UBI Banca PRIVATE & CORPORATE UNITY

SAFE BAG

Initiation of coverage — **Buy**

07 July 2016 – 5:30PM | *MARKET PRICE:* ***EUR0.73*** | *TARGET PRICE:* ***EUR1.30***

Airport services

Data

Shares Outstanding (m):	13.2	
Market Cap. (EURm):	9.6	
Enterprise Value (EURm):	11.4	
Free Float (%):	11.1%	
Av. Daily Trad. Vol. (m):	0.001	
Main Shareholder:	Retailer Group 71.3%	
Reuters/Bloomberg:	SB.MI	SB IM
52-Week Range (EUR)	0.6	1.2

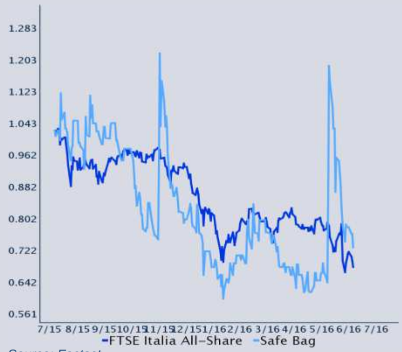
Source: Factset, UbiBanca estimates

Performance

	1m	3m	12m
Absolute	12.1%	-1.4%	-36.4%
Rel. to FTSE IT	28.1%	10.0%	-13.3%

Source: Factset

Graph area Absolute/Relative 12 M



Source: Factset

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Restarting

We initiate coverage of Safe Bag with a Buy rating and target price of EUR1.30 per share. The company has suffered in the past two years with operating losses and negative net results due to the rapid deterioration of its business in the US and an excessive cost structure. In this scenario, Safe Bag changed its CEO (the new CEO acquired a 6.4% stake in Safe Bag), strongly reduced fixed costs (EUR1 million of savings), closed loss-making airports (five in Italy with EUR0.35 million of savings) and successfully renegotiated its contract with the airport of Miami (royalties down to 35% from 52% and minimum guarantee from USD9.5 million to USD3.5 million). The initial benefits of this restructuring should be evident this year when the EBITDA margin is expected to exceed 10% despite a slowdown in revenues. As a result, we believe now represents the perfect time to invest in a turnaround story at its inception, with the share price at its lowest since the listing. The main risks to the company are a decrease in airport retail services, linked to a possible passenger slowdown and the write down of existing goodwill (EUR12.5 million, which is above the current market capitalization).

> Safe Bag is a leading airport retailer specialised in wrapping services for the protection and tracing of luggage. It is currently preset in 22 airports (in Italy, France, Portugal, Switzerland, Canada and the US) with >85% of sales realized outside Italy. The average duration of its concessions is 4.9 years. The company is 71.3% controlled by its founder, Mr. Rudolph Gentile, and was listed on the AIM market at EUR2.25 per share in September 2013.

> Despite rapid growth in revenues (>30% CAGR since 2012), Safe Bag's EBITDA margin deteriorated sharply and became negative in 2015. This was mostly caused by the concession it holds in Miami, penalized by outside wrapping services and by restructuring costs and by some loss-making concessions that were closed at the end of 2015 and in 1Q16. We forecast a slowdown of 6.5% in the top line in 2016, in line with management's indications, and an EBITDA approaching EUR3 million, which could lead to a bottom line of around EUR1 million. 2017-18 should see some sales recovery which should lift the EBITDA margin >12%.

> We believe that the current market price reflects very negative expectations, a scenario which is improbable in our view. Based on our conservative estimates (which do not include any new concessions) the shares offer >70% upside.

Financials — priced on 6 July 2016

	2015	2016E	2017E	2018E
Revenues (EURm)	28.1	26.3	27.7	29.2
EBITDA (EURm)	-0.8	2.9	3.4	3.8
EBITDA margin (%)	-2.9%	11.1%	12.3%	12.8%
EBIT (EURm)	-1.6	1.3	2.5	2.8
EPS (EUR)	-0.1	0.1	0.1	0.2
CFPS (EUR)	0.0	0.1	0.2	0.2
DPS (EUR)	0.0	0.0	0.0	0.0

Source: Company Data, UBI Banca Estimates

Ratios — priced on 6 July 2016

	2015	2016E	2017E	2018E
P/E(x)	nm	9.8	5.1	4.3
P/CF(x)	-11.3	7.9	3.9	3.4
P/BV(x)	1.5	0.9	0.8	0.6
Dividend Yield	0.0%	0.0%	0.0%	0.0%
EV/EBITDA(x)	nm	3.9	2.7	1.7
Debt/Equity (x)	0.3	0.1	-0.1	-0.2
Debt/EBITDA (x)	-3.4	0.5	-0.3	-1.0

Source: Company Data, UBI Banca Estimates

Key Financials

(EURm)	2015	2016E	2017E	2018E
Revenues	28.1	26.3	27.7	29.2
EBITDA	-0.8	2.9	3.4	3.8
EBIT	-1.6	1.3	2.5	2.8
NOPAT	-1.6	1.3	2.5	2.8
Free Cash Flow	-0.9	0.7	2.4	2.7
Net Capital Employed	12.5	12.2	11.7	11.3
Shareholders' Equity	9.5	10.8	12.7	14.8
Net Financial Position	2.8	1.4	-1.0	-3.7

Source: Company data, UBI Banca estimates

Key Profitability Drivers

	2015	2016E	2017E	2018E
Net Debt/Ebitda (x)	-3.4	0.5	-0.3	-1.0
Net Debt/Equity (x)	0.3	0.1	-0.1	-0.2
Interest Coverage (%)	-6.9	6.0	14.8	20.8
Free Cash Flow Yield (%)	-6.3%	7.5%	24.7%	27.8%
ROE (%)	-15.9%	9.1%	15.0%	15.0%
ROI (%)	-12.1%	9.7%	19.9%	23.1%
ROCE (%)	-12.7%	10.3%	21.1%	24.7%

Source: Company data, UBI Banca estimates

Key Valuation Ratios

	2015	2016E	2017E	2018E
P/E (x)	nm	9.8	5.1	4.3
P/BV (x)	1.5	0.9	0.8	0.6
P/CF (x)	-11.3	7.9	3.9	3.4
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
EV/Sales (x)	0.6	0.4	0.3	0.2
EV/EBITDA (x)	nm	3.9	2.7	1.7
EV/EBIT (x)	nm	9.0	3.6	2.3
EV/CE (x)	1.4	0.9	0.8	0.6

Source: Company data, UBI Banca estimates

Key Value Drivers

(%)	2015	2016E	2017E	2018E
Payout	0.0%	0.0%	0.0%	0.0%
Cost of Equity	5.5%	5.5%	5.5%	5.5%
WACC	6.1%	5.4%	5.5%	5.5%
NWC/Sales	-21.5%	-22.3%	-21.9%	-21.5%
Capex/Sales	2.2%	1.2%	1.2%	1.2%

Source: Company data, UBI Banca estimates

Investment Case

Safe Bag is a leading service company specialising in luggage wrapping and tracing for airline passengers. It operates in 22 airports with >342 million passengers per annum, in Italy (six airports including Rome), France (seven airports including Paris), Portugal (five airports including Lisbon), Switzerland (Zurich and Geneva), Canada (Montreal from June 2016) and the US (Miami), managing 96 wrapping machines with around 300 people. The average duration of its concessions is 4.9 years (from 4.1 years at end-14) due to several contract renewals during the past months.

