UniCredit Banca Mobiliare

Initiation of Coverage

Cremonini

Market Performer

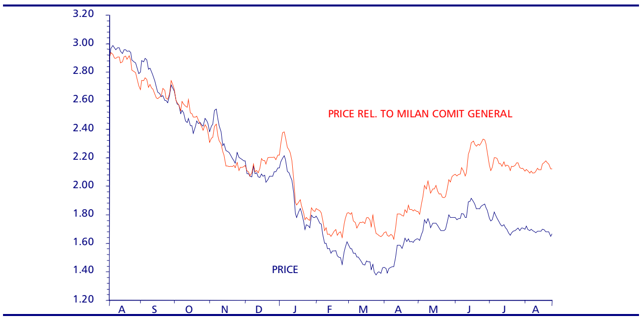
Price: €1.65

27 agosto 2001

Sector	Market Cap	Free Float	Reuters Code	12-Mth Range
Food	€233.9m	43%	CRMI.MI	€1.38-2.89

€m	2000A	2001E	2002E	2003E
Sales	1388.7	1416.6	1537.5	1660.3
EBITDA	66.1	91.1	111.2	128.8
EBITDA margin	*4.8%*	*6.4%*	*7.2%*	*7.8%*
EBIT	20.6	43.0	62.8	77.5
EBIT margin	*1.5%*	*3.0%*	*4.1%*	*4.7%*
Net Profit	-10.0	2.0	12.8	20.3
Adj Net Profit	-9.2	2.0	12.8	20.3
Cash Earnings	35.8	50.4	61.5	71.9
EPS (Eur)	0.00	0.00	0.00	0.00
CEPS (Eur)	0.00	0.00	0.00	0.00
DPS (Eur)	0.02	n.a.	n.a.	n.a.
P/E (x)	-23.5	114.8	18.3	11.5
P/CF (x)	6.5	4.6	3.8	3.3
P/BV (x)	1.2	1.3	1.2	1.1
EV/Sales (x)	0.53	0.52	0.48	0.43
EV/EBITDA (x)	11.1	8.2	6.6	5.5
EV/EBIT (x)	35.6	17.3	11.7	9.2
Net Fin. Pos.	-500.1	-509.5	-499.3	-480.1
Gearing Ratio	264.4%	270.8%	248.2%	216.6%
ROCE	0.8%	1.6%	2.2%	2.8%
ROE	-1.3%	0.3%	1.7%	2.4%
N. Shares (m)	141.2	141.8	141.8	141.8

Stock Performance



Source: Datastream.

	1mth	3mth	12mth
Absolute %	-2.4	-5.4	-42.8
Relative %	-1.4	6.2	-25.3
Average Trading Volumes:			18,000

Looking to the Future

We initiate our coverage on Cremonini with a 'Market Performer' recommendation. While individual divisions offer solid growth prospects, the low visibility on earnings and the company's sizeable indebtedness dictates a cautious approach to the stock in the near-term.

- Cremonini is a leading food manufacturer. Its core business is beef production, but it is also active in distribution and catering. Distribution has considerable growth potential, and catering is the most profitable area, despite the high level of competition.

- Cremonini's 2000 results were greatly affected by the BSE outbreak. Nevertheless the beef market, is now showing some tentative signs of recovery from the low levels of demand seen in 1Q01. Moreover the continuing process of concentration within the sector should work in favour of the larger players who can be expected to gain market share. Cremonini's high level of fixed costs give the company above-average operational leverage. This will be a positive factor when its markets recover, but will weigh against the company whilst markets remain dull.

- Our projection is that a gradual recovery in the Italian beef market plus favourable developments in distribution and catering will allow sales, EBIT and net profits to grow at average annualised rates of about 8%, 34% and 216% respectively in the 01-03 period. Nevertheless taking account of the low visibility of future earnings and the company's high level of debt, the shares are currently correctly priced by the market.

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Contents

1. Investment Case

A cautious approach while awaiting further market and business developments

A diversified business

Cremonini is generally perceived as being exclusively a meat producer. Indeed through its subsidiary Inalca, set up in 1963, Cremonini is the market leader in the Italian beef production (this is a highly fragmented market with more than 2,000 small competitors). However, since 1978, the company has been diversifying into both distribution and catering. Mass market distributors in the food sector currently account for 6% of the market. Among these, Cremonini dominates this growing segment through its subsidiary MARR which holds 70% of the total. In catering Cremonini is the exclusive supplier of on-board catering services for the Italian Public Railways.

Cremonini enjoys key competitive advantages...

In beef production, following the huge investments of the recent past, Cremonini has developed a strong production capacity and an outstanding technological know-how. However, in late 2000 the 'mad cow' crisis exploded, dramatically reducing volumes and profitability. Notwithstanding a severe decline, in 1Q01 Cremonini managed to outperform the whole beef market (down by 30% y-o-y compared to a 60% fall in sales for the beef market as a whole). We estimate that this resulted in an increase in Cremonini's market share from 17.5% at the end of 2000 to around 23%.

The gradual recovery in consumer confidence and the expected disappearance of small competitors due to the more stringent safety and quality requirements should favour Cremonini in the near term. We highlight the fact that after the first BSE outbreak in 1996, the English beef market has gradually recovered (even if not achieving the pre-crisis level). Consumer confidence is also improving in Italy.

...but uncertainty still clouds the beef market

Nevertheless, we question how long the consumer confidence will take to fully recover and, above all, whether 'mad cow' disease has structurally changed consumers habits and preferences. Furthermore in our opinion, the uncertainty surrounding the long-term outlook makes it doubtful whether there can be a return to full capacity for Cremonini. These uncertainties, coupled with the high level of the fixed costs mean that forecasting profits is highly subjective, and not surprisingly this lack of visibility is reflecting in the company's rating.

A solid position in distribution

In distribution, the picture is rosier. Through MARR, Cremonini is one of the leading foodservice operators in Italy. Within the domestic market, the move to mass market distribution is in the early stages and we expect market evolution to favour MARR which is already well established in the segment. In addition, the Group's well-diversified product offering and its unique distribution capacity are enhancing its competitive position.

Good profitability in catering...

Cremonini is involved in catering, through its subsidiary Agape. The company operates in both the commercial segment and in on-board catering on the railways. In particular, thanks to strong synergies with the distribution segment, Cremonini has been able to achieve outstanding profitability in on-board railway catering in Italy. The company's distribution network facilitates immediate supply and overcomes problem of the limited storage capacity on-board trains. Having achieved such a dominant position in Italy, Cremonini's next challenge is to win railway catering business abroad. Last year the division benefited in terms of sales from the commencement of Eurostar business; margins, however, were adversely affected.

Within commercial catering Cremonini is developing the 'food village' concept, i.e. a wide range of services aimed at people that are travelling. Cremonini is consolidating its position within its domestic market, where this highly profitable business still offers growth opportunities, and is at the same time exploring the possibility of expanding into foreign countries.

...but what risks from future growth?

While we recognise the growth potential of catering, we have some concern that the geographical diversification of on-board catering plus the highly competitive nature of commercial catering in foreign markets could lead to further margin dilution.

An eye on synergies

Cremonini's three business areas are managed independently, but are able to exploit the intra-group synergies that exist at the following levels:

- The centralised provision of raw materials from external suppliers
- The intra-Group supply of products and services
- The sharing of common trademark between different business lines
- An efficient, shared distribution network
- The ability to use centralised Group services (financial, legal, marketing etc.)

Expected recovery to the pre-crisis level in two-three years

Based on our assumptions by division, we forecast that consolidated sales will grow by an average of 8.3% compound in the 2001-03 period, while the EBITDA and EBIT margins should improve to 7.8% and 4.7% in 2003 from 4.8% and 1.5% respectively in 2000. Consequently, we expect the EBITDA margin to return to the pre-crisis level within three years, while the recovery at the EBIT level should be faster (two years) as a result of an expected slowdown in investments. Net profit should grow to about €20 million in 2003 compared to a loss of €10m in 2000.

The financial structure is an important consideration

The major investments made by Cremonini over the past years have required huge financial resources and have resulted in net debt reaching €500 million at the end of 2000, which represents a gearing ratio of 264%. Although no further significant investments are planned for next years, it is unlikely that the debt level will reduce significantly. With an interest cover of around 2x in the period and a cash flow generation barely sufficient to finance organic growth, this level of indebtedness is a real burden. Consequently Cremonini is believed to be examining ways of reducing its debt. Possibilities could include a listing of MARR or a joint-venture in catering.

The low visibility requires a cautious valuation approach...

The rating of Cremonini's shares is currently adversely affected by the company's recent losses and by the uncertainty surrounding the scope and speed of earnings recovery. We have therefore valued the company using a DCF model which takes account of various possible scenarios.

Our DCF valuation analyses the divisions separately and reflects the different business risks as we perceive them (in terms of beta, growth and financial structure). In the case of the production division the model takes account of three possible scenarios giving each an appropriate weight. Our base scenario (50% probability) is the one assumed in our forecasts. For the production division we have also made valuations based on worst case and best case scenarios, and ascribed a probability to each, giving a greater weight to the worst case than to the best case (30% against 20% probability). Despite this cautious approach, our DCF model yields a fair value of €2.1 per share, implying a 30% potential upside.

...and justifies a Market Performer rating

Even though our DCF model justifies a higher share price, it seems likely that sentiment towards the shares will remain cautious due to the prevailing uncertainty and hence our recommendation is 'Market Performer'.

Short term newsflow

In the near term, the shares could benefit from a positive news-flow linked to a confirmation of a slight recovery in consumer confidence (1H01 figures will be released in September) and the potential conclusion of extraordinary measures on the financial position.

Figure 1. Cremonini: Key Strengths and Key Issues

Key Strengths	Key Issues
Production	
Leadership in the Italian beef production market	Exposure to external phenomenon (BSE)
Potential recovery of the beef market	Changes in customers eating habits following 'mad cow' disease
State-of-the-art technology	Low visibility of future performance
Investments on production capacity already done	Operating leverage will act against the company when market conditions are difficult
Increasing market share thanks to the ongoing market consolidation	There is a question mark over the pay-back period of recent major investments
Operating leverage	
Focus on higher value added products	
Distribution	
Growing importance of mass market distribution	Potential price pressure from customers
Increasing number of people eating out	Evolution of the "door to door" segment
A wide logistics network	Entry barriers in foreign countries
Higher commercial power following expected higher volumes	
Possibility of joint ventures to facilitate the expansion abroad	
An opportunity to exploit the B2B channel	
Catering	
Exclusive agreement with the Italian Public Railways	More competitive environment in commercial catering abroad
Integration with the distribution activities	Margin dilution from further development of on-board catering abroad
Good profitability in railways on-board catering in Italy	Less favourable conditions to renew current contracts
Further growth potential in Italy in commercial catering	
Group	
Intra-group synergies	Heavy indebtedness
Moves to reduce debt are probably in the pipeline	Poor interest cover
Appealing despite cautious valuation	Modest cash flow generation
A turnaround is the most likely scenario	Unsatisfactory track record

Source: UBM.

2. Cremonini at a Glance

- The Italian leader in beef production
- A healthy diversification in distribution and catering

2.1 Brief history

A long-standing tradition

Cremonini Group is one of the most important Italian players in food production, distribution and catering. Luigi Cremonini founded the first group company, Inalca Spa, in 1963. Over the years it became a leader in the butchery, processing and marketing of beef. Subsequently Cremonini expanded into related sectors such as distribution and catering.

Figure 2. Cremonini: Brief History

1963	Beginning of beef production
1976	Beginning of the cold cuts business
1978	Beginning of foodservice business
1982	Beginning of catering business
1988	Beginning of door-to-door business
1990	Agreement with the Italian Public Railways for the on-board catering
	Beginning of spices business
1996	Disposal of the Burghy chain to McDonald's (100 points of sale)
1998	Listing to the Milan's Stock Exchange
	Beginning of sandwiches and snacks business
1999	Building of the Ospedaletto Lodigiano plant
	Start up of Gusto (catering chain in France)
	Renewal of the agreement with the Italian Public Railways for the on-board catering
	Acquisition of Guardamiglio, Inalca's first competitor in Italy
2000	'Mad cow' disease
	Agreement with Eurostar

Source: UBM.

2.2 Business lines and markets

Figure 3. Cremonini: Group Activities

Production	Distribution	Catering
Beef	Catering	Commercials
Cold cuts & snacks	Door to door	On-board catering
Spices		

Source: Cremonini.

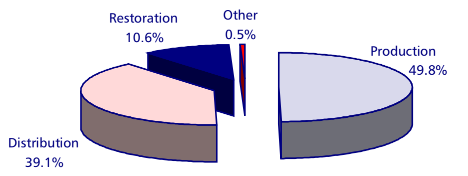
The BSE disease altered the weight of the Group's different divisions

Although production still represents the core business (50% of total sales in 2000) (Figure 4), the company is pursuing a successful diversification strategy in the higher value-added businesses of distribution and catering (Figure 6). The BSE disease in late 2000 dramatically reduced the profitability of the production division, whose contribution to total Group EBITDA decreased from 46% in 1999 to 22% in 2000. The contribution of the production division in terms of EBIT was actually negative in 2000 (Figure 7).

A domestic profile

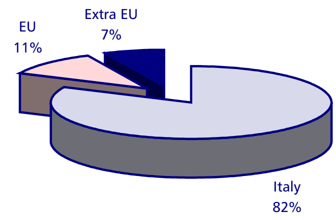
As showed in Figure 5, Italy is still Cremonini's principal market (82% of total). Nevertheless, the company is aiming to expand its international presence in both production and catering. In 2000 the EU and non-EU markets accounted for 11% and 7% respectively of total sales.

