

FOPE

A resilient business model also in difficult times

1H20 results: After very positive results in FY19, which confirmed the trend over the last years based on steady growth and a profitability in terms of EBITDA in the 20% region, FOPE, a leading player in the high end jewellery industry, saw a good start of FY20 with the first quarter of the year exceeding the same period of prior year in terms of sales. Revenues in 1H20 came in at Euro 10.2 m (-34% vs 1H19) and EBITDA stood at Euro 0.7 m (Euro 3.2 m in 1H19), with an EBITDA margin of 7%, vs 21% in 1H19. The drop in profitability was entirely attributable to the lower sales volumes. Net result was negative for Euro 0.1 m (Euro 1.9 m in 1H19). Net Debt stood at Euro 4.2 m at the end of 1H20, vs Euro 0.1 m at year end 2019 and Euro 3.9 m at the end of June 2019, after c. Euro 700 of investments mainly related to the completion of the Headquarter building in Vicenza and Euro 2.7m of increase in fine gold stock at convenient conditions. The shareholders meeting in April prudentially took the decision not to make any dividend payments.

Outlook and Estimates: Management has stated that the industry will probably continue to see the economic effect caused by the pandemic over the next months, and stated that given the uncertainties regarding the timing of recovery in the different geographical markets it is still difficult to make any predictions on FY20 sales volumes. The Company expects to see a reduction in sales vs. FY19, which however must be considered extraordinary and related only to the health emergency. Industrial margins are hence expected to remain in line with previous years and Management's guidance for FY20 is of an EBITDA margin in the 9-10% region and a positive Net result.

In light of the above, our outlook for the Company remains positive as we believe that the structural trend that support FOPE's equity story does not change. We revised our estimates for FY20 by a cut in top-line growth from +10% to a contraction of c. 30% and aligned our profitability forecast to management guidance. As for FY21 we expect demand to experience a steady recovery. We also added FY22 to our explicit time horizon. Overall, we cut our revenues and EPS forecast with an average of -29% and -64% respectively.

Valuation: We set a 11.37 Eu p.s. target price of FOPE, (Euro 12.28 p.s. previously), providing for a 70% upside on current stock price and obtained by weighting equally the DCF and the multiple comparison analysis.

Sector: Fashion & Luxury

Target Price (Eu)	11.37 (12.28 pr)
Market Price (Eu)	6.90
Market Cap (Eu m)	36
EV (Euro m)	40
<i>(as of 23th September 2020)</i>	

Share Data

Market	AIM ITALIA
Bloomberg/Reuters	FPE.MI/FPE IM
ISIN	IT0005203424
N. of Shares	5,294,071
Free Float	17%
CEO	Diego Nardin

Aim Positioning

FY 2019	Company	F&L	AIM Italia
VoP (Eu m)	35	45	36
Yoy	12%	0%	17%
EBITDA %	19%	12%	15%
ND/EBITDA (x)	0.0	1.3	2.1

Market Data	Company	F&L	AIM Italia
Mkt Cap um	35	23	45
Perf. IPO	131%	-44%	-12%
Free Float	17%	25%	33%
ADTT YTD Euk	41	18	71

Credit Risk Profile

	FOPE	Italian PMII Av
Wiserfunding Bond Rating Equivalent	B+	B+

Performance

	1M	3M	1Y
Absolute	-6.8%	-7.5%	-10.5%
Relative	-6.0%	-1.1%	9.4%
52-week H/L (Eu)	10.3		6.7

