

Luxury

IR TOP RESEARCH
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FOPE Higher than expected 1H 2017 results

Target Price (Eu)	6.05
Market Price (Eu)	5.00
Capitalisation (Eu m)	23
Enterprise Value (Eu m)	25

(as of 19 September 2017)

1H 2017 RESULTS

On September 14th FOPE announced 1H 2017 results that outperformed our expectations for the period.

In particular, sales grew by 22.2% to 13.5 Eu m mainly driven by the growth recorded in foreign markets (+25%). Good performance also in the domestic market that grew by +9% thanks to a very good results of the new monobrand shop in Venice. Operating profitability came to 1.8 Eu m (0.7 Eu m in 1H 2016). NFP 2.2 Eu m (2.1 Eu m FY 2016). Management is positive for 2017: "Results of the first six months of 2017 confirm a positive outturn for the year".

COMPANY DESCRIPTION

FOPE, founded in 1929 in Vicenza, produces high end jewellery with its own brand. The company is known for its characteristic design and has patented the "roll on" elastic gold mesh chain (Flex'it). The core business includes all the phases of productive cycle: from in house creation (concept, design realization of prototype) to in house production (final assembly) and delivery. It is a global company with around 80% of sales abroad. Germany, UK and USA are the most important markets with 20% of sales each.

MARKET AND STRATEGY

Luxury jewellery market was worth about 16 Eu b in 2016 and is expected to grow by 5% in 2017. Main sources of demand are: "made in", demand of branded products versus non branded products, tourism and emerging markets.

FOPE will consolidate its position on international markets through:

- focus on the main markets (America - UK - Germany)
- value proposition (best customer loyalty)
- brand awareness

AIM POSITIONING

Compared to average AIM "Fashion & Luxury" Sector, FOPE shows:

- higher Sales growth rates and higher EBITDA margin
- higher NFP/EBITDA ratio, but with lower level of indebtedness in absolute term
- lower capitalisation and liquidity

Performance from IPO is positive and above average.

2017-2019 ESTIMATES

Given the good 1H 2017 results we changed our 2017 – 2019 outlook. 2017 sales estimates remain substantially unchanged as we do not expect revenues to continue to grow at the same pace in 2H 2017 as some clients may have anticipated their budgets. 2017 – 2019 Sales is expected to grow at a CAGR of +10%, in line with previous estimates. We increase our estimates for 2017 EBITDA margin by 120 b.p. to 11.5% (previously 10.3%) considering the high EBITDA achieved in 1H 2017 in absolute terms (1.8 Eu m). EBITDA CAGR 2017-2019 +12% based on increase in volumes.

VALUATION

We set a 6.05 Eu p.s. target price, derived from a relative valuation using the EV/EBITDA multiple discounted by 27.5% to peers as of AIM Positioning (6.14 Eu p.s.) and a DCF model (5.96 Eu p.s., wacc 9.2%, g 2%).

SHARE DATA

Market	AIM Italia
Reuters/Bloomberg	FPE.MI/FPE.IM
ISIN	IT0005203424
N. of Shares (m)	4.58
Free Float	17%
Main Shareholder	Cazzola Family (76.7%)
CEO	Diego Nardin

AIM Positioning

2016 FY (Eu m)	Company	AIM Sector*	AIM Italia
Sales	23	37	38
Sales YoY	+10%	-4%	+19%
EBITDA Margin	10%	2%	16%
NFP (Cash)	2.1	3.7	9.5
NFP/EBITDA	0.9	0.1	3.1
Market Data (Eu m)	Company	AIM Sector*	AIM Italia
Capitalisation	23	30	58
Perf. from IPO	+72%	+4%	+4%
Free Float	17%	23%	34%
ADIT YTD (Eu)	18,091	34,941	100,692

Source: Osservatorio AIM Italia - * Fashion & Luxury

Results & Estimates

Key Figures (Eu m)	15A	16A	17E	18E	19E
Sales	20.9	23.1	25.6	28.2	31.0
YoY growth	+15%	+10%	+11%	+10%	+10%
EBITDA	2.0	2.3	2.9	3.3	3.7
EBITDA%	9.4%	9.8%	11.5%	11.7%	11.9%
EBIT	1.4	1.6	2.1	2.4	2.6
EBIT%	6.8%	6.8%	8.3%	8.4%	8.5%
Net Profit	1.0	1.1	1.4	1.6	1.8
NFP (Cash)	4.4	2.1	2.1	1.9	0.9
EPS	0.22	0.23	0.31	0.35	0.39

