

UPDATE

EQUITY RESEARCH

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# G.M. Leather

Euronext Growth Milan | Tannery | Italy

Production 07/04/2023, h. 6:30 pm

Published 11/04/2023, h. 7:00 am



Rating

**BUY**

unchanged

Target Price

**€ 6,55**

prev. € 6,45

Risk

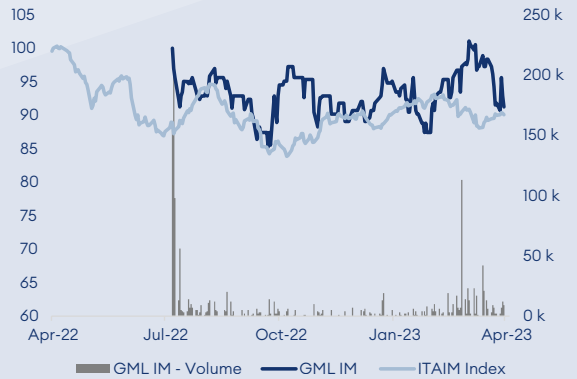


Medium

Upside potential

**292,3%**

## Stocks performance relative to FTSE Italia Growth



### Stock Data

Price	€ 1,67
Target price	€ 6,55
Upside/(Downside) potential	292,3%
Ticker	GML IM
Market Cap (€/mln)	€ 18,76
EV (€/mln)	€ 34,15
Free Float	13,79%
Share Outstanding	11.235.000
52-week high	€ 1,95
52-week low	€ 1,50
Average daily volumes (3 months)	7.500

Key Financials (€/mln)	FY22A	FY23E	FY24E	FY25E
Revenues	40,8	63,0	72,0	83,0
VoP	42,4	63,4	72,2	83,2
EBITDA	5,0	7,3	8,6	9,9
EBIT	3,3	5,1	6,4	7,8
Net Income	2,0	3,3	4,2	5,3
EBITDA margin	12,2%	11,6%	11,9%	11,9%
EBIT margin	8,1%	8,1%	8,9%	9,4%
Net Income margin	4,9%	5,2%	5,8%	6,4%

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Stock performance	1M	3M	6M	1Y
Absolute	-6,70%	-4,02%	-1,76%	N/A
to FTSE Italia Growth	-5,54%	-3,86%	-6,35%	N/A
to Euronext STAR Milan	-3,09%	-6,43%	-15,53%	N/A
to FTSE All-Share	-3,99%	-11,91%	-29,63%	N/A
to EUROSTOXX	-6,60%	-11,28%	-27,28%	N/A
to MSCI World Index	-7,62%	-9,32%	-14,34%	N/A

Main Ratios	FY22A	FY23E	FY24E	FY25E
EV/EBITDA	6,9 x	4,7 x	4,0 x	3,4 x
EV/EBIT	10,3 x	6,7 x	5,3 x	4,4 x
P/E	9,3 x	5,8 x	4,5 x	3,5 x

## FY22A Results

Revenues came in at € 40.83 million, compared to a value of € 49.69 million recorded at the end of 2021 (Pro-forma), and to the € 45.00 million estimated in our previous report. EBITDA was € 4.98 million, up 14.0% compared to € 4.37 million in the previous year (Pro-forma), and in line with our previous estimate of € 5.00 million. The EBITDA Margin, equal to 12.2%, was higher than the Pro-forma data for the previous year (8.8%) and our estimate (11.1%). Net Income was € 2.01 million (€ 2.47 million in FY21A\*), slightly down on our previous estimate of € 2.45 million, mainly due to higher amortization.

## Estimates Update

In light of the results published in the Annual Report for FY22A and of the extraordinary transaction with Palladio SpA (leasing of the business unit and sub-leasing of properties used for business purposes), we have adjusted our estimates for both the current year and for the coming years. In particular, we estimate FY23E Revenues of € 63.00 million, and an EBITDA of € 7.30 million, corresponding to a margin of 11.6%. In the following years, we expect Revenues to rise to € 94.00 million (CAGR 22Y-26E: 23.2%) in FY26E, with EBITDA equal to € 11.25 million (corresponding to a margin of 12.0%), up from € 4.98 million in FY22A (corresponding to an EBITDA Margin of 12.2%).

## Valuation Update

We conducted our valuation of the equity value of G.M. Leather based on the DCF method. The DCF method (including, for prudential purposes, a specific risk of 2.50% in the calculation of the WACC) returned an equity value of € 73.6 million. The target price is € 6.55, BUY rating, and MEDIUM risk.

