

Italy – Luxury Engineering

The stock to play a rebound of the Made-in-Italy luxury segment

28th May 2021

2021 AIM ITALIA CONFERENCE

RIC: PTRN.MI
BBG: PTR IM

The company participated in the AIM Italia Conference held virtually in Milan. A full-day event during which the CEO, the Chief Financial Officer and the Investor Relations took part in one-to-one meetings with a dozen key European investors specialised in small/mid-caps. Here are the main points worth remembering from the meetings:

Rating:

Buy

Price Target:

€ 7.00

Upside/(Downside): 40.0%

Last Price: € 5.00

Market Cap.: € 68.6m

1Y High/Low: € 5.24/€ 3.16

Free Float: 27.6%

Major shareholders:

Bo.Ma. Holding Srl	53.4%
Fulvio Botto	6.4%
Francesco Martorella	6.4%
Otus Capital Mngmt (free float)	5.8%
Camer Srl (SMT shareholders)	2.5%
Anna Maria Roscini	2.0%
Luca Sbrulati (CEO)	1.7%



Stock price performance

	1M	3M	12M
Absolute	4.4%	9.9%	32.3%
Rel.to AIM Italia	-9.1%	-10.7%	-59.7%
Rel.to EU Sector	-0.6%	-11.6%	-34.5%

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'Casualisation' seen to drive the rebound of the luxury segment/Pattern

The pandemic has unavoidably accelerated one of the key trends driving the luxury industry: casualisation. The younger generations show an increasingly greater interest towards luxury goods. This trend has forced brands to evolve across different dimensions, as shown by the decrease in formal in favour of casual style, the increase in alternative purchasing channels (i.e. websites, apps, social networks), different communication territories and growing attention to sustainability. This sector trend has necessarily been accelerated by the absence of formal and social events during the pandemic.

Medium-term business outlook is encouraging

The 2021 outlook is still feeble, as the markets are expected to suffer and perform sluggishly in the first half of the year, with the exception of the Far East market. H2-21 will be characterised by the first timid signs of recovery in Western economies too, thanks to the roll-out of the vaccination campaigns. Pattern is one season ahead of what is currently on sale in shops. That is why production and delivery are more affected by customers' expectations for the next seasons than by current in-store sales. Having said that, orders for the next autumn-winter season are anticipated to be on the rise. The 2022-23 outlook appears positive. There will be greater sensitivity to the quality aspects of manufacturing and the sustainability of products and supply chains. This attention could lead to potential reshoring to Italy of activities previously carried out abroad with a consequent expansion of the Made-in-Italy luxury segment to the benefit of Pattern.

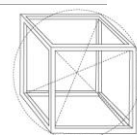
Scouting potential M&A targets continues in a different competitive landscape

The competitive landscape in the M&A arena has a 'new' player, named Florence: a new luxury domestic clothing production hub. The project is pretty much the same as that of Pattern, which corroborates the group's winning strategy started in 2019. However, Pattern is the only player with a real long-term industrial view and a know-how-based pole rather than simply a financial actor aiming to monetise its assets in a reasonable time frame. However, Florence might put pressure on timing and valuations, contributing to increasing the purchase price of possible targets. Pattern is chasing targets in segments, markets and channels different and adjacent to those in which the group already operates. Potential targets in the knitwear, leather and kids segments would enlarge the company's product portfolio through the acquisition of strong brands and the expansion of the customer base.

Estimates, PT and Buy recommendation confirmed.

