Document produced on
19 May 2022 at 10:16am CET
Document published on
19 May 2022 at 11:02am CET

EQUITY RESEARCH

PORTOBELLO
ANALYSIS FOCUS

BUY, TP of 90.0€
Up/Downside: +179%

Scaling Up

Portobello continues its rapid growth, expanding its retail network, thus strengthening its brand awareness. Its positioning as a hard discounter allows it to outperform the market even in times of crisis, when consumers are even more price sensitive.

A Unique selling proposition

Portobello has created a unique business model enabling it to acquire unsold branded products at a low cost, and to resell them at unbeatable prices via its network of stores. The Group, through its Media business, exchanges advertising space for products (advertising barter). The latter are then resold via its stores or the B2B channel. The layout of Portobello shops has been carefully designed to give customers the best possible shopping experience and to maximise cross-selling. The group offers a wide range of products at the best price on the market (consumer electronics, houseware, cleaning products, apparel & accessories).

Competitive advantage in times of crisis

Portobello's cost leader position allows it to outperform in a context of crisis. According to PWC studies (2020), consumers during crisis become more price sensitive and tend to focus their consumption to essential products. The increasing inflation and war related uncertainties, characterizing the current market scenario, should therefore enhance Portobello competitive advantage.

Think big, play bigger

Portobello took advantage of the favourable market scenario, with rent prices still at big discount to rapidly expand its store network. The group more than doubled its selling surface, increasing from 5,000 m^2 at YE20 to 13,000m^2 at YE21. In addition, it has already signed contacts to reach the quota 30,000m^2 for YE22.

Extending the shop network remains the key success factor for Portobello's business model. A bigger retail network would allow to (i) increase volumes, (ii) generate higher economies of scale (iii) strengthen brand awareness. The latter would help Portobello obtain more barter deals, improving its margins.

Opportunity to catch

According to our estimates Portobello should be able to increase revenues at 35% CAGR21-25 and deliver EBITDA margin stably around 20% from 2023, driven by (i) the dynamics of barter advertising, (ii) the rapid expansion of the shop network.

From our analysis, we have derived a valuation of €90/share, resulting in a EV/Sales 2022E multiple of 2.6x, EV/EBITDA 2022E of 13.2x and P/E 2022E of 21.3x, notably higher than its current valuation. We therefore firmly believe the company's current valuation is significantly below its real intrinsic value, and the current stock price would be then an attractive entry point for investors.

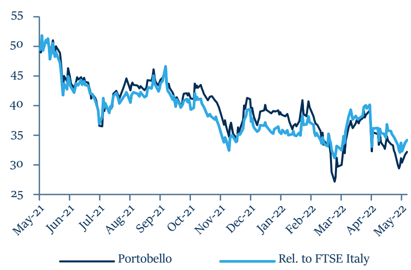
We reiterate our Buy recommendation and our price target at €90.

Key data	
Price (€)	32.2
Industry	Retailers
Ticker	POR-IT
Shares Out (m)	3.237
Market Cap (m €)	104.2
Average trading volumes (k shares / day)	34.500
Next event	S1-22 Septembre 19 2022

Ownership (%)	
Fondateurs & Management	63.8
Free float	36.3

EPS (€)	12/22e	12/23e	12/24e
Estimates	4.35	6.58	8.64
Change vs previous estimates (%)	-7.83	-7.83	-7.83

Performance (%)	1D	1M	YTD
Price Perf	1.3	-9.3	-18.7
Rel FTSE Italy	2.1	-5.4	-7.2



TP ICAP Midcap Estimates	12/21	12/22e	12/23e	12/24e
Sales (m €)	88.2	133.9	196.1	247.1
Current Op Inc (m €)	13.9	21.7	32.7	42.6
Current op. Margin (%)	15.7	16.2	16.7	17.3
EPS (€)	2.7	4.3	6.6	8.6
DPS (€)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0
FCF (m €)	-12.0	-2.1	7.1	23.3

Valuation Ratio	12/22e	12/23e	12/24e
EV/Sales	0.9	0.6	0.4
EV/EBITDA	4.8	3.0	1.9
EV/EBIT	5.7	3.6	2.2
PE	7.4	4.9	3.7

Consensus FactSet - Analysts:3	12/22e	12/23e	12/24e
Sales	136.8	186.3	196.3
EBIT	21.0	30.5	37.8
Net income	13.9	20.4	24.8

Analyst
Simone Mieli
simone.mieli@tpicap.com
33149241833

Description

Founded in 2016, Portobello has a network of shops in Italy offering a wide range of branded products at very competitive prices in four main categories: Consumer electronics, Houseware, Cleaning products, Apparel & Accessories. The group operates under an innovative business model characterised by a strong integration between its different segments. Through its Media business, the company sells advertising space in exchange of unsold branded products (advertising barter). Portobello has advertising space that is either wholly owned or managed (magazines, city walls, kiosks, etc.) or owned by third parties. The products obtained through barter are then sold in Portobello shops. Anything that, due to its size or type, cannot be sold through these channels is finally sold via B2B.

SWOT Analysis

Strengths

- Very competitive price positioning on branded and quality products
- An asset-light business model with high profitability
- Strong integration between its business units
- Business model resilient to crisis and scalable

Weaknesses

- Negative FCFs due to high Capex and WC requirements
- Opportunistic nature of barter activity
- Business model difficult to replicate abroad

Opportunities

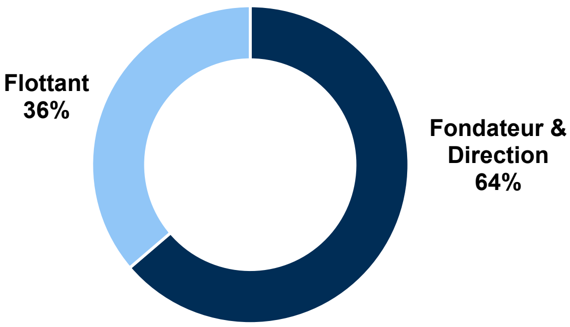
- Development of the advertising barter activity
- Continued expansion of the physical store network
- Development of a franchising project with attractive conditions
- Strengthen Brand awareness to obtain better deals with vendors

Threats

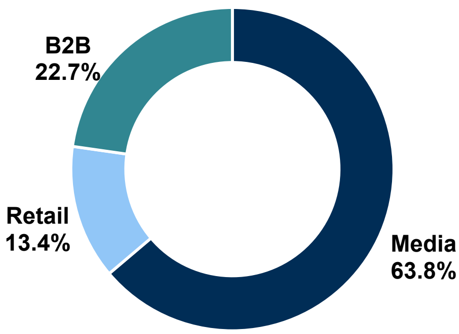
- Risks related to the execution of the strategic plan and the rapid business expansion
- Risks related to the complexity of the business model, integrating 3 complementary but different segments

Overview

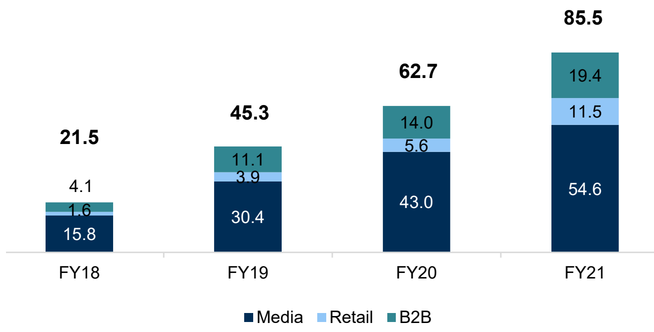
Shareholders



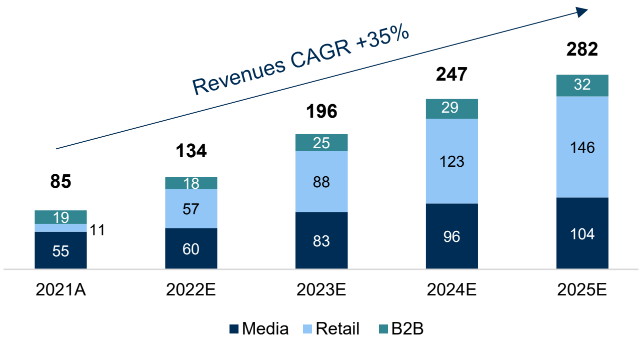
2021 revenue breakdown by business unit



Revenue growth by segment (€M)



