

ITALIA INDEPENDENT GROUP (IIG-IT)

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HOLD

Last (€)

1.53

Valuation Range (€)

1.70-1.80

A first step towards FY21 Management's targets

- 1H21 revenues were €9.1mn vs. €2.4mn in 1H20, better than our estimate of €8.2mn.** Total sales were mainly made by Eyewear (98% or €8.9mn), which increased from €2mn in 1H20. Web remained almost stable, weighing just over 1%; Retail dropped to 0.4% of sales from 10% also due to the closing of some IIG retail stores while Others, which include royalties and advisory fees, also dropped to ca. 1% of sales from 9% in 1H20. From a geographical standpoint, Italy increased its contribution of sales to 93% or €8.3mn vs. 69%/€1.4mn in 1H20, mainly due to COVID-19 restrictions. EMEA dropped to 4.7% from 29.4% in 1H20 while APAC and RoW remained in line (ca. 1% of sales). On the Profitability side, Gross margin was slightly below our expectation, down to 50% of sales.
- EBITDA came in line with our estimates at -€0.2mn vs. €-1.1mn in 1H20,** close to breakeven, despite the increase in costs of personnel reaching €1.6mn vs. €1.2mn in 1H20 (+36% y/y) and marketing & distribution costs of €2.4mn vs. €0.8mn in 1H20, mainly related to Euro 2020 soccer event. EBIT was -€0.6mn after lower than expected D&A of €0.5mn while net loss reached -€0.8mn vs. -€2mn in 1H20. Net cash flow was negative for -€0.7mn, mainly due to €8.6mn of advanced payment related to marketing costs for future soccer events. Finally, net debt increased to €17.6mn from to €15.5mn after new source of debt, enhanced by incentive forms such as "Cura Italia" or "Rilancio Italia".
- Restructuring phase is on track, COVID-19's aftermath to challenge Management's main pillars.** In 1H21 IIG Management was able to turn EBITDA into breakeven territory despite investments in personnel and marketing, while making progress in some of the business plan's main pillars. The cost reduction activity was tied-up with an improved NWC over the period, especially inventory which was rationalized to €3.9mn from €7.2mn in 1H20. On the other side, COVID-19 restrictions have challenged international sales (down by 33% y/y) and postponed key events such as the "Mido Eyewear show". On top of that, we expect lower domestic visibility from the CR7 partnership which should be counterbalanced by an increased IIG presence in the United Kingdom market.
- 2H21 visibility.** We believe that IIG should be able to match our FY21 revenues estimate of €15.3mn. Nonetheless, visibility remains limited due to persisting uncertainties over market conditions and development on internationalization plan. In 1H21 we expect an improvement in gross margin (from 50% to 64% HoH) due to a seasonal increase of eye-glasses sales (with higher associated margin) during the winter season.
- HOLD recommendation confirmed, with a valuation range of €1.70-1.80 (from €1.60-1.70).** Given that 1H21 results came in slightly better than our projections in terms of top-line and D&A, we fine-tuned our FY21 projection accordingly, which now are pointing to FY21 revenues of €15.3mn. Based on our updated estimates and metrics since our last note, we set a new valuation range of €1.70-1.80 (from €1.60-€1.70) on the stock, derived from our DCF valuation. The stock is currently trading at FY21-22 EV/sales of 2.5x-1.8x.

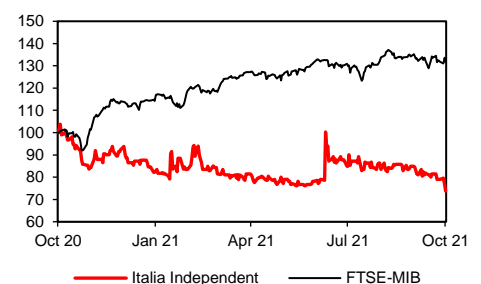
KEY FINANCIALS

€m	2020	2021E	2022E
Revenues	11	15	22
EBITDA	0	0	2
EBIT	-2	-2	0
PBT	-3	-2	-1
Net income	-3	-3	-1
Sales growth	46%	35%	43%
EBITDA mg	0%	-2%	8%
EBIT mg	-18%	-13%	-2%
PER	n.m.	n.m.	n.m.

