Compagnia dei Caraibi

Sector: Food & Beverage

VALUETRACK

TIME to look at short-term horizon

Marco Greco
marco.greco@value-track.com

Filippo Mazzoleni
filippo.mazzoleni@value-track.com

Compagnia dei Caraibi is a leading player in the selection, marketing and distribution of third parties and proprietary premium and super-premium alcoholic brands, distributed via multi-annual exclusive distribution rights

FY22: Top Line ok, Operating Profitability ko

FY22 results released back at the end of March were in line with our latest estimates at the top line level, (Value of Production at €56.1mn, +32% y/y), but lower in terms of profitability (EBITDA Adj. at €5.3mn, +10% y/y, VT estimate at €6.1mn), due to: 1) weak 2H22 revenues from sales (+2.5% y/y); 2) surging logistics costs; 3) set-up costs for international subsidiaries. EBITDA Adj. 2H22 stood at €1.8mn, nearly halved vs. both 2H21 and 1H22.

Handling multiple projects (too many?) at once

We believe that part of the miss in profitability could be due to a not surprising difficulty in handling too many projects at once. Indeed, over 2022 and 1Q23, CDC kept working on: a) growing abroad, b) strengthening brand building activities for proprietary brands, c) scouting new super-premium brands, and d) developing some kind of direct access to final consumers. Several acquisitions have been put in place: Elephant Gin GmbH (100% stake paid €15.6mn), Right Beer (75% stake paid <€1mn), We r-eticsoul (100% stake paid €1.0mn). We also remind that in the latest months CDC had to negotiate with Brown-Forman Corporation an agreement for the distribution of Gin Mare and Diplomatico Rum (see later on this point).

2023E-25E new forecasts impacted by Brown-Forman

CDC has just unveiled its guidance for 2023E, that points at €74mn-€76mn VoP, 6.5%-7.5% EBITDA margin and €4.5mn-€5.5mn Net Debt. The guidance is well below our previous estimates, with the bulk of the difference being due, in our view, to the new terms of Brown-Forman distribution agreement, that we believe should bring higher Revenues but lower profitability. By the way, the new agreement is valid until Dec '24 and is hard to tell if there will be a renewal and at which terms. That said, in 2025E we now expect €97.1mn VoP, €8.3mn EBITDA, €4.2mn Net Debt.

Fair Value at €4.87 p/s (fully-diluted, from €6.30 p/s)

We update TIME fair value at €4.87 p/s fully diluted focusing on a short-term horizon SOTP valuation given (i) lower profitability guidance and forecasts, (ii) renewal uncertainty of distribution agreement after 2024E, making longer-term valuation methods (e.g., DCF) unfit and (iii) negative EBITDA contribution of new projects, valued at deals price or on sales multiples.

Fair Value (€)(*)	**4.87**
Market Price (€)	**4.60**
Market Cap. (€m)(*)	**74.1**

KEY FINANCIALS (€mn)	2022A	2023E	2024E
VALUE OF PRODUCTION	56.1	75.3	87.5
EBITDA	4.7	5.1	6.8
EBITA	3.8	4.1	5.8
ADJ. NET PROFIT	2.5	3.1	4.2
EQUITY	18.3	22.5	29.1
NET FIN. POS.	-1.9	-5.0	-7.0
EPS ADJ. (€)(*)	0.18	0.19	0.26
DPS (€)	0.00	0.00	0.00

Source: Compagnia dei Caraibi (historical figures), Value Track (2022E-23E estimates, (*) based on Fully Diluted Nosh

KEY RATIOS	2022A	2023E	2024E
EBITDA MARGIN (%)	8.3	6.7	7.8
EBITA MARGIN (%)	6.8	5.5	6.6
NET DEBT / EBITDA (x)	0.4	1.0	1.0
NET DEBT / EQUITY (x)	0.1	0.2	0.2
EV/SALES (x)(*)	1.2	1.1	0.9
EV/EBITDA (x)(*)	15.1	15.9	11.6
EV/EBITA (x)(*)	18.5	19.5	13.6
P/E ADJ. (x)(*)	25.5	23.9	17.7

Source: Compagnia dei Caraibi (historical figures), Value Track (2022E-23E estimates), (*) based on Fully Diluted Nosh

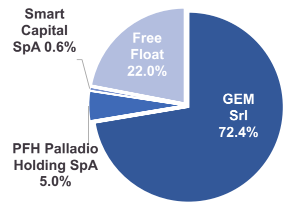
STOCK DATA	
FAIR VALUE (€)	4.87 (*)
MARKET PRICE (€)	4.60
SHS. OUT. (m)(*)	16.1 (*)
MARKET CAP. (€m)	74.1 (*)
FREE FLOAT (%)	22.0
AVG. -20D VOL. (#)	13,187
RIC / BBG	TIME.MI / TIME IM
52 WK RANGE	4.00 – 4.97

Source: Stock Market Data, (*) based on Fully Diluted Nosh

Business Description

Compagnia dei Caraibi (CDC) is a leading Italian player in the selection, marketing and distribution of both third parties and proprietary premium and super-premium alcoholic brands, ranging from spirits, sodas, beers and wine. CDC is focused on scouting and selecting the best-in-class high-quality alcohol brands from all over the world, and on implementing together with partner / suppliers, intense brand building marketing activity aimed at boosting distributed volumes.

