SECTOR: Consumers

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Crescita

Making Smartphones Smarter

- **Business combination.** Crescita S.p.A. is an Italian special purpose acquisition company (SPAC). It floated on the AIM Italia segment of the Italian stock exchange on 15th March 2017, bringing in Eu130mn. Its identified target is Cellular Italia S.p.A. (to be renamed Cellularline), and an extraordinary meeting of the Crescita BoD to approve the proposed business combination has been called for 19th March 2018. This combination will only be executed in the event that, following shareholder approval, the withdrawal rights exercised amount to no more than 33% of the share capital. The pre-money equity valuation of Cellular Italia agreed for the business combination is Eu160.4mn, implying an EV/EBITDA adj. multiple of 6.3x and P/E adj. of 6.6x (based on 2016 figures).
- **A leading European brand in the smartphone accessories market.** The company is currently the clear market leader in Italy, both in terms of channel coverage in Consumer Electronics (CE), Mass Merchandise (Mass-Merch or MM) and Travel Retail, and in terms of product categories. It also boasts a leading position in the Austrian market. Elsewhere in Europe, it is among the three leading players in Germany, Belgium and Netherlands. Overall, Cellular Italia is active in 60 countries across Western and Eastern Europe. In terms of numbers, the company ended 2016 with a top line of Eu164.5mn and reported a strong sales CAGR of almost 16% between 2011 and 2016.
- **Strategic brand positioning.** Cellularline offers a complete and varied range of products within the smartphone and tablet accessories market. Its positioning is usually in the mid-price band, meaning the company offers high quality products at a reasonable price ("value for money"). Concerning perceived quality, certifications are very important to the company: as quality controls are very strict and efficient, it makes use of certifications like Intertek and TUV, which enhance the perception of quality.
- **Growth strategy founded on two main pillars: organic growth and M&A.** The company is aiming to accelerate organic growth through four main avenues: (i) product development, in particular in the headset segment and the voice & audio market, (ii) international expansion, focusing specifically on France in the short term, and on the broader European market in the medium to long run, (iii) online growth, through CE operators' websites and third-party marketplaces like Amazon, in addition to the proprietary website, (iv) new offline channel penetration, exploiting the company's leading position and expertise to increase its presence in the Telco and Travel Retail channels. These opportunities could be pursued faster in the event of acquisitions.
- **We forecast growth in Cellularline's value of production from Eu164.5mn in 2016 to Eu190.4mn in 2020, a 3.7% CAGR.** We have modelled this growth trajectory broken down by geographical area, with Italian revenues reaching Eu109.7mn in 2020, i.e. a 2016-20 CAGR of 2.1%, and European revenues increasing at a 6.7% CAGR over the same period to almost Eu70mn. From a profitability standpoint, we estimate EBITDA reaching Eu43.9mn in 2020, a 3.1% CAGR, with the EBITDA margin remaining broadly stable above 23%. Notably, the company is expected to generate strong FCF, thanks to EBITDA cash conversion well in excess of 50%. Our estimates do not include any contribution from M&A deals but assume approval of the Significant Transaction.
- **An attractive investment case.** According to our analysis, the Crescita merger with Cellularline is a Business Combination with an attractive risk/reward profile thanks to growing underlying markets and the competitive advantages deriving from its strong market positioning in all main EU countries. Cellularline has a strong track record in entering the market with new and innovative products even in changing market conditions. Once the merger is complete, Cellularline will have cashed in new resources (Eu50mn if no withdrawal rights are exercised) that will enhance the group's firepower for M&A.

Business Combination between Crescita and Cellularline

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Executive Summary

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Cellularline is a leading European brand in the development and sale of accessories for smartphones and tablets. The company is currently the clear market leader in Italy, both in terms of channel coverage in Consumer Electronics (CE), Mass Merchandise (Mass-Merch or MM) and Travel Retail, and in terms of product categories. It also boasts a leading position in the Austrian market. Elsewhere in Europe, it is among the three leading players in Germany, Belgium and Netherlands. Overall, Cellular Italia is active in 60 countries across Western and Eastern Europe. In terms of numbers, the company ended 2016 with a top line of Eu164.5mn and reported a strong sales CAGR of almost 16% between 2011 and 2016.

Value for money. Cellularline offers a complete and varied range of products within the smartphone and tablet accessories market. Its positioning is usually in the mid-price band, meaning the company offers high quality products at a reasonable price. Concerning perceived quality, certifications are very important to the company: as quality controls are very strict and efficient, it makes use of certifications like Intertek and TUV, which enhance the perception of quality. In light of this positioning strategy, the company is usually in direct competition with players offering mid-price, medium-quality products, as well as competing directly with smartphone and tablet manufacturers.

Growth strategy founded on two main pillars: organic growth and M&A. The company is aiming to accelerate organic growth through four main avenues: (i) product development, in particular in the headset segment and the voice & audio market, (ii) international expansion, focusing specifically on France in the short term, and on the broader European market in the medium to long run, (iii) online growth, through CE operators' websites and third-party marketplaces like Amazon, in addition to the proprietary website, (iv) new offline channel penetration, exploiting the company's leading position and expertise to increase its presence in the Telco and Travel Retail channels. These opportunities could be pursued faster in the event of acquisitions.

We forecast growth in Cellularline's value of production from Eu164.5mn in 2016 to Eu190.4mn in 2020, a 3.7% CAGR. We have modelled this growth trajectory broken down by geographical area, with Italian revenues reaching Eu109.7mn in 2020, i.e. a 2016-20 CAGR of 2.1%, and European revenues increasing at a 6.7% CAGR over the same period to almost Eu70mn. From a profitability standpoint, we estimate EBITDA reaching Eu43.9mn in 2020, a 3.1% CAGR, with the EBITDA margin remaining broadly stable above 23%. Notably, the company is expected to generate strong FCF, thanks to EBITDA cash conversion well in excess of 50%. Our estimates do not include any contribution from M&A deals but assume approval of the Significant Transaction.

Conclusions. According to our analysis, the Crescita merger with Cellularline is a Business Combination with an attractive risk/reward profile thanks to growing underlying markets and the competitive advantages deriving from its strong market positioning in all main EU countries. Cellularline has a strong track record in entering the market with new and innovative products even in changing market conditions. Once the merger is complete, Cellularline will have cashed in new resources (Eu50mn if no withdrawal rights are exercised) that will enhance the group's firepower for M&A.

SWOT Analysis

Strengths

- **Strong market positioning in all main EU countries.** Market leader in Italy and Austria and among top 3 players in Germany, Belgium and Netherlands;
- **State-of-the-art business intelligence system.** The trade-marketing phase performs a deep data analysis that allows superior operations management;
- **Management's outstanding background.** Cellularline's managers boast careers spent in senior positions at top-notch firms in the corporate world;
- **Flexibility.** Outsourcing production makes the company responsive to changing customer needs.

Weaknesses

- **High competition** among product categories for which differentiation is more difficult;
- **Online** is still an underpenetrated channel by the company;
- **Dependence** on external producers for product manufacturing;
- **Limited diversification** of sourcing in terms of geographical area (Guandong district in China) leading to invoice currency exposure.

Opportunities

- **Internationalization.** Development of the international presence in those markets where the company is already an important player through higher penetration with both existing and new products;
- **Sizeable market in constant evolution.** Specific segments are forecast to grow significantly in both Italy and Europe. New uses for smartphones are constantly being found, generating new requirements in terms of accessory devices;
- **Online growth.** This opportunity could be pursued faster in the event of an acquisition;
- **Penetration of new offline channels.**

Threats

- **Technology disruption.** Rapid changes in the market might disrupt Cellularline's best-selling product lines;
- **Consumer Electronics,** the group's main selling channel, has recently come under pressure from large online competitors;
- **Reputation.** Unsuccessful execution of flagship projects;
- **M&A execution.** Difficulties in integrating acquired companies if major deals are completed.

Source: Intermonte SIM

Business Combination: Crescita and Cellularline

Crescita SpA and details of the Significant Transaction

Crescita S.p.A. ("the promoter") is an Italian SPAC founded on February 2nd 2017 by Crescita Holding and DeA Capital S.p.A. and listed on the Italian stock exchange under the AIM Italia segment (i.e. Alternative Investment Market) on March 15th. Before the listing, the company had gathered subscriptions for Eu130mn by 108 investors.

The promoter will remain in existence until whichever occurs first between EITHER: (i) 31 December 2019; OR (ii) the final day of the 24th month subsequent to the Stock Market Trading Commencement Date, on the understanding that if an accord has been signed by that date for the execution of the Significant Transaction and the market has been duly informed according to law, the duration of the Company will be deemed to be automatically extended for a further 6 months from the date on which notification was given to the market.

The target identified by the board of Crescita for the Business Combination is Cellular Italia S.p.A., which is 100% controlled by Ginetta S.p.A.. **An extraordinary shareholders' meeting of Crescita has been called to approve the Business Combination and the merger on March 19th 2018 (first call 19th , second call 20th March)**, at which time the liquidation of claims by those shareholders exercising the Right to Withdrawal is also to be approved. Taking account of the period granted to creditors to oppose the merger, completion of the Business Combination - subject to the required approvals and fulfilment of all conditions - is expected by July 2018.

The execution of the Business Combination is subject to certain conditions precedent stipulated in the framework agreement that governs the terms and conditions for the realization of the Significant Transaction; in particular, the number of ordinary Crescita shares for which the Right to Withdrawal may be exercised shall not be equal to or greater than 33% of the ordinary share capital of Crescita. If the Significant Transaction is executed (due to the non-occurrence of any of the conditions precedent) and the Right to Withdrawal is exercised by one or more shareholders, the company is entitled to seek recourse to additional resources which may include, inter alia, financial debt, or a new rights issue duly authorised by a General Meeting of shareholders to finance the Significant Transaction.

Crescita's outstanding share capital comprises 13,000,000 ordinary shares and 300,000 special shares (before the business combination). In addition, 2,600,000 warrants have been issued and are traded on AIM Italia separately from the ordinary shares, while a further 3,900,000 warrants will be issued on the effective date of the Significant Transaction.

Cellularline's shares and market warrants will be listed on the AIM Italia, aiming to progress rapidly to the MTA/STAR segment.

