

Innovatec

Sector: Industrial Services



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Strong 1Q22 despite uncertainty on fiscal policies

Innovatec is a pure play in the cleantech industry, active in both Energy Efficiency and Environmental Services & Circular Economy. The stock is listed on Euronext Growth Milan (since 2013) but it got to the current Group structure only in 2021, following a restructuring within the wider Sostenya Group and further M&A.

Excellent 1Q22 revenues and margins

Innovatec released strong 1Q22 key data on operations, with Revenues at €74.1mn, EBITDA at €11.7mn (15.8% margin, +200 bps vs FY21PF), EBIT at €6.5mn (8.8% margin, +430 bps vs FY21PF). In particular Environment & Circular Economy recorded Revenues of €49.3mn (+27% y/y vs. 1Q21PF) and EBITDA margin of 16% (+300 bps vs. FY21PF), while Energy Efficiency contributed with €24.8mn sales and €4.2mn EBITDA, equal to entire 1H21.

Net debt up on M&A and fiscal news

Net Debt climbed to €26.6mn vs. €10mn as of Dec 2021, mostly due to recent acquisitions and minorities buy-out (SEA, COBAT) for €10.9mn, and to asset purchase (Green-up HQ) for €3.6mn. On the other hand, Q1 operating FCF was fully absorbed by NWC, as the cash-in of tax credits related to “*Ecobonus 110%*” works (*HouseVerde*) now may require 3 months vs 1 month in FY2021, following new rules and banks’ practices in place from 2022. This effect will normalise over the next quarter.

2022E-24E Estimates broadly confirmed

On the back of 1Q results and recent market news flow, we confirm our estimates at P&L level while slightly increase Net Debt forecasts. Reasons for unchanged operating estimates despite strong quarter are:

1. Cautious approach on 1Q22 figures, with some seasonality expected;
2. Potential inflationary pressures on raw materials & components in 2H compared to extremely favorable procurement contracts enjoyed in 1Q;
3. A fiscal tightening may trigger a faster change in revenues mix, e.g. a shift towards the B2B leg in Energy Efficiency, with a slightly dilutive effect on margins, all the rest being equal. Yet, should this be the case, the improvements achieved in terms of profitability and speed of integration of recent acquisitions (COBAT) - already above our medium term expectations – should support Group margins.

Fair Value per share at €2.90 (confirmed)

We maintain unchanged our €2.90 short-term fair value. We also reiterate that INC shares may perform well beyond this on the medium-run, with our rolling valuation model suggesting a medium-term fair value of €3.90 p/s in two years down the road, assuming a seamless execution of business plan.

Fair Value (€) 2.90
Market Price (€) 2.06
Market Cap. (€m) 196.6

KEY FINANCIALS (€m)	2021PF	2022PFE	2023E
REVENUES	237.8	276.2	326.8
EBITDA	32.9	41.5	46.2
EBIT	10.7	20.2	27.2
NET PROFIT	6.2	11.3	16.2
EQUITY	30.7	47.6	65.1
NET FIN. POS.	-10.0	-20.0	-8.6
EPS (€)	0.09	0.15	0.20
DPS (€)	0.00	0.00	0.00

Source: Innovatec (historical figures), Value Track (2022E-23E estimates)

KEY FINANCIALS (€m)	2021PF	2022PF	2023E
EBITDA MARGIN (%)	13.8	15.0	14.1
EBIT MARGIN (%)	4.5	7.3	8.3
NET DEBT / EBITDA (x)	0.3	0.5	0.2
NET DEBT / EQUITY (x)	0.3	0.4	0.1
EV/SALES (x)	1.1	1.0	0.8
EV/EBITDA (x)	7.6	6.3	5.4
EV/EBIT (x)	23.4	13.0	9.2
P/E (x)	30.7	17.3	12.1

Source: Innovatec (historical figures), Value Track (2022E-23E estimates)

STOCK DATA

FAIR VALUE (€)	2.90
MARKET PRICE (€)	2.06
SHS. OUT. (m)	95.4
MARKET CAP. (€m)	196.6
FREE FLOAT (%)	55.0
AVG. -20D VOL. (#)	798,764
RIC / BBG	INC.MI / INC IM
52 WK RANGE	0.61-2.47

Source: Stock Market Data



Business Description

Innovatec is a pure-play in the CleanTech Italian business with a focus on two main industries: Energy Efficiency and Environment & Circular Economy. With its ability to respond quickly to changing legislation and competitive outlook while continuing to take advantage of new market opportunities, its extensive know-how cumulated over many technologies and client base, Innovatec can act across the entire value chain in the sustainability domain by leveraging its "sustainable by nature" business model and fully integrated business strategy.

