

Neodecortech Spa

Sector: Décor surfaces



Fighting back against pandemic

Analyst

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Fair Value (€)	4.85
Market Price (€)	3.48
Market Cap. (€m)	47.0

Neodecortech (NDT) 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

FY20 figures better than expected

After a tough 1H20, marked by a two months lockdown and by reduced operations in the remaining ones, NDT has reported a very strong rebound in the second semester, supported by new living and working habits that are driving flooring and furniture market demand. Main FY2020 figures are:

- ◆ Net Revenues declined by 3.9% YoY, standing at €127.8mn, thanks to a +10% YoY recovery in 2H20;
- ◆ EBITDA stood at €14.6mn, -8.8% YoY as the strong 2H20 top line rebound was compensated by a general increase of Raw Material prices. Yet, EBITDA margin stood at 11.4% in the full year recorded a higher 12.2% level over the latest six months;
- ◆ Lower CapEx and a better Working Capital management resulted in an improved Net Financial Debt, at €39.9mn, down by ca. €630k YoY.

2021E-22E estimates review

Décor paper industry is expected to continue the trend of the latest two quarters and grow in the mid-single digit annual range while we forecast NDT to outperform thanks to sales mix shift towards new (and more profitable) products, demanding however a heavy investment policy in the short-term (50% increase in cumulated 2021-23 Capex plan compared to 2018-2020). Our main forecasts are as follows:

- ◆ Revenues up at high-single digit CAGR over 2021-22E;
- ◆ Adjusted EBITDA at €18.3mn and €20mn in 2021E-22E, with EBITDA margin at 12.0% and 12.6%, respectively;
- ◆ Net Profit Adj. at ca. €7.1mln in 2022E;
- ◆ Net Debt at €41.3mn in 2021E, burdened by €13.5mn capex, and at €34.7mn in 2022E.

Fair Value at €4.85 per share

NDT shares are now closer to pre-pandemic level, however still trading at discount with respect to main comparables. Based on our new 2021E-22E estimates and sector trading multiples, we revise our fair value to **€4.85 per share**, (from previous €4.36). At such fair value, the stock would trade at 5.8x EV/Adj. EBITDA 2021E and 11.4x P/E 2021E. We note that industry leader Ahlstrom-Munksjö has been recently taken over at 8.4x-7.2x EV/EBITDA and 22.0x-18.4x P/E 2020A-21E respectively.

KEY FINANCIALS (€m)	2020A	2021E	2022E
NET REVENUES	127.8	140.0	149.0
EBITDA	14.6	18.3	23.5
EBIT	5.5	8.9	13.9
NET PROFIT	3.5	5.7	9.4
EQUITY	61.7	66.2	73.5
NET FIN. POS.	-39.9	-41.3	-34.7
EPS ADJ. (€)	0.26	0.42	0.52
DPS (€)	0.09	0.15	0.15

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

RATIOS & MULTIPLES	2020A	2021E	2022E
EBITDA MARGIN (%)	11.4	13.1	15.8
EBIT MARGIN (%)	4.3	6.4	9.3
NET DEBT / EBITDA (x)	2.7	2.3	1.5
NET DEBT / EQUITY (x)	0.6	0.6	0.5
EV/EBITDA (x)	5.9	4.8	3.5
EV/EBIT (x)	15.8	9.9	5.9
P/E ADJ. (x)	13.3	8.2	6.6
P/BV (x)	0.76	0.71	0.64

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

STOCK DATA

FAIR VALUE (€)	4.85
MARKET PRICE (€)	3.48
SHS. OUT. (m)	13.5
MARKET CAP. (€m)	47.0
FREE FLOAT (%)	38.4
AVG. -20D VOL. (#)	5,527
RIC / BBG	NDT.MI / NDT.IM
52 WK RANGE	2.36 – 4.36

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.

Key Financials

€mn	2019A	2020A	2021E	2022E
Net Revenues	133.0	127.8	140.0	149.0
Chg. % YoY	1.6%	-3.9%	9.5%	6.4%
Reported EBITDA	15.9	14.6	18.3	23.5
Reported EBITDA Margin	12.0%	11.4%	13.1%	15.8%
Reported EBIT	7.1	5.5	8.9	13.9
Reported EBIT Margin	5.4%	4.3%	6.4%	9.3%
Reported Net Profit	4.0	3.5	5.7	9.4
Chg. % YoY	-34.3%	-10.7%	62.1%	63.5%
Net Fin. Position	-40.5	-39.9	-41.3	-34.7
Net Fin. Pos. / EBITDA (x)	2.5	2.7	2.3	1.5
Capex	-8.0	-6.3	-13.5	-8.5
OpFCF b.t.	8.5	6.1	3.0	13.1
OpFCF b.t. as % of EBITDA	53.2%	41.9%	16.4%	55.7%

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

Investment case

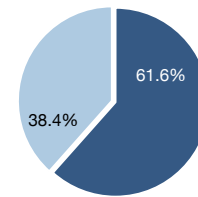
Strengths / Opportunities

- ◆ 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.

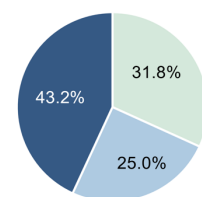
Shareholders Structure



■ Valentini Family ■ Free float

Source: Neodecortech SpA

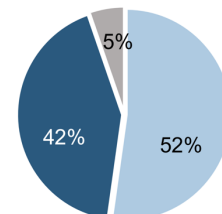
Net Sales breakdown by BU



■ Paper Division
■ Energy Division
■ Decor Paper Division

Source: Neodecortech SpA (*) Sales 2020

Net Sales b.down by geography



■ Italy ■ Europe ■ RoW

Source: Neodecortech SpA (*)Sales 2020

Stock multiples @ €4.85 Fair Value

	2021E	2022E
EV / SALES (x)	0.74	0.64
EV / EBITDA (x)	5.8	4.3
EV / EBIT (x)	12.0	7.2
EV / CAP.EMP. (x)	1.0	0.9
OpFCF Yield (%)	n.m.	12.8
P / E ADJ. (x)	11.4	9.2
P / BV (x)	1.0	0.9
Div. Yield. (%)	3.0	3.0

Source: Value Track

2020 results better than expected

Covid-19 outbreak has dramatically slashed global economic activity during the first half of 2020, with negative consequences spreading already as of today. In 2H20 however there's been a sound rebound in the flooring and furniture markets driven by changes in the living and working habits of customers, who now spend more time at home and are more inclined towards rooms renovation activities.

