

Italy – Luxury Engineering

Catwalk to the Stock Exchange

27th September 2019

INITIATION OF COVERAGE

RIC: PTRN.MI
BBG: PTR IM

Pattern is a rare and unique player when compared with the traditional luxury sector. It intercepts all the megatrends shaping the new luxury fashion market. It went public to feed and accelerate its developmental growth journey boasting superior rates of return on capital, an asset light structure, first-rate financial discipline and visibility.

Rating:

Buy

Price Target:

€ 5.10

Upside/(Downside): 37.8%

Last Price: € 3.70

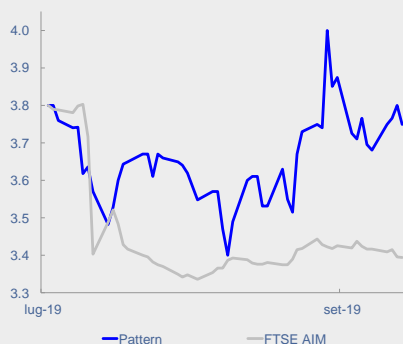
Market Cap.: € 50.4m

1Y High/Low: € 4.00 / € 3.30

Free Float: 28.2%

Major shareholders:

Bo.Ma. Holding Srl	55.2%
Fulvio Botto	6.6%
Francesco Martorella	6.6%
Anna Maria Roscini	2.0%
Luca Sburlati	1.2%



Stock price performance

	1M	3M	12M
Absolute	6.3%	n.a.	n.a.
Rel.to AIM Italia	7.8%	n.a.	n.a.
Rel.to Sector	5.0%	n.a.	n.a.

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Buy, PT of € 5.10/s, 37.8% upside

CFO Sim initiates coverage of Pattern with a Buy recommendation and PT of € 5.10/s, 37.8% upside. We believe that a market multiples comparison is the most appropriate methodology to get a reasonable valuation. Since there is no real comparable listed, we set up a sample of luxury firms, to obtain an idea of the expected top line progression, and of a few domestic B2B players: if we apply the median 2019e EV/EBITDA, EV/EBIT and PER multiple of the latter group to Pattern metrics, we get an appraisal of Pattern of € 5.10/s.

The third domestic player in the “Made in Italy” luxury fashion engineering niche

Founded in 2000 by Fulvio Botto and Francesco Martorella (group directors and major shareholders), Pattern is the third Italian player specialised in 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 first lines of the most prestigious global luxury brands. The group manages the entire design and production cycle from patterns to prototypes, to the creation of ready-to-wear garments and successive productions. Pattern operates in the high value added engineering and design phases whilst the production is outsourced to a plethora of suppliers.

Sales and EBITDA CAGR₁₈₋₂₁ of 13.2% and 15.2%. 45% EBITDA/FCF conversion

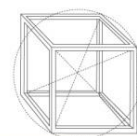
Our estimates show top line CAGR₁₈₋₂₁ of 13.2% and more than proportional progression of margins as a result of the successful exploitation of the Roscini structure, a moderate volume effect on fixed costs and a few profitable new clients: EBITDA, EBIT and Net Profit CAGR₁₈₋₂₁ is 15.2%, 14.9% and 14.0% respectively. Dividend pay-out is set at 35%. Pattern is a virtuous FCF generator: EBITDA/FCF conversion is 19% in 2019 and 58% in 2020-21 on average. ROCE and ROE figures are outstanding at 46.3% and 52.4% in 2018PF. CF to equity allows Pattern to reach € 17.9m net cash position in 2021.

Increase client portfolio, M&A, hi-tech development and focus on ESEMPLARE

The group went public to feed and accelerate its development and growth journey. The strategy is based on four pillars: 1) organic growth: increase its client portfolio, gaining new partnerships and strengthening existing relationships; 2) acquisitions: look for M&A opportunities in diverse product categories, specifically knitwear, leather apparel and accessories; 3) technological development: continue to invest in product/technology in addition to a new innovative warehouse equipped with the RFID blockchain technology; 4) ESEMPLARE: continue to exploit the proprietary brand recognised for its sustainable approach and innovative technology solutions such as its R&D tool platform.

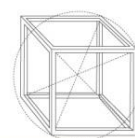
Pattern, key financials and ratios

€ m	2018PF	2019e	2020e	2021e
Value of Production	44.3	54.3	59.0	63.7
EBITDA	5.4	6.5	7.2	8.3
EBIT	4.9	5.8	6.4	7.5
Net profit	3.6	4.2	4.6	5.4
NFP (cash)/debt	(3.9)	(11.9)	(14.3)	(17.9)
EBITDA margin	12.2%	12.0%	12.2%	13.0%
EBIT margin	11.1%	10.6%	10.8%	11.8%
EPS	0.27	0.31	0.34	0.39
EPS growth	-	15.1%	9.5%	17.4%
Dividend	-	0.13	0.11	0.12
Dividend Yield	-	3.6%	2.9%	3.2%
ROCE	46.3%	26.5%	25.6%	26.0%
NWC/Sales	6.2%	5.9%	6.0%	6.0%
Free Cash Flow Yield	-	2.5%	7.7%	10.3%
PER x	13.9	12.1	11.0	9.4
EV/Sales x	1.05	0.71	0.61	0.51
EV/EBITDA x	8.6	5.9	5.0	3.9
EV/EBIT x	9.4	6.7	5.6	4.3





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1. Investment Summary

Pattern is a **rare and unique player** when compared with the traditional luxury sector. **It intercepts all the megatrends shaping the new luxury fashion market.** Due to its technological advance, its track record and expertise, Pattern has built over the years a **relevant set of entry barriers to protect its excellent growth trend.** Opportunities to step into **new segments would add contracts** from new clients as well as from existent ones. Superior **rates of return on capital**, an **asset light structure**, **excellent financial discipline**, huge CF gen./conv., visibility (50-60% on FY sales) and cash positive position: all make for an exciting equity story.

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

Pattern operates two plants: the historical facility of Collegno (Turin) and the recently acquired production structure of Spello (Perugia), following the acquisition of Roscini Atelier in 2017. **The company offers an outstanding growth profile: 32.2% and 19.1% sales CAGR** in 2009-18 and 2013-18, respectively. Organically, the figures are 30.1% and 15.8%. In 2018PF revenues were € 44.3m, EBITDA reached € 5.4m, 12.2% margin. EBIT stood at € 4.9m and Net Income totalled € 3.6m. NFP was € 3.9m cash, thanks to strong CF generation, limited Capex and WC needs.

The group went public to feed and accelerate its development and growth journey. The strategy is based on four pillars: 1) **organic growth:** increase its client portfolio, gaining new partnerships and strengthening existing relationships; 2) **acquisitions:** look for M&A opportunities in diverse product categories, specifically knitwear and leather apparel and accessories; 3) **technological development:** continue to invest in product/technology in addition to a new innovative warehouse equipped with the RFID blockchain technology; 4) **ESEMPLARE:** continue to exploit the proprietary brand known for its sustainable approach and innovative technology solutions as its R&D tool platform.

Our estimates show top line CAGR₁₈₋₂₁ of 13.2% and more than proportional progression of margins as a result of successful exploitation of the Roscini structure, a moderate volume effect on fixed costs and a few profitable new clients: EBITDA, EBIT and Net Profit CAGR₁₈₋₂₁ is 15.2%, 14.9% and 14.0% respectively. **Dividend pay-out is set at 35%.** Pattern is a virtuous FCF generator: **EBITDA/FCF conversion is 19% in 2019 and 58% in 2020-21** on average. **ROCE and ROE figures are outstanding at 46.3% and 52.4% in 2018PF.** CF to equity allows Pattern to reach € 17.9m net cash position in 2021.

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The key investment **risks** in Pattern include: 1) client concentration; 2) loss of reputation; 3) ability to manage investments and to find sources to support growth; 4) consolidation process may put the firms market share under pressure; 5) impact on economics and balance sheet triggered by a decline in global economics or geopolitical instability; 6) departure of key people; 7) M&A might be hampered by other consolidating actors with huge firepower.

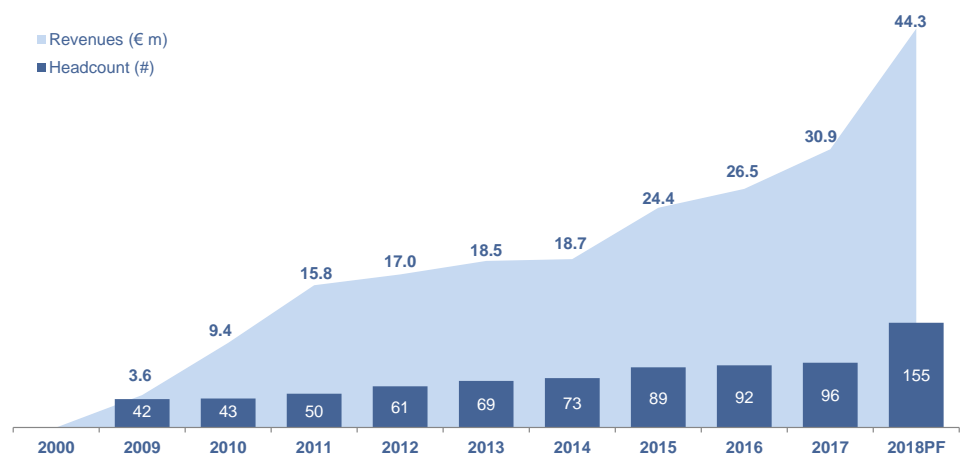


2. Pattern in a Nutshell

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

Pattern operates two plants: the historical facility of Collegno (Turin) and the recently acquired production structure of Spello (Perugia), following the acquisition of Roscini Atelier in 2017. **The company offers an outstanding growth path since its establishment: 32.2% and 19.1% sales CAGR in 2009-18 and 2013-18, respectively.** Organically, the figures are 30.1% and 15.8%, in the same period.

Chart 1 – Pattern, 2000-18 top line and headcount evolution



Source: Company data

Pattern's global **export sales exceeds 80% of total revenues. 90% of revenues comes from production**, engineering processes account for 10%. **Male apparel contributes for the bulk of top line, 75% of total** and female, thanks to the acquisition of Roscini Atelier in 2017, now accounts for 25% of total revenues. In terms of products, **outerwear represents the vast part of group turnover, 77% of total**, trouser/skirt and suits stand for 9% and 7% of the turnover whilst the remainder is represented by upper wear and other items.

Chart 2 – Pattern, 2018PF top line breakdown by geography and service



Source: Company data

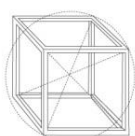
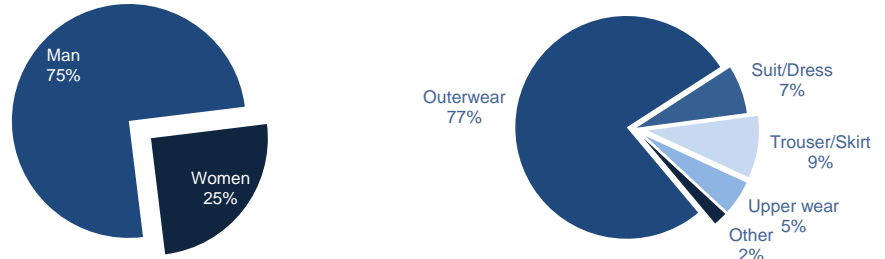


Chart 3 – Pattern, 2018PF top line breakdown by product line

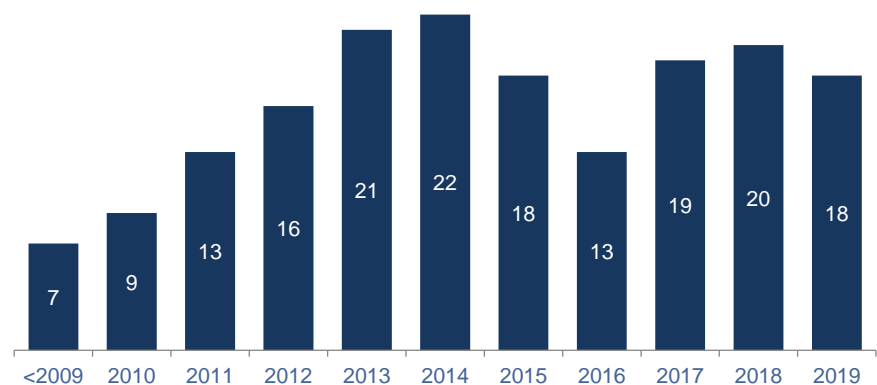


Source: Company data

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

Pattern has a total of some 20 clients at the end of 2018, amongst domestic and global brands operating in the absolute luxury clothing sector. **The client loyalty is very high:** 81% of customers have chosen Pattern as their engineering, developing, producing and technology solution partner for over 10 years and 12% for a period between 3-10 years. **Burberry, Hermès, John Galiano, Kering** (with 2 brands), **LVMH** (with **Berluti, Celine, Dior, Fendi**), **Tom Ford, Tommy Hilfiger, Richemont** are few of the most remarkable absolute luxury brands boasted in the Pattern customer portfolio.