In 2015, Safe Bag reported EUR28.1 million of revenues (of which 85% from outside Italy) but negative EBITDA due to strong operating losses at Miami airport (caused by the competition of outside wrapping and by penalizing concession conditions), the presence of loss-making subsidiaries in Italy, and an excessive fixed cost structure that made the company's business plan targets presented at the IPO unachievable. As a result, the share price has fallen almost 65% since the IPO (September 2013 at EUR2.25 per share) and 35% in the past 12 months.

However, since the end of May 2015 the company has started to react and re-direct the focus to profitability rather than revenue growth. It appointed a new CEO (Mr. Alessandro Notari, who acquired 6.4% stake in Safe Bag) and new board members, reduced costs by moving its headquarters from Rome to a cheaper location in Gallarate (close to Milan Malpensa airport), closed loss-making subsidiaries (Palermo, Bari, Brindisi, Pisa, Verona and Alghero) and reduced consultancy costs generating savings estimated at EUR1 million p.a. In addition, last month the company finally renegotiated its Miami concession, cutting royalties from 52% of revenues to 35% and reducing the yearly minimum guarantee from USD9.6 million to USD3.5 million. As a result, we believe the company's fundamentals should improve significantly as early as this year (management forecasts EBITDA of EUR3 million with a margin of 11.6% despite an 8% drop in sales) and, consequently, we believe this to be the ideal time to gain exposure to Safe Bag. If the company demonstrates a convincing improvement in profitability, the share price appreciation could be rapid and substantial.

In addition, there could be other potential catalysts for Safe Bag that are not included in our forecasts:

> The company is upgrading its product range from a basic product (wrapping) to a "premium package" which includes the tracking of luggage and refund in case of delay, loss or damage of the baggage. This should lead to a higher average receipt (from EUR10 to EUR12). The company is also enlarging its product range through the sale of travel goods and is launching new products (e.g. "Speek", the sale of phone cards to reduce roaming costs when abroad);

> Safe Bag's core market has been fairly positive over the past two years and is expected to increase further, driven by passenger growth (+4%-5% per annum internationally and around 4% in Europe) that will support organic growth. Further growth opportunities are represented by successful tenders in airports where the company is not currently present.

Our EUR1.30 per share target price, which offers >70% upside, is based on the average of a DCF valuation (EUR1.90 per share) and a relative valuation (EUR1.81 per share) applying a 30% liquidity discount. Based on our conservative 2016-18 estimates, at our target price the share would trade at 4.9x 2017 EV/EBITDA and 8.9x P/E.

In our view, the main risk is the possible write-down of existing goodwill (EUR12.5 million at Dec-15 for subsidiaries with a cumulated net equity of EUR0.86 million at Dec-15).

Company profile

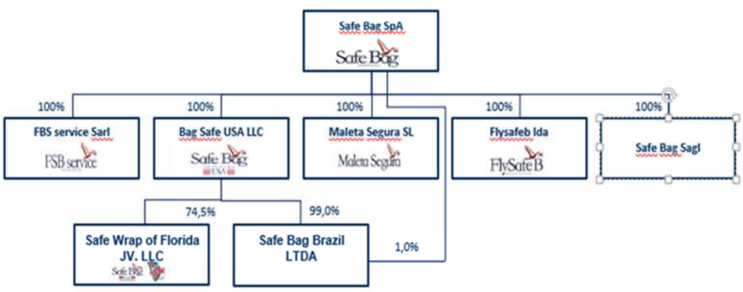
Founded in 1997 by Rudolph Gentile, son of Giuseppe Gentile, a well known entrepreneur in the aviation (Air Italy and Meridiana Fly), Safe Bag is one of the leading companies in luggage wrapping and tracking services. The company is currently present in 22 airports that serve >342 million passengers per annum: in Italy (six airports including Rome), France (seven airports including Paris), Portugal (five airports including Lisbon), Switzerland (Zurich and Geneva), Canada (Montreal from June 2016) and the US (Miami), managing 96 wrapping machines with around 300 people (of which 178 employees) and an average turnover of around EUR0.3 million p.a. for every machine. Safe Bag services include basic protection, smart tracking, premium package, customer care, travellers' goods and luggage weighing scales.

Figure 1 – Short history of the company

1997	Founding – first concessions in Bologna, Venice, Naples and Verona
2002	Leadership in the Italian market, introduction of insurance protection
2003	New concessions in Palermo, Florence, Genoa, Pisa, Olbia, Turin, Treviso, Alghero
2011	First concessions in Portugal
2012	Concessions in France: Paris, Nice, Lyon, Bordeaux
2012	Start of the business of travel goods
2012	Expansion in Spain (Ibiza) Belgium and Switzerland
2013	JV with Secure Wrap for Miami
2013	New concession in Zurich
2013	Listing on the Italian Stock Exchange AIM market (EUR3.5 million cash-in)
2014	Closure of the activity in Belgium
2014	Development of the web channel for tracking
Jan-2015	Increase to 74.5% of the Miami subsidiary
Mar-2015	New concession in Marseille
May-2015	Restructuring plan
Oct-2015	Launch of "Speek", a phone card sold in airports
2015	Renewal of Lyon, Nice, Bologna, Venice and Paris concessions
2016	New opening in Montreal and Madeira

Source: Company data

Figure 2 – Company structure

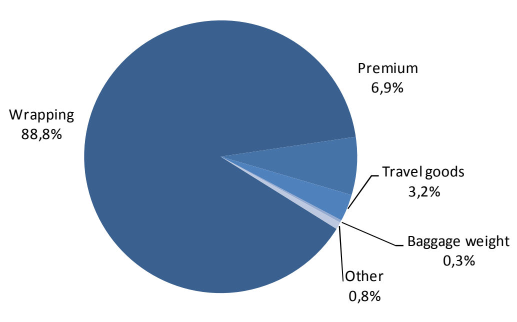


Source: Company data

The business model is relatively straightforward:

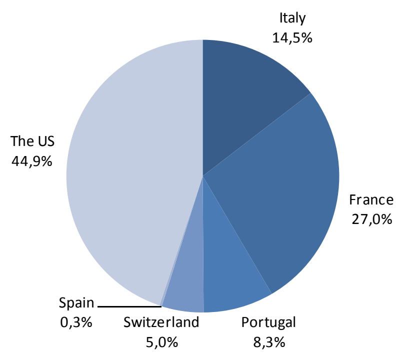
- The company participates in a bid for the concession for the wrapping activity inside an airport (through a public tender, a direct assignment or an invitation tender). The concessions have a duration ranging from 2 - 10 years and normally last 5 years. The winner of the tender is required to pay a minimum guaranteed amount and royalties based on turnover. These can range from 15% of revenues up to 52% (i.e. Miami airport before the concession renegotiation). These costs represent the main cost for the company (we estimate >40% of sales in 2014-15 for Safe Bag; TrueStar, the company's main competitor, reported royalties equal to 48.8% of sales in 2014);
- Safe Bag buys the wrapping machines (that are projected and assembled internally and controlled by proprietary software) that are located in the airport close to the check-in area on a stand-alone basis or in a kiosk where the company also sells travel goods. Safe Bag also owns some retail shops where there is a wider selection of travel goods;
- The typical client is a passenger traveling for leisure on long-haul flights. For this reason the penetration of wrapping services is lower in airline hubs (e.g. in Frankfurt in Europe);
- The average receipt ranges from EUR7 for a basic wrapping service to >EUR12 for the "premium package", which includes luggage tracking. We estimate that basic wrapping services represent around 85% of Safe Bag's revenues while the "premium package" represents around 7% of revenues and the residual amount is from the sale of travel goods and other services (mainly weighing baggage);
- Clearly the revenues of a concession depend on the number of passengers in the airport and on the penetration of wrapping services: the company estimates that current penetration is around 3.5% of total passengers and growing (it was around 3% in 2010).
- The company manages its customer service through a call center with eight employees in Moldavia.

Figure 3 – 2015 sales breakdown by product



Source: Ubibanca estimates

Figure 4 – 2015 sales breakdown by area



Source: Company data

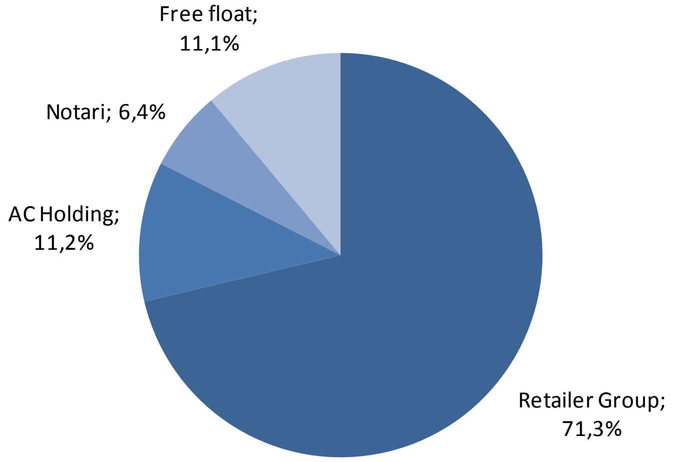
Shareholder structure

Safe Bag was listed on the Milan Stock Exchange, in the AIM segment, in 2013 at EUR2.25 per share. The company is controlled by the founder Mr. Rudolph Gentile, who holds a 71.3% stake through Retailer Group S.r.L. Mr. Gentile is the Chairman of the company. The second shareholder, AC Holding, is a Lugano-based investment company, which also controls Sintesi S.p.A., a holding company listed in Milan that recently enetered in insolvency proceedings. Mr. Notari, the new CEO of Safe Bag, controls 6.4%. He was previously the co-founder CFO of Air Italy and Meridiana-Air Italy. The free float is currently 11.1%.

The board of directors is composed of five members of which one is independent; the total remuneration of the board is EUR0.4 million p.a.

The shareholders' meeting recently approved a stock option plan for 2017-19 using up to 0.99 million new shares (implying 7% dilution for existing shareholders) with strike prices ranging from EUR0.01 to EUR0.70 depending on the year and on the achievement of pre-announced company targets.

Figure 5 – Shareholder structure



Source: Company data

At the time of the IPO, Safe Bag issued 1.55 million warrants expiring on 15 December 2016. These warrants have may be exchanged for shares on a 1:1 basis and have a strike price of EUR2.25 per share; they are currently strongly out of the money. Therefore, we do not expect any warrants to be converted.

Strategy

2015 was a very disappointing year for Safe Bag: the company results were well below its business plan targets for 2015 (sales of EUR28.4 million, EBITDA margin of 25%, EBIT margin of 15%, net result of EUR2.6 million, net debt of EUR1.4 million) mostly due to the heavy losses in Miami and the negative results of some of the Italian concessions (Palermo, Bari, Brindisi, Pisa, Verona and Alghero, all divested in 1Q16). As a result, Safe Bag has refocused its strategy on profitability not revenue expansion and announced a radical restructuring involving the loss of seven jobs. Management, in particular the CEO, has already been replaced.

The company's strategy may be summarised as follows:

> **Restructuring:** the restructuring plan has four main targets: 1) around EUR1 million of savings in G&A costs through the relocation of the headquarters and a reduction in consultancy fees; 2) the divestment of loss-making outlets giving savings of EUR0.35 million); 3) the renegotiation of the concession in Miami; and 4) expansion of the "Premium" tracking service which generates a higher margin (this service has been available throughout the sales network since last December). All these actions have already been taken and the initial benefits are expected to materialise from 2Q16. Our estimates reflect our opinion that the restructuring will translate into a slight slowdown in turnover this year (-6.5%, mostly due to Italy where several selling points have been closed, and Miami) but, more importantly, into significant profitability improvements that could permit Safe Bag to have an EBITDA of close to EUR3 million this year;

> **Product range expansion:** Safe Bag aims to widen its product range and enter new high-profitability niches while increasing complementary applications. Last December, the company launched a new product: "Speek", the sale of phone cards that reduce roaming costs when abroad. Although we have not included any revenues from new products in our estimates, we expect them to generate sales in the future as, for every 1,000 bags on a landing airline, 8.83 bags are mishandled (*Source: SITA 2013, The Baggage Report*) for a total of >26 million bags mishandled worldwide;

> **New concessions:** Safe Bag will continue to bid for new concessions and/or to expand existing ones (e.g. in Rome-Fiumicino, the company has just two machines but is expected to bid for a further 10 machines next year). The management aims to expand in Asia (it is currently bidding for Shanghai, Bali and Abu Dhabi, even if the likelihood of success is slight given the significant competition) and South America (Safe Bag recently opened a new branch in Brazil). However, our estimates do not include any new concessions.

> **Potential acquisitions:** Safe bag could acquire some competitors in order to penetrate new markets and eventually move to MTA. In particular we refer to True Star, its main Italian competitor with 150 points of sale in 57 airports (mostly Italy, Spain, Turkey, South America, and Eastern Europe), EUR39 million of sales and EUR1.4 million of EBITDA in 2014. Fondo Italiano di Investimento (a private equity fund controlled by the Italian Government) has a 24.9% stake in the company (acquired for EUR10 million) and, together with the main shareholder, could divest its stake in the coming months. However, we believe a large acquisition would be difficult for Safe Bag to achieve given the difficulties in raising fresh financial funds.