Figure 4. Sales Breakdown* by Division, 2000



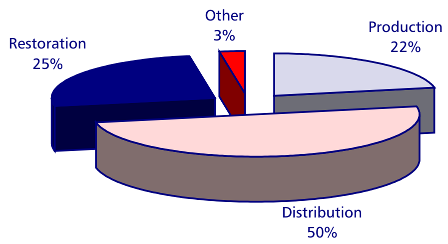
*Source: UBM on Cremonini data. *On gross sales of €1422.3m*

Figure 5. Sales Breakdown* by Area, 2000



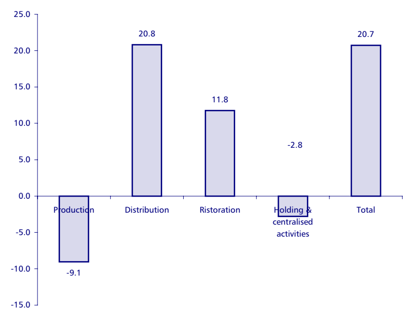
*Source: UBM on Cremonini data. *On Sales of €1289.2m (statutory accounts)*

Figure 6. EBITDA Breakdown* by Division, 2000



*Source: UBM on Cremonini data. *On EBITDA of €66.1m*

Figure 7. EBIT Breakdown* by Division, 2000 (€m)



*Source: UBM on Cremonini data. *On EBIT of €20.6m*

2.3 Key customers

A wide customer range

Over the years, Cremonini has supplied customers engaged in a wide range of activities and of differing sizes:

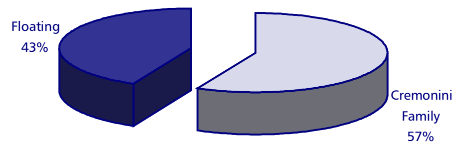
- **Catering and distribution chains**: McDonald's, Autogrill, Pomona, Coditour, Compass, Davigelo, Eismann, Bofrost, Burger King, Hellenik, Sodexhò, Elior, Abela
- **National and multinational industries**: Nestlè, Unilever, Star
- **Hotels chains**: Sheraton, Club Mediterranée, Forte Resort, Ciga, Valtur, Atahotels, Jolly Hotels, Cit, Robinson Club, Cogeta, Oro vacanze, Hit, Alliance
- **Large distribution**: Carrefour GS, Auchan, Coop, Rinascente, Continente, Esselunga, Pam, Finiper, Conad, Desit, Metro, WallMart, Reve, Lidl
- **On-board catering**: Italian FFSS, Eurostar, Cisalpino, SNCF, Ligabue

2.4 Shareholding structure

A key role of the family in the shareholding structure and management

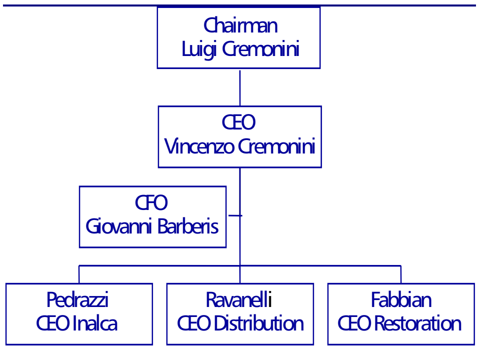
The Cremonini Group has been listed on the Milan Stock Exchange since December 1998. As shown in Figure 8 and Figure 9, the Cremonini family currently controls the company and members of the family hold the leading managerial positions.

Figure 8. Shareholders' Structure



Source: Cremonini.

Figure 9. Management Structure



Source: Cremonini.

3. Production

- A consolidated leadership in beef production
- BSE: a shock in the sector, reducing visibility…
- …but Cremonini is well positioned to benefit from a market recovery

3.1 Business description

The Production division is Cremonini's core business (in 2000 50% of sales and 22% of EBITDA). The group manufactures several product categories through different subsidiaries under different brand names - almost all are meat products (Figure 10).

Figure 10. Production Division: Profile by Line

Company	Sector	% on total production (2000)	Brands
Inalca	Beef	88.8%	Montana, Bill Beef, Texana, Montex
Corte Buona	Cold cuts and snacks	10.5%	Supermorbido, Hot One, Megasnak, Mister Panino
Compagnia delle Spezie	Spices	0.7%	

Source: UBM on Cremonini data.

The company's main market is Italy (71% of total sales in 2000). Sales elsewhere are still relatively low.

Figure 11. Production Division: Profile by Geographic Area

	1998	1999	2000
Total sales	100%	100%	100%
Italy	71%	80%	71%
EU	16.6%	14.5%	15.9%
Non- EU	12.5%	5.7%	12.6%

Source: UBM on Cremonini data. Note: Reclassification based on statutory accounts

Beef products

Cremonini operates in the Italian beef market through Inalca. The company manages the entire production chain, from butchery to the packaging of finished goods and distribution. Products include fresh, frozen and cooked meat and ready meals. Inalca operates both through own brands (15% of its total sales) and private labels. Since 1990 the 'Montana' brand has been enjoying an outstanding consumer awareness (more than 80% pre-BSE, *source: Ipsos Explorer*). In 2002 the company plans to spend around €3.5 million on advertising (mainly television), which is the same amount as in 2000.

Inalca's main customers are primary large retailers and quick service restaurants (the principal ones being McDonald's and Burger King). Inalca holds 90% of the Italian hamburger market.

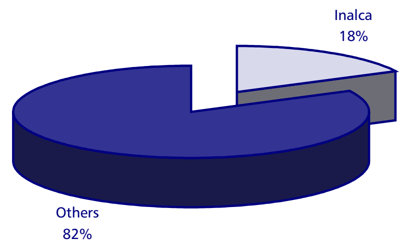
Figure 12. Inalca: Key Customers

Catering	McDonald's, Autogrill, Burger King, Sodexho
Food Manufacturers	Nestllé, Unilever, Star
Food retailers	Carrefour GS, Auchan, Coop, Rinascente, Continente, Esselunga, Pam-Finiper, Conad, Metro, WalMart, Reve, Aldi, Lidl

Source: UBM on Cremonini data.

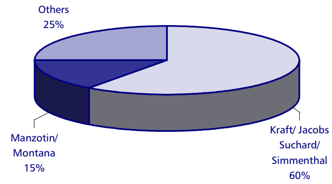
Inalca is among the top four players in the European beef sector and is the Italian leader with a 17.5% market share. The market is highly fragmented: the next most important producers (Unicarni and Pegognaga) together account for only 7%. In July 1999 the Group strengthened its market position when it acquired the number two in the sector, Guardamiglio.

Figure 13. Italian Beef Production Market, 2000



Source: Cremonini.

Figure 14. Italian Canned Meat Market, 1999



Source: Largo Consumo.

Figure 15. The acquisition of Guardamiglio

Core business	Meat production
Market position in 1999	2nd (in Italy)
Acquisition price (€m)	15.5
Net debt (€m)	31.0
Total consideration (€m)	46.5
Sales (€m)	154.9
EBIT margin	0.0%
Implied EV/Sales (x)	0.3

Source: UBM on Cremonini data.

Huge investments to enhance Inalca's production structure

Production is carried out at three plants: Castelvetro Modenese, Rieti and Ospedaletto Lodigiano. In recent years the Group has undertaken major investments aimed at increasing its production capacity as well as making technological improvements. Most notably, Cremonini invested €129 million in constructing the Ospedaletto Lodigiano plant (commenced in 1999) and it spent a total of €310 million between 1995 and 2000 on introducing new production technologies.

85% of Inalca's raw materials come from Northern Italy, which is the country's main cattle area, accounting for 75% of all beef reared in Italy.

Figure 16. Production Division: Main Plants

Location	**Region**	**Products**	**Production Capacity**	**Break even**
			(butchered units)	
Ospedaletto Lodigiano	Lombardia (North Italy)	Butchery, fresh meat for GD, products for retailers	2,000	1,000
Castelvetro Modenese	Emilia Romagna (North Italy)	Butchery, frozen meat, fresh meat for industrial consumption	1,000-1,100	600-650
Rieti	Lazio (Centre Italy)	Cooked meat, canned meat	n.a.	n.a.

Source: UBM on Cremonini data.

Cold cuts

Through Corte Buona, Cremonini is among the top ten producers in the Italian cold cuts market and is the leading Italian exporter (in 1999 foreign countries accounted for 13.3% of total Corte Buona's sales against a market average of 5%). The cold cuts market is also very fragmented (1600 players – *source: Databank, 1999*) and it is characterised by an ongoing concentration of producers. Corte Buona's production is based at three plants while its distribution is integrated with that of Inalca.

Other

Multiservise is Cremonini's producer and distributor of snacks and sandwiches in Italy and abroad. It supplies fast-food outlets, railway, air and maritime caterers, cash & carry stores and food dispensers through a network of distributors. In 2000 the number of sandwiches supplied exceeded 10 million.

Compagnia delle Spezie produces and distributes spices and aromas mainly destined to the food industry.

3.2 Sector overview

'Mad Cow' disease causes a storm in the European food sector...

BSE seriously damaged the sector

Over the past few years the European meat industry has undergone major changes mainly attributable to the initial outbreak of BSE and the subsequent escalation of the disease. As highlighted in Figure 17, after the first wave in 1996, a second and more serious outbreak of 'mad cow' disease occurred at the end of 2000, which dramatically affected consumer confidence towards beef based products.

Figure 17. BSE: Brief Chronology

Feb-85	First case in UK: discovery of BSE (Bovine Spongiform Encephalopathy)
Dec-87	Discovery of the relation between the BSE disease and the feeding of meat and bone meal
Jun-88	UK bans all the feeding of meat and bone meal
Nov-89	The sale of brains, spleen and spinal cord is banned
Jul-93	The human variant of BSE claims its first victim
Jan-95	68 cases of mad cow disease are discovered in Switzerland
Mar-96	The European Union decides to ban British meat
Oct-00	Infected meat is discovered in France
Jan-01	First case of BSE in Italy. The Italian government orders a compulsory check of all cattle older than 30 months

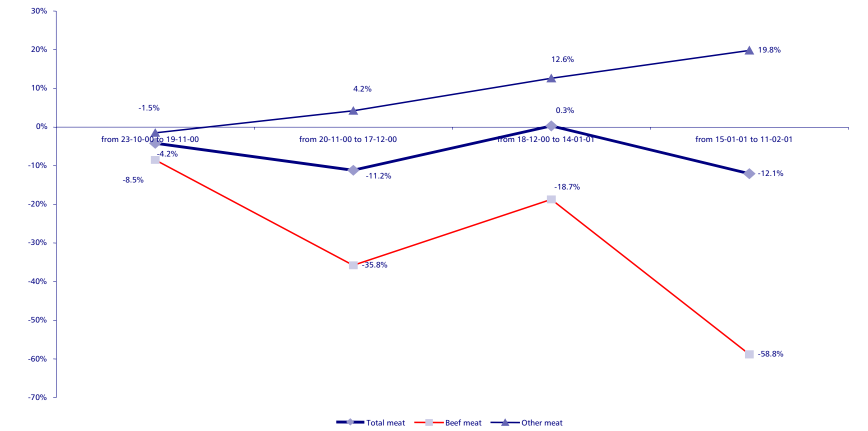
Source: UBM.

...and also in Italian consumer confidence

Following the escalation of the disease in late 2000, the Italian beef market suffered a decline in consumer confidence. In November there was a 36% y-o-y fall in consumer purchases of beef. There was a slight recovery during the Christmas period, but in January 2001 following the discovery of the first 'mad cow' case in Italy, the sector collapsed (–60% y-o-y). By the end of March, despite a partial recovery in that month (+13% y-o-y), total purchases of beef since the beginning of the crisis were down by 37%. To-date, and as a result of an intensification of checks, 20 BSE cases have been discovered in Italy, three of which involved cows butchered in the Group's Ospedaletto Lodigiano plant.

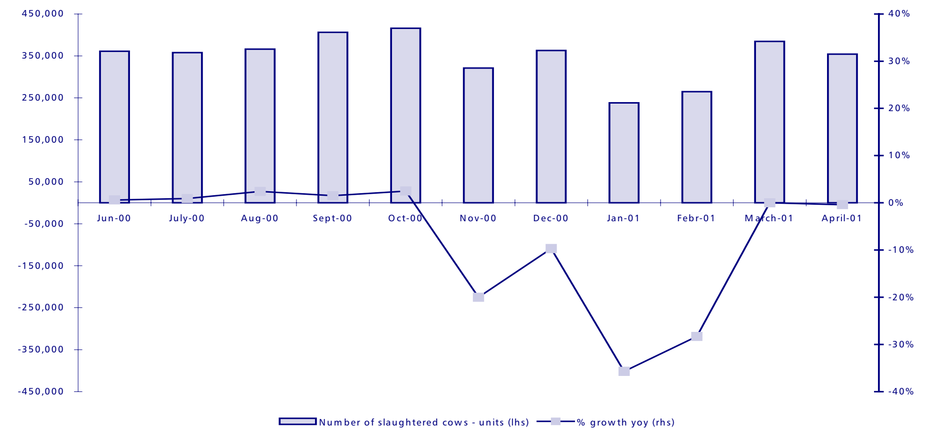
In the meantime the 'mad cow' effect boosted the consumption of non-meat-based food and also resulted in a switching of purchases away from red meats in general to white meats.

Figure 18. Italian Meat - Consumer Purchases (Volumes - y-o-y change)



Source: UBM on AC Nielsen-ISMEA.

