BANCA IMI

Equity Company Note
MID CORPORATE

Giglio Group

The e-commerce Gateway for Fashion

Giglio Group - Key estimates and data					
Y/E December		2018A	2019E	2020E	2021E
Revenues	EUR M	39.62	49.60	61.72	74.92
EBITDA	EUR M	1.23	4.42	6.79	9.79
EBIT	EUR M	0.00	4.22	6.59	9.59
Net Income	EUR M	-8.26	6.86	5.15	7.55
Dividend ord.	EUR	0	0	0	0
Adj. EPS	EUR	-0.52	0.43	0.32	0.47
EV/EBITDA	x	74.8	13.1	7.1	4.5
Adj. P/E	x	Neg.	7.9	10.5	7.2

Neg.: negative; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

- **The group at a glance.** Founded in the 2003 by Alessandro Giglio, Giglio Group is an Italian-based company which provides e-commerce services to the Luxury Fashion industry, mainly "Made in Italy" brands. Giglio proposes itself to fashion brands as a vertical manager of their B2C (online B2C marketing of new collections) and B2B (disposal of seasonal inventories through online B2B distribution to major e-commerce platforms) e-commerce channels on a global scale. In addition to managing online sales channels, it offers a tailored service for the optimised planning and management of advertising and the creation of multi-channel marketing campaigns (digital TV). The platform which includes the group offer is called Ibox. The group aims to strengthen Ibox and become the reference partner for the online business of Italian lifestyle brands (Fashion, Design and Beauty). Based on its considerable expertise in China, it facilitates the quick start-up of online sales for brands. This is done through the development of an e-commerce site exclusively destined to the Chinese market and the creation of the brand's "shop in shop" on the main marketplaces, at both full and off prices.

- **Positives.** We believe that Giglio Group can leverage on some company-specific positives, including: i) by shifting the core to e-commerce, Giglio is operating in a fast-growing business, which is also expected to further grow in the next few years; ii) strategic presence in China, supported by solid partnerships with WeChat, Secoo and Mei.com (Alibaba group); iii) international logistics coverage which allows it to speed up the destocking operations, and the rapid collection and delivery of products; iv) integrated offer able to propose to brand clients a complete access to e-commerce, from website creation to product placement on the major marketplaces in the world; and v) an experienced management team.

- **Estimates and valuation.** We expect Giglio to grow total revenues from EUR 39M in 2018A to EUR 74.9M in 2021E (2018-21E CAGR of 24.4%). Looking at profitability, we expect Giglio to increase adjusted EBITDA from EUR 1.2M in 2018 to EUR 9.8M in 2021E, which implies a margin on revenues at 13.1% in 2021E. We valued Giglio using a DCF approach, and for the WACC calculation, we used a risk-free rate at 2.75%, a risk premium at 6.50%. We derived a **target price of EUR 6.2/share and given the 85% upside have a BUY rating on the stock.**

- **Key risks.** In our view, the key risks are: i) constantly increasing competition and growing players' consolidation; ii) internalisation of the services offered by Giglio to current group clients; iii) if some brand clients fail to anticipate and respond quickly to newly changing fashion trends in consumer tastes, the groups business could be slowed down; iv) downturn in the fashion industry market; and v) client concentration.

See page 37 for full disclosures and analyst certification
Banca IMI is Specialist to Giglio Group

21 March 2019: 07:45 CET
Date and time of production

BUY

Target Price: EUR 6.2

Italy/Information Technology
Initiation of Coverage

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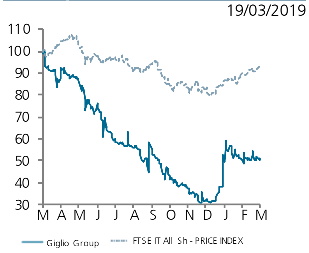
Price performance, -1Y

19/03/2019



Source: FactSet

Date and time of first circulation:
21 March 2019: 8:00 CET

MTA-STAR

Priced at market close on 19/03/2019*	
Target price (€)	6.2
Target upside (%)	84.90
Market price (€)	3.37
52Wk range (€)	6.58/2.03
Market cap (€ M)	54.06
No. of shares	16.04
Free float (%)	34.4
Major shr	GIGLIO ALESSANDRO
(%)	55.7
Reuters	GGTV.MI
Bloomberg	GGTV IM
FTSE IT All Sh	23477

Performance %			
Absolute		Rel. to FTSE IT All	
-1M	4.0	-1M	-1.6
-3M	57.5	-3M	39.2
-12M	-49.1	-12M	-46.0

*unless otherwise indicated within report. Source: FactSet and Intesa Sanpaolo Research estimates

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Contents

Positives and Negatives

Positives

Shifting the core to e-commerce

Giglio Group is now a purely e-commerce player

Following the sale of the group's media business in March 2019 Giglio Group is now a purely e-commerce player. The global e-commerce market is growing at a 2015-17 CAGR of 23.1% (source: Milan Polytechnic on Forrester and eMarketer data). This means that the company has decided to position itself in a market that is experiencing years of solid growth, driven by important trends that are changing consumers' preferences, which are increasingly shifting from the physical store to the virtual store. The pool of potential online consumers is enlarging thanks to the increase in people connected to the internet and the wider use of mobile devices, while new technologies allow a more effective identification and profiling of online consumers, thus enabling companies to modulate their offer more efficiently. The group business model provides for the complete integration between multi-platform television communication and e-commerce. Through the production of exclusive multimedia content transmitted on Giglio's former television platform (now part of Vertice 360) and other TV channels, the brand portfolio is promoted worldwide to a large range of viewers, who potentially become online buyers, exploiting synergies between media and e-commerce.

International partnerships

The group has partnerships in China with important e-commerce platforms i.e. Secoo and Mei.com

The group has partnerships with important e-commerce companies operating in the high-end fashion sector in China, such as Secoo and Mei.com. Giglio can market clothing and accessories of some of the luxury brands clients on Secoo.com and Mei.com and on all the social channels and apps connected to them. The partnership with WeChat also guarantees the group the presence of Ibox on one of the most used messaging platforms in China with almost 1Bn active users. In January 2019, the group expanded its activities into the United Arab Emirates through an agreement with the SOUQ distribution platform, and in 2019 management expects to expand its activities to Canada, Latin America and India.

Positioning in fast-growing markets

The global market for personal luxury goods was estimated to be worth USD 307Bn in 2018 and is expected to reach USD 446Bn by 2025, according to Bain. The group proposes itself as an e-commerce operator for luxury fashion companies. This segment is growing strongly, driven by the rising demand in China, where luxury sales grew 20% to EUR 23Bn in 2018, and by the increase in young consumers, which accounted for 47% of luxury consumers in 2018, representing the primary growth engine in the coming years. Furthermore, according to Fitch Solutions, latest results by luxury retailers for the financial year ending December 2018 support a bright outlook for the Chinese luxury market, having reported strong growth in revenues on the back of robust demand from Chinese consumers.

Strategic presence in China

The former Media presence in China was an important launch pad for the group's e-commerce division. Thanks to the authorisations received from the Chinese government for the publication of websites, the logistic hub created in Shanghai, the partnerships with Chinese TV channels, and the recent agreement with WeChat, the group is able to increase customers' visibility, sales and brand awareness in the largest e-commerce market in the world. The strategy for the Chinese market can be further strengthened and accelerated through the convergence of digital and e-commerce channels. The Brand can be presented on the entire Chinese network (TV, social, marketplaces) through classic media (increasing Brand Awareness) and through the new T-commerce model allowing the viewer to contextually view the product on the media and buy it on the marketplace. Moreover, China is an important destination market for luxury fashion brands, where Chinese shoppers are ramping up their purchasing, and by 2025 Chinese consumers should account for 46% of the global market (up from 33% in 2018), and should make half of their purchases at home in China (up from 24% in 2017) (source Bain).

International logistics management

The group has a wide logistics presence in the areas where it operates. In particular, the group operates in America through the Boston (logistics base) and in Asia through the Shanghai logistic base (able to receive stock from China, Hong Kong, Singapore, Australia and Japan and distribute it in China and Asia with cross border operations). This commercial approach allows the group to have local teams that directly manage the operations speeding up the destocking operations of the warehouses.

Negatives

Clients concentration

From the latest available data (9M17), it appears that in all three BU in which the group operates there is a concentration of customers, in particular: i) in B2C the first customer accounts for 54.1% of BU revenues and the first five for 83.5%; and ii) in B2B, the first customer accounts for 31.4% and the first five for 73.4%.

Competitive pressure

The e-commerce sector is characterised by a growing degree of competitiveness, due to an ever-increasing presence on the market of both large and small operators. In major markets, such as the US and China, there is also a growing consolidation of players, creating conglomerates that have significant market shares in the reference markets. It could also happen that some brand customers decide to internalise some services offered by the group, especially in the B2C business.

Strong pressure on working capital in B2B

In the B2B business, the group buys goods from brands and then sells them to major e-retailers globally. By operating in this way, there is a strong pressure on working capital as the purchased goods are sold more than six months after purchase, requiring careful financial management to cover the initial expenses.

Dependence on the fashion sector

By strategic choice, the group decided to offer its services only to luxury fashion brands, thus becoming directly dependent on the performance of the underlying market. In addition to being a positive element since it is a segment that should continue growing in the coming years, any exogenous factors that would cause a slowdown would immediately be reflected on group operations. Indeed, consumer demand can quickly change depending on factors such as the behaviour of both online and brick and mortar competitors, promotional activities of competitors, rapidly changing tastes and preferences, progresses in technology and macroeconomic factors. The business could also be slowed down if some brand clients fail to anticipate and respond quickly to newly changing fashion trends in consumer tastes.

Exposure to exchange rate fluctuations

The exposure to exchange rate risk mainly derives from the geographical distribution of the markets in which the group sells its products. Revenues and operating margins are in fact influenced by the impact of exchange rate fluctuations between the Euro and other foreign currencies, mainly the US Dollar and the British Pound, due to the impact on sales prices.

Valuation

We valued Giglio using a DCF approach. We derived a **target price of EUR 6.2/share**, and given the 85% upside we have a **BUY rating on the stock**.

Target price of EUR 6.2/share and BUY rating

DCF model

The main assumptions in our DCF model are as follows:

- Explicit estimates until 2021E;
- The terminal value at 2022E, in which we assumed a prudential 5% increase in EBIT, vs. an approx. 50% 2018A-21E CAGR. We set a 0% perpetuity growth rate;

For the WACC calculation, we used a risk-free rate at 2.75%, a risk premium at 6.50%, and a Beta of 1x. Given the ongoing development of the business and the recent divestment of the media division, we used a 30% 'target' gearing ratio, coming from the comparison with other e-commerce companies. As a result, we derived a WACC of 7.2%. The table below summarises our DCF model.

Giglio Group – WACC calculation	
Gross debt rate	3.0
Tax rate	24
Net debt rate	2.3
Beta Levered (x)*	1.00
Gearing	30.0
Beta Re-Levered	1.00
Risk Free Rate	2.75
Equity Risk Premium	6.50
Cost of equity	9.3
WACC	7.2

* Bloomberg; Source: Intesa Sanpaolo Research estimates

Giglio Group – DCF valuation				
EUR M	2019E	2020E	2021E	LT
EBIT	4.2	6.6	9.6	10.1
Tax	0.0	-1.3	-1.9	-2.0
Depreciation	0.2	0.2	0.2	
NOPAT	4.4	5.5	7.9	8.1
WC	9.2	6.1	0.7	
Capex	-1.0	-2.0	-2.5	
FCF	12.6	9.6	6.1	8.1
Discounted FCF	12.6	8.9	5.3	6.6
WACC (%)	7.2			
TV growth (%)	0.0			
Sum	27			
TV	92			
EV	119			
Debt 2018A	19.2			
Equity	99			
Shares (M)	16.0			
Target price (EUR/share)	6.2			

Source: Intesa Sanpaolo Research estimates

Below we show a sensitivity analysis to WACC and perpetual growth rate changes.

