

Italy – Luxury Engineering

FY-20 cash flow generation largely exceeded expectations

17th February 2021

FY-20 PRELIMINARY RESULTS

RIC: PTRN.MI
BBG: PTR IM

Pattern has announced FY-20 preliminary sales bang-in-line with our estimate while Net Financial Position widely exceeded CFO SIM's projection. The huge amount of cash available, coupled with the industry consolidation trend, puts Pattern in a privileged position to exploit significant external growth opportunities.

Rating:

Buy

Price Target:

€ 6.00 (€ 5.00)

Upside/(Downside): 43.2%

Last Price: € 4.19

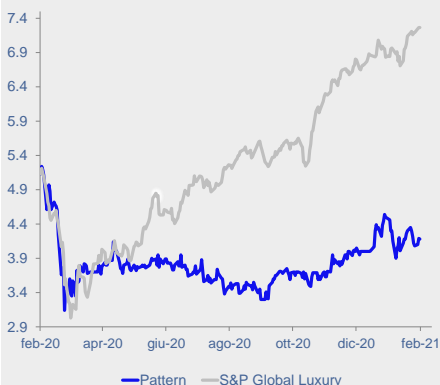
Market Cap.: € 57.5m

1Y High/Low: € 5.24 / € 3.03

Free Float: 28.4%

Major shareholders:

Bo.Ma. Holding Srl	54.8%
Fulvio Botto	6.6%
Francesco Martorella	6.6%
Otus Capital Management	5.0%
Anna Maria Roscini	2.0%
Luca Sburlati	1.6%



Stock price performance

	1M	3M	12M
Absolute	-6.1%	13.2%	-20.0%
Rel.to AIM Italia	-12.7%	-2.1%	-40.1%
Rel.to Sector	-14.0%	-1.0%	-45.2%

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Estimates and PT upgraded, 43.2% upside, Buy reiterated

Following the 2020 preliminary results, CFO SIM has fine-tuned its model factoring in a 3.7% and 7.0% rise in EBITDA and Net Profit in 2020-22, on average. Furthermore, NFP has improved by 25.2% on average in the same period thanks to better-than-expected WC management in FY-20: we previously overestimated a certain decrease in payables (in order to preserve Pattern's suppliers) as well as a minimal increase in receivables. The balance sheet solidity and a huge cash pile at year-end 2020 allow Pattern to consider another round of external growth opportunities, adding further appeal to the stock. PT jumps to € 6.00/s (€ 5.00), as a result of the increase in projections and the valuation criteria update. We reiterate our Buy rating, 43.2% upside to current price levels.

2020 preliminary sales bang-in-line with our estimate

FY-20 preliminary revenues reached € 52.6m, down 5.4% YoY, bang-in-line with our € 51.5m projection. FY-20 results include S.M.T. for 12 months (acquired in Dec-19 and consolidated as from Jan-20). We estimate Pattern's stand-alone sales, dropped by 33%, broadly in line with the sector. In a year severely hit by the pandemic, Pattern reported organic figures broadly in line with the best performers in the industry. However, S.M.T.'s consolidation brought in some resiliency compared to the luxury sector as a whole.

Cash pile stood at € 8.8m, largely exceeding CFO SIM's projection

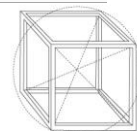
NFP totalled € 8.8m cash (as opposed to € 12.4m cash at end-19), on the back of 1) capex for € 5.1m (€ 2.1m in FY-19), including the € 3.7m residual price paid for the 51% of S.M.T. (net of cash and cash equivalents) as well as the new 4.0 geothermic warehouse and 2) dividends for € 0.7m (DPS € 0.05/s). The NFP reported by the company largely exceeded our € 5.8m cash projection, mainly thanks to a better-than-expected WC management.

