

Esautomotion

Sector: Mechatronics



Analyst

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Going (Far) East to make profits everywhere

Esautomotion is a well-experienced player that designs, develops and manufactures Computerized Numerical Control systems (CNC), Drivers, Software and Brushless motors for the automation of industrial production machines

FY18: another growing year on the books

In 2018FY the company posted another year of double digit growth: Total Revenues +18.5% YoY, Adj. EBITDA +15.4% and Adj. Net Profit +29.5% to €3.2mn. Net cash position stood at €7.65mn. We note that despite a deceleration of growth rates in 2H18 driven by a weaker international macroeconomic environment, growth was well distributed across both domestic (+16.7% YoY) and foreign (+20.5% YoY) markets out of which the ones with the more remarkable growth rates were China and Turkey. Revenues from Chinese clients, in particular, grew +47% YoY to €2.7mn. Chinese clients now account for roughly 14% of total revenues.

Strategies 2019: Innovation, new markets, China

Esautomotion is speeding up product innovation (6.5% of its turnover is allocated to R&D) and enlarging its geographical footprint to more areas (e.g. Germany, Spain, USA). The “Big” strategy, however, remains to strengthen presence in China with the aim to achieve: 1) new important clients that are poised to gain market shares worldwide, and 2) material reduction of purchasing costs on hardware components.

2019E-20E: 16% Top Line CAGR, 30% EBITDA margin

We are trimming downwards our 2019E-20E estimates by some -4% (top line) / -6% (operating level and bottom line) due to a more prudent approach as visibility on industrial production evolution worldwide has diminished. That said, Esautomotion financial profile remains outstanding with average annual growth rates in excess of 15% and EBITDA Margin expected to fluctuate within the 28-31% range.

Fair Value at €4.26 per share

At current market price the stock is trading at 5.1x-3.7x EV/EBITDA 2019E-20E, multiples that we view as too sacrificed given the superior quality of the equity story (fast growth, high profitability, credibility) and the “scarcity” value which is driving a number of M&A deals on European CNC players.

We confirm **fair value per share at €4.26**. At fair value, the stock would trade at 7.4x – 5.6x EV/EBITDA 2019E-20E respectively.

Fair Value (€) 4.26
Market Price (€) 3.18
Market Cap. (€m) 41.7

KEY FINANCIALS (€m)	2018A	2019E	2020E
REVENUES FROM SALES	17.9	20.3	24.4
EBITDA	5.0	6.1	7.5
EBIT	3.8	4.5	5.7
NET PROFIT	3.0	3.5	4.4
EQUITY	15.2	18.1	21.9
NET CASH POS.	7.7	10.5	14.0
EPS ADJ. (€)	0.24	0.27	0.34
DPS (€)	0.05	0.06	0.07

Source: Esautomotion (historical figures), Value Track (2019E-20E estimates)

RATIOS & MULTIPLES	2018A	2019E	2020E
EBITDA MARGIN (%)	28.0	30.1	30.6
EBIT MARGIN (%)	21.0	22.0	23.5
NET DEBT / EBITDA (x)	nm	nm	nm
NET DEBT / EQUITY (x)	nm	nm	nm
EV/EBITDA (x)	6.8	5.1	3.7
EV/EBIT (x)	9.1	7.0	4.8
P/E ADJ. (x)	13.1	11.8	9.4
DIV YIELD (%)	1.6	1.8	2.3

Source: Esautomotion (historical figures), Value Track (2019E-20E estimates)

STOCK DATA	
FAIR VALUE (€)	4.26
MARKET PRICE (€)	3.18
SHS. OUT. (m)	12.1
MARKET CAP. (€m)	41.7
FREE FLOAT (%)	23.8 (*)
AVG. -20D VOL. ('000)	16,425
RIC / BBG	ESAU.MI / ESAU IM
52 WK RANGE	2.95-4.53

Source: Stock Market Data

(*) on total outstanding Share Capital

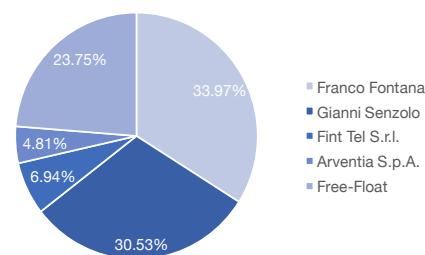


Business Description

Esautomotion is a well-experienced leader in the **design and production of integrated Computerized Numerical Control (CNC) systems**, Drivers, Software and Brushless motors dedicated to industrial production machineries such as Press brakes, Lasers and Waterjets.

The company enhances a **highly loyal and scalable customers base** serving industrial clients all around the world and working with some of the major firms in industrial automation solutions and equipment.

