R. Bryden Nugent – 4.26.2022

Lectra – ENXTPA: LSS

Note: the structure of this writeup roughly follows the format outlined in the VIL class syllabus, with some additional sections added.

Recommendation

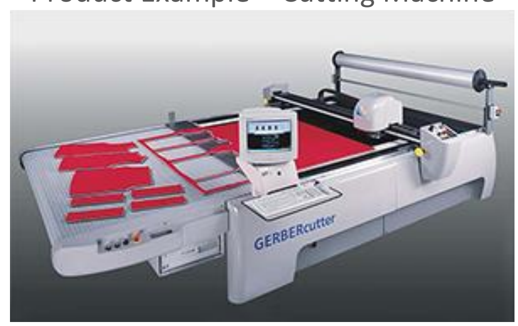
I recommend a long position in Lectra for a 23.5% 3y IRR (inc. div) based on an exit multiple of 22x forward '26E EPS of €2.79. Lectra is a French company which has a ~80% share of the niche-market for industrial fabric and leather cutting machines and their accompanying CAD software. Lectra is a high-quality company with mid-teens ROICs (>20% ROTC), 60% recurring revenues, and >120% FCF conversion. Having recently improved its competitive positioning by acquiring its only substantial competitor (US-based Gerber), Lectra should be able to grow EPS by >20% through price increases, margin improvements, and buybacks.

Summary Table			
1,266.4	Mkt. Cap (€bn)	23.5%	Expected IRR (3yr)
1,289.4	EV (€bn)	23.8x	NTM P/E (Cons.)
€ 33.2	Price	12.1x	NTM EV/EBITDA (Cons.)
€ 61.3	Target Px (26E)	0.2x	ND/EBITDA

Firm Overview

Business Description: Lectra makes specialized equipment (45% of revenue), consumables/parts (25%) and accompanying CAD/PLM software (30%) for industrial cutting of fabrics, leathers, and other materials. Lectra's cutting machines typically sell for $0.3-0.8m and last for 8-12 years. Lectra also provides a suite of tools to assist with all phases of a product lifecycle, including (i) market studies and concept development, (ii) product design, (iii) industrial production and (iv) sales/distribution.

Product Example – Cutting Machine

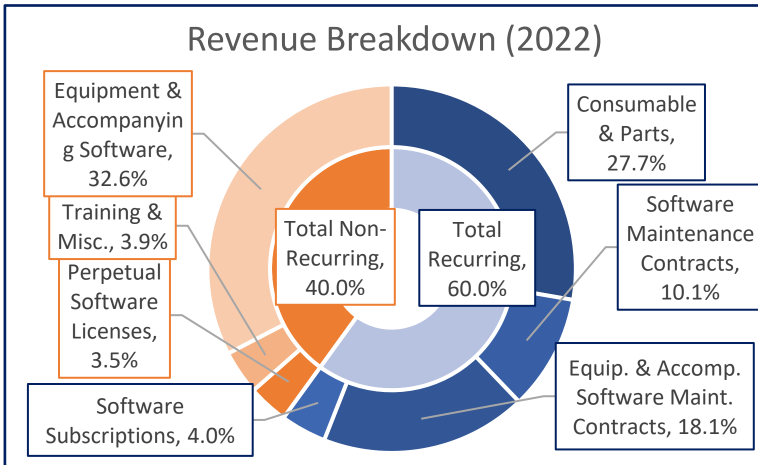


Value Proposition: Lectra's solutions help customers to reduce wasted material, saving costs and reducing environmental footprints. For instance, by using a Lectra machine, a fashion manufacturer can reduce waste and quality rejections, typically saving ~5% of material costs (per Lectra management). Given that materials account for 60% of costs for a typical soft-line manufacturing business, a Lectra machine can therefore generate ~3% operating margin gains. This is a significant improvement (~60%) when considering that a typical fashion manufacturing business operates with only mid-single digit margins. This powerful value proposition helps Lectra maintain a net-promoter score of 60 among customers.

*"I can buy one cutter for $0.2m, the other one costs $0.5m, that sounds like a gigantic difference. But if I can save 1% fabric and 1% quality rejects, you **pay for that $0.3m difference in months.** That's why I think the big boys [Lectra + Gerber] are going to get even better."*

- Former V.P of Sales, Fashion & Apparel at Lectra (source: Tegus)

Reporting Segments: Lectra splits out revenues by geography and product type (see below), but does not provide profitability by segment. The company is geographically diversified, with the US (36% of revenues), Europe (35%), and Asia (26%) being the largest markets. By product, Lectra splits out its revenue into two broad categories of Recurring (60% of revenues) and Non-Recurring (40%), with sub-categories shown in the exhibit to the right.



