

## Italy – Luxury Engineering

## Strong revenue growth and solid CF generation

12<sup>th</sup> February 2024

### FY-23 PRELIMINARY RESULTS

RIC: PTRN.MI  
BBG: PTR IM

FY-23 preliminary figures show revenues slightly better than consensus and a solid CF generation, which exceeded expectations. The strong balance sheet coupled with a proven ability to convert EBITDA into free cash flow will allow Pattern to pursue strategic M&A opportunities to further enrich its product offering and strengthen its positioning as a valuable and trusted partner for top luxury brands.

#### Rating:

**Buy (Neutral)**

#### Price Target:

**€ 7.80**

Upside/(Downside): 27.9%

Last Price: € 6.10

Market Cap.: € 87.6m

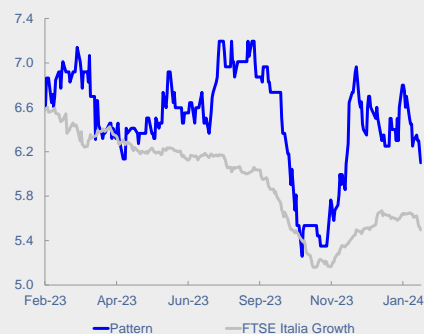
1Y High/Low: € 7.23 / € 5.26

Avg. Daily Turn. (3M, 6M): € 109k, € 65k

Free Float: 32.4%

#### Major shareholders:

Bo.Ma. Holding Srl	52.3%
Fulvio Botto	5.3%
Francesco Martorella	5.3%



#### Stock price performance

	1M	3M	12M
<b>Absolute</b>	-4.7%	12.1%	-11.1%
<b>Rel.to FTSE IT Growth</b>	-2.6%	5.8%	5.6%
<b>Rel.to Sector</b>	-20.2%	0.8%	-5.6%

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#### Estimates and PT confirmed: the increased upside led us to change to Buy (Neutral)

Pattern unveiled preliminary FY-23 results better than expected both in terms of revenues and CF generation: top line came in 6% better than our forecast, while NFP returned positive at € 0.6m cash, net of the extraordinary dividend paid in December. We have kept our estimates and PT unchanged pending the release of FY-23 complete results on 27 March, to have more visibility on profitability. Nevertheless, as a consequence of the increased upside to current prices, we upgraded our recommendation to Buy (Neutral).

#### Preliminary revenues rose by 33% YoY, thanks to both organic growth and M&A

FY-23 preliminary revenues totalled € 145.4m, up by 33.1% YoY (€ 109.2m in FY-22) and exceeded our projection of € 137.0m by 6.1%. This result was driven by solid organic growth higher than the reference market, as well as the positive contribution of the latest acquired company, Nuova Nicol, and the full consolidation of RBG and Dyloan (consolidated for 6M and 2M, respectively, in 2022). The combined effect of organic and external growth more than offsets the disposal of the BU dedicated to a long-standing UK customer Burberry (deconsolidated for the last 3M). Following the massive M&A campaign carried out since the IPO, in 2023 operating synergies among the acquired companies started to materialise, opening up further opportunities for cross-selling activities in the coming years, with positive effects on turnover and profitability growth.

#### NFP turned positive for € 0.6m, exceeding our expectations by more than € 7m

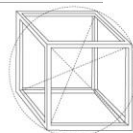
Net Financial Position stood at € 0.6m cash, compared to € 13.8m debt at the end of FY-22 and € 15.4m debt registered at the end of H1-23. It is worth remembering that the disposal of the business unit dedicated to Burberry's products in Oct-23 generated net proceeds of € 22.4m, which was partially distributed to shareholders through an extraordinary dividend of € 0.58/s (€ 8.4m) paid in Dec-23, higher than our forecast of € 0.17/s. NFP came in significantly better than our forecast of € 7.1m debt, showing a stronger than anticipated cash flow generation in the second half of the year.

#### Focus on streamlining the group's structure by acquiring the minority interests

In 2023, Pattern focused on the integration of the acquired companies as well as the streamlining of the group's structure, therefore improving the overall efficiency. As such, as of the beginning of 2023 Pattern started to purchase the minority interests in its subsidiaries. In particular, FY-23 total investments amounted to € 19.4m, including: 1) the acquisition of 100% of Nuova Nicol (€ 6.0m); 2) the purchase of minority interests in Petri & Lombardi (€ 0.5m), Dyloan Bond Factory (€ 4.0m) and RGB (€ 1.0m); 3) the cash disbursement for the acquisition of the area where Pattern's new headquarters will be built; and 4) the expansion of Zanni's manufacturing plant.

