

CELLULARLINE

BUY

SECTOR: Consumers

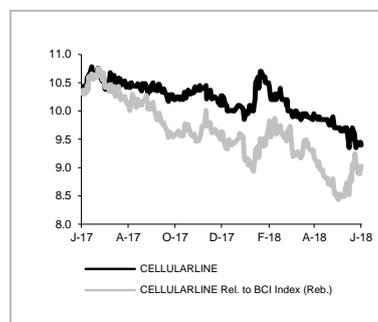
Price (Eu):
9.40
Andrea Randone +39-02-77115.364
 e-mail: andrea.randone@intermonte.it

Target Price (Eu):
12.80
Edoardo Girelli +39-02-77115.369
 e-mail: edoardo.girelli@intermonte.it

Making Smartphones Smarter

- 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, Cellularline is active in 60 countries across Western and Eastern Europe. In terms of numbers, the company ended 2017 with a top line of Eu165.6mn and reported a strong sales CAGR of 13.1% between 2011 and 2017.
- 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 Cellularline's value of production growing from Eu165.6mn in 2017 to Eu183.2mn in 2020, a 3.4% CAGR.** We have modelled this growth trajectory broken down by geographical area, with Italian revenues reaching Eu100mn in 2020, i.e. a 2017-20 CAGR of 1.1%, and European revenues increasing at a 7.3% CAGR over the same period to almost Eu74mn. From a profitability standpoint, we estimate EBITDA growing at a 2.4% CAGR to reach Eu42.3mn in 2020, 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%.
- Initiation of coverage: BUY; target Eu12.8.** We are initiating coverage with a positive view on the stock, as we think investing in Cellularline offers an attractive risk/reward profile thanks to its growing foreign business, undisputed leading position on the Italian market and solid brand credibility that will allow it to enter new contiguous markets such as the audio and wearable segments. Furthermore, following the business combination Cellularline has brought in Eu37mn gross, which will enhance the group's M&A firepower. Our valuation represents the simple average of a discounted cash flow model and a peer multiples comparison, to which we apply a 10% liquidity discount. The already-approved project to switch the listing to the main market should reduce this discount.

CELLULARLINE - 12m Performance


RATING: New Coverage

TARGET PRICE (Eu): New Coverage

Change in EPS est: 2018E 2019E

STOCK DATA

 Reuters code: CELL.MI
 Bloomberg code: CELL IM

Performance	1m	3m	12m
Absolute	-3.1%	-6.0%	-9.3%
Relative	5.6%	-5.3%	-13.4%
12 months H/L:	10.78/9.35		

SHAREHOLDER DATA

No. of Ord. shares (mn):	23
Total No. of shares (mn):	23
Mkt Cap Ord (Eu mn):	212
Total Mkt Cap (Eu mn):	212
Mkt Float - ord (Eu mn):	130
Mkt Float (in %):	61.0%
Main shareholder:	
Private Equity funds	14.0%

BALANCE SHEET DATA

	2018
Book value (Eu mn):	99
BVPS (Eu):	4.37
P/BV:	2.2
Net Financial Position (Eu mn):	-23
Enterprise value (Eu mn):	235

Please see important disclaimer on the last page of this report

Key Figures	2016A	2017A	2018E	2019E	2020E
Sales (Eu mn)	164	166	168	174	183
Ebitda (Eu mn)	39	39	23	41	42
Net profit (Eu mn)	8	11	9	17	16
EPS - New (Eu)	1.016	1.044	1.245	1.313	1.284
EPS - Old (Eu)					
DPS (Eu)	2.646	0.000	0.000	0.000	0.000
Ratios & Multiples	2016A	2017A	2018E	2019E	2020E
P/E	9.2	9.0	7.6	7.2	7.3
Div. Yield	28.1%	0.0%	0.0%	0.0%	0.0%
EV/Ebitda	6.1	7.0	5.9	5.0	4.2
ROCE	12.9%	16.9%	5.8%	22.0%	25.9%

The reproduction of the information, recommendations and research produced by Intermonte SIM contained herein, and of any of its parts, is strictly prohibited. None of the contents of this document may be shared with third parties without Company authorization.

CELLULARLINE - KEY FIGURES

		2016A	2017A	2018E	2019E	2020E
	Fiscal year end	31/12/2016	31/12/2017	31/12/2018	31/12/2019	31/12/2020
PROFIT & LOSS (Eu mn)	Sales	164	166	168	174	183
	EBITDA	39	39	23	41	42
	EBIT	19	23	7	25	27
	Financial income (charges)	(3)	(2)	(2)	(2)	(1)
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	17	21	6	24	25
	Taxes	(9)	(10)	4	(7)	(9)
	Tax rate (%)	53.4%	48.2%	-64.8%	28.1%	35.6%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	8	11	9	17	16
	Total extraordinary items	(4)	(0)	(17)	0	0
	Ebitda excl. extraordinary items	39	39	40	41	42
	Ebit excl. extraordinary items	36	36	37	38	39
Net profit restated	23	24	28	30	29	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	23	23	23	23	23
	EPS stated fd	0.349	0.470	0.405	0.754	0.725
	EPS restated fd	1.016	1.044	1.245	1.313	1.284
	BVPS fd	5.074	2.898	4.371	5.124	5.849
	Dividend per share (ord)	2.646	0.000	0.000	0.000	0.000
	Dividend per share (sav)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)	758.0%	0.0%	0.0%	0.0%	0.0%
CASH FLOW (Eu mn)	Gross cash flow	27	27	14	33	32
	Change in NWC	3	(4)	(3)	0	(3)
	Capital expenditure	(3)	(2)	(3)	(3)	(3)
	Other cash items	(0)	0	(3)	0	0
	Free cash flow (FCF)	29	21	22	30	26
	Acquisitions, divestments & others	0	0	0	0	0
	Dividend	0	(60)	0	0	0
	Equity financing/Buy-back	0	0	37	0	0
Change in Net Financial Position	27	(39)	42	30	26	
BALANCE SHEET (Eu mn)	Total fixed assets	87	72	60	47	34
	Net working capital	55	59	63	63	65
	Long term liabilities	(1)	(1)	(1)	(1)	(1)
	Net capital employed	141	130	121	108	98
	Net financial position	(26)	(65)	(23)	8	34
	Group equity	115	66	99	116	132
	Minorities	0	0	0	0	0
Net equity	115	66	99	116	132	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	212	212	212	212	212
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(26)	(65)	(23)	8	34
	Enterprise value	239	277	235	205	178
RATIOS(%)	EBITDA margin*	23.6%	23.8%	23.6%	23.4%	23.1%
	EBIT margin*	21.6%	21.5%	21.9%	21.7%	21.5%
	Gearing - Debt/equity	22.8%	99.2%	23.0%	-6.7%	-25.8%
	Interest cover on EBIT	7.8	9.3	4.3	16.7	20.5
	Debt/Ebitda	0.67	1.65	1.00	nm	nm
	ROCE*	12.9%	16.9%	5.8%	22.0%	25.9%
	ROE*	7.1%	11.8%	11.1%	15.9%	13.2%
	EV/CE	1.6	2.0	1.9	1.8	1.7
	EV/Sales	1.5	1.7	1.4	1.2	1.0
	EV/Ebit	6.7	7.8	6.4	5.4	4.5
Free Cash Flow Yield	13.8%	10.0%	10.4%	14.3%	12.4%	
GROWTH RATES (%)	Sales	2.3%	0.7%	1.7%	3.6%	5.0%
	EBITDA*	3.5%	1.3%	1.0%	2.7%	3.7%
	EBIT*	6.3%	0.2%	3.5%	2.6%	4.0%
	Net profit	-16.2%	34.7%	-13.8%	86.1%	-3.9%
	EPS restated	4.1%	2.7%	19.2%	5.5%	-2.2%

* Excluding extraordinary items

Source: Intermonte SIM estimates

Index

Executive Summary	4
SWOT Analysis	5
Company Description	6
The company at a glance	6
Share ownership structure	7
History	8
Business	8
Management team	12
The Market for Device Accessories	13
Definition, Characteristics and Trends	13
Corporate Strategy & Use of IPO Proceeds	18
Organic Growth	18
External Growth Opportunities	19
Financials	20
Historical Results	20
Our Estimates	22
Peers	26
Valuation	27

Executive Summary

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, Cellularline is active in 60 countries across Western and Eastern Europe. In terms of numbers, the company ended 2016 with a top line of Eu165.6mn and reported a strong sales CAGR of 13.1% between 2011 and 2017.

