

Company Update

Buy (maintained)

22 May 2020 – 5:30PM

MARKET PRICE: EUR2.58

TARGET PRICE: EUR3.11 (from EUR3.40)

**Food & Beverage**

**Data**

|                           |                      |
|---------------------------|----------------------|
| Shares Outstanding (m):   | 14.00                |
| Market Cap. (EURm):       | 36.12                |
| Enterprise Value (EURm):  | 121.9                |
| Free Float (%):           | 29.7%                |
| Av. Daily Trad. Vol. (m): | 0.01                 |
| Main Shareholder:         | Newlat Food<br>46.2% |
| Reuters/Bloomberg:        | CLI.MI CLI IM        |
| 52-Week Range (EUR)       | 1.85 2.74            |

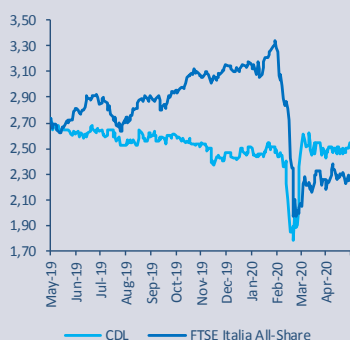
Source: Factset, UBI Banca estimates

**Performance**

|                 | 1m   | 3m    | 12m   |
|-----------------|------|-------|-------|
| Absolute        | 6.6% | 5.7%  | -5.5% |
| Rel. to FTSE IT | 3.4% | 36.9% | 13.9% |

Source: Factset

**Graph area Absolute/Relative 12 M**



Source: Factset

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## Outstanding results in 1Q20

CLI reported stunning results with sales up 8% and EBITDA margin topping 9.2%, the highest level of the past ten years. This outstanding performance was possible thanks to the impact of COVID-19 outbreak which increased the milk consumption in Italy thanks to reduction of eating-out habits (in particular for UHT during the first weeks of lockdown) while depressed the fresh milk price due to lower cheese export, translating into a much higher margin for CLI which in the meantime increased selling price by around 4%. In this scenario, which remained positive also in April and May, Newlat acquired a 46.24% stake of CLI from Finanziaria Centrale del Latte di Torino and Lavia at a price of EUR3 + 1 Newlat share for every 3 CLI shares, giving an implicit value of EUR2.70 per share to CLI based on the closing Newlat price at the execution date (EUR5.10 as of 1st April 2020), implying an EV/EBITDA multiple of 10.7x in 2020 and 10.2x in 2021 before the synergies stemming from the deal which were quantified into EUR14 million by Newlat management. A tender offer on the remaining CLI shares, not aimed at delisting CLI, under the same conditions should be finalised after Summer. We remain buyers of the share both on fundamental basis (given the improved market scenario) and Newlat tender offer: based on Newlat current share price CLI could be valued EUR2.67 per share but applying Newlat current target price (EUR8.50) it could reach EUR3.83 per share.

- > CLI did not supply a specific guidance for 2020 even if the management highlighted to be fully confident to see organic growth also in the rest of the year and the company confirmed its 2020-22 business plan which targets a top line CAGR of 1.4% with an EBITDA margin which should top 9.3% in 2022 (or EUR17.5 million) with a net profit of EUR5.5 million.
- > We increased our estimates for 2020-22 by 2.3% on average on sales and by 31% on EBITDA also considering the cost benefits that should come from the incorporation of Centrale del Latte di Firenze and Centrale del Latte di Vicenza into CLI (EUR3 million).
- > We set a new target price of EUR3.11 per share (from EUR3.40, which, however, was based on our assumptions on the outcome of the talks with Newlat or before knowing the terms of the deal) based on the average of our fundamental valuation and the fair value implicit in the Newlat tender offer (based on both market price and target price). The potential upside is >20%.

**Financials**

|                   | 2019   | 2020E  | 2021E  | 2022E  |
|-------------------|--------|--------|--------|--------|
| Revenues (EURm)   | 175.15 | 181.76 | 184.43 | 187.97 |
| EBITDA (EURm)     | 6.47   | 11.54  | 11.53  | 13.59  |
| EBITDA margin (%) | 3.6%   | 6.2%   | 6.1%   | 7.1%   |
| EBIT (EURm)       | -5.30  | 1.80   | 1.69   | 3.66   |
| EPS (EUR)         | -0.46  | 0.00   | -0.01  | 0.09   |
| CFPS (EUR)        | 0.77   | 0.31   | 0.82   | 0.80   |
| DPS (EUR)         | 0.00   | 0.00   | 0.00   | 0.00   |

