Equity Valuation
Davide Campari-Milano N.V.

Lorenzo Pizzo

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Professor José Carlos Tudela Martins

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Abstract

Title: Equity Valuation Davide Campari-Milano N.V.

Author: Lorenzo Pizzo

This dissertation aims to determine the value of the equity of Campari, a leading company in the branded spirits industry. Among the set of valuation techniques presented, the FCFF version of the Discounted Cash Flow model resulted to be the most appropriate methodology to derive the price target for Campari. In addition, market multiples have been considered by focusing on forward P/E and forward EV/EBITDA. Furthermore, precedent transactions have been analysed in three different periods, highlighting the respective EV/EBITDA and EV/Sales. The resulting price target from the DCF is € 11.27 as of December 31st, 2022, which corresponds to a 10.9% upside potential compared to the closing price of € 10.16 as of 13th December 2022. The buy recommendation is based on a solid growth and risk profile of the projected cash flows of the company. Given the challenging macroeconomic landscape, scenario analysis has been included to account for a slower recovery from the Ukraine crisis. In addition, sensitivity and Monte Carlo analyses have been incorporated to assess the elasticity of the result to changes in key inputs. The outcome suggests a wider price range between € 8.11 and € 15.63, which in 50.4% of the simulations corresponds to a buy recommendation. Lastly, the result and the main assumptions have been compared to an equity report issued by *Bank of America*.

Resumo

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Esta dissertação visa determinar o valor do capital próprio da Campari, uma empresa líder na indústria de bebidas destiladas de marca. Entre o conjunto de técnicas de avaliação apresentadas, a versão FCFF do modelo de Fluxo de Caixa Descontado resultou ser a metodologia mais apropriada para determinar o preço-alvo para a Campari. Adicionalmente, foram considerados múltiplos de mercado, especialmente o P/E futuro e EV/EBITDA futuro. Além disso, as transações precedentes foram analisadas em três períodos diferentes, destacando-se os respetivos EV/EBITDA e EV/Sales. O preço-alvo resultante do DCF é de 11,27 euros em 31 de dezembro de 2022, o que corresponde a um potencial de crescimento de 10,9% em comparação com o preço de fecho de 10,16 euros em 13 de dezembro de 2022. A recomendação de compra baseia-se num sólido perfil de crescimento e risco dos fluxos de caixa projetados da empresa. Dado o difícil panorama macroeconómico, foi incluída uma análise de cenários para explicar uma recuperação mais lenta da crise da Ucrânia. Além disso, foram incorporadas análises de sensibilidade e de Monte Carlo para avaliar a elasticidade do resultado a alterações nos principais fatores de produção. O resultado sugere um intervalo de preços mais amplo entre 8,11 e 15,63 euros, que em 50,4% das simulações corresponde a uma recomendação de compra. Finalmente, o resultado e os principais pressupostos foram comparados a um relatório de avaliação emitido por parte do *Bank of America*.

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1. Introduction

Equity valuation is a process used in a wide range of activities, including portfolio management, corporate finance, and M&A. This dissertation considers the procedure from an investor standpoint, whose ultimate goal is to determine whether a stock is correctly priced by the market or under/over valued. Thus, the resulting price target will be proposed as a potential investment recommendation.

Campari is an interesting company to analyse from a financial and strategic perspective. After more than 160 years of prosperous history, the company continuously evolves to maintain a unique brand identity. Its proprietary brands are key products behind the success of many world-known cocktails as the Negroni and the Aperol Spritz, which have been reported to be respectively #1 and #6 best-selling cocktails in 2022 (Drinks International 2022).

Therefore, this thesis aims to assess the fair value of Campari by analysing its dynamic sources of value. The price target will be estimated as of December 31st, 2022.

The dissertation begins by presenting the relevant literature to discuss the main valuation techniques used in the financial advisory industry. Subsequently, the company will be introduced to identify key drivers of its value. At the same time, the macroeconomic scenario and the spirits sector are analysed to define the challenges and the competitive scenario that Campari faces. Later, the financials of the firm will be evaluated by presenting recent metrics and performances, which are then compared with a selected peer group. Afterwards, the forecasting and valuation chapter will initially explore the set of assumptions required to project the accounts of Campari. The resulting statements are the basis of the valuation process, which will be performed through the FCFF version of the DCF. The outcome is followed by an analysis of market multiples and precedent transactions. Furthermore, the price target is tested by applying scenario, sensitivity, and Monte Carlo analyses. Lastly, the result and the main assumptions are compared to an equity report issued by *Bank of America*.

2. Theoretical background

2.1 Introduction

In the following chapter, the three main valuation methods used in the financial industry will be introduced, with the aim of presenting the respective benefits, disadvantages, and applicability in a company specific case. Firstly, the DCF approach will be presented in form of FCFF, FCFE, and APV. Secondly, the relative valuation section will analyse the market multiples and transaction multiples approaches. Subsequently, the residual income model will be briefly introduced. The description of each model is supported by the main literature available. Lastly, the relevant inputs required to perform the valuation will be discussed.

2.2 Discounted Cash Flow

The DCF analysis represents one of the most common methodologies used by practitioners and researchers to derive the value of a firm (Bruner 1998, Kolouchová & Novák 2010). It relies on the idea that the intrinsic value of a company can be measured by discounting the projected future cash flows at an appropriate discount rate that reflects the risk perceived by investors. The intrinsic value can be interpreted as the value of an asset based on its fundamentals or intrinsic characteristics (Damodaran 2012). This methodology separates the value of the entity into two periods. Firstly, the explicit period includes a detailed projection of the financials of a firm that may vary from 5 to 10 years, depending on the company's industry, maturity, and the predictability of the performances. Secondly, the terminal value (TV) represents the residual value left over after the forecasted period, and it constitutes the largest portion of the overall value. Its computation requires a key assumption regarding the long-term expectations of the company's performances. If the company is expected to generate cash flows in perpetuity, the going concern approach will be used. In this case, the terminal value explains the value of the firm when it reaches a steady state, in which its growth rate, cash-flows, and capital structure, can be considered sustainable in perpetuity (Damodaran 2012). In contrast, if a company is assumed to terminate its operations, the liquidation value will be computed. Under this condition, the TV can be estimated by considering the book value of assets adjusted for inflation or by accounting for the respective earning power. Lastly, the TV can be valued by applying an exit multiple. The latter can be obtained from the fundamentals or from the market, leading to a relative valuation. Apart from the liquidation approach, the other two methods find wide applicability, and generally both are incorporated in the financial advisory industry (Bruner 1998). The DCF can be applied by using different types of cash flows. When practitioners refer to free cash-flows to the firm (FCFF), cash flows available to all capital provider are included. This methodology allows to obtain the enterprise value by discounting at the weighted average cost of capital (WACC). Further, Net Debt and any Minority Interests are subtracted to determine the equity value. On the other hand, by referring to the free cash-flow to the equity (FCFE), only cash flows available to equity holders are considered. Hence, this methodology provides the equity value by discounting at the cost of equity (Ke). Lastly, the Adjusted Present Value (APV) method can be included in the DCF classification. It proposes to value the company as if it is all equity financed, and then account for the present value of tax benefits of debt and bankruptcy costs.

2.2.1 Free Cash-Flow to the Firm

The FCFF approach yields the value of the entire business, which is available to bondholders, equity holders, and preferred stockholders. FCFF are calculated by starting from the earnings before interest and tax (EBIT) and subtracting the taxes by using the effective tax rate. Afterwards, all non-cash charges as D&A and provisions are added back, excluding the ones related to goodwill. Further, investments (reduction) in operating working capital and capital expenditures (CapEx) are considered. Since EBIT does not include debt payments, the tax shield is included in the discount rate.

$$FCFF = EBIT * (1 - tax\ rate) + D\&A - \Delta OWC - CapEx$$

Equation 1. Free Cash-Flows to the Firm

Lastly, both the projected FCFF and the terminal value are discounted at the WACC to obtain the value of the firm.

$$Firm\ Value = \sum_{t=1}^{t=n} \frac{FCFF_t}{(1 + WACC)^t} + \frac{Terminal\ Value}{(1 + WACC)^t}$$

Equation 2. Value of firm

Where n is the life of the company, implying the computation of the terminal value as described previously. The last step to derive the equity value requires to subtract the value available to non-equity capital providers. Hence, minority interests, preferred stocks, and net debt are deducted from the result.

2.2.2 Free Cash-Flow to Equity

The FCFE, or “potential dividends”, method returns the cash that a firm is able to distribute to its shareholders. FCFE are the cash-flows left over after meeting the reinvestment needs, such as working capital and CapEx, together with every financial obligation to debt holders and preferred equity holders. By starting from the Net Income, tax benefits of debt are directly accounted in the FCFE rather than in the discount rate.

$$FCFE = Net\ Income + D\&A - \Delta OWC - CapEx + \Delta D$$

Equation 3. Free Cash-Flow to the Equity

Where ΔD represents the net cash-flow to debtholders and preferred equity holders, which includes new debt issued net of the repayment of the principal on existing debt, and any preferred dividend net of new respective issues. Differently from the FCFF approach, cash-flows are discounted at the cost of equity (Ke), which represents the risk that common shareholders face when investing in the company.

$$Equity\ Value = \sum_{t=1}^{t=n} \frac{FCFE_t}{(1+Ke)^t} + \frac{Terminal\ Value}{(1+Ke)^t}$$

Equation 4. Value of equity

The result represents the potential dividend which could be available to common shareholders in form of dividends or share buybacks. Hence, when firms decide to pay dividends, or repurchase shares, in an equal amount to the FCFE, the Dividend Discount Model (DDM) will yield the same result. However, the payout policy is often considered to be a political decision as it might act as a signalling tool (Berk, DeMarzo 2017). Thus, when dividends do not coincide with FCFE, the DDM model results to be less effective. When comparing the FCFE to the FCFF, a few differences can be pointed out. Firstly, as the FCFF is based on the EBIT while the FCFF on net income, the respective growth will be different, mainly because of the effects of leverage (Damodaran 2012). Secondly, when a company has extremely high/low value of leverage, or its level is not constant over time, the volatility induced by new debt issues and debt payments may lead to inaccurate estimates of the FCFE, becoming the equity more reliant on assumptions related to growth and risk (Damodaran 2012).

2.2.3 Adjusted Present Value

The APV approach first values the company as if it is all equity financed, and then makes the proper adjustments by accounting for the effects of debt. To determine the value of the unlevered firm, FCFF are discounted by using the unlevered cost of equity. Debt adjustments include the tax shield and bankruptcy costs, which require an estimation of the probability of default.

$$Value\ of\ levered\ firm = \frac{FCFF * (1+g)}{Ke_u - g} + PV(Tax\ Shield) - (PD * BC)$$

Equation 5. Value of levered firm

Where g represents the expected growth rate of the FCFF, Ke_u the unlevered cost of equity, PD the probability of default, and BC the expected bankruptcy costs. The present value of the tax shield is computed by multiplying the marginal tax rate by the debt value, and the result will be discounted at the cost of debt (Myers 1974). Secondly, bankruptcy costs are divided into direct and indirect costs. Their projections are a though process, especially with respect to the indirect ones as they represent lost opportunities. Researchers estimated direct costs to account for 3%-5% relatively to the firm value, where the figure depends, among many other aspects, on the industry and maturity of the firm (Warner 1977). On the other hand, indirect ones require a set of sound assumptions, and they have been estimated to represent between 25% and 30% of the firm value (Shapiro, Titman 1984). Lastly, the probability of default can be derived by looking at the credit rating attributed to the firm. The APV approach finds applicability when the debt level of a company changes materially, and its schedule is known (Damodaran 2012).

2.3 Relative Valuation

The relative valuation approach proposes to value an asset by considering comparable assets traded in the market. This methodology can be considered the most used approach to value equity securities, as a recent research reported that more than 90% of the analysts use relative valuation (Pinto, Robinson, Stowe 2018). Its popularity is explained by the wide applicability and easiness in understanding the results. Despite it may seems a simple process, it requires a solid analysis of the group of companies or transaction selected as similar. The following section will present the two main methodologies used by practitioners.

2.3.1 Market Multiples

Two companies can be considered comparables when the respective cash-flows, growth, and risk profile are similar (Damodaran 2012). Usually, practitioners select the set of peers by considering the industry in which the target company operates, its size and capital structure. This methodology is supported by the idea that a given industry is representative for the risk and earnings growth of the companies included (Alford 1992). In addition, by benchmarking on industry combined with ROE leads to the most accurate results (Cheng & McNamara 2000). There is a wide range of multiples, which can be computed by using historical data (current multiples) or expectations (forward multiples). Historicals are safer as they rely on audited data, whereas forward multiples include the projections of the analyst. The latter have been found to be more accurate in a P/E approach, leading to a more frequent use (Lie & Lie 2002). The preference towards the use of forward multiples is supported also when valuing IPOs (Kim

& Ritter 1999). No multiple is commonly accepted to perform best, as their applicability vary across industry, size, maturity, and asset structure. Therefore, each case requires a different approach. Generally, the accuracy of the results of a relative valuation increases when valuing large corporations with a reduced portion of intangibles (Lie & Lie 2002).

2.3.2 Precedent Transaction Multiples

Similarly to market multiples, the selection of the universe of comparable transactions represents a critical aspect for the entire valuation process. In this case, analysts look for an acquisition that involves companies that are similar on a fundamental level to the target. There are a few other aspects that practitioners control when applying this methodology. Firstly, the transaction should be as recent as possible since market conditions significantly affect many inputs of the model. Moreover, this approach includes the takeover premium paid by the acquirer when purchasing a company, which can be defined as the additional price paid to receive the right to take decisions regarding the target company (Rosenbaum & Pearl 2013).

2.4 Residual Income Model

The residual income represents the remaining income after accounting for the costs of funding, including the cost of debt and cost of equity.

$$Equity\ Value = Equity\ book\ value + \frac{(ROE - Ke) * Equity\ book\ value}{(Ke - g)}$$

Equation 6. Value of Equity in the Residual Income Model

Where g is the profit growth. The correspondent equity value can be computed for every year, with the aim of determining wheatear the company is creating or destroying value depending on the magnitude of the cost of equity. As shown by the formula, when the ROE is greater than Ke, the market value of equity will be higher than its book value, i.e. the company creates value. This approach finds applicability also in the process of evaluating managers' performances, as in contrast to earnings, it highlights the quantity and risk of the capital that is required to obtain a given amount of earnings (Fernández 2002). The same research states that this model, if properly applied, yields the same result as the DCF.

2.5 Weighted Average Cost of Capital (WACC)

The WACC reflects the weighted average cost of all sources of capital of a company, and it is used to discount the forecasted FCFF and the respective terminal value. It includes the cost required by equity-holders (Ke), the after-tax cost of debt (Kd), and costs required by any other capital provider, such as preferred equity-holders. The costs are weighted according to the respective market value proportions in a target capital structure perspective (Koller, Goedhart, Wessels 2020).

$$WACC = K_d * (1 - \tau) * \frac{D}{(D + E)} + K_E * \frac{E}{(D + E)}$$

Equation 7. WACC formula with two sources of capital

Where τ is the effective tax rate (Fernandez 2010). This setting requires the definition of the target capital structure, which has to be consistent with the long-term strategy of the firm. The target gearing is decided by the management with the aim of maximizing the value available to shareholders, which requires the minimization of the cost of capital. Its figure may be disclosed by the company, or in absence of any guidance, the average, or median, of the group of comparables can be used as a proxy. The other inputs are discussed in the following sections.

2.5.1 Cost of Equity

The cost of equity represents the rate of return that equity investors demand on their investments. The estimation of the cost of equity is a matter of discussion among researchers, but the predominant model results to be the Capital Asset Pricing Model (CAPM) (Graham & Harvey 2001). Considering the financial advisory industry, ca. 80% of the analysts use the standard version of the model, while the remaining ones incorporate a modified version (Bruner 1998). The model, in its standard version, rely on the idea that investors optimize their investment decisions on a function that depends on the mean and variance of returns of the portfolio (Markovitz 1952). However, when valuing companies operating in emerging countries, the CAPM has been criticized regarding the role of beta in explaining the appropriate risk, therefore a modified version has been proposed (Estrada 2002).

$$Ke = Rf + \beta(Rm - Rf)$$

Equation 8. CAPM standard version

The standard version states that equity investors demand an additional return, compared to a risk-free asset, to bear the more risk of the investment. The magnitude of the excess return, or risk premium, depends on the value of Beta, corresponding to the systematic risk, or company specific risk, which measures how a stock price behaves relatively to the movements in the overall market (Koller, Goedhart, Wessels 2020). Hence, high beta stocks ($\beta > 1$) will yield returns that exceed the market portfolio, while low beta stocks ($\beta < 1$) underperforms with respect to the market. This risk is non-diversifiable, and it can be computed according to three methods. Firstly, by regressing historical returns on the investment against returns of the market portfolio, which can be assumed as a market equity index. This process requires a significant period of life of the stock.

$$\beta = \frac{Covariance\ (R_E; R_M)}{Variance\ (R_M)}$$

Equation 9. Beta calculation

Secondly, a bottom-up approach can be followed. In this case, it is necessary to compute an average of the levered beta of publicly traded companies which operate in the same business of the target company. Then, the result has to be adjusted for the capital structure of the comparable firms. Thus, the result will be re-levered to determine the appropriate risk of the target firm. Lastly, a measure of the beta can be obtained also by analysing the company's earnings changes relatively to changes in earnings in the market (Damodaran 2012). Another crucial input in the computation of the cost of equity is the risk-free rate. The estimation of this input has been quite simple until 2009, when interest rates were reduced to low, or even negative, levels (Koller, Goedhart, Wessels 2020). From that year onward, there has been discussion regarding the maturity of the bond considered, and if possible, alternative measures. In general, ca 40% of the US financial advisors used treasuries bonds with 30 years as maturity, and ca 30% between 10 and 30 years (Bruner 1998). However, the maturity of the risk-free rate should be consistent with the investment horizon (Damodaran 2012). The last input required is the equity risk premium (ERP), which reflect the more risk compared to a risk-free asset. Also in this case, several models are used in the industry to provide estimates of the ERP. Moreover, its value depends both on the choice of the risk free and on the benchmark of market returns. There is no approach that work properly for all type of analysis (Damodaran 2020), and each model will yield significantly different results (Duarte & Rosa 2015). In the 90's, 50% of the financial advisors in the US have been reported to use a fixed rate of ca 7-7.5%, which in most cases resulted to coincide to the historical average (Bruner 1998). Generally, in a global perspective, ERP can be computed as the 10-years expected return of the S&P 500 relatively to the 10-year US treasury bond yield (Graham & Harvey 2015).