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 Cellularline's value of production growing from Eu165.6mn in 2017 to Eu183.2mn in 2020, a 3.4% CAGR. We have modelled this growth trajectory broken down by geographical area, with Italian revenues reaching Eu100mn in 2020, i.e. a 2017-20 CAGR of 1.1%, and European revenues increasing at a 7.3% CAGR over the same period to almost Eu74mn. From a profitability standpoint, we estimate EBITDA growing at a 2.4% CAGR to reach Eu42.3mn in 2020, 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%.

Initiation of coverage with a BUY rating, target price Eu12.8. We are initiating coverage with a positive view on the stock, as we think an investment in Cellularline offers an attractive risk/reward profile thanks to its growing foreign business, undisputed leading position on the Italian market and solid brand credibility that will enable it to enter new contiguous markets such as the audio and wearable segments. Furthermore, following the business combination Cellularline has brought in Eu37mn gross, which will enhance the group's M&A firepower. Our valuation represents the simple average of a discounted cash flow model and a peer multiples comparison, to which we apply a 10% liquidity discount, yielding a target price of Eu12.8 per share. The already-approved project to switch the listing to the main market should reduce this discount.

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.

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.**

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.

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

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, Cellularline 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 Cellularline product range.

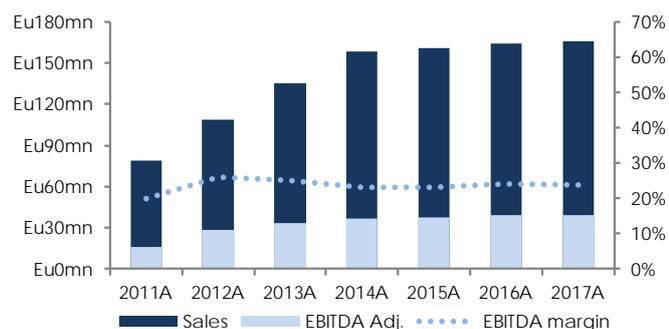
Cellularline - Product Portfolio

Red Line				Black Line	Blue Line
<i>Protection & Style</i>	<i>Charge & Utilities</i>	<i>Voice & Audio Music</i>	<i>Wearables</i>	<i>Motorcycle products</i>	<i>Branded products distribution</i>
					 
					
					

Source: Company presentation

In terms of numbers, the company ended 2017 with a top line of Eu165.6mn and reported a strong sales CAGR of 13.1% between 2011 and 2017; the rate for EBITDA was even higher (16.1%) over the same period thanks to an EBITDA margin of between 20-24% in adjusted terms.

Sales and EBITDA development (2011A-2017A)



Source: Company presentation

Geography – Markets coverage



Source: Company presentation

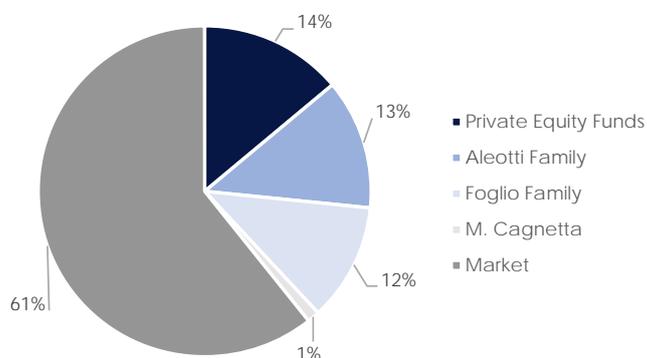
Share ownership structure

Prior to the Business Combination, Cellularline was 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. The same year, Ginetta acquired 100% of the share capital of Cellular (then called Quadrio Srl); it then merged with its subsidiary Cellular Italia SpA. A 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.

On March 20th 2018, the Crescita SPAC (Special Purpose Acquisition Vehicle) shareholders approved the business combination and then, on June 1st 2018, they acquired 49.87% of the Ginetta share capital. The two companies merged on June 4th 2018; the resulting company took the name Cellularline SpA and listed on the AIM segment of the Italian Stock Exchange.

The following pie chart shows the current Cellularline share ownership structure.

Cellularline – Ownership (based on voting rights)

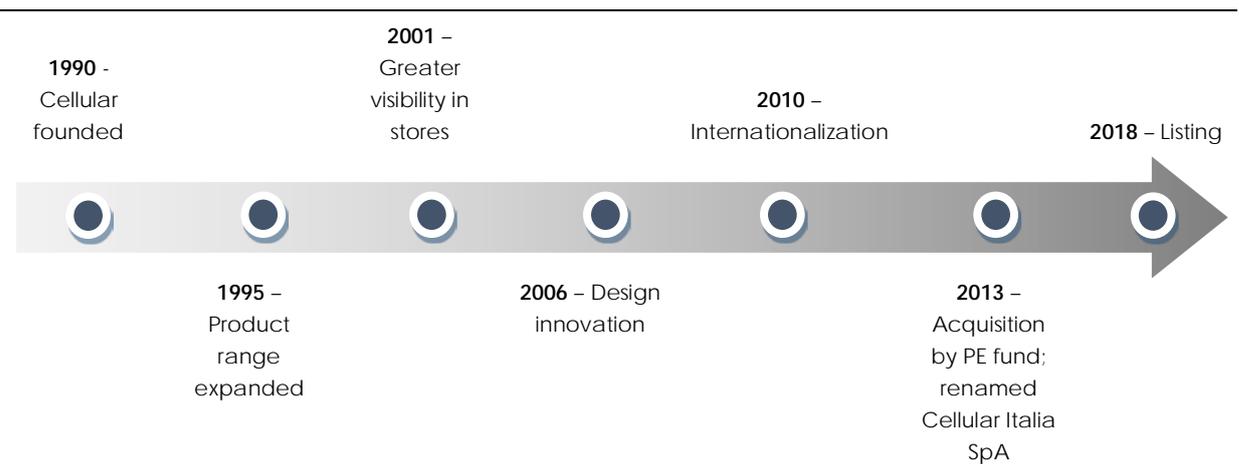


Source: Intermonte SIM

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.
- 2018:** Listing through the merger with Crescita SPAC (Business Combination); renamed Cellularline SpA

