

Italy – Luxury Engineering

Growing interim results despite a tough environment

4th October 2023

H1-23 RESULTS RELEASE

RIC: PTRN.MI
BBG: PTR IM

Pattern reported an increase in 2023 interim results thanks to organic growth in all the product categories (Clothing, Knitwear and Leather Goods) and solid M&A activity. Despite a harsh macroeconomic environment, characterised by rises in raw material prices and energy costs, Pattern was able to preserve its margins, also thanks to the most resilient product categories such as knitwear and leather goods.

Rating:
Neutral

Price Target:
€ 7.80

Upside/(Downside): 16.4%

Last Price: € 6.70

Market Cap.: € 96.3m

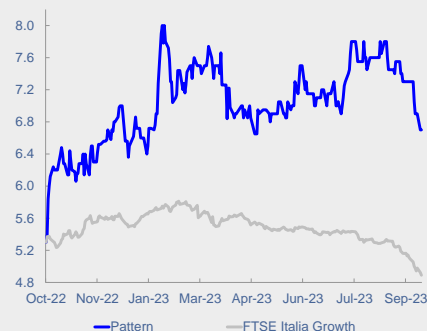
1Y High/Low: € 8.06 / € 5.40

Avg. Daily Turn. (3M, 6M): € 25k, € 27k

Free Float: 31.4%

Major shareholders:

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



Stock price performance

	1M	3M	12M
Absolute	-10.1%	-6.3%	26.4%
Rel.to FTSE IT Growth	-2.1%	3.6%	34.1%
Rel.to Sector	-0.3%	8.6%	11.1%

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Estimates fine-tuned: DCF-based PT unchanged at € 7.80/s

Following the release of 2023 interim results, we have fine-tuned our model in order to factor in 1) a slight increase in revenues and EBITDA forecasts, in line with the figures reported in H1-23, 2) higher financial charges following the several rate hikes performed by the ECB since the beginning of the year, and 3) the acquisition of minority interests. The combined result is an average 2.3% and 5.2% increase in revenues and EBITDA coupled with a decrease in EBIT and Net Profit of 9.5% and 2.5%, respectively, in 2023-25. Moreover, we updated our DCF valuation criteria by bringing the free risk rate up to date. As a consequence of the estimate revision and the updated valuation criteria, the DCF-based PT remained unchanged at € 7.80/s, 16.4% upside. We reiterate Neutral. Nevertheless, the proceeds from the sale of the business unit dedicated to Burberry's products will allow the group to consolidate itself as the main Italian hub of luxury fashion engineering & production, both organically and via further M&As.

Top line growth driven by both M&A and organic growth in all the product categories

Total revenues rose by 46.8% YoY to € 72.1m thanks to organic growth of approximately 10% coupled with the consolidation of the companies recently acquired. The Clothing segment grew by 40.8% YoY to € 29.2m (€ 20.8m in H1-22), the Knitwear soared by € 43.5% to € 25.5m (€ 17.8m in H1-22) and the Leather Goods totalled € 16.3m, up by 69.7% YoY (€ 9.6m in H1-22). The increase in finished products, which almost doubled YoY, was due to a significant amount of orders in progress with delivery foreseen in H2.

EBITDA reached € 7.6m, 10.2% margin. Further improvements are expected in H2-23

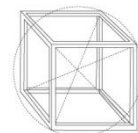
EBITDA was € 7.6m, 10.2% margin (€ 5.5m, 10.9% margin in H1-22), reflecting Dyloan's still weak profitability in H1 (expected to improve already from H2) and SMT's extraordinary tax burdens. EBIT totalled € 4.5m, 6.1% margin, up by 18.7% YoY, after increased D&A (€ 3.1m vs. € 1.7m in H1-22) due to the enlarged perimeter of the group. On the back of higher financial charges, stemming from increased net debt coupled with several rate hikes since the beginning of the year, Net Profit declined by 11.6% YoY to € 1.7m.

NFP at € 15.4m compared to € 13.9m at year-end 2022

Net Financial Position rose to € 15.4m debt compared to € 13.9m at year-end 2022, mainly as a result of 1) the acquisition of Nuova Nicol (€ 6.0m), 2) the acquisition of the area where Pattern's new headquarters will be built, 3) the purchase of the minority interests in Petri & Lombardi (€ 0.5m) and 3) the dividend payment of € 0.7m. Cash and cash-equivalents stood at € 13.9m (€ 16.5m at year-end 2022).

Pattern, key financials and ratios

€ m	2021	2022	2023e	2024e	2025e
Value of Production	72.5	110.4	137.3	130.7	140.3
EBITDA	7.7	11.1	14.7	14.8	17.6
EBIT	5.3	6.9	8.4	8.9	11.5
Net profit	3.0	2.6	23.6	3.9	5.8
Adj. Net Profit	3.0	2.6	3.6	3.9	5.8
NFP (cash)/debt	(3.1)	13.9	7.1	1.9	(3.9)
EBITDA margin	11.1%	10.2%	10.7%	11.4%	12.5%
EBIT margin	7.6%	6.3%	6.1%	6.8%	8.2%
Adj. EPS	0.21	0.18	0.25	0.28	0.41
Adj. EPS growth	66.1%	-15.2%	39.2%	9.1%	47.0%
Dividend	0.08	0.17	0.09	0.10	0.14
Dividend Yield	1.7%	2.8%	1.3%	1.4%	2.1%
ROCE	10.8%	10.0%	9.0%	9.1%	11.1%
NWC/Sales	8.2%	10.3%	11.1%	9.8%	10.0%
Free Cash Flow Yield	-4.7%	-16.5%	9.0%	6.7%	7.5%
PER adj. x	23.7	33.2	26.7	24.5	16.7
EV/Sales x	0.98	0.92	0.76	0.75	0.66
EV/EBITDA x	8.8	9.0	7.0	6.6	5.3
EV/EBIT x	12.9	14.5	12.4	11.1	8.0



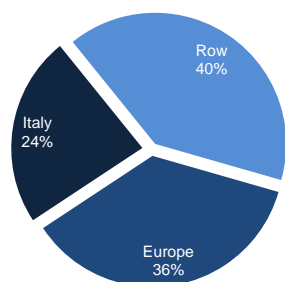
The company at a glance

Founded in 2000 by Fulvio Botto and Francesco Martorella, Pattern is a leading domestic player 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 partially outsourced to a plethora of suppliers.