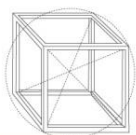
Chart 4 – Pattern, group's active partnerships evolution



Source: Company data

In 2018, pro forma revenues were € 44.3m, EBITDA reached € 5.4m, 12.2% margin. EBIT stood at € 4.9m and Net Income totalled € 3.6m. Net Financial Position was € 3.9m cash, thanks to strong operating cash-flow generation, limited Capex and Working Capital needs.

Since 2015, Pattern voluntarily draws up the **sustainability report** according to the reporting guidelines of the Global Reporting Initiative (GRI Standard), underlining its attention to the *Corporate Social Responsibility* principles. The company is also committed to achieve the objectives set out from the United Nation's **Sustainability Developments Goals**, following four specific goals are: 1) gender equality, 2) decent work and economic growth, 3) industry innovation and infrastructure and 4) responsible production and consumption. **In an industry where sustainability is increasingly becoming a customer request, Pattern has a strong competitive advantage vs. its competitors.** From the environmental point of view, **Pattern has implemented a five year plan to become Carbon Neutral by 2022.**



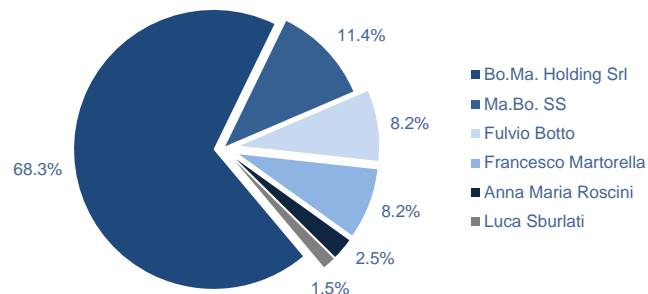
3. IPO Structure

The IPO encompassed both a **primary and secondary offering, for a total amount of € 12.5m**. The **capital increase was € 8.5m**, on offer to professional investors. The two founders Fulvio Botto and Francesco Martorella, who owned overall 96.0% of Pattern at the time of the IPO (directly and through Bo.Ma. Holding Srl and Ma.Bo. SS), **sold € 2.5m**.

Moreover, an overallotment **green-shoe option was provided by the founders for € 1.5m and it was entirely exercised** by the global coordinator on the 24th-July.

Among the pre-IPO shareholders there was also Anna Maria Roscini (previously shareholder of Roscini Atelier) with 2.5% of share capital (2.0% post-IPO) and Luca Sburlati (Pattern's CEO) with 1.5% (1.2% post-IPO).

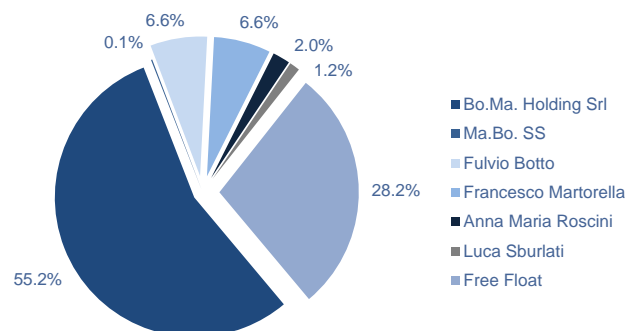
Chart 5 – Pattern, shareholder structure Pre-IPO



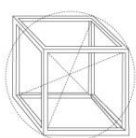
Source: Company data

Pattern went public on 17-Jul-19 on the AIM Italia with a market capitalisation of € 44.2m and a **free float of 24.9%, raised to 28.2% after the exercise of the green-shoe option**. Pre-IPO shareholders have an 18 month lock-up.

Chart 6 – Pattern, shareholder structure Post-IPO and post exercise of the green-shoe



Source: Company data



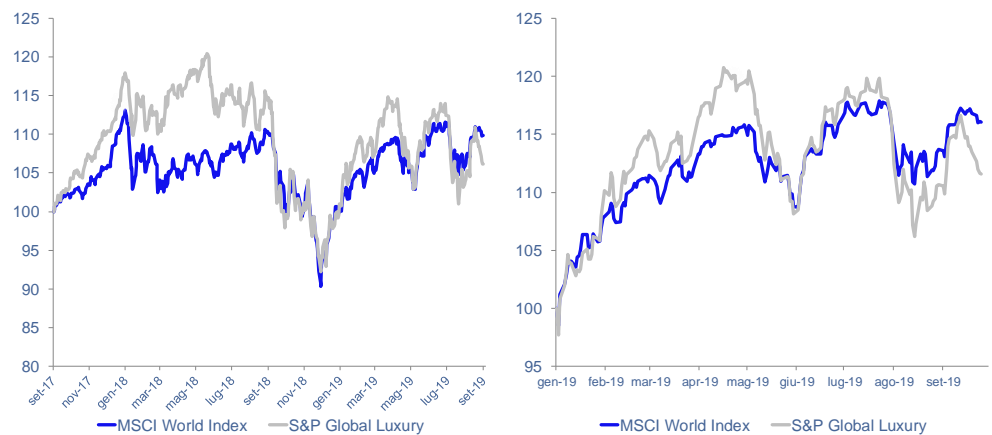
4. The Reference Market: Personal Luxury Goods

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

The personal luxury goods market can be divided into five segments (luxury fashion 31%, hard luxury 25%, beauty 23%, luxury leather goods 15% and luxury eyewear 6%). **According to Altgamma in 2018 market size reached € 260bn, +2% YoY, and it is expected to grow between 4% and 6% in 2019.**

The fashion positive trend is confirmed also by the performance of the **luxury market index (+11.1%)**, only slightly lower than the **global market (+16.0%)** since the beginning of 2019, due to a few recent turmoil in some countries in the Far East, despite the orientation of consumer purchases towards luxury goods.

Chart 7 – Pattern, luxury market index versus MSCI World – 2Y and YTD

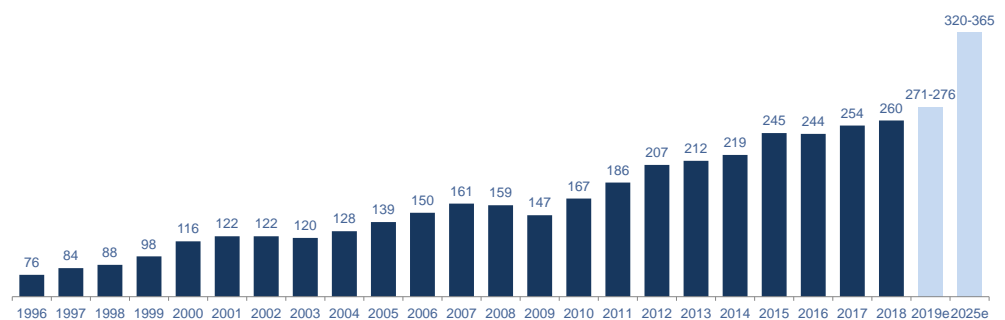


Source: Thompson Reuters Eikon

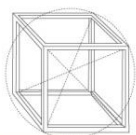
4.1. Historical Evolution

In the last twenty years the global personal luxury goods market recorded a mid-single digit growth, showing a **CAGR₉₆₋₁₈ of +5.7%**. The value of the global luxury goods market totalled **€ 260bn in 2018 (+2.0% YoY)** and it is expected to grow between +3% and +5%, reaching € 320-365bn by 2025, driven by macroeconomic trends.

Chart 8 – Pattern, Personal Luxury Goods – Historical trend, 2019 and 2025 forecasts

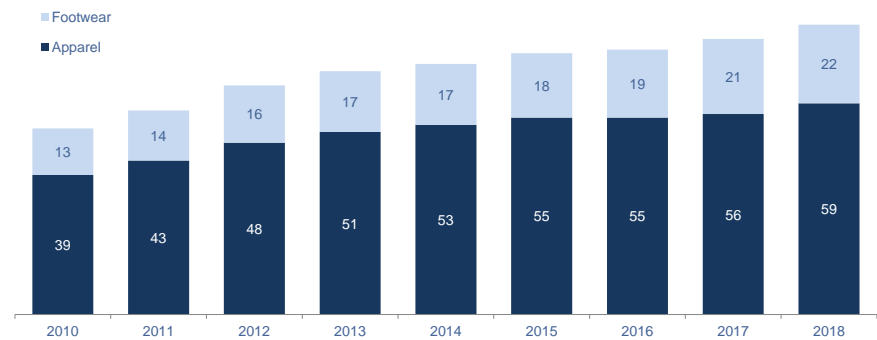


Source: Bain & Company – Altgamma 2019



Pattern is focused on the luxury fashion segment, which accounts for 31% of the entire personal luxury goods market and recorded a CAGR₁₀₋₁₈ of +5.9%, reaching € 81bn in 2018, +5% YoY. We can also break up the luxury fashion segment into Apparel and Footwear, with the first one representing the 73% of the segment (€ 59bn in 2018).

Chart 9 – Pattern, Luxury Fashion – Historical trend

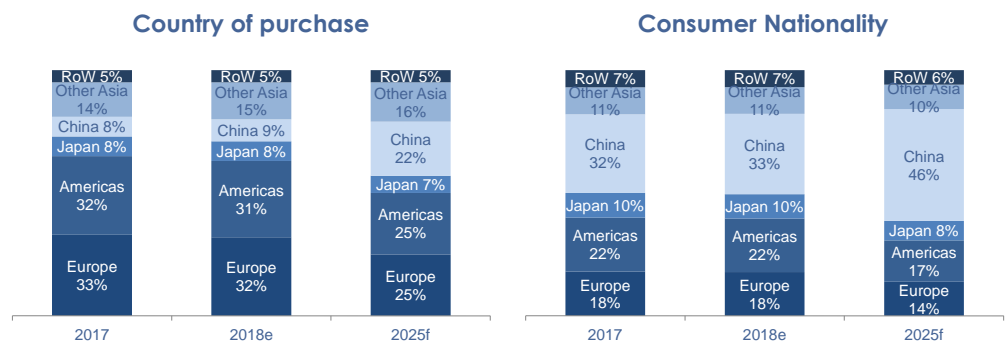


Source: company analysis on Statista

4.2. Geographical Segmentation

From a geographical point of view Europe and US are the key markets in terms of country of purchase for personal luxury goods, accounting in 2018 for 32% and 31% respectively. In terms of pure consumption, the Chinese represents the major consumer nationality with 33% of market share.

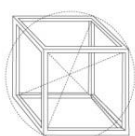
Chart 10 – Pattern, Personal Luxury Goods - Geographical segmentation



Source: Bain & Company – Altgamma 2018

In the next few years Chinese consumers will continue to increase their purchases both in terms of local consumption and international shopping. **In 2025, 22% of global personal luxury goods purchases will take place in China and 46% of personal luxury goods consumers worldwide will be Chinese.**

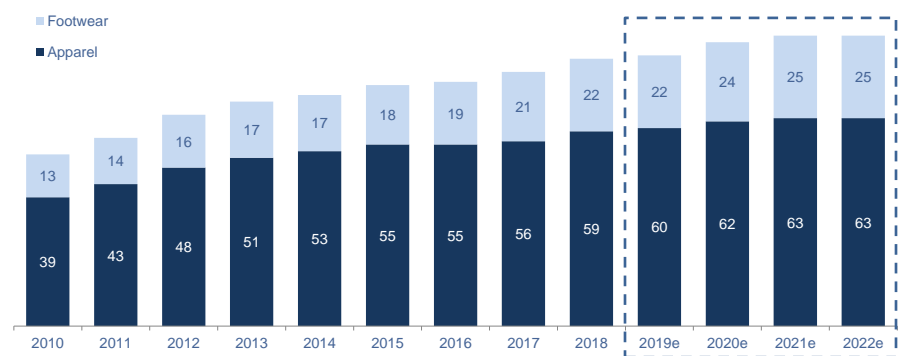
Nevertheless, Europe and US, the two geographical areas where top luxury houses are based, of which are the best clients of Pattern, still hold a leading positioning in terms of purchases of personal luxury goods.