Source: Company Data, UBI Banca Estimates

**Ratios priced on 21 May 2020**

|                 | 2019 * | 2020E | 2021E | 2022E |
|-----------------|--------|-------|-------|-------|
| P/E(x)          | nm     | nm    | nm    | 27.4  |
| P/CF(x)         | 12.2   | 3.7   | 3.8   | 3.2   |
| P/BV(x)         | 0.7    | 0.6   | 0.6   | 0.6   |
| Dividend Yield  | 0.0%   | 0.0%  | 0.0%  | 0.0%  |
| EV/EBITDA(x)    | 18.6   | 10.6  | 10.0  | 8.1   |
| Debt/Equity (x) | 1.4    | 1.4   | 1.3   | 1.2   |
| Debt/EBITDA (x) | 12.0   | 7.0   | 6.5   | 5.0   |

Source: UBI Banca Estimates \* Based on 2019 average price

**Key Financials**

| (EURm)                 | 2019   | 2020E  | 2021E  | 2022E  |
|------------------------|--------|--------|--------|--------|
| Revenues               | 175.15 | 181.76 | 184.43 | 187.97 |
| EBITDA                 | 6.47   | 11.54  | 11.53  | 13.59  |
| EBIT                   | -5.30  | 1.80   | 1.69   | 3.66   |
| NOPAT                  | -5.30  | 1.21   | 1.13   | 2.45   |
| Free Cash Flow         | -1.50  | -3.13  | 5.85   | 6.41   |
| Net Capital Employed   | 134.37 | 137.43 | 131.39 | 126.30 |
| Shareholders' Equity   | 57.07  | 57.01  | 56.82  | 58.14  |
| Net Financial Position | 77.30  | 80.42  | 74.57  | 68.16  |

Source: Company data, UBI Banca estimates

**Key Profitability Drivers**

|                          | 2019   | 2020E | 2021E | 2022E |
|--------------------------|--------|-------|-------|-------|
| Net Debt/Ebitda (x)      | 12.0   | 7.0   | 6.5   | 5.0   |
| Net Debt/Equity (x)      | 1.4    | 1.4   | 1.3   | 1.2   |
| Interest Coverage (%)    | -2.9   | 0.8   | 0.7   | 1.8   |
| Free Cash Flow Yield (%) | -4.1%  | nm    | 18.8% | 20.6% |
| ROE (%)                  | -11.4% | -0.1% | -0.3% | 2.3%  |
| ROI pre-tax (%)          | -3.6%  | 1.2%  | 1.2%  | 2.6%  |
| ROCE (%)                 | -3.9%  | 0.9%  | 0.8%  | 1.9%  |

Source: Company data, UBI Banca estimates

**Key Valuation Ratios**

|                    | 2019 * | 2020E | 2021E | 2022E |
|--------------------|--------|-------|-------|-------|
| P/E (x)            | nm     | nm    | nm    | 27.4  |
| P/BV (x)           | 0.7    | 0.6   | 0.6   | 0.6   |
| P/CF (x)           | 12.2   | 3.7   | 3.8   | 3.2   |
| Dividend Yield (%) | 0.0%   | 0.0%  | 0.0%  | 0.0%  |
| EV/Sales (x)       | 0.67   | 0.66  | 0.62  | 0.57  |
| EV/EBITDA (x)      | 18.6   | 10.6  | 10.1  | 8.1   |
| EV/EBIT (x)        | nm     | 67.7  | 68.7  | 29.9  |
| EV/CE (x)          | 0.9    | 0.9   | 0.8   | 0.8   |

Source: Company data, UBI Banca estimates

\* Based on 2019 average price

**Key Value Drivers**

| (%)         | 2019 | 2020E | 2021E | 2022E |
|-------------|------|-------|-------|-------|
| Payout      | 0.0% | 0.0%  | 0.0%  | 0.0%  |
| NWC/Sales   | 0.2% | 3.1%  | 2.0%  | 2.0%  |
| Capex/Sales | 6.8% | 4.0%  | 3.0%  | 2.5%  |