Shareholders Structure



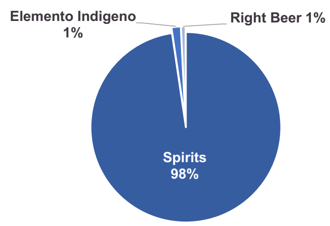
Source: Compagnia dei Caraibi

Key Financials

€mn	2022A	2023E	2024E	2025E
Value of Production	**56.1**	**75.3**	**87.5**	**97.1**
Chg. % YoY	32.1%	34.2%	16.1%	11.0%
EBITDA	**4.7**	**5.1**	**6.8**	**8.3**
EBITDA Margin (%)	8.3%	6.7%	7.8%	8.5%
EBITA	**3.2**	**4.1**	**5.8**	**7.1**
EBITA Margin (%)	5.8%	5.5%	6.6%	7.3%
EBIT	**3.2**	**3.3**	**4.3**	**5.6**
Net Profit	**2.1**	**2.1**	**2.8**	**3.6**
Chg. % YoY	-12.0%	1.4%	31.4%	30.1%
Adjusted Net Profit	**2.5**	**3.1**	**4.2**	**4.6**
Chg. % YoY	1.5%	22.0%	34.9%	10.3%
Net Fin. Position	**-1.9**	**-5.0**	**-7.0**	**-4.2**
Net Fin. Pos. / EBITDA (x)	0.4	1.0	1.0	0.5
OpFCF b.t.	**-3.0**	**2.6**	**3.3**	**4.7**
OpFCF b.t. as % of EBITDA	-64.4%	51.6%	47.9%	56.7%

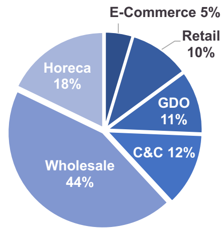
Source: Compagnia dei Caraibi (historical figures), Value Track (estimates)

Revenues (Italy) by Product Type



Source: Compagnia dei Caraibi, FY22

Revenues (Italy) by Channel



Source: Compagnia dei Caraibi, FY22

Investment case

Strengths / Opportunities

- Leader in the fastest growing spirits premium segment;
- Unique business model based on scouting premium brands with high potential and obtaining exclusivity distribution rights;
- Extensive portfolio with over 270 brands and 1,600 SKUs;
- Well diversified clientele and exposure to both on-trade and off-trade distribution channels.

Weaknesses / Risks

- Fairly concentrated market, dominated by huge players in size;
- Distribution of third parties' products drives lower profitability.

Stock multiples @ €4.87 Fair Value

	2023E	2024E
EV / SALES (x)	1.1	1.0
EV / EBITDA (x)	16.7	12.2
EV / EBITA (x)	20.6	14.4
EV / CE. (x)	3.1	2.3
OpFCF Yield (%)	3.1	3.9
P / E Adj. (x)	25.3	18.8
P / BV (x)	3.5	2.7
Div. Yield. (%)	0.0	0.0

Source: Value Track (Fully-diluted scenario)

FY22 Financials

FY22 results released back at the end of March came out in line with our latest estimates at the top line level, but lower at profitability one.

We highlight the following key financials:

- **Value of Production at €56.1mn** vs. €42.5mn in FY21, +32% y/y, with 2H22 implied at €28.2mn i.e. a flattish +2.5% y/y, as 2022 post-summer season has been less performing than the unparalleled 2021 (post-Covid19 lockdowns);
- **EBITDA at €4.7mn** vs. €4.9mn in FY21 (EBITDA Margin 8.3% vs. 11.5% in FY21), as in 2H22 CDC was impacted by: 1) surging expenses related to both inbound and outbound logistics, 2) set-up costs for international subsidiaries, 3) unexpectedly weak revenues from sales in 3Q22. Indeed, 2H22 implied EBITDA stands at €1.1mn (4.0% EBITDA margin) compared to our €2.6mn estimate that had been already revised downward after FY22 preliminary results release;
- **EBITDA Adj.** for M&A advisory fees and ESG investments (€0.7mn) **at €5.3mn** (EBITDA Margin 9.5%), with 2H22 implied at €1.8mn, nearly halved vs. both 2H21 and 1H22 figures;
- **Net Debt at €1.9mn** vs. Net Cash of € 7.2mn as of FY21 and Net Cash of €6.0mn as of 9M22, reflecting higher inventory levels and the acquisition of the first 25% of Elephant Gin in December. Net of ca. €2.5mn purchased treasury shares, Net Cash would stand at €0.6mn.

Compagnia dei Caraibi: Key Financials FY20-FY22

(IT GAAP, €mn)	FY21A	FY22A	*y/y*	FY22E VT
Value of Production	**42.5**	**56.1**	***32%***	**54.3**
EBITDA	**4.9**	**4.7**	***-5%***	**6.1**
EBITDA Margin (%)	*11.5%*	*8.3%*	*-320bps*	*11.2%*
EBITDA Adj.	**4.9**	**5.3**	***10%***	**6.1**
EBITDA Adj. Margin (%)	*11.5%*	*9.5%*	*-200bps*	*11.2%*
Net Fin. Pos. [Net debt (-) / Cash (+)]	**7.2**	**-1.9**	***-9.1***	**0.5**

Source: Compagnia dei Caraibi, Value Track Analysis

Compagnia dei Caraibi: Key Financials 2H21-2H22

(IT GAAP, €mn)	2H21A	1H22A	2H22A	2H22E VT
Value of Production	**27.5**	**28.0**	**28.2**	**26.3**
y/y (%)	*61.6%*	*86.4%*	*2.5%*	*nm*
EBITDA	**3.6**	**3.5**	**1.1**	**2.6**
EBITDA Margin (%)	*13.2%*	*12.6%*	*4.0%*	*9.7%*
EBITDA Adj.	**3.6**	**3.5**	**1.8**	**2.6**
EBITDA Adj. Margin (%)	*13.2%*	*12.6%*	*6.4%*	*9.7%*
Net Fin. Pos. [Net debt (-) / Cash (+)]	**7.2**	**6.1**	**-1.9**	**0.5**

Source: Compagnia dei Caraibi, Value Track Analysis

Profit & Loss

One positive factor of FY22 is the evolution of the Group top line, with **Revenues from Sales** growing in excess of 30% y/y.