Figure 19. Butchery Market Trend in Italy, June 2000 - April 01



Source: UBM on Assocarni.

Comfort from recent market trend

As illustrated in Figure 19, recent data seems to indicate a recovery in the market, and according to ISMEA (Institute for Services to Agricultural and Food Markets) beef consumption declined by only 13% y-o-y in May. According to press sources, current beef consumption is 12% below the pre-crisis levels.

The post-BSE market will be characterised by greater safety controls and technological know-how...

What is the market scenario after 'mad cow' disease?

The panic generated by the numerous 'mad cow' cases in Western European countries and the consequent fall in consumer confidence necessitated more stringent checking as well as major changes in the existing regulatory framework:

- Starting from January 2001 testing has become compulsory for all cows older than thirty months.
- Moreover recent laws have introduced the equivalent of an identity card for all beef based products. Since September 2000 it has been possible to trace the finished product back to the slaughterhouse. Starting on 1 January 2002 it will be possible to trace the finished product back to the breeding stock.

- Furthermore the new rules concerning the removal of the specific risky materials, particularly the spinal cord, are favouring those butchers who are already equipped for the meat de-boning and cutting.

… and by a lower number of players

The stringent safety requirements now in place within the EU are a key factor in regaining consumer confidence. This process is not painless, as the adaptation of production to the new safety, technical and quality rules requires enormous investments in terms of engineering and technological know-how that only the more efficient producers will be able to afford.

The recent drop of the market coupled to the new stricter regulatory requirements are at the basis of the ongoing sector concentration. In the past five years up to the end of 2000 the number of slaughterhouses in Italy decreased from 6,000 to 2,000-2,500. Over the next two-to-three years it is thought that a further 30% could disappear. This trend should favour the larger players, foremost amongst which is Cremonini. We estimate Inalca's market share to be currently around 23% against 17.5% at the end of 2000.

3.3 Cremonini was victim of the effects of the disease…

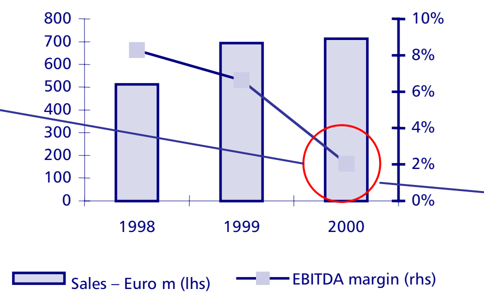
2000 Results

2000: a year of transition…

In 2000 the Production operations reported a 2.7% y-o-y sales increase to €713 million from €694 million in 1999. The EBITDA margin fell from 6.6% in 1999 to 2.0% and net operating losses were €9 million compared to EBIT of €21.5 million in 1999. Cold cuts' turnover decreased 0.5% y-o-y, but the beef segment posted a 3% y-o-y sales increase.

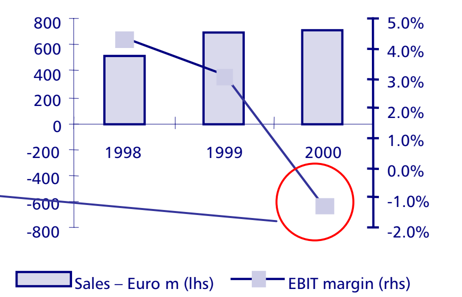
Figure 20. Production: EBITDA Margin…

Impact of 'mad cow' disease



Source: UBM on Cremonini data.

Figure 21. …and EBIT Margin Trends



Source: UBM on Cremonini data.

The poor 2000 performance was principally due to the incidence of 'mad cow' disease in the last quarter of the year. This resulted in:

- A volume collapse in the fourth quarter, which is normally one of the most favourable period of the year due to the Christmas period. Excluding November and December, beef production increased 7% y-o-y, while in 4Q00 the turnover of the production division was around €35 million below company's budget.
- A heavy inventory write-down (around €7 million) due to the crash in beef prices.

…even without 'mad cow'

Stripping out the 'mad cow' effect from the 2000 results, profitability would still have been below 1999 levels due to the continuing effect of internal factors which had already adversely affected the 1999 performance:

- The start up of the Ospedaletto Lodigiano plant which achieved lower than expected volumes in the first part of the year. This plant began operations in 1999 and has involved additional depreciation charges of €4.5 million
- The dilutive effect of the full year consolidation of Guardamiglio (consolidated starting from July 1999).

Impact of the beginning of operations at the Ospedaletto Lodigiani plant and of the acquisition of Guardamiglio

Figure 22. Simulation Table: 2000 Results Excluding the 'Mad Cow' Effect (€m)

	1999	2000 Act.	2000 without BSE	y-o-y change 00-99	y-o-y change 00-99 without BSE
Production					
Beef	613.9	633.0	669.2	3.1%	9.0%
Cold cuts & snack	75.6	75.2	75.2	-0.5%	-0.5%
Spices	4.5	4.9	4.9	8.2%	8.2%
Sales	**694.0**	**713.1**	**749.3**	**2.7%**	**8.0%**
EBITDA	**46.0**	**14.6**	**38.6**	**-68.3%**	**-16.2%**
EBITDA margin	*6.6%*	*2.0%*	*5.1%*		
EBIT	**21.5**	**-9.1**	**15.0**	**-142.2%**	**-30.3%**
EBIT margin	*3.1%*	*-1.3%*	*2.0%*		
Consolidated figures					
Sales	**1314.0**	**1388.7**	**1425.0**	**5.7%**	**8.4%**
EBITDA	**100.8**	**66.1**	**90.1**	**-34.4%**	**-10.6%**
EBITDA margin	*7.7%*	*4.8%*	*6.3%*		
EBIT	**52.3**	**20.6**	**44.6**	**-60.6%**	**-14.8%**
EBIT margin	*4.0%*	*1.5%*	*3.1%*		

Source: Cremonini and UBM.

1Q01 results

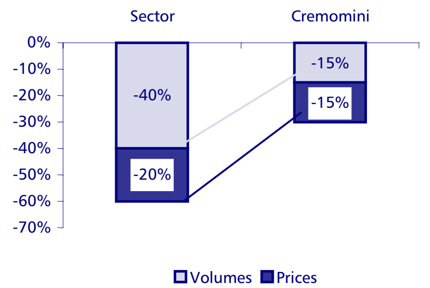
1Q01: the crash period in Italy...

In 1Q01 following the discovery of the first 'mad cow' case in Italy the market scenario further deteriorated.

...but Cremonini outperformed the market

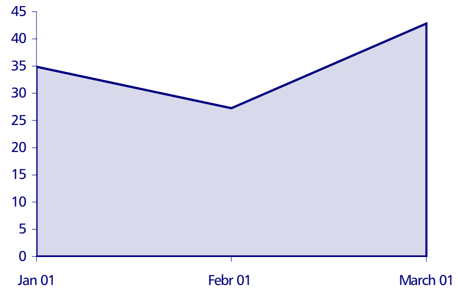
The first three months of 2001 have been a critical period: turnover in the Italian beef market fell 60% y-o-y (40% volumes, 20% prices). Cremonini, the market leader, was severely affected by the collapse in demand. The average number of cattle slaughtered per day in the Group's plants reached lows of 600 units compared to around 2,000 pre-crisis level. Full capacity is 3,000 and the break-even volume is 1,600 cattle. On the other hand in the same period Cremonini outperformed the market, with sales declining 30% (15% volumes, 15% prices). This means that the Group actually gained market share, although this did not prevent it falling into loss. In March, in line with the market trend, Cremonini's performance slightly improved (daily average of slaughtered cows of around 1,500). Turnover of the division declined 25% y-o-y in the first quarter.

Figure 23. Cremonini versus the Italian Beef Market: Sales Performance in Jan-Mar 01



Source: UBM on Cremonini data.

Figure 24. Cremonini: Beef Revenues Trend in 1Q01 by Month (€m)



Source: Cremonini.

Figure 25. Production Division: 1Q01 Results (€m)

	1Q00	1Q01	% y-o-y change
Sales	**168.1**	**125.7**	**-25.2%**
Changes in inventory	16.3	-1.5	
Operating costs	-178.6	-123.9	
Securitization costs	1.0	0.9	
EBITDA	**6.8**	**1.2**	**-81.6%**
EBITDA margin	*4.0%*	*1.0%*	
Amortisation	-5.2	-6.0	
Write off & other provisions	-0.2	-0.4	
EBIT	**1.4**	**-5.1**	**n.m.**
EBIT margin	*1%*	*-4%*	

Source: Cremonini.

3.4 ...but what if the market starts to recover?

The recovery that started in March has continued and although it is still too early to say if the BSE situation has structurally changed consumer preferences, we do not expect the beef market to remain at the current depressed levels in the long term.

Recent trading...

Slight recovery expected in 2Q01

As indicated above, consumer confidence in beef is now improving. According to the company's preliminary indications, in April the y-o-y decline in sales reduced to around 15% and in May the Group's sales performance should have been even better. Therefore the 2Q01 y-o-y comparison should be less negative than the 25% drop recorded in the first quarter (we estimate -11% y-o-y) which would represent a y-o-y decline in the half year of 18%.

The current output of the production division is around 1,610 units on average per day (of which 817 at Ospedaletto Lodigiano, 793 at Castelvetro Modenese), which is up by 168% from the low point reached during the crisis, but 20% down on the pre-crisis level and 46% below full capacity. Volumes are, however, now back to around the break-even level. Moreover, due to the increase of complementary services (such as meat de-boning) we estimate that the company was profitable in 2Q01. In addition, by the end of June the order intake from retail chains and industries is believed to have reached a relatively satisfactory level.

...enhances Cremonini's competitive positioning

Although short-term visibility is poor, Cremonini is well positioned to benefit from a potential recovery in beef consumption thanks to the numerous competitive advantages it enjoys:

- **An outstanding industrial structure**. Thanks to recent investments, Cremonini can claim quality and health safety standards in line with the new, more stringent regulations.
- **A favourable competitive scenario**. The high costs required to face the new regulatory framework represent a critical issue for the small existing players and a significantly increased barrier for potential new entrants.
- **A wide production capacity.** After a long period spent strengthening the Group's production structure and improving quality, 2000 and 2001 should have been years for reaping the rewards. Instead, the outbreak of the 'mad cow' disease totally offset the expected benefits from these investments. Nevertheless, these past investments are a source of strength: and when markets improve, and business polarises further towards the major producers, Cremonini would be in a favourable position to meet the growth in demand and at the same time benefit

from economies of scale. In addition, the company is planning to increase its presence elsewhere in Europe and also in other regions.

- **An increasing customer basis**. The expected development of large retailers coupled with a decrease in their own meat production should widen Cremonini's customer base. The growing number of catering points (i.e. fast food) is another area of potential growth.

Hence, it will be seen that Group's strategy for its production division is to ensure that it is well-positioned to benefit from evolving market trends. At the same time management is making internal changes aimed at increasing profitability, including:

- reducing cost and achieving synergies among the different divisions and segments (Corte Buona will continue to distribute its products, using the Montana brand)
- increasing the incidence of higher value added products, i.e. finished, packaged and branded products (these typically carry a 10% EBITDA margin), up from 55% at the end of 2000 to at least 60% by the end of 2003.

As far as we are aware, no further acquisitions are in the pipeline and no additional major investments are planned. Consequently, capital expenditure should in future be close to the maintenance level of around €15-18 million per year. Finally the possible diversification into other kinds of meat is not an issue at present, as Cremonini will continue to focus on core business (beef).

3.5 2001-03 outlook: the sun after the storm?

Sales

The most likely scenario is a recovery to the pre-BSE levels in 2002-03

Given the continuing low visibility in the sector, forecasting future sales of the production division is very subjective. Our approach, while tending towards caution, nevertheless takes account of the recent gradual market recovery.

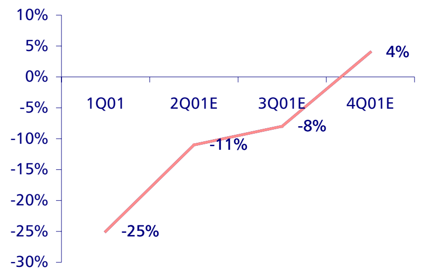
We forecast that the turnover of the production operations will decline by 8.3% y-o-y to €653.6 million in 2001 and then gradually recover by posting 6.7% and 4.5% y-o-y increases in 2002 and 2003 respectively.

Our estimates underline different assumptions for each business line. While spices are assumed flat, cold cuts should grow by around 5% p.a. over the period to 2003 (+9% y-o-y in 1Q01, mainly driven by the price effect).

The expected increase at cold cuts should partly offset the 10% decline (around -3% volumes and -7% prices) estimated in the beef segment in the current year. In 2002 the latter should record a 7% y-o-y increase. In 2001-2002 we predict that this core segment will experience a gradual turnaround in volumes (from the low point reached at the beginning of the year) driven by both demand recovery and increased market share. Given the nature of the product (fresh food), the time to delivery is very quick. Hence the company's own deliveries react immediately to fluctuations in demand.

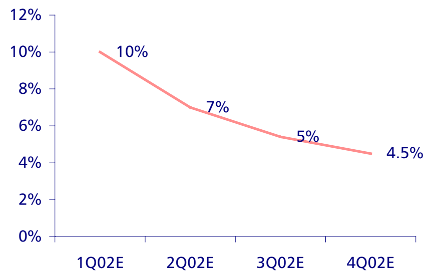
Figure 26 and Figure 27 illustrate the trend by quarter implied by our estimates for 2001 and 2002 respectively. It should be noted that the beef market has a positive seasonality in the fourth quarter of the year due to the Christmas period. Canned meat products also experience strong demand in the second quarter. It is also important to be aware that 4Q01 and 1Q02 should benefit from a favourable y-o-y comparison.

