

<b>G.M. Leather</b>	<b>Italy</b>	<b>Euronext Growth Milan</b>	<b>Tannery</b>
<b>Rating: BUY</b>	<b>Target Price: € 6,30</b>	<b>Initiation of Coverage</b>	<b>Risk: Medium</b>

Stock performance	1M	3M	6M	1Y
absolute	N/A	N/A	N/A	N/A
to FTSE Italia Growth	N/A	N/A	N/A	N/A
to Euronext STAR Milan	N/A	N/A	N/A	N/A
to FTSE All-Share	N/A	N/A	N/A	N/A
to EUROSTOXX	N/A	N/A	N/A	N/A
to MSCI World Index	N/A	N/A	N/A	N/A

Stock Data	
Price	€ 1,78
Target price	€ 6,30
Upside/(Downside) potential	253,7%
Bloomberg Code	GML IM EQUITY
Market Cap (€m)	€ 19,68
EV (€m)	€ 33,75
Free Float (Greenshoe Excluded)	12,41%
Share Outstanding (Greenshoe Excluded)	11.058.000
52-week high	N/A
52-week low	N/A
IPO Price (13/07/2022)	€ 1,75

Key Financials (€m)	FY21A*	FY22E	FY23E	FY24E
VoP	50,0	55,5	68,0	72,9
EBITDA	4,4	5,0	7,2	8,0
EBIT	3,6	3,9	5,9	6,7
Net Profit	2,5	2,5	4,1	4,6
EBITDA margin	8,7%	8,9%	10,6%	11,0%
EBIT margin	7,2%	7,0%	8,7%	9,2%
Net Profit margin	4,9%	4,4%	6,0%	6,3%

Main Ratios	FY21A*	FY22E	FY23E	FY24E
EV/EBITDA (x)	7,7	6,8	4,7	4,2
EV/EBIT (x)	9,4	8,7	5,7	5,0
P/E (x)	8,0	8,0	4,9	4,3

[Mattia Petracca](mailto:mattia.petracca@integraesim.it) [mattia.petracca@integraesim.it](mailto:mattia.petracca@integraesim.it)  
[Alessandro Colombo](mailto:alessandro.colombo@integraesim.it) [alessandro.colombo@integraesim.it](mailto:alessandro.colombo@integraesim.it)

### Stocks performance vs FTSE Italia Growth



### Company Overview

The G.M. Leather Group, established by the Marcigaglia Family, located in Arzignano (Vicenza), has been active for over 45 years in the leather tanning and processing sector in the largest Italian tanning district. G.M. Leather SpA and the wholly-owned subsidiary SNAM Srl are responsible for the procurement of raw materials (raw bovine hides and semi-finished "Wet Blue" hides) and marketing both the raw material and the finished product. The wholly-owned subsidiary Genesi S.r.l., which deals with higher value-added processing and customization (reconciling, dyeing, finishing, quality control), allows the Group to cover the production chain of the tanning industry, also through long-standing relationships with some partners active in the district in the most standardized processing activities.

### Market

The Group, through its activity, operates in the tanning industry. The Italian tanning industry is first in the world ranking among the largest producers, with a percentage values share that reached 23% of the global total in 2020 (63% for the EU area). The value of the Italian market, compared to the world market, showed a strong increase in terms of incidence from 2010 to 2020, going from 17.5% to 23%, with a strong acceleration since 2014. Italian exports amounted to approximately € 2.5 billion, compared to a total including the domestic market of € 3.5 billion. The Veneto district of the tanning industry reported in 2021 a value of production on the levels of 2018 in strong growth compared to 2020 that had been impacted by the Covid-19 pandemic (+27%), and with a value compared to the Italian total equal to about 65%.

### Valuation Update

Given the lack of comparable companies with G.M. Leather, we conducted the valuation of the Company's equity value based solely on the DCF methodology. The equity value resulting from the application of the DCF method (which in the calculation of the WACC also includes a specific risk of 2.5% for prudential purposes) is € 69.6 million. Therefore, the target price is equal to € 6.30, rating BUY, risk MEDIUM.

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## 1. Company Overview

### 1.1 Business activity

The G.M. Leather Group, established by the Marcigaglia Family, located in Arzignano (Vicenza), has been active for over 45 years in the leather tanning and processing sector in the largest Italian tanning district.

The Group operates through a highly integrated structure. In particular:

- G.M. Leather SpA (the Issuer) and the wholly-owned subsidiary SNAM S.r.l. are responsible for the procurement of raw materials (raw bovine leathers and semi-finished “Wet Blue” leathers<sup>1</sup>) and marketing of both the raw material and the finished product;
- The wholly-owned subsidiary Genesi S.r.l., which deals with higher value-added processing and customization (retanning, dyeing, finishing, quality control), allows the Group to cover the production chain of the tanning industry, also through long-standing relationships with some partners active in the district in the most standardized processing activities.

The Group, through intense production, commercial, and Research & Development activities, is a partner for leading international clients (76.2% of turnover) and Italian (23.8% of turnover) as distributors and brands active in the furniture, fashion, and leather goods sector, demonstrating the ability to anticipate both trends and the demands of the reference market, as well as product development and customization according to client specifications, with the delivery of the finished product with highly competitive timelines.

**Chart 1 – Raw and Wet Blue Leather**



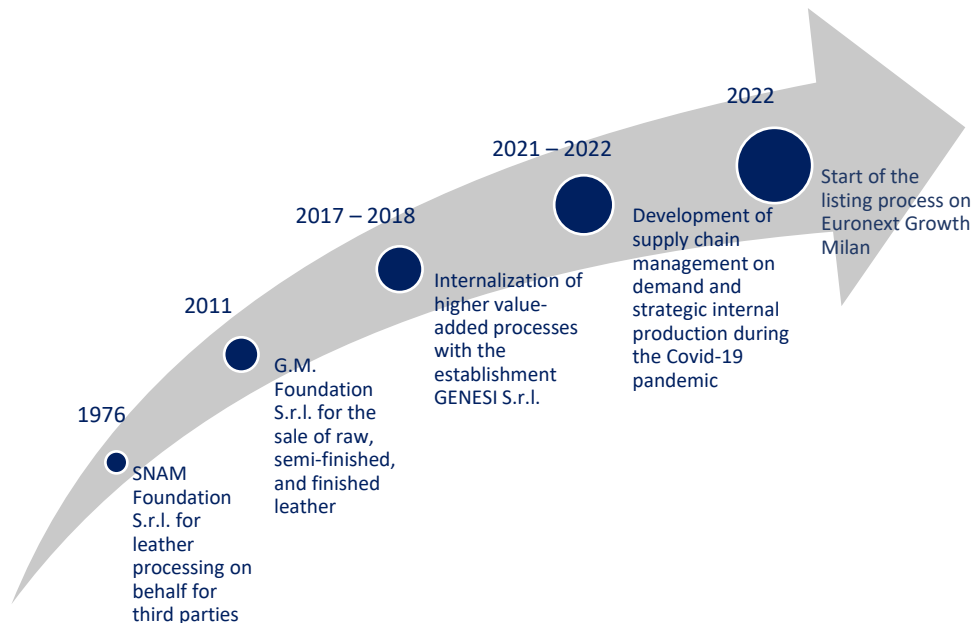
Source: G.M. Leather Group

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<sup>1</sup> Animal leather with removal of hair (so-called liming), skinned, tanned (i.e. with the addition of chromium at the end of storage/base of subsequent processing) to full thickness.

## 1.2 Company History

**Chart 2 – Company Story**



Source: G.M. Leather Group

- In 1976, SNAM S.r.l. was founded by the Marcigaglia family and is active in the leather processing for third parties. Between the 1980s and 1990s, economies of scale were achieved by increasing turnover through the installation of four new machines and two large plate presses;
- In 2011, operations focused on the marketing of both raw and semi-finished and finished leather, outsourcing the processing to contractors through the foundation of G.M. S.r.l. by Carmen Marcigaglia. In 2015, SNAM's processing activity was sold, which focuses on the marketing of semi-finished leathers (Wet Blue). At the same time G.M. S.r.l. manages to become a strategic partner for important brands and distributors of furniture internationally;
- Between 2017 and 2018 GENESI S.r.l was established to integrate some processes with greater added value, marginality, and customization and respond more quickly and effectively to the requests of clients and the market, obtaining greater control over the leather supply chain. In 2018, strategic industrial partnerships were created and the Group, at the same time, decided to invest in a structured manner in Research & Development, offering competitive prices, short timescales, and high-quality samples and products to customers;
- During the Covid-19 pandemic period, the Group was able to purchase raw and semi-finished leathers at highly competitive prices through the development of supply chain management on demand based on the optimization of warehouse management, increasing the management marginality;
- In 2022, the Group's listing process on Euronext Growth Milan was launched. A strategic corporate governance model is also defined by reporting to the CEO the responsibility of Management Control, inserting a new CFO, a Fashion Business Director for the development of the luxury sector and a Commercial Business Director oriented to the consolidation and development of the furniture sector. All this is done with a special focus on green and sustainability issues.

### 1.3 Shareholders and Group Structure

**Table 1 – Shareholders**

<b>Shareholders</b>	<b>% Shares</b>
Assunta Srl	81,39%
Smart Capital SpA	6,20%
Free Float	12,41%

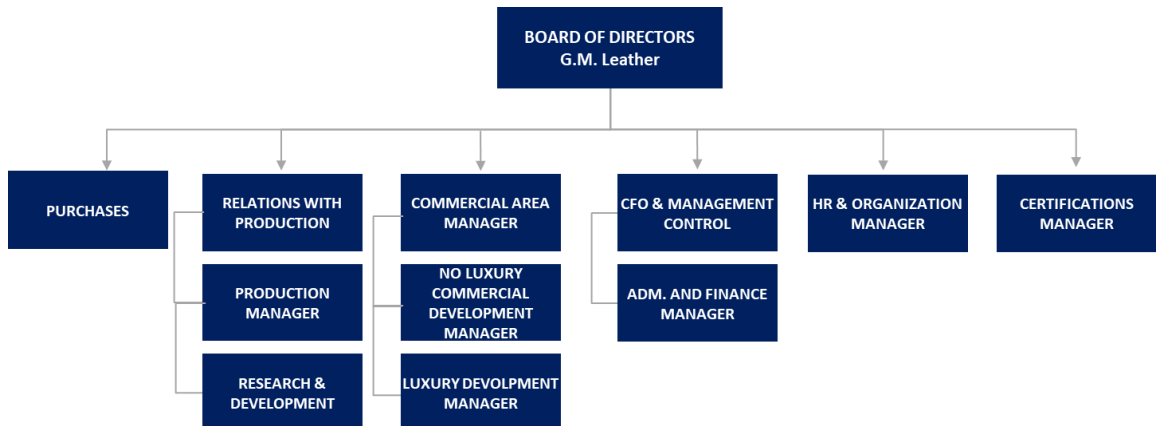
Source: G.M. Leather Group

The majority of the G.M. Leather Group's share capital is held by Assunta Srl, wholly owned by the Chairman of the Board Carmen Marcigaglia, with a share of 81.39% and by Smart Capital SpA for 6.20%. The remaining stake is held by the market for 12.41%.