In terms of breakdown, the key messages we want to highlight are:

- **Spirits** remain the core of CDC offer (ca. 98%), with Gin and Liqueurs increasing their incidence on sales vs. Rhum.

  Elemento Indigeno wine selection is growing fast at 68% y/y to €0.8mn while **Right Beer**, acquired only this year, totaled ca. €400k.

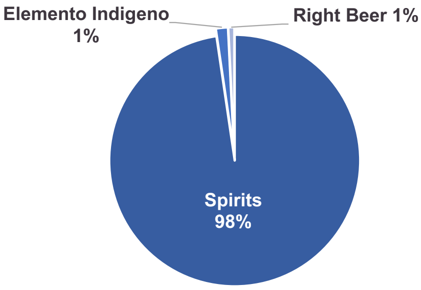
- On-trade and off-trade channels both increased at high double-digit rates, however **Modern Retail** (GDO) and **Horeca** were the fastest at 77% and 44% y/y, respectively.

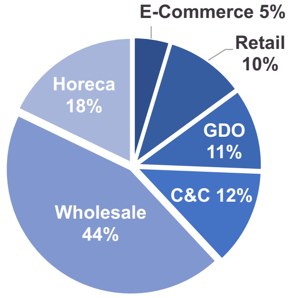
  E-commerce suffered a 18% y/y decrease due to the return of the "away from home" trend, halted over FY20-FY21 by the pandemic. Nonetheless E-commerce is still at +153% vs. FY19.

- **Italy** represents 96% of total Revenues, but **indirect international markets** contribution soared by over 70% y/y to €1.9mn.

  Direct international markets are still in their set-up phase, with Spain totaling ca. €50k, while Germany and USA not generating sales yet.

Compagnia dei Caraibi: Revenues from Italy breakdown by Product Type and Distribution Channel





Source: Compagnia dei Caraibi, Value Track Analysis

Compagnia dei Caraibi: Revenues from Sales breakdown

(IT GAAP, €mn)	FY20	FY21	FY22	*y/y*
Italy	**22.8**	**39.1**	**51.6**	***32%***
As a % of Total	*97%*	*97%*	*96%*	
o/w On-Trade	16.3	28.9	38.3	*33%*
o/w Off-Trade	6.5	10.2	13.2	*30%*
Direct International Markets (*)	**0.0**	**0.1**	**0.1**	***7%***
As a % of Total	*0%*	*0%*	*0%*	
Indirect International Markets	**0.6**	**1.1**	**1.9**	***73%***
As a % of Total	*3%*	*3%*	*4%*	
Revenues from Sales (Net of Marketing Rebates)	**23.4**	**40.3**	**53.6**	***33%***
Marketing Rebates	1.2	1.6	1.3	*-18%*
Revenues from Sales	**24.6**	**41.9**	**54.9**	***31%***

Source: Compagnia dei Caraibi, Value Track Analysis, (*) Contribution entirely from Spain

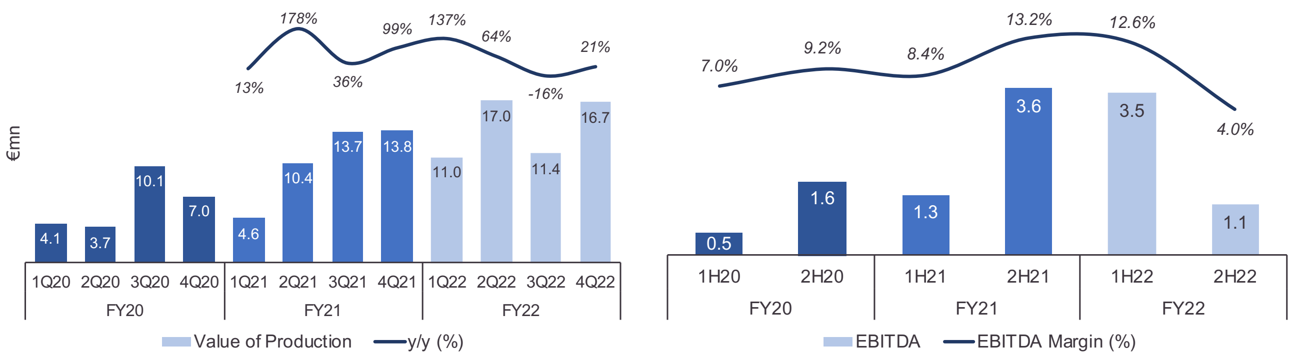
Looking at the evolution of CDC key financials by semester, we underline a noteworthy slowdown in 2H22 vs. the booming 1H22, that strongly benefited from the recovery of the away from home trend.

Tighter sales (especially in 3Q22) and negative operating leverage effects drove lower margins y/y.

