A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance from the NOVA – School of Business and Economics.

Campari Group: keeping up with the pace
The conditions to satiate future growth

RODRIGO NUNES SILVA BALTAZAR, no. 32378

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Prof. Rosário André

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Abstract

This Master's Thesis objective is to find the intrinsic value of Campari Group and suggest an investment decision based on the total return for a holding period of one year, from 1st of January 2023 to 31st December 2023. After growing above competitors over the last decade with its star beverage Aperol at the helm, Campari has built a reputation for growth that they ought to maintain. Throughout the report we defend Campari as a solid business with a proven track record of execution and plenty of growth avenues. However, awareness is raised regarding previous acquisitions high price points as well as current valuation multiples that seem to overestimate potential growth. We therefore suggest a HOLD position with a 31st December 2023 projected share price of EUR 10.39 and a holding period return of 2.97%, including dividends.

Keywords: Campari; Spirits; Alcohol; Drink

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This report is part of the “Campari Group: keeping up with the pace” report (annexed), developed by Rodrigo Baltazar and Tiago Sequeira and should be read has an integral part of it.

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Introduction

The main purpose of the “Campari Group: keeping up with the pace” annexed report is to accurately evaluate Campari Group’s stock and issue an investment recommendation based on the results found.

To conduct the process, a top-down approach was followed. The first step was to set Campari Group’s current position in the sector it operates: spirits. Considering so, a detailed analysis of the industry both from customer and producer side was performed. For the first, we chose a sociodemographic viewpoint to identify customer preferences around the globe in the form of trends marking the industry: premiumization, home mixology and “healthy” drinking. For the latter, a geographical standpoint was taken to assess the evolution of sales in volume and turnover per country, thus reaching an important conclusion: companies in the sector tend to lead in their origin country and are seeking expansion in Asia.

Following came a historical analysis of Campari Group’s performance and further comparison with industry average and more direct competitors. The firm is growing at faster pace than many of its competitors but seems to face two major issues: underperformance regarding margins and overpaying in inorganic expansion.

As the past performance diligence was concluded, we moved on to estimate the key drivers for the group’s financials and resort to a discounted cash flow model to arrive to estimates regarding the company’s future free cash flows. By resorting to capital IQ and Damodaran methods, we found a WACC of 6.35% that calculates an Enterprise Value of EUR 12 681M and consequent price target FY23 of EUR 10.39. Looking at current price of EUR 10.19, we expect to recommend a HOLD for Campari Group’s stock, as total annualized shareholder return is estimated around 2.97%.

This individual report “Campari Group: keeping up with the pace – The conditions to satiate future growth” covers the main sections on diligence about the company and industry, the past performance of Campari Group overview and main trends influencing the market nowadays. The other individual report, “Campari Group: keeping up with the pace – The mixology behind the valuation” contemplates Campari Group’s strategic plan and detailed point of situation per key geography, as well as the technical valuation that allowed us to derive the target price as well as the main conclusions and recommendations.

Campari Group Brand Portfolio	
Global Priority	Aperol Campari Wild Turkey Grand Marnier Jamaican rums SKYY
Regional Priority	Espolòn Cinzano, Riccadonna Italian specialties Crodino Magnum Tonic Aperol Spritz RTD The GlenGrant
Local Priority	Campari Soda Wild Turkey RTD Skyy RTD

Fig.1 – Campari Brand Portfolio
Source: Description

Fig.2 – Global Priority Brands
Source: Investors Presentation

Product Category	Campari Brand	Standard Brand
VODKA	SKYY: 17-22 EUR	MISS: 7-9 EUR
Whiskey	Wild Turkey: 27-37 EUR	Hampton Whiskey: 7-12 EUR
Tequilla	ESPOLÓN: 27-35 EUR	José Cuervo: 15-20 EUR
Rum	Appleton Estate: 30-40 EUR	Bacardi Rum: 15-20 EUR

Fig.3 – Standard vs Premium pricing in Key product categories
Source: Investors Presentation

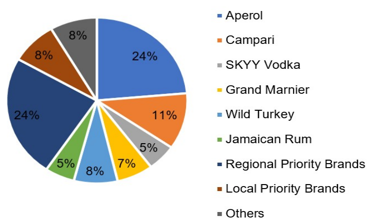


Fig.4 – Share of each product on the group’s total revenue
Source: Annual report

Fig.5 – Aperol historical sales
Source: Annual report

Company Description

Campari group operates in the global branded spirits industry. The group was founded in Milan in 1860, when Gaspare Campari created the Campari red aperitif. Since then, Campari have amassed more than 50 brands mostly in premium segments, which lends it a solid position in Europe and the Americas. In 2022 Campari had sales of EUR 2 674 M which have grown at a yearly rate of 9%. Its brands are distributed in 190 markets with a direct distribution network in 22 countries and are manufactured in 22 production facilities around the world. Campari Group is headquartered in Sesto San Giovanni (Milan), Italy, and employs approximately 4,000 people around the world.

The group divides its brands based on their geography reach and strategic priority. Global priority brands include Aperol, Campari, Wild Turkey, and Sky Vodka, Grand Marnier, Jamaican Rum portfolio. The remaining brands are classified as regional and local.

A high growth premium brand portfolio where Aperol takes the spotlight

Campari is mostly positioned in the premium spirits category. The difference between premium and standard spirits revolves around the taste, quality of ingredients and price point. Premium drinks usually have a unique taste. These drinks also have high quality ingredients – for example standard vodka usually uses potatoes and sugar-beet rather than higher quality grains in the fermentation process. Finally, premium spirits come at a price point that is usually between 1.5x and 2x that of standard spirits. On its global priority portfolio, the group has a prices per 750ML that range between 14 euros of Aperol to 40 of Grand Marnier. Campari’s SKYY Vodka sells for an average price of 20 euros against Diageo’s Smirnoff standard counterpart that retails below 10 euros.

Aperol was founded in 1919 later becoming part of the Campari Group’s brand portfolio in 2003 through the acquisition of Barbero 1891 S.p.A. Aperol is the group’s crown jewel having Italy, Germany, the United States, and Austria as its core markets. From 2018 to 2021, Aperol has grown by a yearly rate of 17% since 2018, from EUR 279M to 631M, corresponding in 2022 to 15% of Campari’s revenues. Campari is a red spirit that complement the aperitif portfolio. The product can be drunk standalone, yet it is also the base for many famous classic cocktails, including the Negroni and Americano. From 2018 to

2021, Campari has grown by a yearly rate of 11%, from EUR 174M to 6294M, corresponding to 7% of Campari's revenues.

As for the remaining global priorities, SKYY was created in San Francisco in 1992 and acquired by the group in 2001. Since 2017 has been the worst performing global priority brands growing negatively from 145M in 2018 to 139M in 2022. Grand Marnier was acquired by Campari Group in 2016 for 650M (16.5x LTM EBITDA multiple) and has elevated the US as Campari's top market. The plan to revamp the brand came with the introduction of a new packaging and a new marketing campaign emphasizing the heritage and quality of the brand as well as redefining the brand's drinking strategy by focusing on mixology, classic cocktails. Such focus on mixology is also at the heart of how Campari aperitif is positioned.

Wild Turkey is a straight Bourbon Whisky acquired by Campari Group in 2009. The United States is the biggest market for the Wild Turkey portfolio, followed by Australia, South Korea, Japan, and Canada. Jamaican Rums Portfolio is composed of Appleton Estate, Wray&Nephew Overproof and Kingston 62. These brands were acquired in 2012 and now represent 3% of total revenue after growing by a yearly rate of 9%. Jamaica, US and United Kingdom are the biggest markets for the portfolio.

Regional Brands are mainly concentrated within a geographic area of influence. These brands have less scale but the potential to grow within their regions and, depending on their success, achieve global priority status. Out of all regional priority brands, those with the most potential are Espolòn tequila, The GlenGrant whisky and Bulldog Gin – all brands are positioned in growing categories at premium price points. Local Brands are one-market focused brands that are either acquired after years of above-average growth or resemble a spin-off version of their parent brand. Examples include Wild Turkey ready-to-drink, Crodino, Aperol Spritz RTE and Campari Soda

A well-diversified set of revenue profile with the US and Italy as the main markets

For reporting purposes, Campari divides their markets by geographical regions. The four operating areas managed in terms of resource allocation, particularly investment in brand-building and distribution capabilities, are Americas (AMERICAS), Southern Europe, Middle East, and Africa (SEMEA), Northern, Central and Eastern Europe (NCEE), and Asia-Pacific (APAC). This geographical grouping will be leveraged throughout the report.

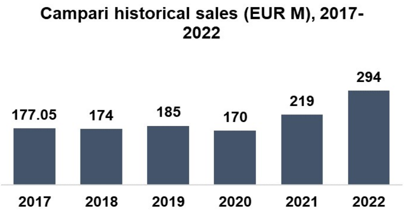


Fig.6 – Campari historical sales
Source: Annual report

Fig.7 – Wild Turkey historical sales
Source: Annual report

Fig.8 – SKYY Vodka historical sales
Source: Annual report

Fig.9 – Grand Marnier historical sales
Source: Annual report

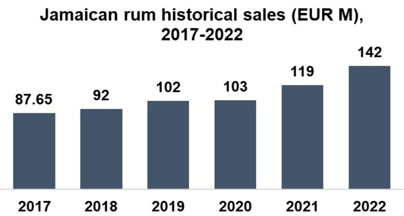


Fig.10 – Jamaican rum historical sales
Source: Annual report

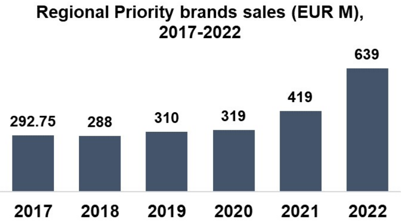


Fig.11 – Regional priority historical sales
Source: Annual report

Fig.12 – Jamaican rum historical sales
Source: Annual report

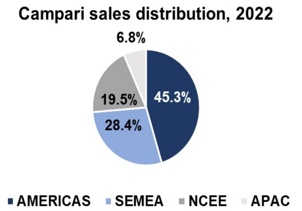


Fig.13 – Campari sales distribution
Source: Annual report

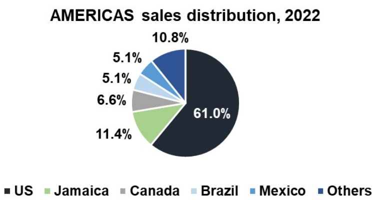


Fig.14 – AMERICAS sales distribution
Source: Annual report

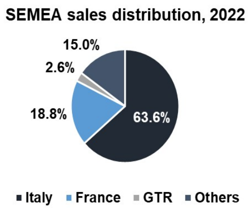


Fig.15 – SEMEA sales distribution
Source: Annual report

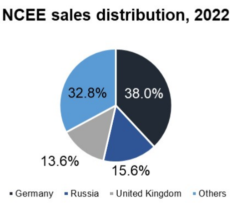


Fig.16 – NCEE sales distribution
Source: Annual report

For the year of 2022, The AMERICAS represents the bigger portion of revenue generation at 45% of total revenues (EUR 1 211 M) with the US drive the bulk of revenue with 61% of regional turnover, 28% of total revenue. SEMEA region generated 28% of revenue (EUR 759M). Italy dominates the region with 65% of overall regional top-line, 18% total revenue. NCEE accounts for 20% of revenue with Germany representing 37% of regional sales. In APAC (7% of revenue), Australia drives most of the sales with countries such as China, New Zeeland and South Korea having grown in the past but still with low prevalence in absolute terms.

In the US, Campari group has gained traction selling premium brands Grand Marnier, Espolòn and Wild Turkey, while also expanding the aperitif portfolio. In Italy – and other European countries such as Germany, France, and Spain – The aperitif portfolio has been the greater driver of revenue.

The groups business is thus concentrated around western geographies and primarily the euro and the dollar. In fact, only around 20% of the business is exposed to currencies outside these two which lends a very low currency risk against peers that have more than 50% - except Diageo with 38% yet with almost EUR 6B worth of revenues. At the same time, however, there is an opportunity to navigate Asian markets growth still left untapped. Against peers, Campari's exposure to Asian (except for Australia) markets is very low at 3% of revenue vs peer average of 40%.

A proven history of execution and plenty of room to grow in Asia

In their growth strategy, the group combines organic growth - through heavy marketing initiatives aimed at improving their brands – and M&A targeting high potential brands with a geographical presence where the firm already has a well-established distributions platform. Since 1995 the group has spent around EUR 3.7B in a total of 30 acquisitions. A good example of the ability of Campari to leverage M&A to grow is the acquisition of Grand Marnier. In 2016, France represented less than 3% of revenues yet the group decided to change that with a EUR 625M bet on Grand Marnier, also adding Bellonnie & Bourdillon to its portfolio as well as other French local brands and distributions. Since 2016, Grand Marnier grew at a CAGR of 15% and the French market has grown 34%, now accounting for 6% of total revenues at EUR 143 M.

This ability to explore new geographies is important because Campari still has a very low exposure to Asian markets when compared to their competitors. We believe that such fact should be seen as an opportunity of growth for the future.

Peer Pernod Ricard, for instance has in Asian Pacif its greatest growth engine. The firm has grown by a yearly rate of 5% since 2018 with the region growing by 7%

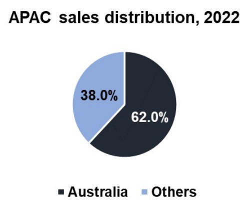


Fig.16 – APAC sales distribution
Source: Annual report

A majority shareholder that allows long-term thinking

The total share capital consists of 1,122,000 ordinary shares and 665,718,342 Special Voting Shares A and 29,109,729 Treasury Stock. Special Voting shares A do not have financial benefits attached. These shares only entail control benefits and are given to loyal customers to increase their voting power. For each two, five and ten uninterrupted years of shareholding the group awards two, five and ten special Voting shares A shares per each share held. For purposes of valuation share count is assumed as the ordinary shares net of treasury stock as special voting shares do not have any pledged financial payoff.

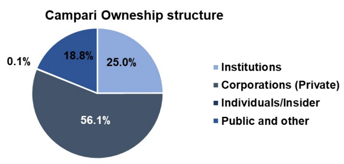


Fig.17 – Ownership structure
Source: Annual report

Due to the existence of these special voting shares, Campari is controlled by Lagfin S.C.A., Société en Commandite par Actions with 66.7% of voting rights. The Company's Chairman Luca Garavoglia indirectly controls Lagfin S.C.A, thus controlling the company. The second biggest shareholder is Cedar Rock Capital owning 3% of common stock. The remainder portion is spread between other investors. This ownership makes the company less susceptible to management "short termism" as executives are not subdued to constant pressure to show attractive earnings per share every quarter.

Luca Garavoglia has served as Campari's chairman since 1994 and have been behind successful bets such as Aperol's acquisition and marketing work as well as Grand Marnier's acquisition. We believe Luca's tenure to be of great advantage to Campari as the value of his net worth and Campari's market capitalization go together. This said, Campari management is more likely to take more long-term focused bets (specially on acquisitions) that may not appear accretive in the short run yet may position the company better for decades to come.

Past Performance

Companies	CAGR [2018 - 2022]	ROIC
Campari	8.81%	11.1%
Diageo PLC	5.10%	17.4%
Pernod Ricard SA	3.50%	10.5%
Brown Forman Corp	5.61%	24.0%
Becle	10.07%	9.6%
Remy Cointreau SA	3.70%	12.7%
Yanghe	8.60%	21.7%
United Spirits	1.95%	15.7%
Median	5.35%	14.2%
Average	5.92%	15.3%

Fig.18 – CAGR vs peers 2018-2022
Source: Capital IQ

The Value of Campari is driven by top line growth and the return on invested capital (ROIC) implicit on that revenue making. The former is driven by the growth in spirits consumption in the key markets as well as Campari's market shares whilst ROIC depends on management ability to generate revenues with as few operating costs as well as capital invested on the business.

Over the last 5 years, Campari grew above the average peer group (8.8% vs 5.9%) yet had a lower ROIC (11.1% vs 15.3%)

Campari is growing above peers

In general, value is created when a firm grows with ROIC's above the respective cost of capital. Such data may highlight Campari is creating value faster than peers. Only Mexican Becle is growing faster than Campari. Such uplift in revenues is driven disproportionally by Aperol (17% CAGR) which has solidified its position in its key markets and showed high growth rates in other countries like Spain or China. In 2022, Aperol claims 20% of revenue generation from 16% in 2018. On the same direction, both regional and local brands have shown very attractive growth rates with 13% and 9% CAGR which shows the group commitment to develop brands with greater geographical focus with the intent of turning some in stars like Aperol. Campari, as well as Jamaican Rum have kept its share of revenues growing in line with total revenues at 8% and 9% CAGR, respectively. Grand Marnier as well as Wild Turkey have grown below average at 6% CAGR. SKY Vodka is the worst performing brand growing at negative 4% CAGR as consumers shift from more alcoholic content spirits to healthier versions and Campari has pulled back some of the advertising expenses.

