

Italy – Luxury Engineering

Solid 2019 results – Uncertainties on 2020

25th March 2020

PRELIMINARY FY-19

RIC: PTRN.MI
BBG: PTR IM

Pattern announced remarkable preliminary FY-19 results, better than CFO SIM forecasts and IPO guidance. However, the spread of the COVID-19 epidemic will certainly affect the global economy with the luxury industry facing a certain slowdown in the short term.

Rating:

Buy

Price Target:

€ U.R. (€ 5.80)

Upside/(Downside): -

Last Price: € 3.73

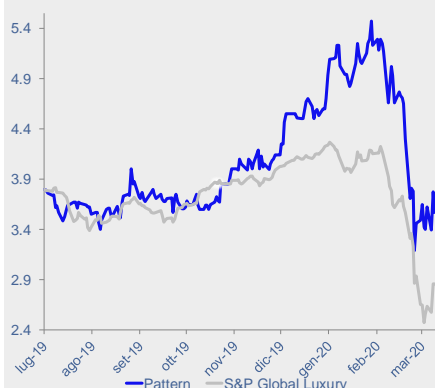
Market Cap.: € 50.7m

1Y High/Low: € 5.50/€ 3.03

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	-21.7%	-17.2%	n.a.
Rel.to AIM Italia	-4.6%	1.6%	n.a.
Rel.to EU Sector	-4.0%	9.1%	n.a.

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Buoyant 2019 results, uncertainties on 2020: estimates and PT under revision

We put our estimates and price target under revision. Notwithstanding Pattern reported solid 2019 unaudited preliminary results, beating the guidance provided to the market during the IPO, we believe the deep spread of the COVID-19 epidemic will certainly affect the global economy. In particular, the latest severe restrictions imposed by many governments worldwide aimed at containing the virus contagion, will produce a certain production, trade and consumption slowdown. Many key clients of Pattern are updating on the impact of this plague: while trading in China has started to improve with the reopening of most of the luxury stores, revenues in EMEA and the Americas have fallen materially in recent weeks. Even if Pattern usually exhibits six month business visibility, this state of affairs will certainly have a negative influence on the 2020 Fall Winter incoming orders with an effect on FY-20 numbers. In this context, Pattern boasts a wide range of products and services with focus on technological innovation, high customer loyalty, a flexible manufacturing structure with outsourced production, low WC pressure, and an extremely solid balance sheet: all to weather the storm. On the back of the latest lockdown imposed by governments to contain the COVID-19 epidemic, Pattern postponed to 9-Apr the BoD meeting called for FY-19 results approval, previously scheduled for 26-Mar.

Total revenues soared by 25.5% to € 55.7m

2019 total revenues reached € 55.7m, up 25.5% vs. € 44.4m pro-forma revenues in 2018. The figure is 2.7% higher than CFO SIM estimates. Furthermore, the company exceeded the guidance provided to the market in occasion of the IPO: value of production for FY-19 was anticipated between € 54.2m and € 55.1m.

EBITDA adj. jumped 33% to € 7.2m, 12.9% margin

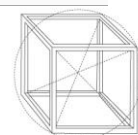
EBITDA adjusted for non-recurring costs related to the listing process was € 7.2m, 12.9% margin. Our € 6.5m forecast does not include the IPO costs too, since we anticipated them entirely capitalised in our model. EBITDA reported totalled € 5.9m, 10.6% margin and compares with € 5.4m pro-forma EBITDA in 2018 (12.2% margin).

Net cash increased to € 12.4m thanks to IPO proceeds and generous CF generation

Net Financial Position improved to € 12.4m cash from € 3.9m cash at end-18, thanks to the € 8.5m IPO fresh resources and a generous cash flow generation. Bear in mind that CFO SIM Net Financial Position projection of € 10.8m cash at the end-19 includes € 1.0m capitalised costs related to the listing process, whilst Pattern charged them into P&L instead of capitalising.

Pattern, key financials and ratios

€ m	2018 PF	2019e	2020e	2021e
Value of Production	44.3	54.3	77.4	83.5
EBITDA	5.4	6.5	9.8	11.1
EBIT	4.9	5.8	7.5	8.8
Net profit	3.6	4.2	4.6	5.5
NFP (cash)/debt	(3.9)	(10.8)	(5.9)	(10.9)
EBITDA margin	12.2%	12.0%	12.7%	13.3%
EBIT margin	11.1%	10.6%	9.7%	10.5%
EPS	0.27	0.31	0.34	0.40
EPS growth	-	15.1%	11.5%	17.9%
Dividend	-	0.13	0.11	0.12
Dividend Yield	-	3.5%	2.9%	3.2%
ROCE	46.3%	26.5%	24.6%	25.4%
NWC/Sales	6.2%	5.9%	6.0%	6.1%
Free Cash Flow Yield	-	0.3%	-0.9%	13.1%
PER x	-	12.2	10.9	9.3
EV/Sales x	-	0.74	0.58	0.48
EV/EBITDA x	-	6.1	4.6	3.6
EV/EBIT x	-	6.9	6.0	4.5





