

Italy – Luxury Engineering

Pattern further strengthens the knitwear segment with Zanni

24th January 2022

ZANNI ACQUISITION

RIC: PTRN.MI
BBG: PTR IM

Pattern has announced the acquisition of a 100% stake in Zanni: it will pay 6.0x 2021e EV/EBITDA for a leading Italian player in the luxury knitwear segment, specialised in cutting-hedge whole garment technology. Pattern is definitely delivering what it announced at the time of the IPO with the goal of creating an Italian leading company in the luxury fashion engineering segment.

Rating:

Buy

Price Target:

€ 8.50 (€ 8.20)

Upside/(Downside): 29.6%

Last Price: € 6.56

Market Cap.: € 90.0m

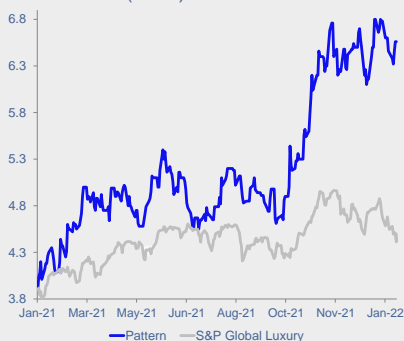
1Y High/Low: € 6.94 / € 3.86

Avg. Daily Turn. (3M, 6M): € 26k, € 37k

Free Float: 27.6%

Major shareholders:

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



Stock price performance

	1M	3M	12M
Absolute	6.5%	18.4%	52.6%
Rel.to FTSE IT Growth	7.3%	-1.7%	-4.7%
Rel.to Sector	9.2%	15.6%	22.5%

Analysts:

Luca Arena
+39 02 30343 395
luca.arena@cfosim.com

Gianluca Mozzali
+39 02 30343 396
gianluca.mozzali@cfosim.com

Another value accretive acquisition: new PT € 8.50 (€ 8.20). Buy reiterated

This umpteenth M&A move brings € 4.2m (€ 0.30/s) additional value to Pattern. In addition, the acquisition is accretive at the EBITDA and Net Profit level. We have updated our model: the result is a 6.6% and 6.9% rise in EBITDA in 2022-23 and a 5.1% and 6.7% bottom line increase vs. our previous assumptions. As a consequence of the estimate revision and the update in the valuation criteria, new PT stands at € 8.50/s (€ 8.20), 29.6% upside. We reiterate our strong Buy recommendation on the stock.

A highly specialised player in the premium/luxury knitwear niche

Headquartered in Reggio Emilia, the firm is a historic knitwear prototyping and weaving company with over 60 years of activity, now in its third generation and led by Mauro Zanni. At the forefront of the use of Shima Seiki's WholeGarment technology, Zanni offers seamless knitwear production services of the best quality completely made in Italy. It is a valuable partner for the world's most important premium/luxury brands. Zanni is projected to reach € 2.4m turnover and € 0.5m EBITDA (20% margin) in 2021. NFP is expected to reach € 1.3m (cash) in 2021. Zanni has a workforce of 25 employees, able to internally manage the entire value chain from product development to production.

A fairly priced acquisition: 6.0x EBITDA_{21e}

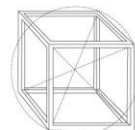
Pattern purchases 100% of the company at € 4.3m directly from Marco and Mauro Zanni. The price consideration includes the manufacturing building. The closing is expected no later than February 28th. The price will be paid in four instalments: 70% at the closing and the remaining 30% in three annual payments starting from Jan-23. Mr. Mauro Zanni will remain at the company as CEO of Zanni srl. The price corresponds to 6.0x 2021 EBITDA, and it compares with 12.6x current market valuation of Pattern, 9.0x for the median of a domestic B2B players sample and 13.5x for the median of a panel of luxury players. The deal will be finalised through SMT, the group company specialised in knitwear.

A more pronounced presence in a strategic and resilient niche

We welcome this move: a fairly priced acquisition which allows Pattern to strengthen its presence in a highly synergic and resilient niche and to reinforce its selling proposition with cutting-hedge technology. Pattern is amongst the few industry players able to internally manage three product categories (fabric, knitwear and leather) and hybrids, complex garments made from different materials and through various processes. Pattern is definitely delivering what it announced at the time of the IPO: this acquisition is another step toward the creation of Italy's leading hub for luxury fashion engineering.

Pattern, key financials and ratios

€ m	2019	2020	2021e	2022e	2023e
Value of Production	55.3	54.0	62.7	86.4	99.3
EBITDA	5.9	5.4	6.9	10.6	13.1
EBIT	5.5	3.6	4.8	7.9	10.4
Net profit	3.8	2.3	2.8	4.4	6.0
NFP (cash)/debt	(12.4)	(8.8)	(3.4)	(6.0)	(11.0)
EBITDA margin	10.7%	10.0%	11.0%	12.2%	13.2%
EBIT margin	9.9%	6.6%	7.6%	9.1%	10.5%
EPS	0.27	0.16	0.20	0.31	0.42
EPS growth	7.6%	-40.1%	25.4%	55.5%	34.5%
Dividend	0.05	0.00	0.07	0.11	0.15
Dividend Yield	0.8%	0.0%	1.1%	1.7%	2.3%
ROCE	24.1%	9.3%	11.5%	17.3%	20.7%
NWC/Sales	4.6%	6.1%	7.7%	7.4%	7.3%
Free Cash Flow Yield	2.3%	-0.1%	-6.0%	3.9%	7.3%
PER x	10.9	30.2	31.6	20.3	15.1
EV/Sales x	0.69	0.85	1.38	0.97	0.80
EV/EBITDA x	5.4	9.2	12.6	7.9	6.0
EV/EBIT x	5.7	14.6	18.2	10.6	7.6