More specifically, the Group highlighted rising inbound and outbound logistics costs, for securing inventory stocks in the last months of the year on one hand and because of a new outbound partner on the other, accelerating delivery times but charging higher fees. Consequently:

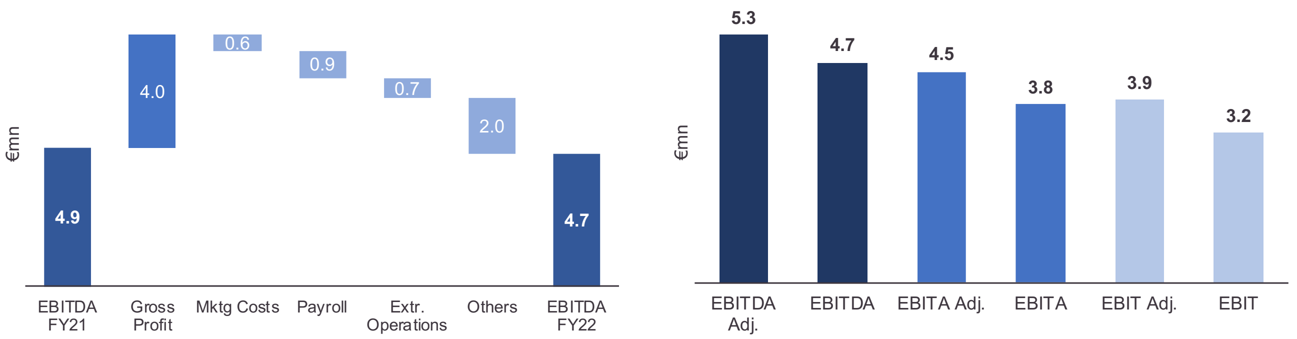
- **EBITDA** decreased to **€4.7mn** from €4.9mn in FY21, mainly for (i) logistics expenses increasing more than proportionally vs. Revenues (in the Gross Profit box below), (ii) losses from foreign companies still in their start-up phase and (iii) M&A advisory fees, (iv) unexpectedly weak revenues from sales in 3Q22;
- **EBITDA Adj.** (for €0.7mn extraordinary operations related to M&A fees and ESG investments) **at €5.3mn** vs. reported EBITDA of €4.9mn in FY21;
- **EBITA**, i.e. EBIT gross of Goodwill Amortization worth €0.5mn, **at €3.8mn** (€4.5mn Adj.);
- **EBIT at €3.2mn** vs. €3.8mn in FY21, and **EBIT Adj. at €3.9mn**.

Compagnia dei Caraibi: Value of Production by Quarters and Reported EBITDA by Semester



Source: Compagnia dei Caraibi, Value Track Analysis

Compagnia dei Caraibi: EBITDA bridge FY21-FY22 (lhs) and FY22 Op. Profits gross and net of Adjustments (rhs*)



Source: Compagnia dei Caraibi, Value Track Analysis, (*) EBITA is EBIT gross of Goodwill Amortization

Below the EBIT level, lower operating profits affected FY22 bottom line after steady Net Financial Charges and Taxes, with **Net Profit at €2.1mn** (€2.5mn Adjusted) vs €2.4mn in FY21.

Compagnia dei Caraibi: P&L FY20-FY22

(IT GAAP, €mn)	FY20	FY21	FY22	y/y
Revenues from Sales	**24.6**	**41.9**	**54.9**	***31%***
Other Revenues	0.2	0.6	1.3	*99%*
Value of Production	**24.9**	**42.5**	**56.1**	***32%***
Raw Materials, Δ Inventory	-11.2	-20.8	-27.8	*33%*
Costs of Services	-5.2	-7.8	-11.5	*48%*
Costs of Rent	-0.5	-0.7	-1.2	*67%*
G&A	-3.4	-5.3	-7.1	*33%*
Labour Costs	-2.4	-3.0	-3.9	*31%*
EBITDA	**2.1**	**4.9**	**4.7**	***-5%***
EBITDA Margin (%)	***8.5%***	***11.5%***	***8.3%***	***-320bps***
D&A	-0.4	-0.9	-1.1	*22%*
Provisions	-0.1	-0.2	-0.3	*nm*
EBIT	**1.6**	**3.8**	**3.2**	***-15%***
EBIT Margin (%)	***6.3%***	***9.0%***	***5.8%***	***-320bps***
Net Financial Charges	0.0	-0.1	-0.1	*nm*
Taxes	-0.5	-1.1	-1.1	*nm*
Other / Minorities	0.0	-0.2	0.1	*nm*
Net Profit	**1.0**	**2.4**	**2.1**	***-12%***

Source: Compagnia dei Caraibi, Value Track Analysis

Balance Sheet & Cash Flow

We calculate FY22 Net Debt at €1.9mn vs. Net Cash of €7.2mn in FY21 as a result of:

- **M&A** activity worth ca. **€1.3mn** (net of Goodwill), including the acquisition of the first 25.29% of Elephant Gin (€1.2mn) and the increase in the participation of Frerejean Frères (ca. €0.1mn);
- **Capex** of **€3.8mn**, including €2.4mn worth of Goodwill related to Elephant Gin (€2.2mn) and Right Beer (€150k ca) acquisitions;
- **Net Working Capital** increasing its incidence on Revenues from 18.5% to 22% and absorbing ca. **€4.3mn** cash due to inventory buildup from €5.7mn end of FY21 to €10.0mn as of December 2022;
- **Group Net Equity** affected by the shares buyback program and partial tender offer with a total cash out of ca. €2.5mn for the repurchase of 509,848 shares.

