Italy – Luxury Engineering	Solid business model, negative momentum
28th April 2020 FY-19 RESULTS RELEASE RIC: PTRN.MI BBG: PTR IM	Pattern reported amazing 2019 results, better than CFO SIM estimates and IPO guidance. In troubled times, fortune favours the big, the bold and the financially disciplined ones. Pattern is well positioned to grab additional acquisition opportunities and to reinforce relationships with clients. All to comfortably weather the storm.

Rating:

Neutral (Buy)

Price Target:

€ 4.40 (€ 5.80)

Upside/(Downside): 13.7%

Last Price: € 3.87

Market Cap.: € 52.7m

1Y High/Low: € 5.50 / € 3.03

Free Float: 28.2%

Major shareholders:

Bo.Ma. Holding Srl	55.2%
Fulvio Botto	6.6%
Francesco Martorella	6.6%
Anna Maria Roscini	2.0%
Luca Sburlati	1.2%

Pattern — S&P Global Luxury

Stock price performance			
	1M	**3M**	**12M**
Absolute	4.6%	-20.9%	n.a.
Rel.to AIM Italia	14.4%	-5.3%	n.a.
Rel.to Sector	1.0%	0.2%	n.a.

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2020 heavily hit and Pattern is equipped to weather the storm: too early to buy
COVID-19 is having a significant impact on production, trade and consumption. In this context, Pattern boasts 1) the ability to work on different areas and customers, 2) relevant technology competences for the remote development of collections via 3D pattern-making, 3) high customer loyalty, 4) a flexible manufacturing structure with a relevant degree of outsourced production (80% of variable costs), 5) low WC pressure, and 6) an extremely solid balance sheet. All to weather the storm. In addition, the current market uncertainties, might contribute to make arise interesting acquisition targets. We updated our model to factor in 1) a meagre 2020 Fall-Winter and 2021 Spring-Summer order collections and 2) a certain WC absorption. We left mainly unchanged the weight of purchasing and services and factored in a certain personnel cost lightening. The result in 2020-21 is a slash of 37% and 67% in sales and EBITDA respectively. The short term is certainly difficult, but the group is well positioned to benefit from a reversal in the medium term. Also the 13.7% upside to the new PT of € 4.40 (€ 5.80), prompts us to adopt a cautious stance, required by the current high volatility and low visibility on the business evolution: rating downgraded to Neutral (too early to buy) from Buy.

Revenues were up 25.5%, 88% outside Italy
2019 revenues reached € 55.7m, up 25.5% vs. € 44.4m in 2018. The figure is 2.7% higher than CFO SIM estimates. Furthermore, the company exceeded the guidance provided to the market in occasion of the IPO: value of production for FY-19 was anticipated between € 54.2m and € 55.1m. Turnover in Europe was € 48.4m, up 37.1% YoY, and represented 88% of total, Italy totalled € 6.6m, down 16.5% vs. 2018 and was 12% of total.

Profitability grew much more than proportionately to top line
EBITDA adj. for costs related to the IPO was € 7.2m, 12.9% margin. Our € 6.5m forecast did not include those costs too, since we anticipated them entirely capitalised. EBITDA reported totalled € 5.9m, 10.6% margin and compares with € 5.4m EBITDA in 2018 (12.2% margin). After € 0.5m D&A EBIT adj. soared by 35.4% YoY € 6.7m and compares with our € 5.8m forecast. Adjusted operating margin is 12.2%, +100bps vs. 2018. Net profit adj. increased 32.9% to € 4.7m from € 3.5m in 2018, adj. net margin is 8.5%.

Generous operating CF generation: cash pile amounted at € 12.4m
NFP improved to € 12.4m cash from € 3.9m cash at end-18, thanks to the € 8.5m IPO fresh resources and a generous CF generation. Bear in mind that CFO SIM NFP projection of € 10.8m cash at the end-19 includes € 1.0m capitalised costs related to the listing process, whilst Pattern charged them into P&L. Pattern will not distribute any dividend.

Pattern, key financials and ratios

| € m	2018 PF	2019	2020e	2021e	2022e
Value of Production	44.6	55.3	47.9	54.1	62.7
EBITDA	5.4	5.9	2.0	4.6	7.2
EBIT	5.0	5.5	0.1	2.7	5.3
Net profit	3.5	3.8	(0.3)	1.4	2.8
NFP (cash)/debt	(3.9)	(12.4)	(3.4)	(7.0)	(10.2)
EBITDA margin	12.1%	10.7%	4.3%	8.6%	11.5%
EBIT margin	11.2%	9.9%	0.2%	4.9%	8.4%
EPS	0.26	0.28	(0.03)	0.10	0.21
EPS growth	-	7.6%	n.m.	n.m.	108.4%
Dividend	-	0.13	0.00	0.00	0.04
Dividend Yield	-	3.4%	-	-	0.9%
ROCE	46.6%	24.1%	0.3%	9.1%	16.6%
NWC/Sales	6.1%	4.6%	7.9%	5.2%	5.0%
Free Cash Flow Yield	-	3.9%	-11.4%	6.9%	7.1%
PER x	-	10.9	n.m.	38.7	18.6
EV/Sales x	-	0.70	1.03	0.84	0.68
EV/EBITDA x	-	5.4	24.1	9.9	5.9
EV/EBIT x	-	5.7	n.m.	17.1	8.0
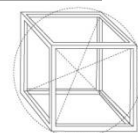
The Company at a Glance

Founded in 2000 by Fulvio Botto and Francesco Martorella (current 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 outerwear niche, operating in the catwalk segment and first lines of the most prestigious global luxury brands. The group 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 exceeds 85% of total revenues. 92% of revenues comes from production while engineering processes account for 6%. Male apparel contributes for the bulk of top line, 64% of total and female, 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 group turnover, 75% of total, trouser/skirt and suits stand for 3% and 19% of the turnover whilst the remainder is represented by upper wear and other items.

Since 2015, Pattern voluntarily draws up the sustainability report according to the reporting guidelines of the Global Reporting Initiative (GRI Standard), underling its attention to 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 generation, limited Capex and WC needs and IPO proceeds.
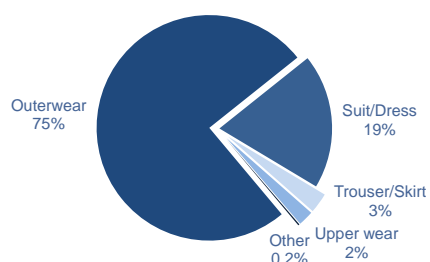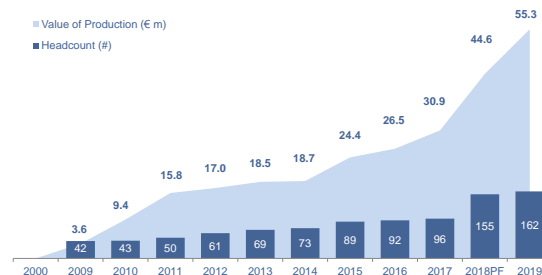
2019 breakdown by geography…
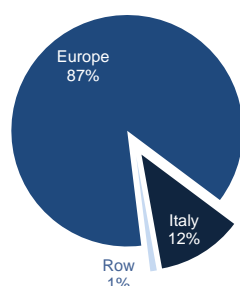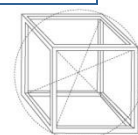

… by service …
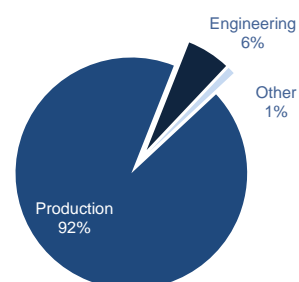
… and by product line

## 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	1.77	1.79	1.66	9.8	9.6	8.2	12.9	13.2	10.5
Capri Holdings Ltd	0.75	0.77	0.62	4.4	4.8	3.6	5.8	6.8	4.6
Compagnie Financiere Richemont	1.69	1.70	1.53	8.4	8.8	7.1	13.4	14.2	10.7
Hermes International SCA	10.46	8.92	7.98	27.8	22.4	19.9	33.4	26.5	23.3
Kering SA	4.31	3.71	3.22	13.3	10.6	9.0	16.7	12.9	10.9
LVMH Moet Hennessy Louis Vuitton	3.99	3.34	3.08	15.6	12.1	11.1	21.5	16.1	14.4
Median Luxury	**2.88**	**2.57**	**2.37**	**11.6**	**10.1**	**8.6**	**15.1**	**13.7**	**10.8**
Eurotech SpA	1.98	1.56	n.a.	11.1	7.2	n.a.	14.2	8.6	n.a.
Fine Foods & Pharmaceuticals	0.80	1.22	1.12	6.0	8.7	7.8	12.5	17.1	14.3
Freni Brembo SpA	1.16	1.01	0.94	6.2	5.3	5.0	10.7	9.0	11.8
Sabaf SpA	1.20	0.98	0.94	8.1	5.3	5.1	12.1	10.5	9.9
Median domestic B2B	**1.18**	**1.12**	**0.94**	**7.1**	**6.3**	**5.1**	**12.3**	**9.8**	**11.8**
Pattern SpA	**1.03**	**0.85**	**0.68**	**24.1**	**9.9**	**5.9**	**n.m.**	**17.1**	**8.0**

