

# Neodecortech Spa

Sector: Décor surfaces



## A well managed company offsets market headwinds

Neodecortech designs, produces and commercialises décor paper, finish foils, melamine films, and luxury vinyl tiles with the mission of enriching any surface with a distinctive Italian flair

### Plastic Films and price adjustments offset demand turns

2018FY has been the proof that Neodecortech (NDT) can fiercely face market headwinds thanks to its vertically integrated structure and to good management of growth opportunities. Indeed:

- ◆ **Top line growth is sound** (Revenues from Sales +6.0% YoY);
- ◆ **Management of “raw materials effect” is efficient.** In the Energy business the company took advantage of low Tallow Oil prices and boosted production. In Paper and Décor Paper businesses NDT actively managed Titanium and Wood Pulp prices volatility by focusing on higher value added products and by passing through clients part of raw materials' prices hike;
- ◆ **Operating margins improved.** Focus on value added products, higher industrial efficiencies and aforementioned careful management of raw materials drove EBITDA up to €17.7mn i.e. ca. +25% YoY with a 220 bps EBITDA margin improvement at 13.3%. In the meantime, Ahlstrom-Munksjö and Surteco the two giants in the European décor paper market recorded EBITDA down by -9.9% and -28.0% YoY, with EBITDA margin erosion of 124bps and 186bps respectively.

### 2019E-20E estimates revised upwards

Post FY18 figures we are revising upwards our 2019E-20E financial forecasts even if we maintain a “raw materials buffer” on our EBITDA forecasts to be possibly removed after 1H19 results. We now expect:

- ◆ **Net Revenues** to grow at **mid single digit CAGR**;
- ◆ **EBITDA at €18mn - €18.8mn** in 2019E-20E thanks to higher capacity utilization and to growth of more profitable Plastic Films segment;
- ◆ **Net Profit to grow at higher than 11.5% CAGR** thanks to lower financial charges and stable tax rate;
- ◆ **Net Financial Position** to decrease **below 2.0x Net Debt / EBITDA** by 2020YE thanks to organic cash generation.

### Fair Value at €5.40 per share

We update our fair valuation at €5.40 per share, (up from previous €5.10), as a result of higher 2019E-20E forecasts only partially offset by a higher Italian Equity Risk Premium impacting DCF value. At €5.40 fair value NDT shares would trade at 6.0x EV/EBITDA – 9.4x P/E 2019E i.e. not demanding multiples.

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<b>Fair Value (€)</b>	<b>5.40</b>
<b>Market Price (€)</b>	<b>3.88</b>
<b>Market Cap. (€m)</b>	<b>50.8</b>

KEY FINANCIALS (€m)	2018A	2019E	2020E
REVENUES	133.4	143.7	153.3
EBITDA	17.7	18.8	19.8
EBIT	10.6	11.4	11.9
NET PROFIT	6.0	7.0	7.5
EQUITY	58.6	63.6	68.8
NET FIN. POS.	-44.3	-40.5	-36.3
EPS ADJ. (€)	0.46	0.57	0.61
DPS (€)	0.15	0.17	0.11

Source: Neodecortech SpA (historical figures), Value Track (2019E-20E estimates)

RATIOS & MULTIPLES	2018A	2019E	2020E
EBITDA MARGIN (%)	13.3	13.1	12.9
EBIT MARGIN (%)	7.9	7.9	7.8
NET DEBT / EBITDA (x)	2.5	2.2	1.8
NET DEBT / EQUITY (%)	76	64	53
EV/EBITDA (x)	5.1	4.9	4.5
EV/EBIT (x)	8.6	8.0	7.5
P/E ADJ. (x)	6.9	6.7	6.4
P/BV (x)	0.9	0.8	0.8

Source: Neodecortech SpA (historical figures), Value Track (2019E-20E estimates)

#### STOCK DATA

FAIR VALUE (€)	5.40
MARKET PRICE (€)	3.88
SHS. OUT. (m)	13.1
MARKET CAP. (€m)	50.8
FREE FLOAT (%)	27.2
AVG. -20D VOL. ('000)	18.553
RIC / BBG	NDT.MI / NDT IM
52 WK RANGE	2.66-4.07

Source: Stock Market Data

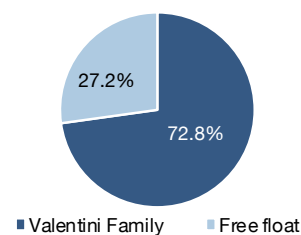


## Business Description

Neodecortech is a leading manufacturer of decorative surfaces (mostly paper but more recently also plastic) to be employed in the interior design industry and in the flooring one.

More in details Neodecortech is involved in the design, development, production, and commercialisation of décor paper printing, finish foils, melamine films, and Plastic Films. The vision of the Group is that of enriching any surface with a distinctive Italian Flair.

## Shareholders Structure



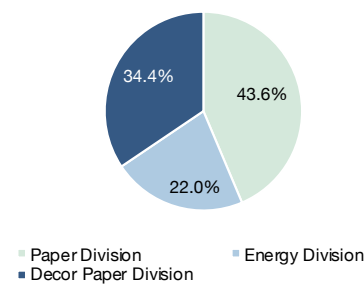
Source: Neodecortech SpA

## Key Financials

€mn	2017A	2018A	2019E	2020E	2017A	2018E	2019E
<b>Total Revenues</b>	<b>127.7</b>	<b>133.4</b>	<b>143.7</b>	<b>153.3</b>	127.7	133.4	143.7
Chg. % YoY	10.5%	4.4%	7.7%	6.7%	15.7%	12.3%	10.1%
<b>Reported EBITDA</b>	<b>14.2</b>	<b>17.7</b>	<b>18.8</b>	<b>19.8</b>	14.2	17.7	18.8
Reported EBITDA Margin	11.1%	13.3%	13.1%	12.9%	10.9%	13.3%	13.1%
<b>Reported EBIT</b>	<b>7.9</b>	<b>10.6</b>	<b>11.4</b>	<b>11.9</b>	7.9	10.6	11.4
Reported EBIT Margin	6.2%	7.9%	7.9%	7.8%	6.1%	7.9%	7.9%
<b>Net Profit</b>	<b>4.1</b>	<b>6.0</b>	<b>7.0</b>	<b>7.5</b>	4.1	6.0	7.0
Chg. % YoY	-8.8%	48.4%	15.8%	6.8%	-8.8%	48.4%	15.8%
<b>Net Fin. Position</b>	<b>-46.9</b>	<b>-44.3</b>	<b>-40.5</b>	<b>-36.3</b>	-46.9	-44.3	-40.5
Net Fin. Pos. / EBITDA (x)	3.3	2.5	2.2	1.8	3.3	2.5	2.2
Capex	-7.6	-6.5	-8.5	-9.0	-7.6	-6.5	-8.5
<b>OpFCF b.t.</b>	<b>2.1</b>	<b>12.4</b>	<b>10.3</b>	<b>10.9</b>	2.1	12.4	10.3
OpFCF b.t. as % of EBITDA	14.7%	69.8%	54.6%	54.9%	14.7%	69.8%	54.6%

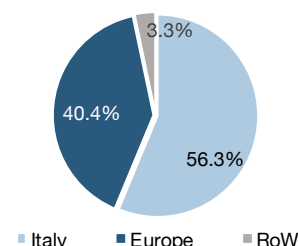
Source: Company SpA (historical figures), Value Track (estimates)

## Sales breakdown by Business Unit



Source: Neodecortech SpA

## Sales breakdown by geography



Source: Neodecortech SpA

## Investment case

### Strengths / Opportunities

- ◆ High flexibility granted by vertical integration;
- ◆ Strong attention to quality and design innovation;
- ◆ Full ownership of production plants;
- ◆ Approach to clients based on co-design / strong partnerships.