4.3. Growth Drivers

The global personal luxury goods market is expected to grow in the next few years between +3% and +5%, reaching € 320-365bn by 2025. Considering the luxury fashion segment, where a steady rise is anticipated of 2.4% per annum, reaching € 88bn in 2022, of which € 63bn related to the apparel sector.

Chart 11 – Pattern, Luxury Fashion – Future trend



Source: company analysis on Statista

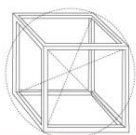
Growth will be driven by a few market and macro trends such as **reshoring, casualization, sustainability, millennial / Gen Z shoppers, rebound of China and “Made in Italy”**.

4.3.1. Made in Italy and Reshoring

Made in Italy is one of the undisputed key success factors in the global luxury fashion market. In particular, for apparel and accessories, Italy is considered the most appealing “Made-in market”: according to a survey made by Boston Consulting Group, 29% of the interviewees said Italy is the best producer of luxury goods, ahead of France (23%), the USA (12%) and Switzerland (10%). The perception of high quality standards given by the “Made in Italy” goods caused in the last three years about 90 companies operating in the luxury sector to **relocate their production activities from foreign countries to Italy**. The reshoring trend is also driven by other important reasons, such as:

- **Wage inflation overseas:** in the recent years, labour costs have increased significantly in China, Vietnam, Romania, Serbia and other Eastern countries;
- **Logistic costs:** relocating the production activities has allowed companies to minimise the logistic costs and the risk of fluctuation in freight costs and import duties;
- **Time to market:** reshoring reduces delivery time and allows companies to be more flexible, hence, better satisfying customer requests;
- **Public incentives:** some western countries are trying to re-boost their economies by incentivising companies to relocate back to home countries.

With two plants located in Italy, Collegno (Turin) and Spello (Perugia), **Pattern is able to provides its clients with best-in-class “Made in Italy” products and services**, appreciated worldwide, as the group in 2018 generated more than 80% of revenues abroad.



4.3.2. Rebound of China

As Chinese consumers will continue to increase their purchases both in terms of local consumption and international shopping, **China is an undisputed key growth driver** of the fashion industry in the coming years. During the last few years the preferences of Chinese consumers changed. Urbanisation, increasing available income and bargaining power allowed consumers to value trendy products and tailored initiatives. Furthermore the local consumption is expected to grow rapidly going forward, mainly due to healthier fundamentals:

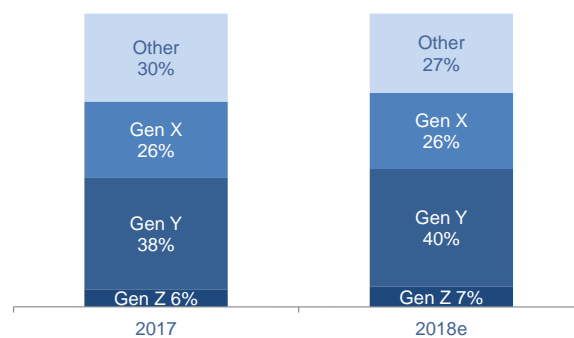
- **Lower price differentials;**
- **Improved customer experience** also thanks to the increase in the online sales;
- **Possible reduced import taxes;**
- Chinese government policies on boosting **internal consumption;**
- **New demand** from growing mid-class and Gen Z.

Undoubtedly a positive Chinese outlook for the following years will indirectly benefit Pattern's industry segment.

4.3.3. Younger Generations and Casualization

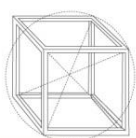
The younger generations, especially Gen Y (millennials) and Gen Z, show an increasingly greater interest towards luxury goods and they are more inclined to spend on luxury items, as they are strongly influenced by the urbanisation process and consequently more interested in showing their social status than in previous generations.

Chart 12 – Pattern, Personal Luxury Goods – Consumer by generation



Source: Bain & Company – Altagamma 2018

In 2018 the younger generations generated almost entirely the market growth: the Gen Y grew by 7.7% YoY, maintaining its leading role; and Gen Z soared by 19.4%, being ready to take off. This trend has forced brands to evolve and innovate across different dimensions, such as the decrease of formal in favour of casual, the increase of alternative purchasing channels (i.e. website, app, social networks), different communication territories and growing attention on sustainability. In particular, **the casualization of the fashion industry appears to be a significant driving trend in the sector.**



5. Competitive Arena, Addressable Market

Pattern's addressable market stands within the **absolute luxury brands apparel segment**. Particularly, the group works alongside the main absolute luxury houses (Burberry, Hermès, Kering, LVMH, PVH) for catwalk collections, focusing on high value-added casual sportswear and sustainable apparel. In the absolute luxury niche, the leading brands are progressively increasing outsourcing of the engineering and production processes for the catwalk collections to independent subcontractors. For this reason, **Pattern's strategy is to strengthen the relationships with existing clients and build new ones** with other absolute luxury brands, **becoming the market leader in the "Made in Italy" luxury fashion engineering**.

Table 1 – Pattern, Absolute Luxury Brands, production structure

Company	Country	Revenues 2017 € bn	Apparel on revenues %	Outsourcing	Focused on "Made in Italy"
Kering	France	15.5	11%	✓	✓
LVMH ¹	France	15.5	18%	✓	✓
PVH	USA	7.4	n.a.	✓	✓
Hermès	France	5.5	21%	✓	✓
Ralph Lauren	USA	5.4	n.a.	✓	
Chanel ²	France	4.2	n.a.		
Prada	Italy	3.1	21%		✓
Burberry	UK	2.4	58%	✓	✓
Piug	Spain	1.9	n.a.		
Hugo Boss	Germany	1.3	n.a.	✓	✓
Ferragamo	Italy	1.4	7%	✓	✓
Valentino	Italy	1.2	n.a.	✓	✓
Cucinelli	Italy	0.5	85%	✓	✓
Richemont ³	Switzerland	0.4	4%	✓	✓

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

² Chanel revenues relate to estimated "fashion" segment including cosmetics;

³ Richemont revenues relate to the "Clothing" segment.

Source: company analysis and estimates on public annual reports

5.1. The Niche of Luxury Fashion Manufacturing

In 2018 the global personal luxury goods market was worth € 260bn, within which the luxury fashion segment was € 81bn, of which € 59bn derives from apparel. **Within the luxury fashion apparel we can identify the addressable market for Pattern in the range of absolute luxury brands (€ 13bn)**, such as Burberry, Hermès, Kering, LVMH, PVH and so on. In order to better define the competitive arena in which the company operates, we have to consider only the part of the market composed by third-party independent subcontractors to which the luxury brands outsourced the engineering and production of the catwalk collections. By removing the estimated profit margin generated by the luxury fashion apparel houses, the **"Made in Italy" luxury fashion manufacturing market generates some € 1bn of annual sales**.

Currently Pattern operates mainly in the outerwear segment of the market, which amounts to approximately € 300m. The remaining € 700m comprises of different product categories such as **knitwear, leather apparel and accessories**. **This portion of the market is seen as a growth opportunity for consolidating and product diversification for the company**.

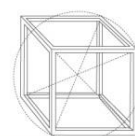
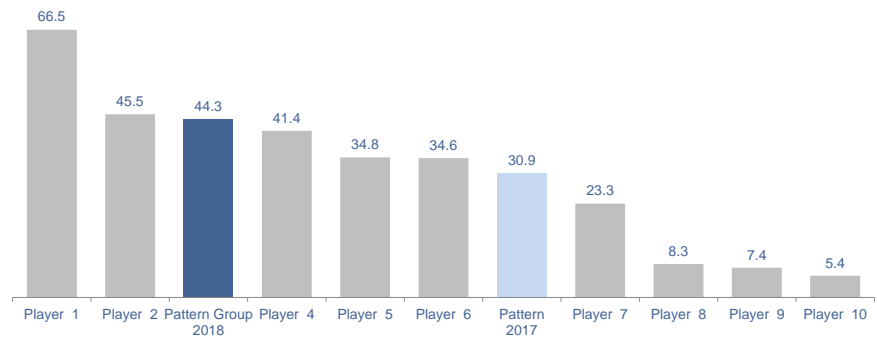


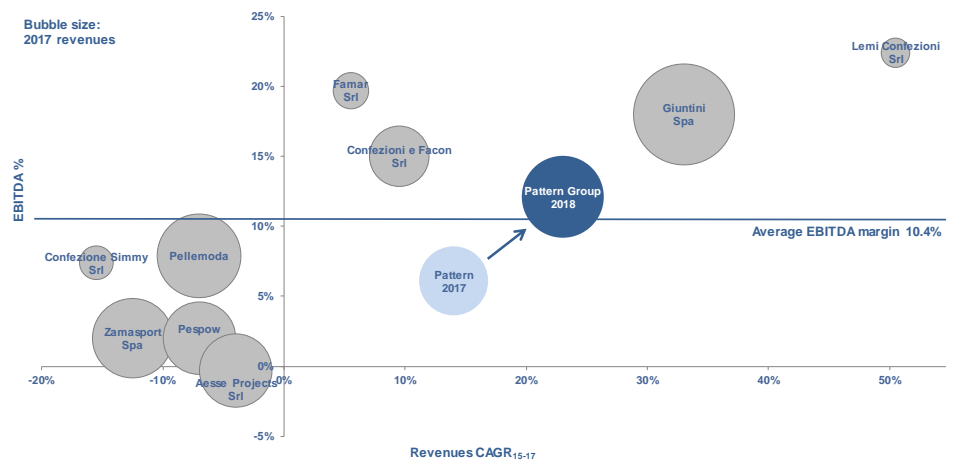
Chart 13 – Pattern, “Made in Italy” Luxury Fashion Manufacturing arena



Source: CFO SIM analysis on public annual reports

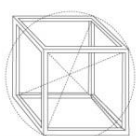
Pattern is a medium size player in a highly fragmented industry with a large number of small local players, which are not direct competitors of the company but they could be possible M&A targets. The competitive arena offers plenty opportunities for consolidation and diversification in new product categories (knitwear, leather apparel and accessories).

Chart 14 – Pattern, “Made in Italy” Luxury Fashion Manufacturing arena



Source: CFO SIM analysis on public annual reports

Pattern is well positioned in this unavoidably consolidating segment on the back of its size, relevance in the industry, and solidity, considering its 2018 pro forma revenues of € 44.3m, an EBITDA margin of 12.2% and a net cash financial position of € 3.5m. The group grew both organically and via acquisition, recording a notable CAGR_{15-18PF} of +23.5%.



6. Business Model

Pattern is the reference partner of the main absolute luxury brands for modelling, engineering, grading, prototyping and production of garments for catwalk and first lines. Every year Pattern manages some 30 top range collections, running the entire design and production cycle, from patterns to prototypes, to the creation of ready-to-wear garments and successive productions.

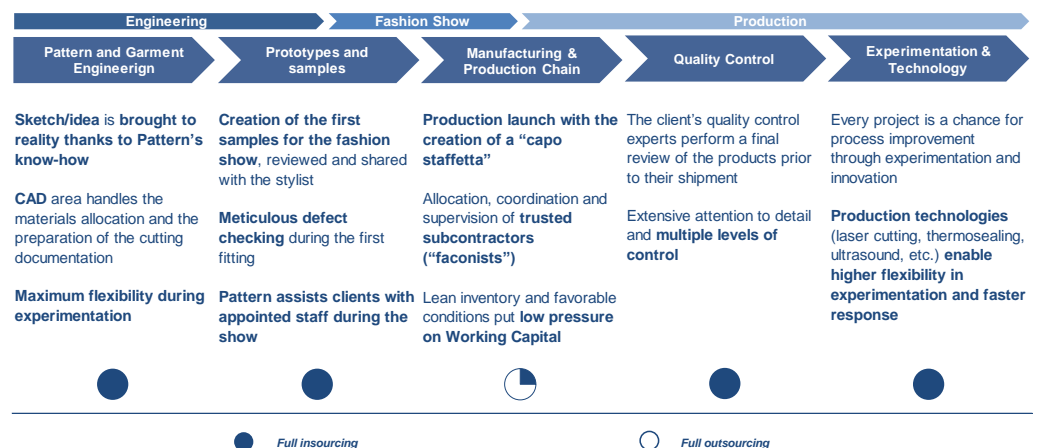
Pattern operates two plants: the historical facility of Collegno (Turin) and the recently acquired production structure of Spello (Perugia), following the acquisition of Roscini Atelier in 2017 (merged in Pattern in Jun-19).