#### Pattern, key financials and ratios

€ m	2021	2022	2023e	2024e	2025e
Value of Production	72.5	110.4	137.3	130.7	140.3
EBITDA	7.7	11.1	14.7	14.8	17.6
EBIT	5.3	6.9	8.4	8.9	11.5
Net profit	3.0	2.6	23.6	3.9	5.8
Adj. Net Profit	3.0	2.6	3.6	3.9	5.8
NFP (cash)/debt	(3.1)	13.9	7.1	1.9	(3.9)
EBITDA margin	11.1%	10.2%	10.7%	11.4%	12.5%
EBIT margin	7.6%	6.3%	6.1%	6.8%	8.2%
Adj. EPS	0.21	0.18	0.25	0.27	0.40
Adj. EPS growth	66.1%	-15.5%	38.7%	9.1%	47.0%
ROCE	10.8%	10.0%	9.0%	9.1%	11.1%
NWC/Sales	8.2%	10.3%	11.1%	9.8%	10.0%
Free Cash Flow Yield	-5.1%	-18.2%	9.8%	7.4%	8.2%
PER x	23.7	33.2	24.3	22.2	15.1
EV/Sales x	0.98	0.92	0.69	0.69	0.60
EV/EBITDA x	8.8	9.0	6.4	6.0	4.8
EV/EBIT x	12.9	14.5	11.3	10.1	7.2



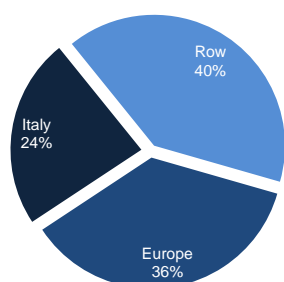
## The Company at a Glance

Founded in 2000 by Fulvio Botto and Francesco Martorella, Pattern is a leading domestic player 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 partially outsourced to a plethora of suppliers.

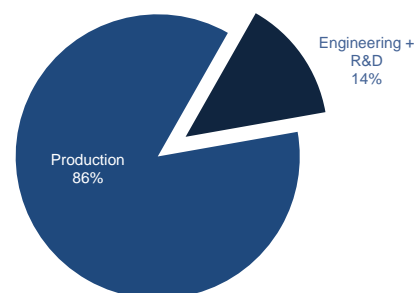
Since 2017, Pattern has embarked on an external growth path, with the acquisition of Roscini (luxury womenswear) in 2017, S.M.T. (luxury knitwear) in 2019, Idee Partners (luxury leather goods) in 2021, and Zanni (wholesale garment knitwear manufacturing technique), RGB (luxury leather goods accessories), 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 76% of total revenues. Manufacturing accounts for 86% while engineering and R&D account for 14%. In terms of products, most of the group's production (40%) comes from ready-to-wear clothing, whereas knitwear accounts for 30% and leather goods for 25%.

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 2022, the value of production was € 110.4m, EBITDA was € 11.1m, 10.1% margin. EBIT stood at € 6.9m and Net Income totalled € 2.6m. NFP was € 13.9m debt, 1.2x NFP/EBITDA, following the recent M&A campaign.

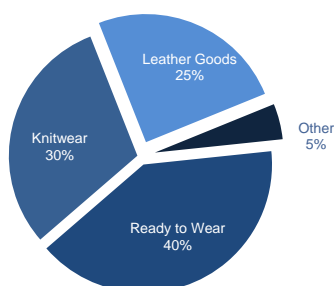
### 2022 breakdown by geography...



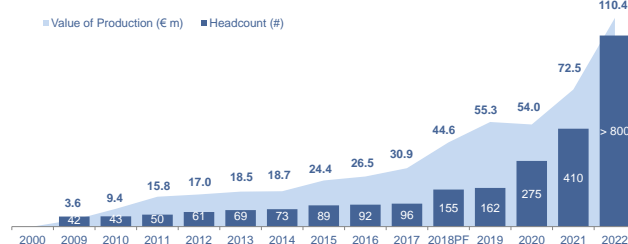
### ... by service...