### Weaknesses / Risks

- ◆ Much lower size if compared to German competitors;
- ◆ Limited financial flexibility due to higher-than-targeted leverage;
- ◆ Exposure to a very restricted number of customers as well as suppliers.

## Stock multiples @ €5.40 Fair Value

	2019E	2020E
EV / SALES (x)	0.8	0.7
EV / EBITDA (x)	6.0	5.5
EV / EBIT (x)	9.8	9.1
EV / CAP.EMP. (x)	1.1	1.0
OpFCF Yield (%)	9.2	9.9
P / E (x)	9.4	8.9
P / BV (x)	1.1	1.0
Div. Yield. (%)	3.1	3.8

Source: Value Track

## 2018FY results stepped away from targets

2018FY financial figures recently approved by the company are, overall, slightly better than our estimates. Indeed, it's true that Total Revenues recorded marginally lower values, but the company posted a higher than expected EBITDA and Adjusted Net Profit. Net Financial Position was bang in line with our forecasts at €44.3mn if we take into account the €1.2mn impact on NFP of the acquisition of assets from CorbettaFia.

### Neodecortech Group 2018FY figures: Actual vs. Estimates

(€mn)	2018E	2018A	Diff. %
Total Revenues	135.4	133.7	-1.3%
<b>EBITDA</b>	<b>17.0</b>	<b>17.7</b>	<b>4.4%</b>
<b>EBITDA Adj.</b>	<b>17.0</b>	<b>19.0</b>	<b>11.8%</b>
EBIT	10.6	10.6	-0.1%
<b>Net Profit</b>	<b>7.0</b>	<b>6.0</b>	<b>-13.9%</b>
<b>Adj. Net Profit</b>	<b>7.0</b>	<b>7.3</b>	<b>4.3%</b>
Group Net Equity	59.0	58.6	-0.4
<b>Net Financial Position</b>	<b>-43.1</b>	<b>-44.3</b>	<b>-1.2</b>

Source: Value Track Analysis

### Key figures 2018FY

- ◆ Total Revenues was up a sound +4.6% YoY though slowing down from last year ca. +7% YoY;
- ◆ EBITDA up 24.7% to €17.7mn (EBITDA Margin at 13.3%, +220bps); EBITDA Adj. reached €19.0mn, up ca. 25% YoY;
- ◆ EBIT up as well to €10.6mn, + 33% YoY (EBIT Margin +150bps to 7.9%);
- ◆ Adj. Net Profit up ca. +52% YoY standing at €7.3mn;
- ◆ Net Debt decreasing to ca. €44.3mn vs. €46.9mn as of 2017 year-end.

### Neodecortech Group: Main Financials 2017FY and 2018FY

€ mn	2017FY	2018FY	Change YoY (%)
Total Revenues	127.7	133.7	4.6%
<b>EBITDA</b>	<b>14.2</b>	<b>17.7</b>	<b>24.7%</b>
<b>EBITDA Adj.</b>	<b>15.2</b>	<b>19.0</b>	<b>25.0%</b>
EBIT	7.9	10.6	33.5%
<b>Net Profit</b>	<b>4.1</b>	<b>6.0</b>	<b>48.4%</b>
<b>Net Profit Adj.</b>	<b>4.8</b>	<b>7.3</b>	<b>52.1%</b>
Net Financial Position	-46.9	-44.3	n.m.

Source: Neodecortech, Value Track Analysis

### Top Line growth driven by Energy and Décor Paper

Total Revenues were up +4.6% YoY as result of the three Business Units evolving at different speed:

- ◆ **Energy.** Gross Revenues were up +32.7% YoY driven by volume effect. Indeed, energy production increased from ca. 110,000 MWh as of 2017FY to ca. 140,000 MWh as of 2018FY thus getting close to full capacity.

Out of the 140k MWh, some 34% was used for production purposes in the Paper Division while the remaining 66% was conferred to national electrical grid.

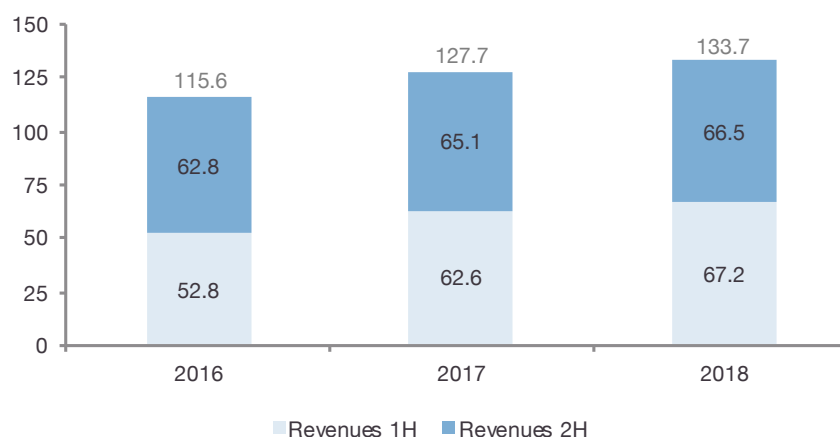
- ◆ **Paper production.** Paper business experienced a slight decrease in the second half of 2018 due to an increase in price that hit volumes. Then, the business unit was interested by on site, geological problems that blocked production for some weeks.
- ◆ **Decor Paper.** Since the end of June 2018, there has been a general slowdown of global markets demand and Neodecortech's sales have followed the general trend, attenuating the double-digit growth rate we had observed during the first six months of last year. However, we note:
  - A significant increase in revenues from PPF (Printed Plastic Film) thanks to a higher market penetration and to product range enlargement. Indeed, it has been introduced a new 224 cm print width item in addition to the standard 204 cm print width;
  - The four months €2.6mn contribution made by laminates products of the new Texte brand. This is the result of the acquisition of the business branch from CorbettaFia Srl.

