

### Gradual recovery to pre-pandemic figures



December 3<sup>rd</sup>, 2021, at 19:00

#### Business Plan update

On November 11<sup>th</sup>, Radici updated its Business Plan, revising FY22 targets and adding FY23 estimates. The Company revised downwards FY22 revenue, EBITDA, and net profit targets, mainly due to the postponement of some orders in the Residential & Contracts and Marine sectors, where Radici has some travel & hospitality customers, whose business may still be affected by the socio-economic consequences of Covid-19. Nevertheless, revenue growth is projected in both years in all sectors, except for the Automotive, as the industry could still struggle with a shortage of semiconductors. As for Balance Sheet targets, main revision was on Net Debt figures, positively revised thanks to the significant cut in FY22 CapEx, involving mostly the energy efficiency process, as the Company will no longer invest €1.8mln in the purchase of a 1.2MW co-generator. Instead, Radici signed a fifteen-year Energy Performance Contracting (EPC) for installing a 2.4 MWh photovoltaic plant able to cover 40% of Radici's annual energy consumption needs.

#### Our updated FY22-FY23 estimates & our new FY24 forecast

On the back of the new Business Plan, we revised our estimates almost aligning our FY22-23 forecast with Radici's targets which, in our view, sufficiently factor in the current market scenario. Since our previous Company Update (October 27<sup>th</sup>, 2021), we revised downwards FY22 and FY23 revenue by 7% on average, as well as EBITDA margin and profit, for which we remain however more cautious than the Company, as we factored in a more aggressive acceleration of production costs. As for Balance Sheet figures, we made minor changes to our assumptions, depending almost exclusively on: i) the downward revision of revenue and profitability targets, which affected net working capital and shareholders' equity estimates, and ii) the significant investment cut announced by the Company. According to our new forecast, FY23 revenue should reach €59.5mln (vs previous estimate of €65mln), with a 2020-2023E expected CAGR of 11%, while EBITDA is forecast to be €5.2mln in 2023, with margin improving to 9%; Net Debt is expected at €18.7mln at the end of FY22 (vs previous estimate of €20.5mln), to then improve to €13.6mln in 2023 (vs previous estimate of €14.7mln), thanks to lower Net Invested Capital needs and the already planned sale of a non-strategic property worth €4mln. Moreover, to give a representation of what could be Radici's ordinary business, we added FY24 forecast to our model, elaborated on a market scenario where Cruise and Automotive sectors will no longer be respectively impacted by Covid-19 restriction and the shortage of semiconductors. According to our FY24 estimate, we see: i) revenue at €64.1mln; ii) lower incidence of raw materials compared to its peak above 50% in FY22 and FY23 and iii) Shareholders' Equity reaching €36.3mln driven by increasing net profit.

#### Valuation: BUY confirmed, TP revised at €2.0

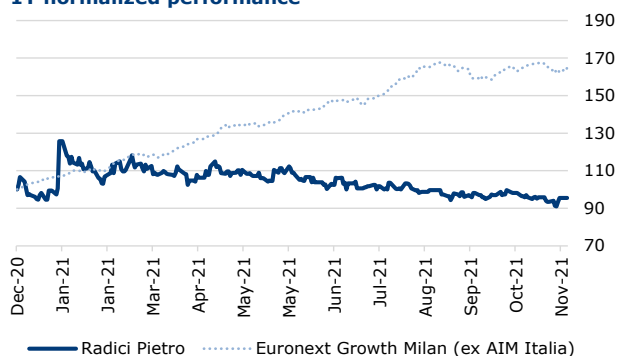
Since our previous Company Update (October 27<sup>th</sup>, 2021), we revised our target price down from €2.2 per share to €2.0 due to the downward revision of the price implicit in market multiples, which fell from €2.1 to €1.3. Conversely, the fair value calculated through the DCF increased from €2.3 to €2.7, due to the upward revision of cumulated free cash flows. Given the potential upside on Radici's last market price (€1.51 as of December 3<sup>rd</sup>), we confirm our Buy recommendation.

<b>Target Price (€)</b>	<b>2.0 from 2.2</b>
<b>Recommendation</b>	<b>BUY</b>
Last closing price	1.51
Number of shares (mln)	8.7
Market capitalization (€, mln)	13.1
<b>Performance</b>	<b>from IPO</b>
Absolute	-51%
Max / Min	3.2/1.2
Average daily volumes	14,258

(€, mln)	2019	2020	2021E	2022E	2023E
<b>Revenue</b>	<b>59.4</b>	<b>43.0</b>	<b>47.0</b>	<b>53.5</b>	<b>59.5</b>
yoy (%)	-1%	-28%	9%	14%	11%
<b>EBITDA</b>	<b>6.8</b>	<b>0.6</b>	<b>2.2</b>	<b>3.6</b>	<b>5.2</b>
margin (%)	11%	1%	5%	7%	9%
<b>EBIT</b>	<b>4.0</b>	<b>0.1</b>	<b>(0.4)</b>	<b>1.0</b>	<b>2.4</b>
margin (%)	7%	0%	-1%	2%	4%
<b>Net Income</b>	<b>5.6</b>	<b>(0.9)</b>	<b>(1.1)</b>	<b>0.3</b>	<b>1.8</b>
margin (%)	9%	-2%	-2%	1%	3%
<b>Net Debt</b>	<b>22.0</b>	<b>20.0</b>	<b>18.8</b>	<b>18.7</b>	<b>13.6</b>
Sh. Equity	33.8	32.5	31.4	31.7	33.5
Capex	2.9	2.2	0.6	1.4	3.0
<b>FCF</b>	<b>0.5</b>	<b>3.2</b>	<b>0.7</b>	<b>1.4</b>	<b>1.0</b>

Source: Banca Profilo estimates and elaborations, Company data.

