

Luxury

IR TOP RESEARCH

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FOPE

Very strong FY 2018 results and positive outlook for 2019

FY 2018 RESULTS

FOPE presented a **very strong set of FY 2018 results**, with revenues up by +12% vs. FY 2017 (+1% vs. our estimates), and an increase in **EBITDA by +56%** vs. last year, outperforming our estimates by +29%.

The growth was mainly driven by a strong performance in international markets (82% of total revenues) and in particular in key regions such as the UK, Germany and US. The Italian market grew by +9%.

More in particular, **revenues** came in at 31.3 Eu m (28.0 Eu m in FY 2017), whereas **EBITDA** stood at 6.1 Eu m, (3.9 Eu m in FY 2017) with an EBITDA margin of 19.5%, up by 560 bps from 13.9% in FY 2017. Net profit was of 3.3 Eu m, +43% vs. FY 2018 and +32% vs our estimates with **EPS adj** growing by 43% to 0.66 Eu p.s. (0.46 Eu p.s. in FY 2017).

After operating cash flow of 4.1 Eu m, **Net debt** was down by 1.1 Eu m to 0.1 Eu m (vs 1.2 Eu m in FY 2017).

The Company also announced a **DPS of 0.35 Eu p.s.** (pay-out ratio 53%), implying an attractive **5.3% yield**.

Following the higher than expected FY 2018 results, we upgraded our 2019-2020 estimates with an average increase of 1% in revenues, 22% in EBITDA and 18% in EPS (fully diluted), and stretched our time horizon to include 2021.

COMPANY DESCRIPTION AND STRATEGY

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 export markets.

FOPE will consolidate its position on international markets through:

- focus on the main markets (USA - UK - Germany)
- strengthening of value proposition in order to improve customer loyalty
- improvement of brand awareness

VALUATION

We set a target price of 12.26 Eu p.s. (previously 9.05 Eu p.s.), providing an 68% upside to the current share price. Our valuation weights equally a DCF (WACC = 8.5% an g= 1%) and a relative valuation (multiple comparison). At our target price the stock would be trading at 9.2x and 8.1x 2019 and 2020 EBITDA respectively. At current market price (7.3 Eu p.s.) FOPE is trading at significant discount to peers: -58% on 2019-21 EBITDA, and -58% in terms of P/E.

Please, read important disclaimer on the last page of this report.

Target Price (Eu)

Market Price (Eu)	(Previous 9.05)	12.26
Capitalisation (Eu m)		7.30
Enterprise Value (Eu m)		37

(as of March 18th, 2019)

Results & Estimates

Key Figures (Eu m)	17A	18A	19E	20E	21E
Revenues	28.0	31.3	34.4	37.8	42.4
YoY growth	+21%	+12%	10%	10%	12%
EBITDA	3.9	6.1	6.7	7.6	8.7
EBITDA%	13.9%	19.5%	19.5%	20.2%	20.6%
EBIT	3.1	5.0	5.2	5.9	6.9
EBIT%	11.0%	15.9%	15.2%	15.7%	16.2%
Net Profit	2.3	3.3	3.6	4.2	4.8
Net Debt (Cash)	1.2	0.1	0.9	(1.0)	(3.2)
EPS adj	0.46	0.66	0.72	0.83	0.96

Source: Company Data and IR Top Estimates

Peers Comparison

EV/EBITDA (x)	19E	20E	21E
FOPE	5.6	4.6	3.8
Luxury Peers	12.3	10.9	9.8
Discount/Premium to Luxury Peers	-54%	-57%	-61%

P/E (x)	19E	20E	21E
FOPE	10.0	8.8	7.6
Luxury Peers	22.4	20.6	19.2
Discount/Premium to Luxury Peers	-55%	-57%	-61%

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

AIM Positioning

Market Data (Eu m)	Company	AIM Sector*	AIM Italia
Capitalisation	37	28	59
Perf. from IPO	+152%	-14%	-5%
Free Float	19%	23%	38%
ADIT YTD (Eu)	16,762	15,519	111,711

