

Caleffi

1H17 Results

Caleffi - Key estimates and data					
Y/E December		2016A	2017E	2018E	2019E
Revenues	EUR M	59.21	60.00	64.20	68.69
EBITDA	EUR M	2.93	3.96	4.62	5.15
EBIT	EUR M	1.36	2.39	3.05	3.58
Net Income	EUR M	0.50	1.17	1.55	1.86
Dividend ord.	EUR	0.02	0.02	0.02	0.02
Adj. EPS	EUR	0.03	0.08	0.09	0.11
EV/EBITDA	x	11.2	9.5	8.4	7.9
Adj. P/E	x	34.4	19.0	15.4	13.6

NA: not available; NM: not meaningful; Neg.: negative; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

- Good growth in 1H17, driven by Mirabello.** Caleffi group's revenues grew by 3.5% to EUR 27.2M, with Italy up by 3.1% to EUR 23.6M, and abroad sales up by 5.7% to EUR 3.6M. In detail, Caleffi's revenue declined by 4.3% to EUR 18.6M, while the 70%-owned luxury subsidiary Mirabello Carrara posted a revenue increase of 26% to EUR 9.2M.
- A 90bps erosion in the EBITDA margin.** Group EBITDA came in at EUR 0.75M (vs. EUR 1M in 1H16A), the EBITDA margin was 2.8%, 90bps lower than in 1H17. Looking at costs evolution, also driven by seasonal factors: 1) raw material costs (net of changes in inventories) increased by 2.3%; 2) costs for services grew by 2.7%; 3) costs for third parties grew by 3.9%; and 4) labour costs increased by 5.8%. Caleffi's EBITDA was EUR 0.15M vs. EUR 0.7M in 1H16, while Mirabello Carrara's EBITDA was EUR 0.6M (vs. EUR 0.2M in 1H16A). The Caleffi group posted a EUR 0.2M loss in 1H17, vs. a EUR 0.1M loss in 1H16A. Net debt amounted to EUR 12.6M (from EUR 13.5M in 1H16A). The company owns treasury shares for around 1.86% of the capital. The 2017 General Assembly approved the renewal of a buy-back programme until the 2018 General Assembly, which should approve 2017 financial statements.
- Outlook.** The group's strategy remains focused on own stores and department store shop-in-shops, and luxury lines and licenses mainly distributed abroad. The revenue drivers should be the luxury segment, via Roberto Cavalli, Diesel and Trussardi licences, and own stores and e-commerce channels. Management highlighted that, in the light of 1H17 results and the orders' collection for Autumn/Winter, it expects 2017 results in line with 2016.
- Estimates and valuation** Based on 1H17A results and management's outlook, we cut our FY17E-19E revenue estimates by around 5.3% on average. Considering the solid growth abroad via Mirabello, and despite a 90bps contraction in 1H17 EBITDA margin, we assume a recovery in the second part of the year, and we set a new FY17E EBITDA margin forecast at 6.6% (6.9% in our previous estimate). We confirm our EBITDA margin assumptions for FY18E-19E. We value Caleffi on a fully-diluted basis, or assuming that all of the around 3.122M warrants are converted at a EUR 1.60 strike price. **We set our target price at EUR 1.75/share (EUR 1.70/share previously) and we confirm our BUY rating.**
- Key risks.** In our view, Caleffi's key risks are: 1) the home fashion market in Italy, which has contracted by around 12% over 2012-16. Competition is strong from branded goods, private labels and new players from low-cost countries; 2) insufficient revenue levels at own stores to face the fixed costs of the structures (e.g. rent, personnel, etc), leading to margin erosion; and 3) raw materials (mainly cotton and plastic) represented around 59% of revenues in FY15. Inflationary trends on these commodities could erode margins.

