

Difficult market to be tackled with new strategic plan

FY 2018 RESULTS

Caleffi Group's FY 2018 results were negatively affected by unfavorable market conditions in the home linen sector. Revenues were of 50.6 Eu m, down by 10% vs. 2017 and 11% vs. our estimates. **EBITDA came in at 0.6 Eu m** vs. 2 Eu m in FY 2017 and 2.1 Eu m as of our estimates. Group's **Net loss** stood at 0.9 Eu m (Net loss of 0.1 Eu m in FY 2017). **Net debt** of the Group came in at 11.4 Eu m, down from 14.8 in FY 2017 mainly due to a reduction in Net Working Capital following lower sales volumes

The new three-year strategic plan, to be presented more in detail in May, should reverse the negative trend and will focus on a new market strategy, the recovery of profitability and cost cutting. Management confirmed intentions to boost international growth through M&A (not included in estimates).

Following FY 2018 results and the new strategic guidelines **we have revised our estimates** with an average cut in revenues, EBITDA and EPS by -18%, -26% and -37% respectively.

COMPANY DESCRIPTION

Caleffi Group is market leader in the Italian Home Fashion industry and specialized in **high quality home linen products**. With over 55 years of history and 205 employees, the Group is present in over 2000 stores in Italy and in over 600 stores in more than 50 countries world wide.

The Group, that includes Caleffi SpA and Mirabello Carrara (70% controlled), closed FY 2018 with revenues of 51 Eu m.

STRATEGY

The new three-year strategic plan based on:

- Review product offering;
- Recovery of profitability also through a cost-cutting;
- Redefinition of supply chain;
- Redefinition of corporate governance and organizational structure
- M&A: particular focus on targets in sectors different from home linen but synergic with the Group's business and with expected high growth rates.

MTA POSITIONING

Compared to average 2017 SMALL CAPS of MTA "Personal & Household Goods" Super Sector by Borsa Italiana, Caleffi shows:

- Better stock price performance TTM (0% vs. -16%);
- Higher free float (45% vs. 36%).

VALUATION

Our new target price for Caleffi is 1.46 Eu p.s. (previously 1.56)., obtained as the average between a DCF and multiple comparison analysis.

Method	Price (Eu)
DCF	1.52
Multiple analysis	1.41
Target Price	1.46

Please, read important disclaimer on the last page of this report.

SHARE DATA

Market	MTA
Reuters/Bloomberg	CLF.MI/CLF IM
ISIN	IT0003025019
N. of Shares	15,628,081
Free Float	42.27%
Main Shareholder	Giuliana Caleffi (40.40%)
CEO	Guido Ferretti

UPDATE REPORT

FY 2018 Results – April 10th, 2019 20:40 p.m.

Personal & Household Goods

IR TOP RESEARCH

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Target Price (Eu)	1.46 (1.56 previously)
Market Price (Eu)	1.46
Capitalisation (Eu m)	23
Enterprise Value (Eu m)	35
<i>(as of April 10th, 2019)</i>	

MTA Positioning

Market Data (Eu m)	Company	Super Sector*	MTA Small&Mid Cap
Capitalisation	23	689	693
Perf. TTM	0%	-25%	-16%
Free Float	45%	37%	36%
ADTT YTD (Eu)	10,157	1,558,304	1,242,711

Source: Factset Data – *Personal & Household Goods

Results & Estimates

Key Figures (Eu m)	17A	18A	19E	20E	21E
Revenues	56.3	50.6	50.8	53.4	57.1
YoY growth	-5%	-10%	0%	5%	7%
EBITDA	2.0	0.6	2.1	3.3	3.7
EBITDA%	3%	1%	4%	6%	6%
EBIT	0.4	(1.0)	0.7	1.8	2.2
EBIT%	1%	-2%	1%	3%	4%
Group's Net Profit	(0.1)	(0.9)	0.2	0.9	1.1
Net Debt (Cash)	14.8	11.4	10.2	8.6	7.4
EPS	0.00	0.00	0.02	0.06	0.07

Source: Company Data for 2017-18 (IAS-IFRS) and IR Top Estimates for 2019-21 consolidated results

Peers Comparison

EV/EBITDA (x)	19E	20E
Caleffi	16.5	10.4
Brand Peers	12.4	11.0
Discount/Premium to Brand Peers	+32.8%	-5.4%

