

Neodecortech Spa

Sector: Décor surfaces



Analyst

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Everything ok but for raw materials

Neodecortech 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.

FY17 good despite raw materials headwind

2017FY was a good year in terms of business growth with all industrial KPIs relating to output volumes up YoY. From the financial point of view three key points are, in our view to underline:

- ◆ **Dynamic growth of the top line** (+10.4% YoY), which is entirely “organic” driven i.e. on like for like basis;
- ◆ **Increase in margins on revenues**, (Adj. EBITDA Margin +110 bps at 11.9%), despite a spike in Raw materials utilized in production processes.
- ◆ **Raw materials higher weight on costs**, with Titanium, Tallow Oil and Wood Pulp up by more than 40% YoY in 2017.

Healthy growth ahead, raw materials remain a threat

Our base case for 2018E-19E financial evolution assumes no further raw materials inflation and leads to:

- ◆ **Net Revenues** expected to grow at **mid single digit CAGR**;
- ◆ **Industrial EBITDA margin forecasted to improve at ca. 13%** as of 2019E thanks to output capacity progressive saturation and to higher incidence of highly profitable LVT segment;
- ◆ **Adj. Net Profit expected to grow at higher than 50% CAGR** thanks to lower financial charges and stable tax rate at ca. 18%-20% level;
- ◆ **Net Financial Position** decreasing at ca. **€40mn by 2019YE** thanks to organic cash generation.

Raw materials' prices evolution remain the main non manageable downside risk on profitability while LVT growth is an upside opportunity due to its much higher than average profitability.

Fair Value at €5.15 per share. Remedy Shares add protection

Neodecortech shares are down ca. 5% vs. IPO price, we believe mainly as an effect of uncertainties on Raw materials' prices evolution. We confirm our €5.15 fair value per share, a higher than 30% upside from current market level, and we note that at current market price the stock is trading at 0.8x P/BV '19E with a ROE at 12.4%, well above the cost of equity.

Last but not least, we remind the existence of a Remedy Shares mechanism adding protection and lowering the risk profile of Neodecortech shares.

Fair Value (€)	5.15
Market Price (€)	3.84
Market Cap. (€m)	50.3

KEY FINANCIALS (€m)	2017A	2018E	2019E
REVENUES	127.7	135.4	140.5
EBITDA	14.2	17.0	17.9
EBIT	7.9	10.6	11.4
NET PROFIT	4.1	7.0	7.7
EQUITY	54.0	59.0	64.3
NET FIN. POS.	-46.9	-43.1	-39.5
EPS ADJ. (€)	0.37	0.53	0.58
DPS (€)	0.15	0.18	0.20

Source: Neodecortech SpA (historical figures), Value Track (2018E-19E estimates)

RATIOS & MULTIPLES	2017A	2018E	2019E
EBITDA MARGIN (%)	11.1	12.6	12.7
EBIT MARGIN (%)	6.2	7.8	8.1
NET DEBT / EBITDA (x)	3.3	2.5	2.2
NET DEBT / EQUITY (x)	0.9	0.7	0.6
EV/EBITDA (x)	6.5	5.2	5.1
EV/EBIT (x)	11.7	8.4	7.9
P/E ADJ. (x)	10.4	7.2	6.6
P/BV (x)	0.93	0.85	0.80

Source: Neodecortech SpA (historical figures), Value Track (2018E-19E estimates)

STOCK DATA	
FAIR VALUE (€)	5.15
MARKET PRICE (€)	3.84
SHS. OUT. (m)	13.1
MARKET CAP. (€m)	50.3
FREE FLOAT (%)	27.0
AVG. -20D VOL. ('000)	7,975
RIC / BBG	NDT.MI / NDT.IM
52 WK RANGE	3.33-4.34

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 luxury vinyl tiles (LVT). The vision of the Group is that of enriching any surface with a distinctive Italian Flair.

Key Financials

€mn	2016A	2017A	2018E	2019E
Total Revenues	115.6	127.7	135.4	140.5
Chg. % YoY	-13.7%	15.7%	7.7%	3.7%
Reported EBITDA	15.6	14.2	17.0	17.9
Reported EBITDA Margin	13.5%	11.1%	12.6%	12.7%
Reported EBIT	9.2	7.9	10.6	11.4
Reported EBIT Margin	8.0%	6.2%	7.8%	8.1%
Net Profit	4.4	4.1	7.0	7.7
Chg. % YoY	nm	-8.8%	72.3%	10.1%
Adjusted Net Profit	4.4	4.8	7.0	7.7
Chg. % YoY	nm	nm	44.8%	10.1%
Net Fin. Position	-55.8	-46.9	-43.1	-39.5
Net Fin. Pos. / EBITDA (x)	3.6	3.3	2.5	2.2
Capex	-3.6	-7.6	-7.5	-7.5
OpFCF b.t.	9.2	2.1	9.4	9.8
OpFCF b.t. as % of EBITDA	42%	14.7%	55.3%	54.5%

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

Investment case

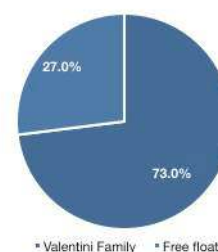
Strengths / Opportunities

- ◆ High cost efficiency;
- ◆ Strong attention to quality and design innovation;
- ◆ Full ownership of production plants;
- ◆ Approach to clients based on co-design / strong partnerships.

Weaknesses / Risks

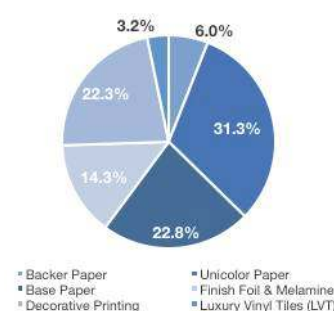
- ◆ Much lower size if compared to German competitors;
- ◆ Limited financial flexibility due to higher-than-targeted leverage;
- ◆ Exposure to a very restricted number of customers as well as suppliers.

Shareholders Structure



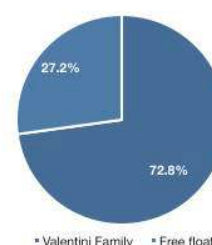
Source: Neodecortech SpA

Sales breakdown by products



Source: Neodecortech SpA

Sales breakdown by geography



Source: Neodecortech SpA

Stock multiples @ €5.15 Fair Value

	2018E	2019E
EV / SALES (x)	0.86	0.79
EV / EBITDA (x)	7.7	6.3
EV / EBIT (x)	13.9	10.1
EV / CAP.EMP. (x)	1.1	1.0
OpFCF Yield (%)	1.9	8.8
P / E (x)	16.6	9.7
P / BV (x)	1.25	1.16
Div. Yield. (%)	3.0	3.6

Source: Value Track

Neodecortech business profile in a nutshell

Leading decorative surfaces player

Headquartered in Filago (BG) with three fully owned production plants sited in Italy (i.e. one in Filago and two in Guarcono) **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 the Group is characterized by an international footprint with **Italy accounting only for 27% of Neodecortech's Revenues**.

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

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

Neodecortech acts in very sophisticated niches characterized by specific features 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. Indeed, as scale benefits are negligible, these markets are attracting for deeply focused players and do not suit to giant paper producers/ printers.

