

Neodecortech: a niche integrated specialist in the high-end interior design market

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A growing leading niche player in the international décor paper market

Neodecortech enjoys a leadership positioning as the largest Italian player in the international market niche of Specialty Décor Paper with a 6% market share. Its strategic positioning at the top-end of the reference market with a wide range of high-price and design products, its 74% of export revenues and its core décor paper production, printing and impregnation business allow the Group to outpace market growth and generate high marginality, similarly to big diversified international players.

A vertically integrated business model: efficiency, savings, synergies, competitiveness and time to market

Neodecortech fully integrated business model and Group structure allow for control on the R&D process, savings on procurement, enhance the operating leverage and guarantee supply, production flexibility and time to market. Even in a mature reference market, consolidated margins are high and cash generation strong. The capital intensive structure represents a robust entry barrier: significant plant investments are needed for décor paper production, print and impregnation; large selling volumes need to be generated for those investments to be profitable. The management team long experience in the Group adds a proven track record.

Financials: moderate growth in a mature industry, high margins and strong cash generation

Since 2012, Neodecortech has reported high single digit growth (8% CAGR), above its reference market (4.5% globally and 3.8% in Europe). In the 1H17, the Group reported €58m of revenue (+8% yoy). In 2016: EBITDA at €15.6m or 13.5% margin; net income at €4.5m; €83m of fixed assets; €28m of net operating working capital financed by €39m of equity and €57m of net debt. The IPO proceeds improved the financial structure with capital increasing from €8.5m to €16.2m. In 2016, the Free Cash Flow was €7.6m including €5m of capex.

Strategic development and our 2017-2019 estimates

We expect Neodecortech to keep outpacing its reference market given: its strategic positioning in faster growing market segments and geographic areas; a persisting commercial push; improved visibility among customers following the IPO. If, in 2016-2019E, the global Décor Paper market is expected to grow at a CAGR below 3%, we project a 9% revenue CAGR for the Group to reach €137m in 2019. Further non-organic growth might come from procurement agreements, industrial partnerships or M&A deals. Another driver might come from the technological shift following the planned acquisition of a new digital printing machine to expand the products portfolio. In 2019 we expect: EBITDA at €19.7m with margin of 14%, driven by synergies from Group integration, more efficient use of raw materials, higher productivity of paper machines and better product mix. Business plan execution risk is softened by the remedy share mechanism (6% of shareholders' dilution if EBITDA is lower than €15m and €17m; net income less than €4.5m and €7m in 2017 and 2018 respectively) to which the management stock grant plan is also attached. In 2019 we project also: net income at €8.8m, thanks to lower cost of debt following debt restructuring and tax benefits; €20m cumulated capex; €9m of net operating working capital increase. In 2019 we end with net debt to EBITDA ratio down to 2x and net debt to equity to 0.6x. The Group will keep being cash generative: we estimate €23m of cumulated Free Cash Flow in three years. We project a dividend payout at 25% or €4.3m of cumulated dividends.

Target Price (€)	5.3		
Reccomendation	BUY		
Price as of November 22 nd	3.90		
N. of shares (mIn)	13.1		
Market cap. (€ mIn)	51.1		
Market segment	FTSE AIM ITALIA		
Performance (%)	1m	IPO	12m
Absolute	-2.5%	-3.7%	NA
Max/Min (12 months)	€4.33/€3.78		
Since IPO avg. daily volumes ('000)	35.2		

(€ mln)	2016	2017E	2018E	2019E
Revenue	106.2	124.1	129.5	137.2
yoy change	(14%)	17%	4%	6%
Gross Profit	31.9	32.3	34.0	37.4
margin	27.5%	24.6%	25.5%	26.5%
EBITDA	15.6	16.2	17.3	19.7
margin	13.5%	12.4%	13.0%	14.0%
EBIT	9.2	9.5	10.5	13.1
margin	8.0%	7.2%	7.9%	9.3%
Net income	4.5	5.5	7.3	8.8
margin	3.8%	4.2%	5.4%	6.3%
Net debt/(cash)	57.1	49.0	46.0	40.3
Shareholders'				
Equity	38.7	51.2	57.0	64.1
Free Cash Flow	7.6	3.4	10.2	9.4

Source: Banca Profilo estimates and elaborations, Company data.

Valuation

Given the mature cash generating business, the DCF well adapts as a valuation approach. To this we added market multiples and M&A transaction multiples valuation. We derive a TP of €5.3 per share. Our recommendation is BUY. The stock is PIR eligible.

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Executive summary

Neodecortech in a nutshell: key investment drivers

A growing leading niche player in the international Décor paper market

Neodecortech is the largest Italian producer and a growing international niche leading provider of high-end products for the interior design industry. Neodecortech reference market is the international Décor Paper segment, a niche of the larger Specialty Paper market in the Paper and Paperboard industry.

Neodecortech designs, projects, develops, manufactures and markets décor paper, melamine film and finish foil, luxury finish tiles for the surfacing of laminate panels, furniture and flooring in the Interior Design Industry. In 2016, its reference Décor Paper niche accounted for 750,000 metric tons; with 48,000 metric tons of décor paper manufactured the same year, through Neodecortech (NDT) and the paper mill Cartiere di Guarcino (CdG), the Group had a 6% market share.

Neodecortech (NDT) was founded in 1947 and it is at the head of the Group which controls the paper mill Cartiere di Guarcino (CdG) and the bio-energy producer Bio Energia di Guarcino (BEG). This Group's current perimeter has been effective since the end of June 2017; therefore, integration synergies both in terms of Group structure and in terms of value chain still need to fully arise.

The Group is controlled by the Valentini Family which owns a 73% stake but it has been managed for quite a decade by a long experienced and with proven track record management team.

Strategically positioned to outpace market growth and improve profitability

Its reference market is a mature and historically stable market (0.3% CAGR in 2006-2016), even if it has recently accelerated (+5% yoy in 2016). Neodecortech strategic positioning is at the top end of high-price and design products offering a wide range of décor paper, printed and impregnated. The Group exports more than 70% of its production, mostly in Western Europe (the area that has grown the most reaching a +6% yoy in 2016); thus it competes with big international (mainly German) diversified groups in both décor paper production and printing. In addition, the Group is mostly active in the décor paper production and printing (more than 70% of Group's revenue) market segments, which have shown lower competitive pressure, higher growth (+7% yoy in 2016) and profitability than others, especially in the impregnated paper segment and ceramic tiles market.

Key competitive advantage: a vertically integrated business model and synergic Group structure

Neodecortech key competitive advantage lies in its quite fully integrated business model and synergic Group structure, which allow for control over strategic phases, generate savings on procurement, enhance the operating leverage, guarantee supply, production flexibility and time to market.

Entry barriers and profitability drivers: capital intensive structure efficient use of raw materials stable partnerships both up and downstreams

The Group capital intensive structure represents a robust entry barrier, needing large selling volumes to be profitable. More in details, the reconstruction value of Neodecortech's plants is about €230mln vs their net book value of €70mln at the end of 2016. The Group cost structure shows a high incidence of raw materials, which asks for an efficient use, long and stable partnerships with suppliers, optimization of procurement policies and increase production productivity in order to improve profitability. Finally, customers are large and concentrated and request high quality, production flexibility and tailored offering.

Main Financial data (2015-2016) and estimates (2017-2019E)

Outperformer of its reference market: Since 2012, Neodecortech has reported high single digit growth (8% on average), above its reference market (4.5% globally and 3.8% in Europe)

In 2016 Neodecortech generated EUR 106mln of revenue, EUR 15.6mln of EBITDA with margin of 13.5% and EUR 4.5mln of net income. It shows a leveraged financial structure with EUR 49mln of net debt and EUR 51mln of equity estimated at the end of 2017 including the IPO proceeds.

According to our estimates in the 2017-2019 period revenue is expected to grow at 9% on average (CAGR) to €137mln with EBITDA close to €20mln or 14% margin and almost €9mln net income, leading to an average Free Cash Flow of €7.7mln, including cumulated capex of about € 20mln, and to a net debt of EUR 40mln (or 0.6x the Equity).

Remedy shares as partial protection The business plan execution risk is partially limited by a remedy share mechanism and by an experienced management team which has been managing the company for quite a decade.

Valuation considerations

DCF approach well appraises a mature and cash generative business Given the mature and cash generating business, a DCF method well adapts as a valuation approach.

For what concerns the relative valuation, there are no listed companies, active in the Décor Paper market, which show a similar vertical integration both of the value chain and of the Group structure, as Neodecortech does. Main big diversified groups are either décor paper producers or décor paper printers and impregnators; none has a synergic Group structure as that of Neodecortech.

A selected sample of listed comparables We have selected a sample of listed companies active either in some of the production cycle phases of Décor Paper production and printing or in the substitute ceramic tile market. We also included listed players in the downstream interior design industry. Our sample for a relative approach on market multiples includes: the Swedish Ahlstrom-Munksjo (décor paper production), the German Surteco (décor paper printing and impregnation), the Italian Panariagroup (ceramic tiles) and the French Tarkett (flooring solutions). Finally we add to the relative valuation an average of M&A multiples derived from comparable transactions in the past three years.

DCF assumptions We run a DCF model, using our projections of FCF for the explicit 2017E-22E period, which lead to cumulated FCFs of €47mln (an annual average of €7.8mln). We used a WACC of 6.9% and a perpetual growth rate of 2%. We obtain a fair Equity Value of €85.6mln.

Relative market multiples approach Our sample of comparables to Neodecortech shows a mean EV/EBITDA 2017E-2018E of 7.1x-6.4x respectively. As Neodecortech is a mature and cash generative company, we chose the EV/EBITDA multiple for its relative valuation. At its price (€3.9/share as of Novembre, the 22nd), Neodecortech trades at 13% and 9% discount to respectively the Sample's mean EV/EBITDA for 2017E-2018E

The stock is PIR eligible Applying the Sample mean EV/EBITDA 2017E-2018E to the Group estimated EBITDA evolution, we derived an Enterprise Value in the range of €110mln-€116mln. We subtract our projected net debt of €49mln at the end of 2017E and obtain an average Equity Value of €64mln, to which we apply a 10% liquidity/AIM discount. We then landed to an Equity Value of €58mln. It is worth to underline that the stock is PIR eligible.

Target price: €5.3
BUY

Finally, we set a target price at €5.3 per share with a potential upside of 35% on Neodecortech price as of November the 22nd. Our recommendation is BUY.

Key risks

Key risks relate to increasing competition from Chinese players and ceramic tiles manufacturers, to lower than estimated reference market growth and to the volatility of key raw materials in the production process

We also highlight the additional risk of the digital machine investment potentially leading to a lower than projected return.

SWOT analysis

STRENGTHS

- Leading market positioning in high-end products of the international interior design industry
- Quite fully integrated business model and Group structure
- Capital intensive structure with high reconstruction value of proprietary plants
- High margins and strong cash generator
- Product and geographic diversification
- Experienced management team

WEAKNESSES

- Limited reference market size
- Not fully utilized production capacity
- Limited self-financing ability

OPPORTUNITY

- High entry barriers in the reference market
- Strengthening higher margin specialty products through ad-hoc partnerships
- Geographical expansion through ad-hoc international partnerships and/or bolt on acquisitions

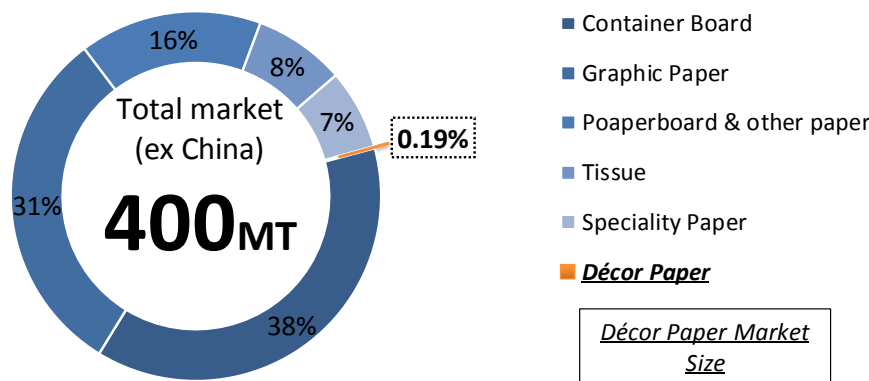
THREATS

- Chinese décor paper producers improving quality, replicating designs and European products
- Competition from ceramic tiles manufacturers

The reference market: the Décor Paper market

Neodecortech is the largest Italian producer and a growing international niche leading provider of high-end products for the Interior Design industry. More specifically Neodecortech reference market is the international Décor Paper segment, a niche of the larger Specialty Paper market in the Paper and Paperboard industry.

