

Caleffi

Leading Brand in Home Luxury

IR TOP RESEARCH

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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 2017 with revenues of 57 Eu m.

PORTFOLIO BRANDS

The Group is present in the market with a prestigious and balanced brand portfolio, which includes:

- Iconic property brands: Caleffi, Mirabello, Carrara, Scaldotto and Besana;
- Luxury licences: Roberto Cavalli, Trussardi, and Diesel;
- Fashion and teen licences: Sogni di Viaggio, Disney, Warner Bros, Marvel and Studio Pets.

MARKET AND DRIVERS

Global personal luxury goods market (Bain&Company):

- 262 Eu b in 2017E (+5% vs 2016)
 - Expected 2017-2020 CAGR of 4%-5%
 - Key Growth drivers: China and on-line channel
- Home linen market in Italy (Cerved):
- Total value 2017 of 992 Eu m (-0,5% vs. 2016);
 - Expected growth in 2018: +0.9% in the domestic market and +7.5% in export (320 Eu m in 2017)
 - First three players hold a total market share of 25%, Caleffi, with a market share of 7.7% in 2017 ranked 2nd.

STRATEGY

In the next three years Caleffi Group intends to grow through:

- Openings of Monobrand stores and shop-in shops to boost revenues and brand awareness;
- Focus on luxury licences and growth in foreign markets
- Made-to-order collections
- E-commerce

MTA POSITIONING

Compared to average 2016 SMALL CAPS of MTA "Personal & Household Goods" Super Sector by Borsa Italiana, Caleffi shows:

- Higher Revenues growth rate
- Lower EBITDA margin
- Higher free float

2018-2020 ESTIMATES

For the next three years we estimate that Caleffi will:

- Grow revenues at 2017-2020 CAGR of +6%, to reach 67.3 Eu m in 2020
- EBITDA CAGR of 28%, and an increase in EBITDA margin by 260 bps as fixed costs are spread over higher volumes
- Total Capex in the period of 3.0 Eu m
- Net debt at year end 2020 of 14.9 Eu m (14.8 Eu m in FY 2017), with NFP/EBITDA ratio of 3.6x vs. 7.5x at year end 2017.

VALUATION

We set a 1.69 p.s. target price for Caleffi Group based on the average of a DCF analysis (2.20 Eu p.s) and a relative valuation (1.18 Eu p.s), implying a potential upside of 17%.

Target Price (Eu)

Target Price (Eu)	1.69
Market Price (Eu)	1.44
Capitalisation (Eu m)	23
Enterprise Value (Eu m)	37
<i>(as of March 20th, 2018)</i>	

MTA Positioning

FY 2016 (Eu m)	Company	Super Sector*	MTA Small&Mid Cap
Revenues	59	546	871
Revenues YoY	7%	0.4%	2%
EBITDA Margin	4%	6%	-7%
Net Debt (Cash)	13	24	542
Net Debt/EBITDA	5.4	0.6	23.4
Market Data (Eu m)	Company	Super Sector*	MTA Small&Mid Cap
Capitalisation	23	749	794
Perf. TTM	6%	4%	11%
Free Float	44%	39%	37%
ADTT YTD (Eu)	52,530	1,586,517	1,626,809

Source: Factset Data - *Personal & Household Goods

Results & Estimates

Key Figures (Eu m)	15A	16A	17A	18E	19E	20E
Revenues	55.5	59.2	57.2	58.8	62.9	67.3
YoY growth	6%	7%	-3%	+3%	+7%	+7%
EBITDA	3.1	2.9	2.0	2.4	3.4	4.1
EBITDA%	5.6%	5.0%	3.4%	4.0%	5.3%	6.0%
EBIT	1.4	1.4	0.4	0.9	1.8	2.4
EBIT%	2.5%	2.3%	0.7%	1.5%	2.7%	3.4%
Group's Net Profit	0.3	0.5	(0.1)	0.3	0.8	1.2
Net Debt (Cash)	13.6	13.1	14.8	15.4	15.2	14.9
EPS	0.02	0.03	(0.01)	0.02	0.05	0.08

Source: Company Data for 2015-17 (IAS-IFRS) and IR Top Estimates for 2018-20 consolidated results

Peers Comparison

EV/EBITDA (x)	18E	19E	20E
Caleffi	15.9	10.9	9.0
Brand Peers	12.3	11.2	10.6
Discount/Premium to Brand Peers	+29.6%	-2.2%	-14.8%

P/E (x)

	18E	19E	20E
Caleffi	79.3	27.2	18.4
Brand Peers	25.0	23.8	22.1
Discount/Premium to Brand Peers	+216.4%	+14.2%	-16.7%

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

Performance

	1M	3M	1Y
Absolute	+0.7%	+1.1%	+6.3%
Relative (FTSE Italia Small Cap)	-0.4%	+3.1%	-3.5%
52-week High/Low* (Eu)	1.96/1.11		

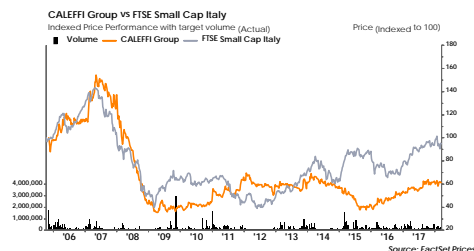
Source: Factset data

*Intra Day

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	44.21%
Main Shareholder	Giuliana Caleffi (40.40%)
CEO	Guido Ferretti



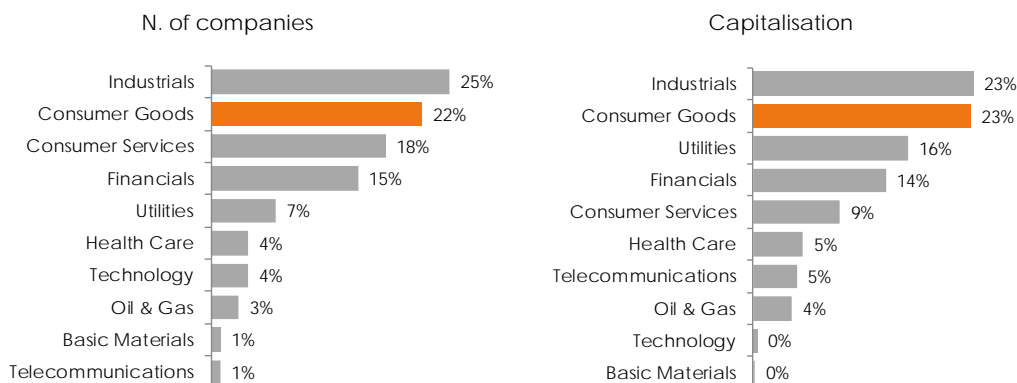
MTA POSITIONING

Consumer Goods is second most represented sector after insutrials

Caleffi is leader in the Italian Home Fashion industry and specialized in high-end **home linen products**. It has been listed since 2005 (former on Expandi market and, since 2009, on MTA) and it is included in the **FTSE Italia small cap** index and in Borsa Italiana's Super Sector "Personal and Household Goods" (part of the **Consumer Goods** sector).

