Gorenje (GRVG SV)

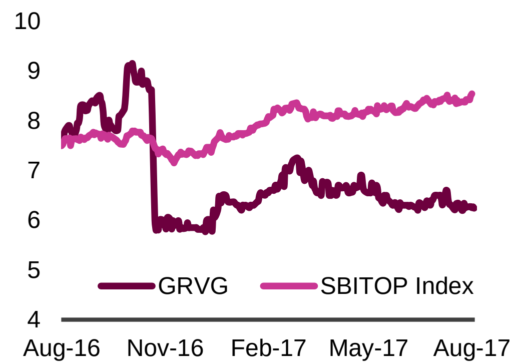
12M Target price: 6.8 EUR Recommendation: HOLD

Previous target price: 6.8 EUR, HOLD (10.3.2017)

KEY MARKET DATA:

Stock data as of 25.08.2017 :		Price performance:	3M	12M
Market price (EUR)	6.3	Price change in %	-3.8%	-18.2%
52 week range (EUR)	5.8 - 9.2	SBI 20 index change in %	4.5%	13.5%
Market Cap (EUR)	153.9	Relative to SBI 20 index in %	-8.0%	-27.9%
		Valuation multiples:	**TTM**	**Forward**
Avg. daily trade vol., EUR(k)	70	EV/Sales	0.4	0.4
Average daily % of stock traded	0.039%	EV/EBITDA	6.3	5.8
No. of Shares in millions	24.4	EV/EBIT	14.5	14.6
		P/E	14.9	13.0
Dividend yield	1.7%	P/B	0.4	0.4

SHARE PRICE DYNAMIC:



KEY COMPANY DATA & ESTIMATES:

million €	FY2015	FY2016	TTM	2017F	2018F
Sales	1,225.0	1,258.1	1,300.7	1,311.8	1,359.6
EBITDA	80.1	87.2	87.6	95.0	104.3
Margin	6.5%	6.9%	6.7%	7.2%	7.7%
EBIT	34.4	40.2	38.0	37.8	44.1
Net income	-8.2	8.0	10.3	11.8	14.4
EPS	-0.3	0.3	0.4	0.5	0.6
DPS	0.1	0.1		0.0	0.0
Financial debt	362.0	376.8	446.2	397.8	412.8
Cash	31.6	35.2	33.1	36.7	38.1
Net debt	309.2	323.0	396.7	352.3	366.0
Equity	364.9	372.1	378.7	383.9	397.1
Assets	1,101.3	1,131.8	1,199.6	1,173.2	1,207.1
ND/EBITDA	3.9	3.7	4.5	3.7	3.5
P/E	-13.7	18.3	14.9	13.0	10.7
EV/EBITDA	5.3	5.4	6.3	5.8	5.3

Source: Bloomberg, LJSE, own calculations of multiples

KEY CURRENT DEVELOPMENT:

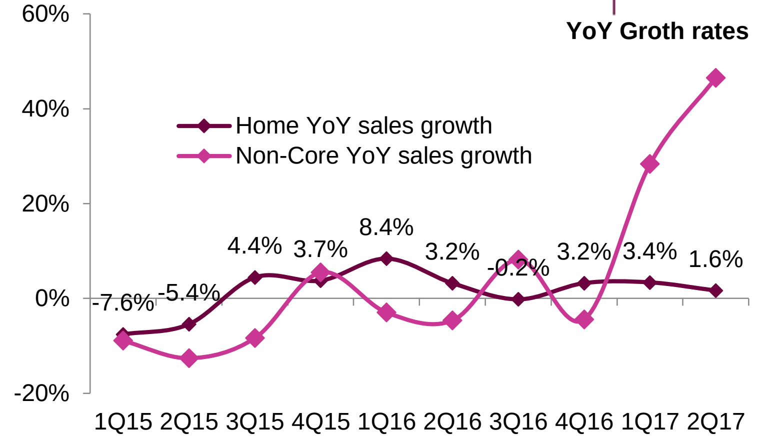
- **Franjo Bobinac consented to another term of office as President and CEO** (term: from July 20, 2018 to July 20, 2023). Note Franjo Bobinac has been on this position from 2003, while from 1997 to 2003 he was a member of management board and since 1986 worked at different positions in Gorenje. All in all this means a continuation of current direction Gorenje is heading.
- Shareholder Assembly decided upon **dividend of EUR 0.10 gross per share**. We believe that while symbolically this has a positive note, it would be better off to use the proceeds to lower debt level.
- **Results for 1Q17 and to a lesser extent 2Q17** (lower margins balanced better top line) **indicate** that Gorenje Group 2017 profit guidance could be met and, since we were slightly more conservative in our estimates, **could even slightly surpass our estimates**. **However, Gorenje noted 3Q17 will be „challenging“ while, given 1H17 development, no change in stance is warranted in our view.**
- Main thesis for Gorenje shares is whether Gorenje Group will be able to catch up to peer margins (elevating cash flow and lowering debt), thereby justifying valuation expansion. **We stick with a HOLD rating.**

