Banca Profilo

Initial Coverage

Radici Pietro Industries: Made in Italy style and innovation in the global flooring market

June 16th, 2020, at 19:00

Since the 1950s, Radici blends history, style, innovation and design in the global flooring industry

Radici Pietro Industries & Brands is an Italian company which designs, manufactures and distributes a wide range of high-quality flooring products, exporting in almost 90 countries the excellence of Made in Italy. In 2019 the Company generated revenue for €59 mln (CAGR 2012-2019 at 8%), an almost double value compared to 2012, when the current management was established. Radici's business is extremely diversified, by geographical area, by type of product and by reference end-market. In terms of product, Radici produces and distributes: i) textile flooring for residential use, hotel chains and leading high fashion firms (~45% of FY19 revenue), ii) customized carpets for cruise operators (~15%), ii) artificial turf mainly for sports use (~20%), and iii) automotive interior coatings (~20%); in terms of geographical areas, the main markets are the Italian (~44%) and the European ones (~33%), with a minor part in the United States (~21%) and in the RoW (~2%). The business stands out for the visibility of its revenue, thanks to multi-year supply contracts, for the several product certifications and its unique plants and motor pool, both elements acting as barriers to entry, and for the high degree of production flexibility and product customization.

Focus on sustainability

The global flooring market will be driven by escalating population and urbanization and by the rising need for modernization and restructuring. Other than these macrotrends, we believe the market will be dominated by an increasing demand for sustainable products, which Radici is ready to satisfy given its remarkable initiatives in the environmental sustainability. In fact, Radici: i) has created and patented a new line of 100% recyclable and microplastic free artificial turf and ii) has signed a strategic partnership with Aquafil, for the use of a completely recyclable yarn, derived from regenerated materials.

Strategic development and our 2020E-2023E estimates

Although the economic effects of Covid-19 and related containment measures will have a tangible impact on the financial results of 2020, the long-term drivers remain intact. Radici is set to expand its business and improve its margins further, thanks to: i) the narrowing of the production gap, ii) the consolidation of existing commercial relationships and the expansion of the same in Eastern Europe, the Middle East and North Africa, iii) the creation of new product lines, increasingly sustainable and innovative, and iv) the reduction of fixed and energy costs' incidence. According to our 2020E-2023E estimates, after the drop in 2020, revenue are expected to grow at a 24% CAGR to reach €77mln in 2023, and the EBITDA is seen above €8mln in 2023, with a margin of 10.8%, close to that recorded in 2019. We estimate cumulative operating FCF equal to €4.7mln or a yearly average of €1.2mln, including €11.6mln of cumulated capex.

Route to valuation

We initiate our coverage with a BUY recommendation and a 12-month target price of €2.2 as the average of the DCF Fair Value and the relative market multiple valuation, implying a potential upside of about 30% on Radici's closing price on June 15, 2020. Through cumulated FCF 2020E-2023E of €4.7mln and a Terminal Value of €56.8mln, we get to an Enterprise Value of €47.2mln and to an Equity Value of €27.5mln, which led us to a Fair Value of €3.12/share. Our relative valuation based on the average 2021E EV/EBITDA multiple (6.3x) led to an Equity Value of €11.5mln or €1.30/share.

Target Price (€)	**2.2**
Recommendation	**BUY**
Price as of June 15, 2020	1.7
Number of shares (mln)	8.8
Market capitalization (€, mln)	15.1
Performance	**from IPO**
Absolute	-45%
Max / Min	3.2 / 1.4
Average daily volumes	13,306

(€mln)	2019	2020E	2021E	2022E
Revenue	**59.4**	**40.5**	**58.0**	**67.3**
yoy change (%)	*-1%*	*-32%*	*43%*	*15%*
EBITDA	**6.8**	**1.4**	**4.7**	**6.3**
margin (%)	*11%*	*3%*	*8%*	*9%*
EBIT	**4.0**	**(2.1)**	**1.8**	**3.1**
margin (%)	*7%*	*-5%*	*3%*	*5%*
Net Income	**5.6**	**(2.4)**	**1.0**	**2.3**
margin (%)	*9%*	*-6%*	*2%*	*3%*
Net Debt/(cash)	**22.0**	**19.6**	**20.0**	**18.4**
Shareholders' Equity	33.8	31.4	32.5	34.8
Capex	2.9	1.5	3.4	3.4
Free Cash Flow	**0.5**	**(0.1)**	**(0.3)**	**1.6**

Source: Banca Profilo estimates and elaborations, Company data.

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Radici Pietro in a nutshell: key investment drivers

Radici: Made in Italy style and innovation in the global flooring market

Radici Pietro Industries & Brands was founded in 1950, in Cazzano S. Andrea (Bergamo), as a spinning factory for the design and production of woven carpet, blankets and bedspreads. Since then, Radici has gradually transformed itself into an international Company active in almost 90 countries. As of today, the Group manufactures and distributes carpets, artificial turf and textile coverings for residential use and for customers of various industries such as car manufacturers, cruise operators, hotel chains and leading high fashion firms.

The Group operates through four distinct brands, one for each reference end-market:

i) Radici Contract (~45% of FY19 revenue), the brand dedicated to the main activity of the Group, the production of tufting and weaving carpets for residential and commercial use;
ii) Radici Marine (~15%), the brand dedicated to the production and distribution of customized carpets for cruise ships, ferries and yachts;
iii) Radici Automotive (~20%), the brand dedicated to the production and marketing of a broad range of nonwovens and tufting products used as a coating of automotive components;
iv) Sit-in Sports (~20%), the brand under which Radici produces and sells artificial turf used for sports fields, both amateur and professional, high-level gardens, landscaping and decorative use.

Main competitive advantages

Among the main competitive advantages, Radici shows a highly diversified business, and a wide production flexibility. In terms of business diversification, Radici has four different reference markets, four different types of product and is active on a global scale, with a geographical exposure of revenue divided among Italy (~44% of FY19 revenue), rest of Europe (~33%), USA (~21%) and rest of the World (~2%). As for flexibility in the production system, Radici is able to create and sell even small volumes of customized carpets while maintaining competitive prices: in this way the Company can count on the exclusivity and uniqueness of its product range.

Family oriented company

Radici is 71% controlled by Miro Radici Family of Companies SpA (MRFoC), owned by Miro Radici, which also controls ROI (textile solutions for the automotive sector); 6% is held by members of the Radici family (Radici Pietro Luigi 0.01%, Radici Federico 1.52%, Radici Claudia 1.52%, Radici Caterina 1.53% and Radici Alessandro 1.53%) and the Free Float stands at 23%.

Main Financial data and estimates (2020E-2023E)

8% revenue CAGR in 2012-2019

Since 2012, when the current management was established, Radici has almost doubled its turnover to €59mln in 2019 (CAGR 2012-2019 equal to 8%), exporting in almost 90 countries the excellence of Made in Italy. In the 2018-2019 period revenue averaged €60mln, of which around 45% related to the Residential & Contract flooring segment. The remaining part is divided between Automotive (20%), Sports & Leisure (20%) and Marine (15%).
Cost of goods sold represents around 95% of the turnover, with only raw materials to account for about 50% of revenue. Net of extraordinary operations, the EBITDA margin averages 7.9%.

Balance Sheet: improvement of the net financial position

As for the Balance Sheet, Net Operating Working Capital stood at €23.2mln in 2019, with an incidence on revenue growing from 33% in 2018 to 39% in 2019 due to the increase in commercial relations with customers with higher average payment terms. The Pro Forma Net Financial Position at the end of 2019 was equal to €22mln, an improvement of €7.6mln compared to the previous year; net of debts and credits to the parent company MRFoC, mainly related to the deconsolidation of ROI, the Net Financial Position adjusted stood at €18.7mln.

2020E-2023E projections: revenue at €77mln in 2023, +24% CAGR

According to our 2020E-2023E projections, Radici is set to diversify and expand its business further, thanks to the following drivers: i) increase in turnover thanks to the narrowing of the production gap, ii) consolidation of existing commercial relationships and expansion of the same in Eastern Europe, the Middle East and North Africa, iii) creation of new product lines, increasingly sustainable and innovative, iv) increase in marketing activities and collaborations with architecture and design studios, and v) improvement of margins through the reduction of fixed and energy costs' incidence. According to our 2020E-2023E projections, after the estimated 32% yoy drop in 2020, revenue are expected to grow at a 24% CAGR to reach €77mln in 2023; the EBITDA is seen above €8mln in 2023, with a margin of 10.8%, close to that recorded in 2019. Cumulative operating FCF is estimated at €4.7mln, already including capex and operating NWC needs.

A quick look at 2020

The measures to contain the pandemic from Covid-19 forced the production plants of Cazzano Sant'Andrea and Hungary to close from March 23 until April 26. We estimated that the production stop led to a 30% drop in revenue in March, and almost zero turnover in April, offset only in a small extent by commercial activities in the United States which remained operational during the lockdown period. For the second half of the year we expect a strong recovery, especially in the artificial turf and automotive sector, given the important order backlog.

Valuation: DCF and market multiples approach

DCF: Fair Value of €3.12 per share

Given Radici's predictability of cash flows, a DCF method well adapts as a valuation approach. To run a DCF model, we used our projections for the 2020E-2023E explicit period: €4.7mln of cumulated Free Cash Flow, including €11.6mln of cumulated capex. In order to get to the Equity Valuation, we have considered our estimate of net debt at the end of 2020 (€19.5mln), given the credit-debt compensation relating ROI deconsolidation. We used a WACC of 6.9% and a perpetual growth rate of 2%. The DCF method leads us to an Enterprise Value of €47.2mln and an Equity Value of €27.5mln or €3.12/share.

EV/EBITDA 2020E-2021E of 6.3x, equal to a per share value of €1.30

For what concerns the market multiples approach, our sample of listed companies that manufacture and distribute carpet and artificial turf represent a fitting panel of "comparables" for suggesting an appropriate relative valuation. Our sample shows an EV/EBITDA 2021E of 6.3x, from which we derived an Equity Value of €11.5mln, equal to a per share value of €1.30.

12-month TP at €2.2 Recommendation: BUY

We then set our 12-month target price at €2.2/share as an average of the DCF and relative valuations, implying a potential upside of about 30% on Radici's closing price on June 15, 2020. We initiate our coverage with a BUY recommendation.

Key risks

Estimates execution risks

Among the risk factors analysed, those with a significant probability of occurrence or a considerable potential impact on Radici's business are: the risk of contraction of demand or of economic downturns and the risk associated with the stability of the network of agents and distributors. The other risk factors implicit in Radici's business have a low probability of occurrence or a low potential impact on the business and we do not believe they could significantly affect our projections, unless exceptional events occur.

Risks related to the contraction of demand: - medium probability

The business of Radici, like any other company, is exposed to the potential risk of contraction in demand deriving from a reduction in the activity of the main customers, from the worsening of macroeconomic conditions, or from potential exogenous events,

- medium impact

like the trade war. This risk is partially offset by the strong diversification of Radici's business which allows the Company to mediate the onset of potential drops in demand arising from a specific geographical area or a specific segment of activity. We evaluate this risk with a medium likelihood of occurrence and a medium potential impact on the business.

Risks associated with the stability of the network of distributors:
- medium-low likelihood
- high impact

For Radici, the network of agents and commercial distributors represents a fundamental element in the product sales processes. Initiatives from competing companies aimed at attracting agents and/or distributors who guarantee significant purchase volumes to Radici could adversely affect the Company's economic results, as most agents have not entered into any post-contractual non-compete agreement. We evaluate this risk with a medium-low likelihood of occurrence but a high potential impact on the business.

SWOT analysis

STRENGTHS	WEAKNESSES
• Partial visibility on revenue thanks to multi-year supply contracts • Business diversification in terms of product, reference end-market and geographical market • Different certifications on products and unique plants and motor pool that act as barriers to entry • Production flexibility even for minimum volumes and strong degree of product customization • Vertical integration, from raw material procurement to the distribution of the finished products	• High incidence of Cost of Goods Sold on revenue, equal to about 95% • Level of indebtedness which could partially limit the possibilities of financing M&A operations

OPPORTUNITIES	THREATS
• Penetration of new geographical markets, especially in Emerging countries, characterized by rapid population growth and urbanization • Increase in market share in the United States thanks to products with a better quality-price ratio than competitors • Increasing demand for sustainable products, which the Company is ready to satisfy given its remarkable initiatives in the environmental sustainability	• Shifting consumer preferences from soft to hard flooring in the residential segment • Presence in markets characterized by a high concentration of companies and therefore high competition • Worse than expected market conditions after the Covid-19 outbreak

The reference market:

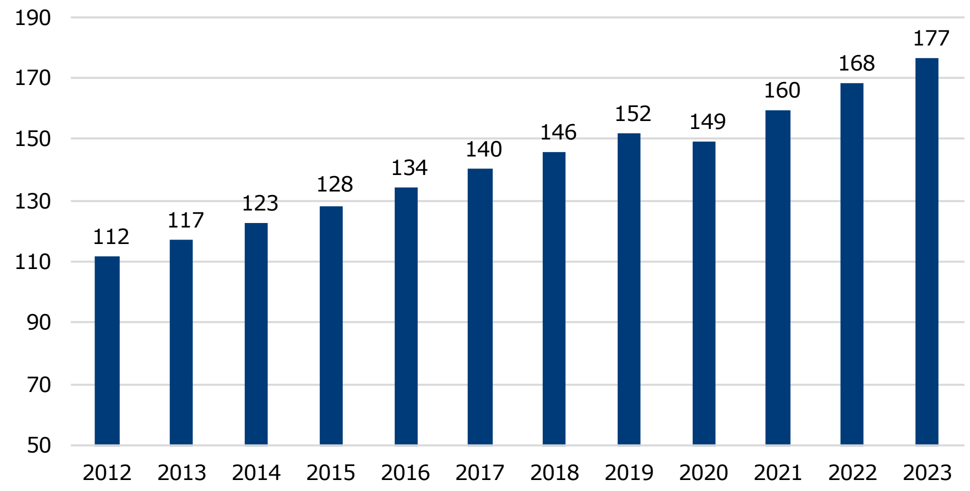
The Global Flooring Market

Residential & commercial flooring: 45% of FY19 revenue

Radici's main reference market is the Global Flooring Industry, which can be segmented by product/material and end use destination. As for the type of material used, flooring products can be divided into: i) resilient flooring; ii) non-resilient flooring and iii) soft flooring. Concerning the purpose of use, the types of flooring can be addressed to: i) residential use, ii) commercial use and iii) industrial use. The market is fragmented into numerous small and large manufacturers which compete in terms of prices and quality. Radici's business belongs to the soft flooring segment and its products are addressed to both residential and commercial spaces. In particular, Radici has the following reference end-markets:

