

Italy – Luxury Engineering

Faster recovery entails greater returns

29th September 2021

H1-21 RESULTS RELEASE

RIC: PTRN.MI
BBG: PTR IM

Pattern reported growing interim figures, with soaring top line and EBITDA up more than proportionately to sales. The company expects the second part of the year to be possibly better than the first one in terms of volumes and profitability. The acquisition campaign remains a priority in order to continue to generate value in this unavoidably consolidating market.

Rating:

Buy

Price Target:

€ 7.60 (€ 7.00)

Upside/(Downside): 61.7%

Last Price: € 4.70

Market Cap.: € 64.5m

1Y High/Low: € 5.56 / € 3.35

Avg. Daily Turn. (3M, 6M): € 15k, € 17k

Free Float: 27.6%

Major shareholders:

Bo.Ma. Holding Srl	53.4%
Fulvio Botto	6.4%
Francesco Martorella	6.4%
Otus Capital (Free Float)	5.8%
Camer (S.M.T. shareholders)	2.5%
Anna Maria Roscini	2.0%
Luca Sburlati (CEO)	1.7%



Stock price performance

	1M	3M	12M
Absolute	-7.8%	1.1%	32.4%
Rel.to AIM Italia	-3.6%	15.3%	-23.2%
Rel.to Sector	-3.8%	12.1%	-21.5%

Analysts:

Luca Arena
+39 02 30343 395
luca.arena@cfosim.com

Gianluca Mozzali
+39 02 30343 396
gianluca.mozzali@cfosim.com

Estimates up, new PT of € 7.60 offers 61.7% upside potential

The reference market after a H1-21 still rather weak is anticipated to recover as of the second part of the year in Western countries too, mainly thanks to the ongoing vaccination campaigns (in the Far East the market showed a progression already in the first half of the year). We are upgrading our estimates by 11.2% and 19.5% at the EBITDA and Net Profit levels, on average, in 2021-23. As a consequence of the estimate revision and the update in the valuation criteria, new PT stands at € 7.60 (€ 7.00).

Revenues grew 27% to € 31.1m...

Pattern's business model is characterised by certain revenue levels, profitability and WC seasonality. On a historical basis, the bulk of production (namely the fall-winter collections) took place in Q2, which turns into sales starting from Q3. Sales generated in the first-second part of the year typically accounted for 45%-55%. Seasonality is more evident with regard to profitability: EBITDA usually accounts for 30%-70% in H1-H2. In addition, this year the pandemic has still impacted H1 in terms of production and business conditions. H1-21 total revenues reached € 31.1m, up 26.8% vs. € 24.5m in H1-20, also thanks to S.M.T. and its positioning in the knitwear segment, characterised by high resiliency.

... and EBITDA soared much more than proportionately to € 3.4m, 10.9% margin

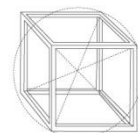
EBITDA increased by 36.4% to € 3.4m from € 2.5m in H1-20, margin of 10.9%. If we exclude from the H1-20 figure the € 500k tax credit amount stemming from the IPO costs, the progression reaches 70.7% YoY. This remarkable result was obtained despite the increase in personnel costs on the back of less recourse to the Wages Guarantee Fund (€ 1m lower in H1-20 vs. € 400k lower in H1-21). EBIT was € 2.3m, up 43.3% YoY, 7.1% margin as a result of greater EBITDA despite higher D&A stemming from the full implementation of the new finished products warehouse in Collegno and the S.M.T. stake increase from 51% to 80%. Net Profit came in at € 1.2m, up 14% YoY.

Cash pile at € 5.0m allows another round of M&A

Net Financial Position totalled € 5.0m cash from € 8.8m cash at end-20 and from € 3.9m cash of H1-20, on the back of the payment for the additional stake in S.M.T. and significant WC absorption due to seasonal effects. At end-Aug, NFP was € 5.9m cash, up 19% vs. end-Jun. Pattern is active in M&A, chasing targets in segments, markets and channels different and adjacent to those in which the group already operates. Potential targets in the knitwear, leather and in other segments would enlarge the company's product portfolio through the acquisition of strong brands and the expansion of the customer base.

