

Neodecortech Spa

Sector: Décor surfaces



Analysts

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Stronger than raw materials headwind

Neodecortech designs, produces and commercialises décor paper, finish foils, melamine films, and luxury vinyl tiles with the mission of enriching any surface with a distinctive Italian flair

Plastic Films and efficiencies offset raw materials hikes

1H18 was a good semester in terms of business growth, with all industrial KPIs relating to output volumes up YoY. As far as financials are concerned, three key points are -in our view- to be underlined:

- ◆ **Healthy top line growth** (+7.5% YoY), entirely “organic”, thanks to higher selling prices;
- ◆ **Efficient management of “raw materials effect”**. The company took advantage of low Tallow Oil prices and boosted energy production. On the opposite it rationalised paper production as Titanium and Wood Pulp prices spiked;
- ◆ **Increase in operating margins**. Higher Plastic Films incidence, more pronounced industrial efficiencies and the above mentioned careful management of raw materials drove EBITDA Margin at 12.2%, +120 bps.

2018E estimates confirmed but upside revision potential

Post 1H18 figures we are maintaining unchanged our 2018E-19E financial forecasts (before stock grant costs). More in particular, as far as 2018E is concerned, we are pretty confident that the company can easily beat our current estimates, so we see room for future upward revision of estimates. For the time being, we expect:

- ◆ **Net Revenues** to grow at **mid single digit CAGR**;
- ◆ **EBITDA at €17mn - €17.9mn** respectively in 2018E-19E thanks to output capacity progressive saturation and to higher incidence of highly profitable Plastic Films segment;
- ◆ **Net Profit to grow at higher than 50% CAGR** thanks to lower financial charges and stable tax rate at ca. 18%-20% level;
- ◆ **Net Financial Position** to decrease at ca. **€40mn by 2019E** thanks to organic cash generation.

Fair Value at €5.10 per share

We update our fair valuation at €5.10 per share, substantially unchanged vs. previous €5.15 due to higher Italian Equity Risk Premium impacting DCF value. At fair value the stock would trade at “affordable” 6.0x EV/EBITDA – 8.7x P/E 2019E.

We remind the presence of a Remedy Shares mechanism adding protection and lowering the risk profile of Neodecortech investment.

Fair Value (€)	5.10
Market Price (€)	3.70
Market Cap. (€m)	50.3

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

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

RATIOS & MULTIPLES	2017A	2018E	2019E
EBITDA MARGIN (%)	11.1	12.6	12.7
EBIT MARGIN (%)	6.2	7.8	8.1
NET DEBT / EBITDA (x)	3.3	2.5	2.2
NET DEBT / EQUITY (x)	0.9	0.7	0.6
EV/EBITDA (x)	6.5	5.2	5.1
EV/EBIT (x)	11.7	8.2	7.7
P/E ADJ. (x)	10.4	6.9	6.3
P/BV (x)	0.93	0.82	0.76

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

STOCK DATA

FAIR VALUE (€)	5.10
MARKET PRICE (€)	3.70
SHS. OUT. (m)	13.1
MARKET CAP. (€m)	48.5
FREE FLOAT (%)	27.0
AVG. -20D VOL. ('000)	5,350
RIC / BBG	NDT.MI / NDT.IM
52 WK RANGE	3.40-4.10

Source: Stock Market Data



Business Description

Neodecortech is a leading manufacturer of decorative surfaces (mostly paper but more recently also plastic) to be employed in the interior design industry and in the flooring one.

More in details Neodecortech is involved in the design, development, production, and commercialisation of décor paper printing, finish foils, melamine films, and Plastic Films. The vision of the Group is that of enriching any surface with a distinctive Italian Flair.

Key Financials

€mn	2016A	2017A	2018E	2019E
Total Revenues	115.6	127.7	135.4	140.5
Chg. % YoY	-13.7%	15.7%	7.7%	3.7%
Reported EBITDA	15.6	14.2	17.0	17.9
Reported EBITDA Margin	13.7%	10.9%	12.6%	12.7%
Reported EBIT	9.2	7.9	10.6	11.4
Reported EBIT Margin	8.1%	6.1%	7.8%	8.1%
Net Profit	4.4	4.1	7.0	7.7
Chg. % YoY	nm	-8.8%	72.3%	10.1%
Net Fin. Position	-55.8	-46.9	-43.1	-39.5
Net Fin. Pos. / EBITDA (x)	3.6	3.3	2.5	2.2
Capex	-3.6	-7.6	-7.5	-7.5
OpFCF b.t.	9.2	2.1	9.4	9.8
OpFCF b.t. as % of EBITDA	42%	14.7%	55.3%	54.5%

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

Investment case

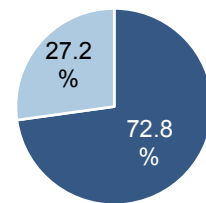
Strengths / Opportunities

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

Weaknesses / Risks

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

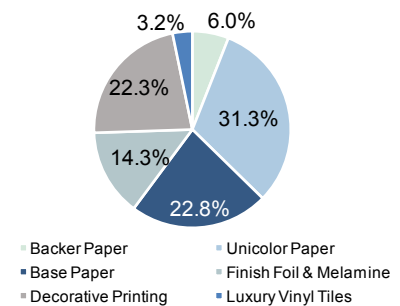
Shareholders Structure



■ Valentini Family ■ Free float

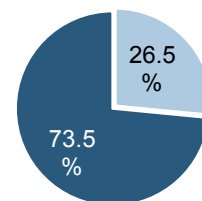
Source: Neodecortech SpA

Sales breakdown by products



Source: Neodecortech SpA

Sales breakdown by geography



■ Italy ■ International Markets

Source: Neodecortech SpA

Stock multiples @ €5.10 Fair Value

	2018E	2019E
EV / SALES (x)	0.8	0.8
EV / EBITDA (x)	6.2	6.0
EV / EBIT (x)	9.9	9.4
EV / CAP.EMP. (x)	1.0	1.0
OpFCF Yield (%)	6.5	9.2
P / E (x)	9.5	8.7
P / BV (x)	1.1	1.1
Div. Yield. (%)	3.0	3.0

Source: Value Track

Investment Case

Our valuation methods lead to a **fair value at €5.10 per share**, substantially unchanged vs. previous €5.15 update back as of April 2018. This fair value is an average of a multiple-based valuation and of Discounted Cash Flow one.

