

## Caleffi (CLF.IM)

Sector: Textiles/Household

FY2019: Great profitability results following industrial plan implementation

April 14<sup>th</sup>, 2020

### Investment Overview

- Caleffi is one of the leading Italian players in the textile household market. The company focuses on the value-added phases of the value chain, guarantees the best quality of its products and a high positioning of its brands.
- Caleffi is present in more than 50 countries worldwide, selling own-brand and licensed products through a widespread commercial presence of more than 2000 stores in Italy and 600 stores abroad.
- In 2019 Caleffi started implementing the industrial plan with great emphasis on margins recovery, fulfilling about 44% of overall profitability target.

### Latest results

- FY2019 consolidate revenues amounted to 50.2M€ with a slow decrease compared to previous year due to an overall reduction of home fashion market volumes. Domestic market counted for 93.6% of total sales.
- Caleffi's operating margins were extremely positive, as a result of both industrial plan measures and IFRS16 application; EBITDA was up to 3.6M€ (7.06% on sales). Adjusted EBITDA (net of IFRS 16 rule) was worth 1.9M€, showing a great improvement versus 2018 value, equal to 0.6M€.
- EBIT was positive for 0.6M€, better than the 2018 negative value of 1M€; IFRS 16 application led to higher D&A costs - worth 3.0M€ - without having a great impact on EBIT balance (adjusted value was very close to reported one).
- 2019 numbers showed a break-even result vs a net loss worth 0.9M€ last year
- Full year Net Financial Position was negative (debt) for 18.9M€, mainly affected by 7.5M€ of leasing liabilities ex IFRS 16; adjusted NFP was around 11.4M€, in line with December 31<sup>st</sup> 2018 balance.

### Valuation

- 2019 marked the beginning of industrial plan implementation and it recorded remarkable improvements in marginality, as expected, and kept turnover stable. 2020 started with great results in its first months, but then it suffered the emergency situation currently present in Italy and in all Europe.
- In light of 2019 results and in view of the possible rebalancing of company's business targets, we confirm our positive outlook; the SGAP model returns a fair value of 1.44€.

### Risks

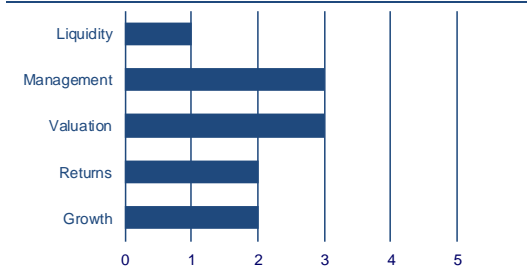
- Caleffi's sales are highly dependent on the general level of consumption and to a lower extent on the real estate market.
- Uncertainty related to current lockdown in Italian market.

Forecast	19A	20E	21E	22E
Sales (€M)	50.3	47.1	49.1	51.4
EBITDA (€M)	3.6	3.8	4.4	5.1
NET RESULT	0.1	0.2	0.7	1.3
NFP (€)	18.9	16.0	14.0	11.6
Valuation	19A	20E	21E	22E
SHARE PRICE	1.38	0.77	1.49	1.59
EV/EBITDA	12.2	8.1	9.0	7.6
P/E	216.4	63.3	32.6	19.6
Dividend yield	0.2%	0.6%	1.2%	2.0%

### Key Data

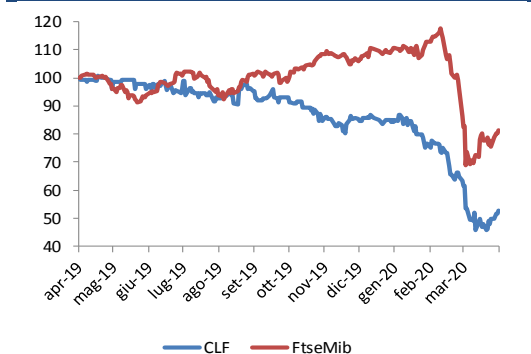
Price (€)	0.77
Market cap (€M)	12.0
Equity Value (€M)	22.5
<b>Fair Value (€)</b>	<b>1.44</b>
P/E LTM	216.4
P/E TTM	216.4

### Investment Profile from 1 worst to 5 best



### Stock data

Ticker Bloomberg	CLF.IM
N° of shares (M)	15.6
Free float	44.9%
Main shareholder	Giuliana Caleffi (40.4%)
Daily trading volume	12,079 shares



Share Price perf (%)	3M	6M	1Y
Absolute	-37.9%	-42.1%	-47.3%
Rel. to FtseMib	-11.3%	-23.1%	-28.6%

Contact mail:  
er@twiceresearch.it

## Latest results (FY2019)

FY2019 Caleffi's numbers were extremely positive, especially in bad macro-economic conditions; revenues were essentially in line with previous year's balance, allowing the company to keep its share in the home fashion market unchanged (7.7%). Industrial plan implementation actions showed a remarkable positive effect on operating margins across all sales channels, whereas turnover's expectations were limited by a general decrease in market volumes.