Compagnia dei Caraibi: Balance Sheet FY20-FY22

(IT GAAP, €mn)	FY20	FY21	FY22
Net Fixed Assets	3.6	5.0	8.7
Net Working Capital	6.3	7.8	12.1
Provisions	0.3	0.4	0.6
Total Capital Employed	**9.6**	**12.3**	**20.2**
Group Net Equity	**5.6**	**19.5**	**18.3**
Net Fin. Position [Net debt (-) / Cash (+)]	**-4.0**	**7.2**	**-1.9**

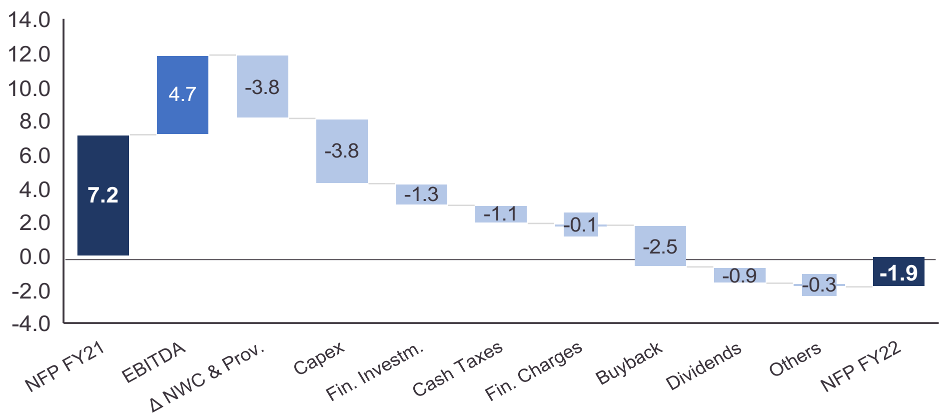
Source: Compagnia dei Caraibi, Value Track Analysis

Compagnia dei Caraibi: Net Working Capital FY20-FY22

(IT GAAP, €mn)	FY20	FY21	FY22
Inventory	**6.2**	**5.7**	**10.0**
Trade Receivables	5.6	10.3	11.2
Trade Payables	5.0	6.4	8.0
Operating Working Capital	**6.9**	**9.5**	**13.2**
Other Receivables	0.1	0.2	0.3
Other Payables	0.6	2.0	1.4
Net Working Capital	**6.3**	**7.8**	**12.1**

Source: Compagnia dei Caraibi, Value Track Analysis

Compagnia dei Caraibi: Restated Cash Flow Statement FY21-FY22



Source: Compagnia dei Caraibi, Value Track Analysis

Handling multiple projects (too many?) at once

Over 2022 and 1Q23, Compagnia dei Caraibi continued to pursue what was targeted during the IPO, i.e. the evolution of the Group business model along the following strategic directions:

- **Growing abroad**, starting from USA, Spain and Germany, where the aim is to export the Italian taste / Italian "aperitive" concept to a wider and highly receptive audience;
- Strengthening **brand building activities for proprietary brands**, to benefit from their much higher operating profitability compared to licensed labels;
- Keep acting as an **incubator of promising new super-premium brands**, also involving direct acquisitions or some partnerships / joint ventures agreements both third parties and proprietary ones, by the way, the latter boasting much higher operating profitability;
- Developing some kind of direct access to final consumers through physical stores and banking on already existing and under development **digital platforms**.

Compagnia dei Caraibi: Growth Strategies

Source: Compagnia dei Caraibi

In order to fulfil the above mentioned strategic guidelines, several deals have been put in place in the latest quarters, and the company had also to face the sudden change in the client scenario as Brown Forman acquired two out of three top brands distributed by CDC, i.e.Gin Mare and Rum Diplomatico.

We can summarise the main business development events and corporate ones, as follows:

1. Elephant Gin acquisition;
2. Right Beer acquisition;
3. We r-eticsoul acquisition
4. Increased stake in Frerejean Frères;
5. Brown-Forman Corporation acquiring Gin Mare and Rum Diplomatico brands;

Elephant Gin GmbH acquisition

Back in December, CDC signed a €15.6mn agreement to acquire Elephant Gin GmbH (EG), German company producing the well-known super premium artisan gin already marketed in 35 countries worldwide.

CDC acquired both the brand and the under construction proprietary production site by paying partly cash and partly with newly issued shares in three steps (one already completed, i.e. December 2022 and two to be finalized in the next months, i.e. June 2023 and June 2024).

CDC is acquiring EG at ca. 6.0x EV/Sales'22E (4.5x EV/Sales if we adjust for the distillery asset worth itself ca. €4mn), a pretty "fat" multiple, but in line / lower than those paid by leading market players in similar deals (e.g. Brown Forman on Gin Mare and Rum Diplomatico).

At the time of the deal, we appreciated its rationale, aimed at pursuing some of IPO goals:

1. Evolve the business model from pure distribution of 3rd parties' brands to more profitable (even if riskier) direct ownership of brands;
2. Strengthen CDC domestic positioning in the fast-growing Gin segment;
3. Integrate the supply chain and make CDC entry into direct production;
4. Speed up CDC internationalization process.

As far as the latest point is concerned, we remind that over the course of 2022, CDC started an internationalization process in the very high-potential German market, (the third foreign market where CDC starts operating, after Spain and USA), with the goal to export the Italian taste / Italian "aperitive" concept to a wider and highly receptive audience.

CDC established **CDC Deutschland GmbH**, participated at 75% by CDC directly and at 25% by a trusted local distributor with deep knowledge of the German premium alcoholic beverage market.

It's still to be decided if /how the EG deal will change the mission of CDC Deutschland GmbH.

Right Beer acquisition

Back in April 2022, CDC has entered the beer business through a binding agreement aimed at acquiring in a first phase a 75% stake of **Right Beer**, a leading Italian craft beer distribution player based in Piedmont with a catalogue of 17 producers and 500 releases, and generating ca. €436k of Total Revenues in FY21 (and €1.95mn in 1H22).

We commented positively the deal because:

- Italian beer market is expected to grow at 12.7% CAGR 2022E-25E (Source: Statista) driven by increasing demand for craft products;
- The availability of a Beer catalogue should generate material upselling revenues with CDC client base. Indeed, Right Beer distribution was so far tied to Piedmont and the Aosta Valley and now can be easily upgraded to the entire country.

