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Sponsored research
Holding Companies
France

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Chargeurs

Now in acquisition mode

Opinion	**Buy**
Upside (%)	78.9
Price (€)	17.26
Target Price (€)	30.9
Bloomberg Code	CRI FP
Market Cap (€M)	399
Enterprise Value (€M)	575

Momentum	GOOD
Governance	6.1/10
Credit Risk	BB ↗

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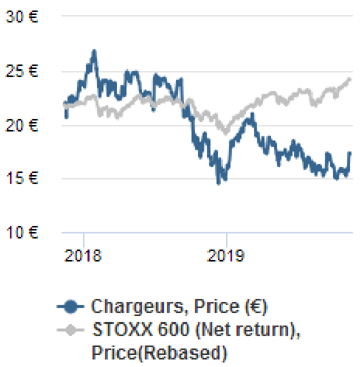


Conflicts of interest

Corporate broking	No
Trading in corporate shares	No
Analyst ownership	No
Advice to corporate	No
Research paid for by corporate	Yes
Corporate access	No
Brokerage activity at AlphaValue	No
Client of AlphaValue Research	No

PROS

- Chargeurs is focusing on no-nonsense profitable growth "à la Danaher", i.e. the small holding company is akin to a small industrial conglomerate
- The main business, Protective Films, has a remarkable FCF potential as the need for quality in industrial processes is so ubiquitous
- Chargeurs is managed as a tight ship but will not hesitate to invest in competence. This does not hurt a dividend-friendly policy

CONS

- The firm is small in absolute terms and may fall below most investors' radars
- Preparing long-term growth through opex efforts and through well thought out acquisitions takes time
- While Chargeurs' CEO has gained a large majority control of Columbus, the 30% controlling shareholder, in early 2019 which is good news for minorities, the detailed ownership of Columbus remains unknown

KEY DATA	12/17A	12/18A	12/19E	12/20E	12/21E
Adjusted P/E (x)	**22.3**	**16.9**	**19.8**	**13.5**	**10.8**
Dividend yield (%)	*2.47*	*3.46*	*4.35*	*4.92*	*5.21*
EV/EBITDA(R) (x)	10.2	9.11	9.49	7.54	6.33
Adjusted EPS (€)	**1.09**	**1.15**	**0.87**	**1.28**	**1.60**
Growth in EPS (%)	*0.02*	*5.33*	*-23.8*	*46.3*	*25.0*
Dividend (€)	0.60	0.67	0.75	0.85	0.90
Sales (€M)	533	573	630	775	965
Underlying operat. profit margin (%)	*8.33*	*8.55*	*7.56*	*8.38*	*8.91*
Attributable net profit (€M)	25.2	26.6	20.1	31.9	43.1
ROE (after tax) (%)	**11.0**	**11.4**	**8.16**	**10.1**	**10.9**
Gearing (%)	*-2.24*	*17.6*	*51.7*	*39.5*	*35.8*

Chargeurs (Buy)

Detailed financials at the end of this report

Key Ratios

		12/18A	12/19E	12/20E	12/21E
Adjusted P/E	x	16.9	19.8	13.5	10.8
EV/EBITDA	x	9.11	9.49	7.54	6.33
P/Book	x	1.88	1.55	1.23	1.12
Dividend yield	%	3.46	4.35	4.92	5.21
Free Cash Flow Yield	%	-2.69	2.15	7.61	11.6
ROE (after tax)	%	11.4	8.16	10.1	10.9
ROCE	%	11.6	8.27	9.35	10.6
Net debt/EBITDA	x	1.54	2.84	1.59	1.66

Consolidated P&L

		12/18A	12/19E	12/20E	12/21E
Sales	€M	573	630	775	965
EBITDA	€M	59.8	60.6	79.9	102
Underlying operating profit	€M	48.1	44.9	61.4	81.0
Operating profit (EBIT)	€M	42.2	33.9	49.4	68.0
Net financial expenses	€M	-10.6	-12.5	-15.3	-19.3
Pre-tax profit before exceptional items	€M	31.6	21.4	34.1	48.7
Corporate tax	€M	-5.08	-1.77	-2.74	-6.13
Attributable net profit	€M	26.6	20.1	31.9	43.1
Adjusted attributable net profit	€M	26.6	20.1	31.9	43.1

Cashflow Statement

		12/18A	12/19E	12/20E	12/21E
Total operating cash flows	€M	22.9	41.0	67.7	91.4
Capital expenditure	€M	-24.3	-20.0	-17.0	-18.0
Total investment flows	€M	-90.3	-90.0	-87.0	-88.0
Dividends (parent company)	€M	-10.8	-15.6	-17.5	-23.2
New shareholders' equity	€M	-10.2	0.00	100	0.00
Total financial flows	€M	-42.6	-38.3	62.4	-47.8
Change in net debt position	€M	-101	-80.0	45.1	-41.9
Free cash flow (pre div.)	€M	-12.0	8.51	35.4	54.1

Balance Sheet

		12/18A	12/19E	12/20E	12/21E
Goodwill	€M	128	202	248	295
Total intangible	€M	158	204	250	297
Tangible fixed assets	€M	80.7	113	136	159
WCR	€M	41.7	55.0	60.0	60.0
Total assets (net of short term liabilities)	€M	324	421	504	581
Ordinary shareholders' equity (group share)	€M	237	256	379	414
Provisions for pensions	€M	17.4	17.6	17.8	15.1
Net debt / (cash)	€M	92.2	172	127	169
Total liabilities and shareholders' equity	€M	324	421	504	581

Per Share Data

		12/18A	12/19E	12/20E	12/21E
Adjusted EPS (bfr gwill amort. & dil.)	**€**	**1.15**	**0.87**	**1.28**	**1.60**
Net dividend per share	**€**	**0.67**	**0.75**	**0.85**	**0.90**
Free cash flow per share	€	-0.52	0.37	1.42	2.01
Book value per share	€	10.3	11.1	14.1	15.4
Number of diluted shares (average)	**Mio**	**23.2**	**23.0**	**25.0**	**27.0**

Contents

Businesses & Trends

Chargeurs, under the aegis of a new owner-manager since the end of 2015, has quietly shifted from a status of a holding company essentially striving to pay back its bankers to that of an industrial conglomerate investing in profitable growth. So far this successful re-energising has been achieved with the same business lines, though they have also undergone a transformation following the management revamp.

As with any holding company/conglomerate type business, the key is the extent of the parent company's involvement in the daily operations. Strategy is obviously the remit of the owner while active management is rather unusual with holding companies but more with conglomerates. That is why Chargeurs falls into that category.

Active management goes with one motto: growth in high-value niche markets with a world scope. Unsurprisingly, "niche but world reach" is the common feature of the existing four business lines.

Chargeurs' geographical breadth is a clearly a plus as growth can be built out of the existing rather lean network of commercial units, plants and offices.

The existing businesses are all profitable. After a first phase of relaunch/strategy redefinition, Chargeurs' management team invested in younger management and an acquisition team. After accumulating financial ammunition in 2017, Chargeurs fired its first significant shots in 2018, both acquisition-wise and by speeding capex and opex where returns were near-term realisations.

By mid-2019, Chargeurs had four business lines, while its growth ambitions (doubling of revenues by 2021) meant that a biggish acquisition was in the pipeline, possibly in a fifth business.

It may also be stressed that the new management team has displayed an inordinate ability to capture major society trends and turn them to its benefits. This is encapsulated in words such as going all digital, going for "premiumisation" & upmarket, embarking ESG best practices and playing with the ever more intricate supply chains. There is nothing here that other companies will not do, but Chargeurs seems particularly nimble at extracting more from such shifts.

Protective-Films, Chargeurs' staying cash machine

Protective Films is the world-leader in plastic-films and technical-solutions for temporary surface protection with c.40-years' experience and a global market share estimated to be above 25%.

Primary end-users (construction, household appliances, electronics, transport and auto sectors) reflect the pace of the global economy (components sourced from everywhere need to travel and be protected) all spurred by the general drive for quality, calling for the protection of parts comprising a finished product. The move to ever-thinner, usable films and associated glues also implies positive mix effects over the long run. Thin films are also widely used in manufacturing processes such as stamping where they contribute to mechanical properties. Thin films technology can be fairly complex when they unfold at great speed, must not break and avoid generating painful noise.

Thin films is one of those great (and discreet) businesses where the client needs a quality supplier for a component which is hardly visible in the final cost of the product. Services in effect matter as much as the film. Chargeurs strengthened that link by acquiring in 2017 designers and manufacturers of film-laying machinery. This magnifies the relationship with clients and the value proposition.

2018 sales slowed down sharply after a firework 2017 when clients had both a good year and built up inventories. 2018 were flat on an organic basis. This included the 2016 acquisition of US Main Tape that presumably did well as it was brought to Chargeurs standards. This essentially added manufacturing capacity in the US, a much-needed step to reduce currency mismatches and to meet strong local demand.

Protective Films is still the most visible part of Chargeurs and where industrial performance matters most. The completion of new top notch capacity by H2 19 should be fairly effective in expanding the high value added part of the business

Fashion Technologies, made noble again

From 2015, Chargeurs split its “old” Interlining business into a “new” Interlining, now dubbed Fashion Technologies, and a speciality business called Technical Substrates (please see below).

Plugging a new name on an old business tends to misfire rapidly. Not here as the plans were clearly to steer the old business of supplying interlining for traditional garments to one of servicing fast-fashion with interlining being a starting point. The big move happened in 2018 when Chargeurs bought a business PCC with its entrepreneurial boss immediately promoted to the head of the revamped Fashion Technologies. PCC is no longer about a product but about servicing the fashion industry. The significance of the move is highlighted by the fact that the business has been rebranded PCC Fashion Technologies.

PCC started as a coating business which expanded in interlining that can be hot-fused in garments. Its geographical reach is very complementary to Chargeurs as it adds the US and Asia from which it derives 90% of its revenues. PCC clearly brings to Chargeurs an access to the fashion brands in these two territories. PCC appears to complement the original interlining business of Fashion Technologies by adding new territories but, above all, adding a large service component as its stock in trade. This amounts to being selected as the “prime” contact by a given brand to ensure the timely supply of the various inputs to the actual manufacturers (usually a motley lot). Brand designers indeed rely on subcontractors with frequent issues of quality consistency.

Fashion Technologies’ sales should overtake the €200m revenue mark as soon as 2019. EBIT margins may not be far from 9% once the integration of this €66m acquisition (7.5x Ebitda) is completed.

The 2018 regime change at Fashion Technologies is a big signal that this division, which employs half of the group’s staff but accounts for a quarter of sales, sees itself as capable of moving the needle.

Technical Substrates: a growth story in unexpected ways

As soon as 2014, it appeared that non-apparel end-markets for interlining (which is essentially a sophisticated non-woven robust textile) had gained substance. This has been the case in the advertising industry where technical textile bases (although different from interlinings') appear to have found fresh usages. The principle is to endow technical textiles with the right substrate to give them ad hoc features (say capture only a certain type of light). In 2015, Chargeurs segregated these activities into a new business called Technical Substrates.

The growth potential from an admittedly low base is high and seems to be a case of discovering it as one walks. The acquisition of a small UK firm, Leach, has been a catalyst with the technical substrate being framed on a “lightbook”, thereby opening a vast market of high quality pictures used in fashion shops and museum alike. The business ambitions are clearly set with a target tripling of 2018 sales to €100m by 2021. This can only happen through acquisitions.

Luxury Materials (ex Chargeurs-Wool)

Chargeurs has long been a leading world player in the “top making” and sale of combed, top of the range wool (6% est. market share). It knows the wool industry inside-out but essentially withdrew from the risk side (industrial processing, market making) back in 2012. It is about servicing with a turnover highly dependent on wool prices, though no risk at the operating profit level, which is stable at around 2.5% of the turnover.

Its knowledge has been put at work when Chargeurs launched its plan to act as a quality guarantor over the full wool manufacturing process. Blockchain based end-to-end quality control for top quality wools is the objective so as to capitalise on the demand for ever-higher-quality natural fibres and ever-thinner materials. This is an ambitious plan (encapsulated under the Organica branding) as it will take time and considerable energy to convince the worldwide wool supply chain that this is a winning strategy. In 2018 and presumably to make the point, the wool business rebranded Luxury Materials launched a luxury wool brand: Amédée 1851 selling scarves. All very classy and useful to show that blockchain works in the wool industry.

Human assets

In all, in less than four years, Chargeurs has successfully given a new life to its four business lines through tight management and the conviction that any niche is worth exploring further. By successively convincing existing staff to wake up, go for profitable growth and then hire young talents, train them and make acquisitions, Chargeurs has managed to surprise about every observer.

