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Price
EUR0.87

Target
EUR0.70

Previous
Reduce

Reduce

A diamond in the rough

Damiani is struggling amid the challenging consumer scenario. Its geographically concentrated sales, wholesale distribution and low pricing power are penalising sales and margins, which are also burdened by fixed costs. Reduce, EUR0.70 TP.

Italy | Personal goods

Damiani

EARNINGS RELEASE

29 November 2011

Reuters DMN.MI
Bloomberg DMN IM
Index DJ Stoxx 600

In brief

- > Weak sales penalised by size, region and distribution
- > Struggling margins burdened by fixed costs, low pricing power
- > Reduce, TP EUR0.70

Year end	Sales (EURm)	EBIT (EURm)	Net profit (EURm)	EPS (EUR)	P/E	P/BV	P/CF	EV/sales	EV/EBITDA	EV/EBIT	Div. yield (%)
31 Dec 2009	145.8	-19.1	-18.2	-0.22	ns	0.7	63.2	0.9	na	na	0.0
2010	143.3	-10.9	-14.5	-0.18	ns	0.7	6.1	0.8	na	na	0.0
2011E	148.7	-4.9	-6.9	-0.08	ns	0.8	na	0.7	na	na	0.0
2012E	167.4	4.3	1.5	0.02	46.6	0.7	na	0.7	12.9	25.9	0.0
2013E	172.6	13.2	7.4	0.09	9.7	0.7	38.0	0.6	6.1	8.4	0.0

Source: Kepler Capital Markets

Stock data

Market cap (EURm)	72
Free float	27%
Shares outstanding (m)	83
Daily trade volume ('000)	18
YTD abs. performance	7%
52-week high (EUR)	1.3
52-week low (EUR)	0.8
Enterprise value (EURm)	111
Net debt (EURm)	29

In detail

Weak sales

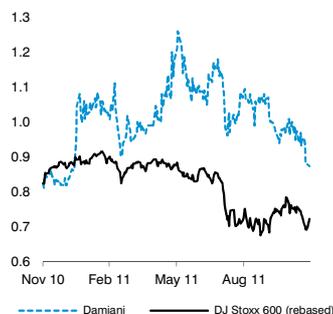
Our Reduce rating on Damiani is due to its ongoing weak sales and mostly to its dropping margins. In fact, sales performance could remain quite poor (+0.5% CAGR FY 2005-13E). While we understand that the current macro scenario is quite challenging, we believe Damiani could be also penalised by its smaller size and lower brand awareness compared to the main players in the branded jewellery sector, its still 73% of (FY 2010) exposure to Italy and 72% to the wholesale channel in terms of sales.

Struggling margins

Moreover, after the acquisition of the Rocca retail network in September 2008, margins dropped and EBITDA turned negative in FY 2009. We expected the company to recover this year, also guided by management forecasts, but the challenging macros and rising raw material prices are set to delay the EBITDA turnaround until next year. While Damiani is implementing cost-cutting measures to improve its profitability, it has proven to have insufficient pricing power to pass on raw material price hikes to end clients.

Reduce, EUR0.70 TP

We use a DCF valuation for Damiani, which yields a target price of EUR0.70. We do not expect a major pick-up in sales or margins in the coming quarters, as macro conditions are set to remain quite unfavourable.



