

Italy - Food

Total Produce purchases Dole for 9.0x EBITDA

1<sup>st</sup> February 2018

SECTOR NEWS

RIC: ORSO.MI  
BBG: ORS IM

The consolidation process in the industry goes on: Total Produce buys 45% of Dole for \$ 300m, valuing the prey at 9.0x EBITDA. The transaction multiple highlights the current depressed valuation of Orsero, unjustified by the fundamentals.

Rating:

**Buy**

Price Target:

**€ 13.80**

Upside/(Downside): 56.8%

Last Price: € 8.80

Market Cap.: € 155.6m

1Y High/Low: € 14.26/€ 8.60

Free Float: 62.7%

Major shareholders:

FIF Holding 31.6%  
Grupo Fernández 5.7%



Stock price performance

	1M	3M	12M
<b>Absolute</b>	-4.9%	-16.0%	-11.1%
<b>Rel.to Milan AIM</b>	-6.3%	-14.8%	-30.3%
<b>Rel.to EU Sector</b>	-6.0%	-20.1%	-31.1%

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**Total Produce pays \$ 300m for 45% of Dole, i.e. 9.0x EBITDA**

Total Produce, one of the leading European fresh produce companies, has announced the acquisition of a 45% stake in Dole for a cash consideration of \$ 300m. The deal brings together two leading fresh produce companies, with complementary market positions in various product segments and geographies. The transaction implies a Dole EV of \$ 2 bn, i.e. 9x EBITDA 2016. Dole is one of the world's largest fresh fruit and vegetable producers and distributors. For the twelve months ended October 7, 2017, Dole generated revenue and adj. EBITDA of \$ 4.5bn and \$ 237m, respectively. Over the period FY-14/FY-17, Dole generated an average annual adj. EBITDA of \$ 227m. The transaction structure implies Total Produce has the right, but not the obligation, to purchase in the next few years additional tranches up to 100% of Dole share capital for a total consideration equal to 9x three year average historical Dole adj. EBITDA less net debt. While logical from an industrial point of view, the outlay consideration and the size of the prey indicate some concerns in relation to future balance sheet integrity of the combined entity. Assuming a 100% consolidation of Dole and the announced \$ 150m rights issue to partially finance the purchase, Total Produce+Dole is estimated to have sales of € 7.5bn, EBITDA of € 273m (3.6% margin) and net debt of € 1.6bn (5.7x EBITDA). Undoubtedly a weighty target: we might not exclude the possibility that the integration and rationalisation process could defocus the management temporarily. In addition, a potential buyer of Orsero has faded from the market.

**Sector consolidation proceeds unrelenting**

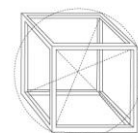
The sector is in the midst of a deep consolidation process. After the purchase of Fyffes by Sumitomo for 13.8x EBITDA in Dec-16, this news appears as a further acceleration of this trend, in an industry where volumes are a key aspect to leverage well structured, deep rooted distribution platforms. Orsero with the JV minorities buy-outs of last Jul-17, has started to use the fresh resources injected by Glenalta Food together with its cash flows to accelerate growth via acquisitions. We believe the group aims to grab some local opportunities in Italy, to develop partnerships in Europe with local producers and to target prey in adjacent but consistent bio-vegan, dried fruit and juices/puree product categories.

**Transaction multiple highlights Orsero current depressed valuation**

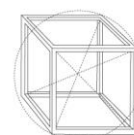
Simply applying the multiples paid for Dole to Orsero, the equity value obtained is significantly higher than current market value. We believe the Orsero current multiple discount to peers is not fully justified and has somewhat to fill the valuation gap, also considering higher than peer growth perspectives. We fine-tuned our estimates factoring in the € 20m cash in stemming from the sale of the participation in Acorsa JV and the € 8m payment related to a guarantee expired last Dec-17 of a loan granted in favour of Argentina, a company outside the current consolidation perimeter. We stick to our positive stance.

**Orsero, key financials and ratios**

€ m	2015	2016	2017e	2018e	2019e
Sales	617.4	685.0	898.8	938.8	980.7
EBITDA adj	28.2	35.2	29.3	38.6	43.4
EBIT	12.1	17.6	22.7	23.6	28.5
Net profit	13.6	18.2	15.6	17.9	22.0
Net profit adj	16.4	23.7	9.2	17.9	22.0
NFP (cash)/debt	147.0	49.1	57.5	41.4	18.3
EPS adjusted FD	0.93	1.34	0.52	1.01	1.25
EPS adj. FD growth	-	45.0%	-61.0%	93.5%	23.1%
DPS ord. €/s	0.00	0.00	0.00	0.00	0.00
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
Free Cash Flow Yield	-	27.5%	-5.4%	10.4%	14.9%
PER x	9.5	6.6	16.8	8.7	7.1
EV/Sales x	0.49	0.30	0.24	0.21	0.18
EV/EBITDA x	10.7	5.8	7.3	5.1	4.0
EV/EBIT x	25.1	11.6	9.4	8.3	6.1