Giglio Group – Sensitivity analysis (EUR/share)					
Discount rate %	5.2	6.2	7.2	8.2	9.2
Perpetual growth rate %					
-1.0	7.6	6.4	5.5	4.9	4.3
-0.5	8.2	6.9	5.9	5.1	4.5
0.0	8.9	7.4	6.2	5.4	4.7
0.5	9.8	8.0	6.7	5.7	5.0
1.0	11.0	8.7	7.2	6.1	5.2

Source: Intesa Sanpaolo Research estimates

Peers comparison

Given the low market capitalisation of Giglio, vs. its main peers, combined with the fact that it has only recently become a pure e-commerce player (divestment of the Media division in March 2019), we have not used multiples for the group's valuation. However, to give a representation of the context in which the group operates, in the following tables we reported some key financial indicators of international companies operating in fashion e-commerce. We also highlight how the services provided by these players are various and therefore sometimes difficult to compare with Giglio's activities.

E-commerce players' key data

Company	Price	Co. market cap.	Gearing 2017 %	Actual 2018 sales
Farfetch Limited Class A	23.49	7,043		529
Zalando SE	35.24	8,833	40.7	5,388
SRP Groupe SA	2.92	148	9.6	672
ASOS plc	34.82	2,921	35.8	2,754
boohoo group Plc	2.16	2,508	38.8	
Stitch Fix, Inc. Class A	26.71	2,674	51.5	1,061

Priced at close of business on 19 March 2019; Source: FactSet

EV/EBITDA Multiples

x	EV/EBITDA 2018	EV/EBITDA 2019	EV/EBITDA 2020
Zalando SE	18.3	28.0	21.8
SRP Groupe SA	16.4	8.6	6.3
ASOS plc	11.6	18.7	13.6
boohoo group Plc	20.3	19.3	15.3
Stitch Fix, Inc. Class A	26.5	70.0	47.1

Priced at close of business on 19 March 2019; Source: FactSet

P/E Multiples

x	P/E 2018	P/E 2019	P/E 2020
Zalando SE	127.4	95.2	70.6
SRP Groupe SA		92.7	31.2
ASOS plc	31.2	56.1	37.7
boohoo group Plc	46.0	37.1	30.3
Stitch Fix, Inc. Class A	90.8	138.9	111.1

Priced at close of business on 19 March 2019; Source: FactSet

Farfetch Ltd.

Farfetch engages in the provision of technology platform for the luxury fashion industry. It operates through the following segments: Farfetch Marketplace, Farfetch Black and White, Farfetch Store of the Future, and Browns stores. Farfetch Marketplace runs Farfetch.com website and app. Farfetch Black and White Solutions relates to white label website solution for luxury brands. Farfetch Store of the Future delivers technology solutions to retail outlets. Browns stores are involved in the management of luxury boutiques. Its products include womenswear, menswear, kidswear, vintage, fine watches, and fine jewellery (source: FactSet).

Zalando SE

Zalando operates online retail stores, which offers shoes and fashion apparels. Its products include apparel, shoes and accessories for women, men and children (source: FactSet).

SRP GROUPE SA

SRP engages in online selling of fashion items, beauty products, household appliances, decorative products and travels. It operates through its subsidiary Showroomprivé.com Sarl (source: FactSet).

ASOS Plc

ASOS engages in the operation of a multi-platform offering fashion products for 20-somethings. It offers clothes and other fashion items available in retail. It operates through the following geographical segments: United Kingdom, United States, and European Union (source: FactSet).

boohoo group Plc

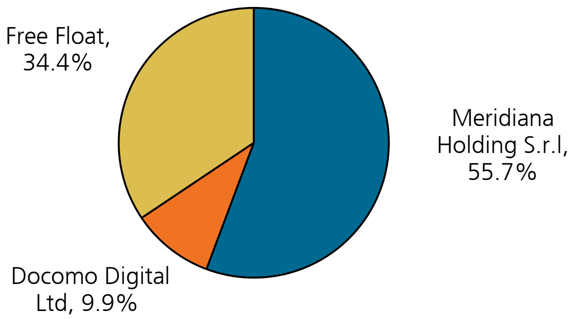
boohoo group Plc is a holding company, which engages in the online retail of clothes and accessories. The firm designs, sources, markets, and sells clothing, shoes, and accessories for men, women, and children. It operates through the following business segments: Boohoo, PLT, and Nasty Gal. The company was founded by Mahmud Abdullah Kamani and Carol Mary Kane in 2006 and is headquartered in Manchester, the United Kingdom (source: FactSet).

Shareholding Structure

Giglio Group shareholders' capital comprises 16M shares. The main shareholders are:

- Meridiana Holding S.r.l (controlled by Alessandro Giglio): 55.7%;
- Docomo Digital Ltd.: 9.9%;
- Free float: 34.4%.

Giglio Group - Shareholding structure



Source: Company data

Meridiana Holding S.r.l was founded and is controlled by the Chairman and CEO Alessandro Giglio.

Docomo Digital Ltd, established in England, belongs to the Nippon Telegraph and Telephone Corporation group.

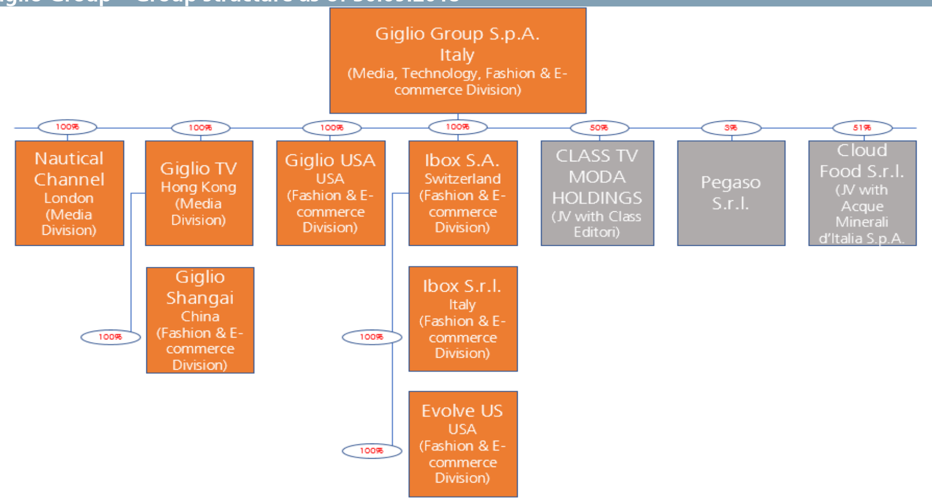
Since March 2018 the company has been listed on the MTA STAR segment of Borsa Italiana, while it had previously been listed on the AIM segment since August 2015. According to management, the decision to move from the AIM segment to the MTA STAR segment, was mainly based on the following reasons:

- Greater liquidity and interest from national and international investors thanks to the higher visibility from operating in a regulated market;
- To strengthen its relationships with its strategic partners, as well as involving additional institutional investors, achieving potential important advantages in terms of competitive positioning.

Group Profile

Founded in 2003 by Alessandro Giglio (founder and CEO), Giglio Group is an Italian-based company which provides e-commerce services to 'Made in Italy' luxury brands all over the world.

Giglio Group – Group structure as of 30.09.2018



Source: Company data

According to management, it is one of the first Digital companies to have introduced the integration of traditional media and e-commerce platforms globally. The group offers tailor-made B2B and B2C services to the Fashion Luxury industry, mainly "Made in Italy" brands, covering a whole chain, from the creation of e-commerce platforms to global stock management. Therefore, Giglio Group is not only a B2C technology platform for the fashion industry, but offers a wide range of services that aim to connect brands with consumers at a global level on various digital platforms.

Management sees significant potential in the reference market in which it seeks to gain competitive advantages. The latter are characterised by an increasing use of digital online channels, the growing importance of 'millennials' and the growth of luxury consumption in China and other emerging markets. Furthermore, the reference market is not exclusively e-commerce, but rather the intersection between luxury fashion, online commerce, technology and media.

History

- 2003: Alessandro Giglio established the Giglio Group. It was created as a media company active in the broadcasting, production, sale and distribution of audio-visual content and in the creation and provision of technological services. The TV channel "Music Box" was founded;
- 2008: Dada.net S.p.A. enters Giglio's share capital with a 10% stake. "live!" TV channel is created and transmitted on SKY;
- 2010: "Play me" TV channel starts broadcasting. The channel is dedicated exclusively to music contents. Dada.net S.p.A. purchases a further 15% increasing its stake to 25%;
- 2011: "Acqua" TV channel starts broadcasting. The channel is dedicated on the nautical segment and water sports. Furthermore, the group purchased the TV channel "Yacht and Sail" and established the "Nautical Channel", distributing it in 56 nations and 5 continents. The latter, represents the one and only Pay TV television channel in the world entirely dedicated to sailing and water sports. Buongiorno S.p.A purchases 100% of Dada.net S.p.A including the stake in Giglio Group;
- 2014: Giglio TV was founded in Hong Kong, becoming the first television channel in China, entirely dedicated to the Italian lifestyle. The Ministry of Economic Development and SIMEST

purchased equal stakes in the capital of Giglio TV with a cumulative 49% stake. At the end of November, Giglio Group increased its stake in the Nautical Channel to 100%;

- 2015: Acquisition of M-Three Satcom, a strategic partner within the distribution of the television signal via satellite and fibre optic signal, and listing on the AIM segment of Borsa Italiana. Establishment of Giglio Shanghai;
- 2016: Acquisition of MF Fashion SpA, which subsequently changed its name to Giglio Fashion. It became the groups B2B division wholly specialised in the fashion online. Establishment of Giglio USA;
- 2017: JV with Class Editori with the acquisition of a 50% stake in Class TV Moda Holdings. Acquisition of Evolve Service (renamed Ibox SA since June 2017), one of the most important players in the e-commerce industry for fashion, beauty and design.
- 2018: listing on the MTA, STAR segment. In March, the group signed a JV agreement with Acque Minerali d'Italia, with a 51% stake in Cloud Food. Furthermore, at the end of May, it signed an agreement with WeChat for the development of T-commerce in China.
- 2019: Giglio become a 100% e-commerce company by selling its Media asset to Vertice 360.

Giglio Group – History milestones

Source: Company data

Business Model

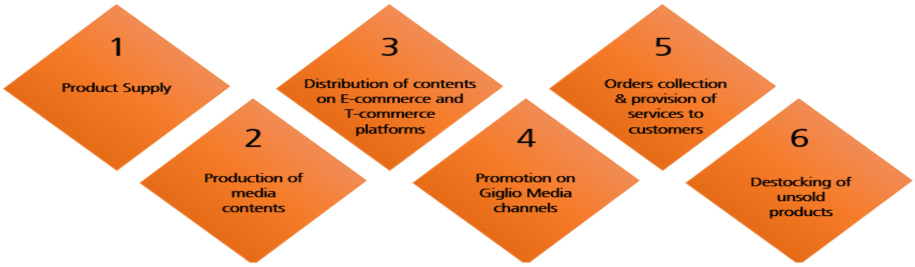
From media to digital company

Born as a Media company, Giglio Group has evolved over the years to become a Digital company active in the provision of e-commerce services. In the last few years, driven by an intense M&A activity, the group decided to increasingly focus its core business on e-commerce, turning into a digital enabler for fashion brands. Becoming a digital enabler for fashion brands means being able to provide services along the entire value chain of the products offered, and making the most of the evolution of the relationship between Brand and customer. Technological innovations have generated an evolution of the sales channels, with a consequent change in the life cycle of products, which is increasingly modelled around customers, creating new business opportunities that brands must be able to grasp.