The key features of the **décor paper market** are:

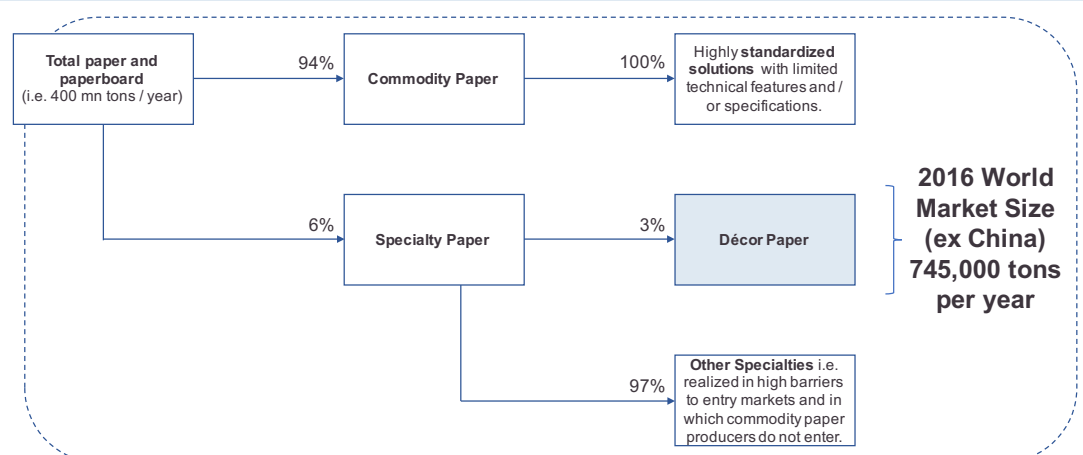
- ◆ **High entry barriers** due to the market capital intensity in addition to its small dimension (i.e: ca. 0.2% of the total "Paper and Paperboard Market");
- ◆ Controlled by German players that are much larger in size;
- ◆ **Mid-single digit growth pace** (ex China);
- ◆ Exposed to cyclical end markets such as furnishing and flooring panels' production that currently are still far below their pre-crisis levels, especially in Europe.

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

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

A separate mention is reserved to Chinese players which, despite the high barriers to entry, 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: 0.18% of total Paper and Paperboard one



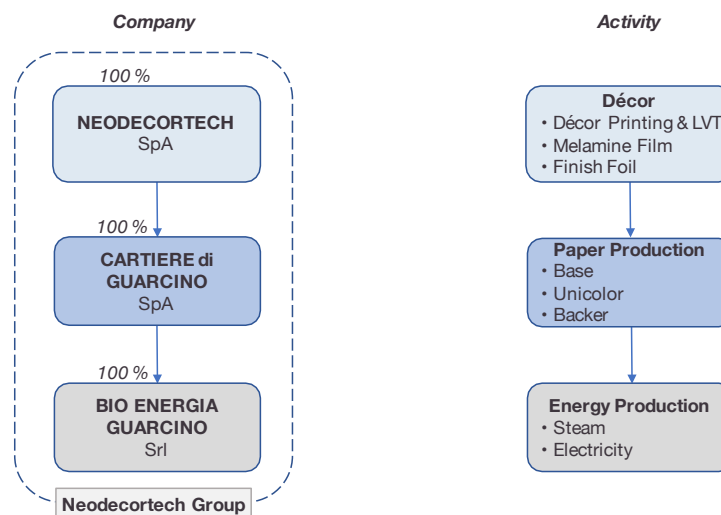
Source: Décor Paper Market Research 2016 - Ahlstrom-Munksjö

Vertically integrated business model run by three synergic entities

Neodecortech runs a vertically integrated business model i.e. not only it prints décor paper (and LVT) 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 the upstream unit serves as a supplier of the 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 Guarcino 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 Guarcino SpA (**CdG**);
- ◆ **Printing and Impregnation.** It consists in décor paper (and LVT) printing / impregnation. This business is run by Neodecortech SpA (previously Confalonieri SpA, **CONF**).

Neodecortech Group: Business structure



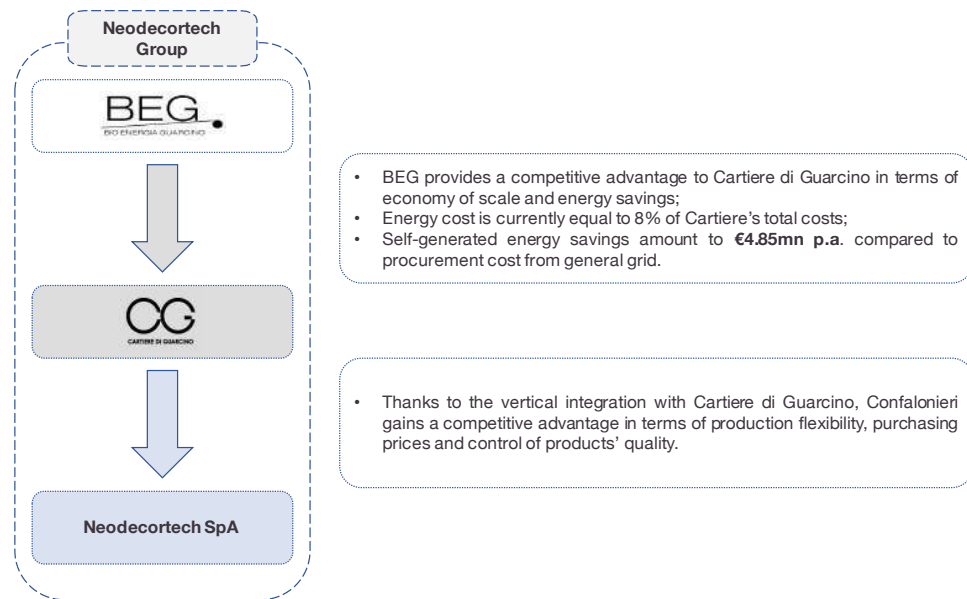
Source: Neodecortech SpA

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;
- ◆ 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).

Neodecortech Group: Synergies Provided by Vertical Integration



Source: Neodecortech SpA, Value Track Analysis

Quality based approach to business

Other key drivers of Neodecortech's approach to business that enable the company to have a superior market offering are:

- ◆ **Full ownership of plants** with a ca. €230mn overall reconstruction value. This means that new entrants willing to replicate Neodecortech output capacity would have to invest ca. €230mn, a definitively high figure if compared to the €xx of EBIT posted by Neodecortech in 2017.
- ◆ Strong attention to **quality** and **design innovation**;
- ◆ Approach to clients based on **co-design** / **strong partnerships** and on provisioning of **tailor made solutions** leading the Group to be granted clients' loyalty lasting for several years.

Thanks to its quality based approach Neodecortech has a market positioning competitive to that of sector's leaders (i.e. German ones), mainly thanks to a broad product range with high-end solutions.

Client driven growth strategies

Neodecortech growth strategy is planned to require an overall amount of €35mn with the goal to increase its scale and to enter new foreign markets. In details:

- ◆ €20mn ca. organic growth development capex;
- ◆ €15mn ca. acquisition cash out.

The **growth plan moves along three main directions**:

- 1. Full exploitation of décor paper market potential, focusing on the high-end side** to attract new customers with high quality standards (e.g. German panel producers);
- 2. Push on market shares** by strengthening sales network, improving penetration in foreign countries (e.g. Turkey, Iran, LatAm, India, Russia and Germany) and pursuing M&A opportunities acquiring small competitors in key markets;
- 3. Continuous R&D effort** aimed at product portfolio diversification, thus expanding in LVT and digital printing.

Financial Results 2017FY

2017FY financial figures recently approved by the company show an increase in both turnover and profitability in absolute terms, and adjusted margins on revenues are up YoY despite a sharp increase in raw materials utilized in production processes. In details:

- ◆ Total Revenues up +10.4% at ca. €127.7mn;
- ◆ Reported EBITDA down -8.8% YoY to €14.2mn (Reported EBITDA Margin down to 11.1%);
- ◆ Adjusted EBITDA up +22.1% YoY to €15.2mn (Adj. EBITDA Margin up to 11.9% from 10.8%);
- ◆ Adjusted Net profit more than 3x vs. 2016FY to €4.8mn;
- ◆ Net Debt at ca. €47mn vs. the €56mn as of 2016 year-end.

Neodecortech: 2016-2017 Key Financials

€mn, IAS	2016	2017	Chg. % YoY
Net Revenues	115.7	127.7	10.4%
EBITDA	15.6	14.2	-8.8%
EBITDA margin	13.5%	11.1%	
Adj. EBITDA	12.5	15.2	22.1%
Adj. EBITDA Margin	10.8%	11.9%	
Net Profit	4.45	4.06	-8.8%
Adj. Net Profit	1.30	4.83	271.8%
Net Financial Position	-57.1	-46.9	

Source: Neodecortech, Value Track Analysis

In our view the **two key points** to underline in order to have a thorough picture of the industrial and financial performance of the company in 2017 are:

- ◆ The **dynamic growth of the top line**, which is entirely “organic” driven i.e. on like for like basis;
- ◆ The **raw materials driven erosion of reported profitability margins**.

