

# Compagnia dei Caraibi

Sector: Food &amp; Beverage



## Weak market, but high single-digit growth

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

### FY23 KPIs slightly below expectations

Compagnia dei Caraibi has recently disclosed its FY23 preliminary KPIs:

- Revenues from Sales expected between €51.9mn and €52.9mn, implying y/y growth rates of +7.05% and +9.11%, respectively;
- Net Debt between €11.9mn and €12.4mn vs. €3.7mn as of June 2023, after the cash-out of over €4mn for the second tranche of Elephant Gin investment (consolidated line by line since July).

Revenues came out a bit shorter than our €53.9mn forecast, with 2H23 being in line with 1H23 and confirming the market “normalization” phase which characterized the entire 2023. A sentiment that is shared across industry leaders, reporting declining P&L figures (e.g., Diageo), uncertain guidelines, and lower consensus.

We remind that during 2023FY CDC consolidated both We R-eticsoul (March 2023) and Elephant Gin (July 2023), which certainly drove a positive impact on 2H23 revenues but also heightened the Group financial leverage.

### Estimates fine-tuned; outlook still uncertain

In light of the low visibility on short-term market outlook, we are fine-tuning our estimates downwards, as follows:

- Value of Production at €73.3mn in 2025E (14% CAGR<sub>22A-25E</sub>);
- EBITDA at €5.0mn in 2025E (we expect a negative value in FY23);
- Net Debt 2025E at ca. €17mn, after the payment for the third tranche of Elephant Gin (50% cash and 50% new shares) and ca. €2.0mn-€2.5mn capex per year.

We underline that our forecasts assume the renewal of CDC distribution agreements with Brown Forman beyond FY24.

### Fair Value at €2.66 p/s (fully-diluted, from €3.86)

We update CDC fair value at €2.66 p/s following (i) the downwards estimates revision, (ii) flattish peers' multiples (stock prices falling hand in hand with consensus), (iii) lower ERP but higher credit spread. Such fair value is based on BF contract renewal and on the current capital structure. In case the company decides to strengthen its balance sheet, a dilutive impact might arise on the fair equity value.

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**Fair Value (€)(\*)** **2.66**

**Market Price (€)** **1.83**

**Market Cap. (€m)(\*)** **30.6**

KEY FINANCIALS (€mn)	2022A	2023E	2024E
VALUE OF PRODUCTION	49.7	52.9	62.2
EBITDA	4.7	-0.5	2.0
EBITA	3.8	-1.1	1.9
ADJ. NET PROFIT	2.5	-2.3	6.8
EQUITY	18.3	14.7	17.4
NET FIN. POS.	-1.9	-12.3	-17.3
EPS ADJ. (€)(*)	0.18	-0.14	0.40
DPS (€)	0.00	0.00	0.00

Source: Compagnia dei Caraibi (historical figures), Value Track (2023E-24E estimates), (\*) based on Fully Diluted Nosh

KEY RATIOS	2022A	2023E	2024E
EBITDA MARGIN (%)	9.4	-1.0	3.2
EBITA MARGIN (%)	7.6	-2.1	3.1
NET DEBT / EBITDA (x)	0.4	nm	8.7
NET DEBT / EQUITY (x)	0.1	0.8	1.0
EV/SALES (x)(*)	0.6	0.9	0.8
EV/EBITDA (x)(*)	5.9	nm	23.4
EV/EBITA (x)(*)	7.3	nm	24.2
P/E ADJ. (x)(*)	10.1	nm	4.5

Source: Compagnia dei Caraibi (historical figures), Value Track (2023E-24E estimates), (\*) based on Fully Diluted Nosh

### STOCK DATA

FAIR VALUE (€)	2.66 (*)
MARKET PRICE (€)	1.83
SHS. OUT. (m)(*)	16.9 (*)
MARKET CAP. (€m)	30.6 (*)
FREE FLOAT (%)	26.5
AVG. -20D VOL. (#)	22,287
RIC / BBG	TIME.MI / TIME IM
52 WK RANGE	1.73 – 4.72

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

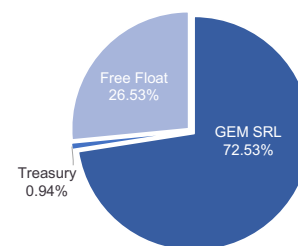
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## Business Description

