

# Innovatec

Sector: Industrial Services



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## Pricing tough news pending strategy update

Innovatec is a pure play in the CleanTech industry, active in Energy Efficiency (EE) and Environment & Circular Economy (ECE). The stock is listed on EGM since 2013 but got to the current structure only in 2021, following a restructuring strategy.

### FY22 provisional results hit by regulation and macro

2022 operations have been affected by a few macro and regulatory uncertainties, as outlined at 9M results, with the following provisional KPIs:

- ◆ Revenues at €289mn, growing at a solid +21% vs. FY21PF, albeit a bit lower than €295mn expected;
- ◆ EBITDA margin at 11.1%, 270bps below FY21PF and 200bps below our expectations, due to much lower margin of *HouseVerde* and lower than expected contribution from ECE business (record energy costs affected some verticals, too); EBIT at €18.7mn, +75% y/y, in line;
- ◆ Net Debt at €49mn, ca. €5mn higher than Q3 and then our FY forecast, on lower EBITDA, higher Capex and M&A-related debt.

### Key messages from management

Management and new CEO were keen to confirm that in FY2023 (i) M&A plans, after strong acceleration in past year, will take a breather; (ii) they will focus on optimization and integration of new subsidiaries; (iii) EE business will see PV to start contributing to Revenues and EBITDA and *HouseVerde* to exploit its backlog with margins recovering from 2H22; (iv) ECE business will benefit from repricing and recent Capex and M&A.

### Forecasts revised, waiting for the Business Plan update

In our last update we revised our 2022E-24E forecasts to incorporate the impact of *Superbonus* hick-ups, rising costs and M&A, but also higher rebates and growing synergies from 2023E. At this stage the visibility on *HouseVerde* has further reduced, albeit INC can still rely on most of its backlog, and FY22P were short of expectations. Hence, despite the Business Plan update is due soon, we revise our 2023E-24E model and now forecast 2024E Revenues at €342mn (previous €394mn), EBITDA at €41mn (12% EBITDA Margin vs. prev. 13%) and Net Debt at €21.2mn (prev. €8.1mn).

### Fair Value at €2.0 p/s, long-term story remains strong

Despite a more challenging outlook in the short-term - 1Q23E likely to be in line with 2H22P trends - and forecasts well below management 2024E targets, we still believe in the strong potential of INC in the longer-run (market opportunities, dedicated funds, concentration potential). As such, our DCF points at €2.3 fair Equity Value p/s (from €2.7) while peers' multiples lead to €1.6 p/s (hit by lower forecasts). Combined, we adjust fair Equity Value at €2.0 p/s from €2.5, still embedding a 30% upside.

**Fair Value (€)** 2.0  
**Market Price (€)(\*)** 1.50  
**Market Cap. (€mn)(\*)** 144.7

KEY FINANCIALS (€m)	2022P	2023E	2024E
REVENUES	288.7	308.6	342.2
EBITDA	32.0	36.5	40.6
EBIT	18.7	21.3	26.1
NET PROFIT	11.9	12.0	15.3
EQUITY	49.6	62.9	79.9
NET FIN. POS.	-49.2	-42.6	-21.2
EPS (€)	0.15	0.15	0.19
DPS (€)	0.00	0.00	0.00

Source: Innovatec (2022 Preliminary figures), Value Track (estimates)

KEY FINANCIALS (€m)	2022P	2023E	2024E
EBITDA MARGIN (%)	11.1	11.8	11.9
EBIT MARGIN (%)	6.5	6.9	7.6
NET DEBT / EBITDA (x)	1.5	1.2	0.5
NET DEBT / EQUITY (x)	1.0	0.7	0.3
EV/SALES (x)	0.8	0.8	0.6
EV/EBITDA (x)	7.4	6.4	5.2
EV/EBIT (x)	12.7	10.9	8.1
P/E Adj. (x)	10.0	9.9	8.1

Source: Innovatec (2022 Preliminary figures), Value Track (estimates)

### STOCK DATA

FAIR VALUE (€)	2.00
MARKET PRICE (€)	1.50 (*)
SHS. OUT. (m)	96.4
MARKET CAP. (€m)	144.7
FREE FLOAT (%)	54.4
AVG. -20D VOL. (#)	479,733
RIC / BBG	INC.MI / INC IM
52 WK RANGE (€)	1.47-2.37

Source: Stock Market Data, Value Track  
 (\*) Stock market open as of 13/03/2023



## 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

(IT GAAP, €mn)	2021PF	2022P	2023E	2024E
<b>Total Revenues / Value of Production</b>	<b>237.8</b>	<b>288.7</b>	<b>308.6</b>	<b>342.2</b>
Chg. % YoY	47.1%	21.4%	6.9%	10.9%
<b>EBITDA</b>	<b>32.9</b>	<b>32.0</b>	<b>36.5</b>	<b>40.6</b>
EBITDA Margin (%)	13.8%	11.1%	11.8%	11.9%
<b>EBIT</b>	<b>10.7</b>	<b>18.7</b>	<b>21.3</b>	<b>26.1</b>
EBIT Margin (%)	4.5%	6.5%	6.9%	7.6%
<b>Net Profit</b>	<b>6.2</b>	<b>11.9</b>	<b>12.0</b>	<b>15.3</b>
Chg. % YoY	nm	90.0%	1.6%	26.8%
<b>Adjusted Net Profit</b>	<b>8.4</b>	<b>14.3</b>	<b>14.6</b>	<b>17.9</b>
Chg. % YoY	nm	70.3%	2.7%	22.0%
<b>Net Fin. Position</b>	<b>-10.0</b>	<b>-49.2</b>	<b>-42.6</b>	<b>-21.2</b>
Net Fin. Pos. / EBITDA (x)	0.3	1.5	1.2	0.5
Capex	-7.3	-20.1	-19.3	-9.8
<b>OpFCF b.t.</b>	<b>4.4</b>	<b>-3.9</b>	<b>14.7</b>	<b>30.4</b>
OpFCF b.t. as % of EBITDA	13.3%	-12.1%	40.2%	74.9%

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

## Investment case

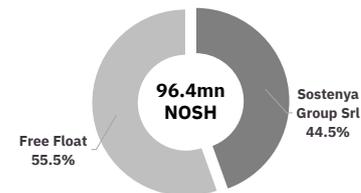
### Strengths / Opportunities

- ◆ Set to benefit from the European Green Deal and Italian Recovery Fund;
- ◆ Exposure to most attractive segments of Energy and Environment industries (e.g., Renewables, Circular Economy);
- ◆ Strong M&A execution skills;
- ◆ "Sustainable by nature" and fully-integrated business model.

### Weaknesses / Risks

- ◆ Energy Efficiency market dependent on national and European incentives;
- ◆ Business Plan execution risk, M&A discipline;
- ◆ Uncertain regulation updates on *Superbonus 110%*.