- Residential & commercial flooring (45% of FY19 revenue)
- Marine (15% of FY19 revenue)
- Sports & Leisure (20% of FY19 revenue)
- Automotive (20% of FY19 revenue)

Figure 1: Floor Coverings market's revenue net of hard flooring materials, 2012-2023 ($, bn)



Source: Statista

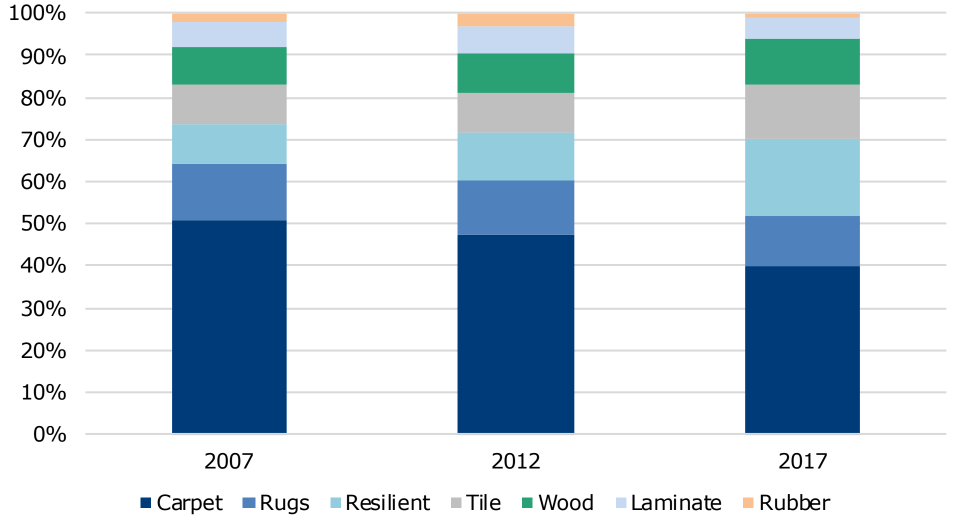
The Floor Covering segment, net of hard flooring materials, was expected to grow at a 5.7% CAGR in 2020-2023

The Floor Covering segment, net of ceramic tiles and other hard flooring materials, amounted to $152bn in 2019 and it has been growing at a 4.5% CAGR since 2012. Over the past years, this sector's demand has been sustained mainly by the increase in construction and consumer spending, by low mortgage rates which drove sales in the real estate market, and by the expansion of the product range. For the following years, the demand for flooring is expected to be driven by the escalating population and urbanization, especially in emerging markets, and by the rising need for restructuring and modernization giving the aging of existing residential and commercial spaces. As of the end of March 2020, revenue in the Floor Covering segment, net of hard flooring materials, was expected to hit $177bn in 2023, with a 2020-2023 CAGR of 5.7%. These projections already incorporate a partial economic effect of Covid-19 and related containment measures, but we expect they will be revised downwards in the light of macroeconomic further deterioration.

Demand for sustainability will guide consumer choices

Outside of mega-trends, the increase in concerns about the environmental impact of flooring products will lead consumers' preferences towards sustainable and low environmental impact products. Radici will significantly benefit from this growing market trend, as the Company holds an excellent position in terms of environmental sustainability. Among the most recent and innovative initiatives, the Company: i) has obtained the "Recyclable Plastic" Certification for a new line of artificial turf, ii) has signed a strategic commercial agreement with Aquafil concerning the use of Aquafil's Econyl yarn, an entirely recyclable yarn created from regenerated materials, and iii) implements in its plants strict policies in terms of waste recovery, natural gas consumption and water waste.

Figure 2: Floor Covering's market share evolution by type of product (%)



Source: Floor Covering News

Consumers' preferences vary by segments

As for the type of flooring, within the Residential segment, hard surface flooring has taken market share from carpets and rugs over few years, and it is expected to do so also in the following years, as textile flooring continues to be associated with a negative impact on health, especially in cases of allergies. However, the increasing number of studies demonstrate that carpets minimize the dust, improving the air quality in closed spaces; we therefore cannot exclude that an increasing attention to health recommendations after the outbreak of the Covid-19 pandemic may lead to a change in consumer preferences. On the opposite, within the commercial and Marine sectors, consumer preferences converge more towards soft flooring, for its ease of installation, lower cost, customization flexibility and acoustic properties. In addition, the Company, in order to offset potential risks deriving from the increase in the market share of hard surfaces, starting from March 2020, has introduced its LVT collection, called LiVe.iT, into the market.

The Marine Market

Marine: 15% of FY19 revenue

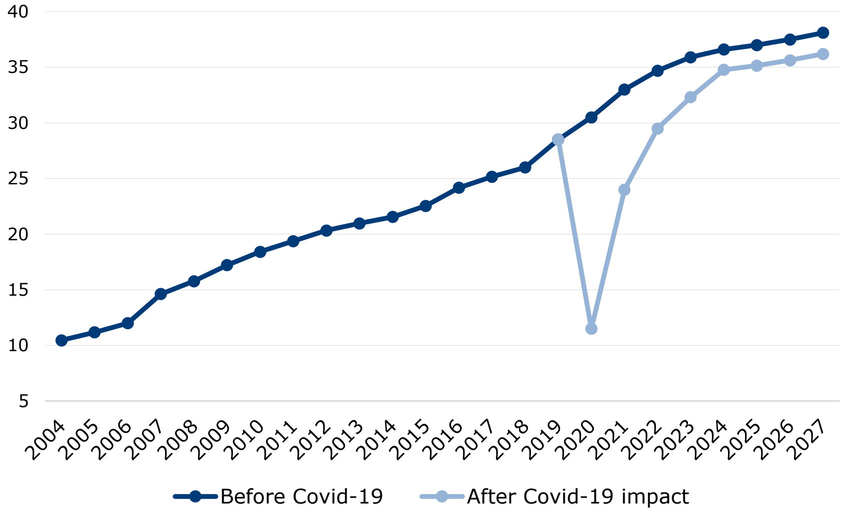
In 2019, Radici made around 15% of its revenue in the Marine segment, where the Company has relevant supply contracts with cruise operators among the most important in the world, for the covering of cabins and common areas.

The cruise market was worth over $42bn in 2019

Cruising has become a large part of the tourism industry, with an estimated market of $42bn as of the end of 2019, and almost 30mln passengers carried worldwide annually, steadily growing over the past two decades (6.6% CAGR over the 1990-2019 period). In recent years, the market has grown due to the increase in passenger transport capacity, the extension of seasonality and the duration of cruises, the continuous production of new ships and the expansion of the routes. As for the shipbuilding, as of December 2018 there were 314 cruise ships operating worldwide, with a combined capacity of 537,000 passengers; in the two-year period 2019-2020, 37 more new cruise ships were expected to add 99,895 units to worldwide passenger capacity and $11.7bn to annual revenue. Before Covid-19 pandemic, cruise ships were estimated at 472 units at the end of 2027 (4.6% CAGR) and the number of passengers carried at 38mln at the end of the same year (5% CAGR).

These estimates precede however the economic impact of Covid-19 and the related containment measures which triggered an unprecedented but still unquantifiable impact on the cruise market. The cruise lines have stated that the routes will partially be resumed between July and September, but with a number of passengers that will presumably be severely limited. Making a conservative projection based on the declarations of the main cruise operators in the world and on the forecasts on the sector by analysts, the market should recover in about two years, both in terms of number of passengers and in terms of revenue generated.

Figure 3: Passengers carried worldwide annually, 2004-2027 (units, bn)



Source: Cruise Marketwatch, Banca Profilo elaborations

The Automotive Market

Automotive: 20% of FY19 revenue

In 2019, Radici made around 20% of its sales in the Automotive segment, where the Company is an indirect supplier of some of the most important car manufacturers in the world. Radici's offering to the Automotive industry comprises a broad range of nonwoven and tufting products which are used as coating for car boots and cockpits.

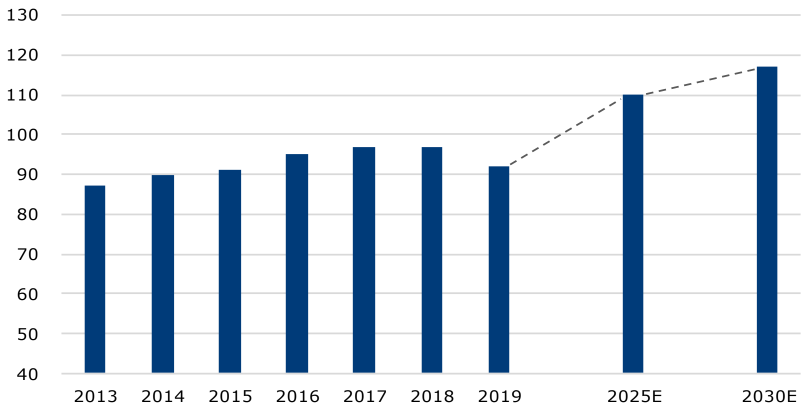
Pre-Covid-19, global vehicle production was expected to reach 110mln units by 2025 (3% CAGR)

The Automotive industry had been growing at a 3% CAGR in 2013-2017, it was stagnant in 2018 and contracted by 5% yoy in 2019, with 92mln produced motor vehicles worldwide. The contraction recorded in 2019 was due to: i) stagnant demand, ii) uncertainty related to emissions targets and iii) trade war between the United States and China. Before Covid-19, global vehicle production was expected to reach 110mln units by 2025 (3% CAGR) driven by Asia, especially China, the largest passenger car manufacturer worldwide.

Potential economic impact of Covid-19 and lockdown on the Automotive industry

The impacts of Covid-19 on both production and demand have not yet been quantified. However, according to IHS Markit projections, global auto sales are expected to drop by more than 12% in 2020, to 78.8mln units, a downgrade of 10mln compared to pre-Coronavirus projections (January 2020). In Europe, autos demand is set at 15.6mln units in 2020 (-13.6%n yoy), a volume decline of 1.9mln units versus pre-coronavirus estimates.

Figure 4: Worldwide motor vehicle production, before Covid-19 (units, mln)



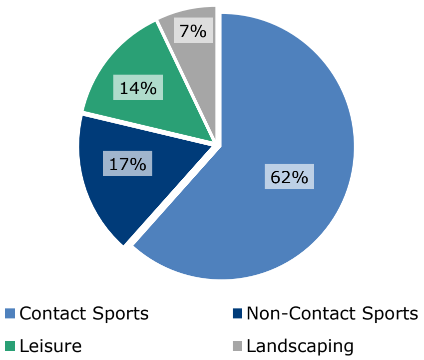
Source: Statista

The Artificial Turf Market

Artificial Turf: 20% of FY19 revenue

In 2019, Radici made approximately 20% of its revenue in the Global Artificial Turf market. Artificial Turf is a surface of synthetic fibers made to look like natural grass: it is most often used in arenas for sports played on grass and, to a minor extent, for residential lawns and commercial applications, such as playgrounds, gardens and courtyards. This Industry can be segmented by type of usage into: Contact Sports, Non-Contact sport, Leisure, and Landscaping; at the end of 2017, approximately 79% of market shares was related to the sports segment.

Figure 5: Global Artificial Market Share by application, 2017 (%)



Source: Future Market Insights

The Artificial Turf market is moderately fragmented: the top 4 players make around 44% of the market: among these, Tarkett Group stands out as one of the global players.

Long-term growth drivers

Main drivers in the demand for artificial turf are: i) the remarkable rise in the number of sports events, ii) the increasing urbanization, especially in developing countries and ii) the growing trend of replacing natural grass with artificial grass thanks to its minor maintenance need, lower environmental impact and longer durability.

Artificial Turf Market is expected to grow at about 5% CAGR (2019-2024)

In 2019, the Artificial Turf Industry was worth around €2.4bn (+14% yoy). Already considering the potential economic effects of Covid-19 and the related containment measures, the market is expected to reach €3bn by the end of 2024 (+4.6% 2019-2024 CAGR).

Radici competitive arena: strategic positioning and competitive advantages

Radici's selected competitors: Balta, Tarkett, Victoria and Mohawk

Since Radici's business is widely diversified both by type of product and by reference end-market, and being the Group present in various geographic markets on a global scale, there are no similar listed companies that can be considered as "perfectly comparable". To identify the best "comparables" we have conducted a double overlap analysis, by end-market and geographical exposure, and we have identified four main companies active in the production and distribution of textile flooring and artificial turf: Balta, Tarkett, Victoria, and Mohawk.

Screening methodology: overlap of revenue by reference end-market and geographical area

The comparables' screening process was based on four main steps:

1. among 37 potentially comparable companies selected between Italian and international firms operating in the textile flooring industry, we narrowed the field down to listed companies only;
2. for each of these we calculated a score derived from their exposure to Radici's end-markets. No company shows a business as diversified as that of Radici. The closest companies are: the French Tarkett and the English Victoria, both producing for Residential & Contracts, Marine and Sports & Leisure;
3. we conducted the same type of analysis on a geographic basis, by dividing the geographical exposures of all companies between Italy, rest of Europe, the United States and the rest of the world;
4. finally, we averaged the two scores and imposed a minimum threshold of 30%, which means that, on average, at least 30% of the revenue of the selected companies are comparable to the revenue generated by Radici in terms of both end markets and geographical presence.

