Italy – Luxury Engineering

Pattern goes shopping in an adjacent synergic niche

20th December 2019

S.M.T. ACQUISITION

RIC: PTRN.MI
BBG: PTR IM

Pattern buys 51% of S.M.T., specialised in prototyping, engineering and production of luxury knitwear. The acquisition brings in € 9.5m (€ 0.70/s) additional value to our assessment of Pattern. The group is indisputably delivering what announced in the IPO.

Rating:

Buy

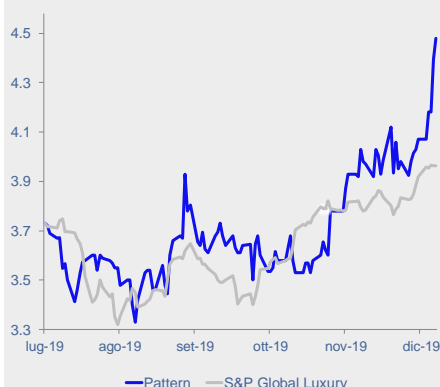**Price Target:**

€ 5.80 (€ 5.10)

Upside/(Downside): 31.4%

Last Price: € 4.42

Market Cap.: € 60.1m

1Y High/Low: € 4.51/€ 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%

Pattern   S&P Global Luxury

Stock price performance

	1M	3M	12M
Absolute	10.4%	21.1%	n.a.
Rel.to AIM Italia	12.0%	19.6%	n.a.
Rel.to EU Sector	6.4%	13.6%	n.a.

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A value accretive acquisition: new PT € 5.80 (€ 5.10). Buy reiterated
This move brings in € 9.5m (€ 0.70/s) additional value to Pattern appraisal. In addition, the acquisition is accretive at EBITDA and Net Profit level. We have updated our model to factor in S.M.T. consolidation: the result is a 35.7% and 34.4% rise in EBITDA in 2020-21 (+40bps and 30bps for EBITDA margin in the same period) and a 1.8% and 2.2% bottom line increase vs. our previous assumptions. In order to properly factor in the effect of the consolidation of S.M.T., we now value the company on 2020 numbers (prev. 2019e): the new PT stands at € 5.80 (€ 5.10), 31.4% upside. We reiterate our Buy rating on the stock.

S.M.T. is an highly specialised player in the luxury knitwear niche
S.M.T. (Società Manifattura Tessile), headquartered in Correggio (Reggio Emilia, Italy), is specialised in prototyping, engineering and production of luxury knitwear, working with the most prestigious global luxury brands. Thanks to steady R&D investments and the use of the best in class technologies and machinery for the knitwear production, the firm is able to satisfy all weaving needs of its clients. The S.M.T. business model is pretty similar to the Pattern one: the high-value added engineering and prototyping phases are carried out internally thanks to some 110 employees of which a team of over 20 people dedicated to the development of new customers collections.

**A fairly priced acquisition: 5.8x EBITDA₁₉ₑ**
Pattern pays € 5.5m for the 51% stake of the company, of which € 1.1m at the signing and the remainder at the approval of the S.M.T. FY-19 results. The price corresponds to 5.8x 2019e EBITDA adj., and it compares with 7.6x current market valuation of Pattern, 8.4x of the median of a sample of domestic B2B players and 13.5x of the median of a panel of luxury players. In 2019 S.M.T. expects revenues to exceed € 17.0m (€ 11.3m in FY-18), adj. EBITDA at € 2.4m (margin of 14.0% vs. 8.8% reported in FY-18) and NFP at € 3.0m debt (vs. € 3.5m debt in FY-18). S.M.T. will be consolidated as from Jan-20.

Client portfolio increases, highly likely synergies not in our estimates
Pattern is definitely delivering what announced in the occasion of the IPO: this fairly paid acquisition in the knitwear niche (valued some € 300m), an highly synergic segment in which the group was not present, is the first step to build the Italian leading hub of luxury fashion engineering. The group enlarges its customer base, adding a few new luxury brands to its portfolio. Prudentially, we do not take into account any possible synergies stemming from the acquisition integration in the estimates: highly likely cross-selling benefits are on top of current updated CFO SIM projections.

