

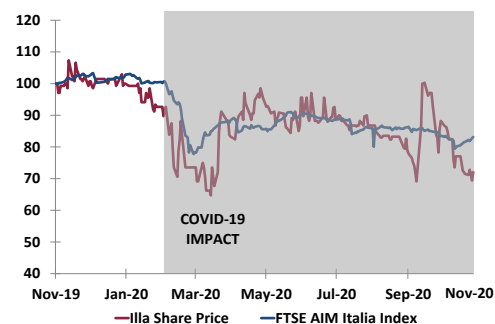


NEUTRAL

Current Share Price (€): 0.49

Target Price (€): 0.56

Illa - 1Y Performance



Company data

ISIN number	IT0005316705
Bloomberg code	ILLA IM
Reuters code	ILLA.MI
Industry	Manufacturing
Stock market	AIM Italia
Share Price (€)	0.49
Date of Price	16/11/2020
Shares Outstanding (m)	8.4
Market Cap (€m)	4.1
Market Float (%)	36.6%
Daily Volume	131,000
Avg Daily Volume YTD	19,253
Target Price (€)	0.56
Upside (%)	15%
Recommendation	NEUTRAL

Share price performance

	1M	3M	1Y
Illa - Absolute (%)	-19%	-17%	-28%
FTSE AIM Italia (%)	0%	-3%	-17%
1Y Range H/L (€)		0.73	0.44
YTD Change (€)/%		-0.20	-29%

Source: S&P Capital IQ

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Sales diversification to fight back Ikea disengagement and Covid-19

H1 2020: Recovery plan works despite Covid-19 turmoil

H1 2020 Sales of €13.7m were slightly under €14.2m in H1 2019 (-3%), being hit by the decrease of sales to Ikea (-32%), offset by increasing domestic sales of own brands (+27%). EBITDA was €(0.3)m, vs. €(0.2)m in H1 2019. Net loss of €(1.2)m, vs. €(0.9)m in H1 2019, after higher financial interest.

TWC increased from €9.1m at year-end 2019 to €9.5m as of June 2020. Net financial debt increased from €12.6m at year-end 2019 to €13.6m as of June 2020, for investments.

We note that for a company impacted by the double trouble such as the expected sharp decline of Ikea orders and the unexpected global lockdown, the limited financial gaps compared to prior periods performance look overall immaterial, if not an achievement.

Opening the way to the US market

Over the last few months Illa received orders worth \$2.6m from new US customers, entering a key target market such as the USA.

Outlook: Ongoing turnaround from one-customer to multi-customer model

Illa's business model is shifting since 2019 from a production model mainly settled to serve Ikea to a multi-customer model, through an ongoing turnaround involving production, the organization and the Company's strategy. The recovery strategy after Ikea disengagement focuses on marketing actions on own brands, diversification of sales channels and extension of the private label business. H1 2020 achievements like the introduction of recycled aluminum product lines signal that the turnaround is working.

Estimates revision

Management 2020 revenue target of €24-25m is likely to be achieved, with €22.3m revenues generated until end of September 2020. In the framework of the business turnaround, Management is currently working on a cost reduction plan to recover profitability and on new business development for 2021. Based on Q3 2020 revenues, we are confident that these targets are at reach. As such, we confirm our last revenue estimates which envisaged a first recovery in the short-term.

Target Price €0.56 per share (from €0.73), NEUTRAL confirmed

Our valuation yields a Target Price per share of €0.56, from €0.73 of our previous note, with a potential upside of 15% on the current share price of €0.49. As a consequence, we confirm the NEUTRAL rating on the stock.

