

Innovatec

Sector: Industrial Services

Great, Good, Green Bet

Innovatec is a pure play in the cleantech industry, active in both Energy Efficiency and Environmental Services & Circular Economy. The stock is listed on Euronext Growth Milan (since 2013) but it got to the current Group structure only in 2021, following a restructuring within the wider Sostenya Group and further M&A.

Well-positioned in an extremely attractive sector

Innovatec is active in two extremely attractive businesses due to face massive growth: the combination of strong demand driven by sustainability themes and major Government support (at national and EU level) should drive Innovatec business in Energy Efficiency and Circular Economy well beyond our forecast horizon. We see Innovatec as a good mix in terms of value, growth and liquidity to play this major opportunity. Also, the Russia-Ukraine war and the strong need to make European economy independent of Russian gas now add a factor of urgency to EU energy goals: the prompt launch of the REPowerEU plan is a first strong action in this direction.

Top line and EBITDA +20%, EPS +55% CAGR into 2024E

We expect Innovatec to post strong growth (ca. 20% CAGR) in the next three years in terms of top line and EBITDA: by 2024E the Group should be 1.7x bigger than today and Circular Economy/recycling should represent 34% of revenues and 18% of EBITDA. Also, thanks to the increasing contribution of the Energy Efficiency business (requiring much less capital than waste treatment & disposal), EBIT and EPS should grow even faster (+50/+55% CAGR) and €36mn FCF should be generated by 2024E.

Major short term concern is execution

We see execution of the Business Plan and M&A discipline as the key issues in the short term: the Company needs to build a good track record to trigger a sustainable re-rating and needs to be active but extremely disciplined in M&A, as the industry is facing a phase of tremendous changes, concentration and innovation. Regulation and competition represent potential element of risk too, but we see these more as medium term issues.

Initiating coverage with €2.70 Fair Value per share

We initiate coverage on Innovatec with a fair equity value of **€2.70 p/s**, based on two main methodologies: **DFC model**, returning €3.1 value p/s and **peers' relative multiples**, returning €2.3 p/s value.

Furthermore, we see additional value creation opportunities not factored in management targets nor in our forecasts and valuation. A rolling valuation model suggests that a seamless execution of the business plan, could drive share value towards €3.8 p/s in the medium term.



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Fair Value (€) **2.70**
Market Price (€) **1.72**
Market Cap. (€m) **165.1**

KEY FINANCIALS (€mn)	2020PF	2021PF	2022E
GROUP REVENUES	161.2	222.4	274.6
EBITDA	18.1	30.4	41.2
EBIT	7.8	9.6	19.7
NET PROFIT	4.9	5.1	10.5
EQUITY	19.1	29.1	46.7
NET FIN. POS.	10.7	-3.5	-3.4
EPS ADJ. (€)	0.08	0.08	0.14
DPS (€)	0.00	0.00	0.00

Source: Innovatec (historical figures)
Value Track (2022E estimates)

KEY RATIOS	2020PF	2021PF	2022E
EBITDA MARGIN (%)	11.2	13.7	15.0
EBIT MARGIN (%)	4.8	4.3	7.2
NET DEBT / EBITDA (x)	nm	0.1	0.1
NET DEBT / EQUITY (x)	nm	0.1	0.1
EV/SALES (x)	1.0	1.0	0.8
EV/EBITDA (x)	8.8	7.0	5.2
EV/EBIT (x)	20.3	22.1	10.9

Source: Innovatec (historical figures)
Value Track (2022E estimates)

STOCK DATA

FAIR VALUE (€)	2.70
MARKET PRICE (€)	1.72
SHS. OUT. (m)	95.4
MARKET CAP. (€m)	165.1
FREE FLOAT (%)	55.0
AVG. -20D VOL. (#)	2,837.742
RIC / BBG	INC.IM / INC IM
52 WK RANGE (€)	0.58 -2.53

Source: Stock Market Data



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Executive summary

A pure Cleantech player: energy efficiency + environmental services

Innovatec is a pure play in the cleantech industry, active in both Energy Efficiency and Environmental Services & Circular Economy. The stock is listed on Euronext Growth (since 2013) but it got to the current Group structure only in 2021, following a restructuring within the wider Sostenya Group and further M&A. It reported 2021 revenues of €222mn on a pro-forma basis, of which €60mn in Energy Efficiency and €162mn in Environmental Services, €30mn EBITDA and a €3.5mn Net Financial Debt. So far in 2022 management has announced a further small but strategic acquisition and released the 2022E-24E Business Plan for the “New Innovatec”.

We initiate coverage with a fair value of €2.70 per share

We initiate coverage on Innovatec with a fair equity value of **€2.70 per share**, based on our explicit forecasts by averaging two main methodologies: **DFC model**, returning a €3.1 fair equity value per share and **peers’ relative multiples**, returning a value of €2.3 per share.

However, we see many positive additional growth opportunities not factored in our estimates, and this, together with a seamless execution of the business plan just released, could drive Innovatec shares to perform well beyond our forecasts and fair value in the medium term. On a **Rolling Valuation model** we estimate the share value may post a surge of over 2.2x in the next two years (from current mkt price of €1.73 p/s). At fair value the stock would trade at **1.1x-0.9x EV/Sales and 7.5x-6.5x EV/EBITDA over FY2022E-FY2023E**.

Sector extremely attractive: secular growth ahead and few plays around

Innovatec is active in two businesses and both appear extremely attractive and likely to face massive growth. The combination of **strong demand** driven by sustainability themes and major **Government support** (at national and EU level) should drive Innovatec business both in Energy Efficiency and Circular Economy **well beyond our forecast horizon**, as EU target for 2030 towards a “zero emission” and “zero waste” society are very challenging and will require massive investments. Despite the attractive environment, we see only few potential plays to invest in this theme and consider Innovatec a good mix in terms of value, growth and liquidity. Finally, we see the stock as a restructuring play, too, following the issues linked to financial stress and debt restructuring faced over last years, we expect good business execution to trigger further stock re-rating.

In addition, in the last weeks the **Russia-Ukraine** war has made clear that EU economies do need to become independent of Russian gas as soon as possible. This in turn implies that the medium term EU **energy goals have become much more urgent** - and this is even more the case for Italy, given its dependence upon gas imports. The EU Commission has just launched its **REPowerEU** plan to seek stronger energy suppliers’ diversification and to change gear in the development of renewable energy sources. In brief we may see the environment to become more favorable for players in the Energy Efficiency business and in renewable energy sources in particular, compared to just a few weeks ago.

Strong top line and EBITDA growth into 2024E

We expect Innovatec to post strong growth (ca. **20% CAGR**) in the next three years in terms of both **top line and EBITDA**: by 2024E the Group will be 1.7x bigger than today (2021 pro-forma). The key driver of the growth is the top line, while EBITDA margins are seen relatively flattish over the forecast period, due to i) decreasing contribution of the disposal business (landfills) in favour of recycle/circular economy (still much less profitable) and ii) normalizing profitability of the B2C Energy Efficiency business (HouseVerde), currently supported by extremely favorable fiscal incentive (110% Superbonus). By 2024 the Group Revenues and EBITDA will be almost equally split over the two BUs: ca 45% Energy Efficiency and 55% Environmental Services and **Circular Economy** and recycling activities will contribute to **34% of revenues and 18% of EBITDA by 2024E**.

EBIT and EPS due to accelerate further

As the contribution of the landfill business is expected to reduce, mostly in favour of recycling but even more in favour of the Energy Efficiency projects, which are the fastest growing part of the business, we expect a strong positive effect in terms of capital intensity. In fact in this business unit Innovatec operates as General Contractor, that requires little capital, and this will bring a material improvement in terms EBIT and net profit, which are seen to grow much faster than EBITDA: **+50% 3yrs CAGR for EBIT, +55% CAGR for EPS**. This change in business mix will also improve returns on capital and we forecast RoCE at 42% in 2024E (after tax).

Good FCF and plenty of reinvestment opportunities

The business growth described above will stop absorbing cash from next year (2023E) and we forecast **by 2024 the Group will generate ca. €36mn of free cash flow**, equal to 22% of its market cap.

While we do not expect management to use leverage in the next future, we reckon that it is likely they use this pile of cash and we see **substantial** value accretion coming from **opportunities not factored** in our estimates. Among these we mention

- ◆ Extension of Bedizzole landfill residual life;
- ◆ Direct financing from EU Green Deal and PNRR of Group's projects and industrial investments;
- ◆ Additional M&A, given recent track record to finalize accretive deals (post-synergies integration).

Repositioning and improved Corporate Governance

The news flow from Innovatec has materially intensified over the last months and we had the clear perception that the renewed BoD impressed **acceleration** on the launch of **new projects**, to selective **M&A** and to a step change in **Corporate Governance**.

All this has come following the completion of the restructuring of larger Sostonya Group and Innovatec debt and in combination with the Government approvals of significant resources - PNRR and other EU and national funds – in favour of the industries where the “New Innovatec” operates.

So far in 2022, Innovatec management undertook two key steps towards an improved corporate governance and transparency relative financial markets and minorities: 1) a private placement reserved to a group of primary **institutional investors** through an accelerated book building process in January 2022; 2) the presentation to the financial community of the “New Innovatec” 2022-2024 **Business Plan**, with the commitment for an active investor relation policy.

Key Concerns

Key Concerns #1: Execution risk

The major risk for the stock at the moment lays in our view in the **execution of the Business Plan** and in the **M&A discipline**: the Company needs to build a good track record in terms of execution to trigger a sustainable re-rating and needs to be active but extremely disciplined in M&A, as the industry is facing a phase of tremendous changes, increasing concentration and technological innovation. Last but not least, the financial discipline has to be spotless to avoid any financial stress, also considering that these businesses are directly or indirectly regulated and, as such, they are subject also to external risks (not only opportunities, as PNRR funds).

Key Concerns #2: Increasing pressure from larger players

The Company is currently operating in a situation of very limited competition on both businesses. However, we might have a deterioration of the competitive scenario as long as concentration increases, large players enter the arena and the positive effects of fiscal incentives diminish. While we believe this to be a **medium term issue**, it may affect Innovatec strategy also in the next years as for the M&A, as the increasing appetite of large players (as the listed multi-utilities) could make increasingly difficult to finalize highly accretive acquisitions.

Valuation

We are starting coverage on Innovatec (INC) at a fair **€2.70 equity value per share**, emphasizing that given the many positive additional growth opportunities not factored in our estimates, **INC shares may perform well beyond our forecasts and fair value in the medium term**. In this case we estimate the share value may post a surge of over 2.2x in the next two years (from current mkt price). However, these opportunities (described further below) bring also a lower visibility and higher execution risks and are not factored in our fair value at this stage.

Based on our explicit forecasts and on shorter-term and more visible catalysts, we calculate a fair equity value per share of €2.70, by averaging two main methodologies:

- ◆ **DFC model**, with rolling WACC and 7.2x TV/EBITDA exit multiple, returning a **€3.1** fair equity value per share;
- ◆ **Peers' analysis**, considering both energy efficiency and waste management Italian and international players, returning a **€2.3** fair equity value per share.

At fair value INC stock would trade at **1.1x-0.9x EV/Sales and 7.5x-6.5x EV/EBITDA over FY2022E-FY2023E**.

Innovatec: Sensitivity of implicit stock trading multiples between €1.8 and €3.6 share price

Equity Value p/s	EV / Sales (x)		EV / EBITDA (x)		EV / EBIT (x)		P / E (x)	
	2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E
€ 1.8	0.8	0.6	5.4	4.6	11.3	8.0	16.4	11.4
€ 2.1	0.9	0.7	6.1	5.2	12.7	9.0	19.2	13.2
€ 2.4	1.0	0.8	6.8	5.9	14.2	10.1	21.9	15.1
€ 2.7	1.1	0.9	7.5	6.5	15.7	11.2	24.7	17.0
€ 3.0	1.2	1.0	8.2	7.1	17.1	12.3	27.4	18.9
€ 3.3	1.3	1.1	8.9	7.7	18.6	13.4	30.1	20.8
€ 3.6	1.4	1.2	9.5	8.4	20.0	14.4	32.9	22.7

Source: Value Track Analysis

Discounted Cash Flow Model

Our model returns a **€3.1 fair equity value per share** and derives WACC from the Capital Asset Pricing Model approach, relying on the following assumptions:

- ◆ 2.0% risk free rate in line with medium / long term target inflation;
- ◆ 0.7 unlevered Beta (weighted average between INC two business lines) and 6.4% Equity Risk premium (Damodaran online web site);
- ◆ 1.0% small/mid cap additional risk premium;
- ◆ 3.0% after-tax cost of debt implicitly calculated taking into account the above-mentioned 2.0% risk free rate, a 2.0% credit spread and 24% corporate tax rate;

Hence, we calculate a 7.5% WACC, equal to INC cost of equity, as our free-cash flows calculation starts from 2023E, when the Group Net Financial Position is expected to turn positive.

For the terminal value, we applied an exit 7.2x TV/EBITDA multiple to INC EBITDA 2030E, in line with peers' "normalized average", i.e. prior to recent stock markets' weakness following the Russian-Ukraine war.

In addition, it is worth to mention that our model includes additional liabilities for €46.7mn , linked to the cost of minorities (namely Vescovo Romano as well as Cobat and SEA – for these the values are in line with agreements announced on the date of publishing the present report) and the costs for the closure/post closure of the landfill business (in line with allocations in the balance sheet).

Innovatec: DCF model outcome

	€mn
PV of future cash flows FY23E-FY30E	145.3
PV of Terminal Value @ 7.2x TV/EBITDA FY30E	198.8
Fair Enterprise Value	344.0
Net Financial Position FY22E	-3.4
Minorities and other liabilities	-46.7
Fair Equity Value	293.9
NOSH (mn)	95.4
Fair Equity Value per share (€)	3.1

Source: Value Track Analysis

Innovatec: DCF model sensitivity to WACC (%) and TV/EBITDA exit multiple (x)

Equity Value p/s (€)		TV / EBITDA				
		6.4x	6.8x	7.2x	7.6x	8.0x
WACC	6.5%	3.1	3.2	3.3	3.4	3.6
	7.0%	2.9	3.1	3.2	3.3	3.4
	7.5%	2.8	3.0	3.1	3.2	3.3
	8.0%	2.8	2.9	3.0	3.1	3.2
	8.5%	2.7	2.8	2.9	3.0	3.1

Source: Value Track Analysis

Peers' analysis

Peers' analysis leads to **€2.3 fair equity value per share** based on 6.7x-5.7x EV/EBITDA FY2022E-FY23E fair trading multiples, in line with relative valuation currently displayed by Italian and international comparables. It is worth to notice that the same average EV/EBITDA in the day prior to the Russian invasion of Ukraine were 7.2x-6.2x for FY2022E-FY23E respectively.

Choice of comparables

Innovatec operates in a significantly fragmented reference market, where leading players boast different geographical exposure, size and value chain coverage, and where most of them do not share a fully aligned business model to INC end-to-end offer in the cleantech industry, i.e. for industrial and retail clients in both energy efficiency and environmental protection / circular economy.