Significant firepower to exploit further M&A opportunities

We believe Pattern has a significant firepower to exploit further external growth opportunities, on the back of: 1) the massive cash pile at year-end 2020 and 2) huge CF generation. Considering a sustainable 2.5x NFP/EBITDA ratio, based on our 2020 EBITDA estimate, we think the group might be able to invest almost € 25m in acquisitions. Pattern is still looking for M&A opportunities among companies operating in different product categories, namely leather apparel and accessories. Furthermore, it is worthwhile to mention that in 2020 the CDP, the global ESG reporting standard setter, awarded Pattern an ESG Rating of B-, higher than both the EU avg. of C and the Textile&Fabric Goods sector avg. of D. Pattern was also ranked within the top 7% of firms on the CDP Supplier Engagement Leaderboard. In an industry where sustainability is increasingly becoming a strong customer request, Pattern confirms its solid competitive advantage vs. competitors.

Pattern, key financials and ratios

€ m	2018 PF	2019	2020e	2021e	2022e
Value of Production	44.6	55.3	53.2	56.3	64.5
EBITDA	5.4	5.9	5.4	5.9	7.7
EBIT	5.0	5.5	3.5	4.1	5.9
Net profit	3.5	3.8	2.0	2.2	3.3
NFP (cash)/debt	(3.9)	(12.4)	(8.8)	(10.9)	(14.2)
EBITDA margin	12.1%	10.7%	10.1%	10.4%	11.9%
EBIT margin	11.2%	9.9%	6.6%	7.3%	9.1%
EPS	0.26	0.28	0.15	0.16	0.24
EPS growth	-	7.6%	-46.7%	9.9%	49.3%
Dividend	-	0.13	0.05	0.03	0.06
Dividend Yield	-	3.2%	1.2%	0.6%	1.4%
ROCE	46.6%	24.1%	12.0%	13.0%	17.2%
NWC/Sales	6.1%	4.6%	0.5%	2.0%	2.2%
Free Cash Flow Yield	-	3.6%	0.1%	4.3%	7.2%
PER x	-	10.9	37.8	25.9	17.3
EV/Sales x	-	0.69	0.93	0.83	0.67
EV/EBITDA x	-	5.4	10.0	8.0	5.6
EV/EBIT x	-	5.7	16.1	11.4	7.3





The Company at a Glance

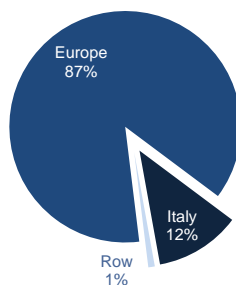
Founded in 2000 by Fulvio Botto and Francesco Martorella (group directors and major shareholders with a 34.3% stake each), Pattern is the second Italian player (CFO SIM estimate) specialised in modelling, engineering, grading, prototyping and producing luxury clothing for men and women, and the undisputed 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.

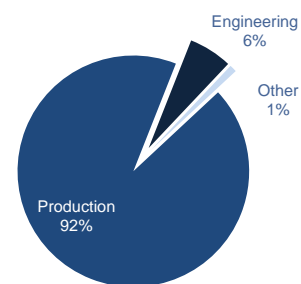
Since 2015, Pattern has voluntarily been drawing up sustainability reports according to the reporting guidelines of the Global Reporting Initiative (GRI Standards), focusing its attention on the Corporate Social Responsibility principles.

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 to strong OpCF, limited capex and WC needs in addition to IPO proceeds

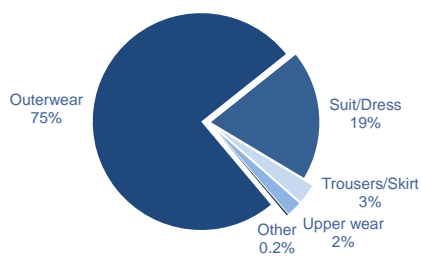
2019 breakdown by geography...



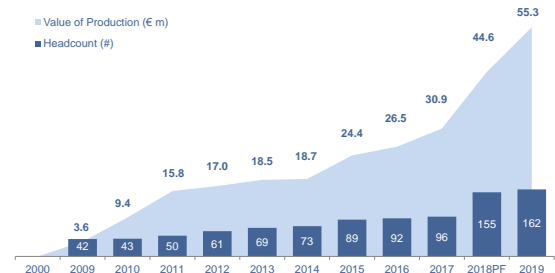
... by service ...



