

## Italy – Textile Flooring

## Weak short-term momentum, recovery as early as H2-21

12<sup>th</sup> April 2021

### FY-20 RESULTS RELEASE

RIC: RADIC.MI  
BBG: RAD IM

2020 results were heavily hit by the pandemic but proved to be slightly better than expectations in terms of revenues. Margins were affected by a few on-offs occurred in Q4-20. The company foresees timid and encouraging signs of recovery starting as early as the second half of 2021.

#### Rating:

**Buy**

#### Price Target:

**€ 2.50 (€ 2.90)**

Upside/(Downside): **33.3%**

Last Price: € 1.88

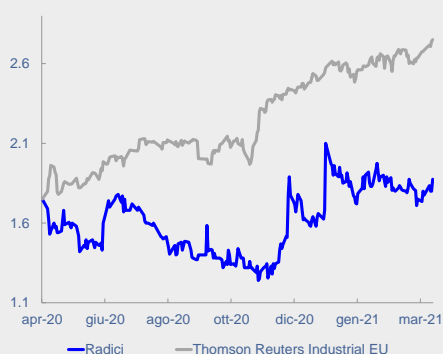
Market Cap.: € 16.3m

1Y High/Low: € 2.12 / € 1.24

Free Float: **24.1%**

#### Major shareholders:

MRFoC	69.9%
Radici Family	6.0%



#### Stock price performance

	1M	3M	12M
Absolute	3.9%	-1.8%	7.1%
Rel.to AIM Italia	-4.3%	-18.7%	-21.4%
Rel.to Peers median	-3.5%	-21.3%	-53.8%

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#### New PT of € 2.50/s (€ 2.90), 33.3% upside. Long-term Buy reiterated

On the back of FY-20 results and the new company's guidance for 2021, we have updated our model basically aligning our FY-21 projections with the guidance provided to the market. We still assume a more conservative stance for 2022. The combined result is an average 14.8% and 41.1% decline in sales and EBITDA estimates in 2021-22. We have also introduced projections for 2023. We have updated the DCF valuation criteria, bringing the Free Risk Rate up-to-date and postponed its first valuation projection to 2021. The combined result is a new PT of € 2.50/s (€ 2.90), with an upside of 33.3% to current price levels. We reiterate the long-term Buy recommendation on the stock.

#### Revenues deeply hit by the pandemic but better than consensus

Revenues were down by 27.7% to € 43.0m, up 5.7% and 5.9% compared to the company's guidance and CFO SIM's estimate, respectively. The Automotive segment drove the beat in estimate, totalling € 10.2m: the group obtained some orders from a few major automotive players thanks to its innovative, high-quality products. The Sports segment benefited from the increasing demand for artificial turf, reaching € 10.7m, down 10.6% YoY but 5.3% and 5.1% higher than the company's guidance and CFO SIM's estimate, respectively. The Residential & Contract division totalled € 18.7m, down 30.6% YoY, performing in line with expectations. The Marine segment declined 61.6% YoY, suffering from the crisis of the cruise ship sector: the building of new cruise ships and the refitting of existing vessels slowed down as ship-owners stopped or postponed investment in their fleets.

#### Profitability affected by a few negative one-off items

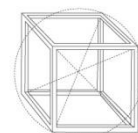
Reported EBITDA totalled € 0.6m vs. € 1.4m anticipated by the company's business plan and CFO SIM's projection. EBITDA was affected by a few one-off negative events occurred in Q4-20. EBITDA adjusted for the extraordinary items was € 1.3m. Net profit was negative for € 0.9m, better than the € 2.2m losses projected by company guidance and CFO SIM, mainly as a result of FY-20 D&A being suspended by an Italian law issued to sustain firms impacted by the pandemic. NFP stood at € 20.0m, vs our € 19.1m forecast as a result of higher-than-expected CAPEX at € 2.2m vs our € 2.0m projection. Therefore, cash flow generation is broadly in line with our expectations.

#### 2021 guidance updated: revenues up 9% YoY to € 47m, EBITDA at € 2.2m

The group updated its guidance for 2021 in order to factor in a still unfavourable environment in H1-21 and a timid recovery for the second half of the year. For the time being, Radici Pietro left its 2022 projections unchanged. As for 2021, revenues are now anticipated at € 47.0m (vs previous estimate of € 58.0m), up 9% YoY. EBITDA is expected to reach € 2.2m, 4.7% margin (previously € 5.0m, 8.6% margin). Net profit is now projected at -€ 1.3m (previously it was +€ 1.4m); NFP is anticipated at € 18.0m, better than the previous estimate of € 21.0m thanks to lower capex (€ 0.7m vs € 3.9m).

#### Radici Pietro, key financials and ratios

€ m	2019PF	2020	2021e	2022e	2023e
Total Revenues	59.4	43.0	47.0	56.5	65.0
EBITDA	6.8	0.6	2.2	4.5	6.4
EBIT	4.0	0.1	(0.8)	1.4	3.3
Net profit	5.6	(0.9)	(1.5)	0.8	2.6
NFP (cash)/debt	22.0	20.0	18.6	21.5	17.5
EBITDA margin	11.4%	1.4%	4.7%	7.9%	9.8%
EBIT margin	6.7%	0.1%	-1.8%	2.6%	5.2%
EPS €	0.64	(0.10)	(0.17)	0.09	0.30
EPS growth	293.5%	-116.3%	-65.6%	150.3%	247.8%
Free Cash Flow Yield	-11.8%	-6.0%	8.4%	-17.7%	-1.0%
PER x	3.9	neg.	neg.	21.5	6.2
PCF x	2.6	neg.	10.8	4.3	2.9
EV/Sales x	0.74	0.80	0.74	0.67	0.52
EV/EBITDA x	6.5	56.1	15.9	8.5	5.3
EV/EBIT x	11.0	n.m.	neg.	26.2	10.1



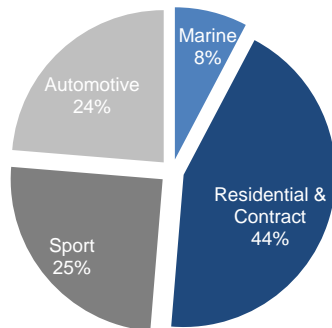
## The Company at a Glance

Founded in 1950 in Cazzano Sant'Andrea, close to Bergamo (Italy), Radici Pietro is a leading international player in the textile flooring market. It designs, manufactures and sells high-end carpet floorings, artificial turfs and non-woven fabrics, all of which chiefly custom-made. The group operates three production plants, two in Italy and one in Hungary, and four commercial branches worldwide, managing the entire value chain, from the processing of raw materials to the production of finished goods, including quality control, testing and distribution. Radici Pietro covers almost 90 countries, serving more than 2,000 customers in four different industries: Residential & Contract, Marine, Sports and Automotive.

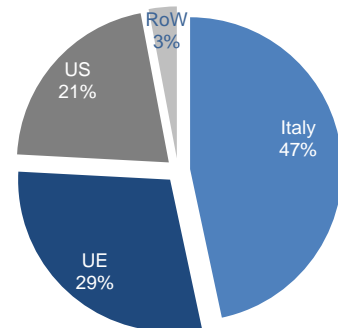
The group's global export sales are 53% of total revenues. 44% of turnover comes from the Residential & Contract segment, 25% from Sport, 24% from Automotive and 8% from Marine.

Radici Pietro has undertaken a good growth path since current management was established in 2012: a 2.6% entirely organic CAGR in the 2012-20 period, (7.9% CAGR<sub>12-19</sub>, not considering FY-20 as it was deeply affected by COVID-19). In 2020, revenues were € 43.0m. Adjusted EBITDA was € 1.3m and Net Profit was negative for € 0.9m. Net Financial Position was € 20.0m.

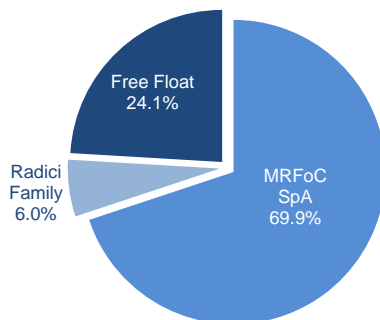
### 2020 breakdown by industry...



