

Company Note

Cellularline

2Q/1H22 Results

2Q confirmed the positive growth trend already registered in 1Q. Overall, we believe that the figures disclosed increase the visibility on the ongoing recovery of the group's sales and margins. However, we believe that investors are currently more focused on the developments linked to the tender offer launched by Esprinet than on financials.

Voluntary public tender offer launched by Esprinet

Esprinet has recently announced that Consob, the Italian market authority, has approved the offer document related to the voluntary public tender offer launched by 4Side (a company fully-owned by Esprinet) on Cellularline. The 'acceptance period' starts on 19 September and ends on 14 October. We recall that the offering price was set at EUR 3.75/share.

Cell's BoD considers EUR 3.75/sh bid price not adequate

The Board of Directors of Cellularline has recently announced that it considers the offered consideration of EUR 3.75 for each Cellularline share tendered in acceptance of the offer to be inadequate from a financial point of view. We underline that Cellularline's BoD also stated that it had taken into account the work carried out by its financial advisor (Equita), which issued a fairness opinion in which it expressed its opinion on the non-adequateness, from a financial point of view, of the consideration. In particular, Equita indicated a DCF valuation-based range of EUR 6.6 – 8.7/share or applying other valuation methodologies a broader valuation range of EUR 4.0 – 8.7/share.

Estimates & valuation considerations

We updated our FY22E figures solely to incorporate the EUR 39.9M impairment on goodwill reported in 1H22 due to a review carried out by the company on their financials. On the other hand, we kept our FY23E projections unchanged. While during the offering period we align our target price to the bid price (**TP at EUR 3.75/share; HOLD rating**), we highlight that if we re-ran our DCF-based valuation model this would return a fair value of EUR 5.0.

19 September 2022: 7:29 CET
Date and time of production

HOLD

Target Price: EUR 3.75

Italy/Consumer Services
Update

MTA-STAR

Price Performance
(RIC: CELL.MI, BB: CELL IM)



Cellularline - Key Data

Price date (market close)	14/09/2022
Target price (EUR)	3.75
Target upside (%)	1.88
Market price (EUR)	3.73
Market cap (EUR M)	81.57
52Wk range (EUR)	4.47/3.46

Price performance %	1M	3M	12M
Absolute	0.5	-9.0	-13.3
Rel. to FTSE IT All Sh	3.7	-10.9	1.8

Y/E Dec (EUR M)	FY21A	FY22E	FY23E
Revenues	110.6	135.0	155.0
Adj. EBITDA	16.12	20.52	25.58
Adj. EBIT	10.74	15.12	20.18
Adj. Net income	7.45	11.70	15.19
EPS (EUR)	0.34	0.54	0.69
Net debt/-cash	37.40	37.08	33.79
Adj P/E (x)	13.0	7.0	5.4
EV/EBITDA (x)	8.3	5.8	4.5
EV/EBIT (x)	Neg.	Neg.	11.3
Div ord yield (%)	3.6	2.0	3.2

Source: Company data, FactSet and Intesa Sanpaolo Research estimates

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2Q/1H22A Results

Revenues were EUR 54.6M, up by 37.4% yoy (+36% on a like-for-like basis, thus excluding the contribution of the newly-acquired company Coverlab, and +35.3% in 2Q). The strong performance was achieved thanks to the recovery of demand both in the domestic and international markets. International revenues also benefitted from the strong rebound registered by Worldconnect, thanks to the increase in traffic recorded in the Airport Travel Retail channel vs. last year. Looking at product lines, we highlight that: 1) the Red Line grew by 38.1% yoy, mainly driven by the recovery in demand on international markets; 2) The Blue Line grew by EUR 3.5M yoy, mainly due to increased demand for products of non-Group owned brands distributed in Italy; and 3) the Black Line was down by 8.8% (or EUR 0.4M).

Adjusted EBITDA was EUR 3.3M vs. EUR 1.6M in 1H21. The EBITDA margin improved to 6.1% (vs. 4.0%) as a direct result of the higher absorption of fixed costs due to the strong revenue growth in the period and a tight cost control policy implemented by management. The **adjusted net loss stood at EUR 0.3M** vs. EUR 0.2M in 1H21.

Cellularline carried out an impairment test (consistent in its methodological approach to that adopted at YE21) updating all relevant parameters used and also to incorporate in the WACC a factor that increased the risk of execution of the plan as a consequence of macroeconomic uncertainty. At the end of the test, an impairment loss on goodwill of EUR 39.9M was reported in the income statement, attributable to the effect of the significant increase in the discount rate used for the purposes of the test, which firstly reflects the significant worsening seen during the first half of the year (and in particular during 2Q) of macroeconomic parameters. As a result, reported EBIT was negative for EUR 44.8M.

