

## FY18 better than expected still awaiting for M&A

April, 11<sup>th</sup> 2019 at 17:00

### FY2018 results outperformed our forecast, market and main peers

In 2018 Neodecortech generated €134mln of total revenue (+2.7% yoy), €19mln of adjusted EBITDA with margin at 14.2% (+250bps yoy) and €7.3mln of adjusted net income. It shows a leveraged financial structure with net debt at €44.3mln and equity at €58.6mln. In 2018, the Group's Unlevered Free Cash Flow was €5.9mln, including €7.7mln capex and €2mln of Net Working Capital cash absorption.

### Neodecortech improved its products mix expanding the LVT offer

Main corporate strategy is to capture a greater portion of the international Décor Paper market, through a consolidation of its leadership in Italy and a commercial push. Part of this strategy has been implemented in 2018 through the acquisition of Corbetta, which allowed the Group to extend its LVT offering to Plastic Printed Laminated Film products, able to generate marginality at the high end of Group's products range.

### Estimates 2019E-2020E revised upwards

According to our estimates in 2018-2020E, total revenue is seen growing (CAGR) by 5% to €146.6mln with EBITDA reaching €21.5mln or 14.7% margin and net income of €9.1mln. In 2019E-2020E, cumulated Free Cash Flows are projected at €16.2mln, including aggregated Capex of €15.3mln and Net Working Capital absorption at €4.1mln. Net debt is estimated down to €29.7mln at the end of 2020E from €44.3mln at the end of 2018.

### M&A needed to boost growth and let integration synergies arise

We believe that M&A deals are needed not only to foster growth and boost the operating leverage, but mostly to allow for the fully integrated business model to release its synergies mainly through a deeper exploitation of CdG production capacity. Even if a decline has occurred, strategic raw materials cost remains a source of potential pressure on margins which, will improve if integration synergies fully arise within these two years. A strategic Business Plan presentation is scheduled by June.

### Valuation Update: TP raised; recommendation confirmed

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 raised the TP to €5.6 from €5.3 and given the significant upside on current price (€3.84); we confirm our BUY recommendation.

<b>Target Price (€)</b>	<b>€5.6</b>	<b>from</b>	<b>€5.3</b>
<b>Recommendation</b>			<b>BUY</b>
Price as of April 10 <sup>st</sup>			3.84
N. of shares (mln)			13.1
Market cap. (€ mln)			50.3
Market segment			FTSE AIM ITALIA
<b>Performance (%)</b>	<b>1m</b>	<b>IPO</b>	<b>12m</b>
Absolute	+16%	-5%	0%
Max/Min (since IPO)			€3.93/€2.66
Since IPO avg. daily volumes ('000)			12.5

(€ mln)	2017	2018	2019E	2020E
<b>Total revenue</b>	<b>130.0</b>	<b>133.7</b>	<b>145.8</b>	<b>146.6</b>
yoy change	12.4%	2.7%	9.1%	0.5%
<b>Adj EBITDA</b>	<b>15.2</b>	<b>19.0</b>	<b>19.9</b>	<b>21.5</b>
margin	11.9%	14.2%	13.6%	14.7%
<b>Adj Net income</b>	<b>4.8</b>	<b>7.3</b>	<b>7.4</b>	<b>9.1</b>
margin	3.9%	5.4%	5.1%	6.2%
Fixed assets	80.9	84.0	83.8	83.5
Net Working Capital	24.9	26.8	30.0	30.9
Net Invested Capital	100.9	102.9	102.8	100.3
<b>Net debt/(cash)</b>	<b>46.9</b>	<b>44.3</b>	<b>39.1</b>	<b>29.7</b>
Equity	54.0	58.6	63.7	70.5
Free Cash Flow	8.7	5.9	6.3	9.9

Source: Banca Profilo estimates and elaborations, Company data.

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## SWOT analysis

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> <li>• Leading market positioning in high-end products of the international interior design industry</li> <li>• Quite fully integrated business model and Group structure</li> <li>• Capital intensive structure with high reconstruction value of proprietary plants</li> <li>• Strong cash generator</li> <li>• High product and geographic diversification</li> <li>• Experienced management team</li> <li>• Not-fully used production capacity</li> </ul>	<ul style="list-style-type: none"> <li>• Limited reference market size</li> <li>• High cost of replacing existing experts</li> </ul>
OPPORTUNITY	THREATS
<ul style="list-style-type: none"> <li>• High entry barriers in the reference market</li> <li>• Strengthening higher margin specialty products through ad-hoc partnerships</li> <li>• Geographical expansion through bolt on acquisitions</li> <li>• M&amp;A to boost growth and let synergies fully arise from the integrated business model and better product mix</li> </ul>	<ul style="list-style-type: none"> <li>• Chinese décor paper producers improving quality, replicating designs and European products</li> <li>• Competition from ceramic tiles manufacturers</li> <li>• Increasing strategic raw materials prices (pulp; titanium)</li> <li>• The business is sensitive to the economic cycle, mainly construction and renovation sector</li> </ul>

## FY18 results outperformed our estimates

### Main operating and financial data

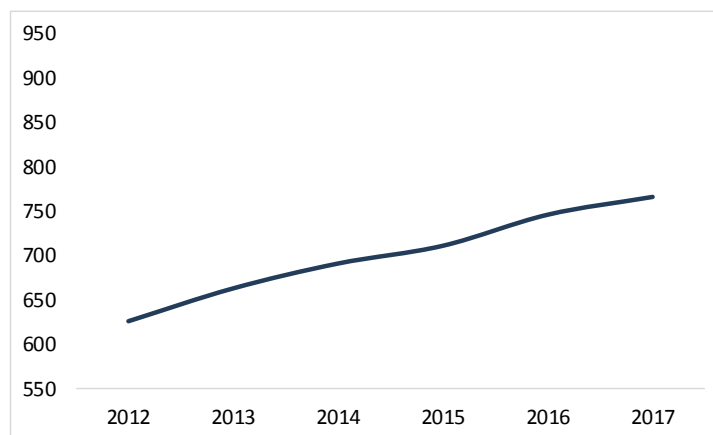
#### Consolidated figures

The Group perimeter includes: Neodecortech (NDT) controlling 100% of Cartiere di Guarcino (CdG), which owns 100% of Bio Energia di Guarcino (BEG) and Corbetta division.

#### NDT keeps outperforming its reference market

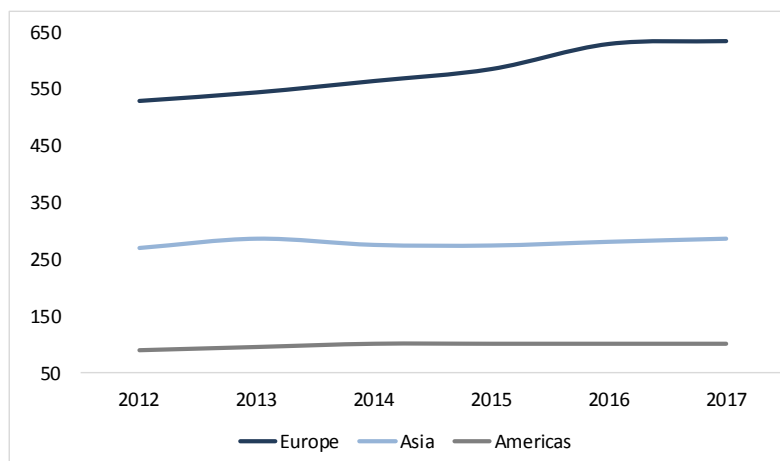
In 2012-2017, Neodecortech reported a 5% turnover CAGR, above its reference market (4.1%). In the high-end profitability division of Luxury Vinyl Tiles (LVT), the Group turnover rose by 26%, much higher than the flattish trend of its reference market. In 2018, this trend was even higher following the acquisition of Corbetta, which added €2.6mIn revenue to LVT division.

Figure 1: Décor Paper trend 2012-2017 (Tons/1000)



Source: Décor Paper Market Research 2017, Munksjo

Figure 2: Laminate flooring market 2012-2017 (Tons/1000)



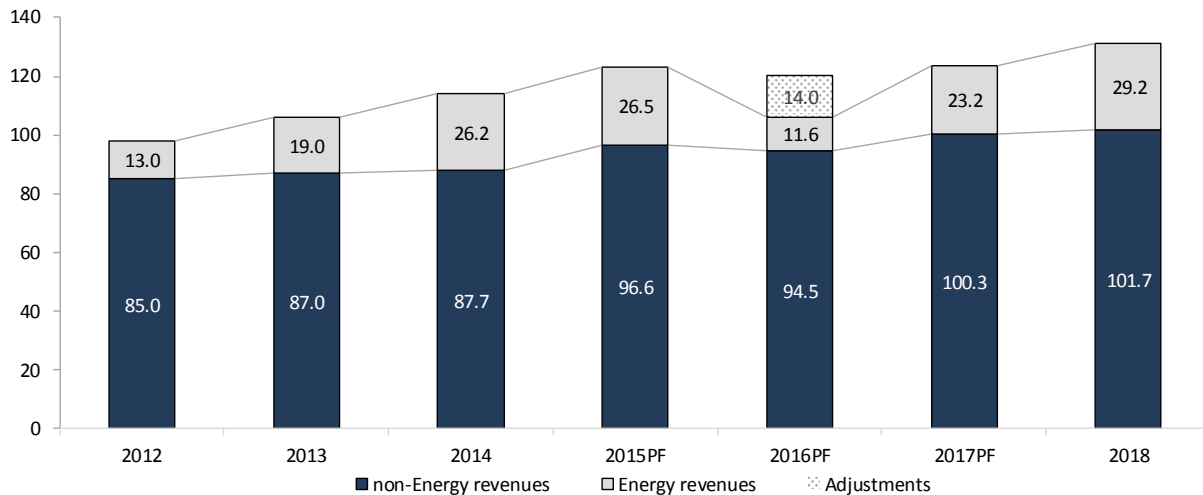
Source: Décor Paper Market Research 2017, Munksjo

2018: +6% revenue, above its peers (-0.8%); NDT +16%; BEG+26%

In 2018, the Group reported a 6% sales growth, dramatically above its main rivals (-0.8%), such as Ahlstrom-Munksjo, Surteco Panariagroup and Tarkett. Main drivers were Neodecortech, with sales up by 16.2% yoy, (decor printing paper +11%; printed plastic foil +44% yoy; flat soaking services) and BEG which reported sales of €29mIn

vs €23mIn a year earlier, driven by energy and steam. BEG activity was at full regime, with all 3 engines, for the first time since the accident occurred in 2016. CdG reported a 10% sales decline, due to the increasing cost of its main production inputs, especially pulp (in 2018) and titanium (in 2017) affecting selling prices with negative response by a very elastic demand to price increase. In addition, in the 4Q of 2018, a landside reduced the water input in to the production facility hilding CdG operations. Nevertheless, a prompt intervention by the insurance has protected CdG margins.

