

CELLULARLINE

BUY

Price (Eu):

7.90

Target Price (Eu):

12.40

SECTOR: Consumers

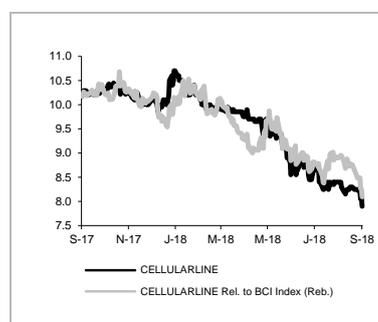
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Weak 1H18 results affected by negative domestic CE channel dynamics

- Weak 1H18 results affected by declining Italian sales, which suffered from the negative performance of the CE distribution channel.** 1H18 sales came to Eu57mn (down -11% YoY), with a positive contribution from European countries (Spain and France), while Italy suffered from negative dynamics in the CE channel, coupled to one-off costs in the period. We note that the CE channel accounted for 67% of revenues in 2017. In addition to these negative effects, the structural shift in the seasonality trend for sales from the first to the second half of the year had a further adverse impact. First-half adjusted EBITDA was Eu8mn (adj. for goodwill, business combination costs, and other one-offs), and EBIT was -Eu5.3mn. After a handy positive tax contribution, adjusted net profit came to Eu3.9mn (-21% YoY) and net debt as at the end of June decreased to Eu31mn (vs Eu65mn net debt at YE17).
- Turbulence in the Consumer Electronics channel is the headwind pressing on annual growth.** In 1H18, a few Italian retailers have closed and others have undertaken turnaround plans involving the closure of some points of sale and the implementation of destocking policies. While some of these points of sales may well be reopened by stronger players, we think these events are the reason for Cellularline's weak 1H18 sell-in, which would have been stable overall excluding these non-recurring elements. On the other hand, Cellularline should have been able to grow in the Telco channel.
- Management confident of a stable 2H18 and a strong recovery starting from next year.** We think 2H18 could see a better trend that limits the decline in the FY18E Italian turnover to just a few percentage points, albeit still wider than our previous Italian forecasts. Estimate revision (roughly around -5% for FY18E revenues) is also reflected on margins. On the other hand, management's strategic plan points to a positive outlook for the following business areas: (i) European sales with new distribution agreements in Spain (telco) and Switzerland; (ii) the audio division via the launch of the AQL brand; and (iii) the launch of new value-added services, Glass&Go and Case&Go. Moreover, the Italian CE and MM channels should start to recover from 2019, thanks in part to new distribution agreements expected to be completed soon for complementary products by significant international brands. Our new estimates are supported by management indications that point to stable 2H18 revenues and EBITDA, and to a Eu15mn annual contribution from recently signed contracts expected to start next year.
- BUY reiterated; target price to Eu12.4 from Eu12.8.** Given that our fair value is calculated as the average of a DCF and peer comparison model on 2019, we have marginally adjusted our target price from Eu12.8 to Eu12.4. We reiterate our positive view on the stock as we have confidence in management's ability to take prompt countermeasures to recover from this momentary weakness by as early as 2019.

CELLULARLINE - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): from 12.80 to 12.40

Change in EPS est:	2018E	2019E
	-8.6%	-0.7%

STOCK DATA

 Reuters code: CELL.MI
 Bloomberg code: CELL IM

Performance	1m	3m	12m
Absolute	-6.0%	-8.1%	-22.3%
Relative	-9.3%	-9.0%	-19.9%
12 months H/L:	10.70/7.90		

SHAREHOLDER DATA

No. of Ord. shares (mn):	23
Total No. of shares (mn):	23
Mkt Cap Ord (Eu mn):	179
Total Mkt Cap (Eu mn):	179
Mkt Float - ord (Eu mn):	109
Mkt Float (in %):	61.0%
Main shareholder:	
Private Equity funds	14.0%

