

## Italy – Luxury Engineering

## Trend reversal at cheap multiples: time to Buy

28<sup>th</sup> September 2020

H1-20 RESULTS RELEASE

RIC: PTRN.MI  
BBG: PTR IM

Pattern reported organic figures broadly in line with the best performers in the industry. S.M.T.'s consolidation brought in some resiliency. The firm expects the second part of the year to be in line with the first one in terms of volume growth and margins. Estimates updated: cheap valuation requires a massive stock rerating.

Rating:

**Buy (Neutral)**

Price Target:

**€ 5.00 (€4.40)**

Upside/(Downside): 42.9%

Last Price: € 3.50

Market Cap.: € 48.0m

1Y High/Low: € 5.50 / € 3.03

Free Float: 28.4%

Major shareholders:

Bo.Ma. Holding Srl	54.8%
Fulvio Botto	6.5%
Francesco Martorella	6.5%
Anna Maria Roscini	2.0%
Luca Sburlati	1.6%



### Stock price performance

	1M	3M	12M
<b>Absolute</b>	3.2%	-7.9%	-5.4%
<b>Rel.to AIM Italia</b>	2.4%	-8.8%	10.8%
<b>Rel.to Sector</b>	-1.0%	-9.9%	-2.8%

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### Estimates and rating upgraded, back to BUY

Pattern reported interim figures fairly hit by the pandemic, but broadly in line with the sector and top clients' performances. S.M.T.'s consolidation brought in some resiliency compared to the luxury sector as a whole. For H2/FY-20 Pattern expects a similar performance to that achieved in the first part of the year in terms of volume progression and profitability in addition to a further improvement in NFP also thanks to the typical business seasonality. On the back of H1-20 numbers and the outlook released, we significantly increased our projections: new PT of € 5.00 offers 42.9% upside. The stock trades 8.0x and 6.9x EV/EBITDA<sub>20-21</sub>: up to Buy (Neutral). It's time to buy the shares: now there is no reason why they should not be closing the gap with the S&P Global Luxury index performance.

### Revenues were up 14.0%, 68.3% outside Italy

H1-20 total revenues reached € 24.5m, up 14.0%, mainly thanks to the consolidation of S.M.T. Excluding S.M.T.'s, revenues dropped by 29%, broadly in line with the sector. Turnover in Europe totalled € 16.5m, down 10% YoY and representing 67.3% of total revenues vs. 85.3% in H1-19. This was also due to the consolidation of S.M.T. which generates a lower portion of foreign sales compared to Pattern stand-alone. Domestic revenues more than doubled YoY reaching € 7.7m i.e. 31.5% of total vs. 14.1% in H1-19. Extra EU sales were 1.2% of total compared to 0.6% in the same period last year. Total revenues outside Italy account for 68.3% vs. 85.9% in H1-19.

### Profitability grew much more than proportionately to top line

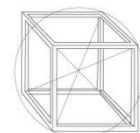
EBITDA increased by 24.3% to € 2.5m from € 2.0m in H1-19, margin of 10.2%. If we exclude the € 500k tax credit stemming from the IPO costs, EBITDA (adjusted) reached € 2.0m, 8.3% margin. Excluding S.M.T.'s, EBITDA declined to € 1.3m, 8.7% margin, down 37% YoY. EBIT was € 1.6m, down 10.8% YoY, 6.5% margin as a result of higher D&A due to the consolidation of S.M.T. on the back of its relatively higher capital intensity and the relative € 209k goodwill amortisation. Net Profit came in at € 1.0m down 14.8% YoY, despite a lighter tax rate due to the tax credit stemming from the IPO costs.

### Cash pile stood at € 3.9m

Net Financial Position totalled € 3.9m cash from € 12.4m cash at end-19, on the back of the € 4.4m residual price paid for the 51% of S.M.T. and major WC absorption due to seasonal effects (also exacerbated by a 1 month postponement of production due to COVID) only partially counterbalanced by Operating Cash Flow for a total consideration of € 6.0m. The improving trend and the more favourable seasonality of the second part of the year are highlighted/confirmed by end-Aug NFP totalling € 5.7m cash, up 46% vs. end-Jun.

### Pattern, key financials and ratios

€ m	2018 PF	2019	2020e	2021e	2022e
Value of Production	44.6	55.3	51.5	55.1	63.1
EBITDA	5.4	5.9	5.3	5.6	7.3
EBIT	5.0	5.5	3.4	3.8	5.5
Net profit	3.5	3.8	2.0	2.0	3.0
NFP (cash)/debt	(3.9)	(12.4)	(5.8)	(9.3)	(13.1)
EBITDA margin	12.1%	10.7%	10.2%	10.2%	11.6%
EBIT margin	11.2%	9.9%	6.6%	7.0%	8.7%
EPS	0.26	0.28	0.14	0.15	0.22
EPS growth	-	7.6%	-48.5%	4.3%	49.5%
Dividend	-	0.13	0.00	0.00	0.05
Dividend Yield	-	3.8%	-	-	1.5%
ROCE	46.6%	24.1%	11.4%	11.9%	15.8%
NWC/Sales	6.1%	4.6%	7.2%	6.1%	4.8%
Free Cash Flow Yield	-	4.3%	-7.4%	7.3%	9.4%
PER x	-	10.9	24.6	23.6	15.8
EV/Sales x	-	0.70	0.82	0.70	0.55
EV/EBITDA x	-	5.4	8.0	6.9	4.8
EV/EBIT x	-	5.7	12.3	10.1	6.3



## The Company at a Glance

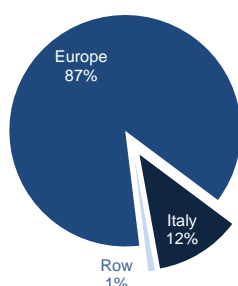
Founded in 2000 by Fulvio Botto and Francesco Martorella (group directors and major shareholders with a 34.3% stake each), Pattern is the second Italian player (CFO SIM estimate) specialised in modelling, engineering, grading, prototyping and production of luxury clothing for men and women, and the undisputed 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, to the creation of ready-to-wear garments and successive productions. Pattern operates the high value added engineering and prototyping phases whilst the production is outsourced to a plethora of suppliers ('façonists').

