

FOPE

A nice surprise: FY 2017 results above expectations

Luxury

IR TOP RESEARCH
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FY 2017 RESULTS

2017 was a very good year for FOPE with revenues of 28.0 Eu m, up 21% vs. FY 2016 (23.1 Eu m) and 9% above our estimates, mainly thanks to consistent growth in export markets.

EBITDA came in at 3.9 Eu m (+72% vs FY 2016 and +33% vs. our estimates for 2017) with an EBITDA margin of 14% (10% in FY 2016).

Net debt at the end of 2017 was of 1.2 Eu m, down by 0.9 Eu m vs. 2.1 Eu m in FY 2016, thanks to higher profitability and careful management of working capital.

The Company has resolved to distribute a dividend of 0.125 Eu p.s. (pay-out ratio 27%).

Following higher than expected FY 2017 results, we upgraded our 2018 and 2019 forecasts. Revenues and EBITDA are expected to grow with a CAGR respectively of 10% and 17%.

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 markets with 20% of sales each.

FOPE will consolidate its position on international markets through:

- focus on the main markets (America - UK - Germany)
- strengthening of value proposition in order to improve customer loyalty
- improvement of 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
- Higher capitalisation but lower liquidity

Performance from IPO is positive and widely above average.

VALUATION

We have updated our valuation of FOPE to reflect our new estimates, updated DCF criteria and peer group multiples. Our new target price is 8.85 Eu p.s. (6.05 previous), with a potential upside of 30%.

Target Price (Eu)	(Previous 6.05) 8.85
Market Price (Eu)	6.80
Capitalisation (Eu m)	32
Enterprise Value (Eu m)	34

(as of March 27th, 2018)

AIM Positioning

2016 FY (Eu m)	Company	AIM Sector*	AIM Italia
Revenues	23	37	38
Revenues YoY	+10%	-4%	+18%
EBITDA Margin	10%	2%	13%
Net Debt (Cash)	2.1	3.7	9.9
NFP/EBITDA	0.9	0.1	3.0
Market Data (Eu m)	Company	AIM Sector*	AIM Italia
Capitalisation	32	30	66
Perf. from IPO	+134%	+14%	-1%
Free Float	17%	21%	40%
ADTT YTD (Eu)	24,392	29,482	87,534

Source: Osservatorio AIM Italia – * Fashion & Luxury

Results & Estimates

Key Figures (Eu m)	16A	17A	18E	19E	20E
Revenues	23.1	28.0	30.8	33.9	37.3
YoY growth	+10%	+21%	+10%	+10%	+10%
EBITDA	2.3	3.9	4.4	5.2	6.0
EBITDA%	9.8%	13.9%	14.2%	15.2%	16.2%
EBIT	1.6	3.1	2.9	3.5	4.2
EBIT%	6.8%	11.0%	9.4%	10.2%	11.3%
Net Profit	1.1	2.3	2.1	2.5	3.0
Net Debt (Cash)	2.1	1.2	2.6	1.3	(1.5)
EPS	0.23	0.49	0.44	0.52	0.63

Source: Company Data and IR Top Estimates

Peers Comparison

EV/EBITDA (x)	18E	19E	20E
FOPE	7.6	6.5	5.5
Luxury Peers	14.2	12.7	11.3
Discount/Premium to Luxury Peers	-46%	-49%	-51%

P/E (x)	18E	19E	20E
FOPE	15.6	13.1	10.7
Luxury Peers	27.0	24.0	21.6
Discount/Premium to Luxury Peers	-42%	-46%	-50%

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

Performance

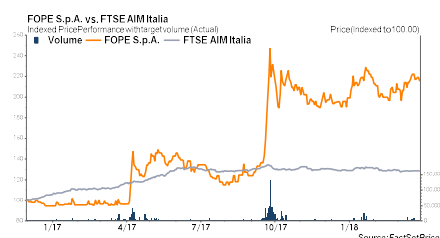
	1M	3M	1Y
Absolute	+1.5%	+13.3%	+123.7%
Relative (FTSE AIM Italia)	+2.1%	+14.0%	+100.8%
52-week High/Low* (Eu)	7.87 / 3.02		

Source: Factset data
 * Intra Day

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

SHARE DATA

Market	AIM Italia
Reuters/Bloomberg	FPE.MI/FPE IM
ISIN	IT0005203424
N. of Shares	4,747,700
Free Float	17%
Main Shareholder	Cazzola's Family (76.6%)
CEO	Diego Nardin



RESULTS AND ESTIMATES

YoY revenue
growth of +21%

Dividend of 0.125 Eu p.s.

