

1H22 results: cash balance to be optimized

October 10th, 2022, at 10:00

1H results in line with our estimates

TPS Group reported its 1H22 results: consolidated Value of Production rose by 9% yoy to €19.2mln (€17.7mln in 1H21), broadly in line with our estimate (€18.8mln). Growth was in part organic (~5%), while the remainder was related to the consolidation of ASI. Growth was primarily driven by the design, engineering, and technical publishing SBUs, while IT services and digital content management SBUs remained stable. The incidence of 1H21 VoP on FY21 was 47%; for the FY22 we expect VoP at €40mln (+6% yoy) [Please refer to our Company Update on April, 27th 2022]. This means that the incidence of 1H22 VoP on our FY22E revenues is 48%. EBITDA remained stable at €4mln and was in line with our estimate (€3.9mln). Marginality declined by 1.8pp to 20.6% on the back of higher operating costs and following higher training costs in relation to TPS Training Academy. Net income increased by 6% to €2mln (€1.9mln in 1H21). Net cash improved by €1.6mln from the end of 2021 to €16.2mln at the end of June 2022, in line with our year-end forecast.

Estimates revision: fine-tuning 2022E-2024E

Since 1H22 results were on track to our FY22 expectations, we fine-tuned our 2022-2024 estimates. We kept unchanged our FY22 revenue forecast, while we slightly increased our EBITDA projection. From FY23E and beyond, we updated our main top-down drivers: i) we decreased the expected growth rate of Italian, European and Global GDP and ii) slightly increased the expected revenue growth rate of TPS competitor's proxy. Altogether, Value of Production is now seen growing at a 21-24E CAGR of 7.1% to €46.1mln in 2024. We kept our FY22 cost increase assumptions, which envisages a double digit yoy growth in the Costs of Raw Materials and a single digit one in the Cost of Purchased Services. We maintained an optimistic view for FY23 and FY24, with progressive declining input prices. EBITDA margin should slightly deteriorate to 18.9% in FY22 from 20.3% in FY21, amid rising input prices, to then return above 20% in FY24. Overall, EBITDA is expected to grow at a 21-24E CAGR of 7% to €9.3mln.

On the Balance Sheet side, we slightly increased intangible assets in 2023E and decreased them in 2024E following CapEx revisions, while we fine-tuned our drivers for NOWC estimates. Our net cash position estimate slightly improved to €16.5mln since the Company's reached our previous FY22 net cash target (€15.8mln) at the end of June 2022. We believe that TPS should optimize its net cash position as it is 1.4x its Invested Capital and ~60% of its Shareholders' Equity. According to our Income Statement and Balance Sheet estimates, we project €8.2mln of cumulated 2022-2024 Free Cash Flows, or an annual average of €2.8mln.

Valuation: TP decreased to €9.0; BUY confirmed

We confirm our BUY recommendation with a 12-month Target Price of €9.0 computed as the simple average of the fair value from DCF and the relative market multiples. Our DCF valuation decreased to €9.0/share vs previous €9.4, primarily as an effect of higher risk-free rate. On the other hand, relative valuation increased to €8.9/share vs previous €8.8 due to higher net cash position. TPS trades at a discount, with EV/EBITDA 22E-23E of 2.6x vs peers' average of 6.1x. Similarly, TPS 22-23 P/E stands at 9.9x, while peers trade at 12x.

Target Price

€9.0 (from €9.1)

Recommendation

BUY

Company Profile

Ticker TPS IM (BBG), TPS-IT (FactSet)
Reference Industry Industrials – Engineering Services
Stock exchange Italian Stock Exchange
Reference Index FTSE Italia Small Cap

Market Data

Last Closing Price €5.3
Number of shares (mln) 7.3
Market cap. (mln) €38.5

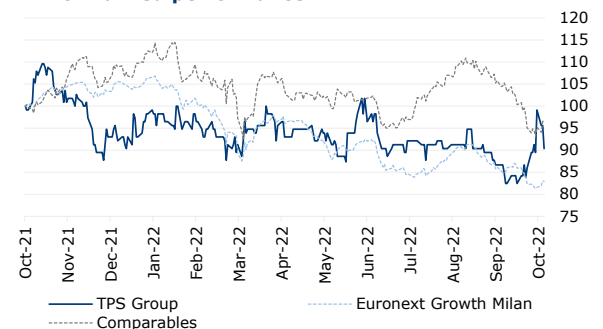
1Y performance

Absolute -6.2%
Max / Min 6.25/4.7
Average daily volumes 6,200

(€ mln)	2020	2021	2022E	2023E	2024E
VoP	31.0	37.6	40.0	43.6	46.1
yoy (%)	-16%	21%	6%	9%	6%
EBITDA	5.3	7.6	7.6	8.7	9.3
margin (%)	17%	20%	19%	20%	20%
EBIT	2.5	5.4	5.5	6.1	6.3
margin (%)	8%	14%	14%	14%	14%
Net Income	1.6	3.4	3.6	4.0	4.1
margin (%)	5%	9%	9%	9%	9%
Net Debt	(5.1)	(14.6)	(16.5)	(19.0)	(22.1)
Sh. Equity	20.8	24.3	28.1	32.2	36.5
Capex	1.2	1.3	1.6	2.6	2.8
FCFs	2.8	8.1	2.3	2.4	3.5

Source: Banca Profilo estimates and elaborations, Company data.

1Y normalized performance



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SWOT analysis

STRENGTHS

- Very advanced management control and severe economic balance
- Partial revenue visibility, thanks to multiannual agreements
- A strong-long term relationship with Leonardo which has lasted since the years of TPS foundation
- Resilience and defensive character of main end-market, the A&D industry
- High entry barriers in the sectors of activity
- Consolidated track-record in M&A operations

WEAKNESSES

- Small size of the business
- End-markets concentration and Value of Production's dependence on few customers
- Absolute dependence on the Italian market which represents more than 85% of the Value of Production

OPPORTUNITIES

- Full roll out of synergies from recent acquisitions
- Strong spirit of innovation and investments in R&D that favour the discovery of cutting-edge systems and services
- Geographical expansion opportunities in the United States, in the European markets and in China
- Specialization in the design of "full electric" systems and exposure to the growing trend of electric vehicles
- Potential increasing demand for virtual reality and augmented reality systems in a new normality characterized by social distancing

THREATS

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

1H22 results

Income Statement

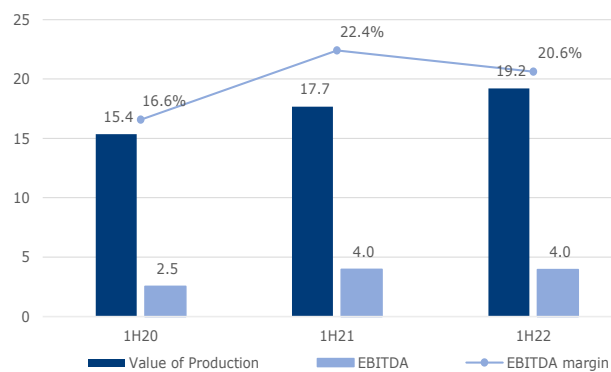
1H22 income statement figures in a nutshell

In 1H22 TPS Group recorded a consolidated Value of Production of €19.2m increasing by 9% yoy (€17.7m in 1H21) and broadly in line with our estimate (€18.8m). Growth was in part organic (~5%), while the remainder was related to the consolidation of ASI. Growth was primarily driven by the design, engineering, and technical publishing SBUs, while IT services and digital content management SBUs remained stable. The incidence of 1H21 VoP on FY21 was 47%, for the FY22E we expect VoP at €40m (+6% yoy). This means that the incidence of 1H22A VoP on our FY22E revenues is 48%. Italy remains the main source of revenues, which in 1H22 increased by 2pp to 90% compared to FY21.

1H22 EBITDA stable at €4m, marginality declined

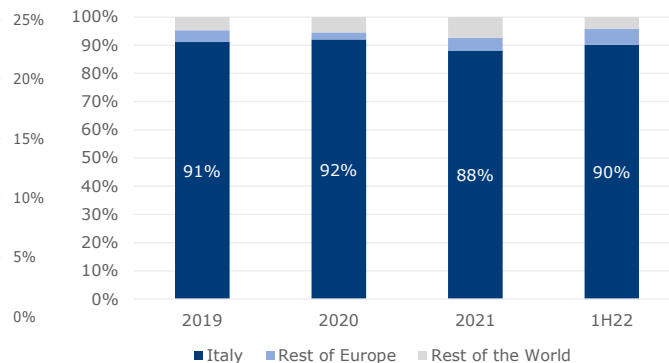
EBITDA remained stable at €4m and was in line with our estimate (€3.9m). Marginality declined by 1.8pp to 20.6% on the back of higher operating costs and following the higher training costs in relation to TPS Training Academy.

Figure 1: Generation of Adj. EBITDA (€, mln)



Source: Banca Profilo elaborations on Company data

Figure 2: Geographical revenue breakdown (€, mln)



Source: Banca Profilo elaborations on Company data

1H22: Net income at €2m

Net income increased by 6% to €2m (€1.9m in 1H21).