Pattern, key financials and ratios

€ m	2019	2020	2021e	2022e	2023e
Value of Production	55.3	54.0	62.7	70.2	80.6
EBITDA	5.9	5.4	6.9	8.4	10.5
EBIT	5.5	3.6	4.8	6.3	8.4
Net profit	3.8	2.3	2.9	3.8	5.1
NFP (cash)/debt	(12.4)	(8.8)	(7.4)	(12.0)	(16.2)
EBITDA margin	10.7%	10.0%	11.0%	12.0%	13.0%
EBIT margin	9.9%	6.6%	7.6%	9.0%	10.4%
EPS	0.28	0.17	0.21	0.28	0.37
EPS growth	7.6%	-40.1%	26.1%	32.5%	35.0%
Dividend	0.05	0.00	0.07	0.10	0.13
Dividend Yield	1.1%	0.0%	1.6%	2.1%	2.8%
ROCE	24.1%	9.3%	11.5%	14.2%	17.1%
NWC/Sales	4.6%	6.1%	7.7%	6.8%	6.9%
Free Cash Flow Yield	3.2%	-0.2%	-2.1%	8.6%	8.6%
PER x	10.9	30.2	22.5	17.0	12.6
EV/Sales x	0.69	0.85	0.91	0.75	0.60
EV/EBITDA x	5.4	9.2	8.3	6.3	4.6
EV/EBIT x	5.7	14.6	11.9	8.3	5.8



The Company at a Glance

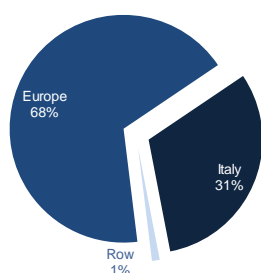
Founded in 2000 by Fulvio Botto and Francesco Martorella (group directors and major shareholders with a 34.3% stake each), Pattern is the second Italian player (CFO SIM estimate) specialised in the modelling, engineering, grading, prototyping and production of luxury clothing for men and women, and the undisputed leader in the outerwear niche, operating in the catwalk segment and among the top lines of the most prestigious global luxury brands. The firm manages the entire engineering and production cycle from patterns to prototypes, from the creation of ready-to-wear garments to successive productions. Pattern operates the high value added engineering and prototyping phases whilst production is outsourced to a plethora of suppliers ('façonists').

Pattern's global export sales has reached almost 70% of total revenues in 2020. 88% of revenues come from production while engineering processes account for 11%. The female apparel contributes to 49% of total thanks to the acquisition of Roscini Atelier in 2017, whereas the male apparel now accounts for some 51% of total revenues. In terms of products, most of the group's production comes from knitwear, namely 50% of total, whereas outerwear accounts for 37% and the remainder is represented by upper wear and light wear.

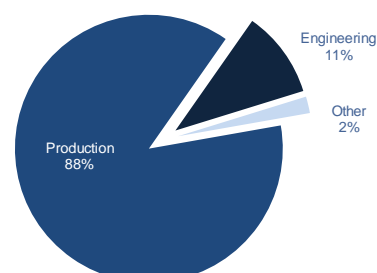
Since 2015, Pattern has voluntarily been drawing up sustainability reports according to the reporting guidelines of the Global Reporting Initiative (GRI Standards), focusing its attention on Corporate Social Responsibility principles.

In 2020, revenues were € 52.6m, EBITDA was € 5.4m, 10.0% margin. EBIT stood at € 3.6m and Net Income totalled € 2.3m. NFP was cash positive by € 8.8m, thanks to strong OpCF generation, limited Capex and WC needs.

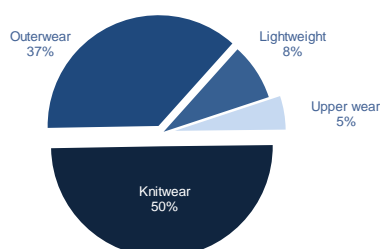
2020 breakdown by geography...



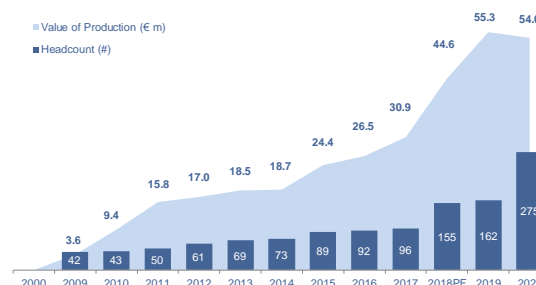
... by service...