Key financials

Damiani

Rating	Reduce	Market cap	EUR72m	Bloomberg	DMN IM	Paola Pecciarini				
Target price	EUR0.70	EV	EUR111m	Reuters	DMN.MI	paola.pecciarini@keplercm.com				
Price	EUR0.87	Float	27%			+39 02 8550 7228				
31 December										
Income statement (EURm)		2005	2006	2007	2008	2009	2010	2011E	2012E	2013E
Sales		166.2	168.0	164.9	149.3	145.8	143.3	148.7	157.4	172.6
Change (%)		-1.0%	1.1%	-1.9%	-9.5%	-2.3%	-1.7%	3.8%	5.8%	9.7%
EBITDA adjusted		22.5	27.9	28.0	1.1	-13.2	-6.1	-1.0	8.8	18.1
Change (%)		-11.9%	23.9%	0.5%	-96.1%	-chg	+chg	+chg	+chg	106.6%
EBITDA margin (%)		13.5%	16.6%	17.0%	0.7%	-9.1%	-4.3%	-0.7%	5.6%	10.5%
EBIT adjusted		19.8	24.9	25.5	-3.1	-19.1	-10.9	-4.9	4.3	13.2
Change (%)		-15.5%	25.6%	2.5%	-chg	-chg	+chg	+chg	+chg	204.8%
EBIT margin (%)		11.9%	14.8%	15.5%	-2.1%	-13.1%	-7.6%	-3.3%	2.8%	7.7%
Net financial		-3.3	-2.9	-1.2	-0.4	-2.7	-2.5	-2.0	-2.0	-2.0
Extraordinary result		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Associates		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pretax profit		16.5	22.0	24.3	-3.5	-21.8	-13.5	-6.9	2.3	11.2
Reported net earnings		10.5	14.1	14.4	-4.7	-18.2	-14.5	-6.9	1.5	7.4
Adjusted net earnings (group)		10.5	14.1	14.4	-4.7	-18.2	-14.5	-6.9	1.5	7.4
Change (%)		-55.4%	34.6%	2.3%	-chg	-chg	+chg	+chg	+chg	379.2%
Cash flow statement (EURm)		2005	2006	2007	2008	2009	2010	2011E	2012E	2013E
Net earnings		10.4	14.3	14.6	-4.9	-18.2	-14.5	-6.9	1.5	7.4
D&A		2.7	3.0	2.5	4.2	5.9	4.8	3.9	4.4	39.6
Change in TWC		0.0	-0.3	-0.6	-9.6	13.6	18.5	10.8	-5.2	-15.9
Others		0.0	4.0	0.0	-5.8	0.0	0.0	0.0	0.0	0.0
Operating cash flow		13.2	20.8	16.3	-15.9	1.3	8.8	7.8	0.8	74.9
Operating CF margin (%)		7.9%	12.4%	9.9%	-10.6%	0.9%	6.1%	5.3%	0.5%	43.4%
Capex		-1.0	-1.9	-7.1	-5.8	-2.0	-1.1	-2.0	-3.0	-37.0
Free cash flow		12.2	33.3	11.2	-17.3	1.4	12.1	0.3	-2.8	1.9
Change in liquid funds		9.9	4.2	37.2	-41.8	-2.2	0.0	4.0	-2.8	1.9
Balance sheet (EURm)		2005	2006	2007	2008	2009	2010	2011E	2012E	2013E
Intangible assets		7.3	7.3	11.7	20.2	12.5	10.6	8.6	5.9	5.3
Property, plant & equipment		19.1	15.2	14.6	26.6	20.4	17.6	27.6	30.3	32.9
Financial assets		11.2	5.2	2.9	4.0	13.8	12.9	12.9	12.9	12.9
Cash and cash equivalents		9.9	14.1	51.3	9.5	7.3	7.3	11.3	8.5	10.4
Current and other assets		176.8	175.3	185.8	195.7	170.2	151.4	142.6	151.1	162.4
Total shareholders' equity		58.8	76.4	156.4	129.8	110.5	95.1	98.1	101.1	110.3
Pension provisions		4.0	4.5	4.2	7.4	9.5	13.9	8.4	7.8	7.9
Financial liabilities		83.4	62.0	22.8	47.9	46.3	36.1	39.8	39.8	39.8
Other liabilities & provisions		78.1	74.2	82.9	70.9	57.9	54.7	56.8	60.1	65.9
Net debt		79.0	47.9	-28.5	38.4	39.0	28.8	28.5	31.3	29.4
Trade working capital		94.3	94.6	95.2	104.8	91.2	72.7	61.9	67.0	72.5
Capital employed		137.7	1,376.1	1,355.6	1,374.3	1,034.0	1,023.1	1,244.1	1,296.1	1,349.0
Ratios		2005	2006	2007	2008	2009	2010	2011E	2012E	2013E
Capex/D&A (%)		37.0%	63.3%	284.0%	138.1%	33.9%	22.9%	50.7%	68.1%	765.6%
ROE (%)		na	21.3%	12.6%	-3.3%	-15.4%	-14.3%	-7.3%	1.6%	7.1%
ROCE (%)		na	3.3%	1.9%	-0.2%	-1.6%	-1.1%	-0.4%	0.3%	1.0%
Net debt/EBITDA (%)		351.1%	171.9%	-101.8%	3,490.9%	-295.5%	-472.1%	na	358.1%	162.8%
Net debt/equity (%)		134.4%	62.7%	-18.2%	29.6%	35.3%	30.3%	29.1%	31.0%	26.7%
Per share (EUR)		2005	2006	2007	2008	2009	2010	2011E	2012E	2013E
EPS adjusted		na	na	0.17	-0.06	-0.22	-0.18	-0.08	0.02	0.09
EPS reported		na	na	0.17	-0.06	-0.22	-0.18	-0.08	0.02	0.09
CFPS		na	na	0.14	-0.21	0.02	0.15	0.00	-0.03	0.02
BVPS		na	na	0.92	1.89	1.57	1.34	1.15	1.19	1.22
DPS		na	na	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Year-end number of shares (m)		na	na	82.6	82.6	82.6	82.6	82.6	82.6	82.6
Valuation		2005	2006	2007	2008	2009	2010	2011E	2012E	2013E
P/E		ns	ns	22.2	ns	ns	ns	ns	46.6	9.7
P/BV		na	na	4.2	0.9	0.7	0.7	0.8	0.7	0.7
P/CF		na	na	28.5	ns	63.2	6.1	nsna	nsna	38.0
Dividend yield		na	na	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield		na	na	3.5%	-11.7%	1.6%	16.5%	0.4%	-3.9%	2.6%
EV/sales		na	na	1.8	1.3	0.9	0.8	0.7	0.7	0.6
EV/EBITDA		na	na	10.6	ns	ns	ns	ns	12.9	6.1
EV/EBIT		na	na	11.6	ns	ns	ns	ns	25.9	8.4
EV/capital employed		na	na	0.2	0.1	0.1	0.1	0.1	0.1	0.1