Of the total listed companies, Consumer Goods represents 22% in terms of number of companies and 23% in terms of market capitalization.

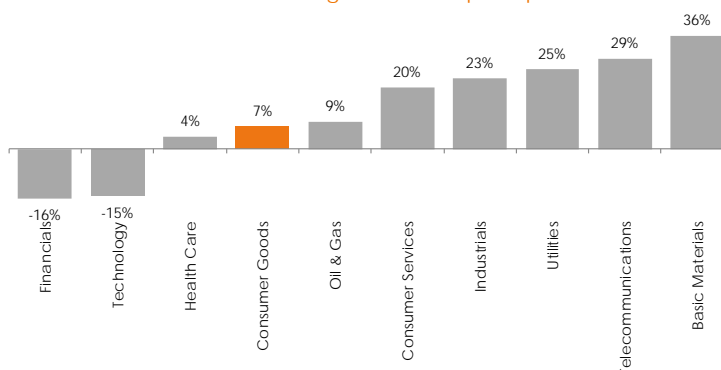
MTA Small&Mid Cap: breakdown by Sector



Best TTM performance: Basic Materials (+36%)

Consumer goods performed positive on Trailing Twelve Months (+7%). Best TTM performance is Basic Material (+36%), followed by Telecommunications (+29%).

MTA Small&Mid: average TTM share price performance



Personal & Household Goods average EBITDA margin: 6%

According to Borsa Italiana's classification, the Consumer Goods Industry is made up of three Super Sectors: Food & Beverage, Automobiles & Parts and Personal & Household Goods where Caleffi is allocated. Personal & Household Goods is the first sector in term of number of companies (16),

MTA Consumer Goods: average 2016 Financial data

Super Sector	Revenues (Eu m)	yoy	EBITDA %	NFP (Cash) (Eu m)
Food & Beverage	1,678	-0.2%	7%	(106)
Automobiles & Parts	919	-7%	1%	465
Personal & Household Goods	512	-0.4%	6%	24
Consumer Goods	768	-1%	6%	60

Personal & Household Goods registered average revenues of 512 Eu m and an EBITDA margin of 6%.

MTA Consumer Goods: average market data

Super Sector	N. of companies	Capitalisation (Eu m)	Free Float	ADTT YTD (Eu)	EV/EBITDA 2016
Food & Beverage	4	1.435	23%	185,048	5.5
Automobiles & Parts	3	398	35%	1,011,111	1.8
Personal & Household Goods	16	749	39%	1,586,517	9.4
Consumer Goods	23	823	36%	1,267,730	7.7

EV as of March 20th, 2018

Average Personal & Household Goods 2016 EV/EBITDA multiple: 9.4x

Focus personal and Household Goods Super Sector

The Personal and Household Goods Super Sector is represented by 16 companies, 6 mid caps and 10 small caps with average revenues of 546 Eu m and average EBITDA margin of 6%.

2016 Data (Eu m)		Revenues	yoy	EBITDA%	NFP (Cash)	EV/EBITDA	NFP/EBITDA
Brunello Cucinelli*	MTA - MID CAP	456	10%	18%	55	22.7	0,68
De' Longhi	MTA - MID CAP	1.845	-2%	16%	-375	11.1	-1,25
Geox*	MTA - MID CAP	901	3%	4%	33	21.3	0,91
OVS	MTA - MID CAP	1.363	3%	8%	266	14.6	2,56
Technogym	MTA - MID CAP	555	9%	16%	78	20.8	0,86
Tod's*	MTA - MID CAP	1.004	-3%	20%	33	10.1	0,16
Basic Net	MTA - SMALL CAP	135	1%	-20%	48	n.m.	n.m.
Bialetti Industrie	MTA - SMALL CAP	180	4%	11%	78	6.5	3,79
Caleffi	MTA - SMALL CAP	59	7%	4%	13	14.7	5,37
CSP International	MTA - SMALL CAP	126	2%	5%	-14	3.3	-2,39
Piquadro*	MTA - SMALL CAP	76	10%	9%	6	14.0	0,85
Ross	MTA - SMALL CAP	23	-7%	3%	4	24.5	6,03
Safilo Group*	MTA - SMALL CAP	1.253	-2%	6%	46	3.6	0,58
Sintesi	MTA - SMALL CAP	n.a.	n.a.	0%	n.a.	n.m.	0,04
Stefanel	MTA - SMALL CAP	134	-14%	-9%	84	n.m.	n.m.
Zucchi	MTA - SMALL CAP	80	-13%	5%	n.a.	n.a.	n.a.
Average		546	0,4%	6%	24	13.1	0,6
Personal & Household Goods MID		1.020	3%	14%	15	16.8	0,7
Personal & Household Goods SMALL		230	-1%	1%	33	11.1	0,6
Average Brands		625	4%	10%	31	14.4	1,4

Source: Factset data as of March 20th, 2018
* Made In Italy Brands

In our view Caleffi positions within a group of companies active in apparel & home fashion with **strong "Made in Italy" brands**, and from the selection above in particular with Brunello Cucinelli, Geox, Piquadro, Tod's and Safilo. Compared to these and to the Personal & Household Goods Small Caps Caleffi shows:

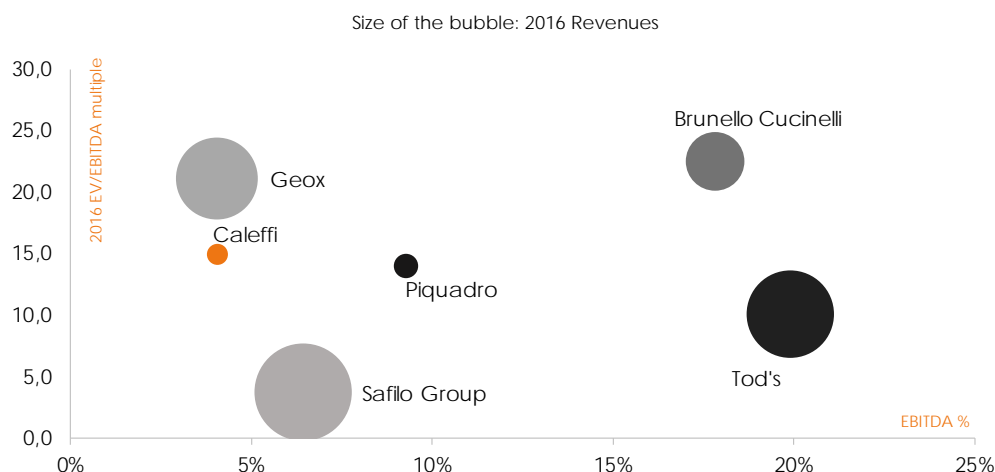
BRAND COMPARISON

- Higher revenue growth: 7% vs. 4%
- Lower EBITDA margin: 4% vs. 10%
- Higher EV/EBITDA multiple 14.7x vs. 14.4x

SMALL CAP COMPARISON

- Higher revenues growth: 7% vs. -1%
- Higher EBITDA margin: 4% vs. 1%
- Higher EV/EBITDA multiple 14.7x vs. 11.1x

Small&Mid Cap Made In Italy Brands



In terms of capitalisation, Caleffi is smaller than its peers (23 Eu m vs. 813 Eu m) but with a higher free float (44% vs. 37%). TTM performance of stock price is +6%.