1H17 Results

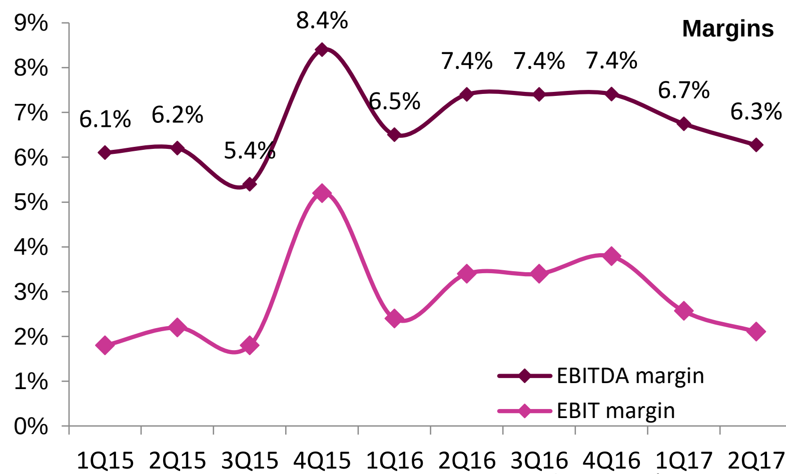
- Core activity Domestic Appliances were up by 3.1% (reported) in 1H17 or by 1.0% (adjusted for FX effects). Note that Gorenje is conducting hedging activities to minimize the negative impact on P/L and CF. 1H17 report indicates that 2Q17 mostly followed 1Q17 from top line perspective.
  - In West Europe sales are down 4.4% YoY. Here the drop is a consequence of lower sales in Germany and UK and explained by Gorenje as a result of repositioning (in line with its strategy; page 4).
  - In East Europe sales are up by 4.9%, however at constant FX rates, sales number is up by only 0.8% YoY to EUR 231.6m.
  - In other markets, sales jumped by 29.1% YoY or 26.2% YoY if adjusted for FX movements. These markets now represent 12.5% share in total sales. Asko sales is a strong part of these operations.
  - Asko +14.4% YoY; Atag, Pelgrim, Etna +2.7 YoY.
  - Premium appliances +11.1% YoY.
  - Innovative appliances +11.0% YoY.
  - Dishwashers +20.7% YoY.
  - Small household appliances +27.8% YoY.
  - Note peers are confirming price pressures are persisting.
- Non-core activities (ecology, coal, medical equipment, heating line and catering) reported a 33.7% surge in sales level. On the other hand lower profit level is a consequence of Publicus divestment (done in 1H16), while Kemis accident had a negligible effect.

million EUR	1H15	1H16	1H17	YoY
Western Europe	224.7	232.9	224.0	-3.8%
Eastern Europe	281.4	299.0	336.3	12.5%
Other	51.6	49.4	63.6	28.7%
Total Group	557.8	581.3	623.9	7.3%

- Given the 2017 guidance (EUR 1,315m of revenues, EBITDA of EUR 97.1m and EBIT of EUR 39.7m), 1H17 represents 47%, 42% and 37% of annual figures. But note that 4Q is the strongest quarter.
- Now 1H17 sales number is about EUR 6.3m higher than our model implied, entirely due to non-core surge, however EBITDA is EUR 2.2m below expectations as 2Q17 disappointed in terms of margins. Note double net profit means + EUR 2.4m; EUR 1.3m of which is explained by lower interest expenses (caused by current low interest rate environment).



million EUR	1H15	1H16	1H17	YoY
HOME SEGMENT				
Sales to 3rd parties	472.8	492.9	508.2	3.1%
EBITDA	11.5	20.5	25.6	24.8%
Profit	-10.1	-0.7	2.6	
NON-CORE SEGMENT				
Sales to 3rd parties	84.9	88.4	115.7	30.9%
EBITDA	6.1	7.6	7.0	-8.1%
Profit	3.2	2.8	1.8	-33.1%