#### Neodecortech Group: 2017-2018 Top Line breakdown by divisions

€mn, IAS	2017A	2018A	Chg. % YoY
Energy Division	26.4	31.4	32.7%
Paper Division	67.4	65.4	-0.8%
Decorative Paper Division	43.8	50.9	12.4%
<b>Gross Revenues</b>	<b>137.6</b>	<b>147.7</b>	<b>8.7%</b>
Intragroup Elisions	-14.1	-16.8	
<b>Net Revenues</b>	<b>123.5</b>	<b>130.9</b>	<b>7.3%</b>
Other Revenues	4.2	2.6	nm
<b>Total Revenues</b>	<b>127.7</b>	<b>133.7</b>	<b>4.6%</b>

Source: Neodecortech, Value Track Analysis

#### Neodecortech Group: 2016-2018 Total Revenues (i.e. VoP) Evolution



Source: Neodecortech, Value Track Analysis (\*) Gross Revenues

### Profitability improvement well distributed among divisions

Largest changes have been however registered at the EBITDA and EBIT levels where growth rates stand at 24.7% and 33.5% respectively, due to Operating Costs increasing only +1.9% YoY. We remind that Raw Materials remain the biggest cost item accounting for more than two thirds of total operating expenses (see following chapter for a focus on Raw Materials costs).

If we exclude more than €1m non operating costs related to IPO process and to stock grant accounting, the EBITDA would have increased even more, to €19mn.

#### Neodecortech Group: Main Financials 2017FY and 2018FY

€ mn	2017FY	2018FY	Change YoY (%)
<b>EBITDA</b>	<b>14.2</b>	<b>17.7</b>	<b>24.7%</b>
<i>EBITDA margin as % of Tot. Rev.</i>	<i>11.1%</i>	<i>13.3%</i>	
<b>EBITDA Adj.</b>	<b>15.2</b>	<b>19.0</b>	<b>25.0%</b>
<i>EBITDA Adj. margin as % of Tot. Rev.</i>	<i>11.9%</i>	<i>14.2%</i>	
<b>EBIT</b>	<b>7.9</b>	<b>10.6</b>	<b>33.5%</b>
<i>EBIT margin as % of Tot. Rev.</i>	<i>6.2%</i>	<i>7.9%</i>	

Source: Neodecortech, Value Track Analysis

It is noteworthy that the >€3mn increase in Group's EBITDA is almost equally distributed among the three divisions.

#### Neodecortech Group: 2017-2018 Revenues and EBITDA breakdown by divisions

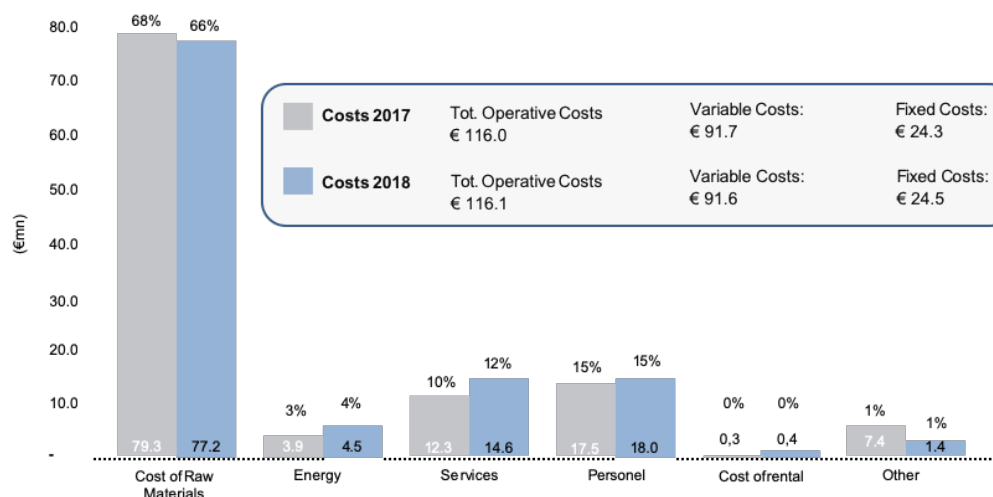
€mn, IASB	2017A	2018A	Chg. % YoY
<b>Energy Division</b>			
Revenues (€mn)	26.40	31.37	18.8%
<b>EBITDA Adj. (€mn)</b>	<b>4.42</b>	<b>5.73</b>	<b>29.7%</b>
EBITDA Margin (%)	16.7%	18.3%	
<b>Paper Division</b>			
Revenues (€mn)	67.38	65.42	-2.9%
<b>EBITDA Adj. (€mn)</b>	<b>5.12</b>	<b>6.06</b>	<b>18.4%</b>
EBITDA Margin (%)	7.6%	9.3%	
<b>Decorative Paper Division</b>			
Revenues (€mn)	40.83	50.89	16.1%
<b>EBITDA Adj. (€mn)</b>	<b>5.64</b>	<b>6.65</b>	<b>17.9%</b>
EBITDA Margin (%)	13.8%	13.1%	

Source: Neodecortech, Value Track Analysis

### Focus on Raw materials costs

The exposure to Raw materials' price volatility represents one of the key features of Neodecortech business. Indeed, Titanium Dioxide (TiO<sub>2</sub>), Resins, Wood Pulp, Raw Paper and Tallow Oil, i.e. the most relevant Raw materials for the Group day-by-day business account for nearly two thirds of total Group's Total Operating Costs, and for ca. 57.1% of total revenues (down from 60.6% as of 2017FY mainly thanks to 2H18 decrease of Titanium price and to pass through clients of 2017 raw materials hikes).

#### Neodecortech Group: Operating Costs by category (€mn)



Source: Neodecortech

#### Neodecortech Group: Raw Materials expenses evolution

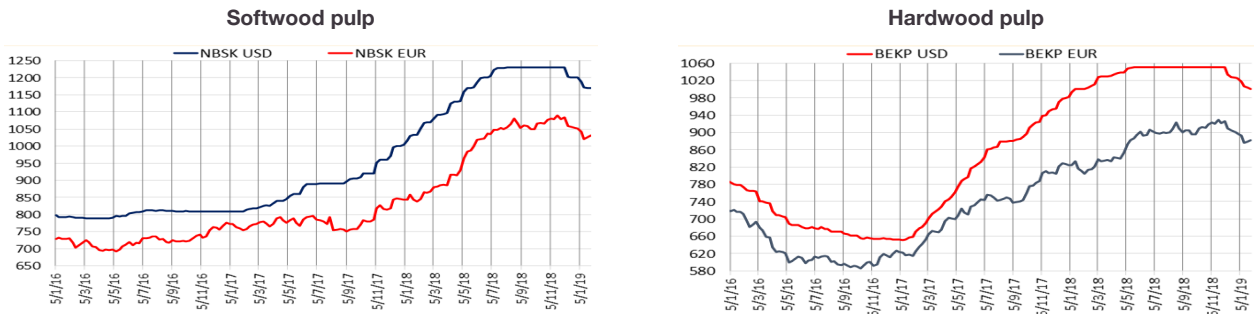
€mn, IAS	2017FY	2018FY	Chg. YoY
Raw Paper	15.13	17.09	12.9%
Resins	4.65	5.09	9.5%
Titanium Dioxide	24.63	20.68	-16.0%
Wood Pulp	13.70	14.17	3.4%
Tallow Oil	19.29	19.38	0.5%
<b>Total (ex. elisions)</b>	<b>77.4</b>	<b>76.4</b>	<b>-1.3%</b>
As % of Total Revenues	60.6%	57.1%	