... and by product line



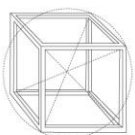
Top line and headcount evolution



Peer group multiples table

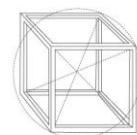
EV multiples x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3	EBIT FY1	EBIT FY2	EBIT FY3
Burberry Group PLC	2.94	2.55	2.36	14.4	11.2	9.7	21.8	16.0	14.3
Capri Holdings Ltd	2.30	1.66	1.49	17.7	9.1	7.5	29.5	11.8	9.3
Compagnie Financière Richemont	3.15	2.67	2.44	16.8	12.3	10.6	32.6	19.7	16.1
Hermes International SCA	15.12	12.72	11.34	44.1	32.7	28.6	54.6	38.9	33.4
Kering SA	5.59	4.68	4.24	17.7	13.5	11.8	24.3	17.2	15.0
LVMH Moët Hennessy Louis Vuitton	5.17	4.68	4.23	17.9	16.0	14.1	24.3	20.9	18.4
Median Luxury	4.16	3.67	3.34	17.7	12.9	11.2	26.9	18.4	15.5
Eurotech SpA	2.17	1.53	n.a.	24.4	9.0	n.a.	58.2	11.7	n.a.
Fine Foods & Pharmaceuticals	0.91	n.a.	0.62	7.0	n.a.	4.2	15.4	n.a.	7.0
Freni Brembo SpA	1.96	1.71	1.57	11.1	9.1	8.0	23.5	16.6	13.5
Sabaf SpA	1.44	1.35	1.29	7.2	6.7	6.4	12.2	11.2	10.5
Median domestic B2B	1.70	1.53	1.29	9.2	9.0	6.4	19.4	11.7	10.5
Pattern SpA	0.93	0.83	0.67	10.0	8.0	5.6	16.1	11.4	7.3

Source: CFO Sim, Thomson Reuters Eikon





Income statement (€ m)	2018 PF	2019	2020e	2021e	2022e
Revenues	44.1	55.6	52.6	56.2	64.3
Value of Production	44.6	55.3	53.2	56.3	64.5
Raw material and processing	(14.1)	(16.5)	(14.7)	(15.2)	(17.4)
Services	(16.9)	(23.0)	(20.0)	(20.9)	(24.2)
Personnel expenses	(7.3)	(9.2)	(12.0)	(13.8)	(14.6)
Other opex	(0.9)	(0.7)	(1.1)	(0.6)	(0.6)
EBITDA	5.4	5.9	5.4	5.9	7.7
D&A	(0.4)	(0.5)	(1.8)	(1.8)	(1.8)
EBIT	5.0	5.5	3.5	4.1	5.9
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	3.5	4.0	5.8
Income taxes	(1.4)	(1.6)	(0.9)	(1.2)	(1.8)
Minorities	0.0	0.0	(0.6)	(0.6)	(0.8)
Net Profit	3.5	3.8	2.0	2.2	3.3
Net Profit Adjusted	3.5	4.7	1.5	2.2	3.3
EBITDA Adjusted	5.4	7.2	4.9	5.9	7.7
Balance sheet (€ m)	2018 PF	2019	2020e	2021e	2022e
Net Working Capital	2.7	2.5	0.2	1.1	1.4
Net Fixed Assets	1.8	2.5	5.7	4.6	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	15.3	15.0	14.2
Net Financial Debt	(3.9)	(12.4)	(8.8)	(10.9)	(14.2)
Minorities	0.0	0.0	5.9	6.5	7.2
Group's Shareholders Equity	6.9	17.4	18.2	19.4	21.2
Financial Liabilities & Equity	3.0	5.0	15.3	15.0	14.2
Cash Flow statement (€ m)	2018 PF	2019	2020e	2021e	2022e
Total net income	-	3.8	2.0	2.2	3.3
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	4.0	5.1
Change in NWC	-	0.2	2.3	(0.9)	(0.3)
FCF from Operations (FCFO)	-	3.9	5.2	3.1	4.8
Net Investments (CFI)	-	(1.9)	(5.1)	(0.7)	(0.7)
Free CF to the Firm (FCFF)	-	2.0	0.1	2.5	4.1
CF from financials (CFF)	-	7.8	(3.6)	(0.3)	(0.7)
Free Cash Flow to Equity (FCFE)	-	9.9	(3.6)	2.2	3.4
Financial ratios	2018 PF	2019	2020e	2021e	2022e
EBITDA margin	12.1%	10.7%	10.1%	10.4%	11.9%
EBIT margin	11.2%	9.9%	6.6%	7.3%	9.1%
Net profit margin	7.9%	6.9%	3.8%	3.9%	5.1%
Tax rate	28.9%	30.2%	25.7%	30.0%	30.0%
Op NWC/Sales	6.1%	4.6%	0.5%	2.0%	2.2%
Interest coverage x	0.00	0.01	0.01	0.01	0.01
Net Debt/EBITDA x	(0.73)	(2.08)	(1.63)	(1.85)	(1.85)
Debt-to-Equity x	(0.57)	(0.71)	(0.48)	(0.56)	(0.67)
ROIC	117.7%	75.7%	13.2%	14.8%	23.3%
ROCE	46.6%	24.1%	12.0%	13.0%	17.2%
ROACE	-	32.8%	13.5%	13.4%	17.9%
ROE	51.0%	21.8%	11.1%	11.4%	15.6%
Payout ratio	-	51.5%	18.1%	17.5%	35.0%
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	0.15	0.16	0.24
EPS adjusted FD €	0.26	0.34	0.11	0.16	0.24
EBITDA €	0.39	0.43	0.39	0.43	0.56
EBIT €	0.36	0.40	0.26	0.30	0.43
BV €	0.50	1.27	1.75	1.89	2.07
FCFO €	-	0.29	0.38	0.23	0.35
FCFF €	-	0.15	0.00	0.18	0.30
FCFE €	-	0.72	(0.26)	0.16	0.25
Dividend €	-	0.13	0.05	0.03	0.06