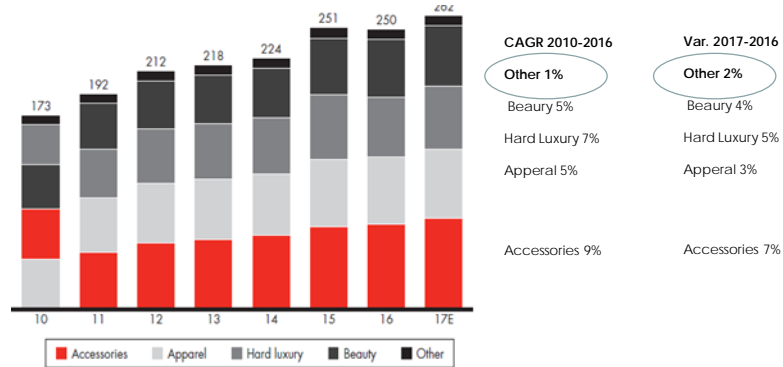
2016 Data (Eu m)		Capitalisation (Eu m)	Free Float %	Perf. TTM	ADIT YTD (Eu)
Brunello Cucinelli	MTA - MID CAP	1,792	41%	19%	4,012,740
Geox	MTA - MID CAP	743	29%	30%	2,363,579
Tod's	MTA - MID CAP	1,982	28%	-16%	4,214,816
Caleffi	MTA - SMALL CAP	23	44%	6%	52,530
Piquadro	MTA - SMALL CAP	93	27%	38%	97,604
Safilo Group	MTA - SMALL CAP	246	51%	-38%	1,495,774
Brands		813	37%	7%	2,039,507

Source: Factset data as of March 20th, 2018

GLOBAL PERSONAL LUXURY GOODS MARKET

262 Eu b in 2017
+5% vs 2016

Caleffi operates in the **PERSONAL LUXURY GOODS MARKET** and in particular within the "Other segment" (Bain Luxury Study 16th edition which includes "Arts de la table" and "Textile Furniture". This segment has in recent years remained stable (2010-2016 CAGR of 1%) and was expected to grow by 2% in 2017.



Growth driven by key regions

The Total Personal luxury goods market as a whole has shown a 2010-2016 CAGR of 6%, and was expected to grow in line with this trend also in 2017 (+5%). This growth was mainly driven by Accessories (+7%) and Hard Luxury (+5%) in key regions.

China: Sales in mainland China grew by 15% at current exchange rates, to a total market size of 20 Eu b. Globally, the share of personal luxury goods purchased by Chinese nationals reached 32%. Chinese spending growth returned to historical highs; other nationalities' spending continued to rise
 ✓ Chinese spending annual growth 2016-2017E is 11%
 ✓ non-Chinese spending annual growth is only 3%

Wholesale channels dominate, but retail is rising. Online sales continue to climb

Europe continued to recover, growing by 6% to reach 87 Eu b sales and regain its place as the top region for luxury sales by value. Tourist flows continued to support the market in the UK, Spain and France, and local consumption strengthened as well, particularly in Germany.

The **US** struggled in 2017 and closed the year with a +2% growth. However at 84 Eu b it remains a crucial market for luxury brands.

Key growth drivers: China and Millennials

According to Bain&Company, the **outlook for the personal luxury market** is positive through 2020, with a 4-5% growth rate per year and is hence expected to reach 295-305 Eu b in 2020. Key market drivers are:

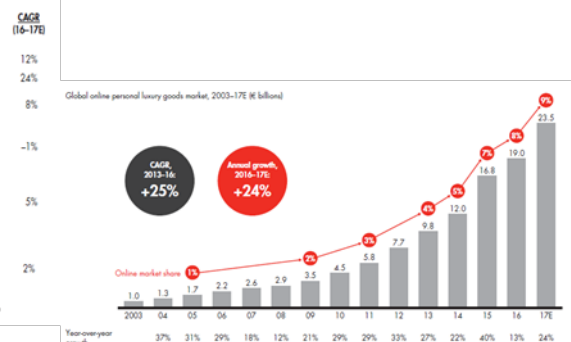
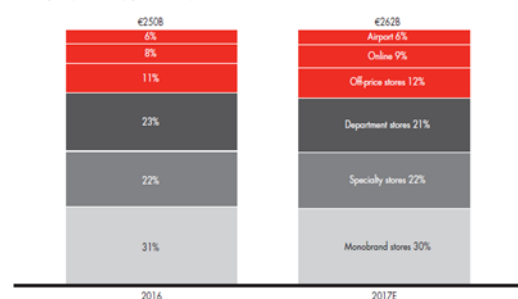
- Chinese middle class rises;
- Local consumption recovers in mature markets
- Millennials become key growth drivers
- Best-performing brands propel growth for their categories
- Channels continue to harmonize, with online playing a key role beyond transactions

Online sales increased by 24%

Although Bain estimates that physical stores will still account for 75% of purchases, the mix of store formats will shift away from monobrand stores, department stores and specialty stores, toward off-price stores and airport stores. In addition, Bain estimates that **online sales for personal luxury goods will make up 25% of the market by 2025** (from 9% of the market of 2017).

Online sales increased by 24% (CAGR 2013-16 +25%), to 23.5 Eu b in 2017, with a **online market share** of about 9% (grown from the 1% of 2005). The Americas market makes up close to half of global online luxury sales but **growth was particularly strong in Europe and Asia**. Brands are finally starting to be proactive about making their mark in this channel by establishing their own websites, which now account for 31% of sales.

Share of global personal luxury goods market, by distribution channel/format, 2016-17E



Note: Discrepancy in 2016 percentages is due to rounding
Source: Bain & Company

With the important growth of the online channel, the role of physical stores will need to change. Brands need to reinvent themselves to **improve customer experience**: stores will have to pivot from a transactional role to become venues for a broader range of customer interactions. Luxury brands will need to transform stores into places that feel like home, delivering distinctive, immersive experiences and engaging in a genuine dialogue with customers.