Source: CFO Sim, Thomson Reuters Eikon

Income statement (€ m)	2018 PF	2019	2020e	2021e	2022e
Revenues	44.1	55.6	47.8	54.0	62.6
Value of Production	44.6	55.3	47.9	54.1	62.7
Raw material and processing	(14.1)	(16.5)	(14.2)	(15.7)	(18.2)
Services	(16.9)	(23.0)	(18.7)	(19.9)	(22.9)
Personnel expenses	(7.3)	(9.2)	(12.0)	(13.0)	(13.3)
Other opex	(0.9)	(0.7)	(1.0)	(1.0)	(1.1)
EBITDA	5.4	5.9	2.0	4.6	7.2
D&A	(0.4)	(0.5)	(2.0)	(2.0)	(1.9)
EBIT	5.0	5.5	0.1	2.7	5.3
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	(0.0)	2.6	5.2
Income taxes	(1.4)	(1.6)	(0.2)	(0.8)	(1.6)
Minorities	0.0	0.0	(0.1)	(0.4)	(0.8)
Net Profit	3.5	3.8	(0.3)	1.4	2.8
Net Profit Adjusted	3.5	4.7	(0.3)	1.4	2.8

Balance sheet (€ m)	2018 PF	2019	2020e	2021e	2022e
Net Working Capital	2.7	2.5	3.8	2.8	3.1
Net Fixed Assets	1.8	2.5	5.9	4.6	3.3
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	19.0	16.7	15.8
Net Financial Debt	(3.9)	(12.4)	(3.4)	(7.0)	(10.2)
Minorities	0.0	0.0	5.4	5.9	6.7
Group's Shareholders Equity	6.9	17.4	16.9	17.8	19.4
Financial Liabilities & Equity	3.0	5.0	19.0	16.7	15.8

Cash Flow statement (€ m)	2018 PF	2019	2020e	2021e	2022e
Total net income	-	3.8	(0.3)	1.4	2.8
Depreciation	-	0.5	2.0	2.0	1.9
Other non-cash charges	-	(0.5)	(1.0)	(0.0)	(0.0)
Cash Flow from Oper. (CFO)	-	3.7	0.6	3.3	4.7
Change in NWC	-	0.2	(1.2)	1.0	(0.3)
FCF from Operations (FCFO)	-	3.9	(0.6)	4.3	4.4
Net Investments (CFI)	-	(1.9)	(5.4)	(0.7)	(0.7)
Free CF to the Firm (FCFF)	-	2.0	(6.0)	3.6	3.7
CF from financials (CFF)	-	7.8	(2.9)	0.1	(0.4)
Free Cash Flow to Equity (FCFE)	-	9.9	(9.0)	3.7	3.3

Financial ratios	2018 PF	2019	2020e	2021e	2022e
EBITDA margin	12.1%	10.7%	4.3%	8.6%	11.5%
EBIT margin	11.2%	9.9%	0.2%	4.9%	8.4%
Net profit margin	7.9%	6.9%	-0.7%	2.5%	4.5%
Tax rate	28.9%	30.2%	n.m.	30.0%	30.0%
Op NWC/Sales	6.1%	4.6%	7.9%	5.2%	5.0%
Interest coverage x	0.00	0.01	1.17	0.04	0.02
Net Debt/EBITDA x	(0.73)	(2.08)	(1.65)	(1.51)	(1.42)
Debt-to-Equity x	(0.57)	(0.71)	(0.20)	(0.39)	(0.53)
ROIC	117.7%	75.7%	-1.8%	8.2%	17.9%
ROCE	46.6%	24.1%	0.3%	9.1%	16.6%
ROACE	-	32.8%	0.3%	9.4%	17.3%
ROE	51.0%	21.8%	-2.0%	7.6%	14.6%
Payout ratio	-	47.8%	0.0%	0.0%	16.8%

| Per share figures	2018 PF	2019	2020e	2021e	2022e
Number of shares # m	13.62	13.62	13.62	13.62	13.62
Number of shares Fully Diluted # m	13.62	13.62	13.62	13.62	13.62
Average Number of shares Fully Diluted # m	13.62	13.62	13.62	13.62	13.62
EPS stated FD €	0.26	0.28	(0.03)	0.10	0.21
EPS adjusted FD €	0.26	0.34	(0.03)	0.10	0.21
EBITDA €	0.40	0.44	0.15	0.34	0.53
EBIT €	0.37	0.40	0.01	0.20	0.39
BV €	0.51	1.28	1.64	1.74	1.91
FCFO €	-	0.29	(0.05)	0.31	0.32
FCFF €	-	0.15	(0.44)	0.27	0.27
FCFE €	-	0.72	(0.66)	0.27	0.24
Dividend €	-	0.13	0.00	0.00	0.04
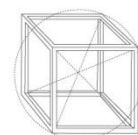
Pattern in a Nutshell

Founded in 2000 by Fulvio Botto and Francesco Martorella (current 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 outerwear niche**, operating in the **catwalk segment and first lines** of the most prestigious global luxury brands. The group **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 operates two plants: the historical facility of Collegno (Turin) and the recently acquired production structure of Spello (Perugia), following the acquisition of Roscini Atelier in 2017. **The company offers an outstanding growth path since its establishment**: **31.4% and 20.0% sales CAGR** in 2009-19 and 2013-19, respectively. Organically, the figures are 29.5% and 17.0%, in the same period.

Chart 1 – Pattern, 2000-19 top line and headcount evolution
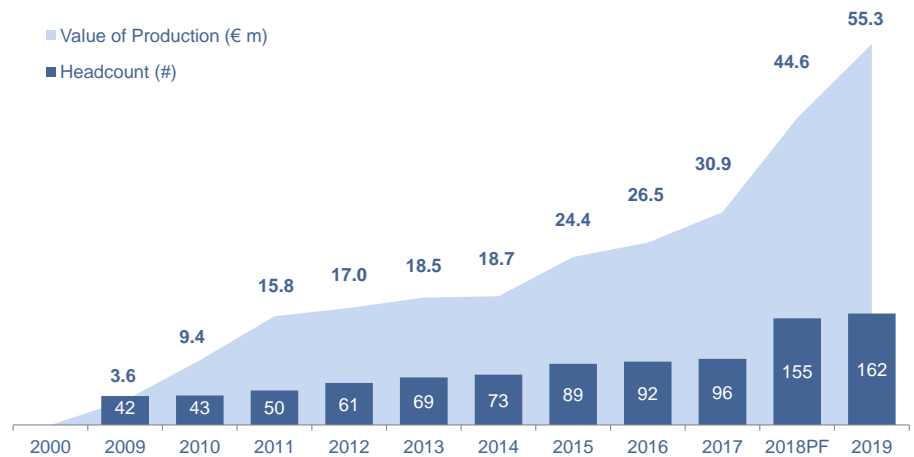
Source: Company data

Pattern's global **export sales reaches almost 90% of total revenues**. **92% of revenues comes from production**, engineering processes account for 6%. **Male apparel contributes for the bulk of top line, 64% of total** and female, thanks to the acquisition of Roscini Atelier in 2017, now accounts for 36% of total revenues. In terms of products, **outerwear represents the vast part of group turnover, 75% of total**, trouser/skirt and suits/dress stand for 3% and 19% of the turnover whilst the remainder is represented by upper wear and other items.

Chart 2 – Pattern, 2019 top line breakdown by geography and service
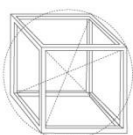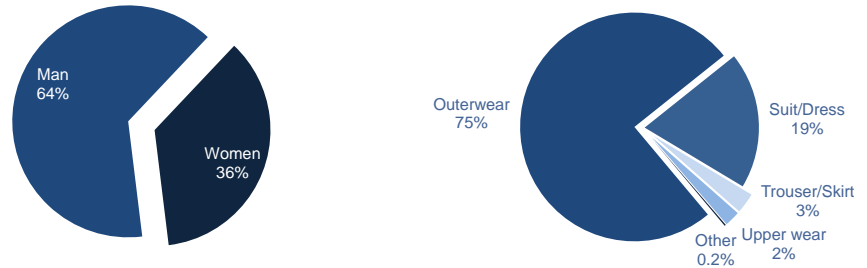

Source: Company data

Chart 3 – Pattern, 2019 top line breakdown by product line

Man 64%
Women 36%

Outerwear 75%
Suit/Dress 19%
Trouser/Skirt 3%
Upper wear 2%
Other 0.2%

Source: Company data

The group's reference market is Luxury Clothing for men and women, in particular, **Pattern focuses in the segment of "absolute luxury" brands**, players that generally outsource the engineering and production processes to trustworthy third-party suppliers.

Pattern at the end of 2019 had a portfolio of 22 clients, amongst domestic and global brands operating in the absolute luxury clothing sector. **The client loyalty is very high:** 86% of customers have chosen Pattern as their engineering, developing, producing and technology solution partner for over 10 years and 9% for a period between 3-10 years. **Burberry, Hermès, John Galliano, Kering** (with 2 brands)**, LVMH** (with **Berluti, Cèline, Dior, Fendi**)**, Tom Ford, Tommy Hilfiger, Richemont** are few of the most remarkable absolute luxury brands boasted in the Pattern customer portfolio.