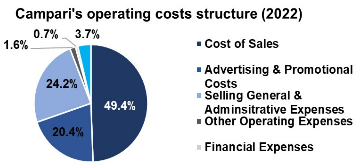


Fig.19 – Campari cost structure
Source: Annual report

Companies	Gross Margin	EBITDA margin	EBIT margin
Campari	60.1%	23.1%	21.1%
Diageo PLC	61.3%	33.4%	31.1%
Pernod Ricard SA	60.5%	29.3%	28.2%
Brown Forman Corp	-	-	-
Becle	54.2%	20.9%	19.5%
Remy Cointreau SA	70.3%	30.6%	28.7%
Yanghe	74.7%	41.2%	38.8%
United Spirits	43.0%	15.2%	13.5%
Median	60.5%	29.3%	28.2%
Average	60.6%	27.7%	25.8%

Fig.20 – Margins vs peers
Source: Capital IQ

Margins yet below top performers due to lack of scale

In terms of profitability, the group shows consistent metrics over the last 5 years with Gross Margins at 62%, EBITDA margins at 24% and EBIT margins at 21%, on average.

Neither Advertising and Promotion nor Sales General and administrative costs show a significant decrease as a percentage of revenues over the last 10 years. This indicates spirits companies need constant brand building spending as well as commercial efforts regardless of their size.

Also, the group has not achieved the same scale as top competitor Diageo that has similar COGS and Advertising spending margins yet is able to spread their fixed SG&A costs – that grow less than proportionally to revenue – over a greater volume of revenue. Whilst Diageo has SG&A representing 15% of revenues, Campari has a 20% figure. As Campari has shown the ability to match competitors' efficiency in cost of goods sold and marketing spending, and assuming the trend of growth is to be maintained, we believe Campari to achieve levels of EBITDA margins in line with those of Diageo over the next decade.

Net Working capital in line with industry standards

Regarding Net Working Capital, Campari takes on average 451 days to turn inventory into cash from sales. A key component of the spirits industry is the aging of liquids that consumes plenty of days of inventory. Maturity inventory

Companies	Operating Cycle	Cycle Days
Campari	**350.44**	**216.74**
Diageo PLC	479.87	361.36
Pernod Ricard SA	715.46	519.06
Brown Forman Corp	532.09	472.18
Becle	339.47	156.36
Remy Cointreau SA	1,675.41	1,243.01
Yanghe	982.94	913.57
United Spirits	244.79	153.64
Median	506.0	416.8
Average	665.1	504.5

Fig.21 – Operating cycle vs peers
Source: Capital IQ

accounts for 55% of total inventory which contributes for inventory days of 329, on average. When compared to peers however, Campari has one of the lowest exposures to aging inventory, which although consumes a great deal of net working capital has very high gross margins.

Since 2018, receivables have improved by 10 days from 50 to 40 days in 2021, driven by a more efficient management of payments. Payable days deteriorated in 2021 due to the sustained business expansion and, to some extent, to a reverse factoring program launched in 2020 by the firm. The program involves a first wave of strategic partners based in Italy with the aim of allowing participating suppliers to receive early payments on their invoices. Still, Campari guides it might improve going forward as the rollout of this program should stabilize.

The industry means and median operating cycle is 465 and 306 days, respectively. Both numbers are below those of Campari which suggests the firm has more efficient operations. The group manages payables particularly well against the competitors having only Remy Cointreau taking more time to pay suppliers.

A key difference also relates to Campari's choice of Brand portfolio. So far, the group has bet on spirits with below average aging needs. While such choice leads to lower invested capital needs due to lower inventory times, these beverages usually command higher gross margins. With super premium drinks growing even more than their premium counterparts, we believe Campari is likely to increase its exposure to aging spirits, as those correlated with higher prices. In the valuation section, a conversion to the median industry inventory levels was modelled.

Company	Fixed Assets (% of Revenue)
Campari	**142%**
Diageo PLC	101%
Pernod Ricard SA	220%
Brown Forman Corp	66%
Becle	106%
Remy Cointreau SA	83%
Yanghe	36%
United Spirits	24%

Company	Tangible Assets (% of Revenue)
Campari	**30%**
Diageo PLC	31%
Pernod Ricard SA	36%
Brown Forman Corp	24%
Becle	36%
Remy Cointreau SA	33%
Yanghe	28%
United Spirits	19%

Company	Intangible Assets (% of Revenue)
Campari	**113%**
Diageo PLC	70%
Pernod Ricard SA	184%
Brown Forman Corp	42%
Becle	70%
Remy Cointreau SA	50%
Yanghe	8%
United Spirits	5%

Company	Goodwill (% of Revenue)
Campari	65%
Diageo PLC	15%
Pernod Ricard SA	62%
Becle	18%
Remy Cointreau SA	3%
Yanghe	1%
United Spirits	0%

Fig.22 – Invested Capital vs peers
Source: Capital IQ

Fixed Invested Capital penalized by excess premium paid in acquisitions

As of 2021, Campari has more than 3 billion euros invested as tangible and intangible assets to sustain its business corresponding to 142% of 2021 sales. Against a peer average of 97%, Campari shows signs of misusing their capital expenditure.

As one looks at the use of fixed assets, Campari is in line with industry standards at around 30% revenue invested in plants, machinery, transport equipment, warehousing, and all other necessary equipment to produce and transport spirits.

On the intangible asset side however, the group lags top competitors. With intangibles 112% above revenues against peer average of 60%, Campari invests almost more than twice the competitors for each unit of revenue.

Campari looks like overpaying for transactions. As we look at historical levels of Goodwill (a relevant portion of intangible assets), the group has a ratio well above industry, that range from 65% to 85% of revenues against the peer average at 25% to 30%.

A strong Balance Sheet ready to explore M&A opportunities

Company	LTM Net Debt/EBITDA	D/E
Campari	**1.8x**	**0.08**
Diageo PLC	2.7x	0.17
Pernod Ricard SA	2.6x	0.18
Becle	NM	-0.13
Remy Cointreau SA	0.7x	0.04
Yanghe	-	-
United Spirits	NM	0.00

Fig.23 – Capital structure vs peers
Source: Capital IQ

Campari has a strong balance sheet characterized by healthy levels of debt. With 1.8x Net Debt/EBITDA multiple and a 0.08 D/E, Campari has the necessary firepower to fuel growth via M&A financed with debt capital. More valuable competitors Diageo and Pernod Ricard that are also strong M&A buyers have ND/EBITDA ratios of 2.6x and 2.7x that the market perceives as sustainable for the equity owners.

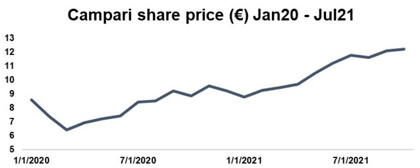


Fig.24 – Share price evolution
Source: Yahoo Finance

A history strong capital gains and below average dividend yields

As one looks at the firm's stock price evolution, it is clear Covid-19 was net positive for Campari. Just before Covid hit in Italy, in February 2019 shares where trading at 9 euros per share. The pandemic came with a 35% decline in the value of the shares. However, since the fall, shares more than doubled to 13.33 (127% capital gain) as investors rewarded off-premisses uplifts in spirits sales and more importantly the ability of Campari to explore this opportunity well. With initiatives such as producing content as well as kits for home-made cocktails. The stock price as since decreased from pandemic highs now standing at around 10 dollars, a 23% decrease.

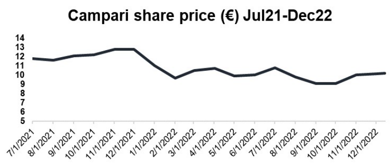


Fig.25 – Share price evolution
Source: Yahoo Finance

In terms of value creation, most peers are in the same ballpark, yet Campari has the greater market capitalization appreciation from 5 years ago to today. Equity value has increased by 50% whilst Diageo has only grown by 30%, and the peer average is 40%.

Company	Market cap today	Market cap 5 years ago	% Appreciation
Campari	**12,142**	**8,067**	**51%**
Diageo PLC	105,741	81,450	30%
Pernod Ricard SA	52,150	36,362	43%
Brown-Forman	32,941	25,077	31%
Becle	8,035	5,531	45%
Remy Cointreau SA	8,744	6,262	40%
Yanghe	34,676	24,983	39%
United Spirits	8,020	5,773	39%

Fig.26 – Market cap vs peers
Source: Capital IQ

In terms of dividends, however, Campari has historically paid dividends below industry standards with dividend yields in the 0.6% range vs industry mean of 1.4%. This fact may be of concern for short-term investors, specially combined with the fact that the group has a majority shareholder that can bare worst performing years to improve long-term value creation.

Company	Dividend yield
Campari	**0.6%**
Diageo PLC	2.0%
Pernod Ricard SA	2.2%
Brown-Forman	1.2%
Becle	1.0%
Remy Cointreau SA	1.2%
Yanghe	1.9%
United Spirits	-
Median	1.2%
Average	1.4%

Fig.27 – Dividend yield vs peers
Source: Capital IQ

Global Spirits Industry

Spirits, an attractive industry

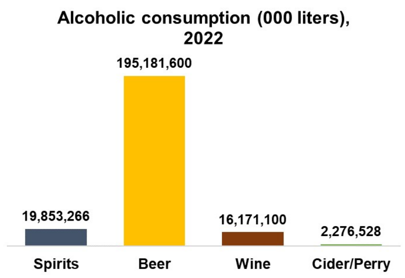


Fig.28 – Alcoholic consumption global
Source: Euromonitor

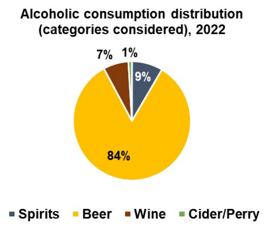


Fig.29 – Alc. Consump. Share per drink
Source: Euromonitor

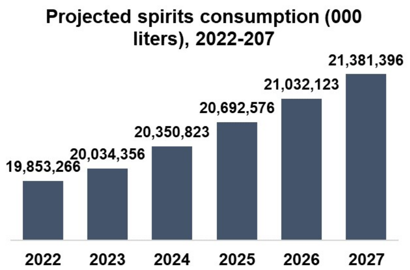


Fig.30 – Projected spirits consumption global
Source: Euromonitor

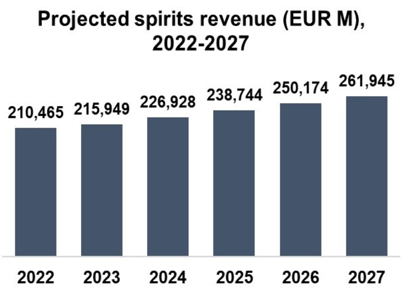


Fig.31 – Projected spirits revenue global
Source: Euromonitor

The spirits industry includes distilled alcoholic beverages with an alcohol content typically ranging from 20% to 50% of total volume. The market can be structured in product segments including Whisky, White spirits (Vodka & Gin), Rum, Brandy & Cognac, Tequila & Mezcal and Liqueurs & Other Spirits including ready-to-drink cocktails and mix) and non-alcoholic spirits.

The spirits industry fits in the broader Alcoholic Drinks industry and has as sibling categories Beer, Wine, Ready-to-Drink and Cider/Perry. In 2021 the industry reached a trillion euros worth of turnover. In terms of volumes, beer and wine take up 90% of the market whilst spirits make up only 9%. Regarding future growth, only RTDs are expected to grow more than spirits. Still the whole alcohol industry is driven by strong fundamentals including life expectancy and growth in middle class population. According to the World Bank, 600 million new consumers are expected to be legally allowed to drink alcohol by 2032, which is a 10% increase over the projected 5.6 billion people in drinking age.

Spirits along with the other segments are classified as consumer defensive because they have historically reacted well to recessions. In a high inflationary environment and tight monetary policy, these industries usually perform well with alcohol sometimes even increasing its consumption. We expect Campari as well their competitors to lower impacts of current macro environment in the next years.

In terms of sales channels, spirits can be segmented into off-premise and on-premise. The first covers all retail sales via super-markets, convenience stores and similar sales channels. The latter encompasses all sales to hospitality-serving establishments (such as restaurants, coffee shops, bars, and hotels). Depending on geography, the desired sale channel differs. To exemplify, Latin countries tend to prefer on-premise spirits consumption whilst North American consumers prefer off-premises channels.

An industry where premium brands in growing product categories are prized assets

In 2022, spiritual drinks consumption rose to 19.85B liters, with overall industry Revenue amounting to EUR 210B. White Spirits and Whiskies are the two biggest segments with 18% and 19% of the overall global market followed by

Drink	Projected 5Y CAGR
Brandy and Cognac	2%
Liqueurs	3%
Non Alcoholic Spirits	15%
Rum	4%
Tequila (and Mezcal)	5%
Whiskies	4%
White Spirits	2%
Other Spirits	-1%

Fig.32 – Projected CAGR per drink
Source: Euromonitor

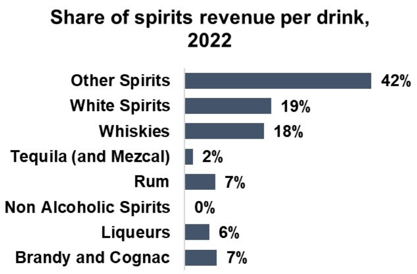


Fig.33 – Share of spirits revenue per drink
Source: Euromonitor

Drink	Brand	Global Market share Product
Vodka	Smirnoff	6.2%
Whisky	Johnnie Walker	4.5%
Rum	Bacardi	10.2%

Fig.34 – Leading brands per category
Source: Euromonitor

Brand & Cognac and Rum. In terms of projected growth, Tequilla and Whisky segment are projected to grow 5% and 4.2% only topped by non-alcoholic spirits that are projected to grow by 15% yearly over the next 5 years, still from a small base of 22 million liters (0.11% of the market). Finally, liqueurs are also expected to grow above the overall market at 3% CAGR.

With a portfolio of 50 brands, Campari is well positioned to capitalize on where the market is growing the most. In Tequilla, Espolòn has shown yearly double digits growth, in liqueurs the aperitif portfolio as well as Grand Marnier have also grown by more than the aggregate category and in whisky Wild Turkey is growing at 10% (also above the market). This shows the ability of Campari to pick the right categories and both capture growth as well as market shares in the brands' key markets.

Regarding Mergers and Acquisitions, most deals concentrate within top players that regularly resort to inorganic growth to solidify their market position in key product categories, expand to rising geographies and realize economies of scale in production. According to PwC analysis of Merger Market spirits data, 80% of total deal value was generated from 10% of the companies.

Winners have 4 distinct competencies

To succeed in the spirits industry, 4 key competencies should be highlighted. The first is having products with strong brand equity, then scale matters due to the existence of high fixed costs in sales infrastructure and SG&A. It is also crucial to be on top of a portfolio within growing categories and finally mastering the M&A process is also a must as growth is mainly achieved by betting on the right brands and making them thrive.

Regarding the first, spirits companies spend a great deal of their operating expenses on advertising and promotion with the clear intention of creating a story on the minds of consumers. Brands like Bacardi, Smirnoff or Aperol resonate with consumers and end up being first choice. In most product categories some brands have a disproportionally high share of the market. To illustrate, Bacardi has 10.2% of Rum's global market, Johnnie Walker has 4.5% of Whisky's and Smirnoff 6.2% of Vodka's.

Having an in-house distribution network instead of working with third party contractors has a myriad of benefits both financial and strategic. Regarding the former, with enough scale and reach, the necessary investment is justified by the cost savings. Also, owning distribution leads to better inventory management (less stockouts, damage of inventory, etc.) and better negotiating power with retailers that have embraced consolidation over this century. To illustrate, Campari developed a partnership with The Coca-Cola Co bottler system to increase its penetration and logistics in Brazil, allowing it to have a presence nationwide, whilst having the support and know-how of the bottlers to contact both retail and on-trade channels.

The ability to do accretive strategic acquisitions is also critical. The most valuable companies in the space have acquired multiple brands and whilst including them in their platform made them grow. As important as betting on the right categories and geographies is integrating the brand in the overall group story and do so with operational excellence.

Trends Shaping the spirits industry

Four global trends define the present of the spiritual drinks industry: premiumization; healthy drinking and the rise of non-alcoholic spirits and home mixology. In addition to these trends, the consumption of spirits is also influenced by sociodemographic and macroeconomic factors. We believe Campari's portfolio of 50 brands is well positioned to navigate these trends.