### ... and by geography



### Shareholder structure



### Peer group absolute performance

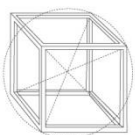
%	1D	1W	1M	3M	6M	YTD
Aquafil SpA	(0.4)	3.3	(1.1)	12.8	41.8	11.1
Balta Group NV	(1.2)	2.8	(3.0)	10.3	152.0	16.8
Interface Inc	(0.5)	(0.4)	(10.3)	19.4	83.5	20.6
Mohawk Industries Inc	2.3	2.3	7.3	41.2	94.7	44.0
Somec SpA	4.0	(1.3)	10.3	21.1	85.8	31.7
Tarkett SA	0.8	6.4	8.5	(8.3)	16.2	0.6
Victoria PLC	0.0	5.3	10.6	29.4	164.7	34.4
<b>Median</b>	<b>0.0</b>	<b>2.8</b>	<b>7.3</b>	<b>19.4</b>	<b>85.8</b>	<b>20.6</b>
<b>Radici Pietro SpA</b>	<b>4.2</b>	<b>4.2</b>	<b>3.9</b>	<b>(1.8)</b>	<b>30.2</b>	<b>(10.7)</b>

Source: Thomson Reuters Eikon

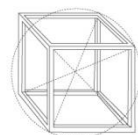
### Peer group multiples table

Price & EV multiples x	SALES FY1	SALES FY2	EBITDA FY1	EBITDA FY2	EBIT FY1	EBIT FY2	PER FY1	PER FY2
Aquafil SpA	0.87	0.74	6.3	5.1	22.3	13.3	neg.	13.1
Balta Group NV	0.60	0.57	4.8	4.3	10.4	8.5	neg.	8.8
Interface Inc	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	14.4	11.5
Mohawk Industries Inc	1.45	1.35	8.8	8.0	13.5	12.0	16.9	15.3
Somec SpA	0.42	0.41	4.2	3.6	8.8	6.2	23.5	12.9
Tarkett SA	0.50	0.45	4.8	4.1	11.1	8.4	13.8	10.0
Victoria PLC	2.29	2.11	12.9	11.7	19.9	18.8	33.4	37.9
<b>Median</b>	<b>0.73</b>	<b>0.65</b>	<b>5.6</b>	<b>4.7</b>	<b>12.3</b>	<b>10.2</b>	<b>16.9</b>	<b>12.9</b>
<b>Radici Pietro SpA</b>	<b>0.74</b>	<b>0.67</b>	<b>15.9</b>	<b>8.5</b>	<b>neg.</b>	<b>26.2</b>	<b>neg.</b>	<b>21.5</b>

Source: CFO SIM, Thomson Reuters Eikon



Income statement (€ m)	2019PF	2020	2021e	2022e	2023e
Total Revenues	59.4	43.0	47.0	56.5	65.0
Value of Production	63.9	43.6	47.7	57.3	65.8
Raw material and processing	(30.5)	(21.7)	(22.7)	(27.2)	(31.2)
Services	(16.0)	(12.1)	(11.9)	(14.3)	(16.4)
Personnel expenses	(9.3)	(7.8)	(9.5)	(9.9)	(10.3)
Other opex	(1.3)	(1.4)	(1.4)	(1.4)	(1.4)
EBITDA	6.8	0.6	2.2	4.5	6.4
D&A	(2.8)	(0.6)	(3.0)	(3.0)	(3.0)
EBIT	4.0	0.1	(0.8)	1.4	3.3
Financials	2.0	(0.8)	(0.6)	(0.6)	(0.6)
Re/(Devaluation) of financial assets	(0.3)	0.0	0.0	0.0	0.0
Extraordinary	0.0	0.0	0.0	0.0	0.0
Pre-Tax profit	5.8	(0.7)	(1.4)	0.9	2.8
Income taxes	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)
Minorities	0.0	0.0	0.0	0.0	0.0
Net Profit	5.6	(0.9)	(1.5)	0.8	2.6
Net Profit adj.	5.6	(0.9)	(1.5)	0.8	2.6
Balance sheet (€ m)	2019PF	2020	2021e	2022e	2023e
Net Working Capital	23.2	20.9	20.7	24.1	26.6
Net Fixed Assets	34.2	36.1	34.1	35.1	32.0
Equity Investments	0.0	0.0	0.0	0.0	0.0
Other M/L Term A/L	(1.6)	(4.6)	(5.3)	(6.0)	(6.6)
Net Invested Capital	55.8	52.4	49.5	53.2	51.9
Net Financial Position	22.0	20.0	18.6	21.5	17.5
Minorities	0.0	0.0	0.0	0.0	0.0
Group's Shareholders Equity	33.8	32.5	31.0	31.7	34.4
Financial Liabilities & Equity	55.8	52.4	49.5	53.2	51.9
Cash Flow statement (€ m)	2019PF	2020	2021e	2022e	2023e
Total net income	5.6	(0.9)	(1.5)	0.8	2.6
Depreciation	2.8	0.6	3.0	3.0	3.0
Other non-cash charges	(3.9)	(1.3)	0.6	0.7	0.7
Cash Flow from Oper. (CFO)	4.5	(1.6)	2.1	4.5	6.3
Change in NWC	(3.2)	2.3	0.2	(3.4)	(2.5)
FCF from Operations (FCFO)	1.3	0.7	2.4	1.1	3.8
Net Investments (CFI)	(3.2)	(1.7)	(1.0)	(4.0)	0.1
Free CF to the Firm (FCFF)	(1.9)	(1.0)	1.4	(2.9)	3.9
CF from financials (CFF)	4.6	1.4	0.0	(0.0)	0.0
Free Cash Flow to Equity (FCFE)	2.7	0.5	1.4	(2.9)	3.9
Financial ratios	2019PF	2020	2021e	2022e	2023e
EBITDA margin	11.4%	1.4%	4.7%	7.9%	9.8%
EBIT margin	6.7%	0.1%	-1.8%	2.6%	5.2%
Net profit margin	9.4%	-2.1%	-3.2%	1.3%	4.1%
Tax rate	2.9%	-30.7%	-7.1%	11.6%	4.5%
Op NWC/Sales	36.4%	47.9%	43.3%	42.0%	40.4%
Interest coverage x	(0.51)	13.45	(0.71)	0.40	0.17
Net Debt/EBITDA x	3.25	32.71	8.45	4.82	2.74
Debt-to-Equity x	0.65	0.61	0.60	0.68	0.51
ROIC	10.0%	-1.7%	-3.0%	1.4%	5.1%
ROCE	5.8%	0.1%	-1.3%	2.2%	4.9%
ROACE	6.1%	0.1%	-1.3%	2.3%	5.1%
ROE	16.5%	-2.8%	-4.9%	2.4%	7.7%
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Per share figures	2019PF	2020	2021e	2022e	2023e
Number of shares # m	8.72	8.72	8.72	8.72	8.72
Number of shares Fully Diluted # m	9.82	9.82	9.82	9.82	9.82
Average Number of shares Fully Diluted # m	9.27	9.82	9.82	9.82	9.82
EPS stated €	0.64	(0.10)	(0.17)	0.09	0.30
EPS adjusted €	0.64	(0.10)	(0.17)	0.09	0.30
EBITDA €	0.78	0.07	0.25	0.51	0.73
EBIT €	0.46	0.01	(0.09)	0.17	0.38
BV €	3.87	3.73	3.55	3.64	3.94
FCFO €	0.14	0.08	0.27	0.13	0.44
FCFF €	(0.22)	(0.11)	0.16	(0.33)	0.45
FCFE €	0.31	0.05	0.16	(0.33)	0.45
Dividend €	0.00	0.00	0.00	0.00	0.00



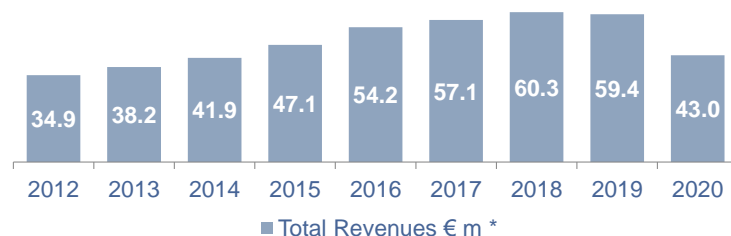
## 1. Radici Pietro in a Nutshell

Founded in 1950 in Cazzano Sant'Andrea, close to Bergamo (Italy), Radici Pietro is **a leading international player in the textile flooring market**, designing, manufacturing and selling **high-end carpet floorings, artificial turfs and non-woven fabrics, chiefly custom-made**. The group operates three production plants, two in Italy and one in Hungary, and four commercial branches worldwide, managing the entire value chain, from the processing of raw materials to the production of finished goods, including the quality control and testing phases and the distribution. Radici Pietro covers **almost 90 countries**, serving **more than 2,000 customers** in **four different industries**:

- 1) **Residential & Contract**: tufting, weaving and non-woven floorings, primarily for luxury hotels, houses, offices, catwalks and boutiques.
- 2) **Marine**: tufting, weaving, artificial turf and non-woven floorings for cruise ships, ferries and luxury yachts.
- 3) **Sport**: different kinds of artificial turf for football and rugby fields, tennis courts, golf courses, sportsgrounds and landscaping, also certified international and domestic sports associations (i.e. FIFA, International Tennis Federation, International Rugby Board, FIGC and LND).
- 4) **Automotive**: tufting and non-woven fabrics for car interiors.

