

G.M. Leather	Italy	Euronext Growth Milan	Tannery
Rating: BUY (<i>unch.</i>)	Target Price: € 6,45 (<i>prev € 6,30</i>)	Update	Risk: Medium

Stock performance	1M	3M	6M	1Y
absolute	-5,77%	N/A	N/A	N/A
to FTSE Italia Growth	0,41%	N/A	N/A	N/A
to Euronext STAR Milan	2,80%	N/A	N/A	N/A
to FTSE All-Share	0,09%	N/A	N/A	N/A
to EUROSTOXX	1,07%	N/A	N/A <td N/A	
to MSCI World Index	3,45%	N/A	N/A	N/A

Stock Data	
Price	€ 1,56
Target price	€ 6,45
Upside/(Downside) potential	313,4%
Bloomberg Code	GML IM EQUITY
Market Cap (€m)	€ 17,53
EV (€m)	€ 31,59
Free Float	13,79%
Share Outstanding	11.235.000
52-week high	€ 1,95
52-week low	€ 1,50
Average daily volumes (3m)	11.500

Key Financials (€m)	FY21A*	FY22E	FY23E	FY24E
VoP	50,0	45,2	60,9	69,2
EBITDA	4,4	5,0	7,0	8,2
EBIT	3,6	3,8	5,7	6,9
Net Profit	2,5	2,5	3,9	4,7
EBITDA margin	8,7%	11,1%	11,5%	11,9%
EBIT margin	7,2%	8,4%	9,4%	10,0%
Net Profit margin	4,9%	5,4%	6,3%	6,8%

Main Ratios	FY21A*	FY22E	FY23E	FY24E
EV/EBITDA (x)	7,2	6,3	4,5	3,9
EV/EBIT (x)	8,8	8,3	5,5	4,6
P/E (x)	7,1	7,2	4,6	3,7

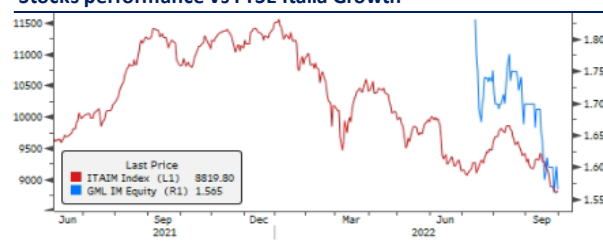
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Stocks performance vs FTSE Italia Growth



1H22A Results

Revenues for 1H22A amounted to € 21.53 million. EBITDA as of 30 June 2022 amounted to € 2.60 million, with an EBITDA margin of 12.1%, showing a consistent growth compared to the end of the previous year, when it stood at 8.9%. EBIT in the first half of 2022, after amortization and depreciation of approximately € 0.63 million, amounted to € 1.97 million, with a marginality of 9.1%. The Net Income recorded in the year-half was also positive, which amounted to € 1.30 million. The NFP as of 30 June 2022 amounted to € 17.41 million of debt, compared to € 14.22 million recorded on 31 December 2021.

Estimates Update

In light of the results published in the half-yearly report for 1H22A, we modify our previous estimates both for the current year and for the coming years. In particular, we estimate the FY22E value of production equal to € 45.20 million and EBITDA equal to € 5.00 million, corresponding to a marginality of 11.1%. For subsequent years, we expect the value of production to increase up to € 88.15 million (CAGR 21A*-26E: 12.0%) in FY26E, with EBITDA equal to € 11.00 million (corresponding to an EBITDA margin of 12.5%), up compared to € 4.37 million in FY21A*(corresponding to an EBITDA margin of 8.7%). Finally, we estimate an NFP for the FY26E cash positive and equal to € 5.79 million.

Valuation Update

Given the lack of comparable companies, we conducted the assessment of the equity value of G.M. Leather based on DCF methodology only. The DCF method (which in the calculation of the WACC includes for prudential purposes also a specific risk of 2.5%) provides an equity value of € 72.5 million. The target price is € 6.45, rating BUY and MEDIUM risk.