The Company at a Glance

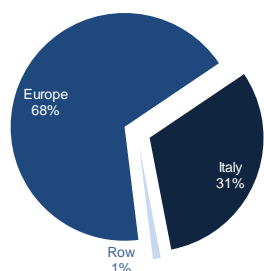
Founded in 2000 by Fulvio Botto and Francesco Martorella (group directors and major shareholders with a 34.3% stake each), Pattern is the second Italian player (CFO SIM estimate) specialised in the modelling, engineering, grading, prototyping and production of luxury clothing for men and women, and the undisputed leader in the outerwear niche, operating in the catwalk segment and among the top lines of the most prestigious global luxury brands. The firm manages the entire engineering and production cycle from patterns to prototypes, from the creation of ready-to-wear garments to successive productions. Pattern operates the high value added engineering and prototyping phases whilst production is outsourced to a plethora of suppliers ('façonists').

Pattern's global export sales reached almost 70% of total revenues in 2020. 88% of revenues come from production while engineering processes account for 11%. The female apparel contributes to 49% of total thanks to the acquisition of Roscini Atelier in 2017, whereas the male apparel now accounts for some 51% of total revenues. In terms of products, most of the group's production comes from knitwear, namely 50% of total, whereas outerwear accounts for 37% and the remainder is represented by upper wear and light wear.

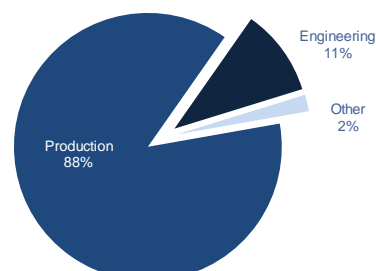
Since 2015, Pattern has voluntarily been drawing up sustainability reports according to the reporting guidelines of the Global Reporting Initiative (GRI Standards), focusing its attention on Corporate Social Responsibility principles.

In 2020, revenues were € 52.6m, EBITDA was € 5.4m, 10.0% margin. EBIT stood at € 3.6m and Net Income totalled € 2.3m. NFP was cash positive by € 8.8m, thanks to strong OpCF generation, limited Capex and WC needs

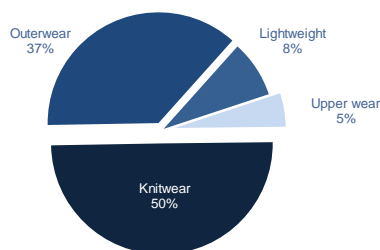
2020 breakdown by geography...



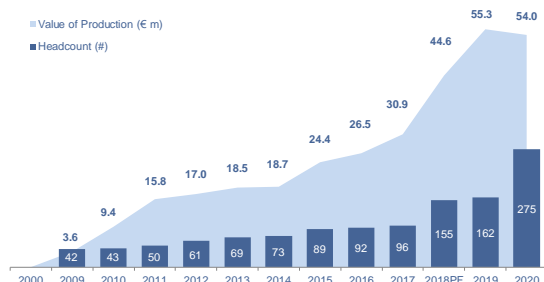
... by service...



...and by product line



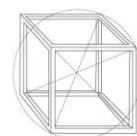
Top line and headcount evolution



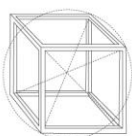
Peer group multiple table

EV multiples x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3	EBIT FY1	EBIT FY2	EBIT FY3
Burberry Group PLC	2.39	2.22	2.04	9.1	8.2	7.3	13.7	12.2	10.7
Capri Holdings Ltd	2.43	2.16	1.19	7.6	6.5	5.2	9.4	7.9	6.2
Compagnie Financiere Richemont	3.51	3.18	2.88	12.8	11.4	10.1	17.8	15.6	13.8
Hermes International SCA	15.43	13.47	12.03	35.2	31.5	28.0	40.6	36.3	31.9
Kering SA	5.10	4.58	4.09	14.2	12.6	11.0	18.2	15.9	13.8
LVMH Moët Hennessy Louis Vuitton	5.92	5.27	4.84	17.7	15.6	14.1	23.0	20.6	18.3
Median Luxury	4.30	3.88	3.48	13.5	12.0	10.5	18.0	15.8	13.8
Brembo SpA	1.65	1.49	1.36	9.0	7.9	7.1	15.5	12.8	11.2
Eurotech SpA	2.51	1.63	1.15	n.m.	8.9	4.6	n.m.	11.8	5.3
Fine Foods & Pharmaceuticals	1.44	1.35	1.19	11.2	9.6	8.3	22.2	17.9	14.6
Sabaf SpA	1.38	1.29	1.23	6.8	6.6	6.1	9.6	9.8	9.0
Median domestic B2B	1.54	1.42	1.21	9.0	8.4	6.6	15.5	12.3	10.1
Pattern SpA	1.38	0.97	0.80	12.6	7.9	6.0	18.2	10.6	7.6

