

Neodecortech

Behind the Scenes

January 9th, 2020

Buy

Target: €4.6

Upside: +33%

The group in a nutshell: IPOed in 2017 on the AIM segment of the Milan Stock Exchange (€4.0/share; €12m in primary) and operating in the high-end segment of the niche market for specialty paper. Neodecortech is the Italian market leader in the design and production of decorative papers for laminated panels and floor coverings for interior design. The group's activity consists of the complete production of products and technologically advanced solutions for interior design projects, covering all stages of the decorative paper production process, from the management of raw materials, through surface finishing and impregnation, to the finished design and printing. The group offers 6 product categories, more specifically: decorative papers; decorative prints; finish foils; melamine films; printed plastic films; laminates.

Positive points: we believe that NDT can build upon the strengths inherent to company, *inter alia* (i) its relevant positioning on the high-end segment of the market, (ii) the vertical integration allowing operational and cost efficiencies, (iii) the possibility of producing tailor-made products for customers for ever greater personalisation and customer satisfaction, (iv) the wide range of products for furniture and floors, (v) proprietary know-how throughout the value chain, (vi) R&D to maintain innovation capacity, (vii) protection from the high barriers of market entry (investments, industrial facilities, reputation and customers), (viii) production chain flexibility, (ix) the group's strong internationalisation enabled by the strength of the distribution network with 74% of the 2018 turnover (excluding energy) generated from exports, and (x) the transition to the regulated segment of the Milan Stock Exchange (MTA) scheduled for H1 2020.

Principal risks: In our opinion, the main risks include (i) the business's cyclical nature which is subject to macroeconomic risks, (ii) the group's relatively modest size versus German and Chinese peers, (iii) the upscaling of the competition, (iv) the concentration of customer and supplier bases, (v) the weak liquidity of the stock, and (vi) the flow back risk.

Valuation: We believe that the market underestimates the fact that N is a best-in-class (2020E data) in terms of EBITDA margin (@13.2% vs. 12.0% of sector avg.), FCF Yield (@17.4% vs. 11.5% of sector avg.), and offers the 2nd highest dividend yield in the industry (@4.6% vs. 4.3% sector avg.). We valued N using 2 approaches each accounting for 50% of our target price. More specifically (i) the DCF approach (WACC @9.2%, TGR @+1.0%), and (ii) the analogous approach with 2020E EV/EBITDA, EV/EBITDA and P/E multiples with the application of a -20% discount for size and listing place. It should be noted that our valuation does not include any potential M&A opportunities, which are an integral part of the group's strategic orientations.

We are initiating our coverage of NDT with a Buy rating and a target price of €4.6.

Market Data

Sector	Basic Resources
Share price (€)	3.46
Market Cap. (€m)	45.3
Market Segment	AIM Italia
Bloomberg	NDT IM

Ownership structure

Finanziaria Valentini	63.9%
Free Float	36.1%

€m	2018A	2019E	2020E	2021E
Sales	133.4	136.0	142.7	147.7
<i>Change</i>	4.4%	1.9%	4.9%	3.5%
EBIT	10.6	8.2	9.7	11.0
<i>Margin</i>	7.9%	6.0%	6.8%	7.4%
Net Income	6.0	4.5	5.9	7.1
EPS (€)	0.47	0.42	0.47	0.54
<i>Change</i>	28%	(12%)	14%	14%
Dividend (€)	0.15	0.15	0.16	0.18
<i>Dividend Yield</i>		3.9%	4.6%	5.2%
FCF	11.5	8.0	7.9	9.2
ROCE	10.1%	6.5%	7.5%	8.5%
EV/Sales (x)		0.6x	0.6x	0.5x
EV/EBIT (x)		10.5x	8.5x	7.1x
P/E (x)		8.3x	7.3x	6.4x
Net Debt	44.3	41.3	38.3	33.7
<i>Net Gearing</i>	76%	67%	58%	48%

Midcap Partners estimates

Next events

TBD	FY2019 earnings
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Recommendations historic

09/01/2020	Buy
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Contact

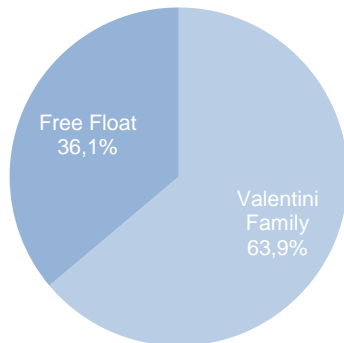
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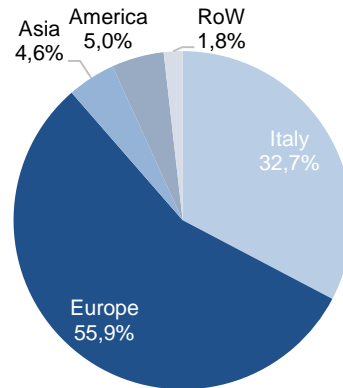
In a Nutshell

Shareholder Structure



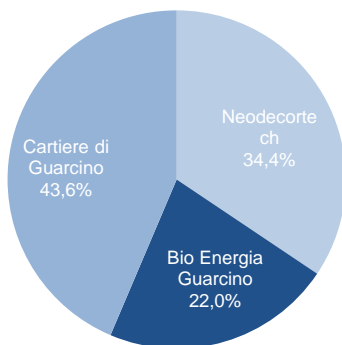
Source: Company

Revenue Breakdown by Region (FY 2018)



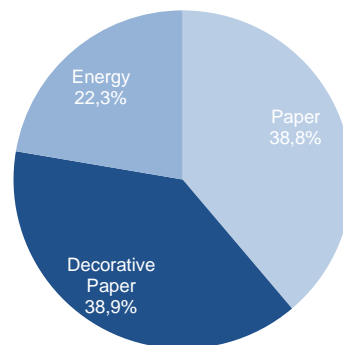
Source: Company

Revenue Breakdown by Division



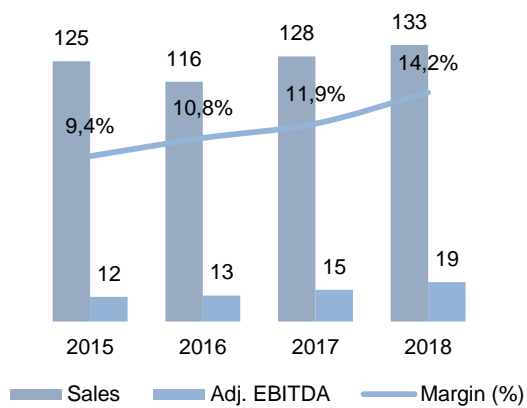
Source: Company

Revenue Breakdown by Product Type



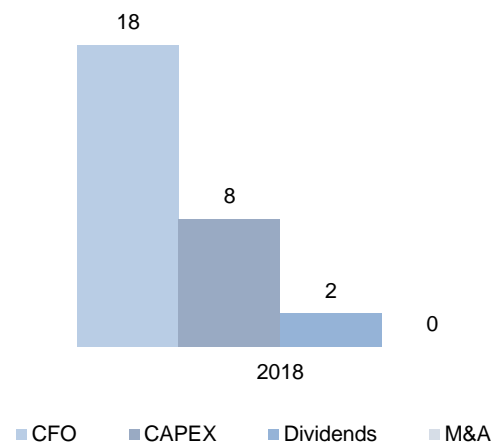
Source: Company

Evolution of Adjusted EBITDA (€m)



Source: Company

Capital allocation (€m – Last FY)



Source: Company

SWOT Analysis

Strengths

- A distinctive factor for design and marketing is 100% "Made in Italy" production
- Vertical integration allowing operational and cost efficiencies
- Potential to fabricate tailor-made products for customer personalisation and satisfaction
- Wide range of products for furniture and floors
- Proprietary know-how across the entire value chain
- Strong R&D investments to remain innovative
- High barriers of entry (investments, industrial facilities, reputation and customers)
- Production line flexibility
- The group's strong internationalisation has been made possible by the diverse distribution network
- Selection of customers according to their credit worthiness

Weaknesses

- Tight financial structure (2018 leverage ratio @2.5x) which nevertheless should improve as a result of cash generation
- High customer concentration & supplier bases although it is quite standard for this specific industry
- Flow-back risk
- Weak liquidity in absolute terms

Opportunities

- M&A in order to consolidate the market and diversify the product range
- Modernized production sites towards becoming Industry 4.0 compliant on CdG
- Establish strategic partnerships with foreign players including Chinese
- Investment in digital printing when the technology becomes more mature

Threats

- Macroeconomic deterioration
- Price competition
- Competitors going upmarket
- Limited size versus Chinese and German competition

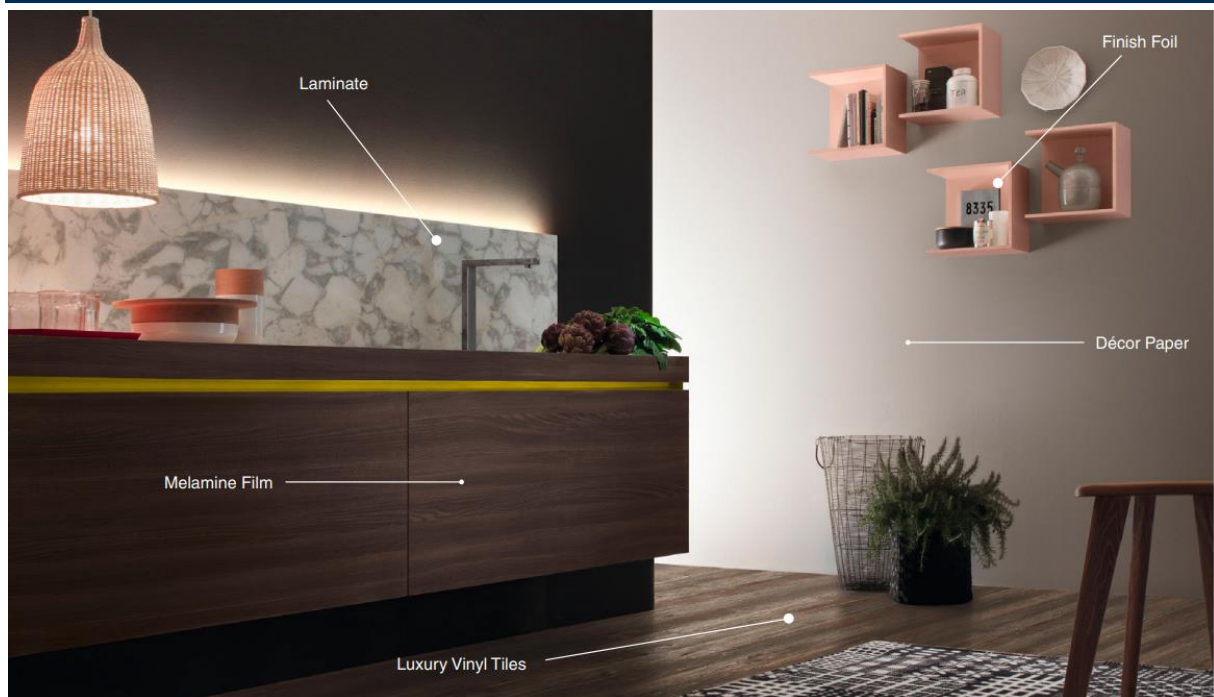
Sources : Société, Midcap Partners

Company Profile

Founded in 1947 and IPOed on the AIM segment (unregulated) of the Milan Stock Exchange in September 2017 (€4.00/share; €12m in primary), Neodecortech, the group's parent company, operates under the brand name Confalonieri. It ranks as the leading player in the design and fabrication of decorative surfaces (mainly paper, more recently plastic) for the interior decoration and flooring industries. Neodecortech is the Italian leader in the production of decorative papers for laminated panels and floor coverings used for interior design and holds 5% of global market share (excluding China).

The group employs c.364 people @1H 2019 and specialises in the production of innovative solutions for interior design projects covering all phases of the decorative paper production process, from raw material management, surface finishing and impregnation, to finished products and end-of-line logistics management.

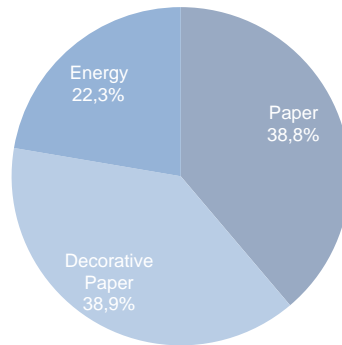
Graph 1: Neodecortech is an Italian leader in the production of decorative papers for laminated panels and floor coverings used in the interior design sector



Source: Company

Thanks to its ongoing creative research, the group offers a wide range of products including 1000+ types of decorations such as natural decoration, material decoration (wood, stone etc.), surface decoration (metal, concrete etc.), as well as textile-inspired textures. The group offers 51 products divided into 6 categories: (i) printed decorative papers, (ii) decorative printed matter, (iii) finish foils, (iv) melamine films, (v) Printed Plastic Film (PPF) & Printed Plastic Laminated Film (PPLF), and (vi) Laminates.

Graph 2: Revenue Breakdown by Activity



Source: Company

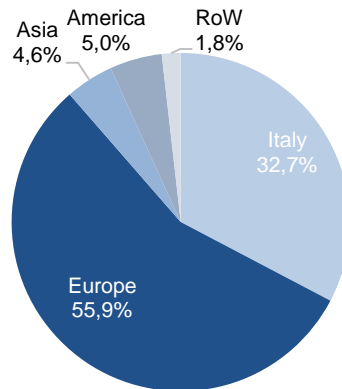
A mature manufacturing base: Strong integration into the value chain, from production to product printing. To achieve this, the group relies on a mature manufacturing base: (i) an asset base with a gross value of €228m (versus €71m net), (ii) 144k sqm of Paper production area (CdG) on top of 100k sqm decorative paper production area for Neodecortech, (iii) an installed capacity of 50ktons, and (iv) 1000+ types of decoration.

An integrated vertical:

- Centralized R&D with the implementation of co-development with the paper production plant leading to competitive advantages in terms of production, flexibility, purchasing competitiveness, in addition to strong monitoring of R&D processes and expenses;
- Operational efficiency thanks to an energy plant that is independent of the national power grid, thus not affected by power grid outages. Covering almost all of the CdG's electricity needs (47% for 20MW of BEG's installed capacity), this infrastructure offers better operational efficiency and commodities hedging following the implementation of medium and long-term contracts (gas and methane);
- Cost efficiencies: the group's co-generation units provide it with vertical energy integration and c. €4.85m of cost efficiencies per year (electricity and steam).

A sales organisation geared towards exports: The group realised 67% of its revenues through exportation, primarily in Europe, followed by the Americas and Asia.