Figure 3: Neodecortech revenue 2012-2018 by BU (€mln)

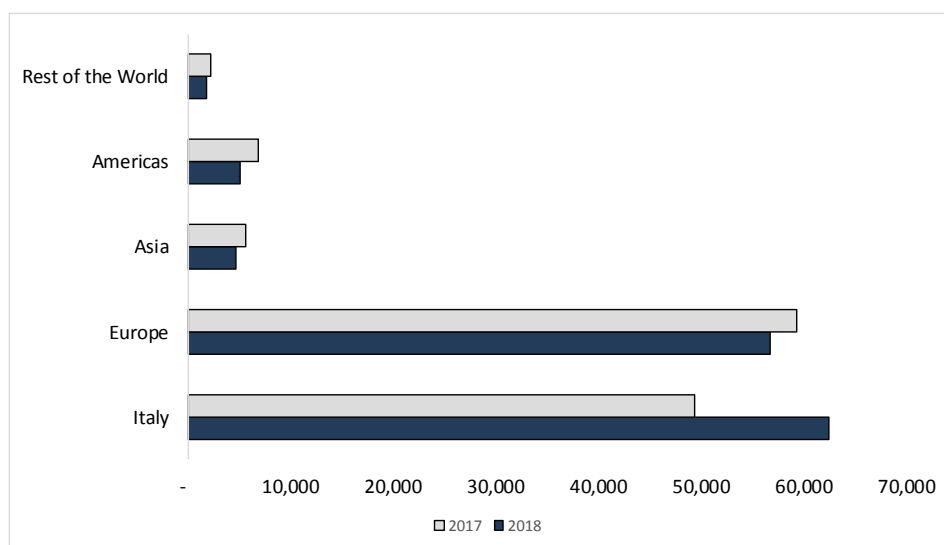


Source: Banca Profilo elaborations on Company data

**Product diversification and domestic market penetration**

Focusing on revenue breakdown by geography, in 2018 Neodecortech confirmed its strong presence in Europe. Indeed, more than 90% of sales come from Europe, of which two-thirds from Italy, whereas the remaining derived from Asia and Americas. Exports declined from 74% in 2017 to 52% in 2018 for the rise of domestic sales, driven by new key and large domestic clients.

Figure 4: Neodecortech revenue breakdown by area 2017-2018 (€/000)



Source: Banca Profilo elaborations on Company data

2018 turnover:  
 €131mln  
 €102mln non-Energy  
 €51mln paper printing

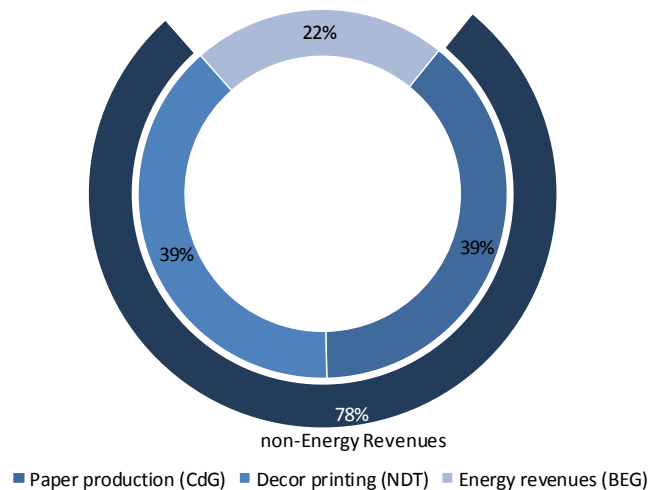
In 2018, about 90% of higher raw material costs (vs 2017), especially pulp and titanium, were shifted to selling prices. In 2018, pulp continued to rise peaking to €1,000/ton, whereas titanium basically stabilized on its peaks of €2,100/tons. As regards to the remaining raw materials used, energy price (PUN) increased in 2018 (+15%) reaching its highest level in June; palm oil and fat prices declined, given a good level of supply.

2018 EBITDA (adj)  
 +250bps to 14.2%;  
 +140bps in non-Energy

Following these trends, in 2018 the incidence of variable costs on sales declined by 100bps to 74% and the adjusted EBITDA margin improved to 14.2% from 11.7% a year earlier.

Revenue breakdown shows that the non-Energy part maintains a high incidence (78% between NDT e CdG), whereas BEG incidence stays at 22%.

Figure 5: Neodecortech revenue breakdown by product in 2018 (%)

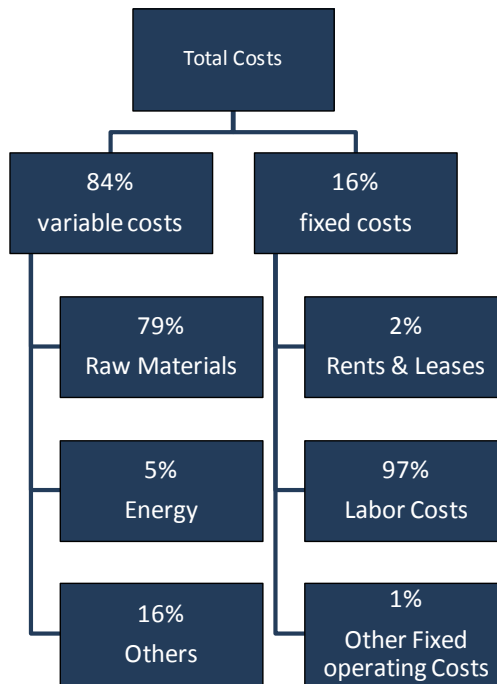


Source: Banca Profilo elaborations on Company data

Cost structure confirmed:  
 84% variable; 79% raw materials; 16% fixed, mostly labour

The Group cost structure was overall confirmed in 2018, with some further increase in variable costs, while raw materials incidence on sales decreased by 4% yoy. More in details, variable costs increased their weight on total costs by 200bps to 84% due to higher services (+300bps to 16%), partially offset by declining (-400bps to 79%) incidence of raw materials. Energy costs increased their weight total costs by 100bps to 5%. Within fixed costs, labour expenses (97%) made quite it all.

Figure 6: Cost structure-2018

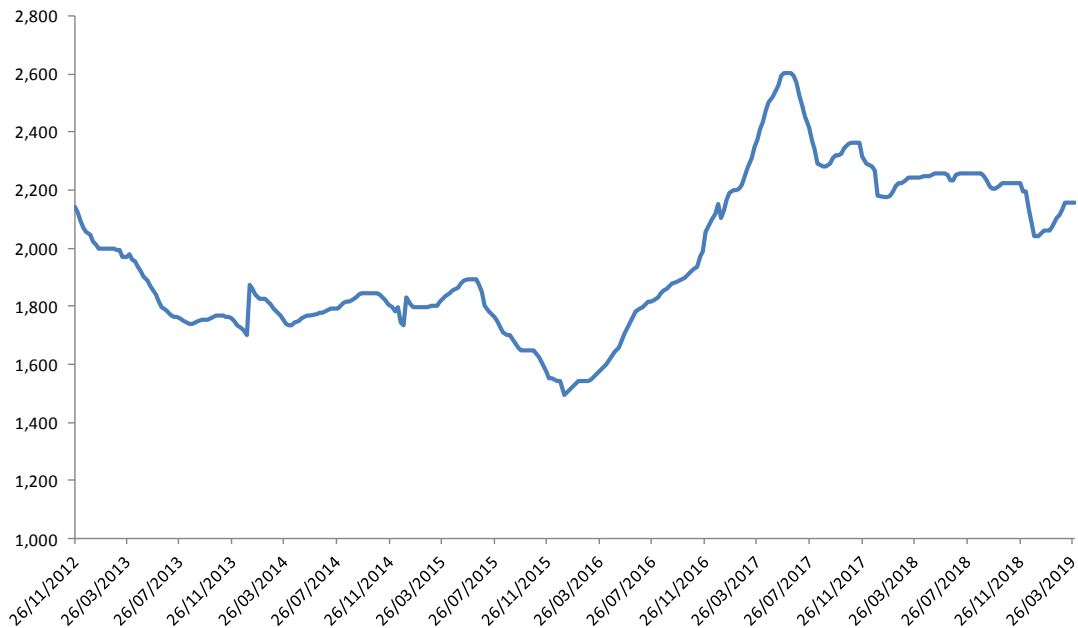


Source: Banca Profilo elaborations on Company data. Raw materials figures by Company includes intercompanies

**Cost incidence on revenue: variable costs at 74% (-100bps) driven by lower raw materials (-300bps)**

The annual trend of variable costs showed a lower incidence on revenue in 2018 at 74% compared to 75% in 2017, driven by a decreasing weight of raw materials (59% vs 62%) but higher energy and other services expenses (15% vs 13%). Energy cost was €4.5mln in 2018, up from €3.9mln a year earlier; it included some annual €5mln savings from the procurement synergies between BEG and CdG. Among raw materials, the highest incidence came from paper and resins on NDT, titanium dioxide and pulp on CdG and palm oil/animal fat on BEG.