Pattern's global export sales exceed 85% of total revenues. 92% of revenues come from production while engineering processes account for 6%. Male apparel contributes to the bulk of top line, 64% of total, whereas female apparel, thanks to the acquisition of Roscini Atelier in 2017, now accounts for some 36% of total revenues. In terms of products, outerwear represents the vast part of the group's turnover, 75% of total, trousers/skirts and suits stand for 3% and 19% of the turnover whilst the remainder is represented by upper wear and other items.

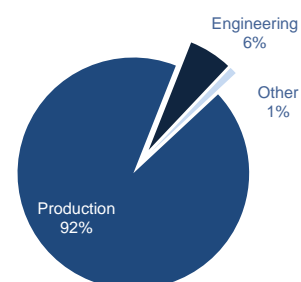
Since 2015, Pattern has voluntarily been drawing up sustainability reports according to the reporting guidelines of the Global Reporting Initiative (GRI Standards), focusing its attention on the Corporate Social Responsibility principles.

In 2019, revenues were € 55.6m, EBITDA adj. for IPO costs was € 7.2m, 13.0% margin. EBIT adj. stood at € 6.7m and Adj. Net Income totalled € 4.7m. NFP was € 12.4m cash, thanks strong OpCF generation, limited capex and WC needs in addition to IPO proceeds

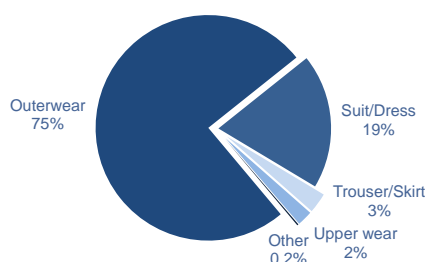
### 2019 breakdown by geography...



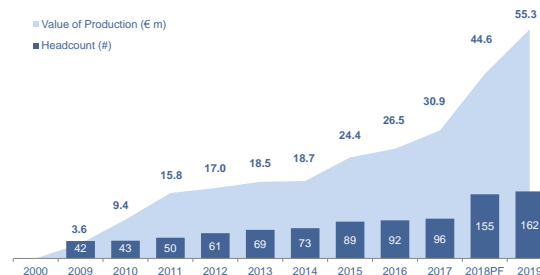
### ... by service ...



### ... and by product line



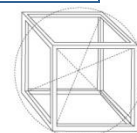
### Top line and headcount evolution



## Peers group multiples table

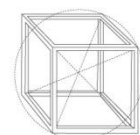
EV multiples x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3	EBIT FY1	EBIT FY2	EBIT FY3
Burberry Group PLC	2.37	2.09	1.96	11.6	8.7	7.8	20.1	14.1	12.3
Capri Holdings Ltd	1.31	0.91	0.80	13.1	5.6	4.8	35.6	7.9	6.5
Compagnie Financiere Richemont	2.08	1.82	1.69	12.2	8.8	7.7	25.8	15.0	12.5
Hermes International SCA	11.85	10.02	8.96	33.7	25.6	22.6	41.4	30.3	26.6
Kering SA	5.69	4.75	4.22	18.0	13.5	11.6	24.1	16.9	14.6
LVMH Moet Hennessy Louis Vuitton	4.79	4.04	3.77	20.0	14.7	13.4	30.4	20.0	17.6
<b>Median Luxury</b>	<b>3.58</b>	<b>3.06</b>	<b>2.86</b>	<b>15.5</b>	<b>11.2</b>	<b>9.7</b>	<b>28.1</b>	<b>16.0</b>	<b>13.5</b>
Eurotech SpA	1.69	1.17	n.a.	18.9	6.9	n.a.	45.2	8.9	n.a.
Fine Foods & Pharmaceuticals	0.81	1.26	0.86	6.0	8.8	5.9	12.2	16.8	10.8
Freni Brembo SpA	1.45	1.22	1.12	8.8	6.6	5.8	20.0	12.3	10.4
Sabaf SpA	1.32	1.14	1.09	7.7	6.3	6.0	19.6	13.0	12.2
<b>Median domestic B2B</b>	<b>1.39</b>	<b>1.19</b>	<b>1.09</b>	<b>8.2</b>	<b>6.7</b>	<b>5.9</b>	<b>19.8</b>	<b>12.7</b>	<b>10.8</b>
<b>Pattern SpA</b>	<b>0.82</b>	<b>0.70</b>	<b>0.55</b>	<b>8.0</b>	<b>6.9</b>	<b>4.8</b>	<b>12.3</b>	<b>10.1</b>	<b>6.3</b>