Graph 3: 67% of 2018 Sales from Export



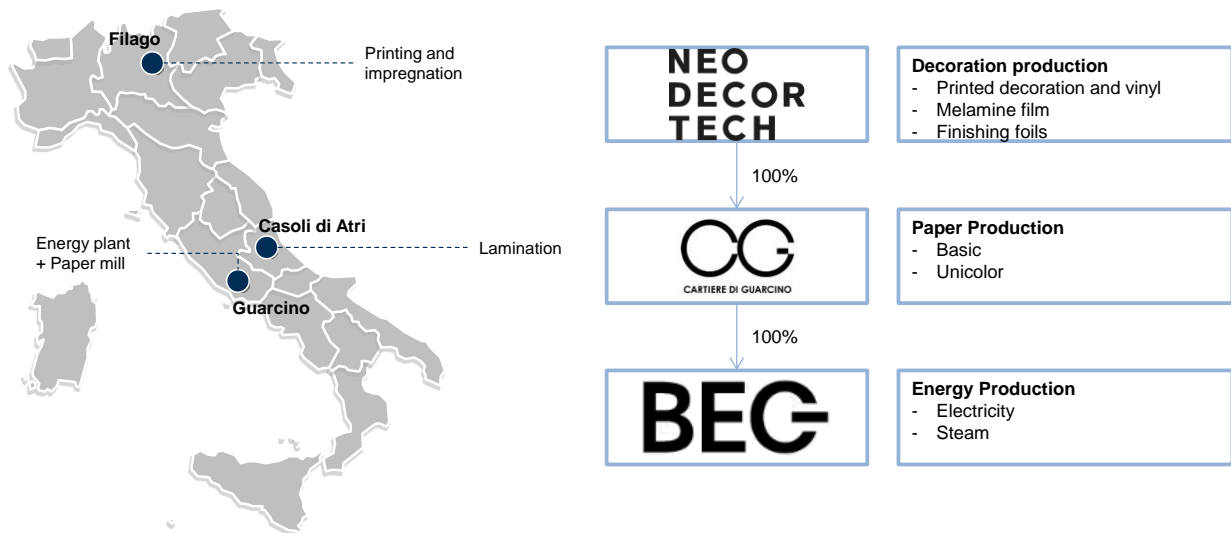
Source: Company

Group Structure

The group is composed of the 3 specialized companies (represented below). NDT and *Bio Energia Guarcino* (BEG) have historical 2018A EBITDA margins of 13.1% and 15% respectively, while *Cartiere di Guarcino* (CdG) has a c.9.3% margin.

BEG is a strategic site as it allows the group to save c.€4.85m per year thanks to positive energy production/consumption ratios (43% of the total annual production) at the CdG paper mill. The group receives 1 incentive for each MWh produced whose price is calculated as follows: $78\% \cdot (180 - \text{average electricity price}_{(n-1)})$.

Graph 4: Group Structure



Source: Company

Business Unit Details

Printing and Impregnation (*Confalonieri* - 34.4% of 2018 sales)

Printing and Impregnation is *Neodercotech's* largest and most strategic division under the *Confalonieri* brand (34.4% of 2018 revenues). The factory is located in Filago (North-East Italy) and manufactures 51 products divided into 5 major categories (Printed Decorative papers, Melamine Film, Finish-foils, Luminates, and plastic films for LVT) with more than 1000+ different types of decorations.

Decorative printing: is the group's most important category. Production includes high quality printed papers for manufacturers of wood-based panels. These printed papers faithfully reproduce natural surfaces, such as wood or stone, and are affixed to a wood-based panel such as particleboard. In fact, this process produces a low cost, high-design artificial veneer used in the furniture and flooring industries.

Melamine film: is a printed decorative paper impregnated with melamine resin for the furniture industry. In general, the use of melamine paper gives the coated surfaces a higher resistance to abrasion, scratches and chemical attacks. Melamine films also allow surfaces to obtain a specular gloss using a press equipped with the appropriate plates. Melamine gives the coated surfaces greater resistance to abrasion without using a protective film, but with a lighter balancing paper.

Finish foils: Impregnated decorative papers (with appropriately modified acrylic and urea resins) and pre-impregnated papers undergo an additional lacquering treatment. Highly flexible finishing films, and pre-impregnated papers are included in this class.

Laminates: In September 2018, NDT acquired the commercial division of Corbetta, a company owned by its majority shareholder, Valentini Group, for an EV of €2.5m. Specialising in the production of laminates by continuous pressure (CPL), the acquisition strengthens Neodercotech's presence in laminate market. In 2017, Corbetta generated a turnover of c.€8m and a slightly positive EBITDA margin. In 2018, it contributed for €2.6m to NDT's sales and €0.7m to EBITDA.

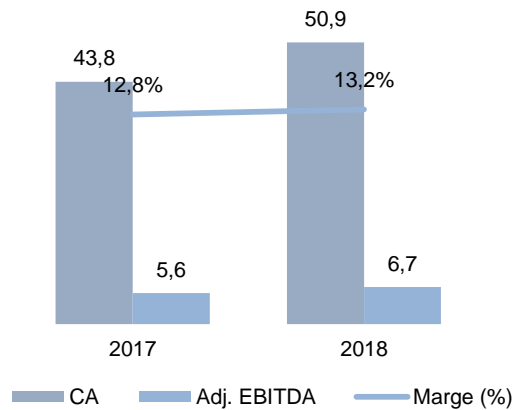
Thermoplastic Laminates: Printed Plastic Film (PPF) and Printed Plastic Laminated Film (PPLF) for Luxury Vinyl Tile (LVT) once again produce the appearance of natural materials but, instead of being printed on paper, they are printed on a plastic substrate. Originally manufactured exclusively from PVC, NDT has developed more environmentally friendly products based on polypropylene and polyethylene films. Thermoplastic films are mainly used as floor coverings, but can also be applied to some vertical surfaces.

When a printed plastic film (PPF) is laminated with a transparent plastic film and then embossed and lacquered, this new product produces a Printed Plastic Laminated Film (PPLF). This new product was launched in January 2019 and should allow flooring producers who are not yet part of the Luxury Vinyl Tiles (LVT) production chain to access the market for designer vinyl flooring with reinforced high-density fibreboard. Laminate floor coverings consist of a composite wood backing material laminated with melamine paper and a transparent impregnated paper film, which provides mechanical resistance to the surface of the product.

NDT anticipates substantial PPLF sales to consolidate its position as European leader in this new market segment characterized by both double-digit growth and high margins. The material used is also much more environmentally friendly than PVC, making it more popular in Germany and Northern Europe.

Finally, NDT intends to increase its margins by focusing on higher margin growth sectors such as PPF and PPLF. To this end, in H2 2019, NDT installed and expanded its production lines with an embossing line for PPLF and creates a new lacquering line for the production of new low-pressure EOS products similar to the highly successful anti-trace series. This increase in production accounts for our projection of c.+5% revenue growth for 2020E.

Graphic 5: Evolution of Margins for the Impression and Impregnation Divisions



Source: Company

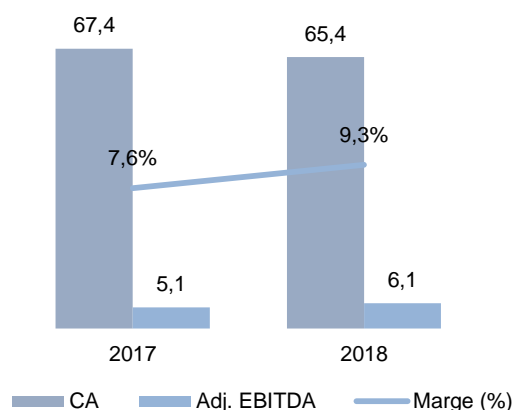
Decorative paper (Cartiere di Guarcino) – 43.6% 2018 Revenues

CEG has a production capacity of 50ktons p.a. of special paper (versus 42ktons produced in 2018). It should be noted that the two largest specialty paper producers have a capacity of 190ktons each.

The company manufactures decorative papers for low and high pressure lamination and floor coverings. Its product range is divided into three categories: base papers, unicolor, and balancing papers.

The EBITDA margin level for this division is the lowest of all divisions (9.3% in 2018), and thus is the least strategic for the group. Here, paper is a mere commodity. Similar to other paper companies, this division consumes energy and water. It should be noted that in November 2018 but also in February 2019, the temporary interruption of water supply caused the plant to close for 14 and 22 days respectively. In 2019, the decrease in the cost of virgin fibre had a negative impact on the resale price of the paper produced.

Graphic 6: Evolution of Margins for the Decorative Paper Division



Source: Company

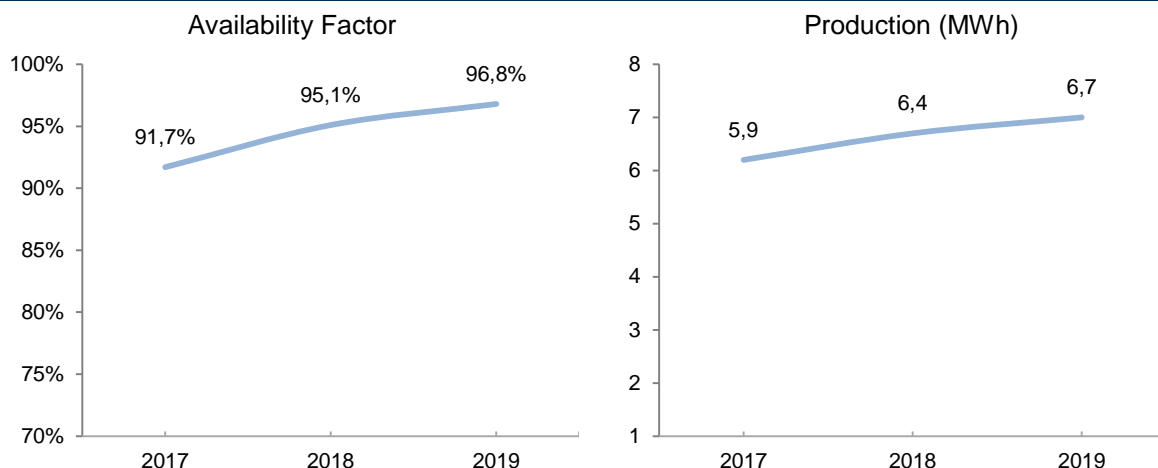
Energy Production (Bio Energia Guarcino) – 22% of 2018 Revenues

BEG is the cogeneration plant created in 2006 to produce the electrical and thermal energy required at Cartiere di Guarcino with a capacity of 20MW and 9tons/h of steam. The objective is to meet the strictest environmental criteria and sustainability levels by using only alternative energy sources. At the heart of the process are the 3 bioliquid engines which, since 2015, have been powered solely by animal by-products produced from the national supply chain. The plant is able to satisfy 100% of the paper mill's electricity needs, with about 60% electricity savings through a private distribution system called SSPC (Simple Production and Consumption System). In addition, the mill provides heat, meeting about 20% of the paper mill's needs at a more affordable cost than steam produced by natural gas purchased from third parties. This means the absence of fossil fuels, a reduction in CO2 emissions into the atmosphere and a huge contribution to environmental protection.

The plant functions at a high availability factor leading to sharp production increases.

It should be noted that for each MWh produced, the company is allocated 1 incentive for each MWh produced whose price is calculated as follows: $78\% * (180 - \text{average electricity price}_{(n-1)})$.

Graph 7: Key KPIs for the Energy Division

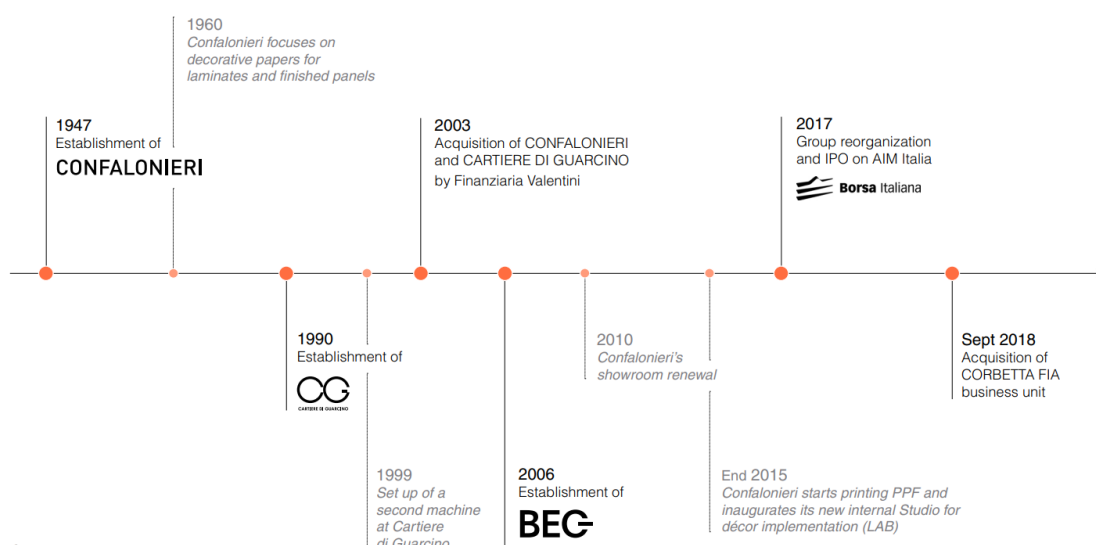


Source: Company

The Group's History

The highlights of Neodecortech's development are presented below. Founded in 1947 and initially focused on the production of printing ink, the group then moved into the production of laminates. In 2003, the Valentini family took control of the company through its HoldCo Finanziaria Valentini after identifying the potential to improve its efficiency. In 2017, the group brought together its 3 business segments (BEG, CdG and Confalonieri) under the *Neodecortech* entity to form the IPO (@4.00€/share; €12m in primary) with a view to financing the company's future development.

Graph 8: The Group's History



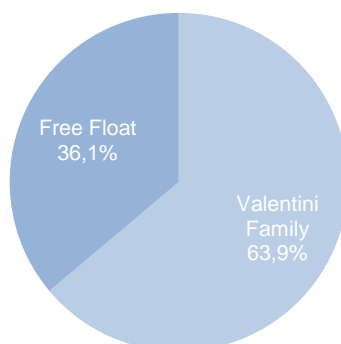
Source: Company



The Group's Shareholder Structure

The group is a family owned company, 63.9% controlled by the Valentini Family since 2003. Although the family is represented on the BoD, it is not part of management. In September 2017, *Neodecortech* was listed on the AIM Italia segment (unregulated) of the Milan stock exchange in order to raise capital to finance the group's development.

