Reway Group SPA

Sector: Infrastructures maintenance and reparation

VALUETRACK

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Taking care of road infrastructures

Fair Value (€)	**4.75**
Market Price (€)	**3.31**
Market Cap. (€m)	**127.4**

Reway Group is a leading Italian company active in viaduct, tunnel and bridges rehabilitation, installation of safety and sound-absorbing barriers, seismic upgrading, and various other activities related to extraordinary maintenance of highways / roads.

Strong competitive positioning in a growing market

Reway Group is active since '90s, but has started accelerating its growth since 2017FY, outperforming the reference market whose appeal is due to the complex morphological structure of the Italian land field, and to the current strong political and institutional demand for improvement of quality and safety of the roads/highway network.

Key factors that are making Reway Group's growth successful are the end-to-end portfolio of services, the full set of authorizations / certifications, its innovative and reliable technical skills, and the "zero claims" track record.

The result is a healthy economic picture: win rate on new tenders is ca. 45%, Value of Production $CAGR_{16A-22PF}$ is 36.4%, and medium-term visibility on business is high (>€400mn backlog, including orders up to 2027).

Concerns on clients concentration and raw materials

Possible concerns are the revenue concentration on very few clients, the limited operating leverage / scalability potential, the exposure to raw materials prices volatility, the absorption of cash during the whole order execution cycle, and the impact of 2023 new Public Procurement Code.

Growth Strategies and Financials 2023E-25E

We expect Reway Group to focus on: 1) strengthening core business market positioning; 2) acquiring highly specialized companies to further extend its technical know-how; 3) entering in growing and profitable contiguous markets such as Italian Railway infrastructures and Italian Maritime ports. As a result, based on the current perimeter of consolidation we forecast: 1) Value of Production to keep growing at a ca. 13.4% $CAGR_{22A-25E}$ to ca. €161mn in 2025E; 2) EBITDA margin at ca. 17.9% leading to €29mn EBITDA25E; 3) OpFCF / EBITDA in the 65%-70% region driving 2025E Net Cash Position to ca. €47mn (assuming no dividends nor M&A deals).

Fair Equity Value at €4.75 per share

At current market price RWG is trading at 4.7x EV/EBITDA, 5.5x EV/EBITA, 10.0x P/E Adj. 2023E. Averaging DCF model and Peers' Analysis, we set **€4.75 Fair Equity Value per share**. At fair value, RWG would trade at 7.1x EV/EBITDA, 8.4x EV/EBITA, 14.4x P/E Adj. 2023E.

KEY FINANCIALS (€m)	2022PF	2023E	2024E
VALUE OF PRODUCTION	110.5	127.0	145.6
EBITDA	19.6	22.3	26.1
EBITA	17.9	18.9	22.0
ADJ. NET PROFIT	11.6	12.7	15.1
OPFCF a.t.	8.0	9.1	10.2
NET INV. CAP.	42.6	44.7	47.7
EQUITY	38.7	67.9	81.3
NET FIN. POS.	-3.9	23.2	33.6

Source: Reway Group S.p.A. (historical figures), Value Track (2023E-24E estimates)

KEY RATIOS	2022PF	2023E	2024E
EBITDA MARGIN (%)	17.7	17.6	17.9
EBITA MARGIN (%)	16.2	14.9	15.1
NET DEBT / EBITDA (x)	0.2	nm	nm
NET DEBT / EQUITY (x)	0.1	0.0	0.0
EV/SALES (x)	nm	0.8	0.6
EV/EBITDA (x)	nm	4.7	3.6
EV/EBITA (x).	nm	5.5	4.3
P/E ADJ. (x)	nm	10.0	8.5

Source: Reway Group S.p.A. (historical figures), Value Track (2023E-24E estimates)

STOCK DATA	
FAIR VALUE (€)	4.75
MARKET PRICE (€)	3.31
SHS. OUT. (m)	38.5
MARKET CAP. (€m)	127.4
FREE FLOAT (%)	16.7
AVG. -20D VOL. ('000)	24,925
RIC / BBG	RWY.MI / RWY IM
52 WK RANGE	3.10-3.86

Source: Stock Market Data

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Table of Contents

Executive Summary

Reway Group at a glance

With **2023E forecasted Value of Production and EBITDA at ca. €127mn and €22mn** respectively, Reway Group ("the Group" or "RWG") is a leading Italian company active in:

1. Viaduct and tunnel rehabilitation (ca. 40% and ca. 47% of total Group Revenues respectively);
2. Installation of safety and sound-absorbing barriers (ca. 7% of total Group Revenues);
3. Seismic upgrading of viaducts (<2% of total Group Revenues);
4. Various other activities related to extraordinary maintenance of highways / roads.

While being active since '90s, the Group has started accelerating its growth back in 2017FY, when the New Public Procurement Code introduced the "most economically advantageous bid" awarding criterion, in which the price is counterbalanced by an assessment on the quality of the proposal submitted. This change allowed RWG to fully exploit its technical and commercial skills, driving a win rate on new tenders up to 45% and a sound **36.4% Value of Production $CAGR_{16\text{-}22}$**.