Full integration between multi-platform digital communication and e-commerce

The group business model provides for the complete integration between multi-platform digital communication and e-commerce. Through the production of exclusive digital content transmitted on Giglio's and third parties' television, the brand portfolio is promoted globally to a wide range of viewers, who potentially become online buyers. Giglio proposes itself towards fashion brands as a vertical manager of their B2C (online B2C marketing of new collections) and B2B (disposal of seasonal inventories through online B2B distribution to major e-commerce platforms) e-commerce channels on a global scale. In addition to managing online sales channels, it offers a tailored service for the optimised planning and management of advertising and the creation of multi-channel marketing campaigns (digital TV). The platform which includes the group offer is called Ibox.

Giglio Group – Group offer



Source: Company data

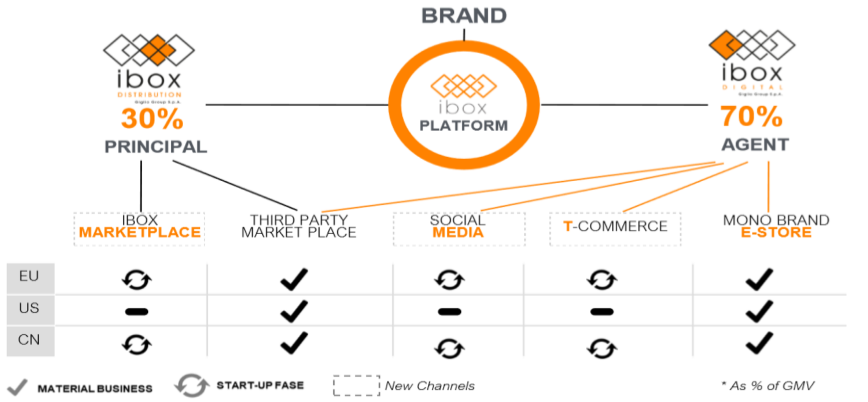
Starting with the procurement of the product, digital contents are built around it, telling a story, which should help to foster demand. The contents are distributed on all digital channels and are linked to the possibility of purchasing the product on its website or on a global market place. After these activities, orders are collected, additional services are provided to consumers and products start to be delivered. The unsold products are then placed in the 'flash sales' of the marketplace, facilitating the disposal of the product without degrading its value.

Embracing two markets, B2B and B2C, Ibox uses an analytics platform through which there are real time simultaneous photographs of orders and sales processes both in terms of quantity and location, managing the supply and inventory of products and implementing any corrective measures. At the same time, by integrating the data produced by the e-commerce platform with consumer information, the tool allows customer brands to have access to a substantial amount of data, displaying consumer behaviour and exploiting them in a predictive key.

The business units in which the group currently operates are the following:

- E-Commerce B2B ('Ibox Distribution');
- E-Commerce B2C ('Ibox Digital').

Giglio Group – An integrated business model



Source: Company data

E-commerce

Giglio Group is a "Worldwide Digital Enabler"

Giglio Group is a "Worldwide Digital Enabler", providing tailor made B2B and B2C services in the fashion sector, with over 70 brand partners offering integrated services ranging from the creation of e-commerce platforms to their connection with the main worldwide marketplaces, up to online stock management. By leveraging its digital technology skills and thanks to the experience accrued in online B2B and B2C sales, Giglio Group is creating a new generation of e-commerce 4.0, conveyed to the market under the name of **Ibox.**

According to the service offered, B2C or B2B, the platform is then distinguished as Ibox Digital or Ibox Distribution respectively. In the B2C business the group acts as an 'agent', receiving a fee/commission for the provision of certain services, while in the B2B segment Giglio is a 'principal', and therefore it plays a central role in the sale of brand products, obtaining profits from the trading margin.

Thanks to this platform, the company becomes a vertical partner for the digital promotion of the brand on a global scale, being able to offer services ranging from distribution, management, logistics and marketing of its products through online channels.

Customers are exclusively luxury fashion brands

Customers are exclusively luxury fashion brands, to which the company offers the management of mono-brand e-commerce or in the marketplace, whose orders arrive directly to Giglio's logistics hub. At this point the stock is centralised on a single platform, allowing client products to be present in all marketplaces, avoiding inefficiencies related to stock fragmentation.

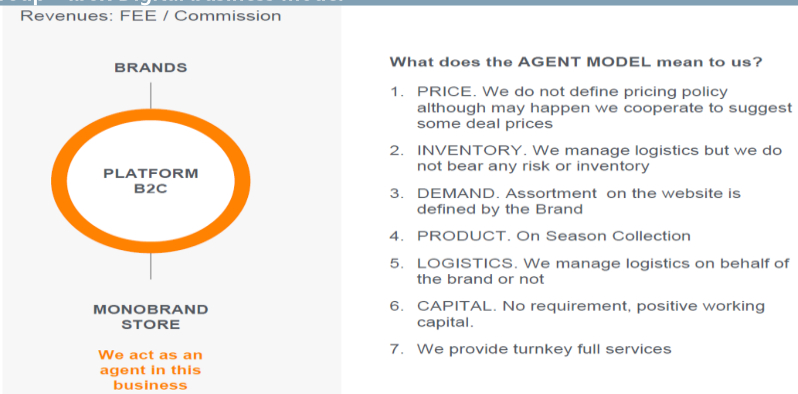
Ibox Digital

Ibox Digital is the B2C e-commerce division of the group. It follows every process step by step, from creativity to site promotion, from order processing to returns management and after-sales relationships with customers. The brands can also choose a "tailor-made" service by outsourcing certain services to Giglio, thanks to the modularity and flexibility of the offer proposed. In this business, Giglio operates as an 'agent', receiving a fee/commission for the provision of certain services that are agreed together with the brand according to their digital sales strategy.

The prices proposed are affected by many factors

The prices proposed are affected by many factors. Indeed, while on the one hand competitive pressure is high, the group aims to offer a high-quality service which can retain the customer brand for extended periods. Typically, service contracts have an annual duration, renewable and with short notice periods for resolution. The remuneration is equal to a commission fee on the total proceeds of sales to final consumers. Additional fixed fees are envisaged for the coverage of certain services mainly linked to the technological developments of the site. The applied prices may include different commission levels based on the volume of transactions processed.

Giglio Group – Ibox Digital business model



Source: Company data

This business unit is also not exposed to the risk of obsolescence of unsold or returned items because, pursuant to contractual agreements, the products returned by the end users are transferred to the client brand, which contextually issue a credit note.

Ibox Distribution

Ibox Distribution provides B2B solutions specialised in fashion's e-commerce

Ibox Distribution is the groups' business division which provides B2B solutions specialised in fashion's e-commerce managing stock of the on and off-season collections of Giglio's client brands and distributing them among top international digital retailers. Nowadays, the group has 46 customers, 50 distribution partnerships, and 300M users on web platforms reaching over 20 countries and three continents thanks to partnerships with major international marketplaces. Group customers include: Vente Privée, Yoox, Zalando, Private Sales, Amazon Buy Vip, Fashion Days. Typically, the agreements with these retailers are annual contracts, which regulate the product categories, brands and the applicable discount grid.

In this context, the price is highly sensitive to the degree of exclusivity or attractiveness of a specific brand in the market. The presence of the same type of product or the brand itself in alternative channels is also very relevant. The greater the desirability of the brand, the smaller the quantity of goods in circulation, and therefore higher sales prices. Greater pressure on prices is present on mature markets for consumers' taste or where luxury goods are readily available, and when competing operators are numerous and more active. Furthermore, the geographic location covered by the e-commerce platform determines different pressure on price, while price discrimination based on the online/off-line channel is low.

While in the B2C business segment the group acts as an 'agent', therefore receiving a fee/commission for the provision of services, in the B2B business segment Giglio operates as 'principal'. This means that it buys the stock directly from the brands and distributes them on the global e-commerce market, obtaining profits from the margin that it manages to apply between the purchase price from the brand to the price applied to retailers. It is thus essential to determine the initial price of the product, therefore the bargaining with the brand and retailers, and to carry out a thorough analysis of the reference markets to understand which products could support a more sustained demand.

Giglio Group – Ibox distribution business model

Source: Company data

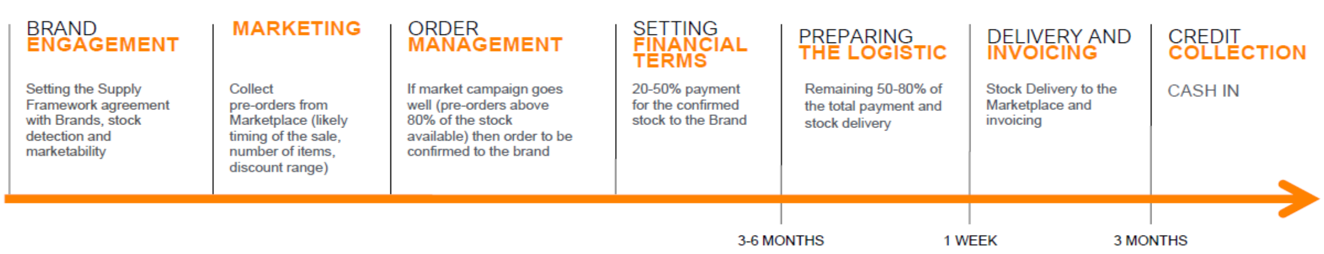
Giglio has an extensive distribution network

Given the international exposure of the brands with which Giglio works, the division's strategy has moved towards the creation of an extensive distribution network replicating the business model in North America and Asia. In particular, the group operates in America through the Boston (logistics base) and in Asia through the Shanghai logistic base (able to receive stock from China, Hong Kong, Singapore, Australia and Japan and distribute it in China and Asia with cross border operations).

The company stipulates contracts with local suppliers of logistics services (Italy for Europe, Boston for USA and Shanghai for Asia). The contract includes a minimum volume level for determining the economic value of the relationship, referable typically to the area occupied by storage, the number of managed codes, number of packages or pallets managed inbound, or the number of pieces managed outbound, with the payment of a guaranteed minimum linked to the expected average stock and the defined economic values.

Logistic operators are liable to Giglio for damages and shortages to goods in storage and are obliged to update inventories at least once a year. Warehouses are also responsible for the products handled and are covered by insurance whose ceilings are linked to the deposited values declared by the group. In addition, where it recognises that the franchise guaranteed by the local service provider is not congruent with the value of goods at risk of destruction (for fire or other causes), the group stipulates a specific policy in addition to the one received or completely replacing it. The company adopts a conservative approach to the management of this risk, given the impossibility of finding similar goods on the market and therefore, not being able to proceed with the shipment and sale to the customer.

Giglio Group – B2B trading model



Source: Company data

Agreement with Vertice 360

Media unit disposed of to Vertice 360

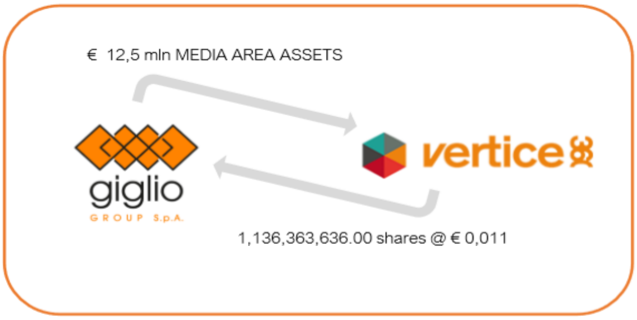
At the beginning of March 2019, the group announced the disposal of the Media BU, historically Giglio's core business, to Vertice 360, a Spanish company listed on the Madrid Main Exchange (VTSG), operating in the digital, cinema and broadcasting sector. The agreement provides for the transfer of Giglio's M3Satcom business unit, its television activities in Italy (television channel on digital terrestrial-LCN 68), and the Nautical Channel, to the Spanish company in exchange of 1.1Bn shares of the latter (valued at around EUR 12.5M according to a company press release). The operation is expected to be closed by 30 September 2019.