Pattern, key financials and ratios

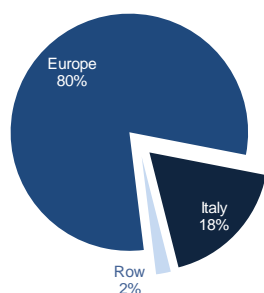| € m	2018 PF	2019e	2020e	2021e
Value of Production	44.3	54.3	77.4	83.5
EBITDA	5.4	6.5	9.8	11.1
EBIT	4.9	5.8	7.5	8.8
Net profit	3.6	4.2	4.6	5.5
NFP (cash)/debt	(3.9)	(10.8)	(5.9)	(10.9)
EBITDA margin	12.2%	12.0%	12.7%	13.3%
EBIT margin	11.1%	10.6%	9.7%	10.5%
EPS	0.27	0.31	0.34	0.40
EPS growth	-	*15.1%*	*11.5%*	*17.9%*
Dividend	-	0.13	0.11	0.12
Dividend Yield	-	3.0%	2.4%	2.7%
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%	-0.8%	11.0%
PER x	-	14.4	12.9	11.0
EV/Sales x	-	0.91	0.70	0.59
EV/EBITDA x	-	7.6	5.5	4.4
EV/EBIT x	-	8.6	7.2	5.6
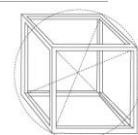
The Company at a Glance

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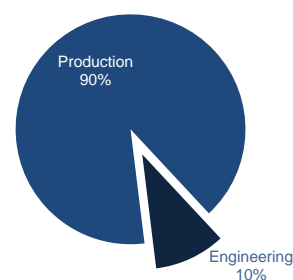
Since 2015, Pattern voluntarily draws up the sustainability report according to the reporting guidelines of the Global Reporting Initiative (GRI Standard), underling its attention to the Corporate Social Responsibility principles.

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.
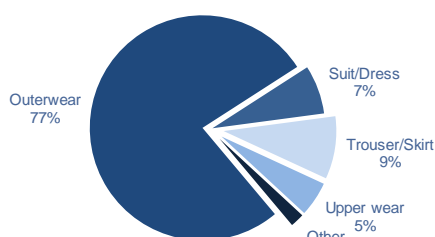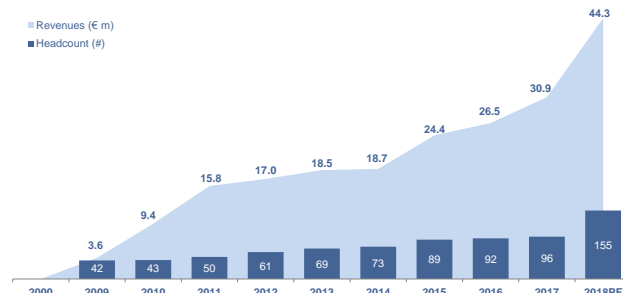
2018PF breakdown by geography…

Europe 80%
Italy 18%
Row 2%

… by service …

Production 90%
Engineering 10%

… and by product line

Outerwear 77%
Suit/Dress 7%
Trouser/Skirt 9%
Upper wear 5%
Other 2%

Top line and headcount evolution

Revenues (€ m)
Headcount (#)

2000	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018PF
3.6	9.4	15.8	17.0	18.5	18.7	24.4	26.5	30.9		44.3
42	43	50	61	69	73	89	92	96		155

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	2.77	2.60	2.46	13.4	12.0	10.8	16.9	15.2	13.4
Capri Holdings Ltd	1.32	1.16	1.03	6.9	5.8	5.1	8.7	7.4	6.5
Compagnie Financiere Richemont SA	2.21	2.06	1.93	10.4	9.6	8.8	15.5	13.8	12.4
Hermes International SCA	9.69	8.78	7.98	24.6	22.2	20.0	28.6	25.7	23.2
Kering SA	4.77	4.32	3.89	13.6	12.3	11.1	16.0	14.3	12.7
LVMH Moet Hennessy Louis Vuitton SE	3.89	3.55	3.23	14.5	13.0	11.6	18.2	16.3	14.5
Median Luxury	**3.33**	**3.07**	**2.84**	**13.5**	**12.1**	**11.0**	**16.4**	**14.7**	**13.0**
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	1.09	0.93	1.33	8.4	6.7	9.0	17.7	12.4	16.5
Freni Brembo SpA	1.54	1.47	1.31	7.9	7.6	6.8	12.6	11.9	10.6
Pininfarina SpA	1.03	0.91	n.a.	n.s	18.6	n.a.	n.s.	n.a.	n.a.
Median domestic B2B	**1.32**	**1.20**	**1.33**	**8.4**	**7.6**	**6.8**	**12.6**	**11.9**	**10.6**
Pattern SpA	**0.91**	**0.70**	**0.59**	**7.6**	**5.5**	**4.4**	**8.6**	**7.2**	**5.6**