Figure 7: Titanium price trend 2012-2018 (in €,metric ton)



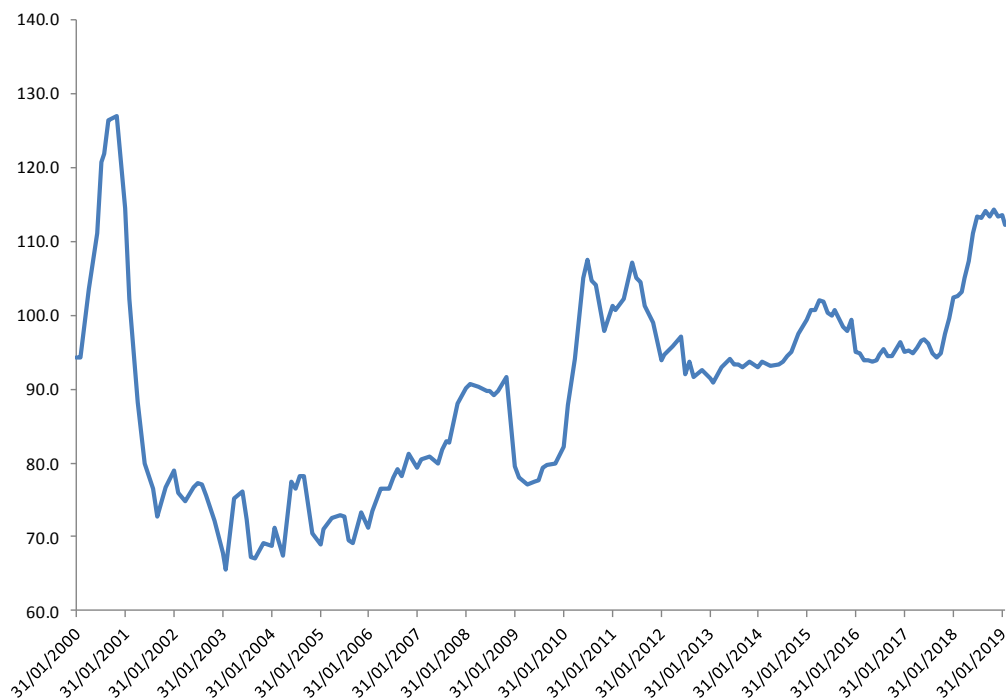
Source: Banca Profilo elaborations on China Chemicals SunSir TiO2 Titanium Dioxide (weekly), Bloomberg data

**Titanium and pulp price fluctuations keep affecting raw materials cost and non-Energy EBITDA**

Most of raw materials prices stabilized their trends, with the exception of pulp that has been rising strongly in 2018.

The Chinese titanium dioxide (TiO<sub>2</sub>) contract price has increased significantly from €1,600/tons in 1Q16 to €2,600/tons in 2Q17 (more than 60%, on average), declining thereafter to €2,100/tons in 1Q19. Even if they follow very similar trend, the European TiO<sub>2</sub> price is, on average, €200/ton higher than the Chinese one. Neodecortech refuels on the European market and currently pays titanium around €2,400/tons. Long and short fibre pulp price has grown considerably in 2018, showing an increase of about 40% from 4Q16 to 1Q19.

*Figure 8: Pulp trend 2000-2019 (Index)*



Source: Banca Profilo elaborations on Germany Pulp from Wood Cellulosic Fiber Index (monthly), Bloomberg data

**Raw materials have recently stabilized**

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, only partially offset by stronger EUR. The Group transferred most of the 2017 raw materials price increase to clients, through higher selling prices. Given the recent flattening of raw materials prices (pulp about +3% and titanium -6% in 2019 YTD), their incidence on sales is expected mostly unchanged this year.

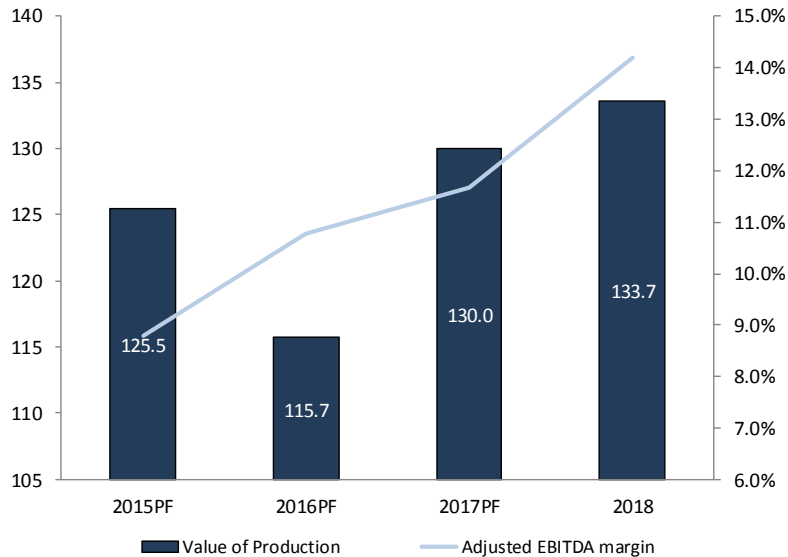
**2018 EBITDA margin improving 250bps to 14.2%**

In 2018, Neodecortech showed an adjusted EBITDA of €19mIn, adjusted for €1.3mIn of non-core items (one-off IPO costs and provisions for the stock grant plan) with EBITDA margin improving to 14.2% from 11.7% in 2017 thanks to: i) discounts from suppliers given the Company’s strategy to anticipate payments; ii) positive effect of vertical integration synergies; iii) costs saving from raw materials (including the significant decline of animal fat price); iv) higher productivity of improved production machines; v) a more profitable product mix with higher incidence of base paper (CdG), decorative printing, PPF and PPLF (NDT).



The non-Energy EBITDA (CdG, paper production and NDT, paper printing and impregnation) reduced its contribution to 68% (from 71% in 2017) only marginally due to an increase of raw materials, but mostly related to the dramatic increase of EBITDA in BEG. BEG increased its EBITDA weight to 32% (from 29% in 2017) mainly driven by the lower cost of animal fat and its 3 engines working at full regime.

Figure 9: Neodecortech revenue and Adj. EBITDA margin 2015-2018 (€mln and %)



Source: Banca Profilo elaborations and estimates on Company data

*EBITDA margin was 170 bps above our projections*

With regards to our projections, EBITDA margin was 170bps above our estimate deriving mainly from lower labour cost on sales.

*Adj. Net income at €7.3mln in 2018;*

In 2018, D&A peaked at €7.2mln from €6mln and financial expenses increased to €3mln from €2.7mln together with an average interest cost up to 5.6% from 4.9% in 2017.

*EBITDA and net income came in above Remedy Shares mechanism triggers*

Tax rate was 21% in 2018 and lead to a net income of €6mln (one-off cost adjusted net income at €7.3mln).

Since EBITDA and net income come in above the €17mln and €7mln triggers set in the Remedy Shares mechanism at the time of the IPO, no shares will be transferred from the Valentini family to current stockholders.

Table 1: Neodecortech Profit &amp; Loss 2015-2018

Profit & Loss (€ mln)	2015PF	2016PF	2017PF	2018
<b>Revenues on products and services</b>	<b>123.1</b>	<b>106.2</b>	<b>123.5</b>	<b>130.9</b>
yoy	8%	-14%	16%	6%
<b>non-Energy revenues</b>	96.6	94.5	100.3	101.7
yoy	10%	-2%	6%	1%
Paper production (Cartiere di Guarcino - CdG)	56.2	52.2	56.4	50.8
yoy	20%	-7%	8%	-10%
cor printing and impregnation (Neodecortech - NDT)	40.4	42.4	43.8	50.9
yoy	-1%	5%	3%	16%
<b>Energy revenues (Bio Energia Guarcino - BEG)</b>	26.5	11.6	23.2	29.2
yoy	1%	n.m.	n.m.	26%
adjusted Energy revenues		25.6		
other revenues	2.4	9.5	6.5	2.7
<b>Value of Production</b>	<b>125.5</b>	<b>115.7</b>	<b>130.0</b>	<b>133.7</b>
yoy		-8%	12%	5%
adjusted Group revenue		120		
raw materials (including stock changes)	-72.8	-65.4	-79.4	-77.2
energy	-5.5	-4.6	-3.9	-4.5
other services	-17.8	-11.5	-12.3	-15.6
<b>Variable costs</b>	<b>-96</b>	<b>-81</b>	<b>-96</b>	<b>-97</b>
rents and leases	-0.1	-0.1	-0.5	-0.4
labour	-15.9	-16.3	-17.5	-18.0
other operating costs	-1.6	-2.2	-1.2	-0.1
<b>Gross profit</b>	<b>27.7</b>	<b>31.9</b>	<b>32.7</b>	<b>35.9</b>
margin	22.1%	27.5%	25.1%	26.9%
<b>EBITDA</b>	<b>11.9</b>	<b>15.6</b>	<b>15.2</b>	<b>17.7</b>
margin	9.4%	13.5%	11.7%	13.2%
non-Energy EBITDA	9.4	12.5	11.1	11.9
margin	9.7%	13.2%	11.0%	11.7%
Energy EBITDA (Bio Energia Guarcino - BEG)	2.5	3.1	4.1	5.8
margin	9.5%	27.0%	17.7%	20.0%
<b>Adj EBITDA</b>	<b>11.0</b>	<b>12.5</b>	<b>15.2</b>	<b>19.0</b>
Adj EBITDA margin	8.8%	10.8%	11.7%	14.2%
D&A	-6.9	-6.3	-6.3	-7.2
provisions	-0.2	-0.1	0.0	0.0
<b>EBIT</b>	<b>4.8</b>	<b>9.2</b>	<b>7.9</b>	<b>10.5</b>
margin	3.8%	8.0%	6.1%	7.9%
net financial expenses	-3.3	-3.3	-2.7	-3.0
extraordinary items (one-off adjustments)	0.8	3.1	-0.9	-1.3
EBT	1.5	6.0	5.2	7.6
taxes	0.2	-1.5	-1.1	-1.6
<b>Net profit</b>	<b>1.7</b>	<b>4.5</b>	<b>4.1</b>	<b>6.0</b>
margin	1.3%	3.8%	3.1%	4.5%
<b>Adj Net profit</b>	<b>0.9</b>	<b>1.3</b>	<b>5.0</b>	<b>7.3</b>

Source: Banca Profilo elaborations and estimates on Company data

*Balance Sheet: a capital intensive structure (€80m fixed assets on €103m net invested capital); NWC on sales stable at 20%*

On the Balance Sheet side, at the end of 2018, the Group had approximately €84m of fixed assets, some €27m of NWC financed by more than €58m of Shareholders' equity and a bit less than €44m of Net financial Debt (from €47 in 2017) including €7.7m capex and €1.2m debt for the acquisition of Corbetta. The NWC on sales stood at 20% (unchanged yoy) including a lower incidence of receivables for factoring, a higher weight of stock for the pre-buying strategy of CdG (on declining titanium price) and lower accounts payable for advance payments of suppliers in order to obtain discounts.