The Company at a Glance

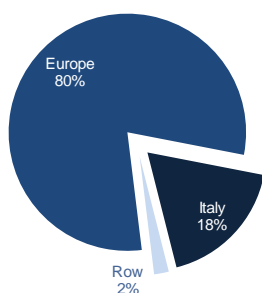
Founded in 2000 by Fulvio Botto and Francesco Martorella (current group directors and major shareholders with a 34.3% stake each), Pattern is the third Italian player specialised in modelling, engineering, grading, prototyping and production of luxury clothing for men and women, and the undisputed leader in outerwear niche, operating in the catwalk segment and first lines of the most prestigious global luxury brands. The group manages the entire engineering 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 prototyping 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.

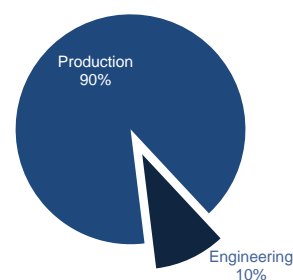
Since 2015, Pattern voluntarily draws up the sustainability report according to the reporting guidelines of the Global Reporting Initiative (GRI Standard), underling its attention to the Corporate Social Responsibility principles.

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.

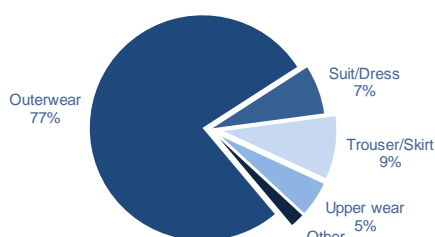
2018PF breakdown by geography...



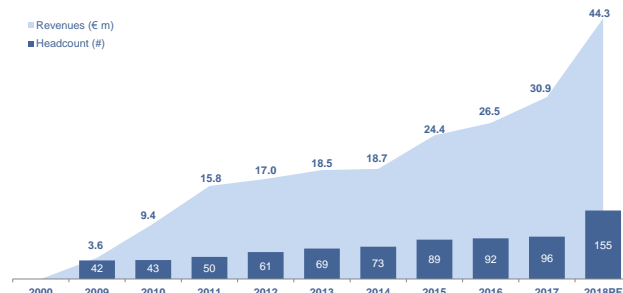
... by service ...



... and by product line



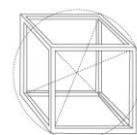
Top line and headcount evolution



Peers group multiples table

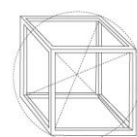
EV multiples x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3	EBIT FY1	EBIT FY2	EBIT FY3
Burberry Group PLC	1.58	1.52	1.42	8.6	7.7	6.7	11.0	9.9	8.3
Capri Holdings Ltd	0.64	0.60	0.49	3.7	3.4	2.6	4.8	4.4	3.4
Compagnie Financiere Richemont SA	1.66	1.58	1.45	8.2	7.6	6.6	12.8	11.7	9.7
Hermes International SCA	8.66	7.69	6.94	22.2	19.1	17.2	26.3	22.5	20.2
Kering SA	3.67	3.14	2.88	10.6	8.9	8.1	12.7	10.5	9.5
LVMH Moet Hennessy Louis Vuitton SE	3.36	2.98	2.70	12.4	10.7	9.5	16.3	13.8	12.3
Median Luxury	2.51	2.28	2.08	9.6	8.3	7.4	12.7	11.1	9.6
Biodue SpA *	1.83	1.59	1.38	9.3	7.6	6.3	12.6	9.8	7.9
Fine Foods & Pharmaceuticals NTM SpA	0.92	0.78	1.19	7.3	5.6	8.0	15.4	10.4	14.8
Freni Brembo SpA	1.12	1.02	0.97	5.9	5.3	5.1	10.4	9.1	12.1
Pininfarina SpA	0.66	0.57	0.52	n.s.	11.7	6.1	n.s.	n.a.	n.s.
Median domestic B2B	1.02	0.90	1.08	7.3	6.6	6.2	12.6	9.8	12.1
Pattern SpA	0.74	0.58	0.48	6.1	4.6	3.6	6.9	6.0	4.5

Source: CFO Sim, Thomson Reuters Eikon *multiples calculated at the takeover bid price