Pattern, key financials and ratios

€ m	2019	2020	2021e	2022e	2023e
Value of Production	55.3	54.0	56.3	64.5	74.4
EBITDA	5.9	5.4	5.7	7.7	10.1
EBIT	5.5	3.6	3.6	5.7	8.0
Net profit	3.8	2.3	2.0	3.4	4.9
NFP (cash)/debt	(12.4)	(8.8)	(9.3)	(13.3)	(18.5)
EBITDA margin	10.7%	10.0%	10.1%	12.0%	13.5%
EBIT margin	9.9%	6.6%	6.4%	8.8%	10.7%
EPS	0.28	0.17	0.15	0.25	0.35
EPS growth	7.6%	-40.1%	-10.2%	64.8%	44.5%
Dividend	0.05	0.00	0.05	0.09	0.12
Dividend Yield	1.0%	0.0%	1.0%	1.7%	2.5%
ROCE	24.1%	9.3%	8.8%	13.0%	16.7%
NWC/Sales	4.6%	6.1%	6.7%	6.0%	5.1%
Free Cash Flow Yield	3.0%	-0.2%	0.7%	7.0%	9.3%
PER x	10.9	30.2	33.6	20.4	14.1
EV/Sales x	0.69	0.85	1.06	0.86	0.67
EV/EBITDA x	5.4	9.2	10.4	7.1	5.0
EV/EBIT x	5.7	14.6	16.5	9.7	6.3





The Company at a Glance

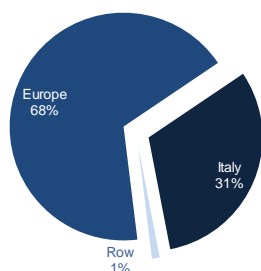
Founded in 2000 by Fulvio Botto and Francesco Martorella (group directors and major shareholders), Pattern is the second Italian player (CFO SIM estimate) specialised in the modelling, engineering, grading, prototyping and production of luxury clothing for men and women, and the undisputed leader in 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 production. 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. 88% of revenues come from production, while engineering processes account for 11%. Female apparel contributes to 49% of total thanks to the acquisition of Roscini Atelier in 2017, whereas 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, outerwear accounts for 37% whilst the remainder is represented by upper and light wear.

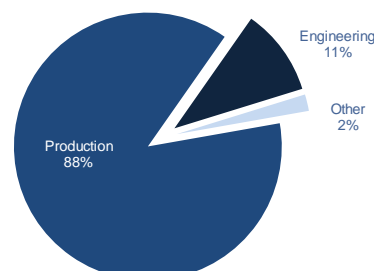
Since 2015, Pattern has voluntarily been drawing up sustainability reports according to the reporting guidelines of the Global Reporting Initiative (GRI Standards), focusing its attention on the Corporate Social Responsibility principles.

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.

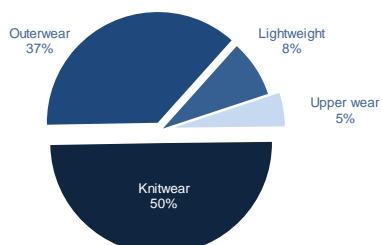
2020 breakdown by geography...



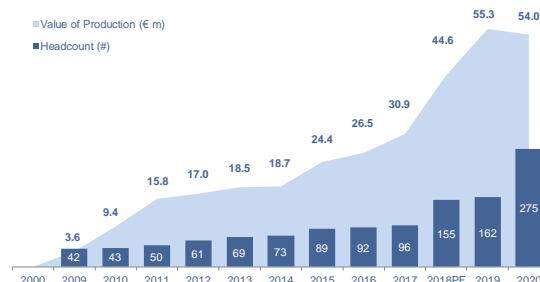
... by service ...