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. It also ensures that the Company remains at the hedge of R&D in the Industry.

The reconstruction value of Neodecortech's plants is estimated in about €250m vs their net book value above €77m at the end of 2018.

*Dividend distribution: €0.153/share; 4.4% yield*

The BoD proposed a dividend distribution of €0.153/share representing a 4.4% dividend yield (on the average price in 2018 of €3.50) and a 33% payout.

*Table 2: Neodecortech Balance Sheet 2015-2018*

Balance Sheet (€ mln)	2015PF	2016PF	2017PF	2018
<b>Fixed assets</b>	<b>84.9</b>	<b>80.3</b>	<b>80.9</b>	<b>84.0</b>
materials	75.2	72.8	72.6	76.7
immaterials	1.2	2.0	4.6	3.5
financials	8.4	5.5	3.7	3.9
<b>Net operating Working Capital</b>	<b>27.5</b>	<b>28.1</b>	<b>24.9</b>	<b>26.8</b>
trade receivables	25.2	29.8	26.3	24.1
stock	29.9	26.3	32.1	35.9
trade payables	-27.6	-28.0	-33.6	-33.2
Other net current assets (liabilities)	-5.4	-5.3	2.1	-0.4
Net non-current liabilities	-10.1	-7.2	-6.9	-7.6
<b>Net invested capital</b>	<b>96.9</b>	<b>95.8</b>	<b>100.9</b>	<b>102.9</b>
<b>Equity</b>	<b>35.0</b>	<b>38.7</b>	<b>54.0</b>	<b>58.6</b>
share capital	8.5	8.5	16.2	16.2
number of shares (mln)	8.5	8.5	13.1	13.1
reserves	24.8	25.8	33.8	36.5
net profit	1.7	4.5	4.1	5.9
<b>Net debt (cash)</b>	<b>61.9</b>	<b>57.1</b>	<b>46.9</b>	<b>44.3</b>

Source: Banca Profilo elaborations on Company data

*Balance Sheet: net debt/EBITDA improving to 2.5x.*

In 2018, the Net Debt to EBITDA ratio improved significantly to 2.5x from 3.3x, above our projections (2.8x).

*Cash flow generation: FCF at €5.9m including €7.7m capex*

In 2018, the Free Cash Flow stood at €5.9m, including €7.7m capex and €2m of NWC absorption. As a mature and profitable business, Neodecortech remains highly cash generative.

Table 3: Neodecortech Cash Flow 2015-2018

Cash flow (€ mln)	2015PF	2016PF	2017PF	2018
EBIT		9.2	7.9	10.5
tax on EBIT		-2.3	-1.7	-2.2
<b>NOPAT</b>		<b>6.9</b>	<b>6.2</b>	<b>8.4</b>
D&A		6.3	6.3	7.2
Operating Net Working Capital change		-0.6	3.2	-2.0
<b>capex</b>		<b>-4.4</b>	<b>-5.0</b>	<b>-7.7</b>
	<i>NTD</i>	2.2	1.4	3.5
	<i>CDG</i>	1.5	-3.5	2.6
	<i>BEG</i>	0.7	1.2	1.6
	<i>acquisitions/digital machine</i>			
	<i>paper mill machines improvements</i>			
<b>Free Cash Flow</b>		<b>7.6</b>	<b>8.7</b>	<b>5.9</b>

Source: Banca Profilo elaborations and estimates on Company data

**2018 results outperformed our estimates: EBITDA margin +170bps driven by lower labour and raw materials**

Looking closer at the 2018 results, total revenue rose 2.7% yoy to €133.8mln, some 4% below our estimate of €139mln, due to lower non-Energy revenues (€101.7 vs €105.6). Nevertheless, adjusted EBITDA margin rose by 250bps to 14.2% (above our projection at 12.5% margin), mainly driven by lower incidence of raw materials and labour costs on sales. BEG EBITDA exceeded our forecasts (€5.7 vs €4.0) driven by the reduction of the animal fat price together with high growth of sales (+26% yoy).

**2018 net income (adj) +52% yoy to €7.3mln vs our €7mln**

Adjusted (for non-recurring items) net income grew by 52% yoy to €7.3mln vs our forecast at €7mln.

**Net Debt at the end of 2018: €44.3mln vs our forecast of €48.2mln**

Moving on to the Balance Sheet, if Equity has not deviated from our expectations (+8% yoy, peaking to €58.6mln), Net Debt decreased to €44.3mln (€43.1 adjusted for Corbetta acquisition), from €46.9mln a year earlier and lower than our forecast at €48.2mln, including €7.7mln capex (vs our €7.3mln), and €2mln of NWC absorption (vs our €3mln). The BoD proposed to the Shareholders' meeting a dividend distribution for €2mln, in line with our projections.

## 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). The Company has started to address the IPO proceeds to enhance the paper machines and make them more productive, improve paper flatness, its printability and stabilize its quality. A step towards enhancing the supply and increasing market share has been done with the acquisition of the business unit from Corbetta. Moreover, Group is orienting its offer to a diversified product mix, reducing correlation with the macroeconomic cycle.

*M&A to foster growth, vertical synergies and profitability through a better product mix*

We believe the M&A is needed not only to foster growth and boost the operating leverage but also to allow for the fully integrated business model to release its synergies mainly through a deeper exploitation of CdG production capacity and finally to boost profitability through higher margin mix of products.

*Acquisition of the division for surface lamination from CorbettaFia, a high growth and margin top end niche product*

Neodecortech acquired the surface lamination division of Corbetta. The company specializes in the production of PPLF laminates. Neodecortech acquired Corbetta's plant and developed, through an innovative use of the existing machineries, the specific know-how to produce the PPLF, a new range of products derived from the integration of printed PVC with transparent PVC surfaces to realize LVT flooring. As consequence, the acquisition firstly allows the Group to enter the European LVT market and then to extend its offering to PPLF products. The PPLF products have a marginality in line with the LVT flooring, hence at the high end of products range. Corbetta achieved a turnover of around €8mln in 2018, with an EBITDA margin of 5%. Including debt, the amount for the acquisition was €1.4mln. Neodecortech places high expectations on PPLF sales, as it would consolidate its leading position in Europe in this new market segment, characterized by double-digit growth and substantial margins.

### Upward revision of our estimates 2019E-2020E

*An upward revision of our estimates*

Given a higher 2018 compared to our projections, we updated our estimates and valuation to include these beating results mostly in terms of marginality. We also included Corbetta in our estimates. We have not added 2021E yet, waiting for the Business Plan presentation scheduled by June.

*We expect the Group to outpace its reference market thanks to its faster growing and niche 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; iii), improved visibility following the IPO process, which has been opening new opportunities with new clients (or improving selling volumes of historical customers); iv) increase in market share thanks to external growth. In fact, if the global Décor Paper market is expected to grow at a CAGR approximately near to 3.5% in the next two years (*Source: Décor Paper Market Research 2017, Munksjo*), we project a 10% total revenue CAGR 2018-2020E for the Group. Moreover, in support of our assumptions, it is sufficient to observe that against a decrease in main peers sales of 0.8% (on average), Neodecortech increased sales by 2.8% in 2018.

*Further non-organic growth potentials*

Further non-organic growth, not included in our estimates, might come from procurement agreements, industrial partnerships and/or to M&A deals. In this

scenario, the Group is looking at printers, at the pre-impregnated paper segment, at the PVC market and at geographies such as North America and Eastern Europe to be in the trend of substitution of carpet to LVT. The Group is looking at printers in order to increase the absorption of paper production from CdG within the integrated Group (from current 15% to 50%) and let consequently rise integration synergies.

According to management, the Company aims at reaching an EBITDA margin of 15% in 3 to 4 years and capex should stay at 2018 level, before new strategic developments, still to be defined and planned in the upcoming Business Plan (scheduled by June).

**Some increase in FCF projections 2019-2020**

As consequence, on average in the 2019E-2020E period we expect:

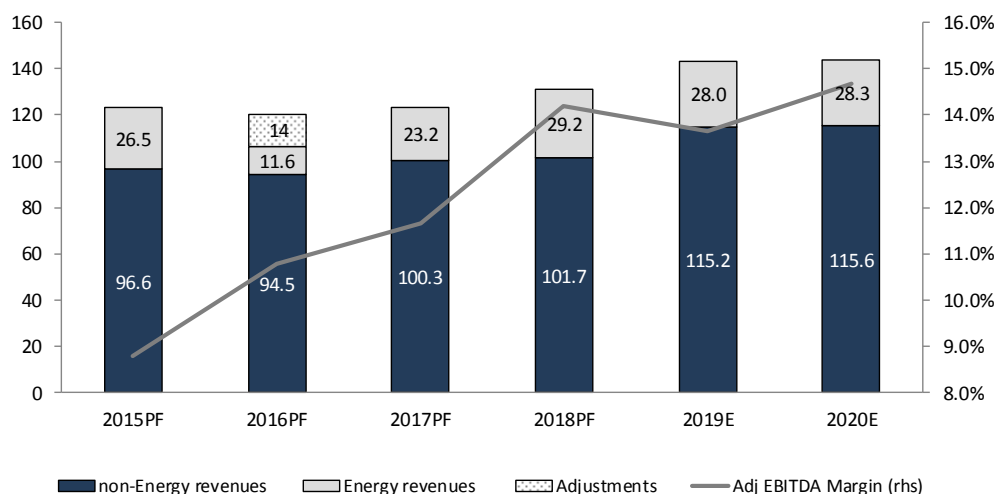
- top line lower by 7% from €157mIn to €146mIn, for Corbetta turnover which we reduced by €4mIn both in 2019E and 2020E;
- EBITDA margin +90bps for lower labour costs and raw materials expenses;
- NWC/sales at 21.2% from previous 22.4% continuing the optimization in 2018, which showed increasing turnover of receivables, offsetting lower accounts payables and higher stock;
- capex at €7.7mIn;

We end up with an average FCF to €8.1mIn from €7.7mIn given by increasing marginality and lower NWC absorption.