G.M. Leather S.p.A. is a 100% subsidiary of Assunta S.r.l., a holding company wholly owned by Carmen Marcigaglia. The G.M. Leather Company S.p.A. is also the Parent Company and holds 100% of the subsidiaries SNAM S.r.l. and Genesi S.r.l.

1.3.1 Corporate Governance

**Chart 3 – Organization**



Source: G.M. Leather Group

To date, the Group comprises 93 full-time equivalents employees (FTE), 12 of whom work for G.M. Leather S.p.A., 67 for Genesi S.r.l., and 14 for SNAM S.r.l.

The Board of Directors is composed of 5 members and will remain in force until the date of approval of the financial statements as of 31 December 2024. In particular:

- Carmen Marcigaglia: Chairman of the Board of Directors;
- Marco Malagutti: Chief Executive Officer;
- Maria Grazia Dorigo, former CFO of the Group: Director;
- Carlo Carpano: Director;
- Massimo Folador: Independent Director.

The Board of Statutory Auditors consists of three standing auditors and two alternate auditors and will remain in office until the approval of the financial statements on 31 December 2024.

- Gianmaria Bortoletto: Chairman of the Board of Statutory Auditors;
- Laura Puddu and Pietro Carena: auditors in the office;
- Matteo Porqueddu and Katia Agostini: alternate auditors.

## 1.4 Key People

### **Carmen Marcigaglia – Chairman**

With administrative and accounting training, the entrepreneur and Group Chairman has thirty years of experience in the production sector, with an eye to the training and management of Employees and the simultaneous development of their skills.

### **Marco Malagutti – CEO and Management Control Manager**

Graduated in Law from the University of Parma, Marco Malagutti holds various roles within the banking and financial sector, performing top management functions in Veneto Banca, Banca MPS, Banca Antonveneta, and Banca Agricola Mantovana. In the tannery sector, on the other hand, he has experience in management and business organization.

### **Maria Grazia Dorigo – CFO**

After graduating in Economics and Business from the University of Trento, Maria Grazia Dorigo received an Executive Master in Corporate Finance from SDA Bocconi. Concerning professional experience, the CFO of the Group has numerous experiences in the industrial sector in the field of corporate & compliance, finance, organization, M&A, control, and planning in both public and private companies. In addition, she has worked in the consumer goods, luxury, commitment, information technology, utilities & waste management, and health and welfare sectors.

## 2. Business Model

### 2.1 Business process

The core activity of the G.M. Leather Group, within the leather supply chain, is that of the tanning industry. The latter is located between the food industry, which deals with the breeding of animals for slaughter, the recovery and conservation of raw leather, and the manufacturing industry, which is the place where the production and sale of the finished leather product take place.

In the production activity, the G.M. Leather Group strategically internalizes the activities with greater added value, marginality, and customization, and relies on some contractors of the Arzignano district for more standardized processes. The Group is ready to outsource those processes where there are requirements for increased marginality and production efficiency, flexibly combining internal and external processes with a view to cost-effectiveness.

**Chart 4 – Business process**



Source: G.M. Leather Group

#### 2.1.1 Procurement

Concerning incoming logistics, through G.M. Leather and SNAM, the Group operates through two channels; the purchase of fresh raw material, i.e., leather that allows optimizing internal production processes, is mainly purchased from Europe. Fresh leather allows to directly process the raw material without the need to remove the salt used at a conservative level. The purchase instead of the semi-finished Wet Blue leather is made directly from Brazil, one of the world's leading producers that process leather according to the quality standards prescribed by the country's legislation. This type of raw material is complementary, allowing the Group better pricing and continuity of supply.

The Group's providers, mainly slaughterhouses or satellite companies, are loyal to them through relationships of proven experience and consolidated partnerships over the years.

The internal personnel of the G.M. Leather Group also initiate a key process in the processing of leather, i.e. a process of verification and expertise of the raw material to ascertain any anomalies and discrepancies. This step is usually done separately on normal benches of your choice, both during the pressing operation.

#### 2.1.2 Preliminary processing and Tanning

Lower value-added processes are entrusted by the Group to contractors loyal over time, allowing production processes to be optimized. Surely some of these are represented by all the preliminary processes to which the leathers are subjected.

The first processing phase to which the leathers are subjected is the "Regreening", a phase in which the leathers regain the water lost during the storage phase.

The phase to evenly relax the structure of the fibers and remove fur and epidermis instead takes the name of "Liming" and is carried out in the same drum as the regreening.



The third outsourced phase is the "Fleshing", in which the subcutaneous tissue and the residual fat are removed by relaxing the leather fiber for subsequent treatments using chemical products.

Subsequently, the "Deliming/Maceration" process takes place, which consists of the decomposition of the remains of the epidermis through the elimination of the lime present in the leather and the monitoring of the pH for subsequent maceration. Maceration is a treatment with enzymes that can be of various origins, although generally, these are extracts from animal pancreatic glands.

The tanning preparation operation, in which the leather is a purified fibrous protein weave whose pH is more similar to that of the human dermis, instead, is called "Pickling".

Finally, the last preliminary processing is "Tanning". It represents the initial phase that allows for an increase in the thermal and mechanical resistance of the leather, reduces the capacity of hydration and swelling, and increases the resistance to acid, alkaline, and enzymatic attack to obtain leathers that lend themselves to the production of leather articles.

The tanning, or the treatment to which the leathers are subjected to preserve and process them, entrusted to contractors and therefore outsourced by the Group, takes place through three phases:

- **Pressing:** preparation of the leathers for future chemical treatments. Pressing represents the phase in which the excess water is eliminated so that the material can be easily transported;
- **Splitting:** division of the leather into two through two cylinders and a rotating blade on two wheels that cuts;
- **Shaving:** phase in which the thickness of the leather is further refined by widening the fibers glued by the pressing operation.

#### 2.1.3 Tapering, Dyeing, Fattening

Genesi, to optimize the industrial efficiency of the Group, deals with the following three preparations of leathers. These phases, being processes with greater added value, are constantly monitored by the various managers and implemented by the latest generation machinery.

- **Tapering:** performed in wooden drums, through the use of water, and natural or synthetic products, the leather is processed to make it ready for the dyeing phase;
- **Dyeing:** a process by which, with the help of a restricted water bath and at low temperature, the dispersion and penetration of the dye are allowed in the best possible way. This operation can be carried out with acidic, basic, amphoteric, and metal-complex dyes;
- **Fattening:** through emulsions given by synthetic and natural fats, oils and waxes, it avoids the gluing of the leather fibers during the drying phases.

#### 2.1.4 Drying

The hides after tapering, dyeing, and fattening are again entrusted to the Group's loyal contractors to be dried, an operation that takes from 3 to 4 days. This operation makes it possible to lose a significant amount of water to the leathers that otherwise would have to be eliminated by force with a significant waste of energy. Drying can take place with different methods:

- **Frame drying:** operation in which the wet leather is spread on a surface and with the help of special pliers is blocked on a frame. Subsequently, the frame is positioned vertically by opening and stretching the leather surface;
- **Retorsa drying:** phase in which the Retorsa<sup>2</sup> is passed and crossed with the leather through a roller, to remove the water and to stretch the leather before the next operation;
- **Vacuum drying:** through various heated tops (from two to eight), the surface of the leather is extended to be dried through the circulation of hot water which, by heating the tops, allows the transmission of heat to the leather forming a sealed room;
- **Air Chain Drying:** final drying phase in which the leathers are hung above an air chain that exploits the normal movement of hot air, from bottom to top, conditioning the material and bringing it to the desired humidity.

Chart 5 – Frame drying and Overhead chain drying



Source: G.M. Leather Group

#### 2.1.5 Finishing and Testing

By finishing, an activity carried out internally by Genesis, we mean the improvement of the physical characteristics of the article with different techniques, which can make the article more or less commercially interesting. Finishing is therefore considered a fundamental activity to improve the product to make it tailor-made. Among the types of interventions that are carried out in the finishing activity, we can find the techniques of:

- **Rolling Coating:** uniform coating activity on the surface of the leather of semi-liquid products to guarantee a "hand buffering" effect;
- **Spraying:** leather finishing operation to guarantee the article a spray effect through a Spraying Machine;
- **Drying tunnel:** drying of the finishing films through tunnels at independent temperature stages;
- **Printing (outsourced):** printing for furniture items through flat or rotary prints or with different designs;
- **Filling barrels:** rolling operation to soften and relax the surface of the leather, without the risk of a surface deposit of the replacement products;
- **Dry nailing (outsourced):** process to make the appearance of the leather smooth and stretched and to be worked again on the spray lines, spreading the leathers on a frame with the use of pliers, and a subsequent insertion inside ovens;
- **Refit:** process in which the Spray Machine is reused with a spray mixture;
- **Fixing:** operation aimed at increasing the physical resistance of the finished product through water-based fixatives;

<sup>2</sup> Machinery used during the drying operation, in jargon also called "sammying".

- **Kelatura:** removal of any defects in the leather.

