

Italy – Luxury Engineering

Growing interim results, promising outlook

29th September 2022

H1-22 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. Growth came from the consolidation of Idee (leather goods) and Zanni (knitwear) and from a certain organic progression. Medium-long term outlook remains promising.

Rating:

Buy

Price Target:

€ 7.80 (8.00)

Upside/(Downside): 44.4%

Last Price: € 5.40

Market Cap.: € 74.1m

1Y High/Low: € 6.94 / € 4.64

Avg. Daily Turn. (3M, 6M): € 38k, € 47k

Free Float: 30.3%

Major shareholders:

Bo.Ma. Holding Srl	52.7%
Fulvio Botto	5.3%
Francesco Martorella	5.3%



Stock price performance

	1M	3M	12M
Absolute	-16.9%	-5.3%	14.9%
Rel.to FTSE IT Growth	-5.5%	0.0%	14.3%
Rel.to Sector	-10.2%	-4.7%	15.6%

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Estimates revised upwards, new PT offers 44% potential upside: Buy

Pattern bases its business on a cost-plus model: an increase in purchasing costs is transferred to some extent to clients. In addition, the rise in energy costs is projected to be significantly mitigated since Pattern is almost completely energy self-sufficient, nearly fully covering its needs at least in the warmer months thanks to its geothermal and photovoltaic facilities. We fine-tuned our estimates: the result is a 1.9% and 1.5% upgrade of top line and EBITDA, on average, in 2022-24. Following the update in the valuation criteria too, new PT stands at € 7.80/s (€ 8.00), 44.4% upside. The sharp increase in the free risk rate from 1.95% to 2.46% (200d moving average) since our last publication has more than entirely absorbed the effect of the estimate revision. Buy rating confirmed.

Top line was up almost 60% to € 49.1m

H1-22 total revenues reached € 49.1m, up 57.8% vs. € 31.1m in H1-21, partially organic also thanks to S.M.T and its positioning in knitwear, a segment characterised by a higher resiliency compared to the luxury industry as a whole, in addition to the consolidation of Zanni, acquired in Jan-22 and of Idee acquired in H2-21. Organically, outerwear recognised high single-digit growth whilst knitwear and leather goods were up double digits compared to the same period of last year.

Once again profitability grew more than proportionately to top line

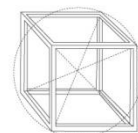
EBITDA increased by 61.1% to € 5.5m from € 3.4m in H1-21, margin of 10.9%. This remarkable achievement was obtained despite 1) the personnel cost increase on the back of the lower recourse to the Wages Guarantee Fund compared to the same period of last year and 2) the sharp increase in service costs due to the greater use of external production services, necessary to cope with the increase in volumes. EBIT was € 3.8m, up 67.1% YoY, 7.6% margin as a result of the greater EBITDA despite higher D&A stemming from 1) the full implementation of the new finished products warehouse in Collegno and 2) the acquisition of Zanni in Jan-22 and its related goodwill amortisation. Net Profit came in at € 1.9m up 61.6% YoY.

NFP at € 2.7m debt, still room for a few opportunistic acquisitions

Net Financial Position totalled € 2.7m debt from € 3.1m cash at end-21 and from € 5.0m cash at H1-21, mainly as a result of 1) € 2.1m operating cash-flow, 2) the payment of the € 3.0m first instalment (on a total of four) related to the acquisition of Zanni in Jan-22, 3) the € 2.0m cash-out for the acquisition of the production facility of Roscini, 4) the € 2.3m disbursement related to the acquisition of 70% of RGB (leather goods accessories) and 5) the € 1.2m dividend payment.

Pattern, key financials and ratios

€ m	2020	2021	2022e	2023e	2024e
Value of Production	54.0	72.5	97.4	124.2	136.5
EBITDA	5.4	7.7	10.9	13.9	16.4
EBIT	3.6	5.3	6.8	9.3	11.9
Net profit	2.3	3.0	3.3	4.7	6.0
NFP (cash)/debt	(8.8)	(3.1)	8.9	6.4	2.5
EBITDA margin	10.0%	10.6%	11.1%	11.2%	12.0%
EBIT margin	6.6%	7.3%	7.0%	7.5%	8.7%
EPS	0.16	0.21	0.23	0.33	0.42
EPS growth	-40.1%	32.1%	10.3%	41.0%	27.7%
Dividend	0.00	0.08	0.08	0.12	0.15
Dividend Yield	0.0%	1.4%	1.5%	2.1%	2.6%
ROCE	9.3%	10.9%	13.2%	16.6%	19.5%
NWC/Sales	6.1%	8.2%	8.3%	9.1%	9.2%
Free Cash Flow Yield	-0.2%	-6.3%	-13.9%	4.7%	7.0%
PER x	30.2	23.7	23.8	16.9	13.2
EV/Sales x	0.85	0.98	0.90	0.69	0.60
EV/EBITDA x	9.2	8.8	8.1	6.1	4.9
EV/EBIT x	14.6	12.9	12.9	9.2	6.9