Divisional Breakdown Of Revenues

	Sector	12/18A	12/19E	12/20E	12/21E	Change 19E/18 €M	Change 19E/18 of % total	Change 20E/19E €M	Change 20E/19E of % total
Total sales		**573**	**630**	**775**	**965**	**57**	**100%**	**145**	**100%**
Protective Films	Chemicals-Specialty	283	278	292	309	-5	-9%	14	10%
Fashion Technologies (ex Inte...	Apparel,Textile,Fashion	161	217 (1)	227	239	56	98%	10	7%
Technical Substrates	Advanced Materials	30.7	35.3	55.6	86.7	5	8%	20	14%
Luxury Materials (ex Wool)	Apparel,Textile,Fashion	98.2	100	100	100	2	3%	0	0%
Other discontinued	Holding Companies								
Other				100 (2)	230 (2)			100	69%

1. The PCC acquisition adds c.$80m to the business
2. Acquired revenues. AV estimate. Possibly as part of a fifth business line

Key Exposures

	Revenues	Costs	Equity
Australian $	0.0%	10.0%	0.0%
Dollar	15.0%	10.0%	0.0%
Emerging currencies	10.0%	10.0%	0.0%
Long-term global warming	0.0%	0.0%	0.0%
Oil price (Brent $/bl)	0.0%	13.0%	0.0%
Renminbi	12.0%	10.0%	0.0%

Sales By Geography

Europe	43.0%
Of which Italy	12.0%
Of which Germany	9.0%
Of which France	7.0%
Americas	30.0%
Of which United States	20.0%
Asia	25.0%
Of which China	10.0%
Other	2.0%

We address exposures (eg. how much of the turnover is exposed to the $) rather than sensitivities (say, how much a 5% move in the $ affects the bottom line). This is to make comparisons easier and provides useful tools when extracting relevant data.
Actually, the subject is rather complex on the ground. The default position is one of an investor managing in €. An investor in £ will obviously not react to a £ based stock trading partly in € as would a € based investor. In addition, certain circumstances can prove difficult to unravel such as for eg. a € based investor confronted to a Swiss company reporting in $ but with a quote in CHF... Sales exposure is probably straightforward but one has to be careful with deep cyclicals. Costs exposure is a bit less easy to determine (we do not allow for hedges as they can only be postponing the day of reckoning). How much of the equity is exposed to a given subject is rarely straightforward but can be quite telling
In addition, subjects are frequently intertwined. A $ exposure may encompass all revenues in $ pegged currencies and an emerging currency exposure is likely to include $ pegged currencies as well.
Exposure to global warming issues is frequently indirect and may require to stretch a bit imagination.

Money Making

After a brilliant 2017, 2018 earnings slowed down on a combination of slowing global growth and well-flagged opex efforts to ramp up the long-term growth potential. 2018 managed a commendable lfl top-line growth of +2.6% and underlying operating profit up 6.5% and thus slightly improving margins, propped up by a rising mix.

Year after year, the Chargeurs mantra of doing better through staff training, premiumisation and branding appears to be paying off.

Defining a business model for a holding company/conglomerate is primarily making a case about a management philosophy. Chargeurs' is about keeping a firm hand on growth plans devised by imaginative younger managers. It seems to be about investing in human beings rather than flipping assets with a bunch of private equity style asset managers. Genuine no-nonsense value creation has its benefits: a build -up of real, palpable assets that minority shareholders can hope to share through a rising stream of dividends.

The above has produced convincing growth and earnings growth over the last four years. It may be tested further by the stated ambition to hit a €1bn target in revenues by 2021, i.e. through acquisitions. The foundations are here but the build -up will be an interesting one nevertheless.

In the next few paragraphs, we address the idiosyncrasies of the four current business lines:

Protective Films: hopefully less cyclical

Protective Films has been working hard to make itself a must in processing industries where it is needed. The culture is one of continuing investment in making the product ever better, thinner, more silent, greener, etc. Going upmarket is aimed at avoiding the boom-bust nature of chemical-related products.

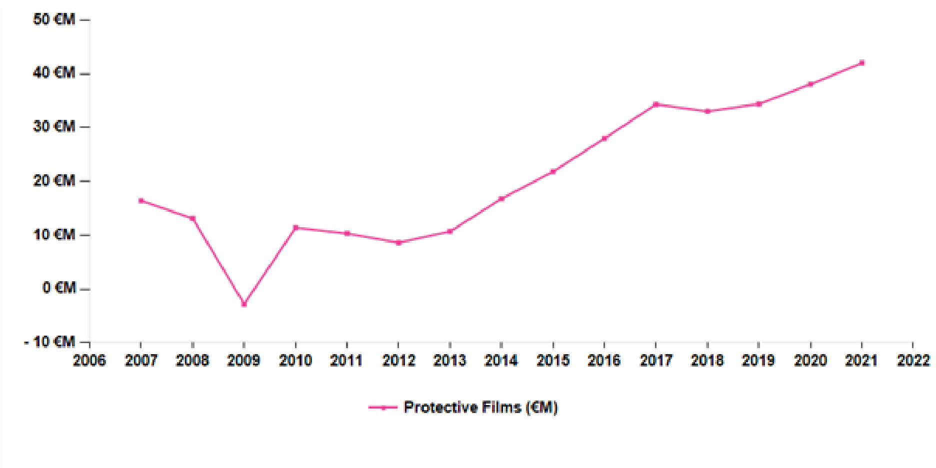
Adding capacity in the right geographies also helps smooth cycles. As a de facto speciality chemicals business (polyethylene is the main base input), Protective Films is all about capacity usage, productivity gains, passing on higher input costs through ad hoc price revisions and pass-through contracts, in addition to upgrading the product on a continuous basis.

Like so many industrial firms, Protective Films has been making a dash for more with the acquisition of three small firms supplying thin-film application machines. This not only captures an extra turnover on must-have equipment but also offers an eye on the actual ways clients are using protective films. Providing extra insight into consumption will permit Protective Films to expand its service content, so far limited to delivery timeliness. This higher service component is a slow build-up process but creates the conditions for improved client stickiness and securing lasting high margins.

The near-term earnings outlook for Protective Films is one when new capacity will come on stream, then ramped up and marketed as part of a holistic effort to raise the value proposition. This means EBIT margins gaining a few blips.

Where the upper limits stand for EBIT margins is rather hard to gauge as the business is concentrated on a small number of players but faces no serious barrier to entry for a chemical group willing to have a go. That has not really happened so far. Growth and subsequent margins are more determined by the flow of acquisitions aimed at locking market share here and there, and organic growth through innovation, quality and services.

We see the Ebit developing as follows:



Source: Company reports, AlphaValue estimates.

Fashion Technologies

Fashion Technologies is driven by the apparel market and its inclination for boom-bust economics. Recovering historic 5% peak margins looked an aggressive target. Well, 2016 reached 6.1%, only partly helped by the disposal of a loss-making Chinese operation, and 2017 managed 6.2% with flat sales (up 1.3% lfl) and 2018 shot through the roof to 9.2%, only partly helped by the booking over four months of the excellent margins at PCC.

The hunch that structural pressure due to competition from low-cost countries and fast-changing tastes could be dealt with a close collaboration with fast-fashion and strong-fashion brands proved correct. Designing the right type of high tech interlinings, helping clients, setting up capacity next to client plants and, above all, move into partnership/servicing type of business model has paid off. Indeed, clients need dependability and a high level of confidence in their suppliers due to their extra short turnaround times. So that beyond the fact that price competition is bound to remain, there is a case in believing that margins may be partly defended by the higher level of service that Fashion Technologies is cultivating.

2018 showed a pickup in recurring EBIT margin that does not look sustainable in the near term as the business integrates PCC and invests in moving further upmarket. However, the clear message is that margins should no longer see the volatility of the old "interlining" business.

Technical Substrates

In its fourth year as a separate operation, Technical Substrates' business model has shifted with the integration of Leach. What was an industrial act – producing technical substrates in the right quality – has now moved onto a final product (image displayed on a box) but with new unexpected markets such as museums. The growth ambitions with €100m planned by 2021 presumably mean acquisitions and most likely changing business models so that our 16% EBIT margin is more a stab in the dark than a substantiated guess.

Luxury Materials (ex. Wool)

The wool industry is a world apart to which the group is applying its recipes of raised mix and branding. Moving toward the luxury end of the market by acting as a quality guarantor certainly involves a shift in the business model where branding as a quality warranty is generating revenues independently from volumes changing hands. This will take time.

As a reminder market risks associated with the wool markets have been capped to the equity held (50% stakes worth about €11m as close 2018) in the wool-transforming associates with no additional commitment. The business thus no longer ties up any significant capital so that ROCEs are actually not bad at c.10%. The risks have fallen but significant growth will hinge on a combination of demand shifts in favour of natural fibres and the ability of the division to charge for its effort to structure the industry along quality obligations with the help of modern tracking technologies.

Divisional Underlying operat. profit

	12/18A	12/19E	12/20E	12/21E	Change 19E/18		Change 20E/19E	
					€M	of % total	€M	of % total
Total	**49.0**	**47.6**	**64.9**	**86.0**	**-1**	**100%**	**17**	**100%**
Protective Films	33.0	30.5	33.5	37.1	-3	179%	3	17%
Fashion Technologies (ex Interlining)	14.8	17.3	20.5	21.5	3	-179%	3	18%
Technical Substrates	4.01	4.41	7.23	11.7	0	-29%	3	16%
Luxury Materials (ex Wool)	2.70	2.80	3.00	3.00	0	-7%	0	1%
Other discontinued	0.00	0.00	0.00	0.00	0	0%	0	0%
Other/cancellations	-5.50	-7.50	0.70 (3)	12.7 (3)	-2	143%	8	47%

3. Combines central costs at c.€8m a year and operating contribution for newly-acquired businesses

Divisional Underlying operat. profit margin

	12/18A	12/19E	12/20E	12/21E
Total	**8.55%**	**7.56%**	**8.38%**	**8.91%**
Protective Films	11.6%	11.0%	11.5%	12.0%
Fashion Technologies (ex Interlining)	9.19%	8.00%	9.00%	9.00%
Technical Substrates	13.0%	12.5%	13.0%	13.5%
Luxury Materials (ex Wool)	2.75%	2.80%	3.00%	3.00%
Other discontinued				

Valuation

We regard Chargeurs SA as an industrial conglomerate with a holding company profile as its activities are clearly independent and do not complement each other beyond sharing common central costs and resources despite the fact that they all address high value niche markets. It is for the parent holding company to make sure that the world reach of its subsidiaries is better shared on an ad hoc basis. Recent experience has shown that these industrial businesses, while unrelated, tend to move in synch in rapidly-deteriorating market conditions. There is little prospect of mutually offsetting business cycles in the current spread of assets.

Peer metrics are therefore mostly found within the holding company sector plus the odd reference to specialist chemicals as Protective Films are the dominant business of the small group with half of the sales and 67% of the EBITDA/recurring profits. We used to apply a discount to the peer-based reference P/E to account for the fact that Chargeurs' businesses are primarily B2B operations but the strong top-line growth combined with considerable agility no longer warrants this.

The DCF is based on fairly modest EBITDA growth of 3.2%, in line with industry expectations. We assume that the well managed net debt situation of the group would warrant a tight spread now at 300bp. This reflects the fact that the firm seems determined to keep a substantial financing buffer. The DCF-based valuation is allowing for an acquisition stream before 2021 to match sales target by that date. It also allows for a necessary rights issue at €100m, assuming it will add 4m shares at a price of €25. We make no allowance for the net present value of the tax assets (see below) beyond what stems from the relatively low tax rate projected from 2020 on (16%).

For the NAV, we stopped using data calculated and provided by the company in the parent company's financial statements. The more entrepreneurial management since late 2015 warrants the use of sector multiples which leads to the Protective Films business accounting for c. 67% of the gross assets. The €165m net debt position expected by year-end assumes €70m in acquisitions in 2019.

Finally, there is the vexing issue of what to do with the huge tax loss carry forwards resulting from the historical losses. The previous view, that they were unlikely to be used up by operations over the next few years and the French tax rule tightening so that the open-ended portion was unlikely ever to materialise, is probably too cautious now that the earnings delivery of the group has been confirmed for the fourth year in a row. The "evergreen" tax loss carry forwards stand at €200m for the group at the closing of 2018, of which the bulk (€192m) in France. That matters, as Chargeurs will need French profits to make use of tax losses carry forwards. Assuming that post 2021 earnings growth at 3% a year and a 25% tax rate, the NPV of the tax loss carry forward would be c.€40m.

