

Italy – Luxury Engineering

Buoyant results and another value-adding acquisition

8th April 2022

FY-21 RESULTS RELEASE

RIC: PTRN.MI
BBG: PTR IM

Pattern reported soaring results, better than our projections, with profitability growing much more than proportionately to top line. Medium-long term outlook is promising. In a sector in the midst of a deep consolidation process, Pattern can play a primary role as an aggregator, with the aim of creating the 'Italian Hub of Luxury Fashion Engineering'. The recent acquisition of RGB is part of this strategy.

Rating:

Buy

Price Target:

€ 8.50

Upside/(Downside): 51.2%

Last Price: € 5.62

Market Cap.: € 77.1m

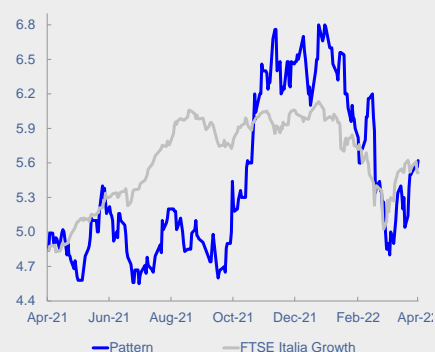
1Y High/Low: € 6.94 / € 4.44

Avg. Daily Turn. (3M, 6M): € 27k, € 32k

Free Float: 27.6%

Major shareholders:

Bo.Ma. Holding Srl	53.4%
Fulvio Botto	6.4%
Francesco Martorella	6.4%



Stock price performance

	1M	3M	12M
Absolute	17.1%	-17.1%	21.1%
Rel.to FTSE IT Growth	12.4%	0.8%	-1.7%
Rel.to Sector	14.2%	-0.6%	20.1%

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Better than anticipated FY-21 results, PT of € 8.50

In a year still fairly hit by the pandemic, Pattern reported soaring results, beating our projections, with profitability growing much more than proportionately to top line. Medium long term outlook is promising and another round of M&A is highly likely. Following the publication of FY-21 results, considering the current scenario and the acquisition of RGB, we fine-tuned our model. The result is a 1% and 16% decline in EBITDA and EBIT in 2022 and 2023, on average, vs. our previous assumptions. We introduced 2024 projections too. As a consequence of the estimate revision and the updated valuation criteria, PT remains unchanged at € 8.50. Buy rating confirmed.

Top line was up 32.2% to € 69.5m

Total revenues reached € 69.5m, up 32.2% YoY, higher than our € 62.7m projection. The Knitwear segment (S.M.T.) soared by 41.5% and apparel recovered, registering an increase of 25.9%. The Leather goods segment (IDEE) contributed for just one month in 2021. As a result of a few delays in deliveries, on the back of the postponed supply of some raw materials and the slowdown of 'façonists' production activity due to the pandemic, the increase in finished products reached € 2.5m vs. € 0.2m in 2020. FY-21 sales confirmed the recovery trend of the luxury market started towards the end of H1-21.

EBITDA at € 7.7m, 10.6% margin, better than expected

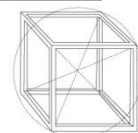
EBITDA totalled € 7.7m, up 42.8% from € 5.4m in 2020, margin at 10.6% from 10.0%, better than our € 6.9m projection. The more-than-proportional increase in 'raw material and processing' costs compared to top line is mainly due to a product-mix characterised by a high raw material content in terms of value. EBIT increased by 47.7% to € 5.3m, better than our € 4.8m forecast, as a result of higher EBITDA despite the increase in D&A stemming from the consolidation of S.M.T. EBIT margin stood at 7.3% from 6.6% in 2020. Net profit totalled € 3.0m, better than our € 2.8m forecast also as a result of a lighter tax rate. The BoD will propose the distribution of a € 0.071 dividend per share.

Cash pile at € 3.1m allows sizeable acquisition targets

Net Financial Position was cash positive by € 3.1m, down from € 8.8m at end-20, on the back of 1) total investments of € 8.8m (€ 5.2m in FY-20), including the payment for the acquisition of the additional 29% stake in S.M.T. for € 2.6m and of 54% of IDEE for € 4.0m, and 2) a significant CF generation. Pattern continues to look for external growth opportunities for the development of the 'Italian Hub of Luxury Fashion Engineering'. Potential targets in the leather goods, knitwear and kids segments could extend the product portfolio through the acquisition of strong brands and the expansion of the customer base.

Pattern, key financials and ratios

€ m	2020	2021	2022e	2023e	2024e
Value of Production	54.0	72.5	94.9	109.1	125.4
EBITDA	5.4	7.7	10.5	13.0	16.2
EBIT	3.6	5.3	6.5	9.0	12.3
Net profit	2.3	3.0	3.2	4.7	6.7
NFP (cash)/debt	(8.8)	(3.1)	0.7	(4.1)	(10.1)
EBITDA margin	10.0%	10.6%	11.1%	12.0%	12.9%
EBIT margin	6.6%	7.3%	6.8%	8.3%	9.8%
EPS	0.16	0.21	0.23	0.33	0.48
EPS growth	-40.1%	32.1%	6.3%	46.6%	43.4%
Dividend	0.00	0.08	0.08	0.12	0.17
Dividend Yield	0.0%	1.4%	1.4%	2.1%	3.0%
ROCE	9.3%	10.9%	12.6%	16.3%	20.1%
NWC/Sales	6.1%	8.2%	8.2%	7.6%	7.2%
Free Cash Flow Yield	-0.2%	-6.1%	-3.6%	7.7%	9.9%
PER x	30.2	23.7	24.2	16.5	11.5
EV/Sales x	0.85	0.98	0.82	0.67	0.54
EV/EBITDA x	9.2	8.8	7.4	5.6	4.1
EV/EBIT x	14.6	12.9	12.1	8.1	5.5



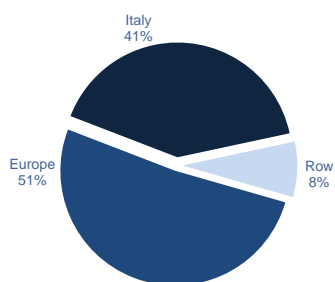
The Company at a Glance

Founded in 2000 by Fulvio Botto and Francesco Martorella (group directors and major shareholders with a 33% stake each), Pattern is the second Italian player (CFO SIM estimate) specialised in the modelling, engineering, grading, prototyping and production of luxury clothing for men and women, and the undisputed leader in the outerwear niche, operating in the catwalk segment and among the top lines of the most prestigious global luxury brands. Pattern manages the entire engineering and production cycle from patterns to prototypes, from the creation of ready-to-wear garments to successive productions. Pattern runs the high value added engineering and prototyping phases whilst production is outsourced to a plethora of suppliers. Since 2017, Pattern has been embarking on an external growth process, with the acquisition of Roscini (luxury womenswear) in 2017, S.M.T. (luxury knitwear) in 2019, Idee Partner (luxury leather goods) in 2021, and Zanni (wholegarment knitwear manufacturing technique) and RGB (luxury leather goods accessories) in 2022, thus creating the first 'Italian hub of luxury fashion engineering'.

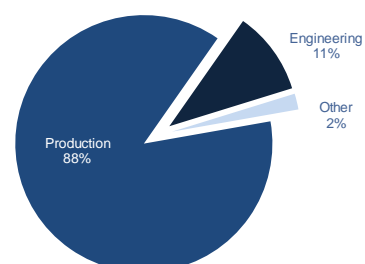
Pattern's global export sales reached almost 60% of total revenues in 2021. 88% of revenues come from production while engineering processes account for 10%. Female apparel makes up 41% of the total thanks to the acquisition of Roscini Atelier in 2017, whereas male apparel now accounts for 59% of total revenues. In terms of products, most of the group's production comes from outerwear, namely 46% of the total, whereas knitwear accounts for 38% and the remainder is represented by upper wear, light wear and leather goods (consolidated for just one month in 2021).

Since 2015, Pattern has been voluntarily drawing up sustainability reports in accordance with the reporting guidelines of the Global Reporting Initiative (GRI Standards), focusing its attention on Corporate Social Responsibility principles. In 2021, revenues were € 69.5m, EBITDA was € 7.7m, 10.6% margin. EBIT stood at € 5.3m and Net Income totalled € 3.0m. NFP was cash positive by € 3.1m, thanks to strong OpCF generation, limited Capex and WC needs.

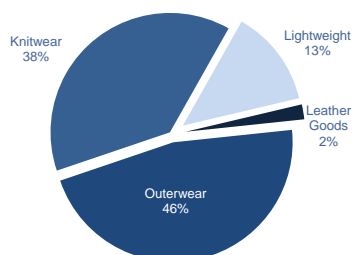
2021 breakdown by geography...



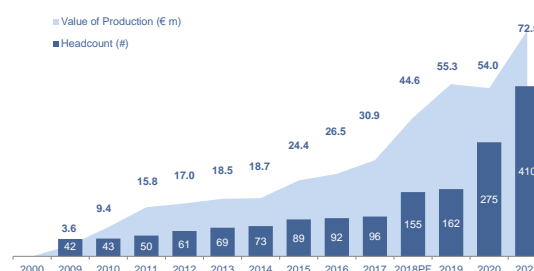
... by service...