# Economics & Financials

TABLE 1 – ECONOMICS & FINANCIALS

CONSOLIDATED INCOME STATEMENT (€/mln)	FY21A*	FY22A	FY23E	FY24E	FY25E	FY26E
Revenues	49,69	40,83	63,00	72,00	83,00	94,00
Other Revenues	0,27	1,54	0,35	0,15	0,15	0,15
<b>Value of Production</b>	<b>49,97</b>	<b>42,37</b>	<b>63,35</b>	<b>72,15</b>	<b>83,15</b>	<b>94,15</b>
COGS	25,57	20,62	30,55	34,70	39,90	45,10
Services	15,54	11,61	17,30	19,50	22,40	25,30
Use of assets owned by others	0,62	0,76	1,40	1,60	2,00	2,30
Employees	3,71	4,10	6,50	7,40	8,55	9,75
Other Operating Expenses	0,16	0,30	0,30	0,35	0,40	0,45
<b>EBITDA</b>	<b>4,37</b>	<b>4,98</b>	<b>7,30</b>	<b>8,60</b>	<b>9,90</b>	<b>11,25</b>
<i>EBITDA Margin</i>	8,8%	12,2%	11,6%	11,9%	11,9%	12,0%
D&A	0,76	1,68	2,20	2,20	2,10	2,00
<b>EBIT</b>	<b>3,60</b>	<b>3,30</b>	<b>5,10</b>	<b>6,40</b>	<b>7,80</b>	<b>9,25</b>
<i>EBIT Margin</i>	7,2%	7,8%	8,1%	8,9%	9,4%	9,8%
Financial Management	(0,30)	(0,98)	(0,60)	(0,60)	(0,50)	(0,40)
<b>EBT</b>	<b>3,30</b>	<b>2,32</b>	<b>4,50</b>	<b>5,80</b>	<b>7,30</b>	<b>8,85</b>
Taxes	0,83	0,31	1,25	1,60	2,00	2,45
<b>Net Income</b>	<b>2,47</b>	<b>2,01</b>	<b>3,25</b>	<b>4,20</b>	<b>5,30</b>	<b>6,40</b>

CONSOLIDATED BALANCE SHEET (€/mln)	FY21A*	FY22A	FY23E	FY24E	FY25E	FY26E
<b>Fixed Assets</b>	<b>3,25</b>	<b>5,84</b>	<b>10,60</b>	<b>10,90</b>	<b>11,10</b>	<b>11,30</b>
Account receivable	12,43	16,38	15,90	16,90	18,80	20,00
Inventories	12,07	10,81	13,65	14,80	16,55	18,80
Account payable	8,66	7,48	10,90	11,20	12,80	14,60
<b>Operating Working Capital</b>	<b>15,84</b>	<b>19,71</b>	<b>18,65</b>	<b>20,50</b>	<b>22,55</b>	<b>24,20</b>
Other receivable	2,55	3,49	2,00	1,90	1,85	1,85
Other payable	1,55	1,56	2,05	1,95	1,90	1,80
<b>Net Working Capital</b>	<b>16,84</b>	<b>21,64</b>	<b>18,60</b>	<b>20,45</b>	<b>22,50</b>	<b>24,25</b>
Severance Indemnities & Other Provisions	0,31	0,37	0,70	0,85	1,00	1,10
<b>NET INVESTED CAPITAL</b>	<b>19,78</b>	<b>27,10</b>	<b>28,50</b>	<b>30,50</b>	<b>32,60</b>	<b>34,45</b>
Share Capital	0,09	0,11	0,11	0,11	0,11	0,11
Reserves	3,16	9,59	11,36	14,21	17,89	22,54
Net Income	2,47	2,01	3,25	4,20	5,30	6,40
<b>Equity</b>	<b>5,72</b>	<b>11,72</b>	<b>14,72</b>	<b>18,52</b>	<b>23,30</b>	<b>29,05</b>
Cash & Cash Equivalent	0,72	1,18	1,22	1,27	1,30	2,60
Short Term Debt to Bank	7,78	9,30	6,50	5,40	4,80	4,00
M/L Term Debt to Bank	7,00	7,27	8,50	7,85	5,80	4,00
<b>Net Financial Position</b>	<b>14,06</b>	<b>15,39</b>	<b>13,78</b>	<b>11,98</b>	<b>9,30</b>	<b>5,40</b>
<b>SOURCES</b>	<b>19,78</b>	<b>27,10</b>	<b>28,50</b>	<b>30,50</b>	<b>32,60</b>	<b>34,45</b>