Chargeurs (Buy)

Valuation Summary

Benchmarks		Values (€)	Upside	Weight
NAV/SOTP per share		29.6	71%	55%
Dividend Yield	*Peers*	33.9	97%	20%
DCF		38.3	122%	10%
P/E	*Peers*	30.1	74%	10%
P/Book	*Peers*	19.7	14%	5%
Target Price		**30.9**	**79%**	

Comparison based valuation

Computed on 18 month forecasts	P/E (x)	P/Book (x)	Yield(%)
Peers ratios	24.4	1.32	2.74
Chargeurs's ratios	14.0	1.27	4.84
Premium	0.00%	10.0%	10.0%
Default comparison based valuation (€)	**30.1**	**19.7**	**33.9**
Akzo Nobel	28.5	2.88	2.22
GBL	24.1	0.90	3.55
Bolloré	24.4	1.14	1.50
Hal Trust	37.5	1.52	3.93
Solvay	21.9	1.23	2.98
Ackermans & van Haaren	13.3	1.37	1.77
Wacker Chemie	65.8	1.19	1.60
Sonae	8.62	0.82	4.90

DCF Valuation Per Share

WACC	%	8.06
PV of cashflow FY1-FY11	€M	493
FY11CF	€M	89.8
Normalised long-term growth"g"	%	2.00
Governance weighted "g"	%	2.10
Terminal value	€M	1,507
PV terminal value	€M	694
PV terminal value in % of total value	*%*	*58.4*
Total PV	€M	1,187

Avg net debt (cash) at book value	€M	150
Provisions	€M	18.6
Unrecognised actuarial losses (gains)	€M	0.00
Financial assets at market price	€M	16.0
Minorities interests (fair value)	€M	4.00
Equity value	€M	1,031
Number of shares	Mio	27.0
Implied equity value per share	€	38.3

Assessing The Cost Of Capital

Synthetic default risk free rate	%	3.50
Target equity risk premium	%	5.00
Tax advantage of debt finance (normalised)	%	30.0
Average debt maturity	Year	5
Sector asset beta	x	0.93
Debt beta	x	0.60
Market capitalisation	€M	396
Net debt (cash) at book value	€M	172
Net debt (cash) at market value	€M	156

Company debt spread	bp	300
Marginal Company cost of debt	%	6.50
Company beta (leveraged)	**x**	**1.19**
Company gearing at market value	%	43.5
Company market gearing	%	30.3
Required return on geared equity	**%**	**9.44**
Cost of debt	%	4.55
Cost of ungeared equity	**%**	**8.16**
WACC	%	8.06

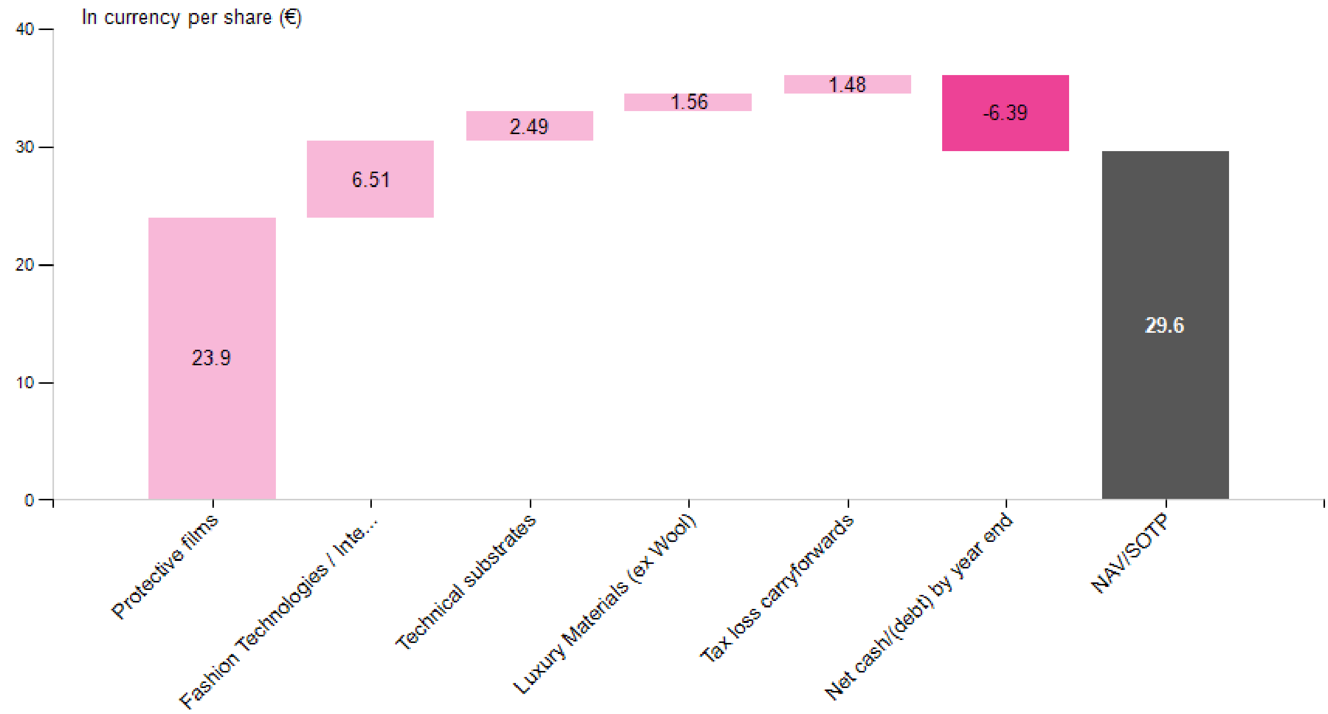
DCF Calculation

		12/18A	12/19E	12/20E	12/21E	**Growth**	12/22E	12/29E
Sales	€M	573	630	775	965	**3.00%**	993	1,222
EBITDA	€M	59.8	60.6	79.9	102	**3.00%**	105	129
EBITDA Margin	*%*	*10.4*	*9.62*	*10.3*	*10.6*		*10.6*	*10.6*
Change in WCR	€M	-22.5	-13.3	-5.00	0.00	**2.50%**	0.00	0.00
Total operating cash flows (pre tax)	€M	28.0	42.8	70.4	97.5		105	129
Corporate tax	€M	-5.08	-1.77	-2.74	-6.13	**2.50%**	-6.28	-7.47
Net tax shield	**€M**	**-3.18**	**-3.75**	**-4.59**	**-5.79**	**2.50%**	**-5.93**	**-7.05**
Capital expenditure	€M	-24.3	-20.0	-17.0	-18.0	**5.00%**	-18.9	-26.6
Capex/Sales	*%*	*-4.24*	*-3.18*	*-2.19*	*-1.87*		*-1.90*	*-2.18*
Pre financing costs FCF (for DCF purposes)	€M	-4.58	17.3	46.1	67.6		73.9	88.1
Various add backs (incl. R&D, etc.) for DCF purposes	€M	0.00	0.00	0.00	0.00		0.00	
Free cash flow adjusted	**€M**	**-4.58**	**17.3**	**46.1**	**67.6**		**73.9**	**88.1**
Discounted free cash flows	**€M**	**-4.58**	**17.3**	**42.7**	**57.9**		**58.6**	**40.6**
Invested capital	€	294	387	467	541		568	799

NAV/SOTP Calculation

	% owned	Valuation technique	Multiple used	Valuation at 100% (€M)	Stake valuation (€M)	In currency per share (€)	% of gross assets
Protective films	100%	EV/EBITDA	15	645	645 [1]	23.9	66.5%
Fashion Technologie...	100%	EV/EBIT	9	176	176 [2]	6.51	18.1%
Technical substrates	100%	EV/EBIT	12	67.2	67.2	2.49	6.93%
Luxury Materials (ex ...	100%	Adj. historical price		42.0	42.0	1.56	4.33%
Tax loss carryforwards	100%	AlphaValue valuation		40.0	40.0 [3]	1.48	4.12%
Other							
Total gross assets					**970**	**36.0**	**100%**
Net cash/(debt) by year end					-172 [4]	-6.39	-17.8%
Commitments to pay							
Commitments received							
NAV/SOTP					798	29.6	82.2%
Number of shares net of treasury shares - year end (Mio)					**27.0**		
NAV/SOTP per share (€)					**29.6**		
Current discount to NAV/SOTP (%)					**41.7**		

1. Based on Speciality Chemicals multiples
2. Including PCC acquired in June 2018
3. NPV to 2018 of tax savings over the next 12 years through the use of tax loss carry forwards
4. Year-end expected group net cash position



Debt

From 2014, Chargeurs has been running a net cash position down to c.€9m in 2017 and shifting to a €92m net debt as a result of the 2017 and 2018 acquisitions.

Funding has not been an issue as Chargeurs' management wisely accumulated excess resources to that effect through a combination of private debt placings (Euro PP) between 2016 and 2017 and various credit lines. Most notably, Chargeurs syndicated a bank loan of €230m at the close of 2018. While the group is left with significant dry powder to go and purchase its growth, its 2021 objective of reaching €1bn in sales cannot be exclusively debt funded, with the company feeling comfortable with a net debt/EBITDA ratio below 2.5x. On a funding scenario used in AlphaValue modelling where Chargeurs raises €100m in new equity by 2020, its net debt/EBITDA ratio would remain below 1.5x.

Detailed financials at the end of this report

Funding - Liquidity

		12/18A	12/19E	12/20E	12/21E
EBITDA	€M	59.8	60.6	79.9	102
Funds from operations (FFO)	€M	36.5	42.0	57.6	72.3
Ordinary shareholders' equity	**€M**	**237**	**256**	**379**	**414**
Gross debt	€M	181	174	172	170
+ Gross Cash	€M	89.2	1.94	45.1	0.66
= Net debt / (cash)	**€M**	**92.2**	**172**	**127**	**169**
Gearing (at book value)	%	17.6	51.7	39.5	35.8
Adj. Net debt/EBITDA(R)	*x*	*1.54*	*2.84*	*1.59*	*1.66*
Adjusted Gross Debt/EBITDA(R)	*x*	*3.33*	*3.18*	*2.44*	*1.89*
Adj. gross debt/(Adj. gross debt+Equity)	*%*	*45.7*	*43.0*	*34.0*	*31.8*
Ebit cover	*x*	*4.67*	*3.67*	*4.11*	*4.28*
FFO/Gross Debt	*%*	*18.3*	*21.8*	*29.6*	*37.5*
FFO/Net debt	*%*	*39.6*	*24.4*	*45.3*	*42.8*
FCF/Adj. gross debt (%)	*%*	*-6.02*	*4.42*	*18.2*	*28.1*
(Gross cash+ "cash" FCF+undrawn)/ST debt	*x*	*6.28*	*1.49*	*10.7*	*16.6*
"Cash" FCF/ST debt	*x*	*-0.84*	*1.16*	*4.68*	*16.3*

Covenants

Begin	End	Trigger	Condition	Consequence
30/06/2017	31/12/2023	Net debt/Ebitda(R)	< 3.50	Early repayment
30/06/2017	31/12/2023	Gearing	< 85.0	Early repayment

Worth Knowing

A bit of history

2015 experienced a tectonic change in the Chargeurs shareholding with 28% of the equity changing hands (see Governance section). This brought to an end about 25 years of management by Mr Eduardo Malone backed by the historical main shareholder of Chargeurs, Mr Seydoux. Both then exercised their control through convertibles that were converted in September 2015. An ad hoc grouping of investors named Columbus Holding SAS has since been the new “reference” shareholder. Columbus has been set up for the sole purpose of owning Chargeurs shares and is managed by Mr Michaël Fribourg who also acts as the Chairman and CEO of Chargeurs SA. The relative weights of the Columbus shareholders remain unknown but Mr Fribourg made it clear by early 2019 that he had gained the “vast majority” of Columbus. Columbus itself may be geared to some extent as Chargeurs has established an active dividend policy.

Convincing drive

The big change introduced by the new owner and manager is to pursue a clear line of profitable growth across the existing four lines of business. They are identified as niche businesses but big enough, due to the world reach of Chargeurs, to offer considerable earnings/dividends prospects provided there is a process to address that growth potential.

Over the last three years, it is clear that the new governance has whipped into positive action existing businesses and managed to surround itself with a new breed of entrepreneurial managers at headquarter level. This appears to result in a positive mixture of extracting more from existing operations through a development logic (as opposed to the cost-paring obsessions of too many managers) and preparing the group for quality growth through well-prepared acquisitions.

Next big step

Chargeurs’ drive for growth has set a 2021 target at €1bn, which requires acquired growth and a rights issue according to our projections. It is unknown whether such acquired growth may end up adding a fifth business line.

Shareholders

Name	% owned	Of which % voting rights	Of which % free to float
Columbus Holding SAS	27.8%	29.8%	0.00%
Sycomore Asset Mgt	10.4%	10.2%	10.4%
Apparent free float			**72.2%**

Governance & Management

Since October 2015, the change of control has led to a change of governance with Mr Michaël Fribourg acting as Chairman and CEO whereas the previous set up was to split the Chairman and CEO positions. There are six new board members: Mr Fribourg, Mr Coquoin (an asset manager for the Habert-Dassault family office), Mr Urbain as a Columbus representative, Ms Cecilia Ragueneau, Ms Maria Varciu and Ms Isabelle Guichot.

Mr Fribourg took over the full management of Chargeurs in a remarkably short time span by late 2015 and has since been shifting gears in the right direction with impressive results.

The striking aspect of the “new” Chargeurs is that it is new in its management style with a CEO keen to rebuild the growth potential of existing businesses through positive, entrepreneurial management. The eye remains keenly focused on the financial performance and a defensive balance sheet which is a hard act for anyone to execute.

So far, so impressive, with presumably more to come in the shape of add-on acquisitions.