Hence, we selected two pools of comparables, both international and domestic, specialized in one or more of Innovatec activities but with a different mix of businesses and clustered between:

- ◆ **Energy Efficiency** (“EE”) solutions providers, including:
 - (i) Industrial engineering, procurement, construction (“EPC”) services suppliers, active in the development of energy savings projects and/or the installation of renewable energy plants (e.g. photovoltaic, biomethane);
 - (ii) Italy-based companies specialized in design, provision and maintenance of sustainable and high-quality real estate assets (such as windows, frames and exterior walls) supported by the strong demand for buildings renovations related to Italian energy efficiency fiscal incentives;
- ◆ **Environmental Services** (“ES”) providers, focused on circular economy and environmental-friendly systems, engaged in industrial, organic, hazardous waste collection, sorting, treatment, disposal processes and, most importantly, reconversion into secondary raw materials.

Innovatec: Peers clusters

Energy Efficiency	Country	Mkt cap (€mn)	2022E Revenues (€mn)
EdiliziAcrobatica	Italy	109.7	109.5
Sciuker Frames	Italy	170.3	124
Nusco	Italy	23.7	24
A.B.P. Nocivelli	Italy	106.0	65
Comal	Italy	35.4	55
Renergetica	Italy	50.9	14
ESI	Italy	22.2	21
Agatos	Italy	10.7	43
Inspired	UK	133.4	86
Arcadis	Netherlands	3378.8	3520
Spie	France	3158.8	7653
Environmental Services	Country	Mkt cap (€mn)	2022E Revenues (€mn)
Seri Industrial	Italy	388.8	262
Ambienthesis	Italy	152.9	175
Mo-Bruk	Poland	287.5	57
Renewi	UK	539.2	1893
Biffa	UK	1084.0	1763
Séché Environnement	France	488.3	857
Pizzorno Environnement	France	126.6	209
Lassila & Tikanoja	Finland	417.3	830

Source: Various, Market Consensus (Stock prices as of 09-03-22), Value Track Analysis

Among our picks (detailed description in the Appendix), we underline Innovatec similarity with **Ambienthesis**, representing the closest comparables in terms of size, location and business, covering both the energy efficiency and environmental services revenues streams.

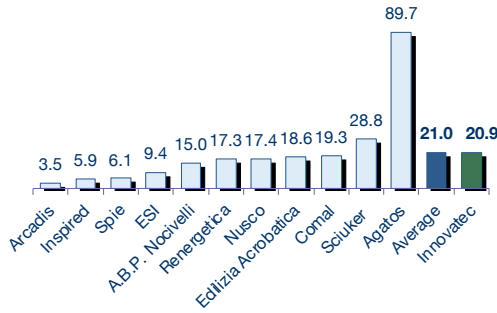
Innovatec vs. Peers: operational and financial benchmark

Comparing Innovatec key financial ratios with those expected by its peers, we note the following differences and similarities:

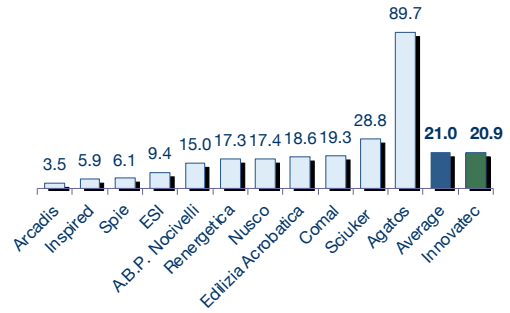
- ◆ **Size** (Sales FY2022E). Among our selection there is high dispersion in terms of sales size, with Italian companies (energy efficiency and waste management clusters) at average €90mn and international groups approaching €1.9bn on average (highly influenced by Spie €7.7bn and Arcadis €3.5bn). For **Innovatec**, we expect FY22E sales at ca.€275mn, hence **closer to Italian peers** (especially Ambienthesis and Seri Industrial) and to international groups reporting revenues below €400mn (e.g., Pizzorno Environnement);
- ◆ **Sales growth** (CAGR_{FY2021E-FY23E}). EE players feature a more interesting sales growth profile, with average CAGR_{FY2021E-FY23E} at 21.0% (14.1% net of Agatos, characterized by a much smaller size) compared to 7.2% of environmental services providers. Surely the average value is boosted by Italian groups, whose business focused on buildings renovation is heavily supported by energy efficiency fiscal bonuses. Remarkably, **Innovatec** displays a 20.9% growth rate, **above the average values of both clusters**;
- ◆ **EBITDA growth** (CAGR_{FY2021E-FY23E}). At EBITDA level, once again EE companies show better growth rates than waste management services providers (19.9% vs. 11.0%), with Argan and Comal being the US and Italian EPC leaders at 55.4% and 42.4%, respectively. On the waste management side, Seri Industrial boasts a 52.3% CAGR_{FY2021E-FY23E}, well above other peers' and thanks to a new production plant expected to rump up between FY22E-23E. **Innovatec** value is **above average**;
- ◆ **EBITDA margin** (FY2022E). We report average 19.3% and 15.5% EBITDA margins for EE and ES (excluding the outlier Mo-Bruk) companies, respectively. **Innovatec shows a 15.0%** FY22E EBITDA margin, **at the low end** mostly due to the new business in Circular Economy reporting single digit EBITDA margin;
- ◆ **Financial leverage** (Net Debt / EBITDA FY2022E). Analyzing leverage ratios, we note that out of the two clusters, ca. 62% of EE providers and almost all ES companies (except for Mo-Bruk) are forecasted to record a Net Debt Exposure as of FY22E. Average leverage values are at 1.6x and 2.1x, respectively, while Innovatec should display a 0.1x multiple on EBITDA;
- ◆ **ROCE** (before taxes, FY2022E) of peers materially differs, ranging from 9.2% of Seri Industrial to over 100% of ESI. However, we find out that thanks to their "lighter" business model, EE groups outline better indicators of operating profitability, with return on capital employed in the mid-/high-double digit region. Net of ESI outstanding ROCE, **Innovatec is among the best-performing** companies considering the whole pool, with a 39.2% value.

Innovatec: operational benchmark vs. Energy Efficiency providers

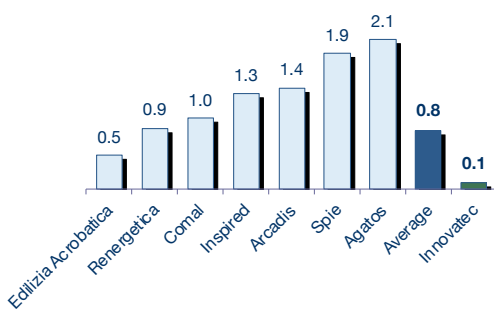
2yrs Sales CAGR FY2021E-FY23E (%)



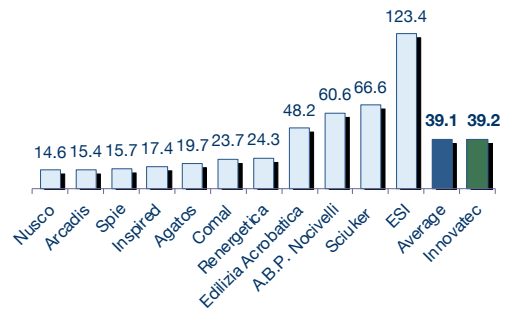
2yrs EBITDA CAGR FY2021E-FY23E (%)



Net Debt / EBITDA FY2022E (%)



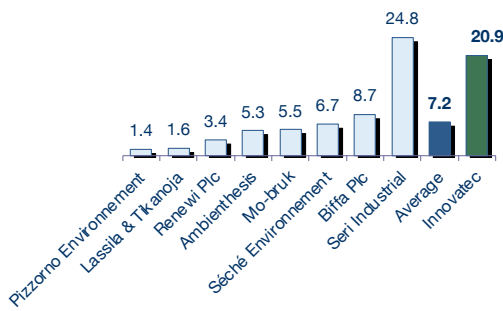
ROCE (b.t.) FY2022E (%)



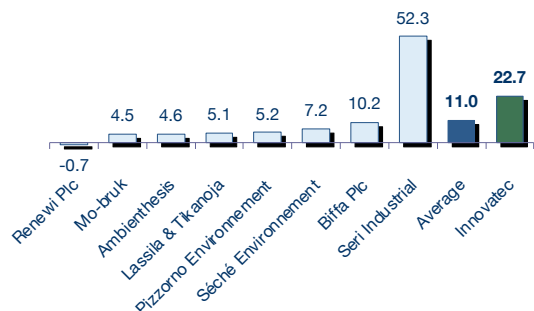
Source: Market Consensus, Value Track estimates and analysis

Innovatec: operational benchmark vs. Environmental Services providers

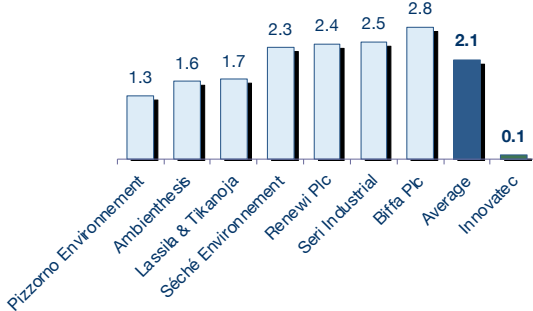
2yrs Sales CAGR FY2021E-FY23E (%)



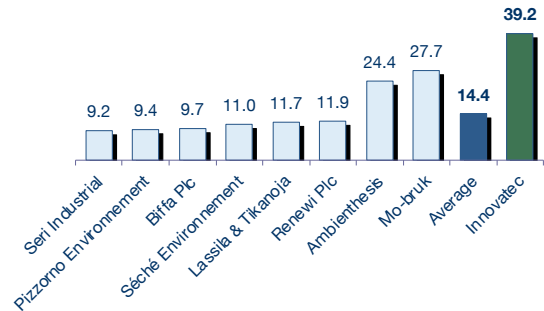
2yrs EBITDA CAGR FY2021E-FY23E (%)



Net Debt / EBITDA FY2022E (%)



ROCE (b.t.) FY2022E (%)



Source: Market Consensus, Value Track estimates and analysis

Innovatec: Peers' key financial ratios

Peers' Clusters	Sales 2022E (€mn)	CAGR 2021E-23E (%)		EBITDA Margin (%)		Capex / Sales (%)		ROCE b.t. (%)	
		Sales	EBITDA	2022E	2023E	2022E	2023E	2022E	2023E
Energy Efficiency – Average	1,065.0	21.1	18.5	19.5	19.3	3.8	2.4	41.6	47.4
Energy Efficiency – Median	65.0	17.3	15.3	16.7	16.7	4.0	2.4	38.5	44.5
Environmental Services – Average	755.7	7.2	11.0	20.9	21.2	8.1	6.9	14.4	15.7
Environmental Services – Median	546.0	5.4	5.1	15.3	16.2	7.1	6.6	11.3	12.5
Total Average	934.8	15.2	15.2	20.1	20.1	5.6	4.3	30.2	33.3
Total Median	124.5	8.7	10.3	15.6	16.7	4.8	2.3	17.4	21.8
Innovatec	274.6	20.9	22.7	15.0	14.1	7.6	5.4	39.2	46.5

Source: Market Consensus, Value Track Analysis

Innovatec vs. Peers: stock trading multiples benchmark

As far as peers' trading multiples, we point out a low dispersion between the two clusters despite the marked differences in terms of operational benchmarking, suggesting that the stock market is not rewarding energy efficiency companies for their superior growth rate, profitability, and lower leverage levels and/or is attributing a scarcity premium to waste management providers.

Indeed, the clusters trade at very similar multiples, with overall average 1.4x-1.2x EV/Sales, 6.7x-5.7x EV/EBITDA and 14x-11.3x P/E FY22E-FY23E.

Still, we spot major differences at EV/OpFCF level, with waste management players displaying better multiples than energy efficiency providers, probably due to the higher capital expenditures requirements dragging down OpFCF.

Innovatec: Peers' stock trading multiples

Peers Cluster	Market Cap (€mn)	EV / Sales (x)		EV / EBITDA (x)		EV / OpFCF (x)		P / E (x)	
		2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E
Energy Efficiency - Average	654.5	1.3	1.1	6.6	5.5	8.7	6.3	12.7	10.3
Energy Efficiency – Median	106.0	1.0	0.8	5.8	4.7	7.7	5.7	12.1	10.3
Discount (-) / Premium vs. Total Average	16%	-5%	-9%	-1%	-4%	-21%	-24%	-9%	-9%
Environmental Services - Average	435.6	1.5	1.3	6.8	6.0	14.0	11.1	15.8	12.6
Environmental Services - Median	403.1	1.1	1.0	6.1	5.7	13.1	10.7	12.3	11.2
Discount (-) / Premium vs. Total Average	-23%	7%	13%	2%	5%	28%	33%	12%	12%
Total Average	562.3	1.4	1.2	6.7	5.7	10.9	8.4	14.0	11.3
Total Median	152.9	1.0	0.8	5.9	5.5	10.3	7.5	12.1	11.0
Innovatec @ current mkt price	165.1	0.8	0.6	5.2	4.5	10.6	7.2	12.6	9.3

Source: Market Consensus (Stock prices as of 09-03-22), Value Track Analysis * OpFCF computed as (EBITDA-Capex)

Detailed key financial ratios and stock trading multiples for each peer can be found in the Appendix.

Innovatec “fair” multiples

On the back of our operational and multiple comparisons and considering the two different clusters of peers, we believe fair to apply a no discount or premium to Innovatec “fair” multiples, as we see both adverse and favourable characteristics of INC financial profile relative to its peers:

- ◆ Smaller size both in terms of revenues and market capitalization;
- ◆ Slightly smaller profitability, however in line with waste management providers.

BUT

- ◆ Booming growth rates both at top line and EBITDA, well above the averages of both clusters;
- ◆ Much safer leverage profile (0.1x Net Debt/EBITDA 2022E) coupled with expected positive free cash flow generation over the next years;
- ◆ Superior (and further improving) return on capital employed despite the heavy investment plan already started;
- ◆ Additional growth opportunities (see next section) not yet factored in our estimates that could further boost Innovatec growth.

Therefore, we are valuing INC stock at 6.7x-5.7x EV/EBITDA for FY22E-23E, in line with peers’ total average, and getting a €2.3 fair equity value per share. As for the DCF model, we consider in our valuation also additional liabilities, which are linked to the cost of minorities (namely Vescovo Romano, Cobat and SEA) and the costs for the closure/post closure of the landfill business (as reported in the Company’s accounts).

Innovatec: Valuation at fair multiples (EV/EBITDA)

€ mn	2022E	2023E
Fair Multiple EV/EBITDA(x)	6.7	5.7
Innovatec EBITDA	41.2	45.8
Fair Enterprise Value	276	261.1
Net Financial Position	-3.4	6.8
Minorities and other liabilities	-46.7	-45.7
Fair Equity Value	225.9	222.2
NOSH (mn)	95.4	95.4
Fair Equity Value per share (€)	2.34	

Source: Value Track Analysis

What about longer term?