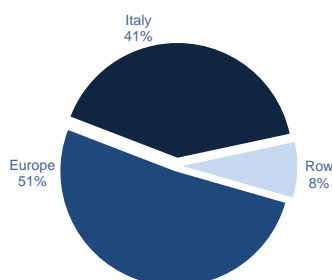


The Company at a Glance

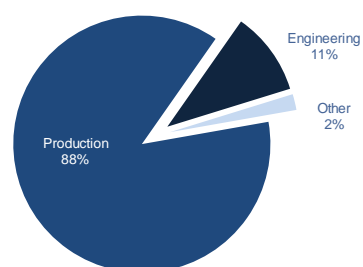
Founded in 2000 by Fulvio Botto and Francesco Martorella (group directors and major shareholders with a 32% stake each), Pattern is the second Italian player (CFO SIM estimate) specialised in the modelling, engineering, grading, prototyping and production of luxury clothing for men and women, and the 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), RGB (luxury leather goods accessories) and Dyloan (luxury technology R&D and production) 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.

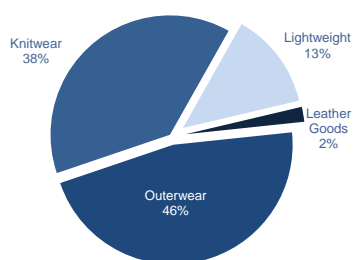
2021 breakdown by geography...



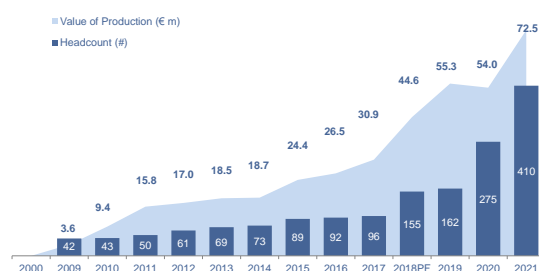
... by service...



...and by product line



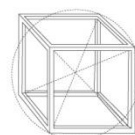
Top line and headcount evolution



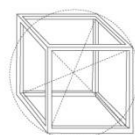
Peer group multiples table

EV multiples x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3	EBIT FY1	EBIT FY2	EBIT FY3
Burberry Group PLC	1.84	1.71	1.52	6.4	6.0	5.2	9.6	8.8	7.7
Capri Holdings Ltd	1.96	1.59	0.75	5.3	4.2	3.4	6.4	5.0	4.0
Compagnie Financiere Richemont	2.43	2.17	1.97	8.7	7.6	6.9	11.3	10.0	9.0
Hermes International SCA	10.73	9.56	8.58	24.2	21.6	19.2	27.5	24.4	21.8
Kering SA	2.99	2.60	2.34	8.3	7.3	6.4	10.4	9.0	8.0
LVMH Moet Hennessy Louis Vuitton	4.10	3.68	3.29	12.0	10.8	9.5	15.0	13.4	11.7
Median Luxury	2.71	2.38	2.15	8.5	7.4	6.6	10.8	9.5	8.5
Brembo SpA	0.98	0.91	0.82	5.6	5.1	4.6	9.3	8.3	7.3
Eurotech SpA	1.02	0.66	n.a.	n.m.	3.3	n.a.	n.m.	4.2	n.a.
Fine Foods & Pharmaceuticals	0.94	0.93	0.62	11.9	8.4	4.8	73.8	20.0	9.2
Sabaf SpA	0.99	0.96	0.91	5.5	5.1	4.7	8.3	7.6	7.0
Median domestic B2B	0.99	0.92	0.82	5.6	5.1	4.7	9.3	7.9	7.3
Pattern SpA	0.90	0.69	0.60	8.1	6.1	4.9	12.9	9.2	6.9