*Source: CFO Sim, Thomson Reuters Eikon   *multiples calculated at the takeover bid price*
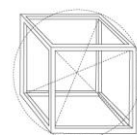
Income statement (€ m)	2018 PF	2019e	2020e	2021e
Revenues	43.8	54.2	77.3	83.4
Value of Production	44.3	54.3	77.4	83.5
Raw material and processing	(13.9)	(17.5)	(23.2)	(25.1)
Services	(16.9)	(21.7)	(29.4)	(31.7)
Personnel expenses	(7.3)	(7.5)	(13.3)	(13.9)
Other opex	(0.8)	(1.1)	(1.7)	(1.8)
EBITDA	5.4	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
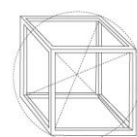
Valuation & Risks

The acquisition of S.M.T. brings in € 9.5m (€ 0.70/s) additional value to Pattern appraisal. In addition, **the move is accretive at EBITDA and Net Profit level**. We have updated our model to factor in S.M.T. consolidation: the result is a 35.7% and 34.4% rise in EBITDA in 2020-21 (+40bps and 30bps for EBITDA margin in the same period) and a 1.8% and 2.2% bottom line increase vs. our previous assumptions. **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 2020e EV/EBITDA, EV/EBIT and PER multiple (prev. 2019e)** of the latter group to Pattern metrics, in order **to properly factor in the effect of the consolidation of S.M.T.**, we get an appraisal of Pattern to the tune of **€ 5.80/s (€ 5.10), 31.4% upside. We reiterate our Buy recommendation on the stock.**

We have also updated the DCF valuation criteria, bringing the free risk rate up-to-date. The model is based on standard settings for a small-cap, including a cautious g=1.00%, beta=1.00 and WACC=10.3%, penalised by the zero debt balance sheet structure. According to the **DCF model, we asses a valuation of € 5.90/s**, corroborating the value obtained by the market practice.

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.

Market Multiples

Pattern operates the high value added engineering and prototyping 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.

Noteworthy, **BioDue** (one of the companies selected within the B2B panel) **was subjected to a takeover bid** ended last 2-Dec and its shares are no longer listed since last 11-Dec. In order to give an appraisal of Pattern consistent with our previous assessment, **we considered the BioDue's multiples at the takeover bid price.**

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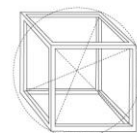
Hermes International SCA: founded in 1837, is an independent, family owned company. The company is dedicated to keeping the essential element of production in France through its 42 workshops and to developing its network of 310 stores in over 49 countries.

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 CFO SIM estimates, entailing organic growth and the consolidation of S.M.T. as from Jan-20, **Pattern shows by far the highest sales, EBITDA and EBIT CAGR**.
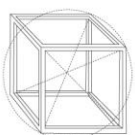
Table 1 - Pattern, peer group summary table

€ m	Country	Mkt Cap	Sales FY1	EBITDA FY1	EBITDA %	Sales CAGR₁₈₋₂₁	EBITDA CAGR₁₈₋₂₁	EBIT CAGR₁₈₋₂₁	EPS CAGR₁₉₋₂₁	NFP FY1	NFP /EBITDA
Burberry Group PLC	UK	10,315	3,391	701	20.7%	5.4%	8.4%	9.1%	10.4%	(909)	n.m.
Capri Holdings Ltd	US	5,238	5,200	995	19.1%	6.3%	5.0%	4.6%	5.9%	1,607	1.6
Compagnie Financiere Richemont	F	36,077	15,073	3,184	21.1%	6.5%	10.1%	10.4%	11.5%	(2,816)	n.m.
Hermes International SCA	F	70,126	6,832	2,688	39.3%	10.4%	7.9%	8.7%	10.4%	(3,938)	n.m.
Kering SA	F	72,905	15,766	5,524	35.0%	10.5%	13.4%	12.7%	14.2%	2,353	0.4
LVMH Moet Hennessy Louis Vuitton	F	203,145	53,484	14,378	26.9%	9.7%	12.8%	11.2%	10.5%	4,868	0.3
Median Luxury		**53,101**	**10,952**	**2,936**	**24.0%**	**8.1%**	**9.3%**	**9.7%**	**10.5%**	**349**	**0.4**
Biodue SpA	IT	72	45	9	19.5%	9.8%	17.2%	20.7%	21.1%	10	1.1
Fine Foods & Pharmaceuticals	IT	216	162	21	13.0%	12.6%	18.1%	16.3%	29.1%	(39)	n.m.
Freni Brembo SpA	IT	3,700	2,598	507	19.5%	1.7%	3.8%	1.7%	5.0%	307	0.6
Pininfarina SpA	IT	86	93	0	0.0%	n.a.	n.a.	n.a.	n.a.	10	n.m.
Median domestic B2B		**151**	**128**	**15**	**16.2%**	**9.8%**	**17.2%**	**16.3%**	**21.1%**	**10**	**0.9**
Pattern SpA	**IT**	**60**	**54**	**7**	**12.1%**	**23.9%**	**27.1%**	**21.1%**	**14.6%**	**(11)**	**n.m.**