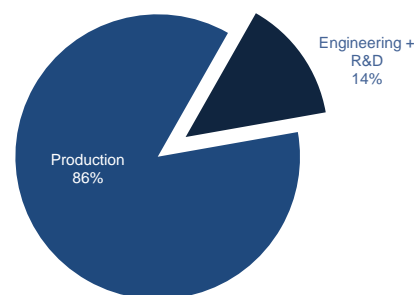
Since 2017, Pattern has embarked on an external growth path, with the acquisition of Roscini (luxury womenswear) in 2017, S.M.T. (luxury knitwear) in 2019, Idee Partners (luxury leather goods) in 2021, and Zanni (wholesale garment knitwear manufacturing technique), RGB (luxury leather goods accessories), Dyloan (luxury technology R&D and production) and Nuova Nicol (luxury knitwear for women) in 2022, thus creating the first 'Italian hub of luxury fashion engineering & production'. Pattern's global export sales reached 76% of total revenues. Manufacturing accounts for 86% while engineering and R&D account for 14%. In terms of products, most of the group's production (40%) comes from ready-to-wear clothing, whereas knitwear accounts for 30% and leather goods for 25%.

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 2022, the value of production was € 110.4m, EBITDA was € 11.1m, 10.1% margin. EBIT stood at € 6.9m and Net Income totalled € 2.6m. NFP was € 13.9m debt, 1.2x NFP/EBITDA, following the recent M&A campaign.

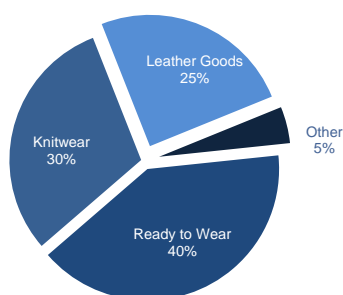
2022 breakdown by geography...



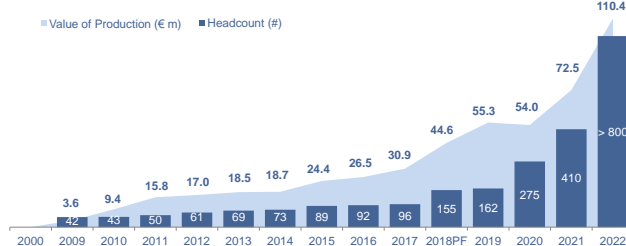
... by service...



...and by product line



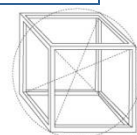
Top line and headcount evolution



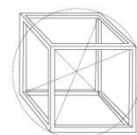
Peer group multiples table

EV multiples x	Sales FY1	Sales FY2	EBITDA FY1	EBITDA FY2	EBIT FY1	EBIT FY2	PER FY1	PER FY2
Burberry Group PLC	1.94	1.78	6.7	6.0	10.1	9.0	15.4	13.9
Capri Holdings Ltd	1.44	1.26	7.8	6.6	9.6	8.1	8.9	8.2
Compagnie Financiere Richemont SA	2.50	2.27	7.9	7.1	9.9	8.9	14.3	13.2
Hermes International SCA	12.61	11.11	27.3	24.1	30.4	26.8	44.6	39.8
Kering SA	2.70	2.54	7.9	7.4	10.1	9.4	14.3	13.2
LVMH Moet Hennessy Louis Vuitton SE	4.11	3.70	12.5	11.1	15.3	13.6	21.5	19.9
Median Luxury	2.60	2.41	7.9	7.2	10.1	9.2	14.9	13.5
Brembo SpA	1.06	0.96	6.2	5.5	9.8	8.5	11.8	10.7
Eurotech SpA	0.94	0.63	15.4	4.4	22.4	9.5	47.3	7.5
Fine Foods & Pharmaceuticals NTM SpA	0.77	0.69	7.0	5.6	22.1	18.8	26.0	18.2
Sabaf SpA	1.08	0.91	7.2	5.2	14.0	8.7	15.9	9.6
Median domestic B2B	1.00	0.80	7.1	5.3	18.0	9.1	20.9	10.1
Pattern SpA	0.76	0.75	7.0	6.6	12.4	11.1	26.7	24.5