As a consequence, the book value of shareholders' equity was reduced to EUR 162.3M as of 30 June 2022, implying a book value/share of around EUR 7.8 per outstanding share (or EUR 7.4/total no. shares).

The **net financial position was EUR 40.2M** vs. a net debt of EUR 37.4M at YE21A.

Cellularline – 2Q/1H22 results

EUR M	2Q21A	2Q22A	yoy %	1H21A	1H22A	yoy %
Revenues	23.1	31.2	35.3	39.7	54.6	37.4
Adj. EBITDA	2.8	3.9	39.6	1.6	3.3	110.6
Adj. EBITDA margin %	12.1	12.5		4.0	6.1	
Reported EBIT	-0.3	-41.0	NM	-4.9	-44.8	NM
Adj. net income	1.6	1.0	-34.8	-0.2	-0.3	NM
Reported net income	0.7	-40.4	NM	-3.2	-43.0	NM
NFP	38.2	40.2		38.2	40.2	

NM: not meaningful; A: actual; Source: Company data

Estimates Recap

Following 1H22 results we updated our FY22E figures solely to incorporate the abovementioned impairment on goodwill. On the other hand, we kept our FY23E projections unchanged.

Cellularline – Estimates recap

EUR M	2022E Old	2022E New	YoY %	2023 Old	2023E New	YoY %
Revenues	135.0	135.0	0.0	155.0	155.0	0.0
Adj. EBITDA	20.5	20.5	0.0	25.6	25.6	0.0
margin on revenues (%)	15.2	15.2		16.5	16.5	
Adj. EBIT	15.1	15.1	0.0	20.2	20.2	0.0
margin on revenues (%)	11.2	11.2		13.0	13.0	
Reported EBIT	5.1	-34.8	NM	10.2	10.2	0.0
margin on revenues (%)	3.8	NM		6.6	6.6	
Adj. net income	11.7	11.7	0.0	15.2	15.2	0.0
Reported net income	5.2	-34.3	NM	8.7	8.7	0.0
NFP	37.1	37.1		33.8	33.8	

E: estimates; Source: Intesa Sanpaolo Research

Valuation Considerations

While during the offering period we aligned our target price to the bid price (**TP at EUR 3.75/share; HOLD rating**), we highlight that if we re-ran our DCF-based valuation model this would return a fair value of EUR 5.0/share, thus around 33% above of the offering price.

We use the following key assumptions in our valuation:

- An 8.3% WACC, incorporating a risk-free rate of 3.0% (vs. 2.5% used in our previous report), an equity risk premium of 6.5%, a re-levered beta of 1.2x (source: Intesa Sanpaolo Research elaboration on Refinitiv) and a long-term target gearing ratio of 30%;

Cellularline - WACC calculation (%)

Risk-free rate	3.0
Equity risk premium	6.5
Beta (x)	1.2
Cost of equity	10.9
Net cost of debt	2.5
Gross cost of debt	3.5
Tax rate	30
Gearing	30
WACC (%)	8.3

Source: Intesa Sanpaolo Research estimates

- Terminal value growth is prudentially set at 0% while, in calculating the LT, we apply the same level of revenues and EBIT margin we expect in 2023E. As usual, LT depreciation equals capex;
- We did not adjust the number of shares to include the effects arising from the potential conversion of warrants to obtain a fair value more comparable with the offering price (we recall that the warrants have a strike price of EUR 9.5 and a mandatory exercise price of EUR 13.0 and will expire in 2023).

Cellularline - DCF model

EUR M	2022E	2023E	LT
Sales	135.0	155.0	155.0
yoy %	22.1	14.8	40.2
Adj. EBIT	15.1	20.2	20.2
Adj. EBIT margin (%)	11.2	13.0	13.0
Taxes	0.0	0.0	-6.0
NOPAT	15.1	20.2	14.1
Non-cash items	5.0	5.0	
Investments	-3.5	-3.5	
NWC changes	-12.8	-11.2	
Others	-2.5	-4.1	
FCF	1.3	6.4	14.1
Discounted FCF	1.3	5.7	11.7
WACC (%)	8.3		
Perpetuity growth rate (%)	0.0		
NPV of cash flows		7.0	
NPV of terminal value	140.1		
EV	147.1		
Net debt @ 2021A	37.4		
Equity value	109.7		
No. of shares (M)	21.9		
Value per share (EUR)	5.0		