#### 1Y normalized performance



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## Company's guidance and our updated estimates

### Business Plan update: new 2022 and 2023 Company's target

The recovery of both Marine and Residential & Contract sector is postponed; the Automotive is expected to stagnate; the Sports sector should keep constantly growing

On November 11<sup>th</sup>, Radici published the update of its Business Plan with 2022 revised targets and its new 2023 estimates. Compared to its previous Business Plan, published in June 2020, the Company revised downwards its FY22 revenue, EBITDA, and net profit targets, mainly due to the postponement of some orders in the Residential & Contracts and Marine sectors, where Radici has some travel & hospitality customers, whose business may still be affected by the socio-economic consequences of Covid-19. However, the Company expects to record a revenue growth in all sectors the next year, except for the Automotive, as the industry could still struggle with a shortage of semiconductors. Radici expects a similar sector trend also for 2023, with revenues from all sectors growing except for Automotive ones, which are expected to stagnate. The Sports & Leisure sector should keep growing, benefitting from the increasing demand for artificial grass for sports use, driven by the construction of new Padel Paddle fields, in particular. Overall, revenue from Marine and Residential & Contract sectors are forecast to reach pre-Covid levels in 2022 and 2023 respectively, while the Automotive sector is expected to stagnate, with 2023 revenues still 40% below pre-pandemic levels. The Sport & Leisure sector is the only sector expected to return to pre-pandemic levels already at the end of the current fiscal year.

Figure 1: Radici's 2021, 2022 and 2023 revenue targets

	2019	2020	2021E	2022E	2023E	CAGR 20-23
 <b>Residenziale &amp; Contract</b>	26.984	18.719	23.000 ca	27.500 ca	28.500 ca	11%
 <b>Marine</b>	8.633	3.318	3.300 ca	5.000 ca	8.500 ca	26,5%
 <b>Sportivo</b>	12.014	10.736	12.700 ca	14.500 ca	16.000 ca	10,5%
 <b>Automotive</b>	11.810	10.181	8.000 ca	7.000 ca	7.000 ca	-9%
<b>Aggregate Revenue</b>	<b>59.441</b>	<b>42.954</b>	<b>47.000 ca</b>	<b>54.000 ca</b>	<b>60.000 ca</b>	<b>8,7%</b>

Source: Banca Profilo elaborations on Company data

Figure 2: Radici's 2021, 2022 and 2023 main financials targets

(€, k)	FY20A	FY21E (budget)	FY22E (budget)	FY22E (target)
Revenues	42.954	47.000 ca.	54.000 ca.	60.000 ca.
EBITDA	1316 (1)	2.200 ca.	4.000 ca.	5.500 ca.
EBITDA margin	3,1%	4,7% ca.	7,4% ca.	9,1% ca.
Net Income / Net Loss	-911	-1.300 ca.	500 ca.	
CapEx		700 ca.	1.400 ca.	
Net Debt	19.952	18.000 ca.	18.000 ca.	
Shareholders' Equity	32.485	31.000 ca.	32.000 ca.	

Source: Banca Profilo elaborations on Company data

### Radici's 2021, 2022 and 2023 main financials targets

According to the new plan, Radici should record revenue growth of 14.9% yoy in 2022 and 11.1% in 2023, to €54m and €60m respectively. As for profitability, Radici expects to improve its EBITDA margin by 272 basis points in FY22 (to 7.4%) and by 170bp in FY23 (to 9.1%) thanks to a more profitable revenue mix, led by the increase in revenue from the Sport sector which boasts a higher marginality than the Company's average, and increasing energy efficiency. For FY22 Radici expects to record a positive

net profit of €0.5mln compared to net loss of €1.3mln expected for this year, while for FY23 Net Income estimates were not disclosed. As for Balance Sheet targets, the main revision concerned Net Debt estimates, positively affected by a significant cut in CapEx plan. Radici has in fact significantly revised its FY21-FY22 CapEx, from cumulative investments of €4.3mln to €2mln, split between €0.6mln this year and €1.4mln next year. The main change of the investment plan concerned the purchase of a 1.2MW co-generator, for an investment of €1.8mln originally planned this year and subsequently postponed; with the update of the Business Plan, Radici has replaced this investment with a fifteen-years Energy Performance Contracting (EPC), aimed in any case at optimizing self-consumption. According to the new plan, Net Debt is estimated to remain stable at €18mln in FY22 vs previous estimate of an increase to €20mln.

*Strategic growth drivers: strengthening of commercial network, e-commerce, product innovation and sustainability*

Strategically, the revenue growth assumed in the Business Plan is based on the following key drivers:

1. the strengthening of the commercial structure to enlarge the customer base, with a particular focus on new geographical areas and on the Sports sector, thanks to the possibilities created by the success of Padel;
2. the launch, from the second quarter of 2022, of the e-commerce project for the B2C market aimed at the online sale of both textile flooring and artificial grass products;
3. *the continuous development of innovative products*, namely: i) antibacterial and antiviral products, such as VIREX®, ii) products with low environmental impact, especially in the sports sector, such as Returf, and iii) products with recycled and recyclable raw materials, which meet the needs of the circular economy, such as products made from ECONYL®, regenerate nylon developed and produced by Aquafil SpA. The increasing attention to sustainability will also be driven by the involvement in the European consortium "Sunrise", a project financed by the European Commission whose goal is to promote the use of recycled and/or regenerated materials in the flooring sector.

The Company has also been constantly monitoring potential M&A opportunities.

*Installation of a photovoltaic system for self-consumption, to increase independency from energy prices fluctuation*

Regarding the increase in profitability, the main objective is energy efficiency, thanks to the construction and the installation of a 2.4 MWh photovoltaic plant able to cover 40% of Radici's annual energy consumption needs. The photovoltaic plant will be installed at the facility in Cazzano Sant'Andrea and will be active starting as of the second half of 2022. Radici will not own this asset, which is managed by an ESCO, but will have the ability to use up to 79% of the energy produced by the plant, paying for the electricity consumed at a price that is about 65% lower than current electricity price levels. This energy supply relationship is regulated by a fifteen-years Energy Performance Contracting (EPC), a type of contract which is comparable to an operating lease through which Radici pays the company that owns the plant, the ESCO, a fee based on the amount of energy consumed. However, the EPC foresees the possibility for Radici to purchase the plant after the first year at predetermined and decreasing values.