Sources: CFO SIM, Refinitiv Eikon



Income statement (€ m)	2021	2022	2023e	2024e	2025e
Revenues	69.5	109.2	137.0	130.4	140.0
Value of Production	72.5	110.4	137.3	130.7	140.3
Raw material and processing	(22.3)	(28.4)	(33.6)	(31.4)	(33.7)
Services	(25.6)	(42.3)	(53.5)	(49.7)	(53.3)
Personnel expenses	(15.2)	(25.4)	(31.2)	(32.2)	(33.0)
Other opex	(1.8)	(3.2)	(4.3)	(2.6)	(2.8)
EBITDA	7.7	11.1	14.7	14.8	17.6
D&A	(2.4)	(4.2)	(6.3)	(6.0)	(6.0)
EBIT	5.3	6.9	8.4	8.9	11.5
Financials	(0.1)	(0.3)	(0.8)	(0.7)	(0.6)
Re/(Devaluation) of financial assets	0.0	0.0	0.0	0.0	0.0
Extraordinary	0.0	0.0	20.0	0.0	0.0
Pre-Tax profit	5.1	6.6	27.6	8.1	10.9
Income taxes	(1.5)	(2.5)	(2.3)	(2.4)	(3.3)
Minorities	(0.7)	(1.5)	(1.7)	(1.8)	(1.9)
Net Profit	3.0	2.6	23.6	3.9	5.8
Adjusted EBITDA	7.7	11.1	14.7	14.8	17.6
Adjusted Net Profit	3.0	2.6	3.6	3.9	5.8
Balance sheet (€ m)	2021	2022	2023e	2024e	2025e
Net Working Capital	5.9	11.3	15.3	12.7	14.0
Net Fixed Assets	17.6	35.7	48.7	50.7	50.1
Equity Investments	0.3	1.1	1.1	1.1	1.1
Other M/L Term A/L	(1.8)	(4.7)	(4.9)	(5.2)	(5.4)
Net Invested Capital	22.0	43.5	60.2	59.4	59.8
Net Financial Debt	(3.1)	13.9	7.1	1.9	(3.9)
Minorities	2.2	4.8	6.5	8.3	10.1
Group's Shareholders Equity	22.9	24.8	46.5	49.2	53.6
Financial Liabilities & Equity	22.0	43.5	60.2	59.4	59.8
Cash Flow statement (€ m)	2021	2022	2023e	2024e	2025e
Total net income	3.7	4.1	5.3	5.7	7.6
Depreciation	2.4	4.2	6.3	6.0	6.0
Other non-cash charges	(0.2)	2.9	0.3	0.2	0.3
Cash Flow from Oper. (CFO)	5.9	11.2	11.9	11.9	13.9
Change in NWC	(2.6)	(5.4)	(3.9)	2.5	(1.3)
FCF from Operations (FCFO)	3.2	5.8	8.0	14.4	12.6
Net Investments (CFI)	(7.7)	(21.7)	0.7	(7.9)	(5.4)
Free CF to the Firm (FCFF)	(4.5)	(15.9)	8.6	6.5	7.2
CF from financials (CFF)	3.7	9.7	(1.9)	(1.3)	(1.4)
Free Cash Flow to Equity (FCFE)	(0.8)	(6.2)	6.8	5.2	5.8
Financial ratios	2021	2022	2023e	2024e	2025e
EBITDA margin	11.1%	10.2%	10.7%	11.4%	12.5%
EBIT margin	7.6%	6.3%	6.1%	6.8%	8.2%
Adj. Net profit margin	4.3%	2.4%	2.6%	3.0%	4.1%
Tax rate	28.5%	38.4%	8.2%	30.0%	30.0%
Op NWC/Sales	8.2%	10.3%	11.1%	9.8%	10.0%
Interest coverage x	0.02	0.04	0.10	0.08	0.06
Net Debt/EBITDA x	(0.40)	1.25	0.48	0.13	(0.22)
Debt-to-Equity x	(0.13)	0.56	0.15	0.04	(0.07)
ROIC	13.6%	6.0%	39.2%	6.6%	9.7%
ROCE	10.8%	10.0%	9.0%	9.1%	11.1%
ROACE	12.1%	11.7%	10.3%	9.3%	11.5%
ROE	13.1%	10.5%	50.7%	8.0%	10.8%
Payout ratio	38.8%	91.5%	35.0%	35.0%	35.0%
Per share figures	2021	2022	2023e	2024e	2025e
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 # m	13.99	14.26	14.26	14.26	14.26
EPS stated €	0.21	0.18	1.66	0.28	0.41
EPS adjusted €	0.21	0.18	0.25	0.28	0.41
EBITDA €	0.55	0.78	1.03	1.04	1.23
EBIT €	0.38	0.48	0.59	0.62	0.81
BV €	1.76	2.08	3.72	4.03	4.47
FCFO €	0.23	0.41	0.56	1.01	0.89
FCFF €	(0.32)	(1.12)	0.60	0.46	0.50
FCFE €	(0.06)	(0.44)	0.47	0.37	0.41
Dividend €	0.08	0.17	0.09	0.10	0.14



H1-23 Results

Pattern reported increasing 2023 interim results thanks to organic growth in all the product categories (Clothing, Knitwear and Leather Goods) coupled with the consolidation of RGB, Dyloan Bond Factory and Nuova Nicol. Despite a harsh macroeconomic environment, characterised by rises in raw material prices and energy costs, Pattern was able to preserve its margins, also thanks to the most resilient product categories such as knitwear and leather goods.

Table 1 – Pattern, H1-23 results summary

€ m	H1-23	H1-22	% YoY
Total Revenues	72.1	49.1	46.8
Increase in finished products	2.2	1.2	
Value of Production	74.3	50.3	47.8
Raw material and processing	(17.1)	(13.9)	
Services	(28.0)	(18.7)	
Personal expenses	(18.8)	(10.9)	
Other opex	(2.8)	(1.3)	
EBITDA	7.6	5.5	38.9
% margin	10.2%	10.9%	
D&A	(3.1)	(1.7)	
EBIT	4.5	3.8	18.7
% margin	6.1%	7.6%	
Financial income/(costs)	(0.3)	(0.1)	
Pre-Tax profit	4.2	3.7	13.1
% margin	5.7%	7.4%	
Income taxes	(2.0)	(1.2)	
Tax rate	46.5%	33.0%	
Minorities	(0.6)	(0.6)	
Net Profit	1.7	1.9	(11.6)
% margin	2.3%	3.8%	
NFP debt / (cash) *	15.4	13.9	11.1

Source: Company data *compared to FY-22

Total revenues rose by 46.8% YoY to € 72.1m thanks to **organic growth of approximately 10%** coupled with the consolidation of the companies recently acquired and not consolidated in H1-22, namely RGB (May-22), Dyloan Bond Factory (Jul-22) and Nuova Nicol (Dec-22).