... and by product line



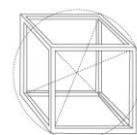
Top line and headcount evolution



Peers group multiples table

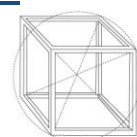
EV multiples x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3	EBIT FY1	EBIT FY2	EBIT FY3
Burberry Group PLC	2.75	2.54	2.42	10.7	9.4	8.6	16.5	14.3	13.3
Capri Holdings Ltd	1.88	1.71	1.57	10.0	8.4	7.8	13.1	10.5	9.5
Compagnie Financière Richemont	3.05	2.78	2.61	12.9	11.0	10.0	20.7	17.0	15.0
Hermès International SCA	14.08	12.50	11.36	35.1	30.8	27.6	41.1	35.8	31.8
Kering SA	5.79	5.27	4.94	16.4	14.5	13.2	21.2	18.4	16.8
LVMH Moët Hennessy Louis Vuitton	5.84	5.24	4.78	19.4	16.9	15.1	26.2	22.5	19.8
Median Luxury	4.42	4.01	3.70	14.7	12.8	11.6	20.9	17.7	15.9
Eurotech SpA	1.96	1.34	1.02	14.0	7.8	5.0	22.5	10.2	6.0
Fine Foods & Pharmaceuticals	1.15	0.98	0.85	8.2	6.5	5.6	15.4	11.6	9.7
Freni Brembo SpA	1.52	1.37	1.29	8.0	7.1	6.7	14.1	12.1	11.0
Sabaf SpA	1.41	1.48	1.36	6.5	7.0	6.3	9.7	11.2	9.6
Median domestic B2B	1.46	1.37	1.15	8.1	7.1	6.0	14.8	11.4	9.7
Pattern SpA	1.06	0.86	0.67	10.4	7.1	5.0	16.5	9.7	6.3

Source: CFO Sim, Thomson Reuters Eikon





Income statement (€ m)	2019	2020	2021e	2022e	2023e
Revenues	55.6	52.6	56.2	64.3	74.2
Value of Production	55.3	54.0	56.3	64.5	74.4
Raw material and processing	(16.5)	(15.5)	(15.7)	(17.7)	(20.1)
Services	(23.0)	(19.0)	(20.6)	(23.9)	(27.5)
Personnel expenses	(9.2)	(12.4)	(13.8)	(14.6)	(16.0)
Other opex	(0.7)	(1.7)	(0.6)	(0.6)	(0.7)
EBITDA	5.9	5.4	5.7	7.7	10.1
D&A	(0.5)	(1.8)	(2.1)	(2.1)	(2.1)
EBIT	5.5	3.6	3.6	5.7	8.0
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	3.5	5.6	7.9
Income taxes	(1.6)	(0.5)	(1.1)	(1.7)	(2.4)
Minorities	0.0	(0.7)	(0.4)	(0.6)	(0.7)
Net Profit	3.8	2.3	2.0	3.4	4.9
Net Profit adj.	4.7	1.8	2.0	3.4	4.9
EBITDA Adjusted	7.2	4.9	5.7	7.7	10.1
Balance sheet (€ m)	2019	2020	2021e	2022e	2023e
Net Working Capital	2.5	3.3	3.8	3.9	3.8
Net Fixed Assets	2.5	10.7	11.8	10.4	9.0
Equity Investments	1.1	0.2	0.2	0.2	0.2
Other M/L Term A/L	(1.1)	(2.0)	(2.0)	(2.1)	(2.2)
Net Invested Capital	5.0	12.2	13.7	12.3	10.8
Net Financial Debt	(12.4)	(8.8)	(9.3)	(13.3)	(18.5)
Minorities	0.0	2.0	2.4	3.0	3.7
Group's Shareholders Equity	17.4	18.9	20.5	22.6	25.6
Financial Liabilities & Equity	5.0	12.2	13.7	12.3	10.8
Cash Flow statement (€ m)	2019	2020	2021e	2022e	2023e
Total net income	3.8	2.3	2.0	3.4	4.9
Depreciation	0.5	1.8	2.1	2.1	2.1
Other non-cash charges	(0.5)	0.9	0.0	0.1	0.1
Cash Flow from Oper. (CFO)	3.7	5.0	4.2	5.5	7.0
Change in NWC	0.2	0.1	(0.5)	(0.1)	0.0
FCF from Operations (FCFO)	3.9	5.1	3.7	5.4	7.1
Net Investments (CFI)	(1.9)	(5.2)	(3.2)	(0.7)	(0.7)
Free CF to the Firm (FCFF)	2.0	(0.1)	0.5	4.8	6.4
CF from financials (CFF)	7.8	7.5	0.2	(0.5)	(0.9)
Free Cash Flow to Equity (FCFE)	9.9	7.4	0.7	4.3	5.4
Financial ratios	2019	2020	2021e	2022e	2023e
EBITDA margin	10.7%	10.0%	10.1%	12.0%	13.5%
EBIT margin	9.9%	6.6%	6.4%	8.8%	10.7%
Net profit margin	6.9%	4.2%	3.6%	5.2%	6.5%
Tax rate	30.2%	13.2%	30.0%	30.0%	30.0%
Op NWC/Sales	4.6%	6.1%	6.7%	6.0%	5.1%
Interest coverage x	0.01	0.03	0.01	0.01	0.01
Net Debt/EBITDA x	(2.08)	(1.63)	(1.63)	(1.72)	(1.84)
Debt-to-Equity x	(0.71)	(0.46)	(0.45)	(0.59)	(0.72)
ROIC	75.7%	18.7%	14.9%	27.3%	45.0%
ROCE	24.1%	9.3%	8.8%	13.0%	16.7%
ROACE	32.8%	11.7%	9.1%	13.5%	17.4%
ROE	21.8%	12.0%	9.9%	14.9%	19.0%
Payout ratio	18.1%	0.0%	35.0%	35.0%	35.0%
Per share figures	2019	2020	2021e	2022e	2023e
Number of shares # m	13.72	13.72	13.72	13.72	13.72
Number of shares Fully Diluted # m	13.72	13.72	13.72	13.72	13.72
Average Number of shares Fully Diluted # m	13.72	13.72	13.72	13.72	13.72
EPS stated FD €	0.28	0.17	0.15	0.25	0.35
EPS adjusted FD €	0.34	0.13	0.15	0.25	0.35
EBITDA €	0.43	0.39	0.41	0.56	0.73
EBIT €	0.40	0.26	0.26	0.41	0.58
BV €	1.27	1.53	1.67	1.87	2.14
FCFO €	0.29	0.37	0.27	0.40	0.52
FCFF €	0.15	(0.01)	0.04	0.35	0.46
FCFE €	0.72	0.54	0.05	0.31	0.40
Dividend €	0.05	0.00	0.05	0.09	0.12