BALANCE SHEET DATA

	2018
Book value (Eu mn):	96
BVPS (Eu):	4.26
P/BV:	1.9
Net Financial Position (Eu mn):	-22
Enterprise value (Eu mn):	201

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Key Figures	2016A	2017A	2018E	2019E	2020E
Sales (Eu mn)	164	166	160	173	183
Ebitda (Eu mn)	39	39	19	40	42
Net profit (Eu mn)	8	11	7	17	16
EPS - New Adj.(Eu)	1.016	1.044	1.137	1.304	1.281
EPS - Old Adj.(Eu)	1.016	1.044	1.245	1.313	1.284
DPS (Eu)	2.646	0.000	0.000	0.000	0.000
Ratios & Multiples	2016A	2017A	2018E	2019E	2020E
P/E Adj.	7.8	7.6	6.9	6.1	6.2
Div. Yield	33.5%	0.0%	0.0%	0.0%	0.0%
EV/Ebitda Adj.	5.3	6.2	5.5	4.3	3.5
ROCE	12.9%	16.9%	3.2%	22.0%	25.9%

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CELLULARLINE - KEY FIGURES

		2016A	2017A	2018E	2019E	2020E
	Fiscal year end	31/12/2016	31/12/2017	31/12/2018	31/12/2019	31/12/2020
PROFIT & LOSS (Eu mn)	Sales	164	166	160	173	183
	EBITDA	39	39	19	40	42
	EBIT	19	23	4	25	27
	Financial income (charges)	(3)	(2)	(2)	(2)	(1)
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	17	21	2	23	25
	Taxes	(9)	(10)	4	(7)	(9)
	Tax rate (%)	53.4%	48.2%	-186.6%	28.1%	35.6%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	8	11	7	17	16
	Total extraordinary items	(4)	(0)	(17)	0	0
	Ebitda excl. extraordinary items	39	39	36	40	42
	Ebit excl. extraordinary items	36	36	34	38	39
Net profit restated	23	24	26	29	29	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	23	23	23	23	23
	EPS stated fd	0.349	0.470	0.298	0.744	0.722
	EPS restated fd	1.016	1.044	1.137	1.304	1.281
	BVPS fd	5.074	2.898	4.264	5.008	5.729
	Dividend per share (ord)	2.646	0.000	0.000	0.000	0.000
	Dividend per share (sav)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)	758.0%	0.0%	0.0%	0.0%	0.0%
CASH FLOW (Eu mn)	Gross cash flow	27	27	12	32	32
	Change in NWC	3	(4)	(0)	(2)	(3)
	Capital expenditure	(3)	(2)	(3)	(3)	(3)
	Other cash items	(0)	0	(3)	0	0
	Free cash flow (FCF)	29	21	23	28	26
	Acquisitions, divestments & others	0	0	0	0	0
	Dividend	0	(60)	0	0	0
	Equity financing/Buy-back	0	0	37	0	0
Change in Net Financial Position	27	(39)	43	28	26	
BALANCE SHEET (Eu mn)	Total fixed assets	87	72	60	47	34
	Net working capital	55	59	60	62	65
	Long term liabilities	(1)	(1)	(1)	(1)	(1)
	Net capital employed	141	130	118	108	98
	Net financial position	(26)	(65)	(22)	6	32
	Group equity	115	66	96	113	129
	Minorities	0	0	0	0	0
Net equity	115	66	96	113	129	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	179	179	179	179	179
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(26)	(65)	(22)	6	32
	Enterprise value	205	244	201	173	147
RATIOS(%)	EBITDA margin*	23.6%	23.8%	22.7%	23.4%	23.1%
	EBIT margin*	21.6%	21.5%	21.0%	21.7%	21.5%
	Gearing - Debt/equity	22.8%	99.2%	22.9%	-4.9%	-24.3%
	Interest cover on EBIT	7.8	9.3	2.4	16.5	20.5
	Debt/Ebitda	0.67	1.65	1.14	nm	nm
	ROCE*	12.9%	16.9%	3.2%	22.0%	25.9%
	ROE*	7.1%	11.8%	8.3%	16.1%	13.4%
	EV/CE	1.4	1.8	1.6	1.5	1.4
	EV/Sales	1.2	1.5	1.3	1.0	0.8
	EV/Ebit	5.8	6.8	6.0	4.6	3.7
Free Cash Flow Yield	16.4%	11.9%	12.7%	15.5%	14.6%	
GROWTH RATES (%)	Sales	2.3%	0.7%	-3.2%	8.0%	5.6%
	EBITDA*	3.5%	1.3%	-7.6%	11.3%	4.3%
	EBIT*	6.3%	0.2%	-5.5%	11.4%	4.7%
	Net profit	-16.2%	34.7%	-36.6%	149.7%	-3.0%
	EPS restated	4.1%	2.7%	8.9%	14.6%	-1.7%