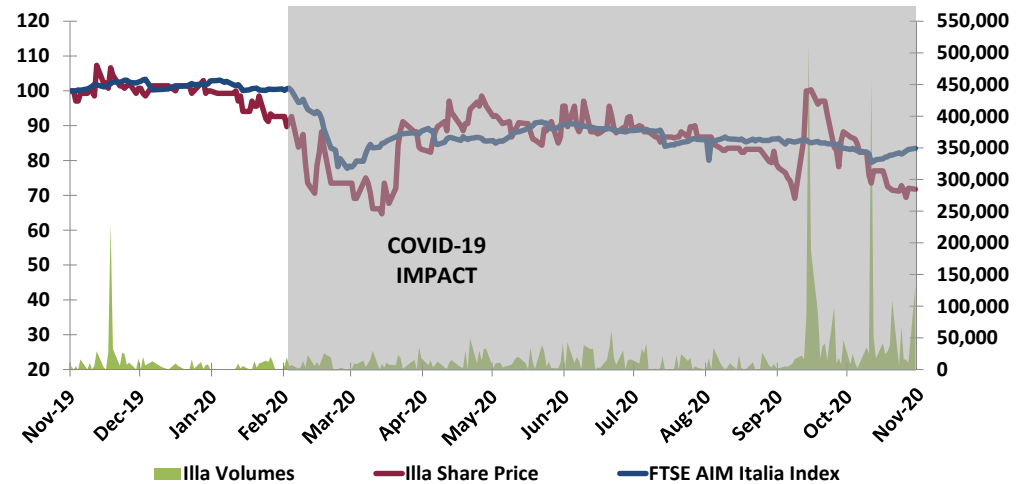
Key financials and estimates

€m	2017A	2018A	2019A	2020E	2021E	2022E	2023E
Revenues	40.3	33.7	29.6	24.9	29.1	33.2	37.2
EBITDA	2.0	1.0	(0.9)	(1.2)	1.7	2.3	2.6
Margin	5.0%	3.0%	-3.1%	-4.9%	5.8%	7.0%	7.1%
EBIT	0.7	(0.5)	(2.2)	(2.4)	0.2	0.8	1.1
Margin	1.8%	-1.5%	-7.5%	-9.8%	0.7%	2.3%	2.9%
Net Income (Loss)	0.1	(0.7)	(2.4)	(2.7)	(0.3)	0.2	0.4
Net (Debt) Cash	(6.7)	(10.1)	(12.6)	(15.5)	(16.2)	(14.9)	(14.4)
Equity	6.2	5.4	3.1	0.4	0.1	0.2	0.7

Source: Company data 2017-19A; EnVent Research 2020-23E

Market update

Illa - 1Y Share price performance and trading volumes



Source: EnVent Research on S&P Capital IQ - Note: 18/11/2019=100

Illa 1Y share price range €0.44-0.73, with beginning price at €0.68 and ending at €0.49, 28% drop

In the same period, the AIM Italia Index decreased by 17%

H1 2020: Recovery plan works despite Covid-19 turmoil: Ikea drop offset by sales of own brands

H1 2020 sales over half of our 2020 estimate

Drop in sales to Ikea as foreseen, from 52% to 17% of turnover

Domestic sales of own brands +27%

Stability of major B/S indicators

Covid-19 impact and countermeasures

H1 2020 Sales of €13.7m were slightly under €14.2m in H1 2019 (-3%), being hit by the foreseen decrease of sales to Ikea (-32%), offset by increasing domestic sales of own brands (+27%). Management reported an increase in sales of premium lines with a higher pricing compared to last years. However, H1 2020 volumes were 30% lower than the production capacity. Exports (excluding Ikea) were €2.5m, same level of H1 2019. Giannini sales of €1.1m decreased by 42% on H1 2019, due to 2-month retail sales lockdown.

EBITDA was €(0.3)m, vs. €(0.2)m in H1 2019. EBIT was €(0.9)m, vs. €(0.8)m in H1 2019. Net loss of €(1.2)m, vs. €(0.9)m in H1 2019, impacted also by higher financial expense consequent to the shift from Ikea to a diversified customer base.

TWC was €9.5m as of June 2020, from €9.1m at year-end 2019m for the combined effect of lower inventory and payables and slightly higher receivables.

Net financial debt increased from €12.6m at year-end 2019 to €13.6m as of June 2020, mainly for investments in R&D (production process of the cookware line made by 100% recycled aluminum).

New bank facilities for €1.4m have been agreed in the context of Covid-19 measures.