Figure 6: Radici's competitive arena

Competitive Arena		End-markets				Geographic areas			
		Residential & Contract	Marine	Sport & Landscaping	Automotive	Italy	Rest of Europe	USA	Rest of the World
IT	**RADICI**	45%	15%	20%	20%	44%	33%	22%	2%
BE	**Balta**	X			X	5%	57%	31%	7%
FR	**Tarkett**	X	X	X		2%	37%	36%	25%
UK	**Victoria PLC**	X	X	X		5%	78%	0%	17%
US	**Mohawk**	X				3%	22%	58%	16%

Source: Banca Profilo elaborations on Company data
Note: Data are at the end of 2019 and, where not available, at the end of 2018

Balta (BE), FY19 €671mln revenue 10% EBITDA margin

Balta Group is a Belgium-based company engaged in the home furnishings industry and operating through the following segments: Rugs, Residential, Commercial, and Non-Woven. Its products portfolio includes: woven and tufted area rugs, wall-to-wall carpets and residential carpet tiles, wall-to-wall contract carpet & commercial carpet tiles, laminate floorings, and needle felt 6 technical non-woven. In addition, Balta Group delivers customer-focused approach to its business and is engaged in the solar panel projects in the Benelux region in order to supply renewable energy to fuel its production facilities. The company distributes to international retailers and wholesalers, to broad range of non-residential end markets, including offices, hospitality, leisure, and public infrastructure.

Tarkett (FR), FY19 €2.9bn revenue 9% EBITDA margin

Tarkett is a France-based provider of flooring and sports surfaces. Its product portfolio includes ground coating, such as parquets, laminates, fitted carpets, vinyl flooring, conductive polyvinyl chloride (PVC) flooring and PVS non-slip floors, among others, which are used primarily in hospitals, schools, apartments building, shops, hotels, offices, and also for marine, aviation and transport sectors. In addition, it provides sport facility installations. The company is active in the domestic market and internationally.

Victoria (UK), FY19
£618mln revenue
17% EBITDA margin

Victoria PLC is a UK-based designer, manufacturer and distributor of flooring products. It manufactures wool and synthetic broadloom carpets, carpet tiles, underlay, artificial turf and flooring accessories. The Company supplies its products to the mid to high end residential market and contract sector both in the United Kingdom and overseas. It is the largest manufacturer of carpet in the UK and the second largest in Australia, as well as the largest manufacturer of underlay in both countries.

Mohawk (US), FY19
$9.9bn revenue
14% EBITDA margin

Mohawk is the world's largest manufacturer of commercial and residential flooring products. The company manufactures carpets and rugs, ceramic and stone tile, and laminate, wood, and vinyl flooring. The company sells its products worldwide under different brands; broadloom carpets and rugs are produced and distributed under the brands Mohawk, Aladdin, Durkan, Karastan, and Leoline, while ceramic tile and stone flooring products are marketed under the brands Daltile, Unilin and Pergo.

Key competitive advantages

Comparing the business of Radici to that of its comparables, we highlight the following competitive advantages:

High degree of product customization

- Strong degree of product customization, capable of grasping different market needs and satisfying the creativity of architects and designers. Radici specializes in tailored products, which cover about 80% of the production, designed starting from any inspiration and manufactured through cutting-edge techniques, including the Cromojet printing, capable of producing a customized fabric with inkjet printing up to 16 colors for a minimum quantity of 100mq. This represents a competitive advantage if compared to hard flooring, where customization requires large quantities and longer time to market.

One of the most diversified business

- Business diversification. Radici shows one of the most diversified businesses within the Flooring sector, having four different reference markets and marketing four different types of product. On the other hand, main competitors, have decided to specialize by either end-market or type of product.

High-end and premium products

- Quality assurance. Radici focuses on product and service quality. This strategic line has begun to reward the Company, especially in the Marine segment, where the large cruise groups have started to move from Chinese to European supply, for higher quality standards.

Flexibility in the production system

- Flexibility in the ability to create and sell even small volumes while maintaining competitive prices. Radici is able to produce standard or customized flooring starting from 50-100sqm, while large competitors usually start their production for quantities greater than 500-1000sqm for operating leverage needs. Radici can count on the exclusivity and uniqueness of its product range and uses the lever of the final price to counterbalances production fixed costs.

Multi-year supply contracts

- Exposures to sectors that guarantee multi-year supply contracts. Unlike companies operating only in the residential and contract segments and providing their products mostly on a short-term contract basis, Radici has signed multi-year corporate contracts (with an average duration of three years), especially in the Automotive and Marine end markets, an element which guarantees partial revenue visibility.

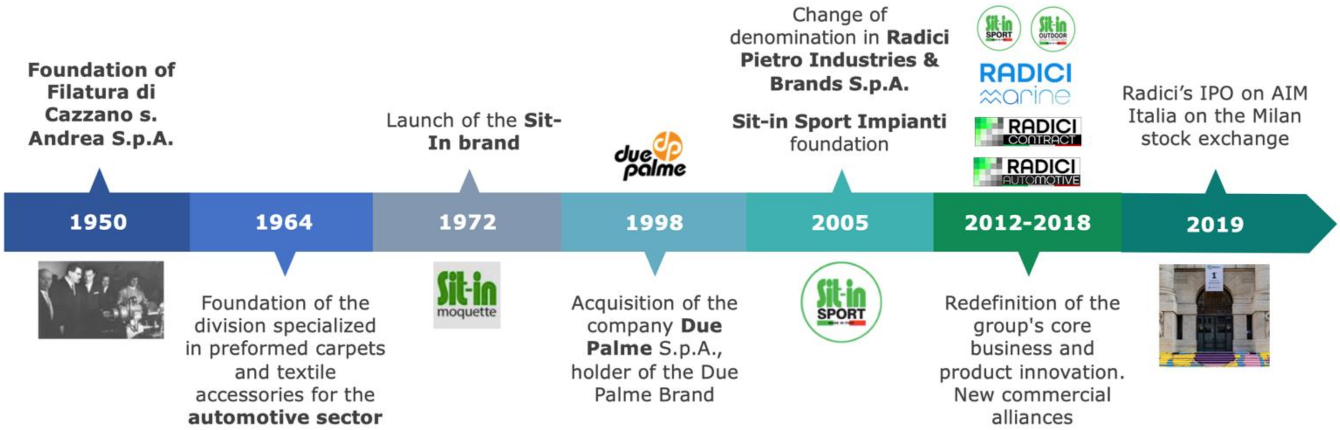
Radici overview and business model

Radici's history and organizational structure

From a simple spinning factory to an international Company active in 90 countries

Radici Pietro Industries & Brands was founded in 1950, in Cazzano S. Andrea (Bergamo), as a spinning factory for the design and production of woven carpet, blankets and bedspreads. Since then, Radici has gradually transformed itself into a small international Company active in almost 90 countries and serving more than 2,000 customers in four different industries. As of today, the Group manufactures and distributes carpets, artificial turf and textile coverings for residential use and for customers of various industries such as car manufacturers, cruise operators, hotel chains and leading high fashion firms.

Figure 7: Radici's main milestones



Source: Banca Profilo elaborations on Company data

Radici's activity breakdown by product and reference market

Radici's business can be broken down by product and end market:

- In terms of products marketed, Radici designs, manufactures and sells: i) tufting and weaving carpets, ii) artificial turf, iii) non-woven fabrics, and iv) non-standard products, customized according to customers' needs and tastes;
- In terms of the reference end mresiarket, Radici sells its range of products to four different segments: i) Residential & Contracts, ii) Marine, iii) Automotive, and iv) Sports & Leisure.

Radici's product range: tufting and weaving carpet, artificial turf, non-woven needled products and marketed products

Radici's product range includes:

i) tufting carpet (~40% of FY18 revenue), a particular type of carpet that takes its name from the technology that is used, so-called "tufting": it is a weaving method that presents only warp yarns inserted in a backing fabric. This type of carpet is applied mainly in: i) the Residential & Contract sector, as flooring for homes and offices, hotels and shops, ii) the Marine sector, as flooring for bedrooms and common areas on cruise ships, and iii) in the Automotive sector, for car interiors;

ii) weaving carpet (~15% of FY18 revenue), a particular type of carpet that differs from the tufting one by the way in which is manufactured and by some important products characteristics such as durability, resistance and coloring. This type of carpet is applied as flooring in: i) the Residential & Contract sector and in ii) the Marine sector;

iii) artificial turf (~17% of FY18 revenue), synthetic turf with specific characteristics for each intended use, mainly sport and recreation activities. This type of product is applied in: i) the Marine sector and in the ii) Sports & Leisure sector;

iv) non-woven needled products (~15% of FY18 revenue), fabrics made of staple fiber (100% recycled polyester) and latex that provide high performance in light and water resistance. This type of product is mainly intended for the Automotive sector, as coating of components;

v) marketed products and complementary services (~13% of FY18 revenue), customized products, articles produced by strategic partners and flooring-related products including, for example, the glue used for laying the carpet, and products for cleaning.

The Group operates through four distinct brands, one for each sector of activity

To have a more efficient structure, but above all to offer a more specialized and personalized service, the Group started a reorganization in the four years that preceded the listing. The Group now operates through four distinct brands, one for each reference end-market:

i) **Radici Contract** (~45% of total FY19 revenue), the brand dedicated to the main activity of the Group, the production of tufting and weaving carpets for residential and commercial use. Within the commercial segment, Radici supplies carpets for hotels, offices, shops, setting up of fairs, conventions and fashion shows.

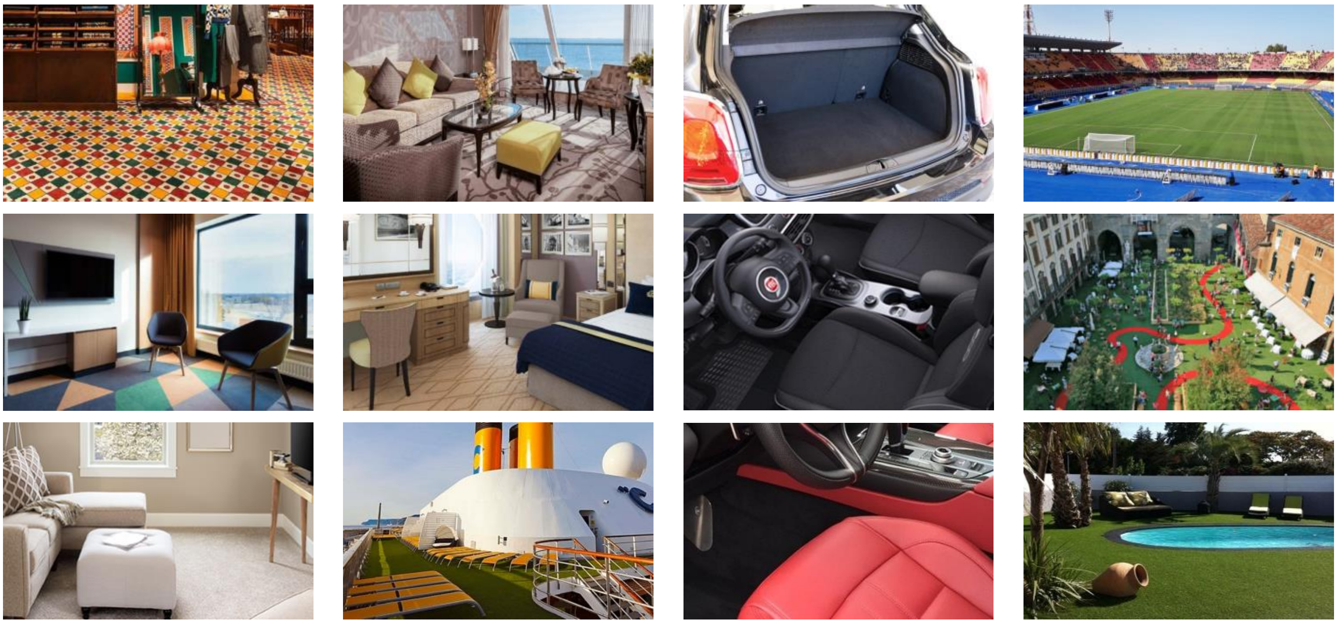
ii) **Radici Marine** (~15% of total FY19 revenue), the brand dedicated to the Marine industry, for which Radici designs, produces, distributes and installs carpets, mainly customized, for cruise ships, ferries and yachts, both in the refitting phase and in the new construction phase.

iii) **Radici Automotive** (~20% of total FY19 revenue), the brand dedicated to the production and marketing of a broad range of non-woven and tufting products which are used as coating for car boots and cockpits.

iv) **Sit-in Sports** (~20% of total FY19 revenue), the brand under which Radici produces and sells artificial turf which is mainly used: 1) for sports fields (soccer, rugby, tennis, hockey, baseball, golf, etc.), both amateur and professional thanks to the specific FIFA and FIGC/LND certifications, 2) for purposes related to recreational activities, such as playgrounds, and 3) for decorative use such as high-level gardens and landscaping.

Figure 8: Radici's main products by brand

Radici Contract | Radici Marine | Radici Automotive | Sit-in Sport



Source: Banca Profilo elaborations on Company data

Final market vs product

The classification by end-market (or equally by brand) does not coincide perfectly with that of product type, as the same product can find applications in different industrial sectors. As a simplification, we report below a matrix showing the breakdown of end-market revenue by product marketed, with data referring to the fiscal year 2018.

Figure 9: Breakdown of Radici's end-market revenue by product (%)

Revenues breakdown sector vs products			Sectors			
			49%	13%	20%	18%
			Residential & Contracts	Marine	Sport & Leisure	Automotive
Products	40%	Tufting	63.7%	19.9%	-	31.9%
	17%	Artificial turf	-	4.6%	91.2%	-
	15%	Weaving	14.7%	61.2%	-	-
	15%	Non Woven	0.1%	1.7%	-	68.1%
	13%	Marketed	21.4%	12.6%	8.8%	-

Source: Banca Profilo elaborations on Company data

Business model and corporate structure

The production cycle is divided into three macro-processes:
i) R&D
ii) Design and production
iii) Distribution and after-sales

The Group manages the entire value chain, from the procurement of raw materials up to the distribution of the finished product. The Group's activities can be divided into three reference macro-categories:

i) R&D: Radici focuses on researching innovative products or products with a better quality-cost ratio, and on optimizing its production processes. Among the most recent innovative products:

- Radici has recently filed a patent for a "stick and remove" carpet, a carpet that does not require glue and latex for application, thus reducing installation and removal costs;
- the R&D department in working on the optimization of a special artificial turf, already presented to the market in October 2019, that will not require infill material to be installed, significantly reducing the environmental impact by limiting microplastics.

ii) Design and production, which in turn is divided into three main phases:

- the procurement of raw materials, procured through different suppliers to prevent supply interruptions,
- the transformation of the same into the final product (carpet, artificial turf, etc.) through the spinning, weaving, dyeing, needle punching and finishing activities, and
- the final quality control, so-called testing.

