

Innovatec

Sector: Industrial Services



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Straight bar: growth potential still there

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.

Good 1H22 preliminary results

Management released 1H preliminary data pending the full set of results and these confirm a) strong growth in all business units with Energy Efficiency booming (€61mn or 3x 1H21 thanks to *HouseVerde*) and Environment at €103mn, +30% vs 1H21 pro-forma; b) EBITDA +47% on 1H21PF with margin flattish, as the much higher contribution of Cobat diluted profitability, albeit reporting margins well above expectations; c) NFD a touch higher than March 2022, as the NWC requirements of *HouseVerde* (*Superbonus 110%*) have not normalised yet.

ESI deal and more

3Q22 news flow has been intense: management announced the deal with *ESI*, another small acquisition (*Frisbi*) and further organizational changes to support strategy and growth in the Energy Efficiency BU. The purchase of a 29.6% stake in *ESI* for €6.5mn (mix of cash and paper) makes INC its main shareholder and brings the PV expertise and execution capabilities needed not only to implement its medium-term targets, but also to catch the terrific opportunities for renewables in the current geo-political scenario.

Revised estimates bring higher top line, flat EBITDA, better EPS

In light of 1H results and recent deals, we now forecast: (i) Revenues slightly higher thanks to better growth of Cobat and slightly lower contribution from *HouseVerde* from 2023E; (ii) EBITDA broadly unchanged despite higher top line, as the new revenues mix implies a bit lower operating margins; (iii) EPS slightly up (avg +3.6% 2022E-24E), post-earning enhancing *ESI* deal but higher financial charges; (iv) worsened NFD (€27.3mn vs. €20mn 2022E) due to recent M&A and NWC volatility.

Fair Value at €2.6 per share, 40% upside despite sector de-rating

Despite the brilliant business update, being fully on track to business plan targets (expected to be updated soon), good M&A and our forecast upgrade, we adjust our fair value to €2.6 p/s (from €2.9), due to a few exogenous factors; namely (i) adverse macro drivers (rising interest rates, ERP, beta), (ii) lower peers' multiples and (iii) longer cash-in of *Superbonus* tax credits. Yet, we point out that a) an ease up of these settings and/or a bullish Business Plan update could benefit INC rating in Q4; b) on a 2yrs time horizon our rolling valuation points at a value of €3.6 p/s (2x market price).

Fair Value (€) 2.60
Market Price (€) (*) 1.85
Market Cap. (€mn) (*) 178.4

KEY FINANCIALS (€m)	2021PF	2022E	2023E
REVENUES	237.8	300.4	335.3
EBITDA	32.9	42.2	46.2
EBIT	10.7	22.4	28.3
NET PROFIT	6.2	12.5	16.2
EQUITY	30.7	48.7	66.9
NET FIN. POS.	-10.0	-27.3	-18.0
EPS (€)	0.09	0.16	0.20
DPS (€)	0.00	0.00	0.00

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

KEY FINANCIALS (€m)	2021PF	2022E	2023E
EBITDA MARGIN (%)	13.8	14.0	13.8
EBIT MARGIN (%)	4.5	7.5	8.4
NET DEBT / EBITDA (x)	0.3	0.6	0.4
NET DEBT / EQUITY (x)	0.3	0.6	0.3
EV/SALES (x)	1.0	0.8	0.7
EV/EBITDA (x)	7.0	5.7	5.1
EV/EBIT (x)	21.6	10.8	8.3
P/E Adj. (x)	20.6	11.8	9.5

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

STOCK DATA

FAIR VALUE (€)	2.6
MARKET PRICE (€)	1.85
SHS. OUT. (m)	96.4
MARKET CAP. (€m)	178.4
FREE FLOAT (%)	54.4
AVG. -20D VOL. (#)	238,071
RIC / BBG	INC.MI / INC IM
52 WK RANGE (€)	0.78-2.46

Source: Stock Market Data
 (*) As of 16/09/2022



Business Description

Innovatec is a pure-play in the cleantech Italian business with a focus on two main industries: Energy Efficiency & Renewables 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	300.4	335.3	381.6
Chg. % YoY	47.1%	26.3%	11.6%	13.8%
EBITDA	32.9	42.2	46.2	52.6
EBITDA Margin (%)	13.8%	14.0%	13.8%	13.8%
EBIT	10.7	22.4	28.3	34.5
EBIT Margin (%)	4.5%	7.5%	8.4%	9.1%
Net Profit	6.2	12.5	16.2	20.8
Chg. % YoY	22.5%	100.0%	30.1%	28.4%
Adjusted Net Profit	8.4	15.1	18.8	23.4
Chg. % YoY	77.2%	80.1%	24.9%	24.5%
Net Fin. Position	-10.0	-27.3	-18.0	5.8
Net Fin. Pos. / EBITDA (x)	0.3	0.6	0.4	nm
Capex	-7.3	-16.9	-25.1	-11.0
OpFCF b.t.	10.1	4.7	24.8	40.5
OpFCF b.t. as % of EBITDA	30.7%	11.1%	53.7%	76.9%

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

Investment case

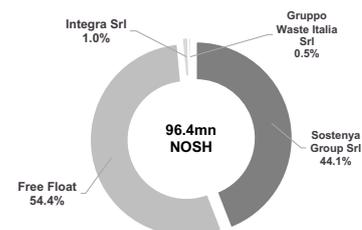
Strengths / Opportunities

- ◆ 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

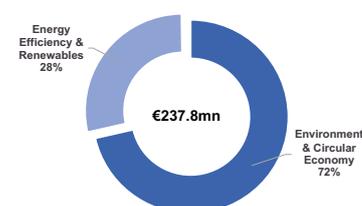
- ◆ The national energy efficiency market is highly dependent upon national and European incentives;
- ◆ Execution risk of the Business Plan and M&A discipline.