Estimates, Valuation & Risks

In a year severely hit by the pandemic, Pattern reported organic figures broadly in line with the best performers in the industry. However, S.M.T.'s consolidation brought in some resiliency compared to the luxury sector as a whole.

Following the 2020 preliminary results, **CFO SIM has fine-tuned its model factoring in a 3.7% and 7.0% rise in EBITDA and Net Profit in 2020-22, on average.** Furthermore, **Net Financial Position has improved by 25.2% on average** in the same period thanks to better-than-expected WC management in FY-20: we previously overestimated a certain decrease in payables (in order to preserve Pattern's suppliers' integrity) as well as a minimal increase in receivables. Finally, we introduced a DPS of € 0.05 in 2020 and of € 0.03 in 2021.

Table 1 – Pattern, 2020e new/old estimates

€ m	New	Old	% Diff.	€ m	Diff.
Value of Production	53.2	51.5	3.1		1.6
EBITDA	5.4	5.3	1.6		0.1
% margin	10.1	10.2			
EBIT	3.5	3.4	2.8		0.1
% margin	6.6	6.6			
Net Profit	2.0	2.0	3.4		0.1
% margin	3.8	3.8			
Y/E net debt (net cash)	(8.8)	(5.8)	50.7		(2.9)

Source: CFO Sim

Table 2 – Pattern, 2021e new/old estimates

€ m	New	Old	% Diff.	€ m	Diff.
Value of Production	56.3	55.1	2.2		1.2
EBITDA	5.9	5.6	4.4		0.2
% margin	10.4	10.2			
EBIT	4.1	3.8	6.7		0.3
% margin	7.3	7.0			
Net Profit	2.2	2.0	8.9		0.2
% margin	3.9	3.7			
Y/E net debt (net cash)	(10.9)	(9.3)	16.5		(1.5)

Source: CFO Sim

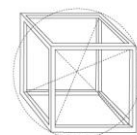
Table 3 – Pattern, 2022e new/old estimates

€ m	New	Old	% Diff.	€ m	Diff.
Value of Production	64.5	63.1	2.1		1.4
EBITDA	7.7	7.3	5.1		0.4
% margin	11.9	11.6			
EBIT	5.9	5.5	6.9		0.4
% margin	9.1	8.7			
Net Profit	3.3	3.0	8.8		0.3
% margin	5.1	4.8			
Y/E net debt (net cash)	(14.2)	(13.1)	8.5		(1.1)

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 € 6.00 (€ 5.00), 43.2% upside.** The balance sheet solidity and a huge cash pile at year-end 2020 allow Pattern to consider another round of external growth opportunities, adding further appeal to the stock.