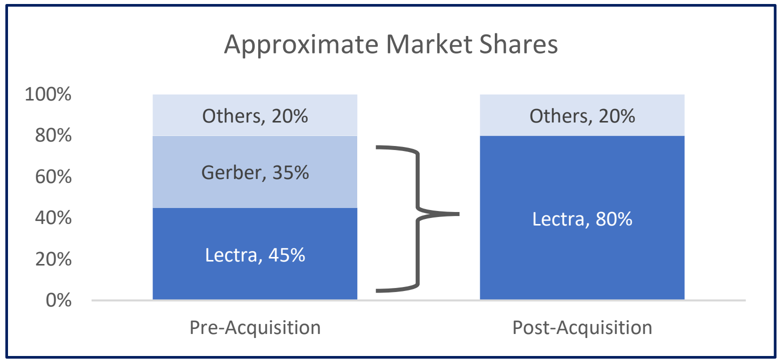
Customers & Suppliers: Lectra's largest end-markets include fashion at ~50% of revenues (e.g., GAP, Inditex, Prada), automotive OEMs at 25% (primarily for car seats and interiors), furniture at 12%, and other applications such as marine and aerospace upholstering. Lectra has 750 industrial suppliers and two production sites - one in France (Bordeaux-Cestas) and one in the US (Tolland, CT).

Management: Daniel Harari (age 68) has been CEO since 1991 and Chairman of the Board since 2017. He has recently signaled his intention to remain as CEO until at least 2025. Mr. Harari and his brother were originally venture capital investors in the company in the 1980s and installed themselves into management positions in 1991. Olivier du Chesnay has been CFO since 2017 and spent 20 years at the company; previously he was at Honeywell.

Management Assessment: Performance has been solid under Harari's tenure. On the positive side, Lectra shares have returned 20x since 1991 (ex. dividends), vs. <4x for French peers (as measured by the CAC-40 Index, ex-dividends). Over the same period, EBIT margins improved from -3% to +11.7% and working capital turns improved from 2.5x to 6.5x. On the negative side, asset turnover has fallen from 1.2x in 1991 to 0.6x today.

Industry Overview

Competition: In June 2021, Lectra acquired Gerber, its largest and only substantial competitor. Expert network interviews[i] suggest that the combined company has approximately 80% market share globally, with legacy-Lectra dominating in Europe (with a concentration among auto and high-end fashion brands) and Gerber (now owned by Lectra) dominating in the US. In Asia, both companies together comprise ~80% share. This acquisition is the only substantial change to the industry in recent history.



- *Direct competitors in the fashion / automotive / furniture verticals:* The remaining ~20% market share is distributed among a variety of small competitors, all of which are private companies. Competitors in the specialty CAD-software space include Optitex, Browzwear, and CLO (fashion), while competitors in the combined handwear and software space include Zund, Tukacut/ Tukatech Pathfinder Cutting and Morgan Technica.
- *Market positioning:* The "legacy" Lectra (~60% of revenue) is a premium business, charging prices ~20-50% higher than competition. Gerber (~40%) also prices above competitors, albeit at a smaller premium.
- *"Comps" - analogous business models in other verticals:* Some potential "comps" which provide niche-application CAD software and hardware to other industries include Trimble (construction, surveying) and PTC (aerospace, industrials).

Barriers to Entry:

- *Product Complexity:* Fabric cutting at an industrial scale is difficult because slightly different fabrics may behave very differently (e.g., scrunching, stretching) when manipulated by a cutting machine. As a result, cutting machines are complex devices, incorporating hundreds of sensors and often selling for >$0.5m.
- *High Switching Costs:* Products are deeply-embedded into customer workflows, creating high switching costs, and helping Lectra to maintain a 97% contract retention rate. Given that Lectra/Gerber are the "market standard" products with 80% market share, retraining employees on a new product would be expensive and time consuming. While Lectra's software is compatible with competitor's hardware and vice-versa, there are often "rounding errors" when switching from one product to another. These errors can compound and take time to resolve, reducing the incentive to switch providers.