We r-eticsoul acquisition

Back as of March 10th 2023, CDC finalized the acquisition of the whole capital of We r-eticsoul Srl, a company active in both online and offline beverages distribution, and owned at 90% by CDC Chairman, Mr Baracco, with the remaining 10% owned by CDC Managing Director, Mr Torretta.

In FY22 the acquired company achieved €0.24mn turnover, €-0.3mn EBITDA (€0.52mn Net Debt position) by managing an e-shop platform with a catalogue featuring more than 1,000 labels, and a store in Turin. Furthermore, it has majority stakes in a small independent communication agency, that in FY22 generated €1.5mn revenues, €3k EBITDA and had a €0.17mn Net Debt position.

We r-eticsoul was paid €1.03mn, out of which some €673k in cash and the remaining €362k in shares (72.1k CDC treasury shares valued € 5.02 each).

The deal is aimed at making a first step in the evolution of CDC business model by developing an omnichannel presence, in order to leverage its brand building skills with B2B and B2C clients, both online and offline.

Increased stake in Frerejean Frères

Back in 1H22 CDC decided to increase its direct and indirect stake in SAS Frerejean Frères from 0.78% up to 6.02% by cashing out some €0.7mn. This move was aimed at strengthening the partnership with the prestigious champagne producer and at consolidating CDC positioning in the segment.

Update on Gin Mare and Diplomatico Rum

Brown-Forman acquisition of Gin Mare and Diplomatico Rum

Back on September and October 2022 respectively, Brown-Forman Corporation, one of the largest American producers and distributors of premium spirits and wines, reached an agreement to purchase the Gin Mare brands from Vantguard and MG Destilerìas (assets valued US$524mn), and the Diplomatico Rum brand from Destillers United Group SL (assets valued US$727mn),

Gin Mare and Diplomatico Rum, two of the top three CDC's best-selling products

We remind that both Gin Mare and Diplomatico Rum are among the best-selling products of CDC's portfolio. Indeed, based on the data released at the IPO time:

- **Gin Mare,** with exclusive distribution rights acquired back as of 2013, was accounting for 29% of 2020FY revenues;
- **Diplomatico Rum**, with exclusive distribution rights acquired back as of 2008, was accounting for 21% of 2020FY revenues.

Despite our feeling that in the latest couple of years the combined weight of the two brands might have slightly reduced, possible negative decisions on Italian distribution strategies coming from Brown-Forman must be taken into account.

New distribution agreement recently announced, valid up to December 2024

That said, we underline that a couple of weeks ago, CDC and Brown-Forman has signed an agreement that entrusts CDC, until 31 December 2024, with the exclusive distribution for the Italian and San Marino markets of Gin Mare and Diplomatico Rum, also adding to the "bundle" a brand new premium gin to the Italian market, named Fords Gin.

To better support the brand-building distribution activities on the three brands, a team was defined within CDC that includes key members from the marketing, communication, and sales teams.

Medium term scenario

The recently signed new exclusive distribution agreements expires at the end of December 2024, and we see it as a trial from Brown-Forman of CDC's skills and capabilities.

We expect a renewal of such an agreement after 2024 to be driven by the distribution results obtained by CDC in the next quarters.

Two points in favour of a renewal are the outstanding results that CDC obtained in the latest few years with the brands and Brown-Forman current lack of an Italian distribution network.

Forecasts 2023E-25E

Compagnia dei Caraibi guidance for 2023E

Compagnia dei Caraibi has just unveiled its guidance for 2023E, that points at:

- **Value of Production** between **€74mn-€76mn**;
- **EBITDA Margin** between **6.5%-7.5%**;
- **Net Debt** between **€4.5mn-€5.5mn**.

This guidance is based upon the following hypothesis:

- Consolidation of own brands focusing on Elephant Gin development on international markets;
- International expansion with focus on direct control markets (USA, Spain, Germany);
- Omnichannel offer: widening of the business model with the new B2C channel;
- Strengthening of the portfolio in the premium and over premium segments;
- Commercial and operational integration of recently acquired companies.

Estimates Revision 2023E-25E

The guidance from Compagnia dei Caraibi is well below our previous estimates. That said, we are revising our 2023E-24E forecasts (and unveiling 2025E ones) by taking into account:

- The new distribution agreement with Brown Forman, that gives visibility up to 2024E (is hard to tell what could take place after its expiry, if there would be a renewal or not) and should boost Compagnia dei Caraibi top line thanks to heavy marketing investments deployed for Gin Mare and Rum Diplomatico, offsetting a lower organic demand that is not so buoyant as it was in 1H22;
- Lower profitability (as seen over FY22) mainly due to the start-up costs of the many companies acquired (Elephant Gin, Right Beer, We r-eticsoul), that should negatively contribute to the Group margins in 2023E-24E but gradually improve thanks to more costs efficiencies. We also assume stricter terms from the new contractual agreement with Brown Forman;
- Higher Net Debt because of heavier Capex for the roll-out of the B2C retail network (We r-eticsoul project) and the cash-out for the minorities of Elephant Gin.

