

# Neodecortech Spa

Sector: Décor surfaces



## Fighting with nails and teeth

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

### Weak reference market in 1H19

There is plenty of evidence that Décor paper market is currently suffering from a decline in demand that started back as of 4Q18 and continued in 1H19. Actually, Ahlstrom-Munksjö and Surteco (the two European market leaders in the segment) reported respectively -15.1% EBITDA and -9.9% EBIT decline YoY in 1H in this business.

### But Neodecortech has outperformed

Neodecortech has clearly outperformed its competitors thanks to its focus on higher value added niches and to its vertically integrated structure.

- ◆ Revenues from Sales were up +2.2% YoY, (-4.2% on a like-for-like basis) with Energy business (+8.6% YoY) at full capacity, Décor Paper (+11.6% YoY) enjoying from CorbettaFia assets consolidation while Paper Mill was down -11% also due to a two-weeks halt in production;
- ◆ EBITDA Adj. stood at €8.5mn, substantially flat YoY (-2.7% YoY to be precise) also thanks to raw materials price decrease. Reported EBITDA was down -13.6% YoY burdened by stock grant plan charges;
- ◆ Net Debt stood at €48.3mn i.e. €4.9mn lower than 1H18.

### 2019E-20E estimates review

Neodecortech is expecting a positive outlook for the second half of the year, supported by a turnover rebound already achieved in July and August. As an effect, the necessary downward revision of our 2019E-20E estimates is not a big one. We now expect:

- ◆ Net Revenues to grow at 6.7% CAGR 2018A-20E;
- ◆ Adjusted EBITDA at €19.0mn - €19.7mn in 2019E-20E thanks to the growth of Plastic Films segment and raw materials prices decrease;
- ◆ Net Profit to grow at 6.2% CAGR 2018A-20E;
- ◆ Net Financial Position to decrease at €38.8mn by 2020E.

### Fair Value at €5.20 per share

While Neodecortech shares remain undervalued, in our view, we are fine tuning our fair valuation at €5.20 per share (down from the previous 5.40) implying fair 1.0x P/BV and 5.5x Adj. EV/EBITDA 2020E multiples. If we consider the exercise of stock grant plan as already finalized (as of end of July 2019 NDT officially launched the project to move to MTA), some 690k additional shares are to be issued and fair value p.s. would become at €4.94.

#### Analyst

Marco Greco

+39 02 80886654

marco.greco@value-track.com

<b>Fair Value (€)</b>	<b>5.20</b>
<b>Market Price (€)</b>	<b>3.82</b>
<b>Market Cap. (€m)</b>	<b>50.0</b>

KEY FINANCIALS (€m)	2018A	2019E	2020E
REVENUES	133.4	139.8	151.7
EBITDA (*)	17.7	17.3	19.7
EBIT (*)	10.6	8.9	11.1
NET PROFIT (*)	6.0	5.2	6.8
EQUITY	58.6	61.8	66.6
NET FIN. POS.	-44.3	-42.8	-38.3
EPS ADJ. (€)	0.46	0.57	0.61
DPS (€)	0.15	0.15	0.15

Source: NDT (historical figures), Value Track (estimates)  
(\*) 2018A-19E after stock grant charges (see pag. 12)

RATIOS & MULTIPLES	2018A	2019E	2020E
EBITDA MARGIN (%)(*)	13.3	12.4	13.2
EBIT MARGIN (%)(*)	7.9	6.4	7.4
NET DEBT / EBITDA (x)(*)	2.5	2.5	2.0
NET DEBT / EQUITY (%)	76	69	58
EV/EBITDA (x)(*)	5.1	5.4	4.6
EV/EBIT (x)(*)	8.6	10.4	8.1
P/E ADJ. (x)	6.9	7.6	6.9
P/BV (x)	0.9	0.8	0.8

Source: NDT (historical figures), Value Track (estimates)  
(\*) 2018A-19E after stock grant charges (see pag. 12)

#### STOCK DATA

FAIR VALUE (€)	5.20
MARKET PRICE (€)	3.82
SHS. OUT. (m)	13.1
MARKET CAP. (€m)	50.0
FREE FLOAT (%)	27.2
AVG. -20D VOL. ('000)	18,553
RIC / BBG	NDT.MI / NDT.IM
52 WK RANGE	2.66-4.32

Source: Stock Market Data



## Business Description

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

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

## Key Financials

€mn	2017A	2018A	2019E	2020E
<b>Total Revenues</b>	<b>127.7</b>	<b>133.4</b>	<b>139.8</b>	<b>151.7</b>
Chg. % YoY	10.5%	4.4%	4.8%	8.5%
<b>Reported EBITDA (*)</b>	<b>14.2</b>	<b>17.7</b>	<b>17.3</b>	<b>19.7</b>
Reported EBITDA Margin	11.1%	13.3%	12.4%	13.2%
<b>Reported EBIT (*)</b>	<b>7.9</b>	<b>10.6</b>	<b>8.9</b>	<b>11.1</b>
Reported EBIT Margin	6.2%	7.9%	6.4%	7.4%
<b>Reported Net Profit (*)</b>	<b>4.1</b>	<b>6.0</b>	<b>5.2</b>	<b>6.8</b>
Chg. % YoY	-8.8%	48.4%	-13.2%	30.1%
<b>Net Fin. Position</b>	<b>-46.9</b>	<b>-44.3</b>	<b>-42.8</b>	<b>-38.8</b>
Net Fin. Pos. / EBITDA (x)	3.3	2.5	2.5	2.0
Capex	-7.6	-6.5	-8.5	-9.0
<b>OpFCF b.t.</b>	<b>2.9</b>	<b>10.3</b>	<b>7.1</b>	<b>10.3</b>
OpFCF b.t. as % of EBITDA	20.3%	58.0%	41.3%	52.4%

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

(\*) 2018A-19E figures after stock grant charges (see pag 12)

## Investment case

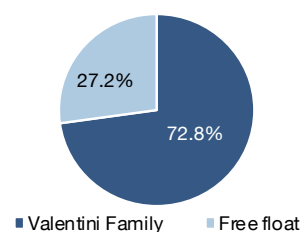
### Strengths / Opportunities

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

### Weaknesses / Risks

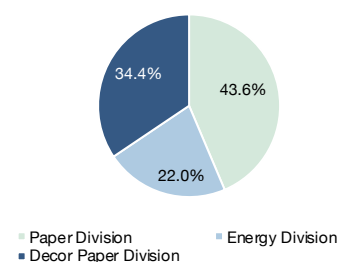
- ◆ Much lower size if compared to German competitors;
- ◆ Limited financial flexibility due to higher-than-targeted leverage;
- ◆ Exposure to a very restricted number of customers as well as suppliers.