Within this phase, only a percentage of the dyeing activity is outsourced.

iii) Distribution and after-sales. Once the final quality test has been passed, products can be sold and shipped. The Group has two main sales channels:

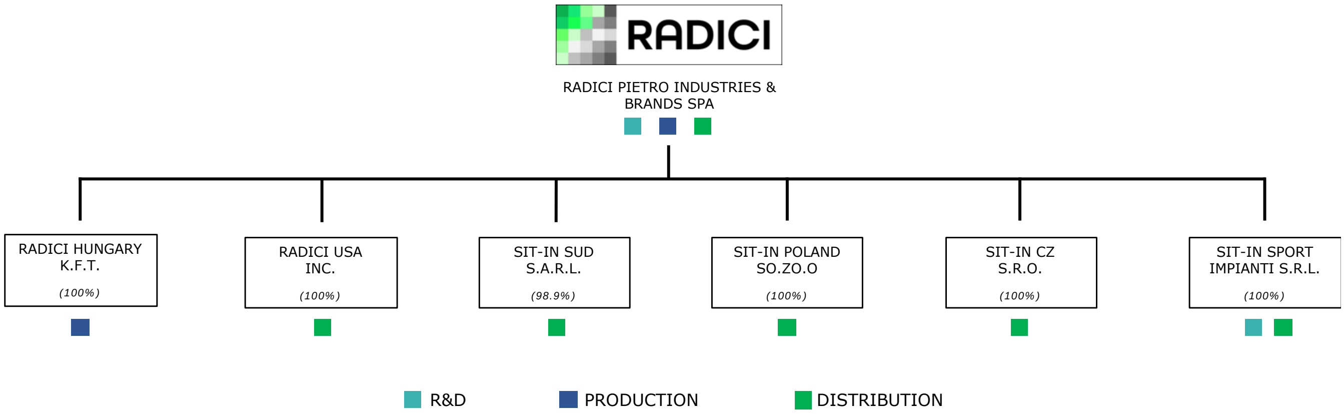
- Radici's commercial offices, that deal with the relationships with customers, including the after sales assistance, and
- single-agent and multi-agent agents with whom the Group signs specific agency contracts.

Within the distribution phase, only product transport activities are managed by third parties and the Group has underwritten specific insurance policies to cover transport risk.

Radici Pietro Industries & Brands SpA acts as the operating holding directly controlling six subsidiaries

The three main business phases are managed by the Group's subsidiaries. The Group structure is led by Radici Pietro Industries & Brands SpA, the issuer, acting as the operating holding directly controlling six subsidiaries: 1) Radici USA, 2) Radici Hungary, 3) Sit-In CZ, 4) Sit-In Poland, 5) Sit-In Sud, and 6) Sit-In Sport.

Figure 10: Radici's corporate structure

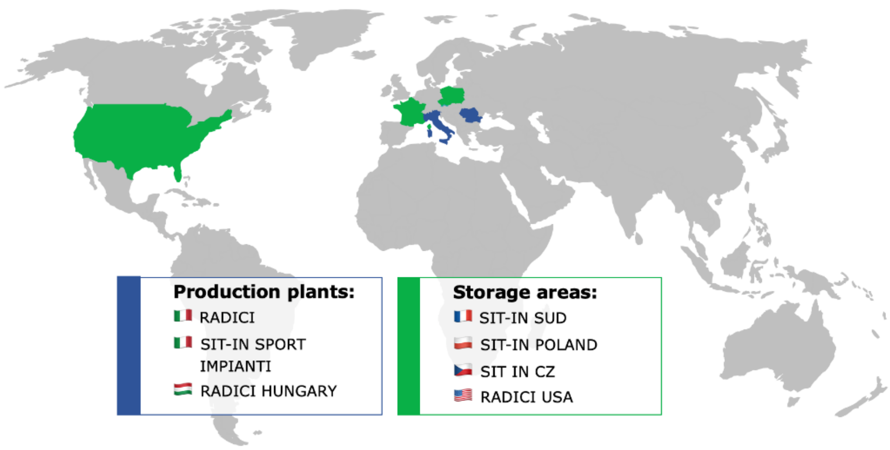


Source: Banca Profilo elaborations on Company data

Production is located in Italy and Hungary; distribution is on a global scale

The R&D activities are concentrated in Italy, at the parent company Radici Pietro Industries & Brands and its subsidiary Sit-in Sport; the product transformation activities are located in Italy and Hungary, while the distribution activities take place on a global scale, through main six commercial branches, in Italy, France, Hungary, Poland, the Czech Republic and the United States.
Among the main expansion strategies of Radici, the Company intends to consolidate the commercial relationships in place abroad and expand them geographically, especially in North Africa and in the Middle East, characterized by a strong increase in population and urbanization.

Figure 11: Current geographical exposure, by production and distribution activities



Source: Banca Profilo elaborations on Company data

Two different production systems to be efficient but attentive to the market

Production stands on two systems: Make to Order (main methodology) and Make to Stock.

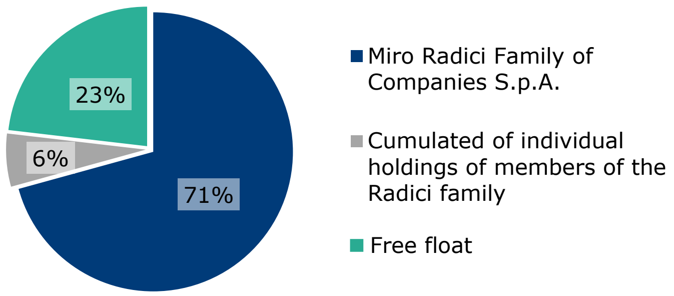
- Make to Order is a business production strategy in which the production begins only after a customer confirms its order, allowing cost and stock planning;
- On a residual basis, Radici applies the Make to Stock business production strategy, according to management sales forecasts.

Ownership structure

Family oriented company

Radici is a family-owned company. Radici is 71% controlled by Miro Radici Family of Companies SpA, owned by Miro Radici, which also controls ROI (textile solutions for the automotive sector); 6% is held by members of the Radici family (Radici Pietro Luigi 0.01%, Radici Federico 1.52%, Radici Claudia 1.52%, Radici Caterina 1.53% and Radici Alessandro 1.53%) and the Free Float stands at 23%.

Figure 12: Ownership of the Group (%)



Source: Banca Profilo elaborations on Company data

Management: long experience and sound track record

Radici corporate governance, a family-oriented company

Radici's Board of Directors is made up of six members, appointed up to 2021, whereas the Board of Statutory Auditors is made up of five members, appointed up to 2022. Since its inception, Radici has been a family-oriented company and to date three out of the six BoD's members belong to the Radici's family. Over the years, the family governance model has ensured business stability and medium-long term corporate policies that have led Radici to expand both in new geographic markets and in new industries.

Marco Antonio Radici, Chairman

Marco Antonio Radici is the Chairman of the BoD. He obtained his diploma as an accountant and commercial expert in 1982 and since 1992 he has been holding the position of Director, first as sole director and subsequently as President of the Board of Directors. From 2003 to 2015 he has been a member of the Board of Directors of Radici Tappeti Srl and from 2016 to 2018 he has been a director of Radici Casa Srl.

Palmiro Radici, Vice Chairman

Palmiro Radici, is Vice President of the BoD. He has taken on significant roles within Radici since the 1970s, when he integrated the supply chain upstream and contributed to the company's internationalization process. In 2001 he was awarded the honoris causa degree in management engineering by the University of Bergamo and from the same year, until 2013, he held the role of managing director of the Itema Group, a company active in the production of weaving machines. Among other roles, he was president of S.A.C.B.O. SpA, management company of "Il Caravaggio" Airport of Bergamo Orio al Serio, he was vice-president of Credito Bergamasco, and is a member of the BoD of Itema Holding SpA, F.I.R.S.T. SpA, Fimtexitile SpA and SAAR Elettronica SpA. He has the honor of Cavaliere del Lavoro and is president of the BoD of Miro Radici Family of Companies SpA. Since March 2020 he holds the position of Chairman of the Board of Directors of AssoAim, the association representing SMEs listed on the AIM market.

Ivan Palazzi, CEO

Ivan Palazzi is the Group's CEO. After the electrical engineering diploma in 1987, he obtained the executive MBA Pegaso at the MIP Politecnico di Milano in General Management. After working for Manifattura Automatica and for Fibrilia, he gained experience on an international scale, first in China and subsequently in Germany, respectively as project leader at Shandong Europeyarn and as Chief Operating Officer for Europeyarn Gmbh. Before joining Radici in 2012, he held the position of Chief Operating Officer at Lamiflex SpA.

Giovanni Natali, non-executive Director

Giovanni Natali is a non-executive Director. He graduated in 1990 in Economics at the University of Bergamo. Since 1991 he has carried out his professional activity as controller, administrative and financial manager. From 1991 to 2003 he was appointed CFO firstly in Mariella Burani Fashion Group and then in Negri Bossi SpA. From 2004 to 2008 he held the position of CEO in Compagnia Italiana Turismo SpA, Toora SpA and in Investimenti e Sviluppo SpA. In 2008 he founded Natali e Partners Srl, now Ambromobiliare SpA, for which he was Chairman (until 2010) and CEO (until 2017). Today he is CEO of 4aim Sicaf SpA.

Aineta Mery Stephens Sifontes, non-executive Director

Aineta Mery Stephens Sifontes is a non-executive Director. After graduating in Business Administration, Accounting and Finance from the Américo Vespucio Technological Institute, she gained several experiences in various sectors, mainly administration and accounting, customer service and security. From 2016 to 2019 she held the position of Chairman of the Board of Directors of Federal Vigilanza Srl.

Sergio Patriarca, independent Director

Sergio Patriarca is the independent Director. After graduating in Law from the University of Pavia in 1981, he enrolled in the Bar Association and obtained a PhD from Bocconi University. In 1998 he became Associate Professor at the Faculty of Economics and Business of the University of Insubria and in 2001 full professor of Commercial Law. He has been working within the studio founded by Prof. Giulio Tremonti since its origins, dealing with advisory in civil and commercial law and M&A.

Figure 13: Composition of the Board of Directors

Board of Directors	Role	Executive	Non-executive	Independent	Birth year	Gender	Specialization
Marco Antonio Radici	Chairman	x			1963	M	Accountant and commercial expert
Palmiro Radici	Vice Chairman	x			1941	M	Textile industry expert
Ivan Palazzi	CEO	x			1969	M	Administrative and operational expert
Giovanni Natali	Director		x		1966	M	Administrative and financial management expert
Aineta Mery Stephen Sifontes	Director		x		1982	F	Administrative and accounting expert
Sergio Patriarca	Director		x	x	1958	M	Law expert

Source: Banca Profilo elaborations on Company data

Giuseppe Morettini, Investor Relator

Outside the Board of Directors, yet among other relevant figures in the Company, Giuseppe Morettini, previously Head of the Legal Department, holds the position of Investor Relator. Among other responsibilities, he also represents, at every stage, state and degree, the Company before any jurisdictional body.

Historical operating and financial performance

Main operating and financial data

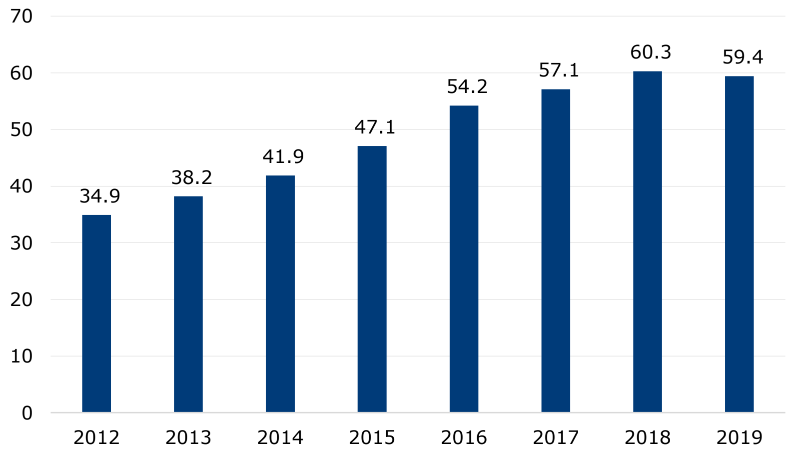
Data are "Pro Forma" to ensure comparability between financial years

First of all, it is necessary to premise that within our model and within our projections, in order to ensure comparability between different financial years which refer to different corporate perimeters, we have used the "Pro Forma" data, which differs from consolidates ones. This main difference is attributable to the sale of 51% of ROI to the parent company, Miro Radici Family of Companies SpA, in 2019: the event allowed the realization of revenue previously suspended as made between the companies of the same consolidation area.

8% revenue CAGR in 2012-2019

Since 2012, when the current management was established, Radici has almost doubled its turnover to €59mln (CAGR 2012-2019 equal to 8%), exporting in almost 90 countries the excellence of Made in Italy.

Figure 14: Turnover evolution 2012 -2019 (€, mln)



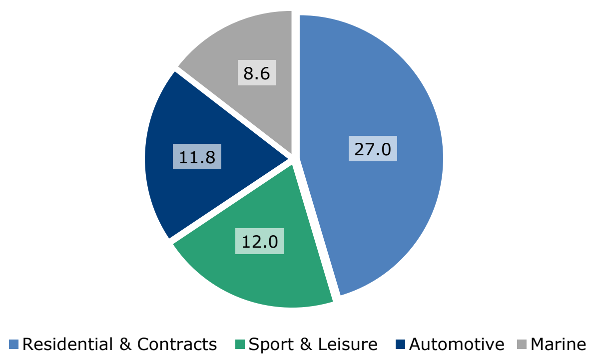
Source: Banca Profilo elaborations on Company data

Pro Forma revenue averaged €60mln in the 2018-2019 period

Radici's revenue in the 2018-2019 period averaged €60mln, of which around 45% related to the Residential & Contract flooring segment. The remaining part is divided between Automotive (20%), Sports & Leisure (20%) and Marine (15%). In 2019, the Residential & Contracts segment recorded an 8% yoy drop, due to the temporal translation of some orders. On the other hand, the Marine and Automotive segments marked an increase of 10% and 8% respectively, while revenue from artificial turf stood broadly in line with 2018.