Graph 9: Shareholder Structure



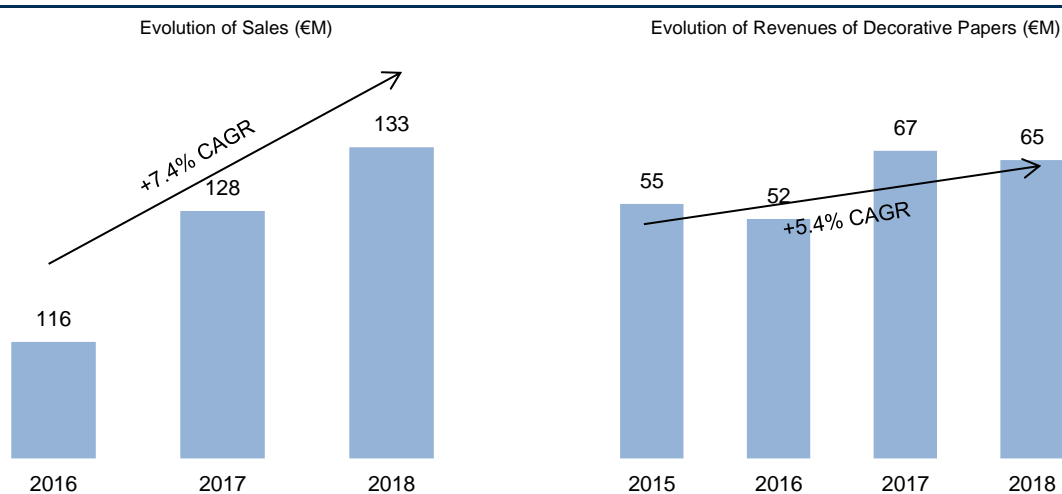
Source: Company

The Group's Financial Performance

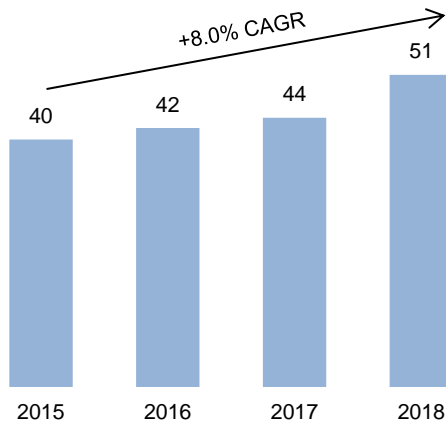
Neodecortech has generated strong top line growth in recent years (+7.4% CAGR 2016-18). Revenues are experiencing an increased volatility.

It should be noted that in 2016 there were (i) a decrease in energy incentives, and (ii) the partial closure of a cogeneration unit due to a now resolved hardware failure that affected the Load Factor.

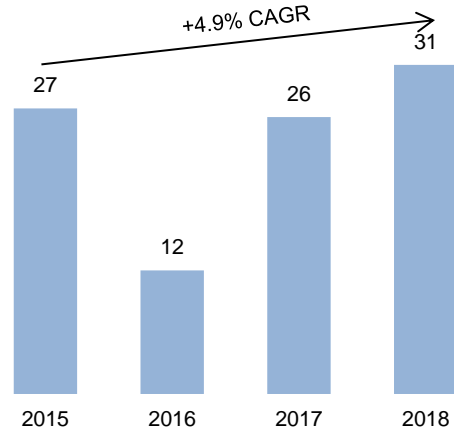
Graph 10: Top Line Historic Growth



Evolution of Revenues of Impregnated Papers and Laminates (€M)



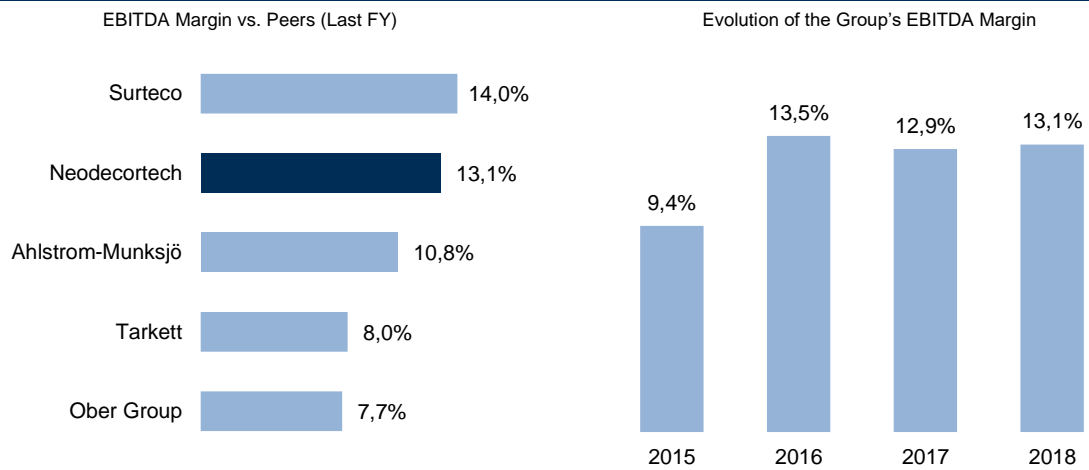
Evolution of Revenues of the Energy Division (€M)



Source: Company

NDT has the sector's second highest EBITDA margin, driven by a positive product mix and active cost monitoring.

Graph 11: EBITDA Margin versus Peers and evolution



Sources: Companies

Valuation

We are initiating our coverage of NDT with a Buy rating and a target price of €4.6/share calculated using both a DCF and multiples trading approaches.

We believe that the group is trading at a significant discount compared to the sector despite the fact that it is a best-in-class performer in terms of 2020E EBITDA margin, 2020E FCF Yield (17.4% vs. 11.5% on average), and offers the sector's 2nd highest 2020E dividend yield (4.6% vs. 4.3% on the average).

Graphic 12: Construction of our TP

Construction of Our TP			Multiples @TP		
Method	FV 2020E	Coefficient	Implied multiples @target		
DCF	5.00	50.0%		2020E	2021E
EV/EBITDA	3.75	12.5%	EV/Sales	0.7x	0.7x
EV/EBIT	4.25	12.5%	EV/EBITDA	5.4x	5.0x
P/E	4.40	12.5%	EV/EBIT	10.0x	9.2x
P/BV	4.41	12.5%	P/E	10.8x	9.0x
			FCF Yield	11.6%	13.8%

Source: Midcap Partners

Valuation through Trading Multiples

We value NDT using 2020E EV/EBITDA, EV/EBIT and P/E multiples, to which we have applied a -20% discount attributable to the listing place and the size.

We have taken into consideration the fully diluted NoSH including 0.7m (i.e. 5.0% of the current capital) of potential new shares created upon exercise of the stock option plan reserved for the group's top management and decided upon at the IPO.

Graphic 13: Outcome of Trading Multiples Valuation

	EV/Adj. EBITDA	EV/Adj. EBIT	P/E	P/BV
2020E figure (EURm)	18.8	10.1	5.9	65.5
2020E multiples	5.9x	11.8x	12.2x	1.1x
Discounted multiple @20%	4.8x	9.5x	9.8x	0.9x
EV	89.3	96.1	n.m.	n.m.
+/- equity bridge	(37.6)	(37.6)	3.3	3.3
Equity value	51.7	58.5	60.6	60.7
Fully diluted NoSHm	13.8	13.8	13.8	13.8
FV/share	3.75	4.25	4.40	4.41

Sources: FactSet, Midcap Partners

NDT stock is currently being traded at a significant discount versus its peers despite the fact that the group is offering the best FCF Yield of the sector. We believe that the market has not yet taken this into account.

Graphic 14: The Sector's Trading Multiples

Trading Multiples Valuation																								
Company Name	Country	Market Value (€m)		EV/Sales			EV/EBITDA			EV/EBIT			P/E			FCF Yield			P/BV			EV/FCFF		
		Equity	EV	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021
Basic Materials																								
Surteco	Germany	354	555	0.78x	0.75x	0.72x	6.2x	5.7x	5.3x	13.0x	10.8x	9.7x	15.1x	11.3x	10.6x	8.4%	10.7%	10.2%	1.0x	0.9x	0.9x	17.7x	13.2x	13.3x
Ahlstrom-Munksjo	Finland	1,661	2,075	0.90x	0.85x	0.79x	8.3x	6.4x	5.8x	17.6x	11.3x	9.8x	20.5x	11.7x	10.4x	7.6%	12.5%	11.8%	1.4x	1.3x	1.3x	21.0x	12.0x	12.1x
Tarkett	France	900	1,654	0.56x	0.54x	0.51x	6.5x	5.7x	5.1x	16.8x	12.7x	10.4x	17.9x	12.1x	9.7x	8.5%	8.5%	10.7%	1.1x	1.0x	0.9x	21.8x	21.1x	16.1x
Ober	France	13	31	0.65x	0.61x	0.56x	n/a	n/a	n/a	14.7x	12.7x	9.5x	17.6x	13.8x	10.1x	13.4%	14.1%	16.3%	n/a	n/a	n/a	13.9x	12.7x	10.4x
Average				0.72x	0.69x	0.64x	7.0x	5.9x	5.4x	15.5x	11.8x	9.9x	17.8x	12.2x	10.2x	9.5%	11.5%	12.2%	1.2x	1.1x	1.0x	18.6x	14.8x	13.0x
Neodecortech SpA vs. Average		45	89	0.63x (12%)	0.58x (15%)	0.53x (17%)	5.2x (26%)	4.5x (24%)	3.9x (28%)	10.5x (32%)	8.5x (28%)	7.1x (28%)	8.3x (53%)	7.3x (40%)	6.4x (37%)	17.7% (82ppt)	17.4% (59ppt)	20.2% (79ppt)	0.7x (37%)	0.7x (37%)	0.6x (37%)	10.7x (42%)	10.5x (29%)	8.5x (34%)

Sources: FactSet, Midcap Partners

In terms of operational performance, NDT is a best-in-class in terms of 2020E EBITDA margin, FCF Yield, offering the 2nd highest dividend yield of the sector. Deleveraging should continue under the strong cash generation.

Graphic 15: The Sector's Operating Performance

Peers main financials																								
Company Name	Country	Market Value (€m)		EBITDA margin			EBIT margin			Next 3-year CAGR			RoE			Dividend Yield			Net Debt / EBITDA			Capex as % of sales		
		Equity	EV	2019	2020	2021	2019	2020	2021	Sales	EBIT	NI	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021
Basic Materials																								
Surteco	Germany	354	555	12.5%	13.3%	13.6%	6.0%	7.0%	7.4%	(1.3%)	13.3%	21.2%	5.7%	8.0%	8.2%	3.1%	3.8%	3.8%	2.0x	1.7x	1.4x	6.3%	6.2%	6.1%
Ahlstrom-Munksjo	Finland	1,661	2,075	10.8%	13.2%	13.6%	5.1%	7.5%	8.0%	7.1%	36.4%	n/a	4.8%	10.8%	11.5%	3.7%	3.9%	4.2%	3.1x	2.1x	1.7x	6.3%	4.1%	4.3%
Tarkett	France	900	1,654	8.6%	9.4%	9.9%	3.3%	4.2%	4.9%	2.7%	15.6%	20.0%	4.5%	7.6%	9.3%	3.9%	4.2%	4.4%	3.0x	2.5x	2.2x	4.1%	3.9%	3.7%
Ober	France	13	31	n/a	n/a	n/a	4.4%	4.8%	5.8%	1.2%	1.9%	24.5%	n/a	n/a	n/a	5.3%	5.3%	5.3%	n/a	n/a	n/a	n/a	n/a	n/a
Average				10.6%	12.0%	12.4%	4.7%	5.9%	6.5%	2.4%	16.8%	21.9%	5.0%	8.8%	9.7%	4.0%	4.3%	4.4%	2.7x	2.1x	1.8x	5.6%	4.7%	4.7%
Neodecortech SpA vs. Average		45	89	12.9% (231ppt)	13.2% (122ppt)	13.6% (122ppt)	6.9% (215ppt)	7.1% (123ppt)	7.4% (91ppt)	3.5% (103ppt)	1.2% (-1557ppt)	5.4% (-1654ppt)	7.3% (231ppt)	9.0% (13ppt)	10.1% (40ppt)	4.4% (40ppt)	4.6% (27ppt)	5.2% (79ppt)	2.3x (13.2%)	2.0x (3.6%)	1.7x (4.4%)	6.6% (104ppt)	5.6% (90ppt)	5.4% (72ppt)

Sources: FactSet, Midcap Partners

Valuation Using DCF

For the DCF approach, we have adopted the following assumptions:

- Explicit period up to 2021E;
- Growing EBITDA margin of up to +13.6% normalization notably thanks to the new product range;
- Normalization of D&A and CapEx at 5.4% of sales;
- A normative WC equal to 19.9% of sales;
- A standard tax rate of 27.9% (IRES @24% + IRAP @3.9%);
- A WACC @9.2% considering a Beta of 1.00x and a premium of +200bps on the CoE corresponding to the listing place, liquidity, flow back risk, and size;
- TGR @+1.0%.

Graph 16: Valuation by DCF

FY ending in Dec. (EURm)	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Sales	142.7	147.7	152.2	156.1	159.5	162.5	165.1	167.3	169.3	171.0
Δ %		3.5%	3.0%	2.6%	2.2%	1.9%	1.6%	1.4%	1.2%	1.0%
Adj. EBITDA	18.8	20.0	20.6	21.2	21.6	22.0	22.4	22.7	23.0	23.2
EBITDA margin	13.2%	13.6%	13.6%	13.6%	13.6%	13.6%	13.6%	13.6%	13.6%	13.6%
D&A	(8.7)	(9.1)	(9.2)	(9.3)	(9.3)	(9.4)	(9.4)	(9.3)	(9.3)	(9.3)
D&A as % sales	(6.1%)	(6.1%)	(6.0%)	(5.9%)	(5.9%)	(5.8%)	(5.7%)	(5.6%)	(5.5%)	(5.4%)
Adj. EBIT	10.1	11.0	11.5	11.9	12.3	12.7	13.0	13.4	13.7	13.9
EBIT margin	7.1%	7.4%	7.5%	7.6%	7.7%	7.8%	7.9%	8.0%	8.1%	8.2%
Taxes on EBIT	(2.1)	(2.3)	(2.6)	(3.0)	(3.4)	(3.5)	(3.6)	(3.7)	(3.8)	(3.9)
Tax rate	21.0%	21.0%	23.0%	25.0%	27.9%	27.9%	27.9%	27.9%	27.9%	27.9%
Adj. NOPAT	8.0	8.7	8.8	8.9	8.9	9.1	9.4	9.6	9.8	10.1
CapEx	(8.0)	(8.0)	(8.2)	(8.5)	(8.6)	(8.8)	(8.9)	(9.1)	(9.2)	(9.3)
% sales	(5.6%)	(5.4%)	(5.4%)	(5.4%)	(5.4%)	(5.4%)	(5.4%)	(5.4%)	(5.4%)	(5.4%)
WC	28.3	29.3	30.2	31.0	31.7	32.3	32.8	33.2	33.6	34.0
% sales	19.9%	19.9%	19.9%	19.9%	19.9%	19.9%	19.9%	19.9%	19.9%	19.9%
Δ WC	(1.3)	(1.0)	(0.9)	(0.8)	(0.7)	(0.6)	(0.5)	(0.4)	(0.4)	(0.3)
Adj. FCF	7.3	8.7	8.9	9.0	8.9	9.1	9.3	9.5	9.6	9.7
Cash conversion on EBITDA	39%	44%	43%	42%	41%	41%	42%	42%	42%	42%
Time coefficient	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0
DF	0.9	0.8	0.8	0.7	0.6	0.6	0.5	0.5	0.5	0.4
Discounted FCF	6.7	7.3	6.8	6.3	5.7	5.4	5.0	4.7	4.4	4.0

Sum of discounted FCF	56.5
Terminal trailing EV/EBIT 2029I	8.6x
+ Discounted Terminal Value	50.0
% EV	46.9%
= Enterprise Value	106.5
- Equity Bridge	(37.6)
= Equity Value	68.9
Fully diluted NoSHm	13.8
Price target	5.00