## Shareholders Structure



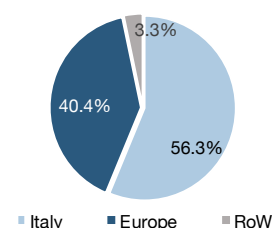
Source: Neodecortech SpA

## Sales breakdown by Business Unit



Source: Neodecortech SpA

## Sales breakdown by geography



Source: Neodecortech SpA

## Stock multiples @ €5.20 Fair Value

	2019E	2020E
EV / SALES (x)	0.79	0.72
EV / EBITDA ADJ.(x)	5.8	5.5
EV / EBIT ADJ. (x)	10.5	7.4
EV / CAP.EMP. (x)	1.1	1.0
OpFCF Yield (%)	6.4	9.5
P / E ADJ. (x)	10.4	9.3
P / BV (x)	1.1	1.0
Div. Yield. (%)	2.9	3.6

Source: Value Track

## Weak reference market in 1H19

### Niche market with no giants,

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

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

This is a very sophisticated niche market where each paper specialty has its own production distinctiveness that does not allow to exploit synergies by entering in more than one market at the same time.

As an effect, this market does not suit to giant paper producers/ printers, even if we note that European sector leaders such as Ahlstrom-Munksjö and Surteco boast a size that is close to fourfold Neodecortech (NDT) one. But we'll see later on that NDT is currently enjoying the benefits of being a smaller player as is more flexible and reactive to market swings and less correlated to the whole market itself.

### Weak demand in the latest three quarters

There is plenty of evidence that Décor paper business is currently suffering from a decline in demand that started back as of 4Q18 and continued in 1H19, partly due to the deterioration of economic performance in several geographical markets and partly to expectations of lower raw material prices that drove the postponement of several purchase decisions.

Given this scenario and in order to better evaluate Neodecortech 1H19 performance it is useful to score it against the above mentioned sector benchmarks. In details:

- ◆ **Ahlstrom-Munksjö** recorded a 1H19 top line decline of -4.2% YoY in the décor division (ca. 20% of total sales) with higher selling prices being more than offset by lower sales volumes. **EBITDA** decreased more than proportionally, i.e. **-15.1% YoY** to €15.7mn, representing 7.2% of net sales, mainly due to lower sales volumes and increased variable costs.
- ◆ **Surteco** as well suffered in 1H19 from a downturn in the development of décor paper and restrained demand for laminated flooring. These conditions led Decorative business Revenues (ca. 70% of total sales) to go down by -3.4% and **EBIT** down by **-9.9% YoY** respectively.

### Neodecortech Peers: 1H18-1H19 Décor Paper performance

€mn	1H18	1H19	YoY
<b>Ahlstrom Munksjö</b>			
Net Revenues	227.7	218.1	-4.2%
<b>EBITDA</b>	<b>18.5</b>	<b>15.7</b>	<b>-15.1%</b>
<i>EBITDA Margin</i>	8.1%	7.2%	<i>n.m.</i>
<b>Surteco</b>			
Net Revenues	262.6	253.7	-3.4%
<b>EBIT</b>	<b>19.2</b>	<b>17.3</b>	<b>-9.9%</b>
<i>EBIT Margin</i>	7.3%	6.8%	<i>n.m.</i>

Source: Ahlstrom-Munksjö, Surteco, Value Track Analysis

## Neodecortech outperforming the market

Given what we said about the reference market, it's no surprise that Neodecortech 1H19 financial figures recently approved came out down YoY. It's however to underline that **Neodecortech has, in our view, outperformed the market** itself at least in terms of profitability evolution. Indeed:

- ◆ Total Revenues, i.e. Value of Production was up 2.2% YoY to €68.7mn (€64.4mn, -4.2% on a like-for-like basis), vs. -3.8% of the market (i.e. the average of Surteco and Ahlstrom-Munksjö);
- ◆ EBITDA Adj. stood at €8.5mn, nearly flat YoY (-2.7% YoY to be precise) thanks to high-end market positioning and an effective management of raw materials purchase offsetting the operating leverage impacting negatively the Paper Mill division. However, Reported EBITDA was down -13.6% YoY to €7.1mn burdened by €1.1mn non-monetary charge related to stock grants;
- ◆ Net Debt end of period stood at ca. €48.3mn vs. €53.2mn as for end of June 2018.

### Neodecortech Group: Main Financials 1H18 and 1H19

€ mn	1H18	1H19	Change YoY (%)
Total Revenues i.e. V.o.P.	67.2	68.7	2.2%
EBITDA	8.2	7.1	-13.6%
<b>EBITDA Adj.</b>	<b>8.7</b>	<b>8.5</b>	<b>-2.7%</b>
Net Profit	2.7	1.1	-59.4%
<b>Net Profit Adj.</b>	<b>3.2</b>	<b>2.3</b>	<b>-28.3%</b>
Net Financial Position	-53.2	-48.3	n.m.

Source: Neodecortech, Value Track Analysis

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

Overall, Total Revenues increased at a low single digit to €68.7mn vs €67.2mn 1H18, mainly driven by Energy production division.

- ◆ **Energy Revenues** stood at €15.6mn, up +8.6% YoY driven by volume effect. Indeed, energy production was close to full capacity in 1H19 while incentive of raw materials was a bit lower YoY.
- ◆ **Paper production** remained weak as in 2H18, decreasing -11.0% YoY to €32.1m Revenues, a consequence of sluggish demand (also driven by a wait and see attitude from clients with raw materials trend on price reduction) and of a temporary halt to production back as of February 2019 due to hailstorm effects.
- ◆ **Décor Paper** registered €28.7mn Revenues, +11.6% YoY (€24.5mn, i.e. -5.0% YoY on a like-for-like basis). Despite a general slowdown of global markets demand, Neodecortech has offset the general trend by accelerating the offer of all the variants of plastic printed film (+12.3% YoY) and by consolidating the newly acquired assets ex CorbettaFia.