Table 1: Income statement 1H20-1H22 (€ mln)

Profit & Loss (€ mln)	1H20	2020	1H21	2021	1H22	
Value of Production	15.4	31.0	17.7	37.6	19.2	
	yoy	-36.3%	-15.8%	15.1%	21.2%	8.6%
Cost of materials and purchased services		(3.5)	(6.7)	(3.9)	(8.5)	(4.2)
	% on VoP	23%	21%	22%	23%	22%
Added Value		11.9	24.3	13.8	29.1	14.9
	yoy	-32%	-13%	16%	20%	8%
Labour cost		(9.3)	(18.9)	(9.8)	(21.2)	(10.9)
	% on VoP	60%	61%	55%	56%	57%
Other Operating Expenses		(0.1)	(0.1)	(0.1)	(0.3)	(0.1)
	% on VoP	0%	0%	0%	1%	0%
Comprehensive cost of goods sold		(12.8)	(25.7)	(13.7)	(29.9)	(15.2)
	% on VoP	83%	83%	78%	80%	79%
EBITDA	2.5	5.3	4.0	7.6	4.0	
	EBITDA Margin on VoP	17%	17%	22%	20%	21%
D&A		(1.4)	(2.8)	(1.0)	(2.2)	(0.8)
	% on VoP	9%	9%	6%	6%	4%
EBIT	1.2	2.5	3.0	5.4	3.2	
	EBIT Margin on VoP	8%	8%	17%	14%	17%
Net financial income (expenses)		(0.1)	(0.2)	(0.0)	(0.2)	(0.1)
	% on VoP	1%	1%	0%	1%	1%
Net extraordinary income (expense)		(0.2)	(0.1)	(0.1)	(0.2)	(0.1)
	% on VoP	1%	0%	1%	0%	0%
EBT	0.9	2.2	2.8	5.1	3.01	
	EBT Margin on VoP	6%	7%	16%	13%	16%
Income Tax		(0.3)	(0.6)	(0.8)	(1.5)	(0.9)
	Tax rate	32%	26%	30%	30%	30%
Minority/Non Controlling Interest		(0.0)	(0.0)	(0.0)	(0.1)	(0.1)
Net Income	0.6	1.6	1.9	3.4	2.0	
	% on VoP	4%	5%	11%	9%	11%
Basic EPS	0.08	0.21	0.26	0.47	0.47	
	yoy	-79%	-38%	221%	128%	80%

Source: Banca Profilo elaborations on Company data

Balance Sheet

30.06.22: Net Operating Working Capital at 30% of VoP

At the end of June 2022, Net Operating Working Capital stood at €11.8mln, including trade receivables for €13.9mln, trade payables for €2.4mln and €0.3mln of inventories. The incidence of trade receivables on 12-month VoP decreased to 35% from 39% at the end of 2021 and the incidence of trade payables on 12-month cost of services and materials declined from 35% at the end of 2021 to 27%.

30.06.22: Net cash rose to €16.2mln

At the end of June 2022, Net Cash rose to €16.2mln from €14.6mln in December 2021.

Table 2: Balance sheet 1H20-1H22 (€, mln)

Balance Sheet (€/mln)	1H20	2020	1H21	2021	1H22
Intangible Assets	4.9	4.3	3.9	4.0	3.9
Property, Plant & Equipment	3.6	3.3	3.0	2.9	3.0
Financial Assets	0.2	0.2	0.2	0.2	0.2
Fixed Assets	8.7	7.7	7.1	7.1	7.0
Trade Receivable	15.5	16.3	14.4	14.5	13.9
Inventories	-	-	-	0.3	0.3
Trade Payable	(1.9)	(2.1)	(2.5)	(3.0)	(2.4)
Net Operating Working Capital	13.6	14.2	12.0	11.8	11.8
<i>% on VoP</i>		46%	36%	31%	30%
<i>Trade receivables (% on VoP)</i>	101%	53%	43%	39%	35%
<i>Inventories (% on VoP)</i>	0%	0%	0%	1%	1%
<i>Trade paybles (% on cost of services & materials)</i>	55%	32%	35%	35%	27%
Other Assets	1.8	1.7	1.5	1.1	0.8
Other Liabilities	(4.8)	(3.9)	(4.6)	(5.2)	(4.9)
Funds	(3.8)	(4.0)	(4.1)	(5.0)	(5.1)
Invested Capital	15.4	15.8	11.9	9.7	9.7
CapEx	2.2	1.2	1.3	1.3	2.6
Intangible	2.0	0.3	0.6	0.6	2.1
Tangible	0.2	0.9	0.7	0.7	0.5
Financial	0.0	0.0	0.0	0.0	0.0
<i>% on VoP</i>	14%	4%	4%	4%	7%
Shareholders' equity	19.1	19.0	20.5	20.3	23.4
Group Net Income	0.6	1.5	1.9	3.4	2.0
Net Income attributable to third parties	0.0	0.0	0.1	0.1	0.1
Minority/Non Controlling Interest	0.3	0.3	0.3	0.4	0.4
Consolidated Shareholders' Equity	20.0	20.8	22.7	24.3	25.9
Financial Debt	0.8	1.6	0.7	1.0	0.2
Cash and cash equivalents	(8.5)	(9.5)	(14.0)	(17.9)	(18.5)
Leasing debt	0.4	0.3	0.3	0.3	0.3
Payables for rights of use	2.8	2.5	2.2	2.0	1.9
Other financial receivables	-	-	-	-	-
Net Financial Position (Cash)	(4.5)	(5.1)	(10.8)	(14.6)	(16.2)

Source: Banca Profilo elaborations on Company data

Strategy and estimates

Strategy and recent updates

Three cardinal principles: diversification, innovation and M&A

TPS's expansion strategy is not expected to change in the years ahead. The management has reassured us its key pillars: (i) diversification, (ii) expansion of the range of services with increasingly innovative solutions, and (iii) growth also through external lines.

- (i) **Diversification and geographical expansion** will be mainly aimed at expanding its presence in the United States – where the Company already has a non-operational headquarters –, and in China, where TPS signed in October 2020 an engineering service supply contract for CHANGFA, a large agricultural equipment manufacturer.
- (ii) The **expansion of the range of services** mainly relies on TPS R&D activities, oriented to the design of new systems and products able to integrate augmented reality and virtual reality applications. This is accompanied by the Cybersecurity project with which TPS aims to guarantee ever higher cybersecurity standards, a fundamental element in a sector such data sensitive as that of Aerospace & Defense.
- (iii) In our view, the true game changer for TPS could be the resumption at full speed of its **expansion path also through M&A operations**, mainly bolt-on acquisitions targeted at creating strategic value and increasing the degree of business diversification (partially resumed in 2021 with the acquisition of ASI). We believe the time is not ripe to fully resume it, also given TPS ability to generate consistent cash flow over time. However, please note that our estimates are on TPS as is, stand-alone, so do not include potential future acquisitions.

Acquisition of minorities in Dead Pixels

In July 2022, TPS Group increased its stake in Dead Pixels reaching 100%.

Our 2022-2024E estimates revision

Income Statement

Estimates fine tuning: FY21 TPS figures confirmed

Considering the overall 1H22 performance roughly in line with our estimates, we kept our FY22 revenue estimate and fine-tuned our EBITDA estimates (<2% increase).

Value of Production is now forecast to grow at a 21-24E CAGR of 7.1% to €46.1mln in 2024

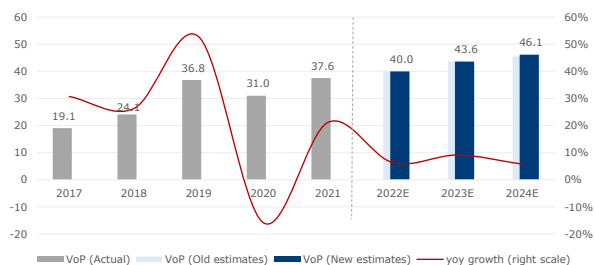
From FY23E and beyond, we updated our main top-down drivers of our model: i) expected growth rate of Italian, European and Global GDP (revised downwards from our previous Company update dated April 2022), ii) expected revenue growth rate of TPS's main competitors, if listed, or a proxy of them (slightly above our previous estimates). We applied the same forecasting methodology explained in our Initial Coverage. Altogether, Value of Production is now forecast to grow at a 21-24E CAGR of 7.1% to €46.1mln in 2024 (vs 6.6% in our previous update).

EBITDA margin should slightly deteriorate in FY22, to 18.9% from 20.3% in FY21, amid rising input prices, to then return to above 20% from FY24

We kept our cost increase assumptions, which envisages a double digit yoy increase in the Costs of Raw Materials and a single digit one in the Cost of Purchased Services in FY22. The incidence of cost of materials and purchased services on VoP is thus expected to increase from 23% in FY21 to 24% in FY22. However, we should note that the incidence of raw materials, and thus its relative cost for TPS, is meaningless if compared to turnover (less than 4%), conversely, the costs of services represented about 18.5% of the VoP in 1H22, therefore an increase, even single digit, could push the incidence to 20.1% in FY22 according to our estimates. Lastly, energy should represent less than 1% of revenue even estimating more than doubled energy prices in FY22. We maintained an optimistic view for FY23 and FY24, with a scenario of progressive declining input prices. Following minor operating cost fine-tuning relating primarily to labour cost and purchased services, our EBITDA is now expected to grow at a 21-24E CAGR of 7% (vs 6.7% in our previous estimates) to €9.3mln, at a pace slightly below VoP. Compared to our previous estimates, we slightly increased FY22E EBITDA (+1.8%), while we decreased FY23E (-1.9%).

