

## Caleffi (CLF.IM)

Sector: Textiles/Household

FY2016: excellent performance of the Caleffi brand in Italy

March 23<sup>rd</sup>, 2017

### 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 (R&D, design, marketing and distribution), guarantees the best quality of its products and a high positioning of its brands.
- During 2016 Caleffi signed an exclusive worldwide license agreement with Diesel for the development of the home textile collection of the brand. The licensing agreement will run for 5 years. Moreover, Mirabello Carrara announced the renewal of the license agreement *Roberto Cavalli Home Linen* for the development, creation, production and worldwide distribution of luxury textile line for the bed, bath and table.
- On July 2016, the First Exercise Period of the Warrants Caleffi S.p.A. 2015-2020 ended; 438 warrants were exercised, for a value of 591.3€, 227.76 of which attributable to capital. As a result of the subscriptions, the new Caleffi share capital amounts to 8,125,227.76€, represented by 15,625,438 ordinary shares.

### Latest results

- In the FY2016 Caleffi registered very positive results in terms of turnover, whereas margins were slightly impacted by non-recurring costs: revenues increased 6.6% to 59.2M€, EBITDA was positive for 2.9M€ net of 0.3M€ of non-recurring costs.
- The net financial position was negative (debt) for 13.0M€, slightly improving in comparison with FY2015 when it was equal to 13.6M€.

### 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 its success. The company forecasts for the FY2017 confirm the growth rates achieved in the past year in terms of turnover and margins.
- In light of FY2016 company results and group's prospects, we confirm the positive outlook and a fair value equal to 1.80€ per share.

### Risks

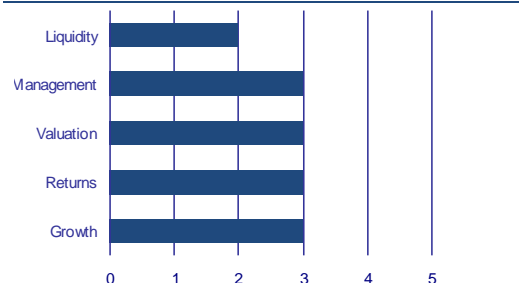
- Caleffi's sales are highly dependent on the general level of consumption and to a lower extent on the real estate market, the Company results depend partly on the volatility of the macroeconomic environment.

Forecast	16A	17E	18E	19E
Sales (€M)	59.7	63.9	68.4	73.2
EBITDA (€M)	2.9	3.5	4.0	4.9
NET RESULT	0.5	0.6	0.9	1.4
EPS (€)	0.03	0.04	0.06	0.09
Valuation	16A	17E	18E	19E
SHARE PRICE	1.15	1.36	1.96	2.14
EV/EBITDA	11.5	11.3	12.4	11.1
P/E	38.2	34.0	35.4	23.9
Dividend yield	1.7%	1.0%	1.0%	1.5%

### Key Data

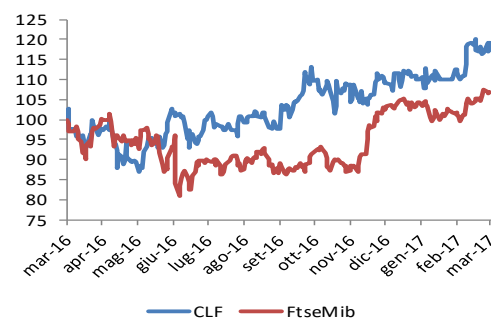
Price (€)	1.4
Market cap (€M)	21.2
Equity Value (€M)	28.1
<b>Fair Value (€)</b>	<b>1.80</b>
P/E LTM	36.8
P/E TTM	39.0

### Investment Profile from 1 worst to 5 best



### Stock data

Ticker Bloomberg	CLF.IM
N° of shares (M)	15.6
Free float	42.8%
Main shareholder	Giuliana Caleffi (40.4%)
Daily trading volume	41,977 shares



Share Price perf (%)	3M	6M	1Y
Absolute	8.9%	21.9%	19.1%
Rel. to FtseMib	4.6%	2.0%	12.4%

Contact mail:  
er@twiceresearch.it

## Last results (FY2016)

FY2016 results are very positive in terms of turnover, all sale channels are growing and are recorded good performances in their direct shops and corners, confirming the effectiveness of the business strategy undertaken which culminated in second semester with the opening of two new direct stores in Milan and Barcelona.

In particular, has been extremely positive the trend of the Italian turnover (+ 9.7%) and the consequent growth of the market share of Caleffi, passing from 6.6% in 2015 to 7.3% in 2016 (Source: Sita Ricerche). Only the Luxury division was affected by the weakness of the international markets caused by the geo-political context.