Source: CFO Sim, Thomson Reuters Eikon





Income statement (€ m)	2018 PF	2019	2020e	2021e	2022e
Revenues	44.1	55.6	51.4	55.0	63.0
Value of Production	44.6	55.3	51.5	55.1	63.1
Raw material and processing	(14.1)	(16.5)	(13.9)	(14.7)	(16.9)
Services	(16.9)	(23.0)	(19.3)	(20.5)	(23.7)
Personnel expenses	(7.3)	(9.2)	(12.0)	(13.8)	(14.6)
Other opex	(0.9)	(0.7)	(1.0)	(0.6)	(0.6)
EBITDA	5.4	5.9	5.3	5.6	7.3
D&A	(0.4)	(0.5)	(1.8)	(1.8)	(1.8)
EBIT	5.0	5.5	3.4	3.8	5.5
Financials	(0.0)	(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	5.0	5.4	3.4	3.8	5.5
Income taxes	(1.4)	(1.6)	(0.9)	(1.1)	(1.6)
Minorities	0.0	0.0	(0.6)	(0.6)	(0.8)
Net Profit	3.5	3.8	2.0	2.0	3.0
Net Profit Adjusted	3.5	4.7	2.0	2.0	3.0
Balance sheet (€ m)	2018 PF	2019	2020e	2021e	2022e
Net Working Capital	2.7	2.5	3.7	3.4	3.0
Net Fixed Assets	1.8	2.5	5.8	4.7	3.5
Equity Investments	0.0	1.1	6.4	6.4	6.4
Other M/L Term A/L	(1.5)	(1.1)	2.9	2.9	2.9
Net Invested Capital	3.0	5.0	18.8	17.4	15.9
Net Financial Debt	(3.9)	(12.4)	(5.8)	(9.3)	(13.1)
Minorities	0.0	0.0	5.9	6.5	7.2
Group's Shareholders Equity	6.9	17.4	18.8	20.2	21.8
Financial Liabilities & Equity	3.0	5.0	18.8	17.4	15.9
Cash Flow statement (€ m)	2018 PF	2019	2020e	2021e	2022e
Total net income	-	3.8	2.0	2.0	3.0
Depreciation	-	0.5	1.8	1.8	1.8
Other non-cash charges	-	(0.5)	(1.0)	0.0	(0.0)
Cash Flow from Oper. (CFO)	-	3.7	2.8	3.8	4.8
Change in NWC	-	0.2	(1.2)	0.3	0.3
FCF from Operations (FCFO)	-	3.9	1.6	4.2	5.1
Net Investments (CFI)	-	(1.9)	(5.2)	(0.7)	(0.7)
Free CF to the Firm (FCFF)	-	2.0	(3.6)	3.5	4.5
CF from financials (CFF)	-	7.8	(2.9)	0.1	(0.7)
Free Cash Flow to Equity (FCFE)	-	9.9	(6.5)	3.6	3.8
Financial ratios	2018 PF	2019	2020e	2021e	2022e
EBITDA margin	12.1%	10.7%	10.2%	10.2%	11.6%
EBIT margin	11.2%	9.9%	6.6%	7.0%	8.7%
Net profit margin	7.9%	6.9%	3.8%	3.7%	4.8%
Tax rate	28.9%	30.2%	n.m.	30.0%	30.0%
Op NWC/Sales	6.1%	4.6%	7.2%	6.1%	4.8%
Interest coverage x	0.00	0.01	0.01	0.01	0.01
Net Debt/EBITDA x	(0.73)	(2.08)	(1.10)	(1.66)	(1.79)
Debt-to-Equity x	(0.57)	(0.71)	(0.31)	(0.46)	(0.60)
ROIC	117.7%	75.7%	10.4%	11.7%	19.2%
ROCE	46.6%	24.1%	11.4%	11.9%	15.8%
ROACE	-	32.8%	13.0%	12.3%	16.4%
ROE	51.0%	21.8%	10.4%	10.1%	14.0%
Payout ratio	-	47.8%	0.0%	0.0%	23.4%
Per share figures	2018 PF	2019	2020e	2021e	2022e
Number of shares # m	13.72	13.72	13.72	13.72	13.72
Number of shares Fully Diluted # m	13.72	13.72	13.72	13.72	13.72
Average Number of shares Fully Diluted # m	13.72	13.72	13.72	13.72	13.72
EPS stated FD €	0.26	0.28	0.14	0.15	0.22
EPS adjusted FD €	0.26	0.34	0.14	0.15	0.22
EBITDA €	0.39	0.43	0.38	0.41	0.53
EBIT €	0.36	0.40	0.25	0.28	0.40
BV €	0.50	1.27	1.80	1.95	2.12
FCFO €	-	0.29	0.12	0.30	0.37
FCFF €	-	0.15	(0.26)	0.26	0.33
FCFE €	-	0.72	(0.48)	0.26	0.28
Dividend €	-	0.13	0.00	0.00	0.05



## H1-20 Results

Pattern reported figures fairly hit by the pandemic, but broadly in line with the sector and top clients' performances. S.M.T.'s consolidation brought in some resiliency compared to the luxury sector as a whole. Pattern expects the second part of the year to be in line with the first one in terms of volumes and profitability in addition to a further improvement in NFP also due to the typical business seasonality.

**Table 1 – Pattern, H1-20 results summary**

€ m	H1-20	H1-19	% YoY
<b>Total Revenues</b>	<b>24.5</b>	<b>21.5</b>	<b>14.0</b>
Increase in finished products	0.6	3.6	
<b>Value of Production</b>	<b>25.1</b>	<b>25.1</b>	<b>0.1</b>
Raw material and processing	(6.8)	(8.6)	
Services	(9.1)	(9.8)	
Personal expenses	(5.9)	(4.3)	
Other opex	(0.8)	(0.3)	
<b>EBITDA</b>	<b>2.5</b>	<b>2.0</b>	<b>24.3</b>
% margin	10.2%	9.3%	
D&A	(0.9)	(0.2)	
<b>EBIT</b>	<b>1.6</b>	<b>1.8</b>	<b>(10.8)</b>
% margin	6.5%	8.3%	
Financial income/(costs)	(0.1)	(0.0)	
<b>Pre-Tax profit</b>	<b>1.5</b>	<b>1.8</b>	<b>(12.3)</b>
Income taxes	(0.2)	(0.5)	
Tax rate	15.0%	31.1%	
Minorities	(0.3)	0.0	
<b>Net Profit</b>	<b>1.0</b>	<b>1.2</b>	<b>(14.8)</b>
% margin	4.2%	5.6%	
<b>NFP</b>	<b>(3.9)</b>	<b>(12.4)*</b>	<b>(68.3)</b>

Source: Company data, CFO SIM analysis, \* NFP at end-19

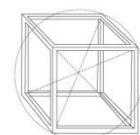
Pattern's business model is characterised by **certain revenue, profitability and WC seasonality levels**. Historically, the bulk of production (namely fall-winter collections) has always taken place in Q2 and turned into sales starting from Q3. Revenues generated in the first/second part of the year typically proportioned 45%-55%. Seasonality mostly affected profitability: EBITDA usually accounts for 30%-70% in H1-H2. In addition, this year **the pandemic has heavily hit the first part of the year in terms of production and business conditions**.

**H1-20 total revenues reached € 24.5m, up 14.0%** vs. € 21.5m sales in H1-19, mainly thanks to the consolidation of S.M.T. as of 1-Jan-20 and its positioning in the knitwear segment, characterised by higher resiliency compared to the luxury industry as a whole. Excluding S.M.T.'s, revenues dropped by 29%, broadly in line with the sector.