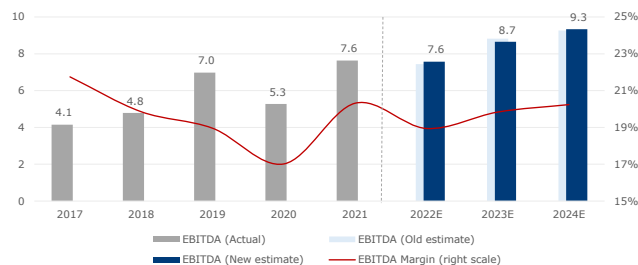
EBITDA margin should slightly deteriorate to 18.9% (+30bps vs previous estimates) in FY22 from 20.3% in FY21, amid rising input prices, to then return above 20% in FY24 (-10bps vs previous estimates).

Figure 3: Value of Production trend 2017-2024E, € mln



Source: Banca Profilo elaborations and estimates on Company data

Figure 4: EBITDA trend 2017-2024E, € mln



Source: Banca Profilo elaborations and estimates on Company data

Table 3: Profit & Loss evolution 2018-2024E, € mln

Profit & Loss (€ mln)	2019	2020	2021	2022E		2023E		2024E	
				old	new	old	new	old	new
Total revenue	34.9	30.0	36.9	39.4	39.4	42.7	43.0	44.6	45.5
yoy	55%	-14%	23%	7%	7%	9%	9%	4%	6%
Value of production	36.8	31.0	37.6	40.0	40.0	43.6	43.6	45.5	46.1
yoy	53%	-16%	21%	6%	6%	9%	9%	4%	6%
Cost of materials and purchased services	(8.8)	(6.7)	(8.5)	(9.6)	(9.6)	(10.2)	(10.3)	(10.4)	(10.6)
% on VoP	24%	21%	23%	24%	24%	23%	24%	23%	23%
Added Value	28.0	24.3	29.1	30.3	30.3	33.4	33.3	35.1	35.5
% on VoP	76%	79%	77%	76%	76%	77%	76%	77%	77%
Labour cost	(20.9)	(18.9)	(21.2)	(22.5)	(22.3)	(24.3)	(24.2)	(25.5)	(25.7)
% on VoP	57%	61%	56%	56%	56%	56%	56%	56%	56%
Other Operating Expenses	(0.1)	(0.1)	(0.3)	(0.4)	(0.4)	(0.4)	(0.5)	(0.4)	(0.5)
% on VoP	0%	0%	1%	1%	1%	1%	1%	1%	1%
COGS	(29.8)	(25.7)	(29.9)	(32.5)	(32.4)	(34.8)	(35.0)	(36.3)	(36.8)
% on VoP	81%	83%	80%	81%	81%	80%	80%	80%	80%
EBITDA	7.0	5.3	7.6	7.4	7.6	8.8	8.7	9.3	9.3
EBITDA Margin on VoP	19%	17%	20%	19%	19%	20%	20%	20%	20%
D&A	(3.0)	(2.8)	(2.2)	(2.0)	(2.0)	(2.8)	(2.6)	(3.1)	(3.1)
% on VoP	8%	9%	6%	5%	5%	6%	6%	7%	7%
EBIT	4.0	2.5	5.4	5.4	5.5	6.1	6.1	6.1	6.3
EBIT Margin on VoP	11%	8%	14%	13%	14%	14%	14%	14%	14%
Net financial income (expenses)	(0.3)	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)	(0.0)	(0.1)	(0.0)
% on VoP	1%	1%	1%	0%	0%	0%	0%	0%	0%
Net extraordinary income (expense)	(0.2)	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
% on VoP	1%	0%	0%	0%	0%	0%	0%	0%	0%
EBT	3.4	2.2	5.1	5.1	5.3	5.8	5.9	5.9	6.1
EBT Margin on VoP	9%	7%	13%	13%	13%	13%	13%	13%	13%
Income Tax Expense	(1.1)	(0.6)	(1.5)	(1.5)	(1.6)	(1.7)	(1.7)	(1.7)	(1.8)
Tax rate	31%	28%	30%	30%	30%	30%	30%	30%	30%
Net Income	2.4	1.6	3.6	3.6	3.7	4.1	4.1	4.2	4.3
% on VoP	6%	5%	9%	9%	9%	9%	9%	9%	9%
Basic EPS	0.33	0.21	0.47	0.48	0.50	0.54	0.55	0.55	0.57

Source: Banca Profilo elaborations and estimates on Company data

Balance Sheet and Free Cash Flow estimates

Minor revisions to NOWC drivers and Capex

On the Balance Sheet side, we slightly increased intangible assets in 2023E and decreased them in 2024E following Capex revisions, while we fine-tuned our drivers for Net Operating Working Capital estimates which led to a minor increase of NOWC. Moreover, we revised our assumptions on employees' benefits, which led to an 8% decrease in funds and thus negatively influencing our FCF. Our net cash position estimates improved on average by 2% compared to our previous estimates, as the Company's reached our previous FY22E net cash estimate at the end of June 2022.

2022E-2024E Balance Sheet projections:

- *CapEx plan worth €7mln*
Net Debt could reach more than €22mln of cash in FY24

Regarding remaining 2022E-2024E Balance Sheet projections, we estimate:

- A decline of 22E-24E aggregate CapEx from €7.4mln to €7mln, estimated in relation to VoP: 4% of VoP in FY22, 6% in FY23 and 6% in FY24.
- Declining Total Fixed Assets, from €7.1mln in FY21 to expected €6.4mln in FY24, as D&A expenses should more than offset new investments.

Net Cash is expected to progressively improve, to reach more than €22mln of cash in FY24, from €16.2mln of cash in 1H22.

Cumulated Free Cash Flows at €8.2mln in 2022E-2024E

After the impressive performance shown in FY21, with an estimated Free Cash Flow of €8.1mln, the Group is set to keep being cash generative over the entire explicit period. However, we estimate the value recorded in FY21 should not be easily repeatable, due to the extraordinary performance shown by working capital, the variation of which generated a positive flow of €2.7mln. According to our Income Statement and Balance Sheet estimates, we estimate €8.2mln of aggregated 2022E-2024E Free Cash Flows, equal to an annual average of €2.8mln. This represents a ~5% decline compared to our previous estimates, primarily to our change of funds estimation assumptions.

Table 4: Cash Flow evolution 2019-2024E, €mln

Cash Flow (€/mln)	2019	2020	2021	2022E		2023E		2024E	
				old	new	old	new	old	new
EBIT	4.0	2.5	5.4	5.4	5.5	6.1	6.1	6.1	6.3
Tax rate	29%	26%	30%	30%	30%	30%	30%	30%	30%
NOPAT	2.8	1.8	3.8	3.8	3.9	4.3	4.3	4.3	4.4
D&A	3.0	2.8	2.2	2.0	2.0	2.8	2.6	3.1	3.1
Changes in Funds	0.1	0.3	1.0	0.7	0.4	0.7	0.4	0.4	0.4
	0.10								
Changes in Operating NWC	(2.6)	(0.9)	2.4	(2.4)	(2.4)	(2.2)	(2.2)	(1.3)	(1.7)
Capex	(2.2)	(1.2)	(1.3)	(1.6)	(1.6)	(2.6)	(2.6)	(3.2)	(2.8)
Free Cash Flow	1.1	2.8	8.1	2.5	2.3	2.8	2.4	3.3	3.5

