

Esautomation

Sector: Mechatronics



Analysts

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US - China frictions take their tolls

Esautomation 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

1H19: Maintaining market shares has its cost

Esautomation 1H19 figures are in line with the company's strategy to progressively increase markets penetration i.e. to support top line evolution even if the weakness of the global reference market has determined the necessity to be more aggressive from a commercial point of view and has thus led to a sharp decrease of profitability. Indeed, while Value of Production was up +2.5% YoY (massively outperforming competitors that were down some -16% / -26% YoY), EBITDA-EBIT-Net Profit adjusted for one-off costs were down -21.0% / -32% / -38% YoY respectively.

Estimates 2019E-20E revised downwards

In 1H19 press release the company has stated that it expects 2H19 sales to continue the same level of growth, (while in 2020 there should a more vivid rebound), and to progressively recover profitability thanks to costs of goods sold optimization.

That said, we are updating our 2019E-20E estimates by revising downwards top line by ca. 10% and profitability (operating and net) by -30% / -40% as we expect the cloudy macroeconomic and geopolitical scenario to improve only in a few quarters. A possible approval of "patent box" is not yet factored in our estimates and could represent a positive surprise.

Fair Value per share at €3.70 (down from €4.26)

News flow expected in coming months for Esautomation and the whole CNC industry is likely to remain extremely volatile, as dependent on USA-China commercial frictions and on macroeconomic stance. At the same time, we believe that medium term growth potential is still there.

Based on the above-mentioned considerations and on the current market price, we calculate that Esautomation shares are trading at a 20% discount vs. a fair equity value of €3.70 per share (13% below our previous one and 27% higher than the €2.90 IPO Price).

At €3.70 fair value the company would trade at 1.80x EV/Sales, 7.7x EV/EBITDA Adj., 19.6x P/E Adj. based on 2020E forecasts.

Fair Value (€) **3.70**
Market Price (€) **2.88**
Market Cap. (€m) **37.7**

KEY FINANCIALS (€m)	2018A	2019E	2020E
REVENUES	17.9	18.7	21.3
EBITDA	5.0	4.2	5.0
EBIT	3.8	2.8	3.2
NET PROFIT	3.0	2.1	2.5
EQUITY	15.2	16.8	18.8
NET FIN. POS.	7.7	7.7	10.1
EPS ADJ. (€)	0.23	0.16	0.19
DPS (€)	0.05	0.04	0.04

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

RATIOS & MULTIPLES	2018A	2019E	2020E
EBITDA MARGIN (%)	28.0	22.3	23.5
EBIT MARGIN (%)	21.0	14.8	15.3
NET DEBT / EBITDA (x)	0.0	nm	nm
NET DEBT / EQUITY (x)	0.0	nm	nm
EV/EBITDA (x)	7.6	7.2	5.5
EV/EBIT (x)	10.1	10.9	8.5
P/E ADJ. (x)	14.4	17.7	15.3
DIV YIELD (%)	1.4	1.2	1.4

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

STOCK DATA	
FAIR VALUE (€)	3.70
MARKET PRICE (€)	2.88
SHS. OUT. (m)	13.1
MARKET CAP. (€m)	37.7
FREE FLOAT (%)	23.8 (*)
AVG. -20D VOL. ('000)	5,889
RIC / BBG	ESAU.MI / ESAU IM
52 WK RANGE	2.78-3.70

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.

Key Financials

€mn	2017A	2018E	2019E	2020E
Net Revenues	15.1	17.9	18.7	21.3
Chg. % YoY	nm	18.8%	4.1%	13.9%
EBITDA	4.6	5.0	4.2	5.0
EBITDA Margin (% of Net Revenues)	30.4%	28.0%	22.3%	23.5%
EBIT	3.5	3.8	2.8	3.2
EBIT Margin (% of Net Revenues)	23.2%	21.0%	14.8%	15.3%
Net Profit	2.5	3.0	2.1	2.5
Chg. % YoY	nm	21.6%	-28.7%	15.6%
Adjusted Net Profit	2.5	3.2	2.1	2.5
Chg. % YoY	nm	29.5%	-33.1%	15.6%
Net Fin. Position	na	7.7	7.7	10.1
Net Fin. Pos. / EBITDA (x)	nm	nm	nm	nm
Capex	na	-1.8	-1.8	-2.0
OpFCF b.t.	na	1.7	1.9	3.0
OpFCF b.t. as % of EBITDA	na	33.2%	45.5%	60.1%

