

Innovatec

Sector: Industrial Services

Delivery and re-rating just started

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.

FY21 pro-forma financials booming: Revenues +47% y/y

Final FY21 results are slightly above preliminary figures released in Feb 2022 and confirm Innovatec experienced a sound organic growth, with pro-forma Revenues (including both GreenUp and Cobat as of Jan 2020) rising by ca. 47% y/y to €237.8mn. In fact FY21 was driven also by the Energy Efficiency business, up more than fourfold y/y and reaching €67.4mn (28% of the total). EBITDA was reported at €32.9mn (+83% y/y), EBITDA margin at 13.8% (+270bps y/y) and Net Profit at €6.2mn (+2.4x y/y). Net Debt was reported at €10mn vs. Net Cash of €10.7mn in FY20, following intense M&A activity (Cobat and CleanTech), capex plan execution and surging Net Working Capital due to the ramp-up of HouseVerde operations and tax credits related to "Ecobonus 110%".

News flow acknowledged, estimates confirmed

Since the publication of our latest research, Innovatec has announced:

- ◆ Innovatec Venture Srl and Cobat Tessile set up;
- ◆ Purchase of a further 19.5% stake in Cobat (to ca. 76%) and of a further 25% of SEA (total stake at 90% plus a put/call on residual 10%);
- ◆ BoD proposal for a buy back plan, up to 10% of INC share capital.

Following the update of our model to incorporate FY21 financials and the partial buy-out of minorities (at a price very much in line with our assumptions), we broadly confirm the estimates outlined in our IoC of March, with Revenues and EBITDA of ca. €385mn and €53mn in 2024E, respectively. Net Profit / EPS are expected to post a 50% CAGR_{21PF-24E}, while Net Financial Position should turn positive as of 2023E and build up to €29.4mn by 2024E (assuming no further M&A)

Fair Value per share at €2.90 (from €2.70)

According to our forecasts and on a short-term horizon, we calculate a fair equity value of €2.90 (from €2.70) by averaging a DCF model returning a fair value of €3.1 p/s and peers' multiples analysis returning a €2.6 value p/s (compared to €2.3 of our last report, due to recent market rebound after initial reaction to the Ukraine invasion). However, 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.



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Fair Value (€) 2.90
Market Price (€) 2.19
Market Cap. (€m) 209.0

KEY FINANCIALS (€mn)	2021PF	2022E	2023E
GROUP 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	-9.0	2.8
EPS (€)	0.09	0.15	0.20
DPS (€)	0.00	0.00	0.00

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

KEY RATIOS	2021PF	2022E	2023E
EBITDA MARGIN (%)	13.8	15.0	14.1
EBIT MARGIN (%)	4.5	7.3	8.3
NET DEBT / EBITDA (x)	0.3	0.2	nm
NET DEBT / EQUITY (x)	0.3	0.2	nm
EV/SALES (x)	1.1	1.0	0.8
EV/EBITDA (x)	8.2	6.5	5.6
EV/EBIT (x)	25.0	13.3	9.4
P/E (x)	33.6	18.9	13.2

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

STOCK DATA

FAIR VALUE (€)	2.90
MARKET PRICE (€)	2.19
SHS. OUT. (m)	95.4
MARKET CAP. (€m)	209.0
FREE FLOAT (%)	55.0
AVG. -20D VOL. (#)	1,738,607
RIC / BBG	INC.IM / INC.IM
52 WK RANGE (€)	0.59 -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%	43.1%	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	-9.0	2.8	29.4
Net Fin. Pos. / EBITDA (x)	0.3	0.2	nm	nm
Capex	-7.3	-20.8	-17.6	-11.0
OpFCF b.t.	10.3	13.8	21.4	37.9
OpFCF b.t. as % of EBITDA	31.4%	33.2%	46.4%	71.6%

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

Investment case

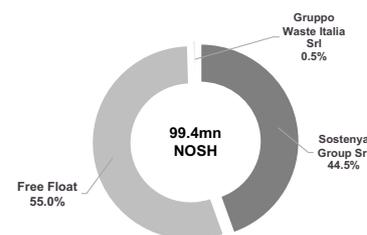
Strengths / Opportunities

- ◆ 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

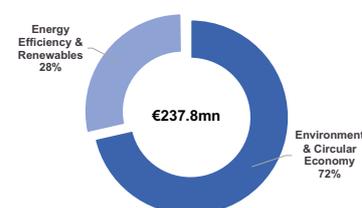
- ◆ The national energy efficiency market is highly dependent upon national and European incentives;
- ◆ Execution risk of the Business Plan and M&A discipline.

Shareholders Structure



Source: Innovatec

Sales breakdown by BU (2021PF)



Source: Innovatec

EBITDA breakdown by BU (2021PF)



Source: Innovatec

Stock multiples @ €2.90 Fair Value p/s

	2022E	2023E
EV / SALES (x)	1.2	1.0
EV / EBITDA (x)	8.0	6.9
EV / EBIT (x)	16.4	11.7
EV / Cap. Empl. (x)	5.9	5.1
OpFCF Yield (%)	4.2	6.7
P / E (x)	24.4	17.1
P / BV (x)	6.8	4.9
Div. Yield. (%)	0.0	0.0

Source: Value Track

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.