As a consequence, Neodecortech has reported better than expected financial results for 2020FY, remarkably recovering from 1H20 contraction. Indeed, key 2020 figures are as follows:

- ◆ Total Revenues, i.e. Value of Production, amounts to €133.7mn, down 1.6% YoY;
- ◆ EBITDA stands at €14.6mn, 11.4% of Net Revenues, while EBIT decreased by 23% YoY. Net Profit is down 10.7% to €3.5mn;
- ◆ Net Debt decreased by ca. €600Kk., totaling €39.9mn at the year-end.

Neodecortech Group: Main Financials 2019FY and 2020FY

€ mn	2019FY	2020FY	Change YoY (%)
Total Revenues	135.9	133.7	-1.6%
EBITDA	15.9	14.6	-8.0%
EBITDA Adj.	17.9	14.6	-18.2%
EBIT	7.1	5.5	-23.0%
Net Profit	4.0	3.5	-10.7%
Net Profit Adj.	5.7	3.5	-37.5%
Net Financial Position	-40.5	-39.9	+15.5%

Source: Neodecortech, Value Track Analysis

Key messages

In our view, the key messages of 2020FY figures are the following:

- ◆ Revenues rebound in 2H20 was impressive and brought the group back in line with its medium-term performances;
- ◆ Raw Materials prices started to rise back as well, partially offsetting Revenues increase and preventing operating margins from further increasing;
- ◆ Net Profit was almost entirely generated during 2H20, as out of the total €3.5mn, only 5.5% was attributable to 1H20;
- ◆ Net Financial Debt was reduced because of lower net investments.

Revenues: back in line with medium term performances in 2H20

2020FY Net Revenues from Sales decreased by 3.9% YoY to €127.8mn mainly due to the impact that the coronavirus outbreak had on 2Q2020.

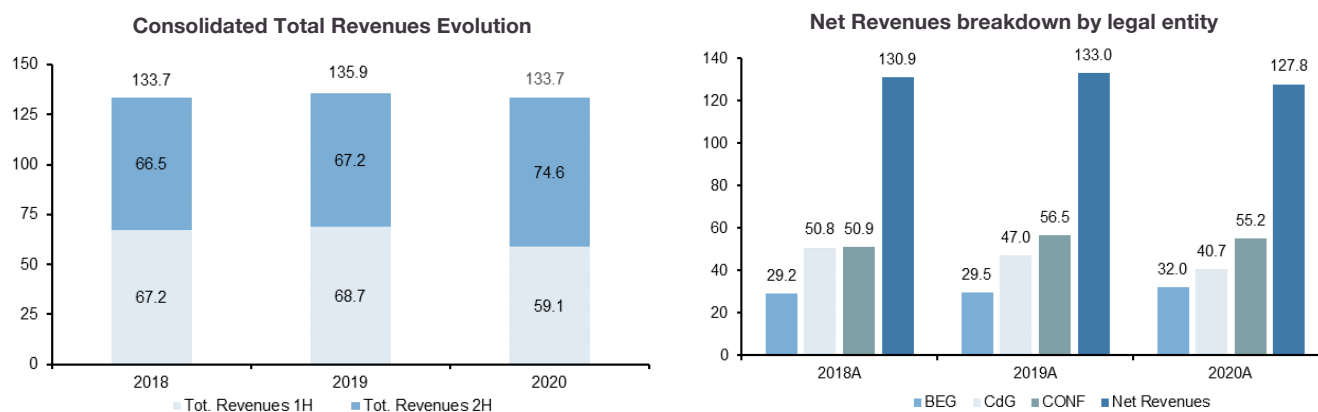
Almost 60% of the turnover was generated in the second half of the year, €73.3mn +10% YoY, while 1H20 recorded a -17.8% YoY decrease. This result was achieved thanks to two main factors:

- ◆ On one hand, Covid-19 lockdowns forced quick changes in the living and working habits of everyone, restoring a central role to home spaces, inevitably determining a strong rebound for the whole furniture market demand;

- ◆ On the other, Neodecortech newly released product lines (EOS_{TP} and the wide PPLF and the “142 cm laminate” format) have been very well accepted by the Group’s high-end customers, who started to place orders.

Worthy to note, if we look back at 2018-19-20 fiscal periods on a semester-by-semester basis, we witness how in 2H20 the group not only got back in line with its medium-term top line six-month performance, but also exceeded it, standing over the €65mn-€70mn range that characterized five out of the six past semesters.

Neodecortech historic top line evolution 2018FY-2020FY



Source: Neodecortech, Value Track Analysis

The three business units experienced different revenues paths. Indeed, while the Paper Production division saw a sharp contraction, the Energy business segment recorded a 8.4% YoY growth. Overall, the imposed closure of the production facilities between March and April 2020 and the following months of lower production capacity negatively affected 2020 top lines. In details:

- ◆ **Paper** production. CdG unit reported the weakest performance among the divisions, as sales dropped by 13.5% compared to 2019FY mainly due to the 2Q20 production and demand collapse;
- ◆ **Décor Paper**. Neodecortech ended the year with €55.2mn Net Revenues, down by just 2.3% YoY. After a worrying second quarter, the success that the new anti-fingerprint EOS_{TP} and the 160cm PPLF achieved in the first months of commercialization supported a quick recovery;
- ◆ **Energy**. BEG was the only business unit that did not stop to operate throughout the whole year, reporting Net Revenues of €32mn, up by over 8% YoY. In light of the all-time low recorded in 2020 for gas prices, the registered growth appears even greater.

Neodecortech Group: 2019-2020 Top Line breakdown by divisions

€mn, IAS	2019FY	2020FY	Chg. % YoY
Energy Division	29.5	32.0	+8.4%
Paper Division	47.0	40.7	-13.5%
Decorative Paper Division	56.5	55.2	-2.3%
Net Revenues	133.0	127.8	-3.9%
Other Revenues	2.9	5.9	n.m.
Total Revenues (VoP)	135.9	133.7	-1.6%

Source: Neodecortech, Value Track Analysis

Geographically, Italy and Europe still represent the main markets for the Group, with a combined 94.4% share. However, while the Italian segment grew by 2.1%, Europe dropped by 8.3%. Revenues from Asia and the Middle East fell by 42.3% and Africa by 4.7%. America experienced a positive 2.4% increase.