**Chart 6 – Spraying Machine and Dry Nailing finishing techniques**

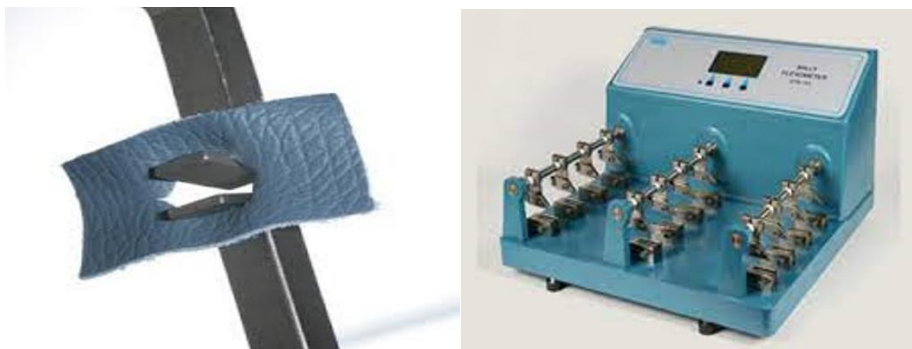


Source: G.M. Leather Group

Concerning the final finishing phase, Genesis, to ensure the safety and usability of the products, tests the leathers intended for furniture or leather goods both through "Chemical" tests, or tests on finished products, regulated by the European Community, to limit and prohibit the use of chemicals considered dangerous, and "Physical" to ensure the client on the conformity of the material. Among the types of tests in this last category are:

- **Resistance to rubbing:** called "Veslic Test", tests the seal of the finishing layer at a repeated passage of a felt on the surface of the leather;
- **Lightfastness:** test to determine, by exposing for a certain period directly to the light of a xenon lamp, the change in color of the surface of the material;
- **Adhesion of the finishing:** test through which, using a dynamometer, the force necessary to detach the bars from the support is calculated in Newton/mm given the previously glued plates to the leather in question;
- **Single tear strength:** calculation of the average force to tear a piece of leather, previously die-cut, with a longitudinal cut in the center;
- **Resistance to repeated bending:** a typical test to assess the lifespan of a sofa, in which resistance to bending is tested especially for those points where stresses are more frequent;
- **pH and differential index:** characteristic test to determine the acidity of the leather.

**Chart 7 – Tear resistance and resistance to repeated bending**



Source: G.M. Leather Group

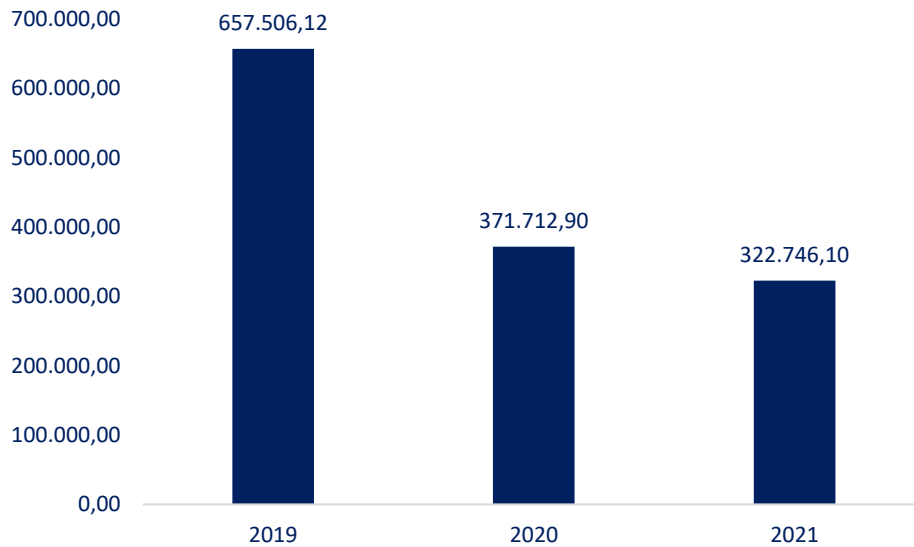
2.1.6 Classification, measurement, and sale of processed and finished leather

Once the safety and usability of the products are guaranteed, the Group companies classify the leathers based on criteria established internally or dictated by the client. The classification of leathers takes place both in the final phase, to verify the standing of the product before final delivery to the client through an internally defined scale, and in the initial phase, concerning the raw material, so that it is best valued at the destination for the most appropriate production process. If the leathers do not meet the needs of clients, they can be discarded after processing. Once chosen and selected, the leathers do not have a measurable surface. Therefore, they are further trimmed by a measuring machine so that they can be shipped and invoiced to the client per square meter.

The sale phase of processed leather and finished products for the furniture, tannery, leather goods, and automotive aftermarkets, on the other hand, is entrusted exclusively to G.M. Leather.

## 2.2 Research & Development

**Chart 8 – Evolution of R&D investments**



Source: G.M. Leather Group, Integrae SIM processing

As shown in the graphic above, despite this activity having always been done over time, the G.M. Leather Group has constantly invested in Research & Development since 2019, planning such investments according to technical-economic relationships.

The Research & Development activity, carried out by technicians with experience in the tanning sector, is a successful adhesive for processing different types of products and developing different combinations. The results of the investments in Research & Development allow the Group to constantly develop processes, different product combinations, and colors with different degrees of wear resistance until reaching increasingly sustainable solutions such as the absence of use of chemicals and the no-waste environment.

In fact, concerning leather processing and related production, the Group, through its team, considers it necessary to continuously implement production management process models. For the Group, it is therefore reductive to talk about product sampling since it can respond to any customer request through its production network and the tailor-made approach throughout the supply chain.

The G.M. Leather Group, essentially, structures the Research & Development division to anticipate market trends and meet the specifications required by clients.

## 2.3 Products and Services

The G.M. Leather Group has a wide portfolio of finished and wet blue leathers that can be subjected to a high diversity of specific and tailor made processings, adapting them to client customization requests. The latter is also continuously supported and assisted throughout the production process of the final product up to the after-sales phase. The Group, in addition to being equipped with a high-quality product used in the production chain, boasts an international presence on the market.

**Chart 9 – Supply chain**



Source: G.M. Leather Group, Integrae SIM processing

To achieve these objectives, the Group uses an effective supply chain. First of all, the cost of raw materials is monitored daily, through internal algorithms, so that they can be purchased at the lowest possible cost. The formalization of contracts, on the other hand, takes place by the standards of the so-called contract number 6 of the international trade in leathers. Programming is a fundamental process for the G.M. Leather Group to fulfill on-demand just in time the requests of the end client. Finally, to check the quality and quantity of the objectives, the Group constantly monitors all the processes and phases outsourced and entrusted to contractors.

From the point of view of customers, it mainly refers to the leather goods, fashion, furniture, and automotive sectors. These are also the Group's revenue lines. The "Furniture" revenue line is the largest with 54.4% of turnover in 2021. Within this line of revenue, finished leathers are sold to companies active in the production of medium and high-end upholstered furniture and wholesale and retail distributors. The tanneries and distributors of Wet Blue semi-finished leather, on the other hand, represent 43% of the Group's revenues in 2021 through the sale of semi-finished leathers that are subsequently resold by the client. 1.8% of turnover, on the other hand, is concentrated in the "Automotive" revenue line, namely workshops and operators active in the automotive aftermarket. In conclusion, in 2022, the "Luxury" segment was launched. As a result, the leather goods line is currently divided into:

- Leather goods medium segment, which in 2021 accounted for 0.8% of revenues;
- Luxury leather goods segment.

Concerning the first segment, the sale of finished leathers is aimed at companies active in the production of clothing and personal leather accessories, while the new luxury segment aims to serve the high end of the leather goods sector, through high-quality processes and products and with the possibility of increasing pricing and relative marginality. The two main guidelines for the development of the luxury segment are represented by:

- **Product Development:** thanks to the implementation of the last generation of green-friendly machinery and the continuous investment in Research & Development activities, so as not to be only providers in the future but commercial and industrial partners;
- **Business Development:** to create industrial and productive partnerships with high-end brands in the market, the entry into the Group of managerial figures with many years of experience and relationships in international haute couture and luxury brands were considered suitable;

The implementation of the new segment will also allow the Group to split the sales management, dividing it into two distinct business lines:

- The non-luxury area mainly deals with the furniture sector. The latter is currently followed by a director who coordinates through his team the activity of agents located in the territory who have the task of caring for and developing the management of end clients;
- The luxury area is still under development, which thanks to the inclusion of an account manager, will allow following the commercial relationships for each brand.

Some examples of items in the non-luxury segment are represented by the "Amalfi" type of leather, i.e. a bovine leather about 0.9/1 .1 mm thick supplied directly in Italy of European origin; always of European origin and supplied in Italy there is the "Outlaw" leather, on the other hand, the "Sunshine" leather model is of Brazilian origin and is always about 0.9/1 .1 mm thick.

As for the luxury segment, we can find, for example, the "Rodin" leather, an item for leather goods that has a semi-glossy appearance, with a soft and braking surface. The product is obtained using soft chrome-plated goat leather with irregular grain and a finished thickness of 1.3-1.4 mm. The "Eiger" product, on the other hand, has a shiny appearance with a characteristic micro-grain, deriving from the processing of smooth and firm chrome bovine leather, with a finished thickness of 1.2 mm. The "Orsay" type, about 1.6-1.7 mm thick and produced with fine and regular grain and napped chrome cowhide leather, takes on a semi-glossy and uniform colour. Finally, the "Fujiyama", drummed and with a natural appearance, is characterized by a shiny effect on the tips being produced from the hide of a very soft chrome cowhide with floater grain.

#### Chart 10 – Some G.M. Leather Group products



Source: G.M. Leather Group, Integrae SIM processing

## 2.4 Sustainability

A focal point of the G.M. Leather Group is represented by the particular attention paid to green and sustainability issues. The Group has developed a business model considering the environmental, social, and economic aspects to preserve the environment for employees, the population, and the new generations.

From a social point of view, the Marcigaglia family supports as a sponsor an Arzignano football team of young people from 6 to 17 years, promoting financial support for the purchase of sports equipment, technical training, and coaching.

The Group also undertakes to promote sustainable growth by adopting a preventive and pollution-control behaviour. Specifically, in 2022 a specific cogenerator will be used for the production of electricity to reduce energy consumption by 22%, BTZ to 100%, and CO<sub>2</sub> emissions into the environment by 21.3%.

In the production process, in the field of waste management, the Group, again in 2022, intends to make investments in machinery for industry 4.0 for a total amount equal to € 1.45 million to reduce most waste and, through an additional plant, reduce chemicals by 30%.

In collaboration with ARPAV and the Consorzio Acque del Chiampo, the Group periodically monitors the consumption of water and polluting products to reduce their consumption. From an environmental point of view, the Group will undertake to purchase, through the Beleafing project in partnership with the province of Vicenza and IUAV Venice, 400 plants: 200 for SNAM and 200 for G.M. Leather. The project consists of improving air and climate quality through a forestry campaign to purify the air and increase biodiversity.

