B&C SPEAKERS — OUTPERFORM

Price (Eu): 11.42

Target Price (Eu): 14.80

SECTOR: Industrials

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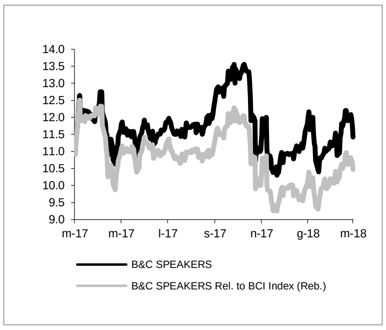
Lively Order Intake since January, Balance Sheet Remains Solid

- **4Q in line with our expectations.** B&C net revenues came to Eu10.7mn in 4Q (+7.6% YoY) vs. Eu10.5mn expected thanks to the contribution of new acquisition Eighteen Sound for 20 days (Eu0.9mn contribution). On a comparable basis, revenues would have been flattish in 4Q. EBITDA adjusted for non-recurring items related to the acquisition came to Eu2.4mn (22.4% margin, +30bps YoY), in line with our estimate. Finally, net income reached Eu1.5mn, substantially in line with 4Q16 when adjusted for non-recurring costs.
- **Asia and LatAm back to growth.** The revenue growth achieved in 2017 (+4.9% YoY, +2.5% organic) was mainly driven by growth in the European market, which saw an increase of +9% for turnover of Eu19mn (47% of the total figure). Asia returned to growth in 2017 (+4% YoY), as did the Latin American market (+9% YoY), which benefitted from the recovery in the Brazilian economy. On the other hand, the Italian and North American markets saw sales down by 8% and 3% YoY respectively. Net debt as at year end was Eu6.7mn, down from a net cash position of Eu7.1mn in 2016, mainly due to the outlay for ordinary and extraordinary dividends (Eu10.9mn in total) and the acquisition of Eighteen Sound (Eu6.6mn net of the financial position). The BoD will propose payment of a Eu0.42 DPS at the next shareholder meeting (3.5% DY at yesterday's closing price).
- **Estimates raised significantly to include the Eighteen Sound acquisition.** The company said that order flows have been lively since the start of 2018: based on currently available data, management is confident of growth in 2018 compared to the previous year. On a comparable basis, we estimate growth at around 4% in 2018, while total turnover is forecast to grow by 39.8% thanks to the consolidation of Eighteen Sound, now included in our numbers. Overall, we have left our like-for-like estimates broadly unchanged, while our total numbers increase thanks to the consolidation of Eighteen Sound, which we project will grow at a faster pace than B&C over the next three years to reach Eu17mn in turnover in 2020, with margins improving markedly thanks to the integration of the two companies. Based on our estimates, we think the acquisition will be strongly accretive to EPS once certain cost synergies are included (mainly lower SG&A and procurement costs). We forecast EPS accretion of 5% and 8% in 2018 and 2019 respectively.
- **OUTPERFORM reaffirmed; target kept at Eu14.8.** Healthy order intake is expected to continue to support revenue growth in the coming quarters. B&C Speakers boasts a strong balance sheet, which will remain substantially unaffected by the Eighteen Sound acquisition, and the company is therefore in a position to develop new applications for speakers (acoustic tunnel warning system and tunnel lighting products). These additional organic growth options are not yet included in our estimates, but were included in our valuation in the last report. Our "as-is" valuation is the simple average of a DCF and an EV/ROACE method, and yields a target price of Eu12.5 per share. We have then added the potential value creation from the new applications, which we quantify at Eu2.3 per share.