In addition to the break in production from March 23rd to May 3rd according to Government directives due to Covid-19 lockdown, the pandemic has slowed down the ongoing turnaround activities following the sudden disengagement of Ikea. During the shutdown of production, the Company has benefitted of Government measures for redundancy payments. In addition, smart working has been

introduced for employees not involved in production, payables terms have been extended, medium-term credit lines have been requested.

Profit and Loss

€m	H1 2019	H1 2020
Sales	14.2	13.7
Other revenues	0.0	0.0
Revenues	14.2	13.7
YoY %	-28.5%	-3.3%
COGS	(7.6)	(7.9)
Services	(3.6)	(3.6)
Personnel	(2.9)	(2.7)
Leases	(0.1)	(0.1)
Other (operating costs) capitalizations of costs	(0.2)	0.3
EBITDA	(0.2)	(0.3)
Margin	-1.2%	-2.5%
D&A	(0.6)	(0.6)
EBIT	(0.8)	(0.9)
Margin	-5.5%	-6.6%
Interest	(0.2)	(0.3)
EBT	(0.9)	(1.2)
Margin	-6.6%	-8.8%
Income taxes	(0.0)	(0.0)
Net Income (Loss)	(0.9)	(1.2)
Margin	-6.7%	-8.8%

Source: Company data - Note: H1 2020 figures following the merger of the subsidiary Nuova Illafor into Illa occurred in Q1 2020 with effect starting on January 1st, 2020 are no longer needing consolidation

Balance Sheet

€m	H1 2019	2019	H1 2020
Inventory	11.0	11.7	10.4
Trade receivables	6.2	5.4	5.9
Trade payables	(7.1)	(8.0)	(6.8)
Trade Working Capital	10.1	9.1	9.5
Other assets (liabilities)	(0.9)	(0.4)	(1.5)
Net Working Capital	9.3	8.7	8.0
Intangible assets	1.5	1.3	1.6
Property, plant and equipment	9.2	8.8	9.0
Non-current assets	10.7	10.2	10.6
Provisions	(3.2)	(3.1)	(3.1)
Net Invested Capital	16.8	15.7	15.5
Cash	(1.4)	(0.2)	(0.9)
Bank debt	11.1	10.2	11.7
Other financial debt	2.6	2.6	2.8
Net Debt (Cash)	12.3	12.6	13.6
Equity	4.5	3.1	1.9
Sources	16.8	15.7	15.5

Source: Company data

Investments in R&D for the production process of cookware made by recycled aluminum

Cash Flow

€m	H1 2019	H1 2020
EBIT	(0.8)	(0.9)
Current taxes	(0.0)	(0.0)
D&A	0.6	0.6
Provisions	0.0	(0.0)
Cash flow from P&L operations	(0.2)	(0.4)
Trade Working Capital	(2.0)	(0.4)
Other assets and liabilities	0.1	1.1
Capex	(0.1)	(1.0)
Operating cash flow after working capital and capex	(2.1)	(0.7)
Interest	(0.2)	(0.3)
Net cash flow	(2.2)	(1.0)
Net (Debt) Cash - Beginning	(10.1)	(12.6)
Net (Debt) Cash - End	(12.3)	(13.6)
Change in Net (Debt) Cash	(2.2)	(1.0)

Source: Company data

Ratio analysis

KPIs	H1 2019	H1 2020
ROE	-38%	-140%
ROS (EBIT/Sales)	-5%	-7%
DOI	140	136
DSO	65	64
DPO	93	86
Revenue per Employee (€k)	278	298
TWC/Sales	33%	32%
Net Debt / EBITDA	n.m.	n.m.
Net Debt / Equity	2.7x	7.3x
Cash flow from P&L operations / EBITDA	neg.	neg.
FCF / EBITDA	neg.	neg.

Source: Company data - Note: H1 KPIs calculated on LTM economics

Period facts

Opening the way to the US market

Over the last few months Illa received orders worth \$2.6m from new US customers, entering a key target market such as the USA.