> *[On switching costs] "…The other piece is just the software on everybody's side, none of them are intuitive. I mean, whether it's Lectra's or Browzwear's or anybody's, in most of these cases, they are a **month of classes to even start to master**."*
>
> \- Former V.P of Sales, Fashion and Apparel at Lectra (Tegus)

Valuation

Asset Value: I calculate an asset value of €943m, vs. an unadjusted IFRS book value of assets of €805m. There are three major adjustments that I make:

Estimate of the Value of Lectra's Customer Relationships

	Gerber	Lectra
Annual Revenue ended 6/30/22, €m*	180.0	320.0
Customer Relationships Value, €m	65.0	115.6**
% of Revenue	36%	36%

*Note: *Lectra provides Gerber's revenue for the year ending June 2022, so I use an equivalent figure for Lectra based on quarterly statements. ** = 320m x 36%.*

- Goodwill of $292m, or 35% of total assets. The majority of this was from the 2021 acquisition of Gerber, which accounted for approximately $220m of Goodwill. In my adjustments, I assume that any goodwill greater than 5 years old is now reflected elsewhere in the balance sheet. As a result, I remove $30m of goodwill from my calculation of asset value.
- "Other Intangible assets" of €137m, or 16% of total assets. The majority of this ($128m) consists of assets acquired in the 2021 acquisition of Gerber, including $68m of acquired customer relationships and $58m of acquired technology, patents and trademarks. Given that (i) Lectra only capitalizes externally acquired customer relationships and (ii) Lectra and Gerber

have near-identical products/business models, I make estimate the value of Lectra's pre-acquisition customer relationship by calculating the ratio of Gerber's capitalized-customer-relationships-to-revenue (~36%) and then apply this ratio to Lectra's revenues (excluding the acquired revenue from Gerber, so as not to double-count). This results in a value of €115m for the legacy-Lectra's customer relationships. (See table above for calculations.)

- I calculate the up-front cost of replicating Lectra's workforce to be €23m, based on calculations shown here.

Earnings Power Value: I calculate a normalized earnings power value of €897m, with full calculations shown here. Given that 2022 was the first full year of consolidating the Gerber acquisition, I use 2022 revenue as a normalized level of revenue. I assume a normalized EBIT margin of 13.1%, in line with the 2022 EBIT margin. Next, I add back 80% of Lectra's 2022 R&D spend, assuming this proportion of R&D relates to future growth, and assuming the remaining 20% of Lectra's R&D spend is simply "table stakes" to remain competitive with their much smaller competitors. This results in adjusted recurring NOPAT of €88.0m. Using an 8.8% WACC, I arrive at an EPV of €897m.

Multiples-Based Valuation

Holding Period (Years)	3	**Unlevered Valuation**	
			2026E
		NTM EBITDA (€m)	€ 175.90
		Multiple	12.0x
Levered Valuation		**TEV**	**€ 2,110.81**
		Less: Debt	(145)
	2026E	Plus: Cash	178
EPS	€ 2.79	**Equity Value**	**€ 2,144.63**
Multiple	22.0x	Shares	36
Value Per Share	**€ 61.29**	**Value/Share**	**€ 59.66**
Dividends	$1.10	Dividends	$1.10
Adj Value Per Share	**€ 62.39**	**Adj Value Per Share**	**€ 60.76**
Upside to Current Price	***88.2%***	***Upside to Current Price***	***83.3%***
IRR	***23.5%***	***IRR***	***22.4%***

Traditional multiples approach: Lectra currently trades at 23.8x consensus NTM EPS and 12.1x NTM consensus EBITDA (source: FactSet). These multiples are slightly above the 10yr averages of 21.4x and 11.1x, respectively. My base case assumes an exit multiple of 22x NTM EPS – i.e., a slight derating in line with the company's 10yr average. I believe this multiple is reasonable for a company with mid-teens ROIC, ~30% software revenues and a high degree of recurring revenues.