## *Our updated FY21-FY23 estimates and our new FY24 forecast*

*2022E-2023E income statement revision:*

- 20-23E revenue CAGR of 11%
- 21E-23E average EBITDA margin of 6% (vs previous 8%)

On the back of the new Business Plan, we have revised our estimates, almost aligning our FY22 and FY23 forecast with Radici's targets which, in our view, sufficiently factor in the current market scenario. Since our previous Company Update (October 27<sup>th</sup>, 2021), the main changes concerned:

- 2022 and 2023 revenue targets, revised downwards by 7% on average; the 2023 target is now estimated at €59.5mln (vs previous estimate of €65mln), with a 2020-2023E expected CAGR of 11% (vs previous estimate of 15%).
- 2022 and 2023 marginality and profit targets, for which we are however more cautious than the Company's estimates, due to a global context characterized

by a continuous acceleration of production costs; if on the one hand we believe the Company will be able to contain the appreciation of energy cost, thanks to a fixed price contract until mid-2022 and the entry into service of the photovoltaic system in the second half of 2022, we remain however more cautious on the trend of raw materials cost, which represent the main cost item for Radici (approximately 50% of revenue). According to our new estimates, EBITDA is forecast to be €5.2mIn in 2023, with margin improving to 9% (vs our previous estimates of €6.9mIn and 11%, respectively).

- Net Income is still expected to return positive in 2022, but with meaningful margin. A clear improvement should take place in 2023, when Net Income is expected to reach €1.8mIn with a margin of 3%.

**2022E-2023E balance sheet revision.**

**Changes strictly depend on:**

- the downward revision of income statement targets**
- the CapEx cut announced by the Company**

As for Balance Sheet figures, we did not make relevant changes to our assumptions. Any changes to previous estimates depend almost exclusively on two factors: i) the downward revision of revenue and profitability targets, which affected net working capital and shareholders' equity estimates, and ii) the investment cut announced by the Company. According to our new forecast, Net Debt is expected at €18.7mIn at the end of FY22 (vs previous estimate of €20.5mIn), to then improve to €13.6mIn in 2023 (vs previous estimate of €14.7mIn), thanks to lower Net Invested Capital needs, rising Shareholders' Equity and the already planned sale of a non-strategic property worth €4mIn. The assumptions for FY24 estimates are based on a "new-normality" scenario, where Radici's business is not affected anymore by the socio-economic consequences of the pandemic. In this scenario, Radici returns to make investments in line with the historical average (approximately €3mIn of CapEx), Shareholders' Equity grows thanks to the growth in net profit, and Net Debt declines thanks to Radici's cash generative business.

**FY24 forecasts: hypothetical targets in an ordinary business scenario**

To give a representation of what could be a situation of Radici's ordinary business, we elaborated estimates for 2024. Our revenues estimates are based on the assumptions that the cruise sector and the Automotive sector will no longer be impacted by Covid-19 restriction and the shortage of semiconductors respectively, while Sports and Residential sectors should perform in line with the market. Overall, aggregate revenue is expected at €64.1mIn, showing a 8% yoy growth. Regarding the cost structure, we assumed: i) a decrease in the incidence of raw materials cost to 50% from the peaks of 52% expected for 2022 and 2023, ii) an increase in the workforce of 10 employees in 2024, and iii) other variable costs almost in line, in terms of incidence, with pre-Covid historical average. The EBITDA margin is estimated at about 10% (EBITDA at €6.3mIn), while the Net Income margin at 4.4% (Net Income at €2.8mIn). As for Balance Sheet estimates, we assumed Radici will return to make investments in line with the historical average (approximately €3mIn of CapEx), that Shareholders' Equity will grow thanks to the growth in net profit, and Net Debt will progressively decline thanks to Radici's cash generative business.

**Cumulative 2021-2024 Free Cash Flow of €4.8mIn**

According to our revised Profit & Loss and Balance Sheet estimates, we forecast 2021-2023 cumulated Free Cash Flow of €3.1mIn (vs our previous estimate of €2.2mIn), an upward revision that benefit from the drastic cut in CapEx for FY22. Adding to our explicit period our new FY24 estimate, we came up with a 2021-2024 cumulative Free Cash Flow of €5.1mIn, including €8.0mIn of capex and €3.5mIn of NOWC needs.

Table 1: Radici Profit &amp; Loss 2018PF-2023E (€ mln)