Premiumization

According to the World Bank, Premium drinks have grown 7 times as much as standard counterparts

Over the last decade, according to the World Bank, premium drinks have grown 7 times as much as their standard counterparts, thus stealing customer's spirits' share of wallet. The increasing size of the middle class across geographies combined with a change in customer preferences, have increased the willingness to pay for extra quality. Studies from Grand View Research point to an expected CAGR of 10,3% for the market size of premium spirits over the next 10 years, while Global Data's survey indicates that 37% of worldwide alcoholic beverages consumers declared to be willing to pay more for drinks which provide increased indulgence.

As such, companies operating the sector are striving to tilt their portfolios towards premium offerings. Diageo, for instance, positions as a premium spirits producer on its corporate website. Campari has also a portfolio composed of mainly premium brands which, as explained, is a source of advantage for the next 10 years.

Healthy drinking and the rise of non-alchoolic Spirits

	Non Alcoholic Spirits
CAGR (2018-2022)	10.7%
CAGR 5 year forward	15.4%

Fig.35 – Non-alcoholic spirits CAGR
Source: Euromonitor

As is the case across all Food & Beverage products, the last decade came with an increasing desire for "better-for-you" products. As we look at spirits industry, the non-alcoholic category stands out in terms of growth. Over the last 5 years, these spirits grew at a yearly rate of 10.7% and are expected to grow further at the same rate over the next five years.

In the US particularly, the non-alcoholic market accounted for over USD 414 M sales and analysts expect it to expand further by over 5% per year between 2021 and 2026.

Striving to satisfy consumer preferences, firms have been increasing options for demand. BevAlc study "Category on the Rise: Non-Alcoholic Wine, Beer, and Spirits" states that there are now more than 100 non-alcoholic brands available, representing a 70% growth compared to last year. Campari has Cordino in their portfolio as a non-alcoholic aperitif that explores this trend.

Home Mixology and the rise of Digital channels

Even though the tough times brought by the outbreak of COVID-19 can now be considered as settled throughout most of the globe, with the pandemic came the habit of buying spirits online and mix them onto people's favourites cocktails. On the one hand, the trend creates a shift from on-premise to off-premise sales. As BevAlc illustrates, the accelerating preference for off-trade drinking brought by the pandemic can be seen in the case of online liquor store Drizly – the firm registered 700% increase in total sales and 50% average order size increase in 2020.

On the other hand, marketing spending also needs to be reassessed by the firm. Campari was one of the companies that executed the shift more rapidly being rewarded in the capital markets, as previously explained. As companies traditionally focused marketing firepower on bars and rooftop venues Campari rapidly launched video tutorials for Campari-based cocktails and sold kits online.

Sociodemographic and macroeconomic factors

GDP nominal growth	2020	2021	2022	2023
World	-3.0%	6.0%	3.2%	2.7%
Europe	-5.6%	5.4%	3.2%	0.7%
Americas	-3.4%	5.7%	1.6%	1.0%
Asia Pacific	-0.2%	6.5%	4.0%	4.3%

Fig.36 – Nominal GDP growth
Source: IMF

Population 15-40 (% Total)	2020	2021	2022	2023
World	37.9%	37.7%	37.5%	37.4%
Europe	29.1%	29.0%	28.8%	28.7%
Americas	37.6%	37.4%	37.2%	37.0%
Asia Pacific	38.6%	38.4%	38.2%	37.9%

Fig.37 – Population (15-40) growth
Source: World Bank

Consumption of alcoholic beverages is also influenced by demographic and macroeconomic indicators. More concretely, drivers such as population growth rate, inflation, and household disposable income as well as price elasticity make solid inputs in understanding and estimating the behaviour of spirits' demand.

Regarding nominal GDP growth, Europe has grown almost 9% between 2020 and 2022, with estimation for further growth of 0.7% in 2023. Americas region has seen its GDP increase 7.6% in the same period. Among other geographies, highlight goes to Asia-Pacific with registered increase of 11%% and estimated upside of 4.3% next year.

With target consumers of spirits being segmented according to age (+18 or +21 for most countries), population group aged between 15 and 40 is expected to decrease worldwide due to low population growth rates – this tendency is strengthened particularly in Europe and America.

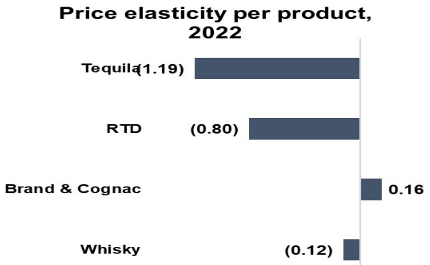


Fig.38 – Price elasticity per product
Source: Euromonitor

Finally, when it comes to sensitivity to price changes, an empirical analysis from Euromonitor on long-run global price elasticity for 80 countries suggests the alcoholic beverages industry is highly inelastic (-0.40). Yet, the levels of global price elasticity differ significantly across alcoholic product categories: cases such as whisky and Brand & Cognac present less inelastic demands (-0,12 and -0,16, respectively), while demand for RTDs and Tequila appear extremely more elastic (-0,80 and -1,19, respectively). Furthermore, for the same spirits category there is usually different elasticities between developed and emerging markets. The former is, on average 10 decimals above the latter.

In fact, Campari should have a lower impact of demand shocks than the average peers as its portfolio is more exposed to more inelastic product categories and markets.

Geography	CAGR (2018-2022)
AMERICAS	5.43%
SEMEA	5.73%
NCEE	2.61%
APAC	5.66%

Fig.39 – CAGR (2018-2022) geography
Source: Euromonitor

How Campari positions in the world

AMERICAS: A US domination with Jamaica and Latin America also holding meaningful business

Over the last 4 years, US represented an average of 27% of Campari's total revenues. In the US market, Campari holds a 2.4% market share. Diageo is the dominant player in the region with 16.2% market share followed by Sazerac Co and Beam Global Spirits Co with 10.3% and 9.3%, respectively.

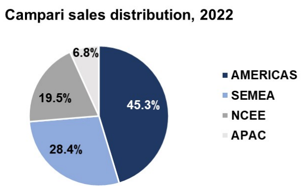


Fig.40 – Campari sales distribution 2022
Source: Annual report

The US market holds a considerable share of the overall spirits industry (19 850 M liters) with 2 240 M liters sold (11.3%). The market has grown by roughly 2% yearly for the last decade which shows its maturity. In 2020, however, with work-from-home, there was an uptick in consumer demand and the market grew by more than 4%. In 2021, against expectations the markets kept on growing above 2% driven by an on-premises rebound.

The market is characterized by a great prevalence of white spirits and whiskies. Combined the two product categories have 37% of the market. Tito's, as well as Smirnoff Vodka hold the first and second position on most sold brands. Whiskies were severely impacted by the US-EU trade war under Trump, yet with tariffs abolition have surged 4.3% in volumes after barely growing the last decade.

In whisky, Campari has a strong positioning with Wild Turkey portfolio along with Grand Marnier offering. Both brands grew above market at 6% and management is committed to continually invest in brand building to improve their pricing ability.

CAMPARI GROUP

COMPANY REPORT

SPIRITS

15 DECEMBER 2022

STUDENT: RODRIGO BALTAZAR | TIAGO SEQUEIRA

32378@novasbe.pt | 29338@novasbe.pt

Campari: Keeping up with the pace

- Campari group is on top of a premium portfolio of 50 brands and has grown more than peers over the last decade (7.1% vs 5.1%). The firm has below average levels of ROIC (11% vs 15%) because of lower EBITDA margins and above-average levels of capital invested related mainly to high levels of goodwill (82% vs 24% of revenue)
- The global spirits industry is driven by stable secular trends such as population growth and growth in middle class population. Brand equity is crucial in the industry as in most product categories top brands hold disproportionally high shares of the market (e.g., Smirnoff holds x% of Vodka industry). Using M&A markets well is key to succeed
- Premiumization, Healthy drinking as well as Home Mixology are the key trends in the spirits industry. We view Campari well positioned to tap into growth opportunities coming from each.
- Campari's top markets are the US, Italy, Germany, and France. Over the next 10 years US and Italy will keep their relevance yet we see the greatest growth potential in the UK (8.3% CAGR), and Asian geographies (20.7% CAGR) with the likes of China, Korea, and Japan
- We propose a share price of 10.39 as of 31 December 2023 justified by an annual revenue growth of 5.3%, EBITDA margins of 30.9%, and a year 2030 FCFF of 687 M, 376% above that of 2022.

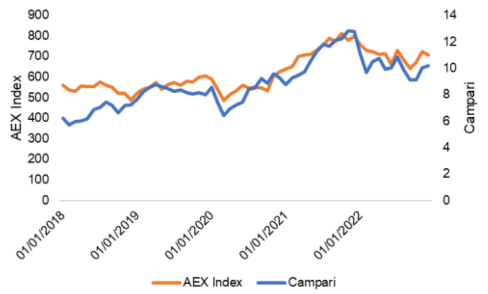
Company description

Campari group operates in the global branded spirits industry. The group was founded in Milan in 1860, when Gaspare Campari created the Campari red aperitif. Since then, Campari have amassed more than 50 brands mostly in premium segments, which lends it a solid position in Europe and the Americas.

Recommendation:	**HOLD**
Price Target FY23:	**10.39 €**
Price (as of 16-Dec-22)	**10.19 €**

Source: Bloomberg

52-week range (€)	8.61-13.06
Market Cap (€m)	EUR 11.091M
Outstanding Shares (m)	1.122M



Source: Bloomberg

(Values in € millions)	2021	2022E	2023F
Revenues	2 173	2 674	2 963
EBITDA	515	744	836
Net Profit	324	492	556

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Company Description

Campari Group Brand Portfolio	
Global Priority	Aperol Campari Wild Turkey Grand Marnier Jamaican rums SKYY
Regional Priority	Espolòn Cinzano, Riccadonna Italian specialties Crodino Magnum Tonic Aperol Spritz RTD The GlenGrant
Local Priority	Campari Soda Wild Turkey RTD Skyy RTD

Fig.1 – Campari Brand Portfolio
Source: Description

Fig.2 – Global Priority Brands
Source: Investors Presentation

Product Category	Campari Brand	Standard Brand
VODKA	SKYY: 17-22 EUR	MISS: 7-9 EUR
Whiskey	Wild Turkey: 27-37 EUR	Hampton Whiskey: 7-12 EUR
Tequilla	ESPOLÓN: 27-35 EUR	José Cuervo: 15-20 EUR
Rum	Appleton Estate: 30-40 EUR	Bacardi Rum: 15-20 EUR

Fig.3 – Standard vs Premium pricing in Key product categories
Source: Investors Presentation

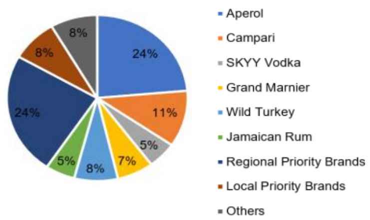

Fig.4 – Share of each product on the group's total revenue
Source: Annual report

Fig.5 – Aperol historical sales
Source: Annual report

Campari group operates in the global branded spirits industry. The group was founded in Milan in 1860, when Gaspare Campari created the Campari red aperitif. Since then, Campari have amassed more than 50 brands mostly in premium segments, which lends it a solid position in Europe and the Americas. In 2022 Campari had sales of EUR 2 674 M which have grown at a yearly rate of 9%. Its brands are distributed in 190 markets with a direct distribution network in 22 countries and are manufactured in 22 production facilities around the world. Campari Group is headquartered in Sesto San Giovanni (Milan), Italy, and employs approximately 4,000 people around the world.

The group divides its brands based on their geography reach and strategic priority. Global priority brands include Aperol, Campari, Wild Turkey, and Sky Vodka, Grand Marnier, Jamaican Rum portfolio. The remaining brands are classified as regional and local.

A high growth premium brand portfolio where Aperol takes the spotlight

Campari is mostly positioned in the premium spirits category. The difference between premium and standard spirits revolves around the taste, quality of ingredients and price point. Premium drinks usually have a unique taste. These drinks also have high quality ingredients – for example standard vodka usually uses potatoes and sugar-beet rather than higher quality grains in the fermentation process. Finally, premium spirits come at a price point that is usually between 1.5x and 2x that of standard spirits. On its global priority portfolio, the group has a prices per 750ML that range between 14 euros of Aperol to 40 of Grand Marnier. Campari's SKYY Vodka sells for an average price of 20 euros against Diageo's Smirnoff standard counterpart that retails below 10 euros.

Aperol was founded in 1919 later becoming part of the Campari Group's brand portfolio in 2003 through the acquisition of Barbero 1891 S.p.A. Aperol is the group's crown jewel having Italy, Germany, the United States, and Austria as its core markets. From 2018 to 2021, Aperol has grown by a yearly rate of 17% since 2018, from EUR 279M to 631M, corresponding in 2022 to 15% of Campari's revenues. Campari is a red spirit that complement the aperitif portfolio. The product can be drunk standalone, yet it is also the base for many famous classic cocktails, including the Negroni and Americano. From 2018 to 2021, Campari has grown by a yearly rate of 11%, from EUR 174M to 6294M, corresponding to 7% of Campari's revenues.

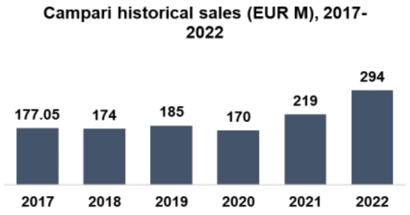

Fig.6 – Campari historical sales
Source: Annual report

As for the remaining global priorities, SKYY was created in San Francisco in 1992 and acquired by the group in 2001. Since 2017 has been the worst performing global priority brands growing negatively from 145M in 2018 to 139M in 2022. Grand Marnier was acquired by Campari Group in 2016 for 650M (16.5x LTM EBITDA multiple) and has elevated the US as Campari's top market. The plan to revamp the brand came with the introduction of a new packaging and a new marketing campaign emphasizing the heritage and quality of the brand as well as redefining the brand's drinking strategy by focusing on mixology, classic cocktails. Such focus on mixology is also at the heart of how Campari aperitif is positioned.

Fig.7 – Wild Turkey historical sales
Source: Annual report

Wild Turkey is a straight Bourbon Whisky acquired by Campari Group in 2009. The United States is the biggest market for the Wild Turkey portfolio, followed by Australia, South Korea, Japan, and Canada. Jamaican Rums Portfolio is composed of Appleton Estate, Wray&Nephew Overproof and Kingston 62. These brands were acquired in 2012 and now represent 3% of total revenue after growing by a yearly rate of 9%. Jamaica, US and United Kingdom are the biggest markets for the portfolio.

Fig.8 – SKYY Vodka historical sales
Source: Annual report

Regional Brands are mainly concentrated within a geographic area of influence. These brands have less scale but the potential to grow within their regions and, depending on their success, achieve global priority status. Out of all regional priority brands, those with the most potential are Espolòn tequila, The GlenGrant whisky and Bulldog Gin – all brands are positioned in growing categories at premium price points. Local Brands are one-market focused brands that are either acquired after years of above-average growth or resemble a spin-off version of their parent brand. Examples include Wild Turkey ready-to-drink, Crodino, Aperol Spritz RTE and Campari Soda

Fig.9 – Grand Marnier historical sales
Source: Annual report

A well-diversified set of revenue profile with the US and Italy as the main markets

For reporting purposes, Campari divides their markets by geographical regions. The four operating areas managed in terms of resource allocation, particularly investment in brand-building and distribution capabilities, are Americas (AMERICAS), Southern Europe, Middle East, and Africa (SEMEA), Northern, Central and Eastern Europe (NCEE), and Asia-Pacific (APAC). This geographical grouping will be leveraged throughout the report.