Shareholders Structure



Source: Innovatec

Sales breakdown by BU



Source: Innovatec (FY21PF)

EBITDA breakdown by BU



Source: Innovatec (FY21PF)

Stock multiples @ €2.60 Fair Value p/s

	2022E	2023E
EV / SALES (x)	1.0	0.9
EV / EBITDA (x)	7.4	6.6
EV / EBIT (x)	14.0	10.8
EV / CAP.EMP. (x)	4.1	8.1
OpFCF Yield (%)	1.5	8.1
P / E Adj. (x)	16.6	13.3
P / BV (x)	5.7	4.2
Div. Yield. (%)	0.0	0.0

Source: Value Track

1H22 Preliminary Results

Key Financials

Innovatec marked an all-time high for 1H22 results, once again pointing at a solid economic and industrial growth and confirming the validity of the Group development plan. We highlight:

- ◆ **Total Revenues at €163.7mn**, up 56% vs. 1H21PF, i.e. including *Cobat* results;
- ◆ **EBITDA at €22.4mn and EBITDA margin at 14%**, keeping profitability in line with FY21PF;
- ◆ **EBIT at €14.1mn and EBIT margin at 9%**, reducing the gap with EBITDA;
- ◆ **Net Financial Debt up to €28.9mn**, following 1Q22 M&A, CapEx and heavier NWC.

Innovatec: Key Financials 1H22 vs. 1H21

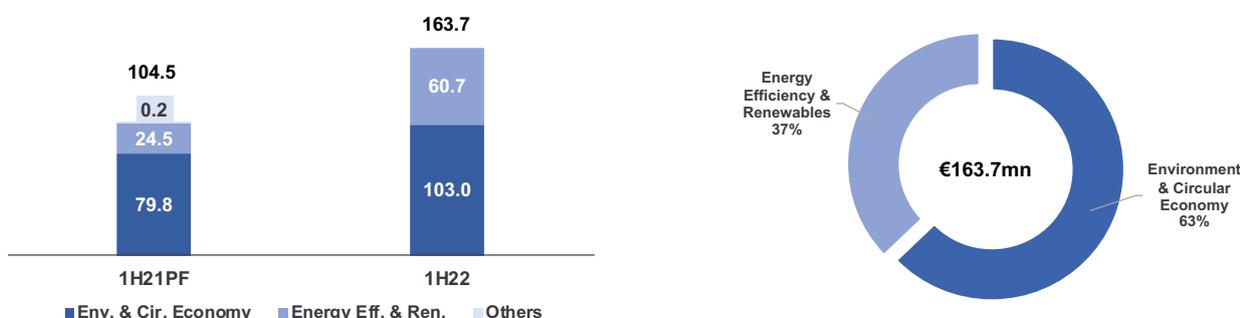
€mn	2021PF	1H21	1H21PF	1H22	Δ y/y PF (%)
Total Revenues	237.8	63.5	105.2	163.7	56%
EBITDA	32.9	14.1	15.2	22.4	47%
<i>EBITDA Margin (%)</i>	<i>14%</i>	<i>22%</i>	<i>14%</i>	<i>14%</i>	<i>-.0bps</i>
EBIT	10.7	4.3	5.2	14.1	173%
<i>EBIT Margin (%)</i>	<i>5%</i>	<i>7%</i>	<i>5%</i>	<i>9%</i>	<i>-.400bps</i>
Net Financial Position [Net Debt (-), Net Cash (+)]	-10.0	n.m.	n.m.	-28.9	n.m.

Source: Innovatec, Value Track Analysis

Total Revenues reached €163.7mn, moving up by 56% relative to 1H21PF, thanks to:

- ◆ **Environment & Circular Economy**, reporting Revenues for **€103mn**, i.e. +30% y/y on PF basis, driven by higher volumes and average prices and by operating synergies arising from recently acquired companies. Worthy to mention, *Cobat* totalled €61.5mn vs. €41.5mn of 1H21PF, with all the other subsidiaries either experiencing more resiliency than expected (*GreenUp* at €31mn) or keeping going with good momentum, and with *Vescovo Romano* and *SEA* contributing for €7.5mn and €3.1mn, respectively;
- ◆ **Energy Efficiency & Renewables**, recording booming Sales for ca. **€61mn**, 3x 1H21 results and almost equalling FY21 figure of €67mn, thanks to the outstanding volumes of the *HouseVerde* business and despite the uncertainties on the cash-in of ecobonus fiscal credits.

Innovatec: 1H21PF-1H22 Total Revenues (€mn) evolution and 1H22 contribution by business unit



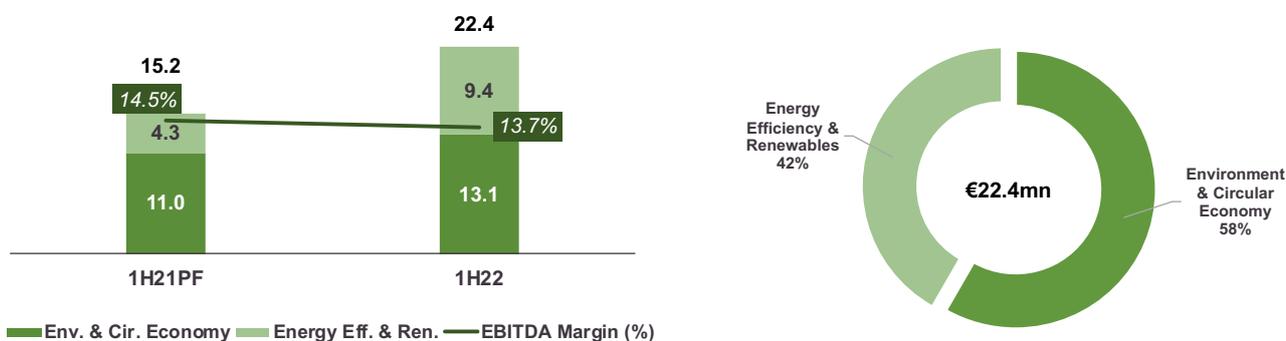
Source: Innovatec, Value Track Analysis

EBITDA followed the positive trend of the top line, achieving **€22.4mn** in 1H22 vs. €15.2mn in 1H21PF, with a negligible margin shrinkage attributable to the greater weight of *Cobat* on the aggregate result (characterized by lower albeit improving margins). More in detail:

- ◆ **Environment & Circular Economy** EBITDA got to **€13.7mn** (before accounting for fixed overhead costs), registering a 25% expansion y/y driven by rising prices and synergies optimization, that helped *Cobat* reaching a margin close to 6% vs. the historical 3%. The business unit EBITDA margin is therefore confirmed at around 13%;
- ◆ **Energy Efficiency & Renewables** reported an EBITDA of **€10mn** (before overheads), very close to the €11mn of FY21 and +133% vs. 1H21. EBITDA margin keeps standing at ca. 16%-17% thanks to locked-in prices contracts that covered raw materials costs for the semester.

