Leading the Charge

Chargeurs is an industrial conglomerate with leadership in each of its five segments. Current management, in place since 2015, have delivered double digit earnings growth and displayed savvy entrepreneurship by swiftly pivoting the business to the mass production of face masks.

Leader in niche industries
Chargeurs is an industrial conglomerate holding number one positions in four niches: protective plastic films, apparel interlinings, wool trading and museum services. The group has a value added positioning thanks to its proprietary technologies. Its products benefit from low price elasticity as they are essential to clients and account for a small fraction of their costs.

Premiumization and build-up
Over the past five years the strategic emphasis has been on 1) increasing the share of value added products through capex/R&D and 2) building up the business through targeted M&A. This has resulted in 12.5% EBIT CAGR in 2014-2019.

Entrepreneurial drive
Management have demonstrated savvy entrepreneurship by pivoting the business to producing face masks and by building up a global leader in the rapidly growing museum services market.

Good earnings growth potential
We expect 1) 2021E EBIT to normalize after record high earnings in 2020E thanks to face masks; 2) 20% EBIT CAGR in 2021E-2023E on the back of strong growth in museum services and the ramp-up of a new/more productive plant in protective films.

Valuation range of EUR17 to EUR24
Our valuation range is based on a DCF (EUR24, WACC: 7.5%, terminal growth:1%) and ROCE/WACC.

Risks include macro headwinds, competition, raw materials and M&A integration
### Stock Market Ratios

#### \( \text{Dec. 11} \) \( \text{Dec. 12} \) \( \text{Dec. 13} \) \( \text{Dec. 14} \) \( \text{Dec. 15} \) \( \text{Dec. 16} \) \( \text{Dec. 17} \) \( \text{Dec. 18} \) ¹ \( \text{Dec. 20e} \) \( \text{Dec. 21e} \) \( \text{Dec. 22e} \) \( \text{Dec. 23e} \) \( \text{Dec. 24e} \)

| Stock Market Ratios | \( \text{Dec. 11} \) | \( \text{Dec. 12} \) | \( \text{Dec. 13} \) | \( \text{Dec. 14} \) | \( \text{Dec. 15} \) | \( \text{Dec. 16} \) | \( \text{Dec. 17} \) | \( \text{Dec. 18} \) | ¹ | \( \text{Dec. 20e} \) | \( \text{Dec. 21e} \) | \( \text{Dec. 22e} \) | \( \text{Dec. 23e} \) | \( \text{Dec. 24e} \) |
|-------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Sales             | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) |
| Net operating assets | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) |
| Enterprise Value | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) |
| Net operating assets | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) |
| Enterprise Value | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) |
| Market capitalisation | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) | \( \text{EURm} \) |
| FCFA yield | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) |
| P / E relative to MSCI SMID | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) |
| P / E relative to MSCI | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) |
| P / BV | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) |
| P / Cash Flow | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) |
| P / B (book value) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) | \( \text{PER} \) (%) |

### Financial Highlights

#### \( \text{Dec. 24e} \)

<table>
<thead>
<tr>
<th>Financial Highlights (( \text{EURm} ))</th>
<th>( \text{Dec. 24e} )</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>( \text{EURm} )</td>
</tr>
<tr>
<td>Net operating assets</td>
<td>( \text{EURm} )</td>
</tr>
<tr>
<td>Enterprise Value</td>
<td>( \text{EURm} )</td>
</tr>
<tr>
<td>Market capitalisation</td>
<td>( \text{EURm} )</td>
</tr>
<tr>
<td>FCFA yield</td>
<td>( \text{PER} ) (%)</td>
</tr>
<tr>
<td>P / E relative to MSCI SMID</td>
<td>( \text{PER} ) (%)</td>
</tr>
<tr>
<td>P / E relative to MSCI</td>
<td>( \text{PER} ) (%)</td>
</tr>
<tr>
<td>P / BV</td>
<td>( \text{PER} ) (%)</td>
</tr>
<tr>
<td>P / Cash Flow</td>
<td>( \text{PER} ) (%)</td>
</tr>
<tr>
<td>P / B (book value)</td>
<td>( \text{PER} ) (%)</td>
</tr>
</tbody>
</table>

**Note:** The financial highlights and ratios are provided as of December 2023. The data includes the latest available figures for the company's financial performance as of the respective reporting date.
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Investment summary

Leadership in niche industries

Chargeurs is an industrial conglomerate active in four industrial niches where it holds number one positions. The business has been complemented in 2020 by a fifth activity (Chargeurs Healthcare Solutions or CHS) in response to a surge in demand for face masks.

Figure 1: Chargeurs is an industrial conglomerate with leadership in niche markets

<table>
<thead>
<tr>
<th>Snapshot of Chargeurs’ activities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Activity</strong></td>
</tr>
<tr>
<td>Share of 2019 sales</td>
</tr>
<tr>
<td>Industry rank</td>
</tr>
<tr>
<td>Market share</td>
</tr>
<tr>
<td>Main end markets / clients</td>
</tr>
<tr>
<td>Drivers</td>
</tr>
<tr>
<td>Industrial footprint</td>
</tr>
<tr>
<td>Geographical sales breakdown</td>
</tr>
<tr>
<td>Competitors</td>
</tr>
</tbody>
</table>

Source: Exane BNP Paribas estimates *Healthcare Solutions had its first revenues in 2020

The group manufactures and sells products that are essential to its clients across four divisions:

- Chargeurs Protective Films (or CPF) produces self-adhesive plastic films to protect fragile surfaces essentially for construction, industry, appliances and electronics end-markets. In this EUR1bn market, CPF holds a n°1 position with ~30% market share;

- PCC Chargeurs Fashion Technologies (or PCC CFT) manufactures interlinings for clothing, i.e., the technical fabric used in garments to help them retain their shape. In this EUR800m market, PCC CFT holds a n°1 position with ~25% market share;

- Chargeurs Luxury Materials (or CLM) engages in the trading of premium wool fibres;

- Chargeurs Museum Solutions (or CMS) offers services to museums across the entire value chain from project planning during the museum construction phase to the turnkey delivery of exhibitions. This segment is essentially a build-up of acquisitions and CMS holds a ~15/20% share in this EUR500m market.
Value added positioning

Across its two largest divisions, Chargeurs is essentially positioned on the high end of the product spectrum thanks to its proprietary patents/technologies. Having spent EUR20m on R&D and more than EUR90m on technology capex over the past five years, the group has continually added new functionalities/performance properties to its products where in many cases it constitutes the only offer in the market.

Figure 2: Innovation has been a key driver in Chargeurs’ strategy

Highlights of the main innovations at CPF and PCC CFT

<table>
<thead>
<tr>
<th>Chargeurs Protective Films</th>
<th>PCC Chargeurs Fashion Technologies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Innovation highlights</strong></td>
<td><strong>Innovation highlights</strong></td>
</tr>
<tr>
<td>• Proprietary adhesive formulas</td>
<td>• Proprietary 40-gauge machine enabling the thinnest interlining in the market</td>
</tr>
<tr>
<td>• Proprietary low noise films (reducing noise from 110 to &lt;85 dB)</td>
<td>• Anti-moire effect interlinings</td>
</tr>
<tr>
<td>• Films dedicated to functional glass materials, very rough and textured surfaces</td>
<td>• Anti-microbial, anti-smell interlinings</td>
</tr>
<tr>
<td>• PVC free, Phthalates free and 100% recyclable films</td>
<td>• Eco-responsible range “Sustainable 360” with fully recycled polyester yarn</td>
</tr>
</tbody>
</table>

Source: Exane BNP Paribas estimates

Chargeurs’ products account only for a marginal portion of a customer’s cost base and final product price. Pricing power is fairly solid as clients generally focus more on the quality and service (logistics, integration into their manufacturing process) as they need seamless access to products (especially true at CPF) and consistent quality across all geographies (especially true for PCC CFT). Sustainability is also core to Chargeurs’ strategy; several innovations launched in recent years include sustainable products.