2.5.2 Cost of Debt

The cost of debt measures the cost that firms are charged when borrowing capital. Its estimate depends on the debt structure of the firm, which usually include traded bonds and loans. Public companies tend to fund their projects by issuing bonds, and if they are frequently traded, the respective price and coupon can be used to determine a yield. Hence, a weighted average of the yields represents a fair estimation of the cost of debt. In case of illiquid bonds, a credit rating, and the respective cost of debt associated can be used. Lastly, in absence of any outstanding bond, analysts can look at the recent borrowing history, or determine a synthetic rating according to financial ratios such as the interest coverage ratio (Damodaran 2012).

2.6 Conclusions

To determine the appropriate methods to value Campari, each model presented in this chapter has been considered. Further, the selection is based on the characteristics of the company together with the applicability, benefits, and drawbacks of each approach. Thus, the DCF results to be the most suitable methodology to value Campari. In detail, this methodology finds applicability as Campari's cash flows are positive, the respective estimates are reliable, and an appropriate discount rate can be applied. Furthermore, given that Campari has a stable capital structure, and its performances are not related to the economic cycle, the application of the DCF has not required further adjustments. Later, a relative valuation has been incorporated to assess how Campari trades relatively to its peers. To determine the peer group, the filtering process has considered both industry and fundamentals characteristics. The model introduces the main revenues and earnings multiples, with a focus on the forward P/E and forward EV/EBITDA. The latter has been chosen as EBITDA is a good proxy for cash flows, and the use of EV allows to compare firms with different capital structures. On the other hand, the P/E is a straightforward metric which is easy to understand and compare among firms. Lastly, precedent transactions have been analysed to extract the implicit EV/EBITDA and EV/Sales.

3. Company Overview

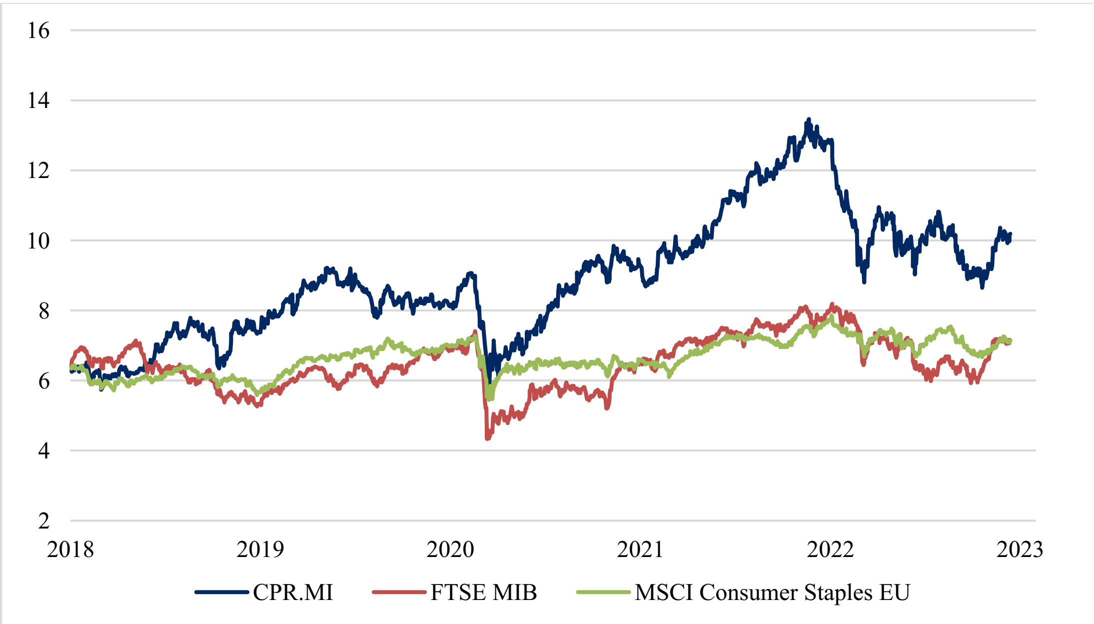
Davide Campari-Milano NV (CPR.MI) is an Italian company active in the branded spirits industry, established in 1860 and traded on the Italian Stock Exchange (Borsa Italiana) since 2001. The group produces more than 50 alcoholic and non-alcoholic brands, which are distributed in 190 countries employing around 4.000 people globally. Its portfolio includes world-famous brands such as Aperol, Campari, SKYY Vodka, and Wild Turkey, allowing the firm to establish leadership positions in Europe and America. See *Appendix 1* for full portfolio composition. The company has an ESG Combined Score of B. See *Appendix 10* for ESG Score.

The major shareholder with 54.2% of the voting rights is Lagfin S.C.A., which is indirectly controlled by Luca Garavoglia, the Chairman of Campari. The free float accounts for 42.5% of the total ownership, while the residual portion is represented by treasury shares.

3.1 Performance Highlights

During the last 5 years, CPR.MI has been able to outperform both the FTSE MIB, the main Italian equity index, and the MSCI Consumer Staples EU, which includes large and mid-cap companies active in the European Distillers & Vintners industry. The company showed a quick reaction to the pandemic, confirming its resilience and agility in facing negative shocks. However, its share price has been heavily affected by the Russian invasion, as it dropped by ca 10% on the 23rd of February, compared to -3.2% of the MSCI, and -4.0% of the FTSE MIB.

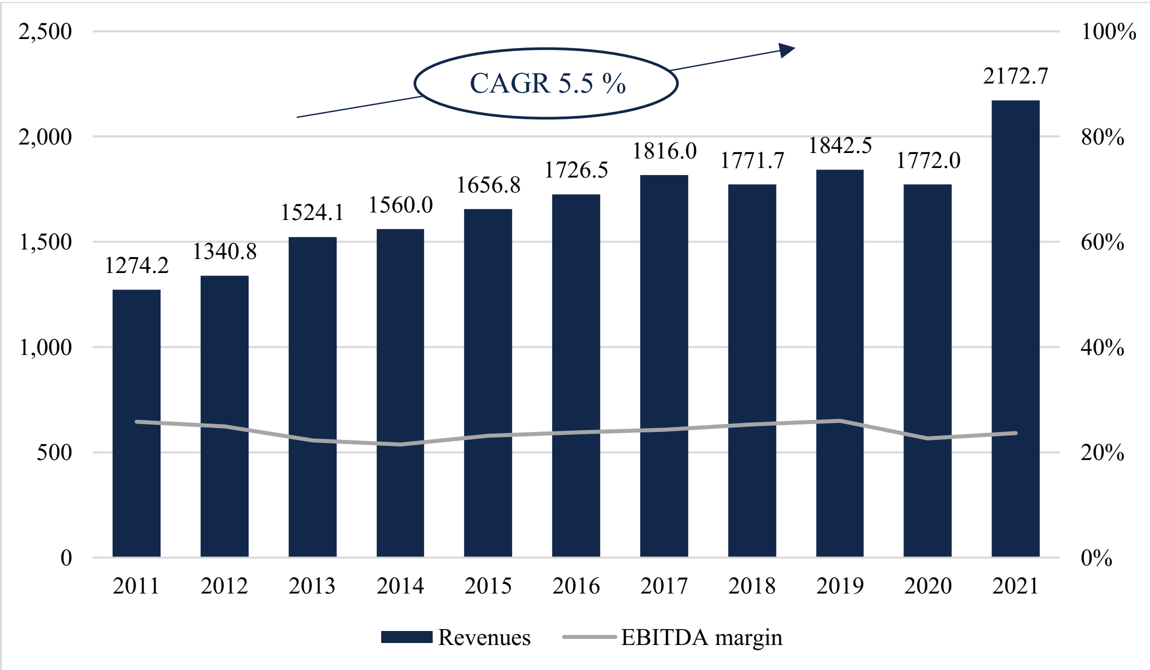
Figure 1. Share price history: CPR.MI vs FTSE MIB vs MSCI Consumer Staples EU



Source: Refinitiv Eikon

Campari is constantly growing over time, recording a 10-year CAGR of 5.5%, while maintaining a constant EBITDA margin at ca 24%. Covid-19 had a limited impact on the group's performances due to the exceptional growth in the use of e-commerce channels, together with the increase in sales of ready-to-drink products, which are designed to be consumed at home. Moreover, the company had been able to exploit new consumption trends by leveraging on own aperitif brands and premium products. Over the last 10 years, and particularly during recent uncertainty periods, Campari has shown high resilience and agility, reporting exceptional revenues of ca. €2.2 billion in 2021, nearly double compared to 2011's figure.

Figure 2. Key historical performances

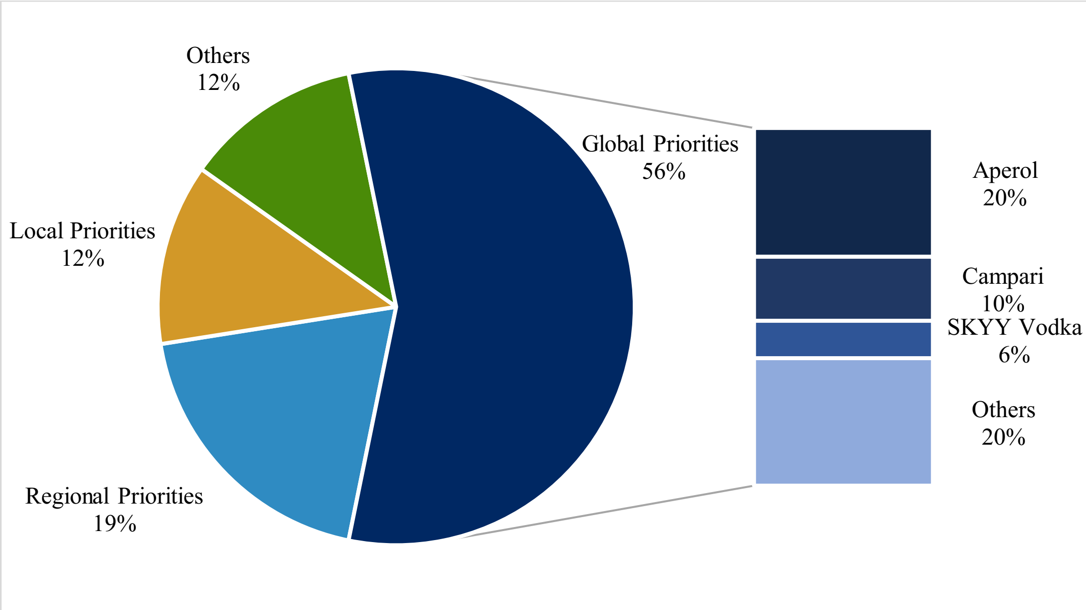


Source: Company Reports

3.2 Portfolio Composition

Campari pursues a portfolio expansion process by acquiring premium spirits brands to increase its position in key markets. The company's portfolio includes more than 50 brands, which are divided into three categories according to the respective geographical exposure and growth potential. "*Global Priority*" brands are distributed all over the world, representing more than a half of the group's sales. Aperol, Campari, SKYY Vodka, Wild Turkey portfolio, Grand Marnier, and the Jamaica Rums portfolio are part of this category. The rest of the portfolio includes "*Regional Priority*" brands, which are limited to a few countries, while "*Local Priority*" brands are designed for specific markets. See *Figure 3* for a detailed breakdown of revenues by brand category.

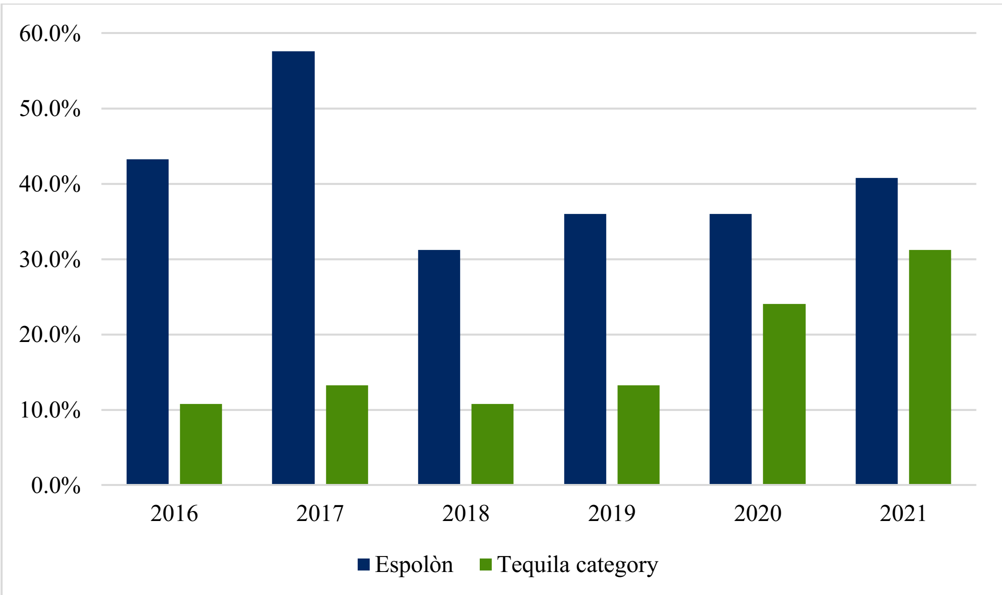
Figure 3. Revenue Split by Brand Category



Source: Company Reports

The portfolio composition has not changed significantly over the last 4 years, recording a minor increase (+3%) in Regional Priorities. The accretion is driven by the exceptional performances of the Espolòn (tequila-based product) brand in its core market, the US, where it contributes for 20% of the yearly sales. The brand, accounting for ca 30% of the Regional Priority sales, has been boosting the entire category by growing at solid double-digit rates for more than 5 years. *Figure 4* compares Espolòn value growth to the overall tequila category.

Figure 4. Espolòn vs tequila category value growth

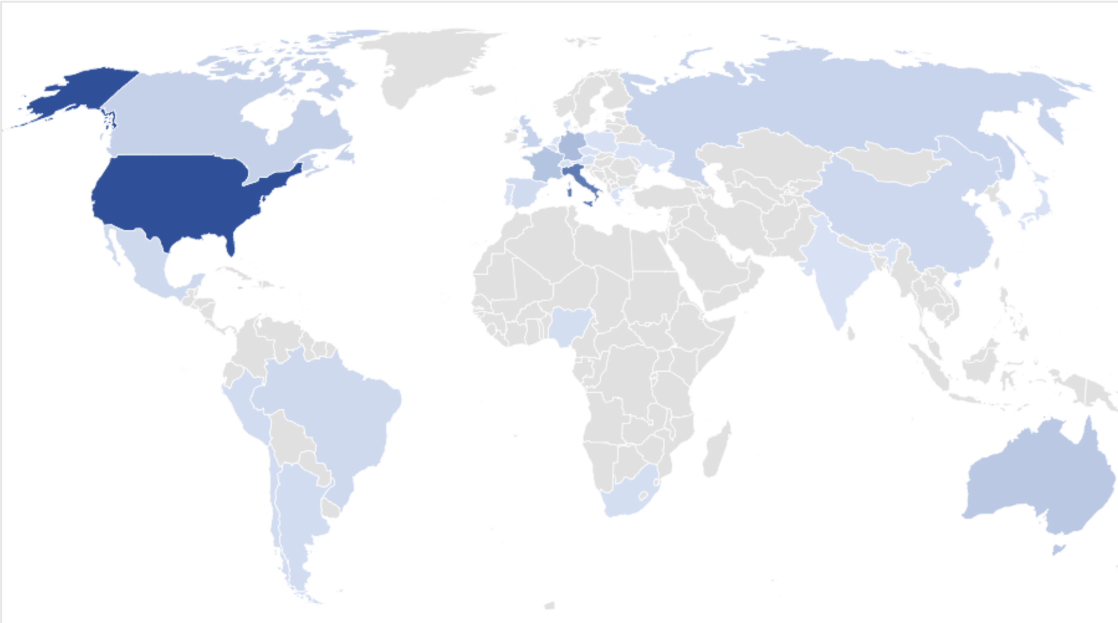


Source: DISCUS, Company Reports

3.3 Operating Segments

The company provides detailed information of the performances of four business segments. Americas (AMERICAS); Southern Europe, Middle East and Africa (SEMEA); Nord, Central and Eastern Europe (NCEA); Asia-Pacific (APAC).

Figure 5. Global presence by revenues

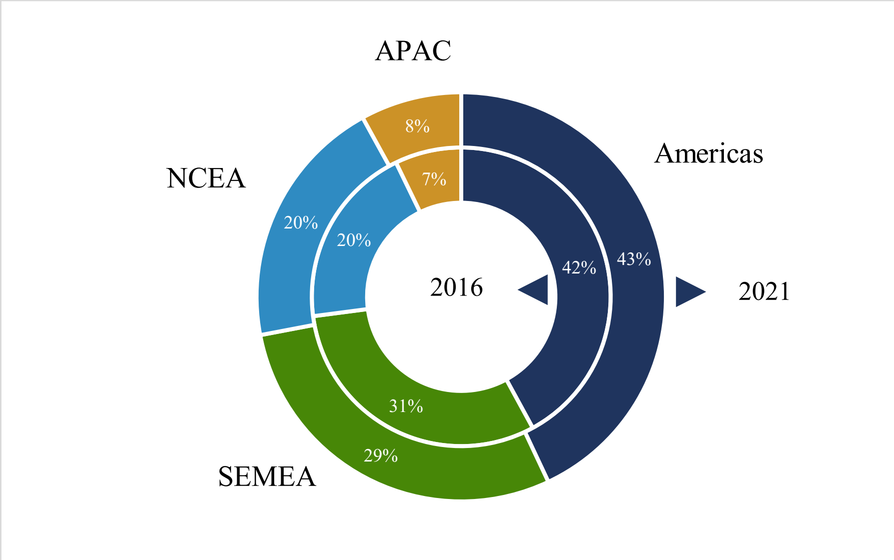


Source: Company Reports, Own Elaboration

The AMERICAS region represents the core market area for Campari, boosted by US performances which accounts for more than 25% of the total sales of 2021. This market is mainly driven by the "premiumisation" and aperitif trends in the spirit industry, which impacts particularly the Global Priority brands. The overall area reports a yearly organic growth of 23%, amplified by exceptional performances in Jamaica, Mexico, and Latin America. The SEMEA area is the second geographic region by sales. The segment is driven by Italy and France, which account respectively for 19% and 6% of the total revenues. The region is still exploiting the easing in Covid-19 restriction and the favourable weather during spring, summer and fall which in turn boosted the aperitif trend. These trends are also reported in the NCEA area, which is mainly represented by the German and UK markets. However, the latter segment is exposed to the Ukraine crisis, which in terms of performances accounts for ca 3% of the sales. Regarding the conflict, Campari has disclosed its decision of reducing to the minimum necessary the activities in the two countries involved, with the aim of supporting its employees. Lastly, the APAC area represents a key strategic market for the future of the brand. In fact, the company is enhancing its investments with the aim of exploiting coming trends in China and

Australia. The contribution of each area has been constant over the last 5 years, recording a minor decline (ca -1%) of Americas, whereas APAC (ca +1%) gained.