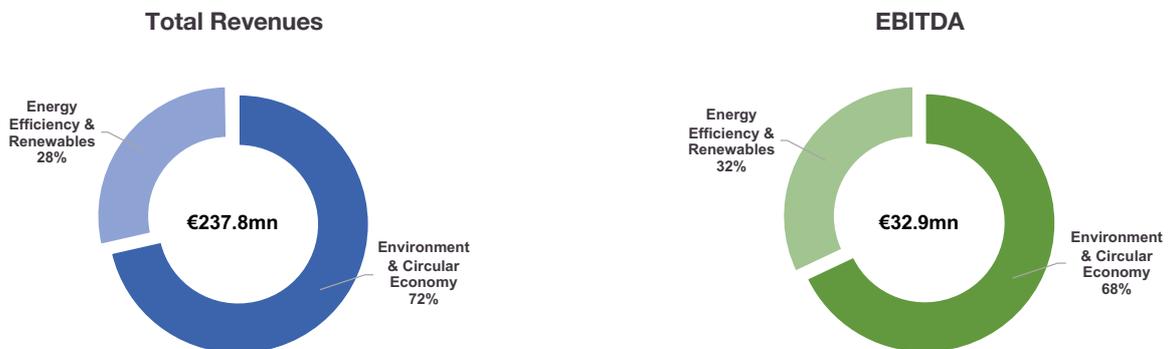
Innovatec is a key player in the CleanTech business in Italy with a focus on two major industries: Energy Efficiency and Environment & Circular Economy.

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, fuelled 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.

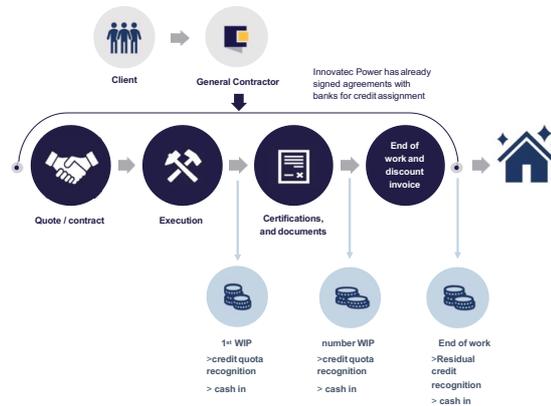
As of today and broadly speaking the Super bonus runs until 31 December 2025, in the following sizes:

- ◆ 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.

FY2021 results

During FY21 Innovatec experienced sound financial growth, confirming the validity of its innovative business model focused on environmental sustainability, circular economy, energy efficiency and accelerated by well-targeted acquisitions, also benefitting from a favourable reference market cycle.

Why and how results are pro-forma

As described in our IoC report, Innovatec has undergone a few transactions over 2020-2021, which significantly impacted its consolidation perimeter:

1. Acquisition of the Environmental Business (**GreenUp**) in two steps (December 2020 and July 2021) from its major shareholder Sostenya Group Srl;
2. Disposal of Sostenya Green to Sostenya Group Srl (asset swap as part of the former deal) as of January 2021;
3. Acquisition of **Cobat** at the end of 2021.

The reported 2020 and 2021 financials would consequently not mirror the current structure and size of the “New Innovatec” and hence the Company provides the FY21 P&L on a pro-forma basis (for Cobat), compared to FY20, which is also pro-forma (for Green-up). In more details the results released do assume a) the Environmental Services fully consolidated (and Sostenya Green deconsolidated) in the Group P&L as of 1.1.2020; b) Cobat consolidated as of 1.1.2021. As for the Balance Sheet, the consolidated FY20 figures factor the acquisition of the majority stake of CleanTech-GreenUp, while FY21 factors the full control of GreenUp and the Cobat deal.

Value Track pro-forma P&L are slightly different for FY20, as our model assumes also Cobat acquisition as of 1.1.2020 in order to provide a picture of the organic performance of the different businesses. The table below reports pro-forma 2020-2021 financials, which include from 1.1.2020 all the businesses consolidated at the end of FY2021 and reports as a reference also the preliminary results released back in February, when the 2022E-24E Business Plan was released.

As underlined in the table, the final set of FY21 results are slightly above the preliminary ones apart for net debt, partly due to the higher turnover but mostly due to a stricter definition of financial credits among factored credits.

In terms of operations, the main outcomes for FY21 are the following

- ◆ **Total Revenues (VoP) pro-forma at €237.8mn** vs. €161.6mn in FY20 (+47% y/y);
- ◆ **EBITDA at €32.9mn** vs. €17.9mn in FY20 (+83% y/y);
- ◆ **EBITDA Margin at 13.8%** vs. 11.1%, gaining 273bps y/y;
- ◆ **Net Profit at €6.2mn**, i.e. 2.4x more than FY20 €2.6mn;
- ◆ **Net Debt at €10.0mn** vs. Net Cash at €10.7mn as of 2020 year-end.

Innovatec: FY20-FY21 Key Financials Pro-Forma

€ mn	FY20PF Actual	FY21PF Preliminary	FY21PF Actual	Δ y/y (%)
Total Revenues / Value of Production	161.6	222.4	237.8	47%
EBITDA	17.9	30.4	32.9	83%
<i>EBITDA Margin (%)</i>	<i>11.1%</i>	<i>13.7%</i>	<i>13.8%</i>	<i>273bps</i>
EBIT	7.8	9.6	10.7	37%
Net Profit	2.6	5.1	6.2	141%
Net Financial Position [Net Debt (-), Net Cash (+)]	10.7	-3.5	-10.0	n.m.

