Italian Research | 1Q18 Results | Milan, May 16, 2018 | Intermonte

B&C SPEAKERS — OUTPERFORM

SECTOR: Industrials

Price (Eu): 12.50

Target Price (Eu): 14.80

Carlo Maritano +39-02-77115.358
e-mail: carlo.maritano@intermonte.it

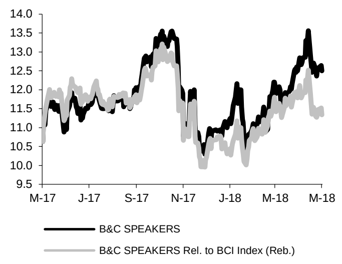
Outstanding Organic Growth and Healthy Order Intake in 1Q

- **1Q18 results in line; excellent organic growth.** The company published 1Q18 results that were in line with our expectations, with strong YoY growth thanks to both the consolidation of Eighteen Sound and solid organic growth. Specifically, the company closed the quarter with turnover of Eu12.93mn, up 37.3% YoY thanks to 8.7% growth at constant scope and the Eu2.6mn contribution from the new acquisition. From a geographical standpoint, assisted by the acquisition the group registered growing revenues in all areas, with Europe growing by 36% and Latin America surging 167% YoY. EBITDA came to Eu2.8mn, a 21.4% margin, down from 24.2% in 1Q17 due to the consolidation of Eighteen Sound, which currently has significantly lower margins than the rest of the group. At constant scope, the EBITDA margin would have been an astounding 28.5%, up 430 bps YoY. Net profit came to Eu1.7mn, up from Eu1.5mn in 1Q17. Finally, net debt came to Eu6.6mn at the end of the quarter, broadly in line with the year-end figure.
- **Favourable outlook ahead.** Base on the available data, management is confident that 2018 will be a year of significant growth for the Group. Indeed, after a strong 1Q very significant orders continued to be received by the parent company during April. As a consequence, the order intake booked in the first 4 months of 2018 was up 10% YoY. Moreover, the procedure for the application of the Patent Box, from which a significant reduction in the company tax rate is expected, is due to be concluded (not included in our estimates). With regards to the newly acquired Eighteen Sound, verification work was started on the entire supplier network aimed at obtaining synergies that should guarantee substantial savings on the supply front; the economic impact of this activity will emerge starting from 2H18. At the same time, work has begun to streamline production and operating activities in an aim to optimise profitability. Simultaneously, the first positive signs in growth in Eighteen Sound orders were found; after a beginning of the year of uncertainty linked to the transfer of ownership, the market reacted positively and over the last two months the company received new orders for approximately Eu2.75mn.
- **Estimates confirmed.** In light of 1Q results and the outlook provided by management, we feel confident in confirming our 2018 estimates. Potential upside could come from the conclusion of the application for the Patent Box and the continuation of the strong order intake registered in the first 4 months.
- **OUTPERFORM reaffirmed; target kept at Eu14.8.** The 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) and pursue potential M&A. Our valuation is the simple average of a DCF and an EV/ROACE method, which yields a target price of Eu12.5 per share, plus the potential value creation from the new applications (i.e. Safevoice and Safelights), 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	0.566	0.681	0.735	0.792
DPS (Eu)	1.000	0.425	0.511	0.551	0.594

Ratios & Multiples	2016A	2017A	2018E	2019E	2020E
P/E	22.5	22.1	18.4	17.0	15.8
Div. Yield	8.0%	3.4%	4.1%	4.4%	4.7%
EV/Ebitda	13.9	15.4	12.2	11.2	10.4
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
	0.0%	0.0%

STOCK DATA			
Reuters code:			37B.MI
Bloomberg code:			BEC IM
Performance	**1m**	**3m**	**12m**
Absolute	0.0%	13.6%	17.6%
Relative	-3.9%	6.3%	7.4%
12 months H/L:			13.56/10.30

SHAREHOLDER DATA	
No. of Ord. shares (mn):	11
Total No. of shares (mn):	11
Mkt Cap Ord (Eu mn):	138
Total Mkt Cap (Eu mn):	138
Mkt Float - ord (Eu mn):	61
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:	6.7
Net Financial Position (Eu mn):	-4
Enterprise value (Eu mn):	142

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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	138	138	138	138	138
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	7	(7)	(4)	(3)	(1)
	Enterprise value	130	144	142	140	138
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	7.6	6.7	5.2	5.1	4.8
	EV/Sales	3.4	3.6	2.6	2.4	2.2
	EV/Ebit	15.3	17.0	13.8	12.7	11.6
	Free Cash Flow Yield	3.9%	-0.3%	5.2%	5.3%	5.7%
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

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B&C Speakers – 1Q results

Eu mn		1Q17A	1Q18A	YoY	1Q18E	A vs E
Net sales		**9.4**	**12.9**	**37.3%**	**12.7**	**1.7%**
EBITDA		**2.3**	**2.8**	**21.0%**	**2.8**	**0.4%**
	Ebitda margin	24.2%	21.4%		21.6%	
D&A		(0.2)	(0.4)		(0.4)	
Provisions		0.0	0.0		0.0	
EBIT		**2.1**	**2.4**	**15.7%**	**2.4**	**0.3%**
	Ebit margin	22.1%	18.6%		18.9%	
Net financials		0.1	(0.0)		(0.0)	
Pre tax profit		**2.2**	**2.4**	**8.8%**	**2.4**	**0.4%**
Taxes		(0.6)	(0.7)		(0.7)	
Net Profit		**1.5**	**1.7**	**8.8%**	**1.7**	**0.8%**
Exchange rate		0.0	0.0		0.0	
Group Net Profit		**1.5**	**1.7**	**8.8%**	**1.7**	**0.8%**
	Net margin	16.3%	12.9%		13.1%	

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

Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
B&C SPEAKERS	**12.50**	**EUR**	**138**	**0.0%**	**13.6%**	**16.4%**	**14.6%**	**17.6%**	**74.6%**
DOLBY	62.61	USD	6,585	-7.3%	-1.3%	2.5%	1.0%	22.2%	37.5%
DTS	---	USD	---	---	---	---	---	---	---
HARMAN INT	---	USD	---	---	---	---	---	---	---
Mean performance				**-3.6%**	**6.1%**	**9.5%**	**7.8%**	**19.9%**	**56.0%**
Italy FTSE Mib	24,297.2	EUR		4.1%	8.0%	9.6%	11.2%	11.9%	37.0%

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	**12.50**	**EUR**	**138**	**2.6**	**2.4**	**12.2**	**11.2**	**13.8**	**12.7**	**18.4**	**17.0**	**4.1%**	**4.4%**
DOLBY	62.61	USD	6,585	4.7	4.3	13.0	11.3	18.7	15.8	72.1	24.0	1.0%	1.0%
DTS		USD											
HARMAN INT		USD											
Median				**4.7**	**4.3**	**13.0**	**11.3**	**18.7**	**15.8**	**72.1**	**24.0**	**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):	12.50	Previous Price (Eu):	11.42
Date of report:	16/05/2018	Date of last report:	26/03/2018

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- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

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NEUTRAL: stock performance expected at between +10% and – 10% compared to the market over a 12 month period ;
UNDERPERFORM: stock expected to underperform the market by between –10% and -25% over a 12 month period;
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OUTPERFORM:	43,59 %
NEUTRAL:	37,18 %
UNDERPERFORM	05,13 %
SELL:	00,00 %

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NEUTRAL:	35,19 %
UNDERPERFORM	00,00 %
SELL:	00,00 %

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IKF	0,57	SHORT
OLIDATA	0,88	SHORT
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