Source: Osservatorio AIM Italia – * Fashion & Luxury

Performance

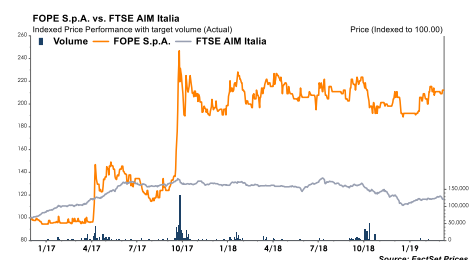
	1M	3M	1Y
Absolute	+8.1%	+22.7%	+5.0%
Relative (FTSE AIM Italia)	+7.1%	+15.1%	+14.1%
52-week High/Low* (Eu)	7.85 / 4.40		

Source: Factset data

* Intra Day

SHARE DATA

Market	AIM Italia
Reuters/Bloomberg	FPE.MI/FPE IM
ISIN	IT0005203424
N. of Shares	5,000,200
Free Float	19%
Main Shareholder	Cazzola's Family (74.9%)
CEO	Diego Nardin



BUSINESS UPDATE

Yoy EBITDA growth of +56%,
EBITDA margin of 19.5%

Increase in the market float
and Vicenza site expansion

RESULTS AND ESTIMATES

Dividend of 0.35 Eu p.s., 53%
pay-out ratio

BUSINESS UPDATE

- FOPE had a very good 2018 and closed the year with significant growth in terms of revenues and profitability while further strengthening its balance sheet. In line with corporate strategy, growth was mainly driven by export markets, and in particular key markets (US, Germany and UK) where the Company has invested to consolidate its competitive position. Revenues in the Italian market increased by +9%.
- In terms of geographical expansion, 2018 saw the opening of two new markets, New Zealand and Australia, as well as the establishment of "FOPE Jewellery Limited", a UK commercial subsidiary that will allow the Company to maintain a direct presence in the UK and Irish markets, while at the same time increase efficiency and obtain cost savings.
- In October 2018, FOPE started the expansion of the headquarter in Vicenza. The new area will host a new production department and will allow to boost marketing and commercial activities (show-room), and is expected to be ready by the end of Q3 2019.
- On September 27th, 2018 FOPE closed an accelerated book building. 130,000 shares were placed out of the market with Italian and foreign institutional investors at a price of 6.0 Eu p.s. (total cash in of 780 Eu k). The share held by the market increased from 10.99% to 13.7%.
- On November 30th, 2018 the 2nd exercise period of "FOPE 2016-2019 Warrant" closed. 2,525,000 warrants were exercised (strike price of 3.51 Eu, +21% on IPO price) for a total value of 886 Eu k. 252,500 shares were issued and the share capital amounted to 5,000,200 shares.

FY 2018 RESULTS

FOPE recorded strong 2018 results with **revenues up by 12% to 31.3 Eu m** (28.0 Eu m in FY 2017, +1% above our estimates) mainly driven by the company's performance in international markets currently representing 82% of total revenues. Good performance especially in Europe (+11%, led by Germany and UK) and the US (+24%). Also the Italian market contributes to the growth, with revenues increasing by +9% vs. FY 2017.

EBITDA came in at 6.1 Eu m, recording a significant increase of +56% vs. FY 2017 (3.9 Eu m) and +29% vs. our FY 2018 estimates. EBITDA margin was of 19.5%, up 560 bps vs. 13.9% in FY 2017, thanks to the increase in sales volumes (fixed costs spread over higher revenues) while managing to maintain operating efficiency.

EBIT reached 5.0 Eu m in FY 2018, after an increase by +61% vs. 3.1 Eu m in FY 2017 (+36% above our 3.6 Eu m expectations), in spite of higher D&As (1.1 in FY 2018 vs. 0.8 Eu m in FY 2017) following the increase in capex. Net capex in FY 2018 was of c. 3.5 Eu m and in particular related to the expansion of the headquarter in Vicenza.

Net Profit stood at 3.3 Eu m, +43% vs. FY 2017 (2.3 Eu m) and +32% compared to our estimates (2.5 Eu m), albeit the rise in income taxes (1.4 Eu m vs. 0.8 Eu m at FY 2018). The Company announced a **DPS of 0.35 Eu p.s.** (pay-out ratio 53%), implying a **5.3% yield**.

Net debt was down by 1.1 Eu m to 0.1 Eu m (vs 1.2 Eu m in FY 2017), thanks to the improvement in profitability and an efficient working capital management. In particular trade receivables remained largely stable (7.9 Eu m in FY 2018 vs. 8.0 Eu m in FY 2017) despite the increase in sales volumes. **Net debt** at the end of 2018 was of 0.1 Eu m, down by 1.1 Eu m vs. FY 2017 (2.6 Eu m lower than our estimates), **following strong operating cash flow** (4.1 Eu m).

