Arpadutch

Equities Investment Case

MASSIMO ZANETTI BEVERAGE GROUP MZB:MIL

SECTOR: CONSUMER STAPLES (SMALL-CAP)

Location HQ:	Italy
Valuation Type:	Growth
Dividend (Per share)	€0.09
Dividend Yield	1.91%

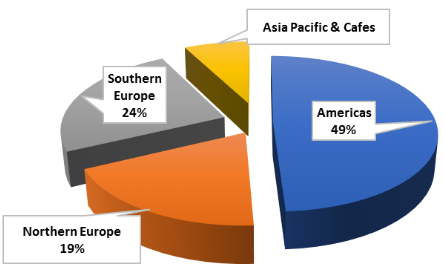
Company Description

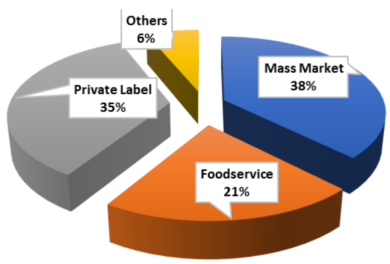
Massimo Zanetti Beverage Group SpA (MZB Group) is an Italy-based holding company engaged mainly in the production of coffee. It controls the entire roasted coffee value chain, including the procurement of the raw materials, operates cafes as well as the marketing and logistics of the products. Various brands include Segafredo Zanetti Espresso, Segafredo Zanetti, Puccino's, etc. A traditional family oriented business based in the reclusive city of Villorba, Italy.

SWOT

Strength	Weaknesses
- Stable, leading espresso producer in the world. - Range of diverse product portfolio with strong name like Segafredo Zanetti	- High debt load - Low margins (2% N. Pr. Margin Y'16) - Poor annual reporting (Y'16, pg 10-16)
Opportunities	**Threats**
- M&A activity accelerating towards café operations	- Falling coffee prices - Interest rate risks (1% Δint rates = +/- €1.9m EBIT)

Revenue Divisions: Geographical and Segments





CHEAP

Free float (m)		11.43
Shares outstanding (m)		34.30
P/E (TTM)		16.08
Market cap (m)	€	281
EPS (TTM)	€	0.51

VALUATION

Growth Rate	2%
Wacc	10%
PV Forecast FCF 5yr (m)	183
Last Forecast YR FCF (m)	50
Terminal value (m)	638
PV terminal value (m)	396
Total EV	579
Debt	270
Cash	45
Equity Value	354
Shares Outstanding (m)	34.3
Fair Value Share Price	**€ 10**

FINANCIALS

	2016	TTM
Tax Rate %	38.1	37.3
Asset Turnover (Avg)	1.3	1.3
ROA %	2.3	2.4
ROE %	5.5	5.9
ROIC %	4.0	3.9
Interest Coverage	4.6	5.8
Current Ratio	1.4	1.4
Quick Ratio	0.7	0.7
Debt/Equity	0.6	0.6

Investment Summary

I first discovered the company when the University replaced the coffee vendor machines for the third time. Sleek and beautifully designed, the touchscreen machines were a clear preference compared to the previous ones. The company, fully controlled by Massimo Zanetti Beverage Group is small, ambitious and largely ignored. Current market cap to (own) forecasted free cash flows generates a ~ 13% fcf yield! The company is rapidly expanding with buying up coffee and café related assets globally. While the numbers point to a small reasonable upside, the question is how much would you pay for such a business? The market prices yearly ~30m fcf at 10% cost of capital whereas I believe recebt company acquisitions will enable it to generate a larger amount than that. Using the current market cap. and debt load, the price is reasonable on value but cheap on growth. With book value per share at €9, the company has also taken a lot of debt for recent acquisitions. Risks include higher interest payments going forward and lower free cashflows due to large NWC changes. Most importantly, ROE & ROICs are low which are a high put off. However, I feel it is a good company with great products, trading at a fair range and is something to hold for a long run.

Revenues & Segments Source: Annual Report

Revenues Breakup(m)		2013	2014	2015	2016
Mass Market		**284.5**	**287.8**	**339.1**	**343.9**
	% growth		1%	18%	1%
Foodservice		**160.9**	**169.4**	**186.7**	**196.0**
	% growth		5%	10%	5%
Private Label		**269.2**	**276.9**	**353.5**	**320.6**
	% growth		3%	28%	-9%
Others		**41.0**	**47.3**	**52.5**	**57.0**
	% growth		16%	11%	9%

Revenues Breakup(m)		2013	2014	2015	2016
Sale of Roasted Coffee		**675.0**	**690.0**	**831.2**	**812.1**
	% growth		2%	20%	-2%
Sale of Regional Products		**39.5**	**44.1**	**48.0**	**48.3**
	% growth		12%	9%	1%
Sale of coffee machines		**13.9**	**20.2**	**34.9**	**32.9**
	% growth		45%	73%	-6%
Café Network		**9.8**	**9.2**	**12.1**	**11.4**
	% growth		-6%	31%	-6%
Other Revenue		**16.9**	**17.8**	**15.5**	**12.8**
	% growth		5%	-13%	-18%

Explanation

- Across the board revenues growth registered over the last five years, mainly through small scale acquisitions. Company also plans to increase topline primarily through acquisitions.
- America is still the largest market for sales.
- Outlook provided the company states a 2-4% topline growth, increase in adjusted EBITDA to around 10% and reduce net debt.
- Acquisitions are mostly targeted towards Café Network market; a segment where opportunities are plenty globally.

Model & Assumptions

Key Projections (€m)	2015	2016	2017e	2018e	2019e	2020e	2021e
Sales	**942**	**917**	**907**	**960**	**975**	**998**	**1034**
% growth		-3%	-1%	6%	2%	2%	4%
EBIT	**25**	**39**	**34**	**48**	**49**	**50**	**52**
% sales	3%	4%	4%	5%	5%	5%	5%
Depreciation	**35**	**38**	**36**	**38**	**39**	**40**	**41**
% sales	4%	4%	4%	4%	4%	4%	4%
Capex	**-32**	**-31**	**-32**	**-33**	**-34**	**-35**	**-36**
% sales	3%	3%	4%	3%	3%	3%	3%

Explanation

- Sales projected with an average 2% increase whereas operational efficiencies will enable the company to raise EBIT profile.
- Depreciation and Capex mostly in line with history.

Reporting Quality

Language in Annual Report	Average.
Auditor's Opinion	Clear.
ESG & Sustainability reporting	None.

Explanation

- Since IPO, the company has shifted its reporting to English, albeit still filled with errors that can be easily prevented.
- The reporting though is extensive ranging from external guarantees to compensation disclosures.
- The company seems to be moving towards a more singular operating structure where the intention seems to be to remove different ownership layers to streamline policy executions.