Key Financials

€mn	2021A PF	2022E	2023E	2024E
Total Revenues	237.8	276.2	326.8	384.7
Chg. % YoY	47.1%	16.2%	18.3%	17.7%
EBITDA	32.9	41.5	46.2	52.9
EBITDA Margin (%)	13.8%	15.0%	14.1%	13.8%
EBIT	10.7	20.2	27.2	33.6
EBIT Margin (%)	4.5%	7.3%	8.3%	8.7%
Net Profit	6.2	11.3	16.2	20.7
Chg. % YoY	22.5%	81.7%	43.0%	27.7%
Adjusted Net Profit	8.7(*)	13.9	18.8	23.3
Chg. % YoY	71.6%	59.5%	35.0%	23.9%
Net Fin. Position	-10.0	-20.0	-8.6	17.8
Net Fin. Pos. / EBITDA (x)	0.3	0.5	0.2	nm
Capex	-7.3	-20.8	-17.6	-11.0
OpFCF b.t.	10.3	2.8	21.0	37.8
OpFCF b.t. as % of EBITDA	31.4%	6.6%	45.5%	71.4%

Source: Innovatec (historical figures), Value Track (estimates), (*) estimate

Investment case

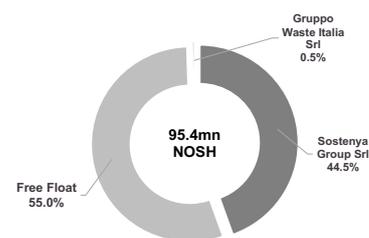
Strengths / Opportunities

- ◆ Set to benefit from the REpowerEU plan, which represents a first step in making the European economy energy independent;
- ◆ The company enjoys a strong competitive position in environmental services and circular economy;
- ◆ ESG: Innovatec boasts a "sustainable by nature" business model and fully integrated business strategy.

Weaknesses / Risks

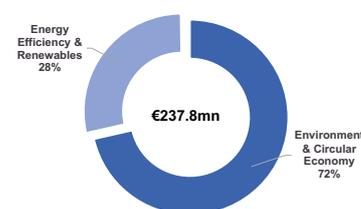
- ◆ The national energy efficiency market is highly dependent upon national and European incentives;
- ◆ Execution risk of the Business Plan and M&A discipline.

Shareholders Structure



Source: Innovatec

Sales breakdown by BU



Source: Innovatec (FY21PF)

EBITDA breakdown by BU



Source: Innovatec (FY21PF)

Stock multiples @ €2.90 Fair Value p/s

	2022E	2023E
EV / SALES (x)	1.2	1.0
EV / EBITDA (x)	8.2	7.1
EV / EBIT (x)	16.9	12.1
EV / CAP.EMP. (x)	5.1	4.5
OpFCF Yield (%)	0.8	6.4
P / E (x)	24.4	17.1
P / BV (x)	6.8	4.9
Div. Yield. (%)	0.0	0.0

Source: Value Track

1Q22 Financial Results

Key Financials

Innovatec BoD has just released a strong set of first quarter 2022 results. Key figures on operations are excellent:

- ◆ **Total Revenues at €74.1mn**, already representing ca. 31% of FY21PF amount and 27% of our FY22E top line estimate;
- ◆ **EBITDA at €11.7mn**, meaning **EBITDA margin at 15.8%**, 200 bps higher than FY21PF;
- ◆ **EBIT at €6.5mn** and **EBIT margin at 8.8%**, implying an impressive 430 bps increase with respect to FY21PF;
- ◆ **Net Financial Debt at €26.6mn** vs. €10mn as of 2021 year-end, representing the only point of potential disappointment at first sight.