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



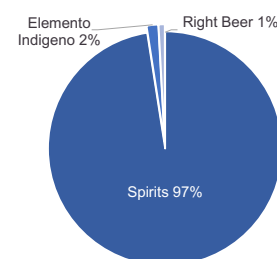
Source: Compagnia dei Caraibi

## Key Financials

€mn	2022A	2023E	2024E	2025E
<b>Value of Production</b>	<b>49.7</b>	<b>52.9</b>	<b>62.2</b>	<b>73.3</b>
y/y (%)	32.1%	6.4%	17.5%	17.9%
<b>EBITDA</b>	<b>4.7</b>	<b>-0.5</b>	<b>2.0</b>	<b>5.0</b>
EBITDA Margin (%)	9.4%	-1.0%	3.2%	6.8%
<b>EBITA</b>	<b>3.2</b>	<b>-1.1</b>	<b>1.9</b>	<b>4.7</b>
EBITA Margin (%)	6.5%	-2.1%	3.1%	6.3%
<b>EBIT</b>	<b>3.2</b>	<b>-2.0</b>	<b>0.5</b>	<b>3.2</b>
<b>Net Profit</b>	<b>2.1</b>	<b>-3.7</b>	<b>-1.0</b>	<b>1.6</b>
y/y (%)	-12.0%	-276.8%	-72.4%	-259.3%
<b>Adjusted Net Profit</b>	<b>2.5</b>	<b>-2.3</b>	<b>6.8</b>	<b>2.6</b>
y/y (%)	1.5%	-189.3%	-398.0%	-61.3%
<b>Net Fin. Position</b>	<b>-1.9</b>	<b>-12.3</b>	<b>-17.3</b>	<b>-17.5</b>
Net Fin. Pos. / EBITDA (x)	0.4	nm	8.7	3.5
<b>OpFCF b.t.</b>	<b>-3.0</b>	<b>-1.2</b>	<b>0.5</b>	<b>1.3</b>
OpFCF b.t. as % of EBITDA	-64.4%	235.6%	23.3%	25.9%

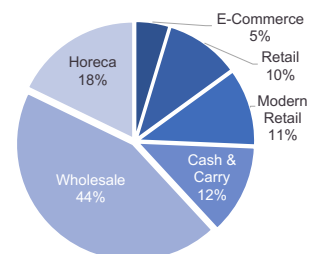
Source: Compagnia dei Caraibi (historical figures), Value Track (estimates)

## 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 @ €2.66 Fair Value

	2024E	2025E
EV / SALES (x)	1.0	0.8
EV / EBITDA (x)	30.5	12.3
EV / EBITA (x)	31.4	13.1
EV / CE. (x)	1.8	1.7
OpFCF Yield (%)	0.8	2.1
P / E Adj. (x)	6.6	17.1
P / BV (x)	2.6	2.3
Div. Yield. (%)	0.0	0.0

Source: Value Track (Fully-diluted scenario)

## FY23 Preliminary KPIs

### Compagnia dei Caraibi: KPIs Quarterly Evolution

KPIs (IT GAAP, €mn)	1H22	9M22	4Q22	FY22	1H23	9M23	4Q23	FY23
Revenues from Sales	23.8	34.7	13.7	48.4	25.8	37.6	14.3/15.3	51.9/52.9
y/y (%)	82%	na	na	31%	8%	8%	4%/11%	7%/9%
Net Financial Position	6.1	6.0	-1.9	-1.9	-3.7	-11.1	-11.9/-12.4	-11.9/-12.4

Source: Compagnia dei Caraibi, Value Track Analysis

## Forecasts 2023E-25E

### Compagnia dei Caraibi: Old vs. New Estimates

Key Financials (IT GAAP, €mn)	2023E			2024E			2025E		
	Old	New	Δ	Old	New	Δ	Old	New	Δ
Value of Production	54.4	52.9	-2.6%	64.9	62.2	-4.3%	79.0	73.3	-7.2%
EBITDA	0.3	-0.5	-260.3%	2.7	2.0	-25.0%	6.2	5.0	-20.0%
EBITDA Margin (%)	0.6%	-1.0%	-160bps	4.1%	3.2%	-90bps	7.8%	6.8%	-100bps
EBIT	-1.1	-2.0	nm	1.1	0.5	-59.1%	4.4	3.2	-28.0%
EBIT Margin (%)	-2.1%	-3.7%	-160bps	1.7%	0.7%	-100bps	5.6%	4.3%	-130bps
Net Profit	-2.5	-3.7	nm	-0.4	-1.0	nm	2.5	1.6	-36.0%
Net Financial Position	-8.6	-12.3	-3.7	-13.5	-17.3	-3.8	-13.7	-17.5	-3.8