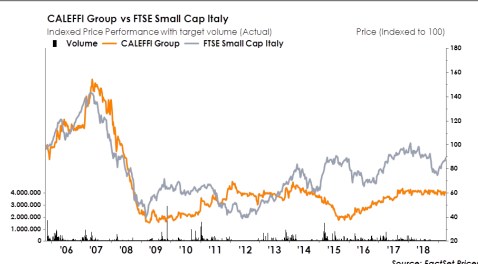
P/E (x)	19E	20E
Caleffi	87.0	22.7
Brand Peers	28.3	24.0
Discount/Premium to Brand Peers	n.m.	-5.6%

Source: IR Top Estimates for Caleffi and Factset data for comparables

Performance

	1M	3M	1Y
Absolute	+0.0%	-0.7%	-0.3%
Relative (FTSE Italia Small Cap)	-4.3%	-9.2%	+11.2%
52-week High/Low* (Eu)	3.12 / 1.11		

Source: Factset data
*Intra Day



BUSINESS UPDATE

FY 2018 results were negatively affected by unfavorable market conditions, especially in the Italian market (92% of total turnover). According to the Company (Sita Ricerche), total value of the Italian home linen market was 1.34 Eu b, down by -2% vs. 2017. Caleffi has maintained its position as second player in the market, with a total share of 7.8% (7.7% in 2017).

The new three-year strategic plan, to be presented more in detail in May, should reverse the negative trend and will focus on a new market strategy, the recovery of profitability and cost cutting. Management confirmed intentions to boost international growth through M&A (not included in estimates).

Since our last report Caleffi bought a total of 122,566 treasury shares and currently holds n. 410,565 treasury shares for a total of 2.627% of the share capital.

RESULTS AND ESTIMATES

FY 2018 RESULTS

Caleffi Group recorded revenues in FY 2018 of 50.6 Eu m, down by 10% vs. 2017 and 11% vs. our estimates. The slowdown was mainly to be attributable to the disappointing market conditions in the Italian home linen sector. In particular, Caleffi Spa fell by -6.8% (38.4 Eu m in FY 2018 vs. 41.2 Eu m in 2017), following lower sales in the promotional channel, and bad performance of baby and teen licences.

Revenues of Mirabello (70% owned luxury subsidiary) decreased by -8.6%, after a decrease in international markets (-34% vs. 2017) whereas the Italian market grew by c. +6%. Overall, domestic revenues of the Group (92% of total sales) fell by -4%, whereas revenues outside Italy were down by c. -34% yoy (45.1 Eu m in FY 2018 vs. 6.2 Eu m in 2017)

EBITDA came in at 0.6 Eu m vs. 2 Eu m in FY 2017 and 2.1 Eu m as of our estimates. EBITDA margin was of 1.2% (3.7% in FY 2017). **EBIT was negative by -1.0 Eu m**, after D&As of 1.6 Eu m. **Net loss** stood at 0.9 Eu m, vs. a Net loss of 0.1 Eu m in FY 2017, and a net profit of 0.2 Eu m as of our estimates.

Net debt of the Group was of 11.4 Eu m, down from 14.8 in FY 2017 mainly due to a reduction in Net Working Capital -4.2 Eu m vs. year-end 2017, following the lower sales volumes

Fixed assets were of 9.4 Eu m at the end of FY 2018 (9.9 Eu m in FY 2017), after c. 0.5 Eu m of CAPEX, related to the refitting of Caleffi store in Noventa, the opening of corner shops and update of the management system.

Eu m – IAS/IFRS	FY 2017A ¹	FY 2018A ¹	Var. % 17A/18A	FY 2018E	Var. % 18A/18E
Revenues	56.3	50.6	-10%	57.0	-11%
YoY growth	-4.9%	-10.1%		-0.4%	
EBITDA	2.0	0.6	-68%	2.1	-70%
EBITDA%	3.4%	1.2%		3.7%	
EBIT	0.4	(1.0)	-371%	0.6	-265%
EBIT%	0.6%	-1.9%		1.0%	
Net Profit	0.0	(0.8)	3,172%	0.2	-480%
Group's Net Profit	(0.1)	(0.9)	854%	(0.2)	369%
Net Working Capital (NWC)	22.1	17.9	-19%	22.8	-21%
Fixed net assets	9.9	9.4	-6%	9.5	-2%
Funds	(2.4)	(2.3)	-1%	(2.3)	1%
Net Capital Employed	29.7	24.9	-16%	30.	-17%
Net Debt (Cash)	14.8	11.4	-23%	14.9	-23%
Group's Equity	14.4	13.0	-10%	14.6	-11%
Minority Interest	0.4	0.5	22%	0.5	15%
Total Source	29.7	24.9	-16%	30.0	-17%