EV VALUATIONS

€m	2020	2021E	2022E
+ Mkt Cap	28	22	22
+ Net Debt	16	15	17
- Non-core assets	0	0	0
+/- Other	0	0	0
= EV	43	38	39
EV/Sales (x)	3.8	2.5	1.8
EV/EBITDA (x)	n.m.	n.m.	22.5
EV/EBIT (x)	n.m.	n.m.	n.m.
EV/IC (x)	2.9	2.3	2.3

IIG vs. FTSE-MIB



Source: Bestinver Securities & Factset

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Figure 1: IIG – 1H21 Results (€mn)

	1H20A	1H21A	y/y	1H21E	a/e
Net Sales	2.4	9.1	272%	8.2	11%
EBITDA	(1.1)	(0.2)		(0.2)	
<i>margin</i>	-	-		-	
D&A	0.5	0.5		0.9	
EBIT	(1.6)	(0.6)		(1.1)	
<i>margin</i>	-	-		-	
Net Profit	(2.0)	(0.8)		(1.4)	
Net Debt/(cash)	(15.5)	(17.6)		(16.2)	

Source: Company data and Bestinver Securities

Figure 2: IIG – Change in estimates (€mn)

	2021E			2022E		
	New	Old	%change	New	Old	%change
Revenues	15.3	14.9	2%	21.8	21.8	0%
<i>y/y</i>	34.5%	31.3%		42.8%	46.3%	
EBITDA	(0.2)	(0.1)		1.7	1.7	0%
<i>margin</i>	-1.5%	-0.7%		8.0%	8.0%	
EBIT	(1.9)	(2.3)		(0.5)	(0.5)	0%
<i>margin</i>	-12.6%	7.2%		-2.1%	-2.1%	
Net Income	(2.7)	(2.8)		(1.0)	(1.0)	0%

Source: Company data and Bestinver Securities

Figure 3: IIG – Management guidelines (€mn)

	2020A	1H21A	2021E	2022E	2023E	2024E
Revenues	11.3	9.1	16.5	26	34.4	42.7
EBITDA	0.0	(0.2)	(0.1)	2.4	6.3	10.4
<i>Margin %</i>	0.0	-1.9%	-0.6%	9.3%	18.3%	24.3%
Net income	(2.8)	(0.8)	(2.8)	(0.4)	3.1	6.8

Source: Company data and Bestinver Securities

Summarised P&L Account and key ratios

€m	2017	2018	2019	2020	2021E	2022E
Sales	22.1	19.4	7.8	11.3	15.3	21.8
EBITDA	-0.3	-1.2	-6.0	0.0	-0.2	1.7
Depr/Prov	5.4	7.7	8.0	2.0	1.7	2.2
EBIT	-5.7	-8.9	-14.0	-2.1	-1.9	-0.5
Net Int.Cost	-1.0	-0.8	-0.5	-0.4	-0.5	-0.4
Associates	0.0	0.0	0.0	0.0	0.0	0.0
Impairment & Other	-0.3	3.4	-0.9	-0.1	0.0	0.0
PBT	-7.0	-6.2	-15.4	-2.6	-2.4	-0.9
Taxes	-0.2	0.1	1.1	-0.3	-0.3	-0.1
Discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	-7.2	-6.1	-14.3	-2.8	-2.7	-1.0
EPS	-1.32	-0.92	-1.43	-0.28	-0.73	-0.07
Sales growth	n.m.	n.m.	n.m.	46%	35%	43%
EBITDA growth	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Net Profit growth	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EBITDA margin	n.m.	n.m.	n.m.	n.m.	n.m.	8%
EBIT margin	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Net Pr. Margin	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Gross Int. Cover (x) (1)	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.