Key financials

Eu m – IAS/IFRS	FY 2017A	FY 2018A	Var % 17A-18A	FY 2018E	Var % 17A-18E
Revenues	28.0	31.3	+12%	30.8	+1%
YoY growth	+21%	+12%		+1%	
EBITDA	3.9	6.1	+56%	4.7	+29%
EBITDA%	13.9%	19.5%		15.3%	
EBIT	3.1	5.0	+61%	3.6	+36%
EBIT%	11.0%	15.9%		11.8%	
EBT	3.2	4.7	+49%	3.5	+36%
Net Profit	2.3	3.3	+43%	2.5	+32%
Net Working Capital (NWC)	8.9	9.5	+7%	9.9	-3%
Fixed net assets	6.9	9.3	+35%	9.4	-1%
Funds	(2.7)	(2.8)	+2%	(2.8)	+1%
Net Capital Employed	13.1	16.1	+23%	16.5	-3%
Net Debt (Cash)	1.2	0.1	-90%	2.7	-96%
Equity	11.9	16.0	+34%	13.9	+15%
Sources	13.1	16.1	+23%	16.5	-3%

Source: Company Data and IR Top Estimates

2018-2021 revenue CAGR of 11%. EBITDA margin of 20.6% at the end of 2021

ESTIMATES

Based on the positive FY 2018 results and Management's forecasts to "continue to create value for shareholders in 2019", we upgrade our forecasts for 2019-2020 especially in terms of profitability. We also stretch our time horizon to include 2021.

More in particular, our revenue forecast remains largely unchanged as we confirm a 11% CAGR over the three year period. We have, however, increased our EBITDA estimates by c. 22% on average. Although we have seen that operational leverage is important, we believe that some of it will be offset by higher investments in marketing in the short term, and we therefore maintain an EBITDA margin of 19.5%, also for 2019 (marketing costs are fully expensed).

Our updated 2018-2021 estimates show:

- 1) Revenue growth at a 2018-2021 CAGR of 11%, thanks mainly to the continuous expansion in export markets, especially in the US, UK and Germany.
- 2) EBITDA 2018-2021 CAGR of 13%, and an increase in EBITDA margin by 110 bps in the period considered thanks to revenue growth (fixed costs are spread over higher volumes), partially offset by higher marketing spending in line with Management's strategy to increase brand awareness in order to pave the way for higher market prices.
- 3) Although the Company has not announced an official dividend policy, we have assumed a pay-out ratio of 40%, which we believe reasonable considering the strong cash generation.
- 4) Net cash at year end 2021 of 3.2 Eu m, after capex of about 6.0 Eu m over the three year period.

MAIN FINANCIAL INDICATORS

Eu m	18A	19E Old	19E New	20E Old	20E New	21E New
Revenues	31.3	33.9	34.4	37.3	37.8	42.4
yoy	+12%	+10%	+10%	+10%	+10%	+12%
EBITDA	6.1	5.4	6.7	6.3	7.6	8.7
margin	19.5%	16.0%	19.5%	16.9%	20.2%	20.6%
EBIT	5.0	4.1	5.2	4.9	5.9	6.9
margin	15.9%	12.2%	15.2%	13.1%	15.7%	16.2%
Pre tax profit	4.7	3.9	5.0	4.7	5.74	6.65
Net Profit	3.3	2.8	3.6	3.4	4.2	4.8
yoy	+43.3%	+12.6%	+8.7%	+19.3%	14.5%	15.8%
EPS adj	0.66	0.60	0.72	0.72	0.83	0.96
Eu m	18A	19E Old	19E New	20E Old	20E New	21E New
Net Working Capital (NWC)	9.5	10.9	10.5	12.0	11.6	13.0
Fixed net assets	9.3	11.3	11.1	11.1	10.9	10.5
Funds	(2.8)	(2.9)	(2.8)	(3.0)	(2.9)	(3.0)
Net Capital Employed	16.1	19.3	18.7	20.2	19.5	20.5
Net Debt (Cash)	0.1	2.6	0.9	0.1	(1.0)	(3.2)
Equity	16.0	16.7	17.8	20.1	20.6	23.7
Sources	16.1	19.3	18.7	20.2	19.5	20.5

Source: Company Data and IR Top Estimates

VALUATION

Our valuation yields a Target Price of 12.26 Eu per share

AIM Positioning discount of 27%

We have updated our valuation for FOPE and in particular:

- the DCF to include the new estimates and up-to-date risk free rate and ERP;
- the relative valuation to reflect current market multiples for the peer group (Luxury Large Cap companies with business models comparable to FOPE). We have applied a discount on multiples of 27%, as calculated by our "AIM Osservatorio".