Shareholders Structure (*)



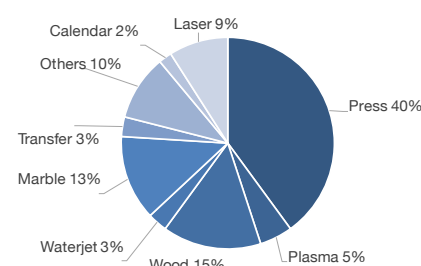
Source: Esautomotion (*) on total Share Capital

Key Financials

€mn	2017A	2018A	2019E	2020E
Revenues from Sales	15.1	17.9	20.3	24.4
Chg. % YoY	24.1%	18.8%	13.0%	20.2%
EBITDA	4.6	5.0	6.1	7.5
EBITDA Margin (% of Rev. from Sales)	30.4%	28.0%	30.1%	30.6%
EBIT	3.5	3.8	4.5	5.7
EBIT Margin (% of Rev. from Sales)	23.2%	21.0%	22.0%	23.5%
Net Profit	2.5	3.0	3.5	4.4
Chg. % YoY	56.8%	21.6%	17.4%	26.1%
Adjusted Net Profit	2.5	3.2	3.5	4.4
Chg. % YoY	56.8%	29.5%	10.1%	26.1%
Net Cash Position	0.0	7.7	10.5	14.0
Net Fin. Pos. / EBITDA (x)	0.0	nm	nm	nm
Capex	-1.3	-1.8	-1.5	-1.5
OpFCF b.t.	2.0	1.7	4.4	5.5
OpFCF b.t. as % of EBITDA	43.0%	33.2%	71.6%	73.3%

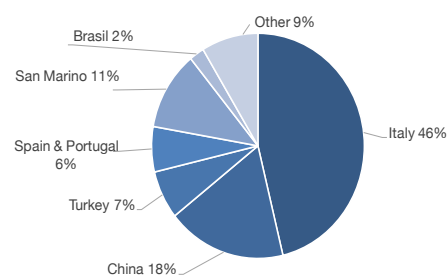
Source: Esautomotion (historical figures), Value Track (estimates)

Sales breakdown by products



Source: Esautomotion

Sales breakdown by geography



Source: Esautomotion

Investment case

Strengths / Opportunities

- ◆ Completely integrated software and hardware products offer;
- ◆ After-sale customer service active 24/7 thanks to a well structured network of Value Added Resellers;
- ◆ Efficient production organization i.e. internal software development (R&D) and outsourced hardware production.

Weaknesses / Risks

- ◆ Limited output capacity. Not easy to find mechatronic engineers;
- ◆ Price competition on motors and drives.

Stock multiples @ €4.26 Fair Value

	2019E	2020E
EV / SALES (x)	2.2	1.7
EV / EBITDA (x)	7.4	5.6
EV / EBIT (x)	10.2	7.3
EV / CAP.EMP. (x)	5.9	5.3
OpFCF Yield (%)	9.9	13.0
P / E (x)	15.9	12.6
P / BV (x)	3.1	2.6
Div. Yield. (%)	1.4	1.7

Source: Value Track

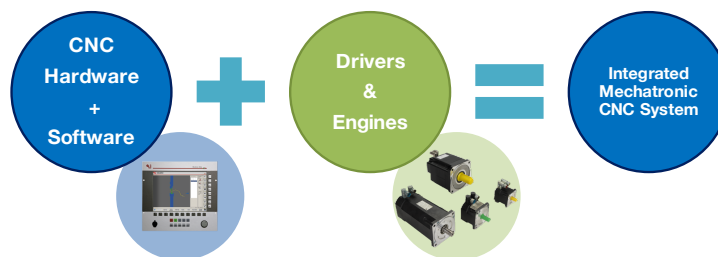
Esautomation at a glance

Business activity: Computer Numerical Controls (CNC) for industrial machineries

Esautomation is a small (**€18.5mn 2018FY Total Revenues**) but fast growing (**2014-18 Revenues CAGR at 20%**) B2B industrial company, operating in the global market of Numeric Controls.

More in details, Esautomation is active in the **design and production of mechatronics Computer Numeric Controls (CNC) systems, drivers, brushless motors and software dedicated to their hardware devices.**

Esautomation: Integrated Mechatronic CNC System producer



Source: Esautomation

Esautomation is headquartered in Emilia region, centre-north of **Italy**, where it has its main production unit. The company is active with two more production / distribution branches in **China** and **Brazil** in order to meet its international clients' needs.

The range of products covers all types of industrial machineries produced by its customers, both as hardware and software, thanks to an "open" structure that allows continuous developments and makes virtually unlimited the types of industrial production machines that can be equipped in several "verticals" (bending press, waterjet, marble and wood among the many).

