

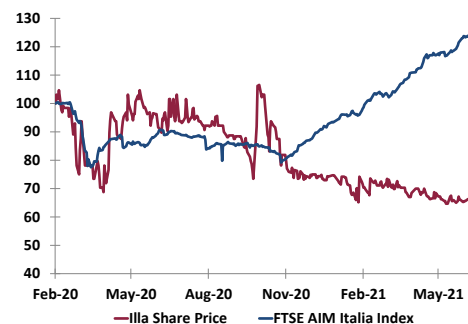


NEUTRAL

Current Share Price (€): 0.43

Target Price (€): 0.45

Illa – 16M Performance



Source: S&P Capital IQ - Note: 03/02/2020=100

Company data

ISIN number	IT0005316705
Bloomberg code	ILLA MI
Reuters code	ILLA.MI
Industry	Manufacturing
Stock market	AIM Italia
Share Price (€)	0.43
Date of Price	10/06/2021
Shares Outstanding (m)	8.4
Market Cap (€m)	3.6
Market Float (%)	44.6%
Daily Volume	500
Avg Daily Volume YTD	36,070
Target Price (€)	0.45
Upside (%)	5%
Recommendation	NEUTRAL

Share price performance

	1M	3M	1Y
Illa - Absolute (%)	2%	-4%	-29%
FTSE AIM Italia (%)	5%	19%	37%
1Y Range H/L (€)		0.68	0.41
YTD Change (€)/%		-0.05	-10%

Source: S&P Capital IQ

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Exceeding sales targets, multi-customer model in progress among uncertainties

FY 2020: Ikea sales replacement higher than expected, at work to recover breakeven

FY 2020 Sales of €27.3m, -7.5% from 2019, were better than management guidelines at €24-25m but still reflecting declining revenue from Ikea (-71.9% YoY), partially offset by the Italian market (+139.2% YoY) and other international customers (+80.1% YoY). EBITDA was €(1.2)m, vs. €(0.9)m in 2019, while EBITDA adjusted €(0.5)m, primarily for €0.6m non-recurring inventory write-off. Net loss of €(2.0)m, vs. €(2.4)m in 2019.

Trade working capital decreased from €9.1m to €7.3m as of December 2020. Net financial debt increased from €12.6m at year-end 2019 to €13.2m, including IAS/IFRS leasing accounting. Fixed assets revaluation of €4.8m produced a par increase of shareholders equity reserves. Year-end 2020 net equity was €5.4m after €(2.0)m net loss, from €3.1m in FY19.

As anticipated for H1 accounts, Illa has been able to limit the impact of the expected sharp decline of Ikea orders and of the unexpected retail sales global drop.

Capital stock increase approved

Following an agreement with Atlas Capital Markets, worth a total commitment of maximum €3m, Illa's shareholders meeting approved a maximum of 1,675,000 ordinary shares capital increase reserved to Atlas, which will additionally receive free warrants.

Outlook and estimates revision

In 2020 Illa was able to respect and exceed management revenue guidelines and safeguard operating margins. However, the shift from the primary customer IKEA to a multi-customer model and the still ongoing cost reduction plan will take time to recover prior revenue levels and profitability. Considering also uncertainties about demand recovery from retailers, challenged by shifts to e-commerce, and timing of turnaround progress, we overall confirm our prior short-term revenue estimates but deem appropriate to postpone breakeven to 2023, while still envisaging a 6%-7% operating margin for the medium-long term.

Target Price €0.45 per share (from €0.56), NEUTRAL rating confirmed

Illa share price dropped 33% over last 16 months, underperforming the AIM Italia index, which in the same period increased by 24%. The Company's YTD stands at -10%, vs. the AIM index 32%.