The parent company Caleffi SpA performance reflected group's trend, i.e. a little reduction in sales (38.2M€ vs 38.4M€ recorded in 2018) and a significant improvement in EBITDA in terms of both absolute and relative value (also as a result of IFRS 16 rule). Net operating profit was negative for 0.01M€ (adjusted value up to +0.04M€) increasing compared to FY2018 value.

- During 2019, the parent company realized investments worth 0.4M€, fully devoted to the rebranding and refitting of some DoS.

The subsidiary Mirabello Carrara recorded revenues for 13.7M€, down 7% yoy, and it reduced the foreign countries volumes, which counted for 21.6% of total sales. EBITDA and EBIT were in line with their previous year's values.

M€ (*)	FY2019	FY2018	% var
<b>Tot Revenues</b>	<b>50.3</b>	<b>51.1</b>	<b>-1.6%</b>
<b>Ebitda (adjusted)</b>	<b>3.6 (1.9)</b>	<b>0.6</b>	<b>+216%</b>
<i>Ebitda margin</i>	<i>7.1%</i>	<i>1.2%</i>	
<b>Ebit</b>	<b>0.6</b>	<b>-1.0</b>	<b>n.m.</b>
<i>Ebit margin</i>	<i>1.1%</i>	<i>-1.9%</i>	
<b>Net Financial Position</b>	<b>18.9</b>	<b>11.4</b>	

(\*) Reported data, including the effect of the application of IFRS16

## Business plan 2019 – 2022 and Covid-19 emergency plan

Industrial plan implementation started in 2019 with positive results notwithstanding the unfavorable macroeconomic framework. The Group fulfilled its targets in terms of operating profitability thanks to efficiency-drive measures, through which Caleffi achieved a great result in terms of EBITDA margin (7.1%), in view of 2022 target worth 8% (adjusted Ebitda).

In the first quarter 2020, Caleffi suffered from the Covid-19 emergency, because of which the Group was forced to stop production activities and to close shops.

At the moment, there is no certainties about the emergency framework development but the Group is putting in place a series of measures to react and to protect its companies economic performance, such as:

- Reducing costs
- Protecting cash flows and net financial position
- Downsizing production capacity to face with new demand level

The Group may revise economic and financial targets related to the three-years plan as the impact on business performance will be quite clear.