Sources: CFO Sim, Eikon



Income statement (€ m)	2019	2020	2021e	2022e	2023e
Revenues	55.6	52.6	62.5	86.3	99.1
Value of Production	55.3	54.0	62.7	86.4	99.3
Raw material and processing	(16.5)	(15.5)	(18.2)	(25.1)	(28.8)
Services	(23.0)	(19.0)	(23.2)	(32.2)	(37.1)
Personnel expenses	(9.2)	(12.4)	(13.8)	(17.7)	(19.2)
Other opex	(0.7)	(1.7)	(0.6)	(0.9)	(1.0)
EBITDA	5.9	5.4	6.9	10.6	13.1
D&A	(0.5)	(1.8)	(2.1)	(2.7)	(2.7)
EBIT	5.5	3.6	4.8	7.9	10.4
Financials	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Re/(Devaluation) of financial assets	0.0	(0.0)	0.0	0.0	0.0
Extraordinary	0.0	0.0	0.0	0.0	0.0
Pre-Tax profit	5.4	3.5	4.7	7.9	10.4
Income taxes	(1.6)	(0.5)	(1.4)	(2.4)	(3.1)
Minorities	0.0	(0.7)	(0.5)	(1.1)	(1.3)
Net Profit	3.8	2.3	2.8	4.4	6.0
Net Profit adj.	4.7	1.8	2.8	4.4	6.0
EBITDA Adjusted	7.2	4.9	6.9	10.6	13.1
Balance sheet (€ m)	2019	2020	2021e	2022e	2023e
Net Working Capital	2.5	3.3	4.8	6.4	7.2
Net Fixed Assets	2.5	10.7	15.8	15.5	13.9
Equity Investments	1.1	0.2	0.2	0.2	0.2
Other M/L Term A/L	(1.1)	(2.0)	(0.4)	(0.8)	(0.7)
Net Invested Capital	5.0	12.2	20.4	21.3	20.6
Net Financial Debt	(12.4)	(8.8)	(3.4)	(6.0)	(11.0)
Minorities	0.0	2.0	2.5	3.5	4.8
Group's Shareholders Equity	17.4	18.9	21.3	23.7	26.8
Financial Liabilities & Equity	5.0	12.2	20.4	21.3	20.6
Cash Flow statement (€ m)	2019	2020	2021e	2022e	2023e
Total net income	3.8	2.3	2.8	4.4	6.0
Depreciation	0.5	1.8	2.1	2.7	2.7
Other non-cash charges	(0.5)	0.9	(1.6)	0.3	(0.1)
Cash Flow from Oper. (CFO)	3.7	5.0	3.4	7.4	8.6
Change in NWC	0.2	0.1	(1.5)	(1.5)	(0.8)
FCF from Operations (FCFO)	3.9	5.1	1.9	5.9	7.7
Net Investments (CFI)	(1.9)	(5.2)	(7.2)	(2.4)	(1.1)
Free CF to the Firm (FCFF)	2.0	(0.1)	(5.4)	3.5	6.6
CF from financials (CFF)	7.8	7.5	0.2	(0.8)	(1.3)
Free Cash Flow to Equity (FCFE)	9.9	7.4	(5.1)	2.8	5.3
Financial ratios	2019	2020	2021e	2022e	2023e
EBITDA margin	10.7%	10.0%	11.0%	12.2%	13.2%
EBIT margin	9.9%	6.6%	7.6%	9.1%	10.5%
Net profit margin	6.9%	4.2%	4.5%	5.1%	6.0%
Tax rate	30.2%	13.2%	30.0%	30.0%	30.0%
Op NWC/Sales	4.6%	6.1%	7.7%	7.4%	7.3%
Interest coverage x	0.01	0.03	0.01	0.01	0.00
Net Debt/EBITDA x	(2.08)	(1.63)	(0.50)	(0.56)	(0.84)
Debt-to-Equity x	(0.71)	(0.46)	(0.16)	(0.25)	(0.41)
ROIC	75.7%	18.7%	14.0%	20.8%	28.9%
ROCE	24.1%	9.3%	11.5%	17.3%	20.7%
ROACE	32.8%	11.7%	11.9%	18.1%	21.7%
ROE	21.8%	12.0%	13.3%	18.7%	22.2%
Payout ratio	18.6%	0.0%	35.9%	35.9%	35.9%
Per share figures	2019	2020	2021e	2022e	2023e
Number of shares # m	14.08	14.08	14.08	14.08	14.08
Number of shares Fully Diluted # m	14.08	14.08	14.08	14.08	14.08
Average Number of shares Fully Diluted # m	14.08	14.08	14.08	14.08	14.08
EPS stated FD €	0.27	0.16	0.20	0.31	0.42
EPS adjusted FD €	0.33	0.13	0.20	0.31	0.42
EBITDA €	0.42	0.38	0.49	0.75	0.93
EBIT €	0.39	0.25	0.34	0.56	0.74
BV €	1.24	1.49	1.69	1.93	2.25
FCFO €	0.28	0.36	0.13	0.42	0.55
FCFF €	0.15	(0.01)	(0.38)	0.25	0.47
FCFE €	0.70	0.52	(0.36)	0.20	0.37
Dividend €	0.05	0.00	0.07	0.11	0.15