## Shareholders Structure



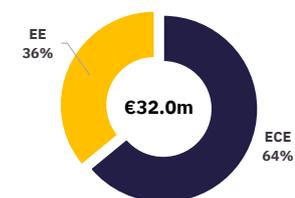
Source: Innovatec

## Revenues Breakdown by BU (€mn)



Source: Innovatec (FY22P)

## EBITDA Breakdown by BU (€mn)



Source: Innovatec (FY22P)

## Stock multiples @ €2.0 Fair Value p/s

	2023E	2024E
EV / SALES (x)	0.9	0.8
EV / EBITDA (x)	7.7	6.4
EV / EBIT (x)	13.1	10.0
EV / CAP.EMP. (x)	2.7	2.6
OpFCF Yield (%)	5.2	11.7
P / E Adj. (x)	13.2	10.8
P / BV (x)	3.5	2.7
Div. Yield. (%)	0.0	0.0

Source: Value Track

# FY22 Preliminary Financials

## Key Financials & Messages

Innovatec BoD has released some provisional KPIs for FY22, which overall appear solid albeit a bit lower than our expectations:

- ◆ **Total Revenues at €288.7mn** vs. €237.8mn in FY21PF (+21% y/y) and €295.4mn expected;
- ◆ **EBITDA at €32mn**, in line with FY21PF but ca. 17% below the €38.6mn we expected;
- ◆ **EBITDA margin at 11.1%**, i.e. 270 bps below FY21PF and 200 bps below our expectations;
- ◆ **EBIT at €18.7mn** (spot-on with our forecast) vs. €10.7mn of FY21PF (+74% y/y);
- ◆ **EBIT margin of 6.5%**, +200 bps y/y and ca. 20bps higher than our forecasts;
- ◆ **Net Debt at €49.2mn**, above our €43.6mn projection but still at 1.5x EBITDA.

### Innovatec: Key Financials 2020PF-2022P

(IT GAAP, €mn)	2020PF	2021PF	2022P	Δ y/y	VT 2022E	Δ P/E
Total Revenues / Value of Production	161.6	237.8	288.7	21%	295.4	-2%
EBITDA	17.9	32.9	32.0	-3%	38.6	-17%
EBITDA Margin (%)	11.1%	13.8%	11.1%	-270bps	13.1%	-200bps
EBIT	7.8	10.7	18.7	74%	18.6	1%
EBIT Margin (%)	4.9%	4.5%	6.5%	200bps	6.3%	20bps
<b>Net Financial Position [Net Debt (-), Net Cash (+)]</b>	<b>10.7</b>	<b>-10.0</b>	<b>-49.2</b>	<b>-39.2</b>	<b>-43.6</b>	<b>-5.6</b>

Source: Innovatec, Value Track Analysis

Form those financials, we inferred the following key messages:

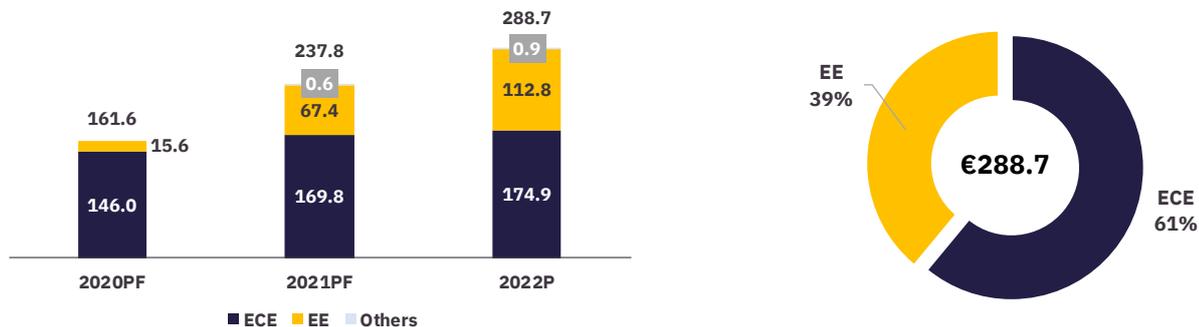
1. Double-digit and **continuous Revenues growth**, despite worsening of the macro stance, and mostly organic (with SEA consolidation representing 2.5% of the 21% y/y growth);
2. **EBITDA negatively impacted** by (i) regulatory stop-&-go on the *Superbonus* and (ii) higher direct/indirect costs (energy, overhead, M&A) but **EBIT benefitting** from the favourable sales mix towards the less capital intensive Energy Efficiency business;
3. **Increased Net Debt** due to (i) accelerated investment plan for technological updates, (ii) M&A and related debt acquired and (iii) only partial cash-in of fiscal credits linked to *Superbonus*.

### Double-digit Revenues growth

Despite a challenging regulatory and market environment, Innovatec continues to report double-digit growth figures since 2020, with **Total Revenues** up 21% y/y at **€288.7mn**. We highlight:

- ◆ **Environment & Circular Economy (ECE)** reported Revenues for **€174.9mn** growing by 3% y/y thanks to the consolidation of SEA, as organic growth in this BU was affected by a tough 4Q for Cobat and Vescovo Romano on skyrocketing energy prices (a few important clients had to halt production or close). Without these hitches, INC growth could have been stronger, but these temporary phenomena do not undermine the prospects of this business.
- ◆ **Energy Efficiency & Renewables (EE)** reported Revenues for **€112.8mn**, i.e. €45.5mn above FY21PF thanks to *HouseVerde* performance, demonstrating the efforts to surf the negative momentum of 2H22, when *Superbonus* tax and regulatory issues started to arise (most of condo projects postponed to 2023). On the other hand, it is worth to add that the B2B photovoltaic business only started to generate revenues (we estimate around €1mn) but it should accelerate during 2023 and beyond (as an indication so far €75mn worth contracts are under bid).