Esautomation has reached a **leading positioning in CNC systems dedicated to Sheet Metal (2nd), Wood (1st) and Marble (1st) industrial machines.**

Esautomation's products & features

CNC systems are decisive when it comes to short cycle times and machine's high productivity. As a result, they have to meet very high demanding requirements and we believe Esautomation products fully comply with these requests, as they boast:

- ◆ **Continuous evolution.** Both HW and SW are subject to continuous updating work so as to be able to effectively manage integration with the most modern technologies: networks, devices and software tools available on the market;
- ◆ **High performance.** Thanks to continuous in-house and by customers R&D investment, Esautomation is able to offer innovative solutions and high performance at competitive costs;
- ◆ **Modularity.** CNC Integrated Packages are completely modular from the simplest (sold at about €1,000) to the most complex (sold for more than €50,000), allowing the company to enter big customers with Basic technologies and grow with them in volumes and technologies (China, Turkey, India), as well as to reduce costs and warehouse;

- ◆ **Customizability.** The architecture of Esautomotion allows to have high versatility in the personalization and differentiation of the product to make it suitable for the specific needs of the customer, and for this reason the high-end part of the software, i.e. the customizable one, is outsourced as near as possible to the customer himself.
- ◆ **Interconnected full 4.0.** All products can be interfaced with Information Systems, Sensors and Peripherals. This makes it possible not only for remote control and monitoring of production, but also for the remote assistance service, which makes it possible to solve almost all customer problems;
- ◆ **Dedicated HW and SW.** Creating dedicated HW and SW means reducing redundancy and having a product with lower costs, which is less faulty and with higher calculation speeds, as well as it allows a better protection of contribution margins.

Mixing in-house and outsourced production

As far as R&D, product design and development are concerned, Esautomotion business model is a well-planned mix of in-house and outsourced activities. Indeed:

- ◆ **In-house activities.** Software (both firmware and application software) is entirely in-house produced thanks to R&D department's accumulated knowledge. This allows maintaining uniqueness of the offer and, as a consequence, grip versus clients;
- ◆ **Outsourced activities.** Hardware (PC cases mainly) is internally designed and prototyped, while production is externally outsourced to dedicated suppliers. This brings several advantages:
 - Unlimited and flexible production capacity;
 - Just in time strategy, leading to an increase of efficiency and decrease of waste, as the company receives goods only as they are needed in the production process, reducing inventory costs;
 - Decentralization potential (the company has also a production unit in China);
 - Production costs reduction as components are purchased by the supplier in huge amounts.

Client driven market strategy

Esautomotion strategy can rely on the coverage of all phases of the value chain. The aim of expanding its presence and market share, while maintaining a good profitability and high-quality standards, is obtained by means of:

- ◆ **A strong customer acquisition and exploitation** process made of four subsequent steps to maximise the revenues contribution from customers, i.e.:
 - Client Acquisition;
 - Growth;
 - Upselling;
 - Co-development.
- ◆ **Continuous product development**, with the aim of improving and expanding the current offer through the introduction of new products / services;
- ◆ **Further expansion in key foreign markets, China in particular.** Indeed, a great market opportunity is seen in China where Esautomotion is expected to strengthen its presence not only with the aim of getting closer to new potential customers starting in these years to export their production machines and needing high quality CNC "brains", but also with the aim to further reduce purchasing costs thus preserving its profitability ratios.

2018FY financial performance

In 2018FY Esautomation has recorded strong growth in all its P&L items and a positive net cash position thanks to IPO proceeds:

- ◆ Total Revenues up +18.5% YoY;
- ◆ EBITDA Adj. + 15.3% YoY;
- ◆ Net Profit Adj. +29.5% YoY.

Esautomation: Main Financials 2017FY and 2018FY

€ mn	2017	2018	Change YoY (%)
Total Revenues	15.6	18.5	18.5%
Total Opex	-11.0	-13.4	22.4%
EBITDA	4.6	5.0	9.3%
EBITDA Adj	4.6	5.3	15.3%
<i>EBITDA Adj. margin as % of Total Revenues</i>	<i>29.5%</i>	<i>28.7%</i>	
EBIT	3.5	3.8	7.4%
<i>EBIT margin as % of Total Revenues</i>	<i>22.5%</i>	<i>20.4%</i>	
Net Profit	2.5	3.0	21.5%
Net Profit Adj.	2.5	3.2	29.5%
Net Financial Position (- Debt / + Cash)	0.0	7.7	7.7

Source: Esautomation, Value Track Analysis

Actual results were in line with our estimates at the top and bottom line level, while being a touch below at the operating profit one, partly as a result of a worse product mix and partly due to higher SG&A costs.

The Net Cash Position as well came out slightly worse than our estimates mainly due to higher inventories.

Esautomation 2018FY figures: Actual vs. Estimates

(€mn)	2018E	2018A	Diff. %
Total Revenues	18.0	18.5	2.6%
EBITDA	5.6	5.0	-9.4%
EBITDA Adj.	5.6	5.3	-4.4%
EBIT	4.2	3.8	-10.4%
Net Profit	3.2	3.0	-5.2%
Adj. Net Profit	3.2	3.2	1.0%
Group Net Equity	15.4	15.2	-0.2
Net Cash Position	8.3	7.7	-0.7

Source: Value Track Analysis

Key messages of FY18 financial figures

1. Organic Revenue growth remains robust, especially in emerging markets;
2. Operating profits up double digit in absolute terms;
3. Financial structure under control.