Source: Company Data

¹ Starting from 2018, the Group has applied the accounting standard IFRS 15 "Revenue from Contracts with Customers", consequently adapting the comparative data FY 2017

2019-2021 ESTIMATES

ESTIMATES

Following FY 2018 results and the new strategic guidelines **we have revised our estimates** with an average cut in revenues, EBITDA and EPS by -18%, -26% and -37% respectively. More in detail we assume stable revenues in FY 2019, in line with market expectations. We also factored in a reduction in personnel costs following the agreement with Company's trade unions. In the 2020-2021 period we expect revenues to grow yoy by 5-7%. Our estimates do not include any potential M&A transactions.

MAIN FINANCIAL INDICATORS

Eu m		19E Old	19E New	20E Old	20E New	21 New
Revenues		60.9	50.8	65.2	53.4	57.2
	yoy	7%	0%	7%	5%	7%
EBITDA		3.3	2.1	4.0	3.3	3.7
	margin	5.3%	4.1%	6.0%	6.0%	6.3%
EBIT		1.6	0.7	2.2	1.8	2.2
	margin	2.5%	1.3%	3.2%	3.3%	3.7%
Pre tax profit		1.3	0.4	1.9	1.5	1.9
Group's Net Profit		0.8	0.2	1.1	0.9	1.1
	yoy	+295%	+126%	+42%	+285%	+23%
EPS		0.05	0.02	0.07	0.06	0.07
Eu m		19E Old	19E New	20E Old	20E New	21 New
Net Working Capital (NWC)		24.9	17.9	26.8	18.5	19.7
Fixed net assets		8.9	8.4	8.2	7.3	6.2
Funds		(2.6)	(2.2)	(2.8)	(2.3)	(2.5)
Net Capital Employed		31.2	24.0	32.1	23.4	23.4
Net Financial Position (Cash)		15.2	10.2	14.9	8.6	7.4
NFP/EBITDA		4.5x	5.0x	3.6x	2.6x	2.0x
Group's Equity		15.4	13.2	16.6	14.2	15.3
Minority Interest		0.5	0.6	0.6	0.6	0.7
Sources		31.2	24.0	32.1	23.4	23.4
Change in NWC		(1.5)	0.0	(0.3)	(0.6)	(1.3)
Capex		(1.0)	(0.3)	(1.0)	(0.3)	(0.3)

Source: IR Top Estimates for 2019-21 consolidated results

We value Caleffi through 2 different approaches, equally weighted:

- Market multiples comparison
- Discounted Cash Flow (DCF) model.

Our valuation **has not been adjusted for the possible dilution impact** of the exercise of outstanding warrants.

VALUATION

Our valuation yields a Target Price of 1.47 Eu per share

Peer Group:
Made In Italy Brands

MULTIPLES

In our view Caleffi's peers are other brands active in apparel & home fashion with strong Made in Italy brands. Publicly traded companies belonging to this group are: Aeffe, Brunello Cucinelli, Damiani, Geox, Luxottica, Moncler, Piquadro, Safilo and Tod's.

Aeffe, Luxottica and Safilo are involved in the luxury licence production which in FY 2017 represented 18% of Caleffi's total revenues. Applying the median 2019-2020 EV/EBITDA multiple we obtain a fair value of 1.41 Eu p.s.

2017 Eu m	Revenues	yoy	EBITDA%	NFP (Cash)
Caleffi	57	-3%	3%	15
Aeffe	313	11%	11%	55
Brunello Cucinelli	504	10%	18%	21
Damiani	164	2%	2%	57
Geox	885	-2%	7%	(17)
Luxottica	9.157	1%	20%	740
Moncler	1.194	15%	33%	(301)
Piquadro	98	29%	10%	1
Safilo	1.047	-16%	-1%	132
Tod's	963	-4%	18%	-12
Median Peers	885	2%	11%	21

Source: Company Data and IR Top Estimates for Caleffi and Factset Data for comparables.