1. Economics & Financials

Table 1 – Economics & Financials

CONSOLIDATED INCOME STATEMENT (€/mln)	FY20A	FY21A*	FY22E	FY23E	FY24E	FY25E	FY26E
Revenues	29,24	49,69	45,00	60,50	69,00	78,20	88,00
Other Revenues	0,53	0,27	0,20	0,35	0,15	0,15	0,15
Value of Production	29,77	49,97	45,20	60,85	69,15	78,35	88,15
COGS	11,72	25,57	23,45	31,70	36,00	40,15	45,50
Services	11,08	15,54	12,00	16,20	18,90	22,50	25,20
Use of assets owned by others	0,50	0,62	0,70	0,70	0,70	0,70	0,70
Employees	2,85	3,71	3,90	5,10	5,20	5,25	5,60
Other Operating Expenses	0,16	0,16	0,15	0,15	0,15	0,15	0,15
EBITDA	3,47	4,37	5,00	7,00	8,20	9,60	11,00
<i>EBITDA Margin</i>	<i>11,7%</i>	<i>8,7%</i>	<i>11,1%</i>	<i>11,5%</i>	<i>11,9%</i>	<i>12,3%</i>	<i>12,5%</i>
D&A	0,91	0,76	1,20	1,30	1,30	1,10	1,20
EBIT	2,56	3,60	3,80	5,70	6,90	8,50	9,80
<i>EBIT Margin</i>	<i>8,6%</i>	<i>7,2%</i>	<i>8,4%</i>	<i>9,4%</i>	<i>10,0%</i>	<i>10,8%</i>	<i>11,1%</i>
Financial Management	(0,26)	(0,30)	(0,30)	(0,20)	(0,15)	(0,10)	(0,10)
EBT	2,30	3,30	3,50	5,50	6,75	8,40	9,70
Taxes	0,48	0,83	1,05	1,65	2,05	2,50	2,90
Net Income	1,82	2,47	2,45	3,85	4,70	5,90	6,80

CONSOLIDATED BALANCE SHEET (€/mln)	FY20A	FY21A*	FY22E	FY23E	FY24E	FY25E	FY26E
Fixed Assets	4,62	3,25	6,20	5,60	5,10	4,75	4,30
Account receivable	8,69	12,43	12,50	14,70	16,00	17,20	18,35
Inventories	9,85	12,07	11,85	13,95	15,00	15,90	16,80
Account payable	7,95	8,66	6,60	8,60	9,15	9,80	10,40
Operating Working Capital	10,60	15,84	17,75	20,05	21,85	23,30	24,75
Other receivable	1,84	2,55	2,25	1,55	1,10	1,05	1,10
Other payable	1,21	1,55	2,00	2,05	1,95	1,90	1,80
Net Working Capital	11,22	16,84	18,00	19,55	21,00	22,45	24,05
Severance Indemnities & Other Provisions	0,22	0,31	0,45	0,65	0,80	0,95	1,15
NET INVESTED CAPITAL	15,62	19,78	23,75	24,50	25,30	26,25	27,20
Share Capital	0,09	0,09	0,11	0,11	0,11	0,11	0,11
Reserves	4,88	3,16	9,18	11,63	15,48	20,18	26,08
Net Income	1,82	2,47	2,45	3,85	4,70	5,90	6,80
Equity	6,79	5,72	11,74	15,59	20,29	26,19	32,99
Cash & Cash Equivalent	1,23	0,72	1,34	3,09	3,39	4,04	8,14
Short Term Debt to Bank	5,13	7,78	7,00	7,50	6,45	3,20	1,90
M/L Term Debt to Bank	4,92	7,00	6,35	4,50	1,95	0,90	0,45
Net Financial Position	8,82	14,06	12,01	8,91	5,01	0,06	(5,79)
SOURCES	15,62	19,78	23,75	24,50	25,30	26,25	27,20