The key steps of the Significant Transaction are as follow:

The business combination will be in the form of the merger of Cellular Group into Crescita and will consist of 3 concurrent steps

Share repurchase +	*Co-CEO investment* +	*Merger*
■ Acquisition by Crescita of a 49.87% stake in Cellular Group mainly from financial investors and marginally from founders ■ Acquisition cost of Eu80mn	■ Acquisition by Christian Aleotti and Marco Cagnetta of a 3.1% interest in the company for a total Eu5mn investment ■ Both to agree to a 36-month lock up on their stakes	■ Merger by incorporation of Cellular Group into Crescita ■ The resulting company to take the name of Cellularline ■ Share Exchange ratio of 1 to 1 (@Eu10 per share)

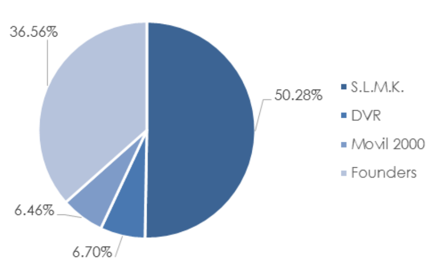
Source: Company presentation

Share ownership structure

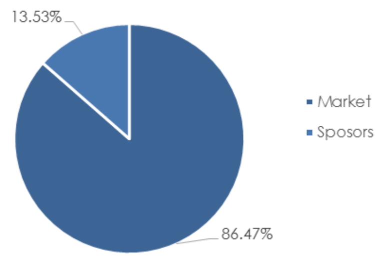
Business combination – Share ownership structure*

Pre-merger

Cellular Italia**

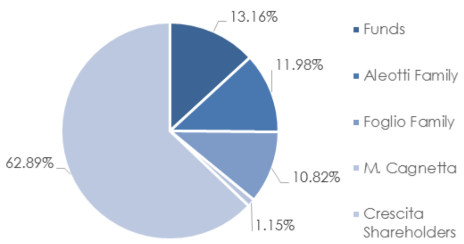


Crescita

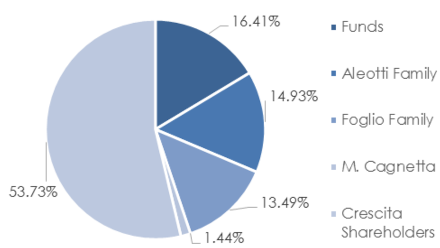


Post-merger

Cellularline, no withdrawals***



Cellularline, maximum withdrawals***



Source: Company presentation; * Includes special shares; ** Shares indirectly owned through Ginetta SpA which wholly controls Cellular; ***Potential dilution from exercise of warrants not included

Pre-merger, Ginetta's share capital is Eu7.24mn, divided into 724,000,000 shares (of which 459,367,264 ordinary shares and 264,632,736 B-shares) of Eu0.01 per share; ownership is shown in the pie chart at the top-left of the table above. In the event the Merger is approved, Ginetta will approve the reverse stock split in order that its 724,000,000 shares will be merged into 16,043,189 shares (of which 10,179,167 ordinary and 5,864,022 B-shares).

If the Merger is approved, Crescita will issue 8,043,189 shares devoid of nominal value for the purpose of satisfying the merger ratio, corresponding to a Eu8,043,189 increase in the capital. Notice is drawn to the fact that the Framework Agreement, inter alia, provides a mechanism to regulate the free transfer of the Remedy Shares from Ginetta partners to Crescita shareholders registered as at the attribution date in the event that the expected profitability objectives of Cellularline are not achieved.

For the purpose of the merger, Crescita will be considered to be worth between Eu9.67 and Eu10.08 per share. The Boards of Directors of the companies involved in the Merger have agreed on a price of Eu10 per Crescita share. With regard to Ginetta, the same Boards have agreed to attribute a value of Eu160,431,890 to Ginetta (using both DCF and multiples evaluation methods), which corresponds to Eu10 per share, due to the aforementioned reverse stock split. This implies a 1:1 merger ratio at Eu10.0 per share.

Business combination – valuation and price adjustments

Valuation			
Cellular Italia S.p.A.		*Crescita*	
Equity value*	Eu160mn	Net Asset Value	Eu133mn
Enterprise value**	Eu244.4	Enterprise value p.s.	Eu10
'16 EV/EBITDA ad.**	6.3x		
'16 P/E*,***	6.6x	Exchange share ratio 1 to 1 (@Eu10 per share)	

Price adjustments

- Remedy shares: up to 1,067,159 remedy shares will be made available to Crescita shareholders by Sellers
- Earn-out: Crescita will recognize to Sellers the tax benefit potentially arising from the application of the Patent box for fiscal years 2015, 2016 and 2017.

Source: Company presentation; *Pre-money; **Based on a norm. NFP, agreed in Eu84mn; *** Based on '16 net income before GW & Int. w/o

Corporate Governance

The Board of Directors of the company resulting from the merger will have nine members, corresponding to an increase from the six members on the Crescita BoD. A few members will leave the board and there will be seven new entrants. Specifically, it is expected that Crescita's Board will nominate the following new Directors: Marco Cagnetta (Co-CEO), Christian Aleotti (Co-CEO), Carlo Moser, two independent directors, one candidate appointed by S.L.M.K. S.A., and one candidate appointed by Ginetta's partners other than S.L.M.K. S.A., DVR&C Private Equity SpA, or Movil 2000 Sàrl.

Lock-up Agreement

In line with listed company best practice and in accordance with the best interests of the company, the Framework Agreement foresees lock-up agreements:

- For Ginetta's partners: according to the agreement (i) S.L.M.K. S.A., DVR&C Private Equity SpA will be subject to an 18-month lock-up period (ii) Stefano Aleotti, Piero Foglio, Alessandro Foglio, Monia Foglio Bonacini and Italiana Fornaciari will be subject to a 24-month lock-up; (iii) Marco Cagnetta and Christian Aleotti (Co-CEOs) will be subject to a 36-month lock up. All these periods will start from the effective date of the Significant Transaction.
- For the sponsor:
  - a lock-up on Post-Merger Ordinary Shares deriving from the conversion of the Crescita Special Shares at the effective date of the Significant Transaction (35% of Crescita Special Shares) until EITHER 12 months from the effective date of the Significant Transaction OR the date on which the official price of the Post-Merger Ordinary Shares has been equal to or higher than Eu11 for at least 15 out of 30 consecutive days of trading on the stock market, whichever occurs first.
  - as indicated in Art. 5, para. 5, letter. (e), (iii) of the Crescita By-Laws, Post-Merger Ordinary Shares deriving from the conversion of the Post-Merger Special shares will be subject to a lock-up:
    - (a) (concerning 25% of Crescita Special Shares) until EITHER 12 months after the conversion date OR the date on which the official price of the Post-Merger Ordinary Shares has been equal to or higher than Eu12 for at least 15 out of 30 consecutive days of trading on the stock market, whichever occurs first.
    - (b) (concerning 20% of Crescita Special Shares) until EITHER 12 months after the conversion date OR the date on which the official price of the Post-Merger Ordinary Shares has been equal to or higher than Eu13 for at least 15 out of 30 consecutive days of trading on the stock market, whichever occurs first.
  - as indicated in Art. 5, para. 5, letter. (e), (iii) of the Crescita By-Laws, Post-Merger Ordinary Shares deriving from the conversion of the Special Shares will be subject to a lock-up:
    - (c) (concerning 20% of Crescita Special Shares) until 12 months after the conversion date.

Company Description

The company at a glance

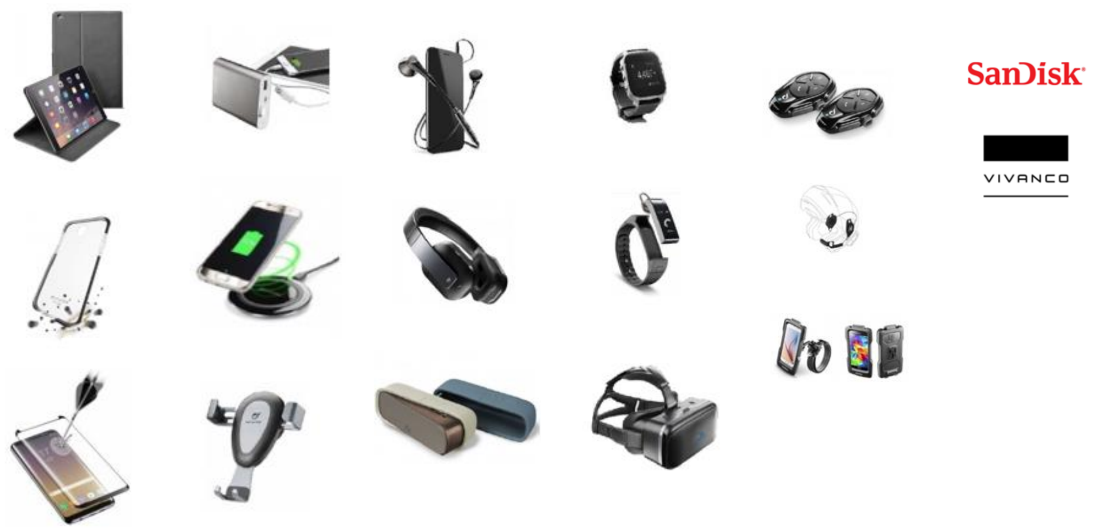
Cellularline is a leading European brand in the development and sale of accessories for smartphones and tablets. The company was founded in 1990, at the very beginning of what can be called the mobile phone era.

The company today is the clear market leader in Italy, both in terms of channel coverage in Consumer Electronics (CE), Mass Merchandise (Mass-Merch or MM) and Travel Retail, and in terms of product categories. It also boasts a leading position in the Austrian market. Elsewhere in Europe, it is among the three leading players in Germany, Belgium and Netherlands. Overall, Cellular Italia is active in 60 countries across Western and Eastern Europe.

Historically, the group has always focused on the sale of accessories for smartphones and, as soon as the tablet market became available, it expanded its range to these devices. In recent years the company has also introduced other types of products not directly related to smartphone and tablet use such as speakers and headphones. The following table summarizes the Cellular Italia product range.

