

## Caleffi (CLF.IM)

Sector: Textiles/Household

FY2015: strong growth in revenues and margins

March 29<sup>th</sup>, 2016

### 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 2015 Caleffi signed two important license agreements, which lasts both approx. three years, for the worldwide production and distribution of home textiles line with the brand Trussardi and with the brand "Hello Kitty" owned by Sanrio GmbH.
- On March 21<sup>st</sup> 2016 Caleffi has announced the listing plan on AIM Italian of the subsidiary Mirabello Carrara. The global offering consists of two capital increases, up to a maximum of 5.25M€, reserved for qualified investors. The pre-money capitalization will be between 14.3M€ and 18M€. The listing aims to increase the international visibility and finding new financial resources to promote the brands.

### Latest results

- In the FY2015 Caleffi registered positive results in terms of both turnover and margins: revenues amounted to 55.9M€, EBITDA was positive for 3.1M€ more than doubled in comparison with the year before.
- The net financial position was negative (debt) for 13.6M€, improving in comparison with FY2014 when it was equal to 14.9M€.

### Valuation

- The Group confirms its business strategy focused on the opening of new shops with Caleffi brand and luxury license agreements distributed mainly on the foreign markets. The company forecasts for 2016 a significant contribution to the growth from Trussardi Home Linen and Sanrio licenses and from visibility resulting from the listing of Mirabello Carrara.
- In light of FY2015 company results and group's prospects, we confirm the positive outlook and a fair value equal to 1.70€ per share.

### Risks

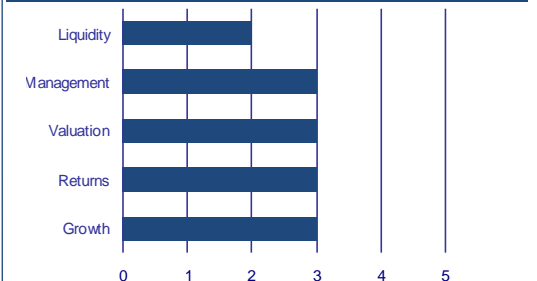
- Caleffi's sales are highly dependent on the general level of consumption and to a lower extent on the real estate market, if the macroeconomic scenario came back extremely volatile, the Company may find it harder to continue the growth path realized this year.

Forecast	15A	16E	17E	18E
Sales (€M)	55.9	62.4	66.8	71.5
EBITDA (€M)	3.1	4.3	4.9	5.5
NET RESULT	0.4	1.1	1.5	1.9
EPS (€)	0.02	0.07	0.10	0.12
Valuation	15A	16E	17E	18E
SHARE PRICE	1.11	1.11	2.21	2.41
EV/EBITDA	10.8	7.5	10.1	9.7
P/E	47.3	16.3	22.8	20.0
Dividend yield	0.0%	0.0%	1.3%	1.5%

### Key Data

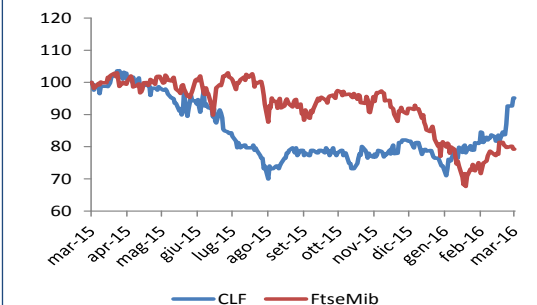
Price (€)	1.11
Market cap (€M)	17.4
Equity Value (€M)	26.6
<b>Fair Value (€)</b>	<b>1.70</b>
P/E LTM	37.9
P/E TTM	44.3

### 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	30,517 shares



Share Price perf (%)	3M	6M	1Y
Absolute	10.6%	17.0%	-9.6%
Rel. to FtseMib	26.0%	28.8%	12.6%

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## Last results (FY2015)

FY2015 results was positively influenced by the growing trend of the foreign markets, the good performance of the direct stores and excellent performance of the group in the home linen industry in the last three years with an increase in market share between 2013 and 2015 by 1 percentage point up to 6.6%. For the FY2016 the Company looks forward a turnover and profitability growth supported by the contribution of new license agreements and opening of new shops.