### Innovatec: Total Revenues by Business Unit



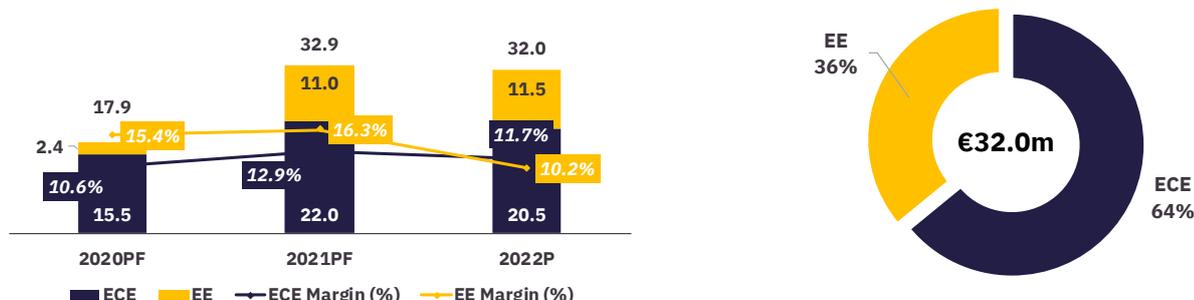
Source: Innovatec, Value Track Analysis

### EBITDA flat, EBIT +74% y/y

INC reported provisional FY22 **EBITDA at €32.0mn** (€32.9mn in FY21PF), with **EBITDA Margin at 11.1%** (13.8% in FY21PF). Mainly due to aversive market and regulatory scenario and higher overheads due to business development and M&A, both units reported decreasing profitability:

- ◆ **Environment & Circular Economy (ECE)** reported EBITDA at **€20.5mn** (after allocation of holding costs), i.e. 11.7% EBITDA margin (-120 bps vs. FY21PF) caused by:
  1. Increasing energy costs for waste disposal and transportation costs for waste collection (due to higher oil and energy bills, as already outlined at interim results). These costs were not rebated to final customers and combined with weak volumes on some verticals (as paper);
  2. Increasing fixed costs after recent acquisitions and costs/consultancy fees linked to the restless activity of M&A and ECM;
  3. On the positive side, Cobat increased its EBITDA margin from ca. 3% to over 6%, due to integration synergies in the Circular Economy business, despite the weakness faced in Q4.
- ◆ **Energy Efficiency & Renewables (EE)** reported EBITDA at **€11.5mn** (incl. allocated holding costs) vs. €11.0mn in FY21PF, **10.2% Margin vs 16.3% y/y**, and vs. €9.6mn in 1H, due to:
  1. Lengthening of *HouseVerde* projects due to regulatory stop & go occurred in 2H22, when sudden changes in deadlines for fiscal benefits hammered margins to low single digits;
  2. Increasing headcounts for the launch of the B2B photovoltaic business, whose contribution to revenues has still to come.

### Innovatec: EBITDA and EBITDA Margin by Business Unit

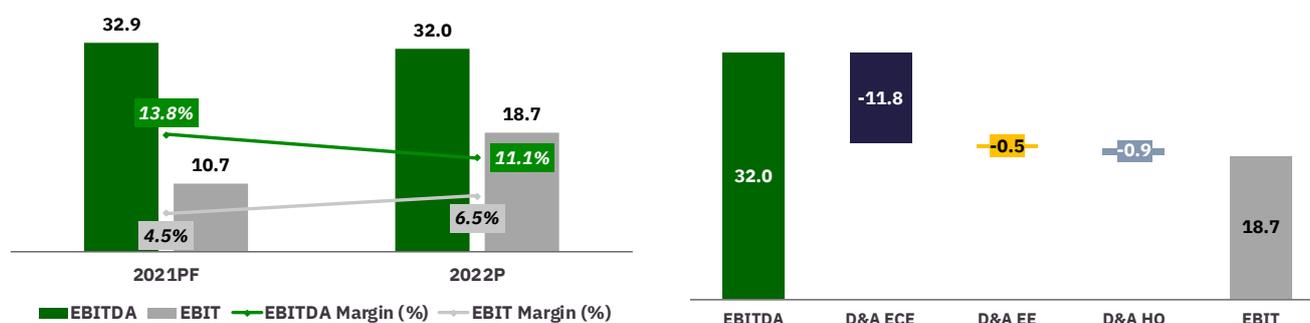


Source: Innovatec, Value Track Analysis

**EBIT reached €18.7mn** (+74% y/y) or **6.5% EBIT margin** (+200bps y/y), supported by:

1. Optimization of the waste disposal and recovery sites operational management (lower landfills' volume consumption), with D&A and allocations falling to €11.8mn from €20.0mn of FY21PF;
2. More favorable sales mix towards the less capital-intensive Energy Efficiency business (only €0.5mn D&A).

### Innovatec: EBITDA and EBIT Margin (lhs) and D&A by Business Unit (rhs)



Source: Innovatec, Value Track Analysis

### Innovatec: P&L 2020PF-2022P

(IT GAAP, €mn)	2020PF	2021PF	2022P	Δ y/y
<b>Total Revenues / Value of Production</b>	<b>161.6</b>	<b>237.8</b>	<b>288.7</b>	<b>21%</b>
Operating Expenses	-143.6	-204.9	-256.7	
<b>EBITDA</b>	<b>17.9</b>	<b>32.9</b>	<b>32.0</b>	<b>-3%</b>
<b>EBITDA Margin (%)</b>	<b>11.1%</b>	<b>13.8%</b>	<b>11.1%</b>	<b>-270bps</b>
D&A	-10.1	-16.5	-11.6	
Provisions	0.0	-5.7	-1.7	
<b>EBIT</b>	<b>7.8</b>	<b>10.7</b>	<b>18.7</b>	<b>74%</b>
<b>EBIT Margin (%)</b>	<b>4.9%</b>	<b>4.5%</b>	<b>6.5%</b>	<b>200bps</b>
Interest Expenses	-1.0	0.1	-2.6	
<b>Pre-Tax Profit</b>	<b>6.9</b>	<b>10.8</b>	<b>16.1</b>	<b>49%</b>
Taxes	-2.6	-4.0	-3.3	
Minorities	-1.7	-0.6	-0.9	
<b>Net Profit</b>	<b>2.6</b>	<b>6.2</b>	<b>11.9</b>	<b>90%</b>

Source: Innovatec, Value Track Analysis

### Net Debt increasing due to business development

**Net Debt** rose to **€49.2mn** vs. €10mn at the end of FY21, vs. €44.0mn as of 3Q22 and is €5.6mn higher than our expectations. Main reasons were:

- ◆ **Capex at €20.1mn**, higher than we expected due to an acceleration for technological updates at treatment plants (€5.2mn between Vescovo Romano, Lazzate, Chivasso, Ecological Wall and others), landfills (€7.7mn between Bossarino and others) and equipment;
- ◆ **M&A impact of €35.5mn** (of which €21.4mn investments and €14.1mn debt acquired), including Cobat minorities, SEA, ESI, Frisbi, Albarum, AET, PuliEcol and Bensi (more details on *Execution Assessment* and *M&A Analysis* in our last report of November 30<sup>th</sup>, 2022);

- ◆ **Net Working Capital** requirements of ca. **€15mn**, in line with what we expected at the end of 3Q22, thanks to a partial normalization of *HouseVerde* fiscal credits due to the stop of new projects acquisition under the Superbonus scheme.

Overall, INC is still at ca. 1.5x Net Debt/EBITDA and 1.0x Net Debt/Net Equity ratios.