Source: Innovatec, Value Track Analysis. These figures include the Green-Up business and Cobat as of 01.01.2020

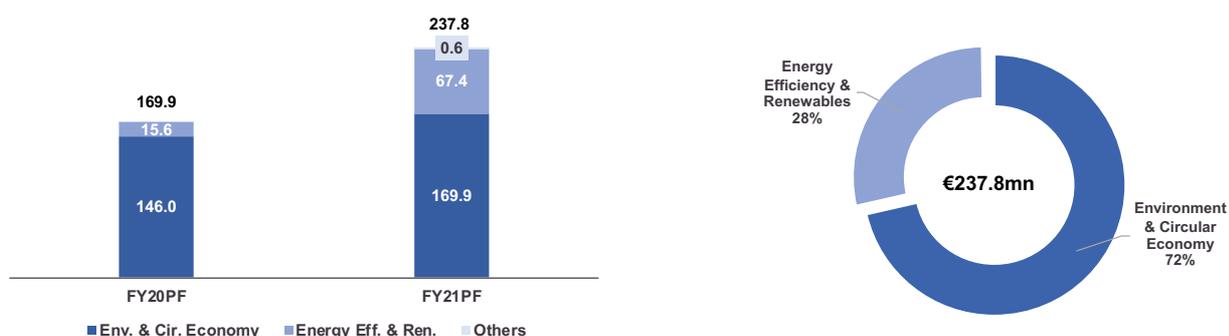
Profit & Loss

Total Revenues pro-forma rose by ca. 47% y/y to €237.8mn, driven by:

- ◆ **Environment and Circular Economy** consolidating FY20PF results and reaching ca. **€170mn** in FY21PF (+16% y/y), with Cobat (focused on Circular Economy) contributing for ca. €93mn (+22% y/y) and managing over 150k tons of waste (+7%). Sales growth in this business unit is the combined result of (i) growing average prices per order and (ii) the acquisition of key new commercial customers, hence raising volumes sold. Worth to notice, all the Environmental Services sub-business units (“collection and waste treatment”, Vescovo Romano, “end of waste”, “biogas”) recorded positive revenues and / or volumes increases vs. FY20;
- ◆ **Energy Efficiency** booming more than fourfold from FY20 €15.6mn to FY21 **€67.4mn**, as a consequence of the HouseVerde project (“*Ecobonus 110%*” buildings requalification works) exceeding volumes expectations (over 900 locations). The strong backlog acquired during the year coupled with the Group solid commercial power, partnerships’ network and larger dedicated staff (+33 FTEs) leave wide room for further expansion over the next periods.

Given Energy Efficiency higher growth rate, it now contributes to ca. 28% of Total Revenues while Environment & Circular Economy lost ca. 19 percentage points y/y, now weighting close to 71%.

Innovatec: FY20PF-FY21PF Total Revenues (€mn) evolution and FY21PF contribution by business unit



Source: Innovatec, Value Track Analysis

Innovatec: FY20-FY21 Total Revenues Pro-Forma by Business Unit

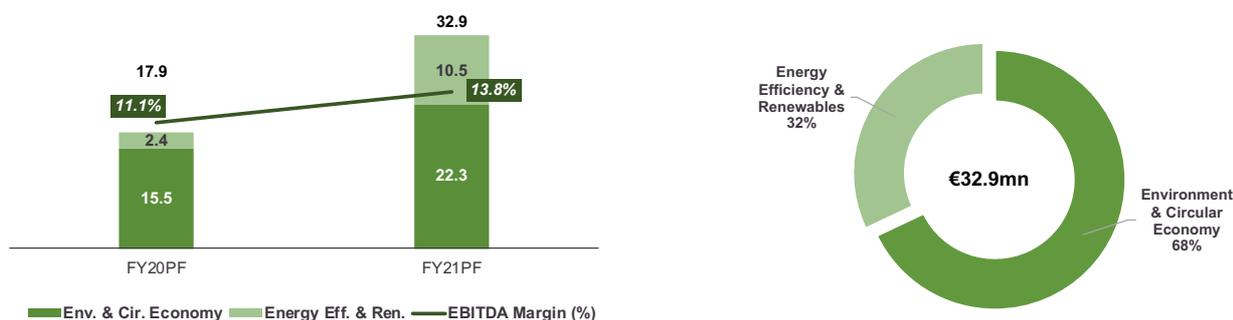
€mn	FY20PF	FY21PF	Δ y/y (%)
Total Revenues	161.6	237.8	47%
o/w Environment & Circular Economy	146.0	169.9	16%
As a % of Total Revenues (%)	90%	71%	-1891bps
o/w Environment	69.5	76.7	10%
o/w Circular Economy (Cobat)	76.5	93.1	22%
o/w Energy Efficiency & Renewables	15.6	67.4	332%
As a % of Total Revenues (%)	10%	28%	1868bps
o/w Others	0.0	0.6	n.m.
As a % of Total Revenues (%)	0%	0%	23bps

Source: Innovatec, Value Track Analysis

At **EBITDA** level, the Group reported **€32.9mn in FY21** vs €17.9mn in FY20 (+83% y/y), with **EBITDA margin gaining ca. 270bps y/y from 11.1% to 13.8%**. Looking at the breakdown by business unit, we mention:

- ◆ **Environment & Circular Economy** contributing for **€22.3mn** to total EBITDA (68%), with Cobat recording €2.3mn. Volumes and average prices increase, together with better cost management and synergies with the recently acquired Vescovo Romano drove margins expansion. Still, Cobat profitability (2.4% steady y/y) is far from its potential, suggesting additional growth is expected in the future;
- ◆ **Energy Efficiency** reporting FY21 EBITDA close to **€10.5mn** (+8.1mn y/y) following *HouseVerde* project outstanding development. EBITDA margin remained almost stable y/y at 15%-16%.

Innovatec: FY20PF-FY21PF EBITDA (€mn) evolution and FY21PF contribution by business unit



Source: Innovatec, Value Track Analysis

Innovatec: FY20-FY21 EBITDA by Business Unit

€mn	FY20PF	FY21PF	Δ y/y (%)
EBITDA	17.9	32.9	83%
EBITDA Margin (%)	11.1%	13.8%	273bps
o/w Environment & Circular Economy	15.5	22.3	44%
As a % of Total EBITDA (%)	87%	68%	-1863bps
EBITDA Margin (%)	11%	13%	252bps
o/w Environment	13.7	20.1	47%
o/w Circular Economy (Cobat)	1.8	2.3	23%
o/w Energy Efficiency & Renewables	2.4	10.5	338%
As a % of Total EBITDA (%)	13%	32%	1863bps
EBITDA Margin (%)	15%	16%	20bps

Source: Innovatec, Value Track Analysis

Group **EBIT** is at **€10.7mn** as of FY2021 (+37% y/y), increasing less than proportionally vs. Revenues, as FY20 operating result benefitted from temporary suspension of D&A (due to the pandemic), partially recovered during FY21. Still, EBIT Margin is solid and at 4.5%.