1. Organic Revenue growth remains robust, especially in emerging markets

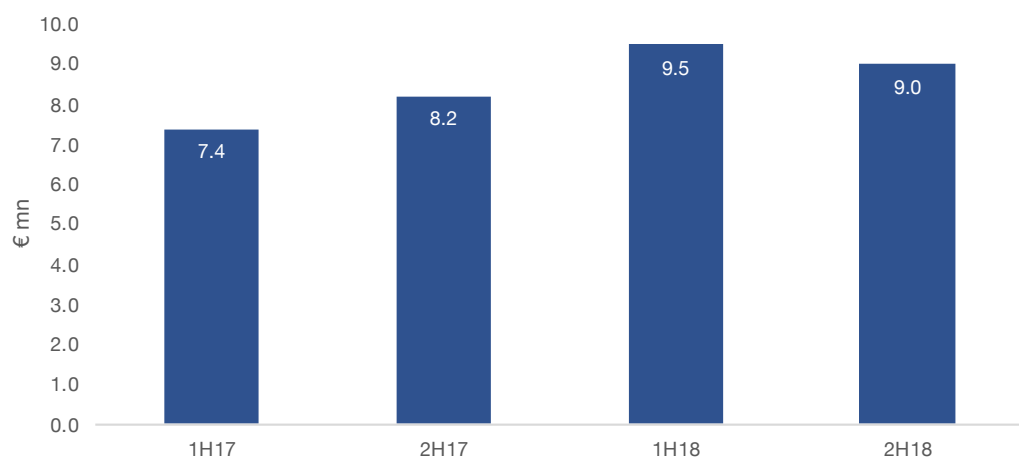
Total Revenues, stood at €18.5mn, up +18.5% YoY, with a growth well distributed across both domestic (+16.7% YoY) and foreign (+20.5% YoY) markets out of which the ones with the more remarkable growth rates were China and Turkey.

- ◆ **Turkey.** Despite its internal difficulties it remains a world-leading exporter for sheet metal machines and is also helped by its currency weakness;
- ◆ **China.** Demand remained very strong, in particular for the replacement of the most obsolete machinery fleet to be employed in both local for local business and export one.

Mainly thanks to the investments made by the Group in its Shanghai branch, Esautomation reported a +47% YoY increase in revenues from Chinese clients i.e. some €2.7mn. **Chinese clients now account for roughly 30% of total turnover.**

That said, we note how Esautomation suffered a deceleration of growth rates in 2H18, that was up ca. +10% compared to the +30% YoY as of 1H18 as consequence of the weakening international macroeconomic environment.

Esautomation Group: Total Revenues by semester in 2017-18



Source: Esautomation, Value Track Analysis

2. Operating profits up double digit in absolute terms

In details:

- ◆ Reported EBITDA and EBIT were up high single digit YoY (+9.3% and +7.4% YoY respectively) and were burdened by €274k one-off costs related to IPO, to the German subsidiary start-up and to the headquarter relocation;
- ◆ Adjusted for the above mentioned one-off costs, we obtain an EBITDA adjusted that stood at ca. €5.31mn, i.e. ca +15.4% YoY. EBITDA Adj. margin down by some 180bps YoY, the reason of the decrease being twofold, i.e. 1) a worse product mix as in 2H18 Esautomotion sold more low-end products in China in order to gain market share, 2) higher SG&A and labour costs as new managers have been hired in order to support for the next to come growth.

Esautomotion: 2017-2018 P&L evolution from Top Line to EBIT

€mn, IAS	2017	2018	% YoY
Revenues from Sales	15.11	17.94	18.7%
Other Revenues	0.48	0.54	12.5%
Total Revenues	15.59	18.48	18.5%
Operating Expenses	-10.98	-13.44	22.4%
EBITDA	4.60	5.03	9.3%
EBITDA Adjusted	4.60	5.31	15.4%
<i>EBITDA Adjusted margin (on Total Revenues)</i>	<i>29.5%</i>	<i>28.7%</i>	
D&A	-1.09	-1.26	15.6%
EBIT	3.51	3.77	7.4%

Source: Esautomotion, Value Track Analysis

- ◆ Net Profit increased sharply, i.e. ca. + 21.5% YoY, at ca. €3.0mn also thanks to lower tax charges driven by IPO related tax benefits. Adjusting the Net Profit by one-off costs it rose to €3.19mn i.e. +29.5% YoY.

Esautomotion: 2017-2018 P&L evolution from EBIT to Net Profit

€mn, IAS	2017	2018	% YoY
EBIT	3.51	3.77	7.4%
Interest expenses	-0.04	-0.10	>100%
Taxes	-1.00	-0.67	-33.0%
Net Profit	2.47	3.00	21.5%
Net Profit Adjusted	2.47	3.19	29.5%

Source: Esautomotion, Value Track Analysis

Financial structure under control

Three things are worth being mentioned:

- ◆ Capital intensity remained very low as the key asset is represented by intellectual property, which is for the largest part expensed in the P&L;
- ◆ Trade receivables remained at high value, i.e. ca. 36% of Revenues from Sales as Esautomotion is active in a B2B business, while Inventories doubled to €3.9mn mainly driven by a one off global shortage of some components that required a more cautious purchasing approach;
- ◆ Net cash position stood at €7.65mn thanks to the proceeds collected from the IPO.