Successful build-up strategy

Over the past five years, the group has been building up its businesses through bolt-on M&A in order to add new expertise and/or expand into new geographies.

Figure 3: M&A is at the core of Chargeurs’ growth strategy

M&A history

<table>
<thead>
<tr>
<th>Target</th>
<th>Date</th>
<th>Country</th>
<th>Division</th>
<th>Revenues (EURm)</th>
<th>Price paid</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main Tape</td>
<td>2016</td>
<td>US</td>
<td>Protective Films</td>
<td>22</td>
<td>EUR20m / 0.9x sales</td>
<td>New geographies</td>
</tr>
<tr>
<td>Omma</td>
<td>2017</td>
<td>Italy</td>
<td>Protective Films</td>
<td>8 (combined)</td>
<td>ND</td>
<td>New expertise</td>
</tr>
<tr>
<td>Walco</td>
<td>2017</td>
<td>US</td>
<td>Protective Films</td>
<td></td>
<td></td>
<td>New expertise</td>
</tr>
<tr>
<td>Somerra</td>
<td>2017</td>
<td>France</td>
<td>Protective Films</td>
<td></td>
<td></td>
<td>New expertise</td>
</tr>
<tr>
<td>Leach</td>
<td>2018</td>
<td>UK</td>
<td>Museum Solutions</td>
<td>11</td>
<td>EUR14m / 1.4x sales</td>
<td>New expertise</td>
</tr>
<tr>
<td>PCC Interlinings</td>
<td>2018</td>
<td>US</td>
<td>Fashion Technologies</td>
<td>70</td>
<td>EUR50m / 6.3x EBITDA</td>
<td>New geographies, higher share of services</td>
</tr>
<tr>
<td>Design PM</td>
<td>2019</td>
<td>UK</td>
<td>Museum Solutions</td>
<td></td>
<td></td>
<td>New expertise, higher share of services</td>
</tr>
<tr>
<td>MET Studio</td>
<td>2019</td>
<td>UK</td>
<td>Museum Solutions</td>
<td>25 (combined)</td>
<td>ND</td>
<td>New expertise, higher share of services</td>
</tr>
<tr>
<td>Hypnos</td>
<td>2020</td>
<td>Netherlands</td>
<td>Museum Solutions</td>
<td></td>
<td></td>
<td>New expertise, higher share of services</td>
</tr>
<tr>
<td>D&amp;P</td>
<td>2020</td>
<td>US</td>
<td>Museum Solutions</td>
<td>40</td>
<td>USD66m / 1.5x sales / 10.5x EBITDA</td>
<td>New expertise/ new geographies</td>
</tr>
</tbody>
</table>

Source: Chargeurs, Exane BNP Paribas estimates

This has resulted in a more balanced earnings mix and a higher share of services.
Figure 4: Chargeurs has successfully rebalanced its business and production mix

Source: Chargeurs, Exane BNP Paribas estimates

**Good track record of profitable growth**

Thanks to a mix of organic investments (R&D, people and capex), bolt-on M&A and productivity gains, Chargeurs shows a solid track record of profitable growth delivering 12.5% EBIT CAGR against 2.5% LFL sales CAGR over 2014-2019.

This has been driven by volume gains and mix improvement at CPF and PCC CFT. The swings in raw material prices (polyethylene, cottons, and polyamides) have generally been neutral thanks to pass-through mechanisms at CPF and significant savings on purchasing at PCC CFT thanks to the increasing use of large tenders. In 2019, the group saw profit weakness due to CPF being impacted by 1) US-China trade tensions and global industrial output contraction; and 2) start-up costs of a new production unit.

Figure 5: Chargeurs has a good track record of profitable growth

Source: Exane BNP Paribas estimates
**Strong entrepreneurial drive**

Since 2015, the investment fund Colombus Holding has been the reference shareholder of Chargeurs (27.1% of capital). Created with the specific purpose of owning Chargeurs shares, the holding is largely controlled and managed by Mr Fribourg, who also acts as Chairman and CEO of Chargeurs.

While the biggest change introduced by the new governance has been the implementation of a premiumization and build-up strategy, management have demonstrated savvy entrepreneurship by:

- Pivoting the business model to meet the surge in demand for face masks since the beginning of the covid-19 crisis. This resulted in the creation of a brand new division (Chargeurs Healthcare Solutions or CHS) that helped boost the top line and profits to record highs. Management expects CHS to remain a sustainable activity beyond the covid crisis albeit with a lower annual revenue of EUR50m-100m (vs. EUR303m in 2020) as 1) local authorities and private actors in Europe are expected to rebuild/maintain their inventories with a higher reliance on domestic producers; 2) a US bill project called the “PPE Act” should introduce guaranteed contracts for local manufacturers; the group has already invested or planned to invest in additional production capacity to ensure autonomous manufacturing in its targeted markets (France, US, UK and Switzerland);

  ![Figure 6: 2020 Sales and EBIT expected to have strongly rebounded thanks to CHS contribution](image)

- Building-up a Museum Solutions business through M&A, creating the only true global player able to provide services to museums across the entire value chain. This market is set to grow strongly in the next ten years as 200 museum projects are pending including 110 in Europe for a total budget of EUR11bn. While the covid crisis has delayed (not cancelled) projects, the order book was said to have continued to expand since the start of the year.

CEO Mr Fribourg has shown strong commitment to Chargeurs by 1) increasing his stake (to an undisclosed majority ownership) in Colombus Holding; and 2) pre-announcing a 2025 strategic plan that includes a revenue target of EUR1bn to EUR1.5bn including external growth.
**Good earnings growth potential**

Management already indicated that business trends in historical activities are not expected to normalize before end 2021e. Our forecasts for the next three years include:

- LFL and Adj. EBIT decline in 2021e against a very demanding comparison base in 2020 boosted by CHS.

- A 2021e-2023e revenue and EBIT CAGR of respectively 8% and 20% driven by 1) the ramp-up of a new production unit at CPF. Launched in late 2019, this new factory yields significant productivity gains thanks to i) the highest output/unit across the division’s assets, ii) a focus on rubber-based adhesives, which are more profitable than water-based adhesives, iii) enhanced automation speeding up quality control and reducing scrap. At full capacity this unit is set to generate EUR35m of sales, for a 12% boost to divisional organic growth; 2) double digit growth at Chargeurs Museum Solutions on the back of the current order book and an expanding underlying market.

---

**Figure 7: We expect 20% EBIT CAGR in 2021e-2023e**

<table>
<thead>
<tr>
<th>Sales (EURm) and organic growth forecasts</th>
<th>Adj. EBIT forecasts (EURm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>573</td>
<td>49</td>
</tr>
<tr>
<td>626</td>
<td>41</td>
</tr>
<tr>
<td>822</td>
<td>79</td>
</tr>
<tr>
<td>602</td>
<td>43</td>
</tr>
<tr>
<td>670</td>
<td>57</td>
</tr>
<tr>
<td>698</td>
<td>63</td>
</tr>
</tbody>
</table>

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**Valuation range of EUR17 to EUR24**

We have built our valuation range on the basis of two different methodologies. A DCF valuation (WACC@7.5%, LT growth of 1%) points to EUR24/share (implying 2021e EV/EBITDA of 13.9x), while a 2022e ROCE/WACC approach points to EUR17/share (implying 2021e EV/EBITDA of 11x).