After Net Financial Income (€0.5mn), Taxes (-€4.4mn) and Minorities (-€0.6mn), **Net Profit pro-forma is reported at €6.2mn** vs. €2.6mn in FY20(+2.4x y/y).

Balance Sheet and Cash Flow Statement

Balance Sheet is not reported on a pro-forma basis and hence FY20 figures include the environmental business (CleanTech / GreenUp was acquired in Dec 2020), while FY21 figures consolidate also Cobat (acquired in Dec 2021) and factor the impact of the purchase of CleanTech/GreenUp minorities (occurred in July 2021). As for key assets and liabilities, we believe important to highlight:

- ◆ **Net Working Capital** surging to €6.4mn vs. -€11.2mn in FY20, mostly due to the terrific ramp-up of *HouseVerde* operations and therefore of tax credits related to “*Ecobonus 110%*”. Still, NWC is just at ca. 3% of Total Revenues, confirming the great operational efficiency of INC business model;
- ◆ **Net Fixed Assets** growing to €77.5mn following intensive M&A activity (Cobat deal and CleanTech minorities purchase) and FY21 Capex plan including investments in treatment plants and landfills;
- ◆ **Group Net Equity** exceeding €25mn following the huge increase of Net Profit and €1.8mn Capital Injection (related to warrant conversion).

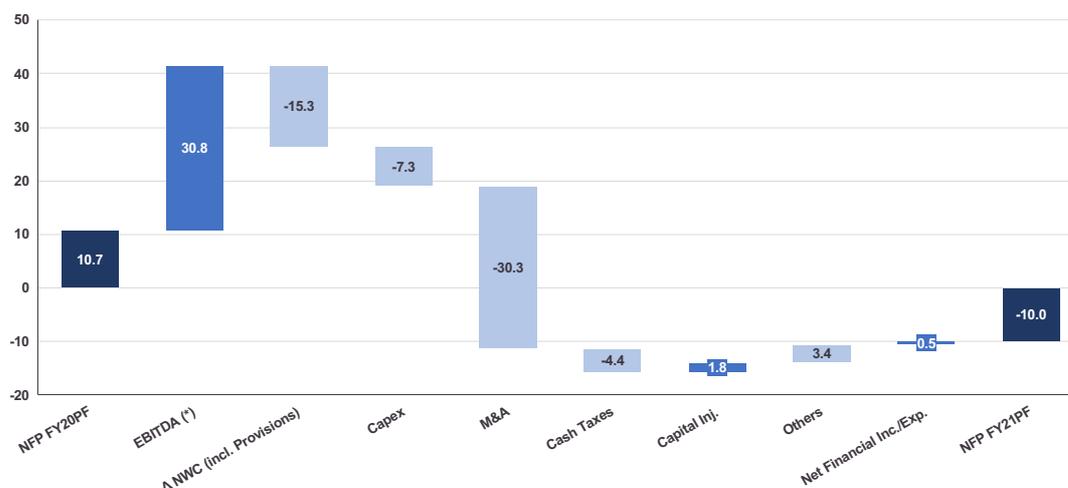
As a consequence, FY21 Net Financial Position is negative (**Net Debt**) at **€10.0mn** from Net Cash of €10.7mn in FY20, mostly due to the impact of M&A that we estimate at ca €30mn excluding Cobat factoring (see bridge below).

Innovatec: FY20-FY21 Balance Sheet

(€mn)	FY20	FY21
Net Working Capital	-11.2	6.4
<i>As a % of Total Revenues</i>	-7%	3%
Net Fixed Assets	60.5	77.5
Provisions	40.8	43.2
Total Capital Employed	8.4	40.7
Group Net Equity	19.1	30.7
Net Fin. Position [i.e. Net Debt (-) Cash (+)]	10.7	-10.0

Source: Innovatec,. Value Track Analysis

Innovatec FY21Cash Flow Statement



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

What's ahead?

We have updated our model in order to incorporate the FY2021 results (a touch above the preliminary figures release in February) and the partial buy-out of minorities announced recently and described here below, where we highlight all the recent newsflow.

Recent events

Since the publication of our latest research, Innovatec has announced:

- ◆ **Innovatec Venture S.r.l.** ("Innovatec Venture") was formally set up, as a vehicle to promote sustainable innovation both outside and inside the Group, by creating a growing network of partners sharing the same values. Innovatec Venture aspires to create a factory in which innovative start-ups can thrive and evolve on an industrial scale. To achieve this, Innovatec Venture's role will not only be that of an investor but also that of a true industrial partner, providing the selected start-ups with its cleantech know-how, its waste treatment facilities, and its commercial footprint on the market, with the aim of accelerating their industrial scale-up. Innovatec Venture should be a vehicle to execute in part the M&A growth strategy indicated in the Group Business Plan and has a potential for investing directly up to €4mn.

As part of its efforts to create a network of partners promoting sustainable innovation, Innovatec Venture announces the signing of a strategic collaboration agreement with **Forest Valley Institute S.r.l.** a non-profit company aiming to combat climate change by promoting Climate Innovation.

- ◆ The purchase of a further 19.51% of the share capital of **COBAT S.p.A.**, a key player in Italy in the management of flows and the recovery of materials such as WEEE and Batteries, acquired at the end of 2021. The amount agreed is €2.3mn, paid in cash, and the stake in Cobat goes to 75.96%.