Open of FOPE Jewellery
Limited in UK

FY 2017 RESULTS

2017 was a very good year for FOPE that, after a positive 1H 2017 (revenues +24%), continued the second half of the year at the same pace and closed the year with revenues of 28.0 Eu m, up 21% vs. FY 2016 (23.1 Eu m) and 9% above our estimates, mainly thanks to the growth in export markets; in particular Europe was up by +24%. Also the US market showed a good performance with an increase in revenues by +22%, from about 800 Eu k in FY 2016 to about 1 Eu m at the end of the period considered.

EBITDA came in at 3.9 Eu m, +72% vs FY 2016 and +33% vs. our FY 2017 estimates. EBITDA margin was of 13.9% up 410 bps vs. 9.8% in FY 2016 thanks to operational leverage (fixed costs were spread on higher volumes).

Net Profit was of 2.3 Eu m, +117% vs FY 2016 and +65% compared to our estimate of 1.4 Eu m, after counting in financial income of about 300 Eu k from the restructuring of the commercial network in the US.

Net Working Capital improved albeit the important revenue growth, thanks in particular to careful management of trade receivables (8.0 Eu m in FY 2017 vs. 7.3 Eu m in FY 2016) with a decrease in DSO.

Net Debt at year end 2017 was down by 0.9 Eu m to 1.2 Eu m (vs. 2.1 Eu m in FY 2016) thanks to the improvement in profitability and working capital management.

The Board of Directors of FOPE has resolved to distribute a dividend of 0.125 Eu p.s, for a total 0.6 Eu m, corresponding to a pay-out ratio of 27% on FOPE Spa's net profit. Last year the Company did not distribute dividends.

Key financials

Eu m – IAS/IFRS	FY 2016A	FY 2017A	Var % 16A-17A	FY 2017E	Var % 17A-17E
Revenues	23.1	28.0	+21%	25.6	+9%
YoY growth	+10%	+21%		+11%	
EBITDA	2.3	3.9	+72%	2.9	+33%
EBITDA%	+9.8%	13.9%		11.5%	
EBIT	1.6	3.1	+96%	2.1	+46%
EBIT%	6.8%	11.0%		8.3%	
EBT	1.5	3.2	+111%	2.0	+57%
Net Profit	1.1	2.3	+117%	1.4	+65%
Net Working Capital (NWC)	8.9	8.8	-1%	9.8	-10%
Fixed net assets	5.0	6.9	+39%	5.5	+26%
Funds	(2.1)	(2.6)	+24%	(2.2)	+20%
Net Capital Employed	11.8	13.1	+11%	13.1	-0.4%
Net Debt (Cash)	2.1	1.2	-45%	2.1	-44%
Equity	9.6	11.9	+24%	11.0	+8%

Source: Company Data and IR Top Estimates

BUSINESS UPDATE

- On November 30th, the first exercise period of the "FOPE 2016 – 2019" closed, with the exercise of 1,642,000 warrants and the issuance of 164,200 shares at a strike price of 3.19 Eu (IPO price +10%), for a total value of 534 Eu k.
- In December 2017, the Company announced a Stock Grant Plan "FOPE SpA 2017 – 2020" for a maximum of 100 k shares based on the achievement of specific 2020 economic objectives.
- In March 2018 a new company FOPE Jewellery Limited was established. The company will operate as an agent in the UK and Irish markets, and will substitute the former agreement with a third party. Continuity will be granted by the fact that three key managers will be transferred to the new company in which they will hold a minority share (total of 25%). The operation will allow FOPE to have a direct presence in the UK market, increase efficiency and obtain cost savings.