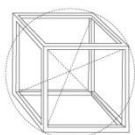
The Clothing segment grew by 40.8% YoY to € 29.2m (€ 20.8m in H1-22), the Knitwear soared by € 43.5% to € 25.5m (€ 17.8m in H1-22) and the Leather Goods totalled € 16.3m, up by 69.7% YoY (€ 9.6m in H1-22). The increase in finished products, which almost doubled YoY, was due to a significant amount of orders in progress with delivery foreseen in the second half of the year. Therefore, the Value of Production reached € 74.3m, up by 47.8% YoY.

Table 2 – Pattern, total revenues by product category

€ m	H1-23	H1-22	% YoY	% on H1-23	% on H1-22
Clothing	29.2	20.8	40.8	40.5%	42.3%
Knitwear	25.5	17.8	43.5	35.4%	36.2%
Leather Goods	16.3	9.6	69.7	22.5%	19.5%
Other Revenues	1.1	1.0	9.2	1.5%	2.0%
Total Revenues	72.1	49.1	46.8	100.0%	100.0%

Source: Company data

EBITDA was € 7.6m, 10.2% margin, compared to € 5.5m, 10.9% margin in H1-22, reflecting Dyloan's still weak profitability in H1 (expected to improve already from H2-23) and SMT's extraordinary tax burdens.



EBIT totalled € 4.5m, 6.1% margin, up by 18.7% YoY, after increased D&A (€ 3.1m vs. € 1.7m in H1-22) due to the enlarged perimeter of the group.

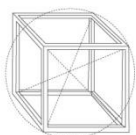
On the back of higher financial charges, stemming from increased net debt coupled with several rate hikes since the beginning of the year, **Net Profit declined by 11.6% YoY to € 1.7m.**

Net Financial Position rose to € 15.4m debt compared to € 13.9m at year-end 2022, mainly as a result of 1) the acquisition of Nuova Nicol (€ 6.0m), 2) the acquisition of the area where Pattern's new headquarters will be built, 3) the purchase of the minority interests in Petri & Lombardi (€ 0.5m) and 3) the dividend payment of € 0.7m. Cash and cash-equivalents stood at € 13.9m (€ 16.5m at year-end 2022).

Table 3 – Pattern, Op. Net Working Capital

€ m	H1-23	FY-22	Δ
Inventories	13.1	9.4	3.8
Receivables	26.8	24.2	(2.6)
Payable	(24.3)	(22.3)	2.1
Op. Net Working Capital	15.7	11.3	3.2

Source: Company data



Sale of the business unit dedicated to Burberry

On 2 October 2023, Pattern sold its Turin-based business unit dedicated to the engineering and manufacturing of Burberry products to Burberry itself, a long-standing customer of the group.

The deal envisages a **total consideration of € 22.4m**, including some adjustments linked to the trade working capital and net financial position of the business unit at the closing date. It is worth remembering that the agreed base price was € 21m, part of which (i.e. € 2.1m) was deposited in an escrow account for a period of three years after the closing date with a gradual release mechanism.

The agreement also includes a transient service contract and a 3-year **production agreement** which will be effective as from 2024. In particular, the latter will be focused on the engineering and production of **womenswear** for Burberry at the Roscini's plant in Spello for an **overall turnover of approximately € 16m**.

Furthermore, **Francesco Martorella, one Pattern's two founders, will continue to manage the business unit for two years**, in order to provide continuity to the transferred activities. During this time, Francesco Martorella will remain on Pattern's and its subsidiaries' Boards of Directors, without delegated powers.

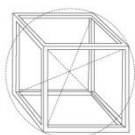
In 2022, the business unit, composed of 67 employees, generated revenues of € 25.0m (about 23% of Pattern's FY-22 consolidated turnover) **with EBITDA equal to € 3.7m** (approximately 1/3 of Pattern's FY-22 consolidated EBITDA). It is worth noting that **EBITDA did not include overhead costs** related to management, HR, ESG and administrative positions, as well as the IT infrastructure, which are necessary for proper business management. Just part of this staff is remaining with Pattern, to ensure the group's business continuity. In our understanding, **the overhead costs should amount to approximately € 1.5/1.8m, thus the profitability of the business unit disposed is slightly lower than the consolidated EBITDA margin of the group, before the transaction**. The agreement does not provide for the transfer of financial debt.

Pattern intends to use the proceeds from the deal to:

- finance **further M&A deals** in order to further strengthen the main Italian hub of luxury fashion engineering & production;
- build **new group headquarters** in Turin within 24 months;
- possibly distribute an **extraordinary dividend**.

We view the deal positively: historically, Burberry has always been Pattern's main customer and at the time of the IPO it accounted for more than 50% of the group's turnover. During the last years, Pattern definitely reduced its exposure to Burberry (we estimate an impact of about 25% on the total turnover in 2022) thanks to its ability to intercept the needs of the top luxury brands worldwide, thus gaining new customers, both organically and via M&As. Moreover, Burberry has recently started a vertical integration process by internalising the production of certain clothing items. Therefore, in the next years a reduction of Pattern's turnover coming from this brand would have been more than likely.

Furthermore, the agreement signed for the engineering and production of certain Burberry's women's clothing items at the Spello plant will provide the group with a good amount of turnover for the three years after the closing date, with higher profitability than that of the business unit disposed.