Radici Pietro has undertaken a good growth path since current management was established in 2012: an entirely organic **2.6% CAGR in the 2012-20 period** (7.9% CAGR<sub>12-19</sub>, not considering FY-20 as it was deeply affected by COVID-19). In 2020, revenues were € 43.0m. Adjusted EBITDA was € 1.3m and Net Profit was negative for € 0.9m. Net Financial Position was € 20.0m.

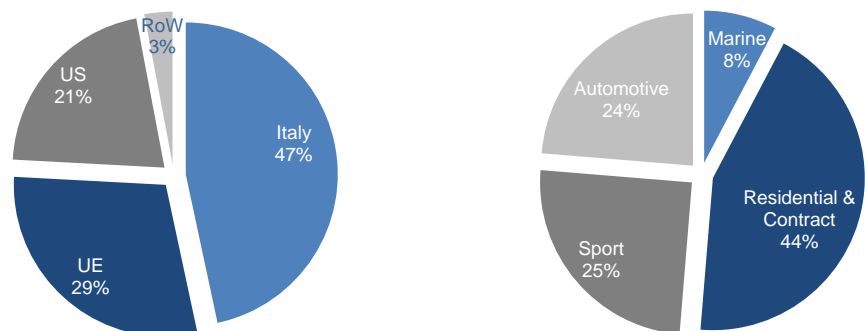
Chart 1 – Radici Pietro, 2012-20 top line evolution\*



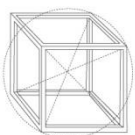
Source: Company data \*excluding ROI Automotive Technology from the scope of consolidation

The group global **export sales are 53% of total revenues**. **44%** of turnover comes from the **Residential & Contract** segment, **25%** from **Sport**, **24%** from **Automotive** and **8%** from **Marine**.

Chart 2 – Radici Pietro, 2020 top line breakdown by geography and industry



Source: Company data

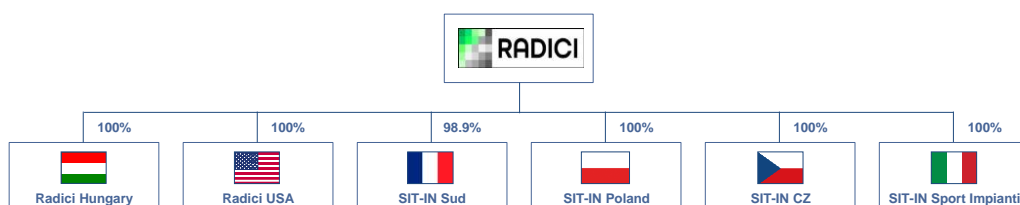


## 2. Group and Shareholder Structure

The group is composed of the operating holding company Radici Pietro Industries & Brands, which controls two other productive subsidiaries (Radici Hungary and Sit-in Sport Impianti) and four commercial branches (Radici USA, Sit-in Sud, Sit-in Poland and Sit-in CZ). Today, **the group is a leading player in the textile flooring market, serving over 2,000 clients in almost 90 countries worldwide, thanks to more than 240 employees.**

During the IPO, management decided to exclude the subsidiary ROI Automotive Technology from the scope of the listing and to sell 51% of the company to the parent company MRFoC for € 3.5m with a Put/Call mechanism on the remaining 49%. In May-20, the Issuer also sold the remaining 49% of ROI to MRFoC.

Chart 3 – Radici Pietro, group structure



Source: CFO SIM elaboration on company data

On 26-Jul-19, Radici Pietro went public on AIM Italia at € 3.10/share, corresponding to a market capitalisation of € 26.7m. The IPO encompassed a **primary offering for a total amount of € 6.2m**. At the same time as the capital increase of € 6.2m took place, 1,098,350 warrants were assigned free of charge as follows: 998,500, one for every two shares subscribed, and 99,850 to the BoD on a discretionary basis. Furthermore, a maximum 199,700 bonus shares could be assigned - one for every 10 shares subscribed - and held at least for a 12-month period as of the IPO date. Currently, the **free float is 24.1%**.

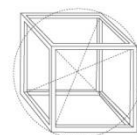
The **warrant exercise periods** will run between 1-Jun to, and including, 22-Jun in 2020, 2021 and 2022, respectively. The exercise price will be € 3.41/s for the first exercise period, € 3.75/s for the second one and € 4.13/s for the third one, with a conversion ratio of one share for each warrant held.

**Pre-IPO shareholders** (MRFoC SpA and the Radici family members) have entered into an **18-month lock-up agreement** since the IPO date (until 1-Feb-21).

Table 1 – Radici Pietro, shareholder structure

Shareholders	Issued number of shares		Fully diluted number of shares	
	%	#m	%	#m
MRFoC SpA	69.9%	6.094	62.1%	6.094
Caterina Radici	1.5%	0.131	1.3%	0.131
Alessandro Radici	1.5%	0.131	1.3%	0.131
Claudia Radici	1.5%	0.131	1.3%	0.131
Federico Radici	1.5%	0.131	1.3%	0.131
Pietro Luigi Radici	0.0%	0.000	0.0%	0.000
<b>Free Float</b>	<b>24.1%</b>	<b>2.098</b>	<b>32.6%</b>	<b>3.196</b>
<b>Total</b>	<b>100.0%</b>	<b>8.718</b>	<b>100.0%</b>	<b>9.817</b>

Source: CFO SIM elaboration on Company data



### 3. The Reference Market: Textile Flooring

**Radici Pietro operates in the textile flooring market and** designs, manufactures and sells a wide range of various textile floor coverings. Thanks to its large product portfolio, the group is able to serve numerous industries, namely: Residential & Contract, Marine, Sports and Automotive.

#### 3.1. Residential & Contract

The group manufactures tufting, woven and non-woven carpets both for residential and contract segments:

- **Residential:** it includes several kinds of surfaces for residential houses, namely tiles, parquets, laminates, carpets, vinyl and stone floorings.
- **Contract:** it refers to hospitals, schools, hotels, retail shops, boutiques, offices, cinemas, public buildings.

The global Residential & Contract flooring market is anticipated to plummet by 30% YoY to **\$ 253bn in 2020** due to the COVID-19 pandemic, and it is expected to grow with a **CAGR<sub>19-24</sub> of 3.3%**, reaching **\$ 426bn in 2024**, mainly thanks to 1) **fast urbanisation**, 2) an **increase in renovation & refurbishment works** and 3) **investment growth in the construction sector**.

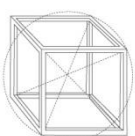
**Chart 4 – Radici Pietro, Residential & Contract global market trend**



Source: Company presentation, estimates elaborated by Radici's management

The **Residential** segment is expected to represent **65.5% of the market in 2020**, totalling **\$ 116bn**, and is anticipated to grow with a **3.1% CAGR<sub>19-24</sub>**. **In 2024, it is expected at \$ 276bn**, corresponding to 64.8% market share.

The **Contract** segment is expected to represent **34.5% of the market in 2020**, totalling **\$ 88bn**, and is anticipated to grow with a **3.8% CAGR<sub>19-24</sub>**. **In 2024, it is expected at \$ 150bn**, corresponding to 35.2% market share. The increase in market share will be driven by rising investment in offices and commercial / institutional buildings.



