



Interbancaria Securities



Price ord.(Eu):	4.1
BCI Index:	1,487
Price Target 12 m (Eu):	3.35

BASICNET UNDERPERFORM

Sector:
Reuters Ric:

Sportswear
BCNT.MI

Company Data

Investment Case

Time horizon:	12m
Method:	Peer comparison & DCF
Potential Upside:	-18.3%

Size and Liquidity

N. of Shares (mn):	29.4
Market cap (Eu mn):	121
Market float (%):	54%
Market float (Eu mn):	65
'99E Enterprise Value (Eu mn):	132
EV/Ebitda '99E:	10.1
EV/Ebitda '00E:	8.0
EV/Ebitda '01E:	6.7
EV/Ebitda '02E:	5.9
EV/Ebit '99E:	12.6
EV/Ebit '00E:	10.1
EV/Ebit '01E:	8.2
EV/Ebit '02E:	7.2

Key Figures 1997-2003E

Year to 31/12	Net Sales (Eu mn)	Operating Profit (Eu mn)	Stated Net Profit (Eu mn)	EPS* Adj. (Eu)	CEPS* Adj. (Eu)	P/E	P/CEPS	Dividend (Eu)	Gross Yield (%)
1997	79.7	10.0	5.5	0.213	0.290	19.2	14.1	0.046	1.1%
1998	103.8	10.2	6.1	0.180	0.296	22.8	13.9	0.052	1.3%
1999E	120.2	10.5	6.5	0.242	0.377	16.9	10.9	0.055	1.3%
2000E	137.5	13.0	8.4	0.291	0.442	14.1	9.3	0.071	1.7%
2001E	151.8	15.6	10.3	0.356	0.515	11.5	8.0	0.088	2.1%
2002E	163.4	17.0	11.6	0.399	0.572	10.3	7.2	0.098	2.4%
2003E	171.3	18.2	12.8	0.435	0.614	9.4	6.4	0.109	2.7%

* EPS and CEPS are based on the following number of shares: 26.1mn before 1999, 26.5mn in 1999 and 29.4mn as of 2000.

A Little Fish in a Big Sea

- **BasicNet: a network of independent entrepreneurs.** With 1998 net revenues of L197.8bn, the Basic Group is active in the athletic/casual apparel sector through its own brands Kappa and Robe di Kappa.
- **Market: a medium sized player in a world of giants.** The BasicNet Group is a medium sized player in a sector that is dominated by much larger operators (Nike, Reebok, Polo Sport, Tommy Hilfiger, etc.). Despite this, the company has succeeded in carving out a market niche for itself, where it has continuously posted excellent performances.
- **Offering structure.** The offer entails the sale of 11,680,500 existing shares (or 41.22% of capital) the issue of 2,245,500 new shares (7.92%), and, if the greenshoe is fully exercised, there would be other 1,044,500 (3.555%) for sale on the market and 1,044,500 (3.555%) from an additional rights issue. Upon completion of the offer, the free float should stand at 53.98% with the reference shareholder holding 40.69%. The remainder of capital (5.33%) will be in the hands of the Senior Management (4.8%) and employees (0.53%). Given that the majority shareholder will keep 46% of capital and that Basic World's shareholders have pre-emptive rights, we think that the company is unlikely to be a take-over target in the short-term.
- **Estimates: EPS CAGR of 18% ('99-'02).** We expect sales growth of 10.8% during the period (1999/2002). In the light of this, we forecast a 10.2% operating margin in 2002 with respect to the 8.7% expected for 1999. Furthermore, we estimate that EPS will increase at an annual average rate of 18% during the 1999-2002 period, with respect to +5.5% expected in 1999.

(continued overleaf)

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■ **Valuation:** fairly valued at Eu 3.35. When looking at current market multiples, the company seems to be overvalued with respect to peers (Adidas, Reebok, Polo Ralph Lauren, Tommy Hilfiger, etc.). The stock also seems to be overvalued on a DCF valuation. We therefore initiate coverage with an UNDERPERFORM recommendation, setting a target price of Eu 3.35, which is the average of the two valuation approaches used.

Basic Group - Profit & Loss Account (1996 - 2003E)

(Lbn)	1996	1997	1998	1999E	2000E	2001E	2002E	2003E
Net Revenues	129.5	153.0	197.8	227.7	261.2	288.9	311.3	326.7
Growth Rate	n.a.	18.2%	29.2%	15.1%	14.7%	10.6%	7.8%	4.9%
Other Revenues	0.6	1.2	3.1	5.0	5.0	5.0	5.0	5.0
Total Revenues	130.1	154.3	200.9	232.7	266.2	293.9	316.3	331.7
Raw Materials	(76.5)	(83.7)	(108.9)	(127.7)	(145.6)	(160.2)	(172.0)	(180.7)
Services	(27.3)	(34.2)	(47.7)	(56.2)	(63.5)	(69.1)	(73.9)	(76.1)
Other Costs	(2.4)	(2.9)	(3.5)	(3.6)	(3.9)	(4.2)	(4.4)	(4.6)
Value Added	23.8	33.4	40.8	45.1	53.2	60.5	66.0	70.3
Value Added Margin (%)	18.3%	21.7%	20.3%	19.4%	20.0%	20.6%	20.9%	21.2%
Labour Cost	(8.8)	(11.5)	(16.9)	(19.8)	(21.6)	(23.7)	(25.8)	(27.8)
Ebitda	15.0	22.0	23.9	25.3	31.6	36.8	40.2	42.5
Ebitda Margin (%)	11.5%	14.2%	11.9%	10.9%	11.9%	12.5%	12.7%	12.8%
Amortization and Depreciation	(1.8)	(1.8)	(3.2)	(4.1)	(5.4)	(5.5)	(6.0)	(6.0)
Provisions	(0.3)	(0.9)	(0.9)	(0.9)	(1.0)	(1.2)	(1.2)	(1.3)
Ebit	13.0	19.3	19.8	20.3	25.2	30.2	33.0	35.2
Ebit Margin (%)	10.0%	12.5%	9.8%	8.7%	9.5%	10.3%	10.4%	10.6%
Financial Income (Charges)	(5.2)	(6.0)	(7.1)	(3.4)	(1.8)	(1.5)	(0.7)	0.2
Other Income (Charges)	0.2	0.0	(0.0)	0.0	0.0	0.0	0.0	0.0
Extraordinaries	0.6	(0.2)	3.2	0.1	(0.4)	(0.4)	(0.4)	0.0
Pre-Tax Income	8.5	13.2	15.9	17.0	23.0	28.3	31.8	35.4
Taxes	(1.2)	(1.3)	(2.2)	(2.5)	(4.6)	(6.0)	(6.8)	(7.8)
Minorities	0.0	(1.2)	(1.8)	(1.9)	(2.1)	(2.4)	(2.6)	(2.8)
Net Income	7.3	10.6	11.8	12.5	16.2	20.0	22.4	24.7
Net Margin (%)	5.6%	6.9%	5.9%	5.4%	6.1%	6.8%	7.1%	7.5%
Net Income Growth	n.a.	45.1%	11.5%	5.5%	29.8%	22.9%	12.2%	10.6%

