

Italy – Luxury Engineering

Pattern enters the adjacent synergic leather goods niche

28th October 2021

IDEE ACQUISITION

RIC: PTRN.MI
BBG: PTR IM

Pattern has announced the acquisition of a 54% stake in IDEE Consulting: it will pay 7.0x 2021e EV/EBITDA for a leading Italian player in the luxury leather goods segment. A highly synergic and fairly priced move: Pattern is definitely delivering what it announced at the time of the IPO with the aim of creating an Italian leading company in the luxury fashion engineering segment.

Rating:

Buy

Price Target:

€ 8.20 (€ 7.60)

Upside/(Downside): 37.6%

Last Price: € 5.96

Market Cap.: € 81.7m

1Y High/Low: € 6.20 / € 3.35

Avg. Daily Turn. (3M, 6M): € 34k, € 25k

Free Float: 27.6%

Major shareholders:

Bo.Ma. Holding Srl	53.4%
Fulvio Botto	6.4%
Francesco Martorella	6.4%
Otus Capital (Free Float)	4.9%
Camer (S.M.T. shareholders)	2.5%
Anna Maria Roscini	2.0%
Luca Sburlati (CEO)	1.7%



Stock price performance

	1M	3M	12M
Absolute	28.2%	23.7%	64.6%
Rel.to FTSE IT Growth	12.4%	25.9%	-21.7%
Rel.to Sector	22.5%	26.5%	4.5%

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Another value accretive acquisition: new PT € 8.20 (€ 7.60). Buy reiterated

This move brings in € 9.0m (€ 0.60/s) additional value to Pattern. In addition, the acquisition is accretive at the EBITDA and Net Profit level. We have updated our model: the result is a 18.2% and 17.4% rise in EBITDA in 2022-23 and a 11.1% and 9.0% bottom line increase vs. our previous assumptions. As a consequence of the estimate revision and the update in the valuation criteria, new PT stands at € 8.20/s (€ 7.60), 37.6% upside. We reiterate our strong Buy recommendation on the stock.

A highly specialised player in the luxury leather goods niche

Established in 2008 and headquartered in Scandicci (Florence), IDEE Consulting Srl (IDEE Partners being its trade name) is a firm specialised in the product development, design and production of luxury leather goods, mainly bags and small accessories. It is a valuable partner for the most important global luxury brands. IDEE has a workforce of some 120 employees, able to internally manage the entire value chain from product development to design and production. In 2021, IDEE acquired 60% of Petri & Lombardi, a thirty-year-old historical firm specialised in the production of leather goods and headquartered in Bientina (Siena, Tuscany region). Petri & Lombardi has a workforce of 25 employees.

A fairly priced acquisition: 7.0x EBITDA_{21e}

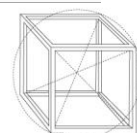
Pattern purchases 54% of the company for € 4.0m, including a price adjustment mechanism according to IDEE's NFP reached at end-Oct. The closing is expected to take place no later than November 30th. The price corresponds to 7.0x pro-forma EBITDA_{21e} (IDEE+Petri & Lombardi), and it compares with 11.4x of Pattern's current market valuation, 10.3x of the median of a domestic B2B player sample and 13.2x of the median of a luxury player panel. IDEE is projected to achieve € 12m sales (including Petri & Lombardi's) and an EBITDA of € 1.2m (10.0% margin) in 2021. NFP is projected at € 1m (debt) in 2021. Petri & Lombardi is projected to achieve € 2m sales and an EBITDA of € 0.2m (10.0% margin) in 2021. NFP is anticipated to reach € 0.3m (cash).

Thanks to IDEE's selling proposition, share of wallet and client portfolio increase

Pattern is definitely delivering what it announced at the time of the IPO: this fairly priced acquisition in the leather goods niche, a highly synergic segment in which the group was not present, is another step toward the creation of an Italian leading hub of luxury fashion engineering. The group will expand its customer base by adding a few new clients. Pattern already has a brilliant track record in terms of exogenous growth thanks to the acquisition of Roscini (female outerwear) and SMT (knitwear): Roscini has helped PTR gain traction in its original business, whereas SMT has sustained it in coping with the pandemic situation.