Figure 6. Revenue Split by Geographic Area

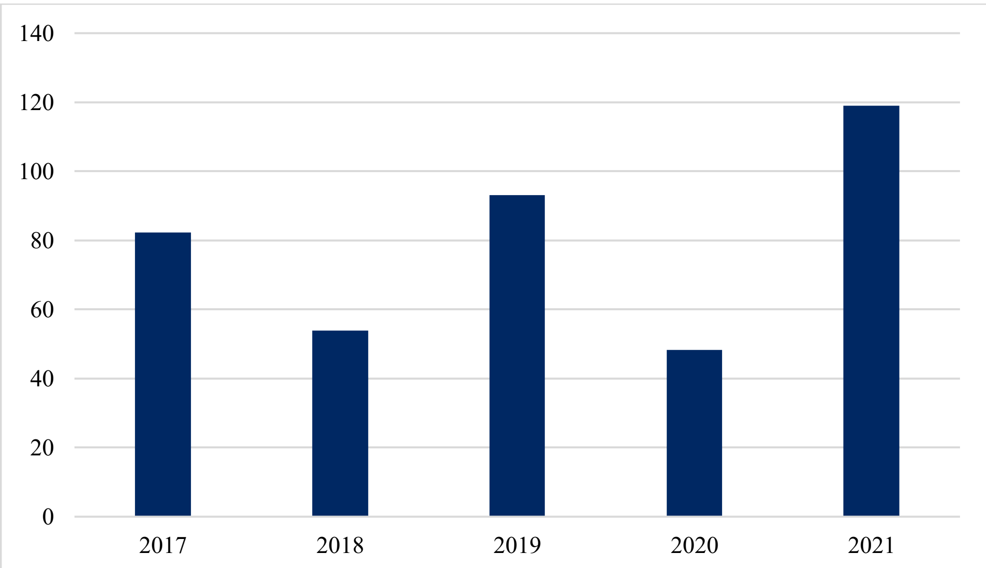


Source: Company Reports

3.4 Strategy

Campari pursues a strategy that combine organic growth by strengthening the brand, and external growth by expanding its portfolio through acquisitions. The intense acquisition process has involved more than 50 brands for a total value of ca. €3.3 billion, allowing the company to define its premiumization path and strengthen its presence in core markets. During the last 5 years, Campari spent around €400 million in the acquisition of key spirits brands that meet the acquisition criteria described above.

Figure 7. Acquisition activities of key brands, in € mln



Source: Company Reports

Simultaneously, the intense M&A activity is also aimed at enhancing the company's production and distribution capabilities, which currently consist of 22 production sites, and distribution networks located in 22 markets. In detail, in 2020 the group has heavily invested in the development of its distribution capacities in France, reporting a €60 million acquisition of a firm specialized on the distribution of premium spirits. The presence of distribution networks is a pivotal strategy that allows the company to leverage on marketing and commercial activities, and benefit from working capital and financials efficiencies. Hence, Campari is strengthening its distribution facilities in key strategic areas with high growth potential, focusing particularly on Asia. At the same time, the company is also intensifying its online business presence, as demonstrated by the recent €25 million acquisition of a 49% interest in Tannico, the leading e-commerce platform in the Italian Wines & Spirits market. The target represents a strategic acquisition that perfectly fit in the digital transformation process of the company, confirming the ability of Campari in capturing trends and finding opportunities during periods of uncertainty.

4. Industry Analysis

The spirits sector will be presented by introducing the macroeconomic scenario and the ongoing trends. Later, the structure of the market and the main competitors will be discussed.

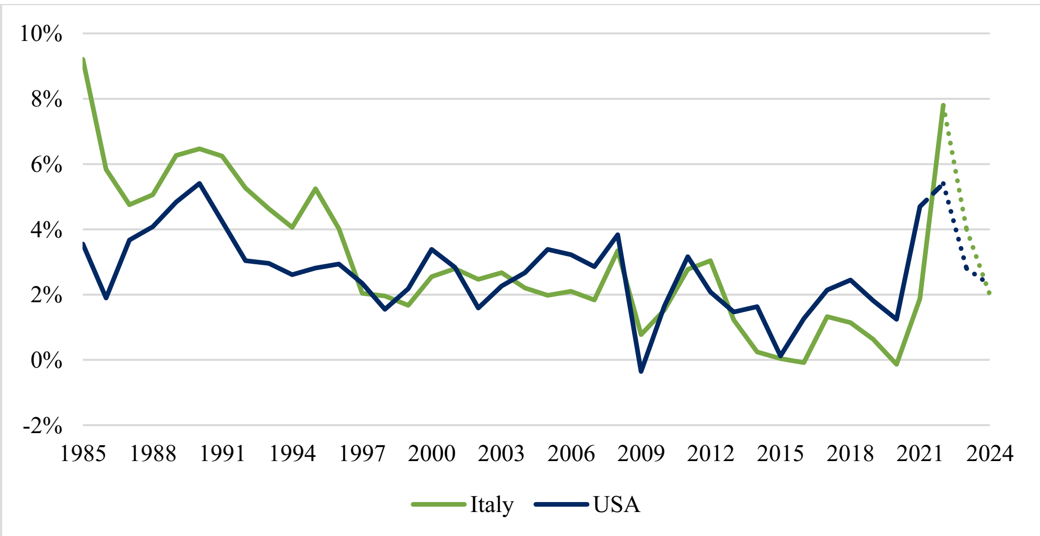
4.1 Macroeconomic Scenario

Recently, the world has suffered from the pandemic outbreak, the rising inflation, and the Ukraine crisis, which have all contributed to create a challenging scenario to operate in. Consequently, many central banks are trying to respond by increasing interest rates after a 10-years period of low, or even negative, levels.

4.1.1 Inflation

After a persisting period of low inflation, the global economy is now experiencing the rising cost of living caused mainly by the global recovery from the pandemic, the ongoing Ukraine conflict, and the recent supply-chain disruptions. As of October 2022, global inflation rates are expected to peak at 8.8% in 2022, and decrease to 4.1% by the end of 2024 (IMF 2022). Considering the two main markets for Campari, Italy and USA, which combined account for 45% of the total company's sales, inflation is expected to converge to 2% and 2.3% respectively by 2024.

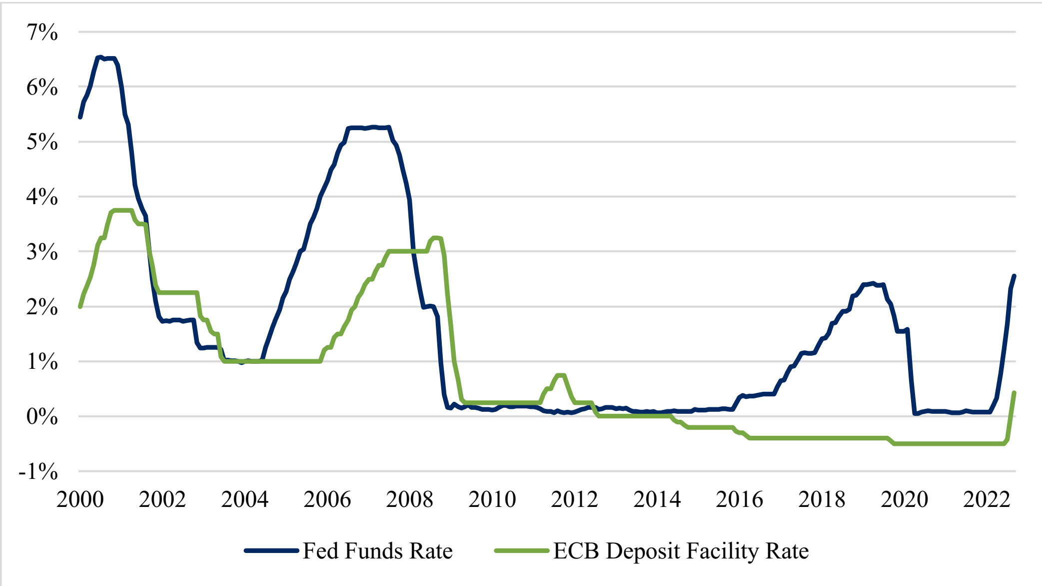
Figure 8. Headline inflation rates in US and Italy



Source: Banca d'Italia, Federal Reserve System

The magnitude of inflation's effects on the spirits industry differs from other alcoholic beverages, as spirits' price ranges are wider, leading to different implications among products (IWSR 2022). Furthermore, the spirits industry is much less concentrated with respect to other markets, such as the beer sector, providing lower price power in the hand of producers. In general, alcohol consumption has been estimated to account for 1% of the total personal expenditures of consumers in the US (NBWA 2018), representing a small portion of the disposable income which has been defined an "affordable luxury" by analysing historical economic downturns (Stone 2022). The rising inflation led also to the hike of interest rates, as many central banks rapidly increased the cost of borrowing to slowdown the inflation surge. Thus, disposable income of consumers will be challenged also by the monetary policy adopted by many central banks around the world.

Figure 9. ECB and FED key Interest Rates

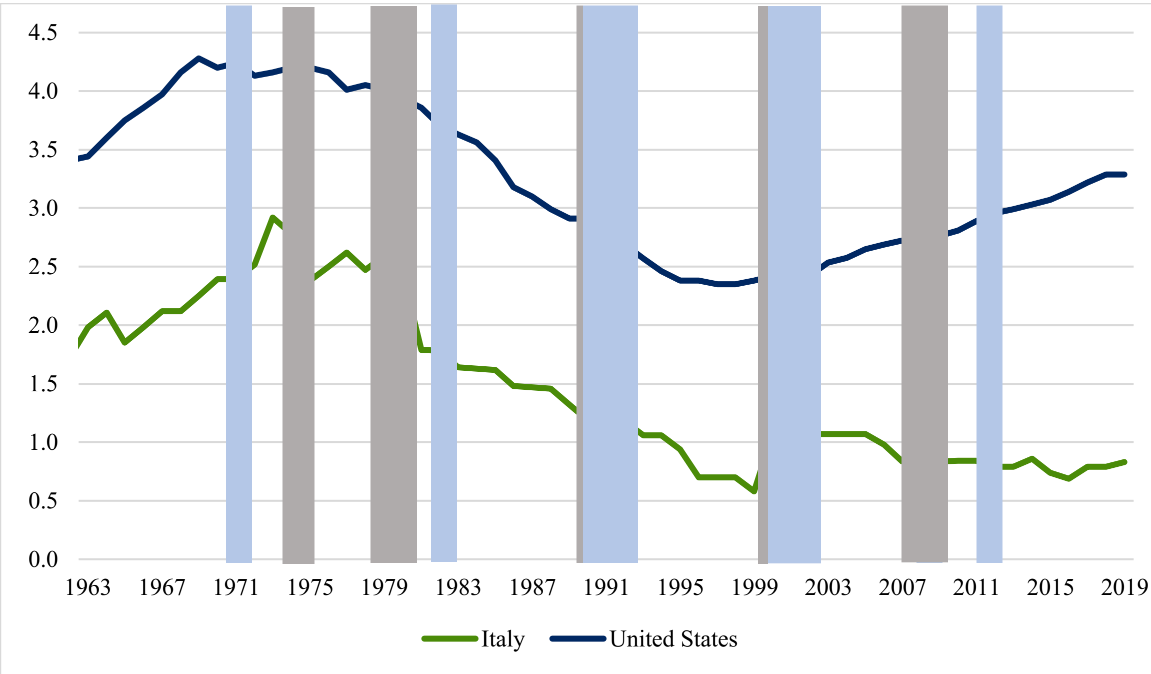


Source: FRED

4.1.2 Covid-19

The spirits sector has been heavily affected during the first wave of the pandemic, when pubs, clubs and restaurants were forced to shut their activities. Later, the industry has been able to benefit from new consumption trends while exploiting the return to normality. Indeed, during the pandemic, consumers shifted their habits towards the home consumption by purchasing products on e-commerce platforms and increasing the use of ready-to-use spirits (Stone 2022). These trends, together with the ease of restrictions, have contributed to the quick recovery of the industry. Regarding future projections, researchers agree on considering any type of pandemic-related limitation to be over by the end of 2022, with exception of some region in China where sever restrictions are still in place. By looking at historical periods of recession, pro-capita consumption of spirits seems to be quite unrelated to the economic cycle, confirming the resilience of the sector. The graph below presents the historical spirits consumption in Italy and US, and the main recession periods in the two countries (blue – recession in Italy, grey – recession in US).

Figure 10. US vs EU Spirits consumption per capita in litres of pure alcohol

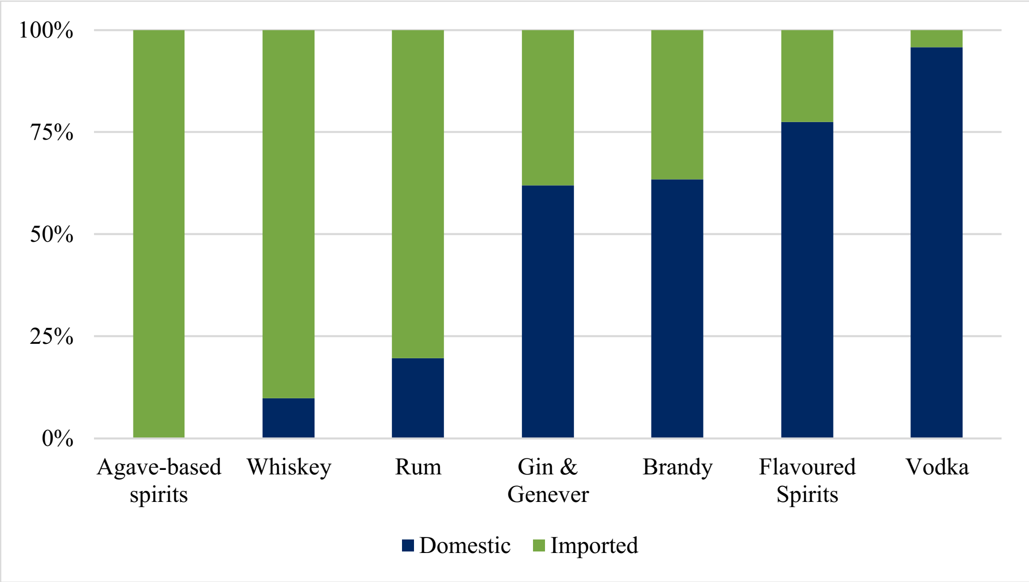


Source: Our World in Data, FRED

4.1.2 Ukraine crisis

After an encouraging recovery from the pandemic, the Ukraine crisis led the global economy to another period of uncertainty. The impact of the conflict on the spirits industry is strictly related to the limitations imposed to the export of luxury goods in Russia, including beverages products such as Champagne, wine, vodka, and vermouth, and to the surging cost of energy. Thus, many companies have decided to reduce or suspend their operations in the country. The Russian alcohol market accounts for 5% of the global volumes, representing the 4th largest market in the world. However, Russia's spirits consume is strongly dependant on import activities, particularly regarding agave-based spirits (mainly tequila and mezcal), whiskey, and rums. Hence, consumption habits in the country will be heavily impacted by restrictions, where the use of domestic products will be privileged.

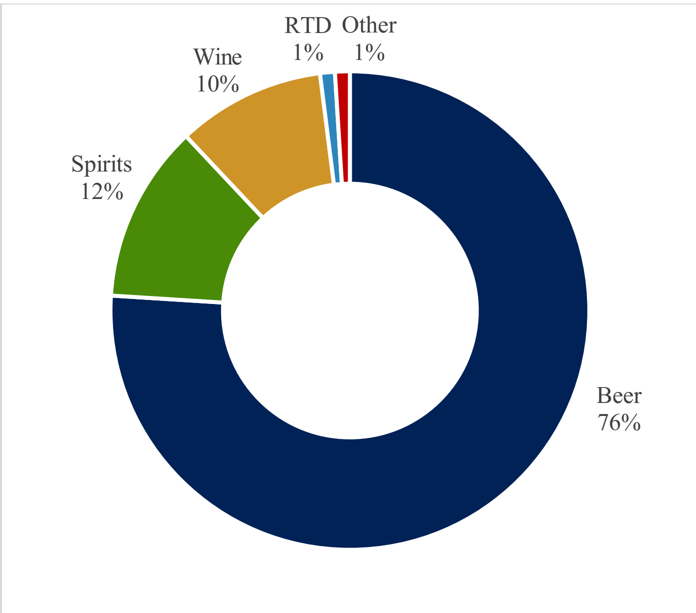
Figure 11. Spirits consumption in Russia in 2022



Source: IWSR

The Russian alcoholic market is mostly represented by beer, which accounts for more than a third of the total volumes, whereas spirits contributed for 12% in 2022.