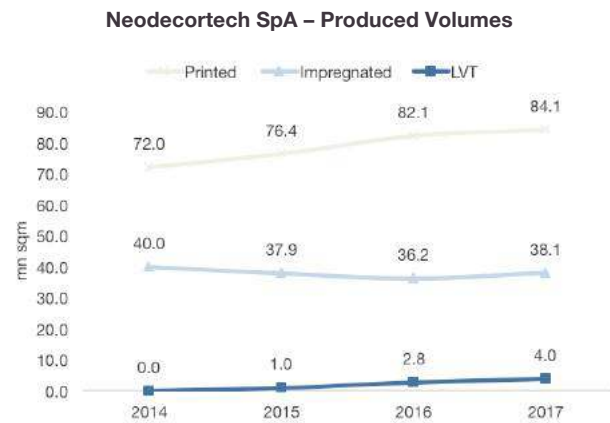
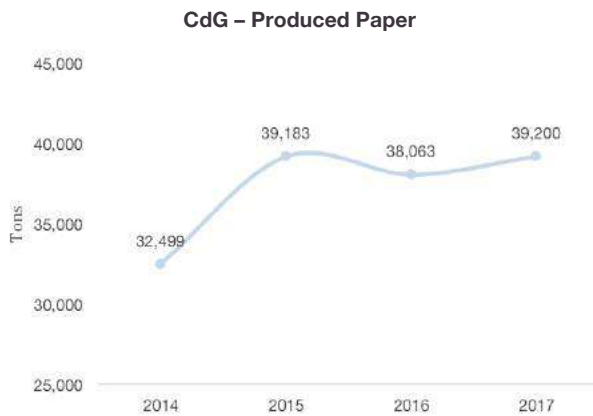
Top line - Up double digit driven by both higher volumes and higher selling prices

2017 was a very good year in terms of business growth. All industrial KPIs relating to output volumes are up YoY and also most of selling prices are up as well, even if the latter effect was more driven by the necessity to pass through clients raw material hikes rather than by a voluntarily commercial strategy.

That said, we note that both décor paper production and printing businesses recorded higher volumes and this is a proof that the promised improved penetration of client base (especially German clients) is evolving positively, with Neodecortech group perceived more and more as an extremely reliable partner.

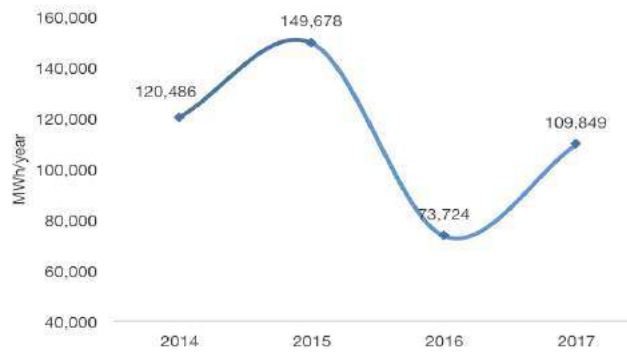
Worthy of notice is also the increase in BEG’s output volumes. In this case there’s not a commercial reason behind rather the higher number of working hours in 2017 after the stops, due to regulatory and operative discontinuities, that negatively affected most of 2016.

CdG and Neodecortech SpA: Output volumes Analysis



Source: Neodecortech, Value Track Analysis

BEG: Production of electricity in 2014-17 period



Source: Neodecortech, Value Track Analysis

Thanks to such volumes increases and to higher selling prices, Group Total Revenues (including also Other Revenues) were up +10.4% YoY. This is the result of:

- ◆ Printing / Impregnation business (Neodecortech SpA) continuing to grow at low single digit rate;
- ◆ Paper mill business growing close to 10% YoY driven by third party clients higher demand;
- ◆ Energy production rebounding vs. 2016.

Neodecortech: 2016FY-2017FY Net Revenues breakdown

€mn, IAS	2016FY	2017FY	Chg. % YoY
BEG	12.4	23.2	87.9%
CdG	52.0	56.5	8.5%
NDT SpA	42.4	43.7	3.1%
Net Revenues from Sales	106.8	123.5	15.6%
Total Revenues	115.7	127.7	10.4%

Source: Neodecortech, Value Track Analysis

Neodecortech Group: 2014-17 Revenues Evolution

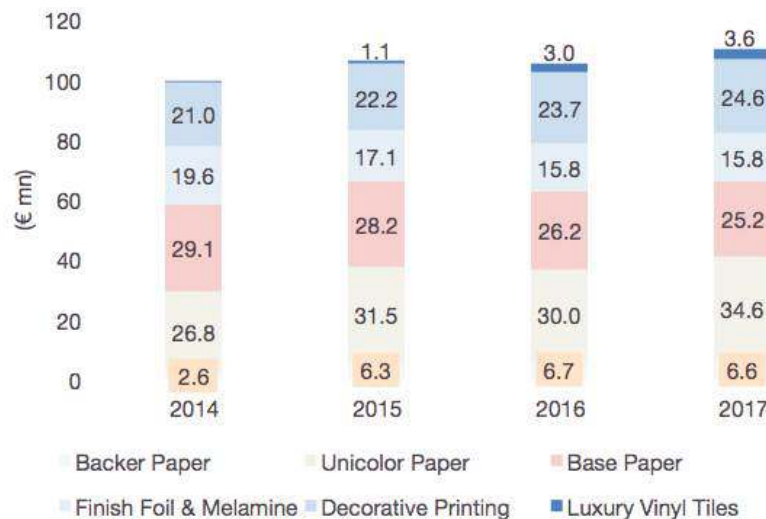


Source: Neodecortech, Value Track Analysis (*) 2014FY IT GAAP, 2015-16-17FY IAS

(**) Only Revenues to third parties i.e. net of intragroup sales

In terms of Revenues by products, we note that **LVT is growing at healthy double digit rates** and, despite its still small incidence on total revenues, it is starting to positively affect Group profitability thanks to its much higher than average profitability. We'll elaborate more on this point later on.

Neodecortech: 2014-17 Revenues breakdown by products (*)



Source: Neodecortech, Value Track Analysis

(*) Group data without considering BEG.

EBITDA evolution negatively affected by raw materials and positively by LVT growth

The 8.8% decrease in Reported EBITDA is related to the statistical comparison with 2016FY that was positively affected by ca. €3mn one-off items, mainly insurance reimburses. More interesting is the analysis in terms of **Adjusted EBITDA, up +22%** i.e. more than proportional vs. revenues despite strong raw materials headwind. Indeed such a figure is the result of a not homogenous situation among the three legal entities / businesses. In details:

- ◆ BEG has positively leveraged its top line rebound driven by the restart of the third power engine back as of May 2017;

- ◆ Paper Mill business has seen its profitability negatively affected by Pulp and Titanium Dioxide price increases;
- ◆ Printing and Impregnation business has remained essentially stable YoY as it has offset with a higher industrial efficiency the increase in input factors.

We underline that there's a €1mn difference between Reported and Adjusted EBITDA 2017FY which is the net result of various negative and positive items out of which some €721k is non cash P&L impact of stock grants held by the management at the IPO time (see Appendix for more details on this point).