Our valuation **has been adjusted for the possible dilution impact** of the exercise of outstanding warrants, with a total impact of 0.6% on our valuation.

MULTIPLES

For the relative valuation we have considered EV/EBITDA as the most important tool to evaluate the Company, as FOPE currently is in an investment phase.

Eu m	Country	Capitalisation	Revenues 2018	yoy	EBITDA % 2018	EBITDA % 2019E
FOPE	Italy	37	31	+12%	20%	19%
Tod's	Italy	1,387	940	-2%	11%	13%
Salvatore Ferragamo	Italy	3,189	1,347	-3%	17%	16%
Prada	China	6,426	3,142	-1%	17%	20%
Moncler	Italy	9,396	1,420	+19%	34%	35%
Brunello Cucinelli	Italy	2,139	553	+10%	18%	17%
Tiffany	USA	10,467	3,934	+8%	23%	23%
LVMH	France	160,169	46,826	+10%	25%	26%
Kering	France	62,635	13,665	+26%	32%	33%
Burberry	UK	8,945	3,190	+3%	21%	22%
Hermes	France	61,441	5,966	+8%	38%	38%
Richemont	Switzerland	33,221	13,828	+26%	20%	21%
Median Luxury Peers		9,396	3,190	+8%	21%	22%

Source: Company Data for FOPE and Factset data for comparables

	19E	20E	21E
EV/EBITDA (x)			
FOPE	5.6	4.6	3.8
Median Luxury Peers	12.3	10.9	9.8
Discount/Premium to Luxury Peers	-54%	-57%	-61%

	10.0	8.8	7.6
P/E (x)			
FOPE	10.0	8.8	7.6
Median Luxury Peers	22.4	20.6	19.2
Discount/Premium to Luxury Peers	-55%	-57%	-61%

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

DCF

Main assumptions are:
 - Perpetual growth: 1.0%
 - Risk Free interest rate: 2.70%
 - WACC: 8.5%

Sum of PV 2019-2023 FCF – Eu m	14.7
Terminal Value – Eu m	48.3
Total Enterprise Value – Eu m	63.0
Net Financial Position (Cash) – Eu m	0.1
Cash in Conversion of Warrant 3° period - Eu m	(0.1)
Total Equity Value – Eu m	63.1
Number of shares outstanding (diluted) – m	5.04
Fair Value per share – Eu	12.52

Source: Company Data and IR Top Estimates

Our DCF valuation yields a target price of 12.26 Eu per share.

VALUATION SUMMARY

Weighting the 2 valuation approaches equally we upgrade the target price to 12.26 Eu (previous 9.05 Eu), implying an upside of 68% and an implicit EV/EBITDA 2019 and 2020 multiple of 9.2x and 8.1x respectively.

Method	Price (Eu)
DCF	12.52
Multiple analysis	11.99
Target Price	12.26

FOPE ON AIM

+152% from IPO

IPO

Date: 30 November 2016
 Capital raised: 2.2 Eu m Equity (+1.2 Eu m Convertible Bond)
 Price: 2.90 Eu
 Capitalisation: 13.3 Eu m

WARRANT FOPE 2016-2019 (as of March 19th, 2019)

Code: WFPE19
 ISIN: IT0005203432
 Price: 1.00 Eu
 Outstanding Warrants (as of March 19th, 2019): 356,500
 Exercise ratio: 1:10 (shares:warrants)
 1st Exercise Period: 15-30 Nov 2017 - Strike Price: $P_1 = P_{IPO} (1+10\%) = 3.19$ Eu (1,642,000 Warrant Exercised)
 2nd Exercise Period: 15-30 Nov 2018 - Strike Price: $P_2 = P_1 (1+10\%) = 3.51$ Eu (2,525,000 Warrant Exercised)
 3rd Exercise Period: 15-29 Nov 2019 - Strike Price: $P_3 = P_2 (1+10\%) = 3.86$ Eu