Chart 4 – Pattern, group's active partnerships evolution

<2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
7	9	13	16	21	22	18	13	19	20	22
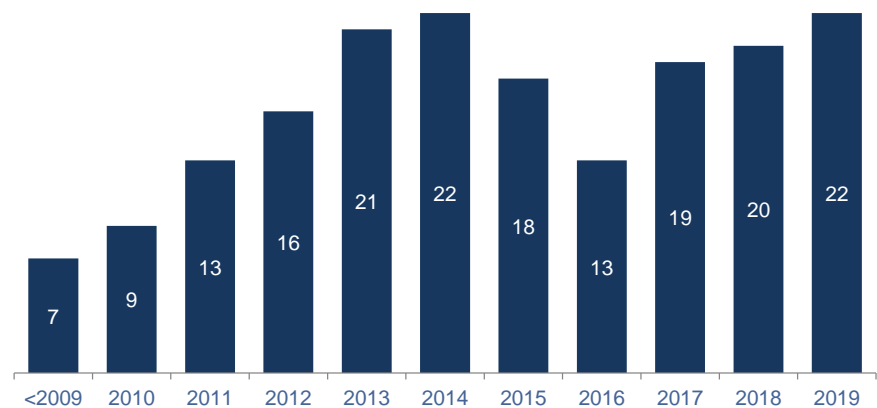
Source: Company data

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 generation, limited Capex and WC needs and IPO proceeds

Since 2015, Pattern voluntarily draws up the **sustainability report** according to the reporting guidelines of the Global Reporting Initiative (GRI Standard), underlining its attention to the *Corporate Social Responsibility* principles. The company is also committed in achieving the objectives set out from the United Nation's **Sustainability Developments Goals;** the four specific goals are: 1) gender equality, 2) decent work and economic growth, 3) industry innovation and infrastructure and 4) responsible production and consumption. **In an industry where sustainability is increasingly becoming a customer request, Pattern has a strong competitive advantage vs. its competitors.** From the environmental point of view, **Pattern has implemented a five year plan to become Carbon Neutral by 2022.**
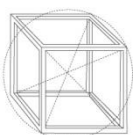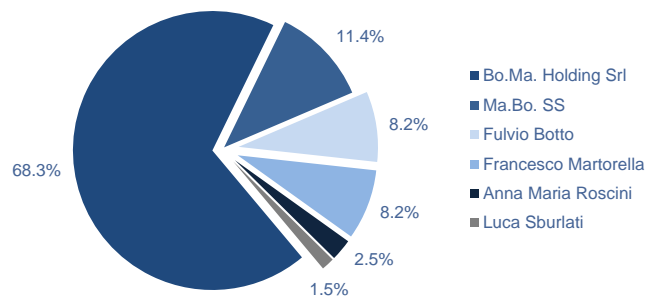
Shareholder Structure

Pattern went public on 17-Jul-19 on the AIM Italia with a **market capitalisation of € 44.2m** and a **free float of 24.9%, raised to 28.2% after the exercise of the green-shoe option.** Pre-IPO shareholders have an 18 month lock-up.

The IPO encompassed a **primary and secondary offering, for a total amount of € 12.5m**. The **capital increase was € 8.5m**, on offer to professional investors. The two founders Fulvio Botto and Francesco Martorella, who owned overall 96.0% of Pattern at the time of the IPO (directly and through Bo.Ma. Holding Srl and Ma.Bo. SS), **sold € 2.5m.**

Moreover, an overallotment **green-shoe option was provided by the founders for € 1.5m and it was entirely exercised** by the global coordinator on the 24th-July.
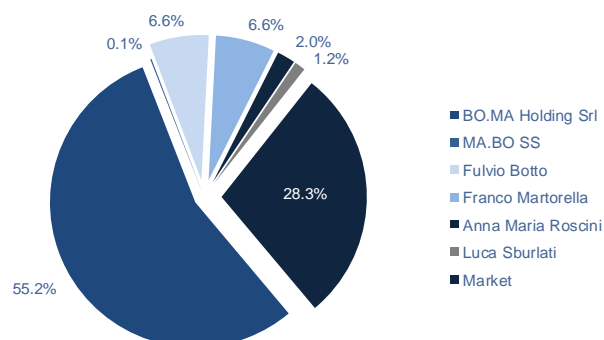
Among the pre-IPO shareholders there was also Anna Maria Roscini (previously shareholder of Roscini Atelier) with 2.5% of share capital (2.0% post-IPO) and Luca Sburlati (Pattern's CEO) with 1.5% (1.2% post-IPO).

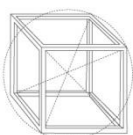**Chart 5 – Pattern, shareholder structure Pre-IPO**

Source: Company data

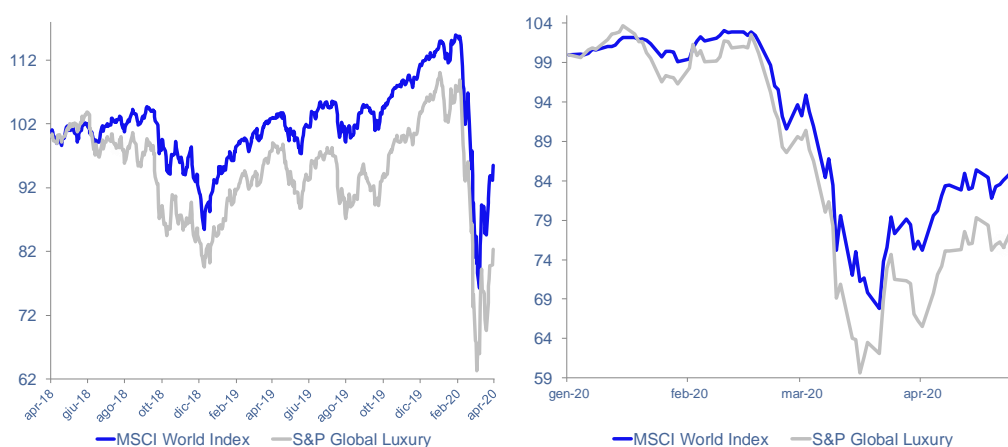**Chart 6 – Pattern, current shareholder structure**

Source: Company data

COMPANY FY RESULTS

Chart 8 – Pattern, Personal Luxury Goods – Historical trend, 2019 and 2025 forecasts
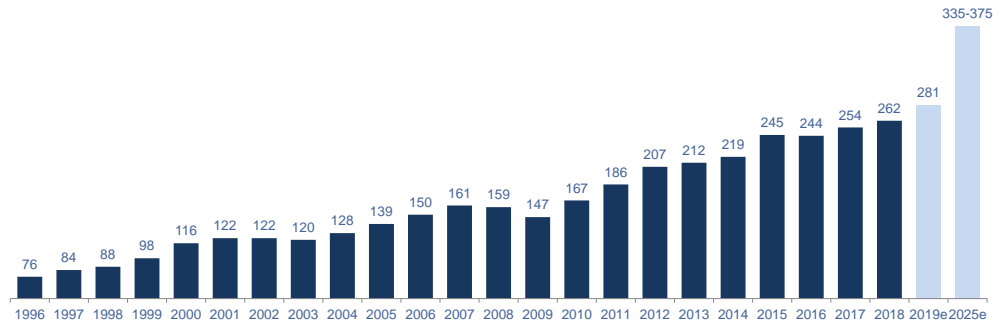
Source: Bain & Company – Altagamma 2019, estimates before COVID19

Pattern is focused on the luxury fashion segment, which accounts for 35% of the entire personal luxury goods market and recorded a $CAGR_{12-19}$ of +4.0%, reaching € 100bn in 2019, +3% YoY. We can also break up the luxury fashion segment into Apparel and Footwear, with the first one representing 71% of the segment (€ 71bn in 2019).

The luxury fashion segment is anticipated to steadily rise at **2.3% $CAGR_{19-23}$, reaching € 110bn in 2023**, of which € 77bn shall be related to the apparel sector (estimates before COVID19).

Chart 9 – Pattern, Luxury Fashion – Historical and future trend (€ bn)
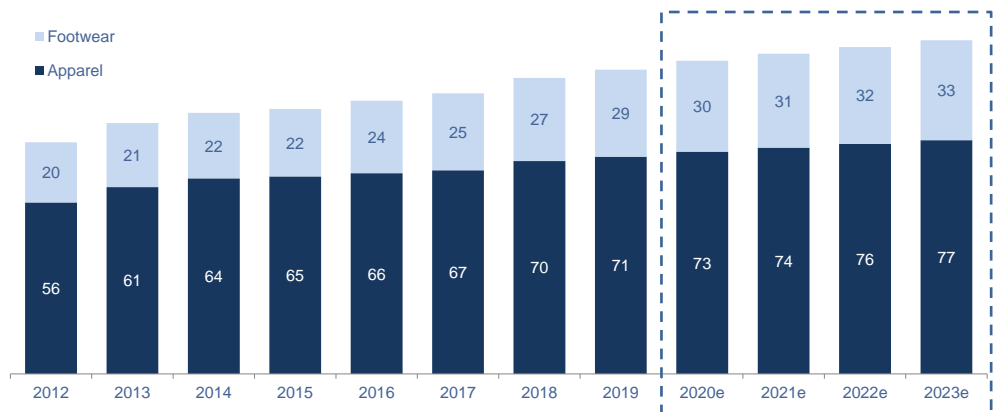
Source: Statista, November 2019, before COVID19

