

## Caleffi (CLF.IM)

Sector: Textiles/Household

FY2017: Performance weakened by Caleffi Spa

March 22<sup>nd</sup>, 2018

### 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.
- During 2017 four new direct shops with brands Caleffi and Mirabello were opened and the Mirabello store in Milan was closed with the related extraordinary charges. To date the group has 2000 points of sale in Italy, of which 20 direct stores, and 600 points of sale abroad.
- With reference to growth drivers as well as luxury segment, direct stores and e-commerce; the focus is on the issues of health, well-being and respect for the environment, increasingly crucial in consumer choices.
- On July 2017, the Second Exercise Period of the Warrants Caleffi S.p.A. 2015-2020 ended; 2,643 warrants were exercised, equivalent to 3,568€. As a result of the subscriptions, the new Caleffi share capital amounts to 8,126,602€, represented by 15,628,081 ordinary shares.

### Latest results

- In the FY2017 Caleffi Group registered growing results with regards to luxury division, whereas Caleffi brands performances worsened with respect to the previous year: consolidated revenues decreased 3.3% to 57.8M€, EBITDA was positive for 2.0M€. The net result was slightly negative.
- The net financial position was negative (debt) for 14.8M€, worsening in comparison with FY2016.

### Valuation

- The Group business strategy focused on the opening of new shops with Caleffi brand and luxury license agreements distributed mainly on the foreign markets confirms that it is the best way to go. In the light of the results of FY2017 and of the actions taken by the Company we expect a 2018 with constant volumes and margins in recovery.
- We confirm our positive outlook and 3-year estimates in line with Company guidance. The renewed SGAP model returns a fair value of 1.72€ per share.

### Risks

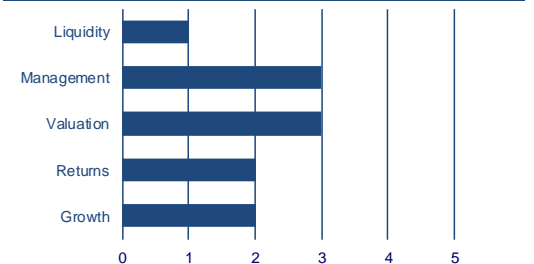
- Caleffi's sales are highly dependent on the general level of consumption and to a lower extent on the real estate market, the Company results depend partly on the volatility of the macroeconomic environment.

Forecast	17A	18E	19E	20E
Sales (€M)	57.8	58.3	61.4	65.0
EBITDA (€M)	2.0	3.0	3.7	4.3
NET RESULT	0.0	0.3	0.9	1.3
NFP (€)	14.8	11.9	11.9	11.6
Valuation	17A	18E	19E	20E
SHARE PRICE	1.37	1.48	1.93	2.18
EV/EBITDA	19.7	12.6	12.0	11.3
P/E	n.m.	68.8	31.9	25.6
Dividend yield	0.0%	0.5%	1.1%	1.4%

### Key Data

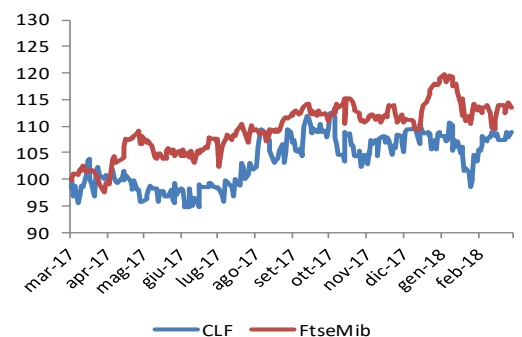
Price (€)	1.48
Market cap (€M)	23.1
Equity Value (€M)	26.9
<b>Fair Value (€)</b>	<b>1.72</b>
P/E LTM	neg.
P/E TTM	neg.