**Total revenue to €146mIn in 2020E including non-Energy sales at €115mIn**

More in details, we expect the Group to improve revenues on product and services to €146mIn in 2020E revising downwards our previous expectations of €157mIn, mainly due to an overvaluation of the contribution of Corbetta to Group's sales. Indeed, according to Management, it will maintain its performance basically flat. Looking closer, we expect an important increase of non-Energy revenues mostly driven by NDT business unit.

Figure 10: Neodecortech revenue trend by business unit (€mIn; %)



Source: Banca Profilo elaborations and estimates on Company data

**EBITDA improving to €21.5mIn with margin at 14.7% in 2020E**

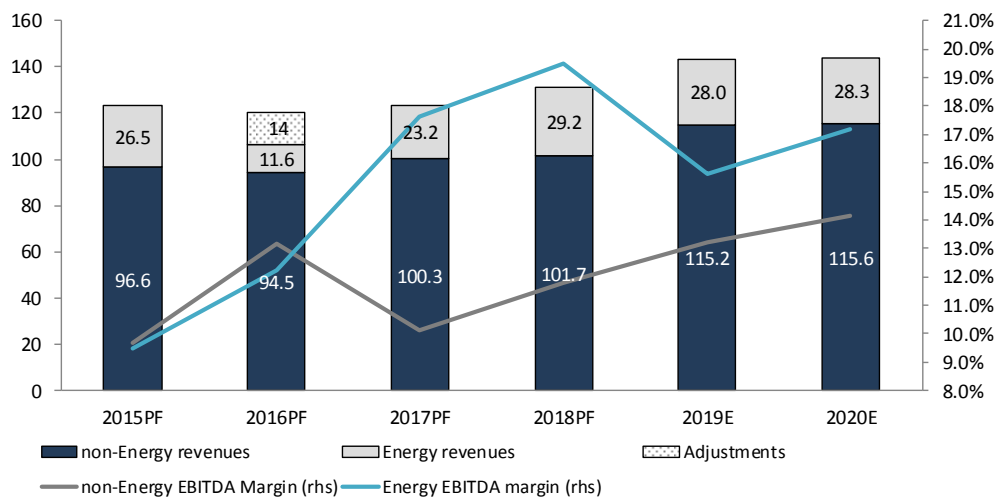
In 2018-2020E, we expect the Group to improve the EBITDA to €21.5mIn and EBITDA margin to 14.7% revising upwards our previous expectations of 13.6% EBITDA margin. We included one-off items for €0.6mIn for the provisions on stock grant plan, according to management indication of a €2mIn by 2020 (€1.4mIn in 2017-2018). In addition, we expect capex to stay at current level in an organic growth scenario. Regarding raw materials, we expect a broad stabilization/slight increase of titanium prices, starting from 2Q19. Moreover, high raw materials costs have been almost

totally spread to selling price; therefore, excluding a structural change in demand, which is very unlikely, raw material costs should just follow sales volume. 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.

*We assume sustained but stable costs of strategic raw materials*

In terms of marginality and including the stock plan provisions, if at first glance, given FY18 results, we expected a non-Energy EBITDA weighing 68% and BEG 32% in the next years, we projected a returning to their historical contribution to Group EBITDA, assuming weight of 78% and 22% respectively in 2020E. The stabilization of the raw materials price will lead to an increase in the non-Energy EBITDA margin (+190bps from 11.8% in 2018 to 13.7% in 2019-2020 on average, above our precedent 2019-2020 average estimates by 70bps), while Energy EBITDA margin is expected, on average, at 16.4% (-360bps from 2018 and -30bps from our previous 2019-2020 estimates).

Figure 11: Revenue and EBITDA by BU 2015-2020E



Source: Banca Profilo elaborations on Company data

*D&A estimated at 5% of revenue. Declining cost of debt projected at 4.6% in 2020. Tax rate at 21%.*

In 2019E-2020E, we increased our annual D&A estimates by €1.6mln to €7.9mln on average (or about 5.5% of projected revenue). With regards to net financial expenses, we expect a continuing decline of the average cost of debt from 5.6% in 2018 to 4.6% in 2020E. Therefore, we expect net financial expenses to decline from €3mln in 2018 to €2.1mln in the following two years.

*Net income at €8.3mln on average in 2019E-2020E.*

Finally, the tax rate, has already gone down to 21% in 2018 from 22% in 2017 and we projected it at 21% in 2019 and 2020. We projected a decline of net debt from €44.3mln in 2018 to €29.7mln in 2020E. Bottom line, we reduced our consolidated net income projection to €8.3mln on average in 2019E-2020E, from previous €10mln due to higher D&A expenses, higher net financial expenses and €0.6mln one-off costs related to stock grant plan.

*Balance Sheet projections: €15mln capex and NWC increase*

Regarding our Balance Sheet projections (2019E-2020E), we included:

- €15.3mln capex in machine improvements and plastic printed film lamination.
- €4.1mln of net operating working capital increase in two years ending in 2020E with an average incidence on revenue at 21.5% (22% on average in 2016-2018, declining to 20% in 2018) including some NWC coming from Corbetta integration.

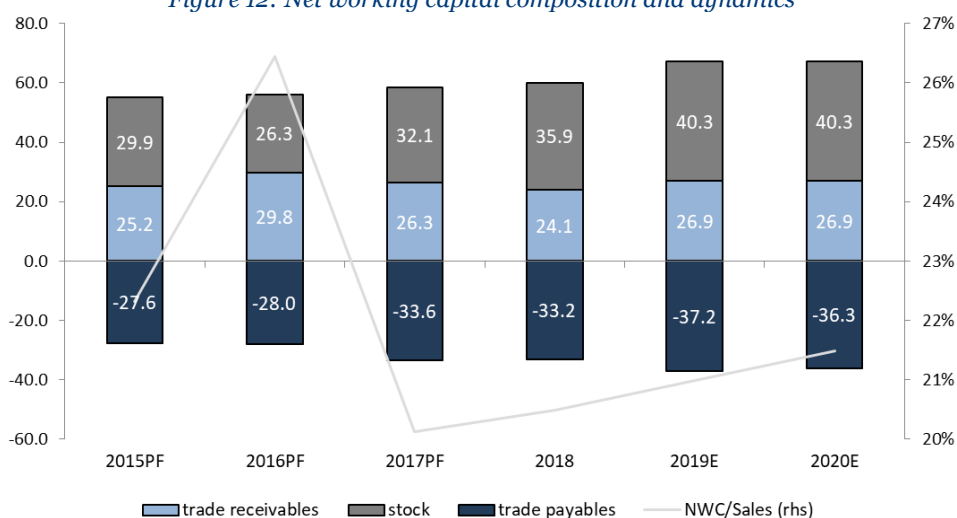
Table 4: Neodecortech Profit &amp; Loss 2015-2020E

Profit & Loss (€ mln)	2015PF	2016PF	2017PF	2018	2019E	2020E
<b>Revenues on products and services</b>	<b>123.1</b>	<b>106.2</b>	<b>123.5</b>	<b>130.9</b>	<b>143.1</b>	<b>143.9</b>
yoy	8%	-14%	16%	6%	9%	1%
<b>non-Energy revenues</b>	<b>96.6</b>	<b>94.5</b>	<b>100.3</b>	<b>101.7</b>	<b>115.2</b>	<b>115.6</b>
yoy	10%	-2%	6%	1%	13%	0%
Paper production (Cartiere di Guarcino - CdG)	56.2	52.2	56.4	50.8	47.1	48.2
yoy	20%	-7%	8%	-10%	-7%	2%
cor printing and impregnation (Neodecortech - NDT)	40.4	42.4	43.8	50.9	68.0	67.4
yoy	-1%	5%	3%	16%	34%	-1%
<b>Energy revenues (Bio Energia Guarcino - BEG)</b>	<b>26.5</b>	<b>11.6</b>	<b>23.2</b>	<b>29.2</b>	<b>28.0</b>	<b>28.3</b>
yoy	1%	n.m.	n.m.	26%	-4%	1%
adjusted Energy revenues		25.6				
other revenues	2.4	9.5	6.5	2.7	2.7	2.7
<b>Value of Production</b>	<b>125.5</b>	<b>115.7</b>	<b>130.0</b>	<b>133.7</b>	<b>145.8</b>	<b>146.6</b>
yoy		-8%	12%	5%	9%	1%
adjusted Group revenue		120				
raw materials (including stock changes)	-72.8	-65.4	-79.4	-77.2	-83.1	-81.9
energy	-5.5	-4.6	-3.9	-4.5	-4.9	-4.9
other services	-17.8	-11.5	-12.3	-15.6	-17.6	-16.9
<b>Variable costs</b>	<b>-96</b>	<b>-81</b>	<b>-96</b>	<b>-97</b>	<b>-106</b>	<b>-104</b>
rents and leases	-0.1	-0.1	-0.5	-0.4	-0.4	-0.4
labour	-15.9	-16.3	-17.5	-18.0	-19.0	-19.9
other operating costs	-1.6	-2.2	-1.2	-0.1	-1.3	-1.3
<b>Gross profit</b>	<b>27.7</b>	<b>31.9</b>	<b>32.7</b>	<b>35.9</b>	<b>38.6</b>	<b>41.1</b>
margin	22.1%	27.5%	25.1%	26.9%	26.4%	28.1%
<b>EBITDA</b>	<b>11.9</b>	<b>15.6</b>	<b>15.2</b>	<b>17.7</b>	<b>19.6</b>	<b>21.2</b>
margin	9.4%	13.5%	11.7%	13.2%	13.4%	14.5%
non-Energy EBITDA	9.4	12.5	11.1	11.9	15.2	16.3
margin	9.7%	13.2%	11.0%	11.7%	13.2%	14.1%
Energy EBITDA (Bio Energia Guarcino - BEG)	2.5	3.1	4.1	5.8	4.4	4.9
margin	9.5%	27.0%	17.7%	20.0%	15.6%	17.2%
<b>Adj EBITDA</b>	<b>11.0</b>	<b>12.5</b>	<b>15.2</b>	<b>19.0</b>	<b>19.9</b>	<b>21.5</b>
Adj EBITDA margin	8.8%	10.8%	11.7%	14.2%	13.6%	14.7%
D&A	-6.9	-6.3	-6.3	-7.2	-7.8	-7.9
provisions	-0.2	-0.1	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>4.8</b>	<b>9.2</b>	<b>7.9</b>	<b>10.5</b>	<b>11.8</b>	<b>13.3</b>
margin	3.8%	8.0%	6.1%	7.9%	8.1%	9.1%
net financial expenses	-3.3	-3.3	-2.7	-3.0	-2.8	-2.1
extraordinary items (one-off adjustments)	0.8	3.1	-0.9	-1.3	-0.3	-0.3
EBT	1.5	6.0	5.2	7.6	9.0	11.1
taxes	0.2	-1.5	-1.1	-1.6	-1.8	-2.3
<b>Net profit</b>	<b>1.7</b>	<b>4.5</b>	<b>4.1</b>	<b>6.0</b>	<b>7.1</b>	<b>8.8</b>
margin	1.3%	3.8%	3.1%	4.5%	4.9%	6.0%
<b>Adj Net profit</b>	<b>0.9</b>	<b>1.3</b>	<b>5.0</b>	<b>7.3</b>	<b>7.4</b>	<b>9.1</b>