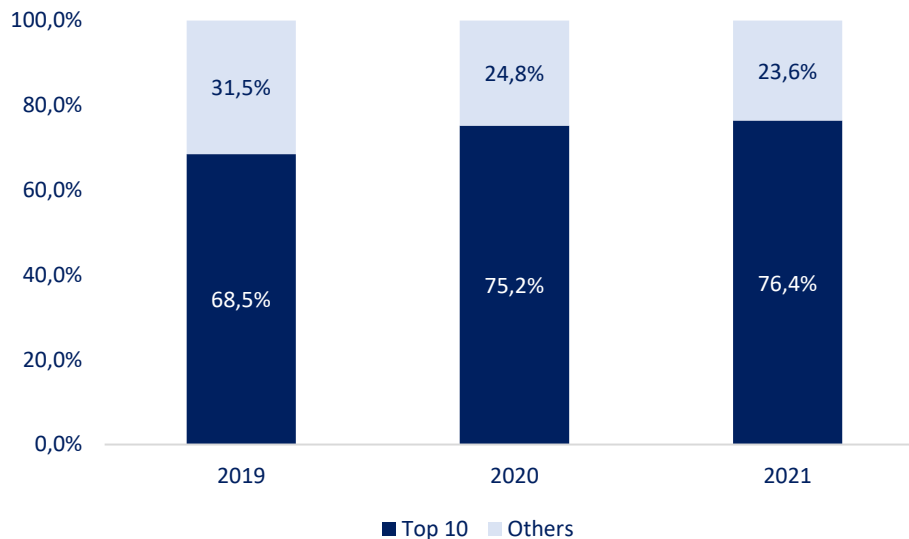
In the coming years, the G.M. Leather Group, in line with the "2030 Agenda for Sustainable Development" signed by the 193 Member Countries of the United Nations and with a view to an "integral economy", wants to continue to implement a corporate culture based on initiatives and investments consistent with economic, environmental and social sustainability in the logic of the 3 "P", that is: prosperity, planet, and people. In 2022 it is also expected to obtain the European Blue Angel certification for the protection of the environment and consumer health.



## 2.5 Clients and Providers

### 2.5.1 Clients

**Chart 11 – Top 10 Client Weight**



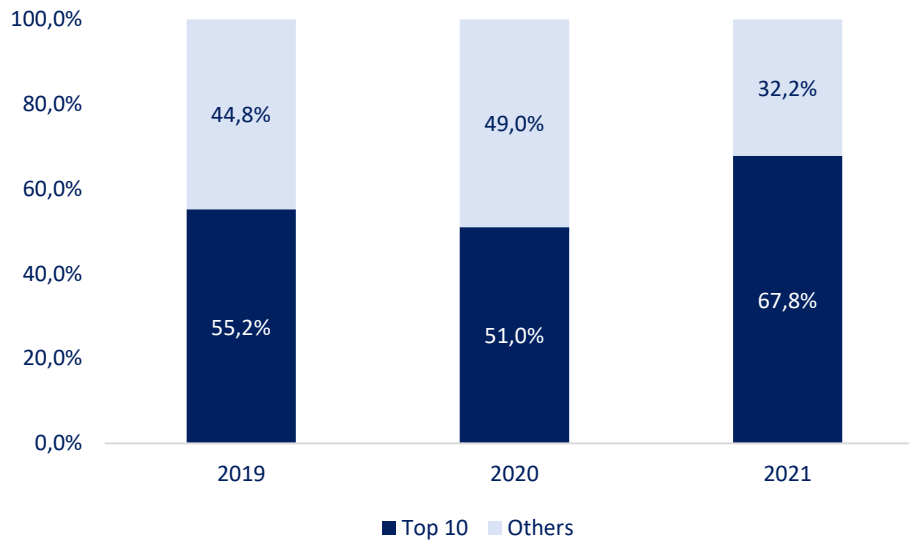
Source: G.M. Leather Group

The graphic shows the incidence of the Group's 10 main clients over the last 3 years. It is shown how the incidence of the first 10 clients on total revenues grew from 68.5% in 2019 to 76.4% in 2021. Specifically, the Group's first client has an incidence of 23.6% in 2021 and is active in the tannery sector, while the second and third clients have an incidence of 18.7% and 13.4% respectively and are active in the furniture sector. The Group also reduced its clients over the three-year, from 180 in 2019 to 125 in 2021, with an average revenue per client that went from € 0.14 million to € 0.40 million. This dynamic reflects the ability of the G.M. Leather Group to focus on building partnerships with its clients in the medium/long term by increasing the turnover generated per client, through the proposal of innovative and highly customized solutions, as well as maintaining the typical drivers of entrepreneurial craftsmanship, such as:

- The offer of tailor-made products;
- An effective and efficient supply chain;
- A rapid response time to the client and in the processing of orders.

2.5.2 Providers

**Chart 12 – Top 10 Supplier Weight**



Source: G.M. Leather Group

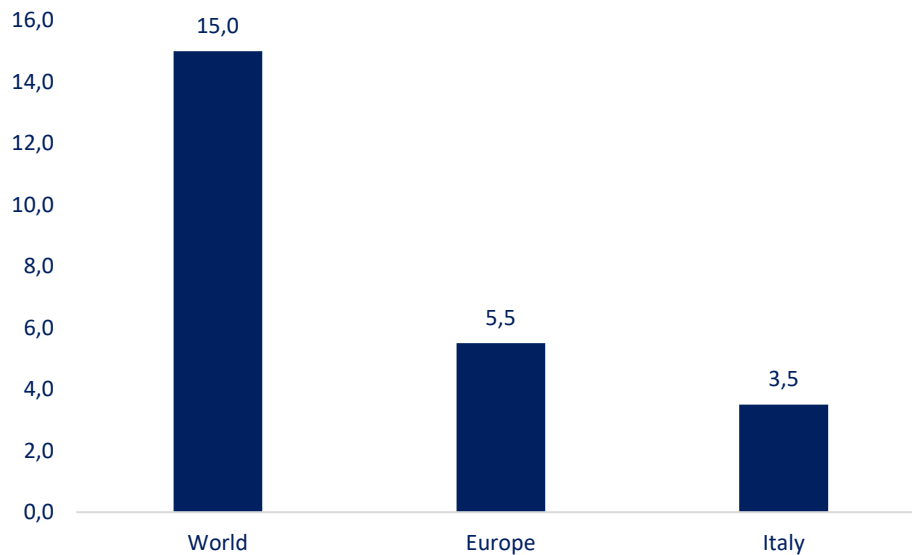
The graphic shows the incidence of the Group's 10 main providers over the last 3 years. The incidence of the first 10 providers increased from 51% in 2020 to 67.8% in 2021, due to a better selection of providers and a reduction in purchases of chemical products (in line with the strategy to reduce the environmental impact undertaken by the Group), also expressed by the number of providers that went from 396 to 185. Consequently, providers were selected according to criteria of cost-effectiveness and efficiency to guarantee the continuity of the Group's production processes, in particular for providers of chemical products. The Group's providers are satellite companies of the international slaughtering groups or tanneries that sell raw/semi-finished leathers and contractors concerning processes that are not carried out internally, in addition to suppliers of chemical products for the finishing and dyeing operations carried out internally by Genesi. The graphic above shows the increasing importance of the first 10 providers with which the G.M. Leather Group has developed long-standing relationships that guarantee the timely supply of any quantity of leather required and the execution of the processes necessary for the completion of the production process.

### 3. The Market

The Group, through its activity, operates in the tanning industry.

#### 3.1 The Italian tanning industry

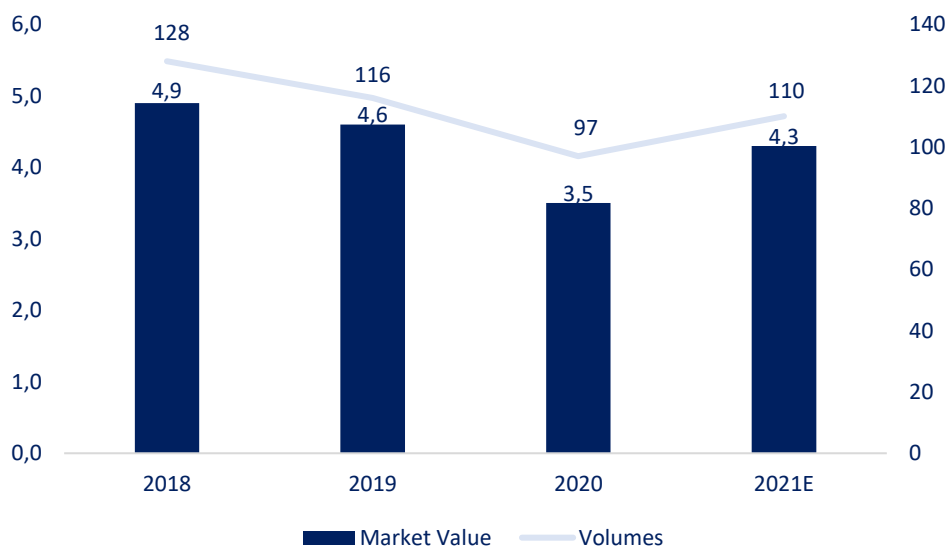
**Chart 13 – Tanning industry market value (€/billion)**



Source: Economic Results Italian Tanning Industry 2018-2019-2020 - UNIC

The Italian tanning industry is first in the world ranking among the largest producers, with percentage values share that reached 23% of the global total in 2020 (63% for the EU area). The value of the Italian market, compared to the world market, showed a strong increase in terms of incidence from 2010 to 2020, going from 17.5% to 23%, with a strong acceleration since 2014.