Source: Value Track Analysis

### Compagnia dei Caraibi: P&L 2022A-25E

(IT GAAP, €mn)	2022A	2023E	2024E	2025E
Revenues from Sales	48.4	52.4	61.7	72.8
Other Revenues	1.3	0.5	0.5	0.5
Value of Production	49.7	52.9	62.2	73.3
Operating Expenses	-45.1	-53.4	-60.2	-68.4
EBITDA	4.7	-0.5	2.0	5.0
EBITDA Margin (%)	9.4%	-1.0%	3.2%	6.8%
D&A & Provisions	-1.4	-1.4	-1.5	-1.8
EBIT	3.2	-2.0	0.5	3.2
EBIT Margin (%)	6.5%	-3.7%	0.7%	4.3%
Net Financial Charges, Non-Operating Items	-0.1	-1.1	-0.7	-0.6
Taxes	-1.1	-0.6	-0.8	-0.8
Minorities	0.1	0.0	0.0	-0.1
Net Profit	2.1	-3.7	-1.0	1.6

Source: Compagnia dei Caraibi, Value Track Analysis

**Compagnia dei Caraibi: Balance Sheet 2022A-25E**

(IT GAAP, €mn)	2022A	2023E	2024E	2025E
Net Fixed Assets	8.7	16.8	25.5	26.2
Net Working Capital	12.1	11.1	10.3	11.5
Provisions	0.6	0.9	1.0	1.1
<b>Total Capital Employed</b>	<b>20.2</b>	<b>27.0</b>	<b>34.7</b>	<b>36.6</b>
<b>Group Net Equity</b>	<b>18.3</b>	<b>14.7</b>	<b>17.4</b>	<b>19.1</b>
<b>Net Financial Position [Net debt (-) / Cash (+)]</b>	<b>-1.9</b>	<b>-12.3</b>	<b>-17.3</b>	<b>-17.5</b>

Source: Compagnia dei Caraibi, Value Track Analysis

**Compagnia dei Caraibi: Cash Flow Statement 2022A-25E**

(IT GAAP, €mn)	2022A	2023E	2024E	2025E
EBITDA	4.7	-0.5	2.0	5.0
Δ NWC	-4.3	1.0	0.9	-1.3
Capex (excl. Financial Inv.)	-3.8	-2.0	-2.5	-2.5
Δ Provisions	0.5	0.3	0.1	0.1
<b>OpFCF b.t.</b>	<b>-3.0</b>	<b>-1.2</b>	<b>0.5</b>	<b>1.3</b>
<i>As a % of EBITDA</i>	<i>-64.4%</i>	<i>235.6%</i>	<i>23.3%</i>	<i>25.9%</i>
Cash Taxes	-1.1	-0.6	-0.8	-0.8
Capital Injections	-2.5	0.0	3.8	0.0
Others (incl. Financial Inv.)	-1.5	-8.1	-7.8	0.0
Net Financial Charges	-0.1	-0.5	-0.7	-0.6
Dividends Paid	-0.9	0.0	0.0	0.0
<b>Δ Net Financial Position</b>	<b>-9.1</b>	<b>-10.4</b>	<b>-5.0</b>	<b>-0.2</b>

Source: Compagnia dei Caraibi, Value Track Analysis

## Valuation

We update Compagnia dei Caraibi fair value at **€2.66 p/s** (from €3.86) based on a fully diluted number of shares (considering a potential new shares issue at current market price to pay 50% of the last tranche of Elephant Gin acquisition) and the average of our DCF and Sum of the Parts (SOTP) models.

Our revision is a consequence of:

1. Downwards estimates revision;
2. Flattish peers' multiples, with stock prices falling hand in hand with consensus forecasts;
3. Lower Equity Risk Premium inferred by Damodaran data sets, moving from 6.4% to 5.6%, but higher credit spread given the heightened leverage of the Group.

We remind that our estimates and fair value:

- ◆ **DO** assume the renewal of CDC distribution agreements with Brown Forman beyond FY24 and the successful take up of key initiatives (Elephant Gin, D2C offer, internalization);
- ◆ **DO NOT** assume new sources of equity funding, despite the worsened leverage forecasts.