Giglio Group will have the right to appoint Alessandro Giglio as a member of the Board of Directors of the Vertice 360 BoD. This right will be lost if Giglio Group sells in the first year after the closing a number of shares greater than 20% of the shares involved in the transaction. Thanks this deal, Giglio has finalised the complete business transformation, re-focusing on e-commerce, while maintaining a partnership with a world-renowned media operator for the exploitation of synergies between e-commerce and media.

Giglio Group – The agreement with Squirrel Capital

GIGLIO
ASSETS

- TV channel 68 + minor
- 100% of M-Three Satcom
- 100% Nautical Channel
- TV contents and rights in China.



SQUIRREL CAPITAL

Squirrel Capital is the majority shareholder of Vertice 360, with 54.66% of its share capital.
It is the most important advertising and audiovisual group in the Spanish market, with strong coverage in Europe and South America. A digital agency managing exclusively the European budget of TRIVAGO.

VERTICE 360

Vertice 360, listed on Madrid's stock exchange market ever since 2007, operates on two main business lines: production and distribution of international audiovisual contents. It is a fast growing company

Source: Company data

Services Portfolio

Ibox digital services

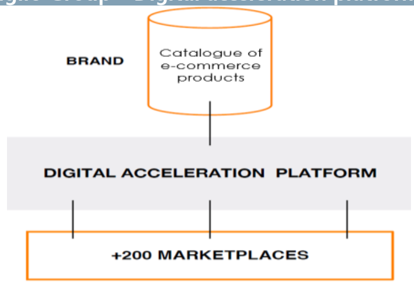
The group operates in the e-commerce B2C business through the Ibox digital division. The main services offered in this area are the following:

- Web design: creativity and design at the client's disposal to provide dedicated projects in line with the brand's style requirements. The structures used to create the digital platforms are always modular in format and thus able to meet all requirements for customisation and emotional engagement. Services provided include: creation of the corporate website and e-commerce platform, bespoke projects, creation of corporate and advertising banners, usability analysis;
- Technological platform: the group provides its customers with state-of-the-art technological systems constructed around the client's needs in order to support every stage of their online presence: from the platform that manages orders (the so-called Order Management System module, OMS) to the one that manages site content (the so-called Content Management System, CMS), both multilingual (Chinese and Russian included) and multi-currency, up to a Risk Management module. It also provides a professional hosting service on physical servers and in Cloud (shared remote servers) that guarantee optimal performances thanks to the speed and stability of the platforms made available;
- Web merchandising and photo-shooting: from the selection phase, in conjunction with the client, to the photo shoot and the drafting of engaging copy, the focus is on the characteristics that make each individual product special;
- Online store management: each client has a dedicated store manager to contact for all operations concerned with the e-commerce project;
- Web marketing: with the collaboration of specialised agencies, a specialised team can provide a complete media plan, implementing media and social network strategies. The group is responsible for improving the brand positioning on search engines and achieving turnover and brand awareness objectives through accurate identification of the target groups, synergetic omnichannel integration and a consistent online and offline presence;
- Analytics: Ibox integrates data produced by the e-commerce platform with the client's access data registered by Google Analytics and similar tools. This allows clients to access valuable and completely customised databases, which are always available and can be consulted independently and directly;
- Customer care: to support clients with a professional, multi-lingual service geared to sales requirements, information points and support for e-stores;
- Logistics and distribution: Ibox offers a widespread national and international logistics network, benefiting from agreements with major international couriers and postal services. The group deals with all the procedures relating to the receipt, processing and delivery of orders to end customers. The logistics services are completely outsourced, not incurring costs for their installation and maintenance, allowing a quick update compared to the dimensions required and used according to the volumes of business generated. The services are provided within the logistics structures in a separate and dedicated area, suitable for the safekeeping of the assets;
- Legal and financial services: the group provides technological systems that monitor the entire payment process. The tools provided allow the Brand customers to effectively cope with the legal and administrative needs of the different markets. The group also manages, on behalf of its clients, the opening of Italian and foreign online bank accounts, with the possibility of using the direct identification, payment control, order management and billing invoices, minimizing the risk of fraud and ensuring a high-level customer experience.

Giglio Group – Ibox digital clients

Source: Company data

Giglio Group – Digital acceleration platform



Source: Company data

Ibox Distribution services

On the B2B side, Giglio sees itself as a global marketplace for online fashion through the Ibox Distribution division. The main services offered are the following:

- Disposal of end of season stock: the group offers itself as a buyer of the stock directly to fashion brands, for subsequent resale to the most important digital global retailers;
- Sale of special lines produced specifically for e-commerce ("out of season"): this service is offered to companies that traditionally do not have stocks because they do not have a direct sales network but need to dispose of raw materials and/or reach minimum production quantities. Giglio supports the production by adding special lines designed to satisfy the demand for stock from e-commerce sites;
- "in season" distribution on e-commerce portals: according to the most traditional methods, Giglio also generates orders in season via catalogue or in the showroom during sales campaigns.

Giglio Group – B2B clients

America	Europe	Asia
Amazon, Bloomindel, Macy's,Century 21, Century 21 Outlets, Neiman Marcus, Sacks, Overstok, Beyond the Rack, Zulily, Haute Look, Nordstrom Outlet, Nordstrom Rack, Lastcall, Groupon, T.J. Maxx, Ruelala, Myhabit, Gilt, Bluefly	Zalando, Asos, Mr Porter, Net a Porter, Yoox, Nelly, Fashion Days, TK Max, Brand Alley, Vente Privee, Showroom Privee, Privalia, Vente, Exclusives, Brand 4 Friends, Dalani, Buy Vip, Zalando Lounge, Saldi Privati, Fashion Days, Kupi Vip, Members Shop, Members	Vip, AMAZON INDIA, FASHION AND YOU, JD, MEI, MYNTRA, JABONG, TRENDYOL, MARKA VIP, XIUPIN, XIU, VIP SHOP, SHANGPIN, ZHEN, YMATOU, AMAZON CHINA, JIAPIN, MATAHARI MALL, SECOO

Source: Company data

Strategy

All companies integrated in 2018

During 2018, Giglio finalised the complete integration of the companies acquired during the previous years' operating in e-commerce, hastening its transformation from media company to a global e-commerce group. The group has identified the assets which are no longer strategic in the Media segment, and set up their valorisation, also by means of disposals, in order to focus on the financial and professional resources in the e-commerce segment, which has become the core business. Giglio's management has identified the following main growth drivers:

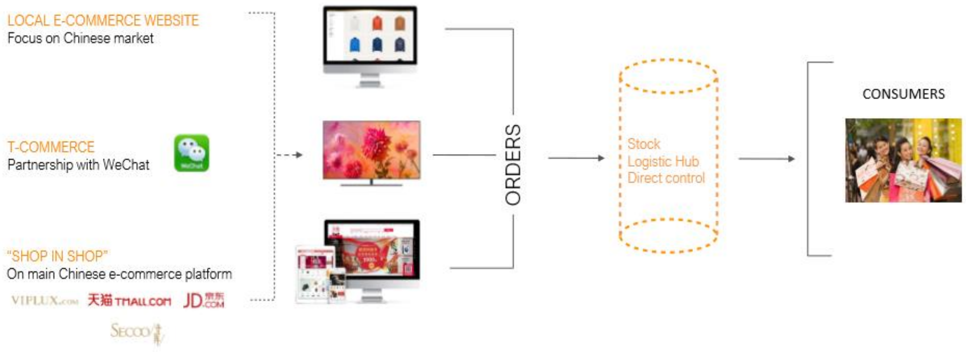
- Geographical expansion for current B2C and B2B brand clients (particularly the US and China), furthermore exploiting commercial synergies between customers of the single divisions;
- Consolidation of the B2B e-commerce channel in China, integrating it with the global B2B distribution platform;
- Acquisition of new Italian brands thanks to the competitiveness of the Ibox model-offer and to the effectiveness of the commercial model (both for B2C and B2B stock disposal);
- Development of a new B2C e-commerce platform in China integrated with multi-screen TV, in order to allow end users to directly purchase the products presented in the Group's television programmes;
- Opening of a direct multi-brand online retail channel able to act as an aggregator and global showcase for all those "made in Italy" luxury brands with high potential for international development.

Giglio Group aims to further develop Ibox

Giglio Group aims to strengthen Ibox and become the reference partner for the online business of Italian lifestyle brands (Fashion, Design and Beauty). To further strengthen the B2B business area dedicated to managing online sales of the on and off season collections, Giglio aims to further enrich the number of collaborations with fashion and lifestyle platforms at an international level. Ibox Distribution currently distributes 46 brands through 78 marketplaces in the world and by the end of 2019, plans to establish new agreements with other online platforms, both to consolidate the markets already manned (including the US, Russia, China and Australia), and to expand into emerging markets such as Latin America, India, the United Arab Emirates and Canada. In the United Arab Emirates, the group, which operates as a single player in this market segment, has just signed a new agreement with the reference marketplace Souq.com.

Based on its considerable expertise in China, it facilitates the quick start-up of online sales for brands. This is done through the development of an e-commerce site exclusively destined to the Chinese market and the creation of the brand's "shop in shop" on the main marketplaces, at both full and off prices. Thanks to its digital properties, combined with T-commerce on WeChat, Giglio has created and launched an innovative business model that integrates e-commerce and social media that is able to immediately transmit video content on the web and mobile. The strategy for the Chinese market can be strengthened and accelerated through the convergence of TV, Media and e-commerce channels. Thanks to the strong relationships established in the past, the customer brand can be presented on the entire Chinese network (TV, social, marketplace with over 100 million viewers) through editorial media in line with its positioning (increasing the Brand Awareness) and converting immediately into product sales through the Ibox marketplace. Today the group assures the e-commerce sales of any Brand in China with extremely optimised start-up costs and a fast time to market thanks to the ICP license, which allows it to directly operate B2C in China, to its own local team, which coordinates the entire e-commerce chain from strategy to digital marketing, to customer service, and by using a hub logistic in the free trade zone of Shanghai.

Giglio Group – Strategy for China



Source: Company Data

New 2019-20 Business Plan

New 2019-21 BP approved in March

At the beginning of March 2019, the Giglio BoD approved the new 2019-21 business plan which considers the effects of the disposal of the media BU. With the Business Plan, the Company equips itself with a tool that sets its strategic objectives within the ongoing transformation process, recognizing the main performance indicators of the e-commerce sector.

Financial highlight:

- Revenues 2021:> EUR 70M;
- EBITDA 2021:> EUR 9M, from EUR 7.8M in FY18;
- Total investments: between EUR 5M and EUR 7M;
- Net financial position expected to be zero at the end of 2021 (from EUR 19.2M net debt at December 2018).

Industrial Highlight:

- Gross Merchandise Value amounting to EUR 159M in 2021;
- +30 new brand clients by 2021.

The plan assumes the continuous development of the new technological platform started in 2018 Ibox), which allows greater scalability in terms of manageable transactions and speed of integration of brand systems with marketplace platforms. Furthermore, investments will be made for the development of the e-commerce platform in China, integrated with the groups technological structures developed in the country. The Business Plan considers an acceleration of the GMV (Gross Merchandise Value) at an annual rate of over 20%, both organic, in line with the expectations of the reference market (online sales of luxury fashion), and for new brand acquisitions, expected to increase sharply starting from 2019, based on the numerous and important negotiations underway.

Within the plan, management's objective is to almost doubling revenues, and gain a significant sustainable profitability in the long term. For the duration of the plan, the assumptions in terms of investments are rather cautious, but sufficient to support the technological set up plan of the e-commerce platform in China and the support of the distribution activities. The business plan provides for a strong improvement in the financial profile, counting on a positive operating cash generation and a strong control of working capital needed in support of B2B sales.