E: estimates; Source: Intesa Sanpaolo Research estimates

Cellularline – Sensitivity analysis

EUR/share WACC (%)	Growth (%)				
	-1.0	-0.5	0	0.5	1.0
7.3	5.2	5.6	6.1	6.6	7.2
7.8	4.7	5.1	5.5	6.0	6.5
8.3	4.3	4.7	5.0	5.4	5.9
8.8	4.0	4.3	4.6	4.9	5.4
9.3	3.7	3.9	4.2	4.5	4.9

Source: Intesa Sanpaolo Research estimates

Cellularline – Key Data

Rating HOLD	Target price (EUR/sh) 3.75	Mkt price (EUR/sh) Ord 3.73			Sector Consumer Services
Values per share (EUR)					
No. ordinary shares (M)	21.87	2020A	2021A	2022E	2023E
Total no. of shares (M)	21.87	21.87	21.87	21.87	21.87
Market cap (EUR M)	157.02	110.96	96.68	81.57	81.57
Adj. EPS	1.07	0.24	0.34	0.54	0.69
CFPS	1.4	1.5	0.80	0.96	1.1
BVPS	9.3	9.5	9.4	7.8	8.0
Dividend ord	0.33	0	0.16	0.07	0.12
Income statement (EUR M)					
Revenues	140.4	2020A	2021A	2022E	2023E
EBITDA	33.06	15.10	16.12	20.52	25.58
EBIT	20.26	-3.41	-5.16	-34.78	10.18
Pre-tax income	20.08	-2.40	-6.56	-36.28	8.68
Net income	18.21	13.90	-3.85	-34.28	8.69
Adj. net income	23.31	5.30	7.45	11.70	15.19
Cash flow (EUR M)					
Net income before minorities	18.2	2020A	2021A	2022E	2023E
Depreciation and provisions	12.8	13.9	-3.8	-34.3	8.7
Others/Uses of funds	-5.7	18.5	21.3	55.3	15.4
Change in working capital	-4.9	-24.3	-3.0	-3.0	-3.0
Operating cash flow	-4.9	3.2	7.4	-12.8	-11.2
Capital expenditure	20.4	11.3	21.8	5.2	9.9
Financial investments	-3.4	-33.5	-7.4	-3.5	-3.5
Acquisitions and disposals	0	0	0	0	0
Free cash flow	-4.9	0	0	0	0
Dividends	12.1	-22.2	14.4	1.7	6.4
Equity changes & Non-op items	-6.1	-7.2	0	-1.0	-1.6
Net cash flow	-8.7	5.0	-2.8	0	-1.5
	-2.7	-24.4	11.6	0.7	3.3
Balance sheet (EUR M)					
Net capital employed	227.1	2020A	2021A	2022E	2023E
of which associates	0	257.5	242.8	246.6	248.9
Net debt/-cash	24.6	0	0	0	0
Minorities	0	49.0	37.4	37.1	33.8
Net equity	0	0	0	0	0
Minorities value	202.5	208.5	205.4	170.1	175.7
Enterprise value	0	0	0	0	0
	181.6	160.0	134.1	118.6	115.4
Stock market ratios (x)					
Adj. P/E	2020A	2021A	2022E	2023E	
	6.7	21.0	13.0	7.0	5.4
P/CFPS	5.1	3.4	5.5	3.9	3.4
P/BVPS	0.78	0.53	0.47	0.48	0.46
Payout (%)	31	0	47	14	17
Dividend yield (% ord)	4.6	0	3.6	2.0	3.2
FCF yield (%)	7.7	-20.0	14.9	2.1	7.8
EV/sales	1.3	1.5	1.2	0.88	0.74
EV/EBITDA	5.5	10.6	8.3	5.8	4.5
EV/EBIT	9.0	Neg.	Neg.	Neg.	11.3
EV/CE	0.80	0.62	0.55	0.48	0.46
D/EBITDA	0.74	3.2	2.3	1.8	1.3
D/EBIT	1.2	Neg.	Neg.	Neg.	3.3
Profitability & financial ratios (%)					
EBITDA margin	2020A	2021A	2022E	2023E	
	23.5	14.4	14.6	15.2	16.5
EBIT margin	14.4	-3.3	-4.7	-25.8	6.6
Tax rate	9.3	NM	41.3	5.5	NM
Net income margin	13.0	13.3	-3.5	-25.4	5.6
ROCE	8.9	-1.3	-2.1	-14.1	4.1
ROE	9.2	6.8	-1.9	-18.3	5.0
Interest cover	76.5	3.4	-3.7	-23.2	6.8
Debt/equity ratio	12.1	23.5	18.2	21.8	19.2
Growth (%)					
Sales	2020A	2021A	2022E	2023E	
	-25.6	5.8	22.1	14.8	
EBITDA	-54.3	6.8	27.3	24.6	
EBIT	NM	-51.5	NM	NM	
Net income	-23.7	NM	NM	NM	
Adj. net income	-77.3	40.7	57.1	29.8	

