Banca Profilo

Company Update

Radici: solid growth drivers, despite a challenging market environment

RADICI

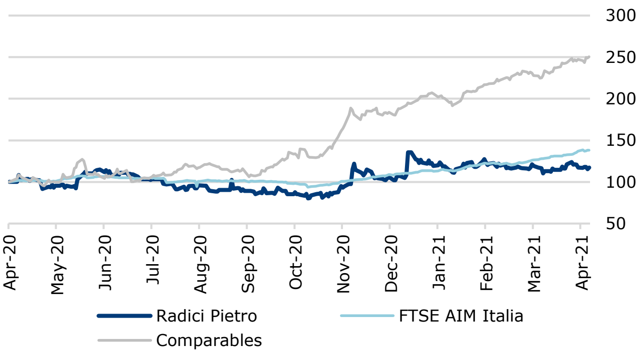
Monday 26th April, 2021, at 18:00

Target Price (€)	**2.4 from 2.2**
Recommendation	**BUY**
Price as of April 26th, 2021	1.82
Number of shares (mln)	8.8
Market capitalization (€, mln)	16.0
Performance	**from IPO**
Absolute	-41%
Max / Min	3.2/1.2
Average daily volumes	16,379

(€, mln)	2019	2020E	2021E	2022E	2023E
Revenue	**59.4**	**43.0**	**46.8**	**56.9**	**65.1**
yoy (%)	*-1%*	*-28%*	*9%*	*22%*	*14%*
EBITDA	**6.8**	**0.6**	**2.0**	**4.6**	**6.7**
margin (%)	*11%*	*1%*	*4%*	*8%*	*10%*
EBIT	**4.0**	**0.1**	**(0.2)**	**2.0**	**4.0**
margin (%)	*7%*	*0%*	*0%*	*4%*	*6%*
Net income	**5.6**	**(0.9)**	**(0.9)**	**1.3**	**3.4**
margin (%)	*9%*	*-2%*	*-2%*	*2%*	*5%*
Net Debt	**22.0**	**20.0**	**17.9**	**18.6**	**12.8**
Sh. Equity	33.8	32.5	31.5	32.9	36.2
CapEx	2.9	2.2	1.1	3.4	3.2
FCF	**0.5**	**3.3**	**0.0**	**0.3**	**1.8**

Source: Banca Profilo estimates and elaborations, Company data.

1Y Normalized Performance



FY20 in a nutshell

Radici Pietro's annual results were strongly impacted by the economic effects of the pandemic and related government containment measures, as the Company was forced to close its production plants from March 23rd to April 26th. However, FY20 revenues came in slightly better than expected, at €43.0mln vs our estimate of €40.5mln, while EBITDA, affected by non-recurring items, missed our forecast, declining 91% yoy to €0.6mln vs our projection of €1.4mln; EBITDA margin decreased from 11% in 2019 to 1.4%. Net Income, negative for €0.9mln, came in ahead of our expectations at -€2.4mln, thanks to the postponement of annual D&A, according to the D.L. n. 104/20. At the end of December 2020, Net Debt stood at €19.9mln from €22mln as of December 2019, in line with our estimates.

FY21 Company's guidance revision

Given a more challenging than expected market scenario, the Company significantly lowered its 2021 guidance, while confirming 2022 targets for the time being. Radici now expects: FY21 revenue at €47mln (vs its previous target of €58mln), EBITDA at €2.2mln (vs €5mln) and Net Income still negative for €1.3mln (vs +€1.4mln).

Growth drivers and our 2021E-2023E estimates

Since our previous Company Update (November 2, 2020), in addition to the Company's guidance cut, various independent international organizations have revised down their estimates for the Eurozone GDP both in 2021 and 2022, and there has been a global downsizing of the expected growth in some sectors, especially Marine and Automotive. Consequently, we revised downward our 2021E-2023E projections. According to our new estimates, revenue is expected to grow at a 2020-23E CAGR of 15% to €65.1mln (vs our previous estimates of +24% and €77mln, respectively), while EBITDA is forecast to reach €6.7mln in 2023, with margin improving to 10% (vs €8.4mln and 11%, respectively). As a consequence, our expectation on 2021E-23E cumulative operating FCFs are 56% lower (€2.1mln vs €4.8mln). Nevertheless, we believe both Company's competitive advantages and its long-term growth drivers remain intact, as the Company can count on: i) a highly diversified business, ii) well-established commercial relationship with high standing customers, and iii) a natural inclination to innovation, as demonstrated by its new product Virex, for which the Company has already filed a patent.

A deeper look at the new Radici's jewel: Virex

Virex is a product applicable to both natural and synthetic fibers capable of reducing any viral load present on surfaces. According to a scientific report drafted by an ISO 17025 accredited laboratory, the effectiveness of Virex has been proven to be at least 99.4% and, according to endurance tests, it is believed to last for about 5 years. Thanks to the quick time-to-market and its patent, the Company has been in talks to several interested parties for the last few months, especially within the Marine and Automotive industries. Moreover, besides strengthening its position in the sectors in which Radici already operates, the applications of Virex could potentially represent an opportunity for the Company to enter new markets, such as the Hospital and Construction ones.

Valuation: BUY confirmed, TP revised at €2.4

We confirm our BUY recommendation with a 12-month Target Price of €2.4, up from our previous €2.2, an upside entirely attributable to the rerating of multiples. The Target Price is computed as the simple average of DCF valuation, equal to €2.3/share (vs previous €3.2/share), and market multiples valuation on 2022E-2023E median EV/EBITDA of 7.4x (vs previous 2021E-2022E EV/EBITDA of 5.6x), equal to €2.5/share (vs previous €1.3/share).

Francesca Sabatini
Head of Equity Research
francesca.sabatini@bancaprofilo.it
+39 02 58408 461

Benedetta Sorge
Equity Research Analyst
benedetta.sorge@bancaprofilo.it
+39 02 58408 570

Sales Desk
+39 02 58408 478

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Executive summary

FY 2020 results and 2021E-2023E estimates

FY20 main figures:
- Revenue down 28% yoy to €43mln
- EBITDA margin declining to 1% from 11%
- Net loss of €0.9mln

Radici Pietro Industries & Brands recorded better than expected revenue in the FY20, at €43mln, down 28% yoy but about 6% above our estimate and the Company's guidance equal to €40.5mln and €41mln respectively. EBITDA stood at €610k, down 93% yoy, with the EBITDA Margin narrowing to 1.4% from 11.4% in 2019, affected by one-off items, mainly: i) FX impact on operating revenues, ii) settlement agreements with some valuable clients, and iii) loss of value of inventories, due to the depreciation of some raw materials. Adjusted for these non-recurring items, EBITDA would have been equal to €1.3mln, with related margin at 3%. Net income was negative for €0.9mln, higher than the net loss of €2.3mln estimated by the Company, thanks to the postponement of annual D&A allowed by the D.L. n. 104/20. Finally, Net Debt slightly increased to €19.9mln from €19.7 at the end of 1H20, almost in line with our estimate of €19.6mln and a little worse than Company's guidance, equal to €18.9mln.

FY21 Company's guidance revision: 19% and 56% cuts on revenues and EBITDA targets

Given a more challenging than expected market scenario, the Company significantly lowered its 2021 guidance, while confirming 2022 targets for the time being. Radici now expects: FY21 revenue at €47mln (vs its previous target of €58mln, 19% cut), EBITDA at €2.2mln (vs €5mln, 56% cut) and Net Income still negative for €1.3mln (vs +€1.4mln). To mitigate the pandemic impacts on its business and its employees, Radici will continue to implement several measures, such as:

i) social safety nets available and vacation periods not yet taken to reduce the incidence of labor costs,
ii) postponement of some deferred commercial costs,
iii) investment program postponement with the exclusion of non-deferrable CapEx, and
iv) extension of the repayment terms of some loans, among the others.

Our estimates downwardly revised: revenue to grow at a 20-23E CAGR of 15% to €65.1mln (vs previous 24% and €77mln)

Since our previous Company Update (November 2, 2020) various independent international organizations have revised downwards their estimates for the Eurozone GDP both in 2021 and 2022, there has been a global downsizing of the expected growth in some sectors, especially Marine and Automotive and the Company has published its new guidance, with lower-than-expected FY21 targets. Consequently, we revised downward our 2021E-2023E projections, almost aligning our FY21 estimates with the Company's guidance, while assuming a more conservative stance for FY22. In terms of revenue, the most significant revisions have concerned FY21 projections for the Marine and the Automotive sectors, affected by the postponement of refitting activities by major cruise operators and by the semiconductor shortage, respectively.

According to our new estimates, which are based on a forecasting methodology which includes both top-down and bottom-up assumptions, revenues are expected to grow at a 2020-23E CAGR of 15%, to €65.1mln (vs our previous estimates of +24% and €77mln, respectively), while EBITDA is forecast to be €6.7mln in 2023, with margin improving to 10% (vs our previous estimates of €8.4mln and 11%, respectively).

Long term growth drivers

The driving forces that will guide the growth of Radici in the long run: product innovation and focus on sustainability

During its meeting with the financial community (April 13, 2021), Radici confirmed its expansion plan strategy, which is based on:

i) product innovation, with mainly antibacterial, antiviral, and environmentally friendly brand new products;
ii) geographical expansion, especially in North Africa, Eastern Europe and the Middle East;
iii) intense marketing activities as well as collaborations with designers and architects;
iv) potential strategic opportunities for acquisitions, both upstream and downstream.

Radici's innovative products are many, from microplastic-free artificial grass to "easy laying" flooring – a type of flooring that can be applied just with velcro –, but nowadays Radici's jewel is called Virex. This product has already been a subject of interest of some Radici's customer companies, in particular in the Marine and Automotive segments, but we believe this product innovation could also create new market opportunities in segments where the Group is not yet present, such as the hospital or the public construction sectors.