Source: CFO Sim, Thomson Reuters Eikon

Table 2 - Pattern, peer group EV multiple table

x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3
Burberry Group PLC	2.77	2.60	2.46	13.4	12.0	10.8
Capri Holdings Ltd	1.32	1.16	1.03	6.9	5.8	5.1
Compagnie Financiere Richemont SA	2.21	2.06	1.93	10.4	9.6	8.8
Hermes International SCA	9.69	8.78	7.98	24.6	22.2	20.0
Kering SA	4.77	4.32	3.89	13.6	12.3	11.1
LVMH Moet Hennessy Louis Vuitton SE	3.89	3.55	3.23	14.5	13.0	11.6
Median Luxury	**3.33**	**3.07**	**2.84**	**13.5**	**12.1**	**11.0**
Biodue SpA*	1.83	1.59	1.38	9.3	7.6	6.3
Fine Foods & Pharmaceuticals NTM SpA	1.09	0.93	1.33	8.4	6.7	9.0
Freni Brembo SpA	1.54	1.47	1.31	7.9	7.6	6.8
Pininfarina SpA	1.03	0.91	n.a.	n.s	18.6	n.a.
Median domestic B2B	**1.32**	**1.20**	**1.33**	**8.4**	**7.6**	**6.8**
Pattern SpA	**0.91**	**0.70**	**0.59**	**7.6**	**5.5**	**4.4**
% premium/(discount) to luxury peers	*(72.7)*	*(77.2)*	*(79.2)*	*(44.1)*	*(54.4)*	*(59.5)*
% premium/(discount) to domestic B2B peers	*(30.8)*	*(41.5)*	*(55.6)*	*(10.2)*	*(27.0)*	*(34.6)*

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

Table 3 - Pattern, peer group EV & price multiple table

x	EBIT FY1	EBIT FY2	EBIT FY3	PER FY1	PER FY2	PER FY3
Burberry Group PLC	16.9	15.2	13.4	24.0	21.7	19.7
Capri Holdings Ltd	8.7	7.4	6.5	7.7	7.2	6.9
Compagnie Financiere Richemont	15.5	13.8	12.4	22.4	19.9	18.0
Hermes International SCA	28.6	25.7	23.2	46.0	41.4	37.8
Kering SA	16.0	14.3	12.7	24.3	20.4	18.7
LVMH Moet Hennessy Louis Vuitton	18.2	16.3	14.5	27.6	24.6	22.6
Median Luxury	**16.4**	**14.7**	**13.0**	**24.2**	**21.0**	**19.2**
Biodue SpA	12.6	9.8	7.9	15.7	12.9	10.7
Fine Foods & Pharmaceuticals	17.7	12.4	16.5	28.8	20.5	17.3
Freni Brembo SpA	12.6	11.9	10.6	16.2	15.4	14.7
Pininfarina SpA	n.s.	n.a.	n.a.	n.s.	n.s.	n.a.
Median domestic B2B	**12.6**	**11.9**	**10.6**	**16.2**	**15.4**	**14.7**
Pattern SpA	**8.6**	**7.2**	**5.6**	**14.4**	**12.9**	**11.0**
% premium/(discount) to luxury peers	*(47.9)*	*(51.0)*	*(56.9)*	*(40.3)*	*(38.5)*	*(42.7)*
% premium/(discount) to domestic B2B peers	*(32.1)*	*(39.6)*	*(46.7)*	*(11.0)*	*(15.7)*	*(25.3)*