\*Pro-forma

CONSOLIDATED CASH FLOW (€/mln)	FY22A	FY23E	FY24E	FY25E	FY26E
EBIT	3,30	5,10	6,40	7,80	9,25
Taxes	0,31	1,25	1,60	2,00	2,45
<b>NOPAT</b>	<b>2,99</b>	<b>3,85</b>	<b>4,80</b>	<b>5,80</b>	<b>6,80</b>
D&A	1,68	2,20	2,20	2,10	2,00
Change in receivable	(3,95)	0,48	(1,00)	(1,90)	(1,20)
Change in inventories	1,26	(2,84)	(1,15)	(1,75)	(2,25)
Change in payable	(1,19)	3,42	0,30	1,60	1,80
Change in others	(0,93)	1,97	0,00	(0,00)	(0,10)
<i>Change in NWC</i>	<i>(4,80)</i>	<i>3,04</i>	<i>(1,85)</i>	<i>(2,05)</i>	<i>(1,75)</i>
Change in provisions	0,06	0,33	0,15	0,15	0,10
<b>OPERATING CASH FLOW</b>	<b>(0,07)</b>	<b>9,42</b>	<b>5,30</b>	<b>6,00</b>	<b>7,15</b>
Capex	(4,26)	(6,96)	(2,50)	(2,30)	(2,20)
<b>FREE CASH FLOW</b>	<b>(4,33)</b>	<b>2,45</b>	<b>2,80</b>	<b>3,70</b>	<b>4,95</b>
Financial Management	(0,98)	(0,60)	(0,60)	(0,50)	(0,40)
Change in Debt to Bank	1,78	(1,56)	(1,75)	(2,65)	(2,60)
Change in Equity	3,99	(0,25)	(0,40)	(0,52)	(0,65)
<b>FREE CASH FLOW TO EQUITY</b>	<b>0,46</b>	<b>0,04</b>	<b>0,05</b>	<b>0,03</b>	<b>1,30</b>

Source: G.M. Leather and Integrae SIM estimates

## Company Overview

G.M. Leather Group, established by the Marcigaglia family and based in Arzignano, in the Province of Vicenza, in the largest Italian tanning district, has been active for over 45 years in the tanning and leather processing sector. G.M. Leather SpA and the subsidiary SNAM Srl deal with the procurement of raw materials (bovine raw hides and semi-finished wet blue hides) and the marketing of both raw materials and finished products. Furthermore, the Group operates through the wholly owned subsidiary Genesi Srl, focused on added-value and custom processing (e.g. retanning, dyeing, finishing, quality control), allowing the Group to oversee the tanning production chain, also through historical relationships with certain partners active in the tanning district and dealing with more standardized processing.

The Group, through its intense production, commercial and R&D activities, acts as a partner for major international and Italian customers, including distributors and brands active in the furniture, fashion and leather goods sectors. The core business of G.M. Leather Group, in the leather supply chain, is that of tanning.

## FY22A Results

TABLE 2 – ACTUAL VS ESTIMATES FY22A

€/mln	Revenues	EBITDA	EBITDA %	EBIT	Net Income	NFP
FY22A	40,83	4,98	12,2%	3,30	2,01	15,39
FY22E	45,00	5,00	11,1%	3,80	2,45	12,01
Change	-9,3%	-0,4%	1,1%	-13,1%	-17,9%	N/A

Source: Integrae SIM

Commenting on the annual results in a press release, Marco Malagutti, Chief Executive Officer of G.M. Leather, stated: *“We have closed our first balance sheet as a listed company with satisfaction and excellent economic, financial and equity results, made possible thanks to the huge investments and strategic choices made in the last three years under the guidance of Carmen Marcigaglia and the commitment of all our employees and partners. In this context, the proposal of appointing Simone Voltolin as a member of the Board of Directors represented a further factor, allowing the Group to benefit from his sector experience and to accelerate its growth. 2022 was characterized by significant R&D activities aimed at consolidating the historic Furniture segment, and, above all, at developing the strategic Luxury market. Confirming the strategic importance of the Luxury market were notably the investments made in human resources, with the hiring of personnel with proven commercial and production experience, and in latest generation Industry 4.0 machinery and equipment. Group synergies have enabled the continuous and smart development of product and process innovations capable of expanding the product portfolio, which is essential for responding quickly to changing market demands, for trying to respond to increasingly more demanding requests with tailor-made products, informed by know-how and experience, and for developing solutions for all kinds of customers. The synergy with industrial activities has also allowed a mass production of samples and new articles with which we will be able to retain our customer portfolio and further expand it in the strategic Luxury segment. Good financial availability made it possible to continue planning procurement and leveraging the most advantageous market conditions, with a logic of maintaining an adequate level of stock to promptly meet customer needs and retain strategic suppliers.”*

