

CALEFFI

Strong FY19 results

Solid set of FY19 results with sharp increase in margins: Caleffi Group, market leader in the Italian Home Fashion industry, just released a very positive set of FY19 results, with revenues largely in line with last year's and a sharp increase in profitability margins thanks to actions taken by the management anticipated in the new strategic plan.

More in detail, revenues came in at Euro 49.8 m, in line both with FY18 (Euro 50.6 m in FY18) and our estimate (Euro 50.9 m) as the Group continued to consolidate, confirming a position as second player in the market with a total market share of 7.7%.

EBITDA came in at Euro 3.6 m (in line with our estimates of Euro 3.6 m), with an EBITDA margin of 7.1% (vs 7.0% of our estimates), and sharply up vs. FY18, thanks to rationalization of costs along the entire supply chain. The Net Result basically showed breakeven (Euro -2k vs. a Net Loss of Euro 0.9 m of FY 2018).

Strong equity story that does not change: We believe that the structural trend that support Caleffi's equity story does not change, although current governmental restrictions on production activity will affect the Group in the short term. Management stated that given the uncertainty regarding the world-wide spread of the COVID- still difficult to assess potential effect on FY 2020 financials. Management is currently working an emergency plan aiming at containing costs and re-dimensioning production capacity in order to adapt to actual demand.

Given the above, we have slightly adjusted our revenue forecast for FY20 to factor in the current global economic situation. We now assume a contraction of -6.5% (+1% previously). On a profitability level we believe that emergency plan worked out by management will allow to maintain margins in line with FY19. We left our assumptions unchanged for FY21 as we believe the demand will recover. We also added 2022 to our forecast. Overall, this resulted in an average cut in revenues of -9%. We stress that our forecast does not include any potential opportunities arising from further M&A activity, which according to Management should be a key strategic pillar for the Group in the next years.

Valuation: We set a target price of Euro 1.52 per share, (Euro 1.69 p.s. previously), providing for a +92% upside on current stock price obtained reducing the weight of the relative valuation to set our target price to 20% (50% previously), as well we believe that, considering the current global market reaction to Covid-19, DCF provides a better representation of the stock's value based on fundamentals.

Key Figures (Euro m)	Revenues	Yoy %	EBITDA	EBITDA %	EBIT	EBIT %	Net Profit	Net Debt
2019A	49.8	-2%	3.6	7%	0.6	1%	(0.0)	18.9
2020E	46.6	-7%	3.3	7%	0.4	1%	0.0	16.6
2021E	47.4	+2%	4.1	9%	1.0	2%	0.4	13.9
2022E	48.8	+3%	4.7	10%	1.4	3%	0.8	11.2

Sector: Personal & Household Goods

Target Price (Euro)	1.52 (1.69 pr)
Market Price (Euro)	0.80
Market Cap (Euro m)	12
EV (Euro m)	31
<i>(as of 20 April 2020)</i>	

Share Data

Market	MTA
Bloomberg/Reuters	CLF.MI / CLF IM
ISIN	IT0003025019
N. of Shares	15,628,081
Free Float	41.57%
Main Shareholder	Giuliana Caleffi 40.4%
CEO	Guido Ferretti

MTA Positioning

FY 2018 (Euro m)	Company	Super Sector	MTA S&M Cap
Revenues	51	579	1,077
Revenues YoY	-10%	+3%	+2%
EBITDA margin	1%	3%	9%
Net Debt (Cash)	11	35	972
Net Debt/EBITDA	18.3x	10.3x	4.7x

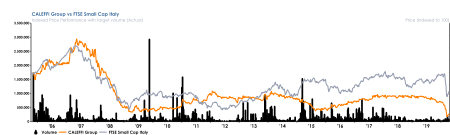
Market Data	Company	Super Sector	MTA S&M Cap
Capitalisation	12	522	618
Perf. TTM	-45%	-35%	-19%
Free Float	42%	38%	37%
ADTT YTD (Euro k)	11	1,699	1,877

Performance

	1M	3M	1Y
Absolute	18.7	-36.4	-45.2
Relative (FTSE Small Cap Italia)	4.9	-13.3	-33.8
52-week High/Low (Euro)	2.23 / 1.25		

IR TOP RESEARCH

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KEY FIGURES

Profit&Loss Statement	2018A	2019A	2020E	2021E	2022E
Sales	50.6	49.8	46.6	47.4	48.8
EBITDA	0.6	3.6	3.3	4.1	4.7
EBIT	(1.0)	0.6	0.4	1.0	1.4
Financial Income (charges)	(0.1)	(0.3)	(0.4)	(0.3)	(0.3)
Pre-tax profit (loss)	(1.0)	0.2	0.0	0.7	1.2
Taxes	0.2	(0.1)	(0.0)	(0.2)	(0.3)
Minorities	(0.1)	(0.1)	(0.0)	(0.0)	(0.1)
Net profit (loss) Group	(0.9)	(0.0)	0.0	0.4	0.8