...and by product line



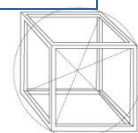
Top line and headcount evolution



Peers group multiples table

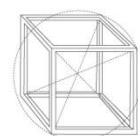
EV multiples x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3	EBIT FY1	EBIT FY2	EBIT FY3
Burberry Group PLC	2.24	2.10	1.97	8.7	7.8	7.0	13.3	11.7	10.5
Capri Holdings Ltd	2.43	2.18	1.23	8.5	7.2	5.6	10.7	8.8	6.9
Compagnie Financiere Richemont	2.58	2.37	2.18	10.5	9.2	8.0	15.7	13.3	11.5
Hermes International SCA	14.05	12.45	11.20	32.9	29.8	26.5	37.9	34.4	30.7
Kering SA	4.81	4.31	4.01	13.3	11.6	10.5	16.9	14.6	13.2
LVMH Moet Hennessy Louis Vuitton	5.42	4.89	4.45	16.4	15.0	13.5	21.6	19.3	17.0
Median Luxury	3.70	3.34	3.09	11.9	10.4	9.3	16.3	13.9	12.4
Brembo SpA	1.53	1.37	1.26	7.9	7.0	6.4	13.4	11.4	10.2
Eurotech SpA	2.22	1.53	1.20	15.9	8.9	5.8	25.5	11.6	7.1
Fine Foods & Pharmaceuticals	1.70	1.35	1.25	12.0	9.0	8.2	22.5	16.7	15.1
Sabaf SpA	1.28	1.32	1.21	5.7	6.2	5.5	8.2	9.3	8.1
Median domestic B2B	1.61	1.36	1.23	10.0	8.0	6.1	18.0	11.5	9.2
Pattern SpA	0.91	0.75	0.60	8.3	6.3	4.6	11.9	8.3	5.8

Sources: CFO Sim, Thomson Reuters Eikon





Income statement (€ m)	2019	2020	2021e	2022e	2023e
Revenues	55.6	52.6	62.5	70.1	80.5
Value of Production	55.3	54.0	62.7	70.2	80.6
Raw material and processing	(16.5)	(15.5)	(18.2)	(20.4)	(23.4)
Services	(23.0)	(19.0)	(23.2)	(26.2)	(30.0)
Personnel expenses	(9.2)	(12.4)	(13.8)	(14.6)	(16.0)
Other opex	(0.7)	(1.7)	(0.6)	(0.7)	(0.8)
EBITDA	5.9	5.4	6.9	8.4	10.5
D&A	(0.5)	(1.8)	(2.1)	(2.1)	(2.1)
EBIT	5.5	3.6	4.8	6.3	8.4
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	5.4	3.5	4.7	6.3	8.3
Income taxes	(1.6)	(0.5)	(1.4)	(1.9)	(2.5)
Minorities	0.0	(0.7)	(0.5)	(0.6)	(0.7)
Net Profit	3.8	2.3	2.9	3.8	5.1
Net Profit adj.	4.7	1.8	2.9	3.8	5.1
EBITDA Adjusted	7.2	4.9	6.9	8.4	10.5
Balance sheet (€ m)	2019	2020	2021e	2022e	2023e
Net Working Capital	2.5	3.3	4.8	4.7	5.6
Net Fixed Assets	2.5	10.7	11.8	10.4	9.0
Equity Investments	1.1	0.2	0.2	0.2	0.2
Other M/L Term A/L	(1.1)	(2.0)	(0.4)	(0.7)	(0.6)
Net Invested Capital	5.0	12.2	16.4	14.6	14.2
Net Financial Debt	(12.4)	(8.8)	(7.4)	(12.0)	(16.2)
Minorities	0.0	2.0	2.5	3.1	3.8
Group's Shareholders Equity	17.4	18.9	21.3	23.5	26.6
Financial Liabilities & Equity	5.0	12.2	16.4	14.6	14.2
Cash Flow statement (€ m)	2019	2020	2021e	2022e	2023e
Total net income	3.8	2.3	2.9	3.8	5.1
Depreciation	0.5	1.8	2.1	2.1	2.1
Other non-cash charges	(0.5)	0.9	(1.6)	0.3	(0.1)
Cash Flow from Oper. (CFO)	3.7	5.0	3.4	6.1	7.1
Change in NWC	0.2	0.1	(1.5)	0.1	(0.8)
FCF from Operations (FCFO)	3.9	5.1	1.9	6.2	6.2
Net Investments (CFI)	(1.9)	(5.2)	(3.2)	(0.7)	(0.7)
Free CF to the Firm (FCFF)	2.0	(0.1)	(1.3)	5.5	5.5
CF from financials (CFF)	7.8	7.5	0.2	(0.8)	(1.1)
Free Cash Flow to Equity (FCFE)	9.9	7.4	(1.1)	4.8	4.5
Financial ratios	2019	2020	2021e	2022e	2023e
EBITDA margin	10.7%	10.0%	11.0%	12.0%	13.0%
EBIT margin	9.9%	6.6%	7.6%	9.0%	10.4%
Net profit margin	6.9%	4.2%	4.6%	5.4%	6.4%
Tax rate	30.2%	13.2%	30.0%	30.0%	30.0%
Op NWC/Sales	4.6%	6.1%	7.7%	6.8%	6.9%
Interest coverage x	0.01	0.03	0.01	0.01	0.01
Net Debt/EBITDA x	(2.08)	(1.63)	(1.08)	(1.43)	(1.55)
Debt-to-Equity x	(0.71)	(0.46)	(0.35)	(0.51)	(0.61)
ROIC	75.7%	18.7%	17.5%	26.0%	36.1%
ROCE	24.1%	9.3%	11.5%	14.2%	17.1%
ROACE	32.8%	11.7%	12.0%	14.7%	17.9%
ROE	21.8%	12.0%	13.4%	16.1%	19.2%
Payout ratio	18.1%	0.0%	35.0%	35.0%	35.0%
Per share figures	2019	2020	2021e	2022e	2023e
Number of shares # m	13.72	13.72	13.72	13.72	13.72
Number of shares Fully Diluted # m	13.72	13.72	13.72	13.72	13.72
Average Number of shares Fully Diluted # m	13.72	13.72	13.72	13.72	13.72
EPS stated FD €	0.28	0.17	0.21	0.28	0.37
EPS adjusted FD €	0.34	0.13	0.21	0.28	0.37
EBITDA €	0.43	0.39	0.50	0.61	0.76
EBIT €	0.40	0.26	0.35	0.46	0.61
BV €	1.27	1.53	1.73	1.94	2.21
FCFO €	0.29	0.37	0.14	0.45	0.46
FCFF €	0.15	(0.01)	(0.10)	0.40	0.40
FCFE €	0.72	0.54	(0.08)	0.35	0.32
Dividend €	0.05	0.00	0.07	0.10	0.13