Esautomotion: Balance Sheet structure evolution

€mn, IAS	2017	2018
Net Working Capital	4.30	5.84
Net Fixed Assets	1.29	1.99
Provisions	0.24	0.26
Total Capital Employed	5.35	7.57
Group Net Equity	5.32	15.22
Net Fin Position [I.e. Net Debt (-) Cash (+)]	-0.03	7.65

Source: Esautomotion, Value Track Analysis

As far as Operating Cash Flow generation is concerned, it is well positive in 2018 despite the above mentioned one off spike in inventories.

Esautomotion: 2017-2018 Cash Flow Statement

€mn, IAS	2017	2018
EBITDA	4.60	5.03
Chg. in Net Working Capital & in Provisions	-1.37	-2.09
Capex	-1.25	-1.84
OpFCF b.t.	1.98	1.67
Cash Taxes	-1.00	-0.67
OpFCF a.t.	0.98	1.00
Other Items (incl. Fin. Inv.)	-0.29	-0.12
Net Financial Charges	-0.04	-0.10
Capital Injections	0.00	7.91
Dividends paid	0.00	-1.00
Net Cash generated	0.64	7.68

Source: Esautomotion, Value Track Analysis

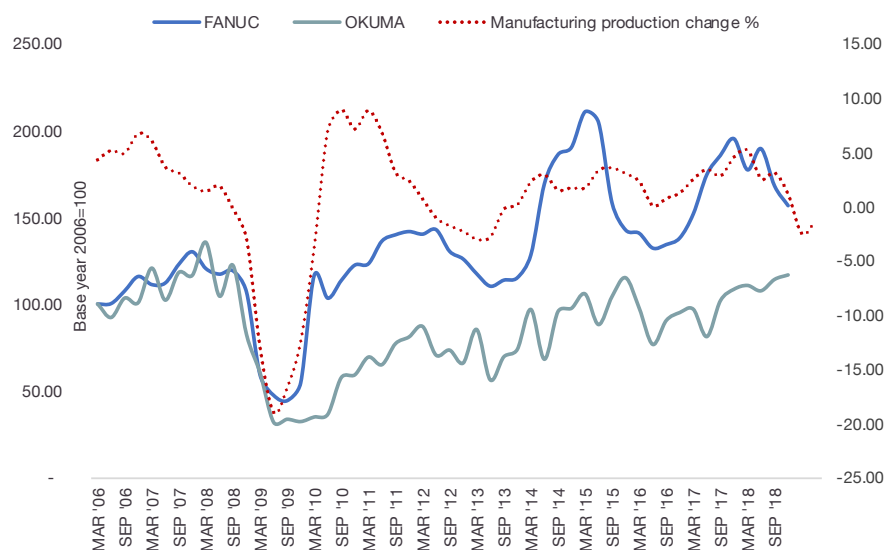
2019 strategies: product innovation / new markets / China

Being a B2B2B industry, **in the short term the CNC's Market is dependent on Industrial Production / GDP stance**, and it reacts to both recession phases and recovery ones.

If we look back in the latest years, we see that the industry has suffered in 2009 while since then it has steadily rebounded with a peak in 2015.

This phenomenon appears clearer looking at the Sales behaviour of two companies such as FANUC and OKUMA, leading players in the CNC's market; and comparing them to the G20 Manufacturing Production Index changes between 1Q06 to 4Q18.

GDP dependence



Source: Fanuc, Okuma, Value Track Analysis

If so, we believe that 2019 could be a tough year for some of Esautomation's clients and this poses some risks for Esautomation as well in the next few quarters.

To face these risks, the Company's strategy is to **speed up product innovation** and to **strengthen its presence in new markets**, mainly emerging markets but not only.

Product innovation

Esautomation is allocating ca. 6.5% of its turnover in R&D, involving about half of its employees both in the laboratory and with customers or partners. And, as per management talks, it intends to continue doing so.

In this type of business, even though there are no patents, software development is crucial. An increased performance of the CNCs is key to have more and more performing products at lower costs. In particular, Esautomation has started installing the first new-generation CNCs based on ARM technology, destined in the future to replace those currently in use, in order to increase performance and application flexibility, reduce dimensions and absorption, simplify commissioning and make its use more intuitive. use, and make their production more efficient.

Internationalization push

Another step undertaken in these months comes from the increasing internationalization of the company that already as of now, directly and / or indirectly, exports abroad ca. 80% of its products. In this regards, further internationalization means China (see below) and also new markets currently underpenetrated by Esautomotion. Indeed, back as of November 2018 Esautomotion set in place a new branch in Spain and finalized two collaboration agreements in Germany.