Other revenue and income came in at €3.8mln in 2019, recording an increase of €2.2mln due to the effect of the deconsolidation of the investment in ROI.

Figure 15: Radici's 2019 revenue breakdown by reference end-market (€, mln)



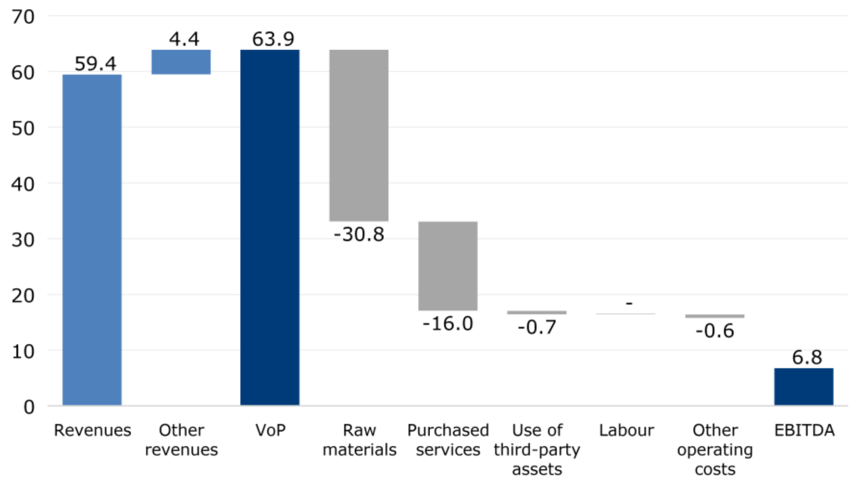
Source: Banca Profilo elaborations on Company data

Cost of goods sold breakdown

The costs of goods sold represent on average 96% of revenue and 91% of the Value of Production (VoP). Their incidence among the different components is divided as follows:

- Costs for raw materials, equal to 54% of the COGS: purchase costs of the material and the cost of the accessory services connected to it (transport costs, customs, etc.);
- Cost of purchased services, equal to 28% of COGS: costs incurred for external processing, for technical consultancy and various industrial services. The 3% increase that occurred in 2019 is attributable to a different production mix that required a greater use of external processes on some types of products;
- Cost of labour, equal to 16% of COGS and down 1% yoy thanks to the continuous optimization of internal resources;
- Costs for the use of third-party assets, around 1% of COGS, mainly rental fees and costs for the use of the FIFA license for sports fields.

Figure 16: 2019 cost structure (€, mln)



Source: Banca Profilo elaborations on Company data

EBITDA margin at 11.4% in 2019

Pro Forma EBITDA stood at €6.8mln, corresponding to a €2.2mln increase in absolute value and a 47% yoy growth. EBITDA Margin on revenue improved from 7.7% in 2018 to 11.4% in 2019, mainly attributable to the effect of ROI deconsolidation. Net of this operation, EBITDA would have been around €4.8mln, up 4% yoy, while at the margin level there would have been an improvement to 8.1%.

Net income margin at 9.4% in 2019

Pro Forma Net Income, equal to €5.6mln in 2019, increased significantly compared to €1.4mln in 2018, with a margin of 9.4% on revenue compared to 2.2% in 2018. This increase is due to the increment in net financial income to €2.0mln from -€0.3mln in 2018 attributable to the deconsolidation of the investment in ROI (equal to €3.2mln), only partially offset by an increase in net financial expense.

Table 1: Radici Profit & Loss 2018-2019 Pro Forma (€, mln)

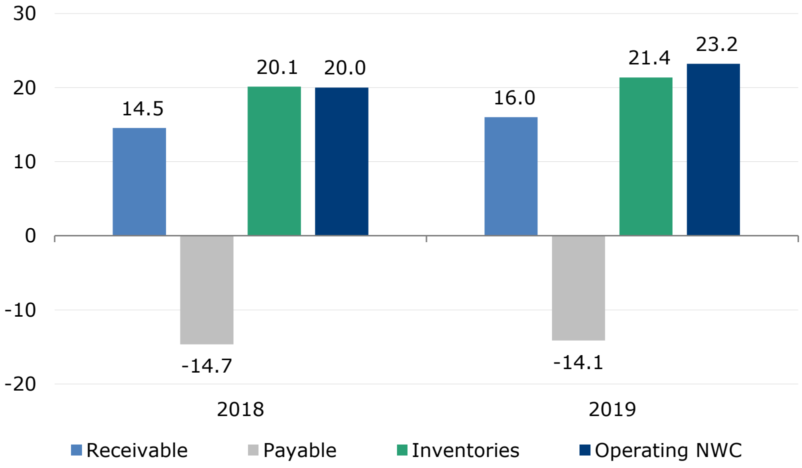
Profit & Loss (€ mln)		
	2018 PF	**2019 PF**
Revenues	**60.3**	**59.4**
yoy		*-1%*
Changes in unfinished & finished goods	-0.1	0.8
Changes in fixed assets for internal works	0.6	0.3
Other Revenues	1.2	3.4
Value of production	**62.1**	**63.9**
yoy		*3%*
Cost of raw materials	(30.5)	(30.8)
% on revenues	*51%*	*52%*
Cost of purchased services	(15.5)	(16.0)
% on revenues	*26%*	*27%*
Costs for the use of third-party assets	(0.6)	(0.7)
% on revenues	*1%*	*1%*
Labour cost	(9.4)	(9.3)
% on revenues	*16%*	*16%*
# employees		241
Labor cost per unit		(39)
Purchases and changes in inventories	(0.7)	0.4
% on revenues	*1%*	*-1%*
Other operating costs	(0.6)	(0.6)
% on revenues	*1%*	*1%*
Cost of goods sold	**(57.5)**	**(57.1)**
EBITDA	**4.6**	**6.8**
EBITDA Margin on revenues	*7.7%*	*11.4%*
D&A	(2.6)	(2.8)
% on revenues	*4%*	*5%*
EBIT	**2.0**	**4.0**
EBIT Margin on revenues	*3.4%*	*6.7%*
Net financial income (expenses)	(0.4)	2.0
% on revenues	*1%*	*-3%*
Financial adjustments	(0.0)	(0.3)
EBT	**1.7**	**5.8**
EBT Margin on revenues	*3%*	*10%*
Income Tax Expense	(0.1)	(0.2)
Tax rate	*4.4%*	*2.9%*
Net Income	**1.6**	**5.6**
Net Income Margin on revenues	*2.6%*	*9.4%*

Source: Banca Profilo elaborations on Company data

NOWC stood at €23.2mln in 2019, with a 39% incidence on revenue

As for the Balance Sheet, Net Operating Working Capital stood at €23.2mln in 2019, with an incidence on revenue increasing from 33% in 2018 to 39% in 2019. This increase is mainly attributable to an increase in commercial relations with customers with higher average payment terms, as well as the simultaneous reduction in trade payables.

Figure 17: Operating NWC variations, 2018-2019 (€, mln)



Source: Banca Profilo elaborations on Company data.

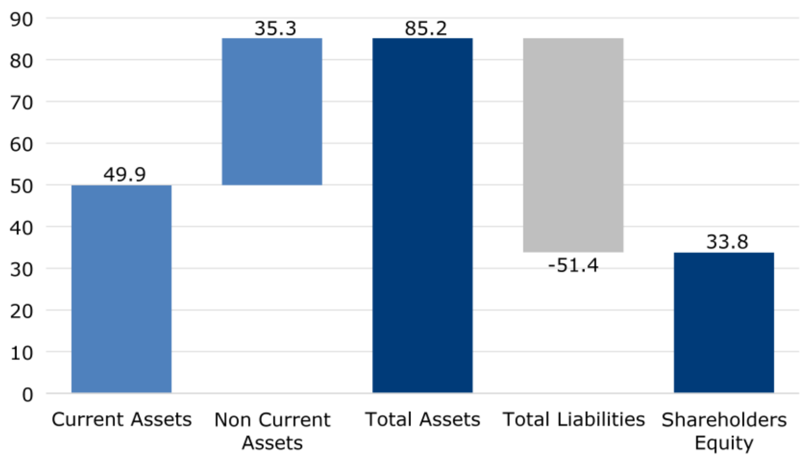
The NFP adjusted was negative for €18.7mln in 2019

The Pro Forma Net Financial Position at the end of 2019 was equal to €22mln, an improvement of €7.6mln compared to the previous year. Net of debts and credits to the parent company MRFoC, mainly related to the deconsolidation of ROI, the Net Financial Position adjusted stood at €18.7mln, an improvement of €4.5mln compared to 2018 and is made up of €20.3mln of debts to banks (€21.6mln in 2018), €1.6mln of debts to other lenders (€1.8m in 2018), and cash and cash equivalents of €2.9mln.

Shareholders' equity amounted to €33.8mln in 2019

Shareholders' equity amounted to €33.8mln in 2019 compared to €24.3mln in 2018, a change mainly attributable to the 2019 net profit and to the increase in share capital relating to the listing operation on AIM Italia and for the exercise of issued warrants.

Figure 18: Main 2019 Balance Sheet figures (€, mln)



Source: Banca Profilo elaborations on Company data.

Table 2: Radici Balance Sheet Pro Forma 2018-2019 (€, mln)

Balance Sheet (€ mln)	2018 PF	2019 PF
Intangible Assets	0.3	1.4
Property, Plant & Equipment	34.1	32.8
Financial Assets	1.3	0.0
Fixed Assets	**35.7**	**34.2**
Trade Receivable	14.5	16.0
Inventories	20.1	21.4
Trade Payable	(14.7)	(14.1)
Net Operating Working Capital	**20.0**	**23.2**
% on revenues	*33%*	*39%*
trade receivables (% on revenues)	*24%*	*27%*
inventories (% on revenues)	*33%*	*36%*
trade paybles (% on COGS)	*26%*	*25%*
Other current assets	6.3	6.2
Other current liabilities	(2.1)	(2.1)
Non current assets	1.0	1.1
Non current liabilities	(7.0)	(6.8)
Of which Funds	(1.9)	(1.9)
Of which tax payable	(5.0)	(4.9)
Invested Capital	**54.0**	**55.8**
Capex	**2.4**	**2.9**
Intangible	0.3	1.6
Tangible	2.1	1.3
% on revenues	*4%*	*5%*
Shareholders' equity	24.3	33.8
Share capital	25.6	36.8
Reserves and Retained Earnings	(1.3)	(3.0)
Share capital attributable to third parties	0.0	0.0
Minotiries	0.0	(0.0)
Equity	**24.3**	**33.8**
Net Financial Position (Cash)	**29.7**	**22.0**
Cash and cash equivalents	(0.3)	(2.9)
Liquid financial investments	0.0	(3.2)
Suplus funds	0.0	(0.2)
Debts	29.9	28.4

Source: Banca Profilo elaborations on Company data

In 2019, Radici's Free Cash Flow was positive for €0.5mln

For a lack of comparability of Free Cash Flow data, attributable to two different consolidation perimeters, we will only analyze the Pro Forma Cash Flow of 2019. In 2019, Radici's Free Cash Flow was positive for €0.5mln, already subtracted Operating Working Capital needs equal to €3.2mln, and a total of €2.9mln of capex. Operating NWC needs are mainly attributable to the higher average payment terms, as well as the simultaneous reduction in trade payables. Capex represent on average approximately 4% of revenue and are mainly invested in tangible assets (about 85%) for the maintenance and the modernization of plants and machineries.

Table 3: Radici Cash Flow 2018-2019 (€, mln)

Cash Flows (€ mln)		
	2018 PF	**2019 PF**
EBIT	2.0	4.0
Tax rate	4%	3%
NOPAT	**1.9**	**3.9**
D&A	2.6	2.8
Operating Cash Flow	4.5	6.7
Changes in Funds	(1.0)	(0.0)
Changes in Operating NWC	(2.7)	(3.2)
Capex	(2.4)	(2.9)
Free Cash Flow	**(1.5)**	**0.5**

Source: Banca Profilo estimates and elaborations on Company data

Strategy and estimates

Corporate strategies

A clear path of growth

For the next years, Radici is set to expand its business and improve margins progressively, mainly thanks to organic growth and production efficiency. The main drivers will be:

i) the narrowing of the production gap which will allow to increase turnover without increasing the fixed cost structure, having Radici available production capacity;
ii) the consolidation of existing commercial relationships and the expansion of the same in Eastern Europe, the Middle East and North Africa;
iii) the creation of innovative and increasingly sustainable product lines;
iv) the intensification of marketing activities and collaboration with design and architecture firms to increase Radici's influence on the market;
v) the reduction of energy costs and the consequent improvement of margins, thanks also to the investment in a 1.2MW co-generator of electricity and hot water.

Potential economic impact of Covid-19 and related containment measures

The measures to contain the pandemic from Covid-19 forced the production plant of Cazzano Sant'Andrea to close from March 23 until April 26; the Company also stopped, at its discretion, the activities in the Hungarian subsidiary. We estimated that the production stop led to a 30% drop in revenue in March, and almost zero turnover in April, offset only in a small extent by commercial activities in the United States which remained operational during the lockdown period. The order backlog remains however important, with a trend differentiated from sector to sector.
To partially offset the effects of the closure of the production plants, the Company has implemented a series of cash outflow containment measures, such as: i) the use of the Italian mechanism for unemployment benefits (i.e. "Cassa Integrazione"), ii) the postponement to 2021 of non-deferrable investments, and iii) the extension of maturities of self-liquidating credit lines.

2020-2022 Business Plan: €68mln of revenue in 2022

On 16 June 2020, Radici presented the 2020-2022 Business Plan, as approved by the Board of Directors. The Company expects to record €41mln of revenue in 2020, -31% yoy, and to reach €68mln in 2022, growing at a CAGR 2020-2022 of 29%. EBITDA is expected at €1.4mln in 2020 and almost equal to €7mln in 2022, with an EBITDA Margin close to 10% in 2022. Capex are projected at cumulated €9mln over the three-year period, mainly intended for the purchase of plants and machinery, to improve production efficiency, and for the purchase of a co-generator of electricity and hot water which will significantly reduce the cost of energy.
On the occasion of the presentation of the Business Plan, the Management has once again demonstrated its seriousness and transparency towards investors, having been one of the few companies listed on the AIM segment of Borsa Italiana to have done so.

