

GM Leather: crafting growth with a luxury focus

ADD | Fair Value: €4.26 | Current Price: €1.14 | Upside: +273.5%

Initiation of Coverage

October 22, 2024 – 12.00 h

€ Million	FY22A	FY23A	FY24E	FY25E	FY26E	FY27E
Total Revenues	42.4	41.7	41.8	53.8	56.3	58.8
EBITDA	5.0	6.2	6.2	10.0	11.7	13.5
margin	11.7%	14.8%	14.8%	18.5%	20.8%	23.0%
Net Profit	2.0	2.0	1.3	4.6	6.4	8.2
margin	4.7%	4.9%	3.1%	8.5%	11.3%	13.9%
EPS	0.18	0.18	0.11	0.41	0.57	0.73
NFP	15.4	25.7	25.0	21.4	13.1	2.9

Source: Company Data (2022-2023), KT&Partners' Forecasts (2024-2027)

Overview GM Leather, based in the Arzignano leather district, controls the entire production chain, from raw materials to high-end finished goods. Through vertical integration and luxury market expansion, it strengthens its leadership emphasizing sustainability and innovation.

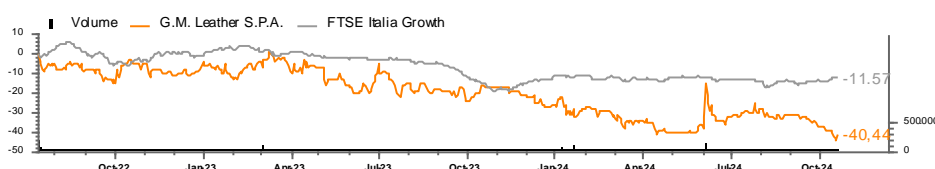
Market Overview The Italian tanning industry is a global benchmark for quality and craftsmanship. Blending tradition with innovation, the industry primarily supplies leather for the luxury, footwear, automotive, and furniture sectors. In 2023, Italy accounted for 62% of European leather production and 25% of global output. Italian tanneries export nearly 70% of their production (€2.9bn in 2023), with the EU being the largest market. Known as the "Italian Leather Capital", the Arzignano area boasts almost 60% of the country's total tanning production. The luxury leather goods market is projected to grow modestly in 2024, with annual growth rates expected to stabilize between 5%-6% through 2030, fuelled by younger generations emphasizing sustainability and investment pieces.

1H24 Financials In 1H24, GM Leather's Revenues from Sales decreased by 12.7% YoY to €19.0mn, down from €21.7mn in 1H23. This decline was driven by geopolitical tensions, macroeconomic uncertainty, and supply chain delays. Revenues from Semi-finished products slightly fell to €7.9mn (from €8.1mn in 1H23), while Finished products experienced a larger drop to €11.0mn (from €13.6mn in 1H23). Exports comprised ca. 65.0% of total sales, with revenues from EU countries (ex-Italy) increased by 23.8% YoY, totaling €2.8mn. Gross profit increased by 14% YoY to €11.3mn due to lower COGS. Conversely, EBITDA decreased, falling by 6.3% YoY to €2.8mn, largely due to rising costs in services and personnel. However, the EBITDA margin improved to 14.7% (from 13.7% in 1H23), reflecting operational efficiency. Net income dropped to €0.3mn (from €1.1mn in 1H23), affected by higher D&A and financial expenses. Despite a decrease in trade receivables, TWC needs increased due to a significant rise in inventory, pushing the company's NFP to €25.8mn (from €25.7mn in FY23).

Future Estimates Our financial projections for FY2024E–FY2027E reflect a strategic shift towards higher-margin finished products, whose revenues are projected to grow significantly, from €24.7mn in FY23A to €43.2mn by FY27E, driven by increased luxury sector exposure. Conversely, revenues from semi-finished products are expected to decline from €16.2mn in FY23A to €14.4mn by FY27E. Overall, total revenues are forecasted to rise from €41.7mn in FY23A to €58.8mn in FY27E, with a 9.0% CAGR. EBITDA is expected to more than double, growing from €6.2mn in FY23A to €13.5mn in FY27E, with margins expanding from 14.8% to 23.0%, driven by operational efficiencies and stable costs. GM Leather's net debt is forecasted to decrease significantly, from €25.7mn in FY23A to €2.9mn by FY27E, thanks to strong cash generation, improved profitability, and limited capex.

Valuation Our valuation - based on DCF and market multiples method (EV/EBITDA and P/E) - returns an average equity value of €47.8mn or a fair value of €4.26ps, showing potential upside of +273.5% on current market price.

Relative Performance Chart – Since IPO



Source: Factset.

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Market Data

Main Shareholders	
Assunta Srl	80.3%
Smart Capital SpA	6.1%
Mkt Cap (€ mn)	12.8
EV (€ mn)	38.5
Shares out.	11.2
Free Float	13.6%

Market multiples	2023	2024E	2025E
EV/EBITDA			
GM Leather	6.2x	6.2x	3.9x
Comps Average	10.2x	7.3x	5.2x
GM Leather vs Average	-39%	-15%	-27%
P/E			
GM Leather	6.3x	10.0x	2.8x
Comps Average	7.3x	15.6x	12.3x
GM Leather vs Average	-14%	-36%	-77%

Stock Data

52 Wk High (€)	6.39
52 Wk Low (€)	1.90
Avg. Daily Trading 90d	14,682
Price Change 1w (%)	-52.89
Price Change 1m (%)	-59.29
Price Change YTD (%)	-79.64

KT&PARTNERS PREPARED THIS DOCUMENT PURSUANT TO AN ENGAGEMENT LETTER ENTERED INTO WITH BPER BANCA S.P.A. ACTING AS SPECIALIST IN ACCORDANCE TO ART. 35 OF EURONEXT GROWTH ITALIA MARKET RULES FOR COMPANIES.

Key Figures - GM Leather SpA

Current Price (€)	Target Price		Sector			Free Float (%)
1.14	4.26		Manufactured Products			13.6%
Per Share Data	2022A	2023A	2024E	2025E	2026E	2027E
Total shares outstanding (mn)	11.24	11.24	11.24	11.24	11.24	11.24
EPS	0.18	0.18	0.11	0.41	0.57	0.73
Dividend per share (ord)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Dividend pay out ratio (%)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Profit and Loss (EUR million)	2022A	2023A	2024E	2025E	2026E	2027E
Total Revenues	42.4	41.7	41.8	53.8	56.3	58.8
EBITDA	5.0	6.2	6.2	10.0	11.7	13.5
EBIT	3.3	3.9	3.5	7.6	9.6	11.5
EBT	2.3	2.8	1.7	6.0	8.4	10.8
Taxes	(0.3)	(0.7)	(0.4)	(1.4)	(2.0)	(2.6)
Tax rate	13%	26%	24%	24%	24%	24%
Net Income	2.0	2.0	1.3	4.6	6.4	8.2
Net Income attributable to the	2.0	2.0	1.3	4.6	6.4	8.2
Balance Sheet (EUR million)	2022A	2023A	2024E	2025E	2026E	2027E
Total fixed assets	5.8	11.7	10.8	9.0	7.4	5.9
Net Working Capital (NWC)	21.6	28.1	30.0	33.3	33.6	33.5
Provisions	(0.4)	(0.6)	(1.1)	(1.6)	(2.2)	(2.7)
Total Net capital employed	27.1	39.1	39.7	40.7	38.8	36.7
Net financial position/(Cash)	15.4	25.7	25.0	21.4	13.1	2.9
Total Shareholder's Equity	11.7	13.5	14.7	19.3	25.7	33.9
Cash Flow (EUR million)	2022A	2023A	2024E	2025E	2026E	2027E
Net operating cash flow	4.7	5.5	5.4	8.1	9.4	10.7
Change in NWC	(5.3)	(6.4)	(1.9)	(3.4)	(0.2)	0.1
Capital expenditure	(1.7)	(8.0)	(1.9)	(0.5)	(0.5)	(0.5)
Other cash items/Uses of funds	(0.0)	0.1	0.5	0.5	0.6	0.6
Free cash flow	(2.4)	(8.8)	2.0	4.8	9.2	10.9
Enterprise Value (EUR million)	2022A	2023A	2024E	2025E	2026E	2027E
Market Cap	19.3	15.3	12.8	12.8	12.8	12.8
Net financial position/(Cash)	15.4	25.7	25.0	21.4	13.1	2.9
Enterprise value	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Ratios (%)	2022A	2023A	2024E	2025E	2026E	2027E
EBITDA margin	11.7%	14.8%	14.8%	18.5%	20.8%	23.0%
EBIT margin	7.8%	9.4%	8.3%	14.2%	17.0%	19.6%
Gearing - Debt/equity	1.31x	1.91x	1.70x	1.11x	0.51x	0.08x
NFP/EBITDA	3.09x	4.15x	4.04x	2.15x	1.12x	0.21x
ROCE	12.2%	10.0%	8.7%	18.7%	24.7%	31.5%
ROE	17.2%	15.2%	8.7%	23.6%	24.8%	24.2%
EV/Sales	0.91x	0.92x	0.92x	0.71x	0.68x	0.65x
EV/EBITDA	7.73x	6.22x	6.22x	3.86x	3.29x	2.85x
P/E	6.36x	6.28x	10.02x	2.81x	2.01x	1.56x
Free cash flow yield	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Growth Rates (%)	2022A	2023A	2024E	2025E	2026E	2027E
Sales	-15.3%	-1.6%	0.3%	28.7%	4.5%	4.5%
EBITDA	12.6%	24.2%	0.1%	61.1%	17.3%	15.4%
EBIT	-7.9%	18.9%	-12.0%	n.m.	25.7%	20.5%
Net Income	-18.0%	1.4%	-37.3%	n.m.	39.5%	28.8%

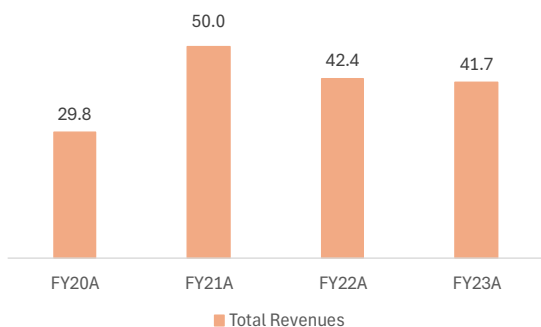
Source: Company Data (2022-2023), KT&Partners' Forecasts (2024-2027)

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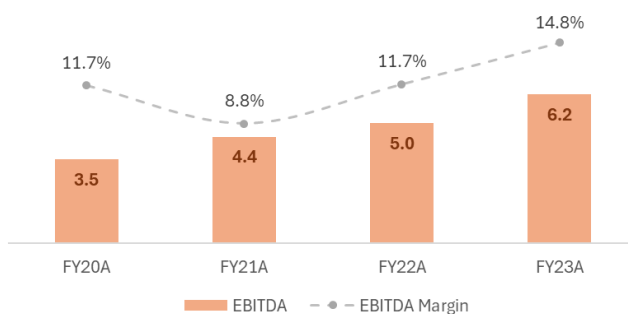
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Key Charts

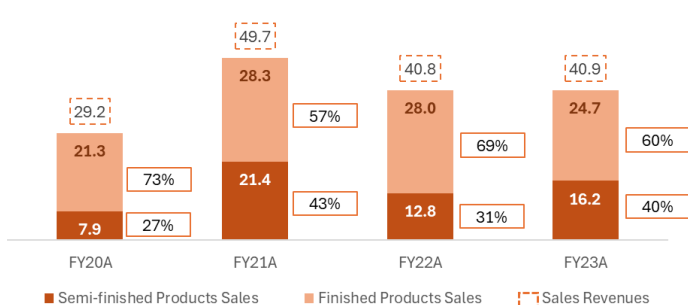
Sales Revenues (€mn)



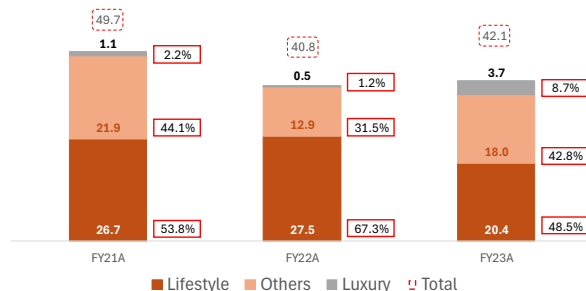
EBITDA and EBITDA Margin (€mn, %)



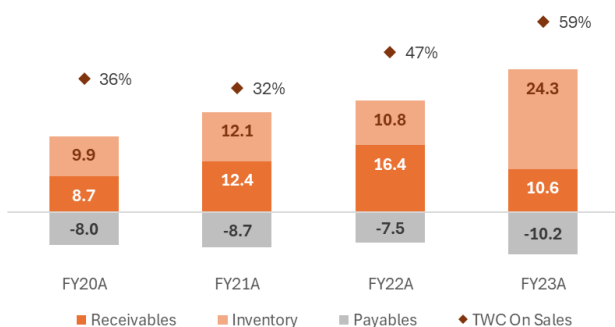
Sales Revenues Breakdown by Products (€mn)



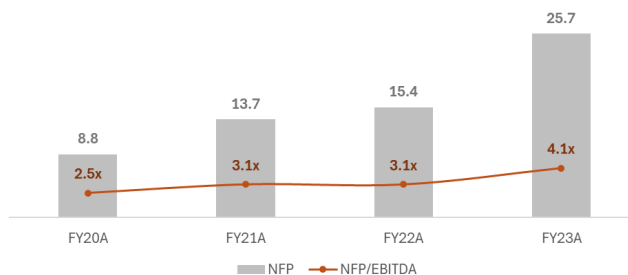
Sales Revenues Breakdown by End-market (€mn)



Trade Working Capital and TWC/Sales Revenues (€mn, %)



NFP and NFP/EBITDA (€mn)



Investment Case

An industry leader... GM Leather boasts a long-standing history and a proven track record within the leather sector. Its strong brand reputation, cultivated over years of producing high-quality leather goods, solidifies its position as a trusted entity in the global marketplace. The well-established foundation provides GM Leather with a significant competitive advantage, particularly in premium markets such as luxury goods and mid to high-end furniture. The Company's strategic location in Arzignano, one of the world's foremost leather districts, further enhances its standing in the industry, fencing off commodification risk for its products, which boast higher quality and the Made in Italy trademark. In particular, thanks to its geographical positioning, the Group is able to take advantage of the Italian leather industry's reputation, based on a rich history of high-quality craftsmanship. Italy is the global leader in leather production, contributing 62% of Europe's leather and 25% of the world's total. The Veneto district in particular, is the heart of Italy's tanning industry. Known for its craftsmanship and large-scale production, the district benefits from a dense network of specialized companies and a skilled workforce, driving innovation and maintaining Italy's competitive edge. GM Leather is positioned at the forefront of this market.