Our valuation yields a Target Price per share of €0.45, from €0.56 of our previous note, with a potential upside of 5% on the current share price of €0.43. 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	27.5	29.1	33.2	37.2
EBITDA	2.0	1.0	(0.9)	(1.2)	0.6	1.4	2.0
Margin	5.0%	3.0%	-3.1%	-4.5%	2.0%	4.2%	5.4%
EBIT	0.7	(0.5)	(2.2)	(1.8)	(1.0)	(0.3)	0.4
Margin	1.8%	-1.5%	-7.5%	-6.6%	-3.5%	-0.8%	1.0%
Net Income (Loss)	0.1	(0.7)	(2.4)	(2.0)	(1.5)	(0.7)	(0.2)
Net (Debt) Cash	(6.7)	(10.1)	(12.6)	(13.2)	(14.9)	(15.3)	(15.2)
Equity	6.2	5.4	3.1	5.4	3.9	3.2	3.0

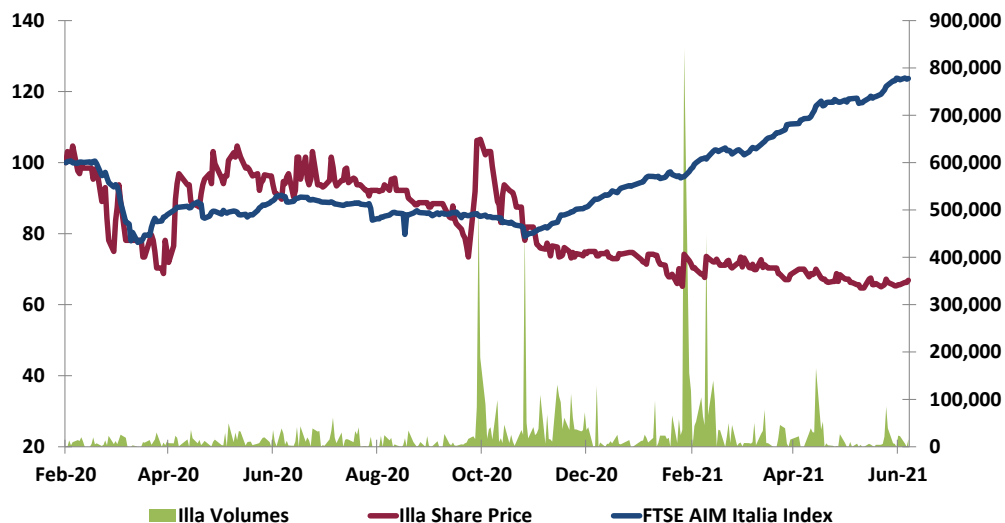
Source: Company data 2017-20A; EnVent Research 2021-23E

Market update

Illa – 16M Share price performance and trading volumes

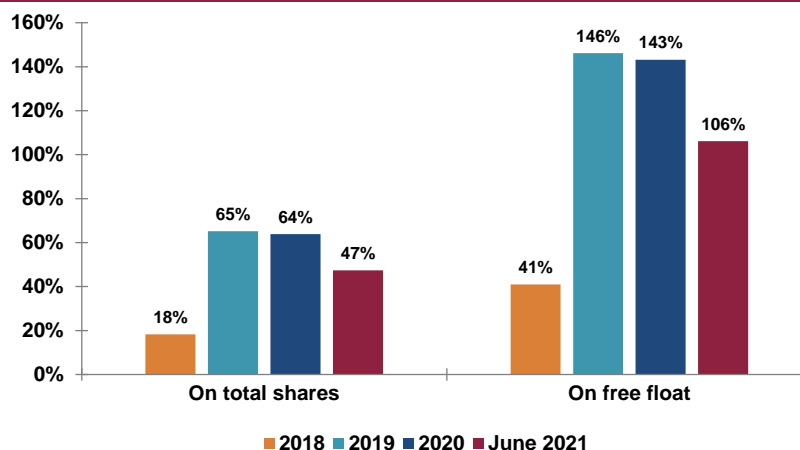
Illa's shares in the last 16 months traded in the range €0.41-0.68, with beginning price €0.64 and ending €0.43, 33% drop.

In the same period, the AIM Italia Index increased by 24%



Source: EnVent Research on S&P Capital IQ - Note: 03/02/2020=100

Illa - Liquidity analysis and velocity turnover



Source: EnVent Research on Bloomberg - Note: The velocity turnover is the ratio of total traded shares to total ordinary shares in a given period

FY20 financials: Ikea sales replacement higher than expected and cost efficiency meeting our estimates

In 2020 sales decreased by 7.5% YoY from €29.5m in FY19 to €27.3m, better than management guidelines which were in the region of €24-25m. Sales reflect declining revenue from Ikea (-71.9% YoY) and Giannini (-44.5% YoY), partially offset by the Italian market (+139.2% YoY) and other international customers (+80.1% YoY).

