

Euronext Growth Milan



EGM Stock Guide

(Redacted version)

Research Team

Tel: +39 02 80886654

info@value-track.com

About ValueTrack

ValueTrack is a capital markets and corporate finance firm focused on mid-small caps offering a wide range of services: Advisory, Equity- Debt Research, Investor Access. Our research is available on ValueTrack and Borsa Italiana websites, Bloomberg, FactSet, Thomson Reuters, S&P Capital IQ.

2022 YTD: one of the worst periods ever for EGM stocks

Macro uncertainties have depressed the stance of all equity markets in 2022, and EGM is no exception. All KPIs are, indeed, down. Only 17 companies have been admitted to EGM (€120mn total offer value at IPO, net of Technoprobe), with IPO EV/EBITDA FY1 multiple down at 6.0x (from 7.7x in 2021), and stock prices and volumes are down by ca. 20% y/y.

1H22 earnings season: More lights than shadows

1H22 results picture is positive, with Aggregated Revenues and EBITDA up +42.8% and +28.0% y/y respectively. We note that more and more EGM companies are achieving relevant dimensions (8 companies with Revenues above €100mn and 11 companies with EBITDA above €10mn), but also that 20% of EGM companies are loss making at EBIT level.

Find the full list of companies that in our view reported the best 1H22 results, in the "non redacted" version of this report (available upon request).

What's ahead on FY22E-FY23E forecasts?

Market consensus on FY22E-23E EGM companies' estimates returns a rosy picture, with Revenues and EBITDA expected to grow by 33%-29% y/y in FY22E and by ca. 17%-25% y/y in FY23E respectively. In our view, such a picture is too optimistic, and indeed most of EGM companies had their FY22E-23E forecasts revised downwards after 1H22 releases. More downward estimates revision might come in the next few months.

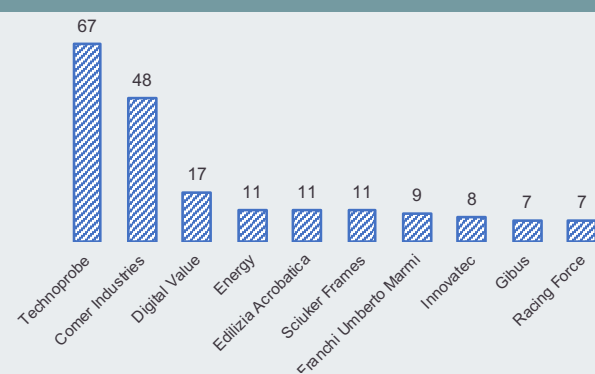
Top picks. Stay selective

Within the current scenario we would suggest investors to focus their EGM portfolios on: 1) *Momentum stocks*, i.e. companies that are reporting ever improving financial results and that boast stock price upside potential; 2) *Excessively derated stocks*, i.e. companies currently very far from their all-time highs, but whose business potential is not being negatively impacted in a lasting manner by macro factors; 3) *Value for Quality stocks*, i.e. companies whose business model quality is currently mispriced by the stock market. Find the full list of our Top Picks in the "non redacted" version of this report (available upon request).

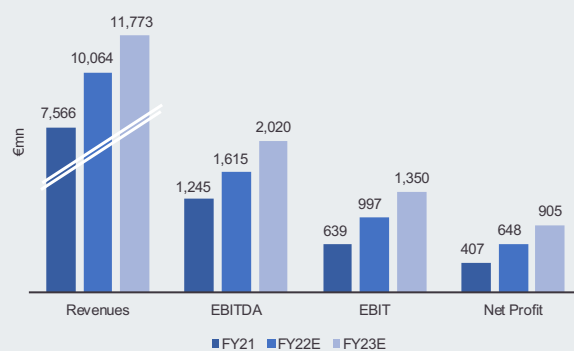
FTSE Italia Growth
Mkt Cap (€bn)

8,960
13.7

EGM: TOP 10 COMPANIES BY 1H22 NET PROFIT (€mn)



EGM: 2022E-23E AGGREGATE CONSENSUS FORECASTS (€mn)



EGM: STOCK TRADING MULTIPLES 2022E-23E

MULTIPLES (Avg., x)	@ MARKET PRICE		@ FAIR VALUE	
	2022E	2023E	2022E	2023E
EV / SALES	1.4x	1.2x	2.3x	1.9x
EV / EBITDA	8.9x	6.5x	13.8x	10.3x
EV / EBIT	14.2x	9.2x	19.1x	15.0x
P / E	17.1x	13.3x	23.8x	20.3x

Source: ValueTrack Analysis on Market Consensus (as of 31/10/2022)



Executive summary

2022 Year-To-Date, one of the worst periods ever for EGM stock market

Geopolitical, sanitary and macro uncertainties have depressed the stance of all equity markets in 2022, and EGM is no exception. Indeed, all EGM KPIs are in negative territory:

- ◆ **Stock Market prices.** The 1-year return of FTSE Italia Growth Index is negative by ca. 20%, and only 22 EGM stocks are recording a 1-year positive stock market performance;
- ◆ **Stock Market trading volumes.** EGM market trading countervalue is down ca. 20% y/y in the first nine months and ca. 63% y/y in 3Q22 alone;
- ◆ **ECM activity.** Excluding Technoprobe, total capital raised at IPO year-to-date stands at €120mn, (17 IPOs, €7.1mn average offer size per deal) vs. €826mn for the whole 2021 (€19.2mn per deal);
- ◆ **IPO multiples.** Year-to-date we calculate average 6.0x EV/EBITDA FY1 and 8.7x P/E FY1, again down from 2021 all-time high.

More lights than shadows in 1H22 financial figures. Safe heavens or laggards?

Overall, 1H22 results picture is positive both in terms of top line growth and operating profitability evolution, but we fear that fiscal bonuses are somehow distorting it. More in details, the main messages that we can draw from 1H22 reporting season are:

1. EGM boasts profitable growth in 1H22, in line with buoyant FY21

We calculate double-digit y/y growth rates for Revenues and EBITDA (+42.8% and +28.0% y/y respectively), a sign that market demand remained strong in 1H22, in line with the buoyant stance recorded in FY21.

2. More and more EGM companies are achieving relevant size

Looking at 1H22 figures we note that there are 8 companies with Revenues above €100mn and 11 companies with EBITDA above €10mn.

3. Fastest growing companies are supported by top-down drivers

Generally speaking, we find the fastest growing companies among those benefitting from trends such as clean energy transition and buildings renovation fiscal incentives.

4. Capital structure remains well balanced, but for some companies

Aggregate 1H22 Net Debt/EBITDA ratio has remained stable h/h at ca. 0.5x, with ca. 42% of companies being cash positive. However, there are also some companies heavily loaded with debt.

5. The number of companies facing decreasing / negative profits remains quite high

The number of loss-making companies remains quite high. Indeed, out of our data sample, we calculate that in 1H22 there are: 1) 23 companies with negative EBITDA, out of which 4 were EBITDA positive in 1H21; 2) 42 companies with negative EBIT, out of which 12 were EBIT positive in 1H21.

Find the full list of companies that in our view reported the best 1H22 results, in the “non redacted” version of this report (available upon request).

Updated FY22E-FY23E consensus forecasts likely too bullish

At a first glance, market consensus on FY22E-23E EGM companies' estimates returns a rosy picture, with Revenues and EBITDA expected to grow by 33%-29% y/y in FY22E and by ca. 17%-25% y/y in FY23E respectively.

In our view, such a picture is too optimistic, being somehow affected by the low visibility on 2023E and inflated by the fiscal bonuses currently in place on buildings renovation and clean energy transition.

Indeed, digging into the numbers reveals some "cracks":

1. Close to half of EGM companies have seen their FY22E-23E forecasts revised downwards;
2. Aggregate Top Line forecasts have been revised mildly upwards, while Operating Profitability ones have been revised mildly down;
3. Aggregate forecasts have been more severely revised downwards if we adjust for companies positively impacted by fiscal bonuses or by energy prices inflation.

As a matter of facts, we expect more downward estimates revision to come in the next few months.

EGM stock market multiples stable vs. May 2022

At aggregate level, we calculate that EGM is trading at 1.4x-1.2x EV/Sales, 8.9x-6.5x EV/EBITDA and 17.1x-13.3x P/E 2022E-23E, substantially in line with multiples outlined in our latest EGM Stock Guide report as of May 2022, as the FTSE Growth Index derating has been offset by downwards revision of estimates across the market.