Diverse performances have to do with the timeline of the spread of Covid-19 and the rapidity of countries to adopt containment measures.

Operating profitability rebound partially offset by higher Raw Materials prices

As a consequence, 2020FY Reported EBITDA declined from €15.9mn to €14.6mn (-8.0% YoY, we calculate ca. -18% YoY on an Adjusted basis), while Reported EBIT fell down to €5.5mn (-23% YoY) also due to a higher incidence of D&A expenses on EBITDA (62% in 2020FY vs 55% in 2019FY).

Overall, FY20 EBITDA margin decreased by just 30bps YoY, standing at 11.4% of Net Revenues, but we note that in 2H20 alone, the EBITDA margin got back above the 12% level, signaling a sharp recovery.

Worth to notice, operating margins also benefitted from the lower incidence of Labour Costs on Net Sales (14.8% compared to 15.6%)

Neodecortech Group: EBITDA, EBIT and margins evolution (as % of Net Sales) 2019-20FY

€ mn	1H19	1H20	Change YoY (%)	2H19	2H20	Change YoY (%)
EBITDA	7.1	5.6	-20.3%	8.8	9.0	+22.7%
<i>EBITDA margin</i>	<i>10.6%</i>	<i>10.3%</i>	<i>-30bp</i>	<i>13.3%</i>	<i>12.2%</i>	<i>-110bp</i>
EBITDA Adj.	8.5	5.6	-33.3%	9.4	9.0	-4.3%
<i>EBITDA Adj. margin</i>	<i>12.7%</i>	<i>10.3%</i>	<i>-240bp</i>	<i>14.1%</i>	<i>12.2%</i>	<i>-190bp</i>
EBIT	2.9	1.2	-48%	4.2	4.3	+2.3%
<i>EBIT margin</i>	<i>4.4%</i>	<i>2.3%</i>	<i>-210bp</i>	<i>6.3%</i>	<i>5.7%</i>	<i>-60bp</i>

Source: Neodecortech, Value Track Analysis

Focus on raw materials prices evolution

Raw Materials continue to represent the major cost component of Neodecortech's Operating Expenses (ca. 64%), weighting for 56.7% of 2020FY Total Revenues (vs. 57.0% in 2019FY).

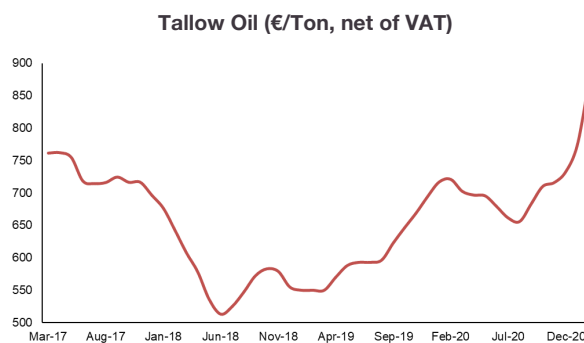
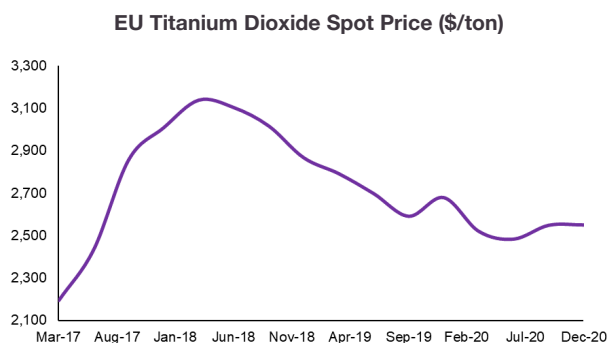
European Raw Materials prices seemed to have followed Neodecortech Revenues trends during 2020. Indeed, after decreasing during 1H20, Titanium Dioxide (TiO₂) and Tallow Oil prices started to rise back in 3Q20. Wood Pulp remained almost flat during 2020, but started to grow as well when approaching the year-end

Titanium Dioxide and Tallow Oil

TiO₂ price was overall low volatile in 2020; indeed, it declined softly all over the first half of 2020 until July, when it landed around \$2,550/Ton.

Tallow Oil was, on the contrary, much more volatile; after reaching a bottom at €655/Ton in August 2020, its price started to row at an impressive pace, exceeding the €800/Ton threshold back in February 2021.

Titanium Dioxide and Tallow oil evolution]

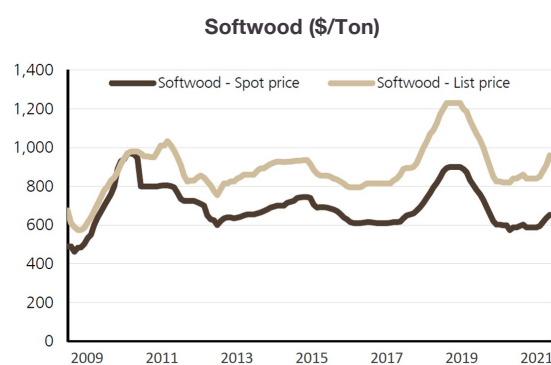
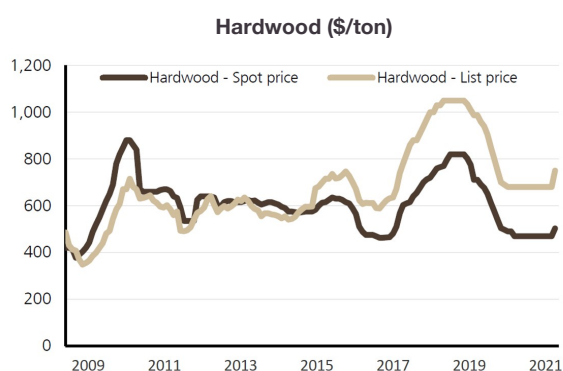


Source: Bloomberg and Various

Wood Pulp

Hardwood List Prices remained flat at around \$ 700/Ton until starting a rapid surge in the 4Q20 quarter. Softwood Pulp followed a parallel trend, approaching \$ 1,000/Ton in January 2021, after a 2020 in the \$ 850/Ton region.

Pulp Hardwood and Softwood price evolution 2009-2020 (\$/Ton]



Source: Various

Net Profit at €3.5mn

After a positive but warning 1H20 €195k Net Profit (-82.3% YoY), Neodecortech reported a surprising FY2020 bottom line of €3.5mn (-10.7% YoY). Indeed, D&A and financial charges stood almost flat on the two semesters, hence a higher EBITDA implied a higher net margin as well.