Summarised Balance Sheet and key ratios

€m	2017	2018	2019	2020	2021E	2022E
Fixed assets	9.4	2.9	2.8	2.4	2.7	2.5
Goodwill	0.9	0.9	0.7	0.7	0.7	0.7
Inventories	10.8	10.4	6.5	7.2	6.6	8.8
Trade Receivables	16.0	19.2	11.6	13.7	19.5	23.5
Cash + S/T Invest. + Other	0.6	0.6	1.4	1.3	1.3	1.2
Total Assets	37.8	34.1	22.9	25.3	30.7	36.7
Sharehold. Equity						
L-T Financial Debt	1.1	3.7	-0.7	-0.6	1.5	0.5
S-T Financial Debt	13.7	9.6	9.2	12.3	12.1	13.1
Trade Payables	11.6	7.4	4.8	4.6	4.5	4.9
Provisions + Other	4.6	9.1	6.4	6.2	9.3	13.3
Total Liabilities	6.8	4.3	3.2	2.9	3.3	4.9
Net Debt	37.8	34.1	22.9	25.3	30.7	36.7
WACC	24.6	16.3	12.7	15.5	15.3	16.7
Net Debt/Equity	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
ROCE (2)	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
ROE	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
ROCE/WACC (x)	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.

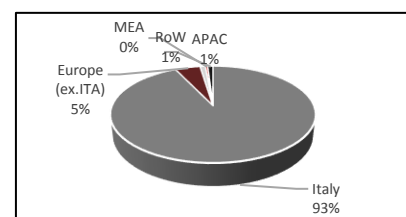
Simplified Cash Flow Statement and key ratios

€m	2017	2018	2019	2020	2021E	2022E
Net Profit	-7.2	-6.1	-14.3	-2.8	-2.7	-1.0
+ Depr. & Amortis.	5.4	7.7	8.0	2.0	1.7	2.2
+/- other	1.9	-3.4	0.9	0.3	0.0	0.0
= Operating CF	0.2	-1.8	-5.4	-0.5	-1.0	1.2
- Change in Working K	1.6	-2.3	-0.7	-3.6	-1.6	-0.7
- CAPEX of which	0.0	-0.8	-0.5	-1.7	-0.8	-0.9
expansionary CAPEX	0.0	0.0	0.0	0.0	0.0	0.0
- Dividends	0.0	0.0	0.0	0.0	0.0	0.0
= Net FCF	1.8	-4.9	-6.6	-5.8	-3.4	-0.4
FCF Yield (Mkt Cap)	7.0%	-18.8%	-30.0%	-35.6%	-14.2%	-1.5%
FCF Yield (EV)	5.5%	-9.7%	-17.7%	-17.1%	-7.5%	0.2%
FCF (3)	1.8	-4.9	-6.6	-5.8	-3.4	-0.4
FCF Yield (Mkt Cap)	7.0%	-18.8%	-30.0%	-35.6%	-14.2%	-1.5%
FCF Yield (EV)	5.5%	-9.7%	-17.7%	-17.1%	-7.5%	0.2%

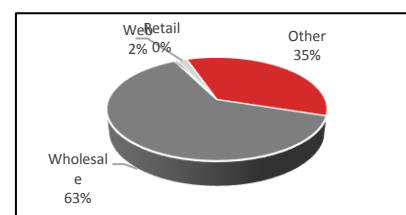
EV valuations

€m	2020	2021E	2022E
+ Mkt Cap	28	22	22
+ Net Debt	16	15	17
- Non-core assets	0	0	0
+/- Other	0	0	0
= EV	43	38	39
EV/Sales (x)	3.8	2.5	1.8
EV/EBITDA (x)	n.m.	n.m.	22.5
EV/EBIT (x)	n.m.	n.m.	n.m.
EV/IC (x)	2.9	2.3	2.3

Geographical Sales BreakDown



Divisional Sales BreakDown



Debt Structure (€m)

Total Debt in the B. Sheet

Short Term
Long Term
maturing in 24M
maturing in 36M
maturing in 48M or more

Cost Range
Rating (Moody's)
Short term
Long term

Estimated Off B/S Liabilities

Share Information

Outstanding # shares (m)	15
Market Cap (€ m)	24
Avg. daily volume (€ m, last 6 months)	0
Free float %	21%
Major shareholders	
Lapo Edovard Elkan	53.4%
Creative Ventures S.r.l.	25.4%

Management shares option scheme

% of Capital
Nearest to vest

1) calculated as EBIT/Int. expenses (2) calculated as ROCE after taxes (3) calculated ex-expansionary CAPEX

(*) Source: company data and Bestinver Securities estimates

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