Cellularline - Product Portfolio

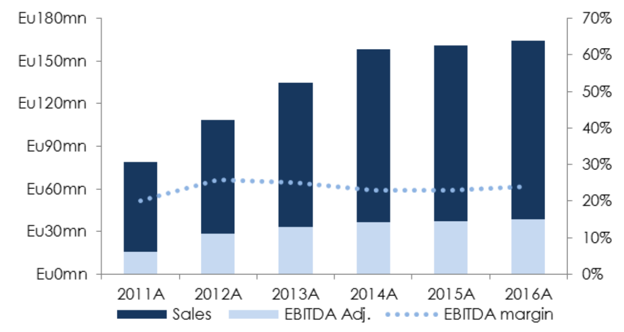
Red Line				**Black Line**	**Blue Line**
Protection & Style	*Charge & Utilities*	*Voice & Audio Music*	*Wearables*	*Motorcycle products*	*Branded products distribution*



Source: Company presentation

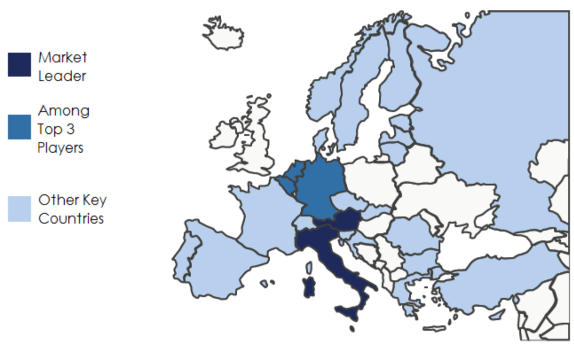
In terms of numbers, the company ended 2016 with a top line of Eu164.5mn and reported a strong sales CAGR of almost 16% between 2011 and 2016; the rate for EBITDA was even higher over the same period thanks to an EBITDA margin of between 20-24% in adjusted terms.

Sales and EBITDA development (2011A-2016A)



Source: Company presentation

Geography – Markets coverage



Source: Company presentation

Ginetta

Today Cellular Italia is wholly owned by the Ginetta group, a holding company established in 2013 by two investment companies: S.L.M.K. S.A. and DVR&C Private Equity SpA. In the same year, Ginetta acquired 100% of the share capital of the current Cellular (then called Quadrio Srl); it was then merged with its subsidiary Cellular Italia SpA. Few months later, at the time of the Ginetta capital increase, Piero Foglio, Stefano Aleotti, Christian Aleotti, Italiana Fornaciari, Manuela Foglio, Monia Foglio Boancini and Alessadro Foglio Boancini entered the company.

The Ginetta share ownership structure is shown in the pie chart at the top left of the share ownership structure table in the business combination section above.

Ginetta share capital, amounting to Eu7.24mn, is currently divided into two classes: ordinary shares (63.45%) and B-shares (36.55%); each share is worth Eu0.01 and both classes offer the same rights and characteristics, except as regards governance and circulation according to the company articles. In particular, B-shares are automatically converted into ordinary shares if transferred to individuals not already in possession of B-shares. In addition, those who own a stake equal to or smaller than 50% of the Ginetta share capital are subject to a lock-up period ending on September 25th 2018, and B-shares cannot be transferred prior to that date, conditions which cannot be disregarded except by the unanimous agreement of the partners. Finally, certain partners have the right of first refusal on the transfer of B-shares (e.g. family right of first refusal). In regard to this kind of restriction, all classes of share are subject to ordinary right of first refusal in favour of the partner who individually owns more than 50% of Ginetta's ordinary shares.

History

1990: Piero Foglio and Stefano Aleotti found Cellular

1995: Enlargement of the product range in order to widen the customer base

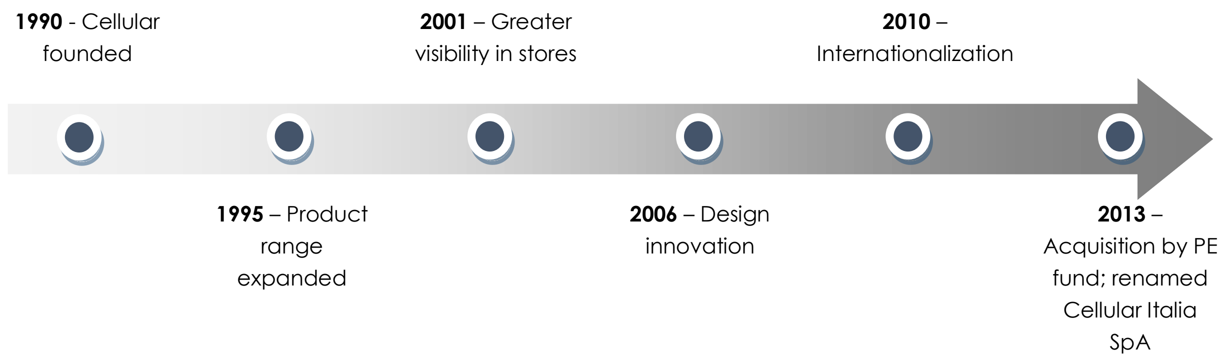
2001: Development of tools to increase the visibility of products in stores

2006: Launch of innovative product design

2010: Launch of an internationalization process to reach 60 countries

2013: through its controlled company Ginetta, private equity fund L Catterton acquires the entire share capital of Quadrio Srl, which owns Cellular outright. The company is renamed Cellular Italia SpA after the incorporation of Cellular into Quadrio.

Cellular Italia SpA timeline



Source: Company data

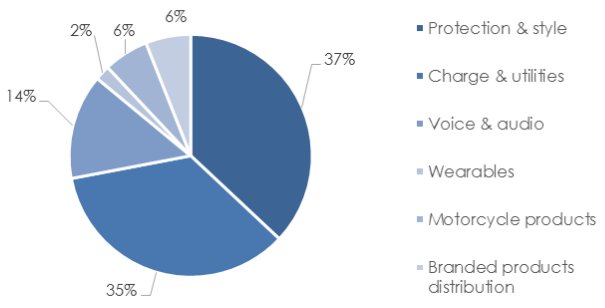
Business

Cellularline is one of the main operators across Europe in the design, distribution and commercialisation of accessories and ancillary devices for mobile phones and tablets (so-called connectivity devices). Cellularline's huge product range is divided into three main lines:

<u>**Product portfolio**</u>

- **Red line:**
  - i. Protection & style, including cases and screen protectors for smartphones and tablets
  - ii. Charge & utilities, including power banks, chargers, cables and car accessories (e.g. adapters, chargers powered from the cigarette lighter socket, etc.)
  - iii. Voice & audio, including headsets, earphones, speakers, and audio cables, all of which in different versions and technologies (e.g. Bluetooth)
  - iv. Wearables, including smart watches, fitness trackers, and virtual-reality headmounts
- **Black line:** Entirely composed of motorbike/bike-related products, including interphones and mountings for on-board devices.
- **Blue line:** third-party products supplied to Cellularline for promotion and marketing purposes. This includes SanDisk and Vivanco products.

Sales breakdown by product category (on 9M17 sales)



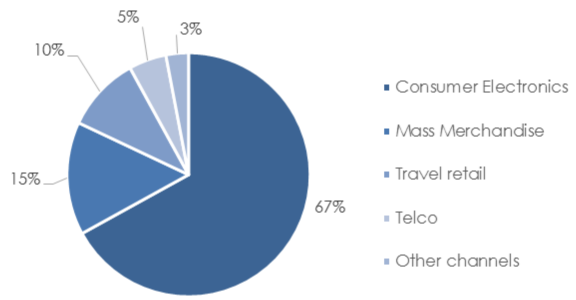
Source: Company presentation

Distribution channels

Cellularline products are mainly sold through five distribution channels:

1. **Consumer Electronics**. The major retail chains selling consumer electronics products that also operate as integrated omnichannel distributors, e.g. Unieuro, Mediaworld, Euronics, Expert, Trony and Saturn. This includes sales through e-commerce sites of third-party distributors.
2. **Mass Merchandise**. Supermarkets and hypermarkets such as Carrefour, Auchan, Intermarché, Ipercoop and E. Leclerc.
3. **Travel retail**. This channel targets travellers via third-party points of sale (e.g. Autogrill, Hudson News, Relay, and Chef Express) at major rail stations, airport terminals, and motorway service stations;
4. **Telco**. Tied points of sale and websites of mobile operators like TIM, Vodafone, Turkcell, Wind, and Sunrise; non-tied points of sale (Thephonehouse).
5. **Other channels**. Minor distribution channels include the company's new website, up and running since 2016, and specialized e-commerce websites (i.e. CE websites and Telco websites), including eBay and Amazon's marketplace. It is worth noting that the company website enables users to search for specific products by device, product category or interest (e.g. fashion, work, sport, travel, etc.).

Sales breakdown by distribution channel (on 9M17 sales)



Source: Company presentation

Value chain

Cellularline value chain

Source: Company data

- **Product development**. The company brings new products into being through its own R&D division, which encompasses design, development, prototyping, engineering for mass production, and packaging. This activity makes use of quantitative and qualitative data on market trends as well as consumer preferences on an individual level regarding product purchases. Cellularline relies on sector leaders such as Ipsos and GFK for market research.
- **Supply**. Cellularline outsources manufacturing of all its products to foreign plants. Most suppliers are in the Guangdong district of China, where all the main consumer electronics firms have operations. On the one hand, outsourcing offers Cellular great flexibility on production volume and capacity, making it easier to obtain better wholesale prices; on the other, it enables varied manufacturing technologies to be employed. The supply chain is overseen directly by top management, supported by the marketing and R&D divisions, in order to optimise the choice of suppliers and the development of its product range. Given that the company is among the leaders on the European market, it enjoys very high bargaining power with Chinese producers: high volumes enable exclusive agreements to be signed for a specific product or technology in a given geographical market and/or for a certain period of time.
- **Logistics and warehouse**. Incoming logistics involves taking delivery of products at the Campogalliano warehouse. Logistics is entirely outsourced to a third-party supplier that manages all logistics and distribution in Italy, and in some cases for foreign distribution.
- **Marketing and sales**. Marketing supports brand development and growth, and brand recognition. Marketing and communications activities are planned throughout the year to give appropriate support to sales as well as to reinforce brand awareness, and are mainly carried out through the online channel;
- **Trade marketing**. Determined independently by Cellularline for each product category, and involving the following steps:
  - (i). Definition of the product range for the individual sales point;
  - (ii). Visual merchandising i.e. deciding how to display the products at sales points based on the choice and format of the products concerned, the environment, illumination, and the graphics for the display area.
  - (iii). Creation and provision of advertising materials for the Cellularline product displays at each sales point in order to increase visibility and cross-selling potential; to this end Cellularline provides training to point of sale staff;
  - (iv). Planning related promotional material: seasonal/special offers, leaflets and flyers, online advertising banners, pop-ups or layers.