13 September 2017: 13:06 CET
Date and time of production

BUY

Target Price: EUR 1.75
(from EUR 1.70)

Italy/Household Goods &
Textiles
Company Update

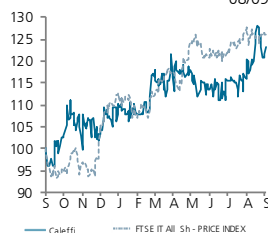
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Price performance, -1Y
08/09/2017



Source: FactSet

Date and time of first circulation:
13 September 2017: 13:08 CET

Priced at market close on 08.09.2017*

Target price (€)	1.75
Target upside (%)	22.64
Market price (€)	1.43
52Wk range (€)	1.49/1.11
Market cap (€ M)	22.34
No. of shares	15.63
Free float (%)	44.9
Major shr (%)	G. Caleffi 40.4
Reuters	CLFF.MI
Bloomberg	CLF IM
FTSE IT All Sh	24048

Performance %			
Absolute	Rel. to FTSE IT All		
-1M	2.2	-1M	3.3
-3M	8.7	-3M	5.4
-12M	23.3	-12M	-2.4

*unless otherwise indicated within report. Source: FactSet and Intesa Sanpaolo Research estimates

See page 9 for full disclosures and analyst certification
Banca IMI is Corporate Broker to Caleffi

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Francesco Brambilla contributed to this report.

1H17A Results

The Caleffi group's revenues grew by 3.5% to EUR 27.2M, with Italy up by 3.1% to EUR 23.6M, and abroad sales up by 5.7% to EUR 3.6M.

Revenues up 3.5% in 1H17

Caleffi - 1H17 results			
EUR M	1H16A	1H17A	% yoy
Revenues	26.3	27.2	3.5
of which: Italy	22.9	23.6	3.1
Abroad	3.4	3.6	5.7
EBITDA	1.0	0.8	-22.0
EBITDA margin (%)	3.7	2.8	
EBIT	0.2	0.0	-94.2
Net income	-0.1	-0.2	-140.9
Net debt/-cash	13.5	12.631	-6.4

A: actual; Source: Company data

We recall that the Caleffi group covers the mid-high end of the market with the Caleffi brand, while the luxury part is covered through the subsidiary Mirabello Carrara:

- Caleffi's revenue declined by 4.3% to EUR 18.6M, due to a weak reference market in Italy. Since 2012, the home textile market value in Italy has declined by over 12%, with Caleffi gaining market share (7.3% in 2016, +70bps vs. 2015);
- The 70%-owned luxury subsidiary Mirabello Carrara posted a revenue increase of 26% to EUR 9.2M.

Mirabello Carrara renewed/finalised some important licenses in the luxury segment in 2016:

- The "Roberto Cavalli Home Linen" licence was renewed until 2019;
- An agreement for an exclusive worldwide licence with Diesel was finalised, with a duration of 5 years, to produce and commercialise home textile products. The first Diesel Living Home Textile collection was presented at the Maison & Object fair in Paris in January 2017, and will be distributed in selected shops and department stores and in the Diesel stores worldwide. In 2014, Diesel posted around EUR 450M revenues and it is part of the larger group OTB, which includes other brands, such as Maison Martin Margiela, Marni, Viktor&Rolf, Staff International and Brave Kid, and it posted around EUR 1.5Bn revenues in 2014.

Group EBITDA was EUR 0.75M (vs. EUR 1M in 1H16A), the EBITDA margin was 2.8%, 90bps lower than in 1H16.

...but margin contraction

Looking at the costs' evolution, driven also by seasonality:

- Raw material costs (net of changes in inventories) increased by 2.3%;
- Costs for services grew by 2.7%;
- Costs for third parties grew by 3.9%;
- Labour costs increased by 5.8%.