Multiple-based Valuation

As an effect of updated consensus estimates and of the evolution in stock market prices, we calculate Neodecortech is trading at ca. 15% discount vs. peers on EV/EBITDA, and 36-50% discount on P/E.

Being still down ca. 7% since the IPO date, Neodecortech is currently trading at a P/B of 0.8x, generally related to distressed companies. However, we believe that, given 12% ROE 2019E and sustainable leverage this is not Neodecortech case and would deserve at least a 1.0x-1.1x P/B 2019E, i.e. ca. **€5.00 per share**. Such a value would also imply ca. 6.0x EV/EBITDA 2019E, in line with peers, and 8.7x P/E 2019E, ca. 20% discount from peers average.

Neodecortech: Peers' stock trading multiples

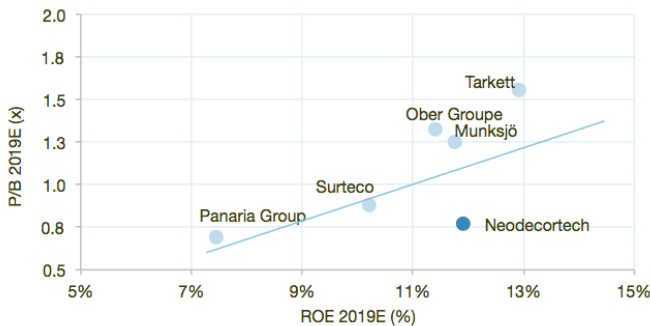
Company	EV / EBITDA (x)		EV / EBIT (x)		P / E (x)		EV / OpFCF (x)(*)	
	2018E	2019E	2018E	2019E	2018E	2019E	2018E	2019E
Ahlstrom Munksjö	7.0	5.7	12.6	9.6	16.0	11.6	17.9	10.3
Ober Groupe	5.9	9.0	7.1	11.7	13.7	10.6	8.9	10.4
Panaria Group	7.3	4.9	28.8	9.1	33.6	9.3	33.9	9.4
Surteco	6.1	5.5	11.7	10.1	12.7	8.6	10.7	9.4
Tarkett	6.9	6.2	12.1	10.3	14.4	12.0	12.8	10.3
Average	6.6	6.3	14.5	10.2	18.1	10.4	16.8	10.0
Median	6.9	5.7	12.1	10.1	14.4	10.6	12.8	10.3
Neodecortech	5.2	4.9	8.3	7.7	7.0	6.4	9.1	8.4
Discount % vs. avg.	-22%	-22%	-43%	-24%	-61%	-39%	-46%	-16%
Discount % vs. med.	-25%	-14%	-31%	-24%	-51%	-40%	-29%	-18%

Source: Market Consensus, Value Track Analysis

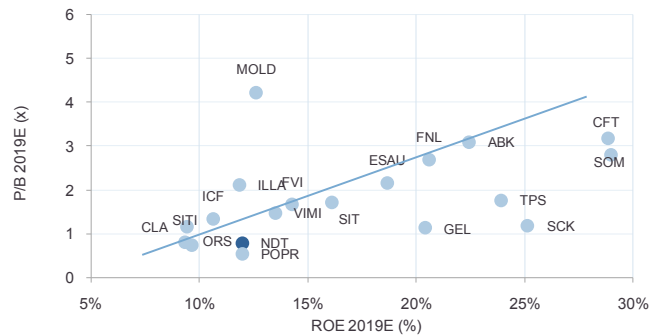
(*) OpFCF defined as (EBITDA-CAPEX)

Neodecortech and Peers' analysis and performance

Comparables: P/BV 2019E vs. ROE 2019E



AIM Pure Industrials: P/BV 2019E vs. ROE 2019E



Source: Market Consensus, Value Track Analysis

Discounted Cash Flow model

Compared to our latest equity report published back as of April 2018, we hereby assume a higher average **WACC 2018E-2027E i.e. ca. 9.3%** vs. the previous 8.47%. This is the result of higher Italian Equity risk Premium (7.89% vs. the previous 6.68%) as calculated by Damodaran on line web site (see also <http://pages.stern.nyu.edu/~adamodar/> for more details on this approach). Other WACC assumptions are:

- ◆ 2.0% risk-free rate to reflect medium-term target inflation;
- ◆ 0.71 unlevered beta;
- ◆ 5.8% pre-tax cost of debt, 100bps higher than our latest update again due to higher spread for Italian corporates;
- ◆ 2.0% liquidity premium to remunerate investors for trading in the “thin” AIM Italia stock market.

Further assumptions are:

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

Overall, we derive a **€5.18 per share** DCF value.