Revenue estimates by segment (€M)



A unique business model

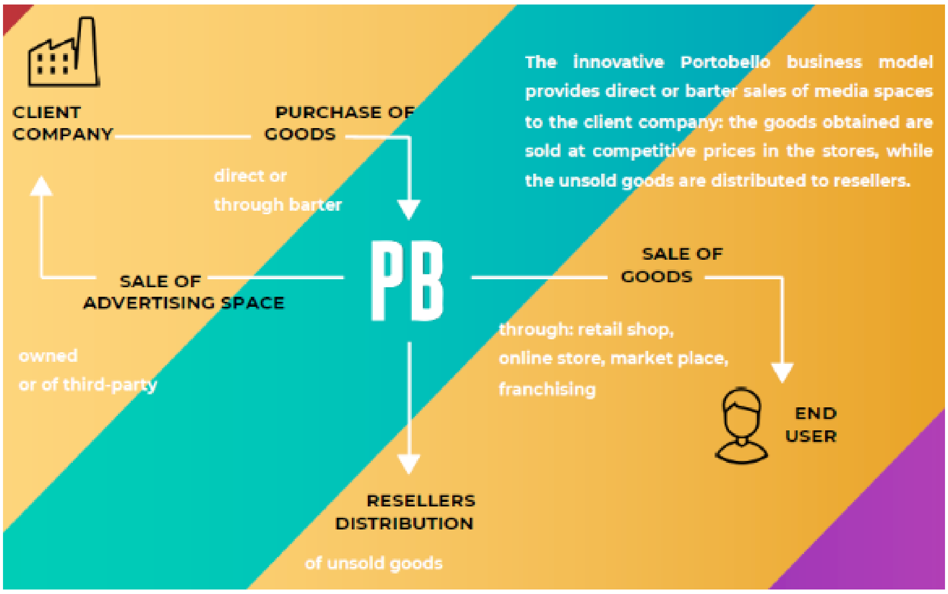
We feel it is important to recall Portobello's unique business model. We also invite the reader to refer to our initiation of coverage (17 March 2021) for more details.

Strong vertical integration

Portobello has created a business model that allows it to acquire branded products, mainly unsold, at low cost and resell them in shops at unbeatable prices. The group's business model has been carefully studied and designed to maximise its profitability through a strong integration between its three Business Units (BU): **Media, Retail and B2B.**

As illustrated below, through its **Media activity (63.8% of FY 2021 revenue)**, Portobello sells advertising space or swaps it for products. The latter are then resold through the **Retail activity (13.4% of FY 2021 revenue)**, in Portobello shops. Anything that, due to its size or type, cannot be sold through these channels is resold via the **B2B channel (22.7% of FY 2021 revenue)** to distributors (outlets for example).

Description of Portobello's business model



Source: Portobello

Thus, Portobello offers its clients advertising space and in exchange receives either (i) the monetary value or (ii) the equivalent in products from the advertiser (approximately 90% of the time), which the group can then resell through its B2C and B2B distribution channels.

Portobello **acquires approximately 50% of the products sold in its stores through its barter advertising business**. In order to guarantee a complete purchasing experience for its customers, the remaining products are purchased directly from its suppliers. For example, if Portobello receives 1,000 pots in exchange for advertising, it will also buy 1,000 lids of the same model in order to be able to offer a complete product.

Media Activity: Advertising Barter solution

The main objective of the Media activity is to **obtain a maximum of unsold goods from the brands** in order to supply Portobello shops with merchandise. The group has approximately 100 agents (20 of whom work exclusively for Portobello) who work daily with **VSE/SMEs** wishing to resell part of their stock in exchange for advertising space.

The activity of finding suppliers, negotiating orders, analysing stock rotation and monitoring the profitability of barter transactions is well structured. It is done through the use of an **advanced software**, which constantly analyse client's specific parameters (e.g. stock turnover, cash). Based on these parameters, Portobello assesses who might be interested in barter deals.

Advertising space sold is either (i) directly owned by the group (either under exclusive ownership or management) or (ii) owned by third parties. **On the one hand, Portobello owns certain magazines** such as "Rolling Stone" and "Lei Style". This is a strategic decision for the group, which can thus **resell advertising space at virtually no cost**. The editorial content, printing and distribution of the magazines are **totally outsourced**, allowing the Group to better manage costs, seasonality of sales and **focus on managing advertising pages**.

On the other hand, the purchase and resale of advertising space (e.g. outdoor solutions, maxi posters), allows Portobello to meet the various needs of its clients/suppliers. In addition, the company sometimes carries out media-for-media barter transactions in order to supply its advertising services according to demand.

Magazines owned or managed by Portobello

Sources: Portobello, Midcap

Examples of outdoor advertising spaces

Sources: Portobello, Midcap

Retail Activity: Portobello core

Although still most of the revenue comes from the Media business, the group's **core activity is Retail**. The layout of the Portobello shops has been carefully thought out to give customers the **best possible shopping experience and to maximise cross-selling**. Indeed, according to the company, customers buy an average of 6 items per shopping cart compared to 1 item via online. Thus, Portobello offers a wide range of branded products at very accessible prices. The shops offer consumer electronics, houseware, cleaning products, apparel & accessories.

Shops with a welcoming design

Source: Portobello

On 1 May 2021, **the group has 25 stores, including 9 in Rome.** 9 new points of sale have been opened in 2021 (1 in Milan and 2 in Rome). In Milan, a maxi-stores of 770m^2 was opened in Via Torino, which is one of the busiest streets in Milan. In Rome, two maxi stores of 500m^2 and 1,350m^2 are located in two of the main shopping centres of the capital, Roma Est and Romanina, with hundred thousand people a day.

Portobello Store Locations

Sources: Portobello, Midcap

As illustrated below, Portobello offers in its stores branded products that it has obtained either (i) directly from the company, (ii) from a distributor or (iii) from a third-party company.

Examples of brands of products sold in Portobello stores

Sources: Portobello, Midcap

B2B Activity: Destocking Unsold Goods

The B2B activity concludes the cycle of the group's business model. Because of their size or type, goods that cannot be sold via B2C shops are sold via the B2B channel (reseller distributors). This allows to (i) **optimise the management of the group's working capital** and to (ii) **make the best use of certain goods** obtained through the Media business.

Price Leader

Thanks to its advertising barter activity, Portobello is able to acquire branded products at very low costs. Its business model allows it to resell, via B2C and B2B channels, the products obtained at **very competitive prices.** The latter are generally unsold products of brands that are well known to consumers and of very good quality.

Significantly lower prices than Amazon's

Source: Portobello

According to the above examples, the company can achieve **gross margins of more than 85%,** while at the same time being able to charge much lower prices than its competitors such as Amazon. According to the products illustrated above, **Portobello displays a discount of even more than 50% compared to the best prices of the American giant**. As a result, the Group has a serious advantage over its competitors.

