Campari

Price EUR8.53

Bloomberg	CPR IM
Reuters	CPR.MI
12-month High / Low (EUR)	9 / 6
Market Cap (EUR)	4,954
Ev (BG Estimates) (EUR)	5,780
Avg. 6m daily volume (000)	1 731
3y EPS CAGR	17.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	19.1%	7.4%	22.4%	6.6%
Food & Bev.	1.5%	-2.9%	8.2%	-3.8%
DJ Stoxx 600	5.9%	-5.2%	-4.4%	-6.8%

YEnd Dec. (EURm)	2014	2015	2016e	2017e
Sales	1,560	1,657	1,693	1,846
% change		*6.2%*	*2.2%*	*9.0%*
EBITDA	338	390	408	465
EBIT	298.2	332.7	357.1	409.9
% change		*11.6%*	*7.3%*	*14.8%*
Net income	129.0	175.4	201.2	248.1
% change		*36.0%*	*14.7%*	*23.3%*

	2014	2015	2016e	2017e
Operating margin	19.1	20.1	21.1	22.2
Net margin	8.3	10.6	11.9	13.4
ROE	8.2	10.1	10.8	12.3
ROCE	5.3	7.0	8.0	9.8
Gearing	61.9	47.3	68.9	54.5

(EUR)	2014	2015	2016e	2017e
EPS	0.27	0.30	0.35	0.43
% change	-	*14.0%*	*14.7%*	*23.3%*
P/E	32.2x	28.2x	24.6x	20.0x
FCF yield (%)	3.6%	4.0%	3.9%	5.8%
Dividends (EUR)	0.08	0.09	0.09	0.10
Div yield (%)	0.9%	1.1%	1.1%	1.2%
EV/Sales	3.8x	3.5x	3.4x	3.0x
EV/EBITDA	17.6x	14.8x	13.9x	11.9x
EV/EBIT	19.9x	17.4x	15.9x	13.6x

Back in the acquisition arena

Fair Value EUR9,4 vs. EUR8,4 (+10%) BUY

The acquisition of Société des Produits Marnier Lapostolle (SPML) marks the return of Campari to its previous strategy of generating half of its growth though acquisitions. The rationale is strong: SPML is a good fit for the Italian group both in terms of portfolio and geography. In addition, its margin is higher than Campari's and should increase further due to the distribution of its products by its new owner. We have revised our EPS estimates upwards by 5% for 2016 and 13% for 2017 and adjusted our Fair Value from EUR8.4 to EUR9.4. Buy recommendation maintained.

ANALYSIS

- **Structuration of the operation**. The deal is structured in three stages: 1/ Campari is to acquire shares representing 17.19% in full ownership, 1.06% in bare ownership and 1.54% in usufruct through block transactions with some of the controlling family shareholders, 2/ the group will launch a public tender offer on all the outstanding shares of Société des Produits Marnier Lapostolle (SPML) following due work's council consultations and antitrust clearance in the US and 3/ from 2021 it will acquire the remaining shares held by the controlling family shareholders, representing 26.60% in full ownership and 2.24% in bare ownership of SPML's capital. If Campari owns less than 50.01% of SPML capital and voting rights following the tender offer, the controlling family shareholders will sell in advance their shares to the extent that is necessary for Campari to acquire a controlling stake in SPML. So after the tender offer Campari will own between 50.01% and 71% of SPML's capital (our estimate is 54%, assuming that investors will bring 2/3 of the shares). At the same time as the acquisition of SPML, Campari has entered into an agreement to distribute the Grand Marnier spirits portofolio globally from 1st July 2016. Note that SPML will not pay any termination fees to Moet Hennessy or Diageo as the contracts will have expired.

- **A reasonably priced acquisition.** Campari will pay EUR8,050 per share in cash, implying a 60.4% premium to SPML's current share price. An additional earn-out consideration could be paid upon the sale of a real estate property currently owned by SPML and located in St Jean Cap Ferrat. This sale is expected in the next five years. Campari will be able to retain up to a maximum amount of EUR80m from the proceeds of this disposal. Excluding the effects of the sale of the real estate property and the related earn-out consideration, the total implied EV for 100% of SPML would be EUR652m. **Excluding synergies but taking into account the effects of the worldwide distribution agreement, SPML's pro-forma 2015 EBITDA reached EUR47.4m pointing to an EV/EBITDA multiple of 13.7x. This is slightly above Campari's historical average transaction multiple of 11.1x but below the acquisitions of Lascelles de Mercado (15.0x) in 2012, Forty Creek distillery in 2014 (14.5x) and the sector average (16.0x).** The transaction should be financed entirely in cash.