Source: Banca Profilo elaborations and estimates on Company data



Figure 12: Net working capital composition and dynamics



Source: Banca Profilo elaborations and estimates on Company data

Net debt to EBITDA down to 1.5x and net debt to equity down to 0.4x in 2020E

At the end of 2020E, we project Net Debt to EBITDA down to 1.4x and Net Debt to Equity to 0.4x (2.5x and 0.8x respectively at the end of 2018), improving our previous estimates (2.3x and 0.7x respectively) thanks to a reduction of Net Debt.

Table 5: Neodecortech Balance Sheet evolution 2018-2020E

Balance Sheet (€ mln)	2015PF	2016PF	2017PF	2018	2019E	2020E
<b>Fixed assets</b>	<b>84.9</b>	<b>80.3</b>	<b>80.9</b>	<b>84.0</b>	<b>83.8</b>	<b>83.5</b>
materials	75.2	72.8	72.6	76.7	80.0	79.7
immaterials	1.2	2.0	4.6	3.5		
financials	8.4	5.5	3.7	3.9	3.9	3.9
<b>Net operating Working Capital</b>	<b>27.5</b>	<b>28.1</b>	<b>24.9</b>	<b>26.8</b>	<b>30.0</b>	<b>30.9</b>
trade receivables	25.2	29.8	26.3	24.1	26.9	26.9
stock	29.9	26.3	32.1	35.9	40.3	40.3
trade payables	-27.6	-28.0	-33.6	-33.2	-37.1	-36.3
Other net current assets (liabilities)	-5.4	-5.3	2.1	-0.4	-2.8	-5.2
Net non-current liabilities	-10.1	-7.2	-6.9	-7.6	-8.3	-9.0
<b>Net invested capital</b>	<b>96.9</b>	<b>95.8</b>	<b>100.9</b>	<b>102.9</b>	<b>102.8</b>	<b>100.3</b>
<b>Equity</b>	<b>35.0</b>	<b>38.7</b>	<b>54.0</b>	<b>58.6</b>	<b>63.7</b>	<b>70.5</b>
share capital	8.5	8.5	16.2	16.2	16.2	16.2
number of shares (mln)			13.1			
reserves	24.8	25.8	33.8	36.4	40.4	45.5
net profit	1.7	4.5	4.1	6.0	7.1	8.8
<b>Net debt (cash)</b>	<b>61.9</b>	<b>57.1</b>	<b>46.9</b>	<b>44.3</b>	<b>39.1</b>	<b>29.7</b>

Source: Banca Profilo elaborations and estimates on Company data

Free Cash Flow at €16mln in two years

We estimated €16.2mln of aggregated Free Cash Flow in 2019E-2020E with a yearly average of €8.1mln, €0.4mln above our previous forecast given higher margins and lower NWC absorption. Dividend distribution is projected unchanged at €2mln.

Table 6: Neodecortech Free Cash Flow evolution 2018-2020E

Cash flow (€ mln)	2015PF	2016PF	2017PF	2018	2019E	2020E
EBIT		9.2	7.9	10.5	11.8	13.3
tax on EBIT		-2.3	-1.7	-2.2	-2.4	-2.7
<b>NOPAT</b>		<b>6.9</b>	<b>6.2</b>	<b>8.4</b>	<b>9.3</b>	<b>10.5</b>
D&A		6.3	6.3	7.2	7.8	7.9
Operating Net Working Capital change		-0.6	3.2	-2.0	-3.2	-0.9
<b>capex</b>	<b>-4.4</b>	<b>-5.0</b>	<b>-7.0</b>	<b>-7.7</b>	<b>-7.7</b>	<b>-7.7</b>
	<i>NTD</i>	2.2	1.4	2.1	3.5	3.5
	<i>CDG</i>	1.5	-3.5	3.0	2.6	2.6
	<i>BEG</i>	0.7	1.2	1.9	1.6	1.6
	<i>acquisitions/digital machine</i>					
	<i>paper mill machines improvements</i>					
<b>Free Cash Flow</b>		<b>7.6</b>	<b>8.7</b>	<b>5.9</b>	<b>6.3</b>	<b>9.9</b>

Source: Banca Profilo elaborations and estimates on Company data

*Risk to our estimates partially reduced by: M&A and partnership opportunity; management track record results*

Geographical expansion through ad-hoc international partnerships and M&A to boost growth leading to synergies from the integrated business model might be consider key element to upside risk.

Management track record is another key element to assess the risk of our projections. The sudden structural change in strategic raw materials demand is considered a source, even if remote, of potential pressure on margins.

Chinese competitors are still offering lower quality and price traditional products. A downside risk could be their enhancing their product positioning.

## Valuation Update

Given the mature and robust 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*

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-Munksjö (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 2019E-21E 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 €8mIn.

We used a WACC of 7.6% (vs previous 7.5%) derived from:

- risk free rate of 4% (vs previous 4.4% given lower interest rates prospects), as implicitly expected by consensus (Bloomberg) on the 30Y Italian BTP yield curve;
- market risk premium of 5%;
- beta of 1 (vs previous 1.1), coming from the average of chosen listed peers to Neodecortech;
- D/E target at 30%.

*Table 7: WACC calculation*

WACC Calculation	
perpetual growth rate	2.0%
<b>WACC</b>	<b>7.6%</b>
risk free rate (30Y) (Bloomberg projections)	4.0%
equity risk premium	5.0%
beta	1.0
<b>KE</b>	<b>9.0%</b>
costo del debito	6%
tax rate	25%
<b>KD</b>	<b>4%</b>

*Source: Banca Profilo estimates and elaborations*

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

- an annual average FCF generation of €8.1mIn (vs previous €8mIn)
- perpetual growth rate of 2%.

Table 8: DCF Model (€mln)

DCF Valuation	2019E	2020E	2021E	over
Free Cash Flows (€ mln)	6.3	9.9	8.1	8.1
years	1	2	3	4
discount factor	0.93	0.86	0.80	0.75
NPV Cash flows (€ mln)	5.85	8.59	6.53	6.07
Sum of NPVs (€ mln)				27.0
Terminal Value (€ mln)				146.7
NPV Terminal Value (€ mln)				109.8
<b>Enterprise Value (€ mln)</b>				<b>136.8</b>
Net debt end of 2018 (€ mln)				44.3
Equity Value (€ mln)				92.5
number of shares (mln)				13.1
<b>Per share value (€)</b>				<b>7.1</b>

Source: Banca Profilo estimates and elaborations

**DCF Equity Value:** We obtain a fair Equity Value of €92.6mln (vs our previous €87.8mln)  
**€93mln**

### Neodecortech competitive arena: strategic positioning and competitive advantages

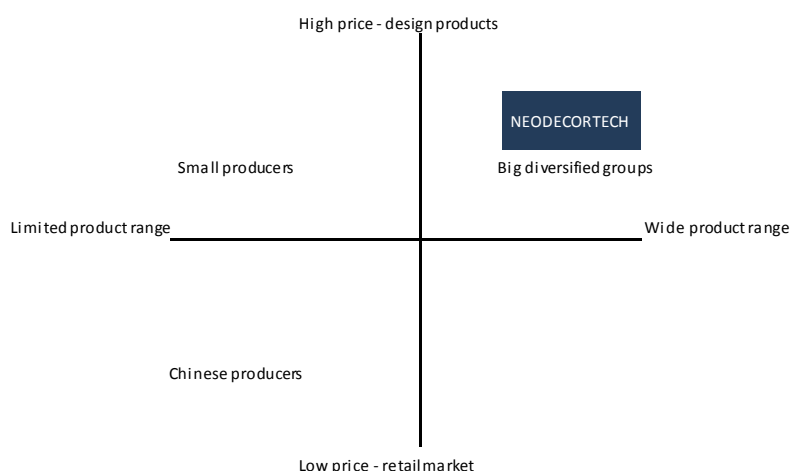
*Neodecortech non-Energy business: décor paper production, printing and impregnation*

We are analysing Neodecortech competitive international environment looking at its non-Energy business (77% of Group sales and more than 60% of Group EBITDA or €101.7mln and €12mln in 2018) consisting of décor paper production, through its paper mill Cartiere di Guarino (CdG with €50.8mln turnover in 2018), and décor paper printing and impregnation through Neodecortech (NDT with €50.9mln turnover in 2018).