Germany

Esautomotion has finalized two collaboration agreements with Ms. Jan and Marc Hilpert respectively aimed at developing the North European and North American markets. The two managers have many years of experience in the Computer Numerical Control systems having served as top managers of a listed German company active for over 20 years in the CNC market.

Spain

Esautomotion established a company under Spanish law, Esautomotion Iberica SL with the aim of:

- ◆ Strengthening the Group's competitive positioning in the Spanish market, also by providing technical assistance services to Spanish customers;
- ◆ Favouring exports also in the markets of South, Central and Northern America.

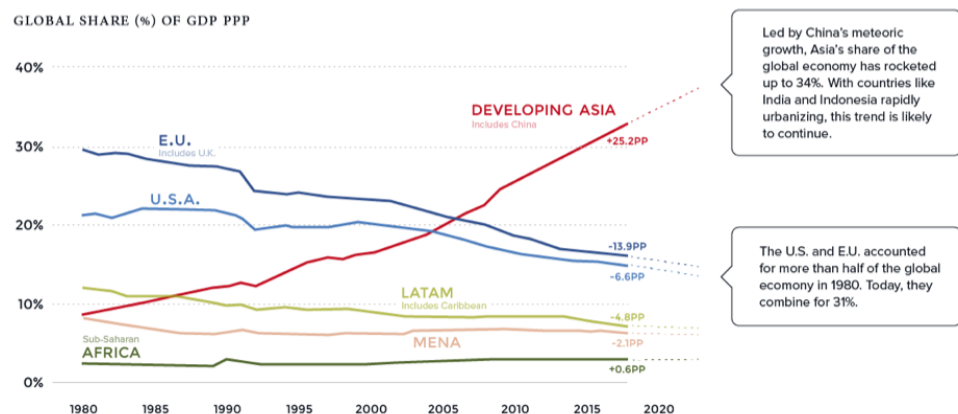
China

Esautomotion is already active in this region with a Shanghai based commercial subsidiary and is further investing in order to: **1) secure new clients poised to gain market share worldwide,** and **2) reduce purchasing costs on hardware components.**

As far as the **first point** is concerned, we underline that China is continuously increasing its weight on global GDP / Industrial Production and this is especially true in the industrial production automation business where Chinese players are starting to export their industrial production machines, equipped with CNC coming from European producers. Being their supplier is vital to secure future revenues and profitability and we expect Esautomotion to gain new important clients soon.

As far as the **second point** is concerned, establishing a local presence in China means being able to purchase hardware components at lower prices. Reduced purchased costs would lead to lower production ones, and this could allow Esautomotion to become more and more competitive and to positively impact on operating profitability.

China incidence on world GDP



Source: Visual Capitalist

Updating 2019E-20E estimates

We are updating our 2019E-20E estimates with respect to the previous ones published in our latest report back in October 2018, by slightly revising them downwards in terms of P&L figures, as the weakened macroeconomic environment suggests a more cautious stance, while slightly improving cash flow generation as working capital and capex are forecasted to be managed more efficiently.

Esautomotion: New vs. Old 2019E-20E estimates

€mn	2019E			2020E		
	Old	New	Change	Old	New	Change
Net Revenues from Sales	21.4	20.3	-5.1%	25.3	24.4	-3.6%
Total Revenues	22.0	20.7	-6.2%	26.1	25.0	-4.2%
EBITDA	6.7	6.1	-9.0%	8.0	7.5	-6.3%
EBIT	5.0	4.5	-10.0%	5.9	5.7	-13.6%
Adj. Net Profit	3.8	3.5	-7.9%	4.5	4.4	-3.4%
Group Net Equity	19.2	18.1	-1.1	23.7	21.9	-1.8
Net Financial Position	10.2	10.5	0.3	12.3	14.0	1.7
OpFCF a.t.	1.9	3.3	1.4	2.8	4.1	1.3

Source: Value Track Analysis

More in details, our 2019E-20E estimates are based on the following key points:

- ◆ The current economic outlook does not allow to be very optimistic about the foreseeable future in European markets. Despite that, the company is offsetting this negative outlook by expanding in China where its penetration rate has been increasing for a while, as well as within the Turkish market;
- ◆ Profitability ratios remain strong for both the forecasted years. EBITDA Margin is expected to fluctuate within the 28-31% range, substantially in line with current margins, while we forecast EBIT Margin to decrease and remain around 22-24% over the next two years.
Governance and structural expenses are expected to increase as the company faces an expansion phase (hiring of managers, branches, abroad operations).
On the other side, instead, some operative costs, such as those related to components are expected to decrease as sourcing from China should increase.
- ◆ Tax rate is expected to remain low and could decrease even further if / when patent box get approved. For the time being we are not taking account for it;
- ◆ Inventory is expected to reduce as a % of Revenues next years as the one off spike of 2018 gets reabsorbed. On the other hands, the company is pushing to reduce the time within which its trade receivables have to be collected, thus limiting the effect on the absorption of cash.
- ◆ The company has started paying dividends, so we are setting a 15-20% pay-out for the future.