Profit & Loss (€ mln)												
	2018 PF	2019 PF	2020	2021E		2022E		2023E		2024E		
				Old	New	Old	New	Old	New	Old	New	
<b>Revenue</b>	<b>60.3</b>	<b>59.4</b>	<b>43.0</b>	<b>46.8</b>	<b>47.0</b>	<b>56.9</b>	<b>53.5</b>	<b>65.1</b>	<b>59.5</b>	-	<b>64.1</b>	
yoy		-1%	-28%	9%	9%	22%	14%	14%	11%	-	8%	
Changes in unfinished & finished goods	-0.1	0.8	-0.6	0.0	0.1	0.7	0.0	1.3	0.6	-	0.0	
Changes in fixed assets for internal works	0.6	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	-	0.0	
Other Revenues	1.2	3.4	1.2	0.9	0.9	0.8	0.9	0.8	0.9	-	0.9	
<b>Value of production</b>	<b>62.1</b>	<b>63.9</b>	<b>43.6</b>	<b>47.7</b>	<b>48.0</b>	<b>58.5</b>	<b>54.4</b>	<b>67.2</b>	<b>61.0</b>	-	<b>65.0</b>	
yoy		3%	-32%	9%	10%	22%	13%	15%	12%	-	7%	
Cost of raw materials	(30.5)	(30.8)	(21.5)	(23.6)	(23.7)	(29.3)	(27.6)	(34.1)	(30.9)	-	(31.9)	
% on revenues	51%	52%	50%	51%	51%	52%	52%	52%	52%	-	50%	
Cost of purchased services	(15.5)	(16.0)	(12.1)	(12.8)	(12.8)	(15.1)	(13.6)	(16.8)	(15.2)	-	(16.5)	
% on revenues	26%	27%	28%	27%	27%	26%	26%	26%	26%	-	26%	
Costs for the use of third-party assets	(0.6)	(0.7)	(0.8)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	-	(0.6)	
% on revenues	1%	1%	2%	1%	1%	1%	1%	1%	1%	-	1%	
Labour cost	(9.4)	(9.3)	(7.8)	(8.1)	(8.1)	(8.9)	(8.8)	(9.3)	(9.2)	-	(9.6)	
% on revenues	16%	16%	18%	17%	17%	16%	16%	14%	16%	-	15%	
Purchases and changes in inventories	(0.7)	0.4	(0.1)	(0.0)	0.0	0.3	(0.0)	0.6	0.3	-	0.0	
% on revenues	1%	-1%	0%	0%	0%	-1%	0%	-1%	0%	-	0%	
Other operating costs	(0.6)	(0.6)	(0.7)	(0.6)	(0.6)	(0.3)	(0.2)	(0.2)	(0.1)	-	(0.2)	
% on revenues	1%	1%	2%	1%	1%	1%	0%	0%	0%	-	0%	
<b>Cost of goods sold</b>	<b>(57.5)</b>	<b>(57.1)</b>	<b>(43.0)</b>	<b>(45.8)</b>	<b>(45.9)</b>	<b>(53.9)</b>	<b>(50.8)</b>	<b>(60.4)</b>	<b>(55.8)</b>	-	<b>(58.8)</b>	
% on revenues	95%	96%	100%	98%	98%	95%	95%	93%	94%	-	92%	
<b>EBITDA</b>	<b>4.6</b>	<b>6.8</b>	<b>0.6</b>	<b>2.0</b>	<b>2.2</b>	<b>4.5</b>	<b>3.6</b>	<b>6.9</b>	<b>5.2</b>	-	<b>6.3</b>	
EBITDA Margin on revenues	8%	11%	1%	4%	5%	8%	7%	11%	9%	-	10%	
D&A	(2.6)	(2.8)	(0.4)	(2.3)	(2.4)	(2.6)	(2.5)	(2.7)	(2.7)	-	(2.8)	
% on revenues	4%	5%	1%	5%	5%	4%	5%	4%	5%	-	4%	
Write-downs	(0.2)	0.0	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	-	(0.1)	
<b>EBIT</b>	<b>1.9</b>	<b>4.0</b>	<b>0.1</b>	<b>(0.4)</b>	<b>(0.4)</b>	<b>1.9</b>	<b>1.0</b>	<b>4.1</b>	<b>2.4</b>	-	<b>3.4</b>	
EBIT Margin on revenues	3%	7%	0%	-1%	-1%	3%	2%	6%	4%	-	5%	
Net financial income (expenses)	(0.4)	2.0	(0.8)	(0.7)	(0.7)	(0.7)	(0.7)	(0.5)	(0.5)	-	(0.5)	
% on revenues	1%	-3%	2%	2%	2%	1%	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	
<b>EBT</b>	<b>1.5</b>	<b>5.8</b>	<b>(0.7)</b>	<b>(1.2)</b>	<b>(1.1)</b>	<b>1.2</b>	<b>0.3</b>	<b>3.5</b>	<b>1.9</b>	-	<b>2.9</b>	
EBT Margin on revenues	2%	10%	-2%	-2%	-2%	2%	1%	5%	3%	-	5%	
Income Tax Expense	(0.1)	(0.2)	(0.2)	0.0	(0.0)	(0.0)	(0.0)	(0.1)	(0.1)	-	(0.1)	
Tax rate	4.4%	2.9%	n.a.	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	-	4.0%	
<b>Net Income</b>	<b>1.4</b>	<b>5.6</b>	<b>(0.9)</b>	<b>(1.2)</b>	<b>(1.1)</b>	<b>1.2</b>	<b>0.3</b>	<b>3.4</b>	<b>1.8</b>	-	<b>2.8</b>	
Net Income Margin on revenues	2.4%	9.4%	-2.1%	-2.5%	-2.4%	2.0%	0.6%	5.2%	3.1%	-	4.4%	

Source: Banca Profilo elaborations and estimates

Table 2: Radici Balance Sheet 2018-2023E (€ mln)

Balance Sheet (€ mln)											
	2018 PF	2019 PF	2020	2021E		2022E		2023E		2024E	
				Old	New	Old	New	Old	New	Old	New
Intangible Assets	0.3	1.4	2.0	1.8	1.7	1.8	1.4	1.9	1.1	-	0.8
Property, Plant & Equipment	34.1	32.8	34.1	33.0	32.7	33.8	31.9	29.4	27.7	-	28.2
Financial Assets	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-	0.0
<b>Fixed Assets</b>	<b>35.7</b>	<b>34.2</b>	<b>36.1</b>	<b>34.8</b>	<b>34.4</b>	<b>35.6</b>	<b>33.3</b>	<b>31.3</b>	<b>28.9</b>	-	<b>29.0</b>
Trade Receivable	14.5	16.0	9.4	11.0	11.0	12.9	12.6	14.3	14.0	-	14.5
Inventories	20.1	21.4	20.3	20.3	20.4	21.4	20.4	23.3	21.3	-	22.9
Trade Payable	(14.7)	(14.1)	(11.5)	(12.2)	(12.6)	(14.4)	(13.4)	(16.2)	(14.7)	-	(15.7)
<b>Net Operating Working Capital</b>	<b>20.0</b>	<b>23.2</b>	<b>18.2</b>	<b>19.1</b>	<b>18.9</b>	<b>19.8</b>	<b>19.6</b>	<b>21.4</b>	<b>20.6</b>	-	<b>21.7</b>
<i>% on revenues</i>	33%	39%	42%	41%	40%	35%	37%	33%	35%	-	34%
trade receivables (% on revenues)	24%	27%	22%	24%	24%	23%	24%	22%	24%	-	23%
inventories (% on revenues)	33%	36%	47%	43%	43%	38%	38%	36%	36%	-	36%
trade payables (% on materials & services c	32%	30%	34%	34%	34%	33%	33%	32%	32%	-	32%
Other current assets	6.3	6.2	5.7	4.5	4.6	5.3	5.2	5.6	5.4	-	5.5
Other current liabilities	(2.1)	(2.1)	(1.6)	(1.6)	(1.6)	(1.7)	(1.7)	(1.7)	(1.7)	-	(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)	(7.1)	(7.1)	(7.1)	(7.1)	(7.1)	(7.1)	(7.1)	-	(7.2)
Of which Funds	(1.9)	(1.9)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	-	(2.1)
Of which tax payable	(5.0)	(4.9)	(5.1)	(5.1)	(5.1)	(5.1)	(5.1)	(5.1)	(5.1)	-	(5.1)
<b>Net Invested Capital</b>	<b>54.0</b>	<b>55.8</b>	<b>52.4</b>	<b>50.8</b>	<b>50.2</b>	<b>53.0</b>	<b>50.3</b>	<b>50.6</b>	<b>47.1</b>	-	<b>48.5</b>
<b>CapEx</b>	<b>2.4</b>	<b>2.9</b>	<b>2.2</b>	<b>0.9</b>	<b>0.6</b>	<b>3.4</b>	<b>1.4</b>	<b>3.2</b>	<b>3.0</b>	-	<b>5.0</b>
<i>Intangible</i>	0.3	1.6	0.3	0.2	0.0	0.6	0.2	0.5	0.2	-	0.4
<i>Tangible</i>	2.1	1.3	1.9	0.8	0.6	2.8	1.2	2.6	2.8	-	4.6
<i>% on revenues</i>	4%	5%	5%	2%	1%	6%	3%	5%	5%	-	8%
Shareholders' equity	24.3	33.8	32.5	31.3	31.4	32.5	31.7	35.9	33.5	-	36.3
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)	(4.3)	(5.5)	(5.5)	(4.3)	(5.1)	(0.9)	(3.3)	-	(0.5)
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
<b>Consolidated Shareholders' Equity</b>	<b>24.3</b>	<b>33.8</b>	<b>32.5</b>	<b>31.3</b>	<b>31.4</b>	<b>32.5</b>	<b>31.7</b>	<b>35.9</b>	<b>33.5</b>	-	<b>36.3</b>
<b>Net debt (cash)</b>	<b>29.7</b>	<b>22.0</b>	<b>20.0</b>	<b>19.4</b>	<b>18.8</b>	<b>20.5</b>	<b>18.7</b>	<b>14.7</b>	<b>13.6</b>	-	<b>12.2</b>
Cash and cash equivalents	(0.3)	(2.9)	(3.4)	(2.3)	(2.9)	(0.0)	(1.8)	(1.6)	(2.6)	-	(2.1)
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	23.4	21.7	21.7	20.5	20.5	16.3	16.3	-	14.3