Capital Allocation, Growth and ROIC

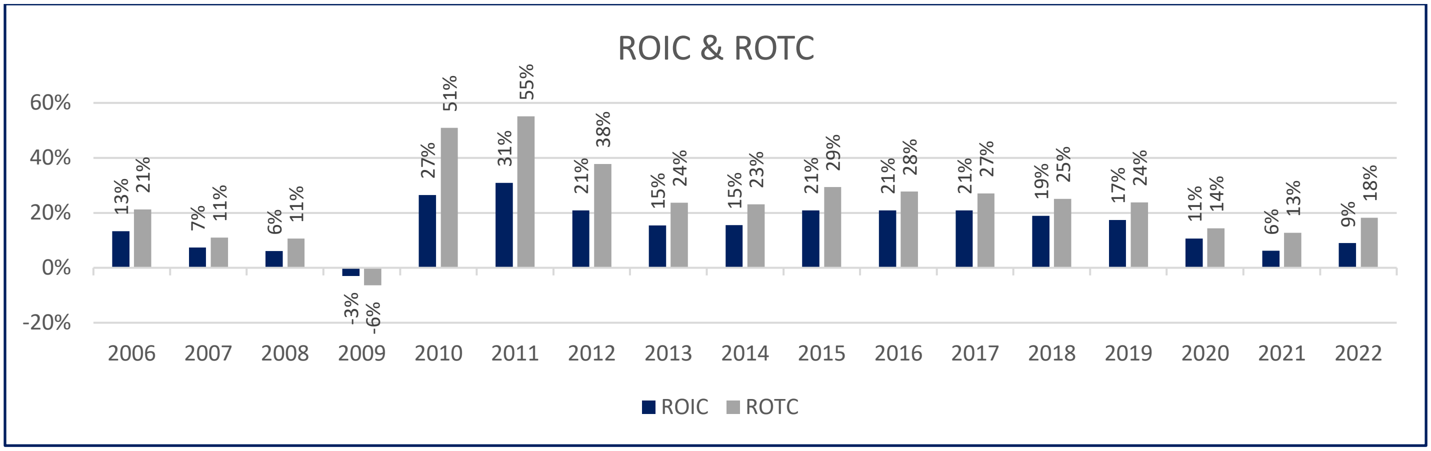
R&D: Lectra has maintained an annual spend of 7-9% of revenues on R&D, even after the acquisition of their only substantial competitor (Gerber). As the largest player in the industry, this R&D spend dwarfs that of competitors in absolute terms and should allow for continued growth.

M&A:

- *Gerber Acquisition*: In June 2021, Lectra acquired Gerber for €300m, or 11x NTM EBITDA (7.4x with expected synergies) in a combination equity/cash. This was a large transaction, representing about a 65% increase in revenues. While I am typically skeptical of large "transformative acquisitions," I believe this acquisition was prudent because it removes Lectra's only substantial competitor and creates the opportunity for a substantial increase in pricing power, given the sticky nature of Lectra/Gerber's business (e.g., deeply embedded products, 97% contract renewal rates, 60% recurring revenues). Leverage from the acquisition peaked at 0.7x ND/EBITDA in 2021 was at 0.2x at the end of 2022.
- *Smaller "tuck-in" M&A:* Excluding the Gerber acquisition, Lectra has averaged about €10m in annual M&A expenditures over the last 5 years, or about one-quarter of the average annual FCF over the last 5 years. The target companies are mostly small CAD businesses such as TextileGenesis, Gemini CAD Systems and NETEVEN. I believe these small tuck-in acquisitions are a prudent use of capital, as they should bolster Lectra's competitive position and are less risky than the large acquisition of Gerber. They should also provide favorable mix-shift towards recurring-revenue software, lowering cyclicality and supporting Lectra's multiple.

Historical Growth: Lectra's growth has historically averaged in the mid-single digits. See "Risks" section for more detail.

ROIC: Over the last 15 years (a period which includes two recessions), Lectra has earned an average ROIC (NOPAT / Invested Capital) of 16% and an average ROTC (ex. goodwill) of 24%. ROTC is higher mostly due to the large acquisition of Gerber in 2021. Given the niche nature of the industry and lack of substantial competitors, I believe it's reasonable to assume that Lectra will continue to earn returns well above the company's cost of capital.



Note: ROIC is calculated here as NOPAT / Invested Capital.

Investment Thesis, Modelling Assumptions & Variant View

Investment thesis (2 parts)

1. **Improving competitive dynamics support an 8.8% revenue CAGR (6.5% organic) through 2026E.** This breaks down as follows:
   a. *4%/year price increases:* While this is slightly greater than Lectra's historical average price increases of 2-3%/year, I believe that Lectra's acquisition of Gerber represents a meaningful change in the competitive landscape and should create an inflection in Lectra's pricing power. While Lectra/Gerber already had dominant market positions (>80% share) in the European/US markets (respectively) prior to the merger, the combination of the two businesses should ease any remaining competitive pressure that may have capped pricing power. It's possible that improvements in competitive dynamics could be particularly acute in Asia (25% of revenue) given that the merger roughly doubles market share in the region to 80% (source: Tegus).