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

€mn, IAS	1H18	1H19	Chg. % YoY
Energy Division	14.3	15.6	8.6%
Paper Division	36.1	32.1	-11.0%
Decorative Paper Division	25.8	28.7	11.6%
<b>Gross Revenues</b>	<b>76.2</b>	<b>76.5</b>	<b>0.4%</b>
Intragroup Elisions	-9.0	-7.8	nm
<b>Total Revenues</b>	<b>67.2</b>	<b>68.7</b>	<b>2.2%</b>

Source: Neodecortech, Value Track Analysis

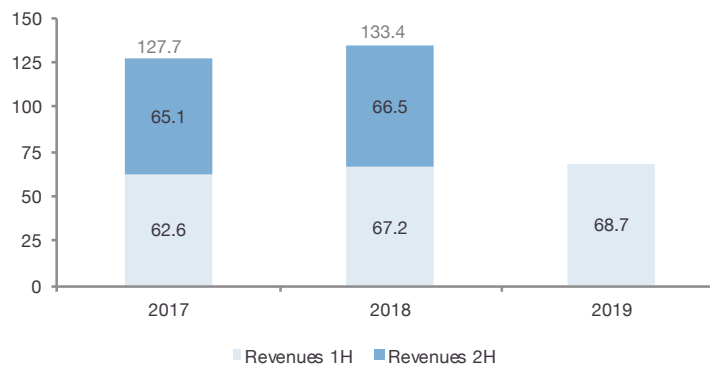
**Neodecortech Group: 2014-1H18A Output volumes analysis**

	1H18A	1H19	Chg. % YoY
<b>CONF (Neodecortech SpA)</b>			
Printed (mn mq)	54.8	47.9	-12.6%
Impregnated (mn mq)	21.3	21.6	1.4%
Plastic Film (mn mq)	2.8	3.1	10.7%
Laminated (mn mq)	--	1.8	n.m.
<b>CdG</b>			
Paper Volumes (Tons)	19,153	17,500	-8.6% (*)
<b>BEG</b>			
Produced Electricity (MWh)	64,865	74,040	14.1%

Source: Neodecortech, Value Track Analysis

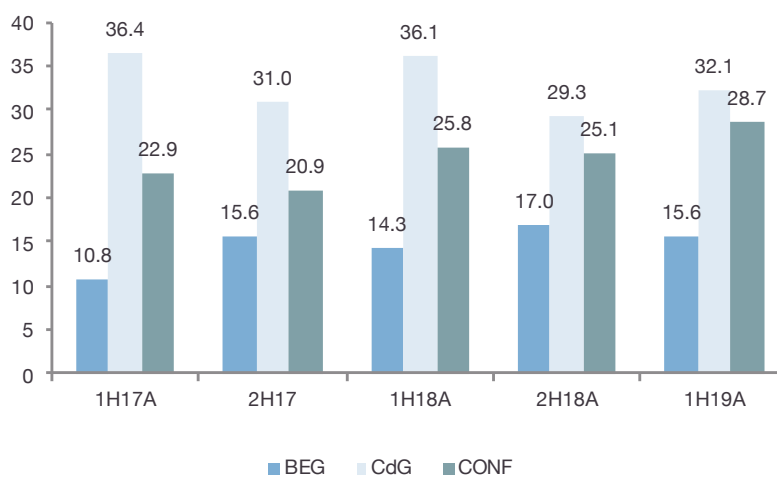
(\*) negatively affected by February 2019 temporary halt to production

**Neodecortech Group 2017-1H19: Consolidated Group Revenues Evolution**



Source: Neodecortech, Value Track Analysis

**Group Gross Revenues Breakdown by Legal Entity**



Source: Neodecortech, Value Track Analysis

### Profitability evolution affected by “stock grant plan”

EBITDA Adj. stood at €8.5mn, substantially in line YoY mainly thanks to NDT high-end market positioning and to the decrease of raw material prices (see next paragraph on this point) offsetting the operating leverage impacting negatively the Paper Mill division.

However, Reported EBITDA and EBIT decreased -13.6% and -37.9% YoY respectively, burdened by more than €1.4m charges related to Stock Market listing costs and expenses for the stock grant plan, as related financial targets have been reached by NDT.

#### Neodecortech Group: EBITDA, EBIT evolution

€ mn	1H18	1H19	Change YoY (%)
<b>EBITDA</b>	<b>8.2</b>	<b>7.1</b>	<b>-13.6%</b>
<i>EBITDA margin as % of Tot. Rev.</i>	<i>12.2%</i>	<i>10.3%</i>	<i>-1.9%</i>
<b>EBITDA Adj.</b>	<b>8.7</b>	<b>8.5</b>	<b>-2.7%</b>
<i>EBITDA Adj. margin as % of Tot. Rev.</i>	<i>11.4%</i>	<i>11.1%</i>	<i>-3.1%</i>
<b>EBIT</b>	<b>4.7</b>	<b>2.9</b>	<b>-37.9%</b>
<i>EBIT margin as % of Tot. Rev.</i>	<i>5.2</i>	<i>4.3</i>	<i>-17.2%</i>

Source: Neodecortech, Value Track Analysis

As far as the various legal entities are concerned, again we note that the Energy business was the best performing (Adj. EBITDA +16.9% YoY, margin at 13.6%, +100bps), followed by Décor Paper (Adj. EBITDA +3.4% YoY, margin at 13.9%, still the highest in the group) that benefits from the acquisition of ex CorbettaFia assets. Paper business on the contrary had a very weak performance, as we said before.