In terms of funding, we underline:

- ◆ **Equity:** INC benefitted from the accelerated book building of January 2022 (€4.2mn) and from another share issuance last July (€2mn), devoted to the ESI deal;
- ◆ **Debt:** INC issued a €8mn non-convertible bond, within a Basket Bond Euronext Growth program, expiring in October 2028 (amortization from April 2024) and bearing a fixed interest rate of 5.21%. We also signal additional financing from banks of ca. €2.0mn and €14.1mn from acquired entities.

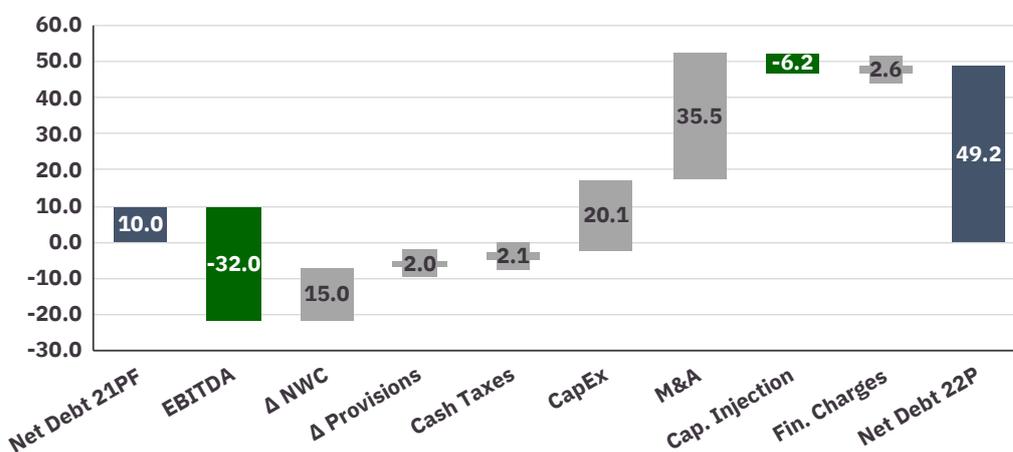
As a consequence, the Group maintains an adequate liquidity for incoming Capex and risk management purposes, with cash on hand at ca. €10mn, we estimate.

#### Innovatec: Balance Sheet 2020PF-2022E

(IT GAAP, €mn)	2020PF	2021PF	2022E
Net Fixed Assets	60.5	77.2	121.2
Net Working Capital	-11.2	6.7	20.5
Provisions	40.8	43.2	42.9
<b>Total Capital Employed</b>	<b>8.4</b>	<b>40.7</b>	<b>98.8</b>
<b>Group Net Equity</b>	<b>19.1</b>	<b>30.7</b>	<b>49.6</b>
<b>Net Financial Position</b>	<b>10.7</b>	<b>-10.0</b>	<b>-49.2</b>

Source: Innovatec, Value Track Analysis

#### Innovatec: Cash Flow Statement 2021PF-2022E



Source: Innovatec, Value Track Analysis

## 4Q22 and YTD events

### Basket Bond

INC completed on 1 December 2022 the issue of a non-convertible bond of €8mn, within the Euronext Growth Basket Bond program. Cassa Depositi e Prestiti acted as anchor investor by underwriting 50% of the notes issued, with the remaining 50% taken by Mediocredito Centrale and Banca Finnat.

The bond expires in October 2028, amortizing from April 2024, bearing a 5.21% fixed annual interest rate.

### New CEO appointed

On 30 January 2023, the BoD appointed Matteo Marini by co-optation as new Chief Executive Officer ("CEO"), taking note of the resignation of CEO Roberto Maggio and Director Mario Gamberale (both will remain in INC).

Matteo Marini, 57, has held positions of increasing responsibility at ABB - CEO of the Mediterranean Region and Managing Director of ABB SpA between 2013 and 2015 and Chairman of the Board and Head of Europe of the Power Grids Division between 2015 and 2019; he was Chairman of the Board of Directors of IMQ Group from 2015 to 2023 and has been a member of the Board of Directors of Costacurta Spa since 2015.

In 2020, he founded an innovative start-up for the development of applications ("Internet of Things") in the field of waste collection.

### Lazzate and Ecological Wall: new treatment and recovery plants

In January 2023, INC received the authorisation from the Province of Monza e Brianza to build a new waste treatment and recovery plant in *Lazzate*, immediately ready for construction.

The plant will provide significant environmental benefits by reducing the amount of waste destined for final disposal: it will have an authorised capacity for the treatment of 50k tons of non-hazardous industrial waste per year; it will be fully automated and equipped with the most advanced technologies available; it will extend over an area of about 13,000 square metres (3,000 of which will be covered). The new plant will be built in the next twelve months with an expected investment of about €3.5mn (of which €2.5mn due in 2023), in line with the assumptions and timing of the Company business plan.

We also underline the obtainment of the authorization for the development of *Ecological Wall*, the new treatment and recovery plant dedicated to drywall (€4.8mn Capex, o/w €0.8mn already invested), to be operative and start to generate sales from 4Q 2023E.

### OSAI partnership

In February 2023, Innovatec announced that its sub-holding *Haiki+* (Environment & Circular Economy business) and *Osai Green Tech* (part of the Group *Osai Automation System*) have signed a partnership aimed at developing special treatment plants and technologies focused on recycling and reuse in circular economy.

*Osai Green Tech* launched in 2015 its RE4M (Recycling for Manufacturing) project, and in 2022 presented an innovative system for the automated extraction and selection of electronic components for the recovery of critical and precious metals and its first plant will be built in 2023 in partnership with Iren Group.

INC partner is a benefit company focused on recycling of waste products in the same verticals where Innovatec operates, as WEEE, batteries, PV panels: it should develop and supply a treatment plant for INC based on RE4M as well as identify and develop innovative solutions for other verticals.

### **Government stop to fiscal credits discounting**

On 16 February 2023 the Italian Government approved a decree, immediately effective, that (i) halts tax credits discount at invoicing on real estate works related to fiscal bonuses such as *Superbonus 110%* and (ii) bans the possibility of discounting such fiscal credits.

The fiscal incentives are maintained, but from now on the works will be funded by the real estate owner, which will cash-in his tax credits only gradually, over a 4-year period.

Nothing changes for works already in progress or approved – and compliant to the new requirements - yet it is clear that (i) the appeal of fiscal incentives under the new rules is massively diminished, and (ii) it puts at risk part of the order backlog driven by *Superbonus* or other fiscal bonuses, as it is the case for Innovatec *HouseVerde*, as the funding and the pricing of these orders will have to be renegotiated.

## Our Take Aways

In the light of the key financials released and the messages provided by management at the FY22P dedicated conference call, we would outline the following considerations on a few key issues.