Demand for sustainability will guide consumer choices

Besides Company's expansion strategies, we believe the global flooring 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 different product lines which are 100% recyclable and ii) has in place a strategic partnership with Aquafil for the use of a completely recyclable yarn, derived from regenerated materials.

Valuation: DCF and market multiples approach

Target Price revised upwards to €2.4 from €2.2; BUY confirmed

We confirm our BUY recommendation with a 12-month Target Price of €2.4, up from our previous €2.2, an upside entirely attributable to the rerating of multiples. The Target Price is computed as the average of DCF valuation, equal to €2.3/share (vs previous €3.2/share), and market multiples valuation on 2022E-2023E median EV/EBITDA of 7.4x (vs previous 2021E-2022E EV/EBITDA of 5.6x), equal to €2.5/share (vs previous €1.3/share).

Fair value down from €3.2 to €2.3

Since our previous Company Update (November 2, 2020), we downgraded both the cumulative cash flows (from €4.8mln to €2.1mln or -56%) in the explicit period, and the cash flow for the terminal value (from €2.8mln to €2.3mln or -18%), while we confirmed the WACC at 6.8%, in line with our previous estimates. As a result of the cut in cash flow estimates, the fair value from DCF decreased from €3.2 to €2.3.

Relative market multiples valuation up from €1.3 to €2.5

As regards to the relative valuation, we changed the reference years for EV/EBITDA multiples; we moved from the 2021-2022 average multiple to the 2022-2023 average, to have EBITDA figures as consistent as possible with a post-pandemic "new-normal" scenario. However, the average multiple recorded a significant rerating compared to our latest update, both the 2021-2022 average (from 5.6x to 7.1x) and the 2022-2023 one (from 5.7x to 7.4x). Consequently, the relative market multiples valuation rose from €1.3 to €2.5.

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.

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

Since our previous Company Update we have revised upwards our valuation on the likelihood of risks related to the contraction of demand, from "medium" to "medium-high", while confirming at "medium" the potential impact on the business. This upward revision comes after in 2020, exposure to cyclical sectors significantly impacted Radici's results, compelling the Company to enter into settlement agreements with some valuable clients.

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 • Level of indebtedness which could partially limit the possibilities of financing M&A operations

OPPORTUNITIES	THREATS
• New business opportunities coming from the recently developed and patented Virex • Penetration of new geographical markets, especially in Emerging countries, characterized by rapid population growth and urbanization • Increasing demand for sustainable products, which the Company is ready to satisfy given its remarkable initiatives in the environmental sustainability • Operating leverage, as volume growth may lead to a more than proportional increase in margins	• 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 • More challenging than expected market conditions after the Covid-19 outbreak

Historical operating and financial performance

FY 2020 results

FY20 revenue -28% yoy to €43mln; yet 6% above Company's guidance

Radici Pietro's annual results were strongly impacted by the economic effects of the Covid-19 and related government containment measures, as the Company was forced to close its production plants from March 23rd to April 26th. Revenue declined by 28% yoy to €43mln but did better than expected, as the figure was 6% higher than both our estimate and Company's budget, equal to €40.5mln and €40.6mln, respectively.

- Radici Marine's revenue dived 62% at €3.3mln, dragged down by the cut in investments in refitting by cruise operators, while activities with shipowners for new constructions regularly carried on;
- Revenue from Radici Contract declined by 31% yoy to €18.7mln, suffering from luxury hotel chains closure and suspension of high fashion events, especially in Europe;
- Radici Automotive's business was down by 14% yoy to €10.2mln, in marked recovery from -48% yoy of 1H20;
- Sit-in Sports, the brand under which Radici produces and sells artificial turf, showed some resiliency, with a decline in revenue limited to 11% at €10.7mln, thanks to the sustained demand for artificial turf for sports use.

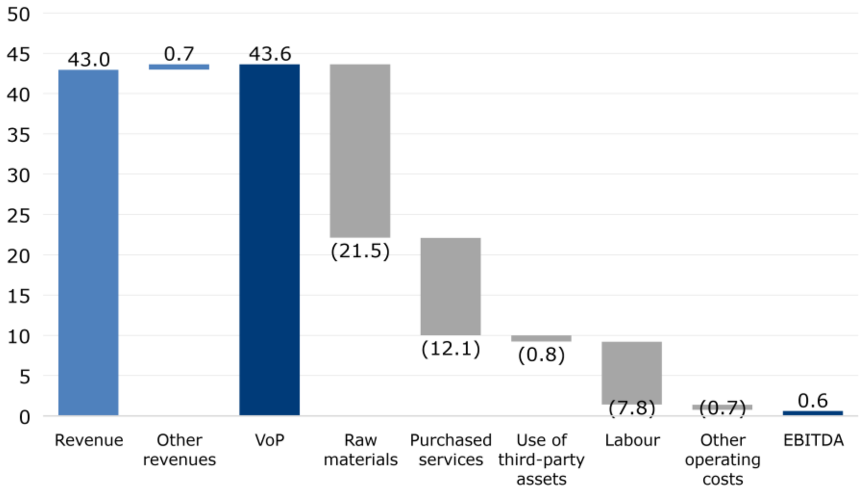
EBITDA margin stood at 1.4%, down from 11% in FY19

Cost of Goods Sold stood at €43mln, down in absolute value (-€14.1mln or -25% yoy), but up in terms of percentage of revenue (100% compared to 96% in 2019), due to the higher incidence of fixed costs as well as to some one-off items. The EBITDA missed our estimate, negatively affected by: i) FX impact on operating revenues, ii) settlement agreements with some valuable clients, and iii) loss of value of inventories, due to the depreciation of some raw materials; the EBITDA stood at €610k, down 93% yoy, with the EBITDA Margin narrowing to 1.4% from 11.4% in 2019 (€1.4mln both our estimate and Company's guidance, with forecast EBITDA Margin at 3% yoy). If we considered an adjusted form of EBITDA, both for 2019 excluding the approximately €2mln of proceeds from the sale of ROI, and for 2020, excluding these one-off items equivalent to approximately €-700k, the adjusted EBITDA Margin would have decreased from 8% to 3%.

Higher than expected net income for 2020 D&A postponement

Net Income, negative for €0.9mln, came in ahead of both our expectations equal to -€2.4mln and Company's guidance equal to -€2.3mln, thanks to the postponement of annual D&A allowed by the D.L. n. 104/20.

Figure 1: FY20 cost structure, € mln



Source: Banca Profilo elaborations on Company data.

Table 1: Radici Profit & Loss FY18 – FY20

Profit & Loss (€ mln)	2018 PF	2019 PF	2020
Revenue	**60.3**	**59.4**	**43.0**
yoy		*-1%*	*-28%*
Changes in unfinished & finished goods	-0.1	0.8	-0.6
Changes in fixed assets for internal works	0.6	0.3	0.1
Other Revenues	1.2	3.4	1.2
Value of production	**62.1**	**63.9**	**43.6**
yoy		*3%*	*-32%*
Cost of raw materials	(30.5)	(30.8)	(21.5)
% on revenues	*51%*	*52%*	*50%*
Cost of purchased services	(15.5)	(16.0)	(12.1)
% on revenues	*26%*	*27%*	*28%*
Costs for the use of third-party assets	(0.6)	(0.7)	(0.8)
% on revenues	*1%*	*1%*	*2%*
Labour cost	(9.4)	(9.3)	(7.8)
Purchases and changes in inventories	(0.7)	0.4	(0.1)
% on revenues	*1%*	*-1%*	*0%*
Other operating costs	(0.6)	(0.6)	(0.7)
% on revenues	*1%*	*1%*	*2%*
Cost of goods sold	**(57.5)**	**(57.1)**	**(43.0)**
EBITDA	**4.6**	**6.8**	**0.6**
EBITDA Margin on revenues	*7.7%*	*11.4%*	*1.4%*
D&A	(2.6)	(2.8)	(0.4)
% on revenues	*4%*	*5%*	*1%*
Write-downs	(0.2)	0.0	(0.2)
EBIT	**1.9**	**4.0**	**0.1**
EBIT Margin on revenues	*3.1%*	*6.7%*	*0.1%*
Net financial income (expenses)	(0.4)	2.0	(0.8)
% on revenues	*1%*	*-3%*	*2%*
Financial adjustments	(0.0)	(0.3)	0.0
EBT	**1.5**	**5.8**	**(0.7)**
EBT Margin on revenues	*2%*	*10%*	*-2%*
Income Tax Expense	(0.1)	(0.2)	(0.2)
Tax rate	*4.4%*	*2.9%*	*n.a.*
Net Income	**1.4**	**5.6**	**(0.9)**
Net Income Margin on revenues	*2.4%*	*9.4%*	*-2.1%*

Source: Banca Profilo elaborations on Company data

Key facts about Company's Balance Sheet:

- Fixed assets up approx. €2mln for 2020 D&A postponement

- €5mln decrease in NOWC thanks to a better-than expected management of trade receivables and payables

As for Balance Sheet items, Radici's performance diverged from our estimates for fixed assets, up approximately €2mln due to the annual postponement of D&A, and for net operating working capital, thanks to a better-than-expected management on both trade payables and receivables. In more detail:

- fixed assets increased by €1.9mln to €36.1mln (vs a decrease of €0.8mln implied in our estimates), due to €2.2mln of CapEx made in 2020 (vs €1.5mln of our estimate), and to the almost zeroing of the depreciation rate allowed by the D.L. n. 104/20 (element not considered in our estimates);
- net operating working capital decreased by €5mln to €18.2mln and, overall, working capital management turned out to be better than we had expected, as the incidence on turnover increased from 39% in 2019 to only 42% in 2020 vs 55% of our estimates. The performance is largely attributable to the €6.6mln drop in trade receivables, traceable for €2.9mln to an offsetting with a credit of opposite sign consequent to the sale of 51% of ROI, while the remaining €3.6mln decrease is proportionally related to the drop in turnover. Trade payables decreased more than proportionally compared to both turnover and cost of sales, showing Radici's ability to extend payment times with suppliers, while inventories decreased less than proportionally with a significant increase in Days Of Inventory from 137 to 172 days, in line with our estimates.