Figure 26. Cremonini's Beef Segment: Estimated Sales Performance in 2001 (y-o-y)



Source: UBM.

Figure 27. Cremonini's Beef Segment: Estimated Sales Performance in 2002 (y-o-y)



Source: UBM.

Excluding unexpected shocks in the sector (the recent reported BSE cases had a very low impact on the market) these forecasts are consistent with recent demand trends and the Group's own performance.

The UK experience supports our predictions. Consumer confidence in British beef continued to improve in 2000, with consumption only 3% below 1995 level. This fall is well below what might have been expected taking into account the annual decline of around 2.5% in red meat consumption since 1970s.

We would like to stress that our projections are lower than the company's own expectations and that our assumption is for volumes to only recover to the 1999 levels in 2002.

In 2003 we are assuming 4.5% sales growth which should be the minimum achievable under normal market conditions.

Profitability

We estimate that margins will recover to pre-crisis levels in two-to-three years

As for profitability, we estimate that the EBITDA margin will improve from 2% in 2000 to 4.8% in 2001 and an EBIT margin of 1% in 2001, up from 1.3% negative in 2000.

Operating leverage is a critical factor

Our expectations of a recovery in profitability are based on the following factors:

- Benefits of operating leverage once volumes increase.
- Lower upward pressure on raw materials prices, beginning in 2H01. In the first part of the year, despite the reduction in demand for beef, the Group suffered from a raw materials shortage. Until the end of June the Italian breeders could benefit from State aid when slaughtering cattle with an age greater than thirty months, as older animals are at greater risk from BSE. Cremonini purchases considerable quantities of these animals and prices were forced higher as breeders preferred to take the government's fee rather than sell the cattle to meat producers. This had the benefit of by-passing compulsory checks and the risk of having to slaughter an entire herd. Raw material prices, which had collapsed by 20%, partly recovered as a result of this situation. At the current time Cremonini's buying prices are 10% lower than the pre-crisis level.
- A positive operating result at Corte Buona. In 2001 the cold cuts division should return to profit after breaking-even in 2000. Unlike 2000, in the current year the company should be able to pass-on its raw material price increased to its customers.

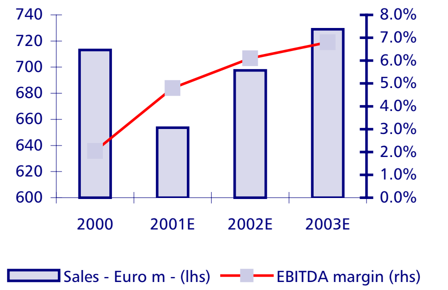
- Savings in labour costs. In the Feb-April 2001 period the Group benefited from temporary lay-offs of under-utilised personnel, thus saving around €3-3.5 million.

In 2002 and 2003 margins are expected to improve further as a result of:

- The Group's operating leverage, fundamental in a sector where the fixed costs are structurally high
- Costs synergies with other divisions
- A greater contribution from higher value-added products.

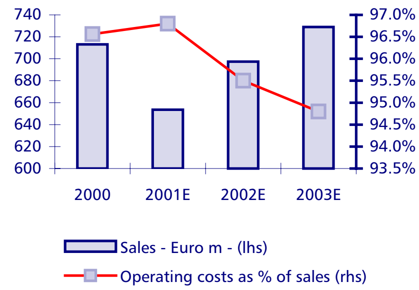
Also in terms of profitability our estimates are more conservative than the company's indications. While management budgets for 2003-04 are based on achieving the same profitability levels as 1998, we are only predicting a return to 1999 operating margins in 2003 (in that year margins were reduced by depreciation charges linked to the new Ospedaletto Lodigiano plant and by the partial consolidation of Guardamiglio).

Figure 28. Expected Gradual Improvement in Profitability…



Source: UBM.

Figure 29. …Thanks to the Group's Operating Leverage



Source: UBM. Note: operating costs include raw materials, labour costs and service costs

Figure 30. Production Division: P&L Statement (€m)

	1998	1999	2000	2001E	2002E	2003E	CAGR 00-03	CAGR 01-03
Beef	441.0	613.9	633.0	569.7	609.6	637.0	0.2%	5.7%
Cold cuts & snack	65.9	75.6	75.2	79.0	82.9	87.1	5.0%	5.0%
Spices	5.4	4.5	4.9	4.9	4.9	4.9	0.0%	0.0%
Total revenues	**512.3**	**694.0**	**713.1**	**653.6**	**697.4**	**729.0**	**0.7%**	**5.6%**
Operating costs	-469.8	-648.0	-698.5	-622.2	-654.9	-679.5		
EBITDA	**42.4**	**46.0**	**14.6**	**31.4**	**42.5**	**49.6**	**50.4%**	**25.7%**
EBITDA margin	*8.3%*	*6.6%*	*2.0%*	*4.8%*	*6.1%*	*6.8%*		
EBIT	**22.3**	**21.5**	**-9.1**	**6.9**	**19.5**	**25.1**	**n.m.**	**91.5%**
EBIT margin	*4.4%*	*3.1%*	*-1.3%*	*1.0%*	*2.8%*	*3.4%*		
Sales breakdown (% of total)								
Beef	86.1%	88.5%	88.8%	87.2%	87.4%	87.4%		
Cold cuts & snack	12.9%	10.9%	10.5%	12.1%	11.9%	11.9%		
Spices	1.0%	0.7%	0.7%	0.8%	0.7%	0.7%		
% y-o-y change								
Beef		39.2%	3.1%	-10.0%	7.0%	4.5%		
Cold cuts & snack		14.7%	-0.5%	5.0%	5.0%	5.0%		
Spices		-15.4%	8.2%	0.0%	0.0%	0.0%		
Sales		35.5%	2.7%	-8.3%	6.7%	4.5%		
EBITDA		8.5%	-68.3%	115.2%	35.6%	16.5%		
EBIT		-3.9%	n.m.	n.m.	184.8%	28.8%		

Source: Cremonini and UBM.

4. Distribution

↗ MARR, a successful business model

4.1 Business description

The distribution division is the second arm of Cremonini's business (represented 38% and 50% respectively of Group sales and EBITDA in 2000). Through MARR the Group is one of the leading players in the Italian food service market. Cremonini also offers door-to-door services through Islandia (which will be incorporated in MARR from September).

Figure 31. Distribution Division: Profile by Line

Company	Sector	% on 2000 revenues	Products	Brands
MARR	Foodservice	96.5%	Fresh food, ice food, dry food equipment	
Islandia	Door to door	3.5%	Ice cream, fish, meet, pizza, snack, vegetables	Quinta Stagione

Source: UBM on Cremonini data.

Business is essentially concentrated on the Italian market (97% of total sales in 2000) with small amounts in neighbouring countries (Costa Azzurra).

Figure 32. Distribution Division: Profile by Geographic Area

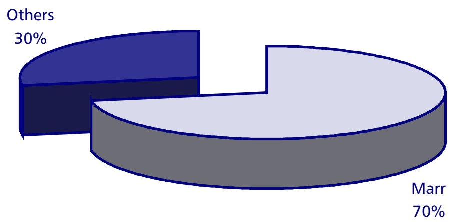
	1998	1999	2000
Total sales	100%	100%	100%
Italy	98%	98%	97%
EU	0.8%	1.19%	1.49%
Non-EU	1.0%	0.8%	1.4%

Source: UBM on Cremonini data. Note: Reclassification based on statutory accounts

Foodservice

With €529 million sales and a 70% market share MARR is the major operator in the Italian organised food service distribution sector. Set up in 1972, it started to operate in Rimini, which is located in one of the most important Italian tourist areas.

Figure 33. Italian Foodservice Market*, 1999



*Source: Cremonini on Gira data. *Mass market distribution*

Figure 34. MARR at a Glance

18 distribution centres in Italy
1 centralised purchases point
More than 300 vehicles with controlled temperature transport systems
30,000 customers
365 agents and 40 area managers
10,000 food and non-food products offered

Source: UBM on Cremonini data.

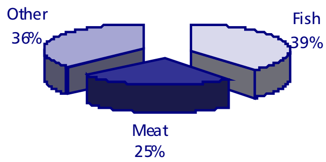
Thanks to its long-standing experience, its wide range of products and its widespread distribution structure, MARR has been consolidating its customer base, which is mainly represented by the organised tourist trade and to a lesser extent by the catering departments of institution such as hospitals and prisons. The company's product range includes more than 10,000 food products. MARR is the main Italian frozen fish importer. Delivery time is 24 hours on average (12 hours for fresh products). This diversification reduces Cremonini's overall Group exposure to BSE.

MARR has recently acquired the whole of Gelofood for €0.65 million. The company specialises in the distribution of fish-based products, and has sales of €6.5 million. This acquisition should enhance the company's presence in Liguria region (North-West of Italy) and also its logistic structure.

Figure 35. MARR Distribution Map *

*Source: UBM on Cremonini data. *distribution centres*

Figure 36. MARR Product Offering



Source: UBM on Cremonini data.

Figure 37. Distribution Division: Key Customers

Hotel chains	Sheraton, Club Mediterranée, Forte Resort, Ciga Valtur, Atahotels, Jolly Hotels, Cit, Robinson Club, Cogeta, Oro Vacanze, Hit Alliance
Catering and restauration	McDonald's, Autogrill, Burger King, Sodexho

Source: UBM on Cremonini data.

Door-to-door

Through the "Quinta Stagione" brand Islandia ranked third in the Italian door-to-door food delivery to private clients with a turnover of €19 million in 2000. The distribution network is composed of 360 vans, around 400 sales people, 21 warehouses and 8 concessionaire agents. The selling force is concentrated in the North-Centre of Italy but the network will be expanded into Southern Italian regions in near future. Main product areas are: ice cream, frozen products and ready meals. Islandia has recently started 'on-line' sales, offering more than 220 products on the 'Quinta Stagione' web site. The start-up costs were not significant; as yet, sales via the web are very low. Earlier this year, Islandia entered into an agreement with Malgara, Chiari & Forti, a company operating in the distribution of ice cream, iced food and 'ready-to-eat' food (in 2000 it recorded €5.1 million turnover. Its 56 agents cover north Italy). The agreement should become operative starting from the second half 2001; the cost to Islandia is minimal at €129,000 per year.

4.2 Sector overview

Early stage of development

The Italian distribution sector is highly fragmented and in an early stage of development compared to other European countries. As showed in Figure 38, traditional distributors cover almost half of the market. These suppliers are characterised by limited product range and geographical coverage. The direct supply from producers to customers represents 22% of the market, while mass market distributors (this is the business in which MARR operates) represent only 6% of the market.

Figure 38. Italian Distribution Market, 1999 (€m)

Gross distributors	2708.3	46.0%
Producers	1295.3	22.0%
Retail	412.1	7.0%
Cash & Carry	647.6	11.0%
Others	471.0	8.0%
Mass market distributors	353.3	6.0%
Of which:		
Cater Roma	*21.2*	*6.0%*
Central food	*28.3*	*8.0%*
Scapa	*56.5*	*16.0%*
Cremonini	*247.3*	*70.0%*
Total	5887.6	

Source: Gira.

Over the coming years, the Italian distribution market is expected to move towards the European average and consequently the share held by mass market distributors should increase. As a leading operator, Cremonini should benefit from this trend. An additional positive factor affecting the sector is the rise in the number of people eating out.

4.3 Recent financials

2000 results

A sound growth trend

In 2000 the distribution division of Cremonini reported a 4.3% y-o-y sales growth rate to €548 million and EBITDA and EBIT margins of 6% and 3.8% respectively. During the 1998-2000 period the divisional performance was underpinned by the 12% CAGR in sales within the foodservice segment. During this period, EBITDA margins were typically 5.8-6%. Growth in the period was driven by the efficient organisation of the distribution network and by a focus on large clients. In 1999, the net operating margin was adversely affected by a change in accounting for goodwill amortisation.

1Q01 results

In 1Q01 the distribution division posted a 7.9% increase in sales to €113 million, up from €104.6 million in 1Q00. The EBITDA and EBIT margins reached 3.5% and 0.6% respectively. These results are satisfactory in light of the high seasonality of the business, which is concentrated in the second and third quarters of the year with July and August being particularly strong months.

Figure 39. Distribution Division: 1Q01 Results (€m)

	1Q00	1Q01	% y-o-y change
Sales	104.6	112.9	7.9%
Changes in inventories	0.1	0.0	
Operating costs	-102.6	-109.9	
Securitization costs	0.8	0.9	
EBITDA	2.9	3.9	33.6%
EBITDA margin	*2.8%*	*3.5%*	
Amortisation	-2.0	-2.2	
Write off & other provisions	-0.6	-1.1	
EBIT	0.4	0.7	85.7%
EBIT margin	*0.4%*	*0.6%*	

Source: Cremonini.

4.4 Further room to grow

The customers' product selection and the enhancement of the distribution network are key growth drivers

Foodservice

In addition to the opportunities offered by the increasing weight of mass market distributors, this segment also offers an interesting growth potential linked to the following factors:

- Upgrading the quality of the company's customer list
- Broadening the company's product range, which should also strengthen customers loyalty
- Developing the B2B distribution network. Through on-line services Cremonini is planning to facilitate contacts with customers, thus absorbing all the routine orders and consequently reducing costs. This project should allow the sales force to focus on the customer advice service rather than on taking orders
- Exploiting synergies with other divisions
- Increasing penetration both in Italy and abroad. In addition to a wider coverage of the domestic market, the management will attempt to replicate the MARR model abroad. Spain, Greece and France are target markets because they have characteristics similar to Italy. The high level of competition in these markets and the necessity for an organised network represent significant entry barriers. Nevertheless, the establishment of agreements and/or joint-ventures with local distributors should help facilitate entry, as will the synergies with the Group's foreign on-board catering business.