Made in Italy assets are at the top of world consumer's preferences: **Exclusivity, Quality, Craftsmanship** are the main intangible values that define the luxury consumer's agenda.

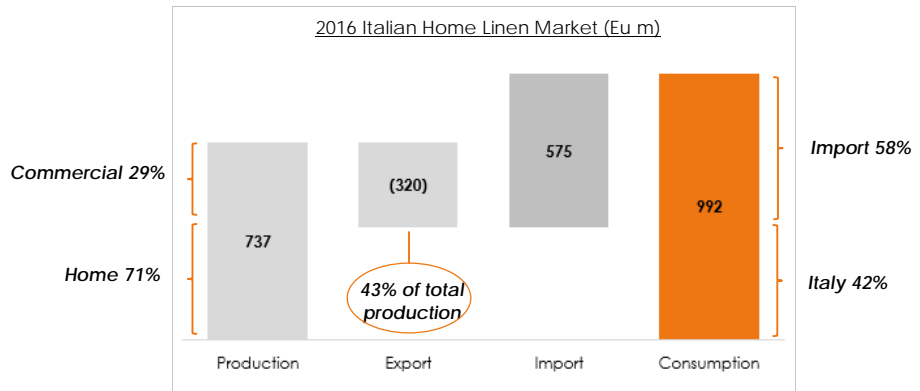
ITALIAN HOME LINEN MARKET

Export is about 43% of the sector's sales

Total consumption in the Italian home linen market amounted in 2017 to 992 Eu m, in line with 2016 (-0,5% yoy).

In 2017 the **Italian home linen market** reached 737 Eu m in terms of production with a yoy growth of +1.7%. Home textile represented about 71% (523 Eu m +1.2% yoy) while Commercial textile (in particular linen for luxury hotels and restaurants) reached 214 Eu m (+2.9% yoy).

Export counted four about 43% of total production (320 Eu m) whereas 575 Eu m were imported. **Export however grew by 6.1% vs 2016 mainly in non EU Countries**, in particular China, Far East, Saudi Arabia and South-Western Asia. However the first geographical market for the export remains USA. Import in 2017 remained in line with 2016 (+0.3%) and amounted to a total of 575 Eu m.



In 2018 is expected +7.5% of export.

Expectations for 2018 in terms of production confirm the recovery in the industry: +0.9% of the Italian market and +7.5% in export.

The greatest opportunities for growth abroad are represented by high-end **Made in Italy**, which is gaining more and more space both in traditional market and in developing economies. (Source: Cerved).

COMPETITIVE LANDSCAPE

Caleffi is the 2nd player in the Italian market

PORTFOLIO BRANDS

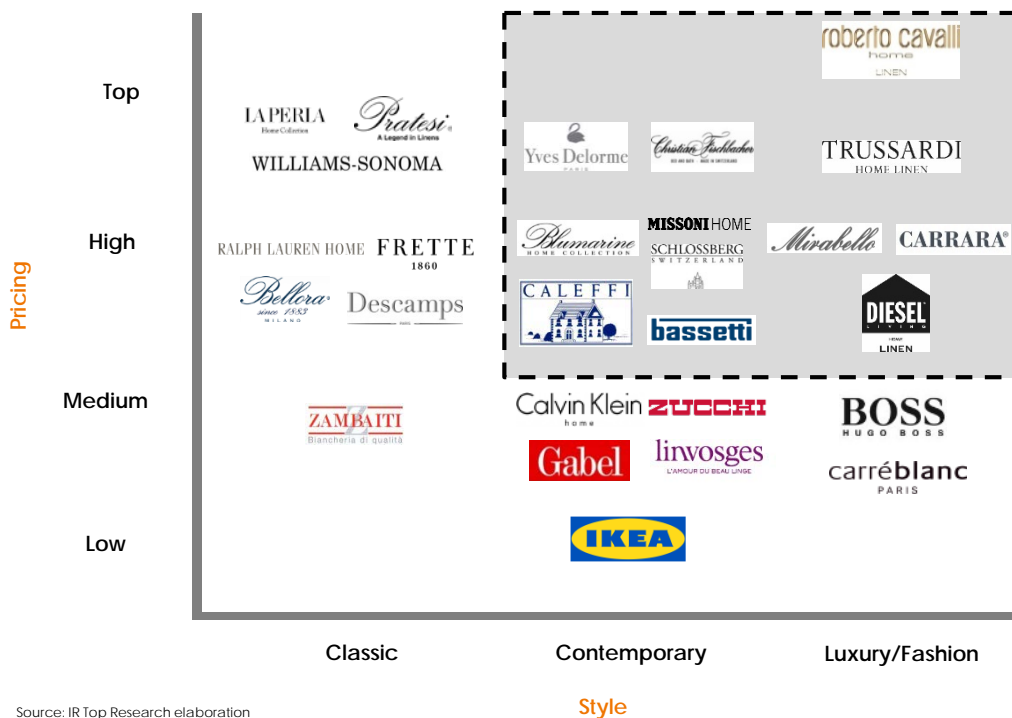
The Italian home linen market is characterized by the presence of a few bigger players and **many small companies (over 2.800 players)**. The first three brands (Bassetti, Caleffi and IKEA) hold a total market share of 25% and the top 8 brands account for about 45% of the total market (Source: Sita Ricerche).

With a market share of 7.7% in 2017 up from 6.6% in 2015 and 7.3% in 2016, Caleffi (without Mirabello) was the 2nd player in the market, behind only Bassetti.

Caleffi Group offers a wide and balanced brand portfolio with a mix of own brands and licenses with which they cover the higher end of the industry .

- **Own Brands:** medium-high quality products are sold through the brand **Caleffi**, while luxury products are sold through brands **Mirabello** and **Carrara**. Other brands owned by the Group are **Scaldotto** and **Besana**.
- **Luxury Licenses:** Mirabello Carrara is the exclusive worldwide licensee for the home linen of Big Luxury Brands. License agreements currently in force are: **Roberto Cavalli**, **Trussardi**, **DIESEL**.
- **Fashion and Teen Licenses:** long term relationships with historical brands: **Sogni di Viaggio**, **Disney**, **Warner Bros**, **Marvel** and **Studio Pets**.