Cellularline - Timeline



Source: Company data

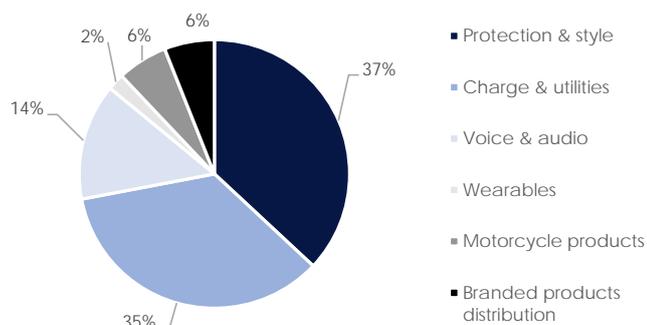
Business

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:

Product portfolio

- **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)



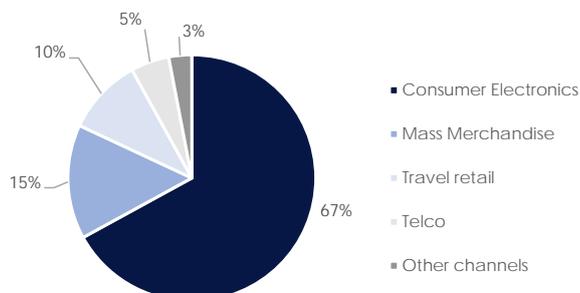
Source: Company presentation

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 Cellularline 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.

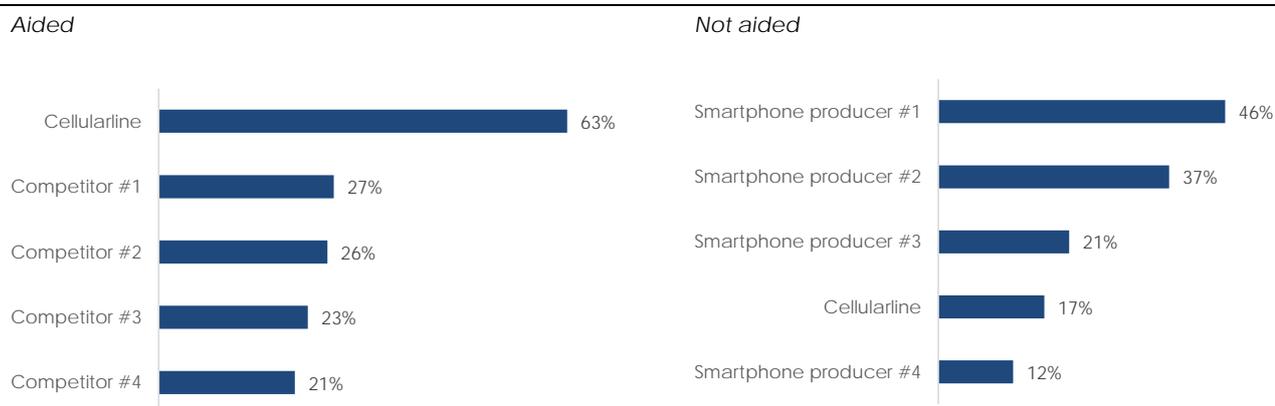
In particular, the company has implemented an IT system that feeds management and all the relevant divisions with data on current sales trends, almost in real-time as there is a week's delay, for more than 3,000 points of sale. This data provides management with first-hand knowledge of how products are 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 data based on ad-hoc research

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.

As a result of the Business Combination, management team members are the beneficiaries of a 3-year incentive (stock option) plan that will come into effect as and when the share price exceeds Eu14.

Management team

Steering Committee	<i>Christian Aleotti</i>	<i>Marco Cagnetta</i>	<i>Stefano Cerrato</i>	<i>Emilio Sezzi</i>	
	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	<i>Cristiano Canzan</i>	<i>Fabio Gusmani</i>	<i>Massimiliano Montagnana</i>	<i>Alessio Lasagni</i>	<i>Albino Spaggiari</i>
	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 data

The Market for Device Accessories

Definition, Characteristics and Trends

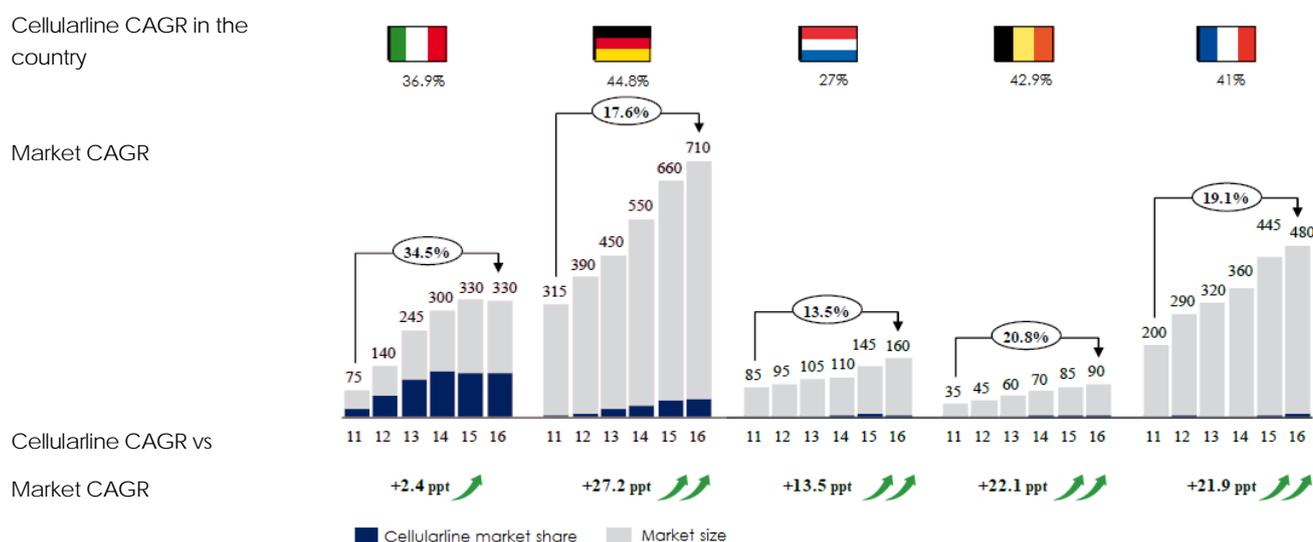
Cellularline operates in the market for smartphone and tablet-related accessories, covering almost the whole range of products from standard charging cables to virtual reality headmounts.

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)



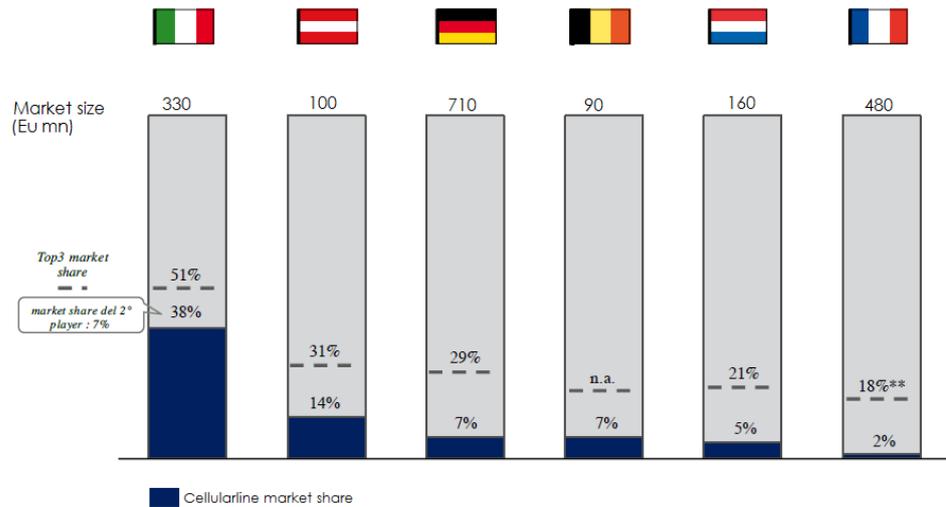
Source: company data

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 data

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%.