2018-2020E: FOPE can grow Revenues at a CAGR of +10% and EBITDA at a CAGR of +17%

ESTIMATES

The first months of 2018 have shown a positive trend, and Management feels confident on a good outcome for the year, with growth in the sales volumes and increase in profitability.

We upgraded our 2018 and 2019 revenue forecasts to reflect higher than expected FY 2017 results, and slightly changed the timing of Capex as some investments were anticipated in 2017. In particular, FOPE exercised the option to purchase the flagship store in Venice (previously business lease). This will have a positive impact on EBITDA, thanks to lower rental cost, partially off set by an increase in D&As. We also included additional investments for the expansion of existing facilities. The time horizon was stretched to include 2020 estimates for the first time.

Our updated 2018-2020 estimates show:

- 1) Revenue growth at a 2018-2020 CAGR of 10%, thanks mainly to the continuous expansion in export markets, especially in the US, UK and Germany.
- 2) EBITDA 2018-2020 CAGR of 17%, and an increase in EBITDA margin by 230 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) Net debt at year end 2020 at 1.6 Eu m cash, after capex of about 7.0 Eu m over the three year period.

MAIN FINANCIAL INDICATORS

Eu m	17A	18E Old	18E New	19E Old	19E New	20E New
Revenues	28.0	28.2	30.8	31.0	33.9	37.3
yoy	+21%	+10%	+10%	+10%	+10%	+10%
EBITDA	3.9	3.3	4.4	3.7	5.2	6.0
margin	+13.9%	11.7%	14.2%	11.9%	15.2%	16.2%
EBIT	3.1	2.4	2.9	2.7	3.5	4.2
margin	+11.0%	8.4%	9.4%	8.5%	10.2%	11.3%
Pre tax profit	3.2	2.3	2.8	2.6	3.4	4.1
Net Profit	2.3	1.6	2.1	1.8	2.5	3.0
yoy	+117%	+11.7%	-11.2%	+12.1%	+19.2%	+21.8%
EPS	0.49	0.35	0.44	0.39	0.52	0.63

Eu m	17A	18E Old	18E New	19E Old	19E New	20E New
Net Working Capital (NWC)	8.8	10.8	9.8	11.6	10.8	11.9
Fixed net assets	6.9	6.0	9.0	6.0	9.5	8.9
Funds	(2.6)	(2.2)	(2.9)	(2.3)	(3.1)	(3.5)
Net Capital Employed	13.1	14.5	16.0	15.3	17.2	17.3
Net Debt (Cash)	1.2	1.9	2.6	0.9	1.3	(1.6)
Equity	11.9	12.6	13.4	14.4	15.9	18.9
Sources	13.1	14.5	16.0	15.3	17.2	17.3

Source: Company Data and IR Top Estimates

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 a peer group consisting of luxury Large Cap companies with business models comparable to FOPE.

As per our previous valuation we use an AIM Positioning discount of 27.5%. Our valuation has not been adjusted for the possible dilution impact of the exercise of outstanding warrants, that would have an impact of 4% on our valuation.

VALUATION

Our valuation yields a Target Price of 8.85 Eu per share

Unchanged AIM Positioning discount of 27,5%

MULTIPLES

Eu m	Country	Capitalisation	Revenues 2017	yoy	EBITDA % 2016A	EBITDA % 2017E
FOPE	Italy	32	28	+21%	10%	14%
Tod's	Italy	1,943	963	-4%	20%	17%
Salvatore Ferragamo	Italy	3,724	1,393	-3%	23%	18%
Prada	China	9,590	3,008	-6%	21%	19%
Moncler	Italy	7,863	1,194	+15%	33%	34%
Brunello Cucinelli	Italy	1,717	505	+11%	18%	17%
Tiffany	USA	9,689	3,396	-6%	24%	24%
LVMH	France	124,312	42,636	+13%	23%	24%
Kering	France	48,352	15,478	+25%	18%	22%
Burberry	UK	7,969	3,139	-4%	22%	22%
Hermes	France	49,977	5,549	+7%	37%	39%
Richemont	Switzerland	37,921	11,218	+5%	21%	24%
Luxury Peers		27,551	8,044	+5%	24%	24%