Sources: CFO Sim, Thomson Reuters Eikon



Income statement (€ m)	2020	2021	2022e	2023e	2024e
Revenues	52.6	69.5	97.2	124.0	136.3
Value of Production	54.0	72.5	97.4	124.2	136.5
Raw material and processing	(15.5)	(22.3)	(27.5)	(35.4)	(38.9)
Services	(19.0)	(25.6)	(36.3)	(43.3)	(47.9)
Personnel expenses	(12.4)	(15.2)	(21.8)	(30.4)	(31.9)
Other opex	(1.7)	(1.8)	(1.0)	(1.2)	(1.4)
EBITDA	5.4	7.7	10.9	13.9	16.4
D&A	(1.8)	(2.4)	(4.1)	(4.6)	(4.6)
EBIT	3.6	5.3	6.8	9.3	11.9
Financials	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)
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	6.6	9.1	11.7
Income taxes	(0.5)	(1.5)	(2.0)	(2.7)	(3.5)
Minorities	(0.7)	(0.7)	(1.3)	(1.7)	(2.2)
Net Profit	2.3	3.0	3.3	4.7	6.0
Net Profit adj.	1.8	3.0	3.3	4.7	6.0
EBITDA Adjusted	4.9	7.7	10.9	13.9	16.4
Balance sheet (€ m)	2020	2021	2022e	2023e	2024e
Net Working Capital	3.3	5.9	8.0	11.2	12.6
Net Fixed Assets	10.7	17.6	29.5	27.0	26.1
Equity Investments	0.2	0.3	0.3	0.3	0.3
Other M/L Term A/L	(2.0)	(1.8)	(1.6)	(1.3)	(1.2)
Net Invested Capital	12.2	22.0	36.2	37.2	37.7
Net Financial Debt	(8.8)	(3.1)	8.9	6.4	2.5
Minorities	2.0	2.2	3.5	5.2	7.5
Group's Shareholders Equity	18.9	22.9	23.9	25.6	27.7
Financial Liabilities & Equity	12.2	22.0	36.2	37.2	37.7
Cash Flow statement (€ m)	2020	2021	2022e	2023e	2024e
Total net income	2.3	3.0	3.3	4.7	6.0
Depreciation	1.8	2.4	4.1	4.6	4.6
Other non-cash charges	0.9	(0.2)	(0.2)	(0.3)	(0.1)
Cash Flow from Oper. (CFO)	5.0	5.2	7.2	9.0	10.4
Change in NWC	0.1	(2.6)	(2.1)	(3.2)	(1.3)
FCF from Operations (FCFO)	5.1	2.6	5.1	5.8	9.1
Net Investments (CFI)	(5.2)	(7.2)	(16.0)	(2.1)	(3.6)
Free CF to the Firm (FCFF)	(0.1)	(4.7)	(10.9)	3.7	5.5
CF from financials (CFF)	7.5	3.9	(0.8)	(0.9)	(1.3)
Free Cash Flow to Equity (FCFE)	7.4	(0.8)	(11.7)	2.8	4.1
Financial ratios	2020	2021	2022e	2023e	2024e
EBITDA margin	10.0%	10.6%	11.1%	11.2%	12.0%
EBIT margin	6.6%	7.3%	7.0%	7.5%	8.7%
Net profit margin	4.2%	4.1%	3.4%	3.8%	4.4%
Tax rate	13.2%	28.5%	30.0%	30.0%	30.0%
Op NWC/Sales	6.1%	8.2%	8.3%	9.1%	9.2%
Interest coverage x	0.03	0.02	0.03	0.02	0.01
Net Debt/EBITDA x	(1.63)	(0.40)	0.82	0.46	0.15
Debt-to-Equity x	(0.46)	(0.13)	0.37	0.25	0.09
ROIC	18.7%	13.6%	9.1%	12.5%	15.8%
ROCE	9.3%	10.9%	13.2%	16.6%	19.5%
ROACE	11.7%	12.1%	13.6%	17.3%	20.3%
ROE	12.0%	13.1%	13.9%	18.2%	21.5%
Payout ratio	0.0%	36.4%	36.4%	36.4%	36.4%
Per share figures	2020	2021	2022e	2023e	2024e
Number of shares # m	14.26	14.26	14.26	14.26	14.26
Number of shares Fully Diluted # m	14.26	14.26	14.26	14.26	14.26
Average Number of shares Fully Diluted #	14.26	14.26	14.26	14.26	14.26
EPS stated FD €	0.16	0.21	0.23	0.33	0.42
EPS adjusted FD €	0.12	0.21	0.23	0.33	0.42
EBITDA €	0.38	0.54	0.76	0.97	1.15
EBIT €	0.25	0.37	0.48	0.65	0.83
BV €	1.47	1.76	1.92	2.17	2.47
FCFO €	0.36	0.18	0.36	0.41	0.64
FCFF €	(0.01)	(0.33)	(0.76)	0.26	0.38
FCFE €	0.52	(0.06)	(0.82)	0.20	0.29
Dividend €	0.00	0.08	0.08	0.12	0.15