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

Investment case

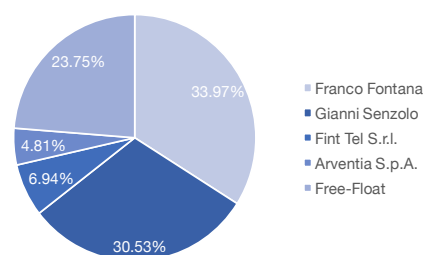
Strengths / Opportunities

- ◆ Completely integrated software and hardware products offer;
- ◆ After-sale customer service active 24/7;
- ◆ Efficient production organization i.e. internal software development (R&D) and outsourced hardware production.

Weaknesses / Risks

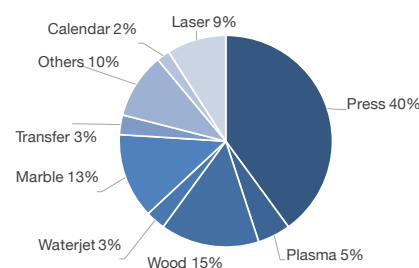
- ◆ Limited output capacity. Not easy to find mechatronic engineers;
- ◆ Price competition on motors and drives;
- ◆ Sensitivity to macroeconomic downturns.

Shareholders Structure (*)



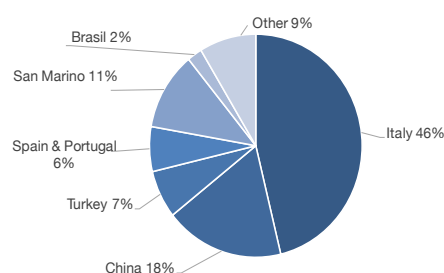
Source: Esautomotion (*) on total Share Capital

Sales breakdown by products



Source: Esautomotion

Sales breakdown by geography



Source: Esautomotion

Stock multiples @ €3.70 Fair Value

	2017E	2018E
EV / SALES (x)	2.2	1.8
EV / EBITDA (x)	9.8	7.7
EV / EBIT (x)	14.7	11.8
EV / CAP.EMP. (x)	4.5	4.4
OpFCF Yield (%)	4.7	7.8
P / E (x)	22.7	19.6
P / BV (x)	2.9	2.6
Div. Yield. (%)	1.0	1.1

Source: Value Track

Esautomation 1H19 Financials

Esautomation IAS/IFRS based 1H19 figures are in line with the company's strategy to progressively increase foreign markets penetration i.e. to support top line evolution even if the weakness of the global reference market has determined the necessity to be more aggressive from a commercial point of view and has thus led to a sharp decrease of profitability.

Esautomation: 1H18-1H19 key financials

€mn, IAS	1H18	1H19	% YoY
Value of Production	9.48	9.57	2.5%
EBITDA	2.54	2.05	-19.5%
EBITDA Adjusted	2.69	2.12	-21.0%
EBITDA Adjusted margin (on VoP)	28.4%	21.8%	
EBIT	2.01	1.37	-31.6%
Net Profit	1.66	1.03	-38.1%
OpFCF a.t.	0.51	0.29	-43.1%
Net Fin Position [I.e. Net Debt (-) Cash (+)]	-0.63	6.54	--

Source: Esautomation, Value Track Analysis

Key messages of 1H19 figure

1. Reference market suffering from macro and geo-political uncertainties;
2. Esautomation confirms its market penetration strategy;
3. Profitability suffers from worse sales mix and from commercial aggressiveness;
4. Balance Sheet remains sound despite investments.

1. Reference market suffering from macro and geo-political uncertainties

We stated several times that 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.

2H18 and 1H19 are unfortunately in line with this historical pattern i.e. are suffering from macroeconomic deceleration and are also burdened by the direct and indirect negative consequences of the well-known commercial and political frictions taking place between USA and China.

The global market leader Fanuc clearly stated recently: *"we found ourselves in a very difficult situation [...] due primarily to the impact of the trade friction between the United States and China, and the plunge in the short-term demand in the Chinese IT-related industry, which was robust in the previous fiscal year. Demands stagnated in Europe as well, as can be seen in the restraining of investments by many companies (mainly automobile-related) that export products to China. [...] It is anticipated that the situation will remain difficult and unpredictable in general, due to uncertain factors such as tariff policies of countries and foreign exchange fluctuations including the impact of the trade friction between countries and regions."*

As a consequence, the two global market leaders Fanuc and Okuma saw their March – June 2019 figures heavily impacted, with all key P&L figures down double digit in the March-June 2019 period.