We could say that our €2.7 fair value per share is a base-case scenario, as we do not rule out substantial value accretion coming from additional growth opportunities not factored in our estimates, including:

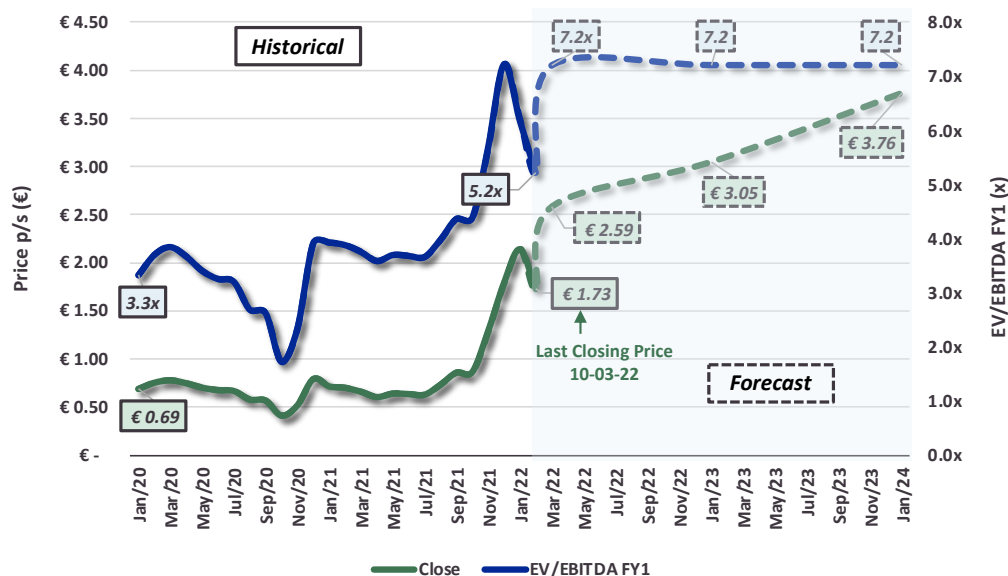
- 1. Extension of Bedizzole landfill residual life**, as these projects are subject to authorization process at this stage this event is not considered. However, this project could be extremely attractive given the high returns of landfills' assets.
- 2. Direct financing from EU Green Deal and Italian PNRR**, more specifically our forecasts are based on the boost expected by Government funds to final demand in Energy Efficiency and Circular Economy, but do not factor the benefit of the potential direct funding of Innovatec's projects and industrial investments. It is still unclear how much INC could intercept from these funds, but they certainly represent another element for potential business development.
- 3. Cash pile reinvestment for additional M&A**. Indeed, combining current cash available and the strong free cash flow generation over the next 3 years, Innovatec should enjoy ca. €35mn (excluding operational cash needs) worth of cash that could be reinvested for further M&A. Given management team recent track record to finalize accretive deals (post-synergies integration) we expect additional value creation could come from this side.

In order to evaluate the medium term share value potential of a seamless execution of the Business Plan 2022-24E and of Innovatec management ability to reap the above-mentioned opportunities, we have run a **Rolling Valuation model**.

This is based on the assumption that under the above conditions it is reasonable to expect the stock to maintain a valuation multiple of at least 7.2x EV/EBITDA, in line with peers' FY2022E recent/pre-Ukraine war average, and would translate into a **€3.76 value per share in two years time (early 2024E)**.

This implies ca. 2.2x two-year cash-on-cash return on current market price (€1.73 p/s as of 09-03-22).

Innovatec: Rolling Valuation - Trend of share price and EV/EBITDA FY1



Source: Value Track Analysis

Business Description

Innovatec is a leading player in the CleanTech Italian business with a focus on two main industries: Energy Efficiency and Environment & Circular Economy. With its ability to react swiftly to changing legislation and competitive outlook while continuing to seize new market opportunities, its extensive know-how cumulated over many technologies and client base, its 2021E €222mn revenues and 260 employees, Innovatec can act across the whole value chain in the field of sustainability, by leveraging its "sustainable by nature" business model and fully integrated business strategy.

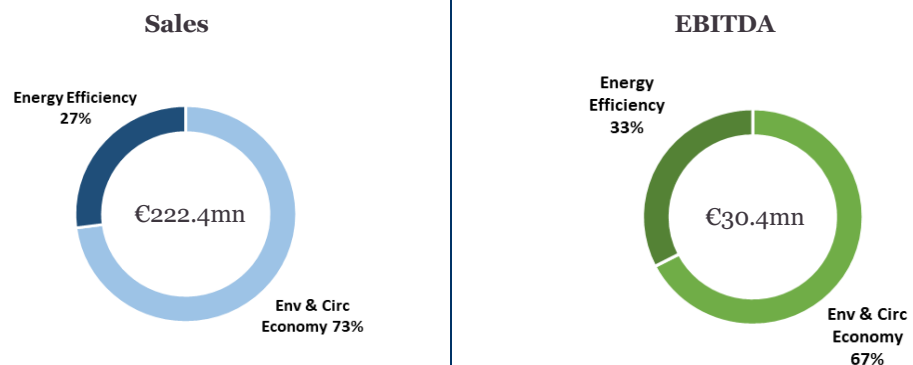
A national champion who bets it all on sustainability

With **2021 Pro-forma Group Revenues and EBITDA at €222.4mn and €30.4mn** respectively, Innovatec is one of the main Italian players in the energy efficiency and environmental sector.

It operates in two main markets:

- ◆ **Energy Efficiency (EE);**
- ◆ **Environment & Circular Economy**, a business that can be broadly split into
 - Environmental Services
 - Circular Economy.

Innovatec: Sales and EBITDA by business units - 2021P (Pro-forma)

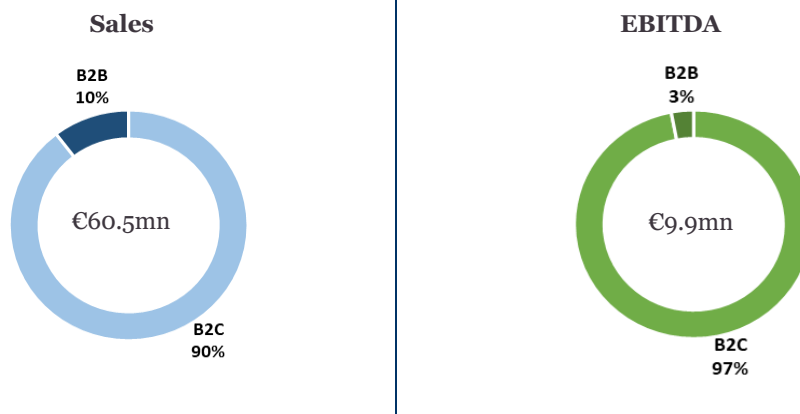


Source: Innovatec, Value Track Analysis

Business Unit #1 - Energy Efficiency

As for the energy efficiency business, it accounts for ca. 27% of the Group's total revenues and within this business unit, Innovatec focuses on two core segments: B2B and B2C, with an expected increasing involvement in the Public Administration segment going forwards. At the moment we estimate that most of the BU profitability is linked to the B2C activities, albeit these are recent as they were launched in 2020 following the introduction of Government fiscal incentives (e.g. Superbonus 110%).

Innovatec: Energy Efficiency by client segment - 2021P (Pro-forma)



Source: Innovatec, Value Track Analysis

B2B (€6mn revenues in 2021P)

For Innovatec, serving the B2B market translates into two main measures: on the one hand, offering this segment a reduction in energy consumption and, on the other hand, making the energy consumed by B2B customers less expensive.

In this segment, Innovatec serves its customers with a value proposition that includes five steps:

1. **“As is” Analysis.** Innovatec performs an energy consumption analysis of companies that use energy, fossil fuels, and coal to define the "as is" scenario.
2. **Energy Efficiency.** Innovatec, after having defined the "as is" situation of the company, deals with the design, installation, and management of technological solutions to improve energy efficiency (e.g. cogeneration/trigeneration systems, PV).
3. **Contractual Analysis.** Innovatec can define with the customer different types of contracts to recover resources and/or reduce the purchase price of resources.
4. **”Renewable” Sources.** Employing different types of solutions such as solar thermal plants, wind power plants or biogas/biomethane plants, Innovatec can improve the sustainability of its clients’ processes through independent renewable energy production;
5. **Monitoring Consumption.** The company also provides services such as monitoring and identification of the company's energy profile, general energy consulting services, and various types of energy certifications such as ISO 5001 and access to incentive mechanism (TEE).

Despite this business is an historical area of activity of the Company, its performance over the past decade has been quite volatile, heavily driven by Government incentives (e.g. the Green House project) and its current size and profitability (see chart above) appear unattractive. However, if on the one hand this “opportunistic” approach has caused volatile financial results so far, it has also allowed the company to build a very reactive team and a specific know-how that spans from wind to solar plants, from co/trigeneration to biomass technologies.

The B2B Energy Efficiency unit today represents the smallest segment in terms of revenue, but it is set to grow at a healthy pace in the coming years, fuelled by the energy transition activity introduced by Italy's PNRR: this time the investment cycle - to boost the solar power capacity in particular - is due to last for well over a decade.

B2C (€54mn revenues in 2021P)

Innovatec's value proposition, for this segment of business is to ensure the completion of renovation projects by taking advantage of Italian incentives to allow customers to upgrade their energy efficiency category and/or to reduce their seismic risk.

The current project in place is *Houseverde*, a project launched in 2H 2020 and based on the Italian “Relaunch Decree”, issued to assist with the recovery of the Italian economy, following the shock of the covid-19 pandemic. The legislation introduced tax credits, called “Super bonus”, intended to cover 110% of the costs of projects aimed at improving the energy efficiency and reducing the structural seismic risk of Italian properties. These incentives were initially related to works incurred from 1 July 2020 until June 2022, but more recently the Super bonus was extended well beyond initial horizon in terms of duration and addressable market and gradually reduced in terms of eligible amounts.

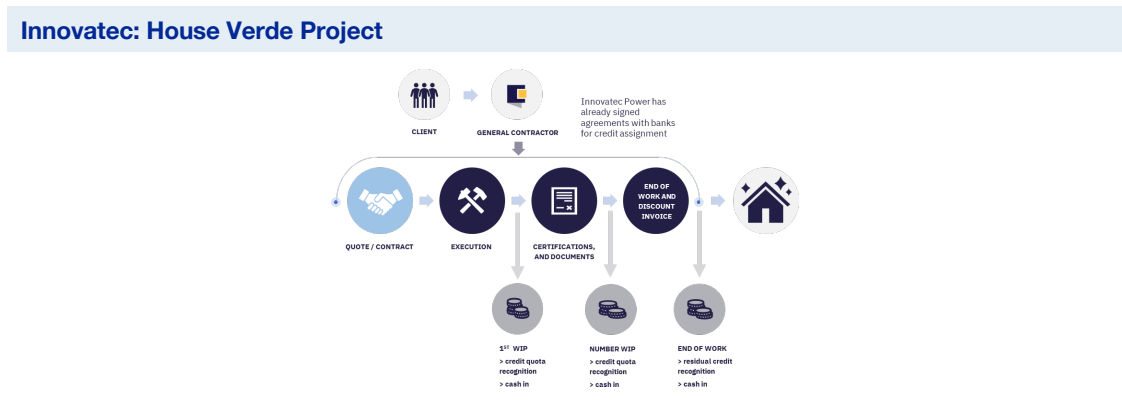
As of today and broadly speaking the Super bonus runs until 31 December 2025, in the following sizes:

- ◆ 110% for expenses incurred up to 31 December 2023;
- ◆ 70% percent for expenses incurred in 2024;
- ◆ 65% percent for expenses incurred in 2025.

Incentives for single-family houses are limited to December 2022 and for the Public Housing sector (Edilizia Residenziale Pubblica) to Dec 2023. However, additional funds have been allocated to public housing over 2022-2026.

Fiscal credits awarded upon completion of projects can be directly received and then cashed or discounted by the contractor, hence avoiding any cash-out for the owner of the building. The Italian Government has introduced in January 2022 certain limits to multiple discounting of these fiscal credits (to improve transparency and traceability) but these changes are not relevant to Innovatec, as it already signed specific agreements with leading banks for the fiscal credits’ discount.

In this project, Innovatec plays the role of global contractor, as shown below.



Source: Innovatec

The value proposition is very simple and effective:

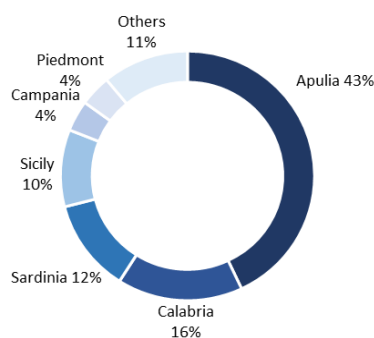
- ◆ First of all, Innovatec makes contracts with its client (the real estate owner/s) where it assumes the role of General Contractor, facilitating the execution of the technical work at no cost to the client, ensuring a single counterpart for all activities required by the project;
- ◆ Second, Innovatec receives the fiscal credit (equal to 110% of the value of the project) in few steps, according to the progress of works;
- ◆ Then Innovatec, through agreements with its partner banks, gradually discounts these Government credits, which typically banks discount at ca 8%. Hence, Innovatec is left with a

102% of project’s value, or a 2% margin to cover the costs of “red tape”, on top of its industrial margin on the project.

There are a few very positive features in this business, namely

- ◆ The average profitability of these projects is quite good and well above the B2B segment, as demand is extremely strong compared to available offer and execution capacity in most Italian regions;
- ◆ As of October 2021, 85% of Innovatec's contracts were located in Southern Italy, reflecting the national picture, driven by the “low income requirement” in the initial phase of the "Superbonus". Since the low income requirements have been removed, we expect situation to rebalance nationally and demand in Northern Italy to grow.
- ◆ The credit risk in this business, despite being a B2C activity, is closed to zero in this moment and we may assume it will only gradually increase as long as fiscal incentives fall from 110% to 65% of the projects’ value;
- ◆ Innovatec, as a pure Global Contractor, has virtually no fixed capital and fixed costs and also in terms of working capital, the project’s requirements are low, as the company pays subcontractors with a delay that covers the time needed to collect and discount incentives from the Government.

Innovatec: House Verde Project - Contracts by region (as of October 2021)



Source: Innovatec

As of Dec 2021 Innovatec could boast ca. 400 customers, with a total amount of orders collected around €134mn plus additional €95mn of potential orders (to be verified and finalized). We estimate that that only €60mn of these orders have been invoiced and reported in Innovatec revenues in the last five quarters (i.e. from Q4 2020 to Dec 2021). This clearly suggests a very good visibility in terms of revenues for the whole FY2022 and 1H 2023, but we believe the driving force of fiscal incentives is likely to be felt well beyond our forecast horizon.

Business Unit #2 - Environment & Circular Economy

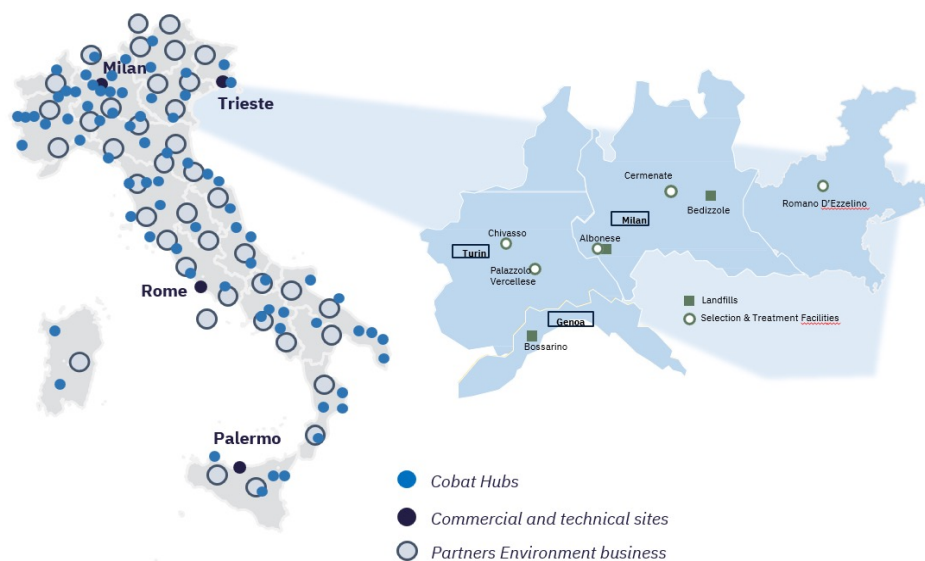
Innovatec’s subsidiary GreenUp is active in the Environmental Services since long time, despite until 2020 it was part of the “larger” Sostenya Group. On the contrary, the company’s focus on circular economy in a stricter sense is more recent and comes via two acquisitions: Cobat (Dec 2021) and SEA (Jan 2022). Yet, one could argue that the acquisition of Vescovo Romano – the paper and carton board recycling subsidiary acquired in 2020 via GreenUp – was the first step in the direction of circular economy.

