

Italy – Luxury Engineering

Better-than-anticipated revenues in FY-22

17th February 2023

FY-22 PRELIMINARY RESULTS

RIC: PTRN.MI
BBG: PTR IM

FY-22 turnover grew in excess of 50% YoY and came in € 12.0m better than our forecast. Top line organically progressed by some 20%. We believe Pattern may once again positively surprise consensus also in terms of profitability. Thanks to the recent acquisitions, Pattern is definitely becoming the leading Italian hub for luxury fashion engineering.

Rating:

Buy

Price Target:

€ 7.80

Upside/(Downside): 7.4%

Last Price: € 7.26

Market Cap.: € 103.8m

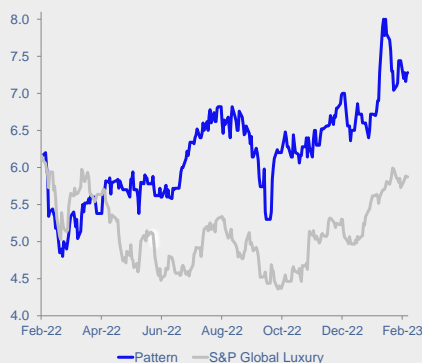
1Y High/Low: € 8.06 / € 4.72

Avg. Daily Turn. (3M, 6M): € 36k, € 31k

Free Float: 30.3%

Major shareholders:

Bo.Ma. Holding Srl	52.7%
Fulvio Botto	5.3%
Francesco Martorella	5.3%



Stock price performance

	1M	3M	12M
Absolute	5.2%	11.7%	22.6%
Rel.to FTSE IT Growth	3.4%	6.8%	32.1%
Rel.to Sector	-3.0%	-7.3%	7.2%

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Estimates and PT confirmed

Pattern reported better 2022 preliminary sales than CFO SIM's forecast while NFP came in higher than our projection mainly on the back of the higher-than-expected NFP of the recently acquired D-Holding. In anticipation of the release of FY-22 complete results on 27-Mar, we have kept our estimates unchanged. On the back of sales exceeding expectations, we believe Pattern may once again positively surprise us also in terms of profitability. PT and Buy rating are confirmed.

Preliminary sales at € 109.2m, +57% YoY and € 12.0m better than our projection

FY-22 preliminary sales at € 109.2m, up by 57.1% YoY (€ 69.5m in 2021) also thanks to the acquisitions finalised in 2022, namely Zanni Srl (100%) for twelve months, RGB SpA (70%) for six months and D-Holding Srl (70%) for two months. Based on a rudimentary calculation, we believe Pattern grew organically by some 20% in 2022. The figure is approximately 12% higher than our estimate of € 97.2m, mainly as a result of 1) a better than anticipated performance of the leather goods segment, and to a lesser extent 2) the two months consolidation of D-Holding, consolidated only as of 2023 in our figures. As of today, the group is increasingly becoming the main Italian hub of luxury fashion engineering & production, unquestionably a reference partner for the key luxury brands worldwide.

Net Financial Position at € 13.8m after capex and M&As for a total of € 16.4m

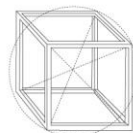
NFP increased to € 13.8m debt, compared to € 3.1m cash at the end of 2021, mainly as a consequence of the M&A activity (Zanni in Jan-22, RGB in Apr-22, D-Holding in Jul-22 and Nuova Nicol in Dec-22) and the acquisition of Roscini's production facility (€ 2.0m) including the fotovoltaic plant. Overall, in 2022 the group invested € 16.4m compared to € 7.7m in 2021.

The difference vs. our estimates is mainly related to...

In our understanding, the difference between the reported NFP of € 13.8m and our estimate of € 8.9m is mainly ascribable to 1) a higher NFP at D-Holding, 2) a preliminary advance payment related to the Nuova Nicol purchase, and to a lesser extent, 3) a higher-than-expected VAT credit. It is worth remembering that most of the group's suppliers are domestic but most of its customers are foreign. Thus, Pattern pays VAT on its purchases of raw materials and services but most of its sales are exempt from VAT. For this reason, in a year characterised by a significant sales growth, Pattern rapidly exceeds its VAT threshold generating a significant amount of VAT credit, which is not possible to offset during the year. This temporarily increases the group's WC and consequently worsens NFP.

