

CELLULARLINE

BUY

SECTOR: Consumers

Price (Eu):

7.25

Edoardo Girelli, CFA +39-02-77115.369
e-mail: edoardo.girelli@intermonte.it

Target Price (Eu):

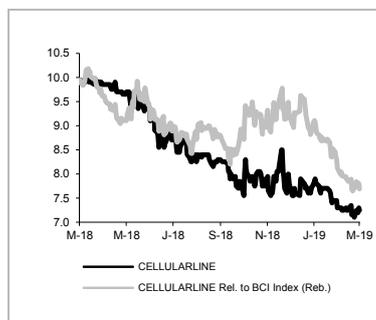
11.50

Andrea Randone +39-02-77115.364
e-mail: andrea.randone@intermonte.it

Plenty of Irons In The Fire in 2019, Including An Unexpected Dividend

- Weak Italian market and CE turnaround policies dragged FY18 results down.** Cellularline reported FY18 results that were slightly weaker than expected, with the top line down 7% YoY (vs -3.2% expected) to Eu130mn. The decline was mainly attributed to the weak Consumer Electronics (CE) channel in Italy, which caused an Eu8mn drop in revenues, almost the entire top line shortfall. The overall Italian CE sector underwent a phase of deep restructuring during the first 2-3 quarters of 2018, featuring destocking policies and turnaround plans in order to cope with growing competition coming from the internet channel. Costs, net of PPA and one-off business combination expenses, remained flat YoY. Adjusted EBITDA was also hindered by weaker sales/customer mix, coming to Eu34mn (vs Eu36mn exp.), while reported EBIT was Eu19mn including extraordinary costs. The negative impact was partly counteracted by the positive Patent Box contribution to taxation. Adjusted net profit reached Eu23mn (-3% YoY), below our Eu25.7mn estimate. Net debt was in line at Eu22mn, and the company set an unexpected DPS of Eu0.30 on 2018 accounts (a 26% payout ratio).
- First 2 months of FY19 posted +15% YoY sales growth.** We think the CE sector restructuring that affected the company's performance in 2018 was a non-recurring headwind, and the 2018 revenues shortfall should drive a surge in 2019 sales. On top of this, newly-launched initiatives should enhance the rebound, as seen from AQL, which has gained very positive feedback across the European market. New businesses include services like (i) Glass&Go and (ii) Case&Go, but most importantly the (iii) original accessories distribution (Huawei, Samsung), (iv) the integration of the newly acquired company Systemaitalia and (v) the recent distribution agreement on the Mass Merchandise channel in France with DS Distribution Nord, which brings diversification both by geographical market and channel.
- New estimates forecast a rebound in the next two years (+13% 2019-20 CAGR) thanks to M&A and new distribution agreements.** We have adapted our financial estimates to new accounting standards, and included both new distribution agreements and the recent acquisition that should deliver a considerable contribution in the future. Specifically, we expect revenues to benefit greatly from the agreements with Samsung and Huawei, although they should dilute margins, and from the contribution of Systemaitalia and the synergies entailed. We forecast revenues to grow at a +10% 2018-21 CAGR. After correcting for weak FY18 figures, and remaining cautious on profitability improvements, we are cutting our 2019-20 adj. EPS estimates by 12% on average, as well as publishing expectations for 2021.
- BUY confirmed; target trimmed to Eu11.50.** After including our new estimates and rolling the models (DCF and peer comparison) over by 1 year, we have adjusted our target price from Eu12.4 to Eu11.50. We reiterate our positive stance on the company as we have confidence in management's ability to deliver strong growth in 2019, for which the seeds have already been sown. Furthermore, the company is shortly expected to enter the STAR segment, which should benefit liquidity and also boost M&A opportunities. Finally, the stock offers an attractive FCF yield and has started a dividend policy, now offering a 4.2% dividend yield. **OUTPERFORM.**

CELLULARLINE - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): from 12.00 to 11.50

Ch. in Adj. EPS est.	2019E	2020E
	-14.9%	-9.9%

STOCK DATA

Reuters code: CELL.MI
Bloomberg code: CELL IM

Performance	1m	3m	12m
Absolute	-0.7%	-6.5%	-27.1%
Relative	-5.1%	-18.4%	-21.4%
12 months H/L:	9.95/7.10		