...and by product line



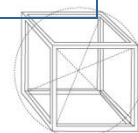
Top line and headcount evolution



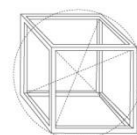
Peer group multiples table

EV multiples x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3	EBIT FY1	EBIT FY2	EBIT FY3
Burberry Group PLC	1.90	1.77	1.64	7.1	6.5	5.8	10.7	9.7	8.5
Capri Holdings Ltd	2.23	2.02	0.97	6.5	5.6	4.2	7.8	6.8	5.0
Compagnie Financiere Richemont	2.95	2.66	2.39	10.7	9.5	8.4	14.7	13.0	11.4
Hermes International SCA	12.53	11.20	10.02	29.1	25.9	23.1	33.5	29.8	26.2
Kering SA	3.54	3.10	2.75	9.8	8.5	7.4	12.2	10.5	9.2
LVMH Moet Hennessy Louis Vuitton	4.44	4.05	3.56	13.1	11.8	10.2	16.6	14.9	12.8
Median Luxury	3.25	2.88	2.57	10.2	9.0	7.9	13.4	11.7	10.3
Brembo SpA	1.15	1.05	0.98	6.4	5.8	5.5	11.0	9.6	8.8
Eurotech SpA	1.08	0.70	n.a.	n.m.	2.8	n.a.	n.m.	3.2	n.a.
Fine Foods & Pharmaceuticals	0.95	0.82	0.74	7.8	5.9	5.5	16.9	10.9	10.1
Sabaf SpA	1.25	1.18	1.12	6.6	5.9	5.6	9.6	8.6	8.0
Median domestic B2B	1.11	0.93	0.98	6.6	5.9	5.5	11.0	9.1	8.8
Pattern SpA	0.82	0.67	0.54	7.4	5.6	4.1	12.1	8.1	5.5

Sources: CFO Sim, Thomson Reuters Eikon



Income statement (€ m)	2020	2021	2022e	2023e	2024e
Revenues	52.6	69.5	94.7	108.9	125.1
Value of Production	54.0	72.5	94.9	109.1	125.4
Raw material and processing	(15.5)	(22.3)	(29.4)	(33.8)	(38.2)
Services	(19.0)	(25.6)	(32.3)	(37.2)	(44.5)
Personnel expenses	(12.4)	(15.2)	(21.8)	(23.9)	(25.1)
Other opex	(1.7)	(1.8)	(0.9)	(1.1)	(1.3)
EBITDA	5.4	7.7	10.5	13.0	16.2
D&A	(1.8)	(2.4)	(4.1)	(4.0)	(3.9)
EBIT	3.6	5.3	6.5	9.0	12.3
Financials	(0.1)	(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	3.5	5.1	6.4	9.0	12.2
Income taxes	(0.5)	(1.5)	(1.9)	(2.7)	(3.7)
Minorities	(0.7)	(0.7)	(1.3)	(1.6)	(1.9)
Net Profit	2.3	3.0	3.2	4.7	6.7
Net Profit adj.	1.8	3.0	3.2	4.7	6.7
EBITDA Adjusted	4.9	7.7	10.5	13.0	16.2
Balance sheet (€ m)	2020	2021	2022e	2023e	2024e
Net Working Capital	3.3	5.9	7.8	8.3	9.0
Net Fixed Assets	10.7	17.6	21.5	19.6	17.8
Equity Investments	0.2	0.3	0.3	0.3	0.3
Other M/L Term A/L	(2.0)	(1.8)	(1.6)	(1.5)	(1.3)
Net Invested Capital	12.2	22.0	28.0	26.7	25.8
Net Financial Debt	(8.8)	(3.1)	0.7	(4.1)	(10.1)
Minorities	2.0	2.2	3.5	5.1	7.0
Group's Shareholders Equity	18.9	22.9	23.8	25.7	28.9
Financial Liabilities & Equity	12.2	22.0	28.0	26.7	25.8
Cash Flow statement (€ m)	2020	2021	2022e	2023e	2024e
Total net income	2.3	3.0	3.2	4.7	6.7
Depreciation	1.8	2.4	4.1	4.0	3.9
Other non-cash charges	0.9	(0.2)	(0.2)	(0.1)	(0.1)
Cash Flow from Oper. (CFO)	5.0	5.2	7.1	8.5	10.5
Change in NWC	0.1	(2.6)	(1.9)	(0.4)	(0.8)
FCF from Operations (FCFO)	5.1	2.6	5.2	8.1	9.7
Net Investments (CFI)	(5.2)	(7.2)	(8.0)	(2.1)	(2.1)
Free CF to the Firm (FCFF)	(0.1)	(4.7)	(2.8)	6.0	7.6
CF from financials (CFF)	7.5	3.9	(0.8)	(0.8)	(1.3)
Free Cash Flow to Equity (FCFE)	7.4	(0.8)	(3.5)	5.2	6.3
Financial ratios	2020	2021	2022e	2023e	2024e
EBITDA margin	10.0%	10.6%	11.1%	12.0%	12.9%
EBIT margin	6.6%	7.3%	6.8%	8.3%	9.8%
Net profit margin	4.2%	4.1%	3.4%	4.3%	5.3%
Tax rate	13.2%	28.5%	30.0%	30.0%	30.0%
Op NWC/Sales	6.1%	8.2%	8.2%	7.6%	7.2%
Interest coverage x	0.03	0.02	0.01	0.01	0.00
Net Debt/EBITDA x	(1.63)	(0.40)	0.07	(0.32)	(0.62)
Debt-to-Equity x	(0.46)	(0.13)	0.03	(0.16)	(0.35)
ROIC	18.7%	13.6%	11.4%	17.5%	26.0%
ROCE	9.3%	10.9%	12.6%	16.3%	20.1%
ROACE	11.7%	12.1%	12.9%	16.9%	21.1%
ROE	12.0%	13.1%	13.4%	18.2%	23.2%
Payout ratio	0.0%	35.9%	35.9%	35.9%	35.9%
Per share figures	2020	2021	2022e	2023e	2024e
Number of shares # m	14.08	14.08	14.08	14.08	14.08
Number of shares Fully Diluted # m	14.08	14.08	14.08	14.08	14.08
Average Number of shares Fully Diluted #	14.08	14.08	14.08	14.08	14.08
EPS stated FD €	0.16	0.21	0.23	0.33	0.48
EPS adjusted FD €	0.13	0.21	0.23	0.33	0.48
EBITDA €	0.38	0.55	0.75	0.93	1.15
EBIT €	0.25	0.37	0.46	0.64	0.87
BV €	1.49	1.78	1.94	2.19	2.55
FCFO €	0.36	0.18	0.37	0.58	0.69
FCFF €	(0.01)	(0.33)	(0.20)	0.42	0.54
FCFE €	0.52	(0.06)	(0.25)	0.37	0.45
Dividend €	0.00	0.08	0.08	0.12	0.17

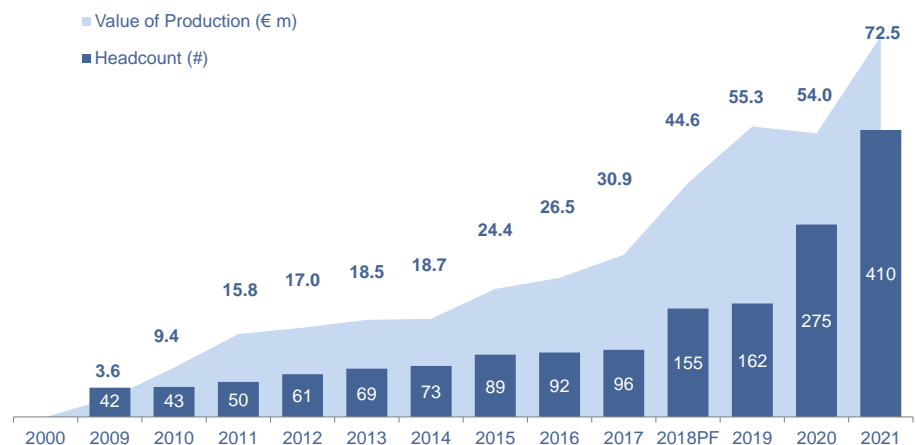


Pattern in a Nutshell

Founded in 2000 by Fulvio Botto and Francesco Martorella (current group directors and major shareholders with a 33% stake each), Pattern is a leading **Italian player** specialised in **modelling, engineering, grading, prototyping and manufacturing of luxury clothing** for men and women, and the undisputed **leader in the outerwear niche**, operating in the **catwalk segment and among the top lines** of the most prestigious global luxury brands. The group **manages the entire engineering and production cycle** from patterns to prototypes, to the creation of ready-to-wear garments and successive productions. **Pattern runs the high value-added engineering and prototyping phases** whilst production is outsourced to a plethora of suppliers ('façonists').

Pattern operates five plants: the historical facility in Collegno (Turin) and the acquired production structures in Spello (Perugia), Correggio (Reggio Emilia), Scandicci (Florence) and Reggio Emilia following the acquisition of Roscini Atelier in 2017, S.M.T. in 2019, IDEE in 2021 and Zanni in 2022. **The company has shown outstanding growth since its establishment:** a **27.9% and 16.5% sales CAGR** in 2009-20 and 2013-20, respectively. Organically, sales CAGR are 22.3% and 8.6%, in the same period.