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

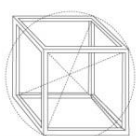
- **Quality:** advanced technologies, highly skilled and committed personnel, full control of the supply chain, attention to sustainability and circular economy;
- **Speed:** using the best-in-class technologies and proven procedures, the company has a superior time-to-market vs. competitors;
- **Flexibility:** vertical integration of the different phases of the value chain, from pattern to production;
- **Reputation:** over 20 years of experience in luxury fashion engineering next to the best in class fashion houses.

Pattern has an extremely flexible production structure. The company manages directly every strategic activity from garment engineering to prototypes and samples creation, from manufacture of the "capo staffetta" (a sample to check one last time the garment before the production) to quality control activity. The group employs one of the largest independent design and engineering teams worldwide, with more than 40 craftsman and 40 prototypists. **The manufacturing phases are outsourced** to a plethora of suppliers ('façonists'), mainly located in Italy, maintaining **full control over the entire value chain quality, thus offering stakeholders a valuable asset light firm.**

Chart 15 – Pattern, value chain analysis



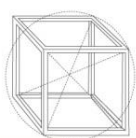
Source: company data



Pattern's value chain can be explained as follow:

- 1) **Pattern and garment engineering:** thanks to its two-decade know-how, the company is able to design the catwalk collection starting from stylist sketches. The stylists' ideas are developed both manually and thanks to the best and newest software and programs. **These activities are carried out internally through a dedicated team** operating in two areas: the technical direction area realizes patterns whilst the CAD area develops models and technical documentation used to create prototypes, also defining raw materials allocation.
- 2) **Prototypes and samples:** Pattern creates the prototype and submits it to the stylist of the fashion house in order to fix any minimum defect. Then the first sample for the catwalk is produced and shared with the stylist. This phase is **completely internalised**. When required, Pattern also assists clients with appointing staff during the fashion shows.
- 3) **Manufacturing and production chain:** after the fashion show the client decides which prototypes will be produced and provides Pattern with production quantities. Pattern launches the production with the creation of the "capo staffetta", checking the garment one last time and then **the bulk of production is outsourced to external façonists**. The suppliers have long-lasting established relationships with Pattern and are located mainly in Italy and Romania. They take care of the cutting, preparation, tacking, sewing, ironing, finishing, testing, tagging and packing phases. **Pattern directly supervises all the activities outsourced to the façonists**, most of which adheres to the SA8000 Corporate Social Responsibility standards, which has become more required by customers.
- 4) **Quality Control:** all manufactured products and finished items return to Pattern where they are subjected to strict quality control in order to ensure high quality standards. They are then sent to the client. The company is also able to carry out the checks required by eastern markets to check metal contamination, using X-Ray machines.
- 5) **Experimentation & Technology:** Pattern invests constantly in product and process innovation. Innovative technologies are applied to all phases of the value chain: Product Data Management, CAD software, 3D design, laser cutting, thermos-sealing, ultrasound machine. These state of the art production technologies enable higher flexibility in experimentation and faster response to clients.

Pattern also owns a proprietary brand: ESEMPLARE. The company uses the brand for its R&D activity, experimenting new fabrics and using the newest manufacturing technologies. Under the Esemplare brand Pattern realises new coats and jackets with innovative techniques, consisting of 100% recycled fibres and no furs or goose down. All the Esemplare garments are made without traditional seams but using heat-sealed and ultrasonic seams, these are completely waterproof and are realised using a patented innovative technique called "reversed Y" construction. Esemplare can be considered **the best marketing tool for Pattern, as the company is able to show its clients its development capabilities in terms of garment production techniques and highly innovative fabrics.**

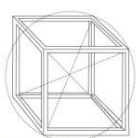


7. Strategy, Use of IPO Proceeds

After the outstanding growth path recorded since its establishment, Pattern is now aiming to continue its development and consolidation of its competitive positioning, aiming at becoming **the market leader in the “Made in Italy” luxury fashion engineering**. Group growth strategy is based on both organic and external growth, strengthening existing partnerships, gaining new clients among absolute luxury brands and expanding into new segments such as knitwear, leather apparel and accessories.

Cohently to its growth path, Pattern's principal strategy is focused on:

- **Continuing with organic growth:** Pattern aims to increase its client portfolio, gaining new partnerships with absolute luxury brands and strengthening the relationships with the existing ones. With the Roscini acquisition the company entered in the woman apparel segment and has started working with a lot of brands not yet covered, such as Fendi and Hermès. The potential synergies deriving from the Roscini integration allow pattern to exploit cross-fertilisation opportunities.
- **Pursuing external growth opportunities:** the reference market is highly fragmented with a few medium-sized players and a plethora of small local actors. As of today Pattern is the third Italian player specialised in modelling, engineering, grading, prototyping and production of luxury clothing for men and women, leader in the outerwear niche. In order to expand its business, Pattern is looking for M&A opportunities among companies operating in different product categories, namely knitwear, leather apparel and accessories.
- **Technological development:** in the last few years Pattern invested in prototyping and production technologies. Since 2013 the company has used the most advanced versions of CAD and PDM and is working with the main absolute luxury brands and Italian research centres to develop the 3D-CAD technology. They plan to use this technology to demonstrate to their client how the final garment shall look in the prototyping phase. In addition Pattern is investing in a new innovative warehouse equipped with the RFID blockchain technology able to satisfy the increasing industry requests for transparency and traceability of products. Total investment for the warehouse is worth € 1.0m.
- **ESEMPLARE:** the proprietary brand is greatly recognised by the market thanks to its sustainable approach and innovative technological solutions used to produce the garments. Pattern intends to continue to use the Esemplare brand as a R&D tool platform for the experimentation of new fabrics and technologies, in order to show to existing and potential clients its own development capabilities. The goal is also to sign new partnerships with the main luxury retail operators (such as the one recently signed with Saks Fifth Avenue in USA).



8. Porter's 5 Forces

According to Michael Porter the competitive structure and the degree of attractiveness of an industry are a function of the **simultaneous interaction of the five forces**. Their analysis allows to evaluate the competitive position of a firm within a given industry.

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

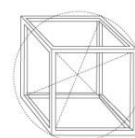
The luxury fashion engineering segment in which Pattern operates is a business that can be labelled as **ATTRACTIVE** and characterized by:

- **A light monopolistic competitive market:** Pattern is a large sized player in a highly fragmented industry with a large number of small local players, which are not direct competitors but rather possible M&A targets. Production capacity is not an issue in this segment, on the back of the vast amount of sub-suppliers out there. The 360° service offered makes the difference: design, technology developing capabilities, engineering and production planning are key competitive advantages.
- **No issue of weighty suppliers.** Pattern has an extremely flexible production structure. It manages directly every strategic activity (i.e. garment engineering, prototypes and samples creation, manufacture of "capo staffetta", quality control) whilst the manufacturing phases are outsourced to a plethora of *façonists*. The first ten production goods suppliers account for 50% of the total purchases of production goods whilst the first ten production services suppliers account some 61% of total purchases of production services.
- **Highly concentrated client base with potentially high bargaining power**, however the client vertical integration is a rather remote risk. The top three customers make 78% of total sales. On the other hand, 81% of revenues is generated by clients with more than 10 years of loyalty: Pattern is their engineering, developing, producing and technology solution partner.
- **Solid barriers to entry**, represented by craftsman availability and to a lesser extent a few technology solutions. Skilled people are scarce but available on the market, as well as technology: the relatively long time needed to develop a structure from scratch might deter possible new comers. Furthermore, consistent high levels of technology innovation/development as well as compliance to high sustainability standard levels represent defendable entry barriers, corroborated by constant and ongoing R&D investments.
- **The substantial absence of potential substitutes.** Pattern is a leading player specialised in the high-end clothing segment: luxury items are more than lone products, they are emotions and sensations embodied in a dress or in a suit.

Chart 16 – Porter's 5 forces industry summary

Rivalry amongst competitors	Low	A monopolistic competition market rather disciplined Highly fragmented industry, Pattern is a consolidating player Production capacity is not an issue	+	+
Bargaining power of suppliers	Low	Key strategic activities performed in house <i>Façonists</i> availability is generous on the market	+	+
Bargaining power of customers	Medium High	Concentrated client base with potentially high bargaining power Clients ideally can vertically integrate, but they do not Relevant client loyalty: 81% of sales generated by clients with more than 10Y seniority	- +/- +	+/-
Threats of new entrants	Medium Low	People and technology solutions make the selling proposition strong and appreciated... ...however they are eventually available on the market The long time needed to develop a structure from scratch might deter possible new comers	+	+/-
Threats of potential substitutes	Low	Low threat of substitution in static terms, limited cross-elasticity of goods Absolute luxury items communicate emotions and feelings rather than a destination of use Emotional content perception is purchase driver, low price sensitivity	+	+

Source: CFO Sim, Company data



9. SWOT Analysis

The SWOT analysis, also known as SWOT Matrix, is a structured planning method used to evaluate the strengths, weaknesses, opportunities and threats involved in a project or in a business venture. A SWOT analysis can be carried out for a product, place, industry or person. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favorable and unfavorable to achieve that objective.

- **Strengths:** characteristics of the business that give it an advantage over others.
- **Weaknesses:** characteristics that place the business at a disadvantage vs. others.
- **Opportunities:** elements that the project could exploit to its advantage.
- **Threats:** elements in the environment that could cause trouble or be detrimental for the business or project.

The technique is credited to Albert Humphrey, who led a research project at Stanford University between the 60's/70's using Fortune 500 data.

S.W.O.T. ANALYSIS

STRENGTHS

- ❑ **Reference partner of the key absolute luxury brands** in the fashion engineering space
- ❑ **Made in Italy** as primary key success factor in the luxury fashion industry
- ❑ **Flexible manufacturing structure**, production is outsourced; low WC pressure
- ❑ **Client loyalty:** 81% of 2018 revenues was generated by clients with more than 10 years of loyalty
- ❑ **R&D investments** to provide new innovative fabrics and garment production techniques (**ESEMPLARE**)

OPPORTUNITIES

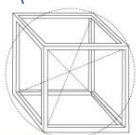
- ❑ **Consolidation opportunities** in the highly fragmented domestic market
- ❑ **Penetration in new high value added segments**, such as knitwear, leather apparel and accessories
- ❑ The increased market attention to **sustainability and circular economy**
- ❑ Growing demand for luxury fashion and products by **younger generations**
- ❑ Growing demand for **casual and high technological content fashion apparel**

WEAKNESSES

- ❑ **Clients concentration:** top 5 clients generated 85.5% of 2018PF sales
- ❑ Management functions concentrated in **few key people**
- ❑ **Suppliers concentration:** the first 5 accounts for 37% and 44% of total purchases of raw material and services respectively
- ❑ **Limited sustainability certified façonnists** available, mainly in East Europe

THREATS

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



10. Recent Results

Since it was founded, Pattern has persistently grown, reaching 2018PF revenues of € 44.3m. In particular, in the last few years the company recorded significant organic growth in sales (CAGR₁₄₋₁₈ of 20.1%), mainly thanks to the enhanced partnerships with a few absolute luxury brands. The growth path profile was boosted by Roscini Atelier.