In addition, Haiki+, the sub-holding dedicated to the business of the environment and circular economy, has acquired a further 24.996% stake in the share capital of **S.E.A. S.p.A.** "Servizi Ecologici Ambientali" ("SEA"), the company active in the collection, recovery and treatment of waste from electrical and electronic equipment "WEEE", whose majority stake had been purchased in January 2022. Following this purchase (for an amount of €0.9mn to be paid over five years), Innovatec owns a 90% stake in S.E.A. plus a put/call on residual 10%.

The consolidation of the shareholdings in COBAT and SEA is strategic for the Group and is part of its strategy of seeking organic and external growth, while also favouring the simplification in the operational management and generating an immediate increase in the value of the Group.

In terms of forecasts these agreements will cause an increase of 2022E net debt of ca. €3.2mn, while in terms of multiples and value they have no material impact, as deals are very much in line with our assumptions in terms of value of minorities (as well as in terms of "cost of minorities" in our valuation models). On the other hand, in terms of P/E and EFCF yield these events are value enhancing, as we estimate the cost of these minorities to imply 2022E P/E of ca 6x and 11x respectively.

- ◆ That the Board of Directors resolved to propose to the next Shareholders' Meeting to **buy back Innovatec shares**, in one or more instalments, also through subsidiaries, up to 10% of the Company's share capital, within the limits established by law and in compliance with the applicable regulations on Euronext Growth Italia.
- ◆ Cobat S.p.A has set up **Cobat Tessile**, a voluntary consortium for the collection, treatment and recovery of textile products that have reached the end of their useful life. Cobat Tessile includes textile manufacturers, associations of small, medium and large industries and a recycling company (Tintess Spa).

2022E-24E estimates broadly confirmed

We broadly confirm our 2022E-24E estimates, reported in the table below.

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

€mn	2021PF	2022E	2023E	2024E	2021PF-24E CAGR (%)
Total Revenues	237.8	276.2	326.8	384.7	17.4%
o/w Energy Efficiency	67.4	96.0	132.0	173.0	36.9%
o/w Environmental Services	169.9	180.2	194.8	211.7	7.6%
EBITDA	32.9	41.5	46.2	52.9	17.2%
EBITDA Margin (%)	13.8%	15.0%	14.1%	13.8%	-8bps
o/w Energy Efficiency	10.5	16.5	19.7	23.4	30.3%
EBITDA Margin (%)	15.6%	17.2%	15.0%	13.5%	-215bps
o/w Environmental Services	22.3	25.0	26.5	29.6	9.8%
EBITDA Margin (%)	13.2%	13.9%	13.6%	14.0%	82bps

Source: Innovatec, Value Track Analysis

Innovatec: 2021PF-24E P&L

€mn	2021PF	2022E	2023E	2024E	2021PF-24E CAGR (%)
Total Revenues	237.8	276.2	326.8	384.7	17.4%
EBITDA	32.9	41.5	46.2	52.9	17.2%
EBITDA margin (%)	13.8%	15.0%	14.1%	13.8%	-8bps
Depreciation & Amortization & Allocations	-22.2	-21.3	-19.0	-19.4	
EBIT	10.7	20.2	27.2	33.6	46.2%
EBIT margin (%)	4.5%	7.3%	8.3%	8.7%	421bps
Net Fin. Income (Charges)	0.5	-1.2	-1.0	-0.7	
Non-Operating Items	0.0	0.0	0.0	0.0	
Pre-tax Profit	11.2	19.0	26.2	32.9	43.0%
Taxes	-4.4	-6.5	-8.6	-10.6	
Tax rate (%)	-39.4%	-34.1%	-33.0%	-32.4%	
Group Net Profit	6.8	12.5	17.5	22.2	48.3%
Group Net Profit margin (%)	2.9%	4.5%	5.4%	5.8%	291bps
Minorities	-0.6	-1.2	-1.3	-1.5	
Net Profit	6.2	11.3	16.2	20.7	49.2%
Net Profit margin (%)	2.6%	4.1%	5.0%	5.4%	276bps

Source: Innovatec, Value Track Analysis

Innovatec: 2021PF-24E Cash Flow Statement

€mn	2021PF	2022E	2023E	2024E
EBITDA	30.8(*)	41.5	46.2	52.9
NWC requirements	-17.6	2.3	-2.4	-3.1
Capex	-7.3	-20.8	-17.6	-11.0
Change in provisions	2.4	-4.8	-0.3	3.8
OpFCF b.t.	8.3	18.2	25.9	42.6
<i>As a % of EBITDA</i>	<i>26.8%</i>	<i>43.7%</i>	<i>56.1%</i>	<i>80.5%</i>
Cash Taxes	-4.4	-6.5	-8.6	-10.6
OpFCF a.t.	3.8	11.7	17.3	32.0
Capital Injections	1.8	4.0	0.0	0.0
Other Op. Items / M&A	-26.9	-13.4	-4.5	-4.7
Net Financial Charges	0.5	-1.2	-1.0	-0.7
Dividends Paid	0.0	0.0	0.0	0.0
Change in Net Fin. Position	-20.7	1.1	11.8	26.5

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

Innovatec: 2021PF-24E Balance Sheet

€mn	2021PF	2022E	2023E	2024E
Net Working Capital	6.4	4.1	6.5	9.6
<i>As a % of Total Revenues</i>	<i>2.7%</i>	<i>1.5%</i>	<i>2.0%</i>	<i>2.5%</i>
Net Fixed Assets	77.5	90.8	93.9	90.3
Provisions	43.2	38.3	38.1	41.9
Total Capital Employed	40.7	56.6	62.3	58.0
<i>As a % of Total Revenues</i>	<i>17.1%</i>	<i>20.5%</i>	<i>19.1%</i>	<i>15.1%</i>
Shareholders' Equity	25.4	40.7	56.9	77.6
Minorities' Equity	5.3	6.9	8.2	9.7
Group Net Equity	30.7	47.6	65.1	87.4
Net Fin. Position [i.e. Net Debt (-) Cash (+)]	-10.0	-9.0	2.8	29.4

Source: Innovatec, Value Track Analysis

Valuation

Following the earnings revision and the update in our valuation model (mainly the peers' multiple analysis) we update our fair value to **€2.90 equity value per share** (from €2.70), **but also reiterate that INC shares may perform well beyond our forecasts and fair value in the medium-term.**

According to our medium-term valuation model in fact, the share value may post a surge of over 1.7x in the next two years (from current mkt price), due to additional growth opportunities not factored in our estimates at this stage (expansion of landfills, further M&A, access to direct financing from EU Green Deal and/or PNRR).