### 3.2. Marine

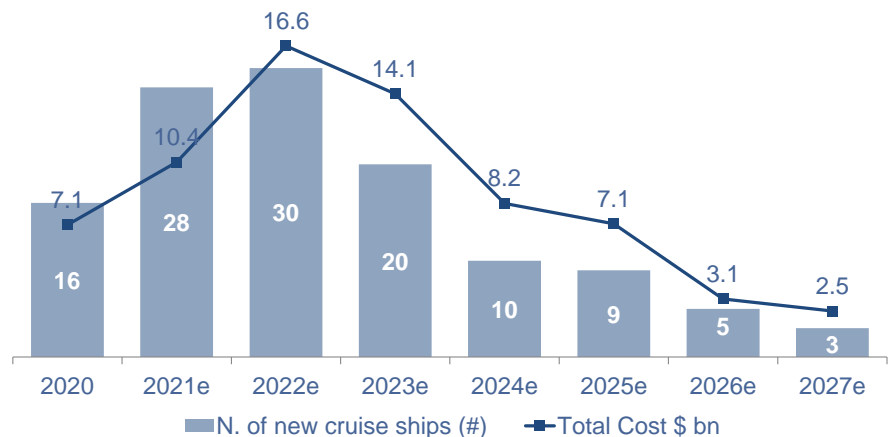
With reference to the Marine market, Radici Pietro provides shipyards and ship-owners with tufting, printed, Wilton, Axminster and non-woven carpets, as well as artificial turf for cruise ships, ferries and yachts. **Cruise lines are working overtime to differentiate themselves and to offer a unique experience to their guests**, not only by enlarging their commercial proposition with new destinations, but also by **focusing on the vessels' interior designs**. Design firms are involved in every phase of the design process, including the selection of carpets and floorings, most of which are custom-designed and produced for individual ships.

**In 2020, the cruise industry worldwide numbered 423 ships** for a total market capacity of **29.5 million passengers**. The cruise ship **order book extended to 2027 includes over 100 new vessels**, corresponding to a total order book value of \$ 61.9bn, an average capacity of over 2,000 passengers per ship and an average cost of \$ 590m per ship.

Nonetheless, **in 2020 the COVID-19 pandemic halted the cruise industry for several months: passengers carried worldwide plummeted to 7.1 million** from 27.5 million in 2019. Furthermore, investment in new ships suffered too: **in 2020, only 16 new cruise ships were delivered** (vs. 24 in 2019) for a total cost of \$ 7.1bn. However, a strong **recovery is expected for 2021-22** with **58 new ships** to be delivered for a total cost of \$ 27.0bn.

**In 2021, the cruise industry worldwide is estimated at \$ 23.8bn, up 81.8% YoY, with a projection of 13.9 million passengers carried** (source Cruise Market Watch).

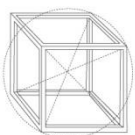
**Chart 5 – Radici Pietro, number of new cruise ships worldwide**



Source: 2021 Cruise Industry News Annual Report and Cruise Ship Orderbook

According to the "Cruise Ship Orderbook" report published by Cruise Industry News last Jan-21, **the global number of cruise ships is anticipated to grow at a CAGR<sub>20-27</sub> of 3.2%, reaching over 500 vessels in 2027.**

**In 2020, the largest cruise company worldwide was Carnival Corporation with a market share of 42.3%**, followed by Royal Caribbean (22.9%), MSC Cruises (9.3%), Norwegian Cruise Line (8.6%) and Genting Hong Kong (3.2%).



### 3.3. Sports

Radici Pietro started to produce artificial turf in 2005, exploiting the several synergies with textile flooring manufacturing. **Artificial turf is a surface made from synthetic fibres**, namely polyethylene, polypropylene, and polyamides, **providing the appearance of natural grass**. It is mostly used in **manufacturing sports pitches** due to its high durability, low maintenance, all-weather utility and eco-friendly features. Indeed, the artificial turf has a low impact on the environment, as it is recyclable, requires much less water than natural grass and massively reduces the use of pesticides and fertilisers. Furthermore, this kind of surface has also **application in the leisure and landscaping sectors**, offering several lucrative opportunities to the players operating in this niche.

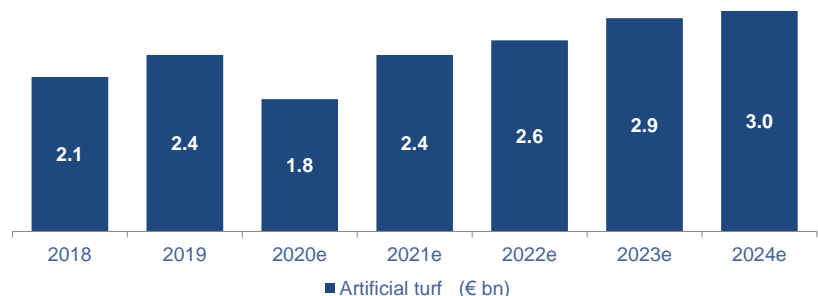
**Chart 6 – Radici Pietro, comparison between FIFA Quality Turf and Natural Grass**

Factors	FIFA Quality Turf	Natural Grass
Playing Time	3,000 hours of play per year and no degradation of quality	680-816 hours of play per year and maintenance is required
Revenue Generation	Can be used for sports, community events, and other revenue generating activities	Cannot be used all the time, because maintenance is required after heavy play, which implies lower revenue generation
Environment	Less use of water and pesticides	Requires appropriate soil conditions and proper natural environment
Rate of Investment (ROI)	The return from investment is three times higher than natural grass	Slower ROI, due to higher maintenance cost
Sports Performance	Better than natural grass	Better than low quality artificial turf

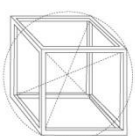
Source: Act Global, Mordor Intelligence Analysis

The **global artificial turf market is anticipated to decline by 25% YoY to € 1.8bn in 2020** and it is expected to grow at a **CAGR<sub>19-24</sub> of 4.6%**. The development of the artificial turf market will be driven mainly by: 1) increasing attention to sustainability; 2) unfavourable climatic conditions for the growth of natural grass in certain areas; 3) the remarkable rise in the number of sports events; 4) the growing demand for artificial turf for landscape and leisure solutions.

**Chart 7 – Radici Pietro, global artificial turf market (€ bn)**



Source: Company presentation, estimates elaborated by Radici's management

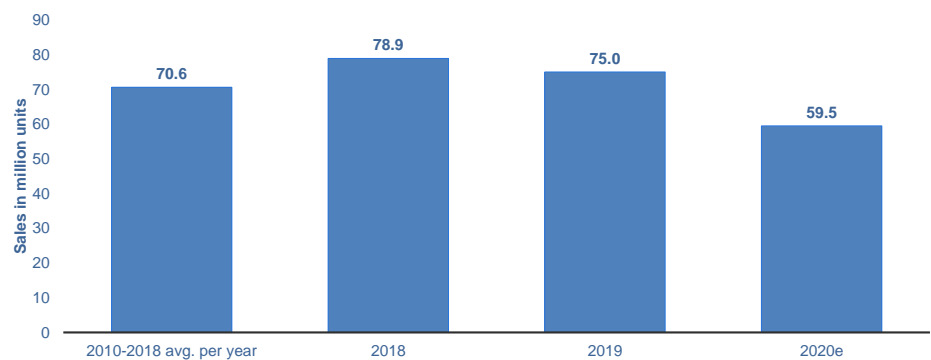




### 3.4. Automotive

The textile flooring market also includes fabrics for car interiors, car mats and luggage compartment trims. Radici Pietro manufactures tufting and non-woven carpets for the main global car manufacturers. **In 2019, 75.0m cars were sold worldwide**, down 4.9% YoY. The global automotive industry expects to sell **59.5 million cars in 2020**, with a **dramatic decrease of over 20% YoY**. The sector is projected to experience a downward trend on the back of a slowing global economy stemming from the advent of the COVID-19 pandemic in all key economies. Previously, international car sales had been estimated to be on track and to reach 80 million in 2020.

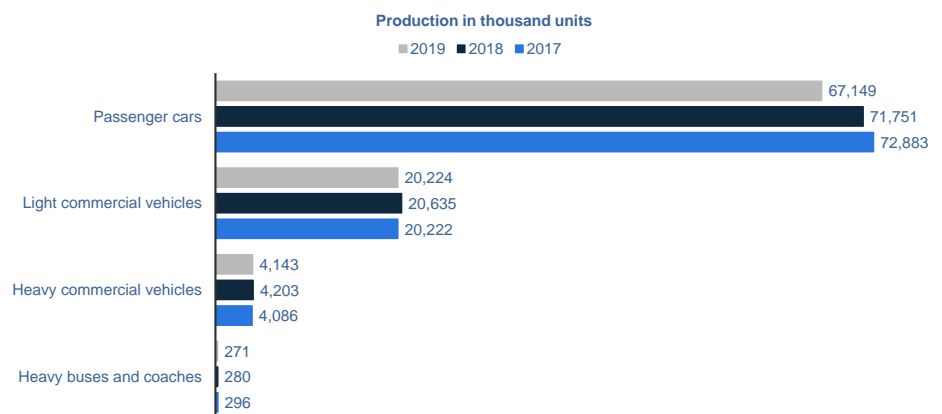
**Chart 8 – Radici Pietro, global car sales historical trend**



Source: Statista

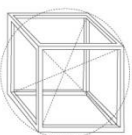
In terms of production, **92.0m motor vehicles worldwide were manufactured in 2019**, down **5.2% YoY** (CAGR<sub>00-19</sub> +2.5%), **67.1m of which were passenger cars (down 6.4% YoY)**. Due to the COVID-19 pandemic, it was estimated that production output in the European automotive industry could be 880,000 fewer units than usual if assembly plants were kept shut for 13 business days. It was also estimated that China could suffer a loss of about 1.7m vehicles worth of production due to coronavirus-related work stoppages.