Balance Sheet					
Fixed assets	9.4	15.8	13.7	11.5	9.1
NWC	17.9	19.2	18.7	18.9	19.6
M/L Funds	(2.3)	(2.5)	(2.3)	(2.6)	(2.7)
Net Capital Employed	24.9	32.4	30.2	27.8	26.0
Net Debt	11.4	18.9	16.6	13.9	11.2
Group Equity	13.0	12.9	12.9	13.3	14.1
Minorities	0.5	0.6	0.6	0.7	0.7
Net Equity	13.5	13.5	13.5	14.0	14.8

Cash Flow					
EBIT	(1.0)	0.6	0.4	1.0	1.4
D&A	1.3	1.1	1.2	1.3	1.5
Tax	0.0	(0.0)	(0.0)	(0.0)	(0.0)
Other	0.0	0.0	0.0	0.0	0.0
Change in M/L Funds	(0.0)	0.2	(0.2)	0.3	0.1
Gross Cash Flow	0.3	1.8	1.3	2.6	3.0
Change in NWC	4.2	(1.3)	0.5	(0.2)	(0.6)
Operating Cash Flow	4.5	0.5	1.7	2.4	2.4
Capex	(0.7)	(0.1)	(0.8)	(0.8)	(0.8)
Acquisitions and divestments	0.0	0.0	0.0	0.0	0.0
Financial Income (charges)	(0.1)	(0.3)	(0.4)	(0.3)	(0.3)
Free Cash Flow	3.7	0.1	0.6	1.3	1.3
Change in Equity	(0.5)	(0.1)	0.0	0.0	0.0
Change in Net debt	3.2	(0.0)	0.6	1.3	1.3

Per Share Data					
Current Price	0.80				
Total shares out (mn) average	15.2				
EPS	(0.06)	(0.00)	0.00	0.03	0.05
DPS	-	-	-	-	-
FCF	0.24	0.01	0.04	1.31	1.35
Pay out ratio					

Ratios					
EBITDA margin	1.2%	7.1%	7.1%	8.6%	9.6%
EBIT margin	-1.9%	1.1%	0.8%	2.1%	2.9%
Net Debt/Equity (Gearing)	84.2%	140.0%	123.2%	99.1%	75.5%
Net Debt/EBITDA	18.4x	5.3x	5.0x	3.4x	2.4x
Interest cover EBIT	-14.8x	1.8x	1.0x	-0.3x	-0.2x
ROE	-7.0%	0.0%	0.0%	3.3%	5.4%
ROCE	-4.8%	2.2%	1.2%		
Free Cash Flow Yield	31%	1%	5%	7%	7%

Growth Rates					
Sales	-10%	-2%	-7%	2%	3%
EBITDA	-68%	472%	-7%	24%	15%
EBIT	-371%	158%	-37%	175%	44%
Net Profit	-854%	100%	120%	n.m.	72%

FY 2019 RESULTS

Caleffi just released a very positive set of FY19 results, with revenues largely in line with last year's and a sharp increase in profitability thanks to actions taken by the Management in line with the new strategic plan to improve profitability.

More in detail, revenues came in at Euro 49.8 m, in line both with FY18 (Euro 50.6 m in FY18) and our estimate (Euro 50.9 m) despite a contraction in the reference market (-2.4% in 2019 Sita Ricerche) due to a general uncertain macroeconomic scenario. In FY19 Caleffi Group managed to confirm its position as second player in the market with market share of 7.7% (vs 7.8% in 2018). The 70% owned luxury subsidiary Mirabello Carrara SpA registered revenues of Euro 13.7 m vs. Euro 14.8 m in FY 2018 whereas Caleffi SpA maintained revenues at Euro 38.2 m (Euro 38.4 m in FY18).

At profitability level, Gross Margin grew to Euro 26.1 (52%) m from Euro 25.8 m (51%), thanks much to a decrease in raw materials costs which dropped from 49.4% in FY 2018 to 48.9% in FY 2019 thanks mainly to rationalization of costs along the entire supply chain. This coupled with overall costs savings resulted in an increase in **EBITDA** which reached Euro 3.6 m at the end of 2019, in line with our estimates. In FY 19 the Company adopted IFRS 16 accounting principle for the first time, with a positive effect on FY19 EBITDA of Euro 1.6 m. EBITDA net of the IFRS 16 impact amounted to Euro 1.9 m vs. Euro 0.6 m in FY18. **EBITDA margin** increased from 1.2% of FY 2018 to 7.1% (3.8% excluding IFRS16 impact), in line with our estimates of 7.0%.