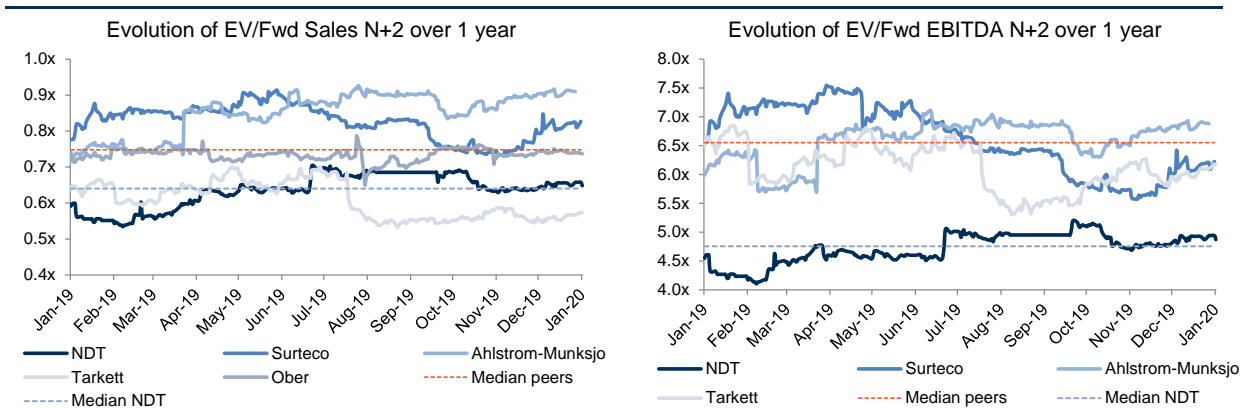
WACC		TGR				
		0.0%	0.5%	1.0%	1.5%	2.0%
8.2%	5.00	5.68	6.09	6.53	7.01	
8.7%	4.56	5.16	5.51	5.88	6.28	
9.2%	4.16	4.70	5.00	5.31	5.65	
9.7%	3.80	4.28	4.55	4.81	5.10	
10.2%	3.48	3.91	4.14	4.37	4.62	

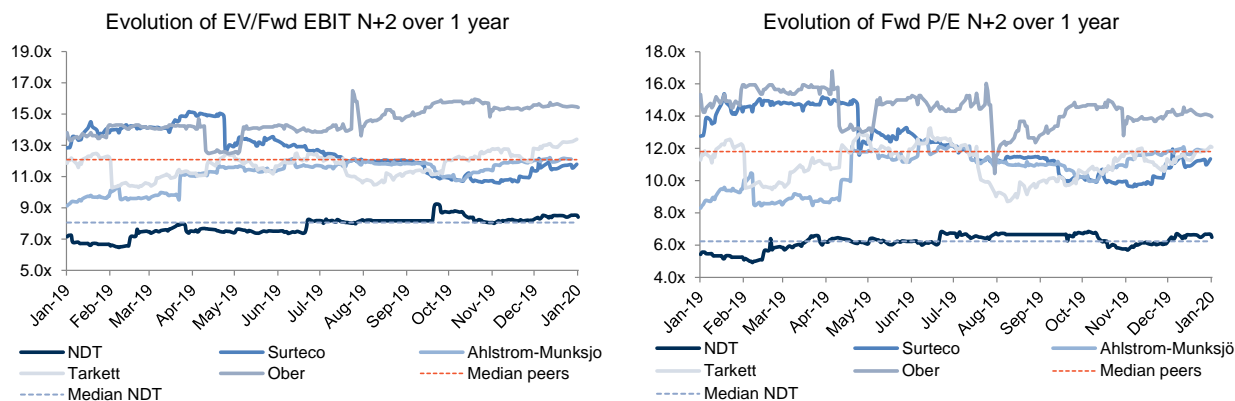
Sources: Company, Midcap Partners

Evolution of the industry's Fwd trading multiples

As can be seen in the set of graphs below, NDT is trading at a significant discount vs. peers, calling for a re-rating of the stock.

Graph 17: Evolution of fwd trading multiples over 1 year





Sources: Midcap Partners, FactSet

Market Trend

NDT outperformed the sector (+8.8% since January 2019 vs. -4.7% for the sector on an average basis). On the other hand, the stock's performance has been negative since the IPO (c.-12%; IPOed at €4.0).

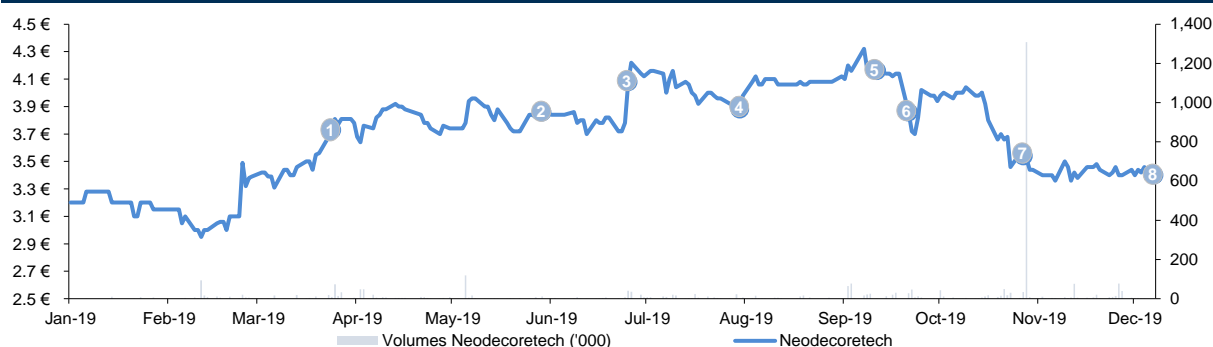
Graph 18: NDT's Market Performance vs. Peers over 1 year (rebased 100)



Sources: Bloomberg, Midcap Partners (as at 07/01/2020)

The graph below shows the impact of sensitive price announcements issued on NDT over 1 year.

Graph 19: Explaining the Share Price



- | | |
|--|---|
| <p>1 26/03/2019: Release of FY2018 earnings with €130.9m of sales, (+6% YoY), €19m of Adj. EBITDA (+25% YoY) and €7.3m adj. profit (+ 52% YoY)</p> <p>2 31/05/2019: Launch of buyback program for a maximum of 10% of the share capital of the company</p> <p>3 27/06/2019: MTA listing project</p> <p>4 01/08/2019: Resignation of the Chairman of the board, Alberto Francois, with immediate effect</p> | <p>5 13/09/2019: Appointment of a new Chairman of the Board of Directors, Luigi Cologni</p> <p>6 23/09/2019: Release of H12019 earnings with €68.7m of sales (+2.2% YoY), €8.5m adj. EBITDA (-2.7% YoY), and €2.3m adj. profit (-28.3% YoY).</p> <p>7 29/10/2019: Finanziaria Valentini launches a secondary ABB to reduce its stake by selling 1.2m shares representing 9.16% of the share capital</p> <p>8 09/12/2019: Release of 9M2019 earnings with €115.7m of sales (+3.8% YoY) and €15.1m adj. EBITDA (-2.3% YoY).</p> |
|--|---|

Sources: Bloomberg, Company, Midcap Partners

NDT has the best liquidity in the sector despite its small float. The free float rotation is completed in 142 trading days (vs. 623 days for the sector's average).

Graph 20: Analysis of Share Volumes

Company	Country	Market cap (€ m)	Free float (%)	Volumes* (€ m)	Float rot. (trading days)
Neodecoretech		46	36.1%	17	142
Ahlstrom-Munksjö		1,677	54.1%	907	1,162
Tarkett		904	50.5%	456	221
Surteco		348	20.0%	70	485

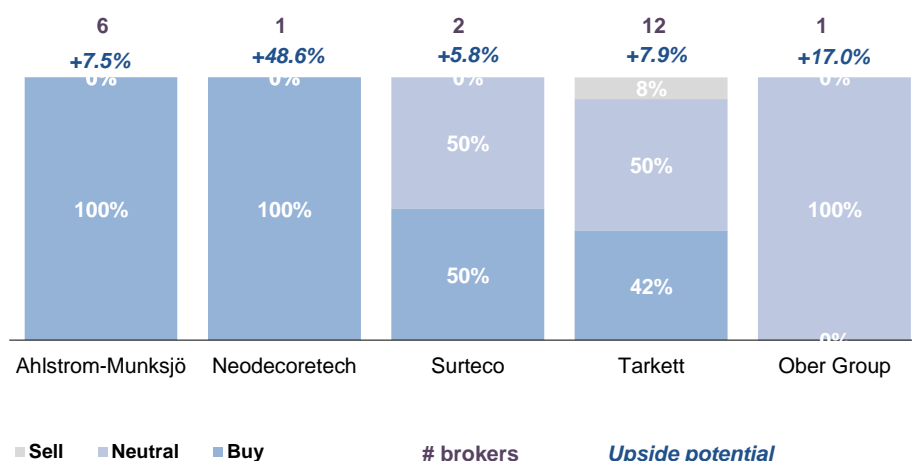
* Daily avg. 3 months

Sources: Bloomberg, Midcap Partners (as at 07/01/2020)

Analysts are generally positive regarding the sector with a majority of Buy ratings (58%), followed by Hold (40%) and Sell (2%).

NDT is one of the sector's stocks with a 100% Buy consensus while also benefiting from the best upside potential (+48.6%).

Graph 21: Analyst Consensus Regarding the Sector

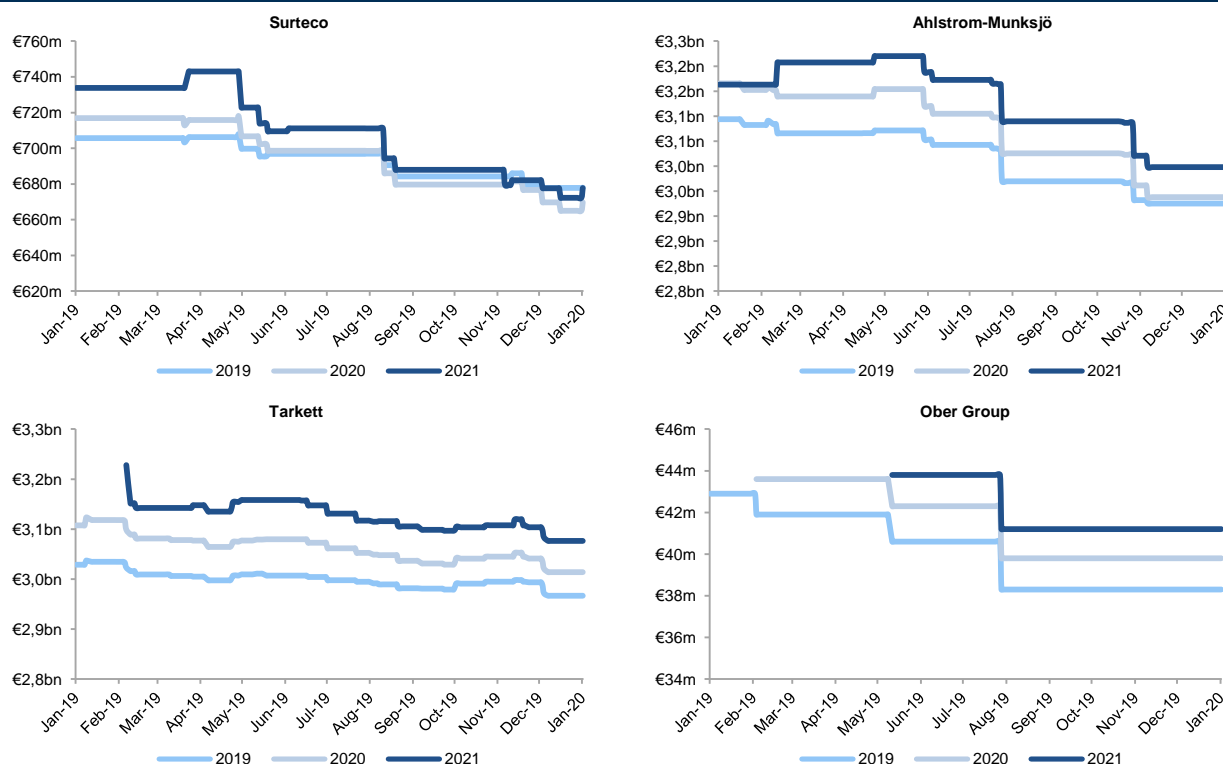


Sources: Bloomberg, Midcap Partners (as at 07/01/2020)

The evolution of the sector's Fwd Sales consensus over the past year is negative (-6.0% on average for the next 3 years, more specifically -5.5% for 2019, -6.5% for 2020 and -6.1% for 2021).

In detail, the average evolution for the next three financial years is in decline for all the peers: -3.3% for Tarkett, -6.0% for Ahlstrom-Munksjö, -6.5% for Surteco, and -8.5% for Ober Group.

Graph 22: Consensual Evolution of the Fwd Sales of NDT's Main Peers over 1 year

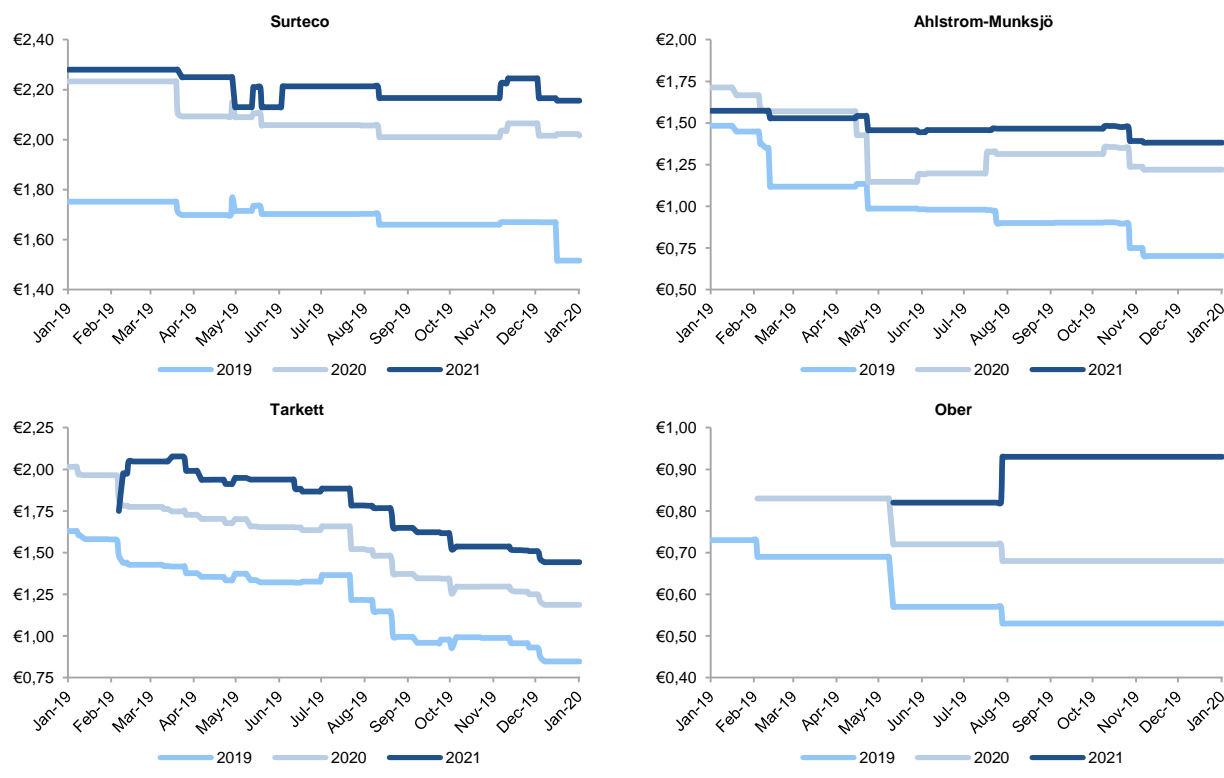


Source: FactSet



The consensual evolution of the sector's Fwd EPS over the last year is strongly negative (-21.7% on average for the next 3 years, more specifically -35.4% for 2019, -24.3% for 2020 and -5.4% for 2021). In detail, all the EPS Fwd of the peers for the next three years have been revised downwards over the past year: -9.4% for Surteco, -10.7% for Ober Group, -31.2% for Ahlstrom-Munksjö, and -35.5% for Tarkett.