Revenues came in at € 40.83 million, compared to a value of € 49.69 million recorded at the end of 2021 (Pro-forma), and to the € 45.00 million estimated in our previous report. The contraction compared to 2021 was mainly due to a drop in the sales of semi-finished products, linked to fewer orders from Southeast Asia. At the same time, there was an increase in the turnover of finished products, with higher margins.

EBITDA was € 4.98 million, up 14.0% compared to € 4.37 million in the previous year (Pro-forma), and in line with our previous estimate of € 5.00 million. The EBITDA Margin, equal to 12.2%, was higher than the Pro-forma data for the previous year (8.8%) and our estimate (11.1%). The increase in EBITDA during FY22A was mainly due to the increase in the turnover of finished products and to lower costs for raw materials, services and outsourcing.

EBIT was € 3.30 million (€ 3.60 million in FY21A\*), slightly down on our estimate of € 3.80 million. The EBIT Margin was 7.8%, compared to the FY21A\* Pro-forma figure of 7.2%, and to our estimate of 8.4%. These data were influenced by the significant amortization and depreciation item increase from € 0.76 million in FY21A\* to € 1.68 million in FY22A (+119.8%). Indeed, the sum of Net Income plus Amortization and Depreciation was € 3.69 million (€ 3.24 million in FY21A\*), in line with our estimate of € 3.65 million.

Net Income was € 2.01 million (€ 2.47 million in FY21A\*), slightly down on our previous estimate of € 2.45 million, mainly due to the aforementioned higher amortization and depreciation item. We note that Net Income was influenced by the increase in financial charges due to the dynamics of the Euribor (an additional impact in 2022 of approximately € 0.20 million is estimated) and USD/EURO currency volatility, which penalized the consolidated results by approximately €0.30 million, considering that the majority of receipts and payments are made in USD.

Confirming the soundness of the Group's financial management is the fact that, prudentially, the Company proceeded to conclude interest rate hedging contracts, in 2022, on the majority of its medium to long-term loans, using the formula "out strike" (1.0 % strike and 3.0% threshold on the Euribor) regarding the parent company G.M. Leather SpA and "double strike" (1.0% strike plus another 3.0% strike on the Euribor) regarding the companies Snam and Genesi.

Finally, the NFP showed an increase from € 14.06 million in FY21A\* to € 15.39 million in FY22A, which was more than offset by the increase in EBITDA, with the NFP/EBITDA ratio rising from 3.22x in 2021 to 3.09x in 2022.

## FY23E – FY26E Estimates

TABLE 3 – ESTIMATES UPDATES FY23E-26E

€/mln	FY23E	FY24E	FY25E	FY26E
<b>Revenues</b>				
New	63,00	72,00	83,00	94,00
Old	60,50	69,00	78,20	88,00
Change	4,1%	4,3%	6,1%	6,8%
<b>EBITDA</b>				
New	7,30	8,60	9,90	11,25
Old	7,00	8,20	9,60	11,00
Change	4,3%	4,9%	3,1%	2,3%
<b>EBITDA %</b>				
New	11,6%	11,9%	11,9%	12,0%
Old	11,6%	11,9%	12,3%	12,5%
Change	0,0%	0,1%	-0,3%	-0,5%
<b>EBIT</b>				
New	5,10	6,40	7,80	9,25
Old	5,70	6,90	8,50	9,80
Change	-10,5%	-7,2%	-8,2%	-5,6%
<b>Net Income</b>				
New	3,25	4,20	5,30	6,40
Old	3,85	4,70	5,90	6,80
Change	-15,6%	-10,6%	-10,2%	-5,9%
<b>NFP</b>				
New	13,78	11,98	9,30	5,40
Old	8,91	5,01	0,06	(5,79)
Change	N/A	N/A	N/A	N/A