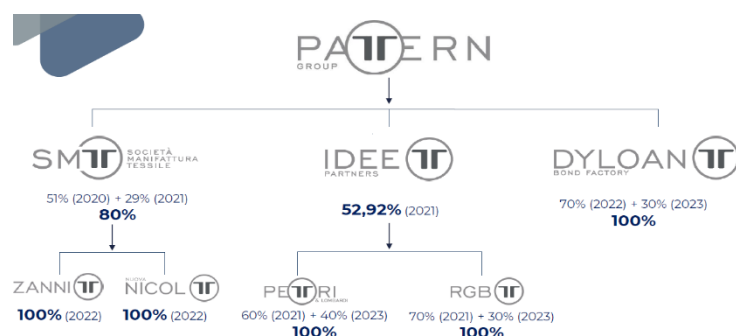
Minority Interest Acquisitions

Following the IPO on July-19, Pattern carried out a massive M&A campaign that paved the way for **the creation of the first Italian Hub of Luxury fashion Engineering & Production**, which comprises 12 companies spread across 7 regions, more than 800 employees and total revenues well above € 120m. Notably, Pattern has now a widespread presence in all the main luxury product categories as well as **a unique combination in terms of artisanship techniques, creativity and technologies**. Additionally, it is worth to underline that the group is now fully vertically-integrated, from the R&D to the production phase.

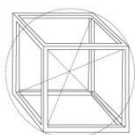
Once the first phase was concluded, management is now focused on the integration of the acquired companies as well as the streamlining of the group's structure, therefore improving the overall efficiency. As such, as of the beginning of 2023 Pattern started to purchase the minority interests in its subsidiaries. In detail:

- **Petri & Lombardi:** on May-15, Pattern, through its subsidiary IDEE Partners, acquired **the remaining 40% of Petri & Lombardi**, a historical Tuscany-based company engaged in the production and processing of leather goods accessories. **The total consideration amounted to € 510k.**
- **Dyloan Bond Factory:** on Jul-26, Pattern acquired **the remaining 30% of Dyloan**, strongly accelerating a process that would gradually take place indicatively by 2028. In fact, the agreement signed in July 2022 for the acquisition of 70% of the company envisaged two Put & Call options on the remaining 30% to be exercised in 2026 (10%) and 2028 (20%). In detail, **Pattern purchased the remaining stake for € 4.0m from Dyloan's co-founder and CEO, Anna Maria di Rienzo**, who also renounced the additional earn-out consideration included in the investment agreement. Moreover, the parties agreed to waive the Shareholders' agreement relative to Dyloan governance and **Anna Maria di Rienzo resigned from the Boards of Directors of both Pattern and Dylan**, although she will continue to support Dyloan's growth and development through a specific collaboration agreement.
- **RGB:** on July-26, Pattern, through its subsidiary IDEE Partners, acquired **the remaining 30% of RGB**, a specialised company focused on the production and processing of leather accessories, for **€ 1.0m** (the maximum amount envisaged by the call option in favour of Pattern). The selling shareholder Paolo Benedetti reinvested € 500k in IDEE through a reserved capital increase, obtaining 2% of the company. This stake is subjected to Put & Call options exercisable from mid-2025 to approximately mid-2028. The valorisation will be based on the latest FY EBITDA multiplied by a certain multiple agreed by the counterparties, comprising a cap of € 600k and a floor of € 300k. Consequently, the appraisal of IDEE is about € 25m. Following the transaction, the share capital of IDEE Partners is the following: 52.92% Pattern, 45.08% Idee Holding and 2.00% Paolo Benedetti.

Chart 1 – Pattern, group's structure



Source: Company data



Estimates, Valuation & Risks

In H1-23, **Pattern focused on the acquisition of the minority** interests in order to streamline the group's structure and consequently improve its operating efficiency. **A recovery of margins is expected already in H2-23.** Following the establishment of The Italian hub of luxury fashion engineering & production, now the goal is to strengthen and develop the three poles: 1) Knitwear in Emilia Romagna, 2) Leather Goods in Tuscany and 3) Ready-to-Wear in North-Western and Southern Italy.

Furthermore, following the disposal of the business unit dedicated to Burberry's products Pattern will be focused on consolidating its leading position in the luxury engineering and production segment.

Following the release of 2023 interim results, we have fine-tuned our model in order to factor in 1) a slight increase in revenues and EBITDA forecasts, in line with the figures reported in H1-23, 2) higher financial charges following the several rate hikes performed by the ECB since the beginning of the year, and 3) the acquisition of minority interests. **The combined result is an average 2.3% and 5.2% increase in revenues and EBITDA coupled with a decrease in EBIT and Net Profit of 9.5% and 2.5% respectively, in 2023-25.**

Table 4 – Pattern, 2023e new/old estimates

€ m	New	Old	% Diff.	€ m	Diff.
Value of Production	137.3	134.4	2.1	2.9	
EBITDA	14.7	13.8	6.5	0.9	
% margin	10.7	10.3			
EBIT	8.4	9.6	(13.2)	(1.3)	
% margin	6.1	7.2			
Net Profit	3.6	4.3	(15.3)	(0.7)	
% margin	2.6	3.2			
Y/E net debt (net cash)	7.1	5.9	19.5	1.2	

Source: CFO Sim

Table 5 – Pattern, 2024e new/old estimates

€ m	New	Old	% Diff.	€ m	Diff.
Value of Production	130.7	127.7	2.3	3.0	
EBITDA	14.8	14.4	3.2	0.5	
% margin	11.4	11.3			
EBIT	8.9	9.9	(10.4)	(1.0)	
% margin	6.8	7.7			
Net Profit	3.9	4.0	(0.6)	(0.0)	
% margin	3.0	3.1			
Y/E net debt (net cash)	1.9	4.0	(52.5)	(2.1)	