CONSOLIDATED CASH FLOW (€/mln)	FY21A*	FY22E	FY23E	FY24E	FY25E	FY26E
EBIT	3,60	3,80	5,70	6,90	8,50	9,80
Taxes	0,83	1,05	1,65	2,05	2,50	2,90
NOPAT	2,78	2,75	4,05	4,85	6,00	6,90
D&A	0,76	1,20	1,30	1,30	1,10	1,20
Change in receivable	(3,73)	(0,07)	(2,20)	(1,30)	(1,20)	(1,15)
Change in inventories	(2,22)	0,22	(2,10)	(1,05)	(0,90)	(0,90)
Change in payable	0,71	(2,06)	2,00	0,55	0,65	0,60
Change in others	(0,37)	0,75	0,75	0,35	0,00	(0,15)
<i>Change in NWC</i>	<i>(5,61)</i>	<i>(1,16)</i>	<i>(1,55)</i>	<i>(1,45)</i>	<i>(1,45)</i>	<i>(1,60)</i>
Change in provisions	0,08	0,14	0,20	0,15	0,15	0,20
OPERATING CASH FLOW	(1,99)	2,93	4,00	4,85	5,80	6,70
Capex	0,6	(4,1)	(0,7)	(0,8)	(0,8)	(0,8)
FREE CASH FLOW	(1,39)	(1,22)	3,30	4,05	5,05	5,95
Financial Management	(0,30)	(0,30)	(0,20)	(0,15)	(0,10)	(0,10)
Change in Debt to Bank	4,73	(1,43)	(1,35)	(3,60)	(4,30)	(1,75)
Change in Equity	(3,55)	3,57	0,00	0,00	0,00	0,00
FREE CASH FLOW TO EQUITY	(0,51)	0,62	1,75	0,30	0,65	4,10

Source: GM Leather and Integrae SIM estimates

*Pro-forma data

1.1 1H22A Results

Through a press release, the Group, commenting on the half-yearly results, stated: *"The results achieved by our Group in the first six months of 2022 confirm the validity of our strategy and our structure. We are particularly pleased with the results obtained especially in this still extraordinary macroeconomic context due to Covid-19 and the war in Ukraine that create instability and difficulties both in finding and in the price of raw materials and utilities, in addition to the growth of interest rates. We are confident about the final results of 2022 also due to the positive performance of our order book. Finally, from the point of view of costs, we are continuously improving our production segment by implementing an industrial cost control model aimed at defining increasingly efficient standards and KPIs. As for the luxury business unit started at the beginning of 2022, we confirm its strategic value with important R&D investments and the creation of over 200 new "samples". Our recent participation in the Lineapelle fair in Milan has confirmed the high appreciation of our products by the major brands. Finally, we confirm the utmost attention to the evaluation of external growth operations, as announced in the IPO"*.

Revenues for 1H22A amounted to € 21.53 million. The period considered was characterized by an increase in turnover of the finished product and a decrease in sales of semi-finished products due to the drastic contraction of orders from South-East Asia.

EBITDA as of 30 June 2022 amounted to € 2.60 million, with an EBITDA margin of 12.1%, showing a consistent growth compared to the end of the previous year, when it stood at 8.9%. This increase in marginality derives first of all from the implementation of a production cost monitoring model, aimed at identifying company standards and KPIs, in addition to the confirmed ability to procure at competitive conditions, which ensure the Group an adequate quantity of stocks to meet, effectively and efficiently, the needs of customers.

EBIT in the first half of 2022, after amortization and depreciation of approximately € 0.63 million, amounted to € 1.97 million, with a marginality of 9.1%. The Net Income recorded in the year-half was also positive, which amounted to € 1.30 million.

The NFP as of 30 June 2022 amounted to € 17.41 million of debt, compared to € 14.22 million recorded on 31 December 2021. The figure is mainly affected by the increase in transit time for deliveries by sea, the huge investments made in R&D to consolidate the historic furniture segment, and, above all, to start the activities necessary for the development of the luxury business unit. In addition, the Group has made further investments in the commercial area of the aforementioned business unit through the hiring of a Manager and another important resource with relevant expertise. It should be noted that the situation of 1H22A does not take into account the income deriving from the listing on Euronext Growth Milan on 13 July 2022.

