

# CULTI

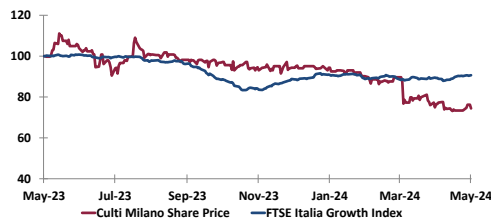
MILANO

## OUTPERFORM

**Current Share Price (€): 14.40**

**Target Price (€): 21.30**

### Culti Milano - 1Y Performance



Source: S&P Capital IQ - Note: 10/05/2023=100

### Company data

|                        |                              |
|------------------------|------------------------------|
| ISIN number            | IT0005257347                 |
| Bloomberg code         | CULT IM                      |
| Reuters code           | CULT.MI                      |
| Industry               | Fragrances and personal care |
| Stock market           | Euronext Growth Milan        |
| Share Price (€)        | 14.40                        |
| Date of Price          | 10/05/2024                   |
| Shares Outstanding (m) | 3.1                          |
| Market Cap (€m)        | 44.6                         |
| Market Float (%)       | 10.9%                        |
| Daily Volume           | 1,130                        |
| Avg Daily Volume YTD   | 537                          |
| Target Price (€)       | 21.30                        |
| Upside (%)             | 48%                          |
| Recommendation         | OUTPERFORM                   |

### Share price performance

|                             | 1M  | 3M   | 6M    | 1Y    |
|-----------------------------|-----|------|-------|-------|
| Culti Milano - Absolute (%) | -3% | -17% | -20%  | -26%  |
| FTSE Italia Growth (%)      | 2%  | 2%   | 9%    | -9%   |
| 1Y Range H/L (€)            |     |      | 21.50 | 14.15 |
| YTD Change (€)/%            |     |      | -3.75 | -21%  |

Source: S&P Capital IQ

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## Western countries hold out, early signs of Chinese market recovery, business development efforts bode well for 2024

### Trading update

CULTI Milano share price lost 26% over last 12 months compared to -9% of the Italia Growth Index. The price hovered in €17-22 range during May 2023-March 2024 period, and then a downward trend began, leading to a low of €14.40.

### Sales hold steady, Chinese market subdued, higher marketing costs to boost growth

CULTI Milano consolidated sales were €22.6m in FY23, down by 2% YoY, below our €28.3m estimate. Over 66% of sales were generated abroad, of which 34% in Asia (-5% YoY) and 37% domestic (flat YoY). Regarding operating costs, the decline of material costs (-17% YoY) was offset by an equal growth in personnel, on the other hand service costs growth by more than 8% and others operating costs by 3% impacting overall profitability, resulting in €4.1m adjusted EBITDA vs €5.1m in FY 2022 (vs our estimates of €6.3m), margin 17.4% vs 21.1% in FY22. Consolidated net income was €1m vs €2.3m in FY22. Trade Working Capital was €6.6m from €6.8m as of June 2023. Net financial debt was €3.2m (our estimates €1.8m), from €4.5m as of June 2023, after €2.8m cash-out to acquire remaining 49% of SCENT and €0.28m dividend payment. New dividend approved €0.10 per share.

### 2024 outlook: focusing on network and geography expansion

Culti Milano held firm its business development investment plan throughout 2023. Strengthened partnerships with European and Middle Eastern department stores despite headwinds in China. According to management, 2024 shows return in growth from 2023 marketing investments. Efforts to develop BAKEL brand awareness in Asia and to strengthen sales networks within CULTI's perfumery and pharmacy outlets remain a focus.

### 2024-2026 estimates revision

Factoring in FY23 results, we have revised our estimates for 2024-25E downward and make 2026E explicit, assuming a hold on developed areas and slower recovery of the Chinese market. We expect sales 23A-26E CAGR of 13% and profitability over 20% as early as 2024. By business area, for CULTI Milano and SCENT (i.e. interior fragrances) we project low-double digits top-line growth over the period, while we anticipate a conservative growth trajectory in the mid-single digits for BAKEL (i.e. skincare).

### Target Price €21.30 per share (from €25.00), OUTPERFORM rating

CULTI Milano is trading at 2024-25E EV/Sales of 1.9-1.7x and EV/EBITDA of 8.7-7.9x, around 20% and 35% discount on average vs combined median peers. Factoring in the newly defined growth trajectory, we have revised downward CULTI's target price to €21.30 from €25.00, implying a 48% potential upside on current share price. OUTPERFORM rating confirmed.

### KEY FINANCIALS AND ESTIMATES

| €m                       | 2022A        | 2023A        | 2024E        | 2025E       | 2026E       |
|--------------------------|--------------|--------------|--------------|-------------|-------------|
| <b>Revenues</b>          | <b>24.3</b>  | <b>23.4</b>  | <b>27.2</b>  | <b>30.1</b> | <b>33.5</b> |
| <b>EBITDA</b>            | <b>5.1</b>   | <b>4.1</b>   | <b>5.5</b>   | <b>6.1</b>  | <b>6.9</b>  |
| <i>Margin</i>            | 21%          | 17%          | 20%          | 20%         | 21%         |
| <b>EBIT</b>              | <b>3.1</b>   | <b>1.7</b>   | <b>4.0</b>   | <b>4.7</b>  | <b>5.6</b>  |
| <i>Margin</i>            | 13%          | 7%           | 15%          | 16%         | 17%         |
| <b>Net Income (Loss)</b> | <b>2.3</b>   | <b>1.0</b>   | <b>2.6</b>   | <b>3.1</b>  | <b>3.7</b>  |
| <b>Net (Debt) Cash</b>   | <b>(2.0)</b> | <b>(3.2)</b> | <b>(0.9)</b> | <b>2.0</b>  | <b>5.3</b>  |

### KEY RATIOS

|                                      |      |      |      |      |      |
|--------------------------------------|------|------|------|------|------|
| TWC/Sales                            | 25%  | 28%  | 29%  | 29%  | 29%  |
| Cash flow from P&L operations/EBITDA | 80%  | 90%  | 83%  | 81%  | 80%  |
| ROE                                  | 25%  | 12%  | 24%  | 22%  | 22%  |
| Earnings per Share (€)               | 0.83 | 0.38 | 0.94 | 1.13 | 1.35 |

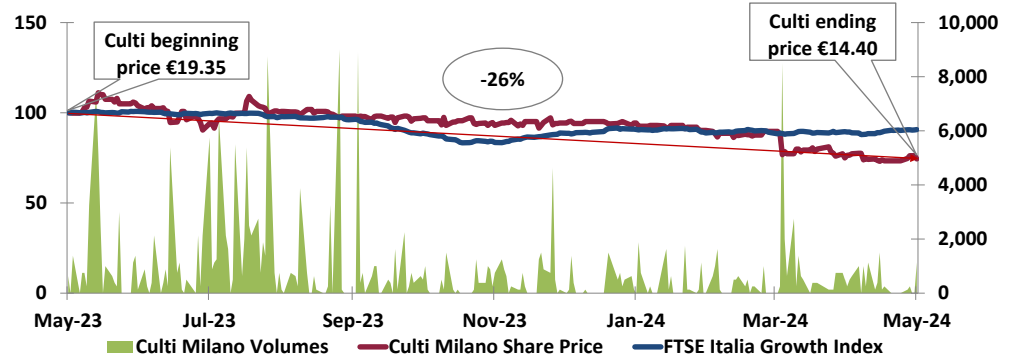
Source: Company data 2022-23A, EnVent Research 2024-26E