Income statement (€ m)	2015	2016	2017e	2018e	2019e
Revenues	617.4	685.0	898.8	938.8	980.7
COGS	(553.4)	(612.3)	(806.7)	(843.0)	(877.8)
Gross Profit	64.0	72.7	92.1	95.8	102.9
SG&A	(51.9)	(55.0)	(69.3)	(72.1)	(74.3)
EBIT	12.1	17.6	22.7	23.6	28.5
Financials	(6.1)	(1.4)	(2.2)	(2.2)	(2.2)
Results from investments	1.3	4.9	0.5	0.0	0.0
Pre Tax Profit	7.3	21.1	21.0	21.5	26.4
Taxes	6.1	(2.9)	(5.3)	(3.4)	(4.2)
Discontinued	0.2	0.0	0.0	0.0	0.0
Minorities	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)
Net Profit	13.6	18.2	15.6	17.9	22.0
D&A	(10.5)	(9.8)	(12.6)	(12.8)	(12.7)
Provisions	(2.5)	(1.5)	(2.0)	(2.1)	(2.2)
Non recurring items	(3.2)	(6.3)	8.0	0.0	0.0
Adjusted EBITDA	28.2	35.2	29.3	38.6	43.4
Adjusted EBIT	15.2	23.9	14.7	23.6	28.5
Adjusted Net profit	16.4	23.7	9.2	17.9	22.0
Balance sheet (€ m)	2015	2016	2017e	2018e	2019e
Net Working Capital	22.6	27.4	42.8	41.7	42.7
Net Fixed Assets	122.4	95.9	157.7	160.2	157.8
Equity Investments	36.7	39.2	10.0	10.2	10.4
Other M/L Term A/L	12.1	3.0	(20.8)	(20.7)	(20.6)
Net Invested Capital	193.8	165.6	189.7	191.5	190.4
Net Financial Debt/(cash)	147.0	49.1	57.5	41.4	18.3
Minorities	1.1	0.7	0.9	1.0	1.1
Group's Shareholders Equity	45.7	115.8	131.3	149.0	170.9
Financial Liabilities & Equity	193.8	165.6	189.7	191.5	190.4
Cash Flow statement (€ m)	2015	2016	2017e	2018e	2019e
Total net income	-	18.2	15.6	17.9	22.0
Depreciation	-	9.8	12.6	12.8	12.7
Other non-cash charges	-	9.1	3.8	(0.1)	(0.1)
Cash Flow from Oper. (CFO)	-	37.0	32.1	30.6	34.6
Change in NWC	-	(4.9)	(15.3)	1.0	(0.9)
FCF from Operations (FCFO)	-	32.2	16.8	31.6	33.6
Net Investments (CFI)	-	10.7	(25.2)	(15.5)	(10.5)
Free CF to the Firm (FCFF)	-	42.8	(8.5)	16.1	23.1
CF from financials (CFF)	-	(32.7)	0.0	0.0	0.0
Free Cash Flow to Equity (FCFE)	-	10.1	(8.5)	16.1	23.1
Financial ratios	2015	2016	2017e	2018e	2019e
EBITDA adj. margin	4.6%	5.1%	3.3%	4.1%	4.4%
EBIT margin	2.0%	2.6%	2.5%	2.5%	2.9%
Net profit margin	2.2%	2.7%	1.7%	1.9%	2.2%
Tax rate	n.m.	13.6%	25.0%	16.0%	16.0%
Interest coverage x	0.50	0.08	0.10	0.09	0.08
Net Debt/EBITDA adj. x	5.22	1.39	1.96	1.07	0.42
Debt-to-Equity x	3.21	0.42	0.44	0.28	0.11
ROIC	7.0%	11.0%	8.2%	9.3%	11.6%
ROCE	4.8%	7.5%	5.8%	8.7%	9.8%
ROACE	4.8%	7.2%	6.0%	9.0%	10.1%
ROE	29.7%	15.7%	11.9%	12.0%	12.9%
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Per share figures	2015	2016	2017e	2018e	2019e
Number of shares # m	17.68	17.68	17.68	17.68	17.68
Number of shares Fully Diluted # m	17.68	17.68	17.68	17.68	17.68
Average Number of shares Fully Diluted	17.68	17.68	17.68	17.68	17.68
EPS stated FD €	0.77	1.03	0.88	1.01	1.25
EPS adjusted FD €	0.93	1.34	0.52	1.01	1.25
EBITDA €	1.59	1.99	1.66	2.18	2.45
EBIT €	0.68	1.00	1.28	1.34	1.61
FCFO €	n.a.	1.82	0.95	1.79	1.90
FCFF €	n.a.	2.42	(0.48)	0.91	1.31
FCFE €	n.a.	0.57	(0.48)	0.91	1.31
Dividend €	0.00	0.00	0.00	0.00	0.00