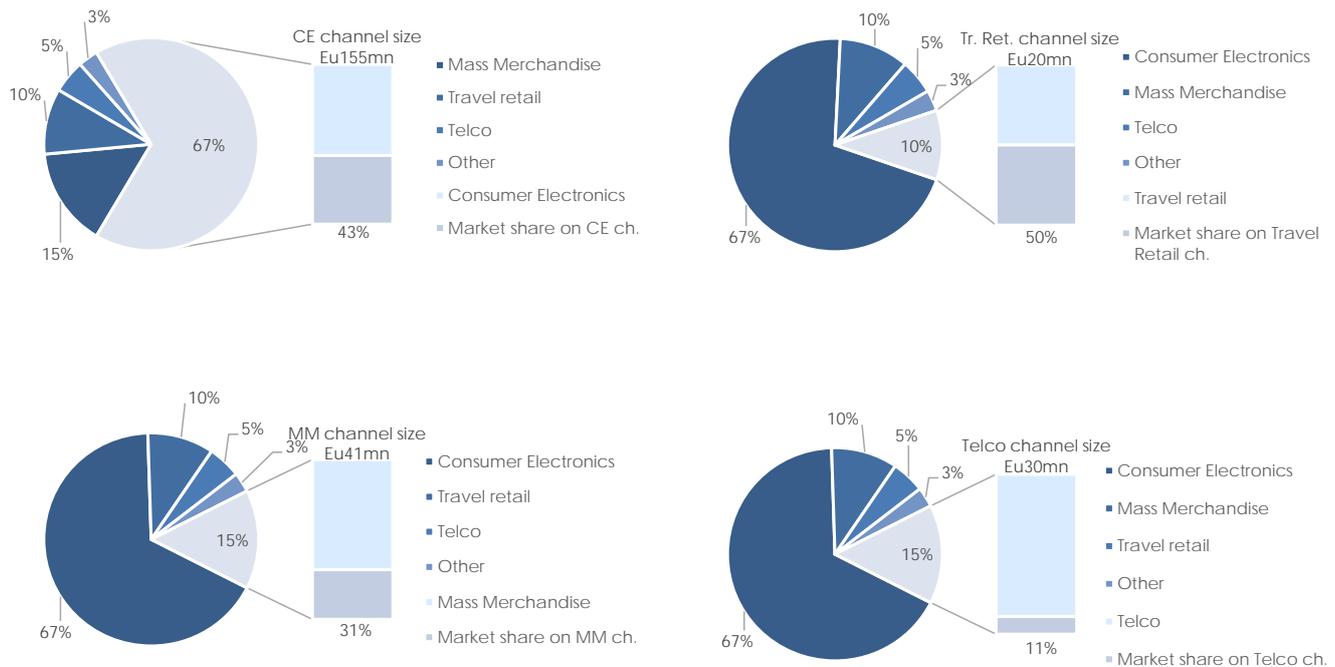
This overwhelming leadership means high barriers for those who want to enter a mid-price market. In this kind of market, brand recognition becomes more relevant as quality and price increases, while price is the main driver for “essential” products.

- **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 data

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

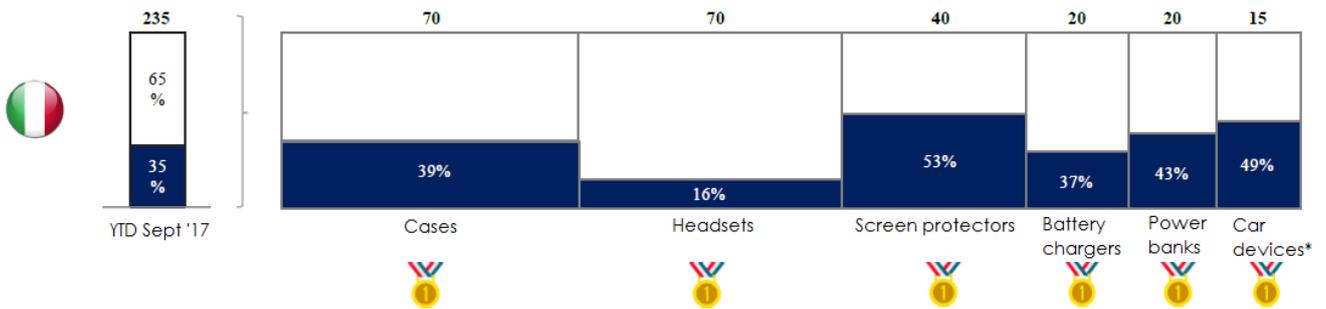
- **Threat of new entrants - Medium.** The international markets are much more fragmented: the aggregate market share of the first three competitors does not usually reach 30%. The barriers to achieving leadership are lower than in Italy.
- **Threat of replacements - Low.** Please see the arguments made 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:

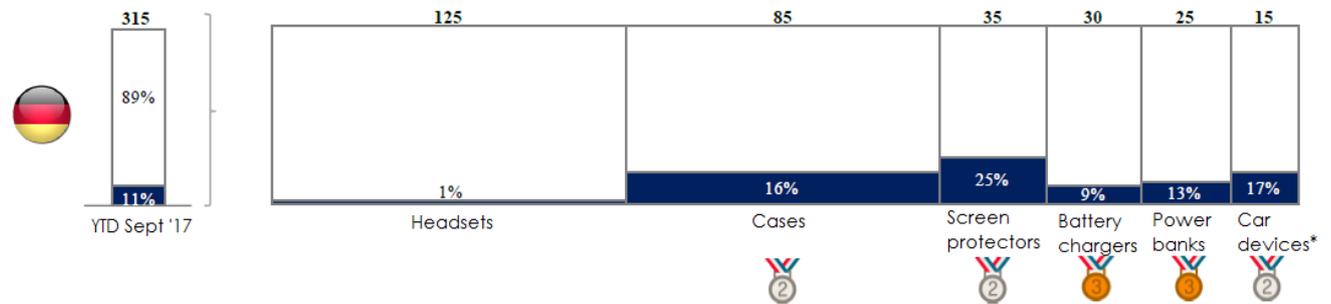
- Germany and Austria: Hama (German leader);
- Spain and Portugal: Muvit, SBS and other Italian players with a minor presence;
- Netherlands: BeHello;
- Scandinavia: Straxx (operating mainly through the telco channel);
- France: Muvit and Bigben.

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). 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.
- (iv). Scandinavia. The company recently signed a contract with Circle K in the Travel Retail channel, and intends to strengthen its position in CE;
- (v). Belgium and Luxembourg. The company already has a strong relationship with Mediaworld and the next step is to grow through MM and Telco channels;
- (vi). Switzerland. Expansion of the business through MM (Fust, InterDiscount; already with Mediaworld) and Telco channels (Sunrise, Mobile Zone);

■ **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 m² (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.

Thanks to the successful merger with Crescita, the company banked a cash-in of approximately Eu37mn gross; 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 2011-2017 period.

In the last 6 years, the company's top line more than doubled, passing from sales of Eu79.3mn to almost Eu166mn, translating into a 2011-17 CAGR of 13%. 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 23.8% (2014-2017).