Strong competitive positioning in a market poised to keep growing

Reway Group couples the positive chance of belonging to a reference sector poised to grow for a number of years ahead, and the merit of having developed the features necessary to be successful in it.

As far as the **Reference Sector** is concerned, we note that RWG annual market of interest might stand in excess of €1.5bn, with positive features such as:

- Geographic / morphological structure of the Italian land field optimal for players such as Reway Group, as it calls for a high number of viaducts, galleries and bridges;
- Growth rates expected to remain positive in the next years, driven by strong political and institutional will asking for improvement of quality and safety of the roads/highway network;
- Fragmented competition, with no giants, this allowing RWG to hold a leading position.

As far as the **Reway Group' operating features** that are making its growth successful, we underline the following ones:

- End to end portfolio of services. RWG is the only Italian player covering all stages of the restoration chain and offering a "One stop shop" service, highly appreciated by customers;
- Full set of authorizations / certifications, allowing RWG to be one of the very few Italian players which can participate to unlimited amount tenders in several categories of works, and ensuring high quality standards as a guarantee of compliance with contractual conditions;
- Innovative and reliable technical skills (specialized workforce utilizing technologically advanced machinery and materials), driving excellent track record with no claims from clients;
- Well-carved business model, structured in defined phases, (evaluation of possible orders / call for order assignment; financing of the works awarded; execution of the works; reporting and billing work-in-progress achievements), and focused on highly value-added activities only;

Last but not least, we underline **Reway Group' economic and financial features** that should make its profile appealing to Investors:

- High visibility on medium-term evolution of business: (backlog as of end of March at ca. €480mn including orders up to 2027), being the result not only of the stance of the reference market, but also of the intrinsic features of works assignment / execution process, where most of RWG's contracts are related to multi-annual framework agreements assigned via Public Tenders;
- Asset light and cash generative business model: the combined effect of a lean business model and low Fixed Assets requirements results in a strong cash generation (OpFCF / EBITDA conversion stood at 72% in FY22PF), and sound Balance Sheet structure (Net Debt / EBITDA FY22 at ca. 0.2x despite the cash out of ca. €3.3mn dividends).

Headwinds to face

Reway Group is not immune from headwinds, related to both the reference market / regulatory scenario and to company specific features. As far as the **Reference Market / Regulatory Scenario** is concerned, we note that in 1Q23 a new Public Procurement Code has been greenlighted by both the Parliament and the Government, yet the very first period might generate further debates, and as a consequence some volatility and uncertainties.

As far as **Reway Group's specific features** are concerned, we need to raise a flag on some points:

- Revenue concentration on a very few clients: 1) RWG's top three customers account for ca. 95% of its FY22PF revenues; 2) RWG's top three clients represent close to 90% of backlog;
- Limited operating leverage / profitability improvement potential, due to the high incidence of costs that are proportional to Value of Production;
- Exposure to volatility of raw materials prices. Raw Materials historically account for some 20% of RWG Value of Production and are not usually rebated to customers;
- Absorption of cash throughout the whole order execution cycle due to the necessity to finance the majority of orders' initial set up costs and to the long time needed to cash in bills from clients, (Trade Receivables incidence on Total Revenues usually hover around 45%-50%).

Growth Strategies

In the next future, we expect Reway Group to pursue the following **growth strategies**:

1. Strengthening of market positioning in the core "road infrastructure reparation" business, by investing in new innovative equipment and hiring further specialized workforce;
2. Acquisition of small / highly specialized companies thus further extending the technical know-how in fields such as road body maintenance, emergency and environmental services, manufacturing of joints and bearings and of innovative raw materials;
3. Leverage on infrastructures rehabilitation know-how in two growing and profitable contiguous markets: 1) Italian Railway infrastructures (€110bn investments forecasted in the next 10 years); 2) Italian Maritime ports (€9.2bn investments scheduled by the NRRP and by additional national resources).

Financials 2023E-25E

Reway Group boasts a profitable business model with sound cash flow generation, even if it has to finance the initial phases of works demanded by clients. Our **2023E-25E forecasts** are as follows:

- Top line to keep growing at a ca. 13.4% $CAGR_{22A-25E}$ to ca. €161mn in 2025E, driven by existing backlog and by ca. €200mn annual orders' intake;
- EBITDA - EBITA margin stable at ca. 17.7% - 15.1%, leading to €29mn - €25mn EBITDA – EBITA respectively in 2025E;
- OpFCF / EBITDA b.t. in the 65%-70% region thanks to limited need for capex, (ca. 3% of Value of Production), and despite the heavy burden of Trade Receivables;
- Net Cash Position expected to increase up to ca. €47mn in 2025E (assuming no dividend distribution nor M&A deals), i.e. cumulated €51mn Free Cash Flow in 2023E-25E years.

Valuation

We set a **fair equity value p/s at €4.75**, averaging DCF model, Peers analysis based on current and historical stock trading multiples and cross checking with value maps.