EV/EBITDA (x)	19E	20E
Caleffi	16.5	10.4
Aeffe	7.5	6.5
Brunello Cucinelli	20.5	18.7
Damiani	n.a.	n.a.
Geox	7.7	6.1
Luxottica	11.9	n.a.
Moncler	15.3	13.1
Piquadro	n.a.	n.a.
Tod's	11.5	10.6
Media Peers	12.4	11.0
<i>Discount/Premium to Peers</i>	+32.8%	-5.4%

Source: IR Top estimates for Caleffi and Factset Data for comparables.

DCF

Main assumptions are:

- Perpetual growth: 1.5%
- Risk Free interest rate: 2.70%
- WACC: 8.1%

Sum of PV 2019-2023 FCF – Eu m	8.7	24.7%
Terminal Value – Eu m	26.4	75.3%
Total Enterprise Value – Eu m	35.1	100.0%
Net Financial Position (Cash) – Eu m	11.4	
Minority Interest	0.5	
Total Equity Value – Eu m	23.1	
Number of outstanding shares – m	15.2	
Fair Value per share – Eu	1.52	

Source: Company Data and IR Top Estimates

Our DCF yields a valuation of 1.52 Eu per share.

VALUATION SUMMARY

Weighting the 2 approaches equally we set a target price of 1.46 Eu, implying an upside of 5% and an implicit EV/EBITDA 2019 and 2020 multiple of 16.4x and 10.3x respectively. Our Valuation has not been adjusted for the possible dilution impact of the outstanding warrants.

Method	Price (Eu)
DCF	1.52
Multiple analysis	1.41
Target Price	1.46

Caleffi on MTA**Capitalisation 23 Eu m****Price 1.46 Eu****IPO**

Date: October 13th 2005
 Capital raised: 12.3 Eu m
 Price: 2.80 Eu
 Capitalisation: 35 Eu m

Warrant Caleffi 2015-2020 (as of April 9th, 2019)

Code: WCLF20
 ISIN: IT0005114910
 Outstanding Warrants: 3,121,919
 Strike Price: 1.60 Eu
 Exercise ratio: 1 warrant: 1 share
 4th Exercise Period: 1-30 June 2019
 5th Exercise Period: 1-30 June 2020

SHARES (as of April 9th, 2019)

Code: CLF
 Bloomberg: CLF IM
 Reuters: CLF.MI
 ISIN: IT0003025019
 Share capital: Eu 8,126,602
 Shares: 15,628,081
 Treasury Shares: 410,565
 Price: 1.46 Eu
 Capitalisation: 23 Eu m

OWNERSHIP**Caleffi is owned by Giuliana Caleffi (40.40%)**

Caleffi is owned by Giuliana Caleffi, chairman of Board of Directors, who holds 40.40% of outstanding shares

The share capital subscribed and paid up is 8,126,602 Eu, made up by n. 15,628,081 ordinary shares.

Free float is 42.27%

Shareholder	n. of shares	%
Giuliana Caleffi	6,314,038	40.40%
Rita Fedrici	2,296,847	14.70%
Other Shareholders (<2%)	6,606,631	42.27%
Treasury Shares	410,565	2.63%
Total	15,628,081	100.00%

CALEFFI Group vs FTSE Small Cap Italy

Indexed Price Performance with target volume (Actual)

Price (Indexed to 100)



Source: FactSet Prices

RATIOS

Profit&Loss Statement	2017A	2018A	2019E	2020E	2021E	2022E
Sales	56,3	50,6	50,9	53,4	57,2	62,9
EBITDA	2,0	0,6	2,1	3,3	3,7	4,3
EBIT	0,4	(1,0)	0,7	1,8	2,2	2,7
Financial Income (charges)	(0,3)	(0,1)	(0,3)	(0,3)	(0,3)	(0,3)
Pre-tax profit (loss)	0,1	(1,0)	0,4	1,5	1,9	2,4
Taxes	(0,1)	0,2	(0,1)	(0,5)	(0,7)	(0,8)
Minorities	(0,1)	(0,1)	(0,0)	(0,1)	(0,1)	(0,1)
Net profit (loss) Group	(0,1)	(0,9)	0,2	0,9	1,1	1,4