**Turnover in Europe totalled € 16.5m, down 10% YoY** and represented 67.3% of total revenues vs. 85.3% in H1-19, also as a result of the consolidation of S.M.T. which generates a lower portion of foreign sales compared to Pattern stand-alone. **Domestic revenues more than doubled YoY reaching € 7.7m**, i.e. 31.5% of total vs. 14.1% in H1-19. Extra EU sales were 1.2% of total compared to 0.6% in the same period last year. Total revenues outside Italy account for 68.35% vs. 85.9% in H1-19.

**EBITDA increased by 24.3% to € 2.5m** from € 2.0m in H1-19, margin of 10.2%. If we exclude the € 500k tax credit stemming from the IPO costs, **EBITDA (adjusted) reached € 2.0m, 8.3% margin**. Excluding S.M.T.'s, the group's EBITDA declined to € 1.3m, 8.7% margin, down 37% YoY. This remarkable result is a combination of the following factors:

- 1) **the consolidation of S.M.T.**, which moderately modified the group's cost structure since it has a greater Gross Margin but a higher incidence of labour costs and D&A, as a result of deeper vertical integration on engineering and production;
- 2) Raw material and processing costs were down 21% as a result of the consolidation of S.M.T. due to the aforementioned reasons;



- 3) Service costs were down 8% also as a result of some savings;
- 4) Labour costs were up by 38% YoY due to the consolidation of the recent acquisition of S.M.T., which brought in some 117 employees (175 employees of Pattern stand-alone), but they were partially mitigated by cost containment measures such as the recourse to the Wages Guarantee Fund and the voluntary cut of top management remunerations.

**EBIT was € 1.6m, down 10.8% YoY, 6.5% margin** as a result of higher D&A due to the consolidation of S.M.T. on the back of its relatively higher capital intensity and the € 209k goodwill amortisation stemming from the acquisition.

**Net Profit came in at € 1.0m down 14.8% YoY**, despite a lighter tax rate due to the tax credit stemming from the IPO costs.

**Net Financial Position totalled € 3.9m** cash from € 12.4m cash at end-19, on the back of the € 4.4m residual price paid for the 51% of S.M.T. and significant WC absorption due to seasonal effects (also exacerbated by a 1-month postponement of production due to the pandemic) only partially counterbalanced by Operating Cash Flow for a total consideration of € 6.0m. The improving trend and the more favourable seasonality occurring in the second part of the year are highlighted/confirmed by end-Aug **NFP totalling € 5.7m cash, up 46% vs. end-Jun.**

## Estimates, Valuation & Risks

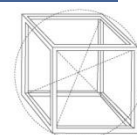
Pattern reported interim figures **fairly hit by the pandemic, but broadly in line with the sector and top clients' performances.** However, S.M.T.'s consolidation brought in some resiliency compared to the luxury sector as a whole. **H1-20 EBITDA came in at 125% of CFO Sim's FY forecast and interim NFP is even higher than CFO Sim's forecast for FY-20 as well as consensus estimates.** For H2/FY-20 Pattern expects **a similar performance** to that achieved in the first part of the year in terms of **volume progression and profitability** in addition to a **further improvement in NFP** also due to the typical business seasonality.

Our previous estimates were elaborated at the time of the lockdown, when visibility on the pandemic evolution and on business conditions was extremely poor. **On the back of H1-20 numbers and the outlook released, we revised our model.** We previously overestimated 1) the effect of a meagre 2020 Fall-Winter and 2021 Spring-Summer order collections, 2) a certain decrease in payable terms (in order to preserve Pattern's suppliers' integrity) and 3) minimal receivable increase. Containment of personnel costs (Wages Guarantee Fund), in addition to the voluntary 25%-20% reduction in the CEO's and top management's fixed and variable salaries, is also implemented in the second part of the year. The result is a significant upgrade in our projections as highlighted in the tables below.

**Table 2 – Pattern, 2020e new/old estimates**

€ m	New	Old	% Diff.	€ m Diff.
<b>Net Sales</b>	<b>51.5</b>	<b>47.9</b>	7.6	<b>3.6</b>
<b>EBITDA</b>	<b>5.3</b>	<b>2.0</b>	158.1	<b>3.2</b>
% margin	10.2	4.3		
<b>EBIT</b>	<b>3.4</b>	<b>0.1</b>	n.m.	<b>3.3</b>
% margin	6.6	0.2		
<b>Net Profit</b>	<b>2.0</b>	<b>(0.3)</b>	n.m.	<b>2.3</b>
% margin	3.8	(0.7)		
<b>Y/E net debt (net cash)</b>	<b>(5.8)</b>	<b>(3.4)</b>	72.4	<b>(2.4)</b>

Source: CFO Sim



**Table 3 – Pattern, 2021e new/old estimates**

€ m	New	Old	% Diff.	€ m Diff.
<b>Net Sales</b>	<b>55.1</b>	<b>54.1</b>	1.9	<b>1.0</b>
<b>EBITDA</b>	<b>5.6</b>	<b>4.6</b>	21.3	<b>1.0</b>
% margin	10.2	8.6		
<b>EBIT</b>	<b>3.8</b>	<b>2.7</b>	43.3	<b>1.2</b>
% margin	7.0	4.9		
<b>Net Profit</b>	<b>2.0</b>	<b>1.4</b>	49.6	<b>0.7</b>
% margin	3.7	2.5		
<b>Y/E net debt (net cash)</b>	<b>(9.3)</b>	<b>(7.0)</b>	33.5	<b>(2.3)</b>

Source: CFO Sim

**Table 4 – Pattern, 2022e new/old estimates**

€ m	New	Old	% Diff.	€ m Diff.
<b>Net Sales</b>	<b>63.1</b>	<b>62.7</b>	0.6	<b>0.4</b>
<b>EBITDA</b>	<b>7.3</b>	<b>7.2</b>	1.2	<b>0.1</b>
% margin	11.6	11.5		
<b>EBIT</b>	<b>5.5</b>	<b>5.3</b>	4.1	<b>0.2</b>
% margin	8.7	8.4		
<b>Net Profit</b>	<b>3.0</b>	<b>2.8</b>	7.3	<b>0.2</b>
% margin	4.8	4.5		
<b>Y/E net debt (net cash)</b>	<b>(13.1)</b>	<b>(10.2)</b>	27.9	<b>(2.9)</b>

Source: CFO Sim

Pattern's key strengths in these difficult business conditions are 1) the ability to work on **different areas (men, women and knitwear) and to deal with different customers**, 2) remarkable **technological expertise** for the remote development of collections via a 3D pattern-making technique, 3) high **customer loyalty**, 4) a flexible manufacturing structure with a large portion of **outsourced production** (80% of variable costs), 5) **low WC pressure**, and 6) an **extremely solid balance sheet**.