Source: Neodecortech, Value Track Analysis

### Wood Pulp

The wood pulp market began 2019 on the rise with increases on both hardwood pulp and softwood pulp and with a general renegotiation of the discount on the markets. Between December 2016 and the early months of 2018, cellulose increased by +320 dollars per tonne (+ 39% coming to be listed at 1,050 dollars) for short fibers and 410 dollars (+ 63% with a quotation of 1,090 dollars) for long fibers, while paper products, depending on the quality, showed increases of between 2% and 17%.

**Pulp: Price evolution 2016-19 (USD/Ton, EUR /Ton)**

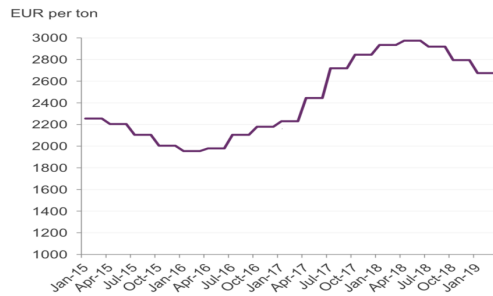


Source: Various

**Titanium Dioxide**

TiO<sub>2</sub> price rose in 1H18 at ca. €3,000/Ton close to its all-time highest levels. This means a double digit increase YoY even if we note that recently the price trend has flattened. Titanium dioxide from 4Q18 has started a gradual reduction in prices, which we will wait to transfer to customers in order to recover a portion of the margins sacrificed in 2017 and 2018 to maintain market shares.

**TiO<sub>2</sub> Price Evolution 2015-19 (€/Ton)**

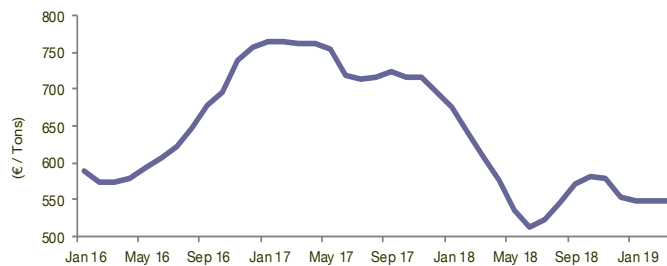


Source: ICIS Europe FD

**Tallow Oil**

As for the tallow oil, the price was decreasing in the first part of the year and then resumed a little in 2H. Average market price in 2018 stood at €575/Ton (VAT included), well below €733/Ton as of 2017. As of March 2019, the price stands at €550/Ton, remaining flattish around this value.

**Tallow Oil: Price evolution 2016-19 (€/Ton, net of VAT)**



Source: Various

### Cash Generation positive in 2018 due to the stabilization of Working Capital

Group's Net Debt decreased to €44.3mn at the end of fiscal year 2018 i.e. ca. €2.6mn lower than the €46.9mn as of December 2017, driven by:

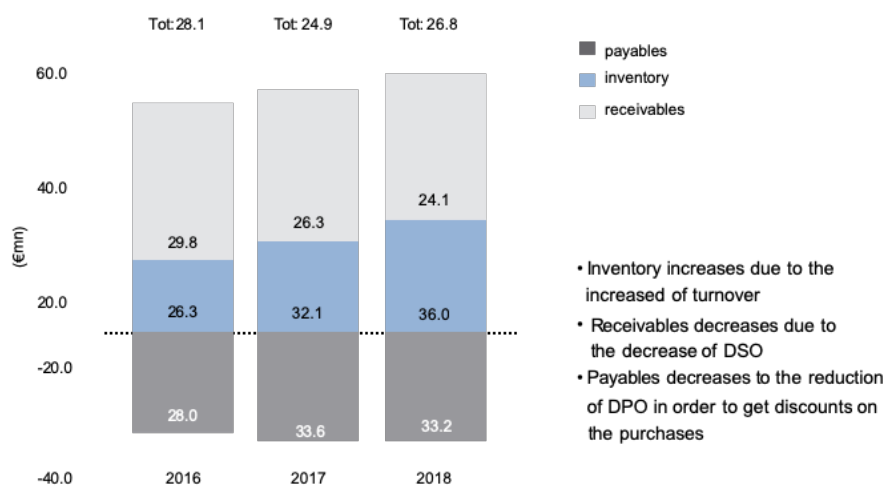
- ◆ Working Capital stabilization in absolute terms, leading to €0.5mn excess cash flow;
- ◆ Capex remaining substantially flattish at €7.7mn (up €0.1mn from last year);
- ◆ €1.2mn impact of Corbetta's assets acquisition;
- ◆ Heavier outflows for cash taxes (€1.6mn up from €1.1mn) and dividends (€2mn up from €1.0mn).

#### Neodecortech Group: 2017-2018FY Cash Flow Statement

€mn	2017FY	2018FY
<b>EBITDA</b>	<b>14.2</b>	<b>17.7</b>
Op. WC requirements	-4.2	0.5
Capex	-7.6	-7.7
Change in Provisions	-0.3	0.7
<b>OpFCF b.t.</b>	<b>2.1</b>	<b>11.2</b>
Cash Taxes	-1.1	-1.6
<b>OpFCF a.t.</b>	<b>1.0</b>	<b>9.6</b>
Other Op. Items (incl. Fin. Inv.)	1.8	-2.1
Net Financial Charges	-2.7	-2.9
Capital Injections	11.2	0.0
Dividends paid	-1.0	-2.0
<b>Net Cash generated</b>	<b>10.2</b>	<b>2.6</b>

Source: Neodecortech, Value Track Analysis

#### Neodecortech Group: Net Working Capital evolution 2016FY-2018FY



Source: Neodecortech



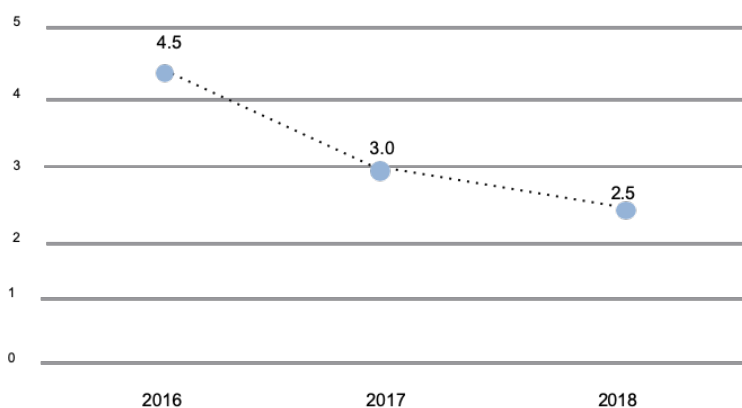
As a result, Neodecortech now stands at ca. 2.5x Net Debt / EBITDA ratio (2.3x if adjusted for Corbetta acquisition). Capital Employed is now ca. 43% Net Debt and 57% Equity.