Source: Company data, UBI Banca estimates

### Recent Developments

- > At the end of March Newlat Group, a leading player active in the pasta, dairy, bakery, gluten free and baby food with >EUR320 million sales, acquired a 46.24% stake of CLI from Finanziaria Centrale del Latte di Torino and Lavia at a price of EUR3 + 1 Newlat share for every 3 CLI shares. Both vendors will invest in Newlat acquiring a stake of 5.3%. A tender offer will follow on the remaining CLI shares under the same conditions we believe within September. The offer is not aimed at delisting CLI. At the same time, Newlat will launch a capital increase up to a maximum of 4.66 million shares (11.5% of the capital) to finance part of the operation. The implicit value given to CLI, taking the closing Newlat price at the execution date (EUR5.10 as of 1st April 2020), is therefore EUR2.70 per share and implies an EV/EBITDA multiple of 10.7x in 2020 and 10.2x in 2021 based on our new estimates, which do not include the potential synergies stemming from the deal.
- > Following the operation, Newlat will become the third player in the UHT market and in the fresh milk in terms of volumes and the first in terms of production capacity together with Granarolo, with a strong geographical presence in important regions (Piedmont, Lombardy, Liguria, Veneto, Tuscany, Campania, Puglia and Lazio) reaching nearly EUR500 million revenues (aggregating 2019 results) with an EBITDA margin of 7%, excluding potential synergies. Sales in milk products should reach nearly EUR200 million giving to the new group a leading position with >10% market share in the Italian fresh milk market based on our estimates. Newlat management estimate potential synergies up to EUR14 million: EUR10 million cost synergies (EUR6 million to be implemented within the first 12 months from the closure of the transaction) mainly thanks to the elimination of the 3 separate CLI boards (to be completed within 2Q20), as well as the optimization of the supply chain and IT systems and EUR4 million of additional revenue synergies reachable thanks to the growth potential of high quality CLI products, the total absence of geographical overlapping and the launch of new niche products (i.e. mascarpone) where Newlat has a significant expertise. Newlat management stressed that the product positioning and the product quality of CLI is perceived as “premium quality”, and therefore there is no reason why the margin of CLI should not reach 8-9% of the milk & dairy division of Newlat (8.4% in 2019). Management believes that the CLI's FCF can improve by operating through three main drivers: 1) Reduction of capex (from EUR12 million in 2019 to about EUR4-5 million per year vs. our 2020 estimates for EUR7.3 million); 2) Optimization of the NWC through supply chain intervention; 3) Increase in EBITDA thanks to rationalization of costs. According to Newlat, CLI should enter a virtuous path generating a cash flow sufficient to pay interest and gradually amortize the current net debt (EUR84.8 million at Mar-20) independently. Newlat should not close any CLI plants, indeed it has been stressed that these plants are extremely modern. Local management should also be maintained.
- > Following the deal, the AGM appointed Mr. Angelo Mastrolia (the Chairman of Newlat) Chairman of CLI and in May the CLI Board appointed Mr. Edoardo Pozzoli (the former General Director of CLI) CEO and Mr. Giuseppe Mastrolia (the CEO of Newlat Group) vice-Chairman.
- > On April 29, CLI EGM approved the already announced right issue up to EUR30 million within 5 years with or without pre-emption rights. We believe a first tranche with pre-emption right, for a limited import (we assume EUR5-10 million) could be issued already this year, depending from the market conditions. The Board at the end of April approved the merger by incorporation of Centrale del Latte di Vicenza and Centrale del Latte di Toscana into CLI. The merger should

allow savings for around EUR3 million per annum.

- > We were expecting positive results in 1Q20 but the outcome surpassed our estimates: revenues increased by 8% with a remarkable growth in UHT milk (+18.1%) sustained by the panic buying caused by COVID-19 in Italy. Fresh milk was up 2% while yogurt increased by nearly 15%. Vegetal drinks soared 75% and export was up 22% benefitting from the agreement with Alibaba. The only weak segment was salads, down 37%. Centrale del Latte di Torino value of production increased by 10%, Centrale del Latte di Vicenza by 8.3% while Centrale del Latte di Toscana value of production was up 3.9%.
- > EBITDA topped EUR4.4 million with margin at 9.2%, a level never reached before in the past ten years. This stunning result was possible thanks to the drop of fresh milk prices (-10.3% in the first quarter) coupled with the increase of the selling prices (around 4% from January) and lower promotional efforts. In fact, raw material costs dropped to 52.6% of value of production vs. 56.2% in 1Q19 and 56.1% in the full year. Labour and services costs were also down, confirming the effectiveness of the cost cutting measures undertaken by CLI. After D&A of EUR2.7 million, the operating result was positive for EUR1.7 million compared with an operating loss of EUR1.1 million in 1Q19. Despite higher financial charges pre-tax result was positive for EUR1.1 million (vs. a pre-tax loss of EUR1.4 million in 1Q19).
- > Net debt was broadly stable at EUR76.8 million at Mar-20 vs. EUR77.3 million at Dec-19, after capex for EUR0.7 million in the quarter. Trading NWC was negative for EUR2.5 million.
- > CLI confirmed its 2021-22 business plan which anticipates a 1.4% CAGR in value of production, with VoP expected at EUR187 million in 2022, an EBITDA at EUR17.5 million in 2022, thus implying 9.3% margin, a level similar to 1Q20, and a net debt reduction of EUR5/7 million p.a. after cumulated capex of EUR17.3 million in 2020-22 with the target of reaching a gearing of 1.1-1.2x compared with 1.3x at Dec-19.