### ...and by product line



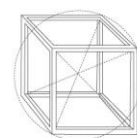
### Top line and headcount evolution



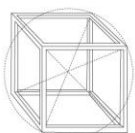
### Peer group multiple table

EV & PER multiples x	Sales FY1	Sales FY2	EBITDA FY1	EBITDA FY2	EBIT FY1	EBIT FY2	PER FY1	PER FY2
Burberry Group PLC	1.44	1.38	5.6	5.3	9.7	9.2	15.3	15.0
Capri Holdings Ltd	2.03	1.30	14.4	8.3	19.6	11.0	12.0	10.4
Compagnie Financiere Richemont SA	3.36	3.20	11.2	10.5	14.2	13.2	20.5	18.4
Hermes International SCA	14.53	12.87	31.5	27.8	35.4	31.1	51.0	45.5
Keiring SA	2.88	2.65	8.9	8.0	12.0	10.7	16.4	14.8
LVMH Moet Hennessy Louis Vuitton SE	4.48	4.25	13.4	12.7	17.0	15.9	25.0	22.8
<b>Median Luxury</b>	<b>3.12</b>	<b>2.92</b>	<b>12.3</b>	<b>9.4</b>	<b>15.6</b>	<b>12.1</b>	<b>18.5</b>	<b>16.7</b>
Brembo SpA	1.08	1.01	6.3	5.8	10.1	9.2	12.3	11.6
Eurotech SpA	0.91	0.77	16.9	8.1	34.7	20.7	-31.3	27.6
Fine Foods & Pharmaceuticals NTM SpA	0.80	0.74	7.9	6.2	30.5	13.4	47.9	19.3
Sabaf SpA	1.20	0.99	8.5	5.9	18.0	10.5	22.5	11.9
<b>Median domestic B2B</b>	<b>0.99</b>	<b>0.88</b>	<b>8.2</b>	<b>6.1</b>	<b>24.2</b>	<b>12.0</b>	<b>17.4</b>	<b>15.6</b>
<b>Pattern SpA</b>	<b>0.69</b>	<b>0.69</b>	<b>6.4</b>	<b>6.0</b>	<b>11.3</b>	<b>10.1</b>	<b>24.3</b>	<b>22.2</b>