## Market update

### Culti Milano - 1Y Share price performance and trading volumes

Trading price range €14.15-21.50 per share

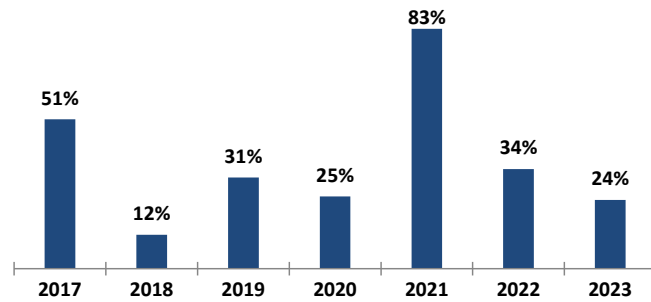
-26% for Culti, vs. -9% of the Italia Growth Index



Source: EnVent Research on S&P Capital IQ - Note: 10/05/2023=100

### Culti Milano - Liquidity analysis and velocity turnover

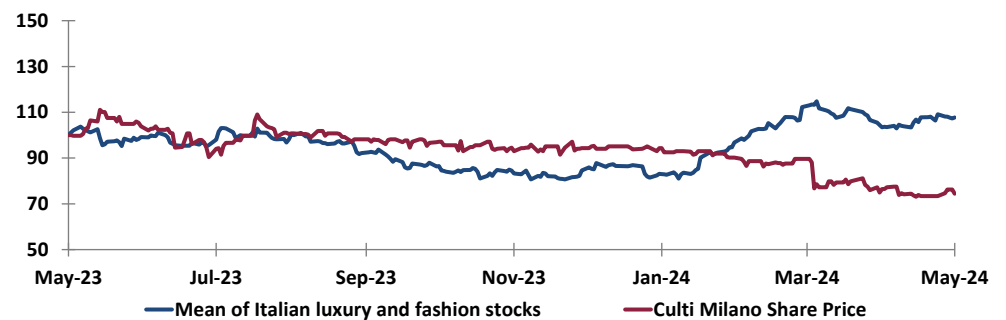
2023 trading volumes in line with previous years



Source: EnVent Research on S&P Capital IQ - Velocity turnover=ratio of tot. traded shares to tot. ordinary shares

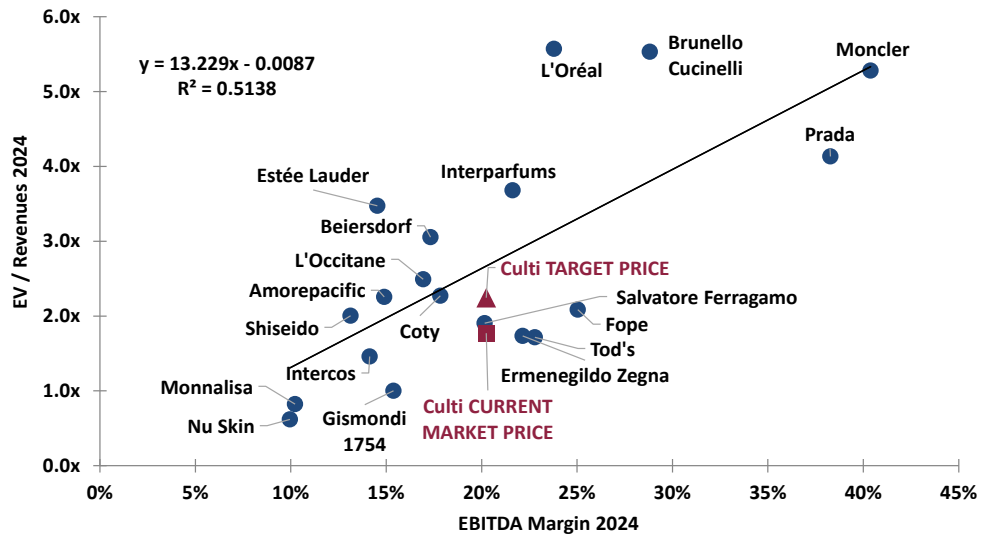
### Italian luxury and fashion stocks - 1Y Market performance

8% for Italian luxury and fashion stocks



Source: EnVent Research on S&P Capital IQ - Note: 10/05/2023=100

**Luxury and cosmetics stocks - Regression analysis and Culti target positioning**



Source: EnVent Research on S&P Capital IQ, May 2024

**Investment case**

Correlation consistent with the peer groups

Pioneer of interior fragrance

High-end market segment

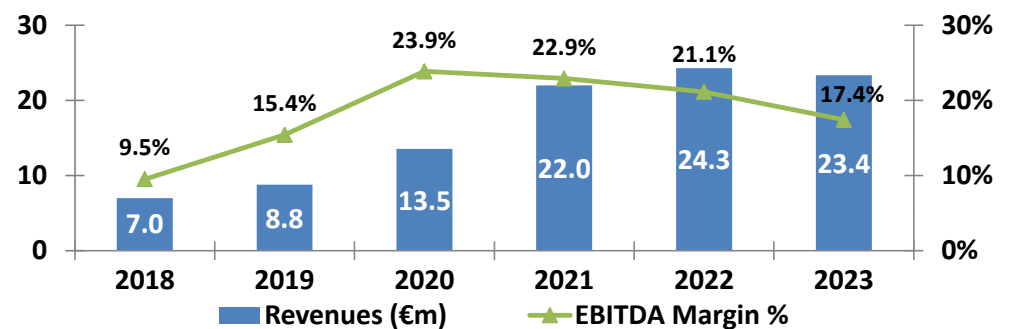
Diversification by acquisitions

Strategy

Culti Milano, listed on Euronext Growth Milan, is an Italian interior fragrance and skincare company in the premium and luxury segments. Fragrances are designed and distributed under own brand, through stores in Italy, European and Asian prestige department or multi-brand stores and the online site www.culti.com. Product portfolio includes the skincare brand Bakel, distributed mainly in Italy through selective perfumery and apothecary channels. Scent Company B2B olfactory branding services, including in-house made fragrances, are provided to the hospitality and retail industries. Established in 1990, acquired in 2004 by Intek, Culti undergone a repositioning in 2010, got listed in 2017, then grew organically and through acquisitions: Bakel in 2019 and Scent Company in 2020.

Strategic goals are the continuing expansion of the distribution network, leveraging on the presence in Italy and Europe, targeting department stores and pharmacies (also OTC pharmacies with dermo-cosmetic departments), especially for Bakel.