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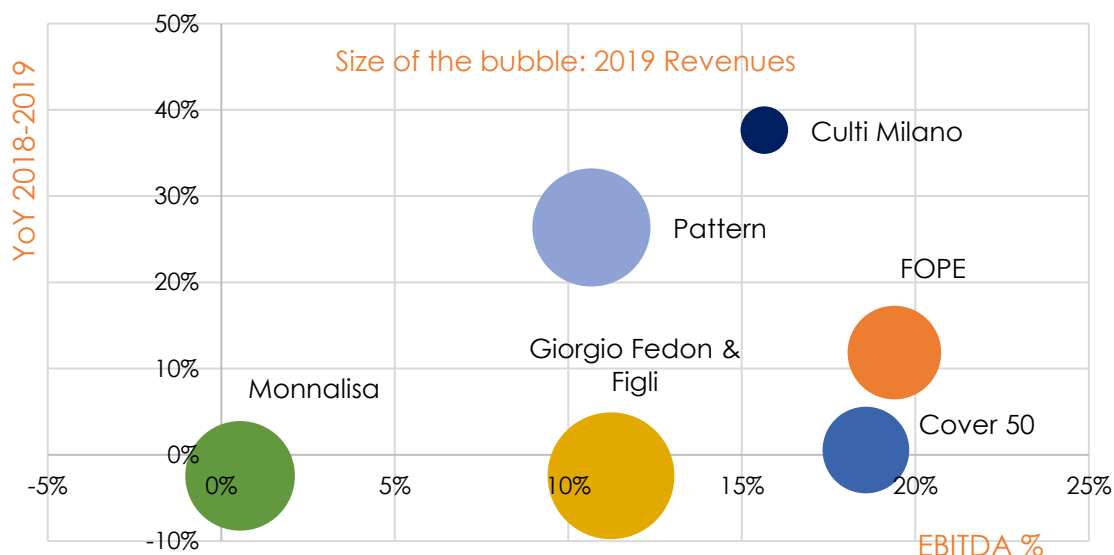
Key Figures (Euro m)	Sales	Yoy %	EBITDA	EBITDA %	EBIT	EBIT %	Net Profit	Net Debt
2019A	35.0	12%	6.8	19.4%	5.4	15.5%	4.8	0.1
2020E	24.5	-30%	2.3	9.5%	0.7	2.8%	0.3	0.8
2021E	33.0	+35%	6.4	19.5%	4.8	14.6%	3.3	(1.0)
2022E	38.0	+15%	7.6	20.1%	5.9	15.4%	4.1	(1.9)

KEY FINANCIALS
KEY FIGURES

Profit&Loss Statement	2017A	2018A	2019A	2020E	2021E	2022E
Revenues	28,0	31,3	35,0	24,5	33,0	38,0
EBITDA	3,9	6,1	6,8	2,3	6,4	7,6
EBIT	3,1	5,0	5,4	0,7	4,8	5,9
Financial Income (charges)	0,1	(0,2)	(0,5)	(0,4)	(0,2)	(0,2)
Pre-tax profit (loss)	3,2	4,7	5,0	0,3	4,6	5,7
Taxes	(0,8)	(1,4)	(0,1)	0,0	(1,3)	(1,6)
Net profit (loss) Group	2,3	3,3	4,8	0,3	3,3	4,1
Balance Sheet						
Fixed assets	6,9	9,3	12,6	12,2	12,1	11,8
NWC	8,9	9,5	11,2	12,6	14,2	16,3
M/L Funds	(2,7)	(2,8)	(3,0)	(3,0)	(3,0)	(3,0)
Net Capital Employed	13,1	16,1	20,9	21,9	23,3	25,1
Net Debt	1,2	0,1	0,1	0,8	(1,0)	(1,9)
Net Equity	11,9	16,0	20,8	21,0	24,3	27,0
Cash Flow						
EBIT	3,1	5,0	5,4	0,7	4,8	5,9
D&A	0,8	1,1	1,3	1,6	1,6	1,8
Tax	(0,8)	(1,4)	(0,1)	0,0	(1,3)	(1,6)
Other	0,0	0,0	0,2	0,0	0,0	0,0
Change in M/L Funds	0,6	0,1	0,2	0,0	0,0	0,0
Gross Cash Flow	3,7	4,8	7,1	2,3	5,1	6,1
Change in NWC	(0,0)	(0,7)	(1,7)	(1,4)	(1,6)	(2,1)
Operating Cash Flow	3,7	4,1	5,4	0,9	3,6	3,9
Capex and Investments	(2,7)	(3,5)	(4,9)	(1,2)	(1,5)	(1,5)
Financial Income (charges)	0,1	(0,2)	(0,5)	(0,4)	(0,2)	(0,2)
Free Cash Flow	1,0	0,3	0,1	(0,7)	1,9	2,2
Dividend	0,0	(0,6)	(1,8)	0,0	(0,1)	(1,3)
Change in Equity	(0,0)	1,3	1,7	(0,0)	0,0	(0,0)
Change in Net debt	1,0	1,1	0,0	(0,7)	1,8	0,9
Per Share Data						
Current Price		6,70				
Total shares out (mn) average		5,3				
EPS	0,44	0,63	0,92	0,05	0,63	0,77
DPS	0,11	0,33	n.m.	0,02	0,25	n.m.
FCF	0,2	0,1	0,0	(0,1)	0,4	0,4
Pay out ratio	25%	53%	0%	40%	40%	0%
Ratios						
EBITDA margin	13,9%	19,5%	19,4%	9,5%	19,5%	20,1%
EBIT margin	11,0%	15,9%	15,5%	2,8%	14,6%	15,4%
Net Debt/Equity (Gearing)	9,8%	0,7%	0,5%	3,8%	n.m.	n.m.
Net Debt/EBITDA	0,3	0,0	0,0	0,3	n.m.	n.m.
Interest cover EBIT	-33,5	22,5	11,3	1,7	24,1	29,3
ROE	19,6%	20,9%	23,3%	1,3%	13,7%	15,1%
Free Cash Flow Yield	3%	1%	0%	n.m.	5%	6%
Growth Rates						
Revenues	21%	12%	12%	-30%	35%	15%
EBITDA	72%	56%	11%	-66%	177%	19%
EBIT	96%	61%	9%	-88%	613%	22%
Net Profit	117%	43%	45%	-94%	1102%	23%