Pattern, key financials and ratios

€ m	2019	2020	2021e	2022e	2023e
Value of Production	55.3	54.0	62.7	83.7	96.1
EBITDA	5.9	5.4	6.9	9.9	12.3
EBIT	5.5	3.6	4.8	7.5	9.8
Net profit	3.8	2.3	2.8	4.2	5.6
NFP (cash)/debt	(12.4)	(8.8)	(3.4)	(7.9)	(12.8)
EBITDA margin	10.7%	10.0%	11.0%	11.9%	12.8%
EBIT margin	9.9%	6.6%	7.6%	8.9%	10.1%
EPS	0.27	0.16	0.20	0.30	0.40
EPS growth	7.6%	-40.1%	25.4%	48.0%	32.5%
Dividend	0.05	0.00	0.07	0.11	0.14
Dividend Yield	0.8%	0.0%	1.2%	1.8%	2.4%
ROCE	24.1%	9.3%	11.5%	16.5%	19.5%
NWC/Sales	4.6%	6.1%	7.7%	6.7%	6.9%
Free Cash Flow Yield	2.5%	-0.1%	-6.6%	6.8%	7.7%
PER x	10.9	30.2	28.7	19.4	14.6
EV/Sales x	0.69	0.85	1.25	0.88	0.72
EV/EBITDA x	5.4	9.2	11.4	7.4	5.6
EV/EBIT x	5.7	14.6	16.5	9.9	7.1



The Company at a Glance

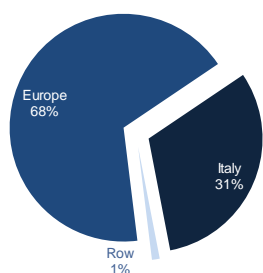
Founded in 2000 by Fulvio Botto and Francesco Martorella (group directors and major shareholders with a 34.3% stake each), Pattern is the second Italian player (CFO SIM estimate) specialised in the modelling, engineering, grading, prototyping and production of luxury clothing for men and women, and the 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 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.

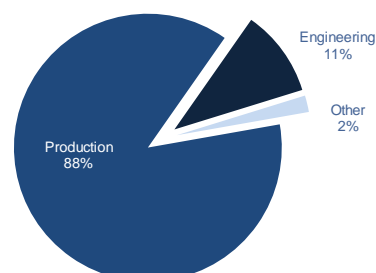
Since 2015, Pattern has voluntarily been drawing up sustainability reports according to the reporting guidelines of the Global Reporting Initiative (GRI Standards), focusing its attention on Corporate Social Responsibility principles.

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.

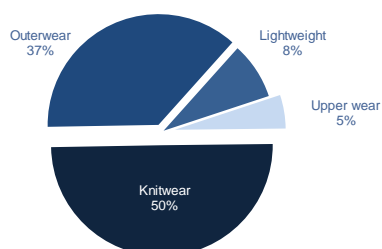
2020 breakdown by geography...



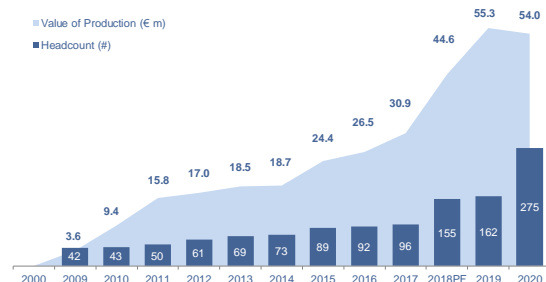
... by service...