**Historical Revenues and EBITDA**



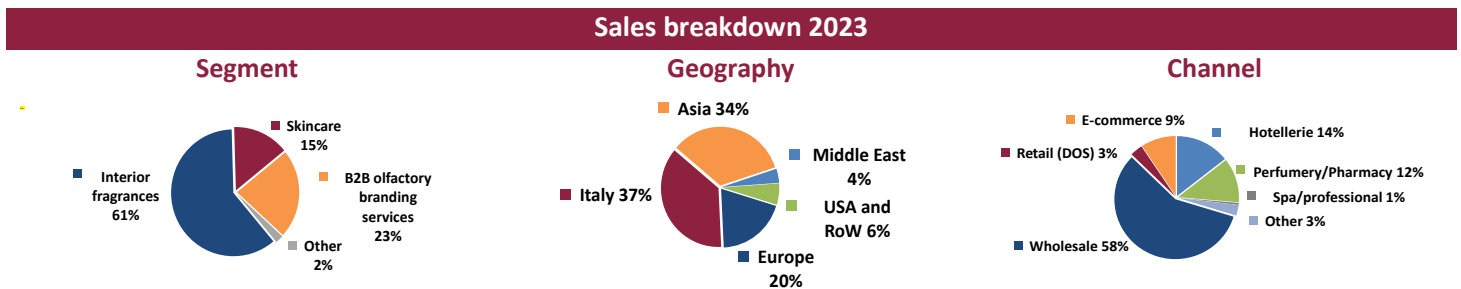
Source: Company data - Note: Consolidated figures

### Industry and Company drivers

- Culti Milano brand representing world renowned Italian design and style
- Emerging clean beauty trend
- Digital communication and online sales suitable for Culti industries
- Lean business model, wide international distribution network

### Challenges

- Find the right balance between online and offline sales
- Market slowdowns push promotional sales
- Low exposure to the US market



Source: Company data - Note: Consolidated sales

### Business update

- Korean market entry, distribution through department store Shinsegae International
- Gradual restart of activities in China in Q2 2023, after pandemic long tail
- Partnership with new MSC Crociere luxury cruise EXPLORA, developed an olfactory branding
- Shop in Shop store set up in Berlin for the retail segment
- New CULTI Milano Own division, born from the aggregation of skills between CULTI Milano and SCENT Company, producer of professional perfume diffusers

### Industry outlook

Fragrance market, focus on Europe and US:

- In Europe and in the US, fragrance market is expected to reach respectively \$18.5bn and \$8.9bn in 2024
- Europe, CAGR of 1.6% in the period 2024-28
- USA, CAGR of 1.7% in the period 2024-28

China's luxury market is anticipated to experience mid-single-digit growth in 2024, following a notable 12% surge in 2023. Despite rebounding from pandemic lows, the market has not yet fully recovered, with uncertainties persisting around consumer affecting growth prospects.

Fashion & lifestyle and jewellery sectors are leading growth, with anticipated increases of 15-20%, followed by leather goods 10-15%, beauty 8%, and watches 5-10%. Emerging trends include the revival of overseas shopping as travel resumes, albeit with a potential decline in domestic luxury spending. Additionally, the evolution of the Daigou model (i.e. form of cross-border e-commerce where people act as personal shoppers for customers in China) is evident, indicating its resilience despite restrictions.

Chinese consumption is projected to account for 35-40% of the global luxury market by 2030, solidifying China's position as a key area in the industry (Source: Bain & Company, *China's luxury market expected to grow at mid-single-digit in 2024; 2024*).

China's Fragrance Market, main takeaways:

- The Chinese fragrance market is expected to reach \$1.3bn in 2024
- CAGR is projected at 3.6% from 2024 to 2028
- China's market is on a steady rise
- Luxury fragrances are expected to dominate the market in China, capturing an estimated 62% of sales by 2024
- This trend is driven by China's expanding middle class with growing disposable income

Source: Statista, *Market Insights - Fragrances, 2024*

## **P&L H2 23 results**

Consolidated H2 2023 sales were 11.5m, -7.1% YoY, just over 50% of the year's sales, slightly down from H2 2022. Consolidated adjusted EBITDA was €2.2m vs €2.8m in H2 2022, EBIT was €1.3m vs €1.7m in H2 2022 and net income was €1.1m, compared to €1.4m in H2 2022.

## **FY 2023 sales breakdown (year-over-year)**

By product line:

- Diffusers: 35% of sales, -7%
- Olfactory Branding: 16% of sales, +5%
- Anti-Ageing and Cleansing: 15% of sales, -4%
- Refill: 10% of sales, +15%
- Scented Pads: 8% of sales, -12%
- Home Fragrances: 6% of sales, +3%
- Others: 10% of sales, -1%

By geography:

- Asia: 34% of sales, -5%
- Italy: 37% of sales, flat
- Europe: 20% of sales, +4%

- Middle East: 4% of sales, -39%
- America: 4% of sales, +41%

By channel:

- Wholesale: 58% of sales, -4%
- Hotellerie: 14% of sales, +15%
- Perfumeries/Pharmacies: 12% of sales, -1%
- E-commerce: 9% of sales, -3%
- Others: 7% of sales, +17%

## Estimates revision

CULTI's performance in FY23 fell short of expectations, with both sales and profits coming in lower than anticipated. Management attributed the flat revenue growth to a trend in the Asian market, particularly in China. Additionally, the Company's increased spending on marketing and business development activities squeezed profitability.

In terms of geographies, the resilience of the Italian and European markets, where CULTI recorded a combined growth of 4% in 2023, and the North American region, where the company tripled its sales, provide a solid foundation, as they collectively account for more than 60% of the Group's sales. In addition, it is worth noting that the European and U.S. fragrance markets are estimated at \$18.5bn and \$8.9bn in 2024, respectively, with a projected CAGR of about 2% over the 2024-2028 period.

As for the Chinese fragrance market, it remains strategic with a projected mid-single digit CAGR from 2024 to 2028, offering attractive potential development. However, we must consider the possibility of escalating trade tensions following the US presidential election in November and a Chinese economy with less bursting growth than in the past.

Based on these considerations, we have revised our estimates downward, refined our cost structure, and forecast moderate growth in developed markets and slower recovery in China/Asia, while considering efforts and investments to support international growth.

We have trimmed our sales and EBITDA forecasts for 2024-25E by about 20-25% on average and made 2026E explicit, projecting a sales CAGR of 13% in 23A-26E period, and the EBITDA margin back to 20% as early as 2024. Net financial position is projected consistently with a normalized dynamic of free cash flow.

By business area, for CULTI Milano and SCENT (i.e. CULTI Group, interior fragrances) we anticipate low-double digits top-line growth over the period, while for BAKEL (i.e. skincare) we assume a conservative mid-single digit growth trend.