**Risks include macro headwinds, competition, raw materials and M&A integration**

The main risks in our view include macro headwinds, competition, volatility in raw materials and M&A integration.
**Valuation**

**Share price history**

Since the change of governance in October 2015 (Colombus Holding taking over as reference shareholder and the appointment of Mr Fribourg as chairman and CEO), Chargeurs shares have performed rather differently at different times:

- October 2015 – mid-2018: the shares outperformed the market as the new management started to roll out their strategy (innovation, build-up and productivity gains) in a context of supportive underlying markets which led to double digit EBIT growth for three consecutive years;

- Sept-18 – March-20: the stock underperformed due to adverse market conditions at Protective Films (industrial recession and trade tensions) as well as the ramp-up of start-up costs related to a new production line;

- March-20 to date: the stock sharply recovered from the covid-19 led market sell-off thanks to the rapid ramp-up of the new Healthcare Solutions division which should lead the group to post record high earnings for 2020;

![Figure 8: Stock performance since the change of governance](source)

**Valuation range of EUR17 to EUR24**

While a sum-of-the-part seems well suited to value Chargeurs, this approach is difficult to use owing to the lack of listed peers in the group’s niche markets where competitors are smaller privately owned companies. We have built our valuation range using two different methods: a ROCE-WACC methodology and a discounted cash flow (DCF) model.
**DCF methodology points to EUR24/s**

Our DCF valuation (WACC@7.5% and LT growth at 1%) points to EUR24/s and is built on the following assumptions:

After a decline in sales and profits in 2021e (down from exceptionally high levels in 2020), we have assumed a gradual recovery (not V-shaped) pointing to 6% CAGR in 2021e-2024e taking into account a return to pre-crisis revenue level at Chargeurs Protective Films and Museum Solutions in 2021 while our estimates factor in a slower recovery at Chargeurs Fashion Technologies and Luxury Materials. We forecast normalized sales for Chargeurs Healthcare Solutions at EUR75m (in line with management guidance range of EUR50m-100m).

We have pencilled in some operating margin catch-up in 2022 driven by the return of volume growth at PCC CPF, productivity gains at CPF benefiting from the ramp-up of its new production line and a higher contribution from Museum Solutions on the back of the current backlog where customers have postponed but not cancelled projects. After 2022e, the bulk of EBIT margin gains (30bps p.a.) is forecasted to come from CMS.

We project capex to stabilize at c. 1.5% of sales beyond 2020 after peaking at 4% in 2018 and 2019 reflecting expansion capex at CPF and machine replacement at PCC CFT.

Our bridge to fair value incorporates the net present value of tax loss carry forward which we estimate at EUR34m.

**Figure 9: A DCF approach points to EUR24/s**

**DCF-based valuation**

<table>
<thead>
<tr>
<th>Year</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
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<tbody>
<tr>
<td>Revenue</td>
<td>822</td>
<td>602</td>
<td>670</td>
<td>698</td>
<td>714</td>
<td>724</td>
<td>731</td>
</tr>
<tr>
<td>Current EBIT pre IFRS 16</td>
<td>78</td>
<td>42</td>
<td>56</td>
<td>62</td>
<td>67</td>
<td>72</td>
<td>76</td>
</tr>
<tr>
<td>Depreciation excl. IFRS 16</td>
<td>11</td>
<td>11</td>
<td>11</td>
<td>11</td>
<td>11</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Current Adj. EBITDA pre-IFRS 16</td>
<td>89</td>
<td>53</td>
<td>67</td>
<td>73</td>
<td>78</td>
<td>83</td>
<td>88</td>
</tr>
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<td>Tax</td>
<td>-14</td>
<td>-6</td>
<td>-9</td>
<td>-11</td>
<td>-11</td>
<td>-17</td>
<td>-18</td>
</tr>
<tr>
<td>Capex</td>
<td>-12</td>
<td>-13</td>
<td>-13</td>
<td>-10</td>
<td>-11</td>
<td>-11</td>
<td>-11</td>
</tr>
<tr>
<td>Working capital</td>
<td>-4</td>
<td>-4</td>
<td>-4</td>
<td>-4</td>
<td>-4</td>
<td>-4</td>
<td>-4</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td></td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Free Cash Flow to Firm</td>
<td>59</td>
<td>39</td>
<td>41</td>
<td>48</td>
<td>52</td>
<td>51</td>
<td>54</td>
</tr>
<tr>
<td>Annuity multiple</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td>Discount factor @ 7.5% WACC</td>
<td>1.00</td>
<td>1.00</td>
<td>0.93</td>
<td>0.87</td>
<td>0.81</td>
<td>0.75</td>
<td>0.70</td>
</tr>
</tbody>
</table>

**Value date: Dec-21**

**Discounted Cash Flow: 749**

- Net Debt (Cash) at end 2021e: -214
- Other Liabilities: -18
- Associates / Investments: 53
- Minorities: 0

**Fair Value (EURm): 566**

- Nb of shares: 23.8
- Fair Value per share: 24

**Source:** Exane BNP Paribas estimates

**ROCE/WACC points to EUR17/s**

Our ROCE/WACC methodology uses the same assumptions as our DCF, i.e., a WACC at 7.5%. This approach for 2022e points to a valuation of EUR17 per share on average.
Figure 10: ROCE/WACC approach points to EUR17/share

<table>
<thead>
<tr>
<th>2022e</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Fixed Assets</td>
<td>408</td>
</tr>
<tr>
<td>WCR</td>
<td>85</td>
</tr>
<tr>
<td>as a % of sales</td>
<td>13%</td>
</tr>
<tr>
<td>EBIT pre IFRS 16</td>
<td>56.1</td>
</tr>
<tr>
<td>Tax rate</td>
<td>(24.4%)</td>
</tr>
<tr>
<td>NOPAT</td>
<td>42</td>
</tr>
<tr>
<td>Adjusted Capital employed</td>
<td>490</td>
</tr>
<tr>
<td>ROCE post tax</td>
<td>8.7%</td>
</tr>
<tr>
<td>WACC</td>
<td>7.5%</td>
</tr>
<tr>
<td>ROCE/WACC</td>
<td>1.15</td>
</tr>
</tbody>
</table>

**EV**

<p>| |</p>
<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: Adjusted debt (net cash)</td>
</tr>
<tr>
<td>Less: Minorities</td>
</tr>
<tr>
<td>Less: Provision for pensions</td>
</tr>
<tr>
<td>Less: Other liabilities and commitments</td>
</tr>
<tr>
<td>Plus: Financial assets</td>
</tr>
<tr>
<td>Plus: Equity-accounted affiliates</td>
</tr>
<tr>
<td>Equity value</td>
</tr>
<tr>
<td><strong>Equity value per share (EUR)</strong></td>
</tr>
</tbody>
</table>

*Source: Exane BNP Paribas estimates*
Risks

**Macro headwinds**: Exposure to global industrial output and construction (for CPF) as well as to the apparel industry (for PCC CFT) makes the business sensitive to economic downturns although this has been mitigated through geographical and end-market diversification.

**Competition**: Any intensification of the competitive landscape may result in a loss of market share or margins due to pricing pressure from competitors although this has been mitigated thanks to a higher share of value added products.

**Raw material headwinds**: Volatility of prices of polyester and polyamides can lead to margin headwinds at PCC CFT although the group has been able to manage this risk well in the past five years.

**M&A integration**: The company may face difficulties in integrating newly acquired companies and not be able to extract the expected synergies and cross-selling opportunities.
Leadership in niche markets

Chargeurs is an industrial conglomerate active in industrial niches where it holds number one positions.