**Chart 9 – Radici Pietro, 2017-19 trend in global motor vehicle production by type**



Source: Statista

With regard to the medium term, **110m vehicles are expected to be produced by 2025 and 117m vehicles by 2030**. Furthermore, in light of growing population levels and the increasing affluence in emerging markets, the global automobile production is projected to exceed the 100 million units mark soon.



## 4. Strategy, Use of IPO Proceeds

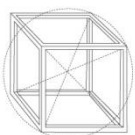
Radici Pietro's development strategy is aimed at **strengthening the group competitive positioning in its reference markets** and at **increasing its international expansion**. The group's growth path is sustained by **€ 6.2m IPO proceeds** and is based on both organic and external growth, with a view to enlarging the sales network, gaining new clients, improving profitability and integrating vertically.

Radici Pietro's principal strategy is focused on:

- **Organic growth:** the group is planning to increase its production capacity by investing almost € 6m in new machineries and equipment, namely:
  - 1) two looms for tufting weaving;
  - 2) an in-line dyeing machine for semi-finished tufting;
  - 3) a 'dilour' machine for needled fabrics;
  - 4) a saturated steam thermo-fixing system for wool twisted yarns.

Furthermore, the group is implementing several marketing activities to identify, and make contact with, architectural and design firms that are potential partners in developing new products, and to attract new clients.

- **International expansion:** Radici Pietro is enlarging its distribution network by adding new sole and multi-firm agents to its salesforce, in order to penetrate new fast-growing strategic areas, namely Northern Africa, Eastern Europe and the Middle East. The group is also looking for local partners for the promotion and commercialisation of its product portfolio, focusing on the Residential & Contract and Sports markets.
- **Increase in business profitability,** thanks to:
  - ✓ Cost reduction stemming from investment in energy efficiency.
  - ✓ Change in revenue mix, with the increase in the contribution of the higher value-added segments, namely Sports and Marine.
  - ✓ Full utilisation of production capacity (now at 70%).
  - ✓ Operating leverage: that is fixed costs increase less than proportionately to turnover.
- **Pursuing external growth opportunities:** M&A opportunities are looked for among companies carrying out phases of the production process not yet implemented by the group and/or able to expand its product portfolio.



## 5. SWOT Analysis

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

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

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

### S.W.O.T. ANALYSIS

#### STRENGTHS

- ❑ **Leading player in textile flooring:** 70 years of experience and over 2,000 clients in almost 90 countries
- ❑ **Wide product portfolio** with several types of textile floor coverings
- ❑ **Vertical integration:** from raw material processing to finished goods distribution
- ❑ **International presence:** 53% of FY-20 turnover

#### WEAKNESSES

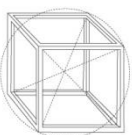
- ❑ **Exposure to foreign currencies**
- ❑ Few key relevant people represent a **vital asset** for the company
- ❑ **Limited fire power for M&A and development**

#### OPPORTUNITIES

- ❑ Increased market attention to **sustainability and circular economy**
- ❑ Penetration in **new fast-growing markets**, such as Northern Africa, Eastern Europe and Middle East
- ❑ **Operating leverage:** volume growth leads to a more than proportional increase in the group's margins

#### THREATS

- ❑ Expansion via **external growth might erode marginality** to a certain extent
- ❑ The rise of **new productive technologies**, not implemented by the group, may reduce its competitive advantage
- ❑ **COVID-19 pandemic** might put manufacturing activities under pressure for longer than expected



## 6. FY-20 Results

Radici Pietro's 2020 results were heavily hit by the pandemic but were slightly better than expectations in terms of revenues. Margins were affected by a few on-offs occurred in Q4-20. The Automotive segment drove the beat in estimate as the group obtained some orders from a few major automotive players. The Sports segment benefited from the increasing demand for artificial turf. The Residential & Contract division performed in line with expectations while the Marine segment suffered from the crisis of the cruise ship sector.

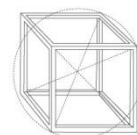
**Table 2 – Radici Pietro, FY-20 results**

€ m	2020	2019PF	% YoY	2020e	% diff.
Marine	3.3	8.6	(61.6)	4.1	(18.2)
Residential & Contract	18.7	27.0	(30.6)	18.5	1.3
Sport	10.7	12.0	(10.6)	10.2	5.1
Automotive	10.2	11.8	(13.8)	7.8	30.6
<b>Total Revenues</b>	<b>43.0</b>	<b>59.4</b>	<b>(27.7)</b>	<b>40.5</b>	<b>5.9</b>
Other	0.7	4.4		(1.7)	
<b>Value of Production</b>	<b>43.6</b>	<b>63.9</b>	<b>(31.7)</b>	<b>38.8</b>	<b>12.5</b>
Raw material and processing	(21.7)	(30.5)		(17.1)	
Services	(12.1)	(16.0)		(11.6)	
Personnel expenses	(7.8)	(9.3)		(7.9)	
Other opex	(1.4)	(1.3)		(0.8)	
<b>EBITDA</b>	<b>0.6</b>	<b>6.8</b>	<b>(91.0)</b>	<b>1.4</b>	<b>(56.3)</b>
% margin	1.4	10.6		3.6	
D&A	(0.6)	(2.8)		(3.2)	
<b>EBIT</b>	<b>0.1</b>	<b>4.0</b>	<b>(98.6)</b>	<b>(1.8)</b>	<b>(103.2)</b>
% margin	0.1	6.2		(4.5)	
Financials	(0.8)	2.0		(0.7)	
Re/(Devaluation) of financial assets	-	(0.3)		0.3	
Extraordinary	-	-		-	
<b>Pre-Tax profit</b>	<b>(0.7)</b>	<b>5.8</b>	<b>(112.1)</b>	<b>(2.1)</b>	<b>(67.0)</b>
% margin	(1.6)	9.0		(5.4)	
Income taxes	(0.2)	(0.2)		(0.1)	
Tax rate	n.m.	2.9%		-4.5%	
Minorities	-	-		-	
<b>Net Profit</b>	<b>(0.9)</b>	<b>5.6</b>	<b>(116.3)</b>	<b>(2.2)</b>	<b>(58.7)</b>
% margin	(2.1)	8.8		(5.7)	
<b>NFP (Cash)</b>	<b>20.0</b>	<b>22.0</b>	<b>(9.5)</b>	<b>19.1</b>	<b>4.6</b>
<b>NFP (Cash) adj.</b>	<b>20.0</b>	<b>18.8</b>	<b>6.3</b>	<b>19.1</b>	<b>4.6</b>

Source: Company data, CFO SIM estimates

**Revenues were down by 27.7% to € 43.0m**, up 5.7% and 5.9% compared to the company's guidance and CFO SIM's estimate, respectively. The figure confirmed the trend announced as H1-20 results were released, when revenues were down by 36.0% but came in 10% higher than the company's budget. In terms of business line:

- The **Automotive** segment drove the beat in estimate, totalling € 10.2m, up 31.7% and 30.6% compared to the company's guidance and CFO SIM's estimate, respectively: the group obtained some orders from a few major automotive players, mainly located in Italy and the US, thanks to its innovative, high-quality products.
- The **Sports** segment benefited from the increasing demand for artificial turf, reaching € 10.7m, down 10.6% YoY, but 5.3% and 5.1% higher than the company's guidance and CFO SIM's estimate, respectively.
- The **Residential & Contract** division totalled € 18.7m, down 30.6% YoY, performing in line with expectations.
- The **Marine** segment declined 61.6% YoY, suffering from the crisis of the cruise ship sector: the building of new cruise ships and the refitting of existing vessels slowed down as ship-owners stopped or postponed investment in their fleets.