### Sum-of-the Parts (SOTP)

Sum of the Parts valuation returns a €2.17 fair equity value p/s (fully diluted) based on:

- ◆ **2024E** as reference year;
- ◆ **Compagnia dei Caraibi SpA**, taking EV/EBITDA as fair multiple 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, Have Fun** at cost, i.e. 15.6mn, €0.5mn, €1.0mn, €0.5mn, respectively;
- ◆ **USA and Spain**, i.e. the Group more advanced direct international markets subsidiaries, valued accordingly to their Revenues prospects for 2024E;
- ◆ 2024E Net Debt at €17.3mn, €1mn peripheral assets.

#### Compagnia dei Caraibi: Sum of the Parts Valuation

Fair Equity Value p/s (€)	CDC SpA	Elephant Gin	Right Beer	We r-eticsoul	Have Fun	USA	Spain	CDC Group
Fair EV/Sales 2024E						2.0	2.0	
Fair EV/EBITDA 2024E	12.0							
<b>Enterprise Value (€mn)</b>	<b>31.6</b>	<b>15.6</b>	<b>0.5</b>	<b>1.0</b>	<b>0.5</b>	<b>1.8</b>	<b>1.5</b>	<b>52.7</b>
NFP 2024E								-17.3
Adjustments 2024E								1.0
<b>Fair Equity Value (€mn)</b>								<b>36.4</b>
Fully Diluted NOSH								16.8 (*)
<b>Fair Equity Value p/s (€)</b>								<b>2.17</b>

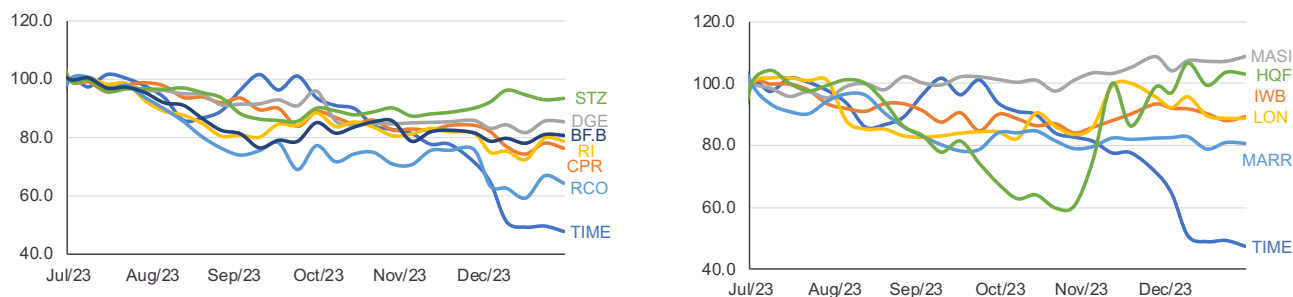
Source: Value Track Analysis, (\*) Fully Diluted Nosh

### Compagnia dei Caraibi: Peers' Stock Trading Multiples

Company	EV/Sales		EV/EBITDA		EV/EBIT		P/E Adj.	
	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
<b>Premium Brand Owners</b>								
Davide Campari	4.1	3.7	16.3	14.0	19.0	16.3	25.0	21.4
Diageo	4.6	4.4	13.6	13.1	15.2	14.5	18.4	17.0
Pernod Ricard	3.9	3.7	12.4	11.6	14.0	13.2	16.4	15.2
Remy Cointreau	4.4	4.1	15.0	13.3	17.1	15.0	23.0	19.9
Constellation Brands	5.4	5.0	14.3	13.0	16.1	14.7	19.0	17.7
Brown-Forman Corporation	6.3	5.9	18.9	17.2	20.2	18.5	26.2	24.1
<b>Average</b>	<b>4.8</b>	<b>4.5</b>	<b>15.1</b>	<b>13.7</b>	<b>16.9</b>	<b>15.4</b>	<b>21.3</b>	<b>19.2</b>
<b>Median</b>	<b>4.5</b>	<b>4.2</b>	<b>14.6</b>	<b>13.2</b>	<b>16.6</b>	<b>14.9</b>	<b>21.0</b>	<b>18.8</b>
<b>Italian Brand Owners/Distributors</b>								
Italian Wine Brands	0.6	0.5	5.6	4.7	7.6	6.1	8.1	6.7
Longino & Cardenal	0.4	0.3	8.5	4.5	13.7	5.9	19.6	8.6
Marr	0.5	0.5	7.6	6.8	11.4	10.1	14.5	13.1
High Quality Food	0.5	0.4	5.5	3.4	7.9	4.5	9.1	5.8
<b>Average</b>	<b>0.5</b>	<b>0.4</b>	<b>6.8</b>	<b>4.8</b>	<b>10.2</b>	<b>6.7</b>	<b>12.8</b>	<b>8.5</b>
<b>Median</b>	<b>0.5</b>	<b>0.4</b>	<b>6.6</b>	<b>4.6</b>	<b>9.6</b>	<b>6.0</b>	<b>11.8</b>	<b>7.7</b>
<b>Total Average</b>	<b>3.1</b>	<b>2.8</b>	<b>11.8</b>	<b>10.2</b>	<b>14.2</b>	<b>11.9</b>	<b>17.9</b>	<b>14.9</b>
<b>Total Median</b>	<b>4.0</b>	<b>3.7</b>	<b>13.0</b>	<b>12.3</b>	<b>14.6</b>	<b>13.8</b>	<b>18.7</b>	<b>16.1</b>
<b>Compagnia dei Caraibi</b>	<b>0.8</b>	<b>0.6</b>	<b>23.5</b>	<b>9.5</b>	<b>nm</b>	<b>14.8</b>	<b>4.5</b>	<b>11.7</b>