Governance score

Company (Sector)	Independent board
6.1 (4.9)	Yes

Parameters	Company	Sector	Score	Weight
Number of board members	7	11	9/10	5.0%
Board feminization (%)	42	32	8/10	5.0%
Board domestic density (%)	85	67	3/10	10.0%
Average age of board's members	52	59	9/10	5.0%
Type of company : Small cap, controlled			4/10	10.0%
Independent directors rate (%)	57	39	6/10	20.0%
One share, one vote			✘	10.0%
Chairman vs. Executive split			✘	0.0%
Chairman not ex executive			✔	5.0%
Full disclosure on mgt pay			✔	5.0%
Disclosure of performance anchor for bonus trigger			✔	5.0%
Compensation committee reporting to board of directors			✘	5.0%
Straightforward, clean by-laws			✔	15.0%
Governance score			**6.1/10**	**100.0%**

Management

Name			Function	Birth date	Date in	Date out	Compensation, in k€ (year) Cash	Equity linked
Michaël FRIBOURG	M		CEO	1982	2015		1,264 (2018)	
Olivier BUQUEN	M		CFO		2016		(2018)	
Matthieu BALESCUT	M		Member of the management board	1976	2018			
Joelle FABRE-HOFFMEISTER	F		Member of the management board		2016			
Angela CHAN	F		Executive Officer	1967	2017			
Laurent DEROLEZ	M		Executive Officer	1958				
Sampiero LANFRANCHI	M		Executive Officer	1983	2017		(2018)	
Federico PAULLIER	M		Executive Officer	1960	2013			

Board of Directors

Name			Indep.	Function	Completion of current mandate	Birth date	Date in	Date out	Fees / indemnity, in k€ (year)	Value of holding, in k€ (year)
Michaël FRIBOURG	M		✗	President/Chairman of th...	2018	1982	2015		0.00 (2018)	
Emmanuel COQUOIN	M		✗	Member	2020	1961	2015		68.6 (2018)	
Isabelle GUICHOT	F		✓	Member	2019	1966	2016		42.9 (2018)	
Cecilia RAGUENEAU	F		✓	Member	2020	1973	2017		68.6 (2018)	
Nicolas URBAIN	M		✗	Member	2019	1960	2015		68.6 (2018)	
Maria VARCIU	F		✓	Member	2021	1973	2019			
Georges RALLI	M		✓	Secretary	2019	1948	2013		51.4 (2018)	

Human resources score

Company (Sector)

9.0 (4.9)

Parameters	Yes ✓ / No ✗	Weight
Accidents at work		**25%**
Set targets for work safety on all group sites?	✓	10.0%
Are accidents at work declining?	✓	15.0%
Human resources development		**35%**
Are competences required to meet medium term targets identified?	✓	3.5%
Is there a medium term (2 to 5 years) recruitment plan?	✓	3.5%
Is there a training strategy tuned to the company objectives?	✓	3.5%
Are employees trained for tomorrow's objectives?	✓	3.5%
Can all employees have access to training?	✓	3.5%
Has the corporate avoided large restructuring lay-offs over the last year to date?	✓	3.5%
Have key competences stayed?	✓	3.5%
Are managers given managerial objectives?	✓	3.5%
If yes, are managerial results a deciding factor when assessing compensation level?	✓	3.5%
Is mobility encouraged between operating units of the group?	✓	3.5%
Pay		**20%**
Is there a compensation committee?	✓	6.0%
Is employees' performance combining group AND individual performance?	✓	14.0%
Job satisfaction		**10%**
Is there a measure of job satisfaction?	✗	3.3%
Can anyone participate ?	✗	3.4%
Are there action plans to prop up employees' morale?	✗	3.3%
Internal communication		**10%**
Are strategy and objectives made available to every employee?	✓	10.0%
Human resources score	**9.0/10**	**100.0%**

Staff & Pension matters

At the end of 2018, Chargeurs employed 2,000 staff, a big jump from the c.1,600 of 2017. Obviously, this is due to acquisitions. About half is European based with the bulk (600) in France mainly driven by the Protective Films and Fashion Technologies operations. Chargeurs is keen both to rebalance its geography of production assets (i.e. new plants out of France) and the need to rejuvenate the French staff after many years of cost cutting.

Pension risks with a c.€17m deficit (mostly European unfunded plans) remain under control with the group using low discount rates to assess its obligations cautiously at least as far as Europe is concerned. The US discount rate at 4.3% seems correspondingly high.

Detailed financials at the end of this report

Summary Of Pension Risks

		12/18A	12/19E	12/20E	12/21E
Pension ratio	**%**	**6.85**	**6.44**	**4.50**	**3.52**
Ordinary shareholders' equity	€M	237	256	379	414
Total benefits provisions	**€M**	**17.4**	**17.6**	**17.8**	**15.1**
of which funded pensions	*€M*	*2.10*	*3.35*	*3.19*	*3.06*
of which unfunded pensions	*€M*	*14.8*	*13.7*	*14.1*	*11.5*
of which benefits / health care	*€M*	*0.50*	*0.51*	*0.52*	*0.53*
Unrecognised actuarial (gains)/losses	€M	0.00	0.00	0.00	0.00

Geographic Breakdown Of Pension Liabilities

		12/18A	12/19E	12/20E	12/21E
US exposure	%	33.0	33.0	33.0	33.0
UK exposure	%				
Euro exposure	%	67.0	67.0	67.0	67.0
Nordic countries	%				
Switzerland	%				
Other	%				
Total	%	100	100	100	100

Recent updates

23/09/2019

Fine-tuning for Protective Films' challenging dynamic in H1

Change in EPS	2019 : € 0.87 vs 1.21	-27.7%
	2020 : € 1.28 vs 1.68	-23.9%

Our EPS estimates decreased on the back of a downward adjustment in our turnover and operating profit forecasts for the Protective Films division. This is to account for the lower demand in Germany and China in H1, which also weighed on profitability as these markets exhibit particularly high margins in this activity. While we expect a steady recovery over the course of H2 and the start of 2020, this negative blip in demand has a had an effect on overall profitability given the important contribution of the Protective Films division to the group's earnings.

Change in DCF	€ 38.5 vs 41.0	-6.25%

Our DCF valuation is impacted by our lower earnings forecasts for 2019-20, due to the challenging market dynamics for the Protective Films division, as explained in our EPS change comment. This, however, has a marginal impact on our target price which is dominated by a NAV/SOTP-based valuation which is hardly swayed by quarterly revenues.

18/09/2019

H1: organic growth recovery and a brighter outlook

Earnings/sales releases

A return to organic growth in the second quarter and the opening of a sophisticated production line in its Protective Films business has set the stage for a recovery in H2. Chargeurs' continued commitment and keen eye for profitable growth paint an upbeat outlook for 2020, on the way to achieving €1bn turnover by 2021.

Fact

- Chargeurs reported consolidated revenues of €326.1m in H1 19, increasing +13.6% in gross terms and -1.9% lfl. The acquisitions made in 2018, most notably PCC and Leach, largely contributed to the sales boost in the first half.
- The group's EBITDA stood at €32.5m, a +6.2% increase including the +€3.3m effect from IFRS16. On a comparable basis, EBITDA saw a 4.6% decline over H1 18. Nonetheless, cash generation remained strong, reaching €22.8m (+5.1%).
- An increase in opex related to acquisitions and the challenging market conditions in China and Germany for the Protective Films business weighed on the recurring operating profit, which decreased €2.1m to €22.7m.
- The company reiterated its 2021 revenue objective of €1bn, and disclosed for the first time its guidance for 2020: targeting a top-line of €750-800m including future acquisitions. On the operating profitability front, the company expects a recurring operating margin in FY19 above the FY17

level (8.3%), on the way to reaching >10% by 2022.

- CEO Michael Fribourg confirmed the company's long-term commitment via the control of Columbus Holding which stands as Chargeurs' reference shareholder with a 27.6% stake and its active dividend strategy (interim dividend set at €0.2).
- Below is the turnover breakdown by business:

			Change 19/18	
In euro millions	H1 2019	H1 2018	Reported	lfl(1)
Protective Films	142.1	150.0	-5.3%	-7.1%
PCC Fashion Technologies	107.7	68.8	+56.5%	+2.3%
Technical Substrates	18.0	14.8	+21.6%	-2.0%
Luxury Materials	58.2	53.5	+8.8%	+7.5%
Chargeurs	**326.1**	**287.1**	**+13.6%**	**-1.9%**

(1) like-for-like: based on a comparable scope of consolidation and at constant exchange rates

Analysis

As Chargeurs strives to promote its keen eye for profitable growth, organic or acquired, it is only fair to promote the reported figures as satisfactory and remind shareholders that the 2018 base was noteworthy for being remarkably high.

It is clear that the slowdown in the European economy, notably in Germany, as well as the trade war with China, has caught up with Chargeurs' Protective Film business as manufacturers postpone/reduce their orders, bracing for tougher times ahead. The quarterly swings in demand hide a more complex set of management decisions whereby the group has had to prepare for the launch of additional capacity and, in parallel, increase specialisation of existing manufacturing sites. This cuts available capacity with decisions here and there not to service the low value segment of demand. This is now behind and the early start of super-efficient new capacity aimed at the premium market should set the business on a very attractive profitable growth path.

In broad terms, H1 in Protective Films suffered more from a short-term blip in demand and ability to service clients than from any pricing pressure. Protective Films should remain the money-spinning business of the group for a long while as it makes a convincing case for leading the industry in terms of innovation, of surfing on end clients' demand for perfect products (hence, the need for protection in all of manufacturing's steps) and quantum progress in terms of emission containment (zero emission on latest new capacity).

While investors' eyes tend to spend too much time on quarterly swings in the Protective Film business, the big H1 positive shall be the complete refoundation of the textile-related business renamed Fashion Technologies. The PCC acquisition is bearing its fruit with a 35% jump in operating earnings. This is entirely driven by the added business which makes the point that well thought out and well prepared large additions to existing assets do pay off. As a reminder, rebranded PCC, Fashion Technologies, is really about servicing the fashion industry as opposed to being only a supplier of high tech interlining.

Also worth a comment on the back of the H1 release is the surprisingly deep business potential that the Technical Substrates unit has come across when it comes to museums as a market for their high-quality backlighted displays. What started as a sideline looks big as museums are more numerous and are moving to being less dusty and more marketing-oriented businesses. Getting business from the Louvre is obviously an industry-wide stamp of quality. The division is finalising three small acquisitions that open up even more the door of the museum business as it supplies design services.

Near-term self-funding ambitions

The ambitious target to reach €1bn in revenues in 2021 (but 2022 on a full-year basis) and a 10% underlying EBIT margin has been firmly reassessed and looks increasingly … reasonable. The group has confirmed its firing power by reshaping the long-term credit line commitments of its banks and lenders so that it is free to pounce when it has finalised its many ongoing discussions. As a reminder, it buys low (less than 7x EBIT) as founder-managers are happy to join forces with an industry-driven consolidator.

It looks also as if the existing four businesses offer more than enough potential for acquired growth so that there is no need for a big and riskier deal to add a fifth one. This reasonable growth could be financed in part by debt markets, and particularly by hybrid debt, as the group's respectability is now well established. Therefore, we could consider reviewing the unfolding of a capital increase, which we had anticipated as necessary to avoid a too tight balance sheet.

Impact

We will need to cut our 2019 EPS due to German and Chinese slower demand in H1, marking the more challenging context for Protective Films, but the underlying work to further long-term growth on the different business lines (notably CFT and CTS) while paying out steadily is rather exceptional. This should have a marginal impact on our target price which is dominated by a SOTP which itself is hardly impacted by quarterly revenues. We maintain our positive view on the stock and confirm our Buy recommendation.

05/07/2019

Technical Substrates sprouting through acquired growth

M&A /Corp. Action

Staying loyal to its investment strategy of targeting niche markets, Chargeurs props up its Technical Substrates business through three minor, but strategic, acquisitions focused on museum services. This brings the division closer to the €100m in sales milestone before 2021.

Fact

- Chargeurs signed on 4 July the terms for the acquisition of majority stakes in three companies to be grouped under the "Technical Substrates" umbrella.
- The companies are Design PM (UK), MET Studio (UK) and Hypsos

(Netherlands), joining Leach which was acquired back in April 2018.

- Combined, the three entities should represent €25m in revenues over the full year.
- No acquisition price was mentioned by the group.

Analysis

The recent venture focused on the (very) niche market of museum visual communication solutions and visitor experience which started with the acquisition of UK-based Leach, has taken off with the announcement of three minor, but strategic, acquisitions in this space. The three companies, which will maintain their respective services and organisation processes, will team up under the brand name “Chargeurs Creative Collections” to offer combined solutions catered mainly to museums, but will also serve retail outlets and brands.

With this move, Chargeurs brings closer its Technical Substrates division to the €100m sales milestone set in the strategic plan. Revenues are expected to represent €60m in 2019 on a full-year basis, and reach €100m in 2020 mainly thanks to additional external growth, a year ahead of schedule. Since the acquisition price has not been disclosed, it is not possible for us to make a deeper assessment on the group’s active external growth strategy.