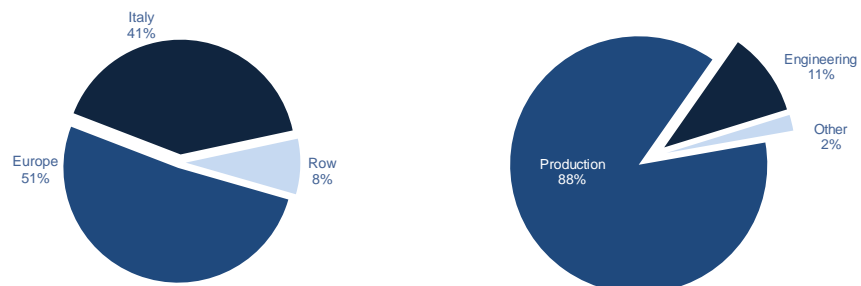
Chart 1 – Pattern, 2000-21 top line and headcount evolution



Source: Company data

Pattern's global export sales reached almost 60% of total revenues. 88% of revenues come from production while engineering processes account for 11%. **Female apparel contributes to 41% of total** thanks to the acquisition of Roscini Atelier in 2017, whereas male apparel now accounts for 51% of total revenues. In terms of products, **most of the group's production comes from outerwear**, namely 46% of the total, knitwear accounts for 38% whilst the remainder is represented by upper wear, light wear and leather goods (consolidated for just one month in 2021).

Chart 2 – Pattern, 2021 top line breakdown by geography and service



Source: Company data

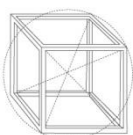
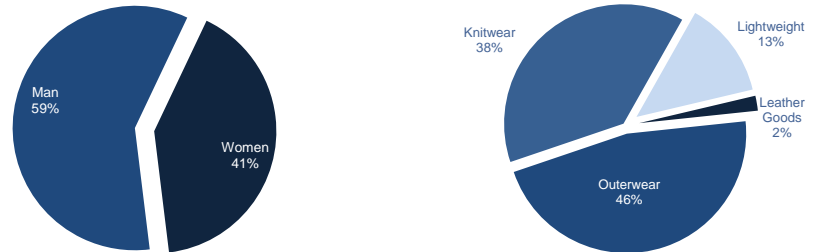


Chart 3 – Pattern, 2021 top line breakdown by gender and product line

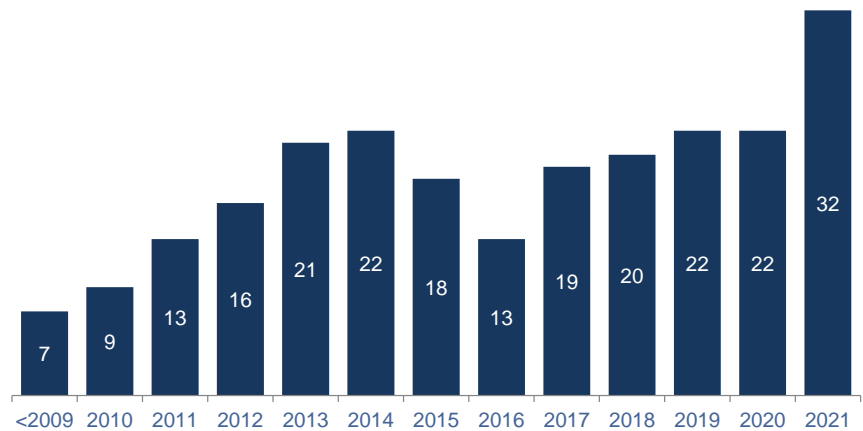


Source: Company data

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

At the end of 2021, Pattern's portfolio consisted of 32 customers, including domestic and global brands operating in the absolute luxury clothing sector. **Customer loyalty is high:** 21% of customers have chosen Pattern as their engineering, developing, producing and technology solution partner for a period of between 3-10 years and 70% for a more than 10 years.

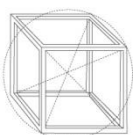
Chart 4 – Pattern, the group's active partnership evolution



Source: Company data

In 2021, revenues were € 69.5m, EBITDA was € 7.7m, 10.6% margin. EBIT stood at € 5.3m and Net Income totalled € 3.0m. NFP was cash positive by € 3.1m, thanks to strong OpCF generation, limited Capex and WC needs, despite the acquisition of a further 39% of SMT.

Since 2015, Pattern has been voluntarily drawing up **sustainability reports** according to the reporting guidelines of the Global Reporting Initiative (GRI Standard), highlighting its attention to the *Corporate Social Responsibility* principles. The company is also committed to achieving the objectives set out in 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 requested by customers, Pattern has a strong competitive advantage over its competitors.** From an environmental point of view, **Pattern has implemented a five-year plan to become Carbon Neutral by 2023.** Pattern achieved a 2021 **ESG Rating of level C referring to 2020.** In addition, CDP has upgraded Pattern's SER (Supplier Engagement Rating) rating from C to B-, which strengthens the valuable efforts made by the company to inspire supply chain engagement on climate issues.



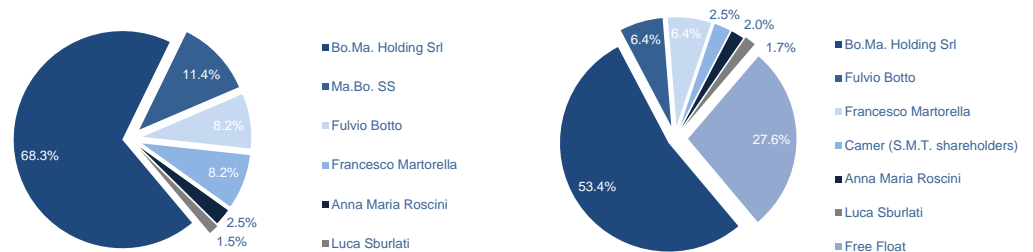
Group and Shareholder Structure

Pattern went public on 17-Jul-19 on Euronext Growth Milan with a market capitalisation of € 44.2m and a free float of 24.9%, raised to 28.2% after the exercise of the greenshoe option. Pre-IPO shareholders had an 18-month lock-up.

The IPO encompassed a **primary and secondary offering, for a total of € 12.5m**. The **capital increase was € 8.5m**, on offer to professional investors. The two founders, Fulvio Botto and Francesco Martorella, who owned 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 **greenshoe option was provided by the founders for € 1.5m and it was entirely exercised** by the global coordinator on 24th-July.

Among the pre-IPO shareholders was also Anna Maria Roscini (previously shareholder of Roscini Atelier) and Luca Sburlati (Pattern's CEO).

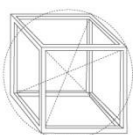
Chart 5 – Pattern, Pre-IPO and current shareholder structure



Source: CFO Sim elaboration on company data

Following the acquisitions completed since the IPO in 2019, nowadays the consolidation scope includes the following companies:

- **Pattern**, the issuer, is specialised in casual and technical menswear and outerwear both for men and women. **Roscini Atelier**, merged into Pattern in 2019, is focused on luxury womenswear.
- **S.M.T.** is a highly specialised player in the luxury knitwear niche, working with the most prestigious global luxury brands.
- **Zanni** is a knitwear prototyping and weaving company using the Shima Seiki's WholeGarment technology to offer seamless knitwear production services.
- **IDEE** is specialised in the product development, design and production of luxury leather goods, mainly bags and small accessories.
- **RGB** is specialised in the production and processing of leather accessories.

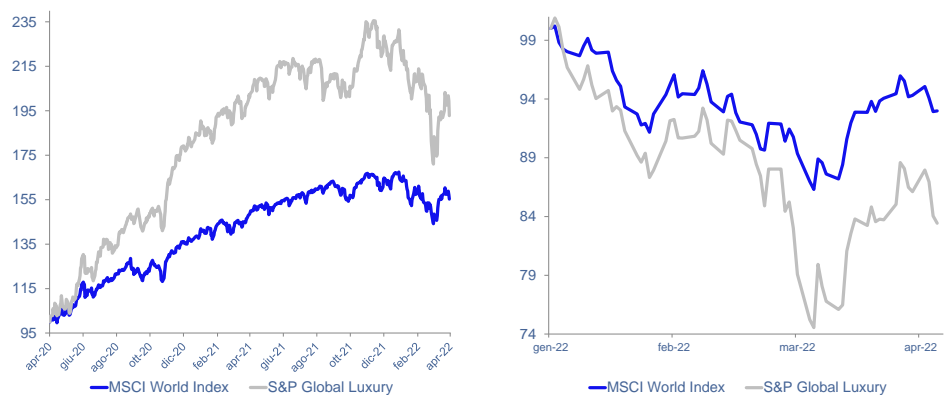


The Reference Market: Personal Luxury Goods

Pattern operates in the Personal Luxury Goods market, and is positioned in the Luxury Fashion Manufacturing niche of the market. Specifically, the company is the reference partner of the main absolute luxury brands, modelling, engineering, grading, prototyping and producing apparel lines for the top range catwalk collections.