AIM POSITIONING

We position FOPE within AIM Italia's "**Fashion & Luxury**" Sector which includes 7 companies. In FY 2018 they showed average revenues of Euro 35 m, an average yoy growth of +6% and EBITDA margin of 9%. FOPE is the only listed company in the Luxury sector that produces high end jewellery with its own brand.

AIM Italia Fashion & Luxury Sector


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

- higher revenue growth rates (+12% vs +0%)
- higher EBITDA margin (19% vs 12%)
- lower level of Indebtedness (NFP/EBITDA 0.0x vs 1.3x)

Market Data	Capitalization (Eu m)	Free Float (%)	Perf. From IPO (%)	ADTT YTD (Eu)	Revenues (Eu m)	Revenues YoY	EBITDA margin (%)	EV/EBITDA 2019 (x)	NFP/EBITDA (x)
Cover 50	26	26%	-69%	10,355	30	1%	19%	2.4	(2.2)
Culti Milano	16	28%	0%	14,880	9	38%	16%	9.7	(1.2)
Giorgio Fedon & Figli	11	21%	-27%	3,503	64	-2%	11%	n.m.	n.m.
Italia Independent Group	21	21%	-92%	24,173	8	-60%	n.m.	n.m.	n.m.
Monnalisa	15	26%	-79%	18,756	48	-2%	1%	71.5	13.1
Pattern	47	28%	+5%	39,613	56	26%	11%	5.8	(2.1)
Fashion & Luxury	23	25%	-44%	18,546	36	0%	12%	14.9	1.3
AIM Italia	45	33%	-12%	71,694	45	17%	15%	12.1	2.1
FOPE	35	17%	131%	41,530	35	12%	19%	5.5	0.0

Source: Osservatorio AIM Italia and FactSet data as of September 7th. 2020

FOPE is trading at discount in terms of EV/EBITDA compared to average AIM Italia "Fashion & Luxury" Sector. Compared to average AIM Italia "Fashion & Luxury" Sector, FOPE shows:

- higher capitalisation (Euro 35 m vs Euro 23 m)
- lower free float (17% vs 25%)
- higher average daily traded turnover (ADTT 41,530 vs 18,546)
- Performance from IPO is positive and above average (+157% vs -9%).

BUSINESS UPDATE AND OUTLOOK

After very positive results in FY19, confirming the trend over the last years based on steady growth and a profitability in terms of EBITDA in the 20% region, also FY20 started off very well with the first quarter of the year exceeding the same period of prior year in terms of sales. This in spite the fact that the results for the month of March started to see the first impact of the COVID-19 spread over Europe. 1H20 saw an inevitable drop in revenues caused by the lockdown during which the Company was forced to temporary halt production and interrupt delivery activity, although administrative and sales activities continued in smart working.

Management stated that the industry will probably continue to see the economic effect caused by the pandemic over the next months, especially in some geographic markets (including the US), whereas others, especially in Northern Europe, seem to start to go back to normal. Management anticipated that given the uncertainties regarding the timing of recovery in the different markets it is still difficult to make any predictions on FY20 sales volumes. However, management expects a reduction which however must be considered extraordinary and related only to the health emergency. Industrial margins are hence expected to remain in line with previous years and Management's guidance for FY20 is of an EBITDA margin in the 9-10% region and a positive Net result.