Innovatec: Key Financials 1Q 2022 vs FY 2021PF and FY2022E

€mn	2021PF	1Q22	2022E	1Q22/2022E
Total Revenues / Value of Production	237.8	74.1	276.2	26.8%
EBITDA	32.9	11.7	41.5	28.2%
<i>EBITDA Margin (%)</i>	<i>13.8%</i>	<i>15.8%</i>	<i>15.0%</i>	<i>n.m.</i>
EBIT	10.7	6.5	20.2	32.1%
<i>EBIT Margin (%)</i>	<i>4.5%</i>	<i>8.8%</i>	<i>7.3%</i>	<i>n.m.</i>
Net Financial Position [Net Debt (-), Net Cash (+)]	-10.0	-26.6	-9.0	n.m.

Source: Innovatec, Value Track Analysis

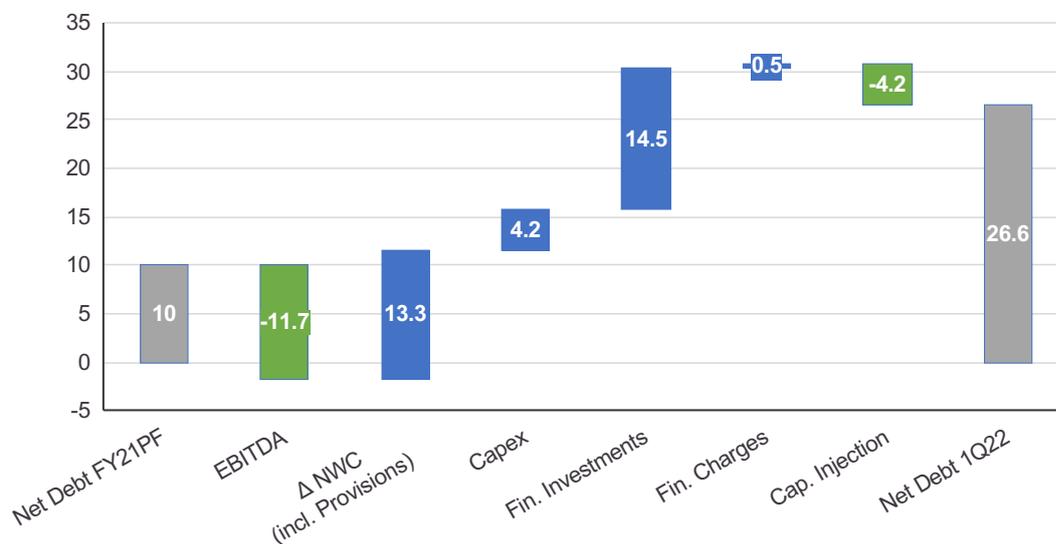
More in detail we highlight recent deals (M&A, ECM) which affected 1Q22 Net Financial Position, with INC announcing:

- ◆ Purchase of a further 19.51% of the share capital of **COBAT S.p.A.**, for €2.3mn, paid in cash, (going to a 75.96% stake);
- ◆ Acquisition (via the sub-holding Haiki+) of a 65% controlling stake of **S.E.A. S.p.A.** ("SEA") for €2.75mn and then a further 24.996% for an amount of €0.9mn (to be paid over five years) – now Innovatec owns a 90% stake and a put/call on the residual 10%. The acquisition is estimated to bring also additional debt for ca. €5.0mn;
- ◆ Acquisition of 100% of **Bensi 3 S.r.l.**, owner of the leasing of the property adjacent to Innovatec HQ, and currently rent as HQ of Green-up, worth €3.6mn, paid in cash for €1.4mn, with outstanding leasing for the residual €2.2mn;
- ◆ Accelerated Book Building (**ABB**) that raised €4.2mn gross proceeds for INC in Jan 2022.

1Q22 also witnessed a strong delay of cash-in of tax credits related to "Ecobonus 110%" works, (the *HouseVerde* project), following new fiscal regulations and banks' practices put in place over Q1. These changes are due to stay and timing may improve only slightly after initial hick-ups, but it will not go back to 2021 standards. Having said this the impact on operators' working capital will gradually normalize, probably by the end of Q2.

The chart below shows the trend and drivers of the net financial debt over Q1 2022.

