

Italy – Luxury Engineering

Pattern increases its equity interest in S.M.T. to 80%

26th February 2021

SMT STAKE INCREASES

RIC: PTRN.MI
BBG: PTR IM

Another positive piece of news on Pattern, which increases its equity interest in S.M.T. from 51% to 80%. The long-term impact of this additional stake acquisition is definitely positive on the back of the promising rising fundamentals of S.M.T. and its stronger resiliency than that of the luxury sector as a whole.

Rating:

Buy

Price Target:

€ 6.00

Upside/(Downside): 31.9%

Last Price: € 4.55

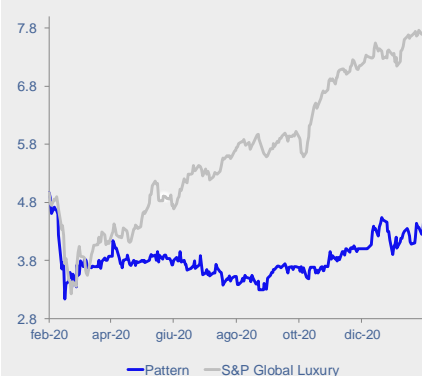
Market Cap.: € 62.4m

1Y High/Low: € 4.90/€ 3.03

Free Float: 28.4%

Major shareholders:

Bo.Ma. Holding Srl	55.2%
Fulvio Botto	6.6%
Francesco Martorella	6.6%
Otus Capital Mngmt (free float)	5.0%
Anna Maria Roscini	2.0%
Luca Sburlati	1.2%



Stock price performance

	1M	3M	12M
Absolute	8.3%	19.1%	-8.5%
Rel.to AIM Italia	3.2%	4.2%	-37.0%
Rel.to EU Sector	1.8%	7.7%	-41.7%

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Pattern increases its equity interest in SMT to 80%

Pattern increases its equity interest in SMT from 51% to 80% for a total consideration of € 3.9m: € 2.6m cash and € 1.3m via a reserved rights issue at € 3.87/s (VWAP, volume weighted average price of the last six months), i.e. by issuing 347,545 new shares, representing 2.5% of the new share capital. We welcome such positive news on the stock, which has a positive long-term impact on the group stemming from a bolder presence in a niche characterised by promising growing fundamentals and lower exposure to sector downturns. Pattern unveils FY-20 results next 29-Mar: until then we maintain unchanged our assumptions.

A good move in a growing protected niche

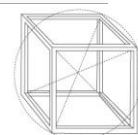
The long-term impact of this additional stake acquisition is definitely positive on the back of the promising rising fundamentals of S.M.T. From a valuation standpoint, the short-term effect is broadly neutral, taking into consideration the cash outlay, the dilution effect of the capital increase and the decrease in the appraisal of minority stakes in the equity valuation. The price values 100% of SMT's € 13.4m vs. a valuation of € 10.8m at the time of the acquisition of the 51% stake in Dec-19. In the meantime, S.M.T. has almost zeroed its NFP from € 3.0m debt estimated at the time of the acquisition of the first 51% stake. Its growth profile has also been less sensitive to short-term sector pressure. In 2020, we estimate Pattern's stand-alone sales, down by 33%, broadly in line with the sector. However, S.M.T.'s consolidation brought in some resiliency compared to the luxury sector as a whole, achieving a decline of only 10% in top line in a dramatic year for the industry.

SMT is a highly specialised resilient player in the luxury knitwear niche

S.M.T. (Società Manifattura Tessile) is a highly specialised player in the luxury knitwear niche, a segment characterised by a certain degree of resiliency in tough times compared to the luxury sector as a whole. The company, headquartered in Correggio (Reggio Emilia, Italy), is specialised in prototyping, engineering and production of luxury knitwear, working with the most prestigious global luxury brands. Thanks to steady R&D investments and the use of the best-in-class technology and machinery for knitwear production, the firm is able to satisfy all weaving needs of its clients. The S.M.T. business model is pretty similar to the Pattern one: the high-value added engineering and prototyping phases are carried out internally thanks to some 110 employees of which a team of over 20 people dedicated to the development of new customers' collections.

Pattern, key financials and ratios

€ m	2019	2020e	2021e	2022e
Value of Production	55.3	53.2	56.3	64.5
EBITDA	5.9	5.4	5.9	7.7
EBIT	5.5	3.5	4.1	5.9
Net profit	3.8	2.0	2.2	3.3
NFP (cash)/debt	(12.4)	(8.8)	(10.9)	(14.2)
EBITDA margin	10.7%	10.1%	10.4%	11.9%
EBIT margin	9.9%	6.6%	7.3%	9.1%
EPS	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	2.9%	1.1%	0.6%	1.2%
ROCE	24.1%	12.0%	13.0%	17.2%
NWC/Sales	4.6%	0.5%	2.0%	2.2%
Free Cash Flow Yield	3.3%	0.1%	4.0%	6.6%
PER x	10.9	41.1	28.1	18.8
EV/Sales x	0.69	1.02	0.92	0.75
EV/EBITDA x	5.4	11.0	8.8	6.3
EV/EBIT x	5.7	17.7	12.6	8.2