**Reported EBITDA totalled € 0.6m** vs. € 1.4m anticipated by the company's business plan and CFO SIM's projection. EBITDA was affected by a few one-off negative events occurred in Q4-20: 1) unfavourable EUR/USD exchange rate impacting top line; 2) a few settlement agreements with some leading customers, with the aim of strengthening and consolidating the existing commercial relationships; 3) a decline in inventory valuation due to a decrease in the purchase price of raw materials in Q4. **EBITDA adjusted** for the aforementioned extraordinary items **was € 1.3m**, slightly lower than our € 1.4m forecast.

**Net profit was negative for € 0.9m**, better than the € 2.2m losses projected by company guidance and CFO SIM, mainly as a result of **FY-20 D&A being suspended** by Italian law No. 126 of 13 October 2020 issued to sustain firms impacted by the pandemic.

**Net Financial Position stood at € 20.0m**, vs our € 19.1m forecast as a result of higher-than-expected CAPEX at € 2.2m vs our € 2.0m projection. Therefore, cash flow generation is broadly in line with our expectations.

## 7. New company guidance for 2021

The group updated its guidance for 2021 in order to factor in a still unfavourable environment in H1-21 and a timid recovery in the second half of the year. For the time being, Radici Pietro left its 2022 projections unchanged.

**Table 3 – Radici Pietro, new company guidance for 2021**

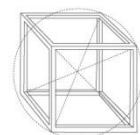
€ m	2020	New 2021e	% YoY	Old 2021e	% diff.	2022e
<b>Total Revenues</b>	<b>43.0</b>	<b>47.0</b>	<b>9.4</b>	<b>58.0</b>	<b>(19.0)</b>	<b>68.0</b>
<b>EBITDA</b>	<b>0.6</b>	<b>2.2</b>	<b>n.m.</b>	<b>5.0</b>	<b>(56.0)</b>	<b>6.7</b>
<i>% margin</i>	1.4	4.7		8.6		9.9
<b>Net Profit</b>	<b>(0.9)</b>	<b>(1.3)</b>	<b>n.m.</b>	<b>1.4</b>	<b>n.m.</b>	<b>2.8</b>
<b>Capex</b>	<b>2.2</b>	<b>0.7</b>	<b>(68.2)</b>	<b>3.9</b>	<b>(82.1)</b>	<b>3.6</b>
<b>NFP (Cash)</b>	<b>20.0</b>	<b>18.0</b>	<b>(9.8)</b>	<b>21.0</b>	<b>(14.3)</b>	<b>20.0</b>
<b>% on total revenues</b>						
<i>Marine</i>	7.7	7.0		14.0		14.0
<i>Residential &amp; Contract</i>	43.6	49.0		44.0		45.0
<i>Sport</i>	25.0	27.0		23.0		22.0
<i>Automotive</i>	23.7	17.0		19.0		19.0

Source: Company data

In 2021, revenues are now anticipated at € 47.0m (vs previous estimate of € 58.0m), up 9% YoY. EBITDA is expected to reach € 2.2m, 4.7% margin (previously € 5.0m, 8.6% margin). Net profit is now projected negative for € 1.3m (previously positive for € 1.4m); NFP is anticipated at € 18.0m, better than the previous estimate of € 21.0m thanks to lower capex (€ 0.7m vs € 3.9m).

### Industrial highlights:

- **Product innovation:** the group intends to strengthen its focus on new innovative products, namely antibacterial and antiviral textile floorings (i.e. VIREX®) and ecological surfaces made from recycled fibres (i.e. ECONYL®).
- **Sports segment:** development of artificial turf systems that are 100% micro-plastic free, eco-friendly and recyclable paired with high-level performance, reliability and competitive prices.
- **Decision makers:** strengthening of partnerships with designers and architectural firms in order to influence the market and anticipate new trends.



## 8. Estimates, Valuation & Risks

Radici Pietro reported FY-20 results heavily hit by the pandemic but slightly better than expectations in terms of revenues. The Automotive segment drove the beat in estimate as the group obtained some orders from a few major automotive players. The Sports segment benefited from the increasing demand for artificial turf. The Residential & Contract division performed in line with expectations while the Marine segment suffered from the crisis of the cruise ship sector. **The group updated its guidance for 2021** in order to factor in a still **unfavourable environment in H1-21** and a **timid recovery in the second half of the year**. For the time being, Radici Pietro left its 2022 projections unchanged.

On the back of FY-20 results and the company's guidance update for 2021, **we have updated our model almost aligning our FY-21 projections with the guidance provided by the group to the market**. However, we still assume a more conservative stance for 2022. The combined result is an average **14.8% and 41.1% reduction in revenues and EBITDA in 2021-22**. We have also introduced projections for 2023.

**Table 4 – Radici Pietro, 2021e new/old estimates**

€m	New	Old	% Diff.	€m Diff.
<b>Total Revenues</b>	<b>47.0</b>	<b>56.9</b>	(17.3)	<b>(9.8)</b>
<b>EBITDA</b>	<b>2.2</b>	<b>4.8</b>	(54.0)	<b>(2.6)</b>
% margin	4.7	8.4		
<b>EBIT</b>	<b>(0.8)</b>	<b>1.7</b>	n.m.	<b>(2.5)</b>
% margin	(1.8)	3.0		
<b>Net Profit</b>	<b>(1.5)</b>	<b>1.0</b>	n.m.	<b>(2.5)</b>
% margin	(3.2)	1.7		
<b>Y/E net debt (net cash)</b>	<b>18.6</b>	<b>20.8</b>	(10.6)	<b>(2.2)</b>

Source: CFO SIM

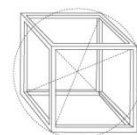
**Table 5 – Radici Pietro, 2022e new/old estimates**

€m	New	Old	% Diff.	€m Diff.
<b>Total Revenues</b>	<b>56.5</b>	<b>64.5</b>	(12.4)	<b>(8.0)</b>
<b>EBITDA</b>	<b>4.5</b>	<b>6.2</b>	(28.3)	<b>(1.8)</b>
% margin	7.9	9.6		
<b>EBIT</b>	<b>1.4</b>	<b>3.1</b>	(53.2)	<b>(1.6)</b>
% margin	2.6	4.8		
<b>Net Profit</b>	<b>0.8</b>	<b>2.3</b>	(67.2)	<b>(1.6)</b>
% margin	1.3	3.6		
<b>Y/E net debt (net cash)</b>	<b>21.5</b>	<b>20.4</b>	5.2	<b>1.1</b>

Source: CFO SIM

Moreover, CFO has **updated the DCF valuation criteria**, bringing the Free Risk Rate up-to-date, and postponed its first valuation projection to 2021. The combined result is a new PT of € 2.50/s (€ 2.90), with an upside of 33.3% to current price levels.

**CFO SIM reiterates its long-term Buy recommendation on the stock:** the group offers more than enough equity and near zero intangibles in addition to long-term debt facilities required to adequately run operations. The firm is properly equipped to weather the current poor market conditions and to benefit from a future demand trend reversal, even exploiting the new business opportunities (e.g. an innovative treatment able to reduce the COVID-19 viral load on textile floorings).



## 8.1. DCF

In the valuation via the DCF method, we assess explicit estimates until 2025 and assume 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 6 – WACC derived from:**

Interest costs, pre-tax	3.5%
Tax rate	27.5%
<b>Int. costs, after taxes</b>	<b>2.5%</b>
Risk premium, incl. small size premium	9.0%
Risk-free (10Y Gov. Bond 200 days simple moving average)	0.86%
Beta levered (x)	1.00
<b>Required ROE</b>	<b>9.9%</b>

Source: CFO SIM, Thomson Reuters Eikon

**Risk premium at 9.0%** factors in the minute size of the company and virtually all the AIM Italia market segment related concerns and disquiet that an investor might have. The WACC is computed using a sustainable 30:70 debt/equity balance-sheet structure.