Source: Banca Profilo elaborations and estimates on Company data

Table 5: Balance Sheet evolution 2018-2024E, €mln

Balance Sheet (€ /mln)	2019	2020	2021	2022E		2023E		2024E	
				old	new	old	new	old	new
Intangible Assets	5.5	4.3	4.0	4.3	4.3	4.9	5.0	5.4	5.3
Property, Plant & Equipment	3.5	3.3	2.9	2.1	2.1	1.4	1.5	1.0	0.8
Financial Assets	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.0	0.2
Fixed Assets	9.2	7.7	7.1	6.6	6.6	6.5	6.7	6.3	6.4
Trade Receivable	16.1	16.3	14.5	16.8	17.0	19.0	19.2	20.3	20.8
Inventories	-	-	0.3	0.4	0.4	0.5	0.5	0.5	0.6
Trade Payable	(2.8)	(2.1)	(3.0)	(3.2)	(3.2)	(3.3)	(3.3)	(3.2)	(3.3)
Net Operating Working Capital	13.3	14.2	11.8	14.0	14.2	16.2	16.4	17.5	18.0
% on VoP	36%	46%	31%	35%	35%	37%	38%	38%	39%
Trade receivables (% on VoP)	44%	53%	39%	42%	42%	44%	44%	45%	45%
Inventories (% on VoP)	0%	0%	1%	1%	1%	1%	1%	1%	1%
Trade payables (% on services & materials)	31%	31%	34%	32%	32%	31%	31%	30%	30%
Other Assets	1.9	1.7	1.1	1.8	1.3	1.9	1.5	2.0	1.9
Other Liabilities	(4.3)	(3.9)	(5.2)	(4.4)	(5.2)	(4.8)	(5.6)	(4.8)	(5.8)
Funds	(3.7)	(4.0)	(5.0)	(5.7)	(5.4)	(6.4)	(5.7)	(6.7)	(6.1)
Invested Capital	16.5	15.8	9.7	12.2	11.5	13.5	13.2	14.4	14.4
Capex	2.2	1.2	1.3	1.6	1.6	2.6	2.6	3.2	2.8
Intangible	2.0	0.3	0.6	1.1	1.1	2.1	2.1	2.5	2.2
Tangible	0.2	0.9	0.7	0.5	0.5	0.5	0.5	0.6	0.6
% on VoP	6%	4%	4%	4%	4%	6%	6%	7%	6%
Shareholders' equity	16.7	19.0	20.3	23.9	23.8	27.4	27.4	31.4	31.4
Group Net Income	2.3	1.5	3.4	3.5	3.6	3.9	4.0	4.0	4.1
Net Income attributable to third parties	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Minority/Non Controlling Interest	0.3	0.3	0.4	0.6	0.6	0.7	0.7	0.8	0.8
Consolidated Shareholders' Equity	19.4	20.8	24.3	28.1	28.1	32.2	32.2	36.3	36.5
Financial Debt	2.3	1.6	1.0	1.6	1.0	1.6	1.0	1.6	1.0
Cash and cash equivalents	(8.3)	(9.5)	(17.9)	(20.0)	(19.7)	(22.7)	(22.1)	(25.9)	(25.1)
Leasing debt	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Payables for rights of use	2.7	2.5	2.0	2.2	1.9	2.1	1.8	2.0	1.7
Other financial receivables	-	-	-	-	-	-	-	-	-
Net Financial Position (Cash)	(2.9)	(5.1)	(14.6)	(15.8)	(16.5)	(18.7)	(19.0)	(22.0)	(22.1)

Source: Banca Profilo elaborations and estimates on Company data

Key risks

Estimates execution risks

The main risks related to the TPS business are: i) the Group customer concentrations, ii) the potential demand contraction and the worsening of macro-economic scenario, iii) the risk of losing qualified personnel, iv) potential problems of product liability, v) potential changes in the regulatory framework, vi) potential non-renewal of authorizations and certifications, and vii) the risk associated with the success of M&A operations.

Among these, we believe the risks with higher probability and significant potential impact on the business are only: i) the risk associated with customer concentration and the relative dependence of revenues on a few important customers, and ii) the risk of contraction of demand during bad economic times.

*The risk associated with customer concentration:
- low probability
- very high impact*

The Group's business is typically characterized by long-term relationships with the main national players which represent a significant portion of the reference market and of the Group's revenues. TPS is therefore potentially exposed to the risk of default, termination and non-renewal of existing contractual relationships with these customers. This risk is endogenous to the sectors in which TPS operates and is partially counterbalanced by the reliability of customers, consisting of primary industrial realities, and by the type of agreements signed, long-term contracts that guarantee a discreet flexibility of action and high solvency standards. We evaluate this risk with a low level of probability, but with a very high potential impact on the business.

*The risk related to the contraction of demand:
- medium probability
- medium impact*

The business of TPS, like any other company, is exposed to the potential risk of contractions in demand deriving from a reduction in the activity of the main customers or from potential exogenous events that could negatively impact the business. This risk is partially offset by the defensive nature of TPS' business, derived from the partial visibility of revenues, the defensive endogenous character of the A&D industry and the high entry barriers in the sectors of activity. However, TPS is also exposed to some more cyclical sectors, like the Automotive, where the Company has recorded an estimated 20% yoy contraction in revenue in FY20. Therefore, we evaluate this risk with a medium probability and with a medium potential impact on the business.

Table 6: Risk matrix

Impact	Very high	Risk associated with customer concentration				
	High					
	Medium	Risk related to product liability	Risk associated with M&A operations	Risk of contraction of demand or of economic downturns		
	Medium-Low	Risk of losing qualified personnel; Potential non-renewal of certifications				
	Low		Risk related to the regulatory framework			
Potential impact on the business VS likelihood of occurrence		Low	Medium-Low	Medium	High	Very high
		Likelihood				

Source: Banca Profilo elaborations and estimates on Company data

ESG Analysis

FY21 Sustainability Report

The first Sustainability Report in 2020

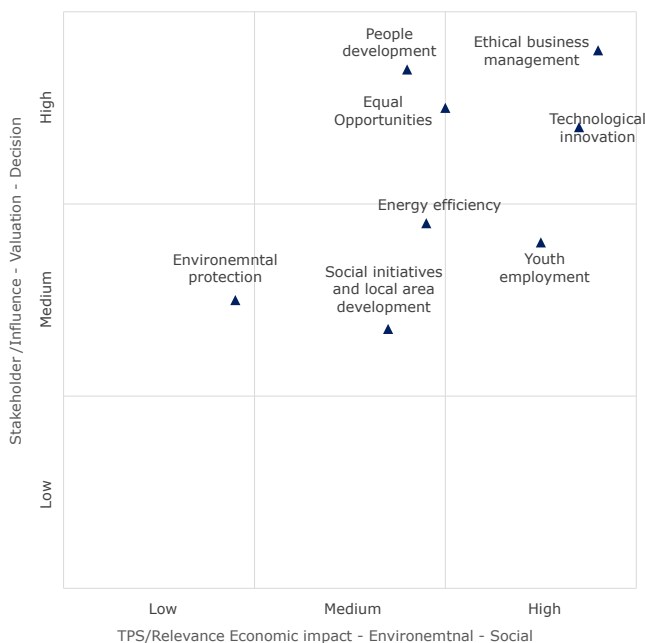
To best involve stakeholders and to communicate in an increasingly transparent way its ESG goals, TPS has published its first Sustainability Report in 2020 and its 2021 update in March 2022. The Company has issued the report in accordance with GRI standards.

Materiality Assessment

Materiality Assessment

The purpose of the materiality analysis is to determine the most relevant issues for the company and its stakeholders, and to decide which issues should be included in the Sustainability Report. The following figure explains the results, which were collected in 2020 and have been reiterated in 2021 report.

Figure 5: Materiality Assessment



Source: Banca Profilo elaborations on Company data

Company Objectives and 2022 targets

SDG are the starting point

TPS Group follows the UN Sustainable Development Goals to define its sustainability strategy.

Sustainability committee, communication strategy and training

The Company plans to constitute a Sustainability Committee, which would monitor the evolution of company objectives, as well as to propose to the management new initiatives for the coming years. The second objective for the year consists of strengthening the corporate communication strategy on sustainability, by improving the company’s website section on the topic. Finally, TPS plans to organize a training session for all its employees to illustrate and spread the sustainability culture.

Figure 6: Company Objectives

	Technological innovation	Ethical business management	Equal Opportunities	Supporting youth employment	Social initiatives	Development and education of people	Health and safety	Projects for the territory	Process Digitalization	Energy efficiency	"Plastic free" project
3 GOOD HEALTH AND WELL-BEING							X				
4 QUALITY EDUCATION				X	X	X					
5 GENDER EQUALITY		X	X								
7 AFFORDABLE AND CLEAN ENERGY										X	
8 DECENT WORK AND ECONOMIC GROWTH	X	X	X	X	X	X	X		X	X	
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	X									X	
10 REDUCED INEQUALITIES		X									
11 SUSTAINABLE CITIES AND COMMUNITIES								X	X	X	X
12 RESPONSIBLE CONSUMPTION AND PRODUCTION									X	X	X

Source: Banca Profilo elaborations on Company data

Environmental sustainability

Consumption and energy management

TPS services are not energy intensive, nevertheless the company considers a focal point in its ESG strategy. The Company employs 100% renewable energy certified by the supplier in 3 of its offices, overall, 77% of TPS FY21 energy consumption (1,758Gj) was covered by renewable energy, improving by 3pps since 2020. The target for FY22 is set at 90%. Currently TPS does not produce its energy.

Fleet electrification

The Company's fleet includes 15 vehicles, of which one mild-hybrid vehicle and one hybrid plug-in vehicle (PHEV). An additional PHEV has been acquired, and its delivery is expected in 2022. Moreover, the company invested €6.5k to install four EV charging stations in its office in Turin.

Responsible use of resources

In 2021, TPS paper consumption amounted to 4 tonnes, down by 23% compared to 2019. The Company discourages printing and favours the digitalization of the processes. In four offices the Company substituted plastic glasses with paper ones, moreover it has removed water bottles sold and substituted them with free water dispensers. Finally, TPS does not use water for industrial processes.

Waste management

In 2021 TPS generated 351kg (+10kg YoY) of wastes from depleted toners and 2.8 tonnes of waste from newly acquired ASI. 25 tonnes of paper scraps were given to an operator for industrial use.