...vertically integrated and ready to scale operations... GM Leather features a fully vertically integrated business model able to capture potentials of growth all along the value chain of production. By maintaining close relationship with both suppliers and clients, the Group fosters synergies in costs contraction, while being able to anticipate customer needs and industry trends taking advantage of its prime positioning in the Arzignano leather district, thus affording to charge a premium on its high-end products. These factors mainly resulted in its ability to maintain steady revenue growth against unfavourable and fluctuating trends in its main end-markets, showcasing resilience and adaptability against adversities. This consistent performance highlights the company's ability to navigate challenging market conditions while preserving financial stability, thus demonstrating the scalability of its business model. Leveraging on potential costs synergies that the Group would be able to foster thanks to its vertically integrated structure, and higher revenues from production expansion and greater market reach, GM Leather would showcase an improved operating leverage, boosting profitability margins.

...featuring global outreach and geographical diversification... A substantial percentage of GM Leather's revenue comes from exports (64.6% of total sales in FY23), particularly outside the European Union (53.6% in FY23). By maintaining a strong presence in markets across the Americas, APAC, and other international regions, the company effectively diversifies its market risks. Despite some geographical fluctuations, GM Leather has demonstrated resilience and adaptability in maintaining its global foothold, also thanks to the capillarity of its commercial agents throughout the globe.

...with expanding market diversification... GM Leather has successfully strengthened its foothold in the high-end luxury segment, a sector known for customer retention and for yielding higher margins relative to other segments. The company's growing portfolio of luxury clients enhances its value proposition, allowing it to command premium pricing and improve both profitability and margins. With demand in the luxury sector remaining robust, this segment is a vital avenue for future growth. Despite the decrease in Sales Revenues in 1H24 resulting from the luxury segment, it is still forecasted to be the highest growing segment the Group operates in. Meanwhile, the company's traditional sectors ("lifestyle" and "semi-finished products") proved more resilient, underscoring the effectiveness of the strategic decision to diversify end-markets to heighten the countercyclical offer of the Group and mitigate the negative consequences of prolonged macroeconomic challenges or unfavourable sector-specific trends.

...established through both organic and external growth... Through strategic acquisitions, the Group is able to further expand its capabilities and market reach. These acquisitions

enhance GM Leather's ability to serve a broader range of clients while capitalizing on synergies across its business operations. Of note, in July 2024, GM Leather completed a significant operation by leasing the business of Chiorino Technology Spa through the creation of Chiorino Leather Srl, a subsidiary entirely controlled by Genesi Srl. This strategic move expands GM Leather's product offerings in the luxury segment, allowing it to serve prestigious fashion brands and increase profitability through higher premiums in this market. The acquisition also contributed to a substantial increase in the group's order book, particularly in the luxury sector.

...fostered by strategic alliances with leading brands... The company has forged long-term relationships with prominent brands in the leather value chain, encompassing both suppliers and clients. These partnerships enable GM Leather to secure advantageous contract terms, ensure a steady business flow, and leverage the prestige of its luxury and lifestyle sector clients. These alliances are particularly beneficial in helping the company penetrate high-end markets that are more resilient to economic fluctuations. Furthermore, by leveraging the advantages of its exclusive close relationships to its end-markets, the Group is able to anticipate industry trends and clients' needs.

...and by promoting a committed R&D process which favors innovation and sustainability... GM Leather has been consistently focused on identifying and anticipating customer needs by continuously developing new products and process innovations, favouring customer retention and new clients' acquisition. This constant effort is reflected in the Group's R&D activities, deemed strategic for its competitive positioning in the coming years. The Group's innovation is also active from a sustainability perspective, promoting environmentally conscious leather products. These efforts enable the company to meet the evolving preferences of consumers seeking eco-friendly materials, thereby enhancing its appeal to ethical luxury brands and their customers. Such investments ensure that GM Leather remains a step ahead of its competitors in terms of both product quality and sustainability.

...not merely in its products, but in its processes too... Sustainability is a core pillar of GM Leather's operational strategy. The company has implemented environmentally friendly practices in its production processes, including reducing water consumption, minimizing chemical usage, and prioritizing ethically sourced raw materials. This dedication to sustainability positions GM Leather as a forward-thinking leader in the industry, aligning with the increasing global demand for eco-conscious luxury products. The company's commitment to sustainable practices aligns with broader industry trends toward environmental responsibility, and investors view this commitment as a key advantage, as it not only satisfies regulatory requirements but also strengthens the company's appeal to environmentally aware consumers and brands.

Major Risks and Uncertainties

In a macroeconomic context that continues to show strong tensions, it is important to highlight that the group has long been equipped and organized to contain and limit the impacts of these external dynamics, ensuring normal business continuity for all stakeholders, particularly customers, by ensuring regular and timely order fulfilment through flexibility and rapid response, backed by ample inventory availability resulting from a sourcing policy aimed at increasing short- and medium-term competitiveness.

The companies within the group are exposed to both general macroeconomic risks and sector-specific risks, as well as internal management risks and strategic decision risks.

Major risks:

- **Client Concentration Risk:** A significant portion of GM Leather's revenue stems from a limited number of key clients, which poses a potential risk if any of these clients reduce their orders or move to competitors. The company is focusing on mitigating

this risk by expanding its customer base into new market segments, particularly luxury and high-end sectors, and cultivating relationships with a more diverse array of clients.

- **Supply Chain Disruptions:** The Group depends on a reliable supply of raw materials, particularly hides and chemicals. The company manages this risk by investing in strong relationships with its suppliers, ensuring priority access to materials, and adopting diversified sourcing strategies.
- **Fluctuating Raw Material Prices:** Volatility in raw material prices, such as hides, can impact production costs and squeeze profit margins. GM Leather addresses this through long-term contracts and strategic procurement practices, ensuring a stable and cost-effective supply of raw materials.

Company Overview

GM Leather has been active for over 45 years in the production, processing, and trade of leather. It is based in Arzignano (Vicenza), the largest leather district in Italy, thus fully represents the Made in Italy label through high value-added processing destined for the luxury (leather goods and footwear) and lifestyle (mid- to high-end furniture) sectors, on top of providing semi-finished products to a diversified group of manufacturers. It comprises of 3 sites covering a total of approximately 25,000 square meters, with a production capacity of over 3 million square meters of fully finished leather

The Group draws its economic moat from a fully integrated business model which encompasses the entire value chain of production:

- The procurement of raw materials (raw bovine hides and semi-finished hides) is managed by the parent company G.M. Leather S.p.A. and its subsidiary Snam di Marcigaglia Antonio & C. S.r.l. The former, while defining the Group's strategies and directing R&D activities, is also responsible for sourcing hides and trading finished leather, destined for the luxury and lifestyle end-markets. The latter focuses on the sourcing, selection, and trade of semi-finished hides for both the group and third parties, establishing itself as a reference point in the Arzignano leather district for other industry players, fostering the Group's leadership position.
- Industrial activities related to product transformation are entrusted to the subsidiary, Genesi S.r.l., which specializes in high value-added and customized processes (re-tanning, dyeing, finishing, quality control), and thus contributes to further overseeing the value chain of the leather industry overall. The Group thus boasts operational flexibility and control over high value-added activities, which showcase higher strategic importance in the production process, while choosing to externalize more standardized productions processes featured by lower marginalities.

Through intensive production, commercial, and R&D activities, the Group positions itself as a partner for leading international and Italian clients, such as distributors and brands in the furniture, fashion, and leather goods sectors. It demonstrates the ability to anticipate both market trends and demands, as well as to develop and customize products according to client specifications, delivering the finished product within highly competitive timeframes.

In July 2024, the Group finalized an extraordinary transaction involving the leasing of the business unit of Chiorino Technology Spa through the creation of a new company, Chiorino Leather Srl, wholly owned by Genesi Srl. This transaction is considered highly strategic, as it enables the group to expand its product offering in the luxury segment and serve leading fashion brands, with significant commercial benefits expected. The expansion into the luxury end-market allows the group to tap into a high-margin, prestigious sector where craftsmanship, innovation, and product quality are paramount. By aligning with renowned fashion brands, the company strengthens its market positioning and opens opportunities for growth through premium product lines. This move is not only a diversification strategy but also a way to enhance brand equity and profitability in a highly competitive global market.

Moreover, the Group is at the forefront of managing circular economy issues, as it transforms a by-product of the food industry into a natural, durable, recyclable product that is a symbol of Made in Italy, thereby avoiding the significant environmental impact that would result from landfill disposal or incineration. The Group has long adopted the best ESG policies and is a careful and active promoter of animal welfare, supply chain transparency, and traceability, offering an excellent level of service, thanks in part to significant technological advantages

stemming from substantial investments made over the years in R&D, human resources, and state-of-the-art facilities

Group's History

1976: G.M. Leather establishment

G.M. Leather, initially constituted as SNAM S.r.l. in 1976 by the Marcigaglia family in Arzignano, a historic town in the Chiampo Valley where from the Middle Ages is passed through generations the tannery craftsmanship that still today represents the hearth of the Veneto Leather District. From the very beginning, the company quickly specialized in producing high-quality leather for third parties and during the 1980s and 1990s, G.M. Leather saw substantial growth in both turnover and production capacity, fueled by significant investments in plant and machinery.

2011: Strategic shift and expansion

In 2011, Carmen Marcigaglia and Simone Voltolin founded G.M. S.r.l., shifting the Company's focus to the marketing of both raw and semi-finished hides while outsourcing the processing phases to third operators. This strategic transition positioned the company as a key partner for leading international furniture brands and distributors.

2015: Pivotal divestiture and focus on wet blue leathers and Genesi Srl Internalization

The year 2015 reached another pivotal milestone by selling its processing business, SNAM. This move allowed the company to focus exclusively on the commercialization of Wet Blue leathers, a key semi-finished product. In 2017, the Company founded Genesi S.r.l. to internalize higher-added-value processes, thereby enhancing margins, customization, and responsiveness to market and customer demands. This move aimed to improve the company's control over the value chain and its ability to meet client needs more efficiently.

2018: GM Leather joins the Leather Working Group

Since 2018, Gruppo G.M. Leather has joined the Leather Working Group (LWG), a non-profit organization that promotes sustainable and environmentally responsible practices within the leather industry. Recognizing and anticipating market demands, in the same year, the Group decided to make structured investments in R&D. This initiative aimed to continuously offer clients a growing array of samples and products with highly competitive timing, quality, and pricing. As a result, the Group formed strategic industrial partnerships with clients who relied on G.M. Leather for product development and customization, further solidifying its position as a leader in innovation and customer responsiveness.

2020: Optimizing the business model to bolster margins

During the COVID-19 pandemic period of 2020-2021, the Group leveraged its expertise and historical knowledge to optimize its on-demand supply chain management. This included enhanced warehouse and inventory management, as well as improved internal production processes. This strategic approach allowed the Group to purchase raw and semi-finished hides, known as "wet blue," at significantly competitive prices during the unfavourable market conditions of the first half of 2020. These materials were then utilized in the second half of 2020 and into 2021 for both direct commercialization and finished product sales, ultimately bolstering its margins despite the crisis.

2022: Listing on the EGM market to boast the growth

In 2022 the company began preparing for its listing on Euronext Growth Milan, embarking on a journey to support its growth plan, starting from the organizational structure consolidation with the appointment of a new CFO, a Fashion Business Director for the luxury sector, and a Commercial Business Director focusing on furniture sector development. As of today, GM Leather is the first and only listed company in the tanning industry.

2023: The year of expansion

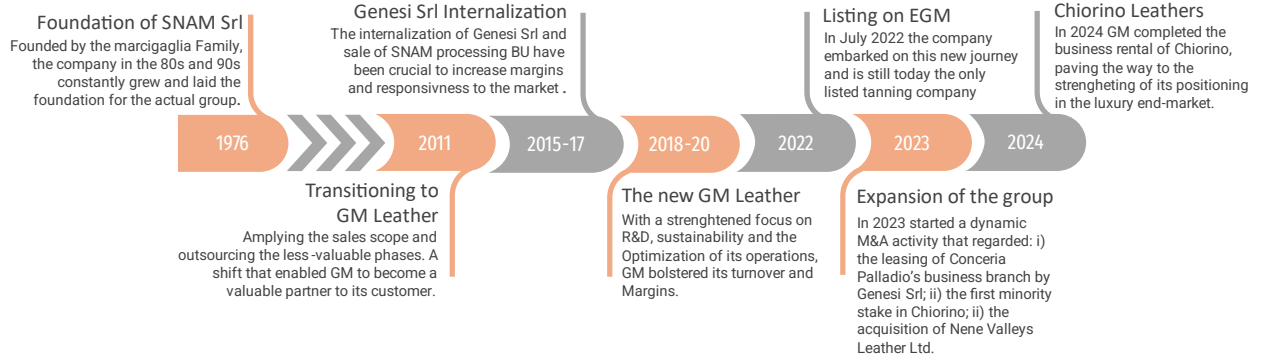
2023 has been a year of consolidation for the group, with two main significant milestones: i) integration within the production process of the tanning and liming phases by leasing the business branch of the company Conceria Palladio by Genesi Srl, and ii) the first internationalization step with the acquisition of the 51% of Nene Valley Leather Ltd, a UK based commercial partner that has the strategic potential to become the oversea GM leather hub.

2024: Chiorino Technology

In January 2024 GM completed the acquisition from the Italian private equity operator Arcadia SGR of a minority stake (18%) in Chiorino Technology SpA, a Biella-based tannery that holds a customer portfolio of high-profile luxury brands. In June 2024, the Group announced the closing of a business rental deal regarding the operations of Chiorino Technology SpA, initiating a synergistic path for the two companies starting in July 2024. This collaboration will

focus on expanding the product portfolio and strengthening GM Leather's presence in the luxury sector.