According to Bain&Company the Global personal luxury goods market is set to contract between 20 - 35 percent in 2020 driven by lockdowns and the shutdown of tourism in all key markets. After falling by an estimated 25 percent in the first quarter of 2020, the slowdown should accelerate in the second quarter and could lead to an estimated contraction of between 20 percent to 35 percent for the full year. Bain & Company anticipates a recovery to 2019 levels in 2022.

Given the above, our outlook for the Company remains positive as we believe that the equity story remains unchanged. Management has confirmed strategic guidelines, which have shown to be valid also in light of the experience matured regarding market behaviour and supply chain over the last months.

At the end of February, the majority shareholders of FOPE signed an agreement for the sale of 71.2% of the Company' shares to an investment company, for a total consideration of Euro 9.25 per share. The offer was later withdrawn due to the extraordinary situation determined by the COVID-19 emergency.

1H20 RESULTS

FOPE recently released 1H20 results, with revenues of Euro 10.2 m (-34% vs 1H19).

EBITDA went from Euro 3.2 m in 1H19 to Euro 0.7 m in 1H20, with an EBITDA margin of 7%, vs 21% in 1H19. The drop in profitability caused by the lower sales volumes, was partially offset by containment policies, updated budget plans for expenses and investments and the use of State grants to contain personnel costs.

After D&A of Euro 0.7 m, EBIT stood at Euro 0.004 m (Euro 2.6 m in 1H19). Net result was negative for Euro 0.1 m (Euro 1.9 m in 1H19).

Net working capital stood at Euro 15.4 m, up from Euro 11.2 m in FY19, mainly following an increase in inventory (Euro 9.4 m vs. Euro 6.2 m as of FY19) following the strategic choice to use cash available to acquire fine gold at a convenient conditions with expected positive effect on future industrial margin.

Net Debt stood at Euro 4.2 m at the end of 1H20, vs Euro 0.1 m at year end 2019 and Euro 3.9 m at the end of June 2019, after c. Euro 700 of investments mainly related to the completion of the Headquarter building in Vicenza. At the shareholders meeting in April, shareholder prudentially took the decision not to make any dividend payments.

Key Financials – Euro m

	1H 2020	1H 2019	2019A
Revenues	10.2	15.5	35.0
	yoy	-34%	+12%
EBITDA	0.7	3.2	6.8
	margin	7%	19%
EBIT	0.004	2.6	5.4
	margin	0.4%	15%
Net Profit	(0.1)	1.9	4.8
Net Working Capital (NWC)	15.4	11.2	11.2
Fixed net assets	12.6	12.6	12.6
Funds	(3.0)	(3.0)	(3.0)
Net Capital Employed	25.0	20.9	20.9
Net Debt (Cash)	4.2	0.1	0.1
Equity	20.9	20.8	20.8
Sources	25.0	20.9	20.9

Source: Company Data

2020-2022 ESTIMATES

Based on the above we reviewed our estimates for FY20 by a cut in top-line growth from +10% to a contraction of c. 30% and aligned our profitability forecast to management guidance. As for FY21 we expect demand to experience a steady recovery. We also added FY22 to our explicit time horizon. Overall, we cut our FY20-21 revenues and EPS forecast with an average of -29% and -64% respectively.

Estimates - Consolidated Income Statement – Euro m

	2019A	2020E Old	2020E New	2021E Old	2021E New	2022E New	
Sales	35.0	37.8	24.5	42.4	33.0	38.0	
	yoy	+12%	+10%	-30%	+12%	+30%	+15%
EBITDA	6.8	7.6	2.3	8.7	6.4	7.6	
	margin	19%	20.2%	9.5%	20.6%	19.5%	20.1%
EBIT	5.4	6.1	0.7	6.9	4.8	5.9	
	margin	15%	16.2%	2.8%	16.7%	14.6%	15.4%
Net Profit	4.8	4.3	0.3	5.0	3.3	4.1	

Source: Company Data

Estimates - Consolidated Balance Sheet – Euro m

	2019A	2020E Old	2020E New	2021E Old	2021E New	2022E New
Net Working Capital (NWC)	11.2	11.6	12.6	13.0	14.2	16.3
Fixed net assets	12.6	12.2	12.2	12.1	12.1	11.8
Funds	(3.0)	(2.9)	(2.9)	(3.0)	(3.0)	(3.0)
Net Capital Employed	20.9	20.9	21.9	20.5	23.3	25.1
Net Debt (Cash)	0.1	0.2	0.8	(1.9)	24.3	27.0
Equity	20.8	20.7	21.0	24.0	(1.0)	(1.9)
Sources	20.9	20.9	21.9	22.1	23.3	25.1