Overall, fixed overhead costs amounted to €1.3mn, of which €0.2mn were classified as non-recurring. On the chart below, we opted for a 50%-50% split of such expenses on the Group business units.

Innovatec: 1H21PF-1H22 EBITDA (€mn) evolution and 1H22 contribution by business unit



Source: Innovatec, Value Track Analysis

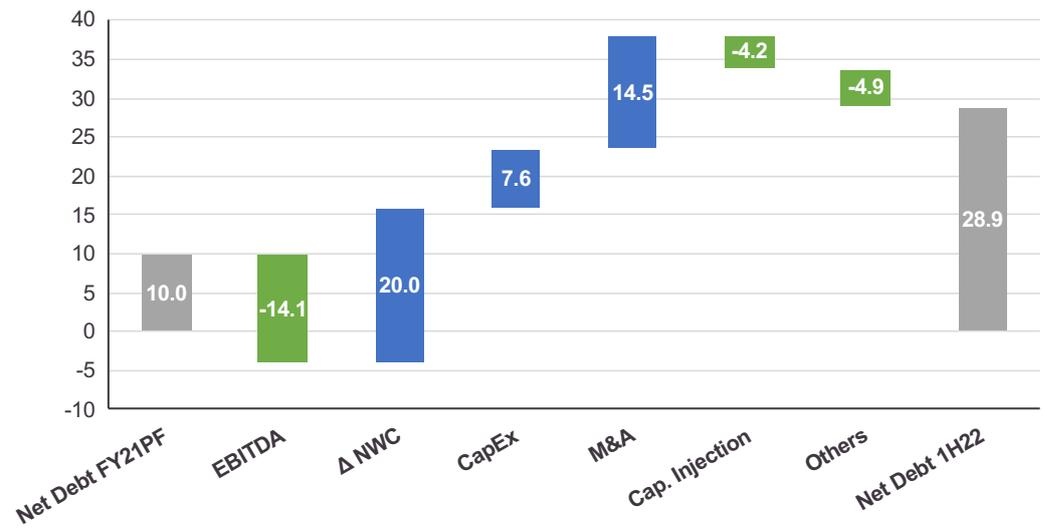
EBIT reduced the gap with EBITDA, recording **€14.1mn** and a y/y growth of 173% vs. 1H21PF. Indeed, **EBIT margin increased to 9%**, +400 bps y/y, as a consequence of the lower utilization rates for landfills (hence, fewer closure and post-closure provisions).

Net Financial Debt slightly rose to €28.9mn at the end of the semester vs. 1Q22 €26.6mn. We remind that in 1Q22 Net Debt surged by over €16mn, due to:

- ◆ €2.3mn cash-out for the purchase of a further 19.51% stake in *Cobat* (going to a 75.96% stake);
- ◆ €2.75mn cash-out for the acquisition of a 65% controlling stake of *SEA* plus an additional commitment for €0.9mn (to be paid over five years) and €5.0mn additional debt for a further 24.996%, leading INC to own a 90% stake and a put/call on the residual 10%;
- ◆ €3.6mn (€1.4mn cash and €2.2mn leasing) for the acquisition of 100% of *Bensi 3*, owner of the leasing of the property adjacent to Innovatec HQ, and currently rent as HQ of Green-up;
- ◆ Strong delay of cash-in of tax credits related to ecobonus works, 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. However, normalization is now in progress.

More, 1H22 CapEx amounted to €7.6mn, only partially offset by the €4.2mn capital injection from the accelerated book building of January.

Innovatec: 1H22 Cash Flow (€mn)



Source: Innovatec, Value Track Analysis

New Opportunities, New Investments

Recently, after the end of 1H22, Innovatec took up a series of new initiatives to start a rapid development process of the Group B2B Energy Efficiency business unit, inspired by the acceleration imposed by policy makers on renewables and intended to provide a rapid, clear and competitive response to the increase of the cost of energy. The most important summer announcements involved:

1. **Innovatec Green Network (“Igreenet”) Project;**
2. **Acquisition of 29.58% of ESI SpA;**
3. **Acquisition of 30% of Frisbi Srl;**
4. **B2B Energy Efficiency & Renewables new development plan and 2024E target.**

Innovatec Green Network

As of early July 2022, Innovatec constituted the “*Igreenet*” project with the goal of providing a cohesive identity for the offer of sustainable solutions for businesses, families and public administration. Hence, the Energy Efficiency business unit will now combine innovative technologies for the energy and seismic redevelopment of buildings (*HouseVerde* project) with the production of energy from renewable sources, focusing on photovoltaic (“PV”) and energy communities.

On one side, it will continue to accompany families and businesses in the path of decarbonisation, a priority of common European policy, while on the other it will offer solutions to B2B and PA clients aimed at energy and environmental sustainability and at the spread of photovoltaic systems, including agricultural and energy communities.

ESI 29.58% acquisition

The deal at a glance

As of July 25th, in light of the new *Igreenet* project and to accelerate Innovatec developments in relation to the photovoltaic business, the Group finalized an agreement to **acquire a 29.58% stake of ESI SpA (ESI)** from Integra SpA. *ESI* is an Italy-based and EGM-listed company active in the construction and maintenance of large-scale photovoltaic plants.