However, if our belief that more downward estimates revision might come in the next few months, the real market multiples could be higher.

Top Picks. Stay selective

Being selective is always the first rule to follow on Euronext Growth Market. Just as example, we note that after 1H22 reporting season, only 18 EGM stocks (10% of total) were rewarded with an increase in fair value, thanks to upwards estimates revision that more than offset peers' multiples derating and the increase of cost of capital.

That said, our view is that the downward revision of 2023E forecasts is not over yet, as rising cost of production and lower market demand might keep negatively impacting in the next 2-3 quarters.

At the same time, we believe that investors should get ready for the moment in which central banks rates hike process sees an end, somewhen in 1H23 depending on the evolution of inflation / energy prices.

Based on the above-mentioned hints, we would suggest investors to focus their EGM portfolios on selected picks, clustered in the following groups:

1. **Momentum stocks**, i.e. # companies that are reporting ever improving financial results and that boast stock price upside potential;
2. **Excessively derated stocks**, i.e. companies currently very far from their all-time highs, but whose business potential is not being negatively impacted in a lasting manner by macro factors;
3. **Value for Quality stocks**, i.e. companies whose business model quality is currently mispriced by the stock market.

We note that, based on market consensus, the majority of our picks selection enjoys a >50% stock price upside potential.

Find the full list of our Top Picks in the "non redacted" version of this report (available upon request).

Euronext Growth Milan: key facts & trends

Geopolitical, sanitary and macro uncertainties have depressed the stance of all equity markets in 2022, and EGM is no exception. Indeed, all EGM KPIs are in negative territory: 1) Only ca. 10% of EGM stocks are recording a 1-year positive stock market performance; 2) Some 90% of EGM companies boast an average 1-month daily turnover below the €50k threshold; 3) Excluding Technoprobe, total capital raised at IPO year-to-date stands at a poor €120mn, (17 IPOs, €7.1mn average offer size per deal); 4) Year-to-date we calculate average 6.0x EV/EBITDA FY1 and 8.7x P/E FY1 IPO multiples, again down from 2021 all-time high.

Euronext Growth Milan at a glance

As of the end of October 2022, **#181 companies were actively listed on Euronext Growth Milan** (*Enertronica Santerno* and *Fabilia* suspended), previously named as AIM Italia, representing nine industries and a **current aggregate Market Capitalization close to €14bn**, out of which Technoprobe alone accounts for over €4.2bn.

Market Capitalization distribution by companies remained wide, ranging from €0.3mn of Ki Group to the above-mentioned ca. €4.2bn of Technoprobe.

More than 1/2 of listed companies (#105) are currently trading at Market Cap. lower than €40mn threshold while there are **24 companies with a Market Cap greater than €100mn**.

In terms of market composition, we highlight:

- ◆ Lower diversification in terms of industry composition with six industries (*Health Care, Telco, Energy & Utilities, Media, Consumer Services* and *Financials*) currently representing 23% of aggregated Market Cap. (33% not considering Technoprobe);
- ◆ *Technology* is the first industry by total Market Cap: €6.7bn, ca. 49% of aggregated Market Cap (net of Technoprobe, equal to 26%).

Euronext Growth Milan: Key statistics (*)

Industry	Listed Companies		Market Cap	
	#	As (%)	(€mn)	As (%)
Energy & Utilities	13	7%	731	5%
Telecommunications	4	2%	382	3%
Health Care	13	7%	571	4%
Technology	38	21%	6,691	49%
Media	17	9%	228	2%
Consumer Goods	29	16%	1,594	12%
Consumer Services	18	10%	426	3%
Industrials Goods	27	15%	2,274	17%
Financials	22	11%	822	6%
Total EGM	181	100%	13,719	100%

Source: ValueTrack Analysis (*) All stock listed as of 31/10/22 excluding those currently suspended

2022 Year-To-Date, one of the worst periods ever for EGM stock market

Macro uncertainties are negatively impacting the stance of all equity markets in 2022, and EGM is no exception.

Indeed, the rebound after covid-19 outbreak and the conflict between Russia – Ukraine have severely impacted market demand and supply chains resulting in material cost inflation (raw materials, energy prices and so on).

Such cost inflation is triggering an aggressive official interest rates hike by Central Banks, and this is driving a GDP slowdown. Likelihood of macroeconomic recession is getting higher.

Higher interest rates and worse economic stance are obviously burdening Equity as an asset class, negatively affecting EGM in terms of:

- ◆ Stock Market prices;
- ◆ Stock Market trading volumes;
- ◆ ECM volumes;
- ◆ IPO multiples.

How macro uncertainties are negatively affecting stock markets



Source: ValueTrack Analysis

Stock Market prices down, but EGM is not the worst performer

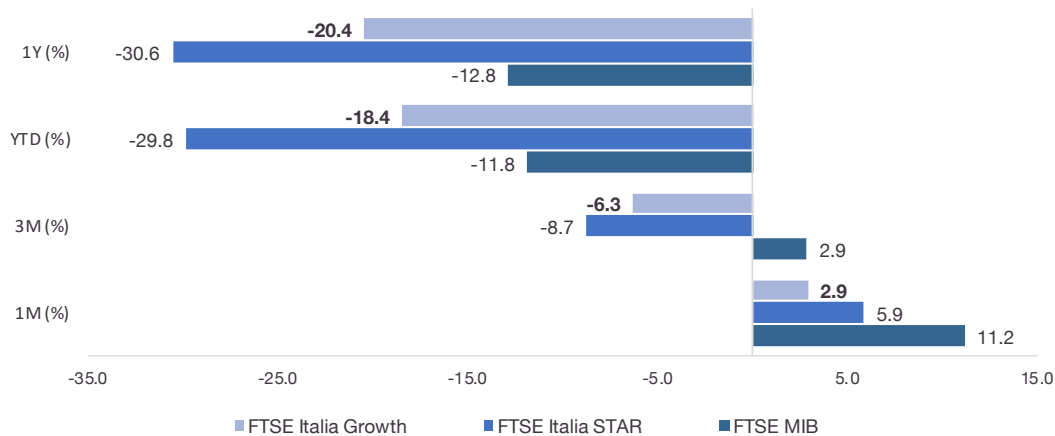
The 1-year return of FTSE Italia Growth Index is negative by ca. 20%, and also 3-months and Year-To-Date FTSE Italia Growth Index performances are negative.

It is worthy to note that:

- ◆ FTSE Italia Growth Index is underperforming the Blue-Chip FTSE MIB Index, but is outperforming FTSE STAR one;
- ◆ FTSE Italia Growth Index reached its all-time high since inception in the end of 2021;

- ◆ Out of all EGM companies listed as of October 2021, there are 22 stocks recording a 1-year positive stock market performance (on average ca. +35.5% growth), a further sign that careful stock picking can be rewarding.

FTSE Italia Growth Index: 1M – 3M – YTD – 1Y performances

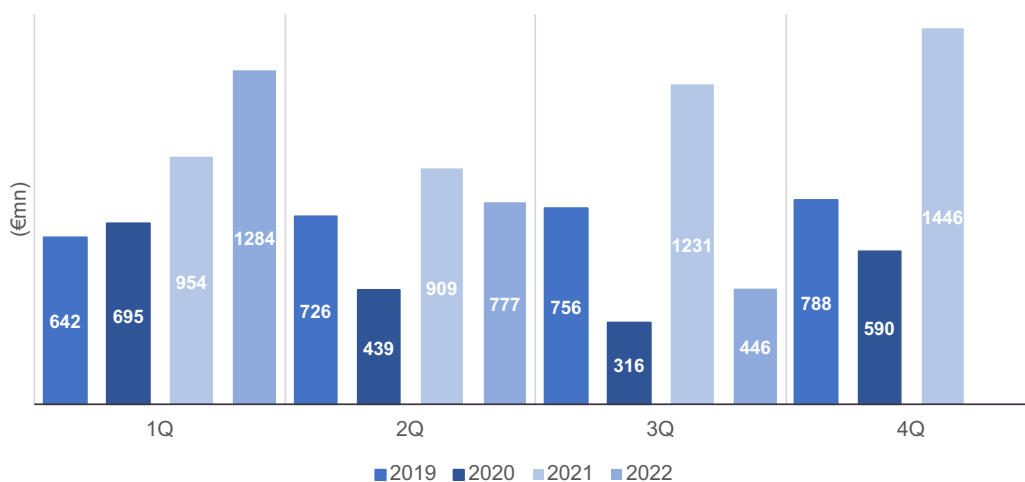


Source: Bloomberg, ValueTrack Analysis (*) Based on all stock listed as of 31/10/22

EGM Stock Market trading volumes down as well

Total EGM market trading countervalue stands at €2.5bn in the first nine months of 2022, ca. -20% compared to €3.1bn in the first nine months of 2021, and the trend is worsening quarter by quarter. Indeed, EGM market trading countervalue is down ca -63% in 3Q: €446mn in 3Q22 vs. €1,231mn in 3Q21.