Compared to 2019FY, Neodecortech paid lower financial charges over its net debt levels (3.6% vs. 4.7%) and fewer taxes thanks to the tax consolidation scheme of the Group, but the drop in sales level ultimately resulted in a poorer bottom line.

Neodecortech Group: 2019FY-2020FY results from EBITDA down to Net Profit

€mn, IAS	2019FY	2020FY	Chg. % YoY
Reported EBITDA	15.9	14.6	-8.8%
D&A Charges	-8.77	-9.13	-4.1%
EBIT	7.1	5.5	-23.0%
Net Financial charges	-1.9	-1.4	n.m.
Taxes	-1.2	-0.5	n.m.
Reported Net Profit	4.0	3.5	-10.7%

Source: Neodecortech, Value Track Analysis

Net Financial Debt reduced thanks to lower Capex and NWC seasonality

In such a challenging market environment, Neodecortech was able to slightly reduce its Net Debt by €630k down to ca. €40mn, much lower than 1H20 Net Debt figure, (over €48mn), driven by the usual working capital seasonality and by fewer investments throughout the whole year (€6.3mn vs. €8.0mn in 2019FY), in line with the expected risk-adverse strategy required by the pandemic evolution.

Neodecortech Group: 2019FY-2020FY Cash Flow Statement

€mn	2019FY	2020FY
EBITDA	15.9	14.6
Op. WC requirements	0.2	-2.1
Change in Provisions / Other	0.4	-0.1
Maintenance Capex	-3.0	-3.3
OpFCF b.t. and before Development Capex	13.47	9.1
Development Capex	-5.0	-3.0
OpFCF b.t.	8.5	6.1
Cash Taxes	-1.3	-0.5
OpFCF a.t.	7.2	5.6
Other Op. Items (incl. Fin. Inv.)	0.2	-1.7
Net Financial Charges	-1.9	-1.4
Capital Injections	0.0	0.0
Dividends paid	-2.0	-1.9
Net Cash generated	3.5	0.6

Source: Neodecortech, Value Track Analysis

In details:

- ◆ Working Capital increased by €2.1mn, driven by Payables diminishing from €31.3mn to €25.6mn (-18.4% YoY);

- ◆ Neodecortech invested ca. €6.3mn Capex;
- ◆ Dividends paid amounted to €2.0mn.

Neodecortech: 2019FY-2020FY Balance Sheet structure

€mn	2019FY	2020FY
Working Capital	26.3	28.4
Net Fixed Assets	83.7	81.3
Provisions	8.2	8.1
Total Capital Employed	101.8	101.6
Group Net Equity	61.3	61.7
Net Fin. Position [i.e. Net Debt (-) Cash (+)]	-40.5	-39.9

Source: Neodecortech, Value Track Analysis

Neodecortech vs. Peers in 2020

Covid-19 outbreak hit Neodecortech main peers as well. Indeed, YoY revenues decreases for Surteco and Ahlstrom-Munksjö have been even more severe (-7.3% and -8.0%, respectively), but in both cases there's been a sharp rebound in 2H20 after the global demand decline of the furniture industry in the first semester.

At the same time, we note that these two firms seem to have better dealt with operating expenses than Neodecortech, as they show increased EBITDA and EBIT figures with respect to 2019FY.

Worthy to note, in the first months of 2021, Ahlstrom-Munksjö accepted a tender offer from a group of Private Equities, a strong signal of the current attractiveness of this sector.

In details:

- ◆ **Ahlstrom-Munksjö** recorded Net Sales in the Décor solutions division at €369.7mn, a -11.9% YoY decrease, driven by 2Q2020 closure of retail furniture outlets, lower selling prices and adverse currency effects.

Orders inflow starting to rise back in the summer and a high raw material efficiency permitted Ahlstrom to report an excellent 9.0% YoY EBITDA increase in the décor division.

- ◆ **Surteco** has not published the whole set of its official figures for 2020FY yet. However, as for 1H20, the decorative segment reported a -15.4% YoY drop on Revenues and a -39.9% YoY on EBIT. Still, figures for 9M20 showed the first evidence of a sharp recovery. EBIT was indeed down by 19.7% YoY only. And in a recently published statement, Surteco announced preliminary 2020FY top line and EBIT results for the whole group, explaining how “the successful implementation of the first phase of the restructuring, lower material costs and the surprisingly good business development in the fourth quarter” were the key drivers of both Sales and EBIT up YoY in 4Q20.

Indeed, cumulatively for the full year 2020, Sales are expected at around €627mn vs. €675mn in FY19 (ca. -7% YoY) and EBIT is expected to be above €42mn vs. €40.5mn in FY19 (ca. +4% YoY).

Neodecortech Peers: 2019-2020 Décor Paper performance

€mn	2019FY	2020FY	YoY
Ahlstrom Munksjö			
Net Revenues	419.6	369.7	-11.9%
EBITDA	34.5	37.6	+9.0%
<i>EBITDA Margin</i>	8.2%	10.2%	+24.3%
Surteco			
Net Revenues	390.7	342.3	-12.3%
EBIT	26.9	21.6	-19.7%
<i>EBIT Margin</i>	6.9%	6.3%	-8.7%

Source: Ahlstrom-Munksjö, Surteco, Value Track Analysis

What's ahead in 2021-23

Market demand evolution

Taking into account macroeconomic and social factors such as GDP growth readjustments, an increasing middle class in developing markets boosting renovation and furniture demand, and new interior design trends, the Décor solutions global market (excluding China) is expected to stabilize at a 2%-3% yearly growth. Demand for high-end products, such as the ones that Neodecortech has recently started to commercialize, should evolve at faster rates than the overall industry.

Neodecortech investment policy

In February 2021, Neodecortech announced its new 2021-2023 Business Plan.

Banking on the increasing demand for its brand new and more profitable products and on the necessity to anticipate future technological trends, Neodecortech group has announced the decision to increase the amount of capital expenditures by ca. 50% compared to 2018-2020. This means some **€30mn cumulated Capex in 2021E-2023E** out of which:

- ◆ 37% to be allocated to the launch of new products and processes;
- ◆ 33% to increase productivity by renovating machinery and equipment, and;
- ◆ 29% to consolidate operating and production capacity.