Market Analysis

Giglio Group has evolved to become an e-commerce operator in both B2C and B2B

Born as a media company, Giglio Group has subsequently evolved to become an active e-commerce operator in both B2C and B2B. This evolution resulted in the shift of the core business to e-commerce activities, with the media division which was disposed of in March 2019. For this reason, the reference market in which the group currently operates is e-commerce. In general, e-commerce is the purchase or sale of goods and services between individuals, companies, or organizations, carried out by a digital terminal (computer or smartphone) via the Internet or other telecommunications networks. Orders are transferred via a digital network, usually via a sales interface, while e-mails orders placed manually do not represent e-commerce. Thanks to the widespread diffusion of information and telecommunications technologies, to the increase in internet utilisation, and to progresses in logistics, e-commerce has become a mass phenomenon and its growth has been very rapid in recent years. Beyond the e-commerce market, the luxury fashion market also influences the group's operations, given the strategic choice to act exclusively as a digital enabler for fashion brands, thus being affected by the dynamics of this market.

E-commerce

According to official UNCTAD data, the global e-commerce market was worth over USD 25,000Bn in 2015, of which between USD 2,000Bn and USD 3,000Bn for B2C and over USD 22,000Bn for B2B, respectively about 3-4% and 30% of world GDP. If, on the B2B side, the US confirmed itself as a world leader with a value of over USD 6,000Bn, China represented the world's largest market for B2C, with a market value of over USD 600Bn, slightly surpassing the US. According to Politecnico di Milano re-elaborations on Forrester and eMarketer data, since 2015 (latest official statistics of the UNCTAD) the market has further grown at high growth rates, and in particular for the B2C there was a global 2015-17 CAGR of 23.1%, with China and the US as market leaders, followed by Japan and the UK.

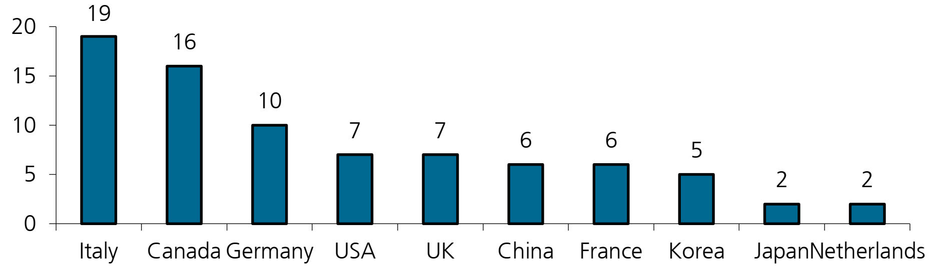
B2C e-commerce market value worldwide

EUR Bn	2014	2015	2016	2017	2014-17 CAGR %
China	445.7	587.9	660.5	752.4	19.1
USA	381.4	435.6	490.1	546.5	12.7
Japan	79.2	82.5	103.6	116.4	13.7
UK	76.8	91.6	95.3	101.6	9.8
Germany	55.8	62.1	68.5	75.1	10.4
France	46	50.9	56.7	62.7	10.9
South Korea	36.9	41.1	48.5	57.3	15.8
Brazil	23.1	26.5	30.4	33.7	13.4
India	-	18.3	22.4	27.9	23.5*
Russia	16.2	19.6	23	26.8	18.3
Italy	14.4	16.6	20.2	23.6	17.9
Spain	12.5	14.3	16.4	18.6	14.2
Sweden	8.6	9.3	10	10.8	7.9
Norway	7.5	8	8.6	9.3	7.4
Denmark	5.9	6.4	7	7.4	7.8
Finland	5.4	5.7	6.1	6.4	5.8
Global	-	1,550	1,915	2,350	23.1*

Source: Politecnico di Milano on Forrester and eMarketer data; *2015-17 CAGR

Two other very relevant statistics concern the value of the cross-border e-commerce market and the value of e-commerce as a percentage of GDP. Regarding the former, the most recent UNCTAD estimates indicate the value of B2C cross-border e-commerce of USD 189Bn in 2015 (7% of the total e-commerce B2C market). The cross-border percentage of the total e-commerce market is particularly relevant for a traditionally export country like Italy. The latter, in fact, although characterised by a small B2C e-commerce market (equal to USD 17Bn in 2015) is the country in which cross-border e-commerce weighs more (19%), followed by Canada and Germany.

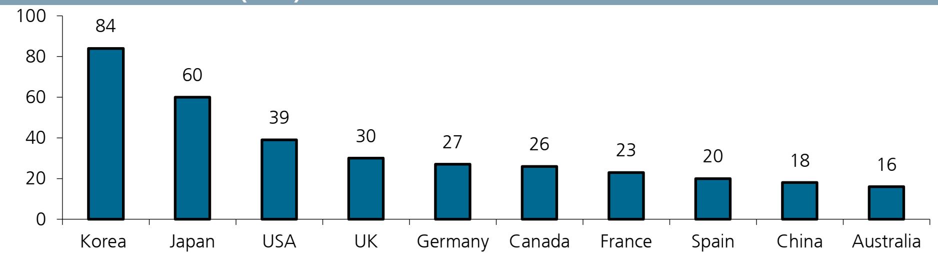
% of Cross Border e-commerce on total e-commerce (2015)



Source: UNCTAD

Although the US and China are the world's leading global e-commerce markets, they are very different considering the total value of e-commerce (B2C and B2B) in relation to GDP, where the US is more than double that of China (39% vs. 18%). This measure can be read as an indicator of the extent to which e-commerce is used and its margin of expansion.

e-Commerce on % of GDP (2015)



Source: UNCTAD

From a companies' angle, a recent Politecnico di Milano survey, established a connection between e-commerce and the size of European companies. In all the countries considered, the percentage of companies with e-commerce increases with size (measured by the number of employees). The size is therefore strongly associated with the use of e-commerce, so it is not surprising that in countries such as Italy, with a large distribution of small/mid-sized companies, the percentage of companies that sell online is relatively low. However, there is another relevant aspect that emerges from the data: the diffusion of e-commerce among companies is heterogeneous even with the same size class. For example, large Italian companies show a much lower adoption of e-commerce than the large companies in the most digitalised countries; in particular, large Italian companies have a propensity to sell online, if not lower, to small businesses in countries such as the UK, Germany and other Northern European countries. There are therefore two problems that contribute to the low use of e-commerce by companies: the first concerning the average size of companies, given that smaller companies have more difficulty with online sales; the second relates to the fact that the propensity of companies to use e-commerce is linked to the development of ICT and the existence of digital skills in the country in which they operate.

Italy lags behind its EU peers in terms of digitalization

This trend is also confirmed by our recent study carried out on IT[1], in which we showed that Italy, despite a positive trend in the digital market and in company stances to 'digital transformation', lags behind its EU peers in terms of digitalization. In the 2018 DESI index, a composite index focusing on connectivity, human capital, use of internet services, integration of digital technology, and digital public services, Italy came in at the bottom end of the ranking, with a gap in terms of connectivity (even if NGA coverage is improving) and human capital, but with a more aligned positioning in the Integration of Digital Technologies and in Digital Public Services.

In 2016, according to World Bank data, almost 100% of individuals use the Internet in Iceland, Norway and Denmark, over 90% in the UK, Korea, Japan, Sweden and the United Arab Emirates, 80% overall in the European Union, 76.2% in the US, and 53.2% in China. In Italy, only 61.3% of the population use internet, well below the European average. Within this percentage, only 28% of individuals make purchases online, compared to countries such as

[1] IT Day – Increasingly Digital – Intesa Sanpaolo Research department

Germany and UK where this percentage stands at 82% and 73% respectively. In addition to the degree of digitisation of a country, the development of e-commerce is also influenced by other factors such as:

- Technological evolution, which, with the diffusion of digital and mobile devices and the multiplication of touchpoints, has redesigned the purchasing process that, from linear and unidirectional, has become multi-channel, characterised by an intertwining of independent activities carried out by the user both online and off-line. According to data provided by GlobalWebIndex (2013) indeed, over 85% of consumers stated that the web is part of the decision-making process that precedes the purchase of a product;

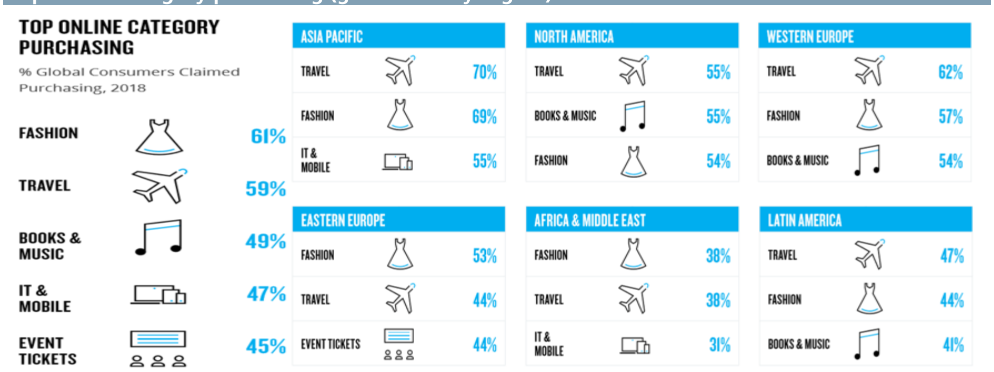
- User profiling: the collection and effective systemising of data, has become a central process for marketing activities, allowing companies to maximise the value of individual customers over time;

- Social and mobile commerce, which should become increasingly more relevant, making it possible to further exploit information on users available on social networks, and guaranteeing an increasingly quick and simple purchase operation.

About 53% of the global population are connected to the internet according to Nielsen

According to Nielsen data, about 53% of the global population (about 4Bn people) are connected to the internet and almost 93% of them via mobile devices. Every day there are over 3Bn users connected to the internet who spend an average of 6.5 hours online. Fashion products are the most purchased online, followed by travel and books & music. Data that are also confirmed by the Politecnico di Milano, which points out that at the European level the sectors with the highest number of online consumers are those of Fashion (43% of Internet users), followed by tourism (36%), household goods (31%), event tickets (26%) and books and magazines (24%).

Top online category purchasing (global and by region)

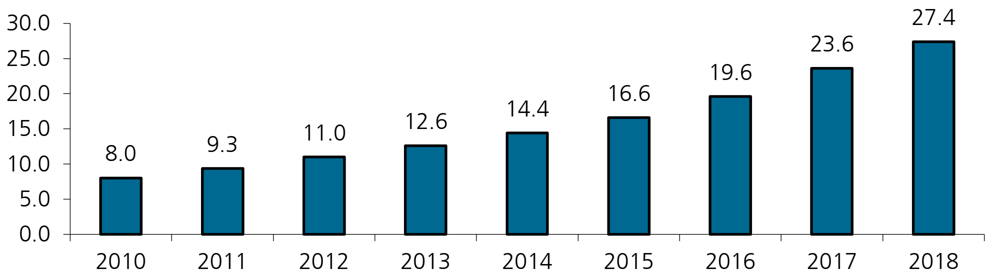


Source: Nielsen 2018

Italy

Within Europe there is a difference between northern and southern countries. Italy has a low diffusion of e-commerce: only 44% of Internet users make online purchases, well below the European average of 68% (source EUROSTAT). The weighting of e-commerce on total purchases in Italy is 5.7%, lagging behind the main EU markets, such as the UK, France, and Germany, where online exchanges are two to four times higher. Despite this deficit, the e-commerce market has grown strongly in recent years in Italy: the **B2C** e-commerce Observatory of the Politecnico di Milano estimated that the value of the B2C market has risen from EUR 12.6Bn in 2013 to EUR 27.4Bn in 2018, a growth of over 100% in 5 years. The number of people who have made at least one online purchase increased by 10% between 2016 and 2017, from 20M to 22M. Among these, the usual buyers, i.e. those who buy online at least once a month, are approx. 16.2M. This category of consumer spends on average EUR 1.4k per year generating 93% of Italian e-commerce demand. The remaining 7% is instead determined by the 5.8M sporadic buyers who spend an average of EUR 284 in a year.

e-Commerce B2C market value in Italy (EUR Bn)