*Source: CFO Sim, Thomson Reuters Eikon   *multiples calculated at the takeover bid price*
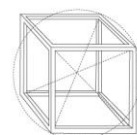
Due to the **larger size and returns of the luxury players**, we simply use the median sales CAGR$_{18\text{-}21}$ of the sample just to calibrate the expected top line growth for Pattern in the same period used in our forecasts. Regarding the domestic B2B peers, we tried to set up a list of companies 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 € 5.80/s (€ 5.10)**, using 2020 estimates and multiples (prev. 2019e), in order to properly factor in the effect of the consolidation of S.M.T.

Table 4 - Pattern, pre-money equity assessment, 1#3

€ m	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3
Median B2B Peers (x)	**1.32**	**1.20**	**1.33**	**8.4**	**7.6**	**6.8**
Pattern metric	54.2	77.3	83.4	6.5	9.8	11.1
NFP	10.8	5.9	10.9	10.8	5.9	10.9
Minorities (valued at acquisition 7.8x PER)	0.0	(5.8)	(6.3)	0.0	(5.8)	(6.3)
Pattern Equity Value	**82.1**	**92.8**	**115.5**	**65.7**	**74.4**	**79.9**
Pattern Equity Value/share €	**6.03**	**6.82**	**8.48**	**4.83**	**5.47**	**5.87**

Source: CFO Sim, Thomson Reuters Eikon

Table 5 - Pattern, pre-money equity assessment, 2#3

€ m	EBIT FY1	EBIT FY2	EBIT FY3	PER FY1	PER FY2	PER FY3
Median B2B Peers (x)	**12.6**	**11.9**	**10.6**	**16.2**	**15.4**	**14.7**
Pattern metric	5.8	7.5	8.8	4.2	4.6	5.5
NFP	10.8	5.9	10.9			
Minorities (valued at acquisition 7.8x PER)	0.0	(5.8)	(6.3)			
Pattern Equity Value	**83.4**	**89.9**	**97.0**	**67.5**	**71.3**	**80.5**
Pattern Equity Value/share €	**6.13**	**6.60**	**7.13**	**4.96**	**5.24**	**5.91**

Source: CFO Sim, Thomson Reuters Eikon

Table 6 - Digital Value, equity value assessment, 3#3

| € m	FY1	FY2	FY3
EV/EBITDA	4.83	5.47	5.87
EV/EBIT	6.13	6.60	7.13
PER	4.96	5.24	5.91
Average	**5.31**	**5.77**	**6.30**
Weighting	*0.0%*	*100.0%*	*0.0%*
Equity Value €/s	**5.80**		
% upside/(downside)	*31.4%*		

Source: CFO Sim, Thomson Reuters Eikon

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 7 - 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)	1.30%
Beta levered (x)	1.00
Required ROE	**10.3%**

Source: CFO Sim, Thomson Reuters Eikon
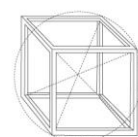
Risk premium at 9.0% factors in the minute size of the company and basically all AIM Italia market segment related concerns and disquiets that an investor might have. **Beta at 1** has been set taking into account the lower liquidity of the company and it is in line with the 5Y Beta calculated from the domestic B2B peer group (1.04x). The WACC is computed using 0/100% debt/equity current balance sheet structure, thus penalising the valuation of the group.

Table 8 - Pattern, DCF model

€ m	2019e	2020e	2021e	2022e	2023e	Term. Val.
EBIT	5.8	7.5	8.8	10.1	11.1	
Tax rate	27.0%	27.5%	27.5%	27.5%	27.5%	
Operating profit (NOPAT)	**4.2**	**5.5**	**6.4**	**7.3**	**8.0**	
Change working capital	(0.5)	(1.4)	(0.4)	(0.5)	(0.5)	
Depreciation	0.8	2.3	2.3	2.3	0.7	
Investments	(3.4)	(5.7)	(0.7)	(0.7)	(0.7)	
Free Cash Flows	**1.1**	**0.7**	**7.6**	**8.5**	**7.6**	**82.3**
Present value	1.1	0.6	6.2	6.3	5.1	**55.4**
WACC	10.3%	10.3%	10.3%	10.3%	10.3%	
Long-term growth rate	**1.0%**					

Source: CFO Sim

Table 9 – Pattern, DCF derived from:

€ m	
Total EV present value € m	74.8
thereof terminal value	*74.1%*
NFP last reported adj.	12.6
Pension provision	(0.8)
Minorities (valued at acquisition 7.8x PER)	(5.8)
Equity value € m	**80.8**
#m shares	13.62
Equity value €/s	**5.90**
% upside/(downside)	*33.6%*

Source: CFO Sim

The outcome of our DCF model set up an equity value of € 80.8m for Pattern, € 5.90/s (€ 5.30).