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 Eu23.6mn in 2017, a 15.3% CAGR. Over the same period, operating cash flow increased to Eu23mn in FY17, while net capital expenditure also rose due to extraordinary investments, although maintenance CapEx remained broadly flat at Eu1.6-1.7mn, as it was in 2017. Looking specifically at operating cash flow, the figure peaked in 2016 due to timing differences: some Eu4mn of 2016 OCF, in the form of advanced/delayed tax payments, pertained economically to 2015 and 2017 in equal measure, leading to adjusted OCF of Eu22mn, Eu26mn and Eu25mn for 2015, 2016 and 2017 respectively. Overall, this resulted in a negative net financial position that peaked in 2013 with net debt of Eu85.7mn and decreased progressively to net debt of Eu65mn as at YE17.

The change in net debt from 2016 to 2017 was mainly due to the decision to distribute a Eu59.8mn extraordinary dividend by the end of June 2017.

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. European revenues, for example, grew by a CAGR of 12.6% in the 2014-2017 period.

Cellularline - Ginetta Group (consolidated) 2011-2017 (Eu mn)

	2011	2012	2013	2014	2015	2016	2017	CAGR '11-'17
Value of production	79.3	108.4	134.8	158.2	160.7	164.5	165.6	13.1%
% YoY		36.7%	24.4%	17.3%	1.6%	2.3%	0.7%	
EBITDA	16.1	28.4	33.2	38.4	37.5	38.9	39.4	16.1%
% margin	20.3%	26.2%	24.7%	24.3%	23.4%	23.6%	23.8%	
% YoY		76.1%	17.1%	15.5%	-2.1%	3.5%	1.3%	
Net result before GW amort. & Intangible w/o	10.1	18.4	17.3	20.5	22.1	23.0	23.6	15.3%
% margin	12.7%	17.0%	12.9%	13.0%	13.7%	14.0%	14.3%	
% YoY		83.2%	(6.0%)	18.5%	7.4%	4.1%	2.7%	
Cash/ (debt)	(13.3)	(13.6)	(85.7)	(70.1)	(53.1)	(26.2)	(65.0)	
Operating cash flow					20.5	30.4	22.7	
%OCF/EBITDA					54.5%	78.2%	57.7%	
Net capex	(1.5)	(2.5)	(139.1)	(2.3)	(3.2)	(3.5)	(1.7)	
Inventory	7.9	13.0	15.3	14.2	17.0	16.0	17.8	
% inventory/sales	10.0%	12.0%	11.4%	9.0%	10.6%	9.7%	10.7%	

Source: Company presentation

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.

Our Estimates

The estimates we have made for Cellularline go from 2018 to 2020. Our estimates do not include any contribution from M&A deals.

Income statement

Revenue growth. We forecast that Cellularline's value of production will grow from Eu165.6mn in 2017 to Eu183.2mn in 2020, a 3.4% 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 the group recorded penetration in 9M17 of just 11%, well below its general market share (34%). In this regard, the company signed a distribution contract with TIM in the first half 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.

In 2018 we expect a slightly decreasing contribution from Italian business. Our expectations for Italy are based on GFK's indications for 1Q18, which point to a -9% reduction for the CE channel. We consider this trend to be partially explained by sales becoming more concentrated on 4Q (Black Friday) but also by a softer performance of this channel in particular. Channels other than CE are expected to offset this decrease.

- European markets: we expect international markets to contribute by more than 80% to Cellularline's growth in 2017-2020. 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 (airports and motorways). 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	2017A	2018E	2019E	2020E
Italy	108.0	103.6	101.0	97.0	96.2	97.1	100.1
%YoY		(4.1%)	(2.4%)	(4.0%)	(0.8%)	1.0%	3.0%
% on total	69.9%	66.2%	63.1%	60.3%	58.8%	57.2%	56.1%
Europe	41.8	47.7	53.8	59.7	63.3	68.3	73.8
%YoY		13.9%	13.0%	10.8%	6.0%	8.0%	8.0%
% on total	27.1%	30.4%	33.6%	37.1%	38.7%	40.3%	41.4%
RoW	4.7	5.3	5.2	4.1	4.1	4.2	4.4
%YoY		12.7%	(2.6%)	(20.2%)	0.0%	3.0%	3.0%
% on total	3.1%	3.4%	3.2%	2.6%	2.5%	2.5%	2.5%
Total Net Revenues	154.5	156.5	160.0	160.8	163.6	169.7	178.2
%YoY		1.3%	2.2%	0.4%	1.7%	3.8%	5.0%

Source: Intermonte SIM

EBITDA growth. From a profitability standpoint, we estimate that EBITDA will grow at a 2.4% CAGR to reach Eu42.3mn in 2020, with the EBITDA margin remaining broadly stable above 23%. Importantly, in our 2018 estimates, we have factored in Eu17mn non-recurring charges including incentives provided to the top management. Mr. Aleotti and Mr. Cagnetta are going to reinvest a large portion of the expected cash-in back into the company. 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 pre-goodwill CAGR of 3.4% from 2017 to 2020.
- Interest charges. Financial charges are forecast to decrease progressively as debt is repaid.
- Tax rate. We have modelled a 29% ordinary tax rate from 2018 to 2020, broadly in line with 2017, which we apply to a taxable base that excludes the amortisation of goodwill and most of the Eu17mn one-off charge in 2018, as these are not tax deductible. Furthermore, the effective recurring tax rate is substantially lower because it includes the positive impact from the Patent Box fiscal benefit (signed in March 2018). This effect is two-fold on 2018: the company will benefit from both the cumulative fiscal benefits referring to the 2015-2017 period (about Eu10mn, cashed-out in the form of an earn-out in the same year) and those related to 2018 (about Eu4mn). As regards 2019, the fiscal benefit will be similar to 2018, and from 2020 we expect this benefit to continue but the contribution to be lower because it will no longer include brand-related benefits. The effective tax rate is thus expected to be ca. 18% for 2018 and 2019. Starting from 2020, we assume a Eu2mn Patent Box benefit per year, yielding an effective tax rate of 24%.

Given the aforementioned developments, we forecast restated net profit growing from Eu23.6mn in 2017 to Eu29mn in 2020, a CAGR of 7.1%.

Cellularline - Income statement (Eu mn)