ESI concluded FY21 by recording a Backlog of €48mn, Value of Production of ca. €5.5mn, EBITDA of €0.1mn, Net Profit of €0.1mn and a Net Debt of €1.0mn. For 2022E, consensus estimates a VoP of €22.5mn, EBITDA of €2.3mn, Net Profit of €1.3mn and Net Cash Position of €1.9mn.

Terms of the deal

We calculate INC finalized the acquisition of 29.58% of *ESI* at ca. **10x EV/EBITDA 2022E**. Indeed, **INC paid €6.5mn for the purchase** of 29.58% of *ESI* share capital, settled as:

- ◆ €4.5mn cash on July 25th (closing date) for the purchase of 1,430,823 shares from Integra SpA;
- ◆ €2.0mn through a stock swap, with INC issuing 1,000,000 new shares at €2.00 p/s reserved to Integra SpA, that in turn would swap those shares with 635,922 *ESI* Shares, valued at €3.145 p/s.

Worthy to note, Innovatec became the first shareholder of *ESI*. The Group and Integra did not subscribe lock-up clauses, nor governance procedural rules or shareholders’ agreements.

Our view on the deal

We appreciate the industrial rationale of the deal, clearly aimed at strengthening and internalizing Innovatec PV offer, promptly seizing the opportunity after the acceleration imposed by policy makers in the world of renewables. Indeed, the Group noted a strong interest in the PV/agro-PV sector, and thanks to this investment it will try to meet the growing demand for PV capacity, boosted by government support measures. Finally, the new B2B business unit will benefit from both INC development potential and ESI expertise and execution capabilities, with the goal of supporting current and future PV initiatives pipeline, ensuring quality and speed for Innovatec clients.

In terms of valuation, the 10x EV/EBITDA multiple implies a clear premium to sector ratings and to Innovatec trading multiples, however it is supported by a) the strategic and time value of ESI execution capabilities for Innovatec also in the short term; b) significant potential revenues synergies; c) earnings enhancing effect, also pre-synergies.

Frisbi 30% acquisition

The deal at a glance

On August 3rd, thanks to the scouting activity of Innovatec Venture, the Group undisclosed a preliminary agreement for the **purchase of 30% of the post-money share capital of Frisbi Srl**, innovative start up active in the reselling of 100% renewable energy to the residential market and corporates through the company digital platform, allowing the costumers to choose the best energy source and price deal of their needs.

Frisbi offer is aimed at sustainable consumers, more sensitive to environmentally friendly and ecological transition themes, who want to contribute with virtuous choices in terms of energy efficiency. Financially speaking, Frisbi reached a FY21 top line of ca. €0.6mn (+130% y/y).

Terms of the deal

At the expected price conditions, we calculate INC to finalize the acquisition of 30% of *Frisbi* at ca. **3.9x EV/Sales 2021A**. Indeed, **INC should inject €1.0mn into the company, for a stake representing 30% of *Frisbi* post-money share capital**, to be settled as:

- ◆ €0.5mn reserved capital increase up to 7 days after the closing date (14/09/2022) for 15% of the post-money share capital;
- ◆ €0.5mn reserved capital increase up to 6 months after the cash-out of the first tranche for a further 15%.

More, Innovatec should have a call option to get up to 60% of *Frisbi* share capital up to 3 years after the mentioned capital increases, if *Frisbi* reports an annual EBITDA of at least €0.5mn.

On the other hand, *Frisbi* shareholders' have a put option - that can be exercised between 6 and 24 months after the INC call exercise - to sell additional shares (even separately) but only if the portion of shares is at least 10% for each shareholder wanting to exercise the put. The deal also involves tag-along and drag-along clauses, as well as a shareholders' agreement on the composition of the board of directors and voting rules.

Our view on the deal

The deal furtherly reinforce INC Energy Efficiency & Renewables offer. Indeed, Innovatec integrated supply chain could now offer domestic energy efficiency restoration through *HouseVerde*, use ESI execution capabilities and plants to autonomously produce renewable energy, and then sell it to the final users in a digital way and at affordable prices, also thanks to *Frisbi* contribution.

Finally, it is worth to add that the entrance of INC does not require any disposal of shares by the founders, while all the money goes into the company in order to support its development plans.

B2B Energy Efficiency & Renewables new development plan and 2024E target

Thanks to the Igreenet project and recent acquisition in the B2B PV industry, the INC announced a **top line 2024E target of €100mn** for the B2B stream of the Energy Efficiency & Renewables BU.

This target should be achieved mainly through:

- 1. Construction of medium-sized plants** dedicated to the industrial and agricultural world;
- 2. Integrated decarbonisation interventions** in the B2B sector;
- 3. Development of authorizations for ground large-scale plants.**

With regard to ground installations, the business unit will also have the dual purpose of (i) post-construction valorisation (with transfer of plants to third parties in turn-key logic) and (ii) production of renewable energy to be distributed to companies, families and energy communities thanks to the *Frisbi* platform.

We also report that by the end of the year **Innovatec should update its Business Plan and provide new financial targets for the year 2024E**. In light of recent developments, we expect an upgrade of the guidance, another clear signal of the great business momentum and execution capabilities of the Group, despite the current adverse macroeconomic environment, volatile geopolitical scenario and uncertain regulations on ecobonus tax credits.