The following tables illustrate that sensitivity 1) compared to changes in the terminal growth rate produces an equity value between **€ 5.50-6.47/s (perpetuity range between 0.00% and 2.00%)**, while 2) compared to changes in the free risk rate produces an equity value of **€ 5.37-6.63/s (free risk range between 2.30% and 0.30%)** and 3) compared to changes in the risk premium, including small size premium results into an equity value of **€ 4.91-7.52/s (risk premium range between 11.0% and 7.00%)**.

Table 10 – 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	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4
PV of terminal value	49.5	50.9	52.3	53.8	55.4	57.1	58.9	60.7	62.7
Total value	**68.9**	**70.3**	**71.7**	**73.2**	**74.8**	**76.4**	**78.2**	**80.1**	**82.1**
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)
Minorities	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)
Equity value	**74.9**	**76.2**	**77.7**	**79.2**	**80.8**	**82.4**	**84.2**	**86.1**	**88.0**
Equity value/share €	**5.50**	**5.60**	**5.70**	**5.81**	**5.90**	**6.05**	**6.18**	**6.32**	**6.47**

Source: CFO Sim
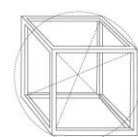
Table 11 – Pattern, equity value sensitivity to changes in free risk rate

€ m	0.30%	0.55%	0.80%	1.05%	1.30%	1.55%	1.80%	2.05%	2.30%
Present value of CF	19.8	19.7	19.6	19.5	19.4	19.2	19.1	19.0	18.9
PV of terminal value	64.4	62.0	59.6	57.5	55.4	53.5	51.6	49.9	48.2
Total value	**84.3**	**81.7**	**79.2**	**76.9**	**74.8**	**72.7**	**70.8**	**68.9**	**67.1**
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)
Minorities	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)
Equity value	**90.2**	**87.7**	**85.2**	**82.9**	**80.8**	**78.7**	**76.7**	**74.9**	**73.1**
Equity value/share €	**6.63**	**6.44**	**6.26**	**6.09**	**5.90**	**5.78**	**5.64**	**5.50**	**5.37**

Source: CFO Sim

Table 12 – 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	20.4	20.1	19.8	19.6	19.4	19.1	18.9	18.7	18.4
PV of terminal value	76.0	69.8	64.4	59.6	55.4	51.6	48.2	45.2	42.4
Total value	**96.4**	**89.9**	**84.3**	**79.2**	**74.8**	**70.8**	**67.1**	**63.8**	**60.9**
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)
Minorities	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)
Equity value	**102.3**	**95.9**	**90.2**	**85.2**	**80.8**	**76.7**	**73.1**	**69.8**	**66.8**
Equity value/share €	**7.52**	**7.04**	**6.63**	**6.26**	**5.90**	**5.64**	**5.37**	**5.13**	**4.91**

Source: CFO Sim

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 13 - Pattern, EVA generation

	2018 PF	2019e	2020e	2021e
ROCE	46.3%	26.5%	24.6%	25.4%
Pretax WACC	14.1%	14.1%	14.2%	14.2%
Value creation/(destruction.)	**32.1%**	**12.4%**	**10.4%**	**11.2%**
Consolidated tax rate	27.1%	27.0%	27.5%	27.5%
ROCE - post tax	33.7%	19.3%	17.9%	18.4%
WACC	10.3%	10.3%	10.3%	10.3%
Value creation/(destruction.) - post tax	**23.4%**	**9.0%**	**7.6%**	**8.1%**

Source: CFO Sim
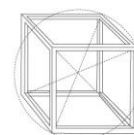
Peer Stock Performance

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 14 - Pattern, peer group and indexes absolute performance