...and by product line



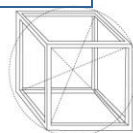
Top line and headcount evolution



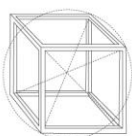
Peers group multiples table

EV multiples x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3	EBIT FY1	EBIT FY2	EBIT FY3
Burberry Group PLC	2.39	2.24	2.09	9.3	8.3	7.5	14.2	12.4	11.2
Capri Holdings Ltd	2.41	2.14	1.22	8.4	7.1	5.6	10.5	8.6	6.8
Compagnie Financiere Richemont	3.08	2.81	2.59	12.6	11.0	9.6	18.9	15.9	13.7
Hermes International SCA	15.12	13.33	11.92	34.6	31.4	27.9	40.1	36.3	32.2
Kering SA	5.01	4.51	4.13	13.8	12.3	11.0	17.9	15.6	13.9
LVMH Moet Hennessy Louis Vuitton	5.73	5.12	4.68	16.8	15.3	13.8	22.9	20.2	17.9
Median Luxury	4.05	3.66	3.36	13.2	11.6	10.3	18.4	15.7	13.8
Brembo SpA	1.57	1.42	1.30	8.1	7.3	6.6	13.9	12.0	10.6
Eurotech SpA	2.54	1.65	1.17	65.8	9.0	4.7	-95.2	12.0	5.5
Fine Foods & Pharmaceuticals	1.76	1.51	1.45	12.4	10.1	9.5	23.4	18.7	17.5
Sabaf SpA	1.46	1.51	1.39	6.5	7.0	6.3	9.3	10.7	9.2
Median domestic B2B	1.66	1.51	1.34	10.3	8.2	6.5	11.6	12.0	9.9
Pattern SpA	1.25	0.88	0.72	11.4	7.4	5.6	16.5	9.9	7.1

Sources: CFO Sim, Eikon



Income statement (€ m)	2019	2020	2021e	2022e	2023e
Revenues	55.6	52.6	62.5	83.5	95.9
Value of Production	55.3	54.0	62.7	83.7	96.1
Raw material and processing	(16.5)	(15.5)	(18.2)	(24.3)	(27.9)
Services	(23.0)	(19.0)	(23.2)	(31.0)	(35.8)
Personnel expenses	(9.2)	(12.4)	(13.8)	(17.7)	(19.2)
Other opex	(0.7)	(1.7)	(0.6)	(0.8)	(1.0)
EBITDA	5.9	5.4	6.9	9.9	12.3
D&A	(0.5)	(1.8)	(2.1)	(2.5)	(2.5)
EBIT	5.5	3.6	4.8	7.5	9.8
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	7.4	9.7
Income taxes	(1.6)	(0.5)	(1.4)	(2.2)	(2.9)
Minorities	0.0	(0.7)	(0.5)	(1.0)	(1.2)
Net Profit	3.8	2.3	2.8	4.2	5.6
Net Profit adj.	4.7	1.8	2.8	4.2	5.6
EBITDA Adjusted	7.2	4.9	6.9	9.9	12.3
Balance sheet (€ m)	2019	2020	2021e	2022e	2023e
Net Working Capital	2.5	3.3	4.8	5.6	6.6
Net Fixed Assets	2.5	10.7	15.8	14.0	12.1
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	20.4	19.1	18.3
Net Financial Debt	(12.4)	(8.8)	(3.4)	(7.9)	(12.8)
Minorities	0.0	2.0	2.5	3.4	4.6
Group's Shareholders Equity	17.4	18.9	21.3	23.6	26.5
Financial Liabilities & Equity	5.0	12.2	20.4	19.1	18.3
Cash Flow statement (€ m)	2019	2020	2021e	2022e	2023e
Total net income	3.8	2.3	2.8	4.2	5.6
Depreciation	0.5	1.8	2.1	2.5	2.5
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	7.0	8.0
Change in NWC	0.2	0.1	(1.5)	(0.8)	(1.0)
FCF from Operations (FCFO)	3.9	5.1	1.9	6.2	7.0
Net Investments (CFI)	(1.9)	(5.2)	(7.2)	(0.7)	(0.7)
Free CF to the Firm (FCFF)	2.0	(0.1)	(5.4)	5.5	6.3
CF from financials (CFF)	7.8	7.5	0.2	(0.8)	(1.2)
Free Cash Flow to Equity (FCFE)	9.9	7.4	(5.1)	4.8	5.1
Financial ratios	2019	2020	2021e	2022e	2023e
EBITDA margin	10.7%	10.0%	11.0%	11.9%	12.8%
EBIT margin	9.9%	6.6%	7.6%	8.9%	10.1%
Net profit margin	6.9%	4.2%	4.5%	5.0%	5.8%
Tax rate	30.2%	13.2%	30.0%	30.0%	30.0%
Op NWC/Sales	4.6%	6.1%	7.7%	6.7%	6.9%
Interest coverage x	0.01	0.03	0.01	0.01	0.01
Net Debt/EBITDA x	(2.08)	(1.63)	(0.50)	(0.80)	(1.04)
Debt-to-Equity x	(0.71)	(0.46)	(0.16)	(0.34)	(0.48)
ROIC	75.7%	18.7%	14.0%	22.1%	30.5%
ROCE	24.1%	9.3%	11.5%	16.5%	19.5%
ROACE	32.8%	11.7%	11.9%	17.2%	20.5%
ROE	21.8%	12.0%	13.3%	17.9%	21.1%
Payout ratio	18.6%	0.0%	35.9%	35.9%	35.9%
Per share figures	2019	2020	2021e	2022e	2023e
Number of shares # m	14.08	14.08	14.08	14.08	14.08
Number of shares Fully Diluted # m	14.08	14.08	14.08	14.08	14.08
Average Number of shares Fully Diluted # m	14.08	14.08	14.08	14.08	14.08
EPS stated FD €	0.27	0.16	0.20	0.30	0.40
EPS adjusted FD €	0.33	0.13	0.20	0.30	0.40
EBITDA €	0.42	0.38	0.49	0.70	0.87
EBIT €	0.39	0.25	0.34	0.53	0.69
BV €	1.24	1.49	1.69	1.92	2.21
FCFO €	0.28	0.36	0.13	0.44	0.50
FCFF €	0.15	(0.01)	(0.38)	0.39	0.45
FCFE €	0.70	0.52	(0.36)	0.34	0.36
Dividend €	0.05	0.00	0.07	0.11	0.14