Although the entities acquired don’t stray far from the market already served by Leach, we eagerly wait for aggregate figures and the growth potential in this seemingly narrow corner. Chargeurs’ management made it clear that the museum niche is actually a large and fast-growing one and, above all, that the top-end know-how for such clients finds even bigger clients in exhibitions and retail businesses. Call that the “visitor experience”. As a reminder, the Technical Substrates business can record big quarterly swings depending on deliveries. Hopefully the acquisitions will contribute to smoother sales growth.

Impact

In all, we will maintain our current estimates but will tweak those figures if and when Chargeurs communicates on profitability targets different from the odd 14% underlying margins plugged into our forecasts.

22/05/2019

Update

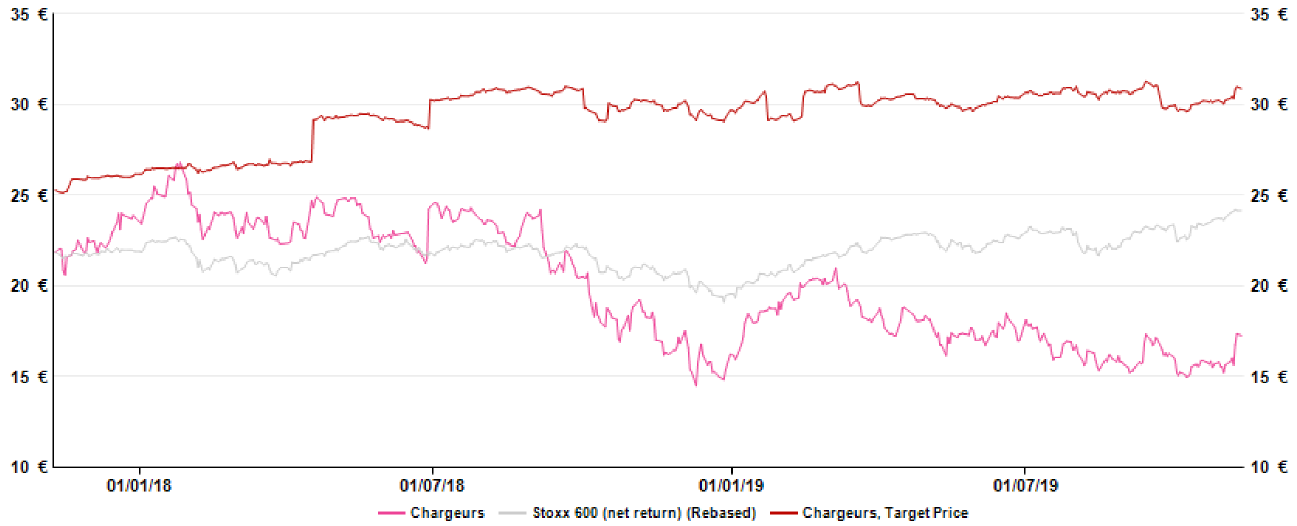
Change in DCF

€ 41.1 vs 40.9 +0.51%

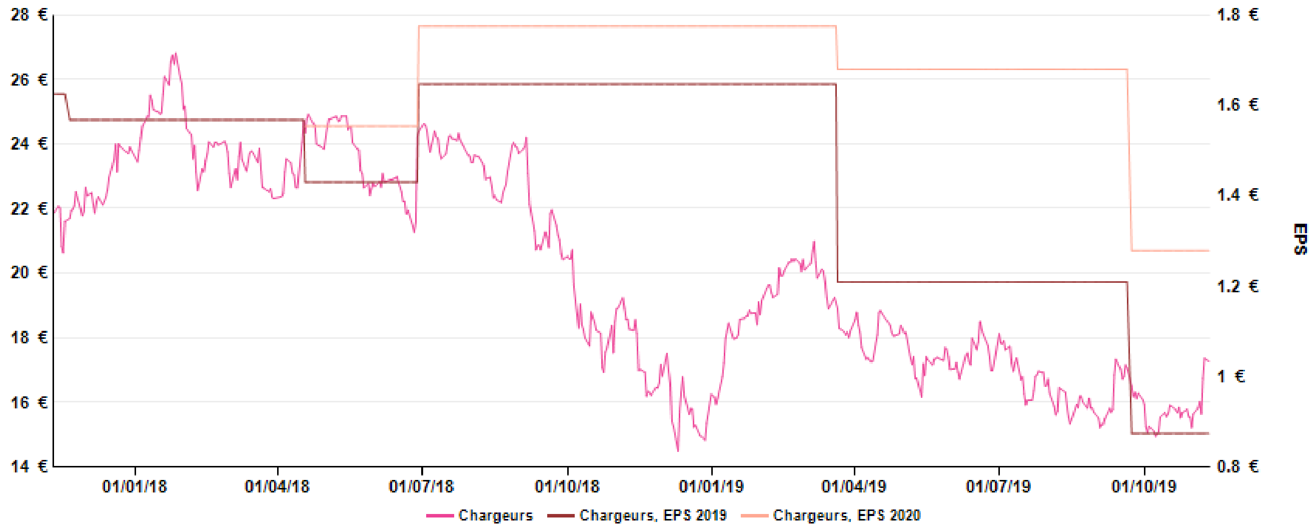
Minor adjustments to reflect more modest capital expenditures in forward-looking years.

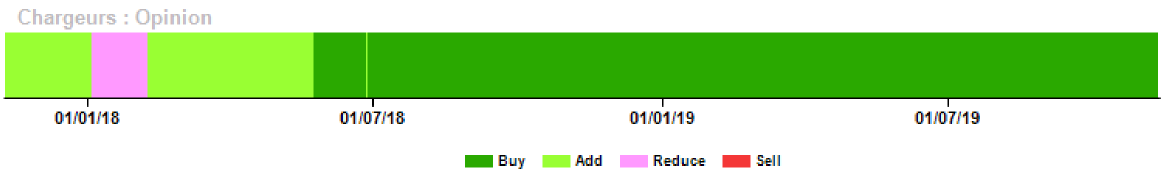
Chargeurs (Buy)

Stock Price and Target Price

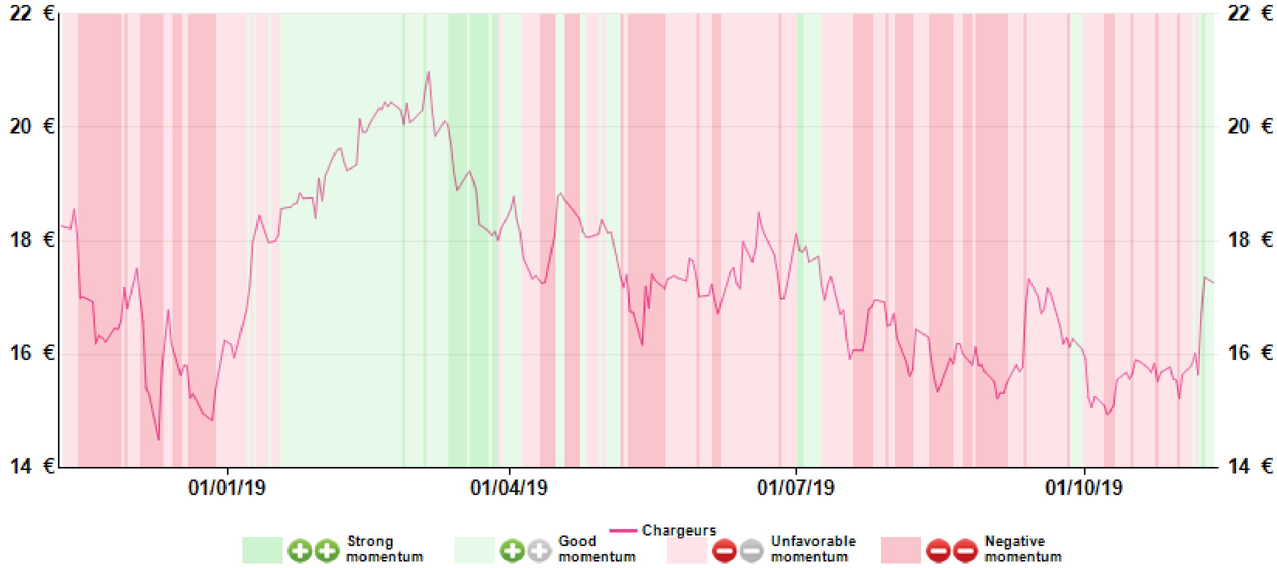


Earnings Per Share & Opinion





Momentum



Momentum analysis consists in evaluating the stock market trend of a given financial instrument, based on the analysis of its trading flows.
The main indicators used in our momentum tool are simple moving averages over three time frames: short term (20 trading days), medium term (50 days) and long term (150 days). The positioning of these moving averages relative to each other gives us the direction of the flows over these time frames.
For example, if the short and medium-term moving averages are above the long-term moving average, this suggests an uptrend which will need to be confirmed. Attention is also paid to the latest stock price relative to the three moving averages (advance indicator) as well as to the trend in these three moving averages - downtrend, neutral, uptrend - which is more of a lagging indicator.
The trend indications derived from the flows through moving averages and stock prices must be confirmed against trading volumes in order to confirm the signal. This is provided by a calculation based on the average increase in volumes over ten weeks together with a buy/sell volume ratio.

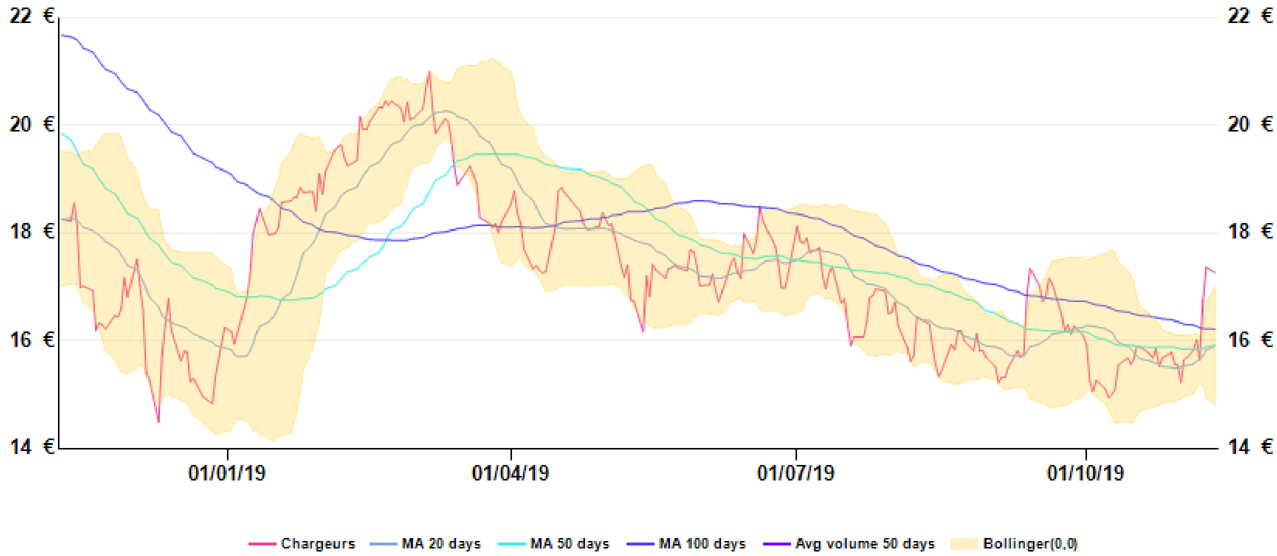
: Strong momentum corresponding to a continuous and overall positive moving average trend confirmed by volumes

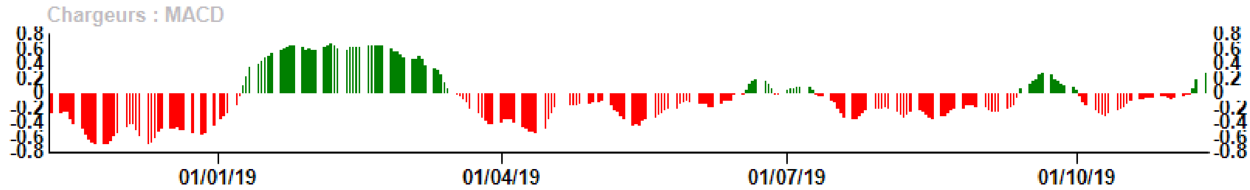
: Relatively good momentum corresponding to a positively-oriented moving average, but offset by an overbought pattern or lack of confirmation from volumes

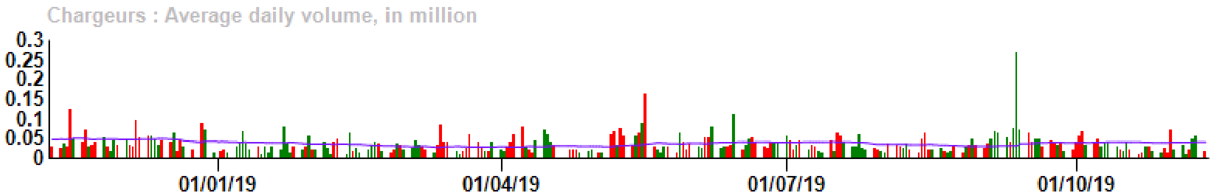
: Relatively unfavorable momentum with a neutral or negative moving average trend, but offset by an oversold pattern or lack of confirmation from volumes