Management guidelines for 2020 confirmed

After the first wave of Covid-19, Management had adjusted its 2020 revenue guideline from €29.6m to €25m. The 2020 revenue target is likely to be confirmed, with €22.3m revenues generated until end of September 2020 according to Management.

In the framework of the business turnaround, Management is working on a cost reduction plan to recover profitability and on new business development for 2021.

Recall of 2020-23 Management guidelines

- 2020 revenues €24-25m
- Target revenues for 2023 in the range €35-37m
- Breakeven in 2020-21
- Target EBITDA margin in the range 6-7% in 2023
- Machinery and equipment investments estimated in €2.5m for the period
- Cash generation after 2021

Outlook: Ongoing turnaround from one-customer to multi-customer model

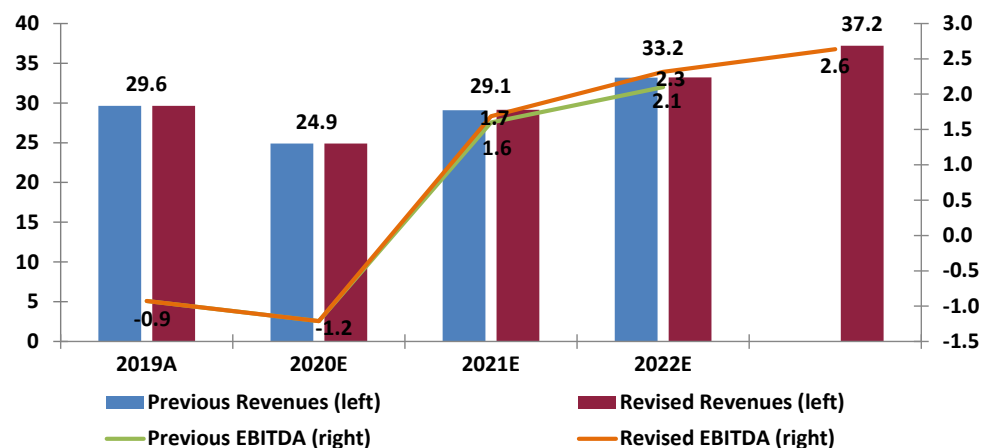
The recovery plan after Ikea disengagement focuses on own brands, Giannini business unit and on the private label business, through diversification of sales channels and product portfolio, together with marketing actions to develop the awareness on its brands/products both on the domestic and international markets. Illa’s business model is shifting from a production model mainly settled to serve Ikea to a multi-customer model, through an ongoing turnaround involving production, the organization and the Company’s strategy.

Estimates revision

Based on Q3 2020 reported revenues at ca. 90% of FY20 estimate, we are confident that Management revenue target for 2020 is close to reach. As such, we confirm our last revenue estimates which envisaged a short-term recovery. We have reviewed operating costs, working capital dynamics and financial interest over the projection period, according to recent results, and we have added one year to harmonize our projection period with Illa plan horizon (2020-23).

Change in estimates

Revenues and EBITDA (€m) - Previous vs. Revised estimates



Source: EnVent Research

€m	Revised					Previous			Change %		
	2019A	2020E	2021E	2022E	2023E	2020E	2021E	2022E	2020E	2021E	2022E
Revenues	29.6	24.9	29.1	33.2	37.2	24.9	29.1	33.2	0%	0%	0%
EBITDA	(0.9)	(1.2)	1.7	2.3	2.6	(1.2)	1.6	2.1	0%	5%	10%
<i>Margin</i>	-3.1%	-4.9%	5.8%	7.0%	7.1%	-4.9%	5.5%	6.4%			
EBIT	(2.2)	(2.4)	0.2	0.8	1.1	(2.7)	(0.0)	0.5	nm	nm	54%
<i>Margin</i>	-7.5%	-9.8%	0.7%	2.3%	2.9%	-10.7%	0.0%	1%			
Net Income (Loss)	(2.4)	(2.7)	(0.3)	0.2	0.4	(2.8)	(0.3)	0.1	nm	nm	54%
Net (Debt) Cash	(12.6)	(15.5)	(16.2)	(14.9)	(14.4)	(12.0)	(13.1)	(12.3)			