Key Milestones



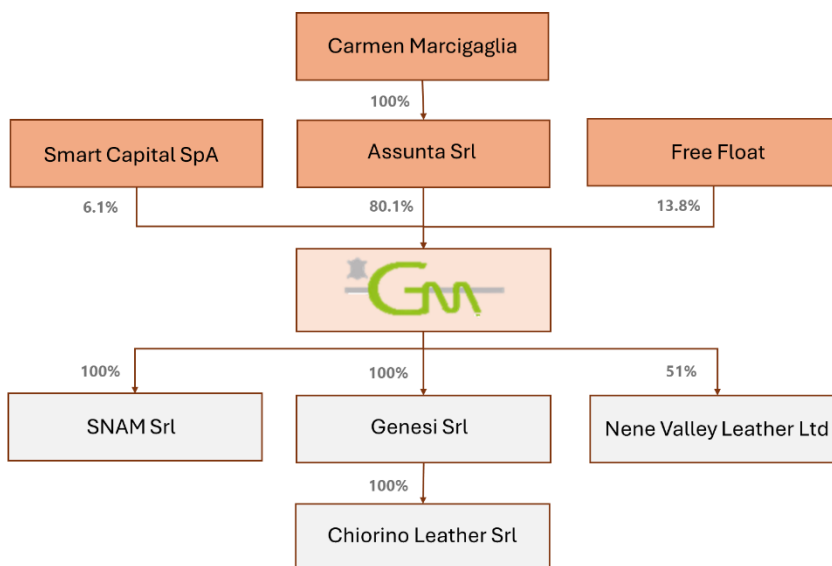
Source: KT&Partners' Elaboration on Company Data

Ownership and Group Structure

As of today, GM Leather share capital is composed of 11.2mn ordinary shares, of which 2.058k were newly issued at the IPO and 177k resulted from the exercise of the overallotment option— representing a total capital increase of €3.9mn. The group is controlled by Carmen Marcigaglia through Assunta Srl, which she owns 100%, holding an 80.1% stake. The only other significant shareholder is Smart Capital SpA with a 6.1% stake, while the remaining 13.8% is held by the market.

Also, to reward IPO investors were issued 3,951k warrants, with each warrant being convertible to one ordinary share over the six-exercise period (two every year in January and July till July 2025) at an increasing strike price every period by 5% starting from €1.93 to reach €2.35 in the last exercise period. As of today, 750 warrant have been converted (3,950k warrants remaining) and the remaining, considering the next strike price at €XX vs. the actual share price at €XX, are out of the money.

GM Leather SpA Group structure



Source: KT&Partners elaboration on Company Data.

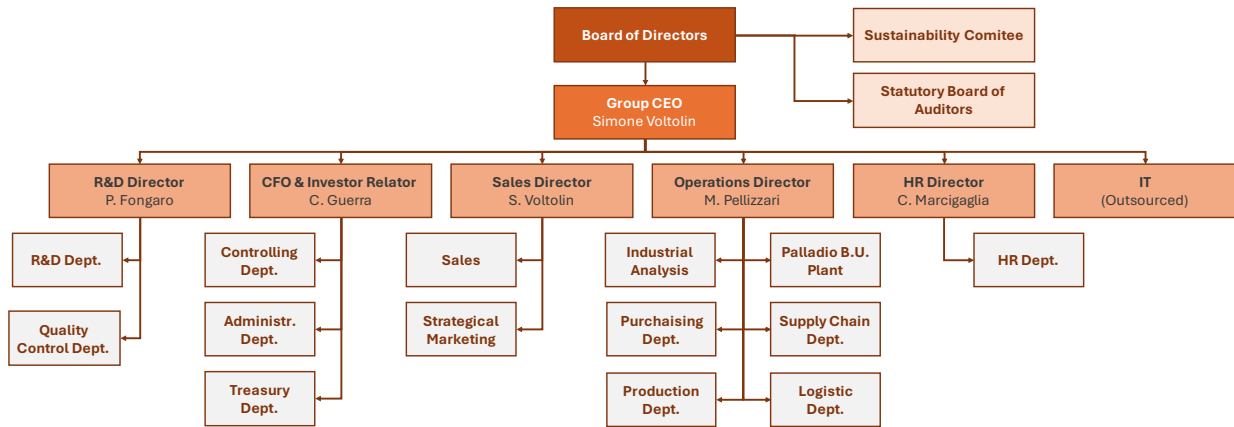
Over the past four decades of operation, the Group has undergone numerous structural changes. The IPO and its proceeds have significantly bolstered this reorganization process, particularly with the recent deals involving Genesi Srl, Nene Valley Leather Ltd, and Chiorino Technology SpA. The current structure boasts an efficient and clear distribution of roles, divided between production and distribution/commercial activities.

In particular:

- **GM Leather SpA and SNAM Srl:** represent the key commercial arm of the group, engaging in both the procurement and commercialization of raw materials and semi-finished products. GM Leather oversees the entire value chain, managing the procurement of raw bovine hides from local butcheries, as well as the marketing and distribution of finished products. Meanwhile, SNAM Srl specializes in the procurement and sale of semi-finished hides (Wet-Blue) to other tanneries.
- **Genesi Srl:** The entire production process is managed by Genesi Srl. Founded in 2017 the Company initially focused on the value-added phases of production. With the recent operation involving the leasing of a business branch of Conceria Palladio, an historical Chiampo Valley tannery, Genesi has internalized the initial phases of liming-tanning process within its group, yielding higher synergies as they are crucial for the quality of the finished product;

- **Chiorino Leather Srl:** GM leather set up a new company which leased the business branch of Chiorino Technology, a tannery based in Biella, with the aim of managing its valuable technical and commercial know-how, as well as further penetrate GM Leather’s positioning within the luxury market.
- **Nene Valley Leather Ltd:** Acquired from GM Leather in a strategical moment of difficulty of the UK leather distributor, Nene Valley has the strategic potential to become one of the main oversea hub and showroom of GM Leather products.

Organization Chart

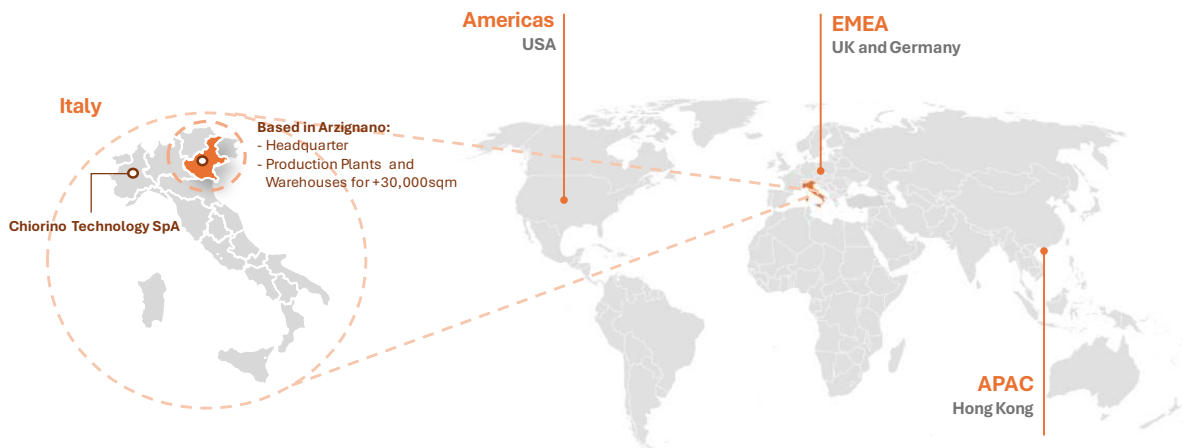


Source: KT&Partners elaboration on company data.

The organization as of 31st December 2023 counted 130 full time employees of which 10 employed by GM Leather S.p.A., 81 from Genesi S.r.l., 11 from SNAM S.r.l., and finally 28 from Chiorino Leather S.r.l. The organizational structure is based on a functional division where each director manages specific departments related to their functional area, ensuring specialization and efficiency in their operations. This structure establishes clear lines of authority and communication, with the CEO at the helm coordinating the overall strategy and operations. Additionally, to underscore the importance of sustainability, a dedicated sustainability committee has been established at the top level of the organization. This committee has significant responsibility to oversee the implementation of the policies and to identifying areas for improvement.

Given the Group’s strong orientation towards international markets, the organization is further enhanced by a comprehensive network of commercial agents (along with a warehouse in UK) that oversees the foreign trade (primarily in USA, UK, Germany, Hong Kong, and China) for both GM Leather and SNAM.

Geographical Presence



Source: KT&Partners elaboration on Company Data.

Management Team



Carmen Marcigaglia – Chairwoman and HR Director

Carmen Marcigaglia is the owner, Chairwoman and HR Director of the group. With a background in administration and accounting, she boasts thirty years of experience in the production sector. Her career has always been distinguished by a keen focus on the training and management of personnel. This dual emphasis on operational efficiency and human resource development has been a cornerstone of her leadership philosophy, driving both productivity and employee satisfaction.



Simone Voltolin – CEO and Sales Director

Simone Voltolin is the group CEO bringing thirty years of experience in the leather tanning and leather trading sectors. He has built a solid track record in leadership roles across production, sales, purchasing, and product development functions. Known among Chiampo Valley leather operators for his expertise, he is considered as one of the finest and most skilled expert in assessing the quality of the leathers. Simone has a particular focus on research and development and sustainability with extensive knowledge of all the production phases. His contributions have significantly driven the growth and success of the Group.



Marco Malagutti – Executive Board Member

Marco Malagutti, a law graduate from the University of Parma, is an executive board member and has held various leadership roles within the banking and financial sector. He has held top management positions at Veneto Banca, Banca MPS, Banca Antonveneta, and Banca Agricola Mantovana. In addition to his banking career, Marco Malagutti has accumulated significant experience in corporate management and organizational leadership within the leather industry.



Christian Guerra – CFO and Investor Relator

Christian Guerra is the Group CFO and Investor Relator. He holds a degree in Economics and Commerce from the University of Verona, a master's degree in planning and Control from Il Sole 24 Ore Business School, and an Executive MBA from Cuoia Business School. With over 20 years of experience in national and international companies, his career includes roles such as Group Controller at Diesel, Group Consolidation and Finance Manager at Bottega Veneta, Group CFO at Came Group, Group CFO-CIO at Morato Pane, Group CFO at Keter Italia, Group CFO-CIO at AGF88, and Global CFO at Legor Group. Over the years, he has been responsible for managing strategic projects, defining business models, overseeing organizational changes, and handling M&A operations.

Board of Director

GM Leather SpA Board of Director

- Executive
- Non-Executive
- Independent



Source: KT&Partners elaboration on company data.

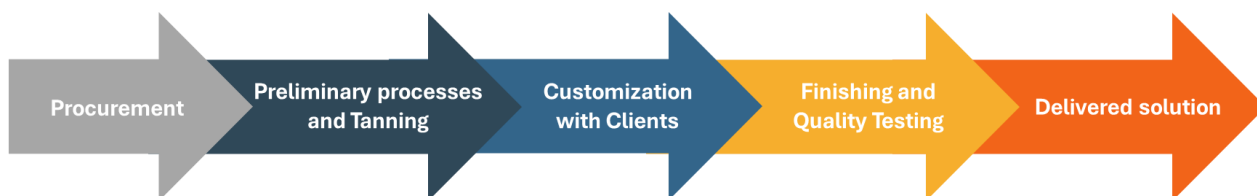
The actual Board of Directors counts 6 members, of which half are executive and just one is a woman, the Chairwoman Carmen Marcigaglia. This structure indicates a clear separation between executive and non-executive roles, ensuring a balanced governance framework being the board composed by half of non-executive directors and having an independent director. The board of statutory auditors counts 5 auditors and is chaired by Gianmaria Bortoletto.

Business Model

GM Leather SpA's business model is built on a vertically integrated value chain, efficiently linking raw hide procurement to the commercialization of high-end finished leathers, meticulously tailored to the specific demands of its target markets. The process starts with sourcing raw bovine hides, primarily from the European food industry, with daily deliveries ensuring stable procurement prices and minimizing exposure to market volatility.

GM Leather's highly responsive production model enables the company to swiftly adapt to evolving client's needs, relying on a constant high level of stock to ensure rapidness and a wide product portfolio with broad customizable solutions to offer a tailor-made service. By maintaining close relationships with clients, staying attuned to market trends, and relying on a capillary commercial network of agents in various world regions - GM Leather ensures that each product not only meets but exceeds the expectations of the serviced end-markets.

GM Leather Value Chain



Source: KT&Partners elaboration on Company and market data.

The Production Process: From Raw Hides to Finished Leather

Leather production is a meticulous, multi-stage process that transforms raw hides into high-quality leather through a series of intricate procedures. Each stage, from the selection of raw materials to the final finishing touches, plays a crucial role in ensuring the leather's durability, texture, and aesthetic appeal. The journey begins with the careful selection of raw hides, sourced primarily from Europe (over 85%). The production process is primarily handled by Divisione Palladio for the initial phases and Genesi Srl, with only a few lower-value-added stages, such as drying, outsourced to local operators.

Preliminary Phases: Preparing the Hides



Arrival and Quality Inspection of Raw Hides

The leather-making process starts when the raw hides, which are byproducts of the meat industry, arrive at the tannery where and are stored in a cool environment to prevent deterioration. Each hide is inspected for quality, with its origin influencing characteristics such as thickness, texture, and natural markings. GM is investing and testing possible application of AI technology in this crucial preliminary phase, where it could significantly accelerate the selection process and allow immediate classification of the hide's potential use even before production begins.

Desalting (Dissalaggio)

Once the hides have been inspected, the first step in their preparation is desalting. Since the hides are often preserved with salt to prevent decay during transportation, this salt must be removed. The hides are placed in large rotating drums, where the mechanical action helps shake off the salt, preparing the hides for the next phase of processing.

Rewetting (Rinverdimento)

Following desalting, the hides undergo a rewetting process. This step involves soaking the hides in large vats filled with water, surfactants, and antiseptic agents. The rewetting process serves two purposes: it cleans the hides of impurities and any remaining preservation substances, and it restores their natural moisture content, which is essential for the subsequent processes.



Liming and Unhairing

After rewetting, the hides are subjected to a liming process. In this stage, the hides are treated with alkaline chemicals to swell the collagen fibers, making the hides more pliable. This step also facilitates the removal of hair, epidermis, and other unwanted materials. The liming process is critical for preparing the hides for the tanning phase, as it ensures the leather will have the desired softness and elasticity.