The target: Zanni Srl, luxury knitwear niche

Headquartered in Reggio Emilia, the firm is a historic **knitwear prototyping and weaving company with over 60 years of activity**, now in its third generation and led by Mauro Zanni. At the forefront of the use of Japanese Shima Seiki's **WholeGarment** technology, **Zanni offers seamless knitwear production services of the best quality completely made in Italy**. Typically, a knitted garment consists of separate parts - the front and back body panels and the sleeves - which are sewn together afterward. In sharp contrast, **Shima Seiki's revolutionary WholeGarment knitwear is produced in one entire piece**, three-dimensionally, directly on the knitting machine. Consequently, it requires no expensive, time-consuming post-production labour, realizing a whole new kind of knitwear that would otherwise require highly skilled sewing labour or even be too complicated to sew.

It is a valuable partner for the most important global premium/luxury brands. Zanni is projected to reach **€ 2.4m turnover and an € 0.5m EBITDA (20% margin) in 2021**. NFP in anticipated to reach **€ 1.3m (cash) in 2021**. Zanni has a qualified workforce of some 25 employees, able to internally manage the **entire value chain from product development to production**.

The deal: Pattern pays 6.0x EBITDA_{21e}

Pattern purchases 100% of the company at € 4.3m directly from Marco and Mauro Zanni. The price consideration includes the manufacturing building. The closing is expected no later than February 28th. The price will be paid in four instalments: 70% at the closing and the remaining 30% in three annual payments starting from Jan-23. Mr. Mauro Zanni will remain at the company as CEO of Zanni srl.

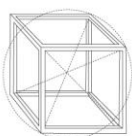
The price corresponds to 6.0x 2021 EBITDA, and it compares with 12.6x current market valuation of Pattern, 9.0x for the median of a domestic B2B player sample and 13.5x for the median of a panel of luxury players. **The deal will be finalised through S.M.T.**, the group company specialised in knitwear. Furthermore, the agreement provides that at closing a Directorship Agreement is entered into by and between Zanni Srl and Mauro Zanni confirming among other things, the appointment of Mauro Zanni as CEO of the company until the shareholders' meeting scheduled for the approval of the financial statements as at Dec-24.

Our view: a deeper presence in a strategic resilient niche

We welcome this impeccable move: a fairly priced acquisition which allows Pattern to strengthen its presence in a highly synergic resilient niche and to reinforce its selling proposition with cutting-edge technology in the knitwear segment. Pattern is amongst the few industry players able to internally manage three product categories (fabric, knitwear and leather) and hybrids, complex garments made from different materials and through various processes.

Pattern is definitely delivering what it announced at the time of the IPO: this acquisition is another step toward the creation of Italy's **leading hub for luxury fashion engineering**. The group will expand its customer base by adding a few new brands to its portfolio and internalise the key production of knitwear based on **WholeGarment** technology

Pattern already has a superb track record in terms of M&As and their integration thanks to the successful purchases of Roscini (female outerwear), before the IPO, S.M.T. (knitwear) at the end of 2019, and IDEE Consulting (luxury leather goods) in Oct-21. Roscini has helped Pattern gain traction in its original business, S.M.T. has sustained it in coping with the pandemic situation by posting positive growth in 2020, thanks to its resilient profile, whereas IDEE Consulting has enabled it to enter the luxury leather goods niche.



Estimates, Valuation & Risks

The acquisition of Zanni brings € 4.2 (€ 0.30/s) additional value to Pattern. In addition, the move is accretive at the EBITDA and Net Profit level, already as from 2022, the first year of full consolidation. We have updated our model to factor in the Zanni consolidation: the result is a 6.6% and 6.9% rise in EBITDA in 2022 and 2023 and a 5.1% and 6.7% bottom line increase vs. our previous assumptions. **Our new forecasts do not take into consideration any synergies in terms of costs (unlikely or not material) or sales (highly likely, with relevant potential).**

Table 1 – Pattern, 2022e new/old estimates

€ m	New	Old	% Diff.	€ m Diff.
Value of Production	86.4	83.7	3.3	2.8
EBITDA	10.6	9.9	6.6	0.7
% margin	12.2	11.9		
EBIT	7.9	7.5	5.8	0.4
% margin	9.1	8.9		
Net Profit	4.4	4.2	5.1	0.2
% margin	5.1	5.0		
Y/E net debt (net cash)	(6.0)	(7.9)	(25.0)	2.0

Source: CFO Sim

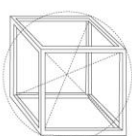
Table 2 – Pattern, 2023e new/old estimates