Graph 23: Consensual Evolution of the Fwd EPS of NDT's Main Peers over 1 year



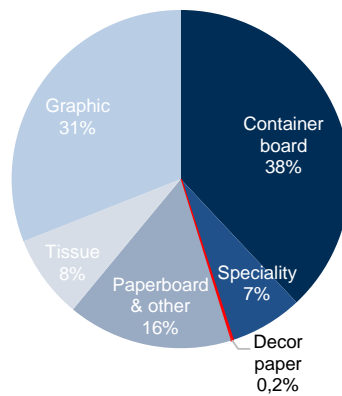
Source: FactSet

Market Evolution

Total Paper and Cardboard Market

The total paper and cardboard market outside China represents 310mt with a high proportion of cardboard (38%) and graphic paper (31%), decorative paper being a niche segment representing 0.2% of the total market in which there is no dominant player.

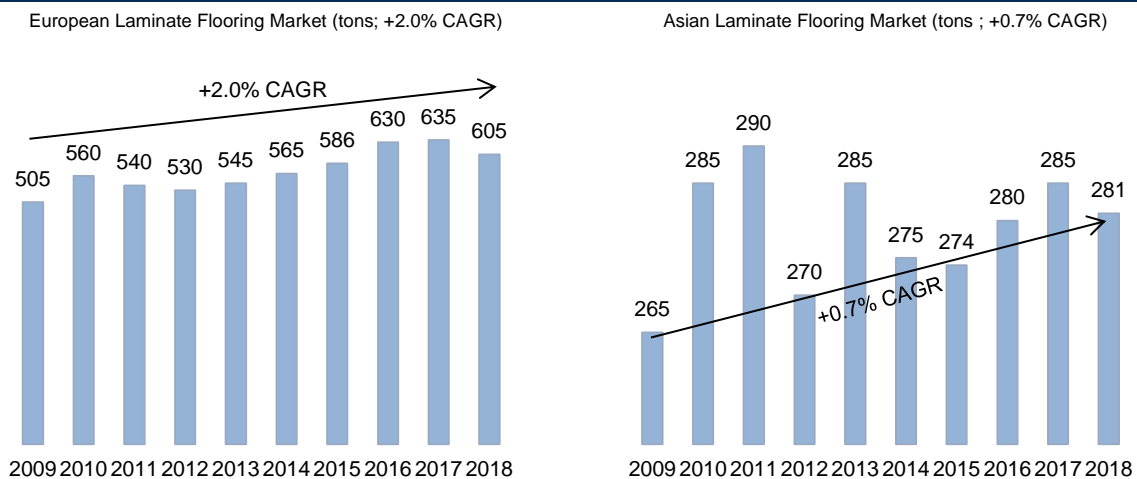
Graph 24: Total Paper and Cardboard Market (310mt)



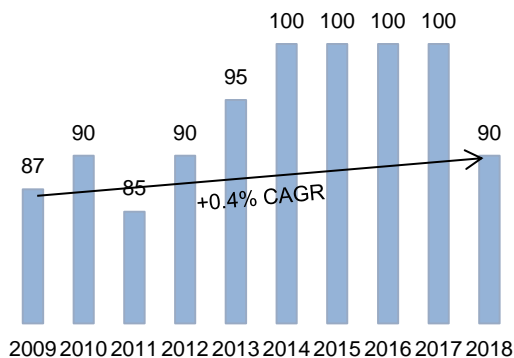
Source: Decor Paper Market, Research 2019 - Poyry

The underlying markets have experienced resilient growth over the past 10 years, as illustrated in the graphs below, with erratic movements showing particularly high volatility in the laminate flooring markets especially in Asia (14.9%) and America (18.8%).

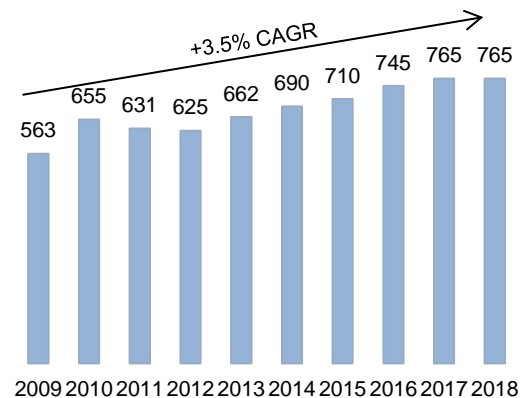
Graph 25: Historical Performance of the Underlying Markets



American Laminate Flooring Market (tons ; +0.4% CAGR)



Decorative Paper Market (tons ; +3.5% CAGR)



Source: Decor Paper Market, Research 2018 - Munksjo

Focus on the Decorative Paper Market

Presentation: The decorative business consists of the production of paper in a wide range of colours, qualities and weights for decorative applications mainly used for furniture laminates, floor coverings, interior applications and technical and aesthetic purposes. Europe is the key market as well as some export markets.

Demand: for decorative products has been weak through Q3 2019, though the underlying long-term demand for decorative products is still as strong as ever. Competition, however, remains intense. The market grew by +3.5% p.a. 2009-18 CAGR by generating low volatility (5.3%).

Drivers of demand: (i) GDP growth, (ii) housing starts in residential and commercial construction and renovation projects, (iii) the rapid growth of the middle class in developing countries, stimulating growth in demand for construction and furniture, (iv) interior design trends, and (v) applying decorative paper to substitute for using real materials (including wood, veneer and plastic sheeting).

Supply: comes mainly from Western Europe (world's leading exporter; abundant pulp production thanks to Scandinavian forests) and China (world's leading pulp importer).

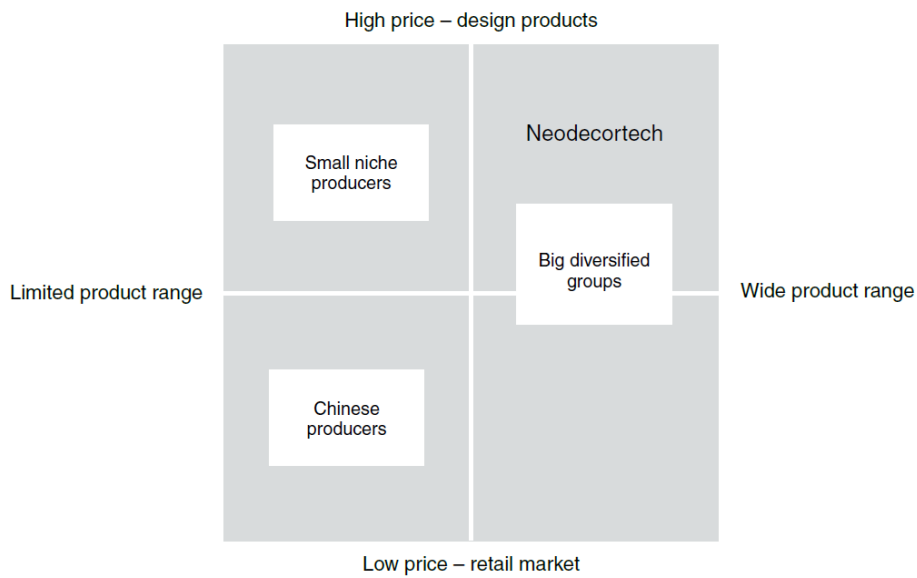
China as a growth driver for the global decorative paper market: After two decades of remarkable growth, China is now the world's largest decorative paper market, with a 2008-18 CAGR of +21% and 2018 demand exceeding one million tons. Pöyry estimates that c.2/3 of the overall future market growth over the next 5 years will come from China (+250kt). The high quality paper products segment is growing much faster than the overall market, with limited growth in the lower end segment (i.e., +1-2% p.a.).

Strategic Positioning

NDT is the leading producer of decorative paper in Italy and holds 5% of the global market excluding China, which is mainly dominated by German, Chinese and Polish players.

The group is positioned at the top of the market with a wide range of high quality design products while the pricing policy is situated at the top of the range.

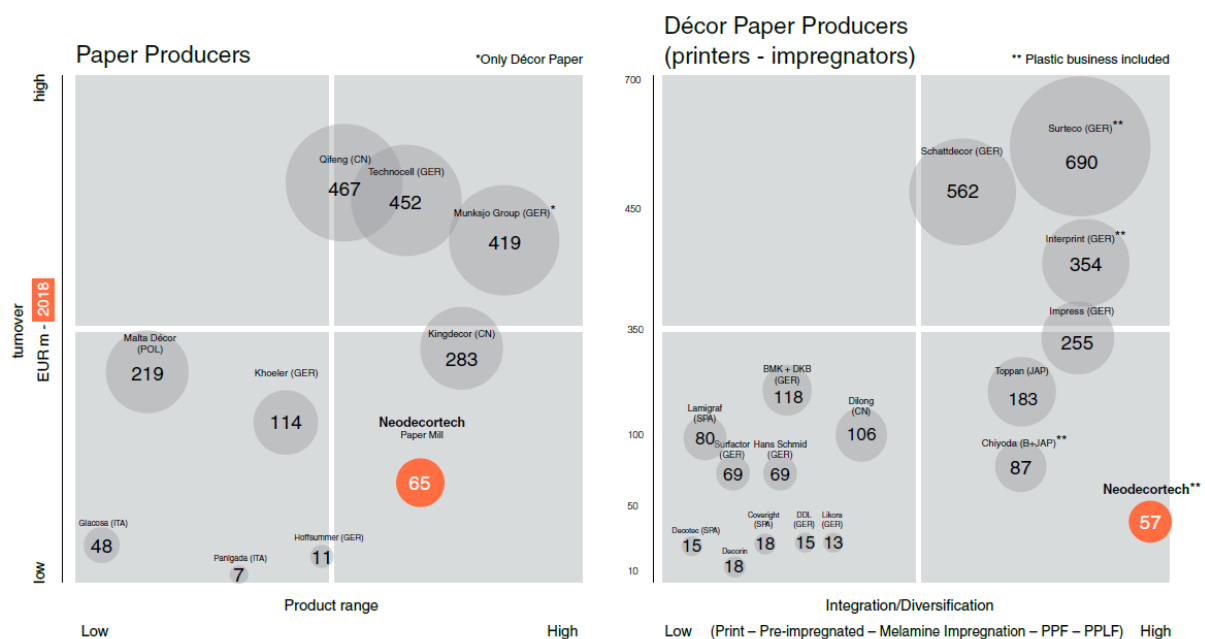
Graph 26: The Group's Strategic Positioning



Source: Company

As we have shown, the group's distinctive asset is its broad and diversified product portfolio.

Graph 27: The Group Offers a Wide and Diversified Range of Products



Source: Unaudited management data



A Resilient Economic Model

The group is active in the design, development, production and marketing of decorative prints, printed plastic films, finishing films and melamine films for the interior design industry.

The group's activities are based on an integrated business model, in which the different phases of development, production, and control of the finished product are fully integrated, thus making it possible to optimize resources and take full advantage of the various market opportunities.

The group is positioning itself in the market's high-end segment enabling a best-in-class in terms of 2020E EBITDA margin.

The distinct advantages of the group's BM: (i) the identification of new design trends and their integration, by in-house designers, into new products, (ii) 100% "Made in Italy", a distinctive quality of the group's product design, (iii) vertical integration allowing operational and cost efficiencies, (iv) the possibility of producing tailor-made products for customers for ever greater personalisation and customer satisfaction, (v) the wide range of products for furniture and floors, (vi) proprietary know-how throughout the value chain, (vii) R&D investments to maintain innovation capacity, (viii) high barriers to entry (investments, industrial facilities, reputation and customers), (ix) production chain flexibility, (x) the group's strong internationalisation enabled by the strength of its distribution network, and (xi) customer selection based on credit worthiness.

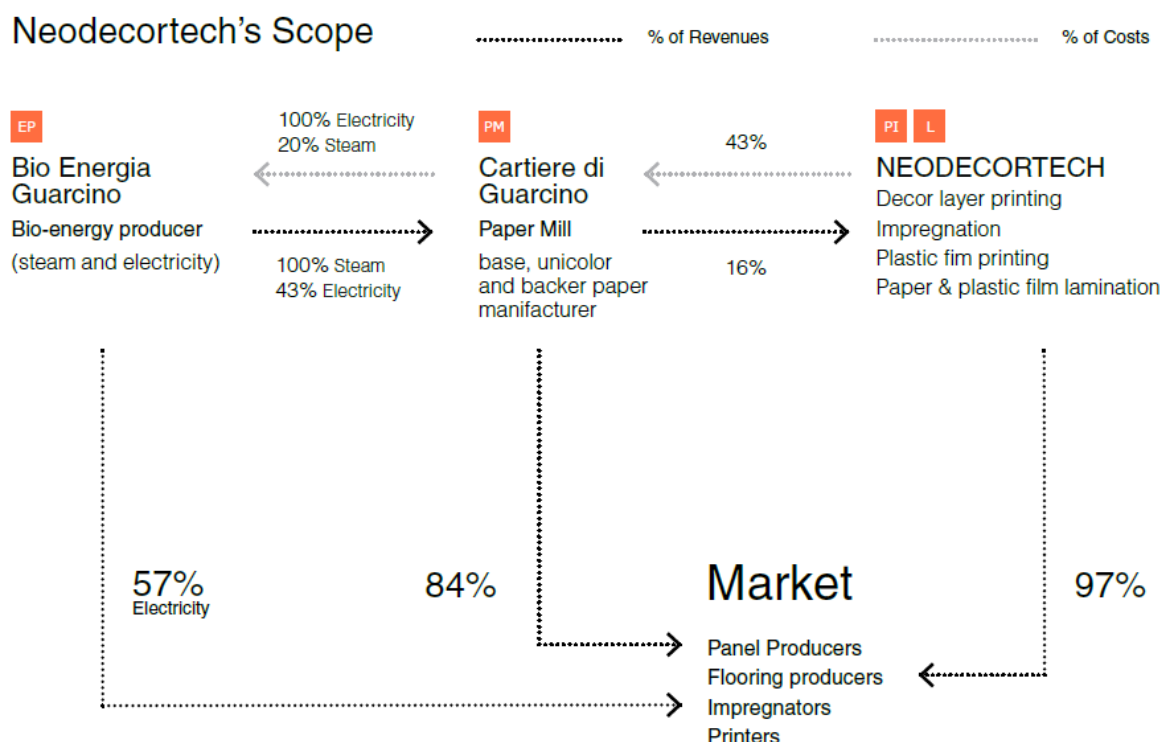
Vertical Integration

The group has implemented vertical integration in order to generate operational and cost synergies, more specifically:

- **R&D:** centralized and co-developed with the paper production plant allowing substantial benefits in terms of improved production, greater flexibility, more competitive supply prices, and active monitoring of R&D processes. R&D has not been capitalized in 2018;
- **Operational efficiencies thanks to its own power plant** that responds to 90-95% of electricity needs. Thus, production does not depend on the national electricity grid and cannot be affected by possible blackouts or failures in order to optimize production. In addition, the group is only marginally sensitive to fluctuations in energy prices (natural gas) thanks to the implementation of MT/LT supply contracts;
- **Cost efficiencies:** vertical integration with the power plant offers competitive advantages, which allows significant savings of c. €4.85m p.a. on energy costs (electricity and steam).