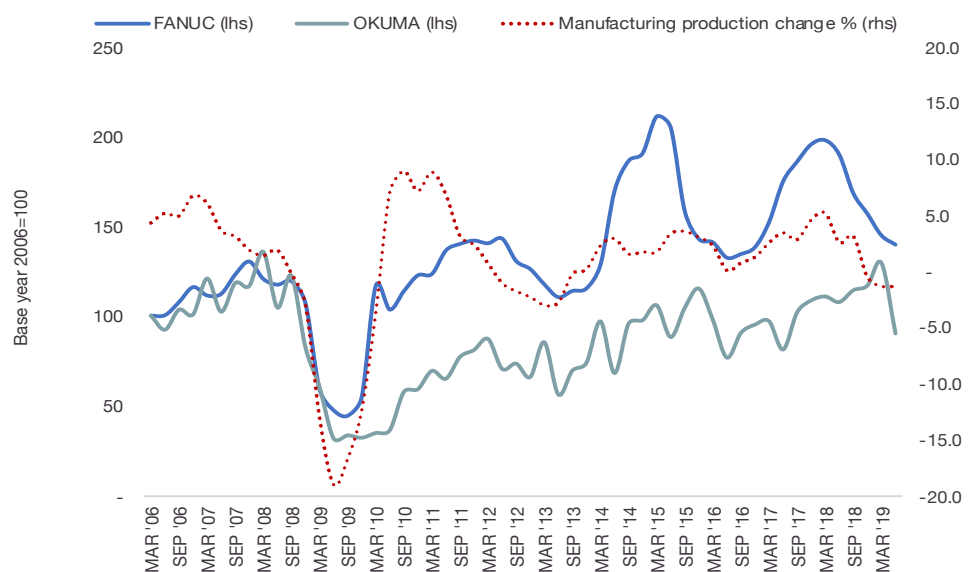
Okuma and Fanuc: Year on Year change in key March-June 2019 P&L figures

€mn, IAS	Okuma	Fanuc
Revenues	-16.2%	-26.4%
Operating Income	-31.0%	-47.5%
Net Income	-25.2%	-47.9%

Source: Various, Value Track Analysis

Also adopting a longer-term view (1Q16-2Q19) it's clear how recent macroeconomic deceleration (we take into consideration the G20 Manufacturing Production Index quarterly changes YoY) is impacting the Sales behaviour of the two companies (FANUC and OKUMA) which are leading players in the CNC's market.

Correlation between the evolution of Fanuc and Okuma top line with G20 manufacturing



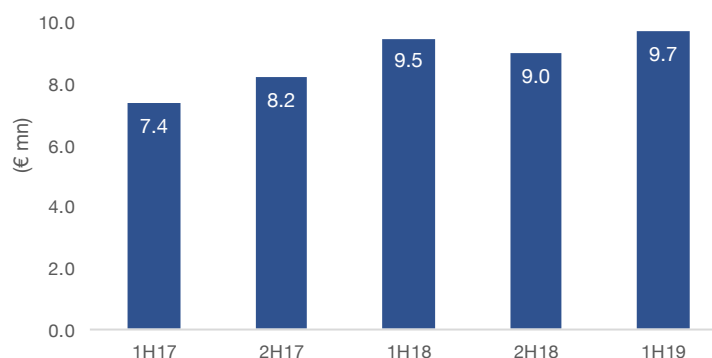
Source: Fanuc, Okuma, OECD, Value Track Analysis

2. Esautomation confirms its market penetration strategy

In a reference market decreasing double digit in value, Esautomation confirmed its willingness to maintain / progressively increase its market penetration, even if in the short term such an aggressive commercial policy might lead (and actually it led) to lower profitability.

Indeed, Total Revenues, i.e. **Value of Production, stood at €9.72mn, i.e. ca +2.5% YoY thus massively outperforming both Fanuc and Okuma performances.**

Differently from previous quarters, growth was more pronounced towards Italian clients (+10.8% YoY) than vs. foreign ones (-4.6% YoY) even if we remind that part of Esa's Italian clients are themselves exporters so we calculate that ca. 80% of total production is directly or indirectly accountable as "foreign" business.