The long-term positive trend in the luxury industry has been disproved in the short run by a weaker performance recorded by the **luxury market index (-16.6%)** vs. the **global market (-7.0%)** since the beginning of 2022: the turmoil linked to the war in the Ukraine has prompted expectations as to a recovery in consumer spending on luxury goods only in the medium term.

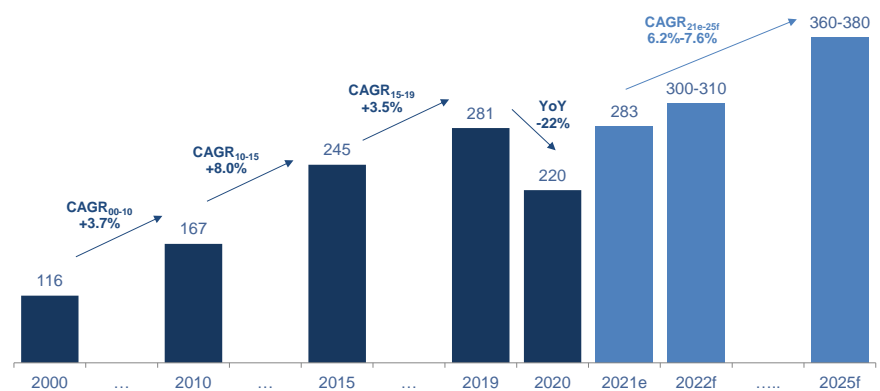
Chart 6 – Pattern, luxury market index versus MSCI World – 2Y and YTD



Source: Thomson Reuters Eikon

In the last twenty years, the global personal luxury goods market has recorded mid-single digit growth, showing a $CAGR_{00-21e}$ of +5.4%. The value of the **global luxury goods market** is anticipated to hit **€ 283bn in 2021, up 29% YoY and broadly in line with 2019** after the dramatic decline reported in 2020 due to the Covid-19 pandemic (-22% YoY). In accordance with Bain – Altgamma, the 2021 V-shape rebound is a strong predictor of healthy growth in the luxury market in the mid-term: **in 2022 the market is expected to grow between 6.0% and 9.5%** reaching € 300-310bn, while in 2025 the market is expected to be in the range of € 360-380bn, growing with a $CAGR_{21e-25f}$ between 6.2% and 7.6%.

Chart 7 – Pattern, Personal Luxury Goods – Historical trend, 2021-2025 forecasts



Source: Bain & Company – Altgamma 2021

From a geographical point of view, Europe and the US are the key markets for personal luxury goods, accounting for 25% and 31% of the total, respectively, in 2021. In terms of pure consumption, in 2021 America was the main consumer with 30-32% of market share.

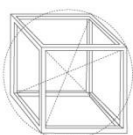
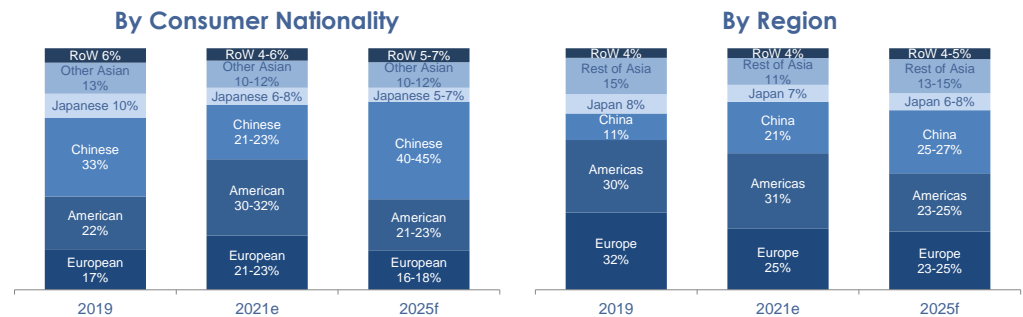


Chart 8 – Pattern, Personal Luxury Goods - Geographical segmentation



Source: Bain & Company – Altgamma 2021

The Covid-19 pandemic almost completely froze tourist flows in 2020 and partially also in 2021, thus **luxury spending was forced to shift from “when travelling” to “at home”**. In 2021, global luxury spending was driven by domestic purchases (+50/60% vs 2019) instead of tourists' purchases (-80/90% vs 2019). Overall, even if 2020 and 2021 were anomalous years in terms of tourism, **the luxury market will consolidate its local nature globally in the coming years.**

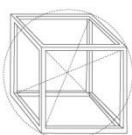
In the next few years, Chinese consumers will continue to increase their purchases both in terms of local consumption and international shopping, despite the current temporary slowdown. **In 2025, 25-27% of global personal luxury goods purchases will take place in China and 40-45% of personal luxury goods consumers worldwide will be Chinese.** Nevertheless, **Europe and the US**, the two geographical areas where top luxury houses are based – including Pattern's best customers - **still hold a leading position in terms of purchases of personal luxury goods.**

Overall, in the next few years, after the inevitable slowdown linked to the current pandemic, growth will be driven by a few market and macro trends such as **reshoring, casualisation, 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 conducted 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 has caused about 90 companies operating in the luxury sector to **relocate their production activities from foreign countries to Italy**, over the last three years. The reshoring trend is also driven by other important reasons, such as:

- **Overseas wage inflation:** in recent years, labour costs have increased significantly in China, Vietnam, Romania, Serbia and other Eastern countries;
- **Logistics costs:** relocating the production activities has allowed companies to minimise the logistics 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.



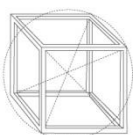
Rebound of China

As Chinese consumers will resume increasing their purchases both in terms of local consumption and international shopping, **China will remain an undisputed key growth driver** of the fashion industry in the coming years. During the last few years, the preferences of Chinese consumers have changed. Urbanisation, increasing disposable income and bargaining power have allowed consumers to value trendy products and tailored initiatives. Furthermore, 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 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 Casualisation

Younger generations, especially Gen Y (millennials) and Gen Z, show more and more interest in luxury goods and are increasingly 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 previous generations were. In 2021, Gen Y represented 46% of personal luxury goods consumers and Gen Z 17%. In 2025, Gen Y is anticipated to reach over 50% of market share, while Gen Z is expected to drive growth, soaring up to over 20%. Overall, **GenZ and GenY will contribute about 180% of market growth up to 2025, making up roughly 3/4 of the market.** This trend has forced brands to evolve and innovate across different dimensions, such as a decrease in formalwear in favour of casual products, an increase in alternative purchasing channels (e.g. websites, apps, social networks), different communication territories and growing attention on sustainability. In particular, **the casualisation of the fashion industry appears to be a significant driving trend in the sector.**



Competitive Arena, Addressable Market

Pattern's addressable market lies within the **absolute luxury brands apparel segment**. Particularly, the group works alongside the main absolute luxury houses 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 its relationships with existing customers and build new ones** with other absolute luxury brands, hoping to **become the market leader in "Made in Italy" luxury fashion engineering**.

Table 1 – Absolute Luxury Brands, production structure

Company	Country	Revenues 2021 (FY0) € bn	Apparel on revenues %	Outsourcing	Focused on "Made in Italy"
LVMH ¹	France	64.2	48%	✓	✓
Kering	France	17.6	15%	✓	✓
Hermès	France	9.0	25%	✓	✓
Chanel ²	France	8.3	n.a.		
PVH	USA	8.2	n.a.	✓	✓
Ralph Lauren ³	USA	3.7	n.a.	✓	
Prada	Italy	3.4	28%		✓
Hugo Boss	Germany	2.8	n.a.	✓	✓
Burberry	UK	2.7	63%	✓	✓
Piug ⁴	Spain	1.5	n.a.		
Richemont ⁵	Switzerland	1.3	10%	✓	✓
Valentino	Italy	1.2	n.a.	✓	✓
Ferragamo	Italy	1.1	6%	✓	✓
Cucinelli	Italy	0.7	n.a.	✓	✓

¹ LVMH revenues relate to the Fashion and Leather Goods segment;

² Chanel revenues refer to fiscal year ended 12/31/2020;

³ Ralph Lauren revenues refer to fiscal year ended 05/20/2021

⁴ Piug revenues refer to fiscal year ended 12/31/2020

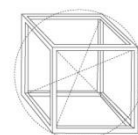
⁵ Richemont revenues relate only to the "Clothing" segment. The apparel on revenues % takes into account all the business segments.

Source: CFO SIM elaboration on analysis and estimates on public annual reports

The Niche of Luxury Fashion Manufacturing

In 2021, the global personal luxury goods market was worth € 283bn, within which the luxury fashion segment was € 88bn, of which € 59bn derives from apparel. **Within luxury fashion apparel, we can identify the addressable market for Pattern in the range of absolute luxury brands (€ 9bn)**. In order to better define the competitive arena in which the company operates, we have to consider only the part of the market composed of third-party independent subcontractors to which the luxury brands have outsourced the engineering and production of their catwalk collections. By removing the estimated profit margin generated by the luxury fashion apparel houses, the **"Made in Italy" luxury fashion manufacturing market generates annual sales of some € 1bn**.