Fleshing (Scarnatura)

The next step is fleshing, where the internal surface of the hides, consisting of residual fat, flesh, and connective tissue, is removed. This is done using a fleshing machine that scrapes off these unwanted materials. Fleshing ensures that the hides are clean and of uniform thickness, ready for further processing.



Splitting

At this stage, the hides are split into two layers: the grain layer, which is the upper side of the hide, and the flesh split, which is the lower part. The grain layer is typically used for higher-quality leather products, while the split can be used for other applications, depending on its quality.

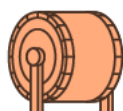
The core of the Tanning Process

Deliming and Bating

Following the preliminary phases, the hides are subjected to deliming, where the alkaline substances introduced during liming are neutralized. This step reduces the swelling of the hides and prepares them for bating, a process where enzymes are used to soften the hides and remove any remaining proteins or unwanted materials.

Pickling

In preparation for tanning, the hides undergo pickling, where they are treated with a solution of water, salt, and acid. Pickling lowers the pH of the hides, making them more receptive to the tanning agents. This step also helps in preserving the hides if there is a delay before the actual tanning process begins.



Tanning

The heart of the leather-making process is tanning, where the hides are transformed into leather. During this phase, the hides are immersed in large drums containing tanning agents, such as chromium salts or vegetable tannins. The tanning agents interact with the collagen fibers in the hides, stabilizing them and making them resistant to decomposition. The choice of tanning method—whether chrome tanning for a more uniform and durable leather or vegetable tanning—determines the final characteristics of the leather.

GM Leather utilizes the chrome tanning method, which output is the recognizable “Wet Blue” semi-finished leather. This product is remarkably durable and is also stocked by the company in this form to always maintain a high level of semi-finished inventory that can rapidly be inserted in the lasts part of the production process following the specific customer’s needs. Also, the sale of “wet-blue” leathers is an autonomous business for GM Leather, with the subsidiary SNAM Srl being directly involved in the purchases and marketing of wet-blue – just in FY23 the sale of this semi-finished product accounted for almost 40% of GM Leather sales revenues.

Finishing Phases: Enhancing the Leather’s Appearance and Feel



Samming and Setting Out

After tanning, the leather is pressed to remove excess moisture in a process called samming. Following this, the leather is stretched and set out to further remove water and smooth out wrinkles, achieving a uniform thickness and a flat surface.

Dyeing

Dyeing is the process where the leather is imbued with color. The hides are placed in drums containing dyes, which penetrate deeply into the leather. This step not only adds color but also enhances the leather’s softness and flexibility. Depending on the desired outcome, the leather can be dyed in a wide range of shades, from subtle earth tones to vibrant colors.



Staking and Milling

To further soften the leather, it is subjected to staking, where the hides are mechanically manipulated to enhance their suppleness. Milling, where the leather is tumbled in large drums, can also be used to achieve a soft, pebbled texture, depending on the final product requirements.



Finishing

In the finishing phase, the leather’s surface is treated to enhance its appearance and performance. Various techniques, such as coating, embossing, or buffing, are applied to

achieve the desired look and feel. Finishing can also include adding protective layers to make the leather water-resistant or more durable.

Embossing

If a specific texture or pattern is desired, the leather is embossed using heated plates or rollers. This process imprints the design onto the leather's surface, giving it a distinctive look. Embossing can range from subtle grain patterns to intricate designs, depending on the intended use of the leather.



Measuring, Grading, and Cutting

Finally, the leather is measured for area and thickness, graded based on quality, and cut to the required dimensions. Each hide is carefully inspected to ensure it meets the stringent standards before being shipped to customers or further processed into finished leather goods.

Focus on Clients and Suppliers

Throughout the years, GM Leathers fostered significant partnerships with several leading players at both ends of the value chain. At the bottom, the Group has shown a rather substantial customer concentration during recent years, as a significant portion of its Sales is tied to a small number of key clients, with a notable reliance on a core group of customers, particularly in the furniture segment.

In 1H24, the top 10 clients accounted for 64.0% of total revenue, reflecting a significant decrease from 73.1% in FY23 but remaining higher than the 62.0% seen in FY22. This indicates that while the concentration has reduced marginally YoY, there's still significant potential room for improvement to achieve a more diversified customer base.

GM Leather Top 10 Clients FY21A-1H24A

#	End-market	1H24	End-market	FY23A	End-market	FY22A	End-market	FY21A
1	Lifestyle	24.8%	Lifestyle	30.2%	Lifestyle	25.0%	Lifestyle	27.7%
2	Lifestyle	13.8%	Lifestyle	8.0%	Lifestyle	9.4%	Lifestyle	8.5%
3	Lifestyle	7.3%	Lifestyle	13.3%	Lifestyle	14.8%	Lifestyle	18.5%
4	Lifestyle	5.8%	Lifestyle	4.6%	Lifestyle	1.0%	Lifestyle	4.5%
5	Luxury	3.9%	Luxury	5.2%	Lifestyle	3.1%	Lifestyle	2.4%
6	Lifestyle	2.1%	Lifestyle	2.6%	Lifestyle	1.4%	Lifestyle	1.6%
7	Luxury	1.9%	Lifestyle	1.8%	Lifestyle	3.3%	Lifestyle	1.7%
8	Lifestyle	1.6%	Lifestyle	4.3%	Lifestyle	2.0%	Lifestyle	1.6%
9	Lifestyle	1.8%	Luxury	2.0%	Luxury	1.1%	Lifestyle	1.7%
10	Lifestyle	1.1%	Lifestyle	1.1%	Lifestyle	0.9%	Luxury	2.4%
Total		64.0%		73.1%		62.0%		70.6%

Source: Company Presentation. KT&Partners' Elaboration

Breaking it down, the largest client—operating in the furniture sector—contributed 24.8% of total revenues in 1H24, down from 30.2% in FY23 but still representing a significant share. The second-largest client, also in the furniture sector, increased its share to 13.8% in 1H24 from 8.0% in FY23. Meanwhile, the third-largest client saw a drop from 13.3% in FY23 to 7.3% in 1H24.

Notably, the luxury segment continues to expand its presence within the top clients. In FY21, only one luxury client appeared in the top 10, accounting only for 2.4% of total revenues, but by 1H24 two luxury clients are featured, contributing a combined 5.8% of total revenues (3.9% from one client and 1.9% from the other). This marks a growing focus on the high-end luxury market, though the luxury contribution has decreased slightly from FY23 (7.12%).

Overall, the concentration of revenue remains a key aspect of GM Leather's sales structure, particularly with the dominance of the furniture segment, which continues to represent the largest portion of sales. However, the steady growth of the luxury segment offers a diversification opportunity that could help reduce dependency on the top clients moving forward.

On the supplier side, GM Leather does not exhibit significant dependency risk. In FY23, the top 10 suppliers accounted for 35.0% of the Group's total supply base, showing a reduction from 40.1% in FY22. This decrease reflects a positive trend towards diversification. The largest supplier contributed 13.2% in FY23, slightly up from 12.5% in FY22. On the other hand, the second-largest supplier's share decreased, from 10.3% in FY22 to 9.1% in FY23, indicating a manageable concentration level.

Overall, the distribution of supplier contributions suggests that GM Leather is effectively managing its supply chain concentration, with the top suppliers accounting for a decreasing portion of total purchases. This trend reduces potential risks associated with over-reliance on a small number of suppliers, helping to enhance the company's resilience against supply chain disruptions.

GM Leather Top 10 Suppliers FY22A-FY23A

#	FY23A	FY22A
1	13.2%	12.5%
2	9.1%	10.3%
3	5.3%	7.4%
4	3.0%	2.9%
5	1.3%	2.3%
6	1.3%	2.2%
7	0.9%	1.3%
8	0.7%	0.7%
9	0.2%	0.5%
10	0.1%	0.1%
Total	35.0%	40.1%

Source: Company Presentation. KT&Partners' Elaboration

Focus on Sustainability

GM Leather has made steady progress in integrating sustainability into its operations, as highlighted in its 2023 Sustainability Report. The company is committed to adhering to the standards of environmental, social, and governance (ESG) criteria. GM Leather's approach includes significant focus on circular economy principles, primarily through utilizing waste from the food industry (specifically bovine hides), which otherwise would contribute to greenhouse gas emissions. Over 99% of the hides processed by the company come from this upcycling process, transforming waste into valuable leather products.

An important forward-looking commitment is GM Leather's focus on developing a materiality matrix to better capture stakeholder priorities. This matrix, which is missing from the current report, is set to be included in the upcoming sustainability reports to enhance transparency and align the company's strategies with the needs of all stakeholders.

Environmental Initiatives

In line with its commitment to environmental sustainability, GM Leather has implemented various measures to reduce its environmental footprint. In 2023, the company achieved a significant 25% reduction in emissions of Volatile Organic Compounds (VOCs), as part of its long-term strategy to replace solvent-based chemicals with water-based alternatives. Furthermore, GM Leather monitors water use closely, recycling 79% of the waste generated, which is well above the industry average of 72%. The company is also working on improving energy efficiency with initiatives like the installation of a cogeneration plant that provided 35% of the energy needs at its Arzignano plant in 2023. The majority of GM Leather's energy (46%) comes from renewable sources. GM Leather is also committed to tracking and reducing its greenhouse gas (GHG) emissions. By 2024/2025, the company aims to report its GHG inventory in accordance with ISO standards.

Circular Economy & Waste Management

GM Leather places a strong emphasis on responsible waste management. Through innovative processes, it contributes to the production of bio-based products, such as fertilizers and collagen for cosmetics, using waste from its leather production. This reflects GM Leather's commitment to turning potential waste into valuable by-products, supporting a circular economy.

Social Commitment

On the social front, GM Leather values its employees and ensures a safe and inclusive workplace. The company provided over 367 hours of safety training in 2023 and actively promotes diversity, with 44% of its workforce coming from 17 different countries. Furthermore, the company emphasizes the importance of long-term employment, with over 76% of its workforce on permanent contracts.

Governance and Future Commitment

Governance at GM Leather is guided by ethical business practices and compliance with relevant legal standards. The company adopted the "Model 231" derived from Legislative Decree 231/2001, which provides structured guidelines for preventing unethical behavior and ensuring transparency across all operations.

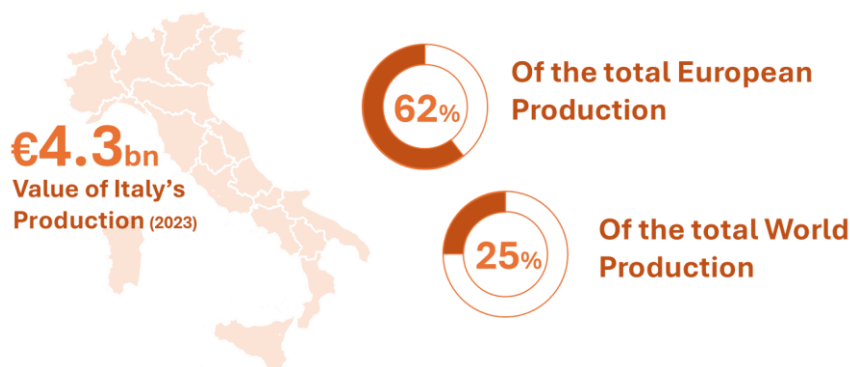
Market Overview

The Italian tanning industry boasts a rich history dating back to ancient times, with its roots deeply embedded in the country's cultural and economic fabric. Renowned for its tradition of craftsmanship and innovation, Italy has become a global benchmark for quality in leather production. Over centuries, the industry has evolved, embracing technological advancements and market demands while steadfastly maintaining its commitment to excellence.

Italian tanneries have traditionally been concentrated in regions such as Veneto, Tuscany, Lombardia, and Campania, known for their skilled artisans and high-quality raw materials. The development of the tanning industry in these regions has been closely linked to Italy's thriving fashion and luxury goods sectors, particularly in the production of leather for shoes, bags, furniture, automotive interiors and other accessories.

The continuous evolution of the industry has seen Italian tanneries not only preserving traditional methods but also integrating modern techniques to enhance efficiency and sustainability. This blend of tradition and innovation has positioned Italy as a leader in the global leather market, with its products being highly sought after by top fashion houses and luxury brands worldwide.

Italian Tannery Industry worldwide market share (2023)



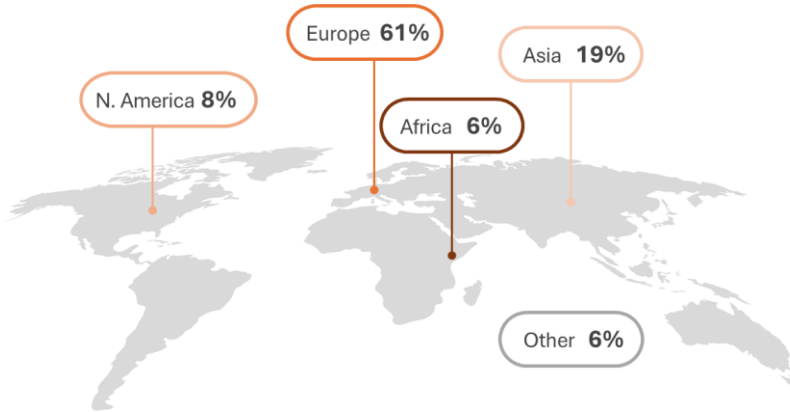
Source: KT&Partners elaboration on UNIC and company data.

Despite fierce competition and the increasing environmental and social standards in many competing countries, the Italian tanning industry remains a global leader in leather production. As of 2023, the Italian tanning industry holds a prominent position accounting in 2023 for the 62% of European Leather production and 25% of the worldwide total. Hence Italy is widely recognized as a leader in leather production and contributes significantly to the global market.

Italian tanneries export more than almost the 70% of their production (€2.9bn in 2023) to c.119 countries, with the European Union being the major market (with France being the top importer at 11.5% of the export) but significant export go to regions such as Asia (19% of the total export) and North America (8% of the total export). This global reach underscores the high demand for Italian leather, and it is estimated that one out of every four leather products worldwide originate from Italy.

Simultaneously, the industry relies heavily on imported raw materials, with over 90% of hides sourced from abroad. These imports include raw hides and semi-processed "wet blue" hides, with the two main regions of origins being Europe (61% of total imports) and South America (17% of the total imports with Brazil the first exporter). This intricate balance of exporting finished products and importing raw materials highlights the industry's global integration and its pivotal role in the international supply chain.