**We confirm DCF as our valuation methodology** rather than a peer-multiple-based appraisal which would overpenalise the stock, overweighting a dramatic year for the industry. As a consequence of the estimate upgrade and the update in the valuation criteria, new PT stands at € 5.00 (€ 4.40), 42.9% upside. **The stock trades 8.0x and 6.9x EV/EBITDA<sub>20-21</sub>: recommendation upgraded to Buy** (Neutral). It's time to buy the shares: now there is no reason why they should not be closing the gap with the S&P Global Luxury index performance.

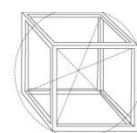
## DCF

In the valuation via the DCF method, we assess explicit estimates until 2024 and assume a cautious long-term growth of 1.0%. Cash flows are discounted back at a weighted average cost of capital calculated according to the following parameters:

**Table 5 – WACC derived from:**

Interest costs, pre-tax	2.0%
Tax rate	30.0%
<b>Int. costs, after taxes</b>	<b>1.4%</b>
Risk premium, incl. small size premium	9.0%
Risk-free (10Y Gov. Bond 200gg simple moving average)	1.33%
Beta levered (x)	1.00
<b>Required ROE</b>	<b>10.3%</b>

Source: CFO Sim, Thomson Reuters Eikon





**Risk premium at 9.0%** factors in the minute size of the company and basically all the AIM Italia market segment related concerns and disquiet that an investor might have. **Beta at 1** has been set prudentially, taking into account the lower liquidity of the company. Indeed, the 5Y Beta calculated from the domestic B2B peer group is 1.00x. The WACC is computed using a 20/80% debt/equity well sustainable long term balance sheet structure (0-100% previously), to factor in group's potential to exploit leverage.

**Table 6 – Pattern, DCF model**

€ m	2020e	2021e	2022e	2023e	2024e	Term. Val.
EBIT	3.4	3.8	5.5	6.6	7.6	
Tax rate	30.0%	30.0%	30.0%	30.0%	30.0%	
<b>Operating profit (NOPAT)</b>	<b>2.4</b>	<b>2.7</b>	<b>3.9</b>	<b>4.6</b>	<b>5.3</b>	
Change working capital	(1.2)	0.3	0.3	(0.0)	(0.0)	
Depreciation	1.8	1.8	1.8	1.6	0.3	
Investments	(5.2)	(0.7)	(0.7)	(0.3)	(0.3)	
<b>Free Cash Flows</b>	<b>(2.1)</b>	<b>4.2</b>	<b>5.3</b>	<b>5.9</b>	<b>5.3</b>	<b>71.3</b>
Present value	<b>(2.1)</b>	3.8	4.4	4.5	3.8	<b>50.3</b>
WACC	8.5%	8.5%	8.5%	8.5%	8.5%	
<b>Long-term growth rate</b>	<b>1.0%</b>					

Source: CFO Sim

**Table 7 – Pattern, DCF derived from:**

€ m	
Total EV present value € m	64.6
<i>thereof terminal value</i>	77.8%
NFP last reported + S.M.T. closing outlay	8.7
Pension provision	(0.9)
Minorities (valued at acquisition 7.8x PER)	(4.4)
<b>Equity value € m</b>	<b>68.1</b>
#m shares	13.72
<b>Equity value €/s</b>	<b>5.00</b>
% upside/(downside)	42.9%

Source: CFO Sim

**The outcome of our DCF model set up an equity value of € 68.1m for Pattern, € 5.00/s.** The following tables illustrate that sensitivity, 1) if compared to changes in the terminal growth rate, produces an equity value between **€ 4.50-5.57/s (perpetuity range between 0.00% and 2.00%)**, while, 2) if compared to changes in the free risk rate, it produces an equity value of **€ 4.49-5.55/s (free risk range between 2.33% and 0.33%)** and 3) if compared to changes in the risk premium, including small size premium, it results in an equity value of **€ 4.09-6.30/s (risk premium range between 11.0% and 7.00%)**.

**Table 8 – Pattern, equity value sensitivity to changes in terminal growth rate**

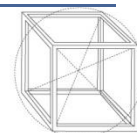
€ m	0.00%	0.25%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%
Present value of CF	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4
PV of terminal value	43.9	45.4	46.9	48.5	50.3	52.1	54.1	56.2	58.5
<b>Total value</b>	<b>58.3</b>	<b>59.8</b>	<b>61.3</b>	<b>62.9</b>	<b>64.6</b>	<b>66.5</b>	<b>68.5</b>	<b>70.6</b>	<b>72.9</b>
NFP last reported adj.	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7
Pension provision	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)
Minorities	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)
<b>Equity value</b>	<b>61.8</b>	<b>63.2</b>	<b>64.7</b>	<b>66.3</b>	<b>68.1</b>	<b>69.9</b>	<b>71.9</b>	<b>74.0</b>	<b>76.3</b>
<b>Equity value/share €</b>	<b>4.50</b>	<b>4.61</b>	<b>4.72</b>	<b>4.84</b>	<b>5.00</b>	<b>5.10</b>	<b>5.24</b>	<b>5.40</b>	<b>5.57</b>