Focus on data analytics supporting the beginning and the end of the value chain. Cellularline carries out market research to identify consumer trends as well as keeping abreast of product-related technological developments, in order to ensure that it provides its customers with advance products in tune with market trends.

On the one hand, the company carries out market analysis aimed at discovering where the market is going, what the next innovation will be, and what new customer requirements are emerging; on the other, it dedicates an IT system to looking at operations management efficiency. The former aids research and development, while the latter supports supply chain efficiency. It is worth pointing out that the innovation rate of product offering is very high: 35-40% of the top line is made of newly launched products. A key success factor is maintaining an efficient supply chain management: this is clearly a strong point for Cellularline which featured an inventory obsolescence rate of only 2% in 2016.

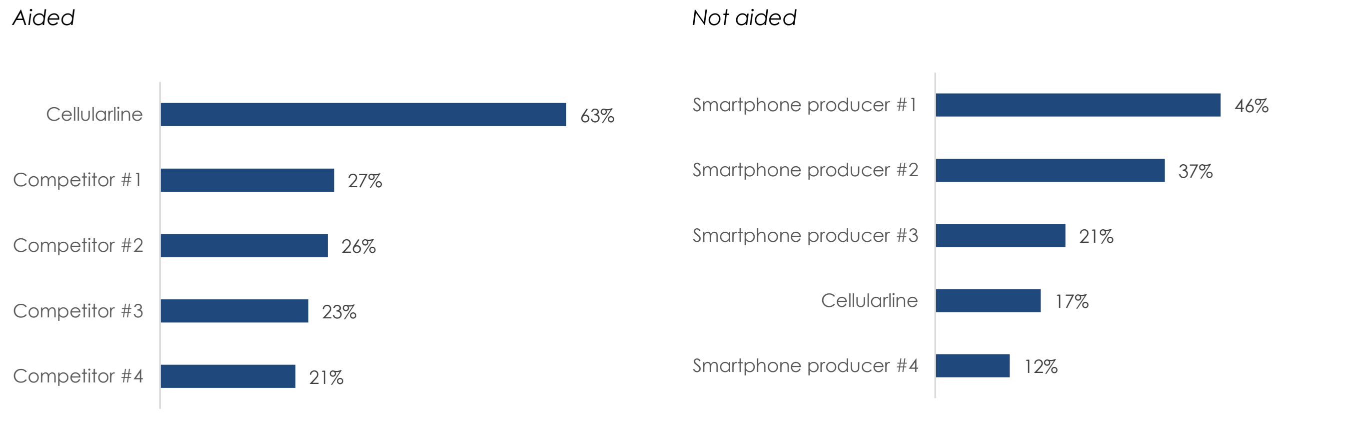
In particular, the company has implemented an IT system that feeds management and all the relevant divisions with data on current sales trends, almost in real-time as there is a week's delay, for more than 3,000 points of sale. This data provides management with first-hand knowledge of how products are doing and how to react, as well as the ability to supply PoS very efficiently. As management knows exactly what a store sold the week before, it can optimise orders to the distributor. Since this is a real benefit for the seller because he gets better margins from the area of his store dedicated to Cellularline, he usually offers better margins the company, the relationship is reinforced, and the bargaining power of customers is therefore weaker.

This represents a key competitive advantage for Cellularline; the company has invested a lot in this and will keep doing so in 2018

Brand recognition

Cellularline closely monitors its brand recognition. According to consumer surveys, Cellularline is the most recognized brand for smartphone accessories in Italy in aided awareness surveys (multiple choice). In non-aided surveys, the company comes immediately behind top smartphone producers.

Brand recognition in Italy among competitors specialized in smartphone accessories



Source: Company presentation

Management team

Cellularline has top-drawer management with significant experience in the broader consumer goods market. The team is close-knit, having been together for several years.

On average, members of the management team have more than 11 years' experience at the firm.

Moreover, in case of a positive outcome of the Relevant Transaction, there will be an incentive plan for the management team depending only on the stock price (stock option plan).

Management team

Steering Committee	*Christian Aleotti*	*Marco Cagnetta*	*Stefano Cerrato*	*Emilio Sezzi*	
	Co-CEO product & sourcing	Co-CEO sales, marketing & trade marketing	CFO	Operations, IT & HR	
	since 1991	since 2004	since 2015	since 2002	
	Co-founder of Cellular	L'Oréal, Reckitt Benckiser, Nestlé	Kuoni Group, Alpitour, Arthur Andersen	Eltron SpA	
Management team	*Cristiano Canzan*	*Fabio Gusmani*	*Massimiliano Montagnana*	*Alessio Lasagni*	*Albino Spaggiari*
	Italy & consumer division	International division	Special channels & retail division	Marketing & commercial division	Trade marketing division
	since 2017	since 2001	since 2008	since 2011	since 2011
	Danone, Reckitt Benckiser, Heinz	Panini, Tetra Pak	SSL/ Healthcare	Lactalis, Arena, Barilla	Cloetta, Nestlé

Source: company presentation

The Market for Device Accessories

Definition, Characteristics and Trends

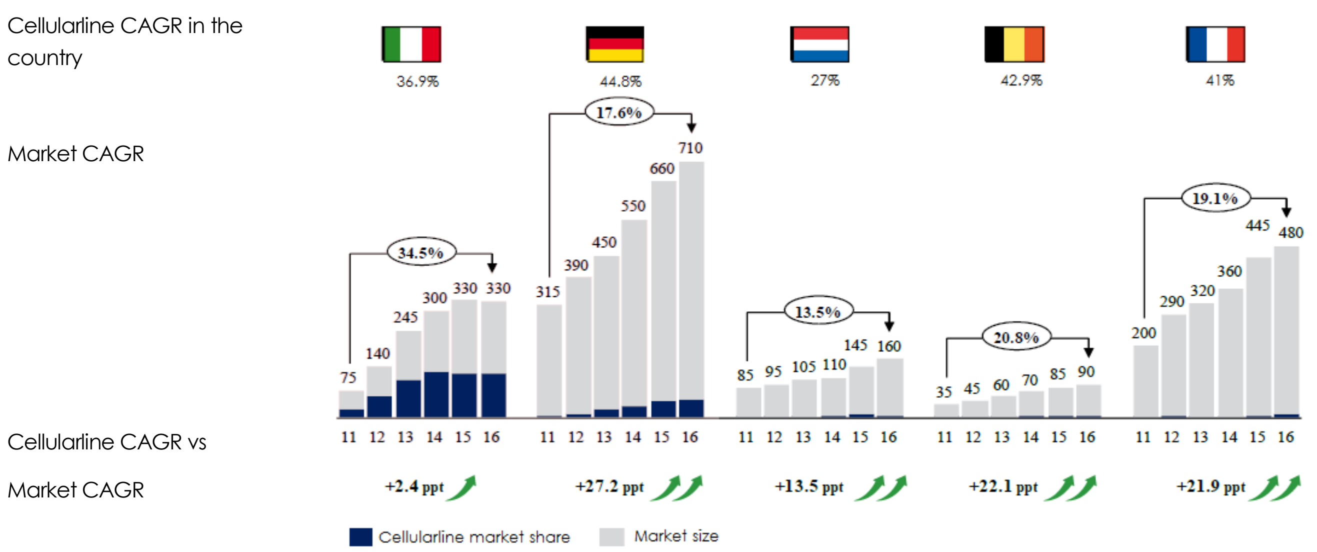
Cellularline operates in the market for smartphone and tablet-related accessories, covering almost the whole range of products from standard charging cables to virtual reality headmounts.

This market is composed of affordable products that are accessible to the vast majority of consumers; price is often the main variable driving consumers' choices. The market can be split into three segments: premium, mid-price and entry level (or "essential").

There are two types of main players: manufacturers of smartphones and tablets (e.g. Samsung, Apple, Huawei, etc.) who round out their offering with accessories, and independent brands producing their own versions of those accessories. The former typically price their offering in the premium band, according to the pricing strategy pursued on the device market. However, it is important to note that smartphone producers normally offer a limited range of accessories featuring little variety. A prime example is charging cables: where a smartphone brands offers just one cable, Cellularline offers several that differ in length, colour and toughness.

Even though smartphones and tablets may be thought of as the epitome of a globalised market, and despite the accessories business usually following its lead, market fragmentation and concentration can differ notably from country to country. Market size is proportional to a nation's population and wealth. On average, market concentration is not very high, with the Italian market a notable exception: in the main foreign countries in which the company operates the top three players have an aggregate market share in the 20-30% range, in Italy the top three have 51%, and Cellularline 38%.

Evolution of market size by country and relative market share of Cellularline (2011-2016, Eu mn)



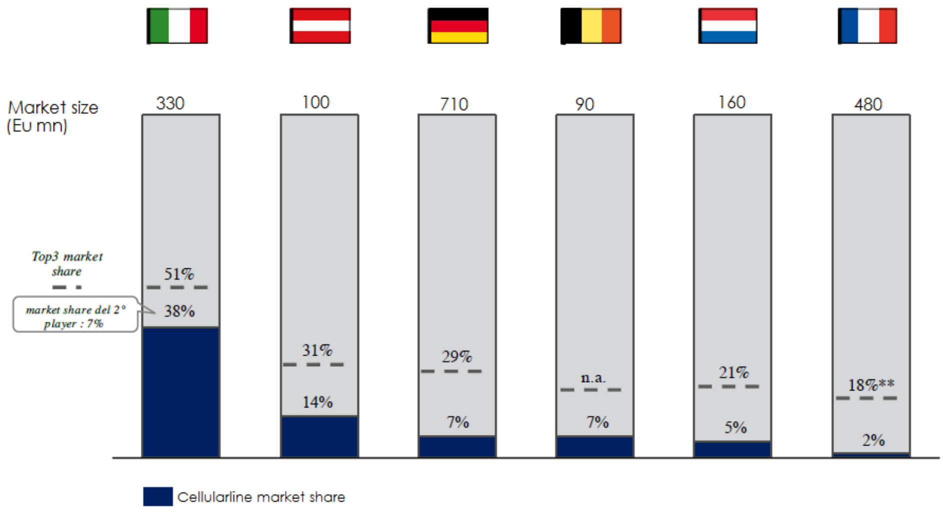
Source: company presentation

As is clear from the figure above, all the markets have been growing at double-digit rates in recent years. Italy had the highest 2011-16 CAGR at +34.5% (front-end loaded in 2011-2013). In absolute terms, however, Germany reported the highest growth: the market grew from Eu315mn to Eu710mn, an increase of Eu395mn, 1.5 times the Italian increase.