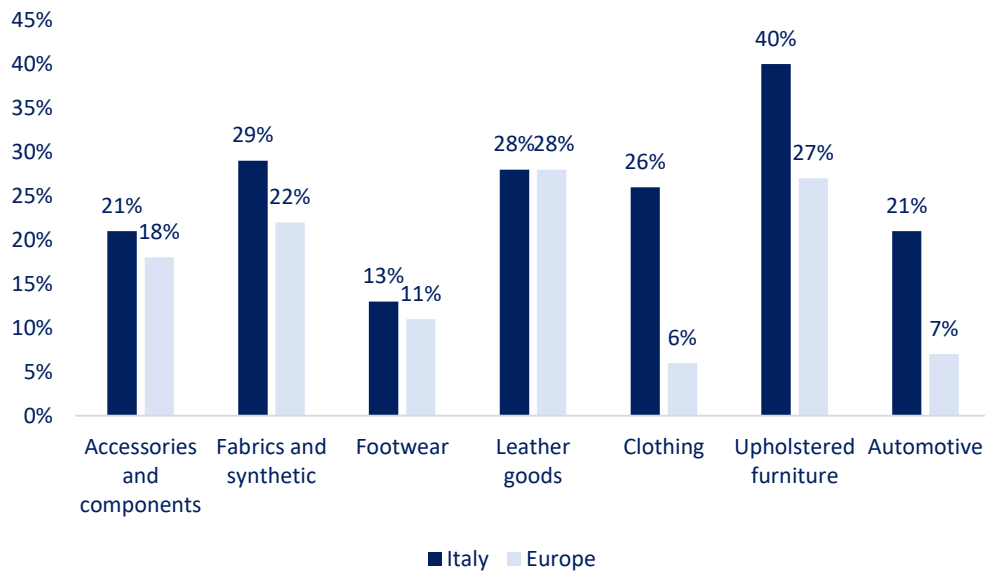
**Chart 14 – Italian tanning market value and production volumes 2018-2021E (€/billion and sqm/mln)**



Source: Economic Results Italian Tanning Industry 2018-2019-2020 – UNIC

2020 was mainly influenced by the blocking of activities linked to the restrictions imposed by the Covid-19 pandemic while maintaining Italian leadership in the market. Analyzing 2021, the Italian tanning industry reported a growth of 23% in terms of the value of production and 13% in terms of millions of square meters of leather produced, approaching the pre-pandemic levels of 2019. In particular, the recovery of the market emerged in the sector of destination of leathers used in furniture as well as in the fashion sector, while greater backwardness was observed within the automotive sector. The main difficulties in this sector, however, mainly concern the costs and supply difficulties of raw materials, chemicals, and energy costs.

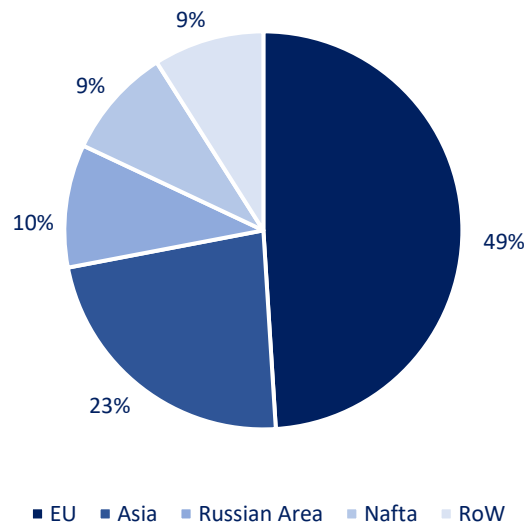
**Chart 15 – Sales trend of the tanning industry destination sectors**



Source: Linea Pelle economic Note third quarter 2021

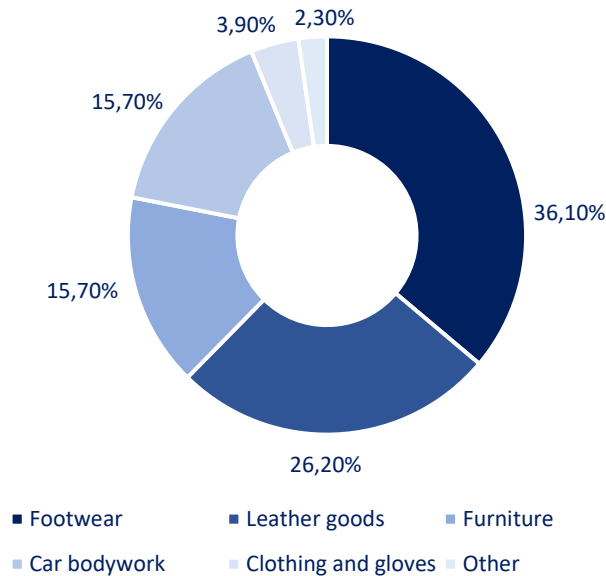
According to the economic note of Linea Pelle, in the first 9 months of 2021, all the main destination sectors of the tanning industry reported growing sales compared to the same reference period in 2020, which were affected by the impact of Covid-19. In particular, two of the main sales destination sectors of the G.M. Leather Group reported the highest growth: leather goods, with growth rates of 28% in Italy and Europe, and upholstered furniture, where Italy outperformed European growth (40% compared to 27%).

**Chart 16 – Italian tanning industry export by destination area (2020 date)**



Source: Economic Results Italian Tanning Industry 2018-2019-2020 - UNIC

**Chart 17 – Italian tanning industry export by destination sector (2020 data)**



Source: Economic Results Italian Tanning Industry 2018-2019-2020 - UNIC

Italian exports amounted to approximately € 2.5 billion, compared to a total including the domestic market of € 3.5 billion, mainly destined for Europe (49%), Asia (23%) and residually in the Russian Area (10%), Nafta (9%) and the rest of the world (9%) for a total of 115 countries. In all years the market has shown a strong propensity to export with rates always above 70% and in particular 2021 is expected to be 72.6% with € 3.1 billion in exports, compared to 71.7% in 2019 and 71.4% in 2020. The incidence of Italian exports compared to world exports has shown strong growth since 2015, going from 24% to about 30% in 2020. Considering, instead, the destination sectors, we find mainly that footwear at 36.1% of sales, followed by leather goods at 26.2%, furniture, and bodywork both at 15.7%, and residually by clothing and gloves at 3.9%, and other categories at 2.3%.

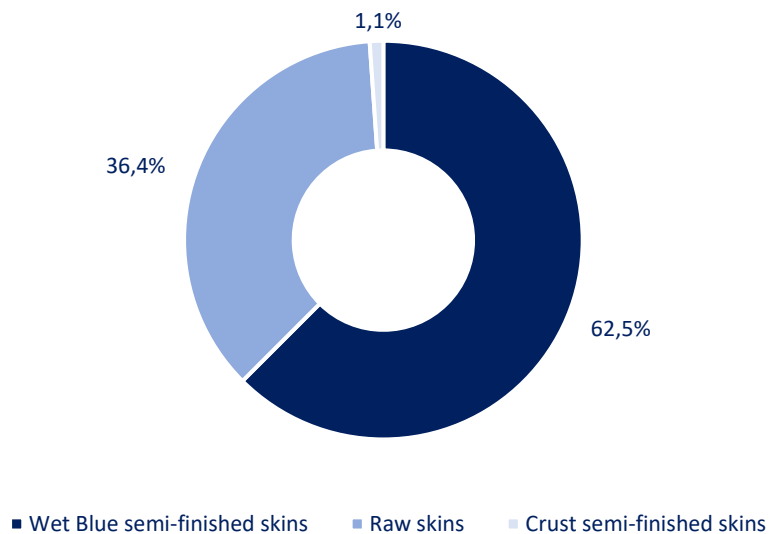
**Table 2 – Origin of the leather produced (2020 data)**

Type of Leather	Volume (mln sqm)	Value (€/mln)
Bovine skins	75,0	2.610,2
Calf skins	6,6	331,1
Sheep skins	8,5	242,4
Goat skins	6,7	188,6
Other animals skins	0,4	88,8
<b>Total</b>	<b>97,3</b>	<b>3.461,1</b>

Source: Economic Results Italian Tanning Industry 2018-2019-2020 – UNIC

In 2020, approximately 97.3 million square metres of leather were produced in Italy, mainly from bovine leathers (approximately 77.1% of the total product equal to 75 million square metres), followed by sheep leathers (8.7% equal to 8.5 million square metres), goat leathers (6.9% of the total product for 6.7 million square metres), calfskins (6.8%) and the leathers of other animals (0.4%). Leather was imported from 108 countries mainly in the EU (57%) and South America (24%) areas. The raw materials of the tanning industry in 2020 are divided into 62.5% Wet Blue processed leathers, 36.4% raw leathers, and 1.1% crust<sup>3</sup> semi-finished leathers.

**Chart 18 – Italian tanning industry export by destination sector (2020 data)**



Source: Economic Results Italian Tanning Industry 2018-2019-2020 - UNIC

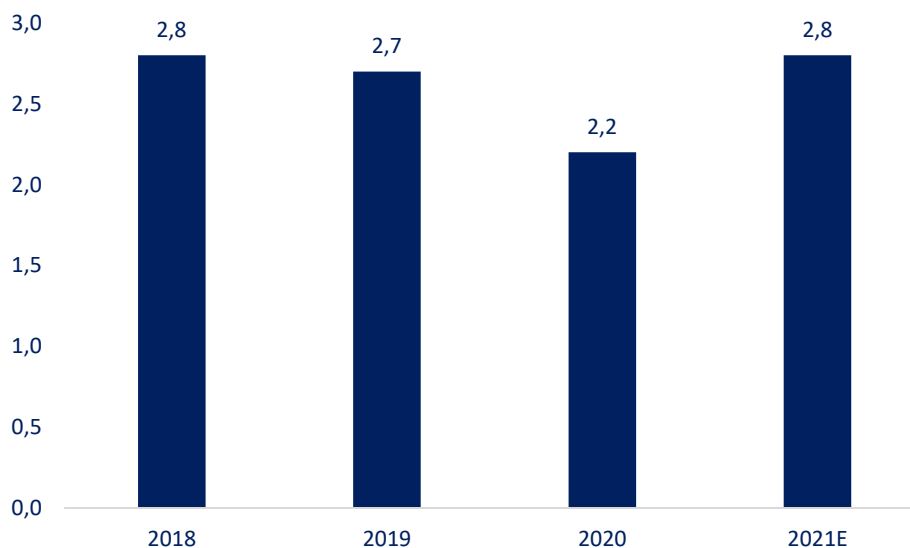
<sup>3</sup> Full-thick split Wet Blue leather with 2 parts obtained (Wet Blue Flower and Wet Blue Crust) and with dyeing.