Neodecortech: 2016FY-2017FY Adj. EBITDA breakdown

€mn, IAS	2016FY	2017FY	Chg. % YoY
BEG	1.3	3.8	ca. 3x
CdG	5.2	5.0	-2.5%
CONF	6.0	6.4	5.9%
Consolidated Adj. EBITDA	12.5	15.2	22.1%

Source: Neodecortech, Value Track Analysis

Neodecortech: 2016FY-2017FY Adj. EBITDA margin breakdown

€mn, IAS	2016FY	2017FY	Chg. YoY
BEG	14.1%	16.4%	225 bps
CdG	10.2%	8.9%	-122 bps
CONF	14.7%	14.6%	-8 bps
Consolidated Adj EBITDA Margin	10.8%	11.9%	110 bps

Source: Neodecortech, Value Track Analysis

Neodecortech: 2014-17FY Adjusted EBITDA evolution

€mn, IAS	2014FY	2015FY	2016FY	2017FY
Group Reported EBITDA	13.8	11.9	15.6	14.2
o/w BEG	3.3	2.5	3.1	4.1
CdG	5.1	3.9	5.8	4.5
CONF	5.4	5.4	6.7	5.7
Adjustments on EBITDA	-3.3	-0.8	-3.1	1.0
o/w BEG	-0.6	-0.1	-1.9	-0.3
CdG	-1.1	-0.6	-0.6	0.6
CONF	-1.5	-0.1	-0.6	0.7
Group Adj. EBITDA	10.5	11.0	12.5	15.2
o/w BEG	2.7	2.4	1.3	3.8
CdG	4.0	3.3	5.2	5.0
CONF	3.8	5.3	6.0	6.4
Adj. EBITDA Margin	9.6%	9.0%	10.8%	11.9%
o/w BEG	10.5%	9.1%	14.1%	16.4%
CdG	8.8%	6.0%	10.2%	8.9%
CONF	9.9%	13.3%	14.7%	14.6%

Source: Neodecortech, Value Track Analysis

Raw materials impact on Group profitability was negative

The **exposure to Raw materials prices volatility represents one of the key features of the business in which Neodecortech is involved**. Indeed Titanium Dioxide (TiO₂), Wood Pulp and Tallow Oil, i.e. the most relevant Raw materials for the Group day-by-day business accounted for ca. 48% of Net Revenues 2017, up from the ca. 37% as of 2016.

Unfortunately, both Titanium and Wood Pulp increased constantly their prices during 2017, while Tallow Oil had a peak in 1H17 followed by a retracement in the second part of 2017.

Overall, **the combined expense for these three operating inputs increased by more than 40% YoY in 2017**, also due to the higher production volumes at the BEG level.

NDT Group: Raw Materials expenses

€mn, IAS	2016FY	1H 17	2H17	2017FY	Chg. 17/16
Titanium Dioxide	21.0	12.5	13.5	26.0	24.0%
Wood Pulp	12.6	7.5	8.2	15.7	24.2%
Tallow Oil	9.5	7.8	11.5	19.3	103.6%
Total	43.1	27.8	33.2	61.0	41.6%
As % of Revenues	37.3%	44.5%	50.9%	47.8%	1,048 bps
As % of Opex (incl. D&A)	40.5%	47.4%	54.3%	50.9%	

Source: Neodecortech, Value Track Analysis

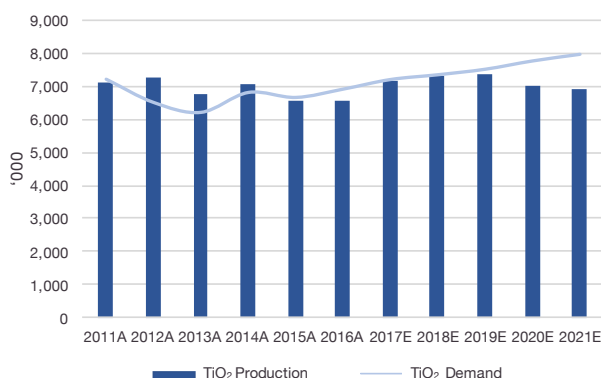
Titanium Dioxide

Unfortunately, supply issues have affected TiO₂ industry for the entire 2017, partially due to one off stops to production (e.g. the fire at Venator's Pori plant in January 2017), and partially to a more environment friendly attitude of Chinese authorities (see the so-called Blue Sky project) that led to environmental inspections influencing miners and reprocessors.

That said, TiO₂ price has registered continued rise hitting its highest level in 1Q18 at €/kg 2,875. As of December 2017 the increase stands at more than 30% YoY and market expectations are that peak prices are likely to stabilise in the remaining part of 2018.

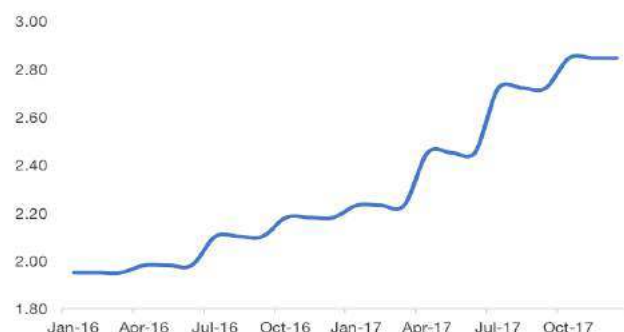
Titanium Dioxide: Production, demand and market price evolutions

TiO₂ Production and Demand Development



Source: Various, Value Track Analysis

TiO₂ Price Evolution (€/kg)



Wood Pulp

As far as wood pulp price is concerned, during 2017 it has increased as well, both the short and the long-fibre one.

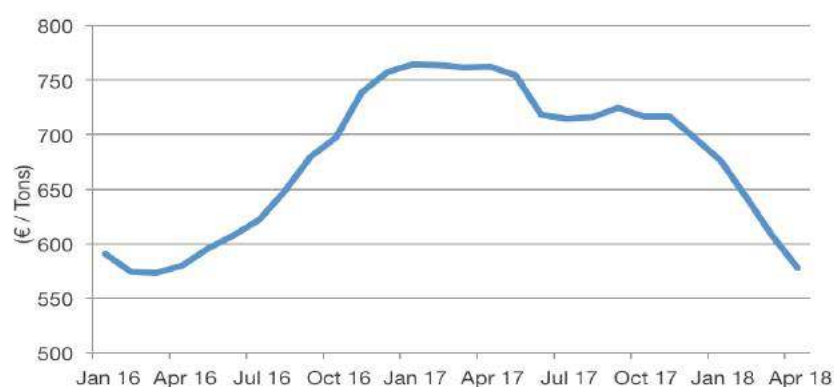
- ◆ Short-fibre pulp has moved from US\$680/Ton as of January 2017 up to the current 1,050/Ton.
- ◆ Long-fibre pulp has moved from US\$580/Ton as of January 2017 up to the current 780/Ton.

Expectations are for market prices to stabilize as pulp stocks in China are currently seen at high levels.

Tallow Oil

Average market price in 2017 stood at €756/Ton (VAT included). While in 1H17 the price floated in the €785/€829 region, in 2H17 it retraced downwards to ca. €700/Ton and is currently trading at €575/Ton.

Tallow Oil: Price evolution 2016-17 (€/Ton, net of VAT)



Source: Various

From EBITDA to Net Profit

Reported Net Profit was down -8.8% YoY while Adjusted one was up more than 3x as an effect of:

- ◆ Stable D&A charges;
- ◆ Slightly lower financial charges (and more is to come in 2018E);
- ◆ Lower Tax Rate i.e. 22% vs. 25% as of 2016FY.

Neodecortech: 2016-17FY results from EBITDA down to Net Profit

€mn, IAS	2016FY	2017FY	Chg. % YoY
Adjusted EBITDA	12.5	15.2	+21.2%
Unwinding of Adjustments	+3.1	-1.0	
Reported EBITDA	15.6	14.2	-8.8%
Depreciation Charges	-5.8	-5.9	
Amortization Charges	-0.6	-0.4	
Reported EBIT	9.2	7.9	-14.1%
Net Financial charges	-3.3	-2.7	
Taxes	-1.5	-1.1	
Net Profit	4.5	4.1	-8.8%
Adjusted Net Profit	1.3	4.8	>3x

Source: Neodecortech, Value Track Analysis

Cash Generation analysis

2017FY wasn't a best performer in terms of operating cash generation. In order to have an "educated" view we need to take into account that the company raised ca. €11mn in its IPO and that Working Capital increased by ca. €4mn as a deliberate choice to pre-buy at least €3mn Raw materials aimed at reducing the impact of their rising prices. Net of these effect we calculate that deleverage could have been ca. €3.1mn.