Neodecortech: Discounted Cash Flow Model Summary Table

€mn	
PV of future cash flows FY18E-FY27E	55.6
PV of Terminal value with PGR at 2%	54.7
Fair Enterprise value	110.3
Implied EV/EBITDA '18E (x)	6.5x
Net Cash Position 2017YE	-46.9
NPV of Tax asset	4.5
Fair Equity value (€mn)	67.9
Fair Equity Value per share (€)	5.18

Source: Value Track Analysis

1H18 Financial results in line with FY18 targets

1H18 financial figures recently approved by the company show not only a turnover increase but also a profitability one despite further hikes in raw materials utilized in production processes. In details:

- ◆ Revenues up 7.3% YoY to €67.2mn, against +3% of the reference market;
- ◆ EBITDA up 18.7% YoY to €8.2mn (EBITDA Margin at 12.2%, +120bps). Gross of Stock Grants, Adj. EBITDA at €8.7mn;
- ◆ Net Profit up 31.3% YoY to €2.7mn, Adj. Net Profit at €3.2mn;
- ◆ Net Debt at ca. €55.2mn vs. €54mn as of 2017 year-end.

Neodecortech Group: 2017-1H18 Key financials

€mn, IAS	1H17A	2H17A	1H18A	Chg. % YoY
Total Revenues	62.6	67.7	67.2	7.3%
EBITDA (post stock grant)	6.9	7.3	8.2	18.7%
EBITDA margin	11.0%	10.8%	12.2%	+120bps
Net Profit (post stock grant)	2.1	2.0	2.7	31.3%
Group Equity	38.0	54.0	55.2	45.4%
Net Financial Position	-60.7	-46.9	-53.2	-12.3%

Source: Neodecortech, Value Track Analysis

Top line - Up high single digit driven by Energy and Printing businesses

Overall, Revenues increased high single digit to €67.2mn in 1H18 vs. €62.6mn in 1H17, mainly driven by the Energy production division. More in details:

- ◆ **BEG Revenues €14.3mn, up 33% YoY.** A more positive spread between input costs and output ones allowed a boost of production up to 95% of total theoretical capacity;
- ◆ **CdG (Cartiere di Guarcino SpA) Revenues €36.1mn, in line YoY** as a combined effect of prices increase and output volumes reduction, especially in the “white sheet” business line;
- ◆ **CONF (Neodecortech SpA) Revenues €25.8mn, up 12% YoY** driven by: a) already active clients increasing their orders, b) Plastic Films business increasing its weight up to ca. €2.2mn from ca. €1.8mn in 1H17, +22.2%, exceeding Decorative Printing, which reached ca. €1.5-2mn. We remind Plastic Films have higher than average profitability i.e. a contribution margin above 20%.

Neodecortech Group: 1H17-1H18 Revenues breakdown

€mn, IAS	1H17A	2H17	1H18A	Chg. % YoY
BEG	10.8	17.1	14.3	32.7%
CdG	36.4	33.1	36.1	-0.8%
CONF	22.9	21.4	25.8	12.4%
Gross Revenues	70.1	71.6	76.2	8.7%
Intragroup Elisions	-7.5	-3.9	-9.0	nm
Total Revenues	62.6	67.7	67.2	7.3%

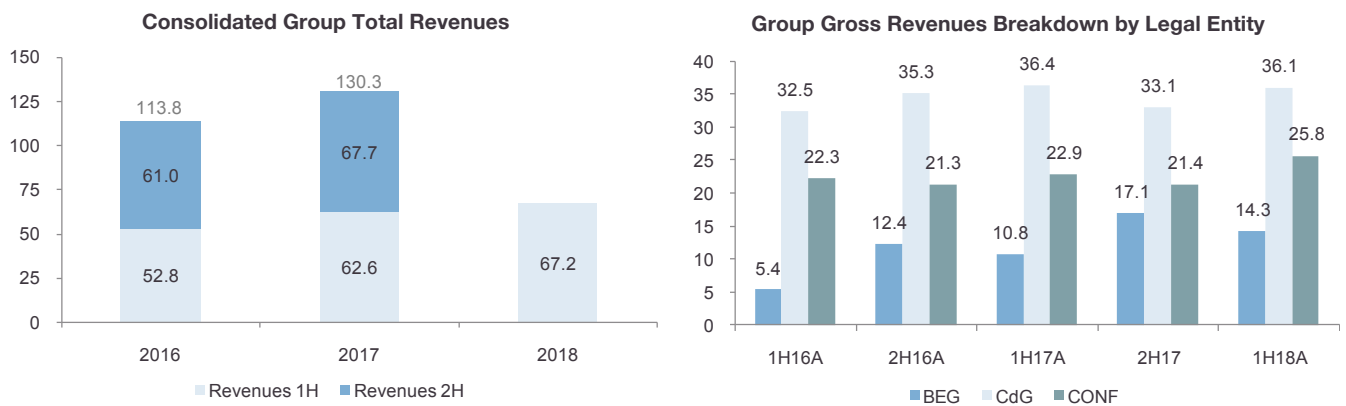
Source: Neodecortech, Value Track Analysis

Neodecortech Group: 2014-1H18A Output volumes analysis

	2014A	2015A	2016A	2017A	1H18A
CONF (Neodecortech SpA)					
Printed (mn mq)	72.0	76.4	82.1	84.1	54.8
Impregnated (mn mq)	40.0	37.9	36.2	38.1	21.3
Plastic Film (mn mq)	0.0	1.0	2.8	4.0	2.8
CdG					
Paper Volumes (Tons)	32,499	39,183	38,063	39,200	19,153
BEG					
Produced Electricity (MWh)	120,486	149,678	73,724	109,849	64,865

Source: Neodecortech, Value Track Analysis

Neodecortech Group: 2016-1H18 Revenues Evolution



Source: Neodecortech, Value Track Analysis (*) Gross Revenues

EBITDA negatively affected by raw materials and positively by Plastic Films growth

Overall, Group profitability increased, (**Group EBITDA up 18.7% YoY**), but not homogeneously across the various business units due to different dynamics of raw material prices. More in details:

- ◆ **BEG** positively leveraged its Top line rebound driven by the restart of the third power engine back as of May 2017. EBITDA doubled to €1.8mn in 1H18 achieving 12.6% EBITDA Margin level;
- ◆ **CdG** suffered from Pulp and Titanium Dioxide prices hikes but was partially able to pass them trough to clients. As an effect, EBITDA stood at €3mn in 1H18 (8.3% EBITDA Margin) vs. €2.6mn (7.1% Margin) in 1H17;
- ◆ **CONF** (Neodecortech SpA) maintained a substantially stable profitability in absolute terms i.e. EBITDA at €3.6mn in 1H18 vs. €3.4mn as of 1H17 (13.8% EBITDA Margin in 1H18 vs. 14.8% in 1H17) as combined effect of higher raw material costs offset by higher Plastic Films incidence and by higher industrial efficiency.