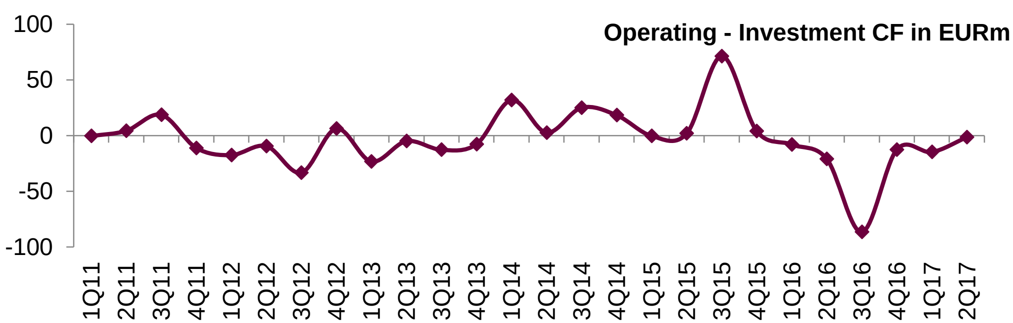


Source: Interim Report

1H17 Results

NEW INVESTEMENT CULTURE

million EUR	1H15	1H16	1H17	YoY
Net sales revenues	557.8	581.3	623.9	7.3%
Change in inventories	35.8	20.5	22.1	
Cost of goods, materials and services	446.5	446.4	484.1	8.4%
Gross profit	147.0	155.4	161.8	4.1%
Other opex	9.5	9.9	14.1	42.5%
Labour costs	111.4	115.1	121.0	5.1%
Other operating profit	7.5	9.8	13.8	
EBITDA	33.7	40.2	40.6	0.9%
Margin	6.0%	6.9%	6.5%	
EBIT	10.7	16.7	40.6	142.6%
Margin	1.9%	2.9%	6.5%	
Net income	-7.0	1.9	4.3	121.4%
Margin	-1.3%	0.3%	0.7%	
million EUR	**1H15**	**1H16**	**1H17**	**YoY**
Financial debt	438.4	430.8	446.2	3.6%
Cash	30.1	19.4	33.1	70.6%
Net debt	408.3	411.4	413.1	0.4%
ST Investments	18.8	12.1	10.0	-17.0%
Net debt 2	389.5	399.3	403.1	0.9%
Equity	357.7	366.6	378.7	3.3%
Assets	1,144.0	1,133.8	1,199.6	5.8%
Inventories	248.8	245.7	264.4	7.6%
Operating receivables	203.9	192.8	208.4	8.1%
Operating liabilities	177.6	171.2	193.1	12.8%
CAPEX	30.1	30.1	30.7	2.0%



Source: Interim Report

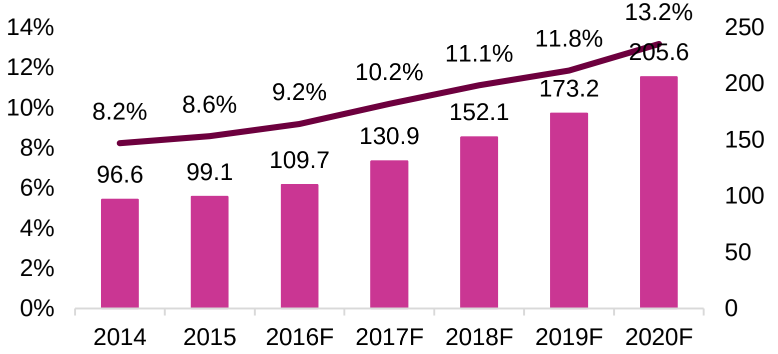
- Labor costs increased by 5.1% YoY as average headcount increased by 384 YoY to 11,021 (303 relating to core production, 24 related to non-core and 59 employed in East European retail operations, previously employed via agencies). However the labor cost growth is also associated with the increase of the lowest wages and salaries due to an adopted wage system since 1.6.2017. Therefore more is to come in later quarters.
- Gorenje notes that adjusted / comparable growth is 12.1% over 1H16, taking into account reclassifying of allowances for receivables from finance income and expenses. These allowances were in the amount EUR 4.0m booked in 1H16 below EBITDA line.
- 2.5% of sales were invested into the development of new products. Marketing costs represent 2.1% share in sales.
- Net financial result improved by EUR 4.3m from EUR -11.9m to EUR -7.7m, mostly due to lower interest expenses (down 16.3% YoY or EUR 1.3m). In addition the mentioned transfer of allowances, while negatively affecting EBITDA line, positively affected net financing result. Income tax expenses line was also lower for EUR 0.3m.
- LT : ST debt mix is at 66% : 34%.
- Net debt to EBITDA is at 4.7x, but should come down till end year in accordance with past seasonal dynamic.
- Due to inventory, receivables and payables dynamic their NWC is up by EUR 12.4m versus 1H16. NWC to 12M sales relation stands at 21.5% versus 21.4% a year ago.
- Seasonal dynamic of industry is a reason for negative cash flow and higher debt levels. This alone is unproblematic, especially as negative cash flow in 2Q17 was considerably lower than in 2Q16.
- On the other hand free cash flow dynamic is still anemic also from TTM perspective, which caps valuation and still is a long term problem.

Investment Thesis

POSITIVE:

- Gorenje has recognized in the past that the right direction for the Group is toward higher end premium products while at the same time optimizing production costs. **There is an ambitious plan in place to further upgrade brand portfolio and expand margins – closing the gap to peer group:**
  - **Sales revenue CAGR of 6.2% in 2015-2020 period (EUR 1,562m by 2020) with 2020 EBITDA margin goal set at 9.0% and EBIT margin at 4.5%.**
  - Consequently net debt is seen at 2.5x.
  - **Asko is one of the key drivers of profitability as well as ATAG in Benelux.** The goal is to increase its sales to EUR 206m by 2020 with 30% of sales coming from **innovative or premium segment** (the later, namely innovative and premium product groups are growing at double digit rates in 1H17).
  - Key is also lower level of complexity that should curb costs.
  - Gorenje Group will transform its conventional functional organizational structure to divisional ("business-product") organizational structure focused on brands and product programs.
- **2016 results were in-line with mentioned strategy.** In addition 2017 numbers for now also look relatively good in terms of guidance delivery (EUR 1,315m of sales, EUR 97.1m of EBITDA, EUR 13.1 of net profit), albeit in 3Q consumption is usually lower, while opex pressures could mount (labour, commodities). 4Q is strongest Q.
- **Economic conditions are picking up** (macro and industry data), as well as demand for appliances (albeit remain below pre-crisis levels). This bodes well for Gorenje, especially given its industry operating leverage while also specific financial leverage. **Incremental changes to profitability are high.**
- Gorenje has approximately **3% market share in terms of volume on EU-28 markets**. Its also one of Slovenian biggest exporters while its sales is distributed between Western Europe (37%; 2016A), Eastern Europe (54%) and Overseas markets (9%). The later share grows.
- Gorenje is contently developing new products and consequently keeping up with competitors regarding technology.