Neodecortech: Cash Flow Statement

€mn	2016FY	2017FY
EBITDA	15.6	14.2
Op. WC requirements	1.0	-4.2
Capex	-4.6	-7.6
Change in Provisions	-0.7	-0.3
OpFCF b.t.	11.3	2.1
As a % of EBITDA	72.3%	14.7%
Cash Taxes	-1.5	-1.1
OpFCF a.t.	9.8	1.0
Capital Injections	1.8	11.2
Other Op. Items (incl. Fin. Inv.)	2.5	1.8
CF available to serve debt / equity investors	14.1	14.0
Net Financial Charges	-3.5	-2.7
Dividends paid	-1.0	-1.0
Net Cash generated	9.6	10.2

Source: Neodecortech, Value Track Analysis

Neodecortech: 2016-17FY Net Working Capital evolution

€mn, IAS	2016FY	2017FY
Inventories	26.3	32.1
Trade Receivables	31.4	26.3
Tax credits	1.7	0.0
Other s.t. credits	2.1	6.9
Current Assets	61.4	65.4
Payables	28.0	33.6
Tax payables	1.7	1.2
Other s.t. liabilities	9.0	3.6
Current Liabilities	38.7	38.4
Net Working Capital	22.8	26.9
Net Working Capital as % Net Revenues	21.3%	21.8%

Source: Neodecortech, Value Track Analysis

As an effect of the above mentioned in-out cash flows, Neodecortech group now stands at ca. 3.0x Net Debt / EBITDA ratio. Out of the €101mn Net Capital Invested, €47mn are made of Debt and €54mn of Net Equity.

Neodecortech: 2016-17FY Balance Sheet structure

€mn, IAS	PF2016FY	2017FY
Working Capital	22.8	26.9
Net Fixed Assets	80.3	80.9
Provisions	7.2	6.9
Total Capital Employed	95.8	100.9
Shareholders' Equity	38.7	54.0
Minorities' Equity	0.0	0.0
Group Net Equity	38.7	54.0
Net Fin. Position	-57.1	-46.9

Source: Neodecortech, Value Track Analysis

Feedback from 2017FY economic performance of listed comparable companies

Dynamic top line evolution and profitability under pressure due to raw materials hike are two frequent messages forwarded by companies active in décor paper (or more in general in flooring / building materials sector). Not only Neodecortech, but also Ahlstrom- Munksjö and Tarkett were negatively affected by these phenomenon and also Surteco, in a press release as of December 2017, mentioned a significant raw materials impact even if counterbalanced, in their case, by higher efficiencies.

Neodecortech: Peers' 2017 results

Ahlstrom-Munksjö

Décor business Net Sales rose by 3.8% YoY thanks to both higher sales volume and selling prices. As far as profitability is concerned, EBITDA was down by 37.0% YoY due to Raw materials.

PanariaGroup Industrie Ceramiche

Net Revenues increased +2.0% YoY to all-time highs. EBITDA was up +4.7% YoY with EBITDA margin at 11.1% vs. 10.8% as of 2016FY. No raw materials effect has been mentioned.

Tarkett

The French company recorded an increase in Net Sales, +3.7% YoY but EBITDA fell by 6.0% due to headwinds from Currencies (i.e: US\$ and sterling) and Raw material prices.

Noteworthy, even if not an industrial item, is the €165mn one-off fine imposed by the Competition Authority for anti-competitive practices that has dramatically affected the bottom line result.

Surteco

A December 2017 Press Release states that Group Sales are expected to increase substantially. Despite significant increases in raw material prices, profitability is seen stable.

Ober Groupe

Both Net Revenues and EBITDA were slightly down YoY.

Source: Various, Value Track Analysis

Where do we stand on IPO promises execution

Recap on IPO promises

At the time of IPO, i.e. back as of the end of September 2017, Neodecortech announced a ca. €35mn three-year capex plan out of which roughly €20mn dedicated to organic development and €15mn devoted to M&A deals, both aimed at increasing its scale and entering new foreign markets capitalizing its quality-based approach. Three are the main **growth directions**:

- 1. Full exploitation of décor paper market potential**, focusing on the high-end side to attract new customers with high quality standards (e.g. German panel producers), strengthening sales network and improving penetration in foreign countries (e.g. Turkey, Iran, LatAm, India, Russia and Germany);
- 2. Look for M&A opportunities** with the possible acquisition of small competitors in key markets.
- 3. Continuous R&D effort** aimed at product portfolio diversification, thus expanding in LVT and digital printing;

We believe that in the remaining part of 2017 after listing, i.e. three months the company has already demonstrated to be on a good track to deliver at least two out of the above-mentioned strategies.

1. Full exploitation of décor paper market potential – On track

2017FY top line evolution confirms that recent efforts on this point are generating positive results. Further penetration of wealthier markets, such as the German one, is a continuous and never ending effort as it implies being ranked by these clients as reliable counterparties. The interesting thing is that once client is taken, it becomes very hard to lose it.

Neodecortech: Wide Client base

The integrated supply chain model increases the cross-selling capacity of the group



Source: Neodecortech SpA

2. M&A opportunities – Work in progress

M&A is aimed at boosting market share in a relatively fragmented industry and at exploiting greater scale economies in the commercial side of the business. We feel that the company underwent some informal contact with possible targets but so far nothing has been finalized, likely due to a too large spread between bid and ask sides.

3. Continuous R&D effort – On track

Two are the key topics on the R&D / Business development side:

- ◆ LVT;
- ◆ Digital Printing.

Luxury Vinyl Tiles (LVT)

We hinted before that Neodecortech's LVT printing business is growing fast. While in absolute terms LVT turnover is not material yet (only ca. €3.5mn), we remind how Neodecortech margins on LVT are much higher than on décor paper. We estimate that in 2017 LVT accounts for slightly less than €1mn EBITDA on total Group figures.

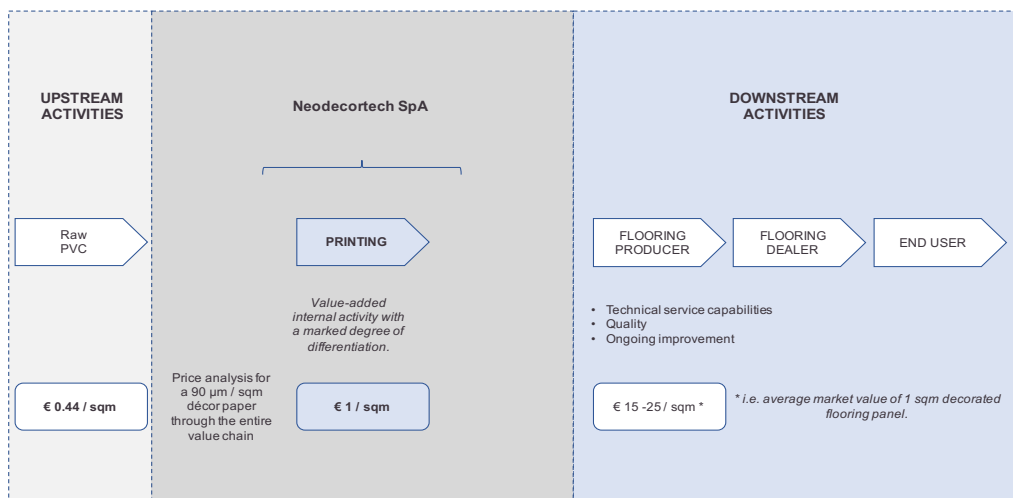
More important, we may expect a further growth of LVT market penetration in the future gaining additional market shares over carpets, and potentially over ceramic tiles as well. Indeed, already as of now resilient flooring solutions, which include LVT, currently represent the third most widely adopted flooring solutions in Developed Countries such as Europe and the US, following ceramic tiles and carpets.

LVT solutions are in a very positive competitive positioning compared to different flooring materials due to several reasons such as:

- ◆ Higher and higher technical quality i.e. improved resistance to moisture / water of vinyl-based panels coupled with easy-to-install features and with high hygienic performances if compared to, for instance, carpets;
- ◆ Improved design driving increasing attractiveness amongst architects, designers, and homebuilders;
- ◆ Prices that reveal to be relatively cheap compared to parquet flooring but also in-line with respect to other high-quality flooring systems such as ceramic tiles.