Figure 12. Russian alcoholic market in 2022

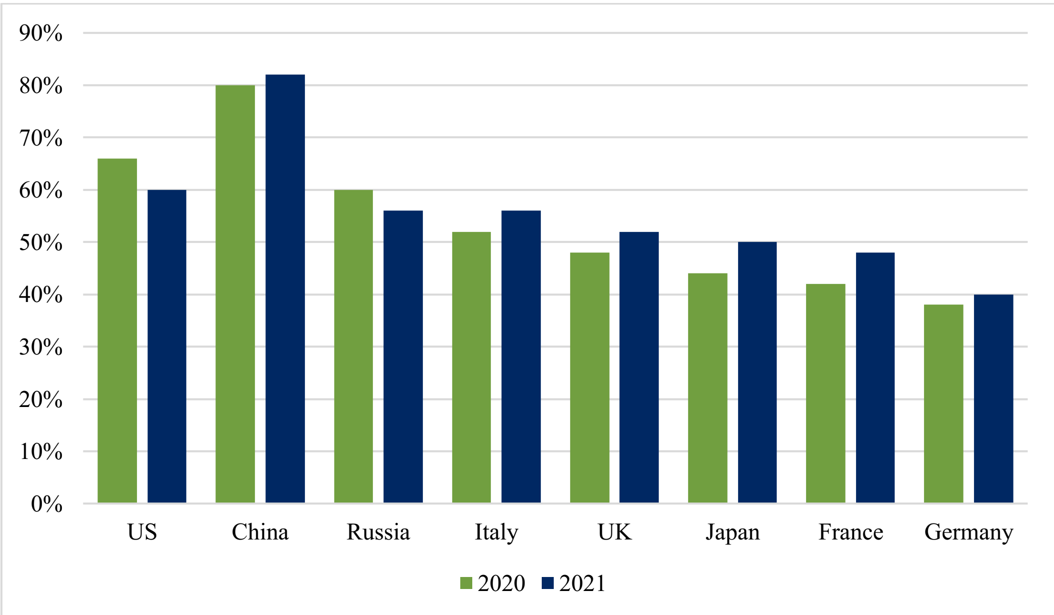


Source: IWSR

4.2 Industry Trends

As previously discussed, recent disruptive events, in addition to the ongoing economic downturns, required agility and resilience in managing new consumption habits. Consequently, the Spirits landscape has continuously evolved, challenging existing products to innovate, and allowing new products to emerge. As presented in this chapter, Covid-19 led people to consume more at home and purchase products on digital platforms. This tendency boosted the e-commerce value, which rose by ca 43% in 2020, compared to +12% in 2019, where China and US are the top contributor (IWSR 2021). The magnitude of these trend is exceptional, as two thirds of current online buyers made their first purchase during the pandemic (IWSR 2021). Consequently, there has been a surging demand for ready-to-drink (RTD) products, which are cocktails that does not require the mixing process. Its value is currently estimated to be 4% with respect to the total alcoholic beverages market, and it is expected to grow up to 8% by 2025 (IWSR 2022). At the same time, consumers are increasingly willing to drink more sophisticated products, shaping what is known as premiumization. This trend represents the idea of "*less volume and more value",* which in the spirits industry requires the creation of unique and rare products. The rise in value of products is mainly driven by a considerable propension of consumers in trying new and unique products. This trend turned out to be even stronger after the pandemic, particularly boosted from the reopening of pubs, clubs and restaurants. The chart presented below shows the proportion of consumers who tried a new alcoholic product during the previous six months.

Figure 13. Consumers who tried new brands or products in the previous 6 months

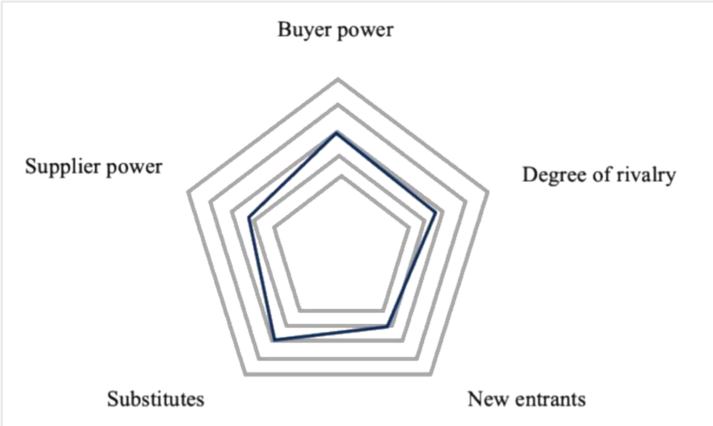


Source: IWSR

4.3 Market Landscape

The spirits market is characterized by the presence of large multinational players who influence the industry. The rivalry is moderate and stable, as emerging distilleries are usually acquired by market leaders. At the same time, most of the competitors pursues a vertical integration process, by including distilleries, bottling and storage facilities, and distributors. Consequently, new entrants may face excessive entry costs that would be transferred in higher retail price, limiting their entry strategies. Simultaneously, considering the high degree of customer loyalty in the industry, new distilleries may deal with several difficulties in attracting new clients.

Figure 14. Spirits Industry: Porter's Five Forces



Source: Own Elaboration, Marketline

The main players headquartered in Europe are Diageo and Pernod Richard, followed by Remy Cointreau and Campari. The latter, exploiting its diversified portfolio and geographical exposure, ranks as the 6th largest actor in the branded spirits industry. See *Appendix 8*. Diageo can be considered as the European market leader, as its current market cap (€ 104 billions) is significantly higher than the competitors. Furthermore, its EBITDA margin has been constantly around 35%, outperforming any other company in the sector. However, it has to be highlighted that the UK-based company is also active in the beer business, representing 16% of the sales. On the other hand, Campari recorded the highest revenue CAGR (4.70%) between 2016-2021, experiencing an average EBITDA growth of 5.2% in the same period. Apart from Diageo, the companies presented are similar in terms of growth and margins. Regarding profitability, which is measured by the ROE, Diageo confirms its exceptional performances by recording an outstanding 32.6% figure in 2021, compared to a 12.5% average of the three competitors considered. *Table 1* provides key information regarding the comparables by considering calendar year data.

Table 1. Peer analysis. Data as of 14th December 2021

€ mln	**Campari**	**Diageo**	**Remy Cointreau**	**Pernod Ricard**
Industries	Spirits	Spirits & Beer	Spirits & Wine	Spirits & Wine
Market Cap	11.652,0	104.160,0	8.286,7	48.398,7
Headquarter	Italy	UK	France	France
EBITDA margin	24.5%	34.8%	27.6%	31.2%
Profit Margin	13.1%	21.0%	16.2%	18.7%
Revenue CAGR 5Y	4.70%	4.10%	4.56%	2.21%
Gearing	13.2%	17.0%	10.1%	18.1%
ROE	12.9%	32.6%	13.2%	11.1%
ROCE	10.5%	17.1%	15.2%	10.1%
Adj. Levered Beta	0.71	0.58	0.53	0.61

Source: Company Reports, Refinitiv Eikon

5. Financial Analysis

This chapter will present the historical financial structure of Campari. This process has the purpose of assessing the company's performances in recent years to identify key drivers of future projections. Firstly, a ratio analysis will evaluate Campari's profitability, efficiency, liquidity, and solvency during the period between 2016 and 2021. At the same time, a comparison with the selected peer group will be provided by considering 2021 figures. Subsequently, the costs structure will be analysed. Lastly, a common-size standardized income statements will highlight the ongoing trends of the major line items across time and firms.

5.1 Ratio Analysis

The range of profitability ratios proposed aim to assess the company's ability to earn profits from its asset base. The main indicators are the ROE and ROCE, which show a slightly increase compared to 2016 figures. As highlighted by the table, Campari underperforms with respect to the peer group. However, by not considering Diageo, ROE and ROCE result to be in line with the peer group.

Table 2. Profitability ratios

Profitability	2016	2017	2018	2019	2020	2021	Peers
EBITDA margin	23.8%	24.3%	25.3%	26.0%	22.6%	23.7%	31.2%
Profit margin	13.7%	18.6%	14.6%	14.5%	11.3%	14.1%	18.7%
Asset Turnover	0.39x	0.39x	0.37x	0.38x	0.39x	0.43x	0.41x
ROA	5.3%	7.3%	5.4%	5.5%	4.4%	6.0%	7.7%
ROCE	9.4%	9.3%	9.7%	11.1%	8.5%	10.5%	14.1%
ROE (Dupont)	12.8%	16.5%	11.5%	11.2%	10.1%	12.9%	18.9%

Source: Company Reports, Refinitiv Eikon

Secondly, Campari's efficiency will be evaluated by considering its ability in managing the working capital. The ratios shown in *Table 3* investigate the company's capacity in collecting cash from customers, managing its inventory, and paying suppliers. In terms of working capital management, Campari is significantly faster in converting the inventory into sales, while it has still potential to extend its payables.

Table 3. Efficiency Ratios

Efficiency	2016	2017	2018	2019	2020	2021	Peers
Days Inventory	258,3	257,4	285,1	301,6	313,0	292,3	795.5
Days Receivables	69.6	72.7	73.4	70.0	72.8	55.7	53.7
Days Payables	118.3	120.5	118.2	116.2	138.2	149.6	259.0
Cash Conversion Cycle	209.6	209.6	240.3	255.4	247.6	198.4	590.1

Source: Company Reports, Refinitiv Eikon

To assess the financial strength of Campari, the most common liquidity ratios are introduced in *Table 4*. By considering every measure proposed, the company shows outstanding values compared to the peer average, confirming its readiness in meeting current obligations. Moreover, Campari experiences a current ratio and a quick ratio above 1, meaning that it would be able to cover its short-term liabilities by means of its liquid assets while maintaining the operations.

Table 4. Liquidity Ratios

Liquidity	2016	2017	2018	2019	2020	2021	Peers
Current Ratio	2,2x	3,0x	2,4x	1,5x	2,1x	2,0x	1.3x
Quick Ratio	1,2x	1,9x	1,5x	0,9x	1,2x	1,2x	0.6x
Cash Ratio	0,7x	1,1x	0,9x	0,6x	0,7x	0,8x	0.3x

Source: Company Reports, Refinitiv Eikon

Lastly, the financial strength of the company will be analysed considering the capacity of meeting long term obligations. By evaluating the book value Debt-to-Equity ratio, Campari is aligned with Remy Cointreau and Pernod Ricard, while Diageo relies more on debt (2.12x). Moreover, Campari's solid performances, together with a de-leveraging activity, reduced its Net Debt/EBITDA ratio to 1.7, which is 0.5x lower than Diageo and Pernod Ricard.

Table 5. Solvency Ratios

Solvency	2016	2017	2018	2019	2020	2021	Peers
Debt-to-Equity	0,74	0,67	0,6	0,55	0,77	0,65	1.03
Asset/Equity	2,39x	2,27x	2,12x	2,02x	2,28x	2,14x	2.88x
Net Debt/EBITDA	1,8x	2,2x	1,7x	1,3x	2,1x	1,7x	1.9x

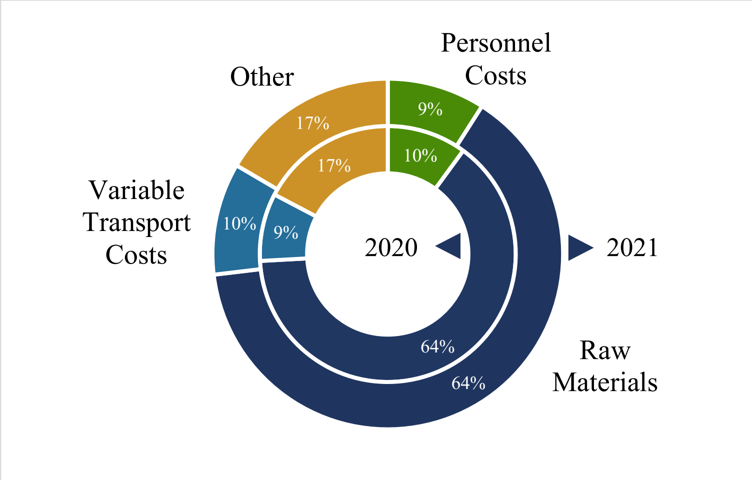
Source: Company Reports, Refinitiv Eikon

5.2 Cost Structure

5.2.1 Cost of Sales

The structure of the costs incurred by Campari to produce goods is provided in *figure 15*.

Figure 15. Cost of Sales structure



Source: Company Reports

In the spirts industry, raw materials are mainly represented by glass, alcohol, agave, sugar, cereals, and aromatic herbs. The respective price depends on several market conditions, which are not under control of the company. However, Campari is implementing strategies aimed at maintaining costs below inflation to support margin accretion, by including agreements with local agriculture producers, contracts with multiple suppliers, and an increase of safety stocks in key production sites. With respect to transport and freight charges, the respective fluctuations are currently affected by energy price increases, which might lead to an increase in the overall cost in the coming years.

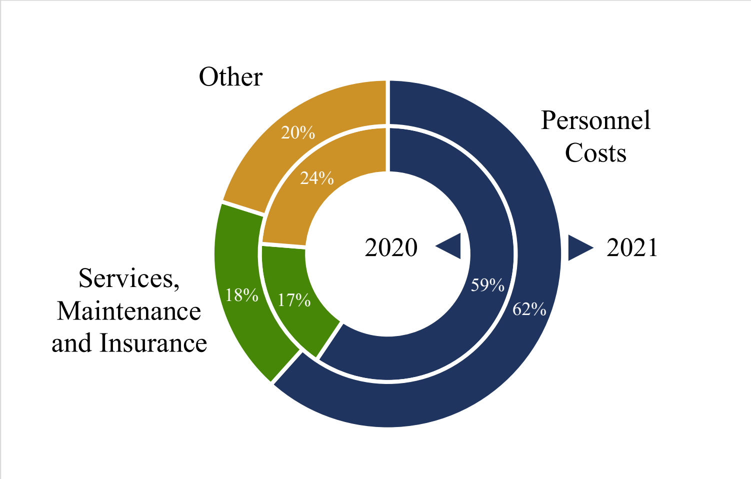
5.2.2 Advertising & Promotions

Considering the high customer loyalty of the business, advertising and promotional activities represents a key strategy in strengthening the brand value. Indeed, Campari consider the brand image to be a pivotal factor in driving consumers' choices. The company's adv plans are aligned with its portfolio strategy, which is constantly shifting towards a premium positioning. In the coming years, adv investments will be focused on strengthening global priorities brand images while leveraging the company's global distribution network to identify new trends and opportunities.

5.2.3 Selling, General & Administrative Costs

The main contributor of the SG&A category is represented by personnel costs, which in turn are related to wages and contributions. The change compared to 2020 is due to a reduction in employee bonuses and less hirings during the pandemic, which are now back to pre-covid levels. By considering the structure presented in *Figure 16*, the overall SG&A is considered to be a fixed cost that is strictly linked to wages dynamics.

Figure 16. SG&A structure



Source: Company Reports

5.3 Common Size Income Statements

By looking at IS figures as a percentage of sales, it is possible to better compare line items across time and firms. As shown by *Table 6*, Campari is maintaining its cost structure as well as depreciation expenses quite constant. However, EBITDA margin recorded a minor decrease due to an increase in A&P investments. Furthermore, during the last fiscal year, the relative tax burden surged due to solid performances compared to the previous year, together with significant fiscal benefits granted during the first wave of the pandemic.

Table 6. Campari Common-size Income Statement

% of Revenues	FY 2018	FY 2019	FY 2020	FY 2021
Cost of Goods Sold (COGS)	40%	39%	42%	40%
Advertising & Promotions (A&P)	17%	17%	17%	18%
Selling, General & Administrative (SG&A)	21%	21%	22%	21%
EBITDA	**25%**	**26%**	**23%**	**24%**
D&A	3%	4%	4%	4%
EBIT	**22%**	**22%**	**18%**	**20%**
Net Interest Expenses	2%	2%	1%	1%
EBT	**20%**	**20%**	**16%**	**19%**
Taxes	3%	3%	1%	5%
Net Income	**15%**	**15%**	**11%**	**14%**
Non-controlling Interests	-	-	0,06%	0,08%
Group Net Income	**15%**	**15%**	**11%**	**14%**

Source: Company Reports

The common size IS allows also to compare different companies operating in the same industry. However, it has to be noted that the cost recognition of SG&A is different among the companies proposed, and therefore the respective figures are not displayed. With respect to the other costs, Campari spends relatively more in COGS while it is aligned in A&P expenses. Nevertheless, its margins are relatively lower compared to each comparable.

Table 7. Peers Common-size Income Statement

% of Revenues	Diageo	Pernod Ricard	Remy Cointreau
Cost of Goods Sold (COGS)	38,7%	39,5%	31,4%
Advertising & Promotions (A&P)	17,6%	15,9%	20,5%
Selling, General & Administrative (SG&A)	-	-	-
EBITDA	**36,9%**	**31,9%**	**27,5%**
D&A	5,4%	3,6%	3,0%
EBIT	**28,2%**	**27,7%**	**24,4%**
Net Interest Expenses	0,4%	2,1%	0,9%
EBT	**28,4%**	**25,3%**	**23,4%**
Taxes	6,8%	6,3%	7,3%
Net Income	**21,6%**	**18,9%**	**16,1%**
Non-controlling Interests	-	0,1%	0,1%
Group Net Income	**21,0%**	**18,7%**	**16,2%**

Source: Company Reports

6. Forecast Inputs and Valuation

The following chapter will discuss the inputs required to forecast the accounts of Campari, providing the information needed to perform the valuation. Subsequently, the selected methodologies introduced in the literature review will be applied.