Neodecortech Group: 1H17-1H18 EBITDA breakdown and EBITDA Margins

€mn, IASB	1H17A	2H17A	1H18A	Chg. % YoY
BEG EBITDA (€mn)	0.9	3.2	1.8	nm
BEG EBITDA Margin (%)*	8.3%	18.7%	12.6%	4.4%
CdG EBITDA (€mn)	2.6	1.9	3.0	15.7%
CdG EBITDA Margin (%)**	7.1%	5.7%	8.3%	1.2%
CONF EBITDA (€mn)	3.4	2.3	3.6	4.5%
CONF EBITDA Margin (%)**	14.8%	10.7%	13.8%	-1.0%
Other EBITDA (€mn)	0.0	0.0	-0.2	0.0%
Consolidated EBITDA (€mn)	6.9	7.3	8.2	18.7%
Consolidated EBITDA Margin (%)**	11.0%	10.8%	12.2%	1.1%

Source: Neodecortech, Value Track Analysis

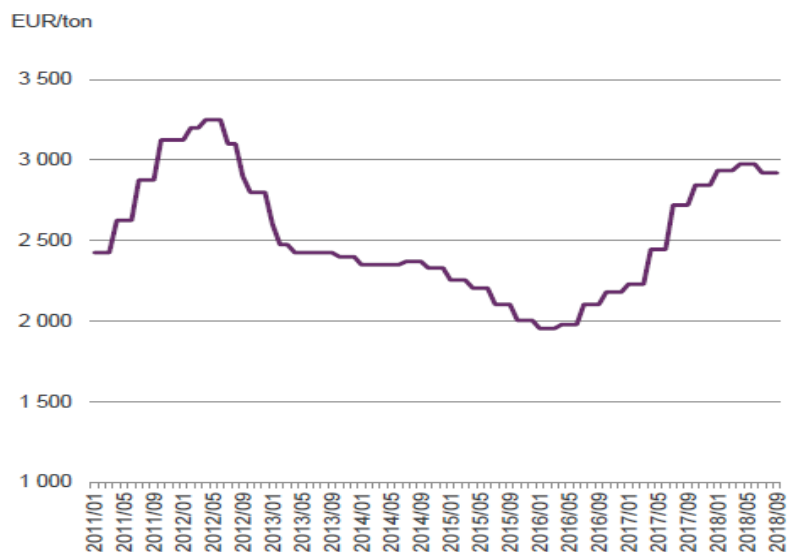
(*) As % of division's Gross Revenues (**) As % of Value of Production

Raw materials: Negative impact from Titanium and Pulp partially offset by Tallow Oil

The exposure to Raw materials' price volatility represents one of the key features of Neodecortech business. Indeed Titanium Dioxide (TiO₂), Wood Pulp and Tallow Oil, i.e. the most relevant Raw materials for the Group day-by-day business usually account for nearly half of total Group's Opex. While Titanium and Wood Pulp prices continued to rise in 1H18, on the contrary Tallow Oil dropped more than 20% from the end of 2017.

Titanium Dioxide

TiO₂ price rose in 1H18 at ca. €3,000/Ton close to its all-time highest levels. This means a double digit increase YoY even if we note that recently the price trend has flattened.

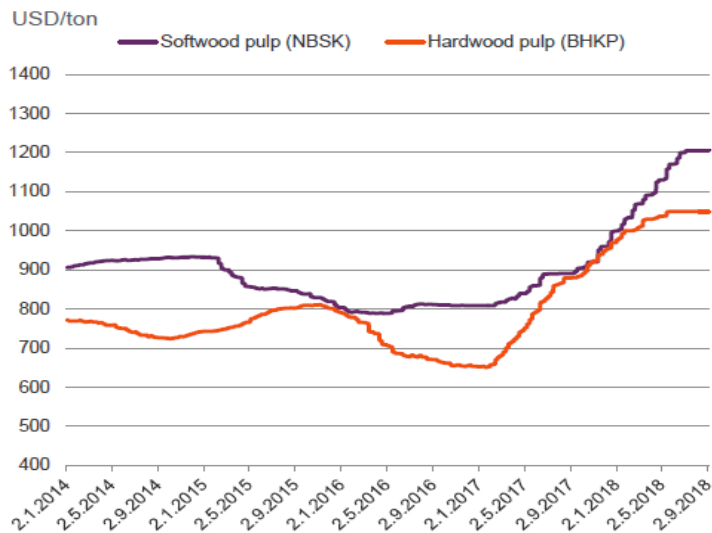
TiO₂ Price Evolution 2011-18 (€/Ton)


Source: Various

Wood Pulp

As far as the price of Wood Pulp is concerned, during 1H18 it kept increasing and only in the very latest months it seems to have stabilized as pulp stocks in China are currently seen at high levels.