Why the stock is a Reduce

Our Reduce rating on Damiani is due to its ongoing weak sales and mostly to its dropping margins. In fact:

- The company reported a negative 3% sales CAGR FY 2005-10 and although we expect top-line expansion in the coming years (+6% CAGR FY 2010-13E), sales performance remains quite poor (+0.5% CAGR FY 2005-13E). While we understand that the current macro scenario is quite challenging, we believe that Damiani could also be penalized by its smaller size and lower brand awareness compared to the main players in the branded jewellery sector.
- After the acquisition of the Rocca retail network in September 2008, margins dropped and EBITDA turned negative in FY 2009. While we expected the company to recover this year, also guided by management forecasts, the challenging macros and rising raw material prices are set to delay the EBITDA turnaround until next year. Damiani is implementing cost-cutting measures to improve its profitability, but has proven to have insufficient pricing power to pass on raw material price hikes to end clients.
- The acquisition of Rocca also led to a solid increase in net debt (NFP turned negative in FY 2008) which was partly reduced in FY 2010 mainly thanks to the good NWC management. We do not expect net debt to change dramatically in the next few years, as we do not see much room for further NWC optimisation.
- We point out that 72% of (FY 2010) total sales are still concentrated in Italy and 73% in the wholesales channel. Damiani is therefore highly exposed to domestic consumer trends and the jewellery market, especially as the wholesale distribution limits visibility on end demand and increases the risk of pricing pressure from distributors.
- Damiani is also partly exposed to the collection risk (and to the fashion risk in the accessible segment for Bliss), as it launches about 200 new models every year (30-50 for Damiani, Salvini and Bliss, 60-80 for Alfieri&St.John), with new products representing about 50% of annual sales. The innovation component is therefore a key feature and, even if new launches are preceded by an attentive marketing analysis and supported by A&P, this increases the risk of sales volatility.