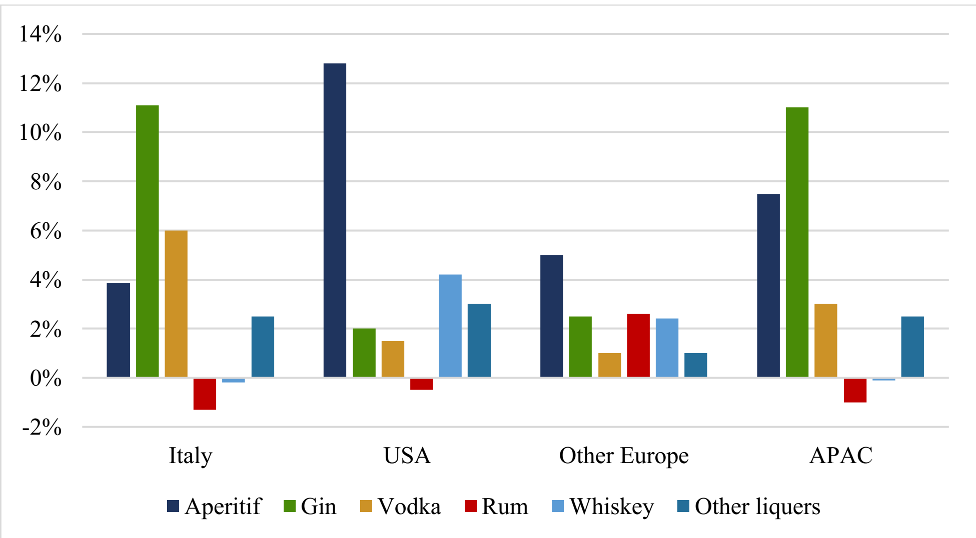
6.1 Forecast Inputs

The model divides the forecast period into two stages. A high growth phase started with the solid recovery from the pandemic, which is expected to last until the end of 2025. Later, Campari will progressively slow down its expansion by flattening working capital changes and converging CapEx towards D&A. In line with industry trends, from the end of 2028 onwards, the company is assumed to operate in a steady state.

6.1.1 Revenues

Sales have been forecasted by looking at recent trends and growth estimates of the spirits industry, while taking into consideration the geographical exposure of the company. Furthermore, in absence of a specific guidance, Campari's strategy has been evaluated to define detailed projections of each portfolio category. To estimate future volumes, each portfolio category has been analysed to determine which alcoholic beverages are included. The projected CAGR of the main alcoholic beverages distributed by Campari are displayed in figure 1.

Figure 17. Estimated CAGR 2021-2025 by product and region



Source: IWSR

Further, each category has been modelled to account for Campari's strategy. In detail, the company is focusing its investments on the aperitif portfolio and on premium products such as Whiskey and Cognac. On the other hand, SKYY Vodka, which has been recently re-launched, is suffering the high rivalry in the vodka sector. Other *Global Priorities*, which include premium alcoholic beverages as Rum, Whiskey and Cognac, are currently exploiting the benefits of premiumization, a trend in which Campari is heavily investing. *Regional Priorities* are mainly driven by the Espolòn, a super-premium tequila which has been expanding internationally. Local Priorities is a highly fragmented category which is mostly represented by RTD products related to the bitter and aperitif portfolio. Lastly, Campari does not provide information on the composition of the rest of the portfolio, which has been estimated to decline as emerging brands are usually moved in local priorities. The resulting volume forecast is displayed in *table 8*.

Table 8. Volumes forecast by brand category

Millions, 1 litre bottle	2018	2019	2020	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e
Aperol	43,6	52,1	48,2	62,7	71,5	80,7	90,0	99,9	109,9	118,7	125,2
Growth		*19,5%*	*-7,5%*	*30,0%*	*14,0%*	*13,0%*	*11,5%*	*11,0%*	*10,0%*	*8,0%*	*5,5%*
SKYY Vodka	32,5	31,5	29,8	27,5	26,9	26,4	25,7	24,9	24,1	23,1	21,9
Growth		*-3,0%*	*-5,2%*	*-8,0%*	*-2,0%*	*-2,0%*	*-2,5%*	*-3,0%*	*-3,5%*	*-4,0%*	*-5,0%*
Campari	30,3	30,6	27,0	34,5	37,3	39,9	42,7	45,6	48,6	51,5	53,6
Growth		*0,9%*	*-11,9%*	*28,0%*	*8,0%*	*7,0%*	*7,0%*	*7,0%*	*6,5%*	*6,0%*	*4,0%*
Other Global Priorities	38,1	38,2	36,1	42,2	45,2	48,1	51,2	54,3	57,3	60,2	62,6
Growth		*0,2%*	*-5,3%*	*16,8%*	*7,0%*	*6,5%*	*6,5%*	*6,0%*	*5,5%*	*5,0%*	*4,0%*
Regional Priorities	54,3	54,3	53,8	61,9	66,2	70,9	75,8	81,5	87,2	92,4	97,1
Growth		*0,0%*	*-1,1%*	*15,0%*	*7,0%*	*7,0%*	*7,0%*	*7,5%*	*7,0%*	*6,0%*	*5,0%*
Local Priorities	79,7	76,3	71,3	63,1	64,1	65,0	66,3	68,0	69,7	71,1	72,2
Growth		*-4,2%*	*-6,6%*	*-11,4%*	*1,5%*	*1,5%*	*2,0%*	*2,5%*	*2,5%*	*2,0%*	*1,5%*
Rest of the Portfolio	26,5	28,5	26,7	28,0	27,7	27,3	26,6	25,8	24,9	24,0	23,3
Growth		*7,5%*	*-6,1%*	*4,7%*	*-1,0%*	*-1,5%*	*-2,5%*	*-3,0%*	*-3,5%*	*-3,5%*	*-3,0%*

Source: IWSR, Company Report, Own Elaboration

Aperol, SKYY Vodka, and Campari, which combined account for ca 37% of the overall revenues, are modelled individually. Sales have been projected by multiplying prices and volumes. Volumes forecasts have been presented above. Historical prices have been retrieved by computing the implied average selling price (ASP), calculated as sales/volumes. Then, future prices are modelled according to inflation forecasts in key countries. To improve the accuracy of the outcome, inflation has been adjusted by considering the historical CPI of spirits in Italy, France, UK, and US.

Table 9. Price forecast; main brands

EUR, 1 litre bottle	2018	2019	2020	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e
Aperol	6,4	6,5	6,9	7,0	7,4	7,6	7,9	8,1	8,2	8,3	8,4
Campari	4,5	4,6	4,0	4,6	4,8	5,0	5,2	5,3	5,4	5,5	5,5
SKYY Vodka	5,8	6,0	6,3	6,4	6,7	6,9	7,1	7,3	7,4	7,5	7,6

Source: Own Elaboration, IMF, Statista, FRED

Lastly, the geographical exposure has been projected by reviewing Campari's 9M 2022 results and considering investments and marketing activities that have been announced. The business exposure to the AMERICAS and SEMEA areas, which combined represent almost 75% of total sales, is expected to remain reasonably constant in the coming years, boosted by the aperitif and premiumization trends, and the home consumption. On the other hand, Campari is launching several initiatives in the APAC segment, leading to a progressive rise of the exposure to the area starting from 2023, when logistic constraints and local lockdowns will be over. The increase in APAC will be offset by a decline in performances of the NCEA category, which is expected to drop due to the ongoing conflict. Hence, sales in the area will diminish to 14.2% of sales by 2028 (vs. 19.5% in 2022) to account for the lower operations in Russia and Ukraine.

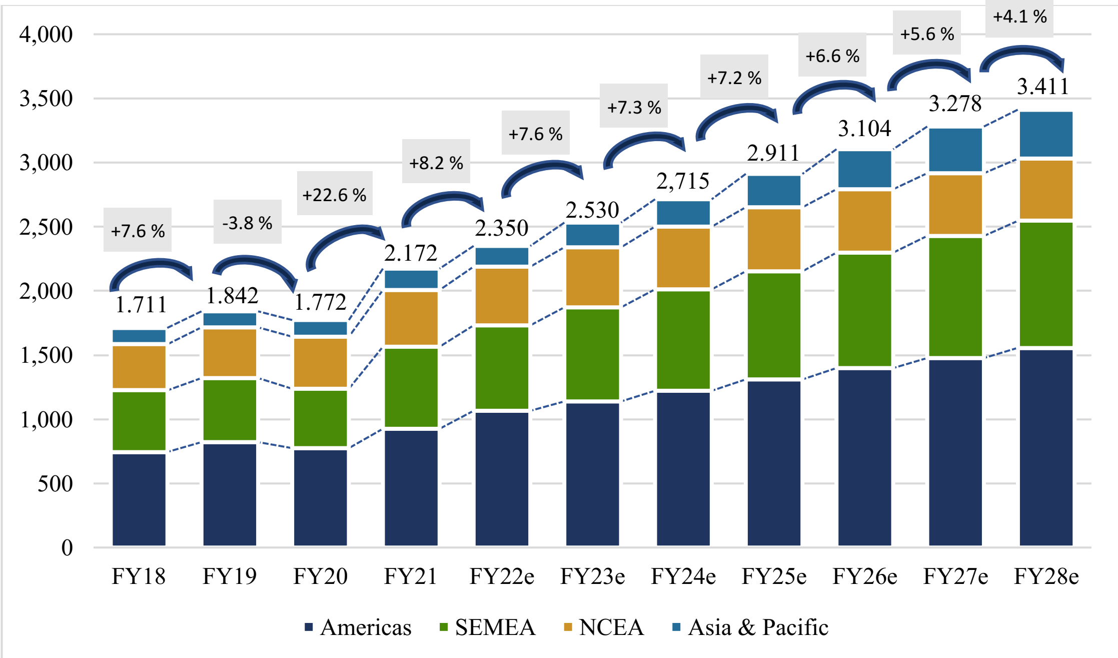
Table 10. Revenue forecast by geography

	2018	2019	2020	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e
Americas	43,5%	44,6%	43,7%	42,7%	45,3%	45,5%	45,0%	45,0%	45,0%	45,0%	45,6%
SEMEA	28,0%	27,1%	26,2%	29,4%	28,4%	28,5%	29,0%	29,0%	29,0%	29,0%	29,0%
NCEA	21,0%	21,4%	22,8%	20,2%	19,5%	18,5%	18,0%	17,0%	16,0%	15,0%	14,2%
Asia & Pacific	7,5%	7,0%	7,4%	7,7%	6,8%	7,5%	8,0%	9,0%	10,0%	11,0%	11,2%

Source: Company Reports, Own Elaboration

The resulting revenues stream divided by region is shown in *figure 18*. The respective 2022-2028 CAGR is 6.41%, representing a 93-bps increase compared to the last 10 years. During the high growth phase (2022-2025), revenues will rise at a 7.39% CAGR, while in the slow down stage (2026-2028), the CAGR will be 4.83%.

Figure 18. Revenue forecast by region



Source: Company Reports, Own Elaboration

6.1.2 COGS

The forecasting process of COGS is based on the respective composition described in the financial analysis. In detail, COGS are mainly represented by raw materials and transportation charges. The latter, due to their dependence towards energy, are currently suffering large fluctuations. However, many countries have quickly implemented several measures to face the crisis. Thus, the respective impact is not expected to be material after 2023. Regarding raw materials, recent inflationary pressures, agave soaring prices, and supply chain disruptions led COGS to account up to 42% of sales in 2020. However, the overall COGS level is assumed to normalize to pre-covid levels in late 2023, when most of the effects of the current crisis will wane. Subsequently, Campari is expected to benefit from the variety of initiatives implemented to limit the bargaining power of suppliers, and to reduce the exposition towards market fluctuations described in the previous chapter.

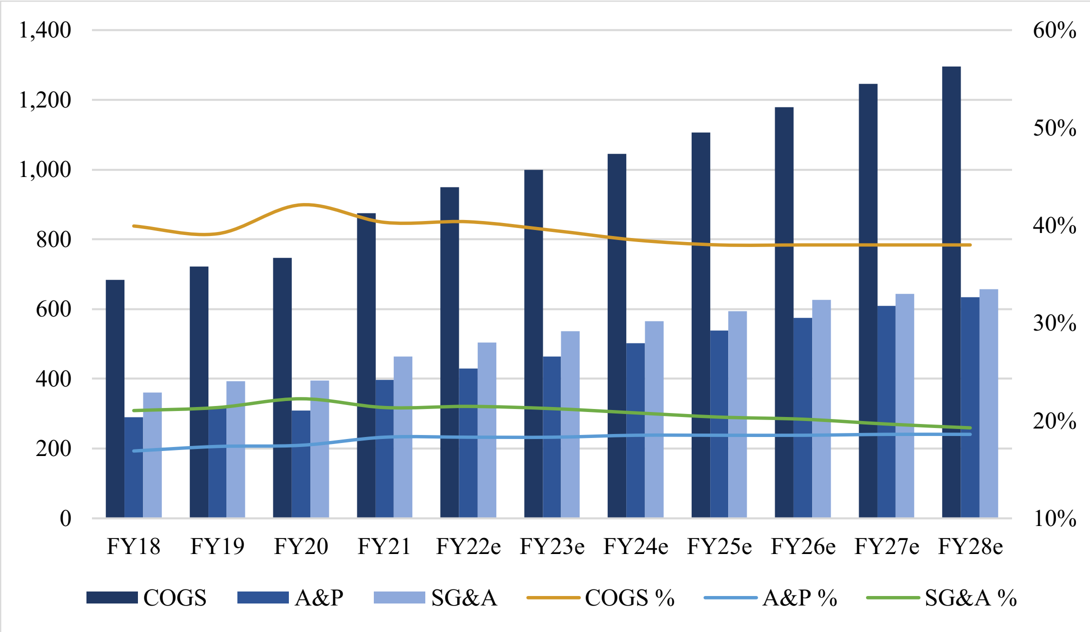
6.1.3 A&P

Investments in A&P represent a key success factor for Campari, and therefore its value is expected to increase over the years to support the expansionary process. Historically, the company had maintained A&P expenses in a range between 16.3% and 18% relatively to sales, in line with the industry average. In the coming years, investments in A&P are expected to progressively rise to strengthen Campari's brand in the APAC area, in Europe and in the US, reaching 18.6% of sales by 2027.

6.1.4 SG&A

Differently from the other costs presented, SG&A are mainly related to fixed costs such as salaries, social contributions, and insurances. Therefore, the overall growth is forecasted with respect to inflation. Furthermore, an adjustment that varies between 0,5% and 2% has been added to inflation to account for the higher costs required to sustain the expansionary process during the high growth stage.

Figure 19. COGS, A&P, SG&A forecast

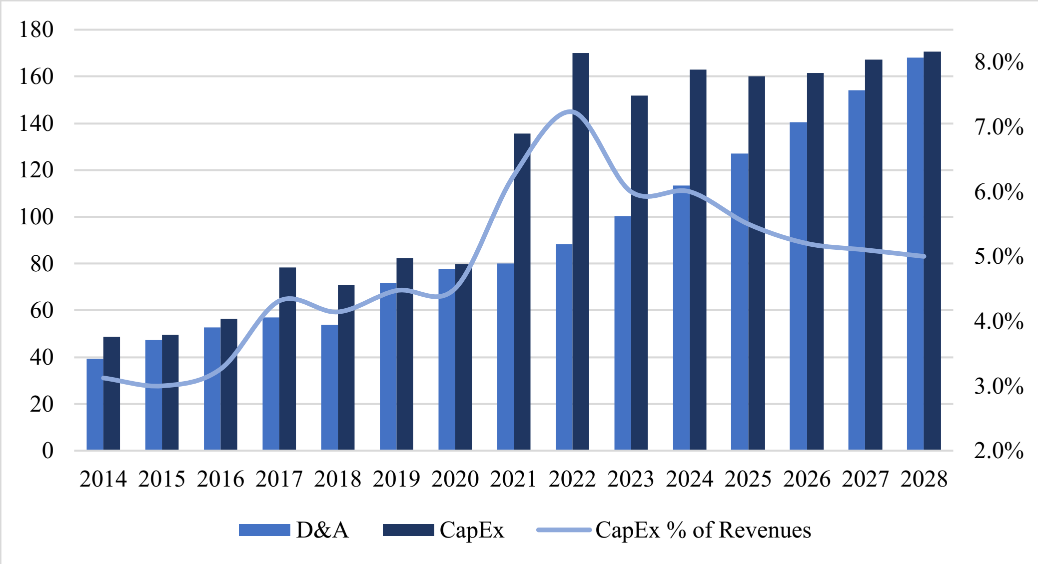


Source: Company Reports, Own elaboration

6.1.5 CapEx and D&A

Campari mainly invests to strengthen its supply chain and to increase its production capacity. The company has recently provided detailed guidance about CapEx for 2022. In detail, to meet an unexpected demand for the aperitif portfolio, the company has allocated a one-off investment of € 70mln to expand the production facilities, resulting in € 170mln total CapEx (7.2% of sales). Later, Campari is expected to get back to historical levels (4.8% of sales) throughout the years. In the slow down phase, Capex is assumed to converge towards the maintenance level. On the other hand, D&A is projected by considering an estimated useful life of depreciable assets of 12 years, in accordance with the nature of Campari's asset base and with the estimates retrieved in the MACRS Asset life table available in Thomson Reuters (MACRS 2022). The company uses a straight-line method, hence CapEx is depreciated in 12 years assuming half depreciation in the first year.

Figure 20. D&A and CapEx forecast



Source: Company Report, Own Elaboration

6.1.6 Operating Working Capital

OWC includes all assets and liabilities which are used as part of the company's daily operations. Hence, operating assets, operating cash, and deferred taxes are part of it. Receivables, Payables, Inventory, and other current assets/liabilities are forecasted using the range of ratios introduced in the previous chapter. Thus, the respective figures are estimated assuming that the company will maintain the historical efficiency while growing in accordance with sales or COGS. The rise in inventory is supported by the company's strategy, which aims at preventing future price pressures by suppliers. Moreover, considering the nature of the business, Campari is expanding its storage capacity of aged products such as rum, whiskey, cognac, and tequila, which require several years to mature. Regarding other constituents of the OWC as deferred tax assets and liabilities, which are not supported by specific guidance, projections are made as % of sales. Lastly, operating cash has been estimated to account for 2% of revenues, in line with other players in the alcoholic sector.