Sources: CFO Sim, Refinitiv Eikon



<b>Income statement (€ m)</b>	<b>2021</b>	<b>2022</b>	<b>2023e</b>	<b>2024e</b>	<b>2025e</b>
Revenues	69.5	109.2	137.0	130.4	140.0
Value of Production	72.5	110.4	137.3	130.7	140.3
Raw material and processing	(22.3)	(28.4)	(33.6)	(31.4)	(33.7)
Services	(25.6)	(42.3)	(53.5)	(49.7)	(53.3)
Personnel expenses	(15.2)	(25.4)	(31.2)	(32.2)	(33.0)
Other opex	(1.8)	(3.2)	(4.3)	(2.6)	(2.8)
EBITDA	7.7	11.1	14.7	14.8	17.6
D&A	(2.4)	(4.2)	(6.3)	(6.0)	(6.0)
EBIT	5.3	6.9	8.4	8.9	11.5
Financials	(0.1)	(0.3)	(0.8)	(0.7)	(0.6)
Re/(Devaluation) of financial assets	0.0	0.0	0.0	0.0	0.0
Extraordinary	0.0	0.0	20.0	0.0	0.0
Pre-Tax profit	5.1	6.6	27.6	8.1	10.9
Income taxes	(1.5)	(2.5)	(2.3)	(2.4)	(3.3)
Minorities	(0.7)	(1.5)	(1.7)	(1.8)	(1.9)
Net Profit	3.0	2.6	23.6	3.9	5.8
Adjusted EBITDA	7.7	11.1	14.7	14.8	17.6
Adjusted Net Profit	3.0	2.6	3.6	3.9	5.8
<b>Balance sheet (€ m)</b>	<b>2021</b>	<b>2022</b>	<b>2023e</b>	<b>2024e</b>	<b>2025e</b>
Net Working Capital	5.9	11.3	15.3	12.7	14.0
Net Fixed Assets	17.6	35.7	48.7	50.7	50.1
Equity Investments	0.3	1.1	1.1	1.1	1.1
Other M/L Term A/L	(1.8)	(4.7)	(4.9)	(5.2)	(5.4)
Net Invested Capital	22.0	43.5	60.2	59.4	59.8
Net Financial Debt	(3.1)	13.9	7.1	1.9	(3.9)
Minorities	2.2	4.8	6.5	8.3	10.1
Group's Shareholders Equity	22.9	24.8	46.5	49.2	53.6
Financial Liabilities & Equity	22.0	43.5	60.2	59.4	59.8
<b>Cash Flow statement (€ m)</b>	<b>2021</b>	<b>2022</b>	<b>2023e</b>	<b>2024e</b>	<b>2025e</b>
Total net income	3.7	4.1	5.3	5.7	7.6
Depreciation	2.4	4.2	6.3	6.0	6.0
Other non-cash charges	(0.2)	2.9	0.3	0.2	0.3
Cash Flow from Oper. (CFO)	5.9	11.2	11.9	11.9	13.9
Change in NWC	(2.6)	(5.4)	(3.9)	2.5	(1.3)
FCF from Operations (FCFO)	3.2	5.8	8.0	14.4	12.6
Net Investments (CFI)	(7.7)	(21.7)	0.7	(7.9)	(5.4)
Free CF to the Firm (FCFF)	(4.5)	(15.9)	8.6	6.5	7.2
CF from financials (CFF)	3.7	9.7	(1.9)	(1.3)	(1.4)
Free Cash Flow to Equity (FCFE)	(0.8)	(6.2)	6.7	5.2	5.8
<b>Financial ratios</b>	<b>2021</b>	<b>2022</b>	<b>2023e</b>	<b>2024e</b>	<b>2025e</b>
EBITDA margin	11.1%	10.2%	10.7%	11.4%	12.5%
EBIT margin	7.6%	6.3%	6.1%	6.8%	8.2%
Adj. Net profit margin	4.3%	2.4%	2.6%	3.0%	4.1%
Tax rate	28.5%	38.4%	8.2%	30.0%	30.0%
Op NWC/Sales	8.2%	10.3%	11.1%	9.8%	10.0%
Interest coverage x	0.02	0.04	0.10	0.08	0.06
Net Debt/EBITDA x	(0.40)	1.25	0.49	0.13	(0.22)
Debt-to-Equity x	(0.13)	0.56	0.15	0.04	(0.07)
ROIC	13.6%	6.0%	39.2%	6.6%	9.7%
ROCE	10.8%	10.0%	9.0%	9.1%	11.1%
ROACE	12.1%	11.7%	10.3%	9.3%	11.5%
ROE	13.1%	10.5%	50.8%	8.0%	10.8%
Payout ratio	38.8%	91.8%	35.0%	35.0%	35.0%
<b>Per share figures</b>	<b>2021</b>	<b>2022</b>	<b>2023e</b>	<b>2024e</b>	<b>2025e</b>
Number of shares # m	14.26	14.36	14.36	14.36	14.36
Number of shares Fully Diluted # m	14.26	14.36	14.36	14.36	14.36
Average Number of shares Fully Diluted # m	13.99	14.31	14.36	14.36	14.36
EPS stated €	0.21	0.18	1.64	0.27	0.40
EPS adjusted €	0.21	0.18	0.25	0.27	0.40
EBITDA €	0.55	0.78	1.02	1.03	1.22
EBIT €	0.38	0.48	0.58	0.62	0.80
BV €	1.76	2.06	3.69	4.00	4.44
FCFO €	0.23	0.41	0.55	1.00	0.88
FCFF €	(0.32)	(1.11)	0.60	0.45	0.50
FCFE €	(0.06)	(0.44)	0.47	0.36	0.41
Dividend €	0.08	0.17	0.09	0.10	0.14



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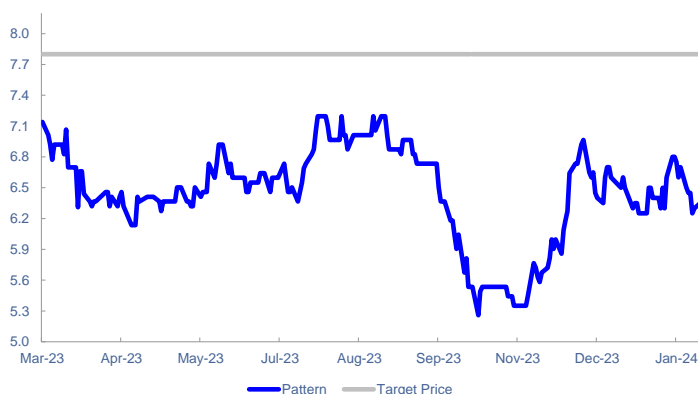
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DATE	TARGET PRICE	RATING
12/02/2024	€7.80	BUY
04/10/2023	€7.80	NEUTRAL
30/03/2023	€7.80	NEUTRAL
17/02/2023	€7.80	BUY
13/12/2022	€7.80	BUY

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- a **SELL** rating is assigned if the target price is at least 15% lower than the market price;
- a **NEUTRAL** rating is assigned if the difference between the current price and target price lies within the +/-15% 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.