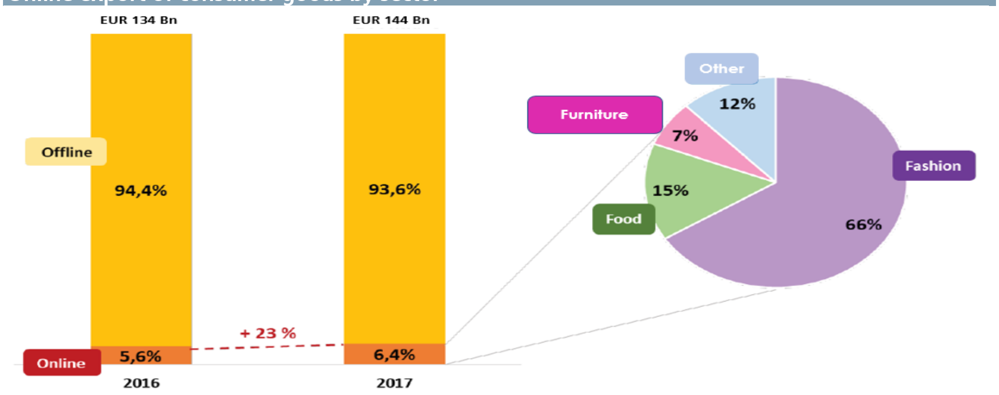
Source: Osservatorio eCommerce B2c Netcomm - School of Management Politecnico di Milano

In 2017, the number of online purchases of physical products exceeded that of services, and accounted for 52% of the total B2C e-commerce with a turnover of EUR 12.2Bn. This figure is very important as it is more complex to sell physical products online rather than some types of dematerialised services, showing that Italian e-commerce is slowly "evolving". In the most mature e-commerce countries, in fact, the weighting of online purchases of physical products reaches up to 70%. In Italy, the online product demand mainly comprises consumer electronics, worth EUR 4Bn, and clothing (clothes, shoes and accessories), worth EUR 2.5Bn.

As for **B2B,** according to an estimate of the Osservatorio Fatturazione Elettronica ed eCommerce B2B on Istat and Aida data, the turnover of Italian companies realised through B2B exchanges weighs much more than B2C. B2B weighed almost 75% for a value of EUR 2,650Bn of the total turnover of Italian companies, which was EUR 3,600Bn in 2016. Overall, in 2016 the B2B e-commerce market value was worth approximately EUR 310Bn in Italy (Osservatorio Fatturazione Elettronica ed eCommerce B2B), which, compared to the total transactions of goods and services between companies, highlighted a strong increase in margins for the future. The main sectors involved in B2B e-commerce are the automotive sector, with a value of EUR 80Bn and a 70% weighting on total sector trade; consumer goods, EUR 65Bn with a 20% weighting, pharmaceutical, EUR 18Bn and a 67% weighting, and the textile-fashion, EUR 10Bn and a 17% weighting.

So far only the Italian e-commerce demand has been considered. According to ISTAT data in 2017, of the total Italian companies active in web sales for the manufacturing industry, 95.7% was sold to customers' resident in Italy. 45.8% sold to users residing in the European Union, while 25.7% were aimed at customers in other parts of the world. There is a small proportion of online businesses that use e-commerce only for export (4.3%), and a larger one, approximately 28.5%, which uses e-commerce only in Italy. In some sectors the use of digital is much more widespread than in others. In B2C, for example, clothing/fashion is the most digitized sector with 66.7% of businesses selling in Europe and 37.5% selling outside Europe. Similar percentages are recorded for the manufacture of electronics and optics products and electromedical equipment. Combining both direct export (Italian operators) and indirect export (foreign operators), the most important sector is fashion which accounts for 66% of total exports, followed by food & grocery with 15%, and furniture with 7% (source: Politecnico di Milano).

Online export of consumer goods by sector



Source: Osservatorio Export, Politecnico di Milano, 2017

China

China is the largest e-commerce market in the world, and is where the group wants to further develop its business in the coming years. Looking at the recent macroeconomic trend, the Chinese economy continues to be characterised by high growth rates although the GDP slowed from 1.6% qoq in 3Q18 to 1.5% qoq in 4Q18. Therefore, year-on-year growth has gone from 6.5% yoy in the previous quarter to 6.4% yoy in 4Q. 2018 closed with a 6.6% growth, in line with the government target. The reacceleration of the industrial sector, supported by the rebound in construction, was not enough to offset the slowdown in the agricultural sector and especially the service sector. According to our Macroeconomics Research department the risks for 2019 are based on a downturn and they are mainly the result of the international escalation of the trade war.

In ten years, China has become one of the largest markets in the world for consumer goods after the United States and Japan. Population growth, the progressive urbanisation and the expansion of the middle class (expected to double in 2020) are clearly the main drivers of the mass consumption spike in the country (source SACE). In 2017, according to Forrester, the value of B2C e-commerce transactions in China was worth EUR 752Bn, about 32% of the global B2C e-commerce market value. The number of buyers also increased between 2016 and 2017 (+10%), and represent more than 40% of the Chinese population. Almost 38% of Chinese online shoppers (221M) are also cross-border buyers, who buy online products or services offered by foreign sites or by special cross-border Chinese platforms. CorriereAsia (on-line Asian news provider) highlighted the factors that most contributed to the rapid spread of e-commerce:

- Low internet access costs: the Chinese government, within its medium-term plan to modernise the country, has reduced the prices for access to the network, favouring the rapid spread of broadband and consequently the growth in the number of users connected every day. Alongside the benefits of the fixed network, the conspicuous use of smartphones among the population has greatly contributed to the phenomenon of purchasing through online portals;

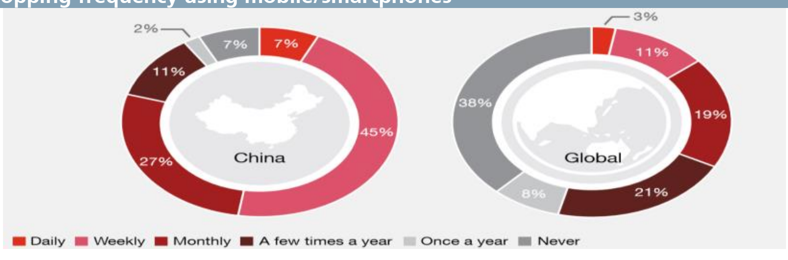
- The geographical conformation: the vastness and heterogeneity of the country does not favour a widespread distribution of large distribution chains. This entailed, in addition to a fragmentation of the retail sector, a disaffection of customers to the various retailing brands preferring online platforms such as Taobao or Tmall;

- The greater quantity and variety of products offered: the limited diffusion on a national scale of large retailer chains generally determines the presence, in Chinese cities, of only local products. On the other hand, online commerce allows consumers to have easy and immediate access to products and brands often not available locally;

- The ability of online retailers to overcome problems of distrust by consumers. The online resale platforms such as Taobao and Tmall have introduced efficient payment systems, such as Alipay, as an alternative to the classic credit cards. Moreover, the possibility of reviewing the supplier has ensured greater reliability of the seller, stemming the phenomenon of fraud and favouring an increase in transactions.

The market is highly concentrated, with the first two operators holding 84% of the market and the first four more than 90% (source: iResearch), while the most used channel for purchasing is a mobile device (73% of total transactions), in contrast to western markets where the purchase via "desktop" plays a predominant role. The graph below shows the results of a survey conducted by PWC regarding the frequency of purchases through mobile devices.

Online shopping frequency using mobile/smartphones



Source: PWC

Linked to the use of mobile devices, there is the ever-increasing use of social media by Chinese consumers. According to a PWC survey, 29% of Chinese consumers use social media to see what brands, celebrities or KOLs (Key Opinion Leaders) are endorsing, as compared to 13% globally. PWC also asked a basket of the population their source of inspiration for purchases, and the results are shown in the picture below.

Online media platform as a source of inspiration for purchases

Source: PWC

According to Fitch Solutions, China has one of the largest upper-income (household disposable income of USD 75k+) consumer bases globally and the largest of any emerging market, with 1.9M households falling into this income-bracket in 2019. This number should reach 4.5M by 2023, making the market more attractive than other emerging markets with a propensity for luxury spending such as Saudi Arabia, UAE and Russia.

In January 2019, a comprehensive e-Commerce law also came into effect, aimed at contrasting China's image as the world's largest counterfeit product market. This law should give online consumers greater protection by regulating the registration and licensing of e-commerce operators, taxation, electronic payment, e-Commerce disputes resolution as well as intellectual property protection.

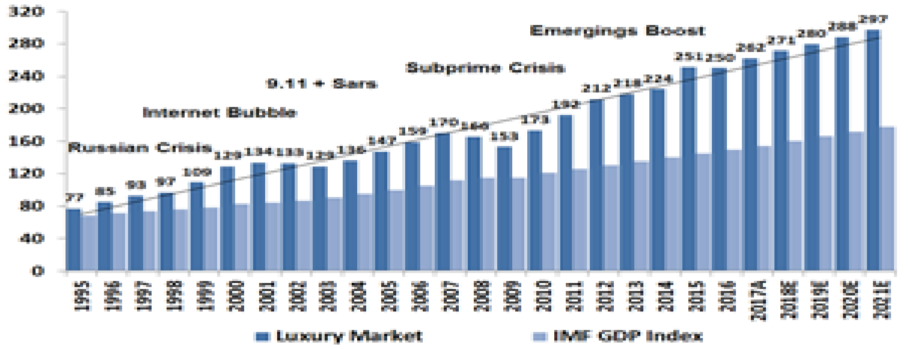
The luxury market trend

According to Bain & Company, the market for personal luxury goods reached a record high of EUR 260Bn in 2018, representing a 6% growth (2% at current exchange rates). Growth has been registered across most regions, driven primarily by more robust local consumption (up 4% globally at current exchange rates). In contrast, purchases among tourists remained flat on average. Overall, shoes and jewellery were the top luxury growth categories, gaining 7% each, followed by handbags and beauty. The retail channel grew 4% in 2018, with three-quarters of that increase coming from same-store sales growth. The wholesale channel only grew 1%, hampered by department store performances and a slowdown among specialty stores facing tough competition from the online channel.

Online luxury shopping continued to accelerate in 2018, growing 22% to nearly EUR 27Bn; it now represents 10% of all luxury sales. The Americas market made up 44% of online sales, but Asia is emerging as a new growth engine for luxury online, slightly ahead of Europe. Accessories remained the top category sold online, ahead of apparel. The beauty and "hard luxury" (jewellery and watches) categories were both on the rise. The biggest online channels for luxury sales were e-tailers, brands' own websites and retailers' websites.

In a previous analysis of historical trends in 1995-2012 for both the luxury market size and global GDP, our Research Department derived a correlation rate of 2.7x. This ratio is almost stable at 2.9x in our actual 1995-2017 analysis, confirming a stabilisation of the 'Emerging Boost' effect in our view. In our 2017E-21E assumptions, we maintain a discount of 20% to this correlation rate, thus maintaining a more cautious consumption attitude compared with the past (due to Luxury vs. world GDP growth correlation (1995-2017)

Luxury market & world GDP growth (EUR Bn)



Source: Intesa Sanpaolo Research elaboration on IMF and Bain&Co data

In terms of outlook for the Luxury sector, we expect the market to reach approx. EUR 300Bn in 2021E or a CAGR of 3.2%, supported by the "Asian market cycle" with a potential upside risk, in the case of disappearing tariff tensions or for a strong rebound in Japan and Europe in 2019.

As key-sector drivers, we continue to see millennials entering the market, influencing other generations as the main potential growth engine. The rising Chinese middle class is clearly further positive support as is the steady consumption increase in the mature markets. According to Fitch Solutions, young adults (20-39 years old) should account for 29% of the population in China in 2019, corresponding to approximately 415M people. This age group is made up of consumers who tend to pursue more aspirational lifestyles in line with the latest trends seen on social media platforms. Furthermore, this age group tends to be more tech-savvy, including high rates of adoption of mobile payment services like Alipay and WeChat Pay, and therefore are more likely to use online shopping for their luxury purchases.