Table 2 – Pattern, FY-2018-17-16 results summary

€ m	2018	2017	2016	% 18 vs.17	% 17 vs.16
Value of Production	38.5	30.9	26.5	24.7	16.6
Raw material and processing	(13.3)	(11.8)	(9.0)		
Services	(14.6)	(11.9)	(9.8)		
Personal expenses	(5.2)	(4.7)	(4.4)		
Other opex	(0.6)	(0.6)	(0.6)		
EBITDA	4.8	1.9	2.6	153.6	(27.8)
% margin	12.5%	6.1%	9.9%		
D&A	(0.3)	(0.4)	(0.4)		
EBIT	4.5	1.5	2.3	205.8	(35.2)
% margin	11.6%	4.7%	8.5%		
Financial income/(costs)	0.03	0.06	0.01		
Pre-Tax profit	4.5	1.5	2.3	195.2	(32.7)
Income taxes	(1.2)	(0.5)	(0.9)		
Net Profit	3.3	1.0	1.3	221.5	(24.3)
% margin	8.5%	3.3%	5.1%		
Net Financial Position	(4.2)	2.5	(1.4)	(269.1)	277.4

Source: Company data, CFO SIM analysis

In 2018 top line increased by 24.7% reaching total revenues of € 38.5m. EBITDA was € 4.8m, 12.5% margin. The improvement of margins in 2018 (EBITDA grew by 153.6% YoY organically) was driven by a revised mark-up calculation methodology (previously the mark-up was applied only on direct labour cost, now on total COGS), after the decrease in margins in 2017. The FY-17 was negatively affected by the increase in order volumes in Q4 producing higher raw material and service costs with a resulting increase of the stock, needed to support the production in the following months. This also produced an unusual increase in NWC which translated to a worsening of NFP (FY-17 € 2.5m net debt vs € 1.4m net cash at end-16). EBIT reached € 4.5m, with 11.6% on total revenues. Net profit was € 3.3m (8.5% margin). **Net Financial Position was € 4.2m cash.** Net Equity totalled € 6.3m.

Table 3 – Pattern, FY-18PF results summary

€ m	2018PF
Value of Production	44.3
Raw material and processing	(14.1)
Services	(17.1)
Personal expenses	(7.3)
Other opex	(0.4)
EBITDA	5.4
% margin	12.2%
D&A	(0.5)
EBIT	4.9
% margin	11.1%
Financial income/(costs)	0.03
Pre-Tax profit	5.0
Income taxes	(1.3)
Net Profit	3.6
% margin	8.2%
Net Financial Position	(3.9)

Source: Company data, CFO SIM analysis

Pro forma figures take into account the P&Ls and Balance Sheets of Pattern and Roscini as of 31-Dec-18, excluding any intercompany items. **2018PF value of production was € 44.3m (CAGR_{14-18PF} +24.4%), of which 82% was realised abroad.** The Roscini acquisition allowed the company to reinforce its activity in the design and production of the women's garments, also gaining the access to a new client portfolio composed by some absolute luxury brands with which, until then, Pattern had not been in contact with.



On an aggregated basis, **75% of revenues derive from male collections and the remaining 25% from female collections**. In further detail the product portfolio breakdown is the following: 77% outerwear, 7% suits and dresses, 9% trousers and skirts, 5% upper wear and 2% other products. **Pro forma EBITDA was € 5.4m, with 12.2% margin on total revenues**. Pattern contributed to pro forma EBITDA for € 4.8m and Roscini for € 0.5m. EBIT pro forma reached € 4.9m, with 11.1% margin on total sales, after D&A of € 0.5m. **PF net profit was € 3.6m**. The 2018PF **Net Cash Position reached € 3.9m**, stemming from a massive FCF generation and limited Capex and WC needs.

10.1 H1-19 Results

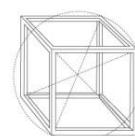
Pattern H1-19 results show 1) a top line double digit growth and 2) a more than proportional increase in margins, thanks to a fixed costs containment and the exploitation of synergies stemming from the acquisition of Roscini Atelier. **The firm confirms its ability to generate free cash flow and to improve the NFP, despite the first half typically being less profitable than H2. Fall-winter 2019 order intake and preliminary spring-summer 2020 pre-orders and H1-19 performance, allow management to be confident to confirm 2019 IPO targets**. 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. H1-18 results are pro forma in order to include in the scope of consolidation of Pattern as well as Pattern Immobiliare and Roscini Atelier (closed in May-19).

Table 4 – Pattern, H1-19 results summary

€ m	H1-19	H1-18pf	% YoY
Revenues	21.5	18.3	17.5
Other revenues	0.0	0.1	
Increase in finished products	3.6	2.8	
Value of Production	25.1	21.3	18.1
Raw material and processing	(8.6)	(7.6)	
Services	(9.8)	(8.0)	
Personal expenses	(4.3)	(3.7)	
Other opex	(0.3)	(0.3)	
EBITDA	2.0	1.7	20.6
% margin	8.1%	7.9%	
D&A	(0.2)	(0.2)	
EBIT	1.8	1.5	23.5
% margin	7.3%	6.9%	
Financial income/(costs)	(0.0)	(0.0)	
Pre-Tax profit	1.8	1.5	22.0
Income taxes	(0.5)	(0.4)	
Tax rate	30.5%	27.4%	
Net Profit	1.2	1.1	16.8
% margin	4.9%	5.0%	

Source: Company data, CFO SIM analysis

Value of production soared by 18.1% to € 25.1m (€ 21.3m in H1-18pf). Revenues were € 21.5m, +17.5% YoY (€ 18.3m in H1-18pf). **EBITDA stood at € 2.0m, +20.6% YoY, 8.1% on VoP** (7.9% in H1-18pf). The margin improvement derives from a fixed costs containment and the exploitation of synergies stemming from the acquisition of Roscini Atelier. **Net profit was € 1.2m, +16.8% YoY**, after D&A in line and higher taxes vs. 1H-18pf. **NFP slightly improved to € 4.1m net cash** (€ 3.9m net cash at the end-18), after capex for € 0.9m (o/w € 0.4m for the acquisition of Roscini Atelier) and dividends for € 1.8m. Pattern confirms its ability to generate FCF, despite H1 typically being less profitable than H2.



11. Financial Forecasts

Founded almost 20 years ago, Pattern is **the third Italian player** specialised in modelling, engineering, grading, prototyping and production of luxury clothing for men and women, and **the undisputed leader in outerwear niche**, operating in the catwalk segment and first lines of the most prestigious global luxury brands. The group has offered a solid growth path since its establishment: 32.2% and 19.1% sales CAGR in 2009-18 and 2013-18, respectively. Organically, the figures are 30.1% and 15.8%, in the same period.

Our estimates include the injection of the fresh IPO resources, which will be employed in new developments, potential acquisitions, as well as IPO expenses. **Our top line progression assumptions are based on key group client sales expected growth rates 2018-2021** as projected by consensus, i.e. a 8.0% revenues CAGR in the period. We believe this hypothesis could represent a reasonable beatable floor since 1) **Pattern focuses on fashion technical casual outerwear**, a segment seen to be driven by the casualization trend; 2) **the still unexpressed growth potential of Roscini in the women's segment**, recently acquired but with still an oversized operating structure at current job level; 3) **the still ongoing production outsourcing tendency**, in particular related to domestic made in Italy luxury players. That is why Pattern could offer a **higher top line increase** compared to its key luxury clients. 2019 figures are based on the company budget publicly announced, included also in the listing admission document and supported by 1) the initial ramp-up of Roscini, 2) the impact of new promising clients (Céline, Dunhill, Michael Kors and a couple of Kering brands) and last but not least, 3) the 6 month visibility Pattern has due to the typical business structure with the S/S collection fashion shows performed almost one year in advance.

Table 5 –Pattern, 2018PF-21e top line growth evolution breakdown

€ m	2018 PF	2019e	2020e	2021e	CAGR ₁₈₋₂₁
Revenues	43.8	54.2	58.9	63.5	13.2
Man	32.9	39.5	42.7	45.7	11.6
Woman	11.0	14.6	16.2	17.9	17.7
% YoY					
Revenues	-	23.5	8.8	7.8	
Man	-	20.3	8.0	7.0	
Woman	-	33.4	11.0	10.0	
% on total					
Revenues	100.0	100.0	100.0	100.0	
Man	75.0	73.0	72.5	71.9	
Woman	25.0	27.0	27.5	28.1	

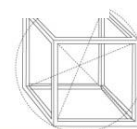
Source: Company data, CFO SIM estimates

The women's segment is anticipated to progress more than the group average, for the aforementioned reasons, and it is seen to stand for more than 28% of total sales in 2021.

Table 6 –Pattern, 2018PF-21e profitability evolution

€ m	2018 PF	2019e	2020e	2021e	CAGR ₁₈₋₂₁
Revenues	43.8	54.2	58.9	63.5	13.2
Increase in finished products	0.2	0.0	0.0	0.0	
Other revenues	0.3	0.1	0.1	0.1	
Value of Production	44.3	54.3	59.0	63.7	12.8
Raw material and processing	(13.9)	(17.5)	(19.0)	(20.3)	
Services	(16.9)	(21.7)	(23.6)	(25.3)	
Personnel expenses	(7.3)	(7.5)	(7.9)	(8.4)	
Other opex	(0.8)	(1.1)	(1.4)	(1.5)	
EBITDA	5.4	6.5	7.2	8.3	15.2
% margin	12.2	12.0	12.2	13.0	
D&A	(0.5)	(0.8)	(0.8)	(0.8)	
EBIT	4.9	5.8	6.4	7.5	14.9
% margin	11.1	10.6	10.8	11.8	

Source: Company data, CFO SIM estimates



The group manages the entire design and production cycle from patterns to prototypes, to the creation of ready-to-wear garments and successive productions. Pattern operates in high value added engineering and design services whilst the production is outsourced to a plethora of suppliers ('façonists'). **The cost structure is therefore 80-20 variable-fixed costs**, that is to say the increase of top line drives the progression of variable costs too: **the operating leverage effect is rather low here**. However, **profitability is projected to increase by some 80bps** in 2018PF-21 as a result of 1) The exploitation of the Roscini structure, previously oversized, 2) a moderate volume effect on fixed costs, 3) new profitable clients (Céline, Dunhill, Michael Kors and a couple of Kering brands).

D&A are seen basically unchanged in the period, on the back of the limited capex amount expected for 2019-21, thanks to the fabulous asset-light business model structure of Pattern. As a result, **EBITDA and EBIT are expected to grow more than proportionately** compared to top line: +15.2% and 14.9% CAGR in 2018PF-21e, vs. 13.2% of revenues.

Table 7 –Pattern, 2018PF-21e profitability evolution

€ m	2018 PF	2019e	2020e	2021e	CAGR ₁₈₋₂₁
EBIT	4.9	5.8	6.4	7.5	14.9
% margin	11.1	10.6	10.8	11.8	
Financials	0.0	(0.1)	(0.1)	(0.1)	
Extraordinary	0.0	0.0	0.0	0.0	
Pre-Tax profit	5.0	5.7	6.3	7.4	14.2
% margin	11.2	10.5	10.7	11.6	
Income taxes	(1.3)	(1.5)	(1.7)	(2.0)	
Tax rate	27.1%	27.0%	27.5%	27.5%	
Minorities	0.0	0.0	0.0	0.0	
Net Profit	3.6	4.2	4.6	5.4	14.0
% margin	8.2	7.7	7.7	8.4	

Source: Company data, CFO SIM estimates

Below EBIT, CFO SIM expects stable financial costs in the coming years, causing a growing cash pile fed by the free cash flow generation. Tax burden is predicted to be stable at a 27% rate. As a result, **Net Profit is anticipated to show a +14.0% CAGR in 2018PF-21e**.

Pattern, contrarily to other fast growing firms in the industry, has **no extraordinary and/or one-off items** linked to its fast developing business profile to adjust the P&L account.

Concerning **currency risk**, Pattern has an almost nihil exposure, which is concentrated on GBP Sterling (roughly 4% total raw material purchasing) since the group acquires some specific raw materials denominated in £. On the back of its negligible amount, it is not hedged.