Source: Company data & Intermobiare Securities estimates

Basic Group - Balance Sheet (1996 - 2003E)

(Lbn)	1996	1997	1998	1999E	2000E	2001E	2002E	2003E
Inventory	17.8	20.4	32.2					
Current Assets	79.5	104.1	132.6					
Current Liabilities	(39.8)	(53.0)	(81.4)					
Net Working Capital	57.5	71.6	83.4	95.6	109.7	121.4	130.8	137.2
Net Tangible Assets	6.5	7.7	9.4	10.5	10.9	11.2	11.2	11.2
Net Intangible Assets	4.8	7.0	14.9	15.7	15.9	16.1	16.0	16.0
Other Non Current Assets	2.1	3.5	2.3	2.3	2.3	2.3	2.3	0.3
Long Term Liabilities	(1.2)	(2.2)	(3.1)	(3.5)	(4.0)	(4.6)	(5.2)	(5.9)
Capital Employed	69.7	87.5	106.9	120.6	134.7	146.3	155.0	158.8
Net Cash (Debt)	(30.6)	(36.3)	(45.2)	(22.2)	(21.1)	(14.4)	(3.2)	15.1
Minorities	0.0	1.4	1.3	3.3	5.4	7.8	10.3	13.2
Net Equity	39.1	49.8	60.4	95.1	108.2	124.1	141.5	160.7
Restated ROE	17.5%	24.2%	16.5%	16.0%	16.3%	17.4%	17.1%	16.4%
Roce	18.6%	24.5%	20.4%	17.8%	19.7%	21.5%	21.9%	22.4%
Gearing	78.4%	72.9%	74.8%	23.3%	19.5%	11.6%	2.2%	Cash
Interest Cover	2.5	3.2	2.8	6.0	13.7	20.0	44.2	n.m.

Source: Company data & Intermobiare Securities estimates



1. Description

The Basic Group is active in apparel, shoes and accessories for both sports and leisure time through its own brands Kappa and Robe di Kappa, which were acquired in 1994 together with Jesus e Jesus Jeans (currently not operative). Basic's core business is the definition of brand and product positioning. Design takes place entirely within the company and roughly 2/3% of turnover is invested in R&D.

The Basic Group outsources its industrial production, and thus does not have a direct role in this activity. Through specialized companies (LF Basic in Southeast Asia and EC Basic for the other markets) and an independent company (Kappa International Footwear Ltd for the production on non-technical shoes) defined as "Sourcing Centers", Basic optimizes all of the production phases on behalf of licensees. In exchange for these services, the Group receives a commission that is equivalent to 7% of the value acquired by the Licensee.

Wholesale distribution and local marketing activities in the 70 markets where the group is active are entrusted to a network of 37 licensee companies, two of which, Kappa Italia and Kappa USA, are directly managed (and controlled 100%) by the parent company. The other 35 are managed by independent entrepreneurs, which pay the Group a royalty of 10% of sales. The decision to directly manage the Italian and U.S. activities was heavily influenced by the strategic nature of these markets.

In addition to these activities, the group also manages the Turin based Kappa Megastore. In 1998, the Megastore generated turnover of L15.2bn by taking back and selling the licensees' excess stock in order to support the brand images, although it is not contractually obligated to do so.

The Basic Group's marketing and communication strategy reflects the commercial strategy, which are carried out in distinct, successive phases:

- Phase one consists in the introduction of products that are directly related to sports activities and which are strongly integrated into the global communication in that area (sponsoring of well-know teams);
- Phase two is supported by marketing and communication that includes other convenience goods and is based on the use of testimonials and specific communication methods.

The company has historically focused its communication on the world of soccer, where it currently sponsors Juventus (25 time winner of the Italian soccer championship), and as of this year, the Italian league as well (at a cost of L14bn annually for four years).

Traditionally the company has invested about 7/8% of turnover in sponsoring (most of which, i.e. 90%, is to sponsor soccer teams) and roughly 3/5% in communication. On top of this, the licensees must, by contract, directly invest additional funds (at least 4% of the licensee's turnover) to help support the Kappa and Robe di Kappa brands at a local level.

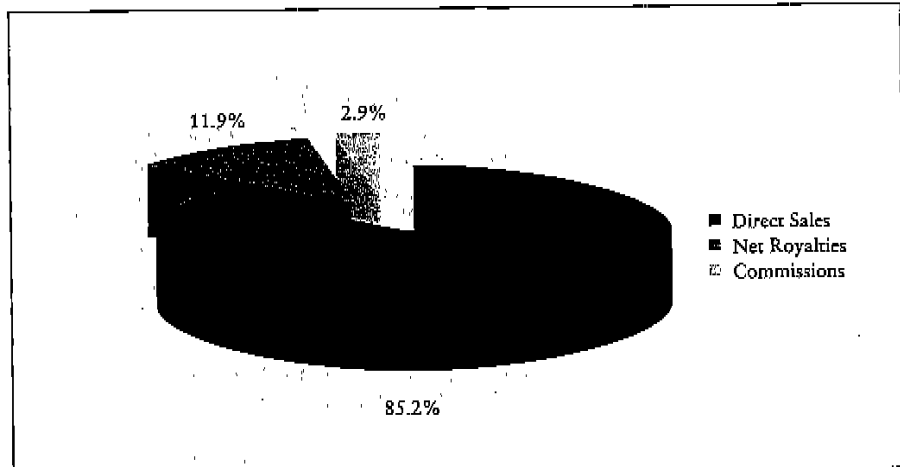




Revenues Breakdowns

In 1998, the Basic group recorded consolidated turnover of L197.8bn, up 29.2% YoY, 85.2% of which was from direct sales (relative to the controlled licensees Kappa Italia, Kappa USA and the only mono-brand outlet Basic Village), 11.9% from royalties relative to the licensing contracts and the remaining 2.9% from commissions generated by the Sourcing Centers.