H1-22 Results

Pattern reported growing interim figures, with soaring top line and EBITDA up more than proportionately to sales. Growth comes from the consolidation of Idee (leather goods) and Zanni (knitwear) and from a certain organic progression. It is worth remembering that Pattern's business model is characterised by a certain revenue, profitability and WC seasonality. Historically, the bulk of production (namely 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 proportioned 45%-55%. The seasonality is more marked on profitability: EBITDA accounts for 30%-70% in H1-H2, usually.

Table 1 – Pattern, H1-22 results summary

€ m	H1-22	H1-21	% YoY
Total Revenues	49.1	31.1	57.8
Increase in finished products	1.2	2.2	
Value of Production	50.3	33.4	50.7
Raw material and processing	(13.9)	(11.1)	
Services	(18.7)	(10.9)	
Personal expenses	(10.9)	(7.1)	
Other opex	(1.3)	(0.9)	
EBITDA	5.5	3.4	61.1
% margin	10.9%	10.2%	
D&A	(1.7)	(1.1)	
EBIT	3.8	2.3	67.1
% margin	7.6%	6.9%	
Financial income/(costs)	(0.1)	(0.1)	
Pre-Tax profit	3.7	2.2	66.9
Income taxes	(1.2)	(0.7)	
Tax rate	33.0%	33.3%	
Minorities	(0.6)	(0.3)	
Net Profit	1.9	1.2	61.6
% margin	3.8%	3.5%	
NFP	2.7	(5.0)	n.m.

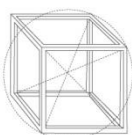
Source: Company data, CFO SIM analysis

H1-22 total revenues reached € 49.1m, up 57.8% vs. € 31.1m in H1-21, partially organic also thanks to S.M.T and its positioning in knitwear, a segment characterised by an higher resiliency compared to the luxury industry as a whole, in addition to the consolidation of Zanni, acquired in Jan-22 and of Idee acquired in H2-21.

EBITDA increased by 61.1% to € 5.5m from € 3.4m in H1-21, margin of 10.9%. This remarkable achievement was obtained despite 1) the personnel cost increase on the back of the lower recourse to the Wages Guarantee Fund compared to the same period of last year and 2) the sharp increase in Services due to the greater use of external production services, necessary to cope with the increase in volumes.

EBIT was € 3.8m, up 67.1% YoY, 7.6% margin as a result of greater EBITDA despite higher D&A stemming from 1) the full implementation of the new finished products warehouse in Collegno and 2) the acquisition of Zanni in Jan-22. Net Profit came in at € 1.9m up 61.6% YoY.

Net Financial Position totalled € 2.7m debt from € 3.1m cash at end-21 and from € 5.0m cash of H1-21, mainly as a result of 1) € 2.1m operating cash-flow, 2) the payment of the € 3.0m first instalment (out of a total of four) related to the acquisition of Zanni in Jan-22, 3) the € 2.0m cash-out for the acquisition of Roscini's production facility, 4) the € 2.3m disbursement related to the acquisition of the 70% of RGB (leather goods accessories) and 5) the € 1.2m dividend payment.