#### Neodecortech Group: 1H18-1H19 Revenues and EBITDA breakdown by divisions

€mn, IASB	1H18	1H19	Chg. % YoY
<b>Energy Division</b>			
Revenues (€mn)	14.3	15.6	8.6%
<b>EBITDA Adj. (€mn)</b>	<b>1.8</b>	<b>2.1</b>	<b>16.9%</b>
EBITDA Adj. Margin (%)	12.6%	13.6%	+100bps
<b>Paper Division</b>			
Revenues (€mn)	36.1	32.1	-11.0%
<b>EBITDA Adj. (€mn)</b>	<b>3.0</b>	<b>2.3</b>	<b>-22.5%</b>
EBITDA Adj. Margin (%)	8.3%	7.3%	-100bps
<b>Decorative Paper Division</b>			
Revenues (€mn)	25.8	28.7	11.6%
<b>EBITDA Adj. (€mn)</b>	<b>3.9</b>	<b>4.0</b>	<b>3.4%</b>
EBITDA Adj. Margin (%)	15.1%	13.9%	-120bps

Source: Neodecortech, Value Track Analysis

### Raw materials costs having mixed effect

Raw Materials such as Titanium Dioxide (TiO<sub>2</sub>), Resins, Wood Pulp, Raw Paper and Tallow Oil remain the biggest cost item accounting for more than half of total operating expenses.

As an effect, the exposure to raw materials' price volatility represents one of the key features of Neodecortech business.

Luckily, in 1H19 such volatility was benign and slightly helped margins. Indeed, their incidence on total revenues stood at ca. 56.5% in 1H19 down from 61.2% as of 1H18. The negative side of the coin is represented by the wait and see attitude that the declining trend in raw material prices has generated on paper division client, reducing their orders and waiting to profit from lower prices in the following quarters.

#### Neodecortech Group: Raw Materials expenses evolution

€mn, IAS	1H18	1H19	Chg. YoY
Raw Paper	2.0	1.7	-15.2%
Resins	2.7	2.9	6.2%
Titanium Dioxide	12.2	9.0	-26.2%
Wood Pulp	7.0	6.3	-10.0%
Tallow Oil	9.3	9.4	1.2%
Other / Elisions	7.9	9.0	13.9%
<b>Total (ex. elisions)</b>	<b>41.1</b>	<b>38.8</b>	<b>-5.6%</b>
<b>As % of Total Revenues</b>	<b>61.2%</b>	<b>56.5%</b>	

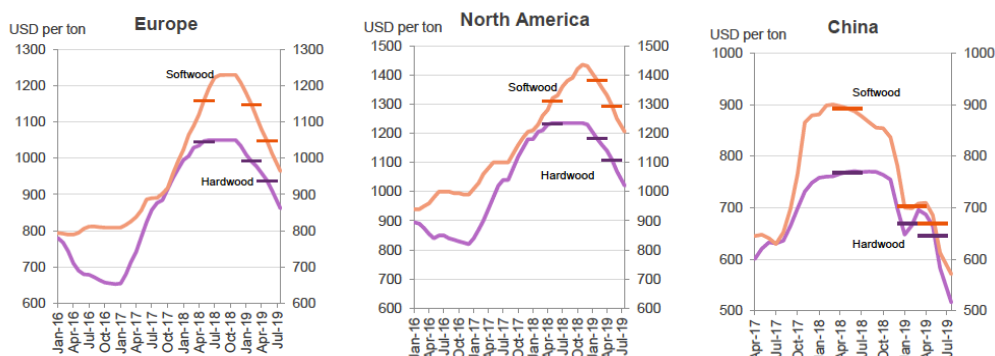
Source: Neodecortech, Value Track Analysis

### Wood Pulp

As far as the price of Wood Pulp is concerned, at the end of 2018, both Hardwood and Softwood Pulp prices started decreasing and kept following this path also in 1H19 (-10% 2Q19 vs 2Q18) despite the strong resistance of main sellers in lowering prices and reduced volumes.

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

##### Softwood & Hardwood Pulp



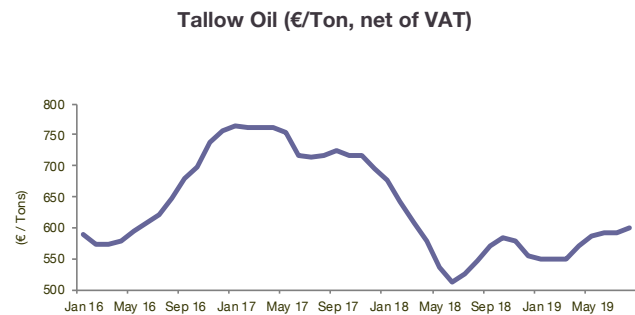
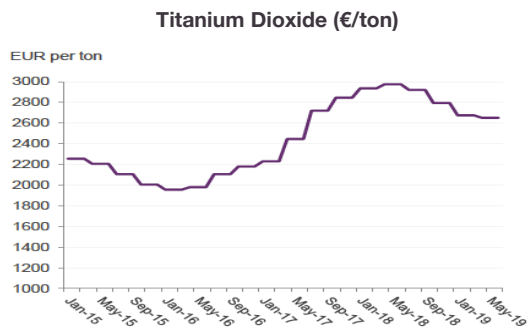
Source: Ahlstrom-Munksjö

### Titanium Dioxide and Tallow Oil

TiO<sub>2</sub> price achieved its all-time high level back in 1H18 at ca. €3,000/Ton. Since then it has started a higher than 10% reduction in prices continuing in the whole 1H19.

As for the tallow oil, the price was decreasing in the first part of the year and then resumed a little in 2Q. Average market price in 1H19 stood at €566/Ton (VAT included) vs €591mn/Ton 1H18.

#### Titanium Dioxide and Tallow oil evolution



Source: Various

### From EBITDA down to Net Profit

Adjusted Net Profit stood at €2.3mn, -28.3% YoY, while Reported Net Profit was down ca. -60% YoY at €1.1mn, more than proportional if compared to EBITDA due to D&A charges rise driven by investments in operating activities and by CorbettaFia integration.