Caleffi - Costs breakdown (1H17)			
EUR M	1H16A	1H17A	yoy %
Raw materials*	16.2	16.6	2.3
Costs for services	7.5	7.7	2.7
Costs for third parties	2.0	2.0	3.9
Costs of labour	4.2	4.4	5.8
Other operating costs	0.2	0.2	-11.4
Weighting on revenue (%)			
Raw materials*	61.7	60.9	
Costs for services	28.5	28.3	
Costs for third parties	7.5	7.5	
Labour costs	16.0	16.3	
Other operating costs	0.7	0.6	

Note: net of changes in inventories; A: actual; Source: Company data

Caleffi's EBITDA came in at EUR 0.15M vs. EUR 0.7M in 1H16, while Mirabello Carrara's EBITDA amounted to EUR 0.6M (vs. EUR 0.2M in 1H16A). The group posted a EUR 0.2M loss in 1H17 vs. a EUR 0.1M loss in 1H16A.

Net debt amounted to EUR 12.6M (from EUR 13.5M in 1H16A).

The company owns treasury shares for around 1.86% of the capital. The 2017 General Assembly approved the renewal of a buy-back programme until the 2018 General Assembly, which should approve the 2017 financial statements.

Outlook and Estimates Revision

The group's strategy remains focused on own stores and department store shop-in-shops, and luxury lines and licences mainly distributed abroad.

The revenue drivers should be the luxury segment, via Roberto Cavalli, Diesel and Trussardi licences, and own stores and e-commerce channels.

In the light of 1H17 results and orders collection for Autumn/Winter, Management highlighted that it envisages 2017 financial results in line with 2016.

2017 financial results seen in line with 2016

Estimates revision

Based on 1H17A results and management's disclosed outlook, we cut our FY17E-19E revenue estimates by around 5.3% on average.

Considering the good growth abroad thanks to Mirabello, and despite a 90bps contraction in the 1H17 EBITDA margin, we assume a recovery in the second part of the year (reflecting a higher weighting of Mirabello Carrara on revenues), and we now assume a FY17E EBITDA margin at 6.6% (6.9% in our previous estimate).

We confirm our EBITDA margin assumption for FY18E-19E.

Caleffi – Estimates revision (FY17E-19E)									
EUR M	FY17E old	FY17E new	Chg. (%)	FY18E old	FY18E new	Chg. (%)	FY19E old	FY19E new	Chg. (%)
Revenue	63.4	60.0	-5.4	67.8	64.2	-5.3	72.5	68.7	-5.2
EBITDA	4.4	4.0	-10.0	4.9	4.6	-5.7	5.4	5.2	-4.6
EBITDA margin (%)	6.9	6.6		7.2	7.2		7.5	7.5	
EBIT	2.8	2.4	-14.7	3.3	3.1	-7.5	3.9	3.6	-8.2
Net income	1.4	1.2	-16.1	1.7	1.5	-9.1	2	1.9	-7.0
Net debt	12.2	11.9	-2.4	12.7	11.9	-6.5	13	12.2	-6.0

E: estimates; Source: Intesa Sanpaolo Research estimates

Shareholding Structure

Caleffi's share capital comprises 15,628,081 shares with no nominal value. Moreover, 3,121,919 warrants are outstanding, which can be converted into shares at a 1:1 ratio, according to the following exercise period and exercise price:

- 1 June 2018 - 30 June 2018: exercise price of EUR 1.60;
- 1 June 2019 - 30 June 2019: exercise price of EUR 1.60;
- 1 June 2019 - 30 June 2020: exercise price of EUR 1.60

Valuation

We believe that a DCF model is the most appropriate method to value Caleffi, as there are no closely comparable companies.

DCF model

Taking our 2017E-19E estimates, we used the following parameters to run our DCF model:

- A 2.25% risk-free rate (2.0% previously);
- A 5.5% equity risk premium (6.25 previously);
- For the long term, we assumed 0% growth;
- As usual in the LT, capex equals depreciation.