The target: IDEE Consulting, luxury leather goods niche

Established in 2008 and headquartered in Scandicci (Florence), IDEE Consulting (IDEE Partners being its trade name) is a firm specialised in the **product development, design and production of luxury leather goods**, mainly bags and small accessories. It is a valuable partner for the most important global luxury brands. IDEE has a workforce of some 120 employees, able to internally manage the **entire value chain from product development to design and production**.

In 2021, IDEE acquired **60% of Petri & Lombardi**, a thirty-year-old historical firm specialised in the production of leather goods and headquartered in Bientina (Siena, Tuscany region). Petri & Lombardi has a workforce of 25 employees.

The deal: Pattern pays 7.0x EBITDA_{21e}

Pattern purchases 54% of the company for € 4.0m, including a price adjustment mechanism (in price reduction) according to IDEE's NFP reached at end-Oct. The closing is expected to take place no later than November 30th. **The price corresponds to 7.0x 2021 pro-forma EBITDA** (IDEE + Petri & Lombardi), and it compares with 11.4x of Pattern's current market valuation, 10.3x of the median of a domestic B2B player sample and 13.2x of the median of a luxury player panel. IDEE is projected to reach € 12m sales (including Petri & Lombardi's) and an EBITDA of € 1.2m (10.0% margin) in 2021. NFP is projected at € 0.9m (debt) in 2021 (0.75x EBITDA). Petri & Lombardi is projected to achieve € 2m sales and an EBITDA of € 0.2m (10.0% margin) in 2021. NFP is anticipated to reach € 0.3m (cash).

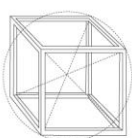
The agreement includes the purchase of 54% of the company, 50.9% of which from Idee Holding S.r.l. (a company that holds 96.9% of Idee Consulting Srl) and 3.1% directly from one of the founders, Alex Albini. As a result of the transaction, Idee Consulting will be 54% owned by Pattern and 46% owned by Idee Holding S.r.l.

In addition, the agreement provides for: 1) **a 5Y lock-up period** for Idee Holding S.r.l. as to Idee Consulting's shares; 2) the **appointment of a new Board of Directors** for Idee Consulting S.r.l. consisting of 5 members, 3 of which to be chosen by Pattern, 1 to be chosen by Idee Holding S.r.l. and 1 (non-executive) to be appointed on the basis of a mutual agreement between the parties; 3) the appointment of **Claudio Delunas as CEO of Idee Consulting S.r.l.** and 4) the appointment of a **new Board of Statutory Auditors**.