Innovatec: 1Q 2022 Cash Flow (€ mn)



Source: Innovatec, Value Track Analysis

Breakdown by Business Unit

Revenues

1Q22 Revenues totalled €74.1mn, highlighting a solid economic and industrial growth in all business units, also thanks to the great integration of all the acquired companies. More in detail:

- ◆ **Environment and Circular Economy** recorded **€49.3mn** sales (+27% y/y vs. 1Q21PF), as a result of increasing average prices per unit more than offsetting lower volumes (in line with what outlined in the business plan). Looking at single business units, *GreenUp* reported €15.8mn, while the recently acquired *Cobat*, *Vescovo Romano* and *SEA* registered €28.5mn, €3.6mn and €1.4mn, respectively. Workforce increased by 27 units to 233;
- ◆ **Energy Efficiency** contributed for **€24.8mn**, equal to the result obtained in the entire 1H21, mainly thanks to the *HouseVerde* project (“*Ecobonus 110%*” buildings’ requalification works). Workforce amounted to 61 units, increasing by 11 employees.

EBITDA

Group EBITDA reached €11.7mn as of 1Q22, implying a **15.8% EBITDA margin**, exactly 200 bps more than FY21PF value, thanks to a strong operational efficiency shared by both business units:

- ◆ **Environment and Circular Economy** EBITDA at **€7.9mn** (+57% y/y vs. 1Q21PF), with EBITDA margin at 16%, stronger by 300 bps vs. FY21PF owing to higher prices and better cost management also including recently acquired companies. Net of *Cobat*, EBITDA margin is at 29% (vs. 26% of FY21), with implicit EBITDA margin of *Cobat* at an outstanding 6%;

- ◆ **Energy Efficiency** EBITDA at **€4.2mn** (in line with entire 1H21), with EBITDA margin at 17%, slightly higher than FY21PF despite inflationary pressures on raw materials managed by the ability to secure fixed prices contracts that should cover the whole 1H22.

Group overheads totalled €0.4mn and were not attributed to any business unit on Q1, while they are normally split over the two segments at the end of reported periods.

Innovatec: Revenues and EBITDA by BU 2021PF-1Q22-2022E

(€mn)	2021PF	1Q22	2022E	1Q22/2022E
Total Revenues	237.8	74.1	276.2	26.8%
o/w Energy Efficiency	67.4	24.8	96.0	25.8%
o/w Environmental Services	169.9	49.3	180.2	27.4%
o/w Others	0.6	0.0	0.0	n.m.
EBITDA	32.9	11.7	41.5	28.2%
EBITDA Margin (%)	13.8%	15.8%	15.0%	n.m.
o/w Energy Efficiency	11.2	4.2	16.5	25.5%
EBITDA Margin (%)	16.6%	16.9%	17.2%	n.m.
o/w Environmental Services	22.6	7.9	25.0	32.7%
EBITDA Margin (%)	13.3%	16.0%	13.9%	n.m.
o/w Others (*)	-0.8	-0.4	0.0	n.m.
EBITDA Margin (%)	n.m.	n.m.	n.m.	n.m.

Source: Innovatec, Value Track Analysis (*) Split over the Business Units at the end of reported period

Forecasts 2022E-24E

Estimates broadly confirmed

Following 1Q22 data and recent news flow, we stick to our assumptions for Innovatec P&L 2022E-24E for the time being. However, given the slowdown of the cash-in of tax credits related to “*Ecobonus 110%*” and the acquisition of the Green-up HQ building, we now forecast a slightly higher Net Debt.

More in detail, the reasons for leaving unchanged revenues and margin forecasts despite the strong performance recorded in 1Q are the following:

- 1. Cautious approach** on INC top line and main operating margins, as while it is true that 1Q22 results weight slightly over 25% of our full-year 2022E forecasts, some seasonality is expected;
- 2. Inflationary pressures** on raw materials and components costs. Indeed, while the Group showed great ability to secure fixed-price contracts with deliveries expected up to the end of 1H22, it is now testing the waters for new low-cost procurements. Hence, costs management could be more difficult from 2H22 onwards, with Gross Margin that could potentially suffer;
- 3. Current uncertain outlook on INC reference sectors over 2023-24E**, dominated by fiscal policies and whose potential acceleration or slow-down may depend on government decision, such as prioritize the implementation of the Italian energetic autonomy i.e. the enforcement of REPowerEU plan at national level, vs Eco bonuses tax credits. The former is strictly linked to Innovatec B2B stream of business, while the latter drives Innovatec B2C stream, i.e. *HouseVerde Project* and it is the former that seems to gain more and more traction: this would in turn have a slightly dilutive effect on margins.