From a geographical point of view Europe and US are the key markets for personal luxury goods, accounting in 2019 for 31% and 30% respectively. In terms of pure consumption, the Chinese represents the major consumer nationality with 35% of market share.
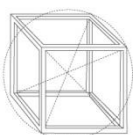
Chart 10 – Pattern, Personal Luxury Goods - Geographical segmentation
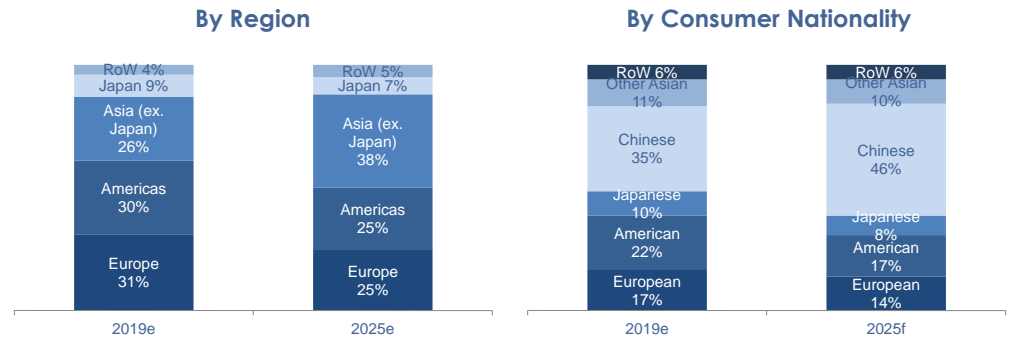
Source: Bain & Company – Altagamma 2019, before COVID19

In the next few years Chinese consumers, despite the current temporary slowdown, will continue to increase their purchases both in terms of local consumption and international shopping. **In 2025, 22% of global personal luxury goods purchases will take place in China and 46% of personal luxury goods consumers worldwide will be Chinese.**

Nevertheless, Europe and US, the two geographical areas where top luxury houses are based, of which are the best clients of Pattern, **still hold a leading positioning in terms of purchases of personal luxury goods.**

Overall, in the next few years, after an inevitable reflective period linked to the current pandemic, even more so growth will be driven by a few market and macro trends such as **reshoring, casualization, sustainability, millennial / Gen Z shoppers, rebound of China and "Made in Italy".**

Made in Italy and Reshoring

Made in Italy is one of the undisputed key success factors in the global luxury fashion market. In particular, for apparel and accessories, Italy is considered the most appealing "Made-in market": according to a survey made by Boston Consulting Group, 29% of the interviewees said Italy is the best producer of luxury goods, ahead of France (23%), the USA (12%) and Switzerland (10%). The perception of high quality standards given by the "Made in Italy" goods caused in the last three years about 90 companies operating in the luxury sector to **relocate their production activities from foreign countries to Italy.** The reshoring trend is also driven by other important reasons, such as:

➢ **Wage inflation overseas:** in the recent years, labour costs have increased significantly in China, Vietnam, Romania, Serbia and other Eastern countries;

➢ **Logistic costs:** relocating the production activities has allowed companies to minimise the logistic costs and the risk of fluctuation in freight costs and import duties;

➢ **Time to market:** reshoring reduces delivery time and allows companies to be more flexible, hence, better satisfying customer requests;

➢ **Public incentives:** some western countries are trying to re-boost their economies by incentivising companies to relocate back to home countries.

With two plants located in Italy, Collegno (Turin) and Spello (Perugia), **Pattern is able to provide its clients with best-in-class "Made in Italy" products and services,** appreciated worldwide, as the group in 2018 generated more than 80% of revenues abroad.
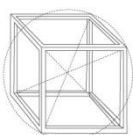
Rebound of China

As Chinese consumers will resume to increase their purchases both in terms of local consumption and international shopping, **China remains an undisputed key growth driver** of the fashion industry in the coming years. During the last few years the preferences of Chinese consumers has changed. Urbanisation, increasingly available income and bargaining power has allowed consumers to value trendy products and tailored initiatives. Furthermore, the local consumption is expected to grow rapidly going forward, mainly due to healthier fundamentals:

- ➢ **Lower price differentials;**

- ➢ **Improved customer experience** also thanks to the increase in the online sales;

- ➢ **Possible reduced import taxes;**

- ➢ Chinese government policies on boosting **internal consumption;**

- ➢ **New demand** from growing mid-class and Gen Z.

Younger Generations and Casualization

The younger generations, especially Gen Y (millennials) and Gen Z, show an increasingly greater interest towards luxury goods and they are more inclined to spend on luxury items, as they are strongly influenced by the urbanisation process and consequently more interested in showing their social status than in previous generations. In 2019 the Gen Y represented 35% of personal luxury goods consumers and Gen Z 4%. In 2025, Gen Y is anticipated to reach 45% market share, while Gen Z is expected to drive growth, soaring up to 10%. This trend has forced brands to evolve and innovate across different dimensions, such as the decrease of formal in favour of casual, the increase of alternative purchasing channels (i.e. website, app, social networks), different communication territories and growing attention on sustainability. In particular, **the casualization of the fashion industry appears to be a significant driving trend in the sector.**
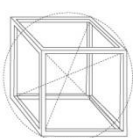
Competitive Arena, Addressable Market

Pattern's addressable market stands within the **absolute luxury brands apparel segment**. Particularly, the group works alongside the main absolute luxury houses (Burberry, Hermès, Kering, LVMH, PVH) for catwalk collections, focusing on high value-added outerwear, dresses and tailoring. In the absolute luxury niche, the leading brands are progressively increasing outsourcing of the engineering and production processes for the catwalk collections to independent subcontractors. For this reason, **Pattern's strategy is to strengthen the relationships with existing clients and build new ones** with other absolute luxury brands, with the hope to **become the market leader in the "Made in Italy" luxury fashion engineering.**

Table 1 – Pattern, Absolute Luxury Brands, production structure

Company	Country	Revenues 2019 (FY0) € bn	Apparel on revenues %	Outsourcing	Focused on "Made in Italy"
LVMH [1]	France	22.2	20%	✓	✓
Kering	France	15.9	14%	✓	✓
PVH	USA	8.9	n.a.	✓	✓
Hermès	France	6.9	23%	✓	✓
Ralph Lauren	USA	5.8	n.a.	✓	
Chanel [2]	France	4.2	n.a.		
Prada	Italy	3.2	24%		✓
Burberry	UK	3.2	62%	✓	✓
Hugo Boss	Germany	2.9	n.a.	✓	✓
Piug [3]	Spain	1.9	n.a.		
Richemont [4]	Switzerland	1.5	11%	✓	✓
Ferragamo	Italy	1.4	5%	✓	✓
Valentino	Italy	1.2	n.a.	✓	✓
Cucinelli	Italy	0.6	87%	✓	✓

[1] LVMH revenues relate to the Fashion and Leather Goods segment;
[2] Chanel 2018 revenues relate to estimated "fashion" segment including cosmetics;
[3] 2018 revenues
[4] Richemont revenues relate to the "Clothing" segment.

Source: company analysis end estimates on public annual reports

The Niche of Luxury Fashion Manufacturing

In 2019 the global personal luxury goods market was worth € 281bn, within which the luxury fashion segment was € 100bn, of which € 71bn derives from apparel. **Within the luxury fashion apparel, we can identify the addressable market for Pattern in the range of absolute luxury brands (€ 13bn),** such as Burberry, Hermès, Kering, LVMH, PVH and so on. In order to better define the competitive arena in which the company operates, we have to consider only the part of the market composed by third-party independent subcontractors to which the luxury brands outsourced the engineering and production of the catwalk collections. By removing the estimated profit margin generated by the luxury fashion apparel houses, the **"Made in Italy" luxury fashion manufacturing market generates some € 1bn of annual sales.**

Pattern operates mainly in the outerwear segment of the market and, thanks to the acquisition of S.M.T. the group entered in the knitwear segment, too. Overall, both these segments amount to approximately € 600m. The remaining € 400m comprises of **leather apparel and accessories. This portion of the market is seen as a growth opportunity for the consolidation and product diversification for the company.**
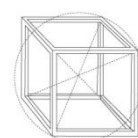
Business Model

Pattern is the reference partner of the main absolute luxury brands for modelling, engineering, grading, prototyping and production of garments for catwalk and first lines. Every year Pattern manages some 30 top range collections, running the entire engineering and production cycle, from patterns to prototypes, to the creation of ready-to-wear garments and successive productions.

The key success factors of the group's business model can be identified in:

- ➢ **Quality:** advanced technologies, highly skilled and committed personnel, full control of the supply chain, attention to sustainability and circular economy;

- ➢ **Speed:** using the best-in-class technologies and proven procedures, the company has a superior time-to-market vs. competitors;

- ➢ **Flexibility:** vertical integration of the different phases of the value chain, from pattern to production;

- ➢ **Reputation:** over 20 years of experience in luxury fashion engineering next to the best in class fashion houses.