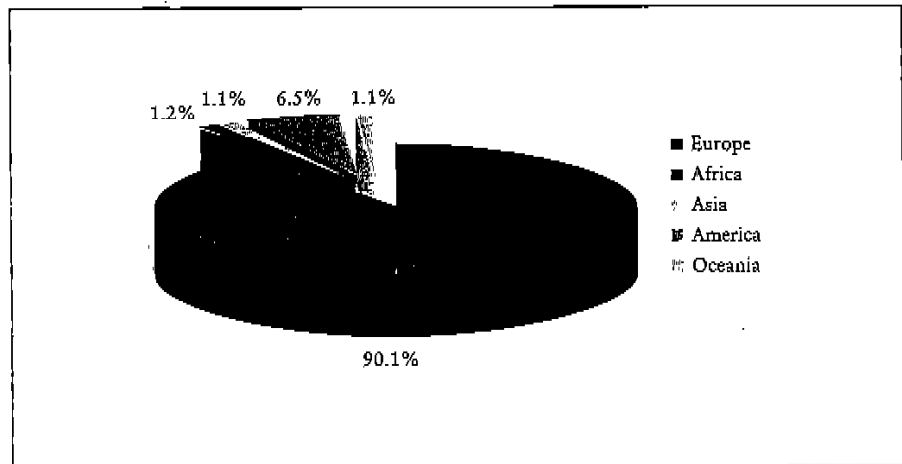
Basic Group- '98 Revenues Breakdown



Source: Company data

Given that a portion of turnover is from royalties, a geographical breakdown of turnover only considers the aggregate sales recorded by the Basic Group, or the total sales made by the licensees worldwide. As regards such, the Group posted aggregate '98 turnover of around L400bn, 90.1% of which was generated in Europe, 6.5% in America, 1.2% in Africa and 1.1% in Asia and Oceania.

Basic Group - '98 Aggregate Turnover Breakdown per Area



Source: Company data

R&D and Products

In light of the strategy that underlies the stylistic product content, the Group has specialized a team comprised of 40 persons and invests an average of 2-3% of net turnover in R&D. The R&D center is divided into three departments: design, engineering and product prototyping.

While the design division is organized operatively by commercial line (and then subdivided into sub-lines), the engineering and prototyping divisions are organized by product category.

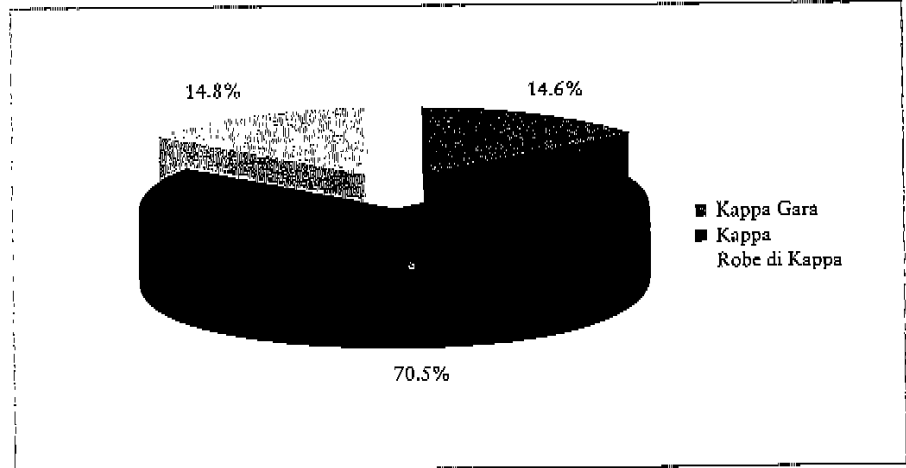
In order to minimize production times to meet market needs, the R&D center operates directly with the Sourcing Centers, which manage the product supply services for the licensees.

The R&D center develops about 1,000 new models annually, broken down in to four commercial sales seasons (spring, summer, "back to school" and winter). It also develops more than 20 specialized lines for large retail distributors (including Footlocker and some of the leading Italian retailers of sportsgoods, such as Intersport, Cisalfa and Giacomelli) and to meet the specific needs of the licensees.

In addition to the new products, there are also the permanent articles, such as polo T-shirts, sweatshirts and sweat-suits (the so-called Strategic Items). These articles have an expected commercial life of at least six seasons and unlike the trendy or fashionable items, post a growth curve that is progressive during the product life. The strategic items accounted for 58% of Kappa sales in 1998 and for 48% of Robe di Kappa sales.

In terms of the product lines, there are Kappa, Robe di Kappa and Kappa Gara. More specifically, the Kappa line is positioned within the broadest segment of the reference market, while the Robe di Kappa line offers articles that have a lower technical but greater design content and are geared towards consumers that are over 25. Finally, management believes that Kappa Gara, with its extremely high technical content, is an effective tool for penetrating new markets as support to the global growth strategy.

Basic Group - '98 Aggregate Turnover Breakdown per Brand



Source: Company data



2. Strategy

Based on the already existing organization and production structure, the Basic Group's strategic goals can be summarized as follows:

A - Speed up the expansion of the "entrepreneurial network" by penetrating into new markets through contracts and agreements with new licensees. The group always guarantees the network members complete autonomy and encourages them to use their own ideas and abilities to step up brand awareness, thus providing a presence in new geographical areas and an immediate competitive position.

B - Further development of the network's "information system", represented by the IT function at the service of decisional and operating speed. Management considers this its primary goal, as the amount of time required to fulfill market's needs is one of the main keys to success in the global apparel and shoe market.

C - Develop commercial agreements with leading international sector operators. More specifically, the company is planning to sharpen focus on potential deals with foreign operators, which would then join the Li & Fung group in Asia and Tebe Moribo in Africa.

D - Invest in the distribution chain by opening Basic Village centers in a few of the European capitals and by expanding the e-commerce activity.