Table 11. Operating Working Capital

EUR mln	2018	2019	2020	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e
Trade Receivables	285,9	316,9	281,8	290,4	309,5	333,2	357,6	383,4	408,8	431,7	449,3
Trade Payables	216,0	240,7	321,2	394,6	348,6	367,1	384,0	406,3	433,3	457,6	476,2
Inventory	566,1	618,6	656,7	745,7	757,2	815,1	874,8	937,9	1.000,1	1.056,1	1.099,0
Other Current Ass	83,9	71,7	67,0	82,7	89,9	103,6	111,2	119,2	127,1	134,3	139,7
Other Current Liab	167,3	216,5	156,3	228,1	243,5	258,4	277,3	297,3	317,0	334,8	348,4
Deferred Tax Ass	38,4	37,5	44,5	55,2	54,8	59,0	63,3	67,9	72,4	76,5	79,6
Deferred Tax Liab	368,2	386,1	337,0	366,0	385,5	409,9	434,5	460,0	484,3	504,9	522,0
Operating Cash	34,2	36,8	35,4	43,4	47,0	50,6	54,3	58,2	62,1	65,5	68,24
OWC	**257,0**	**238,3**	**270,9**	**228,8**	**281,0**	**326,2**	**365,4**	**403,0**	**435,9**	**466,9**	**489,3**
Change in OWC		-18,8	32,7	-42,2	52,2	45,2	39,3	37,5	32,9	31,0	22,4
OWC as % of sales		15%	13%	15%	11%	12%	13%	13%	14%	14%	14%

Source: Company Reports, Own Elaboration

6.2 Cost of Capital

In the following paragraph, the inputs required to determine the WACC of the company are presented. The selected methodology follows the description made in the literature review.

6.2.1 Risk Free Rate

The selected risk-free rate is the current yield on the German 10 Year Government Bond. The respective yield results to be 2.08% as of the 15th of December 2022 (WSJ 2022).

6.2.2 Cost of Debt

To determine the cost that Campari would face by issuing debt today, each type of debt has been considered. By looking at *table 12*, it is possible to have an overview of the listed bonds outstanding, which represent ca. 64% of the LT debt. The respective cost has been computed as a weighted average of the yields to maturity.

Table 12. Bonds outstanding

Name	Issue Date	Maturity Date	Nominal Value	Last Price	YTM
CPRI 2.165 05-Apr-2024	05-Apr-17	05-Apr-24	150,0	98,49	3,32%
CPRI 1.655 30-Apr-2024	30-Apr-19	30-Apr-24	150,0	98,27	2,91%
CPRI 1.250 06-Oct-2027	06-Oct-20	06-Oct-27	550,0	87,12	4,42%
Weighted Average YTM					**3,96%**

Source: Company Report, Refinitiv Eikon

On the other hand, non-listed debt does not provide a direct measure of its cost. Therefore, the synthetic rating approach proposed by Damodaran has been applied. To determine the Interest Coverage Ratio, the overall amount of interest paid on debt during the selected year has been used. As shown in table 6, Campari currently experiences a triple A rating, resulting in an associated risk spread of 0.67%. It has to be highlighted that the risk-free rate differs from the value previously stated due to the different maturity of debt. Considering that non-listed debt has 1.7 years weighted average maturity, the appropriate yield results to be the 2 Year German bond. The spread is extracted from the conversion table reported in *appendix 7*.

Table 13. Cost of non-listed debt

Synthetic Rating	2021	2022
EBIT	435.3	466.6
Interest Expenses	17.1	22.3
Interest Coverage Ratio	**25.5x**	**20.9x**
Associated Credit Spread (AAA)	0.67%	0.67%
Risk Free Rate	2.37%	2.37%
Cost of non-listed Debt	**3.04%**	**3.04%**

Source: Company Reports, Damodaran (2022), Refinitiv Eikon

By retrieving the cost of non-listed debt, it is then possible to convert the book value of loans into market values, which is necessary to determine the market leverage of the company. Thus, by applying the approach proposed by Damodaran, interest expenses are treated as a coupon, which is then discounted at the appropriate rate for a maturity consistent with the loan tenor.

Table 14. Market Value of debt

	Book Value	Market Value
Short-Term Debt	322,0	322,0
Long-Term Debt	1.321,6	1.214,9
Bonds	845,5	774,3
Liabilities and Loans due to Banks	355,2	319,8
Other LT Debt	120,9	120,9
Debt Value	**1.643,6**	**1.536,9**

Source: Own Elaboration

Lastly, the cost of debt that will be used in the WACC formula is retrieved by computing the weighted average of the company's outstanding bonds and non-listed debt.

Table 15. Cost of Debt

Cost of Debt	Weight	Cost
Liabilities and Loans due to Banks	26.3%	3.04%
Other non-listed Debt	10.0%	3.04%
Bonds	63.7%	3.96%
Pre-tax cost of Debt		**3.63%**
Tax Rate		25.4%
After-tax cost of Debt		**2.70%**

Source: Company Report, Own Elaboration

6.2.3 Cost of Equity

The cost of equity is the second component required to determine the cost of capital. The computation is made according to the CAPM approach, which is the most widely used by practitioners and researchers. As described in the literature review, the CAPM relies on the idea that equity investors require a premium on top of the risk-free rate. Moreover, the magnitude of the risk premium depends on the beta, which is a measure of the riskiness of the company compared to the market. To determine the beta of Campari, the index has been selected in accordance with the investors' location. Thus, since most of current shareholders are mainly located in Europe, the MSCI Europe index has been chosen to best represent the market portfolio.

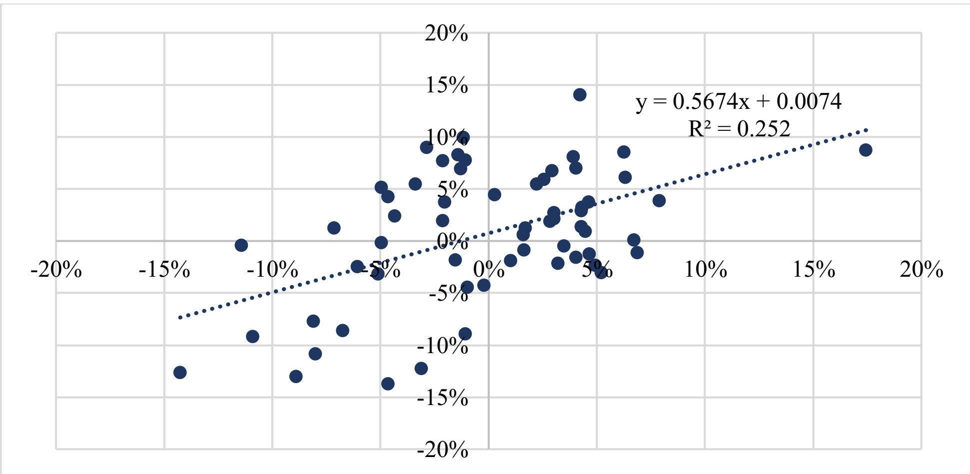
Table 16. Investors location

Investors by location	
Europe	68,44%
Italy	55,16%
France	1,29%
Germany	1,08%
Other (<1%)	10,91%
UK	9,30%
USA	7,18%

Source: Refinitiv Eikon

Having selected the index, the beta is defined as the slope of the regression of Campari's excess returns against the excess returns of the market portfolio. Returns are considered in a five-year period, which has been selected to provide enough observations in an interval in which the company has not changed. Moreover, monthly returns have been used to reduce the chance of considering days with low trading volumes. This approach yields a realized beta of 0.57.

Figure 21. Beta regression



Source: Own Elaboration

The result is then adjusted according to the regression tendency of beta estimates to revert towards the mean of all betas (one) (Blume 1975). Hence, the raw beta has been adjusted by weighting $\frac{2}{3}$ the realized estimate and $\frac{1}{3}$ the market beta. The same methodology has been followed to compute the beta of comparables.

Table 17. Beta Campari and comparables

5Y monthly	Campari	Diageo	Pernod Ricard	Remy Cointreau
Realized Beta	0.57	0.38	0.40	0.21
Adjusted Beta	0.71	0.58	0.60	0.47

Source: Own Elaboration

The last input required by the CAPM is the risk premium. It represents the additional return compared to the risk-free rate which is demanded by investors to bear the higher investment risk. It includes two components that are related to different sources of risk. Firstly, the equity risk premium accounts for the higher risk of equities compared to the risk-free asset. Secondly, the country risk premium compensates investors for the possibility that the company's operations may be limited by restrictions applied in a determined country. Hence, as proposed by Damodaran, to compute the appropriate equity and country risk premium, a weighted average of the nations in which Campari operates is made. Weights are based upon sales in each country.

Table 18. Equity Risk Premium

Country	% of sales	Equity Risk Premium	Country Risk Premium	Total risk premium
US	27,3%	4,24%	0,00%	4,24%
Italy	19,4%	6,42%	2,18%	8,60%
Germany	7,7%	4,24%	0,00%	4,24%
France	5,9%	4,73%	0,49%	5,22%
Australia	5,0%	4,24%	0,00%	4,24%
Jamaica	4,8%	9,68%	5,44%	15,12%
Canada	3,2%	4,24%	0,00%	4,24%
UK	3,4%	4,84%	0,60%	5,44%
Russia	2,1%	6,42%	2,18%	8,60%
Brazil	2,0%	7,21%	2,97%	10,18%
Mexico	1,6%	5,82%	1,58%	7,40%
Other SEMEA	3,7%	5,07%	0,83%	5,90%
Other NCEA	7,1%	6,35%	2,11%	8,46%
Other APAC	2,7%	5,28%	1,04%	6,32%
Other AMERICAS	3,5%	8,03%	3,79%	11,82%
Weighted Average Risk Premium				**6,66%**

Source: Damodaran (2022), Company Reports

Lastly, the cost of equity is computed by applying the CAPM formula, resulting to be 6.81%.

Table 19. Cost of Equity

Cost of Equity	
Risk-free Rate	2.08%
Levered Beta	0.71
Risk Premium	6.66%
Cost of Equity	**6.81%**

Source: Own Elaboration

Then, by weighting the after-tax cost of debt by the market value of debt (12% of capital), and the cost of equity by the market value of equity (88% of capital), the WACC results to be 6.33%.

Table 20. WACC composition

WACC	
After-tax cost of Debt	2.70%
Cost of Equity	6.81%
MV of Equity	11.652,0
MV of Debt	1.536,9
Total Capital	13.188,9
WACC	**6.33%**

Source: Own Elaboration

6.3 Terminal Value

The terminal value has been computed by applying the perpetuity formula and using the FCFF of 2028. In that year, operating income, investments and working capital needs are relatively stable, resulting in a sustainable free cash flow, which is expected to grow at 2.65% per year in perpetuity. The growth rate has been determined in accordance with future projections of the spirits industry and real GDP forecasts until 2028. Hence, the perpetual growth rate results to be 2.65%, which corresponds to the ceiling growth represented by the long-term GDP growth rate in advanced economies (OECD, 2022).

6.4 DCF

The first valuation methodology selected is the DCF, the most widely used by researchers and practitioners. In detail, the free-cash flow to the firm (FCFF) approach is applied. As described in the literature review, FCFF represents the cash flows available to both shareholders and bondholders. As shown in *table 21*, FCFF are expected to progressively rise, with exception for 2022, when the one-off expenses for CapEx will reduce cash flows. During the forecasting period, the effective tax rate has been applied to account for taxes paid on a cash basis. However, in the long-run Campari is expected to decline CapEx and pay its deferred taxes, as tax credits will not be granted perpetually. Thus, in the long run, the difference between the tax paid on a cash basis and the income tax calculated with the marginal tax rate is assumed to narrow. Therefore, in the last year, which is useful to compute the terminal value, the marginal tax rate is applied.

Table 21. DCF

DCF (EUR mln)	2019	2020	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e
EBIT	408,0	321,9	435,3	466,6	530,2	602,7	673,2	724,6	778,4	823,4
Growth		*-21,1%*	*35,2%*	*7,2%*	*13,6%*	*13,7%*	*11,7%*	*7,6%*	*7,4%*	*5,8%*
Tax Rate	*12,5%*	*8,1%*	*25,4%*	*25,4%*	*25,4%*	*25,4%*	*25,4%*	*25,4%*	*25,4%*	*24,0%*
D&A	71,7	77,9	79,9	88,4	100,4	113,5	127,0	140,4	154,1	168,1
CapEx	(82,4)	(79,8)	(135,7)	(170,0)	(151,8)	(162,9)	(160,1)	(161,4)	(167,2)	(170,6)
DOWC	18,8	(32,7)	42,2	(52,2)	(45,2)	(39,3)	(37,5)	(32,9)	(31,0)	(22,4)
FCFF	**365,2**	**261,1**	**311,0**	**214,1**	**298,8**	**360,7**	**431,3**	**486,3**	**536,4**	**600,9**
Discount Factor					0,94	0,88	0,83	0,78	0,74	0,69

Source: Own Elaboration

To determine the discount factors, the rate used is the WACC.

Table 22. Enterprise Value

Enterprise Value (EUR mln)	
PV FCFF	2.149,7
PV Terminal Value	11.593,8
Enterprise Value	**13.743,5**

Lastly, to calculate the equity value, which is necessary to obtain the target share price, all non-equity claims are deducted, while cash is added back through the net debt.

Table 23. Equity Value

Equity Value (EUR mln)	
Net Debt	751,4
Minority Interests	3,0
Other Adjustments	67,2
Pensions	30,1
Other non-current Assets	11,0
Investments in Associates	26,1
Equity Value	**12.921,9**

The resulting share price from the DCF is € 11.27, which represents an upside potential of 10.9% compared to the market price of € 10.165 as of the 13th of December '22. The implied EV/EBITDA is 24.8x, which is slightly above the LFY multiple (24.0x).

Table 24. Price per share

Price per Share (EUR)	
Equity Value (mln)	12.921,9
Average diluted shares outstanding (mln)	1.146,3
Price per share	**11.27**
Implied EV/EBITDA	24.8x

6.5 Market Multiple Valuation

As mentioned in the literature review, the multiple valuation approach is commonly used to support the DCF. The main metrics that have been selected for valuation purposes are reported in the table below. To determine Campari's share price, forward multiples have been preferred over audited figures to consider future expectations, which turned out to be more accurate in many scenarios (Lie & Lie 2022). Peers' values have been retrieved from Refinitiv Eikon, representing the mean values forecasted by a selected range of analysts. Furthermore, as the simple mean tends to overestimate values, the harmonic mean has been used as suggested by Baker and Ruback (1999).

Table 25. Market Multiples

Company Name	Price	EV	Sales NTM	Earnings NTM	EBITDA NTM	P/E NTM	P/Sales NTM	EV/EBITDA NTM	EV/Sales NTM
Campari	10.165	12.477,2	2.530,5	377,8	630,6	30,8x	4,6x	19,8x	4,9x
Diageo *	44.80	123.413,0	20.253,0	4.372,0	6.727,0	23,8x	5,1x	18,3x	6,1x
Remy Cointreau	160.20	8.692,6	1.658,0	293,8	480,4	28,2x	5,0x	18,1x	5,2x
Pernod Ricard	186.35	58.130,4	12.559,0	2.556,0	4.120,0	18,9x	3,9x	14,1x	4,6x
Har Mean						**23,0x**	**4,6x**	**16,6x**	**5,3x**
Implied EV								10.472,9	13.297,7
Implied Share Price						**7,59**	**10,13**	**8,42**	**10,88**

* £ converted in € at the exchange rate prevailing at the report date

Source: Company Reports, Refinitiv Eikon, Own Elaboration

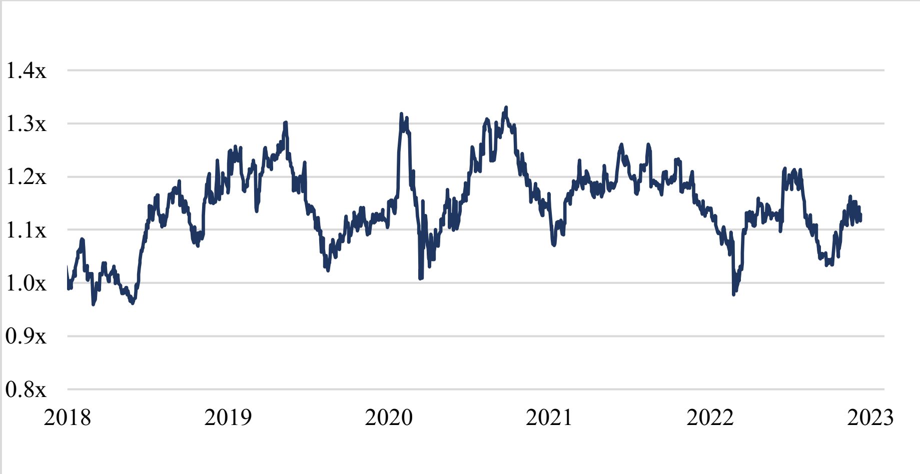
As shown in *Table 25*, Campari results to be overpriced by considering P/E and EV/EBITDA, fairly priced according to P/Sales, and underpriced in a EV/Sales perspective. However, considering forward P/E and EV/EBITDA, Campari has historically experienced a premium relatively to the peer group. In detail, as shown by *Figure 22*, during the last 5 years, Campari has traded in a range between 1.08x and 1.46x relative P/E compared to the peer group selected, with the mean at 1.28x.

Figure 22. Campari relative fwd P/E

Source: Refinitiv Eikon, Own Elaboration

On the other hand, Campari's EV/EBITDA seems to trade quite similarly to the peer group, showing a premium in a range between 0.96x and 1.33x, and a five-year mean of 1.14x.

Figure 23. Campari relative fwd EV/EBITDA



Source: Refinitiv Eikon, Own Elaboration

In this scenario, the traditional use of multiples does not provide accurate results, since the characteristics of the companies considered are not as similar as expected. Therefore, an alternative approach proposed by Damodaran (2012) consists in comparing current relative multiples to historical norms.

Equation 10. Relative P/E

$$\left.\frac{P}{E}_{Campari} \middle/ \frac{P}{E}_{Peers\ Har\ Mean}\right.$$

In case of a lower (higher) figure than the historical average, the company may be viewed as undervalued (overvalued) as its metrics are expected to converge to historical values. In the scenario considered, relative P/E and EV/EBITDA are 1.34x and 1.19x respectively, which are close to the averages mentioned above. Hence, this alternative approach would suggest that Campari's current price is in line with the market.

6.6 Transaction Multiple Valuation

Lastly, precedent transactions are analysed to support the results of the DCF. However, as introduced in the literature review, this valuation technique requires the use of transactions announced in a similar market scenario to the current one. By considering the two major crises that took place in the last two years, together with a continuously evolving macroeconomic landscape, this approach does not find applicability. Nevertheless, the relevant transactions that involved European companies in the last 4 years have been extracted from *Deal Screener*, being then separated into three periods: pre-covid, during covid and after covid. As reported in the respective tables, EV/EBITDA as well as the premium paid significantly changed over the years. On the other hand, EV/SALES seems to be quite stable in a range between 1.5x and 2.0x. However, the reduced number of deals available in each period does not allow to define trends and averages for valuation purposes.