Main Export destination in 2023 (% on the total of exports)



Top 5 Countries:

Country	Value (€mn)	% on total
France	339	11.5%
Spain	226	7.6%
Romania	204	6.9%
USA	169	5.7%
Tunisia	162	5.5%

Source: KT&Partners elaboration on UNIC and company data

These results are supported by the extensive network of enterprises and a significant workforce spread across various districts. The industry is characterized by a dense presence of over 1,100 companies predominantly small to medium-sized enterprises, concentrated in key regions. This competitive yet cooperative environment fosters innovation in production processes and the maintenance of high-quality standards. In 2023 employed, the sector employed nearly 18,000 workers, whose specialized skills and craftsmanship are essential to the industry's success.

The industry entrepreneurial network



Source: KT&Partners elaboration on UNIC and company data.

The Veneto District

The Veneto district is the most important hub in the Italian tanning industry, renowned for its high concentration of tanneries and exceptional craftsmanship. This region, particularly the Chiampo Valley near Vicenza, has a long-standing tradition in leather processing and production of mainly big-sized cow hides destined to the automotive, the interior design, the footwear, and in general the luxury industry.

Leather District 2023 Key Figures

Toscana

Workers +5,900
 Companies +500
 Production €1.2bn

Campania

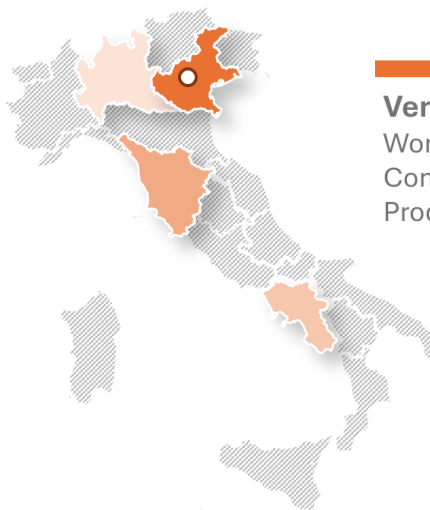
Workers +1,900
 Companies +140
 Production €0.3bn

Lombardia

Workers +900
 Companies +30
 Production €0.2bn

Others

Workers +500
 Companies +20
 Production €0.1bn



Veneto

Workers +8,500
 Companies +443
 Production €2.5bn

Source: KT&Partners elaboration on UNIC, Distretto Veneto Della Pelle and company data

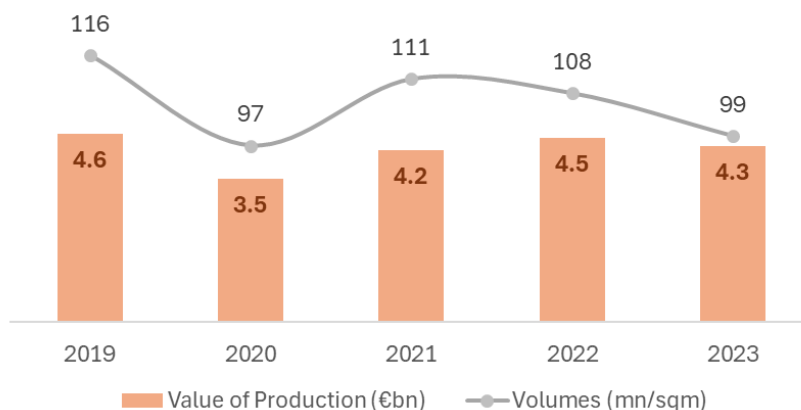
Arzignano
Leather Capital®

The district (which is spread over 130 sq km) stands out from the others both in terms of turnover and of workforce. Concentrated mainly around Vicenza in Arzignano, also being a registered trademark known as the Italian Leather Capital, the dense network of companies benefits from the presence of the entire supply chain and the subsequent development of external synergies from which all operators benefit - starting from the presence of the chemical industries that support the production process to a capillary presence of subcontractors with various degrees of specialization in the different production phases. These circumstances, along with the know-how and craftsmanship passed through generations, created the recipe that enabled the district to reach over €2.5bn in turnover and almost 60% of the Italian overall.

A tough 2023 for the industry

The year 2023 has been particularly challenging for the Italian tanning industry, marked by a significant decline in both production value and volume. The annual production value fell by 6.5% YoY to €4.3 billion, returning to levels similar of the early 1990s, excluding periodic crises over the last three decades. The volume of production also decreased by 9.5%, dropping below the 100 million square meter threshold, a level not seen since the COVID-19 pandemic in 2020.

Italian Value and Volume of Production



Source: KT&Partners elaboration on UNIC, Distretto Veneto Della Pelle and company data

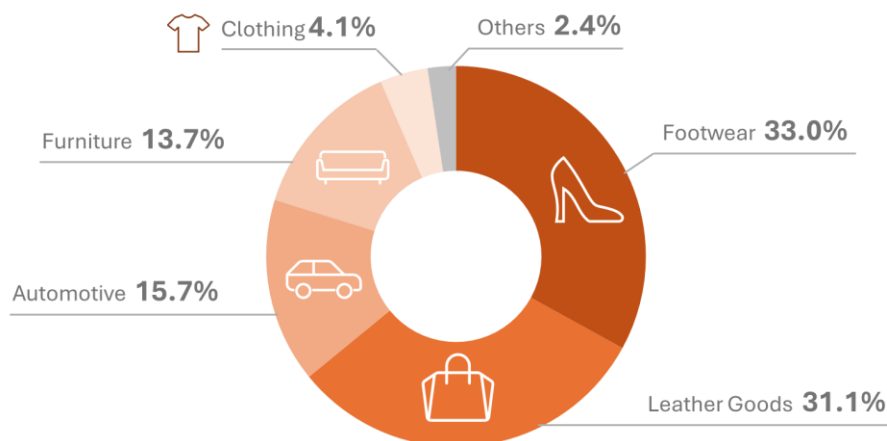
Several factors contributed to this downturn. High inflation, driven by the post-pandemic economic recovery, eroded consumer purchasing power. Concurrently, international geopolitical tensions further lowered consumer confidence and spending. These economic pressures led some customers to opt for lower-cost alternative materials and exercise extreme caution in their leather purchases. The unexpected slowdown in consumption, which began in the latter half of 2022 and continued through 2023, resulted in a saturation of inventories, affecting both raw and finished leather products.

Moreover, the luxury brands, which had enjoyed nearly two decades of consistent double-digit growth, experienced a notable slowdown. The demand reduction in 2023 affected all primary use sectors, with the fashion-related segments, such as footwear and leather goods, suffering the most significant declines. In contrast, the automotive sector managed to limit losses better than the furniture sector.

The main End-Markets

The Italian leather industry caters to a variety of end markets, each with its unique demands and trends. This broad end-market diversification helps to hedge against sector-specific downturns. However, since leather is typically used in higher-quality and premium goods, the industry is closely affected by fluctuation in consumer spending.

Main destination of the leather production in 2023



Source: KT&Partners elaboration on UNIC, Distretto Veneto Della Pelle and company data

In 2023, the footwear sector represented the largest share of the Italian leather at 33.0% of total production, despite a significant decline of 13.4% compared to the previous year. Leather goods followed closely, accounting for 31.1% of production but also facing a decrease of 10.2%. The furniture and interior design accounted for 13.7% of the market, experiencing a 7.5% drop. Clothing made up 4.1% of the market, down by 7.6%, while the "other" category, which includes various accessories and others niche applications, comprised 2.4% of the market and saw a 5.5% decline.

The automotive industry, accounting for 15.7% of the market and experienced the lowest reduction at -1.9%. This sector deserves special attention as it follows slightly different dynamics in terms of leather suppliers. Operators serving the automotive industry are usually significantly bigger in terms of turnover and operates under higher specialization, needing also to meet stringent quality and safety standards, consequently, they form a separate cluster from most Italian tanneries.

Looking ahead, focus on Luxury Leather Goods

The luxury leather goods market has undergone significant shifts in recent years, marked by varying growth patterns and evolving consumer preferences:

- **Natural slowdown after the peak:** The luxury leather goods market has experienced varying growth rates post-COVID-19 luxury boom, influenced by global economic conditions. While the luxury industry experienced a growth in 2023, the trend was more modest compared to the immediate rebound after the pandemic. Notably, leather goods saw growth rates of 3% to 4%, largely driven by price increases rather than volume growth, marking the first volume decline in a decade.
- **Consumer Behaviour and Demographic Shifts.** Consumer demand for leather goods is being shaped by a shift towards investment pieces and core items that more than ever align with inspirational values - and as is demonstrated by the recent strategies from

luxury brands (starting from pricing) there is more than ever an heavy shift towards the upper classes of customers (As a recent BCG and Altagamma Report analyzed, only 1% of customers spend on a single brand >50k a year but these Very Important Customers accounts generally for 20% of the total turnover). Generational changes are also crucial, as Generation Z and millennials are building personal wealth and are projected to make up a significant portion of luxury market purchases by 2030. This younger demographic is also reshaping the market by emphasizing sustainability and the growing popularity of the second-hand market.

- **Geographic Market Dynamics.** Geographic markets continue to play a crucial role in the leather goods sector. For instance, the recovery of the US market, acceleration in China and the Middle East, and the normalization of the Japanese market are anticipated to drive growth and are, actually, the market that sustained the luxury industry in 2023 (both in homeland and also through tourism in Europe).

Following these fundamentals dynamics, the outlook for the luxury goods market is widely expected to recover and experience in the following years a generally steady growth that in some cases will be driven mainly by value rather than volumes:

- **2024 Outlook:** the luxury goods market, including leather goods, is expected to experience modest growth. Forecasts suggest a growth range of 1% to 4% in a conservative scenario, influenced by factors like increased touristic spending and the recovery of key markets. A more optimistic scenario, with stronger consumer confidence, could see growth rates between 5% to 7%.
- **2025 and beyond:** the expected annual growth rates stands between 5% and 6% up to 2030, returning to pre-pandemic levels and driven by the increasing purchasing power of younger generations and the expanding middle class in emerging markets.

The impact on leather suppliers of the luxury market dynamics will largely depend on their ability to sell their products at increased prices and to build up a valuable customers portfolio. As luxury brands raise their prices and shift towards serving more affluent customers, suppliers capable of providing high-quality, premium leather will likely benefit the most.

Competitive Arena

The G.M. Leather Group stands out in the competitive landscape by offering a unique blend of high-quality, tailor-made products and a broad portfolio that spans various sectors, including furniture, leather goods, and footwear. Unlike many competitors who rely on standard catalogue items, G.M. Leather focuses also on customized solutions, which not only drive customer satisfaction but also allow the company to achieve significant volume and margin objectives. This approach is particularly evident in their recent expansion into the luxury segment, also thanks to the recent acquisition of Chiorino Technology and its rich customer portfolio of Luxury brands, where the emphasis on high-end craftsmanship and top-tier materials positions the Group favourably within the high-end market.

GM Leather Competitive positioning

Company Name	Quality	Customization and Product Portfolio	Stock and Rapidness	Degree of Internalization	End-Market	Geographical coverage
GM Leather					-Furniture -Fashion -Tanneries	-Italy and UE -Americas -APAC
Crest Leather Srl					-Furniture	-Italy and UE -Americas -APAC
Conceria Tre Emme Srl					-Furniture	-Italy and UE
Finco 1985 SpA					-Furniture	-Italy and UE -Americas
Futura Leathers SpA					-Furniture	-Italy and UE -Americas
Gruppo Mastrotto SpA					-Furniture -Fashion	-Italy and UE -Americas -APAC
Rino Mastrotto SpA					-Furniture -Fashion -Automotive	-Italy and UE -Americas
Dani SpA					-Furniture -Automotive	-Italy and UE -Americas
Conceria Cadore SpA					-Furniture	-Italy and UE -Americas -APAC

Source: KT&Partners elaboration on Company and market data.

In addition to product customization and quality, G.M. Leather's competitive edge is bolstered by an efficient supply chain and consistent investments in R&D, also in innovative sustainable processes. These efforts ensure that the Group's offerings are not only of high quality but also align with emerging consumer preferences for sustainable and ethically produced goods. The company's strong warehousing capabilities and timely delivery services further enhance its reputation, providing a reliable supply chain that meets the demands of both domestic and international markets, including Italy, the EU, Americas, and APAC.

Financials comparison (€ Thousands)

Company Name	Sales 2023	Sales 2022	Sales 2021	Sales 2020	CAGR 20-23*	EBITDA 2023 %	EBITDA 2022 %	EBITDA 2021 %	EBITDA 2020 %	NFP 2023**				
Gruppo Mastrotto SpA	306,934	298,030	273,162	231,637	9.8%	39,206	12.8%	39,639	13.3%	42,716	15.6%	30,120	13.0%	-47,711
Rino Mastrotto SpA	272,521	269,136	263,530	214,188	8.4%	37,550	13.8%	38,291	14.2%	40,926	15.5%	36,533	17.1%	156,353
DANI SpA	134,430	150,581	133,099	128,113	1.6%	5,750	4.3%	4,326	2.9%	4,333	3.3%	10,161	7.9%	31,944
Conceria Cadore Srl	45,223	46,013	69,840	65,568	-11.6%	5,860	13.0%	4,134	9.0%	12,069	17.3%	10,566	16.1%	-12,281
FINCO 1985 SpA	43,932	47,639	58,451	46,354	-1.8%	5,091	11.6%	6,788	14.2%	9,352	16.0%	10,145	21.9%	6,535
Conceria TRE EMME Srl	16,564	22,197	24,108	20,874	-7.4%	1,638	9.9%	2,890	13.0%	5,266	21.8%	4,251	20.4%	-3,120
Futura Leather SpA	n.d.	36,755	39,594	31,977	7.2%	n.d.	n.d.	4,861	13.2%	7,037	17.8%	4,142	13.0%	17,368
Crest Leather Srl	n.d.	82,834	76,768	55,203	22.5%	n.d.	n.d.	288	0.3%	5,693	7.4%	4,006	7.3%	7,541
GM Leather SpA	40,898	40,829	49,692	29,239	11.8%	6,184	15.1%	4,978	12.2%	4,420	8.9%	3,470	11.9%	25,654

Source: KT&Partners elaboration on Company and market data. *CAGR20-23 For Futura Leather SpA and Crest Leather Srl; ** NFP 2022 For Futura Leather SpA and Crest Leather Srl.