Figure 11: Chargeurs is an integrated industrial conglomerate

<table>
<thead>
<tr>
<th>Activity</th>
<th>Protective Films</th>
<th>Fashion Technologies</th>
<th>Luxury Materials</th>
<th>Museum Solutions</th>
<th>Healthcare Solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of 2019 sales</td>
<td>44%</td>
<td>34%</td>
<td>16%</td>
<td>6%</td>
<td>0%</td>
</tr>
<tr>
<td>Industry rank</td>
<td>Global N°1</td>
<td>Global N°1</td>
<td>Global N°1</td>
<td>Global N°1</td>
<td>NA</td>
</tr>
<tr>
<td>Industry rank</td>
<td>Global N°1</td>
<td>Global N°1</td>
<td>Global N°1</td>
<td>Global N°1</td>
<td>NA</td>
</tr>
<tr>
<td>Market share</td>
<td>30%</td>
<td>20%</td>
<td>NA</td>
<td>15/20%</td>
<td>NA</td>
</tr>
<tr>
<td>Main end markets / clients</td>
<td>Construction,</td>
<td>Fashion, sportswear</td>
<td>Fashion, sportswear and luxury brands</td>
<td>Museums</td>
<td>Public administration and local governments, large and small corporates, B2C, hospitals</td>
</tr>
<tr>
<td></td>
<td>domestic</td>
<td>and luxury brands</td>
<td>and luxury brands</td>
<td>Museums</td>
<td>Public administration and local governments, large and small corporates, B2C, hospitals</td>
</tr>
<tr>
<td></td>
<td>appliance,</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>electronic,</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>furniture and</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>transportation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Drivers</td>
<td>New construction, world industrial output</td>
<td>Growth in the garment industry</td>
<td>Growth in the garment industry</td>
<td>New built, renovation of old museums, permanent exhibitions</td>
<td>Government stock management and renewals</td>
</tr>
<tr>
<td>Industrial footprint</td>
<td>4 production sites / 4 R&amp;D labs</td>
<td>7 production sites / 7 R&amp;D centres</td>
<td>4 R&amp;D and quality labs</td>
<td>2 production sites / 1 R&amp;D lab</td>
<td>1 production site</td>
</tr>
<tr>
<td>Geographical sales breakdown</td>
<td>&gt; 90% of sales abroad</td>
<td>&gt; 90% of sales abroad</td>
<td>100% of sales abroad</td>
<td>70% of sales abroad</td>
<td></td>
</tr>
<tr>
<td>Competitors</td>
<td>Polifilm, Nitto, Bishoff + Klein</td>
<td>Freudenberg, Kupfer, Wendler</td>
<td>NA</td>
<td>Fragmented</td>
<td>Chinese manufacturers</td>
</tr>
</tbody>
</table>

Source: Exane BNP Paribas estimates *Healthcare Solutions had its first revenues in 2020

The operational structure consists of four historical businesses recently complemented by a fifth activity created to respond to a surge in demand for face masks during the covid crisis.

Chargeurs Protective films (CPF)

Across four production plants (in France, Italy and the US), Chargeurs manufactures self-adhesive temporary protective films that protect fragile and high value surfaces (pre-coated metals, glass, woods, marbles, moulded plastics, etc.) against dust smudging and scratching during production processes, handling, transportation and fitting.

Figure 12: CPF is a specialist in self-adhesive temporary protective films

Manufacturing and supply chain of Chargeurs Protective Films

Source: Chargeurs

This market is estimated to be worth EUR1bn and the group holds the n°1 position with ~30% share. The main end markets are construction, transportation, electronics, appliances, furniture and other industries.
The market has grown 5% p.a. over the past 10 years driven by:

- Growth in industrial output and the construction sector, which are the two main cyclical drivers of the Protective film business;

- The constantly changing nature and increased complexity of protectable surfaces that feature a growing variety of physical and chemical characteristics;

- A broadening of the market to include new uses, new types of protectable surfaces and new features (low-noise unwinding, compatibility with laser cutting, recyclability, etc.);

**Competitive strength**

- **R&D**: the technologies involved vary greatly depending on the protectable surface and require research/innovation as the characteristics of surfaces are constantly evolving: the group receives 900 new client demands every year for the protection of new types of surfaces. Chargeurs is essentially a formula patent owner and its proprietary technology resides in the adhesive applied to the polyethylene, the production of which is mostly outsourced; 30% of the division’s products are less than 5 years old;

- **Client proximity**: product availability is key as customers need seamless access to protective films given their vital nature in the value chain. Chargeurs Protective Films has a relatively short backlog of 4 to 8 weeks; the group has reinforced its link to clients through three bolt-on acquisitions in 2017 (Somerra, Walco and Omma) creating a bundled offer including film, machine and services and enabling clients to apply protective films to their products directly on-site. Chargeurs Protective films boasts 3,000 clients and 95% retention rate;

- **Low price elasticity**: the cost of a protective film is very small relative to the final price of the product that needs protection (on average EUR0.7 to EUR1 per square metre); customers generally focus more on quality, availability and service rather than on price.

- **CSR driven innovation**: growing use of vegetal in films manufacturing, recyclability of the product range.

In the niche protective film market, Chargeurs essentially competes with diversified non-listed industrial groups for which protective films account for a fraction of their total sales. The largest are Germany-based Polifilm and Japanese conglomerate Nitto.
PCC Chargeurs Fashion Technologies (PCC CFT)

Chargeurs PCC Fashion Technologies is the global leader in the production of interlinings for clothing. Interlinings are the technical fabric used in garments that are essential to keep them flexible and help them retain their shape and structure. They are generally hot-fused between the outer fabric and lining in coats, jackets, dresses and shirts.

Figure 14: PCC CFT is a specialist in interlinings for garments
Manufacturing and supply chain of Chargeurs Fashion Technologies

Source: Chargeurs

This market is estimated to be worth EUR800m and the group holds the n°1 position with ~25% share. The main end clients are fashion, sportswear, fast-fashion and luxury brands.

Demand is driven by the growth of the fashion industry but the various sub-segments saw differing trends in the past three years:

- Men’s suit has been losing steam due to changing consumer behaviour (more casual wear at work) which is likely to accelerate as more people work from home;

- Sportswear, fashion and luxury brands have led demand reflecting the increasingly technical nature of garments, the development of new fabrics and the faster pace of collections roll-out.

Fashion brands typically reference one or several manufacturers so that their apparel makers (mainly Asian) source their interlinings from the referenced supplier. For US brands, the supplier is generally exclusive while European clients typically reference 3 suppliers that compete for sourcing the apparel-maker.

PCC CFT’s interlinings are used by 5,000 to 6,000 fashion/luxury brands and manufacturers and the group is fairly well diversified across channels and gender.

Competitive strength

R&D: the activity requires constant research and development in textile and coatings as fabrics become thinner and more technical. The group has developed a proprietary 40-gauge machine that enables the knitting of the thinnest interlinings on the market. In addition, several innovations have been introduced in the past three years such as anti-moire effect, moisture management, seamless elasticity and environmentally friendly product (made from recycled polyester yarn), through its “Sustainable 360” product range.

Customer service: the ability to guarantee the same level of quality across all geographies is key to being referenced by clients. Client proximity is also important: the group’s product line-up is featured to designers and couturiers in four flagship showrooms in New York, Milan, Hong-Kong and Paris.