- **An acquisition with a strong rationale. Grand Marnier is a good fit for Campari's portfolio** due to its brand equity, premium positioning and scale. The brand will become part of the Italian group's priority brands. It accounted for 6% of the group's pro-forma 2015 sales. **It also increases the critical mass of Campari in several markets, especially in the US.** This country will represent 26% of the group's sales vs 22% currently. **The acquisition of SPML is also a good financial fit.** Campari has said that the transaction would add 70bps to its EBITDA margin in 2015 pro-forma. This reflects the high margin of Grand Marnier which accounts for around 85% of SPML's sales. It should increase further due to the distribution of its products by its new owner. During the conference call the group stated that the brand's sales were flat, including in the US. It is what Campari calls a "hidden gem" ie a brand which has existed for a long time but which lacks the resources to develop further. Based on its track record (Aperol, Wild Turkey…), we think that Campari has the means to restore the performance of Grand Marnier.

- **2017 EPS estimate revised upwards by 13%.** In 2016, we expect Campari to manage to generate around one third of SPML's 2015 pro-forma sales (EUR151.7m) and profits (EUR47.4m) as 1/ the business should be consolidated for half of the year since the closing of the transaction should occur at the end of Q2 2016 and 2/ a destocking should take place because of the change of distributors. The amount of synergies remains unknown. Management said that they could be possible for procurement but are very uncertain for structure costs. **We have upgraded our EPS estimates by 5% for 2016 and 13% for 2017.**

- **More acquisitions going forward?** Campari's net debt is set to rise from EUR826m in 2015 to EUR1,287m in 2016. This increase takes into account the put options owned by the family controlling shareholders of SPML (EUR200m). The net debt/EBITDA ratio should stand at 3.2x in

2016 vs 2.2x in 2015. Campari is allowed to increase its net debt/EBITDA ratio up to 3.5x (or 4.25x for a limited period of time). So theoretically the group could make further acquisitions in 2016 but we think this is unlikely. It should focus on integrating the newly acquired business. In 2017 Campari will have more room as the net debt/EBITDA ratio should fall back to 2.4x.

VALUATION

- We upgraded the stock to Buy following the full year results release at the beginning of March, noting that Campari clearly has the wind in its sails given its portfolio (bitters) and geographic profile (low exposure to emerging markets). We also stated that following the strong deleveraging in 2015 the group was now able to return to its previous strategy of generating half of its growth through acquisitions.
- The first year of our DCF simulation is 2017 as this will be the first year of consolidation. We have lifted our Fair Value from EUR8.4 to EUR9.4.
- At yesterday's share price, the stock is trading on EV/EBIT multiples of 15.9x for 2016 and 13.6x for 2017e, 11% and 17% below the peer average.

NEXT CATALYSTS

- The group will hold an annual shareholders' meeting on 29th April
- Q1 2016 sales are due on 9th May

Acquisitions of Campari before SPML

Target	Amount	EV/EBITDA
Skyy Spirits	EUR399m	10.8x
Barbero 1891 (Aperol)	EUR147.1m	11.6x
Glen Grant, Braemar brands, Old Smuggler	EUR130m	6.6x
Cabo Wabo Tequila	EUR75m	11.8x
Destiladora San Nicolas	EUR22.2m	10x
Wild Turkey	EUR418.4m	12x
Carolans, Frangelico, Irish Mist	EUR128.2m	7.5x
Sagatiba	EUR26.1m	13x
Lascelles deMercado	EUR330m	15x
Forty Creek Distillery	EUR120.5m	14.5x
Fratelli Averna	EUR103.7m	9.2x
2001-2014	**Total amount spent**	**EUR1.9bn**
	Multiple average	**11.1x**

Source: Campari, Bryan, Garnier & Co

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