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 4 – WACC derived from:

Interest costs, pre-tax	2.0%
Tax rate	30.0%
Int. costs, after taxes	1.4%
Risk premium, incl. small size premium	9.0%
Risk-free (10Y Gov. Bond 200gg simple moving average)	0.94%
Beta levered (x)	1.00
Required ROE	9.9%

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 1.00** 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 0.75x. The WACC is computed using a 20/80% debt/equity well-sustainable long-term balance sheet structure to factor in the group's potential to exploit leverage.

Table 5 – Pattern, DCF model

€ m	2020e	2021e	2022e	2023e	2024e	Term. Val.
EBIT	3.5	4.1	5.9	7.1	8.1	
Tax rate	30.0%	30.0%	30.0%	30.0%	30.0%	
Operating profit (NOPAT)	2.5	2.9	4.1	4.9	5.7	
Change working capital	2.3	(0.9)	(0.3)	(0.1)	(0.1)	
Depreciation	1.8	1.8	1.8	1.6	0.3	
Investments	(5.1)	(0.7)	(0.7)	(0.3)	(0.3)	
Free Cash Flows	1.5	3.1	5.0	6.1	5.6	78.1
Present value	1.5	2.9	4.3	4.9	4.1	57.5
WACC	8.2%	8.2%	8.2%	8.2%	8.2%	
Long-term growth rate	1.0%					

Source: CFO Sim

Table 6 – Pattern, DCF derived from:

€ m	
Total EV present value € m	75.3
	<i>thereof terminal value</i>
	76.5%
NFP last reported	12.4
Pension provision	(0.9)
Minorities (valued at acquisition 7.8x PER)	(4.4)
Equity value € m	82.4
#m shares	13.72
Equity value €/s	6.00
% upside/(downside)	43.2%

Source: CFO Sim

The outcome of our DCF model set up an equity value of € 82.4m for Pattern, € 6.00/s. The following tables illustrate that sensitivity, 1) if compared to changes in the terminal growth rate, produces an equity value between **€ 5.59-6.53/s (perpetuity range between 0.25% and 1.75%)**, while, 2) if compared to changes in the free risk rate, it produces an equity value of **€ 5.59-6.50/s (free risk range between 1.69% and 0.19%)** and 3) if compared to changes in the risk premium, including small size premium, it results in an equity value of **€ 5.23-7.10/s (risk premium range between 10.50% and 7.50%)**.

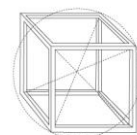


Table 7 – Pattern, equity value sensitivity to changes in terminal growth rate

€ m	0.25%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%
Present value of CF	17.7	17.7	17.7	17.7	17.7	17.7	17.7
PV of terminal value	51.7	53.6	55.5	57.5	59.7	62.1	64.7
Total value	69.5	71.3	73.2	75.3	77.5	79.8	82.4
NFP last reported	12.4	12.4	12.4	12.4	12.4	12.4	12.4
Pension provision	(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)
Equity value	76.6	78.4	80.3	82.4	84.6	87.0	89.5
Equity value/share €	5.59	5.72	5.86	6.00	6.17	6.34	6.53