* Excluding extraordinary items

Source: Intermonte SIM estimates

1H18 Results

Cellularline – 1H18 Results

P&L (EuMn)	1H17A	1H18A	YoY %
Total Value of Production	65.8	59.3	(9.8%)
Total costs	(55.6)	(56.1)	
EBITDA adjusted	11.3	8.0	(29%)
% margin	17.2%	13.5%	
D&A (incl. GW)	(8.103)	(8.514)	
EBIT	2.1	(5.3)	nm
% margin	3.1%	(9.0%)	
Net financial exp/income	(0.7)	(0.4)	
Pretax profits reported	1.3	(18.6)	nm
Taxes	(2.6)	9.7	
Minorities	0.0	0.0	
Net profit reported	(1.3)	(8.9)	nm
% margin	(1.9%)	(14.9%)	
Net Profit adjusted	5.0	3.9	(21%)
% margin	7.6%	6.6%	

Source: Company data and Intermonte SIM

Change in estimates

Cellularline – Change in estimates

(Eu m)	2017A	2018E	2019E	2020E
Value of production new	165.6	160.3	173.0	182.8
Value of production old		168.5	174.5	183.2
% change		(4.9%)	(0.8%)	(0.2%)
% YoY		(3.2%)	8.0%	5.6%
EBITDA recurring new	39.4	36.4	40.5	42.2
EBITDA recurring old		39.8	40.8	42.3
% change		(8.5%)	(0.8%)	(0.2%)
% YoY		(7.6%)	11.3%	4.3%
EBIT recurring new	23.0	21.0	24.9	26.6
EBIT recurring old		24.2	25.2	26.7
% change		(13.2%)	(1.2%)	(0.3%)
% YoY		(8.5%)	18.3%	7.0%
Pretax profit recurring new	20.5	19.4	23.4	25.3
Pretax profit recurring old		22.6	23.7	25.4
% change		(14.2%)	(1.3%)	(0.4%)
% YoY		(5.7%)	20.9%	8.3%
Net profit restated new	23.6	25.7	29.5	29.0
Net profit recurring old		28.1	29.7	29.0
% change		(8.6%)	(0.7%)	(0.2%)
% YoY		8.9%	14.6%	(1.7%)

Source: Intermonte SIM

SWOT Analysis

Strengths

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

Opportunities

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

Weaknesses

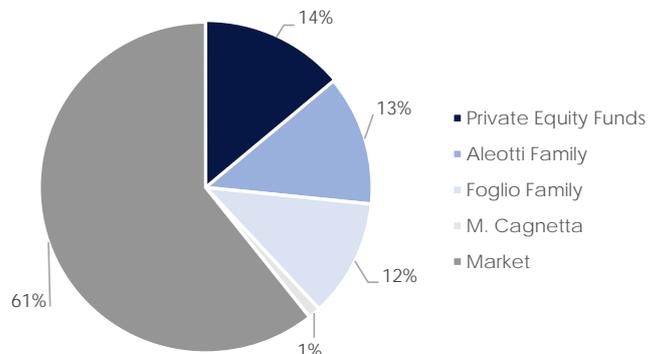
- **High competition** among product categories for which differentiation is more difficult;
- **Online** is still an underpenetrated channel by the company;
- **Dependence** on external producers for product manufacturing;
- **Limited diversification** of sourcing in terms of geographical area (Guandong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