Pattern, key financials and ratios

€ m	2020	2021	2022e	2023e	2024e
Value of Production	54.0	72.5	97.4	134.3	147.6
EBITDA	5.4	7.7	10.9	15.9	18.5
EBIT	3.6	5.3	6.8	10.9	13.5
Net profit	2.3	3.0	3.3	5.5	6.8
NFP (cash)/debt	(8.8)	(3.1)	8.9	10.8	6.0
EBITDA margin	10.0%	10.6%	11.1%	11.9%	12.5%
EBIT margin	6.6%	7.3%	7.0%	8.1%	9.2%
EPS	0.17	0.21	0.23	0.39	0.47
EPS growth	-40.1%	29.5%	8.1%	66.3%	22.8%
Dividend	0.00	0.07	0.08	0.13	0.17
Dividend Yield	0.0%	1.0%	1.1%	1.9%	2.3%
ROCE	9.3%	10.9%	13.2%	19.2%	21.7%
NWC/Sales	6.1%	8.2%	8.3%	8.7%	8.8%
Free Cash Flow Yield	-0.1%	-4.5%	-10.5%	-0.8%	6.5%
PER x	30.2	23.7	31.4	18.9	15.4
EV/Sales x	0.85	0.98	1.16	0.85	0.74
EV/EBITDA x	9.2	8.8	10.4	7.2	5.9
EV/EBIT x	14.6	12.9	16.6	10.5	8.1



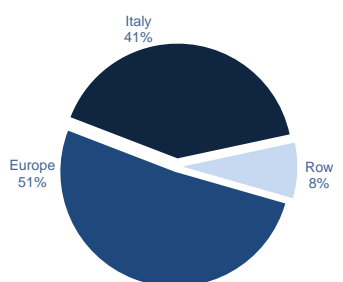
The Company at a Glance

Founded in 2000 by Fulvio Botto and Francesco Martorella, 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. Pattern manages the entire engineering and production cycle from patterns to prototypes, from the creation of ready-to-wear garments to successive productions. Pattern runs the high value-added engineering and prototyping phases whilst production is outsourced to a plethora of suppliers.

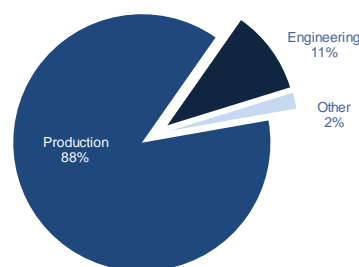
Since 2017, Pattern has been embarking on an external growth process, with the acquisition of Roscini (luxury womenswear) in 2017, S.M.T. (luxury knitwear) in 2019, Idee Partners (luxury leather goods) in 2021, and Zanni (wholegarment knitwear manufacturing technique), RGB (luxury leather goods accessories), Dyloan (luxury technology R&D and production) and Nuova Nicol (luxury knitwear for women) in 2022, thus creating the first 'Italian hub of luxury fashion engineering & production'. Pattern's global export sales reached almost 60% of total revenues in 2021. 88% of revenues come from production while engineering processes account for 10%. In terms of products, most of the group's production comes from outerwear, namely 46% of the total, whereas knitwear accounts for 38% and the remainder is represented by upper wear, light wear and leather goods.

Since 2015, Pattern has been voluntarily 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 2021, revenues were € 69.5m, EBITDA was € 7.7m, 10.6% margin. EBIT stood at € 5.3m and Net Income totalled € 3.0m. NFP was cash positive by € 3.1m, thanks to strong OpCF generation, limited Capex and WC needs.