Environmental Services

This subsector accounts for approximately 32% of the 2021 Pro-forma sales. Here the company serves the so-called “special waste (non hazardous) producers”, a client base of ca 1,600 corporates (excl. Cobat) around the country, that includes mostly mid/large corporates across several end-markets, including many national leaders in manufacturing and service industries.

Innovatec provides them environmental services at every step of the cycle, ensuring cost efficiency and flexibility and the opportunity of dealing with one single counterpart for all their environmental needs. The company - leveraging 5 sorting & treatment plants, 5 biogas plants, 2 PV plants and 3 landfills - operate directly in the Northern regions, with an unrivalled presence in Lombardy and Piedmont, but reach a national footprint through a flexible and mostly outsourced model.

Innovatec: Geographical presence



Source: Innovatec

More specifically Innovatec follows its clients in four main activities:

1. **Collection/Transportation.** With 100 proprietary vehicles and many more third-party collectors, Innovatec handles transportation to the selection, treatment plants and landfills.
2. **Sorting & Treatment.** By relying on 5 selection and treatment plants, Innovatec first selects and compacts the materials into recoverable and non-recoverable items. Of the total sorted materials, ca. 70% are treated internally and the remaining 30% follows its disposal or further treatment process outside the group.
3. **Disposal.** The portion of internally managed waste labelled as “non-recoverable” in the previous phase is sent to one of the 3 landfills that Innovatec owns/manages for permanent disposal.
4. **Recycle/Recovery.** The portion of internally managed waste labelled "recoverable" is either recycled (and hence resold as secondary raw material) or used to produce heat or electricity (e.g. biogas plants).

Environment Service phases



Source: Innovatec

Today the disposal activity in **landfills** is the core area of business for this BU, yet it is due to shrinking in the long run. This goes along with the EU environmental strategy pushing in the direction of “zero waste” and is clearly mirrored in the 2035 EU target of 10% landfill waste disposal on total waste produced, compared to 20% of 2020 (-50%). Despite this long term trend, landfills remain high-value assets in Italy due to the combination of two phenomena: first, the “not in my backyard effect” that makes landfills a scarce resource, and the “lack of fiscal incentives” that makes it investments to create/enlarge new sites tougher to fund. Also these sites are subject to strict authorization processes and hence the long term strategy relative to them is uncertain and highly regulated.

Circular Economy

Circular Economy includes all the activities related to the recovery and recycling of the waste to obtain secondary raw material with an intrinsic value to be re-used in industrial processes or to produce energy. Differently from the business of landfills, which is due to play a shrinking role in the waste cycle, the Recycling/Recovery activity represents a growing long term strategic opportunity in general and for Innovatec: the 2030 EU target for the weight of recycled waste on total is set at 60% vs 50% achieved in 2020 (+20%).

Due to recent acquisitions, namely Cobat (included in 2021 Pro-forma data and SEA, finalized in January 2022), Innovatec moved from a **linear** economy-based **business model** toward a **circular** economy-based **business model**. These subsidiaries already represent ca 40% of Innovatec Group Pro-forma sales. The newly acquired businesses deal with a **few different products and technologies (such as batteries, tires, WEEE)** but the same model **can be replicated** for different types of products or can be expanded over wider regions or to a national footprint.

The potential customer base for these activities is huge:

- ◆ large national players with high volumes of waste in specific segments (eg. IKEA, Autogrill),
- ◆ manufacturers of WEEE,
- ◆ large national chains with regular needs of equipment replacement (eg. refrigerators).

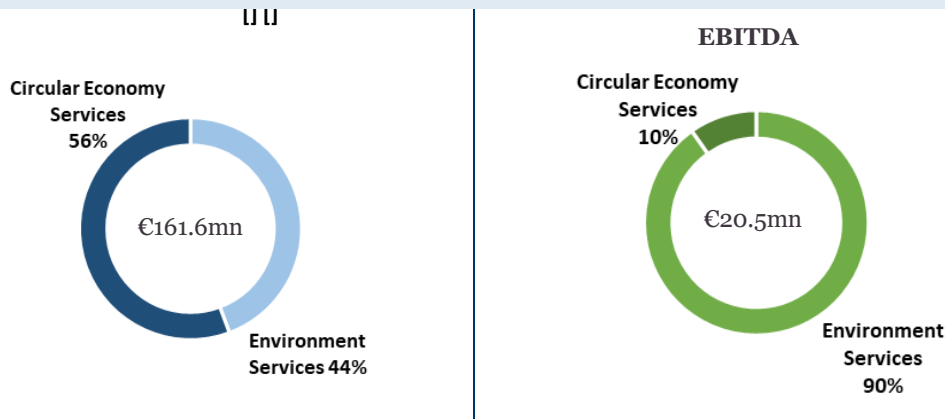
The environmental sector is highly regulated and legislation at European and national level is a key driving force for innovation and progress to a “zero waste” economy. Most of changes towards circular economy have been triggered by the EPR (**Extended Producer Responsibility**) directive. EPR is a concept where manufacturers and importers of products should bear a significant degree of responsibility for the environmental impacts of their products throughout the product life-cycle, including upstream impacts inherent in the selection of materials for the products, impacts from manufacturers’ production process itself, and downstream impacts from use and disposal of products.

The natural consequences of the legislation are:

- ◆ manufacturers/importers of EPR products have organized themselves into consortia to properly collect and dispose of the products;

- ◆ the concept of Circular Economy has become extremely relevant as today, managing products through their life cycle is not a choice of the manufacturers/importers but something the manufacturers must comply with;
- ◆ the universe of EPR products is gradually widening and this trend will continue, with the technological factor becoming increasingly relevant (e.g. lithium batteries).

Innovatec: Environment & Circular Economy - 2021P (Pro-forma)



Source: Innovatec, Value Track Analysis

Inherently ESG

In an environment where social responsibility and environmental sustainability issues are becoming increasingly central, Innovatec Group may become a leading player in sustainability through its corporate mission as well as through its increasing attention to corporate governance.

The United Nations have drawn up the 2030 Agenda for Sustainable Development, made up of 17 goals (SDGs) and 169 targets that substantiate them, with respect to which every country and every public and private organization, is required to make a precise contribution.

Innovatec has chosen to take up the challenge and to pursue a proactive and responsible approach to the 17 UN goals, through the definition of 69 ESG actions declined in three main sustainability pillars: Environment, Social & Corporate Governance.

Innovatec –ESG actions declined



Source: Innovatec

Corporate Profile

Despite the financial crisis faced following the listing on AIM Italia, over the last years Innovatec has been able to maintain solid operating features, finalize a great deal of acquisitions and enter in the environmental services business with a strong balance sheet. The “New Innovatec” is now headed by a high-profile management team and a renewed group structure, focused on medium-term growth strategies for both energy efficiency and circular economy streams.

Historical milestones & corporate development

Innovatec was created through a spin-off and listed on AIM Italia (now Euronext Growth Italy) in December 2013, when the business was solely focused on the Energy Efficiency activity and turnover was at €21mn (2014).

Since then the history of Innovatec has been somehow troubled, partially because of the financial crisis faced by its controlling shareholder (the holding company Gruppo Waste Italia) and since 2018 because its own financial situation required a debt restructuring – due to a fatal combination of a regulatory hick-up and a very tight leverage.

The main outcomes of the financial and legal events that occurred in the past years are the following:

- ◆ Despite the financial stress faced by the overall Sostenya – Gruppo Waste Italia, its **operating features remained solid**. Hence, on the one hand Innovatec built its solid know-how in the Energy Efficiency field and over different technologies (PV, wind, biogas, etc.), while the other hand companies of the “wider” Group - now converged into Innovatec as legal entities or as teams - built their leadership in the Environmental Services;
- ◆ Innovatec acquired in 2020 GreenUp (so called Cleantech acquisition) from its controlling shareholder - following the bankruptcy agreement approved in 2019 - and became an **integrated player in Energy Efficiency and Environmental Services**;
- ◆ The company entered a new phase in 2020, after its debt restructuring and the acquisition of the Environment Business, with a **strong balance sheet** (net cash at €10.7mn and EBITDA at €16mn, on a pro-forma basis). The NFP further strengthened over the last twelve months with net proceeds of €5.8mn, following: i) the conversion of bonds and warrants and ii) a rights issue reserved to institutional investors.

The “New Innovatec” – focused M&A and a new Business Plan

As said, the “new deal” started at the end of 2020, when the management team refocused on its medium-term horizon and growth strategies. Since then the key steps have been the following:

- ◆ **2020** – In September 2020 Cleantech/GreenUp acquired a 70% stake in **Vescovo Romano**, just prior to moving under the control of Innovatec. The acquisition price was €1.5mn, corresponding to an implied EV of €4.6mn or ca.4.2x 2020 EV/EBITDA. With hindsight the acquisition was timely and the price attractive, as the cost of waste paper has risen dramatically (4x) since the acquisition: based on 2021P the implied acquisition price was 2.6x EV/EBITDA.
- ◆ **2021** – in December 2021 Innovatec acquired **Cobat** and strengthen its position in Circular Economy. The price paid for a 56% stake was €9.5mn, leading to an acquisition multiple of 9.0x 2021P EV/EBITDA. Cobat reported €90mn revenues in 2021P (+17% y/y), EBITDA was around €2.3mn (2.6% margin) with massive room for cost efficiencies and synergies ahead.

In 2021 Innovatec also re-entered the debt market issuing a **€10mn bond** with 5-year maturity.

Finally, a new BoD was appointed with **Mr. Elio Catania** as new high profile Chairman.

- ◆ **2022** – Innovatec acquired in January a majority stake in **SEA (65%)** and a call for an additional 10% was agreed. The acquisition is in line with Innovatec's strategic objective of accelerating the move into the circular economy. In terms of acquisition price, we estimate Innovatec paid ca 9.6x 2022E EV/EBITDA, which however is misleading because SEA has just completed the construction of a new plant active in the lithium battery recycling, based on proprietary technology and due to enter in operations shortly.

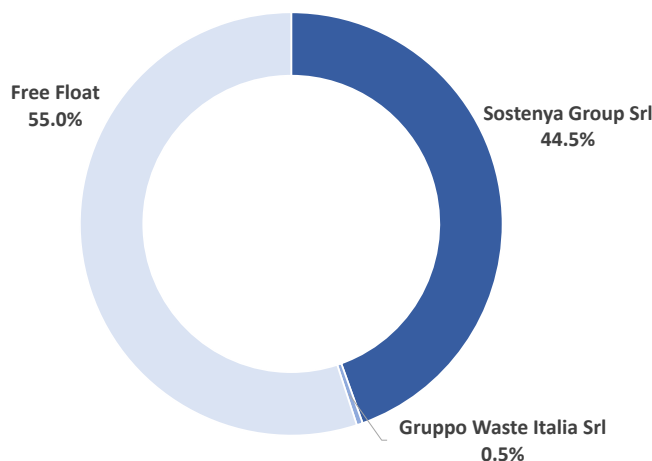
On the 9th of March Innovatec has announced the acquisition of further minorities in Cobat (19.5% stake) and SEA (25% stake) for an amount of €2.3mn and €0.87mn respectively. The deal is not included in our forecasts.

In early February management presented the **new 2022-24E Business Plan**, based on the new structure of the Group, which will be described in more detail further below.

Ownership and Group structure

Innovatec, headquartered in Milan (MI), is currently controlled at 44.5% by Sostenya Group Srl , at 0.5% by Waste Italia and the remaining 55% is represented by stock market free float.

Innovatec: Shareholding structure as of February 2022

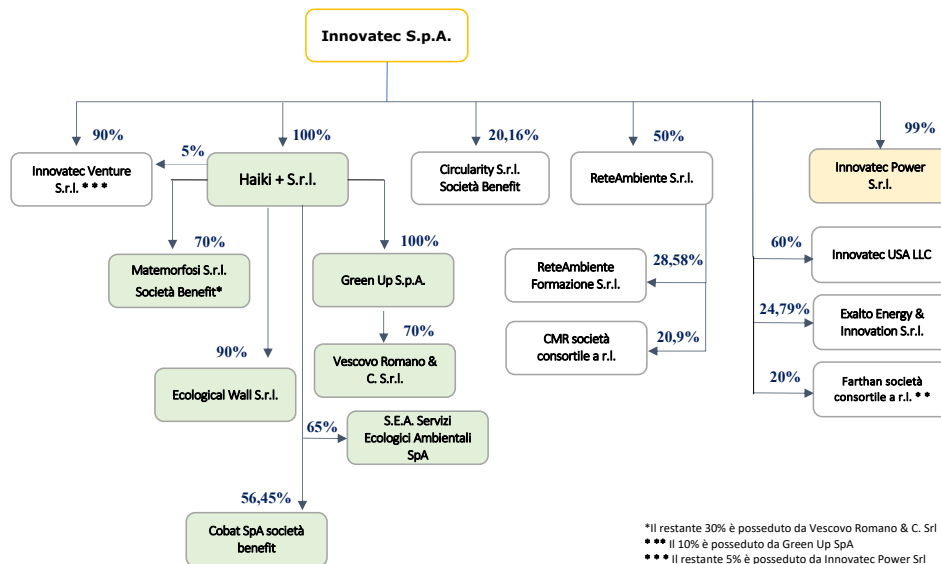


Source: Innovatec

The following chart reports a simplified Group structure following all the recent events, where we can see the two Business Units:

- ◆ **Energy Efficiency** – under the control of Innovatec Power
- ◆ **Environment & Circular Economy** – under the Haiki+ sub-holding, which in turn controls i) GreenUp (Environmental Services) and ii) the circular businesses (i.e. Cobat, Matemorfofi, Ecological Wall and shortly SEA, acquired in the last weeks). As the collect & recycle activities rely on the support of collection consortia, the companies involved in this business (as Cobat) often have minority but strategic stakes in these consortia.

Innovatec: Simplified Group Structure (*)



Source: Innovatec. (*) The picture doesn't include the acquisition of minorities announced on 09/03/2022

Reference Market

Innovatec is active in the Cleantech industry, i.e. the set of clean technologies that develop processes, products, or services that reduce negative environmental impacts. Specifically, the Group operates in the energy efficiency market and the environmental services sector, two businesses that appear extremely attractive and likely to face massive growth thanks to the strong demand driven by sustainability themes and major Government support (at national and EU level), with EU target for 2030 towards a “zero emission” and “zero waste” society that will require massive investments.

Since 2020, Innovatec has positioned itself in the **Cleantech** sector, i.e. the set of clean technologies that develop processes, products, or services that reduce negative environmental impacts. This goal is achieved through significant improvements in energy efficiency, sustainable use of resources, or environmental protection activities. Cleantech is then an industry that ideally involves all sub-sectors whose activities have a significant environmental and ecological impact.