H1-21 Results

Pattern reported growing interim figures, with soaring top line and EBITDA up more than proportionately to sales. The company expects the second part of the year to be possibly better than the first one in terms of volumes and profitability in addition to a further NFP improvement also due to the typical business seasonality.

Table 1 – Pattern, H1-21 results summary

€ m	H1-21	H1-20	% YoY
Total Revenues	31.1	24.5	26.8
Increase in finished products	2.2	0.6	
Value of Production	33.4	25.1	32.8
Raw material and processing	(11.1)	(6.8)	
Services	(10.9)	(9.1)	
Personal expenses	(7.1)	(5.9)	
Other opex	(0.9)	(0.8)	
EBITDA	3.4	2.5	36.4
% margin	10.9%	10.2%	
D&A	(1.1)	(0.9)	
EBIT	2.3	1.6	43.3
% margin	7.4%	6.5%	
Financial income/(costs)	(0.1)	(0.1)	
Pre-Tax profit	2.2	1.5	45.2
Income taxes	(0.7)	(0.2)	
Tax rate	33.3%	15.0%	
Minorities	(0.3)	(0.3)	
Net Profit	1.2	1.0	14.0
% margin	3.8%	4.2%	
NFP	(5.0)	(3.9)	27.0

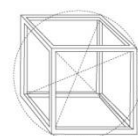
Sources: Company data, CFO SIM analysis

Pattern's business model is characterised by certain revenue levels, profitability and WC seasonality. On a historical basis, the bulk of production (namely the fall-winter collections) took place in Q2, which turns into sales starting from Q3. Revenues generated in the first-second part of the year typically accounted for 45%-55%. Seasonality is more evident/higher with regard to profitability: EBITDA usually accounts for 30%-70% in H1-H2. In addition, this year the pandemic has still impacted the first part of the year in terms of production and business conditions.

H1-21 total revenues reached € 31.1m, up 26.8% vs. € 24.5m in H1-20, all organic also thanks to S.M.T. and its positioning in the knitwear, a segment characterised by higher resiliency compared to the luxury industry as a whole.

EBITDA increased by 36.4% to € 3.4m from € 2.5m in H1-20, margin of 10.9%. If we exclude from the H1-20 figure the € 500k tax credit amount stemming from the IPO costs, the progression is 70.7% YoY. This remarkable result was obtained despite the increase in personnel costs on the back of less recourse to the Wages Guarantee Fund (€ 1m lower in H1-20 vs. € 400k in H1-21). **EBIT was € 2.3m, up 43.3% YoY, 7.1% margin** as a result of greater EBITDA despite higher D&A stemming from the full implementation of the new finished products warehouse in Collegno and the S.M.T. stake increase from 51% to 80%. **Net Profit came in at € 1.2m, up 14% YoY**, despite a higher tax rate (in H1-20 Pattern benefited from the tax credit amount stemming from the IPO costs).