#### Neodecortech Group: 1H18-1H19 results from EBITDA down to Net Profit

€mn, IAS	1H18	1H19	Chg. % YoY
<b>Reported EBITDA</b>	<b>8.2</b>	<b>7.1</b>	<b>-13.6%</b>
Depreciation Charges	-3.1	-3.7	22.1%
Amortization Charges	-0.4	-0.4	n.m.
<b>EBIT</b>	<b>4.7</b>	<b>2.9</b>	<b>-37.9%</b>
Net Financial charges	-1.3	-1.0	-21.2%
Taxes	-0.7	-0.8	17.7%
<b>Reported Net Profit</b>	<b>2.7</b>	<b>1.1</b>	<b>-59.8%</b>
<b>Adjusted Net Profit</b>	<b>3.2</b>	<b>2.3</b>	<b>-28.3%</b>

Source: Neodecortech, Value Track Analysis



### Cash Generation negative in 1H19 due to seasonality

The first part of the year is usually cash burning for Neodecortech, and 1H19 was in the rule. Indeed, Group's Net Debt stood at €48.3mn at the end of June 2019 i.e. ca. €4mn higher than the €44.3mn as of December 2018, but €5mn lower than the value recorded as of the end of June 2018, driven by:

- ◆ Usual Working Capital seasonality, that led to a €5.3mn cash absorption despite lower receivables (some factoring has been utilized);
- ◆ €3.8mn Capex cash out almost entirely concerning machines improvement;
- ◆ €2.1mn dividend pay-out.

Worthy to note the Net Financial Position doesn't include a €1.7mn financial receivable from the non-listed parent company.

#### Neodecortech Group: 1H18-1H19 Cash Flow Statement

€mn	1H18	1H19
<b>EBITDA</b>	<b>8.2</b>	<b>7.1</b>
Op. WC requirements	-7.4	-5.3
Capex	-4.2	-3.8
Change in Provisions	0.6	0.0
<b>OpFCF b.t.</b>	<b>-2.8</b>	<b>-2.0</b>
Cash Taxes	-0.7	-0.8
<b>OpFCF a.t.</b>	<b>-3.4</b>	<b>-2.8</b>
Other Op. Items (incl. Fin. Inv.)	0.5	1.8
Net Financial Charges	-1.3	-1.0
Dividends paid	-2.1	-2.1
<b>Net Cash generated</b>	<b>-6.3</b>	<b>-4.0</b>

Source: Neodecortech, Value Track Analysis

#### Neodecortech: 1H18-1H19 Balance Sheet structure

€mn	1H18	1H19
Working Capital	33.9	28.5
Net Fixed Assets	81.6	86.3
Provisions	7.0	7.9
<b>Total Capital Employed</b>	<b>108.4</b>	<b>106.9</b>
Group Net Equity	55.2	58.6
<b>Net Fin. Position [i.e. Net Debt (-) Cash (+)]</b>	<b>-53.2</b>	<b>-48.3</b>

Source: Neodecortech, Value Track Analysis

## Minor 2019E-20E estimates downward revision

### 2H19 started with an upward rebound in demand

Neodecortech is expecting a positive outlook for the second half of the year, supported by a turnover rebound already achieved in July and August.

As an effect, the necessary downward revision of our 2019E estimates is not a big one, at least if we look at the Top line and Adjusted EBITDA figures. As far as the Reported EBITDA is concerned, we are including the whole stock grant charge (another couple of hundred thousand euros could be posted in 2H19), while below the EBITDA level we are revising D&A charges upward as a consequence of the capex plan.

In the next pages the key drivers of our new 2019E-20E estimates are further detailed.

### Neodecortech: New vs. Old 2018E-19E forecasts

€mn	2019E			2020E		
	Old	New	Change	Old	New	Change
Group Revenues from Sales	141.3	137.1	-3.0%	150.9	149.7	-0.8%
Total Group Revenues	143.3	139.8	-2.4%	152.9	151.7	-0.8%
<b>EBITDA Adj. (bef. stock grant charge)</b>	<b>19.5</b>	<b>19.0</b>	<b>-2.6%</b>	<b>19.8</b>	<b>19.7</b>	<b>-0.5%</b>
<b>EBITDA Rep. (aft. stock grant charge)</b>	<b>18.8</b>	<b>17.3</b>	<b>-8.0%</b>	<b>19.8</b>	<b>19.7</b>	<b>-0.5%</b>
EBIT	11.4	8.9	-21.9%	11.9	11.1	-6.7%
<b>Net Profit</b>	<b>7.0</b>	<b>5.2</b>	<b>-25.1%</b>	<b>7.5</b>	<b>6.8</b>	<b>-8.7%</b>
<b>Adj. Net Profit</b>	<b>7.6</b>	<b>6.6</b>	<b>-13.4%</b>	<b>8.1</b>	<b>7.4</b>	<b>-8.0%</b>
<b>OpFCF after tax</b>	<b>8.6</b>	<b>5.7</b>	<b>-2.8</b>	<b>8.8</b>	<b>8.6</b>	<b>-0.2</b>
<b>Net Financial Position (*)</b>	<b>-40.4</b>	<b>-42.8</b>	<b>-2.4</b>	<b>-36.2</b>	<b>-38.8</b>	<b>-2.6</b>

Source: Value Track analysis

(\*) Not including a €1.7mn financial receivable from the non-listed parent company

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

(€mn)	2018A	2019E	2020E
Total Revenues	133.7	139.8	151.7
Reported EBITDA (*)	17.7	17.3	19.7
Reported EBIT (*)	10.6	8.9	11.1
<b>Reported Net Profit (*)</b>	<b>6.0</b>	<b>5.2</b>	<b>6.8</b>
<b>OpFCF after tax</b>	<b>8.8</b>	<b>5.7</b>	<b>8.6</b>
<b>Net Financial Position (**)</b>	<b>-44.3</b>	<b>-42.8</b>	<b>-38.8</b>

Source: Neodecortech, Value Track Analysis

(\*) After stock grant expenses

(\*\*) Not including a €1.7mn financial receivable from the non-listed parent company

### Revenues growing at 6.7% CAGR 2018A-2020E

Neodecortech is working hard in order to further improve its market positioning and competitive stance, with a focus on high-end niches with higher than average profitability ratios (e.g. Plastic Films).

Some examples of the actions recently started by the company did take place at Filago plant are:

- ◆ The expansion of the impregnation line;
- ◆ A new embossing line for PPLF;
- ◆ The installation of a lacquering line for new EOS low-pressure products (with anti-fingerprint surface features similar to laminated product).