Caleffi Group's brand positioning



GROUP PROFILE

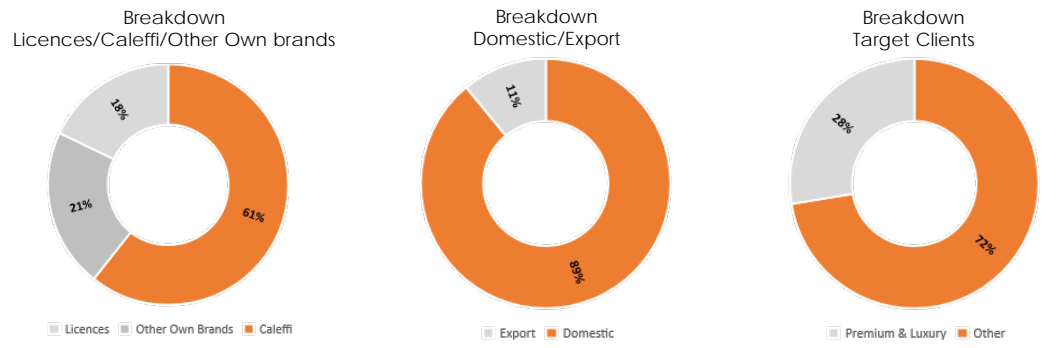
Leader in the Italian Home Fashion industry with 50 years of history

Caleffi Group is market leader in the Italian Home Fashion industry and specialized in **high quality home textile products, distributed with a multichannel strategy in over 50 countries world wide**. With its 205 employees and two production plants the Caleffi Group closed 2017 with 57 Eu m of revenues.

Caleffi Group has full control of the whole value chain; from design of collections and R&D on innovative textiles to the sale and customer service. The Group is present in the market with an extensive and balanced brand portfolio of owned and licenced brands and with products that range from **quilts, bedspreads, duvets, duvets covers, sheet sets and linen to bath towels, kitchen linen and home clothing collections**.

CALEFFI SpA was founded in Viadana (MN) in 1962 by Camillo Caleffi as manufacturer of padded pillows and mattresses. In the early '80s the company decided to expand its product range with the production of quilts and quilted covers. In 2008 The Company acquired Mirabello, and in 2010 Carrara two historical *maisons* focused on the luxury segment of the market. Caleffi is today **majority shareholder (70%) of Mirabello Carrara**, the resulting company from the 2012 merger between the two acquired brands.

CALEFFI AT A GLANCE



BUSINESS MODEL

Efficient supply chain

Caleffi Group operates with an **efficient and flexible business model** in order to quickly respond to market trends and client's needs. Key value added activities, such as design, quilting and quality control, are carried out internally whereas other **production phases are outsourced**.



70% of production outsourced

Design and product development allows the Group to differentiate from competitors. These activities are managed internally and include the **fashion study and design of new collections as well as R&D on new innovative materials**. Annual spending on R&D is about 1.6% of total revenues. The R&D Team (3 FTEs) work s closely with the purchasing office for the research of new innovative materials and trends.

Sourcing: the Sourcing department (3 FTEs) manages purchase of raw materials and services. The Group has a sourcing policy that grants the quality of purchased materials, thanks to a very accurate screening process in order to maintain high standards but at the same time reduce costs.

Production: 70% of production is outsourced to over 40 carefully selected national and international suppliers. Mirabello Carrara's production is outsourced to Italian suppliers, whereas Caleffi works with a network of suppliers located in 16 different countries some of which characterized by low labour costs (Brazil, Portugal, Estonia, Malaysia, China, India, Iran, Romania). **Logistics and quality control of processes, raw materials and finished products are directly managed by the Group**.

Full control of the value chain

High value-added production phases, such as quilting are carried out directly in the Group's production plants in Viadana (Caleffi).

Multichannel strategy

2,000 stores in Italy

600 stores worldwide

19 monobrand concept stores

17 Shop-in shops

Large Organized Distribution

E-commerce

Distribution, Sale and Marketing: to efficiently reach all target market segments, Caleffi operates with a multichannel strategy in Italy and abroad. The **distribution network** is made up by:

- **Wholesale:** over 2,000 stores in Italy and 600 stores abroad in more than 50 countries. Focus on markets with important luxury segments (Far East, Saudi Arabia and South Eastern Asia).
- **Direct Retail:** 19 monobrand Concept Stores "Total Living" located mainly in Northern Italy and one abroad (Barcelona -Spain).
- **Shop in shops:** currently 17 corners set up within the stores of selected clients.
- **Department Stores:** in particular abroad (including Harrods, Rinascente, El Corte Ingles, etc).
- **B2B and B2C:** represented by corporate clients that buy Caleffi for their loyalty and fidelity programs.
- **Large Organized Distribution:** customers currently include 4 top Italian players: Grancasa, Conad, Coop and Auchan.
- **E-commerce:** through own website and third-party websites. In 2017 E-Commerce generated directly and indirectly amounted to 2.3 Eu m. As direct e-commerce has show particularly important growth rates, developing this channel represent a strategic opportunity for the Group to generate revenues and margins in the next years.



Source: Company Presentation

Retail and wholesale channels are covered by a network of agents, most of them with exclusive agreements. Each sales channel is headed by an Area Manager (Retail/wholesale, B2B&B2C Promotions, GSS&SGO, Online, Export and Mirabello wholesale/retail).

Communication and promotion investments amount to about 2% of sales and are fully expensed in the P&L. Principal communication tools are the look book, advertising pages in selected magazines, television campaigns with spots on the Mediaset network and, online communication.

Customer Services: for the B2C clients the Group provides an 800 number, online support through email assistance and an online chat. B2B clients are in direct contact with the relevant Area Manager.

As already mentioned, the Caleffi Group currently has **8 license agreements in force which represented about 18% of Group's total revenues in 2017**. The licenses are divided in mid-high segment covered by Caleffi (Sogni di Viaggio, Warner Bros, Disney, Marvel and Studio Pets) and the luxury segment (Trussardi, Roberto Cavalli, Diesel) covered by Mirabello. The **Luxury License segment represent an important strategic opportunity** as it, on the one hand, gives high visibility that opens new key export markets (i.e. markets with high consumption of luxury goods: China, UAE), and on the other as recognition of the high quality of the Group's products.

The Caleffi Group has adopted, a voluntary self-regulating Code of Conduct, which has been integrated into the business model in terms of responsibilities towards all the Group's stakeholders. All suppliers are asked to respect the Code, in particular regarding environmental impact and employees' rights and working conditions.

In 2017 Caleffi launched "Green", the first collection of bed linen and towels entirely made of TENCEL®, an innovative botanical fibre that reduces environmental impact and protects biodiversity. With this action Caleffi want's to start to sensitize se the homeware market on environmental issues.

Focus Licenses

Luxury licenses as one of the main growth driver

Sustainability (ESG)

STRATEGY

Monobrand stores, luxury licences, e-commerce and China

Monobrand stores and shop-in shops: The Group will continue its strategy of **new openings in strategic positions to increase revenues and brand awareness.**

Focus on luxury licences in key markets: expansion of luxury licence portfolio and focus on export markets characterized by **high expected growth** in personal luxury goods. **China**, Far East and Saudi Arabia are of particular interest.

Develop high margin segment of **Made-to-order collections** for international retailers and luxury brands which intend to develop a total look concept.