In the same period, Cellularline increased its business in each market, significantly outperforming market growth, hence gaining share. Today, the company boasts a leadership position in Italy (38% market share on 2016 data) and Austria (14% market share on 2016 data), with a large advantage in the former as the second ranked company has just a 7% share.

The following chart shows 2016 figures for the market size in the most relevant countries in which Cellularline operates, its market share in each one, and the degree of concentration (the aggregate market share of the top 3 players).

Market share in top EU countries (2016, Eu mn)



Source: company presentation

Positioning and Competition

Cellularline offers a complete and varied range of products within the smartphone and tablet accessories market. Moreover, it also offers depth in its product versions, as mentioned above. By increasing the depth, the company aims to satisfy most customers' needs: taking charging cables as an example, they have deepened their offering by offering different lengths (in addition to the standard 90cm length, they offer shorter and longer cables, from 15cm to 3m) and toughness (cables that tolerate being bent up to 12,000 times, compared to 3,000 for the standard product).

Value-for-money. Cellularline's positioning is usually in the mid-price band, meaning they offer high quality products at a reasonable price. For instance, they sell iPhone charging cables at a discount of roughly 15-20% to Apple. It is therefore crucial that customers perceive the value for money proposition.

Concerning perceived quality, certifications are very important to the company: as quality controls are very strict and efficient, they make use of certifications like Intertek and TUV, which enhance the perception of quality. To give some examples, they only use Apple MFI connectors and they only use plastics from Bayer or BAS for their products.

In light of this positioning strategy, Cellularline is usually in direct competition with players offering mid-price, medium-quality products, as well as competing directly with smartphone and tablet manufacturers.

Competition, as mentioned in the previous paragraph, should be analysed separately in order to make a distinction between the Italian market and others: firstly, because the competitive positioning of the company in Italy is very different to other countries that have common characteristics, and secondly, because the Italian market is particularly significant for Cellularline.

Italian market

- **Threat of new entrants – Low**. Cellularline boasts an impressive 38% market share in Italy (on FY16 figures). Moreover, it has a clear edge over other players, as its closest rival only has a 7% share. It has an even stronger positioning on some products, such as power banks where its market share is estimated to be close to 60%.

  This overwhelming leadership means high barriers for those who want to enter a mid-price market. In this kind of market, brand recognition becomes more relevant as quality and price increases, while price is the main driver for "essential" products.

- **Threat of replacements – Low.** The accessories market itself is very dynamic and features high product rotation among a large spectrum of end-user activities involving smartphones. One of Cellularline's key strengths is flexibility, thanks to production outsourcing. The company mission is not just to keep pace with innovation, but even to be ahead of it. The R&D and marketing divisions focus on delivering the best improvements for current product standards and finding new customer needs. In the case of a new product (which might be a potential replacement for an existing one), Cellularline selects the best supplier according to the critical required know-how and starts selling the new product very quickly. The company is able to react quickly and surely thanks to its efforts in data analytics, as it always has an up-to-date market overview.

- **Bargaining power of final customers – Medium/High.** Price is a major driver in this market, and, at the same time, the products are easily accessible due to the many available channels; in this regard, the online channel plays an important role. In other words, customers can switch to another vendor. Nevertheless, Cellularline's strong brand in Italy and its value-for-money pricing policy help mitigate this risk.

- **Bargaining power of resellers – Medium/Low.** Cellularline does not address directly final customers but channels its product through resellers. Thanks to its IT system and data analytics tools, Cellularline can optimise operations and supply management at stores. This enables the company to be very efficient in its partnerships with other companies, thus gaining greater bargaining power. For instance, resellers benefit from supplies that are perfectly in line with what they have sold the week before in their specific store, making them more efficient as well. Cellularline leverages this for discounts and very strong relationships, given its high level of service.

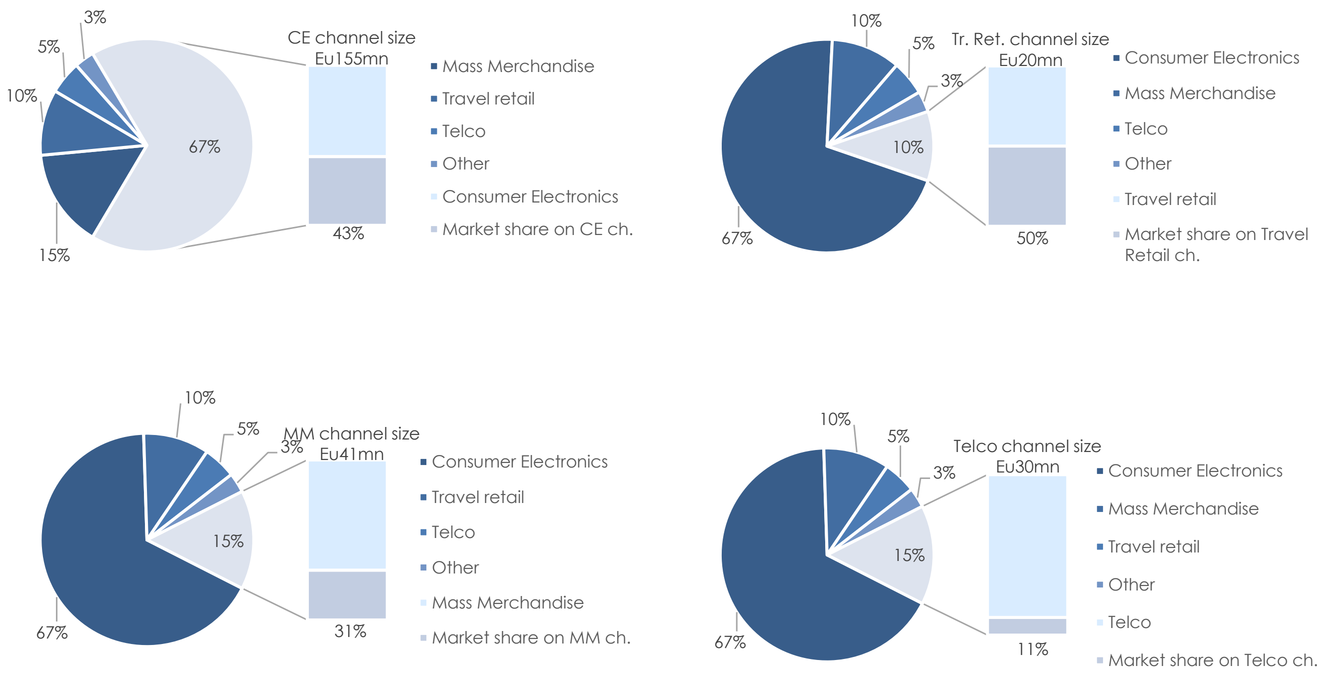
- **Bargaining power of suppliers – Medium/Low.** Given that the company is among the leaders on the European market, it enjoys very high bargaining power with Chinese producers: high volumes enable exclusive agreements to be signed for a specific product or technology in a given geographical market and/or for a certain period of time.

- **Industry rivalry – Medium/Low.** The Italian market is led by Cellularline, as the other players have little influence. However, the online channel and e-commerce makes competition harder and it does not have a strong online presence, as it has mostly sold through physical stores. For this reason, Cellularline launched its own website in 2016 and starting to exploit other e-commerce platforms, such as Amazon.

Excluding smartphone manufacturers, the main competitors in the Italian market are PURO, Celly and SBS; all have low market share compared to Cellularline.

As for presence/market share in the various distribution channels, Cellularline has a strong presence in the CE and MM channels. The following pie charts show the weight of each channel on company revenue while the accompanying bar chart for each channel shows the size and Cellularline's market share.

Sales by distribution channel (pie charts), relative size and market share in Italy for each channel (all data for 9M17)



Source: Company presentation

In terms of channel coverage leadership, Cellularline is positioned as follows.

- CE: leader at Mediaworld, Unieuro, Expert and Euronics.
- MM: leader at Coop, Carrefour, Auchan, iPer and Pam.
- Telco: number two at TIM.
- Travel retail: leader at Autogrill, Unieuro, Lagardère and Dufry.

Other countries

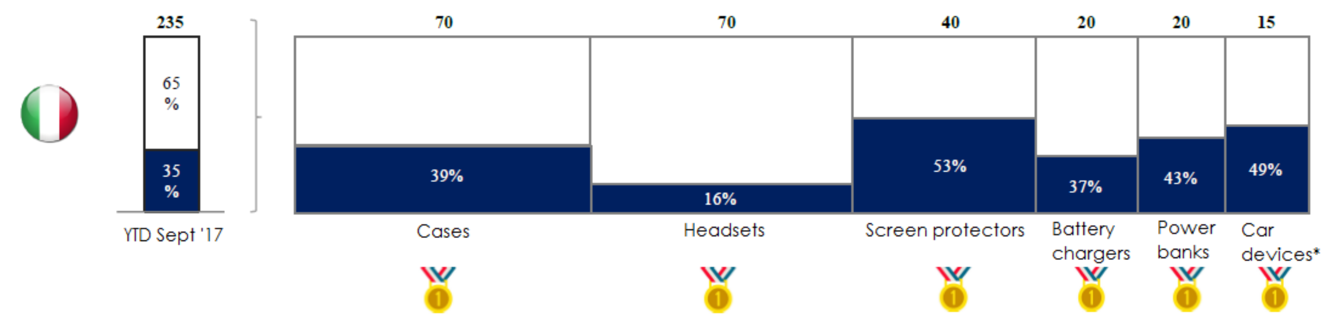
- **Threat of new entrants - Medium.** The international markets are much more fragmented: the aggregate market share of the first three competitors does not usually reach 30%. The barriers to achieving leadership are lower than in Italy.
- **Threat of replacements - Low**. Please see the arguments made for the Italian market, which also apply internationally.
- **Bargaining power of customers – Medium/High**. Please see the arguments made for the Italian market, which also apply internationally.
- **Bargaining power of suppliers – Medium/Low**. Please see the arguments made for the Italian market, which also apply internationally.
- **Industry rivalry – Medium**. Competition abroad is tougher given market fragmentation, local leaders and e-commerce. However, Cellularline already has a certain presence and its best-in-class supply service paired to the perception of high quality means it has every chance of expanding its business abroad.