SHAREHOLDER DATA

No. of Ord. shares (mn):	23
Total No. of shares (mn):	23
Mkt Cap Ord (Eu mn):	164
Total Mkt Cap (Eu mn):	164
Mkt Float - ord (Eu mn):	100
Mkt Float (in %):	61.0%
Main shareholder:	
Private Equity funds	14.0%

BALANCE SHEET DATA

	2019
Book value (Eu mn):	203
BVPS (Eu):	8.99
P/BV:	0.8
Net Financial Position (Eu mn):	-9
Enterprise value (Eu mn):	173

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on the last page of this report

Key Figures	2017A	2018A	2019E	2020E	2021E
Sales (Eu mn)	139	130	152	166	172
Ebitda (Eu mn)	39	28	37	41	42
Net profit (Eu mn)	24	17	20	22	23
EPS - New Adj.(Eu)	1.062	1.019	1.110	1.155	1.190
EPS - Old Adj.(Eu)	1.044	1.137	1.304	1.281	
DPS (Eu)	0.000	0.271	0.317	0.362	0.362
Ratios & Multiples	2017A	2018A	2019E	2020E	2021E
P/E Adj.	6.8	7.1	6.5	6.3	6.1
Div. Yield	0.0%	3.7%	4.4%	5.0%	5.0%
EV/Ebitda Adj.	5.9	5.5	4.6	3.8	3.2
ROCE	22.9%	9.8%	12.8%	14.8%	15.8%

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CELLULARLINE - KEY FIGURES

		2017A	2018A	2019E	2020E	2021E
	Fiscal year end	31/12/2017	31/12/2018	31/12/2019	31/12/2020	31/12/2021
PROFIT & LOSS (Eu mn)	Sales	139	130	152	166	172
	EBITDA	39	28	37	41	42
	EBIT	36	19	27	31	32
	Financial income (charges)	(2)	(7)	(2)	(2)	(1)
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	33	12	26	30	31
	Taxes	(10)	5	(5)	(8)	(8)
	Tax rate (%)	28.7%	-45.3%	20.8%	25.8%	26.5%
	Minorities & discontinue activities	0	0	(0)	(0)	(0)
	Net profit	24	17	20	22	23
	Total extraordinary items	(0)	(2)	(1)	0	0
	Ebitda excl. extraordinary items	39	34	38	41	42
	Ebit excl. extraordinary items	36	31	34	37	38
Net profit restated	24	23	25	26	27	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	23	23	23	23	23
	EPS stated fd	1.047	0.746	0.893	0.966	1.004
	EPS restated fd	1.062	1.019	1.110	1.155	1.190
	BVPS fd	4.641	8.494	8.991	9.600	10.203
	Dividend per share (ord)	0.000	0.271	0.317	0.362	0.362
	Dividend per share (sav)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)	0.0%	36.4%	35.5%	37.5%	36.0%
CASH FLOW (Eu mn)	Gross cash flow	28	26	32	34	35
	Change in NWC	(5)	(1)	(8)	(5)	(2)
	Capital expenditure	(2)	(2)	(3)	(3)	(3)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	9	23	20	25	28
	Acquisitions, divestments & others	0	0	(3)	(1)	(1)
	Dividend	(60)	0	(6)	(7)	(8)
	Equity financing/Buy-back	0	20	0	0	0
Change in Net Financial Position	(39)	43	12	18	21	
BALANCE SHEET (Eu mn)	Total fixed assets	110	177	171	165	158
	Net working capital	60	61	70	74	77
	Long term liabilities	(1)	(25)	(28)	(31)	(34)
	Net capital employed	170	214	213	208	201
	Net financial position	(65)	(22)	(9)	9	30
	Group equity	105	192	203	217	231
	Minorities	0	0	0	0	0
Net equity	105	192	203	217	231	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	164	164	164	164	164
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(65)	(22)	(9)	9	30
	Enterprise value	229	186	173	155	134
RATIOS(%)	EBITDA margin*	28.0%	26.2%	24.8%	24.4%	24.3%
	EBIT margin*	25.6%	23.7%	22.5%	22.3%	22.2%
	Gearing - Debt/equity	62.0%	11.4%	4.6%	-4.1%	-13.0%
	Interest cover on EBIT	14.4	2.6	15.8	20.6	24.6
	Debt/Ebitda	1.67	0.78	0.26	nm	nm
	ROCE*	22.9%	9.8%	12.8%	14.8%	15.8%
	ROE*	21.6%	11.4%	10.2%	10.4%	10.1%
	EV/CE	1.5	1.0	0.8	0.7	0.7
	EV/Sales	1.6	1.4	1.1	0.9	0.8
	EV/Ebit	6.4	6.0	5.1	4.2	3.5
Free Cash Flow Yield	5.3%	14.2%	12.2%	15.1%	17.2%	
GROWTH RATES (%)	Sales	-15.2%	-7.0%	17.1%	9.3%	3.5%
	EBITDA*	0.5%	-13.0%	11.0%	7.5%	3.2%
	EBIT*	0.2%	-13.8%	11.3%	8.2%	3.2%
	Net profit	200.0%	-28.7%	19.6%	8.2%	4.0%
	EPS restated	4.5%	-4.1%	8.9%	4.0%	3.0%