With other assets & liabilities remaining almost unchanged compared to 2019, net invested capital declined by €3.4mln to €52.4mln (vs €51.1mln of our estimate).

Shareholders' equity decreased by €1.3mln (or 4% yoy) to €32.5mln, mainly due to the net loss of €0.9mln. It came in slightly better our estimate thanks to the postponement of FY20 D&A, which translated into a lower than projected net loss (€-2.2mln).

Despite lower Net Debt, Net Debt/EBITDA ratio rose to 33x

Net Debt/Equity ratio basically steady

Net Debt stood at €20mln at the end of December 2020, including €23.4mln of debts and €3.4mln of cash and cash equivalents. As for the ratios, the Net Debt/EBITDA ratio rose to 32.7x from 3.2x, solely due to the 91% yoy drop in EBITDA to €0.6mln, against a slightly improved net financial position, while the Net Debt/Equity ratio fell from 0.7x to 0.6x.

Table 2: Balance Sheet 1H19 – 1H20

Balance Sheet (€ mln)	2018 PF	2019 PF	2020
Intangible Assets	0.3	1.4	2.0
Property, Plant & Equipment	34.1	32.8	34.1
Financial Assets	1.3	0.0	0.0
Fixed Assets	**35.7**	**34.2**	**36.1**
Trade Receivable	14.5	16.0	9.4
Inventories	20.1	21.4	20.3
Trade Payable	(14.7)	(14.1)	(11.5)
Net Operating Working Capital	**20.0**	**23.2**	**18.2**
% on revenues	*33%*	*39%*	*42%*
trade receivables (% on revenues)	*24%*	*27%*	*22%*
inventories (% on revenues)	*33%*	*36%*	*47%*
trade payables (% on materials & services costs)	*32%*	*30%*	*34%*
Other current assets	6.3	6.2	5.7
Other current liabilities	(2.1)	(2.1)	(1.6)
Non current assets	1.0	1.1	1.1
Non current liabilities	(7.0)	(6.8)	(7.1)
Of which Funds	(1.9)	(1.9)	(2.0)
Of which tax payable	(5.0)	(4.9)	(5.1)
Invested Capital	**54.0**	**55.8**	**52.4**
CapEx	**2.4**	**2.9**	**2.2**
Intangible	0.3	1.6	0.6
Tangible	2.1	1.3	1.6
% on revenues	*4%*	*5%*	*5%*
Shareholders' equity	24.3	33.8	32.5
Share capital	25.6	36.8	36.8
Reserves and Retained Earnings	(1.3)	(3.0)	(4.3)
Share capital attributable to third parties	0.0	0.0	0.0
Minorities	0.0	(0.0)	0.0
Consolidated Shareholders' Equity	**24.3**	**33.8**	**32.5**
Net debt (cash)	**29.7**	**22.0**	**20.0**
Cash and cash equivalents	(0.3)	(2.9)	(3.4)
Liquid financial investments	0.0	(3.2)	0.0
Suplus funds	0.0	(0.2)	0.0
Debts	29.9	28.4	23.4

Source: Banca Profilo elaborations on Company data

Strategy and estimates

Corporate guidance and strategies

Cost containment strategies as well as business expansion strategies

During its meeting with the financial community (April, 13), Radici confirmed its medium-long term growth strategies, while, as for the short term, the Company had already revised downwards its FY2021 guidance while confirming its 2022 targets.
The Company's strategies aim, on the one hand, at countering the impact of the pandemic crisis on turnover and margins and, on the other, at the continuous expansion of the business.

New Company's guidance for FY21, while FY22 targets have been confirmed

Radici will continue to implement several measures aimed at countering the effects of the pandemic on business and its employees, such as: i) social safety nets available and vacation periods not yet taken to reduce the incidence of labor costs, ii) postponement of some deferred commercial costs, iii) investment program postponement with the exclusion of non-deferrable CapEx, and iv) extension of the repayment terms of some loans, among the others.
Despite the measures put in place, given a more challenging than expected market scenario, the Company has confirmed its new 2021 targets, which are significantly below its previous guidance: Radici now expects FY21 revenue to grow 9% yoy to €47mln (vs €58mln of the previous target), EBITDA to increase to €2.2mln (vs €5mln) and a still negative Net Income for €1.3mln (vs +€1.4mln). As for FY22, the Company has confirmed its previous targets (June 16, 2020): revenues at €68mln (2020-2022 CAGR of 26%) and EBITDA at €6.7mln (EBITDA margin up from 1.4% in 2020 to in 10% in 2022). Still during the meeting with the financial community, the Company declared to be able to achieve a turnover of €80mln without significant investments and the fixed cost structure being equal, with a relative target EBITDA margin of 10%-11%.

The driving forces that will guide the growth of Radici in the long run: product innovation and focus on sustainability

As for medium-long term growth strategies, the Company confirmed its expansion plans, which is based on:

- product innovation, with mainly antibacterial, antiviral, and environmentally friendly brand new products;
- geographical expansion, especially in North Africa, Eastern Europe and the Middle East;
- intense marketing activities as well as collaborations with designers and architects;
- potential strategic opportunities for acquisitions, both upstream and downstream.

Radici's innovative products are many, from microplastic-free artificial grass to "easy laying" flooring – a type of flooring that can be applied just with velcro –, but nowadays Radici's jewel is called Virex. Virex is a product applicable to both natural and synthetic fibers capable of reducing any viral load present on surfaces, with an effectiveness that has been proven to be at least 99.4%. This product has already been a subject of interest of some Radici's customer companies, in particular in the Marine and Automotive segments, but we believe this product innovation could also create new market opportunities in segments where the Group is not yet present, such as the hospital or the public construction sectors. However, the timing associated with obtaining new orders is long and is about 7/8 months, given the necessity of different product tests required depending on whether the product is used. New orders are therefore expected to be reflected in the 2022 revenue.
Besides macro trends, the other trend that we expect to guide Radici's turnover growth will be the constant lookout for sustainability. Radici is ready to satisfy such an increase in demand, given its remarkable initiatives in that field. In fact, Radici: i) has created and patented different product lines which are 100% recyclable and ii) has in place a strategic partnership with Aquafil for the use of a completely recyclable yarn, derived from regenerated materials.

Our 2021E-2023E estimates

Estimates downwardly revised since our previous Company Update

Compared to our previous Company Update (November 2, 2020) we revised downwards our 2021E-2023E estimates.
Since then, from a macroeconomic point of view, two main factors have changed: i) main international organizations have revised down their estimates of Eurozone GDP for both 2021 and 2022, and ii) there has been a global downsizing of the expected growth in some sectors in which Radici operates, particularly in the Marine and Automotive ones. Moreover, the Company has significantly lowered its 2021 targets.

Revenue estimates: 20-23 CAGR of 15% to €65.1mln (vs previous 24% and €77mln)

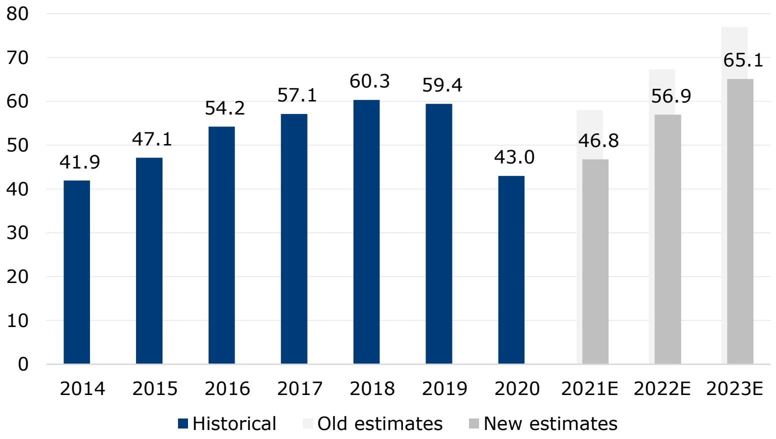
According to our new estimates, which are based on a forecasting methodology which includes both top-down and bottom-up assumptions, revenues are expected to grow at a 2020-23 CAGR of 15%, to €65.1mln (vs our previous estimates of +24% and €77mln, respectively), while EBITDA is forecast to be €6.7mln in 2023, with margin improving to 10% (vs our previous estimates of €8.4mln and 11%, respectively).

Revenues from the Automotive and Marine sectors significantly revised downwards

In terms of revenue, the most significant revisions have concerned FY21 projections for the Marine, the Automotive and the Residential & Contract sectors. In more detail:

- in the Marine sector (-62% yoy to €3.3mln in 2020), we lowered the revenue growth rate for 2021 from double digit to single digit, as the market is at a standstill for refitting activities, as showed in CapEx intentions of large cruise operators such as Carnival, Royal Caribbean and Norwegian Cruise;
- revenue in the Automotive sector (€10.2mln in 2020, -14% yoy) are now expected to record a contraction in 2021, compared to growth expectations last November, penalized by the shutdown of several car makers' production plants due to the shortage of some raw materials;
- revenue in Residential & Contract (€18.7mln revenue in 2020, -31% yoy) should grow double digit in 2021, but at a lower rate than previously estimated, as the Contract market should start its recovery only from the second half of 2021, due to the prolonged closure of concerned economic activities (hotels, fairs and conferences, and fashion house);
- as for Leisure & Sports revenue (€10.7mln in 2020, -15% yoy), we have kept almost unchanged our 2021E-2023E projections, driven by increasing calls for the creation or refurbishment of sports fields and facilities.