- In the FY2015 net revenues grew 6.5% yoy to 55.5M€, mainly due to growth in domestic sales (+6.8%, 48.1M€), the foreign sales increased 4.2% to 7.4M€ representing 13.4% of the total turnover.
- The incidence of the turnover of its own / foreign / luxury shops stands at 42%, increasing in comparison with FY2014, and confirms the effectiveness of the group's strategy.
- The FY2015 EBITDA was positive for 3.1M€ (5.5% EBITDA margin), twelve months before it was positive for 1.1M€. *Starting with the financial statement 2015, the EBITDA is calculated as the sum of EBIT, depreciation, write-downs and impairment losses on credits. The figure for 2014 was recalculated.*
- The FY2015 value of the EBIT was positive for 1.4M€, after D&A for 1.7M€, in FY2014 it was negative for 0.7M€.
- The net financial position is negative (debt) for an amount of 13.6M€, improving in comparison both with September 30<sup>th</sup> 2015, that was affected by seasonality effect, and December 31<sup>st</sup> 2014. It includes also bond for 3.5M€.

M€	FY2015	FY2014	% var
Net revenues	55.5	52.1	+6.5%
Ebitda	3.1	1.1	n.m.
<i>Ebitda margin</i>	5.5%	2.1%	
Ebit	1.4	-0.7	n.m.
<i>Ebit margin</i>	2.5%	<i>neg.</i>	
Net Financial Position	13.6	14.9	

On July 22<sup>nd</sup> 2015, Caleffi S.p.A. concluded the capital increase, 3,125,000 new shares were issued and 3.4M€ of financial proceeds were fund.

On March 21<sup>st</sup> 2016, Caleffi Group announced the listing project of the subsidiary Mirabello Carrara S.p.a. of which will keep the majority.

## FINANCIALS

Income statement (€M)	15A	16E	17E	18E
<b>Sales</b>	<b>55.9</b>	<b>62.4</b>	<b>66.8</b>	<b>71.5</b>
COGS	-27.1	-28.1	-30.1	-32.2
Gross Profit	28.8	34.3	36.7	39.3
<b>EBITDA</b>	<b>3.1</b>	<b>4.3</b>	<b>4.9</b>	<b>5.5</b>
Depreciation, Amortization	-1.7	-1.7	-1.7	-1.7
<b>EBIT</b>	<b>1.4</b>	<b>2.6</b>	<b>3.2</b>	<b>3.8</b>
Net Financial Results	-0.6	-0.7	-0.6	-0.6
Income tax	-0.4	-0.9	-1.1	-1.2
<b>Net result</b>	<b>0.4</b>	<b>1.1</b>	<b>1.5</b>	<b>1.9</b>
<b>EPS (€)</b>	<b>0.02</b>	<b>0.07</b>	<b>0.10</b>	<b>0.12</b>
<b>DPS (€)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.03</b>	<b>0.04</b>

Balance sheet (€M)	15A	16E	17E	18E
FIXED ASSETS	8.3	7.3	6.2	5.2
WC	22.6	23.7	26.1	28.6
<b>CAPITAL EMPLOYED</b>	<b>30.9</b>	<b>31.0</b>	<b>32.3</b>	<b>33.8</b>
EQUITY	14.0	15.1	16.1	17.4
MINORITY INTEREST	0.4	0.4	0.4	0.4
PROVISIONS	0.4	0.4	0.4	0.4
PENSIONS (e.g. TFR)	2.5	2.5	2.5	2.5
NET DEBT	13.6	12.6	12.9	13.1
<b>CAPITAL INVESTED</b>	<b>30.9</b>	<b>31.0</b>	<b>32.3</b>	<b>33.8</b>

Margin (%)	15A	16E	17E	18E
Gross Margin	51.4%	55.0%	55.0%	55.0%
EBITDA Margin	5.5%	6.9%	7.4%	7.7%
EBIT Margin	2.5%	4.2%	4.8%	5.3%
Net Margin	0.7%	1.7%	2.3%	2.6%

Growth (%)	15A	16E	17E	18E
Sales growth	5.9%	11.7%	7.0%	7.0%
EBITDA growth	377.8%	39.6%	13.9%	11.4%
EBIT growth	300.1%	89.2%	23.2%	17.5%
Net growth	128.0%	190.3%	42.3%	24.0%

Cash Flow statement (€M)	15A	16E	17E	18E
Cash Flow	2.1	2.8	3.2	3.6
+/- Var. Working Capital	-1.8	-1.1	-2.3	-2.5
<b>Operating Cash Flow</b>	<b>0.3</b>	<b>1.6</b>	<b>0.9</b>	<b>1.1</b>
Op. Cash Flow / Sales	0.5%	2.6%	1.4%	1.5%
Capex	-0.9	-0.7	-0.7	-0.7
<b>FCF</b>	<b>-0.6</b>	<b>0.9</b>	<b>0.2</b>	<b>0.4</b>
FCF / Sales	-1.1%	1.5%	0.3%	0.5%

Stock data	15A	16E	17E	18E
Number of Shares (M)	15.6	15.6	15.6	15.6
Avg share price over LTM (€)	1.11	1.11	2.21	2.41
<b>Market cap (€M)</b>	<b>17.3</b>	<b>17.4</b>	<b>34.5</b>	<b>37.6</b>