Valuation

We confirm **€4.26 fair value per share**, based on the average of Peers' Analysis and Discounted Cash Flow Model (DCF). As a sanity check we also ran an Economic Value Added model (EVA).

At €4.26 fair value, ESA would trade at 7.4x – 5.6x EV/EBITDA, 15.9x – 12.6x PE 19E-20E respectively.

We also underline that there's a lot of interest from Chinese players in acquiring European CNC players. Indeed in the latest months a couple of interesting deals have been finalized:

- ◆ **2H18.** Intellectual property of German based CNC manufacturer Power Automation AG is acquired, within a judicial procedure, by the Chinese company Inovance for more than €10m;
- ◆ **January 2019.** Swiss based group Infranor, owner of CNC player Cybelec is sold to the Chinese company Guangzhou Haozhi Industrial Co. Ltd for ca. CHF30-35mn price. Infranor group recorded 2017 revenues at ca. CHF40.0mn, up 10% YoY.

Esautomotion: Valuation Summary

	Fair Equity Value (€mn)	Fair Value p.s. (€)
Peers' Analysis	49.5	4.37
DCF	54.4	4.15
Average	52.4	4.26
EVA as sanity check methos	53.2	4.06

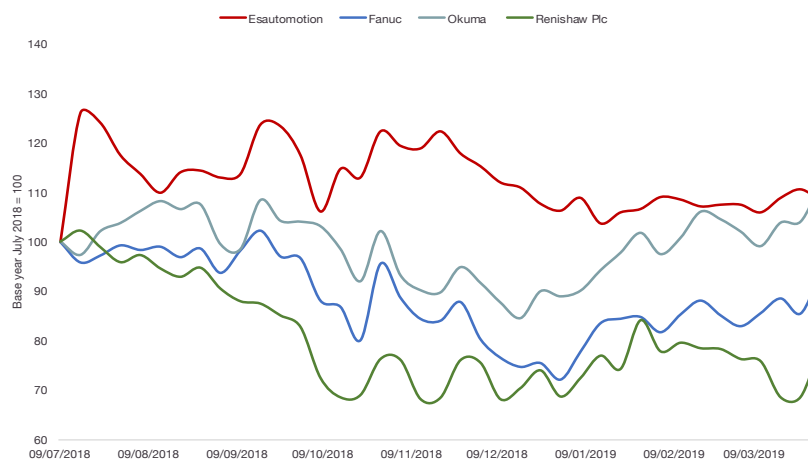
Source: Value Track Analysis

Peers analysis

We take into account seven listed **comparables** for Esautomotion, belonging to two different groups:

- ◆ **International providers of automation solutions:** Renishaw, Fanuc, Okuma;
- ◆ **Italian “born” providers of electronic based industrial applications:** Prima Industrie, SAES Getters, Eurotech and El.En .

Esautomotion vs. international peers: Share price performance since



Source: Fanuc, Okuma, Value Track Analysis

Here follows the update of peers' multiples.

Peers' stock trading multiples

Company	EV / EBITDA (x)		EV / EBIT (x)		P / E (x)		EV / OpFCF (x)(**)	
	2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E
Average (*)	11.9	11.2	11.7	13.4	21.0	17.1	24.6	14.4
Median (*)	10.9	8.7	10.6	10.2	18.9	15.2	13.2	13.6

Source: Market Consensus, Value Track Analysis

(*) Renishaw, Fanuc, OKUMA, Prima Industrie, SAES Getters, Eurotech, ELen

(**) OpFCF defined as (EBITDA-CAPEX)

Taking into account, on the one side the lower size of Esautomotion and the lower liquidity of its traded shares, and on the other side the higher than average quality of Esautomotion financial profile (in terms of growth rates, profitability ratios, financial structure, credibility of management), we believe that a conservative "small size" discount vs. peers' is to be applied thus leading to following "fair" multiples:

- ◆ 7-8x EV/EBITDA'19E;
- ◆ 9-10x EV/EBIT'19E;
- ◆ 14-16x P/E'19E;
- ◆ 11-12x EV/OpFCF'19E.

Applying the above mentioned "fair" multiples we obtain an average range of **€4.30-4.45 multiple based fair value per share.**

Discounted Cash Flow Model

Due to Esautomotion's null debt position, its Cost of capital (WACC) equals cost of Equity (Ke). This translates in practical terms with a **WACC figure in the 12.4% region** that is the result of an "Expanded CAPM approach" based upon the following assumptions:

- ◆ 2.0% risk free rate to reflect medium target inflation;
- ◆ Stable unlevered Beta of 0.98x;
- ◆ 8.59% Equity Risk Premium (Source: Damodaran);
- ◆ 2.0% Small Size Risk Premium, in line with the Expanded CAPM approach that we consider more appropriate when dealing with small sized companies.