Social issues

Relationship with suppliers

TPS chooses suppliers based on ISO rules, focusing on quality and service of the product. In 2021 TPS relied on 382 suppliers, 55 of which certified under EN9100 for

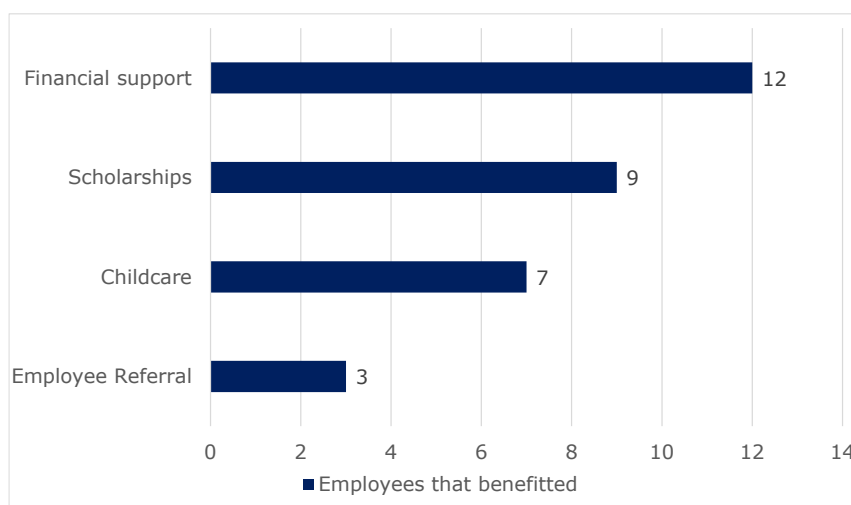
aeronautical production. 91% of the acquired products/services came from Italy and 37% of the suppliers were located less 100km away from the destination of orders.

Initiatives for the employees

The Company has put in place several initiatives to foster welfare, work-life balance and engage with its employees:

- TPS Talent Finder: employees can suggest to HR applicants, in case of hiring the employee receives an economic compensation (ERP, Employee Referral Program);
- Childcare: favouring new parents time management and providing financial support for day-care;
- Merit-based scholarships: dedicated to employees' sons and daughters that complete non-mandatory education;
- Financial support: interest free €5k loans to be reimbursed in 3 or 4 years;
- Intranet portal dedicated to communicating relevant information to employees.

Figure 7: TPS employee initiatives



Source: Banca Profilo elaborations on Company data

Health and safety at work

The Company is committed to prevent and reduce risks for the health and safety. Injuries declines from 2 in 2019 down to 0 in 2021. As per Legislative Decree n. 81/2008 (Testo Unico sulla Salute e Sicurezza), the company identifies four key figures: employer, prevention, and protection service manager (RSPP), workers' safety representative (RLS) and competent doctor.

Training and skills development

In 2021 employees undergone an average of 10 hours of training (4.8k hours in total) to update their competences, an increase of 59% compared to 2020. The new Company Rulebook for 2021-2023 includes a new training program for its employees.

Supporting youth employment

In 2021 2 curricular and 21 extracurricular internships were activated, 7 extracurricular are still ongoing while the of the 11 others were converted into a full time offer. Moreover, the Company introduced the "Training Academy", which consists of a program dedicated to newly hired graduates and consists of an 8-week training process.

Equal Opportunity and protection from violence

The company's ethical code includes a commitment towards avoiding sex discrimination, 25% of the employees are women and 19% cover key roles. Moreover, in 2021 the Company developed additional rules based on European Model of Workplace Violence and the appointment of an advisor that can offer support to employees in case of misconduct.

Table 4: Employees number of TPS Group by type of employment and contract

	31/12/2020			31/12/2021		
	Women	Men	Total	Women	Men	Total
Temporary contract	2	14	16	6	37	43
Permanent contract	119	337	456	115	321	436
TOTAL	121	351	472	121	358	479
Full time	105	347	452	113	319	432
Part time	16	4	20	8	39	47
TOTAL	121	351	472	121	358	479

Source: Banca Profilo elaborations on Company data

Privacy and data protection

TPS carries out its activities while following data protection privacy rules as indicated by EU's GDPR, furthermore it appointed a Data Protection Officer (DPO) even though it is not mandatory for the nature of its business.

Local social initiatives

In 2020 TPS donated some funds towards "Fondazione Piemontese per la Ricerca sul Cancro", which operates through the Candiolo Institute (IRCC) focused on cancer research. In 2021 TPS supported the IRCC by curating the restyling of Foundation print magazine.

Governance

Governing bodies composition

The BoD is composed by 7 members of which 1 woman.

Business Continuity Plan

In 2021 the Company defined its Business Continuity Plan (BCP), to ensure the delivery of services that would otherwise cause severe repercussions on TPS clients. The document along with the Disaster Recovery (DRP) define the necessary measures that have to be taken in case of emergency and ensure continuity of services.

Quality Management System

The company is certified for the ISO 9001 which promotes an organization oriented towards:

- Customer focus, which signals a commitment to quality;
- Leadership, conveying a clear vision and business strategy;
- Engagement of people, therefore applying the principles at all level of the organization;
- Process approach, adopting a culture based on adhering to established processes and therefore enabling business predictability;
- Improvement, such as establishing objectives, implementing procedures to identify opportunities and risks, reviewing and tracking the development of internal projects;
- Evidence-based decision making;
- Relationship management, determining and establishing relationships with key stakeholders.

What are ISO standards?

ISO Standards are definitions on the best practices across sectors. A company can acquire the definition of a standard and follow it. Furthermore, a third party can certify that the company actually follows the standard, as in the case of SVAS Biosana.



Source: Banca Profilo elaborations on ISO.com

TPS Industry Certifications

TPS Group has also a set of industry-specific certifications issued by civil aviation authorities and other specialized players. In particular:

- AS 9100D, industry specific certification related to aerospace sector which ensures the management of operational risks.
- Production Organization Approval - Part 21, certificate that allows to produce or modify aircrafts.
- Aircrafts maintenance, certified by Italian Civil Aviation Authority (ENAC) and allows TPS to carry out maintenance to aircrafts and issue revision certificates of airworthiness.
- Continuing Airworthiness Management Organization (CAMO) issued by Italian Civil Aviation Authority (ENAC).
- Maintenance Training and Examination Organisation Approval Certificate issued by the Swiss Civil Aviation Authority (FOCA)

IT Certifications

Finally, TPS obtained the following IT certifications:

- TISAX, an assessment and exchange mechanism for information security in the automotive industry that ensures the participants comply with certain security standards.
- ISO 27001, defines standards to ensure data security.

Valuation

Valuation methods and final output

DCF method and market multiple

Given TPS cash generating business model, a two-stage DCF model well adapts as a valuation approach. Furthermore, we have carried out a relative valuation on market multiples of highly specialized engineering services companies mainly active in the Avionics and Automotive industries.

Fair value at €9.0/sh, down from €9.4/sh for higher risk-free rate

Since our previous Company Update (April 27th, 2022):

- we revised slightly downwards our 2022E-2024E estimates on cumulative Free Cash Flow, from €8.6mln to €8.2mln;
- we confirmed the Terminal Value cash flow at €2.8mln;
- we increased the WACC to 7.3% from 6.8%;
- we updated the Net Financial Position, which reached €16.2mln in 1H22;

The new fair value came in at €9.0, down from our previous estimate of €9.4 reflecting the higher risk-free rate which was only partially offset by lower beta.

Relative market multiples valuation increased to €8.9/sh from €8.8/sh amid improved net cash

As for the relative valuation, we used an average 2022-2023 EV/EBITDA multiple equal to 6x (in line with previous 2021-2022 average of 6x), by applying an average 22E-23E TPS EBITDA equal to €8.1mln (unchanged from the previous 22E-23E average) and the actual 1H22 Net Cash equal to €16.2mln (significantly better than €14.6mln at the end of FY21), deriving an implied Equity Value per share of €8.9, up from the previous estimate of €8.8. This upward revision mainly comes from the better net cash position of TPS.

BUY confirmed; Target Price at €9

We thus confirm our BUY recommendation and decrease our 12-month Target Price to €9.0, computed as the simple average of the fair value from DCF, equal to €9.0/share (vs previous €9.4), and the share price implicit in market multiples equal to €8.9/share (vs previous €8.8).

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



Source: Banca Profilo elaborations on Bloomberg data, as of October 7th, 2022

DCF Valuation

Main DCF inputs:

- lower cumulated FCF over the explicit period
- higher NFP

To run a DCF model, we used our projections of unlevered FCFs for the 2022E-2024E explicit period equal to a cumulated value of €8.2mIn (vs our previous 2021E-2023E aggregate estimate of €8.6mIn), already including cumulated CapEx of €7.0mIn (vs our previous 2021E-2023E aggregate estimate of €6.6mIn) and cumulated NOWC needs of €6.3mIn (vs our previous 2021E-2023E aggregate estimate of €6mIn). Lastly, the Net Cash Position was set equal to that recorded at the end of June 2022, €16.2mIn, significantly up from our estimate of €14.6mIn.