Table 8 –Pattern, 2018PF-21e Net Financial Position and financial solidity

€ m	2018 PF	2019e	2020e	2021e
Year-end NFP (Cash)/Debt	(3.9)	(11.9)	(14.3)	(17.9)
Average (Cash)/debt	(3.9)	(7.9)	(13.1)	(16.1)
Gross debt	2.5	2.5	2.5	2.6
EBITDA	5.4	6.5	7.2	8.3
Shareholders' equity	6.9	17.8	20.9	24.6
Minorities	0.0	0.0	0.0	0.0
Interest charges	0.0	(0.1)	(0.1)	(0.1)
NFP/Equity	(0.6)	(0.7)	(0.7)	(0.7)
NFP/EBITDA	(0.7)	(1.8)	(2.0)	(2.2)
EBITDA/charges	(180.3)	128.0	72.3	82.6
Debt/Equity	0.4	0.1	0.1	0.1

Source: Company data, CFO SIM estimates

Pattern has an **extremely light/rock solid balance sheet** characterised by 1) **a tiny total**



fixed asset slice, i.e. € 1.8m in 2018PF (11% of total assets) as a consequence of the outsourcing of the entire amount of non-core/low value added production phases of its business to several façonists, 2) **an adequate and sustainable 6.2% WC/sales** ratio in 2018PF allowed by the entirely sold limited level of inventories and the receivables almost entirely counterbalanced by payables, 3) **a low equity portion** when considering the company remunerated and is willing to **reward its shareholders with a 35% pay-out** projected for the future.

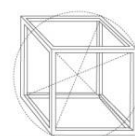
On the back of its extremely asset-light profile, **capex needs are low**: in 2019 Pattern is investing € 2.3m including Roscini acquisition (€ 0.4m) and the capitalisation of the listing costs (€ 1.0m). In 2020-21 the capital expenditure requirements are limited and include the investments required in 2020 for the brand new warehouse adjacent to the group headquarters in Collegno and to the maintenance of the operating structure, i.e. to the tune of € 0.5m per annum as of 2021, equal to D&A in the period.

As a result, operating cash flow massively translates into free cash flow: **EBITDA free cash flow conversion stands 19% and 54% in 2019-20 and above 60% in 2021** in CFO SIM estimates. ROCE and ROE figures are outstanding too: **ROE is 52.4% and ROCE amount at 46.3%** in 2018PF. Thus, YoY net financial position repayment capability allows Pattern to reach € 17.9m net cash position in 2021. The increase in CE as of 2019e, which prompts to a decline in ROCE, is entirely ascribable to the € 8.5m IPO fresh resources: **Pattern now has to successfully employ these funds and make them highly profitable.**

Table 9 - Pattern, 2018-21e Net Financial Position and financial solidity

€ m	2018 PF	2019e	2020e	2021e
Op NWC	2.7	3.2	3.5	3.9
Inventories	3.3	4.1	4.4	4.8
Receivables	3.9	4.8	5.2	5.6
Payable	(4.4)	(5.6)	(6.1)	(6.5)
Op NWC/Sales	6.2%	5.9%	6.0%	6.0%
Capital Employed	10.7	21.7	25.0	28.9
Capital Employed turnover x	0.2	0.4	0.4	0.5
NFP debt/(cash)	(3.9)	(11.9)	(14.3)	(17.9)
NFP repayment YoY	n.a.	(8.0)	(2.4)	(3.6)
ROACE%	-	35.5	27.4	27.8
ROCE %	46.3	26.5	25.6	26.0
ROE %	52.4	23.4	21.8	21.7
EBITDA - FCF Conversion %	-	19.3	53.6	63.0

Source: Company data, CFO SIM estimates



12. Valuation & Risks

CFO Sim initiates coverage of Pattern with a Buy recommendation and PT of € 5.10/s, 37.8% upside. We believe that a market multiples comparison is the most appropriate methodology to get a reasonable valuation. Since there is no real comparable listed, we set up a sample of luxury firms, to obtain an idea of the expected top line progression, and of a few domestic B2B players: if we apply the median 2019e EV/EBITDA, EV/EBIT and PER multiple of the latter group to Pattern metrics, we get an **appraisal of Pattern to the tune of € 5.10/s.**

We also ran a DCF model to substantiate the value obtained by the market practice. The model is based on standard settings for a small-cap, including a cautious $g=1.00\%$, $\beta=1.00$ and $WACC=10.2\%$, penalised by the zero debt balance sheet structure. According to the **DCF model, we assess a valuation of € 5.30/s.**

Worth mentioning, the **EVA method**: Pattern will be able to create a huge amount of value for its stakeholders, as the **difference between ROCE and WACC is first class** throughout the plan period.

12.1. Market Multiples

Pattern operates the high value added engineering and design services for luxury apparel with the production outsourced to façonists: **the firm does not present comparable listing 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 B2B business model.

Among absolute luxury fashion companies, we chose:

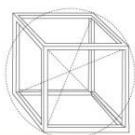
Burberry Group PLC: a global luxury brand with British heritage, core outerwear, and large leather goods base. The company designs and sources apparel and accessories. Burberry sells its products worldwide, namely in Asia Pacific region, EMEA region and Americas region. Burberry has been consolidated client of Pattern, for over ten years.

Capri Holding Ltd: the holding company, through its brands (such as Versace, Jimmy Choo and Michael Kors), covers the full spectrum of fashion luxury categories including women's and men's accessories, footwear and ready-to-wear as well as wearable technology, watches, jewellery, eyewear and a full line of fragrance products. Michael Kors was added in Pattern client list in 2019.

Compagnie Financiere Richemont SA: detains 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, is an independent, family owned company. The company is 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: 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, ecc. The company specialises in ready-to-wear products, sports goods, shoes, jewellery, and watches. Pattern currently works for two brands of Kering group.



LVMH SE: Louis Vuitton Moët Hennessy is presented in four segments of activity: 1) wines and spirits, with brands like Moët & Chandon, Dom Pérignon, Veuve Clicquot Ponsardin, Krug, Ruinart, Belvedere; 2) fashion and leather goods division includes some absolute luxury brands such as, Louis Vuitton, Christian Dior Couture, Celine, Loewe, Fendi, Berluti; 3) perfumes and cosmetics and 4) watches and jewellery comprises, among other, Bvlgari, TAG Heuer, Zenith and Hublot. LVMH is also active in selective retailing as well as in other activities. Some of LVMH brands are Pattern's clients from several years.

Amongst B2B Italian companies, we selected:

BioDue SpA: founded in 1986, BioDue produces and markets medical devices, dermocosmetics, ophthalmic products and food supplements (solid and liquid) with particular focus on herbal preparations. The company operates both on behalf of large national and international pharmaceutical companies, and for its own brands (Pharcos, Selerbe and Biofta, respectively for dermatological, phytotherapeutic and ophthalmic products). The company has a vertically integrated business model and operates in five industrial plants (four production plants and one for logistics).

Fine Foods & Pharmaceuticals NTM SpA: founded in 1984, is the domestic leading independent company in the development and contract development and manufacturing organization of solid oral forms for the pharmaceutical and nutraceutical industries. The company is recognized on the market for the high quality of its products, has consolidated and continuous relationships with most of its customers.

Freni Brembo SpA: the world undisputed leader and acknowledged innovator of disc brake technology for automotive vehicles. Brembo supplies high performance brake systems for 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.

Pininfarina SpA: a leading player in the luxury industry. The group has been moving dreams since 1930. Icon of the Italian design in the world, it has contributed to write the history of the global automotive industry. Listed in Milan and part of the Mahindra galaxy since 2016, Pininfarina continues to be the benchmark of the auto and industrial design, deeply involved to designing customer journeys and unique user experiences merging physical and digital worlds through aesthetics and technology.

Based on pre-money figures, entailing only organic growth, **Pattern shows a higher than medians sales, EBITDA, EBIT and Net Profit CAGR.**

Table 10 - Pattern, peer group summary table

€ m	Country	Mkt Cap	Sales FY1	EBITDA FY1	EBITDA %	Sales CAGR ₁₈₋₂₁	EBITDA CAGR ₁₈₋₂₁	EBIT CAGR ₁₈₋₂₁	EPS CAGR ₁₉₋₂₁	NFP FY1	NFP /EBITDA
Burberry Group PLC	UK	9,942	3,230	679	21.0%	4.6%	7.4%	7.0%	11.0%	(918)	n.m.
Capri Holdings Ltd	US	4,544	5,296	1,029	19.4%	7.3%	6.5%	6.1%	8.1%	1,588	1.5
Compagnie Financiere Richemont	F	34,838	15,242	3,105	20.4%	7.2%	10.1%	13.4%	11.6%	(3,000)	n.m.
Hermes International SCA	F	66,631	6,697	2,575	38.4%	9.7%	6.3%	8.0%	10.1%	(4,206)	n.m.
Kering SA	F	58,695	15,739	5,496	34.9%	10.2%	13.0%	12.2%	16.0%	1,525	0.3
LVMH Moët Hennessy Louis Vuitton	F	182,745	53,018	14,097	26.6%	9.2%	11.5%	10.7%	10.2%	4,708	0.3
Median Luxury		46,766	10,970	2,840	23.8%	8.3%	8.7%	9.4%	10.6%	304	0.3
Biodue SpA	IT	72	45	9	19.5%	9.8%	17.2%	20.7%	21.1%	10	1.1
Fine Foods & Pharmaceuticals	IT	182	139	19	13.7%	8.7%	11.7%	8.5%	5.4%	(47)	n.m.
Freni Brembo SpA	IT	2,952	2,604	500	19.2%	1.8%	3.6%	1.4%	5.1%	208	0.4
Pininfarina SpA	IT	96	95	1	1.1%	n.a.	n.a.	n.a.	n.a.	16	16.0
Median domestic B2B		139	117	14	16.4%	8.7%	11.7%	8.5%	5.4%	13	1.1
Pattern SpA	IT	50	54	7	12.1%	13.2%	15.2%	14.9%	13.4%	(12)	n.m.

Source: CFO Sim, Thomson Reuters Eikon

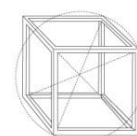




Table 11 - Pattern, peer group EV multiple table

x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3
Burberry Group PLC	2.79	2.62	2.43	13.3	12.0	10.8
Capri Holdings Ltd	1.16	1.00	0.88	6.0	5.0	4.3
Compagnie Financiere Richemont	2.09	1.96	1.81	10.3	9.4	8.5
Hermes International SCA	9.32	8.46	7.66	24.2	21.9	19.7
Kering SA	3.83	3.47	3.10	11.0	9.9	8.9
LVMH Moet Hennessy Louis Vuitton	3.54	3.26	2.94	13.3	12.0	10.8
Median Luxury	3.16	2.94	2.68	12.1	11.0	9.8
Biodue SpA	1.82	1.58	1.37	9.3	7.5	6.2
Fine Foods & Pharmaceuticals	0.97	0.88	0.75	7.1	7.2	5.4
Freni Brembo SpA	1.21	1.14	1.00	6.3	5.9	5.2
Pininfarina SpA	1.17	1.06	n.a.	n.s.	21.7	n.a.
Median domestic B2B	1.19	1.10	1.00	7.1	7.4	5.4
Pattern SpA	0.71	0.61	0.51	5.9	5.0	3.9
% premium/(discount) to luxury peers	(77.5)	(79.2)	(80.9)	(51.4)	(54.5)	(59.9)
% premium/(discount) to domestic B2B peers	(40.5)	(44.4)	(48.9)	(17.2)	(32.1)	(26.9)

Source: CFO Sim, Thomson Reuters Eikon

Table 12 - Pattern, peer group EV & price multiple table

x	EBIT FY1	EBIT FY2	EBIT FY3	PER FY1	PER FY2	PER FY3
Burberry Group PLC	17.3	15.5	13.7	24.2	21.9	19.6
Capri Holdings Ltd	7.6	6.3	5.4	6.7	6.2	5.7
Compagnie Financiere Richemont	13.7	12.3	10.9	19.8	17.8	15.9
Hermes International SCA	27.5	24.8	22.3	44.2	40.1	36.5
Kering SA	12.9	11.5	10.2	19.9	16.2	14.8
LVMH Moet Hennessy Louis Vuitton	16.5	15.0	13.2	25.1	22.6	20.7
Median Luxury	15.1	13.6	12.1	22.0	19.8	17.8
Biodue SpA	12.5	9.7	7.9	15.6	12.8	10.7
Fine Foods & Pharmaceuticals	13.5	14.3	10.3	20.3	26.0	18.2
Freni Brembo SpA	10.2	9.4	8.1	13.1	12.2	11.9
Pininfarina SpA	n.s.	n.a.	n.a.	n.s.	n.s.	n.a.
Median domestic B2B	12.5	9.7	8.1	15.6	12.8	11.9
Pattern SpA	6.7	5.6	4.3	12.1	11.0	9.4
% premium/(discount) to luxury peers	(55.7)	(58.6)	(64.1)	(45.1)	(44.3)	(47.1)
% premium/(discount) to domestic B2B peers	(46.6)	(42.1)	(46.8)	(22.7)	(14.0)	(20.9)

Source: CFO Sim, Thomson Reuters Eikon

Due to the **larger size and returns of the luxury players**, we simply use the median sales CAGR₁₈₋₂₁ of the sample just to calibrate the expected top line growth for Pattern in the same period used in our forecasts. Regarding the domestic B2B peers, we tried to set up a list of companies with a business model characterised by a leading competitive position and close developing partnership relations with their closest clients. Applying the B2B peer median multiple for EV/EBITDA, EV/EBIT and PER to Pattern metrics we attain an **equity valuation of Pattern of € 5.10/s**, using 2019 estimates and multiples. Note that **2019 estimates are based on company budget publicly announced, included also in the admission document** and supported by 1) the initial ramp-up of Roscini, 2) the impact of new promising clients (Céline, Dunhill, Michael Kors and a couple of Kering brands) and last but not least, 3) the 6 month visibility Pattern has due to the typical business structure with the S/S collection fashion shows and related orders performed almost one year in advance.