Pattern mainly operates in the outerwear segment of the market and, thanks to the acquisition of S.M.T. and Zanni, the group entered the knitwear segment, too. Overall, both these segments amount to approximately € 600m. The remaining € 400m comprises **leather apparel and accessories**. **This portion of the market is seen as a growth opportunity for the company's product diversification, also following the recent acquisitions of Idee and RGB.**



Business Model & Strategy

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.

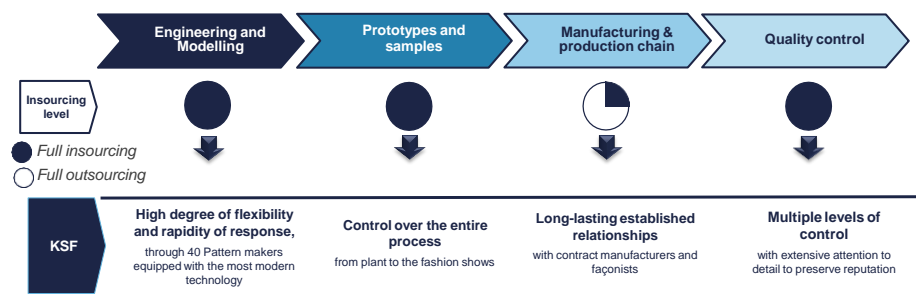
The key success factors of the group's business model can be identified in:

- **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 better time-to-market than its 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 alongside the best-in-class fashion houses.

Pattern has an extremely flexible production structure. The company directly manages every strategic activity from garment engineering to prototype and sample creation, from manufacturing of the "capo staffetta" (a sample to check the garment one last time before production) to quality control.

The group employs one of the largest independent pattern-making and engineering teams worldwide, with more than 40 craftsmen 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, thus offering stakeholders a valuable asset-light company.

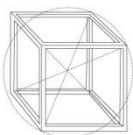
Chart 9 – Pattern, business model



Source: company presentation

Pattern's value chain can be explained as follow:

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

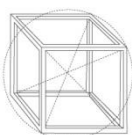


- 3) **Manufacturing and production chain:** after the fashion show, the customer decides which prototypes will be produced and provides Pattern with the production quantities. Pattern launches production by creating the “capo staffetta”, i.e. checking the garment one last time, and then **the bulk of 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 packaging phases. **Pattern directly supervises all the activities outsourced to the façonists**, most of which adhere to the SA8000 Corporate Social Responsibility standards, increasingly requested by customers.
- 4) **Quality Control:** all manufactured products and finished items return to Pattern where they are subject to strict quality control in order to ensure high quality standards. They are then sent to the customer. The company is also able to carry out the checks required by eastern markets as to metal contamination, using X-Ray machines.
- 5) **Experimentation & Technology:** Pattern constantly invests in product and process innovation. Innovative technologies are applied to all phases of the value chain: Product Data Management, CAD software, 3D pattern-making, laser cutting, thermosealing, ultrasound machines. These state-of-the-art production technologies enable higher flexibility in experimentation and faster response times to customers.

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 made 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 customers its development capabilities in terms of garment production techniques and highly innovative fabrics.**

Following the outstanding growth path recorded since its establishment, Pattern is now aiming to continue its development and the consolidation of its competitive positioning, with a view to becoming **the market leader in the “Made in Italy” luxury fashion engineering segment**, namely creating the **Italian Hub of Luxury Fashion Engineering**. In line with its growth path, Pattern’s principal strategy is focused on:

- **Continuing with organic growth:** Pattern aims to increase its customer portfolio, gaining new partnerships with absolute luxury brands and strengthening the relationships with the existing ones. After the acquisition of S.M.T. and Zanni in the knitwear segment and of IDEE in the leather niche, Pattern is one of the few industry players able to internally manage three product categories (fabric, knitwear and leather) and hybrids, complex garments made from different materials and through various processes.
- **Pursuing external growth opportunities:** the reference market is highly fragmented with a few medium-sized players and a plethora of small local actors. In order to further expand its business and after the recently-completed acquisitions, Pattern is still looking for M&A opportunities among companies operating in different product categories, namely knitwear or leather apparel and accessories.
- **Technological development:** in the last few years, Pattern has invested in prototyping and production technologies, namely 3D virtual prototyping to demonstrate to their customers how the final garment shall look in the prototyping phase. In addition, Pattern set up a new innovative warehouse equipped with the RFID blockchain technology able to satisfy the industry’s increasing requests for product transparency and traceability.



Porter's 5 Forces

According to Michael Porter the competitive structure and the degree of attractiveness of an industry are the result of the **simultaneous interaction of the five forces**. Their analysis allows for the evaluation of the competitive position of a company within a given industry.

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

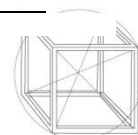
The luxury fashion engineering segment in which Pattern operates is a business that can be labelled as **ATTRACTIVE** and characterised by:

- **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. It is a market in a deep consolidation phase, with the birth of aggregation poles as from 2019. Pattern anticipated this trend with its first acquisition in 2017. Production capacity is becoming an issue in this segment, despite the relatively high number of sub-suppliers out there. The 360-degree 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 directly manages every strategic activity (i.e. garment engineering, prototype and sample creation, manufacturing of "capo staffetta", quality control) whilst the manufacturing phases are outsourced to a plethora of façonists. The top five raw materials suppliers account for 22% of total purchases of production goods whilst the top five services suppliers account for some 36% of total purchases of production services.
- **Highly-concentrated customer base with potentially high bargaining power**, although customers' vertical integration is a rather remote risk. The top five customers make up 85% of total sales. On the other hand, 70% of revenues are generated by customers with over 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 with high sustainability standard levels represent defendable entry barriers, corroborated by constant and ongoing R&D investment.
- **The substantial absence of potential substitutes.** Pattern is a leading player specialising in the high-end clothing segment: luxury items are more than mere products; they are emotions and sensations embodied in a dress or in a suit.

Chart 10 – 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 becoming an issue	+/-
Bargaining power of suppliers	Low	Key strategic activities performed in house	+
		Reliable façonists availability is becoming an issue	+/-
Bargaining power of customers	Medium	Concentrated client base with potentially high bargaining power	-
	High	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	People and technology solutions make the selling proposition strong and appreciated... ...however they are eventually available on the market	+
	Low	The long time needed to develop 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 with regard to 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 favourable and unfavourable to achieving 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 use to its advantage.
- **Threats:** elements in the environment that could cause harm 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 60s/70s using Fortune 500 data.

S.W.O.T. ANALYSIS

STRENGTHS

- ❑ **Reference partner of the key absolute luxury brands**
- ❑ **Made in Italy** as primary key success factor in the luxury fashion industry
- ❑ **R&D investment:** innovative fabrics and garment production techniques (**ESEMPLARE**) and advanced **3D pattern-making** technologies
- ❑ Pattern is the **only ESG-rated player** in the competitive arena
- ❑ **Flexible manufacturing structure**, low WC pressure, complete offer
- ❑ **Customer loyalty:** 70% of 2021 sales stem from customers with more than 10 years of loyalty

WEAKNESSES

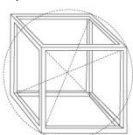
- ❑ **Customer concentration:** top 5 customers generated 85% of 2021 sales
- ❑ Management functions in the hands of a **few key people**
- ❑ **Supplier concentration:** the top 5 account for 22% and 36% of total purchases of raw materials and services respectively
- ❑ **Limited sustainability certified façonnists** available, mainly in Eastern Europe
- ❑ **Production capacity is becoming an issue**

OPPORTUNITIES

- ❑ **Consolidation opportunities** in the highly-fragmented domestic market
- ❑ Growing demand for **casual and high technological content fashion apparel**
- ❑ Increased market attention to **sustainability and circular economy**
- ❑ Growing demand for luxury fashion and products from **younger generations**

THREATS

- ❑ Some absolute luxury brands may decide for the **insourcing of the engineering and production process**, even if it is highly unlikely
- ❑ **Shortage of highly skilled and committed personnel** and to a certain extent of **production capacity**
- ❑ The rise of **new engineering and productive technologies**, not implemented by Pattern, may reduce its competitive advantage
- ❑ **Reputational risk:** a negative perception of services provided could have a negative long term impact
- ❑ **New potential consolidating actors** in the industry with huge fire power (i.e. private equity funds)



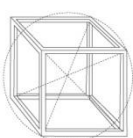
ESG Profile

Pattern **founded its culture on ESG principles** and, since 2015, has been voluntarily preparing sustainability reports in accordance with the **GRI (Global Reporting Initiative) guidelines**. In addition, some of its ESG targets are inspired by the **United Nations' Sustainable Development Goals (SDGs)**. The rigorous efforts towards sustainability will make the company Carbon Neutral by 2023 thanks to targeted investments, i.e. geothermal and photovoltaic plants, and have been recognised with a remarkable ESG rating. In addition, Pattern represents the first Italian company in its sector to have adhered to the SA8000 standard.