E-commerce: investments in logistics and warehouse management to development the online shopping channel

OPPORTUNITIES

Focus on luxury licenses and made-to-order can bring a higher market share abroad

Leader in a highly fragmented market: with a 7.7% market share, Caleffi (without Mirabello) ranked 2nd in the Italian home linen market

High brand positioning: the Group enjoys high brand recognition (Caleffi in the medium-high segment and Mirabello in the luxury segment) thanks to a long history of attention to quality and design, affirmed by luxury brands such as Cavalli and Trussardi

Flexible production: 70% of production is outsourced to partners mainly in low labour cost countries in order to be able to quickly adapt to market trends and customer requests and to keep costs down.

Multichannel: the Group operates with a multichannel strategy in Italy and abroad in order to reach all target market segments. The distribution network is capillary with over 6.000 stores in Italy and 2,000 abroad.

Made-to-order: production of made-to-order collections for fashion brands, leveraging on its recognition as luxury licence producer. High margin segment and without cost for distribution.

Export: Thanks to high visibility of its licenced brands, the Group is well positioned to target new export markets especially in areas where personal luxury goods market is expected to grow rapidly in the next years (China, UEA).

MAIN RISKS

Imports could be a threat to national companies

Macroeconomic and reference market situation: the macroeconomic framework in which companies operate is not easy, because of the Italian economic situation and some uncertainties that characterize some foreign markets. In fact, the domestic market, despite greater consumer confidence, shows a modest decline (-0.5%); on the other hand, foreign demand is more dynamic.

Fluctuation of raw material price: the main commodity used by the Group, in the production of home linen is cotton.

Competitiveness risk: in terms of supply, the sector is overall not very concentrated, especially in the Home Textile area, where, alongside some big players, a lot of companies operate, including many small companies.

Exchange rate fluctuation risk: especially tied to the purchase of cotton, which takes place in dollars. For this reason there could be a reflection of the dollar trend on cotton price. In order to mitigate this risk, the Group operates by reviewing the raw material purchase contracts every six months and sometimes uses derivative contracts and forward purchases of currency.

Imports continue to pose a threat to national companies, especially by large Asian producers, which are now leaders in the low-price market and are progressively shifting towards the intermediate segments.

Non renewal of licences: about 18% of 2017 total sales comes from license agreements. The non-renewal could lead to a decline in turnover if not offset by new contracts.

GOVERNANCE

7 board members, 3 Independent

List vote: 4.5%

The Board of Directors has 7 members, 3 of them is Independent.

Guido Ferretti – CEO: Born in Modena on April 16, 1963, he graduated in Business and Economics at the University of Parma and completed his training by attending various courses of specialization at the SDA Bocconi. After a period of apprenticeship at an accountant in Viadana, in 1990 he was called to act as Head of Management Control in Caleffi. In 1996 he took on the role of Manager and responsible for the areas of Administration, Finance and Control, supporting the General Management in the definition of business development projects and investments. Since 2003 he has held the position of Chief Executive Officer and has started a reorganization of the company that has ranked it among the leading companies in the high-end Home Fashion sector. With the acquisition of Mirabello and Carrara it gives life to the Group's Luxury division, which currently distributes in 50 countries and is growing continuously.

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 44.21%

Shareholder	n. of shares	%
Giuliana Caleffi	6,315,151	40.40%
Rita Fedrici	2,297,328	14.70%
Other Shareholders (<2%)	6,908,558	44.21%
Treasury Shares	107,044	0.69%
Total	15,628,081	100.00%

RESULTS AND ESTIMATES

FY 2017 RESULTS

Caleffi Group closed FY 2017 with revenues of **57.2 Eu m** (-3.4% vs FY 2016). In detail, Caleffi Spa's sales declined by 8.5% (42.1 Eu m vs. 46.0 Eu m in FY 2016), while the luxury segment (Mirabello) registered a consistent revenue increase of +14.5% (16.2 Eu m vs. 14.2 Eu m). The domestic market, that in 2017 represented 89.1% of total sales, was down to 50.9 Eu m vs. 52.7 Eu m in FY 2017 (-3.4%). Export was down by 3.7% to 6.2 Eu m (6.4 Eu m in FY 2016), but with a good performance in extra Eu countries (+21.7%).

EBITDA came in at **2.0 Eu m** (2.9 Eu m in FY 2016) with an EBITDA margin of 3.5% vs. 5.0% at the end of 2016. The difference was partially to be attributed to extraordinary costs of Mirabello (0.2 Eu m personnel and legal) and an increase of 0.2 Eu m, net of the extraordinary items already discussed, in personnel costs.

EBIT was **0.4 Eu m** (0.7% EBIT margin), after D&As of 1.3 Eu m, in line with those in FY 2016.

EBITDA and EBIT adjusted for extraordinary items were of 2.2 Eu m (3.9% EBITDA margin) and 0.6 Eu m (1.0% EBIT margin) respectively.

Net Financial charges were of 0.3 Eu m vs. 0.5 Eu m in FY 2016. Foreign exchange losses amounted to 18 Eu k and are related to sales of Mirabello, which is partly invoiced in Dollars. Group's Net loss was of 0.1 Eu m vs. net profit of 0.5 Eu m in FY 2016.

Net Working Capital increased to 22.1 Eu (20.8 Eu m in FY 2016) from the combined effect of lower trade payables and a decrease in trade credits.

Net Debt of the Group is equal to **14.8 Eu m**, up by 1.7 Eu m vs. year end 2016 after the distribution of a 0.3 Eu m dividend.

Fixed assets increased by 0.4 Eu m in the period considered after total CAPEX of 1.7 Eu m, principally related to a new Caleffi monobrand store in Settimo Torinese (TO) and the refitting of the store in Fidenza (PR) and for the opening of corners. **Investments in R&D and Marketing and communication** were entirely expensed in the P&L.

Eu m – IAS/IFRS	FY 2017	FY 2016	FY 2015	FY 2014
Revenues	57.2	59.2	55.5	52.1
YoY growth	-3%	+7%	+6%	-7%
EBITDA	2.0	2.9	3.1	1.1
EBITDA%	3.5%	5.0%	5.6%	2.1%
EBIT	0.4	1.4	1.4	(0.7)
EBIT%	0.7%	2.3%	2.5%	-1.3%
Net Profit	(0.01)	0.5	0.4	(1.3)
Group's Net Profit	(0.09)	0.5	0.3	(1.3)
Net Working Capital (NWC)	22.1	20.8	20.6	18.3
Fixed net assets	9.9	9.5	9.7	10.0
Funds	(2.4)	(2.4)	(2.3)	(2.4)
Net Capital Employed	29.7	27.8	28.1	25.9
Net Debt (Cash)	14.8	13.1	13.6	15.0
Group's Equity	14.4	14.4	14.0	10.6
Minority Interest	0.4	0.4	0.4	0.3
Total Source	29.7	27.8	28.1	25.9