Chargeurs competes with smaller non-listed players that are mainly Germany-based. Kufner and Wendler have respectively high exposure to men’s suit and fast fashion while Freudenberg is more diversified.
Chargeurs Museum Solutions (CMS)

This division operates two business units:

– Senfa Technologies (20% of pro forma segment sales) uses Chargeurs’ coating technology to functionalize textiles for specific applications to be used in advertising, decoration, interior design, home furnishings and building markets. Coating adds specific properties to a textile base, enabling it, for example, to shade or diffuse light, filter electromagnetic waves, dampen noise or fireproof panels. These functionalities are generally used to create large advertising displays.

– Chargeurs Creative collection (80% of pro forma segment sales) offers services to Museums covering the entire value chain from project planning to turnkey delivery of museum scenography. This sub-segment is essentially a build-up of acquisitions aimed at positioning the group in the fast-growing services to museums market.

Figure 15: CMS covers the entire value chain of services to Museums

Value chain of a museum exhibition

![Value chain diagram]

Source: Exane BNP Paribas estimates

Competitive strength

In what are essentially local markets, Chargeurs Museum Solutions has built through M&A the most comprehensive offer of museum exhibit services with pro forma revenues of EUR100m (closest competitor is said to generate USD25m of sales). Its sales network is now global and should enable the business to deploy these solutions around the world, which could yield significant commercial synergies.

Figure 16: Examples of CMS exhibition projects

![Exhibition projects]

Source: Chargeurs

We discuss the business and the outlook for this division in more detail in the next section of this report.
Chargeurs Luxury Materials (CLM)

Chargeurs Luxury Materials is specialized in the trading of the finest greasy wool. The group purchases the wool from carefully vetted farmers and then get it transformed in combing mills (where it holds an equity stake) after the “topmaking” process – a key phase in the wool garment production process, consisting of creating long, fine blended-wool fibres, known as tops. The semi-finished wool fibres are then sold to spinning mills. Chargeurs is not exposed to raw material volatility prices as contracts are hedged with forward sale agreements.

Figure 17: Chargeurs’ position in the wool value chain

Source: Chargeurs

Premium wool specialist

The wool market can be broken down into:

- Premium wool, where procurement cycles are long and stable, with 2 to 3 year contracts guaranteeing customer loyalty as long as quality remains the same.
- Commodity wool, which is purchased from traders but with little visibility on sourcing and production chain.

In recent years, demand has been rising for high quality wool fibres as fashion/luxury brands have focused on products and processes that respect the entire chain of stakeholders.

Chargeurs Luxury Wool is essentially focused on high-end wool. Thanks to its network of farms/mills partners, the group has developed expertise in sourcing high quality and traceable wool fibres. The group has also created an eco-responsible label for certified, traceable premium grade fibres. Called Nativa, this label complies with the strictest sustainability standards including animal well-being, energy efficiency in combing mills, water treatment used to wash the wool, etc. Accounting for 10% of sales, demand for Nativa is currently mainly driven by luxury brands (such as Stella McCartney) but this sustainability criterion is becoming an important factor for an increasing number of buyers.
Premiumization and build-up

Since joining in 2015, the current management of Chargeurs have completely reshaped the group’s strategy with the aim of boosting top line growth and profitability. This has been done through a successful mix of organic investments and targeted acquisitions. In what were essentially cyclical activities, the group has premiumized the product range and increased the share of services.

We outline below this strategy implemented for the two largest business lines.

Improved growth and margin profile at CPF

Protective films are the biggest revenue and profit contributor of Chargeurs with respectively 44% of group 2019 sales and 57% of group EBIT.

Although not immune to the economic cycle, the division has a fairly defensive end market exposure with c.55% of sales exposed to the construction sector and 20% driven by furniture.

Figure 18: CPF has a good track record of profitable growth

Revenues (EURm) and organic growth (%)  Divisional EBIT (EURm)

Over the past five years the group has been able to improve the division’s growth profile thanks to:

- **Innovation**: with the partnership of research labs and universities, the group has developed several breakthrough innovations including 1) a low noise protective film (called Concerto) which reduces the noise made by highly adhesive protective films when removed from 110 Db to below 85 Db. This allows clients to save costs on the use of personal protective equipment (required by law above 85Db); 2) the development of protective films dedicated to functional glass materials such as low emission, shower guard or auto cleansing glass; 3) the launch of deep blue, a range of phthalate free, PVC free environmentally friendly films;

- **M&A**: there have been two key milestones for the division: 1) the acquisition of Main Tape in 2016, which at the time of the deal generated USD27m of revenues in North America only. Thanks to good product complementarity, this transaction helped step up the development of Main Tape in Europe through Chargeurs Protective Films’ sales

Source: Exane BNP Paribas estimates
network; 2) the acquisitions of three small players (Somerra in France, Walco in the US and Omna in Italy) specialized in film application machines, which created a new business line offering customers the ability to apply protective films directly on-site.

In 2019, the business saw top line weakness and a decline in EBIT reflecting 1) the impact of trade tensions and the contraction in the global industrial output, 2) higher costs related to the launch of a new production unit (see below).

**New production unit to accelerate market share gains**

As part of its strategic roadmap, Chargeurs put on stream a new production line in late 2019 called Techno Smart, dedicated to the production of highly technical protective films. This factory is said to boast the highest productivity in the industry thanks to 1) a focus on rubber adhesives (more profitable than water based adhesives), 2) enhanced automation that helps speed-up quality control and reduces scrap. At full capacity this plant is expected to generate EUR35m of revenues, i.e., a 12% boost to the division’s organic growth.

**Successful turnaround at CFT PCC**

After several years of top line erosion due to a weak underlying apparel market and higher contract selectivity, the division has returned to growth since 2018 by undertaking the same strategy adopted by the Protective Films segment:

- **Innovation:** 1) the group invested to renew its installed base of machines and introduced the first 40 gauge machine, enabling it to develop new, extremely thin interlinings (40 needles per inch) suitable for very light satin and voile fabrics; 2) the launch of an anti-moire effect interlining which prevents the undesirable moire effect resulting from the variations of light on extremely thin fabrics; 3) the development of an eco-responsible interlining range called Sustainable 360; 4) the launch of a new range incorporating anti-microbial/anti-smell features;

- **M&A:** the acquisition of PCC Interlinings in 2018 was transformative, lifting the group’s market position from top 2 to leader and bringing commercial and cost synergies. On the revenue side, the transaction boasted good geographical fit, opening new markets (increased exposure to lingerie, sportswear brands and to Asia). On the cost side, the deal lowered the breakeven point at manufacturing sites as PCC is essentially fabless.

![Figure 19: CFT PCC returned to profitable growth in 2018](image-url)

Source: Exane BNP Paribas estimates
Entrepreneurial drive

Since 2015, the investment fund Colombus Holding has been the new reference shareholder of Chargeurs, owning 27.1% of capital. Created with the specific purpose of owning Chargeurs shares, the holding is largely controlled and managed by Mr Fribourg, who also acts as Chairman and CEO of Chargeurs.

While the biggest change introduced by the new governance has been to implement a build-up strategy through M&A around its legacy businesses, management have also invested organically to increase pricing power and boost market share gains (through R&D and capex) with a clear entrepreneurial spirit. This has been reflected in 1) acceleration in new product launches as well as an increased share of services; 2) the group’s ability to quickly pivot its business model to benefit from the covid-19 crisis; 3) the creation of a leader with high growth potential in Museum Services.

The result of this strategy has been a doubling of operating profit in 2019 compared to the 2014 level.

Strong contribution from new division CHS

In the wake of the covid-19 crisis and in a context of global face mask shortages, the group pivoted its production capacities and supply chain during Q2 20 to manufacture, source and sell reusable and disposable masks.