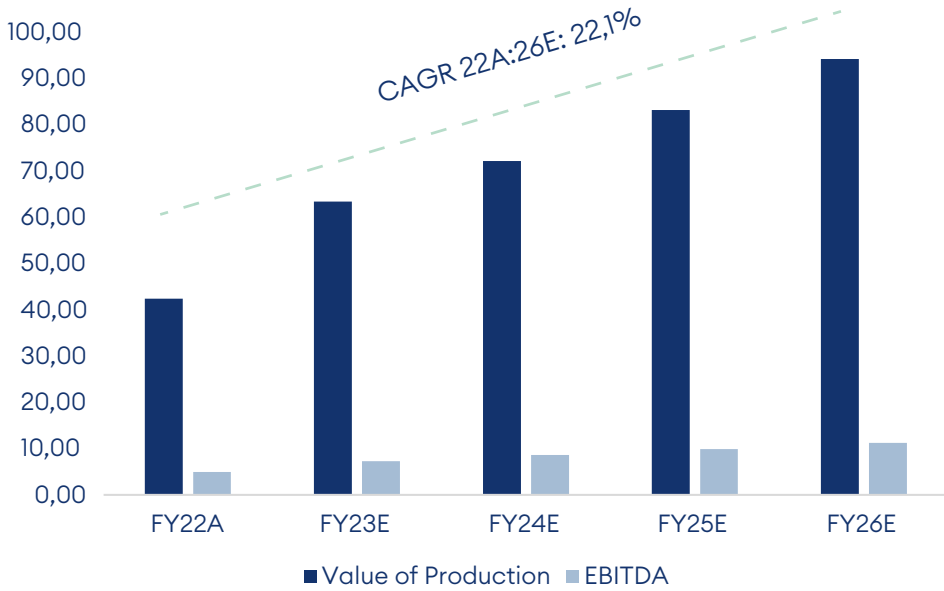
Source: Integrae SIM

In light of the results published in the Annual Report for FY22A and of the extraordinary transaction with Palladio SpA (leasing of the business unit and sub-leasing of properties used for business purposes), we have adjusted our estimates for both the current year and for the coming years.

In particular, we estimate FY23E Revenues of € 63.00 million, and an EBITDA of € 7.30 million, corresponding to a margin of 11.6%. In the following years, we expect Revenues to rise to € 94.00 million (CAGR 22Y-26E: 23.2%) in FY26E, with EBITDA equal to € 11.25 million (corresponding to a margin of 12.0%), up from € 4.98 million in FY22A (corresponding to an EBITDA Margin of 12.2%).

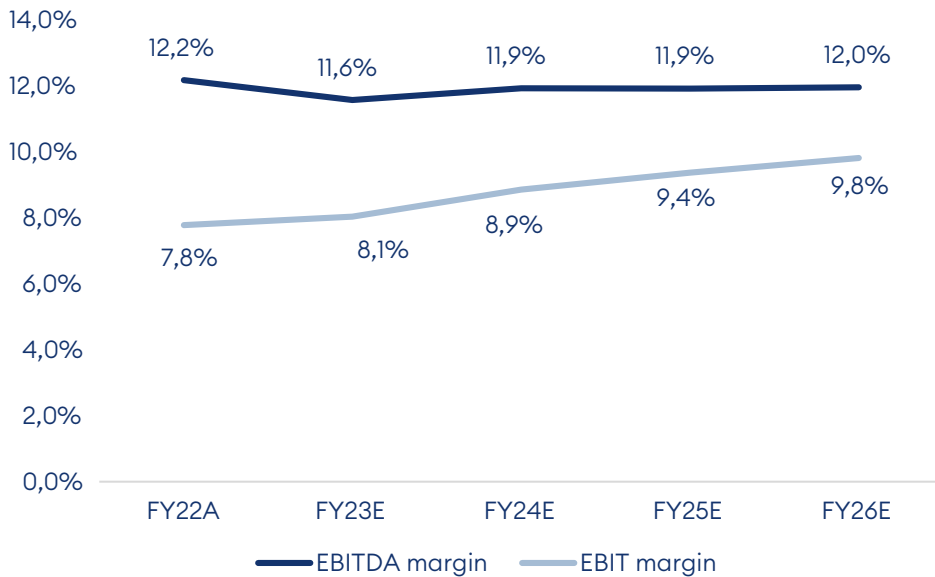
Regarding the balance sheet, however, we have adjusted our previous NFP estimates, due to the distribution of dividends, proposed by the Board of Directors, for a value of approximately € 0.25 million (with a consolidated payout ratio of approximately 12.3%). Indeed, our previous estimates did not envisage the distribution of dividends to shareholders. We believe that the same dividend policies may be pursued by the Company in the subsequent years of the plan, considering a constant consolidated payout ratio coinciding with that already announced.