Forecasts 2022E-24E

Estimates mildly revised

Following 1H22 booming results and the promising business developments of last months, we are revising upwards our 2022E-24E P&L estimates, while reducing the Group NFP. In details:

- ◆ **Total Revenues** up by 9% on 2022E, as a consequence of (i) the excellent results of *Cobat* in the first semester and (ii) thanks to a much stronger contribution expected from *HouseVerde* on FY top line. On 2023E-24E, we believe in a slight decline for the demand of renovation works and fiscal aids, however offset by the stronger output capacity of the B2B photovoltaic end of the Energy Efficiency BU, strengthened by recent deals with *ESI* and *Frisbi*;
- ◆ **EBITDA** in line with absolute values of previous estimates, however on a slightly worse revenues mix that could reduce 2022E EBITDA margin by ca. 100bps to 14%. *Cobat* business should indeed weight more on the total, however with better profitability levels than FY21, thanks to the great work done on cost efficiency, hence helping INC to establish a sold barrier vs. potential inflationary pressures on raw materials and component costs.
- ◆ **EBIT** increasing in both absolute and relative values, reducing the gap with EBITDA thanks to less D&A and allocations than predicted.
- ◆ **Net Profit** benefitting from the value-enhancing deal with *ESI* (consolidated with the equity method) but charged by higher financial charges, with debt being repaid at variable interest rates.
- ◆ **Net Financial Position** worsened by (i) *ESI* and *Frisbi* investments (weighting for ca. €5.5mn on 2022E-23E financial investments), (ii) temporarily higher volatility on *HouseVerde* and *Cobat* working capital (to progressively normalize, especially after new governmental agreement to ease up fiscal credits cash-in), and (iii) lower closure and post-closure landfills provisions.

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

(€mn)	2022E			2023E			2024E		
	Old	New	Change	Old	New	Change	Old	New	Change
Total Revenues	276.2	300.4	8.8%	326.8	335.3	2.6%	384.7	381.6	-0.8%
EBITDA	41.5	42.2	1.5%	46.2	46.2	0.0%	52.9	52.6	-0.7%
<i>EBITDA Margin (%)</i>	15.0%	14.0%	-100bps	14.1%	13.8%	-37bps	13.8%	13.8%	2bps
EBIT	20.2	22.4	10.6%	27.2	28.3	3.9%	33.6	34.5	2.9%
<i>EBIT Margin (%)</i>	7.3%	7.5%	12bps	8.3%	8.4%	11bps	8.7%	9.1%	32bps
Net profit	11.3	12.5	10.1%	16.2	16.2	0.2%	20.7	20.8	0.7%
Net Financial Position	-20.0	-27.3	-7.3	-8.6	-18.0	-9.4	17.8	5.8	-12.0

Source: Value Track Analysis

Forecasts 2022E-24E

Here the financial statements updated with our new estimates. For additional and more specific drivers concerning INC business units, we refer to the Initiation of Coverage report of 14/03/2022.

Innovatec: 2021PF-24E Revenues and EBITDA by BU

€mn	2021PF	2022E	2023E	2024E	2021PF-24E CAGR (%)
Total Revenues	237.8	300.4	335.3	381.6	17.1%
o/w Energy Efficiency	67.4	103.0	122.0	150.0	30.6%
o/w Environmental Services	169.9	197.4	213.3	231.6	10.9%
EBITDA	32.9	42.2	46.2	52.6	16.9%
EBITDA Margin (%)	13.8%	14.0%	13.8%	13.8%	-6bps
o/w Energy Efficiency	10.5	16.3	16.7	19.5	22.8%
EBITDA Margin (%)	15.6%	15.8%	13.7%	13.0%	-265bps
o/w Environmental Services	22.3	25.9	29.5	33.1	14.0%
EBITDA Margin (%)	13.2%	13.1%	13.8%	14.3%	113bps

Source: Innovatec, Value Track Analysis

Innovatec: 2021PF-24E P&L

€mn	2021PF	2022E	2023E	2024E	2021PF-24E CAGR (%)
Total Revenues	237.8	300.4	335.3	381.6	17.1%
EBITDA	32.9	42.2	46.2	52.6	16.9%
EBITDA margin (%)	13.8%	14.0%	13.8%	13.8%	-6bps
Depreciation & Amortization & Allocations	-22.2	-19.8	-17.9	-18.0	
EBIT	10.7	22.4	28.3	34.5	47.6%
EBIT margin (%)	4.5%	7.5%	8.4%	9.1%	454bps
Net Fin. Income (Charges)	0.1	-1.7	-1.7	-1.3	
Non-Operating Items	0.0	0.4	0.5	0.7	
Pre-tax Profit	10.8	21.0	27.1	33.9	46.5%
Taxes	-4.0	-7.1	-8.9	-11.0	
Tax rate (%)	-36.8%	-33.7%	-32.9%	-32.3%	
Group Net Profit	6.8	13.9	18.2	23.0	49.9%
Group Net Profit margin (%)	2.9%	4.6%	5.4%	6.0%	315bps
Minorities	-0.6	-1.5	-1.9	-2.1	
Net Profit	6.2	12.5	16.2	20.8	49.5%
Net Profit margin (%)	2.6%	4.2%	4.8%	5.5%	284bps

Source: Innovatec, Value Track Analysis

Innovatec: 2021PF-24E Cash Flow Statement

€mn	2021PF	2022E	2023E	2024E
EBITDA	30.8 (*)	42.2	46.2	52.6
NWC requirements	-17.9	-15.9	4.1	-2.5
Capex	-7.3	-16.9	-25.1	-11.0
Change in provisions	2.4	-4.7	-0.4	1.5
OpFCF b.t.	8.0	4.7	24.8	40.5
<i>As a % of EBITDA</i>	<i>26.0%</i>	<i>11.1%</i>	<i>53.7%</i>	<i>76.9%</i>
Cash Taxes	-4.0	-7.1	-8.9	-11.0
OpFCF a.t.	4.1	-2.4	15.9	29.5
Capital Injections	1.8	6.0	0.0	0.0
Other Op. Items / M&A	-26.6	-19.1	-4.9	-4.4
Net Financial Charges	0.1	-1.7	-1.7	-1.3
Dividends Paid	0.0	0.0	0.0	0.0
Change in Net Fin. Position	-20.7	-17.3	9.3	23.8

Source: Innovatec, Value Track Analysis (*) EBITDA Reported (net of Cobat)