Asko sales guidance (in EURm) encuraging



	2017 plan volume	value	Value to volume ratio
Gorenje	74.9%	68.2%	0.91
Mora	6.8%	3.8%	0.56
Asko	**5.4%**	**12.6%**	**2.33**
Etna	4.4%	3.5%	0.80
Pelgrim	3.0%	4.2%	1.40
Atag	**2.5%**	**5.4%**	**2.16**
Upo	2.2%	1.8%	0.82
Korting	0.7%	0.4%	0.57
Sidex	0.1%	0.1%	1.00

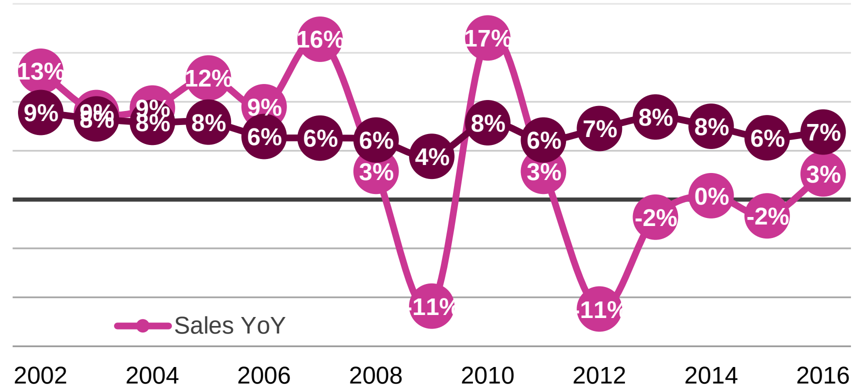
Market positioning is crucial and explains discrepancy between Groups East and West Europe sales, as Gorenje has different market positions. Namely the more you are in premium segment, less of price pressures is mounting. Gorenje is better positioned in East Europe.

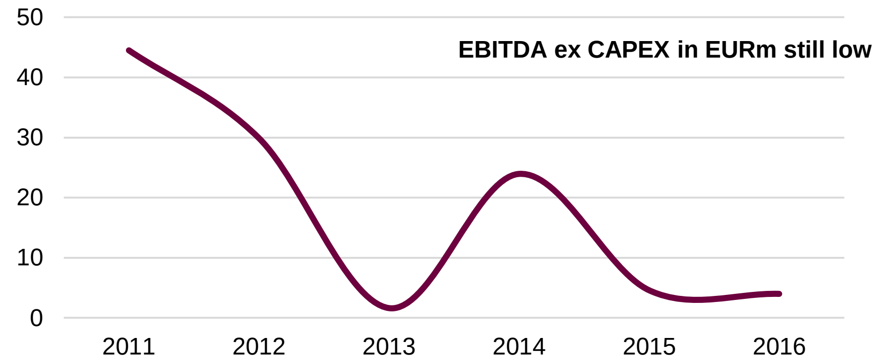
Investment Thesis

NEGATIVE:

- We must recognize **industry competition is though** with innovations being more of a necessity to keep competitiveness than being an actual competitive advantage. **This is even a bigger problem for smaller players versus appliances giants**. Players have (in mid or low pricing segment) no bargaining power.
- **Meaningful margin lag.** Peer comparison clearly states (we acknowledge peer groups' limited comparability) that Gorenje is trailing its (capital market) peer's in terms of margins. Namely trailing twelve months EBITDA margin of Gorenje is on 64% of peer median (up from 61%), EBIT margin on 37% (same) while net margin is on 16% (from 2%) of peer median. This shows that while Gorenje was and is successful in maintaining market shares and top line, it is still too cost ineffective and/or to small.
- For now the **company had a hard time transforming its sales into more than relatively negligible profit**. ROIC remains aneamic and so does free cash flow generation. In-line with this note that in 2020 strategy FCF item was at EUR 20m in 2019.
- **Net debt to EBITDA ratio is still at elevated 3.9x (2016A).** This is not so much a short term refinancing risk but a longer-term threat. As a cyclical company, EBITDA would inevitably be in times of recession under pressure, so consequently net debt to EBITDA should be lowered toward levels that would encompass a margin of safety for harsher times. This has so far not materialized.
- Kemis industrial accident could still haunt Gorenje, albeit Gorenje notes no material impact was made and that it had a proper insurance coverage. In 2016 Kemis had revenues of EUR 9.0m, EBITDA 1.3m and net profit of EUR 0.6m. However this again pointed that 2016 profit driver was Ecology, less appliances. **Ecology while representing 13% of sales in 2016 delivered 90% of profitability.** However in 1H17 58% of profit derived from core activity while 42% from non core.
- On the other hand, non-core activities are stealing management attention and increasing complexity.

When will Gorenje catch up?