Pattern has an extremely flexible production structure. The company manages directly every strategic activity from garment engineering to prototypes and samples creation, from manufacture of the "capo staffetta" (a sample to check one last time the garment before the production) to quality control activity. The group employs one of the largest independent pattern-making and engineering teams worldwide, with more than 40 craftsman and 40 prototypists. **The manufacturing phases are outsourced** to a plethora of suppliers ('façonists'), mainly located in Italy, maintaining **full control over the entire value chain quality, thus offering stakeholders a valuable asset light firm.**

Chart 11 – Pattern, value chain analysis
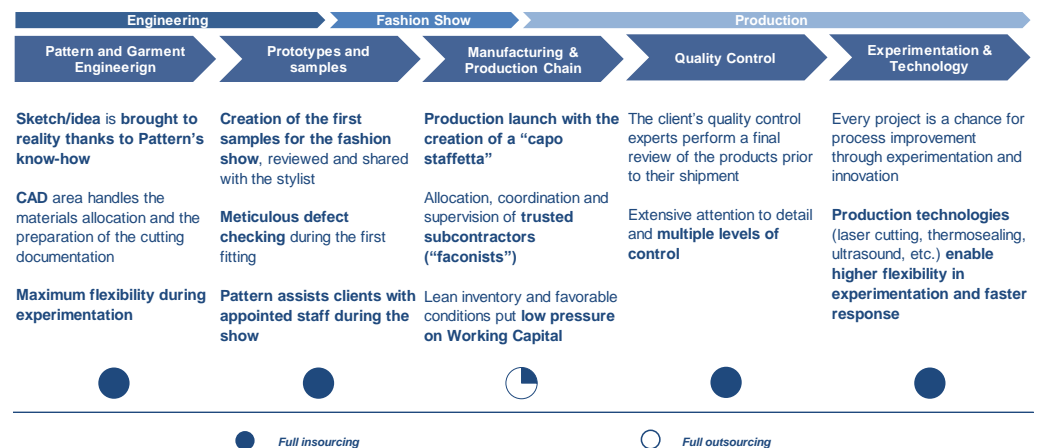
Source: company data

Pattern's value chain can be explained as follow:

1) **Pattern and garment engineering:** thanks to its two-decade know-how, the company is able to pattern-make the catwalk collection starting from stylist sketches. The stylists' ideas are developed both manually and thanks to the best and newest software and programs. **These activities are carried out internally through a dedicated team** operating in two areas: the technical direction area realizes patterns whilst the CAD area develops models and technical documentation used to create prototypes, also defining raw materials allocation.
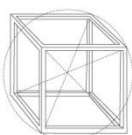
2) **Prototypes and samples:** Pattern creates the prototype and submits it to the stylist of the fashion house in order to fix any minimum defect. Then the first sample for the catwalk is produced and shared with the stylist. This phase is **completely internalised**. When required, Pattern also assists clients with appointing staff during the fashion shows.

3) **Manufacturing and production chain:** after the fashion show the client decides which prototypes will be produced and provides Pattern with production quantities. Pattern launches the production with the creation of the "capo staffetta", checking the garment one last time and then **the bulk of production is outsourced to external façonists.** The suppliers have long-lasting established relationships with Pattern and are located mainly in Italy and Romania. They take care of the cutting, preparation, tacking, sewing, ironing, finishing, testing, tagging and packing phases. **Pattern directly supervises all the activities outsourced to the façonists,** most of which adheres to the SA8000 Corporate Social Responsibility standards, which has become more required by customers.

4) **Quality Control:** all manufactured products and finished items return to Pattern where they are subjected to strict quality control in order to ensure high quality standards. They are then sent to the client. The company is also able to carry out the checks required by eastern markets to check metal contamination, using X-Ray machines.

5) **Experimentation & Technology:** Pattern invests constantly in product and process innovation. Innovative technologies are applied to all phases of the value chain: Product Data Management, CAD software, 3D patter-making, laser cutting, thermos-sealing, ultrasound machine. These state of the art production technologies enable higher flexibility in experimentation and faster response to clients.

Pattern also owns a proprietary brand: ESEMPLARE. The company uses the brand for its R&D activity, experimenting new fabrics and using the newest manufacturing technologies. Under the Esemplare brand Pattern realises new coats and jackets with innovative techniques, consisting of 100% recycled fibres and no furs or goose down. All the Esemplare garments are made without traditional seams but using heat-sealed and ultrasonic seams, these are completely waterproof and are realised using a patented innovative technique called "reversed Y" construction. Esemplare can be considered **the best marketing tool for Pattern, as the company is able to show its clients its development capabilities in terms of garment production techniques and highly innovative fabrics.**

S.M.T. Acquisition

Pattern bought 51% of S.M.T. for € 5.5m last Dec-19, indisputably delivering what they promised in the IPO. This fairly paid acquisition in the **knitwear niche** (valued some € 300m), ,a highly synergic segment in which the group was not present, is the first step to build the Italian leading hub of luxury fashion engineering. **The group enlarged its customer base, adding a few new luxury brands to its portfolio.**

S.M.T. (Società Manifattura Tessile), 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 technologies and machinery for the knitwear production, the firm is able to satisfy all weaving needs of its clients. The S.M.T. **business model is pretty similar to Pattern's**: 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.
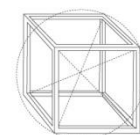
Pattern paid € 5.5m for 51% of the company, of which € 1.1m at closing date and the remainder at the approval of the S.M.T. FY-19 results. The price corresponds to **5.8x 2019e EBITDA adj.**, and it compares with 7.1x of the median of a sample of domestic B2B players and 11.6x of the median of a panel of luxury players. In 2019 S.M.T. expects revenues to exceed € 17.0m (€ 11.3m in FY-18), adj. EBITDA at € 2.4m (margin of 14.0% vs. 8.8% reported in FY-18) and NFP at € 3.0m debt (vs. € 3.5m debt in FY-18). S.M.T. was **consolidated as from Jan-20**.

Strategy

After the outstanding growth path recorded since its establishment, Pattern is now aiming to continue its development and consolidation of its competitive positioning, aiming at becoming **the market leader in the "Made in Italy" luxury fashion engineering.** Group growth strategy is based on both organic and external growth, strengthening existing partnerships, gaining new clients among absolute luxury brands and expanding into new segments such as knitwear, leather apparel and accessories.

Coherently to its growth path, Pattern's principal strategy is focused on:

➢ **Continuing with organic growth:** Pattern aims to increase its client portfolio, gaining new partnerships with absolute luxury brands and strengthening the relationships with the existing ones. With the Roscini acquisition the company entered in the woman apparel segment and has started working with a lot of brands not yet covered, such as Fendi and Hermès. Furthermore, S.M.T. acquisition allowed Pattern to penetrate the knitwear niche. The potential synergies deriving from the Roscini and S.M.T. integration allow Pattern to exploit cross-fertilisation opportunities.

➢ **Pursuing external growth opportunities:** the reference market is highly fragmented with a few medium-sized players and a plethora of small local actors. As of today, CFO SIM estimates Pattern is the second Italian player specialised in modelling, engineering, grading, prototyping and production of luxury clothing for men and women, leader in the outerwear niche. In order to further expand its business and after the S.M.T. acquisition, Pattern is still looking for M&A opportunities among companies operating in different product categories, namely leather apparel and accessories.

➢ **Technological development:** in the last few years Pattern invested in prototyping and production technologies. Since 2013 the company has used the most advanced versions of CAD and PDM and is working with the main absolute luxury brands and Italian research centres to develop the 3D-CAD technology. They plan to use this technology to demonstrate to their client how the final garment shall look in the prototyping phase. In addition, Pattern is investing in a new innovative warehouse equipped with the RFID blockchain technology able to satisfy the increasing industry requests for transparency and traceability of products. Total investment for the warehouse is worth € 1.0m.

➢ **ESEMPLARE:** the proprietary brand is greatly recognised by the market thanks to its sustainable approach and innovative technological solutions used to produce the garments. Pattern intends to continue to use the Esemplare brand as a R&D tool platform for the experimentation of new fabrics and technologies, in order to show to existing and potential clients its own development capabilities. The goal is also to sign new partnerships with the main luxury retail operators (such as the one recently signed with Saks Fifth Avenue in USA).
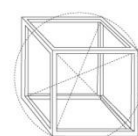
Porter's 5 Forces

According to Michael Porter the competitive structure and the degree of attractiveness of an industry are a function of the **simultaneous interaction of the five forces**. Their analysis allows to evaluate the competitive position of a firm within a given industry.

- **Competitors**, intensity of competition.
- **Suppliers**, bargaining power.
- **Customers**, bargaining power.
- Potential new **competitors**.
- **Substitute** products.

The luxury fashion engineering segment in which Pattern operates is a business that can be labelled as **ATTRACTIVE** and characterized by:

- **A light monopolistic competitive market:** Pattern is a large sized player in a highly fragmented industry with a large number of small local players, which are not direct competitors but rather possible M&A targets. Production capacity is not an issue in this segment, on the back of the vast amount of sub-suppliers out there. The 360° service offered makes the difference: pattern-making, technology developing capabilities, engineering and production planning are key competitive advantages.

- **No issue of weighty suppliers**. Pattern has an extremely flexible production structure. It manages directly every strategic activity (i.e. garment engineering, prototypes and samples creation, manufacture of "capo staffetta", quality control) whilst the manufacturing phases are outsourced to a plethora of façonists. The first ten production goods suppliers account for 46% of the total purchases of production goods whilst the first ten production services suppliers account some 60% of total purchases of production services.

- **Highly concentrated client base with potentially high bargaining power**, however the client vertical integration is a rather remote risk. The top five customers make 92% of total sales. On the other hand, 86% of revenues is generated by clients with more than 10 years of loyalty: Pattern is their engineering, developing, producing and technology solution partner.

- **Solid barriers to entry,** represented by craftsman availability and to a lesser extent a few technology solutions. Skilled people are scarce but available on the market, as well as technology: the relatively long time needed to develop a structure from scratch might deter possible newcomers. Furthermore, consistent high levels of technology innovation/development as well as compliance to high sustainability standard levels represent defendable entry barriers, corroborated by constant and ongoing R&D investments.

- **The substantial absence of potential substitutes.** Pattern is a leading player specialised in the high-end clothing segment: luxury items are more than lone products, they are emotions and sensations embodied in a dress or in a suit.