Compagnia dei Caraibi: Old vs. New Estimates

(IT GAAP, €mn)	2023E			2024E			2025E		
	Old	New	*Δ*	Old	New	*Δ*	Old	New	*Δ*
Value of Production	**74.1**	**75.3**	***1.7%***	**86.0**	**87.5**	***1.6%***	**na**	**97.1**	***nm***
EBITDA	**8.3**	**5.1**	***-38.7%***	**9.9**	**6.8**	***-31.4%***	**na**	**8.3**	***nm***
EBITDA Margin (%)	*11.2%*	*6.7%*	*-450bps*	*11.6%*	*7.8%*	*-380bps*	*na*	*8.5%*	*nm*
EBIT	**6.1**	**3.3**	***-46.9%***	**7.0**	**4.3**	***-38.4%***	**na**	**5.6**	***nm***
EBIT Margin (%)	*8.3%*	*4.3%*	*-400bps*	*8.1%*	*4.9%*	*-320bps*	*na*	*5.8%*	*nm*
Net Profit	**4.1**	**2.1**	***-47.9%***	**4.6**	**2.8**	***-39.8%***	**na**	**3.6**	***nm***
Net Margin (%)	*5.5%*	*2.8%*	*-270bps*	*5.4%*	*3.2%*	*-220bps*	*na*	*3.7%*	*nm*
Net Financial Position	**-0.9**	**-5.0**	***-4.1***	**-2.1**	**-7.0**	***-4.9***	**na**	**-4.2**	***nm***

Source: Value Track Analysis

We now expect:

- **Value of Production at €97.1mn in 2025E**, i.e. 20% $CAGR_{22A-25E}$ driven by direct international markets growth thanks to Elephant Gin development and leveraging on Brown Forman marketing investments for the further expansion of Gin Mare and Rum Diplomatico;
- **EBITDA at €8.3mn in 2025E**, with EBITDA Margin at 8.5% (+20 bps vs. 2022A) and 2023E-24E suffering from the negative contribution of USA, Spain and We r-eticsoul subsidiaries;
- **EBIT** and **Net Profit** to be impacted by higher D&A, mainly related to goodwill amortization. Our new estimates point at **€5.6mn** and **3.6mn**, respectively, **in 2025E**;
- **OpFCF being positive in 2023E already**, despite the investments for the rollout of the retail network but thanks to lower Net Working Capital absorption;
- **Net Debt** fine-tuned **at €5.0mn-€7.0mn-€4.2mn in 2023E-24E-25E**, respectively, taking into account the payment for the minorities of Elephant Gin (50% counterbalanced with new shares issue) and the cash-out for We r-eticsoul acquisition (including the Net Financial Position).

Compagnia dei Caraibi: P&L 2022A-2025E

(IT GAAP, €mn)	2022A	2023E	2024E	2025E	*$CAGR_{22A-25E}$*
Revenues from Sales	**54.9**	**75.3**	**87.4**	**97.1**	***21%***
Other Revenues	1.3	0.1	0.0	0.0	
Value of Production	**56.1**	**75.3**	**87.5**	**97.1**	***20%***
Costs of Goods Sold	-27.8	-38.8	-44.6	-49.0	
Operating Expenses	-23.7	-31.5	-36.0	-39.8	
EBITDA	**4.7**	**5.1**	**6.8**	**8.3**	***21%***
EBITDA Margin (%)	*8.3%*	*6.7%*	*7.8%*	*8.5%*	
D&A	-1.1	-1.8	-2.5	-2.7	
EBIT	**3.2**	**3.3**	**4.3**	**5.6**	***20%***
EBIT Margin (%)	*5.8%*	*4.3%*	*4.9%*	*5.8%*	
Net Financial Charges & Exceptional Items	-0.1	-0.1	-0.1	-0.1	
Pre-Tax Profit	**3.1**	**3.1**	**4.2**	**5.5**	***21%***
Taxes	-1.1	-1.0	-1.4	-1.8	
Minorities	0.1	0.0	0.0	-0.1	
Net Profit	**2.1**	**2.1**	**2.8**	**3.6**	***20%***

Source: Compagnia dei Caraibi, Value Track Analysis

Compagnia dei Caraibi: Balance Sheet 2022A-2025E

(IT GAAP, €mn)	2022A	2023E	2024E	2025E
Net Fixed Assets	8.7	16.0	23.0	22.4
Net Working Capital	12.1	12.2	13.8	15.5
Provisions	0.6	0.7	0.8	0.9
Total Capital Employed	**20.2**	**27.5**	**36.1**	**37.0**
Group Net Equity	**18.3**	**22.5**	**29.1**	**32.8**
Net Fin. Position [Net debt (-) / Cash (+)]	**-1.9**	**-5.0**	**-7.0**	**-4.2**

Source: Compagnia dei Caraibi, Value Track Analysis

Compagnia dei Caraibi: Cash Flow Statement 2022A-2025E

(IT GAAP, €mn)	2022A	2023E	2024E	2025E
EBITDA	4.7	5.1	6.8	8.3
Δ Net Working Capital	-4.3	-0.1	-1.7	-1.7
Capex	-3.8	-2.5	-2.0	-2.0
Δ Provisions	0.5	0.1	0.1	0.1
OpFCF b.t.	**-3.0**	**2.6**	**3.3**	**4.7**
As a % of EBITDA	*-64.4%*	*51.6%*	*47.9%*	*56.7%*
Cash Taxes	-1.1	-1.0	-1.4	-1.8
Capital Injections / Reimbursement	-2.5	2.0	3.8	0.0
Others (incl. Financial Investments)	-1.5	-6.6	-7.6	0.0
Net Financial Charges	-0.1	-0.1	-0.1	-0.1
Dividends paid	-0.9	0.0	0.0	0.0
Δ Net Financial Position	**-9.1**	**-3.1**	**-2.0**	**2.8**

Source: Compagnia dei Caraibi, Value Track Analysis

VALUETRACK

Valuation

We are updating **Compagnia dei Caraibi fair value at €4.87 p/s** (fully diluted, form €6.30), focusing on a short-term horizon sum of the parts valuation analysis given:

1. **Lower profitability guidance and forecasts**, with EBITDA, EBIT and Net Profit usually taken as key financials for TIME relative valuation;
2. **Renewal uncertainty** of distribution agreement with Brown Forman after 2024E, making longer-term valuation methods (such as DCF) unfit to assess TIME fair value;
3. **Stripping new projects**, subsidiaries and start-up businesses because of their negative contribution to the Group margins and assessing them at deals price or on multiples based on sales.