Figure 1: Paper and Paperboard Industry segmentation in 2016 (ex China, in mln tons)



Source: Décor Paper Market Research, 2016, Munksjo

The Specialty Paper market which includes NDT reference segment is 7% of the Industry

The Specialty Paper market (excluding China) accounted for 28 mln metric tons in 2016 or 7% of the Paper and Paperboard industry. Special papers differ from other papers since they require a variety of properties according to single customer application, very complex technical specifications, a long and demanding product qualification with new clients and smaller machine systems, allowing short and rapidly changing production cycles.

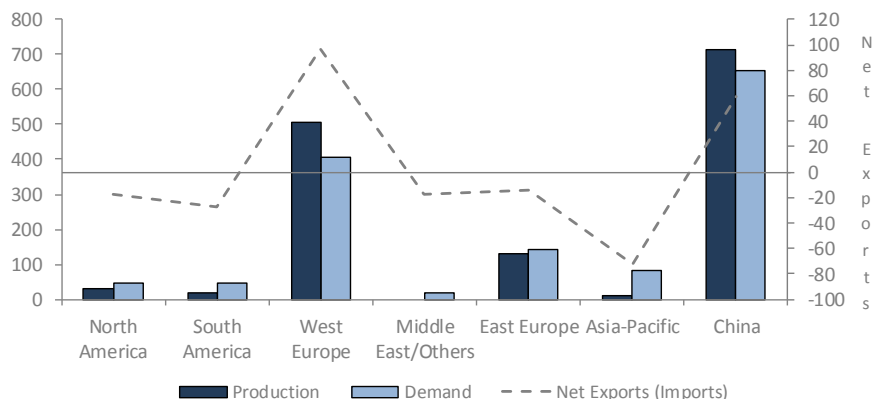
NDT shows 6% market share in the Décor Paper or 0.2% of the Industry

The Décor Paper niche accounted for 750,000 metric tons in 2016 or 0.2% of the Industry. With 48,000 metric tons of décor paper manufactured in 2016, through Neodecortech (NDT) and the paper mill, Cartiere di Guarcino (CdG), the Group had 6% market share.

NDT sales are 74% abroad

Western Europe is the greatest exporter of décor paper worldwide, followed by China where the cost (and the quality) of paper is much lower compared to European standards (\$3/kg vs €4/kg in Europe). The rest of the globe is net importer of décor paper, with Asia-Pacific being the largest. In 2016, 74% of Neodecortech revenue came from abroad, of which 56% were from Europe (ex Italy).

Figure 2: Global supply and demand of décor paper in 2016 (in kton)

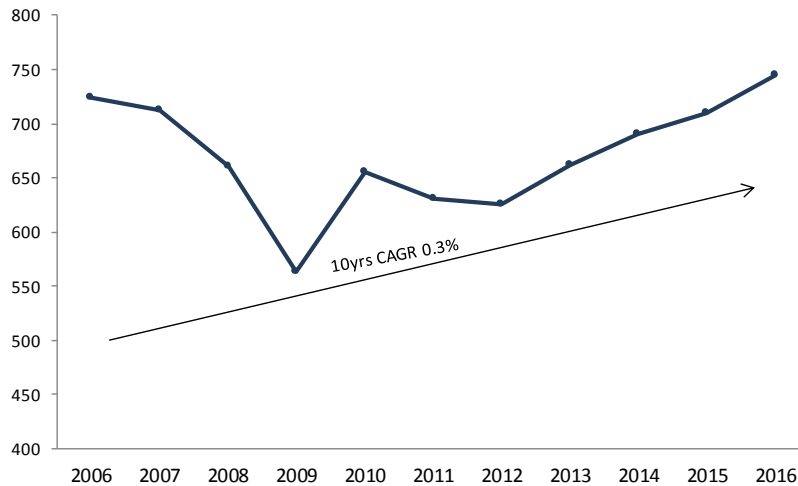


Source: Décor Paper Market Research, Munksjo

Décor paper: an historically stable market, recently improving

The Décor Paper market (ex China) was basically stable (0.3% CAGR) in the decade 2006-2016; in 2013 it started to invert the downside trend and ended with a 4.5% CAGR in the 2012-2016 period. Growth accelerated further in 2016 with décor paper posting a 5% (yoy) increase.

Figure 3: Décor Paper market trend (ex China) 2006-2016 (in tons/1000)

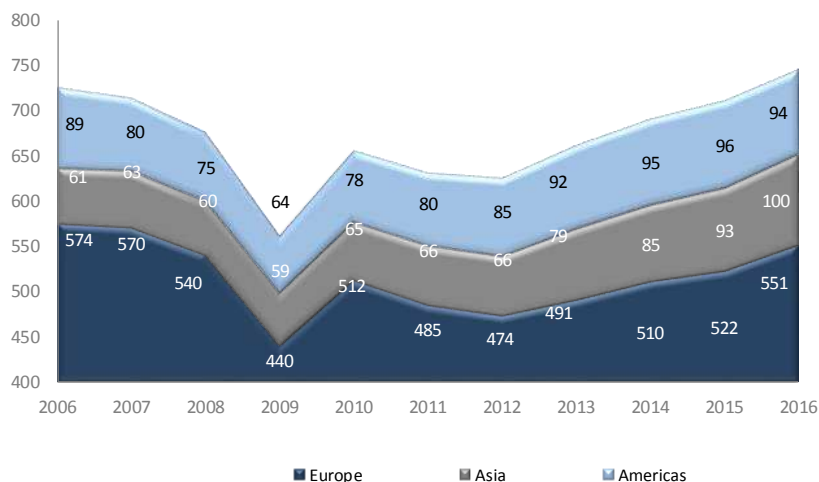


Source: Décor Paper Market Research 2016, Munksjo

Europe growing the most in recent past NDT sales are 56% from Europe (ex Italy)

Regarding the Décor Paper market (ex China) trend by geographic area, in the past decade Europe lagged; during the market recovery (2012-2016) Europe accelerated and it was the western area growing the most posting a 3.8% CAGR. Last year, Europe continued to outpace the Americas with an increase of 5.6%. In this scenario, Neodecortech shows a good geographic diversification as it generates more than 55% revenue in Europe (ex Italy).

Figure 4: Décor Paper market trend (ex China) 2006-2016 (in tons/1000) by Region



Source: Décor Paper Market Research 2016, Munksjo

Downstream Laminate Flooring market: great concentration of large clients

There is great concentration of large clients in this market, accounting for some 350 firms, mostly laminate panel or flooring makers and players in the furniture and in various applications of interior design. Therefore, long and stable partnerships with

clients are key for growing a competitive advantage.

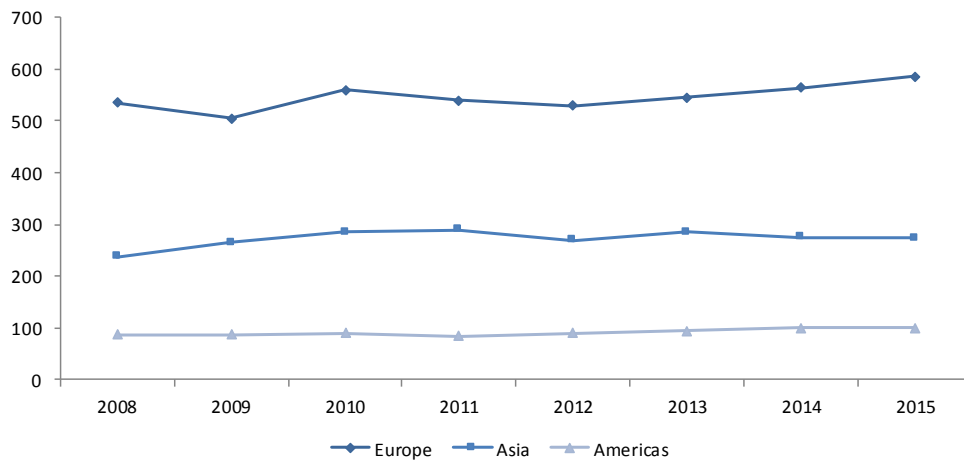
In the value chain Paper printing (NDT core business) has been growing the most

Among the single production phases the paper printing one, which is NDT core business, was the fastest growing at 7% (yoy) 2016; demand came mainly from Germany (40%), Poland and Russia (23%), followed by the Americas (10%). For this and next year the Décor Paper market is projected to increase by some 2.5% (CAGR 2016-2018E).

Laminate Flooring market: low single digit growth but LVT outperformer

Over the past seven years the downstream Laminate Flooring market pointed out a 2% CAGR; since the start of 2017 the pace of growth has accelerated driven by the recovering of the European Real Estate industry with higher demand of high pressure laminate panels. Within the Laminate Flooring, the Luxury Vinyl Tiles (LVT) segment points out higher growth and margins.

Figure 5: Laminate flooring market trend 2008-2015 (in mln sqm)



Source: Laminate Flooring (excluding LVT), 2015, Munksjo

The Italian energy market

The Group is also active in the Italian Energy market through Bio Energia Guarcino (BEG), a cogeneration plant which generates electricity and steam at the same time and in a unique process, using renewable materials. It satisfies mostly all (95%) of the energy need of the paper mill (CdG) and part (25%) of its steam usage. Since BEG is a cogeneration plant, which employs renewable materials, such as palm oil and animal fat (biomasses), it owns selling priority into the GSE network.

Neodecortech competitive arena: strategic positioning and competitive advantages

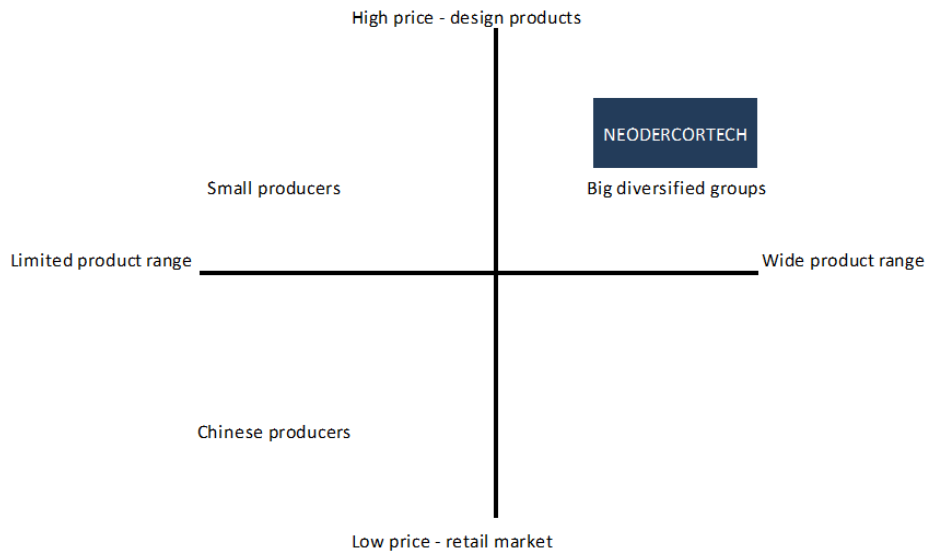
Neodecortech core business: décor paper production, printing and impregnation

We are analysing Neodecortech competitive international environment looking at its core business (80% of Group sales and EBITDA or €94.6mln and €12.5mln in 2016) consisting of décor paper production, through its paper mill Cartiere di Guarcino (CdG with €52.2mln turnover in 2016), and décor paper printing and impregnation through Neodecortech (NDT with €42.4mln turnover in 2016).

Competitors are mainly big international diversified groups

The Group strategic positioning is at the top end of high-price and design products, offering a wide range of décor paper, printed and impregnated (5 main décor paper categories developing more than 50 products based on type of impregnation and final use), which find use on surface coating, mainly furniture, flooring and various interior installations. The Group exports 74% of its production, mostly in Europe. Therefore, it competes with big international diversified groups both in the décor paper production and printing. The Group is mostly active in the décor paper production and printing (more than 70% of sales), which show higher profitability and lower competitive pressure than the impregnated paper segment of the Specialty Paper market.