	2016A	2017A	2018E	2019E	2020E	CAGR '17-'20
Revenues from sales	160.0	160.8	163.6	169.7	178.2	
Other revenues	4.4	4.8	4.9	4.8	5.0	
Total Value of Production	164.5	165.6	168.5	174.5	183.2	3.4%
% YoY	2.3%	0.7%	1.7%	3.6%	5.0%	
EBITDA recurring	38.9	39.4	39.8	40.8	42.3	2.4%
% margin	23.6%	23.8%	23.6%	23.4%	23.1%	
% YoY	3.5%	1.3%	1.0%	2.7%	3.7%	
EBITDA reported	38.9	39.4	22.8	40.8	42.3	
% restated EBITDA margin	23.6%	23.8%	13.5%	23.4%	23.1%	
% YoY	3.5%	1.3%	(42.2%)	79.4%	3.7%	
D&A	(6.8)	(3.7)	(2.9)	(3.0)	(2.9)	
EBIT recurring pre-GW	35.6	35.6	36.9	37.9	39.4	3.4%
% margin	21.6%	21.5%	21.9%	21.7%	21.5%	
% YoY	6.3%	0.2%	3.5%	2.6%	4.0%	
Goodwill	(12.7)	(12.7)	(12.7)	(12.7)	(12.7)	
EBIT reported	19.4	23.0	7.2	25.2	26.7	
% restated EBIT margin	11.8%	13.9%	4.3%	14.4%	14.6%	
% YoY	(6.7%)	18.4%	(68.5%)	247.9%	6.1%	
Net financial exp/income	(2.5)	(2.5)	(1.7)	(1.5)	(1.3)	
Pretax profits recurring	20.4	20.5	22.6	23.7	25.4	7.4%
% YoY	14.9%	0.5%	9.9%	5.1%	7.3%	
Pretax profits reported	16.9	20.5	5.6	23.7	25.4	
% YoY	(4.81%)	21.30%	(72.93%)	326.74%	7.33%	
Taxes*	(9.0)	(9.9)	(6.4)	(6.7)	(9.1)	
Tax rate*	30.5%	29.8%	18.2%	18.3%	23.8%	
Net profit reported	7.9	10.6	9.2	17.0	16.4	
% margin	4.8%	6.4%	5.4%	9.8%	8.9%	
Net Profit Restated	23.0	23.6	28.1	29.7	29.0	7.1%
% margin	14.0%	14.3%	16.7%	17.0%	15.8%	
% YoY	4.1%	2.7%	19.2%	5.5%	(2.2%)	

Source: Intermonte SIM; *Effective recurring tax rate, excluding GW and incentive charges not deductible, and including recurring fiscal benefits from Patent Box

Balance sheet and cash flow

We expect Cellularline's cash generation to improve throughout the forecast period, with average FCF conversion of 60% (using restated net profit to define adjusted FCF 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 days throughout the period considered. Average NWC/sales is approximately 36%.
- CapEx. We expect Cellularline to continue to invest around 1.5% of sales on average. For 2018, we include extraordinary investments to further improve the IT system, such as SAP.

Consistent with our P&L estimates, our cash flow model factors in a Eu37mn cash-in from the merger with Crescita (gross of transaction fees).

In the absence of any potential acquisitions, we forecast the net financial position turning 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	2017A	2018E	2019E	2020E
Inventories	16.0	17.8	17.7	17.4	18.3
Trade Receivables	73.5	73.9	73.9	74.9	78.1
Trade Payables	(30.3)	(28.8)	(27.8)	(28.8)	(30.2)
Commercial net working capital	59.2	62.9	63.8	63.5	66.2
Other current assets/liabilities	(4.0)	(3.4)	(1.0)	(1.0)	(1.0)
Net working capital	55.1	59.5	62.8	62.5	65.2
% on sales	33.5%	35.9%	37.3%	35.8%	35.6%
Tangible assets	9.0	7.5	7.6	7.3	7.3
Intangible assets	77.7	64.6	52.0	39.3	26.7
Participations	0.0	0.0	0.0	0.0	0.0
Net Fixed Asset	86.7	72.1	59.6	46.6	34.0
Other non-current assets/liabilities	(1.0)	(1.1)	(1.0)	(1.0)	(1.1)
Net capital employed	140.9	130.5	121.5	108.1	98.1
Net cash/(debt)	(26.2)	(65.0)	(22.7)	7.7	34.1
Net Equity	114.7	65.5	98.8	115.8	132.2
Net capital employed	140.9	130.5	121.5	108.1	98.1

Source: Intermonte SIM

Cellularline - Cash Flow statement (Eu mn)

	2016A	2017A	2018E	2019E	2020E
Net income	7.9	10.6	9.2	17.0	16.4
Minorities	0.0	0.0	0.0	0.0	0.0
D&A	19.4	16.4	15.5	15.6	15.6
Gross cash flow	27.3	27.0	24.7	32.7	32.0
Change in working capital	3.5	(4.4)	(3.3)	0.3	(2.7)
% on sales	2.1%	(2.6%)	(2.0%)	0.2%	(1.5%)
Other	(0.4)	0.1	(10.5)	0.1	0.1
Operating cash flow	30.4	22.7	10.8	33.0	29.4
Capex	(3.5)	(1.7)	(3.0)	(2.6)	(2.9)
FCF adj.*	29.4	21.3	22.1	30.4	26.4
% FCF adj./EBITDA	75.5%	54.1%	55.7%	74.5%	62.5%
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	37.0	0.0	0.0
Other	(0.0)	0.0	(2.5)	0.0	0.0
Cash Flow	26.9	(38.8)	42.3	30.4	26.4
NFP at bgn year Cash/(Debt)	(53.1)	(26.2)	(65.0)	(22.7)	7.7
Cash Flow: Cash/(Debt)	26.9	(38.8)	42.3	30.4	26.4
NFP at year end: Cash/(Debt)	(26.2)	(65.0)	(22.7)	7.7	34.1

Source: Intermonte SIM; *FCF adj. excluding non recurring cash outs

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 - Comparable 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
Zagg	375.2	378.7	0.8x	0.8x	0.7x	6.0x	5.6x	5.2x	8.4x	7.8x	7.3x	15.6x	10.9x	10.2x
Plantronics	2115.5	1979.4	2.7x	1.6x	1.1x	15.0x	12.1x	-	17.5x	12.2x	6.6x	NA	18.2x	12.3x
ACCO Brands	1208.1	1881.7	1.1x	1.1x	1.1x	7.2x	6.8x	6.7x	9.3x	9.8x	9.4x	10.5x	9.7x	9.0x
FILA	727.5	1021.6	2.1x	1.8x	1.7x	14.1x	10.8x	9.3x	18.7x	13.3x	11.1x	51.8x	17.7x	14.5x
Mean			1.7x	1.3x	1.1x	10.6x	8.8x	7.1x	13.5x	10.8x	8.6x	NA	14.1x	11.5x
Median			1.6x	1.4x	1.1x	10.6x	8.8x	6.7x	13.4x	11.0x	8.3x	13.1x	14.3x	11.3x

Company name	Gross Income			EBITDA			EBIT			Net Income				
	LTM	2018E	2019E	LTM	2018E	2019E	LTM	2018E	2019E	LTM	2018E	2019E		
Zagg	375.2	378.7	30.9%	32.8%	32.6%	13.7%	13.8%	14.1%	9.8%	10.0%	10.1%	5.2%	7.2%	7.4%
Plantronics	2115.5	1979.4	51.7%	32.0%	-	17.8%	13.3%	-	15.3%	13.2%	16.7%	(0.1%)	5.9%	7.5%
ACCO Brands	1208.1	1881.7	32.2%	33.8%	33.8%	15.7%	16.5%	16.7%	12.0%	11.5%	11.9%	6.9%	7.4%	7.7%
FILA	727.5	1021.6	30.2%	-	-	14.5%	16.8%	17.4%	11.0%	13.1%	13.9%	2.9%	7.7%	8.3%
Mean			36.2%	32.9%	33.2%	15.4%	15.1%	16.1%	12.0%	11.9%	13.1%	3.7%	7.1%	7.7%
Median			31.5%	32.8%	33.2%	15.1%	15.2%	16.7%	11.5%	12.3%	12.9%	4.1%	7.3%	7.6%

Source: Factset and Intermonte SIM (FILA)

The following table shows trading multiples and other relevant data, with reference to the Intermonte mid & small cap coverage, grouped by market capitalization.