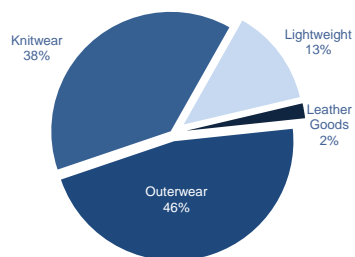
2021 breakdown by geography...



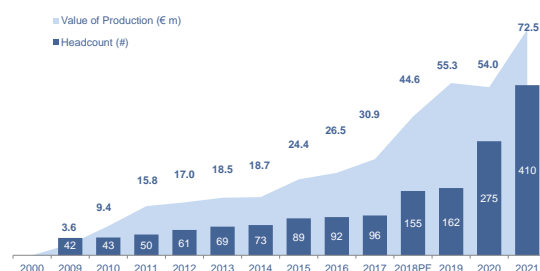
... by service...



...and by product line



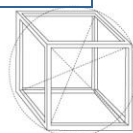
Top line and headcount evolution



Peer group multiple table

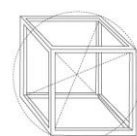
EV multiples x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3	EBIT FY1	EBIT FY2	EBIT FY3
Burberry Group PLC	2.91	2.65	2.44	9.7	8.8	8.1	14.8	13.3	12.0
Capri Holdings Ltd	2.04	1.90	0.96	7.0	6.5	4.8	8.3	7.8	5.7
Compagnie Financiere Richemont	3.78	3.45	3.12	12.0	11.0	9.8	15.4	14.0	12.4
Hermes International SCA	13.61	12.16	11.03	30.1	26.7	24.9	34.0	30.2	28.0
Kering SA	3.40	3.04	2.83	9.7	8.6	7.8	12.2	10.7	9.9
LVMH Moet Hennessy Louis Vuitton	4.83	4.37	4.10	14.3	12.9	11.8	17.8	15.9	14.4
Median Luxury	3.59	3.24	2.98	10.8	9.9	9.0	15.1	13.6	12.2
Brembo SpA	0.41	0.42	0.41	4.1	4.3	3.9	7.8	8.5	7.2
Eurotech SpA	0.78	0.72	0.67	5.5	5.0	4.7	7.8	7.1	6.6
Fine Foods & Pharmaceuticals	n.a.	1.02	n.a.	n.a.	5.0	n.a.	n.a.	6.3	n.a.
Sabaf SpA	1.04	0.95	0.86	5.9	5.1	4.4	10.2	8.2	6.9
Median domestic B2B	0.78	0.83	0.67	5.5	5.0	4.4	7.8	7.7	6.9
Pattern SpA	1.16	0.85	0.74	10.4	7.2	5.9	16.6	10.5	8.1