Our view: a highly synergic move

Pattern is definitely delivering what it announced at the time of the IPO: this fairly priced acquisition in the leather goods niche, a highly synergic segment in which the group was not present, is another step toward the creation of Italy's **leading hub for luxury fashion engineering**. The group will expand its customer base by adding a few new luxury brands to its portfolio (+2) and internalise the key production of leather goods optimising time and logistics. **Luxury players appreciate the group's growing integration into production especially in the leather goods segment.**

Pattern already has an excellent track record in terms of M&A and their integration thanks to the successful purchases of Roscini (female outerwear, before the IPO) and S.M.T. (knitwear at the end of 2019): Roscini has helped Pattern gain traction in its original business, whereas S.M.T. has sustained it in coping with the pandemic situation by posting positive growth in 2020, thanks to its resilient profile.



Estimates, Valuation & Risks

The acquisition of IDEE brings in € 9.0m (€ 0.60/s) additional value to Pattern. In addition, the move is accretive at the EBITDA and Net Profit level, already as from 2022, the first year of full consolidation. We have updated our model to factor in the IDEE consolidation: the result is a 18.2% and 17.4% rise in EBITDA in 2022-23 and a 11.1% and 9.0% bottom line increase vs. our previous assumptions.

Table 1 – Pattern, 2021e new/old estimates

€ m	New	Old	% Diff.	€ m Diff.
Value of Production	62.7	62.7	0.0	0.0
EBITDA	6.9	6.9	0.0	0.0
% margin	11.0	11.0		
EBIT	4.8	4.8	(0.5)	(0.0)
% margin	7.6	7.6		
Net Profit	2.8	2.9	(0.5)	(0.0)
% margin	4.5	4.6		
Y/E net debt (net cash)	(3.4)	(7.4)	(54.1)	4.0

Source: CFO Sim

Table 2 – Pattern, 2022e new/old estimates

€ m	New	Old	% Diff.	€ m Diff.
Value of Production	83.7	70.2	19.2	13.5
EBITDA	9.9	8.4	18.2	1.5
% margin	11.9	12.0		
EBIT	7.5	6.3	17.8	1.1
% margin	8.9	9.0		
Net Profit	4.2	3.8	11.1	0.4
% margin	5.0	5.4		
Y/E net debt (net cash)	(7.9)	(12.0)	(33.7)	4.0

Source: CFO Sim

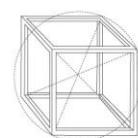
Table 3 – Pattern, 2023e new/old estimates

€ m	New	Old	% Diff.	€ m Diff.
Value of Production	96.1	80.6	19.2	15.5
EBITDA	12.3	10.5	17.4	1.8
% margin	12.8	13.0		
EBIT	9.8	8.4	16.3	1.4
% margin	10.1	10.4		
Net Profit	5.6	5.1	9.0	0.5
% margin	5.8	6.4		
Y/E net debt (net cash)	(12.8)	(16.2)	(21.1)	3.4

Source: CFO Sim

Pattern's key strengths in these still rather difficult business conditions are 1) the ability to work on **different areas (men, women, knitwear and the recently added leather goods segment) and to deal with different customers**, 2) remarkable **technological expertise** for the remote development of collections via a 3D pattern-making technique, 3) high **customer loyalty**, 4) a flexible manufacturing structure with a large portion of **outsourced production** (70% 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 € 8.20/s (€ 7.60), 37.6% upside**. The balance sheet solidity and a considerable cash pile at end-21 allow Pattern to consider another round of acquisitions, adding further appeal to the stock, after giving it some thoughts in the months following the acquisition of IDEE.



DCF

In the valuation via the DCF method, we determine the company's value by identifying an explicit forecast period until 2025 and then by cautiously assuming a long-term growth rate of 1.0%. Cash flows are discounted back at a weighted average cost of capital, calculated according to the following parameters:

Table 5 - WACC derived from:

Interest costs, pre-tax	2.0%
Tax rate	30.0%
Int. costs, after taxes	1.4%
Risk premium, incl. small size premium	9.0%
Risk-free (10Y Gov. Bond 200gg simple moving average)	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 concerns and disquiet that an investor might have with regard to the Euronext Growth Milan market segment. **Beta at 1** has been set prudentially, taking into account the company's lower liquidity. Indeed, the 5Y Beta calculated using the domestic B2B peer group is 0.80x. **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	7.5	9.8	11.2	12.9	
Tax rate	30.0%	30.0%	30.0%	30.0%	30.0%	
Operating profit (NOPAT)	3.3	5.2	6.8	7.8	9.0	
Change working capital	(1.5)	(0.8)	(1.0)	(0.1)	(0.1)	
Depreciation	2.1	2.5	2.5	1.4	0.3	
Investments	(7.2)	(0.7)	(0.7)	(0.3)	(0.3)	
Free Cash Flows	(3.3)	6.2	7.7	8.9	8.9	127.9
Present value	(3.2)	5.7	6.5	6.9	6.5	92.6
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	114.9
	<i>thereof terminal value</i>
	80.6%
NFP last reported	8.8
Pension provision	(1.7)
Minorities (valued at acquisition 9.0x PER)	(6.0)
Equity value € m	116.0
#m shares	14.08
Equity value €/s	8.20
% upside/(downside)	37.6%

Source: CFO Sim

By applying our DCF model, we attained an equity value of € 116.0m (€ 8.20/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 **€ 7.36-9.40/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 **€ 7.51-9.00/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 **€ 6.63-10.79/s (risk premium range between 11.0% and 7.00%)**.

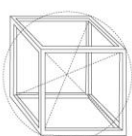


Table 8 – Pattern, equity value sensitivity to changes in terminal growth rate

€ m	0.00%	0.25%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%
Present value of CF	22.3	22.3	22.3	22.3	22.3	22.3	22.3	22.3	22.3
PV of terminal value	80.3	83.1	86.0	89.2	92.6	96.3	100.2	104.4	109.0
Total value	102.6	105.4	108.3	111.5	114.9	118.6	122.5	126.7	131.3
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	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)
Equity value	103.6	106.4	109.4	112.6	116.0	119.6	123.5	127.8	132.3
Equity value/share €	7.36	7.56	7.77	8.00	8.20	8.50	8.78	9.08	9.40

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	22.7	22.6	22.5	22.4	22.3	22.2	22.1	22.0	21.9
PV of terminal value	103.0	101.2	98.2	95.3	92.6	90.0	87.5	85.1	82.8
Total value	125.6	123.9	120.7	117.8	114.9	112.2	109.6	107.1	104.7
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	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)
Equity value	126.7	124.9	121.8	118.8	116.0	113.2	110.6	108.2	105.8
Equity value/share €	9.00	8.87	8.65	8.44	8.20	8.05	7.86	7.68	7.51

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	23.4	23.1	22.8	22.6	22.3	22.0	21.8	21.6	21.3
PV of terminal value	127.5	116.9	107.8	99.7	92.6	86.3	80.6	75.6	71.0
Total value	150.9	140.0	130.6	122.3	114.9	108.3	102.4	97.1	92.3
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	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)
Equity value	151.9	141.1	131.6	123.3	116.0	109.4	103.5	98.2	93.3
Equity value/share €	10.79	10.02	9.35	8.76	8.20	7.77	7.35	6.97	6.63

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

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

Hermes International SCA: founded in 1837, it is an independent, family-owned company dedicated to keeping the essential element of production in France through its 42 workshops and to developing its network of 310 stores in over 49 countries.

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

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

Amongst B2B Italian companies, we selected the following:

Eurotech SpA: it is engaged in the research, development, production, and marketing of miniaturized 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.