Source: Banca Profilo elaborations and estimates

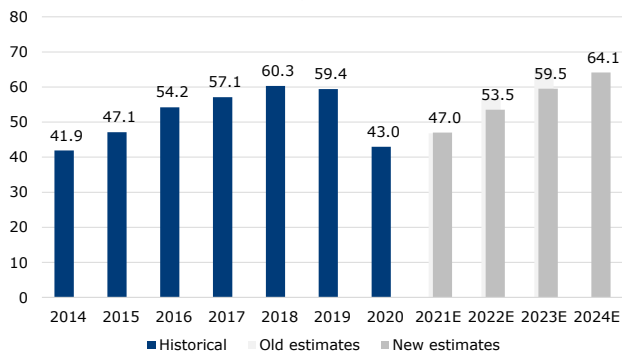
Table 3: Radici Free Cash Flow 2018-2023E (€ mln)

Cash Flows (€ mln)											
	2018 PF	2019 PF	2020	2021E		2022E		2023E		2024E	
				New	Old	New	Old	New	Old	New	Old
EBIT	1.9	4.0	0.1	(0.4)	(0.4)	1.9	1.0	4.1	2.4	-	3.4
Tax rate	4%	3%	n.a.	4%	4%	4%	4%	4%	4%	-	4%
<b>NOPAT</b>	<b>1.8</b>	<b>3.9</b>	<b>(0.1)</b>	<b>(0.4)</b>	<b>(0.4)</b>	<b>1.8</b>	<b>1.0</b>	<b>3.9</b>	<b>2.3</b>	-	<b>3.2</b>
D&A	2.6	2.8	0.4	2.3	2.4	2.6	2.5	2.7	2.7	-	2.8
Operating Cash Flow	4.4	6.7	0.3	1.9	2.0	4.4	3.5	6.6	5.0	-	6.0
Changes in Funds	(1.0)	(0.0)	0.1	(0.0)	(0.0)	0.0	0.0	0.0	0.0	-	0.0
Changes in Operating NWC	(2.7)	(3.2)	5.0	(0.9)	(0.7)	(0.7)	(0.6)	(1.7)	(1.1)	-	(1.1)
CapEx	(2.4)	(2.9)	(2.2)	(0.9)	(0.6)	(3.4)	(1.4)	(3.2)	(3.0)	-	(3.0)
<b>Free Cash Flow</b>	<b>(1.7)</b>	<b>0.5</b>	<b>3.2</b>	<b>0.1</b>	<b>0.7</b>	<b>0.3</b>	<b>1.4</b>	<b>1.8</b>	<b>1.0</b>	-	<b>2.0</b>

Source: Banca Profilo elaborations and estimates

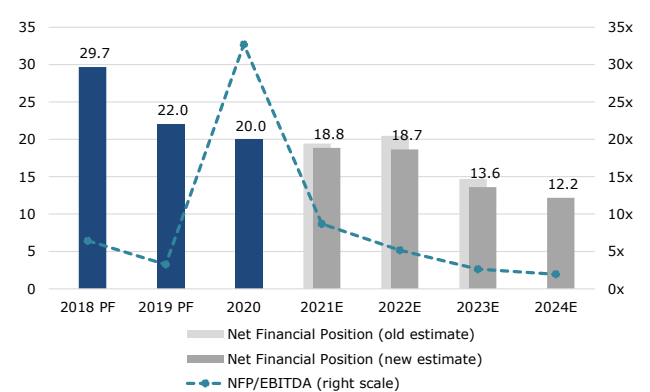
## 2021E-2024E estimates in graphs

Figure 3: Radici revenue trend 2014-2024E (€, mln)



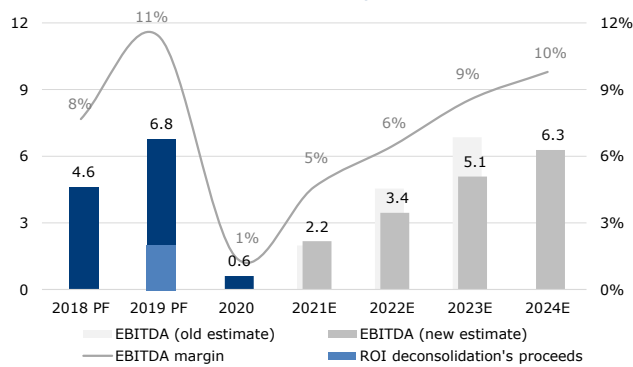
Source: Banca Profilo elaborations and estimates