Door-to-door

The door-to-door business benefits from being integrated within the foodservice structure. Indeed, the utilisation of MARR's logistic network and storage centres gives Islandia a key competitive advantage. Future growth in door-to-door will be pursued through:

- Benefits deriving from the recent restructuring. Since 1998 Islandia has invested €2.5 million per year to improve its subsidiary network. The new structure should provide a platform both for future top line growth and efficiency costs.
- A new target customer. While in the past Islandia's typical customers were elderly people, living in small towns with a low disposable income, the new target clients are working people, living in large centres of population, with little time to spend for shopping or cooking and hence requiring ready-to-eat products. The development of the B2C activity is aimed at this type of customer and the business should benefit from the availability of evening and weekend deliveries.
- Increased coverage of the domestic market through expansion into Southern Italy.
- Increasing the number of vans from the current 360 to 500 in two-three years and raising sales per salesman (the break even is around €10,000 per month).

While the foodservice segment offers considerable potential due to the expected market evolution and to MARR's already competitive positioning, we are more cautious on the development of the door-to-door business. The same customer targeted by the management is already courted by a great number of players, both off-line and on-line, primarily the large food retailers.

4.5 2001-2003 outlook

We expect a CAGR of 10% in sales and 23% in EBIT in the distribution division over the period 2001-03

Sales

As a result of the above considerations, we forecast that the distribution division will achieve a 10% CAGR in sales in the 2000-2003 period, driven mainly by the foodservice segment. In the case of the door-to door business, our assumption of 7% compound growth reflects our scepticism, being around 50% lower than the company targets for 2003.

Profitability

The divisional profitability should be boosted by:

- A strong operating leverage at foodservice. As volumes increase, purchasing power towards suppliers improves, the fixed cost incidence reduces, the group's organisation is optimised (higher deliveries per van).
- Islandia should break even in 2001 and see improving profits thereafter. In 2000 it had an operating loss of €2.5-3 million. Excluding the negative effect of Islandia, the divisional EBIT margin would have been 4.3%.

Overall, we forecast that the EBITDA margin will increase to 7.2% in 2003 from 6% in 2000 and the EBIT margin to 5.1% in 2003 from 3.8% in 2000. Due to the low level of maintenance capex (around €15 million per year), the depreciation and amortisation costs are expected to remain at about 1.5% of sales. Our profit projections compare with the higher 7.5% EBITDA margin budgeted by the company in 2003.

Figure 40. Distribution Division: P&L Statement (€m)

	1998	1999	2000	2001E	2002E	2003E	CAGR 00-03	CAGR 01-03
Foodservices	418.8	507.0	528.7	576.3	633.9	703.6	10.0%	10.5%
Door to door	20.0	18.4	19.0	20.3	21.7	23.4	7.2%	7.5%
Total revenues	**438.8**	**525.4**	**547.7**	**596.5**	**655.6**	**727.0**	**9.9%**	**10.4%**
Operative costs	-413.3	-495.0	-514.6	-558.9	-611.6	-674.7		
EBITDA	**25.5**	**30.7**	**33.1**	**37.6**	**43.9**	**51.6**	**16.5%**	**18.0%**
EBITDA margin	*5.8%*	*5.8%*	*6.0%*	*6.3%*	*6.7%*	*7.1%*		
D&A	-7.6	-12.0	-12.3	-13.1	-14.4	-15.3		
EBIT	**17.8**	**18.7**	**20.8**	**24.5**	**29.5**	**36.4**	**21.2%**	**23.1%**
EBIT margin	*4.1%*	*3.6%*	*3.8%*	*4.1%*	*4.5%*	*5.0%*		
Sales breakdown (% of total)								
Foodservices	95.4%	96.5%	96.5%	96.6%	96.7%	96.8%		
Door to door	4.6%	3.5%	3.5%	3.4%	3.3%	3.2%		
% y-o-y change								
Foodservices		21.1%	4.3%	9.0%	10.0%	11.0%		
Door to door		-8.2%	3.5%	6.5%	7.0%	8.0%		
Total revenues		19.7%	4.3%	8.9%	9.9%	10.9%		
EBITDA		20.6%	7.9%	13.4%	16.9%	17.5%		
EBIT		5.1%	11.0%	17.5%	20.6%	23.2%		

Source: Cremonini and UBM.

5. Catering

- A fast growing sector
- A unique position in on-board catering services

5.1 Business description

Through Agape, Cremonini participates in both the on-board and commercial catering sectors in Italy and abroad.

Figure 41. Catering Division: Profile by Line

Company	Sector	% on 2000 revenues	Brands
Agape	Commercial (railways, airports, shopping malls)	35.9%	Piazza Italia, Harry's Bar Roma, Gusto, Food Village
	On-board	64.1%	Chef Express

Source: UBM on Cremonini data.

Figure 42. Catering Division: Profile by Geographic Area

	1998	1999	2000
Total sales	100%	100%	100%
Italy	100%	98%	76%
EU	0.0%	2.1%	24.4%

Source: UBM on Cremonini data. Note: Reclassification based on statutory accounts

Beginning of the Eurostar business

On-board catering

Since 1990, Agape has been the exclusive supplier of on-board catering services on around 500 Italian trains (with the 'Chef Express' brand). In June 2000, Cremonini's joint venture with Granada Food Services (51% Cremonini) was awarded the contract for the on-board catering on the Eurostar trains on the London-Paris route. Cremonini also has on-board catering contracts with a number of other European rail operators (TGV, Cisalpino).

Figure 43. On-board Catering Profile

Customer	Stretch	Expiring data
Italian Railways	Italy	May 2003 (renewable for a further one year)
Eurostar	London-Paris, London-Brussels	1 June 2004 (renewable for a further four years)
Cisalpino	Milan/Venice/Florence to Switzerland	31 December 2003
TGV	Paris-Milan	31 May 2002

Source: UBM on Cremonini data.

Commercial catering

With 185 points of sale, Agape is a leading participant in the Italian commercial catering business, supplying a variety of different operations (railways, airports, sports venues, etc.). In railways, the company has 25 contracts with an average contract life of ten years. As for airports, in addition to Rome and Milan, the company has recently won a tender for the catering services at Palermo airport. The latter should contribute €2.3 million p.a. in a five-year period (expires: 2006).

Figure 44. Commercial Catering: Network Profile

Channel	Key data
Airports	Rome-Fiumicino, Milan-Malpensa, Palermo
Railway stations	23 railway stations in Italy (mainly in North Italy, in the rest of Italy key locations are Rome and Palermo) and 2 in France
Sports venues	Key locations are: Formello (Rome) and Autodromo del Mugello (Modena)
Shopping malls	Rome, Viterbo and Ferrara

Source: UBM on Cremonini data.

Sales points are either managed directly or through franchisee agreements. The range includes:

- Mobile bars: mobile or half-mobile structures selling drinks, sandwiches and fast food products.
- Restaurants and self service areas
- Pizzerias, take away and cut pizzas
- Chef Express Bars: bars, cafeterias and mini-markets.

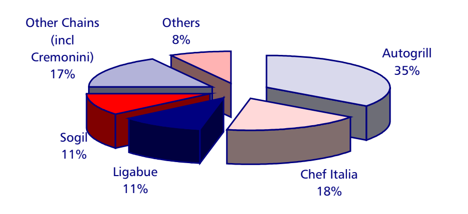
In addition, in large food areas Cremonini acts as a franchisee for some brands (Spizzico, McDonald's).

5.2 Sector Overview

Focus on the railway catering niche

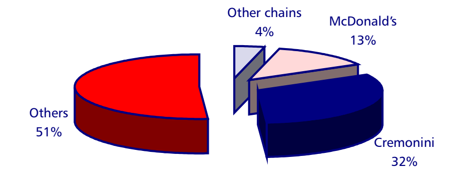
While Cremonini has the advantage of being the sole supplier in the Italian "on-board" segment, the broader Italian commercial catering segment is highly fragmented. The top 30 suppliers (which include Autogrill, McDonald's and Agape) account for less than 10% of the market. As shown in the figures below, Cremonini is a leading player in the rail station catering niche, but its presence is not material in the airports. In on-board catering outside Italy the main competitors are Wagon Lits, Mitropa and RailGourmet.

Figure 45. Airport Catering, 2000



Source: Gira.

Figure 46. Rail Station Catering, 2000



Source: Gira.

Both the commercial and the "on-board" catering sectors are likely to grow significantly in the future. The trend towards increased eating out is a key driver for commercial catering, while the increase in the average traffic (+3% year on year) will sustain the "on-board" sector.

5.3 Recent financials

The Eurostar agreement boosted sales while diluting profitability

2000 results

In 2000 the divisional performance was impacted by the start-up of the Eurostar activities, which added to turnover (additional €30 million) while diluting margins. We estimate that the Eurostar business achieved an EBIT margin of around 6% compared to the 15.2% achieved by the overall catering division in 1999 and to the 10% net margin estimated for the Italian on-board business. Also, commercial catering reported an impressive performance, driven by an aggressive marketing strategy, the opening of new big fast-food areas inside existing sales points, new openings in stations and the Millennium effect. The investments in new openings and the renewal of the contract with the Italian railways at more unfavourable conditions could also have influenced 2000 profitability, as the latter probably involved higher royalties.

1Q01 results

The 'Eurostar effect' also impacted on the company's accounts in 1Q01, the joint-venture company having been consolidated in the second half of 2000.

Figure 47. Catering Division: 1Q01 Results (€m)

	1Q00	1Q01	y-o-y change
Sales	25.2	40.1	58.9%
Changes in inventories	0.0	0.0	
Operating costs	-22.1	-36.0	
Securitization costs	0.0	0.0	
EBITDA	3.1	4.0	30.7%
EBITDA margin	*12.2%*	*10.1%*	
Amortisation	-1.1	-1.3	
Write-off & other provisions	-0.1	-0.1	
EBIT	1.9	2.6	39.4%
EBIT margin	*7.4%*	*6.5%*	

Source: Cremonini.

5.4 Strategy

We consider foreign expansion a difficult challenge

Catering is the smallest activity of the group in terms of revenues but it has the highest margin.

On-board

On-board catering normally generates a marginal profit due principally to the limited storage capacity on the average train and the necessity of frequent re-stocking. The integration with MARR gives the company a major competitive advantage and should enable it to sustain profitability in this difficult sector. For the coming years its strategy is focused on:

- Increasing the number of trains to be served. While currently catering is restricted to around 500 trains, in future all trains (around 770) will have catering services (under different formats) on-board.
- Developing further abroad. During 2001-2002 the company plans to bid for railway catering contracts in Belgium, Spain, France and Austria, all of which will be put out to tender in the near future. In order to replicate the company's business model in Italy, if it is successful in winning contracts, Agape will enter into supply agreements with local distributors.
- Expanding the product offering.

The expiry of contracts is not an issue: some of them are easily renewable, whilst in other areas, as in Italy, the barrier to entry is high, and access to a distribution network (like that of MARR) is necessary.

Commercial

Even though it is also involved in areas such as airports, shopping malls and sports venues, Agape's principal commercial catering business is in railway stations. The key growth drivers in commercial catering are:

- The development of the 'food village' concept, i.e. a wide range of services aimed at people that are travelling, based on the model which was successfully tested at the Rome Termini railway station. The company plans 4-5 new openings per year over the next three years.
- The implementation of the 'Roadhouse Grill' project, a joint venture (98.5% Cremonini) with the American Roadhouse chain, for the creation of a steakhouse chain in Italy and in other European countries. The original plan called for 60 openings in 2001-2004, with the first seven in 2001. The BSE crisis has caused the project to be postponed for a year. In 2001 only two openings have been realised (Castellanza and Rome). Over the next five years, the company expects this project to generate €90 million in sales. Initial capital expenditure per outlet is around €1.4 million. The average time to achieve break- even is estimated to be around 18 months.
- The development of the catering chain 'Gusto' in France. In the second half of 2000, leveraging on MARR's logistic network, the Group opened three Gusto restaurants in Southern France. Management has not revealed its future plans in this area.

5.5 2001-2003 outlook

We expect 12% CAGR in sales and 14% in EBIT in the catering division in the 2001-03 period

In 2001, the sales of the Catering division will benefit from the full-year consolidation of the Eurostar business (additional €30 million); however the inclusion is likely to have a negative effect on Group margins. During 2002-2003, we expect the divisional turnover to grow organically (i.e. excluding new contracts) by 10% per year as a result of the strategic actions described above. As for profitability, we expect margins to improve by 30 basis points per year essentially due to higher volumes, which should generate significant economies of scale. Our conservative projections take into account the costs of new openings and of developing the new chains. The catering business, while requiring low capital commitment, is highly labour intensive (labour costs account for 30% of sales). Under the terms of the agreement with Eurostar, Agape could benefit from better commercial conditions as it achieves agreed targets based on the number of customers served and of their degree of satisfaction.