Source: Company Data

AIM DISCOUNT UPDATE

When using market multiples to determine the target price of an AIM Italia listed company, we apply a discount on the average peer multiple based on an algorithm that, in partnership with Wisefunding Ltd and "Osservatorio AIM" (IR Top proprietary database) measures the positioning of the company along 5 dimensions:

- Market Data (capitalisation, liquidity, free float)
- Financials (growth and profitability)
- Sustainability (ESG)
- Transparency (strategic plan)
- Credit Risk (Wisefunding Bond Rating Equivalent)

In collaboration with Wisefunding Ltd¹, a London based fintech specialized in providing accurate credit assessments for SMEs, segmented by size, country and industry sector, this year we have added a fifth dimension to our AIM Discount algorithm, that takes into account the Credit Rating of the Company.

Hence, Market Data establishes a base discount that runs from 20% to 30%. According to a scoring system, the Credit Rating accounts for a premium/discount in the +/- 5% range where rating of B+ (average credit risk for Italian SMEs) would imply neutrality, i.e. +/- 0% discount/ premium. The other three 3 dimensions (Financials, Sustainability and Transparency) together determine an additional discount/premium of +/- 5%.

Applying the algorithm on **FOPE**, we consider fair a discount of 26.00% to Industry peers based on:

- Market Data discount of 30.0%
- Wisefunding PMI Z-score of 312 and bond rating equivalent of B+ which would imply neutrality (+/-0%)
- A 4.0% premium as a sum of the scoring for Financials, ESG and Transparency.

VALUATION

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 and updated our AIM Positioning Discount to reflect FY 2019 results and a credit rating as of the analysis made by Wisefunding.

We set a 11.37 Eu p.s. target price of FOPE, (Euro 12.28 p.s. previously), providing for a 70% upside on current stock price and obtained by weighting equally the DCF and the multiple comparison analysis. At our TP the FOPE stock would be trading at EV/EBITDA 2021 multiple of 9.5x.

Valuation Summary

Method	Weight	Price (Euro)
Multiple Comparison	50%	11.98
DCF	50%	10.76
Target Price	100%	11.37

DCF model

¹ Wisefunding is a London-based fintech company specialised in assessing the credit risk of small and medium sized enterprises (SMEs). Through their online platform, they allow businesses looking to obtain finance or lenders and investors looking to assess the risk of businesses to get more accurate data to make better decisions quicker than ever before. Wisefunding provides SMEs across Europe with a risk assessment based on past financial history and a range of publicly available structured and unstructured data. Professor Edward Altman, one of the pioneers of credit risk analytics back in the 60s and inventor of the famous Z-score model, is one of the co-founders. Wisefunding has been official partner of Borsa Italiana for the Fixed Income since 2016.

Our DCF model yields a fair value of Euro 10.76 per share and was run using our FCF estimates of for the 2020E-25E explicit period and based on the following assumptions:

WACC calculation	
Perpetual growth rate	1.0%
WACC	7.1%
Risk free rate (BTP 10Y 12 months average)	1.89%
β unlevered	0.8
Equity risk premium	7.5%
Ke	10.8%
Cost of debt	2.0%
Tax rate	27.5%
Kd	1.45%
DCF Valuation	
Euro '000	
Sum of PV 2020-23 FCFs	13,689 23.7%
Discounted terminal value	44,080 76.3%
Enterprise Value	57,769
Net Cash (average last four quarters)	0.8
Minorities	-
Equity Value	56,967
N. of outstanding shares (m)	5,294,071
Fair Value p.s.	10.76

Multiples Comparison

For our relative valuation of FOPE, we used FY 20-22 EV/EBITDA and P/E multiples of a peer group active in the Personal Luxury Goods segment.

Our Multiple model yields a fair value of Euro 11.98 per share.