Figure 6: Net Financial Position dynamics in 2018-2024E (€, mln)



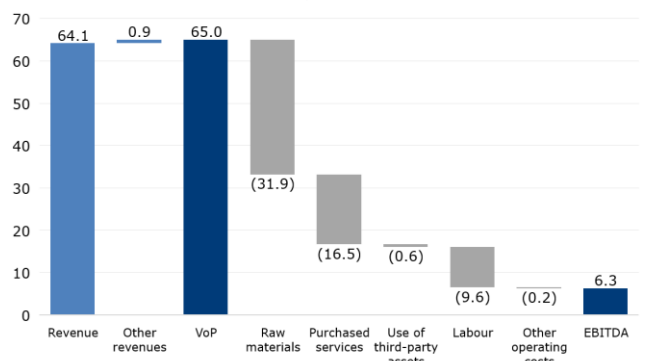
Source: Banca Profilo elaborations and estimates

Figure 4: EBITDA (€, mln) and EBITDA margin (%) trend 2018-2024E



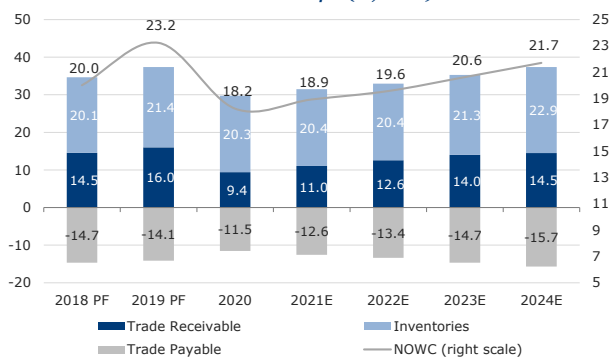
Source: Banca Profilo elaborations and estimates

Figure 7: FY24 cost structure assumption (€, mln)



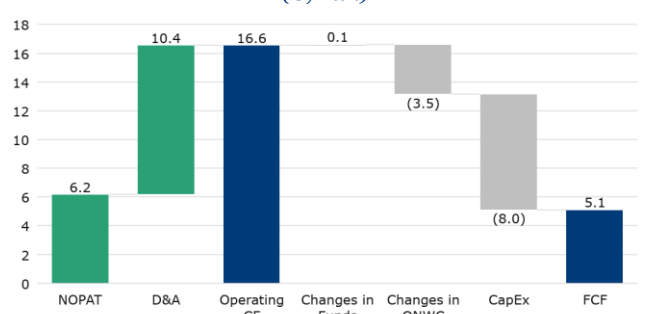
Source: Banca Profilo elaborations and estimates

Figure 5: Net working capital composition and dynamics in 2018-2024E (€, mln)



Source: Banca Profilo elaborations and estimates

Figure 8: 2021E-2024E cumulative FCF breakdown (€, mln)



Source: Banca Profilo elaborations and estimates



**Valuation: BUY recommendation confirmed**

*Valuation update*

*Target Price revised downwards from €2.2 to €2.0; BUY confirmed*

Since our previous Company Update (October 27<sup>th</sup>, 2021), we revised our target price down from €2.2 per share to €2.0 due to the downward revision of the price implicit in market multiples, which fell from €2.1 to €1.3. Conversely, the fair value calculated through the DCF increased from €2.3 to €2.7, due to the upward revision of cumulated free cash flows. Given the potential upside on Radici’s last market price (€1.51 as of December 3<sup>rd</sup>), we confirm our Buy recommendation.

*Figure 9: Banca Profilo’s Target Prices since Radici’s IPO*



Date	Publication type	Recommendation	Last Price (€)	Target Price (€)
<b>03/12/2021</b>	<b>Company Update</b>	<b>BUY</b>	<b>1.5</b>	<b>2.0</b>
27/10/2021	Company Update	BUY	1.6	2.2
26/04/2021	Company Update	BUY	1.8	2.4
02/11/2020	Company Update	BUY	1.3	2.2
03/06/2020	Initial Coverage	BUY	1.7	2.2

Source: Banca Profilo elaborations on FactSet data, as of December 3<sup>rd</sup>

*DCF Valuation*

*2021-2023 cash flows estimate revision*

To run a DCF model, we used our projections for the 2021E-2024E explicit period. Despite the downward revision of income statement figures, which led to a cut in 2021E-2023E estimated operating cash flow, the lower operating working capital needs added to the halving of CapEx, led to an overall upward revision of 2021E-2023E Free Cash Flows. More in detail, we have revised upwards by 44% the cumulated 21E-23E Free Cash Flow, from €2.2mln to €3.1mln. The €0.9mln improvement can be broken down into: i) €0.8mln of lower working capital needs, ii) CapEx lower by €2.5mln, elements that offset iii) the €2.3mln downward revision of the Operating Cash Flow. Adding our FY24 estimate, we came up with a 2021-2024 cumulative Free Cash Flow of €5.1mln, including €8.0mln of capex and €3.5mln of NOWC needs.

*Adding 2024E estimates to our explicit period*

*Other inputs: Net Debt, Terminal Value and discount factor*

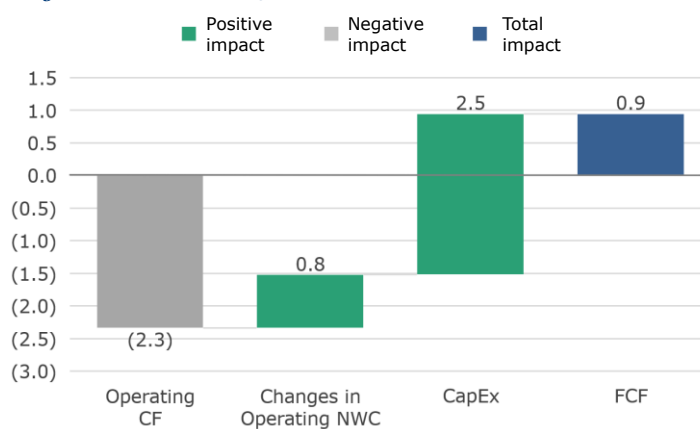
In order to get to the Equity Valuation, we considered estimated Net Debt for FY21, equal to €18.8mln (vs €20.6mln used in our latest update and referred to end of June 2021). We confirmed the Terminal cash flow at €2.3mln, which represents the implied Free Cash Flow in a medium-long term scenario for Radici, which is based on a revenue target of €80mln and an EBITDA margin of 11% (in line with our previous estimate). Lastly, in order to maintain a three-years discrete projection period, in addition to including 2024E estimates, we fractionated the discount period from full years to months, to consider only the remaining month of December for 2021.