Figure 6: Neodecortech strategic positioning



Source: Neodecortech S.p.A

Décor paper producers, printers and impregnators are mostly non-listed German players. In the low-end of the Industry, Chinese producers historically offered lower-quality and cheaper products; more recently, they have started to improve their products quality, boosting exports particularly to China’s neighbour countries.

Main entry barriers: the capital intensive structure and long lasting partnerships with clients

In this competitive arena, the capital intensive structure and long lasting partnerships with customers are the main entry barriers. Significant plant investment are needed for décor paper production, printing and impregnation; therefore large selling volumes and substantial turnover need to be generated for those investment to become profitable. More in details, the reconstruction value of Neodecortech’s plants is about €230mIn vs their net book value of €70mIn at the end of 2016. Clients are large and concentrated, requesting high quality, production flexibility and tailored offering.

High incidence of energy and raw materials in the cost structure

In addition of being a capital intensive business, the typical cost structure of décor paper producers and printers shows a high incidence of variable (often volatile) costs (more than 60% of revenue), mainly energy and raw materials (titanium dioxide and pulp in paper production; paper, resins and PVC in paper or plastic printing and impregnation). Therefore, an efficient use of raw materials, long and stable partnerships with suppliers, optimization of procurement policies and enhancing production productivity are key drivers to profitability in this Industry.

Neodecortech key competitive advantage: its vertically integrated business model

In this scenario, the key competitive advantage of Neodecortech is its vertical integrated business model and Group synergic structure, which allow for control on the R&D process, generate savings on procurement, enhance the operating leverage, guarantee supply, production flexibility and time to market.

Benchmarking analysis on listed players

We concentrate our benchmarking analysis on listed players in the reference market and on other listed companies in the larger industry of Interior Furnishing. Within the décor paper producers (the paper mill CdG competitors) we analyze the Ahlstrom-Munksjo Group (Sweden, listed on the Nasdaq Helsinki and on Stockholm stock exchanges), whereas within the décor paper printers and impregnators (NDT competitors, yet potentially CdG clients) we examine the German Surteco. In addition, we look into the Italian Panariagroup, active mostly in the ceramic tiles and the French Tarkett, a large player in flooring solutions.

Ahlstrom Munksjo is a décor paper producer; competitor of CdG

Ahlstrom-Munksjo is a Sweden supplier of industrial paper: décor papers, coatings, primer foils, graphic papers, tapes, wall coverings and other fiber based materials. In 2017, Munksjo and Ahlstrom merged and created a global leader in sustainable and innovative fiber-based solutions with combined annual sales of €2.2bn, more than 6,000 employees and 41 production and converting facilities in 14 countries worldwide. In 2016, the Group generated revenue (pro-forma) for €2.1bn (décor paper accounted for €360mln); consensus expects revenue growth at 3.9% this year with EBITDA margin at 13%; net debt to equity stands at 0.3x.

Surteco is a décor paper printer and impregnator; competitor of NDT

Surteco is a German specialist in surface technologies. Its product portfolio includes: paper printed with decorative designs, impregnated products, release papers, decorative flat foils and other specialized laminates. Its main clients are furniture manufacturers. In 2016, revenue stood at €640mln, with paper weighting 60% and plastic 40%. EBITDA margin was 11.6% in 2016. Consensus expects an 8% yoy growth this year and improvement in EBITDA margin to 12.2%. Net debt to equity stands at 0.3x. The Group employees about 2,900 people.

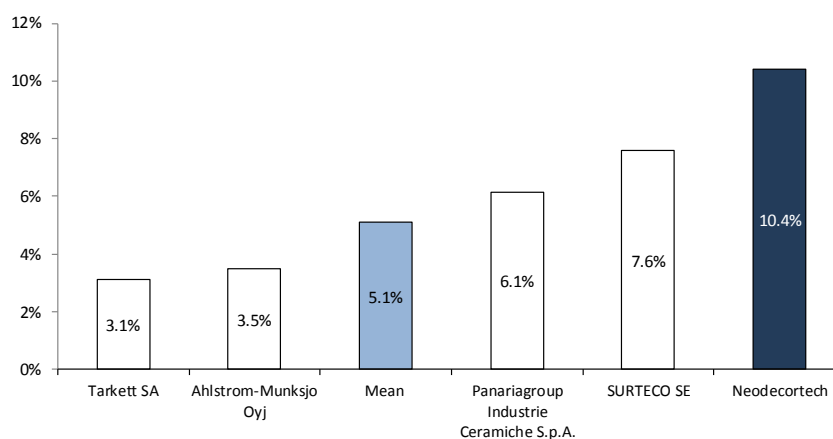
Panariagroup is an Italian player in the Interior furnishing industry

Panariagroup is an Italian manufacturer of a wide range of ceramic floor and wall tiles. In 2016, revenue stood at €391mln, including export revenues at 82%, with EBITDA margin at 10.4%. Consensus expects a 9% yoy growth this year and an improvement in EBITDA margin to 12.5%. Net debt to equity stands at 0.3x The Group employees some 1,600 people. We included it in our benchmarking analysis because it is an Italian company with a size closer to that of Neodecortech, it shows similar export revenue weight, similar end-markets and because it supplies products which might become close substitutes and competitor of décor paper products in specific interior applications.

Tarkett is a big player in the flooring solutions

Tarkett is a big French player that manufactures and distributes a wide range of flooring solutions such as vinyl, laminate, wood, carpet rolls and tiles, linoleum, and artificial turf. In 2016 revenue stood at €2.7bn, including export revenues at 82%, with EBITDA margin at 12.2%. Consensus expects a 3.5% yoy growth this year and some 100bps worsening in EBITDA margin to 11%. Net debt to equity stands at 0.2x. The Group employees some 12,600 people.

Figure 7: Main listed players in the Industry –(pro-forma) revenue CAGR 2016-2018E



Source: Banca Profilo elaborations on Company data, Factset

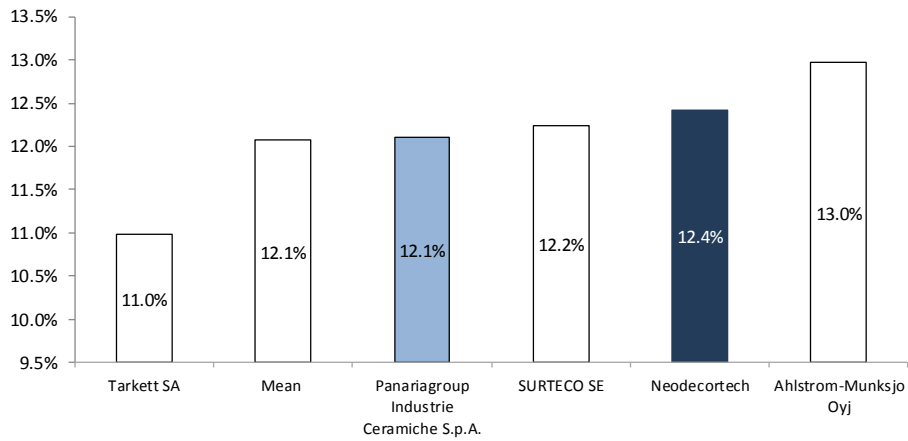
Neodecortech is expected to grow faster than peers

In the 2016-2018E period, we project Neodecortech revenue to grow at 10.4% CAGR, outpacing its peers' mean estimate (5.1%).

Neodecortech is projected second to the highest EBITDA margin

With respect to the EBITDA margin, Neodecortech is projected to maintain slightly higher EBITDA margin vs peers' average in 2017 at 12.4% vs 12.1%. It is projected second to the highest EBITDA margin among peers, just behind Ahlstrom-Munksjo.

Figure 8: Main listed players in the Industry – EBITDA margin 2017E

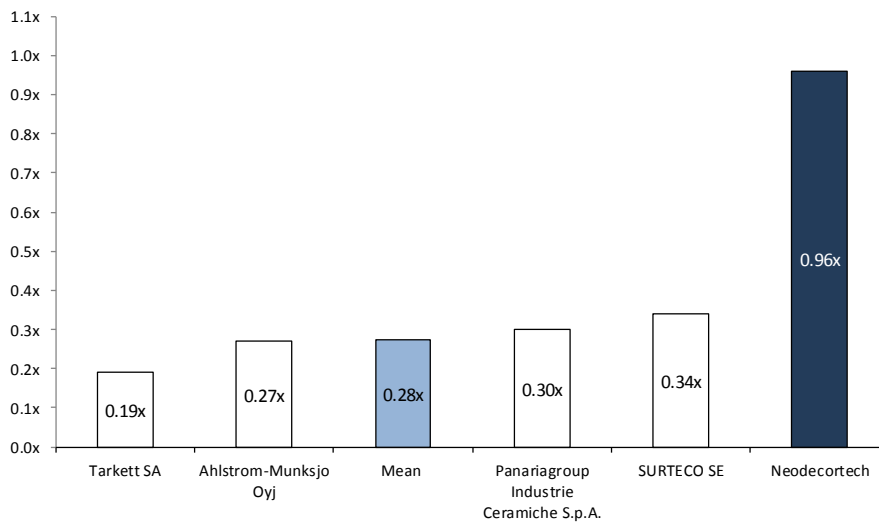


Source: Banca Profilo elaborations on Company data, Factset

Neodecortech is the most leveraged

On the capital structure side, Neodecortech shows a more leveraged structure with net debt to equity ratio at almost 1x vs peers at 0.3x, on average.

Figure 9: Main listed players in the Industry – current net debt / equity



Source: Banca Profilo elaborations on Company data.

Neodecortech overview and business model

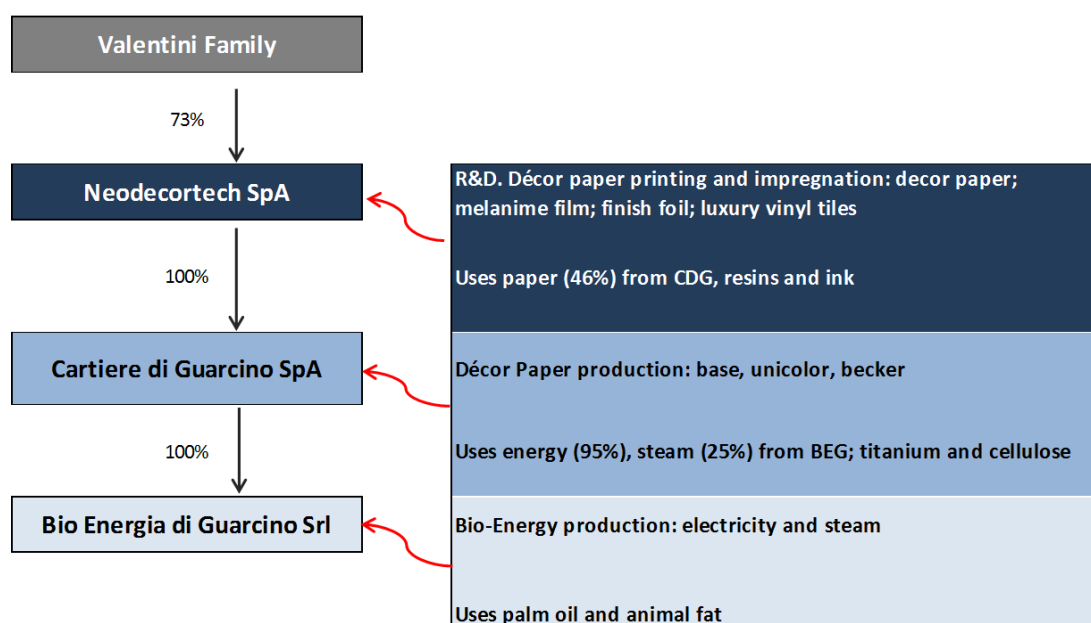
The Group overview and activities

Neodecortech is an integrated group and supplier to the international flooring and furniture industry

Neodecortech (NDT) was founded in 1947 and it is at the head of the Group which controls the paper mill Cartiere di Guarcino (CdG) and the bio-energy producer Bio Energia di Guarcino (BEG). Group’s current perimeter has been effective since the end of June 2017; therefore, integration synergies in terms of both Group structure and value chain still need to fully arise.