* Excluding extraordinary items

Source: Intermonte SIM estimates

FY18 Results

The company published financial results adopting the IFRS accounting standards, with pro-forma figures for FY18 and the restatement of FY17 with IFRS15.

Weak Italian market and turnaround policies of CE dragged FY18 results down. Cellularline reported FY18 results that were slightly weaker than expected, with the top line falling 7% YoY (vs -3.2% expected) to Eu130mn. The decline was largely attributed to the weak Italian Consumer Electronics (CE) channel, which caused an Eu8mn revenue shortfall, corresponding to almost the entire drop in the top line. Specifically, a Eu6mn reduction was attributed to a destocking policy enacted by one important retailer, while a further Eu2mn came from turnaround plans at other retailers. The Italian CE sector underwent a root-and-branch restructuring during the first 2-3 quarters of 2018, featuring destocking policies and turnaround plans, in order to cope with growing competition coming from the internet channel. Costs, net of PPA and one-off business combination expenses, remained flat YoY. Adjusted EBITDA was also hindered by weaker sales/customer mix, coming to Eu34mn (vs Eu36mn exp), while reported EBIT was Eu19mn including extraordinary costs. The negative impact was partly offset by the positive Patent Box contribution to taxation. Adjusted net profit came in at Eu23mn (-3% YoY), below our Eu25.7mn estimate. Net debt was in line at Eu22mn and the company set an unexpected DPS of Eu0.30 on 2018 accounts (a 26% payout ratio).

Cellularline – FY18 results

P&L (EuMn)	2017A rest.	2018A pro-forma	2018E	A vs E
Revenue from sales	139.5	129.7		
% YoY		(7.0%)		
Total costs and D&A	(103.8)	(110.8)		
% YoY		6.8%		
EBITDA adjusted	39.0	34.0	36.3	(6.3%)
% margin	28.0%	26.2%		
% YoY		(12.8%)	(6.9%)	
EBIT reported	35.7	18.9		
% margin	25.6%	14.6%		
% YoY		(47.0%)		
Net financial exp/income	(2.4)	(7.3)		
Pretax profits reported	33.2	11.6		
% YoY		(65.1%)		
Taxes	(9.5)	5.3		
Effective Tax rate	(28.6%)	45.3%		
Net profit reported	23.7	16.9		
% margin	17.0%	13.0%		
% YoY		(28.9%)		
Net profit adjusted	24.0	23.0	25.7	(10.5%)
% YoY		(4.2%)	7.1%	
Net debt	(65.0)	(21.8)	(22.0)	(0.9%)

Source: Intermonte SIM and company data

Change in estimates

First 2 months of FY19 posted +15% YoY sales growth. We think the CE sector restructuring that affected the company's performance in 2018 was a non-recurring headwind, and the 2018 revenues shortfall should drive a surge in 2019 sales. On top of this, newly-launched initiatives should enhance the rebound, as seen from AQL, which has gained very positive feedback across the European market. New businesses include services like (i) Glass&Go and (ii) Case&Go, but most importantly the (iii) original accessories distribution (Huawei, Samsung), (iv) the integration of the newly acquired company Systemaitalia and (v) the recent distribution agreement on the Mass Merchandise channel in France with DS Distribution Nord, which brings diversification both by geographical market and channel.

New estimates forecast a rebound in the next two years (+13% 2019-20 CAGR) thanks to M&A and new distribution agreements. We have adapted our financial estimates to new accounting standards, and included both new distribution agreements and the recent acquisition that should deliver a considerable contribution in the future. Specifically, we expect revenues to benefit greatly from the agreements with Samsung and Huawei, although they should dilute margins, and from the contribution of Systemaitalia and the synergies entailed. We forecast revenues to grow at a +10% 2018-21 CAGR. After correcting for weak FY18 figures, and remaining cautious on profitability improvements, we are cutting our 2019-20 adj. EPS estimates by 12% on average, as well as publishing expectations for 2021. Finally, we are adding in an expected dividend stream that we consider sustainable, even in the event of additional small acquisitions given the company's strong cash flow generation.