Chart 12 – Porter's 5 forces industry summary

Rivalry amongst competitors	Low	A monopolistic competition market rather disciplined	+	**+**
		Highly fragmented industry, Pattern is a consolidating player	+	
		Production capacity is not an issue	+	
Bargaining power of suppliers	Low	Key strategic activities performed in house	+	**+**
		Façonists availability is generous on the market	+	
Bargaining power of customers	Medium High	Concentrated client base with potentially high bargaining power	-	**+/-**
		Clients ideally can vertically integrate, but they do not	+/-	
		Relevant client loyalty: 86% of sales generated by clients with more than 10Y seniority	+	
Threats of new entrants	Medium Low	People and technology solutions make the selling proposition strong and appreciated...	+	**+/-**
		...however they are eventually avaiable on the market	-	
		The long time needed to develope a structure from scratch might deter possible new comers	+	
Threats of potential substitutes	Low	Low threat of substitution in static terms, limited cross-elasticity of goods	+	**+**
		Absolute luxury items communicate emotions and feelings rather than a destination of use	+	
		Emotional content perception is purchase driver, low price sensitivity	+	

Source: CFO Sim, Company data
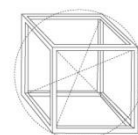
SWOT Analysis

The SWOT analysis, also known as SWOT Matrix, is a structured planning method used to evaluate the strengths, weaknesses, opportunities and threats involved in a project or in a business venture. A SWOT analysis can be carried out for a product, place, industry or person. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favorable and unfavorable to achieve that objective.

- ➢ **Strengths**: characteristics of the business that give it an advantage over others.
- ➢ **Weaknesses**: characteristics that place the business at a disadvantage vs. others.
- ➢ **Opportunities**: elements that the project could exploit to its advantage.
- ➢ **Threats**: elements in the environment that could cause trouble or be detrimental for the business or project.

The technique is credited to Albert Humphrey, who led a research project at Stanford University between the 60's/70's using Fortune 500 data.

S.W.O.T. ANALYSIS

STRENGTHS	WEAKNESSES
☐ **Reference partner of the key absolute luxury brands**	☐ **Clients concentration:** top 5 clients generated 91.8% of 2019 sales
☐ **Made in Italy** as primary key success factor in the luxury fashion industry	☐ Management functions concentrated in **few key people**
☐ **R&D investments:** innovative fabrics and garment production techniques (**ESEMPLARE**) and advanced **3D pattern-making** technologies	☐ **Suppliers concentration**: the first 5 accounts for 32% and 45% of total purchases of raw material and services respectively
☐ **Several market segments served:** man, woman, outerwear, knitwear	☐ **Limited sustainability certified façonists** available, mainly in East Europe
☐ **Flexible manufacturing structure**, low WC pressure	
☐ **Client loyalty:** 86% of 2019 sales stems from clients with >10 years of loyalty	

OPPORTUNITIES	THREATS
☐ **Consolidation opportunities** in the highly fragmented domestic market	☐ Some absolute luxury brands may decide for the **insourcing of the engineering and production process,** even if it is highly unlikely
☐ **Penetration in new high value added segments**, such as leather apparel and accessories	☐ **Shortage of highly skilled and committed personnel**
☐ The increased market attention to **sustainability and circular economy**	☐ The rise of **new engineering and productive technologies**, not implemented by Pattern, may reduce its competitive advantage
☐ Growing demand for luxury fashion and products by **younger generations**	☐ **Reputational risk:** a negative perception of services provided could impact negatively in the long term
☐ Growing demand for **casual and high technological content fashion apparel**	☐ **New potential consolidating actors** in the industry with huge fire power (i.e. private equity funds)
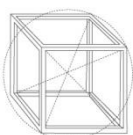
Considerable FY-19 Results

Pattern reported remarkable 2019 results, better than CFO SIM estimates and IPO guidance. Top line soared by almost 25% and profitability growth proportionately exceeded. Cash generation is massive: EBITDA FCF conversion is 36.3%. Pattern boasts a cash pile of € 12.4m at end-19.

Table 2 – Pattern, FY-19 results summary

| € m	2019	2018PF	% YoY	2019e	% Diff.
Revenues	**55.6**	**44.1**	**26.1**	**54.2**	**2.7**
Increase in finished products	(0.4)	0.2		0.0	
Other revenues	0.1	0.3		0.1	
Value of Production	**55.3**	**44.6**	**24.2**	**54.3**	**2.0**
Raw material and processing	(16.5)	(14.1)		(17.5)	
Services	(23.0)	(16.9)		(21.7)	
Personnel expenses	(9.2)	(7.3)		(7.5)	
Other opex	(0.7)	(0.9)		(1.1)	
EBITDA	**5.9**	**5.4**	**10.5**	**6.5**	**(9.0)**
% margin	*10.7*	*12.1*		*12.0*	
D&A	(0.5)	(0.4)		(0.8)	
EBIT	**5.5**	**5.0**	**10.5**	**5.8**	**(4.6)**
% margin	*9.9*	*11.2*		*10.6*	
Financials	(0.1)	(0.0)		(0.1)	
Pre-Tax profit	**5.4**	**5.0**	**9.7**	**5.7**	**(4.7)**
% margin	*9.8*	*11.1*		*10.5*	
Income taxes	(1.6)	(1.4)		(1.5)	
Tax rate	*30.2%*	*28.9%*		*27.0%*	
Minorities	0.0	0.0		0.0	
Net Profit	**3.8**	**3.5**	**7.6**	**4.2**	**(9.0)**
% margin	*6.9*	*7.9*		*7.7*	
EBITDA adj.	**7.2**	**5.4**	**33.5**	**6.5**	**10.0**
% margin	*13.0*	*12.1*		*12.0*	
EBIT adj.	**6.7**	**5.0**	**35.4**	**5.8**	**16.9**
% margin	*12.2*	*11.2*		*10.6*	
Net Profit adj.	**4.7**	**3.5**	**32.9**	**4.2**	**12.4**
% margin	*8.5*	*7.9*		*7.7*	

Source: Company data, CFO SIM analysis

2019 total revenues reached € 55.7m, up 25.5% vs. € 44.4m pro-forma sales in 2018. The figure is 2.7% higher than CFO SIM estimates. Furthermore, the company exceeded the guidance provided to the market in occasion of the IPO: value of production for FY-19 was anticipated between € 54.2m and € 55.1m. **Turnover in Europe totalled €48.4m, up 37.1% YoY**, and represented 88% of total, Italy accounted for € 6.6m, down 16.5% vs. 2018 and was 12% of consolidated top line.

EBITDA adjusted for non-recurring costs related to the listing process was € 7.2m, 12.9% margin. Our € 6.5m forecast did not include the IPO costs too, since we anticipated them entirely capitalised in our model. EBITDA reported totalled € 5.9m, 10.6% margin and compares with € 5.4m pro-forma EBITDA in 2018 (12.2% margin). After € 0.5m D&A, evidence of the asset-light business model, EBIT adj. soared by 35.4% YoY € 6.7m and compares with our € 5.8m forecast. Adjusted operating margin is 12.2%, +100bps vs. 2018. **Net profit adj. increased 32.9% to € 4.7m** from € 3.5m in 2018, adj. net margin is 8.5%.

Net Financial Position improved to € 12.4m cash from € 3.9m cash at end-18, thanks to the € 8.5m IPO fresh resources and a generous cash flow generation. Bear in mind that CFO SIM Net Financial Position projection of € 10.8m cash at the end-19 includes € 1.0m capitalised costs related to the listing process, whilst Pattern charged them into P&L instead of capitalising. **Pattern will not distribute any dividend.**
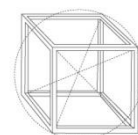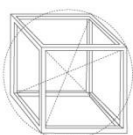
Estimates, Valuation & Risks

Pattern reported amazing 2019 results, better than CFO SIM estimates and IPO guidance. Profitability grew more than proportional to top line and cash generation is massive: Pattern sits on a cash pile amounting at € 12.4m. In addition, last dec-19 SMT acquisition allows Pattern to 1) enter the knitwear niche (valued some € 300m), an highly synergic segment in which the group was not present, 2) take the first step to build the Italian leading hub of luxury fashion engineering and 3) to enlarge its customer base, adding a few new luxury brands to its portfolio.

Nonetheless, the current necessary severe restrictions on people mobility in order to contain the dramatic rapid expansion of COVID-19 will certainly have a significant impact on production, trade and consumption. The damage caused by the pandemic will be serious and widespread. Many key clients of Pattern are updating on the impact of this plague: while **trading in China has started to improve** with the reopening of most of the luxury stores, **revenues in EMEA and the Americas have fallen materially** in recent weeks. Even if Pattern usually exhibits six month business visibility, **the current state of affairs will certainly have a negative influence on the 2020 Fall Winter incoming orders with an effect on FY-20 numbers.** In addition, we believe 2021 Spring-Summer will be inevitably impacted too, with order collection expected as of Q3-20.

In such troubled times, successful companies will be the ones that make moves early, focus on boosting earnings over revenue growth, and work out how to improve productivity while ensuring operational and financial flexibility. In this context, Pattern boasts 1) the ability to work on **different areas (men, women and knitwear) and customers**, 2) relevant **technology competences** for the remote development of collections via 3D pattern-making, 3) high **customer loyalty**, 4) a flexible manufacturing structure with a relevant degree of **outsourced production** (80% of variable costs), 5) **low WC pressure**, and 6) an **extremely solid balance sheet.** All to weather the storm. In addition, the current market uncertainties, might contribute to make arise **interesting acquisition opportunities**.