Unique positioning vs competitors

In a Portobello store, customers can find a **wide variety of branded products sold at unbeatable prices.** This gives the brand a comfortable position in a very competitive market. In Italy, there are many retailers specializing in product categories similar to those of Portobello (e.g. Kasanova, Acqua & Sapone, Tigotà). The group is not category leader in any of those products, but **it is price leader in all of them.**

Portobello's main competitors

	PORTOBELLO	KASANOVA	ACQUA & SAPONE	TIGOTÀ	satur	dmail	amazon
Small appliances and consumer elecctronics	✓	✓	✗	✓	✓	✓	✓
Household goods	✓	✓	✗	✓	✓	✓	✓
Personal care and hygiene	✓	✗	✓	✓	✗	✗	✓
Home care	✓	✗	✓	✓	✗	✗	✓
Clothing	✓	✗	✗	✓	✗	✗	✓
Gifts and jewelry	✓	✗	✗	✗	✗	✓	✓

Sources: Companies, Midcap

Price comparison between Portobello and its competitors

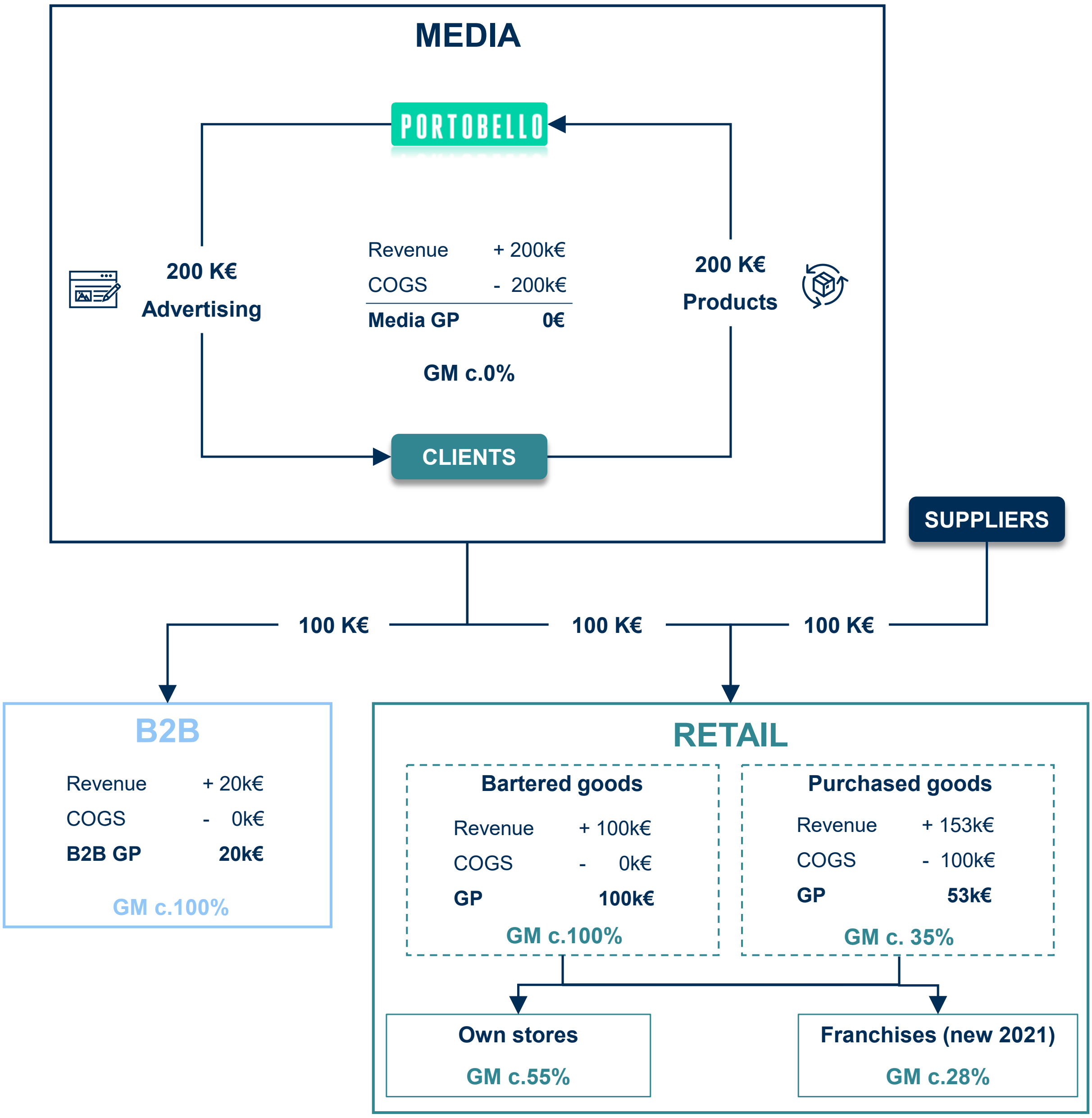
	PORTOBELLO	KASANOVA	amazon	TIGOTA
 Chanteclair Degreaser (625ml)	1,29€ *Vs.*	n.a.	2,60€ *+100%*	2,88€ *+123%*
 Tenderly Toilet Paper	0,79€ *Vs.*	n.a.	n.a.	2,75€ *+248%*
 Pyramidea Electric Kettle	9,9€ *Vs.*	24,9€ *+151%*	23,9€ *+141%*	n.a.
 Ariete Eletric Vacuum	44,9€ *Vs.*	n.a.	54,9€ *+22%*	n.a.

Sources : Companies, Internet, Midcap

A highly profitable business model

The Media business (for the resale of advertising space) on a standalone basis generates relatively small margins. Thanks to its model, Portobello is able to escape the constraints of the sector. Portobello acquires **50% of the goods sold in its stores and 100% of the goods sold in B2B through advertising barter.** This operation allows the company to obtain quality products at a derisory or even zero cost and thus to achieve a much higher profitability than resale. The example below illustrates the advantages of advertising barter.

Illustration of the business model using an example



Source: Portobello, Midcap

As a result, the circularity of the group's BUs allows to generate significantly higher profitability than each segment could generate on a standalone basis.

Profitability driven by Retail and B2B

In order to fully understand the company's unique business model, it is necessary to take a closer look at the construction of the Group's gross margin. As explained above, following an exchange of advertising services for products, Portobello usually records the same amount in revenues and Cost of Goods Sold (COGS). Expenses related to the Media activity (i.e. outsourcing of content, printing and distribution of magazines) are generally offset by the revenues it generates from the sale of magazines and advertising space. This therefore implies a **gross margin close to zero for the Media business**.

For the Retail activity, (i) when the Group resells products obtained via barter, we estimate that it achieves a gross margin near 100% as the COGS have already been accounted for in the Media activity. (ii) When the company resells products bought from suppliers, it achieves a gross margin around 35%. Thus, the **Retail activity generates a gross margin of approximately 55%.**

As far as the B2B activity is concerned, the products are **resold at a significantly lower price** than in stores, but 100% come from products obtained via barter. We therefore estimate the **gross margin for B2B to be around 100%**. However, it is important to take into consideration that the resale of products via B2B is only an opportunistic activity that allows the Group to sell off its unsold products and products that are not saleable in stores.

Thus, the Group's **gross margin is highly dependent on the share of Retail and B2B sales in total revenues**. With the expected strong growth of the store network, the Group's profitability should mechanically increase.

Through this unique business model, Portobello can generate margins notably higher than most players in the industry. As illustrated below, based on fiscal 2021 results, Portobello has a EBIT margin higher than "classic" retailers.

Operating margins (EBIT) of Retail companies vs. Portobello (in 2021)

PORTOBELLO	16,2%	MAISONS DU MONDE	8,6%
BYGGMAX	11,1%	TARGET	6,8%
FNAC DARTY	3,4%	DOLLAR GENERAL	9,4%
TOKMANNI	9,4%	DOLLAR TREE	6,9%
unieuro	2,0%	DUFRY	1,7%

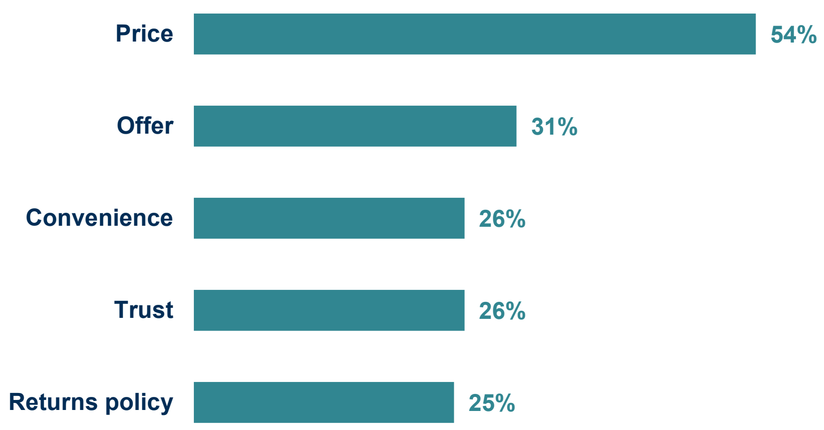
Sources: FactSet, Midcap

A Resilient Model to crisis

Despite the pandemic strongly impacted the Retail sector and the spending of Italian consumers, Portobello proved to have a very resilient business model.