Despite the two main businesses (Energy Efficiency and Environmental Services) do have a few overlapping areas and many potential synergies in terms of technologies (biomass, PV) and clients, we discuss the two markets separately. This also because the two sectors have a few key elements of differentiation and Innovatec enjoys a different competitive positioning in the two arenas.

Sector #1 – The Energy Efficiency market

Energy efficiency remains the cornerstone of the transition to a cleaner, safer, and more sustainable energy future. The importance and benefits of energy efficiency have been well documented and demonstrated across all key economic sectors, in both developed and emerging economies, and governments are increasingly aware that energy efficiency measures can provide multiple benefits to the economy, including cost savings, low emissions, and better integration of power generation from renewable sources.

The energy efficiency scenario in Italy is part of an overall framework of medium-term European objectives, i.e. to 2030, intended as intermediate steps towards the achievement of a climate-neutral European economy by 2050, as from the **European Green Deal**, an operational roadmap to achieve the goal of eliminating net greenhouse gas emissions in 2050 and decoupling economic growth from resource use.

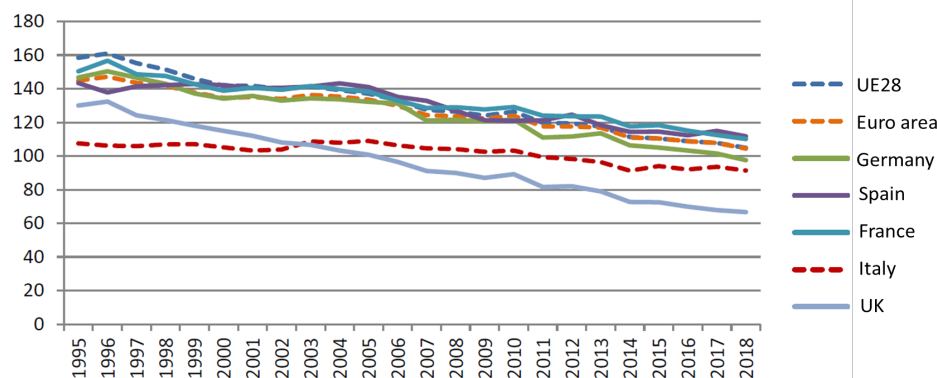
The current European objectives for 2030 are set by Member Countries on the basis of a burden sharing mechanism that allows everyone to contribute, in a manner consistent with their economic-productive structure, to the achievement of the overall objective. For Italy, the objectives, taken from the Integrated National Plan for Energy and Climate finalized in January 2020, translate into:

- ◆ target for **reduction of energy consumption** by 2030 equal to a 40% reduction in energy consumption, which translate into 125.1 Mtoe of primary energy (103.8 Mtoe in final consumption), compared to 143 and 116 Mtoe respectively consumed in 2017;
- ◆ achievement of 30% **share of renewables** in final consumption.

A lot has already been done in EU and Italy

In the last 20 years, EU and national policies and regulations have triggered a virtuous circle of laws and decrees, which lead to an increasing level of energy efficiency and increasingly sustainable economy. Below is a description of European trends over the past 20 years.

Primary energy intensity in some EU28 countries, years 1995-2018, toe/€mn



Source: Eurostat

What emerges from the graph above is

- ◆ Europe has managed to **improve** its level of energy efficiency over the last twenty years by **almost 30%** - in terms of **primary energy intensity** (calculated as the ratio of "Gross Domestic Consumption" to "GDP at market prices"), Eurozone fell from 145 toe/€mn to 105 toe/€mn by 2018 (based on Eurostat 2020 annual report);
- ◆ **Italy's level of energy intensity** was already **below other European countries** 20 years ago, which may be partly attributable to the national GDP structure and partly to an Italian energy pricing problem (since Italy imports most of its energy and pays above average prices, Italian corporate have always had to be efficient to remain as competitive as possible)
- ◆ Italy has been keeping improving in terms of energy efficiency, but at a slower pace than others: in 2018, Italy's primary energy intensity was 91.4 toe/€mn or **ca. 13% lower than Eurozone** vs a gap that was close to 30% in 1995.

Similarly, also in terms of building an increasing capacity of **renewable energy sources**, Italy has moved from virtually zero to a share of ca 18.3% of renewables to final consumption in 2018 and analyzing the prospective trend of Italy on this specific target in the 2008-2018, it emerges that Italy was substantially in line with targets.

However, according to more recent data (last 5 years) the 2030 target would be missed by over 7 percentage points and the economic growth in acceleration over 2021 and expected also over 2022-2024E represents a further challenge.

...but much remains to be done

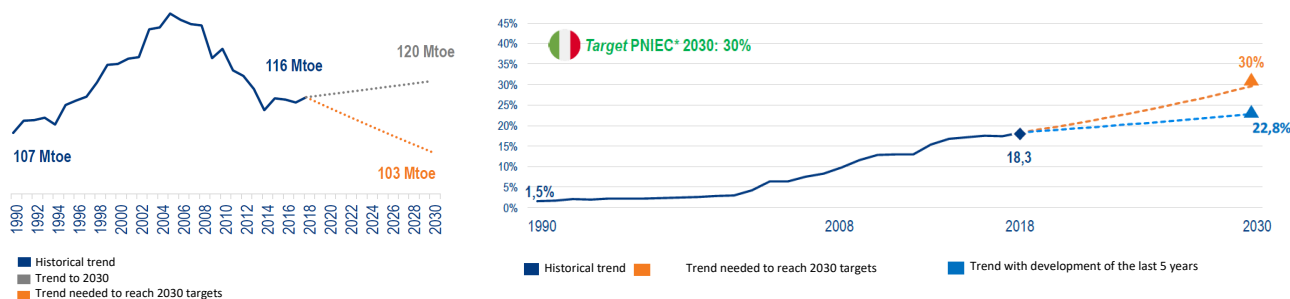
As anticipated, The European Commission adopted a set of proposals towards the achievement of a climate-neutral European economy by 2050, with intermediate targets for 2030. The key building blocks to reach the EU's energy and climate objectives are

- ◆ further improvements in energy efficiency, in detail 125.1 Mtoe of primary energy / **103.8 Mtoe in final consumption**, compared to 143 / 116 Mtoe respectively consumed in 2017 (i.e. a further 11/12% reduction);

- ◆ increasing the share of renewable energy sources (RES) across all sectors in order to reach the 30% national target for 2030, which implies to recover the gap cumulated and to get to 33 Mtoe from **renewable sources**, a significant pace of growth throughout the next decade.

How **Italy** positions itself with reference to the indicated targets to be reached within 2030? What emerges is that the trend in **energy efficiency** is substantially not in line with the 2030 objectives and the same could be said for the contribution of renewable sources to demand of energy consumption. Hence, a further major effort is required also by Governments to reach 2030 targets.

Final Energy Consumption (left) - Share of Renewables on Final Energy Consumption (right)



Source: The European House report

The expected improvements in terms of energy efficiency will be driven by two main trends:

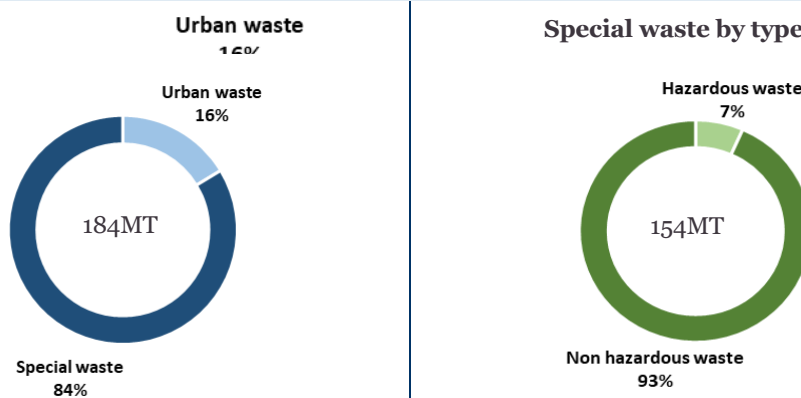
- 1. Energy savings** - i.e. energy intensive corporates invest in energy efficiency and payback their investments with savings they obtain. However, this driver is not able to push innovation and transition at the speed required;
- 2. Fiscal incentives** - incentives are indeed promoted by the EU and the Italian Government to promote and accelerate the transition to more sustainable energy sources. More specifically, there are four areas of interest to the Italian energy efficiency industry:
 - ◆ **Super bonus 110%**. Tax credits for interventions dedicated to households' insulation and energy saving for which €14bn have been allocated.
 - ◆ **Energy Transition**. Funding for innovative projects ("Progetti Faro") in a few segments, promotion of innovative power plants, biomethane, Green Ports for which €3.5bn have been allocated.
 - ◆ **Energy Communities**. Funding for the development of renewable energies in energy communities for which €2.2bn have been allocated.
 - ◆ **Agro – PV**. Funding for the development of PV plants in agriculture and farming for which €2.6bn have been allocated.

Sector #2 – The Environmental services market

Here we focus on the environmental services and the waste cycle in particular: substances or objects that derive from human activities or natural cycles can be defined as “waste”. Traditionally, waste is classified according to its origin, in **urban waste** and **special waste**, and, according to its characteristics, in **hazardous** and **non-hazardous** waste.

According to the 2021 annual report provided by ISPRA, the total amount of waste generated in Italy in 2019 is **184mn** tons, of which 84% (about 154mn tons) is **special** waste and the remaining ca. 16% is **urban** waste (i.e. households’ waste). Within special waste, 6.6% is represented by **hazardous** waste and the remaining 93.4% is a **non-hazardous**.

Waste production in Italy – 2019 (mn tons)



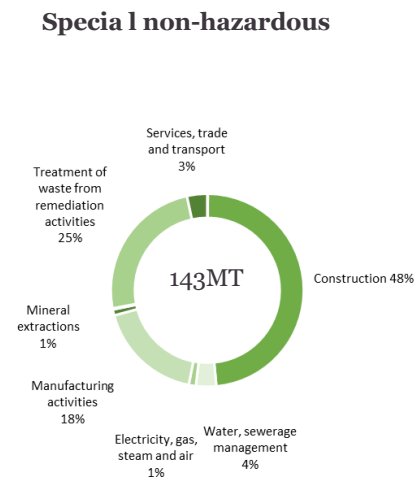
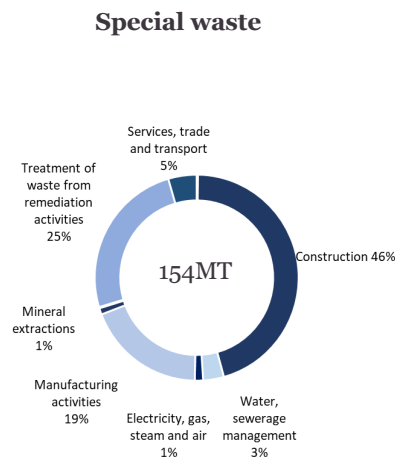
Source: Rapporto rifiuti speciali 2021 – ISPRA

In Italy, as in the rest of the industrialized countries, the greatest contribution to the overall production of **special waste** is given by the construction and demolition sector, with a percentage equal to 46% of the total. Waste treatment and remediation activities contribute 25%, while 19% is represented by manufacturing activities considered as a whole. The other economic activities contribute, overall, to the production of special waste with a percentage equal to 10.5%.

As for the production of special non-hazardous waste (93% of total), it broadly mirrors the same breakdown among the various activities, as shown below, and **Innovatec positions itself in this portion of the market, representing the bulk.**

In terms of market value, special and non-hazardous waste generates an annual turnover of around €9.5bn for waste collection and around €4.3bn for waste treatment and disposal, for a total market size of around **€13.8bn** (year 2018).

Special Waste production in Italy by economic activity – 2019 (mn tons)



Source: *Rapporto rifiuti speciali 2021 – ISPRA*

As of today, the main drivers for the sector are represented by the most recent European regulations in the Circular Economy, which provide for the implementation in the waste management cycle of increasingly high levels of **efficiency in terms of recycling**, dedicated plants, and **containment of landfills**. The main directives on these issues are the European Green Deal and the Waste Framework Directive which aim to promote growth by transitioning to a modern, resource-efficient, and competitive economy. More specifically, the main targets set are the following:

- waste to be disposed of must decrease from 20% to 10% of total waste by 2030;
- waste to be recycled must increase from 50% to 60% of total waste.

Hence, if on the one hand we may assume that waste business (in terms of collection and treatment) is due to growth in line with GDP, on the other hand we may expect disposal business to shrink and recycle business to expand significantly, driven by volumes as well as by increase in value.

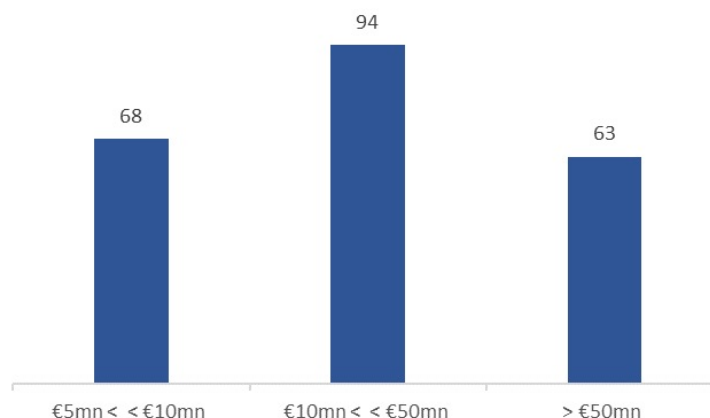
Competitive landscape & Innovatec positioning

Innovatec two main reference markets and both are highly fragmented, with many small and micro-enterprises, and probably both have a major concentration process ahead.

Sector #1 – The Energy Efficiency market

The market is made up of a multitude of micro or small companies: the number of Italian players offering energy efficiency solutions (ESCo) is 429: most are based in Northern Italy (Lombardy in particular) and almost half of these have a turnover below €5mn. The remaining 225 players - with turnover above €5mn - are split as reported in the chart below.

Innovatec: Italian players in Energy Efficiency split by Turnover - 2020



Source: Innovatec

By examining other dimensions of analysis: breadth of services offered and nature of core business (residential, or B2C, vs industrial), the competitive area appears as follows:

- ◆ Multi-utilities have the organizational structure to meet an increasingly wide range of cleantech services and maintain their leadership position in the residential sector;
- ◆ Energy companies, i.e. integrated operators in the energy and gas sectors offering energy efficiency solutions as ESCo, are mostly focused on offering integrated energy-related services for both industrial and civil sectors;
- ◆ Independent ESCos, are focused on the industrial sector and due to their size and high specialization, they are not currently able of satisfying their industrial clients regarding the multitude of cleantech services.

What about Innovatec?

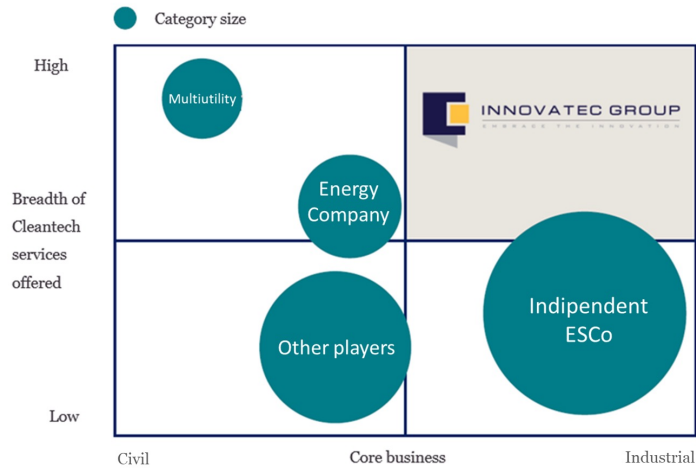
Innovatec, as an independent ESCo, is positioned at the higher end of the scale for services breath, thanks to the technical know-how cumulated in its history, but it lacks a strong competitive edge and the financial strength required.