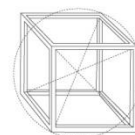
Source: CFO Sim

Table 6 – Pattern, 2025e new/old estimates

€ m	New	Old	% Diff.	€ m	Diff.
Value of Production	140.3	137.2	2.3	3.1	
EBITDA	17.6	16.6	5.9	1.0	
% margin	12.5	12.1			
EBIT	11.5	12.1	(4.8)	(0.6)	
% margin	8.2	8.8			
Net Profit	5.8	5.3	8.4	0.4	
% margin	4.1	3.9			
Y/E net debt (net cash)	(3.9)	(0.2)	n.m.	(3.7)	

Source: CFO Sim

Moreover, we updated our DCF valuation criteria by bringing the free risk rate up to date. As a consequence of the estimate revision and the updated valuation criteria, **the DCF-based PT remained unchanged at € 7.80/s, 16.4% upside.**



We reiterate the Neutral stance on the stock. Nevertheless, we believe Pattern is unquestionably well positioned to benefit from the consolidation trend within the sector. The proceeds from the sale of the business unit dedicated to Burberry's products will allow the group to consolidate itself as the main Italian hub of luxury fashion engineering & production, both organically and via further M&As. It is worth noting that our estimates do not include any acquisitions.

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%. Cash flows are discounted back at a weighted average cost of capital, calculated according to the following parameters:

Table 7 - WACC derived from:

Interest costs, pre-tax	3.5%
Tax rate	30.0%
Int. costs, after taxes	2.5%
Risk premium, incl. small size premium	9.0%
Risk-free (10Y Gov. Bond 200gg simple moving average)	4.20%
Beta levered (x)	1.00
Required ROE	13.2%

Sources: CFO SIM, Refinitiv Eikon

Risk premium at 9.0% factors in the minute size of the company and basically all the concerns that an investor might have with regard to the Euronext Growth Milan market segment. **Beta** has prudentially been set **at 1.00**, taking into account the company's lower liquidity. **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 8 - Pattern, DCF model

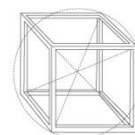
€ m	2023e	2024e	2025e	2026e	2027e	Term. Val.
EBIT	8.4	8.9	11.5	16.3	22.8	
Tax rate	30.0%	30.0%	30.0%	30.0%	30.0%	
Operating profit (NOPAT)	5.9	6.2	8.1	11.4	16.0	
Change working capital	(3.9)	2.5	(1.3)	(0.7)	(0.1)	
Depreciation	6.3	6.0	6.0	4.5	3.0	
Investments	(19.3)	(7.9)	(5.4)	(1.5)	(3.0)	
Free Cash Flows	(11.1)	6.8	7.4	13.7	15.9	159.9
Present value	(10.8)	5.9	5.8	9.8	10.2	102.5
WACC	11.1%	11.1%	11.1%	11.1%	11.1%	
Long-term growth rate	1.0%					

Source: CFO SIM

Table 9 – Pattern, DCF derived from:

€ m	
Total EV present value € m	123.5
<i>thereof terminal value</i>	83.0%
NFP last reported adjusted for the sale of the Burberry BU	6.1
Pension provision	(4.6)
Minorities	(13.7)
Equity value € m	111.3
#m shares	14.26
Equity value €/s	7.80
% upside/(downside)	16.4%

Source: CFO SIM



By applying our DCF model, we attained an **equity value of € 111.3m (€ 7.80/s)** for Pattern.

The following tables illustrate that sensitivity 1) compared to changes in the terminal growth rate produces an equity value of **€ 7.26-8.44/s (perpetuity range between 0.25% and 1.75%)**, while, 2) if compared to changes in the free risk rate, it produces an equity value of **€ 7.32-8.33/s (free risk range between 4.80% and 3.60%)** and, 3) if compared to changes in the risk premium, including the small-size premium, it results in an equity value of **€ 6.68-9.24/s (risk premium range between 10.5% and 7.50%)**.

Table 10 – 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%
Present value of CF	20.9	20.9	20.9	20.9	20.9	20.9	20.9
PV of terminal value	94.7	97.2	99.8	102.5	105.4	108.4	111.6
Total value	115.6	118.1	120.7	123.5	126.4	129.4	132.6
NFP last reported adj. for sale	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Pension provision	(4.6)	(4.6)	(4.6)	(4.6)	(4.6)	(4.6)	(4.6)
Minorities	(13.7)	(13.7)	(13.7)	(13.7)	(13.7)	(13.7)	(13.7)
Equity value	103.5	106.0	108.6	111.3	114.2	117.2	120.4
Equity value/share €	7.26	7.43	7.61	7.80	8.01	8.22	8.44

Source: CFO SIM

Table 11 – Pattern, equity value sensitivity to changes in free risk rate

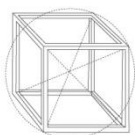
€ m	3.60%	3.80%	4.00%	4.20%	4.40%	4.60%	4.80%
Present value of CF	21.3	21.2	21.1	20.9	20.8	20.7	20.5
PV of terminal value	109.7	107.2	104.8	102.5	100.3	98.2	96.1
Total value	131.0	128.4	125.9	123.5	121.1	118.8	116.6
NFP last reported adj. for sale	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Pension provision	(4.6)	(4.6)	(4.6)	(4.6)	(4.6)	(4.6)	(4.6)
Minorities	(13.7)	(13.7)	(13.7)	(13.7)	(13.7)	(13.7)	(13.7)
Equity value	118.9	116.3	113.7	111.3	109.0	106.7	104.5
Equity value/share €	8.33	8.15	7.97	7.80	7.64	7.48	7.32

Source: CFO SIM

Table 12 – Pattern, equity value sensitivity to changes in risk premium

€ m	7.50%	8.00%	8.50%	9.00%	9.50%	10.00%	10.50%
Present value of CF	22.0	21.6	21.3	20.9	20.6	20.3	20.0
PV of terminal value	121.9	114.9	108.4	102.5	97.1	92.1	87.5
Total value	143.9	136.5	129.7	123.5	117.7	112.4	107.5
NFP last reported adj. for sale	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Pension provision	(4.6)	(4.6)	(4.6)	(4.6)	(4.6)	(4.6)	(4.6)
Minorities	(13.7)	(13.7)	(13.7)	(13.7)	(13.7)	(13.7)	(13.7)
Equity value	131.7	124.3	117.5	111.3	105.6	100.3	95.3
Equity value/share €	9.24	8.72	8.24	7.80	7.40	7.03	6.68

Source: CFO SIM



Market Multiples

Pattern provides high value-added luxury apparel engineering and design services with production partially 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 known 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.