Figure 2: Radici revenue trend 2014-2023E (€, mln)



Source: Banca Profilo elaborations and estimates

Cost assumptions: an increase in COGS on revenue

We have increased the 2021-2023 average incidence of COGS, from 93% to 95%, mainly due to a greater incidence of fixed costs on a lowered level of revenue.
Among the variable costs:

- we have slightly lowered the average incidence of the cost of raw materials, bringing it back to values more consistent with the historical average. The

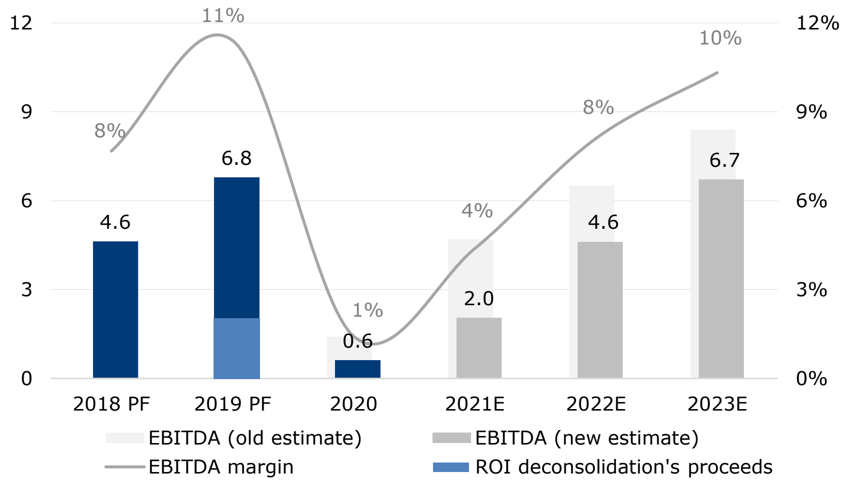
2021E-2023E average is now expected at 51% (vs 52% of our previous estimate);
- we have kept the estimates on costs of purchased services almost unchanged, with an average incidence of 27% over the next three years;
- we have postponed the efficiency improvement assumptions in terms of operating costs from 2021 to 2023, due to the suspension of deferred investments, including the purchase of the 1.2MW co-generator.

As for the main item of fixed costs, labour cost should be partially amortized also in 2021, by the use of the Italian mechanism for unemployment benefits (i.e. "Cassa Integrazione"). For the following years, thanks to the increase in turnover, the incidence of labor costs should gradually decrease from 18% in 2020 to 15% in 2023.

EBITDA margin revised downwards: 4% in 2021 (vs 8%) and 10% in 2023 (vs 11%). Fixed costs and the decline in turnover weigh on.

Thanks to the increase in turnover and the partial amortization of fixed costs, we estimate EBITDA to grow by over 200% in 2021, at €2.0mln, with margin improving from 1% in 2020 to 4%. However, the new estimate is 120% lower than the previous one, due not only to the cut in estimates on revenue but also to a greater incidence of fixed costs. Over three years, EBITDA is expected to grow at a 2020-2023 CAGR of 122%, reaching €6.7mln in 2023 (vs €8.4mln of our previous estimates). The EBITDA margin is expected to improve steadily, from 1% in 2020 to 10% in 2023 (vs 11% of our previous estimates).

Figure 3: EBITDA (€, mln) and EBITDA margin (%) trend 2018-2023E



Source: Banca Profilo elaborations and estimates

Cumulative D&A revised downward due to CapEx plan review

Over 2021-2023, cumulated D&A is estimated to be €7.2mln, or €2.4mln as yearly average. These figures are lower than our previous estimates which envisaged a cumulative D&A of €9mln, due to the downsizing of the estimates on the CapEx plan, from €10.2mln to €7.7mln.

Tax rate at 4%

Tax rate is estimated at 4% (in line with our previous estimates), 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 a medium term coverage.

FY21 expected loss of €0.9mln; return to profit postponed by one year

In 2021 the Company is expected to close the full year with a loss of €0.9mln, revised downwards from a net income of €1.0mln. Recovery should start from 2022, year in which Net Income is expected at €1.3mln (vs €2.5mln of our previous estimates), to then grow 256% yoy to €3.4mln in 2023 (vs €4.6mln of our previous estimates).

Table 3: Radici Profit & Loss 2018-2023E (€, mln)

Profit & Loss (€ mln)	2018 PF	2019 PF	2020		2021E		2022E		2023E	
			Old	New	Old	New	Old	New	Old	New
Revenue	**60.3**	**59.4**	**40.5**	**43.0**	**58.0**	**46.8**	**67.3**	**56.9**	**77.0**	**65.1**
yoy		*-1%*	*-32%*	*-28%*	*43%*	*9%*	*16%*	*22%*	*15%*	*14%*
Changes in unfinished & finished goods	-0.1	0.8	(1.2)	(0.6)	0.5	0.1	0.9	0.7	2.5	1.3
Changes in fixed assets for internal works	0.6	0.3	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other Revenues	1.2	3.4	0.4	1.2	0.2	0.8	0.2	0.8	0.2	0.8
Value of production	**62.1**	**63.9**	**39.8**	**43.6**	**58.6**	**47.7**	**68.3**	**58.5**	**79.8**	**67.2**
yoy		*3%*	*-38%*	*-32%*	*47%*	*9%*	*17%*	*23%*	*17%*	*15%*
Cost of raw materials	(30.5)	(30.8)	(17.2)	(21.5)	(28.7)	(23.4)	(34.6)	(28.8)	(42.0)	(33.9)
% on revenues	*51%*	*52%*	*43%*	*50%*	*50%*	*50%*	*52%*	*51%*	*55%*	*52%*
Cost of purchased services	(15.5)	(16.0)	(12.5)	(12.1)	(15.6)	(12.9)	(18.0)	(15.1)	(19.3)	(16.8)
% on revenues	*26%*	*27%*	*31%*	*28%*	*27%*	*27%*	*27%*	*27%*	*25%*	*26%*
Costs for the use of third-party assets	(0.6)	(0.7)	(0.5)	(0.8)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)
% on revenues	*1%*	*1%*	*1%*	*2%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*
Labour cost	(9.4)	(9.3)	(7.0)	(7.8)	(9.3)	(8.1)	(9.8)	(9.4)	(10.2)	(9.7)
% on revenues	*16%*	*16%*	*17%*	*18%*	*16%*	*17%*	*15%*	*16%*	*13%*	*15%*
Purchases and changes in inventories	(0.7)	0.4	(1.0)	(0.1)	0.4	(0.1)	1.3	0.3	0.7	0.6
% on revenues	*1%*	*-1%*	*2%*	*0%*	*-1%*	*0%*	*-2%*	*-1%*	*-1%*	*-1%*
Other operating costs	(0.6)	(0.6)	(0.1)	(0.7)	(0.1)	(0.6)	(0.1)	(0.3)	(0.1)	(0.2)
% on revenues	*1%*	*1%*	*0%*	*2%*	*0%*	*1%*	*0%*	*1%*	*0%*	*0%*
Cost of goods sold	**(57.5)**	**(57.1)**	**(38.4)**	**(43.0)**	**(54.0)**	**(45.6)**	**(61.8)**	**(53.8)**	**(71.4)**	**(60.5)**
% on revenues	*95%*	*96%*	*95%*	*100%*	*93%*	*98%*	*92%*	*95%*	*93%*	*93%*
			-91%			*129%*				
EBITDA	**4.6**	**6.8**	**1.4**	**0.6**	**4.7**	**2.0**	**6.5**	**4.6**	**8.4**	**6.7**
EBITDA Margin on revenues	*8%*	*11%*	*3%*	*1%*	*8%*	*4%*	*10%*	*8%*	*11%*	*10%*
D&A	(2.6)	(2.8)	(2.6)	(0.4)	(2.8)	(2.2)	(3.2)	(2.5)	(3.0)	(2.6)
% on revenues	*4%*	*5%*	*6%*	*1%*	*5%*	*5%*	*5%*	*4%*	*4%*	*4%*
Write-downs	(0.2)	0.0	(0.8)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
EBIT	**1.9**	**4.0**	**(1.9)**	**0.1**	**1.7**	**(0.2)**	**3.2**	**2.0**	**5.2**	**4.0**
EBIT Margin on revenues	*3%*	*7%*	*-5%*	*0%*	*3%*	*0%*	*5%*	*4%*	*7%*	*6%*
Net financial income (expenses)	(0.4)	2.0	(0.3)	(0.8)	(0.7)	(0.7)	(0.7)	(0.7)	(0.4)	(0.5)
% on revenues	*1%*	*-3%*	*1%*	*2%*	*1%*	*2%*	*1%*	*1%*	*1%*	*1%*
Financial adjustments	(0.0)	(0.3)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBT	**1.5**	**5.8**	**(2.2)**	**(0.7)**	**1.1**	**(0.9)**	**2.6**	**1.4**	**4.8**	**3.5**
EBT Margin on revenues	*2%*	*10%*	*-5%*	*-2%*	*2%*	*-2%*	*4%*	*2%*	*6%*	*5%*
Income Tax Expense	(0.1)	(0.2)	0.0	(0.2)	0.0	0.0	(0.1)	(0.1)	(0.2)	(0.1)
Tax rate	*4.4%*	*2.9%*	*4.0%*	*n.a.*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*
Net Income	**1.4**	**5.6**	**(2.2)**	**(0.9)**	**1.0**	**(0.9)**	**2.5**	**1.3**	**4.6**	**3.4**
Net Income Margin on revenues	*2.4%*	*9.4%*	*-5.4%*	*-2.1%*	*1.7%*	*-2.0%*	*3.7%*	*2.3%*	*6.0%*	*5.2%*

Source: Banca Profilo elaborations and estimates

Balance Sheet 2021-2023 projections

Regarding our 2021E-2023E Balance Sheet projections, we estimate:

- no significant changes in fixed assets, with the exception of a possible divestment in 2023 of a non-strategic property, currently rented to third parties, with potential proceeds of €4mln (in line with our previous estimates);

Cumulated Capex down to €7mln

- a capex plan worth €7mln, down from €10.2mln of our previous estimates, due to the postponement of deferral investments.