Net Financial Position totalled € 5.0m cash from € 8.8m cash at end-20 and from € 3.9m cash of H1-20, on the back of the payment for the additional stake in S.M.T. and significant WC absorption due to seasonal effects. At end-Aug NFP was € 5.9m cash, up 19% vs. end-Jun.



Outlook, Estimates, Valuation & Risks

According to Pattern, **the reference market after a H1-21 still rather weak is anticipated to recover** as of the second part of the year in Western countries too, mainly thanks to the ongoing vaccination campaigns (in the Far East the market showed a progression in the first half of the year). In this context and considering the current order backlog, **Pattern expects H2-21 results to be better than those reported in H1-21**, in terms of revenues, operating margin and cash generation (within the same consolidation perimeter). **The 2022-23 outlook remains 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 reshoring to Italy of activities previously carried out abroad with a consequent expansion of the Made in Italy in the luxury segment to the benefit of Pattern.

Following the publication of H1-21 results, we **raised our estimates: the result is a 11.2% and 19.5% upgrade of EBITDA and Net Profit, on average, in 2021-23.**

Table 2 – Pattern, 2021e new/old estimates

€ m	New	Old	% Diff.	€ m Diff.
Value of Production	62.7	56.3	11.3	6.4
EBITDA	6.9	5.7	21.1	1.2
% margin	11.0	10.1		
EBIT	4.8	3.6	33.4	1.2
% margin	7.6	6.4		
Net Profit	2.9	2.0	40.3	0.8
% margin	4.6	3.6		
Y/E net debt (net cash)	(7.4)	(9.3)	(19.6)	1.8

Source: CFO Sim

Table 3 – Pattern, 2022e new/old estimates

€ m	New	Old	% Diff.	€ m Diff.
Value of Production	70.2	64.5	8.9	5.7
EBITDA	8.4	7.7	8.4	0.6
% margin	12.0	12.0		
EBIT	6.3	5.7	11.4	0.6
% margin	9.0	8.8		
Net Profit	3.8	3.4	12.8	0.4
% margin	5.4	5.2		
Y/E net debt (net cash)	(12.0)	(13.3)	(10.0)	1.3

Source: CFO Sim

Table 4 – Pattern, 2023e new/old estimates

€ m	New	Old	% Diff.	€ m Diff.
Value of Production	80.6	74.4	8.4	6.3
EBITDA	10.5	10.1	4.1	0.4
% margin	13.0	13.5		
EBIT	8.4	8.0	5.2	0.4
% margin	10.4	10.7		
Net Profit	5.1	4.9	5.5	0.3
% margin	6.4	6.5		
Y/E net debt (net cash)	(16.2)	(18.5)	(12.4)	2.3

Source: CFO Sim

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

As a consequence of the estimate revision and the update in the valuation criteria, **new PT stands at € 7.60** (€ 7.00), **61.7% upside**. The balance sheet solidity and a considerable cash pile at end-20 allow Pattern to consider another round of acquisitions, adding further appeal to the stock.



DCF

In the valuation via the DCF method, we assess explicit estimates until 2025 and assume a cautious long-term growth of 1.0%. Cash flows are discounted back at a weighted average cost of capital, calculated according to the following parameters:

Table 5 - WACC derived from:

Interest costs, pre-tax	2.0%
Tax rate	30.0%
Int. costs, after taxes	1.4%
Risk premium, incl. small size premium	9.0%
Risk-free (10Y Gov. Bond 200gg simple moving average)	0.71%
Beta levered (x)	1.00
Required ROE	9.7%

Sources: CFO Sim, Thomson Reuters Eikon

Risk premium at 9.0% factors in the minute size of the company and basically all the AIM Italia market segment related concerns and disquiet that an investor might have. **Beta at 1** has been set prudentially, taking into account the lower liquidity of the company. Indeed, the 5Y Beta calculated using the domestic B2B peer group is 0.80x. **The WACC is computed by using the 20:80% debt/equity balance-sheet structure**, thus taking into account some leverage required for the acquisition campaign.