### Environment & Circular Economy

#### 1. M&A mostly done: focus on optimization and synergic integration

INC has already secured the 2024E Revenues and EBITDA targets from M&A set in its BP (€15mn and €2.4mn, respectively, excluding Cobat). As already discussed, it invested a bit more than expected to accelerate the process of increasing the Group treatment capacity, but it got to this target much earlier than expected, with more time to exploit synergies, and combining M&A with technological partnerships.

At this point INC is very close to have a national footprint on treatment and recycle of WEEE (a key vertical), and only one new facility in the South of Italy is missing. On the other hand, we would not rule out further moves also to secure key technologies, but the focus now is to refine the Group vertical integration and benefit from synergies.

#### 2. Investment plan accelerated but not finished yet

As previously outlined, Innovatec Capex totalled ca. €20mn in 2022 vs. our estimate of ca. €15mn mainly due anticipated investments on *Bossarino* and *Lazzate* landfills and equipment such as trucks, vehicles and containers. Still, delays in (i) development of treatment plants to address new verticals (*Ecological Wall* for drywall, *Matemorfosi* for mattresses) and (ii) authorization of landfills life extension (*Albonese*), together with (iii) investments required by newly merged companies (e.g. *PuliEcol*, *AET*) point at significant deployments also during the next two years. We forecast ca. €30mn cumulated capex in 2023E-24E, i.e. overall we remain very much in line with the Group 2022-24 capex plan of €47mn outlined in the February 2022 Business Plan.

### Energy Efficiency

#### 1. Diversification through PV offer ramp-up

When the Company presented its business plan in February 2022, a key driver for expansion was meant to be *HouseVerde* thanks to the booming nature of *Superbonus 110%* businesses, but over the last months the focus has shifted more towards the newly set up photovoltaic division (*Innovatec Green Network* project). A few moves confirm the prompt management reaction: minority stake in *ESI* and *Frisbi*, partnerships with *Coldiretti* and *Acli Terra*, purchase of *Albarum* three PV projects.

At this point we expect sizeable Revenues from the PV division to be generated from 2H2023 onwards, driven by the sizeable ecological transition dedicated funds and INC acting as EPC contractor on (i) B2B roof-based for agro-farming and agro-voltaic projects (including above 20MW plants); (ii) P.A. segment; (iii) B2C (panels, inverters, storage systems, etc.) and (iv) energy communities (1MW plants) once full regulation will be released. In the first two months of the year, Innovatec has built a book of €75mn under bid, with over 100MW being addressed.

#### 2. Bad news on fiscal bonus, but what about EU real estate decarbonisation rules?

While the Italian Government is trying to reduce the fiscal burden of the incentives launched to boost the Italian real estate decarbonisation, at EU level the revision of the Energy Performance of Buildings Directive (EPBD, flagship initiative to decarbonise the built environment) has been proposed. Europe's real estate decarbonisation rules are among the most stringent in the world as transformational for achieving climate neutrality by 2050 and 55% reduction in gas emission by 2030:

research by the EU Commission shows that buildings are responsible for over 40% of the energy consumption within the EU and make up 36% of CO<sub>2</sub> emissions from energy.

A final agreement is expected before summer to ensure that all new buildings should be carbon neutral by 2030, but focus will increasingly move on renovation (“EU renovation wave”) because:

1. 85% of all EU buildings (220 million) were built before 2001;
2. 85-95% of the buildings that exist today will still be standing in 2050.

The Directive will then require national applications, which will factor the country specific situation (including presence of historical buildings and monuments, climate, etc.) but the long term trend in real estate will include massive investments to improve energy efficiency.

In light of this, *HouseVerde* future will not be only dependable on *Superbonus*-related works, but also on the new opportunities arising from building and infrastructure energy efficiency renovation works dedicated towards the residential sector and (especially) PA.

That said, we estimate that a sizeable residual business still need to be executed in FY2023 and 1H2024 as a tail of *Superbonus* activities, where INC still holds a sizeable backlog eligible for 110% benefit and for discounting at invoice. Yet, management intend to secure discounting agreements with banking partners before proceeding in order not to assume any un-priced risk. We understand INC backlog includes (i) contracts worth ca €27mn already signed and to be executed in 1H2023, supported by banking discounting agreements but with no room for pricing rebates (and hence bringing single digit margins) and (ii) a much bigger chunk of orders (around €100mn) where management is working in order to restore margins by requiring owners’ financial contribution and renegotiating terms with suppliers.

## Forecasts 2023E-24E

### Estimates Revision

Following the lower-than-expected FY22P results and based on a tough market scenario prolonged into 2023, that is only partially offset by new opportunities, we are postponing our previous forecasts by ca. 1/1.5 years. In more details, we adjusted:

- ◆ **Total Revenues** by ca. €38mn in 2023E and €52mn in 2024E, mainly due to *HouseVerde* reduced visibility on *Superbonus*-related works after new regulations. On the positive side, the PV business should partially counterbalance the lower contribution of *HouseVerde*, and weight ca. 65% of 2024E Energy Efficiency BU. While we left unchanged our top line estimates for the traditional Environment business (landfills), we adjusted Cobat (Circular Economy) forecasts due to the issues faced by one of the market leaders (we assume pressures on energy prices to be smoother only from 2Q23). Nonetheless, we see all the new acquired subsidiaries (SEA, PuliEcol, AET) growing double-digit over the next two years and Revenues will benefit from PuliEcol and AET consolidation from Jan 2023.
- ◆ **EBITDA** should keep suffering from the same Energy Efficiency profitability issue of 2H22 for at least 1Q23, but due to improve from 2H23, thanks to the management actions described above aimed at sharing tougher economics, higher risks and interest rates with clients and suppliers. Also due to the higher contribution of the PV business, structurally lower for an EPC business model, the EE EBITDA Margin should stand between 9%-10%. On the contrary, we expect the Environment & Circular Economy BU to increase its profitability, hand in hand with growing intragroup synergies and reach an EBITDA Margin of 13.3% in 2024E.
- ◆ **EBIT**, on the other hand, should keep benefitting from low D&A expenses, albeit higher than 2022 because of the intensive M&A activity and steady capex. Target EBIT margin is broadly in line with our last estimates, at around 8% in 2024E.
- ◆ **Net Debt** projections have worsened because of the higher starting point, one-year delay in operating profitability and a longer Net Working Capital normalization cycle. However, the strong FCF generation we expected in our last estimates is confirmed, with Net Debt more than halving over the next two years thanks to an improving Operating FCF / EBITDA conversion rate and despite significant Capex (ca. €30mn), Taxes (ca. €12mn) and Net Financial Charges (ca. €5mn).

Mainly due to exogenous factors - adverse macroeconomic drivers which severely hit certain verticals (paper) and uncertainty on fiscal bonuses regulation - our **FY24E estimates are now much below the Company business plan targets**. While we do not expect the **new business plan** (to be released in 2Q23) to confirm the previous targets, we also expect management to provide indications on planned actions to recover Revenues on EE, fill the profitability gap left by the *HouseVerde* shortfall, restore margins in verticals hit by macro context and improve free cash flow.