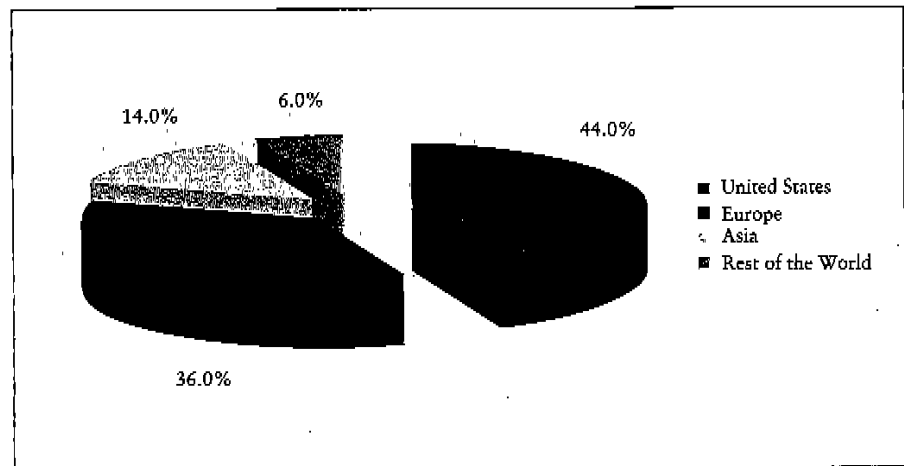
E - Accelerate the global marketing and R&D activities even more, as management considers these to be the decisive factors when competing in the global casual apparel and shoe sector and essential in guaranteeing the efficiency of the Basic Group's system.

3. Reference Market

The Basic Group's reference sectors are apparel and sports shoes, which accounted for 89% and 11% respectively of 1998 aggregate turnover.

As regards such, it is estimated that the casual and sports apparel market had a global value of Eu 39.4bn in 1998, with the U.S. representing roughly 44%, Europe about 36%, Asia around 14% and the rest of the world approximately 6%.

'98 Sports Apparel Market per Area



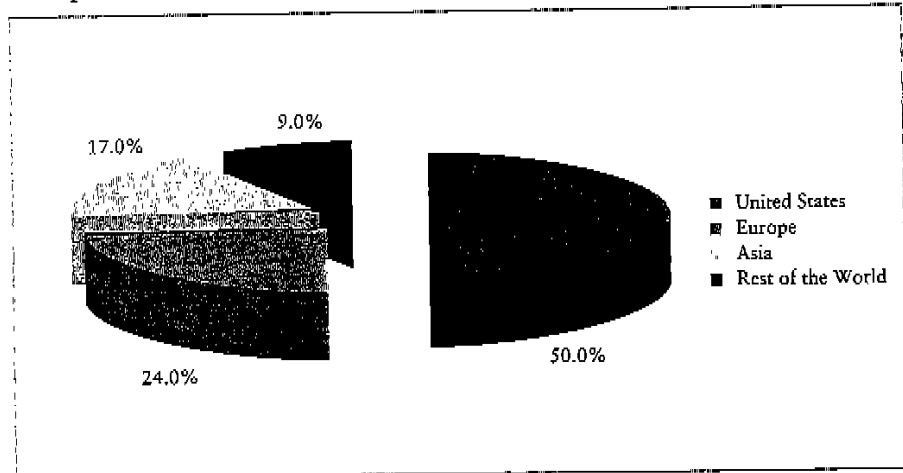
Source: Sporting Goods Intelligence

Figures from the OECD countries confirm that the sector trend is moving towards sportswear/casual apparel and show 1990-1997 growth rates that are way above (20% for the men's sector and 42% for women's) the average sector growth (+7.5%).



Like the apparel market, the casual and sports shoe market has a worldwide connotation. It had an estimated value of USD 18.2bn in 1998 and posted an average growth rate of 3% over the last seven years. On an international level, the largest market is the U.S., which has a value of approximately USD 9.1bn, or 50% of the total. In terms of size, the European market comes in next at USD 4.4bn, followed by the Far East with USD 3.1bn and the Americas and the rest of the world with USD 1.6bn.

'98 Sports Shoe Market per Area



Source: Sporting Goods Intelligence

In the sportsgoods sector, there are two types of operators: large sized global players (such as Nike, Reebok and Adidas), and operators which either due to dimension or focus on specific market segments are considered medium (Puma, Converse, Lotto, Umbro and Diadora).

What's more, in the casual apparel sector, there are some operators with brands that have a high fashion content, are of a designer, or are extremely well-known (such as Polo Sport, Tommy Hilfiger, Timberland and Lacoste).





4. Offering Structure

Before the offer Basic World N.V. held 94.6% of capital and the senior management held the remaining 5.4%.

BasicNet - Capital Structure Before and After the Offer

Shareholder	Before the Offer	(%)	Rights Issue	(%)	Existing Shares Sold	(%)	After the offer	(%)	Greenshoe	(%)	After the Greenshoe	(%)
Basic World	24,680	94.6%			11,681	41.2%	12,999	45.9%	1,045	3.6%	11,955	40.7%
BasicNet									1,045	3.6%		
Senior Mgmt	1,410	5.4%					1,410	5.0%			1,410	4.8%
Employees			157	0.6%			157	0.6%			157	0.5%
Float			2,089	7.4%			13,769	48.6%			15,858	54.0%
Total	26,090	100.0%	2,246	7.9%	11,681	41.2%	28,336	100.0%	2,089	7.1%	29,380	100.0%
Total N.of Shares	26,090	100.0%	28,336	100.0%	28,336	100.0%	28,336	100.0%	29,380	100.0%	29,380	100.0%

Source: Company data

The public offering, which will be for a total of 16,015,000 (including a full exercise of the greenshoe) is structured as follows:

A - Sale of 11,680,500 shares held by the controlling company Basic World. As regards such, it should be noted once Basic World sells a portion of its shares in BasicNet, its stake will slide from 94.59% to 40.69%. Before the offer, Basic World, a financial company under Dutch jurisdiction was, in turn, controlled equally by the company president and founder Marco Boglione, and by Ventuno Investimenti N.V. (the Benetton family's financial company) each with a 34.342% stake. The remaining 31.316% of capital was held 30% by UBS Capital B.V. and 1.316% by Basic World. Given that Basic World's company charter provides that each of its partners has the right to ask the company to sell the BasicNet shares related to the Basic World shares, after the offer and once the greenshoe has been exercised, the stakes in Basic World will change in such a way to reflect the changes in the BasicNet participations. Therefore, after the offer, Basic World will be controlled 60% by Marco Boglione, 27.4% by Ventuno Investimenti, and 9.9% by UBS Capital, while its own shares will amount to 2.7% of capital. Being that Basic World partners have direct access to the underlying BasicNet shares owned, it should be underlined that the already existing shareholders cannot sell their stakes before November 30th, 2000. The already existing shareholders also have a pre-emptive right on the Basic World shares.