The above factors require a cautious stance, but the strong improvements already achieved in terms of **profitability and speed of integration of recent acquisitions** (e.g. COBAT) seem already above our medium term expectations and are due to offset the potential negative impact of the elements mentioned.

At Balance Sheet level we forecast a slightly worse Net Debt on the back of 1Q22 results, mainly due to:

- 1. Higher Net Working Capital** requirements due to delays of cash-in of tax credits, expected to normalize vs. 1Q22 but not to get back to 2021 levels;
- 2. Purchase of the real estate** asset (Green-up headquarter, nearby the INC offices) and slightly higher Net Debt of **SEA** at closing of acquisition (€5.0mn vs. €3.75mn expected), yet explained by some Capex deployed as of 2021 year-end to increase the capacity of the company, as expected.

Overall, the impact is Net Debt forecasts higher by ca. €11mn in 2022E-23E-24E.

Innovatec: New vs. Old 2022E-24E estimates

(€mn)	2022E			2023E			2024E		
	Old	New	Change	Old	New	Change	Old	New	Change
Total Revenues	276.2	276.2	0.0%	326.8	326.8	0.0%	384.7	384.7	0.0%
EBITDA	41.5	41.5	0.0%	46.2	46.2	0.0%	52.9	52.9	0.0%
<i>EBITDA Margin (%)</i>	15.0%	15.0%	0bps	14.1%	14.1%	0bps	13.8%	13.8%	0bps
EBIT	20.2	20.2	0.0%	27.2	27.2	0.0%	33.6	33.6	0.0%
<i>EBIT Margin (%)</i>	7.3%	7.3%	0bps	8.3%	8.3%	0bps	8.7%	8.7%	0bps
Net profit	11.3	11.3	0.0%	16.2	16.2	0.0%	20.7	20.7	0.0%
Net Financial Position	-9.0	-20.0	-11.0	2.8	-8.6	-11.4	29.4	17.8	-11.6

Source: Value Track Analysis

Appendix - Innovatec at a glance

Innovatec is a leading player in the CleanTech Italian business with a focus on two main industries: Energy Efficiency and Environment & Circular Economy. With its ability to react swiftly to changing legislation and competitive outlook while continuing to seize new market opportunities, its extensive know-how cumulated over many technologies and client base, its 2021PF €237mn revenues and ca. 260 employees, Innovatec can act across the whole value chain in the field of sustainability, by leveraging its "sustainable by nature" business model and fully integrated business strategy.

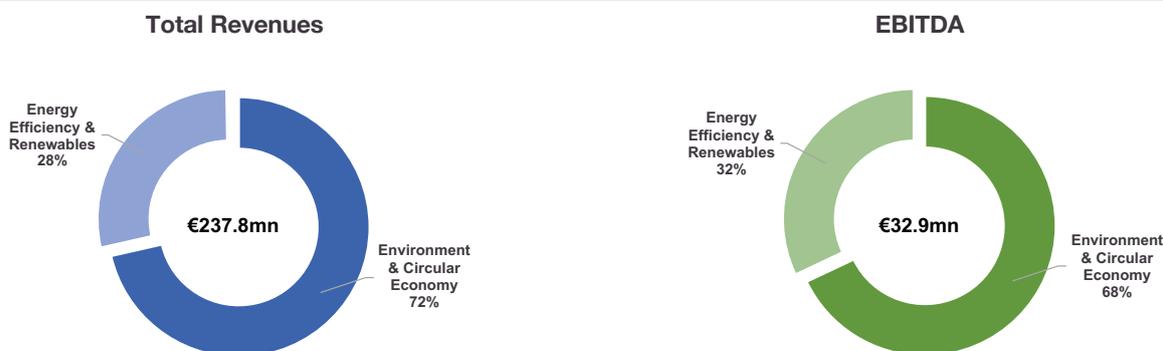
Innovatec is a key player in the CleanTech business in Italy with a focus on two major industries: Energy Efficiency and Environment & Circular Economy.

With its ability to react rapidly to evolving legislation and competitive opportunities while continuing to pursue new opportunities, its extensive know-how cumulated over many technologies and client base, its 2021 €237mn pro-forma revenues, and 259 employees, Innovatec can operate across the entire value chain in the field of sustainability by leveraging its "sustainable by nature" business model and fully integrated business strategy.