We updated our model to factor in 1) the effect of a **meagre 2020 Fall-Winter and 2021 Spring-Summer order collections** and 2) a certain **shrinkage of payable** terms (in order to preserve Pattern's supplier integrity) and a minimal **receivable enlargement**. We left basically unchanged the weight on value of production of purchasing and services and factored in a certain **lightening effect on personnel costs** (Wages Guarantee Fund) in addition to a voluntary 25%-20% reduction of CEO's and top management's fixed and variable salary for 12 months. **The result in 2020-21 is an average slash of 37% and 67% in sales and EBITDA** respectively. We introduced 2022 estimates, too.

Our valuation of Pattern is now based on DCF rather than a peer multiple based appraisal since it would over penalise the stock, overweighting a dramatic year for the industry. The short term is certainly difficult, but the group is well positioned to benefit from a reversal in the medium term. **Also the 13.7% upside to the new PT of € 4.40 (€ 5.80), prompts us to adopt a cautious stance**, required by the current high volatility and low visibility on the business evolution: **rating downgraded to Neutral (too early to buy)** from Buy.

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 3 - 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)	1.28%
Beta levered (x)	1.00
Required ROE	**10.3%**

Source: CFO Sim, Thomson Reuters Eikon

Risk premium at 9.0% factors in the minute size of the company and basically all AIM Italia market segment related concerns and disquiets 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 0.97x. The WACC is computed using 0/100% debt/equity current balance sheet structure, thus disciplining the valuation of the group.

Table 4 - Pattern, DCF model

€ k	2020e	2021e	2022e	2023e	2024e	Term. Val.
EBIT	0.1	2.7	5.3	6.6	8.2	
Tax rate	30.0%	30.0%	30.0%	30.0%	30.0%	
Operating profit (NOPAT)	**0.1**	**1.9**	**3.7**	**4.6**	**5.7**	
Change working capital	(1.2)	1.0	(0.3)	(0.0)	0.0	
Depreciation	2.0	2.0	1.9	1.6	0.5	
Investments	(5.4)	(0.7)	(0.7)	(0.5)	(0.5)	
Free Cash Flows	**(4.6)**	**4.1**	**4.6**	**5.7**	**5.8**	**62.6**
Present value	(4.3)	3.5	3.6	4.0	3.6	**39.6**
WACC	10.3%	10.3%	10.3%	10.3%	10.3%	
Long-term growth rate	**1.0%**					

Source: CFO Sim

Table 5 – Pattern, DCF derived from:

€ m	
Total EV present value € m	50.1
thereof terminal value	*79.2%*
NFP last reported	12.4
Pension provision	(0.9)
Minorities (valued at acquisition 7.8x PER)	(1.0)
Equity value € m	**60.6**
#m shares	13.62
Equity value €/s	**4.40**
% upside/(downside)	*13.7%*

Source: CFO Sim

The outcome of our DCF model set up an equity value of € 60.6m for Pattern, € 4.40/s.

The following tables illustrate that sensitivity 1) compared to changes in the terminal growth rate produces an equity value between **€ 4.14-4.83/s (perpetuity range between 0.00% and 2.00%)**, while 2) compared to changes in the free risk rate produces an equity value of **€ 4.03-4.97/s (free risk range between 2.28% and 0.28%)** and 3) compared to changes in the risk premium, including small size premium results into an equity value of **€ 3.68-5.64/s (risk premium range between 11.0% and 7.00%)**.
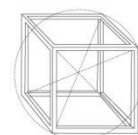
Table 6 – Pattern, equity value sensitivity to changes in terminal growth rate

€ m	0.00%	0.25%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%
Present value of CF	10.4	10.4	10.4	10.4	10.4	10.4	10.4	10.4	10.4
PV of terminal value	35.4	36.4	37.4	38.5	39.6	40.8	42.1	43.5	44.9
Total value	**45.8**	**46.8**	**47.8**	**48.9**	**50.1**	**51.3**	**52.5**	**53.9**	**55.3**
NFP last reported adj.	12.4	12.4	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)	(0.9)	(0.9)
Minorities	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Equity value	**56.3**	**57.3**	**58.3**	**59.4**	**60.6**	**61.7**	**63.0**	**64.4**	**65.8**
Equity value/share €	**4.14**	**4.21**	**4.28**	**4.36**	**4.40**	**4.54**	**4.63**	**4.73**	**4.83**

Source: CFO Sim

Table 7 – Pattern, equity value sensitivity to changes in free risk rate

€ m	0.28%	0.53%	0.78%	1.03%	1.28%	1.53%	1.78%	2.03%	2.28%
Present value of CF	10.8	10.7	10.6	10.5	10.4	10.3	10.2	10.1	10.0
PV of terminal value	46.4	44.5	42.8	41.2	39.6	38.2	36.8	35.5	34.3
Total value	**57.2**	**55.2**	**53.4**	**51.7**	**50.1**	**48.5**	**47.0**	**45.6**	**44.3**
NFP last reported adj.	12.4	12.4	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)	(0.9)	(0.9)
Minorities	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Equity value	**67.7**	**65.7**	**63.9**	**62.2**	**60.6**	**59.0**	**57.5**	**56.1**	**54.8**
Equity value/share €	**4.97**	**4.83**	**4.69**	**4.57**	**4.40**	**4.33**	**4.23**	**4.12**	**4.03**

Source: CFO Sim

Table 8 – 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	11.2	11.0	10.8	10.6	10.4	10.2	10.0	9.8	9.6
PV of terminal value	55.1	50.4	46.4	42.8	39.6	36.8	34.3	32.0	30.0
Total value	**66.3**	**61.4**	**57.2**	**53.4**	**50.1**	**47.0**	**44.3**	**41.9**	**39.6**
NFP last reported adj.	12.4	12.4	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)	(0.9)	(0.9)
Minorities	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Equity value	**76.8**	**71.9**	**67.7**	**63.9**	**60.6**	**57.5**	**54.8**	**52.4**	**50.1**
Equity value/share €	**5.64**	**5.28**	**4.97**	**4.69**	**4.40**	**4.23**	**4.03**	**3.85**	**3.68**

Source: CFO Sim

Market Multiples

Pattern operates in the high value added engineering and design services for luxury apparel with the production outsourced to façonists: **the firm does not present 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 B2B business model. Among luxury fashion companies, we chose:

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 in Pattern client list in 2019.
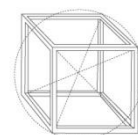
Compagnie Financiere Richemont SA: detains a portfolio of leading international 'Maisons' which are recognised for their distinctive heritage, craftsmanship and creativity. The group operates in four business areas: jewellery Maisons, specialist watchmakers, online distributors, and other fashion & accessories Maisons.

Hermes International SCA: founded in 1837, 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, ecc. The company specialises in ready-to-wear products, sports goods, shoes, jewellery, and watches. Pattern currently works for two brands of 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, Belvedere; 2) fashion and leather goods division includes some absolute luxury brands such as, Louis Vuitton, Christian Dior Couture, Celine, Loewe, Fendi, Berluti; 3) perfumes and cosmetics and 4) watches and jewellery comprises, among other, Bvlgari, TAG Heuer, Zenith and Hublot. LVMH is also active in selective retailing as well as in other activities. Some of LVMH brands are Pattern's clients from several years.

Amongst B2B Italian companies, we 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 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. Further, it offers Everyware Device Cloud which enables customers to make business decisions; Machine-to-Machine Integration Platform that simplifies device and data management; and Everyware Software Framework that acts as the bridge between the private device network and the local network, public Internet, or cellular network; and consulting and solutions design services.

Fine Foods & Pharmaceuticals NTM SpA: founded in 1984, is the 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, has consolidated and continuous relationships with most of its customers.

Freni Brembo SpA: the world undisputed leader and acknowledged innovator of disc brake technology for automotive vehicles. Brembo supplies high performance brake systems for 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 800 employees, it is the key manufacturer in Italy, and one of the leading producers in the world, of components for kitchens and domestic 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.
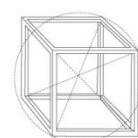
Table 9 - Pattern, peer group summary table

€ 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	6,229	3,032	547	18.0%	0.3%	-0.8%	-1.4%	9.4%	(852)	n.m.
Capri Holdings Ltd	US	1,912	5,085	862	16.9%	4.2%	-2.3%	-3.3%	4.8%	1,899	2.2
Compagnie Financiere Richemont	F	26,923	14,327	2,875	20.1%	3.0%	5.9%	3.6%	10.5%	(2,647)	n.m.
Hermes International SCA	F	72,325	6,465	2,434	37.6%	6.0%	5.3%	5.9%	19.1%	(4,726)	n.m.
Kering SA	F	58,658	14,457	4,677	32.4%	3.9%	1.7%	3.4%	22.1%	3,640	0.8
LVMH Moet Hennessy Louis Vuitton	F	177,109	49,059	12,573	25.6%	4.4%	2.3%	4.8%	21.3%	18,593	1.5
Median Luxury		**42,791**	**10,396**	**2,654**	**22.8%**	**4.1%**	**2.0%**	**3.5%**	**14.8%**	**524**	**1.5**
Eurotech SpA	IT	219	100	18	17.9%	n.a.	n.a.	n.a.	n.a.	(21)	n.m.
Fine Foods & Pharmaceuticals	IT	196	180	24	13.4%	12.8%	24.6%	37.4%	21.4%	(53)	n.m.
Freni Brembo SpA	IT	2,601	2,404	451	18.8%	1.2%	0.4%	-11.2%	10.7%	177	0.4
Sabaf SpA	IT	122	162	24	14.8%	8.8%	11.0%	17.0%	81.7%	72	3.0
Median domestic B2B		**208**	**171**	**24**	**16.3%**	**8.8%**	**11.0%**	**17.0%**	**21.4%**	**25**	**1.7**
Pattern SpA	IT	**53**	**48**	**2**	**4.3%**	**4.0%**	**0.2%**	**-7.7%**	**n.m.**	**(3)**	**n.m.**