€ m	New	Old	% Diff.	€ m Diff.
Value of Production	99.3	96.1	3.3	3.2
EBITDA	13.1	12.3	6.9	0.9
% margin	13.2	12.8		
EBIT	10.4	9.8	7.0	0.7
% margin	10.5	10.1		
Net Profit	6.0	5.6	6.7	0.4
% margin	6.0	5.8		
Y/E net debt (net cash)	(11.0)	(12.8)	(14.1)	1.8

Source: CFO Sim

Pattern's key strengths in these still rather difficult business conditions are 1) the ability to work on different areas (men, women, knitwear and the recently added leather goods segment) and to deal with different customers, 2) remarkable technological expertise for the remote development of collections via a 3D pattern-making technique, 3) high customer loyalty, 4) a flexible manufacturing structure with a large portion of outsourced production (70% of variable costs), 5) low WC pressure, and 6) an extremely solid balance sheet.

As a consequence of the estimate revision and the update in the valuation criteria, **new PT stands at € 8.50/s (€ 8.20), 29.6% upside.** The balance sheet solidity and a considerable cash pile at end-21 allow Pattern to consider another round of acquisitions, adding further appeal to the stock, after giving it some thoughts in the months following the acquisitions of Zanni and of IDEE Consulting dated last Oct-21.



DCF

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

Table 3 - WACC derived from:

Interest costs, pre-tax	2.0%
Tax rate	30.0%
Int. costs, after taxes	1.4%
Risk premium, incl. small size premium	9.0%
Risk-free (10Y Gov. Bond 200gg simple moving average)	0.87%
Beta levered (x)	1.00
Required ROE	9.9%

Sources: CFO Sim, Thomson Reuters Eikon

Risk premium at 9.0% factors in the minute size of the company and basically all the concerns and disquiet that an investor might have with regard to the Euronext Growth Milan market segment. **Beta at 1** has been set prudentially, taking into account the company's lower liquidity. Indeed, the 5Y Beta calculated using the domestic B2B peer group is 0.80x. **The WACC is computed by using a 20:80% debt/equity balance-sheet structure**, thus taking into account some leverage required for the acquisition campaign.

Table 4 - Pattern, DCF model

€ m	2021e	2022e	2023e	2024e	2025e	Term. Val.
EBIT	4.8	7.9	10.4	12.0	13.8	
Tax rate	30.0%	30.0%	30.0%	30.0%	30.0%	
Operating profit (NOPAT)	3.3	5.5	7.3	8.4	9.7	
Change working capital	(1.5)	(1.5)	(0.8)	(0.1)	(0.1)	
Depreciation	2.1	2.7	2.7	1.5	0.3	
Investments	(7.2)	(2.4)	(1.1)	(0.3)	(0.3)	
Free Cash Flows	(3.3)	4.3	8.0	9.5	9.6	134.6
Present value	(3.3)	4.0	6.9	7.5	7.0	98.8
WACC	8.2%	8.2%	8.2%	8.2%	8.2%	
Long-term growth rate	1.0%					

Source: CFO Sim

Table 5 – Pattern, DCF derived from:

€ m	
Total EV present value € m	121.0
	<i>thereof terminal value</i>
	81.7%
NFP last reported adj.	6.0
Pension provision	(1.7)
Minorities (valued at acquisition 7.0x PER)	(6.0)
Equity value € m	119.2
#m shares	14.08
Equity value €/s	8.50
% upside/(downside)	29.6%

Source: CFO Sim

By applying our DCF model, we attained an **equity value of € 119.2m (€ 8.50/s)** with regard to Pattern.

The following tables illustrate that sensitivity 1) compared to changes in the terminal growth rate produces an equity value of **€ 7.55-9.69/s (perpetuity range between 0.00% and 2.00%)**, while 2) if compared to changes in the free risk rate, it produces an equity value of **€ 7.72-9.45/s (free risk range between 1.67% and 0.00%)** and 3) if compared to changes in the risk premium, including the small-size premium, it results in an equity value of **€ 6.80-11.10/s (risk premium range between 11.0% and 7.00%)**.

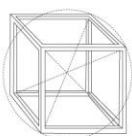


Table 6 – Pattern, equity value sensitivity to changes in terminal growth rate

€ m	0.00%	0.25%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%
Present value of CF	22.2	22.2	22.2	22.2	22.2	22.2	22.2	22.2	22.2
PV of terminal value	85.9	88.8	91.9	95.2	98.8	102.6	106.7	111.2	115.9
Total value	108.0	111.0	114.1	117.4	121.0	124.8	128.9	133.3	138.1
NFP last reported	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Pension provision	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)
Minorities	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)
Equity value	106.3	109.2	112.3	115.6	119.2	123.0	127.1	131.6	136.3
Equity value/share €	7.55	7.76	7.98	8.22	8.50	8.74	9.03	9.35	9.69