   > *[Re: Gerber acquisition] "I'm sure they're going to raise the quality of the [Gerber] product and they're **going to be able to increase the margins**. When you don't have to compete against each other, I think they're going to be able to **raise the overall price point also**."*
   >
   > \- Former V.P of Sales, Fashion and Apparel at Lectra (Tegus)

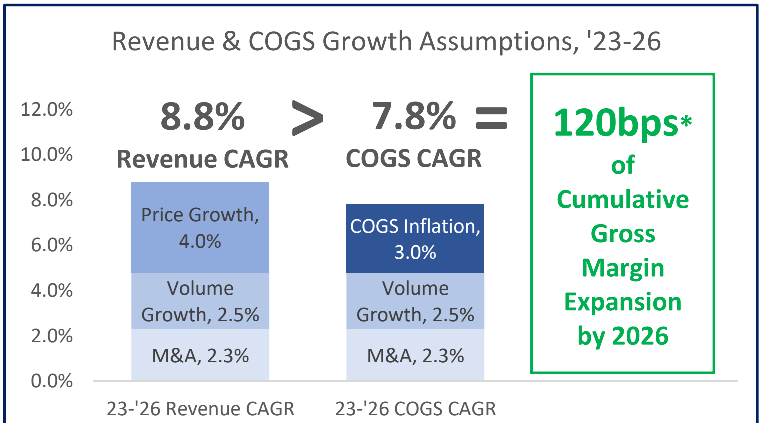
   b. *2.5%/year volume growth:* This is in line with Lectra's low-single digit historical volume growth over the last decade. I project 1% volume growth in 2023 due to a recessionary slowdown, followed by 3% growth in '24-'26.
   c. *2.3% CAGR from M&A:* This assumption is in line with Lectra's recent history of tuck-in M&A. I assume that Lectra spends an average of €35m/year on M&A over the forecast period (~35% of FCF) at an average EBITDA multiple of 10x.
   d. These projections are 6.7% above consensus in 2025, but ~5% below management's recent guidance of €700m by 2025.

€m except per-share	Historical				Projected				CAGR	
	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E	'18-22	'22-26
Revenue	280.0	236.2	387.6	521.9	558.0	609.6	667.3	731.5	16.8%	8.8%
Price					*4.0%*	*4.0%*	*4.0%*	*4.0%*		*4.0%*
Volume					*1.0%*	*3.0%*	*3.0%*	*3.0%*		*2.5%*
Total Organic	*(2.8%)*	*(14.3%)*	*19.4%*	*7.2%*	*5.0%*	*7.0%*	*7.0%*	*7.0%*		*6.5%*
M&A	*0.2%*	*0.2%*	*45.9%*	*20.4%*	*1.9%*	*2.2%*	*2.5%*	*2.6%*		*2.3%*
FX/Other	*1.8%*	*(1.6%)*	*(1.2%)*	*7.0%*	–	–	–	–		-
Total Growth	*(0.9%)*	*(15.7%)*	*64.1%*	*34.7%*	*6.9%*	*9.2%*	*9.5%*	*9.6%*		*8.8%*
Consensus Revenue					539.1	583.7	625.1			
Variance to Consensus					3.5%	4.4%	6.7%			

€m except per-share	Historical				Projected				CAGR	
	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E	'18-22	'22-26
Gross Profit	205.2	176.5	262.6	347.7	373.5	409.8	450.6	496.1	14.1%	9.3%
Margin %	*73.3%*	*74.7%*	*67.7%*	*66.6%*	*66.9%*	*67.2%*	*67.5%*	*67.8%*		
Recurring OpEx	164.3	150.8	218.2	279.2	293.2	313.2	335.6	360.5		
R&D	*7.9%*	*9.6%*	*8.8%*	*8.8%*	*8.8%*	*8.8%*	*8.8%*	*8.8%*		
OpEx, excluding R&D	*50.8%*	*54.3%*	*47.5%*	*44.7%*	43.8%	42.6%	41.5%	40.5%		
Total Opex % of Sales	***58.7%***	***63.9%***	***56.3%***	***53.5%***	***52.5%***	***51.4%***	***50.3%***	***49.3%***		
Recurring EBIT	40.9	25.6	44.4	68.5	80.3	96.6	115.0	135.7	13.8%	18.6%
Margin %	*14.6%*	*10.9%*	*11.5%*	*13.1%*	*14.4%*	*15.9%*	*17.2%*	*18.5%*		
Consensus EBIT					71.2	86.0	106.9			
Variance to Consensus					12.7%	12.4%	7.6%			

Note: See Appendix for full financials.