Other main inputs confirmed, from 2% perpetual growth rate to long term FCF

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

- we maintained our assumption of €2.8mIn, based on the average yearly unlevered FCF;
- 2% perpetual growth rate;

Table 7: Unlevered FCFs

Cash Flow (C/mIn)	2019	2020	2021	2022E		2023E		2024E	
				old	new	old	new	old	new
EBIT	4.0	2.5	5.4	5.4	5.5	6.1	6.1	6.1	6.3
Tax rate	29%	26%	30%	30%	30%	30%	30%	30%	30%
NOPAT	2.8	1.8	3.8	3.8	3.9	4.3	4.3	4.3	4.4
D&A	3.0	2.8	2.2	2.0	2.0	2.8	2.6	3.1	3.1
Changes in Funds	0.1	0.3	1.0	0.7	0.4	0.7	0.4	0.4	0.4
Changes in Operating NWC	(2.6)	(0.9)	2.4	(2.4)	(2.4)	(2.2)	(2.2)	(1.3)	(1.7)
Changes in trade receivable	-3.32								
Changes in trade payable	0.73								
"Altre variazioni"	-0.47								
Capex	(2.2)	(1.2)	(1.3)	(1.6)	(1.6)	(2.6)	(2.6)	(3.2)	(2.8)
Free Cash Flow	1.1	2.8	8.1	2.5	2.3	2.8	2.4	3.3	3.5

Source: Banca Profilo estimates and elaborations

DCF assumptions: WACC at 7.3% following increase in risk free rate

We raised our WACC to 7.3% (from 6.8% in our previous update), to account for :

- Risk Free rate of 4.5% (from 3% in the last research), as implicitly expected by consensus on the 30Y Italian BTP yield curve (100 day-moving average), including an expected increase in interest rates (+0.75bps from previous +0.5bps);
- market risk premium equal to 5.5% (unchanged);

- a decrease of beta to 0.73 vs 0.86 in our previous estimates, coming from the average of chosen listed peers to TPS;
- target debt to equity structure, with 80% weight of Equity (in line with our previous estimates).

Table 8: WACC calculation

WACC Calculation	
Perpetual growth rate	2.0%
WACC	7.3%
Risk free rate (Italian 30Y)	4.5%
Equity Risk Premium	5.5%
Beta	0.73
Cost of Equity	8.5%
After tax cost of Debt	2.4%
Tax rate	30%

Source: Banca Profilo estimates and elaborations

DCF Fair Value:
down from €9.4 to
€9.0

The DCF method leads us to an Enterprise Value of €49.9mIn and an Equity Value of €66.0mIn (vs our previous estimates of €54mIn and €68.5mIn, respectively) equal to a per share value of €9.0 (vs our previous estimate of €9.4).

Table 9: DCF valuation

DCF Valuation (€ mln, except for the target price)	2020	2021	2022E	2023E	2024E	Over
Free Cash Flow (FCF)	2.8	8.4	2.3	2.4	3.5	2.8
Years			1	2	3	
Discount factor			0.93	0.87	0.81	
NPV Cash flows			2.1	2.1	2.8	
Sum of NPVs			2.1	4.2	7.0	
Terminal Value						52.9
NPV Terminal Value						42.9
Enterprise Value						49.9
Net Financial Position (cash) 1H22						(16.2)
Minorities FY2021						(0.1)
Equity Value						66.0
Current outstanding shares						7.3
Price per share (€)						9.0
Last Price (€)						5.7
Potential Upside						60%

Source: Banca Profilo estimates and elaborations

TPS competitive arena

TPS operates in a segment characterized by high entry barriers

As of today, there are no companies with a perfectly comparable business model to TPS, especially in terms of technical services offered. The European and national regulations governing these segments are very stringent and request highly specialized certification and engineering services to operate: TPS is highly focused on these services and its specialization and certifications represents a robust barrier to entry.

With this premise, we selected a sample of listed European companies, "comparables" to TPS, which offer highly specialized engineering services and products, with a predominant part of the revenues related to the A&D and Automotive industries, and most of the revenues generated in Europe.

*Alten (FR), FY21
€2.9bn of revenues
13% EBITDA margin*

Alten is a French multinational technology consulting and engineering company which provides design and research projects for the technical and information systems divisions in the industrial, telecommunications, and service sectors. Alten Group supports the development strategy of its customers in the fields of innovation, R&D and technological information systems. For the aeronautics industry, Alten offers, among others, avionics systems, propulsion systems and configuration management.

*Sogecclair (FR), FY21
€121mIn of revenues
10% EBITDA margin*

Sogecclair is a French international company active in the design and manufacturing, integration and support of major aero structures and aircraft interiors components. The company also offers simulation and stress analysis, training solutions and configuration management at program, engineering & industrial levels. Sogecclair has a global presence in the fields of aeronautics, space, civil and military transport.

*TP Group (UK), FY21
€44mIn of revenues
1% EBITDA margin*

TP Group PLC is an English specialist engineering and support services company that designs and develops advanced technologies, software, complex equipment and systems, across defense, space, energy and intelligence & communications industries.

*Bertrandt Group (DE),
FY21
€846mIn of revenues
9% EBITDA margin*

Bertrandt Group is a German company active in the engineering consulting and production support services to the Automotive and Aeronautics industry. The company provides outsourcing services for the design, development, construction and testing of components, interiors, engines, and drive trains. Bertrandt's services include all process steps in the project phases of conceptual design, product design, development, modelling, tool production, vehicle construction and production planning, from start of production-to-production support.

*EDAG Engineering
Group (DE), FY21
€688mIn of revenues
11% EBITDA margin*

EDAG Engineering Group is a Germany-based engineering services provider with a core business in the global Automotive industry. The company's expertise includes the integrated development and optimization of vehicles, production facilities, derivatives and modules. EDAG offers complementary engineering services such as design and concept development, vehicle validation and testing, development of electrics and automation technology, among others. EDAG also designs and develops technologies for applications in the Automotive industry, including lightweight construction, electric mobility, digitalization, integral safety and new production technologies.

*Figeac Aero (FR), FY22
€282mIn of revenues
11% EBITDA margin*

FIGEAC-Aero is a France-based company engaged in the manufacture of parts and components for aerospace industry. It offers a range of products and services such as design, manufacture and assembly of subassemblies; manufacture of structural parts, ranging from small fittings to large panels; supply of engine parts, such as vertical lathe, blades, and milling of aluminum and hard materials; and manufacture of precision parts, such as landing gear and thrust inverters. The company's customer base includes Airbus, Embraer, ATR, Boeing and Bombardier among others.

*TXT e-solutions (IT),
FY21
€96mIn of revenues
15% EBITDA margin*

TXT e-solutions is an Italy-based company engaged in the information and communication technologies (ICT) market. It provides software, system integration, IT services and services-based solutions to enterprises belonging to different end-markets, mainly Aerospace & Defense, Industrial & Automotive and FinTech. Within the A&D industry, TXT provides airplane manufacturer, OEMs and airline companies with customized software solutions and services core engineering consulting across the entire aircraft life cycle and value chain.

Relative market multiples valuation

Implicit share price from market multiple (22-23 average EV/EBITDA 6.0x) equal to €8.9

To assess a relative valuation of TPS through the market multiples approach, we selected a sample of listed European companies, “comparables” to TPS, which offer highly specialized engineering services, mainly to the Avionics and Automotive industries: Alten, Sogclair, Bertrandt, EDAG Engineering Group, FIGEAC-Aero and TXT e-solutions. With this sample, we got an average 2022-2023 EV/EBITDA multiple equal to 6.0x (in line with our previous 2022-2023 average of 6x).

We applied an average 22E-23E TPS EBITDA of €8.1m (unchanged from the previous 21E-22E estimate), and the actual 1H22 Net Cash equal to €16.2m we derived an implied Equity Value per share of €8.9, up from the previous estimate price of €8.8. The increase in implied price was supported exclusively by the larger net cash position.