#### Innovatec: New vs. Old 2023E-24E estimates

Key Financials (IT GAAP, €mn)	2022E			2023E			2024E		
	VT Est.	Prelim.	Δ	Old	New	Δ	Old	New	Δ
Total Revenues / VoP	295.4	288.7	-2.3%	346.7	308.6	-11.0%	394.2	342.2	-13.2%
EBITDA	38.6	32.0	-17.0%	44.8	36.5	-18.7%	50.8	40.6	-20.0%
EBITDA Margin (%)	13.1%	11.1%	-197bps	12.9%	11.8%	-112bps	12.9%	11.9%	-101bps
EBIT	18.6	18.7	0.5%	26.4	21.3	-19.4%	32.4	26.1	-19.5%
EBIT Margin (%)	6.3%	6.5%	18bps	7.6%	6.9%	-72bps	8.2%	7.6%	-60bps
Net Profit	11.0	11.9	7.5%	14.0	12.0	-14.0%	18.4	15.3	-17.1%
Net Financial Position	-43.6	-49.2	-5.6	-33.9	-42.6	-8.7	-8.1	-21.2	-13.1

Source: Value Track Analysis

## Forecasts 2023E-24E

Here below we report the full set of our updated financial forecasts. In brief, we forecast:

- ◆ **Total Revenues at €342mn in 2024E**, growing at 13% CAGR<sub>21PF-24E</sub>;
- ◆ **EBITDA at €41mn with EBITDA Margin at 12% in 2024E**;
- ◆ **EBIT at €26mn (2.5x 2021PF) and EBIT Margin at 7.6% in 2024E**;
- ◆ **Net Profit at €15.3mn**, post minorities and assuming a zero-pay-out policy;
- ◆ **Net Debt to €21.2mn in 2024E** from €49.2mn in 2022P, i.e. ca. €28mn FCF generation.

### Innovatec: Revenues and EBITDA by Business Unit 2021PF-2024E

(IT GAAP, €mn)	2021PF	2022P	2023E	2024E	CAGR <sub>21PF-24E</sub>
<b>Total Revenues / Value of Production</b>	<b>237.8</b>	<b>288.7</b>	<b>308.6</b>	<b>342.2</b>	<b>13%</b>
o/w Energy Efficiency (EE)	67.4	112.8	110.0	111.0	18%
o/w Environment & Circular Economy (ECE)	169.9	174.9	198.6	231.2	11%
o/w Others	0.6	0.9	0.0	0.0	nm
<b>EBITDA</b>	<b>32.9</b>	<b>32.0</b>	<b>36.5</b>	<b>40.6</b>	<b>7%</b>
<b>EBITDA Margin (%)</b>	<b>13.8%</b>	<b>11.1%</b>	<b>11.8%</b>	<b>11.9%</b>	<b>-190bps</b>
o/w Energy Efficiency (EE)	11.0	11.5	10.6	9.8	-4%
<b>EE EBITDA Margin (%)</b>	<b>16.3%</b>	<b>10.2%</b>	<b>9.6%</b>	<b>8.9%</b>	<b>-740bps</b>
o/w Environment & Circular Economy (ECE)	22.0	20.5	25.9	30.8	12%
<b>ECE EBITDA Margin (%)</b>	<b>12.9%</b>	<b>11.7%</b>	<b>13.0%</b>	<b>13.3%</b>	<b>40bps</b>

Source: Innovatec, Value Track Analysis

### Innovatec: P&L 2021PF-2024E

(IT GAAP, €mn)	2021PF	2022E	2023E	2024E	CAGR <sub>21PF-24E</sub>
<b>Total Revenues / Value of Production</b>	<b>237.8</b>	<b>288.7</b>	<b>308.6</b>	<b>342.2</b>	<b>13%</b>
Operating Expenses	-204.9	-256.7	-272.2	-301.6	
<b>EBITDA</b>	<b>32.9</b>	<b>32.0</b>	<b>36.5</b>	<b>40.6</b>	<b>7%</b>
<b>EBITDA Margin (%)</b>	<b>13.8%</b>	<b>11.1%</b>	<b>11.8%</b>	<b>11.9%</b>	<b>-190bps</b>
D&A	-16.5	-11.6	-13.1	-12.8	
Provisions	-5.7	-1.7	-2.0	-1.8	
<b>EBIT</b>	<b>10.7</b>	<b>18.7</b>	<b>21.3</b>	<b>26.1</b>	<b>34%</b>
<b>EBIT Margin (%)</b>	<b>4.5%</b>	<b>6.5%</b>	<b>6.9%</b>	<b>7.6%</b>	<b>310bps</b>
Interest Expenses	0.1	-2.6	-3.0	-2.1	
<b>Pre-Tax Profit</b>	<b>10.8</b>	<b>16.1</b>	<b>18.3</b>	<b>23.9</b>	<b>30%</b>
Taxes	-4.0	-3.3	-5.0	-6.9	
Minorities	-0.6	-0.9	-1.2	-1.8	
<b>Net Profit</b>	<b>6.2</b>	<b>11.9</b>	<b>12.0</b>	<b>15.3</b>	<b>35%</b>

Source: Innovatec, Value Track Analysis

**Innovatec: Cash Flow Statement 2021PF-2024E**

(IT GAAP, €mn)	2022E	2023E	2024E
EBITDA	32.0	36.5	40.6
Δ NWC	-15.0	-1.6	0.5
Capex (excl. Financial Inv.)	-20.1	-19.3	-9.8
Δ Provisions	-2.0	-0.9	-0.9
<b>OpFCF b.t.</b>	<b>-3.9</b>	<b>14.7</b>	<b>30.4</b>
<i>As a % of EBITDA</i>	<i>-12.1%</i>	<i>40.2%</i>	<i>74.9%</i>
Cash Taxes	-2.1	-5.0	-6.9
<b>OpFCF a.t.</b>	<b>-7.2</b>	<b>9.7</b>	<b>23.5</b>
Capital Injections	6.2	0.0	0.0
Others (incl. Financial Inv.)	-35.5	0.0	0.0
Net Financial Charges	-2.6	-3.0	-2.1
Dividends Paid	0.0	0.0	0.0
<b>Δ Net Financial Position</b>	<b>-39.2</b>	<b>6.6</b>	<b>21.4</b>
<b>Net Financial Position [Net Debt (-), Net Cash (+)]</b>	<b>-49.2</b>	<b>-42.6</b>	<b>-21.2</b>

Source: Innovatec, Value Track Analysis

**Innovatec: Balance Sheet 2021PF-2024E**

(IT GAAP, €mn)	2021PF	2022E	2023E	2024E
Net Fixed Assets	77.2	121.2	127.3	124.3
Net Working Capital	6.7	20.5	22.1	21.6
Provisions	43.2	42.9	44.0	44.8
<b>Total Capital Employed</b>	<b>40.7</b>	<b>98.8</b>	<b>105.4</b>	<b>101.1</b>
<b>Group Net Equity</b>	<b>30.7</b>	<b>49.6</b>	<b>62.9</b>	<b>79.9</b>
<b>Net Financial Position [Net Debt (-), Net Cash (+)]</b>	<b>-10.0</b>	<b>-49.2</b>	<b>-42.6</b>	<b>-21.2</b>

Source: Innovatec, Value Track Analysis

## Valuation

For the valuation models we stick to the criteria used in previous updates, yet the material cut in estimates, combined with higher Net Debt forecasts - and given the other liabilities considered (i.e. minorities and long-term charges linked to the Environment business) increase INC equity leverage - lead to a 20% reduction in our fair equity value: **€2.0 per share** (from €2.5 p/s).