Reference market

The reference market of Safe Bag is clearly a niche area of the airport retail market, which is estimated to have totalled EUR37.6 billion in 2015 (*source: Verdict, Global Airport Retailing*). The market depends on airport passenger growth, which has been significant in the past few years, and which should continue in future (IATA forecasts 7 billion passengers by 2034, of which 1.4 billion in Europe and 1.4 billion in the US) due to demographic trends and the increasing mobility of people, supported by further investments in airports (USD750 billion expected in 2015-25 according to Oxford Economics). In detail, Europe is expected to grow by 3.7%-3.9% in 2016-18, the US by 4.8% this year and by 3.6% in 2017-18 while the bulk of the growth should come from Asia/Pacific (+10.1% in 2016, +8.4% in 2017 and +7.5% in 2018). Altogether, airport passenger numbers are expected to grow by >5% globally in the next three years.

Figure 6 – International passenger growth trend and global airport retail market

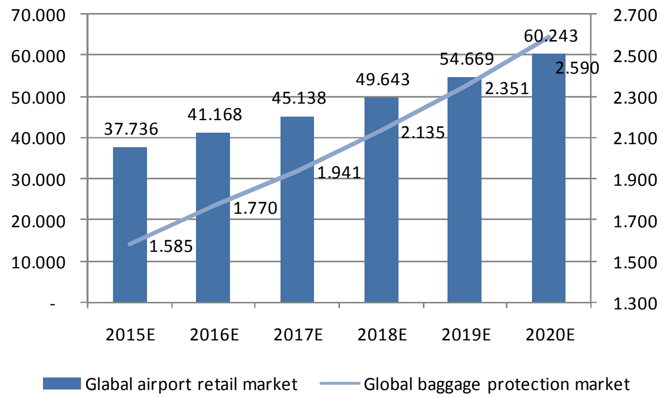
	2016E	2017E	2018E
Europe	3.9%	3.7%	3.9%
Africa	-5.5%	2.2%	2.2%
Asia/Pacific	10.1%	8.4%	7.5%
Middle East	8.1%	7.4%	7.0%
LatAm/Caribbean	9.3%	7.5%	6.8%
North America	4.8%	3.6%	3.6%
World in total	**5.8%**	**5.4%**	**5.2%**
Global airport retail market	**9.6%**	**9.6%**	**10.0%**

Source: Air4cast (30 April 2016) and Verdict: Global Airport Retailing, 2015

Within this framework, the global airport retailing industry should experience faster growth (Verdict expects +9.6%-10% in 2016-18 globally), with Asia/Pacific (where Safe Bag is not present) witnessing the fastest growth, with sales nearly double those of 2014. The US is expected to grow by 51% over the next five years while turnover in European airports is expected to rise by 40% by 2020, the lowest increase of all geographic regions.

According to the management, the baggage protection market represents around 4.3% of the airport retail market or nearly EUR1.6 billion based on the 2015 airport retail market. Assuming that the baggage protection market remains just 4.3% of the airport retail market, this implies revenues of >EUR2.5 billion by 2020.

Figure 7 – Global airport retail and baggage protection market trends



Source: Verdict: Global Airport Retailing, 2015, Ubibanca estimates

This said, Safe Bag is present just in Europe and the US and only in some airports. In the table below we have estimated potential revenues based on 2015 passengers in the existing concessions, the wrapping penetration and the average service price. This gives potential sales of >EUR55 million compared with the EUR28.1 million realised in 2015. This means that the company has considerable potential to grow in its existing concessions by merely increasing, the number of machines per airport.

Figure 8 – Potential of existing concessions

Airport	Passengers (000)	% wrapping	Passengers using wrapping (000)	Avg. Price (EUR)	Market share	Potential revenues (EURm)	Machines
Bologna	6.882	2.5%	172	8.2	100%	1.41	2
Fiumicino	40.422	2.5%	1.011	8.2	20%	1.66	2
Genova	1.353	2.5%	34	8.2	100%	0.28	1
Napoli	6.163	2.5%	154	8.2	100%	1.26	2
Olbia	2.212	2.5%	55	8.2	100%	0.45	1
Venezia	8.735	2.5%	218	8.2	100%	1.79	3
Bordeaux	5.323	2.5%	133	8.0	100%	1.06	2
Paris-CDG	65.771	1.5%	987	8.0	100%	7.89	13
Paris-Orly	29.665	1.5%	445	8.0	100%	3.56	4
Lyon	8.793	1.5%	132	8.0	100%	1.06	1
Marseille	8.261	2.0%	165	8.0	100%	1.32	2
Nice	12.015	2.0%	240	8.0	100%	1.92	2
Toulouse	7.669	1.0%	77	8.0	100%	0.61	1
Faro	6.436	2.0%	129	7.0	100%	0.90	1
Lisbon	20.090	2.0%	402	7.0	100%	2.81	4
Porto	8.087	2.0%	162	7.0	100%	1.13	1
Ponta Delgada	1.267	2.0%	25	7.0	100%	0.18	1
Madeira	2.500	2.0%	50	7.0	100%	0.35	1
Geneva	15.691	0.5%	78	13.6	100%	1.07	1
Zurich	26.229	0.5%	131	13.6	100%	1.79	1
Miami	44.350	3.5%	1.552	13.6	100%	21.17	48
Montreal	15.000	1.5%	225	8.4	100%	1.89	2
Total	**342.914**		**6.577**			**55.57**	**96**

Source: Company data, UBIBanca estimates

Competition

The airport baggage protection market is still very fragmented with three leading companies, including Safe Bag. The largest company is Secure Wrap, a US company operating in 53 airports in 16 countries worldwide, mostly focused in the US and Central and South America. The second company is TrueStar, an Italian company with 150 sales points in 57 airports (mostly Italy, Spain, Turkey, South America, and Eastern Europe), followed by regional companies such as Bagport, active in the US; Excess BC, a UK company that also provides wrapping services in railway stations; Fraport Security controlled by Frankfurt airport; Seal & Go, a Dutch company serving Russia, the Middle East and Namibia; and Secure Wrap India, which manages baggage protection in the main Indian airports.

All in all, there is a lot of room for consolidation. We would highlight that only the largest companies in the industry can bid for concessions inside large airports, putting Safe Bag in a strong position to expand.