The latter, being still in the early stages of development, we believe has not yet expressed its full potential, suffering from its small size and the difficulty of penetrating challenging markets such as the US. Possible partnerships with companies in the pharmaceutical/cosmetic industry to leverage the investments

**Solid foundation in western markets**

**China's potential and risks**

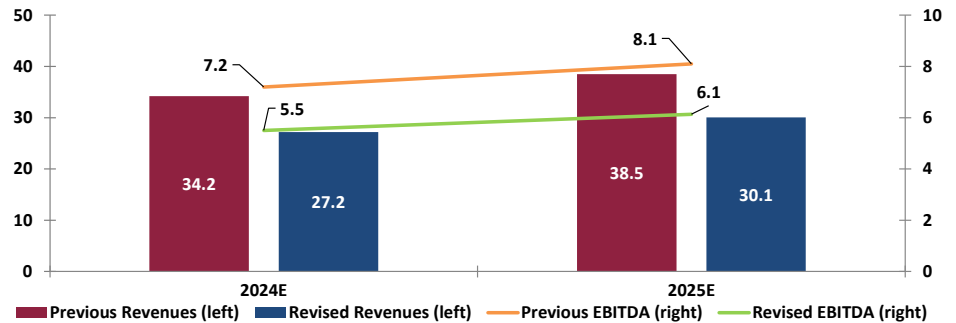
**Sales 23A-26E CAGR 13%, EBITDA margin around 20% from 2024**

**BAKEL, potential upside from Pharma/Cosmetics partnerships**

made in the development of the new 3D product represent an upside that we do not consider in our projections to date.

### Change in estimates

#### Previous vs Revised Revenues and EBITDA estimates (€m)



| €m                       | Revised |       |       | Previous |       |       | Change % |       |       |
|--------------------------|---------|-------|-------|----------|-------|-------|----------|-------|-------|
|                          | 2024E   | 2025E | 2026E | 2024E    | 2025E | 2026E | 2024E    | 2025E | 2026E |
| <b>Sales</b>             | 26.0    | 28.9  | 32.2  | 32.7     | 37.1  | na    | -21%     | -22%  | na    |
| <b>Revenues</b>          | 27.2    | 30.1  | 33.5  | 34.2     | 38.5  | na    | -20%     | -22%  | na    |
| <b>EBITDA</b>            | 5.5     | 6.1   | 6.9   | 7.2      | 8.1   | na    | -24%     | -24%  | na    |
| <i>Margin</i>            | 20%     | 20%   | 21%   | 21%      | 21%   | na    |          |       |       |
| <b>EBIT</b>              | 4.0     | 4.7   | 5.6   | 5.9      | 6.8   | na    | -32%     | -31%  | na    |
| <i>Margin</i>            | 15%     | 16%   | 17%   | 17%      | 17%   | na    |          |       |       |
| <b>Net Income (Loss)</b> | 2.6     | 3.1   | 3.7   | 4.1      | 4.7   | na    | -38%     | -35%  | na    |
| <b>Net (Debt) Cash</b>   | (0.9)   | 2.0   | 5.3   | 1.3      | 5.1   | na    | -168%    | -62%  | na    |

Source: EnVent Research

### Financial projections

#### Consolidated Profit and Loss

| €m                       | 2022A       | 2023A       | 2024E       | 2025E       | 2026E       |
|--------------------------|-------------|-------------|-------------|-------------|-------------|
| Sales                    | 23.1        | 22.6        | 26.0        | 28.9        | 32.2        |
| Change in inventory      | 0.8         | 0.2         | 0.8         | 0.7         | 0.8         |
| Other income             | 0.4         | 0.5         | 0.4         | 0.4         | 0.4         |
| <b>Total Revenues</b>    | <b>24.3</b> | <b>23.4</b> | <b>27.2</b> | <b>30.1</b> | <b>33.5</b> |
| <i>YoY %</i>             | 10.5%       | -3.9%       | 16.5%       | 10.5%       | 11.3%       |
| Materials                | (6.6)       | (5.5)       | (6.1)       | (6.7)       | (7.6)       |
| Services                 | (8.6)       | (9.3)       | (9.7)       | (10.7)      | (11.8)      |
| Personnel                | (3.2)       | (3.7)       | (4.1)       | (4.5)       | (4.9)       |
| Other operating costs    | (1.6)       | (1.7)       | (1.8)       | (2.0)       | (2.2)       |
| <b>EBITDA</b>            | <b>4.3</b>  | <b>3.2</b>  | <b>5.5</b>  | <b>6.1</b>  | <b>6.9</b>  |
| <i>Margin</i>            | 17.8%       | 13.6%       | 20.2%       | 20.4%       | 20.7%       |
| Non-recurring costs      | (0.8)       | (0.9)       | 0.0         | 0.0         | 0.0         |
| <b>Adjusted EBITDA</b>   | <b>5.1</b>  | <b>4.1</b>  | <b>5.5</b>  | <b>6.1</b>  | <b>6.9</b>  |
| <i>Margin</i>            | 21.1%       | 17.4%       | 20.2%       | 20.4%       | 20.7%       |
| D&A                      | (1.2)       | (1.4)       | (1.5)       | (1.4)       | (1.4)       |
| <b>EBIT</b>              | <b>3.1</b>  | <b>1.7</b>  | <b>4.0</b>  | <b>4.7</b>  | <b>5.6</b>  |
| <i>Margin</i>            | 12.9%       | 7.4%        | 14.8%       | 15.7%       | 16.6%       |
| Interest                 | (0.1)       | (0.4)       | (0.4)       | (0.4)       | (0.4)       |
| <b>EBT</b>               | <b>3.1</b>  | <b>1.2</b>  | <b>3.6</b>  | <b>4.3</b>  | <b>5.1</b>  |
| <i>Margin</i>            | 12.6%       | 5.4%        | 13.2%       | 14.3%       | 15.3%       |
| Income taxes             | (0.8)       | (0.2)       | (1.0)       | (1.2)       | (1.4)       |
| <b>Net Income (Loss)</b> | <b>2.3</b>  | <b>1.0</b>  | <b>2.6</b>  | <b>3.1</b>  | <b>3.7</b>  |
| <i>Margin</i>            | 9.3%        | 4.5%        | 9.4%        | 10.2%       | 11.0%       |

Source: Company data 2022-23A, EnVent Research 2024-26E

### Consolidated Balance Sheet

| €m                                      | 2022A        | 2023A        | 2024E        | 2025E        | 2026E        |
|---|--------------|--------------|--------------|--------------|--------------|
| Inventory                               | 5.6          | 5.7          | 6.5          | 7.3          | 8.1          |
| Trade receivables                       | 4.2          | 4.6          | 5.3          | 5.9          | 6.6          |
| Trade payables                          | (3.6)        | (3.7)        | (4.0)        | (4.4)        | (4.9)        |
| Trade Working Capital                   | 6.2          | 6.6          | 7.9          | 8.8          | 9.8          |
| Receivables (payables) parent company   | (0.6)        | (0.6)        | (0.6)        | (0.6)        | (0.6)        |
| Other assets (liabilities)              | 0.1          | 0.4          | 0.1          | 0.2          | 0.2          |
| <b>Net Working Capital</b>              | <b>5.7</b>   | <b>6.3</b>   | <b>7.3</b>   | <b>8.3</b>   | <b>9.3</b>   |
| Intangible assets                       | 5.9          | 6.8          | 5.8          | 4.8          | 3.9          |
| Fixed assets                            | 0.6          | 0.6          | 0.7          | 0.7          | 0.7          |
| Equity investments and financial assets | 0.4          | 0.2          | 0.2          | 0.2          | 0.2          |
| <b>Non-current assets</b>               | <b>6.8</b>   | <b>7.6</b>   | <b>6.7</b>   | <b>5.7</b>   | <b>4.9</b>   |
| <b>Provisions</b>                       | <b>(1.5)</b> | <b>(2.2)</b> | <b>(2.3)</b> | <b>(2.3)</b> | <b>(2.4)</b> |
| <b>Net Invested Capital</b>             | <b>11.0</b>  | <b>11.8</b>  | <b>11.7</b>  | <b>11.7</b>  | <b>11.8</b>  |
| <b>Net Debt (Cash)</b>                  | <b>2.0</b>   | <b>3.2</b>   | <b>0.9</b>   | <b>(2.0)</b> | <b>(5.3)</b> |
| <b>Equity</b>                           | <b>9.0</b>   | <b>8.6</b>   | <b>10.9</b>  | <b>13.7</b>  | <b>17.1</b>  |
| <b>Sources</b>                          | <b>11.0</b>  | <b>11.8</b>  | <b>11.7</b>  | <b>11.7</b>  | <b>11.8</b>  |

€0.6m payable for income taxes anticipated by Parent Company

Equity includes €6.3m own shares, recorded at its historical costs, from FY22 share buyback.