### 3.2 The Veneto Leather District

The Veneto Leather District is the first Italian pole for the tanning industry and one of the largest in both Europe and worldwide. In the area, Arzignano has established itself in the last fifty years as a global hub of tanning entrepreneurship and remains the most important municipality in which 38% of the production units are located and 49% of the employees' work. In this circumstance, to increase the recognition of the product and its quality, one of the main sources of competitive advantage, and to give an identification to the city of Arzignano, on 4 October 2021, the Municipality filed the application for registration for the creation of the "Capital of Leather" trademark. In this way, the city is linked to various events, activities, and services, and the companies and the district allow to develop future territorial and industrial enhancements. The brand allows the district to be recognized as an industry leader, thanks also to:

- **Experience**, basing the enhancement of the brand on all the skills and experiences accumulated over the years and on the daily interaction between the production actors present in the territory and the ancillary industries that operate at their service;
- **Sustainability**, through an environmental improvement plan, to enhance and further develop the sustainability of the entire purification process and develop an economy with a reduced environmental impact;
- **Training**, thanks to post-graduate courses for green leather technicians, experts in the Research & Development of leather and leather products for fashion, footwear, furniture, and automotive, as well as thanks to scholarships for postgraduate Master's degrees for eco-jurists.

**Chart 19 – Veneto District tanning market value (€/bln)**



Source: Economic Results Italian Tanning Industry 2018-2019-2020 – UNIC / Article North East economy of 29 December 2021

The Veneto district of the tanning industry reported in 2021 a value of production on the levels of 2018 in strong growth compared to 2020 that had been impacted by the Covid-19 pandemic (+27%), and with a value compared to the Italian total equal to about 65%. Exports in 2021 are equal to about € 2.2 billion with an export rate of about 78%.

#### 4. Competitive Positioning

**Table 3 – Main Competitor (2020 date)**

€ mln	Revenues 2020	Ebitda 2020	Ebitda % 2020	Net Income 2020	Net Income % 2020	NFP 2020
Rino Mastrotto Group	252,1	48,4	19,2%	19,0	7,5%	135,3
Gruppo Mastrotto	231,7	30,1	13,0%	14,5	6,2%	(18,90)
Dani S.p.A.	128,1	10,2	8,0%	4,4	3,4%	19,7
Conceria Cadore	65,7	10,6	16,1%	6,2	9,4%	(9,10)
Crest Leather Italia S.r.l.	63,2	5,0	7,9%	2,1	3,4%	11,5
Finco 1865 S.p.A.	46,4	10,1	21,8%	5,6	12,1%	4,4
Futura Leathers S.p.A.	35,9	4,9	13,6%	2,4	6,6%	16,2
Conceria Tre Emme S.r.l.	20,9	4,3	20,6%	3,2	15,2%	0,1
<b>Median</b>	<b>64,5</b>	<b>10,2</b>	<b>15%</b>	<b>5,0</b>	<b>7%</b>	<b>8,0</b>
<b>G.M. Leather Group*</b>	<b>49,7</b>	<b>4,4</b>	<b>8,8%</b>	<b>2,5</b>	<b>5%</b>	<b>14,1</b>

Source: Orbis, Integrae SIM Processing

\*FY21A Pro-Forma Data

In carrying out its business, the Group competes with some important players in the market, in the production of leather goods and tanneries. Specifically, the main difference between the Group and its main competitors is represented by the Group's production of tailor-made customized products and not standard catalogue products to achieve objectives in terms of volume, margin, and in particular customer satisfaction.

The Group also boasts some important distinctive elements in the luxury segment, launched in 2022 and under development, to serve the high end of the leather goods sector, through high-quality processing and products. The drivers that allow the G.M. Leather Group a competitive advantage in this sector are:

- Focus on calves, half calves, and cows;
- Efficient supply chain;
- Continuous updating and research on new business opportunities;
- Aggressive communication strategy and regular meetings with major clients;
- Fair communication and ability to establish relationships with clients;
- Creation of positive sales experiences;
- Rapid developments and sampling;
- Investments in metal-free processes;
- Investments in Research & Development to guarantee highly innovative products;
- Latest generation g2 technology;
- Always up-to-date and competitive price lists;
- Highly competitive prices;
- Prices negotiated with clients;
- Products capable of satisfying clients' requests;
- Replication of calfskin items on a bovine basis.



#### 4.1 SWOT Analysis

**Strengths:**

- Long-standing reference player for the market, with highly qualified management and Employees;
- Strong relationships with contractors active in the district and partnerships with high standing clients;
- Ability to guarantee a finished product of quality and with highly competitive times;
- Research & Development structured to best meet the specific requests of clients;
- Strong propensity to export and internationalization, thanks to a commercial network developed in the main international markets.

**Weaknesses:**

- Computerized control for production processes, phases, and timing is not yet implemented.

**Opportunities:**

- Possibility of developing within the luxury segment with high marginality;
- Expansion of the customer base in the furniture sector, which is expected to grow in 2022 also thanks to tax concessions with a focus on high return business and exports.

**Threats:**

- Possible aggregations of competitors;
- Shortage phenomena for the purchase of raw leather, semi-finished products, and chemicals;
- Difficulties for contractors in ensuring that outsourced work is carried out quickly or at reasonable costs;

## 5. Economics & Financials

**Table 4 – Economics & Financials**

<b>CONSOLIDATED INCOME STATEMENT (€/mIn)</b>	<b>FY20A</b>	<b>FY21A*</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>	<b>FY26E</b>
Revenues	29,24	49,69	55,25	67,60	72,75	77,70	82,65
Other Revenues	0,53	0,27	0,20	0,35	0,15	0,15	0,15
<b>Value of Production</b>	<b>29,77</b>	<b>49,97</b>	<b>55,45</b>	<b>67,95</b>	<b>72,90</b>	<b>77,85</b>	<b>82,80</b>
COGS	11,72	25,57	28,40	35,15	37,70	40,15	42,60
Services	11,08	15,54	17,35	19,95	21,40	22,80	24,20
Use of assets owned by others	0,50	0,62	0,70	0,70	0,70	0,70	0,70
Employees	2,85	3,71	3,90	4,80	4,95	5,10	5,25
Other Operating Expenses	0,16	0,16	0,15	0,15	0,15	0,15	0,15
<b>EBITDA</b>	<b>3,47</b>	<b>4,37</b>	<b>4,95</b>	<b>7,20</b>	<b>8,00</b>	<b>8,95</b>	<b>9,90</b>
<i>EBITDA Margin</i>	<i>11,7%</i>	<i>8,7%</i>	<i>8,9%</i>	<i>10,6%</i>	<i>11,0%</i>	<i>11,5%</i>	<i>12,0%</i>
D&A	0,91	0,76	1,05	1,30	1,30	1,10	1,20
<b>EBIT</b>	<b>2,56</b>	<b>3,60</b>	<b>3,90</b>	<b>5,90</b>	<b>6,70</b>	<b>7,85</b>	<b>8,70</b>
<i>EBIT Margin</i>	<i>8,6%</i>	<i>7,2%</i>	<i>7,0%</i>	<i>8,7%</i>	<i>9,2%</i>	<i>10,1%</i>	<i>10,5%</i>
Financial Management	(0,26)	(0,30)	(0,30)	(0,20)	(0,15)	(0,10)	(0,10)
<b>EBT</b>	<b>2,30</b>	<b>3,30</b>	<b>3,60</b>	<b>5,70</b>	<b>6,55</b>	<b>7,75</b>	<b>8,60</b>
Taxes	0,48	0,83	1,15	1,65	1,95	2,25	2,50
<b>Net Income</b>	<b>1,82</b>	<b>2,47</b>	<b>2,45</b>	<b>4,05</b>	<b>4,60</b>	<b>5,50</b>	<b>6,10</b>

<b>CONSOLIDATED BALANCE SHEET (€/mIn)</b>	<b>FY20A</b>	<b>FY21A*</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>	<b>FY26E</b>
<b>Fixed Assets</b>	<b>4,62</b>	<b>3,25</b>	<b>5,15</b>	<b>4,60</b>	<b>4,10</b>	<b>3,75</b>	<b>3,30</b>
Account receivable	8,69	12,43	10,80	14,70	16,00	17,20	18,35
Inventories	9,85	12,07	11,85	13,95	15,00	15,90	16,80
Account payable	7,95	8,66	6,60	8,60	9,15	9,80	10,40
<b>Operating Working Capital</b>	<b>10,60</b>	<b>15,84</b>	<b>16,05</b>	<b>20,05</b>	<b>21,85</b>	<b>23,30</b>	<b>24,75</b>
Other receivable	1,84	2,55	2,25	1,55	1,10	1,05	1,10
Other payable	1,21	1,55	1,80	2,05	1,95	1,90	1,80
<b>Net Working Capital</b>	<b>11,22</b>	<b>16,84</b>	<b>16,50</b>	<b>19,55</b>	<b>21,00</b>	<b>22,45</b>	<b>24,05</b>
Severance Indemnities & Other Provisions	0,22	0,31	0,45	0,65	0,80	0,95	1,15
<b>NET INVESTED CAPITAL</b>	<b>15,62</b>	<b>19,78</b>	<b>21,20</b>	<b>23,50</b>	<b>24,30</b>	<b>25,25</b>	<b>26,20</b>
Share Capital	0,09	0,09	0,11	0,11	0,11	0,11	0,11
Reserves	4,88	3,16	9,18	11,63	15,68	20,28	25,78
Net Income	1,82	2,47	2,45	4,05	4,60	5,50	6,10
<b>Equity</b>	<b>6,79</b>	<b>5,72</b>	<b>11,74</b>	<b>15,79</b>	<b>20,39</b>	<b>25,89</b>	<b>31,99</b>
Cash & Cash Equivalent	1,23	0,72	3,89	4,29	4,49	4,74	8,14
Short Term Debt to Bank	5,13	7,78	7,00	7,50	6,45	3,20	1,90
M/L Term Debt to Bank	4,92	7,00	6,35	4,50	1,95	0,90	0,45
<b>Net Financial Position</b>	<b>8,82</b>	<b>14,06</b>	<b>9,46</b>	<b>7,71</b>	<b>3,91</b>	<b>(0,64)</b>	<b>(5,79)</b>
<b>SOURCES</b>	<b>15,62</b>	<b>19,78</b>	<b>21,20</b>	<b>23,50</b>	<b>24,30</b>	<b>25,25</b>	<b>26,20</b>