Caleffi - WACC calculation	
%	
Gross debt rate	4.0
Tax rate	24
Net debt rate	3.0
Beta levered*	1.00
Gearing	46.8
Beta relevered	1.00
Risk-free rate	2.25
Equity risk premium	5.50
WACC	5.5

Source: Intesa Sanpaolo Research estimates and * Bloomberg

We value Caleffi on a fully-diluted basis, i.e. assuming that all of the around 3.122M warrants are converted at a EUR 1.60 strike price (see the Shareholders Structure section).

BUY rating; TP of EUR 1.75/share

We set our target price at **EUR 1.75/share** (EUR 1.70/share previously) **and we confirm our BUY rating.**

Caleffi - DCF calculation				
EUR M	2017E	2018E	2019E	LT
EBIT	2.4	3.1	3.6	3.8
Tax	-0.8	-1.0	-1.2	-1.4
Depreciation	1.6	1.6	1.6	
NOPAT	3.2	3.6	3.9	2.4
WC	0.2	-1.3	-2.0	
Capex	-1.5	-1.5	-1.5	
FCF	1.9	0.8	0.4	2.4
Discounted FCF	1.9	0.8	0.4	2.0
WACC (%)	5.5			
TV growth (%)	0.0			
Sum	3			
TV	37			
EV	40			
Debt 2016A	13.0			
Treasury shares	0.4			
Equity	27			
Shares (M)	15.6			
Warrant (M)	3.1			
Warrant exercise @ 1.60 EUR	5.0			
Target price (EUR/share)	1.75			

Source: Intesa Sanpaolo Research estimates

Caleffi - Key data							
Rating	Target price (EUR/sh)	Mkt price (EUR/sh)	Sector			Free float (%)	Reuters Code
BUY	Ord 1.75	Ord 1.43	Household Goods & Textiles			44.9	CLFF.MI
Values per share (EUR)			2015A	2016A	2017E	2018E	2019E
No. ordinary shares (M)			15.63	15.63	15.63	16.63	17.63
No. NC saving/preferred shares (M)			0.00	0.00	0.00	0.00	0.00
Total no. of shares (M)			15.63	15.63	15.63	16.63	17.63
Market cap			17.33	17.32	22.34	23.77	25.20
Adj. EPS			0.02	0.03	0.08	0.09	0.11
CFPS			0.13	0.13	0.18	0.19	0.19
BVPS			1.1	1.1	1.2	1.2	1.2
Dividend ord			NA	0.02	0.02	0.02	0.02
Income statement (EUR M)			2015A	2016A	2017E	2018E	2019E
Revenues			55.52	59.21	60.00	64.20	68.69
EBITDA			3.10	2.93	3.96	4.62	5.15
EBIT			1.38	1.36	2.39	3.05	3.58
Pre-tax income			0.75	0.87	1.89	2.58	3.10
Net income			0.29	0.50	1.17	1.55	1.86
Adj. net income			0.29	0.50	1.17	1.55	1.86
Cash flow (EUR M)			2015A	2016A	2017E	2018E	2019E
Net income before minorities			0.4	0.5	1.1	1.5	1.9
Depreciation and provisions			1.7	1.6	1.6	1.6	1.6
Others/Uses of funds			0	0	0	0	0
Change in working capital			-2.5	0.0	0.2	-1.3	-2.0
Operating cash flow			-0.4	2.0	2.9	1.8	1.5
Capital expenditure			-1.3	-1.9	-1.5	-1.5	-1.5
Financial investments			0	0	0	0	0
Acquisitions and disposals			0	0	0	0	0
Free cash flow			-1.8	0.1	1.4	0.3	-0.0
Dividends			0	0	-0.3	-0.3	-0.3
Equity changes & Other non-operating items			3.1	0.5	0	0	0
Net cash flow			1.3	0.6	1.1	0.0	-0.4
Balance sheet (EUR M)			2015A	2016A	2017E	2018E	2019E
Net capital employed			28.0	27.8	27.5	28.7	30.6
of which associates			0	0	0	0	0
Net debt/-cash			13.6	13.0	11.9	11.9	12.2
Minorities			2.7	2.7	2.7	2.7	2.7
Net equity			14.4	14.8	15.6	16.8	18.4
Minorities value			0	0	0	0	0
Enterprise value			33.6	33.0	37.5	38.9	40.6
Stock market ratios (x)			2015A	2016A	2017E	2018E	2019E
Adj. P/E			58.9	34.4	19.0	15.4	13.6
P/CFPS			8.6	8.4	8.1	7.6	7.3
P/BVPS			1.0	0.99	1.2	1.2	1.2
Payout (%)			0	62	27	22	19
Dividend yield (% ord)			NA	1.8	1.4	1.4	1.4
FCF yield (%)			-10.2	0.8	6.3	1.5	-0.2
EV/sales			0.61	0.56	0.62	0.61	0.59
EV/EBITDA			10.9	11.2	9.5	8.4	7.9
EV/EBIT			24.4	24.2	15.7	12.7	11.3
EV/CE			1.2	1.2	1.4	1.4	1.3
D/EBITDA			4.4	4.4	3.0	2.6	2.4
D/EBIT			9.9	9.6	5.0	3.9	3.4
Profitability & financial ratios (%)			2015A	2016A	2017E	2018E	2019E
EBITDA margin			5.6	5.0	6.6	7.2	7.5
EBIT margin			2.5	2.3	4.0	4.8	5.2
Tax rate			51.3	45.7	40.0	40.0	40.0
Net income margin			0.5	0.8	2.0	2.4	2.7
ROCE			4.9	4.9	8.7	10.6	11.7
ROE			2.3	3.4	7.7	9.5	10.6
Interest cover			2.2	2.7	4.8	6.4	7.4
Debt/equity ratio			79.7	74.6	65.2	60.9	58.1
Growth (%)			2016A	2017E	2018E	2019E	
Sales			6.6	1.3	7.0	7.0	
EBITDA			-5.3	35.1	16.7	11.5	
EBIT			-1.0	75.5	27.7	17.4	
Pre-tax income			14.7	NM	36.2	20.3	
Net income			71.1	NM	31.6	20.3	
Adj. net income			71.1	NM	31.6	20.3	