Estimates, Valuation & Risks

According to Pattern, markets' uncertainty remains rather high, also due to the economic consequences stemming from the war in Ukraine. The weight of Russia on the luxury market is estimated at 2-3%, despite bringing consequences, not only for the humanitarian crisis, but also for the possible economic effects on global markets. However, Pattern does not have a direct presence in the markets involved in the conflict and the brands with which it operates are not particularly exposed to those countries. Therefore, **2022 top line could exceed our € 95.0m estimate.**

Pattern bases its business on a cost-plus model, that is to say, it applies a mark-up to its production costs. That is why a natural increase in purchasing costs is transferred to clients. The increase in energy costs is projected to have an impact to the tune of 0.5-0.6% of top line in the short term. However, thanks to its 140kw in-house geothermal plant in Turin and the two photovoltaic installations in Turin and Spello, **Pattern is almost completely self-sufficient, fully covering its energy needs at least in the warmer months.**

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

Following the publication of H1-22 results, we fine-tuned **our estimates: the result is a 1.9% and 1.5% upgrade of top line and EBITDA, on average, in 2022-24.**

Table 2 – Pattern, 2022e new/old estimates

€ m	New	Old	% Diff.	€ m Diff.
Value of Production	97.4	94.9	2.6	2.4
EBITDA	10.9	10.5	3.3	0.3
% margin	11.1	11.1		
EBIT	6.8	6.5	5.4	0.3
% margin	7.0	6.8		
Net Profit	3.3	3.2	3.8	0.1
% margin	3.4	3.4		
Y/E net debt (net cash)	8.9	8.7	1.4	0.1

Source: CFO Sim

Table 3 – Pattern, 2023e new/old estimates

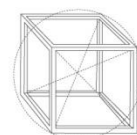
€ m	New	Old	% Diff.	€ m Diff.
Value of Production	124.2	121.9	1.9	2.3
EBITDA	13.9	13.7	1.6	0.2
% margin	11.2	11.2		
EBIT	9.3	9.1	1.4	0.1
% margin	7.5	7.5		
Net Profit	4.7	4.7	(0.2)	(0.0)
% margin	3.8	3.8		
Y/E net debt (net cash)	6.4	6.3	1.1	0.1

Source: CFO Sim

Table 4 – Pattern, 2024e new/old estimates

€ m	New	Old	% Diff.	€ m Diff.
Value of Production	136.5	134.0	1.9	2.5
EBITDA	16.4	16.2	1.4	0.2
% margin	12.0	12.1		
EBIT	11.9	11.7	1.3	0.1
% margin	8.7	8.7		
Net Profit	6.0	6.0	0.0	0.0
% margin	4.4	4.4		
Y/E net debt (net cash)	2.5	2.5	0.4	0.0

Source: CFO Sim



As a consequence of the estimate revision and the update in the valuation criteria, **new PT stands at € 7.80/s** (€ 8.00), **44.4% upside**. The sharp increase in the free risk rate from 1.95% to 2.46% (200d moving average) since our last publication has more than entirely absorbed the effect of the estimate revision.

DCF

In the valuation via the DCF method, we determine the company's value by identifying an explicit forecast period until 2027 and then by cautiously assuming a long-term growth rate of 1.0%. **We decided to start our model from 2023, the first year of full consolidation of Dyloan**. 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%
Inf. costs, after taxes	1.4%
Risk premium, incl. small size premium	9.0%
Risk-free (10Y Gov. Bond 200gg simple moving average)	2.46%
Beta levered (x)	1.00
Required ROE	11.5%

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 1.04x. **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

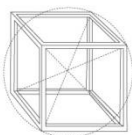
€ m	2023e	2024e	2025e	2026e	2027e	Term. Val.
EBIT	9.3	11.9	13.5	15.3	17.3	
Tax rate	30.0%	30.0%	30.0%	30.0%	30.0%	
Operating profit (NOPAT)	6.5	8.3	9.5	10.7	12.1	
Change working capital	(3.2)	(1.3)	(1.3)	(0.1)	(0.1)	
Depreciation	4.6	4.6	4.6	4.1	3.6	
Investments	(2.1)	(3.6)	(3.6)	(3.6)	(3.6)	
Free Cash Flows	5.8	7.9	9.1	11.1	12.0	143.2
Present value	5.6	7.1	7.4	8.2	8.2	97.6
WACC	9.4%	9.4%	9.4%	9.4%	9.4%	
Long-term growth rate	1.0%					

Source: CFO Sim

Table 7 – Pattern, DCF derived from:

€ m	
Total EV present value € m	134.1
	<i>thereof terminal value</i>
	72.8%
NFP FY1	(8.9)
Pension provision	(2.6)
Minorities (valued at 9.0x PER & 7.0x)	(11.6)
Equity value € m	111.0
#m shares	14.26
Equity value €/s	7.80
% upside/(downside)	44.4%

Source: CFO Sim



By applying our DCF model, we attained an **equity value of € 111.0m (€ 7.80/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 **€ 7.18-8.78/s (perpetuity range between 0.25% and 2.00%)**, while 2) if compared to changes in the free risk rate, it produces an equity value of **€ 7.11-8.36/s (free risk range between 3.26% and 1.86%)** and 3) if compared to changes in the risk premium, including the small-size premium, it results in an equity value of **€ 6.26-9.37/s (risk premium range between 11.0% and 7.50%)**.