FOPE CONVERTIBLE 4.5% 2016-2021

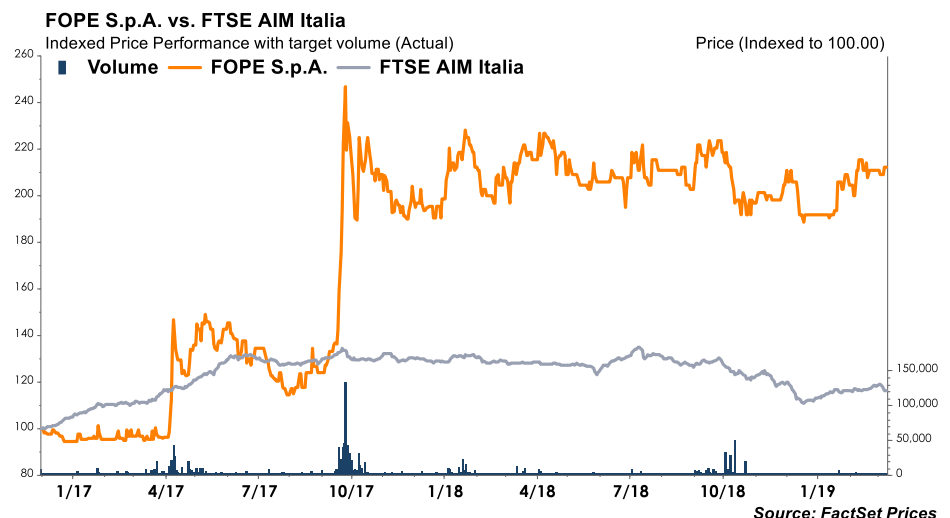
Code: FPE21
 ISIN: IT0005203671
 N. issued bonds: 12,000
 Nominal value of each bond: 100 Eu
 Issued Value: 1.2 Eu m

SHARES (as of March 18th, 2019)

Code: FPE
 Bloomberg: FPE IM
 Reuters: FPE.MI
 ISIN: IT0005203424
 Shares: 5,000,200
 Price: 7.30 Eu
 Performance from IPO: +152%
 Capitalisation: 37 Eu m
 Free Float: 19%
 NomAd: Integrae SIM
 Specialist: Integrae SIM

Shareholder	n. of shares	%
Ines Cazzola	1,872,920	37.46%
Umberto Cazzola*	1,119,830	22.40%
Heirs of Giulia Cazzola**	753,090	15.06%
Diego Nardin	326,160	6.52%
Esperia Servizi Fiduciari S.p.A.	276,000	5.52%
Other Shareholders (<5%)	652,200	13.04%
Total	5,000,200	100.00%

* an additional 637,370 shares in usufruct with the vote rights granted by the heirs of Giulia Cazzola.
 ** of which 637,370 as bare ownership.