2. **Price increases + operating leverage drive EBIT margin expansion of ~540bps to 18.5% by 2026E.** This breaks down as follows:
   a. *COGS expansion of 120bps through '26E:* I model COGS inflation of 3.0%/year through 2026E, assuming that cost inflation is slightly above the current 5yr US breakeven inflation rate of 2.25%. I assume COGS also grows proportionally with volume and M&A growth.
   b. *OpEx leverage (ex-R&D) of 540bps thorugh '26E:* Over rolling 5 and 10 year timeframes, incremental SG&A margins (Δ revenue / Δ SG&A, excluding R&D) have consistently averaged ~35%. Going forward, I assume this metric falls slightly to 30% incrememtal margins, driven by (i) operating leverage from the assumed price increases and (ii) cost synergies as the Gerber acquistion continues to be integrated. This results in a projected 540bps of SG&A margin improvement by 2026E.
   c. *R&D constant at 8.8% of sales:* I assume R&D will remain flat at 8.8% of sales, as I believe it is important to maintaining the company's moat. Management has continuiously reiterated their commitment to R&D over the history of the company, supporting this assumption.



*Note: 120bps is due to compounding and does not equal 8.8% revenue CAGR minus 7.8% COGS CAGR. See income statement projections above for calculation.

Capital allocation assumptions: In addition to the €35m/year M&A spending, I assume Lectra spends an average of $30m per year (~30% of FCF) on share repurchases at an average multiple of 22x NTM EPS. I assume no debt repayment, given that ND/EBITDA currently sits at 0.2x the company is on track to have a net-cash balance sheet by 2024.

Variant-view & potential sources of market misunderstanding:

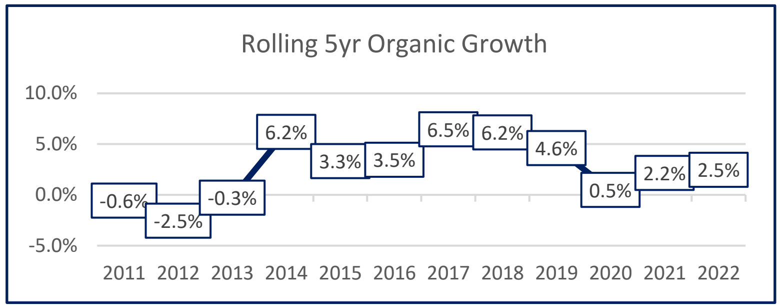
- *Thin coverage:* As a French small-cap, Lectra is thiny covered (5 analysts) and its mix of software (~30%) and hardware (70%) means that it does not fit neatly into a single sector. Furthermore, Lectra does not openly disclose their ~80% estimated market share in their materials and I have yet to encounter this stat in any sell-side research. As a result, I believe it's reasonable to conclude that consensus estimates underestimate Lectra's pricing power post-Gerber acquisition.
- *Mixed near-term economic backdrop:* Lectra's recently-announced 2023 guidance (+2 to +12% revenue, -5% to +20% EBITDA) included slightly wider ranges than typical. Management cited several reasons for the uncertainty, including (i) a delay in orders from Northern and Eastern European customers, (ii) persistent weakness in auto sales and (iii) delays in China's expected post-lockdown rebound. This mixed economic picture has caused one sellside analyst to downgrade the stock on near-term macro concers. However, for those willing to hold the stock over a 3+ year view, this temporary uncertainty likely creates a buying opportunity.

Downside case

Downside case: My downside case assumes that Lectra is unable to implement any price increases and has 0% volume growth through '26E, while experiencing 3% COGS growth (due to inflation) and incremental SG&A margins of 40%. This results 360bps of EBIT margin compression to 9.5% by '26E. Applying a 20x multiple (2-turns of derating) results in a price target of €22.73, for a -11.8% 3yr IRR. This suggests an upside/downside ratio of roughly 2-1.