The expanded impregnation line came into operation in September while the following two should be ready for November and December respectively.

As an effect, we now expect Revenues growing at **6.7% CAGR 2018A-2020E** up to ca. €151.7mn in 2020E, supported by expansion trend and (in 2019FY) by the consolidation of CorbettaFia's business for twelve months vs. the four months consolidation in 2018FY.

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

#### Decorative paper division

We forecast Décor Paper division to by 2020E driven by high-margins product such as PPF+PPLF plastic films, by the consolidation of CorbettaFia assets and by the acquisition of new clients both in the lamination business and in the impregnation one.

#### Paper division

We expect 2019E revenues down by -7.5% YoY, recovering in 2H19 from sluggish demand and plant shutdown in February 2019, while we foresee a rebounding in the production activity by 2020E up to ca. €65.7mn thus gaining back 2018A revenues level.

#### Energy division

We believe that the Energy division is close to full capacity. Despite that, we expect 2019E-2020E revenues to remain pretty stable (+2.5% YoY) growth, as a residual output volume increase should be offset by the unit value of the incentive should decrease by approximately 7 euros to MWh.

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

€mn, IAS	2018A	2019E	2020E
Energy Division	31.4	32.3	33.0
Paper Division	65.4	60.5	65.7
Decorative Paper Division	50.9	60.0	68.0
<b>Gross Revenues</b>	<b>147.7</b>	<b>152.8</b>	<b>166.6</b>
Intragroup Elisions	-16.8	-15.7	-16.9
<b>Net Revenues</b>	<b>130.9</b>	<b>137.1</b>	<b>149.7</b>
Other Revenues	2.6	2.7	2.0
<b>Total Revenues</b>	<b>133.7</b>	<b>139.8</b>	<b>151.7</b>

Source: Neodecortech, Value Track Analysis

### Costs and profitability

We expect EBITDA margin to remain in the 12.4% range as of 2019E with **EBITDA Adjusted in absolute terms (before stock grant costs)** estimated to achieve **€19.0mn as of 2019E, €19.7mn as of 2020E**. This is given mainly by:

- ◆ **Higher incidence of highly profitable Plastic Films segment.** Indeed, PPF and PPLF for LVT are the highest margins products ca. 14% in Décor Paper 2019E-2020E within the Neodecortech Group range;
- ◆ **Raw materials currently under control.** Their incidence on total revenues should remain around 56% in 2019E. Indeed, titanium dioxide prices decreased in 1H19 as the destocking phase started in the second part of 2018 continued. For the second half, the expectation is a tendentially stable price level.

With regard to cellulose, after 1H19 drop negotiations remain tense, with buyers requesting reductions on the one hand and strong resistance from the main sellers on the other. Tallow Oil price is slightly increasing.

On EBIT estimates we underline that the rise of D&A costs 2019E is driven by investments in new installation/ extension of various production sites.

As far as the bottom line is concerned, **Net Profit is expected to grow at ca. 6.2% 2018A-20E CAGR**, somehow slowing down the breakneck growth of the last few years.

#### Neodecortech Group: P&L evolution 2017A-20E

(€mn)	2017A	2018A	2019E	2020E
<b>Group Net Revenues</b>	<b>123.5</b>	<b>130.9</b>	<b>137.1</b>	<b>149.7</b>
Chg. % YoY	15.7%	6.0%	4.7%	9.2%
<b>Total Revenues</b>	<b>127.7</b>	<b>133.4</b>	<b>139.8</b>	<b>151.7</b>
<b>EBITDA</b>	<b>14.2</b>	<b>17.7</b>	<b>17.3</b>	<b>19.7</b>
<b>EBITDA Adj.</b>	<b>15.2</b>	<b>19.0</b>	<b>19.0</b>	<b>19.7</b>
Depreciation & Amortization	-6.3	-7.2	-8.4	-8.6
<b>EBIT</b>	<b>7.9</b>	<b>10.6</b>	<b>8.9</b>	<b>11.1</b>
EBIT margin (%)	8.1%	7.9%	6.4%	7.4%
Net Fin. Income (charges)	-2.7	-2.9	-2.2	-2.6
<b>Pre-tax Profit</b>	<b>5.2</b>	<b>7.6</b>	<b>6.7</b>	<b>8.5</b>
Tax	-1.1	-1.6	-1.4	-1.7
Tax rate (%)	-21.6%	-20.9%	-21.4%	-20.2%
<b>Net Profit</b>	<b>4.1</b>	<b>6.0</b>	<b>5.2</b>	<b>6.8</b>
<b>Net Profit Adj.</b>	<b>4.8</b>	<b>7.3</b>	<b>6.6</b>	<b>7.4</b>

Source: Value Track Analysis

## Cash generation and Net Financial Position

We forecast cumulated **Operating Free Cash Flow** after tax over the next two years at ca. €14.3mn after some €17.5mn cumulated investments. This means a cash conversion ratio close to 47% level.

### Neodecortech Group: Cash Flow Statement evolution 2017A-20E

(€mn)	2017A	2018A	2019E	2020E
EBITDA	14.2	17.7	17.3	19.7
Working Capital Needs	-4.2	0.5	-1.7	-0.3
Capex	-7.6	-6.5	-8.5	-9.0
Change in Provisions	-0.3	-1.4	0.0	0.0
<b>OpFCF b.t.</b>	<b>2.1</b>	<b>10.3</b>	<b>7.1</b>	<b>10.3</b>
Cash Taxes	-1.1	-1.6	-1.4	-1.7
<b>OpFCF a.t.</b>	<b>1.0</b>	<b>8.7</b>	<b>5.7</b>	<b>8.6</b>
Capital Injections	11.2	0.0	0.0	0.0
Other Op. Items (incl. Fin. Inv.)	1.8	-1.1	0.0	0.0
Net Financial Charges	-2.7	-3.0	-2.2	-2.6
Dividends paid	-1.0	-2.0	-2.0	-2.0
<b>Net Cash generated</b>	<b>10.2</b>	<b>2.6</b>	<b>1.5</b>	<b>4.0</b>

Source: Value Track Analysis

As an effect, **Net Financial Position** is expected to decrease at ca. **€38.8mn by 2020E** thanks to the above-mentioned cash generation.