#### Neodecortech: 2017-2018 Balance Sheet structure

€mn	2017FY	2018FY
Working Capital	26.9	26.5
Net Fixed Assets	80.9	84.0
Provisions	6.9	7.6
<b>Total Capital Employed</b>	<b>100.9</b>	<b>102.9</b>
Group Net Equity	54.0	58.6
<b>Net Fin. Position [i.e. Net Debt (-) Cash (+)]</b>	<b>-46.9</b>	<b>-44.3</b>

Source: Neodecortech, Value Track Analysis

#### Neodecortech: Net Debt / EBITDA evolution 2016-2018



Source: Various

#### Neodecortech vs. its peers: Ahlstrom-Munksjö and Surteco

To better evaluate the track record so far performed by Neodecortech, we thought it could have been helpful scoring it against its closest competitors by business products **Ahlstrom-Munksjö and Surteco the two giants in the décor paper market.**

- ◆ **Ahlstrom-Munksjö** recorded in 2018FY sales growth at +1.2% YoY. The growth in revenues is mainly due to a clear increase in selling prices which comes as an answer of higher variable costs. EBITDA was down -9.9% YoY and EBITDA Margin lost 124bps standing at 11.0%. due to higher incidence of fixed costs and to increased cost of materials.
- ◆ **Surteco** as well suffered from increased cost of materials in 2018FY. This required the company to adjust its prices driving demand down. Net Sales were up +1.3% YoY while profitability plunged: EBITDA was down-28.0% YoY and EBITDA Margin was down by 186bps to 4.61%.

## What's ahead in 2019-2020

### 2019-20 priorities / growth

2019-20 operating priorities can be summarized as:

- ◆ Speeding up the commercialization of new PPLF products to meet the growth of demand for LVT flooring which is particularly strong in the US;
- ◆ Maintaining maximum efficiency in the paper mill, as well as in electricity generation plants;
- ◆ Maximizing synergies as work continues in the selection of possible targets in an exogenous development strategy.

Alongside, Neodecortech should keep evaluating / pursuing some investment opportunities in the following fields:

- ◆ New technologies;
- ◆ Machine improvements;
- ◆ Markets expansion.

As far as the latest point is concerned, we remind that the company is working to have a direct and indirect presence through alliances in the US, a market where current commercial tensions could play in favor of non-Asiatic players. Indeed, possible duties on Chinese products could be set thus making European players more competitive on price while boasting products of higher quality.

### Investment opportunities

Area	Investment (€mn)	Investment Rationale
New technologies	10	Further investments for film laminations Digital printing
Machine improvements	10	Increase process efficacy Increase quality product Adopt Industry 4.0 technology
Market expansion	15	Increase market share Acquire new markets

Source: Neodecortech, Value Track Analysis

### Last but not least, MTA

Neodecortech has started preparatory studies aimed at assessing the feasibility of proceeding with the admission to trading of the shares and the warrants of the Company on the MTA in advance with respect to the 30-month term from the first day of trading of the Shares on AIM Italia, originally envisaged at the time of the IPO. The decision will be evaluated by the end of June.

## Forecasted Financials 2019E-20E

We are revising upwards our 2019E-20E financial forecasts that are now structured as follows.

### Revenues

We expect revenues steadily growing at **mid single digit CAGR** over the next two years, supported by Plastic Films expansion trend and (in 2019FY) by the consolidation of CorbettaFia's business for twelve months vs. the four months consolidation in 2018FY. More in details:

#### Decorative paper division

2019 started with a high level of uncertainty and gloomy demand but Neodecortech should offset, at least in part, this general trend by accelerating the offer of all the variants of plastic printed film (PPF) and laminated plastic printed film (PPLF) to be used for the production of LVT (luxury vinyl tiles).

This is thanks to the assets / technologies purchased as of August 2018 from CorbettaFia, which has always been active in the production of laminate with CPL (continuous pressing lamination) technology.

Overall, we forecast €13mn-€15mn revenues to come from PPF+PPLF compared to slightly less than €6mn as of 2018FY.

#### Paper division

Paper market as well is boasting uncertain dynamics as an effect not only of flattish demand but also because of the trend of raw materials that is generating a wait-and-see effect by various customers on the expectation of a price reduction, triggering the well-known phenomenon of the cycle of stocks which, in this situation, has a negative cyclical impact.

As an effect we expect 2019E revenues down YoY while rebounding in 2020E.

#### Energy division

Regarding BEG, it should be noted that for the year 2019 the unit value of the incentive should decrease by approximately 7 euros to MWh and this should almost entirely offset a residual volume increase. So we expect revenues to remain pretty stable YoY.

#### Neodecortech Group: 2018A-2020E Top Line breakdown by divisions

€mn, IAS	2018A	2019E	2020E
Energy Division	31.4	31.5	32.1
Paper Division	65.4	60.5	64.7
Decorative Paper Division	50.9	65.0	71.0
<b>Gross Revenues</b>	<b>147.7</b>	<b>157.0</b>	<b>167.8</b>
Intragroup Elisions	-16.8	-16.3	-17.5
<b>Net Revenues</b>	<b>130.9</b>	<b>140.7</b>	<b>150.3</b>
Other Revenues	2.6	2.6	2.6
<b>Total Revenues</b>	<b>133.7</b>	<b>143.3</b>	<b>152.9</b>

Source: Neodecortech, Value Track Analysis

### Costs and profitability

We expect EBITDA margin to remain in the ca. 13% range as of 2019E with **EBITDA in absolute terms (after stock grant costs)** estimated to achieve **€18.8mn as of 2019E, €19.8m as of 2020E**. This thanks mainly to:

- ◆ **Higher incidence of highly profitable Plastic Films segment.** Indeed, PPF and PPLF for LVT are the highest margins products within the Neodecortech Group range;
- ◆ **Raw materials currently under control.** Titanium dioxide prices decreased in 1Q19 as the destocking phase started in the second part of 2018 continued. For the second quarter, the expectation is a tendentially stable price level. With regard to cellulose, there was a slight drop in the first few months of 2019, although negotiations remained tense, with buyers requesting reductions on the one hand and strong resistance from the main sellers on the other. Tallow Oil price is remaining stable.