Euronext Growth Milan: 2018- Sept 2022 Total Turnover by quarter

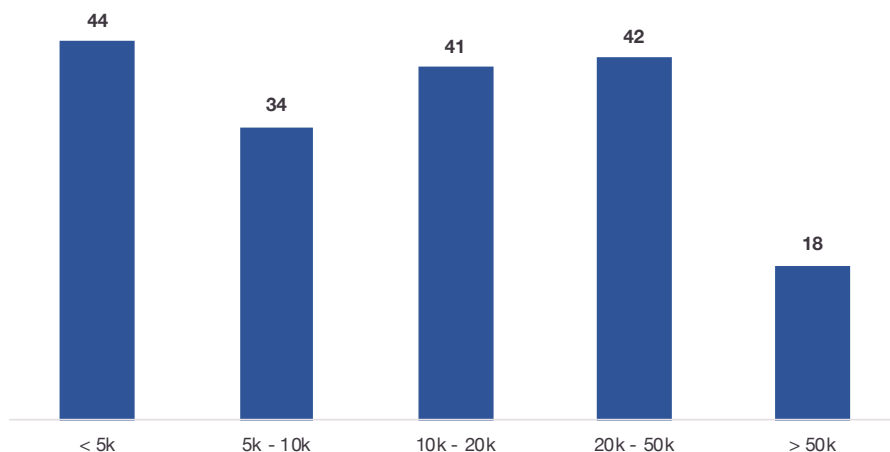


Source: Borsa Italiana, ValueTrack Analysis

As a result, only 10% of EGM listed companies boast a daily turnover, calculated as the average of the latest 30 trading days, above the €50k threshold.

On the opposite side, ca. **25% of listed stocks currently shows a daily turnover below €5k.**

Euronext Growth Milan: Number of stocks by daily trading countervalue



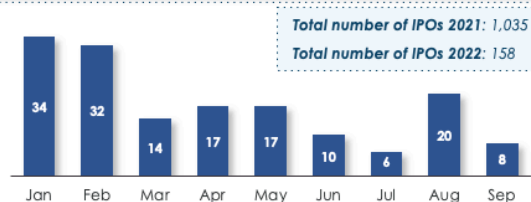
Source: Bloomberg, ValueTrack Analysis

Lower ECM activity, in Italy and elsewhere

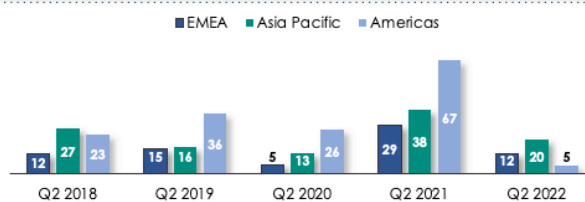
Given the higher interest rate + lower GDP evolution environment, is not such a surprise that ECM activity is shrinking all over the world Year-To-Date.

ECM activity worldwide in 2021-2022

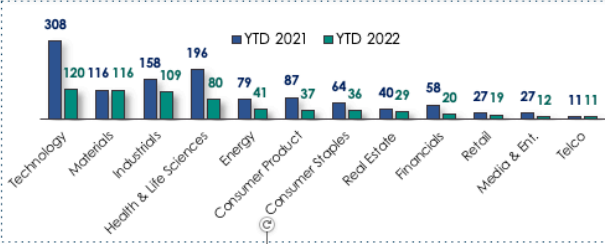
Monthly number of IPOs in the U.S. 2022 YTD (Jan-Sept)



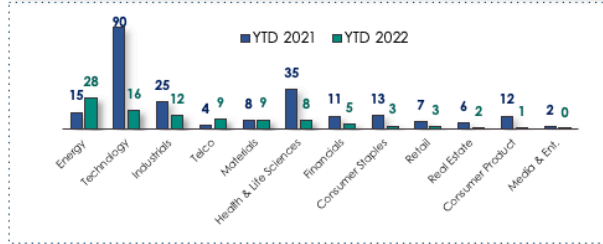
IPO Proceeds by Region (US\$bn, Q2 2018-19-20-21-22)



Global Number of IPOs by Sector 2021-2022 YTD



Global IPO Proceeds 2021-2022 YTD by Sector (US\$bn)



Source: Bloomberg Finance L.P., EY Global IPO Trends, PwC Global IPO Watch, ValueTrack Analysis

As far as Euronext Growth Market is concerned, we calculate that since January 2022:

- ◆ **17 companies have been admitted to Euronext Growth Milan** (including IPO on PRO), i.e. ca. -30% the number of listings occurred in the same period of 2021.
- ◆ **6 companies have been delisted** (*Energica Motor Company, SITI B&T, Sirio, Fedon, Assiteca* and *Costamp*), and only **#1 company moved to MTA** (*Net Insurance*);
- ◆ Excluding Technoprobe, **total Capital Raised at IPO stands at ca. €120mn**, (€7.1mn per deal) vs. €826mn for the whole 2021 (€19.2mn per deal).

Euronext Growth Milan: Listings since Jan '22

Company	Date	Offer	Company	Date	Offer
Altea Green Power	01/02/22	5.0	Solid World Group	06/07/22	6.5
Technoprobe	15/02/22	712.5	G.M. Leather	13/07/22	3.9
Rocket Sharing Company	28/02/22	4.0	Pozzi Milano	19/07/22	2.0
Farmacosmo	30/03/22	22.3	Imprendiroma	20/07/22	6.0
Bifire	31/05/22	10.0	Energy	01/08/22	30.0
Redelfi	08/06/22	3.5	Siav	04/08/22	5.0
High Quality Food	09/06/22	2.9	Yolo (*)	05/08/22	10.0
Bellini Nautica	15/06/22	3.6	Franchetti	29/09/22	2.2
Erfo	29/06/22	3.5			

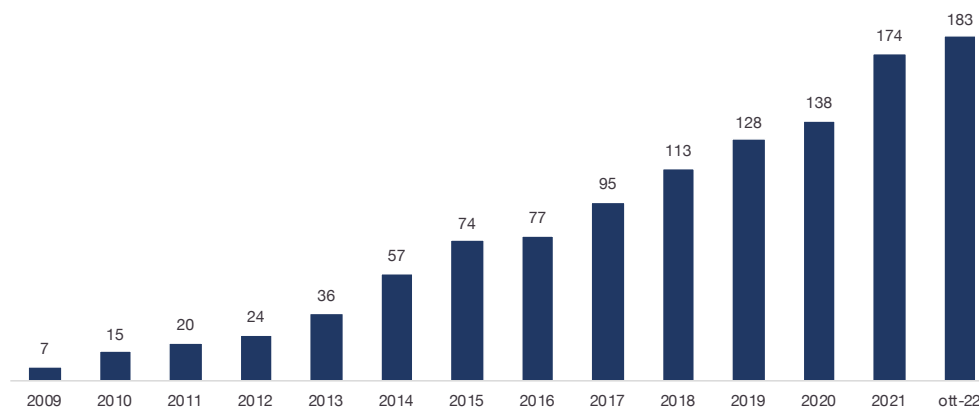
Source: Borsa Italiana, ValueTrack Analysis (*) Admitted to professional segment

Euronext Growth Milan: Delistings since Jan '22

Company	Date	Delisting Type
Energica Motor Company	14/03/22	Public Tender Offer
SITI B&T	21/03/22	Public Tender Offer
Sirio	26/04/22	Insolvency Procedure
Assiteca	13/07/22	Public Tender Offer
Fedon	20/07/22	Public Tender Offer
Costamp	09/08/22	Public Tender Offer