Given the type of products Portobello offers and its aggressive pricing, **demand is relatively unaffected by the economic context**. Portobello's stores carry household products, kitchen products, small electrical appliances and care and hygiene products. These are product categories for which demand is strongly influenced by price (price elasticity). This is confirmed by the PWC Retail study 2017, still relevant in the current context, according to which price remains the main criterion of choice for Italian consumers. In fact, 54% of Italian people said they make a purchase at their favourite retailer because "prices are cheap".

The main factors leading Italians to choose one retailer over another



Source: PWC, Total Retail, 2017

During pandemic the group could also benefit from a significant change in the consumption habits of Italians towards essential products, as confirmed by the PWC study 2020. **Same dynamic is expected as reaction to the current geopolitical situation.**

Health measures have influenced the buying habits of Italian consumers

Source: Global Consumer Insights Survey, PWC, May 2020

Thanks to these factors, Portobello delivered outstanding performances both in 2020 and 2021.
In particular, in 2021, the group was able to further enlarge its retail network (with the opening of 9 new stores, ca. +8k selling surface), boosting sales (+38% yoy) and margins (EBITDA margin +200 bps yoy).

A business model solving pain points

The advertising barter mechanism is also very advantageous for the group's corporate clients.
The latter are continuously facing problems related to inventory management and how to have an effective advertising campaign. In fact, companies regularly have large amount of unsold products at the end of the year, which oblige them to apply write offs, leading to significant losses. Portobello, through the barter, allows them to optimize their inventories and **avoid write offs.**

Regarding advertising investments, other than benefiting from increased visibility through effective communication campaigns, **the companies do not have to spend money.** Thanks to advertising barter they can plan their campaigns in advance without impacting their cash flow, while at the same time making the most of their unsold inventory. In addition, the products exchanged with the companies are billed directly to Portobello, which allows them to **increase their revenues and thus improve their financials**.

Furthermore, in Italy, advertisers can benefit from a **tax credit** ("advertising bonus") of 10-15% of the amount of advertising expenditure.

Portobello works effectively on companies pain points, offering a valid and profitable solution to solve their recurring issues.

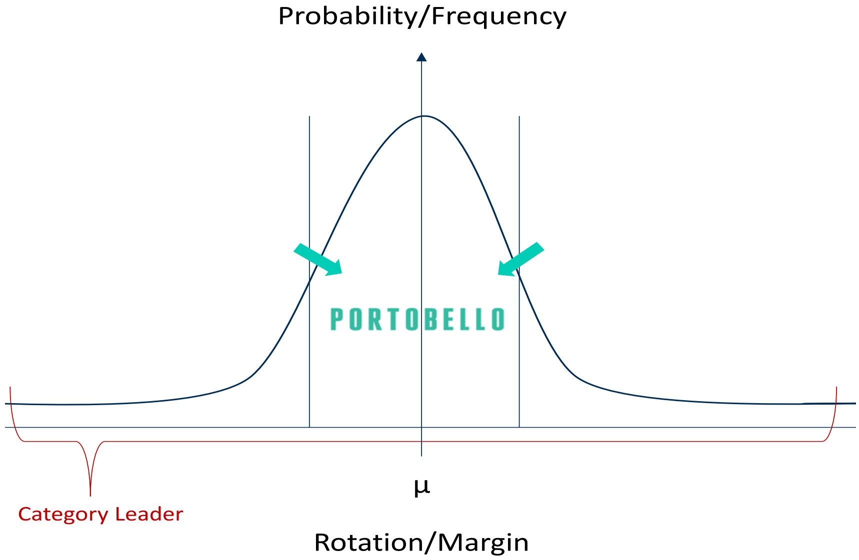
Advertising barter advantages for corporate clients

Sources: Company, Midcap

PB product selection vs category leaders

Portobello, unlike the category leaders, only sells a few brands for each product category (houseware, consumer electronics, cleaning products, apparel & accessories). This specific strategic choice allows it to always choose high margin, high rotation products. Category leaders (e.g. Acqua & Sapone, Euronics), which are specialised in a unique product category, are obliged to have in their portfolio the full range of products, in order to strengthen their positioning in the market. Rather than only high margin/ high rotation products, they then need to have also low margin/low rotation productions. **Portobello can instead be very flexible and select only products with high performing ratios**. Furthermore, the limited product range allows Portobello to always assure better deals. When a specific brand is temporarily not available or they cannot agree on good terms, Portobello can select another brand at better conditions.

PB products selection vs category leader



Sources: Company, Midcap

Portobello continues to scale up

- **Retail network expansion boosted revenues and profitability**
- **FCF absorption to finance the expansion**

Key financials evolution

€ - m	FY19	FY20	FY21
Net Sales	**45.3**	**62.7**	**85.5**
Growth	*111.0%*	*38.3%*	*36.4%*
Media	30.4	43.0	54.6
Retail	3.9	5.6	11.5
B2B	11.1	14.0	19.4
EBITDA	**8.2**	**10.9**	**16.5**
EBITDA Margin	*18.2%*	*17.3%*	*19.3%*
Net Income	**4.8**	**6.0**	**8.8**
FCF	**(4.6)**	**(8.1)**	**(12.0)**
Capex	**1.5**	**2.8**	**2.7**
% Sales	*3.4%*	*4.5%*	*3.2%*
Net Debt	**5.2**	**13.9**	**17.3**
% Change	*(44.7%)*	*164.0%*	*24.9%*
Net debt/EBITDA	**0.6x**	**1.3x**	**1.0x**
Net Gearing	*52.0%*	*85.9%*	*49.4%*

Source : Company, Midcap

Portobello confirmed once again its strong business model potential, reporting excellent FY21 results and continuing the growing trend.

Sales increased by 36.4% to €85.5m (vs. €62.7m in FY20), mainly driven by the retail division, in line with the rapid store network expansion.

Sales are split as follows:

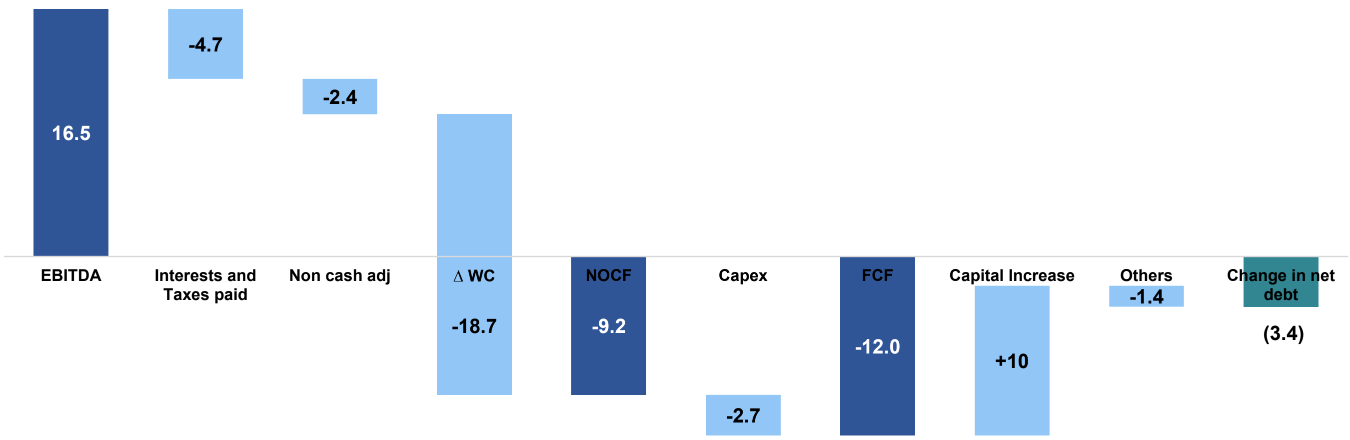
- **Retail** (13.4% of total sales) revenues increased by 105% to €11.5m; The steep growth is related to the new 9 openings carried out during the year, expanding the store network to ca. 13,000m² of selling surface (vs. ca. 5,000m² in FY20).
- **Media** (63.8% of total sales) revenues increased by 26.7% to €54.6m, benefitting from the development of the barter activity, which consists in the exchange of brands products against advertising space. Therefore, the more the group buys in barter the more the media revenues will boost.