Here follows some examples on the products and processes on which we expect Neodecortech to invest on:

- ◆ Traditional products such as printed decorative paper, plastic printed films (PPF), and impregnated paper;
- ◆ Innovative products such as paper for food use, velvet paper, laminates, anti-fingerprint EOS surface finish, new formats and uses of the plastic printed laminated film (e.g., vertical wall coverings);

We also expect the company to start evaluating the possibility to invest in a digital printing production line, the possibility to acquire one of the facilities in which it is currently operating as tenant, and the possibility to rethink the energy production business (BEG) if current energy incentives will not be renewed in 2025.

Last but not least we expect the company to keep investing in order to maintain its leadership position as European pioneer in the principles of circular economy, demonstrated by the achievement of being recognized by ConsumerLab as one of the 44 highest performing sustainability reports in Italy.

Using the lowest levels of fossil fuels in the European industry as well as 100% of electricity from renewable sources are just some of the “green” practices of Neodecortech.

2021E-22E forecasts

We are modifying our 2021E-22E financial forecasts by taking into account:

- ◆ The slightly more positive outlook for market demand both in the short and medium term;
- ◆ A faster shift of the revenue mix from standard products towards the newest ones (EOS_{TP} and the new formats of PPLF) driving an increase in operating profitability;
- ◆ Raw materials maintaining a stable incidence on revenues;
- ◆ Lower impact of 2022E non-monetary capital gain related to the possible dismissal of an “old” debt item;
- ◆ Higher development Capex to be invested in 2021E and 2022E driving higher D&A charges already as of 2020E.

Overall, we are revising upwards Adj. EBITDA 2021E-22E by ca. 6% while Adj. Net Profit 2021E-22E is revised upwards by ca. 13%-15%.

Despite the higher profits, Net Debt is revised slightly upward due to the above-mentioned heavier Capex plan.

Neodecortech: New vs. Old 2021E-22E forecasts

€mn	2021E			2022E		
	Old	New	Change	Old	New	Change
Net Revenues	139.9	140.0	0.1%	145.4	149.0	2.5%
Total Revenues	142.8	143.5	0.5%	153.9	156.0	1.4%
EBITDA Adj.	17.4	18.3	5.6%	18.9	20.0	5.8%
EBITDA Rep.	17.4	18.3	5.6%	23.4	23.5	0.5%
EBIT	8.0	8.9	12.2%	13.8	13.9	0.8%
Net Profit	5.0	5.7	15.5%	9.3	9.4	0.8%
Adj. Net Profit	5.0	5.7	15.5%	6.3	7.1	13.4%
Net Financial Position (*)	-37.3	-41.3	-4.0	-32.0	-34.7	-2.7

Source: Value Track analysis

As a consequence, we now foresee:

- ◆ Top line growing at a high-single digit CAGR over the next two years;
- ◆ Adj. EBITDA to grow at a 17% CAGR, up to €20mn in 2022E;
- ◆ Adjusted Net Profit to climb up to €7.1mn in 2022E;
- ◆ Net Debt to increase in 2021E to €41.3mn and then significantly drop to €34.7mn in 2022E, below the 2.0x Debt / EBITDA level.

Neodecortech: 2019A-22E Key Financials forecasts

(€mn)	2019A	2020A	2021E	2022E
Total Revenues	135.9	133.7	143.5	156.0
Reported EBITDA (*)	15.9	14.6	18.3	23.5
Reported EBIT (*)	7.1	5.5	8.9	13.9
Reported Net Profit (*)	4.0	3.5	5.7	9.4
OpFCF after tax	7.2	5.6	1.4	6.2
Net Financial Position (**)	-40.5	-39.9	-41.3	-34.7

Source: Neodecortech, Value Track Analysis

Revenues 2021E-2022E growing at 8% CAGR

The first signs of surging demand were already clear in the closing months of 2020FY and an increasing production focus on innovative products should result in a YoY Total Revenues gain of 7.3%. In 2022E, we expect a 6.4% growth compared to 2021E, reaching a Total Revenues amount of €156mn.

As far as the various legal entities are concerned, we underline the following:

Decorative paper division

The high amount of Capex planned for the forthcoming periods should be invested for a large majority in the Décor Paper business in order to expand the recently commercialized lines of PPLF, laminates (size 142cm) and anti-fingerprint materials (EOS laminated and thermoplastic). Indeed, Neodecortech plans to make these products adaptable to new areas (e.g., vertical wall coverings), new customers and new markets. Focusing on such high-end lines should increase the marginal profitability for CONF and drive the overall Group revenues growth.

Paper division

We expect a solid recovery for the division after the poor results of 2020FY mainly driven by the development of new materials as the Velvet Paper and Paper for Food use. Hence, we believe in a steady growth already as of 2021E.

Energy division

Higher public incentives (from €95/MWh to €109.36/MWh in 2021E), together with expected upward trends of the energy market, should contribute to the high-single digit growth of the Group.

Neodecortech Group: 2019A-2022E Top Line evolution

€mn, IAS	2019A	2020A	2021E	2022E
Net Revenues	133.0	127.8	140.0	149.0
Other Revenues	2.9	5.9	3.5	7.0
Total Revenues	135.9	133.7	143.5	156.0

Source: Neodecortech, Value Track Analysis

Costs and profitability

We forecast EBITDA margin at 13.1% and EBITDA at €18.3mn for 2021E, close to all-time high 2018A figures. EBIT as well should pursue the same trends of EBITDA, with margins on Net Revenues at 6.4% and 9.3% for 2021E and 2022E, respectively.

Such figures should be achieved thanks to:

- ◆ **Better sales mix.** LVT products report to have the highest contribution margin of the whole Neodecortech portfolio;
- ◆ **Solid Opex management.** Latest months of 2020FY saw a sharp increase in the price of Tallow Oil and a slight growth in Wood Pulp levels, contributing to a higher incidence on Net Revenues if compared to 2019FY. Despite the last trends, we anticipate a positive operating leverage in the next two years, thanks to the aforementioned higher products marginality. In addition, a lower price volatility is foreseen, hence a more manageable cost control activity. The company might also require additional personnel to successfully deal with the superior levels of estimated orders, but the impact on revenues should be less than proportional in the forthcoming periods.
- ◆ D&A expenses rising proportionally to the 3-years €30mn Capex plan.