*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, which find use on surface coating, mainly furniture, flooring and various interior installations. The Group exports 52% of its production, mostly in Europe. Therefore, it competes with big international diversified groups both in the décor paper production and printing.

Figure 13: 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 €250mln vs their net book value of €77mln at the end of 2018. 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 (74% 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 2018, the Group completed the acquisition of both U.S specialty paper producer Expera Specialty Solutions and Caieiras Paper Mill that expands the company's presence in North and South America and strengthens its offering.

*EBITDA margin hit by significant raw material cost escalation in 2018*

In 2018, the Group generated revenue for 3bn (décor paper production accounted for €451.9mln up by 19.5% yoy) with EBITDA margin of 11% (décor paper EBITDA margin at 8.2% down by 800bps from 2017 hit by lower sales volumes, adverse currency and raw material costs). The escalation of raw material costs (mainly titanium dioxide and pulp) hit margins of the Décor Paper division in 2018, burdened the results by approximately €145mln (31% of décor division revenue).

Consensus expects revenue growth at 1.5% in 2019E-2020E with EBITDA margin reaching 11%; net debt to equity ratio was 0.6x at the end of 2018.

*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 2018, revenue stood at €695mln (+7.7% yoy), with paper weighting 60% and plastic 40%. EBITDA margin was 10.5% in 2018.

*In 2018 negative burden on EBITDA margin by higher raw materials cost*

Consensus expects a 1% yoy growth this year and improvement in EBITDA margin to 11.7%. Net debt to equity was at 0.4x at the end of 2018. The Group employees about 2,900 people.

As happened to Munksjo, Surteco's Paper division experienced negative burden from higher raw materials prices affecting marginality in 2018.

*Panariagroup is an Italian player in the Interior furnishing industry*

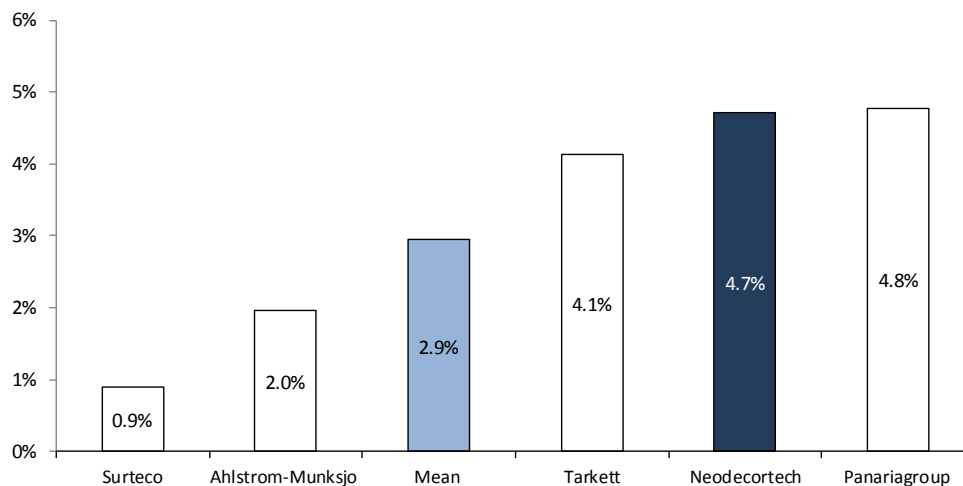
**Panariagroup** is an Italian manufacturer of a wide range of ceramic floor and wall tiles. In 2018, revenue stood at €391.5mIn, including export revenues at 80%, with EBITDA margin at 5%.

Consensus expects a 4.6% yoy growth this year and an improvement in EBITDA margin to 7%. Net debt to equity was 1.3x at the end of 2018. 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 2018, revenue stood at €2.8bn, EBITDA at €249 (down by 25% yoy) with a margin at 8.8% compared to 11.1% in 2017. Consensus expects increasing revenue by 6% in 2019 and a slight increasing in EBITDA margin to 9.5%. Net debt to equity ratio was stands at 0.4x. The Group employees some 13,000

Figure 14: Main listed players in the Industry – revenue CAGR 2018-2020E



Source: Banca Profilo elaborations on Company data, Factset

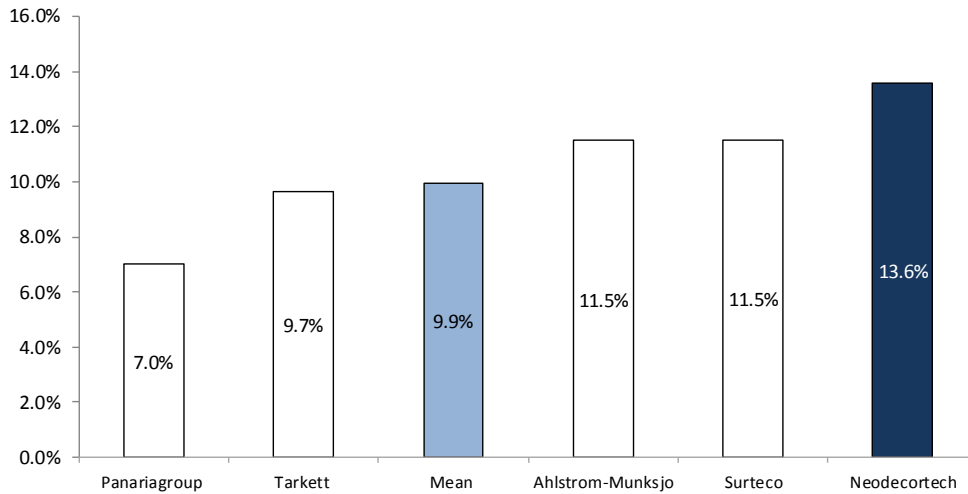
*Neodecortech is expected to grow faster than peers*

In the 2018-2020E period, we project Neodecortech revenue to grow at 4.7% (CAGR), the second-one in the sample, outpacing the peers' average (2.9%).

*Neodecortech is projected second to the highest EBITDA margin*

With respect to the EBITDA margin, Neodecortech is expected to maintain a higher EBITDA margin vs peers' average in 2019E at 13.6% vs 9.9% respectively. It is projected as the highest EBITDA margin among peers.

*Figure 15: Main listed players in the Industry – EBITDA margin 2019E*

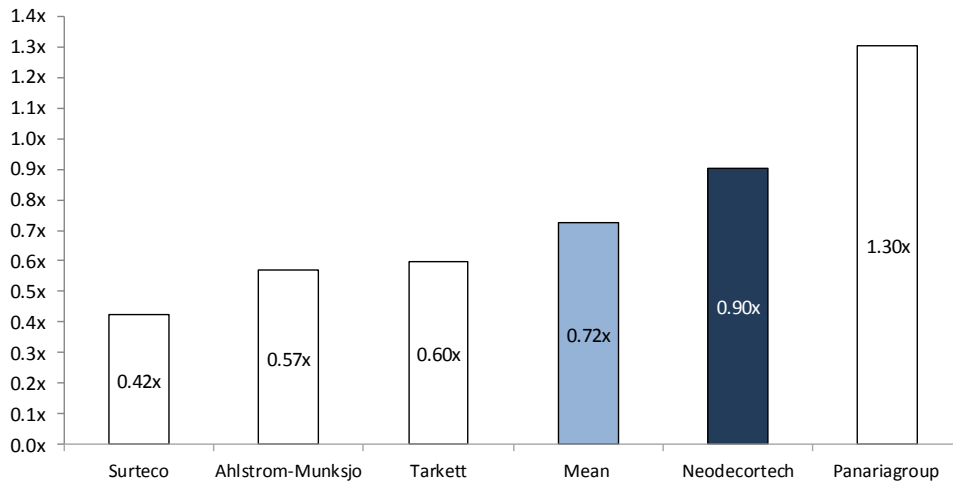


Source: Banca Profilo elaborations on Company data, Factset

*Neodecortech is the most leveraged*

On the capital structure side, Panariagroup shows the most leveraged structure with net debt to equity ratio at almost 1.3x. Neodecortech shows a net debt to equity ratio at 0.9x vs peers at 0.7x, on average.

*Figure 16: Main listed players in the Industry – current net debt / equity*



Source: Banca Profilo elaborations on Company data.

*Relative Valuation on multiples*

Our sample of comparables to Neodecortech shows a mean EV/SALES 2019E-2020E of 0.7x and a mean EV/EBITDA 2019E-2020E at 6.1x respectively. As Neodecortech is a mature and cash generative company, we chose the EV/EBITDA multiple for its relative valuation. At its price (€3.8/share as of April, the 10<sup>th</sup>), Neodecortech trades at 4.6x EV/EBITDA 2019E-2020E showing a 24% discount on peers and 31% on its best peers (Ahlstrom-Munksjo, Surteco).

Table 9: Market multiples

Company	EV / Sales		EV / EBITDA		
	10/04/2019	2019E	2020E	2019E	2020E
Ahlstrom-Munksjo Oyj		0.8x	0.8x	7.2x	6.2x
SURTECO GROUP SE		0.8x	0.8x	6.9x	6.3x
Panariagroup SpA		0.4x	0.4x	5.4x	3.9x
Tarkett SA		0.6x	0.6x	6.6x	5.9x
<b>Mean</b>		<b>0.7x</b>	<b>0.6x</b>	<b>6.5x</b>	<b>5.6x</b>
<b>Best peers</b>		<b>0.8x</b>	<b>0.8x</b>	<b>7.0x</b>	<b>6.2x</b>
<b>Neodecortech</b>		<b>0.6x</b>	<b>0.6x</b>	<b>4.8x</b>	<b>4.4x</b>

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
	2017	2018	2019E	2020E	2017	2018	2019E	2020E	current	18-20E
Ahlstrom-Munksjo Oyj	3.7%	1.3%	1.3%	2.6%	8.3%	9.2%	11.5%	13.0%	0.56x	2.0%
SURTECO GROUP SE	7.8%	1.3%	0.6%	1.2%	12.0%	10.4%	11.5%	12.5%	0.43x	0.9%
Panariagroup SpA	6.0%	-5.6%	4.6%	4.9%	10.3%	4.9%	7.0%	9.3%	1.37x	4.8%
Tarkett SA	3.7%	-0.2%	5.7%	2.5%	11.1%	8.8%	9.6%	10.4%	0.63x	4.1%
<b>Mean</b>	<b>5.3%</b>	<b>-0.8%</b>	<b>3.0%</b>	<b>2.8%</b>	<b>10.4%</b>	<b>8.3%</b>	<b>9.9%</b>	<b>11.3%</b>	<b>0.75x</b>	<b>2.9%</b>
<b>Neodecortech</b>	<b>12.4%</b>	<b>2.8%</b>	<b>9.1%</b>	<b>0.5%</b>	<b>11.7%</b>	<b>14.2%</b>	<b>13.6%</b>	<b>14.7%</b>	<b>0.88x</b>	<b>4.7%</b>

Source: Banca Profilo estimates and elaborations, Factset

We use peers' mean EV/EBITDA 2019E-2020E 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 2019E/20E at respectively 6.6x and 5.6x to our estimates of Group EBITDA (€19.9m in 2019E and €21.5m in 2020E).