In order to ripe benefits of this trend the company is actively co-developing with clients new solutions / printing techniques. Output capacity is already installed and only additional labour costs are necessary to increase production volumes. We expect LVT to represent one of the most important drivers of group profitability in the years ahead.

Neodecortech: LVT Production Competitive Advantage



Source: Neodecortech, Value Track Analysis

Digital Printing

Some bigger foreign players are testing digital printing machines. The pros of these machines are essentially related to the possibility to execute in a profitable way small batches i.e. limited size orders, as there are no one-off start-up costs. The cons are related to texture resolution, which has not yet achieved the same quality of analogue printing and that may vary at the start of the order vs. the end of it, and upfront capex needed to install a digital printer.

Neodecortech has already set up a **Digital Printing Department**, i.e. a development team that is running trials digital printing machines for sampling and small productions of industrial papers. However the decision to purchase or not a “real” printing machine is a hard one, as it would imply ca. €8mn-€10mn cash out. We feel that Neodecortech is in a wait and see stance on this point i.e. before taking any decision that implies such cash out it will pursue all available alternative options, be them rental, joint ventures and so on with the target not to remain “behind the curve”.

Forecasted Financials 2018E-20E

We are not materially changing our 2018-19 estimates. Rather we are fine tuning them by:

- ◆ Revising slightly upwards Revenues to take into account a pass through clients of Raw materials hikes;
- ◆ Increasing the budget for Raw materials expenses;

thus maintaining our “industrial” EBITDA estimate unchanged.

Indeed, the management is entitled a stock grant plan pegged to the achievement of 2018 financial targets (and to the move to MTA Stock Exchange). Trigger levels are set at €17mn for EBITDA 2018E and €7.0mn for Net Profit 2018E and we feel that –if Raw materials do not further start rising- the management will do all its best in order to achieve these threshold levels.

At the same we underline that from an accountancy point of view the achievement of these targets would determine the assignment to top managers of a number of stock grants and this would lead to a “non cash” cost to be put in the P&L. See the Appendix for details on the stock grant plan.

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

€mn	2018E			2019E		
	Old	New	Change	Old	New	Change
Group Revenues from Sales	131.2	133.0	1.4%	136.0	137.9	1.4%
Total Group Revenues	133.7	135.4	1.3%	138.7	140.5	1.3%
EBITDA (bef. stock grant expense)	17.0	17.0	0.0%	18.1	17.9	-0.8%
EBIT	10.8	10.6	-1.9%	11.7	11.4	-2.2%
Pre-Tax Profit	8.5	8.5	0.1%	9.6	9.4	-1.9%
Net Profit	7.0	7.0	0.2%	7.9	7.7	-1.9%
OpFCF after tax	9.5	9.4	-0.7%	10.1	9.8	-3.4%
Net Financial Position	-41.9	-43.1	-2.9%	-37.3	-39.5	-5.5%

Source: Value Track analysis

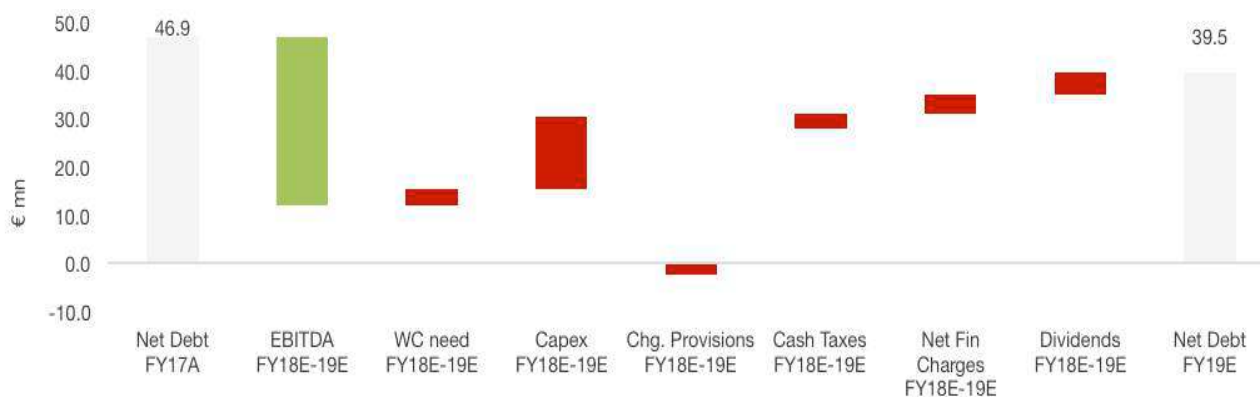
Key Pillars of our 2018E-19E forecasts

In our view the key features of Neodecortech 2018E-19E financial evolution are as follows:

- ◆ **Revenues** steadily growing at **mid single digit CAGR** over the next two years;
- ◆ Assuming no further raw materials inflation, **EBITDA margin to improve at ca. 13%** as of 2019E with EBITDA in absolute terms estimated to achieve €17.0mn as of 2018E, €18.1m as of 2019E. This thanks to output capacity progressive saturation and to higher incidence of highly profitable LVT segment;
- ◆ **Adj. Net Profit** expected to grow at higher than 50% 2017A-19E CAGR thanks to lower financial charges (credit lines and leasing contracts are under re-negotiation) and to tax rate remaining stable at ca. 18%-20% level;

- ◆ Cumulated **Operating Free Cash Flow** after tax over the next two years at ca. €18mn, after having invested the residual part of the announced 2017-19E €20mn capex plan. This means a cash conversion ratio close to 50% level;

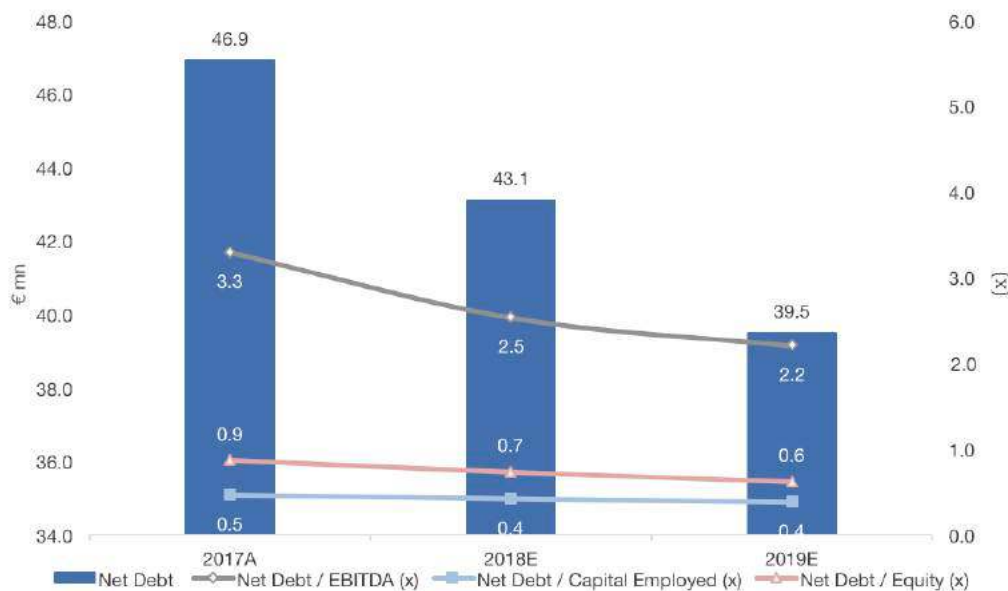
Neodecortech – Cash Flow Bridge 2017A-2019E



Source: Neodecortech, Value Track Analysis

- ◆ **Net Financial Position** decreasing at ca. **€40mn by 2019E** thanks to the above mentioned cash generation. Such a figure would imply Leverage to decrease in the 2.2x region by 2019E, thus allowing for enhanced flexibility.