Source: EnVent Research

Financial projections

Short-term recovery, breakeven in 2022 and march to pre-crisis revenues in 2023

Profit and Loss

€m	2017A	2018A	2019A	2020E	2021E	2022E	2023E
Sales	38.4	31.0	28.0	23.4	27.6	31.7	35.7
Coating sales	1.5	2.4	1.5	1.5	1.5	1.5	1.5
Other revenues	0.4	0.3	0.2	0.0	0.0	0.0	0.0
Revenues	40.3	33.7	29.6	24.9	29.1	33.2	37.2
<i>YoY %</i>	-0.1%	-16.4%	-12.1%	-16.0%	17.0%	14.0%	12.0%
COGS	(22.5)	(18.6)	(17.6)	(15.5)	(16.2)	(18.4)	(21.0)
Services	(9.3)	(7.7)	(6.9)	(6.0)	(6.4)	(7.3)	(8.2)
Personnel	(6.0)	(5.8)	(5.6)	(4.2)	(4.4)	(4.8)	(5.0)
Leases	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Other operating costs	(0.4)	(0.4)	(0.4)	(0.2)	(0.2)	(0.2)	(0.2)
EBITDA	2.0	1.0	(0.9)	(1.2)	1.7	2.3	2.6
<i>Margin</i>	5.0%	3.0%	-3.1%	-4.9%	5.8%	7.0%	7.1%
D&A	(1.3)	(1.5)	(1.3)	(1.2)	(1.5)	(1.5)	(1.5)
EBIT	0.7	(0.5)	(2.2)	(2.4)	0.2	0.8	1.1
<i>Margin</i>	1.8%	-1.5%	-7.5%	-9.8%	0.7%	2.3%	2.9%
Interest	(0.4)	(0.3)	(0.3)	(0.5)	(0.5)	(0.5)	(0.5)
EBT	0.3	(0.8)	(2.6)	(2.9)	(0.3)	0.2	0.6
<i>Margin</i>	0.9%	-2.4%	-8.7%	-11.7%	-1.1%	0.7%	1.6%
Income taxes	(0.2)	0.0	0.2	0.2	0.0	(0.1)	(0.2)
Net Income (Loss)	0.1	(0.7)	(2.4)	(2.7)	(0.3)	0.2	0.4
<i>Margin</i>	0.3%	-2.2%	-8.0%	-10.8%	-1.0%	0.5%	1.1%

Source: Company data 2017-19A; EnVent Research 2020-23E

Balance Sheet

€m	2017A	2018A	2019A	2020E	2021E	2022E	2023E
Inventory	11.5	10.1	11.7	9.9	10.8	10.9	12.2
Trade receivables	4.8	4.0	5.4	5.4	5.8	6.7	7.5
Trade payables	(10.5)	(6.0)	(8.0)	(6.5)	(6.8)	(7.7)	(8.8)
Trade Working Capital	5.9	8.2	9.1	8.8	9.8	9.8	10.9
Other assets (liabilities)	(0.8)	(0.8)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Net Working Capital	5.0	7.4	8.7	8.5	9.4	9.5	10.5
Intangible assets	1.8	1.6	1.3	1.8	1.2	0.6	(0.0)
Property, plant and equipment	8.8	9.6	8.8	8.1	8.3	7.8	7.4
Non-current assets	11.0	11.2	10.2	9.9	9.5	8.4	7.4
Provisions	(3.2)	(3.1)	(3.1)	(2.5)	(2.6)	(2.8)	(2.9)
Net Invested Capital	12.9	15.5	15.7	15.9	16.3	15.1	15.0
Net Debt (Cash)	6.7	10.1	12.6	15.5	16.2	14.9	14.4
Equity	6.2	5.4	3.1	0.4	0.1	0.2	0.7
Sources	12.9	15.5	15.7	15.9	16.3	15.1	15.0