Innovatec: 2021PF-24E Balance Sheet

€mn	2021PF	2022E	2023E	2024E
Net Working Capital	6.7	22.5	18.4	21.0
<i>As a % of Total Revenues</i>	<i>2.8%</i>	<i>7.5%</i>	<i>5.5%</i>	<i>5.5%</i>
Net Fixed Assets	77.2	92.0	104.6	102.6
Provisions	43.2	38.5	38.1	39.6
Total Capital Employed	40.7	76.0	84.9	84.0
<i>As a % of Total Revenues</i>	<i>17.1%</i>	<i>25.3%</i>	<i>25.3%</i>	<i>22.0%</i>
Shareholders' Equity	25.4	43.9	60.1	80.9
Minorities' Equity	5.3	4.9	6.8	8.9
Group Net Equity	30.7	48.7	66.9	89.9
Net Fin. Position [i.e. Net Debt (-) Cash (+)]	-10.0	-27.3	-18.0	5.8

Source: Innovatec, Value Track Analysis

Valuation

INC management has so far provided **brilliant business updates**, finalized selective **M&A** consistent with strategy and earning enhancing, seem **fully on track to achieve the business plan targets** (and potentially beat them, with a Business Plan update due by year-end) and we have carried a mild **P&L forecast upgrade**.

Yet, we adjust our fair equity value to **€2.6 per share** (from €2.9), mainly due to **exogenous factors** out of management control, being:

- 1. Adverse macroeconomic drivers**, pointing at rising interest rates, equity risk premium and beta, all contributing to much burdening discount rates. We calculate Innovatec WACC to have increased by 90 bps, from 7.5% to 8.4%;
- 2. Lower Peers' multiples**, also a consequence of the higher equity risk premium / recent bearish market trends. INC peers' EV/EBITDA (main multiple of reference for our valuation) decreased from 7.4x to 7.2x 2022E and from 6.2x to 5.8x 2023E;
- 3. Uncertainty on the cash-in of Superbonus 110% tax credits**, temporarily burdening INC working capital, hence affecting the Group Net Debt. On this issue, recent parliament decisions should help normalizing the fiscal credit cash-in process, however we should wait for the new Government (post September 25th election) to be in place to better understand the medium-term outlook for these fiscal instruments.

While for **1.** and **2.** we do not expect significant changes in the short-term, **3.** could be **positively sorted out in the coming months**, benefitting INC financials and valuation. Also, the Group may **potentially upgrade its 2024E targets**, as the first Strategic Plan revision is due by end of year.

According to our forecasts and on a shorter-term horizon, our fair equity value of €2.6 comes from:

- ◆ **DFC model**, with 8.4% WACC and 7.2x TV/EBITDA exit multiple, returning a **€2.8** fair equity value per share (from €3.1, heavily impacted by the rise in the cost of equity);
- ◆ **Peers' analysis**, returning a **€2.4** value p/s (vs. €2.6, due to recent market de-rating).

At fair value INC stock would trade at **1.0x-0.9x EV/Sales and 7.4x-6.6x EV/EBITDA over FY2022E-FY2023E**.

Finally, we note that if our new fair value still implies a 40% upside vs. current share price, we also reiterate that INC shares may perform well beyond this in the medium-term. Our rolling model hints to a €3.6 fair value per share (from €3.9), a surge of over 2.0x from current mkt price in the next two years, due to additional growth opportunities not factored in our estimates (landfills expansion, further M&A, direct financing from EU Green Deal and/or PNRR).

Innovatec: Sensitivity of implicit stock trading multiples between €1.6 and €3.4 share price

Share price	EV / Sales (x)		EV / EBITDA (x)		EV / EBIT (x)		P / E Adj. (x)	
	2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E
€ 1.7	0.8	0.7	5.4	4.7	10.1	7.8	10.9	8.7
€ 2.0	0.9	0.7	6.1	5.4	11.4	8.8	12.8	10.2
€ 2.3	0.9	0.8	6.7	6.0	12.7	9.8	14.7	11.8
€ 2.6	1.0	0.9	7.4	6.6	14.0	10.8	16.6	13.3
€ 2.9	1.1	1.0	8.1	7.3	15.3	11.9	18.5	14.8
€ 3.2	1.2	1.1	8.8	7.9	16.6	12.9	20.5	16.4
€ 3.5	1.3	1.2	9.5	8.5	17.9	13.9	22.4	17.9

Source: Value Track Analysis

Discounted Cash Flow Model

Our model returns a **€2.8 fair equity value per share** and derives WACC from the Capital Asset Pricing Model approach, relying on the following assumptions:

- ◆ 2.0% risk free rate in line with medium / long term target inflation;
- ◆ 0.75 unlevered Beta (up from 0.70 of last update) and 7.8% Equity Risk premium (up from 6.4%; Damodaran online web site);
- ◆ 1.0% small/mid cap additional risk premium (unchanged);
- ◆ 3.0% after-tax cost of debt implicitly calculated taking into account the above-mentioned 2.0% risk free rate, a 2.0% credit spread and 24% corporate tax rate;
- ◆ 30% target capital structure (Net Debt/Total Capital Employed), given INC potential reinvestments of the strong cash generation expected over the next few years.

Hence, we calculate an 8.4% WACC, up from 7.5% with respect to our last valuation update.

For the terminal value, we apply an exit 7.2x TV/EBITDA multiple to INC EBITDA 2030E (down from 7.4x), in line with peers' average for FY22E.

In addition, it is worth to mention that our model includes additional liabilities for €35.3mn, linked to the cost of minorities (namely *Vescovo Romano*, *Cobat and SEA*), the costs for the closure/post closure of the landfill business (in line with allocations in the balance sheet) and adjusted for new peripheral assets for €10.5mn (including €6.4mn *ESI*, €0.5mn *Frisbi*).