NM: not meaningful; NA: not available; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Notes

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Valuation methodology (long-term horizon: 12M)

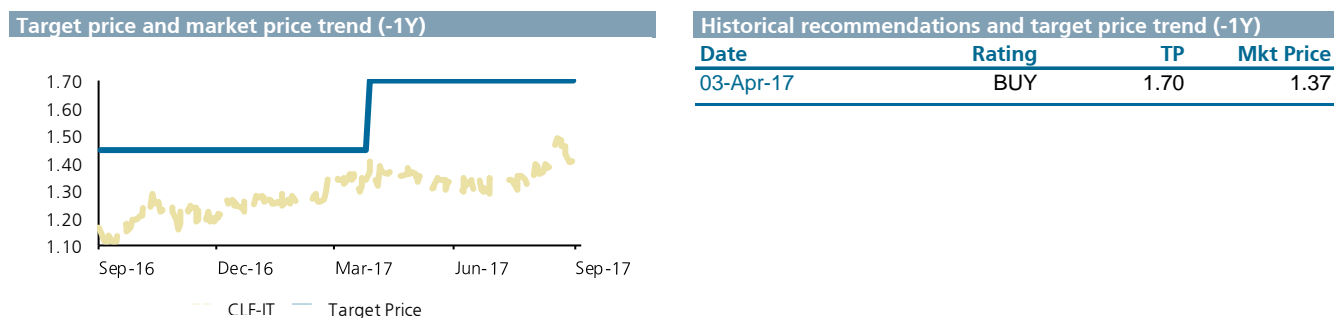
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Equity rating key (long-term horizon: 12M)	
Long-term rating	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10%-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10%-20% lower than the market price
SELL	If the target price is 20% lower than the market price
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Historical recommendations and target price trends (long-term horizon: 12M)