Figure 1 – Implicit multiples in the Newlat offer based on the execution date (EUR5.10 Newlat price as of 1 April 2020)

| (x)                  | 2020E   | 2021E   | 2022E   |
|----------------------|---------|---------|---------|
| P/E                  | nm      | nm      | 28,63 x |
| EV/EBITDA            | 10,71 x | 10,21 x | 8,18 x  |
| EV/EBIT              | 68,60 x | 69,68 x | 30,41 x |
| EV/Sales             | 0,67 x  | 0,62 x  | 0,58 x  |
| P/BV                 | 0,66 x  | 0,67 x  | 0,65 x  |
| EV/ Capital employed | 0,90 x  | 0,90 x  | 0,88 x  |

Source: UBI Banca estimates

Figure 2 – 1Q20 results

| (EURm, %)           | 1Q19A         | 1Q20A        | % Chg.        |
|---------------------|---------------|--------------|---------------|
| <b>Sales</b>        | <b>43,49</b>  | <b>46,98</b> | <b>8,0%</b>   |
| Value of production | 44,87         | 47,98        | 6,9%          |
| <b>EBITDA</b>       | <b>0,96</b>   | <b>4,40</b>  | <b>356,9%</b> |
| <b>% margin</b>     | <b>2,1%</b>   | <b>9,2%</b>  |               |
| <b>EBIT</b>         | <b>(1,10)</b> | <b>1,67</b>  | <b>nm</b>     |
| Pre tax             | (1,44)        | 1,14         | nm            |
| Net debt/(cash)     | 77,66         | 76,78        | -1,1%         |

Source: Company data

Figure 3 – 1Q20 sales by product

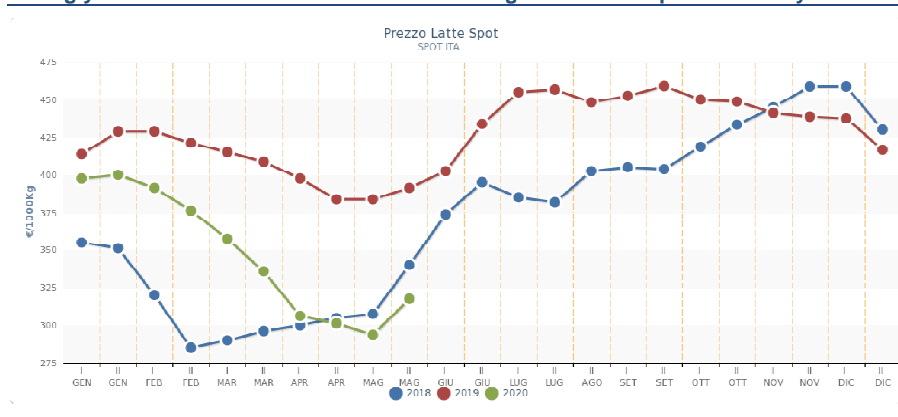
All the products, except salads, benefitted from the COVID-19 outbreak: 1) the reduction of eating-out habits increased the milk and yogurt consumption in Italy, 2) the panic buying of the first weeks of lockdown pushed up UHT sales, 3) other products were favored by the expansion of the distribution channel of the local shops. We also highlight the stunning performance of vegetal drinks.

| (EURm, %)          | 1Q19A        | 1Q20A        | % change    |
|--------------------|--------------|--------------|-------------|
| Fresh milk         | 17,89        | 18,25        | 2,0%        |
| UHT milk           | 11,03        | 13,03        | 18,1%       |
| Yogurt             | 1,81         | 2,07         | 14,8%       |
| Salads             | 1,38         | 0,87         | -36,8%      |
| Vegetal drinks     | 0,67         | 1,17         | 74,6%       |
| Other products     | 8,72         | 9,25         | 6,1%        |
| Bulky milk         | 1,03         | 1,15         | 11,7%       |
| Export             | 0,97         | 1,18         | 22,0%       |
| <b>Total sales</b> | <b>43,49</b> | <b>46,97</b> | <b>8,0%</b> |

Source: Company data

Figure 4 – Spot price of fresh milk in Italy: a three-year comparison

The Italian fresh milk spot price has been much lower than last year since the beginning of 2020 due to the COVID-19 impact which reduced the cheese export but the trend seems now on the upside. It now stands at EUR0.317 per litre vs. EUR0.391 one year ago (or -18.8%). Lower fresh milk prices coupled with stable sales price list strongly contributed to increase the EBITDA margin in the first quarter of the year.