Table 10: Sample benchmarking on sales growth and EBITDA margin

Company	Currency	Market Cap (Mln)	Sales growth				EBITDA margin			
			2021	2022E	2023E	2024E	2021	2022E	2023E	2024E
Alten SA	FR	3,914	25%	25%	8%	6%	12%	13%	12%	12%
Sogclair	FR	51	-2%	12%	9%	6%	9%	9%	11%	11%
Bertrandt AG	DE	340	-8%	19%	8%	5%	9%	10%	11%	16%
EDAG Engineering Group AG	CH	253	5%	9%	6%	12%	10%	12%	13%	17%
FIGEAC-AERO	FR	219	38%	17%	12%	N.A.	12%	14%	15%	N.A.
TXT e-solutions SpA	IT	146	40%	42%	41%	N.A.	15%	14%	13%	N.A.
Mean			17%	21%	14%	7%	11%	12%	13%	14%
Median			15%	18%	9%	6%	11%	12%	12%	14%
TPS	EUR	41.0	23%	7%	9%	6%	21%	19%	20%	21%

Source: Banca Profilo elaborations on Bloomberg data, as of October 3rd, 2022

Table 11: Market multiple

Company	EV / EBITDA			EV / Sales			P / E		
	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
03/10/2022	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Alten SA	8.4x	8.1x	7.6x	1.1x	1.0x	0.9x	13.2x	12.5x	11.8x
Sogclair	5.9x	4.5x	4.0x	0.5x	0.5x	0.4x	23.5x	10.9x	9.0x
Bertrandt AG	5.2x	4.3x	3.7x	0.5x	0.5x	0.4x	12.9x	8.1x	7.0x
EDAG Engineering Group AG	4.6x	4.2x	3.2x	0.6x	0.5x	0.5x	8.9x	7.6x	6.8x
FIGEAC-AERO	12.4x	9.8x	8.0x	1.7x	1.5x	1.3x	NA	NA	14.8x
TXT e-solutions SpA	8.0x	5.8x	5.2x	1.1x	0.8x	0.7x	16.9x	11.5x	10.3x
Mean	7.4x	6.1x	5.3x	0.9x	0.8x	0.7x	15.1x	10.1x	10.0x
Median	6.9x	5.1x	4.6x	0.8x	0.7x	0.6x	13.2x	10.9x	9.6x
TPS	3.5x	3.0x	2.8x	0.7x	0.6x	0.6x	11.3x	10.3x	9.9x
Premium (Discount) on median	-50%	-41%	-39%	-18%	-7%	-8%	-14%	-5%	3%
Premium (Discount) vs TXT	-57%	-48%	-47%	-40%	-23%	-23%	-33%	-11%	-4%

Source: Banca Profilo elaborations on Bloomberg data, as of October 3rd, 2022

Table 12: Implicit price per share

Valuation on EV/EBITDA market multiple (€ mln, except for the target price)		
	2022E	2023E
Median EV/EBITDA best peers	6.9x	5.1x
Average 2022-2023	6.0x	
EBITDA	7.6	8.7
Enterprise Value	52.4	44.5
Net Financial Position (cash) FY21	(16.2)	
Current Minorities	0.1	0.1
Equity Value	68.5	60.6
Average Equity Value	64.5	
Current outstanding shares	7.3	
Price per share (€)	8.9	
Potential Upside on Last Price	57%	

Source: Banca Profilo elaborations on FactSet data, as of October 3rd, 2022

APPENDIX

TPS Overview and business model

Company's business scope

Brief summary of TPS core business activities

Here we briefly recall TPS core business activities. However, we expect the corporate perimeter may change, even significantly, given the consistent available cash and the management's clear intentions of resuming a growth path through external lines.

An innovative and sound gem in the Aerospace & Automotive industries of giants

TPS core business consists in providing a wide range of technical and consulting engineering services mainly to helicopter and automobile design and manufacturing companies. To a lesser extent, TPS also offers services to machinery manufacturers and players of the ropeway sectors. Among the many services offered, TPS drafts technical publications for complex machines, develops application software – from specific avionics software to innovative applications such as augmented reality ones –, designs industrial components, and trains and certifies aeronautical maintenance technicians. The different activities of TPS are collected in four different business units.

Figure 9: Examples of TPS' products and services

1° SBU
Technical Publishing & Training



TPS drafts technical manuals for complex machines, such as aircrafts and trucks. The technical publications are divided into descriptive manuals, maintenance manuals and manuals related to the supply of spare parts.



Through Aviotrace Swiss SA, an EASA Part 147 (AMTO) certified Swiss training organization, TPS trains and certifies aeronautical maintenance technicians.

2° SBU
Engineering & Cost Engineering



TPS designs and partly produces industrial components. In particular, it's specialized in designing and producing aviation mission equipments and gearbox systems based on full-powershift technology.



Through cost-engineering activities, TPS is able to analyze an already existing component in order to rework and redesign it in a way that is cheaper or of higher quality.

3° SBU
Avionic Services & Information Technologies



TPS develops proprietary complex aviation systems for both civil and military aircraft and verifies the correct functioning of the existing ones.



TPS tests software installed within the on-board systems of both civil and military aircraft.

4° SBU
Digital Content Management



TPS manages information and images on behalf of customers not only for technical purposes, but also for commercial projects, such as the preparation of marketing material.



TPS develops Augmented, Virtual and Mixed reality projects that offer several business opportunities, from remote support, to training, from sales to marketing activities.

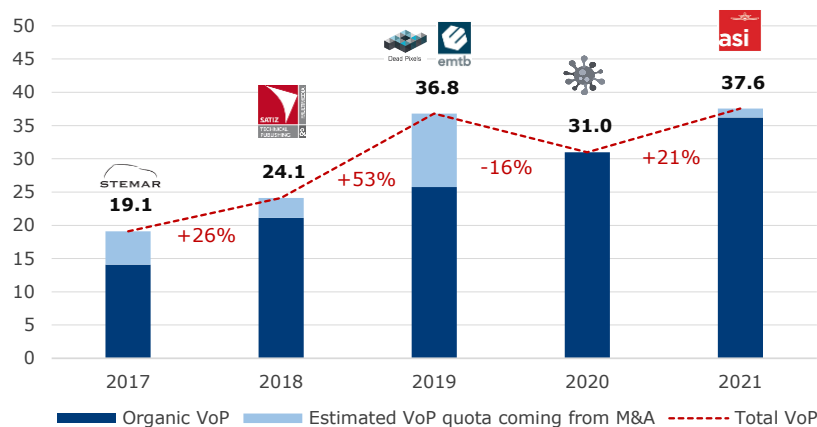
Historical double-digit growth of revenues

With the only exception of FY20, TPS Value of Production has been growing at a double-digit pace since its IPO in 2017, driven not only by like-for-like growth but also by an external growth path with bolt-on operations, namely acquisition of smaller companies targeted at creating strategic value, as well as conglomerate transactions aimed at diversifying the business and entering new markets.

A history of M&A

The acquisition of ASI, completed in July 2021, is TPS latest acquisition. Since 2016, the Company has acquired and integrated five other companies, and the Group Value of Production (VoP) has more than doubled since then, from €14.6mln in 2016 to €37.6mln in 2021 (+36% CAGR), almost maintaining a stable EBITDA margin at about 20%, despite the dilutive effect of some acquisitions.

Figure 10: VoP annual trend from 2017 to 2021, € mln



Source: Banca Profilo elaborations on Company data

Group structure

The Group structure

As for the corporate structure, in the first half of 2021 TPS completed the Group's reorganization project, with the merger by incorporation of the subsidiaries Neos Srl, Adriatech Srl and TPS Aerospace Engineering Srl into TPS SpA, the operating holding. To date, TPS SpA controls directly six subsidiaries. Each subsidiary has its own specialization, of which we will provide a brief overview below.

TPS SpA, the operating holding

TPS SpA specializes in the creation of technical documentation and in the definition and the management of helicopters maintenance lifecycle (ILS, Integrated Logistic Support) in order to identify the most suitable and effective maintenance procedure during the life of the vehicle. The Company is also specialized in the development and the testing of aircraft software and in the design of aeronautical medical systems.

Aviotrace Swiss, an MTO Easa Part 147

Aviotrace Swiss is a Maintenance Training Organisation (MTO) EASA Part 147 for the training and certification of aeronautical maintenance technicians. The company offers tailor made training services, with both classical teaching method in the classroom and innovative methods such as training with multimedia and virtual systems.

Satiz TPM, a leading design Company for the Automotive industry

Satiz Technical Publishing & Multimedia Srl produces technical documentation, planning and communication services for companies operating in the Automotive, railway, naval and defense sectors. Within the Automotive sector, the company is also active in the design of mechanical, electrical components, and both external and internal vehicles' parts, with a specialization in the full-electric propulsion. The company is the most diversified among the group's subsidiaries, being active in all four strategic business units.

EMTB, complex systems design activities and engineering support

EMTB, Engineering Machinery Tooling Bolzano Srl, acquired in 2019, develops complex systems design activities and provides engineering support to national and international manufacturers of operating machinery for the agricultural, special vehicles, equipment and ropeway systems industries. EMTB has a long-lasting experience in engineering innovation, as demonstrated by a recently patented concept of gearbox for agricultural machines.

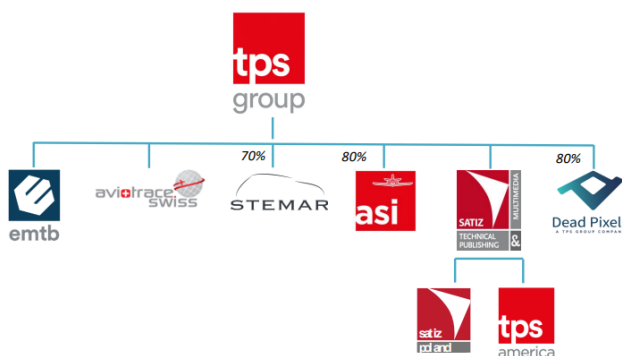
Dead Pixels, designers of augmented reality and virtual reality platforms

Dead Pixels Srl, acquired in 2019, is an innovative start-up specialized in the creation of augmented reality and virtual reality platforms. The portfolio of Dead Pixels today includes projects developed in the following areas: i) Industry 4.0, with VR/AR experiences to enable safe training and remote maintenance, ii) Marketing applications, with immersive VR/AR tours enabling users to explore the environment that surrounds them and to interact with it, and iii) Systems architecture, with 3D models of objects and 3D navigable applications.