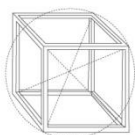
Kering SA: as a global luxury group, Kering develops an *ensemble* of luxury houses operating in fashion, leather goods, jewellery and watches: Gucci, Saint Laurent, Bottega Veneta, Alexandre McQueen, Balenciaga, Ulysse Nardin, etc. The company specialises in ready-to-wear products, sports goods, shoes, 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 have 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 known 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 13 - Pattern, peer group summary table

€ m	Country	Mkt Cap	Sales FY1	EBITDA FY1	EBITDA %	Sales CAGR ₂₂₋₂₅	EBITDA CAGR ₂₂₋₂₅	EBIT CAGR ₂₂₋₂₅	EPS CAGR ₂₃₋₂₅	NFP FY1	NFP /EBITDA
Burberry Group PLC	UK	7,769	3,729	1,082	29.0%	5.9%	3.8%	5.4%	9.6%	(527)	n.m.
Capri Holdings Ltd	US	5,743	5,173	947	18.3%	2.6%	7.0%	6.7%	8.4%	1,688	1.8
Compagnie Financiere Richemont	F	59,845	21,265	6,723	31.6%	6.6%	6.2%	7.2%	8.8%	(6,759)	n.m.
Hermes International SCA	F	180,250	13,436	6,212	46.2%	12.8%	12.5%	13.1%	11.6%	(10,796)	n.m.
Kering SA	F	52,370	20,626	7,071	34.3%	5.3%	4.9%	5.1%	9.7%	3,306	0.5
LVMH Moët Hennessy Louis Vuitton	F	354,469	87,712	28,903	33.0%	8.6%	8.7%	10.0%	8.4%	5,997	0.2
Median Luxury		56,107	17,031	6,467	32.3%	6.2%	6.6%	7.0%	9.2%	580	0.5
Brembo SpA	IT	3,854	4,002	690	17.2%	7.4%	10.1%	13.4%	10.8%	393	0.6
Eurotech SpA	IT	81	103	6	6.1%	n.a.	n.a.	n.a.	n.a.	15	2.4
Fine Foods & Pharmaceuticals	IT	184	248	27	10.9%	13.9%	38.2%	n.a.	55.7%	6	0.2
Sabaf SpA	IT	201	250	38	15.1%	6.7%	12.8%	18.3%	43.2%	69	1.8
Median domestic B2B		192	249	32	13.0%	7.4%	12.8%	15.9%	43.2%	42	1.2
Pattern SpA	IT	96	137	15	10.7%	8.6%	16.5%	18.8%	26.6%	7	0.5

Sources: CFO SIM, Refinitiv Eikon

Table 14 - Pattern, peer group EV multiple table

x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3
Burberry Group PLC	1.94	1.78	1.65	6.7	6.0	5.5
Capri Holdings Ltd	1.44	1.26	1.14	7.8	6.6	5.8
Compagnie Financiere Richemont	2.50	2.27	2.09	7.9	7.1	6.5
Hermes International SCA	12.61	11.11	9.87	27.3	24.1	21.3
Kering SA	2.70	2.54	2.32	7.9	7.4	6.6
LVMH Moët Hennessy Louis Vuitton	4.11	3.70	3.39	12.5	11.1	10.1
Median Luxury	2.60	2.41	2.21	7.9	7.2	6.5
Brembo SpA	1.06	0.96	0.84	6.2	5.5	4.7
Eurotech SpA	0.94	0.63	n.a.	15.4	4.4	n.a.
Fine Foods & Pharmaceuticals	0.77	0.69	0.43	7.0	5.6	3.2
Sabaf SpA	1.08	0.91	0.82	7.2	5.2	4.4
Median domestic B2B	1.00	0.80	0.82	7.1	5.3	4.4
Pattern SpA	0.76	0.75	0.66	7.0	6.6	5.3
% premium/(discount) to luxury peers	(70.9)	(68.7)	(70.1)	(10.7)	(8.5)	(19.3)
% premium/(discount) to domestic B2B peers	(24.5)	(5.5)	(19.2)	(0.8)	24.2	19.8

Sources: CFO SIM, Refinitiv Eikon

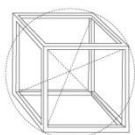
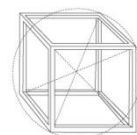


Table 15 - Pattern, peer group EV & price multiple table

x	EBIT FY1	EBIT FY2	EBIT FY3	PER FY1	PER FY2	PER FY3
Burberry Group PLC	10.1	9.0	8.1	15.4	13.9	12.8
Capri Holdings Ltd	9.6	8.1	7.1	8.9	8.2	7.5
Compagnie Financiere Richemont	9.9	8.9	8.1	14.3	13.2	12.1
Hermes International SCA	30.4	26.8	23.6	44.6	39.8	35.8
Kering SA	10.1	9.4	8.5	14.3	13.2	11.9
LVMH Moet Hennessy Louis Vuitton	15.3	13.6	12.3	21.5	19.9	18.3
Median Luxury	10.1	9.2	8.3	14.9	13.5	12.5
Brembo SpA	9.8	8.5	7.1	11.8	10.7	9.6
Eurotech SpA	22.4	9.5	n.a.	47.3	7.5	n.a.
Fine Foods & Pharmaceuticals	22.1	18.8	n.a.	26.0	18.2	10.7
Sabaf SpA	14.0	8.7	6.9	15.9	9.6	7.7
Median domestic B2B	18.0	9.1	7.0	20.9	10.1	9.6
Pattern SpA	12.4	11.1	8.0	26.7	24.5	16.7
% premium/(discount) to luxury peers	22.4	20.4	(3.7)	79.5	80.7	33.5
% premium/(discount) to domestic B2B peers	(31.4)	21.6	14.4	27.4	142.2	73.3

