0.2
Other M/L Term A/L	(1.1)	(2.0)	(0.4)	(0.8)	(0.7)
Net Invested Capital	5.0	12.2	20.4	21.3	20.6
Net Financial Debt	(12.4)	(8.8)	(3.4)	(6.0)	(11.0)
Minorities	0.0	2.0	2.5	3.5	4.8
Group's Shareholders Equity	17.4	18.9	21.3	23.7	26.8
Financial Liabilities & Equity	5.0	12.2	20.4	21.3	20.6
Cash Flow statement (€ m)	2019	2020	2021e	2022e	2023e
Total net income	3.8	2.3	2.8	4.4	6.0
Depreciation	0.5	1.8	2.1	2.7	2.7
Other non-cash charges	(0.5)	0.9	(1.6)	0.3	(0.1)
Cash Flow from Oper. (CFO)	3.7	5.0	3.4	7.4	8.6
Change in NWC	0.2	0.1	(1.5)	(1.5)	(0.8)
FCF from Operations (FCFO)	3.9	5.1	1.9	5.9	7.7
Net Investments (CFI)	(1.9)	(5.2)	(7.2)	(2.4)	(1.1)
Free CF to the Firm (FCFF)	2.0	(0.1)	(5.4)	3.5	6.6
CF from financials (CFF)	7.8	7.5	0.2	(0.8)	(1.3)
Free Cash Flow to Equity (FCFE)	9.9	7.4	(5.1)	2.8	5.3
Financial ratios	2019	2020	2021e	2022e	2023e
EBITDA margin	10.7%	10.0%	11.0%	12.2%	13.2%
EBIT margin	9.9%	6.6%	7.6%	9.1%	10.5%
Net profit margin	6.9%	4.2%	4.5%	5.1%	6.0%
Tax rate	30.2%	13.2%	30.0%	30.0%	30.0%
Op NWC/Sales	4.6%	6.1%	7.7%	7.4%	7.3%
Interest coverage x	0.01	0.03	0.01	0.01	0.00
Net Debt/EBITDA x	(2.08)	(1.63)	(0.50)	(0.56)	(0.84)
Debt-to-Equity x	(0.71)	(0.46)	(0.16)	(0.25)	(0.41)
ROIC	75.7%	18.7%	14.0%	20.8%	28.9%
ROCE	24.1%	9.3%	11.5%	17.3%	20.7%
ROACE	32.8%	11.7%	11.9%	18.1%	21.7%
ROE	21.8%	12.0%	13.3%	18.7%	22.2%
Payout ratio	18.6%	0.0%	35.9%	35.9%	35.9%
Per share figures	2019	2020	2021e	2022e	2023e
Number of shares # m	14.08	14.08	14.08	14.08	14.08
Number of shares Fully Diluted # m	14.08	14.08	14.08	14.08	14.08
Average Number of shares Fully Diluted # m	14.08	14.08	14.08	14.08	14.08
EPS stated FD €	0.27	0.16	0.20	0.31	0.42
EPS adjusted FD €	0.33	0.13	0.20	0.31	0.42
EBITDA €	0.42	0.38	0.49	0.75	0.93
EBIT €	0.39	0.25	0.34	0.56	0.74
BV €	1.24	1.49	1.69	1.93	2.25
FCFO €	0.28	0.36	0.13	0.42	0.55
FCFF €	0.15	(0.01)	(0.38)	0.25	0.47
FCFE €	0.70	0.52	(0.36)	0.20	0.37
Dividend €	0.05	0.00	0.07	0.11	0.15



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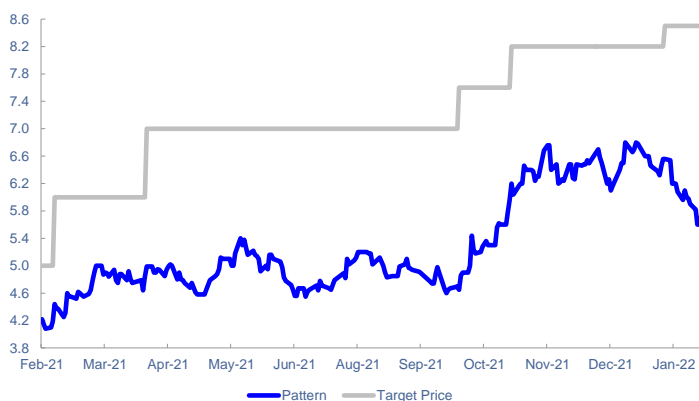
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DATE	TARGET PRICE	RATING
15/02/2022	€8.50	BUY
24/01/2022	€8.50	BUY
28/10/2021	€8.20	BUY
29/09/2021	€7.60	BUY
28/05/2021	€7.00	BUY
08/04/2021	€7.00	BUY
26/02/2021	€6.00	BUY
17/02/2021	€6.00	BUY

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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% range identified using the preceding criteria.

The rating is determined on the basis of the **expected absolute return over a 12-month period** and not on the basis of the estimated outperformance or underperformance relative to a market index. Thus, the rating can be directly linked to the estimated percentage difference between current and target prices. The prices of the financial securities mentioned in the report (also used for the calculation of market capitalisation and market multiples) are the reference prices of the stock market trading day preceding the publication date of the report, otherwise stated.

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