Key Figures	2016A	2017A	2018E	2019E	2020E
Sales (Eu mn)	38	40	55	59	62
Ebitda (Eu mn)	9	9	12	12	13
Net profit (Eu mn)	6	6	7	8	9
EPS - New (Eu)	0.556	0.566	0.681	0.735	0.792
EPS - Old (Eu)	0.556	0.597	0.648	0.684	
DPS (Eu)	1.000	0.425	0.511	0.551	0.594

Ratios & Multiples	2016A	2017A	2018E	2019E	2020E
P/E	20.5	20.2	16.8	15.5	14.4
Div. Yield	8.8%	3.7%	4.5%	4.8%	5.2%
EV/Ebitda	12.7	14.2	11.1	10.3	9.5
ROCE	49.7%	39.4%	37.9%	40.0%	41.7%

B&C SPEAKERS - 12m Performance



RATING: Unchanged
TARGET PRICE (Eu): Unchanged

Change in EPS est:	2018E	2019E
	5.0%	7.5%

STOCK DATA

Reuters code:	37B.MI
Bloomberg code:	BEC IM

Performance	1m	3m	12m
Absolute	2.3%	4.8%	4.6%
Relative	3.7%	5.7%	-4.5%
12 months H/L:			13.55/10.30

SHAREHOLDER DATA

No. of Ord. shares (mn):	11
Total No. of shares (mn):	11
Mkt Cap Ord (Eu mn):	126
Total Mkt Cap (Eu mn):	126
Mkt Float - ord (Eu mn):	56
Mkt Float (in %):	*44.6%*
Main shareholder:	
Research & Development Int.	55.4%

BALANCE SHEET DATA	2018
Book value (Eu mn):	21
BVPS (Eu):	1.88
P/BV:	6.1
Net Financial Position (Eu mn):	-4
Enterprise value (Eu mn):	130

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B&C SPEAKERS - *KEY FIGURES*		**2016A**	**2017A**	**2018E**	**2019E**	**2020E**
	Fiscal year end	31/12/2016	31/12/2017	31/12/2018	31/12/2019	**31/12/2020**
PROFIT & LOSS (Eu mn)	Sales	38	40	55	59	62
	EBITDA	9	9	12	12	13
	EBIT	8	8	10	11	12
	Financial income (charges)	0	(0)	(0)	(0)	(0)
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	9	8	10	11	12
	Taxes	(3)	(2)	(3)	(3)	(3)
	Tax rate (%)	31.1%	26.3%	26.0%	26.0%	26.0%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	6	6	7	8	9
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	9	9	12	12	13
	Ebit excl. extraordinary items	8	8	10	11	12
	Net profit restated	6	6	7	8	9
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	11	11	11	11	11
	EPS stated fd	0.556	0.566	0.681	0.735	0.792
	EPS restated fd	0.556	0.566	0.681	0.735	0.792
	BVPS fd	1.989	1.619	1.875	2.100	2.340
	Dividend per share (ord)	1.000	0.425	0.511	0.551	0.594
	Dividend per share (sav)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)	75.0%	75.0%	75.0%	75.0%	75.0%
CASH FLOW (Eu mn)	Gross cash flow	7	7	9	9	10
	Change in NWC	(1)	(7)	(1)	(1)	(1)
	Capital expenditure	(1)	(1)	(1)	(1)	(1)
	Other cash items	(0)	(0)	(0)	(0)	(0)
	Free cash flow (FCF)	5	(0)	7	7	8
	Acquisitions, divestments & others	0	(7)	0	0	0
	Dividend	(4)	(11)	(5)	(6)	(6)
	Equity financing/Buy-back	0	0	0	0	0
	Change in Net Financial Position	6	(14)	2	2	2
BALANCE SHEET (Eu mn)	Total fixed assets	6	9	7	7	7
	Net working capital	17	23	24	25	26
	Long term liabilities	(6)	(5)	(4)	(4)	(4)
	Net capital employed	16	27	27	28	29
	Net financial position	7	(7)	(4)	(3)	(1)
	Group equity	22	18	21	23	26
	Minorities	0	0	0	0	0
	Net equity	22	18	21	23	26
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	126	126	126	126	126
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	7	(7)	(4)	(3)	(1)
	Enterprise value	118	132	130	128	126
RATIOS(%)	EBITDA margin*	24.3%	23.2%	21.0%	21.3%	21.6%
	EBIT margin*	22.1%	21.1%	18.5%	18.9%	19.3%
	Gearing - Debt/equity	-32.2%	37.7%	20.8%	11.4%	3.5%
	Interest cover on EBIT	nm	251.2	81.4	87.8	94.5
	Debt/Ebitda	nm	0.72	0.37	0.21	0.07
	ROCE*	49.7%	39.4%	37.9%	40.0%	41.7%
	ROE*	30.6%	31.4%	39.0%	37.0%	35.7%
	EV/CE	6.9	6.1	4.8	4.6	4.4
	EV/Sales	3.1	3.3	2.3	2.2	2.0
	EV/Ebit	13.9	15.6	12.7	11.6	10.6
	Free Cash Flow Yield	4.3%	-0.3%	5.7%	5.8%	6.2%
GROWTH RATES (%)	Sales	5.0%	4.9%	37.6%	5.5%	5.4%
	EBITDA*	10.6%	-0.2%	24.8%	6.9%	6.8%
	EBIT*	12.1%	-0.1%	20.7%	7.8%	7.7%
	Net profit	21.8%	1.8%	20.2%	7.9%	7.7%
	EPS restated	21.8%	1.8%	20.2%	7.9%	7.7%