Threats

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

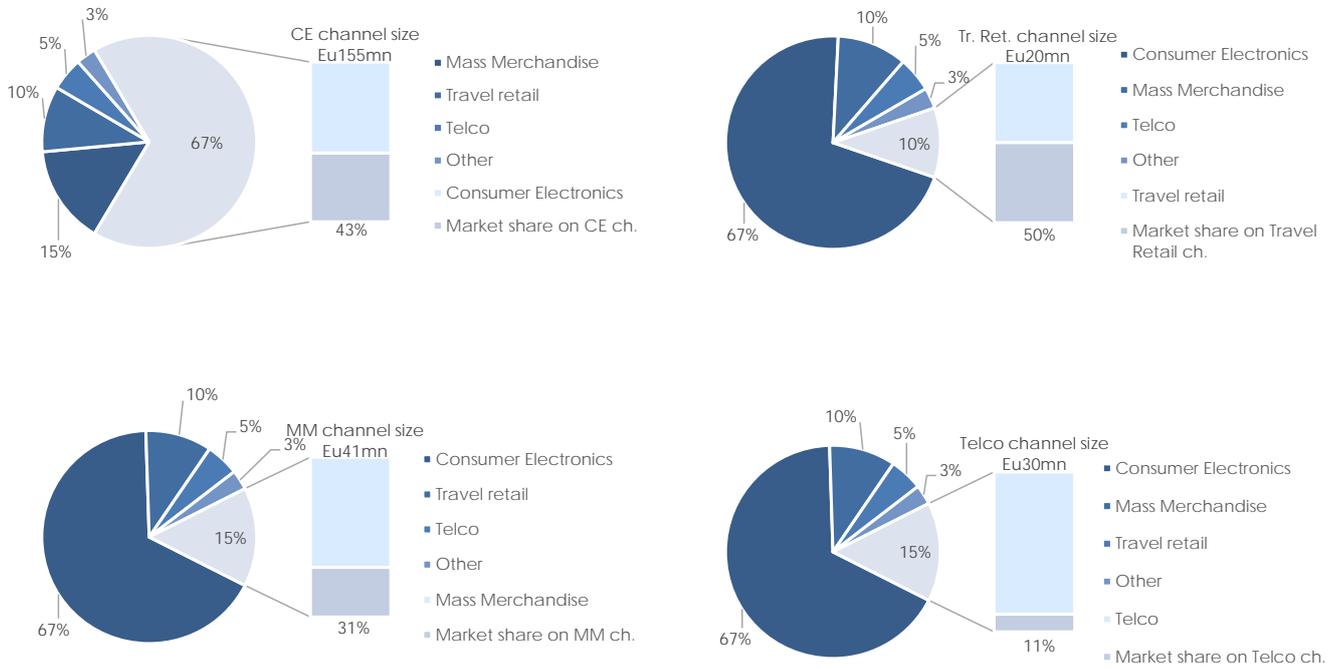
Source: Intermonte SIM

Cellularline – Ownership (based on voting rights)



Source: Intermonte SIM

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



Source: Company data

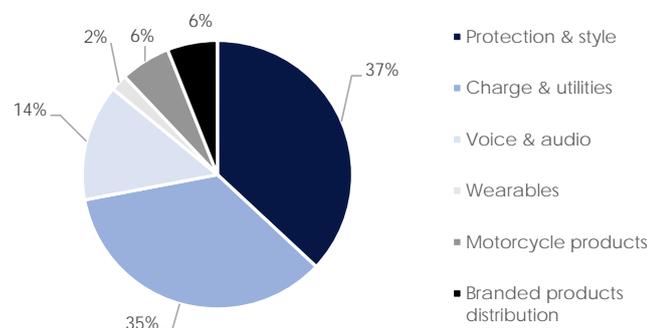
Business

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

Product portfolio

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

Sales breakdown by product category (on 9M17 sales)