Sources: CFO Sim, Eikon





Income statement (€ m)	2020	2021	2022e	2023e	2024e
Revenues	52.6	69.5	97.2	134.0	147.3
Value of Production	54.0	72.5	97.4	134.3	147.6
Raw material and processing	(15.5)	(22.3)	(27.5)	(38.3)	(42.1)
Services	(19.0)	(25.6)	(36.3)	(46.8)	(51.8)
Personnel expenses	(12.4)	(15.2)	(21.8)	(32.0)	(33.8)
Other opex	(1.7)	(1.8)	(1.0)	(1.3)	(1.5)
EBITDA	5.4	7.7	10.9	15.9	18.5
D&A	(1.8)	(2.4)	(4.1)	(5.0)	(5.0)
EBIT	3.6	5.3	6.8	10.9	13.5
Financials	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)
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	3.5	5.1	6.6	10.8	13.4
Income taxes	(0.5)	(1.5)	(2.0)	(3.2)	(4.0)
Minorities	(0.7)	(0.7)	(1.3)	(2.0)	(2.6)
Net Profit	2.3	3.0	3.3	5.5	6.8
Net Profit adj.	1.8	3.0	3.3	5.5	6.8
EBITDA Adjusted	4.9	7.7	10.9	15.9	18.5
Balance sheet (€ m)	2020	2021	2022e	2023e	2024e
Net Working Capital	3.3	5.9	8.0	11.6	13.0
Net Fixed Assets	10.7	17.6	29.5	32.0	30.6
Equity Investments	0.2	0.3	0.3	0.3	0.3
Other M/L Term A/L	(2.0)	(1.8)	(1.6)	(1.3)	(1.3)
Net Invested Capital	12.2	22.0	36.2	42.5	42.5
Net Financial Debt	(8.8)	(3.1)	8.9	10.8	6.0
Minorities	2.0	2.2	3.5	5.6	8.2
Group's Shareholders Equity	18.9	22.9	23.9	26.2	28.4
Financial Liabilities & Equity	12.2	22.0	36.2	42.5	42.5
Cash Flow statement (€ m)	2020	2021	2022e	2023e	2024e
Total net income	2.3	3.0	3.3	5.5	6.8
Depreciation	1.8	2.4	4.1	5.0	5.0
Other non-cash charges	0.9	(0.2)	(0.2)	(0.3)	(0.0)
Cash Flow from Oper. (CFO)	5.0	5.2	7.2	10.2	11.7
Change in NWC	0.1	(2.6)	(2.1)	(3.6)	(1.3)
FCF from Operations (FCFO)	5.1	2.6	5.1	6.6	10.4
Net Investments (CFI)	(5.2)	(7.2)	(16.0)	(7.4)	(3.6)
Free CF to the Firm (FCFF)	(0.1)	(4.7)	(10.9)	(0.8)	6.8
CF from financials (CFF)	7.5	3.9	(0.8)	(0.9)	(1.6)
Free Cash Flow to Equity (FCFE)	7.4	(0.8)	(11.7)	(1.7)	5.2
Financial ratios	2020	2021	2022e	2023e	2024e
EBITDA margin	10.0%	10.6%	11.1%	11.9%	12.5%
EBIT margin	6.6%	7.3%	7.0%	8.1%	9.2%
Net profit margin	4.2%	4.1%	3.4%	4.1%	4.6%
Tax rate	13.2%	28.5%	30.0%	30.0%	30.0%
Op NWC/Sales	6.1%	8.2%	8.3%	8.7%	8.8%
Interest coverage x	0.03	0.02	0.03	0.01	0.01
Net Debt/EBITDA x	(1.63)	(0.40)	0.82	0.68	0.32
Debt-to-Equity x	(0.46)	(0.13)	0.37	0.41	0.21
ROIC	18.7%	13.6%	9.1%	12.9%	15.9%
ROCE	9.3%	10.9%	13.2%	19.2%	21.7%
ROACE	11.7%	12.1%	13.6%	20.2%	22.7%
ROE	12.0%	13.1%	13.9%	21.0%	23.8%
Payout ratio	0.0%	34.3%	35.0%	35.0%	35.0%
Per share figures	2020	2021	2022e	2023e	2024e
Number of shares # m	13.72	14.26	14.26	14.26	14.26
Number of shares Fully Diluted # m	13.72	14.26	14.26	14.26	14.26
Average Number of shares Fully Diluted # r	13.72	13.99	14.26	14.26	14.26
EPS stated FD €	0.17	0.21	0.23	0.39	0.47
EPS adjusted FD €	0.13	0.21	0.23	0.39	0.47
EBITDA €	0.39	0.55	0.76	1.12	1.30
EBIT €	0.26	0.38	0.48	0.77	0.95
BV €	1.53	1.76	1.92	2.22	2.56
FCFO €	0.37	0.18	0.36	0.47	0.73
FCFF €	(0.01)	(0.33)	(0.76)	(0.06)	0.47
FCFE €	0.54	(0.06)	(0.82)	(0.12)	0.36
Dividend €	0.00	0.07	0.08	0.13	0.17



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DATE	TARGET PRICE	RATING
17/02/2023	€7.80	BUY
13/12/2022	€7.80	BUY
29/09/2022	€7.80	BUY
20/07/2022	€8.00	BUY
08/04/2022	€8.50	BUY
11/03/2022	€8.50	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.