** Excluding extraordinary items*

Source: Intermonte SIM estimates

B&C Speakers – 4Q results

Eu mn		4Q16A	4Q17A	YoY	4Q17E
Net sales		**9.9**	**10.7**	**7.6%**	**10.5**
EBITDA		**2.2**	**2.1**	**-2.6%**	**2.4**
	Ebitda margin	22.1%	20.0%		22.8%
D&A		(0.3)	(0.2)		(0.3)
Provisions		0.1	0.0		0.0
EBIT		**2.0**	**1.9**	**-4.6%**	**2.1**
	Ebit margin	19.9%	17.7%		20.3%
Net financials		0.3	(0.1)		0.0
Pre tax profit		**2.2**	**1.7**	**-22.3%**	**2.2**
Taxes		(0.5)	(0.2)		(0.3)
Net Profit		**1.8**	**1.5**	**-14.4%**	**1.8**
Exchange rate		0.0	0.0		0.0
Group Net Profit		**1.8**	**1.5**	**-14.4%**	**1.8**
	Net margin	17.8%	14.2%		17.6%

Source: Company data (A) and Intermonte SIM estimates (E)

B&C Speakers – Change in estimates

	2017 A vs E			2018E			2019E		
(Eu mn)	**New**	**Old**	**%**	**New**	**Old**	**%**	**New**	**Old**	**%**
Net Sales	**40.3**	**40.1**	**0.4%**	**55.4**	**41.9**	**32.4%**	**58.5**	**43.7**	***34.0%***
EBITDA	**9.3**	**9.6**	**-2.7%**	**11.6**	**10.2**	**13.9%**	**12.4**	**10.7**	***16.0%***
EBITDA margin	23.2%	23.9%		21.0%	24.4%		21.3%	24.6%	
EBIT	**8.5**	**8.7**	**-2.8%**	**10.2**	**9.4**	**9.5%**	**11.0**	**9.9**	***11.9%***
EBIT margin	21.1%	21.8%		18.5%	22.4%		18.9%	22.6%	
Pre tax profit	**8.5**	**8.9**		**10.1**	**9.5**		**10.9**	**10.0**	
Group Net Profit	**6.2**	**6.6**	**-5.2%**	**7.5**	**7.1**	**5.0%**	**8.1**	**7.5**	***7.5%***
Net Cash	**-6.7**	**2.0**	**nm**	**-4.3**	**3.6**	**nm**	**-2.6**	**5.1**	**nm**

Source: Intermonte SIM estimates

APPENDIX

Eighteen Sound acquisition

Eighteen Sound acquisition. In December 2017, B&C Speakers completed the acquisition of 100% of the share capital of Eighteen Sound, a company previously owned by Landi Renzo and active in the sector of professional loudspeaker production via the 18 Sound and Ciare brands.