GM Leather SpA also distinguishes itself in the competitive landscape of the leather industry when comparing its financial performance with that of other leading companies. The company achieved an EBITDA margin of 15.1% in 2023, the highest among its competitors, along with

the highest CAGR20-23 at 11.8%. This impressive growth rate contrasts sharply with other companies in the sector - for example, Gruppo Mastrotto SpA, despite being the market leader in terms of absolute sales with €306.9 million in 2023, posted a lower EBITDA margin of 12.8% and a CAGR of 9.8%. Similarly, Rino Mastrotto SpA, with €272.5 million in sales, achieved a higher EBITDA margin of 13.8% but a lower CAGR of 8.4%.

Other competitors like DANI SpA and Conceria Cadore Srl reported lower EBITDA margins of 4.3% and 13.0%, respectively, with DANI SpA notably struggling with a sales growth rate of just 1.6%, indicating challenges in increasing their operations. In contrast, Conceria Tre Emme Srl and FINCO 1985 SpA have shown declines in their financial performance, with lower sales figures and negative CAGR, underscoring the challenges in the market.

Overall, GM Leather's ability to maintain the highest EBITDA margin and achieve robust sales growth demonstrates its competitive edge in an industry characterized by fluctuating demand and intense competition.

FY23 Financials

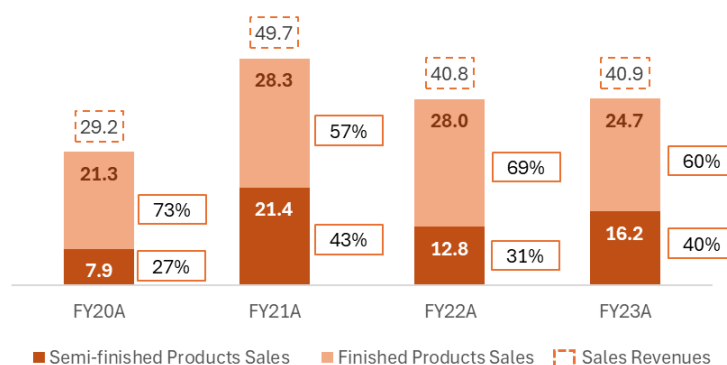
GM Leather's key financials for FY23 are:

- Sales Revenues at €40.9mn vs €40.8mn in FY22 (+0.2% YoY);
- EBITDA at €6.2mn vs €5.0mn in FY22 (+24.2% YoY), with FY23 EBITDA margin at 14.8%;
- EBIT at €3.9mn vs €3.3mn in FY22 (+18.9% YoY);
- Net Income at €2.04mn vs €2.01mn in FY22 (+1.4% YoY);
- NFP at €25.7mn vs €15.4mn in FY22.

Revenues Breakdown

Between FY21 and FY23, GM Leather underwent a significant shift in its revenue streams, marked by a notable decrease in overall revenues and a shift in the composition of its product and geographical sales. In FY21, the company's sales revenue stood at €49.7mn, which decreased to €40.9mn by FY23, reflecting an overall decline linked mainly to a slowdown in the segment of wet-blue trade to other tanneries, mainly attributable to the Asian market, along with reduced sales of finished products across various end-markets.

Sales Revenues breakdown by Products (€mn)

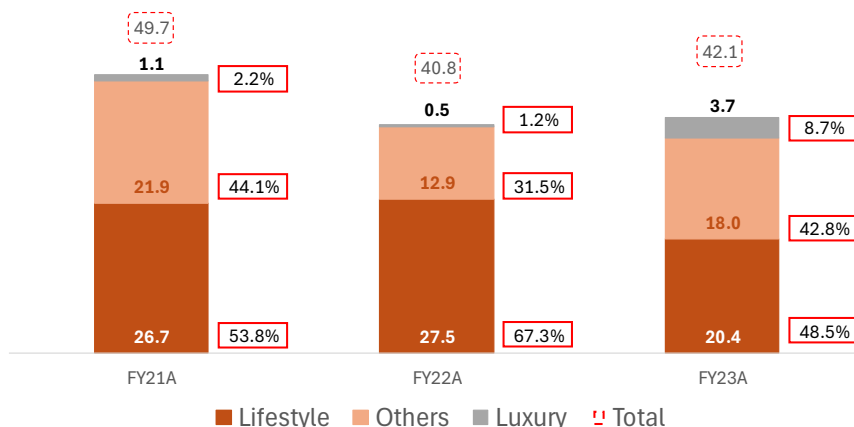


Source: KT&Partners elaboration on Company data.

From FY21 to FY23, GM Leather's revenue composition across its end-market segments shifted significantly, primarily due to the Group's entry into the Luxury segment. Throughout this period, the majority of sales revenue consistently came from the Lifestyle segment (mid- to high-end furniture). In FY21, it reached €26.7mn, representing 53.8% of total revenue. Despite a slight increase to €27.5mn in FY22, revenue from this segment fell to €20.4mn by FY23, making up 48.5% of the total.

The second largest end-market for its incidence over total revenues is featured by the denominated "Others" segment, which comprises the sales of commercialized/semi-finished products, sold to a diversified group of manufacturers. The segment declined sharply from €21.9mn in FY21 to €12.9mn in FY22, before rebounding to €18.0mn in FY23. This shakedown of Sales Revenues results from the introduction of the Luxury segment, though initially small at €1.1mn in FY21 (2.2% of Total Sales), eventually surged to €3.7mn in FY23. This latter accounts for 8.7% of Sales in FY23, and it highlights the managerial focus to exponentially increase the Group's presence in this segment.

Sales Revenues breakdown by End-market (€mn)



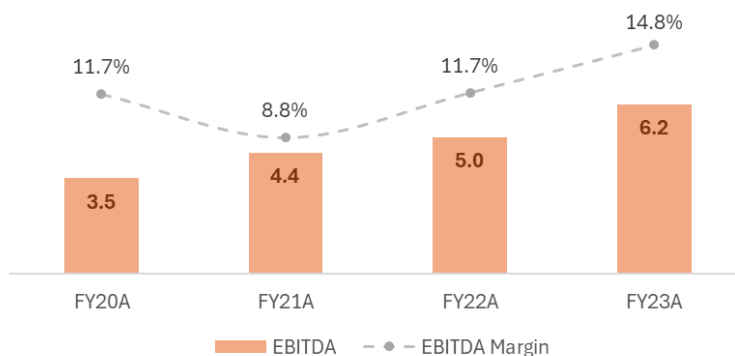
Source: KT&Partners elaboration on Company data.

The geographical breakdown highlights the varying performance across the different regions. In FY21, the majority of GM Leather's revenue came from outside the European Union, with Extra-EU countries contributing €27.7mn, or 56% of total revenue. However, this figure declined to €21.9mn in FY23, representing 54% of total revenue. Despite the drop, Extra-EU countries remain the largest market segment for the company, largely attributable to a reduction in sales to other tanneries, with the Americas and APAC the regions contributing the most to semi-finished products revenues. A similar trend was observed within EU countries, where revenue fell from €10.1mn in FY21 (20% of total revenue) to €4.5mn in FY23 (or 11% of total revenue). In contrast, revenue from Italy displayed positive growth, increasing from €11.8mn in FY21 (24% of total revenue) to €14.5mn in FY23, now accounting for 35% of total revenue. This growth underscores the company's strengthened position in its domestic market and a rise in sales directed towards the luxury end-market.

Profitability Analysis

Examining GM Leather's profitability performance, the company has demonstrated a robust ability to maintain and improve margins, particularly evident at the EBITDA level. In FY23, GM Leather reported an EBITDA of €6.2mn, reflecting a margin of 14.8%. This marks a significant improvement from FY22, where EBITDA was €5.0mn with a 11.7% margin, showcasing a 24.2% YoY increase. This positive trend highlights the company's ability to leverage its operational structure effectively, being also particularly affected by the Divisione Palladio leasing that brought in-house various key production preliminary phases and enabled consistent cost savings.

EBITDA and EBITDA Margin (€mn)



Source: KT&Partners elaboration on Company data.

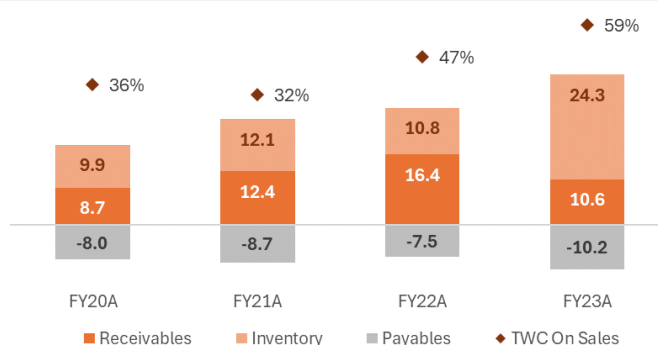
A closer look at the cost structure reveals that GM Leather has managed to keep its primary expenses relatively stable despite variations in revenue, reflecting how the productive structure is already established and scalable without requiring substantial changes in operating expenses to support revenue growth. The cost of services, which is the most significant expense category, remained consistent with minor fluctuations, accounting for €11.9mn in FY23, slightly up from €11.6mn in FY22. Personnel expenses, another key component of the cost structure, increased to €5.4mn in FY23 from €4.1mn in FY22 mainly as a result of the Divisione Palladio workforce expenses consolidation.

Moving to EBIT, GM Leather posted €3.9mn in FY23, up from €3.3mn in FY22, with the EBIT margin improving to 9.4% from 7.8%. While this represents a solid performance, the growth in EBIT is slightly less pronounced than in EBITDA due to an increase in depreciation and amortization expenses, which rose to €2.3mn in FY23 from €1.7mn in FY22 – which is primarily attributable to the company's consolidation of Divisione Palladio and its capital-intensive productive structure.

Capital Structure Analysis

On the balance sheet side, GM Leather saw a substantial increase in fixed assets in FY23, which doubled to €11.7mn from €5.8mn in FY22. This surge is largely attributed to the acquisition of Divisione Palladio, which significantly bolstered the company’s tangible assets, particularly in PP&E. Working capital management also reflected significant changes in FY23. GM Leather's trade working capital rose to €24.6mn from €19.7mn in FY22. This increase was primarily driven by a spike in inventory levels, which climbed to €24.3mn, up from €10.8mn the previous year. The elevated inventory levels are a strategic move to maintain rapid delivery times to customers, ensuring that GM Leather can meet demand swiftly without compromising on service quality. However, the company anticipates shifting these inventories into revenues as they continue to execute their sales strategy and the business reboot, thereby translating these assets into profitability.

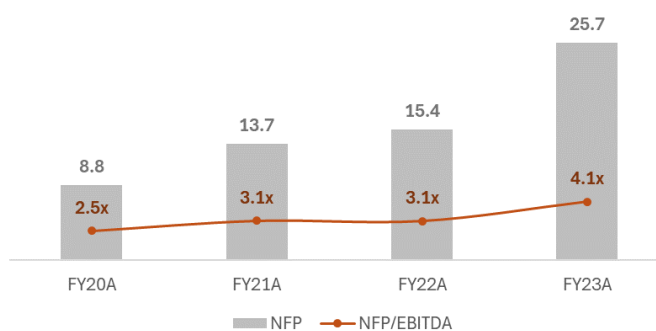
TWC Evolution (€mn)



Source: KT&Partners elaboration on Company data.

These heavier inventories also highly affected the company's cash generation ability and thus its net financial position, which rose in FY23 reaching €25.7mn up from €15.4mn in FY22 mainly due to these NWC dynamics but also to the financing required for the Divisione Palladio acquisition.

Net Financial Position (€mn)

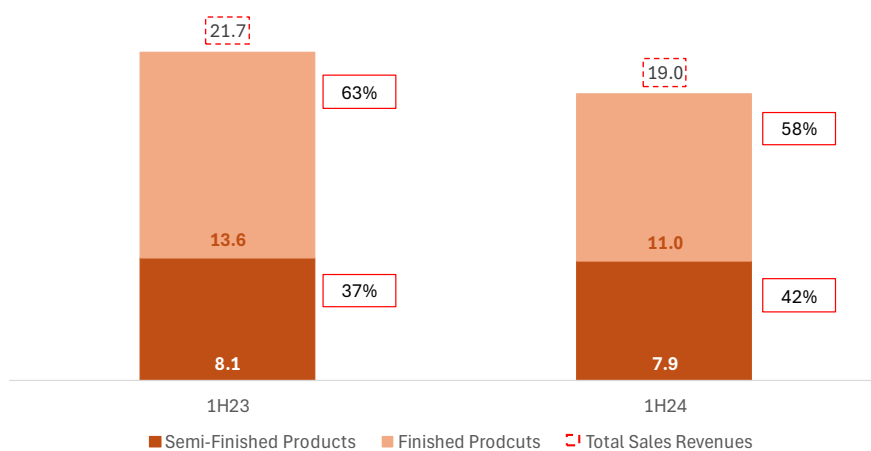


Source: KT&Partners elaboration on Company data.

1H24 Financial Results

On the 26th of September, 2024, G.M. Leather reported 1H24 financial results. GM Leather Revenues from Sales stood at €19.0mn in 1H24, featuring a -12.7% decrease YoY from €21.7mn in 1H23. The decline is attributable to the slowdown experienced by both Semi-finished products and Finished Products, resulting from geopolitical tensions and macroeconomic uncertainty, on top of suffering from tailwinds of supply chain constrictions which caused delay in deliveries, postponing operating cash flows. In particular, revenues coming from Semi-finished products came in at €7.9mn for 1H24, down from €8.1mn in 1H23 (37% of Total Sales in 1H23 vs 42% in 1H24). As for Finished products, sales experienced an even further contraction, decreasing to €11.0mn in 1H24 from €13.6mn in 1H23 (63% in 1H23 vs 58% in 1H24).