B - Subscription of 2,245,500 new shares deriving from a specific rights issue.

C - Greenshoe, comprised of 2,089,000 shares, 1,044,500 of which would derive from the sale of a portion of Basic World's stake while the remaining 1,044,500 would derive from an additional rights issue.

After the offer (and considering the greenshoe exercise), BasicNet's shareholder structure will therefore be as follows: Basic World will remain the reference shareholder with 40.69%, Senior Management will hold 4.8%, employees 0.53%, and the free float will amount to 53.98%.

Given that only slightly more than the majority of capital will be put on the market, and that already existing shareholders have pre-emptive rights, we think that the company is unlikely to be a take-over target in the short-term.

5. Financials

In 1998, the Basic Group recorded net profit of L197.8bn, up 29.2% YoY thanks to an excellent performance of the controlled licensees (Kappa Italia and Kappa USA, which grew 25.5% and 403.4% respectively), and of the Basic Village outlet, which posted a 22.2% increase in sales to L15.3bn. The evolution of the various turnover components, and more specifically, the slowdown logged by the licensees (and consequently in royalties and commissions) had a negative impact on the company's operating margin, which slid from 12.5% in 1997 to 9.8% in 1998. This trend continued in 1H99, given that the licensees' sales suffered from the generalized international sector crisis.

Like in 1H99, the product acquisition costs, net of the changes in stock, have fallen constantly, proving the economies of scale on the acquisitions and, to a lesser extent, the declining price trend, net of the negative change in the US dollar exchange rates. In fact, the acquisition costs sustained in dollars amounted to 18% of total turnover.

The cost of services was on the rise in 1H99 and over the past three years. This was due to an increase in sponsorings and communication and to the consolidation of the licensee Kappa USA, which management estimates can reach break even in 2000.

The Basic Group's main resource is its workforce, as the company has no production plants. As regards such, the increase in the cost of labor during the 1996-1999 period and in 3Q99 is attributable to the workforce expansion required by the activities development. In fact, the workforce grew from 181 employees at year-end '96 to 324 at the end of June 1999.

Depreciation, which rose from L1.76bn to L3.2bn during the 1996-1999 period, is represented 70% by the depreciation of intangible assets, such as brands, software and goodwill.

In 1998, extraordinary financial income was mostly in the form of contingent assets deriving from the early withdrawal from sponsoring contracts for Barcellona FC and the National SouthAfrican soccer team, net of relative costs and other expenses deriving from the closure of an associated company in Germany.

In the last three years, the company's tax rate has varied between 10% and 14.2%. Although we have not been able to speak with management, we think that such a low rate is due to the fact that Basic Trademark SA, which is under Luxembourg jurisdiction, owns the Kappa and Robe di Kappa brands. As such, it enjoys a minimal taxation (roughly 10%) on the royalties received. On top of this, Kappa USA is still recording losses (break even is expected in 2000).





Basic Group - Profit & Loss Account (1996 - 2003E)

(Lbn)	1996	1997	1998	1999E	2000E	2001E	2002E	2003E
Net Revenues	129.5	153.0	197.8	227.7	261.2	288.9	311.3	326.7
Rate of Growth	n.a.	18.2%	29.2%	15.1%	14.7%	10.6%	7.8%	4.9%
Other Revenues	0.6	1.2	3.1	5.0	5.0	5.0	5.0	5.0
Total Revenues	130.1	154.3	200.9	232.7	266.2	293.9	316.3	331.7
Raw Materials	(76.5)	(83.7)	(108.9)	(127.7)	(145.6)	(160.2)	(172.0)	(180.7)
Services	(27.3)	(34.2)	(47.7)	(56.2)	(63.5)	(69.1)	(73.9)	(76.1)
Other Costs	(2.4)	(2.9)	(3.5)	(3.6)	(3.9)	(4.2)	(4.4)	(4.6)
Value Added	23.8	33.4	40.8	45.1	53.2	60.5	66.0	70.3
Value Added Margin (%)	18.3%	21.7%	20.3%	19.4%	20.0%	20.6%	20.9%	21.2%
Labour Cost	(8.8)	(11.5)	(16.9)	(19.8)	(21.6)	(23.7)	(25.8)	(27.8)
Ebitda	15.0	22.0	23.9	25.3	31.6	36.8	40.2	42.5
Ebitda Margin (%)	11.5%	14.2%	11.9%	10.9%	11.9%	12.5%	12.7%	12.8%
Amortization and Depreciation	(1.8)	(1.8)	(3.2)	(4.1)	(5.4)	(5.5)	(6.0)	(6.0)
Provisions	(0.3)	(0.9)	(0.9)	(0.9)	(1.0)	(1.2)	(1.2)	(1.3)
Ebit	13.0	19.3	19.8	20.3	25.2	30.2	33.0	35.2
Ebit Margin (%)	10.0%	12.5%	9.8%	8.7%	9.5%	10.3%	10.4%	10.6%
Financial Income (Charges)	(5.2)	(6.0)	(7.1)	(3.4)	(1.8)	(1.5)	(0.7)	0.2
Other Income (Charges)	0.2	0.0	(0.0)	0.0	0.0	0.0	0.0	0.0
Extraordinaries	0.6	(0.2)	3.2	0.1	(0.4)	(0.4)	(0.4)	0.0
Pre-Tax Income	8.5	13.2	15.9	17.0	23.0	28.3	31.8	35.4
Taxes	(1.2)	(1.3)	(2.2)	(2.5)	(4.6)	(6.0)	(6.8)	(7.8)
Minorities	0.0	(1.2)	(1.8)	(1.9)	(2.1)	(2.4)	(2.6)	(2.8)
Net Income	7.3	10.6	11.8	12.5	16.2	20.0	22.4	24.7
Net Margin (%)	5.6%	6.9%	5.9%	5.4%	6.1%	6.8%	7.1%	7.5%
Net Income Growth	n.a.	45.1%	11.5%	5.5%	29.8%	22.9%	12.2%	10.6%