Table 26. Precedent Transaction: after-covid

Target Name	Target Nation	Acquiror Name	Acquiror Nation	Date	Deal Value	Deal EV to Sales	Deal EV to EBITDA	%Premium 1 week before
Anora Group Plc	Finland	Solidium Oy	Finland	25/11/2021	159,9	2,40x	26,82x	-0,6%
Bodegas Williams & Humbert SA	Spain	The Keepers Holdings Inc	Philippines	31/08/2022	88,5	1,50x	9,97x	0,0%
Globus Wine A/S	Denmark	Anora Group Plc	Finland	22/06/2022	84,3	0,82x	11,74x	0,0%
Average						**1,56x**	**16,17x**	**-0,2%**
Median						**1,50x**	**11,74x**	

Table 27. Precedent Transactions: during covid

Target Name	Target Nation	Acquiror Name	Acquiror Nation	Date	Deal Value	Deal EV to Sales	Deal EV to EBITDA	%Premium 1 week before
Arcus ASA	Norway	Altia Oyj	Finland	29/09/2020	304,1	1,50x	10,82x	5,0%
Moskovskii Mezhrespublikanskii Vinodel'cheskii Zavod OAO	Russia	MS Development AO	Russia	18/03/2020	20,8	1,62x	NA	0,0%
Average						**1,56x**	**10,82x**	**2,5%**
Median						**1,56x**	**10,82x**	

Table 28. Precedent Transaction: before covid

Target Name	Target Nation	Acquiror Name	Acquiror Nation	Date	Deal Value	Deal EV to Sales	Deal EV to EBITDA	%Premium 1 week before
Castle Brands Inc	US	Pernod Ricard SA	France	28/08/2019	222,3	3,02x	78,74x	111,0%
Casa Vinicola Zonin SpA	Italy	21 Investimenti SGR SpA	Italy	06/12/2018	73,7	1,50x	30,60x	0,0%
Baron Philippe de Rothschild France Distribution SAS	France	Davide Campari-Milano SpA	Italy	15/11/2019	66,1	0,42x	77,95x	0,0%
Baron de Ley SA	Spain	Mazuelo Holding SL	Spain	20/11/2018	60,6	4,78x	NA	0,9%
Beluga Group PJSC	Russia	Beluga Group PJSC	Russia	14/02/2020	57,7	0,70x	5,72x	3,0%
Marie Brizard Wine & Spirits SA	France	Cofepp SA	France	24/12/2018	42,7	0,36x	4,71x	1,4%
Average						**1,80x**	**39,54x**	**19,4%**
Median						**1,10x**	**30,60x**	

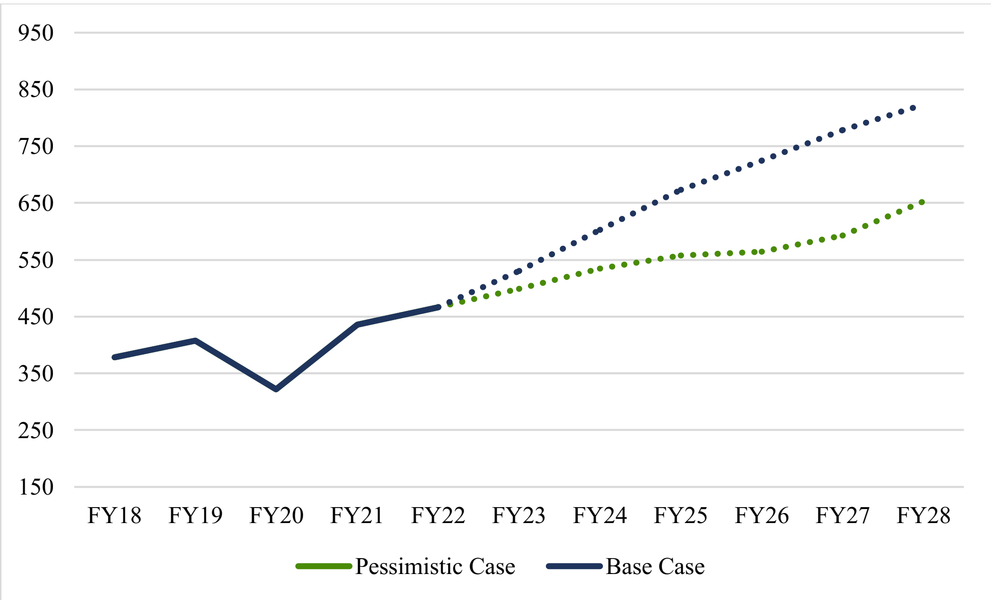
7. Sensitivity Analysis and Investment Banking Report

The last chapter of the thesis will discuss the impact of changes in key inputs on the final price target. Later, the base case result will be compared to the average consensus and a professional report.

7.1 Scenario Analysis

Given the current challenging landscape, a scenario analysis is useful to examine the consequences of a slower recovery from the ongoing crisis. In detail, the analysis will be focused on the conflict's conditions, which might worsen during 2023, resulting in a longer war than expected. In the described scenario, Campari's expansion ability would be affected by higher operating and administrative costs, together with the effects of a recession. Thus, Campari would not be able to improve its growth profile, maintaining the historical EBIT CAGR. The resulting operating income stream is shown in *figure 24*. The scenario described returns a target price € 8.52, representing a -16.17% downside compared to the current price.

Figure 24. EBIT scenarios



Source: Own Elaboration

7.2 Sensitivity Analysis

To test the resilience of the model, key inputs have been stressed to determine the respective impact on the target price. The main assumptions of the model are fixed, while the WACC and the terminal growth rate, which are the most critical variables, has been stressed to assess the elasticity of the outcome. The two variables have been tested in a range between ± 0.75% and ± 0.5% respectively. A 10% threshold compared to the current price has been selected to determine the buy and sell scenarios, which result to be € 11.182 and € 9.149 respectively. By considering the WACC and perpetuity growth rates proposed, the resulting price ranges between € 8.79 and € 15,98, with the buy case being the most frequent result with 51% of the observations, while the sell signal appears just in two cases.

Table 29. Sensitivity Analysis

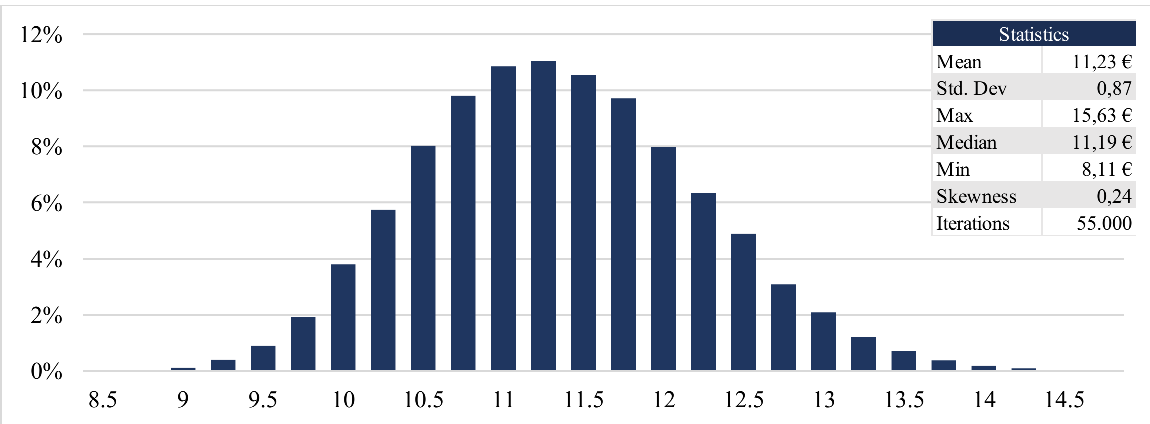
		Perpetual Growth Rate				
		2.25%	2.45%	2.65%	2.85%	3.05%
WACC	5.58%	12,34	13,08	13,91	14,87	15,98
	5,83%	11,55	12,18	12,90	13,71	14,63
	6,08%	10,86	11,41	12,03	12,72	13,51
	6,33%	10,25	10,73	11,27	11,87	12,55
	6,58%	9,71	10,14	10,61	11,14	11,73
	6,83%	9,22	9,61	10,03	10,50	11,01
	7,08%	8,79	9,13	9,51	9,93	10,38

Source: Own Elaboration

7.3 Monte Carlo Simulation

Lastly, through a Monte Carlo simulation it is possible to assess the response of the price target to changes in several variables. The inputs considered are: FCFF YoY growth, market leverage, levered beta, and perpetual growth rate. The outcome yields a price range between € 8.11 and € 15.63, which is a consequence of the selected standard deviation for each variable. The skewness is slightly positive as the distributions of market leverage and levered beta are asymmetric. By maintaining the 10% threshold mentioned above, 50.4% of the results suggest a buy signal, whereas 0.4% correspond to the sell recommendation. Considering the average and median outcomes, the target price resulting from the DCF is supported by the Monte Carlo analysis.

Figure 25. Monte Carlo simulation



Source: Own Elaboration

7.4 Comparison with Investment Banking report and consensus estimates

In this paragraph the DCF result is compared to the values published by a leading investment bank, and to the average consensus estimates. The investment banking report was published on the 25th of March by Bank of America Global Research on the Borsa Italiana website. It proposes a target of € 12.30, which compared to the market price prevailing at the time (€ 9.92) represented an upside potential of ca. 24%. The report is based on a relative valuation, particularly on the relative 12 forward PE multiples compared to Diageo and Pernod Ricard. The analyst supports the target by stating that the PE premium at the time (1.55x) was not in line with the potential growth outlook, M&A optionality, and defensive qualities of Campari. In detail, the price target has been retrieved from an estimated relative P/E premium of ca 1.70x, which is based on a '22-'26 EPS CAGR of ca 13%. By comparing key assumptions, the thesis presents a slightly lower growth outlook and a similar EBITDA margin during the high growth phase, supported by recent guidance announcements together with the resilience shown during the first 9 months of the year. The difference between the thesis price and the IB report result might be related to two main factors. Firstly, market conditions significantly changed over 9 months, particularly regarding inflation and interest rates, which imply a higher cost of capital and lower valuations. Moreover, the two targets are based on approaches which consider a different set of assumptions. Lastly, consensus estimates currently provide an average price of € 11.34 and a median target of € 11.60, which are in line with the thesis' results. Consensus is retrieved from Refinitiv Eikon and includes recommendations issued in early-mid December 2022.

Table 30. Price target comparison

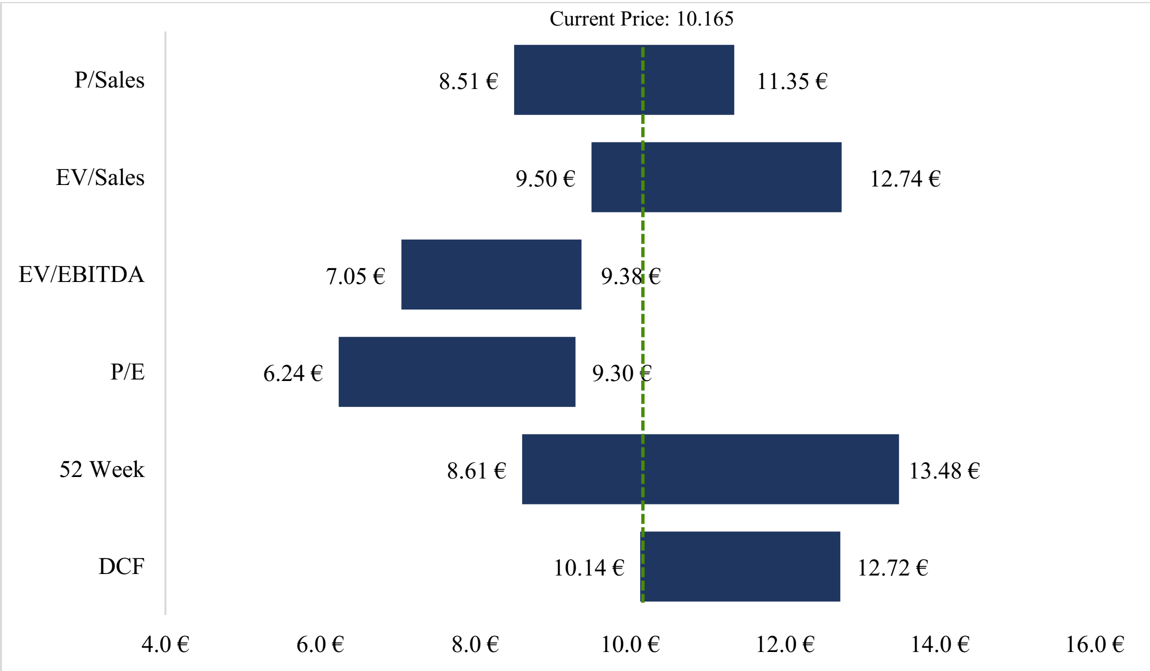
	Thesis	Bank of America	Consensus
Date	13th December 22	25th March 22	13th December 22
Methodology	DCF	Relative fwd P/E	-
EPS '22-'26 CAGR	12.6%	13.0%	-
EBITDA margin '26	27.9%	27.4%	-
Price at valuation date €	10.165	9.92	10.165
Upside Potential	10.9%	24.0%	11.6%
Price Target €	**11.27**	**12.30**	**11.34**

Source: Own Elaboration, Borsa Italiana, Refinitiv Eikon

7.5 Valuation Summary and Conclusions

To summarize the valuation methodologies proposed in the thesis, the football field chart is proposed. As examined in the previous chapter, the selected approach to value Campari is the DCF. Hence, the price target resulting from the thesis is € 11.27. With respect to the other valuation methodologies, market multiples and precedent transactions, the respective outcomes have not been considered for valuation purposes due to their reduced applicability in the current scenario. As explained in the previous chapter, market multiples turned out to trade differently from Campari, resulting in unreliable results. Regarding precedent transactions, the limited number of deals available led to exclude this methodology from any price target consideration.

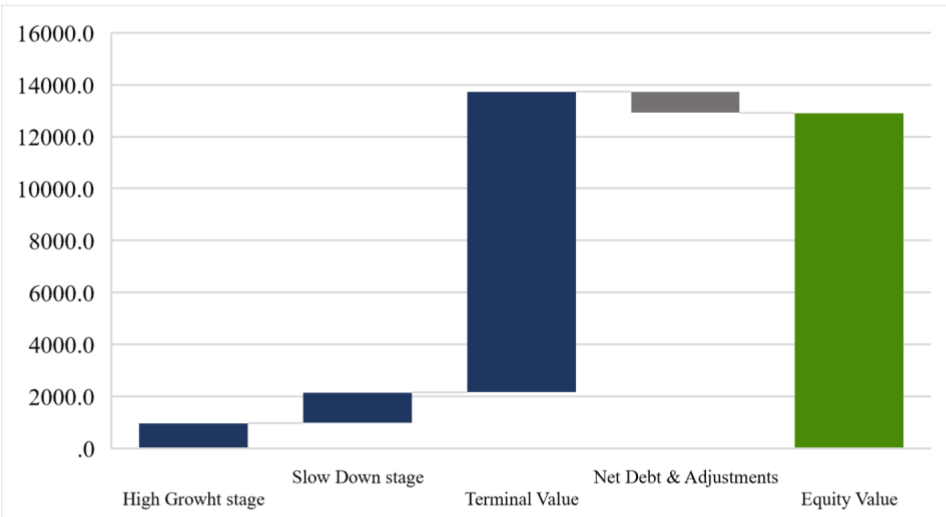
Figure 26. Football Field



Source: Own Elaboration, Refinitiv Eikon

Furthermore, focusing on the selected methodology used to value Campari, a detailed breakdown of the equity value composition is proposed. In detail, the forecasted period, which lasts six years from the valuation date, accounts for ca 15.6% of the enterprise value.