Sources: CFO SIM, Refinitiv 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 16 - Pattern, peer group and index absolute performance

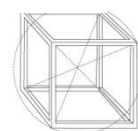
	1D	1W	1M	3M	6M	YTD	1Y
Burberry Group PLC	(3.6)	(4.0)	(16.5)	(13.2)	(27.5)	(10.0)	(1.1)
Capri Holdings Ltd	(1.3)	(1.0)	(1.8)	40.6	12.5	(9.7)	29.0
Compagnie Financiere Richemont	(1.0)	(0.6)	(10.8)	(26.7)	(23.9)	(8.1)	14.5
Hermes International SCA	(1.2)	(0.1)	(8.7)	(12.6)	(9.9)	18.0	38.9
Kering SA	(1.8)	(1.9)	(12.1)	(16.7)	(27.8)	(11.3)	(7.3)
LVMH Moët Hennessy Louis Vuitton	(1.3)	0.3	(7.1)	(17.7)	(17.1)	3.7	16.0
Median Luxury	(1.3)	(0.8)	(9.7)	(14.9)	(20.5)	(8.9)	15.3
Brembo SpA	(1.5)	(0.7)	(9.6)	(14.4)	(16.9)	10.3	33.1
Eurotech SpA	(3.8)	0.4	(27.3)	(19.2)	(26.0)	(20.0)	(20.8)
Fine Foods & Pharmaceuticals	0.4	(0.2)	(0.8)	(1.1)	(0.1)	(0.4)	6.5
Sabaf SpA	(0.1)	2.6	(9.0)	11.9	(2.9)	(5.3)	(6.2)
Median domestic B2B	(0.8)	0.1	(9.3)	(7.7)	(9.9)	(2.8)	0.2
Pattern SpA	-	(5.0)	(10.1)	(6.3)	(2.2)	(0.3)	26.4
MSCI World Index	(1.4)	(1.6)	(5.8)	(5.8)	0.1	7.6	15.2
EUROSTOXX	(1.2)	(1.3)	(4.6)	(6.4)	(5.5)	5.2	17.3
FTSE Italia All Share	(1.3)	(2.0)	(4.4)	(3.7)	0.3	14.0	28.6
FTSE Italia STAR	(1.0)	0.8	(8.4)	(12.2)	(15.2)	(10.2)	(0.6)
FTSE Italia Growth	(0.7)	(2.2)	(8.0)	(9.9)	(13.3)	(11.6)	(7.7)

Source: Refinitiv Eikon

Table 17 - Pattern's relative performances

	1D	1W	1M	3M	6M	YTD	1Y
to MSCI World Index	1.4	(3.4)	(4.2)	(0.5)	(2.3)	(7.9)	11.2
to EUROSTOXX	1.2	(3.6)	(5.5)	0.1	3.3	(5.5)	9.1
to FTSE Italia All Share	1.3	(3.0)	(5.7)	(2.6)	(2.5)	(14.3)	(2.2)
to FTSE Italia STAR	1.0	(5.8)	(1.7)	5.9	13.0	9.9	27.0
to FTSE Italia Growth	0.7	(2.7)	(2.1)	3.6	11.1	11.4	34.1
to Domestic B2B Peer Median	0.8	(5.1)	(0.8)	1.4	7.7	2.5	26.2
to Luxury Peer Median	1.3	(4.2)	(0.3)	8.6	18.3	8.6	11.1

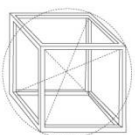
Source: Refinitiv Eikon



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;
- exit of key relevant people;
- M&A execution might be hampered by potential consolidating players with huge firepower in the industry (i.e. private equity funds).



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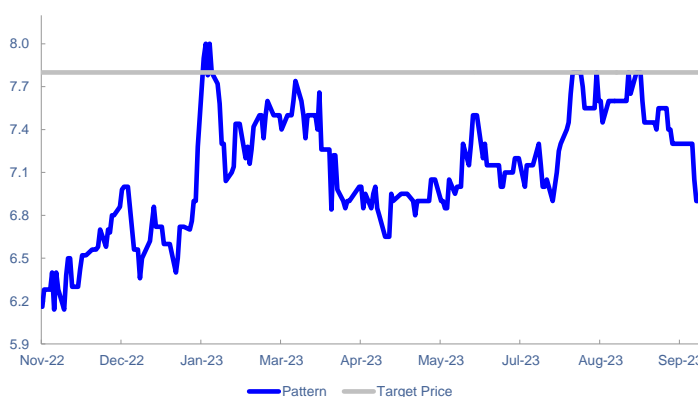
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DATE	TARGET PRICE	RATING
04/10/2023	€7.80	NEUTRAL
30/03/2023	€7.80	NEUTRAL
17/02/2023	€7.80	BUY
13/12/2022	€7.80	BUY
29/09/2022	€7.80	BUY

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RATING SYSTEM

- a **BUY** rating is assigned if the target price is at least 15% higher than the market price;
- a **SELL** rating is assigned if the target price is at least 15% lower than the market price;
- a **NEUTRAL** rating is assigned if the difference between the current price and target price lies within the +/-15% 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.