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.

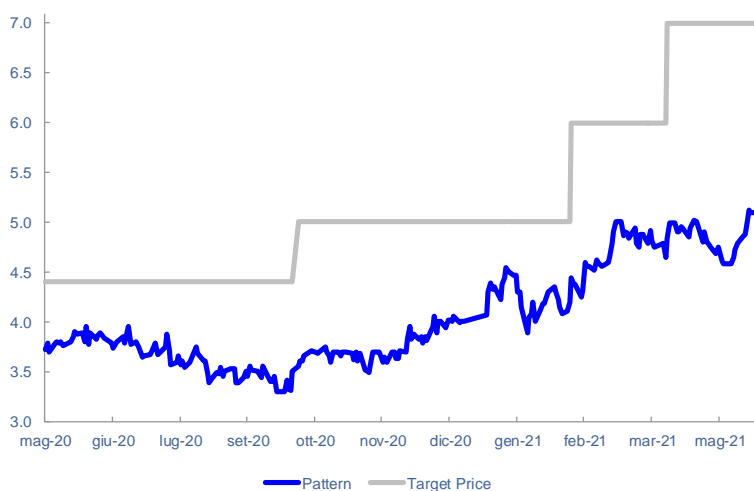
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DATE	TARGET PRICE	RATING
28/05/2021	€7.00	BUY
08/04/2021	€7.00	BUY
26/02/2021	€6.00	BUY
17/02/2021	€6.00	BUY
28/09/2020	€5.00	BUY
28/04/2020	€4.40	NEUTRAL

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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.