Equity rating allocations (long-term horizon: 12M)

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(*) Companies on behalf of whom Intesa Sanpaolo and the other companies of the Intesa Sanpaolo Group have provided corporate and Investment banking services in the last 12 months; percentage of clients in each rating category

Valuation methodology (short-term horizon: 3M)

Our short-term investment ideas are based on ongoing special market situations, including among others: spreads between share categories; holding companies vs. subsidiaries; stub; control chain reshuffling; stressed capital situations; potential extraordinary deals (including capital increase/delisting/extraordinary dividends); and preys and predators. Investment ideas are presented either in relative terms (e.g. spread ordinary vs. savings; holding vs. subsidiaries) or in absolute terms (e.g. preys).

The companies to which we assign short-term ratings are under regular coverage by our research analysts and, as such, are subject to fundamental analysis and long-term recommendations. The main differences attain to the time horizon considered (monthly vs. yearly) and definitions (short-term 'long/short' vs. long-term 'buy/sell'). Note that the short-term relative recommendations of these investment ideas may differ from our long-term recommendations. We monitor the monthly performance of our short-term investment ideas and follow them until their closure.

Equity rating key (short-term horizon: 3M)

Equity rating key (short-term horizon: 3M)	
Short-term rating	Definition
LONG	Stock price expected to rise or outperform within three months from the time the rating was assigned due to a specific catalyst or event
SHORT	Stock price expected to fall or underperform within three months from the time the rating was assigned due to a specific catalyst or event

Company specific disclosures

Intesa Sanpaolo S.p.A. and the other companies belonging to the Intesa Sanpaolo Banking Group (jointly also the "Intesa Sanpaolo Banking Group") have adopted written guidelines "Modello di Organizzazione, Gestione e Controllo" pursuant to Legislative Decree 8 June, 2001 no. 231 (available at the Intesa Sanpaolo website, webpage http://www.group.intesasnpaolo.com/scriptlsir0/si09/governance/eng_wp_governance.jsp, along with a summary sheet, webpage <https://www.bancaimi.com/en/bancaimi/chiamo/documentazione/normative>) setting forth practices and procedures, in accordance with applicable regulations by the competent Italian authorities and best international practice, including those known as Information Barriers, to restrict the flow of information, namely inside and/or confidential information, to prevent the misuse of such information and to prevent any conflicts of interest arising from the many activities of the Intesa Sanpaolo Banking Group which may adversely affect the interests of the customer in accordance with current regulations.

In particular, the description of the measures taken to manage interest and conflicts of interest – related to Articles 69-quater and 69-quinquies of the Issuers' Regulation issued by Consob with Resolution no. 11971 of 14.05.1999 as subsequently amended and supplemented, Article 24 of "Rules governing central depositories, settlement services, guarantee systems and related management companies" issued by Consob and Bank of Italy, FINRA Rule 2241 and NYSE Rule 472, as well as the FCA Conduct of Business Sourcebook rules COBS 12.4.9 and COBS 12.4.10 - between the Intesa Sanpaolo Banking Group and issuers of financial instruments, and their group companies, and referred to in research products produced by analysts at Intesa Sanpaolo is available in the "Research Rules" and in the extract of "A business model for managing privileged information and conflicts of interest" published on the website of Intesa Sanpaolo S.p.A.

At the Intesa Sanpaolo website, webpage http://www.group.intesasnpaolo.com/scriptlsir0/si09/studi/eng_archivio_conflitti_mad.jsp you can find the archive of Intesa Sanpaolo Banking Group's conflicts of interest.

Furthermore, we disclose the following information on the Intesa Sanpaolo Banking Group's conflicts of interest:

- 1 One or more of the companies of the Intesa Sanpaolo Banking Group plan to solicit investment banking business or intends to seek compensation from Caleffi in the next three months
- 2 Banca IMI acts as Corporate Broker relative to securities issued by Caleffi

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