	1D	1W	1M	3M	6M	YTD	1Y
Burberry Group PLC	(1.7)	4.4	5.9	0.9	20.8	23.9	24.2
Capri Holdings Ltd	(0.7)	(2.3)	11.2	17.9	9.9	1.3	1.3
Compagnie Financiere Richemont	(1.1)	0.2	0.8	0.4	(7.9)	19.6	19.2
Hermes International SCA	(0.7)	0.4	1.7	5.6	4.9	37.1	39.3
Kering SA	(0.1)	4.7	6.7	24.9	12.6	40.4	41.7
LVMH Moet Hennessy Louis Vuitton	0.3	1.0	2.0	9.5	8.7	55.8	59.4
Median Luxury	**(0.7)**	**0.7**	**3.9**	**7.6**	**9.3**	**30.5**	**31.7**
Biodue SpA	-	(0.6)	-	0.3	19.1	28.6	25.6
Fine Foods & Pharmaceuticals	0.8	0.8	9.2	15.5	19.0	28.6	36.0
Freni Brembo SpA	(1.5)	(2.5)	4.3	17.2	7.4	24.7	19.0
Pininfarina SpA	(0.7)	(2.5)	(4.7)	(13.2)	5.2	(30.0)	(30.4)
Median domestic B2B	**(0.4)**	**(1.5)**	**2.2**	**7.9**	**13.2**	**26.6**	**22.3**
Pattern SpA	**5.1**	**9.0**	**10.4**	**21.1**	**n.a.**	**n.a.**	**n.a.**
MSCI World Index	0.3	1.4	3.1	6.2	7.2	24.2	23.7
EUROSTOXX	0.1	1.1	1.9	5.3	7.5	23.0	20.8
FTSE Italia All Share	0.3	1.1	2.0	7.2	10.9	28.2	24.5
FTSE STAR Italia	(0.2)	(0.4)	4.2	11.1	10.9	27.9	26.3
FTSE AIM Italia	0.4	0.1	2.8	(0.5)	(10.0)	(3.9)	(2.1)

Source: Thomson Reuters Eikon

Table 15 – Pattern relative performances

|	1D	1W	1M	3M	6M	YTD	1Y
to MSCI World Index	4.8	7.7	7.3	15.0	n.a.	n.a.	n.a.
to EUROSTOXX	5.0	7.9	8.4	15.8	n.a.	n.a.	n.a.
to FTSE Italia All Share	4.8	7.9	8.4	13.9	n.a.	n.a.	n.a.
to FTSE STAR Italia	5.3	9.4	6.2	10.0	n.a.	n.a.	n.a.
to FTSE AIM Italia	4.7	8.9	7.6	21.6	n.a.	n.a.	n.a.
to Domestic B2B Peer Median	5.5	10.5	8.2	13.2	n.a.	n.a.	n.a.
to Luxury Peer Median	5.8	8.3	6.4	13.6	n.a.	n.a.	n.a.

Source: Thomson Reuters Eikon

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)
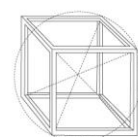
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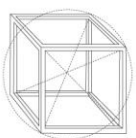
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This publication was prepared by **LUCA ARENA**, Head of the Equity Research Department of "Corporate Family Office SIM S.p.A." ("CFO SIM") and **GIANLUCA MOZZALI**, Equity Analyst of CFO SIM. This is to certify that the views expressed on the companies 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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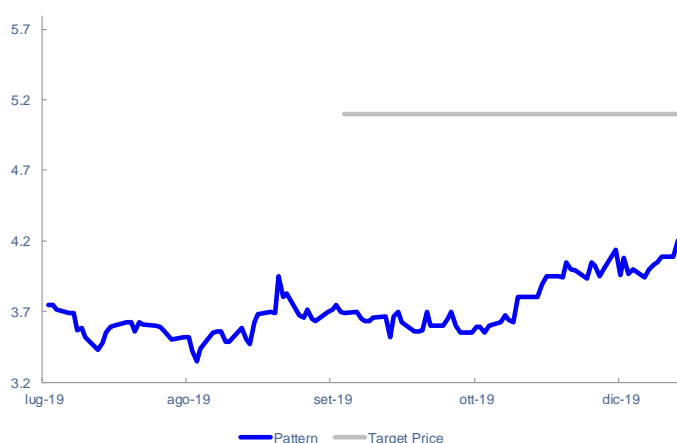
DATE	TARGET PRICE	RATING
20/12/2019	€5.80	BUY
27/09/2019	€5.10	BUY

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☐ 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.