Source: Company data 2022-23A, EnVent Research 2024-26E

### Consolidated Cash Flow

| €m  | 2022A        | 2023A        | 2024E      | 2025E      | 2026E      |
|---|--------------|--------------|------------|------------|------------|
| <b>EBIT</b>                                   | <b>3.1</b>   | <b>1.7</b>   | <b>4.0</b> | <b>4.7</b> | <b>5.6</b> |
| Current taxes                                 | (0.8)        | (0.2)        | (1.0)      | (1.2)      | (1.4)      |
| D&A   | 1.2          | 1.4          | 1.5        | 1.4        | 1.4        |
| Provisions                                    | 0.6          | 0.7          | 0.1        | 0.1        | 0.1        |
| <b>Cash flow from P&amp;L operations</b>      | <b>4.1</b>   | <b>3.7</b>   | <b>4.6</b> | <b>5.0</b> | <b>5.6</b> |
| Trade Working Capital                         | (1.6)        | (0.4)        | (1.3)      | (0.9)      | (1.0)      |
| Intercompany receivables and payables         | (0.4)        | 0.1          | 0.0        | 0.0        | 0.0        |
| Other assets and liabilities                  | (0.6)        | (0.3)        | 0.3        | (0.0)      | (0.0)      |
| Capex   | (2.0)        | (2.4)        | (0.5)      | (0.5)      | (0.5)      |
| Bakel acquisition                             | (0.3)        | 0.0          | 0.0        | 0.0        | 0.0        |
| <b>Operating cash flow after WC and capex</b> | <b>(0.7)</b> | <b>0.6</b>   | <b>3.1</b> | <b>3.5</b> | <b>4.0</b> |
| Interest                                      | (0.1)        | (0.4)        | (0.4)      | (0.4)      | (0.4)      |
| Equity investments and financial assets       | (0.2)        | 0.1          | 0.0        | 0.0        | 0.0        |
| Net change in equities                        | 0.2          | (1.2)        | 0.0        | 0.0        | 0.0        |
| Own shares reserve                            | (6.1)        | 0.0          | 0.0        | 0.0        | 0.0        |
| Dividends                                     | (0.3)        | (0.3)        | (0.3)      | (0.3)      | (0.3)      |
| <b>Net cash flow</b>                          | <b>(7.1)</b> | <b>(1.2)</b> | <b>2.3</b> | <b>2.8</b> | <b>3.3</b> |
| Net (Debt) Cash - Beginning                   | 5.1          | (2.0)        | (3.2)      | (0.9)      | 2.0        |
| Net (Debt) Cash - End                         | (2.0)        | (3.2)        | (0.9)      | 2.0        | 5.3        |
| <b>Change in Net (Debt) Cash</b>              | <b>(7.1)</b> | <b>(1.2)</b> | <b>2.3</b> | <b>2.8</b> | <b>3.3</b> |

€2.4m Capex in 2023 include acquisition of remaining 49% of SCENT

Source: Company data 2022-23A, EnVent Research 2024-26E

### Ratio analysis

| KPIs                                 | 2022A | 2023A | 2024E | 2025E | 2026E |
|--------------------------------------|-------|-------|-------|-------|-------|
| ROE                                  | 25%   | 12%   | 24%   | 22%   | 22%   |
| ROS (EBIT/Sales)                     | 13%   | 7%    | 15%   | 16%   | 17%   |
| ROIC (NOPAT/Invested Capital)        | 21%   | 11%   | 25%   | 29%   | 34%   |
| DOI                                  | 88    | 92    | 92    | 92    | 92    |
| DSO                                  | 54    | 61    | 61    | 61    | 61    |
| DPO                                  | 63    | 68    | 68    | 68    | 68    |
| TWC/Sales                            | 25%   | 28%   | 29%   | 29%   | 29%   |
| Cash flow from P&L operations/EBITDA | 80%   | 90%   | 83%   | 81%   | 80%   |
| FCF/EBITDA                           | neg.  | 14%   | 55%   | 58%   | 58%   |
| Dividend yield                       | 0%    | 0%    | 0%    | 0%    | 0%    |
| Pay-out ratio                        | 0%    | 0%    | 0%    | 0%    | 0%    |
| Earnings per Share (€)               | 0.83  | 0.38  | 0.94  | 1.13  | 1.35  |

Source: Company data 2022-23A, EnVent Research 2024-26E



## Valuation

We have updated our DCF, market multiples and Sum of the Parts valuations.

### Treasury stocks counting

The buyback of 369,750 shares (11.95% share capital) by way of tender offer raises the issue of possible effects on intrinsic and share price value. Since the own shares represent almost 12% of share capital, we do not calculate them as a surplus asset, since their possible disposal would be causing a drop in share price. We calculate per share values using net outstanding number of shares apply to any equity valuation (2,725,750).

### Discounted Cash Flows

Updated assumptions:

- Risk free rate: 3.4% (30 days average. Source: Bloomberg, May 2024)
- Market return: 11.9% (30 days average. Source: Bloomberg, May 2024)
- Market risk premium: 8.6%
- Beta: 0.95 (EnVent analysis on selected peers, rounded figures)
- Cost of equity: 11.5%
- Cost of debt: 6.0%
- Tax rate: 24% (IRES)
- 30% debt/(debt + equity) as target capital structure
- WACC 9.4%
- Perpetual growth rate after explicit projections (G): 2.5%
- Terminal Value assumes a normalized sustainable EBITDA margin of 20%