Excluding smartphone producers, the main competitors in the foreign markets are:

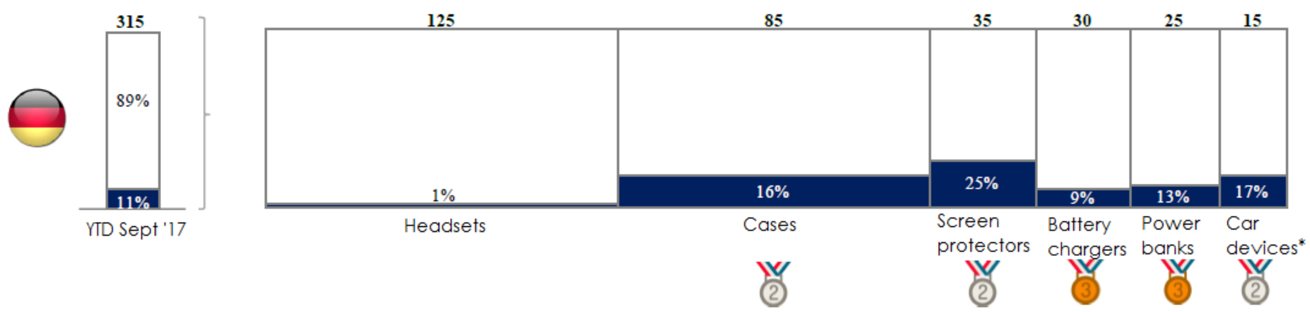
- Germany and Austria: Hama (German leader);
- Spain and Portugal: Muvit, SBS and other Italian players with a minor presence;
- Netherlands: BeHello;
- Scandinavia: Straxx (operating mainly through the telco channel);
- France: Muvit and Bigben.

Market share by product category in Italy and Germany (based on 9M17 data, Eu mn)

Market share by product category for CE channel (market size above bars, Eu mn)



Market share by product category for CE channel (market size on top of the bars, Eu mn)



Source: Company presentation; *it includes car battery chargers, accessories and speakers

Corporate Strategy & Use of IPO Proceeds

We consider Cellularline's growth story to be founded on two main pillars: organic growth and M&A.

Organic Growth

The organic growth path identified for Cellularline comprises four main steps:

- **Product development**

  The headset segment is a significant opportunity to expand the company's product portfolio. This is in the Voice&Audio Music product line, the focus of significant strategic efforts by management in recent years, e.g. through the launch of speakers. The market for this kind of accessory is growing significantly, by some 20-30% YoY (depending on the country), a consequence of the new ways people are listening to music: surveys for the company reveal that about 80% of people use their smartphone to listen to music. Moreover, about 70% say that audio quality is not the main driver of their purchasing decision. In addition, the marketing of new products such as wireless chargers is expected to foster future growth.

  In this regard, Cellularline has successfully demonstrated the ability to enter the market with innovative products at the right time. Taking wearables as an example, when the company introduced fitness trackers, it gained the second position in market share in just two years. Cellularline top management takes part at annual global sector fairs and workshops to learn about state-of-the-art solutions.

- **International expansion**

  It is possible to break down the internationalisation strategy by country:

  (i). France is a major opportunity as of 2018. The company has signed several partnerships with the main operators in the MM sector and this is expected to start paying off from this year;

  (ii). Germany. The market offers wide opportunities, as it is among the largest in Europe and there is no prominent leader. In particular, Cellularline intends to expand its presence in terms of distribution channels and specifically in the audio sector;

  (iii). Switzerland. Expansion of the business through MM (Fust, InterDiscount; already with Mediaworld) and Telco channels (Sunrise, Mobile Zone);

  (iv). Belgium and Luxembourg. The company already has a strong relationship with Mediaworld and the next step is to grow through MM and Telco channels;

  (v). Scandinavia. The company recently signed a contract with Circle K in the Travel Retail channel, and intends to strengthen its position in CE;

  (vi). Spain and Portugal. Already in business with MM players (Alcampo and Jumbo), the company recently signed a distribution contract with Mediaworld for the Portuguese area.

- **Online growth**

  Growth is fostered through CE operator websites and third-party marketplaces, in addition to the proprietary website. The strategy is to penetrate the online channel using products with stronger premium content.

- **New offline channel penetration**

  In Italy, Cellularline could reinforce its positioning in the Telco channel, which is currently under-represented compared to the rest of the market. The company has recognised that ca. 50% of smartphones are sold through plans offered by telecom operators, so it is seeking to focus on this channel. To this end, Cellularline recently signed a distribution contract with TIM.

  Cellularline also intends to grow significantly in Travel Retail and it is targeting operators at airports in particular (e.g. duty free); airports enjoy much higher than average sales per m^2 (the company already has a presence at 50 airports).

Cellularline Quality DNA 2018

Cellularline products are of high quality: the company uses quality raw materials, it makes use of certification and has strict quality controls. Since the pricing strategy envisages medium-high prices, it is crucial that customers appreciate these high quality standards in order to perceive value for money.

"Cellularline Quality DNA" is a project scheduled to start in 2018, which intends to raise customer awareness of the importance of quality. This communication plan aims to inform people about common safety issues that are not usually borne in mind but ought to be in relation to low-quality products, e.g. defective chargers.

External Growth Opportunities

Cellularline also intends to strengthen its competitive positioning through acquisitions.

If the Significant Transaction is completed successfully, the company is expected to cash-in up to Eu50mn; these new financial resources could open the door to major M&A opportunities to accelerate achievement of organic growth objectives.

The strategy is to select a number of targets with the following characteristics:

- Expertise in the online business of smartphone accessories and presence in major international marketplaces;
- Specialisation in the development and sale of suitable accessories through specific channels (e.g. travel retail; airports);
- Capability of supporting online growth across different channels;
- Specialisation in the development and sale of products complementary to the current Cellularline product portfolio.

Financials

Historical Results

The table below reports the financial results of Ginetta, the Cellularline holding company, in the 2011-2016 period.

In the last 5 years, the company's top line more than doubled, passing from sales of Eu79.3mn to Eu164mn, translating into a 2011-16 CAGR of 15.7%. In the same period, the EBITDA margin improved significantly (mainly in the first year, from 20.3% to 26.2%) and then remained stable at an average of 23.4% (2014-2016).

It is important to note that the company was able to largely protect margins even in 2015 when the EUR/USD exchange rate went from an average of 1.33 to 1.11. Cellularline buys most of its raw materials locally, i.e. in Asia, with USD currency, and only lost 10bp in terms of EBITDA margin.

From a general point of view, a stronger USD has a negative short-term impact on margins that can largely be progressively re-absorbed as of the subsequent quarter, leveraging on the following factors:

(i). High product turnover. Almost 40% of annual sales come from newly launched products. This reduces the exchange rate effect because prices for new products are clearly designed to reflect the most recent ForEx.

(ii). Negotiations with suppliers. In the event of strong exchange rates movements, the company can renegotiate contract terms.

(iii). Product price flexibility. The company has a certain amount of leeway to adjust prices within a limited range.

Adjusted net profit went from Eu10mn in 2011 to Eu24.3mn in 2016, a 19.2% CAGR. Over the same period, operating cash flow increased considerably, reaching Eu39mn in FY16, while net capital expenditure also rose due to extraordinary investments, although maintenance CapEx remained broadly flat at Eu1.6-1.7mn. This resulted in a negative net financial position that peaked in 2013 at net debt of Eu85.7mn and decreased progressively to net debt of Eu26.2mn at YE16.

In recent years growth has been led by the international markets in which Cellularline operates. While on the domestic front the company has protected its market share, with sales growing in line with the market, in foreign countries it witnessed sharp YoY revenue increases of 13.9% and 13% in 2015 and 2016 respectively.

Ginetta Group (consolidated) 2011-2016 (Eu mn)

	2011	2012	2013	2014	2015	2016	CAGR '11-'16
Value of production	**79.3**	**108.4**	**134.8**	**158.2**	**160.7**	**164.5**	**15.7%**
% YoY		36.7%	24.4%	17.3%	1.6%	2.3%	
EBITDA	**16.1**	**28.4**	**33.2**	**36.9**	**37.3**	**38.9**	**19.3%**
% margin	20.3%	26.2%	24.7%	23.3%	23.2%	23.6%	
% YoY		76.1%	17.1%	11.0%	1.1%	4.3%	
Net result before GW amort. & Intangible w/o	**10.1**	**18.4**	**17.3**	**21.0**	**22.5**	**24.3**	**19.2%**
% margin	12.7%	17.0%	12.9%	13.3%	14.0%	14.8%	
% YoY		83.2%	(6.0%)	21.0%	7.2%	7.9%	
Cash/ (debt)	**(13.3)**	**(13.6)**	**(85.7)**	**(70.1)**	**(53.1)**	**(26.2)**	
Operating cash flow	**3.1**	**9.8**	**31.9**	**29.2**	**35.0**	**39.2**	
%OCF/EBITDA	19.5%	34.6%	95.9%	79.2%	93.9%	100.9%	
Net capex	**(1.5)**	**(2.5)**	**(139.1)**	**(2.3)**	**(3.2)**	**(3.5)**	
Inventory	**7.9**	**13.0**	**15.3**	**14.2**	**17.0**	**16.0**	
% inventory/sales	10.0%	12.0%	11.4%	9.0%	10.6%	9.7%	

Source: Company presentation

9M17 Results

Ginetta Group (consolidated) 9M16 – 9M17 (Eu mn)

	9M16A	9M17A	% chg
Total Value of Production	**110.9**	**108.8**	**(1.8%)**
EBITDA	23.8	22.0	(7.4%)
% margin	21.4%	20.2%	
D&A	15.7	12.1	
EBIT	8.0	9.9	22.7%
% margin	7.3%	9.1%	
Net financial exp/income	(1.8)	(1.9)	
Pretax profits	6.3	8.0	27.6%
Net profit	**2.7**	**3.5**	**31.8%**
NFP Debt/(Cash)	**26.2**	**66.6**	

Source: Company presentation

Total sales in the first 9 months of 2017 remained broadly stable compared to the same period of the previous year (-1.8% YoY).