<b>CONSOLIDATED CASH FLOW (€/mIn)</b>	<b>FY21A*</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>	<b>FY26E</b>
EBIT	3,60	3,90	5,90	6,70	7,85	8,70
Taxes	0,83	1,15	1,65	1,95	2,25	2,50
<b>NOPAT</b>	<b>2,78</b>	<b>2,75</b>	<b>4,25</b>	<b>4,75</b>	<b>5,60</b>	<b>6,20</b>
D&A	0,76	1,05	1,30	1,30	1,10	1,20
Change in receivable	(3,73)	1,63	(3,90)	(1,30)	(1,20)	(1,15)
Change in inventories	(2,22)	0,22	(2,10)	(1,05)	(0,90)	(0,90)
Change in payable	0,71	(2,06)	2,00	0,55	0,65	0,60
Change in others	(0,37)	0,55	0,95	0,35	0,00	(0,15)
<i>Change in NWC</i>	<i>(5,61)</i>	<i>0,34</i>	<i>(3,05)</i>	<i>(1,45)</i>	<i>(1,45)</i>	<i>(1,60)</i>
Change in provisions	0,08	0,14	0,20	0,15	0,15	0,20
<b>OPERATING CASH FLOW</b>	<b>(1,99)</b>	<b>4,28</b>	<b>2,70</b>	<b>4,75</b>	<b>5,40</b>	<b>6,00</b>
Capex	0,6	(2,9)	(0,7)	(0,8)	(0,8)	(0,8)
<b>FREE CASH FLOW</b>	<b>(1,39)</b>	<b>1,33</b>	<b>1,95</b>	<b>3,95</b>	<b>4,65</b>	<b>5,25</b>
Financial Management	(0,30)	(0,30)	(0,20)	(0,15)	(0,10)	(0,10)
Change in Debt to Bank	4,73	(1,43)	(1,35)	(3,60)	(4,30)	(1,75)
Change in Equity	(3,55)	3,57	0,00	0,00	0,00	0,00
<b>FREE CASH FLOW TO EQUITY</b>	<b>(0,51)</b>	<b>3,17</b>	<b>0,40</b>	<b>0,20</b>	<b>0,25</b>	<b>3,40</b>

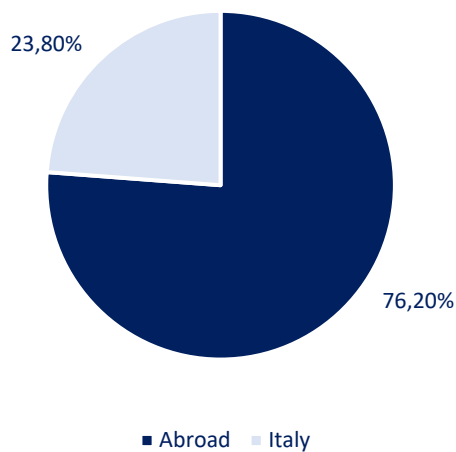
Source: Integrae SIM estimates

\*Pro-forma data

5.1 FY21A Results

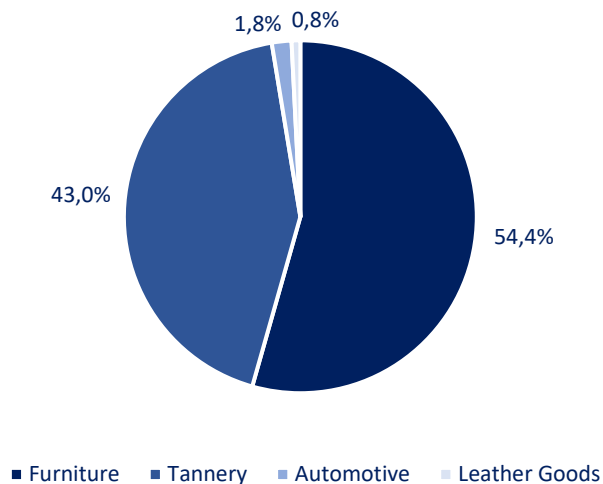
The data of consolidated financial statements as of 31/12/2021 reflect the Pro-forma of the partial demerger planned in the first half-year of 2022 with which they will be separated, in favour of Assunta Immobiliare S.r.l. (Company outside the scope of consolidation), real estate assets and non-core assets concerning the tanning activity are considered the main ones. The results show a revenue value equal to € 49.69 million, an increase of 70.0% compared to the FY20A figure affected by the effects of the Covid-19 pandemic of € 29.24 million. The increase is mainly attributable to the increase in volumes from long-standing furniture clients and the increase in turnover of the subsidiary SNAM. In particular, it should be noted that revenues from Italy amounted to 23.8% and from abroad to 76.2%, confirming the Group's strong propensity to internationalize and export. Concerning the destination sectors, revenues towards the furniture sector amounted to 54.4%, tanneries to 43.0%, automotive to 1.8%, and leather goods to 0.8%.

**Chart 20 – Revenues Breakdown by geographical area FY21A**



Source: Integrae SIM

**Chart 21 – Revenues Breakdown by destination sector FY21A**



Source: Integrae SIM

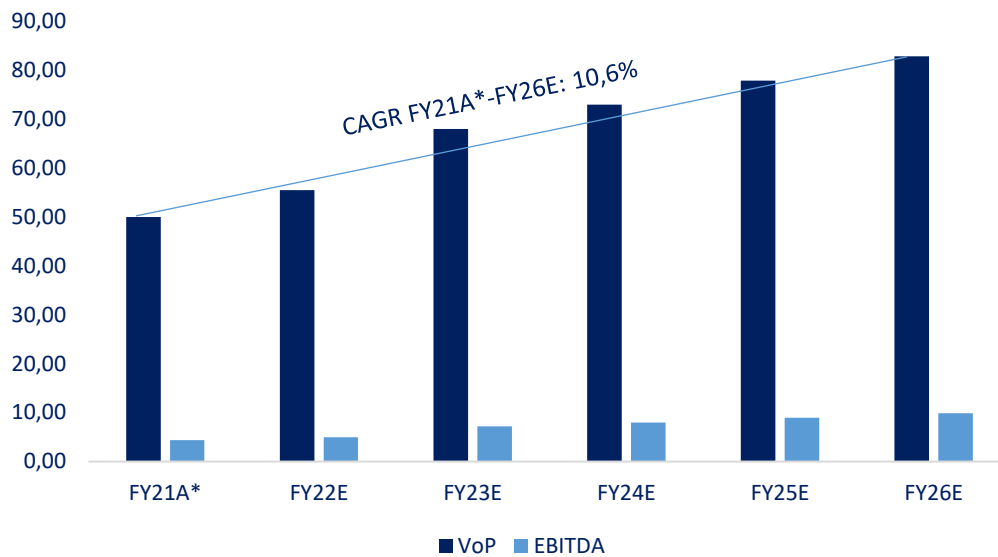
EBITDA amounted to € 4.37 million, an improvement of 25.8% compared to the FY20A figure of € 3.47 million. Marginality, calculated on the value of production, increased from 11.7% on 31/12/20 to 8.7% recorded in FY21A mainly due to a general increase in the prices of raw materials.

EBIT, after amortization and depreciation of € 0.76 million, is equal to € 3.60 million against the value of FY20A of € 2.56 million and therefore registers a growth of 40.7%. The EBIT margin was 7.2%, compared to the FY20A figure of 8.6%. Net Income is also up and equal to € 2.47 million (+35.9%).

In terms of assets, in FY21A the NFP went from € 8.82 million to € 14.06 million of debt. This negative change is mainly due to the opening of new loans in 2021 to support the dynamics of working capital and investments for the fiscal year. The Pro-forma figure also takes into account the balance due for the property of SNAM, which is the subject of the demerger.

5.2 FY22E – FY26E Estimates

Chart 22 – VoP, EBITDA 21A\*-26E



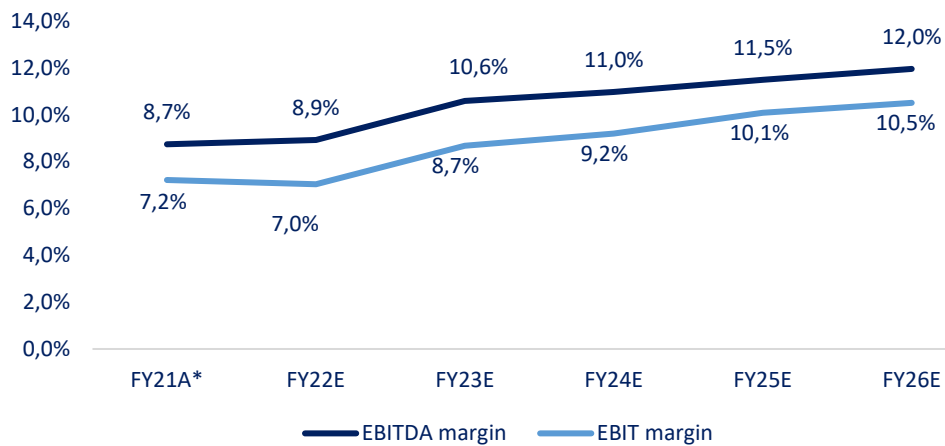
Source: Integrae SIM processing

For the coming years, we expect an increase in the value of production which, according to our estimates, will increase from € 49.97 million in FY21A pro-forma to € 82.80 million in FY26E (CAGR 21A\*-26E: 10.6%).

We believe that in the plan years growth will be driven mainly by the following drivers:

- Strengthening industrial partnerships with long-standing customers by leveraging product quality, accuracy, and punctuality of service, as well as the ability to anticipate and respond to market demands;
- Continuation of the intense R&D activity to offer innovative and technological solutions thanks above all to the continuous and effective involvement of the Group's technicians in the design of finished products;
- The exploitation of the growth potential of some important clients within the furniture sector, which currently represent only a marginal share of the Group's turnover. We believe that this development can be integrated thanks to the implementation of effective commercial policies through the inclusion of a sales manager, to allow the monitoring and development of relationships with clients, including through dedicated agents;
- Development of the leather goods market through the entry of specialized personnel from the high fashion sector. The Group, in addition to having already started experimenting with some collections to be offered on the market through a dedicated team of agents, will be able to count on an industrial type of production, different from the artisanal one typical of the specific sector of destination. We also expect that the Group will leverage on a competitive price while still guaranteeing the quality of the product;
- Evaluation of both vertical and horizontal acquisition opportunities, to enter new target markets, develop new geographical areas, and obtain important synergies in terms of cost and processing optimizations.