The cost efficiency program undertaken by the Company enabled a more than proportional decrease in COGS from €17.6m to €15.7m (56% of sales vs. 60% in FY19). EBITDA of €(1.2)m from €(0.9)m in 2019, after the combined effect of

reduced overhead coverage for lower sales and slightly better margins. The Company also reports an EBITDA adjusted to €(0.5)m for non-recurring €0.6m inventory write-off and €0.1m consultancy expenses. EBIT at €(1.8)m after €0.6m D&A vs. €1.3m 2019 D&A. The Company has taken the opportunity given by Covid-19 related decrees to postpone D&A. Net loss at €(2.0)m vs. €(2.4)m in FY19 after €0.6m interest expenses

€1.8m cash from TWC

On the balance sheet side, cash coming from sound ratios in trade working capital - TWC from €9.1m at year-end 2019 to €7.3m in 2020- counterbalanced operating losses at EBIT level.

FY20 net financial debt, including IAS/IFRS leasing accounting, was €13.2m, vs. €12.6m at year-end 2019.

€4.8m revaluation reserve

As permitted by government decree n.104/2020, fixed assets have been revalued by €4.8m, with a par increase of shareholders equity reserves as of December 2020. Year-end net equity was €5.4m after €(2.0)m net loss, from €3.1m in FY19.

We recall that in Q1 2020, as part of Illa reorganization strategy, the subsidiary Nuova Illafor has been merged into Illa therefore consolidated figures are no longer provided. As a consequence, Illa has communicated 2020 financial according to Italian GAAP. However, for a proper comparison with prior-year financials, especially net financial debt, the Company has provided reconciliation statements with application of IAS/IFRS leasing accounting as in 2019 consolidated financial statements.

Period facts

Investment agreement with Atlas Capital Markets and relative reserved capital increase

Investment agreement with Atlas Capital Markets, a professional investor with track record on AIM Italia, with a commitment of maximum €3m in new ordinary shares. Following the agreement, in March 2021 a Company shareholders meeting approved a capital increase reserved to Atlas by issuing a maximum of 1,675,000 ordinary shares. As part of the transaction, Atlas Capital will also receive free warrants.

Export growth in US market

In the first months of 2021 Illa continued its growth in the US market, entered in 2020, with an additional €1.2m order.

Outlook: turnaround to multi-customer model in progress among uncertainties

In 2020 Illa was able to respect and exceed management revenue guidelines and safeguard operating margins thanks to the effectiveness of the ongoing cost reduction plan. However, the shift from the primary customer IKEA to a multi-customer model will still take time to recover prior revenue levels and profitability. Accordingly, in view of persistent uncertainties about demand recovery from retailers, challenged by shifts to e-commerce, and timing of turnaround progress, management stated that they are not yet confident in providing updated guidelines for 2021.

Recall of 2020-23 last available management guidelines:

- 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

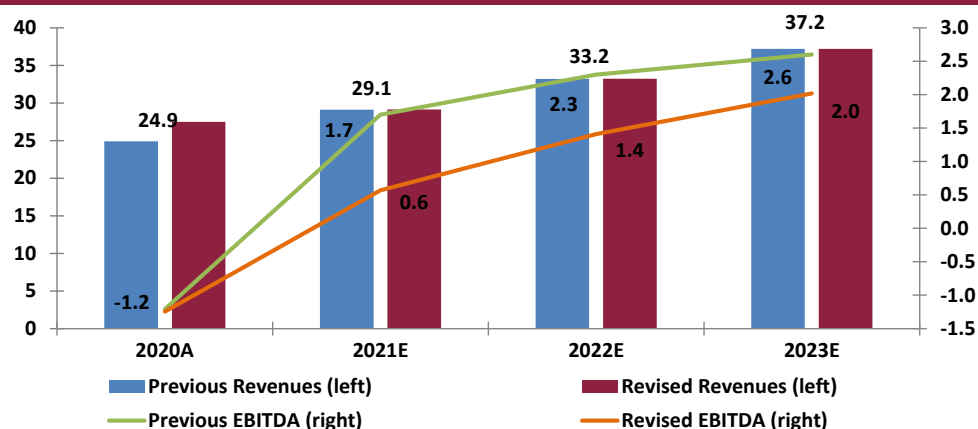
We also recall that the recovery plan after Ikea disengagement focuses on own brands, Giannini business unit and on the private label business, through diversification of sales channels and product portfolio, both on the domestic and international markets.