We underline that our EBITDA – EBIT estimates are still including a “raw material buffer” on profitability evolution to be possibly removed after 1H19 results.

As far as the bottom line is concerned, **Adj. Net Profit is expected to grow at higher than 11.2% 2018A-20E CAGR**, somehow slowing down the breakneck growth of the last few years.

### Cash generation and Net Financial Position

We forecast cumulated **Operating Free Cash Flow** after tax over the next two years at ca. €17.5mn. This means a cash conversion ratio close to 45% level.

**Net Financial Position** is expected to decrease at ca. **€36.3mn by 2020E** thanks to the above mentioned cash generation.

Such a figure would imply Net Debt/ EBITDA to decrease in the 1.8x region by 2020E, thus allowing for enhanced flexibility.

#### Neodecortech: 2018A-20E Key Financials forecasts

(€mn)	2018A	2019E	2020E
Total Revenues	133.7	143.3	152.9
EBITDA (*)	17.7	18.8	19.8
EBIT (*)	10.6	11.4	11.9
Pre-Tax Profit (*)	7.6	8.8	9.3
<b>Net Profit (*)</b>	<b>6.0</b>	<b>7.0</b>	<b>7.5</b>
<b>OpFCF after tax</b>	<b>10.8</b>	<b>8.5</b>	<b>9.0</b>
<b>Net Financial Position</b>	<b>-44.3</b>	<b>-40.5</b>	<b>-36.3</b>

Source: Neodecortech, Value Track Analysis

(\*) After Stock grant expenses

**Neodecortech Group: P&L evolution 2016A-20E**

(€mn)	2016A	2017A	2018A	2019E	2020E
<b>Group Net Revenues</b>	<b>106.7</b>	<b>123.5</b>	<b>130.9</b>	<b>141.7</b>	<b>151.3</b>
Chg. % YoY	-13.7%	15.7%	6.0%	8.2%	6.8%
<b>Total Revenues</b>	<b>115.6</b>	<b>127.7</b>	<b>133.4</b>	<b>143.7</b>	<b>153.3</b>
<b>EBITDA</b>	<b>15.6</b>	<b>14.2</b>	<b>17.7</b>	<b>18.8</b>	<b>19.8</b>
<b>EBITDA margin (%)</b>	<b>13.5%</b>	<b>11.1%</b>	<b>13.3%</b>	<b>13.1%</b>	<b>12.9%</b>
Depreciation & Amortization	-6.4	-6.3	-7.2	-7.4	-7.9
<b>EBIT</b>	<b>9.23</b>	<b>7.9</b>	<b>10.6</b>	<b>11.4</b>	<b>11.9</b>
EBIT margin (%)	3.8%	8.1%	6.1%	7.9%	7.8%
Net Fin. Income (charges)	-3.3	-2.7	-2.9	-2.6	-2.6
<b>Pre-tax Profit</b>	<b>6.0</b>	<b>5.2</b>	<b>7.6</b>	<b>8.8</b>	<b>9.3</b>
Tax	-1.5	-1.1	-1.6	-1.8	-1.9
Tax rate (%)	-25.3%	-21.6%	-20.9%	-20.2%	-20.1%
<b>Net Profit</b>	<b>4.5</b>	<b>4.1</b>	<b>6.0</b>	<b>7.0</b>	<b>7.5</b>
<b>Net Profit growth (%)</b>	<b>nm</b>	<b>-9%</b>	<b>48.4%</b>	<b>15.8%</b>	<b>6.8%</b>

Source: Value Track Analysis

**Neodecortech Group: Balance Sheet evolution 2016A-20E**

(€mn)	2016A	2017A	2018A	2019E	2020E
Working Capital	22.8	26.9	26.5	26.5	26.6
Net Fixed Assets	80.3	80.9	84.0	85.1	86.2
Provisions	7.2	6.9	7.6	7.6	7.8
<b>Total Capital Employed</b>	<b>95.8</b>	<b>100.9</b>	<b>102.9</b>	<b>104.1</b>	<b>105.1</b>
<b>Group Net Equity</b>	<b>38.7</b>	<b>54.0</b>	<b>58.6</b>	<b>63.6</b>	<b>68.8</b>
<b>Net Fin. Position [i.e. Net Debt (-) Cash (+)]</b>	<b>-57.1</b>	<b>-46.9</b>	<b>-44.3</b>	<b>-40.5</b>	<b>-36.3</b>

Source: Value Track Analysis

**Neodecortech Group: Cash Flow Statement evolution 2016A-20E**

(€mn)	2016A	2017A	2018A	2019E	2020E
EBITDA	15.6	14.2	17.7	18.8	19.8
Working Capital Needs	1.0	-4.2	0.5	0.0	-0.1
Capex	-4.6	-7.6	-6.5	-8.5	-9.0
Change in Provisions	-0.7	-0.3	0.7	0.0	0.0
<b>OpFCF b.t.</b>	<b>11.3</b>	<b>2.1</b>	<b>12.4</b>	<b>10.3</b>	<b>10.7</b>
Cash Taxes	-1.5	-1.1	-1.6	-1.8	-1.9
<b>OpFCF a.t.</b>	<b>9.8</b>	<b>1.0</b>	<b>10.8</b>	<b>8.5</b>	<b>8.8</b>
Capital Injections	1.8	11.2	0.0	0.0	0.0
Other Op. Items (incl. Fin. Inv.)	2.5	1.8	-3.3	0.0	0.0
Net Financial Charges	-3.5	-2.7	-2.9	-2.6	-2.6
Dividends paid	-1.0	-1.0	-2.0	-2.0	-2.0
<b>Net Cash generated</b>	<b>9.6</b>	<b>10.2</b>	<b>2.6</b>	<b>3.8</b>	<b>4.2</b>

Source: Value Track Analysis

## Valuation

Our valuation calculations are based on the outstanding number of shares (see the Appendix for a hint on the fully diluted number of shares) and lead to a **fair value at €5.40 per share**, revised upwards from our previous €5.10 update back as of October 2018. This fair value is an average of a multiple-based valuation and of Discounted Cash Flow one. Implied EV/EBITDA 2019E and 2020E at €5.40 per share are respectively 6.0x and 5.5x, while P/E Adj. for 2019E and 2020E would be 9.4x and 8.9x, respectively.