Source: CFO Sim

Table 7 – Pattern, equity value sensitivity to changes in free risk rate

€ m	0.00%	0.27%	0.47%	0.67%	0.87%	1.07%	1.27%	1.47%	1.67%
Present value of CF	22.6	22.5	22.4	22.3	22.2	22.1	22.0	21.9	21.8
PV of terminal value	112.2	107.8	104.6	101.7	98.8	96.1	93.5	91.0	88.6
Total value	134.8	130.2	127.0	123.9	121.0	118.2	115.5	112.9	110.4
NFP last reported adj.	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Pension provision	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)
Minorities	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)
Equity value	133.1	128.5	125.2	122.1	119.2	116.4	113.7	111.1	108.6
Equity value/share €	9.45	9.13	8.90	8.68	8.50	8.27	8.08	7.89	7.72

Source: CFO Sim

Table 8 – Pattern, equity value sensitivity to changes in risk premium

€ m	7.00%	7.50%	8.00%	8.50%	9.00%	9.50%	10.00%	10.50%	11.00%
Present value of CF	23.2	22.9	22.7	22.4	22.2	21.9	21.7	21.4	21.2
PV of terminal value	134.8	124.0	114.5	106.2	98.8	92.2	86.4	81.1	76.3
Total value	158.0	146.9	137.2	128.6	121.0	114.2	108.0	102.5	97.5
NFP last reported adj.	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Pension provision	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)
Minorities	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)
Equity value	156.3	145.1	135.4	126.8	119.2	112.4	106.3	100.7	95.7
Equity value/share €	11.10	10.31	9.62	9.01	8.50	7.98	7.55	7.16	6.80

Source: CFO Sim

Market Multiples

Pattern provides high value-added luxury apparel engineering and design services with production outsourced to façonists: **the firm does not have any comparable listed companies**. We conducted an analysis on two clusters: 1) six companies operating in the absolute luxury and fashion arena; 2) four Italian companies operating with a B2B business model.

Among luxury fashion companies, we have selected the following:

Burberry Group PLC: a global luxury brand with British heritage, core outerwear, and large leather goods base. The company designs and sources apparel and accessories. Burberry sells its products worldwide, namely to the Asia Pacific and EMEA regions as well as the Americas.



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

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

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

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

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

Amongst B2B Italian companies, we selected the following:

Eurotech SpA: it is engaged in the research, development, production, and marketing of miniaturized and high-performance computers featuring high computing capacity. It operates in the NanoPC and High-Performance Computing (HPC) segments. It also offers boards and embedded modules. In addition, the company provides panel PCs, industrial monitors and computers, mobile and portable systems, and environmental monitoring systems. Furthermore, it offers the Everyware Device Cloud solution, which enables customers to make business decisions; the Machine-to-Machine Integration Platform, which simplifies device and data management; and Everyware Software Framework, which acts as a link between the private device network and the local network, public Internet, or cellular network; finally, it offers consulting and solutions design services.

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

Freni Brembo SpA: the world's undisputed leader and acknowledged innovator of disc brake technology for automotive vehicles, Brembo supplies high performance brake systems to the most important manufacturers of cars, commercial vehicles and motorbikes worldwide, as well as clutches and other components for racing. Brembo is also a leader in the racing sector and has won more than 400 championships.

Sabaf SpA: with its 800 employees, it is the key manufacturer in Italy, and one of the world's leading producers of components for kitchens and domestic gas cooking appliances. It produces valves, thermostats and burners for gas cooking appliances and hinges for ovens, washing machines and dishwashers. Technological expertise, manufacturing flexibility, and the ability to offer a vast range of tailor-made components are Sabaf's key strengths.

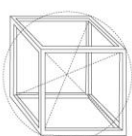


Table 9 - Pattern, peer group summary table

€ m	Country	Mkt Cap	Sales FY1	EBITDA FY1	EBITDA %	Sales CAGR ₂₀₋₂₃	EBITDA CAGR ₂₀₋₂₃	EBIT CAGR ₂₀₋₂₃	EPS CAGR ₂₁₋₂₃	NFP FY1	NFP /EBITDA
Burberry Group PLC	UK	9,198	3,349	884	26.4%	11.8%	10.3%	15.5%	10.7%	(1,179)	n.m.
Capri Holdings Ltd	US	7,113	3,349	1,071	32.0%	28.2%	38.4%	52.1%	13.2%	1,011	0.9
Compagnie Financiere Richemont	F	67,971	18,240	4,997	27.4%	17.8%	28.6%	48.6%	12.3%	(4,020)	n.m.
Hermes International SCA	F	143,997	8,969	3,932	43.8%	20.7%	23.7%	27.6%	11.2%	(5,640)	n.m.
Kering SA	F	83,395	17,018	6,099	35.8%	16.1%	15.6%	20.2%	14.3%	3,419	0.6
LVMH Moet Hennessy Louis Vuitton	F	351,917	62,256	20,852	33.5%	18.5%	24.2%	32.2%	11.8%	16,470	0.8
Median Luxury		75,683	12,994	4,464	32.7%	18.1%	24.0%	29.9%	12.1%	(84)	0.8
Brembo SpA	IT	4,027	527	71	13.4%	12.8%	17.3%	30.8%	15.5%	100	1.4
Eurotech SpA	IT	180	69	3	3.9%	20.1%	65.0%	115.4%	n.s.	(6)	n.m.
Fine Foods & Pharmaceuticals	IT	306	195	25	12.9%	15.1%	20.9%	30.6%	22.5%	(25)	n.m.
Sabaf SpA	IT	289	261	53	20.3%	16.0%	16.3%	25.1%	2.7%	72	1.3
Median domestic B2B		298	228	39	13.1%	15.5%	19.1%	30.7%	15.5%	33	1.4
Pattern SpA	IT	90	63	7	11.0%	23.5%	39.1%	50.4%	44.6%	(3)	n.m.