Figure 48. Catering: P&L Statement (€m)

	1998	1999	2000	2001E	2002E	2003E	CAGR 00-03	CAGR 01-03
Commercial	45.7	47.9	52.9	59.3	66.6	74.9	12.3%	12.4%
On-board	54.2	61.3	94.5	126.7	137.3	148.9	16.3%	8.4%
Total revenues	**99.9**	**109.2**	**147.5**	**186.0**	**204.0**	**223.8**	**14.9%**	**9.7%**
Operative costs	-78.9	-87.5	-130.6	-165.5	-180.9	-197.8		
EBITDA	**21.1**	**21.7**	**16.9**	**20.5**	**23.0**	**26.0**	**15.4%**	**12.6%**
EBITDA margin	*21.1%*	*19.8%*	*11.4%*	*11.0%*	*11.3%*	*11.6%*		
Depreciation & amortisation	-5.0	-5.0	-5.1	-6.0	-6.5	-7.2		
EBIT	**16.0**	**16.6**	**11.8**	**14.5**	**16.5**	**18.8**	**16.9%**	**13.8%**
EBIT margin	*16.1%*	*15.2%*	*8.0%*	*7.8%*	*8.1%*	*8.4%*		
Sales breakdown (% on total)								
Commercial	45.7%	43.9%	35.9%	31.9%	32.7%	33.5%		
On-board	54.3%	56.1%	64.1%	68.1%	67.3%	66.5%		
% y-o-y change								
Commercial		4.9%	10.5%	12.0%	12.4%	12.4%		
On-board		13.0%	54.2%	34.0%	8.4%	8.4%		
Total revenues		9.3%	35.0%	26.1%	9.7%	9.7%		
EBITDA		2.9%	-22.2%	21.3%	12.7%	12.6%		
EBIT		3.7%	-29.3%	23.3%	13.9%	13.8%		

Source: Cremonini and UBM.

6. 2000-03 Consolidated Accounts

- Sales, EBITDA, EBIT and net profit are expected to have CAGR's of 8.3%, 19%, 34%, and 216% respectively in the 2001-03 period
- Cash flow is expected to be adequate to finance future growth...
- ...but the very high level of debt remains a key point
- MARR listing or industrial agreements would offer ways to reduce indebtedness

6.1 2000 results

We have already discussed the factors affecting the individual divisions in 2000. In particular, BSE had a major impact on the Group, which posted a net loss of €10 million compared to a net profit of €15.5 million in 1999.

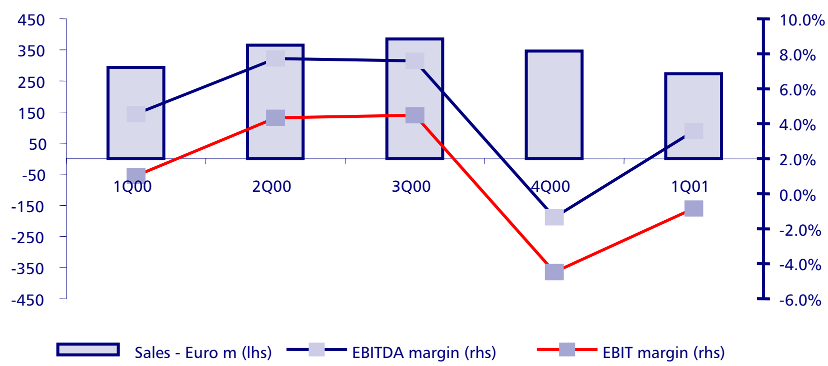
The sound sales performance at the distribution and catering divisions (+4.3% y-o-y and +35% y-o-y respectively) partly offset the disappointing results from production (+2.7% y-o-y). Consolidated sales grew 5.7% y-o-y to €1,388 million.

At the operating level, the collapse in demand experienced by the production division, coupled with the reduction in catering margins, resulted in a 34% fall in EBITDA to €66 million (the EBITDA margin declined to 4.8% from 7.7% in 1999). At the EBIT level there was a 60% reduction to €20.5 million (EBIT margins were 1.5% compared to 4% a year earlier).

6.2 1Q01 results

In the first quarter of 2001, despite continuing difficult market conditions, the Group's margins staged a recovery from the low levels of 4Q00. Sales decreased by 7% y-o-y to €272 million while EBITDA and EBIT declined to €9.8 million and €-2.3 million respectively from €13.4 million and €3 million in 1Q00.

Figure 49. Cremonini: Sales and Operating Margins by Quarter



Source: UBM on Cremonini data.

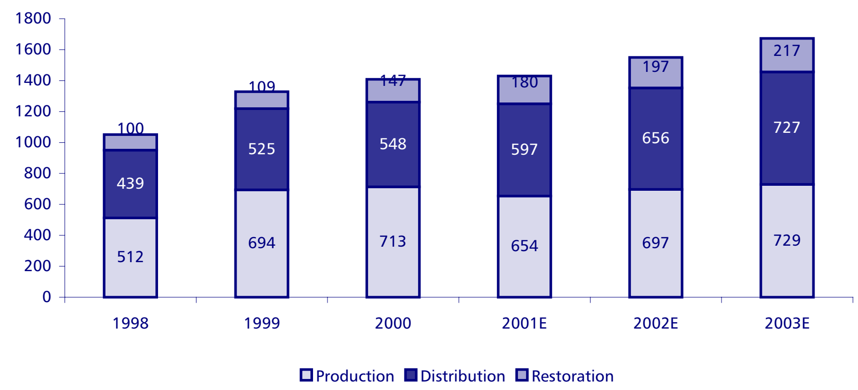
6.3 2001-03 Outlook: years of recovery...

We estimate 8.3% CAGR in sales and 34% in EBIT at the consolidated level in the 2001-03 period

...above the operating line...

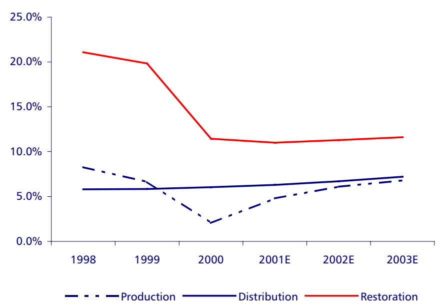
Given the scenarios detailed above for the individual divisions, in 2001 we expect sales to grow by 2% to €1,416.6 million and margins to start to recover (Figure 50, Figure 51, Figure 52). In the 2001-03 period, we forecast that sales will grow by 8.3% compound, rising to €1,660 million in 2003. EBITDA and EBIT margins should improve to 7.8% and 4.7% respectively by 2003 from 4.8% and 1.5% in 2000. Therefore, based on our conservative projections, within three years the EBITDA margin should recover to the 1999 pre-crisis level (this level was itself depressed by several internal factors). The recovery at the EBIT level will be faster, taking only two years, due to the effect of a slowdown in investments on the depreciation charge.

Figure 50. Sales Trend by Division, 1998-03E (€m)



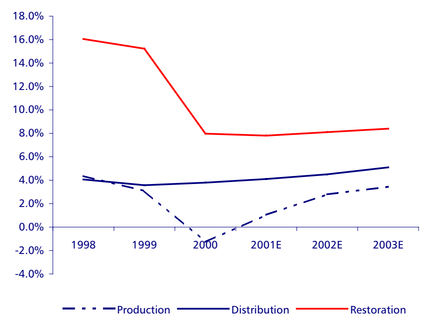
Source: Cremonini and UBM estimates.

Figure 51. EBITDA trend, 1998-03E



Source: Cremonini and UBM estimates.

Figure 52. EBIT trend, 1998-03E



Source: Cremonini and UBM estimates.

...and at the bottom line

After heavy finance charges (detailed below) and a 60% tax rate (also due to the effect of IRAP) we forecast that the Group net result will be slightly positive in 2001 at €2 million. In the 2001-2003 period the bottom line should grow 216% compound to €20 million in 2003 (above the 1999 level).

Balance sheet

The net financial position....

We regard the Group's financial structure to be an area for concern. In 2000, the net debt reached €500 million from €465.1 million in 1999, representing a gearing ratio of 264%.

...reflects the past investment policy

Since 1995 the company has pursued a consistent investment strategy focused on increasing its beef production capacity. The level of investment slowed in 1999 following the opening of the Ospedaletto Lodigiano plant and, in 2000, the main investments were related to new production lines at the company's factories. Prior to the BSE crisis, the payback period on new production plant was estimated at 5-6 years. Due to the lower level of demand that has resulted from the 'mad cow disease', the company does not anticipate further significant capital expenditure on production apart from maintenance costs (around €18 million p.a.). In contrast, as illustrated in Figure 53, the catering and production businesses are not capital intensive. Work on a new MARR distribution centre started last year and is continuing in 2001. The investment in the distribution business is related to this development.

Figure 53. Investments Breakdown by Division (€m)

	1999			2000		
	Tangible	Intangible	Total	Tangible	Intangible	Total
Production	35.3	13.9	49.2	19.8	6.5	26.3
Distribution	9.6	7.6	17.2	4	3.6	7.6
Catering	1.4	5	6.4	2.2	6	8.2
Others	1.1	0.8	1.9	0.7	0.3	1
Total (Net)	47.5	27.3	74.8	26.6	16.4	43

Source: Cremonini.

Figure 54. Net Financial Position Breakdown by Division (€m)

	Production	Distribution	Catering	Holding	Total
Cash & liquidity	4.0	9.6	7.8	13.2	34.6
Short-term debt	-131.8	-15.2	0.0	-64.6	-211.6
Long-term debt	-70.6	-20.5	0.0	-232.0	-323.1
Net financial position	-198.4	-26.1	7.8	-283.4	-500.1
% Breakdown					
Cash & liquidity	11.6%	27.8%	22.4%	38.1%	100%
Short-term debt	62.3%	7.2%	0.0%	30.5%	100%
Long-term debt	21.8%	6.3%	0.0%	71.8%	100%
Net financial position	39.7%	5.2%	-1.6%	56.7%	100%

Source: Cremonini.

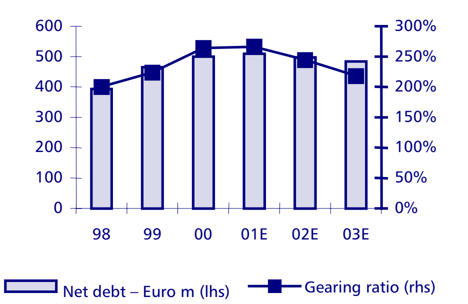
Although the level of consolidated capital spending will now stabilise at around €41 million per year, we do not expect net debt to significantly reduce in the next years (Figure 55).

On the one hand, based on our forecasts, the Group cash flow should be sufficient to finance both the planned capex and working capital requirements.

The financial leverage is a critical factor

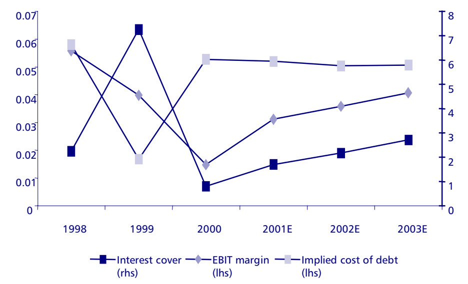
On the other hand, the huge net debt implies high financial charges and compromises the long-term sustainability of the Group's growth strategy. Although interest rates are expected to fall, we estimate a cost of debt for Cremonini still in the range of 6-6.3%. As profitability improves, interest cover should increase from 0.8x in 2000 to 2.6x in 2003, although this still represents an uncomfortably low level of cover (Figure 56). The Group debt (in 2000, 39.5% short term and 60.4% long term) is all at variable rate and is euro-denominated.

Figure 55. The Group's Financial Structure...



Source: Cremonini and UBM estimates.

Figure 56....and Financial Leverage



Source: UBM.

In 2000, in order to help stabilise the share price, the company increased the number of its own shares held in its treasury portfolio. At the end of the year, the company held around 4.1 million of its own shares, corresponding to a book value of about €10.5 million.

Figure 57. Owns Shares

	N° shares	% on Total Share Capital	Book value
1999	1,297,000	0.92%	€2.74 million
2000	4,113,000	2.90%	€10.5 million

Source: Cremonini.

6.4 Any benefits from potential extraordinary operations?

The company is known to be exploring a number of measures aimed at reducing its borrowings. Whilst we believe that the issue of a convertible bond and/or a capital increase is unlikely, management might consider allowing a partner to buy a share of its catering division or an IPO of MARR.

We are not in a position to evaluate the potential impact on the Group's balance sheet of a partnership in the catering division as it would require too many arbitrary assumptions.

We have however examined the possible listing of MARR. Our assumptions are based on an evaluation of the total distribution division, without distinguishing between MARR and Islandia (which we expect to break even in 2001). Our analysis suggests that a full MARR listing could almost halve the Group's gearing ratio although only partially addressing the problem of the high financial charges.