Inter-company flows resulting from vertical integration are shown in the graph below.

Graph 28: Inter-company Flows



Source: Company

Supply Chain

Neodecortech protects itself regarding the supply of raw materials by choosing both a main supplier and at least one intermediate supplier to compensate for any difficulties the main supplier might incur, or to completely replace the latter if advantageous. The top 12 suppliers accounted for 95% of the group's raw material supply. Having a main supplier for each raw material allows NDT to develop more technologically advanced, high-performance products and protect its know-how while gaining negotiating margin.

Fluctuations in raw material prices are fully reflected in customer selling prices after a 6-month lag.

The vertical integration of the supply chain (energy and paper) also allows the group to achieve significant cost savings and to exercise active quality control.

The group maintains active monitoring on the most strategic raw materials (titanium dioxide and cellulosic fibres) in order to reduce their cost and supply concentration.

It also has ERP systems already implemented and in place. The team's migration will nevertheless be implemented during H1 2020.

R&D

The group intends to continue to invest in R&D, enabling it to (i) extend and diversify the range of its product portfolio in terms of references, but also to other product types, namely Vinyl, PPF and digital printing, and (ii) improve the quality, aesthetics and technology used in product design.











The development of a new product takes c.1 month according to customer specifications.

R&D is fully charged in the P&L.

A Large Range of Products

Neodecortech has the most diversified decorative paper offer on the market and is constantly increasing its product range in order to (i) attract new customers, and (ii) upmarket evolution enabling the group to outsource and higher margins.

Graph 29: Diversification of the Decor Paper Production (Mainly CdG)

Decor Paper Producer	Print Base Paper	Unicolour Paper	Overlay Paper	Digital Printing Paper	Base Paper for flois	LBWP	Backer Paper	Kraft Paper
NEO DECOR TECH	●	●	○	○	●	○	●	●
 Koehler GROUP	●	●	○	○	○	○	○	○
 齐峰新材 Qifeng New Material	●	●	●	○	○	○	○	○
 Kingdecor Services	●	●	○	●	●	○	●	○
 malta decor	●	●	○	○	○	○	●	○
 AHLSTROM MUNKSJÖ	●	●	○	●	●	○	●	○
 CARTIERA GIACOSA & P.A. FRONT CANAVESE - TORINO	●	●	○	○	○	○	●	●
 Cartiere Panigada	●	●	○	○	○	○	○	○
 TECHNOCELL AG	●	●	○	●	●	○	●	○
 Papierfabrik Glöttchen	●	●	○	○	○	○	●	●
 KOTKAMILLS	○	○	○	○	○	○	○	●

Source: Pöyry

NDT also benefits from the most diversified portfolio in terms of Décor Paper Printing/Impregnation, as illustrated in the graph below.

Graph 30: Diversification of the Decor Paper Printers/Impregnation (Mainly NDT)

Decor Paper Producer	Decor Paper Printing	Pre-impregnated foils	LBWP	Melanine impregnation	Phenol Impregnation	Printed TP Films
NEO DECOR TECH	●	●	○	●	●	●
Lamigraf	●	○	○	○	○	○
Decotec/Toppan	●	○	●	○	○	●
Coveright	○	○	○	●	○	○
Surfactor	○	○	○	●	●	○
Chiyoda	●	●	●	○	○	●
Impress	●	●	●	●	○	○
Likora	●	●	○	○	○	○
Hans Schmid	○	○	○	●	●	○
Interprint	●	●	○	●	○	●
Surteco	●	●	○	●	○	●
Schattdecor	●	●	●	●	○	●
BMK/DKB	○	○	○	●	○	○
Dilong	●	○	○	●	○	●
Keda	●	○	○	○	○	○
Dai Nippon	●	●	●	○	○	●

Source: Pöyry

Production Capacity

The group is looking to make investments in order to increase automation and operational efficiency with a view to making its 4.0 production tool compliant. The utilisation rate is currently 70% in 3 shifts for printing, 80% in 3 shifts for impregnation, and 100% in 3 shifts in paper lamination for NDT. All factories are located in Italy giving them a distinct marketing advantage, especially in the design sector. Production is perfectly calibrated to the needs of each customer, allowing Neodecortech to ensure customer loyalty by offering a superior and personalized product.

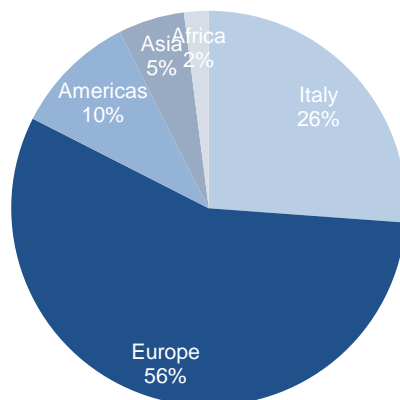
The group also enjoys great flexibility in production capacity through its diversification. With 6 rotogravure presses (70% production capacity), 2 laboratory rotogravure presses and 6 digital laboratory rotogravure presses, the company can adjust its production capacity according to specific customer needs.

The sector's barriers to entry are high, in particular, because of the high cost of the initial investments limiting the installation of new production capacity, enabling players to at least maintain their market shares.

A Sharpened Sales Organization Internationally Oriented

The group operates through a proprietary, indirect sales network providing strong territorial control and close proximity to its customers. It is highly internationalized with 74% of its FY2018 sales (excluding the energy plant) generated from exports. The group's main export markets are Europe (56%, vinyl and decorative papers in particular), followed by the Americas (10%, decorative paper, in particular unicolour), Asia (5.4%, decorative paper, in particular unicolour) and finally Africa (2%).

Graph 31: 74% of 2018 Revenues (Excluding the Energy Plant) from Export



Source: Company

Sales are handled mainly by 5 internal area managers, as well as 7 agents located in different regions (Belgium, Turkey, Iran, Brazil, Russia, Far East, North America) requiring a direct, on site presence.

Customer Concentration

Neodecoretech maintains long term relationships with its customers (>25 years in most cases), demonstrating customer loyalty and retention. It has had no difficulty attracting new customers since it offers the widest range of products on the market.

However, the group also tends to select its customer base according to their credit worthiness. In the same vein, it has implemented factoring with BPM with their Top #2 customers (average cost of 60bps p.a.) in order to outsource risk and create sustainable value (positive effect on WC).

In 2018, the Group's top 10 customers represented 78% of 2018 sales, highlighting the market's customer concentration that, as a reminder, has very few players. Customer distribution is also well served.

It should be noted that the average lifespan of a design is 5 years, thus giving the group a high level of visibility.

Pricing Power

As mentioned above, fluctuations in raw material prices (pulp and titanium dioxide) are fully reflected in products' selling prices after a 3-month for CdG and after 6-month lag for NDT.

However, it should be noted that the lower cost of virgin fibre is leading to lower resale prices for products, especially as the customer base is concentrated, thus weighing on the group's EBITDA margin, highlighting a limited pricing power.

Strategy

The group's goal is to strengthen its competitive position among the leaders in the reference market based on the wide range of solutions offered with integrated methods for the various product and activity sectors.

NDT also maintains a high degree of differentiation and customization in the interior design industry.

Positioning in the high-end segment

Strengthening the group's position as a supplier to high-end customers in the decorative paper market by increasing customer loyalty through the:

- Expansion of the product range in order to offer its customers a complete offer;
- Increased investment in digital printing activities;
- Increased investments in the production of single-coloured papers in order to satisfy demands for smaller production batches;
- Strengthening of vertical integration between the group's production units in order to create products that are increasingly adapted to customer needs;

Growing market share

Increasing market share in the main foreign markets and in Germany through:

- Strengthening exports in order to consolidate its market position and saturate production capacities;
- Expansion of its sales network;
- M&A (either a 100% acquisition or a majority stake) targeting smaller competitors and/or branches of companies operating in markets with the aim of creating commercial and/or cost synergies and increasing the company's profitability;

Diversification

Diversification in the reference market by both expanding the product range and by occupying positions in new, defensible, highly profitable market niches through:

- Strengthening PPF production and expanding into new areas of interior design;
- Maintaining a strong propensity for product and process innovation in order to anticipate new trends;
- Increasing operational excellence through a lean approach and Industry 4.0, as well as improving operational efficiency and reducing and/or reusing production waste.

Strategic Investments

In addition to the strategic elements mentioned above and in order to perfect its growth strategy, *Neodecoretech* could gradually make 3 investments, more specifically:

- New technology (c. €10m) for the production of laminated films and digital printers;
- Machinery improvements (c.€10m) in order to increase task efficiency, quality and adopt Industry 4.0 standards;
- Market expansion (c. €15m) with the aim of increasing the market share and addressing new markets through JVs and M&As.

IPO on the Regulated Segment of the Milan Stock Exchange (MTA)

At the time of NDT's 2017 IPO on the AIM segment, it had been decided at the time to list the company on the regulated segment of the Milan Stock Exchange (MTA) at most 30 months after the

IPO. The company is planning a first listing in March 2020. DD is in the final stages. The transaction price is c. €0.9m including €0.5m already paid in 2019.

Foreign Exchange Risk Management (FX)

The group is obviously exposed to FX risks mainly related to the supply of certain raw materials (pulp representing 12% of total purchased volumes) and, to a lesser extent, to the sale of products (<2% of total sales). This results in cash flows denominated in currencies other than those of the production area (mainly US\$).

The group is therefore exposed to the risk of fluctuations in the value of the euro against the US\$, for which specific currency hedging policies have been adopted.

Financial Projections

Top Line Growth Prospects

We expect the company to be able to grow faster than its reference market as a result of the investment in new production capacity, the relevant positioning in the market's luxury segment, and the development of new products with higher margins.

We forecast a sales increase of +3.4% 2018-21E CAGR.

The Energy Division should remain flat over the next few years, the only variation being the average Italian electricity cost which will be partially offset by the incentive price awarded for each MWh produced.

The Paper division should continue to decline (-3.3% 2018-21E CAGR) due to the expected decline in virgin fibre prices, which will also lower the resale price as a result of customer concentration.

The real growth driver lies in the Decorative paper division, which will grow substantially (+10.4% 2018-21E CAGR) due to the development of a new range of better-margined products (laminates in particular).

Graph 32: The Top line Should Continue to Grow

Revenues	2017A	2018A	2019E	2020E	2021E	CAGR 2018A-21E
Sales	127.7	133.5	136.0	142.7	147.7	3.4%
Δ YoY		4.5%	1.8%	4.9%	3.5%	
o/w Decorative Paper Division	43.8	50.9	55.0	62.9	68.6	10.4%
Δ YoY		16.2%	8.0%	14.5%	9.0%	
as a % of total	34.3%	38.1%	40.4%	44.1%	46.4%	
o/w Paper Division	56.5	50.8	47.8	46.8	45.9	(3.3%)
Δ YoY		(10.0%)	(6.0%)	(2.0%)	(2.0%)	
as a % of total	44.2%	38.1%	35.1%	32.8%	31.1%	
o/w Energy Division	23.2	29.2	29.8	29.5	29.8	0.7%
Δ YoY		25.8%	2.0%	(1.0%)	1.0%	
as a % of total	18.2%	21.9%	21.9%	20.7%	20.2%	
Other Revenues	4.2	2.6	3.4	3.4	3.4	9.5%
Δ YoY		(38.7%)	31.5%	0.0%	0.0%	
as a % of total	3.3%	1.9%	2.5%	2.4%	2.3%	

Source: Company

A Best-in-class in Terms of EBITDA Margin

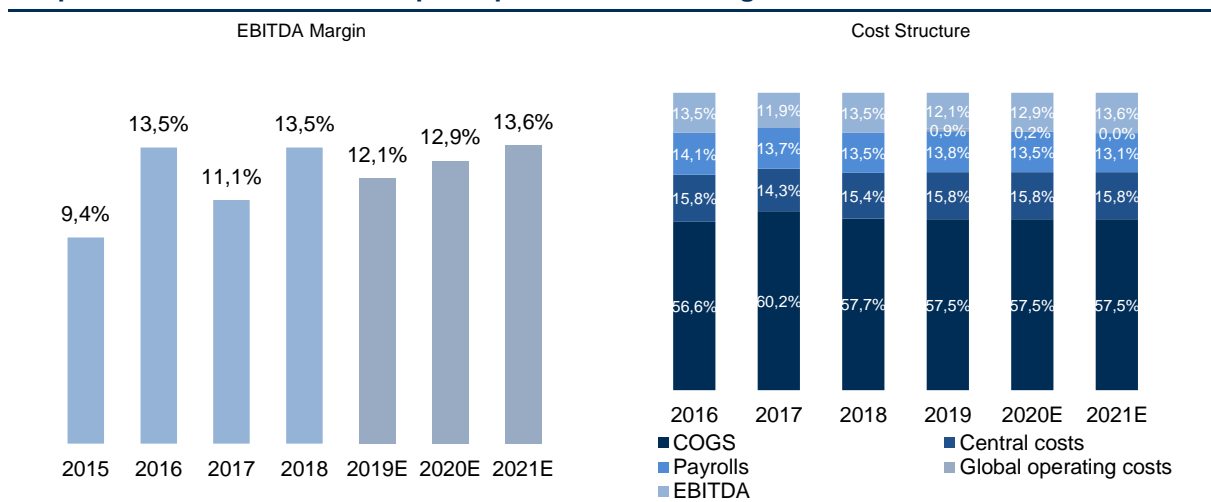
Although we expect the group's EBITDA margin to decline, as it will for the sector as a whole, NDT deserves the sector's best-in-class thanks to its upscale positioning and development of higher margin products.

We expect the group's reported EBITDA margin to reach 13.6% in 2021E, the level at which we anticipate it stabilizing to in the medium to long term.

It should be noted that the decrease in EBITDA margin is mainly due to the 2018 outperformance of BEG, a showing that it did not repeated this year, in addition to an increase in raw material prices that are specific to this division. Nevertheless, the margin is expected to rebound between 2019E and

2021E, notably due to the commercialization of new, better-marketed products (notably laminates) and the implementation of cost efficiencies.