Our estimates 2020E-2023E

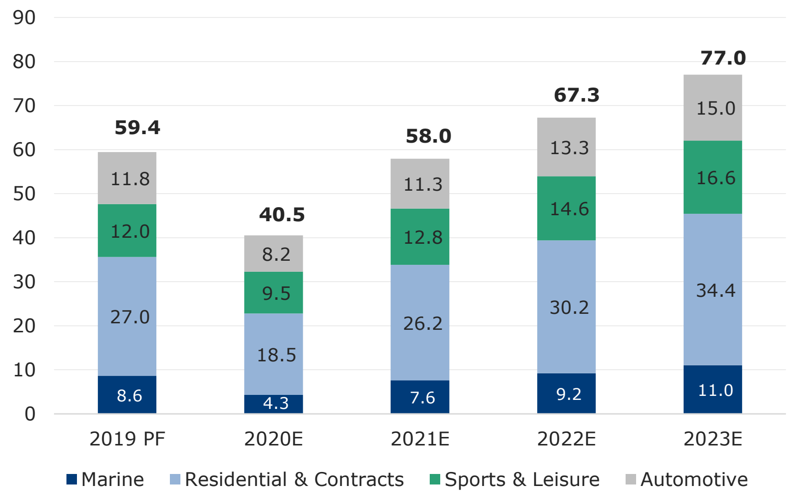
Revenue estimates

Our estimates are on Radici Pietro Group as is, stand alone and at constant exchange rates.
Our assumptions on revenue start from a top-down approach to arrive at bottom-up assumptions specific to the Company. Starting from the geographical and sectoral breakdown of revenue, we have crossed the macroeconomic projections of the geographical areas in which Radici operates (Italy, Europe, the United States and rest of the world) with the microeconomic projections of the reference markets for the Group (Residential & Contracts, Marine, Automotive, and Artificial Turf markets). To then best adapt this calculation to Radici's business, we have made the following assumptions:

- for 2020 we have estimated a more severe contraction than that of the reference markets, in light of the total production stop from late March to early April, and since we believe that in this market context mid & small caps will face more difficulties than large industrial groups. In sectoral terms:
    i) Marine and Automotive are expected to suffer the most, with impact of the partial stop to investments by car manufacturers and cruise operators. Revenue from the Marine sector are expected to drop by 50% yoy in 2020, while those in the Automotive sector by 30% yoy;
    ii) the Residential & Contract sector is also expected to decline sharply, by 32% yoy, due to customer delays in modernization and restoration, along with the stop of construction sites during the lockdown;
    iii) the Artificial Turf sector is currently the most resilient one, both as regards orders and installations, on a both national and global scale, revenue are expected to drop by 21% yoy.
- from 2021 onwards, we made specific assumptions on the performance of the Company in the four main reference markets:
    i) we hypothesized above-average growth in the Marine sector, led by: a) the potential consolidation of commercial relationships already in place, b) the Company's stated intentions to expand in those sectors characterized by higher margins, and c) the shift of cruise operators' preferences towards higher quality products, a trend that we expect will lead European companies to increase market share at the expense of Chinese companies. On a geographic level, we expect that most of the new orders related to the Marine will be carried out in the United States, for a consolidation of the commercial relationship in place with an important US-based leading cruise operator. In terms of numbers, we expect revenue to reach €11mln in 2023, growing at a 2020E-2023E CAGR of 37%.
    ii) revenue in the Artificial Turf market (Sports & Leisure) are estimated in line with the market trend, already very strong. We estimated that most of the new orders related to this market will be carried out in the rest of the world, particularly in Africa, being Radici already in advanced talks with the ministries of sport of some African countries for the supply of artificial turf. In terms of numbers, we expect revenue to reach almost €17mln in 2023, growing at a 2020E-2023E CAGR of 20%.
    iii) within the Residential & Contracts segment, we estimated growth above the market average, given the Company's intentions to expand geographically in emerging markets, characterized by rapid population growth and urbanization. Among these, the Company has already planned a commercialization strategy in the Middle East, especially in the United Arab Emirates, Qatar and Oman. In terms of numbers, we expect revenue to reach €34mln in 2023, growing at a 2020E-2023E CAGR of 23%.
    iv) in the Automotive segment, we estimated a trend higher than that of the reference market. Although the Automotive market may see a drop in the volumes of vehicles produced, we expect Radici to increase its market share, thanks to a consolidation of existing commercial relationships that will lead to new orders linked to the launch of new models. To date, the Company has commercial relationships with about 8 car manufacturers. We estimate that Radici will be able to conquer market shares mainly in the United States, thanks to a product with a quality-price ratio higher than its US competitors. In terms of numbers, we expect revenue to reach €15mln in 2023, growing at a 2020E-2023E CAGR of 22%.

Total revenue are expected to decrease by 32% yoy in 2020, to €40.5mln, to then grow at a 2020E-2023E CAGR of 24%, reaching €77mln in 2023.

Figure 19: Radici revenue trend 2019-2023E (€, mln)



Source: Banca Profilo elaborations and estimates on Company data

Cost assumptions

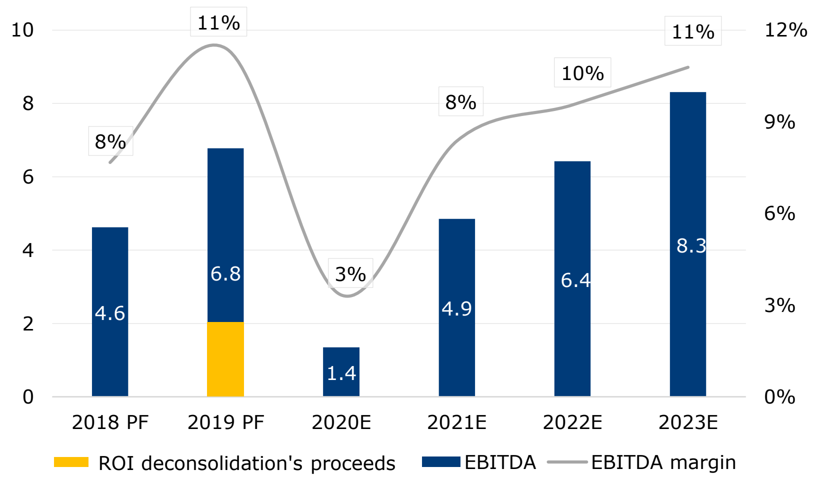
In 2020, the incidence of Cost of goods sold on revenue is expected to drop from 96% to 92%, due to a decrease in the incidence of Raw materials which should more than offset the increase in the incidence of Labour cost. In the three-year period 2021-2023, the incidence of COGS is estimated on average at 93%, on lower levels than in 2019 thanks to an increase in productivity and the reduction of utilities costs.

- Cost of materials: in 2020 the incidence on revenue is expected to drop to 40% from 52% in 2019, due to the increase in stock of raw and semi-finished materials which, if considered, would increase the total incidence at a level almost in line with previous years. From 2021 to 2023 the incidence on revenue is expected to increase up to 55%, due to a change in the production mix that will increasingly converge towards high quality products.
- Cost of purchased services: in 2020 we expect an increase in the incidence on revenue to 30.5%, only due to the drop of turnover; from 2021, costs incurred for external processing, technical consultancy and various industrial services are expected to converge, in proportion to revenue, towards 2018-2019 levels.
- Labour costs: for 2020 we assume a 23% yoy contraction, resulting in an increase in the incidence on revenue from 15.5% to 17%; during the current year, the cost of labour will be partially amortized by the use of the "Cassa Integrazione", but, being largely characterized by fixed costs, we assume that it will contract in a less than proportional way compared to revenue. From 2021 to 2023 we estimate the average cost per employee constant, setting it equal to the cost recorded in 2019 (39k) and we assume new hires, equal to 12 in 2022 and 10 in 2023.
- Other operating costs: we assume a sharp drop compared to 2019; in 2020 due to the collapse of electricity and gas tariffs, in 2021 as the Company intends to invest in a 1.2MW co-generator which would allow to internally produce about 80% of the electricity used in the Cazzano Sant'Andrea plant.

After the drop in 2020, EBITDA is expected to grow at a 2020E-2023E CAGR of 82%

EBITDA is expected to drop at €1.4mln in 2020, -80% yoy, with an EBITDA margin declining to 3.2% from 11% in 2019. It must be however considered that in 2019 EBITDA included approximately €2mln of extraordinary income deriving from the deconsolidation of ROI. Over the next three years, EBITDA is expected to grow at a 2020E-2023E CAGR of 82%, reaching €8.1mln in 2023. The EBITDA margin is expected to improve steadily, from 3.2% in 2020 to 11% in 2023.

Figure 20: EBITDA (€, mln) and EBITDA margin (%) trend 2018-2023E



Source: Banca Profilo elaborations and estimates on Company data

D&A falling in 2020 and then increasing in the 2021-2023 period, reflecting Company's investment intentions

D&A is expected to decline in 2020, due to the end of some depreciation and the decrease in capex; in the 2021-2023 three-year period, D&A is estimated to increase at a €3mln average per year, due to the Company's investment plan which provides for a total of €10.6mln in the period. On a prudential level, we set some write-downs of working capital as regards credits and inventory, equal to €0.8mln in 2020 and €0.1mln from 2021 onwards.

Tax rate at 4%

Tax rate is estimated at 4%, corresponding to the payment of IRAP only, as the IRES taxable income is transferred to the parent company and offset by previous group tax losses, currently sufficient to offer medium term coverage.

In 2020 the Company is expected to close at a loss of €2.4mln Recovery is expected since 2021

In 2020 the Company is expected to close the full year at a loss of €2.4mln. Recovery should start since 2021, year in which Net income is expected at €1.2mln and then grow at a 95% CAGR in the following two years, reaching €4.5mln in 2023.
The margin on revenue is estimated to remain below the levels recorded in 2019 due to the impact of depreciation on EBIT, following the significant investments planned by the Company in the 2021-2023 period.

Table 4: Radici Profit & Loss 2018-2023E (€, mln)

Profit & Loss (€ mln)	2018 PF	2019 PF	2020E	2021E	2022E	2023E
Revenue	**60.3**	**59.4**	**40.5**	**58.0**	**67.3**	**77.0**
yoy		*-1%*	*-32%*	*43%*	*16%*	*15%*
Changes in unfinished & finished goods	-0.1	0.8	-2.0	0.3	1.4	2.5
Changes in fixed assets for internal works	0.6	0.3	0.0	0.0	0.0	0.0
Other Revenues	1.2	3.4	0.2	0.2	0.2	0.2
Value of production	**62.1**	**63.9**	**38.7**	**58.5**	**68.9**	**79.8**
yoy		*3%*	*-39%*	*51%*	*18%*	*16%*
Cost of raw materials	(30.5)	(30.8)	(16.1)	(29.0)	(35.5)	(42.2)
% on revenues	*51%*	*52%*	*40%*	*50%*	*53%*	*55%*
Cost of purchased services	(15.5)	(16.0)	(12.4)	(15.6)	(18.0)	(19.3)
% on revenues	*26%*	*27%*	*31%*	*27%*	*27%*	*25%*
Costs for the use of third-party assets	(0.6)	(0.7)	(0.5)	(0.6)	(0.6)	(0.6)
% on revenues	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*
Labour cost	(9.4)	(9.3)	(7.0)	(9.3)	(9.8)	(10.2)
% on revenues	*16%*	*16%*	*17%*	*16%*	*15%*	*13%*
# employees		241	241	241	253	263
Labor cost per unit		(39)	(29)	(39)	(39)	(39)
Purchases and changes in inventories	(0.7)	0.4	(1.3)	0.8	1.4	0.8
% on revenues	*1%*	*-1%*	*3%*	*-1%*	*-2%*	*-1%*
Other operating costs	(0.6)	(0.6)	(0.1)	(0.1)	(0.1)	(0.1)
% on revenues	*1%*	*1%*	*0%*	*0%*	*0%*	*0%*
Cost of goods sold	**(57.5)**	**(57.1)**	**(37.4)**	**(53.7)**	**(62.5)**	**(71.5)**
EBITDA	**4.6**	**6.8**	**1.4**	**4.7**	**6.3**	**8.3**
EBITDA Margin on revenues	*7.7%*	*11.4%*	*3.3%*	*8.2%*	*9.4%*	*10.8%*
D&A	(2.6)	(2.8)	(2.6)	(2.9)	(3.2)	(3.0)
% on revenues	*4%*	*5%*	*6%*	*5%*	*5%*	*4%*
Write-downs	(0.2)	0.0	(0.8)	(0.1)	(0.1)	(0.1)
EBIT	**1.9**	**4.0**	**(2.1)**	**1.8**	**3.1**	**5.2**
EBIT Margin on revenues	*3.1%*	*6.7%*	*-5.1%*	*3.1%*	*4.6%*	*6.8%*
Net financial income (expenses)	(0.4)	2.0	(0.3)	(0.7)	(0.7)	(0.4)
% on revenues	*1%*	*-3%*	*1%*	*1%*	*1%*	*1%*
Financial adjustments	(0.0)	(0.3)	0.0	0.0	0.0	0.0
EBT	**1.5**	**5.8**	**(2.4)**	**1.1**	**2.4**	**4.8**
EBT Margin on revenues	*2%*	*10%*	*-6%*	*2%*	*4%*	*6%*
Income Tax Expense	(0.1)	(0.2)	0.0	(0.0)	(0.1)	(0.2)
Tax rate	*4.4%*	*2.9%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*
Net Income	**1.4**	**5.6**	**(2.4)**	**1.0**	**2.3**	**4.6**
Net Income Margin on revenues	*2.4%*	*9.4%*	*-5.8%*	*1.8%*	*3.4%*	*6.0%*

Source: Banca Profilo elaborations and estimates on Company data

Balance Sheet projections

Regarding our Balance Sheet projections (2020E-2023E):

- as regards fixed assets, no significant changes are expected, with the exception of a possible divestment in 2023 of a non-strategic property, currently rented to third parties, with a potential revenue in the order of €4mln;