According to our forecasts and on a shorter-term horizon, we calculate a fair equity value of €2.90, by averaging

- ◆ **DFC model**, with rolling WACC and 7.4x TV/EBITDA exit multiple, returning a **€3.1** fair equity value per share (broadly unchanged vs our IoC report);
- ◆ **Peers' analysis**, considering both energy efficiency and waste management Italian and international players, returning a **€2.6** value p/s (compared to €2.3 of our last report, due to recent market rebound after initial reaction to the Ukraine invasion).

At fair value INC stock would trade at **1.2x-1.0x EV/Sales and 8.0x-6.9x EV/EBITDA over FY2022E-FY2023E.**

Innovatec: Sensitivity of implicit stock trading multiples between €2.0 and €3.8 share price

Equity Value p/s	EV / Sales (x)		EV / EBITDA (x)		EV / EBIT (x)		P / E (x)	
	2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E
€ 2.0	0.9	0.7	5.9	5.0	12.1	8.6	16.8	11.8
€ 2.3	1.0	0.8	6.6	5.7	13.6	9.6	19.4	13.5
€ 2.6	1.1	0.9	7.3	6.3	15.0	10.7	21.9	15.3
€ 2.9	1.2	1.0	8.0	6.9	16.4	11.7	24.4	17.1
€ 3.2	1.3	1.1	8.7	7.5	17.8	12.8	26.9	18.8
€ 3.5	1.4	1.2	9.4	8.1	19.2	13.8	29.5	20.6
€ 3.8	1.5	1.2	10.0	8.8	20.6	14.9	32.0	22.4

Source: Value Track Analysis

Discounted Cash Flow Model

Our model returns a **€3.1 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;
- ◆ 0.7 unlevered Beta (weighted average between INC two business lines) and 6.4% Equity Risk premium (Damodaran online web site);
- ◆ 1.0% small/mid cap additional risk premium;
- ◆ 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;

Hence, we calculate a 7.5% WACC, equal to INC cost of equity, as our free-cash flows calculation starts from 2023E, when the Group Net Financial Position is expected to turn positive.

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

In addition, it is worth to mention that our model includes additional liabilities for €45.8mn, linked to the cost of minorities (namely Vescovo Romano, Cobat and SEA) and the costs for the closure/post closure of the landfill business (in line with allocations in the balance sheet).

Innovatec: DCF model outcome

	€mn
PV of future cash flows FY23E-FY30E	147.8
PV of Terminal Value @ 7.4x TV/EBITDA FY30E	205.0
Fair Enterprise Value	352.7
Net Financial Position FY22E	-9.0
Minorities and other liabilities	-45.8
Fair Equity Value	297.9
NOSH (mn)	95.4
Fair Equity Value per share (€)	3.1

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	6.5%	3.10	3.23	3.35	3.48	3.60
	7.0%	2.99	3.11	3.23	3.35	3.47
	7.5%	2.89	3.01	3.12	3.24	3.35
	8.0%	2.79	2.90	3.01	3.13	3.24
	8.5%	2.69	2.80	2.91	3.02	3.12

Source: Value Track Analysis

Peers' analysis

Peers' analysis gives a **€2.6 fair equity value per share**, based on EV/EBITDA fair multiples of 7.4x-6.2x for FY2022E-FY23E, i.e. in line with current trading ratings of Italian and international comparables, fully recovered after the market correction post Russian invasion of Ukraine.

Choice of comparables

As indicated in our previous report, Innovatec operates in a very fragmented market, where leading players boast different geographical exposure, size and value chain coverage, and where most of peers do not share a fully aligned business model to INC end-to-end offer in the cleantech industry, for both industrial and retail clients and ranging from energy efficiency to environmental protection / circular economy.

We stick to EV/EBITDA as our preferred multiple and to the selection of two pools of comparables, both international and domestic, see appendix for details, specialized in one or more of Innovatec activities but with a different mix of businesses and clustered between:

- ◆ **Energy Efficiency** ("EE") solutions providers, including:

- (i) Industrial engineering, procurement, construction (“EPC”) services suppliers, active in the development of energy savings projects and/or the installation of renewable energy plants (e.g. photovoltaic, biomethane);
- (ii) Italy-based companies specialized in design, provision and maintenance of sustainable and high-quality real estate assets (such as windows, frames and exterior walls) supported by the strong demand for buildings renovations related to Italian energy efficiency fiscal incentives;
- ◆ **Environmental Services** (“ES”) providers, focused on circular economy and environmental-friendly systems, engaged in industrial, organic, hazardous waste collection, sorting, treatment, disposal processes and, most importantly, reconversion into secondary raw materials.