	Gorenje's plans				Delivered			
in EURm	Sales	EBITDA	EBIT	Profit	Sales	EBITDA	EBIT	Profit
2016	1,258	89.1	39.8	7.7	1,257	87.0	38.7	8.4
2015	1,220	91.4	41.7	6.1	1,225	80.1	34.4	-8.0
2015*		80.7		-7.8				
2014	1,287	93.7	46.4	13.2	1,246	86.5	43.5	1.2
2014*	1,240			positive				
2013	1,340	96.7	48.9	4.2	1,241	78.2	36.3	-25.2
2013*	1,274	83.3	39.5	-8.8				
2012	1,391	101.3	50	13.4	1,263	90.6	44.9	0.1
2011	1,548	107.4	54.6	21.1	1,422	86.7	36.5	9.1
2010	1,244	97.8	45	10.1	1,382	108.7	56.4	19.9

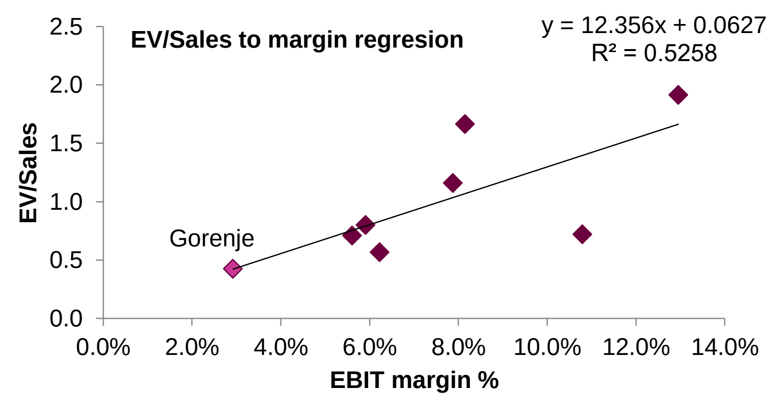
* Lowered mid-year estimates

Relative valuation

Company name	P/E TTM	P/E 2017F	P/E 2018F	EV/EBITDA TTM	EV/EBITDA 2017F	EV/EBITDA 2018F	EV/EBIT TTM	EV/EBIT 2017F	EV/EBIT 2018F
Electrolux	16.5	14.6	13.7	8.0	7.4	7.1	12.7	11.1	10.6
Arcelik	16.7	12.1	10.9	11.0	8.6	7.5	14.8	11.4	10.1
De'Longhi	24.6	19.6	18.0	12.1	10.3	9.6	14.8	12.4	11.5
Whirlpool	16.9	10.0	9.0	8.9	6.5	6.0	13.6	8.9	8.2
SEB SA	27.2	17.3	15.2	14.6	10.8	10.0	20.4	13.6	12.4
Amica	11.8	10.3	10.4	7.0	6.1	5.9	9.1	8.0	7.9
Vestel Beyaz	8.0	11.3	n.a.	5.3	7.5	n.a.	6.7	9.9	n.a.
Gorenje	14.9	13.0	10.7	6.3	5.8	5.3	14.5	14.6	12.5
Median	16.7	12.1	12.3	8.9	7.5	7.3	13.6	11.1	10.3

Company name	EBITDA margin TTM	EBIT margin (%)	Profit margin (%)	ROE TTM	ROA TTM	Assets turnover	Div. yield (%)	Assets/ Equity	Net debt to EBITDA
Electrolux	8.9%	5.6%	4.0%	28.5%	5.7%	1.43	2.64	4.99	-0.01
Arcelik	10.6%	7.9%	5.4%	16.0%	5.3%	0.97	2.19	3.04	2.45
De'Longhi	15.8%	13.0%	9.1%	15.3%	9.6%	1.05	1.72	1.73	-0.97
Whirlpool	9.0%	5.9%	3.6%	15.6%	3.8%	1.04	1.81	4.27	2.31
SEB SA	11.4%	8.2%	4.8%	17.5%	4.2%	0.88	1.14	4.18	3.10
Amica	8.1%	6.2%	4.4%	15.4%	6.6%	1.51	2.42	2.32	0.62
Vestel Beyaz	13.7%	10.8%	8.0%	31.8%	9.7%	1.21	7.08	3.27	0.56
Gorenje	6.7%	2.9%	0.8%	2.7%	0.9%	1.08	1.58	3.17	4.53
Median	10.6%	7.9%	4.8%	16.0%	5.7%	1.05	2.19	3.27	0.62

- The relative valuation of Gorenje can be tackled with different sub methods, however all must take into consideration that:
  - Gorenje profitability is trailing;
  - Gorenje wants and needs to close this gap.
- Consequently relative valuation either points to significant undervaluation (direct comparison) or overvaluation (taking into account lower profitability that warrants discount). For expample EV/EBITDA warrants EUR 14.6 while EV/EBIT 2.7, regression model EUR 6.3 etc. All in all its make or brake for Gorenje…
- Target price of combined several methods is EUR 6.5 per share, same versus last report.