Source: CFO Sim, Thomson Reuters Eikon

Table 10 - Pattern, peer group EV multiple table

| x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3
Burberry Group PLC	1.77	1.79	1.66	9.8	9.6	8.2
Capri Holdings Ltd	0.75	0.77	0.62	4.4	4.8	3.6
Compagnie Financiere Richemont	1.69	1.70	1.53	8.4	8.8	7.1
Hermes International SCA	10.46	8.92	7.98	27.8	22.4	19.9
Kering SA	4.31	3.71	3.22	13.3	10.6	9.0
LVMH Moet Hennessy Louis Vuitton	3.99	3.34	3.08	15.6	12.1	11.1
Median Luxury	**2.88**	**2.57**	**2.37**	**11.6**	**10.1**	**8.6**
Eurotech SpA	1.98	1.56	n.a.	11.1	7.2	n.a.
Fine Foods & Pharmaceuticals	0.80	1.22	1.12	6.0	8.7	7.8
Freni Brembo SpA	1.16	1.01	0.94	6.2	5.3	5.0
Sabaf SpA	1.20	0.98	0.94	8.1	5.3	5.1
Median domestic B2B	**1.18**	**1.12**	**0.94**	**7.1**	**6.3**	**5.1**
Pattern SpA	**1.03**	**0.85**	**0.68**	**24.1**	**9.9**	**5.9**
% premium/(discount) to luxury peers	*(64.2)*	*(67.0)*	*(71.3)*	*108.5*	*(2.2)*	*(31.9)*
% premium/(discount) to domestic B2B peers	*(12.2)*	*(24.2)*	*(28.0)*	*239.3*	*57.5*	*15.4*

Source: CFO Sim, Thomson Reuters Eikon

Table 11 - Pattern, peer group EV & price multiple table

x	EBIT FY1	EBIT FY2	EBIT FY3	PER FY1	PER FY2	PER FY3
Burberry Group PLC	12.9	13.2	10.5	19.6	20.6	16.4
Capri Holdings Ltd	5.8	6.8	4.6	3.3	4.0	3.0
Compagnie Financiere Richemont	13.4	14.2	10.7	20.4	22.7	16.7
Hermes International SCA	33.4	26.5	23.3	54.4	43.1	38.4
Kering SA	16.7	12.9	10.9	23.9	18.2	16.0
LVMH Moet Hennessy Louis Vuitton	21.5	16.1	14.4	30.7	23.3	20.8
Median Luxury	**15.1**	**13.7**	**10.8**	**22.1**	**21.6**	**16.5**
Eurotech SpA	14.2	8.6	n.a.	16.8	13.0	n.a.
Fine Foods & Pharmaceuticals	12.5	17.1	14.3	20.7	16.4	14.0
Freni Brembo SpA	10.7	9.0	11.8	14.3	12.3	11.7
Sabaf SpA	12.1	10.5	9.9	30.5	9.9	9.3
Median domestic B2B	**12.3**	**9.8**	**11.8**	**18.8**	**12.6**	**11.7**
Pattern SpA	***n.m.***	**17.1**	**8.0**	***n.m.***	**38.7**	**18.6**
% premium/(discount) to luxury peers	*n.m.*	*24.5*	*(25.7)*	*n.m.*	*78.8*	*12.3*
% premium/(discount) to domestic B2B peers	*n.m.*	*74.7*	*(32.3)*	*n.m.*	*206.3*	*58.9*

Source: CFO Sim, Thomson Reuters Eikon

If before this pandemic we had confidence in **considering the most suitable multiples to get a reasonable appraisal of the stock** to be **EV/EBITDA**, **EV/EBIT** and **PER B2B peer median,** in this context we believe multiple comparison is no more appropriate for our aim. We would overweight a period characterised by a deep market and numbers decline and consequently penalise the valuation.
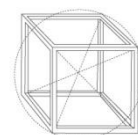
Peer Stock Performance

Pattern was listed on AIM Italia (Alternative Investment Market) on **17 July 2019 at € 3.25/share**, corresponding to a **market cap. post money 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 12 - Pattern, peer group and indexes absolute performance

	1D	1W	1M	3M	6M	YTD	1Y
Burberry Group PLC	4.4	(7.3)	2.9	(32.6)	(34.3)	(38.9)	(32.8)
Capri Holdings Ltd	10.9	13.6	23.2	(58.5)	(57.2)	(63.7)	(69.0)
Compagnie Financiere Richemont	4.0	(2.1)	4.3	(26.2)	(29.2)	(28.6)	(27.2)
Hermes International SCA	1.7	(1.3)	7.2	0.8	5.5	2.9	10.6
Kering SA	3.0	(8.7)	(3.5)	(15.9)	(8.9)	(20.6)	(12.2)
LVMH Moet Hennessy Louis Vuitton	3.0	(2.6)	0.3	(12.5)	(8.2)	(15.3)	1.3
Median Luxury	**3.5**	**(2.4)**	**3.6**	**(21.1)**	**(19.0)**	**(24.6)**	**(19.7)**
Eurotech SpA	2.8	4.6	24.4	(18.5)	(31.0)	(26.8)	61.7
Fine Foods & Pharmaceuticals	-	(2.3)	2.5	(15.0)	(2.3)	(12.9)	0.5
Freni Brembo SpA	3.7	12.8	17.2	(23.4)	(19.5)	(29.5)	(33.4)
Sabaf SpA	1.0	4.4	10.1	(22.1)	(13.0)	(20.9)	(32.6)
Median domestic B2B	**1.9**	**4.5**	**13.6**	**(20.3)**	**(16.2)**	**(23.9)**	**(16.0)**
Pattern SpA	**-**	**0.8**	**4.6**	**(20.9)**	**9.0**	**(13.0)**	**n.a.**
MSCI World Index	(0.9)	6.3	(15.0)	(21.4)	(14.2)	(21.4)	(13.1)
EUROSTOXX	1.2	3.0	(17.9)	(24.9)	(20.1)	(24.9)	(18.4)
FTSE Italia All Share	1.2	0.9	(21.4)	(27.5)	(22.2)	(27.5)	(21.2)
FTSE STAR Italia	1.7	2.3	(18.7)	(25.1)	(16.2)	(25.1)	(17.2)
FTSE AIM Italia	1.3	3.5	(9.8)	(15.5)	(15.1)	(15.5)	(24.8)

Source: Thomson Reuters Eikon

**Table 13 – Pattern relative performances**

	1D	1W	1M	3M	6M	YTD	1Y
to MSCI World Index	0.9	(5.5)	19.6	0.6	23.2	8.4	n.a.
to EUROSTOXX	(1.2)	(2.2)	22.5	4.1	29.1	11.9	n.a.
to FTSE Italia All Share	(1.2)	(0.1)	26.0	6.7	31.2	14.5	n.a.
to FTSE STAR Italia	(1.7)	(1.6)	23.3	4.3	25.2	12.1	n.a.
to FTSE AIM Italia	(1.3)	(2.8)	14.4	(5.3)	24.1	2.5	n.a.
to Domestic B2B Peer Median	(1.9)	(3.7)	(9.1)	(0.6)	25.3	10.8	n.a.
to Luxury Peer Median	(3.5)	3.2	1.0	0.2	28.1	11.5	n.a.

Source: Thomson Reuters Eikon

Risks

The principal investment **risks** in Pattern include:

- ➢ the high level of client concentration;
- ➢ the loss of reputation among clients;
- ➢ the ability to manage the investments and to find the sources to support growth;
- ➢ the consolidation process of the reference market may put the company's market share under pressure;
- ➢ impact on economics and balance sheet profile triggered by a deep decline in global economic growth or geopolitical instability;
- ➢ the 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)
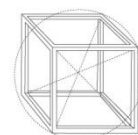
ANALYST CERTIFICATION

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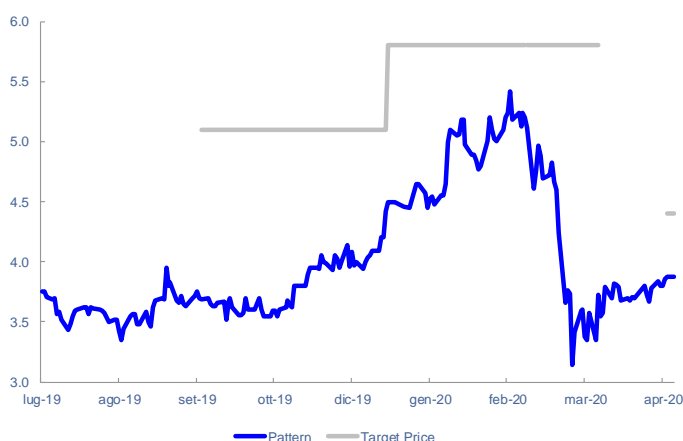
DATE	TARGET PRICE	RATING
28/04/2020	€4.40	NEUTRAL
25/03/2020	U.R.	BUY
20/12/2019	€5.80	BUY
27/09/2019	€5.10	BUY

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RATING SYSTEM

❑ 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.

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