Table 4: Cash Flow

Cash flow (€/mln)	2021E	2022E	2023E	2024E	Over
EBIT	(0.4)	1.0	2.4	3.4	
Tax Rate	4%	4%	4%	4%	
<b>NOPAT</b>	<b>(0.4)</b>	<b>1.0</b>	<b>2.3</b>	<b>3.2</b>	
D&A	2.4	2.5	2.7	2.8	
<b>Operating Cash Flow</b>	<b>2.0</b>	<b>3.5</b>	<b>5.0</b>	<b>6.0</b>	
Changes in Funds	(0.0)	0.0	0.0	0.0	
Changes in Operating NWC	(0.7)	(0.6)	(1.1)	(1.1)	
CapEx	(0.6)	(1.4)	(3.0)	(3.0)	
<b>Free Cash Flow (FCF)</b>	<b>0.7</b>	<b>1.4</b>	<b>1.0</b>	<b>2.0</b>	<b>2.3</b>

Source: Banca Profilo estimates and elaborations

Figure 10: 2021E-2023E Free Cash Flow revision broken down



Source: Banca Profilo elaborations and estimates

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

We applied a WACC of 6.8%, in line with our previous estimates, given almost unchanged 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 (in line with our previous estimate);
- target debt to equity structure, with 60% weight of Equity (in line with our previous estimates)
- tax rate of 25%, up from the current 4%, assuming a normalization in the long run (in line with our previous estimates)

Table 5: WACC calculation

WACC Calculation	
Perpetual growth rate	2.0%
<b>WACC</b>	<b>6.8%</b>
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 up from €2.3 to €2.7

The DCF method leads us to an Enterprise Value of €42.4mIn and an Equity Value of €23.5mIn or €2.7/share (vs our previous estimate of €19.6mIn and €2.3/share, respectively).

Table 6: DCF valuation

DCF Valuation (€ mln, except for the target price)	2021E	2022E	2023E	2024E	Over
<b>Free Cash Flow (FCF)</b>	<b>0.7</b>	<b>1.4</b>	<b>1.0</b>	<b>2.0</b>	<b>2.3</b>
Years	0.1	1.1	2.1	3.1	
Discount factor	0.99	0.93	0.87	0.81	
NPV Cash flows	0.7	1.3	0.8	1.6	
Sum of NPVs	0.7	2.0	2.9	4.5	
Terminal Value					46.5
NPV Terminal Value					37.9
Enterprise Value					42.4
Est. Net Debt as of FY21 December					18.8
Minorities FY2020					-
Equity Value					23.5
Current outstanding shares					8.7
<b>Equity Value per share (€)</b>					<b>2.7</b>

Source: Banca Profilo estimates and elaborations

## Relative valuation on market multiples

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

In order to assess a relative valuation of Radici through the market multiples approach, we selected as "comparables": Victoria, Tarkett, Balta and Mohawk Industries. In our latest Company Update (October 27<sup>th</sup>, 2021) we had updated our double overlap analysis by end-market and geographical exposure with 1H21 figures and we had ended up with immaterial changes compared to results coming from FY20 data.

Figure 11: 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	<b>RADICI</b>	49%	7%	25%	20%		47%	29%	18%	5%		
UK	Victoria PLC	X	X	X		80%	13%	72%	0%	15%	28%	54%
FR	Tarkett	X	X	X		80%	2%	40%	34%	24%	20%	50%
BE	Balta	X			X	69%	5%	50%	37%	7%	24%	46%
US	Mohawk	X				49%	3%	23%	58%	16%	20%	34%

Source: Banca Profilo estimates and elaborations on Company and FactSet data  
Note: elaborations are based on 1H21 data and, where not available, on FY20 data

Table 7: Market multiples

Company	EV / EBITDA			EV / Sales			P / E		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
<b>03/12/2021</b>									
Victoria PLC	12.5x	10.3x	9.5x	2.1x	1.7x	1.6x	33.6x	26.8x	24.1x
Tarkett SA	7.1x	6.2x	5.4x	0.6x	0.6x	0.6x	24.4x	15.2x	12.7x
Balta Group SA	4.7x	4.2x	N.A.	0.6x	0.6x	N.A.	10.8x	5.1x	4.7x
Mohawk Industries Inc	6.8x	6.7x	6.2x	1.2x	1.1x	1.1x	11.7x	11.0x	10.0x
<b>Mean</b>	<b>7.8x</b>	<b>6.8x</b>	<b>7.0x</b>	<b>1.1x</b>	<b>1.0x</b>	<b>1.1x</b>	<b>20.1x</b>	<b>14.6x</b>	<b>12.9x</b>
<b>Median</b>	<b>7.0x</b>	<b>6.4x</b>	<b>6.2x</b>	<b>0.9x</b>	<b>0.9x</b>	<b>1.1x</b>	<b>18.1x</b>	<b>13.1x</b>	<b>11.4x</b>
<b>Radici Pietro Industries &amp; Brands</b>	<b>15.5x</b>	<b>9.3x</b>	<b>6.5x</b>	<b>0.7x</b>	<b>0.6x</b>	<b>0.6x</b>	<b>N.D.</b>	<b>33.0x</b>	<b>6.0x</b>

Source: Banca Profilo estimates and elaborations on FactSet data (as of December 3<sup>rd</sup>)

EV/EBITDA 2022E-2023E of 6.9x

In light of FY20-21 deteriorated fundamentals and in order to have EBITDA figures as consistent as possible with a post-pandemic "new-normal" scenario, we continued to sample EV/EBITDA for FY22 and FY23. Our calculation shows an average EV/EBITDA 2021-2023E of 6.9x from which we derived an average Equity Value of €11.8mIn, equal to a per share value of €1.3 (vs previous Equity Value of €18.0mIn and €2.1 per share). The significant downward revision of the implicit price in multiples derived from the average 23% cut in the 21E-23E EBITDA estimates.