Cellularline – Change in estimates

(Eu mn)	2018A	2019E	2020E	2021E
Value of production new	129.7	151.9	166.0	171.7
Value of production old				
% change		nm	nm	
% YoY		17.1%	9.3%	3.5%
EBITDA recurring new	34.0	37.7	40.5	41.8
EBITDA recurring old		40.5	42.2	
% change		(6.9%)	(4.1%)	
% YoY		11.0%	7.5%	3.2%
EBIT recurring new	30.7	34.2	37.0	38.2
EBIT recurring old		37.5	39.3	
% change		(8.9%)	(5.8%)	
% YoY		11.3%	8.2%	3.2%
Pretax profit recurring new	23.3	26.6	29.7	31.0
Pretax profit recurring old				
% change		nm	nm	
% YoY		14.2%	11.4%	4.6%
Net profit restated new	23.0	25.1	26.1	26.9
Net profit recurring old		29.5	29.0	
% change		(14.9%)	(9.9%)	
% YoY		8.9%	4.0%	3.0%

Source: Intermonte SIM and company data

Financials adapted to new accounting standards

Cellularline – Profit & Loss

P&L (Eu mn)	2017A	2018A	2019E	2020E	2021E	CAGR '18-'21
Total Value of Production	139.5	129.7	151.9	166.0	171.7	9.8%
% YoY	0.0%	(7.0%)	17.1%	9.3%	3.5%	
EBITDA adjusted	39.0	34.0	37.7	40.5	41.8	7.2%
% margin	28.0%	26.2%	24.8%	24.4%	24.3%	
% YoY	0.0%	(13.0%)	11.0%	7.5%	3.2%	
EBITDA reported	39.0	28.0	36.7	40.5	41.8	
% margin	28.0%	21.6%	24.2%	24.4%	24.3%	
% YoY	0.0%	(28.4%)	31.2%	10.4%	3.2%	
D&A	(3.4)	(3.2)	(3.5)	(3.5)	(3.6)	
EBIT adjusted	35.7	30.7	34.2	37.0	38.2	7.5%
% margin	25.6%	23.7%	22.5%	22.3%	22.2%	
% YoY	0.0%	(13.8%)	11.3%	8.2%	3.2%	
PPA	0.0	(5.8)	(5.8)	(5.8)	(5.8)	
EBIT reported	35.7	18.9	27.4	31.2	32.4	
% margin	25.6%	14.6%	18.0%	18.8%	18.8%	
% YoY	0.0%	(47.0%)	44.9%	14.0%	3.8%	
Net financial exp/income	(2.5)	(7.3)	(1.7)	(1.5)	(1.3)	
Pretax profits adjusted	33.2	23.3	26.6	29.7	31.0	10.0%
% YoY	0.0%	(29.8%)	14.2%	11.4%	4.6%	
Pretax profits reported	33.2	11.6	25.6	29.7	31.0	
% YoY	0.00%	(65.02%)	120.75%	15.78%	4.62%	
Taxes	(9.5)	(4.7)	(5.2)	(7.5)	(8.1)	
Tax rate recurring	28.7%	27.1%	25.1%	31.4%	32.3%	
Net profit reported	23.7	16.9	20.3	22.0	22.8	
% margin	17.0%	13.0%	13.4%	13.3%	13.3%	
Net Profit Restated	24.0	23.0	25.1	26.1	26.9	5.3%
% margin	17.2%	17.8%	16.5%	15.7%	15.7%	
% YoY	0.0%	(4.1%)	8.9%	4.0%	3.0%	