**DCF Valuation**

| €m                                       | 2023A       | 2024E       | 2025E       | 2026E       | Perpetuity  |
|--|-------------|-------------|-------------|-------------|-------------|
| <b>Revenues</b>                          | <b>23.4</b> | <b>27.2</b> | <b>30.1</b> | <b>33.5</b> | <b>34.3</b> |
| <b>EBITDA</b>                            | <b>3.2</b>  | <b>5.5</b>  | <b>6.1</b>  | <b>6.9</b>  | <b>6.9</b>  |
| <i>Margin</i>                            | 14%         | 20%         | 20%         | 21%         | 20%         |
| <b>EBIT</b>                              | <b>1.7</b>  | <b>4.0</b>  | <b>4.7</b>  | <b>5.6</b>  | <b>6.4</b>  |
| <i>Margin</i>                            | 7%          | 15%         | 16%         | 17%         | 19%         |
| Taxes                                    | (0.5)       | (1.1)       | (1.3)       | (1.6)       | (1.8)       |
| <b>NOPAT</b>                             | <b>1.2</b>  | <b>2.9</b>  | <b>3.4</b>  | <b>4.0</b>  | <b>4.6</b>  |
| D&A                                      | 1.4         | 1.5         | 1.4         | 1.4         | 0.5         |
| Provisions                               | 0.7         | 0.1         | 0.1         | 0.1         | 0.1         |
| <b>Cash flow from P&amp;L operations</b> | <b>3.4</b>  | <b>4.5</b>  | <b>4.9</b>  | <b>5.5</b>  | <b>5.2</b>  |
| Trade Working Capital                    | (0.4)       | (1.3)       | (0.9)       | (1.0)       | (0.2)       |
| Intercompany receivables and payables    | 0.1         | 0.0         | 0.0         | 0.0         | 0.0         |
| Other assets and liabilities             | (0.3)       | 0.3         | (0.0)       | (0.0)       | 0.0         |
| Capex                                    | (2.4)       | (0.5)       | (0.5)       | (0.5)       | (0.5)       |
| <b>Yearly unlevered free cash flow</b>   | <b>0.3</b>  | <b>2.9</b>  | <b>3.4</b>  | <b>3.9</b>  | <b>4.5</b>  |
| <b>Free cash Flow to be discounted</b>   |             | <b>2.9</b>  | <b>3.4</b>  | <b>3.9</b>  | <b>4.5</b>  |
| WACC                                     | 9.4%        |             |             |             |             |
| Long-term growth (G)                     | 2.5%        |             |             |             |             |
| <b>Discounted Cash Flows</b>             |             | <b>2.7</b>  | <b>2.9</b>  | <b>3.0</b>  |             |
| <b>Sum of Discounted Cash Flows</b>      | <b>8.6</b>  |             |             |             |             |
| <b>Terminal Value</b>                    |             |             |             |             | <b>65.1</b> |
| <b>Discounted TV</b>                     | <b>49.7</b> |             |             |             |             |
| <b>Enterprise Value</b>                  | <b>58.3</b> |             |             |             |             |

The buyback effect on equity value and price per share is calculated by considering the number of net outstanding shares (2,725,750).

The proxy control method shows the value per share considering own stocks as a surplus asset and the number of both outstanding and own shares. We recall that the full value of the 11.95% own shares should be subject to adjustments depending on assumptions of disposal or other transaction.

**Equity value net of own shares**  
(Equity value / outstanding shares)

|                                   |             |
|-----------------------------------|-------------|
| <b>Enterprise Value</b>           | <b>58.3</b> |
| Net Debt as of 31/12/2023         | (3.2)       |
| Minorities as of 31/12/2023       | (0.4)       |
| <b>Equity Value</b>               | <b>54.7</b> |
| Net shares (m)                    | 2.7         |
| <b>Equity Value per Share (€)</b> | <b>20.1</b> |

**Control proxy: own shares as disposable surplus asset**  
(Equity value / total existing shares)

|                                   |             |
|-----------------------------------|-------------|
| <b>Enterprise Value</b>           | <b>58.3</b> |
| Net Debt as of 31/12/2023         | (3.2)       |
| Minorities as of 31/12/2023       | (0.4)       |
| Own shares as of 10/05/2024       | 5.3         |
| <b>Equity Value</b>               | <b>60.0</b> |
| <b>Equity Value per Share (€)</b> | <b>19.4</b> |

| <b>DCF - Implied multiples</b> | <b>2023A</b> | <b>2024E</b> | <b>2025E</b> | <b>2026E</b> |
|--------------------------------|--------------|--------------|--------------|--------------|
| EV/Sales                       | 2.6x         | 2.2x         | 2.0x         | 1.8x         |
| EV/EBITDA                      | 18.4x        | 10.6x        | 9.5x         | 8.4x         |

| <b>Discount of current market valuation vs DCF</b> |              | <b>17%</b>   |              |              |  |
|--|--------------|--------------|--------------|--------------|--|
| <b>Current market price - Implied multiples</b>    | <b>2023A</b> | <b>2024E</b> | <b>2025E</b> | <b>2026E</b> |  |
| EV/Sales   | 2.1x         | 1.9x         | 1.7x         | 1.5x         |  |
| EV/EBITDA  | 15.2x        | 8.7x         | 7.9x         | 6.9x         |  |

Source: EnVent Research

## Market multiples

We have applied to our 2024-25 estimates the combined median EV/Revenues and EV/EBITDA multiples of the selected peer groups, using data from 2Y analyst consensus.