Source: Borsa Italiana, ValueTrack Analysis

Euronext Growth Milan: Number of listed companies since 2009



Source: Borsa Italiana, ValueTrack Analysis

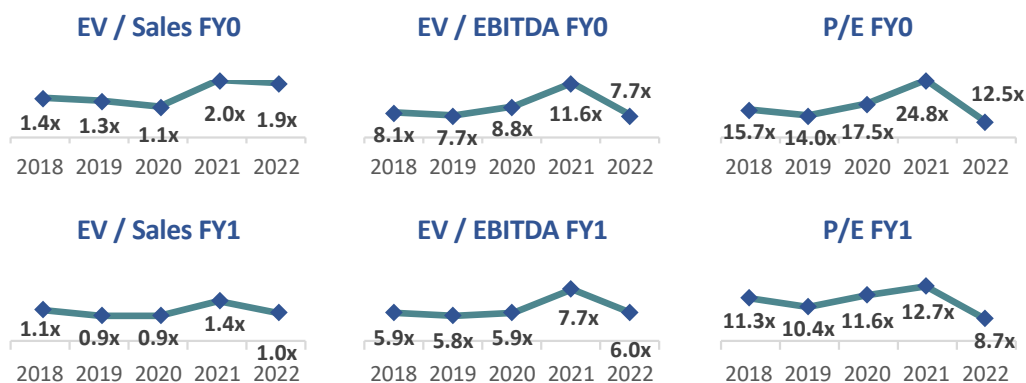
Last but not least, IPO multiples negatively impacted as well

As far as 2022 Euronext Growth Market IPO Multiples are concerned, we calculate that they are decreasing from 2021 all-time high, and that they are back at 2019-2020 level.

More in details, we calculate the following 2022 EGM IPO multiples:

- ◆ EV/Sales FY1 at 1.0x, down from 1.4x as of 2021;
- ◆ EV/EBITDA FY1 at 6.0x, down from 7.7x as of 2021;
- ◆ P/E FY1 at 8.7x, down from 12.7x as of 2021.

EGM IPO Multiples 2018 - 2022



Source: Value Track Analysis

1H22 earnings season analysis

Overall, 1H22 results shed a positive picture, partially inflated by fiscal bonuses impact: 1) Aggregated Revenues and EBITDA are growing at double digit rate (+42.8% and +28.0% y/y respectively); 2) there are 8 companies with Revenues in excess of €100mn and 11 companies with EBITDA above €10mn; 3) At 0.5x Net Debt/EBITDA ratio the capital structure remains well balanced. At the same time, we note that number of loss-making companies remains quite high, (42 companies with negative EBIT, out of which 12 were EBIT positive in 1H21).

A look at 1H22 reporting season: data sample and key messages

We took into consideration **#158 corporates that approved 1H22 results** within the end of September, excluding from our analysis:

- ◆ #2 stocks that are currently suspended from trading, i.e. *Fabilia* and *Enertronica Santerno*;
- ◆ #1 stock with different fiscal year end (*Nice Footwear*);
- ◆ #22 financial stocks for which items such as Revenue and EBITDA are not strictly applicable. These include SPACS, (e.g. *Industrial Stars of Italy 4*), investment vehicles (e.g. *ABC Company*, *4AIM* and similar), diversified financials (e.g. brokers such as *Intermonte* and so on).

Analysing 1H22 figures of the companies included in this data set we can draw insightful messages, both at aggregate level and at company specific one.

More in details, the messages we'd highlight are:

1. EGM boasts profitable growth in 1H22, in line with buoyant FY21;
2. More and more EGM companies are achieving relevant size;
3. Fastest growing companies are benefitting from favourable top-down trends (e.g. clean energy transition, buildings renovation fiscal incentives, Italian NRRP funds, digital transformation), while there's no common theme behind least growing ones;
4. Fast growing companies have materially improved their profitability;
5. Capital structure remains well balanced, on average, but there are companies whose leverage might be a problem with the recent hike in interest rates;
6. The number of companies facing decreasing / negative profits remains quite high.

Message # 1: 1H22 in line with buoyant FY21 profitable growth trend

We calculate double-digit y/y growth rates at top line and profitability level, a sign that market demand remained strong in 1H22, in line with the buoyant stance recorded in FY21.

Indeed, on a like-for-like basis, and including Technoprobe in our sample, we calculate that the aggregate of EGM companies in 1H22 recorded:

- ◆ **Revenues close to €4.9bn**, +42.8% y/y (€3.5bn in 1H21);
- ◆ **EBITDA and EBIT at €755mn and €445mn** respectively, i.e. +28.0% and +55.3% y/y respectively;
- ◆ **EBITDA margin and EBIT margin at 15.3% and 9.0%**, respectively;
- ◆ **Net Profit at €285mn**, up y/y if compared to the €183mn Net Profit in 1H22;

Always on a like-for-like basis, but excluding Technoprobe from our sample, we calculate:

- ◆ **Revenues close to €4.7bn**, +42.8% y/y (€3.3bn in 1H21);

- ◆ **EBITDA and EBIT at €648mn and €356mn** respectively, i.e. +27.7% and +65.1% y/y respectively;
- ◆ **EBITDA margin and EBIT margin at 13.8% and 7.6%**, respectively;
- ◆ **Net Profit at €219mn**, strongly up y/y if compared to the €121mn Net Profit in 1H22;

Euronext Growth Milan: Aggregate 1H21 – 1H22 results at a glance (*)

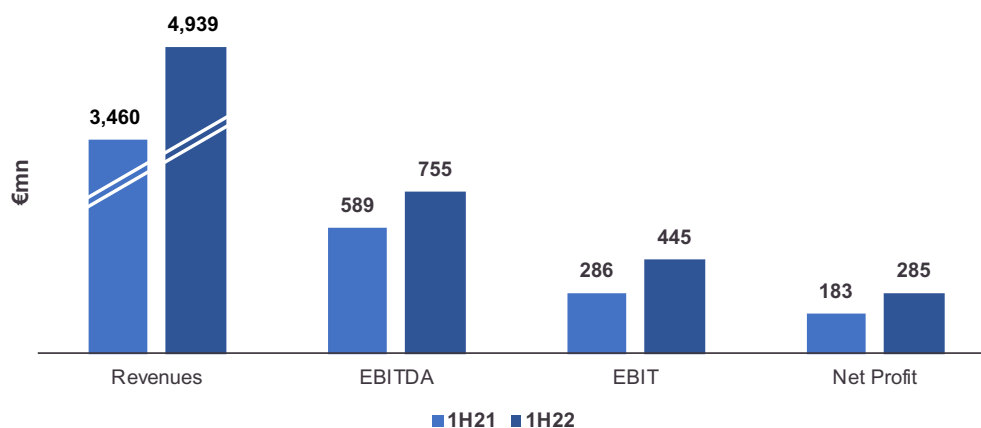
€mn	With Technoprobe			Without Technoprobe		
	1H21	1H22	y/y (% , €mn)	1H21	1H22	y/y (% , €mn)
Revenues	3,460	4,939	42.8%	3,284	4,689	42.8%
EBITDA	589	755	28.0%	507	648	27.7%
<i>EBITDA Margin (%)</i>	17.0%	15.3%	-176bps	15.5%	13.8%	-163bps
EBIT	286	445	55.3%	216	356	65.1%
<i>EBIT Margin (%)</i>	8.3%	9.0%	+73bps	6.6%	7.6%	+103bps
Net Profit	183	285	55.6%	121	219	80.9%
Net Profit incl. Financials	189	284	50.3%	126	217	72.0%
Net Debt	577 (**)	629	+52	713 (**)	945	+232
<i>Net Debt/EBITDA (x)</i>	0.5x (***)	0.4x (****)		0.7x (***)	0.7 (****)	

Source: ValueTrack Analysis on companies' data

(*) Like-for-like comparison, i.e. both 1H21 and 1H22 figures include the same 158 companies even if not all these companies were listed as of June 2021

(**) Value referring to 2021 Year-End (***) Considering EBITDA FY21 (****) Assuming annualised EBITDA (i.e. equal 2x interim figure)

1H21 vs 1H22 results- Key Aggregate financial figures (*)



Source: ValueTrack analysis on companies' data; Revenues bars are adjusted for better visibility