Table 8: EV/EBITDA market multiple

Valuation on EV/EBITDA market multiple (€ mln, except for the target price)		
	2022E	2023E
Mean EV/EBITDA best peers	6.8x	7.0x
<b>Average 2022E-2023E</b>		<b>6.9x</b>
EBITDA	3.6	5.2
Enterprise Value	25.1	36.1
Est. Net Debt as of FY21 December		18.8
Current Minorities	0.0	0.0
Equity Value	6.2	17.3
Average Equity Value		11.8
Current outstanding shares		8.7
<b>Price per share (€)</b>		<b>1.3</b>

Source: Banca Profilo estimates and elaborations on FactSet data (as of December 3<sup>rd</sup>)

## 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 prolonged effect of pandemic-related consequences on the market scenario, 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.

Impact	High					
	Medium-High		Instability of the network of agents and distributors			
	Medium		Obsolescence of products and/or services offered vs competitors	Prolonged effect of pandemic consequences on the business		
	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
<b>Likelihood</b>						

Source: Banca Profilo estimates and elaborations



## Radici "ID Card"

December 3, 2021 - 18:00

Recommendation

**BUY**

Target Price

**2.0 €**

Upside

**34%**

### 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. 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 continue to have a tangible impact on some Radici's end-markets, mainly Marine and Automotive, the long-term drivers remain intact. Radici is set to expand its business and improve its profitability further, thanks to: i) the narrowing of the production gap, ii) strengthening of the commercial structure, iii) the launch, from the second quarter of 2022, of the e-commerce project for the B2C market and iv) the continuous development of innovative products. On the back of the new Business Plan, we revised our estimates almost aligning our FY22-23 forecast with Radici's targets which, in our view, sufficiently factor in the current market scenario. According to our new forecast, FY23 revenue should reach €59.5mIn (vs previous estimate of €65mIn), with a 2020-2023E expected CAGR of 11%, while EBITDA is forecast to be €5.2mIn in 2023, with margin improving to 9%; Net Debt is expected at €18.7mIn at the end of FY22 (vs previous estimate of €20.5mIn), to then improve to €13.6mIn in 2023 (vs previous estimate of €14.7mIn), thanks to lower Net Invested Capital needs, rising Shareholders' Equity and the already planned sale of a non-strategic property worth €4mIn.

### 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

- 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
- 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
- Challenging market environment in the automotive sector, where chip shortage recovery may not happen until 2023 and may indirectly cause a decline in new orders

### 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

**BUY**

Target Price

**2.0 €**

Upside

**34%**

December 3, 2021 - 18:00

### Main Financials

(€ mln)	2018	2019	2020	2021E	2022E	2023E
<b>Revenue</b>	<b>60.3</b>	<b>59.4</b>	<b>43.0</b>	<b>47.0</b>	<b>53.5</b>	<b>59.5</b>
yoy change	6%	-1%	-28%	9%	14%	11%
Cost of goods sold	(57.5)	(57.1)	(43.0)	(45.9)	(50.8)	(55.8)
Margin on revenue (%)	95%	96%	100%	98%	95%	94%
<b>EBITDA</b>	<b>4.6</b>	<b>6.8</b>	<b>0.6</b>	<b>2.2</b>	<b>3.6</b>	<b>5.2</b>
yoy change	47%	-91%	256%	67%	44%	
EBITDA margin on revenue (%)	8%	11%	1%	5%	7%	9%
<b>EBIT</b>	<b>1.9</b>	<b>4.0</b>	<b>0.1</b>	<b>-0.4</b>	<b>1.0</b>	<b>2.4</b>
EBIT margin on revenue (%)	3%	7%	0%	-1%	2%	4%
EBT	1.5	5.8	(0.7)	(1.1)	0.3	1.9
Margin on revenue (%)	2%	10%	-2%	-2%	1%	3%
<b>Net income</b>	<b>1.4</b>	<b>5.6</b>	<b>(0.9)</b>	<b>(1.1)</b>	<b>0.3</b>	<b>1.8</b>
Margin on revenue (%)	2%	9%	-2%	-2%	1%	3%
<b>Net debt (cash)</b>	<b>29.7</b>	<b>22.0</b>	<b>20.0</b>	<b>18.8</b>	<b>18.7</b>	<b>13.6</b>
Consolidated Shareholders' Equity	24.3	33.8	32.5	31.4	31.7	33.5
Net Operating Working Capital	20.0	23.2	18.2	18.9	19.6	20.6
Capex	2.4	2.9	2.2	0.6	1.4	3.0
Free Cash Flow	(1.7)	0.5	3.2	0.7	1.4	1.0

### Solvability Ratios

	2018	2019	2020	2021E	2022E	2023E
Net Debt (cash)/Equity	1.2x	0.7x	0.6x	0.6x	0.6x	0.4x
Net Debt (cash)/EBITDA	6.4x	3.2x	32.7x	8.7x	5.2x	2.6x
EBIT Interest Coverage Ratio	2.2x	5.0x	0.1x	-0.5x	1.4x	4.2x

### Financial and Operative ratios

	2018	2019	2020	2021E	2022E	2023E
Operating WC Turnover	3.0	2.6	2.4	2.5	2.7	2.9
Asset Turnover	0.8	0.7	0.6	0.6	0.7	0.8
ROE	6%	13%	5%	9%	12%	12%
ROA	2%	7%	3%	5%	7%	7%
ROCE	4%	15%	7%	10%	14%	14%
ROIC	3%	17%	7%	14%	21%	21%

Source: FactSet, Banca Profilo estimates and elaborations

### Market data

Company Sector	Building Materials
Last closing price	1.51
Number of shares (mln)	8.7
Market Cap (€ mln)	13.1
Reference Index	Euronext Growth Milan
Main Shareholders	Miro Radici Family of Companies SpA
Main Shareholder stake	71%
Free Float	23%
Daily Average Volumes	14,258
Sample of comparables	Victoria PLC, Tarkett, Balta, Mohawk

### Data of peers

	2020	2021E	2022E	2023E
Revenue Growth (yoy)	-4%	15%	5%	3%
EBITDA Margin	12%	15%	15%	17%
<i>Median data</i>				

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