The Group is controlled by the Valentini Family which owns a 73% stake, but it has been managed for quite a decade by a long experienced and with proven track record management team. The Group employees about 335 people.

Figure 10: Neodecortech Group perimeter and activities



Source: Banca Profilo elaborations on Company data

Neodecortech designs, projects, develops, manufactures and markets décor paper, melamine film and finish foil, luxury finish tiles for the surfacing of laminate panels, furniture and flooring in the Interior Design Industry.

Bio Energia di Guarcino: the energy and steam supplier of the Group

Starting from the bottom of the Group structure, Bio Energia di Guarcino produces electricity and steam through a cogeneration plant (€30 mln of investment in 2010) which uses palm oil and animal fat (biomasses); it owns selling priority into the GSE network. It has a production capacity of 20MWh of energy and 11.7 tons of steam. Its steam production covers 25% of the Group’s paper mill (CdG) thermal need and more than 90% of its electricity need. Finally, more than 65% of energy produced is sold to the Italian end market at the Prezzo Unico Nazionale (PUN).

The self production of steam and electricity guarantees to the Group lower and more stable energy cost, based on medium/long procurement contracts, full independence from any discontinuity of electricity supply in the international grid, business continuity in case of grid outage, compared to external suppliers. Thanks to the energy supplied by BEG, the Group is able to reduce the energy price gap (typically 30%) vs its German competitors. The annual cost saving for the Group is about €5mln (consolidated energy cost was €4.6mln in 2016).

Figure 11: Neodecortech Group plants and operations (slide 12)



Source: Neodecortech SpA

Cartiere di Guarcino: décor paper production

Moving upward in the Group structure, the paper mill Cartiere di Guarcino (CdG) uses the energy and steam supplied by BEG to manufacture semi-finished products consisting of three main paper categories: unicolor (to be impregnated and converted into laminated panels), base (on which various designs and decorations are printed) and backer papers (to be impregnated and covering one side of chipboard to prevent the distortion of the final laminated panel), which account for 28%, 15% and 6% respectively of consolidated revenue in 2016.

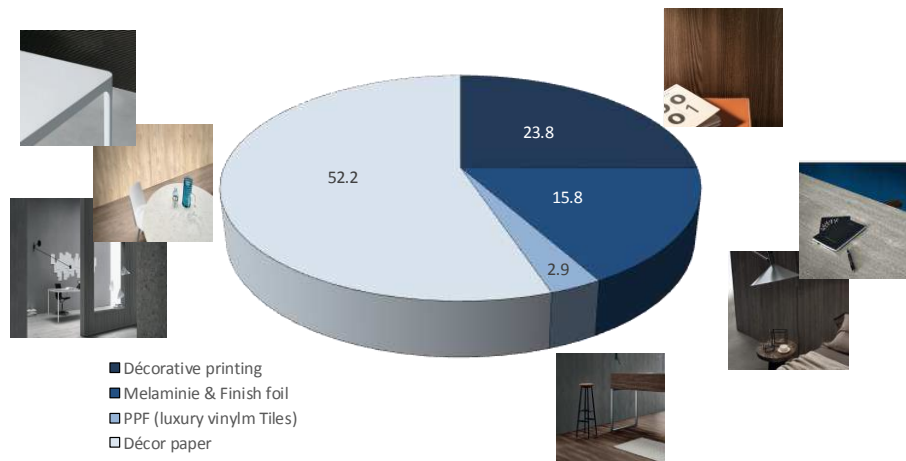
CdG has a production capacity of 50,000 metric tons/year and its production was some 40,000 metric tons in 2016. More than 80% of its paper production is sold to the market, including Neodecortech competitors. In addition to energy and steam, the paper mill uses titanium dioxide (weighing more than 60% of raw materials costs) and pulp (weighing more than 30% on raw materials costs) to produce paper.

Neodecortech: décor paper printing and impregnation with a product range of 50 types

Neodecortech uses papers (weighing more than 60% of its raw materials costs) supplied by CdG (some 75% of its paper need), resins and ink (weighing some 20% on raw materials costs) to print and impregnate décor paper. Cross-selling synergies between printing/impregnation and paper mill arise in terms of production flexibilities, time to market and prices.

There are different methods of impregnating (according to the final use), which are applied on several décor papers (including the décor papers coming out from CdG) or plastic categories to create a product range of more than 50 different types.

Figure 12: Neodecortech product lines (in €mln, 2016)



Source: Banca Profilo elaborations on Company data

Printed décor paper finds use on furniture, flooring surfaces and interior installations. Finish foil offers the décors (wood, stone or fantasy design) an authentic look and textural realism. These are either post-impregnated or manufactured on the basis of pre-impregnated paper. Melamine film is printed décor paper then impregnated with melamine resin and used as surface coating in furniture and flooring. LVT (Luxury Vinyl Tiles) replicates the laminate flooring, but it is much better performing on floors as it is not made of wood.

The distinctive business model and Group synergies

A vertically integrated business model and synergic group structure

Neodecortech shows an integrated business model controlling all strategic phases of its product value chain (from the R&D process and product creation, to production, to quality control). In addition, the vertical integration of the three companies allows for savings on procurement, enhances the operating leverage, guarantees supply and production flexibility.

Paper printing is the most value added phase in the product cycle: from paper at €0.1 to printed paper at €0.3 per sqm

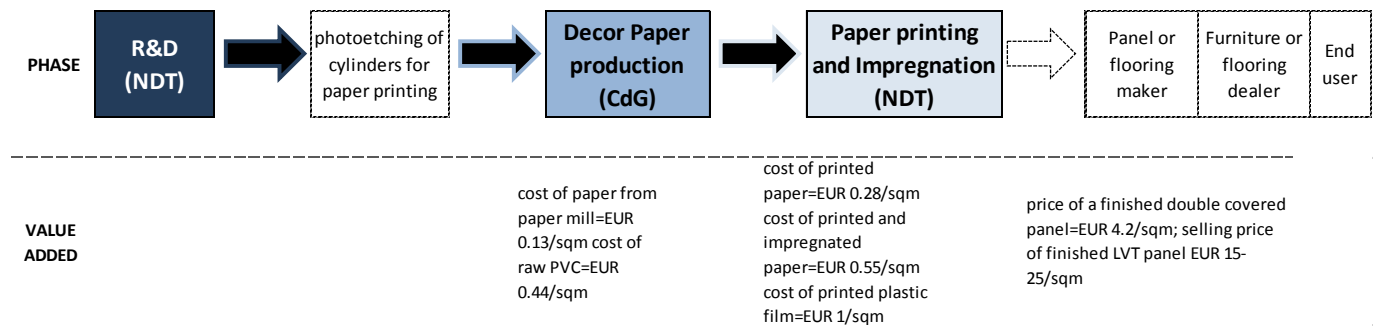
In Neodecortech (NDT), a team of designers studies and creates the décor (roughly 900 designs). The second phase is outsourced to supply partners to photoetching the cylinders for paper printing (4 weeks needed). Cartiere di Guarmino (CdG) produces décor paper based on its order intake (4 to 5 weeks needed). In Neodecortech, paper or plastic go through printing cylinders. The production of printed paper or plastic depends on its order intake (4 weeks needed). This is the most value added phase of the entire product cycle: the cost of paper from paper mill is about €0.1/sqm (raw PVC is about €0.4/sqm) becoming about €0.3/sqm when printed. Paper in stock (unicolor or printed) is soaked into watered resins or polish. Impregnation depends on the order intake (1 week needed). Impregnation is a lower value added phase (€0.3/sqm of printed paper become €0.5 when impregnated) and it is subject to a more intense competition. At the end of the process, paper or plastic is attached to the furniture panel or to flooring and the price of a finished doubled covered panel with décor paper is about €4.2/sqm (in the case of a finished LVT panel the selling price is about €20/sqm).

A diversified base of clients and suppliers

For what concerns upstream and downstream power, Neodecortech holds a wide portfolio of clients. Top 5 clients weigh for some 30% of Group turnover and top 10 clients for some 40% of it. Customers loyalty and a durable customer base is key in this Industry to offer high quality and tailored solutions. Top 5 suppliers account for less than 40% of COGS and top 10 suppliers for less than 60% of them. In addition, the cash generation capacity of the Group opens to faster supplier payments in order

to obtain some procurement discounts. This strategy has already started in 2017 generating €300-400k of savings on procurement.

Figure 13: Neodecortech value added chain



Source: Banca Profilo elaborations on Company data

Management: long experience in the Group and sound track record

The Valentini Family owns a 73% stake of Neodecortech. For quite a decade, the Group has been managed by a long experienced management team.

Gianluca Valentini: founder and Chairman

Gianluca Valentini is the owner, founder and Chairman of the Group. He is 55 years old. He holds a degree in Philosophy and an MBA from Bocconi University. He has started his career in the Family business (Industrie Valentini) in several operational roles mainly focused on technical, production and logistics. He holds administrative offices and he is the Executive Director in several companies owned by his family.

Luigi Cologni: CEO

Luigi Cologni has been working in the Group for 12 years. He is the CEO of Neodecortech. He is 53 years old. He holds a Degree in BA and an MBA from Bocconi University. He had had banking experience before entering, in the '90, the Industry in multinational companies and finally joining Neodecortech.

Marco Giussani: CFO

Marco Giussani has been working in the Group for 9 years. He is the CFO. He is 50 years old. He holds a Degree in BA. He started his career as controller in Versace Profumi, then moved to Wella Group and to Saeco Group before joining Neodecortech.

Massimo Giorgilli: CEO of CdG

Massimo Giorgilli has been in the Group for 17 years. He is the CEO of Cartiere di Guarcino. He is 47 years old. He holds a Degree in Law and an MBA from LUISS University. He started his experience in the Paper Mill Industry in 2002 with roles in the management control division; in 2003 he joined CdG as CFO and became CEO in 2015

36 month lock up period

The Valentini Family agreed to a lock-up period of 36 months from the day of listing on AIM (September, the 26th 2017).

Remedy shares protection mechanism for stockholders

The BoD of Finanziaria Valentini (Valentini Family) has approved and adopted a Remedy Shares mechanism, according to which a maximum number of 801,205 shares (6.1% of share capital) will be transferred "for free" from main shareholder (Valentini) to the other stockholders, if Group EBITDA and net income are lower than their trigger levels in 2017 and 2018. There will be no cash out for the Company, but only a dilution of the Valentini Family in case of economic trigger levels are reached.

Table 1: Shareholders structure, Remedy Shares mechanism and Stock Grant Plan

Shareholders' structure	number of shares	%	Post-remedy shares 2017-2018	%
Valentini family	9,538,000	73%	8,736,795	67%
Market	3,563,500	27%	4,364,705	33%
Total number of shares	13,101,500		13,101,500	
Stock Grant Plan	689,608	5.3%		
Remedy Shares mechanism	801,205	6.1%		
Trigger levels (€ mln)	2017	2018		
EBITDA	15.0	17.0		
Net income	4.5	7.0		
maximum shares to be transferred				

Source: Banca Profilo elaborations on Company data

Stock Grant plan for key managers

In June 2017, the extraordinary shareholders meeting approved a Stock Grant Plan addressed to key managers. It entails a maximum of 689,608 (5.3% of share capital) newly issued shares if the Group achieves economic and financial targets, provided the stock market value of these shares is not higher than €5mln. The Neodecortech's CEO Luigi Cologni, its CFO Marco Giussani and the Cartiere di Guarcino's CEO Massimo Giorgilli take part to this plan with respectively 27,500, 7,500 and 27,500 shares each.

More in details there are three different triggers to be reached for the shares to be assigned to the management:

- up to 40% of the shares in the stock plan will be given if Neodecortech is listed on the MTA by 30 months from its IPO;
- up to 30% of shares in the stock plan will be assigned if the triggers of the Remedy shares mechanism are reached in 2017;
- up to 20% of shares in the stock plan will be assigned if the triggers of the Remedy Shares mechanism are reached in 2018.