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

€ m	0.25%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%
Present value of CF	36.5	36.5	36.5	36.5	36.5	36.5	36.5	36.5
PV of terminal value	88.9	91.7	94.5	97.6	100.8	104.2	107.9	111.8
Total value	125.5	128.2	131.0	134.1	137.3	140.7	144.4	148.3
NFP FY1	(8.9)	(8.9)	(8.9)	(8.9)	(8.9)	(8.9)	(8.9)	(8.9)
Pension provision	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)
Minorities	(11.6)	(11.6)	(11.6)	(11.6)	(11.6)	(11.6)	(11.6)	(11.6)
Equity value	102.4	105.1	108.0	111.0	114.3	117.7	121.3	125.2
Equity value/share €	7.18	7.37	7.57	7.80	8.01	8.25	8.51	8.78

Source: CFO Sim

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

€ m	1.86%	2.06%	2.26%	2.46%	2.66%	2.86%	3.06%	3.26%
Present value of CF	36.9	36.8	36.6	36.5	36.4	36.3	36.1	36.0
PV of terminal value	105.4	102.7	100.1	97.6	95.2	92.8	90.6	88.5
Total value	142.3	139.5	136.7	134.1	131.5	129.1	126.8	124.5
NFP FY1	(8.9)	(8.9)	(8.9)	(8.9)	(8.9)	(8.9)	(8.9)	(8.9)
Pension provision	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)
Minorities	(11.6)	(11.6)	(11.6)	(11.6)	(11.6)	(11.6)	(11.6)	(11.6)
Equity value	119.3	116.4	113.7	111.0	108.5	106.1	103.7	101.4
Equity value/share €	8.36	8.16	7.97	7.80	7.61	7.44	7.27	7.11

Source: CFO Sim

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

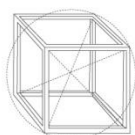
€ m	7.50%	8.00%	8.50%	9.00%	9.50%	10.00%	10.50%	11.00%
Present value of CF	37.5	37.2	36.8	36.5	36.2	35.9	35.6	35.3
PV of terminal value	119.2	111.2	104.0	97.6	91.7	86.4	81.6	77.1
Total value	156.7	148.4	140.9	134.1	127.9	122.3	117.1	112.4
NFP FY1	(8.9)	(8.9)	(8.9)	(8.9)	(8.9)	(8.9)	(8.9)	(8.9)
Pension provision	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)
Minorities	(11.6)	(11.6)	(11.6)	(11.6)	(11.6)	(11.6)	(11.6)	(11.6)
Equity value	133.7	125.3	117.8	111.0	104.9	99.3	94.1	89.3
Equity value/share €	9.37	8.79	8.26	7.80	7.35	6.96	6.60	6.26

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.

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 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.

Hermès 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 ₂₁₋₂₄	EBITDA CAGR ₂₁₋₂₄	EBIT CAGR ₂₁₋₂₄	EPS CAGR ₂₂₋₂₄	NFP FY1	NFP /EBITDA
Burberry Group PLC	UK	7,175	3,429	983	28.7%	4.4%	4.2%	6.6%	4.5%	(867)	n.m.
Capri Holdings Ltd	US	5,555	3,429	1,257	36.7%	25.2%	10.6%	11.2%	5.5%	1,151	0.9
Compagnie Financiere Richemont	F	53,439	20,457	5,704	27.9%	6.7%	10.7%	14.5%	13.0%	(3,815)	n.m.
Hermes International SCA	F	125,023	10,924	4,852	44.4%	13.7%	12.4%	13.1%	10.4%	(7,827)	n.m.
Kering SA	F	59,551	20,763	7,448	35.9%	10.6%	10.4%	11.6%	8.5%	2,487	0.3
LVMH Moet Hennessy Louis Vuitton	F	308,049	76,732	26,207	34.2%	11.6%	11.6%	13.5%	9.9%	6,521	0.2
Median Luxury		56,495	15,690	5,278	35.0%	11.1%	10.6%	12.4%	9.2%	142	0.3
Brembo SpA	IT	2,883	1,183	160	13.5%	9.9%	10.6%	15.2%	6.7%	147	0.9
Eurotech SpA	IT	98	87	7	7.6%	n.a.	n.a.	n.a.	n.a.	(10)	n.m.
Fine Foods & Pharmaceuticals	IT	180	207	17	8.0%	10.3%	21.3%	40.1%	n.a.	16	1.0
Sabaf SpA	IT	200	274	49	18.0%	3.4%	1.7%	0.5%	8.1%	72	1.4
Median domestic B2B		190	240	33	10.7%	9.9%	10.6%	15.2%	7.4%	44	1.0
Pattern SpA	IT	74	97	11	11.2%	25.2%	28.8%	31.1%	34.2%	9	0.8