D&As in the period considered amounted to Euro 2.8 m vs. Euro 1.3 m of FY 2018. The Increase was mainly related to the adoption of the new principle IFRS 16, with a total impact of Euro 1.7 m. **EBIT** was of Euro 0.6 m (Euro 0.7 m as of our estimates), up on Euro -1.0 m of FY 2018. The **Net Result** basically showed a breakeven (Euro -2k vs. a Net Loss of Euro 0.9 m of FY 2018).

Net Debt stood at Euro 18.9 m (Euro 19.1 m of our estimates) with a Net Debt/EBITDA ratio down to 5.3x (vs 18.3x of FY 2018). Net Debt adjusted for the IFRS 16 effect was of Euro 11.4 m in line with Euro 11.4 m of FY 2018.

OUTLOOK AND ESTIMATES

We believe that the structural trend that support Caleffi's equity story does not change, although current governmental restrictions on production and commercial activity will affect the Group in the short term. Management stated that given the uncertainty regarding the world-wide spread of the COVID- still difficult to assess potential effect on FY 2020 financials. Management is currently working an emergency plan aiming at containing costs and re-dimensioning production capacity in order to adapt to actual demand.

Given the above, we have slightly adjusted our revenue forecast for FY20 to factor in the current global economic situation. We now assume a contraction of -6.5% (+1% previously). On a profitability level we believe that emergency plan worked out by management will allow to maintain margins in line with FY19. We left our assumptions unchanged for FY21 as we believe the demand will recover. We also added 2022 to our forecast. Overall, this resulted in an average cut in revenues of -9%. At the end of the period Net Debt should amount to Euro 11.2 m with a Net Debt/EBITDA ratio of 2.4x (vs 5.3x FY 2019). We stress that our forecast does not include any potential opportunities arising from further M&A activity, which according to Management should be a key strategic pillar for the Group in the next years.

OUTLOOK AND ESTIMATES

Euro m – IAS/IFRS	19A	20E Old	20E New	21E Old	21E New	22E New
Revenues	49.8	51.4	46.6	52.1	47.4	48.8
yoy	-1.6%	+1%	-6.5%	+1%	+1.8%	+3.0%
EBITDA	3.6	4.5	3.3	5.2	4.1	4.7
margin	7.1%	8.6%	7.0%	9.8%	8.6%	9.5%
EBIT	0.6	1.4	0.4	1.9	1.0	1.4
margin	1.1%	2.6%	0.8%	3.6%	2.0%	2.9%
Pre tax profit	0.2	1.1	0.0	1.6	0.7	1.2
Group's Net Profit	(0.0)	0.7	0.0	1.0	0.4	0.8

Euro m – IAS/IFRS	19A	20E Old	20E New	21E Old	21E New	22E New
Net Working Capital (NWC)	19.2	19.9	18.7	20.4	18.9	19.6
Fixed net assets	15.8	13.4	13.7	11.2	11.5	9.1
Funds	(2.5)	(2.3)	(2.3)	(2.3)	(2.6)	(2.7)
Net Capital Employed	32.4	31.1	30.2	29.3	27.8	26.0
Net Financial Position (Cash)	18.9	16.5	16.6	13.6	13.9	11.2
Group's Equity	12.9	13.9	12.9	15.0	13.3	14.1
Minority Interest	0.6	0.6	0.6	0.7	0.7	0.7
Sources	32.4	31.1	30.2	29.3	27.8	26.0

Source: Group data (IAS/IFRS) for FY 2019, IR Top Research estimates for FY 2020-2022

VALUATION

Our valuation on Caleffi Group is based on a DCF and Multiple Comparison.