Risks

__Muted Volume Growth Could Imply Market Saturation:__ Organic growth (ex. FX + M&A) averaged mid-single digits for most of the 2010s. Historically, management has raised prices by an average of 2-3% per year, implying low-single digit volume growth over the last decade. Additionally, organic growth was roughly flat (~0%) in 2018/2019. Management attributed this to trade wars, which prompted customers to take a "wait and see attitude" to Capex upgrades. However, given Lectra's dominant market share (~80%), it is possible that muted growth in recent years could be a sign of market saturation. I believe the following factors mitigate this risk: (i) market shares have been stable for many years and Lectra has still managed to achieve mid-single-digit organic topline growth, suggesting that Lectra does not need to rely on market share capture to achieve growth, (ii) Lectra's major end markets (auto and fashion) should grow with GDP over the long run, albeit with some cyclicality, and (iii) given the high switching costs and Lectra's dominant market position, Lectra should be able to growth through price increases rather than volume (leading to margin expansion).



__Key-man Risk:__ CEO Daniel Harari (68 years old) has been with Lectra since the early 1990s. Expert networks describe the culture as somewhat hierarchical with "no clear successor" to Harari. *Mitigants:* none.

Appendix

Forward EBITDA & EPS Multiples – 10yr History

Income Statement

€m except per-share	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E	CAGR '18-22	CAGR '22-26
	Historical				Projected					
Revenue	**280.0**	**236.2**	**387.6**	**521.9**	**558.0**	**609.6**	**667.3**	**731.5**	**16.8%**	**8.8%**
Price					*4.0%*	*4.0%*	*4.0%*	*4.0%*		*4.0%*
Volume					*1.0%*	*3.0%*	*3.0%*	*3.0%*		*2.5%*
Total Organic	***(2.8%)***	***(14.3%)***	***19.4%***	***7.2%***	***5.0%***	***7.0%***	***7.0%***	***7.0%***		*6.5%*
M&A	*0.2%*	*0.2%*	*45.9%*	*20.4%*	*1.9%*	*2.2%*	*2.5%*	*2.6%*		*2.3%*
FX/Other	*1.8%*	*(1.6%)*	*(1.2%)*	*7.0%*	–	–	–	–		-
Total Growth	***(0.9%)***	***(15.7%)***	***64.1%***	***34.7%***	***6.9%***	***9.2%***	***9.5%***	***9.6%***		***8.8%***
Consensus Revenue					**539.1**	**583.7**	**625.1**			
Variance to Consensus					**3.5%**	**4.4%**	**6.7%**			
Gross Profit	**205.2**	**176.5**	**262.6**	**347.7**	**373.5**	**409.8**	**450.6**	**496.1**	**14.1%**	**9.3%**
Margin %	*73.3%*	*74.7%*	*67.7%*	*66.6%*	*66.9%*	*67.2%*	*67.5%*	*67.8%*		
Recurring OpEx	**164.3**	**150.8**	**218.2**	**279.2**	**293.2**	**313.2**	**335.6**	**360.5**		
R&D	*7.9%*	*9.6%*	*8.8%*	*8.8%*	*8.8%*	*8.8%*	*8.8%*	*8.8%*		
OpEx, excluding R&D	*50.8%*	*54.3%*	*47.5%*	*44.7%*	43.8%	42.6%	41.5%	40.5%		
Total Opex % of Sales	***58.7%***	***63.9%***	***56.3%***	***53.5%***	***52.5%***	***51.4%***	***50.3%***	***49.3%***		
Recurring EBIT	**40.9**	**25.6**	**44.4**	**68.5**	**80.3**	**96.6**	**115.0**	**135.7**	**13.8%**	**18.6%**
Margin %	*14.6%*	*10.9%*	*11.5%*	*13.1%*	*14.4%*	*15.9%*	*17.2%*	*18.5%*		
Consensus EBIT					**71.2**	**86.0**	**106.9**			
Variance to Consensus					**12.7%**	**12.4%**	**7.6%**			
Net Income	**29.3**	**17.5**	**28.3**	**44.4**	**57.8**	**71.1**	**84.8**	**100.1**	**10.9%**	**22.6%**
EPS - Continuing Ops	**$0.90**	**$0.54**	**$0.78**	**$1.16**	**$1.54**	**$1.92**	**$2.32**	**$2.79**	**6.5%**	**24.4%**
Consensus EPS					**$1.39**	**$1.69**	**$2.11**			
Variance to Consensus					***10.4%***	***13.4%***	***10.1%***			
Diluted Shares Out.	**32.4**	**32.5**	**36.0**	**38.2**	**37.6**	**37.1**	**36.5**	**35.9**	**4.2%**	**(1.5%)**
P / E - Base Case					**21.6x**	**17.3x**	**14.3x**	**11.9x**		
P / E Consensus	**22.6x**	**34.5x**	**32.9x**	**22.0x**	**23.8x**	**19.6x**	**15.7x**	**-**		
Net Debt / EBITDA	**-1.9x**	**-3.2x**	**0.7x**	**0.2x**	**0.1x**	**0.0x**	**0.0x**	**-0.1x**		