FCF valuation - forecasts

ALTA NEW INVESTEMENT CULTURE

ESTIMATES:

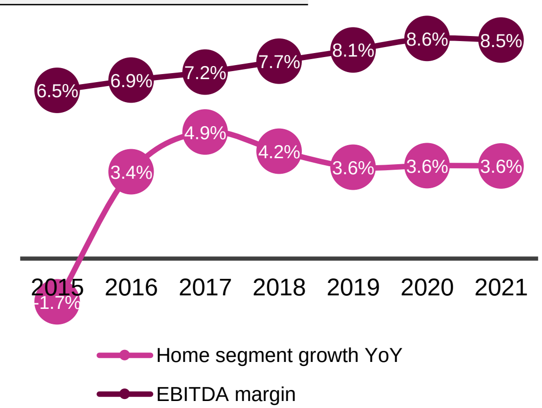
EURm	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F
Sales	1,311.8	1,359.6	1,402.0	1,446.6	1,492.7	1,530.0	1,568.3	1,607.5	1,647.7	1,688.9
Home segment	1,145.4	1,193.2	1,235.6	1,280.2	1,326.3					
COGS	983.7	1,019.5	1,051.3	1,084.7	1,119.3	1,147.3	1,176.0	1,205.4	1,235.5	1,266.4
Labour costs	238.8	240.7	241.2	241.6	249.4	255.6	262.0	268.5	275.2	282.1
EBITDA	95.0	104.3	113.7	123.7	126.8	130.1	133.3	136.6	140.1	143.6
EBITDA margin	7.2%	7.7%	8.1%	8.6%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
EBIT	37.8	44.1	50.8	58.5	59.6	60.7	62.1	63.7	65.5	67.6
EBT	13.6	17.2	21.6	29.7	31.3	26.3	27.4	28.8	30.6	32.7
Net income	11.8	14.4	17.2	22.8	24.0	20.2	21.0	22.1	23.5	25.1

EURm	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F
Total Assets	1,173.2	1,207.1	1,234.4	1,258.3	1,279.3	1,310.5	1,340.6	1,369.7	1,398.2	1,426.1
PPE	401.7	424.7	445.0	463.1	479.1	493.5	506.3	517.8	528.2	537.6
Inventories	222.5	217.0	209.7	201.9	193.5	198.3	203.2	208.3	213.5	218.9
Trade receivables	172.9	179.2	184.8	190.7	196.7	201.7	206.7	211.9	217.2	222.6
Cash	36.7	38.1	39.3	40.5	41.8	42.9	43.9	45.0	46.2	47.3
Debt	397.8	412.8	419.8	411.8	400.8	404.8	410.8	415.8	417.8	418.8
Trade payables	226.7	228.2	228.3	235.5	243.1	249.1	255.4	261.7	268.3	275.0
Equity	383.9	397.1	412.9	434.0	455.7	473.5	487.9	503.1	519.3	536.6

	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F
Net profit margin	0.9%	1.1%	1.2%	1.6%	1.6%	1.3%	1.3%	1.4%	1.4%	1.5%
ROE	3.1%	3.6%	4.2%	5.3%	5.3%	4.3%	4.3%	4.4%	4.5%	4.7%

MAIN ASSUMTIONS:

- Strategic plan entails sales CAGR of 6.2% in 2015 to 2020 period with sales at EUR 1,562m. An EBITDA margin is seen to expand to 9.0% while EBIT margin to 4.5%. This is translating into EUR 140m and 70m respectively for 2019. FCF was guided for EUR 20m for 2019.
- For 2017 sales is guided at EUR 1,315m, EBITDA at EUR 97.1m and EUR 13.1m of profit.
- Our sales estimations for Home segment are based on European GDP dynamic which are forecasted to pick up by IMF, upward adjusted for premium share growth. It's true however that if Russia strongly rebounds, some of the lost sales could be recuperated faster that is built into our model. Vice versa applies if we again plunge into downturn.
- Margins are expected to increase, closing the gap to peers and in-line with Gorenje strategy, but given the past delivery we are more cautious regarding the pace and end level of margin expansion. CAPEX will consequently also remain elevated.



FCF valuation - commentary

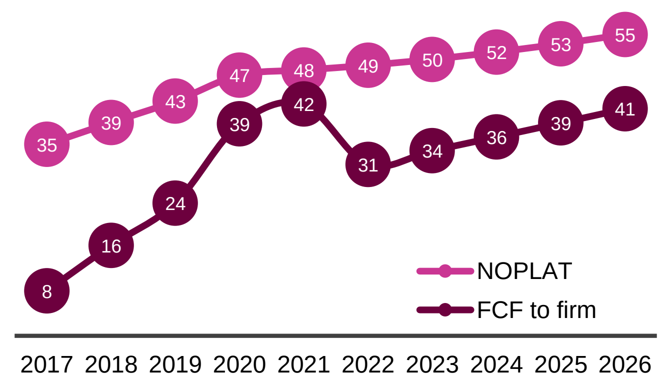
ALTA NEW INVESTEMENT CULTURE

VALUATION TABLE:

EURm	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F
NOPLAT	34.8	38.8	42.7	47.4	48.3	49.2	50.3	51.6	53.1	54.8
NOPLAT growth	-36.5%	11.4%	10.0%	11.1%	1.9%	1.8%	2.2%	2.6%	2.9%	3.2%
Depreciation	57.2	60.2	62.9	65.2	67.2	69.3	71.2	73.0	74.5	75.9
Depretiation/Sales	4.4%	4.4%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
CAPEX	83.2	83.2	83.2	83.2	83.2	83.6	84.1	84.5	84.9	85.3
CAPEX/Sales	6.3%	6.1%	5.9%	5.8%	5.6%	5.5%	5.4%	5.3%	5.2%	5.1%
Change in net working capital	0.6	-0.7	-1.8	-9.2	-9.9	3.7	3.8	3.9	4.0	4.1
NWC/Sales	12.9%	12.4%	11.9%	10.9%	9.9%	9.9%	9.9%	9.9%	9.9%	9.9%
FCF to firm	**8.2**	**16.4**	**24.1**	**38.5**	**42.2**	**31.2**	**33.7**	**36.2**	**38.7**	**41.3**

FCF valuation	
Value in forecasting period	192
Continuing value	307
Total enterprise value	**499**
Net debt	325
Equity value	**174**
No. of shares (in mio)	24.4
Equity value per share	**7.1**

WACC	2017	TV
Tax rate	19.0%	19.0%
Cost of debt	4.3%	4.3%
Beta	1.8	1.8
Cost of equity	13.2%	13.2%
Debt/Equity	100.0%	100.0%
WACC	**8.3%**	**8.3%**
Perpetuity growth rate		**1.0%**



- Given the 1H17 we are mostly keeping our estimates and consequently we are also maintaining our March 2017 FCF valuation model.
- However as estimates are set slightly below guidance (strategic guidance is also not accounted in full), slight upward surprise is still possible.

WEIGHTING SCHEME & END COMMENTARY:

- Gorenje valuation is still high to gauge due to high operational and financial leverage. In the end all depends upon the question, will Gorenje succeeded in expending (sustainably) its margins in a though competitive industry and consequently elevate profit levels. If it does, upside potential in huge as valuation should catch up. However if it does not, next recession will be damaging as current free cash flow generation is weak and prevents any major needed deleveraging. In addition ROIC will continue to be below WACC, painting a bleak picture for its shareholders.
- Especially FCF estimates and guidance show, how much improvement in FCF generation is needed.
- **Target price is unchanged from EUR 6.8, consequently only Hold rating is still warranted.**

FCFF	Relative
50%	50%
EUR 7.1	EUR 6.5

Historic Financial Data

NEW INVESTEMENT CULTURE

in EURm	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Assets	904.6	1,000.8	1,257.7	1,178.7	1,317.8	1,251.7	1,197.3	1,148.1	1,102.4	1,101.3	1,131.8
Non-current assets	409.0	448.7	606.0	574.3	563.4	556.3	566.1	593.9	594.6	614.1	637.2
Current assets	495.6	552.1	651.7	604.4	754.3	695.3	631.2	554.2	507.8	487.1	494.6
Short term investment	21.6	27.1	64.5	68.2	48.0	42.3	32.8	17.2	20.5	16.4	8.8
Cash	9.0	17.7	24.1	27.1	82.7	101.6	53.5	38.6	36.1	31.6	35.2
Equity	254.4	351.0	394.5	369.6	392.1	397.8	389.8	380.7	380.3	368.1	374.2
Equity of non-controlling interests	0.2	10.9	13.2	6.1	1.8	1.8	2.4	2.8	2.8	3.1	2.2
Provisions	56.4	51.7	64.3	62.2	88.2	76.3	65.0	66.7	64.1	62.3	64.1
Non-current liabilities	143.6	153.8	230.6	247.9	267.0	308.4	286.3	207.2	279.0	277.7	281.5
Non-current financial liabilities	141.1	145.1	224.1	242.4	260.9	302.5	276.9	198.8	270.1	271.0	275.6
Current liabilities	401.4	387.7	487.3	406.2	460.0	375.9	368.3	412.5	300.2	385.9	325.0
Current financial liabilities	173.6	167.4	263.7	209.9	223.0	181.6	155.8	198.7	97.5	91.0	101.2

in EURm	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Sales revenues	1,111.0	1,293.4	1,330.8	1,185.9	1,382.2	1,386.6	1,263.1	1,240.5	1,253.7	1,225.0	1,258.1
Total Revenues	1,134.1	1,324.0	1,367.5	1,207.1	1,416.2	1,446.1	1,315.9	1,248.9	1,263.4	1,270.3	1,285.2
Cost of goods, materials and services	851.6	1,004.8	1,027.9	901.1	1,040.5	1,105.0	946.2	910.5	927.7	937.2	942.2
Labour costs	186.0	208.6	226.5	219.3	244.4	253.3	258.7	237.9	228.5	231.4	235.3
D&A plus impairments	49.6	53.2	57.1	56.1	52.2	48.3	45.7	41.9	43.0	45.6	47.1
Other operating expenses	16.1	21.2	19.0	18.4	22.6	24.3	20.4	22.2	21.7	21.6	20.5
EBITDA	80.4	89.4	94.0	68.2	108.7	63.5	90.6	78.2	85.6	80.1	87.2
Operating income	30.8	36.2	36.9	12.1	56.4	15.1	44.9	36.3	42.5	34.4	40.2
Financial Income	19.2	26.3	19.6	19.5	12.5	15.1	6.8	7.5	8.7	7.4	6.2
Financial expenses	22.8	33.1	41.0	41.0	46.5	40.4	37.2	61.9	47.4	46.2	33.2
Interest cost	14.2	19.7	25.3	21.2	21.1	25.5	24.3	22.4	21.5	18.9	15.6
EBT	27.8	29.4	15.5	-9.3	22.5	-10.2	5.9	-29.2	3.9	-4.0	13.2
Total taxes	5.5	5.7	5.3	2.9	2.4	1.9	5.6	-4.2	2.6	4.0	4.8
Net profit / loss	22.3	23.7	10.2	-12.2	20.0	-12.1	0.3	-25.0	1.2	-8.0	8.4
Attributable to equity holders of the parent	22.3	22.7	8.9	-11.5	20.1	-12.0	0.5	-24.8	1.5	-7.8	8.0
CAPEX	-67.4	-69.4	-71.3	-25.9	-39.4	-41.1	-53.5	-60.9	-40.4	-52.4	-59.4