Chart 11 – Pattern, ESG Profile

<p>E Environmental</p>	<ul style="list-style-type: none"> ❑ Photovoltaic plant in Turin (with an expected annual production of 76,500 kW) and in Spello (Roscini Atelier's headquarters) ❑ 140 kW geothermal plant operational since 2020 ❑ The five-year plan 'From Red to Green Carpet' aims to: <ul style="list-style-type: none"> ✓ achieve Carbon Neutrality by 2023 ✓ extend the Circular Economy principles to all the group's activities ❑ <u>ESG Rating</u>: C, assigned by CDP
<p>S Social</p>	<ul style="list-style-type: none"> ❑ Pattern provides information about the composition of its workforce ❑ Compliance with the SA8000 standards since 2013 ❑ <u>Suppliers' selection policy</u>: suppliers and façonists must hold process certifications (in particular the SA8000 standard) and sign a letter of intent to ensure chemical conformity ❑ <u>SER (Supplier Engagement Rating) certification with rating B-</u>: issued by CDP, the rating assesses how effectively an organisation inspires supply chain engagement on climate change issues
<p>G Governance</p>	<ul style="list-style-type: none"> ❑ Publication of the Sustainability Report since 2015 ❑ Organisational Model pursuant to Legislative Decree no. 231/2001 ❑ Code of Ethics ❑ List voting: 5% ❑ 7 members in the BoD, 1 Independent Director, 1 woman

Source: CFO Sim analysis on company data



FY-21 Results

In a year still fairly hit by the pandemic, Pattern reported soaring results, beating our projections, with profitability growing much more than proportionately to top line. Medium long term outlook is promising.

Table 2 – Pattern, FY-21 results summary

€ m	2021	2020	% YoY	2021	% Diff.
Revenues	69.5	52.6	32.2	62.5	11.1
Increase in finished products	2.5	0.2		0.0	
Other revenues	0.5	1.3		0.1	
Value of Production	72.5	54.0	34.2	62.7	15.7
Raw material and processing	(22.3)	(15.5)		(18.2)	
Services	(25.6)	(19.0)		(23.2)	
Personnel expenses	(15.2)	(12.4)		(13.8)	
Other opex	(1.8)	(1.7)		(0.6)	
EBITDA	7.7	5.4	42.8	6.9	11.7
% margin	10.6	10.0		11.0	
D&A	(2.4)	(1.8)		(2.1)	
EBIT	5.3	3.6	47.7	4.8	10.6
% margin	7.3	6.6		7.6	
Financials	(0.1)	(0.1)		(0.1)	
Pre-Tax profit	5.1	3.5	48.9	4.7	9.1
% margin	7.1	6.4		7.5	
Income taxes	(1.5)	(0.5)		(1.4)	
Tax rate	28.5%	13.2%		30.0%	
Minorities	(0.7)	(0.7)		(0.5)	
Net Profit	3.0	2.3	32.1	2.8	5.4
% margin	4.1	4.2		4.5	
NFP (cash)/debt	(3.1)	(8.8)	64.8	(3.4)	(9.7)

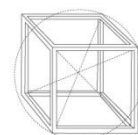
Source: Company data, CFO SIM analysis

Total revenues reached € 69.5m, up 32.2% YoY, higher than our € 62.7m projection. The Knitwear segment (S.M.T.) soared by 41.5% and apparel recovered and registered an increase of 25.9%. The Leather goods segment (IDEE) contributed for just one month in 2021. As a result of a few delays in deliveries, on the back of the postponed supply of some raw materials and the slowdown of façonists' production activity due to the pandemic, the increase in finished products reached € 2.5m vs. € 0.2m in 2020.

FY-21 sales confirmed the **recovery trend of the luxury market** started towards the end of H1-21: in H1 Pattern reported sales of € 31.1m, up by 26.8% YoY, while in H2 sales increased by 36.7% YoY, totalling € 38.3m.

EBITDA totalled € 7.7m, up 42.8% from € 5.4m in 2020, margin at 10.6% from 10.0%, better than our € 6.9m projection. The more-than-proportional increase of 'raw material and processing' costs compared to top line is mainly due to a product-mix characterised by a high raw material content in terms of value. **EBIT increased by 47.7% to € 5.3m**, better than our € 4.8m forecast, as a result of higher EBITDA despite the increase in D&A stemming from the consolidation of S.M.T. EBIT margin stood at 7.3% from 6.6% in 2020. **Net profit totalled € 3.0m, better than our € 2.8m forecast also** as a result of a lighter tax rate. The BoD will propose the distribution of a € 0.071 dividend per share.

Net Financial Position was cash positive by € 3.1m, down from € 8.8m at end-20, on the back of 1) total investments of € 8.8m (€ 5.2m in FY-20), including the payment for the acquisition of the additional 29% stake in S.M.T. for € 2.6m and of 54% of IDEE for € 4.0m, and 2) a significant CF generation.



Acquisition of RGB, leather goods accessories

Pattern goes on in its acquisition campaign strengthening the leather goods division with the acquisition of a 70% stake of RGB. Paid some 5x EBITDA, it is a further step towards the creation of the 'Italian Hub of Luxury Fashion Engineering'.

THE TARGET

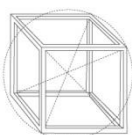
RGB is a Tuscan benefit company with some 100 employees, specialised in the **production and processing of leather accessories**. The company runs its business from a cutting-edge 2,500 sqm production plant equipped with **solar panels** in the leather goods district of Reggello (Florence). RGB is able to combine a strong production capacity with a very high quality of workmanship thanks to an internal organisation by lines and a modern and innovative production plant. RGB should generate **revenues of € 9-10m, with an EBITDA margin of some 11% and a NFP of € 400-500k** in 2022.

THE DEAL

Pattern acquires, via Idee Partners, 70% of the company from the current shareholders for **€ 2.3m plus an earn-out of max € 1.0m** linked to a certain EBITDA target in 2022. **The price corresponds to some 5x EBITDA** projected for 2022, lower than the current market valuation of Pattern, thus creating value for the stakeholders. The closing is expected no later than 13-May-22. The deal envisages a shareholders agreement between Idee Partners and Paolo Benedetti (shareholder with a residual 30% stake in RGB) which rules the governance of RGB. In addition, it also includes a call option for Idee Partners to buy the residual 30% of RGB for a consideration of € 500-1,000k.

OUR VIEW

Once again, **Pattern is definitely delivering what it announced at the time of the IPO**: this fairly priced acquisition in the leather goods niche, a highly synergic segment in which the group was present with Idee Partners, is another step toward the creation of Italy's **leading hub for luxury fashion engineering**. The group will expand a few customers' share of wallet and internalise the key production of leather goods accessories streamlining time and logistics. **Luxury players appreciate the group's growing integration into production especially in the leather goods segment**. We welcome this move. Pattern is amongst the few industry players able to internally manage the three product categories (fabric, knitwear and leather) and hybrids, complex garments made up of different materials and processes.



Outlook, Estimates, Valuation & Risks

The short-term outlook is still delicate: 2022 should be characterised by a growing first part of the year and a second semester impacted by uncertainty due to the current political situation. **Pattern is one season ahead of what is currently on sale in shops.** That is why production and delivery are more affected by customers' expectations for the next seasons rather than by current in-store sales.

The 2023-24 outlook appears positive. There will be greater sensitivity to the quality aspects of manufacturing and the sustainability of products and supply chains. This attention could lead to potential further reshoring to Italy of activities previously carried out abroad with a consequent expansion of Made in Italy in the luxury segment to Pattern's benefit.

Thanks to the recently completed acquisitions, **Pattern is definitely delivering what it announced at the time of the IPO:** the creation of an Italian leading hub for luxury fashion engineering. The group has proven itself to be amongst the few industry players worldwide able to internally manage different product categories (fabric, knitwear and leather) and hybrids, complex garments made from different materials and through various processes.

Pattern continues to look for **external growth opportunities** for the development of the "Italian Hub of Luxury Fashion Engineering". The crisis has only emphasised the need for sector consolidation in order to better face the current situation, competition and demands of international markets. Potential targets in the **leather goods, knitwear and kids segments** could expand the product portfolio through the acquisition of strong brands and the expansion of the customer base.

Following the publication of FY-21 results and the acquisition of RGB, consolidated in our assumption as of 1-Apr-22, we **fine-tuned our model.** The result is a 1% and 16% decline in EBITDA and EBIT in 2022 and 2023, on average, vs. our previous estimates. We introduced 2024 forecasts too.

Table 3 – Pattern, 2022e new/old estimates

€ m	New	Old	% Diff.	€ m Diff.
Value of Production	94.9	86.4	9.8	8.5
EBITDA	10.5	10.6	(0.6)	(0.1)
% margin	11.1	12.2		
EBIT	6.5	7.9	(18.4)	(1.5)
% margin	6.8	9.1		
Net Profit	3.2	4.4	(28.0)	(1.2)
% margin	3.4	5.1		
Y/E net debt (net cash)	0.7	(6.0)	(112.5)	6.7

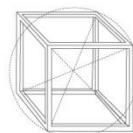
Source: CFO Sim

Table 4 – Pattern, 2023e new/old estimates

€ m	New	Old	% Diff.	€ m Diff.
Value of Production	109.1	99.3	9.8	9.7
EBITDA	13.0	13.1	(0.8)	(0.1)
% margin	12.0	13.2		
EBIT	9.0	10.4	(13.5)	(1.4)
% margin	8.3	10.5		
Net Profit	4.7	6.0	(21.6)	(1.3)
% margin	4.3	6.0		
Y/E net debt (net cash)	(4.1)	(11.0)	(62.6)	6.9

Source: CFO Sim

Pattern's key strengths in these still rather difficult business conditions are 1) the ability to work in different areas (men, women, knitwear and the recently added leather goods segment) 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 (more than 70% of variable costs), 5) low WC pressure, and 6) an extremely solid balance sheet.