Historical operating and financial performance

Main operating and financial data

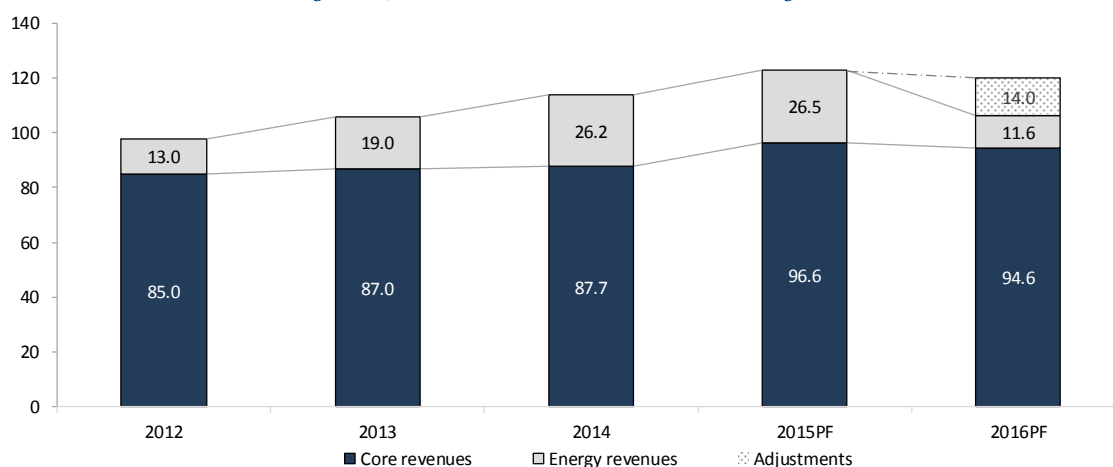
2015 and 2016 consolidated pro-forma figures under IAS

Current Group perimeter (Neodecortech controlling 100% of CdG, which owns 100% of BEG) has been effective since the end of June 2017. Profit & Loss and the Balance Sheet are shown on a pro-forma basis. In addition, consolidated figures are the result of the application of international accounting standards.

High single digit (+8%) organic revenue growth in four years, above its reference market

Since 2012, Neodecortech has reported high single digit growth (8% on average), above its reference market (4.5% globally and 3.8% in Europe); this trend was interrupted in 2016 by the damage of an engine and the maintenance of the other two in the Energy cogeneration plant (BEG).

Figure 14: Neodecortech revenue 2012-2016 by BU

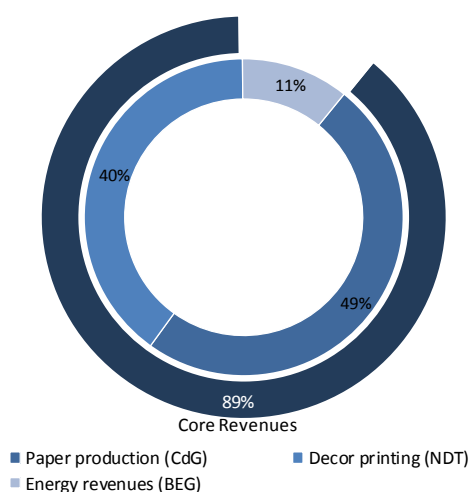


Source: Banca Profilo elaborations and estimates on Company data

2016 turnover: €106mIn
€95mIn core
€52mIn paper production

In 2016, the Group reported revenue was €106mIn; the adjusted figure stands at €120mIn. Core revenue, paper production (CdG) and décor paper printing (NDT), accounted for 89% of Group sales in 2016 (80% on the adjusted figure), whereas the energy revenue was €12mIn (€26 its adjusted figure)

Figure 15: Revenue by product categories - 2016



Source: Banca Profilo elaborations on Company data

€30mIn unicolor produced paper
 €24mIn décor printed paper

Within core revenue, paper production accounted for 49% (43% on the adjusted figure), while décor paper printing weighed for 40% (35% on the adjusted figure) of Group sales in 2016. Within CdG sales, unicolor paper weighed 28% and base paper 15% of Group sales in 2016. Within NDT sales, printed décor paper contributed for 22% and melamine or finish foil for 15% of Group sales in 2016.

1H17: revenue at €58mIn or +8% yoy the core business

In the 1H17, the restart of the broken engine in BEG allowed a return to organic high single digit revenue growth. In the first six months of 2017, the Group reported €58mIn revenue (+16% yoy), including €50mIn in the core business (+8% yoy) and €8.2mIn in the back-to-full-functioning energy business.

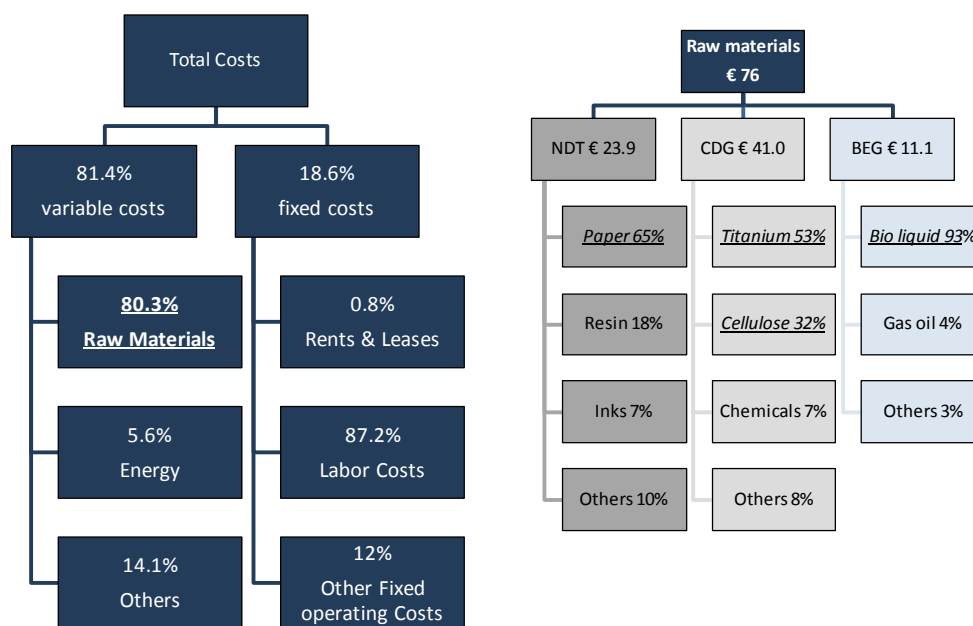
Cost structure: >80% variables and >75% raw materials

Analysing the Group cost base, in 2016 variable costs accounted for more than 80% of total costs. Among variable expenses, raw materials weighed more than 80% and energy 5.6%. Within the fixed costs, labour expenses made quite it all.

Cost incidence on revenue: >75% variable costs 60% raw materials 4% energy, the lowest among competitors thanks to procurement synergies

Analysing the incidence of variable costs on revenue, this was 75% in 2016, mainly raw materials at about 60% and energy at 4%. Energy cost stands at about €5mIn and includes an estimated €4.8mIn savings from the procurement synergies between BEG and CdG. Among raw materials, the highest incidence comes from paper and resins on NDT, titanium dioxide and pulp on CdG and palm oil on BEG.

Figure 16: Cost structure-2016

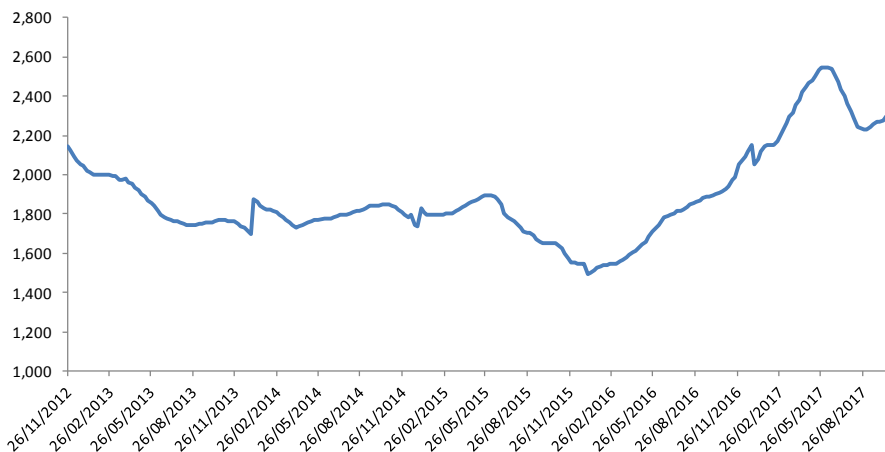


Source: Banca Profilo elaborations on Company data. Raw materials figures by Company includes intercompanies

Titanium and pulp price fluctuations affect raw materials costs and Group EBITDA margin (-140bps in 1H17)

The majority of raw materials show basically stable trends, with the exception of titanium dioxide that has been rising since the beginning of 2016. The European titanium dioxide (TiO2) contract price has increased by more than 40%, on average, since Q216 hitting its highest level since October 2013. In 2017, price momentum for titanium has stayed on its upward track, as supply remained short and demand robust. The EUR strength and the improved supply in Asia might help tempering price gains. The yoy change of titanium price (in EUR, including forex effects) was above 20% at the end of October, smoothing the upward trend in the last quarter (-2%) and in the past month (+2%). Since the beginning of 2017, the titanium price increased by some 7% yoy.

Figure 17: Titanium price trend 2012-2017 (in €, metric ton)

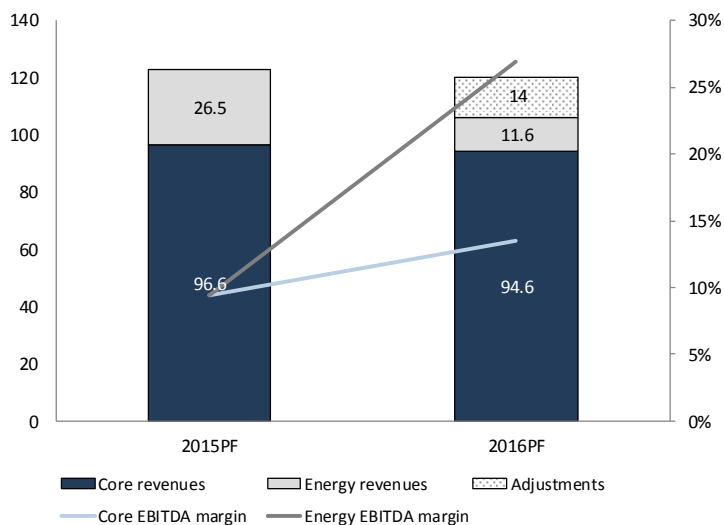


Source: Banca Profilo elaborations and estimates on China Chemicals SunSir TiO2 Titanium Dioxide (weekly), Bloomberg data

The Group can transfer raw materials price increase to clients in 6-9 months

The rise of strategic raw materials prices (mostly titanium but also pulp) for the production of décor paper has affected raw materials costs in CdG and on a consolidated level in the 1H17 with EBITDA margin losing 140bps (11%) vs 1H16 (12.4%), only partially offset by a stronger EUR. According to Neodecortech management, the Group can transfer the raw materials price increase to clients in 6 to 9 months.

Figure 18: Neodecortech revenue and margins 2015-2016(€mln and %)



Source: Banca Profilo elaborations and estimates on Company data

EBITDA margin improving 400bps in 2016

In 2016, Neodecortech showed an EBITDA of €15.6mln, increasing from €11.9mln in 2015 with EBITDA margin improving 400bps to 13.5%, partially derived from lower revenue due to the partial interruption of some production in BEG, (not completely offset by the insurance reimbursement, included in the EBITDA calculation) and driven by a better product mix. The core business EBITDA contributed for 80% (43% paper production; 37% paper printing and impregnation) of consolidated EBITDA with a margin of 13.2% (+350bps yoy), while the Energy EBITDA margin stood at 27% (vs 9% in 2015), partially derived from a change in some of the raw materials in BEG which generated additional Government incentives (about +40% yoy).