Source: CFO Sim

**Table 9 – Pattern, equity value sensitivity to changes in free risk rate**

€ m	0.33%	0.58%	0.83%	1.08%	1.33%	1.58%	1.83%	2.08%	2.33%
Present value of CF	14.7	14.6	14.5	14.5	14.4	14.3	14.2	14.1	14.0
PV of terminal value	58.0	55.9	53.9	52.0	50.3	48.6	47.0	45.5	44.1
<b>Total value</b>	<b>72.7</b>	<b>70.5</b>	<b>68.5</b>	<b>66.5</b>	<b>64.6</b>	<b>62.9</b>	<b>61.2</b>	<b>59.6</b>	<b>58.1</b>
NFP last reported adj.	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7
Pension provision	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)
Minorities	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)
<b>Equity value</b>	<b>76.2</b>	<b>74.0</b>	<b>71.9</b>	<b>69.9</b>	<b>68.1</b>	<b>66.3</b>	<b>64.6</b>	<b>63.1</b>	<b>61.5</b>
<b>Equity value/share €</b>	<b>5.55</b>	<b>5.39</b>	<b>5.24</b>	<b>5.10</b>	<b>5.00</b>	<b>4.84</b>	<b>4.71</b>	<b>4.60</b>	<b>4.49</b>

Source: CFO Sim



**Table 10 – Pattern, equity value sensitivity to changes in risk premium**

€ m	7.00%	7.50%	8.00%	8.50%	9.00%	9.50%	10.00%	10.50%	11.00%
Present value of CF	15.1	14.9	14.7	14.5	14.4	14.2	14.0	13.9	13.7
PV of terminal value	68.0	62.7	58.0	53.9	50.3	47.0	44.1	41.4	39.0
<b>Total value</b>	<b>83.0</b>	<b>77.6</b>	<b>72.7</b>	<b>68.5</b>	<b>64.6</b>	<b>61.2</b>	<b>58.1</b>	<b>55.3</b>	<b>52.7</b>
NFP last reported adj.	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7
Pension provision	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)
Minorities	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)
<b>Equity value</b>	<b>86.5</b>	<b>81.0</b>	<b>76.2</b>	<b>71.9</b>	<b>68.1</b>	<b>64.6</b>	<b>61.5</b>	<b>58.7</b>	<b>56.1</b>
<b>Equity value/share €</b>	<b>6.30</b>	<b>5.91</b>	<b>5.55</b>	<b>5.24</b>	<b>5.00</b>	<b>4.71</b>	<b>4.49</b>	<b>4.28</b>	<b>4.09</b>

Source: CFO Sim

## Market Multiples

Pattern operates in the high value-added engineering and design services for luxury apparel sector with production outsourced to *façonists*: **the firm does not have any comparable listing companies**. We conducted an analysis on two clusters: 1) six companies operating in the absolute luxury and fashion arena; 2) four Italian companies operating with a B2B business model. Among the luxury fashion companies, we have selected:

**Burberry Group PLC:** a global luxury brand with British heritage, core outerwear, and large leather goods base. The company designs and sources apparel and accessories. Burberry sells its products worldwide, namely in Asia Pacific region, EMEA region and Americas region. Burberry has been consolidated client of Pattern, for over ten years.

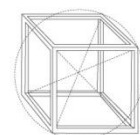
**Capri Holding Ltd:** the holding company, through its brands (such as Versace, Jimmy Choo and Michael Kors), covers the full spectrum of fashion luxury categories including women's and men's accessories, footwear and ready-to-wear as well as wearable technology, watches, jewellery, eyewear and a full line of fragrance products. Michael Kors was added to Pattern's client list in 2019.

**Compagnie Financière Richemont SA:** holds a portfolio of leading international 'Maisons' which are recognised for their distinctive heritage, craftsmanship and creativity. The group operates in four business areas: jewellery Maisons, specialist watchmakers, online distributors, and other fashion & accessories Maisons.

**Hermes International SCA:** founded in 1837, it is an independent, family-owned company. The company is dedicated to keeping the essential element of production in France through its 42 workshops and to developing its network of 310 stores in over 49 countries.

**Kering SA:** a global luxury group, Kering develops an ensemble of luxury houses in fashion, leather goods, jewellery and watches: Gucci, Saint Laurent, Bottega Veneta, Alexandre McQueen, Balenciaga, Ulysse Nardin, etc. The company specialises in ready-to-wear products, sports goods, shoes, jewellery, and watches. Pattern is currently working on two brands of the Kering group.

**LVMH SE:** Louis Vuitton Moët Hennessy is presented in four segments of activity: 1) wines and spirits, with brands like Moët & Chandon, Dom Pérignon, Veuve Clicquot Ponsardin, Krug, Ruinart, and Belvedere; 2) the fashion and leather goods division which includes some absolute luxury brands such as Louis Vuitton, Christian Dior Couture, Celine, Loewe, Fendi, and Berluti; 3) perfumes and cosmetics and 4) watches and jewellery, which comprises, among other, Bvlgari, TAG Heuer, Zenith and Hublot. LVMH is also active in selective retailing as well as in other business areas. Some of the LVMH brands have been among Pattern's clients for several years.





Amongst the B2B Italian companies, we have selected:

**Eurotech SpA:** it is engaged in the research, development, production, and marketing of miniaturized computers and high-performance computers featuring high computing capacity. It operates in the NanoPC and High-Performance Computers (HPC) segments. It also offers boards and embedded modules. In addition, the company provides panel PCs, industrial monitors, and industrial computers, mobile and portable systems, and environmental monitoring systems.

**Fine Foods & Pharmaceuticals NTM SpA:** founded in 1984, it is a domestic leading independent company in the development and contract development and manufacturing organization of solid oral forms for the pharmaceutical and nutraceutical industries. The company is recognized on the market for the high quality of its products. It also has consolidated and continuous relationships with most of its customers.

**Freni Brembo SpA:** the world's undisputed leader and acknowledged innovator of disc brake technology for automotive vehicles. Brembo supplies high performance brake systems to the most important manufacturers of cars, commercial vehicles and motorbikes worldwide, as well as clutches and other components for racing. Brembo is also a leader in the racing sector and has won more than 400 championships.

**Sabaf SpA:** with its 800 employees, it is a key manufacturer in Italy and one of the world's leading producers of components for kitchens and gas cooking appliances. It produces valves, thermostats and burners for gas cooking appliances and hinges for ovens, washing machines and dishwashers. Technological expertise, manufacturing flexibility, and the ability to offer a vast range of tailor-made components, are Sabaf's key strengths.