Esautomation Group: Total Revenues evolution by semester in 2017-1H19 period


Source: Esautomation, Value Track Analysis

Esautomation: 1H18 vs 1H19 Total Revenues breakdown by geography

(€ '000)	1H18	1H19	Chg. % YoY
Rest of the World	2,429	2,876	+18.40%
Europe	2,662	1,980	-25.62%
Total Foreign	5,091	4,856	-4.62%
Italy	4,390	4,865	+10.79%
Total Revenues	9,481	9,721	2.53%

Source: Esautomation, Value Track Analysis

Esautomation: 1H18 vs 1H19 Foreign Revenues breakdown by geography

(€ '000)	1H18	1H19	Chg. % YoY
China	1,713	1,130	-34.03%
Turkey	658	851	+29.33%
San Marino	1,074	923	-14.06%
Spain & Portugal	615	768	+24.88%
Brazil	214	427	+99.53%
Other	817	757	-7.34%
Total Revenues	5,091	4,856	-4.62%

Source: Esautomation, Value Track Analysis

Esautomation: 1H18 vs 1H19 Total Revenues breakdown by category

(€ '000)	1H18	1H19	Chg. % YoY
Revenues from goods sold	9,166	9,268	+1.11%
Assistance	103	120	+16.66%
Reparations	198	179	-9.58%
Tax credit on IPO	-	65	n.m.
Tax Credit on Energy works	-	60	n.m.
Other revenues	14	29	+107.14%
Total Revenues	9,481	9,721	2.53%

Source: Esautomation, Value Track Analysis

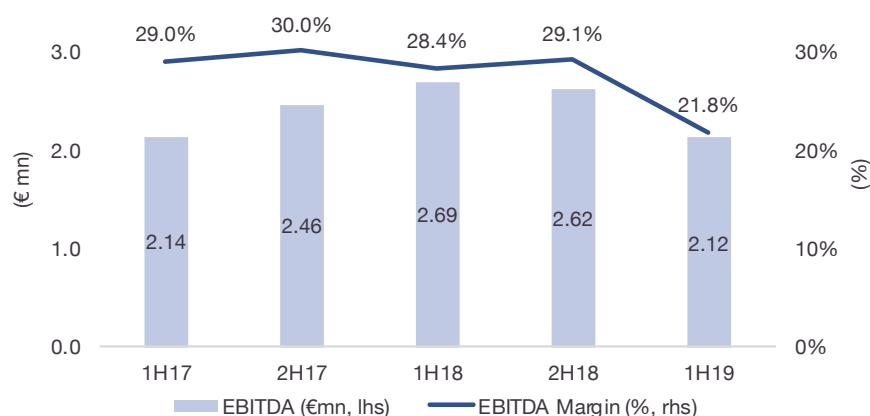
3. Profitability suffers from worse sales mix and from commercial aggressiveness

Esautomation clearly stated its strategy to “*preserve market share by expanding the product range sacrificing, however, given the economic situation, part of the marginality in favor of greater possible growth in the moment of near recovery, as happened in history of Esautomation.*”

Indeed, **while on the top line side Esa massively outperformed Fanuc and Okuma, on the contrary the performance at the profitability level was more in line with peers’ ones**, the financial reason of the decrease being twofold, i.e. 1) a worse product mix, 2) higher SG&A and labour costs. In details:

- ◆ EBITDA was down -19.5%YoY to ca. €2.05mn;
- ◆ If we adjust for one-off costs, we obtain EBITDA adjusted at ca. €2.12mn, -21.0%YoY and EBITDA Adj. margin down by some 660bps YoY to 21.8%;
- ◆ EBIT was down -31.6% YoY to €1.38mn;
- ◆ Net Profit was down -38.1% YoY to ca. €1.03mn.

Esautomation Group: EBITDA and EBITDA margin by semester in 2017-1H19 periods



Source: Esautomation, Value Track Analysis

4. Balance Sheet remains sound despite investments

The Balance Sheet structure remains sound, with ca. €6.5mn Net Cash position also thanks to the IPO proceeds that Esautomation cashed in back as of July 2018.