Capex equal to €11.6mln over the 2020-2023 period

- capex should total €11.6mln over the 2020-2023 period. Given the current situation, capex will see a reduction in 2020, at €1.5mln, to then increase to an annual average of €3.4mln over the 2021-2023 period: investments will mainly be made in tangible assets, aimed at the acquisition of new production plants and the modernization of existing ones, in order to increase production efficiency; the Company has in fact still 1/3 of total production capacity available. The most important investment is expected to be the 1.2MW co-generator, equivalent to about €2mln;

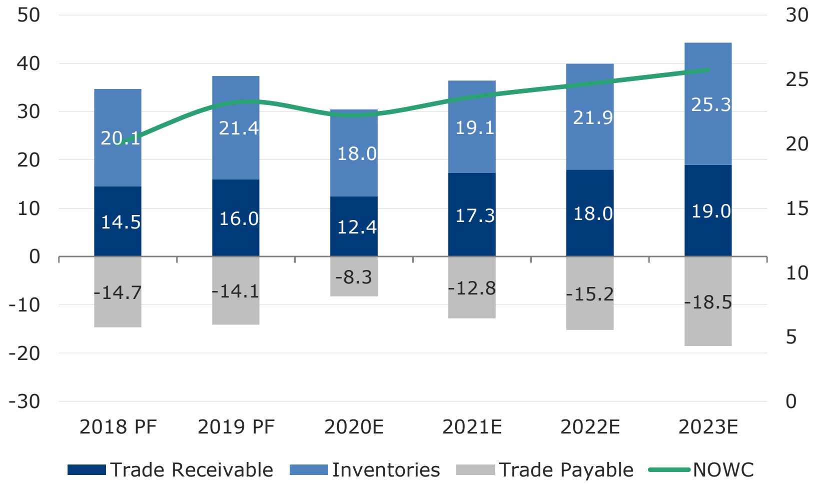
Operating NWC at 37% of revenue from 2021

- Operating Net Working Capital is estimated to increase by €2.5mln in four years due to the increase in turnover: the incidence on revenue is expected to grow to 55% in 2020 to then progressively decline in the following three years, with an average of 37%;
- due to the offsetting of debts-credits towards the parent company following ROI's deconsolidation, receivables from parent company will be zeroed;

Net Financial Position is expected to decline progressively, until reaching €10.0mln in 2023

Net Financial Position is expected to decline progressively, to €19.6mln in 2020 until reaching €10mln in 2023. The improvement in 2020 is attributable to the total offsetting of debts-credits with the parent company, with liquid financial investments and debts to parent company zeroed. The sharp drop estimated in 2023 is mainly attributable to the partial repayment of debts, thanks also to the potential revenue deriving from the disposal of a property with a potential value of €4mln.

Figure 21: Net working capital composition and dynamics in 2018-2023E (€, mln)



Source: Banca Profilo elaborations and estimates on Company data

Table 5: Radici Balance Sheet 2018-2023E (€, mln)

Balance Sheet (€ mln)	2018 PF	2019 PF	2020E	2021E	2022E	2023E
Intangible Assets	0.3	1.4	1.0	0.7	0.4	0.5
Property, Plant & Equipment	34.1	32.8	32.1	32.9	33.4	29.0
Financial Assets	1.3	0.0	0.0	0.0	0.0	0.0
Fixed Assets	**35.7**	**34.2**	**33.1**	**33.6**	**33.8**	**29.5**
Trade Receivable	14.5	16.0	12.4	17.3	18.0	19.0
Inventories	20.1	21.4	18.0	19.1	21.9	25.3
Trade Payable	(14.7)	(14.1)	(8.3)	(12.8)	(15.2)	(18.5)
Net Operating Working Capital	**20.0**	**23.2**	**22.2**	**23.6**	**24.7**	**25.7**
% on revenues	*33%*	*39%*	*55%*	*41%*	*37%*	*33%*
trade receivables (% on revenues)	*24%*	*27%*	*31%*	*30%*	*27%*	*25%*
inventories (% on revenues)	*33%*	*36%*	*44%*	*33%*	*33%*	*33%*
trade paybles (% on COGS)	*26%*	*25%*	*22%*	*24%*	*24%*	*26%*
Other current assets	6.3	6.2	2.3	2.7	2.9	3.1
Other current liabilities	(2.1)	(2.1)	(1.9)	(2.1)	(2.2)	(2.3)
Non current assets	1.0	1.1	1.1	1.0	1.0	1.0
Non current liabilities	(7.0)	(6.8)	(5.6)	(6.4)	(7.1)	(7.9)
Of which Funds	(1.9)	(1.9)	(1.6)	(1.6)	(1.5)	(1.5)
Of which tax payable	(5.0)	(4.9)	(4.0)	(4.8)	(5.6)	(6.4)
Invested Capital	**54.0**	**55.8**	**51.0**	**52.5**	**53.1**	**49.2**
Capex	**2.4**	**2.9**	**1.5**	**3.4**	**3.4**	**3.4**
Intangible	0.3	1.6	0.2	0.3	0.3	0.3
Tangible	2.1	1.3	1.4	3.0	3.0	3.0
% on revenues	*4%*	*5%*	*4%*	*6%*	*5%*	*4%*
Shareholders' equity	24.3	33.8	31.4	32.5	34.8	39.4
Share capital	25.6	36.8	36.8	36.8	36.8	36.8
Reserves and Retained Earnings	(1.3)	(3.0)	(5.4)	(4.4)	(2.1)	2.6
Share capital attributable to third parties	0.0	0.0	0.0	0.0	0.0	0.0
Minotiries	0.0	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Consolidated Shareholders' Equity	**24.3**	**33.8**	**31.4**	**32.5**	**34.8**	**39.4**
Net debt (cash)	**29.7**	**22.0**	**19.6**	**20.0**	**18.4**	**9.8**
Cash and cash equivalents	(0.3)	(2.9)	0.3	(1.0)	(2.0)	(2.7)
Liquid financial investments	0.0	(3.2)	0.0	0.0	0.0	0.0
Suplus funds	0.0	(0.2)	0.0	0.0	0.0	0.0
Debts	29.9	28.4	19.4	21.0	20.3	12.5

Source: Banca Profilo elaborations and estimates on Company data

Free Cash Flow of €4.7mln in in four years

According to our Profit & Loss and Balance Sheet estimates, we estimate €4.7mln of cumulated Free Cash Flow in four years, net of comprehensive of €11.6mln of capex and of €2.5mln of capex of NOWC needs.

Table 6: Radici Free Cash Flow 2017-2023E (€, mln)

Cash Flows (€ mln)	2018 PF	2019 PF	2020E	2021E	2022E	2023E
EBIT	1.9	4.0	-2.1	1.8	3.1	5.2
Tax rate	4%	3%	4%	4%	4%	4%
NOPAT	**1.8**	**3.9**	**(2.0)**	**1.7**	**2.9**	**5.0**
D&A	2.6	2.8	2.6	2.9	3.2	3.0
Operating Cash Flow	4.4	6.7	0.6	4.6	6.1	8.0
Changes in Funds	(1.0)	(0.0)	(0.2)	(0.1)	(0.1)	(0.0)
Changes in Operating NWC	(2.7)	(3.2)	1.0	(1.4)	(1.0)	(1.1)
Capex	(2.4)	(2.9)	(1.5)	(3.4)	(3.4)	(3.4)
Free Cash Flow	**(1.7)**	**0.5**	**(0.1)**	**(0.3)**	**1.6**	**3.5**

Source: Banca Profilo elaborations and estimates on Company data

Key risks

Estimates execution risks

Main risks to our projections are linked to: i) the stability of the network of agents and distributors, ii) the potential contraction of demand, iii) the obsolescence of products and/or services offered vs competitors, iv) the non-renewal of certifications, v) the potential losses coming from exchange rate fluctuations, and vi) potential issues related to environmental and workers' safety at work.
Among these, the risks with higher probability and significant potential impact on the business are: the risk associated with the stability of the network of agents and distributors and the risk of contraction of demand or of economic downturns. Regarding the other risks, or for their low likelihood of occurrence, or for their low potential impact on the business, we do not believe they could significantly affect our projections, unless exceptional events occur.

Risks associated with the stability of the network of agents and distributors
- medium-low likelihood
- high impact

For Radici, the network of agents and commercial distributors represents a fundamental element in the product sales processes. Initiatives from competing companies aimed at attracting agents and/or distributors who guarantee significant purchase volumes to Radici could adversely affect the Company's economic results, taking into account the fact that most agents have not entered into any post-contractual non-compete agreement. We evaluate this risk with a medium-low likelihood of occurrence but a high potential impact on the business.

Risks related to the contraction of demand:
- medium likelihood
- medium impact

The business of Radici, like any other company, is exposed to the potential risk of contraction in demand deriving from a reduction in the activity of the main customers, from the worsening of macroeconomic conditions, or from potential exogenous events, like the trade war. This risk is partially offset by the strong diversification of Radici's business which allows the Company to mediate the onset of potential drops in demand arising from a specific geographical area or a specific segment of activity. We evaluate this risk with a medium likelihood of occurrence and a medium potential impact on the business.

Risks related to the obsolescence of products and/or services offered vs competitors:
- medium-low likelihood
- medium impact

Radici's success partially depends on the ability to continue offering high value-added products that meet customer needs and on the ability to anticipate competing products on new market trends. It cannot be excluded that the Company makes evaluation errors or technical errors in the design, production and marketing of new products, but we believe that current management, as demonstrated in recent years, will largely mitigate this risk through: i) the constant monitoring of reference markets, ii) the careful business administration and management and iii) a precise business expansion strategy. The Global Flooring Market is however fragmented in nature with the presence of numerous small and large manufacturers which compete in terms of prices and quality. We evaluate this risk with a medium-low likelihood of occurrence and a medium-low potential impact on the business.

Risks related to environmental and workers' safety issues:
- medium-low likelihood
- low impact

Radici's activities are subject to legislation on environmental protection and workplace health and safety. In order to offset potential issues, Radici is in possession of an integrated environmental authorization ("AIA"), issued by Regione Lombardia and, starting from 2013, the Company has adopted an environmental management system, currently compliant with UNI EN ISO 14001:2015. We evaluate this risk with a medium-low likelihood of occurrence and a low potential impact on the business.

Risks associated with the non-renewal of certifications:
- low likelihood
- low impact

Radici has several system certifications (i.e., ISO certification) and product certifications, essential for the establishment and maintenance of commercial relationships with the main customers. The renewal of these certifications does not take place automatically and any non-renewal could make it necessary to incur costs that are not currently foreseeable. We evaluate this risk with a low likelihood of occurrence and a low potential impact on the business.

Risks associated with exchange rate changes:
- medium-low likelihood
- medium-low impact

Operating on an international scale, Radici is exposed to the risk of potential exchange rate fluctuations, especially with reference to the US dollar, mainly deriving from the commercial activity conducted by the subsidiary Radici USA. To limit this risk, the Company purchases part of raw materials in dollars.

Table 7: Risk matrix

Impact	Very high					
	High		Instability of the network of agents and distributors			
	Medium		Obsolescence of products and/or services offered vs competitors	Contraction of demand or economic downturns		
	Medium-Low		Exchange rate fluctuations			
	Low	Potential non-renewal of certifications	Environmental issues and workers' health and safety issues			
Potential impact on the business VS likelihood of occurrence		Low	Medium-Low	Medium	High	Very high
		Likelihood				

Source: Banca Profilo elaborations and estimates on Company data

High degree of attention in ESG issues, with remarkable initiatives in the environmental sustainability

Every active investor seeking value should be aware of how companies deal with environment, social and governance, since are factors which can improve or erode security value. We implemented an ESG analysis on Radici and we found out that, despite the Company has overall room for further improvements, it showed a very high degree of attention in all three areas, with remarkable initiatives in particular in the field of environmental sustainability. In order to communicate its commitment to the outside, Radici Pietro Industries & Brands SpA has prepared, for the year 2018, a "Sustainability Report" with the aim of obtaining the Corporate Social Responsibility (CSR) certificate.

Environment: circular economy and low environmental impact

Attention to the issue of the environmental sustainability takes concrete form in many aspects of Radici's productive life.

- Circularity is a key focus, and by controlling the entire production and distribution process, Radici is able to use recycled materials or to choose raw materials produced in a sustainable way, such as the New Zealand wool, which boasts high standards in the sustainable land management and in the welfare of farmed animals. Among the other low environmental impact raw materials used, in July 2019 Radici signed a strategic commercial agreement with Aquafil, one of the main nylon producers in the world: the agreement concerns the use of Aquafil's Econyl yarn, a particular yarn created from regenerated materials and entirely recyclable.
- In October 2019, Radici obtained the "Recyclable Plastic" Certification issued by the CSI Laboratory, for a new line of artificial turf called ReTURF, an innovative type of artificial turf, 100% recyclable, which can used both for sports fields and landscaping.
- The Company uses different technologies and production systems that are able to reduce electricity and natural gas consumption and water waste, with a final total low environmental impact. The Company has been able to reduce electricity and natural gas consumption by 30% and 39% respectively over the last 5 years.
- Radici implements a strict waste recovery policy and only 1/3 of the industrial waste produced is disposed of in disposal facilities.
- Finally, Radici, by involving the local community in its company life, reduces potential CO_2 emissions: employees, on average, live 7 km from the Company, and, among suppliers, local realities are preferred over others, where possible.

Social: strong connection with the Bergamo area

The social issues within Radici are very connected to the local area in which the Company operates, as the workforce resides on average 7km from the company.

- Radici takes care of the satisfaction of its staff, as the WFSGI PLEDGE CODE OF CONDUCT certifies. The Company promotes extensive training courses, both internal and external, and provides advanced contractual formulas for its employees.
- Radici ensures a high level of protection of the health of workers by minimizing the risks associated with the use of chemicals, in particular by complying with the REACH regulation, by prohibiting raw materials containing SVHC (substance of very high concern), and by prohibiting biocidal products within the productive cycle.
- Among workforce, the 29.6% are women, the less represented gender, showing room for improvement in achieving a gender balance.
- Finally, the Company is very attentive to social issues, by sponsoring every year local NGOs.