Source: Assolatte

### Financial Projections

- > CLI did not supply a specific guidance for 2020 even if the management highlighted to be fully confident to see organic growth also in the rest of the year and that COVID-19 should not have any negative impact on April. Following positive 1Q20 results and the positive sales trend of April and May (similar to 1Q20) we revised our estimates: we now expect sales to reach EUR182 million, +3.8% vs. 2019, with an EBITDA margin around 6.2%, which implies a reduction in the second half of the year as fresh milk prices could rise following the end of lockdown and the rebound of cheese export. Still, the bottom line should be close to breakeven.
- > For 2021, we estimate a modest top line growth (+1.5%), excluding cross selling synergies stemming from the Newlat acquisition, as the impact of COVID-19 should be over, and we forecast an EBITDA margin in line with 2020. 2022 should see an improvement of profitability as the revamp of the Turin plant should be completed.
- > In coming years, despite investment to restructure the Turin operations (EUR15 million in 2019-22 partly covered by a contribution from the Piedmont regional authorities), operating cash flow generation is expected to improve. Without including in our estimates the upcoming right issue (up to EUR30 million in 5 years), we forecast a slight increase in net debt to EUR80.4 million at Dec-20 and a progressive decline in 2021-22.

Figure 5 – Old vs. New estimates

| (EURm)                     | 2019A        | 2020E        |              | 2021E        |              | 2022E        |              |
|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                            |              | Old          | New          | Old          | New          | Old          | New          |
| Total Sales                | 175,2        | 177,7        | 181,8        | 180,2        | 184,4        | 183,6        | 188,0        |
| % change                   |              |              | 2,3%         |              | 2,3%         |              | 2,4%         |
| <b>Value of production</b> | <b>178,9</b> | <b>181,6</b> | <b>185,7</b> | <b>184,3</b> | <b>188,4</b> | <b>187,8</b> | <b>192,1</b> |
| % change                   |              |              | 2,2%         |              | 2,3%         |              | 2,3%         |
| <b>EBITDA</b>              | <b>6,5</b>   | <b>7,1</b>   | <b>11,5</b>  | <b>9,4</b>   | <b>11,5</b>  | <b>12,7</b>  | <b>13,6</b>  |
| % change                   |              |              | 62,8%        |              | 22,7%        |              | 7,2%         |
| EBIT                       | (5,3)        | (2,7)        | 1,8          | (0,4)        | 1,7          | 2,7          | 3,7          |
| % change                   |              |              | -168,0%      |              | -481,6%      |              | 33,5%        |
| <b>Net Profit</b>          | <b>(6,5)</b> | <b>(2,7)</b> | <b>(0,1)</b> | <b>(1,7)</b> | <b>(0,2)</b> | <b>0,6</b>   | <b>1,3</b>   |
| % change                   |              |              | -97,8%       |              | -88,9%       |              | 119,1%       |
| Net Debt/(Cash)            | 77,3         | 82,9         | 80,4         | 78,4         | 74,6         | 72,6         | 68,2         |
| <b>EBIT margin</b>         | <b>-3,0%</b> | <b>-1,5%</b> | <b>1,0%</b>  | <b>-0,2%</b> | <b>0,9%</b>  | <b>1,5%</b>  | <b>1,9%</b>  |
| <b>EBITDA margin</b>       | <b>3,6%</b>  | <b>3,9%</b>  | <b>6,2%</b>  | <b>5,1%</b>  | <b>6,1%</b>  | <b>6,7%</b>  | <b>7,1%</b>  |

Source: Company data, UBI Banca estimates

Figure 6 – 2016-2022E sales by product

| (EURm)             | 2016         | 2017         | 2018         | 2019         | 2020E        | 2021E        | 2022E        | CAGR 19-22  |
|--------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|
| Fresh milk         | 49.1         | 70.8         | 68.7         | 66.7         | 67,8         | 67,1         | 66,5         | -0,1%       |
| UHT milk           | 24.1         | 40.7         | 40.7         | 40.3         | 42,8         | 43,4         | 44,1         | 3,0%        |
| Yogurt             | 7.0          | 8.3          | 8.8          | 7.7          | 8,0          | 8,1          | 8,3          | 2,3%        |
| Salads             | 5.9          | 6.2          | 6.0          | 5.0          | 4,5          | 4,6          | 4,8          | -1,2%       |
| Vegetable drinks   | 1.8          | 2.6          | 2.9          | 2.7          | 3,4          | 3,7          | 4,0          | 14,4%       |
| Other products     | 26.0         | 43.8         | 46.0         | 44.9         | 46,7         | 48,1         | 50,0         | 3,7%        |
| Bulk milk          | 3.2          | 4.0          | 3.9          | 3.1          | 3,2          | 3,3          | 3,3          | 2,4%        |
| Export             | 0.8          | 1.6          | 3.5          | 4.7          | 5,5          | 6,2          | 6,9          | 13,4%       |
| <b>Total sales</b> | <b>176.2</b> | <b>178.2</b> | <b>180.3</b> | <b>175.2</b> | <b>181,8</b> | <b>184,4</b> | <b>188,0</b> | <b>2,4%</b> |