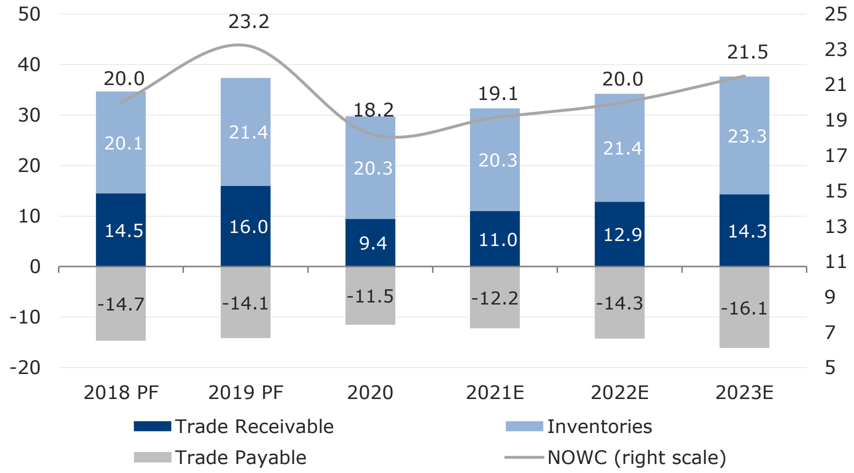
Decreasing incidence of NOWC on revenue

- operating net working capital to constantly decrease compared to revenue, from 42% in 2020 to 33% in 2023, on values more consistent with historical figures and almost in line with our previous estimates.

Net Financial Position to decline progressively, to €12.8mln in 2023

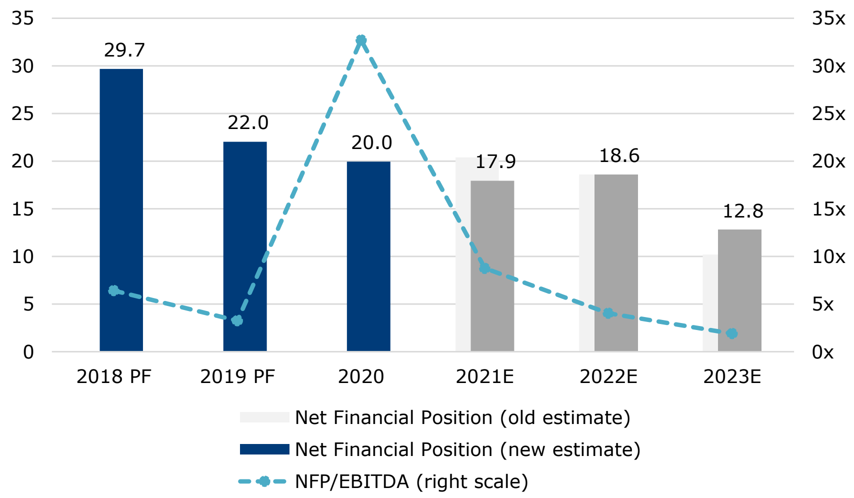
Net Debt is expected to decline progressively, from €20mln in 2020 to €12.8mln in 2023 (vs our previous forecast at €10.2mln) driven by the partial repayment of debts through the planned sale of a non-strategic property worth around €4mln (in line with our previous estimates).

Figure 4: Net working capital composition and dynamics in 2018-2023E (€, mln)



Source: Banca Profilo elaborations and estimates

Figure 5: Net Financial Position dynamics in 2018-2023E (€, mln)



Source: Banca Profilo elaborations and estimates

Table 4: Radici Balance Sheet 2018-2023E (€, mln)

Balance Sheet (€ mln)	2018 PF	2019 PF	2020		2021E		2022E		2023E	
			Old	New	Old	New	Old	New	Old	New
Intangible Assets	0.3	1.4	1.6	2.0	1.5	1.8	1.3	1.8	1.6	1.8
Property, Plant & Equipment	34.1	32.8	31.9	34.1	32.5	33.4	32.9	34.3	28.3	30.1
Financial Assets	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fixed Assets	**35.7**	**34.2**	**33.4**	**36.1**	**34.0**	**35.1**	**34.2**	**36.1**	**29.9**	**31.9**
Trade Receivable	14.5	16.0	11.7	9.4	16.7	11.0	18.1	12.9	19.0	14.3
Inventories	20.1	21.4	19.2	20.3	20.0	20.3	22.2	21.4	25.4	23.3
Trade Payable	(14.7)	(14.1)	(8.4)	(11.5)	(12.7)	(12.2)	(15.1)	(14.3)	(18.0)	(16.1)
Net Operating Working Capital	**20.0**	**23.2**	**22.4**	**18.2**	**24.0**	**19.1**	**25.2**	**20.0**	**26.4**	**21.5**
% on revenues	*33%*	*39%*	*55%*	*42%*	*41%*	*41%*	*37%*	*35%*	*34%*	*33%*
trade receivables (% on revenues)	*24%*	*27%*	*29%*	*22%*	*29%*	*24%*	*27%*	*23%*	*25%*	*22%*
inventories (% on revenues)	*33%*	*36%*	*47%*	*47%*	*35%*	*43%*	*33%*	*38%*	*33%*	*36%*
trade payables (% on materials & services costs)	*32%*	*30%*	*28%*	*34%*	*29%*	*34%*	*29%*	*33%*	*29%*	*32%*
Other current assets	6.3	6.2	2.3	5.7	2.7	2.9	2.9	3.3	3.1	3.5
Other current liabilities	(2.1)	(2.1)	(2.0)	(1.6)	(2.1)	(1.6)	(2.2)	(1.7)	(2.3)	(1.7)
Non current assets	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Non current liabilities	(7.0)	(6.8)	(6.1)	(7.1)	(6.7)	(7.1)	(7.5)	(7.2)	(8.4)	(7.3)
Of which Funds	(1.9)	(1.9)	(1.8)	(2.0)	(1.9)	(2.1)	(1.9)	(2.1)	(2.0)	(2.2)
Of which tax payable	(5.0)	(4.9)	(4.3)	(5.1)	(4.8)	(5.1)	(5.6)	(5.1)	(6.4)	(5.1)
Invested Capital	**54.0**	**55.8**	**51.1**	**52.4**	**53.0**	**49.5**	**53.7**	**51.5**	**49.9**	**49.0**
CapEx	**2.4**	**2.9**	**1.6**	**2.2**	**3.4**	**1.1**	**3.4**	**3.4**	**3.4**	**3.2**
Intangible	0.3	1.6	0.3	0.6	0.6	0.2	0.6	0.6	0.6	0.6
Tangible	2.1	1.3	1.3	1.6	2.9	0.9	2.9	2.8	2.9	2.6
% on revenues	*4%*	*5%*	*4%*	*5%*	*6%*	*2%*	*5%*	*6%*	*4%*	*5%*
Shareholders' equity	24.3	33.8	31.6	32.5	32.6	31.5	35.1	32.9	39.7	36.2
Share capital	25.6	36.8	36.8	36.8	36.8	36.8	36.8	36.8	36.8	36.8
Reserves and Retained Earnings	(1.3)	(3.0)	(5.2)	(4.3)	(4.2)	(5.3)	(1.8)	(4.0)	2.9	(0.6)
Share capital attributable to third parties	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	(0.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Consolidated Shareholders' Equity	**24.3**	**33.8**	**31.6**	**32.5**	**32.6**	**31.5**	**35.1**	**32.9**	**39.7**	**36.2**
Net debt (cash)	**29.7**	**22.0**	**19.6**	**20.0**	**20.4**	**17.9**	**18.6**	**18.6**	**10.2**	**12.8**
Cash and cash equivalents	(0.3)	(2.9)	0.2	(3.4)	(0.6)	(3.8)	(1.7)	(1.9)	(2.4)	(3.5)
Liquid financial investments	0.0	(3.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Suplus funds	0.0	(0.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debts	29.9	28.4	19.4	23.4	21.0	21.7	20.3	20.5	12.5	16.3

Source: Banca Profilo elaborations and estimates

Cumulative 2021-2023 Free Cash Flow of €2.1mln, down from previous €4.8mln

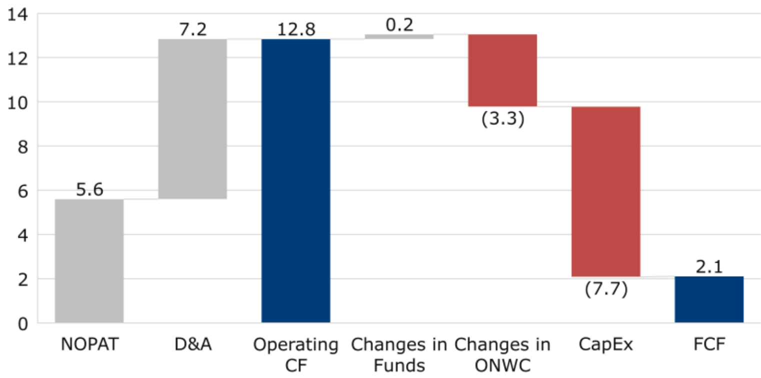
According to our Profit & Loss and Balance Sheet estimates, we forecast a three-year cumulated Free Cash Flow of €2.1mln (vs our previous estimate at €4.8mln), including €7.7mln of capex and of €3.3mln of NOWC needs.