A new mantra is the competitive environment, with the battle for market share as a key issue and the digital presence as a prerequisite for sales and mostly for communication. We think the losing and winning brands will be defined by tailored strategies and upgraded value propositions, together with a harmonisation of distribution channels, with the online channel confirmed as playing a key role.

Competitive Positioning

The competitive landscape on the national market primarily comprises national and international e-commerce service providers (so-called e-commerce service providers), but can be extended to all e-commerce and digital service companies. Following the Netcomm classification, management identified four different categories of e-commerce players' competitors:

- E-commerce service provider: this category includes all the operators who manage digital on behalf of third parties, jointly establishing the digital strategy of the brand and relieving customers of the burden of having to internally equip heavy operating structures, as well as defining part of the commercial guidelines;
- Brand with own online store: this category includes all the online stores managed independently by the same producers of the brand. These are realities that, believing strongly in the e-commerce market, have decided to internally develop departments aimed at strategic and operational digital management. Giglio offers B2C e-commerce solutions in outsourcing, i.e. it is appointed to install and manage an online sales system on behalf of the brand;
- Marketplace (eg. Amazon, eBay): by being "online shopping centres", these digital aggregators offer brands and their retailers the possibility of displaying their products on their site, with levels of customisation, of the commercial strategies and of the positioning of the products, wide in terms of decisional freedom. Giglio management considers the group presence in marketplaces as fundamental in the development of its strategy to support online sales of brand customers. The group is currently able to connect its commercial structure with the main marketplaces at a global level, therefore considering them not as competitors but as

alternative distribution channels, offering the service of aggregation of e-commerce portals and integration with brand systems;

- Multi-brand online retailers (eg. Ynap): usually specialised in a particular sector, such as clothing, electronics and food, they correspond to multi-brand stores and traditional supermarkets. Unlike the marketplaces, these companies buy the goods from the producers and then sell them on their site according to commercial and distribution strategies taken almost autonomously, Giglio acts as a supplier thanks to the capabilities of its B2B e-commerce division.

Starting from the above positioning, management believes that the group can progressively stand out for the following aspects, a synthesis of the e-commerce 4.0 model "ibox" currently being implemented:

- Consolidated customer portfolio of national and international global standing brands;
- Commercial proposition towards current and potential customers' brands: i) the group operates as an e-retailer, buying the goods and assuming the risk of unsold; ii) completeness and modularity of the offer that allows each brand to flexibly configure its online presence based on its objectives and resources;
- Production of high quality digital content, with a specialisation in the "made in Italy" luxury sectors. Highlighting the effectiveness of video as interactive content capable of generating engagement, the digital content produced by Giglio is an effective tool for triggering "conversion" towards online purchasing, as well as contributing to customer loyalty;
- Consolidated collaboration with the major "in season" marketplaces in the world (by way of example - Amazon, Zalando, Asos) allows Giglio to optimise the sales potential of the brand, expanding the potential customer reach;
- Solid B2B partnership with the most important global e-tailers (eg. private sales sites such as Vente-privee, Privalia) ensures that customers of the Giglio Group can effectively dispose of their inventories ("out of season");
- Development of a strategic presence on WeChat, the main Asian social network owned by Tencent, to access a community of over 800M mobile users (of which more than 55.5% usually buy online, via mobile (source: Tencent 2016) and to benefit from the integrated payment system in the application;
- Scalability of the service offered to customer Brands mainly thanks a widespread logistics network and a warehouse in the Shanghai free trade zone;
- Customer Care service in 8 languages, several time zones (Europe, Asia, USA) and multichannel (email, telephone, live chat) able to provide targeted support to customers.

Giglio Group – Competitor landscape

	E-COMMERCE VOLUME (GMV)	MARKETPLACE CAP	GEOGRAFY	SALES CHANNELS MONOBRAND	SALES CHANNELS THIRD PARTY	SALES CHANNELS T-COMMERCE	SALES CHANNELS SOCIAL	SALES CHANNELS OWN MARKET
Farfecht	USD 900M	6 billion USD	Global	✗	✗	✗	✓	✓
Giglio	EUR 75M	60 million Euro	Global	✓	✓	✓	✓	✓
Yoox	EUR 3Bn	2 billion Euro	Global (no China)	✓	✗	✗	✗	✓
Zalando	EUR 4Bn	8,3 billion Euro	Global (no China)	✗	✗	✗	✗	✓
SRP	EUR 659M	200 million Euro	Global	✓	✗	✗	✗	✗

Source: Company data

Farfetch. Farfetch Ltd. Provides a technology platform for the luxury fashion industry. It operates through the following segments: Farfetch Marketplace, Farfetch Black and White, Farfetch Store of the Future, and Browns stores. The Farfetch Marketplace runs Farfetch.com website and app. The Farfetch Black and White Solutions relates to white label website solution for luxury brands. The Farfetch Store of the Future delivers technology solutions to retail outlets. The Browns stores are involved in the management of luxury boutiques. Its products include womenswear, menswear, kidswear, vintage, fine watches, and fine jewellery (source Factset).

Yoox. YOOX Net-A-Porter Group SpA engages in the fashion electronic commerce business. It operates through the Multi-brand and Mono-brand segments. The Multi-brand segment includes activities relating to the multi-brand online stores yoox.com, thecorner.com, and shoescribe.com. The Mono-brand segment comprises the exclusive design, creation and management of the online stores of some of the top global fashion brands (source Factset).

Zalando. Zalando SE operates online retail stores, which offer fashion apparel, shoes and accessories for women, men and children (source Factset).

SRP. SRP GROUPE SA engages in the online selling of fashion items, beauty products, household appliances, decorative products and travels. It operates its business through its subsidiary Showroomprivé.com Sarl (source Factset).

SWOT Analysis

Strengths

- By shifting the core to e-commerce, Giglio is operating in a fast-growing business, which is also expected to further grow in the next years;
- Strategic presence in China, supported by solid partnerships with WeChat, Secoo and Mei.com (Alibaba group);
- International logistics coverage which allows the speeding up of destocking operations, and the rapid collection and delivery of products;
- Integrated offer able to propose to brand clients the complete access to e-commerce, from website creation to product placement on the major marketplaces in the world;
- "Made in Italy" fashion brands have a strong resonance globally;
- Experienced management team.

Weaknesses

- The group's e-commerce revenues are concentrated on a limited number of customers: i) in B2C the first customer accounts for 54.1% of BU revenues and the first five for 83.5%; and ii) in B2B, the first customer accounts for 31.4% and the first five for 73.4% of BU revenues (9M17 data);
- Strong pressure on working capital in the B2B division as there is, on average, a 6 months' asymmetry between the purchase of the products from brands and the following sale to marketplaces and/or end users;
- The marketplace segment is dominated by large international players, who have greater bargaining power with customers;
- Significant investments in capex to support development.

Opportunities

- Developing and expanding the brand client base targeting "Made in Italy" luxury fashion brands;
- Expansion into other countries through partnership agreements and/or M&A, in order to improve and expand the offer proposition;
- The new e-commerce law in China should sustain and boost consumer demand for fashion brands in the country, given its objective to fight against counterfeiting;
- Luxury fashion brands are increasing their online sales, which are expected to gain further relevance in the coming years;
- New partnerships with other marketplaces;
- New generations tend to be more tech-savvy, including high rates of adoption of mobile payment services, and therefore are more likely to use online shopping for their luxury purchases.

Threats

- The e-commerce market is characterised by constantly increasing competition and growing players' consolidation. Furthermore, some companies in the fashion industry may decide to internalise the services currently provided by B2C e-commerce players;
- If some brand clients fail to anticipate and respond quickly to newly changing fashion trends in consumer tastes, the groups business could be slowed down;
- Downturn in the fashion industry market.

Source: Intesa Sanpaolo Research estimates

Recent Results

With the recent divestment of the media division, the group has completed its repositioning as a pure e-commerce player. The 2018 results were therefore reported by alienating the media portion and reflecting only the e-commerce activities. In relation to the disposal of the media activities, it should be highlighted that the 2018 financial statements include all the capital losses, while it excludes the capital gains achieved, which will be recorded in FY19 financial statements.

We also recall how the newly approved business plan, in the wake of the strong increase in Gross Merchandise Value (equal to zero in 2016), provides for the doubling of 2018 transactions (equal to EUR 75.7M), to reach over EUR 150M at the end of 2021, with an EBITDA margin expected above 12% in the same year.

FY18 P&L figures

- The Gross Merchandise Value (GMV) went from EUR 51.1M at the end of FY17 to EUR 75.7M in FY18, + 48% growth yoy**. IFRS 15 consolidated revenues** amounted to EUR 39M, up 27% yoy;
- Total **operating costs** from continuing operations, net of non-recurring costs, amounted to EUR 34.7M (EUR 27.6M in FY17). The increase is mainly attributable to the rise in product purchase costs, in costs for services and lease costs;
- **EBITDA** from continuing operations, normalised by non-recurring charges (EUR 0.9M) and the effects of IFRS 5[2], was EUR 1.2M (EUR 2.4M in FY17), due to higher costs related to: i) the development of the Ibox platform; ii) the increase of commercial personnel; iii) and the expenses connected with the start-up of the activities in China;
- **Net result from continuing operations,** normalised by non-recurring charges and the effects of IFRS 5, is equal to EUR 0.1M (EUR 1.9M in FY17) and does not consider the EUR 2.8M profit related to the disposal of the Media division, which will be recorded in the 2019 financial statements. The disposal of the media business in 2019 will result in a substantial reduction in D&A, given the low level of capital invested needed for e-commerce activities, with significant positive effects on EBIT;
- **Net loss** for the period was EUR 8.3M, down compared to breakeven in FY17, due to the negative result (EUR -7.3M) deriving from the activities destined for sale.

The above financial data were presented retrospectively applying the effects deriving from the application of IFRS 15 and IFRS 5, without representing the consolidation of the IBOX Group (formerly Evolve). In the following table, we also include the pro-forma figures as at 31 December 2017, including the consolidation of IBOX (formerly Evolve) starting from 1 January 2017.

[2] According to a group press release, under the provisions of IFRS 5 accounting standards "Non-current assets held for sale and discontinued operations ", the economic results of the media sector were represented as "Discontinued operations". However, it is noted that the separated representation of discontinued operations pursuant to IFRS 5 provisions refers only to third-party relations, without prejudice to the elimination of intra-group relations. In this way, a distortion in the separation of the values between continuing and discontinued operations is determined, which, on an economic level, determines the penalisation of one or the other, more relevant the higher the intra-group economic relations of the discontinued sectors. For the purpose of eliminating said distorting effects, the group has restored inter-company operations toward discontinued operations, for a better representation of the continuing operations' results.

Giglio Group – FY18 P&L key figures	2017A**	2017A*	2018A	17* vs. 18 yoy growth (%)	17** vs. 18 yoy growth (%)
Revenue	35.32	30.7	39.0	26.9	10.3
revenue from discontinued operations	1.6	1.6	0.7	NM	NM
Revenue Adjusted	**36.9**	**32.3**	**39.6**	**22.7**	**7.3**
Operating Costs	-31.0	-27.6	-34.7	25.8	12.1
Labour Costs	-2.9	-2.3	-3.7	57.1	25.0
EBITDA Adjusted	**3.0**	**2.4**	**1.2**	**-47.8**	**-58.9**
margin (%)	8.5	7.7	3.2		
Non-recurring expenses	-1.7	-1.7	-0.9	NM	NM
D&A	-0.3	-0.2	-0.3	NM	NM
EBIT	**1.0**	**0.4**	**0.0**	**NM**	**NM**
Financial Expenses	-0.6	-0.6	-1.1	NM	NM
Taxes	0.4	0.4	0.1	NM	NM
Net result from continuing operations	0.8	0.2	-1.0	NM	NM
Net result from discontinued operations	-0.1	-0.1	-7.3	NM	NM
Net Profit	**0.6**	**0.0**	**-8.3**	**NM**	**NM**

** FY17 consolidated figures restated, applying effects from application of IFRS 15 retrospectively; *2017 pro-forma consolidated figures restated, applying effects from application of IFRS 15 retrospectively, in addition to the effect from the acquisition of the Evolve Group. NM: not meaningful; Source: Company data

Balance Sheet

In accordance with the requirements of IFRS 5, the group has not restated the balance sheet figures as at 31 December 2017. Therefore, the comparative figures do not represent assets and liabilities destined for disposal and relating to the Media BU.