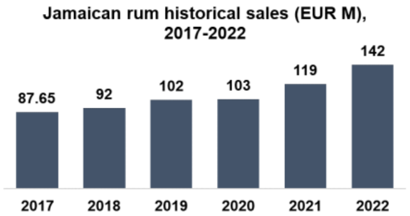

Fig.10 – Jamaican rum historical sales
Source: Annual report

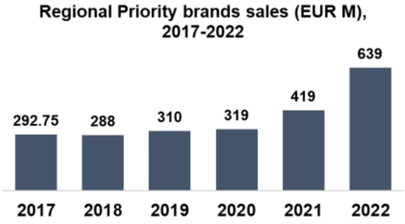

Fig.11 – Regional priority historical sales
Source: Annual report

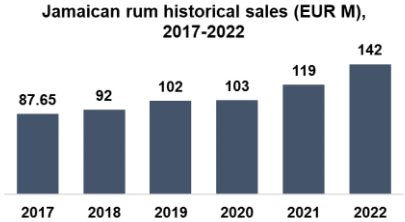

Fig.12 – Jamaican rum historical sales
Source: Annual report

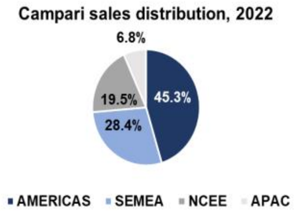

Fig.13 – Campari sales distribution
Source: Annual report

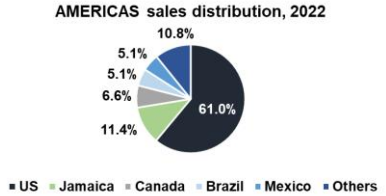

Fig.14 – AMERICAS sales distribution
Source: Annual report

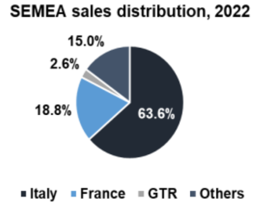

Fig.15 – SEMEA sales distribution
Source: Annual report

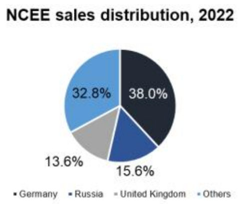

Fig.16 – NCEE sales distribution
Source: Annual report

For the year of 2022, The AMERICAS represents the bigger portion of revenue generation at 45% of total revenues (EUR 1 211 M) with the US drive the bulk of revenue with 61% of regional turnover, 28% of total revenue. SEMEA region generated 28% of revenue (EUR 759M). Italy dominates the region with 65% of overall regional top-line, 18% total revenue. NCEE accounts for 20% of revenue with Germany representing 37% of regional sales. In APAC (7% of revenue), Australia drives most of the sales with countries such as China, New Zeeland and South Korea having grown in the past but still with low prevalence in absolute terms.

In the US, Campari group has gained traction selling premium brands Grand Marnier, Espolòn and Wild Turkey, while also expanding the aperitif portfolio. In Italy – and other European countries such as Germany, France, and Spain – The aperitif portfolio has been the greater driver of revenue.

The groups business is thus concentrated around western geographies and primarily the euro and the dollar. In fact, only around 20% of the business is exposed to currencies outside these two which lends a very low currency risk against peers that have more than 50% - except Diageo with 38% yet with almost EUR 6B worth of revenues. At the same time, however, there is an opportunity to navigate Asian markets growth still left untapped. Against peers, Campari's exposure to Asian (except for Australia) markets is very low at 3% of revenue vs peer average of 40%.

A proven history of execution and plenty of room to grow in Asia

In their growth strategy, the group combines organic growth - through heavy marketing initiatives aimed at improving their brands – and M&A targeting high potential brands with a geographical presence where the firm already has a well-established distributions platform. Since 1995 the group has spent around EUR 3.7B in a total of 30 acquisitions. A good example of the ability of Campari to leverage M&A to grow is the acquisition of Grand Marnier. In 2016, France represented less than 3% of revenues yet the group decided to change that with a EUR 625M bet on Grand Marnier, also adding Bellonnie & Bourdillon to its portfolio as well as other French local brands and distributions. Since 2016, Grand Marnier grew at a CAGR of 15% and the French market has grown 34%, now accounting for 6% of total revenues at EUR 143 M.

This ability to explore new geographies is important because Campari still has a very low exposure to Asian markets when compared to their competitors. We believe that such fact should be seen as an opportunity of growth for the future.

Peer Pernod Ricard, for instance has in Asian Pacif its greatest growth engine. The firm has grown by a yearly rate of 5% since 2018 with the region growing by 7%

Fig.16 – APAC sales distribution
Source: Annual report

A majority shareholder that allows long-term thinking

The total share capital consists of 1,122,000 ordinary shares and 665,718,342 Special Voting Shares A and 29,109,729 Treasury Stock. Special Voting shares A do not have financial benefits attached. These shares only entail control benefits and are given to loyal customers to increase their voting power. For each two, five and ten uninterrupted years of shareholding the group awards two, five and ten special Voting shares A shares per each share held. For purposes of valuation share count is assumed as the ordinary shares net of treasury stock as special voting shares do not have any pledged financial payoff.

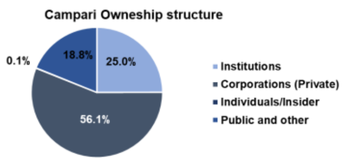

Fig.17 – Ownership structure
Source: Annual report

Due to the existence of these special voting shares, Campari is controlled by Lagfin S.C.A., Société en Commandite par Actions with 66.7% of voting rights. The Company's Chairman Luca Garavoglia indirectly controls Lagfin S.C.A, thus controlling the company. The second biggest shareholder is Cedar Rock Capital owning 3% of common stock. The remainder portion is spread between other investors. This ownership makes the company less susceptible to management "short termism" as executives are not subdued to constant pressure to show attractive earnings per share every quarter.

Luca Garavoglia has served as Campari's chairman since 1994 and have been behind successful bets such as Aperol's acquisition and marketing work as well as Grand Marnier's acquisition. We believe Luca's tenure to be of great advantage to Campari as the value of his net worth and Campari's market capitalization go together. This said, Campari management is more likely to take more long-term focused bets (specially on acquisitions) that may not appear accretive in the short run yet may position the company better for decades to come.

Past Performance

Companies	CAGR [2018 - 2022]	ROIC
Campari	8.81%	11.1%
Diageo PLC	5.10%	17.4%
Pernod Ricard SA	3.50%	10.5%
Brown Forman Corp	5.61%	24.0%
Becle	10.07%	9.6%
Remy Cointreau SA	3.70%	12.7%
Yanghe	8.60%	21.7%
United Spirits	1.95%	15.7%
Median	5.35%	14.2%
Average	5.92%	15.3%

Fig.18 – CAGR vs peers 2018-2022
Source: Capital IQ

The Value of Campari is driven by top line growth and the return on invested capital (ROIC) implicit on that revenue making. The former is driven by the growth in spirits consumption in the key markets as well as Campari's market shares whilst ROIC depends on management ability to generate revenues with as few operating costs as well as capital invested on the business.

Over the last 5 years, Campari grew above the average peer group (8.8% vs 5.9%) yet had a lower ROIC (11.1% vs 15.3%)

Campari is growing above peers

In general, value is created when a firm grows with ROIC's above the respective cost of capital. Such data may highlight Campari is creating value faster than peers. Only Mexican Becle is growing faster than Campari. Such uplift in revenues is driven disproportionally by Aperol (17% CAGR) which has solidified its position in its key markets and showed high growth rates in other countries like Spain or China. In 2022, Aperol claims 20% of revenue generation from 16% in 2018. On the same direction, both regional and local brands have shown very attractive growth rates with 13% and 9% CAGR which shows the group commitment to develop brands with greater geographical focus with the intent of turning some in stars like Aperol. Campari, as well as Jamaican Rum have kept its share of revenues growing in line with total revenues at 8% and 9% CAGR, respectively. Grand Marnier as well as Wild Turkey have grown below average at 6% CAGR. SKY Vodka is the worst performing brand growing at negative 4% CAGR as consumers shift from more alcoholic content spirits to healthier versions and Campari has pulled back some of the advertising expenses.

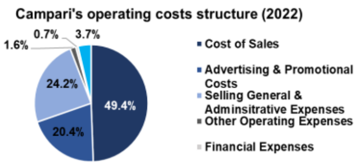

Fig.19 – Campari cost structure
Source: Annual report

Companies	Gross Margin	EBITDA margin	EBIT margin
Campari	60.1%	23.1%	21.1%
Diageo PLC	61.3%	33.4%	31.1%
Pernod Ricard SA	60.5%	29.3%	28.2%
Brown Forman Corp	-	-	-
Becle	54.2%	20.9%	19.5%
Remy Cointreau SA	70.3%	30.6%	28.7%
Yanghe	74.7%	41.2%	38.8%
United Spirits	43.0%	15.2%	13.5%
Median	60.5%	29.3%	28.2%
Average	60.6%	27.7%	25.8%

Fig.20 – Margins vs peers
Source: Capital IQ

Margins yet below top performers due to lack of scale

In terms of profitability, the group shows consistent metrics over the last 5 years with Gross Margins at 62%, EBITDA margins at 24% and EBIT margins at 21%, on average.

Neither Advertising and Promotion nor Sales General and administrative costs show a significant decrease as a percentage of revenues over the last 10 years. This indicates spirits companies need constant brand building spending as well as commercial efforts regardless of their size.

Also, the group has not achieved the same scale as top competitor Diageo that has similar COGS and Advertising spending margins yet is able to spread their fixed SG&A costs – that grow less than proportionally to revenue – over a greater volume of revenue. Whilst Diageo has SG&A representing 15% of revenues, Campari has a 20% figure. As Campari has shown the ability to match competitors' efficiency in cost of goods sold and marketing spending, and assuming the trend of growth is to be maintained, we believe Campari to achieve levels of EBITDA margins in line with those of Diageo over the next decade.

Net Working capital in line with industry standards

Regarding Net Working Capital, Campari takes on average 451 days to turn inventory into cash from sales. A key component of the spirits industry is the aging of liquids that consumes plenty of days of inventory. Maturity inventory

Companies	Operating Cycle	Cycle Days
Campari	**350.44**	**216.74**
Diageo PLC	479.87	361.36
Pernod Ricard SA	715.46	519.06
Brown Forman Corp	532.09	472.18
Becle	339.47	156.36
Remy Cointreau SA	1,675.41	1,243.01
Yanghe	982.94	913.57
United Spirits	244.79	153.64
Median	506.0	416.8
Average	665.1	504.5

Fig.21 – Operating cycle vs peers
Source: Capital IQ

accounts for 55% of total inventory which contributes for inventory days of 329, on average. When compared to peers however, Campari has one of the lowest exposures to aging inventory, which although consumes a great deal of net working capital has very high gross margins.

Since 2018, receivables have improved by 10 days from 50 to 40 days in 2021, driven by a more efficient management of payments. Payable days deteriorated in 2021 due to the sustained business expansion and, to some extent, to a reverse factoring program launched in 2020 by the firm. The program involves a first wave of strategic partners based in Italy with the aim of allowing participating suppliers to receive early payments on their invoices. Still, Campari guides it might improve going forward as the rollout of this program should stabilize.

The industry means and median operating cycle is 465 and 306 days, respectively. Both numbers are below those of Campari which suggests the firm has more efficient operations. The group manages payables particularly well against the competitors having only Remy Cointreau taking more time to pay suppliers.

A key difference also relates to Campari's choice of Brand portfolio. So far, the group has bet on spirits with below average aging needs. While such choice leads to lower invested capital needs due to lower inventory times, these beverages usually command higher gross margins. With super premium drinks growing even more than their premium counterparts, we believe Campari is likely to increase its exposure to aging spirits, as those correlated with higher prices. In the valuation section, a conversion to the median industry inventory levels was modelled.

Fixed Invested Capital penalized by excess premium paid in acquisitions

As of 2021, Campari has more than 3 billion euros invested as tangible and intangible assets to sustain its business corresponding to 142% of 2021 sales. Against a peer average of 97%, Campari shows signs of misusing their capital expenditure.

As one looks at the use of fixed assets, Campari is in line with industry standards at around 30% revenue invested in plants, machinery, transport equipment, warehousing, and all other necessary equipment to produce and transport spirits.

On the intangible asset side however, the group lags top competitors. With intangibles 112% above revenues against peer average of 60%, Campari invests almost more than twice the competitors for each unit of revenue.

Company	Fixed Assets (% of Revenue)
Campari	**142%**
Diageo PLC	101%
Pernod Ricard SA	220%
Brown Forman Corp	66%
Becle	106%
Remy Cointreau SA	83%
Yanghe	36%
United Spirits	24%

Company	Tangible Assets (% of Revenue)
Campari	**30%**
Diageo PLC	31%
Pernod Ricard SA	36%
Brown Forman Corp	24%
Becle	36%
Remy Cointreau SA	33%
Yanghe	28%
United Spirits	19%

Company	Intangible Assets (% of Revenue)
Campari	**113%**
Diageo PLC	70%
Pernod Ricard SA	184%
Brown Forman Corp	42%
Becle	70%
Remy Cointreau SA	50%
Yanghe	8%
United Spirits	5%

Company	Goodwill (% of Revenue)
Campari	65%
Diageo PLC	15%
Pernod Ricard SA	62%
Becle	18%
Remy Cointreau SA	3%
Yanghe	1%
United Spirits	0%

Fig.22 – Invested Capital vs peers
Source: Capital IQ

Campari looks like overpaying for transactions. As we look at historical levels of Goodwill (a relevant portion of intangible assets), the group has a ratio well above industry, that range from 65% to 85% of revenues against the peer average at 25% to 30%.

A strong Balance Sheet ready to explore M&A opportunities

Company	LTM Net Debt/EBITDA	D/E
Campari	**1.8x**	**0.08**
Diageo PLC	2.7x	0.17
Pernod Ricard SA	2.6x	0.18
Becle	NM	-0.13
Remy Cointreau SA	0.7x	0.04
Yanghe	-	-
United Spirits	NM	0.00

Fig.23 – Capital structure vs peers
Source: Capital IQ

Campari has a strong balance sheet characterized by healthy levels of debt. With 1.8x Net Debt/EBITDA multiple and a 0.08 D/E, Campari has the necessary firepower to fuel growth via M&A financed with debt capital. More valuable competitors Diageo and Pernod Ricard that are also strong M&A buyers have ND/EBITDA ratios of 2.6x and 2.7x that the market perceives as sustainable for the equity owners.

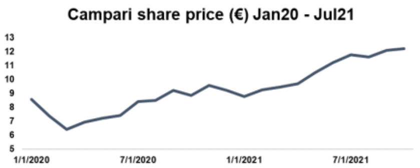

Fig.24 – Share price evolution
Source: Yahoo Finance

A history strong capital gains and below average dividend yields

As one looks at the firm's stock price evolution, it is clear Covid-19 was net positive for Campari. Just before Covid hit in Italy, in February 2019 shares where trading at 9 euros per share. The pandemic came with a 35% decline in the value of the shares. However, since the fall, shares more than doubled to 13.33 (127% capital gain) as investors rewarded off-premisses uplifts in spirits sales and more importantly the ability of Campari to explore this opportunity well. With initiatives such as producing content as well as kits for home-made cocktails. The stock price as since decreased from pandemic highs now standing at around 10 dollars, a 23% decrease.

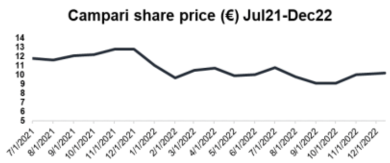

Fig.25 – Share price evolution
Source: Yahoo Finance

In terms of value creation, most peers are in the same ballpark, yet Campari has the greater market capitalization appreciation from 5 years ago to today. Equity value has increased by 50% whilst Diageo has only grown by 30%, and the peer average is 40%.

Company	Market cap today	Market cap 5 years ago	% Appreciation
Campari	**12,142**	**8,067**	**51%**
Diageo PLC	105,741	81,450	30%
Pernod Ricard SA	52,150	36,362	43%
Brown-Forman	32,941	25,077	31%
Becle	8,035	5,531	45%
Remy Cointreau SA	8,744	6,262	40%
Yanghe	34,676	24,983	39%
United Spirits	8,020	5,773	39%

Fig.26 – Market cap vs peers
Source: Capital IQ

In terms of dividends, however, Campari has historically paid dividends below industry standards with dividend yields in the 0.6% range vs industry mean of 1.4%. This fact may be of concern for short-term investors, specially combined with the fact that the group has a majority shareholder that can bare worst performing years to improve long-term value creation.

Company	Dividend yield
Campari	**0.6%**
Diageo PLC	2.0%
Pernod Ricard SA	2.2%
Brown-Forman	1.2%
Becle	1.0%
Remy Cointreau SA	1.2%
Yanghe	1.9%
United Spirits	-
Median	1.2%
Average	1.4%

Fig.27 – Dividend yield vs peers
Source: Capital IQ

Global Spirits Industry

Spirits, an attractive industry

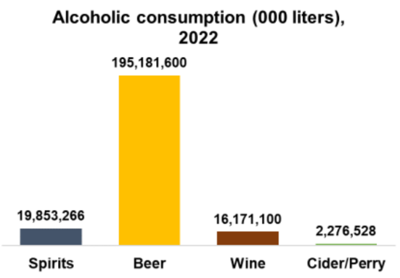

Fig.28 – Alcoholic consumption global
Source: Euromonitor

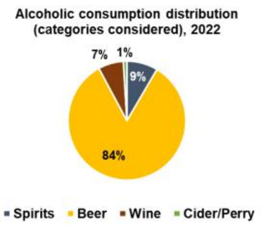

Fig.29 – Alc. Consump. Share per drink
Source: Euromonitor

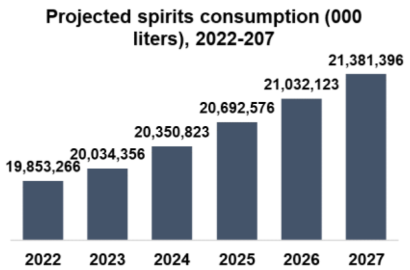

Fig.30 – Projected spirits consumption global
Source: Euromonitor

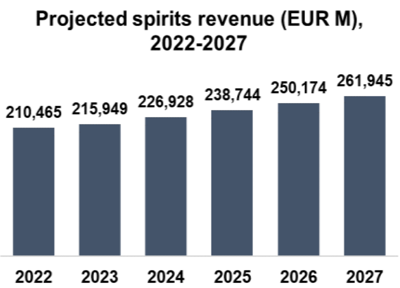

Fig.31 – Projected spirits revenue global
Source: Euromonitor

The spirits industry includes distilled alcoholic beverages with an alcohol content typically ranging from 20% to 50% of total volume. The market can be structured in product segments including Whisky, White spirits (Vodka & Gin), Rum, Brandy & Cognac, Tequila & Mezcal and Liqueurs & Other Spirits including ready-to-drink cocktails and mix) and non-alcoholic spirits.