Table 5: Radici Free Cash Flow 2018-2023E (€, mln)

Cash Flows (€ mln)	2018 PF	2019 PF	2020		2021E		2022E		2023E	
			Old	New	Old	New	Old	New	Old	New
EBIT	1.9	4.0	(1.9)	0.1	1.7	(0.2)	3.2	2.0	5.2	4.0
Tax rate	4%	3%	4%	n.a.	4%	4%	4%	4%	4%	4%
NOPAT	**1.8**	**3.9**	**(1.8)**	**(0.1)**	**1.7**	**(0.2)**	**3.1**	**2.0**	**5.0**	**3.9**
D&A	2.6	2.8	2.6	0.4	2.8	2.2	3.2	2.5	3.0	2.6
Operating Cash Flow	4.4	6.7	0.7	0.3	4.5	2.0	6.3	4.4	8.0	6.5
Changes in Funds	(1.0)	(0.0)	0.0	0.1	0.0	0.0	0.0	0.1	0.1	0.1
Changes in Operating NWC	(2.7)	(3.2)	0.8	5.0	(1.6)	(0.9)	(1.2)	(0.8)	(1.3)	(1.5)
CapEx	(2.4)	(2.9)	(1.6)	(2.2)	(3.4)	(1.1)	(3.4)	(3.4)	(3.4)	(3.2)
Free Cash Flow	**(1.7)**	**0.5**	**(0.2)**	**3.2**	**(0.4)**	**0.0**	**1.8**	**0.3**	**3.4**	**1.8**

Source: Banca Profilo elaborations and estimates

Figure 6: Cumulative 2021E-2023E FCFs (€, mln)



Source: Banca Profilo elaborations and estimates

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.

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

The business of Radici is exposed to the potential risk of contraction in demand deriving from: i) a reduction in the activity of main customers, ii) the worsening of macroeconomic conditions and iii) potential exogenous events. Being mainly active in cyclical sectors, such as Automotive, Marine, Construction and Refurbishment, Radici is significantly exposed to these events. This risk is partially offset by the strong diversification of Radici's business model. In 2020, exposure to cyclical sectors significantly impacted Radici's results; moreover, the Company had to enter into settlement agreements with some valuable clients. Therefore, we confirm our valuation on a medium impact, but we revise upwards our valuation on likelihood, from medium to medium-high.

Risks related to the obsolescence of products and/or

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

services offered vs competitors:
- medium-low likelihood
- medium impact

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.

Currency risk:
- medium-low likelihood
- medium-low impact

Operating on an international level, Radici is exposed to currency fluctuations, especially regarding the EUR/USD exchange rate. The Company has a cost structure mostly in EUR and a portion of revenues in USD, coming from Radici USA; therefore, an appreciation of the dollar, cost structure being equal, affects operating revenues. To limit this risk, the Company purchases some raw materials in dollars. However, we will keep monitoring this source of risk after the Company had incurred a loss of value on FY20 EBITDA, however negligible, due to the appreciation of USD in the second half of the year.

Table 6: Risk matrix

Impact	High					
	Medium-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	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	Medium-High	High
		Likelihood				

Source: Banca Profilo elaborations and estimates on Company data

Valuation: both target price and BUY recommendation confirmed

Valuation methods used and final output

DCF method and market multiples

We used a two-stage DCF model, to capture the Company's ability to generate cash flows, and market multiples analysis, for a relative valuation. Our 12-month Target Price is the simple average of the two results.

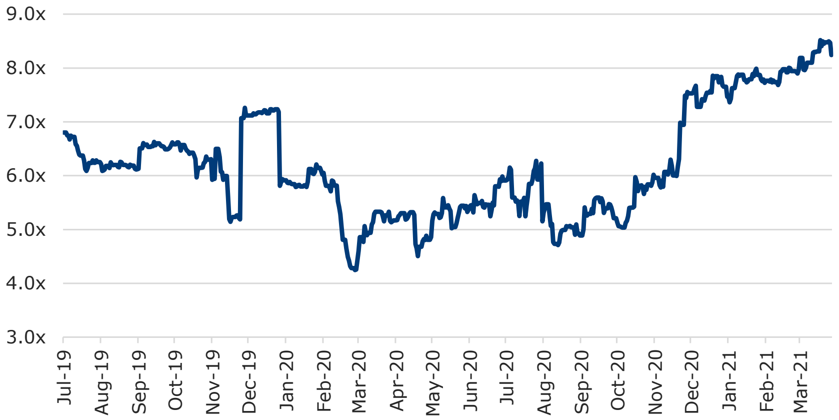
Fair value down to €2.3 from €3.2

Since our previous Company Update (November 2, 2020), we downgraded both the cumulative cash flows (from €4.8mln to €2.1mln or -56%) in the explicit period, and the cash flow for the terminal value (from €2.8mln to €2.3mln or -18%), while we confirmed WACC at 6.8%, in line with our previous estimates.
As a result of the cut in cash flow estimates, the fair value from DCF decreased from €3.2 to €2.3.

Relative market multiples valuation up to €2.5 from €1.3

As regards to the relative valuation, we changed the reference years for the multiples; we moved from the 2021-2022 average multiple to the 2022-2023 average, to have EBITDA figures as consistent as possible with a post-pandemic "new-normal" scenario. However, the average multiple recorded a significant rerating compared to our latest update, both the 2021-2022 average (from 5.6x to 7.1x) and the 2022-2023 one (from 5.7x to 7.4x). Consequently, the relative market multiples valuation rose from €1.3 to €2.5.

Figure 7: 1FY forward comparables EV/EBITDA rerating since Radici's IPO



Source: Banca Profilo elaborations on FactSet data, as of April 23rd

Target Price revised upwards to €2.4 from €2.2; BUY confirmed

We set Radici's 12-month Target Price at €2.4 (from our previous €2.2), an upside entirely attributable to the rerating of multiples.
We, therefore, confirm our BUY recommendation.

Figure 8: Banca Profilo's Target Prices since Radici's IPO

Source: Banca Profilo elaborations on FactSet data, as of April 23rd

DCF Valuation

DCF assumptions:
- 21-23 cumulated FCFs at €2.1mln
- Terminal Value cash flow at €2.3mln

To run a DCF model, we used our projections for the 2021E-2023E explicit period: €2.1mln of cumulated Free Cash Flows (vs our previous estimate at €4.8mln), including €7.7mln of cumulated capex (vs previous €10.2mln) and €3.3mln of NOWC needs (vs previous €4.1mln).
In order to get to the Equity Valuation, we considered Net Debt at the end of December 2020, equal to €20mln (vs €19.7mln used in our latest update and referred to end of June 2020).
We lowered the Terminal cash flow and adapted it to the Company's medium-term revenue and EBITDA margin target (€80mln and 11% respectively), to which we applied our estimates for average D&A, Capex and NOWC needs. The new terminal cash flow is equal to €2.3mln (vs our previous estimate of €2.8mln).

Table 7: Cash Flow

Cash flow (€/mln)	2020	2021E	2022E	2023E	Over
EBIT	0.1	(0.2)	2.0	4.0	
Tax Rate	n.a.	4%	4%	4%	
NOPAT	**0.1**	**(0.2)**	**2.0**	**3.9**	
D&A	0.4	2.2	2.5	2.6	
Changes in Funds	0.1	0.0	0.1	0.1	
Changes in Operating NWC	5.0	(0.9)	(0.8)	(1.5)	
CapEx	(2.2)	(1.1)	(3.4)	(3.2)	
Free Cash Flow (FCF)	**3.3**	**0.0**	**0.3**	**1.8**	**2.3**

Source: Banca Profilo estimates and elaborations

WACC of 6.8% (in line with our previous estimates)

We applied a WACC of 6.8%, in line with our previous estimates despite a few changes in inputs. The WACC was 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 (in line with our previous estimate);
- market risk premium equal to 5.5% (in line with our previous estimate);
- re-levered beta of 1.2, coming from the average of chosen listed peers to Radici (down from 1.6 of our previous estimates, mainly due to our revision regarding the capital structure);
- target debt to equity structure, with 60% weight of Equity (up from previous 40%), a figure more in line with our projections to 2023
- tax rate of 25% (up from 4%, assuming a normalization in the medium term)

Table 8: WACC calculation

WACC Calculation	
Perpetual growth rate	2.0%
WACC	**6.8%**
Risk free rate (Italy 30 + Projected increase)	3.0%
Equity Risk Premium	5.5%
Beta	1.20
Cost of Equity	9.6%
After-tax cost of debt	2.7%
Tax rate	25.0%

Source: Banca Profilo estimates and elaborations

DCF Fair Value: €2.3/share vs previous €3.2/share

The DCF method leads us to an Enterprise Value of €40.2mln (vs our previous estimate at €48.0mln) and an Equity Value of €20.2mln or €2.3/share (vs our previous estimates of €28.1mln or €3.2/share).

Table 9: DCF valuation

DCF Valuation (€ mln, except for the target price)	2020	2021E	2022E	2023E	Over
Free Cash Flow (FCF)		**0.0**	**0.3**	**1.8**	**2.3**
Years		1	2	3	
Discount factor		0.94	0.88	0.82	
NPV Cash flows		(0.0)	0.3	1.5	
Sum of NPVs		(0.0)	0.2	1.7	
Terminal Value					46.9
NPV Terminal Value					38.5
Enterprise Value					40.2
Net Financial Position FY2020					20.0
Minorities FY2020					-
Equity Value					20.2
Current outstanding shares					8.8
Target Price (€)					**2.3**

Source: Banca Profilo estimates and elaborations

Relative valuation on market multiples

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

In order to assess a relative valuation of Radici through the market multiples approach, we selected as "comparables": Victoria, Tarkett, Balta and Mohawk Industries. We updated our double overlap analysis by end-market and geographical exposure with FY20 figures and we ended up with immaterial changes compared to the results which came out using FY19 data.