Income statement (€ m)	2018 PF	2019e	2020e	2021e
Revenues	43.8	54.2	77.3	83.4
Value of Production	44.3	54.3	77.4	83.5
Raw material and processing	(13.9)	(17.5)	(23.2)	(25.1)
Services	(16.9)	(21.7)	(29.4)	(31.7)
Personnel expenses	(7.3)	(7.5)	(13.3)	(13.9)
Other opex	(0.8)	(1.1)	(1.7)	(1.8)
EBITDA	5.4	6.5	9.8	11.1
D&A	(0.5)	(0.8)	(2.3)	(2.3)
EBIT	4.9	5.8	7.5	8.8
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	7.4	8.7
Income taxes	(1.3)	(1.5)	(2.0)	(2.4)
Minorities	0.0	0.0	(0.7)	(0.8)
Net Profit	3.6	4.2	4.6	5.5
Net Profit Adjusted	3.6	4.2	4.6	5.5
Balance sheet (€ m)	2018 PF	2019e	2020e	2021e
Net Working Capital	2.7	3.2	4.7	5.1
Net Fixed Assets	1.8	4.4	7.8	6.1
Equity Investments	0.0	0.0	5.3	5.3
Other M/L Term A/L	(1.5)	(0.7)	2.7	2.8
Net Invested Capital	3.0	7.0	20.4	19.2
Net Financial Debt	(3.9)	(10.8)	(5.9)	(10.9)
Minorities	0.0	0.0	6.0	6.8
Group's Shareholders Equity	6.9	17.8	20.2	23.3
Financial Liabilities & Equity	3.0	7.0	20.4	19.2
Cash Flow statement (€ m)	2018 PF	2019e	2020e	2021e
Total net income	-	4.2	4.6	5.5
Depreciation	-	0.8	2.3	2.3
Other non-cash charges	-	(0.9)	(0.3)	(0.1)
Cash Flow from Oper. (CFO)	-	4.1	6.6	7.7
Change in NWC	-	(0.5)	(1.4)	(0.4)
FCF from Operations (FCFO)	-	3.6	5.2	7.3
Net Investments (CFI)	-	(3.4)	(5.7)	(0.7)
Free CF to the Firm (FCFF)	-	0.2	(0.5)	6.6
CF from financials (CFF)	-	6.7	(4.4)	(1.6)
Free Cash Flow to Equity (FCFE)	-	6.9	(4.9)	5.0
Financial ratios	2018 PF	2019e	2020e	2021e
EBITDA margin	12.2%	12.0%	12.7%	13.3%
EBIT margin	11.1%	10.6%	9.7%	10.5%
Net profit margin	8.2%	7.7%	6.0%	6.6%
Tax rate	27.1%	27.0%	27.5%	27.5%
Op NWC/Sales	6.2%	5.9%	6.0%	6.1%
Interest coverage x	(0.01)	0.01	0.01	0.01
Net Debt/EBITDA x	(0.72)	(1.65)	(0.60)	(0.98)
Debt-to-Equity x	(0.57)	(0.61)	(0.29)	(0.47)
ROIC	120.9%	59.5%	22.8%	28.4%
ROCE	46.3%	26.5%	24.6%	25.4%
ROACE	-	35.5%	28.8%	26.9%
ROE	52.4%	23.4%	23.0%	23.5%
Payout ratio	-	43.2%	31.4%	29.7%
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	0.40
EPS adjusted FD €	0.27	0.31	0.34	0.40
EBITDA €	0.40	0.48	0.72	0.82
EBIT €	0.36	0.42	0.55	0.64
BV €	0.51	1.31	1.93	2.21
FCFO €	-	0.26	0.38	0.53
FCFF €	-	0.01	(0.03)	0.49
FCFE €	-	0.51	(0.36)	0.37
Dividend €	-	0.13	0.11	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.

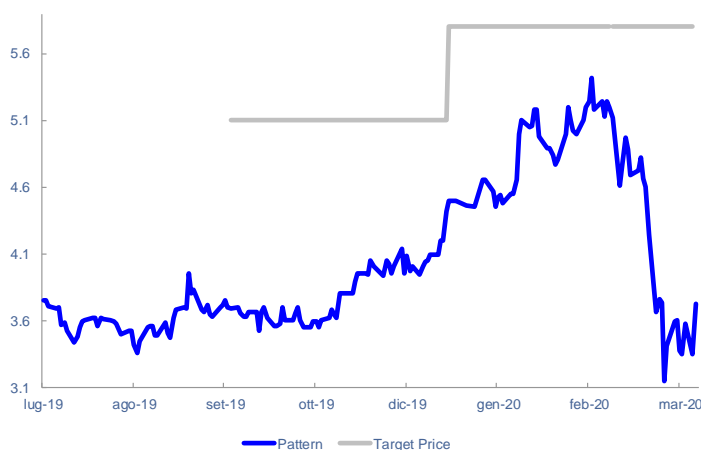
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DATE	TARGET PRICE	RATING
25/03/2020	U.R.	BUY
20/12/2019	€5.80	BUY
27/09/2019	€5.10	BUY

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- 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.