Source: Market Consensus, Value Track Analysis

### Compagnia dei Caraibi: L6M International and Domestic Peers' Stock Price Evolution



Source: Market Consensus, Value Track Analysis

## Discounted Cash Flow Model

DCF returns €3.15 fair equity value p/s (fully diluted) and is based on 30% target capital structure (Net Debt/Total Capital Employed), 8.9% WACC and 2.5% perpetuity growth rate implying 8.0x TV/EBITDA 2030E exit multiple. WACC assumptions are:

- ◆ 2.0% Risk-Free Rate, in line with inflation medium-term target;
- ◆ 5.6% Italian Equity Risk Premium (Damodaran data);
- ◆ 0.90 Unlevered Beta, leading to 1.19 Levered Beta;
- ◆ 2.0% Small-Cap / Company Specific Risk Premium;
- ◆ 4.0% Credit Spread and 24% Tax Rate.

### Compagnia dei Caraibi: DCF Model @ 30% Target Capital Structure

DCF Model	€mn
Discounted Free Cash Flows 2024E-2030E	14.7
Discounted Terminal Value @ 9x TV/EBITDA 2030E	53.3
<b>Fair Enterprise Value</b>	<b>68.0</b>
Net Fin. Position 2023E	-12.3
Minorities / Adjustments 2023E	-2.8
<b>Fair Equity Value</b>	<b>53.0</b>
NOSH (mn)	16.8 (*)
<b>Fair Equity Value p/s (€)</b>	<b>3.15</b>

Source: Value Track Analysis, (\*) Fully Diluted NOSH

### Compagnia dei Caraibi: DCF Model Sensitivity Analysis

Equity Value p/s		TV/EBITDA (x)				
		7.0x	7.5x	8.0x	8.5x	9.0x
WACC (%)	7.9%	2.99	3.20	3.41	3.62	3.83
	8.4%	2.87	3.08	3.28	3.48	3.69
	8.9%	2.76	2.96	<b>3.15</b>	3.35	3.55
	9.4%	2.65	2.84	3.03	3.23	3.42
	9.9%	2.55	2.73	2.92	3.10	3.29

Source: Value Track Analysis

## Impact of a possible capital increase to strengthen the balance sheet

For the sake of completeness, we ran a simulation on a potential €8mn capital increase in case CDC decides to strengthen its balance sheet structure.

Assuming CDC offering ca. 7.24mn shares at €1.10 p/s issue price (ca. 30% discount on TERP, calculated on current market price of €1.83 p/s), the capital structure would definitively improve (FY24E gearing ratio would decrease from ca. 100% to 50%) but post-money fair equity value would decrease to €2.14 p/s (vs. €2.66 p/s pre-money).

### Compagnia dei Caraibi: Potential Rights Issue Assumptions

Rights Issue Assumptions	
Ordinary Shares(mn)	14.48
Old Shares : New Shares Ratio	1:2
<b>Shares to be Issued (mn)</b>	<b>7.24</b>
New Total Number of Shares (mn)	21.72
<b>Issue Price p/s (€)</b>	<b>1.10</b>
<i>Discount vs. Cum-Rights Price (€1.83 p/s)</i>	-39.7%
<b>Discount vs. TERP (€1.58 p/s)</b>	<b>-30.5%</b>
<b>Proceeds (€mn)</b>	<b>8.0</b>
<b>Post-Money Fair Equity Value p/s (€)</b>	<b>2.14</b>

Source: Value Track Analysis



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