7. Detailed Financial Statements

Figure 58. Consolidated P&L Statement (€m)

	1998	1999	2000	2001E	2002E	2003E	CAGR 00-03	CAGR 01-03
Total sales	1042.7	1314.0	1388.7	1416.6	1537.5	1660.3	6.1%	8.3%
EBITDA	**95.7**	**100.8**	**66.1**	**91.1**	**111.2**	**128.8**	24.9%	18.9%
EBITDA margin	*9.2%*	*7.7%*	*4.8%*	*6.4%*	*7.2%*	*7.8%*		
D&A	-31.0	-40.7	-40.2	-42.5	-42.3	-44.6		
Write off & other provisions	-6.4	-7.8	-5.3	-5.6	-6.1	-6.7		
EBIT	**58.2**	**52.3**	**20.6**	**43.0**	**62.8**	**77.5**	55.6%	34.2%
EBIT margin	*5.6%*	*4.0%*	*1.5%*	*3.0%*	*4.1%*	*4.7%*		
Financials	-25.9	-7.2	-25.5	-31.9	-30.7	-29.9		
Extraordinary items	-0.6	0.2	-0.7	0.0	0.0	0.0		
Securisation operation	-7.4	-4.6	-6.6	-5.4	-6.0	-6.5		
PRE-TAX PROFIT	**24.3**	**40.7**	**-12.2**	**5.7**	**26.0**	**41.1**	n.m.	168.0%
Pre tax margin	*2.3%*	*3.1%*	*-0.9%*	*0.4%*	*1.7%*	*2.5%*		
Taxes	-11.8	-25.1	2.5	-3.4	-13.0	-20.5		
Tax Rate	*48.6%*	*61.7%*	*20.2%*	*60.0%*	*50.0%*	*50.0%*		
Minorities	0.1	-0.1	-0.2	-0.2	-0.2	-0.2		
NET PROFIT	**12.6**	**15.5**	**-10.0**	**2.0**	**12.8**	**20.3**	n.m.	215.6%
Net margin	*1.2%*	*1.2%*	*-0.7%*	*0.1%*	*0.8%*	*1.2%*		
ADJUSTED NET PROFIT	**13.4**	**15.4**	**-9.2**	**2.0**	**12.8**	**20.3**	n.m.	215.6%
Adjusted net margin	*1.3%*	*1.2%*	*-0.7%*	*0.1%*	*0.8%*	*1.2%*		
% y-o-y change		**1999-98**	**2000-99**	**2001-00**	**2002-01**	**2003-02**		
Total sales		26.0%	5.7%	2.0%	8.5%	8.0%		
EBITDA		5.4%	-34.4%	37.8%	22.1%	15.9%		
EBIT		-10.1%	-60.7%	109.0%	45.8%	23.5%		
PRE-TAX PROFIT		67.3%	-129.9%	-146.9%	354.9%	57.9%		
NET PROFIT		23.4%	-164.2%	-120.5%	526.1%	59.1%		
ADJUSTED NET PROFIT		15.2%	-159.3%	-122.3%	526.1%	59.1%		

Source: UBM.

Figure 59. Consolidated Balance Sheet Statement (€m)

	1998	1999	2000	2001E	2002E	2003E
Working capital	132.9	140.6	166.5	181.8	192.6	204.8
Net tangible assets	331.7	391.2	393.2	397.9	402.9	406.4
Intangible assets	112.9	130.7	131.4	125.7	119.8	113.2
Financial assets	40.5	49.4	35.1	29.5	23.4	16.7
Total fixed assets	**485.1**	**571.2**	**559.7**	**553.1**	**546.2**	**536.4**
Severance provisions	-23.6	-27.1	-28.5	-29.6	-30.6	-31.6
Other funds	-4.3	-11.9	-8.4	-7.7	-7.7	-7.7
Net capital employed	**590.1**	**672.8**	**689.2**	**697.6**	**700.4**	**701.8**
Shareholders' equity	189.8	206.2	187.7	186.5	199.2	219.5
Minorities	6.8	1.5	1.4	1.7	1.9	2.2
Total equity	**196.6**	**207.7**	**189.2**	**188.2**	**201.2**	**221.7**
Cash & liquid assets	76.1	33.1	34.6			
Short term debt	-256.4	-174.0	-211.6			
Long term debt	-226.4	-323.6	-323.1			
Adjustments	13.4	-0.5	0.0			
Net debt	**-393.2**	**-465.1**	**-500.1**	**-509.5**	**-499.3**	**-480.1**
Gearing ratio	200.0%	223.9%	264.4%	270.8%	248.2%	216.6%
Implied cost of debt (net)	5.8%	1.7%	5.3%	6.3%	6.1%	6.1%
Financials items as % of sales	2.5%	0.5%	1.8%	2.3%	2.0%	1.8%
Interest cover	2.24	7.26	0.81	1.35	2.04	2.59
Working capital/Sales	12.7%	10.7%	12.0%	12.8%	12.5%	12.3%

Source: UBM.

Figure 60. Consolidated Cash Flow Statement (€m)

	1998	1999	2000	2001E	2002E	2003E
Net profit	12.5	15.6	-9.7	2.3	13.0	20.5
Depreciation & amortisation	37.5	48.5	45.5	48.1	48.5	51.3
Severance provisions	0.1	3.5	1.4	1.0	1.0	1.0
Change in working capital	50.7	-7.7	-25.9	-15.3	-10.8	-12.2
Other sources	-1.7	7.6	-3.5	-0.7	0.0	0.0
Operating cash flow	**99.2**	**67.5**	**7.9**	**35.4**	**51.7**	**60.7**
Capex on tangible assets	-55.2	-55.9	-32.2	-31.0	-31.0	-31.0
Capex on intangible assets	-19.6	-12.5	-18.3	-10.3	-10.3	-10.3
Acquisition/other investments	-15.5	-38.1	21.1	0.0	0.0	0.0
Free cash flow	**8.9**	**-39.1**	**-21.5**	**-5.9**	**10.4**	**19.4**
Dividends	0.0	0.0	-8.2	-3.3	0.0	0.0
Change in equity	106.3	-4.4	-5.3	0.0	0.0	0.0
Others	-9.3	-28.4	0.0	0.0	0.0	0.0
Change in net financial position	**105.8**	**-71.9**	**-35.0**	**-9.2**	**10.4**	**19.4**
Cash earnings	**50.0**	**64.0**	**35.8**	**50.4**	**61.5**	**71.9**

Source: UBM.

Figure 61. Detailed Divisional Projections (€m)

Total revenues	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Production	512.3	694.0	713.1	653.6	697.4	729.0
Distribution	438.8	525.4	547.7	596.5	655.6	727.0
Catering	99.9	109.2	147.5	186.0	204.0	223.8
Holding Company	16.8	15.1	14.0	14.0	14.0	14.0
Sales (gross)	**1067.8**	**1343.7**	**1422.3**	**1450.1**	**1571.0**	**1693.9**
Inter-company	-25.2	-29.8	-33.6	-33.6	-33.6	-33.6
Total sales (net)	**1042.7**	**1314.0**	**1388.7**	**1416.6**	**1537.5**	**1660.3**
% y-o-y change						
Production		35.5%	2.7%	-8.3%	6.7%	4.5%
Distribution		19.7%	4.3%	8.9%	9.9%	10.9%
Catering		9.3%	35.0%	26.1%	9.7%	9.7%
Holding Company		-10.0%	-7.2%	0.0%	0.0%	0.0%
Total sales (net)		**26.0%**	**5.7%**	**2.0%**	**8.5%**	**8.0%**
% on total gross sales						
Production	48.0%	51.6%	50.1%	45.1%	44.4%	43.0%
Distribution	41.1%	39.1%	38.5%	41.1%	41.7%	42.9%
Catering	9.4%	8.1%	10.4%	12.8%	13.0%	13.2%
Holding Company	1.6%	1.1%	1.0%	1.0%	0.9%	0.8%
EBITDA	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Production	42.4	46.0	14.6	31.4	42.5	49.6
Distribution	25.5	30.7	33.1	37.6	43.9	51.6
Catering	21.1	21.7	16.9	20.5	23.0	26.0
Holding Company	6.6	2.8	1.7	1.7	1.7	1.7
Total	**95.7**	**100.8**	**66.1**	**91.1**	**111.2**	**128.8**
% y-o-y change						
Production		8.5%	-68.3%	115.2%	35.6%	16.5%
Distribution		20.6%	7.9%	13.4%	16.9%	17.5%
Catering		2.9%	-22.2%	21.3%	12.7%	12.6%
Holding Company		-57.2%	-40.2%	0.0%	0.0%	0.0%
Total		**5.4%**	**-34.4%**	**37.8%**	**22.1%**	**15.9%**
% on total EBITDA						
Production	44.4%	45.7%	22.0%	34.4%	38.3%	38.5%
Distribution	26.6%	30.5%	50.1%	41.3%	39.5%	40.1%
Catering	22.0%	21.5%	25.5%	22.5%	20.7%	20.1%
Holding Company	6.9%	2.8%	2.6%	1.9%	1.5%	1.3%
EBIT	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Production	22.3	21.5	-9.1	6.9	19.5	25.1
Distribution	17.8	18.7	20.8	24.5	29.5	36.4
Catering	16.0	16.6	11.8	14.5	16.5	18.8
Holding Company	1.9	-4.0	-2.8	-2.8	-2.8	-2.8
Total	**58.1**	**52.8**	**20.7**	**43.0**	**62.8**	**77.5**
% y-o-y change						
Production		-3.9%	-142.2%	-175.7%	184.8%	28.8%
Distribution		5.1%	11.0%	17.5%	20.6%	23.2%
Catering		3.7%	-29.3%	23.3%	13.9%	13.8%
Holding Company		-310.9%	-31.1%	0.0%	0.0%	0.0%
Total		**-9.2%**	**-60.7%**	**107.5%**	**45.8%**	**23.5%**
% on total EBIT						
Production	38.4%	40.6%	n.a.	15.9%	31.1%	32.4%
Distribution	30.7%	35.5%	n.a.	56.8%	47.0%	46.9%
Catering	27.6%	31.5%	n.a.	33.7%	26.3%	24.3%
Holding Company	3.3%	-7.7%	n.a.	-6.5%	-4.4%	-3.6%

Source: UBM.

8. Valuation

- The Group's profile requires a separate analysis for each division
- Our DCF model adequately reflects the main risks of the businesses
- Peer comparison is obviously unfavourable on 2001-02 multiples
- Production affects the Group's value creation

8.1 Discounted Cash Flow Model

Our DCF model is based on different assumptions for each division...

A correct valuation approach, in our view, is to consider separately the three group divisions, given the differences in business characteristics, market scenarios and growth drivers. Our DCF model is based on specific assumptions for each business, as illustrated in Figure 62 and Figure 63. We have calculated the financial structure for each business on the basis of the specific net debt as at the end of 2000. We assumed a flat debt-equity ratio over the forecast period for production (excluding extraordinary operations, the division is not expected to generate significant cash flows) and catering (a typically low capital intensive business) and a variable ratio for distribution (where the expected cash flows should reduce the indebtedness).

...and on different scenarios in the production division...

For the production division, due to the lack of short-term visibility, we have calculated a probability-weighted EV, on the basis of three different scenarios (Figure 62). The base case scenario, to which we attach a probability ratio of 50%, is the one assumed in our forecasts. We have also included a worst case scenario (probability of 30%) and a best case scenario (probability of 20%).

Moreover, we have used a higher beta for the production division compared to the other divisions, due to the BSE risk. Finally, for the sake of caution, we have assumed a perpetuity growth rate lower than the expected long-term inflation rate at all divisions (0.5-1.5% for production, 1.5% at distribution and catering).

Figure 62. Production Division: DCF Main Assumptions

	Worst scenario	Base scenario	Best scenario
Risk free	5.5%	5.5%	5.5%
Risk premium	3.5%	3.5%	3.5%
Beta	150.0%	150.0%	150.0%
Cost of equity	10.8%	10.8%	10.8%
Lending spread	3.5%	2.5%	1.5%
Cost of debt	9.0%	8.0%	7.0%
tax rate	37.0%	37.0%	37.0%
After tax cod	5.7%	5.0%	4.4%
E/(D+E) (2000)	49.6%	49.6%	49.6%
Perpetuity	0.5%	1.0%	1.5%
WACC	8.2%	7.9%	7.6%
Sales growth 01	-8.3%	See Figure 30	-8.3%
Sales growth 02	2.3%	See Figure 30	6.7%
Sales growth 03	2.4%	See Figure 30	6.7%
Sales growth 04-10	From 2% to 1.5%	From 2% to 1.5%	From 5.8% to 3%
EBIT margin 01	-0.2%	See Figure 30	1.6%
EBIT margin 02	0.3%	See Figure 30	3.3%
EBIT margin 03	0.2%	See Figure 30	4.1%
EBIT margin 04-10	Flat at 0.2%	Flat at 3.4%	From 4.6% to 4.8%
Tax rate for NOPAT	42%	42%	42%
Capex p.a. (€m)	18.1	18.1	18.1
Probability	30%	50%	20%
EV (€m)	63.6	264.6	431.5

Source: UBM.

Figure 63. Distribution and Catering: DCF Main Assumptions

	Distribution	Catering
Risk free	5.5%	5.5%
Risk premium	3.5%	3.5%
Beta	100.0%	80.0%
Cost of equity	9.0%	8.3%
Lending spread	2.5%	2.5%
Cost of debt	8.0%	8.0%
tax rate	37%	37%
After tax cod	5.0%	5.0%
E/(D+E) (2000)	from 44% to 58%	100.0%
Perpetuity	1.5%	1.5%
WACC	from 6.8% to 7.3%	8.3%
Sales 01-03	see Figure 40	see Figure 48
Sales 04-10	Declining from 5% to 2%	flat to 2%
EBIT margin 01-03	see Figure 40	see Figure 48
EBIT margin 04-10	Flat at 5%	flat at 8.4%
Tax rate for NOPAT	42%	42%
Capex p.a. (€m)	15.5	7.7

Source: UBM.

...and yields a target price of €2.1 per share

Weighted average of the EV calculated under the three different scenarios

Our DCF valuation is summarised in Figure 64:

Figure 64. DCF Results (€m)

Production EV	237.7
Distribution EV	412.0
Catering EV	158.5
Total EV	808.2
Net debt	-504.8
Equity value	303.4
N. shares (m)	141.8
Value per share (€)	**2.1**
Value at 27/08/01 (€)	1.65
Upside potential	30%

Source: UBM.

The following tables illustrate the EV sensitivity to different rates of perpetuity and WACC by division.