B2B

- **B2B** (22.7% of total sales) revenues increased by 38.5% to €19.4m, on the back of higher volumes achieved in the barter activity.

The development of the retail network remains the key factor for the group. It allowed the company to **increase its volumes**, and proportionally reduce costs, thanks to obtained **economies of scale.** As a result, EBITDA jumped to 19.3% (+200 bps yoy) further confirming profitability levels notably higher than peers.

Change in net debt bridge FY21*



**Please note that the graph considered estimated figures of the group consolidated results, while Portobello reported only non-consolidated cash-flow statement. We decided to apply consolidated figures in order to be comparable to P&L and Balance Sheet items.*

Source : Company, Midcap

The abovementioned investments in the expansion of the retail network clearly led to significant cash outflows, mainly reflected in WC absorption (WC represents 75% of the investment in the store).

The WC evolution (-€18.7m) is mainly due to the increase in inventory (-€27.5m). The latter can be explained by two main factors: (i) the new store openings, which need to be properly equipped, and (ii) the increase of the suppliers' product prices, raised to cover the rise of energy and raw material costs.

The WC dynamic can be translated as an improved barter activity, more revenues from the media division and a relevant amount of stock products to be sold in the stores, boosting retail sales.

The resulting FCF of -€12m is thus a simple consequence of the rapid expansion of the store network.

FCF then benefited from the €10m capital increase carried out in June 2021, which financed the expansion.

As a result, net debt slightly increased to €17.3m (vs. €13.9m).

However, the WC requirements, the resort to debt and capital, properly financed the group growth and boosted performances, both in terms of sales volumes (+36% yoy) and profitability (EBITDA +52% yoy), and allowed Portobello to deleverage to 1.0x (vs. 1.3x in FY20).

Growth implying Capex and WCR increase

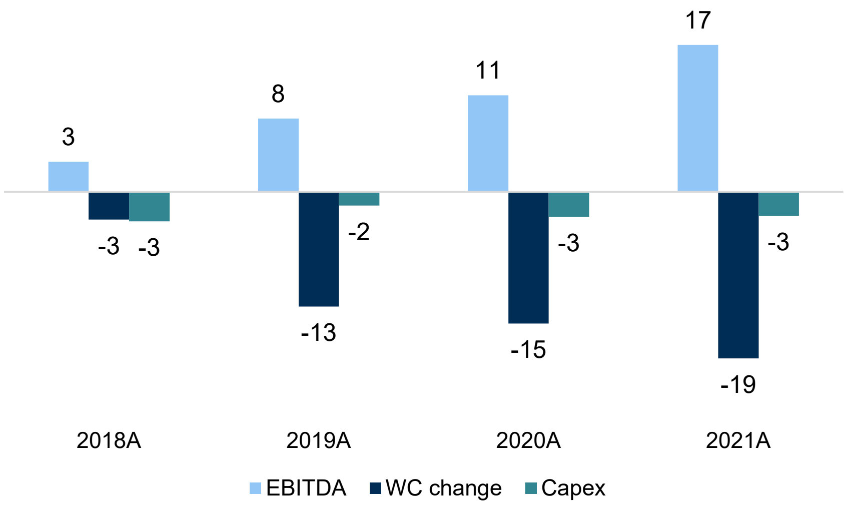
Portobello's business model enables an optimal cash flow management. In fact, thanks to the advertising barter, the company **monetizes the products it receives even before it has carried out an advertising campaign in exchange.** In addition, as already mentioned**, the limited amount of products for each category allows Portobello to choose only high rotation products, leading to a positive net cycle.**

Nevertheless, given the very strong growth expected in the store network, the Group's Capex and WCR will mechanically increase.

To better understand the WC/Capex dynamics its worth explaining how the investment in the stores is structured.

The investment is split into 25% of Capex, 55% inventory and 20% of down payment (advanced payment). Inventory and down payment are WC items (75% of the investment) and they are therefore increasing WCR. Therefore, **the current sharp increase in working capital requirements is only due to the rapid expansion of the store network, and not to the Group's business model**.

Growth driven by WC et Capex (in €M)



Sources: Portobello, Midcap

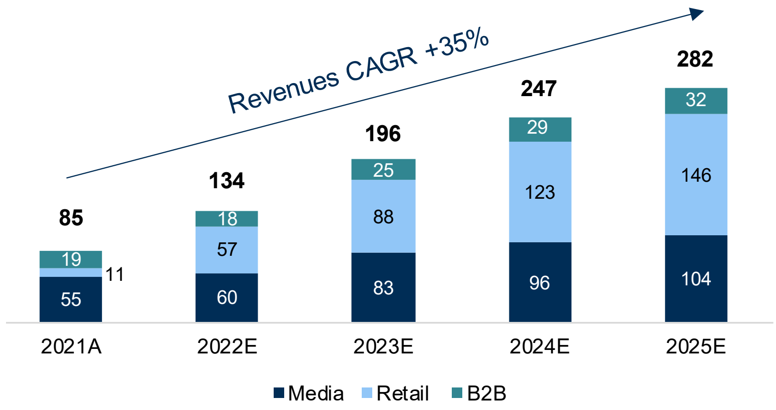
The company estimated an investment of €1m for 1,000m^2 of selling surface (or €1,000/ m^2). Given the target of over 30,000m^2 by 2022, the company has already allocated more than €10m to invest in new stores openings. The group will finance the growth through €10m raised with the capital increase (Jun-21) and through debt, already obtained.

Outlook

In view of its positioning as a hard discounter, we believe that Portobello will be able to take advantage of the current market scenario, where consumers are more price sensitive and rent prices are still low, to continue its growing path.

We then believe the group will be able to **increase sales to €134m in 2022 and reach €282m in 2025, growing at a CAGR 2021-2025 of 35%.** This growth should be mainly driven by (i) the dynamics of advertising barter, and (ii) the rapid expansion of the store network.

Revenue growth forecasts by BU (in €M)



Source: Midcap

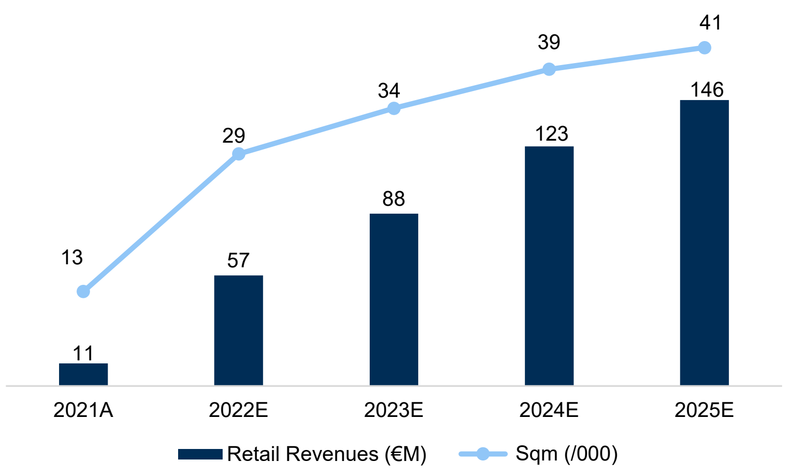
Regarding the Retail activity, the group is taking advantage of still low rental prices to further develop the store network. The new openings, already at advanced stage with 9 new stores opened during 2021, will keep going at regular pace. The group has indeed already signed new store contracts to reach ca. 30,000m² of selling surface at the end of 2022 (vs. 13,000m² at end 2021).