1.2 FY22A – FY26E Estimates

Table 2 – Estimates Updates FY22A-26E

€/mln	FY22E	FY23E	FY24E	FY25E	FY26E
VoP					
New	45,2	60,9	69,2	78,4	88,2
Old	55,5	68,0	72,9	77,9	82,8
Change	-18,5%	-10,4%	-5,1%	0,6%	6,5%
EBITDA					
New	5,0	7,0	8,2	9,6	11,0
Old	5,0	7,2	8,0	9,0	9,9
Change	1,0%	-2,8%	2,5%	7,3%	11,1%
EBITDA %					
New	11,1%	11,5%	11,9%	12,3%	12,5%
Old	8,9%	10,6%	11,0%	11,5%	12,0%
Change	2,1%	0,9%	0,9%	0,8%	0,5%
EBIT					
New	3,8	5,7	6,9	8,5	9,8
Old	3,9	5,9	6,7	7,9	8,7
Change	-2,6%	-3,4%	3,0%	8,3%	12,6%
Net Income					
New	2,5	3,9	4,7	5,9	6,8
Old	2,5	4,1	4,6	5,5	6,1
Change	0,0%	-4,9%	2,2%	7,3%	11,5%
NFP					
New	12,0	8,9	5,0	0,1	(5,8)
Old	9,5	7,7	3,9	(0,6)	(5,8)
Change	N.A.	N.A.	N.A.	N.A.	N.A.

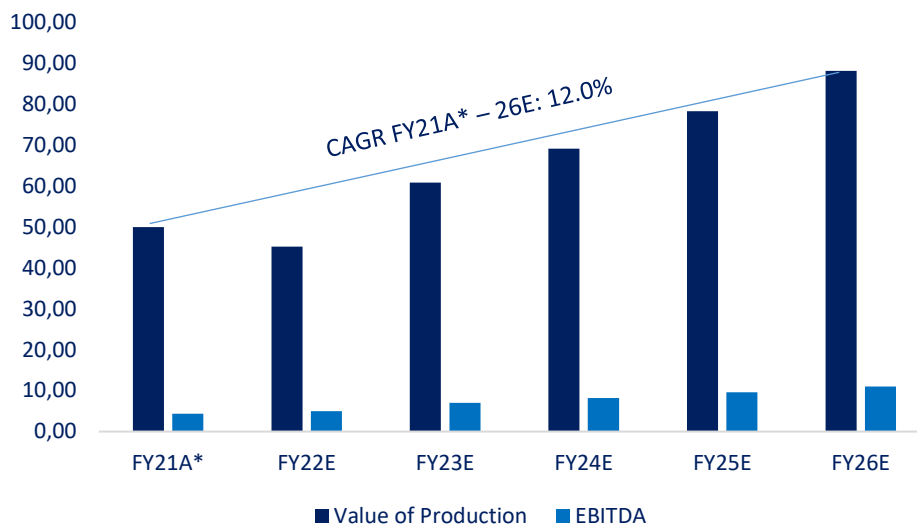
Source: Integrae SIM

In light of the results published in the half-yearly report for 1H22A, we modify our previous estimates both for the current year and for the coming years.

In particular, we estimate the FY22E value of production equal to € 45.20 million and EBITDA equal to € 5.00 million, corresponding to a marginality of 11.1%. For subsequent years, we expect the value of production to increase up to € 88.15 million (CAGR 21A*-26E: 12.0%) in FY26E, with EBITDA equal to € 11.00 million (corresponding to an EBITDA margin of 12.5%), up compared to € 4.37 million in FY21A* (corresponding to an EBITDA margin of 8.7%).