Table 1: Main data (EURm)

	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11E	FY 12E	FY 13E
Revenues	166.2	168.0	164.9	149.3	145.8	143.3	148.7	157.4	172.6
YOY		1.1%	-1.9%	-9.5%	-2.3%	-1.7%	3.8%	5.8%	9.7%
EBITDA	22.5	27.9	20.7	7.0	-5.3	-3.4	-1.0	8.8	18.1
Margin	13.5%	16.6%	12.6%	4.7%	-3.6%	-2.4%	-0.7%	5.6%	10.5%
Net profit	10.5	14.1	7.6	0.7	-4.7	-11.8	-4.9	4.3	13.2
Net debt	79.0	47.9	-28.5	38.4	39.0	28.8	28.5	31.3	29.4
YOY		-39.4%	nm	nm	1.6%	-26.2%	-1.0%	9.9%	-6.1%

Source: Damiani, Kepler Capital Markets
FY starts on April 1

Valuation

We use a DCF valuation for Damiani, which yields a target price of EUR0.70. We estimate a +5% sales CAGR FY 2010-15E, assume a long-term (FY 2015-20E) growth rate of +3% and perpetuity of +2%. We apply a 5% risk free risk rate and a 4% risk premium with an unlevered beta of 1.5, which translates into a WACC of 10.7%.

Table 2: Damiani – DCF valuation

	FY 11E	FY 12E	FY 13E	FY 14E	FY 15E	FY 16E	FY 18E	FY 19E	FY 20E
Sales	148.7	157.4	172.6	177.8	183.1	188.6	194.3	200.1	206.1
YOY	3.8%	5.8%	9.7%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
EBIT	(4.9)	4.3	13.2	14.0	14.8	15.6	16.5	17.4	18.3
EBIT margin	-3.3%	2.8%	7.7%	7.9%	8.1%	8.3%	8.5%	8.7%	8.9%
Tax on EBIT	0.0	(1.5)	(4.5)	(4.8)	(5.0)	(5.3)	(5.6)	(5.9)	(6.2)
Amortization/depreciation	3.9	4.4	4.8	2.7	2.7	2.8	2.9	3.0	3.1
Variation of working capital	12.8	(5.2)	(5.5)	(3.7)	(3.7)	(3.7)	(3.7)	(3.7)	(3.7)
Capex	(2.0)	(3.0)	(5.0)	(2.7)	(2.7)	(2.8)	(2.9)	(3.0)	(3.1)
FCFF	9.8	(0.9)	3.1	5.6	6.1	6.6	7.2	7.8	8.4
Discount factor	100%	90%	84%	74%	67%	60%	54%	49%	44%
PV of cash flow	9.8	(0.8)	2.6	4.1	4.1	4.0	3.9	3.8	3.7
NPV of free cash flows FY11-20E	39								
Continuous growth assumption	2.0%								
Terminal value	114								
PV of terminal value	45								
Total enterprise value	85								
Net financial position end-2010	-29								
Minorities	-1								
Net financial assets	4								
Total equity value	58								
Total no. shares (m)	82.6								
Fair value per share (EUR)	0.70								

Source: Kepler Capital Markets

Raising the sales CAGR over FY 2010-15E by 100bp to +6% (from +5%), fair value would increase by about 6% to EUR0.74, while, reducing it by 100bp to 4%, fair value would fall to about EUR0.66.

Catalysts and news flow

The recent results point to weak sales (especially at wholesale level) and struggling margins. We do not expect a major pick-up in sales or margins in the coming quarters, as the macro conditions are set to remain quite unfavourable.