Sales Revenues breakdown by Products (€mn)



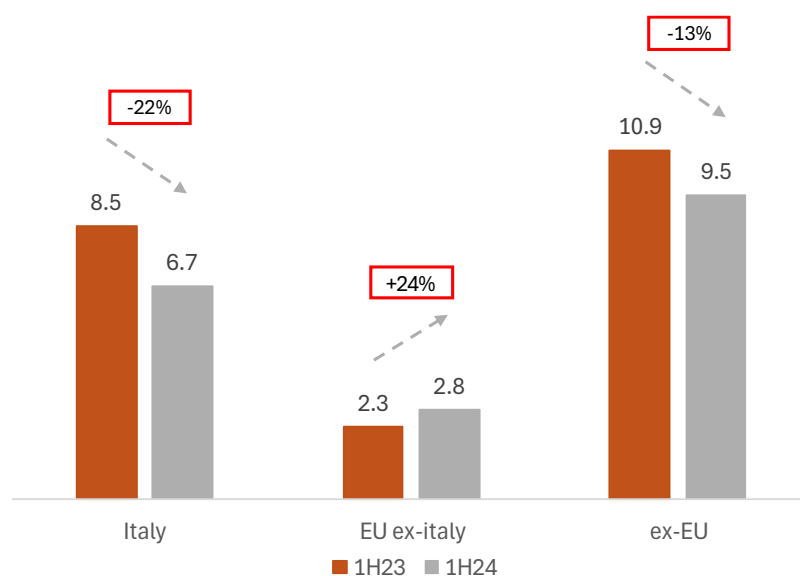
Source: KT&Partners elaboration on Company data.

The geographical breakdown of GM Leather's sales highlights key trends affecting the Group. Exports continue to dominate, with revenue from countries outside the European Union representing 50.0% of total sales in 1H24, a slight change from 50.2% in 1H23. However, this region saw a -13.0% YoY decline, with revenues decreasing from €10.9mn in 1H23 to €9.5mn in 1H24, contributing to the overall drop in total revenues.

The Italian market experienced the most significant decline. Revenues fell from €8.5mn in 1H23 to €6.7mn in 1H24, reflecting a -22.0% YoY decrease. Italy's share of total revenues also dropped by 4.2pp, from 39.4% in 1H23 to 35.2% in 1H24.

Conversely, revenues from EU countries (excluding Italy) showed robust growth. Sales increased by 23.8% YoY, rising from €2.3mn in 1H23 to €2.8mn in 1H24. Consequently, the contribution of these countries to total revenues grew by 4.4pp, from 10.5% in 1H23 to 14.8% in 1H24.

Sales Revenues breakdown by Geographical Area (€mn)



Source: KT&Partners elaboration on Company data.

Gross profit in 1H24 came in at €11.3mn, featuring a strong increase of 14.0% YoY (€9.9mn in 1H23). The specular nature of this value relative to Total Revenues results from lower COGS, which stood at €7.9mn in 1H24, with respect to €12.2mn in 1H23, linked to the Group's effort in deflating inventories following a smaller portfolio of orders.

On the profitability side, EBITDA in absolute terms declined by -6.3% YoY, falling from €3.0mn in 1H23 to €2.8mn in 1H24. This was mainly due to higher operating expenses: the Cost of Services increased to €4.2mn in 1H24 (from €3.7mn in 1H23), Personnel Expenses rose to €3.0mn (from €2.6mn in 1H23), and Other Operating Expenses saw a substantial jump, rising from €0.1mn in 1H23 to €0.7mn in 1H24.

Despite the decline in EBITDA, the EBITDA margin improved to 14.7% in 1H24, up by 1.0pp from 13.7% in 1H23, reflecting the Group's efforts to build an efficient organizational structure and capitalize on a streamlined supply chain, alongside the premium pricing of its high-end quality products.

Accounting for an increase in D&A, which grew from €1.0mn in 1H23 to €1.3mn in 1H24, and for an Increase in Financial Expenses, mainly linked to Other Financial Expenses increasing in absolute value from €20.5k in 1H23 to €360.0k in 1H24, Net Income came in at €0.3mn in 1H24 (vs €1.1mn in 1H23).

Moving to the Balance Sheet side, Fixed Assets featured a significant growth, rising to €12.7mn in 1H24 from €11.7mn in FY23, primarily due to increases in both Intangible and Financial Assets. In particular, Intangible Assets increased from €4.8mn in FY23 to €5.3mn in 1H24, largely driven by higher capitalized R&D investments which allowed the Group to consolidate its positioning within the high-end luxury segment of the market thanks to improved product offerings. Financial Assets stood at €0.5mn in 1H24, a significant increase from €0.1mn in FY23, following the leasing of a €350k stake by the Parent Company in Chiorino Technology S.p.A., and a €10k stake by the subsidiary Genesi S.r.l. in Chiorino Leather S.r.l.

Despite the decrease in Trade Receivables, which came in at €8.9mn in 1H24 (€10.6mn in FY23), Trade Working Capital Needs slightly grew, reaching €26.9mn in 1H24 from €24.6mn in FY23, due to a substantial increase in Inventory, which stood at €27.9mn (€24.3mn in FY23). The increase is reflected in DIH, which almost doubles the Cash Conversion Cycle relative to

FY23, indicating higher financing needs for the Group's operating activities, which in turn caused a slight rise in its Net Financial Position. In particular, NFP stood at €25.8mn in 1H24 (€25.7mn in FY23).

FY21A - 1H24A Income Statement

€ million	FY21	1H22	FY22	1H23	FY23	1H24	YoY %
Total Revenues	49.7	21.5	40.8	21.7	40.9	19.0	-12.7%
Sales Revenues	49.7	21.5	40.8	21.7	40.9	19.0	-12.7%
Growth %	70.0%	n.a.	-17.8%	0.8%	0.2%	-12.7%	
Other Revenues	0.3	0.2	1.5	0.4	0.8	0.3	-16.9%
Total Revenues	50.0	21.7	42.4	22.1	41.7	19.3	-12.7%
Products and Raw materials	(25.7)	(14.6)	(19.4)	(12.2)	(25.0)	(7.9)	
WIP	0.1		(1.2)		7.8		
Gross Profit	24.4	7.1	21.8	9.9	24.4	11.3	14.0%
Gross Margin	48.9%	32.6%	51.3%	44.9%	58.6%	58.7%	
Cost of Services	(15.5)	(1.9)	(11.6)	(3.7)	(11.9)	(4.2)	
Rental Costs	(0.6)	(0.4)	(0.8)	(0.5)	(0.8)	(0.6)	
Personnel Expenses	(3.7)	(2.1)	(4.1)	(2.6)	(5.4)	(3.0)	
Other Operating Expenses	(0.2)	(0.1)	(0.3)	(0.1)	(0.3)	(0.7)	
EBITDA	4.4	2.6	5.0	3.0	6.2	2.8	-6.3%
EBITDA margin	8.8%	12.0%	11.7%	13.7%	14.8%	14.7%	1.0%
D&A and Provisions	(0.8)	(0.6)	(1.7)	(1.0)	(2.3)	(1.3)	
EBIT	3.6	2.0	3.3	2.0	3.9	1.5	-24.5%
EBIT margin	7.2%	9.0%	7.8%	9.2%	9.4%	7.9%	
Financial Income and Expens	(0.3)	(0.1)	(1.0)	(0.5)	(1.2)	(0.9)	
Extraordinary items	-	-	-	-	-	-	
EBT	3.3	1.8	2.3	1.6	2.8	0.6	-58.7%
Taxes	(0.8)	(0.5)	(0.3)	(0.4)	(0.7)	(0.4)	
Tax Rate	25.2%	29.4%	13.4%	28.5%	26.3%	60.1%	
Net Income	2.5	1.3	2.0	1.1	2.0	0.3	-76.9%
Net margin	4.9%	6.0%	4.7%	5.1%	4.9%	1.3%	
Minorities	-	-	-	-	-	-	
Net Income attributable to th	2.5	1.3	2.0	1.1	2.0	0.3	-76.9%
Net margin	4.9%	6.0%	4.7%	5.1%	4.9%	1.3%	-3.7%

Source: KT&Partners' elaborations on Company data

FY21 - 1H24 Balance Sheet							
€ Millions	FY21	1H22	FY22	1H23	FY23	1H24	Delta
Intangible	1.7	2.6	3.8	4.2	4.8	5.3	0.5
Tangible	4.0	3.9	2.0	6.6	6.7	7.0	0.2
Other LT Assets	0.0	0.0	0.0	0.0	0.1	0.5	0.4
Fixed Assets	5.7	6.6	5.8	10.8	11.7	12.7	1.1
Trade receivables	12.4	13.4	16.4	17.0	10.6	8.9	(1.7)
Inventory	12.1	12.2	10.8	17.6	24.3	27.9	3.6
Trade Payables	(8.7)	(5.9)	(7.5)	(12.2)	(10.2)	(9.8)	0.4
Trade Working Capital	15.8	19.8	19.7	22.4	24.6	26.9	2.3
Other assets and liabilities	0.5	0.7	1.9	1.5	3.4	0.5	(3.0)
Net Working Capital	16.4	20.5	21.6	23.9	28.1	27.4	(0.7)
Other Provisions	(0.3)	(0.4)	(0.4)	(0.6)	(0.6)	(0.6)	(0.0)
Net Capital Employed	21.7	26.8	27.1	34.1	39.1	39.5	0.4
Group shareholders' equity	8.0	9.3	11.7	12.6	13.5	13.7	0.3
Total shareholders' equity	8.0	9.3	11.7	12.6	13.5	13.7	0.3
Short-term debt / Cash (-)	6.8	9.1	7.5	11.1	13.6	15.4	1.7
Long-term liabilities	6.9	8.3	7.9	10.4	12.0	10.4	(1.6)
Net Financial Position	13.7	17.4	15.4	21.5	25.7	25.8	0.1
Sources	21.7	26.8	27.1	34.1	39.1	39.5	0.4

Source: KT&Partners' elaborations on Company data

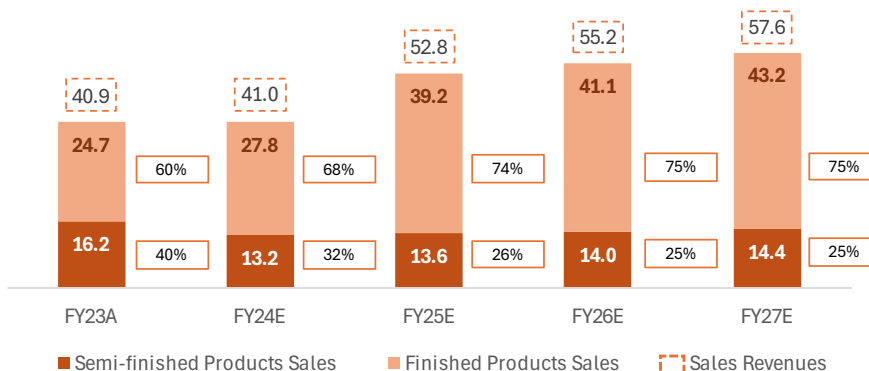
Deconstructing Forecasts

Our financial projections for GM Leather during the 2024E–27E period are influenced by different scenarios between the semi-finished and finished products lines. We estimate semi-finished products revenues to decrease slightly, following their peak of €16.2mn in FY23A, to stabilize around €14.4mn in FY27E. This trend is primarily due to a strategic focus on higher margin finished products and a general slowdown in the commercial business towards other tanneries.

In contrast, finished product revenues are expected to drive future growth, with sales increasing from €24.7mn in FY23A to €43.2mn by FY27E and driven by an enhanced commercial structure and an increasing exposure towards luxury sector customers, for whom is expected a gradual recover. The finished product revenues consider also the contribution coming from Chiorino Technology, which in FY24E will consider only the six-month in the perimeter to reach in the following years a full contribution expected at €10.0mn by FY27. As a result, the overall revenue from finished products is set to grow at a much faster rate than the semi-finished segment, with a CAGR23-27E of 15.0%, compared to a -2.9% CAGR23-27E for semi-finished products.

Other revenues are expected to remain flat at €0.8mn in FY24E relative to FY23A, and subsequently normalize at a higher value therefore after, reaching €1.2mn in FY27E, largely driven by ancillary services and smaller non-core product lines. Taken together, total revenues are forecasted to rise from €41.7mn in FY23A to €58.8mn in FY27E, reflecting a CAGR23-27E of 9.0%, driven predominantly by the expansion of the finished product line and increasing penetration into high-end luxury markets.

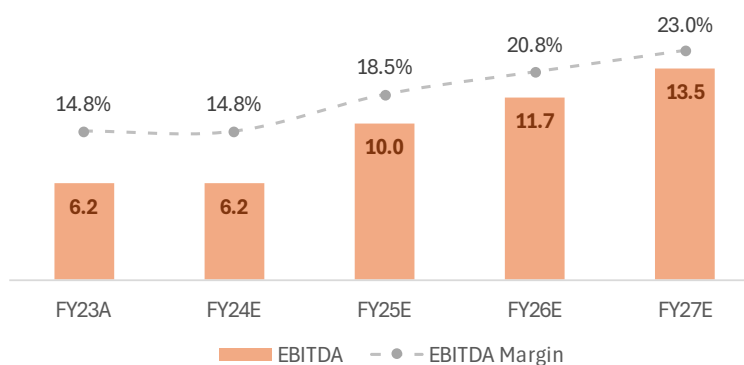
FY23A-FY27E Revenues Breakdown (€mn)



Source: KT&Partners elaboration on Company data.

EBITDA is forecasted to grow at a stronger pace, from €6.2mn in FY23A to €13.5mn by FY27E, with margins expanding from 14.8% to 23.0% over the same period. This notable margin improvement is driven by operational efficiencies, a shift in product mix towards high-margin luxury finished goods, and better utilization of existing capacity. The company is expected to benefit from higher sales volumes while maintaining a stable cost structure, with no significant increase among operating cost items.

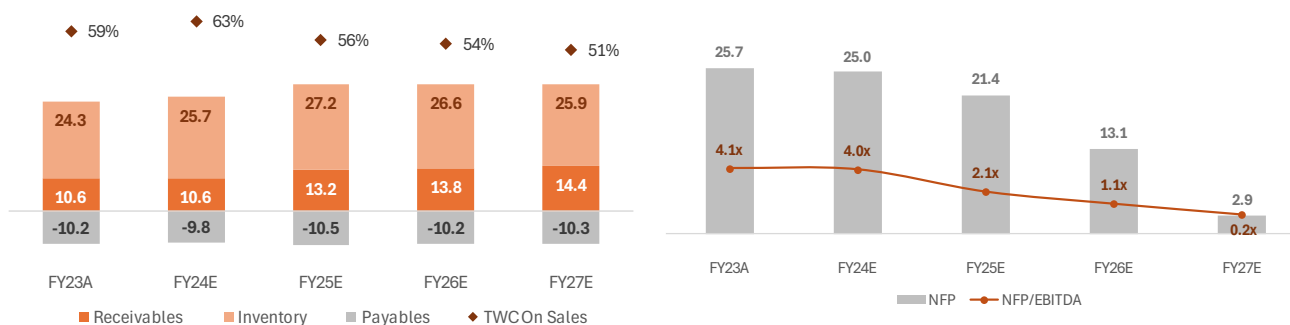
Depreciation and amortization (D&A) expenses are set to decline steadily, in line with the company's minimal capital expenditure plan for the forecast period. As a result, EBIT is projected to increase significantly, from €3.9mn in FY23A to €11.5mn in FY27E, with the EBIT margin widening from 9.4% to 19.6%. This reflects GM Leather's ability to drive profitability through efficiency gains, without the need for substantial new investments in production capacity.

