Milan, 13 November 2024

Italian Equity Research – Change in View/3Q24 Results

FILA

BUY

Sector: Consumers

Price: Eu9.48 - **Target: Eu14.00**

CMD: Focus on Cash Flow and Potential Partial Monetisation of DOMS Stake

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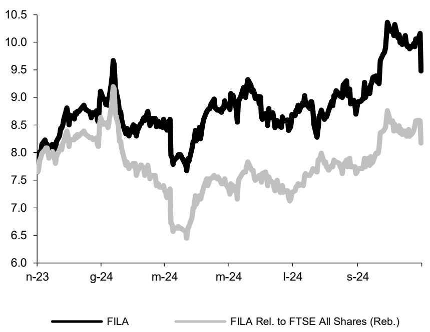
Stock Rating			
Rating:			from OUTPERFORM to BUY
Target Price (Eu):			from 13.00 to 14.00
	2024E	**2025E**	**2026E**
Chg in Adj EPS	-0.1%	3.6%	3.6%

FILA - 12M Performance



Stock Data			
Reuters code:			FILA.MI
Bloomberg code:			FILA IM
Performance	**1M**	**3M**	**12M**
Absolute	-8.5%	10.2%	24.4%
Relative	-6.5%	5.2%	6.9%
12M (H/L)			10.36/7.65
3M Average Volume (th):			74.32

Shareholder Data	
No. of Ord shares (mn):	51
Total no. of shares (mn):	51
Mkt Cap Ord (Eu mn):	482
Total Mkt Cap (Eu mn):	482
Mkt Float - Ord (Eu mn):	238
Mkt Float (in %):	49.3%
Main Shareholder:	
Pencil	37.8%

Balance Sheet Data	
Book Value (Eu mn):	399
BVPS (Eu):	7.82
P/BV:	1.2
Net Financial Position (Eu mn):	-294
Enterprise Value (Eu mn):	404

During yesterday's CMD, management focused on FILA's future prospects and its strategy to continue improving profitability and cash flow generation through production efficiency initiatives and by targeting an underserved entry-level market segment. To achieve this, its stake in DOMS remains strategic, but a ~5% share (c.€80mn) could potentially be sold, unlocking the value of an asset that is currently undervalued in FILA's stock price. We are updating our SOP, increasing our target price to €14 (from €13), and upgrading the stock to BUY from Outperform.

Two key indications from yesterday's CMD:

- **1. DOMS is operationally strategic for FILA, but a ~5% stake could be cashed in.** FILA must retain a 26% stake in DOMS to maintain "relevant shareholder" rights under Indian regulations; the current lock-up period ends on 18 December 2024. Commercially, FILA has focused its efforts on regions like the Americas and Europe, where it leads with premium brands, and plans to offer DOMS products in these markets. Industrially, FILA can outsource production to DOMS, exploiting India's low labour costs and high-quality production facilities. Regarding the remaining stake, FILA may consider the partial divestment of around 5% (currently worth c.€80mn). A potential sale could provide FILA with various options, such as improving its leverage ratio by paying down costly credit lines, especially in Mexico and the US. Shareholder returns, such as buybacks or dividends, could also be on the cards. While M&A is currently less feasible, FILA remains open to accretive deals.
- **2. Keen focus on business efficiency and cash generation:** i) School & Office: FILA will focus on expanding into the low-end (entry-level, low-cost, and private label), which represents about 50% of the market, and increasing its presence in fast-growing markets like South America; ii) in Fine Art, FILA aims to expand its offering by introducing competitively priced Daler-Rowney products, produced by DOMS, targeting the entry-level, low-cost markets; iii) production footprint & efficiency: FILA is enhancing efficiency and cost control through the reorganisation of its facilities, including the expansion of DOMS production capacity in India, which will diversify its sourcing for key product segments; iv) effective working capital management: FILA will streamline inventory, especially in the School segment, and reduce low-turnover products to improve margins and operational efficiency.
- **Strategic outlook to 2026:** the company has confirmed its FY24 guidance, which points to i) stable YoY revenues at comparable exchange rates; ii) mid-single-digit adj. EBITDA growth; iii) Eu40-50mn FCFE. Moreover, the company has also unveiled its strategic outlook to 2026 which predicts i) low-to-mid single-digit organic revenue growth; ii) mid-single-digit annual growth in adj. EBITDA; iii) FCFE in the upper end of the €40-50mn range per year; iv) financial leverage of between 1.0x-1.5x by 26YE; v) dividend policy featuring 20-40% payout of adj. net profit. In light of the confirmed guidance and the strategic outlook to 2026, we are lifting our adj. EPS estimates by 4% on average, while leaving our FCFE expectations, already in the €40-50mn range, unchanged.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	765	779	627	651	668
EBITDA Adj (Eu mn)	126	137	114	119	123
Net Profit Adj (Eu mn)	38	33	43	47	50
EPS New Adj (Eu)	0.738	0.638	0.836	0.926	0.973
EPS Old Adj (Eu)	0.738	0.638	0.837	0.894	0.939
DPS (Eu)	0.120	0.700	0.150	0.231	0.243
EV/EBITDA Adj	6.6	2.3	3.5	3.1	2.7
EV/EBIT Adj	10.5	3.5	5.1	4.4	3.8
P/E Adj	12.8	14.9	11.3	10.2	9.7
Div. Yield	1.3%	7.4%	1.6%	2.4%	2.6%
Net Debt/EBITDA Adj	3.5	2.2	2.6	2.2	1.8

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

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Frequency of research: quarterly.
Reports on all companies listed on the S&PMIB40 Index, most of those on the MIDEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.
A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.
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BUY: stock expected to outperform the market by over 25% over a 12 month period;
OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;
NEUTRAL: stock performance expected at between +10% and – 10% compared to the market over a 12 month period;
UNDERPERFORM: stock expected to underperform the market by between –10% and -25% over a 12 month period;
SELL: stock expected to underperform the market by over 25% over a 12 month period.
Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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BUY:	28.24 %
OUTPERFORM:	48.09 %
NEUTRAL:	23.67 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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OUTPERFORM:	34.43 %
NEUTRAL:	09.83 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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