Pulp: Price evolution 2014-18 (USD/Ton, net of VAT)

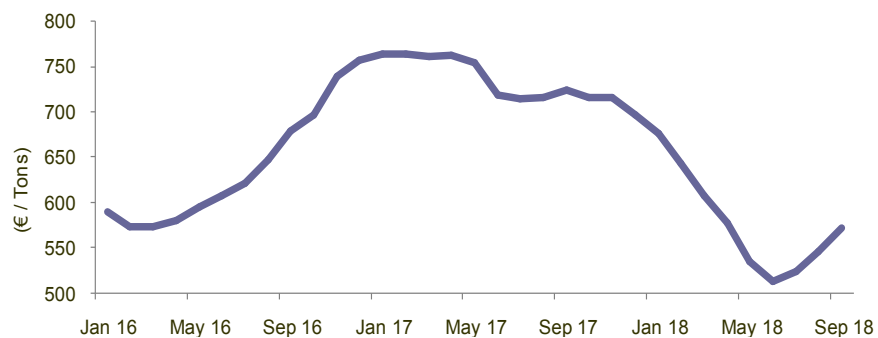


Source: Foex, ICIS, Bloomberg

Tallow Oil

Average market price in 1H2018 stood at €590/Ton (VAT included), well below €753/Ton as of 1H2017. As of September 2018, the price stands at €570/Ton, slightly rebounding from €512/Ton bottom.

Tallow Oil: Price evolution 2016-18 (€/Ton, net of VAT)



Source: Various

Total Raw Materials expenses

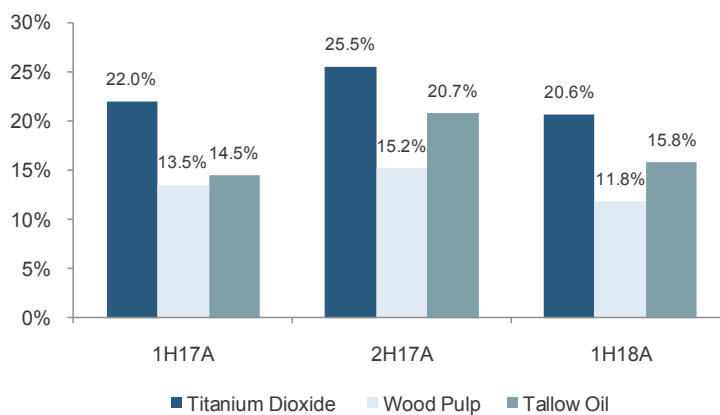
We appreciate that Neodecortech managed to minimize the negative impact of Titanium / Wood Pulp price hikes by reducing output volumes of low margins business lines while, at the same time, boosting the output of BEG in order to profit from the wider positive spread between Tallow Oil and Energy market prices. As a result, Raw Materials expenses in 1H18 increased only +6% YoY in absolute terms.

Neodecortech Group: Raw Materials expenses evolution

€mn, IAS	2016FY	1H 17	2H17	2017FY	1H18	Chg. YoY
Titanium Dioxide	21.0	11.8	14.2	26.0	12.2	3.0%
Wood Pulp	12.6	7.3	8.4	15.7	7.0	-4.2%
Tallow Oil	9.5	7.8	11.5	19.3	9.3	20.1%
Total	43.1	26.8	34.2	61.0	28.5	6.0%
As % of Revenues	37.3%	42.9%	50.5%	46.8%	42.4%	-0.5%
As % of Opex (incl. D&A)	40.5%	48.2%	59.0%	53.7%	48.2%	0.0%

Source: Neodecortech, Value Track Analysis

Raw Materials impact on Opex



Source: Foex, ICIS, Bloomberg

Net Profit increasing a much higher +31.3% YoY

Reported Net Profit was up 31.3% YoY i.e. more than proportional if compared to EBITDA growth trend mainly as an effect of financial charges remaining stable YoY. Tax Rate was flat at ca. 20%.

Neodecortech Group: 1H17-1H18 results from EBITDA down to Net Profit

€mn, IAS	1H17A	2H17	1H18A	Chg. % YoY
EBITDA	6.9	7.3	8.2	18.7%
Depreciation Charges	-2.8	-3.1	-3.1	7.8%
Amortization Charges	-0.2	-0.2	-0.4	nm
EBIT	3.9	4.0	4.7	19.9%
Net Financial charges	-1.3	-1.5	-1.3	-1.5%
Taxes	-0.5	-0.4	-0.7	26.8%
Net Profit	2.1	2.1	2.7	31.3%

Source: Neodecortech, Value Track Analysis

Cash Generation negative in 1H18 due to seasonality

Group's Net Debt increased to €53.2mn at the end of June 2018 i.e. ca. €6.3mn higher than the €46.9mn as of December 2017, but €7.5mn lower than the value recorded as of the end of June 2017. Indeed, the movement in Net Debt was driven by:

- ◆ Usual Working Capital seasonality, that led to a €7.4mn cash absorption despite a more intense utilization of receivables factoring at the BEG level;
- ◆ €4.2mn Capex cash out of which some €1mn dedicated to Printing machines, ca. €0.6mn-€0.7mn to software and the remaining to Paper Mill business.

Neodecortech Group: 1H18 Cash Flow Statement

€mn	1H18
EBITDA	8.2
Op. WC requirements	-7.4
Capex	-4.2
Change in Provisions	0.6
OpFCF b.t.	-2.8
Cash Taxes	-0.7
OpFCF a.t.	-3.4
Other Op. Items (incl. Fin. Inv.)	0.5
Net Financial Charges	-1.3
Dividends paid	-2.1
Net Cash generated	-6.3

Source: Neodecortech, Value Track Analysis

Neodecortech group now stands at ca. 3.3x Net Debt / EBITDA ratio, slightly higher than 3.0x as of December 2017. Capital Employed is now ca. 50% Net Debt and 50% Equity, compared with a 60% - 40% structure in 1H17.