Innovatec: DCF model outcome

	€mn
PV of future cash flows FY23E-FY30E	140.9
PV of Terminal Value @ 7.2x TV/EBITDA FY30E	187.1
Fair Enterprise Value	327.9
Net Financial Position FY22E	-27.3
Less minorities and other liabilities, plus peripheral assets	-35.3
Fair Equity Value	265.3
NOSH (mn)	96.4
Fair Equity Value per share (€)	2.8

Source: Value Track Analysis

Innovatec: DCF model sensitivity to WACC (%) and TV/EBITDA exit multiple (x)

Equity Value p/s (€)		TV / EBITDA				
		6.4x	6.8x	7.2x	7.6x	8.0x
WACC	7.4%	2.7	2.8	3.0	3.1	3.2
	7.9%	2.6	2.7	2.9	3.0	3.1
	8.4%	2.5	2.6	2.8	2.9	3.0
	8.9%	2.4	2.5	2.7	2.8	2.9
	9.4%	2.4	2.5	2.6	2.7	2.8

Source: Value Track Analysis

Peers' analysis

Peers' analysis gives a **€2.4 fair equity value per share**, based on EV/EBITDA fair multiples of 7.2x-5.8x for FY2022E-FY23E, i.e. in line with current trading ratings of Italian and international comparables, now discounting more bearish macroeconomic settings.

Innovatec: Peers' stock trading multiples

Peers Cluster	Market Cap (€mn)	EV / Sales (x)		EV / EBITDA (x)		EV / OpFCF (x)		P / E Adj. (x)	
		2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E
Energy Efficiency - Average	683.6	1.4	1.1	7.2	5.6	6.7	6.8	14.8	10.6
Energy Efficiency - Median	96.7	1.1	0.8	7.1	6.2	8.1	6.9	16.1	11.6
Discount (-) / Premium vs. Total Average	13%	-2%	-7%	0%	-4%	-37%	-28%	0%	-11%
Environmental Services - Average	499.2	1.4	1.3	7.2	6.1	16.2	13.1	14.8	13.8
Environmental Services - Median	372.3	1.2	1.1	6.6	5.8	14.7	12.4	13.9	13.0
Discount (-) / Premium vs. Total Average	-18%	3%	10%	0%	5%	51%	39%	0%	16%
Total Average	605.9	1.4	1.2	7.2	5.8	10.7	9.4	14.8	11.9
Total Median	135.7	1.2	0.8	7.1	6.1	10.0	9.3	15.4	11.8
Innovatec @ current mkt price	178.4	0.8	0.7	5.7	5.1	9.5	11.1	11.8	9.5

Source: Market Consensus (Stock prices as of 13-09-2022, INC as of 16-09-2022), Value Track Analysis * OpFCF computed as (EBITDA-Capex)

According to the model above we value the stock at 7.2x-5.8x EV/EBITDA for FY22E-23E, in line with peers' total average, and get to a fair equity value per share of €2.4. Same as in our DCF model, for the EV estimate we considered some additional liabilities, which are linked to the cost of minorities, the costs for the closure/post closure of the landfill business as well as the Group peripheral assets.

Innovatec: Valuation at fair multiples (EV/EBITDA)

€ mn	2022E	2023E
Fair Multiple EV/EBITDA(x)	7.2	5.8
Innovatec EBITDA	42.2	46.2
Fair Enterprise Value	305.7	270.0
Net Financial Position	-27.3	-18.0
Less minorities and other liabilities, plus peripheral assets	-35.3	-37.4
Fair Equity Value	243.1	214.6
NOSH (mn)	96.4	96.4
Fair Equity Value per share (€)	2.4	

Source: Value Track Analysis

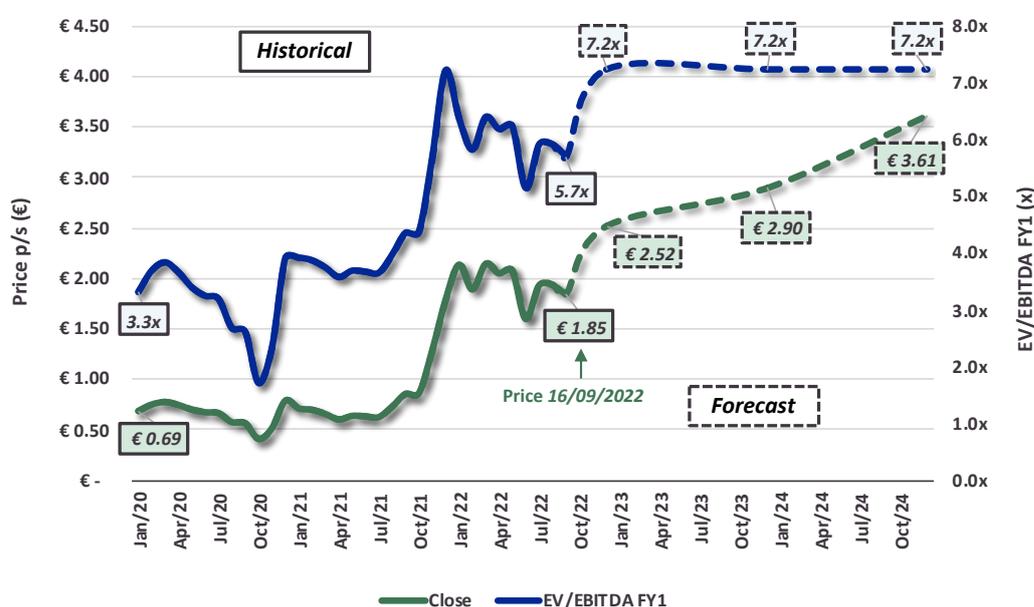
Updating our Rolling Valuation model

While our €2.6 fair value per share is a base-case scenario, we do not rule out substantial value accretion coming from additional growth opportunities not factored in our estimates, including (a) the **extension of Bedizzole landfill** residual life; (b) **direct financing from EU Green Deal and Italian PNRR**, on top the boost expected by Government funds to final demand in Energy Efficiency and Circular Economy; (c) free cash flow **reinvestment for additional M&A**.

In order to evaluate the medium-term impact of a seamless execution of the Business Plan 2022-24E and of Innovatec management ability to reap further opportunities, we run a **Rolling Valuation model**. It assumes the stock to maintain a valuation multiple of 7.2x EV/EBITDA, in line with peers' current FY2022E average, that would translate into a **€3.6 value per share in two years' time (September 2024E)**.