Source: Company data, UBI Banca estimates

## Valuation

- > Considering the upcoming takeover offer from Newlat at a price of EUR3 + one Newlat share for every 3 CLI shares, CLI could be valued EUR2.67 per share based on Newlat current share price. However, in our view, this value does not reflect the potential of the deal in terms of cost synergies nor its cross selling opportunity. In addition, Newlat, based on the analysts consensus remains undervalued, and applying the most recent Newlat target price (EUR8.5 per share, Equita May 6, "The right stock at the right moment") CLI could reach EUR3.83 per share. On fundamental basis, our DCF valuation has grown to EUR2.55 (from EUR2.37) while our relative valuation, after having applied a 30% discount to peers multiples, has reached EUR3.38 per share as peers multiples substantially soared due to the combined effect of estimates reduction, due to the COVID-19 outbreak, and the market rebound of the past two months (our peers sample was up 6%). The average of all these methods delivers a target price of EUR3.11 per share from EUR3.40, which, however, was based on our assumptions on the outcome of the talks with Newlat or before knowing the terms of the deal (the official offer was published on March 31, 2020). Given that our new target price incorporates a potential upside of >20%, we confirm our positive stance.
- > At our new target price, Centrale del Latte d'Italia trades at 10.7x 2021 EV/EBITDA, which is below the average multiple of peers (12.1x).

Figure 7 – Valuation summary (EUR)

|   |              |
|---|--------------|
| DFC Valuation                           | 2.55         |
| Relative Valuation large (30% discount) | 3.38         |
| Based on Newlat market price            | 2.67         |
| Based on Newlat target price (EUR8.5)   | 3.83         |
| <b>Average</b>                          | <b>3.11</b>  |
| Current price                           | 2.58         |
| <b>Potential upside</b>                 | <b>20.4%</b> |

Source: Company data, UBI Banca estimates

Figure 8 – DCF Valuation

### Our DCF valuation implies 16.3x EV/EBITDA at terminal value.

|                                    | (EUR m)      | (% weight)  |
|------------------------------------|--------------|-------------|
| Sum of PV 2020-28 FCF              | 38,1         | 32%         |
| Terminal value                     | 80,4         | 68%         |
| <b>Total Enterprise value</b>      | <b>118,5</b> | <b>100%</b> |
| - Pension Provision                | (5,5)        |             |
| - Net debt (+ cash)                | (77,3)       |             |
| <b>Total Equity value</b>          | <b>35,6</b>  |             |
| Fully diluted number of shares (m) | 14,0         |             |
| <b>Fair value per share (EUR)</b>  | <b>2,55</b>  |             |

Source: UBI Banca estimates



Figure 9 – Large multinationals: peer comparison and valuation based on multiples (priced on 21 May 2020)

| Company                      | Market Cap<br>(EURm) | Country     | P/E           |               |               | EV/EBITDA     |               |               | EV/Sales      |               |               |
|------------------------------|----------------------|-------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                              |                      |             | 2020E         | 2021E         | 2022E         | 2020E         | 2021E         | 2022E         | 2020E         | 2021E         | 2022E         |
| Saputo                       | 8,890                | Canada      | 18.1 x        | 16.0 x        |               | 10.4 x        | 9.3 x         |               | 1.12 x        | 1.04 x        |               |
| Emmi                         | 4,366                | Switzerland | 24.1 x        | 22.6 x        | 21.5 x        | 12.6 x        | 11.7 x        | 10.9 x        | 1.25 x        | 1.19 x        | 1.12 x        |
| Danone                       | 42,032               | France      | 16.5 x        | 15.5 x        | 14.6 x        | 11.2 x        | 10.5 x        | 9.8 x         | 2.16 x        | 2.06 x        | 1.97 x        |
| Nestlé                       | 294,612              | Switzerland | 24.1 x        | 22.5 x        | 21.0 x        | 17.8 x        | 17.1 x        | 16.5 x        | 3.92 x        | 3.83 x        | 3.72 x        |
| <b>Average</b>               |                      |             | <b>20.7 x</b> | <b>19.2 x</b> | <b>19.1 x</b> | <b>13.0 x</b> | <b>12.1 x</b> | <b>12.4 x</b> | <b>2.11 x</b> | <b>2.03 x</b> | <b>2.27 x</b> |
| CLI current market multiples | 36                   |             | nm            | nm            | 27.4 x        | 10.6 x        | 10.1 x        | 8.1 x         | 0.66 x        | 0.62 x        | 0.57 x        |

Source: Factset, UBI Banca estimates

Figure 10 – Implicit multiples based on our EUR3.11 target price

| (x)                  | 2020E  | 2021E  | 2022E  |
|----------------------|--------|--------|--------|
| P/E                  | nm     | nm     | 33.0 x |
| EV/EBITDA            | 11.2 x | 10.7 x | 8.6 x  |
| EV/EBIT              | 71.8 x | 73.1 x | 32.0 x |
| EV/Sales             | 0.70 x | 0.65 x | 0.61 x |
| P/BV                 | 0.76 x | 0.77 x | 0.75 x |
| EV/ Capital employed | 0.94 x | 0.94 x | 0.93 x |