SWOT Analysis

Figure 9 - SWOT Analysis

Strengths	Weaknesses
Low exposure to the Italian market (85% revenues outside Italy)	No presence in Asia where there is the highest passenger growth
Long duration of existing concessions (4.9 years) and attractive growth potential	Goodwill of EUR12.5 million at Dec-15, which could be written down
Strong growth of Smart track and Premium package (+215% in 2015) that generate higher profitability	Low liquidity of the stock and no dividends
Opportunities	**Threats**
Winning new concessions and potential acquisitions	Strong competition for new concessions
Ongoing restructuring process should improve profitability	Geopolitical risk (e.g. terrorism attacks) could jeopardize the air traffic expectations
New product such as "Speek"	Ongoing legal disputes (mainly with TrueStar)

Source: UBI Banca estimates

2015 results

2015 was a difficult year for Safe Bag: sales increased by 5.3% but profitability dropped with a negative EBITDA of EUR0.8 million. It should be noted that Safe Bag's 2015 Financial Statements were prepared using International Accounting Standards (IAS) for the first time instead of Italian accounting standards (Italian GAAP). The main difference for the company between the two methods relates to goodwill amortization (amortised over seven years and EUR2.3 million in 2014 under Italian GAAP), which is not permitted by IAS (being substituted by an annual impairment test). In other words, the adoption of IAS has increased EBIT by EUR2.1 million. This means that the 2015 net result under Italian GAAP would have been negative for nearly EUR3.8 million (or around 40% of current market capitalization) based on our estimates. However, the adoption of IAS penalised EBITDA as intangibles, such as listing costs, could no longer be capitalized. The negative impact on 2014 EBITDA was around EUR0.9 million, of which EUR0.6 million related to the IPO costs.

Figure 10 - 2015 results and comparison with business plan

(EURm)	2014A*	2015A	% Chg.	2015E **	% Chg.
Sales Italy	4.21	4.02	-4.3%		
Sales France	7.05	7.47	5.9%		
Sales USA	11.46	12.41	8.2%		
Sales other	3.95	4.19	6.1%		
Sales total	26.66	28.09	5.3%	28.37	-1.0%
EBITDA	**0.21**	**-0.82**	**nm**	**7.21**	**nm**
% margin	**0.8%**	**-2.9%**			
D&A	-1.01	-0.82		-2.84	
EBIT	-0.80	-1.63	nm	4.37	nm
% margin	-3.0%	-5.8%			
Pre tax profit	-1.04	-1.85	77.1%	4.29	nm
Net profit	**-0.97**	**-1.49**	**53.8%**	**2.56**	**Nm**
Net debt (cash)	2.18	2.79	28.2%	(9.11)	nm

Source: Company data
** Reclassified under IAS*
*** Based on Safe Bag business plan presented along with the IPO*

Despite the revenue growth, Safe Bag was hit by rising royalty costs, mostly related to the Miami airport concession that was hit by outside wrapping (the company estimates that outside wrapping halved the potential turnover and revenues in USD declined by 12.4%) and by higher G&A costs.

After D&A of EUR0.8 million (of which EUR0.3 million related to disputes with employees), the EBIT was negative for EUR1.6 million and gave a negative pre-tax result of EUR1.8 million. The net attributable loss was EUR1.5 million.

Net debt increased to EUR2.8 million (vs. EUR2.2 million at Dec-14), of which EUR2.8 million was long-term debt. Operating NWC remained negative for EUR4.1 million (or 14.6% of sales), thanks to very low inventories and the immediate cash-in that characterizes the baggage protection industry. Fixed assets increased slightly to EUR17 million, of which EUR12.5 million was goodwill, and total invested capital was EUR13.2 million, slightly below the figure of EUR14.1 million reported at Dec-14.

Financial projections

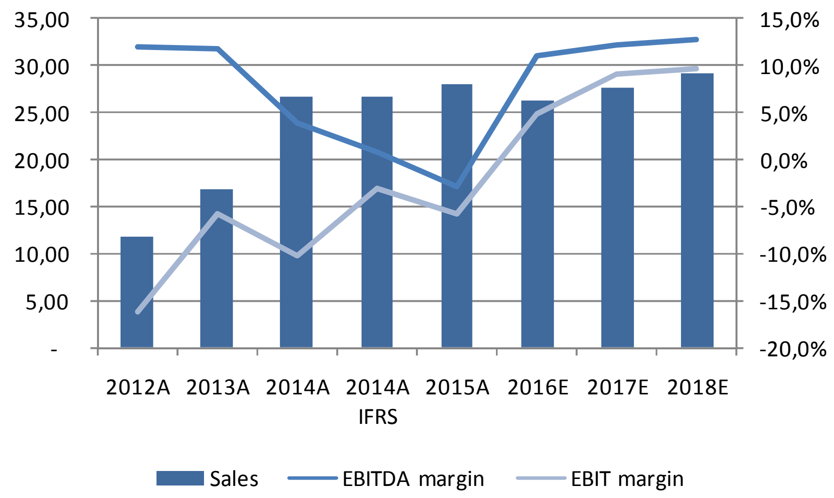
After the dramatic drop in profitability in 2015, we expect some recovery this year. This should be partially due to the restructuring initiatives announced by the company. These include a reduction in labour costs, a reduction in the commercial subsidiaries, and lower fixed costs tied to the relocation of the company headquarters for an estimated saving of about EUR1.3 million.

However, the main profitability improvement should come from the renegotiation of the terms for the concession in Miami: a reduction in royalties from 52% of sales to 35% for the next five years and a cut in the minimum guaranteed payment to USD3.5 million p.a. (from USD9.6 million) starting from the beginning of the year. We believe that following this agreement (that also implies a credit of USD2.7 million for the American subsidiary), royalties for the whole group (including the minimum guaranteed) should fall to around 29% of revenues (from our estimate of >45% in 2015), significantly increasing the EBITDA margin.

Management expects a sales decline of about 8% in 2016 due to the slowdown in Italy (where six airport outlets were closed) and lower revenues in the US and an EBITDA margin at 11.6%, which is still below the 2012-13 level. EBIT should be hit by a write-down of around EUR1 million in the French subsidiary and should be EUR1.4 million. Consequently the margin is expected to be around 5.4% while net debt should decline to EUR1.4 million, also in light of the low capex expected this year (we estimate around EUR0.3 million in France, Canada and Portugal).

While our 2016 forecasts are broadly in line with management indications, we expect further EBITDA improvements in 2017-18 as the full benefit of the restructuring measures kicks in, the introduction of further efficiencies, and the growth in Portugal and Switzerland (13.1% of 2015 consolidated revenues), which generate higher profitability than other countries, while the Paris airport of Charles De Gaulle (where the concession was renewed for a further five years last December) should benefit from improved concession terms.