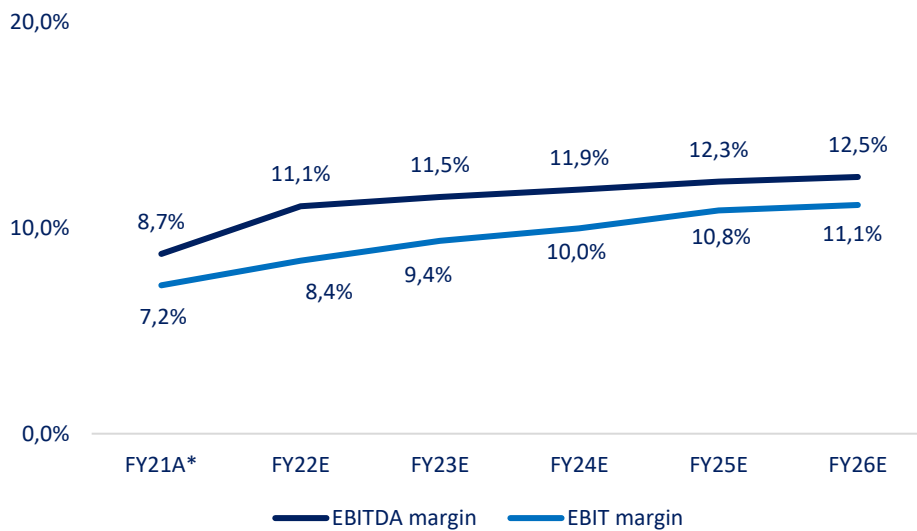
Finally, we estimate an NFP for the FY26E cash positive and equal to € 5.79 million.