Innovatec operates in two main markets:

- ◆ **Energy Efficiency (EE);**
- ◆ **Environment & Circular Economy**, a business that can be broadly split into:
 - Environmental Services
 - Circular Economy.

Innovatec: FY21 (Pro-Forma) Total Revenues and EBITDA by business units



Source: Innovatec

Business Unit #1 - Energy Efficiency

The energy efficiency business accounts for ca. 28% of the Group's total revenues and within this business unit, Innovatec focuses on two core segments: B2B and B2C.

B2B (€6.2mn Revenues in 2021)

For Innovatec, serving the B2B market results in two primary measures: on the one hand, providing this segment with a reduction in energy consumption and, on the other hand, making the energy consumed by B2B customers less expensive.

In this segment, Innovatec serves its customers with a value proposition that includes five steps:

1. **“As is” Analysis.** Innovatec performs an energy consumption analysis of companies that use energy, fossil fuels, and coal to define the "as is" scenario.
2. **Energy Efficiency.** Innovatec, after having defined the "as is" situation of the company, deals with the design, installation, and management of technological solutions to improve energy efficiency (e.g. cogeneration/trigeneration systems, PV).
3. **Contractual Analysis.** Innovatec can define with the customer different types of contracts to recover resources and/or reduce the purchase price of resources.
4. **”Renewable” Sources.** Employing different types of solutions such as solar thermal plants, wind power plants or biogas/biomethane plants, Innovatec can improve the sustainability of its clients’ processes through independent renewable energy production;
5. **Monitoring Consumption.** The company also provides services such as monitoring and identification of the company's energy profile, general energy consulting services, and various types of energy certifications such as ISO 5001 and access to incentive mechanism (TEE).

The B2B Energy Efficiency unit today represents the smallest segment in terms of revenue, but it is set to grow at a healthy pace in the coming years, fueled by the energy transition activity introduced by Italy's PNRR.

B2C (€61.2mn Revenues in 2021)

Innovatec's value proposition, for this segment of the business, is to ensure the completion of renovation projects by taking advantage of Italian incentives to enable customers to upgrade their energy efficiency category and/or to reduce their seismic risk.

The ongoing project is *Houseverde*, a project launched in 2H 2020 and based on the Italian “Relaunch Decree”, issued to assist with the recovery of the Italian economy, following the shock of the Covid-19 pandemic. The legislation introduced tax credits, called “Super bonus”, intended to cover 110% of the costs of projects aimed at improving the energy efficiency and reducing the structural seismic risk of Italian properties. These incentives were initially related to works incurred from 1 July 2020 until June 2022, but more recently the Super bonus was extended well beyond the original horizon in terms of duration and addressable market and gradually reduced in terms of eligible amounts.

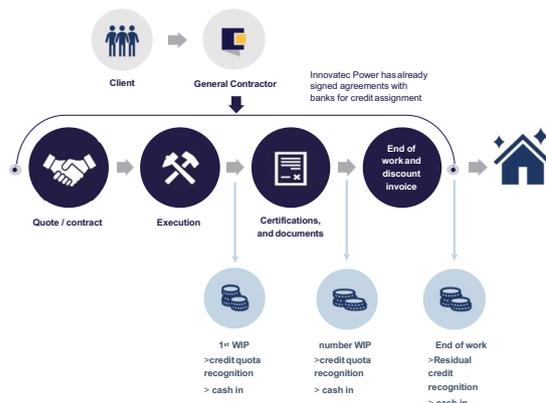
As of today, and broadly speaking the Super bonus runs until 31 December 2025, in the following sizes:

- ◆ 110% for expenses incurred up to 31 December 2023;
- ◆ 70% percent for expenses incurred in 2024;
- ◆ 65% percent for expenses incurred in 2025.

Incentives for single-family houses are limited to December 2022 and for the Public Housing sector (Edilizia Residenziale Pubblica) to Dec 2023. However, additional funds have been allocated to public housing over 2022-2026.

Fiscal credits awarded upon completion of projects can be directly received and then cashed or discounted by the contractor, hence avoiding any cash-out for the owner of the building. The Italian Government has introduced in January 2022 certain limits to multiple discounting of these fiscal credits (to improve transparency and traceability) but these changes are not relevant to Innovatec, as it already signed specific agreements with leading banks for the fiscal credits’ discount.