Hence we expect Innovatec to follow a **focused strategy** and **selective positioning** and to build a profitable business in two very specific segments to be driven by fiscal incentives:

- ◆ **B2C** - from 2021 the Company has successfully repositioned itself thanks to the HouseVerde project in the residential segment, where Innovatec reported provisional revenues of €55mn in 2021P and a client base as of today of ca 900 households.

- ◆ **B2B/PV** - we expect Innovatec Power (the subsidiary operating in the Energy Efficiency) to put all its expertise (ca 59MW installed in PV) at the service of the expected transition to PV in the agro-farm and energy communities segments.

Innovatec: positioning in Energy Efficiency

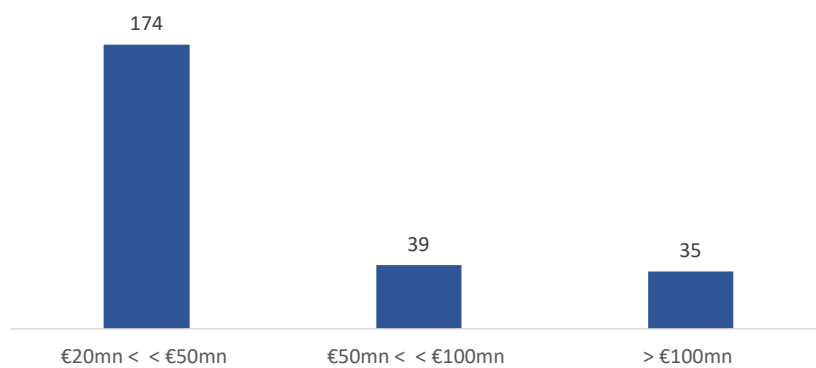


Source: Innovatec

Sector #2 – The Environmental services market

According to management, the competitive arena in the environmental services consists of about 2,500 players active in circular economy and environmental protection services (half based in Northern Italy), of which more than 90% have a turnover of less than €20mn, while the remaining 10% (#250) are split as shown in the following graph.

Innovatec: Italian players in Environmental Services split by Turnover - 2020



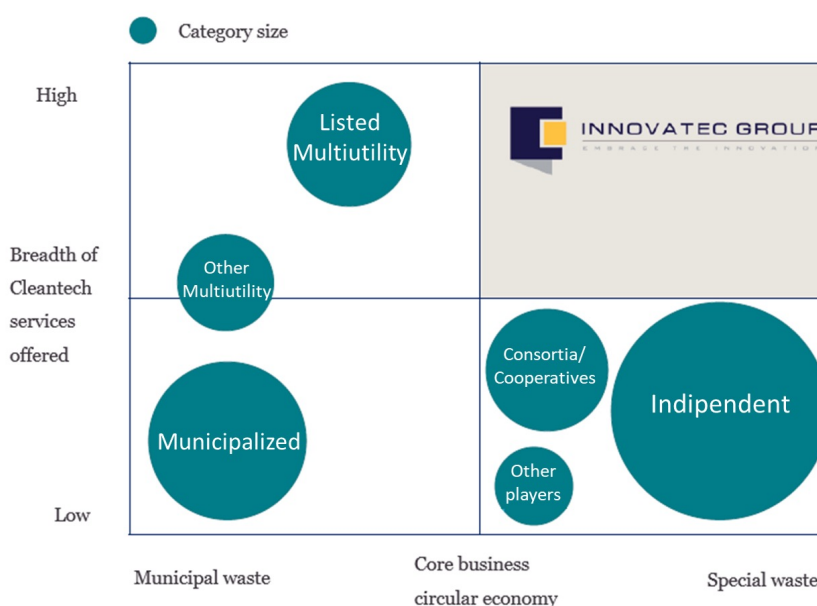
Source: Innovatec

Northern Italy gathers about 44% of the companies, of which about half of the players are located in Lombardy. The other regions with the most active players are Lazio, Emilia Romagna, Tuscany and Campania.

By examining other elements of the positioning: breadth of services offered and core business (special vs municipal waste), the market appears as shown in the picture below. In particular

- ◆ Multi-utilities (and especially the largest listed ones) have the organization to provide a wide range of services and the local penetration and historical legacy to maintain a leadership position in municipal waste management;
- ◆ None of these leading players have a particular sector diversification or vertical specialization in the circular economy yet, however a few large multiutilities have recently entered specialised niche and signed agreements with technological partners (e.g. Iren – iBlu) ;
- ◆ Smaller municipal waste companies remain focused on their core business, while consortia, cooperatives and independent enterprises are mostly focused on treatment of special waste but none have other cleantech specializations.

Innovatec: positioning in Environmental Services



Source: Innovatec

What about Innovatec?

In the Environmental Services industry, Innovatec is positioned to play potentially a leading role, thanks to its 360-degree expertise and commercial proposition and to its strategy in the circular economy:

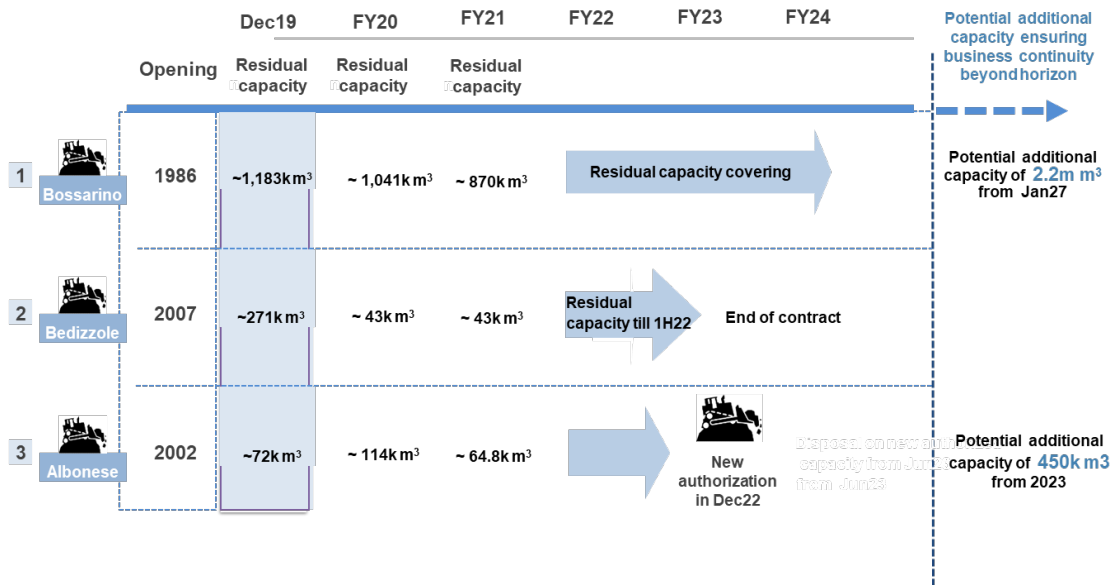
- ◆ Innovatec, as an independent special waste management company, is positioned at the top end of the market in terms of the breadth of cleantech services offered, as it offers an **end-to-end national service**;
- ◆ in this segment Innovatec, with its 2020P pro-forma €150mn **revenues (€162mn in 2021P)**, is positioned in the quartile of large players;
- ◆ Innovatec handled a total of about 170k tons of waste and it could treat about 70% of it, i.e. around 120k tons. Including Cobat and SEA this value goes to ca. 300k tons per year of waste managed, but we would estimate that Innovatec's overall market share for waste collection, treatment and disposal is around 1% in an extremely fragmented scenario.
- ◆ Following the acquisitions announced in the last months and the potential M&A ahead, Haiki+ (the sub-holding in the **Circular Economy**) may become a leading player in this segment, with

strong positioning in a few attractive verticals (e.g. batteries). In specific, the company can already boast a leading market share in batteries, while its presence in verticals as weee and tyres is supported by i) synergies at collection, ii) good returns and iii) the possibility to offer a strong commercial proposition, despite lower market shares.

As for many potential new verticals of Circular Economy, however, they are yet to be identified and then “created”, thanks to innovation, technological leadership and effective partnerships.

In more details as for the disposal capacity, the residual capacity of the landfills owned and managed by Innovatec and their potential expansion are reported below.

Capacity extensions on landfills – expected timeline and volumes (m3)



Source: Innovatec

Historical Financials and Recent Events

The news flow from Innovatec has materially intensified over the last months: the renewed BoD impressed acceleration on the launch of new projects, selective M&A and change in Corporate Governance, following the completion of the restructuring of larger Sostenya Group and Innovated debt. All this while the Government has been approving the use of significant resources - PNRR and other EU and national funds – to support the industries where the “New Innovatec” operates, Energy Efficiency and Environmental Services.

Why 2020 and 2021P results are Pro-forma

As described in the initial sections, Innovatec has undergone a few transactions over 2020-2021, which significantly impacted its consolidation perimeter:

1. the acquisition of the Environmental Business (GreenUp) in two steps (December 2020 and July 2021) from its major shareholder Sostenya Group Srl;
2. the disposal of Sostenya Green to Sostenya Group Srl (an asset swap as part of the former deal) as of January 2021;
3. acquisition of Cobat at the end of 2021.

Hence, the reported 2020 and 2021 financials would not mirror the current structure and size of the “New Innovatec”. The Company has therefore provided the key financial data for 2020 and provisional 2021 on a pro-forma basis. i.e. assuming the Environmental Services and Cobat were fully consolidated (and Sostenya Green deconsolidated) as of 1.1.2020 in Group P&L. As for the Balance Sheet, the consolidated FY2020 figures already factor the acquisition of the majority stake of CleanTech-GreenUp, while FY2021 already factors the full control of GreenUp and the Cobat deal.

The table below report Pro-forma 2020-2021P financials, starting point for our forecasts.

Innovatec: 2020 and 2021P pro-forma key financials

€ mn	2020PF	2021PF
Group Revenues	161.2	222.4
EBITDA	18.1	30.4
<i>EBITDA Margin (%)</i>	<i>11.2%</i>	<i>13.7%</i>
EBIT	7.8	9.6
Net Profit	4.9	5.1
Net Financial Position [Net Debt (-), Net Cash (+)]	10.7	-3.5

Source: Innovatec, Value Track Analysis

Recent M&A

Innovatec finalized two acquisitions in circular economy in the last months: COBAT and SEA.

COBAT

On December 1, 2021, Innovatec announced the purchase of COBAT S.p.A. The entry was achieved through the acquisition of shares representing 56.45% of COBAT issued share capital. COBAT is an Italian leader company and platform active in offering customer services for the collection, storage and recycling of waste such as batteries, accumulators, electrical and electronic equipment as well as end-of-life tires. COBAT's 2020 financial results show a value of production of €76.5mn. EBITDA of €1.8mn. and Net Income of €0.5mn.

The acquisition was completed for an amount of €9.5mn paid in cash and creates a perfect complementarity between **COBAT**'s ability to replicate its business model on new chains of materials to be sent for recovery, and **GreenUp** expertise in building and managing plants for their treatment and transformation into secondary raw materials.

The execution of the integration plan will allow Innovatec to:

4. enter the battery recovery sector by strengthening its presence in the circular economy business with an important contribution in terms of revenues (2021P Revenues of approximately €90mn), strategic assets (i.e. patents and platforms) and expertise, expanding its market share in end-to-end services;
5. leverage on significant synergies and cost optimizations, to improve COBAT's EBITDA margin from pre-acquisition 2.4% to estimated 2024E of 4.5%;
6. become a significant player, thanks to proprietary patents in the recovery of lithium batteries in the fast-growing electric car market;
7. integrate COBAT's ability to replicate its business model on new supply chains of materials to be sent for recovery.

SEA

On January 21, 2022 Innovatec announced the acquisition of 65% of S.E.A. S.P.A. - SERVIZI ECOLOGICI - AMBIENTALI ("SEA"). SEA is an Italian company active in the collection, recovery and treatment of waste from electrical and electronic equipment "WEEE" through specifically authorized grinding, "flat" and refining plants as well as a large-scale highly automated pilot plant for the continuous cycle treatment of electrical and electronic waste, specifically dedicated to category R1 waste. SEA's economic results for the first eleven months of 2021 see revenues of €5.8mn (+38% vs. the full year 2020 of €4.2mn).

The acquisition was made via new sub-holding of the circular economy Haiki+ S.r.l. at a price of €2.75mn paid in cash and a put/call agreement for a further 10.004% share has been set.

The execution of the Transaction will allow Innovatec to:

1. strengthen its presence in the WEEE recovery sector already started with the recent acquisition of Cobat with a contribution of strategic assets (i.e. plants) and skills;
2. grow in a high added value supply chain, acquiring a newly designed and built treatment plant (treatment of R1) in a market where treatment plants are scarce;
3. leverage significant synergies and cost optimization, also following the recent Cobat acquisition.

A few key steps to improving corporate governance

Innovatec management undertook two further steps towards improved corporate governance and transparency towards financial markets and minorities:

- ◆ a private placement reserved to a group of primary **institutional investors** through an accelerated book-building process in January 2022;
- ◆ presentation to the financial community of the "New Innovatec" **2022-2024 Business Plan** with the commitment for an active investor relation policy.
- ◆ On March, 9 the Group announced the **buyout** of Cobat and SEA **minorities**, a deal that further simplifies the Group structure.

Growth Strategy and Business Plan

Innovatec top management has released the 2022-24E Business Plan for the “New Innovatec”, with a detailed presentation to the financial community. Here below we summarize the key elements of the outlined strategy, investment plans and 2024E financial targets.

Key growth drivers

Innovatec’s execution strategy is split on the Business Units - Energy Efficiency (with special focus on Renewable Energy) and Environmental Services (with special focus on Circular Economy) and is increasingly supported by Innovation & Consultancy Services, representing a “new leg” for the Group.

#1 Energy Efficiency & Renewables - Innovatec first aims to **become a leader in this industry** by increasing the market share in two specific segments:

1. the **HouseVerde** project, which is seen to transpose the energy efficiency secular trend into wider segments of the economy, starting from social housing, PA and public health, tourism. Here the results achieved so far (with a backlog in excess of €200mn over 5 quarters) are reassuring;
2. **PV systems, as EPC contractor**, by supporting energy communities and by developing and building agro and farm PV capacity, which are seen to growth at terrific rates in the next decade. This will be supported by development and deployment of smart technologies and leverage on the Group technical know-how.

#2 Environment & Circular Economy - Innovatec intends to exploit its significant growth potential, by

1. enhancing **traditional treatment facilities** (by increasing capacity of treatment sites and potentially extending lifetime of landfills);
2. **expanding** its existing **customer base** (also via cross-selling between business units);
3. **expand its service proposal in recycling/circular processes** by developing new and innovative recycling facilities (Matemorfofi, Innovative Wall but also the new plant by SEA, all due to completion in 2022) and implementing consortium management for other waste classes.

#3 Innovation & Consultancy Services - Innovatec intends to create value in the medium term by investing in breakthrough technologies, promoting the transition to the circular economy, and supporting innovative start-ups. This will be executed via the R&D and the agreements with research hubs and university partnerships, via Innovatec Venture and via the internal IT department, potentially strengthened by further selective M&A, which is going to be key to support the PV systems deployment, the smart grid management and in general the energy community projects.