Figure 11 - Revenues and profitability margin trend

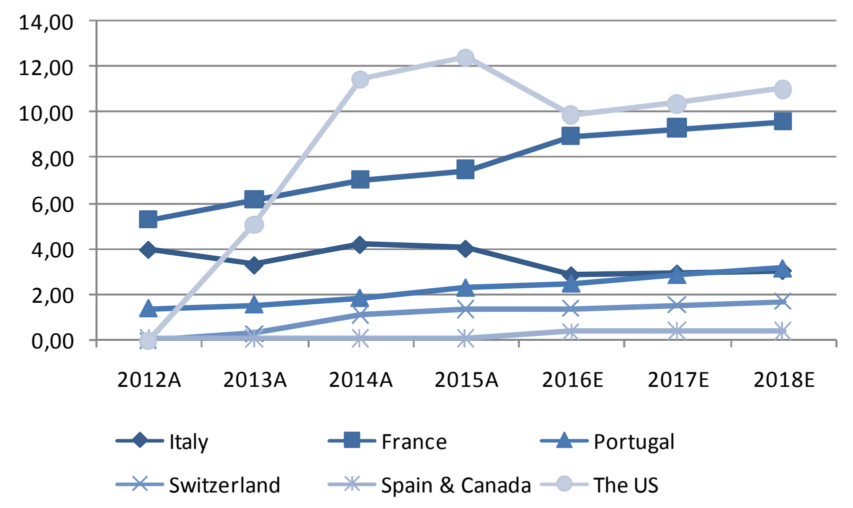


Source: Company data, UBI Banca estimates

After annual D&A costs of about EUR0.9 million, and excluding any possible goodwill write-down, EBIT is expected to rise to EUR2.5 million in 2017 and EUR2.8 million in 2018.

Below the operating line, Safe Bag is expected to report EUR0.15 million p.a. of financial charges in coming years. Applying a 37% tax rate, the bottom line is expected to be EUR1 million in 2016, EUR1.9 million in 2017 and EUR2.3 million in 2018. However, we believe dividends distribution would be challenging.

Figure 12 - Revenues trend by country (EURm)

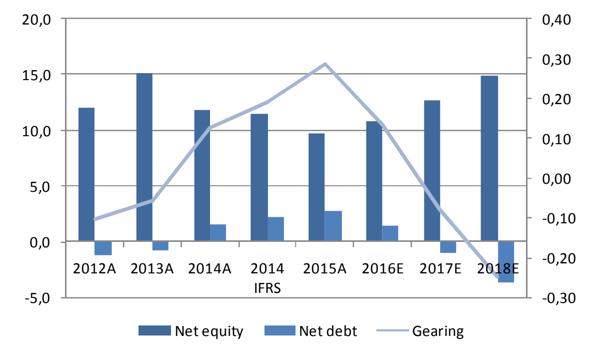


Source: Company data, UBI Banca estimates

Safe Bag reported net debt of EUR2.8 million at Dec-15, with gearing of 0.29x: in the coming years, sound cash flow generation should substantially improve the financial structure and we expect the company to return to a net cash position already at the end of 2017.

Figure 13 – Financial structure evolution (EURm)

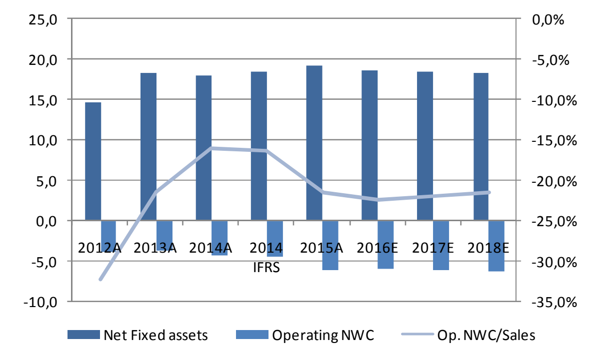
Net debt should turn to cash in 2017 due to healthy operating cash generation and low capex (we estimate around 1.2% of sales p.a.).



Source: Company data, UBI Banca estimates

Figure 14 – Net fixed assets and operating NWC evolution

Given that goodwill is no longer amortized, net fixed assets should remain stable at around EUR18.5 million while operating NWC is expected to remain negative at around 22% of revenues.



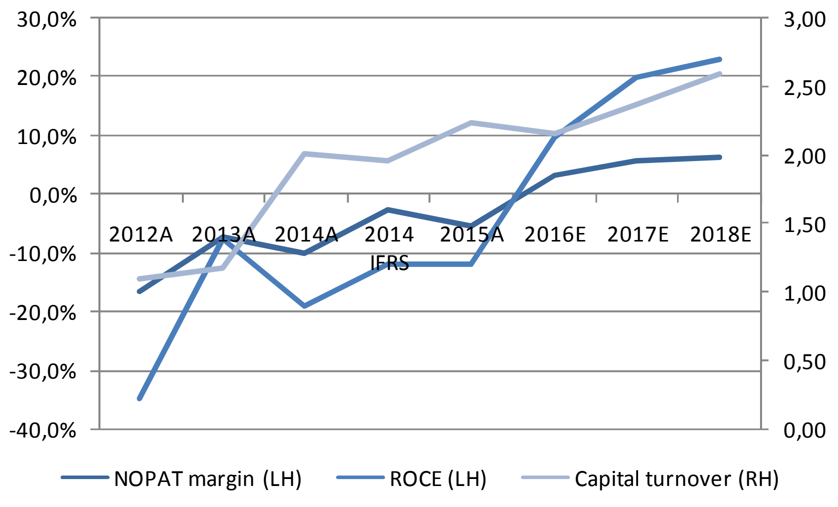
Source: Company data, UBI Banca estimates

While operating net working capital has always been negative for Safe Bag (inventories of around eight days of revenues, minimal trade receivables and trade payables with payment terms of 75 days on average in the past four years), net fixed assets have always been high (>90% of revenues on average in 2012-15) due to the presence of significant goodwill (>EUR12 million): this has resulted in an average capital turnover (sales / invested capital) of 1.63x in the past four years. This figure improved in 2015 (to 2.24x) thanks to a reduction in NWC. For 2016-18, we forecast a gradual improvement in capital turnover, mostly due to lower fixed assets (D&A should exceed capex in 2016-18 due to the huge investments realised in the past few years).

In the past four years ROCE has always been negative as NOPAT was strongly impacted by goodwill amortization (>EUR2 million p.a.) under Italian GAAP. With the adoption of IAS, we believe the ROCE could become positive as early as this year, rapidly growing to >20% in 2018 driven by the expected increase in NOPAT.

Figure 15 – Nopat margin, Capital Turnover and ROCE trend

The negative NOPAT margin in the past few years kept ROCE in negative territory. In coming years, the recovery in the NOPAT margin, coupled with a slight increase in capital turnover, should lead to a positive ROCE (10.3% in 2016 growing to 24.7% in 2018)



Source: Company data, UBI Banca estimates

The goodwill risk

At Dec-15 Safe Bag reported EUR12.47 million of goodwill in its balance sheet, or 94% of its invested capital and 125% of its current market capitalization. The goodwill is from the consolidation of the subsidiaries in France, Portugal and Spain (for a total of EUR12 million) and the concession in Switzerland (EUR0.5 million). The total net equity of these subsidiaries was EUR0.9 million at Dec-15. Therefore, there is a very high risk that this goodwill could be written down in the future and we have included a EUR1 million write-down in our 2016 forecasts. Even if there was no impairment at Dec-15 (using a WACC ranging from 7% to 11.9%), we cannot rule out a future write-down that could jeopardize our estimates for 2016-2018 net profit.