The Company at a Glance

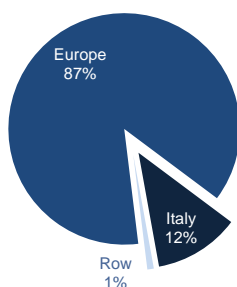
Founded in 2000 by Fulvio Botto and Francesco Martorella (group directors and major shareholders with a 34.3% stake each), Pattern is the second Italian player (CFO SIM estimate) specialised in modelling, engineering, grading, prototyping and producing luxury clothing for men and women, and the undisputed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

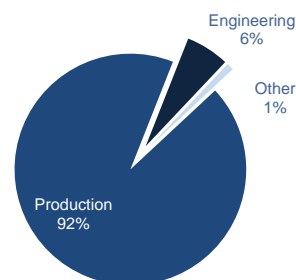
Since 2015, Pattern has voluntarily been drawing up sustainability reports according to the reporting guidelines of the Global Reporting Initiative (GRI Standards), focusing its attention on the Corporate Social Responsibility principles.

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

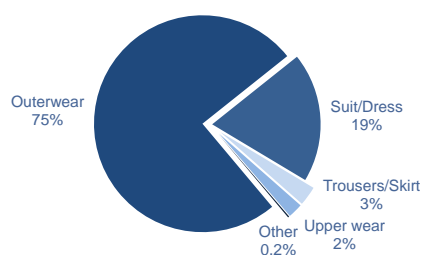
2019 breakdown by geography...



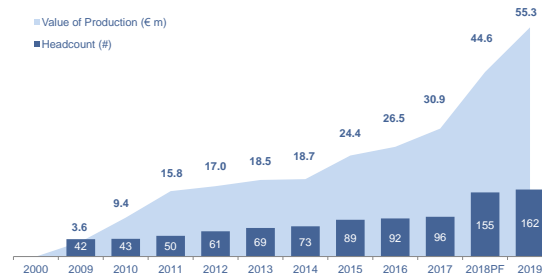
... by service ...



... and by product line



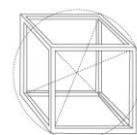
Top line and headcount evolution



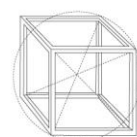
Peers group multiples table

EV multiples x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3	EBIT FY1	EBIT FY2	EBIT FY3
Burberry Group PLC	3.01	2.61	2.40	15.4	11.7	9.9	22.5	16.3	14.3
Capri Holdings Ltd	2.28	1.68	1.48	17.7	9.0	7.4	29.6	11.7	9.3
Compagnie Financière Richemont	3.05	2.59	2.35	16.1	11.9	10.1	31.3	18.9	15.4
Hermes International SCA	12.43	11.08	10.02	31.8	27.7	23.9	37.7	32.1	28.7
Kering SA	4.39	3.98	3.64	12.5	11.0	10.0	16.1	14.0	12.6
LVMH Moët Hennessy Louis Vuitton	5.06	4.60	4.16	17.3	15.5	13.7	23.4	20.3	17.9
Median Luxury	3.72	3.29	3.02	16.7	11.8	10.0	26.5	17.6	14.9
Eurotech SpA	2.06	1.45	n.a.	23.1	8.5	n.a.	55.1	11.0	n.a.
Fine Foods & Pharmaceuticals	0.92	n.a.	0.62	7.0	5.5	4.2	15.4	9.8	7.1
Freni Brembo SpA	1.84	1.61	1.47	10.5	8.5	7.6	22.2	15.7	12.7
Sabaf SpA	1.43	1.34	1.29	7.1	6.7	6.4	12.1	11.1	10.4
Median domestic B2B	1.64	1.45	1.29	8.8	7.6	6.4	18.8	11.1	10.4
Pattern SpA	1.02	0.92	0.75	11.0	8.8	6.3	17.7	12.6	8.2

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	11.0	9.9	8.8
Equity Investments	0.0	1.1	1.1	1.1	1.1
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



ANALYST CERTIFICATION

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.

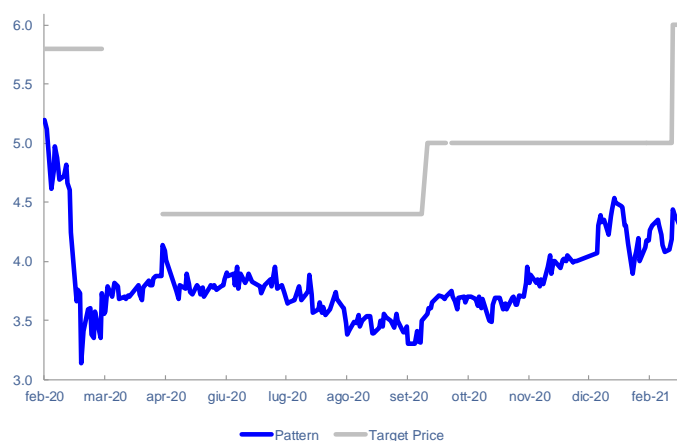
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DATE	TARGET PRICE	RATING
26/02/2021	€6.00	BUY
17/02/2021	€6.00	BUY
28/09/2020	€5.00	BUY
28/04/2020	€4.40	NEUTRAL
25/03/2020	U.R.	BUY
20/12/2019	€5.80	BUY

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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.