Figure 9: Radici's competitive arena

Competitive Arena		End-markets				Score	Geographic areas				Score	Average score [30% as minimum threshold]
		Residential & Contract	Marine	Sport & Landscaping	Automotive		Italy	Rest of Europe	USA	Rest of the World		
IT	RADICI	44%	8%	25%	24%		47%	29%	21%	3%		
UK	Victoria PLC	X	X	X		77%	6%	79%	0%	15%	26%	52%
FR	Tarkett	X	X	X		77%	2%	38%	34%	26%	20%	48%
BE	Balta	X			X	68%	5%	57%	32%	6%	26%	47%
US	Mohawk	X				44%	3%	22%	58%	16%	21%	32%

Source: Banca Profilo elaborations on Company data
Note: Data are at the end of 2020 and, where not available, at the end of 2019

Table 10: Market multiples

Company	EV / EBITDA			EV / Sales			P / E		
23/04/2021	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Victoria PLC	11.5x	10.6x	10.5x	2.1x	2.0x	2.0x	33.4x	27.2x	27.9x
Tarkett SA	5.7x	5.0x	4.6x	0.6x	0.5x	0.5x	17.0x	11.8x	10.7x
Balta Group SA	4.3x	4.1x	N.A.	0.6x	0.6x	N.A.	8.6x	5.7x	6.5x
Mohawk Industries Inc	9.2x	8.6x	8.0x	1.5x	1.5x	1.4x	16.9x	15.3x	13.5x
Mean	**7.7x**	**7.1x**	**7.7x**	**1.2x**	**1.2x**	**1.3x**	**19.0x**	**15.0x**	**14.7x**
Median	**7.4x**	**6.8x**	**8.0x**	**1.1x**	**1.0x**	**1.4x**	**16.9x**	**13.6x**	**12.1x**
Radici Pietro Industries & Brands	**17.5x**	**7.8x**	**5.4x**	**0.8x**	**0.6x**	**0.6x**	**N.D.**	**10.0x**	**3.9x**

Source: Banca Profilo estimates and elaborations on FactSet data (as of April 23rd)

EV/EBITDA 2022E-2023E of 7.4x

In light of 2020-2021 deteriorated fundamentals and in order to have EBITDA figures as consistent as possible with a post-pandemic "new-normal" scenario, we excluded 2020-2021 multiples from the calculation, sampling the median EV/EBITDA for 2022 and 2023. Our sample shows an average EV/EBITDA 20212-2023E of 7.4x, from which we derived an average Equity Value of €22.1mln, equal to a per share value of €2.5 (vs previous Equity Value of €11.1mln and €1.30 per share).

Table 11: EV/EBITDA market multiple

Valuation on EV/EBITDA market multiple (€ mln, except for the target price)			
	2022E		2023E
Median EV/EBITDA best peers	6.8x		8.0x
Average 2022E-2023E		**7.4x**	
EBITDA	4.6		6.7
Entepirse Value	34.2		49.9
Net Financial Position FY2020		20.0	
Current Minorities	0.0		0.0
Equity Value	14.3		29.9
Average Equity Value		22.1	
Current outstanding shares		8.8	
Price per share (€)		**2.5**	

Source: Banca Profilo estimates and elaborations on FactSet data (as of April 23rd)

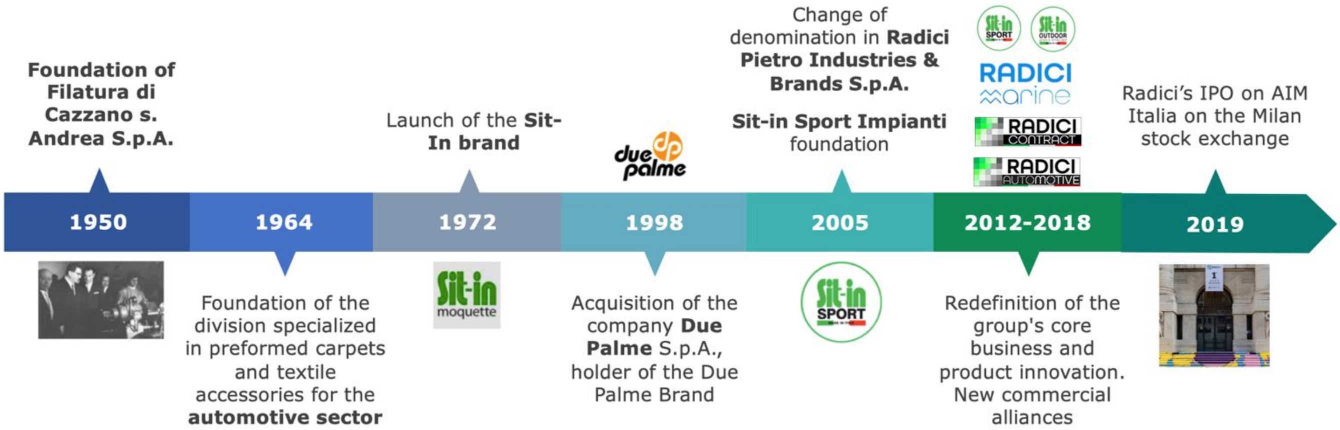
APPENDIX

Radici's history and organizational structure

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

Radici Pietro Industries & Brands was established 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 10: 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 maresiarket, 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, 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, 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, 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, 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, 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** (~44% of total FY20 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.

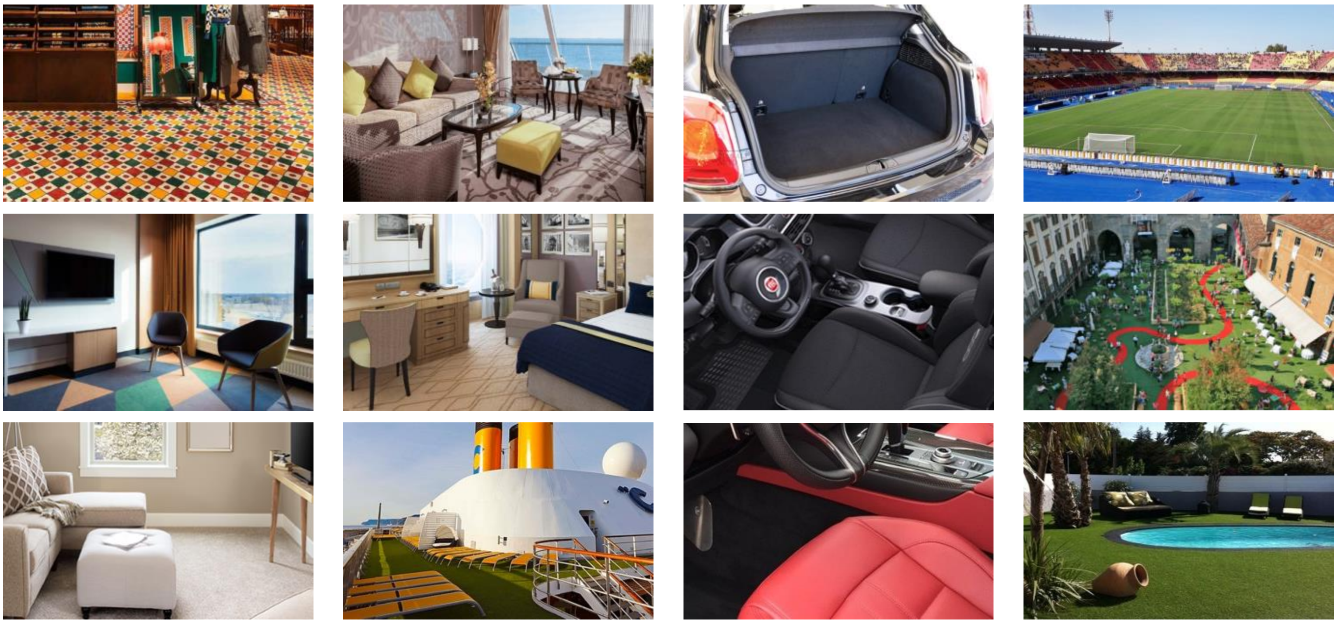
ii) **Radici Marine** (~8% of total FY20 revenue), the brand dedicated to the Marine industry, for which Radici designs, produces, distributes and installs carpets, mainly customized, for cruise ships, ferries and yachts, both in the refitting phase and in the new construction phase.

iii) **Radici Automotive** (~24% of total FY20 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** (~25% of total FY20 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 11: Radici's main products by brand

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



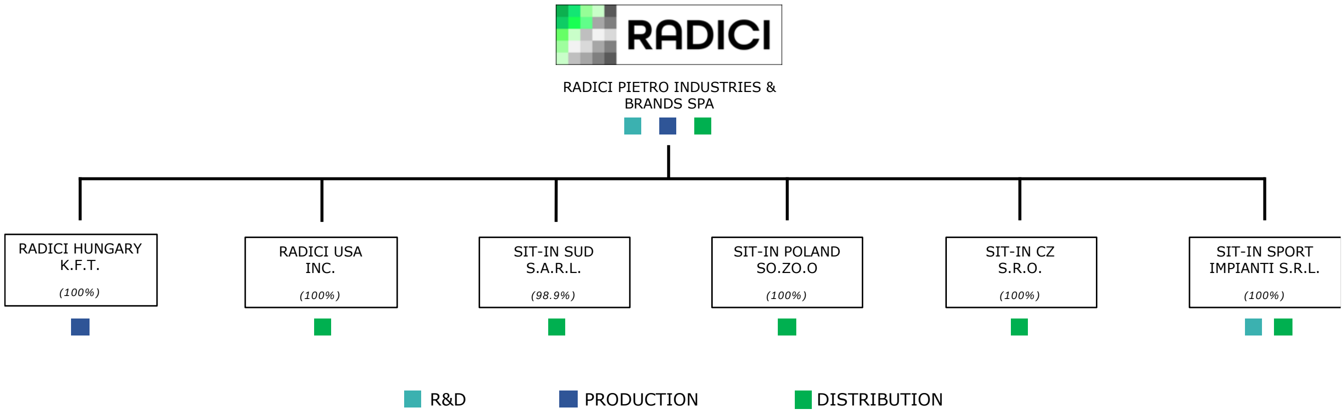
Source: Banca Profilo elaborations on Company data

Radici's business model and corporate structure

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 12: Radici's corporate structure

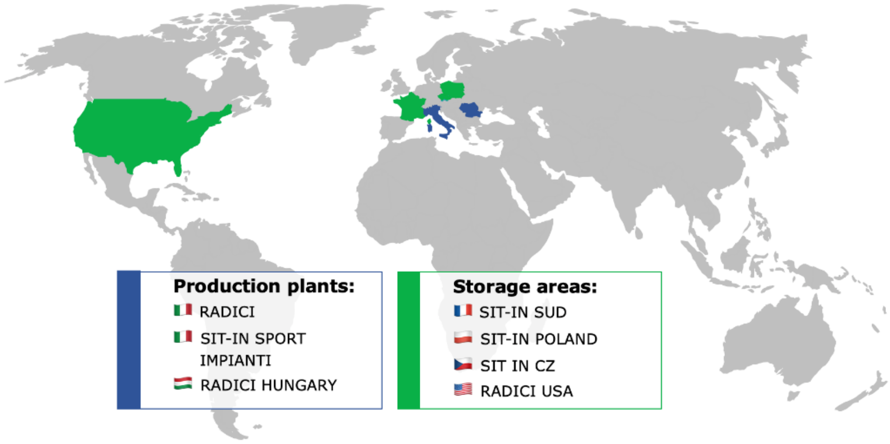


Source: Banca Profilo elaborations on Company data

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 13: 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.