**Table 7 – Radici Pietro, DCF model**

€m	2021e	2022e	2023e	2024e	2025e	Term. Val.
EBIT	(0.8)	1.4	3.3	4.4	5.2	
Tax rate	4.5%	4.5%	4.5%	4.5%	27.5%	
<b>Operating profit (NOPAT)</b>	<b>(0.8)</b>	<b>1.4</b>	<b>3.2</b>	<b>4.2</b>	<b>3.8</b>	
Change working capital	0.2	(3.4)	(2.5)	(0.5)	(0.1)	
Depreciation	3.0	3.0	3.0	3.0	2.0	
Investments	(1.0)	(4.0)	(4.0)	(2.5)	(2.0)	
<b>Free Cash Flows</b>	<b>1.5</b>	<b>(3.0)</b>	<b>(0.3)</b>	<b>4.2</b>	<b>3.7</b>	<b>55.9</b>
Present value	1.4	(2.7)	(0.2)	3.2	2.6	39.4
WACC	7.7%	7.7%	7.7%	7.7%	7.7%	
<b>Long-term growth rate</b>	<b>1.0%</b>					

Source: CFO SIM

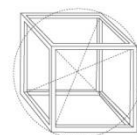
**Table 8 – Radici Pietro, DCF derived from:**

€m	
Total EV present value €m	43.7
	<i>thereof terminal value</i>
	90%
NFP last reported	(20.0)
Pension last reported	(1.6)
<b>Equity value €m</b>	<b>22.1</b>
# shares m	8.7
<b>Equity value €/s</b>	<b>2.50</b>
<i>% upside/(downside)</i>	33.3%

Source: CFO SIM

**The application of our DCF model produces an equity value of € 22.1m for Radici Pietro, € 2.50/s (€ 2.90).**

The following tables illustrate that sensitivity 1) compared to changes in the terminal growth rate produces an equity value between **€ 2.05 – 3.15/s (perpetuity range between 0.25% and 1.75%)**, while, 2) if compared to changes in the free-risk rate, it produces an equity value of **€ 2.10 – 3.05/s (free risk range between 1.61% and 0.11%)** and, 3) if compared to changes in the risk premium, including small size premium, it results in an equity value of **€ 1.73 – 3.66/s (risk premium range between 10.50 % and 7.50%)**.



**Table 9 – Radici Pietro, equity value sensitivity to changes in terminal growth rate**

€m	0.25%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%
Present value of CF	4.3	4.3	4.3	4.3	4.3	4.3	4.3
PV of terminal value	35.2	36.5	37.9	39.4	41.1	42.9	44.8
<b>Total value</b>	<b>39.5</b>	<b>40.8</b>	<b>42.2</b>	<b>43.7</b>	<b>45.4</b>	<b>47.1</b>	<b>49.1</b>
NFP adj. last reported	(20.0)	(20.0)	(20.0)	(20.0)	(20.0)	(20.0)	(20.0)
Pension last reported	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)
<b>Equity value €m</b>	<b>17.9</b>	<b>19.2</b>	<b>20.6</b>	<b>22.1</b>	<b>23.8</b>	<b>25.5</b>	<b>27.5</b>
# shares m	8.7	8.7	8.7	8.7	8.7	8.7	8.7
<b>Equity value €/s</b>	<b>2.05</b>	<b>2.20</b>	<b>2.36</b>	<b>2.50</b>	<b>2.73</b>	<b>2.93</b>	<b>3.15</b>

Source: CFO SIM

**Table 10 – Radici Pietro, equity value sensitivity to changes in free risk rate**

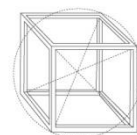
€m	0.11%	0.36%	0.61%	0.86%	1.11%	1.36%	1.61%
Present value of CF	4.4	4.4	4.3	4.3	4.3	4.2	4.2
PV of terminal value	43.8	42.3	40.8	39.4	38.1	36.9	35.7
<b>Total value</b>	<b>48.2</b>	<b>46.6</b>	<b>45.1</b>	<b>43.7</b>	<b>42.4</b>	<b>41.1</b>	<b>39.9</b>
NFP adj. last reported	(20.0)	(20.0)	(20.0)	(20.0)	(20.0)	(20.0)	(20.0)
Pension last reported	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)
<b>Equity value €m</b>	<b>26.6</b>	<b>25.0</b>	<b>23.5</b>	<b>22.1</b>	<b>20.8</b>	<b>19.5</b>	<b>18.3</b>
# shares m	8.7	8.7	8.7	8.7	8.7	8.7	8.7
<b>Equity value €/s</b>	<b>3.05</b>	<b>2.87</b>	<b>2.70</b>	<b>2.50</b>	<b>2.39</b>	<b>2.24</b>	<b>2.10</b>

Source: CFO SIM

**Table 11 – Radici Pietro, equity value sensitivity to changes in risk premium**

€m	7.50%	8.00%	8.50%	9.00%	9.50%	10.00%	10.50%
Present value of CF	4.5	4.4	4.4	4.3	4.2	4.2	4.1
PV of terminal value	49.0	45.5	42.3	39.4	36.9	34.6	32.5
<b>Total value</b>	<b>53.5</b>	<b>49.9</b>	<b>46.6</b>	<b>43.7</b>	<b>41.1</b>	<b>38.8</b>	<b>36.6</b>
NFP adj. last reported	(20.0)	(20.0)	(20.0)	(20.0)	(20.0)	(20.0)	(20.0)
Pension last reported	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)
<b>Equity value €m</b>	<b>31.9</b>	<b>28.3</b>	<b>25.0</b>	<b>22.1</b>	<b>19.5</b>	<b>17.2</b>	<b>15.0</b>
# shares m	8.7	8.7	8.7	8.7	8.7	8.7	8.7
<b>Equity value €/s</b>	<b>3.66</b>	<b>3.24</b>	<b>2.87</b>	<b>2.50</b>	<b>2.24</b>	<b>1.97</b>	<b>1.73</b>

Source: CFO SIM





## 8.2. Market Multiples

**Radici Pietro operates in the textile flooring market.** It designs, manufactures and sells a wide range of various textile floor coverings. Thanks to its large product portfolio, the group is able to work in numerous industries, namely: Residential & Contract, Marine, Sports and Automotive.

We have included seven peers in our sample. They are both domestic and foreign B2B players, operating in the same industries in which Radici Pietro is present:

**Aquafil SpA:** the company offers filaments for textile floorings for carpet manufacturers and synthetic fibres for the clothing, swimwear, and sportswear sectors. Aquafil provides engineering services, such as the supply of complete production plants, supervision of erection and start-ups, training for plant operators, and modernization of plants.

**Balta Group NV:** the company designs and distributes worldwide broadloom carpets, mechanically woven rugs, modular carpet tiles, and other upholstery products for events, buildings, automotive, printing, and other industries.

**Interface Inc.:** the company manufactures, markets, installs, and supplies products for the commercial and institutional interiors market. The company provides modular carpets, panel fabrics for use in open plan office furniture systems, and complementary products, as well as carpet replacement, installation, and maintenance services.

**Mohawk Industries Inc.:** the company designs, manufactures, sources, distributes, and markets flooring for residential and commercial applications. The company offers carpet, ceramic tile, laminate, wood, stone, vinyl, and rugs. Mohawk markets residential and commercial flooring in the United States, and residential flooring in Europe.

**Somec SpA:** the company manufactures and distributes glass envelopes for cruise ships and other architectural projects. The group provides balcony sliding doors, windows, balustrades, and dividers, as well as windscreens, skylights, sky walls, and fire-resistant products.

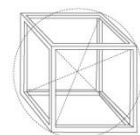
**Tarkett SA:** the company offers a wide range of flooring solutions such as vinyl, laminate, wood, carpet rolls and tiles, linoleum, artificial turf, and accessories.

**Victoria Plc:** the firm designs, manufactures, and distributes flooring products. The company offers carpet, ceramic and porcelain tiles, underlay, LVT, artificial grass, and flooring accessories. Victoria serves customers in the United Kingdom, Australia, and Canada.