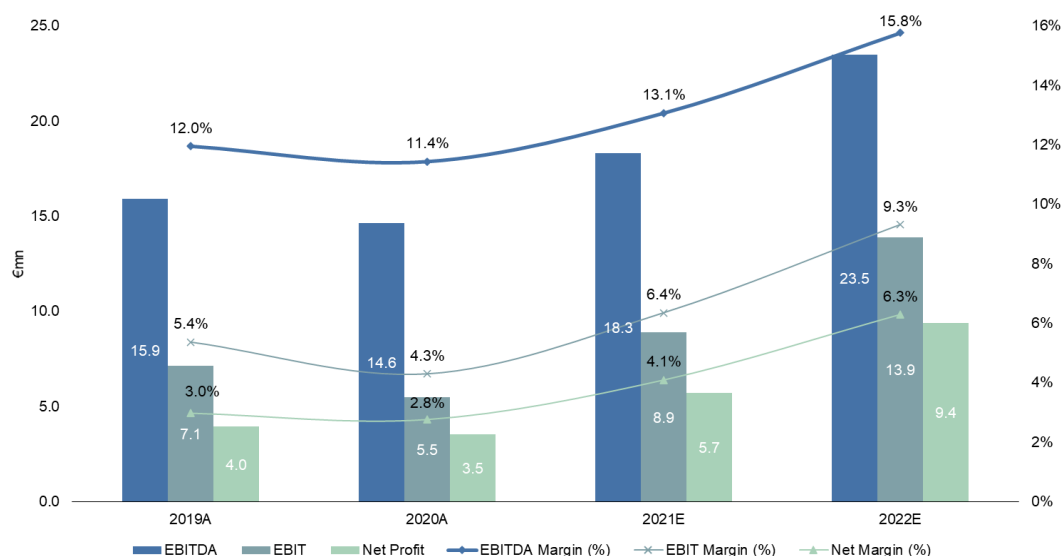
We remind that 2022E reported figures should include a €3.5mn net positive one-off item to be accounted within Other Revenues, related to a likely financial debt write down.

Neodecortech Group: P&L evolution 2019A-22E

(€mn)	2019A	2020A	2021E	2022E
Net Revenues	133.0	127.8	140.0	149.0
Chg. % YoY	1.6%	-3.9%	9.5%	6.4%
Total Revenues	135.9	133.7	143.5	156.0
EBITDA	15.9	14.6	18.3	23.5
<i>EBITDA margin (as % of Net Revenues)</i>	<i>12.0%</i>	<i>11.4%</i>	<i>13.1%</i>	<i>15.8%</i>
EBITDA Adj.	17.9	14.6	18.3	20.0
<i>EBITDA Adj. margin (as % of Net Revenues)</i>	<i>13.4%</i>	<i>11.4%</i>	<i>13.1%</i>	<i>13.4%</i>
Depreciation & Amortization	-8.8	-9.1	-9.4	-9.6
EBIT	7.1	5.5	8.9	13.9
<i>EBIT margin (as % of Net Revenues)</i>	<i>5.4%</i>	<i>4.3%</i>	<i>6.4%</i>	<i>9.3%</i>
Net Fin. Income (charges)	-1.9	-1.4	-1.5	-1.1
Pre-tax Profit	5.2	4.1	7.4	12.8
Tax	-1.2	-0.5	-1.6	-3.5
Net Profit	4.0	3.5	5.7	9.4
<i>Net margin (as % of Net Revenues)</i>	<i>3.0%</i>	<i>2.8%</i>	<i>4.1%</i>	<i>6.3%</i>
Net Profit Adj.	5.7	3.5	5.7	7.1
<i>Net Adj. margin (as % of Net Revenues)</i>	<i>4.3%</i>	<i>2.8%</i>	<i>4.1%</i>	<i>4.8%</i>

Source: Value Track Analysis

Neodecortech Group: 2019A-2022E Profitability evolution



Source: Neodecortech, Value Track Analysis

Capex Plan, Cash generation and Net Financial Position

Out of the ca. €30mn cumulated capex 2021E-23E we expect ca. 45% of total to be invested already as of 2021E, while 2022E and 2023E should almost equally share the remaining.

Neodecortech Group: Cash Flow Statement evolution 2019A-22E

(€mn)	2019A	2020A	2021E	2022E
EBITDA	15.9	14.6	18.3	20.0(*)
Op. WC requirements	0.2	-2.1	-2.0	-2.1
Change in Provisions / Other	0.4	-0.1	0.2	0.2
Maintenance Capex	-3.0	-3.3	-3.0	-3.0
OpFCF b.t. and before Development Capex	13.5	9.1	13.5	15.1
Development Capex	-5.0	-3.0	-10.5	-5.5
OpFCF b.t.	8.5	6.1	3.0	9.6
Cash Taxes	-1.3	-0.5	-1.6	-3.5
OpFCF a.t.	7.2	5.6	1.4	9.6
Other Op. Items (incl. Fin. Inv.)	0.2	-1.7	0.00	3.5
Net Financial Charges	-1.9	-1.4	-1.5	-1.1
Capital Injections	0.0	0.0	0.0	0.0
Dividends paid	-2.0	-1.9	-1.2	-2.0
Net Cash generated	3.5	0.6	-1.4	6.6

Source: Value Track Analysis (*)EBITDA Adj.

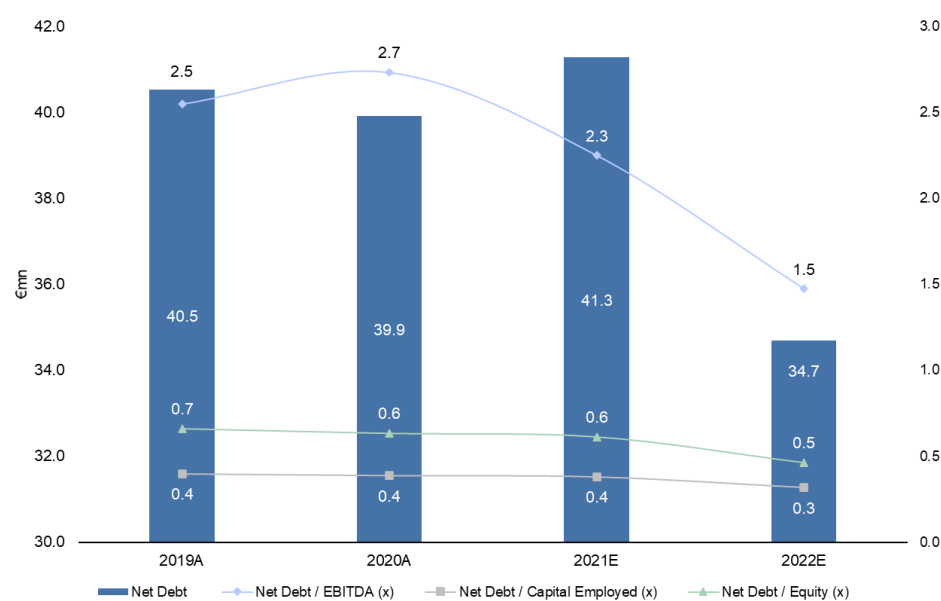
Overall, the Net Debt/EBITDA multiple is forecasted to decrease in the 1.5x region in 2022E, starting from a 2.7x figure in 2020E.