Summary Cash Flow Statement & Capital Allocation

€m except per-share	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E
	Historical				Projected			
Free Cash Flow (CFO - CapEx)	44.3	33.8	51.4	53.3	77.7	91.1	106.2	123.1
CapEx	(4.6)	(2.2)	(3.2)	(4.5)	(8.4)	(9.1)	(10.0)	(11.0)
Acquisitions	(7.6)		(181.0)	(5.0)	(25.0)	(31.3)	(37.5)	(43.8)
Net Debt Issuance	-	-	139.2	(21.0)	-	-	-	-
Net Equity Issuance	2.2	4.4	4.5	0.4	(22.5)	(27.5)	(32.5)	(37.5)
Dividends	(12.8)	(12.8)	(7.8)	(13.6)	(13.6)	(13.6)	(13.6)	(13.6)

Asset Value Calculations

	2022	Adj.	Adjusted	Notes
On-Balance Sheet Assets				
Cash and Cash Equivalents	130.6	-	130.6	
AR	88.2	-	88.2	
Inventories	75.5	-	75.5	
Other Current Assets	24.2	-	24.2	
Total Current Assets	**318.5**	-	**318.5**	
Leasing Right of Use	28.1	-	28.1	
Tangible Assets	27.9	-	27.9	
Deferred Tax Assets	12.2	-	12.2	
Goodwill	292.6	(30.0)	262.6	Remove GW prior to 2017.
Other Intangible Assets	137.1	-	137.1	Customer relationships, acquired tech + patents.
Other Non-current Assets	18.4	-	18.4	
Total Balance Sheet Assets	**834.9**	**(30.0)**	**804.9**	
Off-Balance Sheet Assets				
Workforce	-	22.7	22.7	See appendix for calculations
Customer Relationships - Legacy Lectra	-	115.6	115.6	See appendix for calculations
Total Off Balance Sheet Assets			**138.3**	
Total Assets			**943.2**	

Estimated Value of Lectra's Customer Relationships & Workforce

Estimated Value of Lectra's Customer Relationships

	Gerber	Lectra
Annual Revenue ended 6/30/22, €m*	180.0	320.0
Customer Relationships Value, €m	65.0	115.6**
% of Revenue	36%	36%

*Note: *Lectra provides Gerber's revenue for the year ending June 2022, so I use an equivalent figure for Lectra based on quarterly statements. ** = 320m x 36%.*

Estimated Value of Lectra's Workforce

2,527	= Employees
€ 90,000	x Avg Salary*
10%	x Headhunter Fee
€ 22.7	**= Replication Value (€m)**

*Note: *Estimate based on Glassdoor data.*

Earnings Power Value Calculations

	2022	Notes
Revenues	521.9	First full year of consolidating Gerber into financials.
COGS	174.3	
Operating Expense ex. R&D	233.4	
R&D	45.8	
Recurring EBIT*	**68.5**	Adjusted for 4m of one-off acquisition expenses.
Operating Margin	*13.1%*	
Tax Rate	*25.0%*	
Recurring NOPAT	**51.4**	
Growth expense addbacks		
Growth R&D	36.6	Assume 80% of R&D expense is for growth, 20% is to remain competitive vs. competition.
Adj. Recurring NOPAT	**88.0**	
WACC	8.8%	
EPV	**997.6**	
Plus: excess cash**	52.3	
Less: debt	(153.0)	
EPV of Equity	**897.0**	
Mkt. Cap of Equity	1,299.0	
Value of future growth	**402.0**	

*Adj. for non-recurring items

**Defined as >15% of rev.

WACC Calculation

Market Cap of Equity	89.5%
Debt	10.5%
Cost of equity	
Beta	1.2
ERP	5.0%
Beta-adj. ERP	**6.2%**
+Treasury Yield	3.5%
Cost of Equity	**9.7%**
Cost of Debt	
Interest Exp. / Total Debt	2.4%
After Tax Cost of Debt	**1.8%**
WACC	8.8%

[i] Source: Tegus, Former Vice President of Sales, Fashion and Apparel at Lectra SA, September 07, 2022