## FINANCIALS

Income statement (€M)	19A	20E	21E	22E	Balance sheet (€M)	19A	20E	21E	22E
<b>Sales</b>	<b>50.3</b>	<b>47.1</b>	<b>49.1</b>	<b>51.4</b>	FIXED ASSETS	14.3	11.8	9.7	7.5
COGS	-24.4	-22.9	-23.9	-25.0	WC	21.3	21.0	21.6	22.1
Gross Profit	25.8	24.2	25.2	26.4	<b>CAPITAL EMPLOYED</b>	<b>35.6</b>	<b>32.8</b>	<b>31.3</b>	<b>29.6</b>
<b>EBITDA</b>	<b>3.6</b>	<b>3.8</b>	<b>4.4</b>	<b>5.1</b>	EQUITY	12.9	13.0	13.4	14.2
Depreciation, Amortization	-3.0	-3.0	-3.0	-3.0	MINORITY INTEREST	0.6	0.6	0.6	0.6
<b>EBIT</b>	<b>0.6</b>	<b>0.8</b>	<b>1.4</b>	<b>2.2</b>	PROVISIONS	0.6	0.6	0.6	0.6
Net Financial Results	-0.3	-0.4	-0.3	-0.3	PENSIONS (e.g. TFR)	2.6	2.6	2.6	2.6
Income tax	-0.1	-0.2	-0.4	-0.6	NET DEBT	18.9	16.0	14.0	11.6
<b>Net result</b>	<b>0.1</b>	<b>0.2</b>	<b>0.7</b>	<b>1.3</b>	<b>CAPITAL INVESTED</b>	<b>35.6</b>	<b>32.8</b>	<b>31.3</b>	<b>29.6</b>
<b>EPS (€)</b>	<b>0.01</b>	<b>0.01</b>	<b>0.05</b>	<b>0.08</b>					
<b>DPS (€)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.02</b>	<b>0.03</b>					
Margin (%)	19A	20E	21E	22E	Ratios	19A	20E	21E	22E
Gross Margin	51.4%	51.4%	51.4%	51.4%	<b>ROCE after tax</b>	<b>1.0%</b>	<b>1.6%</b>	<b>3.0%</b>	<b>4.8%</b>
EBITDA Margin	7.1%	8.0%	9.0%	10.0%	ROE	0.8%	1.5%	5.3%	9.0%
EBIT Margin	1.1%	1.7%	2.9%	4.2%	<b>Capital Turnover</b>	<b>1.5</b>	<b>1.6</b>	<b>1.7</b>	<b>1.9</b>
Net Margin	0.2%	0.4%	1.5%	2.5%	<b>Net Debt / EBITDA</b>	<b>6.1</b>	<b>4.9</b>	<b>3.8</b>	<b>2.8</b>
					Gearing	167.3%	143.6%	124.2%	100.2%
Growth (%)	19A	20E	21E	22E	<b>WC / Sales</b>	<b>42.3%</b>	<b>44.5%</b>	<b>44.0%</b>	<b>43.0%</b>
Sales growth	-1.6%	-6.2%	4.2%	4.7%	Amortization / Sales	<b>5.9%</b>	<b>6.3%</b>	<b>6.1%</b>	<b>5.8%</b>
EBITDA growth	471.7%	6.2%	17.2%	16.3%	<b>Capex / Sales</b>	<b>-1.1%</b>	<b>1.1%</b>	<b>1.6%</b>	<b>1.6%</b>
EBIT growth	-158.0%	39.0%	82.1%	50.1%	EPS growth	-112%	90%	276%	78%
Net growth	112.2%	90.0%	275.9%	78.1%	<b>PEG</b>	<b>-1.9</b>	<b>0.7</b>	<b>0.1</b>	<b>0.3</b>
Cash Flow statement (€M)	19A	20E	21E	22E	Valuation	19A	20E	21E	22E
Cash Flow	3.1	3.2	3.7	4.3	<b>EV/Sales</b>	<b>0.86</b>	<b>0.65</b>	<b>0.81</b>	<b>0.76</b>
+/- Var. Working Capital	-1.2	0.3	-0.6	-0.5	<b>EV/EBITDA</b>	<b>12.2</b>	<b>8.1</b>	<b>9.0</b>	<b>7.6</b>
<b>Operating Cash Flow</b>	<b>1.9</b>	<b>3.5</b>	<b>3.1</b>	<b>3.8</b>	EV/EBIT	76.0	38.9	27.8	18.1
Op. Cash Flow / Sales	3.7%	7.3%	6.3%	7.3%	<b>P/E</b>	<b>216.4</b>	<b>63.3</b>	<b>32.6</b>	<b>19.6</b>
Capex	-7.9	-0.5	-0.8	-0.8	P/B	1.68	0.93	1.74	1.75
<b>FCF</b>	<b>-6.0</b>	<b>3.0</b>	<b>2.3</b>	<b>3.0</b>	<b>EV/CE</b>	<b>1.31</b>	<b>1.02</b>	<b>1.40</b>	<b>1.45</b>
FCF / Sales	-12.0%	6.3%	4.6%	5.8%	P/FCF	n.m.	4.1	10.3	8.4
					<b>FCF Yield</b>	<b>-27.8%</b>	<b>24.6%</b>	<b>9.7%</b>	<b>11.9%</b>
					<b>Dividend yield</b>	<b>0.2%</b>	<b>0.6%</b>	<b>1.2%</b>	<b>2.0%</b>
Stock data	19A	20E	21E	22E					
Number of Shares (M)	15.6	15.6	15.6	15.6					
Avg share price over LTM (€)	1.38	0.77	1.49	1.59					
<b>Market cap (€M)</b>	<b>21.6</b>	<b>12.0</b>	<b>23.3</b>	<b>24.9</b>					
Enterprise Value (€M)	40.3	30.7	40.0	39.1					

Sources: Company data, Twice estimates

## Valuation

We valued the Company based on 3 years cash flow projections and terminal value computed using *Twice's Sustainable Growth Adjusted P/E* ("SGAP") methodology. We applied to the evaluation a *synthetic index* that aims to measure the ability of the company to generate value for stakeholders sustainable over time that integrates factors with value content (ESG) with financial metrics. The Index determines an increase or decrease of up to 10% of the fair value. The model points out a 1.44€ fair value.