CHART 1 - VOP AND EBITDA FY22A-26E



Source: Integrae SIM

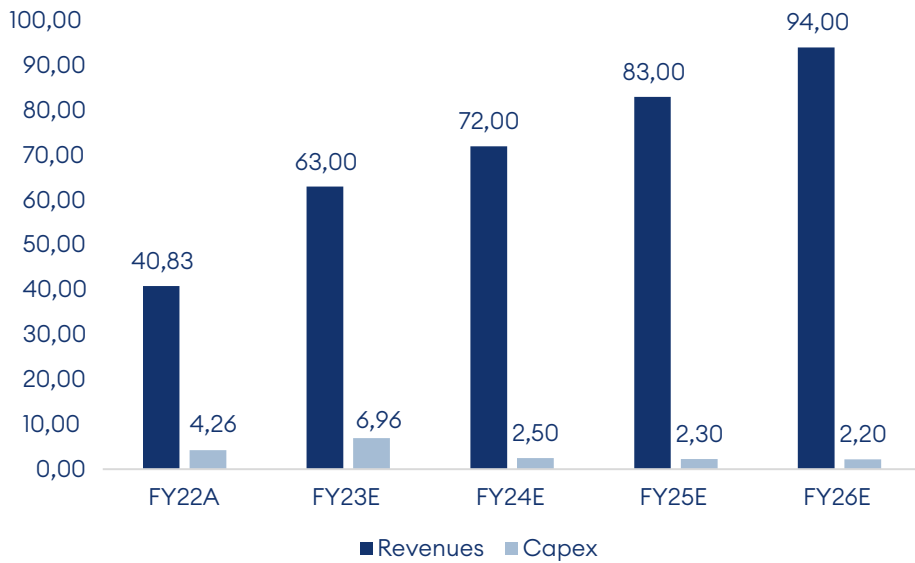
CHART 2 - MARGIN FY22A-26E



Source: Integrae SIM

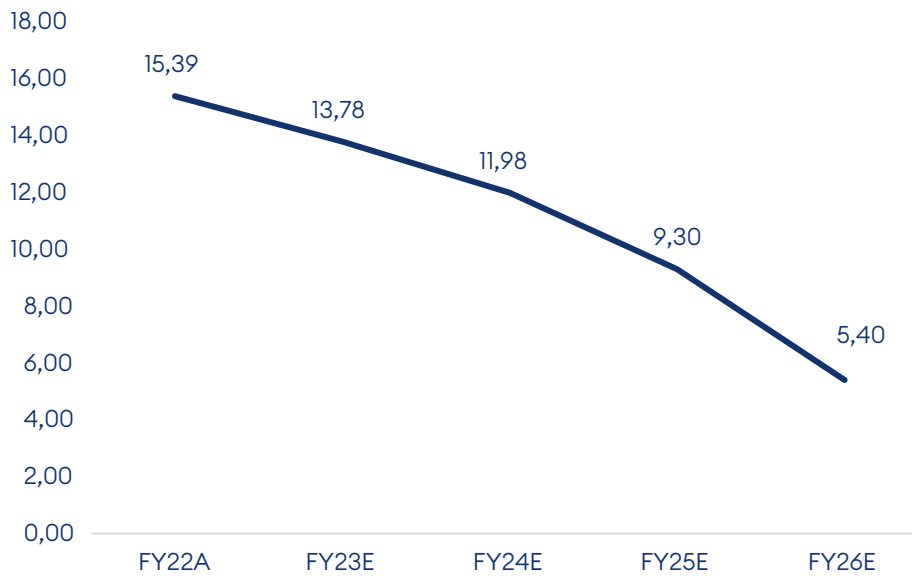


CHART 3 – CAPEX FY22A-26E



Source: Integrae SIM

CHART 4 – NFP FY22A-26E



Source: Integrae SIM

# Valuation

We conducted our valuation of the equity value of G.M. Leather based on the DCF method.