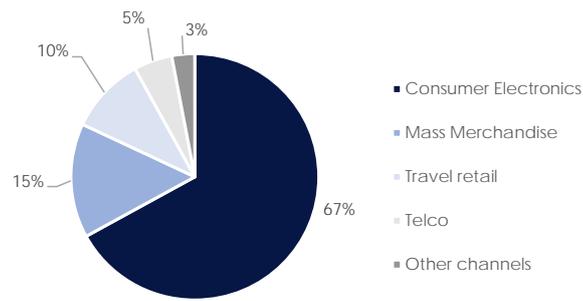
Source: Company presentation

Distribution channels

Cellularline products are mainly sold through five distribution channels:

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

Sales breakdown by distribution channel (on 9M17 sales)



Source: Company presentation

Value chain

Cellularline value chain



Source: Company data

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

- (iii). Creation and provision of advertising materials for the Cellularline product displays at each sales point in order to increase visibility and cross-selling potential; to this end Cellularline provides training to point of sale staff;
- (iv). Planning related promotional material: seasonal/special offers, leaflets and flyers, online advertising banners, pop-ups or layers.

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

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

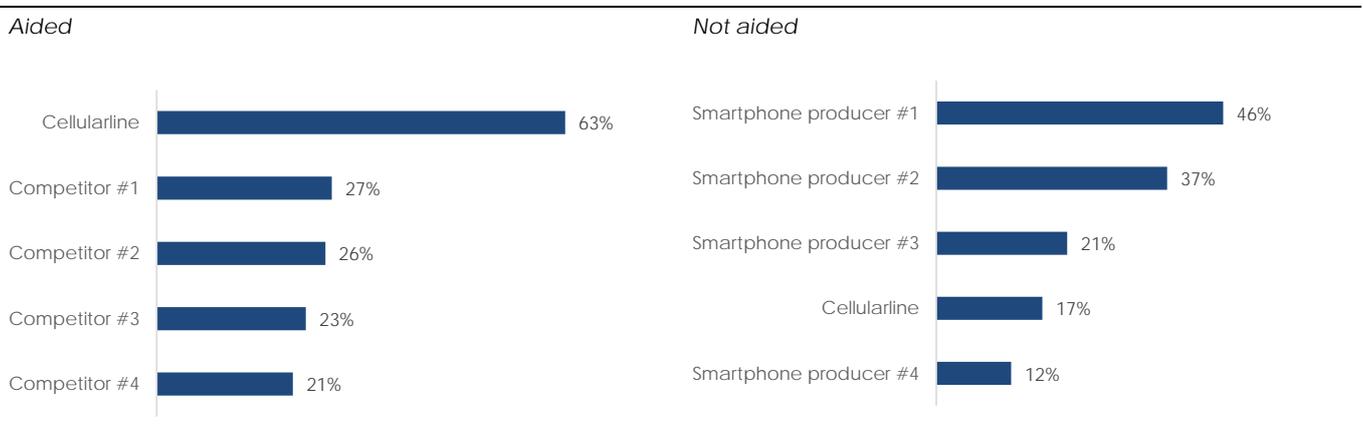
In particular, the company has implemented an IT system that feeds management and all the relevant divisions with data on current sales trends, almost in real-time as there is a week's delay, for more than 3,000 points of sale. This data provides management with first-hand knowledge of how products are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

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

Brand recognition

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

Brand recognition in Italy among competitors specialized in smartphone accessories