Innovatec: House Verde Project



Source: Innovatec

In this project, Innovatec plays the role of global contractor, and the value proposition is very simple:

- ◆ First of all, Innovatec makes contracts with its client (the real estate owner/s) where it assumes the role of General Contractor, facilitating the execution of the technical work at no cost to the client, ensuring a single counterpart for all activities required by the project;
- ◆ Second, Innovatec receives the fiscal credit (equal to 110% of the value of the project) in a few steps, according to the progress of works;
- ◆ Then Innovatec, through agreements with its partner banks, gradually discounts these Government credits, which typically banks discount at ca 8%. Hence, Innovatec is left with 102% of the project’s value, or a 2% margin to cover the costs of “red tape”, on top of its industrial margin on the project.

Business Unit #2 - Environment & Circular Economy

Innovatec’s subsidiary GreenUp is active in Environmental Services since long time, despite until 2020, it was part of the “larger” Sostenya Group. On the contrary, the company’s focus on circular economy in a stricter sense is more recent and comes via two acquisitions: Cobat (Dec 2021) and SEA (Jan 2022). Yet, one could argue that the acquisition of Vescovo Romano – the paper and carton board recycling subsidiary acquired in 2020 via GreenUp – was the first step in the direction of a circular economy.

Environmental Services (€76.7mn Revenues in 2021)

This subsector accounts for ca. 32% of the 2021 Pro-forma sales. Here the company serves the so-called “special waste (non-hazardous) producers”, a client base of ca 1,600 corporates (excl. Cobat) around the country, which includes mostly mid/large corporates across several end-markets, including many national leaders in manufacturing and service industries.

More specifically Innovatec follows its clients in four main activities:

1. **Collection/Transportation.** With 100 proprietary vehicles and many more third-party collectors, Innovatec handles transportation to the selection, treatment plants and landfills.
2. **Sorting & Treatment.** By relying on 5 selection and treatment plants, Innovatec first selects and compacts the materials into recoverable and non-recoverable items. Of the total sorted materials, ca. 70% are treated internally and the remaining 30% follows its disposal or further treatment process outside the group.

3. **Disposal.** The portion of internally managed waste labeled as “non-recoverable” in the previous phase is sent to one of the 3 landfills that Innovatec owns/manages for permanent disposal.
4. **Recycle/Recovery.** The portion of internally managed waste labeled “recoverable” is either recycled (and hence resold as secondary raw material) or used to produce heat or electricity (e.g. biogas plants).

Environment Service phases



Source: Innovatec

Circular Economy (€93.1mn Revenues in 2021PF)

Circular Economy includes all the activities associated with the recovery and recycling of the waste to obtain secondary raw material with an intrinsic value to be re-used in industrial processes or to produce energy. Differently from the business of landfills, which is due to play a shrinking role in the waste cycle, the Recycling/Recovery activity represents a growing long term strategic opportunity in general and for Innovatec: the 2030 EU target for the weight of recycled waste on total is set at 60% vs 50% achieved in 2020 (+20%).

Due to recent acquisitions - namely Cobat (included in our Pro-forma data) and SEA (finalized in January 2022) - Innovatec moved from a **linear** economy-based **business model** toward a **circular** economy-based **business model**. These subsidiaries already represent ca 40% of Innovatec Group Pro-forma sales. The newly acquired businesses deal with a **few different products and technologies (such as batteries, tires, WEEE)** but the same model **can be replicated** for different types of products or can be expanded over wider regions or to a national footprint.

The potential customer base for these activities is huge:

- ◆ large national players with high volumes of waste in specific segments (eg. IKEA, Autogrill),
- ◆ manufacturers of WEEE,
- ◆ large national chains with regular needs of equipment replacement (eg. refrigerators).

The environmental sector is highly regulated and legislation at the European and national level is a key driving force for innovation and progress to a “zero waste” economy. Most of the changes towards the circular economy have been triggered by the **EPR (Extended Producer Responsibility)** directive. EPR is a concept where manufacturers and importers of products should assume a significant degree of responsibility for the environmental impacts of their products throughout the product life-cycle, including upstream impacts inherent in the selection of materials for the products, impacts from manufacturers’ production process itself, and downstream impacts from use and disposal of products.

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