Neodecortech Group: Balance Sheet evolution 2019A-22E

(€mn)	2019A	2020A	2021E	2022E
Working Capital	26.3	28.4	30.3	32.4
Net Fixed Assets	83.7	81.3	85.4	84.3
Provisions	8.2	8.1	8.3	8.5
Total Capital Employed	101.8	101.6	107.5	108.3
Group Net Equity	61.3	61.7	66.2	73.5
Net Fin. Position [i.e. Net Debt (-) Cash (+)] (*)	-40.5	-39.9	-41.3	-34.7

Source: Value Track Analysis

Neodecortech Group: 2019A-2022E Net Debt evolution



Source: Neodecortech, Value Track Analysis

Valuation

Based on our new 2021E-22E estimates and on current sector trading multiples we calculate a fair equity value at **€4.85 per share**, (up from previous €4.36). At such fair value, the stock would trade at 5.8x EV/EBITDA 2021E, 11.4x P/E 2021E and 1.0x P/BV 2021E.

We underline that, given the low visibility driven by covid-19 outbreak, we're not currently taking into account in our fair value assessment the outcome of DCF which highlights a €6.08 base case value.

Hereby the sensitivity of NDT implicit stock trading multiples in the €3.65-€5.65 share price range.

Neodecortech: Sensitivity of implicit stock trading multiples based on €3.65-€5.65 share price range

Market Price (€ per share)	Enterprise Value		EV / EBITDA (x)		EV / EBIT (x)		P / E (x)		P / BV (x)(*)	
	2021E	2022E	2021E	2022E	2021E	2022E	2021E	2022E	2021E	2022E
€ 3.65	€ 91 mn	€ 80 mn	5.0	3.4	10.2	5.7	8.6	7.0	0.7	0.7
€ 4.05	€ 96 mn	€ 85 mn	5.3	3.6	10.8	6.1	9.6	7.7	0.8	0.7
€ 4.45	€ 101 mn	€ 90 mn	5.5	3.8	11.4	6.5	10.5	8.5	0.9	0.8
€ 4.85	€ 107 mn	€ 96 mn	5.8	4.1	12.0	6.9	11.4	9.2	1.0	0.9
€ 5.25	€ 112 mn	€ 101 mn	6.1	4.3	12.6	7.3	12.4	10.0	1.1	1.0
€ 5.65	€ 118 mn	€ 107 mn	6.4	4.5	13.2	7.7	13.3	10.8	1.2	1.0

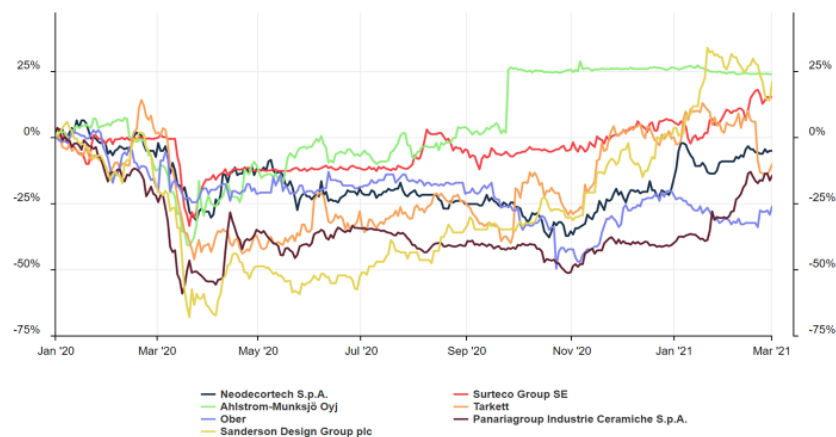
Source: Value Track Analysis

(*) Adj. ROE 2021E-22E at 9.2%

Multiple-based Valuation

NDT shares were characterized by unprecedented high levels of volatility brought by the pandemic touching an all-time low at €2.16 on October 19th 2020 and then rebounding at current €3.50 level in line with pre-Covid-19 level. Compared to peers we note that NDT performed better, in terms of price return, of minor players such as Tarkett, Panaria Group and Ober, while underperforming its most direct comparables, that's to say Surteco and Ahlstrom-Munksjö, the latter being lifted by a take-over offer at €17.97 per share (see later on for more details on this point).

Neodecortech vs. peers: Share price evolution Jan 2020 – March 2021



Source: S&P Capital IQ

Even though Neodecortech performed better than some of its peers, the stock is still trading at large discounts, as:

- ◆ NDT is trading at 4.8x EV/EBITDA'21E while peers have returned in line with historical average at ca. 6.0x multiple. Worth to notice, the average values do not include Ahlstrom-Munksjö figures, as the company is at a more advanced stage of maturity, marginality and recently accepted a tender offer based on a premium price;
- ◆ Despite a higher than peers 8.7% ROE 2021E, NDT shares trade at 0.7x P/BV21E, while Surteco and Tarkett trade at 1.05x and 0.99x, with 7.2% and 6.8% ROE 2021E, respectively.