Table 13 - Pattern, pre-money equity assessment, 1#2

€ m	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3
Median B2B Peers (x)	1.19	1.10	1.00	7.1	7.4	5.4
Pattern metric	54.2	58.9	63.5	6.5	7.2	8.3
NFP	11.9	14.3	17.9	11.9	14.3	17.9
Pattern Equity Value	76.6	79.2	81.4	58.4	67.5	62.3
Pattern Equity Value/share €	5.62	5.81	5.98	4.29	4.95	4.58

Source: CFO Sim, Thomson Reuters Eikon

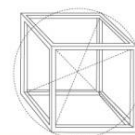


Table 14 - Pattern, pre-money equity assessment, 2#2

€ m	EBIT FY1	EBIT FY2	EBIT FY3	PER FY1	PER FY2	PER FY3
Median B2B Peers (x)	12.5	9.7	8.1	15.6	12.8	11.9
Pattern metric	5.8	6.4	7.5	4.2	4.6	5.4
NFP	11.9	14.3	17.9			
Pattern Equity Value	83.9	76.6	78.9	65.2	58.6	63.7
Pattern Equity Value/share €	6.16	5.63	5.80	4.79	4.30	4.68

Source: CFO Sim, Thomson Reuters Eikon

Table 15 - Digital Value, equity value assessment, 3#3

€ m	FY1	FY2	FY3
EV/EBITDA	4.29	4.95	4.58
EV/EBIT	6.16	5.63	5.80
PER	4.79	4.30	4.68
Average	5.08	4.96	5.02
Weighting	100.0%	0.0%	0.0%
Equity Value €/s	5.10		
% upside/(downside)	37.8%		

Source: CFO Sim, Thomson Reuters Eikon

12.2. DCF

In the valuation via the DCF method, we assess explicit estimates until 2023 and a cautious long term growth of 1.0%. Cash flows are discounted back at an weighted average cost of capital calculated according to the following parameters:

Table 16 - WACC derived from:

Interest costs, pre-tax	2.0%
Tax rate	27.0%
Int. costs, after taxes	1.5%
Risk premium, incl. small size premium	9.0%
Risk-free (10Y Gov. Bond 2W average)	1.20%
Beta levered (x)	1.00
Required ROE	10.2%

Source: CFO Sim, Thomson Reuters Eikon

Risk premium at 9.0% factors in the minute size of the company and basically all AIM Italia market segment related concerns and disquiets that an investor might have. **Beta at 1** has been set prudentially, taking into account the lower liquidity of the company. Indeed, the 5Y Beta calculated from the domestic B2B peer group is 0.97x. The WACC is computed using 0/100% debt/equity current balance sheet structure, thus penalising the valuation of the group.

Table 17 - Pattern, DCF model

€ k	2019e	2020e	2021e	2022e	2023e	Term. Val.
EBIT	5.8	6.4	7.5	8.5	8.5	
Tax rate	27.0%	27.5%	27.5%	27.5%	27.5%	
Operating profit (NOPAT)	4.2	4.6	5.4	6.2	6.2	
Change working capital	(0.5)	(0.3)	(0.3)	(0.3)	(0.3)	
Depreciation	0.8	0.8	0.8	0.7	0.5	
Investments	(2.3)	(1.1)	(0.5)	(0.5)	(0.5)	
Free Cash Flows	2.2	4.1	5.4	6.0	5.8	63.9
Present value	2.1	3.6	4.3	4.4	3.8	42.2
WACC	10.2%	10.2%	10.2%	10.2%	10.2%	
Long-term growth rate	1.0%					

Source: CFO Sim

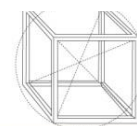


Table 18 – Pattern, DCF derived from:

€ m	
Total EV present value € m	60.5
<i>thereof terminal value</i>	69.8%
NFP last reported adj.	12.6
Pension provision	(0.8)
Equity value € m	72.3
#m shares	13.62
Equity value €/s	5.30
<i>% upside/(downside)</i>	43.2%

Source: CFO Sim

The outcome of our DCF model set up an equity value of € 72.3m for Pattern, € 5.30/s.

The following tables illustrate that sensitivity 1) compared to changes in the terminal growth rate produces an equity value between € 4.98-5.72/s (**perpetuity range between 0.00% and 2.00%**), while 2) compared to changes in the free risk rate produces an equity value of € 4.87-5.86/s (**free risk range between 2.20% and 0.20%**) and 3) compared to changes in the risk premium, including small size premium results into an equity value of € 4.51-6.56/s (**risk premium range between 11.0% and 7.00%**).

Table 19 – 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	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3
PV of terminal value	37.7	38.8	39.9	41.0	42.2	43.5	44.9	46.3	47.9
Total value	56.0	57.1	58.2	59.3	60.5	61.8	63.2	64.6	66.2
NFP last reported adj.	12.6	12.6	12.6	12.6	12.6	12.6	12.6	12.6	12.6
Pension provision	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)
Equity value	67.8	68.8	69.9	71.1	72.3	73.6	74.9	76.4	77.9
Equity value/share €	4.98	5.05	5.13	5.22	5.30	5.40	5.50	5.61	5.72

Source: CFO Sim

Table 20 – Pattern, equity value sensitivity to changes in free risk rate

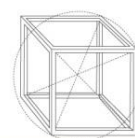
€ m	0.20%	0.45%	0.70%	0.95%	1.20%	1.45%	1.70%	1.95%	2.20%
Present value of CF	18.7	18.6	18.5	18.4	18.3	18.2	18.1	18.0	17.9
PV of terminal value	49.3	47.3	45.5	43.8	42.2	40.7	39.3	37.9	36.7
Total value	68.0	66.0	64.0	62.2	60.5	58.9	57.4	55.9	54.5
NFP last reported adj.	12.6	12.6	12.6	12.6	12.6	12.6	12.6	12.6	12.6
Pension provision	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)
Equity value	79.7	77.7	75.8	74.0	72.3	70.7	69.1	67.7	66.3
Equity value/share €	5.86	5.71	5.57	5.43	5.30	5.19	5.08	4.97	4.87

Source: CFO Sim

Table 21 – 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	19.1	18.9	18.7	18.5	18.3	18.1	17.9	17.7	17.5
PV of terminal value	58.4	53.5	49.3	45.5	42.2	39.3	36.7	34.3	32.1
Total value	77.5	72.4	68.0	64.0	60.5	57.4	54.5	52.0	49.6
NFP last reported adj.	12.6	12.6	12.6	12.6	12.6	12.6	12.6	12.6	12.6
Pension provision	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)
Equity value	89.3	84.2	79.7	75.8	72.3	69.1	66.3	63.7	61.4
Equity value/share €	6.56	6.18	5.86	5.57	5.30	5.08	4.87	4.68	4.51

Source: CFO Sim



12.3. Economic Value Added (EVA)

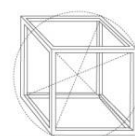
Economic value added (EVA) is a measure of the financial performance of a firm based on the residual wealth calculated by deducting its cost of capital from its operating profit, adjusted for taxes on a cash basis. EVA can also be referred to as economic profit, as it attempts to capture the true economic profit of a company. This measure was devised by management consulting firm Stern Value Management, originally incorporated as Stern Stewart & Co. In other words, EVA is the incremental difference in the rate of return over a company's cost of capital. Essentially, it is used to measure the value a company generates from funds invested into it. If a company's EVA is negative, it means the company is not generating value from the funds invested into the business. Conversely, a positive EVA shows a firm is producing value from the funds invested in it.

Pattern generated and is projected to generate a huge amount of value for its stakeholders: the difference between ROCE e WACC is first class throughout the plan period. This is possible thanks to its asset-light structure with the high volume production entirely outsourced to suppliers, thus generating an outstanding level of ROCE. Conversely, the WACC is penalised by the current balance sheet structure, unbalanced between assets and debt. The increase in CE as of 2019e, which prompts to a decline in ROCE, is entirely ascribable to the € 8.5m IPO fresh resources: **Pattern now has to successfully employ these funds and make them highly profitable.**

Table 22 - Pattern, EVA generation

	2018 PF	2019e	2020e	2021e
ROCE	46.3%	26.5%	25.6%	26.0%
Pretax WACC	14.0%	14.0%	14.1%	14.1%
Value creation/(destruction.)	32.3%	12.5%	11.5%	11.9%
Consolidated tax rate	27.1%	27.0%	27.5%	27.5%
ROCE - post tax	33.7%	19.3%	18.6%	18.8%
WACC	10.2%	10.2%	10.2%	10.2%
Value creation/(destruction.) - post tax	23.5%	9.1%	8.4%	8.6%

Source: CFO Sim



12.4. Peer Stock Performance

Pattern was listed on AIM Italia (Alternative Investment Market) on **17 July 2019 at € 3.25/share**, corresponding to a **market cap. post money of € 44.2m**. Adopting the same approach used in setting up the peer sample for assessing the value of Pattern, 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 23 - Pattern, peer group and indexes absolute performance

	1D	1W	1M	3M	6M	YTD	1Y
Burberry Group PLC	1.6	0.3	(1.2)	19.6	11.4	23.2	6.2
Capri Holdings Ltd	(0.4)	0.5	23.3	(3.7)	(29.8)	(13.7)	(51.9)
Compagnie Financiere Richemont	0.1	(3.7)	(5.6)	(12.6)	1.5	14.7	(10.3)
Hermes International SCA	1.4	0.1	2.7	0.4	6.8	30.0	12.5
Kering SA	1.1	0.3	6.6	(10.0)	(7.8)	12.7	1.1
LVMH Moet Hennessy Louis Vuitton	(0.1)	(1.7)	(0.1)	(2.0)	11.4	39.8	18.0
Median Luxury	0.6	0.2	1.3	(2.9)	4.2	19.0	3.6
Biodue SpA	-	-	-	19.3	24.3	27.8	12.6
Fine Foods & Pharmaceuticals	1.0	(1.0)	2.0	2.5	(4.7)	10.3	6.2
Freni Brembo SpA	1.7	(6.8)	6.1	(11.6)	(12.1)	(0.8)	(24.2)
Pininfarina SpA	(1.8)	(3.9)	44.1	20.9	(21.3)	(22.6)	(33.7)
Median domestic B2B	0.5	(2.5)	4.0	10.9	(8.4)	4.7	(9.0)
Pattern SpA	(1.3)	1.5	6.3	n.a.	n.a.	n.a.	n.a.
MSCI World Index	0.7	0.3	(1.6)	3.8	4.9	12.9	0.1
EUROSTOXX	1.4	2.2	(2.3)	6.6	6.6	14.0	(5.1)
FTSE Italia All Share	1.3	1.3	(3.9)	5.8	11.0	14.5	(11.2)
FTSE STAR Italia	1.6	(0.9)	(1.6)	3.5	11.1	14.9	(7.6)
FTSE AIM Italia	(0.0)	(1.1)	(1.6)	1.5	(3.5)	4.4	(6.9)

Source: Thomson Reuters Eikon

Table 24 - Pattern relative performances

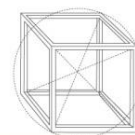
	1D	1W	1M	3M	6M	YTD	1Y
to MSCI World Index	(2.1)	1.2	7.8	n.a.	n.a.	n.a.	n.a.
to EUROSTOXX	(2.8)	(0.7)	8.5	n.a.	n.a.	n.a.	n.a.
to FTSE Italia All Share	(2.6)	0.3	10.1	n.a.	n.a.	n.a.	n.a.
to FTSE STAR Italia	(2.9)	2.4	7.8	n.a.	n.a.	n.a.	n.a.
to FTSE AIM Italia	(1.3)	2.6	7.8	n.a.	n.a.	n.a.	n.a.
to Domestic B2B Peer Median	(1.8)	4.0	2.2	n.a.	n.a.	n.a.	n.a.
to Luxury Peer Median	(1.9)	1.3	5.0	n.a.	n.a.	n.a.	n.a.