### 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	38,266 shares



Share Price perf (%)	3M	6M	1Y
Absolute	1.9%	1.9%	8.9%
Rel. to FtseMib	0.3%	0.9%	-4.4%

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## Latest results (FY2017)

FY2017 results are very positive for the luxury segment, the subsidiary Mirabello Carrara S.p.a. has achieved excellent results in terms of turnover and marginality notwithstanding the extraordinary charges that have weighed on the Company due to the closure of the store in Milan, non-recurring charges for the change of location and charges for the previous CEO, which total 0.2M€. Caleffi S.p.a. recorded results declining compared to the FY2016 due to the contraction of the commercial market and in the promotional channel (B2B) which is structurally characterized by a non-recurring trend.

International markets have returned to grow thanks to the stabilization of the geopolitical situation, resulting in the positive performance of the luxury sector.

- In the FY2017 consolidated net revenues decreased 3.3% yoy to 57.8M€, affected by the low performance of Caleffi Spa (-9.3%, to 42.1M€), whereas Mirabello Carrara S.p.a. recorded revenues for 14.5% yoy to 16.2M€. The domestic sales decreased to 50.9M€; the incidence of foreign turnover on the overall figure was 10.9%.
- The FY2017 EBITDA was positive for approx. 2.0M€ (3.4% EBITDA margin, approx. 150 bps lower than the previous year). During the year, the personnel cost amounted to 8.8M€ with an impact on sales of 15.2%, with an increase of 0.4M€ compared with December 31<sup>st</sup>, 2016 because of the the staff of the new stores and the goodwill of the employees of the Mirabello store in Milan.
- The FY2017 value of the EBIT was essentially at break-even and equal to 0.4M€, after D&A for 1.6M€, approx. 1M€ lower than FY2016. The Net Result was negative (loss) for to 0.1M€.
- The net financial position is negative (debt) for an amount of 14.8M€, worsening in comparison with December 31<sup>st</sup> 2016 (13M€) which benefited from a *pro-soluto* assignment of receivables. The NFP includes also bond for 3.5M€.

M€	FY2017	FY2016	% var
<b>Tot Revenues</b>	<b>57.8</b>	<b>59.7</b>	<b>-3.3%</b>
<b>Ebitda</b>	<b>2.0</b>	<b>2.9</b>	<b>-32.4%</b>
<i>Ebitda margin</i>	3.4%	4.9%	
<b>Ebit</b>	<b>0.4</b>	<b>1.4</b>	<b>n.m.</b>
<i>Ebit margin</i>	0.7%	2.3%	
<b>Net Financial Position</b>	<b>14.8</b>	<b>13.0</b>	

At June 30<sup>th</sup>, 2017, the Parent Company owns 290,906 treasury shares, equal to 1.86% of the share capital. The Shareholders' Meeting of May 5<sup>th</sup>, 2017 conferred on the BoD, in continuity with the previous Shareholders' Meeting resolution, the authorization to purchase treasury shares up to the limit of the law.