Chart 1 – VoP and EBITDA FY21A*-26E



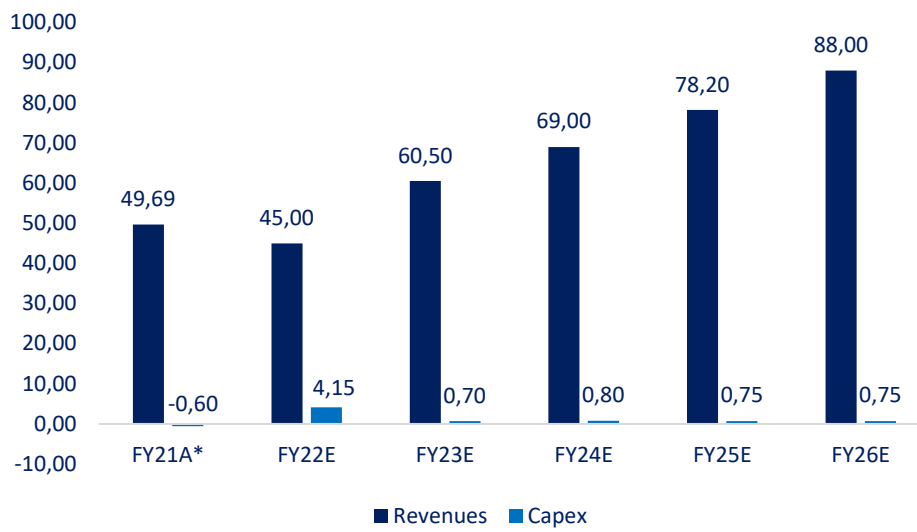
Source: Integrae SIM
*Pro-forma data

Chart 2 – Margin FY21A*-26E



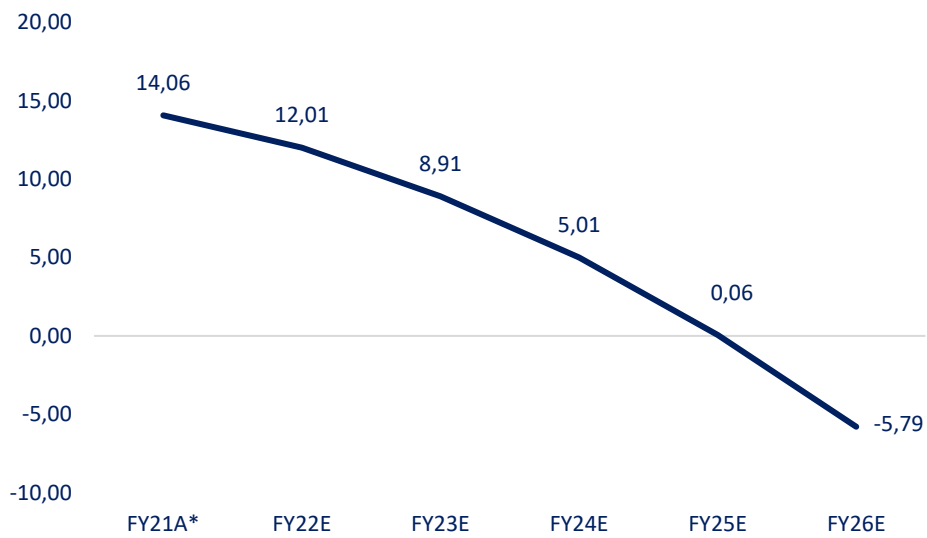
Source: Integrae SIM
*Pro-forma data

Chart 3 – Capex FY21A*-26E



Source: Integrae SIM
*Pro-forma data

Chart 4 – NFP FY21A*-26E



Source: Integrae SIM
*Pro-forma data

2. Valuation

We conducted the assessment of the equity value of GM Leather based on the DCF methodology only.

2.1 DCF Method

Table 3 – WACC

WACC		7,78%
Risk Free Rate	2,18% α (specific risk)	2,50%
Market Premium	9,08% Beta Adjusted	1,0
D/E (average)	100,00% Beta Relevered	1,7
Ke	13,76% Kd	2,50%

Source: Integrae SIM

For prudential purposes, we have included a specific risk of 2.50%. This results in a WACC of 7.78%.

Table 4 – DCF Valuation

DCF Equity Value		72,5
FCFO actualized	18,7	22%
TV actualized DCF	65,7	78%
Enterprise Value	84,5	100%
NFP (FY22E)	12,0	

Source: Integrae SIM

With the above data and taking as a reference our estimates and assumptions, the result is an **equity value of € 72.5 million**.

Table 5 – Equity Value – Sensitivity Analysis

€/mln		WACC						
		6,3%	6,8%	7,3%	7,8%	8,3%	8,8%	9,3%
Growth Rate (g)	2,5%	134,4	116,6	102,5	91,1	81,7	73,8	67,0
	2,0%	119,6	105,2	93,5	83,8	75,7	68,8	62,8
	1,5%	107,9	95,9	86,0	77,7	70,6	64,5	59,2
	1,0%	98,4	88,3	79,7	72,5	66,2	60,7	55,9
	0,5%	90,6	81,8	74,4	67,9	62,3	57,4	53,1
	0,0%	84,0	76,3	69,7	64,0	59,0	54,5	50,5
	-0,5%	78,4	71,6	65,7	60,5	56,0	51,9	48,3

Source: Integrae SIM

2.2 Equity Value

Table 6 – Equity Value

Equity Value (€/mln)	
Equity Value DCF (€/mln)	72,5
Target Price (€)	6,45

Source: Integrae SIM

The result is an equity value of € 72.5 million. **The target price is, therefore, € 6.45 (prev. €6.30). We confirm BUY rating and MEDIUM risk.**

Table 7 – Target Price Implied Valuation Multiples

Multiples	FY21A*	FY22E	FY23E	FY24E
EV/EBITDA	19,3x	16,9x	12,1x	10,3x
EV/EBIT	23,4x	22,2x	14,8x	12,2x
P/E	29,3x	29,6x	18,8x	15,4x

Source: Integrae SIM

Table 8 – Current Price Implied Valuation Multiples

Multiples	FY21A*	FY22E	FY23E	FY24E
EV/EBITDA	7,2x	6,3x	4,5x	3,9x
EV/EBIT	8,8x	8,3x	5,5x	4,6x
P/E	7,1x	7,2x	4,6x	3,7x

Source: Integrae SIM

Disclosure Pursuant to Delegated Regulation UE n. 2016/958

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Equity Total Return (ETR) for different risk categories			
Rating	Low Risk	Medium Risk	High Risk
BUY	ETR >= 7.5%	ETR >= 10%	ETR >= 15%
HOLD	-5% < ETR < 7.5%	-5% < ETR < 10%	0% < ETR < 15%
SELL	ETR <= -5%	ETR <= -5%	ETR <= 0%
U.R.	Rating e/o target price Under Review		
N.R.	Stock Not Rated		

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- In the IPO phase, it played the role of global coordinator.