Source: Company Data

2018-2020E: Caleffi can grow Revenues at a CAGR of +6% and EBITDA at a CAGR of +28%

ESTIMATES

For 2017-2020 we believe that the Caleffi Group will:

- 1) Grow Revenues at a CAGR of 6%, ahead of market growth thanks to:
 - Well positioned to increase revenues in foreign key markets (China)
 - Growth of e-commerce and made to order channel
 - Opening of shop-in-shops and monobrand stores (on average 1 p.a.)
- 2) EBITDA will grow to 4.1 Eu m in 2020 by a 2017-2020 CAGR of 28%, with EBITDA margin up by 260 bps thanks to fixed costs that are spread over higher volumes, and the incremental contribution from high margin segments (export, e-commerce and made-to-order).
- 3) We have estimated total Capex over the three year period of 3.0 Eu m for maintenance, opening and logistics for e-commerce that we believe are necessary to boost sales from this channel.
- 4) Net debt of 14.9 Eu m at the end of 2020 (14.8 Eu m in FY 2017) with a NFP/EBITDA ratio of 3.6x (vs. 7.5x at year end 2017)

MAIN FINANCIAL INDICATORS

Eu m		15A	16A	17A	18E	19E	20E
Revenues		55.5	59.2	57.2	58.8	62.9	67.3
	yoy	6%	7%	-3%	+3%	+7%	+7%
EBITDA		3.1	2.9	2.0	2.4	3.4	4.1
	margin	5.6%	4.8%	3.4%	+4.0%	+5.3%	+6.0%
D&A		(1.7)	(1.6)	(1.6)	(1.5)	(1.7)	(1.8)
EBIT		1.4	1.4	0.4	0.9	1.7	2.3
	margin	2.5%	2.2%	0.6%	1.5%	2.6%	3.3%
Net financial charges		(0.6)	(0.5)	(0.3)	(0.4)	(0.4)	(0.4)
Pre tax profit		0.8	0.9	0.1	0.4	1.3	1.9
Tax		(0.4)	(0.4)	(0.1)	(0.2)	(0.5)	(0.7)
Minority Interest		(0.07)	0.03	(0.07)	(0.02)	(0.06)	(0.09)
Group's Net Profit		0.3	0.5	(0.1)	0.3	0.8	1.1
	yoy	+123%	+71%	-117%	+406%	+192%	+48%
EPS		0.02	0.03	(0.01)	0.02	0.05	0.07

Eu m		15A	16A	17A	18E	19E	20E
Net Working Capital (NWC)		20.6	20.8	22.1	23.4	24.9	26.8
Fixed net assets		9.7	9.5	9.9	9.5	8.9	8.2
Funds		(2.3)	(2.4)	(2.4)	(2.4)	(2.6)	(2.8)
Net Capital Employed		28.1	27.8	29.6	30.6	31.2	32.1
Net Financial Position (Cash)		13.6	13.1	14.8	15.4	15.2	14.9
NFP/EBITDA		4.4	4.5	7.5	6.6	4.5	3.6
Group's Equity		14.0	14.4	14.4	14.7	15.4	16.6
Minority Interest		0.4	0.4	0.4	0.5	0.5	0.6
Sources		28.1	27.8	29.6	30.6	31.2	32.1
Change in NWC		(2.4)	(0.1)	(1.4)	(1.3)	(1.5)	(0.3)
Capex		(1.3)	(1.3)	(1.7)	(1.0)	(1.0)	(1.0)

Source: Company Data for 2015-16-17 (IAS-IFRS) and IR Top Estimates for 2018-20 consolidated results

VALUATION

Our valuation yields a Target Price of 1.69 Eu per share

We value Caleffi through 2 different approaches, equally weighted:

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

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 represented 18% of Caleffi's total revenues.

2016 Eu m	Revenues	yoy	EBITDA%	NFP (Cash)	EV/EBITDA	P/E
Caleffi	59	7%	4%	13	13.6	42.3
Aeffe	281	4%	7%	65	10.5	30.8
Brunello Cucinelli	456	10%	18%	55	17.8	38.0
Damiani	162	5%	1%	53	92.5	n.m.
Geox	901	3%	4%	33	16.7	221.0
Luxottica	9,086	3%	21%	1,177	13.7	28.9
Moncler	1,040	18%	33%	(103)	11.9	20.9
Piquadro	76	10%	9%	6	11.6	20.5
Safilo	1,253	-2%	6%	46	6.8	15.6
Tod's	1,004	-3%	20%	33	10.4	23.6
Median Peers	901	4%	9%	46	11.9	26.2
<i>Discount/Premium to Peers</i>					14.3%	61.4%

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

EV/EBITDA (x)	18E	19E	20E
Caleffi	15.9	10.9	9.0
Aeffe	n.a.	n.a.	n.a.
Brunello Cucinelli	18.5	16.5	14.6
Damiani	n.a.	n.a.	n.a.
Geox	7.9	6.5	5.4
Luxottica	12.6	11.6	11.2
Moncler	16.3	14.1	12.3
Piquadro	n.a.	n.a.	n.a.
Safilo	7.8	6.0	4.6
Tod's	11.9	10.7	10.0
Median Peers	12.3	11.2	10.6
<i>Discount/Premium to Peers</i>	+29.6%	-2.2%	-14.8%

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

DCF

Main assumptions are:

- Perpetual growth: 2.0%
- Risk Free interest rate: 1.97%
- WACC: 7.3%

Sum of PV 2018-2023 FCF – Eu m	8.64
Terminal Value – Eu m	40.86
Total Enterprise Value – Eu m	49.49
Net Financial Position (Cash) – Eu m	14.84
Minority Interest	0.4
Total Equity Value – Eu m	34.22
Number of outstanding shares – m	15.5
Fair Value per share – Eu	2.20

Source: Company Data and IR Top Estimates

Our DCF yields a valuation of 2.20 Eu per share.

VALUATION SUMMARY

Weighting the 2 approaches equally we set a target price of 1.69 Eu, implying an upside of 17% and an implicit EV/EBITDA 2018 and 2019 multiple of 17.4 x and 12.0 x respectively. Our Valuation has not been adjusted for the possible dilution impact of the outstanding warrants.