It is important to note that the business in which Cellularline operates features some seasonality, with the second half of the year playing a dominant role, typically accounting for 60% of annual revenue. This split is becoming more prominent, as gifts are an increasingly important factor, boosting sales around the Christmas period in particular; also, the overall smartphone market is following a "premiumisation" process, prices rise accordingly and consumers then concentrate purchases close to the Christmas period. The growing switch of sales from 1Q to 4Q enhances this bias to the second half of the year, while 2Q and 3Q have remained broadly stable.

The change in net debt is mainly related to the decision to distribute a Eu59.8mn extraordinary dividend by the end of June 2017.

Our Estimates

The estimates we have made for Cellularline go from 2017 to 2020. Our estimates do not include any contribution from M&A deals. Our model assumes the approval of the Significant Transaction.

Income statement

Revenue growth. We forecast growth in Cellularline's value of production from Eu164.5mn in 2016 to Eu190.4mn in 2020, a 3.7% CAGR. We have modelled this growth trajectory based on the following assumptions, broken down by geographical area:

- Italian market: even though the company already enjoys a hefty market share, we see upside based on two factors: new products and expanded channel penetration. The former is mainly represented by the recently/launched Voice&Audio line, which addresses a fast-growing market. The latter mainly relates to the Telco channel, where in 9M17 the group recorded a mere 11% penetration, well below its general market share (34%). In this regard, the company signed a distribution contract with TIM at the end of 2017, which is expected to pay off tangibly in 2018 and 2019. In addition, the new online channel is also forecast to grow and make a significant positive impact, offsetting the expected erosion of sales from brick and mortar CE point of sales.

  In the long term, we expect growth to be driven by both the launch of new and innovative products, penetrating new segments (e.g. smartwatches) and by new channels in which the company, as a leader, has a competitive advantage to exploit and rapidly establish a dominant position.

- European markets: we expect international markets to contribute by more than 60% to Cellularline's growth in 2016-2020. We foresee an increase coming from:

  (i). France. This country exhibits a large market in which Cellularline is still a secondary player and is seriously under-represented, with only a 2% market share. However, there is no strong leader, and all the elements are in place for the company to deliver successful growth, as it has already signed agreements with some of the major distributors.

  (ii). Online channel. The strategy is to penetrate the online channel with products with a stronger premium content.

  (iii). Travel retail channel. This channel, in which the company has demonstrated its expertise, is forecast to be expanded further, mainly through new locations in airport stores. Today Cellularline is present in around 50 airports, a number we expect to increase considerably.

  (iv). Germany. Cellularline has a small presence in the Audio segment that is estimated to be one of the fastest growing niches. The strategy consists of introducing the same products that have been successfully launched in Italy (portable speakers and headsets).

Cellularline - Revenue breakdown by geographical area (Eu mn)

		2014A	2015A	2016A	2017E	2018E	2019E	2020E
Italy		**108.0**	**103.6**	**101.0**	**98.2**	**100.5**	**105.5**	**109.7**
	%YoY		(4.1%)	(2.4%)	(2.8%)	2.3%	5.0%	4.0%
% on total		69.9%	66.2%	63.1%	61.0%	60.2%	59.9%	59.2%
Europe		**41.8**	**47.7**	**53.8**	**57.6**	**61.1**	**65.3**	**69.9**
	%YoY		13.9%	13.0%	7.0%	6.0%	7.0%	7.0%
% on total		27.1%	30.4%	33.6%	35.8%	36.6%	37.1%	37.8%
RoW		**4.7**	**5.3**	**5.2**	**5.2**	**5.2**	**5.4**	**5.5**
	%YoY		12.7%	(2.6%)	0.0%	1.0%	3.0%	3.0%
% on total		3.1%	3.4%	3.2%	3.2%	3.1%	3.1%	3.0%
Total Net Revenues		**154.5**	**156.5**	**160.0**	**161.0**	**166.8**	**176.2**	**185.2**
	%YoY		1.3%	2.2%	0.6%	3.6%	5.7%	5.1%

Source: Intermonte SIM

EBITDA growth. From a profitability standpoint, we estimate EBITDA reaching Eu43.9mn in 2020, growing at a 3.1% CAGR, with the EBITDA margin remaining broadly stable above 23%. Importantly, in our 2018 estimates, we have factored in Eu14mn non-recurring charges mainly consisting of incentives provided to the top management. As already outlined, Mr. Aleotti and Mr. Cagnetta are going to reinvest a large portion of the expected cash-in back into the company. It is worth noting that this non-recurring figures would only come into play if the Significant Transaction is approved. The table below shows restated figures excluding these non-recurring items.

Moving down the P&L, between EBITDA and net profit we assume the following:

- D&A. Amortisation is expected to remain stable at around 1.6-1.7% of sales (excluding GW amortisation). This would translate into an EBIT CAGR of 5.5% from 2016 to 2020.
- Interest charges. Financial charges are forecast to decrease progressively as debt is repaid.
- Tax rate. We have modelled a 26.5% average tax rate from 2017 to 2020, which we apply to a taxable base that excludes the amortisation of goodwill and the one-off charge of Eu14mn in 2018, because they are not tax deductible. The tax rate is expected to decrease to 26% from 2018. Our estimates do not include the positive impact that could arise from the fiscal benefits of the Patent Box, which would refer to a five-year period ranging from 2015 to 2019.

Given the aforementioned developments, we forecast growth in restated net profit from Eu23mn in 2016 to Eu29.3mn in 2020, a 6.2% CAGR.

Cellularline - Income statement (Eu mn)

	2016A	2017E	2018E	2019E	2020E	CAGR '16-'20
Revenues from sales	160.0	161.0	166.8	176.2	185.2	
Other revenues	4.4	4.5	4.7	4.9	5.2	
Total Value of Production	**164.5**	**165.5**	**171.4**	**181.1**	**190.4**	**3.7%**
% YoY	2.3%	0.6%	3.6%	5.7%	5.1%	
EBITDA recurring	**38.9**	**39.4**	**40.5**	**42.3**	**43.9**	**3.1%**
% margin	23.6%	23.8%	23.7%	23.4%	23.1%	
% YoY	3.5%	1.3%	2.9%	4.3%	3.7%	
EBITDA IFRS	**38.9**	**39.4**	**26.5**	**42.3**	**43.9**	
% restated EBITDA margin	23.6%	23.8%	15.5%	23.4%	23.1%	
% YoY	3.5%	1.3%	(32.6%)	59.4%	3.7%	
D&A	(19.4)	(16.0)	(15.4)	(15.5)	(15.5)	
EBIT recurring	**22.9**	**23.4**	**25.1**	**26.7**	**28.4**	**5.5%**
% margin	13.9%	14.2%	14.7%	14.8%	14.9%	
% YoY	10.1%	2.2%	7.4%	6.4%	6.1%	
EBIT IFRS	**19.4**	**23.4**	**11.1**	**26.7**	**28.4**	
% restated EBIT margin	11.8%	14.2%	6.5%	14.8%	14.9%	
% YoY	(6.7%)	20.6%	(52.4%)	139.9%	6.1%	
Net financial exp/income	(2.5)	(2.1)	(1.9)	(1.7)	(1.4)	
Pretax profits recurring	**20.4**	**21.3**	**23.3**	**25.1**	**26.9**	
% YoY	14.9%	4.4%	9.2%	7.9%	7.4%	
Pretax profits IFRS	**16.9**	**21.3**	**9.3**	**25.1**	**26.9**	
% YoY	(4.81%)	25.98%	(56.52%)	170.81%	7.38%	
Taxes	(9.0)	(9.9)	(9.2)	(9.8)	(10.3)	
Tax rate*	29.2%	28.0%	26.0%	26.0%	26.0%	
Net profit	**7.9**	**11.4**	**0.1**	**15.3**	**16.6**	
% margin	4.8%	6.9%	0.0%	8.4%	8.7%	
Net Profit Restated	**23.0**	**24.1**	**26.7**	**27.9**	**29.3**	**6.2%**
% margin	4.3%	4.5%	11.0%	4.5%	4.9%	
% YoY	14.0%	14.5%	15.6%	15.4%	15.4%	

Source: Intermonte SIM; *Goodwill and incentives charges not deductible

Balance sheet and cash flow

We expect Cellularline's cash generation to improve throughout the forecast period, with average FCF conversion of 57% (using restated net profit to define FCF adjusted and combining the outcome with recurring EBITDA for the conversion calculation). We have based our model on:

- Commercial net working capital. We project the company will maintain good discipline on net working capital and, thanks to the high level of service given to resellers, we expect a slight improvement for DSO of about 10-15 days throughout the period considered. The average NWC/sales is equal to 34.3%.
- CapEx. We expect Cellularline to continue to invest around 1.6% of sales on average. In 2018, we include extraordinary investments to improve the IT system further, like SAP.

Consistently with our P&L estimates, our cash flow model assumes approval of the Significant Transaction and therefore factors in a Eu50mn cash-in (as would be the case with zero withdrawal rights exercised).

In the absence of any potential acquisitions, we forecast the net financial position would turn positive in 2019 thanks to Cellularline's healthy cash flow. As a result, financial charges would be considerably reduced.

In the event of acquisitions, we would expect net debt/EBITDA not to exceed a range between 1.5x and 2x.