Source: Intermonte SIM and company data

Cellularline – Revenue breakdown

Sales geographical breakdown (Eu mn)	2017A	2018A	2019E	2020E	2021E
Italy organic	84.1	70.1	80.9	85.0	85.0
%YoY		(16.7%)	15.5%	5.0%	0.0%
% on total	60.3%	54.0%	57.5%	58.4%	57.0%
M&A contribution	-	-	6.4	12.0	13.0
Europe	51.8	56.7	61.5	65.8	70.4
%YoY		9.5%	8.5%	7.0%	7.0%
% on total	37.1%	43.7%	40.5%	39.6%	41.0%
RoW	3.6	3.0	3.1	3.2	3.4
%YoY		(16.2%)	4.0%	4.0%	4.0%
% on total	2.6%	2.3%	2.1%	2.0%	2.0%
Total Net Revenues	139.5	129.7	151.9	166.0	171.7
%YoY		(7.0%)	17.1%	9.3%	3.5%
o/w organic	139.5	129.7	145.5	154.0	158.7
%YoY		(7.0%)	12.2%	5.8%	3.1%

Source: Intermonte SIM and company data

Cellularline – Balance sheet

Balance sheet (Eu mn)	2017A	2018A	2019E	2020E	2021E
Inventories	17.8	20.6	24.6	26.9	27.8
Trade Receivables	74.0	59.4	68.7	73.2	75.3
Trade Payables	(28.5)	(20.2)	(23.7)	(26.1)	(27.0)
Commercial net working capital	63.2	59.8	69.6	74.1	76.1
Other current assets/liabilities	(2.8)	1.5	0.0	0.4	0.6
Net working capital	60.4	61.3	69.6	74.4	76.7
% on sales	43.3%	47.3%	45.8%	44.8%	44.7%
Tangible assets	7.5	7.2	6.8	6.4	5.8
Intangible assets	102.5	170.1	164.2	158.4	152.6
Participations	0.0	0.0	0.0	0.0	0.0
Net Fixed Asset	110.0	177.3	171.0	164.8	158.4
Other non-current assets/liabilities	(0.5)	(24.8)	(28.0)	(31.2)	(34.4)
Net capital employed	169.9	213.8	212.6	208.0	200.7
Net cash/(debt)	(65.0)	(21.8)	(9.4)	9.0	29.9
Net Equity	104.9	192.0	203.2	217.0	230.6
Net capital employed	169.9	213.8	212.6	208.0	200.7

Source: Intermonte SIM and company data

Cellularline – Cash flow statement

Cash flow (Eu n)	2017A	2018A	2019E	2020E	2021E
Net income	23.7	16.9	20.3	22.0	22.8
Minorities	0.0	0.0	0.1	0.2	0.1
D&A	3.4	9.1	9.3	9.3	9.4
Gross cash flow	27.1	26.0	29.7	31.5	32.3
Change in working capital	(5.3)	(0.9)	(8.3)	(4.8)	(2.3)
% on sales	(3.8%)	(0.7%)	(5.5%)	(2.9%)	(1.3%)
Other	0.9	0.3	2.7	2.8	3.0
Operating cash flow	22.7	25.4	24.1	29.5	33.1
Capex	(1.7)	(2.5)	(3.0)	(3.1)	(3.1)
FCF adj.*	8.6	23.2	20.0	24.7	28.2
% FCF adj./EBITDA	22.1%	68.3%	53.1%	61.0%	67.5%
Acquisitions	0.0	0.0	(2.5)	(0.9)	(0.9)
Disposals	0.0	0.0	0.0	0.0	0.0
Dividends	(59.8)	0.0	(6.1)	(7.2)	(8.2)
Rights Issue / IPO	0.0	20.3	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Cash Flow	(38.9)	43.2	12.4	18.4	20.9
NFP at year end: Cash/(Debt)	(65.0)	(21.8)	(9.4)	9.0	29.9
Net debt/ EBITDA (x)	1.7x	0.6x	0.2x	(0.2)x	(0.7)x

Source: Intermonte SIM and company data

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

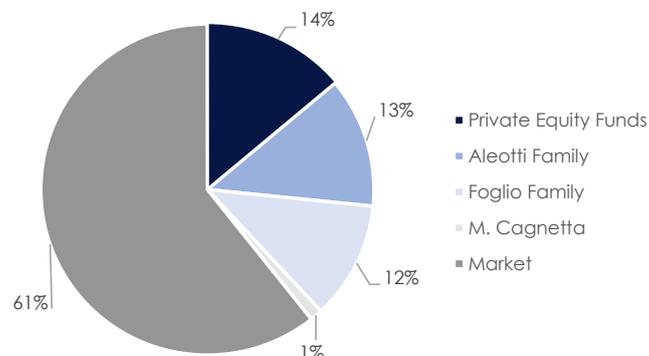
- **High competition** among product categories for which differentiation is more difficult;
- **Online** is still an underpenetrated channel by the company;
- **Dependence** on external producers for product manufacturing;
- **Limited diversification** of sourcing in terms of geographical area (Guandong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