Sources: CFO Sim, Thomson Reuters Eikon

Table 10 - Pattern, peer group EV multiple table

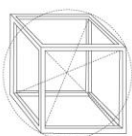
x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3
Burberry Group PLC	2.39	2.22	2.04	9.1	8.2	7.3
Capri Holdings Ltd	2.43	2.16	1.19	7.6	6.5	5.2
Compagnie Financiere Richemont	3.51	3.18	2.88	12.8	11.4	10.1
Hermes International SCA	15.43	13.47	12.03	35.2	31.5	28.0
Kering SA	5.10	4.58	4.09	14.2	12.6	11.0
LVMH Moet Hennessy Louis Vuitton	5.92	5.27	4.84	17.7	15.6	14.1
Median Luxury	4.30	3.88	3.48	13.5	12.0	10.5
Brembo SpA	1.65	1.49	1.36	9.0	7.9	7.1
Eurotech SpA	2.51	1.63	1.15	n.m.	8.9	4.6
Fine Foods & Pharmaceuticals	1.44	1.35	1.19	11.2	9.6	8.3
Sabaf SpA	1.38	1.29	1.23	6.8	6.6	6.1
Median domestic B2B	1.54	1.42	1.21	9.0	8.4	6.6
Pattern SpA	1.38	0.97	0.80	12.6	7.9	6.0
% premium/(discount) to luxury peers	(67.8)	(74.9)	(77.1)	(7.0)	(33.7)	(42.9)
% premium/(discount) to domestic B2B peers	(10.4)	(31.3)	(34.2)	39.9	(5.5)	(8.8)

Sources: CFO Sim, Thomson Reuters Eikon

Table 11 - Pattern, peer group EV & price multiples table

x	EBIT FY1	EBIT FY2	EBIT FY3	PER FY1	PER FY2	PER FY3
Burberry Group PLC	13.7	12.2	10.7	21.3	19.1	17.3
Capri Holdings Ltd	9.4	7.9	6.2	9.8	8.8	7.7
Compagnie Financiere Richemont	17.8	15.6	13.8	25.4	21.6	20.1
Hermes International SCA	40.6	36.3	31.9	61.8	55.7	49.9
Kering SA	18.2	15.9	13.8	26.1	22.4	19.9
LVMH Moet Hennessy Louis Vuitton	23.0	20.6	18.3	32.6	29.1	26.1
Median Luxury	18.0	15.8	13.8	25.7	22.0	20.0
Brembo SpA	15.5	12.8	11.2	19.1	16.1	14.3
Eurotech SpA	n.m.	11.8	5.3	n.m.	11.8	6.4
Fine Foods & Pharmaceuticals	22.2	17.9	14.6	27.8	21.8	18.5
Sabaf SpA	9.6	9.8	9.0	10.8	11.1	10.2
Median domestic B2B	15.5	12.3	10.1	19.1	14.0	12.3
Pattern SpA	18.2	10.6	7.6	31.6	20.3	15.1
% premium/(discount) to luxury peers	1.0	(32.6)	(45.1)	22.8	(7.7)	(24.6)
% premium/(discount) to domestic B2B peers	17.5	(13.8)	(25.0)	65.2	45.6	23.0

Sources: CFO Sim, Thomson Reuters Eikon



If before this pandemic we were confident in **considering the EV/EBITDA, EV/EBIT and PER median multiples of the B2B peer group as the most suitable manner to get a reasonable appraisal of the stock**, in this context we believe multiples comparison is no longer appropriate for our aim. We would overweight a period characterised by a sharp decline in the market and in numbers and consequently penalise the valuation.

Peer Stock Performance

Pattern was listed on Euronext Growth Milan on **17 July 2019 at € 3.25/share**, corresponding to a **post-money market cap. of € 44.2m**. Adopting the same approach used in setting up the peer sample for assessing Pattern's value, we conducted an analysis on two clusters: 1) six companies operating in the absolute luxury and fashion arena; 2) four Italian companies operating with a B2B business model.