Esautomation: Balance Sheet structure evolution

€mn, IAS	1H18	2018YE	1H19
Net Working Capital	5.4	5.8	6.6
Net Fixed Assets	1.4	2.0	2.9
Provisions	0.3	0.3	0.3
Total Capital Employed	6.6	7.6	9.3
Group Net Equity	6.0	15.2	15.8
Net Fin Position [I.e. Net Debt (-) Cash (+)]	-0.6	7.7	6.5

Source: Esautomation, Value Track Analysis

As far as 1H19 Cash Flow generation is concerned, it was slightly negative, partly as a result of Working Capital seasonality and partly due to business development investments such as the refurbishment of the new headquarter / production facility and start-up costs of foreign branches.

Esautomotion: 1H19 vs. 1H18 Cash Flow Statement

€mn, IAS	1H18	1H19
EBITDA	2.54	2.05
Change in Net Working Capital	-1.21	-0.78
Capex	-0.50	-0.94
Change in Provisions	0.00	0.00
OpFCF b.t.	0.83	0.32
Cash Taxes	-0.32	-0.04
OpFCF a.t.	0.51	0.28
Other Items (incl. Fin. Inv.)	-0.91	-1.19
Net Financial Charges	-0.03	0.00
Dividends paid	-0.26	-0.33
Net Cash generated	-0.69	-1.12

Source: Esautomotion, Value Track Analysis

Updating 2019E-20E estimates

In 1H19 press release, the company has stated that for the next future it expects:

- ◆ **Top Line.** 2019 sales to continue the same level of growth while in 2020 there should be the positive impact of the acquisition of new strategic customers abroad already in the second half of the year with test installations and in 2020 with results in terms of sales volumes;
- ◆ **Profitability.** To partially recover compared to the first half of the year also thanks to the reduction of costs of goods sold driven by product re-engineering, procurement from more competitive suppliers and relocation of production. These elements should be limited in 2019E and material in 2020E
- ◆ **Balance Sheet.** Some elements of efficiency improvement in working capital.

That said, we are updating our **2019E-20E estimates** with respect to the previous ones published in our latest report back in April 2019, by **revising them downwards** in terms of Top Line by an average 10% and much more materially in terms of profitability, as we expect the cloudy macroeconomic and geopolitical scenario to improve only in a few quarters. Our new estimates are as follows:

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

€mn	2019E			2020E		
	Old	New	Change	Old	New	Change
Group Revenues	20.3	18.7	-7.9%	24.4	21.3	-12.8%
EBITDA	6.1	4.2	-31.8%	7.5	5.0	-33.1%
EBIT	4.5	2.8	-37.9%	5.7	3.2	-43.2%
Pre-tax Profit	4.6	2.8	-39.2%	5.8	3.3	-44.3%
Net Profit	3.5	2.1	-39.2%	4.4	2.5	-44.3%
OpFCF b.t.	4.4	1.90	-56.6%	5.5	3.00	-45.1%
Net Cash Position	10.5	7.67	-2.8	14.0	10.10	-3.9

Source: Value Track Analysis

More in details, our new 2019E-21E estimates are based on the following key points:

- ◆ Top Line growing single digit in 2019E and rebounding more vividly in 2020E-21E;
- ◆ Profitability ratios steadily improving from the current 1H19 low as the higher governance and structural expenses that the company is facing (hiring of managers, branches, abroad operations) should be progressively offset by cost of components decreasing as long as the recently signed partnership with Sangalli Servomotori for China based production ramps up.
Indeed, we remind that establishing a local presence in China means being able to purchase hardware components at lower prices. Reduced purchased costs should lead to lower production ones, and this should allow Esautomotion to become more and more competitive and to positively impact on operating profitability;
- ◆ Last but not least, we underline that 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 but we see this approval as not unlikely.