Innovatec: Peers’ stock trading multiples

Peers Cluster	Market Cap (€mn)	EV / Sales (x)		EV / EBITDA (x)		EV / OpFCF (x)		P / E (x)	
		2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E
Energy Efficiency - Average	672.9	1.4	1.2	7.7	6.2	10.4	7.3	15.4	11.5
Energy Efficiency – Median	112.7	1.1	0.9	7.3	6.1	11.2	7.1	16.1	12.6
Discount (-) / Premium vs. Total Average	15%	-3%	-8%	4%	0%	-14%	-19%	-3%	-6%
Environmental Services - Average	459.2	1.5	1.4	7.0	6.2	14.3	11.4	16.5	13.2
Environmental Services - Median	385.0	1.1	1.0	6.4	5.6	12.9	11.5	13.9	12.3
Discount (-) / Premium vs. Total Average	-21%	5%	10%	-6%	0%	19%	26%	4%	8%
Total Average	582.9	1.5	1.3	7.4	6.2	12.0	9.0	15.9	12.2
Total Median	158.3	1.1	1.0	6.8	6.1	12.0	8.0	15.0	12.6
Innovatec @ current mkt price	214.8	1.0	0.8	6.5	5.6	13.0	9.0	15.4	11.4

Source: Market Consensus (Stock prices as of 07-04-22), Value Track Analysis * OpFCF computed as (EBITDA-Capex)

According to model above we value the stock at 7.4x-6.2x EV/EBITDA for FY22E-23E, in line with peers’ total average, and get to a fair equity value per share of €2.6. Same as in our DCF model, for the EV estimate we considered some additional liabilities, which are linked to the cost of minorities and the costs for the closure/post closure of the landfill business (as reported in the Company’s accounts).

Innovatec: Valuation at fair multiples (EV/EBITDA)

€ mn	2022E	2023E
Fair Multiple EV/EBITDA(x)	7.4	6.2
Innovatec EBITDA	41.5	46.2
Fair Enterprise Value	308	287
Net Financial Position	-9.0	2.8
Minorities and other liabilities	-45.8	-44.8
Fair Equity Value	253.4	245.0
NOSH (mn)	95.4	95.4
Fair Equity Value per share (€)	2.61	

Source: Value Track Analysis

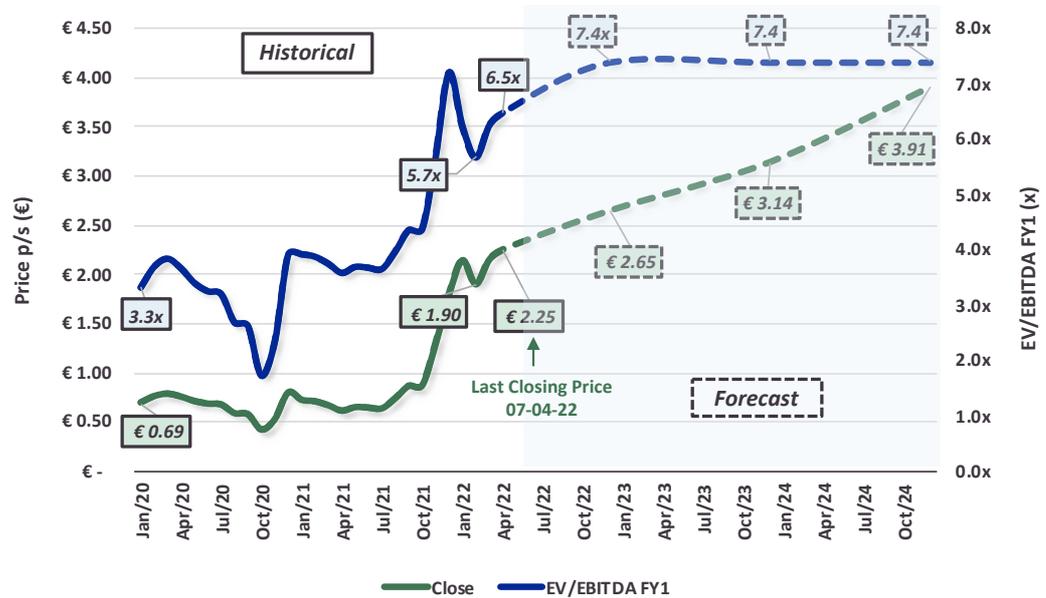
Updating our Rolling Valuation model

While our €2.9 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 7.4x EV/EBITDA, in line with peers' current FY2022E average, that would translate into a **€3.91 value per share in two years time (early 2024E)**.

This implies ca. 1.7x two-year cash-on-cash return on current market price (€2.25 p/s as of 07-04-22).

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



Source: Value Track Analysis

Appendix 1: Peers' trading multiples

Innovatec: Peers' stock trading multiples

Peers Cluster	Market Cap (€mn)	EV / Sales (x)		EV / EBITDA (x)		EV / OpFCF* (x)		P / E (x)	
		2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E
Edilizia Acrobatica	140.6	1.1	1.0	5.4	4.7	6.0	5.2	9.7	8.7
Sciuker	178.3	1.4	0.9	5.7	3.8	10.5	4.3	16.2	11.1
Nusco	31.1	1.2	1.0	10.1	6.7	12.0	7.4	25.9	13.2
A.B.P. Nocivelli	112.7	1.2	0.9	5.7	5.1	7.2	6.2	12.9	12.2
Comal	39.1	0.8	0.7	7.3	6.1	12.6	7.1	11.5	9.8
Renergetica	55.8	4.5	3.6	11.0	8.4	11.2	8.4	18.1	13.5
ESI	20.9	0.8	0.7	8.2	6.2	11.1	7.8	16.1	12.7
Agatos	10.8	0.5	0.4	5.5	3.9	12.0	4.8	6.2	3.8
Inspired	123.7	2.4	2.1	8.4	7.5	11.3	10.1	21.0	12.6
Arcadis	3,432.2	1.1	1.1	10.8	9.9	13.0	12.1	17.2	15.6
Spie	3,256.4	0.6	0.5	6.8	6.1	7.4	6.8	14.5	13.1
Energy Efficiency – Average	672.9	1.4	1.2	7.7	6.2	10.4	7.3	15.4	11.5
Energy Efficiency – Median	112.7	1.1	0.9	7.3	6.1	11.2	7.1	16.1	12.6
Mo-bruk	306.8	5.0	4.4	8.5	7.7	9.6	8.0	12.7	11.7
Renewi Plc	621.4	0.6	0.6	4.8	4.9	12.4	9.9	12.8	9.8
Biffa Plc	1,102.7	1.1	1.0	7.0	6.4	13.3	12.0	19.2	15.1
Seri Industrial	369.1	1.8	1.5	11.5	8.8	19.6	13.6	30.8	19.4
Séché Environnement	568.1	1.2	1.1	5.6	5.1	14.4	11.7	15.0	13.0
Lassila & Tikanoja	400.9	0.7	0.7	5.7	5.4	12.2	11.3	11.6	10.8
Pizzorno Environnement	158.3	0.9	0.8	6.7	5.5	10.3	6.5	19.5	16.3
Ambienthesis	146.2	1.1	1.1	6.1	5.7	22.2	18.3	10.4	9.7
Environmental Services – Average	459.2	1.5	1.4	7.0	6.2	14.3	11.4	16.5	13.2
Environmental Services – Median	385.0	1.1	1.0	6.4	5.6	12.9	11.5	13.9	12.3
Total Average	582.9	1.5	1.3	7.4	6.2	12.0	9.0	15.9	12.2
Total Median	158.3	1.1	1.0	6.8	6.1	12.0	8.0	15.0	12.6
Innovatec @ current mkt price	214.8	1.0	0.8	6.5	5.6	13.0	9.0	15.4	11.4