Source: Interbancare Securities estimates

Basic Group - Balance Sheet (1996 - 2003E)

(Lbn)	1996	1997	1998	1999E	2000E	2001E	2002E	2003E
Inventory	17.8	20.4	32.2					
Current Assets	79.5	104.1	132.6					
Current Liabilities	(39.8)	(53.0)	(81.4)					
Net Working Capital	57.5	71.6	83.4	95.6	109.7	121.4	130.8	137.2
Net Tangible Assets	6.5	7.7	9.4	10.5	10.9	11.2	11.2	11.2
Net Intangible Assets	4.8	7.0	14.9	15.7	15.9	16.1	16.0	16.0
Other Non Current Assets	2.1	3.5	2.3	2.3	2.3	2.3	2.3	0.3
Long Term Liabilities	(1.2)	(2.2)	(3.1)	(3.5)	(4.0)	(4.6)	(5.2)	(5.9)
Capital Employed	69.7	87.5	106.9	120.6	134.7	146.3	155.0	158.8
Net Cash (Debt)	(30.6)	(36.3)	(45.2)	(22.2)	(21.1)	(14.4)	(3.2)	15.1
Minorities	0.0	1.4	1.3	3.3	5.4	7.8	10.3	13.2
Net Equity	39.1	49.8	60.4	95.1	108.2	124.1	141.5	160.7
Restated ROE	17.5%	24.2%	16.5%	16.0%	16.3%	17.4%	17.1%	16.4%
Roce	18.6%	24.5%	20.4%	17.8%	19.7%	21.5%	21.9%	22.4%
Gearing	78.4%	72.9%	74.8%	23.3%	19.5%	11.6%	2.2%	Cash
Interest Cover	2.5	3.2	2.8	6.0	13.7	20.0	44.2	n.m.

Source: Company data & Interbancare Securities estimates



6. Estimates

Considering the apparel and sports shoe sector trend within the clothing market in general, we estimate that the company can grow on an aggregate level at a Sales CAGR of 9.1% during the 1998-2002 period. This is mostly thanks to the expansion of the two directly controlled licensees, Kappa Italia (11.6%) and Kappa USA (24.7%), which can benefit from the increased brand awareness resulting from the sponsoring of the National Italian soccer league. However, we are not expecting to see similar growth from the independent licensees (+6.6%), despite management's desire to step up the number of licensees from the current 37 to 60 by 2003 and thus increase the number of countries where it is present (from the current 70 to 100 in 2003). In fact, we think that the countries where the Basic Group is already present can already be representative of the international competitive scenario, and that thus there is little room for a greater worldwide distribution.

Basic Group - Revenues Estimates per Channel

Total Revenues (ITL bn)	1996	1997	1998	1999E	2000E	2001E	2002E	2003E
Directly Operated Licensees (A)	110.5	114.2	153.1	180.1	207.3	230.4	248.7	262.7
Growth Rate	<i>n.a.</i>	3.4%	34.1%	17.6%	15.1%	11.1%	8.0%	5.6%
Kappa Italia	110.5	111.6	140.1	162.5	184.5	202.9	217.1	228.0
Growth Rate	<i>n.a.</i>	1.0%	25.5%	16.0%	13.5%	10.0%	7.0%	5.0%
Kappa USA	0.0	2.6	13.0	17.6	22.9	27.5	31.6	34.8
Growth Rate	<i>n.a.</i>	<i>n.m.</i>	403.4%	35.0%	30.0%	20.0%	15.0%	10.0%
Independent Licensees	124.7	254.5	250.4	241.9	272.9	300.8	323.6	340.2
Growth Rate	<i>n.a.</i>	104.0%	-1.6%	-3.4%	12.8%	10.2%	7.6%	5.1%
Europe	112.9	234.7	223.3	207.7	232.6	255.8	275.0	288.8
Growth Rate	<i>n.a.</i>	107.9%	-4.9%	-7.0%	12.0%	10.0%	7.5%	5.0%
Asia	0.2	1.5	4.3	6.3	7.8	9.0	9.9	10.6
Growth Rate	<i>n.a.</i>	762.0%	179.4%	45.0%	25.0%	15.0%	10.0%	7.5%
Africa	7.5	11.1	4.8	5.0	5.3	5.6	5.9	6.1
Growth Rate	<i>n.a.</i>	48.4%	-57.1%	5.0%	6.5%	6.0%	5.0%	3.5%
America	3.8	5.2	13.5	16.2	18.7	20.5	22.1	23.2
Growth Rate	<i>n.a.</i>	34.8%	160.7%	20.0%	15.0%	10.0%	7.5%	5.0%
Oceania	0.3	1.9	4.5	6.8	8.5	9.8	10.7	11.6
Growth Rate	<i>n.a.</i>	502.5%	132.8%	50.0%	25.0%	15.0%	10.0%	7.5%
Aggregate Turnover	235.2	368.7	403.6	422.1	480.2	531.1	572.3	603.0
Growth Rate	<i>n.a.</i>	56.7%	9.5%	4.6%	13.8%	10.6%	7.8%	5.4%
Royalties (B = 10% on Licensee Revenues)	8.7	20.2	23.6	23.5	26.3	28.8	30.9	30.6
Basic Village (C)	10.0	12.5	15.3	18.4	21.1	22.7	24.2	25.4
Commissions (D = 7% on Licensee Purchases)	0.2	6.1	5.7	5.6	6.4	7.0	7.6	7.9
Net Revenues (E = A + B + C + D)	129.5	153.0	197.8	227.7	261.2	288.9	311.3	326.7
Growth Rate	<i>n.a.</i>	18.2%	29.2%	15.1%	14.7%	10.6%	7.8%	4.9%

Source: Company data & Intermobiliare Securities estimates

In light of the above consideration, we obtain a revenues breakdown that could limit operating margin growth, as the revenues items having the highest operating margins (royalties and commissions) would also present the lowest growth rates. We therefore forecast that the operating margin will reach 10.4% in 2002 from our estimated 8.7% for 1999.