As a consequence of the estimate revision and the updated valuation criteria, **PT remain unchanged at € 8.50/s, 51.2% upside**. The balance sheet solidity and a considerable cash pile at end-21 allow Pattern to consider another round of acquisitions, adding further appeal to the stock.

DCF

In the valuation via the DCF method, we determine the company's value by identifying an explicit forecast period until 2026 and then by cautiously assuming a long-term growth rate of 1.0%. Cash flows are discounted back at a weighted average cost of capital, calculated according to the following parameters:

Table 5 - WACC derived from:

Interest costs, pre-tax	2.0%
Tax rate	30.0%
Int. costs, after taxes	1.4%
Risk premium, incl. small size premium	9.0%
Risk-free (10Y Gov. Bond 200gg simple moving average)	1.05%
Beta levered (x)	1.00
Required ROE	10.0%

Sources: CFO Sim, Thomson Reuters Eikon

Risk premium at 9.0% factors in the minute size of the company and basically all the concerns and disquiet that an investor might have with regard to the Euronext Growth Milan market segment. **Beta at 1** has been set prudentially, taking into account the company's lower liquidity. Indeed, the 5Y Beta calculated using the domestic B2B peer group is 0.99x. **The WACC is computed by using a 20:80% debt/equity balance-sheet structure**, thus taking into account some leverage required for the acquisition campaign.

Table 6 - Pattern, DCF model

€ m	2022e	2023e	2024e	2025e	2026e	Term. Val.
EBIT	6.5	9.0	12.3	13.8	15.3	
Tax rate	30.0%	30.0%	30.0%	30.0%	30.0%	
Operating profit (NOPAT)	4.5	6.3	8.6	9.6	10.7	
Change working capital	(1.9)	(0.4)	(0.8)	(0.1)	(0.1)	
Depreciation	4.1	4.0	3.9	2.1	0.3	
Investments	(8.0)	(2.1)	(2.1)	(0.3)	(0.3)	
Free Cash Flows	(1.3)	7.8	9.6	11.4	10.6	146.2
Present value	(1.2)	6.8	7.8	8.4	7.3	100.2
WACC	8.3%	8.3%	8.3%	8.3%	8.3%	
Long-term growth rate	1.0%					

Source: CFO Sim

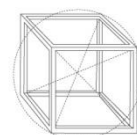


Table 7 – Pattern, DCF derived from:

€ m	
Total EV present value € m	129.2
<i>thereof terminal value</i>	77.6%
NFP last reported adj.	3.1
Pension provision	(2.6)
Minorities (valued at acquisition 7.0x PER)	(10.5)
Equity value € m	119.2
#m shares	14.08
Equity value €/s	8.50
% upside/(downside)	51.2%

Source: CFO Sim

By applying our DCF model, we attained an **equity value of € 119.2m (€ 8.50/s)** with regard to Pattern.

The following tables illustrate that sensitivity 1) compared to changes in the terminal growth rate produces an equity value of **€ 7.55-9.68/s (perpetuity range between 0.00% and 2.00%)**, while 2) if compared to changes in the free risk rate, it produces an equity value of **€ 7.68-9.75/s (free risk range between 1.85% and 0.00%)** and 3) if compared to changes in the risk premium, including the small-size premium, it results in an equity value of **€ 6.70-11.23/s (risk premium range between 11.0% and 7.00%)**.

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

€ m	0.00%	0.25%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%
Present value of CF	29.0	29.0	29.0	29.0	29.0	29.0	29.0	29.0	29.0
PV of terminal value	87.3	90.2	93.3	96.7	100.2	104.0	108.1	112.5	117.2
Total value	116.3	119.2	122.3	125.7	129.2	133.0	137.1	141.5	146.2
NFP last reported	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Pension provision	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)
Minorities	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)
Equity value	106.3	109.2	112.4	115.7	119.2	123.0	127.1	131.5	136.2
Equity value/share €	7.55	7.76	7.98	8.22	8.50	8.74	9.03	9.34	9.68

Source: CFO Sim

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

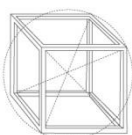
€ m	0.00%	0.45%	0.65%	0.85%	1.05%	1.25%	1.45%	1.65%	1.85%
Present value of CF	29.8	29.4	29.3	29.1	29.0	28.8	28.7	28.6	28.4
PV of terminal value	117.4	109.5	106.3	103.2	100.2	97.4	94.7	92.1	89.6
Total value	147.2	139.0	135.6	132.3	129.2	126.2	123.4	120.7	118.0
NFP last reported adj.	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Pension provision	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)
Minorities	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)
Equity value	137.2	129.0	125.6	122.3	119.2	116.3	113.4	110.7	108.1
Equity value/share €	9.75	9.16	8.92	8.69	8.50	8.26	8.06	7.86	7.68

Source: CFO Sim

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

€ m	7.00%	7.50%	8.00%	8.50%	9.00%	9.50%	10.00%	10.50%	11.00%
Present value of CF	30.5	30.1	29.7	29.4	29.0	28.6	28.3	27.9	27.6
PV of terminal value	137.6	126.4	116.5	107.9	100.2	93.4	87.3	81.7	76.7
Total value	168.1	156.5	146.3	137.2	129.2	122.0	115.5	109.7	104.3
NFP last reported adj.	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Pension provision	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)
Minorities	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)
Equity value	158.1	146.5	136.3	127.3	119.2	112.0	105.6	99.7	94.3
Equity value/share €	11.23	10.41	9.68	9.04	8.50	7.96	7.50	7.08	6.70

Source: CFO Sim



Market Multiples

Pattern provides high value-added luxury apparel engineering and design services with production outsourced to *façonists*: **the company does not have any comparable listed 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.

Amongst luxury fashion companies, we have selected the following:

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 EMEA regions as well as the Americas.

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 products as well as wearable technology, watches, jewellery, eyewear and a full line of fragrance products.

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 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.

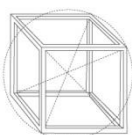
Kering SA: as a global luxury group, Kering develops an ensemble of luxury houses in fashion, leather goods, jewellery and watches: Gucci, Saint Laurent, Bottega Veneta, Alexandre McQueen, Balenciaga, Ulysse Nardin, etc. The company specialises in ready-to-wear products, sports goods, shoes, jewellery,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

LVMH SE: Louis Vuitton Moët Hennessy operates in four business segments: 1) wines and spirits, with brands like Moët & Chandon, Dom Pérignon, Veuve Clicquot Ponsardin, Krug, Ruinart, Belvedere; 2) fashion and leather goods, which include some absolute luxury brands such as Louis Vuitton, Christian Dior Couture, Celine, Loewe, Fendi, Berluti; 3) perfumes and cosmetics, and 4) watches and jewellery, comprising, among others, Bvlgari, TAG Heuer, Zenith and Hublot. LVMH is also active in selective retailing as well as other activities.

Amongst B2B Italian companies, we selected the following:

Eurotech SpA: it is engaged in the research, development, production, and marketing of miniaturised and high-performance computers featuring high computing capacity. It operates in the NanoPC and High-Performance Computing (HPC) segments. It also offers boards and embedded modules. In addition, the company provides panel PCs, industrial monitors and computers, mobile and portable systems, and environmental monitoring systems. Furthermore, it offers the Everyware Device Cloud solution, which enables customers to make business decisions; the Machine-to-Machine Integration Platform, which simplifies device and data management; and Everyware Software Framework, which acts as a link between the private device network and the local network, public Internet, or cellular network; finally, it offers consulting and solutions design services.

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 recognised on the market for the high quality of its products. It also has consolidated and continuous relationships with most of its customers.