The store expansion is a key success factor, which will permit to (i) increase sale volumes, thanks to a wider amount of products which can be sold in the stores, and (ii) strengthen brand awareness, which will enhance portobello bargaining power towards suppliers and will facilitate the agreement on better deals (higher percentage of products in barter or higher discounts). The growing process will be further accelerated by the introduction of franchising stores from the H2-22.

Therefore, we estimated network surface to grow rapidly and significantly in 2022, and **increase until ca. 41,000m² in 2025**, taking more conservative assumptions from 2023.

Based on stores evolution hypotheses, we estimated **retail division revenues to grow at 90% CAGR 2021-2025 to reach €146m in 2025.**

Forecast of store network surface (sqm/000) and retail division revenues (€M)



Source: Midcap

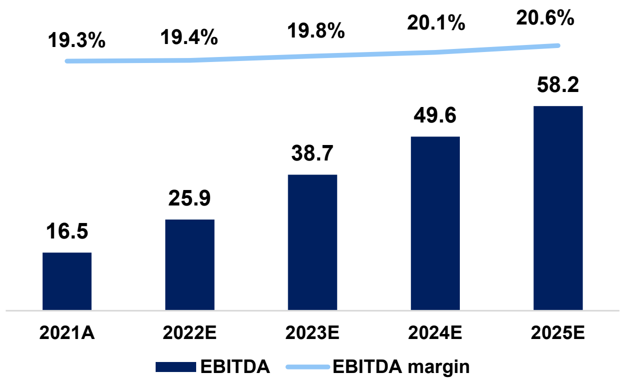
We expect a growth at 18% CAGR 2021-2025 for the Media business, which will benefit from the growing relevance of the advertising barter activity. For the B2B activity we estimated a growth at 13% CAGR, a slight lower pace, taking into account the opportunistic nature of the activity.

Cost base is expected to increase in line with store network expansion, considering every store will require new personnel, rent expenses (leases), new products. In addition, costs are expected to rise in view of the surge of the energy price, which is affecting the global economic scenario.

EBITDA is expected to be conditioned by (i) higher volumes, as a result of the business growth, (ii) improved mix, due to a major focus on more profitable divisions, Retail and B2B division and (iii) cost increase to support the group expansion.

As a result, **we conservatively estimated 2022 EBITDA at 19.4%,** taking into account that a cost increase would be fully offset by better volumes and an improved mix. **From 2023**, assuming energy price returned to normal levels, and important economies of scale expected to be generated with the store network expansion, **we estimated an EBITDA stably around 20%.**

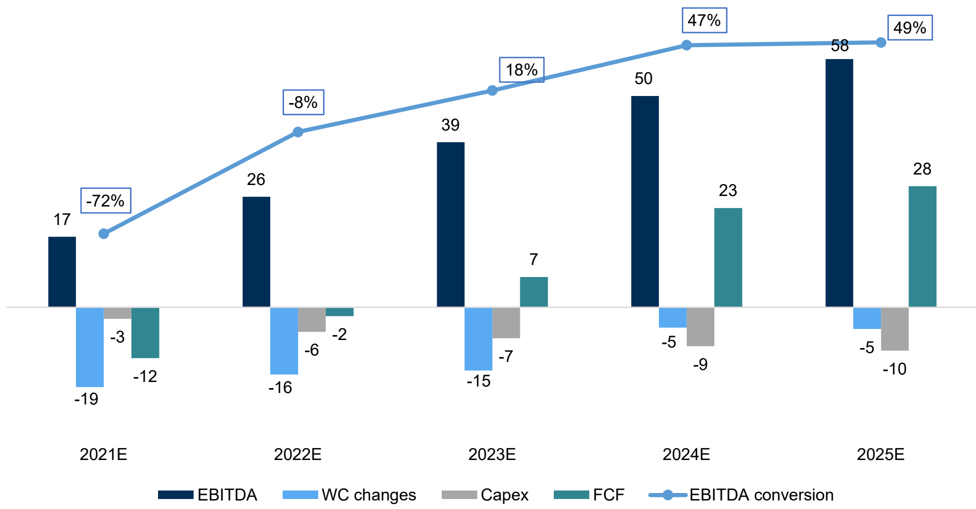
EBITDA forecasts (in €M)



Source: Midcap

As already explained, Portobello investment in stores consist in 75% WC (inventory and down payment) and 25% Capex. Accordingly, they are expected to increase in line with the new store openings. We therefore estimated a FCF to land at -€2m in 2022 and to turn positive as early as 2023.

FCF forecasts (in €M)



Source: Midcap

Next Steps

Along the lines of strong 2021 results, Portobello is willing to continue its growing path.

As wished, the rapid expansion of the retail network, allows the group to become more and more visible to brands and vendors, which begun to consider Portobello's advertising barter as a regular channel and a valid solution to solve their inventory issues. This would enable Portobello to secure **more structured contracts with brands, and agree on a stable percentage of the supply mix in barter.** As evidenced, the group already signed with consumer electronics brands, new contracts for supply of 20% in barter, assuring better margins.

The group is focused on closing contracts for bigger stores, as confirmed by the last two openings, a maxi store in the shopping mall "Il Borgogioioso" in Carpi (1,600m^2) and a maxi store in the shopping mall "Adriatico 2" in Portogruaro (1,500 m^2). This strategic move will allow the group to introduce new products that for size matters could not be sold in store. Portobello is therefore introducing a new product category, **furniture products**, obtained 100% in barter. With a bigger surface, Portobello can increase volumes, generate better economies of scale and include in the sale mix more products obtained 100% in barter, improving margins.

The group is constantly monitoring M&A opportunities. The potential targets would be companies operating in complementary businesses, which could be easily integrated into Portobello barter model.
Companies operating in the pharmaceutical sector, in particular in the supplement business (e. g. vitamins) regularly have relevant inventory issues, and might be a suited target for the barter activity.

Potential M&A would be carried out at a moderate price, and would be eventually financed 50% cash and 50% debt.

News

On 12 April 2022, Portobello was mentioned in newspaper articles concerning alleged illegal acts in the advertising world. The company has stressed its lack of involvement. Newspapers have already removed Portobello's name from their articles, citing the group's statement that confirms its lack of involvement. Portobello's absolute extraneousness to facts is officially confirmed by the competent court, which stated to have no registrations against the company and its directors.

Valuation

Valuation Method

To determine Portobello's intrinsic value, we keep using only the Discounted Free-Cash-Flows method.
We believe the latter is the only method to really reflect the company intrinsic value.

The uniqueness of the group's business model makes using the peer stock market method irrelevant.
The margin levels that Portobello can generate are significantly higher than those of "classic" retailers. Furthermore, as far as we noticed, there are no other companies which vertically integrate the advertising barter in their own supply chain.

We set our **TP of €90**. Given the very high **upside potential (179%),** we confirm our **Buy** recommendation.

The company is currently trading at EV/Sales 2022E of 0.9x, EV/EBITDA 2022E of 4.8x and P/E2022E of 7.4x, and at our price target, Portobello would trade at EV/Sales 2022E of 2.6x, EV/EBITDA 2022E of 13.2x and P/E2022E of 21.3x, thus we are convinced the company current valuation is significantly below its real intrinsic value.