We also think that the evolution of the turnover breakdown can have a negative impact on the tax rate, given that unlike now, a portion of revenues will come from the U.S. licensee. We therefore estimate that once in full effect, the tax rate will stand at 22% compared to the 14.2% recorded in 1998.

In light of these considerations, we estimate an 18% CAGR of EPS (1999-2002).





7. Valuation

We valued the Basic Group according to market multiples (see Appendix B). Our peer group sample includes Italian companies active in the casual clothing sector through well-known brands (Stefanel and Simint), and foreign companies operating in the sportsgoods sector (Nike, Reebok, Adidas-Salomon, Puma and Adolf Ahlers).

Basic's peer group trades at average multiples of 11.1x '01 P/E and 7.8x '01 EV/EBIT. However, these averages are altered by the multiples of two companies in extreme positions: Nike, which is without a doubt sector leader and whose size is absolutely not comparable to Basic's, and Puma, which is coming out of a restructuring period. When excluding both Nike and Puma's from our sample, the average multiples slide down to 9.3x '01 P/E and to 7.0x '01 EV/EBIT. These are some 15/20% below the BasicNet Group's numbers (2001 P/E of 11.5x and 2001 EV/EBIT of 8.2x), considering the current market price.

Based on a DCF model, we obtain a fair value of EU 3.36 for the stock.

DCF

	1999	2000E	2001E	2002E	2003E
Operating Profit	20.3	25.2	30.2	33.0	35.2
Amortization & Depreciation	4.1	5.4	5.5	6.0	6.0
Change in Working Capital	(12.2)	(14.1)	(11.7)	(9.4)	(6.4)
Capex	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)
Tax Rate	15.0%	20.0%	21.1%	21.5%	22.0%
Taxes	(3.0)	(5.0)	(6.4)	(7.1)	(7.7)
Free Cash Flow	3.1	5.5	11.7	16.5	21.0
Free Cash Flow/Mkt Cap. (%)	1.1%	1.9%	4.1%	5.8%	7.4%
Discounting Factor	1.00	0.91	0.82	0.74	0.67
Discounted Free Cash Flow	3.1	5.0	9.6	12.2	14.0
WACC	10.1%	10.1%	10.3%	10.6%	10.7%
Cash (Debt)	(22.2)	(21.1)	(14.4)	(3.2)	15.1
Debt Weight	9.1%	8.7%	6.1%	1.4%	0.0%
Cost of debt	7.0%	7.0%	7.0%	7.0%	7.0%
Fiscal Shield on Debt	37.0%	37.0%	37.0%	37.0%	37.0%
Risk Free	5.2%	5.2%	5.2%	5.2%	5.2%
Risk Premium	5.5%	5.5%	5.5%	5.5%	5.5%
Beta	1.00	1.00	1.00	1.00	1.00
Discounting Factor	1.00	0.91	0.82	0.74	0.67
Terminal Growth					3.0%
Actual Free Cash Flow Value (ITL bn)	30				
Terminal Value (ITL bn)	275				
Discounted Terminal Value	183				
Total Value	213				
'99 Cash/(Debt)	(22)				
Company Value	191				
N. of shares	29.4				
Total Value per Share (ITL)	6,498				
Total Value per Share (Euro)	3.36				

Source: Intermobiliare Securities estimates

We are therefore setting a target price of Eu 3.35, calculated as the average of the two valuation approaches applied.

Appendix A:

Cash Flow Model (1996 - 2003E)

(Lbn)	1996	1997	1998	1999E	2000E	2001E	2002E	2003E
Net Profit before Minorities	7.3	11.8	13.6	14.4	18.4	22.3	25.0	27.6
Amortization and Depreciation	1.8	1.8	3.2	4.1	5.4	5.5	6.0	6.0
Provisions	0.3	0.4	0.5	0.5	0.5	0.6	0.6	0.7
Change in Working Capital	(35.0)	(12.9)	(26.4)	(12.2)	(14.1)	(11.7)	(9.4)	(6.4)
Other Operating Items	(0.1)	0.1	0.0	0.0	0.0	0.0	0.0	1.0
Operating Cash Flow	(25.7)	1.2	(9.0)	6.8	10.2	16.7	22.2	28.8
Capex	(2.9)	(5.1)	(6.4)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)
Investments/Divestments	0.0	(2.8)	0.9	0.0	0.0	0.0	0.0	0.0
Right Issue	0.0	0.0	0.0	24.8	0.0	0.0	0.0	0.0
Dividends	0.0	(0.4)	(2.3)	(2.6)	(3.1)	(4.1)	(5.0)	(5.6)
Other Non Operating Items	10.2	1.5	8.0	0.0	0.0	0.0	0.0	1.0
Cash Flow	(18.4)	(5.6)	(8.9)	23.0	1.1	6.7	11.2	18.2
Initial Net Cash (Debt)	(12.2)	(30.6)	(36.3)	(45.2)	(22.2)	(21.1)	(14.4)	(3.2)
Final Net Cash (Debt)	(30.6)	(36.3)	(45.2)	(22.2)	(21.1)	(14.4)	(3.2)	15.1
Average Net Cash (Debt)	(21.4)	(33.5)	(40.7)	(39.4)	(21.6)	(17.7)	(8.8)	6.0

Source: Intermobiliare Securities estimates





Appendix B:

Peer Group Comparison

Sports Apparel	Currency	Price	P/E '98	P/E '99	P/E '00	P/E '01	P/CEPS '98	P/CEPS '99	P/CEPS '00	P/CEPS '01
Nike	US\$	46.1	28.5	27.8	22.3	18.7	21.5	19.6	17.8	13.5
Adidas-Salomon	Euro	74.1	n.m.	14.7	14.5	11.7	n.m.	10.3	9.4	8.4
Reebok	US\$	9.1	11.9	10.5	9.0	8.3	7.1	7.1	5.9	5.5
Puma	Euro	17.9	n.m.	n.m.	20.9	15.8	n.m.	19.4	14.4	10.8
Adolf Ahlers	Euro	15.9	14.5	10.4	9.5	8.8	9.6	8.0	7.5	7.2
Average			18.3	15.9	15.2	12.7	12.7	12.9	11.0	9.1
Brand Name Apparel		Price	P/E '98	P/E '99	P/E '00	P/E '01	P/CEPS '98	P/CEPS '99	P/CEPS '00	P/CEPS '01
Rorondi	Euro	2.5	9.4	n.a.	n.a.	n.a.	8.6	n.a.	n.a.	n.a.
Simint	Euro	7.4	11.8	9.4	8.2	9.6	11.0	8.9	7.8	8.9
Stefanel	Euro	1.6	29.7	18.9	12.2	9.4	9.2	8.2	7.0	6.1
Nautica	US\$	13.1	9.0	10.3	9.0	8.3	7.4	8.3	6.6	6.1
Polo Ralph Lauren	US\$	16.9	13.5	11.5	9.9	9.2	12.4	9.1	7.4	6.9
Tommy Hilfiger	US\$	25.9	13.2	10.4	8.8	8.2	9.6	8.0	6.1	5.7
Average			14.5	12.1	9.6	8.9	9.7	8.5	7.0	6.7
Peer Group		Price	P/E '98	P/E '99	P/E '00	P/E '01	P/CEPS '98	P/CEPS '99	P/CEPS '00	P/CEPS '01
Nike	US\$	46.1	28.5	27.8	22.3	18.7	21.5	19.6	17.8	13.5
Puma	Euro	17.9	n.m.	n.m.	20.9	15.8	n.m.	19.4	14.4	10.8
Adidas-Salomon	Euro	74.1	n.m.	14.7	14.5	11.7	n.m.	10.3	9.4	8.4
Reebok	US\$	9.1	11.9	10.5	9.0	8.3	7.1	7.1	5.9	5.5
Adolf Ahlers	Euro	15.9	14.5	10.4	9.5	8.8	9.6	8.0	7.5	7.2
Simint	Euro	7.4	11.8	9.4	8.2	9.6	11.0	8.9	7.8	8.9
Stefanel	Euro	1.6	29.7	18.9	12.2	9.4	9.2	8.2	7.0	6.1
Nautica	US\$	13.1	9.0	10.3	9.0	8.3	7.4	8.3	6.6	6.1
Polo Ralph Lauren	US\$	16.9	13.5	11.5	9.9	9.2	12.4	9.1	7.4	6.9
Average			17.0	14.2	12.8	11.1	11.2	11.0	9.3	8.2
Average (Excl. Nike & Puma)			15.1	12.3	10.3	9.3	9.4	8.6	7.3	7.0
BasicNet Multiples	Euro	4.1	22.8	16.9	14.1	11.5	13.9	10.9	9.3	8.0

Source: Intermobiliare Securities estimates

EV/ Sales '98	EV/ Sales '99	EV/ Sales '00	EV/ Sales '01	EV/ Ebitda '98	EV Ebitda '99	EV/ Ebitda '00	EV/ Ebitda '01	EV/ Ebit '98	EV/ Ebit '99	EV/ Ebit '00	EV/ Ebit '01
1.5	1.6	1.5	1.4	12.8	13.0	n.a.	n.a.	16.3	16.4	n.a.	n.a.
1.0	0.9	0.9	0.9	10.3	9.2	8.7	8.0	13.4	11.2	9.9	8.9
0.3	0.3	0.4	0.3	5.5	n.a.	n.a.	n.a.	7.3	n.a.	n.a.	n.a.
0.9	0.7	0.6	0.5	n.m.	11.2	10.4	10.0	n.m.	13.5	12.3	11.7
1.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
0.9	0.9	0.8	0.8	9.5	11.1	9.5	9.0	12.3	13.7	11.1	10.3

EV/ Sales '98	EV/ Sales '99	EV/ Sales '00	EV/ Sales '01	EV/ Ebitda '98	EV Ebitda '99	EV/ Ebitda '00	EV/ Ebitda '01	EV/ Ebit '98	EV/ Ebit '99	EV/ Ebit '00	EV/ Ebit '01
1.0	n.a.	n.a.	n.a.	6.4	n.a.	n.a.	n.a.	6.8	n.a.	n.a.	n.a.
1.9	1.6	1.6	1.4	10.1	8.6	8.1	7.4	10.9	9.2	8.6	7.9
0.9	0.8	0.7	0.6	8.9	8.1	5.9	4.8	19.6	14.7	8.6	6.3
0.7	0.7	0.7	0.6	4.1	6.4	5.3	4.8	4.7	7.3	6.1	5.5
1.1	1.0	0.9	0.8	7.5	6.0	5.6	4.9	9.3	7.4	6.7	6.4
1.7	1.5	1.2	1.1	7.5	6.2	5.4	4.9	9.5	7.9	6.9	6.3
1.2	1.1	1.0	0.9	7.4	7.0	6.1	5.4	10.1	9.3	7.4	6.5

EV/ Sales '98	EV/ Sales '99	EV/ Sales '00	EV/ Sales '01	EV/ Ebitda '98	EV Ebitda '99	EV/ Ebitda '00	EV/ Ebitda '01	EV/ Ebit '98	EV/ Ebit '99	EV/ Ebit '00	EV/ Ebit '01
1.5	1.6	1.5	1.4	12.8	13.0	n.a.	n.a.	16.3	16.4	n.a.	n.a.
0.9	0.7	0.6	0.5	n.m.	11.2	10.4	10.0	n.m.	13.5	12.3	11.7
1.0	0.9	0.9	0.9	10.3	9.2	8.7	8.0	13.4	11.2	9.9	8.9
0.3	0.3	0.4	0.3	5.5	n.a.	n.a.	n.a.	7.3	n.a.	n.a.	n.a.
1.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1.9	1.6	1.6	1.4	10.1	8.6	8.1	7.4	10.9	9.2	8.6	7.9
0.9	0.8	0.7	0.6	8.9	8.1	5.9	4.8	19.6	14.7	8.6	6.3
0.7	0.7	0.7	0.6	4.1	6.4	5.3	4.8	4.7	7.3	6.1	5.5
1.1	1.0	0.9	0.8	7.5	6.0	5.6	4.9	9.3	7.4	6.7	6.4
1.0	1.0	0.9	0.8	8.5	8.9	7.3	6.6	11.6	11.4	8.7	7.8
1.0	0.9	0.9	0.8	7.7	7.6	6.7	6.0	10.9	10.0	8.0	7.0
1.4	1.1	1.0	0.9	11.7	10.1	8.0	6.7	14.1	12.6	10.1	8.2