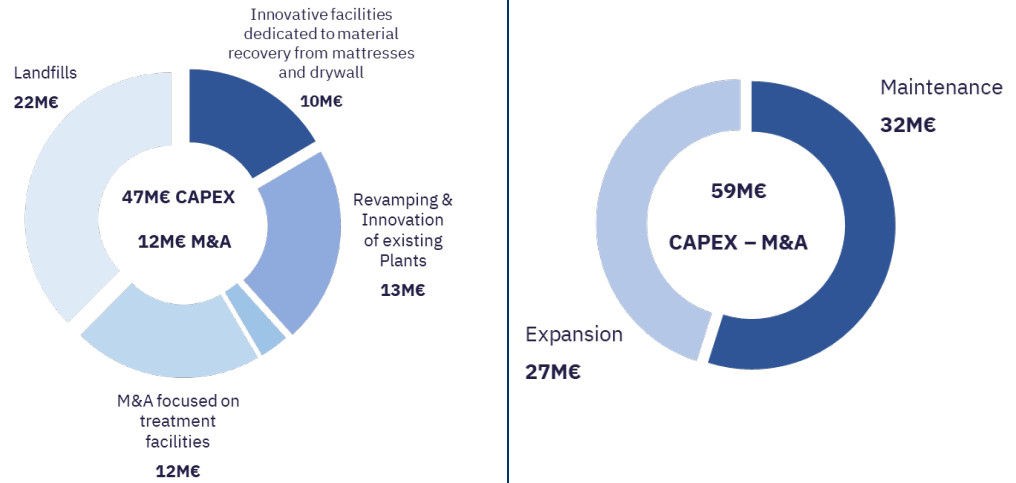
Strong Investment plan

Innovatec plans to invest approximately €59mn in the next 3 years, of which 20% will be allocated to M&A activities and the remaining 80% will be invested in hard capex. Out of the €47mn allocated to hard capex, ca. 47% of it will be destined to landfills (the most capital intense business), ca.20% will be invested in innovative facilities - dedicated to recycling process from mattress (Matemorfofi) and drywall (Innovative Wall) - and ca. 28% will be used to revamp and innovate existing plants.

Overall, Innovatec expects to allocate 46% of the €59mn to capacity expansion or entry in new profitable areas and M&A, and the remaining 54% for maintenance operations. Despite the €47mn

capex planned over the period may appear not huge in absolute terms, it implies to double the amount of 2021P Fixed Capital (excluding goodwill).

Innovatec: 2022-24E Business Plan - Cumulated CAPEX and M&A



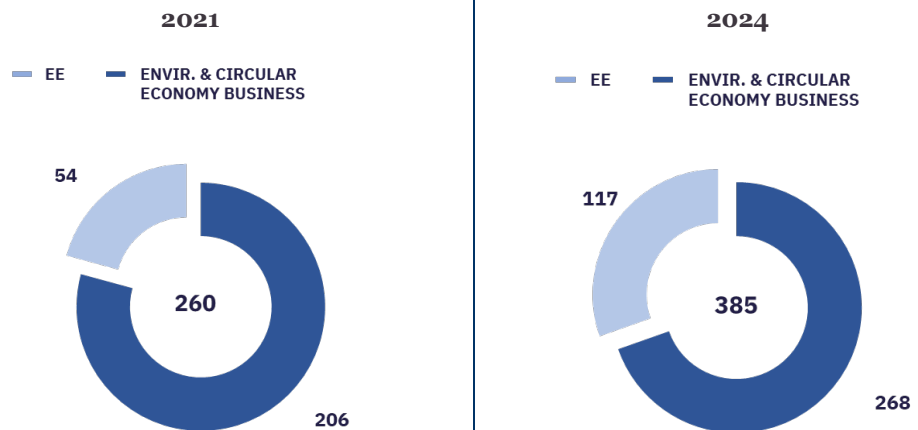
Source: Innovatec

Human capital investments

Innovatec is not only a technology-intensive company but above all a competency-based business and human resources will be essential in guiding the group through this process, where seamless execution will be crucial both at single project level and at corporate/M&A.

That’s why 125 additional people (almost 50% relative to 2021 pro-forma number of employees) will be introduced to the Innovatec mission and will join the group over the next 3 years. The net addition will be almost equally split over the two units.

Innovatec: 2022-24E Business Plan - Cumulated change in n. of employees



Source: Innovatec

Key targets

The table below summarizes the key financial targets set for 2024E. We point out that a) the Business Plan is based on provisional 2021 figures and b) does not factor two events occurred in 2022, i.e. the acquisition of SEA and the cash-in of the ABB finalized in February 2022.

Innovatec: 2021PF-24E Business Plan - Key Financial Targets

€mn	Energy Efficiency		Environment & Circular Economy	
	2021PF	2024E	2021PF	2024E
Revenues	60.6	200.6	161.6	204.2
EBITDA	9.9	23.3	20.5	32.1
<i>EBITDA margin (%)</i>	<i>16.4%</i>	<i>11.6%</i>	<i>12.7%</i>	<i>15.7%</i>

€mn	Innovatec Group	
	2021PF	2024E
Revenues	222.4	404.8
EBITDA	30.4	55.4
<i>EBITDA margin (%)</i>	<i>13.7%</i>	<i>13.7%</i>
Change in Net Fin. Position (cumulated)	n.m.	34.3
Net Financial Position [Net Debt (-), Net Cash (+)]	-3.5	30.9

Source: Innovatec, Value Track Analysis

Financial Forecasts

We expect Innovatec to post strong growth in the next three years in terms of top line, EBITDA and free cash flow: by 2024E the Group will be 1.7x bigger than today (2021 pro-forma), while generating at the same time ca €36mn of free cash flow, equal to 18% of its market cap. The key driver of the growth is the top line, while EBITDA margins are seen relatively flattish over the forecast period. Also, as the contribution of the landfill business is expected to reduce in favour of Energy Efficiency projects (where the role of General Contractor requires little capital), we expect a material improvement in terms EBIT (50% 3yrs CAGR), net profit (55% CAGR) and RoCE (42% 2024E after tax).

Forecasts vs Business Plan vs reinvestment opportunities

Our Innovatec model is based on the indications provided by management in terms of strategy, planned investments and targets, as outlined above in the section about the Company's 2022-24E Business Plan (BP). However, there are a **few differences** to point out:

- ◆ we do not factor any cash-out or contribution from planned acquisitions, as the only M&A deal considered in our model is the acquisition of the 65% stake in SEA, announced in Jan 2022 and described above (minorities buyout announced on March 9 are not factored);
- ◆ our assumptions on the specific segments may differ from management's targets and overall our 2024E forecasts are lower, namely we are 5-6% lower in terms of revenues and EBITDA;
- ◆ in terms of NFP we project net cash at €32.8mn in Dec 2024E vs a forecast of €30.9mn in the BP, despite the lower margins over the forecast period, mostly due to i) lower investments in M&A (€6.5mn vs €12.4mn), ii) €4mn proceeds for the ABB finalized in Jan 2022 (not in the BP).

What could go differently and what should not?

As outlined above, the BP presented to the market appears attractive but is also true that should things go as expected, it is likely to witness a **more aggressive reinvestment of the free cash flow** generated and/or the inception of a pay-out policy (the BP currently assumes no dividends until 2024E). In particular, we may expect

- ◆ more aggressive M&A in the next years, compared to initial plans;
- ◆ higher Capex vs budget factored in the BP, should further opportunities arise, mostly in the Environment Services and both in landfill and recycling segments.

As for the potential reinvestment of cash, as we expect management to be disciplined and selective in M&A and we estimate planned projects in the landfill segment to remain extremely attractive in terms of IRR.

As for the **pay-out policy**, we may expect the board to consider the payment of a dividend in the longer term, albeit this is likely to depend on the actual investment opportunities Innovatec will catch. Hence we see this as "residual" and for the time being, we assume no dividends policy until 2024.

Finally, we expect management to stick to a very cautious stance relative to **leverage** and the above decisions to be taken subject to a solid financial structure. This is due to two main factors:

1. the company's and main shareholder's track record with a few situations of stress due to excessive leverage;
2. operational risk of the businesses, as both segments are a) heavily dependent on regulation (which at this moment in time is expected to be a terrific driver, but remains an external factor out of control) and b) for landfills and for some circular economy's segments, the waste price levels may be volatile and affected by external/international factors.

Revenues 2022E-2024E

The main driver of the next three-year growth of the Group is the top line, mostly in the Energy Efficiency segment, as the projects linked to fiscal incentives (energy efficiency and renewable energy production) will play the lion's role. On the other hand, we expect Environmental Services to contribute less over a 3-years period, but to become a driver of secular growth in the years beyond the BP horizon.

Business Unit #1: Energy Efficiency

The BU of Energy Efficiency will be driven by the HouseVerde project and by the EPC business relative to the PV technology:

- ◆ HouseVerde has collected so far total orders for ca. €230mn, of which €134mn verified and confirmed and only 60mn invoiced: we assume ca €85mn to be finalized in 2022E and the rest in 1H2023E, when we expect the contribution of new orders and of the new tranches of the fiscal incentives to start (see the previous section on fiscal incentives in Italy).
- ◆ As for the B2B segment, it will focus on the EPC business relative to the expected booming capacity in solar (PV), both agro PV and energy communities. We assume that collectively about €10mn, €20mn and €45mn revenues will be achieved by 2022E, 2023E and 2024E, respectively, driven by about €2.2bn of expected EU and national investment funds for the development of renewable energy in energy communities, and by about €2.6bn in agriculture and farming.

Business Unit #2: Environmental Services

The Environment Services business unit should keep growing at an 9.1% CAGR over the forecast period, thanks to

1. the steady growth of the collection & treatment activity, in particular for the waste paper business (the growth of Vescovo Romano will be supported by a material expansion of its capacity in 2023), and a steady reduction in end-of-waste activity, driven on the one hand by the waste-to-landfill structural long term trend (set by EU Green Deal targets) and on the other hand, by the reduction in the residual capacity of Innovatec landfills.
2. the start of operations in two new verticals of the circular economy (Matemorfosi and Innovative Wall), whose investments are planned over 2022. The contribution of these innovative treatment segments should bring approximately €9mn by 2024E.

Innovatec: 2021PF-24E Revenues by BU

€mn	2021PF	2022E	2023E	2024E	2021PF-24E CAGR (%)
Group Revenues	222.4	274.6	325.2	382.9	19.9%
Energy Efficiency	60.6	96.0	132.0	173.0	41.9%
B2C (House Verde)	54.5	85.0	100.0	122.0	
B2B	5.6	10.0	30.0	45.0	
Environmental Services	161.6	178.6	193.2	209.9	9.1%
Collect/select/treat	24.4	27.7	29.6	31.7	
End of Waste	32.4	31.8	30.2	28.7	
Cobat & SEA	90.0	103.7	112.8	121.8	
Innovative Treatments	0.0	0.0	4.5	9.0	

Source: Innovatec, Value Track Analysis

Margins 2022E-2024E

Over the next three years, we expect Innovatec's **EBITDA to witness a 19.6% CAGR**, but margin is expected to remain flat vs 2021P and to decrease slightly from 15% of 2022E to 13.6% in 2024E. This is the result of a few opposite forces:

- ◆ despite the EBITDA of the Energy Efficiency unit is seen to growth with a 1.3x factor by 2024E, we assume a decreasing profitability, driven by the HouseVerde project, as we believe its current margins are not sustainable. This is in the light of the gradual reduction of tax incentives over coming years and of the potential increase in competition (today this business benefits from such a buoyant demand that competition is virtually nil);
- ◆ the decreasing contribution from the end-of-waste business dilute margins, as landfills typically boast much higher EBITDA margins (counterbalanced by much higher capital intensity);
- ◆ a positive contribution instead in relation to Circular Economy services, driven by the investments Innovatec is undertaking in 2022 for the innovative treatments (mattress and drywalls).

For what concerns **D&A** and **Allocations**, these items include

a) goodwill amortisations (in the range of €2.6mn per year) as the Company reports under Italian GAAP. This is an accounting factor and as such it is not tax deductible and is adjusted for in our adjusted EBIT and Net Profit figures;

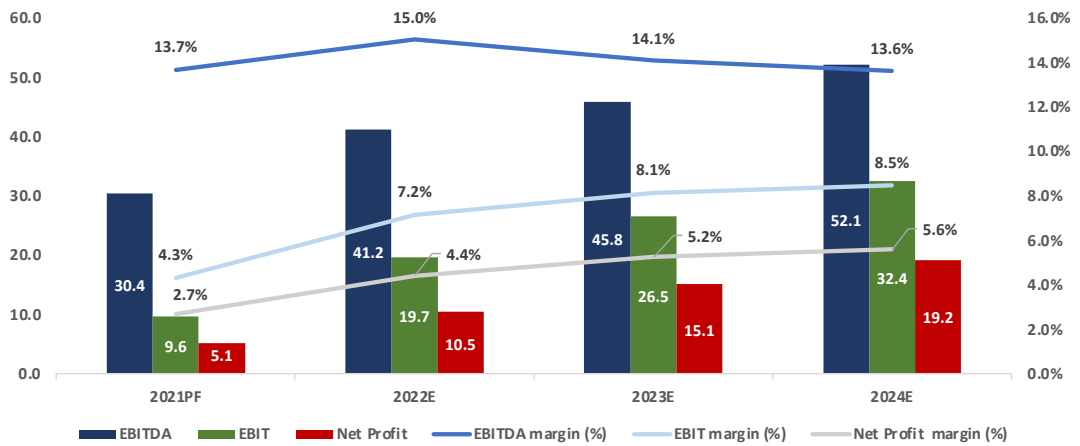
b) allocations referring mostly to pre and post-closure provisions for landfills, and from 2022E also to provisions related to the HouseVerde project. This is an element of cautiousness we assume, as this project may start showing some bad-debt risks going forwards, as long as tax incentives fall below the projects' value. The former provisions are computed as a percentage of the utilization rate of the landfill itself, the latter are cautiously assumed at 1% of revenues.