Source: Company data based on ad-hoc research

CELLULARLINE Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
CELLULARLINE	7.90	EUR	179	-6.0%	-8.1%	-20.2%	-21.8%	-22.3%	-20.8%
ACCO BRANDS	11.45	USD	1,196	-8.4%	-16.4%	-6.1%	-6.1%	-6.5%	20.7%
FILA	17.60	EUR	726	-5.9%	0.6%	2.6%	-10.6%	-4.9%	39.7%
PLANTRONICS	59.58	USD	2,367	-12.7%	-22.3%	8.6%	18.3%	34.1%	15.5%
ZAGG	14.85	USD	418	-7.2%	-15.1%	22.2%	-19.5%	-3.3%	95.4%
Mean performance				-8.0%	-12.3%	1.4%	-7.9%	-0.6%	30.1%
Italy FTSE Mib	21,511.1	EUR		3.4%	-0.2%	-3.1%	-1.6%	-4.9%	33.3%

Source: FactSet

CELLULARLINE Peer Group - Multiple Comparison

Stock	Price	Ccy	Mkt cap	EV/Sales	EV/Sales	EV/Ebitda	EV/Ebitda	EV/Ebit	EV/Ebit	P/E	P/E	Div Yield	Div Yield
				2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
CELLULARLINE	7.90	EUR	179	1.3	1.0	5.5	4.3	6.0	4.6	6.9	6.1	0.0%	0.0%
ACCO BRANDS	11.45	USD	1,196							8.5	7.8		
FILA	17.60	EUR	726	1.8	1.6	10.8	9.2	13.3	11.1	17.7	14.5	0.7%	0.9%
PLANTRONICS	59.58	USD	2,367							14.0	9.8		
ZAGG	14.85	USD	418	0.7	0.5	4.8	3.9	6.7	5.3	10.6	9.6		
Median				1.2	1.1	7.8	6.6	10.0	8.2	12.3	9.7	0.7%	0.9%

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

DETAILS ON STOCKS RECOMMENDATION

Stock NAME	CELLULARLINE		
Current Recomm:	BUY	Previous Recomm:	BUY
Current Target (Eu):	12.40	Previous Target (Eu):	12.80
Current Price (Eu):	7.90	Previous Price (Eu):	9.40
Date of report:	28/09/2018	Date of last report:	07/06/2018

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

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

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

Frequency of research: quarterly.

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Explanation of our ratings system:

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

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

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

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

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

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

CURRENT INVESTMENT RESEARCH RATING DISTRIBUTIONS

Intermonte SIM is authorised by CONSOB to provide investment services and is listed at n° 246 in the register of brokerage firms. As at 29 Giugno 2018 Intermonte's Research Department covered 160 companies.

Intermonte's distribution of stock ratings is as follows:

BUY:	14,10 %
OUTPERFORM:	41,67 %
NEUTRAL:	39,10 %
UNDERPERFORM	05,13 %
SELL:	00,00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (51 in total) is as follows:

BUY:	15,69 %
OUTPERFORM:	58,82 %
NEUTRAL:	25,49 %
UNDERPERFORM	00,00 %
SELL:	00,00 %

CONFLICT OF INTEREST

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

within the last year, **Intermonte SIM** managed or co-managed/is managing or is co-managing an Institutional Offering and/or managed or co-managed/is managing or is co-managing an offering with firm commitment underwriting of the securities of the following Companies: Alkemy, Banca Ifis, Banca Sistema, Cattolica Assicurazioni, Capital For Progress 2, Emak, Nova RE, Space4, Somec.

Intermonte SIM is acting as placement agent in Il Sole 24 Ore's capital increase with an agreement with the company for the publication of an equity research regarding the company and the transaction. Intermonte will receive fees from the company for its activity as placement agent.

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Emittente	%	Long/Short
CAPITAL FOR PROGRESS 2	1,69	LONG
FULLSIX	0,73	LONG
OLIDATA	0,88	SHORT
SOFTEC	0,74	LONG
WASTE ITALIA	0,61	SHORT

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