Source: CFO Sim

Table 8 – Pattern, equity value sensitivity to changes in free risk rate

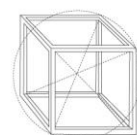
€ m	0.19%	0.44%	0.69%	0.94%	1.19%	1.44%	1.69%
Present value of CF	17.9	17.9	17.8	17.7	17.6	17.6	17.5
PV of terminal value	64.1	61.8	59.6	57.5	55.6	53.8	52.0
Total value	82.1	79.7	77.4	75.3	73.2	71.3	69.5
NFP last reported	12.4	12.4	12.4	12.4	12.4	12.4	12.4
Pension provision	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)
Minorities	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)
Equity value	89.2	86.8	84.5	82.4	80.4	78.5	76.6
Equity value/share €	6.50	6.33	6.16	6.00	5.86	5.72	5.59

Source: CFO Sim

Table 9 – Pattern, equity value sensitivity to changes in risk premium

€ m	7.50%	8.00%	8.50%	9.00%	9.50%	10.00%	10.50%
Present value of CF	18.2	18.0	17.9	17.7	17.6	17.4	17.3
PV of terminal value	72.0	66.6	61.8	57.5	53.8	50.4	47.3
Total value	90.2	84.6	79.7	75.3	71.3	67.8	64.6
NFP last reported	12.4	12.4	12.4	12.4	12.4	12.4	12.4
Pension provision	(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)
Equity value	97.3	91.7	86.8	82.4	78.5	74.9	71.7
Equity value/share €	7.10	6.69	6.33	6.00	5.72	5.46	5.23

Source: CFO Sim



Market Multiples

Pattern operates in the high value-added engineering and pattern-making 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 to the Asia-Pacific and the EMEA regions as well as the Americas. Burberry has been a 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.

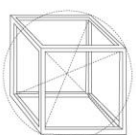
Kering SA: a global luxury group, Kering develops an ensemble of luxury houses in fashion, leather goods, jewellery and watches: Gucci, Saint Laurent, Bottega Veneta, Alexandre McQueen, Balenciaga, Ulysse Nardin, etc. The company specialises in ready-to-wear products, sports goods, shoes, jewellery,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

LVMH SE: Louis Vuitton Moët Hennessy operates in four business sectors: 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, contract development and manufacturing 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 10 – Pattern, peer group summary table

€ m	Country	Mkt Cap	Sales FY1	EBITDA FY1	EBITDA %	Sales CAGR ₁₉₋₂₂	EBITDA CAGR ₁₉₋₂₂	EBIT CAGR ₁₉₋₂₂	EPS CAGR ₂₀₋₂₂	NFP FY1	NFP /EBITDA
Burberry Group PLC	UK	8,669	2,648	540	20.4%	2.1%	-4.4%	1.4%	24.9%	(892)	n.m.
Capri Holdings Ltd	US	5,835	3,203	417	13.0%	-3.4%	7.1%	12.7%	75.5%	1,546	3.7
Compagnie Financière Richemont	F	43,092	12,898	2,421	18.8%	4.2%	6.5%	15.7%	50.2%	(2,516)	n.m.
Hermes International SCA	F	99,106	6,257	2,143	34.3%	5.9%	4.8%	5.5%	28.0%	(4,517)	n.m.
Kering SA	F	70,806	13,318	4,211	31.6%	2.4%	0.5%	0.3%	29.8%	3,631	0.9
LVMH Moët Hennessy Louis Vuitton	F	272,983	55,805	16,098	28.8%	13.9%	14.2%	21.3%	13.5%	15,463	1.0
Median Luxury		56,949	9,577	2,282	24.6%	3.3%	5.7%	9.1%	28.9%	327	1.0
Eurotech SpA	IT	175	75	7	8.9%	n.a.	n.a.	n.a.	n.a.	(12)	n.m.
Fine Foods & Pharmaceuticals SpA	IT	203	177	23	13.0%	14.6%	27.7%	44.7%	33.8%	(41)	n.m.
Freni Brembo SpA	IT	3,861	2,177	383	17.6%	0.0%	0.5%	-0.4%	33.0%	400	1.0
Sabaf SpA	IT	231	210	42	20.1%	7.5%	7.7%	12.2%	8.7%	72	1.7
Median domestic B2B		217	193	33	15.3%	7.5%	7.7%	12.2%	33.0%	30	1.4
Pattern SpA	IT	57	53	5	9.2%	5.0%	2.2%	-4.3%	47.6%	(9)	n.m.