Thanks to strong demand from corporates, SMEs and local authorities, this newly created business is expected to have generated EUR303m of revenues and is expected to achieve ~20% EBIT margin with virtually no incremental opex/capex as it tapped on existing assets at Fashion Technologies and Senfa (CMS).

Figure 20: CHS posted EUR303m of sales in 2020 vs. zero in 2019
Quarterly sales of Chargeurs Healthcare Solutions (EURm)

Source: Exane BNP Paribas estimates

The activity has had two operating models depending on the offer:

– For reusable masks, the group has used its interlinings factories to manufacture textile that is assembled into face masks by clothing makers in Europe;
– For surgical and FFP2/N95 disposable masks, the company has sourced production to factories in China.

Management expects CHS to remain a sustainable activity beyond the covid crisis with the ambition to generate sales of EUR50m-100m per annum as 1) the public and private sectors in Europe are expected to rebuild/maintain their inventories with a higher reliance on domestic producers; 2) a US bill project called the “PPE Act” should introduce guaranteed contracts for local manufacturers.

In this context, Chargeurs invested EUR8m in its production lines in France, the UK, Switzerland and the US notably on:

– 16 dedicated production lines which correspond to an output of 20m disposable face masks per month;

– New production lines for “Melt Blown”, a key air filtration component of surgical and FFP2 masks which will enable the group to internalize the full manufacturing of disposable face masks;

– The broadening of the range in personal protective equipment (gloves, blouses, hygiene caps) and disinfection products.

The group aims to position this business as a reference supplier for high quality masks guaranteeing several product features such as high level of filtration, high breathability, comfort and ability to reduce moisture. CHS has also developed new service models where it can run dynamic inventories management for key accounts and ensure the recycling of used PPE.

The activity has already booked significant orders for Q1 21, leading the group to forecast FY 21 revenues of EUR50m-100m.

Creation of a global leader in museum services

As mentioned earlier, Chargeurs Museum Services is a relatively new division in its current form and is essentially the result of acquisitions made over the past 18 months.

<table>
<thead>
<tr>
<th>Target</th>
<th>Date</th>
<th>Country</th>
<th>Business</th>
<th>Revenues (EURm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leach</td>
<td>2018</td>
<td>UK</td>
<td>Design, manufacturing and installation of graphic display structures</td>
<td>11</td>
</tr>
<tr>
<td>Design PM</td>
<td>2019</td>
<td>UK</td>
<td>Exhibits design and project management</td>
<td>25</td>
</tr>
<tr>
<td>MET Studio</td>
<td>2019</td>
<td>UK</td>
<td>Museum visual communication and visitor experience</td>
<td></td>
</tr>
<tr>
<td>Hypnos</td>
<td>2020</td>
<td>Netherlands</td>
<td>Exhibits design contractor</td>
<td></td>
</tr>
<tr>
<td>D&amp;P</td>
<td>2020</td>
<td>US</td>
<td>Turn-key exhibition project management serving US museums</td>
<td>40</td>
</tr>
</tbody>
</table>

Source: Exane BNP Paribas estimates

On a pro forma basis, Chargeurs Museum Services commands c.EUR100m of revenues and offers combined solutions catered to museums but also to retail outlets.

Fast-growing museum services market

The market for services to museum is estimated at EUR500m per year and has grown at a double digit pace in the past decade. This has been driven by the steady opening of new museums around the world (one every week):
– In the past 20 years, new categories of museums have emerged outside of the traditional art galleries (Science & Technology museums, Nature & Environment, History, etc.), driving a continual increase in the number of visitors.

– Under-penetrated countries have stepped up their museum openings as a way to improve their attractiveness and soft power. In Europe alone, tenders for museum services have reached EUR4bn over the past ten years.

The potential for growth is strong as, over the next 10 years, 200 museum projects are pending, including 110 in Europe for a total budget of EUR11bn.

---

**Figure 22: CMS is in a good position to capture growth opportunities in the Museum services market**

**Expected annual market opportunities for Museum service (EURm)**

<table>
<thead>
<tr>
<th>CMS geographical footprint</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
</tr>
<tr>
<td>100</td>
</tr>
</tbody>
</table>

Source: Chargeurs

The covid-19 crisis has not affected CMS’s backlog as the vast majority of its work involves supporting new build/renovation that has merely been delayed (rather than cancelled). Management recently indicated that the order book of the division has actually increased from 1 year of sales at the beginning of 2020 to 1.5 years at the end of last year.
Committed reference shareholder

The ownership structure of the reference shareholder Colombus Holding is not disclosed but Mr Fribourg has been reported by various press articles (in Les Echos and Capital) to have acquired the vast majority of capital in 2019 from historical institutional investors. It is also worth noting that Colombus Holding is debt-free.

Figure 23: Colombus Holding has been Chargeurs’ reference shareholder since 2015

Shareholding structure

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colombus Holding</td>
<td>27.1%</td>
</tr>
<tr>
<td>Sycamore</td>
<td>10.0%</td>
</tr>
<tr>
<td>Treasuries</td>
<td>5.0%</td>
</tr>
<tr>
<td>Free float</td>
<td>57.9%</td>
</tr>
<tr>
<td>Sycomore</td>
<td>10.0%</td>
</tr>
</tbody>
</table>

Source: Exane BNP Paribas estimates

New strategic plan to be unveiled during FY 20 results

Management will introduce a new strategic plan at its FY results presentation on 18 February under the name Leap Forward. The targets of this plan were already partly unveiled when the group published its FY sales on 27 January. They will include a revenue target of EUR1bn to EUR1.5bn by 2025 including M&A;

After a pick-up in the capex cycle over 2018-2019, future investments should be lower and mainly focused on technology, people and environment.

Management also highlighted that Chargeurs is expected to be a beneficiary of European stimulus plans supporting construction (CPF), culture (CMS), consumption (CFT PCC) and healthcare (CHS).
Forecasts

Business trends in the context of covid-19

As mentioned earlier, the covid-19 crisis has boosted demand at CHS which more than offset the decline in traditional activities, leading to a strong 41% organic growth in 9m 20.

**Figure 24: Growth rebounding strongly on covid-related demand**

Quarterly organic growth

Excluding CHS, FY 20 sales declined 17.2% LFL reflecting:

- 1.8% decline at Chargeurs Protective Films, a particularly resilient performance thanks to 1) its exposure to end markets that remained essentially opened during the crisis (Construction, appliances and electronics); 2) the ramp up of its new production unit in Italy; 3) increased demand for protective films from healthcare end markets as the division supplies high quality protective films used to protect healthcare equipment during transport as well as plexiglass needed to ensure social distancing. This has been reflected in a rebound of organic growth in Q4 20 at +8.2%.

- 35% drop at Chargeurs Fashion Technologies reflecting the effect of lockdown measures on the fashion and apparel industry. The top line nevertheless sequentially recovered in Q3 vs. Q2 driven by an uptick in demand in mainland China and Hong Kong. The visibility for the division remains limited in the short term with further decline expected in 2021.
45% decline at Chargeurs Luxury Materials, reflecting a sudden halt in client orders since the first lockdowns as well as a negative price effect owing to a 35% decline in wool prices. Visibility for this activity is limited until the back half of 2021.

48% LFL decrease at Chargeurs Museum Solutions due to lower demand for specialized textiles as a result of the closure of retail outlets and the cancellation/delay of conventions/trade shows. On the other hand, Services to Museums (acquired in early 2020 and not fully accounted for in the organic perimeter) have continued to gain tenders for the construction of new Museums and benefit from a strong order book visibility.
Despite a strong revenue hit, historical activities have managed to remain profitable throughout the crisis and should post a positive (albeit depressed) EBIT in 2020 thanks to 1) positive pricing and good capacity utilisation of the new Italian subsidiary at CPF; 2) the pivoting of CFT PCC factories to producing face masks allowing for fairly good fixed costs absorption. None of Chargeurs’ businesses benefited from governmental support during the crisis.