in EURm	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Gross margin	23.4%	22.3%	22.8%	24.0%	24.7%	20.3%	25.1%	26.6%	26.0%	23.5%	25.1%
EBITDA margin	7.2%	6.9%	7.1%	5.8%	7.9%	4.6%	7.2%	6.3%	6.8%	6.5%	6.9%
EBIT margin	2.8%	2.8%	2.8%	1.0%	4.1%	1.1%	3.6%	2.9%	3.4%	2.8%	3.2%
Net margin	2.0%	1.8%	0.7%	-1.0%	1.5%	-0.9%	0.0%	-2.0%	0.1%	-0.6%	0.6%
Assets Turnover	1.23	1.29	1.06	1.01	1.05	1.11	1.05	1.08	1.14	1.11	1.11
ROA	2.5%	2.3%	0.7%	-1.0%	1.5%	-1.0%	0.0%	-2.2%	0.1%	-0.7%	0.7%
Assets to Equity	3.56	2.85	3.19	3.19	3.36	3.15	3.07	3.02	2.90	2.99	3.02
ROE	8.8%	6.5%	2.2%	-3.1%	5.1%	-3.0%	0.1%	-6.5%	0.4%	-2.1%	2.1%
Net debt / EBITDA	3.8	3.3	4.9	6.2	3.7	6.0	4.2	4.6	3.9	4.1	3.9
Debt to Assets	34.8%	31.2%	38.8%	38.4%	36.7%	38.7%	36.1%	34.6%	33.3%	32.9%	33.3%
Debt to Equity	1.24	0.89	1.24	1.22	1.23	1.22	1.11	1.04	0.97	0.98	1.01
TIE ratio	2.2	1.8	1.5	0.6	2.7	0.6	1.8	1.6	2.0	1.8	2.6
NWC / Assets	23.0%	25.6%	23.2%	23.2%	24.8%	24.5%	21.2%	19.8%	18.1%	8.6%	14.8%
Days inventory outstanding	82.6	79.0	89.8	88.3	90.4	81.1	95.4	94.5	86.5	88.0	87.5
Days receivable outstanding	79.8	73.0	71.9	77.5	80.9	67.4	63.1	60.5	53.2	48.8	48.1
Days payable outstanding	97.6	80.0	79.4	79.5	83.1	64.2	81.9	85.7	79.7	114.8	86.7
EBITDA - CAPEX	13.0	20.0	22.7	42.3	69.3	22.4	37.1	17.3	45.2	27.7	27.8

Source: Annual and Interim reports

Company & ALTA Description

ALTA NEW INVESTEMENT CULTURE

COMPANY DESCRIPTION:

- Manufacturer of white goods & Slovenia's biggest exporter with approximately 3% market share in volume terms in the 28 EU markets.
- It has production facilities in Slovenia (62%), Serbia (26%) and Czech Republic (12%).
- 90% of its products are sold under its own brand name.
- In last decade, Gorenje grew organically and through acquisitions, the largest being ATAG in 2008 and Asko in 2010.

OWNERSHIP STRUCTURE:

KAD d.d.	16.4%
IFC	11.8%
Panasonic Corp	10.7%
KDPW (Fiduciary account)	7.7%
Home Products Europe	5.0%

Source: KDD

RESEARCH REPORT:

Prepared by:
Sašo Stanovnik
Head of Research

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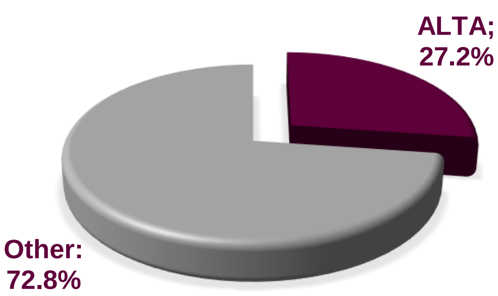
- ✓ 38,300 brokerage clients with EUR 3.3 bn of assets.
- ✓ European Banking award: Best Broker & Best Asset Manager in 2015 and 2016.

TTM market share:



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	Number	**Share**	**Share of issuers, for which ALTA Invest, investicijske storitve, d.d., has provided investment services regarding financial instruments in last 12 months**
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Hold	19	45%	**10%**
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Sašo Stanovnik, Head of research. On the day of the public release, the author of the recommendation did not held securities of the relevant issuer.

First release of the recommendation was performed on 13.4.2010.
Quarterly updates are planned for data, valuation, target price and recommendation.

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