(*) # Companies net of financials, but including Technoprobe

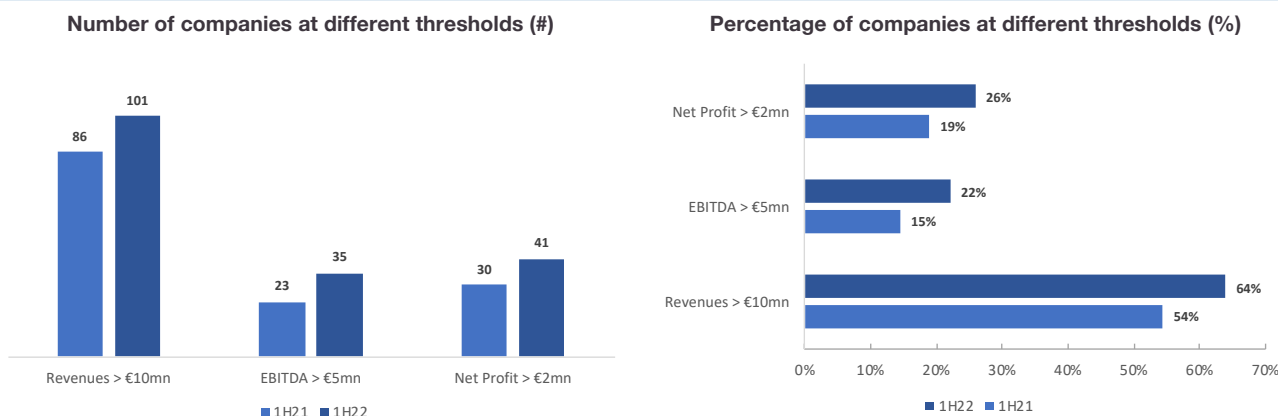
Message # 2: More and more EGM companies are achieving relevant size

EGM is a stock market focused on small but fast-growing companies. Despite that, we note that more and more EGM companies are achieving a size that might raise the interest of bigger institutional investors.

Indeed, out of the #158 non-financial firms included in our sample, we note that comparing 1H22 with 1H21 there are:

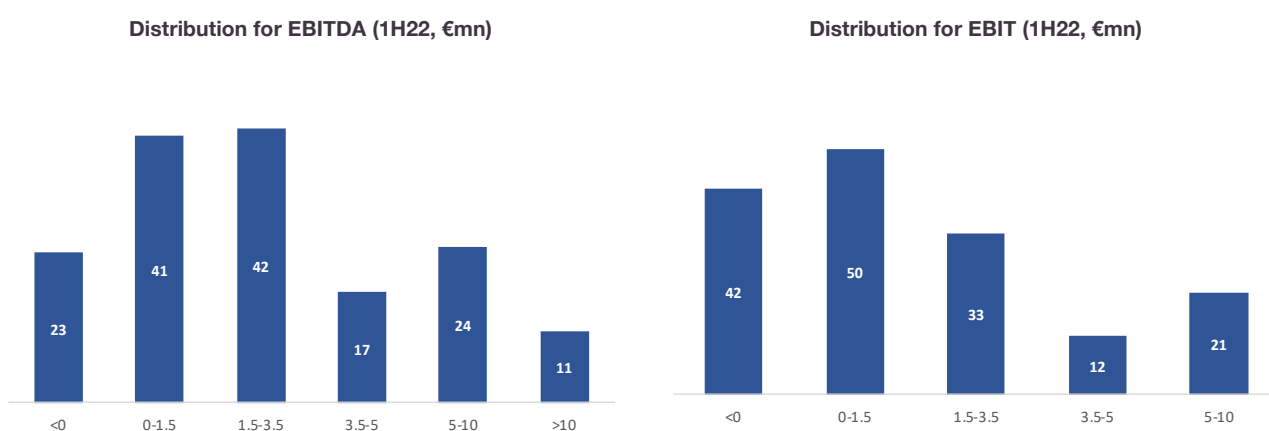
- ◆ 101 companies with Revenues above €10mn (up vs. 86 in 1H21), out of which 8 companies with Revenues above €100mn;
- ◆ 35 companies (22% of total) with EBITDA above €5mn (up from 23 in 1H21, 15% of total), out of which 11 companies with EBITDA above €10mn;
- ◆ 33 companies (21% of total) with EBIT above €3.5mn (up from 18 in 1H21, ca. 12% in 1H21), out of which 9 companies with EBIT above €10mn;
- ◆ 41 companies with Net Profit above €2mn (up from 30 in 1H21), out of which 10 companies with Net Profit above €5mn.

Number of companies at different fundamentals thresholds (#158 companies in 1H21-1H22)



Source: Value Track analysis on companies' data

1H22 EGM: EBITDA and EBIT distribution by size



Source: Value Track analysis on companies' data

Focusing on EBIT and Net Profit, we note that top EGM companies by size are related to:

- ◆ Tech / Digital;
- ◆ Fiscal bonuses / Energy Efficiency;
- ◆ Selected niche verticals.

Message # 3: Fastest growing companies are supported by top-down drivers, while there's no common theme behind least growing ones

As far as 1H22 Top Line growth is concerned, there are 8 companies with more than €5mn revenues that recorded a y/y total growth (including M&A activities) equal or above 200% (15 above 100% y/y).

We find the fastest growing companies among those benefitting from trends such as:

- ◆ Clean energy transition (both producers, resellers and installers);
- ◆ Buildings renovation fiscal incentives;
- ◆ Italian NRRP funds;
- ◆ Digital transformation;
- ◆ After Covid-19 rebound.

On the contrary, we find no particular common theme behind the double digit revenue decrease of a dozen of companies, whose weak performance seems to be driven by company specific factors.

It's interesting to highlight that the companies that in 1H22 posted such good figures that will probably lead to FY estimates upward revision are again those related to clean energy requalification / buildings renovation, and those that have benefitted most from post-covid rebound and / or have found a niche where to exploit their competitive advantage.

Again, we do not see any particular common theme behind the weak top line performance of several companies whose 1H22 was not in line with FY estimates and that will likely undergo a downward revision.

Message # 4: Fast growing companies have materially improved their profits

Most of the fast growing companies (in terms of revenues), also recorded very noticeable operating and net profitability improvement, be it driven by a sound and sustainable business model or simply by very high operating leverage.

As far as it regards EBITDA, EBIT and Net Profit growth in absolute terms, we underline that:

- ◆ Consumer Goods / Services and Industrial Goods are the most represented sectors;
- ◆ There are #6 companies that have recorded more than €10mn increase in EBITDA-EBIT in absolute terms.

At the same time, as far as it regards EBITDA growth in percentage terms, we underline that there are 9 companies with more than €2mn EBITDA that recorded a y/y growth equal to or above 100%, with more than half of the companies operating in the Consumer Goods / Energy & Utilities sectors and the remaining divided between Technology, Consumer Services, Media and Industrial Goods industries.

Message # 5: Capital structure remains well balanced, but for some companies

If we rule out the financial companies, based on a #158 non-financial companies dataset we calculate that:

- ◆ The aggregate Net Debt Position stands at €629mn, (up when compared to FY21 €577mn), with 1H22 Net Debt/EBITDA ratio stable to 0.5x;
- ◆ Out of the #158 non-financial companies, #67 are Net Cash positive. This means ca. 42% of total vs. ca. 40% in 1H21;

Euronext Growth Milan: Net Debt exposure: FY21 – 1H22 debt metrics (#158 companies)

€mn	FY21	1H22
Net Debt	577 (**)	629
EBITDA	1,280 (**)	755
Net Debt/EBITDA	0.5x	0.4x (*)
<i># of Companies with a Net Debt exposure</i>	<i>96/158</i>	<i>91/158</i>
Net Debt attributable to Net Debt companies	1,119	1,273
EBITDA attributable to Net Debt companies	806	408
Net Debt/EBITDA (x)	1.4	1.6x (*)

Source: ValueTrack Analysis on companies' data (*) Assuming annualised EBITDA (i.e. equal 2x interim figure) (**) Value referring to FY21

However, we note that there are also some companies heavily loaded with debt, and this might not be so safe in the current rising interest rates scenario.

Message # 6: The number of companies facing decreasing / negative profits remains quite high

We previously spotted how market demand has remained strong in 1H22, in line with the buoyant stance recorded in FY21, thus driving an overall double-digit growth of EGM companies.

At the same time, we need to underline how the number of loss-making companies remains quite high. Indeed, out of our data sample, we calculate that in 1H22 there are:

- ◆ 23 companies (15% of total) with negative EBITDA, out of which 4 were EBITDA positive in 1H21;
- ◆ 42 companies (27% of total) with negative EBIT, out of which 12 were EBIT positive in 1H21.