Figure 16 – Net equity and net result of the companies that make up the goodwill (EUR000)

Company	Country	Net equity	2015 net result
FSB Service	France	80	7
Fly Safeb Unipessoal	Portugal	583	109
Maleta Segura	Spain	(150)	(81)
Safe Bag Sagl	Switzerland	344	4
Total		**857**	**39**

Source: Company data

Valuation

Our target price of EUR1.30 per share is based on the average of a DCF analysis and a relative valuation, after having applied a 30% liquidity discount. At the target price, Safe Bag shares would trade at 4.9x 2017 EV/EBITDA, which is still well below the average multiple for our peer sample (8.7x).

Figure 17 – Valuation summary

We applied a 30% discount to our fair value to reflect the low liquidity of the shares and the modest size of the company compared to peers

(EUR)		Weight
DCF Valuation	1.90	50.0%
Relative Valuation	1.81	50.0%
Fair value	**1.85**	
Liquidity discount 30%	(0.55)	
Target price	**1.30**	
Current price	0.73	
Potential upside	77.4%	

Source: UBI Banca estimates

DCF

In 2012 and 2013 Safe Bag was a value destroyer, reflecting the losses at EBIT level, caused by the goodwill amortization while in the past two years the value destruction was caused by the deterioration of the NOPAT margin which peaked in 2015 with value destruction close to EUR2.4 million, based on our estimates. This said, current market capitalization (EUR10.1 million) is less than 80% of Safe Bag's net invested capital which implies continued material value destruction for the future. In other words, the current market price reflects very negative expectations or an absence of any top-line or EBITDA significant improvement, a scenario which we believe is improbable given the restructuring actions undertaken by the company and the successful renegotiation of the Miami concession. The implication is that as soon as the company demonstrates a significant profitability improvement the share price could appreciate rapidly.

To calculate the company's WACC, we used the following assumptions:

> a risk-free rate of 2.5%, which is our long-term assumption for the interest rate on Italian bonds (2% inflation target of ECB plus 0.5% of real interest, in line with the long term historical average);

> a market risk premium of 4.5%;

> a levered beta of 1.18 (1.0 unlevered);

> a terminal growth rate of 1% and an operating margin of 10% at terminal value, which is in line with our estimated EBIT margin for 2017 and 2018 (2016 being a year of transition);

> A debt/equity ratio of 22/78, which was the figure at December 2015.

Figure 18 - WACC and embedded DCF assumptions

WACC assumptions		Embedded DCF assumptions	
Risk-free rate (10Y BTP bench.)	2.5%	Revenue CAGR 2016-2024 (%)	2.6%
Debt spread (%)	2.0%	EBIT CAGR 2016-2024 (%)	10.3%
Cost of debt [net] (%)	3.0%	EBIT margin 2016 (%)	4.8%
Market risk premium (%)	4.5%	Target EBIT margin 2024 (%)	10.0%
Beta (x)	1.18	D&A. on sales (avg. 2016-2024) (%)	4.2%
Cost of equity (%)	7.8%	Capex on sales (avg. 2016-2024) (%)	2.1%
Weight of Debt	22%		
Weight of Equity	78%		
WACC	**6.73%**		

Source: UBI Banca estimates

We estimate a WACC of 6.73%, obtaining a theoretical value of EUR1.80 per share.

Figure 19 – DCF Valuation

Our DCF valuation implies an EV/EBITDA of 6.0x at terminal value

	Valuation (EUR m)	% Weight	Per share (EUR)
Sum of PV 2016-24 FCF	13.58	48%	1.03
Terminal value	14.90	52%	1.13
Total Enterprise value	**28.48**	**100%**	**2.16**
- minorities	(0.22)		(0.02)
- Pension Provision	(0.40)		(0.03)
- Net cash (debt)	(2.79)		(0.21)
Total Equity value	**25.07**		**1.90**
Number of shares outstanding (m)	13.2		
Fair value per share (EUR)	**1.90**		

Source: UBI Banca estimates

Our valuation shows limited sensitivity to the terminal growth rate and WACC although a lower beta and/or stronger growth would increase our DCF fair value.

Figure 20 – Sensitivity analysis

g / WACC	0.00%	0.50%	1.00%	1.50%	2.00%
6.28%	1.81	1.90	2.01	2.15	2.31
6.43%	1.78	1.87	1.97	2.10	2.26
6.58%	1.75	1.83	1.93	2.05	2.20
6.73%	1.72	1.80	**1.90**	2.01	2.15
6.88%	1.69	1.77	1.86	1.97	2.10
7.03%	1.67	1.74	1.83	1.93	2.05
7.18%	1.64	1.71	1.80	1.89	2.01

Source: UBI Banca estimates

Relative valuation

Safe Bag has no comparable peers that are listed, although there are some listed companies active in the airport services business or in the service industry, all with a market capitalization of over EUR1 billion. Our sample is composed of: 1) Dufry, a global travel retailer with operations in 68 countries and 2,200 shops located mostly in airports, 2) Compass Group, a world leading food and support service company active in over 50 countries, 3) Sodexo, an international service company with nearly EUR20 billion of sales and present in 80 countries, 4) Elior Group, a leading operator in the contracted food and support service industry with 18,600 points of sale, 5) SSP Group, an operator of branded food and beverage outlets in travel locations across 29 countries, and 6) Autogrill, a global operator in food and beverage services for travellers that is present in 31 countries with 4,200 points of sale.

Based on a relative 2016-17 P/E, Safe Bag would be valued at EUR2.10 per share (however, in our view, P/E is less significant as the company is in the midst of a restructuring process) while on EV/EBITDA it would be EUR1.89 per share and on EV/EBIT EUR1.42. The average of these three valuations gives EUR1.81 per share.

Figure 21 – Peer comparison and valuation based on multiples priced on 6 July 2016

Based on a simple average of diversified peers, Safe Bag has a valuation of EUR1.81 per share. We highlight that the company is currently trading at an average 60% discount to our peer sample.