Source: Market Consensus (Stock prices as of 07-04-22), Value Track Analysis

* OpFCF computed as (EBITDA-Capex)

Appendix 2: 2022E-24E Business Plan

Innovatec top management has released in February 2022 its 2022-24E Business Plan for the “New Innovatec”, with a detailed presentation to the financial community. Here below we summarize the key elements of the outlined strategy, investment plans and 2024E financial targets, reiterated at the FY2021 results conference call.

Key growth drivers

Innovatec’s execution strategy is split on the BUs Energy Efficiency and Environmental Services and is increasingly supported by Innovation & Consultancy Services, representing a “new leg” for the Group.

#1 Energy Efficiency & Renewables - Innovatec first aims to **become a leader in this industry** by increasing the market share in two specific segments:

1. the **HouseVerde** project, which is seen to transpose the energy efficiency secular trend into wider segments of the economy, starting from social housing, PA and public health, tourism. Here the results achieved so far (with a backlog in excess of €200mn over 5 quarters) are reassuring;
2. **PV systems, as EPC contractor**, by supporting energy communities and by developing agro and farm PV capacity, which are seen to growth at terrific rates in the next decade. This will be supported by development of smart technologies and leverage on the Group technical know-how.

#2 Environment & Circular Economy - Innovatec intends to exploit its significant growth potential, by:

1. enhancing **traditional treatment facilities** (by increasing capacity of treatment sites and potentially extending lifetime of landfills);
2. **expanding** its existing **customer base** (also via cross-selling between business units);
3. **expand its service proposal in recycling/circular processes** by developing new and innovative recycling facilities (Matemorfosi, Innovative Wall but also the new plant by SEA, all due to completion in 2022) and implementing consortium management for other waste classes.

#3 Innovation & Consultancy Services - Innovatec intends to create value in the medium term by investing in breakthrough technologies, promoting the transition to the circular economy, and supporting innovative start-ups. This will be executed via the R&D and the agreements with research hubs and university partnerships, via Innovatec Venture and via the internal IT department, potentially strengthened by further selective M&A, which is going to be key to support the PV systems deployment, the smart grid management and in general the energy community projects.

Strong Investment plan

Innovatec plans to invest approximately €59mn in the next 3 years, of which 20% will be allocated to M&A activities and the remaining 80% will be invested in hard capex. Out of the €47mn allocated to hard capex, ca. 47% of it will be destined to landfills (the most capital intense business), ca.20% will be invested in innovative facilities - dedicated to recycling process from mattress (Matemorfosi) and drywall (Innovative Wall) - and ca. 28% will be used to revamp and innovate existing plants.

Overall, Innovatec expects to allocate 46% of the €59mn to capacity expansion or entry in new profitable areas and M&A, and the remaining 54% for maintenance operations. Despite the €47mn capex planned over the period may appear not huge in absolute terms, it implies to double the amount of 2021P Fixed Capital (excluding goodwill).

Innovatec: 2022-24E Business Plan - Cumulated CAPEX and M&A



Source: Innovatec

Human capital investments

Innovatec is not only a technology-intensive company but above all a competency-based business and human resources will be essential in guiding the group through this process, where seamless execution will be crucial both at single project level and at corporate/M&A. That’s why 125 additional people will be introduced to the Innovatec mission and will join the group over the next 3 years. The net addition will be almost equally split over the two units.

Key financial targets

The table below summarizes the key financial targets set for 2024E. We point out that a) FY21 data are the final figures released on 29 March 2022; b) FY2024 target do not factor two events occurred in 2022, i.e. the acquisition of SEA and Cobat minorities and the cash-in of the ABB finalized in February 2022.

Innovatec: 2021PF-24E Business Plan - Key Financial Targets

€mn	Energy Efficiency		Environment & Circular Economy	
	2021PF	2024E	2021PF	2024E
Revenues	67.4	200.6	169.9	204.2
EBITDA	10.5	23.3	22.3	32.1
<i>EBITDA margin (%)</i>	15.6%	11.6%	13.2%	15.7%

€mn	Innovatec Group	
	2021PF	2024E
Revenues	237.8	404.8
EBITDA	32.9	55.4
<i>EBITDA margin (%)</i>	13.8%	13.7%
Net Fin Pos. [Net Debt (-), Net Cash (+)]	-10.0	30.9

Source: Innovatec, Value Track Analysis

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