Method	Price (Eu)
DCF	2.20
Multiple analysis	1.18
Target Price	1.69

Caleffi on MTA

Capitalisation 23 Eu m

Price 1.445 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 March 20th, 2018)

Code: WCLF20
 ISIN: IT0005114910
 Outstanding Warrants: 3,121,919
 Strike Price: 1.60 Eu
 Exercise ratio: 1 warrant: 1 share
 3rd Exercise Period: 1-30 June 2018
 4th Exercise Period: 1-30 June 2019
 5th Exercise Period: 1-30 June 2020

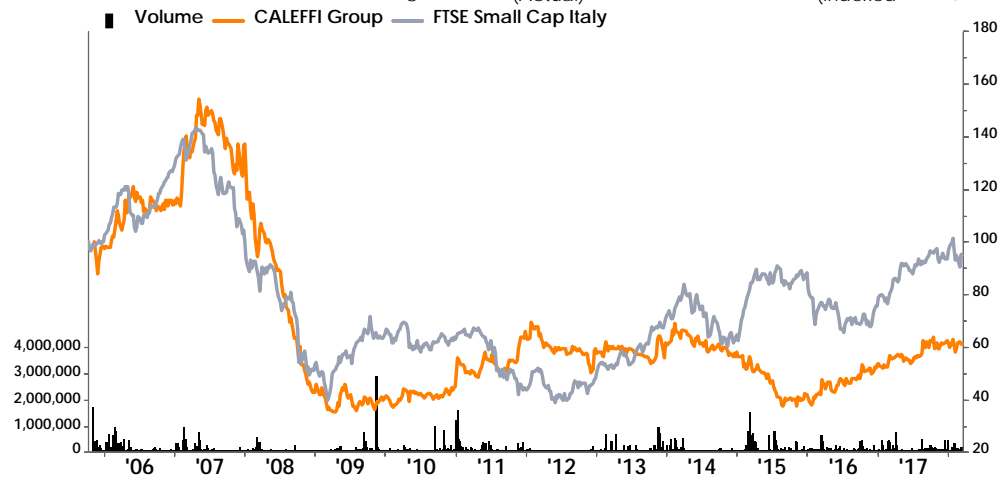
SHARES (as of March 20th, 2018)

Code: CLF
 Bloomberg: CLF IM
 Reuters: CLF.MI
 ISIN: IT0003025019
 Share capital: Eu 8,126,602
 Shares: 15,628,081
 Treasury Shares: 107,044
 Price: 1.445 Eu
 Capitalisation: 23 Eu m

CALEFFI Group vs FTSE Small Cap Italy

Indexed Price Performance with target volume (Actual)

Price (Indexed to 100)



Source: FactSet Prices

RATIOS

Eu m	2015A	2016A	2017A	2018E	2019E	2020E	2021E	2022E
Profit & Loss Statement								
Sales	55,5	59,2	57,2	58,8	62,9	67,3	74,1	81,5
EBITDA	3,1	2,9	2,0	2,4	3,4	4,1	4,7	5,2
EBIT	1,4	1,4	0,4	0,9	1,7	2,3	3,0	3,6
Financial Income (charges)	(0,6)	(0,5)	(0,3)	(0,4)	(0,4)	(0,4)	(0,4)	(0,4)
Pre-tax profit (loss)	0,8	0,9	0,1	0,4	1,3	1,9	2,6	3,2
Taxes	(0,4)	(0,4)	(0,1)	(0,2)	(0,4)	(0,7)	(0,9)	(1,1)
Minorities	(0,1)	0,0	(0,1)	(0,0)	(0,1)	(0,1)	(0,1)	(0,1)
Net profit	0,3	0,5	(0,1)	0,3	0,8	1,1	1,6	1,9
Balance Sheet								
Fixed assets	9,7	9,5	9,9	9,5	8,9	8,2	7,6	7,1
NWC	20,6	20,8	22,1	23,4	24,9	26,8	29,4	32,3
M/L Funds	(2,3)	(2,4)	(2,4)	(2,4)	(2,6)	(2,8)	(3,2)	(3,5)
Net Capital Employed	28,1	27,8	29,7	30,6	31,2	32,1	33,8	35,9
Net Debt	13,6	13,1	14,8	15,4	15,2	14,9	14,9	15,0
Group Equity	14,0	14,4	14,4	14,7	15,4	16,6	18,1	20,1
Minorities	0,4	0,4	0,4	0,5	0,5	0,6	0,7	0,9
Net Equity	14,4	14,8	14,9	15,1	16,0	17,2	18,9	21,0
Cash Flow								
EBIT	1,4	1,4	0,4	0,9	1,7	2,3	3,0	3,6
D&A	1,4	1,3	1,2	1,4	1,6	1,7	1,6	1,5
Tax	(0,0)	(0,0)	(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	0,0	0,0
Change in M/L Funds	(0,1)	0,1	(0,0)	(0,0)	0,2	0,2	0,3	0,3
Gross Cash Flow	2,7	2,7	1,6	2,2	3,6	4,3	4,9	5,4
Change in NWC	(2,4)	(0,1)	(1,4)	(1,3)	(1,5)	(1,9)	(2,6)	(3,0)
Operating Cash Flow	0,3	2,6	0,2	1,0	2,1	2,4	2,3	2,5
Capex	(1,1)	(1,0)	(1,7)	(1,0)	(1,0)	(1,0)	(1,0)	(1,0)
Acquisitions and divestments	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Financial Income (charges)	(0,6)	(0,5)	(0,3)	(0,4)	(0,4)	(0,4)	(0,4)	(0,4)
Free Cash Flow	(1,4)	1,1	(1,7)	(0,5)	0,7	1,0	0,9	1,1
Change in Equity	3,1	(0,1)	0,1	0,0	0,0	(0,0)	0,0	(0,0)
Change in Net debt	1,7	1,0	(1,6)	(0,5)	0,7	1,0	0,9	1,1
Per Share Data								
Current Price	1,44							
Total shares out (mn) average	15,5							
EPS	0,02	0,03	(0,01)	0,02	0,05	0,07	0,10	0,12
DPS	-	0,02	-	-	-	-	-	-
FCF	(1,42)	1,08	(1,75)	(0,45)	0,66	0,99	0,89	1,06
Pay out ratio*	52%							
Ratios								
EBITDA margin	5,6%	5,0%	3,5%	4,0%	5,4%	6,2%	6,3%	6,4%
EBIT margin	2,5%	2,3%	0,7%	1,5%	2,7%	3,4%	4,0%	4,4%
Net Debt/Equity (Gearing)	94,6%	88,5%	99,8%	102,0%	95,3%	86,6%	78,9%	71,4%
Net Debt/EBITDA	4,4x	4,5x	7,5x	6,6x	4,4x	3,6x	3,2x	2,9x
Interest cover EBIT	-0,5x	-0,4x	-0,8x	-0,5x	-0,2x	-0,2x	-0,1x	-0,1x
ROE	2,1%	3,5%	-0,6%	1,8%	5,0%	6,9%	8,6%	9,6%
Free Cash Flow Yield	-13%	10%	-16%	-4%	6%	9%	8%	10%
Growth Rates								
Sales	6%	7%	-3%	3%	7%	7%	10%	10%
EBITDA	189%	-5%	-32%	19%	45%	21%	13%	12%
EBIT	300%	-1%	-72%	127%	95%	36%	30%	21%
Net Profit	123%	71%	-117%	406%	192%	48%	37%	24%

*on Caleffi Spa net profit

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