: Strongly negative momentum corresponding to a continuous and overall negative moving average trend confirmed by volumes

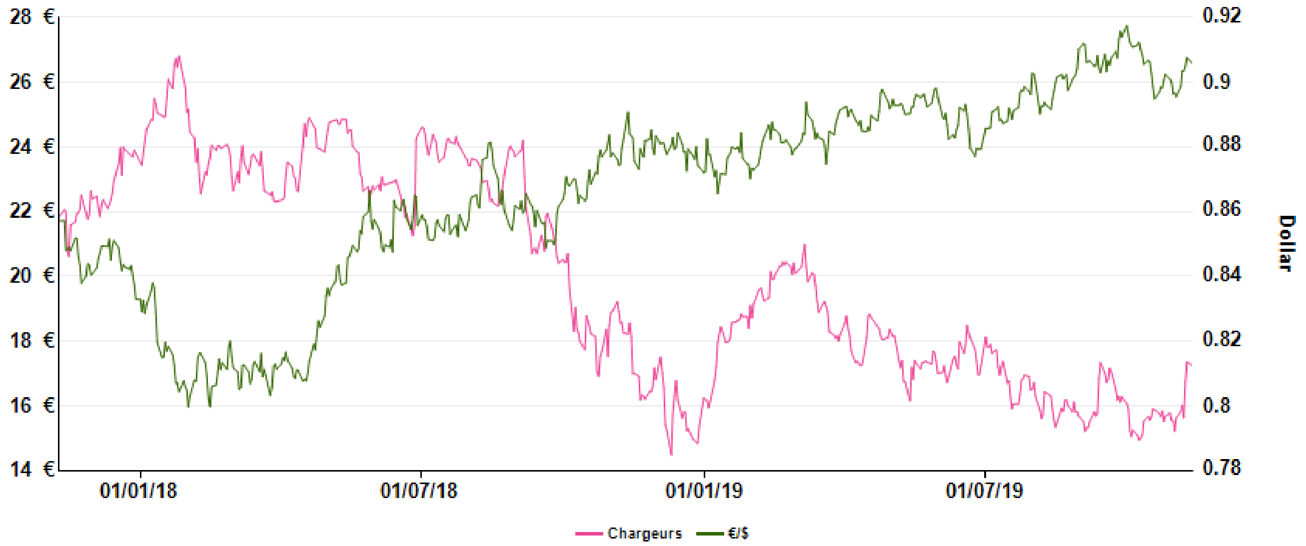
Moving Average MACD & Volume



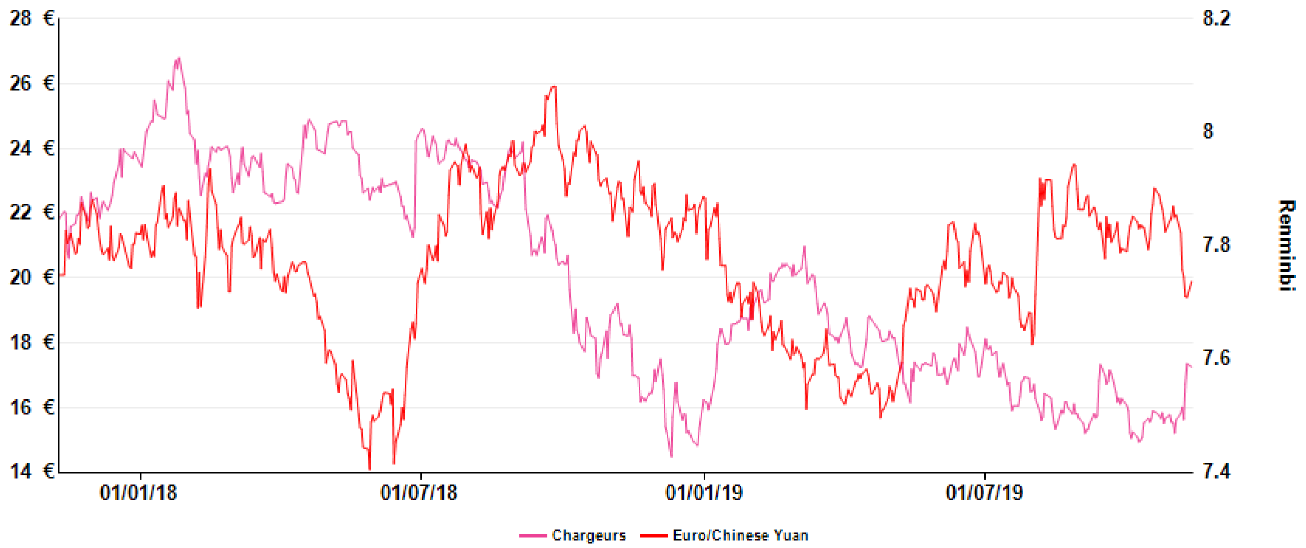




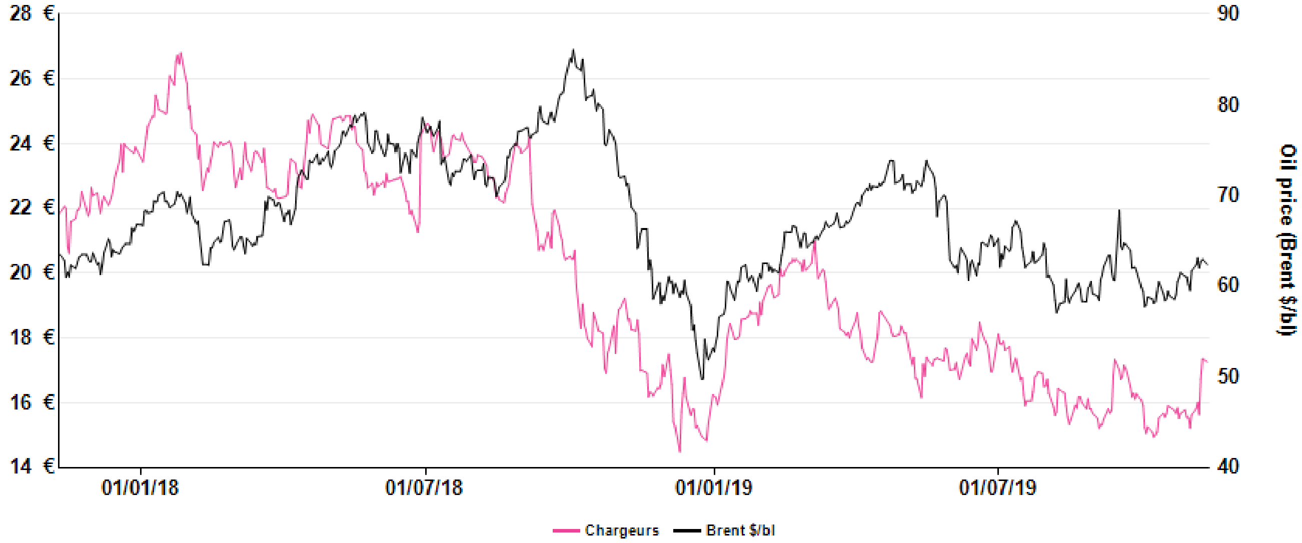
€/$ sensitivity



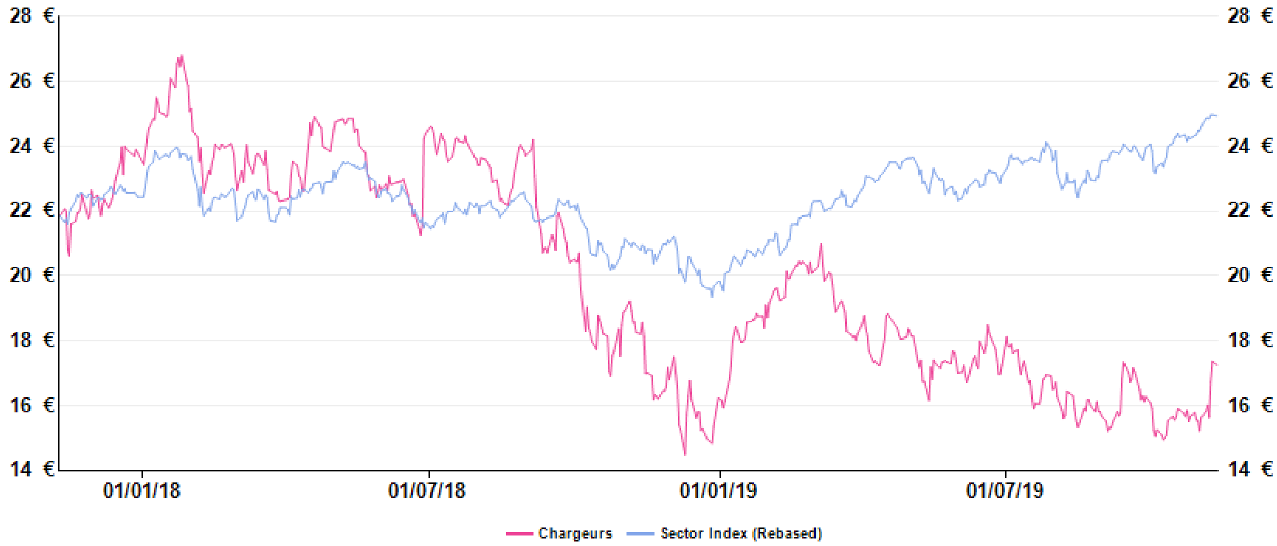
Euro/Chinese Yuan sensitivity



Brent $/bl sensitivity



Sector Other financials



Detailed Financials

Valuation Key Data

Valuation Key Data		12/18A	12/19E	12/20E	12/21E
Adjusted P/E	**x**	**16.9**	**19.8**	**13.5**	**10.8**
Reported P/E	x	16.8	19.7	14.6	10.8
EV/EBITDA(R)	**x**	**9.11**	**9.49**	**7.54**	**6.33**
P/Book	**x**	**1.88**	**1.55**	**1.23**	**1.12**
Dividend yield	**%**	**3.46**	**4.35**	**4.92**	**5.21**
Free cash flow yield	*%*	*-2.69*	*2.15*	*7.61*	*11.6*
Average stock price	€	19.3	17.3	17.3	17.3

Consolidated P&L

Consolidated P&L		12/18A	12/19E	12/20E	12/21E
Sales	€M	573	630	775	965
Sales growth	*%*	*7.56*	*9.81*	*23.0*	*24.5*
Sales per employee	*€th*	*287*	*293*	*310*	*322*
Organic change in sales	*%*				
Purchases and external costs (incl. IT)	€M				
Staff costs	€M	-117	-130	-157	-188
Operating lease payments	€M	0.00	0.00	0.00	0.00
Cost of sales/COGS (indicative)	€M	419			
EBITDA	€M	59.8	60.6	79.9	102
EBITDA(R)	€M	59.8	60.6	79.9	102
EBITDA(R) margin	*%*	*10.4*	*9.62*	*10.3*	*10.6*
EBITDA(R) per employee	*€th*	*29.9*	*28.2*	*32.0*	*34.0*
Depreciation	€M	-10.8	-13.0	-15.0	-16.0
Depreciations/Sales	*%*	*1.88*	*2.06*	*1.94*	*1.66*
Amortisation	€M	-0.90 (4)	-2.70 (4)	-3.50 (4)	-5.00 (4)
Underlying operating profit	€M	48.1	44.9	61.4	81.0
Underlying operating margin	*%*	*8.39*	*7.13*	*7.93*	*8.40*
Other income/expense (cash)	€M	-5.90	-11.0	-12.0	-13.0
Other inc./ exp. (non cash; incl. assets revaluation)	€M	0.00	0.00	0.00	0.00
Mark to market on various operation-related hedges	€M	0.00	0.00	0.00	0.00
Earnings from joint venture(s)	€M	0.00	0.00	0.00	0.00
Actual dividends from Jvs	*€M*	*0.00*	*0.00*	*0.00*	*0.00*
Actual accrued cash flows from JV	*€M*	*0.00*	*0.00*	*0.00*	*0.00*
Impairment charges/goodwill amortisation	€M	0.00	0.00	0.00	0.00
Operating profit (EBIT)	€M	42.2	33.9	49.4	68.0
Interest expenses	€M	-8.90	-10.0	-12.8	-16.8
of which effectively paid cash interest expenses	*€M*	*-8.90*	*-10.0*	*-12.0*	*-16.0*
Financial income	€M	0.50	0.50	0.50	0.50
Other financial income (expense)	€M	-2.20	-3.00	-3.00	-3.00
Net financial expenses	€M	-10.6	-12.5	-15.3	-19.3
of which related to pensions	*€M*	*-0.30*	*-0.14*	*-0.22*	*-0.24*
Pre-tax profit before exceptional items	€M	31.6	21.4	34.1	48.7
Exceptional items and other (before taxes)	€M				
of which cash (cost) from exceptionals	*€M*				
Current tax	€M	-10.9	-7.27	-10.2	-13.6
Impact of tax loss carry forward	€M	5.20	4.50	6.50	6.50
Deferred tax	€M	0.60	1.00	1.00	1.00
Corporate tax	€M	-5.08	-1.77	-2.74	-6.13
Tax rate	*%*	*16.1*	*8.28*	*8.02*	*12.6*
Net margin	*%*	*4.63*	*3.12*	*4.05*	*4.41*
Equity associates	€M	0.10	0.50	0.50	0.50
Actual dividends received from equity holdings	*€M*	*0.00*	*0.50*	*0.50*	*0.50*
Minority interests	€M	0.00	0.00	0.00	0.00