Table 6 - Pattern, DCF model

€ m	2021e	2022e	2023e	2024e	2025e	Term. Val.
EBIT	4.8	6.3	8.4	9.6	11.1	
Tax rate	30.0%	30.0%	30.0%	30.0%	30.0%	
Operating profit (NOPAT)	3.3	4.4	5.9	6.7	7.8	
Change working capital	(1.5)	0.1	(0.8)	(0.1)	(0.1)	
Depreciation	2.1	2.1	2.1	1.2	0.3	
Investments	(3.2)	(0.7)	(0.7)	(0.3)	(0.3)	
Free Cash Flows	0.7	5.9	6.4	7.5	7.7	109.8
Present value	0.7	5.4	5.4	5.9	5.5	79.0
WACC	8.0%	8.0%	8.0%	8.0%	8.0%	
Long-term growth rate	1.0%					

Source: CFO Sim

Table 7 – Pattern, DCF derived from:

€ m	
Total EV present value € m	101.8
	<i>thereof terminal value</i>
	77.6%
NFP last reported	8.8
Pension provision	(1.7)
Minorities (valued at acquisition 9.0x PER)	(4.1)
Equity value € m	104.8
#m shares	13.72
Equity value €/s	7.60
% upside/(downside)	61.7%

Source: CFO Sim

By applying our DCF model, we attained an equity value of € 104.8m (€ 7.60/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 **€ 6.88-8.66/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 **€ 7.00-8.31/s (free risk range between 1.51% 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 **€ 6.23-9.89/s (risk premium range between 11.0% and 7.00%)**.

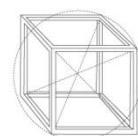


Table 8 – Pattern, equity value sensitivity to changes in terminal growth rate

€ m	0.00%	0.25%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%
Present value of CF	22.8	22.8	22.8	22.8	22.8	22.8	22.8	22.8	22.8
PV of terminal value	68.5	70.9	73.4	76.1	79.0	82.1	85.4	89.0	92.9
Total value	91.3	93.7	96.2	98.9	101.8	104.9	108.3	111.9	115.8
NFP last reported	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Pension provision	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)
Minorities	(4.1)	(4.1)	(4.1)	(4.1)	(4.1)	(4.1)	(4.1)	(4.1)	(4.1)
Equity value	94.3	96.7	99.2	101.9	104.8	107.9	111.3	114.9	118.8
Equity value/share €	6.88	7.05	7.23	7.43	7.60	7.87	8.11	8.37	8.66

Source: CFO Sim

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

€ m	0.00%	0.11%	0.31%	0.51%	0.71%	0.91%	1.11%	1.31%	1.51%
Present value of CF	23.2	23.1	23.0	22.9	22.8	22.8	22.7	22.6	22.5
PV of terminal value	87.8	86.4	83.8	81.3	79.0	76.7	74.6	72.6	70.6
Total value	111.0	109.5	106.8	104.3	101.8	99.5	97.3	95.1	93.1
NFP last reported adj.	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Pension provision	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)
Minorities	(4.1)	(4.1)	(4.1)	(4.1)	(4.1)	(4.1)	(4.1)	(4.1)	(4.1)
Equity value	114.0	112.5	109.8	107.2	104.8	102.5	100.2	98.1	96.1
Equity value/share €	8.31	8.20	8.01	7.82	7.60	7.47	7.31	7.15	7.00

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	23.8	23.5	23.3	23.1	22.8	22.6	22.4	22.2	22.0
PV of terminal value	108.9	99.8	92.0	85.1	79.0	73.6	68.7	64.4	60.5
Total value	132.7	123.4	115.3	108.1	101.8	96.2	91.1	86.6	82.4
NFP last reported adj.	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Pension provision	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)
Minorities	(4.1)	(4.1)	(4.1)	(4.1)	(4.1)	(4.1)	(4.1)	(4.1)	(4.1)
Equity value	135.6	126.3	118.2	111.1	104.8	99.2	94.1	89.5	85.4
Equity value/share €	9.89	9.21	8.62	8.10	7.60	7.23	6.86	6.53	6.23

Source: CFO Sim

Market Multiples

Pattern provides high value-added luxury apparel engineering and design services with production outsourced to façonists: **the firm 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.

Among 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 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:

Eurotech SpA: it is engaged in the research, development, production, and marketing of miniaturized computers and high-performance computers featuring high computing capacity. It operates in the NanoPC and High-Performance 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 recognized on the market for the high quality of its products. It also has consolidated and continuous relationships with most of its customers.

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

Sabaf SpA: with its 800 employees, it is 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.