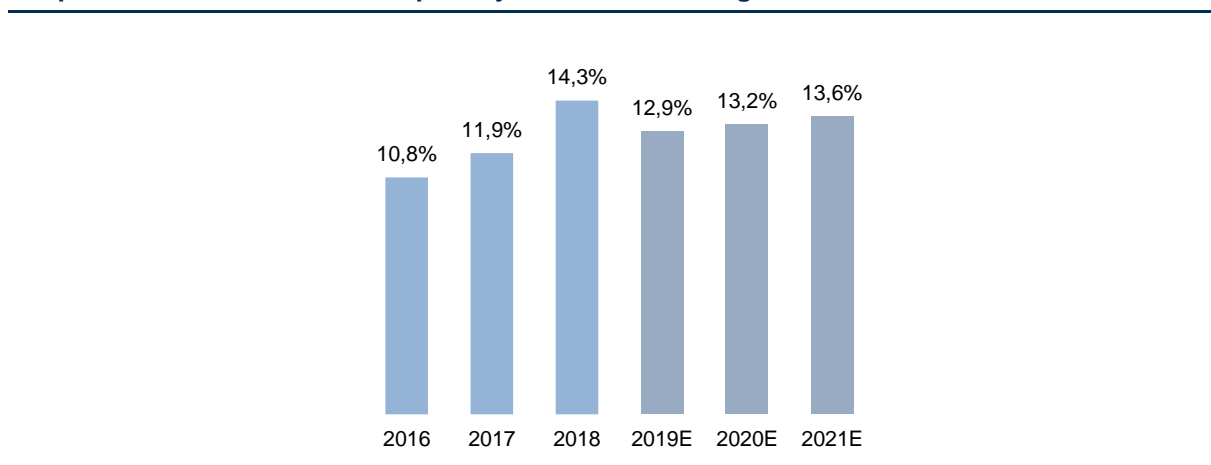
Graph 33: Evolution of the Group's Reported EBITDA Margin



Source: Company, Midcap Partners

The EBITDA margin adjusted for non-recurring items (free share distribution, IPO listing costs, etc.) should reach 13.6% in 2021E. It should be noted that the free share distribution plan, initiated in 2017, ended in 2019 (c. €0.7m over the year) and that the IPO listing costs on the regulated segment of the Milan Stock Exchange (MTA) should amount to c.€0.9m divided into 2019E (c.€0.5m) and 2020E (c.€0.4m).

Graph 34: Evolution of the Group's Adjusted EBITDA Margin



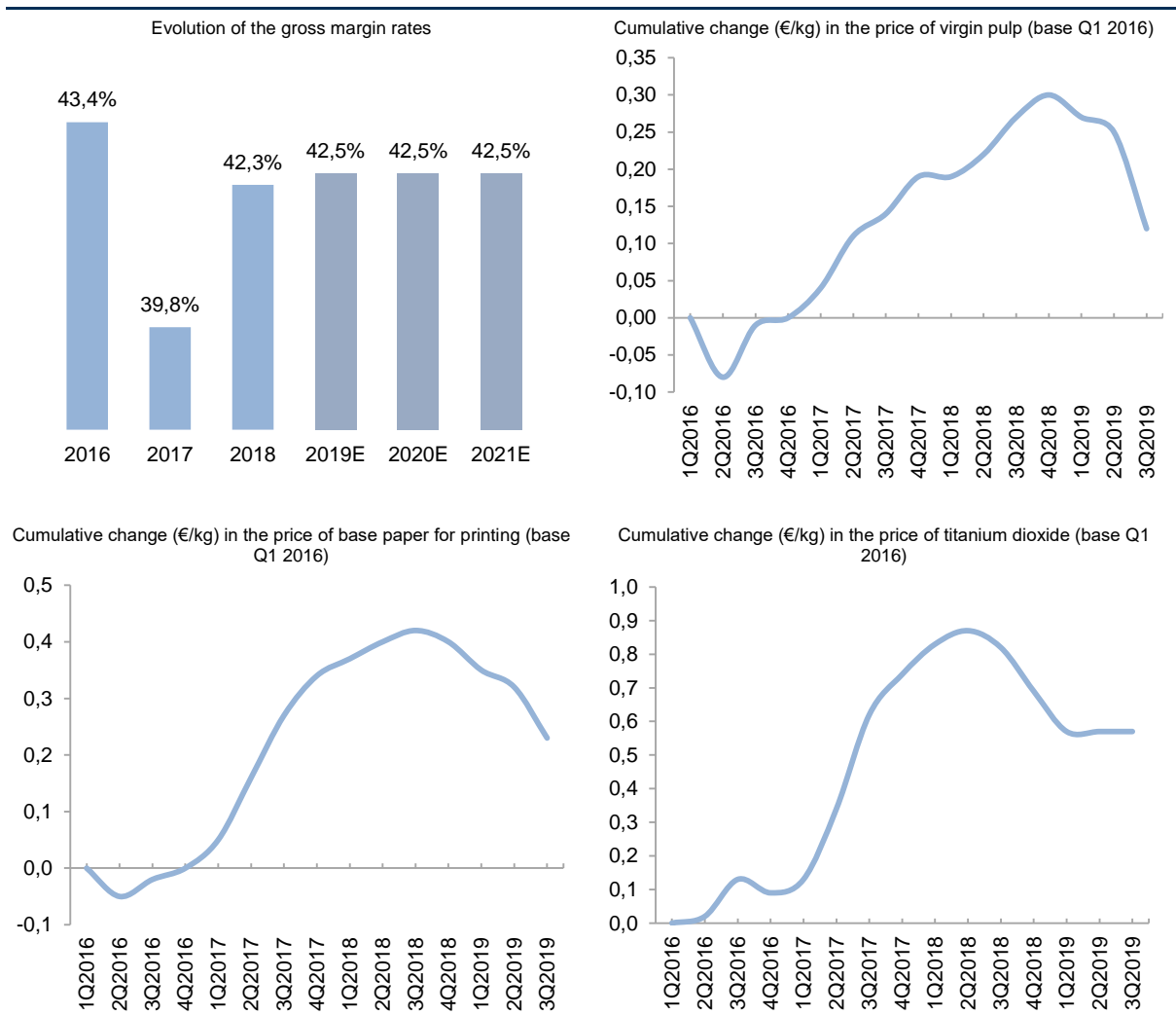
Source: Midcap Partners

Gross Margin is Expected to Stabilize

The gross margin is expected to remain stable at 42.5% under the positive effect of the decline in virgin fibre and the upgrading of new laminated products.

Regarding the two main components of paper costs, cellulose and titanium dioxide, their respective prices between Q2 2018 and Q3 2019 have decreased due to the general weakening of the global market for high inventory levels. However, raw materials are still at very high levels, as shown in the graphs below, where we can also see the effect, in terms of cost variation, of a printing base paper with a 30% TiO₂ content.

Graph 35: Evolution of Gross Margins



Sources: Company, Midcap Partners

Virgin pulp is the principle raw material used by the group; its price should continue to decrease over the coming quarters. It should be noted that China has driven the demand for virgin pulp from 2017 onwards following the restrictions on PfR (recycled fibre; PfR or OCC).

More specifically, China is the world's largest importer of paper for recycling (PfR), of which OCC is the main component. As of January 2018, China began implementing its National Sword Environmental Policy to reduce contaminant levels in imported recycled materials, including OCC. The main changes have been : (i) banning all imports of unsorted paper, (ii) reducing the level of contaminants in PfR from 1.5% to 0.5%, and (iii) granting PfR import permits only to paper mills with a



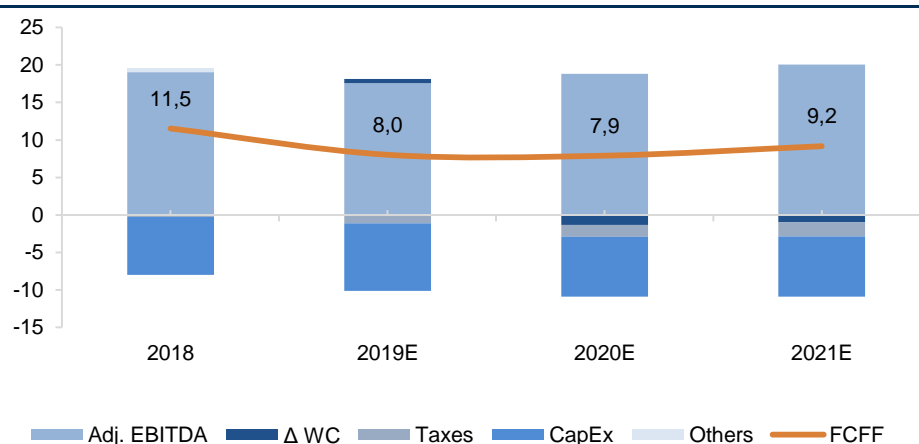
capacity >50kt. OCC imports decreased by 2.2 Mt in 2018, from 15.1 Mt in 2017 to 12.9 Mt in 2018. China's imports of OCCs generally come from the United States and Europe. The decline in Chinese demand is having an impact on world CCO prices. China's policy has reduced Chinese PFR imports by 34% year-on-year in 2018 (from 25.7Mt in 2017 to 17.0Mt in 2018), resulting in a more than 60% drop in European CCO prices over the last 18 months and a substantial increase in virgin fibre prices.

FCF Generation Seems Undervalued by the Market

The group is a best-in-class in terms of FCF Yield and generates the best FCF conversion 2020E in the sector.

This is made possible thanks to (i) strong EBITDA generation and margin, (ii) CapEx judiciously implemented to increase productivity and be Industry 4.0 compliance in the decorative paper division, (iii) good management of the WC with the implementation of factoring with BPM on its first two customers (average cost of 60bps p.a.), and (iv) the group's ability to offer its customers the best possible service in order to externalise credit risk and create sustainable value (positive effect on the WC), and (iv) the reasonably low level of taxes at 21% in 2021E thanks to both the high DTAs (i.e. NPV of €0.24/share @Dec 2018), and the tax shield granted by the Italian State for 4.0 compliant industries, IRAP not being eligible for a deduction.

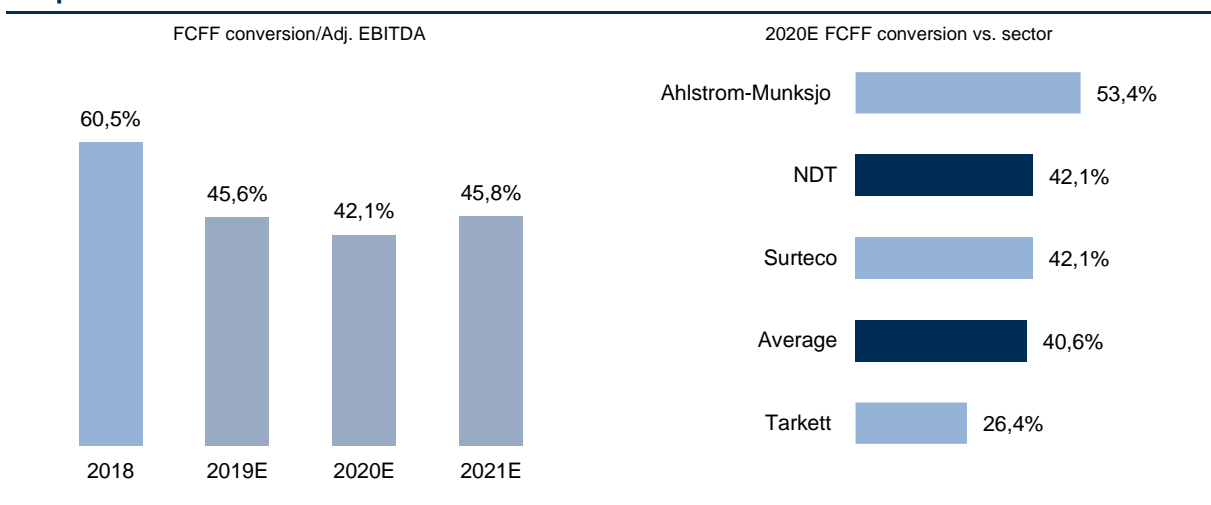
Graph 36: Projection of Adjusted FCFF



Sources: Company, Midcap Partners

NDT has the 2nd highest prospective FCF conversion (2020E) in the industry, which is expected to normalize at around 45.8%.

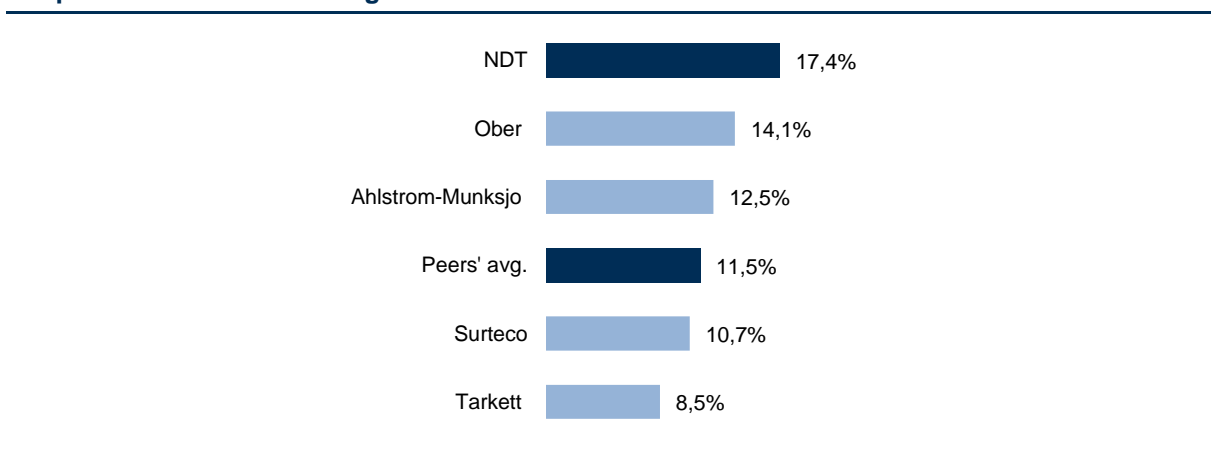
Graph 37: FCF conversion



Sources: Companies, FactSet, Midcap Partners

NDT offers the highest FCF yield in the sector, a distinctive asset that the market seems to be underestimating.

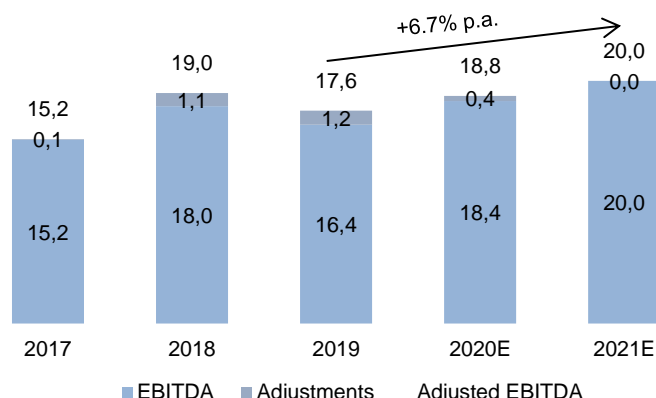
Graph 38: NDT Offers the Highest FCF Yield in the Sector



Sources: FactSet, Midcap Partners

Adjusted EBITDA growth: We expect an adjusted EBITDA to increase by +6.7% p.a. (2019E-21E CAGR), supported by top line growth and the commercialization of better-marketed products.