Neodecortech: 1H17-1H18 Balance Sheet structure

€mn, IAS	1H17A	FY17A	1H18A
Working Capital	28.2	26.9	33.9
Net Fixed Assets	80.4	80.9	81.5
Provisions	9.9	6.9	7.0
Total Capital Employed	98.7	100.9	108.4
Shareholders' Equity	38.0	54.0	55.2
Minorities' Equity	0.0	0.0	0.0
Group Net Equity	38.0	54.0	55.2
Net Fin. Position	-60.7	-46.9	-53.2

Source: Neodecortech, Value Track Analysis

Cross check with Peers' 1H18 results

A dynamic top line evolution coupled with profitability under pressure due to raw materials hikes are two recurrent messages released by companies active in décor paper (or more in general in flooring / building materials sector).

Indeed, Neodecortech was not the only company impacted by the above mentioned trends as also Ahlstrom- Munksjö and Surteco, the two closest peers, were both negatively affected by this phenomenon. In particular:

- ◆ **Ahlstrom-Munksjö Decor division.** 1H18 Sales were up to €201.6mn vs. €193mn as of 1H17, but **profitability in absolute and percentage terms were both down YoY**. 1H18 EBITDA stood at €15.2mn (7.5% EBITDA Margin) vs. €19.4mn as of 1H17 (10% EBITDA Margin).

Higher selling prices had a positive impact on results, and partially compensated for the steep increase in Titanium Dioxide and Pulp costs. However, lower sales volumes negative impacted;

- ◆ **Surteco Paper division.** Revenues were stable, i.e. €188.5mn in 1H18 vs. €184.9mn in 1H17, but **EBIT was down -30% YoY** decreasing from €13mn (8.9% EBIT Margin) in 1H17 to €10.9mn (5.9% Margin) as of 1H18.

Update on recent developments

Apart from 1H18 financial figures, we believe two recent moves of the Group are worthy being mentioned, i.e. the acquisition of some assets / technologies from Corbetta Fia, a correlated party, and the EGM approval of updated dividend policy, warrant distribution and possibility to finance further M&A deals via “reserved” shares issues.

Acquisition of assets / technologies from Corbetta Fia

As of August 2018, Neodecortech signed an agreement to acquire from Corbetta Fia some assets / technologies generating some €8mn revenues with 5% EBITDA margin (pre synergies) and €2.3mn debt. Total cash out stood at €0.2mn leading to €2.5mn Enterprise Value i.e. 6.3x EV/EBITDA'17 multiple pre-synergies.

The industrial rationale of the deal encompasses Neodecortech widening its product offering in the laminate sector to PPFL (Plastic Printed Laminated Film), a product utilized in the production of LVT flooring.

As Neodecortech specifies, “PPFL are new laminate products deriving from the combination of printed pvc film and transparent pvc film, which are subsequently embossed and lacquered and used in the manufacture of flooring. Under the deal, Neodecortech will acquire specific know-how and the relevant machinery. The margins generated by PPLF are in line with those of Plastic Films and will, therefore, rank among the most profitable products of the Group”.

Corbetta Fia's assets: Acquisition details

€mn, IAS	1H17A
Revenues	8.0
EBITDA (%)	5.0%
EBITDA	0.4
Net Debt	2.3
Enterprise Value	2.5
EV/Sales (%)	31.2%
EV/EBITDA (x)	6.3x

Source: Neodecortech, Value Track Analysis

Warrant distribution and Capital Injection

The company has recently approved:

- ◆ The issue “for free” (i.e. without payment) of 13,077,500 warrants, in the ratio of one warrant for every one share held (excluding the treasury shares held by the Company), which provide the right to underwrite 3,269,375 shares of Neodecortech S.p.A. i.e. one new share every four warrants based on €4.0 strike price. Warrants' expiry has been set at 2020;
- ◆ Brand new dividend policy with maximum €0.153 Dividend per share in 2018FY-2019FY;
- ◆ The possibility for the Board of Directors to call for up to €10mn “reserved” capital injection in case external growth opportunities arise.

Forecasted Financials 2018E-19E

Post 1H18 figures we are maintaining unchanged our 2018E-19E financial forecasts (before stock grant costs). However, **as far as 2018E is concerned, we are pretty confident that the company can easily beat our current estimates, so we see room for future upward revision of estimates.** For the time being, we expect:

- ◆ **Revenues** steadily growing at **mid single digit CAGR** over the next two years, supported by Plastic Films expansion trend;
- ◆ Assuming no further raw materials inflation, **EBITDA margin to improve at ca. 13%** as of 2019E with EBITDA in absolute terms estimated to achieve €17.0mn as of 2018E, €17.91m as of 2019E. This thanks to output capacity progressive saturation and to higher incidence of highly profitable Plastic Films segment;
- ◆ **Adj. Net Profit** expected to grow at higher than 50% 2017A-19E CAGR thanks to lower financial charges (credit lines and leasing contracts are under re-negotiation) and to tax rate remaining stable at ca. 18%-20% level;
- ◆ Cumulated **Operating Free Cash Flow** after tax over the next two years at ca. €18mn, after having invested the residual part of the announced 2017-19E €20mn capex plan. This means a cash conversion ratio close to 50% level;
- ◆ **Net Financial Position** decreasing at ca. **€39.1mn by 2019E** thanks to the above mentioned cash generation. Such a figure would imply Net Debt/ EBITDA to decrease in the 2.2x region by 2019E, thus allowing for enhanced flexibility.