- In the FY2016 net revenues grew 6.6% yoy to 59.2M€, mainly due to growth in domestic sales (+9.7%, 52.7M€), the foreign sales decreased approx. 0.9M€ in comparison with the year before and equaled to 6.5M€ representing 10.9% of the total turnover.
- The FY2016 EBITDA was positive for approx. 2.9M€ (5.0% EBITDA margin), substantially in line with the previous year. The EBITDA is calculated net of the non-recurring costs related to the listing process on AIM Italia (postponed until a later date) of the subsidiary Mirabello Carrara amounting to 0.2M€ and 0.12M€ relating to costs and technical advice incurred for rental property in Gerenzano, then cancelled because of serious non-compliance of the same.
- The FY2016 value of the EBIT was positive for 1.4M€, after D&A for 1.6M€, in line with FY2015. The Net Result grew approx. 30% yoy to 0.5M€.
- The net financial position is negative (debt) for an amount of 13.0M€, improving in comparison with December 31<sup>st</sup> 2015 after capex for 0.8M€. The NFP includes also bond for 3.5M€.

M€	FY2016	FY2015	% var
<b>Revenues</b>	<b>59.2</b>	<b>55.5</b>	<b>+6.6%</b>
<b>Ebitda*</b>	<b>2.9</b>	<b>3.1</b>	<b>-6.5%</b>
<i>Ebitda margin</i>	5.0%	5.6%	
<b>Ebit**</b>	<b>1.4</b>	<b>1.4</b>	<b>-1.4%</b>
<i>Ebit margin</i>	2.3%	2.5%	
<b>Net Financial Position</b>	<b>13.0</b>	<b>13.6</b>	

(\*) Adjusted EBITDA would have amounted to 3.3M€, or 5.5% of sales.

(\*\*) Adjusted EBIT would have amounted to 1.7M€.

The Board of Directors has resolved to propose the allocation of the Net Result of the year for a maximum of € 312,508.76 in dividends to shareholders, distributing a dividend of € 0.02 per share.

## FINANCIALS

Income statement (€M)	16A	17E	18E	19E
<b>Sales</b>	<b>59.7</b>	<b>63.9</b>	<b>68.4</b>	<b>73.2</b>
COGS	-30.2	-31.9	-33.5	-35.9
Gross Profit	29.6	31.9	34.9	37.3
<b>EBITDA</b>	<b>2.9</b>	<b>3.5</b>	<b>4.0</b>	<b>4.9</b>
Depreciation, Amortization	-1.6	-1.7	-1.7	-1.7
<b>EBIT</b>	<b>1.4</b>	<b>1.8</b>	<b>2.3</b>	<b>3.2</b>
Net Financial Results	-0.5	-0.6	-0.7	-0.8
Income tax	-0.4	-0.6	-0.8	-1.1
<b>Net result</b>	<b>0.5</b>	<b>0.6</b>	<b>0.9</b>	<b>1.4</b>
<b>EPS (€)</b>	<b>0.03</b>	<b>0.04</b>	<b>0.06</b>	<b>0.09</b>
<b>DPS (€)</b>	<b>0.02</b>	<b>0.01</b>	<b>0.02</b>	<b>0.03</b>

Margin (%)	16A	17E	18E	19E
Gross Margin	49.5%	50.0%	51.0%	51.0%
EBITDA Margin	4.9%	5.5%	5.9%	6.7%
EBIT Margin	2.3%	2.8%	3.4%	4.4%
Net Margin	0.8%	1.0%	1.3%	1.9%

Growth (%)	16A	17E	18E	19E
Sales growth	6.9%	6.9%	7.1%	7.0%
EBITDA growth	-5.3%	19.5%	15.5%	21.7%
EBIT growth	-1.0%	32.6%	30.2%	37.4%
Net growth	28.1%	32.7%	39.0%	61.8%

Cash Flow statement (€M)	16A	17E	18E	19E
Cash Flow	2.0	2.3	2.6	3.1
+/- Var. Working Capital	-0.1	-4.0	-2.6	-3.5
<b>Operating Cash Flow</b>	<b>1.9</b>	<b>-1.7</b>	<b>0.0</b>	<b>-0.4</b>
Op. Cash Flow / Sales	3.2%	-2.6%	0.0%	-0.5%
Capex	-0.8	-0.8	-0.8	-0.8
<b>FCF</b>	<b>1.1</b>	<b>-2.5</b>	<b>-0.9</b>	<b>-1.2</b>
FCF / Sales	1.8%	-3.9%	-1.3%	-1.6%

Stock data	16A	17E	18E	19E
Number of Shares (M)	15.6	15.6	15.6	15.6
Avg share price over LTM (€)	1.15	1.36	1.96	2.14
<b>Market cap (€M)</b>	<b>18.0</b>	<b>21.2</b>	<b>30.7</b>	<b>33.5</b>

Balance sheet (€M)	16A	17E	18E	19E
FIXED ASSETS	8.3	7.4	6.5	5.7
WC	22.7	26.7	29.3	32.7
<b>CAPITAL EMPLOYED</b>	<b>31.0</b>	<b>34.1</b>	<b>35.8</b>	<b>38.4</b>
EQUITY	14.4	14.8	15.4	16.3
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	13.0	15.7	16.9	18.6
<b>CAPITAL INVESTED</b>	<b>31.0</b>	<b>34.1</b>	<b>35.8</b>	<b>38.4</b>