## FINANCIALS

Income statement (€M)	17A	18E	19E	20E
<b>Sales</b>	<b>57.8</b>	<b>58.3</b>	<b>61.4</b>	<b>65.0</b>
COGS	-28.6	-28.8	-30.1	-31.5
Gross Profit	29.2	29.4	31.3	33.5
<b>EBITDA</b>	<b>2.0</b>	<b>3.0</b>	<b>3.7</b>	<b>4.3</b>
Depreciation, Amortization	-1.6	-1.6	-1.6	-1.6
<b>EBIT</b>	<b>0.4</b>	<b>1.4</b>	<b>2.1</b>	<b>2.7</b>
Net Financial Results	-0.3	-0.6	-0.5	-0.5
Income tax	-0.1	-0.5	-0.7	-0.9
<b>Net result</b>	<b>0.0</b>	<b>0.3</b>	<b>0.9</b>	<b>1.3</b>
<b>EPS (€)</b>	<b>n.m.</b>	<b>0.02</b>	<b>0.06</b>	<b>0.08</b>
<b>DPS (€)</b>	<b>0.00</b>	<b>0.01</b>	<b>0.02</b>	<b>0.03</b>
Margin (%)	17A	18E	19E	20E
Gross Margin	50.5%	50.5%	51.0%	51.5%
EBITDA Margin	3.4%	5.1%	6.1%	6.6%
EBIT Margin	0.7%	2.4%	3.5%	4.1%
Net Margin	0.0%	0.6%	1.5%	2.0%
Growth (%)	17A	18E	19E	20E
Sales growth	-3.3%	0.9%	5.3%	6.0%
EBITDA growth	-32.4%	50.9%	24.7%	15.1%
EBIT growth	-72.2%	n.m.	53.3%	26.6%
Net growth	n.m.	n.m.	182.5%	39.9%
Cash Flow statement (€M)	17A	18E	19E	20E
Cash Flow	1.6	1.9	2.6	2.9
+/- Var. Working Capital	-1.4	1.9	-1.4	-1.4
<b>Operating Cash Flow</b>	<b>0.2</b>	<b>3.9</b>	<b>1.1</b>	<b>1.5</b>
Op. Cash Flow / Sales	0.3%	6.6%	1.8%	2.3%
Capex	-0.8	-0.8	-0.8	-0.8
<b>FCF</b>	<b>-0.7</b>	<b>3.1</b>	<b>0.3</b>	<b>0.7</b>
FCF / Sales	-1.1%	5.2%	0.5%	1.1%
Stock data	17A	18E	19E	20E
Number of Shares (M)	15.6	15.6	15.6	15.6
Avg share price over LTM (€)	1.37	1.48	1.93	2.18
<b>Market cap (€M)</b>	<b>21.4</b>	<b>23.1</b>	<b>30.2</b>	<b>34.0</b>
Balance sheet (€M)	17A	18E	19E	20E
FIXED ASSETS	8.7	7.9	7.1	6.3
WC	24.1	22.2	23.6	25.0
<b>CAPITAL EMPLOYED</b>	<b>32.9</b>	<b>30.1</b>	<b>30.8</b>	<b>31.4</b>
EQUITY	14.4	14.6	15.3	16.1
MINORITY INTEREST	0.4	0.4	0.4	0.4
PROVISIONS	0.4	0.4	0.4	0.4
PENSIONS (e.g. TFR)	2.8	2.8	2.8	2.8
NET DEBT	14.8	11.9	11.9	11.6
<b>CAPITAL INVESTED</b>	<b>32.9</b>	<b>30.1</b>	<b>30.8</b>	<b>31.4</b>
Ratios	17A	18E	19E	20E
<b>ROCE after tax</b>	<b>0.8%</b>	<b>3.0%</b>	<b>4.6%</b>	<b>5.6%</b>
ROE	n.m.	2.3%	6.2%	8.2%
<b>Capital Turnover</b>	<b>1.9</b>	<b>2.1</b>	<b>2.2</b>	<b>2.3</b>
<b>Net Debt / EBITDA</b>	<b>8.9</b>	<b>4.9</b>	<b>3.9</b>	<b>3.4</b>
Gearing	122.0%	100.1%	96.1%	89.3%
<b>WC / Sales</b>	<b>41.8%</b>	<b>38.1%</b>	<b>38.5%</b>	<b>38.5%</b>
Amortization / Sales	<b>2.8%</b>	<b>2.8%</b>	<b>2.6%</b>	<b>2.5%</b>
<b>Capex / Sales</b>	<b>1.4%</b>	<b>1.4%</b>	<b>1.3%</b>	<b>1.2%</b>
EPS growth	n.m.	n.m.	183%	40%
<b>PEG</b>	<b>n.m.</b>	<b>0.0</b>	<b>0.2</b>	<b>0.6</b>
Valuation	17A	18E	19E	20E
<b>EV/Sales</b>	<b>0.67</b>	<b>0.65</b>	<b>0.73</b>	<b>0.74</b>
<b>EV/EBITDA</b>	<b>19.7</b>	<b>12.6</b>	<b>12.0</b>	<b>11.3</b>
EV/EBIT	102.9	27.2	21.1	18.0
<b>P/E</b>	<b>n.m.</b>	<b>68.8</b>	<b>31.9</b>	<b>25.6</b>
P/B	1.48	1.58	1.98	2.11
<b>EV/CE</b>	<b>1.29</b>	<b>1.38</b>	<b>1.60</b>	<b>1.69</b>
P/FCF	n.m.	7.6	91.5	46.9
<b>FCF Yield</b>	<b>-3.1%</b>	<b>13.2%</b>	<b>1.1%</b>	<b>2.1%</b>
<b>Dividend yield</b>	<b>0.0%</b>	<b>0.5%</b>	<b>1.1%</b>	<b>1.4%</b>