We still consider both DCF for a longer-term approach and relative market multiples:

- ◆ **DCF model**, with 9.5% WACC (from previous 8.4% due to higher ERP and credit spread) and 6.7x TV/EBITDA exit multiple, returning a €2.3 fair equity value p/s (from €2.7 p/s);
- ◆ **Peers' Analysis**, returning a €1.6 fair value p/s (from €2.2 p/s), much more sensitive to the cut in 2023-24E estimates.

**In the short term** we believe the stock will be also driven by the **relevant news flow** due in coming months:

- ◆ On the positive side, the new CEO is likely to release an **update of the Business Plan**, where we expect management to present a set of actions aimed at filling the revenues and margins gap left by the faster than expected phasing out of the activities driven by *Superbonus 110%* and by the negative impact of energy crisis/macro weakness;
- ◆ On the negative side, we still expect **lackluster quarter results**, as 1Q23 (and 2Q23 to some extent) are likely to be affected by a low level of activity for *HouseVerde* (very gradual re-start under new regulation), for *Vescovo Romano* (paper) and for the battery recovery business of *Cobat* (e.g. important market players like *Ecobat* have not resumed production at the time of writing);

**In the longer run**, we still believe in the **strong potential** of the Company, driven by:

- ◆ **Attractive market opportunities**, focused on energy and environment industries, tied to the secular trends of energy transition and circular economy;
- ◆ **Dedicated European and national funds**, that despite the volatility often linked in Italy to businesses driven by fiscal incentives, are expected to bring sizeable funds over the next decade;
- ◆ **Massive concentration potential**, in both the Energy Efficiency and the Environment & Circular Economy, the Italian industries are still highly fragmented;
- ◆ **Stock re-rating**, as INC equity story could benefit from its increasing concentration in the CleanTech business, provided management build a solid track record in execution and strengthen its leaderships in a few high added-value verticals of circular economy.

At fair value INC would trade at **0.9x-0.8x EV/Sales and 7.7x-6.4x EV/EBITDA 2023E-24E**.

### Innovatec: Implicit Multiples Sensitivity at €1.50-€2.50 p/s

Share Price	EV / Sales (x)		EV / EBITDA (x)		EV / EBIT (x)		P / E Adj. (x)	
	2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E
€ 1.50	0.8	0.6	6.4	5.2	10.9	8.1	9.9	8.1
€1.75	0.8	0.7	7.0	5.8	12.0	9.0	11.5	9.4
<b>€ 2.00</b>	<b>0.9</b>	<b>0.8</b>	<b>7.7</b>	<b>6.4</b>	<b>13.1</b>	<b>10.0</b>	<b>13.2</b>	<b>10.8</b>
€ 2.25	1.0	0.8	8.3	7.0	14.3	10.9	14.8	12.1
€ 2.50	1.1	0.9	9.0	7.6	15.4	11.8	16.5	13.5

Source: Value Track Analysis

## Discounted Cash Flow Model

Our model returns a **€2.3 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;
- ◆ 0.81 unlevered Beta and 8.1% Equity Risk premium (Damodaran online web site);
- ◆ 1.0% small/mid cap additional risk premium;
- ◆ 4.2% after-tax cost of debt implicitly calculated considering the above-mentioned 2.0% risk free rate, a 3.5% 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 a 9.5% WACC.

For the terminal value, we apply an exit 6.7x TV/EBITDA multiple to INC EBITDA 2030E, in between the current sector's average for FY1 of 6.4x and historical average of ca. 7.0x.

In addition, it is worth to mention that our model includes additional liabilities for €48.7mn, linked to the cost of minorities (namely *Vescovo Romano*, *Cobat*, *SEA*, *PuliEcol*, *AET*), 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 ca. €5.5mn (including €4.5mn *ESI*, €1mn *Frisbi*).

### Innovatec: DCF Model at Target Capital Structure

DCF Model	(€mn)
PV of future cash flows FY23E-FY30E	126.1
PV of Terminal Value @ 7.2x TV/EBITDA FY30E	190.6
<b>Fair Enterprise Value</b>	<b>316.6</b>
Net Financial Position FY22P	-49.2
Adjustments	-43.2
<b>Fair Equity Value</b>	<b>224.2</b>
NOSH (mn)	96.4
<b>Fair Equity Value p/s (€)</b>	<b>2.3</b>

Source: Value Track Analysis

### Innovatec: DCF Model Sensitivity Analysis

Equity Value p/s (€)		TV / EBITDA				
		5.7x	6.2x	6.7x	7.2x	7.7x
WACC	8.5%	2.21	2.37	2.53	2.69	2.85
	9.0%	2.12	2.27	2.43	2.58	2.73
	9.5%	2.03	2.18	<b>2.32</b>	2.47	2.62
	10.0%	1.94	2.08	2.23	2.37	2.51
	10.5%	1.86	1.99	2.13	2.27	2.41

Source: Value Track Analysis

## Peers' Analysis

Peers' analysis gives a **€1.6 fair equity value per share**, based on EV/EBITDA, EV/EBIT and P/E average peers' multiples for FY2023E-24E, i.e. in line with current trading ratings of Italian and international comparables in the Energy Efficiency and Environmental Services & Circular Economy.