**Table 11 – Pattern, peer group summary table**

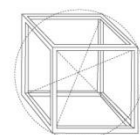
€ m	Country	Mkt Cap	Sales FY1	EBITDA FY1	EBITDA %	Sales CAGR <sub>19-22</sub>	EBITDA CAGR <sub>19-22</sub>	EBIT CAGR <sub>19-22</sub>	EPS CAGR <sub>20-22</sub>	NFP FY1	NFP /EBITDA
Burberry Group PLC	UK	6,852	2,556	523	20.5%	0.8%	-4.5%	-1.0%	28.4%	(803)	n.m.
Capri Holdings Ltd	US	2,516	3,188	321	10.1%	-5.1%	-0.4%	1.7%	193.4%	1,672	5.2
Compagnie Financiere Richemont	F	29,354	12,701	2,163	17.0%	2.2%	3.1%	9.3%	48.9%	(2,934)	n.m.
Hermes International SCA	F	77,450	6,158	2,163	35.1%	4.8%	3.7%	4.1%	24.9%	(4,473)	n.m.
Kering SA	F	71,733	13,317	4,221	31.7%	2.3%	0.7%	1.0%	29.1%	4,094	1.0
LVMH Moët Hennessy Louis Vuitton	F	202,735	45,343	10,860	23.9%	2.3%	0.7%	2.7%	37.6%	14,586	1.3
<b>Median Luxury</b>		<b>50,544</b>	<b>9,429</b>	<b>2,163</b>	<b>22.2%</b>	<b>2.2%</b>	<b>0.7%</b>	<b>2.2%</b>	<b>33.4%</b>	<b>434</b>	<b>1.3</b>
Eurotech SpA	IT	139	75	7	8.9%	n.a.	n.a.	n.a.	n.a.	(12)	n.m.
Fine Foods & Pharmaceuticals	IT	201	180	25	13.6%	11.1%	23.3%	36.2%	19.2%	(55)	n.m.
Freni Brembo SpA	IT	2,701	2,160	358	16.6%	-0.2%	-0.4%	-3.1%	43.6%	438	1.2
Sabaf SpA	IT	146	165	28	17.2%	7.6%	9.4%	13.7%	38.0%	72	2.5
<b>Median domestic B2B</b>		<b>173</b>	<b>172</b>	<b>26</b>	<b>15.1%</b>	<b>7.6%</b>	<b>9.4%</b>	<b>13.7%</b>	<b>38.0%</b>	<b>30</b>	<b>1.9</b>
<b>Pattern SpA</b>	<b>IT</b>	<b>48</b>	<b>51</b>	<b>5</b>	<b>10.3%</b>	<b>4.2%</b>	<b>0.6%</b>	<b>-6.4%</b>	<b>24.9%</b>	<b>(6)</b>	<b>n.m.</b>

Source: CFO Sim, Thomson Reuters Eikon

**Table 12 – Pattern, peer group EV multiple table**

x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3
Burberry Group PLC	2.37	2.09	1.96	11.6	8.7	7.8
Capri Holdings Ltd	1.31	0.91	0.80	13.1	5.6	4.8
Compagnie Financiere Richemont	2.08	1.82	1.69	12.2	8.8	7.7
Hermes International SCA	11.85	10.02	8.96	33.7	25.6	22.6
Kering SA	5.69	4.75	4.22	18.0	13.5	11.6
LVMH Moët Hennessy Louis Vuitton	4.79	4.04	3.77	20.0	14.7	13.4
<b>Median Luxury</b>	<b>3.58</b>	<b>3.06</b>	<b>2.86</b>	<b>15.5</b>	<b>11.2</b>	<b>9.7</b>
Eurotech SpA	1.69	1.17	n.a.	18.9	6.9	n.a.
Fine Foods & Pharmaceuticals	0.81	1.26	0.86	6.0	8.8	5.9
Freni Brembo SpA	1.45	1.22	1.12	8.8	6.6	5.8
Sabaf SpA	1.32	1.14	1.09	7.7	6.3	6.0
<b>Median domestic B2B</b>	<b>1.39</b>	<b>1.19</b>	<b>1.09</b>	<b>8.2</b>	<b>6.7</b>	<b>5.9</b>
<b>Pattern SpA</b>	<b>0.82</b>	<b>0.70</b>	<b>0.55</b>	<b>8.0</b>	<b>6.9</b>	<b>4.8</b>
% premium/(discount) to luxury peers	(77.1)	(77.0)	(80.6)	(48.4)	(38.2)	(50.9)
% premium/(discount) to domestic B2B peers	(40.8)	(41.1)	(49.2)	(2.6)	2.5	(19.2)

Source: CFO Sim, Thomson Reuters Eikon



**Table 13 – Pattern, peer group EV & price multiple table**

x	EBIT FY1	EBIT FY2	EBIT FY3	PER FY1	PER FY2	PER FY3
Burberry Group PLC	20.1	14.1	12.3	31.7	21.5	19.3
Capri Holdings Ltd	35.6	7.9	6.5	49.0	6.7	5.7
Compagnie Financiere Richemont	25.8	15.0	12.5	41.7	23.0	18.8
Hermes International SCA	41.4	30.3	26.6	67.2	48.8	43.1
Kering SA	24.1	16.9	14.6	35.1	24.1	21.1
LVMH Moet Hennessy Louis Vuitton	30.4	20.0	17.6	48.5	29.2	25.6
<b>Median Luxury</b>	<b>28.1</b>	<b>16.0</b>	<b>13.5</b>	<b>45.1</b>	<b>23.6</b>	<b>20.2</b>
Eurotech SpA	45.2	8.9	n.a.	80.2	11.1	n.a.
Fine Foods & Pharmaceuticals	12.2	16.8	10.8	21.2	16.8	14.9
Freni Brembo SpA	20.0	12.3	10.4	27.5	15.6	13.3
Sabaf SpA	19.6	13.0	12.2	23.2	13.0	12.2
<b>Median domestic B2B</b>	<b>19.8</b>	<b>12.7</b>	<b>10.8</b>	<b>25.3</b>	<b>14.3</b>	<b>13.3</b>
<b>Pattern SpA</b>	<b>12.3</b>	<b>10.1</b>	<b>6.3</b>	<b>24.6</b>	<b>23.6</b>	<b>15.8</b>
% premium/(discount) to luxury peers	(56.2)	(36.9)	(53.2)	(45.5)	(0.0)	(21.8)
% premium/(discount) to domestic B2B peers	(37.8)	(20.4)	(41.4)	(3.0)	64.5	18.2