Table 2: Neodecortech Profit & Loss 2015-2016

Profit & Loss (€ mln)	Neodecortech SpA	
	2015PF	2016PF
Revenues	123.1	106.2
	<i>yoy</i>	8% -14%
Core revenues	96.6	94.6
	<i>yoy</i>	10% -2%
<i>Paper production (Cartiere di Guarcino - CdG)</i>	56.2	52.2
	<i>yoy</i>	20% -7%
<i>Decor printing and impregnation (Neodecortech - NDT)</i>	40.4	42.4
	<i>yoy</i>	-1% 5%
Energy revenues (Bio Energia Guarcino - BEG)	26.5	11.6
	<i>yoy</i>	1% n.m.
<i>adjusted Energy revenues</i>		25.6
revenues on services	0.6	0.6
other revenues	1.8	8.9
Value of Production	125	116
	<i>adjusted Group revenue</i>	120
raw materials (including stock changes)	-72.8	-65.4
energy	-5.5	-4.6
other services	-17.8	-11.5
Variable costs	-96	-81
rents and leases	-0.1	-0.1
labour	-15.9	-16.3
other operating costs	-1.6	-2.2
Gross profit	27.7	31.9
	<i>margin</i>	22.1% 27.5%
EBITDA	11.9	15.6
	<i>margin</i>	9.5% 13.5%
	<i>Core EBITDA</i>	9.4 12.5
	<i>margin</i>	9.7% 13.2%
<i>Energy EBITDA (Bio Energia Guarcino - BEG)</i>	2.5	3.1
	<i>margin</i>	9.5% 27.0%
D&A	-6.9	-6.3
provisions	-0.2	-0.1
EBIT	4.8	9.2
	<i>margin</i>	3.8% 8.0%
net financial expenses	-3.3	-3.3
Profit before taxes	1.5	6.0
taxes	0.2	-1.5
Net profit	1.7	4.5
	<i>margin</i>	1.3% 3.8%

Source: Banca Profilo elaborations and estimates on Company data

Net income at €4.5mln in 2016

In 2016, the Group accounted €6mln as D&A (or about 6% of revenue) and €3.3mln of net financial expenses, which point out an interest cost of 5.5%. Tax rate was 25% in 2016 and lead to a net income of €4.5mln.

Balance Sheet: a capital intensive structure with €83mln of fixed assets on €96mln of net invested capital

On the Balance Sheet side, at the end of 2016, the Group had more than €83mln of fixed assets, some €30mln of net operating working capital financed by €40mln of shareholders' equity and a bit less than €60mln of net financial debt. The capital intensive structure, needed for décor paper production, printing and impregnation, represents a robust entry barrier: significant plant investment are needed, large selling volumes and substantial turnover are required for those investment to become profitable. The reconstruction value of Neodecortech's plants is estimated in about

€230mIn vs their net book value of €70mIn at the end of 2016. Net operating working capital has been quite stable in 2016, with an incidence on sales of about 25%. The Group core productions are planned and executed on the basis of the order intake; therefore the stock is typically kept at a minimum level.

Table 3: Neodecortech Balance Sheet 2015-2016

Balance Sheet (€ mln)	Neodecortech SpA	
	2015PF	2016PF
Fixed assets	84.9	83.0
materials	75.2	72.8
immaterials	1.2	2.0
financials	8.4	8.3
Net operating Working Capital	27.5	28.1
trade receivables	25.2	29.8
stock	29.9	26.3
trade payables	-27.6	-28.0
Other net current assets (liabilities)	-5.4	-5.3
Net non-current liabilities	-10.1	-10.0
Net invested capital	96.9	95.8
Equity	35.0	38.7
share capital	8.5	8.5
<i>number of shares (mln)</i>		
reserves	24.8	25.8
net profit	1.7	4.5
Net debt (cash)	61.9	57.1
<i>liquidità</i>	-0.6	-1.3
<i>crediti finanziari correnti</i>		-0.9
<i>debito a breve</i>	25.6	26.0
<i>debito a medio/lungo</i>	36.9	33.3

Source: Banca Profilo elaborations on Company data

Balance Sheet: a leveraged structure net debt/EBITDA at 3x and net debt/Equity at 1x post IPO

Cash flow generation: FCF at €7.6mIn in 2016

Following the IPO proceeds, the financial structure has improved, with share capital increasing from €8.5mIn at the end of 2016 to €16.2mIn in 2017. At the end of 2017, we estimate net debt to EBITDA to improve to 3.0x from 3.7x at the end of 2016 and net debt to Equity at 1x from 1.5x a year earlier.

Since it is a profitable and mature business, it generates cash flows. In 2016, the Free Cash Flow was €7.6mIn including €5mIn of capex.

Table 4: Neodecortech Cash Flow 2016

Cash flow (€ mln)	Neodecortech SpA
	2016PF
EBIT	9.2
tax on EBIT	-2.3
NOPAT	6.9
D&A	6.3
Operating Net Working Capital change	-0.6
capex	-5.0
<i>di cui NTD</i>	1.4
<i>di cui CDG</i>	-3.5
<i>di cui BEG</i>	1.2
<i>acquisitions/digital machine</i>	
<i>paper mill machines improvements</i>	
Free Cash Flow	7.6

Source: Banca Profilo elaborations and estimates on Company data

Strategy and estimates

Corporate strategies

Capture a greater portion of the international Décor Paper market

Main corporate strategy is to capture a greater portion of the international Décor Paper market, through a consolidation of the leadership in Italy and a commercial push. Moreover, possible extraordinary moves (M&A) may expand the Group presence in some niches, such as the pre-impregnation segment, and in some areas, such as North America (NDT) and/or East Europe (CdG). Finally, the IPO proceeds will be addressed to enhance the paper machines and make them more productive, improve paper flatness, its printability and stabilize its quality.

Our estimates 2017E-2019E

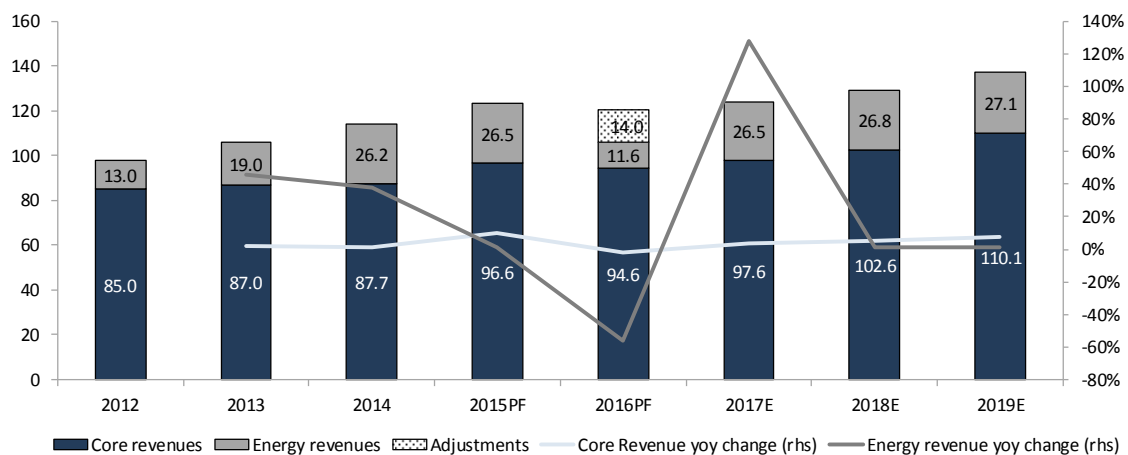
We expect the Group to outpace its reference market thanks to its faster growing positioning

We expect Neodecortech to keep outpacing its reference market growth, given: i) its strategic positioning in faster growing market segments and geographic areas (mainly décor paper printing and Western Europe); ii) a persisting commercial push; and iii), improved visibility following the IPO process, which has been opening new opportunities with new clients (or improving selling volumes of historical customers). In fact, if the global Décor Paper market is expected to grow at a CAGR below 3% in the 2016-2019 period (*Source: Décor Paper Market Research 2016, Munksjo*), we project a 9% revenue CAGR for the Group in the same period to reach €137m in 2019. On an adjusted basis (including adjusted sales for the energy business in 2016), our estimated sales CAGR goes down to 4%, including a 5% of the core business (NDT, CdG) and a more flattish trend of the energy business (BEG) in the next three years.

Further non-organic growth potentials

Further non-organic growth, not included in our estimates, might come from current management talks with outstanding players that might lead to procurement agreements, industrial partnerships or M&A deals. In this scenario, the Group is looking at the pre-impregnated paper segment, at the PVC market and at geographies such as North America and Eastern Europe. Another driver of sales growth might come from a technological shift, with the acquisition of a new digital printing machine, to expand the Group's products portfolio. According to the management, there are ongoing discussions for either a potential co-investment with a big client or an agreement on guaranteed volumes of digital printed products.

Figure 19: Neodecortech revenue trend by business unit

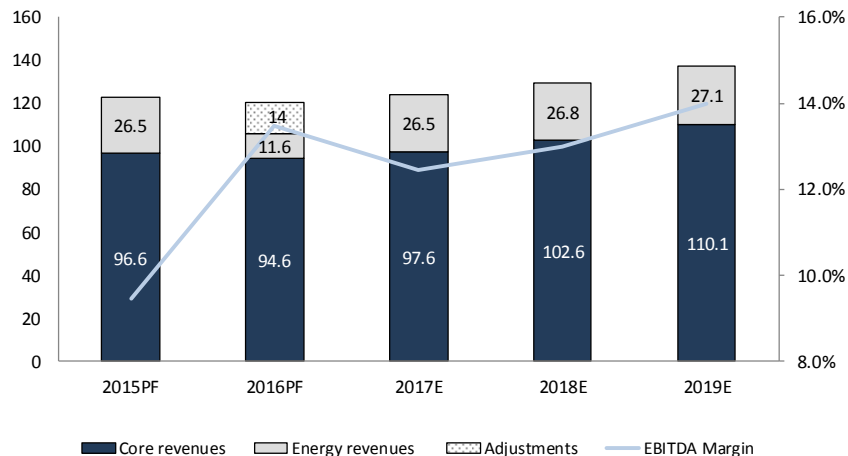


Source: Banca Profilo elaborations and estimates on Company data

EBITDA improving to €19.7mIn with margin at 14% in 2019

In 2017-2019, we expect the Group to improve the EBITDA to €19.7mIn and EBITDA margin to 14%. More in details, in 2017 we have included in the raw materials costs, the effects of higher titanium price. We have then redistributed it on the selling prices of current year for 50% and the balance in 2018. We have also included some procurement discounts coming from the management strategic policy of accelerating suppliers' payments. From 2018, the EBITDA increase is also driven by projected synergies of the vertical integrated Group structure, a more efficient usage of raw materials, improving machines productivity and a better product mix.

Figure 20: Revenue and EBITDA by BU 2017E-2019E



Source: Banca Profilo elaborations on

D&A estimated at 5% of revenue. Declining cost of debt projected at 3% in 2019. Tax rate at 20% until 2018. Net income at €8.8mIn in 2019E.

For the 2017-2019 period, we estimated annual D&A at €6.7mIn on average (or about 5% of projected revenue). With regards to net financial expenses, we projected a declining cost of debt from 5.5% in 2016 to 3% in 2019. According to the management, there are ongoing talks with banks for a cash pooling system on the whole Group which is expected to lead to longer debt maturity at lower cost. Therefore, we expect net financial expenses to decline from €3.3mIn in 2016 to €1.3mIn in 2019E. Finally, the tax rate, at 25% in 2016, is projected at 20% up to 2018 for the use of BEG past net losses and other tax credits. The NPV of tax assets stands at some €4.5mIn. Bottom line, we have projected consolidated net income improving from €4.5mIn in 2016 to €8.8mIn in 2019E.

Remedy Shares and Stock Option triggers partially reduce the risk of our estimates

The projected Group Profit & Loss has an execution risk which is partially reduced by the Remedy Shares mechanism and management Stock Grant Plan triggers, which might lead to a transferring "for free" up to 6.1% of share capital to stock holders, if Group EBITDA and net income are lower than their trigger levels in 2017 (€15mIn and €4.5mIn respectively) and 2018 (€17mIn and €7mIn respectively).