### Innovatec: Peers' Stock Trading Multiples

Peers Cluster	Market Cap (€mn)	EV / Sales (x)		EV / EBITDA (x)		EV / EBIT (x,*)		P / E Adj. (x)	
		2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E
<b>Energy Efficiency - Average</b>	<b>930.4</b>	<b>1.1</b>	<b>0.9</b>	<b>6.2</b>	<b>5.2</b>	<b>7.7</b>	<b>6.3</b>	<b>11.5</b>	<b>9.9</b>
Energy Efficiency - Median	107.8	0.8	0.7	5.8	5.0	6.7	5.8	11.5	10.9
<b>Environmental Services - Average</b>	<b>560.0</b>	<b>1.5</b>	<b>1.3</b>	<b>6.6</b>	<b>5.5</b>	<b>12.6</b>	<b>10.0</b>	<b>13.9</b>	<b>10.9</b>
Environmental Services - Median	363.9	1.3	0.9	6.8	5.7	13.1	10.4	14.8	11.0
<b>Total Average</b>	<b>756.1</b>	<b>1.3</b>	<b>1.1</b>	<b>6.4</b>	<b>5.3</b>	<b>10.0</b>	<b>8.1</b>	<b>12.6</b>	<b>10.4</b>
<b>Total Median</b>	<b>176.1</b>	<b>0.9</b>	<b>0.7</b>	<b>6.6</b>	<b>5.7</b>	<b>10.6</b>	<b>9.0</b>	<b>11.5</b>	<b>10.9</b>
<b>Innovatec @ Mkt Price</b>	<b>144.7</b>	<b>0.8</b>	<b>0.6</b>	<b>6.4</b>	<b>5.2</b>	<b>10.9</b>	<b>8.1</b>	<b>9.9</b>	<b>8.1</b>
Discount (-) / Premium vs. Total Average	-81%	-41%	-44%	-1%	-2%	8%	1%	-22%	-22%
Discount (-) / Premium vs. Total Median	-18%	-19%	-10%	-3%	-9%	3%	-10%	-14%	-26%

Source: Market Consensus, Value Track Analysis

According to the multiples reported above we value the stock in line with peers' total average in terms of EV/EBITDA, EV/EBIT and P/E, and considering the same additional liabilities factored in the DCF model, 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

Peers Analysis (€mn)	EV / EBITDA (x)		EV / EBIT (x)		P / E Adj. (x)	
	2023E	2024E	2023E	2024E	2023E	2024E
<b>Total Average / Fair Multiples (x)</b>	<b>6.4</b>	<b>5.3</b>	<b>10.0</b>	<b>8.1</b>	<b>12.6</b>	<b>10.4</b>
INC EBITDA, EBIT, Adj. Net Profit (*)	36.5	40.6	21.3	26.1	14.6	17.9
<b>Implied EV / Equity Value</b>	<b>234.2</b>	<b>216.3</b>	<b>213.6</b>	<b>210.1</b>	<b>185.0</b>	<b>185.4</b>
Net Financial Position	-42.6	-21.2	-42.6	-21.2		
Adjustments	-44.5	-45.5	-44.5	-45.5		
<b>Equity Value</b>	<b>147.2</b>	<b>149.7</b>	<b>126.5</b>	<b>143.5</b>	<b>185.0</b>	<b>185.4</b>
NOSH (mn)	96.4	96.4	96.4	96.4	96.4	96.4
<b>Equity Value p/s (€)</b>	<b>1.5</b>	<b>1.6</b>	<b>1.3</b>	<b>1.5</b>	<b>1.9</b>	<b>1.9</b>
<b>Fair Equity Value p/s (€)</b>	<b>1.6</b>					

Source: Market Consensus, Value Track Analysis. (\*) Net Profit adjusted for Goodwill Amortization

**Innovatec: Peers' stock trading multiples**

Peers Cluster	Market Cap (€mn)	EV / Sales (x)		EV / EBITDA (x)		EV / EBIT (x)		P / E Adj. (x)	
		2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E
Edilizia Acrobatica	140.3	0.9	0.8	4.0	3.6	4.1	3.8	7.5	6.9
A.B.P. Nocivelli	107.8	0.8	0.7	4.5	3.9	5.1	4.4	11.1	10.9
Comal	39.3	0.7	0.6	10.6	8.7	13.9	11.0	19.7	15.1
Renergetica	52.7	3.5	2.9	8.0	6.7	9.4	7.6	11.5	11.0
ESI	17.2	0.4	0.3	4.2	2.5	4.7	2.8	7.6	5.5
Agatos	6.7	0.6	0.3	2.9	1.7	3.5	2.0	1.9	1.4
Inspired	112.6	1.5	1.3	5.8	5.0	6.7	5.8	11.5	9.9
Arcadis	3,534.2	1.1	0.9	8.8	7.6	11.1	9.9	16.4	13.5
Spie	4,362.9	0.7	0.6	7.5	6.9	10.6	9.4	16.7	14.9
<b>Energy Efficiency – Average</b>	<b>930.4</b>	<b>1.1</b>	<b>0.9</b>	<b>6.2</b>	<b>5.2</b>	<b>7.7</b>	<b>6.3</b>	<b>11.5</b>	<b>9.9</b>
Energy Efficiency – Median	107.8	0.8	0.7	5.8	5.0	6.7	5.8	11.5	10.9
Mo-bruk	236.1	3.7	3.6	7.3	7.3	7.6	7.8	9.9	9.7
Renewi Plc	620.2	0.6	0.6	5.0	4.6	10.2	9.0	9.7	7.7
Seri Industrial	306.6	1.2	0.5	7.9	2.8	14.4	3.4	16.2	3.1
Séché Environnement	850.7	1.3	1.2	6.6	5.8	14.3	12.2	17.8	15.3
Lassila & Tikanoja	421.1	0.7	0.7	6.1	5.7	14.0	12.1	14.3	12.2
Pizzorno Environnement	176.1	0.7	0.7	4.2	3.7	17.4	14.9	18.7	16.6
Befesa	1,724.8	1.9	1.8	8.8	8.0	12.3	11.0	15.3	14.1
Greenthesis	144.6	1.4	1.3	7.0	6.1	11.0	9.9	9.0	8.5
<b>Environmental Services – Average</b>	<b>560.0</b>	<b>1.5</b>	<b>1.3</b>	<b>6.6</b>	<b>5.5</b>	<b>12.6</b>	<b>10.0</b>	<b>13.9</b>	<b>10.9</b>
Environmental Services – Median	363.9	1.3	0.9	6.8	5.7	13.1	10.4	14.8	11.0
<b>Total Average</b>	<b>756.1</b>	<b>1.3</b>	<b>1.1</b>	<b>6.4</b>	<b>5.3</b>	<b>10.0</b>	<b>8.1</b>	<b>12.6</b>	<b>10.4</b>
<b>Total Median</b>	<b>176.1</b>	<b>0.9</b>	<b>0.7</b>	<b>6.6</b>	<b>5.7</b>	<b>10.6</b>	<b>9.0</b>	<b>11.5</b>	<b>10.9</b>
<b>Innovatec @ Mkt Price</b>	<b>144.7</b>	<b>0.8</b>	<b>0.6</b>	<b>6.4</b>	<b>5.2</b>	<b>10.9</b>	<b>8.1</b>	<b>9.9</b>	<b>8.1</b>

Source: Market Consensus, Value Track Analysis

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