## DCF Method

TABLE 4 – WACC

WACC				10,87%
D/E 53,85%	Risk Free Rate 3,51%	$\beta$ Adjusted 1,00	$\alpha$ (specific risk) 2,50%	
$K_d$ 2,50%	Market Premium 9,73%	$\beta$ Relevered 1,39	$K_e$ 15,75%	

Source: Integrae SIM

For prudential purposes, we included a specific risk of 2.5%. The result is therefore a WACC of 10.87%.

TABLE 5 – DCF VALUATION

DCF		% of EV
FCFO actualized	17,4	20%
TV actualized DCF	71,6	80%
<b>Enterprise Value</b>	<b>89,0</b>	<b>100%</b>
NFP (FY22A)	15,4	
<b>Equity Value</b>	<b>73,6</b>	

Source: Integrae SIM

With the above data and taking our estimates and assumptions as a reference, the result is an *equity value of € 73.6 million*.

TABLE 6 – EQUITY VALUE – SENSITIVITY ANALYSIS

€/mln	Growth Rate (g)	WACC						
		9,4%	9,9%	10,4%	10,9%	11,4%	11,9%	12,4%
	2,5%	112,4	102,6	94,0	86,4	79,8	73,8	68,5
	2,0%	105,0	96,2	88,5	81,7	75,6	70,2	65,3
	1,5%	98,5	90,6	83,6	77,4	71,9	66,8	62,3
	1,0%	92,8	85,6	79,3	73,6	68,5	63,8	59,6
	0,5%	87,7	81,2	75,4	70,1	65,4	61,1	57,2
	0,0%	83,2	77,2	71,9	67,0	62,6	58,6	54,9
	-0,5%	79,1	73,6	68,7	64,2	60,0	56,3	52,8

Source: Integrae SIM

# Equity Value

TABLE 9 – EQUITY VALUE

Average Equity Value (€/mln)	
Equity Value DCF (€/mln)	73,6
<b>Target Price (€)</b>	<b>6,55</b>

Source: Integrae SIM

The result gives an average equity value of approximately € 73.6 million. **The target price is therefore € 6.55 (prev. € 6.45). We confirm a BUY rating, and MEDIUM risk.**

TABLE 10 – TARGET PRICE IMPLIED VALUATION MULTIPLES

Multiples	FY22A	FY23E	FY24E	FY25E
EV/EBITDA	17,9 x	12,2 x	10,3 x	9,0 x
EV/EBIT	27,0 x	17,4 x	13,9 x	11,4 x
P/E	36,6 x	22,6 x	17,5 x	13,9 x

Source: Integrae SIM

TABLE 11 – CURRENT PRICE IMPLIED VALUATION MULTIPLES

Main Ratios	FY22A	FY23E	FY24E	FY25E
EV/EBITDA	6,9 x	4,7 x	4,0 x	3,4 x
EV/EBIT	10,3 x	6,7 x	5,3 x	4,4 x
P/E	9,3 x	5,8 x	4,5 x	3,5 x

Source: Integrae SIM

# Disclosure Pursuant to Delegated Regulation UE n. 2016/958

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The table below, shows INTEGRAE SIM's recommendation, target price and risk issued during the last 12 months:

Date	Price	Recommendation	Target Price	Risk	Comment
15/07/2022	1,78	Buy	6,30	Medium	Initiation of Coverage
12/08/2022	1,70	Buy	6,20	Medium	Breaking News
03/10/2022	1,56	Buy	6,45	Medium	Update
27/02/2023	1,75	Buy	6,45	Medium	Breaking News

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### Rating system (long term horizon: 12 months)

The BUY, HOLD and SELL ratings are based on the expected total return (ETR – absolute performance in the 12 months following the publication of the analysis, including the ordinary dividend paid by the company), and the risk associated to the share analyzed. The degree of risk is based on the liquidity and volatility of the share, and on the rating provided by the analyst and contained in the report. Due to daily fluctuations in share prices, the expected total return may temporarily fall outside the proposed range

#### 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		

#### Valuation methodologies (long term horizon: 12 months)

The methods that INTEGRÆ SIM SpA prefers to use for value the company under analysis are those which are generally used, such as the market multiples method which compares average multiples (P/E, EV/EBITDA, and other) of similar shares and/or sectors, and the traditional financial methods (RIM, DCF, DDM, EVA etc). For financial securities (banks and insurance companies) Integræ SIM SpA tends to use methods based on comparison of the ROE and the cost of capital (embedded value for insurance companies).

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