Cellularline - Balance sheet (Eu mn)

	2016A	2017E	2018E	2019E	2020E
Inventories	16.0	17.5	17.1	18.1	19.0
Trade Receivables	73.5	73.1	74.9	77.2	80.2
Trade Payables	(30.3)	(31.0)	(30.4)	(30.1)	(30.7)
Commercial net working capital	**59.2**	**59.6**	**61.7**	**65.2**	**68.5**
Other current assets/liabilities	(4.0)	(3.0)	(3.0)	(3.0)	(3.0)
Net working capital	**55.1**	**56.6**	**58.7**	**62.2**	**65.5**
% on sales	*33.5%*	*34.2%*	*34.2%*	*34.3%*	*34.4%*
Tangible assets	**9.0**	**8.8**	**9.1**	**8.7**	**8.7**
Intangible assets	**77.7**	**65.1**	**52.4**	**39.8**	**27.1**
Participations	0.0	0.0	0.0	0.0	0.0
Net Fixed Asset	**86.7**	**73.9**	**61.5**	**48.5**	**35.8**
Other non-current assets/liabilities	(1.0)	(1.2)	(1.3)	(1.4)	(1.5)
Net capital employed	**140.9**	**129.3**	**118.9**	**109.4**	**99.9**
Net debt/(cash)	26.2	64.6	5.7	(19.1)	(45.2)
Net Equity	114.7	64.6	113.2	128.5	145.1
Net capital employed	**140.9**	**129.3**	**118.9**	**109.4**	**99.9**

Source: Intermonte SIM

Cellularline - Cash Flow statement (Eu mn)

	2016A	2017E	2018E	2019E	2020E
Net income	7.9	11.4	0.1	15.3	16.6
Minorities	0.0	0.0	0.0	0.0	0.0
D&A	19.4	16.0	15.4	15.5	15.5
Gross cash flow	**27.3**	**27.4**	**15.5**	**30.8**	**32.1**
Change in working capital	3.5	(1.5)	(2.1)	(3.5)	(3.3)
% on sales	*2.1%*	*(0.9%)*	*(1.2%)*	*(1.9%)*	*(1.7%)*
Other	(0.4)	(1.4)	(1.4)	0.1	0.1
Operating cash flow	**30.4**	**24.5**	**12.0**	**27.4**	**28.9**
Capex	(3.5)	(3.1)	(3.0)	(2.5)	(2.9)
FCF adj.*	**29.4**	**21.3**	**22.9**	**24.8**	**26.1**
% FCF adj./EBITDA	75.6%	54.2%	56.6%	58.7%	59.4%
Acquisitions	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	(59.8)	0.0	0.0	0.0
Rights Issue / IPO	0.0	0.0	50.0	0.0	0.0
Other	(0.0)	0.0	0.0	0.0	0.0
Cash Flow	**26.9**	**(38.5)**	**58.9**	**24.8**	**26.1**
NFP at bgn year Cash/(Debt)	**(53.1)**	**(26.2)**	**(64.6)**	**(5.7)**	**19.1**
Cash Flow: Cash/(Debt)	26.9	(38.5)	58.9	24.8	26.1
NFP at year end: Cash/(Debt)	**(26.2)**	**(64.6)**	**(5.7)**	**19.1**	**45.2**

Source: Intermonte SIM; *FCF adj. considering restated net profit

Peers

Given its distinctive go-to-market approach, Cellularline has very few directly comparable peers in Europe. Nevertheless, we have identified peers in each of the specific core Cellularline capabilities in Europe, while also including US players. US operator ZAGG appears to be the closest comparable company, but it generates lower profit margins.

Cellularline's comparables companies

	Company name	M. Cap	EV	EV / Sales			EV / EBITDA			EV / EBIT			Price / Earnings		
		(Eu mn)		LTM	2018E	2019E	LTM	2018E	2019E	LTM	2018E	2019E	LTM	2018E	2019E
Valuation	Zagg	348.0	365.2	1.0x	0.8x	-	13.2x	5.2x	-	32.0x	7.7x	-	151.5x	11.0x	-
	Logitech Int.	1459.5	1453.8	2.1x	2.0x	1.9x	12.3x	9.4x	-	14.4x	11.7x	-	206.7x	15.3x	11.5x
	ACCO Brands	1083.4	1795.9	1.1x	1.1x	1.1x	7.6x	6.6x	6.5x	10.1x	9.5x	9.1x	10.4x	9.3x	8.6x
	FILA	772.1	1073.0	2.1x	2.0x	1.9x	20.8x	12.0x	11.2x	32.3x	14.1x	13.1x	35.9x	17.0x	15.6x
	Mean			**1.6x**	**1.5x**	**1.7x**	**13.5x**	**8.3x**	**8.8x**	**22.2x**	**10.7x**	**11.1x**	**101.1x**	**13.1x**	**11.9x**
	Median			**1.6x**	**1.5x**	**1.9x**	**12.8x**	**8.0x**	**8.8x**	**23.2x**	**10.6x**	**11.1x**	**93.7x**	**13.1x**	**11.5x**

				Gross Income			EBITDA			EBIT			Net Income		
				LTM	2018E	2019E	LTM	2018E	2019E	LTM	2018E	2019E	LTM	2018E	2019E
Margins	Zagg	348.0	365.2	28.5%	34.0%	-	7.3%	15.2%	-	3.0%	10.1%	-	0.6%	6.9%	-
	Logitech Int.	1459.5	1453.8	52.1%	51.2%	-	17.0%	21.6%	-	14.5%	17.4%	-	1.0%	9.8%	-
	ACCO Brands	1083.4	1795.9	31.9%	33.8%	33.7%	14.7%	16.5%	16.8%	11.0%	11.6%	12.0%	6.8%	7.4%	7.7%
	FILA	772.1	1073.0	16.0%	-	-	10.2%	16.6%	17.4%	6.6%	14.2%	14.8%	4.2%	8.3%	9.1%
	Mean			**32.1%**	**39.6%**	**33.7%**	**12.3%**	**17.5%**	**17.1%**	**8.8%**	**13.3%**	**13.4%**	**3.2%**	**8.1%**	**8.4%**
	Median			**30.2%**	**34.0%**	**33.7%**	**12.4%**	**16.6%**	**17.1%**	**8.8%**	**12.9%**	**13.4%**	**2.6%**	**7.8%**	**8.4%**

Source: Factset

Valuation

First of all, it is important to note that in our model we have assumed approval of the Significant Transaction. Once the merger is complete, Cellularline will have cashed in about Eu50mn (assuming no withdrawal rights are exercised) but at the same time it will have to sustain Eu14mn in non-recurring cash charges, mainly consisting of incentives provided to the top management, bringing the net cash-in to around Eu36mn.

We have calculated a fair equity valuation for Cellularline based on the outcomes of different valuation methods. Our estimates do not include any contribution from M&A deals but assume approval of the Significant Transaction.

A peer comparison points to a fair valuation ranging from Eu318mn (on 2018 EV/EBITDA) to Eu392mn (on 2019 EV/EBITDA).

A Discounted Cash Flow (DCF) model, with standard assumptions in terms of WACC and terminal growth, broadly confirms this valuation range.

The market might apply a liquidity discount to these results, which could be reduced in the future in the event of a switch to the main market.

Cellularline – Multiples comparable valuation (Eu mn, except for multiples figure)

	2018	2019		2018	2019
Peer group median EV/EBITDA	8.0x	8.8x	Peer group median P/E	13.1x	11.5x
Cellularline EBITDA adjusted	40.5	42.3	Cellularline Net Profit adjusted	26.7	27.9
fair EV	324.0	372.8			
NFP cash (debt)	(5.7)	19.1			
Fair Equity Value	**318.3**	**392.0**	**Fair Equity Value**	**350.5**	**321.3**

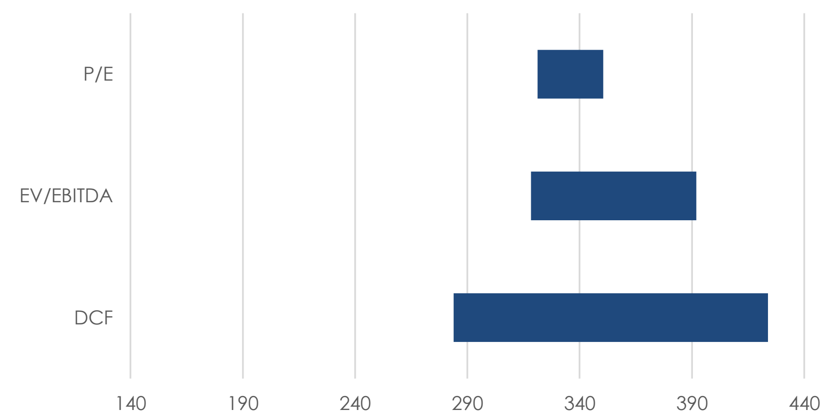
Source: Intermonte SIM and Factset (multiples as at 1st March 2018)

Cellularline – DCF Sensitivity (Eu mn)

		% Terminal Growth				
		0.0%	0.5%	1.0%	1.5%	2.0%
% WACC	7.50%	328.1	346.9	368.6	393.9	423.8
	8.00%	311.5	328.0	346.7	368.4	393.7
	8.50%	296.9	311.4	327.8	346.6	368.3
	9.00%	283.9	296.8	311.3	327.7	346.5

Source: Intermonte SIM

Cellularline – Equity value: valuation range (Eu mn)



Source: Intermonte SIM and Factset

Finally, below we show a table summarising the variation in the number of shares based on the hypothetical Cellularline share price, including warrants. We show two scenarios: zero withdrawals and maximum withdrawals. For more details on conversion conditions, the terms are reported in the business combination paragraph.

Cellularline – Number of shares under different conversion scenarios

	MAX (Zero Withdrawal)	MIN (Max Withdrawal)	
Number Of Shares Post Merger	**21,868,189**	**17,578,190**	
- Of which Ordinary Shares	*21,673,189*	*17,383,190*	*Voting shares*
- Of which Special Shares	*195,000*	*195,000*	*No voting shares*
Conversion of Special Shares into Ordinary Shares			
@ Eu11 - 75k Spec. Sh. Conv. At 6x	450,000	450,000	
@ Eu12 - 60k Spec. Sh. Conv. At 6x	360,000	360,000	
@ Eu13 - 60k Spec. Sh. Conv. At 6x	360,000	360,000	
Number of warrants	6,500,000	5,213,000	
Conversion of Warrants into Ordinary Shares			*Conv. Rate*
Assuming all w to be converted at Eu11	894,400	717,309	*0.1376*
Assuming all w to be converted at Eu12	1,365,650	1,095,251	*0.2101*
Assuming all w to be converted at Eu13	1,763,450	1,414,287	*0.2713*
MAX Number Of Ordinary Shares	**24,606,639**	**19,967,477**	
(assuming full conversion of Special Shares and all warrants converted at Eu13)			

Source: Company data and Intermonte SIM

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UNDERPERFORM: stock expected to underperform the market by between –10% and -25% over a 12 month period;

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OUTPERFORM:	42,86 %
NEUTRAL:	38,96 %
UNDERPERFORM	05,19 %
SELL:	00,00 %

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UNDERPERFORM	00,00 %
SELL:	00,00 %

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