The SOTP method returns a fair value at 6% premium with TIME current market price, that in our view is already discounting the short-term outlook of Compagnia dei Caraibi business profile.

Compagnia dei Caraibi: Multiples Sensitivity at Various Stock Price Levels

Fair Equity Value p/s (€)	EV/Sales		EV/EBITDA		EV/EBIT		P/E Adj.	
	2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E
€ 3.70	0.9	0.8	13.0	9.4	20.2	14.9	19.2	14.3
€ 4.10	1.0	0.8	14.3	10.4	22.2	16.4	21.3	15.8
€ 4.50	1.1	0.9	15.6	11.3	24.2	17.9	23.4	17.3
€ 4.87	**1.2**	**1.0**	**16.7**	**12.2**	**26.0**	**19.3**	**25.3**	**18.8**
€ 5.30	1.3	1.1	18.1	13.2	28.1	20.9	27.5	20.4
€ 5.70	1.4	1.2	19.4	14.2	30.1	22.4	29.6	22.0
€ 6.10	1.5	1.2	20.6	15.1	32.0	23.9	31.7	23.5

Source: Value Track Analysis

Compagnia dei Caraibi: Peers' Stock Trading Multiples

Company	EV/Sales		EV/EBITDA		EV/EBIT		P/E Adj.	
	2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E
Premium Brand Owners								
Davide Campari	5.0	4.6	19.9	17.7	23.2	20.5	30.8	27.2
Diageo	5.7	5.5	16.5	15.6	18.3	17.4	21.9	21.0
Pernod Ricard	5.3	5.0	16.4	15.5	18.3	17.2	22.5	21.7
Remy Cointreau	5.8	5.3	18.0	16.3	20.0	18.0	28.0	25.1
Constellation Brands	5.4	5.0	14.7	13.5	16.8	15.1	19.9	17.7
Average	**5.4**	**5.1**	**17.1**	**15.7**	**19.3**	**17.6**	**24.6**	**22.5**
Italian Brand Owners/Distributors								
Italian Wine Brands	0.7	0.7	7.5	6.1	10.4	8.1	10.4	8.4
Masi Agricola	1.9	1.8	10.0	9.0	14.6	13.0	23.8	20.7
Longino & Cardenal	0.5	0.4	16.9	7.8	nm	11.8	nm	14.5
Marr	0.6	0.6	9.7	8.7	14.2	12.7	18.9	16.4
Average	**0.9**	**0.9**	**11.0**	**7.9**	**13.1**	**11.4**	**17.7**	**15.0**
Total Average	**3.4**	**3.2**	**14.4**	**12.2**	**17.0**	**14.9**	**22.0**	**19.2**
Compagnia dei Caraibi	**1.1**	**0.9**	**15.9**	**11.6**	**24.6**	**18.3**	**23.9**	**17.7**
Discount vs. Total Average (%)	*-67%*	*-71%*	*10%*	*-6%*	*45%*	*23%*	*8%*	*-8%*

Source: Market Consensus, Value Track Analysis

For our Sum of the Parts valuation, we took 2023E as reference year and the following assumptions:

- **Compagnia dei Caraibi SpA**, taking EV/EBITDA as fair multiple, in line with our previous coverage and to assess the positive contribution of the Group holding, not impacted by the negative EBITDA of the subsidiaries;
- **Elephant Gin, Right Beer, We retic-soul** at cost, i.e. 15.6mn, €0.5mn, €1.0mn, respectively,
- **USA and Spain**, i.e. the Group more advanced direct international markets subsidiaries, valued accordingly to their Revenues prospects for 2023E.

The result is a **Fair Equity Value of €4.87 p/s** (fully diluted), after adding our estimate for 2023E Net Debt of €5.0mn, subtracting ca. €3.8mn adjustments related to 50% Elephant Gin minorities to be paid in 2024E (the other 50% through a new shares issue, already included in our fully diluted NOSH) and ca. €2.3mn peripheral assets (509,848 treasury shares at current market price).

Compagnia dei Caraibi: Sum of the Parts Valuation

Fair Equity Value p/s (€)	CDC SpA	Elephant Gin	Right Beer	We r-eticsoul	USA	Spain	CDC Group
Fair EV/Sales 2023E					2.0	2.0	
Fair EV/EBITDA 2023E	11.0						
Enterprise Value (€mn)	**63.8**	**15.6**	**0.5**	**1.0**	**2.0**	**2.0**	**84.9**
Net Financial Position							-5.0
Adjustments							-1.4
Fair Equity Value (€mn)							**78.5**
Fully Diluted NOSH							16.1
Fair Equity Value p/s (€)							**4.87**

Source: Value Track Analysis

Compagnia dei Caraibi: Outstanding vs. Fully Diluted NOSH

NOSH (mn)	Outstanding NOSH	Fully Diluted NOSH
Ordinary Shares	14.08	14.08
PAS	0.0	0.40
Performance Shares Fabio Torretta	0.0	0.29
Performance Shares Employees	0.0	0.08
Elephant Gin (New Shares Issue for 50% of Minorities)	0.0	1.27 (*)
NOSH	**14.08**	**16.11**

Source: Value Track Analysis, (**) €11.7mn to be paid in 2023E-24E, o/w 50% with new shares (hp: current mkt price)

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