Balance Sheet

Fixed assets	9,9	9,4	8,4	7,3	6,2	5,0
NWC	22,1	17,9	17,9	18,5	19,7	21,6
M/L Funds	(2,4)	(2,3)	(2,2)	(2,3)	(2,5)	(2,8)
Net Capital Employed	29,7	24,9	24,0	23,4	23,4	23,8
Net Debt	14,8	11,4	10,2	8,6	7,4	6,3
Group Equity	14,4	13,0	13,2	14,2	15,3	16,7
Minorities	0,4	0,5	0,6	0,6	0,7	0,9
Net Equity	14,8	13,5	13,8	14,8	16,0	17,6

Cash Flow

EBIT	0,4	(1,0)	0,7	1,8	2,2	2,7
D&A	1,3	1,3	1,3	1,4	1,4	1,5
Tax	(0,0)	0,0	(0,0)	(0,0)	(0,0)	(0,0)
Other	0,0	0,0	0,0	0,0	0,0	0,0
Change in M/L Funds	(0,0)	(0,0)	(0,1)	0,1	0,2	0,2
Gross Cash Flow	1,6	0,3	1,8	3,3	3,8	4,4
Change in NWC	(1,4)	4,2	0,0	(0,6)	(1,3)	(1,9)
Operating Cash Flow	0,3	4,5	1,9	2,7	2,5	2,5
Capex	(1,8)	(0,7)	(0,3)	(0,3)	(0,3)	(0,3)
Acquisitions and divestments	0,0	0,0	0,0	0,0	0,0	0,0
Financial Income (charges)	(0,3)	(0,1)	(0,3)	(0,3)	(0,3)	(0,3)
Free Cash Flow	(1,8)	3,7	1,3	2,1	1,9	1,9
Change in Equity	0,1	(0,5)	0,0	0,0	(0,0)	(0,0)
Change in Net debt	(1,6)	3,2	1,3	2,1	1,9	1,9

Per Share Data

Current Price						
Total shares out (mn) average						
EPS	(0,01)	(0,06)	0,02	0,06	0,07	0,09
DPS	-	-	-	-	-	-
FCF	(0,12)	0,24	0,09	0,14	1,94	1,94
Pay out ratio*						

Ratios

EBITDA margin	3,5%	1,2%	4,1%	6,1%	6,5%	6,8%
EBIT margin	0,6%	-1,9%	1,3%	3,4%	3,8%	4,3%
Net Debt/Equity (Gearing)	99,9%	84,2%	74,1%	58,5%	46,0%	35,6%
Net Debt/EBITDA	7,6x	18,4x	5,0x	2,6x	2,0x	1,5x
Interest cover EBIT	1,3x	-14,8x	2,6x	6,7x	-0,1x	-0,1x
ROE	-0,7%	-7,0%	1,8%	6,5%	7,4%	8,5%
ROCE	1,6%	-4,8%	3,3%	10,0%		
Free Cash Flow Yield	n.m.	17%	6%	10%	19%	19%

Growth Rates

Sales	-5%	-10%	0%	5%	7%	10%
EBITDA	-33%	-68%	233%	59%	13%	16%
EBIT	-73%	-371%	167%	176%	20%	25%
Net Profit	-119%	-854%	126%	285%	23%	27%

*on Caleffi Spa net profit

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Date	Target Price	Market Price	Validity Time
April 10 th 2019	1.46	1.46	12 months
September 14 th 2018	1.56	1.40	12 months
March 21 st 2018	1.69	1.44	12 months

VALUATION METHODOLOGY (HORIZON: 12M)

IR Top obtained a fair value using different valuation methodologies including Discounted Cash Flow method and Multiple-based models.

Detailed information about the valuation or methodology and the underlying assumptions and information about the proprietary model used is accessible at IR Top premises.

RESEARCH TEAM

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No other people or companies participated or anyhow contributed to the Research. Neither the members of the research team, nor any person closely associated with them have any relationships or are involved in circumstances that may reasonably be expected to impair the objectivity of the Research, including interests or conflicts of interest, on their part or on the part of any natural or legal person working for them, who was involved in producing the Research.

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