Esautomation: P&L evolution

€mn	2017A	2018E	2019E	2020E	2021E
Group Revenues	15.11	17.94	18.67	21.27	23.40
Revenues growth %	24%	19%	4%	14%	10%
Cost of sales	-8.92	-11.33	-12.50	-14.08	-15.30
As a % of Sales	-59.0%	-63.2%	-67.0%	-66.2%	-65.4%
Gross profit	6.19	6.61	6.17	7.19	8.09
Gross margin	41.0%	36.8%	33.0%	33.8%	34.6%
Labour costs	-1.59	-1.58	-2.00	-2.19	-2.40
Labour costs / Sales	-10.5%	-8.8%	-10.7%	-10.3%	-10.3%
EBITDA	4.60	5.03	4.17	5.00	5.69
EBITDA margin (%)	30.4%	28.0%	22.3%	23.5%	24.3%
EBITDA growth (%)	44.1%	9.4%	-17.1%	19.9%	13.8%
Depreciation & Amortization	-1.10	-1.27	-1.40	-1.75	-1.85
EBIT	3.50	3.77	2.77	3.25	3.84
EBIT margin (%)	23.2%	21.0%	14.8%	15.3%	16.4%
EBIT growth (%)	49.1%	7.5%	-26.5%	17.3%	18.1%
Net Fin.l ncome (charges)	-0.04	-0.10	0.00	0.10	0.20
Pre-tax Profit	3.46	3.67	2.78	3.25	3.96
Tax	-1.00	-0.67	-0.64	-0.78	-0.99
Tax rate (%)	-28.8%	-18.3%	-23.0%	-24.0%	-25.0%
Minorities	0.00	0.00	0.00	0.00	0.00
Net Profit	2.46	3.00	2.14	2.47	2.97
Net Profit growth (%)	56.8%	21.6%	-28.7%	15.6%	20.3%
Adjusted Net Profit	2.47	3.19	2.14	2.47	2.97

Source: Esautomation, Value Track Analysis

Esautomotion: Balance Sheet evolution

€mn	2017A	2018A	2019E	2020E	2021E
Working Capital	4.30	5.84	6.20	6.24	6.25
As a % of Sales	28.5%	32.6%	33.2%	29.3%	26.7%
Net Fixed Assets	1.29	1.99	3.03	2.65	2.80
Provisions	0.24	0.26	0.15	0.19	0.24
Total Capital Employed	5.35	7.57	9.08	8.70	8.80
As a % of Sales	35.4%	42.2%	48.7%	40.9%	37.6%
Shareholders' Equity	5.32	15.22	16.75	18.80	21.27
Minorities' Equity	0.00	0.00	0.00	0.00	0.00
Group Net Equity	5.32	15.22	16.8	18.8	21.3
NFP [i.e. Net Debt (-) Cash (+)]	-0.03	7.66	7.67	10.10	12.47

Source: Esautomotion, Value Track Analysis

Esautomotion: Cash Flow Statement

€mn	2017A	2018A	2019E	2020E	2021E
EBITDA	4.60	5.03	4.17	5.00	5.69
Working Capital Needs	-1.52	-1.55	-0.36	-0.04	0.00
Capex	-1.25	-1.84	-1.80	-2.00	-2.00
Change in Provisions	0.15	0.02	-0.11	0.04	0.05
OpFCF b.t.	1.98	1.67	1.90	3.00	3.73
Cash Taxes	-1.00	-0.67	-0.64	-0.78	-0.99
OpFCF a.t.	0.98	1.00	1.26	2.22	2.74
Capital Injections	0.00	7.91	0.00	0.00	0.00
Other Op. Items (incl. Fin. Inv.)	-0.29	-0.12	-0.74	-0.10	0.00
Net Financial Charges	-0.04	-0.10	0.11	0.10	0.13
Dividends paid	0.00	-1.00	-0.61	-0.43	-0.49
Net Cash generated	0.64	7.69	0.02	1.80	2.37

Source: Esautomotion, Value Track Analysis

Valuation

Esautomation within this particular scenario raises a critical issue on the most appropriate valuation methodology.

Indeed, on the one hand earnings momentum is weak because of the previously factors and therefore valuations based on 2019E earnings could be too penalising.

On the other hand, valuations based on Capital Employed and even DCF model provide a value not driven by the short-term earnings picture, but with a couple of weaknesses, i.e.:

- i) The news flow expected in coming months for Esautomation and the whole industry is likely to remain extremely volatile, as depends on USA-China commercial frictions and on macroeconomic stance, and
- ii) We have low visibility about Esautomation's long term profitability in the CNC business when its Chinese manufacturing plant will be up and running.

As a result, our valuation approach on Esautomation shares has to be based on the following points:

- ◆ Comparison with both international peers involved in the automation machine / CNC business (e.g. Renishaw, Fanuc, Okuma) and with domestic mid and small size companies that are involved in the high value added B2B hardware / software provisioning (e.g. Eurotech, Prima Industrie, El.En, Saes Getters). Please see the Appendix for a brief profile of these peers;
- ◆ Six-twelve months investment horizon. As such we are now moving forward our reference year for multiples calculation to 2020E (from previous 2019E);
- ◆ Calculation of our fair equity value averaging momentum driven criteria with “through the cycle” methodologies in order to capture both the intrinsic value of the company and its short-term investment profile.