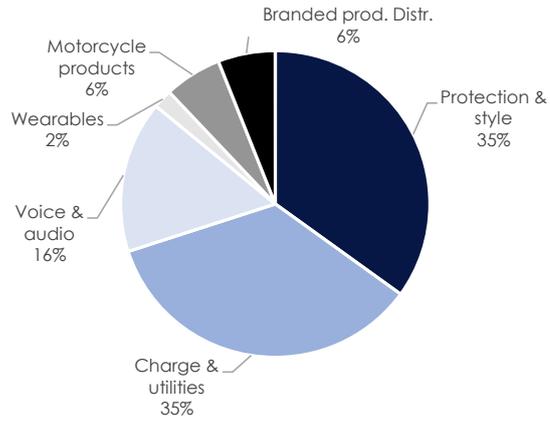
Source: Intermonte SIM

Cellularline – Ownership (based on voting rights)



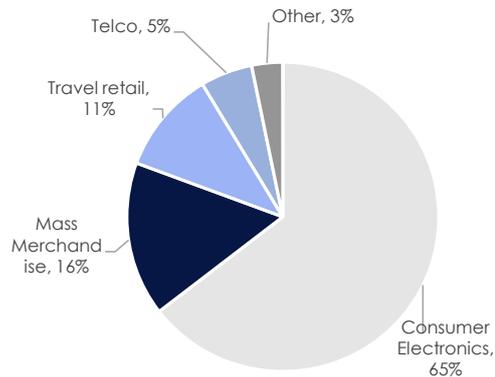
Source: Intermonte SIM and company data; Market includes 7% of sponsors' shares with 12M lock-up

Cellularline – Revenue breakdown by category (FY18E)



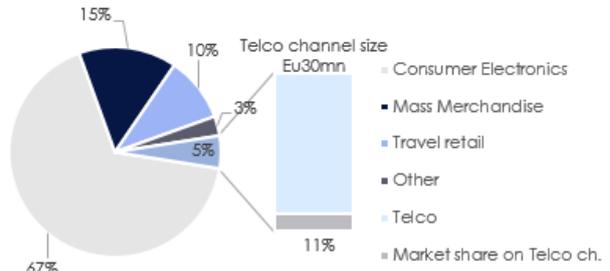
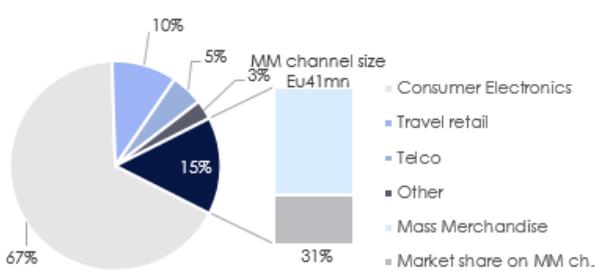
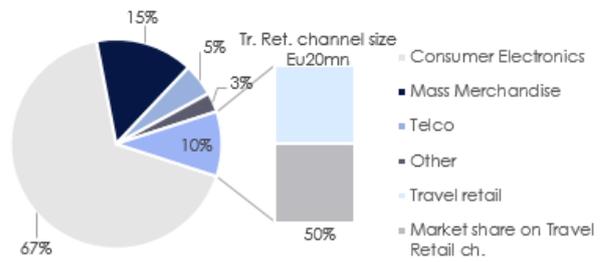
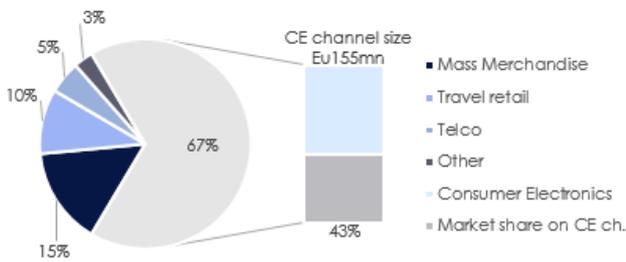
Source: Intermonte SIM estimate

Cellularline – Revenue breakdown by channel (FY18E)



Source: Intermonte SIM estimate

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



Source: Intermonte SIM and 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.

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.).

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.