Source: UBI Banca estimates

**ESG Picture**

**Corporate Governance**

|   |  |
|---|--|
| Does the company have a combined Chair/CEO?                             | No                                     |
| Percentage of independent directors                                     | 28.6% (2 out of 7)                     |
| Does the company have loyalty shares?                                   | No                                     |
| Does major shareholders (if any) have a "shareholders pact" in place?   | Yes                                    |
| Has the company adopted a "poison pill" or "change of control" clauses? | No                                     |
| Potential dilution from stock options outstanding + not yet granted?    | No                                     |
| CEO remuneration detail (fixed salary)                                  | EUR0.57 million in 2019                |
| Chairman remuneration detail (fixed salary)                             | In 2019 Chairman and CEO were combined |
| Is the share price included in the MBO criteria?                        | No                                     |
| Percentage of treasury shares   | 0.0%                                   |

**Climate related risk**

|   |    |
|---|----|
| Has the company defined GHG-emissions targets?    | No |
| How does the company assess climate-related risk? | No |

**Social Responsibilities**

|   |                    |
|---|--------------------|
| Does the company publish a separated Sustainability report?                       | No                 |
| Does the company have a Chief SRI/CSR officer (or a committee)?                   | No                 |
| Does the Chief SRI/CSR officer votes in any of the company's committee?           | na                 |
| Is the Investor Relation officer a different person from CFO (or other officers)? | No                 |
| Is the ESG strategy integrated in the Business Plan (or in the group strategy)?   | No                 |
| Does the company have an ethical code?  | Yes                |
| Percentage of female directors  | 42.9% (3 out of 7) |
| How is the cybersecurity issue managed  | Not disclosed      |

**Income Statement**

| (EURm)                         | 2019   | 2020E  | 2021E  | 2022E  |
|--------------------------------|--------|--------|--------|--------|
| Value of production            | 178.94 | 185.66 | 188.44 | 192.10 |
| EBITDA                         | 6.47   | 11.54  | 11.53  | 13.59  |
| EBITDA margin                  | 3.6%   | 6.2%   | 6.1%   | 7.1%   |
| EBIT                           | -5.30  | 1.80   | 1.69   | 3.66   |
| EBIT margin                    | -3.0%  | 1.0%   | 0.9%   | 1.9%   |
| Net financial income /expense  | -1.59  | -1.90  | -1.96  | -1.77  |
| Associates & Others            | 0.12   | 0.00   | 0.00   | 0.00   |
| Profit before taxes            | -6.78  | -0.10  | -0.27  | 1.89   |
| Taxes                          | 0.27   | 0.04   | 0.08   | -0.57  |
| Minorities & discontinuing ops | 0.00   | 0.00   | 0.00   | 0.00   |
| Net Income                     | -6.51  | -0.06  | -0.19  | 1.32   |

Source: Company data, UBI Banca estimates

**Balance Sheet**

| (EURm)                    | 2019   | 2020E  | 2021E  | 2022E  |
|---------------------------|--------|--------|--------|--------|
| Net working capital       | 0.31   | 5.69   | 3.82   | 3.87   |
| Net Fixed assets          | 146.07 | 144.14 | 140.35 | 135.62 |
| M/L term funds            | -12.01 | -12.39 | -12.78 | -13.18 |
| Capital employed          | 134.37 | 137.43 | 131.39 | 126.30 |
| Shareholders' equity      | 57.07  | 57.01  | 56.82  | 58.14  |
| Minorities                | 0.00   | 0.00   | 0.00   | 0.00   |
| Shareholders' funds       | 57.07  | 57.01  | 56.82  | 58.14  |
| Net financial debt/(cash) | 77.30  | 80.42  | 74.57  | 68.16  |

Source: Company data, UBI Banca estimates

**Cash Flow Statement**

| (EURm)                           | 2019   | 2020E | 2021E | 2022E |
|----------------------------------|--------|-------|-------|-------|
| NFP Beginning of Period          | 73.80  | 77.30 | 80.42 | 74.57 |
| Group Net Profit                 | -6.51  | -0.06 | -0.19 | 1.32  |
| Minorities                       | 0.00   | 0.00  | 0.00  | 0.00  |
| D&A                              | 9.55   | 9.74  | 9.84  | 9.93  |
| Change in Funds & TFR            | 0.00   | 0.00  | 0.00  | 0.00  |
| Gross Cash Flow                  | 3.04   | 9.68  | 9.64  | 11.26 |
| Change In Working Capital        | 7.69   | -5.38 | 1.86  | -0.04 |
| Other                            | 0.00   | 0.00  | 0.00  | 0.00  |
| Operating Cash Flow              | 10.73  | 4.30  | 11.51 | 11.21 |
| Net Capex                        | -12.24 | -7.43 | -5.65 | -4.80 |
| Other Investments                | 0.00   | 0.00  | 0.00  | 0.00  |
| Free Cash Flow                   | -1.50  | -3.13 | 5.85  | 6.41  |
| Dividends Paid                   | 0.00   | 0.00  | 0.00  | 0.00  |
| Other & Chg in Consolid. Area    | -2.00  | 0.00  | 0.00  | 0.00  |
| Chg in Net Worth & Capital Incr. | 0.00   | 0.00  | 0.00  | 0.00  |
| Change in NFP                    | -3.50  | -3.13 | 5.85  | 6.41  |
| NFP End of Period                | 77.30  | 80.42 | 74.57 | 68.16 |