Based on the above-mentioned assumptions and on the current market price, we calculate that Esautomation shares are trading at a 20% discount vs. a **fair equity value of €3.70 per share** (13% below our previous one and 27% higher than the €2.90 IPO Price).

Esautomation: Valuation Summary

	Fair Equity Value (€mn)	FairValue p.s. (€)
Peers' Analysis	43.2	3.30
DCF @ current debt structure	49.2	3.75
EV/IC Value Map	53.1	4.05
Average	48.5	3.70

Source: Value Track Analysis

At €3.70 fair value the company would trade at 1.80x EV/Sales, 7.7x EV/EBITDA Adj., 19.6x P/E Adj. based on 2020E forecasts.

Here below, we provide a sensitivity analysis of Esautomation Group stock trading multiples assuming a market price ranging between €3.10 and €4.30.

Esautomation: Sensitivity of implicit stock trading multiples in the €3.10 - €4.30 range

Share price (€)	EV / Sales (x)		EV / EBITDA ADJ (x)		P / E ADJ (x)	
	2019E	2020E	2019E	2020E	2019E	2020E
€ 3.10	1.76	1.43	7.9	6.1	19.0	16.4
€ 3.30	1.91	1.56	8.5	6.6	20.2	17.5
€ 3.50	2.05	1.68	9.2	7.2	21.5	18.6
€ 3.70	2.19	1.80	9.8	7.7	22.7	19.6
€ 3.90	2.33	1.93	10.4	8.2	23.9	20.7
€ 4.10	2.47	2.05	11.0	8.7	25.1	21.7
€ 4.30	2.61	2.17	11.7	9.2	26.4	22.8

Source: Value Track Analysis

Peers analysis

We take into account seven listed **comparables** for Esautomation, 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 .

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
Renishaw Plc	16.2	14.1	22.1	18.8	29.9	24.8	25.8	27.0
Fanuc	22.7	18.3	nm	25.2	nm	34.0	nm	20.9
OKUMA CORP	5.8	4.6	7.0	6.2	12.0	13.7	nm	7.0
Prima Industrie	5.9	5.2	14.0	11.1	22.3	12.2	8.9	11.3
SAES Getters	11.6	5.5	15.6	7.7	31.9	20.0	nm	3.0
Eurotech	12.5	10.2	15.5	12.2	18.4	15.8	14.9	13.7
El.en	9.5	8.2	11.4	9.9	18.7	16.8	13.3	15.6
Median	12.0	9.4	14.3	13.0	22.2	19.6	15.7	14.1
Average	11.6	8.2	14.8	11.1	20.5	16.8	14.1	13.7

Source: Market Consensus, Value Track Analysis

(*) OpFCF defined as (EBITDA-CAPEX)

(**) “nm” when multiple higher than 30x

Esautomation vs. international peers: Share price performance since ESA IPO



Source: FANUC, Okuma, Value Track Analysis

Taking into account the lower size of Esautomation and the lower liquidity of its traded shares, we believe that a small discount vs. peers' is to be applied thus leading to following "fair" multiples:

- ◆ 7-8x EV/EBITDA'20E;
- ◆ 10-11x EV/EBIT'20E;
- ◆ 15-17x P/E'20E;
- ◆ 11-12x EV/OpFCF'19E.

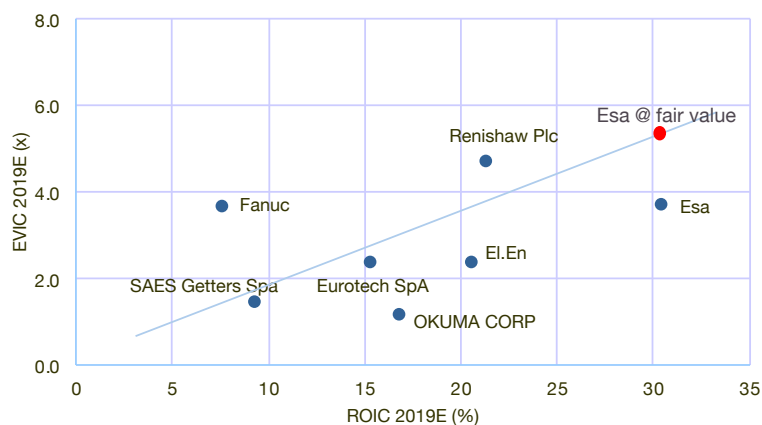
Applying the above mentioned "fair" multiples we obtain an average **€3.30 multiple based fair value per share.**

EV/Capital Employed value map

As far as EV/IC multiple vs. ROIC is concerned, the below highlighted value map underlines a positive (and quite steep) correlation among the various companies of the selected cluster.