Table 3: Damiani – Main quarterly data

	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
Net revenues	33.4	22.9	62.1	27.4	26.4	29.1	56.0	32.0	32.9	28.3
YOY	-14.8%	-14.9%	2.3%	19.1%	-21.0%	27.1%	-9.8%	16.8%	24.6%	-2.7%
EBITDA	-1.3	-5.6	6.3	-12.6	-2.0	-2.8	5.3	-6.6	-0.8	-2.5
Margin	-3.9%	-24.5%	10.1%	-46.0%	-7.6%	-9.6%	9.4%	-20.5%	-2.4%	-8.8%
Net profit	-3.0	-6.6	2.2	-10.8	-4.5	-4.0	1.7	-7.7	-2.3	-4.9
Net debt	51.5	54.0	54.6	39.0	39.5	39.4	37.7	28.9	27	28
YOY	83.3%	72.5%	39.3%	1.6%	-23.3%	-27.0%	-31.0%	-25.9%	-32.2%	-28.7%

Source: Damiani

Risks to our rating

The risks to our rating are:

- A faster-than-expected improvement in the macro scenario, especially in Italy.
- A faster and more successful implementation of the expansion strategy abroad.
- A faster and better execution of cost-cutting measures.

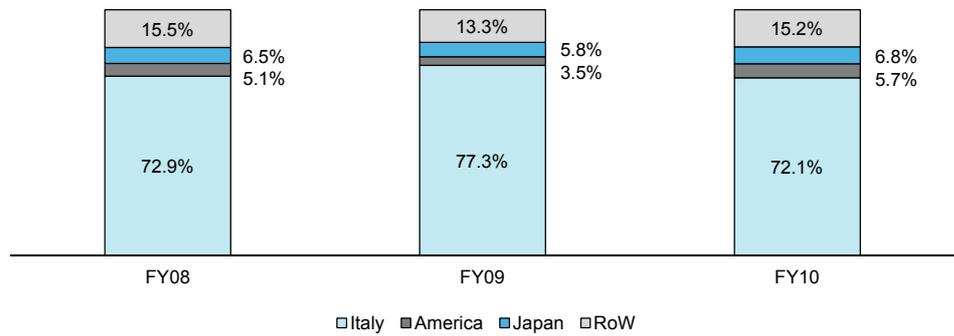
Another main risk to our Reduce rating and a factor which we think has supported the share price in recent months is the M&A activity in the jewellery sector. The speculation of Damiani being a potential takeover target was fuelled by announcement of the acquisition of Bulgari by LVMH in March 2011 and Damiani's CEO and main shareholder (the family holds a 72% stake) declared in June that he was not ready to sell the company at the moment but that in the future he would not rule out the possibility if interesting offers arise.

We believe the share price has at some stage also been sustained by speculation of the potential sale of the 18% stake held by the Damiani family in Pomellato. The family holds the stake and therefore they, and not Damiani SpA, would be the beneficiary of a potential gain from the sale of the stake in Pomellato.

Additional insights

Geographical reach

Chart 1: Damiani - Sales by region



Source: Damiani

The domestic market remains the main market for Damiani (over 72% of sales in FY 2010), although the company is pursuing international expansion as a main driver to boost top-line growth. Currently about 50% of total sales for the Damiani brand are already made abroad, while Salvini, Alfieri&St.John and Bliss are still sold mainly in Italy.

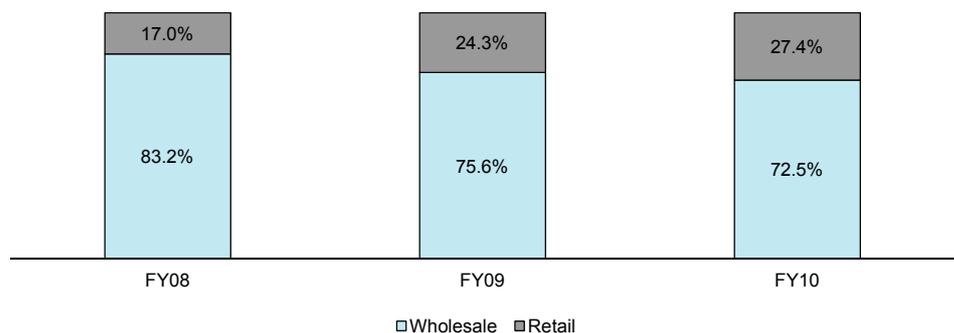
Table 4: Damiani - Quarterly sales by region