Intermonte Mid&Small Caps coverage – Trading multiples by market cap

Company	P/E 18	P/E 19	EV/EBITDA 18	EV/EBITDA 19	Div. Yield 18	Div. Yield 19	FCF Yield 18	FCF Yield 19
NON-FINANCIALS								
Mkt Cap > Eu1.5bn								
Mean	22.7	20.7	11.8	10.7	2.5%	2.7%	3.7%	4.5%
Median	22.2	20.5	11.5	10.5	2.7%	3.0%	3.6%	4.2%
Eu0.5bn < Mkt Cap < Eu1.5bn								
Mean	17.2	14.7	8.2	7.3	3.0%	3.3%	5.1%	7.1%
Median	18.1	14.4	8.5	7.2	2.9%	3.4%	4.8%	7.2%
Mkt Cap < Eu0.5bn								
Mean	15.0	15.4	6.6	5.2	2.1%	2.6%	5.2%	8.1%
Median	13.6	11.0	5.7	4.9	2.2%	2.7%	5.6%	7.0%

Source: Intermonte SIM

Valuation

As the merger is complete, Cellularline has cashed in about Eu37mn, but at the same time it will have to sustain Eu17mn in non-recurring cash charges, including incentives provided to top management, bringing the net cash-in to around Eu20mn.

We have calculated a fair equity valuation for Cellularline based on the outcomes of two valuation methods: a discounted cash flow model and a multiple comparables model. Our estimates do not include any contribution from M&A deals.

The Discounted Cash Flow (DCF) model, with standard assumptions in terms of WACC and terminal growth, broadly confirms this valuation range, yielding a fair equity price per share of Eu14.2.

As regards the multiple comparables model, we have used median EV/EBIT for the peer group in 2019, which indicates 8.3x EV/EBIT. This model points to an equity price per share of Eu14.3.

To calculate the number of shares, we have assumed, in line with our target price, that only 135,000 special shares will be converted and all warrants will be exercised at Eu12. In addition, we have already assumed the cancellation of the 1,230,146 residual shares that were not re-absorbed after the exercise of withdrawal rights at the Business Combination. On this basis, the total number of ordinary shares will be 22,601,157.

The market might apply a liquidity discount to these results: the discount could come down in the future if the company switches to the main market and is suitable to enter the STAR segment. According to management, the latter scenario is very likely in the next 12 months.

Cellularline – DCF Sensitivity (Eu)

% WACC	% Terminal Growth		
	0.5%	1.0%	1.5%
7.50%	14.2	15.1	16.2
8.00%	13.4	14.2	15.1
8.50%	12.7	13.4	14.2

Source: Intermonte SIM

Cellularline –Valuation summary

Model	Eu
DCF	14.2
Multiples	14.3
Simple average	14.3
Liquidity discount	10%
Target Price	12.8
Share price	9.4
Upside/(Downside)	36%

Source: Intermonte SIM and Factset (multiples as at 6th June 2018)

Finally, the following table summarises the variation in the number of shares based on the hypothetical Cellularline share price, including warrants.

Cellularline – Numbers of shares under different conversion scenarios

Number Of Shares Post Merger	21,868,189	
- Of which Ordinary Shares	20,443,043	Voting shares
- Of which Treasury Shares	1,230,146	
- Of which Special Shares	195,000	No voting shares
Conversion of Special Shares into Ordinary Shares		
@ Eu11 - 75k Spec. Sh. Conv. At 6x	450,000	
@ Eu12 - 60k Spec. Sh. Conv. At 6x	360,000	
@ Eu13 - 60k Spec. Sh. Conv. At 6x	360,000	
Number of warrants	6,130,956	
Conversion of Warrants into Ordinary Shares		
		Conv. Rate
Assuming all w to be converted at Eu11	843,619.55	0.1376
Assuming all w to be converted at Eu12	1,288,113.86	0.2101
Assuming all w to be converted at Eu13	1,663,328.36	0.2713
Number Of Ordinary Shares	22,601,157	
(assuming (i) cancellation of shares residual from the Business Combination, (ii) conversion of Special Shares at Eu11 and Eu12 and (iii) all warrants converted at Eu12)		

Source: Company data and Intermonte SIM

CELLULARLINE Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
CELLULARLINE	9.40	EUR	212	-3.1%	-6.0%	-6.9%	-6.9%	-9.3%	-5.8%
ACCO BRANDS	13.15	USD	1,410	11.4%	3.1%	0.0%	7.8%	15.4%	27.4%
FILA	17.50	EUR	722	-2.2%	-4.6%	-8.1%	-11.1%	-6.1%	41.1%
PLANTRONICS	75.24	USD	2,503	13.8%	32.0%	47.1%	49.3%	35.6%	66.8%
ZAGG	15.75	USD	446	37.0%	4.0%	-19.4%	-14.6%	86.4%	200.0%
Mean performance				11.4%	5.7%	2.5%	4.9%	24.4%	65.9%
Italy FTSE Mib	21,807.6	EUR		-10.4%	-1.8%	-2.2%	-0.2%	5.0%	23.7%

Source: FactSet

CELLULARLINE Peer Group - Multiple Comparison

Stock	Price	Ccy	Mkt cap	EV/Sales	EV/Sales	EV/Ebitda	EV/Ebitda	EV/Ebit	EV/Ebit	P/E	P/E	Div Yield	Div Yield
				2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
CELLULARLINE	9.40	EUR	212	1.4	1.2	5.9	5.0	6.4	5.4	7.6	7.2	0.0%	0.0%
ACCO BRANDS	13.15	USD	1,410							9.7	9.0		
FILA	17.50	EUR	722	1.8	1.6	10.7	9.2	13.2	11.1	17.6	14.5	0.7%	0.9%
PLANTRONICS	75.24	USD	2,503							19.3	12.5		
ZAGG	15.75	USD	446	0.7	0.6	5.2	4.2	7.3	5.8	11.2	10.5		
Median				1.3	1.1	8.0	6.7	10.3	8.4	14.4	11.5	0.7%	0.9%

Source: Intermonte SIM estimates for covered companies, FactSet consensus estimates for peer group

CELLULARLINE - Estimates Comparison with Consensus

(Eu mn)	2018			2019		
	Intermonte	Consensus	%diff	Intermonte	Consensus	%diff
Revenues	168.5	166.8	1.0%	174.5	176.2	-1.0%
Ebitda	22.8	40.5	-43.8%	40.8	42.3	-3.5%
Net Profit	9.2	0.1	9054.0%	17.0	15.3	11.3%
EPS	1.245			1.313		
Net Debt	(22.7)	(5.7)	298.2%	7.7	19.1	-59.7%

Source: Intermonte SIM estimates and Factset consensus estimates

DETAILS ON STOCKS RECOMMENDATION

Stock NAME	CELLULARLINE		
Current Recomm:	BUY	Previous Recomm:	na
Current Target (Eu):	12.80	Previous Target (Eu):	na
Current Price (Eu):	9.40	Previous Price (Eu):	na
Date of report:	07/06/2018	Date of last report:	na

DISCLAIMER (for more details go to [DISCLAIMER](#))**IMPORTANT DISCLOSURES**

The reproduction of the information, recommendations and research produced by Intermonte SIM contained herein and of any its parts is strictly prohibited. None of the contents of this document may be shared with third parties without authorisation from Intermonte.

This report is directed exclusively at market professional and other institutional investors (Institutions) and is not for distribution to person other than "Institution" ("Non-Institution"), who should not rely on this material. Moreover, any investment or service to which this report may relate will not be made available to Non-Institution.