Financials and valuation. In 2016, the company registered turnover of around Eu12.6mn and EBITDA of Eu0.9mn (6% margin). The final price paid for the acquisition was Eu7.4mn, or Eu6.6mn net of the net financial position of the company. The multiple paid (5.5x EV/EBITDA on 2017 forecast) is reasonable and is much lower than the 11.5x the company is currently trading at. As at year-end 2018, net debt/EBITDA would be around 0.3x, an easily sustainable level that leaves room for further acquisitions and the development of new products.

Strong industrial rationale. The acquisition of Eighteen Sound has a strong industrial rationale in our view as it will allow the company to expand its offering thanks to the complementarity of the speakers produced by the two companies, which now will range from Pro-Audio to home entertainment, hi-fi and car audio. In the short term, we expect that the acquisition will enable the company to seize important cost synergies thanks to centralized procurement and lower SGA, while in the medium term the acquisition will enable the company to exploit B&C's commercial network in order to achieve significant revenue synergies, as well to optimise the organization of production through a more efficient segmentation of the offering and of the manufacturing plants.

Highly EPS accretive. We project Eighteen Sound growing at a faster pace than B&C rate over the next three years to reach turnover of Eu17mn in 2020, with margins improving markedly thanks to the integration of the two companies. Based on our estimates, we think the acquisition will be strongly accretive to EPS once some cost synergies are included (mainly lower SG&A and procurement costs). We forecast EPS accretion of 7% and 9% in 2018 and 2019 respectively.

Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
B&C SPEAKERS	**11.42**	**EUR**	**126**	**2.3%**	**4.8%**	**-8.1%**	**4.7%**	**4.6%**	**50.3%**
DOLBY	64.05	USD	6,631	2.9%	2.9%	10.1%	3.3%	25.2%	54.6%
DTS	---	USD	---	---	---	---	---	---	---
HARMAN INT	---	USD	---	---	---	---	---	---	---
Mean performance				**2.6%**	**3.8%**	**1.0%**	**4.0%**	**14.9%**	**52.4%**
Italy FTSE Mib	22,289.1	EUR		-1.7%	0.4%	-1.1%	2.0%	10.5%	20.7%

Source: FactSet

Peer Group - Multiple Comparison

Stock	Price	Ccy	Mkt cap	EV/Sales 2018	EV/Sales 2019	EV/Ebitda 2018	EV/Ebitda 2019	EV/Ebit 2018	EV/Ebit 2019	P/E 2018	P/E 2019	Div Yield 2018	Div Yield 2019
B&C SPEAKERS	**11.42**	**EUR**	**126**	**2.3**	**2.2**	**11.1**	**10.3**	**12.7**	**11.6**	**16.8**	**15.5**	**4.5%**	**4.8%**
DOLBY	64.05	USD	6,631	4.8	4.4	12.8	11.3	18.5	15.9	66.5	23.5	1.0%	1.0%
DTS		USD											
HARMAN INT		USD											
Median				**4.8**	**4.4**	**12.8**	**11.3**	**18.5**	**15.9**	**66.5**	**23.5**	**1.0%**	**1.0%**

Source: Intermonte SIM estimates for covered companies, FactSet consensus estimates for peer group

DETAILS ON STOCKS RECOMMENDATION

Stock NAME	B&C SPEAKERS		
Current Recomm:	OUTPERFORM	Previous Recomm:	OUTPERFORM
Current Target (Eu):	14.80	Previous Target (Eu):	14.80
Current Price (Eu):	11.42	Previous Price (Eu):	11.44
Date of report:	26/03/2018	Date of last report:	24/11/2017

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