Neodecortech: 2017A-19E Key Financials forecasts

(€mn)	2017A	2018E	2019E
Net Revenues	123.5	133.0	137.9
EBITDA (*)	14.2	17.0	17.9
EBIT (*)	7.9	10.6	11.4
Pre-Tax Profit (*)	5.2	8.5	9.4
Net Profit (*)	4.1	7.0	7.7
OpFCF after tax	1.0	7.8	8.1
Net Financial Position	-46.9	-43.1	-39.1

Source: Neodecortech, Value Track Analysis

(*) Before Stock grant expenses

Neodecortech: 1H17 –2H18E Key Financials

(€mn)	1H17A	2H17A	1H18A	2H18E
Net Revenues	60.5	63.0	65.8	67.3
EBITDA (bef. Stock grant expense)	6.9	7.3	8.2	8.8
EBIT	3.9	4.0	4.7	5.9
Pre-Tax Profit	2.6	2.6	3.4	5.1
Net Profit	2.1	2.0	2.7	4.3
Net Financial Position	-60.6	-46.9	-53.2	-43.1

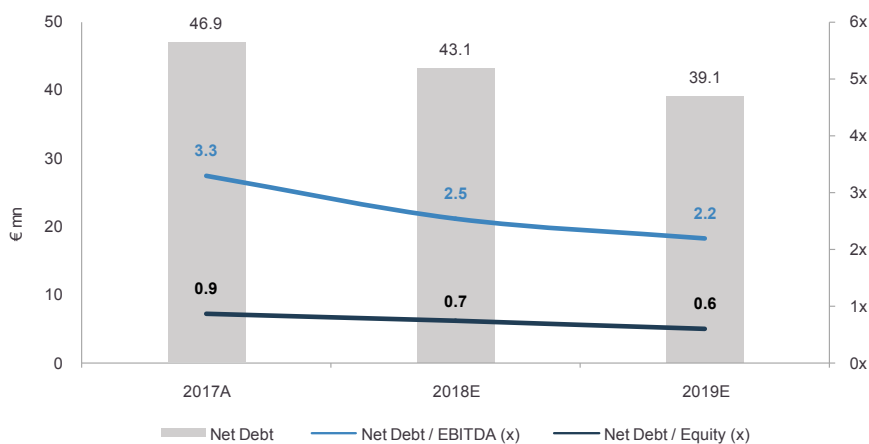
Source: Neodecortech, Value Track Analysis

Neodecortech – Cash Flow Bridge 2017A-2019E



Source: Neodecortech, Value Track Analysis

Neodecortech: Leverage Dynamics



Source: Neodecortech, Value Track Analysis

Last but not least, we note that our 2018FY estimates imply the company achieving its official financial targets thus triggering part of the Top Management stock grant plan (the remaining part being pegged to the move to MTA Stock Exchange).

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

Please refer to Appendix for more details on the remedy shares and stock grant plans.

Appendix: Neodecortech business profile

Leading decorative surfaces player

Headquartered in Filago (BG) with three fully owned production plants sited in Italy, **Neodecortech is involved in the niche of decorative surfaces** offering a wide range of solutions to the interior design industry and to the flooring one. Even though the production cycle is entirely based in Italy, **Italy accounts less than 30% of Neodecortech's Revenues**.

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

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

Neodecortech acts in very sophisticated niches characterized by specific features where each paper specialty has its own production distinctiveness that does not allow to exploit synergies by entering in more than one market at the same time. Indeed, as scale benefits are negligible, these markets are attracting for deeply focused players and do not suit to giant paper producers/ printers.

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

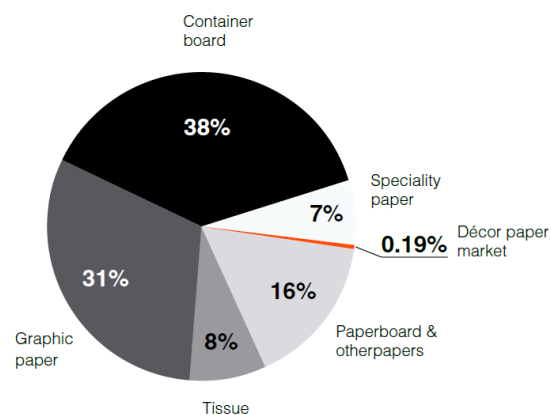
- ◆ **High entry barriers** due to the market capital intensity in addition to its small dimension (i.e. ca. 0.2% of the total "Paper and Paperboard Market");
- ◆ Controlled by German players that are much larger in size;
- ◆ **Mid-single digit growth pace** (ex China);
- ◆ Exposed to cyclical end markets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

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

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

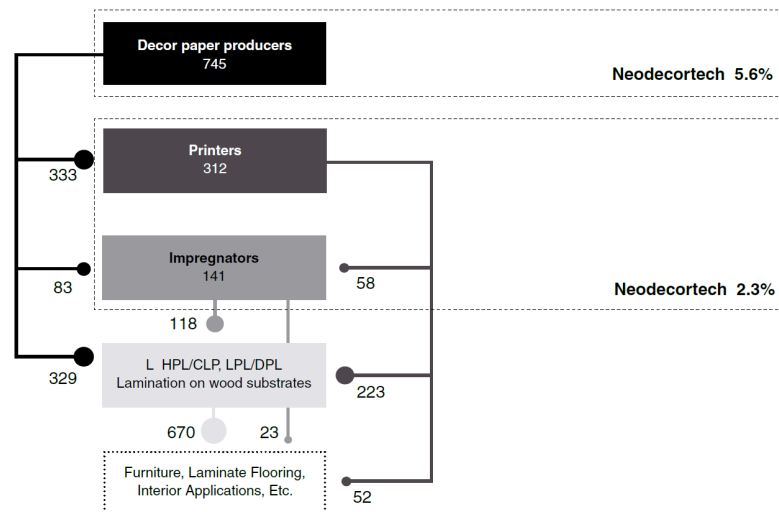
A separate mention is reserved to Chinese players which, despite the high barriers to entry, over the last years have rolled out material output capacity to the internal market only and commercializing lower quality products, at least so far.