## The company in a nutshell

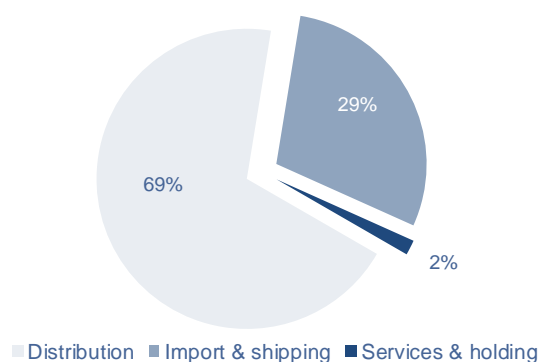
Orsero is an international group headquartered in Albenga (Savona), operating in the fresh fruit and vegetable import and distribution business in the Mediterranean area of Europe. The group was founded over 50 years ago by the Orsero family. The current business structure entails besides import and distribution of fresh fruit and vegetables, production and export of fruit together with chilled maritime transportation. Orsero boasts a presence mainly in Italy, France, Spain, Portugal, Greece, Costa Rica and Colombia.

During 2012, the group launched the "F.lli Orsero" brand for bananas and pineapples, which expresses the sense of tradition and the passion of a large Italian family company for fruit and vegetables of the highest quality.

2016 Orsero highlights: € 685m revenues, EBITDA of € 35.2m (5.1% margin), € 18.1m net profit and € 49.0m net financial position (1.3x EBITDA).

Orsero was listed on the AIM Italia (Alternative Investment Market) on 13-Feb-17 as a result of the merger between Glenalta Food and Orsero. The merger was the final step in the business combination between Glenalta Food and GF Group, as regulated by the agreement signed and announced last 28th October 2016.

## 2016 Gross Turnover...



## ...and EBITDA by business



## Shareholder structure

	%	# m
Orsero family	31.6%	5.59
Grupo Fernandez	5.7%	1.00
Free Float	62.7%	11.09
o/w treasury shares	3.6%	0.64
<b>Total</b>	<b>100.0%</b>	<b>17.68</b>

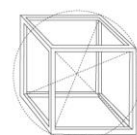
## Peer group absolute performance

	1D	1W	1M	3M	6M	YTD
Fresh Del Monte Produce Inc	-0.4	-3.4	0.2	7.5	-4.9	-0.8
Total Produce PLC	-0.8	-1.3	-5.6	1.3	6.8	-8.2
<b>Peers Average</b>	<b>-0.6</b>	<b>-2.4</b>	<b>-2.7</b>	<b>4.4</b>	<b>1.0</b>	<b>-4.5</b>
<b>Orsero Spa</b>	<b>1.6</b>	<b>-2.2</b>	<b>-4.9</b>	<b>-16.0</b>	<b>-30.8</b>	<b>-4.9</b>
FTSE AIM Italia	-0.1	-0.7	1.4	-1.1	2.2	1.4
EU Sector	0.4	-1.3	1.1	4.2	5.4	0.4
Orsero Spa to peers	2.2	0.1	-2.2	-20.3	-31.7	-0.4
Orsero Spa to FTSE AIM Italia	1.7	-1.5	-6.3	-14.8	-32.9	-6.2
Orsero Spa to EU Sector	1.2	-0.9	-6.0	-20.1	-36.2	-5.2

## Peers group multiples table

Price & EV multiples x	PER FY1	PER FY2	PER FY3	PCF FY1	PCF FY2	PCF FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3
Fresh Del Monte Produce Inc	15.2	12.4	11.1	9.9	8.5	7.8	9.1	7.7	7.0
Total Produce PLC	19.1	19.1	17.9	13.6	13.6	12.9	10.4	9.6	9.0
<b>Average</b>	<b>17.2</b>	<b>15.8</b>	<b>14.5</b>	<b>11.7</b>	<b>11.1</b>	<b>10.4</b>	<b>9.7</b>	<b>8.7</b>	<b>8.0</b>
<b>Orsero Spa</b>	<b>16.8</b>	<b>8.7</b>	<b>7.1</b>	<b>7.0</b>	<b>4.7</b>	<b>4.2</b>	<b>7.3</b>	<b>5.1</b>	<b>4.0</b>
% (Discount)/Premium to peer average	-1.9%	-44.8%	-51.3%	-40.3%	-57.1%	-59.3%	-25.3%	-41.0%	-50.2%

Source: CFO Sim, Thomson Reuters Eikon



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DATE	TARGET PRICE	RATING
01/02/2018	€13.80	BUY
27/09/2017	€13.80	BUY
28/07/2017	U.R.	BUY
18/04/2017	€16.20	BUY
13/02/2017	-	not rated

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- a **BUY** rating is assigned if the target price is at least 15% higher than the market price;
- a **SELL** rating is assigned if the target price is at least 15% lower than the market price;
- a **NEUTRAL** rating is assigned if the difference between the current price and target price lies within the +/- 15% bands identified using the preceding criteria.

The rating is determined on the basis of the **expected absolute return 12 months forward** and not on the basis of the estimated out/underperformance relative to a market index. Thus, the rating can be directly linked with the estimated percentage difference between current price and target price. The prices of the financial securities mentioned in the report (also used for the calculation of market capitalisation and market multiples) are the reference prices of the stock market trading day preceding the publication date of the report, otherwise stated.