### Multiple-based Valuation

Being still down ca. 3% since the IPO date, Neodecortech is currently trading at deep discount vs. main international (and domestic i.e. Panaria) comparables

#### Neodecortech: Peers' stock trading multiples

Company	EV / EBITDA (x)		EV / EBIT (x)		P / E (x)		EV / OpFCF (x)(*)	
	2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E
<b>Average</b>	<b>7.3</b>	<b>6.3</b>	<b>14.5</b>	<b>9.5</b>	<b>15.4</b>	<b>10.2</b>	<b>13.1</b>	<b>9.8</b>
<b>Median</b>	<b>6.9</b>	<b>5.8</b>	<b>13.3</b>	<b>9.6</b>	<b>15.1</b>	<b>10.3</b>	<b>14.0</b>	<b>10.2</b>
<b>Neodecortech</b>	<b>4.9</b>	<b>4.4</b>	<b>8.1</b>	<b>7.4</b>	<b>6.8</b>	<b>6.4</b>	<b>8.9</b>	<b>8.3</b>
Discount % vs. avg.	-33%	-30%	-44%	-22%	-56%	-37%	-32%	-15%
Discount % vs. med.	-29%	-24%	-39%	-23%	-55%	-38%	-36%	-19%

Source: Market Consensus, Value Track Analysis

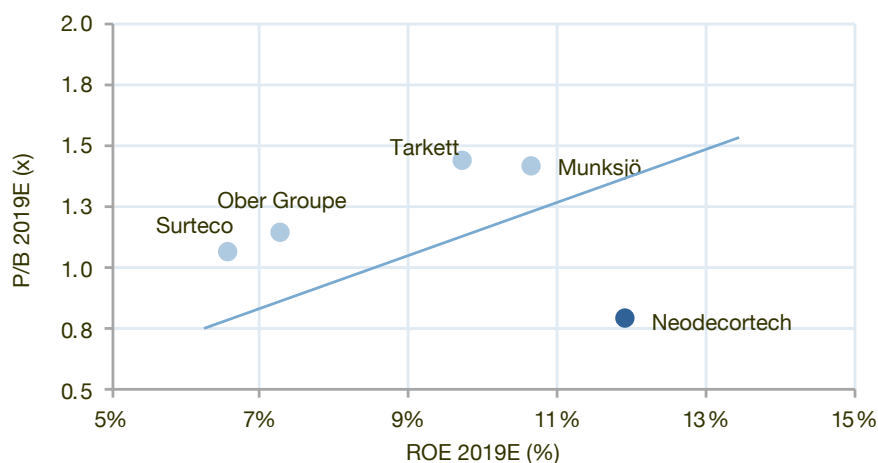
(\*) OpFCF defined as (EBITDA-CAPEX)

(\*) Ahlstrom Munksjö, Ober Groupe, Panaria Group, Surteco, Tarkett.

In particular, we calculate that NDT is tradig at a P/B of 0.8x, generally related to distressed companies. However, we believe that, given >11% ROE 2019E and sustainable leverage this is not Neodecortech case and it would deserve at least a 1.0-1.1x P/B 2019E, i.e. ca. **€4.78-€5.25 per share**.

#### Neodecortech and Peers' analysis and performance

Comparables: P/BV 2019E vs. ROE 2019E



Source: Market Consensus, Value Track Analysis

## Discounted Cash Flow model

We hereby assume a WACC 2019E at 9.46% progressively converging in the long term at ca. 10.1% i.e. the unlevered Cost of Equity. This is the result of:

- ◆ Italian Equity risk Premium at 8.59% (as calculated by Damodaran in his on line web site);
- ◆ 2.0% risk-free rate to reflect medium-term target inflation;
- ◆ 0.71 unlevered beta;
- ◆ 3.8% post-tax cost of debt;
- ◆ 2.0% liquidity premium to remunerate investors for trading in the “thin” AIM Italia stock market.
- ◆ Explicit financial statements projection starting from 2019E fiscal year and arriving at 2027E, with a break through as of 2025YE when Cogeneration plant will stop production and Cash Flow generation if current fiscal incentives are not reinstated;
- ◆ 2.0% Perpetuity Growth Rate (PGR).

Overall, we derive a **€5.81 per share** DCF value.

### Neodecortech: Discounted Cash Flow Model Summary Table

€mn	
PV of future cash flows FY18E-FY27E	57.7
PV of Terminal value with PGR at 2%	62.8
<b>Fair Enterprise value</b>	<b>120.5</b>
Implied EV/EBITDA '19E (x)	6.4x
Net Cash Position 2018YE	-44.3
<b>Fair Equity value (€mn)</b>	<b>76.2</b>
<b>Fair Equity Value per share (€)</b>	<b>5.81</b>

Source: Value Track Analysis

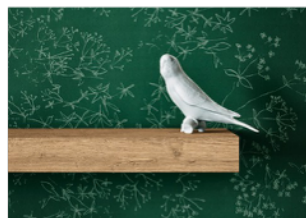
## Appendix: Neodecortech profile at a glance

### Leading decorative surfaces player

Headquartered in Filago (BG) with three fully owned production plants sited in Italy, **Neodecortech is involved in the niche of decorative surfaces** offering a wide range of solutions to the interior design industry and to the flooring one. Even though the production cycle is entirely based in Italy, **Italy accounts less than 30% of Neodecortech's Revenues**.

Up to the finalization of the recent IPO the Group was entirely owned by Valentini family. However, the top management is composed of external management with a long-standing experience in the industry.

### Product range: 51 products divided into six categories



#### Décor Papers

Semi-finished products used for High and Low Pressure Laminates and flooring divided into three main product types:

- base papers;
- unicolours;
- backing papers.



#### Decorative printed papers

Produced in woodgrain, stone and fancy designs, due to become the surfaces used in the furniture and flooring industries.



#### Finish Foils

Finish foils meeting the need for surfacing materials offering an authentic look, texture realism and affordable manufacturing cost.



#### Melamine Films

Melamine films are decorative papers impregnated with thermoplastic resins that convert into strong and durable surfaces for the furniture and flooring industries.



#### PPF & PPLF for luxury vinyl tiles

Printed plastic films offering the same high resemblance to natural materials than Decorative papers in spite of being produced on a plastic substrate. They are employed in the production of high performance flooring materials (LVT) and vertical surfaces.



#### Laminates

Decorative Laminates are surfacing materials produced in continuous with our décor papers that cover a huge number of applications thanks to their resistance, flexibility and superb appearance.

Source: Neodecortech



**Reference market: very sophisticated, small size, controlled by German players**

Neodecortech acts in very sophisticated niches where each paper specialty has its own production distinctiveness that does not allow to exploit synergies by entering in more than one market at the same time. As an effect, these markets do not suit to giant paper producers/ printers.