FY23A-FY27E EBITDA and EBITDA Margin (€mn)


Source: KT&Partners elaboration on Company data.

On balance sheet side, trade working capital is projected to stabilize as GM Leather gradually clears its production backlog, accumulated during the industry slowdown. By FY27E, TWC is expected to increase moderately from €24.6mn in FY23A to €30.1mn and hence reducing its incidence on sales, in line with the recovery in commercial activity. As for receivables, due the company's growing exposure to the luxury segment, we expect a rise in receivables; however, GM Leather plans to mitigate this through instruments such as factoring, ensuring the smooth conversion of receivables to cash.

The company's NFP is anticipated to improve significantly over the forecasted period, moving from €25.7mn in net debt in FY23A to €2.9mn by FY27E. This positive shift will be driven by the company's strong cash generation, supported by rising operating profits and a normalization of TWC. Furthermore, GM Leather's limited capex requirements and healthy cash flow profile are expected to facilitate a steady deleveraging process, ensuring for the company greater financial flexibility in the following years.

FY23A-FY27E Trade Working Capital (€mn)
Net Financial Position (€mn)


Source: KT&Partners elaboration on Company data.

Valuation

Following GM Leather's future financials projections, we have carried out our valuation using multiple and DCF methods. Our valuation is based on 11.2mn shares and is the result of:

- **EV/EBITDA and P/E multiples:** with a 10% liquidity discount, which returns a value of €31.4mn or €2.79ps;
- **DCF analysis** based on WACC of 12.0% and 1.0% perpetual growth, which returns a value of €64.3mn or €5.72ps.

The average of the two methods yields a fair value of €47.8mn or €4.26ps.

Valuation Recap

	Equity Value (€mn)	Value per share (€)
EV/EBITDA	19.2	1.71
P/E	43.6	3.88
Average - multiples	31.4	2.79
DCF	64.3	5.72
Average	47.8	4.26

Source: FactSet, KT&Partners' elaboration

Peers Overview

To define GM Leather's peer sample, we carried out an in-depth analysis of Italian and internationally listed companies active in the design and production of materials or products related to consumer goods. In selecting potential peers, we consider GM Leathers's offering and revenue mix, business model, growth, and profitability profile.

For peer analysis, we built a sample of 4 companies, which includes:

- **Pattern SpA:** listed on the Euronext Milan Stock Exchange with a market capitalization of €86.5mn, Pattern SpA engages in the engineering, designing, development, prototyping and production of clothing for men and women. It operates through the Pattern and Roscini production units. The Pattern production unit operates in the province of Turin and deals with the creation of garments of clothing for men which include outerwear and trousers. The Roscini production unit operates in the province of Perugia and focuses on the clothing line for women which includes dresses and skirts. In FY23, Pattern reached €145.6mn in sales revenues.
- **Gismondi 1754 SpA:** listed on the Euronext Milan Stock Exchange with a market capitalization of €12.7mn, Gismondi 1754 SpA engages in the design, production, and marketing of jewelry in the luxury sector. It operates through various sales network channels of its jewelry products including retail, wholesale, franchising, and special sales for fashion and special occasions under the Gismondi brand. In FY23, Gismondi 1754 reached €14.2mn in sales revenues.
- **Gentili Mosconi SpA:** listed on the Euronext Milan Stock Exchange with a market capitalization of €45.4mn, Gentili Mosconi SpA engages in providing textile products. It offers printed and dyed fabrics, in jacquard and yarn-dyed processes, fabrics with original prints or garment prints, and other special processes for national and international fashion brands. In FY23, Gentili Mosconi reached €50.5mn in sales revenues.
- **Colefax Group PLC:** listed on the London Stock Exchange with a market capitalization of €58.5mn, Colefax Group Plc is a holding company engaged in the provision of furnishing products and related services. It operates through the Product and Decorating divisions. The Product division involves the design and distribution of furnishing fabrics, wallpapers, and upholstered furniture. The Decorating division offers interior and architectural design and decoration, primarily for private individuals. Its brands include Colefax and Fowler, Cowtan and Tout, Jane Churchill, Larsen and Manuel Canovas. In FY23, Colefax Group reached €120.8mn in sales revenues.

We conducted an analysis of peer companies, considering their average revenue and EBITDA growth, and compared them to GM Leathers' historical revenues and EBITDA.

By looking at 2022-23 revenue growth, peer companies grew on average by 7.1% YoY while GM Leather showed revenues slightly increase at 0.2% YoY. Over the 2024-26E period, the Group's sales are expected to grow at a 10.5% CAGR22-25E vs 6.2% of the average growth of the peers.

Looking at FY23A EBITDA, GM Leather increased by 24.2% YoY, well above its peers which showed a decline in EBITDA by -3.1% YoY. According to our financial pre-money projections, GM Leather EBITDA is expected to grow at a CAGR2024-2026E above the one shown by its peers (23.7% vs. 21.6%).

Peer comparison – Sales growth 2021-2026 (€, mn)

Company Name	Sales			YoY 22-23	Sales			CAGR 2023-'26
	2021	2022	2023		2024	2025	2026	
Pattern S.P.A	69.5	109.2	145.6	33.3%	125.1	150.5	166.0	4.5%
Gismondi 1754 S.p.A.	9.7	14.7	14.2	-3.2%	17.0	21.0	24.8	20.4%
Gentili Mosconi-s.P.A.	40.0	53.1	50.5	-4.9%	42.7	44.9	48.2	-1.6%
Colefax Group Plc	120.0	120.8	124.4	3.0%	121.2	126.3	131.0	1.7%
Peers Average	59.8	74.5	83.7	7.1%	76.5	85.6	92.5	6.2%
GM Leather	49.7	40.8	40.9	0.2%	41.0	52.8	55.2	10.5%

Source: FactSet, KT&P's Elaboration

Peer comparison – EBITDA growth 2021-2026 (€, mn)

Company Name				YoY 22-23				CAGR 2023-'26
	2021	2022	2023		2024	2025	2026	
Pattern S.P.A	7.1	9.6	17.4	81.6%	12.8	18.4	21.8	7.9%
Gismondi 1754 S.p.A.	0.8	2.7	0.7	-72.9%	2.3	3.4	4.2	78.9%
Gentili Mosconi-s.P.A.	4.9	9.3	8.1	-13.4%	4.3	6.2	7.4	-2.9%
Colefax Group Plc	21.6	19.9	17.9	-7.8%	16.2	18.3	19.3	2.5%
Peers Average	8.6	10.4	11.0	-3.1%	8.9	11.5	13.2	21.6%
GM Leather	4.4	5.0	6.2	24.2%	6.2	10.0	11.7	23.7%

Source: FactSet, KT&P's Elaboration

We then compared peers' profitability with GM Leather' historical and expected margins. The Group showed a FY23 EBITDA margin at 15.1%, above its peers' average EBITDA margin of 11.8%.

Peer comparison – EBITDA margin, EBIT margin, and Net margin 2021-26

Company Name	EBITDA Margin						EBIT Margin						EBIT Margin					
	2021	2022	2023	2024	2025	2026	2021	2022	2023	2024	2025	2026	2021	2022	2023	2024	2025	2026
Pattern S.P.A	10.3%	8.8%	11.9%	10.2%	12.2%	13.1%	7.1%	5.3%	7.7%	4.7%	7.3%	8.3%	4.3%	2.4%	14.5%	1.2%	121.5%	3.7%
Gismondi 1754 S.p.A.	8.2%	18.4%	5.2%	13.5%	16.2%	16.9%	4.5%	15.9%	2.3%	8.8%	11.9%	13.7%	3.6%	11.1%	0.2%	3.5%	4.8%	8.5%
Gentili Mosconi-s.P.A.	12.2%	17.5%	16.0%	10.1%	13.7%	15.4%	10.2%	15.9%	12.4%	7.7%	11.4%	13.1%	8.3%	12.8%	10.3%	5.4%	64.6%	9.9%
Colefax Group Plc	18.0%	16.5%	14.4%	13.4%	14.5%	14.7%	11.3%	9.2%	7.9%	5.8%	6.8%	7.4%	8.3%	6.4%	5.4%	3.8%	37.5%	4.8%
Peers Average	12.2%	15.3%	11.9%	11.8%	14.1%	15.0%	8.2%	11.6%	7.6%	6.8%	9.4%	10.6%	6.1%	8.2%	7.6%	3.5%	57.1%	6.7%
GM Leather	8.9%	12.2%	15.1%	15.1%	18.9%	21.2%	7.2%	8.1%	9.6%	8.4%	14.5%	17.4%	4.9%	4.9%	5.0%	3.1%	33.0%	11.5%

Source: FactSet, KT&P's Elaboration

Market Multiples Valuation

Following our comps analysis, we evaluate the company by using the 2024–26 EV/EBITDA and P/E market multiples of the peer sample. Our valuation also includes a 10% liquidity/size discount and considers our estimates of GM Leather' EBITDA and Net income for 2024, 2025 and 2026.

Peer Comparison – Market Multiples 2023–26

Company Name	Exchange	Market Cap	EV/SALES 2023	EV/SALES 2024	EV/SALES 2025	EV/SALES 2026	EV/EBITDA 2023	EV/EBITDA 2024	EV/EBITDA 2025	EV/EBITDA 2026	P/E 2023	P/E 2024	P/E 2025	P/E 2026
Pattern S.P.A	Milan	86	0.7x	0.8x	0.7x	0.6x	5.6x	7.7x	5.3x	4.5x	4.0x	n.m	16.4x	13.3x
Gismondi 1754 S.p.A.	Milan	13	1.4x	1.1x	0.9x	0.8x	26.6x	8.5x	5.7x	4.6x	n.m	n.m	10.0x	n.a.
Gentili Mosconi-s.P.A.	Milan	45	0.7x	0.9x	0.8x	0.8x	4.7x	8.8x	6.2x	5.1x	8.6x	17.5x	11.6x	9.4x
Colefax Group Plc	London	59	0.6x	0.6x	0.5x	0.5x	3.8x	4.3x	3.8x	3.6x	9.3x	13.6x	11.3x	9.9x
Average peer group		11	0.8x	0.8x	0.7x	0.7x	10.2x	7.3x	5.2x	4.5x	7.3x	15.6x	12.3x	10.9x
Median peer group		52	0.7x	0.6x	0.7x	0.7x	5.2x	8.1x	5.5x	4.6x	8.6x	15.6x	11.5x	9.9x
GM Leather SpA	Milan	13	0.9x	0.9x	0.7x	0.7x	6.2x	6.2x	3.9x	3.3x	6.3x	10.0x	2.8x	2.0x

Source: FactSet, KT&Partners' Elaboration

EV/EBITDA Multiple Valuation

Multiple Valuation (€mn)	2024E	2025E	2026E
EV/EBITDA Comps	7.3x	5.2x	4.5x
GM Leather EBITDA	6.2	10.0	11.7
Enterprise value	45.2	52.3	52.1
Average Enterprise value		49.9	
<i>Liquidity/Size Discount</i>		10%	
Enterprise Value Post-Discout		44.9	
FY23 Net Debt		25.7	
Equity Value		19.2	
<i>Number of shares (mn)</i>		11.2	
Value per Share €		1.7	

Source: FactSet, KT&Partners' Elaboration

P/E Multiple Valuation

Multiple Valuation (€mn)	2024E	2025E	2026E
P/E Comps	15.6x	12.3x	10.9x
GM Leather Net Income	1.3	4.6	6.4
Equity Value	19.9	56.3	69.1
Average Equity Value		48.4	
<i>Liquidity/Size Discount</i>		10%	
Equity Value Post-Discout		43.6	
<i>Number of shares (mn)</i>		11.2	
Value per Share €		3.9	

Source: FactSet, KT&Partners' Elaboration

DCF Valuation

We have also performed our valuation using a four-year DCF model, based on a 17.3% cost of equity, 6.0% cost of debt and a target capital structure with 70.0% debt. The cost of equity is a function of the risk-free rate of 3.65% (Italian 10y BTP), 5.2% equity risk premium (Damodaran's country equity risk premium for Italy) and a premium for size at 6.5%. We therefore obtained 12.0% WACC.

We discounted 2024E–27E annual cash flows and considered a terminal growth rate of 1.0%; then we carried out a sensitivity analysis on the terminal growth rate (+/- 0.25%) and on WACC (+/- 0.25%).

DCF Valuation				
€ Millions	2024E	2025E	2026E	2027E
EBIT	3.5	7.6	9.6	11.5
Taxes	(0.8)	(1.8)	(2.3)	(2.8)
D&A	2.7	2.3	2.1	1.9
Change in Net Working Capital	(1.9)	(3.4)	(0.2)	0.1
Net Operating Cash Flow	3.9	5.3	9.7	11.4
Capex	(1.9)	(0.5)	(0.5)	(0.5)
FCFO	2.0	4.8	9.2	10.9
g	1.0%			
Wacc	12.0%			
Discounted Cumulated FCFO	20.9			
TV	99.4			
TV (discounted)	69.1			
Enterprise Value	89.9			
NFP 23	25.7			
Equity Value	64.3			
Current number of shares (mn)	11.2			
Value per share (€)	5.72			

Source: Company data, KT&Partners' elaboration

DCF Sensitivity Analysis						
€ Millions	Terminal growth Rate	WACC				
		12.5%	12.3%	12.0%	11.8%	11.5%
	0.5%	57.1	59.0	61.0	63.0	65.1
	0.8%	58.6	60.6	62.6	64.7	66.9
	1.0%	60.2	62.2	64.3	66.5	68.8
	1.3%	61.8	63.9	66.1	68.4	70.8
	1.5%	63.4	65.6	67.9	70.3	72.8

Source: Company data, KT&Partners' elaboration

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