Table 12 - Pattern, peer group and indexes absolute performance

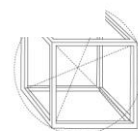
	1D	1W	1M	3M	6M	YTD	1Y
Burberry Group PLC	0.8	12.0	8.1	1.6	(8.5)	5.9	8.3
Capri Holdings Ltd	(1.3)	(12.1)	(13.1)	2.1	7.2	(17.4)	22.8
Compagnie Financiere Richemont	(4.8)	2.5	(0.8)	20.1	15.7	(1.9)	57.2
Hermes International SCA	(0.5)	5.0	(10.9)	0.4	5.9	(11.2)	55.8
Kering SA	(1.9)	0.5	(2.6)	3.5	(10.5)	(5.4)	21.6
LVMH Moët Hennessy Louis Vuitton	(1.0)	3.2	(2.8)	4.5	3.4	(4.1)	37.4
Median Luxury	(1.1)	2.9	(2.7)	2.8	4.7	(4.7)	30.1
Brembo SpA	(2.4)	0.8	0.8	(5.2)	8.9	-	7.7
Eurotech SpA	(1.1)	(2.5)	(8.3)	(24.1)	1.5	(10.1)	30.0
Fine Foods & Pharmaceuticals	(2.5)	(4.4)	(3.8)	9.6	11.8	(3.8)	11.8
Sabaf SpA	(0.8)	2.9	5.5	(2.7)	(4.6)	4.6	48.5
Median domestic B2B	(1.7)	(0.8)	(1.5)	(4.0)	5.2	(1.9)	20.9
Pattern SpA	-	1.9	6.5	18.4	37.0	(3.5)	52.6
MSCI World Index	(1.4)	3.2	(1.6)	2.8	(1.9)	(6.0)	53.3
EUROSTOXX	(0.5)	5.0	(10.9)	0.4	5.9	(11.2)	55.8
FTSE Italia All Share	(1.9)	0.5	(2.6)	3.5	(10.5)	(5.4)	21.6
FTSE Italia STAR	(1.0)	3.2	(2.8)	4.5	3.4	(4.1)	37.4
FTSE Italia Growth	(4.8)	2.5	(0.8)	20.1	15.7	(1.9)	57.2

Source: Thomson Reuters Eikon

Table 13 - Pattern relative performances

	1D	1W	1M	3M	6M	YTD	1Y
to MSCI World Index	1.4	(1.4)	8.1	15.6	38.8	2.5	(0.8)
to EUROSTOXX	0.5	(3.2)	17.4	18.0	31.1	7.7	(3.2)
to FTSE Italia All Share	1.9	1.4	9.1	14.9	47.5	1.9	31.0
to FTSE Italia STAR	1.0	(1.4)	9.3	13.9	33.5	0.6	15.2
to FTSE Italia Growth	4.8	(0.6)	7.3	(1.7)	21.2	(1.6)	(4.7)
to Domestic B2B Peer Median	1.7	2.7	8.0	22.4	31.8	(1.7)	31.6
to Luxury Peer Median	1.1	(1.0)	9.2	15.6	32.3	1.2	22.5

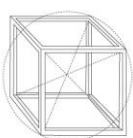
Source: Thomson Reuters Eikon



Risks

The principal investment **risks** associated with Pattern include:

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



ANALYST CERTIFICATION

This publication was prepared by **LUCA ARENA**, Head of the Equity Research Department of "Corporate Family Office SIM S.p.A." ("CFO SIM") and **GIANLUCA MOZZALI**, Equity Analyst of CFO SIM. This is to certify that the views expressed on the companies mentioned in this document reflect the analysts' personal opinions and that no direct or indirect recompense has been, or will be, received by the analyst further to the views expressed herein.

DISCLAIMER

This document has been drafted by CFO SIM, authorised by the Bank of Italy to provide investment services.

CFO SIM does not have a specific interest in either the issuer, the financial instruments or the transactions covered by the analysis.

The news and data used in this document come from information supplied to the public by the company concerned and/or from other documentation of public domain. CFO SIM is not liable for the accuracy, completeness, exactitude and impartiality of such news and data. This document has been drafted autonomously and independently and without the collaboration of the company analysed or of any company linked to the latter by shareholdings or control. This document has been prepared by the financial analysts of the Equity Research Department of CFO SIM, whose names are indicated therein. The analyst is an ordinary member of the Italian Association of Financial Analysts (AIAF). In no case can the company and the analysts, as authors of this document be held liable (culpably or otherwise) for damage stemming from use of the information or opinions set out therein. The purpose of this document is solely informative. The document cannot be reproduced directly or indirectly and redistributed to third parties, nor can it be published, either totally or in part, for any reason whatsoever. This document is not an invitation to purchase, nor is it intended to solicit the purchase or sale of the securities in question. The recipients of this document are formally bound to observe the constraints indicated above.

CFO SIM wishes to provide ongoing coverage of the stocks mentioned in this document, with a frequency depending on circumstances considered to be important (corporate events and changes of recommendation, etc.). CFO SIM acts as Euronext Growth Advisor and Corporate Broker for Pattern stock, listed on Euronext Growth Milan. The next table shows the ratings issued on the stock in the last 12 months.



DATE	TARGET PRICE	RATING
24/01/2022	€8.50	BUY
28/10/2021	€8.20	BUY
29/09/2021	€7.60	BUY
28/05/2021	€7.00	BUY
08/04/2021	€7.00	BUY
26/02/2021	€6.00	BUY
17/02/2021	€6.00	BUY

This document is distributed via electronic mail and fax as from the date indicated in the document itself and addressed to some 300 Italian and non-Italian professional investors. The document is available in electronic format at CFO SIM's Internet site, to Italian and non-Italian institutional investors, and/or in Borsa Italiana's Internet site.

RATING SYSTEM

- 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.