The key features of the **Décor Paper market** are:

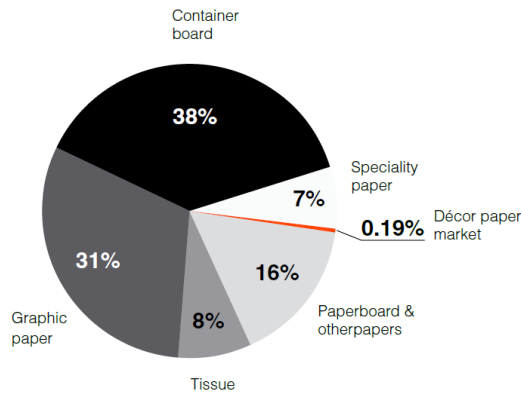
- ◆ Mid-single digit growth pace (ex China);
- ◆ High entry barriers and controlled (in Europe) by German players;
- ◆ Exposed to cyclical end markets such as furnishing and flooring panels' production.

The other market to which Neodecortech is exposed, the **Plastic Films** one, is characterized by:

- ◆ Significant technological investments;
- ◆ High growth rate expected ahead;
- ◆ Sustained profitability.

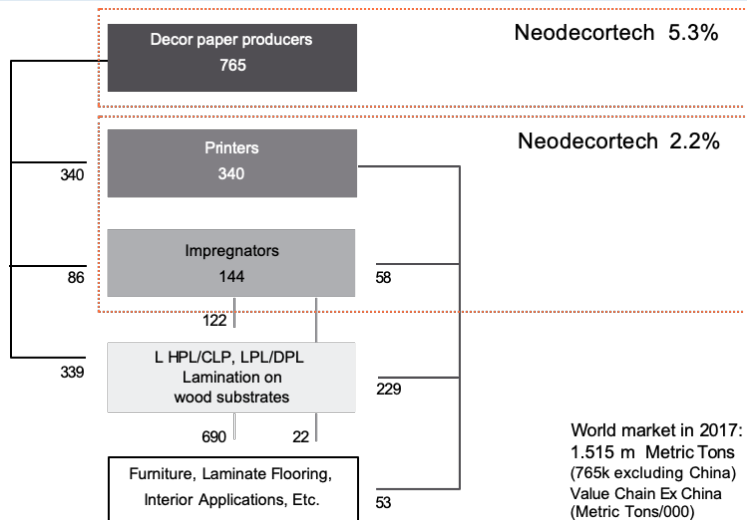
A separate mention is reserved to Chinese players which over the last years have rolled out material output capacity to the internal market only and commercializing lower quality products, at least so far.

**Décor Paper market: 0.19% of total Paper and Paperboard one (ex China)**



Source: Decor Paper Market Research 2017 - Munksjo

**World market Metric Tons/000 (ex China) Décor paper production**



Source: Decor Paper Market Research 2017 - Munksjo

### Vertically integrated business model run by three (and a half) synergic entities

Neodecortech runs a vertically integrated business model i.e. not only it prints décor paper (and Plastic Films) but it also produces internally the large part of the décor paper it prints and most of the energy necessary in the production process, a feature that is essential to be cost competitive. This is carried out by **three highly synergic entities** where upstream unit serves as a supplier of downstream one:

- ◆ **Cogeneration plant.** It provides electrical and thermal energy primarily to the Group's paper mill. This business is run by the legal entity named Bio Energia Guaricino Srl (**BEG**);
- ◆ **Paper mill.** It is involved in the manufacturing of decorative papers for high and low pressure lamination as well as for flooring solutions. This business is run by Cartiere di Guaricino SpA (**CdG**);
- ◆ **Printing and Impregnation.** It consists in décor paper (and Plastic Films) printing / impregnation. This business is run by Neodecortech SpA (previously Confalonieri SpA, **CONF**).

To these entities we should also add the recently acquired lamination business of CorbettaFia.

#### Neodecortech Group: Plants and operations

GUARCINO <span style="float: right;">EP</span>		PAPER MILL <span style="float: right;">PM</span>	
<b>ENERGY PLANT</b>		<b>PAPER MILL</b>	
Total Area	9.000 sqm	Total Area	136.000 sqm
Covered Area	1.000 sqm	Covered Area	25.000 sqm
Reconstruction Value	≈ 30 mln	Reconstruction Value*	≈ 94 mln
Fixed Assets (Net Book Value)	≈ 15 mln	Fixed Assets (Net Book Value)	≈ 33 mln
Number of Employees	2	Number of Employees	171
Number of shifts	3-7/24	Number of shifts	3-7/24
		Production SBU	
		Cartiere di Guaricino	42.000 ton
<b>BERGAMO <span style="float: right;">PI</span></b>		<b>CASOLI DI ATRI <span style="float: right;">L</span></b>	
<b>PRINTING AND IMPREGNATION</b>		<b>LAMINATION</b>	
Total Area	100.000 sqm	Total Area	18.000 sqm
Covered Area	39.000 sqm	Covered Area	6.000 sqm
Reconstruction Value*	≈ 104 mln	Reconstruction Value	≈ 21 mln
Fixed Assets (Net Book Value)	≈ 23 mln	Fixed Assets (Net Book Value)	≈ 2 mln
Number of Employees	156	Number of Employees	33
Number of shifts	3-5/24	Number of shifts	3-5/24
Impregnation SBU	2.550 ton	Production	1.400 ton
Printing SBU	7.750 ton		

Source: Neodecortech

The production of each entity that is not internally used is marketed to third parties in the reference market. This is a proof of the competitiveness of Neodecortech products.

The main advantages of the vertical integration can be summarized as follows:

- ◆ Higher operations efficiency / flexibility;
- ◆ Cost efficiency driven by material intra-group synergies and by lower purchasing costs;
- ◆ Lower time to market;
- ◆ Lower risk profile (i.e. no business discontinuity in case of outage).

## Appendix: Possible increase in the number of shares issued

Neodecortech share capital is currently made of 13.1mn outstanding ordinary shares but this number could change in the future due to some recently issued warrants, a stock grant plan and a possible “reserved” capital increase. More in details:

### Warrants and possible “reserved” capital injection

Back as of 3Q18 the company approved:

- ◆ The issue “for free” (i.e. without payment) of 13.077.500 warrants, in the ratio of one warrant for every one share held (excluding the treasury shares held by the Company), which provide the right to underwrite 3,269,375 shares of Neodecortech S.p.A. i.e. one new share every four warrants based on €4.0 strike price. Warrants’ expiry has been set at 2020;
- ◆ The possibility for the Board of Directors to call for up to €10mn “reserved” capital injection in case external growth opportunities arise.

### Stock Grant Plan addressed to key managers

Stock Grant Plan entails maximum 689,608 ordinary shares to be issued and assigned to some key managers subject to the achievement of selected economic and financial results, provided that the market value of the shares is not higher than €5.0mn.

The Plan is working as follows:

- i) Maximum 60% of the shares of the Plan are subject to the achievement of selected financial targets (EBITDA and Net Profit) in 2017FY and 2018FY. We calculate that these targets have been met;
- ii) Maximum 40% of the shares of the Plan are to be assigned if the company becomes listed on the MTA index within 26 March 2020 i.e. within 30 months from the first day of listing on AIM Italia that took place back as of 26 September 2017.

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