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

Company Snapshot

Company Description

Cellularline is the European market leader in the design, manufacturing and distribution of accessories for connectivity devices. Leveraging on more than 5,000 points of sales, the company reaches more than 60 countries in the world and covers all the major distribution channels (CE, Telco, Travel Retail, Mass Merchandise, Sport stores as well as other retailers). Cellularline has a wide product portfolio composed of three major categories: (i) Protection & Style (cases and screen protectors); (ii) Charge & Utilities (battery chargers, powerbanks, car accessories and cables); and (iii) Voice & Sport (earphones and sports accessories). Moreover, the company recently launched the AQL brand (AudioQuality Lab), the product line dedicated to the world of music.

Key Risks

Company specific risks:

- Global logistics issues might affect cost base;
- A resurgence of restrictive measures;
- Still small contribution from the e-commerce channel.

Sector generic risks:

- An increase in competition from the main competitors and a potentially higher penetration of private labels and online competitors;
- Potentially rapid changes in consumer trends and needs, also given the fast-technological evolution of electronics' components and accessories, with a possible impact on the group's strategy and brand awareness.

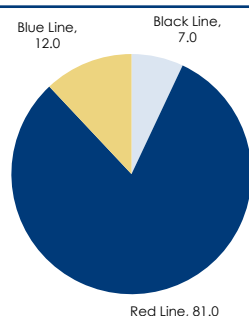
Key data

Mkt price (EUR)	3.73	Free float (%)	73.8
No. of shares	21.87	Major shr	S.L.M.K. SA
52Wk range (EUR)	4.47/3.46	(%)	8.5
Reuters	CELL.MI	Bloomberg	CELL IM
Performance (%)	Absolute	Rel. FTSE IT All Sh	
-1M	0.5	-1M	3.7
-3M	-9.0	-3M	-10.9
-12M	-13.3	-12M	1.8

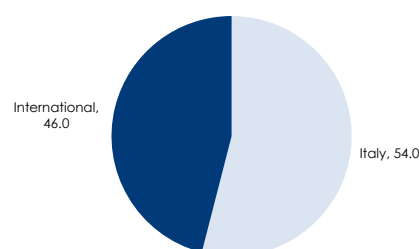
Estimates vs. consensus

EUR M (Y/E Dec)	2021A	2022E	2022C	2023E
Sales	110.6	135.0	135.5	155.0
EBITDA	16.12	20.52	20.52	25.58
EBIT	-5.16	-34.78	15.12	10.18
Pre-tax income	-6.56	-36.28	3.62	8.68
Net income	-3.85	-34.28	5.10	8.69
EPS (EUR)	0.34	0.54	0.53	0.69

FY21A revenues by product line (%)



FY21A revenues by geography (%)



Source: Company data, Intesa Sanpaolo Research estimates and FactSet consensus data (priced at market close of 14/09/2022)

Our Mid Corporate Definition

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 eligible for listing have revenues below 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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Equity rating key: (long-term horizon: 12M)

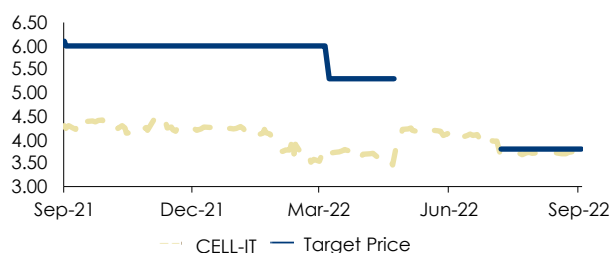
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Equity Rating Key (long-term horizon: 12M)

Long-term rating	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10%-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10%-20% lower than the market price
SELL	If the target price is 20% lower than the market price
RATING SUSPENDED	The investment rating and target price for this stock have been suspended as there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock.
NO RATING	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulations and/or firm policies in certain circumstances.
TENDER SHARES	We advise investors to tender the shares to the offer.
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

Historical recommendations and target price trends (long-term horizon: 12M)

The 12M rating and target price history chart(s) for the companies currently under our coverage can also be found at Intesa Sanpaolo's website/Research/Regulatory disclosures: <https://group.intesasanpaolo.com/en/research/RegulatoryDisclosures/tp-and-rating-history-12-months->. Note: please also refer to <https://group.intesasanpaolo.com/it/research/equity-credit-research/equity> in applicable cases for the ISP-UBI Equity Ratings Reconciliation Table, the archive of ex-UBI's previously published research reports and 12M historical recommendations.