Source: Company Data and IR Top Estimates

Peers Comparison

EV/EBITDA (x)	17E	18E	19E
FOPE	10.1	9.3	7.8
Luxury Peers	14.2	12.7	11.5
Discount/Premium to Luxury Peers	-29%	-27%	-32%

P/E (x)	17E	18E	19E
FOPE	19.3	17.4	15.5
Luxury Peers	26.7	24.1	21.8
Discount/Premium to Luxury Peers	-28%	-28%	-29%

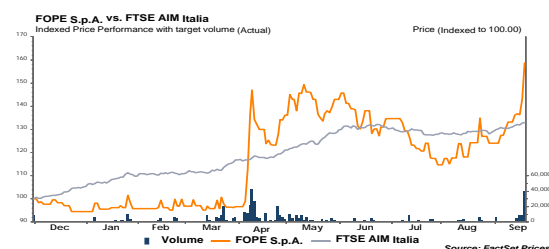
Source: IR Top Estimates for FOPE and Factset data for comparables

Performance

	1M	3M	1Y
Absolute	+27.7%	+14.9%	n.a.
Relative (FTSE AIM Italia)	+24.0%	+14.1%	n.a.
52-week High/Low	5.00 / 2.98		

Source: Factset data

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RESULTS AND ESTIMATES

1H 2017 sales growth of 22%
EBITDA margin 13,1%

BUSINESS UPDATE

On 14th September FOPE announced 1H 2017 results that outperformed our expectations for the period. Based on the positive results we have slightly modified our 2017 – 2019 outlook.

1H 2017 RESULTS

The Company released a strong set of 1H 2017 results: Sales grew by 22.2% to 13.5 Eu m (11.0 Eu m in 1H 2016) mainly driven by an important increase in foreign markets (+25%, representing 83% of total sales). Particularly good performance in the German and US markets in line with the company's strategy to focus on its main markets. The new collections (*Prima* and *Lady Fope*) were well received and showed satisfactory results especially in export markets. Revenues in the Italian market grew by +9%, thanks also to the positive performance of the St. Mark's Square Boutique in Venice, opened at the end of 2015.

EBITDA came to 1.8 Eu m, registering a significant increase compared to 0.7 Eu m in 1H 2016, corresponding to an EBITDA margin of 13.1% (vs 6.4% in 1H 2016). The increase is mainly to be attributed to higher sales volumes. EBIT increased by 1.0 Eu m in the period considered and reached 1.4 Eu m. Net Income stood at 0.8 Eu m (0.2 Eu m in 1H2016). NFP remained largely unchanged compared to the end of 2016 (2.2 Eu m 1H2017 vs 2.1 Eu m FY2016). The improvement in NFP compared to 1H 2016 is mainly to be attributed to cash proceeds from the IPO (2.2 Eu m in November 2016)

Key Figures (Eu m)	1H 2017	1H 2016	2016A
Sales	13.5	11,0	23.1
YoY growth	+22%	+9%	+10%
EBITDA	1,8	0,7	2,3
EBITDA%	13.1%	6.4%	9.8%
EBIT	1.4	0.4	1.6
EBIT%	10.1%	3.5%	6.8%
Net Profit	0.8	0.2	1.1
NFP (Cash)	2.2	4.5	2.1

Source: Company Data

2017-2019: Sales growth at a
CAGR of +10% and EBITDA
at a CAGR of +12%

ESTIMATES

Given the good 1H 2017 results we have slightly updated our 2017 -2019 estimates. In particular:

- Although 1H 2017 results were excellent we do not expect revenues to continue to grow at the same pace in 2H 2017 as we believe that some clients may have anticipated their budgets. We have therefore left our revenue estimates substantially unchanged (CAGR of +10% for the period 2017-2019)
- We increased our 2017 EBITDA margin to 11.5% (previously 10.3%) thanks to the high EBITDA achieved in absolute terms in 1H 2017 (1.8 Eu m). We estimate a 2H 2017 EBITDA margin of about 10%
- EBITDA CAGR 2017 -2019 of 12% compared to 15% in our previous estimates
- 2017 Net Profit increased by 0.2 Eu m to 1.4 Eu m as a result of the higher EBITDA. 2019 expected Net Profit reach 1.8 Eu m compared to 1.7 Eu m in our previous estimates
- 2017 NFP estimate improves from 2.5 Eu m to 2.1 Eu m for FY 2017
- Capex remain in line with our previous estimates (3.8 Eu m in the 2017-2019 period)