| Company                                | EV/Revenues |             |             |             |             | EV/EBITDA    |              |              |              |              |
|--|-------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|
|  | Avg. 5Y     | 2023        | 2024E       | 2025E       | 2026E       | Avg. 5Y      | 2023         | 2024E        | 2025E        | 2026E        |
| <b>Italian Luxury &amp; Fashion</b>    |             |             |             |             |             |              |              |              |              |              |
| Prada                                  | 4.4x        | 3.2x        | 4.1x        | 3.8x        | 3.5x        | 24.2x        | 12.0x        | 10.8x        | 10.0x        | 9.3x         |
| Salvatore Ferragamo                    | 2.9x        | 2.2x        | 1.9x        | 1.8x        | 1.7x        | 39.7x        | 19.9x        | 9.4x         | 8.6x         | 7.8x         |
| Moncler                                | 6.7x        | 5.0x        | 5.3x        | 4.8x        | 4.3x        | 20.5x        | 15.1x        | 13.1x        | 11.8x        | 10.7x        |
| Tod's                                  | 2.0x        | 1.5x        | 1.7x        | 1.6x        | 1.5x        | 11.0x        | 12.8x        | 7.5x         | 7.0x         | 6.4x         |
| Brunello Cucinelli                     | 5.6x        | 5.8x        | 5.5x        | 5.0x        | 4.5x        | 36.1x        | 27.3x        | 19.2x        | 17.3x        | 15.6x        |
| Ermenegildo Zegna                      | 1.3x        | 1.7x        | 1.7x        | 1.6x        | 1.5x        | 9.1x         | 11.3x        | 7.8x         | 6.9x         | 6.2x         |
| Fope                                   | 1.9x        | 2.4x        | 2.1x        | 1.9x        | 1.7x        | 8.9x         | 9.4x         | 8.3x         | 7.4x         | 6.5x         |
| Gismondi 1754                          | 1.7x        | 1.7x        | 1.0x        | 0.8x        | na          | 14.6x        | 25.4x        | 6.5x         | 4.7x         | na           |
| Monnalisa                              | 0.9x        | 0.5x        | 0.8x        | 0.7x        | na          | neg          | 5.5x         | 8.0x         | 5.6x         | na           |
| <b>Mean</b>                            | <b>3.0x</b> | <b>2.7x</b> | <b>2.7x</b> | <b>2.4x</b> | <b>2.7x</b> | <b>20.5x</b> | <b>15.4x</b> | <b>10.1x</b> | <b>8.8x</b>  | <b>8.9x</b>  |
| <b>Median</b>                          | <b>2.0x</b> | <b>2.2x</b> | <b>1.9x</b> | <b>1.8x</b> | <b>1.7x</b> | <b>17.6x</b> | <b>12.8x</b> | <b>8.3x</b>  | <b>7.4x</b>  | <b>7.8x</b>  |
| <b>Cosmetics</b>                       |             |             |             |             |             |              |              |              |              |              |
| L'Oréal                                | 5.8x        | 6.0x        | 5.6x        | 5.2x        | 4.9x        | 26.7x        | 27.2x        | 23.4x        | 21.6x        | 20.1x        |
| Estée Lauder                           | 5.8x        | 3.7x        | 3.5x        | 3.2x        | 3.0x        | 28.4x        | 23.4x        | 23.9x        | 17.2x        | 14.5x        |
| Shiseido                               | 2.6x        | 1.9x        | 2.0x        | 1.9x        | 1.8x        | 25.4x        | 20.1x        | 15.3x        | 12.6x        | 11.5x        |
| Beiersdorf                             | 2.8x        | 3.0x        | 3.1x        | 2.9x        | 2.7x        | 17.1x        | 18.2x        | 17.6x        | 16.4x        | 15.3x        |
| Coty                                   | 2.8x        | 2.8x        | 2.3x        | 2.1x        | 2.0x        | 28.7x        | 16.0x        | 12.7x        | 11.7x        | 10.8x        |
| Amorepacific                           | 2.2x        | 2.2x        | 2.3x        | 2.0x        | 1.8x        | 17.1x        | 22.5x        | 15.1x        | 12.1x        | 10.9x        |
| Nu Skin                                | 1.0x        | 0.7x        | 0.6x        | 0.6x        | na          | 7.7x         | 6.4x         | 6.2x         | 5.6x         | na           |
| L'Occitane                             | 2.7x        | 2.1x        | 2.5x        | 2.2x        | 2.0x        | 15.0x        | 11.3x        | 14.7x        | 12.0x        | 10.4x        |
| Intercos                               | 1.8x        | 1.5x        | 1.5x        | 1.4x        | 1.3x        | 13.1x        | 12.3x        | 10.3x        | 9.1x         | 8.3x         |
| Interparfums                           | 5.1x        | 4.4x        | 3.7x        | 3.4x        | 3.2x        | 25.3x        | 18.9x        | 17.0x        | 16.4x        | 14.3x        |
| <b>Mean</b>                            | <b>3.3x</b> | <b>2.8x</b> | <b>2.7x</b> | <b>2.5x</b> | <b>2.5x</b> | <b>20.5x</b> | <b>17.6x</b> | <b>15.6x</b> | <b>13.5x</b> | <b>12.9x</b> |
| <b>Median</b>                          | <b>2.7x</b> | <b>2.5x</b> | <b>2.4x</b> | <b>2.2x</b> | <b>2.0x</b> | <b>21.2x</b> | <b>18.6x</b> | <b>15.2x</b> | <b>12.3x</b> | <b>11.5x</b> |
| <b>Flavours and fragrances</b>         |             |             |             |             |             |              |              |              |              |              |
| Givaudan                               | 5.6x        | 5.3x        | 5.8x        | 5.5x        | 5.3x        | 27.8x        | 26.7x        | 25.4x        | 23.6x        | 22.3x        |
| International Flavors & Fragrances     | 3.3x        | 2.7x        | 3.2x        | 3.1x        | 3.1x        | 19.3x        | 17.6x        | 16.8x        | 15.9x        | 14.9x        |
| Symrise                                | 4.2x        | 3.4x        | 3.3x        | 3.1x        | 2.9x        | 22.2x        | 20.3x        | 16.4x        | 15.0x        | 13.9x        |
| Trealt                                 | 3.7x        | 2.1x        | 1.9x        | 1.8x        | 1.7x        | 23.9x        | 14.0x        | 11.6x        | 10.3x        | 9.3x         |
| <b>Mean</b>                            | <b>4.2x</b> | <b>3.4x</b> | <b>3.6x</b> | <b>3.4x</b> | <b>3.2x</b> | <b>23.3x</b> | <b>19.7x</b> | <b>17.5x</b> | <b>16.2x</b> | <b>15.1x</b> |
| <b>Median</b>                          | <b>3.9x</b> | <b>3.0x</b> | <b>3.2x</b> | <b>3.1x</b> | <b>3.0x</b> | <b>23.0x</b> | <b>19.0x</b> | <b>16.6x</b> | <b>15.4x</b> | <b>14.4x</b> |
| <b>Peers Combined Mean</b>             | <b>3.3x</b> | <b>2.9x</b> | <b>2.8x</b> | <b>2.6x</b> | <b>2.7x</b> | <b>21.0x</b> | <b>17.1x</b> | <b>13.8x</b> | <b>12.1x</b> | <b>11.9x</b> |
| <b>Peers Combined Mean wo extremes</b> | <b>3.3x</b> | <b>2.8x</b> | <b>2.8x</b> | <b>2.6x</b> | <b>2.7x</b> | <b>20.7x</b> | <b>17.2x</b> | <b>13.6x</b> | <b>11.9x</b> | <b>11.7x</b> |
| <b>Peers Combined Median</b>           | <b>2.8x</b> | <b>2.4x</b> | <b>2.3x</b> | <b>2.1x</b> | <b>2.4x</b> | <b>21.4x</b> | <b>17.6x</b> | <b>13.1x</b> | <b>11.8x</b> | <b>10.8x</b> |
| <b>Culti Milano</b>                    | <b>3.1x</b> | <b>2.1x</b> | <b>1.9x</b> | <b>1.7x</b> | <b>1.5x</b> | <b>18.2x</b> | <b>15.2x</b> | <b>8.7x</b>  | <b>7.9x</b>  | <b>6.9x</b>  |

Source: S&P Capital IQ, 10/05/2024

### Multiples application

| €m                          |                       |       |                 |            |              | Equity value net of own shares |              |
|-----------------------------|-----------------------|-------|-----------------|------------|--------------|--------------------------------|--------------|
| Culti Valuation - Multiples | Peers combined median | EV    | Net Cash (Debt) | Minorities | Equity Value | Equity Value per Share (€)     |              |
| 2024E Sales                 | 26.0                  | 2.3x  | 58.9            | (3.2)      | (0.4)        | 55.3                           |              |
| 2025E Sales                 | 28.9                  | 2.1x  | 61.8            | (3.2)      | (0.4)        | 58.3                           |              |
| 2026E Sales                 | 32.2                  | 2.4x  | 76.7            | (3.2)      | (0.4)        | 73.1                           |              |
| <i>Mean</i>                 |                       |       |                 |            |              | 62.2                           | <b>22.83</b> |
| 2024E EBITDA                | 5.5                   | 13.1x | 72.0            | (3.2)      | (0.4)        | 68.4                           |              |
| 2025E EBITDA                | 6.1                   | 11.8x | 72.5            | (3.2)      | (0.4)        | 68.9                           |              |
| 2026E EBITDA                | 6.9                   | 10.8x | 75.3            | (3.2)      | (0.4)        | 71.7                           |              |
| <i>Mean</i>                 |                       |       |                 |            |              | 69.7                           | <b>25.55</b> |
| <b>Mean</b>                 |                       |       |                 |            |              |                                | <b>24.19</b> |

Source: EnVent Research

### Sum of the Parts

We have performed a SOP valuation per BU using revenue multiples.