Source: CFO Sim, Thomson Reuters Eikon

Table 11 – Pattern, peer group EV multiple table

x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3
Burberry Group PLC	2.94	2.55	2.36	14.4	11.2	9.7
Capri Holdings Ltd	2.30	1.66	1.49	17.7	9.1	7.5
Compagnie Financière Richemont	3.15	2.67	2.44	16.8	12.3	10.6
Hermes International SCA	15.12	12.72	11.34	44.1	32.7	28.6
Kering SA	5.59	4.68	4.24	17.7	13.5	11.8
LVMH Moët Hennessy Louis Vuitton	5.17	4.68	4.23	17.9	16.0	14.1
Median Luxury	4.16	3.67	3.34	17.7	12.9	11.2
Eurotech SpA	2.17	1.53	n.a.	24.4	9.0	n.a.
Fine Foods & Pharmaceuticals SpA	0.91	n.a.	0.62	7.0	n.a.	4.2
Freni Brembo SpA	1.96	1.71	1.57	11.1	9.1	8.0
Sabaf SpA	1.44	1.35	1.29	7.2	6.7	6.4
Median domestic B2B	1.70	1.53	1.29	9.2	9.0	6.4
Pattern SpA	0.93	0.83	0.67	10.0	8.0	5.6
% premium/(discount) to luxury peers	(77.7)	(77.4)	(79.8)	(43.3)	(38.4)	(49.7)
% premium/(discount) to domestic B2B peers	(45.4)	(45.9)	(48.0)	9.6	(11.7)	(12.1)

Source: CFO Sim, Thomson Reuters Eikon

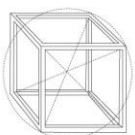
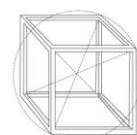


Table 12 – Pattern, peer group EV & price multiple table

x	EBIT FY1	EBIT FY2	EBIT FY3	PER FY1	PER FY2	PER FY3
Burberry Group PLC	21.8	16.0	14.3	34.9	24.3	22.3
Capri Holdings Ltd	29.5	11.8	9.3	30.9	12.7	10.0
Compagnie Financière Richemont	32.6	19.7	16.1	53.7	29.9	23.8
Hermes International SCA	54.6	38.9	33.4	87.9	61.9	53.7
Kering SA	24.3	17.2	15.0	36.2	24.9	21.5
LVMH Moët Hennessy Louis Vuitton	24.3	20.9	18.4	35.7	31.1	27.7
Median Luxury	26.9	18.4	15.5	36.0	27.4	23.1
Eurotech SpA	58.2	11.7	n.a.	101.3	14.0	n.a.
Fine Foods & Pharmaceuticals	15.4	n.a.	7.0	21.3	15.0	11.9
Freni Brembo SpA	23.5	16.6	13.5	31.6	21.4	17.9
Sabaf SpA	12.2	11.2	10.5	13.1	12.2	11.1
Median domestic B2B	19.4	11.7	10.5	26.5	14.5	11.9
Pattern SpA	16.1	11.4	7.3	37.8	25.9	17.3
% premium/(discount) to luxury peers	(40.1)	(38.2)	(52.7)	5.1	(5.5)	(24.8)
% premium/(discount) to domestic B2B peers	(17.1)	(2.6)	(29.9)	42.8	78.4	45.4

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 decline in terms of market prices and corporate figures 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 13 – Pattern, peer group and indexes absolute performance