MAIN FINANCIAL INDICATORS

Eu m	17E Old	17E New	18E Old	18E New	19E Old	19E New
Sales	25.4	25.6	27.9	28.2	30.7	31.0
	yoy	+10%	+11%	+10%	+10%	+10%
EBITDA	2.6	2.9	3.0	3.3	3.5	3.7
	margin	10.3%	11.5%	10.9%	11.7%	11.9%
D&A	0.8	0.8	0.9	0.9	1.0	1.0
EBIT	1.8	2.1	2.1	2.4	2.6	2.7
	margin	7.1%	8.3%	7.4%	8.4%	8.5%
Net financial charges	0.1	0.1	0.1	0.1	0.1	0.1
Pre tax profit	1.7	2.0	2.0	2.3	2.5	2.6
Net Profit	1.2	1.4	1.4	1.6	1.7	1.8
	yoy	+11.5%	+31.9%	+13.6%	+11.7%	+25.0%
EPS	0.26	0.31	0.30	0.35	0.37	0.39

Source: Company Data and IR Top Estimates

Eu m	17A Old	17A New	18E Old	18E New	19E Old	19E New
Net Working Capital (NWC)	10.0	9.8	11.3	10.8	12.6	11.6
Fixed net assets	5.5	5.5	6.0	6.0	6.0	6.0
Funds	-2.2	-2.2	-2.2	-2.2	-2.3	-2.3
Net Capital Employed	13.3	13.1	15.1	14.5	16.4	15.3
Net Financial Position (Cash)	2.5	2.1	2.9	1.9	2.5	0.9
NFP/EBITDA	0.9	0.7	0.9	0.6	0.7	0.2
Equity	10.8	11.0	12.2	12.6	13.9	14.4
Sources	13.3	13.1	15.1	14.5	16.4	15.3
Change in NWC	-1.1	-0.9	-1.4	-1.0	-1.3	-0.8
Capex	-1.3	-1.3	-1.4	-1.4	-1.1	-1.1

Source: Company Data and IR Top Estimates

VALUATION

Unchanged AIM Positioning
discount of 27,5%

We value FOPE through 2 different approaches, equally weighted:

- Market Multiples comparison
- Discounted Cash Flow (DCF) model.

AIM POSITIONING DISCOUNT/PREMIUM

When using market multiples to determine the fair value of an AIM Italia listed company, we apply a discount on the average peer multiple based on an algorithm that measures the positioning of the company compared to the AIM Italia market as a whole, and to the relevant AIM Sector. Applying the algorithm on FOPE we consider fair a discount of 27.5% to Luxury Peers. The discount remains unchanged compared to our previous report.

MULTIPLES

We used an average of 2017 and 2018 EV/EBITDA multiples for Luxury Peers to calculate FOPE's Enterprise Value. Applying a 27.5% discount (as of AIM positioning) gives a fair value of 6.14 Eu per share.

EV/EBITDA (x)	17E	18E	19E
FOPE	10.1	9.3	7.8
Luxury Peers	14.2	12.7	11.5
Discount/Premium to Luxury Peers	-29%	-27%	-32%

Source: IR Top Estimates for FOPE and Factset data for comparables

DCF

Our DCF valuation yields a target price of 5.96 Eu per share.

Main assumptions are:

- Perpetual growth: 2%
- Risk Free interest rate: 2%
- WACC: 9.2%

Sum of PV 2017-2023 FCF	7.6
Terminal Value	22.0
Total Enterprise Value	29.6
Net Financial Position (Cash)	2.2
Total Equity Value	27.3
Number of shares outstanding	4.6
Fair Value per share	5.96

Source: Company Data and IR Top Estimates

VALUATION SUMMARY

Weighting the 2 approaches equally we set a target price of 6.05 Eu, implying an upside of 21% and an implicit EV /EBITDA 2017 and 2018 multiple of 10.2 x and 9.1x respectively.

Method	Price (Eu)
DCF	5.96
Multiple analysis	6.14
Target Price	6.05

Our valuation yields a Target
Price of 6.05 Eu per share

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Date	Target Price	Market Price	Validity Time
September 21 st 2017	6.05	5.00	12 months
July 18 th 2017	5.40	3.83	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.

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RESEARCH TEAM

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