Source: Company Data for FOPE and Factset data for comparables

	18E	19E	20E
EV/EBITDA (x)			
FOPE	7.6	6.5	5.5
Luxury Peers	14.2	12.7	11.3
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	18E	19E	20E
EV/EBIT (x)			
FOPE	11.5	9.7	8.0
Luxury Peers	18.4	16.2	14.2
Discount/Premium to Luxury Peers	-37%	-40%	-44%

	18E	19E	20E
P/E (x)			
FOPE	15.6	13.1	10.7
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Source: IR Top Estimates for FOPE and Factset data for comparables

DCF

Main assumptions are:
- Perpetual growth: 1.5%
- Risk Free interest rate: 1.90%
- WACC: 8.4%

Sum of PV 2018-2023 FCF – Eu m	9.3
Terminal Value – Eu m	34.1
Total Enterprise Value – Eu m	43.4
Net Financial Position (Cash) – Eu m	1.2
Total Equity Value – Eu m	42.2
Number of shares outstanding – m	4.7
Fair Value per share – Eu	8.89

Source: Company Data and IR Top Estimates

Our DCF valuation yields a target price of 8.89 Eu per share.

VALUATION SUMMARY

Weighting the 2 valuation approaches equally we upgrade the target price to 8.85 Eu (previous 6.05 Eu), implying an upside of 30% and an implicit EV/EBITDA 2018 and 2019 multiple of 9.9 x and 8.4 x respectively.

Method	Price (Eu)
DCF	8.89
Multiple analysis	8.81
Target Price	8.85

FOPE ON AIM

+134% 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 27th, 2018)

Code: WFPE19
 ISIN: IT0005203432
 Price: 1.15 Eu
 Outstanding Warrants: 2,881,500
 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
 3rd Exercise Period: 15-29 Nov 2019 – Strike Price: $P_3 = P_2 (1+10\%) = 3.86$ Eu

As of March 27th, 2018 outstanding n. 2,881,500 Warrants

FOPE CONVERTIBLE 4.5% 2016-2021

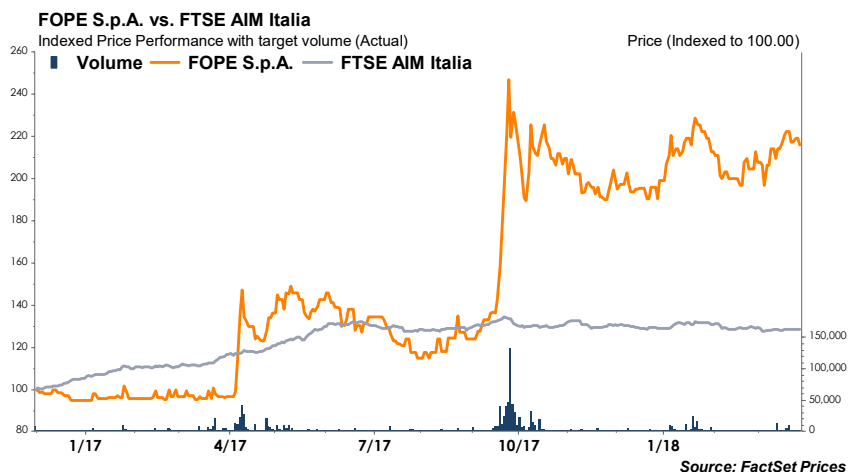
Code: FPE21
 ISIN: IT0005203671
 N. issued bonds: 1,200
 Nominal value of each bond: 100 Eu
 Issued Value: 1.2 Eu m

SHARES (as of March 27th, 2018)

Code: FPE
 Bloomberg: FPE IM
 Reuters: FPE.MI
 ISIN: IT0005203424
 Shares: 4,747,700
 Price: 6.80 Eu
 Performance from IPO: **+134%**
 Capitalisation: 32 Eu m
 Free Float: 17%
 NomAd: Integrae SIM
 Specialist: Integrae SIM

Shareholder	n. of shares	%
Ines Cazzola	1,817,200	38.28%
Umberto Cazzola*	482,460	10.16%
Giulia Cazzola**	1,334,740	28.11%
Diego Nardin	315,600	6.65%
Esperia Servizi Fiduciari S.p.A.	276,000	5.81%
Other Shareholders (<5%)	521,700	10.99%
Total	4,747,700	100.00%

* an additional 1,334,740 shares in usufruct
 ** shares held in bare ownership.