Source: Thomson Reuters Eikon

12.5. Risks

The principal investment **risks** in Pattern include:

- the high level of client concentration;
- the loss of reputation among clients;
- the ability to manage the investments and to find the sources to support growth;
- the consolidation process of the reference market may put the company's market share under pressure;
- impact on economics and balance sheet profile triggered by a deep decline in global economic growth or geopolitical instability;
- the departure of key relevant people.
- M&A execution might be hampered by potential consolidating actors in the industry with huge firepower (i.e. private equity funds)



The Company at a Glance

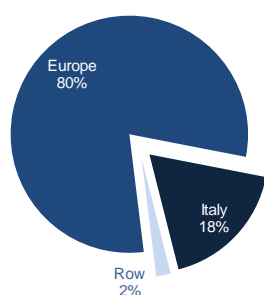
Founded in 2000 by Fulvio Botto and Francesco Martorella (current group directors and major shareholders with a 48.0% stake each), Pattern is the third Italian player specialised in modelling, engineering, grading, prototyping and production of luxury clothing for men and women, and the undisputed leader in outerwear niche, operating in the catwalk segment and first lines of the most prestigious global luxury brands. The group manages the entire design and production cycle from patterns to prototypes, to the creation of ready-to-wear garments and successive productions. Pattern operates the high value added engineering and design phases whilst the production is outsourced to a plethora of suppliers ('façonists').

Pattern's global export sales exceeds 80% of total revenues. 90% of revenues comes from production, engineering processes account for 10%. Male apparel contributes for the bulk of top line, 75% of total and female, thanks to the acquisition of Roscini Atelier in 2017, now accounts for 25% of total revenues. In terms of products, outerwear represents the vast part of group turnover, 77% of total, trouser/skirt and suits stand for 9% and 7% of the turnover whilst the remainder is represented by upper wear and other items.

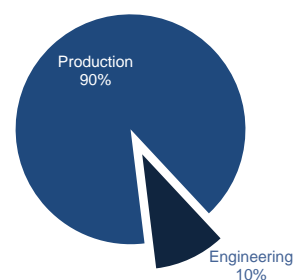
Since 2015, Pattern voluntarily draws up the sustainability report according to the reporting guidelines of the Global Reporting Initiative (GRI Standard), underling its attention to the Corporate Social Responsibility principles.

In 2018, pro forma revenues was € 44.3m, EBITDA reached € 5.4m, 12.2% margin. EBIT stood at € 4.9m and Net Income totalled € 3.6m. Net Financial Position was € 3.9m cash, thanks to strong operating cash-flow generation, limited Capex and WC needs.

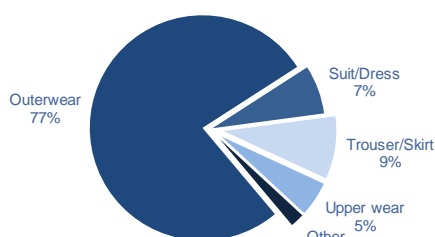
2018PF breakdown by geography...



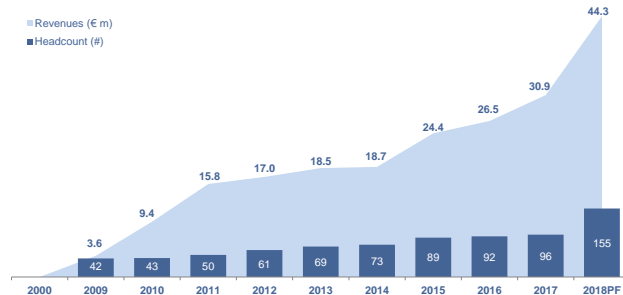
... by service ...



... and by product line



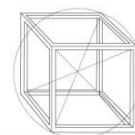
Top line and headcount evolution



Peers group multiples table

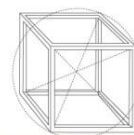
EV multiples x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3	EBIT FY1	EBIT FY2	EBIT FY3
Burberry Group PLC	2.79	2.62	2.43	13.3	12.0	10.8	17.3	15.5	13.7
Capri Holdings Ltd	1.16	1.00	0.88	6.0	5.0	4.3	7.6	6.3	5.4
Compagnie Financiere Richemont	2.09	1.96	1.81	10.3	9.4	8.5	13.7	12.3	10.9
Hermes International SCA	9.32	8.46	7.66	24.2	21.9	19.7	27.5	24.8	22.3
Kering SA	3.83	3.47	3.10	11.0	9.9	8.9	12.9	11.5	10.2
LVMH Moet Hennessy Louis Vuitton	3.54	3.26	2.94	13.3	12.0	10.8	16.5	15.0	13.2
Median Luxury	3.16	2.94	2.68	12.1	11.0	9.8	15.1	13.6	12.1
Biodue SpA	1.82	1.58	1.37	9.3	7.5	6.2	12.5	9.7	7.9
Fine Foods & Pharmaceuticals	0.97	0.88	0.75	7.1	7.2	5.4	13.5	14.3	10.3
Freni Brembo SpA	1.21	1.14	1.00	6.3	5.9	5.2	10.2	9.4	8.1
Pininfarina SpA	1.17	1.06	n.a.	n.s.	21.7	n.a.	n.s.	n.a.	n.a.
Median domestic B2B	1.19	1.10	1.00	7.1	7.4	5.4	12.5	9.7	8.1
Pattern SpA	0.69	0.59	0.49	5.7	4.8	3.8	6.4	5.4	4.1

Source: CFO Sim, Thomson Reuters Eikon





Income statement (€ m)	2018 PF	2019e	2020e	2021e
Revenues	43.8	54.2	58.9	63.5
Value of Production	44.3	54.3	59.0	63.7
Raw material and processing	(13.9)	(17.5)	(19.0)	(20.3)
Services	(16.9)	(21.7)	(23.6)	(25.3)
Personnel expenses	(7.3)	(7.5)	(7.9)	(8.4)
Other opex	(0.8)	(1.1)	(1.4)	(1.5)
EBITDA	5.4	6.5	7.2	8.3
D&A	(0.5)	(0.8)	(0.8)	(0.8)
EBIT	4.9	5.8	6.4	7.5
Financials	0.0	(0.1)	(0.1)	(0.1)
Re/(Devaluation) of financial assets	0.0	0.0	0.0	0.0
Extraordinary	0.0	0.0	0.0	0.0
Pre-Tax profit	5.0	5.7	6.3	7.4
Income taxes	(1.3)	(1.5)	(1.7)	(2.0)
Minorities	0.0	0.0	0.0	0.0
Net Profit	3.6	4.2	4.6	5.4
Net Profit Adjusted	3.6	4.2	4.6	5.4
Balance sheet (€ m)	2018 PF	2019e	2020e	2021e
Net Working Capital	2.7	3.2	3.5	3.9
Net Fixed Assets	1.8	3.3	3.6	3.3
Equity Investments	0.0	0.0	0.0	0.0
Other M/L Term A/L	(1.5)	(0.7)	(0.5)	(0.4)
Net Invested Capital	3.0	5.9	6.6	6.7
Net Financial Debt	(3.9)	(11.9)	(14.3)	(17.9)
Minorities	0.0	0.0	0.0	0.0
Group's Shareholders Equity	6.9	17.8	20.9	24.6
Financial Liabilities & Equity	3.0	5.9	6.6	6.7
Cash Flow statement (€ m)	2018 PF	2019e	2020e	2021e
Total net income	-	4.2	4.6	5.4
Depreciation	-	0.8	0.8	0.8
Other non-cash charges	-	(0.9)	(0.1)	(0.1)
Cash Flow from Oper. (CFO)	-	4.1	5.3	6.0
Change in NWC	-	(0.5)	(0.3)	(0.3)
FCF from Operations (FCFO)	-	3.6	5.0	5.7
Net Investments (CFI)	-	(2.3)	(1.1)	(0.5)
Free CF to the Firm (FCFF)	-	1.3	3.9	5.2
CF from financials (CFF)	-	6.7	(1.4)	(1.6)
Free Cash Flow to Equity (FCFE)	-	8.0	2.5	3.6
Financial ratios	2018 PF	2019e	2020e	2021e
EBITDA margin	12.2%	12.0%	12.2%	13.0%
EBIT margin	11.1%	10.6%	10.8%	11.8%
Net profit margin	8.2%	7.7%	7.7%	8.4%
Tax rate	27.1%	27.0%	27.5%	27.5%
Op NWC/Sales	6.2%	5.9%	6.0%	6.0%
Interest coverage x	(0.01)	0.01	0.02	0.01
Net Debt/EBITDA x	(0.72)	(1.82)	(1.98)	(2.17)
Debt-to-Equity x	(0.57)	(0.67)	(0.68)	(0.73)
ROIC	120.9%	70.6%	69.2%	79.5%
ROCE	46.3%	26.5%	25.6%	26.0%
ROACE	-	35.5%	27.4%	27.8%
ROE	52.4%	23.4%	21.8%	21.7%
Payout ratio	-	43.2%	32.0%	29.8%
Per share figures	2018 PF	2019e	2020e	2021e
Number of shares # m	13.62	13.62	13.62	13.62
Number of shares Fully Diluted # m	13.62	13.62	13.62	13.62
Average Number of shares Fully Diluted # m	13.62	13.62	13.62	13.62
EPS stated FD €	0.27	0.31	0.34	0.39
EPS adjusted FD €	0.27	0.31	0.34	0.39
EBITDA €	0.40	0.48	0.53	0.61
EBIT €	0.36	0.42	0.47	0.55
BV €	0.51	1.31	1.53	1.81
FCFO €	-	0.26	0.37	0.42
FCFF €	-	0.09	0.28	0.38
FCFE €	-	0.59	0.18	0.27
Dividend €	-	0.13	0.11	0.12



ANALYST CERTIFICATION

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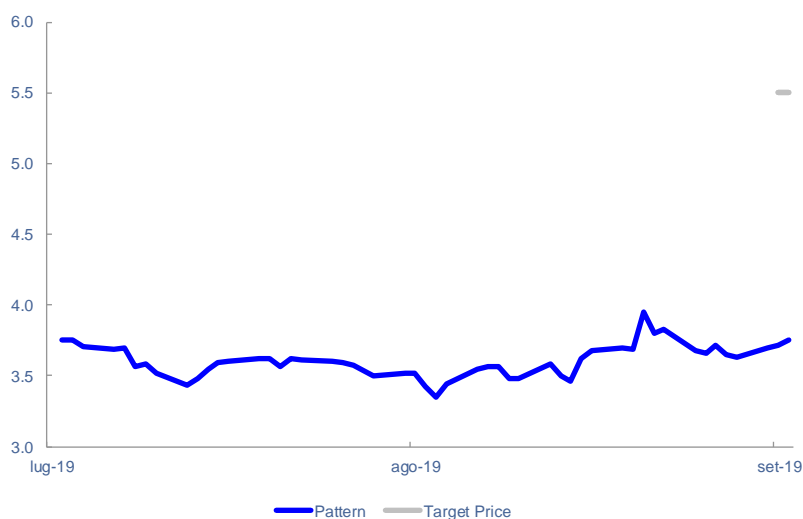
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DATE	TARGET PRICE	RATING
27/09/2019	€5.10	BUY

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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.