The information and data in this report have been obtained from sources which we believe to be reliable, although the accuracy of these cannot be guaranteed by the Intermonte. In the event that there be any doubt as to their reliability, this will be clearly indicated. The main purpose of the report is to offer up-to-date and accurate information in accordance with regulations in force covering "recommendations" and is not intended nor should it be construed as a solicitation to buy or sell securities.

This disclaimer is constantly updated on Intermonte's website www.intermonte.it under DISCLOSURES. Valuations and recommendations can be found in the text of the most recent research and/or reports on the companies in question. For a list of all recommendations made by Intermonte on any financial instrument or issuer in the last twelve months consult the [PERFORMANCE](#) web page.

ANALYST CERTIFICATION

For each company mentioned in this report the respective research analyst hereby certifies that all of the views expressed in this research report accurately reflect the analyst's personal views about any or all of the subject issuer (s) or securities. The analyst (s) also certify that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation or view in this report.

The analyst (s) responsible for preparing this research report receive(s) compensation that is based upon various factors, including Intermonte's total profits, a portion of which is generated by Intermonte's corporate finance activities, although this is minimal in comparison to that generated by brokerage activities.

Intermonte's internal procedures and codes of conduct are aimed to ensure the impartiality of its financial analysts. The exchange of information between the Corporate Finance sector and the Research Department is prohibited, as is the exchange of information between the latter and the proprietary equity desk in order to prevent conflicts of interest when recommendations are made.

GUIDE TO FUNDAMENTAL RESEARCH

The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 2.5% and a risk premium of 5.0% are being used.

Frequency of research: quarterly.

Reports on all companies listed on the S&P/IB40 Index, most of those on the MIBEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

Explanation of our ratings system:

BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

NEUTRAL: stock performance expected at between +10% and -10% compared to the market over a 12 month period ;

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

SELL: stock expected to underperform the market by over 25% over a 12 month period.

Prices: The prices reported in the research refer to the price at the close of the previous day of trading

CURRENT INVESTMENT RESEARCH RATING DISTRIBUTIONS

Intermonte SIM is authorised by CONSOB to provide investment services and is listed at n° 246 in the register of brokerage firms. As at 29 Marzo 2018 Intermonte's Research Department covered 155 companies.

Intermonte's distribution of stock ratings is as follows:

BUY:	14,10 %
OUTPERFORM:	43,59 %
NEUTRAL:	37,18 %
UNDERPERFORM	05,13 %
SELL:	00,00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (54 in total) is as follows:

BUY:	14,81 %
OUTPERFORM:	50,00 %
NEUTRAL:	35,19 %
UNDERPERFORM	00,00 %
SELL:	00,00 %

CONFLICT OF INTEREST

In order to disclose its possible conflicts of interest Intermonte SIM states that:

- o within the last year, Intermonte managed or co-managed/is managing or is co-managing (see companies indicated in bold type) an offering with firm commitment underwriting of the securities of the following Companies: Alkemy, Banca Ifis, Banca Sistema, Cattolica Assicurazioni, Capital For Progress 2, Emak, Nova RE, Space4, Somec.
- o Intermonte is Specialist and/or Corporate Broker and/or Sponsor and/or Broker in charge of the share buy back activity of the following Companies: Abitare In, Aedes, Aquafil, Ascopiave, Avio, Azimut, B&C Speakers, Banca Ifis, Banca Sistema, Be, Cattolica Assicurazioni, Crescita/Cellular Line, Credito Valtellinese, DeA Capital, DigitTouch, ELEn, Emak, ePrice, Falck Renewables, Ferrovie Nord Milano, Gamenet, Gefran, Giglio Group, GO Internet, GPI, H-Farm, Il Sole 24 Ore, Italiaonline, IWB, LU-VE, Mondo TV, Notorius Picture, Nova RE, Openjobmetis, QF Alpha Immobiliare, Reno de Medici, Reply, Retelit, Saes Getters, Servizi Italia, Sesa, Snaitech, Somec, Tamburi Investment Partners, Tesmec, Tecnoinvestimenti, TXT e-solutions, Vetrya, Vittoria Assicurazioni, Witi, Zephyro.
- o Intermonte SIM SpA, through its Websim Division, acts as an Retail Investor Research Provider on behalf of the following companies: A2A, Aedes, Axelero, Banca Ifis, Banca Sistema, ePrice, Bomi, Cattolica Assicurazioni, Centrale del Latte, Cerved, DHH, Dada, Digital Bros, Digital Magics, Digitouch, Electro Power System, Elettra Investimenti, Enertronica, Enel, Energetica Motori, Expert System, Falck Renewables, Fiera Milano, FILA, First Capital, FOPE, Generali Assicurazioni, Giglio, Go Internet, Italiaonline, Isagro, La Doria, L'Ventre, MailUp, Masi Agricola, Mondo TV, Primi sui Motori, Retelit, Safe Bag, SITI B&T, SMRE, TXT e-Solutions, WITI.
- o Intermonte has provided in the last 12 months / provides / may provide investment banking services to the following companies: Aedes, Aeroporto di Bologna, Carraro, Conafi, M&C, Il Sole 24 Ore, Italiaonline, Saras, Witi.
- o Intermonte SIM undertakes marketing/communication activities through its Websim Division on behalf of the following issuers: Banca IMI, BNP Paribas, Credit Suisse, Exane, Leonteq, Unicredit, Vontobel, Wisdomtree.
- o Intermonte SIM SpA performs as a market maker for the following companies: Atlantia, Autogrill, Azimut Holding, Banco Popolare, BCA Monte dei Paschi di Siena, BCA POP Emilia Romagna, BCA POP Milano, CNH Industrial, Enel, Eni, Exor, Fiat Chrysler Automobiles NV, Generali, Indice FTMB, Intesa Sanpaolo, Intesa Sanpaolo Rsp, Leonardo-Finmeccanica, Luxottica Group, Mediaset, Mediobanca, Prysmian, Saipem, Snam, Stmicroelectronics, Telecom Italia, Telecom Italia Risparmio, Tenaris, Tema, Ubi Banca, Unicredit, Unipol, Unipolsai.
- o Intermonte SIM SpA is acting as placement agent in Il Sole 24 Ore's capital increase with an agreement with the company for the publication of an equity research regarding the company and the transaction. Intermonte will receive fees from the company for its activity as placement agent.

Intermonte SIM SpA holds net long or short positions in excess of 0.5% of the overall share capital in the following issuers:

Emittente	%	Long/Short
CAPITAL FOR PROGRESS 2	1,06	LONG
COGEME SET SPA	1,6	SHORT
IKF	0,57	SHORT
OLIDATA	0,88	SHORT
WASTE ITALIA	0,61	SHORT

© Copyright 2018 by Intermonte SIM - All rights reserved

It is a violation of national and international copyright laws to reproduce all or part of this publication by email, xerography, facsimile or any other means. The Copyright laws impose heavy liability for such infringement. The Reports of Intermonte SIM are provided to its clients only. If you are not a client of Intermonte SIM and receive emailed, faxed or copied versions of the reports from a source other than Intermonte SIM you are violating the Copyright Laws. This document is not for attribution in any publication, and you should not disseminate, distribute or copy this e-mail without the explicit written consent of Intermonte SIM.

INTERMONTE will take legal action against anybody transmitting/publishing its Research products without its express authorization.

INTERMONTE Sim strongly believes its research product on Italian equities is a value added product and deserves to be adequately paid.

Intermonte Sim sales representatives can be contacted to discuss terms and conditions to be supplied the INTERMONTE research product.

INTERMONTE SIM is MIFID compliant - for our Best Execution Policy please check our Website [MIFID](#)

Further information is available