Company	Market Cap	P/E		EV/EBITDA		EV/EBIT	
	(EURm)	2016E	2017E	2016E	2017E	2016E	2017E
Dufry AG	5.425	13.6 x	10.9 x	9.1 x	7.8 x	1.14 x	1.04 x
Compass Group Plc	27.427	24.1 x	21.6 x	14.7 x	13.3 x	1.36 x	1.25 x
Sodexo SA	14.830	21.4 x	19.6 x	10.3 x	9.4 x	0.74 x	0.71 x
Elior Group SA	3.350	19.9 x	17.0 x	9.6 x	8.8 x	0.82 x	0.78 x
SSP Group Plc	1.556	20.1 x	17.9 x	8.5 x	7.6 x	0.83 x	0.76 x
Autogrill S.p.A.	1.857	22.6 x	18.7 x	6.0 x	5.4 x	0.54 x	0.50 x
Average		**20.3 x**	**17.6 x**	**9.7 x**	**8.7 x**	**0.91 x**	**0.84 x**
Median		**20.7 x**	**18.3 x**	**9.4 x**	**8.3 x**	**0.83 x**	**0.77 x**
Safe Bag at market price	10	9.8 x	5.1 x	3.9 x	2.7 x	0.43 x	0.33 x
Premium (discount) to Average		**-51.9%**	**-71.2%**	**-59.9%**	**-69.3%**	**-52.1%**	**-60.9%**
Safe Bag valuation based on multiples		**1.55**	**2.63**	**1.86**	**1.93**	**1.43**	**1.41**

Source: Factset, UBI Banca estimates

At our EUR1.30 per share target price, Safe Bag would trade at 16.7x 2016 P/E, which is still below the average multiple of our sample of peers (20.3x) and at 6.5x EV/EBITDA (vs. an average of 9.7x).

Figure 22 – Implicit multiples based on our EUR1.30 target price

(x)	2016	2017	2018
P/E	16.7 x	8.9 x	7.6 x
EV/EBITDA	6.5 x	4.9 x	3.8 x
EV/EBIT	14.9 x	6.6 x	5.0 x
EV/Sales	0.72 x	0.60 x	0.48 x
P/BV	1.6 x	1.4 x	1.2 x
P/CF	15.8 x	6.2 x	5.6 x
EV/ Capital employed	1.5 x	1.4 x	1.3 x

Source: UBI Banca estimates

Income Statement

(EURm)	2015	2016E	2017E	2018E
Net Revenues	28.1	26.3	27.7	29.2
EBITDA	-0.8	2.9	3.4	3.8
EBITDA margin	-2.9%	11.1%	12.3%	12.8%
EBIT	-1.6	1.3	2.5	2.8
EBIT margin	-5.8%	4.8%	9.1%	9.7%
Net financial income /expense	-0.2	-0.2	-0.2	-0.1
Associates & Others	0.0	0.0	0.0	0.0
Profit before taxes	-1.9	1.1	2.4	2.7
Taxes	0.1	-0.3	-0.4	-0.4
Minorities & discontinuing ops	0.2	0.3	-0.1	-0.1
Net Income	-1.5	1.0	1.9	2.2

Source: Company data, UBI Banca estimates

Balance Sheet

(EURm)	2015	2016E	2017E	2018E
Net working capital	-6.0	-5.9	-6.1	-6.3
Net Fixed assets	19.3	18.7	18.5	18.4
M/L term funds	-0.7	-0.7	-0.7	-0.8
Capital employed	12.5	12.2	11.7	11.3
Shareholders' equity	9.5	10.8	12.7	14.8
Minorities	0.2	-0.0	0.0	0.1
Shareholders' funds	9.7	10.8	12.7	15.0
Net financial debt/(cash)	2.8	1.4	-1.0	-3.7

Source: Company data, UBI Banca estimates

Cash Flow Statement

(EURm)	2015	2016E	2017E	2018E
NFP Beginning of Period	1.5	2.8	1.4	-1.0
Group Net Profit	-1.5	1.0	1.9	2.2
Minorities	-0.2	-0.3	0.1	0.1
D&A	0.5	0.5	0.5	0.5
Change in Funds & TFR	0.0	0.0	0.0	0.0
Gross Cash Flow	-1.3	1.2	2.5	2.8
Change In Working Capital	1.8	-0.2	0.2	0.2
Other	0.0	0.0	0.0	0.0
Operating Cash Flow	0.5	1.0	2.7	3.0
Net Capex	-0.6	-0.3	-0.3	-0.3
Other Investments	-0.8	0.0	0.0	0.0
Free Cash Flow	-0.9	0.7	2.4	2.7
Dividends Paid	0.0	0.0	0.0	0.0
Other & Chg in Consolid. Area	0.3	0.6	0.0	0.0
Chg in Net Worth & Capital Incr.	0.0	0.0	0.0	0.0
Change in NFP	-0.6	1.3	2.4	2.7
NFP End of Period	2.1	1.5	-1.0	-3.7

Source: Company data, UBI Banca estimates

Financial Ratios

(%)	2015	2016E	2017E	2018E
ROE	-15.9%	9.1%	15.0%	15.0%
ROI	-12.1%	9.7%	19.9%	23.1%
Net Fin. Debt/Equity (x)	0.3	0.1	-0.1	-0.2
Net Fin. Debt/EBITDA (x)	-3.4	0.5	-0.3	-1.0
Interest Coverage	-6.9	6.0	14.8	20.8
NWC/Sales	-21.5%	-22.3%	-21.9%	-21.5%
Capex/Sales	2.2%	1.2%	1.2%	1.2%
Pay Out Ratio	0.0%	0.0%	0.0%	0.0%

Source: Company data, UBI Banca estimates

Per Share Data

(EUR)	2015	2016E	2017E	2018E
EPS	-0.1	0.1	0.1	0.2
DPS	0.0	0.0	0.0	0.0
Op. CFPS	0.0	0.1	0.2	0.2
Free CFPS	-0.1	0.1	0.2	0.2
BVPS	0.7	0.8	1.0	1.1

Source: Company data, UBI Banca estimates

Stock Market Ratios

(x)	2015	2016E	2017E	2018E
P/E	nm	9.8	5.1	4.3
P/OpCFPS	30.4	9.3	3.6	3.2
P/BV	1.5	0.9	0.8	0.6
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
Free Cash Flow Yield (%)	-6.3%	7.5%	24.7%	27.8%
EV (EURm)	18.1	11.4	9.1	6.6
EV/Sales	0.6	0.4	0.3	0.2
EV/EBITDA	nm	3.9	2.7	1.7
EV/EBIT	nm	9.0	3.6	2.3
EV/Capital Employed	1.4	0.9	0.8	0.6

Source: Company data, UBI Banca estimates

Growth Rates

(%)	2015	2016E	2017E	2018E
Growth Group Net Sales	5.3%	-6.5%	5.7%	5.4%
Growth EBITDA	nm	nm	16.3%	10.4%
Growth EBIT	nm	nm	98.7%	12.7%
Growth Net Profit	nm	nm	92.3%	16.9%

Source: Company data, UBI Banca estimates

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Target price: the market price that the analyst believes that the share may reach within a one-year time horizon.

Market price: closing price on the day before the issue date of the report, appearing on the first page.

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Distribution of ratings

Equity rating dispersion in the past 12 months			
Buy	***Hold***	***Sell***	***No Rating***
88.2%	*11.8%*	*0.0%*	*0.0%*
Proportion on issuers to which UBI Banca has supplied investment banking services relating to the last 12 months			
Buy	***Hold***	***Sell***	***No Rating***
100%	*100%*	*-*	*-*

For further information regarding yearly and quarterly rating statistics and descriptions, please refer to www.ubibanca.com/equity-research.