Table 5: Neodecortech Profit & Loss 2015-2019E

Profit & Loss (€ mln)	Neodecortech SpA								
	2012	2013	2014	2015PF	2016PF	2017E	2018E	2019E	
Revenues	98.0	106.0	113.9	123.1	106.2	124.1	129.4	137.2	
yoy		8%	7%	8%	-14%	17%	4%	6%	
Core revenues	85.0	87.0	87.7	96.6	94.6	97.6	102.6	110.1	
yoy		2%	1%	10%	-2%	3%	5%	7%	
<i>Paper production (Cartiere di Guarcino - CdG)</i>			46.9	56.2	52.2	53.1	54.3	55.5	
yoy				20%	-7%	2%	2%	2%	
<i>Decor printing and impregnation (Neodecortech - NDT)</i>			40.8	40.4	42.4	44.5	48.3	54.5	
yoy				-1%	5%	5%	9%	13%	
Energy revenues (Bio Energia Guarcino - BEG)	13.0	19.0	26.2	26.5	11.6	26.5	26.8	27.1	
yoy		46%	38%	1%	n.m.	n.m.	1%	1%	
<i>adjusted Energy revenues</i>					25.6				
revenues on services				0.6	0.6	3.9	3.9	3.9	
other revenues				1.8	8.9	2.9	0.0	0.0	
Value of Production				125	116	131	133	141	
<i>adjusted Group revenue</i>					120				
raw materials (including stock changes)				-72.8	-65.4	-77.3	-78.1	-81.3	
energy				-5.5	-4.6	-5.4	-5.6	-5.9	
other services				-17.8	-11.5	-13.6	-14.0	-14.8	
Variable costs				-96	-81	-96	-98	-102	
rents and leases				-0.1	-0.1	-0.1	-0.1	-0.1	
labour				-15.9	-16.3	-16.0	-16.7	-17.7	
other operating costs				-1.6	-2.2	-2.2	-1.6	-1.6	
Gross profit				27.7	31.9	32.3	34.1	37.4	
<i>margin</i>				22.1%	27.5%	24.7%	25.5%	26.5%	
EBITDA				11.9	15.6	16.3	17.4	19.7	
<i>margin</i>				9.5%	13.5%	12.5%	13.0%	14.0%	
<i>Core EBITDA</i>				9.4	12.5	13.0	13.9	15.8	
<i>margin</i>				9.7%	13.2%	13.4%	13.5%	14.3%	
<i>Energy EBITDA (Bio Energia Guarcino - BEG)</i>				2.5	3.1	3.3	3.5	4.0	
<i>margin</i>				9.5%	27.0%	12.4%	13.0%	14.6%	
D&A				-6.9	-6.3	-6.7	-6.7	-6.5	
provisions				-0.2	-0.1	-0.1	-0.1	-0.1	
EBIT				4.8	9.2	9.5	10.5	13.1	
<i>margin</i>				3.8%	8.0%	7.3%	7.9%	9.3%	
net financial expenses				-3.3	-3.3	-2.6	-1.4	-1.3	
Profit before taxes				1.5	6.0	6.9	9.1	11.8	
taxes				0.2	-1.5	-1.4	-1.8	-3.0	
Net profit				1.7	4.5	5.5	7.3	8.8	
<i>margin</i>				1.3%	3.8%	4.2%	5.5%	6.3%	

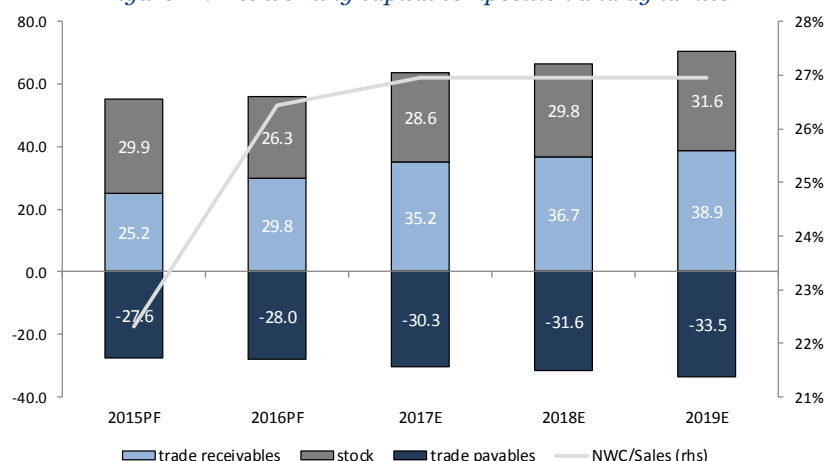
Source: Banca Profilo elaborations and estimates on Company data

Balance Sheet projections: €20m capex and faster payments to suppliers

Regarding our projections (2017E-2019E) of the Group Balance Sheet, we have included:

- €20m capex in three years of which annual €2m in Neodecortech, for the acquisition of cylindrical structures, €4.5m in 2018, for the new digital printing machine and the rest mainly to improve the efficiency of the paper mill machines;
- €9m of net operating working capital increase in three years ending in 2019E with an incidence on revenue at 27% (24% on average in 2015-2016) coming from a planned use of generated cash to pay suppliers and get back some procurement discounts. As the Group core productions are planned and executed on the basis of the order intake; the stock turnover has been kept basically flat. According to the management, there might be some space for net working capital optimization including BEG receivables factoring, partially offset by some stock planned increase to hedge the raw materials procurement costs mostly in CdG and BEG.

Figure 21: Net working capital composition and dynamics



Source: Banca Profilo elaborations and estimates on Company data

At the end of 2019, we project net debt to EBITDA down to 2.1x and net debt to Equity to 0.6x (3x and 1x respectively at the end of 2017E, post IPO proceeds)

Table 6: Neodecortech Balance Sheet evolution 2017E-2019E

Balance Sheet (€ mln)	Neodecortech SpA				
	2015PF	2016PF	2017E	2018E	2019E
Fixed assets	84.9	83.0	81.8	83.1	82.1
materials	75.2	72.8	73.6	74.8	73.8
immaterials	1.2	2.0			
financials	8.4	8.3	8.3	8.3	8.3
Net operating Working Capital	27.5	28.1	33.4	34.9	37.0
trade receivables	25.2	29.8	35.2	36.7	38.9
stock	29.9	26.3	28.6	29.8	31.6
trade payables	-27.6	-28.0	-30.3	-31.6	-33.5
Other net current assets (liabilities)	-5.4	-5.3	-5.2	-5.2	-5.1
Net non-current liabilities	-10.1	-10.0	-9.8	-9.7	-9.6
Net invested capital	96.9	95.8	100.2	103.1	104.3
Equity	35.0	38.7	51.2	57.0	64.1
share capital	8.5	8.5	16.2	16.2	16.2
number of shares (mln)			13.1		
reserves	24.8	25.8	29.4	33.6	39.0
net profit	1.7	4.5	5.5	7.3	8.8
Net debt (cash)	61.9	57.1	49.0	46.0	40.3

Source: Banca Profilo elaborations and estimates on Company data

Free Cash Flow above €20mln in three years 25% of dividend payout

The Group will keep being cash generative in the three years 2017E-2019E. We estimated €23 mln of aggregated Free Cash Flow in three years with a yearly average of €7.7mln. We set dividend payout at 25% leading to €4.3mln dividends distribution in 2017E-2019E, corresponding to an annual average of €1.4mln.

Table 7: Neodecortech Free Cash Flow evolution 2017E-2019E

Cash flow (€ mln)	Neodecortech SpA			
	2016PF	2017E	2018E	2019E
EBIT	9.2	9.5	10.5	13.1
tax on EBIT	-2.3	-1.9	-2.1	-2.6
NOPAT	6.9	7.6	8.4	10.5
D&A	6.3	6.7	6.7	6.5
Operating Net Working Capital change	-0.6	-5.4	-1.4	-2.1
capex	-5.0	-5.5	-8.0	-5.5
di cui NTD	1.4	2.0	2.0	2.0
di cui CDG	-3.5	1.0	1.0	1.0
di cui BEG	1.2	0.5	0.5	0.5
acquisitions/digital machine			4.5	
paper mill machines improvements		2.0		2.0
Free Cash Flow	7.6	3.4	10.2	9.4

Source: Banca Profilo elaborations and estimates on Company data

Valuation

Given the mature and cash generating business, a DCF method well adapts as a valuation approach.

A mature and cash generating business: DCF method well adapts for valuing the Group

For what concerns the relative valuation, there are no listed companies active in the Décor Paper market, showing a similar vertical integration of both the value chain and the Group structure, as Neodecortech. Main big diversified groups are either décor paper producers or décor paper printers and impregnators; none has a synergic Group structure as that of Neodecortech.

A sample of listed companies active in the reference Industry is the base for a relative valuation of the Group confirmed by M&A transactions multiples

As well described in this report, we have selected a sample of listed companies active either in some of the production cycle phases of Décor Paper production and printing or in the substitutive ceramic tile market. We also included listed players in the downstream interior design industry. Our sample for the relative approach on market multiples includes: the Swedish Ahlstrom-Munksjo (décor paper production), the German Surteco (décor paper printing and impregnation), the Italian Panariagroup (ceramic tiles) and the French Tarkett (flooring solutions). Finally we add to the relative valuation an average of M&A multiples derived from comparable transactions in the past three years.

DCF Valuation

DCF assumptions

We run a DCF model, using our projections of FCF for the 2017E-22E explicit period. Considering the mature and modestly growing, but cash generative business, our projected FCFs have a slightly downtrend, assuming also some additional cash burning from working capital change. We land to a normalized annual FCF of some €7mIn.

In order to assess the Terminal Value, we factor in:

- an annual FCF generation of €7.1mIn
- perpetual growth rate of 2%.

We used a WACC of 6.9%, derived from:

- risk free rate of 4%, as implicitly expected by consensus (Bloomberg) on the 30Y Italian BTP yield curve;
- market risk premium of 5%;
- beta of 1, coming from the average of chosen listed peers to Neodecortech;
- D/E target at 40%.

Table 8: DCF Model (€mIn) and WACC calculation

DCF Valuation	2017E	2018E	2019E	2020E	2021E	2022 and over
Free Cash Flows (€ mln)	3.4	10.2	9.4	8.7	7.9	7.1
years	1	2	3	4	5	6
discount factor	0.94	0.88	0.82	0.77	0.72	0.67
NPV Cash flows (€ mln)	3.22	8.91	7.71	6.63	5.66	4.78
Sum of NPVs (€ mln)						36.9
Terminal Value (€ mln)						145.7
NPV Terminal Value (€ mln)						97.7
Enterprise Value (€ mln)						134.6
Net debt end of 2017E (€ mln)						49.0
Equity Value (€ mln)						85.6
number of shares (mln)						13.1
Per share value (€)						6.5

WACC Calculation				
perpetual growth rate	2.0%			
WACC	6.9%			
risk free rate (30Y) (Bloomberg projections)	3.9%			
equity risk premium	5.0%			
beta	1.0			
KE	8.9%			
costo del debito	5%			
tax rate	25%			
KD	4%			
		2016PF	2017E	2018E
D/D+E	60%	49%	45%	39%
E/D+E	40%	51%	55%	61%

Source: Banca Profilo estimates and elaborations

DCF Equity Value: We obtain a fair Equity Value of €85.6mln.
€86mln

Relative Valuation on multiples

Our sample of comparables to Neodecortech shows a mean EV/SALES 2017E-2018E of 0.8x and a mean EV/EBITDA 2017E-2018E at 7.1x-6.4x respectively. As Neodecortech is a mature and cash generative company, we chose the EV/EBITDA multiple for its relative valuation. At its price (€3.9/share as of November, the 22nd), Neodecortech trades at 13% and 9% discount to our sample mean of EV/EBITDA for 2017E-2018E respectively.