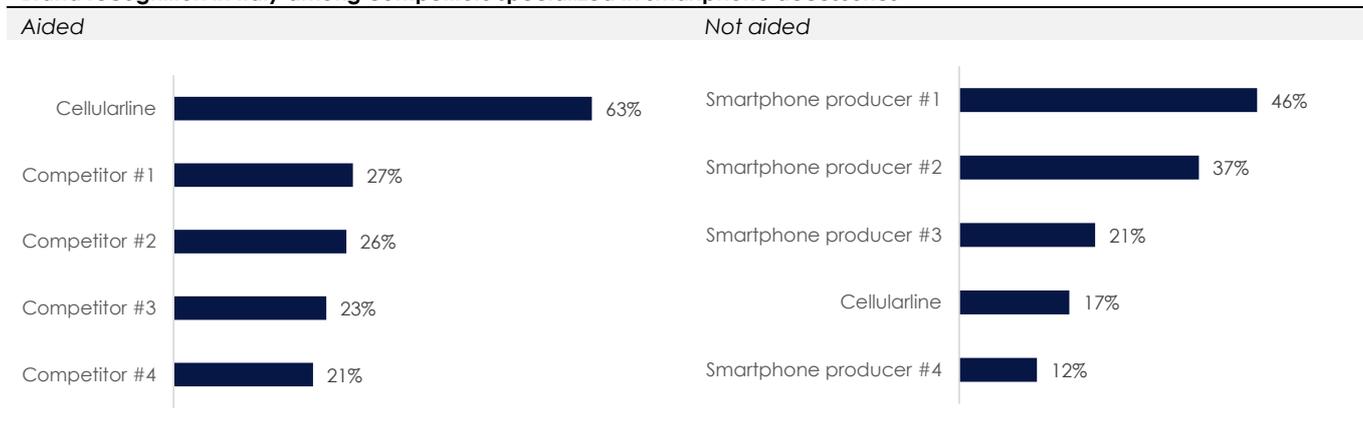
In particular, the company has implemented an IT system that feeds management and all the relevant divisions with data on current sales trends, almost in real-time as there is a week's delay, for more than 3,000 points of sale. This data provides management with first-hand knowledge of how products are 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	7.25	EUR	164	-0.7%	-6.5%	-12.7%	-8.2%	-27.1%	-27.4%
ACCO BRANDS	8.90	USD	910	-3.6%	31.7%	-26.7%	31.3%	-32.6%	-32.6%
FILA	13.66	EUR	695	-0.4%	0.1%	-20.6%	1.2%	-24.5%	-11.3%
PLANTRONICS	48.85	USD	1,928	-1.6%	34.4%	-21.6%	47.6%	-16.4%	-10.7%
ZAGG	9.91	USD	287	-18.4%	1.6%	-37.7%	1.3%	-21.3%	40.6%
Mean performance				-4.9%	12.3%	-23.8%	14.6%	-24.4%	-8.3%
Italy FTSE Mib	21,045.4	EUR		4.1%	11.3%	0.8%	14.9%	-7.3%	6.4%

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
				2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
CELLULARLINE	7.25	EUR	164	1.1	0.9	4.6	3.8	5.1	4.2	6.5	6.3	4.4%	5.0%
ACCO BRANDS	8.90	USD	910							7.7	6.9		
FILA	13.66	EUR	695	1.6	1.5	9.5	8.6	12.1	10.8	14.3	12.4	0.9%	1.1%
PLANTRONICS	48.85	USD	1,928							8.2	7.3		
ZAGG	9.91	USD	287	0.3	0.3	2.6	1.9	3.7	2.6	6.9	6.4		
Median				1.0	0.9	6.0	5.2	7.9	6.7	8.0	7.1	0.9%	1.1%

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):	11.50	Previous Target (Eu):	12.40
Current Price (Eu):	7.25	Previous Price (Eu):	7.90
Date of report:	18/03/2019	Date of last report:	28/09/2018

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- 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.

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

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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

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BUY:	11.49 %
OUTPERFORM:	46.62 %
NEUTRAL:	34.46 %
UNDERPERFORM	07.43 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from IntermonTE in the last 12 months (48 in total) is as follows:

BUY:	20.83 %
OUTPERFORM:	56.25 %
NEUTRAL:	22.92 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Gambero Rosso	0.58	LONG
LIFE CARE CAPITAL	0.57	LONG
SPACTIV	0.69	LONG
THESPAC	1.34	LONG
VEI 1	0.72	LONG
WASTE ITALIA	0.65	SHORT

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