Ratios	16A	17E	18E	19E
<b>ROCE after tax</b>	<b>2.9%</b>	<b>3.5%</b>	<b>4.3%</b>	<b>5.4%</b>
ROE	3.3%	4.2%	5.6%	8.6%
<b>Capital Turnover</b>	<b>2.1</b>	<b>2.0</b>	<b>2.1</b>	<b>2.1</b>
<b>Net Debt / EBITDA</b>	<b>5.4</b>	<b>5.3</b>	<b>4.9</b>	<b>4.3</b>
Gearing	109.9%	125.2%	128.2%	131.3%
<b>WC / Sales</b>	<b>38.0%</b>	<b>41.8%</b>	<b>42.8%</b>	<b>0.0%</b>
Amortization / Sales	2.6%	2.7%	2.5%	2.3%
<b>Capex / Sales</b>	<b>1.4%</b>	<b>1.3%</b>	<b>1.2%</b>	<b>1.1%</b>
EPS growth	28%	33%	39%	62%
<b>PEG</b>	<b>1.4</b>	<b>1.0</b>	<b>0.9</b>	<b>0.4</b>

Valuation	16A	17E	18E	19E
<b>EV/Sales</b>	<b>0.57</b>	<b>0.62</b>	<b>0.74</b>	<b>0.75</b>
<b>EV/EBITDA</b>	<b>11.5</b>	<b>11.3</b>	<b>12.4</b>	<b>11.1</b>
EV/EBIT	24.8	22.0	21.4	17.0
<b>P/E</b>	<b>38.2</b>	<b>34.0</b>	<b>35.4</b>	<b>23.9</b>
P/B	1.25	1.43	1.99	2.06
<b>EV/CE</b>	<b>1.20</b>	<b>1.27</b>	<b>1.53</b>	<b>1.54</b>
P/FCF	16.4	n.m.	n.m.	n.m.
<b>FCF Yield</b>	<b>6.1%</b>	<b>-11.7%</b>	<b>-2.8%</b>	<b>-3.5%</b>
<b>Dividend yield</b>	<b>1.7%</b>	<b>1.0%</b>	<b>1.0%</b>	<b>1.5%</b>

Sources: Company data, Twice estimates

## Valuation

In light of FY2016 financial results and company's prospects, we confirm our valuation model. We valued the Company based on 3-year cash flow projections and terminal value computed using *Twice's Sustainable Growth Adjusted P/E (SGAP)* methodology. The model points out a 1.80€ fair value.

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

- Revenues will increase 6.9% to 63.9M€ in FY2017 positively influenced by Caleffi growth consolidation and marked improvement in Mirabello performances. For the three-year we foresee a CAGR equal to 7.1%.
- At profitability level, for the FY2016 we estimate a slightly increase, the EBITDA margin will increase to approx. 5.5% of sales; in the 2018 and 2019 the operating profitability should consolidate.
- For the plan period we estimate capex equal to approx. 0.8M€ per year mainly dedicated to the opening of new Caleffi DOS.
- The working capital will converge towards its normalized value. on average 41% of revenues.

Cash Flow	FY17	FY18	FY19
<b>Sales</b>	<b>63.9</b>	<b>68.4</b>	<b>73.2</b>
<i>Sales growth</i>	6.9%	7.1%	7.0%
<b>EBIT</b>	<b>1.8</b>	<b>2.3</b>	<b>3.2</b>
<i>Margin</i>	2.8%	3.4%	4.4%
<b>Taxes</b>	<b>-0.6</b>	<b>-0.8</b>	<b>-1.1</b>
<i>Tax rate</i>	-33.0%	-33.0%	-33.0%
<b>NET RESULTS</b>	<b>0.6</b>	<b>0.9</b>	<b>1.4</b>
<b>Depreciation</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>
<i>% of sales</i>	2.7%	2.5%	2.3%
<b>Capex</b>	<b>-0.8</b>	<b>-0.8</b>	<b>-0.8</b>
<i>% of sales</i>	-1.3%	-1.2%	-1.1%
Var. Working Capital	-4.0	-2.6	-3.5
<b>Dividends</b>	<b>0.2</b>	<b>0.3</b>	<b>0.5</b>
<b>Free Cash Flow after dividends</b>	<b>-2.7</b>	<b>-1.2</b>	<b>-1.7</b>

<b>NET RESULT 2019</b>	<b>1.4</b>
<i>SGA PE</i>	25.3
<b>TV actualized</b>	<b>27.2</b>
Dividends actualized	0.8
<b>Equity value (€M)</b>	<b>28.1</b>
Number of Shares (M)	15.6
<b>Equity value per share (€)</b>	<b>1.80</b>
<i>Upside</i>	32%

Sensitivity analysis		Net result CAGR 2016-2019				
		14.2%	28.6%	<b>44.0%</b>	62.0%	85.5%
Risk premium	5.4%	1.63				7.87
	7.3%		1.68		3.54	
	<b>9.3%</b>			<b>1.80</b>		
	11.6%		0.95		1.98	
	14.7%	0.50				2.25