2018 Euro m	Revenues	yoy	EBITDA%	NFP (Cash)
Caleffi	51	-10%	1%	11
AEFFE	347	+11%	12%	35
Brunello Cucinelli	553	+8%	18%	26
Ferragamo Salvatore	1,347	-3%	16%	-172
Geox	827	-6%	5%	-2
Luxottica	10,799	+18%	22%	1,898
Moncler	1,420	+19%	33%	-450
Piquadro	147	+51%	-2%	-31
Safilo	911	-12%	2%	33
Tod's	940	-2%	12%	75
Median Peers	911	+8%	12%	26

Source: Company Data for Caleffi and FactSet data as of April 20th, 2020 for comparable

EV/EBITDA (x)	20E	21E
Caleffi	7.5	6.0
AEFFE	4.0	3.1
Brunello Cucinelli	13.1	11.3
Ferragamo Salvatore	7.9	6.2
Geox	4.4	3.1
Luxottica	13.3	11.3
Moncler	14.6	11.9
Piquadro	n.a.	n.a.
Safilo	7.4	7.5
Tod's	14.8	10.7
Median Peers	10.5	9.1
<i>Discount/Premium to Peers</i>	<i>-29%</i>	<i>-34%</i>

Source: FactSet data as of April 20th, 2020 for comparable

VALUATION SUMMARY

We set a TP of Caleffi of Euro 1.52 p.s. (from Euro 1.69 p.s. previously), implying an upside of +92% with respect to its current market value. Given the deep negative reactions of all the global main financial markets, we have, for now reduced the weight of the relative valuation to set our target price to 20% (50% previously), as we believe the DCF provides a better representation of the stock's value based on fundamentals. Peers' de-rating vs. our last report in September 2019 was of -12%.

Method	Weight	Price (Euro)
Multiple analysis	20%	1.63
DCF	80%	1.08
Target Price	100%	1.52

IPO

Trading Market: MTA – Borsa Italiana SpA
Date: October 13th, 2005
Price: 2.80
Capital raised: Euro 1.3 m
Capitalisation: Euro 35 m

WARRANT CALEFFI 2015-2020 (as of April 20th, 2020)

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

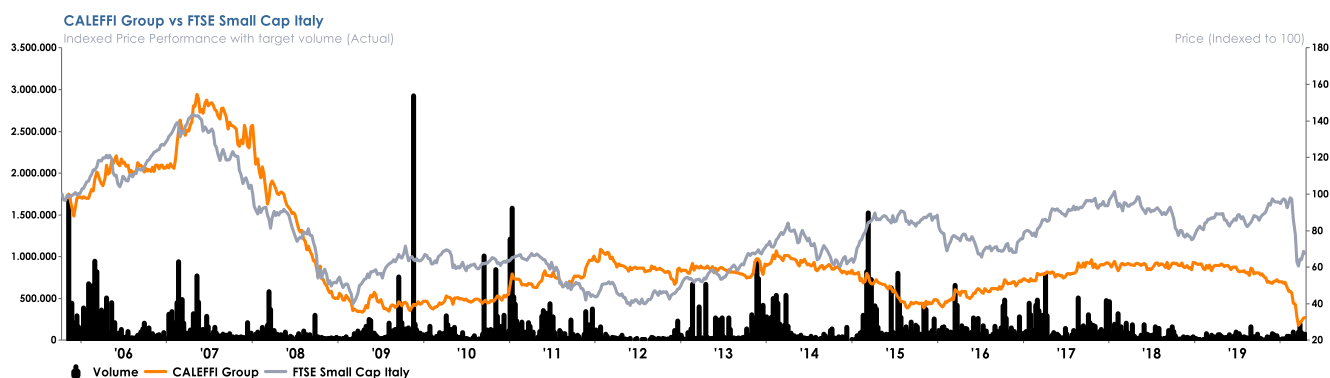
SHARES (as of April 20th, 2020)

Code: CLF
Bloomberg: CLF IM
Reuters: CLF.MI
ISIN: IT0003025019
Share Capital: Euro 8,126,602
Shares: 15,628,081
Price: Euro 0.80
Performance from IPO: -72%
Capitalisation: Euro 12 m

CALEFFI is owned by Giuliana Caleffi, chairman of the Board of Directors, who holds 40.4% of outstanding shares. The share capital subscribed and paid up is Euro 8,126,602, made up by n. 15,628,081 ordinary shares. Free float is 41.57%.

Shareholder	N° of shares	%
Giuliana Caleffi	6,314,037	40.4%
Rita Federici	2,296,847	14.7%
Other Shareholders (<5%)	6,539,931	41.9%
Treasury Shares	477,266	3.1%
Total	15,628,081	100.00%

Source: Company data as of April 20th, 2020



Source: FactSet Prices

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Date	Target Price	Market Price	Validity Time
April 21 st , 2020	1.52	0.80	12 months
September 18 th , 2019	1.69	1.36	12 months
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. Moreover, IR Top used a proprietary model, "AIM Positioning rating", which incorporates a number of variables selected by IR Top based on research of "Osservatorio AIM Italia", managed by IR Top and focused on research about performance of Companies listed on AIM Italia.

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

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