Governance: good starting point

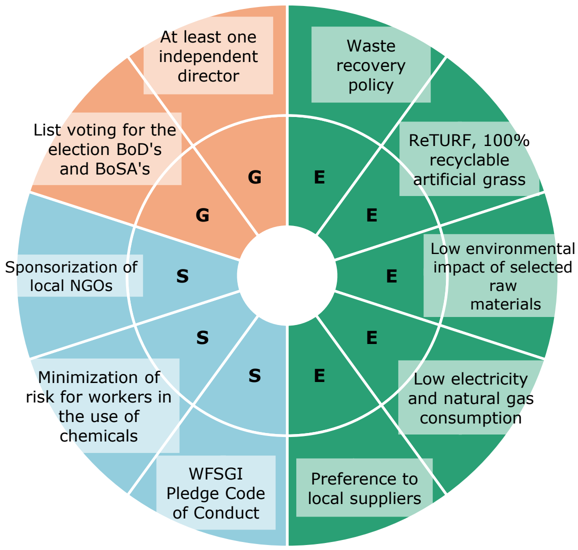
With regard to corporate governance, the Company has applied some provisions aimed at promoting transparency and the protection of minority shareholders, such as:

- by statute, the list voting for the election of the members of the Board of Directors and the Board of Statutory Auditors;

- by statute, the right to present lists for shareholders who, alone or together with other shareholders, hold at least 10% of the share capital;
- by statute, the appointment of at least one director who meets the independence requirements.

Although there are no special corporate governance requirements for companies listed on the AIM, we believe there are margins for improvement which mainly concern: i) the lack of internal committees related to remuneration and nomination of members that could avoid potential conflicts of interests, ii) the lack of a strong managerial imprint that can reduce dependence on family decisions, and iii) a greater diversification among members of the Board of Directors in terms of origin, age, personal skills and gender, an enrichment element that could stimulate creativity and push innovation.

Figure 22: ESG infographic



Source: Banca Profilo elaborations on Company data.

Valuation

DCF method and market multiples

Given Radici's predictability of cash flows, a DCF method well adapts as a valuation approach. Furthermore, we have selected a sample of listed international companies, "comparables" to Radici as producers of carpet and artificial turf, to run also a market multiple relative valuation.

DCF Valuation

DCF assumptions

To run a DCF model, we used our projections for the 2020E-2023E explicit period: €4.7mln of cumulated Free Cash Flow, including €11.6mln of cumulated capex.
In order to get to the Equity Valuation, we have considered our estimate of net debt at the end of 2020 (€19.5mln), given the credit-debt compensation relating ROI deconsolidation.

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

- a Free Cash Flow equal to €2.8mln, as the weighted average of 2022E and 2023E expected FCFs (40% and 60% respectively);
- 2% perpetual growth rate.

Table 8: Unlevered FCFs (€, mln)

Free Cash Flow (€ mln)	2018 PF	2019 PF	2020E	2021E	2022E	2023E	Over
EBIT	1.9	4.0	(2.1)	1.8	3.1	5.2	
Tax Rate	4%	3%	4%	4%	4%	4%	
NOPAT	**1.8**	**3.9**	**(2.0)**	**1.7**	**2.9**	**5.0**	
D&A	2.6	2.8	2.6	2.9	3.2	3.0	
Changes in Funds	(1.0)	(0.0)	(0.2)	(0.1)	(0.1)	(0.0)	
Changes in Operating NWC	(2.7)	(3.2)	1.0	(1.4)	(1.0)	(1.1)	
Capex	(2.4)	(2.9)	(1.5)	(3.4)	(3.4)	(3.4)	
Free Cash Flow (FCF)	**(1.7)**	**0.5**	**(0.1)**	**(0.3)**	**1.6**	**3.5**	**2.8**

Source: Banca Profilo estimates and elaborations

DCF assumptions: WACC at 6.9%

We applied a WACC of 6.9% derived from:

- risk free rate of 3.0%, as implicitly expected by consensus on the 30Y Italian BTP yield curve (moving average of the last 100 days) with an estimated increase in interest rates;
- market risk premium of 5%;
- beta of 1.46, coming from the average of chosen listed peers to Radici;
- debt to equity structure, with 51% weight of Equity;
- tax rate at 4%

Table 9: WACC calculation

WACC Calculation	
Perpetual growth rate	2.0%
WACC	**6.9%**
Risk free rate (Italy 30Y)	3.0%
Equity Risk Premium	5.0%
Beta	1.46
Cost of Equity	10.3%
Cost of Debt	3.6%
Tax rate	4.0%

Source: Banca Profilo estimates and elaborations

DCF Fair Value: €3.12/share

The DCF method leads us to an Enterprise Value of €47.2mln and an Equity Value of €27.5mln or €3.12/share.

Table 10: DCF valuation

DCF Valuation (€ mln, except for the target price)	2018 PF	2019 PF	2020E	2021E	2022E	2023E	Over
Free Cash Flow (FCF)			**(0.1)**	**(0.3)**	**1.6**	**3.5**	**2.8**
Years			1	2	3	4	
Discount factor			0.94	0.87	0.82	0.77	
NPV Cash flows			(0.1)	(0.3)	1.3	2.7	
Sum of NPVs			(0.1)	(0.4)	1.0	3.7	
Terminal Value							56.8
NPV Terminal Value							43.5
Enterprise Value							47.2
Net Debt 2020E							19.6
Minorities							(0.0)
Equity Value							27.5
Current outstanding shares							8.8
Equity Value per share (€)							**3.12**

Source: Banca Profilo estimates and elaborations

Relative Valuation on market multiples

EV/EBITDA used to assess the market multiples valuation of Radici

In order to assess a relative valuation of Radici through the market multiples approach, we selected a sample of listed international companies, "comparables" to Radici, specialized in the production and distribution of carpets and artificial turf: Balta, Tarkett, Victoria and Mohawk.

EV/EBITDA 2021E of 6.3x

Our sample shows an EV-EBITDA 2021E of 6.3x, from which we derived an Equity Value of €11.5mln, equal to a per share value of €1.30.

Table 11: Market multiples

Company	EV / Sales			EV / EBITDA		
10/06/2020	**2019**	**2020E**	**2021E**	**2019**	**2020E**	**2021E**
Victoria PLC	1.1x	1.2x	1.1x	6.1x	7.5x	6.3x
Tarkett SA	0.4x	0.5x	0.5x	5.2x	6.8x	5.2x
Balta Group SA	0.5x	0.7x	0.6x	5.2x	9.1x	5.0x
Mohawk Industries Inc	1.0x	1.3x	1.2x	7.6x	11.2x	8.8x
Mean	**0.8x**	**0.9x**	**0.8x**	**6.0x**	**8.7x**	**6.3x**
Median	**0.8x**	**1.0x**	**0.8x**	**5.7x**	**8.3x**	**5.7x**

Source: Banca Profilo estimates and elaborations on FactSet (as of June, 10th 2020)

Table 12: EV/EBITDA market multiple

Valuation on EV/EBITDA market multiple (€ mln, except for the price per share)	
10/06/2020	**2021**
EV/EBITDA best peers	6.3x
Radici's EBITDA	4.9
Enteprise Value	31.1
Net Debt 2020E	19.6
Current Minorities	0.0
Equity Value	11.5
Current outstanding shares amount	8.8
Price per share	**€ 1.30**

Source: Banca Profilo estimates and elaborations on FactSet (as of June, 10th 2020)

12-month target price at €2.2/share BUY recommendation

In order to assess current market valuation of the Covid-19 emergency scenario on Radici Pietro Group and to set a 12-month target price, we blended the Fair Value derived from the DCF valuation with the relative market multiples valuation.
We thus set our 12-month target price at €2.2/share as the average of the DCF and relative valuations, implying a potential of about 30% on Radici's closing price on June 15, 2020.
Our recommendation is BUY.

Radici Pietro "ID Card"

Recommendation	Target Price	Upside
BUY	**2.2 €**	**29%**

Company Overview

Radici was founded in 1950, in Cazzano S. Andrea (Bergamo), as a spinning factory for the design and production of woven carpet, blankets and bedspreads. Since then, Radici has gradually transformed itself into a small international Company active in almost 90 countries and serving more than 2,000 customers in four different industries. As of today, the Group manufactures and distributes carpets, artificial grass and other textile products for residential use and for customers of various industries such as car manufacturers, cruise operators, hotel chains and leading luxury firms. In 2019 the Company generated revenue for €59 mln (CAGR 2012-2019 at 8%), an almost double value compared to 2012, when the current management was established. In terms of geographical areas, the main markets are the Italian (~44% of FY19 revenue) and the European ones (~33%), with a residual part in the United States (~21%) and in the rest of the world (~2%). The business stands out for the visibility of its revenue, thanks to multi-year supply contracts, for the several product certifications and its unique plants and motor pool, both elements acting as barriers to entry, and for the high degree of production flexibility and product customization. Although the economic effects of Covid-19 and related containment measures will have a tangible impact on the financial results of 2020, the long-term drivers remain intact. Radici is set to expand its business and improve its margins further, thanks to: i) the narrowing of the production gap, ii) the consolidation of existing commercial relationships and the expansion of the same in Eastern Europe, the Middle East and North Africa, iii) the creation of new product lines, increasingly sustainable and innovative, and iv) the reduction of fixed and energy costs' incidence. According to our 2020E-2023E estimates, after the drop in 2020, revenue are expected to grow at a 24% CAGR to reach €77mln in 2023, and the EBITDA is seen above €8mln in 2023, with a margin of 10.8%.

SWOT Analysis

Strengths

- Partial revenue visibility, thanks to multi-year supply contracts
- Business diversification in terms of product, reference end-market and geographical market
- Different certifications on products and unique plants and motor pool that act as barriers to entry
- Production flexibility even for minimum volumes and strong degree of product customization

Weaknesses

- High incidence of Cost of Goods Sold on revenue, equal to about 95%
- Level of indebtedness which could partially limit the possibilities of financing for M&A operations

Opportunities

- Penetration of Emerging markets, characterized by rapid population growth and urbanization
- Increase in market share in the United States thanks to products with a better quality-price ratio than competitors
- Increasing demand for sustainable products, in line with the Company' remarkable initiatives in the environmental sustainability

Threats

- Shifting consumer preferences from soft to hard flooring in the residential segment
- Presence in markets characterized by a high competition
- Worse than expected market conditions after the Covid-19 outbreak

Main catalysts

Penetration of new geographical markets, especially in Emerging countries

Consolidation of existing commercial relationships and expansion of the customer base

Increase in turnover and efficiency related to the narrowing of the production gap

Creation of new product lines, increasingly sustainable and innovative

Main risks

Risks associated with the stability of the network of agents and distributors

Risks related to the contraction of demand and / or the deterioration of the macroeconomic context

Radici Pietro "ID Card"

Recommendation	Target Price	Upside
BUY	**2.2 €**	**29%**

June 16th, 2020 - 17:00

Main Financials

(€ mln)	2018	2019	2020E	2021E	2022E
Revenue	**60.3**	**59.4**	**40.5**	**58.0**	**67.3**
yoy change	*6%*	*-1%*	*-32%*	*43%*	*16%*
Cost of goods sold	(57.5)	(57.1)	(37.4)	(53.7)	(62.5)
Margin on revenue (%)	*95%*	*96%*	*92%*	*93%*	*93%*
EBITDA	**4.6**	**6.8**	**1.4**	**4.7**	**6.3**
yoy change		*47%*	*-80%*	*250%*	*34%*
EBITDA margin on revenue (%)	*8%*	*11%*	*3%*	*8%*	*9%*
EBIT	**1.9**	**4.0**	**-2.1**	**1.8**	**3.1**
EBIT margin on revenue (%)	*3%*	*7%*	*-5%*	*3%*	*5%*
EBT	1.5	5.8	(2.4)	1.1	2.4
Margin on revenue (%)	*2%*	*10%*	*-6%*	*2%*	*4%*
Net income	**1.4**	**5.6**	**(2.4)**	**1.0**	**2.3**
Margin on revenue (%)	*2%*	*9%*	*-6%*	*2%*	*3%*
Net debt (cash)	**29.7**	**22.0**	**19.6**	**20.0**	**18.4**
Consolidated Shareholders' Equity	24.3	33.8	31.4	32.5	34.8
Net Operating Working Capital	20.0	23.2	22.2	23.6	24.7
Capex	2.4	2.9	1.5	3.4	3.4
Free Cash Flow	(1.7)	0.5	(0.1)	(0.3)	1.6

Company Description

Company Sector	Building Materials
June 15th price (€)	1.7
Number of shares (mln)	8.8
Market Cap (€ mln)	15.1
Reference Index	FTSE AIM ITALIA
Main Shareholders	Miro Radici Family of Companies S.p.A.
Main Shareholder stake	71%
Free Float	23%
Daily Average Volumes	13,306
Sample of comparables	Victoria PLC, Tarkett SA, Balta Group SA, Mohawk Industries Inc

Breakdown by business unit

(€ mln)	2018	2019	2020E	2021E	2022E
Marine	7.8	8.6	4.3	7.6	9.2
Residential & Contracts	29.5	27.0	18.5	26.2	30.2
Leisure & Sport	12.0	12.0	9.5	12.8	14.6
Automotive	10.9	11.8	8.2	11.3	13.3
Revenue	**60.3**	**59.4**	**40.5**	**58.0**	**67.3**

Data of peers

	2018	2019	2020E	2021E
Revenue Growth (yoy)	*9%*	*6%*	*-17%*	*11%*
EBITDA Margin	*13%*	*12%*	*11%*	*13%*

Average data

Solvibility Ratios

	2018	2019	2020E	2021E	2022E
Net Debt (cash)/Equity	1.2x	0.7x	0.6x	0.6x	0.5x
Net Debt (cash)/EBITDA	6.4x	3.3x	14.5x	4.2x	2.9x
EBIT Interest Coverage Ratio	2.2x	5.0x	-3.0x	2.4x	4.2x

Financial and Operative ratios

	2018	2019	2020E	2021E	2022E
Operating WC Turnover	3.0	2.6	1.8	2.5	2.7
Asset Turnover	0.8	0.7	0.6	0.8	0.8
ROE	*6%*	*13%*	*5%*	*9%*	*12%*
ROA	*2%*	*7%*	*3%*	*5%*	*7%*
ROCE	*4%*	*15%*	*7%*	*10%*	*14%*
ROIC	*3%*	*17%*	*7%*	*14%*	*21%*

Source: FactSet, Banca Profilo estimates and elaborations

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