Figure 27. Equity value composition in € mln



Source: Own Elaboration

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Appendices

1. Brands

Brand	Alcoholic Beverage	% of sales
Global Priorities		
Aperol	Aperitif	20.3%
Campari	Aperitif	10.1%
SKYY Vodka	Vodka	5.9%
Wild Turkey Portfolio	Whiskey	7.4%
Grand Marnier	Liqueurs	7.2%
Jamaican Rums Portfolio	Rum	5.5%
Regional Priorities		
Bulldog gin	Gin	0.7%
Italian Bitters		3.2%
Cynar	Liqueurs	
Averna	Liqueurs	
Braulio	Liqueurs	
Frangelico	Liqueurs	
Forty Creek	Whiskey	1.1%
Espolòn	Tequila	5.5%
Cinzano	Aperitif	2.9%
The Glen Grant	Whiskey	1.1%
Other		4.9%
Mondoro	Sparkling Wines	
Del Professore	Aperitif	
Riccadonna	Sparkling Wines	
Ancho Reyes	Liqueurs	
Bisquit	Cognac	
La Mauny	Rum	
Montelobos	Mezcal	
Trois Riviers	Rum	
1757 Vermouth di Torino Extra Dry	Aperitif	
1757 Vermouth di Torino Rosso	Aperitif	
Champagne Lalier	Champagne	
Local Priorities		
Crodino	Aperitif	2.4%
Wild Turkey RTD	Ready-to-drink	2.1%
Dreher & Sagatiba	Liqueurs	1.0%
Campari Soda	Aperitif	3.3%
Other		3.5%
Zedda Piras	Liqueurs	
Picon	Aperitif	
Cabo Wabo	Tequila	
Ouzo 12	Liqueurs	
O'Ndina	Gin	
Bickens	Gin	
Rest of the Portfolio		12%

Source: Company Reports

2. M&A Activities in the last ten years

Year	Company	Brand	Stake
2022	Wilderness Trail Distillery	Wilderness Trail Bourbon, Wilderness Trail Rye Whiskey	70%
2022	Howler Head	Howler Head Kentucky straight bourbon	15%
2022	Del Professore	Del Professore Vermouth, Del Professore Gin, Del Professore Aperitivo & Bitter	100%
2022	Picon	Amer Picon	100%
2021	Tannico	E-Commerce company	62.1%
2020	Champagne Lallier SARL	Champagne Lallier	80%
2020	Baron Philippe de Rothschild France Distribution S.A.S.	Distribution company	100%
2019	Licorera Ancho Reyes y CIA S.A.P.I. de C.V. and Casa Montelobos S.A.P.I. de C.V.	Ancho Reyes and Montelobos	51%
2019	Rhumantilles SAS	Trois Rivières and Maison La Mauny	100%
2018	Bisquit Cognac	Bisquit V.S. Classique, Bisquit V.S.O.P., Bisquit Prestige and Bisquit X.O.	100%
2017	BULLDOG London Dry Gin	Bulldog	100%
2016	Société des Produits Marnier Lapostolle S.A.	Grand Marnier	71.22%
2014	Fratelli Averna S.p.A.	Averna, Braulio, Limoncetta and Frattina	100%
2014	Forty Creek Distillery Ltd.	Barrel Select, Copper Pot Reserve and Forty Creek Cream Whisky	100%
2013	Copack	Contract beverage packer	100%
2012	Lascelles deMercado	Appleton Estate, Appleton Special - White, Wray & Nephew and Coruba rum	100%
2011	Sagatiba	Sagatiba cachaca	100%
2011	Cazalis and Reserva San Juan	Cazalis and Reserva San Juan	-
2011	Vasco CIS	Distribution company	100%

Source: Company Reports

3. Income Statement

Millions €	2018	2019	2020	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e
Sales	1.711,7	1.842,5	1.772,0	2.172,7	2.350,7	2.530,5	2.715,7	2.911,6	3.104,7	3.278,5	3.411,9
Growth		*7,6%*	*-3,8%*	*22,6%*	*8,2%*	*7,6%*	*7,3%*	*7,2%*	*6,6%*	*5,6%*	*4,1%*
COGS	(683,6)	(721,3)	(746,1)	(875,8)	(949,1)	(999,6)	(1.045,5)	(1.106,4)	(1.179,8)	(1.245,8)	(1.296,5)
A&P	(289,2)	(319,9)	(309,8)	(397,8)	(430,4)	(463,3)	(502,7)	(538,9)	(574,7)	(609,8)	(634,6)
SGAs	(360,1)	(393,3)	(394,2)	(463,8)	(504,6)	(537,4)	(564,8)	(593,1)	(625,7)	(644,5)	(657,3)
EBITDA	**432,6**	**479,7**	**399,8**	**515,2**	**555,0**	**630,6**	**716,2**	**800,2**	**865,0**	**932,5**	**991,6**
Margin	*25,3%*	*26,0%*	*22,6%*	*23,7%*	*23,6%*	*24,9%*	*26,4%*	*27,5%*	*27,9%*	*28,4%*	*29,1%*
D&A	(53,8)	(71,7)	(77,9)	(79,9)	(88,4)	(100,4)	(113,5)	(127,0)	(140,4)	(154,1)	(168,1)
EBIT	**378,8**	**408,0**	**321,9**	**435,3**	**466,6**	**530,2**	**602,7**	**673,2**	**724,6**	**778,4**	**823,4**
Margin	*22,1%*	*22,1%*	*18,2%*	*20,0%*	*19,8%*	*21,0%*	*22,2%*	*23,1%*	*23,3%*	*23,7%*	*24,1%*
Net Interest Expenses	(29,7)	(31,8)	(19,4)	(12,1)	(22,3)	(22,3)	(22,3)	(23,0)	(23,0)	(21,4)	(21,4)
Income from Associates	(0,2)	0,1	(2,8)	(0,1)	(0,9)	(1,3)	(0,8)	(1,0)	(1,0)	(0,9)	(1,0)
Other Adjustments	(3,7)	15,8	69,3	26,7	-	-	-	-	-	-	-
Non-recurring Items	1,9	(21,7)	(90,1)	(34,5)	-	-	-	-	-	-	-
EBT	**347,1**	**370,4**	**278,9**	**415,3**	**443,4**	**506,7**	**579,6**	**649,2**	**700,6**	**756,1**	**802,1**
Adjustments	(43,3)	(56,8)	(55,1)	(3,6)	-	-	-	-	-	-	-
Income Taxes	(54,5)	(46,2)	(22,7)	(105,6)	(112,7)	(128,8)	(147,4)	(165,1)	(178,1)	(192,3)	(192,5)
Net Income	**249,3**	**267,4**	**201,1**	**306,1**	**330,6**	**377,8**	**432,2**	**484,1**	**522,4**	**563,9**	**610,6**
Margin	*15%*	*15%*	*11%*	*14%*	*14%*	*15%*	*16%*	*17%*	*17%*	*17%*	*18%*
Non-controlling Interests	-	-	1,0	1,8	-	-	-	-	-	-	-
Group Net Income	**249,3**	**267,4**	**202,1**	**307,9**	**330,6**	**377,8**	**432,2**	**484,1**	**522,4**	**563,9**	**610,6**

Source: Company Reports, Own Elaboration

4. Balance Sheet

Millions €	2018	2019	2020	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e
Trade Receivables	285,9	316,9	281,8	290,4	309,5	333,2	357,6	383,4	408,8	431,7	449,3
Inventory	566,1	618,6	656,7	745,7	757,2	815,1	874,8	937,9	1.000,1	1.056,1	1.099,0
Cash and Cash Equivalents	613,9	704,4	548,1	791,3	892,2	1.055,8	1.267,3	1.532,9	1.840,5	2.245,4	2.705,5
Other Current Assets	83,9	71,7	67,0	82,7	89,9	103,6	111,2	119,2	127,1	134,3	139,7
Total Current Assets	**1.549,8**	**1.711,6**	**1.553,6**	**1.910,1**	**2.048,9**	**2.307,8**	**2.610,8**	**2.973,4**	**3.376,6**	**3.867,4**	**4.393,5**
PPE	578,2	582,0	562,7	645,5	727,1	778,5	828,0	861,1	882,2	895,4	897,8
Goowill and Trademarks	2.384,0	2.481,0	2.355,8	2.445,2	2.445,2	2.445,2	2.445,2	2.445,2	2.445,2	2.445,2	2.445,2
Deferred Tax Assets	38,4	37,5	44,5	55,2	54,8	59,0	63,3	67,9	72,4	76,5	79,6
Investments in Associates	0,4	0,5	26,1	26,1	26,1	26,1	26,1	26,1	26,1	26,1	26,1
Other non-current Assets	31,7	28,1	12,8	11,0	11,0	11,0	11,0	11,0	11,0	11,0	11,0
Total non-current Assets	**3.032,7**	**3.129,1**	**3.001,9**	**3.183,0**	**3.264,2**	**3.319,9**	**3.373,6**	**3.411,4**	**3.436,9**	**3.454,1**	**3.459,7**
Total Assets	**4.582,5**	**4.840,7**	**4.555,5**	**5.093,1**	**5.313,1**	**5.627,6**	**5.984,5**	**6.384,8**	**6.813,5**	**7.321,5**	**7.853,2**
Trade Payables	216,0	240,7	321,2	394,6	348,6	367,1	384,0	406,3	433,3	457,6	476,2
ST Financial Debt	275,6	695,3	276,2	322,0	322,0	322,0	322,0	322,0	322,0	322,0	322,0
Other Current Liabilities	167,3	216,5	156,3	228,1	243,5	258,4	277,3	297,3	317,0	334,8	348,4
Total Current Liabilities	**658,9**	**1.152,5**	**753,7**	**944,7**	**914,0**	**947,5**	**983,3**	**1.025,6**	**1.072,3**	**1.114,3**	**1.146,5**
LT Debt	1.229,4	809,5	1.384,0	1.321,6	1.321,6	1.321,6	1.321,6	1.321,6	1.321,6	1.321,6	1.321,6
LT Provisions	118,7	51,4	41,6	34,4	34,4	34,4	34,4	34,4	34,4	34,4	34,4
Deferred Tax	368,2	386,1	337,0	366,0	385,5	409,9	434,5	460,0	484,3	504,9	522,0
Post-Employment Benefit Obl.	31,6	33,4	33,4	30,1	30,1	30,1	30,1	30,1	30,1	30,1	30,1
Other non-current Liabilities	12,9	16,2	7,4	21,5	21,5	21,5	21,5	21,5	21,5	21,5	21,5
Total non-current Liabilities	**1.760,8**	**1.296,6**	**1.803,4**	**1.773,6**	**1.793,1**	**1.817,5**	**1.842,1**	**1.867,6**	**1.891,9**	**1.912,5**	**1.929,6**
Total Liabilities	**2.419,7**	**2.449,1**	**2.557,1**	**2.718,3**	**2.707,1**	**2.765,0**	**2.825,4**	**2.893,3**	**2.964,3**	**3.026,8**	**3.076,2**
Share Capital	58,1	58,1	18,3	18,3	18,3	18,3	18,3	18,3	18,3	18,3	18,3
Retained Earnings	2.104,7	2.331,6	1.978,3	2.353,5	2.584,7	2.841,3	3.137,8	3.470,2	3.827,9	4.273,4	4.755,8
Group Equity	**2.162,8**	**2.389,7**	**1.996,6**	**2.371,8**	**2.603,0**	**2.859,6**	**3.156,1**	**3.488,5**	**3.846,2**	**4.291,7**	**4.774,1**
Minority Interests	-	1,9	1,8	3,0	3,0	3,0	3,0	3,0	3,0	3,0	3,0
Total Shareholders' Equity	**2.162,8**	**2.391,6**	**1.998,4**	**2.374,8**	**2.606,0**	**2.862,6**	**3.159,1**	**3.491,5**	**3.849,2**	**4.294,7**	**4.777,1**
Total Liabilities and Equity	**4.582,5**	**4.840,7**	**4.555,5**	**5.093,1**	**5.313,1**	**5.627,6**	**5.984,5**	**6.384,8**	**6.813,5**	**7.321,5**	**7.853,2**

Source: Company Reports, Own Elaboration

5. Cash-Flow Statement

Millions €	2019	2020	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e
Net Income	249,3	267,4	201,1	330,6	377,8	432,2	484,1	522,4	563,9	610,6
Change in OWC	18,8	-32,7	42,2	-52,2	-45,2	-39,3	-37,5	-32,9	-31,0	-22,4
D&A	71,7	77,9	79,9	88,4	100,4	113,5	127,0	140,4	154,1	168,1
Other Cash Flows	60,3	-179,7	153,5	3,6	3,6	3,7	3,9	3,9	3,5	2,7
Cash from Operations	**400,1**	**132,9**	**476,7**	**370,4**	**436,6**	**510,2**	**577,5**	**633,7**	**690,5**	**759,0**
Capital Expenditures	-82,4	-79,8	-135,7	-170,0	-151,8	-162,9	-160,1	-161,4	-167,2	-170,6
Increase in other Assets	3,5	-10,3	1,8	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Increase in other Liabilities	5,1	-8,8	10,8	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Cash from Investing	**-73,8**	**-98,9**	**-123,1**	**-170,0**	**-151,8**	**-162,9**	**-160,1**	**-161,4**	**-167,2**	**-170,6**
Change in Debt	-0,2	155,4	-16,6	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Dividends	-63,1	-62,9	-61,6	-69,4	-81,2	-90,8	-101,7	-109,7	-118,4	-128,2
Share Issues (Repurchases)	-47,3	-271,2	-2,8	-30,0	-40,0	-45,0	-50,0	-55,0	0,0	0,0
Other Cash Flows	-168,1	42,5	-7,5	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Change in Share Capital	0	-39,8	0	0	0	0	0	0	0	0
Cash from Financing	**-278,7**	**-176,0**	**-88,5**	**-99,4**	**-121,2**	**-135,8**	**-151,7**	**-164,7**	**-118,4**	**-128,2**
Change in Minorities	1,9	-0,1	1,2	0	0	0	0	0	0	0
Change in Cash	**49,5**	**-142,1**	**266,3**	**100,9**	**163,6**	**211,5**	**265,7**	**307,6**	**404,8**	**460,2**

Source: Company Reports, Own Elaboration

6. Key data

Millions €	2018	2019	2020	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e
Volumes (1 litre bottles in mln)	283,4	311,5	293,0	302,8	338,8	358,3	378,4	400,1	421,7	441,1	455,9
Revenues	1.711,7	1.842,5	1.772,0	2.172,7	2.350,7	2.530,5	2.715,7	2.911,6	3.104,7	3.278,5	3.411,9
% growth		7,6%	-3,8%	22,6%	8,2%	7,6%	7,3%	7,2%	6,6%	5,6%	4,1%
EBITDA	432,6	479,7	399,8	515,2	555,0	630,6	716,2	800,2	865,0	932,5	991,6
% margin	*25,3%*	*26,0%*	*22,6%*	*23,7%*	*23,6%*	*24,9%*	*26,4%*	*27,5%*	*27,9%*	*28,4%*	*29,1%*
EBIT	378,8	408,0	321,9	435,3	466,6	530,2	602,7	673,2	724,6	778,4	823,4
% margin	*22,1%*	*22,1%*	*18,2%*	*20,0%*	*19,8%*	*21,0%*	*22,2%*	*23,1%*	*23,3%*	*23,7%*	*24,1%*
Net Income	249,3	267,4	202,1	307,9	330,6	377,8	432,2	484,1	522,4	563,9	610,6
% margin	*14,6%*	*14,5%*	*11,4%*	*14,2%*	*14,1%*	*14,9%*	*15,9%*	*16,6%*	*16,8%*	*17,2%*	*17,9%*
Dividends	57,3	63,1	62,9	61,6	69,4	81,2	90,8	101,7	109,7	118,4	128,2
NOSH Diluted	1.179,9	1.169,9	1.156,3	1.146,3	1.143,4	1.138,9	1.134,0	1.128,8	1.122,9	1.122,9	1.122,9
EPS diluted	0,21	0,23	0,17	0,27	0,29	0,33	0,38	0,43	0,46	0,50	0,54
DPS diluted	0,05	0,05	0,05	0,05	0,06	0,07	0,08	0,09	0,10	0,11	0,11

Source: Company Reports, Own Elaboration

7. Synthetic rating conversion table

If interest coverage ratio is			
greater than	≤ to	Rating is	Spread is
-100000	0.499999	D2/D	14.34%
0.5	0.799999	C2/C	10.76%
0.8	1.249999	Ca2/CC	8.80%
1.25	1.499999	Caa/CCC	7.78%
1.5	1.999999	B3/B-	4.62%
2	2.499999	B2/B	3.78%
2.5	2.999999	B1/B+	3.15%
3	3.499999	Ba2/BB	2.15%
3.5	3.9999999	Ba1/BB+	1.93%
4	4.499999	Baa2/BBB	1.59%
4.5	5.999999	A3/A-	1.29%
6	7.499999	A2/A	1.14%
7.5	9.499999	A1/A+	1.03%
9.5	12.499999	Aa2/AA	0.82%
12.5	100000	Aaa/AAA	0.67%

Source: Damodaran 2022

8. Premium Spirits Industry Players

Rank	Company	Market Cap
1	Diageo	104.160,0
2	Pernod Ricard	48.398,7
3	Brown-Forman	31.783,1
4	Bacardi	30.596,5
5	Beam Suntory	-
6	Campari	11.652,0

Source: Company Report, Refinitiv Eikon

9. Governance Structure

Name	Role
Luca Garavoglia	Chairman, Non-Executive Director
Robert Kunze-Concewitz	Executive Director, CEO
Paolo Marchesini	Executive Director, CFO
Fabio Di Fede	Executive Director, Group General Counsel and Business Development
Eugenio Barcellona	Director and member of the Control & Risks Committee and Remuneration & Appointment Committee
Emmanuel Babeau*	Director and member of Remuneration & Appointment Committee
Alessandra Garavoglia	Director
Margareth Henriquez*	Director
Jean-Marie Laborde*	Director and member of the Control & Risks Committee
Christophe Navarre*	Director and member of Remuneration & Appointment Committee
Lisa Vascellari Dal Fiol*	Director and member of the Control & Risks Committee

* Independent Director

Source: Company Website

10. ESG Score

	2021	2020	2019
Environmental Pillar	C+	C+	C+
Social Pillar	A-	A-	A-
Governance Pillar	B	B+	B+
ESG Combined Score	**B**	**B**	**B-**

Source: Refinitiv Eikon

11. Risk Analysis

Unavailability and cost of materials [O1] – Operational Risk

The ability of companies in managing an increasing demand of products might be affected by the geopolitical scenario together with the logistic constraints. Moreover, exchange rates and inflation rates contribute to challenge the resilience of the company. The resulting higher cost of raw materials might not be offset by higher prices of products, requiring additional strategies to hedge from these risks. Campari is currently investing in safety stocks available in production facilities and managing logistic constraints with multiple suppliers.

Tax risks and changes in fiscal regulations [C1] – Compliance Risk

Considering the global exposure of the company, import duties and national taxes are critical variables for the company. The main concern for Campari is represented by US import duties, which would heavily affect the effective tax burden.

Macroeconomic and business stability in the countries in which Campari operates [S1] – Strategic Risk

As a global company, Campari is exposed to the political and economic instability of emerging markets, which may include import quotas, exchange-rates fluctuations, and counterparty risks. Moreover, the effects of the tensions between China and US, together with the Brexit, have contributed to put pressures on international businesses.

Risk related to acquisitions [S2] – Strategic Risk

Campari's intense M&A activity is part of its historical strategy. However, the acquisition process might require a considerable amount of time and capital to turn into a success. Hence, the additional debt that an investment might require could have adverse effects on the company's financial and operating performances. Further, the integration process might present unexpected difficulties in creating synergies, which is increasingly risky when the company decide to invest in new markets or business.

Risks related to consumer preferences and Campari's dependency on the sale of key products [S3] – Strategic Risk

Consumer habits and preferences continuously evolve in unpredictable ways, following market trends and constraints. Moreover, given the crisis scenario, consumer may change their preferences due to negative economic conditions which reduce the disposable income, limiting what is known as premiumization. Hence, spirits producers must be able interpret new opportunities and to adapt production strategies to market trends. Further, a diversified portfolio is pivotal to provide coverage of consumer preferences in terms of price and season, which in the spirits industry is a crucial factor. Campari has a strategic focus towards aperitifs brands, which are typically consumed during spring and summer. However, given the global exposition of the company, the winter season coincides with lower sales volumes.