Estimates revision

We acknowledge that in 2020 Illa was able to meet its overall revenue targets and that operating results have been close or better than our estimates. Thus, we overall confirm our prior short-term revenue estimates, with some fine tuning to factor in 2020 actual cost margins. The cost reduction plan is still ongoing and therefore we deem appropriate to postpone its effects on margins to 2022-23 and breakeven to 2023, while still considering a 6%-7% operating margin for the medium-long term.

Change in estimates

Previous vs. Revised estimates



Source: EnVent Research

€m	Revised				Previous				Change %			
	2020A	2021E	2022E	2023E	2020A	2021E	2022E	2023E	2020A	2021E	2022E	2023E
Revenues	27.5	29.1	33.2	37.2	24.9	29.1	33.2	37.2	10%	0%	0%	0%
EBITDA	(1.2)	0.6	1.4	2.0	(1.2)	1.7	2.3	2.6	3%	-67%	-39%	-22%
<i>Margin</i>	-4.5%	2.0%	4.2%	5.4%	-4.9%	5.8%	7.0%	7.1%				
EBIT	(1.8)	(1.0)	(0.3)	0.4	(2.4)	0.2	0.8	1.1	nm	nm	nm	-67%
<i>Margin</i>	-6.6%	-3.5%	-0.8%	1.0%	-9.8%	0.7%	2.3%	2.9%				
Net Income (Loss)	(2.0)	(1.5)	(0.7)	(0.2)	(2.7)	(0.3)	0.2	0.4	nm	nm	nm	nm
Net (Debt) Cash	(13.2)	(14.9)	(15.3)	(15.2)	(15.5)	(16.2)	(14.9)	(14.4)				

Source: EnVent Research

Financial projections

Consolidated Profit and Loss

€m	2017A	2018A	2019A	2020A	2021E	2022E	2023E
Revenues	40.3	33.7	29.6	27.5	29.1	33.2	37.2
<i>YoY %</i>	-0.1%	-16.4%	-12.1%	-7.3%	6.0%	14.0%	12.0%
COGS	(22.5)	(18.6)	(17.6)	(15.7)	(16.2)	(18.4)	(20.6)
Services	(9.3)	(7.7)	(6.9)	(6.9)	(7.0)	(7.6)	(8.6)
Personnel	(6.0)	(5.8)	(5.6)	(5.5)	(5.0)	(5.4)	(5.6)
Leases	(0.2)	(0.2)	(0.2)	(0.3)	(0.2)	(0.2)	(0.2)
Other operating costs	(0.4)	(0.4)	(0.4)	(0.3)	(0.2)	(0.2)	(0.2)
EBITDA	2.0	1.0	(0.9)	(1.2)	0.6	1.4	2.0
<i>Margin</i>	5.0%	3.0%	-3.1%	-4.5%	2.0%	4.2%	5.4%
D&A	(1.3)	(1.5)	(1.3)	(0.6)	(1.6)	(1.7)	(1.7)
EBIT	0.7	(0.5)	(2.2)	(1.8)	(1.0)	(0.3)	0.4
<i>Margin</i>	1.8%	-1.5%	-7.5%	-6.6%	-3.5%	-0.8%	1.0%
Interest	(0.4)	(0.3)	(0.3)	(0.6)	(0.6)	(0.6)	(0.6)
EBT	0.3	(0.8)	(2.6)	(2.4)	(1.6)	(0.9)	(0.3)
<i>Margin</i>	0.9%	-2.4%	-8.7%	-8.7%	-5.6%	-2.6%	-0.7%
Income taxes	(0.2)	0.0	0.2	0.4	0.1	0.2	0.0
Net Income (Loss)	0.1	(0.7)	(2.4)	(2.0)	(1.5)	(0.7)	(0.2)
<i>Margin</i>	0.3%	-2.2%	-8.0%	-7.4%	-5.1%	-2.0%	-0.6%