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 have introduced in 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 1.72€ fair value.

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

- Revenues 2018 will remain in line with FY2017 to approx. 58M€ as a result of the general economic context still rather uncertain. For the three-year we foresee a CAGR equal to 5.6%.
- At profitability level, for the FY2018 we estimate results in line with FY2016, thanks to cost restraint policies; the EBITDA margin will represent approx. 5% of sales; in the 2019 and 2020 the operating profitability should consolidate.
- For the FY2018 we estimate capex equal to 0.8M€ as well as for the following years only maintenance investments are envisaged.
- The working capital will converge towards its normalized value supporting the cash generation.

Cash Flow	FY18	FY19	FY20
<b>Sales</b>	<b>58.3</b>	<b>61.4</b>	<b>65.0</b>
<i>Sales growth</i>	0.9%	5.3%	6.0%
<b>EBIT</b>	<b>1.4</b>	<b>2.1</b>	<b>2.7</b>
<i>Margin</i>	2.4%	3.5%	4.1%
<b>Taxes</b>	<b>-0.5</b>	<b>-0.7</b>	<b>-0.9</b>
<i>Tax rate</i>	-33.0%	-33.0%	-33.0%
<b>NET RESULTS</b>	<b>0.3</b>	<b>0.9</b>	<b>1.3</b>
<b>Depreciation</b>	<b>1.6</b>	<b>1.6</b>	<b>1.6</b>
<i>% of sales</i>	2.8%	2.6%	2.5%
<b>Capex</b>	<b>-0.8</b>	<b>-0.8</b>	<b>-0.8</b>
<i>% of sales</i>	-1.4%	-1.3%	-1.2%
Var. Working Capital	1.9	-1.4	-1.4
<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>0.0</b>	<b>0.3</b>

	Test response	Weighting
Management accountability	NO	-0.11
Management Performance	YES	0.11
M&A Strategy & Execution	NO	-0.08
ESG ranking	YES	0.10
Organic Growth TTM 3y exp	4.5%	-0.12
Operating Leverage	10.1	-0.10
Financial Leverage	0.5	-0.13
ROS (in %) - Growth TTM	0.8%	-0.12
ROI (in %)	4.8%	-0.13
<b>SYNTETHIC SCORE</b>		<b>-0.58</b>

<b>Cost of Equity</b>	<b>12.50%</b>
<b>NET RESULT</b>	<b>1.33</b>
SGA PE	29.81
SYNTHETIC SCORE	-5.80%
<b>SGA PE ADJUSTED</b>	<b>28.08</b>
TV ADJUSTED	37.28
<b>TV ADJ actualized</b>	<b>26.18</b>
Divid actualized	0.69
<b>EQUITY Value (€M)</b>	<b>26.88</b>
Number of Shares (M)	15.63
<b>Equity V. per share ADJ (€)</b>	<b>1.72</b>
<i>Upside/downside</i>	<i>16.20%</i>

Sensitivity analysis		Net result CAGR 2017-2020				
		487.8%	536.8%	<b>580.1%</b>	650.3%	730.0%
Risk premium	11.1%	0.55				5.38
	11.8%		0.77		3.01	
	<b>12.5%</b>			<b>1.72</b>		
	13.6%		1.11		1.46	
	14.8%	0.66				2.12

## 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%)