Source: Company data 2017-19A; EnVent Research 2020-23E

2020 losses may imply capital stock increase in 2021

Cash Flow

€m	2017A	2018A	2019A	2020E	2021E	2022E	2023E
EBIT	0.7	(0.5)	(2.2)	(2.4)	0.2	0.8	1.1
Current taxes	(0.2)	0.0	0.2	0.2	0.0	(0.1)	(0.2)
D&A	1.3	1.5	1.3	1.2	1.5	1.5	1.5
Provisions	0.1	(0.0)	0.0	(0.6)	0.1	0.1	0.1
Cash flow from P&L operations	1.9	1.0	(0.7)	(1.6)	1.8	2.4	2.6
Trade Working Capital	(0.1)	(2.3)	(0.9)	0.2	(1.0)	(0.0)	(1.1)
Other assets and liabilities	(0.2)	(0.1)	(0.4)	0.0	0.0	0.0	0.0
Capex	(0.5)	(1.8)	(0.2)	(1.0)	(1.0)	(0.5)	(0.5)
Operating cash flow after working capital and capex	1.0	(3.1)	(2.2)	(2.4)	(0.2)	1.9	1.0
Interest	(0.4)	(0.3)	(0.3)	(0.5)	(0.5)	(0.5)	(0.5)
Net cash flow	3.9	(3.4)	(2.6)	(2.9)	(0.7)	1.3	0.5
Net (Debt) Cash - Beginning	(10.5)	(6.7)	(10.1)	(12.6)	(15.5)	(16.2)	(14.9)
Net (Debt) Cash - End	(6.7)	(10.1)	(12.6)	(15.5)	(16.2)	(14.9)	(14.4)
Change in Net (Debt) Cash	3.9	(3.4)	(2.6)	(2.9)	(0.7)	1.3	0.5

Source: Company data 2017-19A; EnVent Research 2020-23E

Ratio analysis

KPIs	2017A	2018A	2019A	2020E	2021E	2022E	2023E
ROE	2%	-14%	-77%	-690%	-310%	62%	62%
ROS (EBIT/Sales)	2%	-1%	-8%	-10%	1%	2%	3%
DOI	105	111	145	145	135	120	120
DSO	36	36	55	65	60	60	60
DPO	99	68	98	90	90	90	90
TWC/Sales	15%	21%	29%	36%	32%	30%	28%
Net Debt / EBITDA	3.3x	9.9x	n.m.	n.m.	9.6x	6.4x	5.5x
Net Debt / Equity	1.1x	1.8x	4.1x	39.7x	170.3x	59.6x	21.9x
Cash flow from P&L operations / EBITDA	94%	103%	78%	132%	107%	102%	97%
FCF / EBITDA	52%	neg.	239%	198%	neg.	80%	37%

Source: Company data 2017-19A; EnVent Research 2020-23E

Valuation

Discounted Cash Flows

Updated assumptions:

- Risk free rate: 1.7% (Italian 10-year government bonds interest rate - 3Y average. Source: Bloomberg, November 2020)
- Market return: 13.0% (3Y average. Source: Bloomberg, November 2020)
- Market risk premium: 11.3%
- Beta: 1.5 (Source: Historical analysis on Bloomberg, November 2020)
- Cost of equity: 18.6%
- Cost of debt: 3% (Source: average historical rate)
- Tax rate: 24% (IRES)
- 60% debt / (debt + equity) as target capital structure
- WACC 8.8%
- Perpetual growth rate after explicit projections: 2%
- Terminal Value assumes an EBITDA margin of 7%