As a matter of fact, we calculate that EGM companies with decreasing EBITDA 1H22 vs 1H21 generated aggregate EBITDA reduction worth ca. €83mn. This is a hint that rising production costs, (raw materials, transportation, energy and external services costs), are starting to spread their effect.

Find the full list of companies that in our view reported the best 1H22 results, in the “non redacted” version of this report (available upon request).

EGM: What's ahead?

At a first glance, market consensus on FY22E-23E EGM companies' estimates returns a rosy picture, with Revenues and EBITDA expected to grow by 33%-29% y/y in FY22E and by ca. 17%-25% y/y in FY23E respectively. In our view, such a picture is too optimistic, and indeed most of EGM companies have seen their FY22E-23E forecasts revised downwards. As a matter of facts, we expect more downward estimates revision to come in the next few months.

That said, within the current scenario we would suggest investors to focus their EGM portfolios on: 1) Momentum stocks, i.e. # companies that are reporting ever improving financial results and that boast stock price upside potential; 2) Excessively derated stocks, i.e. companies currently very far from their all-time highs, but whose business potential is not being negatively impacted in a lasting manner by macro factors; 3) Value for Quality stocks, i.e. companies whose business model quality is currently mispriced by the stock market.

EGM financials FY22E-FY23E not bad at all, at a first glance

At a first glance, the updated picture of market consensus estimates on EGM companies returns the feeling that they are really the best that the Italian economic environment has to offer, and that the challenging macroeconomic scenario ahead quite unanimously perceived (raw materials inflation, energy crisis, demand slowdown) might be an exaggeration.

Indeed, taking into consideration all EGM companies but for Financials and suspended stocks, aggregate FY22E-23E financial forecasts still look very healthy:

- ◆ **Revenues** are expected to grow by a sound 33% y/y in FY22E and by ca. 17% y/y in FY23E;
- ◆ **EBITDA** is forecasted up as well (+29% and +25% y/y respectively in FY22E-23E), with EBITDA Margin decreasing by 50 bps to 16.0% in FY22E and recovering to 17.2% in FY23E;
- ◆ **EBIT** should stand at ca. €1bn in FY22E and €1.35bn in FY23E, with EBIT margin gaining ca. 300 bps vs. FY21A, reaching 11.5%;
- ◆ **Net Profit** is forecasted to more than double FY23E vs. FY21A;
- ◆ **Net Financial Position** to become positive (Net Cash) as of FY23E.

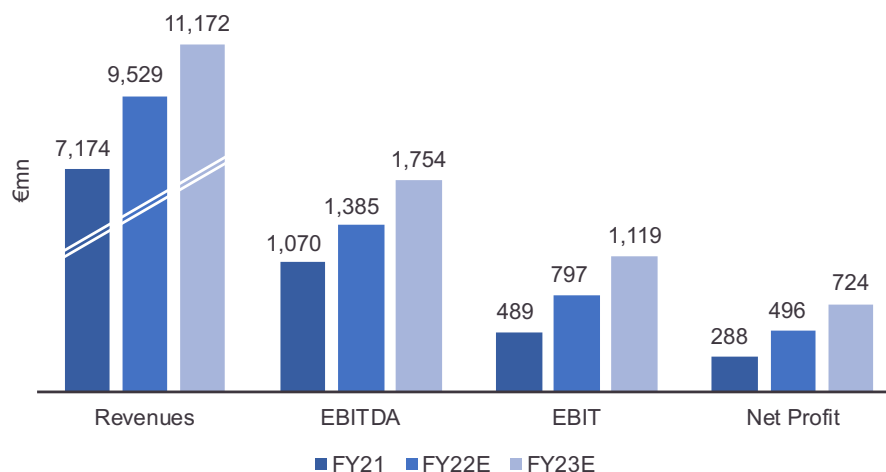
Euronext Growth Milan: Aggregate FY21A-22E-23E financials (#159 companies)

(€mn)	FY21A	FY22E	FY23E
Revenues	7,566	10,064	11,773
Change % y/y	nm	33.0%	16.9%
EBITDA	1,245	1,615	2,020
EBITDA Margin (%)	16.5%	16.0%	17.2%
EBIT	639	997	1,350
EBIT Margin (%)	8.4%	9.9%	11.5%
Net Profit	407	648	905
Net Debt	600	550	-43

Source: Market Consensus, Value Track Estimates for those companies without equity research coverage

Please note that the message doesn't change even if we do not take into account in our analysis Technoprobe (weighting ca. 30% on FY23E aggregate Net Profit).

Euronext Growth Milan: Aggregate FY21A-22E-23E financials (#158 companies) (*)



Source: Market Consensus, Revenues bars are adjusted for better visibility, (*) Data net of Technoprobe

Digging into the numbers reveals some “cracks”

We suggest a cautious approach on the above mentioned FY22E-23E market consensus forecasts as EGM is dominated by growth companies, likely to suffer if the macroeconomic scenario deteriorates further.

In our view, the previously described optimistic picture is somehow affected by the low visibility on 2023E and inflated by the fiscal bonuses currently in place on buildings renovation and clean energy transition.

Indeed, digging into the numbers reveals some “cracks”:

1. Close to half of EGM companies have seen their FY22E-23E forecasts revised downwards;
2. Aggregate Top Line forecasts have been revised mildly upwards, while Operating Profitability ones have been revised mildly down;
3. Aggregate forecasts have been more severely revised downwards if we adjust for companies positively impacted by fiscal bonuses or by energy prices inflation.

As a matter of facts, we expect more downward estimates revision to come in the next few months.

#1 – Close to half of EGM companies have seen their FY22E-23E forecasts revised downwards

Analysing the evolution of market consensus estimates on #183 listed EGM companies (#158 companies if we take into account that #20 have no coverage and #5 are without a research update in the latest months), unveils that the majority of EGM listed companies has undergone a downward revision of FY22E - FY23E forecasts. More in details, we calculate that:

- ◆ While market consensus has revised up Top Line forecasts for ca. 29% of EGM companies, at the same time only 13% of total has seen Operating Profits revised up;
- ◆ Nearly half of EGM companies (46% of total) have seen their Operating Profits estimates revised downwards for current and next year.

EGM: No. of Companies by Upwards, Downwards or Unchanged Estimates Revision

Estimates Revision (#)	Top Line	Profitability
Upwards	53	24
<i>As % of Total</i>	<i>29%</i>	<i>13%</i>
Downwards	51	84
<i>As % of Total</i>	<i>28%</i>	<i>46%</i>
Unchanged	54	50
<i>As % of Total</i>	<i>30%</i>	<i>27%</i>
No Update	5	5
<i>As % of Total</i>	<i>3%</i>	<i>3%</i>
No Coverage	20	20
<i>As % of Total</i>	<i>11%</i>	<i>11%</i>
Total	183	183

Source: ValueTrack Analysis on Market Consensus

Aggregate FY22E-23E Top Line forecasts have been revised mildly up, while Operating Profitability ones have been revised mildly down

Looking at the difference between updated aggregate FY22E-23E market consensus forecasts and those as of May 2022, confirms that the sky is not entirely clean from clouds.

Indeed, while both FY22E and 23E Top Line has been revised up by ca. 4%-5%, on the contrary the aggregated EBITDA and EBIT have been marginally revised downwards, with a more noticeable impact on EBITDA-EBIT margins. Net Profit FY22E-23E has been revised down by ca. 5% each year.