Source: CFO Sim, Thomson Reuters Eikon

If before the pandemic we considered the **B2B peer multiple median as the most suitable methodology to get a reasonable appraisal of the stock**, in this context we believe multiple comparison is no longer appropriate. We would overweight a period characterised by a deep market and numbers decline and consequently penalise the valuation. Pattern trades at undemanding multiples compared to B2B and even more so luxury peers.

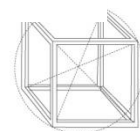
## Peer Stock Performance

Pattern was listed on AIM Italia (Alternative Investment Market) on **17 July 2019 at € 3.25/share**, corresponding to a post-money **market cap. of € 44.2m**. Adopting the same approach used in setting up the peer sample for assessing the value of Pattern, we conducted an analysis on two clusters: 1) six companies operating in the absolute luxury and fashion arena; 2) four Italian companies operating with a B2B business model.

**Table 14 – Pattern, peer group and indexes absolute performance**

	1D	1W	1M	3M	6M	YTD	1Y
Burberry Group PLC	0.8	(1.9)	6.9	0.7	16.5	(30.0)	(27.8)
Capri Holdings Ltd	(1.3)	(6.6)	14.9	35.4	66.8	(49.0)	(40.6)
Compagnie Financiere Richemont	(0.4)	(5.0)	0.8	0.9	14.6	(20.3)	(16.2)
Hermes International SCA	0.4	(1.7)	1.6	(0.9)	13.3	9.7	16.0
Kering SA	(0.6)	(3.7)	9.6	18.7	18.0	(3.3)	22.0
LVMH Moet Hennessy Louis Vuitton	(0.4)	(3.3)	1.0	3.2	17.1	(3.4)	10.9
<b>Median Luxury</b>	<b>(0.4)</b>	<b>(3.5)</b>	<b>4.2</b>	<b>2.0</b>	<b>16.8</b>	<b>(11.9)</b>	<b>(2.6)</b>
Eurotech SpA	0.2	(0.9)	(13.7)	(30.5)	(19.0)	(53.8)	(45.0)
Fine Foods & Pharmaceuticals	0.5	(0.5)	(3.2)	(2.3)	3.4	(11.3)	4.4
Freni Brembo SpA	0.4	(2.7)	(0.4)	(2.4)	11.9	(27.1)	(8.7)
Sabaf SpA	0.4	5.0	4.6	12.5	34.3	(6.0)	(2.9)
<b>Median domestic B2B</b>	<b>0.4</b>	<b>(0.7)</b>	<b>(1.8)</b>	<b>(2.4)</b>	<b>7.7</b>	<b>(19.2)</b>	<b>(5.8)</b>
<b>Pattern SpA</b>	<b>5.7</b>	<b>6.1</b>	<b>3.2</b>	<b>(7.9)</b>	<b>(7.7)</b>	<b>(21.3)</b>	<b>(5.4)</b>
MSCI World Index	(0.7)	(8.2)	(3.4)	(6.7)	9.2	(23.7)	(13.7)
EUROSTOXX	0.4	(1.7)	1.6	(0.9)	13.3	9.7	16.0
FTSE Italia All Share	(0.6)	(3.7)	9.6	18.7	18.0	(3.3)	22.0
FTSE STAR Italia	(0.4)	(3.3)	1.0	3.2	17.1	(3.4)	10.9
FTSE AIM Italia	(0.4)	(5.0)	0.8	0.9	14.6	(20.3)	(16.2)

Source: Thomson Reuters Eikon



**Table 15 – Pattern relative performances**

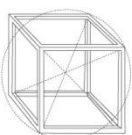
	1D	1W	1M	3M	6M	YTD	1Y
to MSCI World Index	6.5	14.2	6.7	(1.2)	(16.9)	2.3	8.3
to EUROSTOXX	5.3	7.8	1.7	(7.0)	(21.0)	(31.1)	(21.4)
to FTSE Italia All Share	6.4	9.8	(6.4)	(26.6)	(25.7)	(18.1)	(27.4)
to FTSE STAR Italia	6.1	9.4	2.3	(11.1)	(24.8)	(18.0)	(16.3)
to FTSE AIM Italia	6.1	11.0	2.4	(8.8)	(22.2)	(1.0)	10.8
to Domestic B2B Peer Median	5.3	6.8	5.0	(5.5)	(15.3)	(2.2)	0.4
to Luxury Peer Median	6.1	9.6	(1.0)	(9.9)	(24.5)	(9.5)	(2.8)

Source: Thomson Reuters Eikon

## Risks

The principal investment **risks** associated with Pattern include:

- high level of client concentration;
- loss of reputation among clients;
- the consolidation process of the reference market may put the company's market share under pressure;
- impact on P&L account and balance sheet profiles triggered by a sharp decline in global economic growth or geopolitical instability;
- departure of key relevant people.
- M&A execution might be hampered by potential consolidating actors in the industry with huge firepower (i.e. private equity funds)



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This publication was prepared by **LUCA ARENA**, Head of the Equity Research Department of "Corporate Family Office SIM S.p.A." ("CFO SIM") and **GIANLUCA MOZZALI**, Equity Analyst of CFO SIM. This is to certify that the views expressed on the companies mentioned in this document reflect the analysts' personal opinions and that no direct or indirect recompense has been, or will be, received by the analyst further to the views expressed herein.

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DATE	TARGET PRICE	RATING
28/09/2020	€5.00	BUY
28/04/2020	€4.40	NEUTRAL
25/03/2020	U.R.	BUY
20/12/2019	€5.80	BUY
27/09/2019	€5.10	BUY

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