DCF Valuation

€m	2019A	2020E	2021E	2022E	2023E	Perpetuity
Revenues	29.6	24.9	29.1	33.2	37.2	40.0
EBITDA	(0.9)	(1.2)	1.7	2.3	2.6	2.8
<i>Margin</i>	-3.1%	-4.9%	5.8%	7.0%	7.1%	7.0%
EBIT	(2.2)	(2.4)	0.2	0.8	1.1	2.4
<i>Margin</i>	-7.5%	-9.8%	0.7%	2.3%	2.9%	6.0%
Taxes	0.6	0.7	(0.1)	(0.2)	(0.3)	(0.7)
NOPAT	(1.6)	(1.8)	0.2	0.6	0.8	1.7
D&A	1.3	1.2	1.5	1.5	1.5	0.4
Provisions	0.0	(0.6)	0.1	0.1	0.1	0.1
Cash flow from operations	(0.3)	(1.1)	1.7	2.2	2.4	2.2
Trade Working Capital	(0.9)	0.2	(1.0)	(0.0)	(1.1)	(0.3)
Other assets and liabilities	(0.4)	0.0	0.0	0.0	0.0	0.0
Capex	(0.2)	(1.0)	(1.0)	(0.5)	(0.5)	(0.4)
Free cash flow	(1.8)	(1.9)	(0.3)	1.7	0.9	1.5
WACC	8.8%					
Long-term growth (G)	2.0%					
Discounted Cash Flows		(1.9)	(0.2)	1.4	0.6	
Sum of Discounted Cash Flows	(0.0)					
Terminal Value						22.7
Discounted TV	18.4					
Enterprise Value	18.3					
Net Debt as of 30/06/2020	(13.6)					
Equity Value	4.7					

DCF - Implied multiples	2019A	2020E	2021E	2022E
EV/Revenues	0.6x	0.7x	0.6x	0.6x
EV/EBITDA	neg.	neg.	10.9x	7.9x
EV/EBIT	neg.	neg.	84.7x	23.8x
P/E	neg.	neg.	neg.	30.5x

Current market price - Implied multiples	2019A	2020E	2021E	2022E
EV/Revenues	0.6x	0.7x	0.6x	0.5x
EV/EBITDA	neg.	neg.	10.5x	7.7x
EV/EBIT	neg.	neg.	81.9x	23.0x
P/E	neg.	neg.	neg.	26.5x
<i>Discount</i>	3%			

Source: EnVent Research

Target Price

The application of our valuation model yields a target price per share of €0.56 (from €0.73 in our prior note), 15% upside on the current share price of €0.49. As a consequence, we confirm the NEUTRAL recommendation on the stock.

Please refer to important disclosures at the end of this report.

IIa Price per Share	€
Target Price	0.56
Current Share Price 16/11/2020	0.49
Premium (Discount)	15%

Source: EnVent Research

Investment thesis

Illa is an Italian manufacturer of non-stick aluminum cookware. Illa's products, which also include houseware, are distributed as private labels by large retailers, and with its own brands, Illa and the recently added Giannini (well-known for its iconic Italian Moka coffee makers), by multi-brand specialty stores.

We see several investment positives:

- Superior servicing, attitude and skills
- Unique product innovation, conceived for "healthy cooking" lovers
- State-of-the-art manufacturing facility
- Room for growth thanks to significant capacity, a key competitive advantage in the industry
- Cookware: a market driven by replacement
- Increasing market share of large retailers
- Strong appeal of culinary art spreads visibility of Italian lifestyle and Made in Italy

Risks to rating and target price

Downside risks include:

- Substantial reduction of Ikea, Illa's largest customer, present volumes
- Price pressure caused by exacerbation of competition within the industry
- Increasing penetration of low cost products and private labels
- Rise in raw material costs
- Promotional expenses and advertising budget payback

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Rating rationale:

OUTPERFORM: stocks are expected to have a total return of at least 20% in the mid-term;

NEUTRAL: stocks are expected to have a performance consistent with market or industry trend and appear less attractive than Outperform rated stocks;

UNDERPERFORM: stocks are among the least attractive in a peer group;

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NOT RATED: no rating or target price assigned.

The stock price indicated is the reference price on the day indicated as “Date of Price” in the table on the front page of this publication.

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Date	Recommendation	Target Price (€)	Share Price (€)
12/06/2018	OUTPERFORM	2.79	1.75
07/11/2018	NEUTRAL	1.86	1.78
05/07/2019	SUSPENDED	n.a.	0.81
13/01/2020	NEUTRAL	0.82	0.70
18/06/2020	NEUTRAL	0.73	0.65
16/11/2020	NEUTRAL	0.56	0.49

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