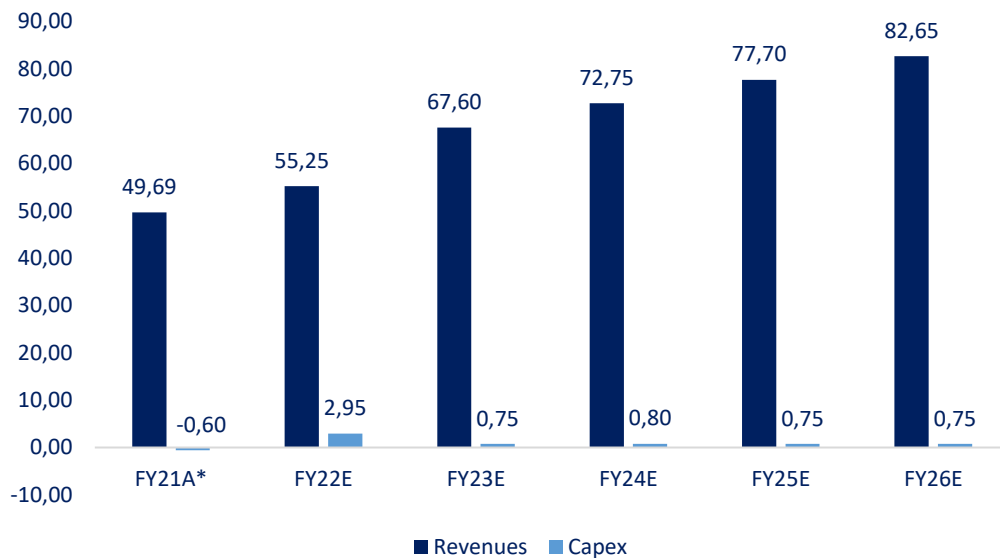
**Chart 23 – EBITDA% and EBIT% 21A\*-26E**



Source: Integrae SIM processing

We expect an increase in EBITDA which, according to our estimates, will increase from € 4.37 million in FY21A pro-forma to € 9.90 million in FY26E, for an EBITDA margin that will grow significantly from 8.7% to 12.0% in FY26E. We expect that the growth in marginality will be driven by the increase in sales volumes deriving from consolidated customers, as well as by the development of leather goods that will guarantee products with higher marginality. We also believe that the Group will evaluate extraordinary operations aimed at cost and machining efficiency, thus allowing a constant growth in operating margin.

**Chart 24 – Revenues, Capex 21A\*-26E**

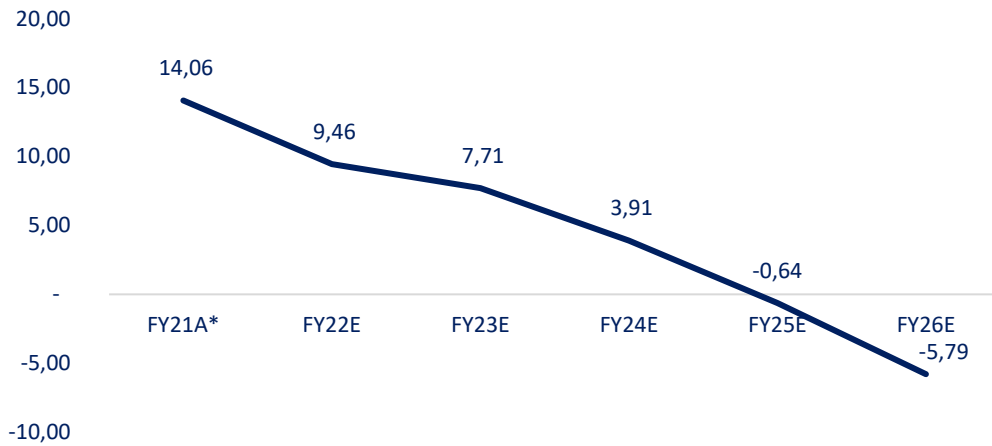


Source: Integrae SIM processing

At the Capex level, we estimate that the Group will continue to invest in Research & Development activities, which are essential to offer more and more products in line with market trends and based on specific client customizations. We also expect investments for the FY22E approximately equal to € 1.95 million, mainly due to the purchase of new machinery dedicated to the new leather goods line and to the capitalization of listing fees. For the following years, we estimate investments of approximately € 0.75 million per year to achieve

the best level of efficiency of the production department and to support the continuous demand for technological improvements by the market.

**Chart 25 – NFP 21A\*-26E**



Source: Integrae SIM processing

We believe that the Company can improve its NFP in the years following FY21A pro-forma, thanks to the positive cash flows generated by the progressive increase in turnover and marginality. In particular, we estimate that the NFP can reach a positive cash value in FY26E of € 5.79 million.

### 5.3 Use of Proceeds

The Company has concluded the listing on the Euronext Growth Milan market to find resources aimed at strategic extraordinary operations aimed at creating synergy at the production-commercial level to combine the growth combination:

- On the production side, for the optimization and rationalization of the operating chain such as machinery, processing, and technical skills;
- On the commercial side, to increase the presence in the medium-high and top segment of leather goods and luxury.

At the level of extraordinary transactions, therefore, we believe that the Group will identify target companies to promote both horizontal and vertical integration. In particular:

- Concerning the first type, we expect the Group to identify target companies to integrate horizontally in the creation of complementary processes of high added value and machinery capable of optimizing the company's production process. The objective is to increase production capacity and efficiency and reduce structural and industrial costs;
- Concerning the second methodology, we believe that the Group wants to identify target companies operating in the production of the final product in the segment of the highest level of leather goods to increase sales and margins in the luxury segment and to pursue a production efficiency through the synergies between production and commercial structures.

In terms of sustainability, we expect the Group to implement a corporate culture based on investments consistent with economic, environmental, and social sustainability in the logic of 3Ps ("prosperity, planet, people") in line with the "2030 Agenda for Sustainable Development" signed by the 193 Member Countries of the United Nations. Specifically, the Group will continue on the path already taken in recent years, aiming at the development of investment initiatives in the field of:

- Reduction of energy consumption;
- Reduction of CO<sub>2</sub> and other chemical emissions;
- Reduction of production waste;
- Obtaining certifications in the environmental field;
- Employee initiatives and partnerships with the local community.



## 6. Valuation

Given the lack of comparable companies with the G.M. Leather Group, we conducted the valuation of the Group's equity value based solely on the DCF methodology.

### 6.1 DCF Method

**Table 5 – WACC**

WACC		7,07%
Risk Free Rate	2,47% $\alpha$ (specific risk)	2,50%
Market Premium	6,42% Beta Adjusted	1,0
D/E (average)	81,82% Beta Relevered	1,6
Ke	11,38% Kd	2,50%

Source: Integrae SIM

In particular:

- The Risk-Free Rate is represented by the Rendistato from June 2022 with a maturity between 3 years and 7 months and 4 years and 6 months;
- The Market Premium coincides with the premium of the Italian market risk calculated by Professor A. Damodaran;
- D/E was calculated based on the estimates of Integrae SIM;
- Ke was calculated by CAPM;
- The alpha, i.e., specific additional risk, is typical of equity investments in companies characterized by small-scale operations. Being small, the additional small-cap risk was equal to be 2.5%, the average value of those suggested by the main studies carried out in this field (Massari Zanetti, "Valutazione Finanziaria" (Financial Valuation), McGraw-Hill, 2004, p. 145, A. Damodaran, Cost of Equity and Small Cap Premium in Investment Valuation, Tools and Techniques for Determining the Value of Any Assets, III edition 2012, Guatri Bini, "Nuova Trattato sulle Valutazioni delle Aziende" (New Insights on Corporate Valuation of Companies, 2009 p. 236);
- The Beta was set equal to the market as the Beta was calculated based on competitors and was not statistically significant;
- Kd coincides with the Company's current debt cost.

Using this data the result is a WACC of 7.07%.

**Table 6 – DCF Valuation**

<b>DCF Equity Value</b>		<b>69,6</b>
FCFO actualized	14,2	18%
TV actualized DCF	64,9	82%
<b>Enterprise Value</b>	<b>79,1</b>	<b>100%</b>
NFP (FY22E)	9,5	

Source: Integrae SIM

With the above data and taking our estimates and assumptions as a reference, the result is an **equity value of € 69.6 million.**

**Table 7 – Equity Value – Sensitivity Analysis**

€/mln		WACC						
		5,6%	6,1%	6,6%	7,1%	7,6%	8,1%	8,6%
Growth Rate (g)	2,5%	141,9	120,1	103,7	90,9	80,7	72,2	65,2
	2,0%	122,8	106,0	92,9	82,4	73,8	66,6	60,6
	1,5%	108,3	95,0	84,2	75,5	68,1	61,9	56,6
	1,0%	97,1	86,1	77,1	69,6	63,3	57,8	53,1
	0,5%	88,0	78,8	71,2	64,7	59,1	54,3	50,1
	0,0%	80,6	72,8	66,1	60,5	55,5	51,2	47,4
	-0,5%	74,4	67,6	61,8	56,8	52,4	48,5	45,0

Source: Integrae SIM

## 7. Equity Value

**Table 8 – Equity Value**

Equity Value (€/mln)	
Equity Value DCF (€/mln)	69,6
<b>Target Price (€)</b>	<b>6,30</b>

Source: Integrae SIM

The result is an equity value of € 69.6 million. **The target price is therefore € 6.30, BUY rating and MEDIUM risk.**

**Table 9 – Implied Sensitivity Analysis**

Equity Value (€/mln)	EV/EBITDA			EV/EBIT		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
67,0	15,4x	10,6x	9,6x	19,6x	13,0x	11,4x
68,0	15,6x	10,8x	9,7x	19,9x	13,1x	11,6x
69,0	15,9x	10,9x	9,8x	20,1x	13,3x	11,7x
70,0	16,1x	11,0x	9,9x	20,4x	13,5x	11,9x
71,0	16,3x	11,2x	10,1x	20,6x	13,6x	12,0x
72,0	16,5x	11,3x	10,2x	20,9x	13,8x	12,2x
73,0	16,7x	11,5x	10,3x	21,1x	14,0x	12,3x

Source: Integrae SIM

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Equity Total Return (ETR) for different risk categories			
Rating	Low Risk	Medium Risk	High Risk
BUY	ETR >= 7.5%	ETR >= 10%	ETR >= 15%
HOLD	-5% < ETR < 7.5%	-5% < ETR < 10%	0% < ETR < 15%
SELL	ETR <= -5%	ETR <= -5%	ETR <= 0%
U.R.	Rating e/o target price Under Review		
N.R.	Stock Not Rated		

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- In the IPO phase, It played the role of global coordinator.