Summary of the valuation

Method	FV 2022E	Coefficient
DCF	90.0	100.0%
Target Price	**90.0**	
Upside	**179%**	

Implied multiples @target	2022E	2023E	2024E	2025E
EV/Sales	2.6x	1.7x	1.4x	1.2x
EV/EBITDA	13.2x	8.8x	6.9x	5.9x
EV/EBIT	15.7x	10.5x	8.0x	6.7x
P/E	21.3x	14.0x	10.7x	9.0x

Sources: Company, Midcap, FactSet

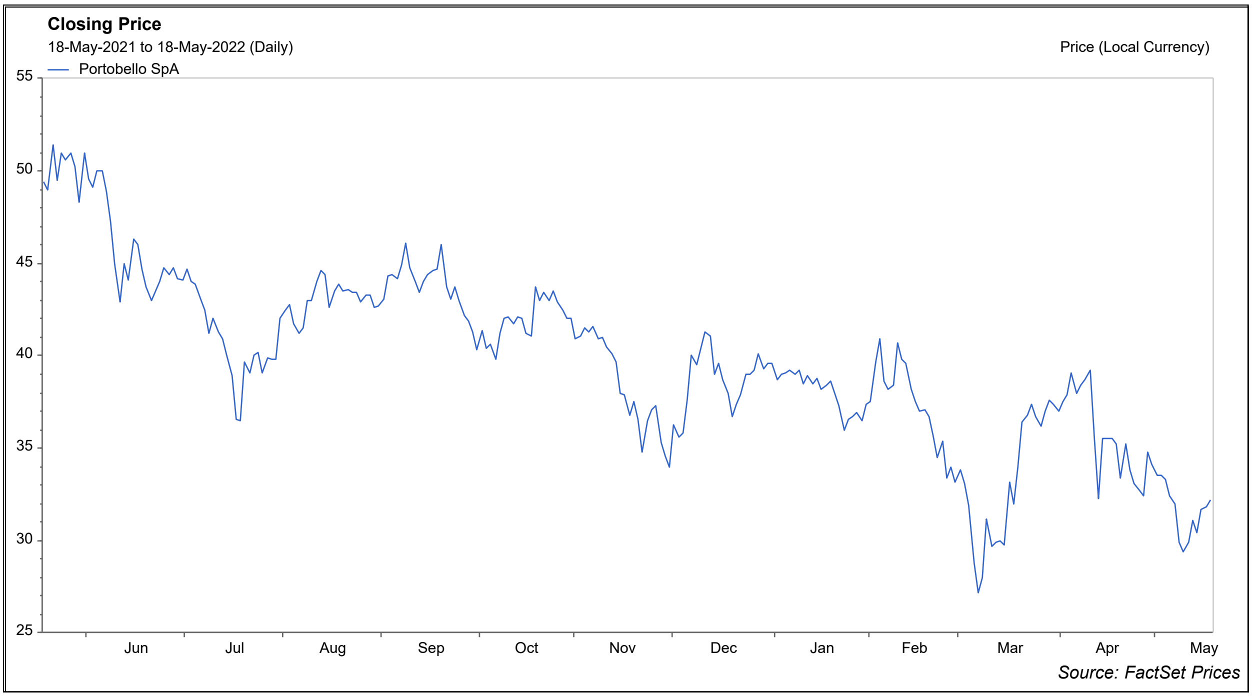
Share Price, grant, warrant and buyback

In April 2022, Portobello announced a new stock grant plan, a share buyback and a warrant programme, confirming management's full commitment to the company.

The share award scheme, for a total of 90,000 free Portobello shares to employees, aims to attract new talent to support the group' future growth. The shares are granted in three trances for the period 2022-2024.

The buyback, with a 18-months maturity, cannot exceed the 10% of the company's share capital. It has been put in place mainly to support the stock liquidity if necessary.

The warrant programme consists in 200,000 options, fully and personally financed by the Chairman of the Board Pietro Peligra and the Co-founder and COO Roberto Panfili. The warrants have a strike price of €40, which could be exercise only if Portobello share price reaches the threshold of €80 in the next 2 years. This decision, further confirms the management's firm believe in the value of the company.



FINANCIAL DATA

Income Statement	12/19	12/20	12/21	12/22e	12/23e	12/24e
Sales	46.0	64.0	88.2	133.9	196.1	247.1
Changes (%)	108.8	39.0	37.8	51.8	46.5	26.0
Gross profit	14.1	20.1	32.9	56.1	82.9	101.4
% of Sales	30.6	31.5	37.3	41.9	42.3	41.1
EBITDA	**8.2**	**10.9**	**16.5**	**25.9**	**38.7**	**49.6**
% of Sales	17.9	17.0	18.7	19.4	19.8	20.1
Current operating profit	**6.8**	**8.6**	**13.9**	**21.7**	**32.7**	**42.6**
% of Sales	14.7	13.4	15.7	16.2	16.7	17.3
Non-recurring items	-0.3	-0.3	-0.6	0.0	0.0	0.0
EBIT	6.8	8.6	13.9	21.7	32.7	42.6
Net financial result	-0.1	-0.3	-0.9	-0.6	-0.6	-0.6
Income Tax	-1.9	-2.3	-4.2	-5.9	-8.9	-11.7
Tax rate (%)	28.6	28.1	32.3	27.9	27.9	27.9
Net profit, group share	**4.8**	**6.0**	**8.9**	**15.3**	**23.1**	**30.3**
EPS	1.7	2.1	2.7	4.3	6.6	8.6

Financial Statement	12/19	12/20	12/21	12/22e	12/23e	12/24e
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Tangible and intangible assets	2.8	3.7	7.3	8.9	10.0	12.3
Right of Use	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets	0.8	1.4	1.1	1.1	1.1	1.1
Working capital	13.7	28.5	51.3	67.0	81.9	86.7
Other Assets	0.4	0.4	0.8	0.8	0.8	0.8
Assets	17.7	34.0	60.5	77.8	93.8	100.8
Shareholders equity group	10.1	16.1	35.0	50.3	73.4	103.7
Minorities	0.0	0.0	0.0	-0.0	-0.1	-0.1
LT & ST provisions and others	0.0	0.1	0.0	0.0	0.0	0.0
Net debt	5.2	13.9	17.3	19.4	12.3	-11.0
Other liabilities	0.1	0.2	1.1	1.1	1.1	1.1
Liabilities	17.7	34.0	60.5	77.8	93.8	100.8
Net debt excl. IFRS 16	5.2	13.9	17.3	19.4	12.3	-11.0
Gearing net	0.5	0.9	0.5	0.4	0.2	-0.1
Leverage	0.6	1.3	1.0	0.7	0.3	-0.2

Cash flow statement	12/19	12/20	12/21	12/22e	12/23e	12/24e
CF after elimination of net borrowing costs and taxes	9.8	9.5	9.5	19.5	29.2	37.2
ΔWCR	-12.9	-14.8	-18.7	-15.8	-14.8	-4.8
Operating cash flow	-3.0	-5.3	-9.2	3.7	14.3	32.4
Net capex	-1.5	-2.8	-2.7	-5.8	-7.3	-9.1
FCF	-4.6	-8.1	-12.0	-2.1	7.1	23.3
Acquisitions/Disposals of subsidiaries	-0.8	-0.6	-2.1	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0	0.0	0.0
Change in borrowings	5.8	10.2	3.3	5.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of leasing debt	0.0	0.0	0.0	0.0	0.0	0.0
Others	-0.0	0.1	9.5	0.0	0.0	0.0
Changes in exchange rates	0.0	0.0	0.0	0.0	0.0	0.0
Change in net cash over the year	0.4	1.6	-1.2	2.9	7.1	23.3

ROA (%)	12.0%	11.3%	10.2%	12.9%	14.6%	15.0%
ROE (%)	47.0%	36.9%	25.2%	30.3%	31.5%	29.2%
ROCE (%)	45.3%	27.4%	18.2%	22.7%	27.7%	33.5%

DISCLAIMER

Analyst certifications

This research report (the "Report") has been approved by Midcap, a business division of TP ICAP (Europe) SA ("Midcap"), an Investment Services Provider authorised and regulated by the Autorité de Contrôle Prudentiel et de Résolution ("ACPR"). By issuing this Report, each Midcap analyst and associate whose name appears within this Report hereby certifies that (i) the recommendations and opinions expressed in the Report accurately reflect the research analyst's and associate's personal views about any and all of the subject securities or issuers discussed herein and (ii) no part of the research analyst's or associate's compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst or associate in the Report.