ASI, the latest acquisition

ASI, acquired in July 2021, is a certified EASA Part 145 Company specialized in maintenance and installation interventions for aeronautical equipment on private aircraft, mainly Cessna and Beechcraft aircraft of the Textron Group.

Figure 11: Group structure



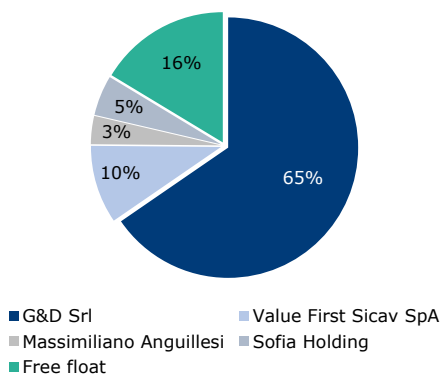
Source: Company data

Ownership structure and management

65% of TPS is controlled by G&D srl

TPS is controlled by G&D srl, an holding company wholly owned by Patrizia Ghione; 10% is held by Value First Sicaf, an Italian investment company (up from previous 9%); 5% is held by Sofia Holding, a financial services company; 3% is held by Ing. Massimiliano Anguillesi, member of the Board of Directors. The Free Float stands at 16%.

Figure 12: Ownership structure



Source: Banca Profilo elaborations on Company data, Borsa Italiana, as of April 21st, 2022

*TPS corporate
governance*

TPS Board of Directors includes seven members, whereas the Board of Statutory Auditors is made up of five members, who will remain in office until the approval of the 2022 financial statements. Since our previous Company Update, there has been a change within the Board of Directors. After the resignation of Andrea Faraggiana, Managing Partner at Smart Capital, the Board of TPS appointed by co-optation Di Meo Stefano who will remain in charge until the next Shareholders' Meeting.

Figure 13: Composition of the Board of Directors

Board of Directors	Position	Executive	Independent	Minority	Birth year	Gender	Nationality
Alessandro Rosso	Chairman and CEO	x			1964	M	Italian
Massimiliano Anguillesi	General Manager	x			1971	M	Italian
Alessandro Scantamburlo	Director				1963	M	Italian
Giovanni Mandozzi	Director				1952	M	Italian
Stefano Di Meo	Director				n.a.	M	Italian
Raffaella Pallavicini	Director		x		1969	F	Italian
Stefano Pedrini	Director		x		1983	M	Italian
Other important roles	Position				Birth year	Gender	Nationality
Rossella Sanna	Investor Relator					F	Italian

Source: Banca Profilo elaborations on Company data

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TPS "ID Card"	Recommendation BUY	Target Price 9.0 €	Upside 69%
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Company Overview

The TPS Group was founded in 1964 as one of the first Italian companies offering an external analysis and drafting service of technical and manual documentation for the Aeronautical industry. With more than 50 years of experience, TPS Group stands out as the leading Italian player in the field of technical and engineering services for the Aerospace & Defense (estimated ~55% of revenues) and Automotive industries (estimated ~35% of revenues): in residual part the Group is also active in the Oil & Gas, Railway, and machinery sectors. TPS capabilities range from technical manuals to augmented reality and from the design of avionics software to the production of components and multimedia training platforms, among others. After its corporate governance reorganization started in 2008, the Company began a process of business diversification and expansion, also driven by a path of successful acquisitions which increased both the range of services and the customer base. After having obtained the Elite certification by Borsa Italiana in 2016, TPS Group went public on AIM Italia in March 2017. Since then, the Group has acquired and consolidated six companies active in various industrial fields, and its Value of Production has more than tripled, from €14.6m in 2016 to €37.6m in 2021. Net of acquisitions, TPS has historically recorded an organic growth of at least 7% yoy, thanks to the consolidation of commercial relations with important industrial groups and its geographic expansion in Europe and China. In FY21 TPS recorded a Value of Production of €37.6m, up 21% from 2020 and comfortably above pre-pandemic levels. Recording an even better performance, EBITDA stood at €7.6m, up 45% yoy, implying an EBITDA margin of 20% (vs 17% in 2020), slightly below the 22.5% recorded in 1H21 given the slight margin dilution after the acquisition of 80% of Air Support International (ASI) in July 2021. The Net Financial Position further

SWOT Analysis

Strengths

- Very advanced management control and severe economic balance
- Partial revenue visibility, thanks to multiannual agreements
- Strong-long term relationship with consolidated and financially and economically sound industrial groups
- Resilience and defensive character of main end-market
- High entry barriers in the sectors of activity
- Consolidated track-record in M&A operations

Weaknesses

- Small size of the business
- End-markets concentration and value of production's dependence on few customers
- Absolute dependence on the Italian market which represents more than 85% of the VoP

Opportunities

- Strong spirit of innovation and investments in R&D that favor the discovery of cutting-edge systems and services
- Geographical expansion opportunities in the United States and in the European markets
- Specialization in the design of "full electric" systems and exposure to the growing trend of electric vehicles
- Potential increasing demand for virtual reality and A.R. systems in a new normality characterized by social distancing
- Full roll out of synergies from recent acquisitions

Threats

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

Main catalysts

- Full grounding of the potential deriving from the latest acquisitions
- M&A operations expected to continue in the coming years
- Internationalization in Europe and the United States

Main risks

- Risk associated with customer concentration and the relative dependence of revenues on a few important customers
- Risk related to product liability



TPS "ID Card"

07/10/2022, 18:00

Recommendation
BUY

Target Price
9.0 €

Upside
69%

Main Financials

(€ mln)	2019	2020	2021	2022E	2023E
Value of Production	36.8	31.0	37.6	40.0	43.6
yoy change	53%	-16%	21%	6%	9%
Added Value	28.0	24.3	29.1	30.3	33.3
Margin on VoP (%)	76%	79%	77%	76%	76%
EBITDA	7.0	5.3	7.6	7.6	8.7
yoy change	46%	-24%	45%	-1%	14%
EBITDA margin on VoP (%)	19%	17%	20%	19%	20%
EBIT	4.0	2.5	5.4	5.5	6.1
EBIT margin on VoP (%)	11%	8%	14%	14%	14%
EBT	3.4	2.2	5.1	5.3	5.9
Margin on VoP (%)	9%	7%	13%	13%	13%
Net Income	2.2	1.5	3.4	3.6	4.0
Margin on VoP (%)	6%	5%	9%	9%	9%
Net debt (cash)	(2.9)	(5.1)	(14.6)	(16.5)	(19.0)
Shareholders Equity	16.7	19.0	20.3	23.8	27.4
Net OWC	13.3	14.2	11.8	14.2	16.4
Capex	(2.2)	(1.2)	(1.3)	(1.6)	(2.6)
Free Cash Flow	1.1	2.8	8.1	2.3	2.4

Solvency Ratios

	2019	2020	2021	2022E	2023E
Net Debt (cash)/Equity	-0.2x	-0.2x	-0.6x	-0.6x	-0.6x
Net Debt (cash)/EBITDA	-0.4x	-1.0x	-1.9x	-2.2x	-2.2x
EBIT Interest Coverage Ratio	14.2x	11.3x	24.9x	100.8x	143.8x

Financial and Operative ratios

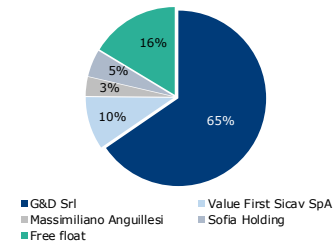
	2019	2020	2021	2022E	2023E
Operating WC Turnover	36%	46%	31%	35%	38%
Fixed Asset Turnover	400%	401%	533%	604%	656%
Tax rate	31%	28%	30%	30%	30%
ROE	11%	7%	14%	13%	12%
ROIC	17%	11%	39%	34%	32%
Capex/VoP	6%	4%	4%	4%	6%
D&A/Capex	139%	232%	163%	128%	99%

Source: Bloomberg, Banca Profilo estimates and elaborations

Company Description

Company Sector	Aerospace & Defense
Price	5.3
Number of shares (mln)	7.3
Market Cap (€ mln)	38.5
Reference Index	FTSE AIM ITALIA
Main Shareholders	G&D srl
Main Shareholder stake	65%
Free Float	16%
Daily Average Volumes	6,200
Sample of comparables	Alten, Sogclair, Akka Technologies, Bertrandt, EDAG Engineering, FIGEAC-Aero, TXT e-solutions

Ownership structure



Data of peers

	2021	2022E	2023E	2024E
Avg. Revenue Growth	17%	21%	14%	7%
Avg. EBITDA Margin	11%	12%	13%	14%

Multiples of peers

	2022E	2023E	2024E
Average EV/EBITDA	7.4x	6.1x	5.3x
Median EV/EBITDA	6.9x	5.1x	4.6x
Average P/E	15.1x	10.1x	10.0x
Median P/E	13.2x	10.9x	9.6x

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