RATIOS

Eu m	2015A	2016A	2017A	2018A	2019E	2020E	2021E
Profit & Loss Statement							
Revenues	20.9	23.1	28.0	31.3	34.4	37.8	42.4
EBITDA	2.0	2.3	3.9	6.1	6.7	7.6	8.7
EBIT	1.4	1.6	3.1	5.0	5.2	5.9	6.9
Financial Income (charges)	(0.1)	(0.1)	0.1	(0.2)	(0.2)	(0.2)	(0.2)
Pre-tax profit (loss)	1.3	1.5	3.2	4.7	5.0	5.7	6.7
Taxes	(0.3)	(0.4)	(0.8)	(1.4)	(1.4)	(1.6)	(1.8)
Net profit	1.0	1.1	2.3	3.3	3.6	4.2	4.8
Balance Sheet							
Fixed assets	4.5	5.0	6.9	9.3	11.1	10.9	10.5
NWC	8.1	8.9	8.8	9.5	10.5	11.6	13.0
M/L Funds	(2.5)	(2.1)	(2.6)	(2.8)	(2.8)	(2.9)	(3.0)
Net Capital Employed	10.1	11.8	13.1	16.1	18.7	19.5	20.5
Net Debt	4.4	2.1	1.2	0.1	0.9	(1.0)	(3.2)
Net Equity	5.7	9.6	11.9	16.0	17.8	20.6	23.7
Cash Flow							
EBIT	1.4	1.6	3.1	5.0	5.2	5.9	6.9
D&A	0.5	0.7	0.8	1.1	1.5	1.7	1.9
Tax	(0.3)	(0.4)	(0.8)	(1.4)	(1.4)	(1.6)	(1.8)
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in M/L Funds	0.9	(0.4)	0.5	0.1	0.1	0.1	0.1
Gross Cash Flow	2.5	1.4	3.6	4.8	5.4	6.1	7.0
Change in NWC	(2.2)	(0.8)	0.1	(0.7)	(1.0)	(1.1)	(1.4)
Operating Cash Flow	0.4	0.6	3.7	4.1	4.4	5.1	5.6
Capex and Investments	(1.5)	(1.2)	(2.7)	(3.5)	(3.2)	(1.5)	(1.5)
Financial Income (charges)	(0.1)	(0.1)	0.1	(0.2)	(0.2)	(0.2)	(0.2)
Free Cash Flow	(1.2)	(0.6)	1.0	0.4	1.0	3.4	3.9
Dividend	0.0	0.0	0.0	(0.6)	(1.8)	(1.5)	(1.7)
Change in Equity	(0.2)	3.9	2.3	1.3	0.0	0.0	0.0
Change in Net debt	(1.4)	3.3	3.3	1.1	(0.8)	1.9	2.2
Per Share Data							
Current Price	7.30						
Total shares out (mln) average	5.0						
EPS	0.20	0.21	0.47	0.67	0.73	0.83	0.96
EPS Diluted	0.20	0.21	0.46	0.66	0.72	0.83	0.96
DPS	0	0	0.12	0.35	0.29	0.33	0.39
FCF	(0.2)	(0.1)	0.2	0.1	0.2	0.7	0.8
Pay out ratio	0%	0%	25%	53%	40%	40%	40%
Ratios							
EBITDA margin	9.4%	9.8%	13.9%	19.5%	19.5%	20.2%	20.6%
EBIT margin	6.8%	6.8%	11.0%	15.9%	15.2%	15.7%	16.2%
Net Debt/Equity (Gearing)	77.2%	22.1%	9.8%	0.7%	5.0%	n.m.	n.m.
Net Debt/EBITDA	2.2	0.9	0.3	0.0	0.1	n.m.	n.m.
Interest cover EBIT	-0.1	0.0	0.0	22.5	26.1	29.7	34.3
ROE	17.5%	11.2%	19.6%	20.9%	20.4%	20.3%	20.3%
Free Cash Flow Yield	-184%	-89%	171%	1%	3%	9%	11%
Growth Rates							
Revenues	15%	10%	21%	12%	10%	10%	12%
EBITDA	5%	16%	72%	56%	10%	14%	14%
EBIT	-2%	11%	96%	61%	5%	14%	15%
Net Profit	3%	8%	117%	43%	9%	15%	16%

DISCLAIMER**UPDATES**

This Research is an update coverage made by IR Top Consulting S.r.l. (IR Top) on FOPE (the "Company"). Update frequency might depend on circumstances considered to be important (corporate events and changes of recommendation, etc.) or on further advisory commitment. Last Research on the same Company was released on September 19th 2018.

Opinions and estimates of this Research are as the date of this material and are subject to change. Information and opinions have been obtained from sources public and believed to be reliable, but no warranty is made as to their accuracy or correctness. Past performances of the Company are not guarantee of future results.

During the last 12 months, the following indications have been disseminated:

Date	Target Price	Market Price	Validity Time
March 19 th 2019	12.26	7.30	12 months
September 19 th 2018	9.05	7.00	12 months
March 28 th 2018	8.85	6.80	12 months
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 Research obtained a fair value using different valuation methodologies including Discounted Cash Flow method and Multiple-based models.

Moreover, IR Top Research 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.

RESEARCH TEAM

Luisa Primi, (Senior Analyst, AIAF Associated)

Chiara Cardelli, (Researcher)

No other people or companies participated or anyhow contributed to the Research. Neither the members of the research team, nor any person closely associated with them have any relationships or are involved in circumstances that may reasonably be expected to impair the objectivity of the Research, including interests or conflicts of interest, on their part or on the part of any natural or legal person working for them, who was involved in producing the Research.

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