Neodecortech: Leverage Dynamics



Source: Neodecortech, Value Track Analysis

Neodecortech Group: P&L evolution 2015A-19E

(€mn)	2015A	2016A	2017A	2018E	2019E
Group Revenues	125.5	115.6	127.7	135.4	140.5
Revenues growth %		-7.9%	10.5%	6.0%	3.7%
Operating Expenses	-113.6	-100.0	-113.5	-118.4	-122.6
Chg. % YoY		-12.0%	13.5%	4.3%	3.5%
EBITDA	11.9	15.6	14.2	17.0	17.9
EBITDA margin (%)	9.4%	13.5%	11.1%	12.6%	12.7%
Depreciation & Amortization	-7.1	-6.4	-6.3	-6.4	-6.5
EBIT	4.8	9.2	7.9	10.6	11.4
EBIT margin (%)	3.8%	8.0%	6.2%	7.8%	8.1%
Net Fin.Income (charges)	-3.4	-3.3	-2.7	-2.1	-2.0
Pre-tax Profit	1.4	6.0	5.2	8.5	9.4
Tax	0.2	-1.5	-1.1	-1.5	-1.7
Tax rate (%)	nm	-25.3%	-21.6%	-18.0%	-17.9%
Net Profit	1.6	4.5	4.1	7.0	7.7
Net Profit growth (%)	nm	nm	-9%	72%	10%
Adjusted Net Profit	0.8	1.3	4.8	7.0	7.7
Adjusted Net Profit growth (%)	nm	59.1%	nm	45%	10%

Source: Value Track Analysis

Neodecortech Group: Balance Sheet evolution 2015A-19E

(€mn)	2015A	2016A	2017A	2018E	2019E
Working Capital	25.4	22.8	26.9	29.6	30.2
Net Fixed Assets	85.4	80.3	80.9	82.0	83.0
Provisions	10.2	7.2	6.9	9.4	9.4
Total Capital Employed	100.6	95.8	100.9	102.1	103.8
Group Net Equity	33.8	38.7	54.0	59.0	64.3
NFP [i.e. Net Debt (-) Cash (+)]	-66.7	-57.1	-46.9	-43.1	-39.5

Source: Value Track Analysis

Neodecortech Group: Cash Flow Statement evolution 2015A-19E

(€mn)	2015A	2016A	2017A	2018E	2019E
EBITDA	11.9	15.6	14.2	17.0	17.9
Working Capital Needs	0.0	1.0	-4.2	-2.7	-0.6
Capex	-3.0	-4.6	-7.6	-7.5	-7.5
Change in Provisions	0.0	-0.7	-0.3	2.6	0.0
OpFCF b.t.	8.8	11.3	2.1	9.4	9.8
Cash Taxes	0.0	-1.5	-1.1	-1.5	-1.7
OpFCF a.t.	8.8	9.8	1.0	7.9	8.1
Capital Injections	0.0	1.8	11.2	0.0	0.0
Other Op. Items (incl. Fin. Inv.)	-8.8	2.5	1.8	0.0	0.0
Net Financial Charges	0.0	-3.5	-2.7	-2.1	-2.0
Dividends paid	0.0	-1.0	-1.0	-2.0	-2.4
Net Cash generated	0.0	9.6	10.2	3.8	3.6

Source: Value Track Analysis

Investment Case

Neodecortech shares are down ca. 5% since the IPO date back as of the end of September, we believe due to the uncertainties derived from Raw materials prices evolution. Indeed also the two closest comparables, i.e. Surteco and Ahlstrom Munksjo are down more than proportionally (-7% and -13% respectively) since that date.

Relative performance of Neodecortech shares since IPO



Source: Value Track Analysis on S&P Capital IQ figures

As an effect of updated consensus estimates and of the evolution in stock market prices, we calculate:

- ◆ A ca. 10% derating of sector multiples in the latest six months;
- ◆ Neodecortech trading at a discount vs. peers ranging in the 3%-43% space depending on which multiple we do consider.

Neodecortech: Peers' stock trading multiples

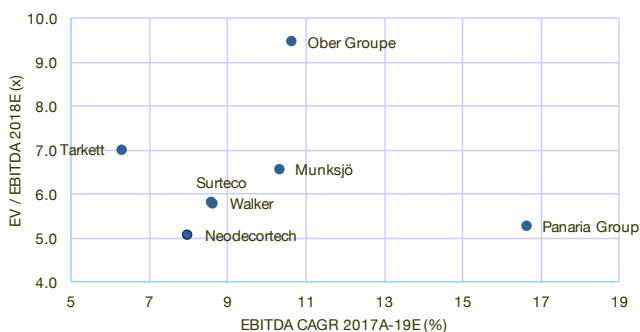
Company	EV / EBITDA (x)		EV / EBIT (x)		P / E (x)		EV / OpFCF (x)(*)	
	2018E	2019E	2018E	2019E	2018E	2019E	2018E	2019E
Munksjö	6.7	6.0	11.9	10.5	16.6	13.5	11.9	10.6
Ober Groupe	9.6	9.0	11.5	10.7	12.9	10.5	13.0	11.5
Panaria Group	5.2	4.5	9.5	7.5	10.7	7.7	8.2	7.1
Surteco	5.8	5.3	11.4	10.0	11.8	10.3	9.2	8.2
Tarkett	7.0	6.4	12.0	10.6	15.2	13.1	11.7	10.3
Walker Greenbank	5.7	4.8	8.0	6.8	9.0	7.5	6.1	6.0
Average	6.7	6.0	10.7	9.4	12.7	10.4	10.0	9.0
Median	6.3	5.7	11.5	10.3	12.3	10.4	10.5	9.3
Neodecortech	5.3	5.1	8.5	7.9	7.2	6.6	9.4	8.7
Disc. % vs. Avg.	-21%	-16%	-21%	-15%	-43%	-36%	-6%	-3%
Disc. % vs. Med.	-16%	-10%	-26%	-22%	-42%	-36%	-10%	-6%

Source: Market Consensus, Value Track Analysis

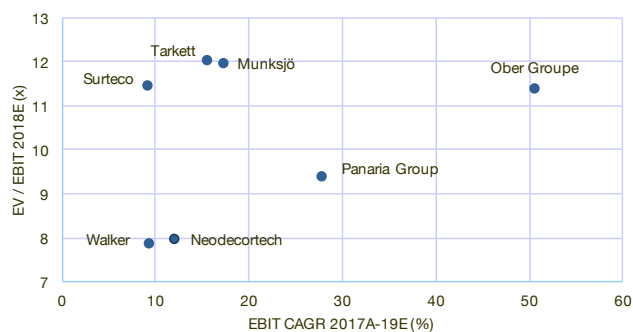
(*) OpFCF defined as (EBITDA-CAPEX)

Neodecortech and Peers' analysis and performance

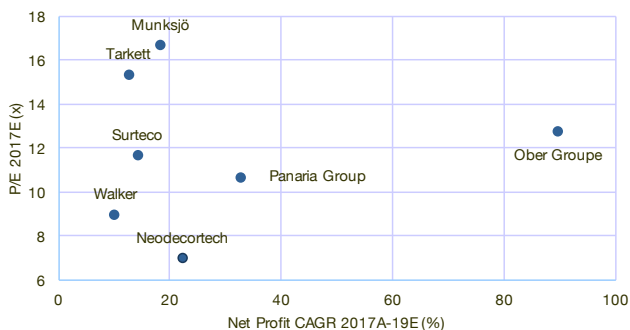
EV/EBITDA 2018E vs EBITDA Growth 2017A-19E



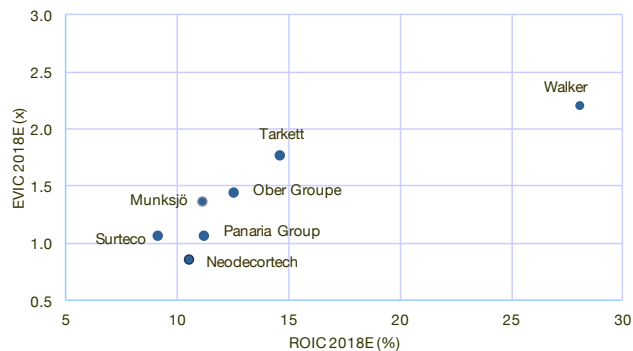
EV/EBIT 2018E vs EBIT Growth 2017A-19E



P/E 2018E vs Net Profit Growth 2017A-19E



EV/IC 2018E vs ROIC 2018E



Source: Market Consensus, Value Track Analysis

That said, we believe that **€4.85 per share would be a fair peers based valuation** for Neodecortech shares as it would imply an average 15% discount on 2108E sector EV/EBITDA, EV/EBIT and P/E. We note that at €4.85 per share, Neodecortech's market capitalization would be roughly €65mn i.e. 1.1x P/BV18E to be compared with an expected 12% ROE, well above NDT's fair cost of equity.