Sources: CFO Sim, Thomson Reuters Eikon

Table 12 - Pattern, peer group EV multiple table

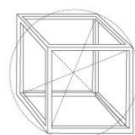
x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3
Burberry Group PLC	1.84	1.71	1.52	6.4	6.0	5.2
Capri Holdings Ltd	1.96	1.59	0.75	5.3	4.2	3.4
Compagnie Financiere Richemont	2.43	2.17	1.97	8.7	7.6	6.9
Hermes International SCA	10.73	9.56	8.58	24.2	21.6	19.2
Kering SA	2.99	2.60	2.34	8.3	7.3	6.4
LVMH Moet Hennessy Louis Vuitton	4.10	3.68	3.29	12.0	10.8	9.5
Median Luxury	2.71	2.38	2.15	8.5	7.4	6.6
Brembo SpA	0.98	0.91	0.82	5.6	5.1	4.6
Eurotech SpA	1.02	0.66	n.a.	n.m.	3.3	n.a.
Fine Foods & Pharmaceuticals	0.94	0.93	0.62	11.9	8.4	4.8
Sabaf SpA	0.99	0.96	0.91	5.5	5.1	4.7
Median domestic B2B	0.99	0.92	0.82	5.6	5.1	4.7
Pattern SpA	0.85	0.65	0.56	7.6	5.8	4.7
% premium/(discount) to luxury peers	(68.5)	(72.8)	(73.9)	(10.3)	(22.2)	(29.8)
% premium/(discount) to domestic B2B peers	(13.5)	(29.4)	(31.7)	35.8	13.3	(0.9)

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	9.6	8.8	7.7	14.6	14.3	13.3
Capri Holdings Ltd	6.4	5.0	4.0	5.8	5.6	5.2
Compagnie Financiere Richemont	11.3	10.0	9.0	17.5	15.0	13.7
Hermes International SCA	27.5	24.4	21.8	42.0	38.0	34.5
Kering SA	10.4	9.0	8.0	14.6	13.5	12.4
LVMH Moet Hennessy Louis Vuitton	15.0	13.4	11.7	21.9	19.9	18.1
Median Luxury	10.8	9.5	8.5	16.0	14.7	13.5
Brembo SpA	9.3	8.3	7.3	10.5	9.8	9.3
Eurotech SpA	n.m.	4.2	n.a.	28.4	4.9	n.a.
Fine Foods & Pharmaceuticals	73.8	20.0	9.2	n.m.	21.1	13.8
Sabaf SpA	8.3	7.6	7.0	8.5	7.8	7.3
Median domestic B2B	9.3	7.9	7.3	10.5	8.8	9.3
Pattern SpA	12.2	8.7	6.5	22.4	15.9	12.4
% premium/(discount) to luxury peers	12.6	(8.7)	(24.2)	39.6	8.4	(7.9)
% premium/(discount) to domestic B2B peers	31.6	9.2	(11.4)	112.4	80.1	34.2