EGM: Updates Estimates vs. Old ones as of 24/05/2022 (#159 companies) (*)

Estimates Revision (€mn)	FY22E			FY23E		
	Old	New	Δ	Old	New	Δ
Revenues	9,657	10,064	4.2%	11,245	11,773	4.7%
EBITDA	1,636	1,615	-1.3%	2,026	2,020	-0.3%
<i>EBITDA Margin (%)</i>	<i>16.9%</i>	<i>16.0%</i>	<i>-87bps</i>	<i>18.0%</i>	<i>17.2%</i>	<i>-86bps</i>
EBIT	1,016	997	-1.9%	1,370	1,350	-1.5%
<i>EBIT Margin (%)</i>	<i>10.5%</i>	<i>9.9%</i>	<i>-61bps</i>	<i>12.2%</i>	<i>11.5%</i>	<i>-71bps</i>
Net Profit	683	648	-5.1%	949	905	-4.6%

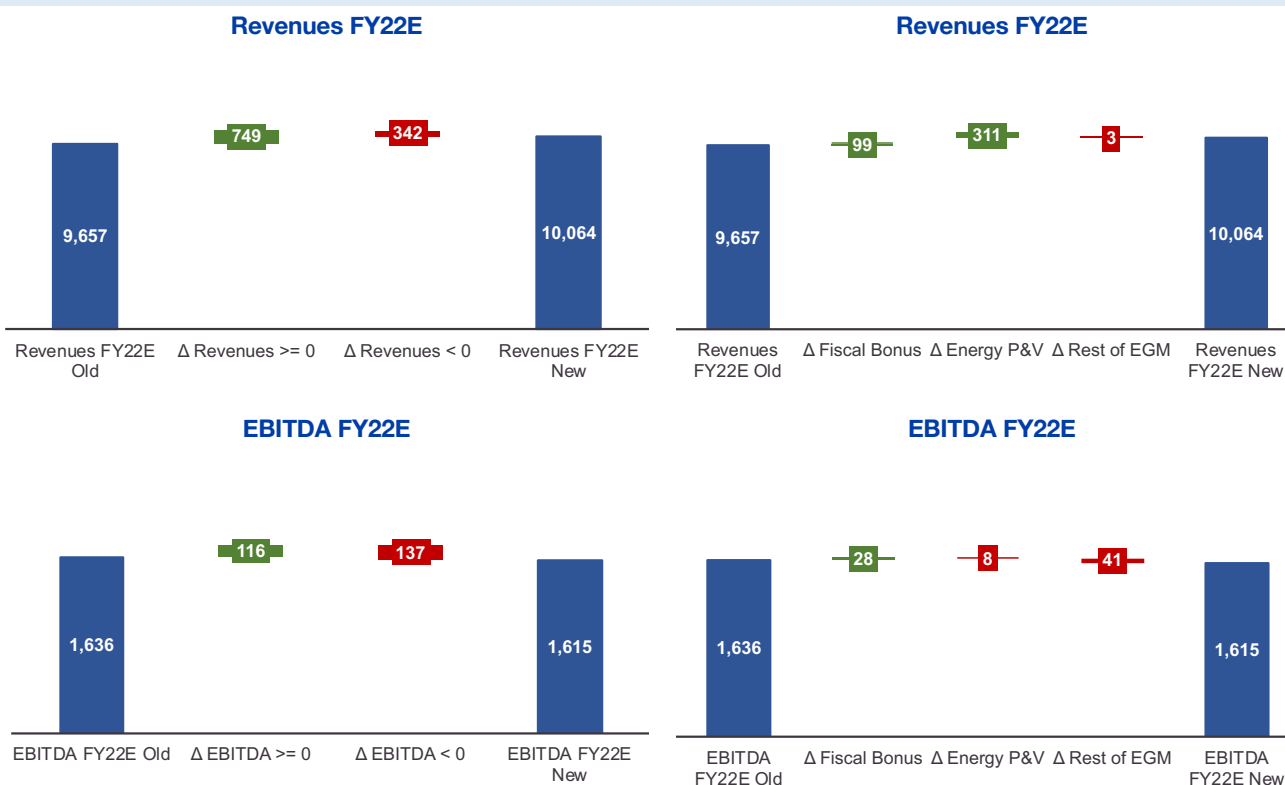
Source: ValueTrack Analysis on Market Consensus, (*) #183 companies minus Financials (#22), Enertronica, Fabilia

Aggregate FY22E-23E forecasts have been more severely revised downwards if we adjust for companies positively impacted by fiscal bonuses or energy prices inflation

Breaking down the drivers of up / downwards estimates revision unveils some noteworthy messages:

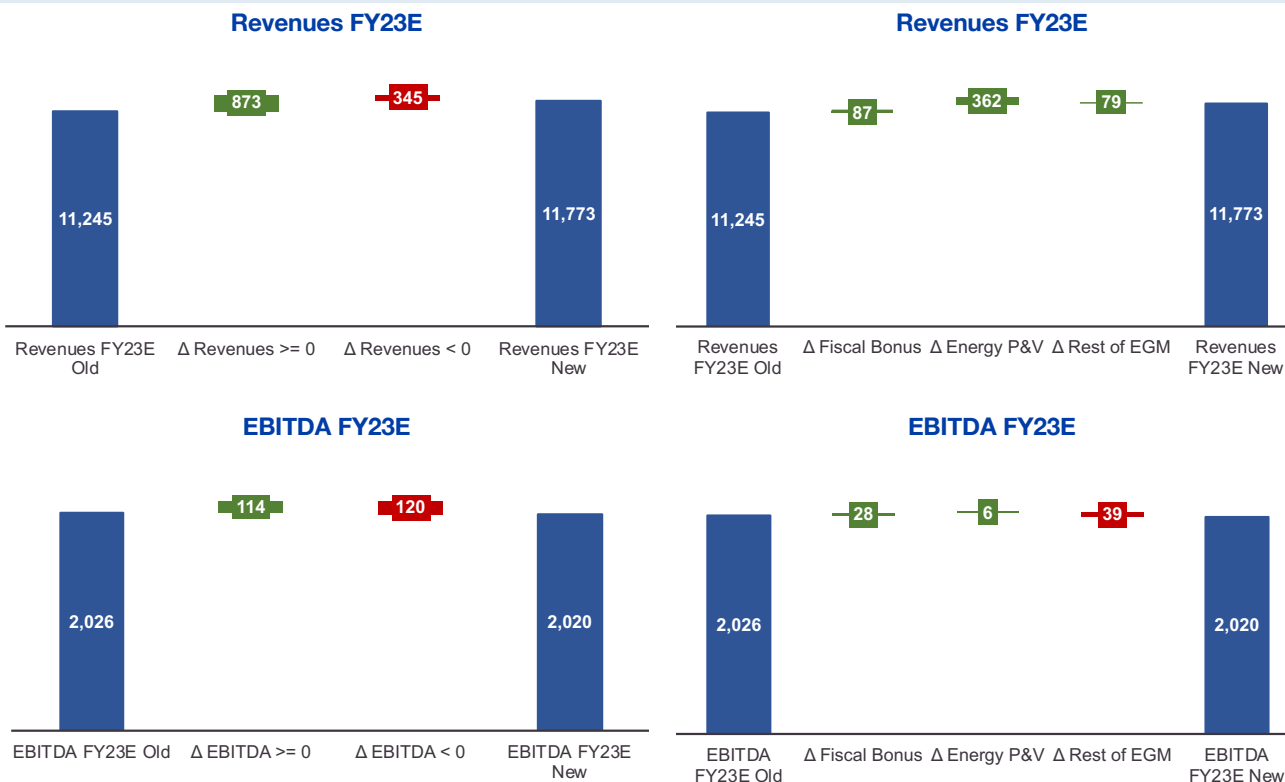
- ◆ The impact of companies with upward Top Line estimate revision of is nearly double the one of companies with downward Top Line estimate revision, while at the EBITDA level the two values are almost equivalent;
- ◆ Energy price / volume effect has massively driven aggregate Top Line forecasts up, while being non material at the EBITDA level;
- ◆ Updated aggregate EBITDA estimates for companies not positively impacted by fiscal bonuses or energy prices inflation, are net down if compared to those as of May 2022.

EGM: Estimates Revision vs. 24/05/2022 (#159 companies) (*)



Source: ValueTrack Analysis on Market Consensus, (*) #183 companies minus Financials (#22), Enertronica, Fabilia

EGM: Estimates Revision vs. 24/05/2022 (#159 companies) (*)



Source: ValueTrack Analysis on Market Consensus, (*) #183 companies minus Financials (#22), Enertronica, Fabilia

Valuation Analysis

EGM Stock Multiples at Current Market Prices

Based on current stock market prices and updated 2022E-23E consensus forecasts, we calculate that **EGM is trading at average 1.4x-1.2x EV/Sales, 8.9x-6.5x EV/EBITDA and 17.1x-13.3x P/E 2022E-23E**, our data set being composed of #159 companies, i.e. #183 companies listed as of today minus *Enertronica*, *Fabilia* and Financial sector stocks (#22).

Current multiples are substantially in line with those outlined in our latest EGM Stock Guide report as of May 2022, as the ca. 10% FTSE Growth Index derating has been offset by the previously mentioned downwards revision of estimates across the market.