This implies ca. 2.0x two-year cash-on-cash return on current market price (€1.85 p/s as 16/09/22).

Innovatec: Rolling Valuation - Trend of share price and EV/EBITDA FY1



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.

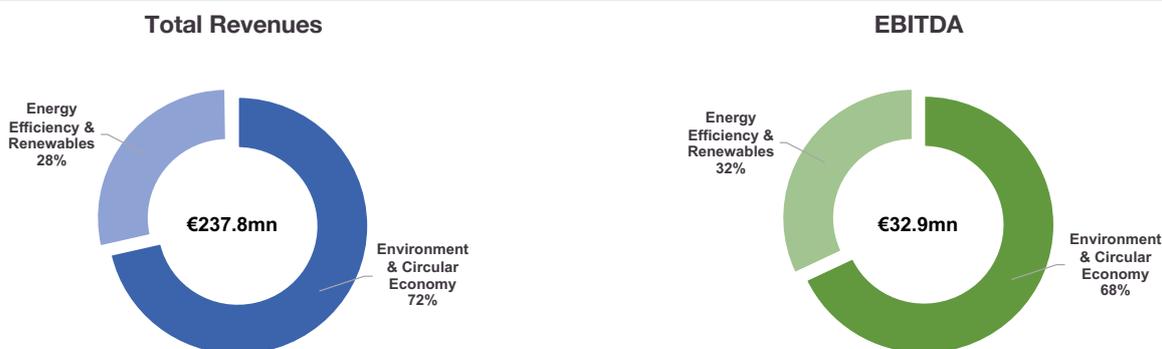
Innovatec is a key player in the CleanTech business in Italy with a focus on two major industries: Energy Efficiency and Environment & Circular Economy.

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.

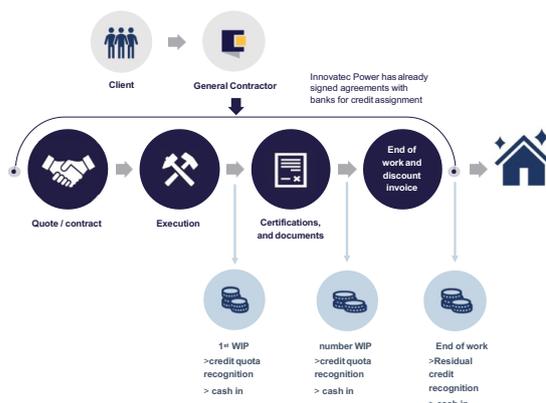
As of today, and broadly speaking the Super bonus runs until 31 December 2025, in the following sizes:

- ◆ 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.

Appendix - Peers' trading multiples

Innovatec: Peers' stock trading multiples

Peers Cluster	Market Cap (€mn)	EV / Sales (x)		EV / EBITDA (x)		EV / OpFCF* (x)		P / E Adj. (x)	
		2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E
Edilizia Acrobatica	120.7	0.9	0.8	4.6	4.0	5.1	4.4	8.3	7.4
Sciuker	135.7	1.1	0.7	3.7	2.4	5.4	2.6	7.7	5.8
Nusco	28.9	1.2	1.0	9.5	6.2	11.3	6.9	24.0	12.3
A.B.P. Nocivelli	115.7	1.2	0.8	5.5	4.8	6.5	5.9	12.1	11.6
Comal	39.1	0.9	0.7	9.5	6.6	15.6	9.7	18.2	11.8
Renergetica	54.0	4.3	3.6	9.8	8.5	10.0	8.6	16.4	14.1
ESI	15.7	0.6	0.5	6.0	4.4	8.1	5.5	12.0	9.5
Agatos	10.6	1.5	0.7	nm	3.9	-17.0	5.0	nm	3.7
Inspired	96.7	1.9	1.6	7.0	6.2	9.7	8.7	15.7	9.7
Arcadis	3,125.8	0.9	0.9	9.2	8.2	11.2	9.9	16.9	15.2
Spie	3,776.4	0.6	0.6	7.3	6.7	8.1	7.5	16.6	15.2
Energy Efficiency – Average	683.6	1.4	1.1	7.2	5.6	6.7	6.8	14.8	10.6
Energy Efficiency – Median	96.7	1.1	0.8	7.1	6.2	8.1	6.9	16.1	11.6
Mo-bruk	232.4	3.9	3.3	7.2	6.1	9.0	9.3	9.9	8.4
Renewi Plc	679.2	0.7	0.7	5.3	5.1	12.8	9.7	10.8	9.8
Biffa Plc	1,406.0	1.2	1.1	8.6	7.8	20.1	16.2	28.3	21.4
Seri Industrial	337.1	1.7	1.4	13.2	8.8	26.4	14.4	>50	21.1
Séché Environnement	656.3	1.3	1.1	6.0	5.4	15.0	12.9	15.4	13.9
Lassila & Tikanoja	407.4	0.7	0.7	6.0	5.6	14.3	11.9	13.9	12.2
Pizzorno Environnement	141.3	0.7	0.6	3.9	3.4	6.9	11.6	16.1	15.0
Greenthesis	133.7	1.5	1.3	7.3	6.7	24.9	18.7	9.6	8.4
Environmental Services – Average	499.2	1.4	1.3	7.2	6.1	16.2	13.1	14.8	13.8
Environmental Services – Median	372.3	1.2	1.1	6.6	5.8	14.7	12.4	13.9	13.0
Total Average	605.9	1.4	1.2	7.2	5.8	10.7	9.4	14.8	11.9
Total Median	135.7	1.2	0.8	7.1	6.1	10.0	9.3	15.4	11.8
Innovatec @ current mkt price	178.4	0.8	0.7	5.7	5.1	9.5	11.1	11.8	9.5

Source: Market Consensus (Stock prices as of 13-09-2022, INC as of 16-09-2022), Value Track Analysis * OpFCF computed as (EBITDA-Capex)

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