Figure 65. Production: Sensitivity Analysis in the Base Scenario (€m)

	WACC		
Perpetuity	7.3%	7.9%	8.2%
0.0%	267.0	244.3	232.9
0.5%	278.7	253.8	241.4
1.0%	292.2	264.6	251.0
1.5%	308.1	277.1	262.0
2.0%	326.9	291.8	274.9

Source: UBM.

Figure 66. Distribution: Sensitivity Analysis (€m)

	WACC		
Perpetuity	6.5%	7.0%	7.5%
0%	361.7	346.0	332.4
0.5%	380.0	361.7	346.0
1.0%	401.6	380.0	361.7
1.5%	427.5	401.6	379.9
2.0%	459.2	427.5	401.5

Source: UBM.

Figure 67. Catering: Sensitivity Analysis (€m)

	WACC		
Perpetuity	8.0%	8.3%	8.6%
0%	148.5	142.7	137.3
0.5%	153.6	147.3	141.5
1.0%	159.4	152.5	146.1
1.5%	166.1	158.5	151.5
2.0%	173.9	165.4	157.6

Source: UBM.

8.2 Peers comparison

Qualitative comparison

Due to Cremonini's wide range of activities, it is difficult to find similar competitors operating in all the same businesses. We have consequently considered different peers for the single divisions. Figure 68 describes the business segment, the specific products offered and the referral markets for each company we have considered.

Figure 68. Peers Description

	Segment	**Products**	**Referral Markets**
Nothern Food	Production	Convenience Food, Grocery	UK (86%), Rest of Europe (14%)
Campofrio Alimentacion	Production	Meat Processing	Spain (61%), EU (17%), RoW (21%)
Elior	Distribution	Food Catering	France (27%), RoW (73%)
Sodexho	Distribution	Food Catering	US (47%), UK (15.7%), France (11.5%), Rest of Europe (17%), RoW (8.8%)
Flo (Groupe)	Catering	n.a.	n.a.
Buffalo Grill	Catering	Restaurants, Meat Process, Franchising	France (100%)
Autogrill	Catering	Catering under different commercial formulas	North America (52%), Italy (33%), Rest of Europe (15%)

Source: UBM.

Quantitative comparison

Figure 69 shows a comparison of the growth rates and profitability outlook in the 2001-02 period for the peer group. Bearing in mind the difficulties at the production division, the 2000-02 CAGR in sales is negative.

Figure 69. Peer Group Comparison: Growth Rates and Margins

	00-02 CAGR Sales	00-02 CAGR EBITDA	EBITDA margin 01	EBITDA margin 02	00-02 CAGR EBIT	EBIT margin 01	EBIT margin 02
Northern Foods	4.1%	6.8%	13.7%	14.0%	3.5%	9.3%	9.6%
Campofrio Alimentacion	16.8%	31.3%	8%	9%	9.1%	4.8%	5.3%
Production division	**-1.1%**	**70.8%**	**4.8%**	**6.1%**	**n.a.**	**1.0%**	**2.8%**
Elior	15.4%	14.9%	8.3%	8.4%	17.3%	6.1%	6.3%
Sodexho Alliance	11.6%	12.2%	6.4%	6.6%	14.0%	5.2%	5.4%
Distribution division	**9.9%**	**15.1%**	**6.3%**	**6.7%**	**19.1%**	**4.1%**	**4.5%**
Flo (Groupe)	10.3%	15.5%	9.0%	9.2%	19.9%	4.6%	5.3%
Buffalo Grill	5.5%	4.4%	16.2%	16.3%	3.8%	10.2%	10.4%
Autogrill Finanziaria	7.5%	12.1%	12.7%	13.3%	11.0%	6.2%	7.2%
Catering division	**17.6%**	**16.9%**	**11.0%**	**11.3%**	**18.5%**	**7.8%**	**8.1%**

Source: JCF and UBM.

Comparison of multiples

Figure 70 summarises the multiples of Cremonini and the companies in the peer group. As stated above, we have taken the three divisions of Cremonini separately. We have calculated the implied multiples by division on the basis of the enterprise values resulting from our DCF models. The results are as follows:

- An abnormal situation at the production division. The EV/EBITDA and the EV/EBIT multiples, calculated on EBITDA and EBIT values (still recovering in 2001 and 2002), do not give meaningful results. We have consequently considered the EV/Sales multiple. Although our projections are conservative, Cremonini shows a discount compared to its peers both in 2001 and 2002. We believe it would be more meaningful to value this division on 2003 multiples when the expected turnaround should lead to more reasonable multiples. However, visibility on 2003 remains low at this stage.
- The discount of the distribution division. Compared to our sample of companies Cremonini distribution business stands on attractive multiples: the discount on 2001 EV/Sales and EV/EBITDA reaches 20.9% and 8.6% respectively, the discount on 2002 EV/Sales and EV/EBITDA reaches 17.5% and 9% respectively. As for the EV/EBIT multiple, Cremonini is substantially in line with the sector both in 2001 and 2002.
- Since Autogrill is Cremonini's direct competitor on the domestic catering market, we have included it in our comparison, notwithstanding its higher than average multiples. As for 2001-02 EV/EBITDA multiples Cremonini is trading at a roughly 4-5% premium because of the low profitability in the "on-board" catering activities outside Italy. The light fixed asset structure, and the consequent limited impact of depreciation and amortisation are the main reasons for the discount on 2001-02 EV/EBIT (around 30%).

Figure 70. Peer Multiple Comparison

	Price	Capitalization (Loc. Curr.)	Ev/Sales 00	Ev/Sales 01	Ev/Sales 02	Ev/EBITDA 00	Ev/EBITDA 01	Ev/EBITDA 02	Ev/EBIT 00	Ev/EBIT 01	Ev/EBIT 02
Production											
Northern Foods	GBp 151	851.5	0.6	0.6	0.6	4.5	4.4	4.3	6.8	6.5	6.4
Campofrio Alimentacion	€12	397.1	0.6	0.5	0.4	8.2	5.6	4.7	15.4	9.5	7.8
AVG			**0.6**	**0.5**	**0.5**	**6.4**	**5.0**	**4.5**	**11.1**	**8.0**	**7.1**
Production (Base scenario)			0.4	0.4	0.4	**18.2**	**8.4**	**6.2**	**-29.2**	**38.6**	**13.6**
Premium (discount)			*-38%*	*-26%*	*-25%*	*185%*	*70%*	*38%*	*n.m.*	*381%*	*91%*
Distribution											
Elior	€13	1336.9	0.9	0.9	0.7	11.0	10.4	8.7	15.1	14.5	11.6
Sodexho Alliance	€55	8682.7	0.9	0.9	0.8	14.9	13.6	11.9	18.5	16.8	14.8
AVG			**0.9**	**0.9**	**0.8**	**12.9**	**12.0**	**10.3**	**16.8**	**15.7**	**13.2**
Distribution			0.8	0.7	0.6	12.4	11.0	9.4	19.8	16.8	14.0
Premium (discount) to AVG			*-19.4%*	*-20.9%*	*-17.5%*	*-3.8%*	*-8.6%*	*-9.0%*	*17.9%*	*7.6%*	*6.1%*
Catering											
Flo (Groupe)	€24.2	90.2	0.8	0.6	0.6	9.1	7.3	6.0	17.8	14.2	11.0
Buffalo Grill	€10.8	108.3	1.0	0.8	0.8	6.0	4.9	5.2	9.1	7.8	8.1
Autogrill Finanziaria	€12.5	3172.4	1.4	1.3	1.1	11.6	10.1	8.7	23.3	20.1	15.9
AVG			**1.1**	**0.9**	**0.8**	**8.9**	**7.4**	**6.6**	**16.7**	**14.0**	**11.7**
AVG excl Autogrill			**0.9**	**0.7**	**0.7**	**7.6**	**6.1**	**5.6**	**13.4**	**11.0**	**9.5**
Catering			1.1	0.9	0.8	9.4	7.7	6.9	10.9	9.6	8.4
Premium (discount)			*0.9%*	*-6.0%*	*-8.3%*	*5.3%*	*4.5%*	*4.1%*	*-34.6%*	*-31.5%*	*-27.7%*
Premium (discount) to AVG excl Autogrill			*20.5%*	*19.0%*	*11.5%*	*24.1%*	*27.8%*	*23.4%*	*-18.7%*	*-12.7%*	*-11.5%*

Source: UBM and JCF. Note: Cremonini's multiples are based on the EV previously calculated at each division

8.3 Economic Value Added

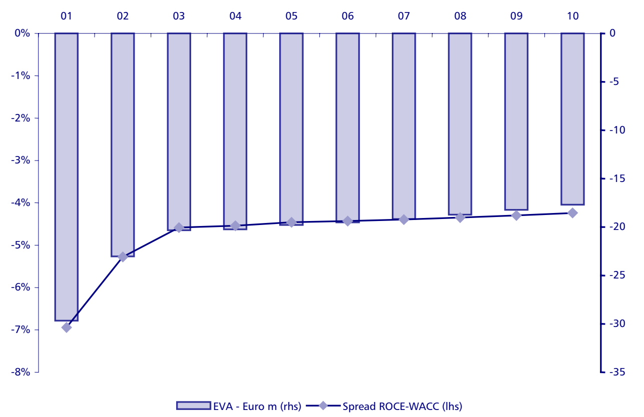
Production division affects the Group's value creation

The figures below summarise the results of our EVA analysis, based on the assumptions used for the DCF model. In order to avoid arbitrary allocation of the holding division's net capital employed, we considered the industrial businesses separately without a consolidated valuation.

For the production division we have assumed the base and the best scenarios described above. In the base case, the limited market recovery underlined by our estimates implies a low profitability, flat in the 2004-10 period. As the high level of fixed costs and the unutilised production capacity will depress margins, the ROCE-WACC spread remains negative. Considering the best scenario (which is in line with the company's expectations), the model points towards a marked recovery in value creation in 01-02 period, with the trend continuing to be positive up to 2005 and an EVA creation of around €25 million thereafter. Due to the low mid-term visibility, we prefer the cautious approach which leaves room for further business improvement.

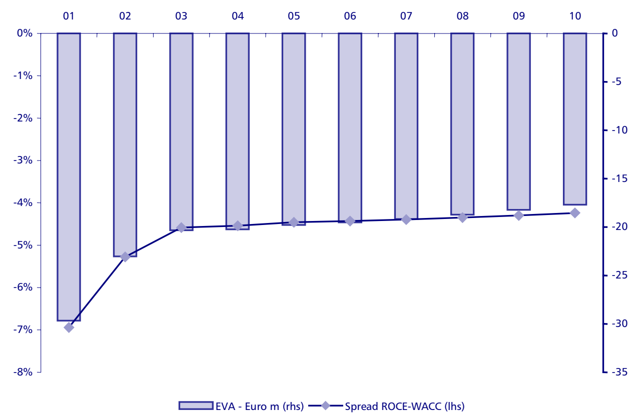
The negative results that our model has generated for the production division should be partly offset by the value created by distribution and catering. In distribution, the 10-17% ROCE range underpins the spread up to around 3-10% in the forecast period. As for catering, the limited capital employed, the low level of fixed costs and depreciation expenditure boost the ROCE-WACC spread to an incredible 50-100% range in the period. Even though it is possible that the future expansion of the activity abroad will dilute the margins, the value-creation capacity should remain substantial.

Figure 71. Production: EVA – Base Scenario



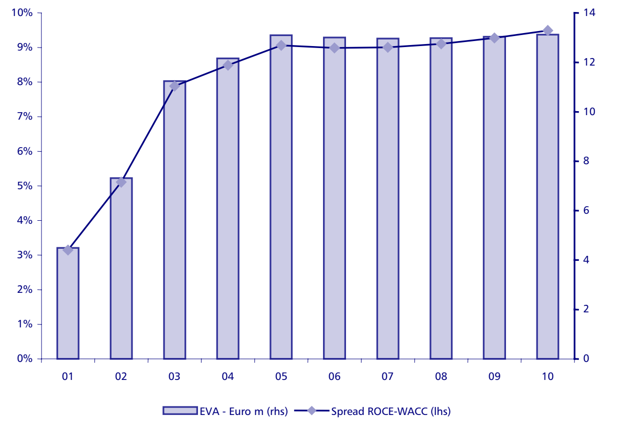
Source: UBM.

Figure 72. Production: EVA - Best Scenario



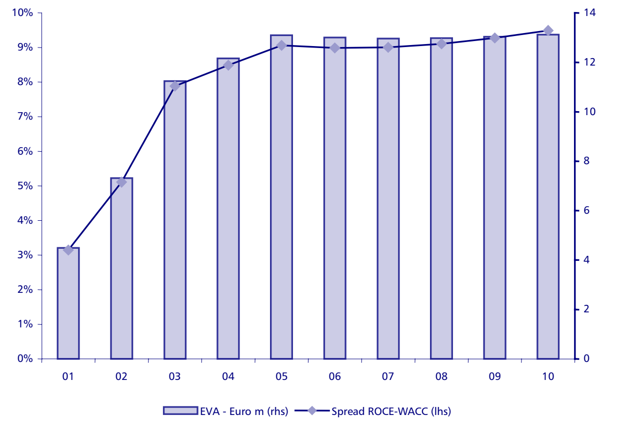
Source: UBM.

Figure 73. Distribution: EVA (€m)



Source: UBM.

Figure 74. Catering EVA (€m)



Source: UBM.

8.4 Conclusions

Following the heavy 37% de-rating of the shares since August 2000, the current price now appears to largely discount the uncertainties regarding the timing and extent of a recovery and also the high level of indebtedness. Despite this, and the upside potential implied by our DCF valuation (30% based on a target price of €2.1), we are adopting a cautious stance towards the shares, preferring to await further developments. Consequently we rate the stock a Market Performer.

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