Graph 39: Evolution of the Group's Adjusted EBITDA

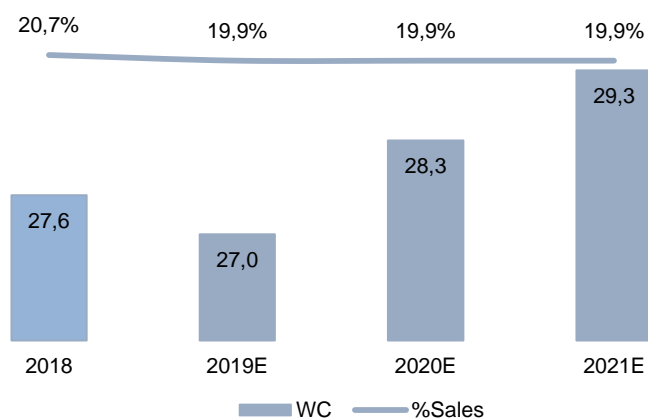


Source: Midcap Partners

Operating WC: As for the industry as a whole, the WC is structurally positive (+20.7% for FY2018), given the DIO (171 days in 2018) and DSO (68 days) are higher than the DPO (158 days).

It should be noted that the improvement of the WC over the last few years has been substantial thanks in particular to the improved management of receivables under the effect of factoring. We expect a normalization of WC over the next few years to stabilize at +19.9% of sales in 2021E.

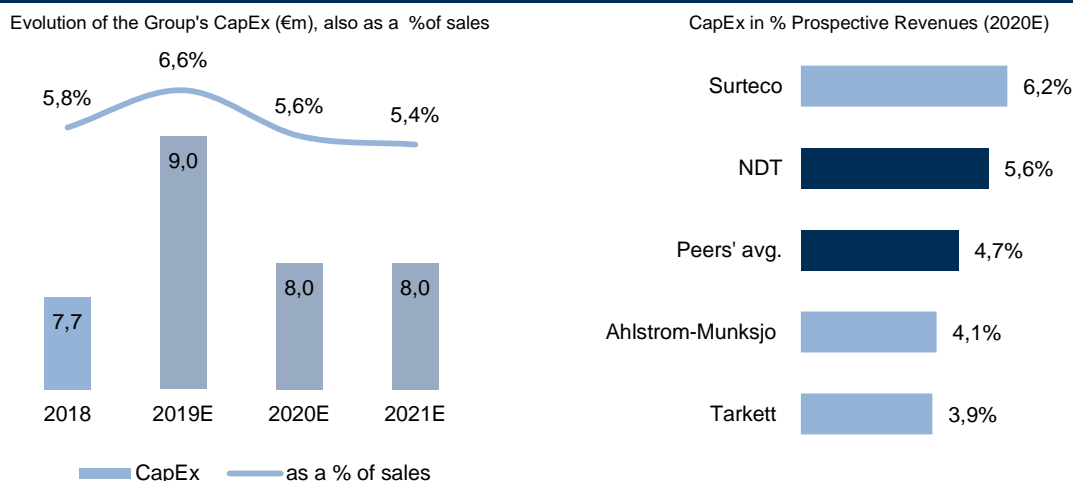
Graph 40: Evolution of the Group's WC



Source: Midcap Partners

CapEx: should remain stable at c.€8m p.a. This level should be high enough to maintain the current facilities and continue to invest in the automation of the production line.

Graph 41: Evolution of the Group's CapEx

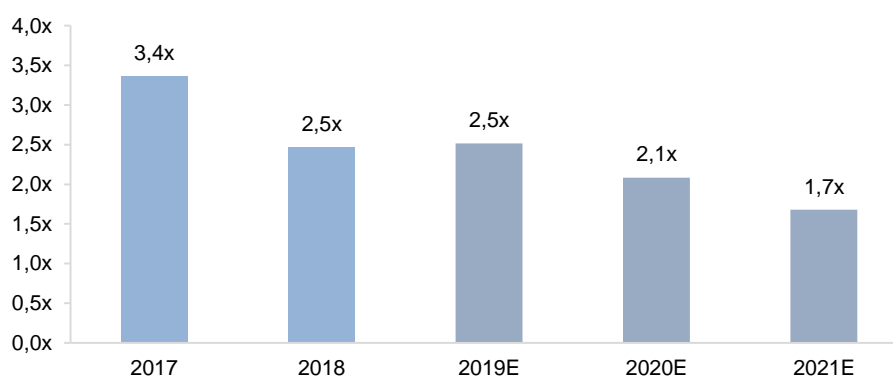


Sources: Midcap Partners, Companies

Deleveraging

For this configuration, the net leverage ratio should decrease as a result of the generation of FCFF, allowing the group to be in a position to distribute dividends and carry out M&A transactions.

Graphic 42: Change in Adjusted Net Leverage Ratio (IFRS 16)



Sources: Midcap Partners, Company

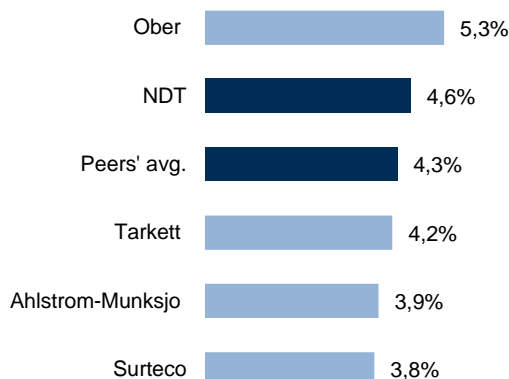
Dividends

The continuity of a regular dividend payment would probably be well perceived by the market as it would allow the company to attract new investors and would give a positive signal regarding the generation of FCF in the medium term.

The group offers the sectors second highest dividend yield constituting a distinct advantage over peers.

NDT has set a target to distribute 40% of its NI. We estimate a cash-out of c.€2.3m p.a. on the average over the next 3 years.

Graphic 43: NDT Offers the 2nd Highest Dividend Yield in the Industry (2020E)



Sources: FactSet, Midcap Partners, Companies

Consensus could further cut their 2020E estimates

In our opinion, the consensus should further cut their estimates downwards, particularly for 2020E, as already partially done in December 2019, despite the ramp-up of the new laminate product range.

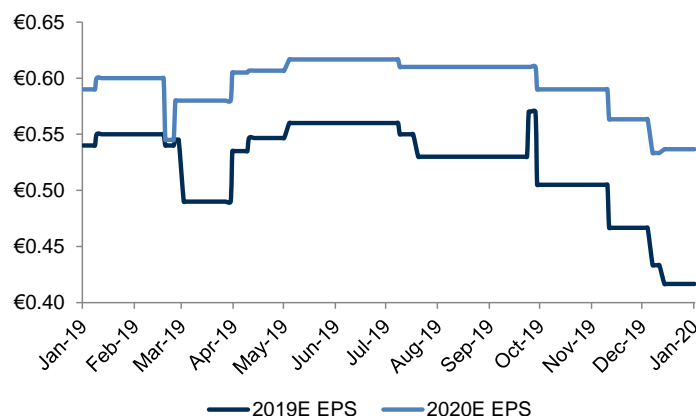
Graph 44: Midcap Partners’s estimates vs consensus

	2019E			2020E		
	MCP	Consensus	Δ MCP/Cons	MCP	Consensus	Δ MCP/Cons
Sales	136.0	136.4	(0.3%)	142.7	147.6	(3.3%)
EBITDA	16.4	17.7	(7.0%)	18.4	19.6	(6.2%)
EBIT	8.2	9.8	(16.6%)	9.7	11.4	(14.6%)
NI	4.5	5.2	(12.9%)	5.9	6.9	(15.2%)

Sources: Midcap Partners, consensus composed by both KT&Partners and Value Track

Indeed, Fwd EPS have been revised downwards over the past year as illustrated in the graph below.

Graphic 45: Evolution of NDT's Fwd EPS projections over 1 year



Source: FactSet



Financials

Income statement (€m)	2018A	2019E	2020E	2022E
Sales	133.4	136.0	142.7	147.7
<i>Δ YoY</i>	4.4%	1.9%	4.9%	3.5%
Gross profit	56.5	57.8	60.6	62.8
<i>Gross margin</i>	42.3%	42.5%	42.5%	42.5%
SG&A	(38.5)	(40.2)	(41.8)	(42.7)
Others	0.0	(1.2)	(0.4)	0.0
EBITDA	18.0	16.4	18.4	20.0
<i>margin</i>	13.5%	12.1%	12.9%	13.6%
D&A	(7.2)	(8.3)	(8.7)	(9.1)
Others	(0.2)	0.0	0.0	0.0
EBIT	10.6	8.2	9.7	11.0
<i>margin</i>	7.9%	6.0%	6.8%	7.4%
Net interest income/(expense)	(3.0)	(2.5)	(2.3)	(2.1)
Others	0.0	0.0	0.0	0.0
EBT	7.6	5.6	7.4	8.9
Provision for taxes	(1.6)	(1.1)	(1.6)	(1.9)
<i>Implied tax rate</i>	21%	20%	21%	21%
Minority interest	0.0	0.0	0.0	0.0
Net income	6.0	4.5	5.9	7.1

Balance sheet (€m)	2018A	2019E	2020E	2022E
Net PP&E	76.7	78.1	78.1	77.8
Net intangibles	3.5	2.8	2.1	1.4
Investments	0.0	0.0	0.0	0.0
Other long-term assets	6.1	6.1	6.1	6.1
Non current assets	86.3	87.0	86.3	85.3
Inventory	35.9	36.5	38.3	39.7
Accounts receivable	24.8	24.2	25.4	26.3
Other current assets	5.0	5.0	5.0	5.0
Cash & cash equivalents	6.5	4.7	3.0	5.2
Current assets	72.3	70.5	71.8	76.2
Total assets	158.5	157.5	158.1	161.5
Total common equity	58.6	61.8	65.5	70.1
Minority interest	0.0	0.0	0.0	0.0
Shareholders' equity	58.6	61.8	65.5	70.1
LT Debt	28.1	23.3	18.6	16.2
Other long-term liabilities	9.8	9.8	9.8	9.8
Non current liabilities	37.9	33.1	28.4	26.0
ST Debt	22.7	22.7	22.7	22.7
Other current liabilities	6.1	6.1	6.1	6.1
Accounts payable	33.2	33.7	35.4	36.6
Current liabilities	62.0	62.5	64.2	65.4
Total liabilities & equity	158.5	157.5	158.1	161.5

Cash flow statement	2018A	2019E	2020E	2022E
Operating Cash Flow	18.2	15.3	16.8	18.2
Δ Working capital	(0.0)	0.6	(1.3)	(1.0)
Cash flow from operations	18.2	15.9	15.5	17.2
CapEx	(7.7)	(9.0)	(8.0)	(8.0)
Disposals	0.0	0.0	0.0	0.0
FCF	10.4	6.9	7.5	9.2
Acquisitions	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Cash flow from investing	(7.7)	(9.0)	(8.0)	(8.0)
Δ Debt	(6.2)	(4.8)	(4.7)	(2.4)
Δ Equity	(0.1)	0.8	0.0	0.0
Dividends paid (common & pref)	(2.0)	(2.1)	(2.2)	(2.5)
Other financing cash flows	(1.7)	(2.6)	(2.3)	(2.1)
Cash flow from financing	(10.1)	(8.7)	(9.2)	(7.0)
Currency translation effect on cash	0.0	0.0	0.0	0.0
Δ cash	0.4	(1.8)	(1.7)	2.2
Cash BoP	6.1	6.5	4.7	3.0
Cash EoP	6.5	4.7	3.0	5.2

KEY RATIOS	2018A	2019E	2020E	2022E
Δ Sales	4.4%	1.9%	4.9%	3.5%
Δ EBITDA	26.2%	(8.5%)	11.8%	9.1%
Δ EBIT	33.5%	(22.8%)	18.9%	13.1%
Δ Net income	48.4%	(25.1%)	29.9%	20.3%
Gross profit	42.3%	42.5%	42.5%	42.5%
EBITDA margin	13.5%	12.1%	12.9%	13.6%
EBIT margin	7.9%	6.0%	6.8%	7.4%
Net margin	4.5%	3.3%	4.1%	4.8%
EPS	0.47	0.42	0.47	0.54
DPS	0.15	0.15	0.16	0.18
Dividend Yield	7.6%	8.0%	4.6%	5.2%
WC in % of sales	20.7%	19.9%	19.9%	19.9%
DIO	171	171	171	171
DSO	68	65	65	65
DPO	158	158	158	158
FCF	10.4	6.9	7.5	9.2
FCF yield	23.0%	15.1%	16.5%	20.2%
Taux de conversion (FCF/EBITDA)	58.1%	41.7%	40.7%	45.8%
CAPEX/Sales	6%	7%	6%	5%
RoE	10%	7%	9%	10%
RoA	4%	3%	4%	4%
RoCE	10%	6%	8%	9%
Net Gearing	76%	67%	58%	48%
Net leverage ratio	2.5x	2.5x	2.1x	1.7x
EV/Sales		0.63x	0.58x	0.53x
EV/EBITDA		5.2x	4.5x	3.9x
EV/EBIT		10.5x	8.5x	7.1x
P/E		8.3x	7.3x	6.4x

Disclaimer

This document may refer to valuation methods defined as follows:

- 1/ DCF method: discounting future cash flows generated by the business's operations. Cash flows are determined using the analyst's financial forecasts and models. The discount rate used corresponds to the weighted average cost of capital, which is defined by the weighted average cost of the company's debt and the theoretical cost of equity as estimated by the analyst.
- 2/ Trading multiples method: application of stock-market valuation multiples, or multiples observed for recent transactions. These multiples may be used as benchmarks and be applied to the company's financial aggregates to determine their valuation. The sample is prepared by the analyst based on the company's characteristics (size, growth, profitability etc.). The analyst may also apply a premium/discount based on his perception of the company's specificities.
- 3/ Net asset-based method (NAV): estimation of the value of the equity on the basis of the revalued assets and corrected for the value of the liability.
- 4/ Discounted dividend method: discounted future value of estimated dividend flows and share buybacks. The discount rate applied is generally the cost of capital.
- 5/Sum of the parts: this method consists of estimating a company's different operations by using the most appropriate valuation method for each one, then calculating the sum.

Recommendation scale:

Buy: expected over-performance above 10% compared to the market within 6 to 12 months

Hold: expected to outperform or under-perform the market within a range of +10% and -10%, within 6 to 12 months

Sell: expected to under-perform the market by more than 10% within 6 to 12 months

Detection of conflicts of interest:

Company Name	Closing price (€)	Recommendation	Warning
Neodecortech SpA	€3.46	BUY	G

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Breakdown of recommendations

In January 2020, the recommendations issued by the Midcap research team at LOUIS CAPITAL MARKETS – MCP break down as follows:

Recommendation	Covered companies	o/w Sponsored research
Buy	72%	72%
Hold	26%	22%
Sell	1%	0%
Under review	1%	2%

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