Figure 27: 2020 EBIT expected to strongly rebound thanks to CHS contribution

On the other hand, the rapid ramp-up of the launch of Healthcare Solutions should translate into a record high EBIT margin (21% in H1, significantly above group average) although this should not be extrapolated as a normative level as the activity benefited from a massive scale effect in 2020 (> 200m masks delivered since launch) and probably positive pricing.

Medium-term outlook

Our revenue forecasts for the coming three years (2020-2023) are based on the following assumptions:

- 3.5% CAGR in Protective Films: as discussed earlier, this area of the business has resilient characteristics owing to its sector exposure (skewed to construction) and the essential nature of its products for clients; In addition, the new production line in Italy is expected to enhance organic growth;

- 6.6% CAGR at Fashion Technologies where we assume that the business recovers in H2 2021 driven by a rebound in the apparel industry from depressed levels;

- 4.6% CAGR at Luxury Materials also recovering from depressed levels thanks to the return of demand from sportswear and fashion brands;

- 20% CAGR at Chargeurs Museum Solutions: during the covid crisis, there was no order cancellation but rather delays while the company continued to gain tenders, improving the visibility on the order book;

- -37% CAGR at Chargeurs Healthcare Solutions: after an exceptional contribution in 2020, this activity is expected to return to more normalised levels, estimated by management at c. EUR50m-100m as discussed earlier;
Mix improvement and productivity gains

In the past five years, Chargeurs has shown limited sensitivity to prices of raw material, which essentially consist of polyethylene, polyester & poly-amides and wool.

- At Protective Films, polyethylene is an important component of the final price and is fully passed on to clients through indexation clauses;

- At Fashion Technologies, polyester and polyamides are the main raw materials. They are purchased through regular tenders and the group has been able to improve its pricing power thanks to the introduction of higher value added products (the thinnest interlinings in the market, new eco-responsible range, new anti-microbial, anti-smell features);

- At Luxury Materials, Chargeurs is not exposed to volatility in wool prices as contracts are hedged with forward sale agreements. Revenues generally reflect the volatility in wool prices but its impact is neutral on profits;

Overall the group delivered an EBIT CAGR of 12.5% p.a. over 2014-2019 including a decline in 2019 attributable to lower volumes in plastic films (due to lower global industrial output) and higher fixed costs related to the ramp-up of the new Italian production unit. Over the period, as part of a group-wide productivity programme, the group delivered c.EUR22.3m of cumulated cost savings (i.e., 4.5% of the operating cost base) notably on raw material purchases and production costs (higher automation in production lines).
Our EBIT forecasts for the next three years are based on the following assumptions:

– Margin recovery at Protective Films from a trough of 6% in 2020 to 9% in 2021 driven by 1) volume recovery from depressed levels; 2) productivity gains and mix improvement thanks to the ramp-up of the new Italian production unit dedicated to higher end products and expected to generate EUR35m of revenues at full capacity; management is targeting a medium term EBIT margin of 15% for Protective Films.

– A gradual return to pre-crisis levels at Fashion Technologies driven by 1) volume rebound from H2 2021; 2) continued productivity gains;

– The ramp-up of the Museum Solutions division; the benefits of the acquisition of D&P in January 2020 (leading to pro forma sales of EUR100m and EBIT of EUR10m) have been offset by the effect of the covid crisis. As discussed earlier, the order book of the division has actually expanded during the crisis and profits are expected to catch up once the covid crisis ends.

Figure 31: We expect 20% EBIT CAGR in 2021E-2023E

<table>
<thead>
<tr>
<th>Exane BNPP EBIT forecasts by division</th>
</tr>
</thead>
<tbody>
<tr>
<td>------</td>
</tr>
<tr>
<td>Protective Films</td>
</tr>
<tr>
<td>as % of sales</td>
</tr>
<tr>
<td>% ch</td>
</tr>
<tr>
<td>Fashion Technologies</td>
</tr>
<tr>
<td>as % of sales</td>
</tr>
<tr>
<td>% ch</td>
</tr>
<tr>
<td>Luxury Materials</td>
</tr>
<tr>
<td>as % of sales</td>
</tr>
<tr>
<td>% ch</td>
</tr>
<tr>
<td>Museum Solutions</td>
</tr>
<tr>
<td>as % of sales</td>
</tr>
<tr>
<td>% ch</td>
</tr>
<tr>
<td>as % of sales</td>
</tr>
<tr>
<td>% ch</td>
</tr>
<tr>
<td>Group EBIT</td>
</tr>
<tr>
<td>as % of sales</td>
</tr>
<tr>
<td>% ch</td>
</tr>
</tbody>
</table>

Source: Exane BNP Paribas estimates
Balance sheet and M&A strategy

In the past five years, deals accounted for c. 50% of total growth. The rationale for acquisitions has been to rebalance the product/service mix through gaining new expertise (e.g., in museum services or protective films) or new geographies (e.g., North America at Protective Films and Fashion Technologies).

**Figure 32: Chargeurs has added c.EUR180m of revenues through M&A in the past five years**

<table>
<thead>
<tr>
<th>Target</th>
<th>Date</th>
<th>Country</th>
<th>Division</th>
<th>Business</th>
<th>Revenues (EURm)</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main Tape</td>
<td>2016</td>
<td>US</td>
<td>Protective Films</td>
<td>Manufactures Protective Films</td>
<td>22</td>
<td>New geographies</td>
</tr>
<tr>
<td>Omma</td>
<td>2017</td>
<td>Italy</td>
<td>Protective Films</td>
<td>Manufactures film application machines</td>
<td>8 (combined)</td>
<td>New expertise</td>
</tr>
<tr>
<td>Walco</td>
<td>2017</td>
<td>US</td>
<td>Protective Films</td>
<td>Manufactures film application machines</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Somerra</td>
<td>2017</td>
<td>France</td>
<td>Protective Films</td>
<td>Manufactures film application machines</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leach</td>
<td>2018</td>
<td>UK</td>
<td>Museum Solutions</td>
<td>Design, manufacturing and installation of graphic display structures</td>
<td>11</td>
<td>New expertise</td>
</tr>
<tr>
<td>PCC Interlinings</td>
<td>2018</td>
<td>US</td>
<td>Fashion Technologies</td>
<td>Manufactures interlinings</td>
<td>70</td>
<td>New geographies, higher share of services</td>
</tr>
<tr>
<td>Design PM</td>
<td>2019</td>
<td>UK</td>
<td>Museum Solutions</td>
<td>Exhibits design and project management</td>
<td>8 (combined)</td>
<td>New expertise, higher share of services</td>
</tr>
<tr>
<td>MET Studio</td>
<td>2019</td>
<td>UK</td>
<td>Museum Solutions</td>
<td>Museum visual communication and visitor experience</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hypnos</td>
<td>2020</td>
<td>Netherlands</td>
<td>Museum Solutions</td>
<td>Exhibits design contractor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>D&amp;P</td>
<td>2020</td>
<td>US</td>
<td>Museum Solutions</td>
<td>Turn-key exhibition project management serving US museums</td>
<td>40</td>
<td>New expertise/ new geographies</td>
</tr>
</tbody>
</table>

Source: Exane BNP Paribas estimates

**Figure 33: Chargeurs has successfully rebalanced its business and production mix**

**EBIT contribution by division – 2015**

- Luxury Materials: 11%
- Protective Films: 65%
- Fashion Technologies: 16%
- Museum Services: 8%
- Services: 30%
- Products: 70%

**Pro forma EBIT contribution by division – 2019**

- Luxury Materials: 5%
- Protective Films: 44%
- Fashion Technologies: 32%
- Museum Services: 19%
- Services: 45%
- Products: 55%

Source: Exane BNP Paribas estimates
We expect Chargeurs’ net debt-to-EBITDA (pre-IFRS 16) to have declined to 1.7x at the end of 2020e from 2.3x at end 2019 thanks to the strong contribution of Chargeurs Healthcare Solutions. The financial policy of Chargeurs is to keep a modest leverage (2x to 2.5x) and secure long term financing. At the end of 2020 it completed an 8-year sustainability-linked €100m Euro Private Placement with no leverage covenant. This leaves ample room to continue a targeted bolt-on M&A strategy.