Innovatec: 2021PF-24E EBITDA by BU

€mn	2021PF	2022E	2023E	2024E	2021PF-24E CAGR (%)
EBITDA o/w	30.4	41.2	45.8	52.1	19.6%
Energy Efficiency	9.9	16.4	19.5	22.7	41.9%
<i>EBITDA margin (%)</i>	<i>16.4%</i>	<i>17.1%</i>	<i>14.8%</i>	<i>13.1%</i>	
B2C (House Verde)	9.6	15.3	16.0	17.1	
B2B	0.3	1.1	3.5	5.6	
Environmental Services	20.5	24.8	26.3	29.4	12.8%
<i>EBITDA margin (%)</i>	<i>12.7%</i>	<i>13.9%</i>	<i>13.6%</i>	<i>14.0%</i>	
Cobat & SEA	2.3	4.5	5.6	6.5	
Collect/select/treat	1.2	1.7	2.1	2.2	
End of Waste	15.4	14.6	13.9	12.9	
Innovative Treatments	0.0	0.0	0.7	3.0	
D&A	-16.7	-17.2	-14.8	-14.9	
Allocations	-4.1	-4.4	-4.5	-4.7	
EBIT	9.6	19.7	26.5	32.4	50.0%
<i>EBIT margin (%)</i>	<i>4.3%</i>	<i>7.2%</i>	<i>8.1%</i>	<i>8.5%</i>	

Source: Innovatec, Value Track Analysis

Innovatec: Profitability evolution 2021PF-2024E



Source: Innovatec. Value Track Analysis

Innovatec: 2021PF-24E P&L Forecasts

€mn	2021PF	2022E	2023E	2024E	2021PF-24E CAGR (%)
Group Revenues	222.4	274.6	325.2	382.9	19.9%
EBITDA	30.4	41.2	45.8	52.1	19.6%
<i>EBITDA margin (%)</i>	<i>13.7%</i>	<i>15.0%</i>	<i>14.1%</i>	<i>13.6%</i>	
Depreciation & Amortization	-16.7	-17.2	-14.8	-14.9	
Allocations	-4.1	-4.4	-4.5	-4.7	
EBIT	9.6	19.7	26.5	32.4	50.0%
<i>EBIT margin (%)</i>	<i>4.3%</i>	<i>7.2%</i>	<i>8.1%</i>	<i>8.5%</i>	
Net Fin. Income (charges)	0.0	-1.2	-1.0	-0.7	
Non-Operating items	0.0	0.0	0.0	0.0	
Pre-tax Profit	9.6	18.4	25.5	31.7	48.9%
Taxes	-3.6	-6.3	-8.4	-10.3	
<i>Tax rate (%)</i>	<i>-37.8%</i>	<i>-34.2%</i>	<i>-33.1%</i>	<i>-32.5%</i>	
Group Net Profit	6.0	12.1	17.1	21.4	53.0%
<i>Group Net Profit margin (%)</i>	<i>2.7%</i>	<i>4.4%</i>	<i>5.2%</i>	<i>5.6%</i>	
Minorities	29.1	46.7	63.8	85.2	
Net Profit	5.1	10.5	15.1	19.2	55.3%
<i>Net Profit margin (%)</i>	<i>2.3%</i>	<i>3.8%</i>	<i>4.7%</i>	<i>5.0%</i>	

Source: Innovatec, Value Track Analysis

Free Cash Flow 2022E-2024E

We expect the company to strengthen its financial position in the next years, as an effect of its steady Free Cash Flow generation.

Indeed, we expect the Group to generate ca. **€45mn of cumulated Operating Free Cash Flow after taxes in the 2022E-24E period**, i.e. ca 33% EBITDA conversion ratio as a consequence of:

- ◆ **€49.5mn cumulated CapEx** plan, including both development and maintenance expenditures;
- ◆ **Net Working Capital** average absorption of €3.1mn per year;
- ◆ **Costs for landfill closures of €10.5mn**, as we assume two closures in 2022E.

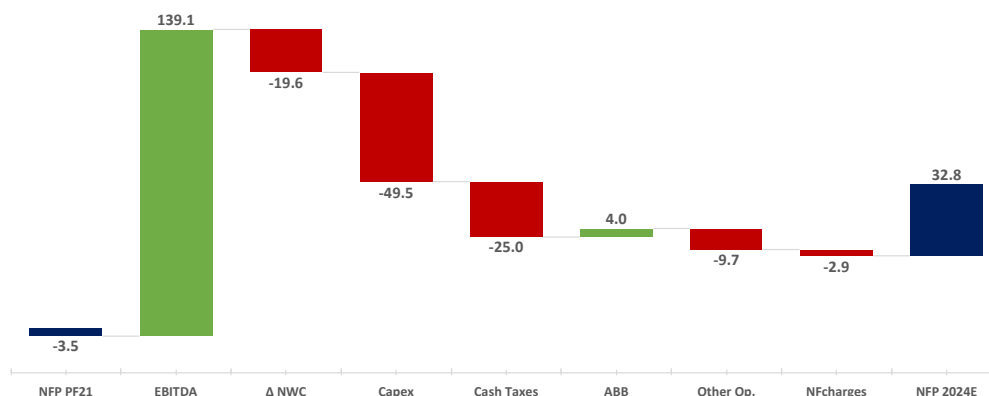
Considering also financial charges (the company has a gross debt around €31mn at the end of 2021), the proceeds of the ABB and the impact of the SEA acquisition, we expect ca. **€36.3mn cumulated Free Cash Flow**, allowing Net Cash Position to reach ca. €32.8mn by the end of 2024E.

Innovatec: 2021PF-24E Cash Flow Statement

€mn	2021PF	2022E	2023E	2024E
EBITDA	30.4	41.2	45.8	52.1
NWC requirements	-11.7	-2.3	-3.8	-3.1
Capex	-8.9	-20.8	-17.6	-11
Change in provisions	-0.1	-4.8	-4.8	-0.9
OpFCF b.t.	9.7	13.3	19.6	37.0
<i>As a % of EBITDA</i>	<i>32.1%</i>	<i>32.3%</i>	<i>42.9%</i>	<i>71.1%</i>
Cash Taxes	-3.6	-6.3	-8.4	-10.3
OpFCF a.t.	-6.1	7.0	11.2	26.7
Capital Injections	1.8	4.0	0.0	0.0
Other Op. Items / M&A	-22.1	-9.7	0.0	0.0
Net Financial Charges	0.0	-1.2	-1.0	-0.7
Change in Net Fin. Position	-14.2	0.0	10.2	26.0

Source: Innovatec, Value Track Analysis

Innovatec: Bridge Net Financial Position 2021PF-2024E



Source: Innovatec, Value Track Analysis

Innovatec: 2021PF-24E Balance Sheet

€mn	2021PF	2022E	2023E	2024E
Working Capital	0.4	2.7	6.5	9.6
As a % of Sales	0.2%	1.0%	2.0%	2.5%
Net Fixed Assets	74.6	84.7	87.5	83.7
Provisions	42.4	37.3	37.0	40.8
Total Capital Employed	32.6	50.2	57.0	52.4
As a % of Sales	14.7%	18.3%	17.5%	13.7%
Shareholders' Equity	23.5	38.0	53.1	72.3
Minorities' Equity	5.6	8.7	10.7	12.9
Group Net Equity	29.1	46.7	63.8	85.2
NFP	-3.5	-3.4	6.8	32.8

Source: Innovatec, Value Track Analysis

Appendix – Peers’ profile, ratios and multiples

Peers’ description

Innovatec: Peers’ Business Profile

Energy Efficiency

EdiliziAcrobatica – Italy-based company, leader in outdoor maintenance and renovation of real estate assets through an innovative double safety rope and no use of scaffoldings technique.

Sciuker Frames – Italy-based company engaged in the design, manufacturing and provision of high-quality and sustainable windows and window frames. Also active in the energy efficiency market through its “Ecospace” subsidiary.

Nusco – Italy-based company specialized in interior doors, windows and window frames manufacturing. Tax deductions for energy efficiency works are supporting an ever-increasing demand for doors and windows.

A.B.P. Nocivelli – Italy-based company active in the services and construction market through three business lines: services (including energy efficiency), constructions (electrical, hydraulic and special plants), oil (trade of oil products for transportation and heating purposes).

Comal – Italy-based company, EPC leader in the installation of large solar photovoltaic plants under grid-parity, with over 30 plants installed plants with a cumulative power of ca. 600MW since 2009.

Renargetica – Italy-based company that provides full support in the development of renewable energy projects (site identification, plant, design, asset management) and in the design of hybrid power generation systems.

ESI – Italy-based company active in the renewable energy market, operating as EPC provider and system integrator for the construction of photovoltaic systems and plants of large size and power.

Agatos – Italy-based company engaging in the provision of energy efficiency solutions across three business lines: biomethane processes, energy efficiency (focus on Superbonus 110%), EPC photovoltaic projects.

Inspired - UK-based technology enables service provider for energy procurement, utility cost optimization and sustainability development solutions.

Arcadis - Netherlands-based company engaged in design, engineering, consultancy and management services in the area of infrastructure, environment, water and buildings, offering (among others) reliable energy supply systems.

Spie - France-based company focused on energy-related specialized services, ensuring the design, implementation, operation and maintenance of energy savings and environmentally-friendly facilities.

Environmental Services

Seri Industrial - Italy-based, circular economy-focused company active on the entire value chain of the energy accumulators / storage battery industry, operating through a plastic materials division and an electric accumulator division.

Ambienthesis – Italy-based company specialized in waste management, environmental remediation, value added waste services (e.g. waste-to-energy) and renewable energy production.

Mo-Bruk – Poland-based company, leader in the industrial waste management processing industry, with core business focused on incineration of medical and hazardous waste, stabilization and solidification of waste and RDF production.

Renewi – UK-based company, international leader in the waste-to-product business (waste management and recovery), focused on collection, recycling and treatment of commercial, organic, municipal and hazardous waste.

Biffa – UK-based company engaged in the waste management market, covering municipal, industrial, commercial, organic, food and hazardous waste-related services.

Séché Environnement – France-based company active in the collection, storage and treatment of non-radioactive waste, including dispersed hazardous waste, polluted soil and waste from electronic equipment.

Pizzorno Environnement – France-based player active in environmental services, including household, commercial and industrial waste collection, transportation, sorting and processing, as well as sanitation services and industrial cleaning.

Lassila & Tikanoja – Finland-based company engaged in environmental management support services, such as waste collection, its processing into secondary raw materials or recovered fuel and waste disposal activities.

Source: Various, Value Track Analysis

Peers' key financial ratios

Innovatec: Peers' key financial ratios

Company	Sales 2022E (€mn)	CAGR 2021E- 23E (%)		EBITDA Margin (%)		Capex / Sales (%)		ROCE b.t. (%)	
		Sales	EBITDA	2022E	2023E	2022E	2023E	2022E	2023E
Edilizia Acrobatica	109.5	19.1	22.6	16.7	16.7	2.0	2.0	76.6	75.8
Sciuker	124.5	28.8	26.9	32.6	31.1	11.2	3.4	66.6	76.9
Nusco	24.0	17.4	25.6	16.7	18.0	2.3	1.6	14.6	21.0
A.B.P. Nocivelli	65.0	15.0	8.0	21.2	16.8	4.3	3.1	60.6	55.1
Comal	54.8	19.3	42.4	11.3	11.9	4.7	1.7	23.7	25.1
Renergetica	14.0	17.3	18.1	40.4	40.6	0.0	0.3	24.3	29.6
ESI	20.9	9.4	12.4	15.6	15.8	1.4	1.3	123.4	130.5
Agatos	43.2	89.7	nm	8.8	9.7	4.7	1.8	19.7	24.9
Inspired	85.9	5.9	10.5	31.6	31.8	8.4	8.4	17.4	nm
Arcadis	3,520.0	3.5	11.2	11.1	11.6	1.8	1.9	15.4	17.8
Spie	7,653.0	6.1	7.2	8.4	8.5	0.9	0.9	15.7	17.2
Energy Efficiency – Average	1,065.0	21.1	18.5	19.5	19.3	3.8	2.4	41.6	47.4
Energy Efficiency – Median	1,151.8	21.2	18.1	19.7	19.6	4.0	2.4	38.5	44.5
Mo-bruk	57.2	5.5	4.5	58.8	57.5	6.5	2.1	27.7	29.8
Renewi Plc	1,892.8	3.4	-0.7	12.0	12.3	7.8	6.7	11.9	12.7
Biffa Plc	1,762.7	8.7	10.2	15.0	15.4	7.7	7.7	9.7	10.6
Seri Industrial	262.0	24.8	52.3	15.6	17.1	6.5	6.0	9.2	13.6
Séché Environnement	857.0	6.7	7.2	21.5	21.6	11.1	10.5	11.0	11.9
Lassila & Tikanoja	830.0	1.6	5.1	12.0	12.5	6.4	6.4	11.7	12.1
Pizzorno Environnement	209.0	1.4	5.2	13.6	14.6	4.8	2.3	9.4	12.4
Ambienthesis	175.0	5.3	4.6	18.9	19.0	13.7	13.0	24.4	22.6
Environmental Services – Average	755.7	7.2	11.0	20.9	21.2	8.1	6.9	14.4	15.7
Environmental Services – Median	546.0	5.4	5.1	15.3	16.2	7.1	6.6	11.3	12.5
Total Average	934.8	15.2	15.2	20.1	20.1	5.6	4.3	30.2	33.3
Total Median	124.5	8.7	10.3	15.6	16.7	4.8	2.3	17.4	21.8
Innovatec	274.6	20.9	22.7	15.0	14.1	7.6	5.4	39.2	46.5

Source: Market Consensus, Value Track Analysis

Peers' trading multiples

Innovatec: Peers' stock trading multiples

Peers Cluster	Market Cap (€mn)	EV / Sales (x)		EV / EBITDA (x)		EV / OpFCF (x)		P / E (x)	
		2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E
Edilizia Acrobatica	109.7	1.0	0.8	5.8	4.7	6.5	5.4	11.6	9.2
Sciuker	170.3	1.1	0.9	3.4	2.8	5.1	3.1	10.8	7.7
Nusco	23.7	1.0	0.7	5.8	3.9	6.8	4.3	14.4	10.3
A.B.P. Nocivelli	106.0	1.1	0.8	5.3	4.6	6.6	5.7	12.1	11.5
Comal	35.4	0.8	0.7	6.7	5.6	11.6	6.5	10.4	8.9
Renergetica	50.9	4.0	3.1	9.9	7.6	9.9	7.6	13.8	10.7
ESI	22.2	0.8	0.6	5.1	4.0	5.6	4.3	11.4	10.2
Agatos	10.7	0.5	0.4	5.5	3.9	11.9	4.8	6.2	3.8
Inspired	133.4	2.7	2.4	8.5	7.6	11.6	10.3	18.3	13.0
Arcadis	3,378.8	1.1	1.0	10.1	9.0	12.1	10.8	16.9	15.4
Spie	3,158.8	0.6	0.5	6.8	6.3	7.7	7.0	14.3	12.7
Energy Efficiency – Average	654.5	1.3	1.1	6.6	5.5	8.7	6.3	12.7	10.3
Energy Efficiency – Median	106.0	1.0	0.8	5.8	4.7	7.7	5.7	12.1	10.3
Mo-bruk	287.5	4.7	4.1	7.9	7.2	8.9	7.5	11.9	11.0
Renewi Plc	539.2	0.6	0.6	4.8	4.5	13.7	10.0	11.6	8.6
Biffa Plc	1,084.0	1.0	1.0	6.9	6.2	14.1	12.5	18.7	14.6
Seri Industrial	388.8	1.9	1.6	11.9	9.2	20.4	14.2	32.4	20.5
Séché Environnement	488.3	1.1	1.0	5.0	4.6	10.3	8.9	12.5	11.1
Lassila & Tikanoja	417.3	0.7	0.7	5.9	5.5	12.5	11.3	12.1	11.3
Pizzorno Environnement	126.6	0.8	0.7	5.8	4.7	8.9	5.6	16.0	13.3
Ambienthesis	152.9	1.2	1.1	6.3	5.9	23.0	18.9	10.9	10.2
Environmental Services – Average	435.6	1.5	1.3	6.8	6.0	14.0	11.1	15.8	12.6
Environmental Services – Median	403.1	1.1	1.0	6.1	5.7	13.1	10.7	12.3	11.2
Total Average	562.3	1.4	1.2	6.7	5.7	10.9	8.4	14.0	11.3
Total Median	152.9	1.0	0.8	5.9	5.5	10.3	7.5	12.1	11.0
Innovatec @ current mkt price	165.1	0.8	0.6	5.2	4.5	10.6	7.2	12.6	9.3

Source: Market Consensus (Stock prices as of 09-03-22), Value Track Analysis * OpFCF computed as (EBITDA-Capex)

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