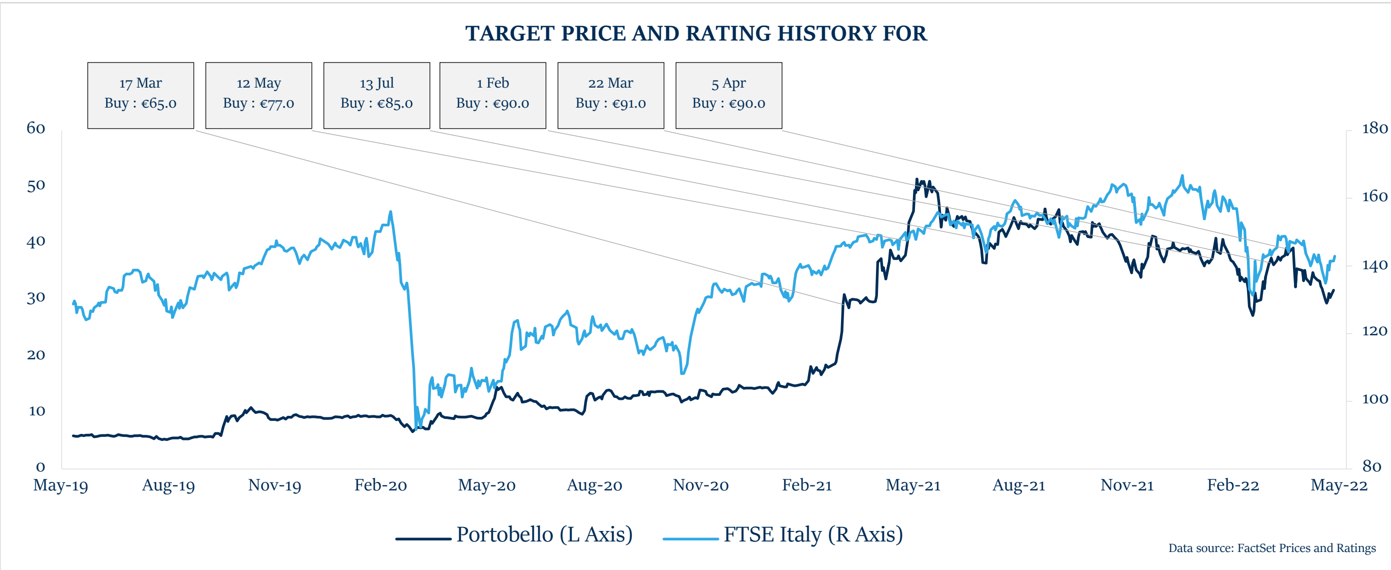
Methodology

This Report may mention evaluation methods defined as follows:
1. DCF method: discounting of future cash flows generated by the company's operations. Cash flows are determined by the analyst's financial forecasts and models. The discount rate used corresponds to the weighted average cost of capital, which is defined as the weighted average cost of the company's debt and the theoretical cost of its equity as estimated by the analyst.
2. Comparable method: application of market valuation multiples or those observed in recent transactions. These multiples can be used as references and applied to the company's financial aggregates to deduce its valuation. The sample is selected by the analyst based on the characteristics of the company (size, growth, profitability, etc.). The analyst may also apply a premium/discount depending on his perception of the company's characteristics.
3. Assets and liabilities method: estimate of the value of equity capital based on revalued assets adjusted for the value of the debt.
4. Discounted dividend method: discounting of estimated future dividend flows. The discount rate used is generally the cost of capital.
5. Sum of the parts: this method consists of estimating the various activities of a company using the most appropriate valuation method for each of them, then realizing the sum of the parts.

Conflict of Interests

E. Midcap or any related legal entity has acted, over the last twelve months, as lead or co-lead in a public offer for financial instruments of the Issuer: Portobello
G. Midcap and the Issuer have agreed to the provision by the former to the latter of a service for the production and distribution of the investment recommendation on the said Issuer: Portobello

History of investment rating and target price – Portobello



Distribution of Investment Ratings

Rating	Recommendation Universe*	Portion of these provided with investment banking services**
Buy	87%	95%
Hold	11%	5%
Sell	2%	0%
Under review	0%	0%

Midcap employs a rating system based on the following:
Buy: Expected to outperform the markets by 10% or more over a 6 to 12 months horizon.
Hold: expected performance between -10% and +10% compared to the market over a 6 to 12 months horizon.
Sell: Stock is expected underperform the markets by 10% or more over a 6 to 12 months horizon.

The history of ratings and target prices for the Issuers covered in this report are available on request at marketing@midcapp.com.

General Disclaimer

This Report is published for information purposes only and does not constitute a solicitation or an offer to buy or sell any of the securities mentioned herein. The information contained in this Report has been obtained from sources believed to be reliable, Midcap makes no representation as to its accuracy or completeness. The reference prices used in this Report are closing prices. All opinions expressed in this Report reflect our judgement at the date of the documents and are subject to change without notice. The securities discussed in this Report may not be suitable for all investors and are not intended to recommend specific securities, financial instruments, or strategies to particular clients. Investors should make their own investment decisions based on their financial situation and investment objectives. The value of the income from your investment may vary due to changes in interest rates, changes in the financial and operating conditions of companies and other factors. Investors should be aware that the market price of the securities discussed in this Report may be volatile. Due to the risk and volatility of the industry, the company, and the market in general, at the current price of the securities, our investment rating may not correspond to the stated price target. Additional information regarding the securities mentioned in this Report is available on request.

This Report is not intended for distribution or use by any entity who is a citizen or resident of, or an entity located in any locality, territory, state, country, or other jurisdiction where such distribution, publication, availability, or use would be contrary to or limited by law or regulation. Entity or entities in possession of this Report must inform themselves about and comply with any such restrictions, including MIFID II. Midcap has adopted effective administrative and organizational arrangements, including "information barriers", to prevent and avoid conflicts of interest regarding investment recommendations. The remuneration of financial analysts who participate in the preparation of the recommendation is not linked to the corporate finance activity.

Notice to US Investors:

This Report was prepared, approved, published, and distributed by Midcap, a business division of TP ICAP (Europe) SA (“Midcap”), a company located outside of the United States. This Report is intended for distribution only to major U.S. institutional investors (as defined in Rule 15a-6 under the U.S. Securities Exchange Act of 1934 (the “Exchange Act”)) pursuant to the exemption in Rule 15a-6 and any transaction effected by a U.S. customer in the securities described in this Report must be affected through Louis Capital Markets, LLC (“LCM”) and not with or through Midcap. Midcap is not registered as a broker-dealer under the Exchange Act. Midcap is not a member of the Financial Industry Regulatory Authority, Inc. (“FINRA”), SIPC, or any other U.S. self-regulatory organization.

Midcap is the employer of the research analyst(s) responsible for this Report. The research analysts preparing this Report are residents outside the United States and are not associated with LCM or any US regulated broker-dealer. The analyst(s) is/are not subject to supervision by a US broker-dealer and are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with US rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification. Each of the analysts identified in this Report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this Report reflect his or her entity’s views about all of the subject companies and securities and such recommendations were elaborated independently; and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this Report. This material was produced solely for information purposes and for the use of the recipient. This Report does not constitute an offer of, or an invitation to buy or sell any security.

The information contained herein has been obtained from published information and other sources which are considered to be reliable. The companies noted herein accept no liability or responsibility whatsoever for the accuracy or completeness of any such information. All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Midcap, or its affiliates, has not managed or co-managed a public offering of securities for the subject company in the past 12 months, has not received compensation for investment banking services from the subject company in the past 12 months, does not expect to receive and does not intend to seek compensation for investment banking services from the subject company in the next 3 months. Midcap, or its affiliates, do not beneficially own 1% or more of the subject securities and there are not any other actual, material conflicts of interest noted at the time of the publication of this research report. As of the publication of this Report, Midcap does not make a market in the subject securities. Midcap will refrain from initiating follow-up contacts with any recipient of this

Report that does not qualify as a Major Institutional Investor or seek to otherwise induce or attempt to induce the purchase or sale of any security addressed in this Report by such recipient.