Source: Company data, UBI Banca estimates

| <b>Financial Ratios</b>  |        |       |       |       |
|--------------------------|--------|-------|-------|-------|
| (%)                      | 2019   | 2020E | 2021E | 2022E |
| ROE                      | -11.4% | -0.1% | -0.3% | 2.3%  |
| ROI                      | -2.4%  | 0.8%  | 0.8%  | 1.7%  |
| Net Fin. Debt/Equity (x) | 1.4    | 1.4   | 1.3   | 1.2   |
| Net Fin. Debt/EBITDA (x) | 12.0   | 7.0   | 6.5   | 5.0   |
| Interest Coverage        | -2.9   | 0.8   | 0.7   | 1.8   |
| NWC/Sales                | 0.2%   | 3.1%  | 2.0%  | 2.0%  |
| Capex/Sales              | -6.8%  | -4.0% | -3.0% | -2.5% |
| Pay Out Ratio            | 0.0%   | 0.0%  | 0.0%  | 0.0%  |

Source: Company data, UBI Banca estimates

| <b>Per Share Data</b> |       |       |       |       |
|-----------------------|-------|-------|-------|-------|
| (EUR)                 | 2019  | 2020E | 2021E | 2022E |
| EPS                   | -0.46 | 0.00  | -0.01 | 0.09  |
| DPS                   | 0.00  | 0.00  | 0.00  | 0.00  |
| Op. CFPS              | 0.77  | 0.31  | 0.82  | 0.80  |
| Free CFPS             | -0.11 | -0.22 | 0.42  | 0.46  |
| BVPS                  | 4.08  | 4.07  | 4.06  | 4.15  |

Source: Company data, UBI Banca estimates

| <b>Stock Market Ratios</b> |        |        |        |        |
|----------------------------|--------|--------|--------|--------|
| (x)                        | 2019 * | 2020E  | 2021E  | 2022E  |
| P/E                        | nm     | nm     | nm     | 27.4   |
| P/OpCFPS                   | 3.5    | 8.4    | 3.1    | 3.2    |
| P/BV                       | 0.7    | 0.6    | 0.6    | 0.6    |
| Dividend Yield (%)         | 0.0%   | 0.0%   | 0.0%   | 0.0%   |
| Free Cash Flow Yield (%)   | -4.1%  | -8.7%  | 16.2%  | 17.7%  |
| EV (EURm)                  | 119.95 | 121.95 | 116.00 | 109.49 |
| EV/Sales                   | 0.67   | 0.66   | 0.62   | 0.57   |
| EV/EBITDA                  | 18.6   | 10.6   | 10.1   | 8.1    |
| EV/EBIT                    | nm     | 67.7   | 68.7   | 30.0   |
| EV/Capital Employed        | 0.9    | 0.9    | 0.9    | 0.9    |

Source: Company data, UBI Banca estimates

\* Based on 2019 average price

| <b>Growth Rates</b>    |        |       |       |       |
|------------------------|--------|-------|-------|-------|
| (%)                    | 2019   | 2020E | 2021E | 2022E |
| Growth Group Net Sales | -2.3%  | 3.8%  | 1.5%  | 1.9%  |
| Growth EBITDA          | -17.0% | 78.5% | -0.1% | 17.9% |
| Growth EBIT            | nm     | nm    | nm    | nm    |
| Growth Net Profit      | nm     | nm    | nm    | nm    |

Source: Company data, UBI Banca estimates

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| 14 March 2018     | Buy    | 3.92               | 3.24               |
| 21 June 2018      | Buy    | 4.03               | 2.99               |
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| 8 November 2018   | Hold   | 2.84               | 2.74               |
| 19 March 2019     | Hold   | 2.58               | 2.80               |
| 16 May 2019       | Hold   | 2.36               | 2.59               |
| 19 September 2019 | Sell   | 2.00               | 2.62               |
| 22 November 2019  | Sell   | 2.03               | 2.55               |
| 24 March 2020     | Buy    | 3.40               | 2.55               |