4. Depreciation of acquired intangible assets

Actual dividends paid out to minorities	€M	0.00	0.00	0.00	0.00
Income from discontinued operations	€M	0.00	0.00	0.00	0.00
Attributable net profit	€M	26.6	20.1	31.9	43.1
Impairment charges/goodwill amortisation	€M	0.00	0.00	0.00	0.00
Other adjustments	€M				
Adjusted attributable net profit	€M	26.6	20.1	31.9	43.1
Interest expense savings	€M				
Fully diluted adjusted attr. net profit	€M	26.6	20.1	31.9	43.1
NOPAT	€M	34.0	32.0	43.6	57.4

Cashflow Statement

		12/18A	12/19E	12/20E	12/21E
EBITDA	€M	59.8	60.6	79.9	102
Change in WCR	€M	-22.5	-13.3	-5.00	0.00
of which (increases)/decr. in receivables	€M	-8.00	2.40	-20.0	-20.0
of which (increases)/decr. in inventories	€M	-15.4	-21.6	-30.0	-20.0
of which increases/(decr.) in payables	€M	4.00	5.90	45.0	40.0
of which increases/(decr.) in other curr. liab.	€M	-3.10	0.00	0.00	0.00
Actual dividends received from equity holdings	€M	0.00	0.50	0.50	0.50
Paid taxes	€M	-6.00	-1.77	-2.74	-6.13
Exceptional items	€M				
Other operating cash flows	€M	-8.40	-5.00	-5.00	-5.00
Total operating cash flows	€M	22.9	41.0	67.7	91.4
Capital expenditure	€M	-24.3	-20.0	-17.0	-18.0
Capex as a % of depreciation & amort.	%	208	127	91.9	85.7
Net investments in shares	€M	-65.0	-70.0 (5)	-70.0 (5)	-70.0 (5)
Other investment flows	€M	-1.00	0.00	0.00	
Total investment flows	€M	-90.3	-90.0	-87.0	-88.0
Net interest expense	€M	-10.6	-12.5	-15.3	-19.3
of which cash interest expense	€M	-8.90	-12.4	-15.1	-19.1
Dividends (parent company)	€M	-10.8	-15.6	-17.5	-23.2
Dividends to minorities interests	€M	0.00	0.00	0.00	0.00
New shareholders' equity	€M	-10.2	0.00	100 (6)	0.00
of which (acquisition) release of treasury shares	€M	-10.2	0.00	0.00	0.00
(Increase)/decrease in net debt position	€M	-8.70	-7.30	-2.00	-2.50
Other financial flows	€M	-4.00	-3.00	-3.00	-3.00
Total financial flows	€M	-42.6	-38.3	62.4	-47.8
Change in scope of consolidation, exchange rates & other	€M	0.00	0.00	0.00	0.00
Change in cash position	€M	-110	-87.3	43.1	-44.4
Change in net debt position	€M	-101	-80.0	45.1	-41.9
Free cash flow (pre div.)	€M	-12.0	8.51	35.4	54.1
Operating cash flow (clean)	€M	22.9	41.0	67.7	91.4
Reinvestment rate (capex/tangible fixed assets)	%	30.1	17.7	12.5	11.3

5. Normalised acquisition spending assumed to be at EV=1.5x sales
6. Rights issue or equivalent assumed to add 4m shares at €25 to keep borrowings at acceptable levels (debt/EBITDA <2x)

Balance Sheet

		12/18A	12/19E	12/20E	12/21E
Goodwill	€M	128	202	248	295
Other intangible assets	€M	30.0	2.00	2.00	2.00
Total intangible	€M	158	204	250	297
Tangible fixed assets	€M	80.7 (7)	113 (7)	136	159
Financial fixed assets (part of group strategy)	€M	13.1	15.0	20.0	25.0
Other financial assets (investment purpose mainly)	€M	7.00	4.00	5.00	5.00
of which available for sale	*€M*	*0.00*	*0.00*	*0.00*	
WCR	€M	41.7	55.0	60.0	60.0
of which trade & receivables (+)	*€M*	*72.4*	*70.0*	*90.0*	*110*
of which inventories (+)	*€M*	*128*	*150*	*180*	*200*
of which payables (+)	*€M*	*159*	*165*	*210*	*250*
of which other current liabilities (+)	*€M*	*0.00*	*0.00*	*0.00*	*0.00*
Other current assets	€M	23.0	30.0	32.0	35.0
of which tax assets (+)	*€M*				
Total assets (net of short term liabilities)	€M	324	421	504	581
Ordinary shareholders' equity (group share)	€M	237	256	379	414
Minority interests	€M	0.00	0.00	0.00	0.00
Provisions for pensions	€M	17.4	17.6	17.8	15.1
Other provisions for risks and liabilities	€M	0.50	1.00	5.00	8.00
Deferred tax liabilities	€M	-27.2	-30.0	-30.0	-30.0
Other liabilities	€M	3.50	5.00	5.00	5.00
Net debt / (cash)	€M	92.2	172	127	169
Total liabilities and shareholders' equity	€M	324	421	504	581
Average net debt / (cash)	€M	41.7	132	150	148

7. Allowing for a €20m capex with Protective Film revenues starting by late 2019 and depreciation from that date

EV Calculations

		12/18A	12/19E	12/20E	12/21E
EV/EBITDA(R)	**x**	**9.11**	**9.49**	**7.54**	**6.33**
EV/EBIT (underlying profit)	**x**	**11.3**	**12.8**	**9.82**	**7.97**
EV/Sales	**x**	**0.95**	**0.91**	**0.78**	**0.67**
EV/Invested capital	x	1.86	1.48	1.29	1.19
Market cap	€M	447	396	465	465
+ Provisions (including pensions)	€M	17.9	18.6	22.8	23.1
+ Unrecognised actuarial losses/(gains)	€M	0.00	0.00	0.00	0.00
+ Net debt at year end	€M	92.2	172	127	169
+ Leases debt equivalent	€M	0.00	0.00	0.00	0.00
- Financial fixed assets (fair value) & Others	€M	16.0	16.0	16.0	16.0
+ Minority interests (fair value)	€M	4.00	4.00	4.00	4.00
= Enterprise Value	**€M**	**545**	**575**	**603**	**645**

Per Share Data

		12/18A	12/19E	12/20E	12/21E
Adjusted EPS (bfr gwill amort. & dil.)	**€**	**1.15**	**0.87**	**1.28**	**1.60**
Growth in EPS	*%*	*5.33*	*-23.8*	*46.3*	*25.0*
Reported EPS	€	1.15	0.88	1.18	1.60
Net dividend per share	**€**	**0.67**	**0.75**	**0.85**	**0.90**
Free cash flow per share	€	-0.52	0.37	1.42	2.01
Operating cash flow per share	€	0.99	1.78	2.71	3.39
Book value per share	€	10.3	11.1	14.1	15.4
Number of ordinary shares	**Mio**	**23.6**	**23.6**	**27.6**	**27.6**
Number of equivalent ordinary shares (year end)	Mio	23.6	23.6	27.6	27.6
Number of shares market cap.	Mio	23.6	23.1	23.1	23.1
Treasury stock (year end)	Mio	0.46	0.60	0.60	0.60
Number of shares net of treasury stock (year end)	Mio	23.1	23.0	27.0	27.0
Number of common shares (average)	**Mio**	**23.2**	**23.0**	**25.0**	**27.0**
Conversion of debt instruments into equity	Mio				
Settlement of cashable stock options	Mio	0.00	0.00	0.00	0.00
Probable settlement of non mature stock options	Mio				
Other commitments to issue new shares	Mio				
Increase in shares outstanding (average)	Mio	0.00	0.00	0.00	0.00
Number of diluted shares (average)	**Mio**	**23.2**	**23.0**	**25.0**	**27.0**
Goodwill per share (diluted)	€	0.00	0.00	0.00	0.00
EPS after goodwill amortisation (diluted)	€	1.15	0.87	1.28	1.60
EPS before goodwill amortisation (non-diluted)	€	1.15	0.87	1.28	1.60
Actual payment	€				
	%	**58.1**	**85.6**	**71.8**	**56.3**
Capital payout ratio (div +share buy back/net income)	**%**	**97.0**	**86.9**	**72.8**	

Funding - Liquidity

		12/18A	12/19E	12/20E	12/21E
EBITDA	€M	59.8	60.6	79.9	102
Funds from operations (FFO)	€M	36.5	42.0	57.6	72.3
Ordinary shareholders' equity	**€M**	**237**	**256**	**379**	**414**
Gross debt	€M	181	174	172	170
o/w Less than 1 year - Gross debt	€M	12.3	7.00	7.50	3.30
o/w 1 to 5 year - Gross debt	€M	119	127	130	136
of which Y+2	€M	7.00	7.50	3.30	101
of which Y+3	€M	7.50	3.30	101	15.0
of which Y+4	€M	3.30	101	15.0	10.0
of which Y+5	€M	101	15.0	10.0	10.0
o/w Beyond 5 years - Gross debt	€M	50.0	40.0	35.0	30.0
+ Gross Cash	€M	89.2	1.94	45.1	0.66
= Net debt / (cash)	**€M**	**92.2**	**172**	**127**	**169**
Bank borrowings	€M	70.0	70.0	70.0	70.0
Issued bonds	€M	81.0	81.0	81.0	81.0
Financial leases liabilities	€M	13.4	13.4	13.4	13.4
Other financing	€M	17.0	9.70	7.70	5.20
Gearing (at book value)	%	17.6	51.7	39.5	35.8
Adj. Net debt/EBITDA(R)	*x*	*1.54*	*2.84*	*1.59*	*1.66*
Adjusted Gross Debt/EBITDA(R)	*x*	*3.33*	*3.18*	*2.44*	*1.89*
Adj. gross debt/(Adj. gross debt+Equity)	*%*	*45.7*	*43.0*	*34.0*	*31.8*
Ebit cover	*x*	*4.67*	*3.67*	*4.11*	*4.28*
FFO/Gross Debt	*%*	*18.3*	*21.8*	*29.6*	*37.5*
FFO/Net debt	*%*	*39.6*	*24.4*	*45.3*	*42.8*
FCF/Adj. gross debt (%)	*%*	*-6.02*	*4.42*	*18.2*	*28.1*
(Gross cash+ "cash" FCF+undrawn)/ST debt	*x*	*6.28*	*1.49*	*10.7*	*16.6*
"Cash" FCF/ST debt	*x*	*-0.84*	*1.16*	*4.68*	*16.3*

ROE Analysis (Dupont's Breakdown)

		12/18A	12/19E	12/20E	12/21E
Tax burden (Net income/pretax pre excp income)	x	0.84	0.94	0.93	0.88
EBIT margin (EBIT/sales)	%	7.36	5.38	6.38	7.05
Assets rotation (Sales/Avg assets)	%	215	169	167	178
Financial leverage (Avg assets /Avg equity)	x	1.14	1.51	1.46	1.37
ROE	**%**	**11.4**	**8.16**	**10.1**	**10.9**
ROA	%	15.0	9.10	11.1	13.2

Shareholder's Equity Review (Group Share)

		12/18A	12/19E	12/20E	12/21E
Y-1 shareholders' equity	€M	230	233	256	379
+ Net profit of year	€M	26.6	20.1	31.9	43.1
- Dividends (parent cy)	€M	-10.8	-15.6	-17.5	-23.2
+ Additions to equity	€M	-10.2	0.00	100	0.00
o/w reduction (addition) to treasury shares	*€M*	*-10.2*	*0.00*	*0.00*	*0.00*
- Unrecognised actuarial gains/(losses)	€M	0.00	0.00	0.00	0.00
+ Comprehensive income recognition	€M	-3.00	18.5	8.77	15.3
= Year end shareholders' equity	**€M**	**233**	**256**	**379**	**414**