EURm	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
Italy	26.6	16.4	49.5	19.9	19.5	20.5	43.9	19.5	24.8	20.5
America	0.9	1.6	4.2	-1.6	0.9	1.6	3.1	2.6	1.3	1.6
Japan	1.8	1.5	2.7	2.5	2.4	2.0	3.1	2.3	2.2	2.6
RoW	4.0	3.4	5.6	6.4	3.6	4.9	5.8	7.5	4.4	3.9
YOY	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
Italy	0.8%	-6.8%	1.9%	19.9%	-26.7%	25.0%	-11.3%	-2.0%	27.2%	0.0%
America	-60.9%	-15.8%	68.0%	nm	0.0%	0.0%	-26.2%	nm	44.4%	0.0%
Japan	-18.2%	-34.8%	-10.0%	13.6%	33.3%	33.3%	14.8%	-8.0%	-7.1%	28.5%
RoW	-51.8%	-33.3%	-15.2%	100.0%	-10.0%	44.1%	3.6%	17.2%	22.2%	-20.4%
% on total	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
Italy	79.6%	71.6%	79.6%	73.7%	73.9%	70.4%	78.4%	60.9%	75.4%	72.4%
America	2.7%	7.0%	6.8%	nm	3.4%	5.5%	5.5%	8.1%	4.0%	5.7%
Japan	5.4%	6.6%	4.3%	9.3%	9.1%	6.9%	5.5%	7.2%	6.8%	9.1%
RoW	12.0%	14.8%	9.0%	23.7%	13.6%	16.8%	10.4%	23.4%	13.4%	13.8%

Source: Damiani

Distribution network

Chart 2: Damiani - sales by distribution channel



Source: Damiani

Distribution remains mainly wholesale (about 73% of sales in FY 2010) reaching about 2,500 points of sale (of which 90% in Italy), but the retail channel is increasing its importance (27% of sales in FY 2010 from 24% in FY 2009). Currently (at end-September 2011) the store network (Damiani, Bliss mono-brand stores and Rocca's multi-brand format) is made up of 32 DOS (of which 24 in Italy) and 47 franchisees (of which one in Italy).

In September 2008, Damiani acquired the Rocca retail chain (paying EUR7m to the Damiani family), a major player in Italy in the high-end retail market selling watches and high-end jewellery with the 22 stores that were mainly located in the most prestigious streets in Italy (FY 2007 sales EUR39m, of which 68% watches and 29% jewellery, EBITDA EUR1.3m, net loss EUR2m, net debt EUR26m and net equity of EUR6.5m).

The rationale of the acquisition was to increase the penetration of the group’s brands in Rocca’s stores (15% of total sales at the acquisition date or 50% of jewellery sales), strengthen the retail network and create a recognisable multi-brand retail format replicable in second-tier cities and abroad.

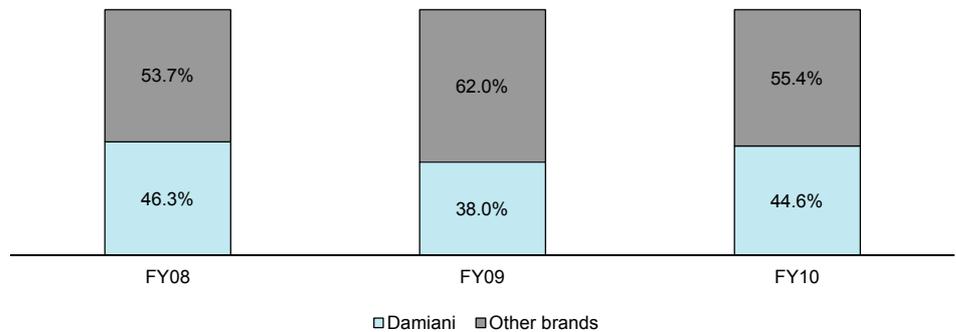
Table 5: Damiani - Quarterly sales by distribution channel and store network