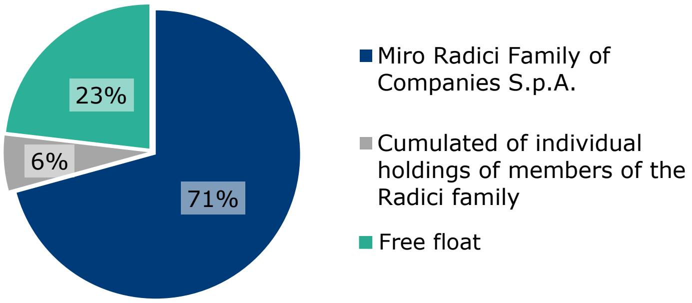
- Make to Order is a business production strategy in which the production begins only after a customer confirms its order, allowing cost and stock planning;
- On a residual basis, Radici applies the Make to Stock business production strategy, according to management sales forecasts.

Ownership structure and management

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 14: Ownership of the Group (%)



Source: Banca Profilo elaborations on Company data

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.

Figure 15: 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

Dilution risk and liquidity risk

Warrant

On 18 July 2019, the Board of Directors established the issue of a maximum of no. 1,098,350 Warrants, to be reserved for the exercise of corresponding maximum no. 1,098,350 Conversion Shares.
No warrants were exercised during the first period, from 01/06/2020 to 22/06/2020. The next two subscription periods are: from 01/06/2021 to 22/06/2021, with a strike price of €3.75, and from 01/06/2022 to 22/06/2022, with a strike price of €4.13.
As the strike price of the next subscription period is currently significantly higher than both the current share price and our target price, we estimate the dilution risk to be very low, but however existing.

Liquidity analysis

To assess the stock's liquidity, we carried out an analysis on two indicators for four different periods, all consisting of approximately 62 trading days. We advise investors to eventually apply a liquidity discount, if considered appropriate.

Table 12: Liquidity Indicators

Most recent ← → Less recent

1 Year Liquidity Analysis - Results				
Reference period	Q-1 (Previous 3months)	Q-2	Q-3	Q-4
Start Date	January 23, 2021	October 22, 2020	July 21, 2020	April 20, 2020
End Date	April 23, 2021	January 22, 2021	October 21, 2020	July 20, 2020
% days with no trade on total trading days	**3%**	**0%**	**19%**	**21%**
#days with no trades	2	0	12	13
#total trading days	63	62	62	63
Average daily trading value (€) / Free float value (€)	**0.9%**	**1.0%**	**0.7%**	**0.5%**
Average daily trading value (€)	34	97	1213	97
Free float value (€)	3681	42038	503084	42038

Source: Banca Profilo estimates and elaborations on FactSet data (as of April 23rd, 2021)

Radici "ID Card"

Recommendation	Target Price	Upside
BUY	**2.4 €**	**33%**

Company Overview

Radici Pietro Industries & Brands was established 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 2020, Radici's annual results were strongly impacted by the economic effects of the Covid-19 and related government containment measures, as the Company was forced to close its production plants from March 23rd to April 26th. Revenue declined by 28% yoy to €43mln, EBITDA stood at €0.6mln (margin at 1% from 11% in 2019), while Net Income was negative per €0.9mln. Despite the economic consequences of the pandemic will continue to affect Radici's business, we believe both Company's competitive advantages and its long-term growth drivers will remain intact, as the Company can count on: i) a highly diversified business, ii) well-established commercial relationship with high standing customers, and iii) a natural inclination to innovation, as demonstrated by its new product Virex, for which the Company has already filed a patent. Since our previous Company Update (November 2, 2020), in addition to the Company's cutting of guidance, various independent international organizations have revised down their estimates for the Eurozone GDP both in 2021 and 2022, and there has been a global downsizing of the expected growth in some sectors, especially Marine and Automotive. Consequently, we revised downward our 2021E-2023E projections. According to our new estimates, revenue is expected to grow at a 2020-23 CAGR of 15% to €65.1mln, while EBITDA is forecast to reach €6.7mln in 2023, with margin improving to 10%.

SWOT Analysis

Strengths

- Partial revenue visibility, thanks to multi-year supply contracts
- Vertical integration, from raw material procurement to the distribution of the finished products
- 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,
- Level of indebtedness which could partially limit the possibilities of financing for M&A operations

Opportunities

- New business opportunities coming from the recently developed textile product that eliminate the viral load of Covid-19
- Penetration of Emerging markets, characterized by rapid population growth and urbanization
- Operating leverage, as volume growth may lead to a more than proportional increase in margins
- 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
- More challenging than expected market conditions after the Covid-19 outbreak

Main catalysts

Product innovation that will strengthen the Group's competitive positioning

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

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 "ID Card"

Recommendation	Target Price	Upside
BUY	2.4 €	32%

April 26th, 2020 - 17:30

Main Financials

(€ mln)	2018	2019	2020E	2021E	2022E
Revenue	**60.3**	**59.4**	**43.0**	**46.8**	**56.9**
yoy change	*6%*	*-1%*	*-28%*	*9%*	*22%*
Cost of goods sold	(57.5)	(57.1)	(43.0)	(45.6)	(53.8)
Margin on revenue (%)	*95%*	*96%*	*100%*	*98%*	*95%*
EBITDA	**4.6**	**6.8**	**0.6**	**2.0**	**4.6**
yoy change		*47%*	*-91%*	*236%*	*125%*
EBITDA margin on revenue (%)	*8%*	*11%*	*1%*	*4%*	*8%*
EBIT	**1.9**	**4.0**	**0.1**	**-0.2**	**2.0**
EBIT margin on revenue (%)	*3%*	*7%*	*0%*	*0%*	*4%*
EBT	1.5	5.8	(0.7)	(0.9)	1.4
Margin on revenue (%)	*2%*	*10%*	*-2%*	*-2%*	*2%*
Net income	**1.4**	**5.6**	**(0.9)**	**(0.9)**	**1.3**
Margin on revenue (%)	*2%*	*9%*	*-2%*	*-2%*	*2%*
Net debt (cash)	**29.7**	**22.0**	**20.0**	**17.9**	**18.6**
Consolidated Shareholders' Equity	24.3	33.8	32.5	31.5	32.9
Net Operating Working Capital	20.0	23.2	18.2	19.1	20.0
Capex	2.4	2.9	2.2	1.1	3.4
Free Cash Flow	(1.7)	0.5	3.3	0.0	0.3

Company Description

Company Sector	Building Materials
Last Price (€)	1.82
Number of shares (mln)	8.8
Market Cap (€ mln)	16.0
Reference Index	FTSE AIM ITALIA
Main Shareholders	Miro Radici Family of Companies SpA
Main Shareholder stake	71%
Free Float	23%
Daily Average Volumes	16,379
Sample of comparables	Balta, Tarkett, Victoria, Mohawk Industries

Breakdown by business unit

(€ mln)	2018	2019	2020E	2021E	2022E
Marine	7.8	8.6	3.3	3.5	4.9
Residential & Contracts	29.5	27.0	18.7	22.1	26.1
Leisure & Sport	12.0	12.0	10.7	12.3	14.2
Automotive	10.9	11.8	10.2	8.9	11.8
Revenue	**60.3**	**59.4**	**43.0**	**46.8**	**56.9**

Data of peers

	2019	2020	2021E	2022E
Revenue Growth (yoy)	*5%*	*-4%*	*10%*	*4%*
EBITDA Margin	*14%*	*12%*	*15%*	*15%*

Median data

Solvibility Ratios

	2018	2019	2020E	2021E	2022E
Net Debt (cash)/Equity	1.2x	0.7x	0.6x	0.6x	0.6x
Net Debt (cash)/EBITDA	6.4x	3.2x	32.7x	8.8x	4.0x
EBIT Interest Coverage Ratio	2.2x	5.0x	0.1x	-0.3x	2.8x

Financial and Operative ratios

	2018	2019	2020E	2021E	2022E
Operating WC Turnover	3.0	2.6	2.4	2.4	2.9
Asset Turnover	0.8	0.7	0.6	0.6	0.7
ROE	*6%*	*17%*	*-3%*	*-3%*	*4%*
ROA	*2%*	*7%*	*-1%*	*-1%*	*2%*
Days Sales Outstanding	88	98	80	86	82
Days Payables Outstanding	116	110	125	123	119
Days Sales Of Inventory	128	137	172	163	145

Source: FactSet, Banca Profilo estimates and elaborations

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ADDITIONAL INFORMATION

THE BANK PROVIDES ALL OTHER ADDITIONAL INFORMATION, ACCORDING TO ARTICLE 114, PARAGRAPH 8 OF LEGISLATIVE DECREE 58/98 ("FINANCIAL DECREE") AND COMMISSION DELEGATED REGULATION (EU) 2016/958 AS OF 9 MARCH 2016 (THE "COMMISSION REGULATION") ON THE RELEVANT SECTION OF ITS WEBSITE (WWW.BANCAPROFILO.IT, IN THE SECTION "CLIENTI AZIENDALI E ISTITUZIONALI/ANALISI E RICERCA").