Such a figure would imply Net Debt/ EBITDA to decrease in the 2.0x region by 2020E, thus allowing for higher flexibility.

Worthy to note the Net Financial Position doesn't include a €1.7mn financial receivable from the non-listed parent company.

### Neodecortech Group: Balance Sheet evolution 2017A-20E

(€mn)	2017A	2018A	2019E	2020E
Working Capital	26.9	26.5	28.1	28.5
Net Fixed Assets	80.9	84.0	85.1	86.5
Provisions	6.9	7.6	8.6	9.5
<b>Total Capital Employed</b>	<b>100.9</b>	<b>102.9</b>	<b>104.7</b>	<b>105.4</b>
<b>Group Net Equity</b>	<b>54.0</b>	<b>58.6</b>	<b>61.8</b>	<b>66.6</b>
<b>Net Fin. Position [i.e. Net Debt (-) Cash (+)] (*)</b>	<b>-46.9</b>	<b>-44.3</b>	<b>-42.8</b>	<b>-38.8</b>

Source: Value Track Analysis

(\*) Not including a €1.7mn financial receivable from the non-listed parent company

## Valuation

Our valuation calculations are based on the outstanding number of shares (see the Appendix for a hint on the fully diluted number of shares) and lead to a **fair value at €5.20 per share**, revised downwards from our previous €5.40 update back as of April 2019.

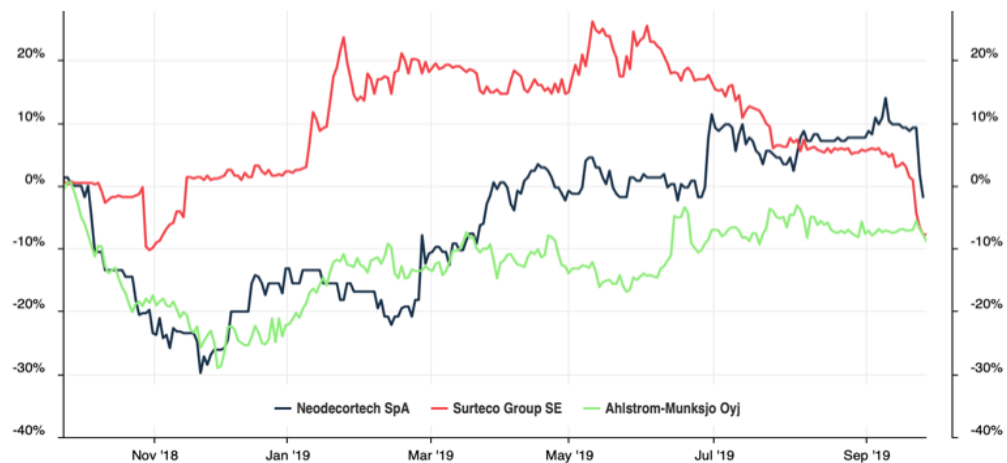
Implied P/BV for 2019E and 2020E at €5.20 per share are 1.1x and 1.0x, respectively while EV/Adj. EBITDA 2019E and 2020E would be 5.8x and 5.5x respectively.

Worthy to note, if we consider the exercise of stock grant plan as already finalized, some 690k additional shares would be issued and the fair value “post stock grant” would stand at €4.94 per share.

### Multiple-based Valuation

NDT shares negatively reacted to 1H19 earnings release and retraced back a bit below the €4.0 IPO price level. As an effect, Neodecortech is currently trading at deep discount vs. main comparables (e.g. Surteco and Ahlstrom-Munksjo) whose negative stock market performance also impacted.

Neodecortech vs. peers: Share price evolution Sep. 2018 – Sep. 2019



Source: S&P Capital IQ

### Neodecortech vs. Peers: Stock trading multiples

Company	EV / EBITDA (x)		EV / EBIT (x)		P / E (x)		EV / OpFCF (x)(**)	
	2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E
Ahlstrom Munksjö	7.7	6.3	14.9	10.8	20.0	11.1	17.8	11.2
Ober Groupe	9.2	8.5	17.0	14.7	17.5	14.0	11.2	10.5
Panaria Group	6.9	5.1	nm	14.1	27.0	6.1	11.2	8.3
Surteco	5.7	5.2	12.0	9.8	13.2	10.6	10.8	9.0
Tarkett	5.8	5.0	11.6	9.1	15.6	9.5	10.2	8.4
Walker Greenbank	5.3	5.3	9.1	7.7	11.5	13.2	6.7	7.6
<b>Average</b>	<b>6.8</b>	<b>5.9</b>	<b>12.9</b>	<b>11.0</b>	<b>17.5</b>	<b>10.7</b>	<b>11.3</b>	<b>9.2</b>
<b>Median</b>	<b>6.4</b>	<b>5.3</b>	<b>12.0</b>	<b>10.3</b>	<b>16.6</b>	<b>10.9</b>	<b>11.0</b>	<b>8.7</b>
<b>Neodecortech (*)</b>	<b>4.9</b>	<b>4.6</b>	<b>8.8</b>	<b>8.1</b>	<b>7.6</b>	<b>6.9</b>	<b>10.3</b>	<b>8.1</b>
Discount % vs. avg.	-28%	-23%	-32%	-27%	-56%	-38%	-9%	-12%
Discount % vs. med.	-23%	-14%	-27%	-21%	-53%	-41%	-6%	-7%

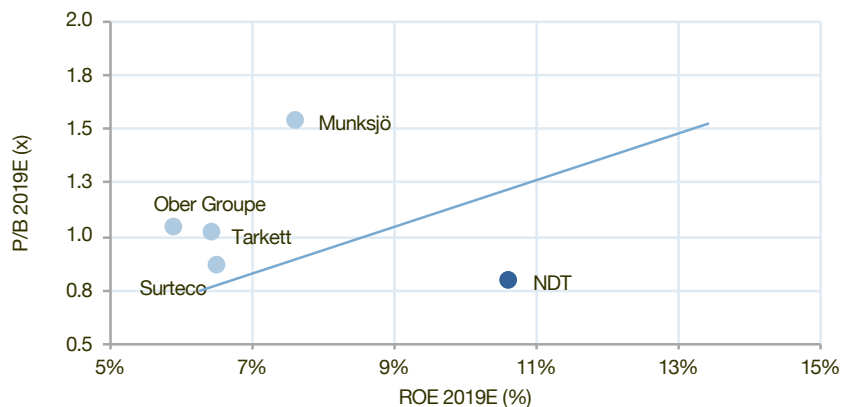
Source: Market Consensus, Value Track Analysis