Multiples Equity Value: €69m

We derive an Enterprise Value in the range of €130m-€120m. We subtract the Net Debt of €44.3m (end of 2018) and obtain an average Equity Value of about €81m, to which we apply a 15% liquidity/AIM discount and we land to an Equity Value of €68.5m.

Table 11: Market multiples Valuation (€m)

Relative Valuation on market multiples		
	2019E	2020E
Peers' average EV/EBITDA	6.5x	5.6x
Neodecortech EBITDA (€m)	19.9	21.5
Neodecortech potential EV (€m)	130	120
Current net debt (€m)	44.3	44.3
Neodecortech potential Equity Value (€m)	85.4	75.7
	<i>liquidity/AIM discount</i>	15%
<b>Neodecortech potential Equity Value post discount (€m)</b>	<b>68.5</b>	
Number of shares	13.1	
<b>Neodecortech potential price (€)</b>	<b>5.2</b>	

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 just above the average 2019-2020 market multiples.



Table 12: M&amp;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
		<b>Mean</b>			<b>0.9X</b>	<b>6.3X</b>

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

*We raise our target price at €5.6 and confirm BUY recommendation*

Neodecortech share capital consists of 13.1mln shares.

We raise our target price at €5.6 per share from previous €5.3, as a result of both DCF and multiple valuations, giving a higher weight to multiple valuation as the estimated capex, and consequent FCFs projections might change following the strategic Business Plan presentation scheduled by June.

As our target price implies a potential upside of 45% (on the price of €3.84 as of April, the 10<sup>th</sup>) we confirm our BUY recommendation.

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### Neodecortech "ID Card"

Recommendation

**BUY**

Target Price

**5.6 €**

Upside

**45%**

### 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 2017, the Décor Paper niche accounted for 765,000 metric tons; with 48,000 metric tons of décor paper manufactured the same year, through Neodecortech (NDT) and the paper mill Cartiere di Guarino (CdG), the Group had a 6% market share. Its reference market is a mature and historically stable market (4.1% CAGR in 2012-2017). 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 50% of its production, mostly in Western Europe (the area that has grown the most recording a +5.6% yoy in 2017); 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 2018, Neodecortech generated €133.7m of revenue, €19m of adjusted EBITDA or 14.2% margin and EUR 7.3m of adjusted net income. It shows a leveraged financial structure with €44.3m of net debt and €58.6m of equity. According to our estimates, in the 2018-2020E period revenue is expected to grow at 5% on average (CAGR) to €146.6m with EBITDA at €21.5m or 14.7% margin and net income at €9.1m. This leads to an average Free Cash Flow of €8.1m, including cumulated capex of €15m, and to a net debt of €29.7m (or 0.8x the Equity). In 2018 Neodecortech acquired the surface lamination division of Corbetta. The company specializes in the production of PPLF laminates. Neodecortech acquired Corbetta's plant and developed, through an innovative use of the existing machineries, the specific know-how to produce the PPLF, a new range of products derived from the integration of printed PVC with transparent PVC surfaces to realize LVT flooring. As consequence, the acquisition firstly allows the Group to enter the European LVT market and then to extend its offering to PPLF products.

#### 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
- Strengthening of supply (paper and PVC) that gives the company greater flexibility to respond promptly to market developments
- Less exposure to the cycle given high diversification of offering
- Not-fully used production capacity

#### Weaknesses

- Limited reference market size
- 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
- Escalation of strategic raw materials price increase
- The business is sensitive to the economic cycle,

### Main catalysts

- 👍 M&A deals boost growth through new geographies and new market niches
- M&A deals to let synergies from the integrated business model and product mix fully arise
- Technology upgrade through the new digital machine

### 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"

Recommendation

**BUY**

Target Price

**5.6 €**

Upside

**45%**

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### Main Financials

(€ mln)	2015PF	2016PF	2017PF	2018	2019E	2020E
<b>Revenue</b>	<b>123.1</b>	<b>106.2</b>	<b>123.5</b>	<b>130.9</b>	<b>143.1</b>	<b>143.9</b>
yoy change		-13.7%	16.3%	6.0%	9.3%	0.5%
<b>VdP</b>	<b>125.5</b>	<b>115.7</b>	<b>130.0</b>	<b>133.7</b>	<b>145.8</b>	<b>146.6</b>
Gross margin	27.7	31.9	31.7	35.9	38.6	41.1
Gross margin (%)	22.1%	27.5%	24.4%	26.8%	26.4%	28.1%
EBITDA	11.9	15.6	14.2	17.7	19.6	21.2
<b>Adj EBITDA</b>	<b>11.0</b>	<b>12.5</b>	<b>15.2</b>	<b>19.0</b>	<b>19.9</b>	<b>21.5</b>
Adj EBITDA margin (%)	8.8%	10.8%	11.7%	14.2%	13.6%	14.7%
EBIT	4.8	9.2	7.9	10.5	11.8	13.3
EBIT margin (%)	3.8%	8.0%	6.1%	7.9%	8.1%	9.1%
EBT	1.5	6.0	5.2	7.6	9.0	11.1
Margin (%)	1.2%	5.2%	4.0%	5.7%	6.1%	7.6%
Net income	1.7	4.5	4.1	5.9	7.5	9.3
<b>Adj Net Income</b>	<b>0.9</b>	<b>1.3</b>	<b>5.0</b>	<b>7.3</b>	<b>7.4</b>	<b>9.1</b>
Margin (%)	0.7%	1.2%	3.9%	5.4%	5.1%	6.2%
<b>Net debt (cash)</b>	<b>61.9</b>	<b>57.1</b>	<b>46.9</b>	<b>44.3</b>	<b>39.1</b>	<b>29.7</b>
Shareholders Equity	35.0	38.7	54.0	58.6	63.7	70.5
Operating Net Working Capital	27.5	28.1	24.9	26.8	30.0	30.9
Capex and acquisitions	(4.4)	(5.0)	(7.0)	(7.7)	(7.7)	(7.7)
Free Cash Flow		7.6	8.7	5.9	6.3	9.9

### Breakdown by business unit

	2015PF	2016PF	2017PF	2018	2019E	2020E
<b>Core</b>						
Revenue	96.6	94.5	100.3	101.7	115.2	115.6
yoy change		-2.2%	6.1%	1.4%	13.2%	0.4%
EBITDA	9.4	12.5	10.1	12.0	15.2	16.3
EBITDA margin (%)	9.7%	13.2%	10.1%	11.8%	13.2%	14.1%
<b>Energy</b>						
Revenue	26.5	11.6	23.2	29.2	28.0	28.3
yoy change		-56.1%	99.5%	25.9%	-4.3%	1.2%
EBITDA	2.5	3.1	4.1	5.7	4.4	4.9
EBITDA margin (%)	9.5%	27.0%	17.7%	19.5%	15.6%	17.2%

### Solvability Ratios

	2015PF	2016PF	2017PF	2018	2019E	2020E
Net debt (cash) / EBITDA	5.2x	3.7x	3.3x	2.5x	2.0x	1.4x
Net debt (cash) / Equity	1.8x	1.5x	0.9x	0.8x	0.6x	0.4x
Net debt (cash) / Net Invested Capital	0.6x	0.6x	0.5x	0.4x	0.4x	0.3x

### Financial and Operative ratios

	2015PF	2016PF	2017PF	2018	2019E	2020E
Days of receivables	75	102	78	67	69	68
Days of inventories	89	90	95	100	103	102
Days of payables	105	125	129	124	128	128
Tax rate	12.3%	-25.4%	-21.6%	-20.6%	-20.6%	-20.6%
ROIC		9.6%	8.1%	10.3%	11.4%	13.1%
ROE		12.1%	8.8%	10.6%	11.2%	13.2%
Capex/Sales	3.6%	4.7%	5.7%	5.9%	5.4%	5.3%
FCF cash conversion		61%	58%	31%	32%	46%

Source: Factset, Banca Profilo estimates and elaborations

### Company Description

Company Sector	Building material, Decor paper
Price as of April 10th (€)	3.84
Number of shares (mln)	13.1
Market Cap (€ mln)	50.3
Reference Index	FTSE AIM Italia
Main Shareholders	Luigi Valentini and Valfina Spa
Main Shareholder stake	73%
Free Float	27%
Daily Average Volumes ('000)	12.5
Sample of comparables	Surteco, Ahlstrom Munksjo Panaria Group, Tarkett

### Decor Paper: data of peers

	2017	2018	2019E	2020E
Revenue Growth (yoy)	5.3%	-0.8%	3.0%	2.8%
EBITDA margin	10.4%	8.3%	9.9%	11.3%
net debt / equity		0.7x		
Average data				

### Decor Paper: multiples of peers

	2018	2019E	2020E
EV / Sales	0.8x	0.7x	0.6x
EV / EBITDA	6.3x	6.5x	5.6x
Average data			

### Neodecortech trading multiples

	2018	2019E	2020E
EV / Sales	0.7x	0.6x	0.6x
EV / EBITDA	5.7x	4.8x	4.4x

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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](http://WWW.BANCAPROFILO.IT)), IN THE SECTION "CLIENTI AZIENDALI E ISTITUZIONALI/ANALISI E RICERCA").