#### SOP application

| €m                                    |                       |      |              |
|---------------------------------------|-----------------------|------|--------------|
| Culti Milano                          | 2024 Market multiples |      |              |
| <i>BU Interior fragrances</i>         |                       |      |              |
| 2024E Sales                           | 22.1                  | 2.2x | 48.1         |
| <i>BU Skincare</i>                    |                       |      |              |
| 2024E Sales                           | 3.8                   | 2.4x | 9.1          |
| <b>SOP EV Culti Milano</b>            |                       |      | <b>57.2</b>  |
| <i>Equity value net of own shares</i> |                       |      |              |
| Net Debt as of 31/12/2023             |                       |      | (3.2)        |
| Minorities as of 31/12/2023           |                       |      | (0.4)        |
| <b>Equity Value Culti Milano (€m)</b> |                       |      | <b>53.6</b>  |
| <b>Equity Value per Share (€)</b>     |                       |      | <b>19.65</b> |

Source: EnVent Research

#### Valuation summary

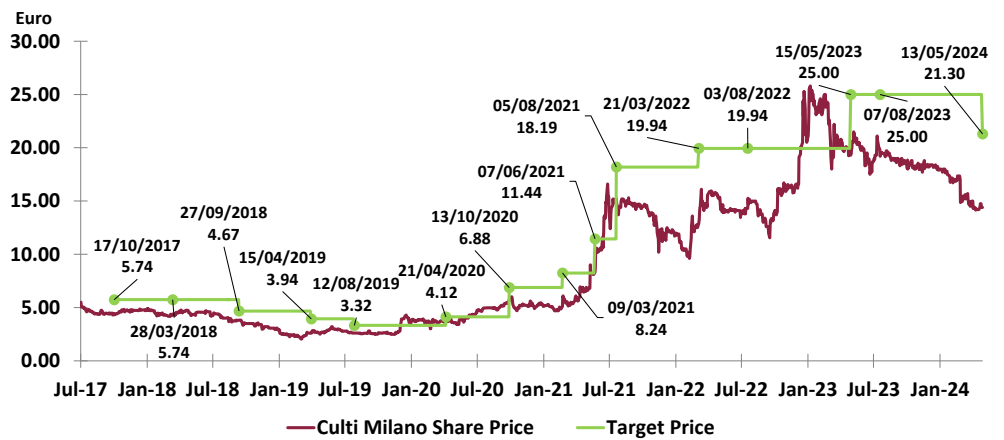
##### Target Price (€) - Equity value net of own shares

|              |                  |
|--------------|------------------|
| 24.19        | <b>Multiples</b> |
| 20.06        | <b>DCF</b>       |
| 19.65        | <b>SOP</b>       |
| <b>21.30</b> | <b>Avg</b>       |
| 48%          | <b>Upside</b>    |

Source: EnVent Research

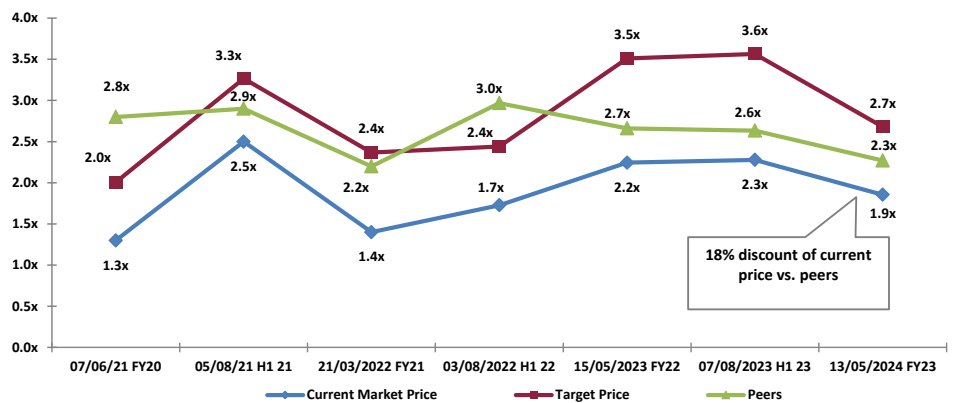
## Target Price

**Culti Milano Share Price vs EnVent Target Price**



Source: EnVent Research

**Implied EV/Sales vs industry median multiples**



Source: EnVent Research on S&P Capital IQ, 13/05/2024

We have revised downward CULTI's share target price to €21.30 from €25.00, implying a 48% potential upside on current share price, thus confirming the OUTPERFORM rating on the Company.

| Culti Milano Price per Share     | €            |
|----------------------------------|--------------|
| <b>Target Price</b>              | <b>21.30</b> |
| Current Share Price (10/05/2024) | 14.40        |
| <b>Premium (Discount)</b>        | <b>48%</b>   |

Source: EnVent Research

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OUTPERFORM: stocks are expected to have a total return above 10%;

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UNDERPERFORM: stocks are among the least attractive in a peer group, with the target price 10% below the current market price;

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The stock price indicated in the report is the last closing price on the day of Production.

Date and time of Production: 10/05/2024 h. 7.00pm

Date and time of Distribution: 13/05/2024 h. 6.15pm

## DETAILS ON STOCK RECOMMENDATION AND TARGET PRICE

| Date       | Recommendation | Target Price (€) | Share Price (€) |
|------------|----------------|------------------|-----------------|
| 17/10/2017 | OUTPERFORM     | 5.74             | 4.41            |
| 28/03/2018 | OUTPERFORM     | 5.74             | 4.36            |
| 27/09/2018 | OUTPERFORM     | 4.67             | 3.81            |
| 15/04/2019 | OUTPERFORM     | 3.94             | 2.58            |
| 12/08/2019 | OUTPERFORM     | 3.32             | 2.60            |
| 21/04/2020 | NEUTRAL        | 4.12             | 3.64            |
| 13/10/2020 | OUTPERFORM     | 6.88             | 5.70            |
| 09/03/2021 | OUTPERFORM     | 8.24             | 5.10            |
| 07/06/2021 | OUTPERFORM     | 11.44            | 8.30            |
| 05/08/2021 | OUTPERFORM     | 18.19            | 15.20           |
| 21/03/2022 | OUTPERFORM     | 19.94            | 12.90           |
| 03/08/2022 | OUTPERFORM     | 19.94            | 14.30           |
| 15/05/2023 | OUTPERFORM     | 25.00            | 19.30           |
| 07/08/2023 | OUTPERFORM     | 25.00            | 19.20           |
| 13/05/2024 | OUTPERFORM     | 21.30            | 14.40           |



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|----------------------------------|----|------------|---------|--------------|-----------|--------------|-----------|
| Total Equity Research Coverage % |    | 89%        | 11%     | 0%           | 0%        | 0%           | 0%        |
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