The spirits industry fits in the broader Alcoholic Drinks industry and has as sibling categories Beer, Wine, Ready-to-Drink and Cider/Perry. In 2021 the industry reached a trillion euros worth of turnover. In terms of volumes, beer and wine take up 90% of the market whilst spirits make up only 9%. Regarding future growth, only RTDs are expected to grow more than spirits. Still the whole alcohol industry is driven by strong fundamentals including life expectancy and growth in middle class population. According to the World Bank, 600 million new consumers are expected to be legally allowed to drink alcohol by 2032, which is a 10% increase over the projected 5.6 billion people in drinking age.

Spirits along with the other segments are classified as consumer defensive because they have historically reacted well to recessions. In a high inflationary environment and tight monetary policy, these industries usually perform well with alcohol sometimes even increasing its consumption. We expect Campari as well their competitors to lower impacts of current macro environment in the next years.

In terms of sales channels, spirits can be segmented into off-premise and on-premise. The first covers all retail sales via super-markets, convenience stores and similar sales channels. The latter encompasses all sales to hospitality-serving establishments (such as restaurants, coffee shops, bars, and hotels). Depending on geography, the desired sale channel differs. To exemplify, Latin countries tend to prefer on-premise spirits consumption whilst North American consumers prefer off-premises channels.

An industry where premium brands in growing product categories are prized assets

In 2022, spiritual drinks consumption rose to 19.85B liters, with overall industry Revenue amounting to EUR 210B. White Spirits and Whiskies are the two biggest segments with 18% and 19% of the overall global market followed by

Brand & Cognac and Rum. In terms of projected growth, Tequilla and Whisky segment are projected to grow 5% and 4.2% only topped by non-alcoholic spirits that are projected to grow by 15% yearly over the next 5 years, still from a small base of 22 million liters (0.11% of the market). Finally, liqueurs are also expected to grow above the overall market at 3% CAGR.

Drink	Projected 5Y CAGR
Brandy and Cognac	2%
Liqueurs	3%
Non Alcoholic Spirits	15%
Rum	4%
Tequila (and Mezcal)	5%
Whiskies	4%
White Spirits	2%
Other Spirits	-1%

Fig.32 – Projected CAGR per drink
Source: Euromonitor

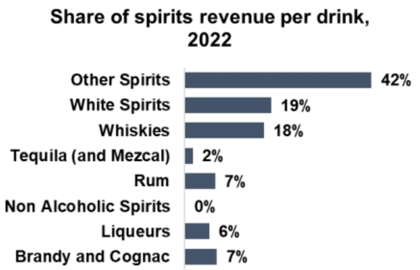

Fig.33 – Share of spirits revenue per drink
Source: Euromonitor

With a portfolio of 50 brands, Campari is well positioned to capitalize on where the market is growing the most. In Tequilla, Espolòn has shown yearly double digits growth, in liqueurs the aperitif portfolio as well as Grand Marnier have also grown by more than the aggregate category and in whisky Wild Turkey is growing at 10% (also above the market). This shows the ability of Campari to pick the right categories and both capture growth as well as market shares in the brands' key markets.

Regarding Mergers and Acquisitions, most deals concentrate within top players that regularly resort to inorganic growth to solidify their market position in key product categories, expand to rising geographies and realize economies of scale in production. According to PwC analysis of Merger Market spirits data, 80% of total deal value was generated from 10% of the companies.

Winners have 4 distinct competencies

Drink	Brand	Global Market share Product
Vodka	Smirnoff	6.2%
Whisky	Johnnie Walker	4.5%
Rum	Bacardi	10.2%

Fig.34 – Leading brands per category
Source: Euromonitor

To succeed in the spirits industry, 4 key competencies should be highlighted. The first is having products with strong brand equity, then scale matters due to the existence of high fixed costs in sales infrastructure and SG&A. It is also crucial to be on top of a portfolio within growing categories and finally mastering the M&A process is also a must as growth is mainly achieved by betting on the right brands and making them thrive.

Regarding the first, spirits companies spend a great deal of their operating expenses on advertising and promotion with the clear intention of creating a story on the minds of consumers. Brands like Bacardi, Smirnoff or Aperol resonate with consumers and end up being first choice. In most product categories some brands have a disproportionally high share of the market. To illustrate, Bacardi has 10.2% of Rum's global market, Johnnie Walker has 4.5% of Whisky's and Smirnoff 6.2% of Vodka's.

Having an in-house distribution network instead of working with third party contractors has a myriad of benefits both financial and strategic. Regarding the former, with enough scale and reach, the necessary investment is justified by the cost savings. Also, owning distribution leads to better inventory management (less stockouts, damage of inventory, etc.) and better negotiating power with retailers that have embraced consolidation over this century. To illustrate, Campari developed a partnership with The Coca-Cola Co bottler system to increase its penetration and logistics in Brazil, allowing it to have a presence nationwide, whilst having the support and know-how of the bottlers to contact both retail and on-trade channels.

The ability to do accretive strategic acquisitions is also critical. The most valuable companies in the space have acquired multiple brands and whilst including them in their platform made them grow. As important as betting on the right categories and geographies is integrating the brand in the overall group story and do so with operational excellence.

Trends Shaping the spirits industry

Four global trends define the present of the spiritual drinks industry: premiumization; healthy drinking and the rise of non-alcoholic spirits and home mixology. In addition to these trends, the consumption of spirits is also influenced by sociodemographic and macroeconomic factors. We believe Campari's portfolio of 50 brands is well positioned to navigate these trends.

Premiumization

According to the World Bank, Premium drinks have grown 7 times as much as standard counterparts

Over the last decade, according to the World Bank, premium drinks have grown 7 times as much as their standard counterparts, thus stealing customer's spirits' share of wallet. The increasing size of the middle class across geographies combined with a change in customer preferences, have increased the willingness to pay for extra quality. Studies from Grand View Research point to an expected CAGR of 10,3% for the market size of premium spirits over the next 10 years, while Global Data's survey indicates that 37% of worldwide alcoholic beverages consumers declared to be willing to pay more for drinks which provide increased indulgence.

As such, companies operating the sector are striving to tilt their portfolios towards premium offerings. Diageo, for instance, positions as a premium spirits producer on its corporate website. Campari has also a portfolio composed of mainly premium brands which, as explained, is a source of advantage for the next 10 years.

Healthy drinking and the rise of non-alchoolic Spirits

	Non Alcoholic Spirits
CAGR (2018-2022)	10.7%
CAGR 5 year forward	15.4%

Fig.35 – Non-alcoholic spirits CAGR
Source: Euromonitor

As is the case across all Food & Beverage products, the last decade came with an increasing desire for "better-for-you" products. As we look at spirits industry, the non-alcoholic category stands out in terms of growth. Over the last 5 years, these spirits grew at a yearly rate of 10.7% and are expected to grow further at the same rate over the next five years.

In the US particularly, the non-alcoholic market accounted for over USD 414 M sales and analysts expect it to expand further by over 5% per year between 2021 and 2026.

Striving to satisfy consumer preferences, firms have been increasing options for demand. BevAlc study "Category on the Rise: Non-Alcoholic Wine, Beer, and Spirits" states that there are now more than 100 non-alcoholic brands available, representing a 70% growth compared to last year. Campari has Cordino in their portfolio as a non-alcoholic aperitif that explores this trend.

Home Mixology and the rise of Digital channels

Even though the tough times brought by the outbreak of COVID-19 can now be considered as settled throughout most of the globe, with the pandemic came the habit of buying spirits online and mix them onto people's favourites cocktails. On the one hand, the trend creates a shift from on-premise to off-premise sales. As BevAlc illustrates, the accelerating preference for off-trade drinking brought by the pandemic can be seen in the case of online liquor store Drizly – the firm registered 700% increase in total sales and 50% average order size increase in 2020.

On the other hand, marketing spending also needs to be reassessed by the firm. Campari was one of the companies that executed the shift more rapidly being rewarded in the capital markets, as previously explained. As companies traditionally focused marketing firepower on bars and rooftop venues Campari rapidly launched video tutorials for Campari-based cocktails and sold kits online.

Sociodemographic and macroeconomic factors

GDP nominal growth	2020	2021	2022	2023
World	-3.0%	6.0%	3.2%	2.7%
Europe	-5.6%	5.4%	3.2%	0.7%
Americas	-3.4%	5.7%	1.6%	1.0%
Asia Pacific	-0.2%	6.5%	4.0%	4.3%

Fig.36 – Nominal GDP growth
Source: IMF

Population 15-40 (% Total)	2020	2021	2022	2023
World	37.9%	37.7%	37.5%	37.4%
Europe	29.1%	29.0%	28.8%	28.7%
Americas	37.6%	37.4%	37.2%	37.0%
Asia Pacific	38.6%	38.4%	38.2%	37.9%

Fig.37 – Population (15-40) growth
Source: World Bank

Consumption of alcoholic beverages is also influenced by demographic and macroeconomic indicators. More concretely, drivers such as population growth rate, inflation, and household disposable income as well as price elasticity make solid inputs in understanding and estimating the behaviour of spirits' demand.

Regarding nominal GDP growth, Europe has grown almost 9% between 2020 and 2022, with estimation for further growth of 0.7% in 2023. Americas region has seen its GDP increase 7.6% in the same period. Among other geographies, highlight goes to Asia-Pacific with registered increase of 11%% and estimated upside of 4.3% next year.

With target consumers of spirits being segmented according to age (+18 or +21 for most countries), population group aged between 15 and 40 is expected to decrease worldwide due to low population growth rates – this tendency is strengthened particularly in Europe and America.

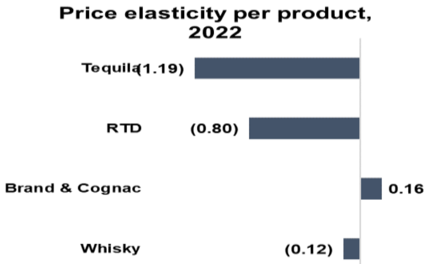

Fig.38 – Price elasticity per product
Source: Euromonitor

Finally, when it comes to sensitivity to price changes, an empirical analysis from Euromonitor on long-run global price elasticity for 80 countries suggests the alcoholic beverages industry is highly inelastic (-0.40). Yet, the levels of global price elasticity differ significantly across alcoholic product categories: cases such as whisky and Brand & Cognac present less inelastic demands (-0,12 and -0,16, respectively), while demand for RTDs and Tequila appear extremely more elastic (-0,80 and -1,19, respectively). Furthermore, for the same spirits category there is usually different elasticities between developed and emerging markets. The former is, on average 10 decimals above the latter.

In fact, Campari should have a lower impact of demand shocks than the average peers as its portfolio is more exposed to more inelastic product categories and markets.

Geography	CAGR (2018-2022)
AMERICAS	5.43%
SEMEA	5.73%
NCEE	2.61%
APAC	5.66%

Fig.39 – CAGR (2018-2022) geography
Source: Euromonitor

How Campari positions in the world

AMERICAS: A US domination with Jamaica and Latin America also holding meaningful business

Over the last 4 years, US represented an average of 27% of Campari's total revenues. In the US market, Campari holds a 2.4% market share. Diageo is the dominant player in the region with 16.2% market share followed by Sazerac Co and Beam Global Spirits Co with 10.3% and 9.3%, respectively.

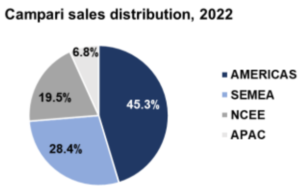

Fig.40 – Campari sales distribution 2022
Source: Annual report

The US market holds a considerable share of the overall spirits industry (19 850 M liters) with 2 240 M liters sold (11.3%). The market has grown by roughly 2% yearly for the last decade which shows its maturity. In 2020, however, with work-from-home, there was an uptick in consumer demand and the market grew by more than 4%. In 2021, against expectations the markets kept on growing above 2% driven by an on-premises rebound.

The market is characterized by a great prevalence of white spirits and whiskies. Combined the two product categories have 37% of the market. Tito's, as well as Smirnoff Vodka hold the first and second position on most sold brands. Whiskies were severely impacted by the US-EU trade war under Trump, yet with tariffs abolition have surged 4.3% in volumes after barely growing the last decade.

In whisky, Campari has a strong positioning with Wild Turkey portfolio along with Grand Marnier offering. Both brands grew above market at 6% and management is committed to continually invest in brand building to improve their pricing ability.

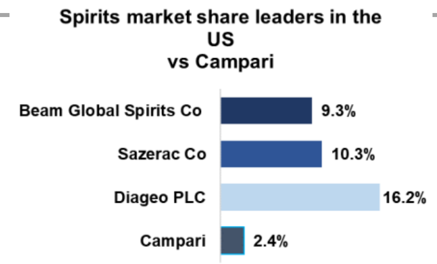

Fig.41 – Campari vs peers US share
Source: Euromonitor

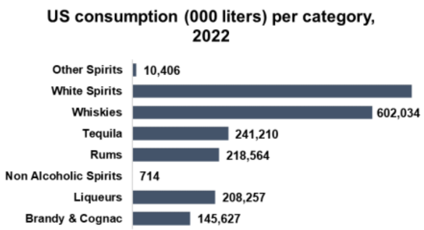

Fig.42 – Spirits consumption in the US
Source: Euromonitor

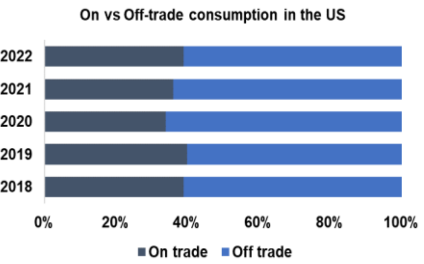

Fig.43 – On and off-premise in the US
Source: Euromonitor

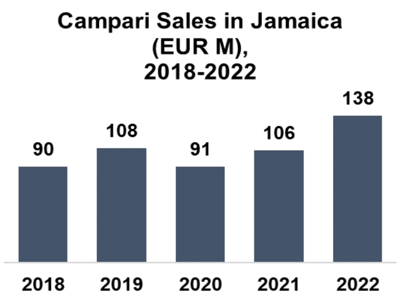

Fig.44 –Campari sales in Jamaica
Source: Annual report

Such quest comes in the form of packaging upgrades and introduction of more premium extensions and limited editions.

Tequila is a growing segment in the US with 14% growth from 2020 to 2021. The segment is poised with a great deal of influencer interest. Over the last two years celebrities Dwayne Johnson and Kendall Jenner have launched their tequila offerings Teremana and 818, respectively. Such developments contribute to greater adoption from young crowds as well as push the category some notches on their price point leading to overall growth. The market is forecasted to grow above 5% annually over the next 5 years.

With Espolòn (regional priority brand) Campari aims to be present in this category in the United States. Acquired by the Group in 2008, Espolòn has been re-launched as a super-premium tequila brand. Although currently does not have much expression in group’s top line (EUR 23M net sales), the product grew by 33% in 2021 and has great potential to become a global priority brand.

Non-Alcoholic spirits are arguably the growth star. From a small base, the segment grew 149% from 2020 to 2021. With American revaluating the health impact of spirits trends like dry January or sober October have increased in adoption leading to growth in non-alcoholic spirits sales. Still, not many Americans know of this new unconventional product and the real purpose is still being developed. The segment depends heavily on the ingenuity of mixologists to create appealing cocktails where these spirits may be a good fit.

Apart from the brands already mentioned, Campari positions the remainder global priority brands in this market. With the acquisition Grand Marnier - for EUR 760M in 2016, the group bet on the country as greatest source of income after first opening operations with SKYY VODKA brand.

Since 2018 the group has managed to increase revenues by 9% annually - with overall market growing at 2%, driven by the very solid premiumization trend in spirit consumption and the aperitif segment (Aperol and Campari). On the opposite direction, SKYY’s performance over the last 5 years had deteriorated (-4% CAGR).