Table 12 – Radici Pietro, peer group summary table

€m	Country	Mkt Cap	Sales FY1	EBITDA FY1	EBITDA %	Sales CAGR <sub>20-23</sub>	EBITDA CAGR <sub>20-23</sub>	EBIT CAGR <sub>20-23</sub>	EPS CAGR <sub>21-23</sub>	NFP /EBITDA
Aquafil SpA	Italy	231	490	67	13.7%	8.7%	14.9%	39.9%	42.7%	2.9
Balta Group NV	Belgium	92	629	80	12.7%	4.0%	9.8%	20.6%	n.m.	3.6
Interface Inc	USA	624	930	119	12.8%	2.8%	4.3%	5.4%	14.6%	n.a.
Mohawk Industries Inc	USA	11,907	8,807	1,445	16.4%	6.7%	13.2%	21.3%	10.9%	0.6
Somec SpA	Italy	162	271	27	10.1%	15.5%	29.7%	-328.0%	54.6%	(1.8)
Tarkett SA	France	950	2,665	276	10.4%	3.0%	-5.1%	-0.4%	24.4%	1.4
Victoria PLC	UK	1,187	735	130	17.7%	5.6%	5.5%	19.8%	1.0%	3.8
<b>Median</b>		<b>624</b>	<b>735</b>	<b>119</b>	<b>12.8%</b>	<b>5.6%</b>	<b>9.8%</b>	<b>19.8%</b>	<b>19.5%</b>	<b>2.1</b>
<b>Radici Pietro Industries &amp; Brands SpA</b>	<b>Italy</b>	<b>16</b>	<b>47</b>	<b>2</b>	<b>4.7%</b>	<b>14.8%</b>	<b>118.8%</b>	<b>291.0%</b>	<b>n.m.</b>	<b>8.4</b>

Source: CFO SIM, Thomson Reuters Eikon



**Table 13 – Radici Pietro, peer group EV multiples table**

x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3
Aquafil SpA	0.87	0.74	0.10	6.3	5.1	0.7
Balta Group NV	0.60	0.57	0.15	4.8	4.3	1.0
Interface Inc	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Mohawk Industries Inc	1.45	1.35	1.21	8.8	8.0	7.1
Somec SpA	0.42	0.41	0.43	4.2	3.6	3.6
Tarkett SA	0.50	0.45	0.39	4.8	4.1	3.5
Victoria PLC	2.29	2.11	2.03	12.9	11.7	10.9
<b>Median</b>	<b>0.73</b>	<b>0.65</b>	<b>0.41</b>	<b>5.6</b>	<b>4.7</b>	<b>3.5</b>
<b>Radici Pietro Industries &amp; Brands SpA</b>	<b>0.74</b>	<b>0.67</b>	<b>0.52</b>	<b>15.9</b>	<b>8.5</b>	<b>5.3</b>
% Prem./disc.)	1.0	2.5	27.4	185.2	81.7	50.8

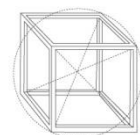
Source: CFO SIM, Thomson Reuters Eikon

**Table 14 – Radici Pietro, peer group EV & price multiples table**

x	EBIT FY1	EBIT FY2	EBIT FY3	PER FY1	PER FY2	PER FY3
Aquafil SpA	22.3	13.3	1.8	neg.	13.1	12.2
Balta Group NV	10.4	8.5	1.9	neg.	8.8	n.a.
Interface Inc	n.a.	n.a.	n.a.	14.4	11.5	10.9
Mohawk Industries Inc	13.5	12.0	10.3	16.9	15.3	13.7
Somec SpA	8.8	6.2	5.5	23.5	12.9	9.8
Tarkett SA	11.1	8.4	6.7	13.8	10.0	8.9
Victoria PLC	19.9	18.8	17.4	33.4	37.9	32.8
<b>Median</b>	<b>12.3</b>	<b>10.2</b>	<b>6.1</b>	<b>16.9</b>	<b>12.9</b>	<b>11.5</b>
<b>Radici Pietro Industries &amp; Brands SpA</b>	<b>neg.</b>	<b>26.2</b>	<b>10.1</b>	<b>neg.</b>	<b>21.5</b>	<b>6.2</b>
% Prem./disc.)	-	156.9	65.1	-	67.1	(46.4)

Source: CFO SIM, Thomson Reuters Eikon

The COVID-19 caused a decrease in demand in all the industries served by the group and a rebound is expected only in the medium-term, over-penalising the group's metrics in the short-term. Thus, we believe that currently it looks unreasonable to get an unbiased appraisal of Radici Pietro's equity value by using the market multiple methodology.



### 8.3. Peer Stock Performance

Radici Pietro was listed on AIM Italia (Alternative Investment Market) on 26<sup>th</sup> July 2019 at € 3.10/share, corresponding to a post-money market capitalisation of € 26.7m. The stock reached a 1Y maximum price of € 2.12/s on 4-Jan-21 and a minimum price of € 1.24/s on 28-Oct-20.

**Table 15 – Radici Pietro, peer group and index absolute performance**

	1D	1W	1M	3M	6M	YTD	1Y
Aquafil SpA	(0.4)	3.3	(1.1)	12.8	41.8	11.1	60.9
Balta Group NV	(1.2)	2.8	(3.0)	10.3	152.0	16.8	119.7
Interface Inc	(0.5)	(0.4)	(10.3)	19.4	83.5	20.6	30.2
Mohawk Industries Inc	2.3	2.3	7.3	41.2	94.7	44.0	130.6
Somec SpA	4.0	(1.3)	10.3	21.1	85.8	31.7	50.6
Tarkett SA	0.8	6.4	8.5	(8.3)	16.2	0.6	56.3
Victoria PLC	0.0	5.3	10.6	29.4	164.7	34.4	351.3
<b>Median</b>	<b>0.0</b>	<b>2.8</b>	<b>7.3</b>	<b>19.4</b>	<b>85.8</b>	<b>20.6</b>	<b>60.9</b>
<b>Radici Pietro Industries &amp; Brands SpA</b>	<b>4.2</b>	<b>4.2</b>	<b>3.9</b>	<b>(1.8)</b>	<b>30.2</b>	<b>(10.7)</b>	<b>7.1</b>
MSCI World Index	0.5	2.4	3.7	5.7	18.9	8.2	47.7
EUROSTOXX	0.0	0.7	3.3	7.3	20.4	10.3	38.8
FTSE Italia All Share	(0.5)	(0.6)	1.6	7.4	24.3	10.1	38.8
FTSE STAR Italia	0.4	1.9	4.7	10.6	24.0	11.7	60.1
FTSE AIM Italia	0.3	1.4	8.1	16.9	33.0	20.1	28.5

Source: Thomson Reuters Eikon

**Table 16 – Radici Pietro relative performances**

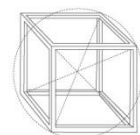
	1D	1W	1M	3M	6M	YTD	1Y
To peer Peers Median	4.2	1.4	(3.5)	(21.3)	(55.6)	(31.3)	(53.8)
To MSCI World Index	3.7	1.8	0.2	(7.5)	11.3	(18.9)	(40.5)
To EUROSTOXX	4.1	3.4	0.6	(9.1)	9.8	(21.0)	(31.7)
To FTSE Italia All Share	4.7	4.8	2.3	(9.2)	5.9	(20.9)	(31.6)
To FTSE STAR Italia	3.7	2.3	(0.9)	(12.4)	6.2	(22.4)	(52.9)
To FTSE AIM Italia	3.9	2.8	(4.3)	(18.7)	(2.8)	(30.8)	(21.4)

Source: Thomson Reuters Eikon

### 8.4. Risks

The principal investment **risks** associated with Radici Pietro include:

- Impact on P&L and balance sheet profiles triggered by a sharp decline in global economic growth or geopolitical instability;
- The COVID-19 pandemic might put manufacturing activities under pressure for longer than expected;
- The introduction of new productive technologies, not implemented by the group, may reduce its competitive advantage;
- Exposure to foreign exchange rate risk;
- Departure of one, or a few, of the key people.



## 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.

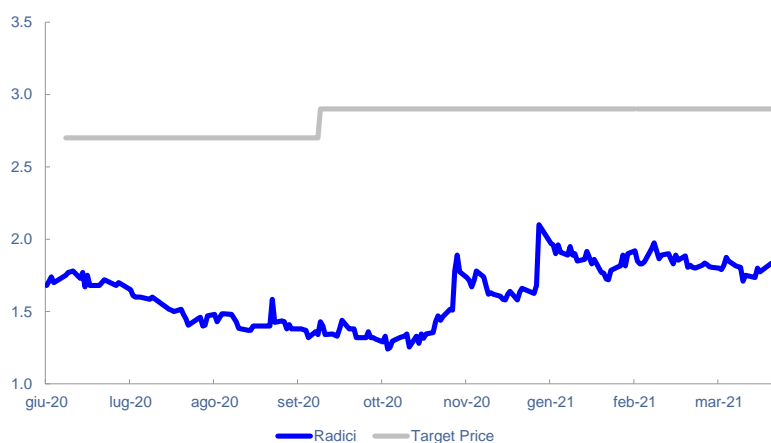
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DATE	TARGET PRICE	RATING
12/04/2021	€2.50	BUY
18/03/2021	€2.90	BUY
30/09/2020	€2.90	BUY
16/06/2020	€2.70	BUY

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- a **BUY** rating is assigned if the target price is at least 15% higher than the market price;
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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.