Concerning the 3 years' business plan we made the following assumptions:

- Revenues 2020 will suffer from the current lock-down; we estimate the Group will put in place several actions to support sales recovery in the 2<sup>nd</sup> half of the year and to respect industrial plan's targets (eventually revised).
- Group's profitability performance will continue to improve, following the positive trend begun in 2019; in 2022 the gross operating profitability should be between 9% and 10%.
- For the FY2020 we estimate capex equal to 0.5M€ net of IFRS 16 effects. In the following years they will grow to around 1M€.
- The working capital will converge towards its normalized value supporting the cash generation.

Cash Flow	FY20	FY21	FY22
<b>Sales</b>	<b>47.1</b>	<b>49.1</b>	<b>51.4</b>
<i>Sales growth</i>	-6.2%	4.2%	4.7%
<b>EBIT</b>	<b>0.8</b>	<b>1.4</b>	<b>2.2</b>
<i>Margin</i>	1.7%	2.9%	4.2%
<b>Taxes</b>	<b>-0.2</b>	<b>0.0</b>	<b>0.0</b>
<i>Tax rate</i>	-28.0%	0.0%	0.0%
<b>NET RESULTS</b>	<b>0.2</b>	<b>0.7</b>	<b>1.3</b>
<b>Depreciation</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>
<i>% of sales</i>	6.3%	6.1%	5.8%
<b>Capex</b>	<b>-0.5</b>	<b>-0.8</b>	<b>-0.8</b>
<i>% of sales</i>	-1.1%	-1.6%	-1.6%
Var. Working Capital	0.3	-0.6	-0.5
<b>Dividends</b>	<b>0.1</b>	<b>0.3</b>	<b>0.5</b>
<b>Free Cash Flow after dividends</b>	<b>2.9</b>	<b>2.0</b>	<b>2.5</b>

	Test response	Weighting
Management accountability	YES	0.11
Management Performance	YES	0.11
M&A Strategy & Execution	NO	0.04
ESG ranking	YES	0.10
Organic Growth TTM 3y exp	0.7%	-0.12
Operating Leverage	7.27	-0.10
Financial Leverage	0.50	-0.07
ROS (in %) - Growth TTM	0.2%	-0.12
ROI (in %)	1.7%	-0.13
<b>SYNTETHIC SCORE</b>		<b>-0.18</b>

<b>Cost of Equity</b>	<b>6.80%</b>
<b>NET RESULT</b>	<b>1.27</b>
SGA PE	20.55
SYNTHETIC SCORE	-1.75%
<b>SGA PE ADJUSTED</b>	<b>20.19</b>
TV ADJUSTED	25.68
<b>TV ADJ actualized</b>	<b>21.79</b>
Divid actualized	0.74
<b>EQUITY Value (€M)</b>	<b>22.53</b>
Number of Shares (M)	15.63
<b>Equity V. per share ADJ (€)</b>	<b>1.44</b>
<i>Upside/downside</i>	<i>87.19%</i>

Sensitivity analysis		Net result CAGR 2019-2022				
		91.3%	115.4%	133.4%	171.4%	210.7%
Risk premium	5.3%	0.64				5.50
	6.2%		0.83		2.76	
	<b>6.8%</b>			1.44		
	8.2%		0.84		1.43	
	9.6%	0.46				1.97

## SYNTHETIC INDEX EXPLANATION

CRITERIA	WEIGHT	YES/NO	THRESHOLD
1 Management accountability	11%	NO	
2 Management Performance	11%	SI	
3 M&A Strategy & Execution	8%	NO	
4 ESG ranking	10%	NO	
5 Organic Growth <i>TTM 3y exp</i>	12%		>10%
6 Operating Leverage	10%		<2
7 Financial Leverage	13%		>1
8 ROS (in %) - <i>Growth TTM</i>	12%		>10%
9 EBIT/CIN (in %) - ROI	13%		>10%
	<b>100%</b>		

### LEGEND

- Management accountability: publication or not of the 3-ys BPlan
- Management Performance: over/under-performance vs. expectations / BPlan / consensus
- M&A Strategy & Execution (past track record in levels of activity e post integration performance)
- ESG ranking (relationship with the territory. open innovation. youth employment. corporate welfare energy efficiency. cybersecurity and sensitive data protection - industrial and commercial)
- Organic Growth TTM; 3ys expectations → (> 10%)
- Operating Leverage → (<2)
- Financial Leverage → (>1)
- ROS (in %) - Growth TTM; 3ys expectations → (> 10%)
- ROI (in %) - Growth TTM; 3ys expectations → (> 10%)