Staffing Analytics

		12/18A	12/19E	12/20E	12/21E
Sales per staff	€th	287	293	310	322
Staff costs per employee	€th	-58.3	-60.5	-62.6	-62.8
Change in staff costs	*%*	*33.9*	*11.5*	*20.4*	*20.3*
Change in unit cost of staff	*%*	*2.50*	*3.68*	*3.57*	*0.26*
Staff costs/(EBITDA+Staff costs)	*%*	*66.1*	*68.2*	*66.2*	*64.9*
Average workforce	**unit**	**2,000**	**2,150**	**2,500**	**3,000**
Europe	unit	1,006	1,020	1,035	1,060
North America	unit	303	310	315	330
South Americas	unit	0.00	0.00	0.00	0.00
Asia	unit	764	800	900	1,000
Other key countries	unit	0.00	0.00	300	800
Total staff costs	**€M**	**-117**	**-130**	**-157**	**-188**
Wages and salaries	€M	-117	-129	-156	-187
of which social security contributions	*€M*	*-23.5*	*-24.0*	*-24.5*	*-24.5*
Equity linked payments	€M				
Pension related costs	€M		-0.86	-0.86	-0.86

Divisional Breakdown Of Revenues

		12/18A	12/19E	12/20E	12/21E
Total sales	**€M**	**573**	**630**	**775**	**965**
Protective Films	€M	283	278	292	309
Fashion Technologies (ex Interlining)	€M	161	217 (1)	227	239
Technical Substrates	€M	30.7	35.3	55.6	86.7
Luxury Materials (ex Wool)	€M	98.2	100	100	100
Other discontinued	€M				
Other	€M			100 (2)	230 (2)

1. The PCC acquisition adds c.$80m to the business
2. Acquired revenues. AV estimate. Possibly as part of a fifth business line

Divisional Breakdown Of Earnings

		12/18A	12/19E	12/20E	12/21E
Underlying operat. profit Analysis					
Protective Films	€M	33.0	30.5	33.5	37.1
Fashion Technologies (ex Interlining)	€M	14.8	17.3	20.5	21.5
Technical Substrates	€M	4.01	4.41	7.23	11.7
Luxury Materials (ex Wool)	€M	2.70	2.80	3.00	3.00
Other discontinued	€M	0.00	0.00	0.00	0.00
Other/cancellations	€M	-5.50	-7.50	0.70 (3)	12.7 (3)
Total	**€M**	**49.0**	**47.6**	**64.9**	**86.0**
Underlying operat. profit margin	%	8.55	7.56	8.38	8.91

3. Combines central costs at c.€8m a year and operating contribution for newly-acquired businesses

Revenue Breakdown By Country

		12/18A	12/19E	12/20E	12/21E
Europe	%	46.0	43.0		
Of Which Italy	%	12.0	12.0		
Of Which Germany	%	9.00	9.00		
Of Which France	%	7.00	7.00		
Americas	%	27.0	30.0		
Of Which United States	%	20.0	20.0		
Asia	%	25.0	25.0		
Of Which China	%	10.0	10.0		
Other	%	2.00	2.00		

ROCE/CFROIC/Capital Invested

		12/18A	12/19E	12/20E	12/21E
ROCE (NOPAT+lease exp.(1-tax))/(net) cap employed adjusted*	*%*	*11.6*	*8.27*	*9.35*	*10.6*
CFROIC	*%*	*-4.09*	*2.20*	*7.58*	*9.99*
Goodwill	€M	128	202	248	295
Accumulated goodwill amortisation	*€M*	*16.0*	*16.0*	*16.0*	*16.0*
All intangible assets	€M	30.0	2.00	2.00	2.00
Accumulated intangible amortisation	*€M*	*0.00*	*0.00*	*0.00*	*0.00*
Financial hedges (LT derivatives)	€M	0.00	0.00	0.00	0.00
Capitalised R&D	€M	0.00	0.00	0.00	0.00
PV of non-capitalised lease obligations	€M	0.00	0.00	0.00	0.00
Other fixed assets	€M	80.7	113	136	159
Accumulated depreciation	*€M*	*0.00*	*0.00*	*0.00*	*0.00*
WCR	€M	41.7	55.0	60.0	60.0
Other assets	€M	13.1	15.0	20.0	25.0
Unrecognised actuarial losses/(gains)	€M	0.00	0.00	0.00	0.00
Capital employed after deprec. (Invested capital)	**€M**	**294**	**387**	**467**	**541**
Capital employed before depreciation	€M	310	403	483	557

Divisional Breakdown Of Capital

		12/18A	12/19E	12/20E	12/21E
Protective Films	€M				
Fashion Technologies (ex Interlining)	€M				
Technical Substrates	€M				
Luxury Materials (ex Wool)	€M				
Other discontinued	€M				
Other	€M	294	387	467	541
Total capital employed	**€M**	**294**	**387**	**467**	**541**

Pension Risks

Summary Of Pension Risks

		12/18A	12/19E	12/20E	12/21E
Pension ratio	**%**	**6.85**	**6.44**	**4.50**	**3.52**
Ordinary shareholders' equity	€M	237	256	379	414
Total benefits provisions	**€M**	**17.4**	**17.6**	**17.8**	**15.1**
of which funded pensions	*€M*	*2.10*	*3.35*	*3.19*	*3.06*
of which unfunded pensions	*€M*	*14.8*	*13.7*	*14.1*	*11.5*
of which benefits / health care	*€M*	*0.50*	*0.51*	*0.52*	*0.53*
Unrecognised actuarial (gains)/losses	€M	0.00	0.00	0.00	0.00
Company discount rate	*%*	*1.96*	*2.34*	*2.34*	*2.34*
Normalised recomputed discount rate	%		2.00		
Company future salary increase	*%*	*2.00*	*2.00*	*2.00*	*2.00*
Normalised recomputed future salary increase	%		2.00		
Company expected rate of return on plan assets	*%*	*3.50*	*3.50*	*3.50*	*3.50*
Normalised recomputed expd rate of return on plan assets	%		2.82		
Funded : Impact of actuarial assumptions	**€M**		**1.22**		
Unfunded : Impact of actuarial assumptions	**€M**		**0.97**		

Geographic Breakdown Of Pension Liabilities

		12/18A	12/19E	12/20E	12/21E
US exposure	%	33.0	33.0	33.0	33.0
UK exposure	%				
Euro exposure	%	67.0	67.0	67.0	67.0
Nordic countries	%				
Switzerland	%				
Other	%				
Total	%	100	100	100	100

Balance Sheet Implications

		12/18A	12/19E	12/20E	12/21E
Funded status surplus / (deficit)	€M	-3.60	-4.78	-4.56	-4.37
Unfunded status surplus / (deficit)	€M	-13.8	-15.3	-15.9	-16.4
Total surplus / (deficit)	€M	-17.4	-20.1	-20.4	-20.8
Total unrecognised actuarial (gains)/losses	**€M**	**0.00**	**0.00**	**0.00**	**0.00**
Provision (B/S) on funded pension	€M	2.10	3.35	3.19	3.06
Provision (B/S) on unfunded pension	€M	14.8	13.7	14.1	11.5
Other benefits (health care) provision	€M	0.50	0.51	0.52	0.53
Total benefit provisions	**€M**	**17.4**	**17.6**	**17.8**	**15.1**

P&L Implications

		12/18A	12/19E	12/20E	12/21E
Funded obligations periodic costs	€M	-0.20	0.03	-0.02	-0.03
Unfunded obligations periodic costs	€M	-0.90	-1.02	-1.05	-1.07
Total periodic costs	**€M**	**-1.10**	**-1.00**	**-1.07**	**-1.10**
of which incl. in labour costs	*€M*	*-0.80*	*-0.86*	*-0.86*	*-0.86*
of which incl. in interest expenses	*€M*	*-0.30*	*-0.14*	*-0.22*	*-0.24*

Funded Obligations

		12/18A	12/19E	12/20E	12/21E
Balance beginning of period	**€M**	**18.3**	**17.4**	**17.1**	**15.5**
Current service cost	€M	0.10	0.11	0.11	0.11
Interest expense	€M	0.60	0.35	0.34	0.31
Employees' contributions	€M				
Impact of change in actuarial assumptions	€M	-1.00	1.22	0.00	0.00
of which impact of change in discount rate	*€M*		*1.22*		
of which impact of change in salary increase	*€M*		*0.00*		
Changes to scope of consolidation	**€M**				
Currency translation effects	€M	0.80	0.00	0.00	0.00
Pension payments	€M	-1.30	-2.00	-2.00	-2.00
Other	€M	-0.10	0.00	0.00	0.00
Year end obligation	**€M**	**17.4**	**17.1**	**15.5**	**13.9**

Plan Assets

		12/18A	12/19E	12/20E	12/21E
Value at beginning	**€M**	**15.2**	**13.8**	**12.3**	**11.0**
Company expected return on plan assets	€M	0.50	0.48	0.43	0.38
Actuarial gain /(loss)	€M	-1.40	-0.09	-0.08	-0.07
Employer's contribution	€M	0.10	0.10	0.32	0.30
Employees' contributions	€M	0.00	0.00	0.00	0.00
Changes to scope of consolidation	€M				
Currency translation effects	€M	0.70	0.00	0.00	0.00
Pension payments	€M	-1.30	-2.00	-2.00	-2.00
Other	€M				
Value end of period	**€M**	**13.8**	**12.3**	**11.0**	**9.57**
Actual and normalised future return on plan assets	€M	-0.90	0.39	0.35	0.31

Unfunded Obligations

		12/18A	12/19E	12/20E	12/21E
Balance beginning of period	**€M**	**13.3**	**13.8**	**15.3**	**15.9**
Current service cost	€M	0.70	0.75	0.75	0.75
Interest expense	€M	0.20	0.28	0.31	0.32
Employees' contributions	€M				
Impact of change in actuarial assumptions	€M	0.00	0.97	0.00	0.00
of which Impact of change in discount rate	*€M*		*0.97*		
of which Impact of change in salary increase	*€M*		*0.00*		
Changes to scope of consolidation	€M	0.00	0.00	0.00	
Currency translation effects	€M	0.10	0.00	0.00	
Pension payments	€M	-0.50	-0.50	-0.50	-0.50
Other	€M	0.00	0.00	0.00	0.00
Year end obligation	**€M**	**13.8**	**15.3**	**15.9**	**16.4**

Fundamental Opinion

It is implicit that recommendations are made in good faith but should not be regarded as the sole source of advice.

Recommendations are geared to a "**value**" approach.

Valuations are computed from the point of view of a **secondary market minority holder** looking at a medium term (say 6 months) performance.

Valuation tools are built around the concepts of **transparency,** all underlying figures are accessible, and **consistency,** same methodology whichever the stock, allowing for differences in nature between financial and non financial stocks. A stock with a target price below its current price should not and will not be regarded as an Add or a Buy.

Recommendations are based on target prices with no allowance for dividend returns. The thresholds for the four recommendation levels may change from time to time depending on market conditions. Thresholds are defined as follows, ASSUMING long risk free rates remain in the 2-5% region.

Recommendation	Low Volatility 10 < VIX index < 30	Normal Volatility 15 < VIX index < 35	High Volatility 35 < VIX index
Buy	More than 15% upside	More than 20% upside	More than 30% upside
Add	From 5% to 15%	From 5% to 20%	From 10% to 30%
Reduce	From -10% to 5%	From -10% to 5%	From -10% to 10%
Sell	Below -10%	Below -10%	Below -10%

There is deliberately no "neutral" recommendation. The principle is that there is no point investing in equities if the return is not at least the risk free rate (and the dividend yield which again is not allowed for).

Although recommendations are automated (a function of the target price whenever a new equity research report is released), the management of AlphaValue intends to maintain global consistency within its universe coverage and may, from time to time, decide to change global parameters which may affect the level of recommendation definitions and /or the distribution of recommendations within the four levels above. For instance, lowering the risk premium in a gloomy context may increase the proportion of positive recommendations.

Valuation

Valuation processes have been organized around transparency and consistency as primary objectives.

Stocks belong to different categories that recognise their main operating features : Banks, Insurers and Non Financials.

Within those three universes, the valuation techniques are the same and in relation to the financial data available.

The weighting given to individual valuation techniques is managed centrally and may be changed from time to time. As a rule, all stocks of a similar profile are valued using equivalent weighting of the various valuation techniques. This is for obvious consistency reasons.

Within the very large universe of Non Financials, there are in effect 4 sub-categories of weightings to cater for subsets: 1) 'Mainstream' stocks; 2) 'Holding companies' where the stress is on NAV measures; 3) 'Growth' companies where the stress is on peer based valuations; 4) 'Loss making sectors' where peers review is essentially pointing nowhere (ex: Bio techs). The bulk of the valuation is then built on DCF and NAV, in effect pushing back the time horizon.

Valuation Issue	Normal industrials	Growth industrials	Holding company	Loss runners	Bank	Insurers
DCF	35%	35%	10%	40%	0%	0%
NAV	20%	20%	55%	40%	50%	15%
PE	10%	10%	10%	5%	10%	20%
EV/EBITDA	20%	20%	0%	5%	0%	0%
Yield	10%	10%	20%	5%	10%	15%
Book	5%	5%	5%	5%	10%	10%
Banks' instrinsic method	0%	0%	0%	0%	10%	0%
Embedded Value	0%	0%	0%	0%	0%	40%
Mkt Cap/Gross Operating Profit	0%	0%	0%	0%	10%	0%