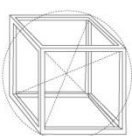


Table 11 - Pattern, peer group summary table

€ 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	8,480	3,220	828	25.7%	10.3%	9.1%	13.3%	10.9%	(1,267)	n.m.
Capri Holdings Ltd	US	6,834	3,220	918	28.5%	25.7%	33.9%	45.5%	15.9%	1,007	1.1
Compagnie Financiere Richemont	F	46,761	16,566	4,062	24.5%	13.7%	22.0%	38.8%	16.0%	(3,945)	n.m.
Hermes International SCA	F	126,296	8,658	3,701	42.7%	18.6%	20.9%	24.1%	10.7%	(4,648)	n.m.
Kering SA	F	76,684	16,711	6,063	36.3%	15.1%	15.4%	19.9%	14.5%	3,668	0.6
LVMH Moet Hennessy Louis Vuitton	F	312,236	60,372	19,926	33.0%	17.3%	21.3%	30.3%	10.9%	14,994	0.8
Median Luxury		61,723	12,612	3,881	30.8%	16.2%	21.1%	27.2%	12.7%	(130)	0.8
Brembo SpA	IT	3,677	467	55	11.7%	11.5%	16.8%	29.8%	12.5%	106	1.9
Eurotech SpA	IT	178	74	10	14.0%	16.7%	50.5%	92.9%	180.7%	(14)	n.m.
Fine Foods & Pharmaceuticals	IT	379	219	31	14.2%	19.0%	27.5%	35.8%	22.2%	(7)	n.m.
Sabaf SpA	IT	264	262	59	22.5%	13.8%	17.3%	26.7%	0.3%	72	1.2
Median domestic B2B		322	240	43	14.1%	15.2%	22.4%	32.8%	17.3%	32	1.6
Pattern SpA	IT	64	63	7	11.0%	15.2%	28.9%	39.8%	33.8%	(7)	n.m.

Sources: CFO Sim, Thomson Reuters Eikon

Table 12 - Pattern, peer group EV multiple table

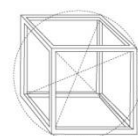
x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3
Burberry Group PLC	2.24	2.10	1.97	8.7	7.8	7.0
Capri Holdings Ltd	2.43	2.18	1.23	8.5	7.2	5.6
Compagnie Financiere Richemont	2.58	2.37	2.18	10.5	9.2	8.0
Hermes International SCA	14.05	12.45	11.20	32.9	29.8	26.5
Kering SA	4.81	4.31	4.01	13.3	11.6	10.5
LVMH Moet Hennessy Louis Vuitton	5.42	4.89	4.45	16.4	15.0	13.5
Median Luxury	3.70	3.34	3.09	11.9	10.4	9.3
Brembo SpA	1.53	1.37	1.26	7.9	7.0	6.4
Eurotech SpA	2.22	1.53	1.20	15.9	8.9	5.8
Fine Foods & Pharmaceuticals	1.70	1.35	1.25	12.0	9.0	8.2
Sabaf SpA	1.28	1.32	1.21	5.7	6.2	5.5
Median domestic B2B	1.61	1.36	1.23	10.0	8.0	6.1
Pattern SpA	0.91	0.75	0.60	8.3	6.3	4.6
% premium/(discount) to luxury peers	(75.3)	(77.6)	(80.6)	(30.4)	(40.0)	(50.3)
% premium/(discount) to domestic B2B peers	(43.5)	(45.0)	(51.4)	(16.8)	(21.6)	(24.7)

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	13.3	11.7	10.5	21.0	18.2	17.1
Capri Holdings Ltd	10.7	8.8	6.9	11.4	9.8	8.4
Compagnie Financiere Richemont	15.7	13.3	11.5	23.0	19.2	17.1
Hermes International SCA	37.9	34.4	30.7	58.1	52.9	47.4
Kering SA	16.9	14.6	13.2	24.2	20.7	18.4
LVMH Moet Hennessy Louis Vuitton	21.6	19.3	17.0	29.9	27.1	24.3
Median Luxury	16.3	13.9	12.4	23.6	20.0	17.7
Brembo SpA	13.4	11.4	10.2	16.7	14.4	13.2
Eurotech SpA	25.5	11.6	7.1	60.0	11.4	7.6
Fine Foods & Pharmaceuticals	22.5	16.7	15.1	29.4	22.2	19.7
Sabaf SpA	8.2	9.3	8.1	9.0	10.6	9.0
Median domestic B2B	18.0	11.5	9.2	23.1	12.9	11.1
Pattern SpA	11.9	8.3	5.8	22.5	17.0	12.6
% premium/(discount) to luxury peers	(26.8)	(40.6)	(53.5)	(4.4)	(14.9)	(29.1)
% premium/(discount) to domestic B2B peers	(33.7)	(28.1)	(37.2)	(2.3)	31.8	13.4

Sources: CFO Sim, Thomson Reuters Eikon



If before this pandemic we were confident in **considering the EV/EBITDA, EV/EBIT and PER multiple median of the B2B peer group as the most suitable manner to get a reasonable appraisal of the stock**, in this context we believe multiples comparison is no longer appropriate for our aim. We would overweight a period characterised by a sharp decline in the market and in numbers 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 **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 indexes absolute performance