Neodecortech vs. Peers: Stock trading multiples

Company	EV / EBITDA (x)		EV / EBIT (x)		Adj. P / E (x)		EV / OpFCF (x)(**)	
	2021E	2022E	2021E	2022E	2021E	2022E	2021E	2022E
Ober Groupe	8.1	7.3	18.5	15.3	16.2	13.9	9.8	8.7
Panaria Group	6.4	nm	nm	nm	nm	nm	11.7	nm
Surteco	6.2	5.5	11.1	9.1	14.7	12.0	11.1	9.0
Tarkett	4.8	4.0	9.7	8.0	14.6	10.3	7.4	6.2
Walker Greenbank(***)	4.6	4.7	9.0	9.2	20.5	21.1	5.0	6.7
Average	6.0	5.4	12.1	10.4	16.5	14.3	9.0	7.7
Median	6.2	5.1	10.4	9.1	15.5	12.9	9.8	7.7
Neodecortech	4.8	3.5	9.9	5.9	8.2	6.6	5.7 (**)	3.9 (**)

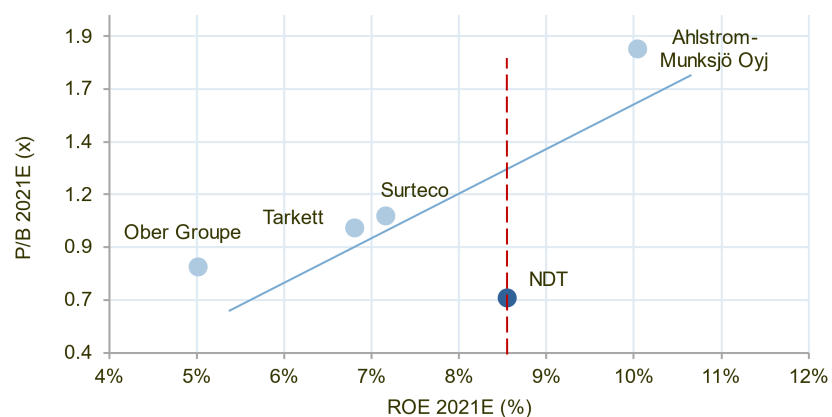
Source: Market Consensus, Value Track Analysis

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

(**) Maintenance Capex for NDT

(***) Recently Renamed "Sanderson Design Group PLC"

Neodecortech vs. peers: 2021E P/BV vs. ROE



Source: Market Consensus, Value Track Analysis

Ahlstrom-Munksjö Oyj Tender Offer

Back as of September 24th, 2020, the consortium formed by Ahlstrom Capital, Bain Capital, Viknum and Belgrano Inversiones made an all-cash public tender offer for the whole amount of Ahlstrom-Munksjö shares. The offer was later on accepted in February 2021 and the consortium now holds 90.6% of the company share capital.

Tender Offer price was set at €17.97 per share, corresponding to 8.4x-7.2x EV/EBITDA 2020A-21E, 22.0x-18.4x P/E 2020A-21E and 1.85x P/BV 2021E (ROE 2021E at 10%).

Such multiples ideally set a maximum reference point for the whole decorative paper industry, where the Finland-based company is the leader and the other smaller competitors continue to trade at the historical average 6.0x EV/EBITDA.

Discounted Cash Flow model

As a cross check we updated our DCF valuation that returns a price of **€6.08 per share**

In our latest update research following 1H20 results, the DCF model returned a €5.05 per share. The reasons for the current 20% increase are twofold:

- ◆ Italian Equity Risk Premium has been revised downwards to 6.0% from previous 7.4%, (*Source: Damodaranonline*) driving an initial WACC at 7.32% from previous 8.15%;
- ◆ Our revised top line and operating profits estimates implied higher medium and long term Free Cash Flows to the Firm, hence a higher Enterprise Value, all else being constant.

For the sake of clarity, we also note that:

- ◆ The applied 7.32% WACC 2021E progressively converges in the long term at ca. 8.29% i.e. the unlevered Cost of Equity;
- ◆ WACC calculation takes into account a 2.0% additional “liquidity” premium, in line with the extra-return required by investors to trade companies of smaller size;
- ◆ Perpetuity Growth Rate (PGR) has been set at 2.0% and applied to 2028E figures, as we used explicit financial statements projection starting from 2021E fiscal year and arriving at 2027E.

Neodecortech: Discounted Cash Flow Model Summary Table

€mn	
PV of future cash flows FY21E-FY27E	41.4
PV of Terminal value with PGR at 2%	80.7
Fair Enterprise value	122.1
Implied EV/EBITDA '21E (x)	6.7
Net Cash Position 2020E	-39.9
Fair Equity value (€mn)	82.1
Fair Equity Value per share (€)	6.08

Source: Value Track Analysis

Appendix: 2019A-22E financials

Neodecortech Group: P&L evolution 2019A-22E

(€mn)	2019A	2020A	2021E	2022E
Net Revenues	133.0	127.8	140.0	149.0
Other Revenues	2.9	5.9	3.5	7.0
Total Revenues	135.9	133.7	143.5	156.0
Raw Materials	-77.5	-75.8	-82.6	-87.4
Labour Costs	-20.7	-18.9	-19.4	-20.0
Other Opex	-21.7	-24.4	-23.2	-24.7
EBITDA	15.9	14.6	18.3	23.5
Depr. & Amort. & Provisions	-8.8	-9.1	-9.4	-9.6
EBIT	7.1	5.5	8.9	13.9
Interest expenses / income	-1.9	-1.4	-1.5	-1.1
Taxes	-1.3	-0.5	-1.6	-3.5
Net Profit	4.0	3.5	5.7	9.4
Adj. Net Profit	5.7	3.5	5.7	7.1

Source: Value Track Analysis

Neodecortech Group: Balance Sheet evolution 2019A-22E

(€mn)	2019A	2020A	2021E	2022E
Net Fixed Assets	83.7	81.3	85.4	84.3
Working Capital	26.3	28.4	30.3	32.4
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Group Net Equity	61.3	61.7	66.2	73.5
Net Fin. Position [i.e. Net Debt (-) Cash (+)]	-40.5	-39.9	-41.3	-34.7

Source: Value Track Analysis

Neodecortech Group: Cash Flow Statement evolution 2019A-22E

(€mn)	2019A	2020A	2021E	2022E
EBITDA	15.9	14.6	18.3	20.0
Op. WC requirements	0.2	-2.1	-2.0	-2.1
Change in Provisions / Other	0.4	-0.1	0.2	0.2
Maintenance Capex	-3.0	-3.3	-3.0	-3.0
OpFCF b.t. and before Development Capex	13.5	9.1	13.5	15.1
Development Capex	-5.0	-3.0	-10.5	-5.5
OpFCF b.t.	8.5	6.1	3.0	9.6
Cash Taxes	-1.3	-0.5	-1.6	-3.5
Other Op. Items (incl. Fin. Inv.)	0.2	-1.7	0.0	3.5
Net Financial Charges	-1.9	-1.4	-1.5	-1.1
Dividends paid	-2.0	-1.9	-1.2	-2.0
Net Cash generated	3.5	0.6	-1.4	6.6

Source: Value Track Analysis

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