Décor Paper market: 0.19% of total Paper and Paperboard one (ex China)



Source: Neodecortech Company Presentation

World market Metric Tons/000 (ex China) Décor paper production



Source: Neodecortech Company Presentation

Vertically integrated business model run by three synergic entities

Neodecortech runs a vertically integrated business model i.e. not only it prints décor paper (and Plastic Films) but it also produces internally the large part of the décor paper it prints and most of the energy necessary in the production process, a feature that is essential to be cost competitive. This is carried out by **three highly synergic entities** where the upstream unit serves as a supplier of the downstream one:

- ◆ **Cogeneration plant.** It provides electrical and thermal energy primarily to the Group's paper mill. This business is run by the legal entity named Bio Energia Guarcino Srl (**BEG**);
- ◆ **Paper mill.** It is involved in the manufacturing of decorative papers for high and low pressure lamination as well as for flooring solutions. This business is run by Cartiere di Guarcino SpA (**CdG**);
- ◆ **Printing and Impregnation.** It consists in décor paper (and Plastic Films) printing / impregnation. This business is run by Neodecortech SpA (previously Confalonieri SpA, **CONF**).

The production of each entity that is not internally used is marketed to third parties in the reference market. This is a proof of the competitiveness of Neodecortech products.

The main advantages of the vertical integration can be summarized as follows:

- ◆ Higher operations efficiency;
- ◆ Cost efficiency driven by material intra-group synergies and by lower purchasing costs;
- ◆ Lower time to market;
- ◆ Lower risk profile (i.e. no business discontinuity in case of outage).

Appendix: Remedy Shares & Stock Grant

Remedy shares protection mechanism

Remedy Shares protection mechanism is addressed to new investors only, i.e. to all current post-IPO shareholders with the exception of pre-IPO ones, providing some kind of reimburse to new investors if FY17 and FY18 EBITDA and Net Profit (based on the IPO consolidation perimeter and excluding extraordinary items, we can call them “RS” EBITDA and “RS” Net Profit) results to be lower than the trigger levels. We underline that 2017 Targets have been achieved, so no protection mechanism on FY2017 took place. **Regarding FY18, the protection mechanism will trigger if the company does not reach:**

- ◆ **EBITDA: €17mn**
- ◆ **Net Income: €7mn**

Regarding the technical aspects, if triggered, the remedy share mechanism is:

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

Remedy Shares protection mechanism: Example related to FY18 maximum shortfall

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

Source: Neodecortech, Value Track Analysis

Stock Grant Plan addressed to key managers

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

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

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

(€mn)	2015A	2016A	2017A	2018E	2019E
Group Net Revenues	123.7	106.8	123.5	133.0	137.9
Chg. % YoY		-13.7%	15.6%	7.7%	3.7%
Value of Production	125.5	115.6	127.7	135.4	140.5
EBITDA	11.9	15.6	14.2	17.0	17.9
EBITDA margin (%)	9.46%	13.7%	10.9%	12.6%	12.2%
Depreciation & Amortization	-7.1	-6.4	-6.3	-6.4	-6.5
EBIT	4.8	9.2	7.9	10.6	11.4
EBIT margin (%)	3.8%	8.1%	6.1%	7.8%	8.1%
Net Fin.Income (charges)	-3.4	-3.3	-2.7	-2.1	-2.0
Pre-tax Profit	1.4	6.0	5.2	8.5	9.4
Tax	0.2	-1.5	-1.1	-1.5	-1.7
Tax rate (%)	nm	-25.3%	-21.6%	-18.0%	-17.9%
Net Profit	1.6	4.5	4.1	7.0	7.7
Net Profit growth (%)	nm	nm	-9%	72%	10%

Source: Value Track Analysis

Neodecortech Group: Balance Sheet evolution 2015A-19E

(€mn)	2015A	2016A	2017A	2018E	2019E
Working Capital	25.4	22.8	26.9	29.6	30.2
Net Fixed Assets	85.4	80.3	80.9	82.0	83.0
Provisions	10.2	7.2	6.9	9.4	9.4
Total Capital Employed	100.6	95.8	100.9	102.1	103.8
Group Net Equity	33.8	38.7	54.0	59.0	64.7
Net Fin. Position [i.e. Net Debt (-) Cash (+)]	-66.7	-57.1	-46.9	-43.1	-39.1

Source: Value Track Analysis

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

(€mn)	2015A	2016A	2017A	2018E	2019E
EBITDA	11.9	15.6	14.2	17.0	17.9
Working Capital Needs	0.0	1.0	-4.2	-2.7	-0.6
Capex	-3.0	-4.6	-7.6	-7.5	-7.5
Change in Provisions	0.0	-0.7	-0.3	2.6	0.0
OpFCF b.t.	8.8	11.3	2.1	9.4	9.8
Cash Taxes	0.0	-1.5	-1.1	-1.5	-1.7
OpFCF a.t.	8.8	9.8	1.0	7.8	8.1
Capital Injections	0.0	1.8	11.2	0.0	0.0
Other Op. Items (incl. Fin. Inv.)	-8.8	2.5	1.8	0.0	0.0
Net Financial Charges	0.0	-3.5	-2.7	-2.1	-2.0
Dividends paid	0.0	-1.0	-1.0	-2.0	-2.0
Net Cash generated	0.0	9.6	10.2	3.8	4.1

Source: Value Track Analysis

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