Based on Esautomation's 2019E ROIC, such a correlation leads the company's fair EV/IC at ca. **5.0x EV/IC multiple**, hinting at a **fair value per share of ca. €4.05.**

Peers' 2019E EV/IC vs ROIC



Source: Market Consensus, Value Track Analysis

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:

- ◆ 2019FY as reference point;
- ◆ Explicit financial statements projections starting from 2020E fiscal year and arriving at 2027E;
- ◆ Terminal value at 2028YE obtained applying a 2% Perpetuity Growth Rate;

The result of our calculation is a **€3.75 per share DCF value**.

As a cross check, if we apply a target 30% Debt / Equity structure the DCF lead to ca. €4.44 fair value per share.

Esautomotion: DCF model

	Unlevered Capital structure (€mn)	Target Capital structure (€mn)
PV of future cash flows	19.0	24.0
PV of Terminal value	22.5	26.5
Fair Enterprise value	41.5	50.5
Implied EV/EBITDA '19E (x)	8.3 x	10.1 x
Net Fin. Position 2018YE	7.7	7.7
Fair Equity Value	49.2	58.1
Fair Equity Value per share (€)	3.75	4.44

Source: Value Track Analysis

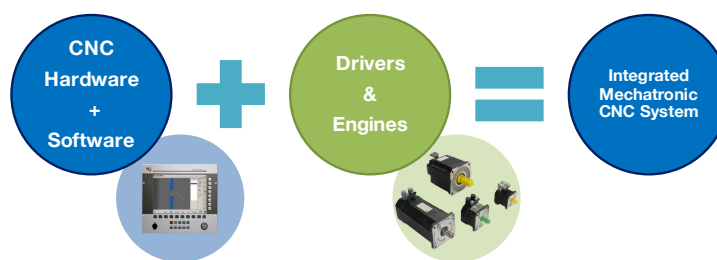
Appendix: A brief recap on Esautomation

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 Numerical 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 Esautomation 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, Esautomation 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

Esautomation 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 Esautomation 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.

Appendix: Profile of Esautomation peers

International Comparables – Business Profiles

Renishaw Plc

UK based player active in the design, manufacturing and marketing of advanced precision metrology and inspection equipment worldwide. The company supplies products and services used in applications as diverse as jet engine and wind turbine manufacture. It is also a world leader in the field of additive manufacturing (also referred to as metal 3D printing).

Fanuc Corporation

Japan based player involved in manufacturing and maintenance of computer numerical control (CNC) systems, lasers, robot systems, robomachines, roboshot, robocut and nano robots. It's one of the world leaders in the CNC field.

Okuma

Japan based player active in the production and commercialisation of machine tools, CNC controls, automation technology and servomotors. The company provides both products and after-sale service on a worldwide basis

Source: Various, Value Track Analysis

Italian Comparables – Business Profiles

Prima Industrie SpA

The company manufactures and commercializes laser systems for industrial applications and sheet metal processing machinery, through two business segments: 1) Prima Power, engaged in developing, manufacturing and marketing laser and sheet metal working machinery; 2) Prima Electro, specialized in embedded electronics, motion controls and CNCs.

SAES Getters SpA

The company is specialized in getters and other components for industrial applications where stringent vacuum conditions or ultra-pure gases are required. Its products are used in a wide range of industrial applications such as lamps, electronic devices, vacuum systems and semiconductors.

Eurotech

IoT player operating in the following segments: Nano PC and High Performance Computers. The Nano PC segment creates miniaturized computers for special uses in the form of an embedded board. The High Performance Computers segment designs and creates supercomputers for research institutions and computing centres.

EI.En

Group active in the production and distribution of laser systems. It operates through a Medical and an Industrial segment, where the latter specializes in several applications ranging from cutting, marking and welding of metals, wood, plastics, and glass to the decorating of leather and fabrics and the conservative restoration of artworks.

Source: Various, Value Track Analysis

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