Neodecortech: Sensitivity of implicit stock trading multiples based on €4.0-€6.0 share price range

Market Price (€ per share)	Enterprise Value		EV / EBITDA (x)		EV / EBIT (x)		P / E (x)		P / BV (x)(*)	
	2018E	2019E	2018E	2019E	2018E	2019E	2018E	2019E	2018E	2019E
€ 3.80	€ 89 mn	€ 86 mn	5.2	4.8	8.4	7.5	7.2	6.6	0.86	0.79
€ 4.20	€ 95 mn	€ 91 mn	5.6	5.1	8.9	8.0	8.0	7.3	0.95	0.87
€ 4.60	€ 100 mn	€ 96 mn	5.9	5.4	9.4	8.4	8.7	7.9	1.04	0.95
€ 4.90	€ 104 mn	€ 100 mn	6.1	5.6	9.8	8.8	9.3	8.5	1.10	1.01
€ 5.00	€ 105 mn	€ 102 mn	6.2	5.7	9.9	8.9	9.5	8.6	1.13	1.04
€ 5.40	€ 110 mn	€ 107 mn	6.5	6.0	10.4	9.4	10.3	9.3	1.22	1.12
€ 5.80	€ 116 mn	€ 112 mn	6.8	6.3	10.9	9.8	11.0	10.0	1.31	1.20

Source: Value Track Analysis

(*) ROE 2018E-19E at 12.4% and 12.5% respectively

Discounted Cash Flow model

Compared to our Initiation of Coverage report published back as of October 2017, we hereby assume a slightly lower average WACC 2018E-2027E i.e. ca. 8.47% vs. the previous 8.85%. This is the result of a lower Italian Equity risk Premium (6.68% vs. the previous 7.43%) as calculated by Damodaran on line web site (see also <http://pages.stern.nyu.edu/~adamodar/> for more details on this approach). Other WACC assumptions are:

- ◆ 2.0% risk-free rate to reflect medium-term target inflation;
- ◆ 0.71 unlevered beta;
- ◆ 4.8% pre-tax cost of debt;
- ◆ 2.0% liquidity premium to remunerate investors for trading in the “thin” AIM Italia stock market.

Further assumptions are:

- ◆ Explicit financial statements projection starting from 2018E fiscal year and arriving at 2027E, with a break trough as of 2025YE when Cogeneration plant will stop production (and Cash Flow to Firm generation) if current fiscal incentives are not reinstated;
- ◆ 2.0% Perpetuity Growth Rate (PGR).

Overall, we derive a **€5.99 per share DCF value** (up from the previous €5.58).

Triboo Group: Discounted Cash Flow Model Summary Table

€mn	
PV of future cash flows FY18E-FY27E	58.2
PV of Terminal value with PGR at 2%	62.7
Fair Enterprise value	120.9
Implied EV/EBITDA '18E (x)	7.9 x
Net Cash Position 2017YE	-46.9
NPV of Tax asset	4.5
Fair Equity value (€mn)	78.5
Fair Equity Value per share (€)	5.99

Source: Value Track Analysis

Break Up valuation

In our Initiation of coverage back on October 2017 we cross checked Peers analysis and DCF model with a break up value calculation obtained by applying EV/Sales multiple to Paper Mill and to Printing / Impregnation businesses while applying EV/MWh multiple to Cogeneration business. Updating this analysis returns a **€5.88 per share Break Up value** (down from the previous €6.08).

Neodecortech: Break Up valuation

Business	EV (€mn)	EV (€ p.s.)	Valuation Driver
Printing / Impregnation	44	3.36	1.0x EV /Sales
Paper Mill	60	4.58	1.0x EV /Sales
Cogeneration	20	1.53	€1.0mn / MWh
Gross Break Up Value	124	9.46	
-Net Fin. Pos. 2017YE	-47	-3.59	
Net Break Up Value	80	5.88	

Source: Value Track Analysis

Appendix: Remedy Shares

Remedy shares protection mechanism

Remedy Shares protection mechanism is addressed to new investors only, i.e. to all current post-IPO shareholders with the exception of pre-IPO ones, providing some kind of reimburse to new investors if FY17-FY18 EBITDA and Net Profit (based on the IPO consolidation perimeter and excluding extraordinary items, we can call them “RS” EBITDA and “RS” Net Profit) result to be lower than the trigger levels highlighted in the following table.

That said, in light of 2017FY results we expect the calculation agent to notify that the FY17 “RS” EBITDA and “RS” Net Profit levels are actually over their respective trigger levels i.e: no protection mechanism regarding FY2017 results will take place. Therefore, we deem that the mechanism could work on FY18 related results only.

Please note that Remedy Shares mechanism foresees “floor levels” (see them between parenthesis) on possible FY17-18 shortfall that prevent dilution of majority shareholder to exceed 5.84%.

Remedy shares (RS) mechanism on possible 2017-18 shortfall

	Fiscal Years	
Trigger levels (Floor levels)	2017 (Achieved)	2018 (To be achieved)
“RS” EBITDA (€mn)	15.0 (13.5)	17.0 (15.0)
“RS” Net Profit”(€mn)	4.5 (4.0)	7.0 (6.0)

Source: Neodecortech Admission Document

Technicalities

If triggered, the remedy share mechanism is:

- ◆ Designed to be weighted on the level of “RS” EBITDA and “RS” Net Profit results only;
- ◆ Not determining a cash out for the company, so Neodecortech financial strength is not weakened;
- ◆ Tax neutral for all parties involved.

If FY17-18 “RS” EBITDA and “RS” Net Profit result to be lower than their respective trigger levels, then it takes place a “for free” transferral of shares (Remedy Shares) from the majority shareholder (Valentini family) to new investors only, regardless of when they bought Neodecortech shares on the stock market.

Remedy Shares protection mechanism: Example related to FY18 maximum shortfall

Old Shares pre IPO (mn)	(a)	10.00
Equity Value Pre Money (€mn)	(b)	40.00
Maximum Ristoro (€mn)	(c)	6.00
New Shares from IPO (mn)	(d)	3.56
IPO share price (€)	(e)	4.00
Remedy Ratio (RR)	$(f)=[(b)-(c)]/[(d)*(e)]$	2.00
Remedy Shares transferred to investors (mn)	$\{(a)-[(f)*(d)]\}/[1+(f)]$	0.443

Source: Neodecortech, Value Track Analysis

Appendix: Stock Grant

Stock Grant Plan addressed to key managers

Stock Grant Plan is addressed to some key managers and entails maximum 689,608 newly issued ordinary shares if the group achieves targeted economic and financial results, provided that the market value of the shares is not higher than €5.0mn. The Plan works as follows:

- i) Maximum 40% of the shares of the Plan are assigned if the company becomes listed on the MTA index within 30 months from the first day of listing;
- ii) Maximum 30% of the shares of the Plan are assigned if “RS” EBITDA and “RS” Net Profit 17E results are higher than the trigger levels of €15.0mn and €4.5mn respectively;
- iii) Maximum 20% of the shares of the Plan are assigned if “RS” EBITDA and “RS” Net Profit 18E results are higher than the trigger levels of €17.0mn and €7.0mn respectively;
- iv) Maximum 10% of the shares of the Plan are assigned if both points ii) and iii) are satisfied.

Stock Grant Plan Recipients

Recipients	% of Shares
Luigi Cologni	33.5%
Massimo Giorgilli	33.5%
Marco Giussani	12.0%
Additional four key managers	21.0%

Source: Neodecortech

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