**Uptick in cash generation**

Over 2018 and 2019, Chargeurs doubled the pace of investments from c. 2.0% of sales to c. 4.0% of sales driven by 1) the need to renew the installed base of machines after several years of under-investments at Chargeurs Fashion Technologies in order to introduce higher end products; 2) a new production line at Chargeurs Protective Films to address the higher end of the market. This has led to negative free cash flow over the same period.

Capex is expected to have returned to a more normative level in 2020 and Free cash flow to have turned positive, boosted also by the strong contribution from Chargeurs Healthcare Solutions.

**Figure 34: We expect a return to positive free cash flow in 2020**

<table>
<thead>
<tr>
<th>Capex in EURm as % of sales</th>
<th>Free cash flow EURm</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.8% 2.2% 2.6% 4.2% 4.0% 2.2% 1.5% 2.2%</td>
<td>4.5% 4.0% 3.5% 3.0% 2.5% 2.0% 1.5% 1.0% 0.5%</td>
</tr>
</tbody>
</table>

Source: Exane BNP Paribas estimates
Investment case, valuation and risks

Chargeurs

Investment case
Chargeurs’ convincing premiumization and build-up strategy is expected to continue delivering double digit earnings growth in the next three years.

Valuation methodology
A DCF valuation (WACC @ 7.5% and LT growth at 1%) points to EUR24/share while a ROCE/WACC 2022e approach points to EUR17/share.

Risks
To the upside:
Faster recovery in the apparel industry or in the museum services market.

To the downside:
Further weakness in the apparel industry, lower than expected activity at CHS.
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**Chargeurs**

Historical closing price & target price *(as of 03/02/2021)*

*Source: Exane BNP Paribas*

Historical rating & target price changes

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Company description

Charguers is an industrial conglomerate centered around four historical divisions: Protective Plastic Films, apparel interlinings, wool trading and services to museums. More recently, the group has created a fifth division (Charguers Healthcare Solutions) to address the demand for face masks during the covid crisis. The company generates 90% of its sales internationally.

Management

Michael Fribourg, Chairman & CEO
Olivier Buquen, CFO
Sebastien Leroy, Investor Relations

Ownership structure

Colombus Holding 27.1%
Sycomore 10.0%
Treasury shares 5.0%
Other Shareholders 57.9%

2019 sales breakdown

- 44% Charguers Protective Films
- 34% Charguers Fashion Technologies
- 16% Charguers Luxury Materials
- 6% Charguers Museum Solutions

Peer group YTD performance

<table>
<thead>
<tr>
<th>Stock</th>
<th>Price (03 Feb. 21)</th>
<th>YTD performance in EUR (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quodient (+)</td>
<td>EUR 18.6</td>
<td>18.3</td>
</tr>
<tr>
<td>BIESSE (+)</td>
<td>EUR 21.6</td>
<td>14.9</td>
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<td>IM (+) p</td>
<td>1,291</td>
<td>13.0</td>
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<td>Spectris (+)</td>
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<td>Mensen (+)</td>
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<td>LU-VE (SR)</td>
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<td>Intermup (+)</td>
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<td>Vesuvius (+)</td>
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Sector calendar

- 04 Feb. 21: ABB: Annual Results 2020 (07:00 CET)
  - Cummins Inc.: Q4 Earnings 2020 (12:00 CET)
  - Snap-On Inc: Q4 Earnings 2020 (12:00 CET)
  - Xylem Inc.: Q4 Earnings 2020 (12:55 CET)
  - Fortive Corp: Q4 Earnings 2020 (22:00 CET)
- 05 Feb. 21: Assa Abloy: Annual Results 2020 (08:00 CET)
  - Illinois Tool W: Q4 Earnings 2020 (14:00 CET)
- 09 Feb. 21: Carrier Global: Q4 Earnings 2020 (12:00 CET)
  - Haulotte Group: Annual Results 2020 (17:40 CET)
- 10 Feb. 21: Legrand: Annual Results 2020 (07:30 CET)
  - Rexel: Annual Results 2020 (07:30 CET)
  - Schneider: Annual Results 2020 (07:30 CET)
  - Generac Holding: Q4 Earnings 2020 (12:00 CET)
  - Cognex Corp: Q4 Earnings 2020 (22:00 CET)
- 12 Feb. 21: Interpump: Preliminary Results 2020
- 16 Feb. 21: Allegion PLC: Q4 Results 2020 (11:30 CET)

Analyst

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Net attributable profit restated (c) 8 (9) 61 22 82 63 03 22 24 92 43 43 94 4

Net attributable profit reported 10 (12) 81 11 52 22 52 71 54 41 92 93 43 8

Other items 31 6(2)(8)(5)(9)(5)(7)(3)(5)(5)(5)


Affiliates 1 (1) 0 (0) (11) (2) (1) 0 (0) (2) (1) (1) (1) (1)

Minorities 0 10 0 (0)000000000

(a) Intangibles: EUR173.10m, or EUR7 per share.       (b) adjusted for capital gains/losses, exceptional restructuring charges, capitalized R&D; EBITA also adjusted for impairments and am. of intangibles from M&A (c) after EBITA adjustments

ROCE, excl. gdw./intangibles 7.7% 11.2% 16.8% 29.6% 35.1% 28.2% 16.8% 23.8% 12.7% 16.3% 17.8% 19.5%

Net margin 1.4% (1.9%) 1.2% 2.5% 5.7% 5.1% 5.7% 5.6% 3.6% 5.9% 4.0% 5.2% 5.6% 6.2%

EBITDA / Financial charges (**) 4.5x 3.1x 5.9x 8.6x 11.5x 11.3x 7.3x 6.8x 6.1x 9.0x 6.1x 7.5x 8.0x 8.5x

Gearing 82% 57% 37% 25% 12% 21% 17% 61% 90% 90% 88% 76% 63% 51%

Capital employed (excl. gdw./intangibles) / Sales 33.9% 24.4% 18.8% 20.6% 19.4% 21.2% 20.5% 25.4% 29.7% 30.7% 42.9% 39.5% 38.4% 38.1%

WCR / Sales 23.6% 15.3% 10.8% 10.1% 8.1% 9.0% 8.6% 11.4% 11.7% 9.4% 13.5% 12.7% 12.8% 13.0%

Organic sales growth 7.9% (6.8%) (4.3%) 4.6% 1.7% 5.1% 3.2% 2.6% (1.2%) 27.5% (25.3%) 11.2% 4.2% 2.3%

EPS restated NC (3%)

CFPS NC (4%)

CAGR 2008/2020 2020/2024

Market capitalisation 464

For the exclusive use of Mourad LAHMIDI at EXANE S.A. (04-Feb-2021)