Source: Company data 2017-20A; EnVent Research 2021-23E

Consolidated Balance Sheet

€m	2017A	2018A	2019A	2020A	2021E	2022E	2023E
Inventory	11.5	10.1	11.7	7.8	8.4	9.6	10.7
Trade receivables	4.8	4.0	5.4	4.5	4.8	5.5	6.2
Trade payables	(10.5)	(6.0)	(8.0)	(5.1)	(5.4)	(6.1)	(6.8)
Trade Working Capital	5.9	8.2	9.1	7.3	7.8	9.0	10.0
Other assets (liabilities)	(0.8)	(0.8)	(0.4)	(1.0)	(1.0)	(1.0)	(1.0)
Net Working Capital	5.0	7.4	8.7	6.3	6.8	7.9	9.0
Intangible assets	1.8	1.6	1.3	2.8	2.5	2.1	1.8
Property, plant and equipment	8.8	9.6	8.8	12.4	12.1	11.2	10.2
Non-current assets	11.0	11.2	10.2	15.2	14.6	13.3	12.1
Provisions	(3.2)	(3.1)	(3.1)	(2.8)	(2.6)	(2.8)	(2.9)
Net Invested Capital	12.9	15.5	15.7	18.6	18.8	18.5	18.2
Net Debt (Cash)	6.7	10.1	12.6	13.2	14.9	15.3	15.2
Equity	6.2	5.4	3.1	5.4	3.9	3.2	3.0
Sources	12.9	15.5	15.7	18.6	18.8	18.5	18.2

Source: Company data 2017-20A; EnVent Research 2021-23E

Consolidated Cash Flow

€m	2017A	2018A	2019A	2020A	2021E	2022E	2023E
EBIT	0.7	(0.5)	(2.2)	(1.8)	(1.0)	(0.3)	0.4
Current taxes	(0.2)	0.0	0.2	0.4	0.1	0.2	0.0
D&A	1.3	1.5	1.3	0.6	1.6	1.7	1.7
Provisions	0.1	(0.0)	0.0	(0.3)	(0.2)	0.2	0.1
Cash flow from P&L operations	1.9	1.0	(0.7)	(1.2)	0.4	1.8	2.2
Trade Working Capital	(0.1)	(2.3)	(0.9)	1.8	(0.5)	(1.2)	(1.1)
Other assets and liabilities	(0.2)	(0.1)	(0.4)	0.6	0.0	0.0	0.0
Capex	(0.5)	(1.8)	(0.2)	(5.6)	(1.0)	(0.4)	(0.4)
Operating cash flow after working	1.0	(3.1)	(2.2)	(4.3)	(1.1)	0.2	0.7
Interest	(0.4)	(0.3)	(0.3)	(0.6)	(0.6)	(0.6)	(0.6)
Net cash flow	3.9	(3.4)	(2.6)	(0.6)	(1.7)	(0.4)	0.1
Net (Debt) Cash - Beginning	(10.5)	(6.7)	(10.1)	(12.6)	(13.2)	(14.9)	(15.3)
Net (Debt) Cash - End	(6.7)	(10.1)	(12.6)	(13.2)	(14.9)	(15.3)	(15.2)
Change in Net (Debt) Cash	3.9	(3.4)	(2.6)	(0.6)	(1.7)	(0.4)	0.1

Source: Company data 2017-20A; EnVent Research 2021-23E

Ratio analysis

KPIs	2017A	2018A	2019A	2020A	2021E	2022E	2023E
ROE	2%	-14%	-77%	-38%	-38%	-20%	-7%
ROS (EBIT/Sales)	2%	-1%	-8%	-7%	-4%	-1%	1%
DOI	105	111	145	105	105	105	105
DSO	36	36	55	50	50	50	50
DPO	99	68	98	67	70	70	70
TWC/Sales	15%	21%	29%	30%	26%	25%	26%
Net Debt / EBITDA	3.3x	9.9x	n.m.	n.m.	26.1x	10.9x	7.5x
Net Debt / Equity	1.1x	1.8x	4.1x	2.5x	3.8x	4.7x	5.0x
Cash flow from P&L operations / EBITDA	94%	103%	n.m.	n.m.	78%	127%	108%
FCF / EBITDA	52%	neg.	n.m.	n.m.	neg.	15%	35%

Source: Company data 2017-20A; EnVent Research 2021-23E

Valuation

Discounted Cash Flows

Updated DCF assumptions as to market factors:

- Risk free rate: 1.5% (Italian 10-year government bonds interest rate - 3Y average. Source: Bloomberg, June 2021)
- Market return: 12.6% (3Y average. Source: Bloomberg, June 2021)
- Market risk premium: 11.2%
- Beta: 1.5 (Source: Historical analysis on Bloomberg, June 2021)
- Cost of equity: 18.2%
- Cost of debt: 3.5% (Source: average historical rate)
- Tax rate: 24% (IRES)
- 60% debt / (debt + equity) as target capital structure
- WACC 8.9%
- Perpetual growth rate after explicit projections: 2%
- Terminal Value assumes an EBITDA margin of 6.5%

DCF Valuation

€m	2017A	2018A	2019A	2020A	2021E	2022E	2023E	Perpetuity
Revenues	40.3	33.7	29.6	27.5	29.1	33.2	37.2	40.0
EBITDA	2.0	1.0	(0.9)	(1.2)	0.6	1.4	2.0	2.6
Margin	5.0%	3.0%	-3.1%	-4.5%	2.0%	4.2%	5.4%	6.5%
EBIT	0.7	(0.5)	(2.2)	(1.8)	(1.0)	(0.3)	0.4	2.2
Margin	1.8%	-1.5%	-7.5%	-6.6%	-3.5%	-0.8%	1.0%	5.5%
Taxes	(0.2)	0.1	0.6	0.5	0.3	0.1	(0.1)	(0.6)
NOPAT	0.5	(0.4)	(1.6)	(1.3)	(0.7)	(0.2)	0.3	1.6
D&A	1.3	1.5	1.3	0.6	1.6	1.7	1.7	0.4
Provisions	0.1	(0.0)	0.0	(0.3)	(0.2)	0.2	0.1	0.1
Cash flow from operations	1.9	1.1	(0.3)	(1.0)	0.6	1.6	2.0	2.1
Trade Working Capital	(0.1)	(2.3)	(0.9)	1.8	(0.5)	(1.2)	(1.1)	(0.2)
Other assets and liabilities	(0.2)	(0.1)	(0.4)	0.6	0.0	0.0	0.0	0.0
Capex	(0.5)	(1.8)	(0.2)	(5.6)	(1.0)	(0.4)	(0.4)	(0.4)
Free cash flow	1.1	(3.0)	(1.8)	(4.2)	(0.9)	0.1	0.6	1.5
WACC	8.9%							
Long-term growth (G)	2.0%							
Discounted Cash Flows					(0.8)	0.1	0.4	
Sum of Discounted Cash Flows	(0.3)							
Terminal Value								22.4
Discounted TV	17.4							
Enterprise Value	17.0							
Net Debt as of 31/12/2020	(13.2)							
Equity Value	3.8							
DCF - Implied multiples		2018A	2019A	2020A	2021E	2022E	2023E	
EV/Revenues		0.5x	0.6x	0.6x	0.6x	0.5x	0.5x	
EV/EBITDA		16.8x	neg.	neg.	29.9x	12.1x	8.4x	
EV/EBIT		neg.	neg.	neg.	neg.	neg.	n.m.	
P/E		neg.	neg.	neg.	neg.	neg.	neg.	

Source: EnVent Research

Target Price

The application of our valuation model yields a target price per share of €0.45 (from €0.56 in our prior note), 5% upside on the current share price of €0.43. As a consequence, we confirm the NEUTRAL recommendation on the stock.

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

IIIa Price per Share	€
Target Price	0.45
Current Share Price (10/06/2021)	0.43
Premium (Discount)	5%

Source: EnVent Research

Investment thesis

Company

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

Turnaround in progress

After Ikea disengagement and redesign of sales strategy in 2019, Illa is shifting from a production model mainly settled to serve Ikea to a more diversified approach, focusing on marketing its own brands and Giannini business unit while expanding its private label customers. A cost efficiency program is underway, to give room on pricing of cookware to better compete with suppliers from low-cost labor countries, in response to the declining revenue from Ikea.

According to management plan of being at the forefront of technologies, Illa has implemented the production of cookware made with 100% recycled aluminum and other eco-friendly materials.

Risks to rating and target price

Downside risks include:

- Timing and effectiveness of turnaround
- 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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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
10/06/2021	NEUTRAL	0.45	0.43

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