EURm	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
Wholesale	26.3	15.1	48.9	19.7	18.5	19.4	42.8	23.3	23.9	15.1
Retail	7.0	7.7	13.3	7.4	7.9	9.6	13.1	8.7	9.0	13.2
YOY	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
Wholesale	-28.6%	-33.7%	0.8%	19.4%	-29.8%	28.8%	-11.8%	18.3%	29.2%	-22.2%
Retail	181.7%	82.4%	9.9%	12.1%	12.2%	25.3%	8.3%	17.6%	13.9%	37.5%
% on total	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
Wholesale	78.9%	65.8%	78.6%	73.0%	70.1%	66.7%	76.4%	72.8%	72.6%	53.4%
Retail	21.1%	33.4%	21.4%	27.4%	29.9%	33.0%	23.4%	27.2%	27.4%	46.6%
Store nr.	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
DOS	37	36	38	33	33	32	33	32	32	32
Franchisee	40	41	44	45	47	49	46	46	46	47
Total	77	77	82	78	80	81	79	78	78	79

Source: Damiani

The five brands

Chart 3: Damiani - sales by brand



Source: Damiani

Over the years, another four brands were added to the historical brand Damiani: Salvini and Bliss were developed “in-house” and launched in 1986 and 2000 respectively, while Alfieri&St.John and Calderoni were acquired in 1998 and 2006 respectively. The brands are complementary in style and positioning, ranging from the accessible fashion of Bliss to the high-end jewellery of Damiani and Calderoni.

Damiani still represents the bulk of sales (45% in FY 2010, of which 50% abroad), while we estimate that Salvini Alfieri&St.John could represent about 10% of total sales each and Bliss about 7%. Other brands also include watches and third-party jewellery sold in Rocca’s stores, which we estimate to be about 28% of the total.

Table 6: Damiani – brand portfolio

Brand	Foundation	Core values	Products	Price positioning	Main competitors
Damiani	1924	elegance, exclusivity, superior quality	Precious metals with diamonds,	EUR3,000-5,000 (masterpieces > EUR100,000)	Bulgari, Cartier, Van Cleef
Salvini	1986	Contemporary interpretations of classic jewels	Precious stones and pearls Precious metals with diamonds,	EUR1,000-3,000	Tiffany, Gucci, Montblanc
Alfieri&St.John	1977 - acquired 1998	Multi-style, including classic line	Precious stones and pearls Precious metals with diamonds,	EUR500-1,000	domestic/unbranded players
Bliss	2000	Young, active, modern	Precious stones and pearls Precious metals and stones,	EUR200-500	Folli Follie, Morellato, Breil
Calderoni	1840 - acquired in 2006	Luxury, tradition	Non-traditional materials (steel, ebony) Precious metals with diamonds,	EUR5,000-6,000	Buccellati, Fabergé

Source: Damiani

The brand Damiani is positioned in the high-end of the market. Products are characterised by diamonds and other precious stones and pearls set in gold or platinum, with a high quality and exclusive and elegant design, and distributed through around 750 multi-brand stores (of which 400 in Italy). The average retail price range is EUR3,000-5,000, with “unique masterpieces” up to EUR100,000. Brand awareness, especially in

Italy, is very high thanks to powerful advertising campaigns with international celebrities (Sophia Loren, Gwyneth Paltrow, Brad Pitt).

The Salvini brand, developed “in-house” and launched in 1986 and is positioned in the premium segment. Products are characterised by diamonds, precious stones and pearls set in precious metals with a contemporary style. The brand is primarily sold on the domestic market and distributed through around 900 multi-brand stores and a franchised mono-brand store in Milan. The average retail price range is EUR1,000-2,000 and the high brand awareness is achieved once more through celebrity advertising (Isabella Rossellini, Sharon Stone, Raul Bova).