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 the key manufacturer in Italy, and one of the world's leading producers 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 11 - Pattern, peer group summary table

€ m	Country	Mkt Cap	Sales FY1	EBITDA FY1	EBITDA %	Sales CAGR ₂₀₋₂₃	EBITDA CAGR ₂₀₋₂₃	EBIT CAGR ₂₀₋₂₃	EPS CAGR ₂₁₋₂₃	NFP FY1	NFP /EBITDA
Burberry Group PLC	UK	7,585	3,378	899	26.6%	11.4%	10.4%	15.6%	9.4%	(1,159)	n.m.
Capri Holdings Ltd	US	6,472	3,378	1,162	34.4%	30.2%	41.5%	54.4%	7.5%	1,054	0.9
Compagnie Financiere Richemont	F	58,948	18,699	5,164	27.6%	18.7%	29.5%	50.0%	12.8%	(3,767)	n.m.
Hermes International SCA	F	134,999	10,163	4,377	43.1%	11.4%	9.1%	9.7%	11.3%	(7,611)	n.m.
Kering SA	F	68,476	19,910	7,225	36.3%	9.9%	10.2%	11.8%	10.5%	2,050	0.3
LVMH Moet Hennessy Louis Vuitton	F	314,969	72,910	24,739	33.9%	9.9%	10.2%	11.5%	9.8%	8,822	0.4
Median Luxury		63,712	14,431	4,770	34.2%	11.4%	10.3%	13.7%	10.1%	(53)	0.4
Brembo SpA	IT	3,080	792	104	13.1%	6.1%	6.9%	10.7%	9.4%	83	0.8
Eurotech SpA	IT	125	100	18	18.3%	n.a.	n.a.	n.a.	n.a.	(17)	n.m.
Fine Foods & Pharmaceuticals	IT	199	222	27	12.2%	10.1%	21.4%	55.7%	22.5%	12	0.4
Sabaf SpA	IT	275	278	53	19.0%	4.9%	4.2%	4.6%	8.9%	72	1.4
Median domestic B2B		237	250	40	15.7%	6.1%	6.9%	10.7%	9.4%	42	0.8
Pattern SpA	IT	77	95	11	11.1%	21.6%	28.3%	32.6%	45.0%	1	0.1

Sources: CFO Sim, Thomson Reuters Eikon

Table 12 - Pattern, peer group EV multiple table

x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3
Burberry Group PLC	1.90	1.77	1.64	7.1	6.5	5.8
Capri Holdings Ltd	2.23	2.02	0.97	6.5	5.6	4.2
Compagnie Financiere Richemont	2.95	2.66	2.39	10.7	9.5	8.4
Hermes International SCA	12.53	11.20	10.02	29.1	25.9	23.1
Kering SA	3.54	3.10	2.75	9.8	8.5	7.4
LVMH Moet Hennessy Louis Vuitton	4.44	4.05	3.56	13.1	11.8	10.2
Median Luxury	3.25	2.88	2.57	10.2	9.0	7.9
Brembo SpA	1.15	1.05	0.98	6.4	5.8	5.5
Eurotech SpA	1.08	0.70	n.a.	n.m.	2.8	n.a.
Fine Foods & Pharmaceuticals	0.95	0.82	0.74	7.8	5.9	5.5
Sabaf SpA	1.25	1.18	1.12	6.6	5.9	5.6
Median domestic B2B	1.11	0.93	0.98	6.6	5.9	5.5
Pattern SpA	0.82	0.67	0.54	7.4	5.6	4.1
% premium/(discount) to luxury peers	(74.7)	(76.7)	(79.2)	(27.6)	(37.7)	(47.9)
% premium/(discount) to domestic B2B peers	(26.3)	(28.0)	(45.5)	12.9	(4.5)	(24.6)

Sources: CFO Sim, Thomson Reuters Eikon

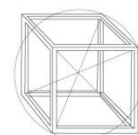
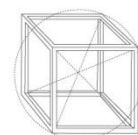


Table 13 - Pattern, peer group EV & price multiple table

x	EBIT FY1	EBIT FY2	EBIT FY3	PER FY1	PER FY2	PER FY3
Burberry Group PLC	10.7	9.7	8.5	17.1	15.7	14.3
Capri Holdings Ltd	7.8	6.8	5.0	7.7	7.1	6.7
Compagnie Financiere Richemont	14.7	13.0	11.4	21.6	18.3	17.0
Hermes International SCA	33.5	29.8	26.2	51.4	46.0	41.6
Kering SA	12.2	10.5	9.2	17.4	15.7	14.2
LVMH Moet Hennessy Louis Vuitton	16.6	14.9	12.8	23.6	21.4	19.6
Median Luxury	13.4	11.7	10.3	19.5	17.0	15.6
Brembo SpA	11.0	9.6	8.8	13.3	12.1	11.1
Eurotech SpA	n.m.	3.2	n.a.	n.m.	4.4	n.a.
Fine Foods & Pharmaceuticals	16.9	10.9	10.1	19.9	13.7	13.3
Sabaf SpA	9.6	8.6	8.0	10.6	9.6	8.9
Median domestic B2B	11.0	9.1	8.8	13.3	10.8	11.1
Pattern SpA	12.1	8.1	5.5	24.2	16.5	11.5
% premium/(discount) to luxury peers	(10.2)	(31.0)	(47.1)	24.2	(2.9)	(26.4)
% premium/(discount) to domestic B2B peers	9.7	(11.1)	(38.2)	81.4	52.4	3.4

Sources: CFO Sim, Thomson Reuters Eikon



Peer Stock Performance

Pattern was listed on Euronext Growth Milan 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 Pattern's value, we conducted an analysis on two clusters: 1) six companies operating in the absolute luxury and fashion arena; 2) four Italian companies operating with a B2B business model.

Table 14 - Pattern, peer group and indices absolute performance

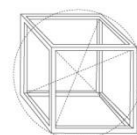
	1D	1W	1M	3M	6M	YTD	1Y
Burberry Group PLC	(1.6)	(4.9)	1.1	(12.6)	(14.3)	(12.4)	(20.0)
Capri Holdings Ltd	(0.7)	(7.2)	(5.0)	(27.3)	(6.4)	(26.5)	(6.0)
Compagnie Financiere Richemont	(0.7)	(2.9)	4.7	(17.9)	13.2	(16.3)	22.8
Hermes International SCA	(1.0)	(1.1)	13.6	(15.1)	3.7	(16.9)	34.2
Kering SA	(1.6)	(4.7)	(0.6)	(23.6)	(13.9)	(22.4)	(7.5)
LVMH Moët Hennessy Louis Vuitton	(1.9)	(3.9)	6.1	(14.2)	(2.2)	(14.2)	8.1
Median Luxury	(1.3)	(4.3)	2.9	(16.5)	(4.3)	(16.6)	1.0
Brembo SpA	1.0	(8.5)	(15.1)	(31.4)	(26.3)	(30.6)	(33.8)
Eurotech SpA	1.7	(23.2)	(24.8)	(38.6)	(47.1)	(41.4)	(27.3)
Fine Foods & Pharmaceuticals	(2.1)	(9.0)	0.8	(31.2)	(14.6)	(26.5)	(15.7)
Sabaf SpA	(0.6)	6.5	30.3	0.2	10.4	(0.6)	1.5
Median domestic B2B	0.2	(8.7)	(7.2)	(31.3)	(20.4)	(28.6)	(21.5)
Pattern SpA	1.8	4.1	17.1	(17.1)	7.3	(17.4)	21.1
MSCI World Index	(2.1)	(4.1)	5.7	(17.8)	(6.9)	(18.8)	13.3
EUROSTOXX	(1.0)	(1.1)	13.6	(15.1)	3.7	(16.9)	34.2
FTSE Italia All Share	(1.6)	(4.7)	(0.6)	(23.6)	(13.9)	(22.4)	(7.5)
FTSE Italia STAR	(1.9)	(3.9)	6.1	(14.2)	(2.2)	(14.2)	8.1
FTSE Italia Growth	(0.7)	(2.9)	4.7	(17.9)	13.2	(16.3)	22.8

Source: Thomson Reuters Eikon

Table 15 - Pattern relative performances

	1D	1W	1M	3M	6M	YTD	1Y
to MSCI World Index	4.0	8.2	11.4	0.7	14.2	1.4	7.8
to EUROSTOXX	2.8	5.2	3.5	(2.0)	3.6	(0.5)	(13.1)
to FTSE Italia All Share	3.4	8.8	17.7	6.5	21.1	5.1	28.6
to FTSE Italia STAR	3.7	8.0	10.9	(2.9)	9.4	(3.2)	13.0
to FTSE Italia Growth	2.5	7.0	12.4	0.8	(6.0)	(1.0)	(1.7)
to Domestic B2B Peer Median	1.6	12.8	24.2	14.2	27.7	11.2	42.6
to Luxury Peer Median	3.1	8.4	14.2	(0.6)	11.5	(0.8)	20.1

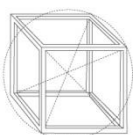
Source: Thomson Reuters Eikon



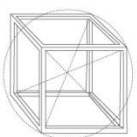
Risks

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

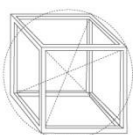
- high level of customer concentration;
- loss of reputation among customers;
- difficulty in managing investments and in finding the resources to support growth;
- the reference market consolidation process may put the company's market share under pressure;
- impact on P&L account and balance sheet 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 with huge firepower in the industry (i.e. private equity funds).



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DATE	TARGET PRICE	RATING
08/04/2022	€8.50	BUY
11/03/2022	€8.50	BUY
15/02/2022	€8.50	BUY
24/01/2022	€8.50	BUY
28/10/2021	€8.20	BUY
29/09/2021	€7.60	BUY
28/05/2021	€7.00	BUY
08/04/2021	€7.00	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% range identified using the preceding criteria.

The rating is determined on the basis of the **expected absolute return over a 12-month period** and not on the basis of the estimated outperformance or underperformance relative to a market index. Thus, the rating can be directly linked to the estimated percentage difference between current and target prices. The prices of the financial securities mentioned in the report (also used for the calculation of market capitalisation and market multiples) are the reference prices of the stock market trading day preceding the publication date of the report, otherwise stated.