Given our Ke and WACC computations we run a three stages DCF model based on:

- ◆ 2018FY as historical reference point;
- ◆ Explicit financial statements projections starting from 2019E fiscal year and arriving at 2027E;
- ◆ Terminal value at 2028YE obtained applying a 2% Perpetuity Growth Rate;

The result of our calculation is a **€4.15 per share DCF value.**

Applying a target 30% Debt / Equity structure the DCF lead to ca. **€4.84 fair value per share.**

Esautomotion: DCF model

	Unlevered Capital structure (€mn)	Target Capital structure (€mn)
PV of future cash flows	23.5	27.8
PV of Terminal value	23.2	27.9
Fair Enterprise value	46.7	55.7
Implied EV/EBITDA '19E (x)	7.6 x	9.1 x
Net Fin. Position 2018YE	7.7	7.7
Fair Equity Value	54.4	63.4
Fair Equity Value per share (€)	4.15	4.84

Source: Value Track Analysis

Economic Value Added Model

As a sanity check we utilize the Economic Value Added model (EVA). The concept behind this approach is to check company's value in terms of total extra-remuneration for shareholders. Indeed, EVA methodology measures the company's capability to create value by means of a return on capital employed which has to exceed the cost of capital itself.

Discounting future Economic Value flows (i.e. Nopat flows net of WACC times the Invested Capital), lead us to a **fair value per share of €4.06**.

Esautomotion: EVA calculation

		(€mn)
PV of future cash flows		21.3
PV of Terminal value		16.6
Total Economic Value Added	(a)	37.9
Initial Capital Employed	(b)	7.6
Fair Enterprise Value	(a)+(b)	45.5
Implied EV/EBITDA 18E (x)		6.2 x
Net Fin. Position 2018YE	(c)	7.7
Fair Equity value	(a)+(b)+(c)	53.2
Fair Equity Value per share (€)		4.06

Source: Value Track Analysis

Appendix: 2016A-2020E financials

Esautomotion: P&L evolution

€mn	2016A	2017A	2018A	2019E	2020E
Revenues from sales	12.2	15.1	17.9	20.3	24.4
Other Revenues	0.5	0.5	0.6	0.4	0.6
Total Revenues	12.7	15.6	18.5	20.7	25.0
Chg. % YoY	24.8%	23.1%	18.5%	11.9%	20.8%
Cost of sales	-8.0	-9.1	-11.3	-12.4	-15.0
Labour costs	-1.5	-1.9	-1.6	-1.7	-1.9
EBITDA	3.2	4.6	5.0	6.1	7.5
Depreciation & Amortization	-0.8	-1.10	-1.3	-1.7	-1.8
EBIT	2.4	3.5	3.8	4.5	5.7
Net Fin.Income (charges)	-0.1	-0.04	-0.1	0.1	0.1
Pre-tax Profit	2.3	3.5	3.7	4.6	5.8
Tax	-0.7	-1.0	-0.7	-1.1	-1.4
Minorities	0.0	0.0	0.0	0.0	0.0
Net Profit	1.6	2.5	3.0	3.5	4.4
Net Profit growth (%)	nm	56.8%	21.6%	17.4%	26.1%
Adjusted Net Profit	1.6	2.5	3.2	3.5	4.4

Source: Esautomotion (historical figures), Value Track (forecasts)

Esautomotion: Balance Sheet evolution

€mn	2016A	2017A	2018A	2019E	2020E
Working Capital	2.78	4.30	5.84	5.96	6.50
Net Fixed Assets	1.12	1.29	1.99	1.84	1.59
Provisions	0.09	0.24	0.26	0.14	0.18
Total Capital Employed	3.80	5.35	7.57	7.65	7.90
Group Net Equity	3.12	5.32	15.22	18.14	21.87
Net Fin. Position [Net Debt (-) Cash (+)]	-0.68	-0.03	7.66	10.48	13.97

Source: Esautomotion (historical figures), Value Track (forecasts)

Esautomotion: Cash Flow Statement

€mn	2016A	2017A	2018A	2019E	2020E
EBITDA	3.2	4.60	5.03	6.11	7.47
Chg. in Working Capital & Provisions	-2.0	-1.37	-1.53	-0.24	-0.50
Capex	-1.7	-1.25	-1.84	-1.50	-1.50
OpFCF b.t.	-0.4	1.98	1.67	4.38	5.47
As a % of EBITDA	n.m.	43.0%	33.2%	71.6%	73.3%
Cash Taxes	-0.7	-1.00	-0.67	-1.05	-1.40
Capital Injections	0.0	0.00	7.91	0.00	0.00
Other Op. Items (incl. Fin. Inv.)	0.0	-0.29	-0.12	0.00	0.00
Net Financial Charges	-0.1	-0.04	-0.10	0.11	0.11
Dividends paid	0.0	0.00	-1.00	-0.61	-0.70
Net Cash generated	-1.2	0.64	7.69	2.83	3.48

Source: Esautomotion (historical figures), Value Track (forecasts)

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