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	5.5	1.9	1.6	4.8	3.7	(2.3)	(0.6)
Capri Holdings Ltd	2.6	(8.3)	(15.7)	(5.4)	(27.0)	(38.7)	(24.3)
Compagnie Financiere Richemont	(0.2)	(3.7)	(11.4)	(5.3)	(19.6)	(28.9)	0.6
Hermes International SCA	2.4	(4.6)	(5.5)	12.7	(6.9)	(21.1)	1.5
Kering SA	0.9	(7.7)	(8.0)	(7.6)	(21.1)	(34.5)	(24.5)
LVMH Moët Hennessy Louis Vuitton	1.5	(4.7)	(5.3)	4.1	(7.2)	(15.7)	(0.8)
Median Luxury	1.9	(4.6)	(6.7)	(0.6)	(13.4)	(25.0)	(0.7)
Brembo SpA	2.8	(1.6)	(5.9)	(4.3)	(31.0)	(45.1)	(44.6)
Eurotech SpA	1.0	(1.7)	(3.4)	(5.9)	(41.3)	(48.3)	(53.6)
Fine Foods & Pharmaceuticals	(0.1)	(3.4)	(7.3)	(10.4)	(17.6)	(32.2)	(22.7)
Sabaf SpA	(0.9)	(3.4)	(14.1)	(28.1)	(21.3)	(29.2)	(25.8)
Median domestic B2B	0.5	(2.5)	(6.6)	(8.2)	(26.2)	(38.6)	(35.2)
Pattern SpA	(9.7)	(11.5)	(16.9)	(5.3)	(1.8)	(20.6)	14.9
MSCI World Index	1.0	(4.7)	(5.1)	3.8	(5.4)	(18.9)	(4.4)
EUROSTOXX	2.4	(4.6)	(5.5)	12.7	(6.9)	(21.1)	1.5
FTSE Italia All Share	0.9	(7.7)	(8.0)	(7.6)	(21.1)	(34.5)	(24.5)
FTSE Italia STAR	1.5	(4.7)	(5.3)	4.1	(7.2)	(15.7)	(0.8)
FTSE Italia Growth	(0.2)	(3.7)	(11.4)	(5.3)	(19.6)	(28.9)	0.6

Source: Thomson Reuters Eikon

Table 15 - Pattern relative performances

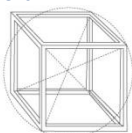
	1D	1W	1M	3M	6M	YTD	1Y
to MSCI World Index	(10.7)	(6.7)	(11.9)	(9.0)	3.5	(1.7)	19.3
to EUROSTOXX	(12.1)	(6.9)	(11.5)	(17.9)	5.1	0.5	13.4
to FTSE Italia All Share	(10.6)	(3.7)	(8.9)	2.3	19.3	14.0	39.4
to FTSE Italia STAR	(11.2)	(6.8)	(11.6)	(9.4)	5.3	(4.9)	15.7
to FTSE Italia Growth	(9.5)	(7.7)	(5.5)	0.0	17.8	8.3	14.3
to Domestic B2B Peer Median	(10.2)	(8.9)	(10.3)	2.9	24.3	18.0	50.1
to Luxury Peer Median	(11.6)	(6.8)	(10.2)	(4.7)	11.6	4.4	15.6

Source: Thomson Reuters Eikon

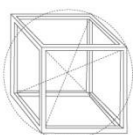
Risks

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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ANALYST CERTIFICATION

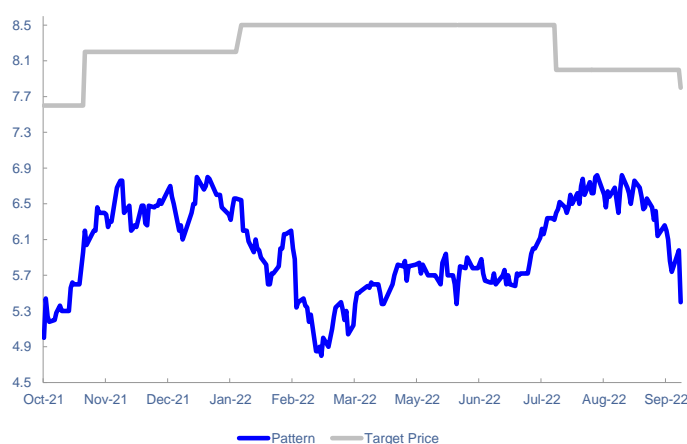
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DATE	TARGET PRICE	RATING
29/09/2022	€7.80	BUY
20/07/2022	€8.00	BUY
08/04/2022	€8.50	BUY
11/03/2022	€8.50	BUY
15/02/2022	€8.50	BUY
24/01/2022	€8.50	BUY
28/10/2021	€8.20	BUY
29/09/2021	€7.60	BUY

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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.