Companies	Country	Market Cap	Price	Sales 2020E	Sales YoY 20/19	EBITDA % 2020E	EBIT % 2020E	NI % 2020E
Tod's	Italy	812	24.5	669	-27%	7%	n.m.	n.m.
Salvatore Ferragamo	Italy	2,076	12.3	966	-30%	15%	n.m.	n.m.
Prada	China	8,740	3.4	2,531	-22%	27%	0%	n.m.
Moncler	Italy	9,093	35.2	1,394	-14%	36%	23%	15%
Tiffany	USA	12,104	99.7	3,062	-23%	17%	10%	7%
LVMH	France	201,953	400.1	45,403	-15%	24%	16%	9%
Kering	France	72,952	577.7	13,163	-17%	32%	23%	15%
Burberry	UK	6,759	16.7	2,538	-16%	26%	12%	8%
Richemont	Switzerland	29,834	57.2	12,522	-12%	18%	7%	5%
Average		38,258		9,139	-20%	22%	15%	9%
FOPE	ITA	35,470	6.7	22,700	-33%	7%	1%	0%

Source: FactSet data as of September 23th, 2020

Companies	EV/EBITDA		EV/EBIT		P/E	
	20E	21E	20E	21E	20E	21E
Tod's	28.9	12.8	n.a.	n.a.	n.a.	n.a.
Salvatore Ferragamo	18.7	10.9	n.a.	44.8	n.a.	96.0
Prada	16.9	11.9	1,792.8	40.1	n.a.	52.6
Moncler	17.7	13.7	27.5	19.0	42.5	28.6
Tiffany	25.3	16.6	43.0	23.3	52.7	28.0
LVMH	20.7	15.5	31.2	20.7	48.6	29.2
Kering	18.9	14.7	26.2	18.8	36.5	25.1
Burberry	11.5	9.6	25.4	17.7	32.4	22.1
Richemont	14.5	11.1	36.9	20.3	51.4	27.5
Median Luxury Peers	18.7	12.8	31.2	20.5	45.5	28.3
FOPE	15.6	5.4	53.6	7.1	128.0	10.7
Premium/Discount to Peers	-17%	-58%	72%	-65%	181%	-62%

Source: FactSet data as of September 23th, 2020

IPO

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

FOPE CONVERTIBLE 4.5% 2016-2021

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

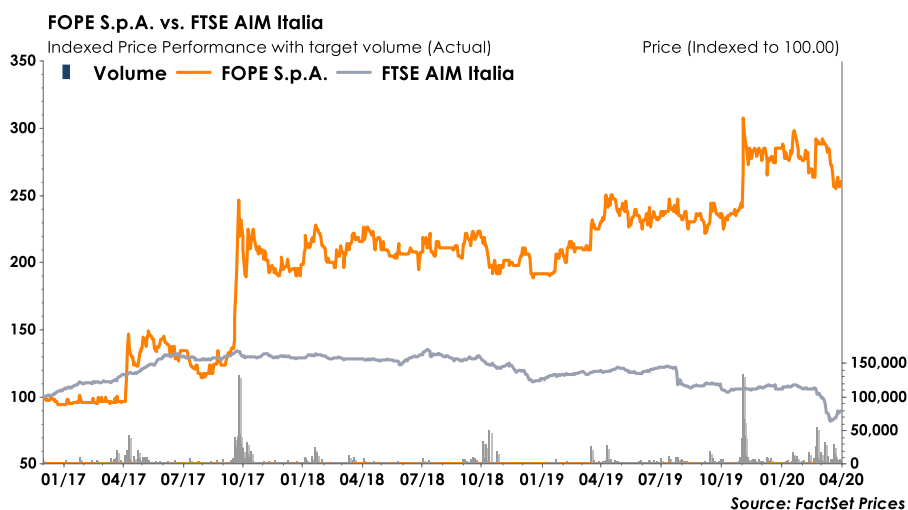
SHARES (as of September 23th, 2020)

Code: FPE
 Bloomberg: FPE IM
 Reuters: FPE.MI
 ISIN: IT0005203424
 Shares: 5,294,071
 Price: 6.70 Euro
 Performance from IPO: +147%
 Capitalisation: 36 Euro m
 Free Float: 17%
 NomAd: Integrae SIM
 Specialist: Integrae SIM

Shareholder	n. of shares	%
Ines Cazzola	1.884.600	35,60%
Umberto Cazzola *	1.247.230	23,56%
Eredi Giulia Cazzola **	637.370	12,04%
Diego Nardin	306.160	5,78%
SPAFID SpA	303.600	5,73%
Mercato	915.111	17,29%
Totale	5.294.071	100,0%

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

** of which 637,370 as bare ownership.



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 25th 2019.

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
September 24, 2020	11.37	6.70	12 months
September 25 th 2019	12.28	7.45	12 months
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)

Andrea Praga, (Analyst)

Chiara Cardelli, (Researcher)

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