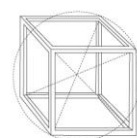


Table 11 - Pattern, peer group summary table

€ 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	9,091	3,266	842	25.8%	10.9%	9.5%	13.8%	10.5%	(1,285)	n.m.
Capri Holdings Ltd	US	6,899	3,266	937	28.7%	26.4%	34.2%	46.2%	15.3%	971	1.0
Compagnie Financiere Richemont	F	55,452	16,740	4,094	24.5%	14.2%	22.5%	39.3%	16.1%	(3,854)	n.m.
Hermes International SCA	F	140,826	8,938	3,902	43.7%	20.1%	22.9%	26.3%	10.6%	(5,661)	n.m.
Kering SA	F	80,949	16,924	6,159	36.4%	15.7%	15.4%	19.8%	14.2%	3,810	0.6
LVMH Moet Hennessy Louis Vuitton	F	335,050	61,019	20,767	34.0%	18.0%	23.2%	31.2%	11.2%	14,714	0.7
Median Luxury		68,200	12,839	3,998	31.4%	16.8%	22.7%	28.7%	12.7%	(157)	0.7
Brembo SpA	IT	3,774	467	55	11.7%	11.3%	16.5%	29.3%	12.7%	106	1.9
Eurotech SpA	IT	182	69	3	3.9%	20.1%	65.0%	113.7%	#NUM!	(6)	n.m.
Fine Foods & Pharmaceuticals	IT	392	219	31	14.2%	19.0%	27.5%	35.8%	22.2%	(7)	n.m.
Sabaf SpA	IT	311	262	59	22.5%	13.8%	17.3%	26.7%	0.3%	72	1.2
Median domestic B2B		352	240	43	12.9%	16.4%	22.4%	32.5%	#NUM!	33	1.6
Pattern SpA	IT	82	63	7	11.0%	22.2%	36.0%	47.1%	40.0%	(3)	n.m.

Sources: CFO Sim, Thomson Reuters Eikon

Table 12 - Pattern, peer group EV multiple table

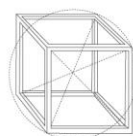
x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3
Burberry Group PLC	2.39	2.24	2.09	9.3	8.3	7.5
Capri Holdings Ltd	2.41	2.14	1.22	8.4	7.1	5.6
Compagnie Financiere Richemont	3.08	2.81	2.59	12.6	11.0	9.6
Hermes International SCA	15.12	13.33	11.92	34.6	31.4	27.9
Kering SA	5.01	4.51	4.13	13.8	12.3	11.0
LVMH Moet Hennessy Louis Vuitton	5.73	5.12	4.68	16.8	15.3	13.8
Median Luxury	4.05	3.66	3.36	13.2	11.6	10.3
Brembo SpA	1.57	1.42	1.30	8.1	7.3	6.6
Eurotech SpA	2.54	1.65	1.17	65.8	9.0	4.7
Fine Foods & Pharmaceuticals	1.76	1.51	1.45	12.4	10.1	9.5
Sabaf SpA	1.46	1.51	1.39	6.5	7.0	6.3
Median domestic B2B	1.66	1.51	1.34	10.3	8.2	6.5
Pattern SpA	1.25	0.88	0.72	11.4	7.4	5.6
% premium/(discount) to luxury peers	(69.0)	(75.9)	(78.6)	(13.7)	(36.0)	(45.4)
% premium/(discount) to domestic B2B peers	(24.7)	(41.5)	(46.4)	10.6	(8.8)	(13.4)

Sources: CFO Sim, Thomson Reuters Eikon

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

x	EBIT FY1	EBIT FY2	EBIT FY3	PER FY1	PER FY2	PER FY3
Burberry Group PLC	14.2	12.4	11.2	22.1	19.2	18.1
Capri Holdings Ltd	10.5	8.6	6.8	11.1	9.6	8.4
Compagnie Financiere Richemont	18.9	15.9	13.7	27.1	22.6	20.1
Hermes International SCA	40.1	36.3	32.2	61.1	55.8	49.9
Kering SA	17.9	15.6	13.9	25.3	21.8	19.4
LVMH Moet Hennessy Louis Vuitton	22.9	20.2	17.9	31.4	28.3	25.4
Median Luxury	18.4	15.7	13.8	26.2	22.2	19.7
Brembo SpA	13.9	12.0	10.6	17.5	15.2	13.8
Eurotech SpA	(95.2)	12.0	5.5	(49.9)	12.0	6.4
Fine Foods & Pharmaceuticals	23.4	18.7	17.5	30.4	23.0	20.4
Sabaf SpA	9.3	10.7	9.2	10.6	12.5	10.5
Median domestic B2B	11.6	12.0	9.9	14.1	13.8	12.2
Pattern SpA	16.5	9.9	7.1	28.7	19.4	14.6
% premium/(discount) to luxury peers	(10.5)	(37.2)	(48.8)	9.6	(12.7)	(25.8)
% premium/(discount) to domestic B2B peers	42.1	(17.5)	(28.8)	104.1	40.2	20.4

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 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 indexes absolute performance