Damiani Group acquired Alfieri&St.John in 1998. The company was founded in 1977 and its medium-segment products are aimed at covering the unbranded market. The average retail price range is EUR500-1,000 and targeted customers are people looking for price and product value.

The Bliss brand, developed “in-house” and launched in 2000, and is positioned in the accessible fashion jewellery segment. Products can be split into two categories, jewellery and steel accessories, both targeting young customers sensitive to fashion trends. The brand is primarily sold on the domestic market and distributed through around 1,000 multi-brand stores. The retail average price range is EUR200-500 and the brand diffusion was supported by powerful advertising campaigns involving Vasco Rossi, Alessandro Del Piero and Paris Hilton (the latter to promote the internationalisation strategy).

Damiani Group acquired Calderoni in 2006. The company was founded in 1840 and its jewellery is characterised by the Italian tradition of luxury and classical style. The average retail price range is expected to be EUR5,000-6,000, targeting high-end customers.

Company background

History

Damiani Group, leader in the high-end manufacturing and distribution of jewellery, was established over 80 years ago in Valenza, the Italian jewellery district, by Enrico Damiani, grandfather of the current CEO Guido Damiani. The jewellery laboratory became a proper company and high-end brand characterised by strong advertising.

In 1986, the company developed and launched the Salvini brand, positioned in the premium segment, and ten years later it opened the first Damiani DOS (today there are 32t DOS, accounting for 27% of total sales) and started its internationalisation (almost 28% of total sales generated outside Italy). In 1998, the group acquired Alfieri&St.John (positioned in the mid-market) and two years later it launched the Bliss brand (accessible fashion jewellery). The last acquisition was Calderoni in 2006, a jewellery house founded in Milan in 1840.

The company was listed on the Milan Stock Exchange on 8 November 2007, at EUR4 per share (at the lower end of the EUR3.8-5.2 range). The global offer consisted of 26.4m shares, 18.5m from a capital increase, and 7.9m on sale by Giorgio Damiani (vice chairman and CEO of Damiani USA), Silvia Damiani (vice chairman) and Giulia De Luca (general manager and CFO). The proceeds from the IPO amounted to EUR72m (net of EUR2m of advisory fees) and were intended to accelerate company's growth while giving higher visibility on international markets.

Design and production

Damiani designs and develops products in-house using proprietary software (Archimede) and a team of dedicated people. The company won 18 Diamonds International Jewellery Awards with the Damiani brand and another four were won by Calderoni. Generally it takes 1-2 months to start the production phase of a collection of 10-20 items. The company usually presents two main collections in March and September every year for each brand, with 10-20 new products (30-40 for Alfieri&St.John).

Raw materials are purchased according to orders received, by an in-house team. Precious stones (mainly diamonds), represent about 61% of total raw material costs and are purchased from India (smaller stones), Antwerp, New York and Israel (higher-value stones). Precious metals, mostly gold, represent about 33% of total raw material costs, while pearls, usually purchased in Australia, Japan and Polynesia, account for about 5%.

Production is mostly outsourced while quality control is internal. Direct production is carried out in a plant in Valenza by Damiani Manufacturing (51% owned by the company and 49% by management) which produces 15-20% of the total production in terms of value (50% for Damiani and Salvini brands). The rest of production is outsourced to long-standing partners in the Valenza district (14 suppliers cover about 90% of production), while some Bliss products (mostly steel accessories) are outsourced to the Far East.

Research ratings and important disclosures

Disclosure checklist - Potential conflict of interests

Stock	ISIN	Disclosure (See Below)	Currency	Price
Damiani	IT0004249329	nothing to disclose	EUR	0.87
Tiffany	US8865471085	nothing to disclose	USD	73.62

Source: Factset closing prices of 28/11/2011

Stock prices: Prices are taken as of the previous day's close (to the date of this report) on the home market unless otherwise stated.

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We did not disclose the rating to the issuer before its publication and dissemination.

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Rating breakdown	A	B
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Total	100.0%	0.0%

Source: Kepler Capital Markets

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