Ratios	15A	16E	17E	18E
<b>ROCE after tax</b>	<b>2.9%</b>	<b>5.5%</b>	<b>6.5%</b>	<b>7.2%</b>
ROE	2.6%	7.1%	9.4%	10.8%
<b>Capital Turnover</b>	<b>2.0</b>	<b>2.2</b>	<b>2.2</b>	<b>2.3</b>
<b>Net Debt / EBITDA</b>	<b>5.2</b>	<b>3.5</b>	<b>3.1</b>	<b>2.8</b>
Gearing	114.6%	100.2%	95.2%	89.2%
<b>WC / Sales</b>	<b>40.4%</b>	<b>38.0%</b>	<b>39.0%</b>	<b>40.0%</b>
Amortization / Sales	3.1%	2.8%	2.6%	2.4%
<b>Capex / Sales</b>	<b>1.6%</b>	<b>1.1%</b>	<b>1.0%</b>	<b>1.0%</b>
EPS growth	122%	190%	42%	24%
<b>PEG</b>	<b>0.4</b>	<b>0.1</b>	<b>0.5</b>	<b>0.8</b>

Valuation	15A	16E	17E	18E
<b>EV/Sales</b>	<b>0.60</b>	<b>0.52</b>	<b>0.75</b>	<b>0.74</b>
<b>EV/EBITDA</b>	<b>10.8</b>	<b>7.5</b>	<b>10.1</b>	<b>9.7</b>
EV/EBIT	24.3	12.5	15.6	14.1
<b>P/E</b>	<b>47.3</b>	<b>16.3</b>	<b>22.8</b>	<b>20.0</b>
P/B	1.24	1.15	2.14	2.16
<b>EV/CE</b>	<b>1.18</b>	<b>1.14</b>	<b>1.67</b>	<b>1.70</b>
P/FCF	n.m.	18.5	166.8	104.9
<b>FCF Yield</b>	<b>-3.4%</b>	<b>5.4%</b>	<b>0.6%</b>	<b>1.0%</b>
<b>Dividend yield</b>	<b>0.0%</b>	<b>0.0%</b>	<b>1.3%</b>	<b>1.5%</b>

Sources: Company data, Twice estimates

## Valuation

In light of FY2015 financial results and company's prospects, we have updated 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 1.70€ fair value.

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

- Revenues will increase 11.7% to 62.4M€ in FY2016 positively influenced by Caleffi growth consolidation and marked improvement in Mirabello performances. For the three-year we foresee a CAGR equal to 7%.
- Even at profitability level, for the FY2016 we estimate a further increase, the EBITDA margin will increase to approx. 7% of sales; in the 2017 and 2018 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	FY16	FY17	FY18
<b>Sales</b>	<b>62.4</b>	<b>66.8</b>	<b>71.5</b>
<i>Sales growth</i>	11.7%	7.0%	7.0%
<b>EBIT</b>	<b>2.6</b>	<b>3.2</b>	<b>3.8</b>
<i>Margin</i>	4.2%	4.8%	5.3%
<b>Taxes</b>	<b>-0.9</b>	<b>-1.1</b>	<b>-1.2</b>
<i>Tax rate</i>	-33.0%	-33.0%	-33.0%
<b>NET RESULTS</b>	<b>1.1</b>	<b>1.5</b>	<b>1.9</b>
<b>Depreciation</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>
<i>% of sales</i>	2.8%	2.6%	2.4%
<b>Capex</b>	<b>-0.7</b>	<b>-0.7</b>	<b>-0.7</b>
<i>% of sales</i>	-1.1%	-1.0%	-1.0%
Var. Working Capital	-1.1	-2.3	-2.5
<b>Dividends</b>	<b>0.0</b>	<b>0.5</b>	<b>0.6</b>
<b>Free Cash Flow after dividends</b>	<b>0.9</b>	<b>-0.2</b>	<b>-0.2</b>

<b>NET RESULT 2018</b>	<b>1.9</b>
<i>SGA PE</i>	18.4
<b>TV actualized</b>	<b>25.8</b>
Dividends actualized	0.8
<b>Equity value (€M)</b>	<b>26.6</b>
Number of Shares (M)	15.6
<b>Equity value per share (€)</b>	<b>1.70</b>
<i>Upside</i>	53%

Sensitivity analysis		Net result CAGR 2015-2018				
		177.0%	184.8%	212.7%	213.1%	217.0%
Risk premium	9.2%	0.61				2.21
	9.5%		0.78		1.92	
	<b>10.4%</b>			<b>1.70</b>		
	10.4%		0.70		1.72	
	10.5%	0.52				1.88