Jamaica is the second most important market for Campari. Between 2018 and 2022, Jamaica represented an average of 5.1% of Campari’s total revenues. The group took a meaningful position in the Jamaican market amid the European debt crisis of 2012 with the acquisition of Jamaican rum maker Lascelles de Mercado & Co. Emerging markets were very attractive at a time where torrid conditions in Western Europe driven by the recession and government austerity measures were forcing drinkers to spend less.

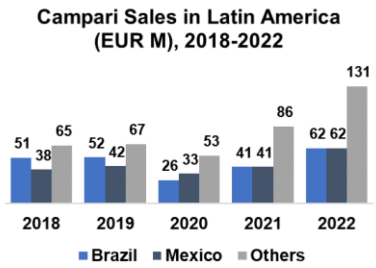

Fig.45 –Campari sales in Latin America
Source: Annual report

Over the last 5 years, Jamaica grew by a yearly rate of 5% from EUR 90M to 138M. Overall performance was driven by the strong growth of Wray & Nephew Overproof and Appleton Estate – main brands acquired in the deal.

In AMERICAS, Campari also holds meaningful business in Latin America which represent an average of 10% of Campari's total revenues. In this market, Campari holds a 3.4% market share. Diageo is the dominant player in the region with 12.8% market share followed by Cia Muller de Bebida and Pernod Ricard Groupe with 6.3% and 6.1%, respectively.

Latin American market had total volume sold of 1.627M liters in 2021. The market has shown an erratic growth over the last decade. During Covid the market went down by 17.9% later rebounding 17.5% in 2021. Such movement can be explained by the prevalence of on-premises sales that characterizes the region.

Covid brought a great uptick of home cocktails. In Latin America the trend was particularly relevant with most firms aiming at capitalizing the trend by educating consumers and in the process improving their brand image. One such example is the "Bar Aberto" initiative developed by Pernod Ricard. The firm hired a group of talented baristas to teach cocktail-making lessons free of charge all over Brazil. Campari was also keen to shift on-premises marketing spending to one focused on encourage home mixology. In most markets, the group produced tailored content and offered kits to enable customers make their own Negronis and Americanos, among other cocktails.

In terms of product categories, there is great heterogeneity. In Brazil, Cachaça has great penetration. In Mexico there is great prevalence of Tequilla and in Argentina liqueurs have the lead. What is common in these markets is the existence of a major national player. Cia Muller in Brazil, Fratelli Branca in Argentina, and Becle in Mexico, each specializing on their countries preferred spirit. This said, the market is more fragmented than in western countries and there is plenty of space for global distillers like Campari, Diageo, and Pernod Ricard.

SEMEA: Home market Italy dominates and France shows the group's ability to grow

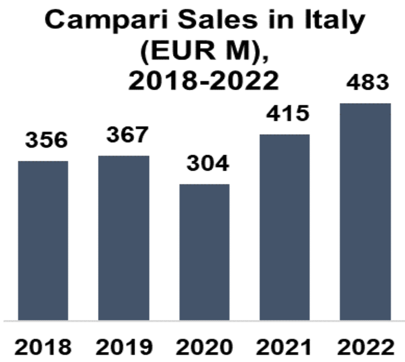

Fig.46 – Campari sales in Italy
Source: Annual report

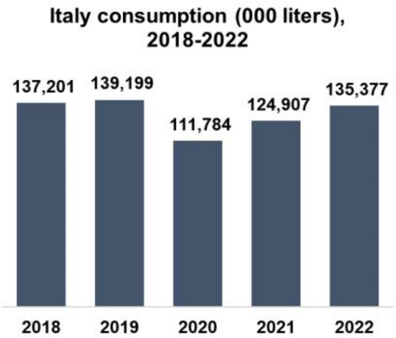

Fig.47 – Spirits consumption in Italy
Source: Euromonitor

Company	Italy market share
Campari	24.0%
Diageo PLC	8.6%
Pernod Ricard	7.6%

Fig.48 – Market share in Italy vs peers
Source: Euromonitor

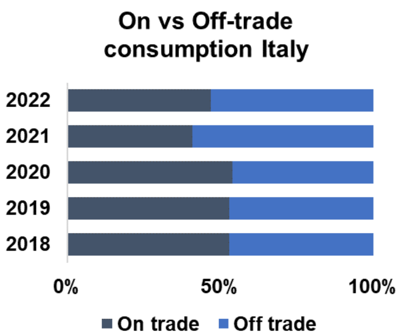

Fig.49 – On vs off-premise in Italy
Source: Euromonitor

In Italy Campari is arguably the dominant player with 24% market share. In second and third place come Diageo and Pernod Richard with 8.6% and 7.6%, respectively. The market had a total volume of 124 M annually in 2021 and is expected to grow by 4% CAGR over the next 5 years. Aperol is arguably Italy's favourite spirit with 14.6% of the market. In second comes Vecchio Amaro del Capo, the originally Italian Liquor followed by Campari bitter.

Italy has great exposure to social drinking and out-of-home consumption. In 2021 on-premises channel represented 46.8% of total sales vs 36% in the US, for instance. This means that Covid-19 took a big toll on this market. As the pandemic eased, 2021 saw some of the larger brands register volume sales close to or over 2019 figures. As mentioned, Campari significantly exceeded its 2019 total sales in 2021, following declines in 2020.

In Italy tradition goes a long way. A key trend in the space is launching spirits with some resemblance of Italian culture. Players that understand the importance of a local or regional identity tended to perform better than their rivals. In gin, Malfy Gin was among the brands to see a positive response due to its strong regional identity, especially through the sourcing of local ingredients and being promoted as embodying the essence of the Amalfi Coast lifestyle. Similarly, the launch of Basanotto by Vacca Andrea & C Srl, a Ligurian liqueur composed of three local and traditional ingredients (basil, sage and chinotto bitter orange), enjoyed success in 2021.

In Italian soil, Campari leverages their aperitif potential to the maximum enjoying years of brand building that awards the group's spirits a special spot in Italian's minds. Apart from Aperol and Campari, the group has explored the latter in a ready-to-drink format (Campari Soda) with good rates of growth. Also exploring the healthy trend, non-alcoholic aperitif Crodino has grown substantially.

In 2022, France represents 5% of the group's revenue. As already mentioned, the group did not have much presence in the geography before the acquisition of Grand Marnier in 2016, yet France is now the third biggest market. The market sold 383M litters of spirits in 2021 and is a mature market with mild growth expected in the future. There is a great prevalence of Whisky and Liqueurs. Yet recently Tequilla has been the top performing spirit.

Thanks to its broad portfolio of popular brands that includes Ricard, Clan Campbell and Pastis 51, Jameson, Chivas, and Absolut, among many others, Pernod Ricard is the leading player in spirits in France. La Martiniquais SVS remained Ricard's nearest rival in 2021 after launching Label 5 Bourbon Barrel.

In SEMEA other noteworthy countries include Spain, South Africa, Nigeria, and Greece that together account for 3% of revenues.

NCCE: Germany shows stronger revenues, yet the UK grows faster

The German market represents 7,4% of the group's total sales in 2022 (equivalent to EUR 198 M). In the region, Campari predominantly sells Aperol and Aperol Spritz ready-to-enjoy, in addition to Campari, Crodino and Grand Marnier.

The German market is at steady state with total sales volume having grown around 0% in 2021 (to a total 443 M liters). Nevertheless, within the sector, non-alcoholic beverages registered an 82% increase last year, thereby reflecting one of the key trends worldwide. On top of the volume registered, spirits' sales are expected to grow at a CAGR of 2% throughout the upcoming 5 years.

Spirits sector in Germany has its market share well distributed as competition is in 2021. Still, both companies take 6% market share, being followed by Henkell & Co Sektkellerei KG. The loss of the pole position for Campari comes after a period of divestment in several major brands – a consequence of Campari's own distribution agreement termination with Hendrick's gin and Glenfiddich, Grant's and Tullamore Dew whiskies, among other cases.

Contrary to other European countries, the off-premises channel takes most of the total consumption with 89.4% (having increased 9.5 p.p. over the past 5 years). Although the shift towards home-drinking has been growing within consumers' preferences, the pandemics era was critical in shaping the current portions.

In Germany, gin and whiskies are arguably first choices after registering high single-digit off-trade volume growth in 2021. The pursuit of more premium drinks at home is key when explaining the steadily rising popularity of both. Diving deeper into the whiskies category, it could be observed that super premium (and often limited editions) blended scotch and Irish became major growth contributors in this market.

A younger consumer base including a stronger presence of the female consumers with typically milder taste profile further justifies recent reputation – and even encouraged new players to enter the category (such as Brown-Forman with the launch of Slane brand).

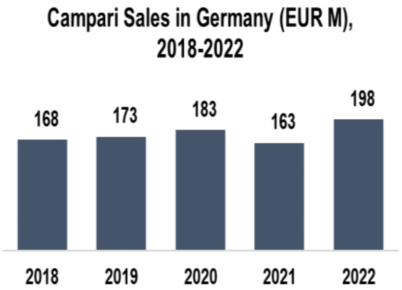

Fig.50 – Campari sales in Germany
Source: Annual report

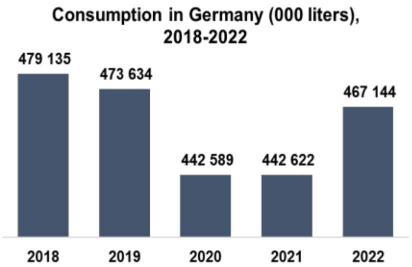

Fig.51 – Spirits consumption in Germany
Source: Euromonitor

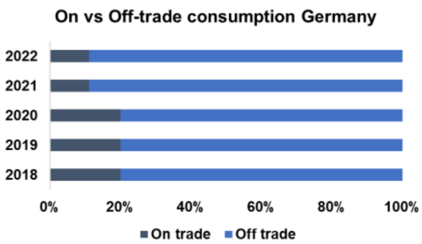

Fig.52 – On vs off-premise in Germany
Source: Euromonitor

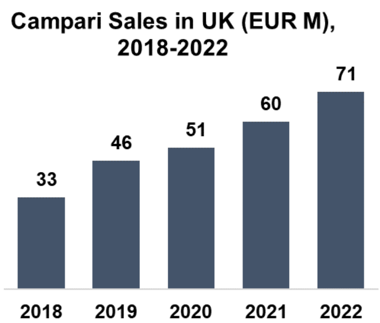

Fig.53 – Campari sales in the UK
Source: Annual report

Russia

After a very positive performance in 2021 – driven by the double-digit growth of the sparkling wine Mondoro, Aperol, and Campari – the Russian market overview changed massively because of the outbreak of the Ukrainian conflict. As a result, Campari Group announced immediate stoppage of any investment plans, as well as reducing the business to bare minimum to avoid abandoning the 112 Camparistas in the country.

UK

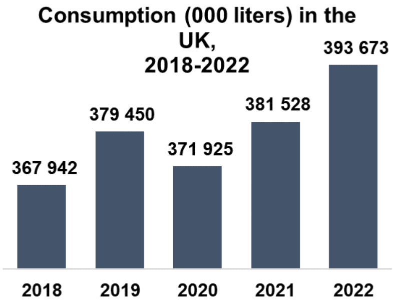

Fig.54 – Spirits consumption in the UK
Source: Capital IQ

British spirits market increased its size in 2021. With total sales volume of 382 M liters, the geography grew around 3% in comparison with the previous year. In accordance with other European countries' trends, the highlight goes to non-alcoholic spirits which registered an interesting growth of 26%. Until 2026, the market is expected to keep growing at a CAGR of 2%, all the way to 414 M liters.

Coming with little surprise, Diageo keeps the pole position in what regards market share (30,1% in 2021), lately followed by Bacardi Brown-Forman Brands (6,4%) and Pernod Richard (5,9%). The most relevant developments in 2021 are firstly related with the remaining impact of covid-19 that kept on-trade channels from developing further and forced the consumers to the adoption of home mixology – which although still growing within the UK, still goes against the pub and bar drinking culture strongly traditional among the British. Second in development list comes Gin having peaked in 2021 as the drink saw its sales finally beginning to fall after solid growth starting in 2018. Finally, the thriving of the non-alcoholic options as well as openness to US spirits also helped shaping the prospects and opportunities' picture.

For Campari, sales in the United Kingdom grew by 39.1% in 2021, benefitting from the good momentum in the on-premises channel, following the partial reopening of venues and a strong consumer demand for social interaction.

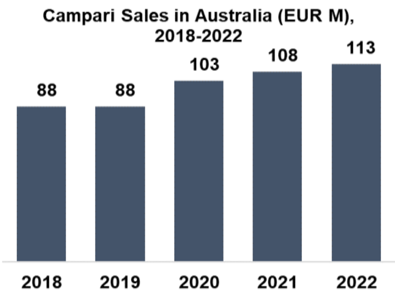

Fig.55 – Campari sales in Australia
Source: Annual report

In 2021, the UK represented 3.2% of total group sales. Among top sellers appear Aperol, Campari, Wray & Nephew Overproof and Magnum Tonic, which are largely consumed at pubs, bars, and local establishments.

Others

Performance in the other countries of the region was up overall by +19.4%, thanks to the double-digit trends of Switzerland, Austria, and Belgium, largely led by Aperol.

APAC: Australia keeps number 1, yet other Asian markets show great potential for the next decade

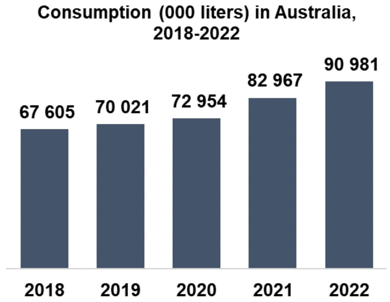

Fig.56 – Spirits consumption in Australia
Source: Euromonitor

Australia is one of the most relevant countries in what regards the significant focus in the Asian Pacific area from Campari Group. Australian spirits market increased its size in 2021, as sales volume ascended to 83 M liters (because of a 14% YoY growth). When closely observing consumption recorded, white spirits stand out after having increased 17% all the way to 24 M liters. In a similar outlook as Germany, Australian consumers reflect their shifting preference towards home drinking as the off-trade channel increased its share from 80,7% in 2016 to 85,8% in 2021.

The geography is clearly dominated by Diageo with a market share of 35,9% in 2021. Following at considerable distance comes Beam Suntory Australia (14%) and Pernod Richard (8,4%). As vodka, rum and tequila offer strong growth potential over the next 5 years, gin is still the main driver of growth in 2021. Premium gin was booming as consumers continued to trade up, while super premium gin gained from the "support local" trend, given the wide range of locally produced brands.

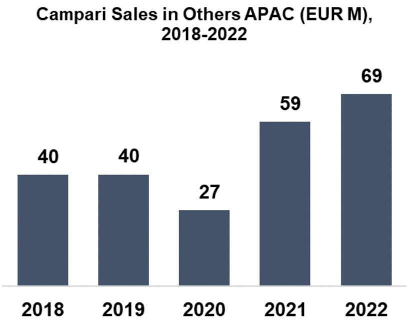

Fig.57 – Campari sales in Others APAC
Source: Annual report

For Campari group in Australia, organic growth in the period was almost stable: the positive performance of Wild Turkey ready-to-drink, Campari and Aperol Spritz ready-to-enjoy helped offset the weakness of Espolòn and Wild Turkey, which were negatively impacted by supply constraints linked to trans-oceanic shipments.

Others

Sales in the other countries of the region grew by triple digits, also favoured by an easy comparison base (-29.7% in 2020), driven by the very positive performance in China (+126.4%), New Zealand and South Korea, which also benefitted from the Group's enhanced investments into business infrastructures. In China the Group continues to build its brands, with positive performance from X-Rated, SKYY Vodka and Aperol. In South Korea, the positive performance is mainly driven by X-Rated and high-end Wild Turkey offerings.

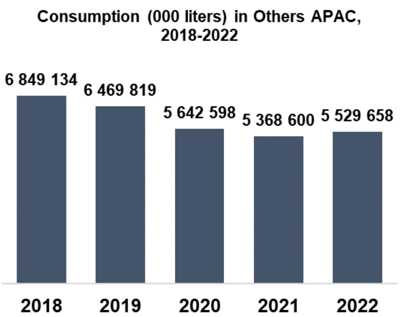

Fig.58 – Consumption in Others APAC
Source: Euromonitor

We believe Asian market are a big source of growth opportunity for Campari.

Valuation

To value Campari group's common shares, the discounted cash flow model methodology was used. Cash flows are estimated considering all information throughout the report. To solidify the analysis, trading multiples assessment was conducted.