RATIOS

Eu m	2015A	2016A	2017A	2018E	2019E	2020E
Profit & Loss Statement						
Sales	20,9	23,1	28,0	30,8	33,9	37,3
EBITDA	2,0	2,3	3,9	4,4	5,2	6,0
EBIT	1,4	1,6	3,1	2,9	3,5	4,2
Financial Income (charges)	(0,1)	(0,1)	0,1	(0,1)	(0,1)	(0,1)
Pre-tax profit (loss)	1,3	1,5	3,2	2,9	3,4	4,1
Taxes	(0,3)	(0,4)	(0,8)	(0,8)	(0,9)	(1,1)
Net profit	1,0	1,1	2,3	2,1	2,5	3,0
Balance Sheet						
Fixed assets	4,5	5,0	6,9	9,0	9,5	8,9
NWC	8,1	8,9	8,8	9,8	10,8	11,9
M/L Funds	(2,5)	(2,1)	(2,6)	(2,9)	(3,1)	(3,5)
Net Capital Employed	10,1	11,8	13,1	16,0	17,2	17,3
Net Debt	4,4	2,1	1,2	2,6	1,3	(1,6)
Net Equity	5,7	9,6	11,9	13,4	15,9	18,9
Cash Flow						
EBIT	1,4	1,6	3,1	2,9	3,5	4,2
D&A	0,5	0,7	0,8	1,5	1,7	1,8
Tax	(0,3)	(0,4)	(0,8)	(0,8)	(0,9)	(1,1)
Other	0,0	0,0	0,0	0,0	0,0	0,0
Change in M/L Funds	0,9	(0,4)	0,5	0,3	0,3	0,3
Gross Cash Flow	2,5	1,4	3,6	3,9	4,5	5,2
Change in NWC	(2,2)	(0,8)	0,1	(1,1)	(1,0)	(1,1)
Operating Cash Flow	0,4	0,6	3,7	2,8	3,5	4,1
Capex and Investments	(1,5)	(1,2)	(2,7)	(3,6)	(2,2)	(1,2)
Financial Income (charges)	(0,1)	(0,1)	0,1	(0,1)	(0,1)	(0,1)
Free Cash Flow	(1,2)	(0,6)	1,0	(0,8)	1,3	2,9
Dividend	0,0	0,0	0,0	0,6	0,0	0,0
Change in Equity	(0,2)	3,9	2,3	1,5	2,5	3,0
Change in Net debt	(1,4)	3,3	3,3	1,2	3,7	5,9
Per Share Data						
Current Price	6,80					
Total shares out (mln) average	4,7					
EPS	0,21	0,23	0,49	0,44	0,52	0,63
DPS	0,00	0,00	0,00	(0,13)	0,00	0,00
FCF	(1,2)	(0,6)	1,0	(0,8)	1,3	2,9
Pay out ratio	0%	0%	0%	27%	0%	0%
Ratios						
EBITDA margin	9,4%	9,8%	13,9%	14,2%	15,2%	16,2%
EBIT margin	6,8%	6,8%	11,0%	9,4%	10,2%	11,3%
Net Debt/Equity (Gearing)	77%	22%	10%	19%	8%	-8%
Net Debt/EBITDA	2,2x	0,9x	0,3x	0,6x	0,3x	-0,3x
Interest cover EBIT	-0,1x	0,0x	0,0x	0,0x	0,0x	0,0x
ROE	17,5%	11,2%	19,6%	15,5%	15,6%	15,9%
Free Cash Flow Yield	-177%	-86%	145%	-119%	183%	413%
Growth Rates						
Sales	15%	10%	21%	10%	10%	10%
EBITDA	5%	16%	72%	12%	18%	17%
EBIT	-2%	11%	96%	-6%	19%	21%
Net Profit	3%	8%	117%	-11%	19%	22%

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

Date	Target Price	Market Price	Validity Time
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 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.

RESEARCH TEAM

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