Target price and market price trend (-1Y)**Historical recommendations and target price trend (-1Y)**

Date	Rating	TP (EUR)	Mkt Price (EUR)
21-Jul-22	HOLD	3.75	3.7
09-May-22	Under Review	Under Review	4.1
21-Mar-22	BUY	5.3	3.6

Equity rating allocations (long-term horizon: 12M)**Intesa Sanpaolo Research Rating Distribution (at July 2022)**

Number of companies considered: 127	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage relating to last rating (%)*	58	25	17	0	0
of which Intesa Sanpaolo's Clients (%)**	84	44	57	0	0

* Last rating refers to rating as at end of the previous quarter; ** 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

Valuation methodology (short-term horizon: 3M)

Our short-term investment ideas are based on ongoing special market situations, including among others: spreads between share categories; holding companies vs. subsidiaries; stub; control chain reshuffling; stressed capital situations; potential extraordinary deals (including capital increase/delisting/extraordinary dividends); and preys and predators. Investment ideas are presented either in relative terms (e.g. spread ordinary vs. savings; holding vs. subsidiaries) or in absolute terms (e.g. preys).

The companies to which we assign short-term ratings are under regular coverage by our research analysts and, as such, are subject to fundamental analysis and long-term recommendations. The main differences attain to the time horizon considered (monthly vs. yearly) and definitions (short-term 'long/short' vs. long-term 'buy/sell'). Note that the short-term relative recommendations of these investment ideas may differ from our long-term recommendations. We monitor the monthly performance of our short-term investment ideas and follow them until their closure.

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

Short-term rating	Definition
LONG	Stock price expected to rise or outperform within three months from the time the rating was assigned due to a specific catalyst or event
SHORT	Stock price expected to fall or underperform within three months from the time the rating was assigned due to a specific catalyst or event

Company-specific disclosures

Intesa Sanpaolo S.p.A. and the other companies belonging to the Intesa Sanpaolo Banking Group (hereafter the "Intesa Sanpaolo Banking Group") have adopted written guidelines "Organisational, Management and Control Model" pursuant to Legislative Decree 8 June 2001 no. 231 (available at the Intesa Sanpaolo website, <https://group.intesasanpaolo.com/en/governance/leg-decree-231-2001>) setting forth practices and procedures, in accordance with applicable regulations by the competent Italian authorities and best international practice, including those known as Information Barriers, to restrict the flow of information, namely inside and/or confidential information, to prevent the misuse of such information and to prevent any conflicts of interest arising from the many activities of the Intesa Sanpaolo Banking Group, which may adversely affect the interests of the customer in accordance with current regulations.

In particular, the description of the measures taken to manage interest and conflicts of interest – related to Articles 5 and 6 of the Commission Delegated Regulation (EU) 2016/958 of 9 March 2016 supplementing Regulation (EU) No. 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest as subsequently amended and supplemented, the FINRA Rule 2241, as well as the Financial Conduct Authority Conduct of Business Sourcebook rules COBS 12.4 - between the Intesa Sanpaolo Banking Group and issuers of financial instruments, and their group companies, and referred to in research products produced by analysts at Intesa Sanpaolo S.p.A. is available in the "Rules for Research" and in the extract of the "Corporate model on the management of inside information and conflicts of interest" published on the website of Intesa Sanpaolo S.p.A.

At the Intesa Sanpaolo website, webpage <https://group.intesasanpaolo.com/en/research/RegulatoryDisclosures/archive-of-intesa-sanpaolo-group-s-conflicts-of-interest> you can find the archive of disclosure of interests or conflicts of interest of the Intesa Sanpaolo Banking Group in compliance with the applicable laws and regulations.

Furthermore, we disclose the following information on the Intesa Sanpaolo Banking Group's conflicts of interest.

- One or more of the companies of the Intesa Sanpaolo Banking Group plan to solicit investment banking business or intends to seek compensation from Cellularline in the next three months
- One or more of the companies of the Intesa Sanpaolo Banking Group are one of the main financial lenders to Cellularline and its parent and group companies
- Intesa Sanpaolo acts as Specialist relative to securities issued by Cellularline

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