Sales

Sales were projected by geography: AMERICAS, SEMEA, NCEE and APAC. Both management guidance as well as industry future projections were considered to have a view on Campari's growth in each region. Revenues were estimated top down by first forecasting how each geography is likely to grow, added to an incremental growth Campari is expected to execute. The view regarding this increment was derived by the firm's growth against the market through past 5 years as well as the role the said markets shall take in Campari's Management strategy going forward.

For most geographies, three stages of growth are assumed: a rapid growth phase of 6 years; a stabilization period of 2 years; and a terminal growth rate when return on invested capital is to stabilize. Campari has a myriad of growth opportunities both on existing markets and new markets, whilst having a strong balance sheet that can shoulder growth through acquisitions, as shown in the past performance section.

Mathematically, revenues for growth period were projected as follows:

$$Revenue_t = Revenue_{t-1} * \left(1 + Sales\ growth\ geo_t^e + \frac{\alpha}{adjuster}\right),$$

$Sales\ growth\ geo_t^e$ = geography sales' expected growth at year t

α = CAGR 18-22,

Adjuster = $\{1 + 0{,}5 * (t - 2023)\}$, t ∈ [2023;2028]

From 2029 onwards, Revenues are expected to grow along with estimated euro inflation.

All market prices are assumed to only grow at the inflation rate as Campari is not likely to change the mix of brands substantially from their current offering that is tilted towards premium brands. All growth should come from either organic expansion or through the acquisition of brands. The following countries were identified as the most relevant to dissect our analysis provided their share of sales in the respective geography: US, Italy, France, Germany, and others in APAC, that include mainly China and South Korean markets.

After modelling potential growth paths for each relevant geography, Campari is expected to grow at 7%, standing below the 9% of the last 5 years but still at a rate of growth that points the company to further expansion.

In 2030, Campari's sales will rise to EUR 4 135M (vs EUR 2 674M in 2022), taking its global market share in Spirits Industry to 2.21%.

AMERICAS

Campari is expected to keep growing its US business in the key product categories: Whisky, Tequilla, and Aperitif portfolio. The rising trend behind the consumption of these drinks are expected to continue in the projected growth phase, we also expect Campari to further use M&A to grow in the space. Most recently the group acquired an initial 70% stake in Wilderness Trail Distillery for EUR 600M, a 16x multiple on EUR 37M expected 2022 EBITDA. We expect more transactions to come in the region over the next decade. As was also highlighted in the geography overview section, partnerships with famous personalities to launch brands are a trend in the US that only the strongest brands can leverage. After Launching a small-batch bourbon Longbranch in 2018 in partnership with Matthew McConaughey, we expect more of such initiatives going forward.

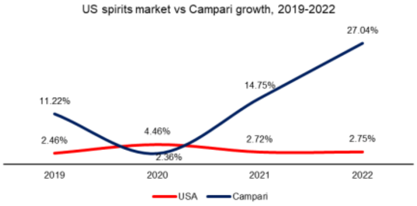

Fig.59 – US spirits vs Campari 19-22
Source: Euromonitor; Annual report

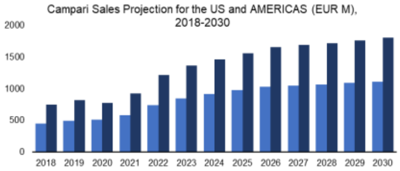

Fig.60 – Sales Projection for US and AMericas
Source: Model

In other countries part of the AMERICAS sector, positive evolution is also expected except for Brazil – where the company has been shifting out its presence. The "others" group is expected to faster growth due to lack of meaningful business activity.

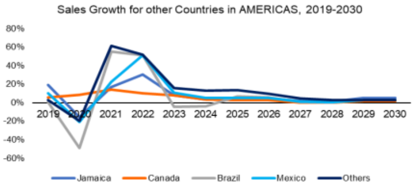

Fig.61 – Sales growth for other AMERICAS
Source: Model

SEMEA

The group will increase its overall sales in Italy at steady pace. The reason underlying is the growing preference of the Italian public for some of the company's strongest brands: Aperol, Campari aperitif, Campari Soda and non-alcoholic Crodino.

Being market leaders in Italian soil, Campari has been registering consistent growth at CAGR 18-22 6.32%. With the spirits consumption in the country registering CAGR 18-22 of 4.22%, α considered is 2.1%. In 2023, Campari's revenues in Italy are expected to rise to EUR 506M, growing gradually to EUR 614M in 2030. The steady growth also reflects the already established consumer preferences in the country.

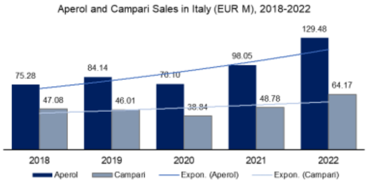

Fig.62 – Aperol and Campari Sales in Italy
Source: Annual report

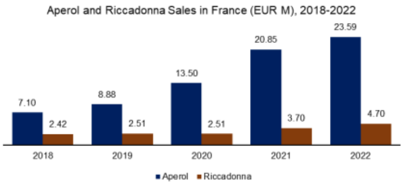

Fig.63 – Aperol and Riccadonna sales in France
Source: Annual reports

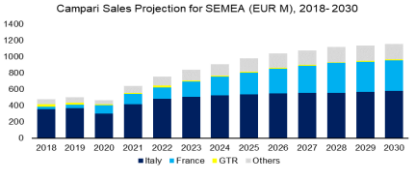

Fig.64 – SEMEA sales projection
Source: Model

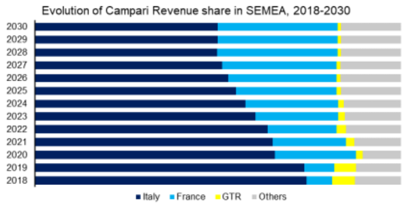

Fig.65 – Revenue share in SEMEA
Source: Model

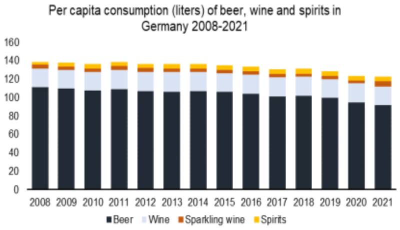

Fig.66 – Alcoholic drink consumption Germany per drink
Source: Euromonitor

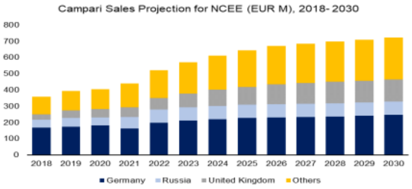

Fig.67 – Sales Projection NCEE
Source: Modelo

Fig.68 – Whisky sales projection in Asia
Source: Euromonitor

When looking at European peer France, the expected increase is considerably faster. Aperol and Riccadonna sparkling wine are the reasons behind such forecasted evolution. In France, spirits consumption grew at a CAGR 18-22 of 3.11% during the past 5 years. Throughout the same period, Campari’s sales in the country registered a CAGR 18-22 of 33.6%, therefore resulting in an α of 30.5% for the forecasted period which reflects the rise of the company’s revenue share in this market. As such, sales are expected to increase to EUR 189M in 2023 and reach EUR 380M in 2030.

In the remaining countries that make up the SEMEA geography, Campari is expected to outpace the market’s growth rate at an α of 13.54%, which leads sales (GTR + Others) to go from EUR 129M in 2023 to EUR 201M in 2030.

NCEE

In Germany, spirits consumption is second best to beer, wine, and sparkling wine in consumers preferences. Furthermore, these drinks have not seen their preference augment among consumers throughout the past 5 years and the outlook until 2027 shows little growth.

In such difficult setup however, Campari has still managed to grow suggesting the group has managed to steal market share. CAGR 18-22 for the company was 3.4% while the market registered -0.1%. Resulting α is 3.5% and justifies the consistent outperformance of Campari in a country where the demand for spirits is very mature. We project Campari’s sales to rise to EUR 212M in 2023 and EUR 246M in 2030, an 18% and 24% increase respectively.

Among the remaining countries in the NCEE geography, Russia is expected to grow at inflation reflecting the company’s intent of keeping up the business just enough not to abandon its people in Russian soil as a reaction to the outbreak of the Ukraine conflict. The UK should almost double revenues from 2022 to 2030 (EUR 137M projected revenue) following a CAGR 18-22 of 16.48%

APAC

In the APAC sector, highlight goes to “Others” mainly represented by China, South Korea, and Japan. Drinks such as Whiskies and Vodka have seen their popularity grow, thus leveraging consistent positive evolution in the geography.

We estimate Campari will can capitalize and grow its market share organically via global priority brands as well as other brands like X-rated. We also see opportunity to acquire brands with an already strong presence in these markets

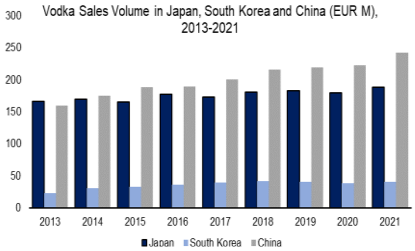

Fig.69 – Vodka sales projection in Asia
Source: Euromonitor

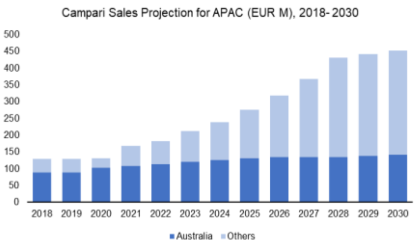

Fig.70 – Sales projection APAC
Source: Model

and, once revenue justifies, set up their own distribution infrastructure to drive revenues and cash conversion to their full potential.

While the market has presented positive CAGR 18-22 of 4.50% during the past 5 years, Campari experienced faster growth at CAGR 18-22 of 11.50%, thus producing an α of 7.0%. Therefore, sales are expected to increase to EUR 69M in 2023, and to EUR 312M in 2030. This evolution also changes the geographic revenue share of Campari, as the region goes from 3% of total sales (2023) to 8% (2030), also reflecting Campari's strategic plan.

Operating costs

Campari's main cost captions include Cost of Goods Sold (49.4% of total in 2022); Advertising & Promotion (20.4%); and Sales General & Administrative costs (24.2%).

In the forecasted period, COGS margin is expected to stabilize at 38.4% (Gross Margin 61.6%), thus resulting in a 0.6% increase when compared to the value obtained from the annualized income statement for 2022. The reason behind such evolution is the increase in average inventory that drives inventory write downs slightly up. As for raw materials, personnel costs and utilities, the company shall keep the current margins, which is justified by the fact that the bet in premiumization trend is already ongoing and unit costs are not expected to increase faster than unit sale prices.

Regarding Advertising & Promotion related costs, the ratio to Revenues was set equal to 2022 at 16.2%. Further growth both in geographical and brand terms shall be followed by increases in such sort of expenses as Campari will seek to get the public's attention for new products and locations. There is also no strategic plan announced to increase the relevance of Advertising in the firm's cost structure, reason why its portion remains stable.

SG&A is projected to grow tied to the expected inflation rate in Eurozone as a considerable portion of employees work in Italy. It is in SG&A that we expect most of the economies of scale impacts on EBITDA to materialize. We project SG&A margin starting at 18% and consistently decreasing YoY to 14% in 2030.

EBITDA

The previously mentioned cost lines build up Campari's Core EBITDA for the forecasted period. Between 2022 and 2030, Campari is expected to grow its EBITDA from EUR 844M to EUR 1 285M, resulting in a 72.8% increase in 9 years and a CAGR 22-30 of 6.27%.

In terms of margins, Campari should see its EBITDA margin improve from 27.8% in 2022 to 31.1% in 2030 because of gains from scaling the activity that come mostly from SG&A costs. The further expansion both in terms of geography and product brands should produce revenue that is expected to grow at faster pace than SG&A (which are tied to expected inflation rate in Eurozone), thus explaining the improve of this margin.

NWC

Regarding Net Working Capital, Campari takes on average 350 days to turn inventory into cash from sales. A key component of the spirits industry is the aging of liquids that consumes plenty of days of inventory. Maturity inventory accounts for 55% of total inventory which contributes for inventory days of 310, on average. Since 2018, receivable days have improved by 10 from 50 to 40 days in 2021, driven by a more efficient management of payments. Payable days deteriorated in 2021 due to the sustained business expansion and, to some extent, to a reverse factoring program launched in 2020 by the firm. The program involves a first wave of strategic partners based in Italy with the aim of allowing participating suppliers to receive early payments on their invoices. Still, Campari guides it might improve going forward as the rollout of this program should stabilize.

For forecasting purposes, the team decided to project both inventory and payable days as the 4-year average (122.5 and 328.8, respectively) given there is no clear up or downward trend. For days of receivables, however, it is expected that the more efficient payment management to sustain at 40 days. Regarding operating cash, 2.5% of revenues was assumed due to literature and other current assets and liabilities were assumed as their 4-year averages.

As such, Campari's Net Working Capital is expected to stabilize at around 27.2% of Sales, increasing from EUR 717M in 2022 to EUR 1 123M in 2030.

Capex

Capital expenditures (Capex) are associated with strategic acquisitions, opening of new factories and maintenance and/or renovation of machinery. Campari is not tied with a specific target. The group has a history of growth, and the tendency is expected to continue. Thus, Capex is expected to be above depreciation even at stabilization stage.

Within the caption, Campari can identify two main types of Capex: Maintenance and Expansion. The first is expected to grow accordingly to the firm's expansion towards EUR 158M in 2030 (starting at EUR 102M in 2022). The second reflects the growth stage vs steady state as it increases gradually until 2028 (EUR 101M) to then adjust back to EUR 15M in 2030. Therefore, at the end of year 2028 Capex will increasingly become more represented by Maintenance Capex as the firms reaches steady state (60% of Total Capex in 2022 vs 87% in 2030).

Additionally, the firm identifies a line for M&A Capex which is projected by the Management to be equal to the Expansion one for the next 5 years. From 2027 onwards, Campari shall not keep up with current M&A activity as inorganic growth is not perpetual, thus fixating the amount allocated to the one registered in 2026 of EUR 94M per year.

Overall, Capex will stabilize at around 4.2% of Total Revenue in 2030, decreasing its significance from previous 6.4% in 2023.

Fair Value

		DCF
Core Enterprise value		**12,681**
(Net debt)	-	695
Surplus assets (inc. associates & pensions)	-	331
(Minorities)	-	3
Equity value		**11,652**
Number of shares (NOSH) (m)		1,122
Equity value per share (€)		**10.39**

Implicit Multiples	
EV/Sales	**4.3**
EV/EBITDA	**15.2**

Purchase Price @15/12/20	**10.19**
Dividends/share	**0.11**
Selling Price	**10.39**

Holding period return	2.97%

The operating Enterprise Value was determined through the Discounted Cash Flow Model (DCF) at a WACC of 6.49% (dissected in the Discount Rate section). Campari is expected to stabilize its revenue growth and ROIC and, therefore, free cash flow generation by the year of 2030; ROIC stable at 16% in 2030, compared to 10% in 2021; and growth of revenues stable at 2%. Therefore, from 2031 onwards, a perpetuity was used with a perpetual growth rate of 1.85%, which results from a reinvestment rate (RR) of 13% and a return on new invested capital (RONIC) of 16% which is 9% above the firm's cost of capital.

To estimate equity value, one needs to conduct the necessary adjustments. The latest net debt metric was retrieved from the firm's 3Q of 2022 review at EUR 921M. Debt reduces the value of equity for the same EV. The surplus assets were assumed as their value on the face of the balance sheet. Campari aggregates deferred tax liabilities, equity investments and employee severance. Combined translated into a liability of EUR 331M, with deferred tax liability at

311M EUR. As such, the caption reduces the value of equity. Finally, Campari has 3M EUR of Minority interests that will be deducted from core EV.

The result is an Enterprise Value of EUR 12 681M and an Equity Value of EUR 11 652M, which translates to Equity Value per share of EUR 10.39.

Discount Rates

Cost of equity	Rates
Risk-free rate	1.86%
Country risk premium	1.71%
Risk Free (Rf)	3.57%
Market risk premium (MRP)	6%
β Unlevered	0.51
β Levered	0.55
Ke (Rf+βL*MRP)	**6.70%**
Yield to maturity	3.60%
Rating	BBB
Probability of Default	0.024%
Loss given Default	40.00%
Pre-tax cost of debt (Rd)	3.59%
Corporate income tax (T)	24.00%
Kd after tax (Rd*(1-T))	**2.73%**
Debt to equity ratio (D/E)	0.10
Equity (E/(D+E))	90.99%
Debt (D/(D+E))	9.01%
WACC - Nominal prices	**6.35%**

The weighted average cost of capital (WACC) resulted from the estimation of each one of its components, namely, the cost of equity (Re), the after-tax cost of debt and the target capital we believe Campari to pursue going forward. The cost of equity was estimated using the capital asset pricing model (CAPM). The AAA rated euro central government Bond 10-year maturity dated 31st of December 2022 was used as proxy for the risk-free rate (1.86%), as Campari generates cash flows in EUR, that was assumed as the asset that best resembles a default free investment. On top of that, resorting to Damodaran methodology, a country risk premium was calculated: because Campari is globally well diversified, we weighted each country risk premium at their percent of Campari's total revenue to reach a country risk premium of 1.69%. Summing the two, we obtained a risk-free rate of 3.55%. Moving on to market risk premium, we resorted to "EY Equity Risk Premium Study: Valuation, Modelling & Economics" to obtain a value generically accepted by analysts of 6%.