	1D	1W	1M	3M	6M	YTD	1Y
Burberry Group PLC	0.3	6.4	7.3	14.9	30.8	4.2	(7.1)
Capri Holdings Ltd	1.6	0.4	9.8	42.8	195.8	11.3	63.4
Compagnie Financière Richemont	0.2	1.4	6.6	15.4	49.1	11.2	20.1
Hermes International SCA	0.7	2.3	8.7	11.2	34.8	6.5	32.1
Kering SA	(0.1)	1.8	3.2	(8.8)	13.1	(4.9)	(2.5)
LVMH Moët Hennessy Louis Vuitton	0.7	0.5	9.9	13.6	39.8	5.7	30.3
Median Luxury	0.5	1.6	8.0	14.3	37.3	6.1	25.2
Eurotech SpA	(0.8)	(1.2)	0.5	12.9	7.6	(4.5)	(32.9)
Fine Foods & Pharmaceuticals	1.4	(0.9)	-	0.9	(2.3)	2.4	(12.6)
Freni Brembo SpA	0.5	3.6	10.9	10.3	41.6	6.9	7.3
Sabaf SpA	0.3	3.9	20.8	50.4	63.9	32.9	41.0
Median domestic B2B	0.4	1.3	5.7	11.6	24.6	4.6	(2.6)
Pattern SpA	2.2	(2.6)	(6.1)	13.2	20.4	4.8	(20.0)
MSCI World Index	1.1	(0.2)	6.9	10.0	32.4	1.7	4.6
EUROSTOXX	0.7	2.3	8.7	11.2	34.8	6.5	32.1
FTSE Italia All Share	(0.1)	1.8	3.2	(8.8)	13.1	(4.9)	(2.5)
FTSE STAR Italia	0.7	0.5	9.9	13.6	39.8	5.7	30.3
FTSE AIM Italia	0.2	1.4	6.6	15.4	49.1	11.2	20.1

Source: Thomson Reuters Eikon

Table 14 – Pattern relative performances

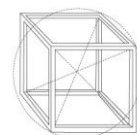
	1D	1W	1M	3M	6M	YTD	1Y
to MSCI World Index	1.1	(2.3)	(12.9)	3.3	(12.0)	3.0	(24.7)
to EUROSTOXX	1.5	(4.9)	(14.7)	2.1	(14.4)	(1.8)	(52.1)
to FTSE Italia All Share	2.3	(4.3)	(9.2)	22.1	7.3	9.6	(17.5)
to FTSE STAR Italia	1.5	(3.1)	(16.0)	(0.4)	(19.4)	(0.9)	(50.3)
to FTSE AIM Italia	2.0	(3.9)	(12.7)	(2.1)	(28.7)	(6.5)	(40.1)
to Domestic B2B Peer Median	1.8	(3.9)	(11.7)	1.6	(4.2)	0.1	(17.4)
to Luxury Peer Median	1.7	(4.1)	(14.0)	(1.0)	(16.9)	(1.3)	(45.2)

Source: Thomson Reuters Eikon

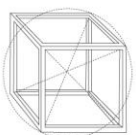
Risks

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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ANALYST CERTIFICATION

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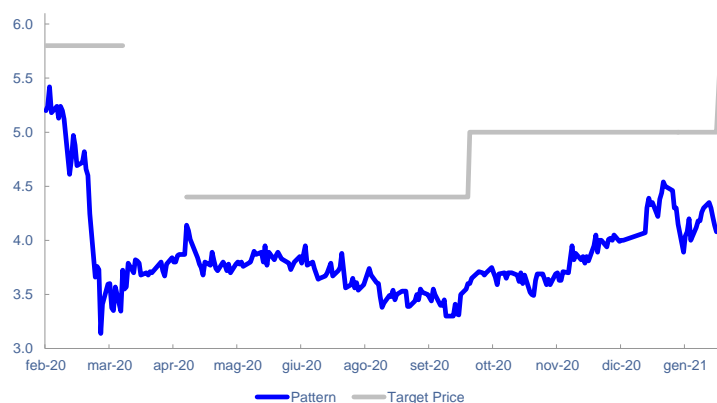
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DATE	TARGET PRICE	RATING
17/02/2021	€6.00	BUY
28/09/2020	€5.00	BUY
28/04/2020	€4.40	NEUTRAL
25/03/2020	U.R.	BUY
20/12/2019	€5.80	BUY

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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% bands identified using the preceding criteria.

The rating is determined on the basis of the **expected absolute return 12 months forward** and not on the basis of the estimated out/underperformance relative to a market index. Thus, the rating can be directly linked with the estimated percentage difference between current price and target price. 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.