The key figures are the following:

- **Net invested capital** was equal to EUR 27.6M (EUR 31.4M in 2017), and consists mainly of fixed assets for EUR 15.4M (EUR 29.8M in 2017), net working capital for EUR 1.9M (EUR 1.9M in 2017), and of net invested capital of assets held for sale for EUR 9.9M. Tangible fixed assets amounted to EUR 1.5M and are mainly attributable to specific plants relating to the previous Media division and still instrumental to the development of T-commerce in China. Intangible fixed assets were EUR 12.3M (EUR 22.7M in FY17) and are linked to the goodwill relating to the acquisitions of Giglio Fashion and Evolve;
- The **group net equity** was EUR 8.4M (EUR 16.7M in FY17);
- **Net Financial Position** stands at EUR 19.2M, showing an increase of EUR 4.4M vs. FY17, mainly attributable to the increase in working capital to support the development of e-commerce activities, and the payment of some non-recurring costs.

Giglio Group – FY18 balance sheet key figures			
EUR M	2017A	2018A	yoy %
Fixed assets	29.8	15.4	-48.3
Net working capital managerial	-6.1	-6.3	3.4
Other working capital	7.8	8.5	10.2
Net invested capital destined to sale	0.0	9.9	NM
Net invested capital	**31.4**	**27.6**	**-12.3**
Group shareholders' equity	16.7	8.4	-49.6
Net financial debt	14.8	19.2	29.9
Total cover	**31.4**	**27.6**	**-12.3**

NM: not meaningful; Source: Company data

Earnings Outlook

We expect Giglio to grow total revenues from EUR 39M in 2018A to EUR 74.9M in 2021E (2018-21E CAGR of 24.4%). These expectations are based on the following assumptions:

- We assume a 20% increase in the customer base every year, a 100% client renewal rate and a 5% increase in value per contract. Our renewal rate assumption is based on the fact that currently Giglio's e-commerce revenue comes from a few brands, where it has strong relationships;
- Strengthening of Giglio’s sales force, which should allow the company to increase the number of customers;
- Significant increase in the number of fashion brands that will decide to offer their products online and will also want to expand through this tool in other markets, such as China.

Looking at profitability, we expect Giglio to increase adjusted EBITDA from EUR 1.2M in 2018 to EUR 9.8M in 2021E, which implies a margin on revenues at 13.1% in 2021E. The increase in margin over the years is mainly due to the increase in transaction volumes and a streamline in fixed costs thanks to the disposal of the media activities, and lower development costs for the technological platform Ibox (which were mainly incurred during FY17 and FY18).

We highlight that during FY17 and FY18 the group has incurred high costs related to the development of the Ibox platform and from the start-up of activities in China. These costs should be diluted over time as the company increases sales volumes.

We estimate D&A to be line with FY18, given the lower need for capital of e-commerce activities. Overall, we expect net profit to grow from a EUR 8.3M loss in 2018 (incorporating the net loss from discontinued operations related to the Media business) to EUR 8.1M in 2021E.

In B2B e-commerce activities there is a 6 months’ asymmetry on average, between the purchase of the products from brands and the following sale to marketplaces and/or end users. Therefore, we expect an increase in working capital requirements due to the increase in transaction volumes.

Financials

Giglio Group - P&L key items (2018A-21E)				
EUR M	2018A	2019E	2020E	2021E
Sales	39.6	49.6	61.7	74.9
YoY change (%)	22.7	25.2	24.4	21.4
EBITDA	1.2	4.4	6.8	9.8
YoY change (%)	NM	NM	53.6	44.2
EBITDA margin (%)	3.1	8.9	11.0	13.1
EBIT	0.0	4.2	6.6	9.6
YoY change (%)	NM	NM	56.2	45.5
EBIT margin (%)	0.0	8.5	10.7	12.8
Net profit	-8.3	6.9	5.2	7.6

NM: not meaningful; Source: Intesa Sanpaolo Research estimates

Giglio Group - Balance Sheet key items (2018A-21E)				
EUR M	2018A	2019E	2020E	2021E
Fixed assets	15.4	16.2	18.0	20.3
Net working capital managerial	-6.3	-6.9	-9.3	-11.2
Other working capital	18.5	9.9	6.2	7.5
Net invested capital	27.6	19.2	14.9	16.5
Group shareholders' equity	8.4	15.3	20.4	28.0
Net financial debt	19.2	3.9	-5.5	-11.4
Total cover	27.6	19.2	14.9	16.5

Source: Intesa Sanpaolo Research estimates

Giglio Group - Funds flow key items (2018A-21E)				
EUR M	2018A	2019E	2020E	2021E
Net fin debt beg of year	14.8	19.2	3.9	-5.5
Net income	-8.3	6.9	5.2	7.6
Depreciation	1.2	0.2	0.2	0.2
Change in working capital	-10.5	9.2	6.1	0.7
Operating cash flow	-17.5	16.3	11.4	8.4
Capex	0.6	-1.0	-2.0	-2.5
Investments	0.0	0.0	0.0	0.0
Disposals	12.5	0.0	0.0	0.0
Free cash flow	-4.4	15.3	9.4	5.9
Dividends	0.0	0.0	0.0	0.0
Other movements	0.0	0.0	0.0	0.0
Cash flow	-4.4	15.3	9.4	5.9
Net fin debt end of year	19.2	3.9	-5.5	-11.4

Source: Intesa Sanpaolo Research estimates

Giglio Group - Key data					
Rating	Target price (EUR/sh)	Mkt price (EUR/sh)	Sector	Free float (%)	Reuters Code
BUY	Ord 6.2	Ord 3.37	Information Technology	34.4	GGTV.MI

Values per share (EUR)	2017A	2018A	2019E	2020E	2021E
No. ordinary shares (M)	16.04	16.04	16.04	16.04	16.04
No. NC saving/preferred shares (M)	0.00	0.00	0.00	0.00	0.00
Total no. of shares (M)	16.04	16.04	16.04	16.04	16.04
Market cap (EUR M)	86.88	73.09	54.06	54.06	54.06
Adj. EPS	0.00	-0.52	0.43	0.32	0.47
CFPS	0.02	-0.49	0.44	0.33	0.48
BVPS	1.0	0.52	0.95	1.3	1.7
Dividend ord	0	0	0	0	0
Income statement (EUR M)	**2017A**	**2018A**	**2019E**	**2020E**	**2021E**
Revenues	32.29	39.62	49.60	61.72	74.92
EBITDA	2.36	1.23	4.42	6.79	9.79
EBIT	0.41	0.00	4.22	6.59	9.59
Pre-tax income	-0.17	-1.08	6.86	6.44	9.44
Net income	0.04	-8.26	6.86	5.15	7.55
Adj. net income	0.04	-8.26	6.86	5.15	7.55
Cash flow (EUR M)	**2017A**	**2018A**	**2019E**	**2020E**	**2021E**
Net income before minorities	0.0	-8.3	6.9	5.2	7.6
Depreciation and provisions	2.0	1.2	0.2	0.2	0.2
Others/Uses of funds	0	0	0	0	0
Change in working capital	1.2	-10.5	9.2	6.1	0.7
Operating cash flow	3.2	-17.5	16.3	11.4	8.4
Capital expenditure	-9.8	0.6	-1.0	-2.0	-2.5
Financial investments	0	0	0	0	0
Acquisitions and disposals	0	12.5	0	0	0
Free cash flow	-6.6	-4.4	15.3	9.4	5.9
Dividends	0	0	0	0	0
Equity changes & Other non-operating items	2.1	0	0	0	0
Net cash flow	-4.5	-4.4	15.3	9.4	5.9
Balance sheet (EUR M)	**2017A**	**2018A**	**2019E**	**2020E**	**2021E**
Net capital employed	31.4	27.6	19.2	14.9	16.5
of which associates	0	0	0	0	0
Net debt/-cash	14.8	19.2	3.9	-5.5	-11.4
Minorities	0	0	0	0	0
Net equity	16.7	8.4	15.3	20.4	28.0
Minorities value	0	0	0	0	1.0
Enterprise value	101.6	92.3	57.9	48.5	43.6
Stock market ratios (x)	**2017A**	**2018A**	**2019E**	**2020E**	**2021E**
Adj. P/E	NM	Neg.	7.9	10.5	7.2
P/CFPS	348.9	Neg.	7.7	10.1	7.0
P/BVPS	5.2	8.7	3.5	2.6	1.9
Payout (%)	0	0	0	0	0
Dividend yield (% ord)	0	0	0	0	0
FCF yield (%)	-7.6	-6.0	28.3	17.4	10.9
EV/sales	3.1	2.3	1.2	0.79	0.58
EV/EBITDA	43.0	74.8	13.1	7.1	4.5
EV/EBIT	NM	NM	13.7	7.4	4.5
EV/CE	3.2	3.3	3.0	3.3	2.6
D/EBITDA	6.2	15.5	0.88	Neg.	Neg.
D/EBIT	36.1	9,582.0	0.92	Neg.	Neg.
Profitability & financial ratios (%)	**2017A**	**2018A**	**2019E**	**2020E**	**2021E**
EBITDA margin	7.3	3.1	8.9	11.0	13.1
EBIT margin	1.3	0.0	8.5	10.7	12.8
Tax rate	NM	6.9	NM	20.0	20.0
Net income margin	0.1	-20.9	13.8	8.4	10.1
ROCE	1.3	0.0	22.0	44.2	58.0
ROE	0.3	-65.8	58.0	28.9	31.2
Interest cover	0.7	0.0	27.1	44.8	65.2
Debt/equity ratio	88.4	227.9	25.5	-27.1	-40.9
Growth (%)		**2018A**	**2019E**	**2020E**	**2021E**
Sales		22.7	25.2	24.4	21.4
EBITDA		-47.8	NM	53.6	44.2
EBIT		-99.5	NM	56.2	45.5
Pre-tax income		NM	NM	-6.1	46.6
Net income		NM	NM	-24.9	46.6
Adj. net income		NM	NM	-24.9	46.6

NM: not meaningful; Neg.: negative; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

MID CORPORATE

Italy is characterised by a large number of non-listed and listed micro, small and medium-sized companies. Looking at the revenues of these Italian companies, around 5,000 companies have revenues ranging from EUR 50M-EUR 1,500M based on Intesa Sanpaolo elaborations. We define these companies as 'Mid Corporate'. Looking more specifically at Italian listed companies, we include in our Mid Corporate segment all STAR companies and those with a market capitalisation below EUR 1Bn.

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Long-term rating	Definition
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TARGET PRICE	The market price that the analyst believes the share may reach within a one-year time horizon
MARKET PRICE	Closing price on the day before the issue date of the report, as indicated on the first page, except where otherwise indicated

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Target price and market price trend (-1Y)

Initiation of Coverage

Historical recommendations and target price trend (-1Y)

Initiation of Coverage

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Intesa Sanpaolo Research Rating Distribution (at February 2019)					
Number of companies considered: 107	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage relating to last rating (%)	53	21	23	2	1
of which Intesa Sanpaolo's Clients (%) (*)	84	41	36	0	100

(*) Companies on behalf of whom Intesa Sanpaolo and the other companies of the Intesa Sanpaolo Group have provided corporate and Investment banking services in the last 12 months; percentage of clients in each rating category

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Equity rating key (short-term horizon: 3M)

Equity rating key (short-term horizon: 3M)	
Short-term rating	Definition
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