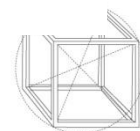
	1D	1W	1M	3M	6M	YTD	1Y
Burberry Group PLC	(2.4)	(0.6)	(3.9)	(13.8)	(7.7)	(0.2)	12.8
Capri Holdings Ltd	(0.9)	3.0	(7.1)	(3.2)	5.4	25.0	177.5
Compagnie Financiere Richemont	(2.4)	1.1	(4.2)	(14.3)	4.5	20.8	55.6
Hermes International SCA	(3.8)	(6.8)	(4.0)	(3.0)	26.1	35.9	62.9
Kering SA	(1.5)	(2.3)	(9.1)	(18.8)	3.8	3.1	6.7
LVMH Moet Hennessy Louis Vuitton	(3.1)	(2.8)	(1.4)	(8.3)	7.7	20.9	52.2
Median Luxury	(2.4)	(1.4)	(4.1)	(11.1)	4.9	20.9	53.9
Brembo SpA	(4.8)	(5.0)	1.9	10.1	(4.5)	(2.7)	26.8
Eurotech SpA	(2.0)	(1.2)	(4.7)	28.5	44.7	63.3	62.6
Fine Foods & Pharmaceuticals	(2.2)	(0.9)	(10.1)	3.0	3.6	1.9	32.0
Sabaf SpA	(2.6)	(3.0)	(8.4)	(13.3)	(2.6)	52.2	81.0
Median domestic B2B	(2.4)	(2.1)	(6.6)	6.6	0.5	27.0	47.3
Pattern SpA	0.2	0.9	(7.8)	1.1	(4.5)	17.5	32.4
MSCI World Index	(3.7)	(3.4)	(3.0)	(9.8)	20.1	36.2	73.1
EUROSTOXX	(3.8)	(6.8)	(4.0)	(3.0)	26.1	35.9	62.9
FTSE Italia All Share	(1.5)	(2.3)	(9.1)	(18.8)	3.8	3.1	6.7
FTSE STAR Italia	(3.1)	(2.8)	(1.4)	(8.3)	7.7	20.9	52.2
FTSE AIM Italia	(2.4)	1.1	(4.2)	(14.3)	4.5	20.8	55.6

Source: Thomson Reuters Eikon

Table 15 – Pattern relative performances

	1D	1W	1M	3M	6M	YTD	1Y
to MSCI World Index	3.9	4.3	(4.9)	10.9	(24.5)	(18.7)	(40.7)
to EUROSTOXX	4.0	7.6	(3.9)	4.0	(30.6)	(18.4)	(30.5)
to FTSE Italia All Share	1.8	3.1	1.3	19.9	(8.2)	14.4	25.7
to FTSE STAR Italia	3.3	3.7	(6.4)	9.4	(12.2)	(3.4)	(19.8)
to FTSE AIM Italia	2.6	(0.3)	(3.6)	15.3	(9.0)	(3.3)	(23.2)
to Domestic B2B Peer Median	2.6	2.9	(1.3)	(5.5)	(5.0)	(9.5)	(14.9)
to Luxury Peer Median	2.6	2.3	(3.8)	12.1	(9.4)	(3.4)	(21.5)

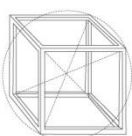
Source: Thomson Reuters Eikon



Risks

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

- high level of client concentration;
- loss of reputation among clients;
- 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)



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.

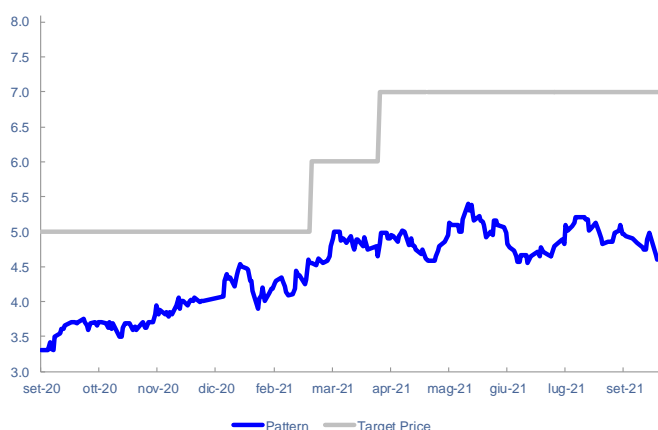
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DATE	TARGET PRICE	RATING
29/09/2021	€7.60	BUY
28/05/2021	€7.00	BUY
08/04/2021	€7.00	BUY
26/02/2021	€6.00	BUY
17/02/2021	€6.00	BUY
28/09/2020	€5.00	BUY

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- 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.