Table 9: Market multiples

Company	EV / Sales		EV / EBITDA	
	2017E	2018E	2017E	2018E
Ahlstrom-Munksjo Oyj	0.9x	0.9x	7.0x	6.4x
SURTECO SE	0.8x	0.8x	6.6x	5.4x
Panariagroup Industrie Ceramiche S.p.A.	0.8x	0.8x	6.6x	6.2x
Tarkett SA	0.9x	0.9x	8.2x	7.5x
Mean	0.9x	0.8x	7.1x	6.4x
Neodecortech	0.8x	0.8x	6.1x	5.8x
discount on peers	-5.5%	-5.9%	-13.5%	-9.3%

Source: Factset. All numbers calendarised

Source: Banca Profilo estimates and elaborations on Factset

Table 10: Sample benchmarking

Company	Sales growth			EBITDA margin			Net debt / Equity	Sales CAGR 16-18
	2016	2017E	2018E	2016	2017E	2018E		
Ahlstrom-Munksjo Oyj	n.m.	3.9%	3.1%	12.5%	13.0%	13.7%	0.27x	3.5%
SURTECO SE	0.2%	8.3%	6.9%	11.6%	12.2%	13.8%	0.34x	7.6%
Panariagroup Industrie Ceramiche S.p.A.	9.0%	9.1%	3.3%	10.4%	12.1%	12.5%	0.30x	6.1%
Tarkett SA	0.9%	3.5%	2.7%	12.2%	11.0%	11.8%	0.19x	3.1%
Mean	3.4%	6.2%	4.0%	11.7%	12.1%	13.0%	0.28x	5.1%
Neodecortech	-13.7%	16.9%	4.3%	13.5%	12.4%	13.0%	0.96x	10.4%

Source: Banca Profilo estimates and elaborations, Factset

We use peers' mean EV/EBITDA 2017E-2018E to assess the relative value

Other than smaller size, lower liquidity and higher leverage, Neodecortech shows higher than peers' average growth potential with margins in line. We apply the Sector's EV/EBITDA for 2017E/18E at respectively 7.1x and 6.4x to our estimates of Group EBITDA (€16.3mln in 2017E and €17.3mln in 2018E).

Multiples Equity Value:
€64mln

We derive an Enterprise Value in the range of €110mln-€116mln. We subtract the 2017E net debt of €49mln and obtain an average Equity Value of €64mln, to which we apply a 10% liquidity/AIM discount and we land to an Equity Value of €58mln.

Table 11: Market multiples Valuation (€mln)

Relative Valuation on market multiples			
EV/EBITDA		EBITDA	
2017E	2018E	2017E	2018E
7.1x	6.4x	16.3	17.3
ENTERPRISE VALUE		NET DEBT 2017E	
115.7	110.4	49.0	
EQUITY VALUE		PER SHARE	
64.0		4.9	
liquidity/AIM discount		10%	
		4.4	

Source: Banca Profilo estimates and elaborations, Factset

Mean EV/EBITDA from M&A transactions

In addition, we show the multiples at which recent deals have been closed. The mean EV/EBITDA of 6.3x is in line with the average 2017-2018 market multiples.

Table 12: M&A transactions multiples

TRANSACTION MULTIPLES						
Completed Date	Target Company	Bidder Company	EV (mln)	Currency	EV / SALES	EV/ EBITDA
01/11/2017	W.A. Sanders Coldenhove	Neenah Paper	35	EUR	0.8X	6.1X
27/04/2017	Cartiere Pigna	DeA Capital	26	EUR	0.8X	NA
04/04/2016	Cahin Printing Services	Multicolor Corporation	16	EUR	1.0X	5.8X
03/04/2017	Ahlstrom and Munksjo combine		706	EUR	0.7X	5.5X
31/12/2016	Shinhan Wallcoverings	Camoor Investment Partners	133,110	KRW	1.7X	8.0X
01/12/2016	Nenplas	Surteco	26	USD	1.5x	6.4x
14/11/2016	Powerflute Oyj	Madison Dearborn Partners	350	EUR	1.0X	6.3X
12/01/2015	NewPage Holdings	Verso Paper Corp	1,406	USD	0.5X	6.2X
Mean					0.9X	6.3X

Source: Banca Profilo elaborations on Factset, Bloomberg and Mergermarket data

Our target price is €5.3

Neodecortech share capital consists of 13.1mln shares. We set our target price at €5.3 per share, as a result of both DCF and multiple valuations. Our target price implies a potential upside of 35% (on November 22nd closing share price).

Worth to note that NDT is PIR eligible

As a final note, we underline that the stock is PIR (Piani Individuali di Risparmio) eligible, so that it can be included in this specific type of Funds.



Neodecortech "ID Card"

Recommendation

BUY

Target Price

5.3 €

Upside

35%

Company Overview

Founded in 1947, Neodecortech is the largest Italian producer and a growing international niche leading provider of high-end products for the Interior Design industry. It is controlled by the Valentini Family with 73%. Neodecortech reference market is the international Décor Paper segment, a niche of the Specialty Paper market in the Paper and Paperboard industry. In 2016, the Décor Paper niche accounted for 750,000 metric tons; with 48,000 metric tons of décor paper manufactured the same year, through Neodecortech (NDT) and the paper mill Cartiere di Guarcino (CdG), the Group had a 6% market share. Its reference market is a mature and historically stable market (0.3% CAGR in 2006-2016), even if it has recently accelerated (+5% yoy in 2016). Neodecortech strategic positioning is at the top end of high-price and design products offering a wide range of décor paper, printed and impregnated. The Group exports more than 75% of its production, mostly in Western Europe (the area that has grown the most recording a +6% yoy in 2016); thus it competes with big international (mainly German) diversified groups in both décor paper production and printing. Furthermore, the Group is mostly active in the décor paper production and printing (more than 70% of Group's revenue), a market segment which has shown higher growth (+7% yoy in 2016), high profitability and lower competitive pressure than others, especially the impregnated paper segment and ceramic tiles market. The Group key competitive advantage lies in its quite fully integrated business model and synergic Group structure, which allow for control over strategic phases, generate savings on procurement, enhance the operating leverage, guarantee supply, production flexibility and time to market. The capital intensive structure represents a robust entry barrier, needing large selling volumes to reach profitability. The cost structure shows a high incidence of raw materials, which asks for an efficient use of raw materials, long and stable partnerships with suppliers, optimization of procurement policies and increasing production productivity in order to improve profitability. Finally, customers are large and concentrated and request high quality, production flexibility and tailored offering. In 2016, Neodecortech generated EUR 106mln of revenue, EUR 15.6mln of EBITDA or 13.5% margin and EUR 4.5mln of net income. It shows a leveraged financial structure with EUR 49mln of net debt and EUR 51mln of equity estimated at the end of 2017 including the IPO proceeds. According to our estimates, in the 2017-2019 period revenue is expected to grow at 9% on average (CAGR) to EUR 137mln with EBITDA at EUR 19.7mln or 14% margin and net income at EUR 8.8mln. This leads to an average Free Cash Flow of EUR 7.7mln, including cumulated capex of about EUR 20mln, and to a net debt of EUR 40mln (or 0.6x the Equity). The business plan execution risk is partially limited by a remedy share mechanism and by an experienced management team which has been managing the company for quite a decade.

SWOT Analysis

Strengths

- Quite fully integrated business model and Group structure
- Capital intensive structure with high reconstruction value of proprietary plants
- High margins and strong cash generator
- Product and geographic diversification
- Experienced management team
- Leading market positioning in high-end products of the international interior design industry

Weaknesses

- Limited reference market size
- Not fully utilized production capacity
- Limited self financing ability


Opportunities

- High entry barriers in the reference market
- Strengthening higher margin specialty products through ad-hoc partnerships
- Geographical expansion through ad-hoc international partnerships and/or bolt on acquisitions


Threats

- Competition from ceramic tiles manufacturer
- China décor paper producers improving quality, replicating designs and European products

Main catalysts

-  M&A deals to enter new geographies and new market niches
 Quicker or higher margins improvement driven by Group synergies
 Technology upgrade through the new digital machine
 The stock is PIR (Piani Individuali di Risparmio) eligible

Main risks

-  Competition from Chinese players and ceramic tiles manufacturer
 Less than expected return on the digital machine investment
 Less than estimated reference market growth in the next three years
 Accelerating increase in raw materials prices not fully (not as quick as expected) transferred to customers

Neodecortech "ID Card"

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Recommendation

BUY

Target Price

5.3 €

Upside

35%

Main Financials (€ mln)					
	2015PF	2016PF	2017E	2018E	2019E
Revenue	123.1	106.2	124.1	129.5	137.2
yoy change		-13.7%	16.9%	4.3%	6.0%
Gross margin	27.7	31.9	32.3	34.0	37.4
Gross margin (%)	22.1%	27.5%	24.7%	25.5%	26.5%
EBITDA	11.9	15.6	16.3	17.3	19.7
yoy change		31.5%	4.5%	6.3%	13.9%
EBITDA margin (%)	9.5%	13.5%	12.4%	13.0%	14.0%
EBIT	4.8	9.2	9.5	10.5	13.1
EBIT margin (%)	3.8%	8.0%	7.2%	7.9%	9.3%
EBT	8.1	12.5	12.1	11.9	14.4
Margin (%)	6.4%	10.8%	9.2%	8.9%	10.2%
Net income	1.7	4.5	5.5	7.3	8.8
Margin (%)	1.3%	3.8%	4.2%	5.4%	6.3%
Net debt (cash)	61.9	57.1	49.0	46.0	40.3
Shareholders Equity	35.0	38.7	51.2	57.0	64.1
Operating Working Capital	27.5	28.1	33.4	34.9	37.0
Capex and acquisitions	(4.4)	(5.0)	(5.5)	(8.0)	(5.5)
Free Cash Flow		7.6	3.4	10.2	9.4

Breakdown by business unit					
	2015PF	2016PF	2017E	2018E	2019E
Core					
Revenue	96.6	94.6	97.6	102.6	110.1
yoy change		-2.1%	3.2%	5.1%	7.2%
EBITDA	9.4	12.5	13.0	13.8	15.8
EBITDA margin (%)	9.7%	13.2%	13.3%	13.5%	14.3%
Energy					
Revenue	26.5	11.6	26.5	26.8	27.1
yoy change		-56.1%	127.8%	1.2%	1.2%
EBITDA	2.5	3.1	3.3	3.5	4.0
EBITDA margin (%)	9.5%	27.0%	12.4%	13.0%	14.6%

Solvability Ratios					
	2015PF	2016PF	2017E	2018E	2019E
Net debt (cash) / EBITDA	5.2x	3.7x	3.0x	2.7x	2.0x
Net debt (cash) / Equity	1.8x	1.5x	1.0x	0.8x	0.6x
Net debt (cash) / Net Invested Capital	64%	60%	49%	45%	39%

Financial and Operative ratios					
	2015PF	2016PF	2017E	2018E	2019E
Days of receivables	75	102	103	103	103
Days of payables	105	125	115	118	120
Days of inventories	89	90	84	84	84
Tax rate	12.3%	-25.4%	-20.0%	-20.0%	-25.4%
ROIC		7.2%	7.6%	8.1%	10.1%
ROE	4.8%	11.5%	10.8%	12.7%	13.8%
Capex/Sales	-3.6%	-4.7%	-4.4%	-6.2%	-4.0%
D&A to capex	156%	126%	122%	84%	119%

Source: Factset, Banca Profilo estimates and elaborations

Company Description	
Company Sector	Building material, Decor pa
Price as of November 22nd (€)	3.90
Number of shares (mln)	13.1
Market Cap (€ mln)	51.1
Reference Index	FTSE AIM Italia
Main Shareholders	Luigi Valentini and Valfina S
Main Shareholder stake	73%
Free Float	27%
Daily Average Volumes ('000)	35.2
Sample of comparables	Surteco, Ahlstrom Munksj Panaria Group, Tarkett

Decor Paper: data of peers			
	2016	2017	2018
Revenue Growth (yoy)	3.4%	6.2%	4.0%
EBITDA Margin	11.7%	12.1%	13.0%
net debt / equity		0.3x	
Average data			

Decor Paper: multiples of peers		
	2017	2018
EV / Sales	0.9x	0.8x
EV / EBITDA	7.1x	6.4x
Average data		

Neodecortech trading multiples		
	2017	2018
EV / Sales	0.8x	0.8x
EV / EBITDA	6.1x	5.8x



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ADDITIONAL INFORMATION

THE BANK PROVIDES ALL OTHER ADDITIONAL INFORMATION, ACCORDING TO ARTICLE 114, PARAGRAPH 8 OF LEGISLATIVE DECREE 58/98 ("FINANCIAL DECREE") AND COMMISSION DELEGATED REGULATION (EU) 2016/958 AS OF 9 MARCH 2016 (THE "COMMISSION REGULATION") ON THE RELEVANT SECTION OF ITS WEBSITE (WWW.BANCAPROFILO.IT), IN THE SECTION "CLIENTI AZIENDALI E ISTITUZIONALI/ANALISI E RICERCA".