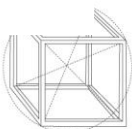
	1D	1W	1M	3M	6M	YTD	1Y
Burberry Group PLC	(0.4)	1.1	4.5	(9.4)	(9.2)	5.8	34.4
Capri Holdings Ltd	(3.3)	1.7	2.8	6.6	(4.7)	25.4	132.8
Compagnie Financiere Richemont	(0.7)	3.3	15.8	(2.2)	20.3	41.5	86.3
Hermes International SCA	(1.1)	1.9	10.4	3.0	27.1	51.8	61.7
Kering SA	(0.1)	0.2	5.1	(14.5)	(0.5)	9.0	18.8
LVMH Moet Hennessy Louis Vuitton	(0.1)	1.2	6.2	(3.5)	4.9	30.0	58.6
Median Luxury	(0.6)	1.5	5.6	(2.8)	2.2	27.7	60.2
Brembo SpA	(0.2)	(6.7)	1.5	10.8	1.1	(0.8)	51.1
Eurotech SpA	(1.4)	(1.9)	2.3	30.4	35.9	69.5	84.3
Fine Foods & Pharmaceuticals	(0.2)	2.1	3.5	2.6	6.1	4.7	25.2
Sabaf SpA	1.1	7.6	17.9	3.1	17.4	79.4	114.3
Median domestic B2B	(0.2)	0.1	2.9	6.9	11.7	37.1	67.7
Pattern SpA	3.1	7.2	28.2	23.7	24.2	49.0	64.6
MSCI World Index	(0.7)	1.2	5.2	(3.8)	9.6	45.6	74.6
EUROSTOXX	(1.1)	1.9	10.4	3.0	27.1	51.8	61.7
FTSE Italia All Share	(0.1)	0.2	5.1	(14.5)	(0.5)	9.0	18.8
FTSE Italia STAR	(0.1)	1.2	6.2	(3.5)	4.9	30.0	58.6
FTSE Italia Growth	(0.7)	3.3	15.8	(2.2)	20.3	41.5	86.3

Source: Thomson Reuters Eikon

Table 15 - Pattern relative performances

	1D	1W	1M	3M	6M	YTD	1Y
to MSCI World Index	3.9	6.0	22.9	27.5	14.6	3.4	(9.9)
to EUROSTOXX	4.2	5.2	17.8	20.6	(2.9)	(2.8)	2.9
to FTSE Italia All Share	3.2	7.0	23.1	38.1	24.6	40.0	45.9
to FTSE Italia STAR	3.2	5.9	22.0	27.1	19.3	19.0	6.0
to FTSE Italia Growth	3.9	3.9	12.4	25.9	3.8	7.5	(21.7)
to Domestic B2B Peer Median	3.3	7.1	25.3	16.7	12.4	11.9	(3.0)
to Luxury Peer Median	3.7	5.7	22.5	26.5	21.9	21.3	4.5

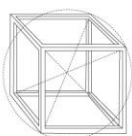
Source: Thomson Reuters Eikon



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.

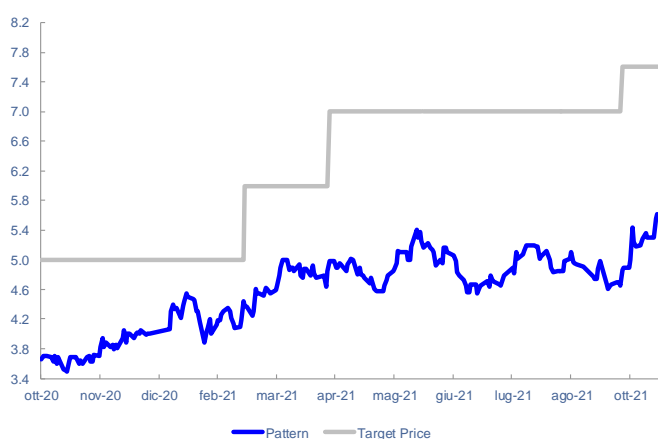
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DATE	TARGET PRICE	RATING
28/10/2021	€8.20	BUY
29/09/2021	€7.60	BUY
28/05/2021	€7.00	BUY
08/04/2021	€7.00	BUY
26/02/2021	€6.00	BUY
17/02/2021	€6.00	BUY

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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% 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.