(\*) Calculated on Adj. EBITDA, Adj. EBIT, Adj. Net Profit

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

NDT shares undervaluation vs. its main international peers is, again, manifest if we look at P/BV 2019E multiple. NDT is, indeed, trading at 0.8x despite a ca. 11% ROE (calculated on 2019E Adj. Net Profit) while Ahlstrom-Munksjo is trading at 1.5x P/BV coupled with a single-digit ROE.

#### Neodecortech vs. peers: 2019E P/BV vs. ROE



Source: Market Consensus, Value Track Analysis

#### Discounted Cash Flow model

As a safety check we calculate Neodecortech DCF value based on a 9.38% WACC 2019E progressively converging in the long term at ca. 10.0% i.e. the unlevered Cost of Equity. This is the result of an expanded CAPM approach based on 8.59% Italian Equity risk Premium and a 2.0% additional “liquidity” premium to remunerate investors for trading in the “thin” AIM Italia stock market. Perpetuity Growth Rate (PGR) has been set at 2.0% and applied to 2028E figures, as we used explicit financial statements projection starting from 2019E fiscal year and arriving at 2027E.

Based on these assumptions we derive a **€5.43 per share** DCF value (€5.16 per share if we consider the exercise of stock grant plan as already finalized).

#### Neodecortech: Discounted Cash Flow Model Summary Table

€mn	
PV of future cash flows FY18E-FY27E	54.9
PV of Terminal value with PGR at 2%	59.1
<b>Fair Enterprise value</b>	<b>114.0</b>
Implied EV/EBITDA '20E (x)	5.8x
Net Cash Position 2019E	-42.8
<b>Fair Equity value (€mn)</b>	<b>71.2</b>
<b>Fair Equity Value per share (€)</b>	<b>5.43</b>

Source: Value Track Analysis

## Appendix: Neodecortech profile at a glance

### Leading decorative surfaces player

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

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

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



#### Décor Papers

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

- base papers;
- unicolours;
- backing papers.



#### Decorative printed papers

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



#### Finish Foils

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



#### Melamine Films

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



#### PPF & PPLF for luxury vinyl tiles

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



#### Laminates

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

Source: Neodecortech



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

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

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

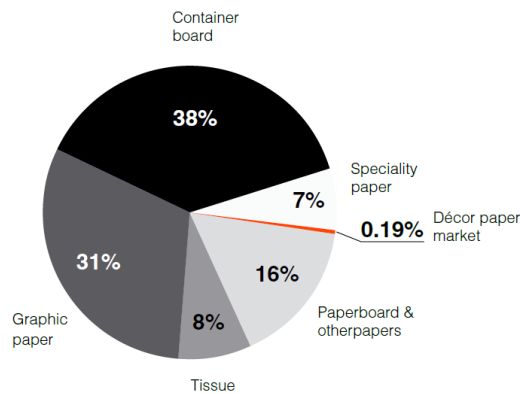
- ◆ Mid-single digit growth pace (ex China);
- ◆ High entry barriers and controlled (in Europe) by German players;
- ◆ Exposed to cyclical end markets such as furnishing and flooring panels' production.

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

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

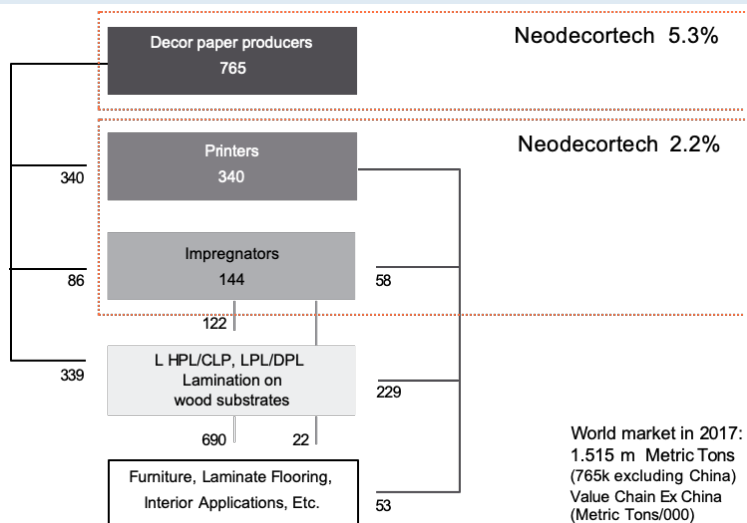
A separate mention is reserved to Chinese players which over the last years have rolled out material output capacity to the internal market only and commercializing lower quality products, at least so far.

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



Source: Decor Paper Market Research 2017 - Munksjo

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



Source: Decor Paper Market Research 2017 - Munksjo

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

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

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

#### Neodecortech Group: Plants and operations

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

Source: Neodecortech

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

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

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

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

Neodecortech share capital is currently made of 13.1mn outstanding ordinary shares but this number could change in the future due to: 1) outstanding warrants, 2) stock grant plan and, 3) possible “reserved” capital increase. More in details:

### Warrants and possible “reserved” capital injection

Back as of 3Q18 the company approved:

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

### Stock Grant Plan addressed to key managers

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

The Plan is working as follows:

- i) Maximum 60% of the shares of the Plan are subject to the achievement of selected financial targets (EBITDA and Net Profit) in 2017FY and 2018FY. We calculate that these targets have been met;
- ii) Maximum 40% of the shares of the Plan are to be assigned if the company becomes listed on the MTA index within 26 March 2020 i.e. within 30 months from the first day of listing on AIM Italia that took place back as of 26 September 2017. As the company shareholders’ meeting has recently approved the request to move to MTA we believe that there is a high likelihood that also this target could be met.

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