On the other hand, current multiples are at ca. 20%-25% discount vs. 1 year ago, as an effect of the 2022 YTD market retracement from its all-time high as of end of 2021.

As expected, *Technology* is the most impacted sector, trading ca. 34% lower than 1 year ago, followed by *Industrial Goods* (-30%) and *Consumer Services* (-24%).

On the other hand, *Media* and *Health Care* are trading almost in line vs. November 2021.

Euronext Growth Milan – Stock Multiples @ Current Mkt Price by Sector

Sector	# Stocks (*)	Mkt. Cap (€mn)	EV/Sales (x)			EV/EBITDA (x)			P/E (x)		
			FY21A	FY22E	FY23E	FY21A	FY22E	FY23E	FY21A	FY22E	FY23E
Energy & Utilities	13	731	3.1	1.6	1.6	12.4	9.3	6.0	26.0	15.7	13.3
Telcos	4	382	3.0	2.5	2.0	10.0	13.8	9.1	26.0	22.8	16.2
Health Care	13	571	1.9	1.6	1.1	11.5	9.9	6.9	16.9	18.7	15.6
Technology	38	6,691	1.9	1.9	1.4	11.7	8.9	6.4	24.6	19.3	13.8
Media	17	228	1.3	1.1	0.9	5.1	5.1	4.5	14.4	13.6	7.2
Consumer Goods	29	1,594	1.6	1.3	1.3	10.8	10.5	8.4	16.7	16.9	12.7
Consumer Services	18	426	1.7	1.2	1.0	9.9	10.4	7.2	20.0	14.4	15.2
Industrial Goods	27	2,274	1.2	1.1	1.0	8.4	7.9	5.5	16.5	16.7	13.6
Total EGM (No. FIN)	159	12,897	1.8	1.4	1.2	10.0	8.9	6.5	19.8	17.1	13.3

Source: ValueTrack Analysis on Market Consensus (as of 31/10/2022), (*) #183 minus #22 Financials, #2 suspended

EGM Stock Multiples at expected Fair Value

We analysed the evolution of market consensus fair values on #158 listed EGM companies (#183 total EGM companies minus #20 that have no coverage and #5 that are without a research update in the latest months).

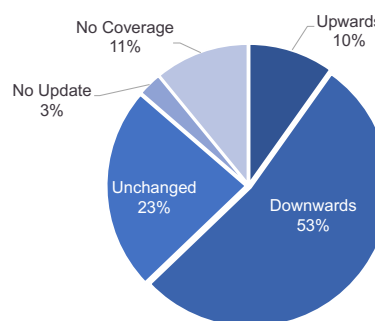
As it was for 2022E-23E estimates, also the majority of fair values / target prices has undergone a downward revision, driven by peers' multiples derating and by the increase of cost of capital (Italian risk premium and risk free rates).

Overall, 97 stocks (ca. 53% of total) had their fair valuation revised downwards, 68 stocks (ca. 37% of total) were unchanged / not updated / not set, while only 18 stocks (10% of total) were rewarded with an increase in fair value.

Most of the 18 companies that got an upwards revision of their average fair value / target price are also in the list of those recording buoyant 1H22 results driven by themes such as energy transition, fiscal bonuses, branded goods, digital transformation, value enhancing M&A activity.

EGM: Companies by Upwards, Downwards or Unchanged Target Price Revision

Target Price Revision	No. of EGM Stocks (#)
Upwards Revision	18
Downwards Revision	97
Unchanged	43
No Update	5
No Coverage	20
Total	183



Source: Borsa Italiana, Value Track Analysis on Market Consensus (as of 31/10/2022)

Unfortunately, looking at the stocks with the highest upside vs. their market consensus fair values, but for some cases we note a general inverse correlation between high quality companies (or companies with buoyant momentum on fundamentals) and the respective stock upside potential.

More in particular, we highlight that:

- ◆ *Technology* and *Media* stocks are the most represented ones among those with the highest upside;
- ◆ There are 9 stocks with a higher than 200% upside potential.

On the other side, looking at the stocks with the lowest upside vs. their market consensus fair values, we highlight that:

- ◆ *Consumer Goods* stocks are the most represented ones among those with the lowest upside;
- ◆ There are 11 stocks with a lower than 20% upside, and only 2 with a lower than zero calculated upside.

At aggregated level, we calculate an implicit ca. 45% upside, with **EGM at fair value trading at 1.9x EV/Sales, 10.3x EV/EBITDA and 20.3x P/E 2023E**.

We wonder if the current macro uncertainties do fit with the above-mentioned multiples.

Euronext Growth Milan – Stock Multiples @ Fair Value by Sector

Sector	# Stocks (*)	Mkt. Cap (€mn)	EV/Sales (x)			EV/EBITDA (x)			P/E (x)		
			FY21A	FY22E	FY23E	FY21A	FY22E	FY23E	FY21A	FY22E	FY23E
Energy & Utilities	11	1,047	3.1	2.1	2.0	12.4	14.8	9.3	26.0	23.0	19.2
Telcos	4	517	3.0	3.3	2.8	10.0	18.2	12.2	26.0	32.3	22.7
Health Care	11	807	1.9	2.0	2.1	11.5	14.2	9.8	16.9	24.4	20.7
Technology	34	9,394	1.9	3.2	2.4	11.7	14.6	11.2	24.6	29.5	22.9
Media	12	386	1.3	1.9	1.5	5.1	9.7	6.3	14.4	18.0	15.1
Consumer Goods	23	2,340	1.6	1.7	1.4	11.1	15.0	12.8	17.3	24.5	19.5
Consumer Services	16	702	1.7	2.3	1.8	9.9	13.3	10.7	20.0	14.1	19.3
Industrial Goods	26	3,067	1.2	1.8	1.7	8.4	12.4	8.9	16.5	19.8	20.3
Total EGM (No. FIN)	137	18,261	1.8	2.3	1.9	10.1	13.8	10.3	19.9	23.8	20.3

Source: ValueTrack Analysis on Market Consensus (as of 31/10/2022), (*) #183 minus #22 Financials, #2 suspended, #22 with no target price currently available

Top Picks selection in the current “cloudy” scenario

As we said before, the latest months derating of EGM market prices has been matched by a similar downwards revision of EGM market consensus figures, leaving 2022E multiples substantially unchanged.

Our view is that the downward revision of 2023E forecasts is not over yet, as rising cost of production and lower market demand might keep negatively impacting in the next 2-3 quarters.

At the same time, we believe that investors should get ready for the moment in which central banks rates hike process sees an end, somewhen in 1H23 depending on the evolution of inflation / energy prices.

Based on the above-mentioned hints, we would suggest investors to focus their EGM portfolios on:

1. **Momentum stocks**, i.e. # companies that:
 - (i) are reporting buoyant financial results, driven by either market themes (e.g. clean energy transition) or company specific factors;
 - (ii) have not undergone a downwards estimates review and are recognized as “quality companies”, i.e. resilient during crisis times;
 - (iii) boast stock price upside potential.

The Momentum stocks that we would select are currently trading at undemanding multiples, i.e. 0.8x EV/Sales, 4.2x EV/EBITDA and 7.7x P/E 2023E.

We note that at fair value, these momentum stocks would trade at a not much demanding 7.0x EV/EBITDA and 12.9x P/E 2023E.

2. **Excessively Derated stocks**, i.e. companies:
 - (i) currently trading at cheap multiples (and far from their all-time high levels), after the EGM market retracement that took place in the latest months, and;
 - (ii) whose business potential is not being negatively impacted in a lasting manner by macroeconomic slowdown.

The Excessively Derated stocks that we would select are currently trading at 1.5x EV/Sales, 7.4x EV/EBITDA and 14.3x P/E 2023E, i.e. at premium vs. momentum stocks.

We note that at fair value, these stocks would increase their average market cap by ca. 80%.

3. **Value for Quality stocks**, i.e. companies:
 - (i) either boasting a robust business model while being mispriced by the stock market;
 - (ii) or expected to gain momentum, but not yet priced in.

The Value for Quality stocks that we would select are currently trading at very undemanding multiples: 0.8x EV/Sales, 3.4x EV/EBITDA and 8.5x P/E 2023E.

We note that at fair value, Value for Quality stocks would increase their average market cap by ca. 75% and would trade at not so expensive 7.2x EV/EBITDA and 15.8x P/E 2023E.

Find the full list of our Top Picks in the “non redacted” version of this report (available upon request).

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