To get a forward-looking estimate for the beta of equity levered, firstly, we obtained the βL for the comparable set and unlevered each of them according to the respective firm's capital structure. Consequently, we obtained a set of βu and built an arithmetic average (0.51), which is consistent with our view that spirits companies are less volatile that the overall market. With this result, the relevering process followed using the average capital structure for the Distillers and Vintners sector (D/E = 0.10) thus leading to a βL of 0.55 to be considered. All calculations concluded, levered cost of equity for Campari in the exercise is 6.86%.

The cost of debt was estimated according to:

$$Rd = yield\ to\ maturity - probability\ of\ default * loss\ given\ default$$

Resorting to Moody's data, an YTM of 3.60% was obtained for Campari Group, with probability of default 0.024% and loss given default 40% retrieved from Capital IQ platform. Applying the theoretical tax rate of 24%, the after-tax cost of debt calculated is 2.73%.

Weighing both Equity and Debt side, final WACC at nominal prices is 6.49%.

Sensitivity & Scenario analysis

					COGS Margin
Share Price	12.45%	12.70%	37.70%	37.95%	38.20%
15.75%	10.95	10.80	10.19	10.51	10.37
16.00%	10.81	10.67	10.52	10.38	10.23
16.25%	10.67	10.53	**10.39**	10.24	10.10
16.50%	10.54	10.39	10.25	10.10	9.96
16.75%	10.40	10.26	10.11	9.97	9.82

Advertising & Promotion Margin

One of the main limitations in the valuation model was the absence of discriminated cost of goods and advertising and promotion cost structure. It was not possible to depict Campari’s operational expenses regarding raw materials, machinery operating, personnel and marketing related lines.

Regarding cost of goods sold, the recent increases in price of tequila, added to the ongoing Ukrainian conflict as well as uprising electricity costs build up the need to calculate the impact of adjustments and derive conclusions.

As such, a sensitivity analysis was conducted by observing the change in share price because of 0.25% variations in the above-mentioned lines of Campari’s Income Statement.

Results showed that, for less drastic variations, the suggested share price vary between EUR 10.67 (+2.69%) and EUR 10.10 (-2.87%).

Multiple Valuation

Comparable company	EV / EBITDA Forward	P/E Forward
Diageo Plc	16.78	21.56
Pernod Ricard SA	14.70	20.04
Brown Forman Corp	27.52	39.15
Becle	15.11	22.68
Remy Cointreau SA	17.42	27.13
Yanghe	13.35	20.26
United Spirits	40.04	61.87
Average	**20.70**	**30.39**
Median	**16.78**	**22.12**
Davide Campari Milano	17.32	26.36

As recommended when performing valuation analysis resorting to the Discounted Cash Flow method, complementary research consolidates the perspective of whether the market is valuing the company accordingly with the obtained results. Thus, a set of comparable was obtained with criteria specified on the left. From the data obtained, it was possible to verify that the industry is currently providing a median for EV/EBITDA forward multiple of 16.78 for the sector. Following this rationale, Campari’s EV would be valued at EUR 14 177M, which is above the one calculated using the DCF model.

Implicitly, the analysis reveals that the market is overestimating Campari’s ability to sustain growth: sales would be growing close to double digits and ROIC progressively accelerating to double digit values as well.

DCF valuation estimates Campari to grow at a CAGR of 5.6% over the next 8 years until 2030 which falls short of the firm’s last 10 years yearly rate of growth of 7.1%. This is since the aperitif portfolio disproportionally drove this growth and is not likely to sustain such evolution as it reaches maturity in Italy. The DCF implicit forward EV/EBITDA multiple is 15, whilst industry median stands at 16.7 and that of Campari is 17.3.

Final Recommendation

Our final recommendation is a HOLD. In fact, the group has many of the sources of competitive advantage that are key to sustain the privileged position in the industry combined with healthy capital structure and solid governance. Still, the current valuation does not permit a favourable capital gain outlook which combined with a weak dividend yield might not translate into returns above an average investors cost of capital.

First, Campari has a portfolio of 50 brands in the premium segment of the market that have grown disproportionately against standard spirits and should continue to do so. What's more, Campari has shown the ability to turn these higher priced drinks as mass market stars, be it standalone like Aperol or as a central piece to cocktails, as Campari is to a Negroni and Americano. Aperol brand was bought in 2003 yet the group had to wait a decade to enjoy consistent double digits growth. Average product adoption period was considerably long and is estimated to be undergoing for some of the brands in the portfolio

There is also attractive growth opportunities in Asia, with markets such as China, Korea and Japan still contributing few to overall revenue pool, whilst bigger peers – Diageo, Pernod Ricard, and Brown Forman, have greater exposure to these markets. CEO Robert Kunze-Concewitz has plans to expand to the region and will use M&A to do so. Although belonging to different continent, we see the example of French market expansion with the acquisition of Grand Marnier as a good indicator that Campari will be able to apply the same formula in Asian markets.

All growth we project are enabled by a strong balance sheet and the presence of a controlling investor that has their own incentives aligned with maximizing the long-term value of the company. As of 2021, Campari has ND/EBITDA ratios of almost half of their peers median, having therefore greater access to capital markets to fuel acquisitions. Additionally, Luca Garavoglia, the group's majority shareholder, has served as Campari's chairman since 1994 and have been behind successful bets such as Aperol's acquisition and marketing work as well as Grand Marnier's acquisition. Over the last 5 years Campari had the greater equity value appreciation and good governance was at its core also.

This said, however, the group also has its downsides. On the one hand, Campari has historically paid a great deal more that competitors for M&A transactions. Although most acquisitions came with future years of growth, the firm has levels of goodwill to revenue that are twice industry averages. Higher prices consume the value creation, and this is the reason why Campari has levels of historic ROIC of around 10%, which is below industry average and almost half that of Diageo's (20% ROIC in 2022).

Most importantly however, we believe the market is overestimating Campari's growth prospects. As look at EV/EBITDA multiples of our DCF valuation against those paid by investors today, the rapid growth of most well-known brands in the portfolio has shine over not so positive performances by many others composing the mix. Nevertheless, the same applies to peer comparables, provided that the trading multiples observed were also very high when put against the median.

With no more detailed plans revealed in terms of strategic expansion (mainly in Asia), the analysis suggests a HOLD of this stock until the end of year 2023.

Appendix

Financial Statements

Income Statement	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Core Operations													
Net Sales	1 712	1 843	1 772	2 173	2 674	2 963	3 183	3 409	3 617	3 747	3 875	3 961	4 049
Cost of goods sold (COGS)	-648	-681	-702	-831	-1 012	-1 133	-1 220	-1 308	-1 386	-1 435	-1 485	-1 518	-1 551
Advertising and promotion	-288	-318	-307	-395	-435	-481	-517	-554	-588	-609	-630	-644	-658
Selling, general & adminsitrative expenses	-343	-364	-363	-432	-484	-512	-526	-538	-548	-558	-568	-579	-590
Core EBITDA	**433**	**480**	**400**	**515**	**744**	**836**	**920**	**1 010**	**1 096**	**1 144**	**1 192**	**1 220**	**1 250**
D&A	-54	-72	-78	-80	-87	-95	-101	-108	-115	-121	-127	-132	-122
Core Result before taxes	**379**	**408**	**322**	**435**	**656**	**741**	**818**	**902**	**982**	**1 023**	**1 065**	**1 089**	**1 128**
Statutory taxes	-91	-98	-77	-104	-158	-178	-196	-216	-236	-246	-256	-261	-271
Tax Adjustments	**-5**	**-23**	**-4**	**-7**	**-7**	-7	-7	-7	-7	-7	-7	-7	-7
Core result	283	287	241	324	492	556	615	678	739	771	803	820	851
Non Core Operations													
Except. items	2	-22	-90	-34	-35	-	-	-	-	-	-	-	-
Non Core Result before taxes	**2**	**-22**	**-90**	**-34**	**-35**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Statutory taxes	-0	5	22	8	9	-	-	-	-	-	-	-	-
Tax Adjustments	34	62	32	-5	-5	-	-	-	-	-	-	-	-
Non-Core Result	36	46	-36	-31	-31	-	-	-	-	-	-	-	-
Financial													
Interest income	9	10	8	20	-	16	22	18	25	35	28	37	-
Interest expenses	-39	-41	-27	-32	-15	-32	-27	-28	-27	-16	-16	-16	-17
Income from associates	-0	0	-3	-0	-3	-3	-3	-3	-3	-3	-3	-3	-3
Financial Result before taxes	**-30**	**-32**	**-22**	**-12**	**-18**	**-19**	**-8**	**-13**	**-5**	**16**	**8**	**18**	**-20**
Statutory taxes	7	8	5	3	3	5	2	3	1	-4	-2	4	5
Tax Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial Result	-23	-24	-18	-9	-14	-15	-6	-10	-4	12	6	14	-15
Net Income	**298**	**310**	**189**	**285**	**448**	**543**	**611**	**670**	**737**	**784**	**811**	**836**	**837**

Balance sheet	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Trade receivables	286	317	282	290	357	396	425	456	483	501	518	529	541
Trade payables	-216	-241	-321	-395	-439	-486	-523	-561	-594	-615	-637	-651	-665
Inventories	565	616	657	742	922	1 021	1 099	1 178	1 248	1 293	1 338	1 368	1 398
Net income tax receivables	9	-56	1	-37	-21	-21	-21	-21	-21	-21	-21	-21	-21
Other net current assets	-121	-96	-95	-125	-156	-173	-186	-200	-212	-219	-227	-232	-237
Noncash working capital	**523**	**539**	**523**	**477**	**663**	**737**	**794**	**853**	**905**	**939**	**972**	**994**	**1 016**
Working Cash	**34**	**37**	**35**	**43**	**53**	**59**	**64**	**68**	**72**	**75**	**78**	**79**	**81**
Long term provisions	-119	-52	-42	-34	-34	-34	-34	-34	-34	-34	-34	-34	-34
LT provisions	**-119**	**-52**	**-42**	**-34**	**-34**	**-34**	**-34**	**-34**	**-34**	**-34**	**-34**	**-34**	**-34**
Tangible assets	456	594	565	649	731	825	926	1 034	1 149	1 267	1 386	1 422	1 470
Acquired assets	-	-	-	-	68	143	224	311	403	495	587	679	771
Goodwill and trademarks	2 341	1 388	1 354	1 416	1 416	1 416	1 416	1 416	1 416	1 416	1 416	1 416	1 416
Brands and Other Intangibles	43	1 080	1 001	1 029	1 029	1 029	1 029	1 029	1 029	1 029	1 029	1 029	1 029
Fixed assets	**2 840**	**3 062**	**2 920**	**3 094**	**3 244**	**3 413**	**3 595**	**3 790**	**3 998**	**4 207**	**4 418**	**4 546**	**4 686**
Core capital employed	**3 278**	**3 585**	**3 437**	**3 580**	**3 926**	**4 175**	**4 419**	**4 677**	**4 941**	**5 186**	**5 433**	**5 585**	**5 748**
Deferred net tax assets	-330	-348	-294	-311	-311	-311	-311	-311	-311	-311	-311	-311	-311
Investments	123	2	26	26	26	26	26	26	26	26	26	26	26
Employee severance	-32	-33	-33	-30	-30	-30	-30	-30	-30	-30	-30	-30	-30
Other net non-operational assets	-432	-3	2	-16	-16	-16	-16	-16	-16	-16	-16	-16	-16
Non Core Financial Assets	29	23	8	21	21	21	21	21	21	21	21	21	21
Surplus assets	**-670**	**-382**	**-299**	**-331**	**-331**	**-331**	**-331**	**-331**	**-331**	**-331**	**-331**	**-331**	**-331**
Net capital employed	**2 637**	**3 226**	**3 146**	**3 271**	**3 617**	**3 871**	**4 117**	**4 378**	**4 644**	**4 891**	**5 141**	**5 295**	**5 461**
ST Financial debt	53	84	32	74	86	96	93	109	114	117	120	124	126
Bank loans	5	280	564	553	553	553	553	553	553	553	553	553	553
Bonds and securities	997	1 140	1 064	1 016	966	966	666	666	666	116	116	116	116
Gross financial debt	**1 054**	**1 505**	**1 660**	**1 644**	**1 606**	**1 616**	**1 312**	**1 329**	**1 333**	**787**	**790**	**794**	**796**
Excess cash and equivalents	-580	-668	-513	-748	-740	-921	-840	-1 128	-1 454	-1 275	-1 665	-2 175	-2 672
Net debt	**475**	**837**	**1 148**	**896**	**866**	**695**	**472**	**201**	**-120**	**-488**	**-875**	**-1 381**	**-1 876**
Group equity	**2 163**	**2 387**	**1 997**	**2 372**	**2 751**	**3 173**	**3 642**	**4 174**	**4 761**	**5 376**	**6 013**	**6 673**	**7 334**
Minotirites	-	2	2	3	3	3	3	3	3	3	3	3	3
Total equity	**2 163**	**2 389**	**1 998**	**2 375**	**2 754**	**3 176**	**3 645**	**4 177**	**4 764**	**5 379**	**6 016**	**6 676**	**7 337**
Total funds invested	**2 637**	**3 226**	**3 146**	**3 271**	**3 620**	**3 871**	**4 117**	**4 378**	**4 644**	**4 891**	**5 141**	**5 295**	**5 461**

Cash Flow Statement												
Core Result before taxes	408	322	435	656	741	818	902	982	1 023	1 065	1 089	1 128
Statutory taxes	-98	-77	-104	-158	-178	-196	-216	-236	-246	-256	-261	-271
Tax Adjustments	-23	-4	-7	-7	-7	-7	-7	-7	-7	-7	-7	-7
NOPLAT	287	241	324	492	556	615	678	739	771	803	820	851
D&A	72	78	80	87	95	101	108	115	121	127	132	122
Gross Free Cash Flow	358	318	404	579	651	716	787	854	892	929	952	972
Changes in LT Provisions	-66	-11	-7	-	-	-	-	-	-	-	-	-
Organic Capex	-293	64	-254	-170	-188	-202	-217	-230	-238	-246	-168	-169
M&A Expenditure	-	-	-	-68	-75	-81	-87	-92	-92	-92	-92	-92
Change in NWC	-19	17	39	-197	-80	-62	-63	-56	-36	-36	-24	-24
Core Free Cash Flow	**-20**	**389**	**181**	**144**	**308**	**371**	**420**	**475**	**526**	**555**	**669**	**687**
Non Core Result before taxes	-22	-90	-34	-35	-	-	-	-	-	-	-	-
Statutory taxes	5	22	8	9	-	-	-	-	-	-	-	-
Tax Adjustments	62	32	-5	-5	-	-	-	-	-	-	-	-
Non Core Result	46	-36	-31	-31	-	-	-	-	-	-	-	-
Change in Non Core Items	-288	-83	32	-	-	-	-	-	-	-	-	-
Non-Core Free Cash Flow	**-242**	**-119**	**0**	**-31**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest expense	-41	-27	-32	-15	-32	-27	-28	-27	-16	-16	-16	-17
Tax Shields	10	7	8	3	8	7	7	7	4	4	4	4
Interest income	10	8	20	-	16	22	18	25	35	28	37	-
Income from associates	0	-3	-0	-3	-3	-3	-3	-3	-3	-3	-3	-3
Remaining Tax	-2	-2	-5	-	-4	-5	-4	-6	-8	-7	-9	-
Change in Financial Debt	451	155	-17	-38	10	-303	16	5	-547	3	4	2
Net Change in Equity (in Cash)	-29	-516	152	-2	0	-	-0	-	0	0	-	-
Dividends	-57	-63	-62	-68	-121	-142	-138	-150	-169	-174	-175	-176
Financing Cash Flow	**340**	**-441**	**-65**	**-121**	**-126**	**-452**	**-133**	**-150**	**-705**	**-165**	**-158**	**-190**
Change in Cash	**78**	**-171**	**246**	**-8**	**181**	**-81**	**287**	**326**	**-179**	**390**	**511**	**497**
FCFE	**86**	**579**	**-91**	**69**	**121**	**142**	**138**	**150**	**169**	**174**	**175**	**176**

Disclosures and Disclaimers

Report Recommendations

Buy	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
Sell	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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