At fair value, the stock would trade at **7.1x EV/EBITDA, 8.4x EV/EBITA, 14.4x P/E Adj. 2023E**.

Company Profile

Reway Group is a leading Italian company active in roads / highways infrastructures reparation and rehabilitation activities. As in recent years a series of dramatic events has put the spotlight on the extremely poor conditions of Italian infrastructures, this sector is benefitting from multi-year investment plans allocating budgets for the ordinary and extraordinary maintenance, as well as the modernization of the infrastructures.

Reway Group at a glance

With **2023E forecasted Value of Production and EBITDA at ca. €127mn and €22mn** respectively, Reway Group ("the Group" or "RWG") is a leading Italian company active in concrete work rehabilitation sector, seismic upgrading, finishing of highway tunnels, installation of soundproofing and safety barriers, and various other activities related to extraordinary maintenance of highways / roads.

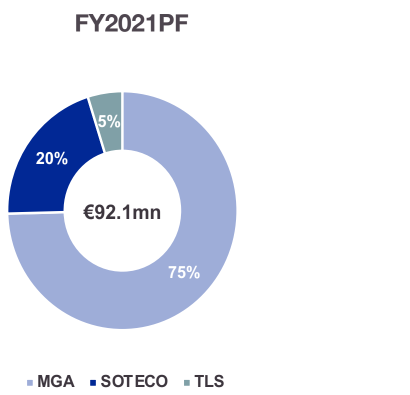
More in details, the Group consists of four main legal entities, i.e. the Parent Company **Reway Group S.p.A.** that performs some centralised services for the subsidiaries (such as financial planning, procurement, technical accounting, tenders paperwork and fleet management), and three 100% controlled subsidiaries taking care of the operational side, each one focused on some specific activities but with the advantage of being substantially interchangeable, if needed.

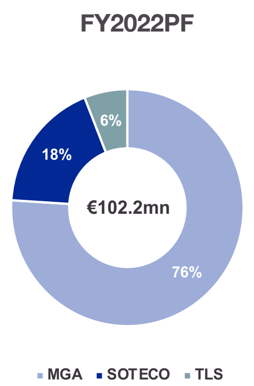
The three subsidiaries are:

- **MGA S.r.l.** (76% of Group Revenues in 2022PF), mainly dealing with restoration of concrete works in tunnels, bridges and viaducts;
- **SOTECO S.r.l.** (18% of Group Revenues in 2022PF), mainly involved in coating, finishing and lining of tunnels and installation of soundproofing and safety barriers;
- **TLS S.r.l.** (6% of Group Revenues in 2022PF), mainly specialized on seismic upgrading of bridges and viaducts.

RWG is the only Italian player covering all stages of the restoration chain and offering a "One stop shop" service, highly valued from clients who only have to deal with a single counterpart.

Reway Group: Pro-Forma Revenues from Sales by Business Units – FY2021 and FY2022





Source: Reway Group, Value Track Analysis

While being active nationwide, RWG benefits from an **extremely strategic geographical positioning**, as MGA and SOTECO are located **between Liguria and Tuscany**, where the concentration of viaducts and tunnels is extremely high. TLS operations, on the contrary, are less geographically concentrated, due to the highly specialised nature of the work provided.

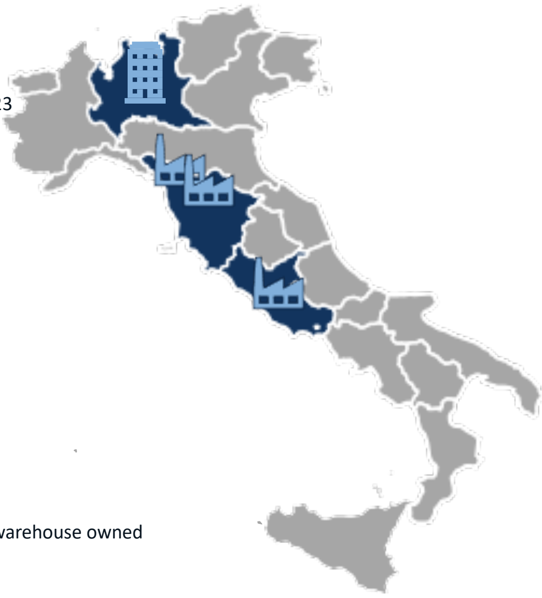
Reway Group: Geographical footprint

REWAY GROUP
- Registered Office in **Milano** P.zza Velasca 8
- Operating headquarters currently at MGA
- New offices in Licciana Nardi to be completed by June 2023

MGA
- Located near Licciana Nardi (MS)
- Offices 300 m2
- Warehouse of 2,000 m2
- Yard of 10,000 m2 for vehicles and machinery

SOTECO
- Located near Aulla (MS)
- Offices 150 m2
- Warehouse and workshop of 700 m2
- Yard of 2,000 m2 for vehicles and machinery

TLS
- Located near Torre Pontina (LT)
- Offices 150 m2
- Operations less geographically concentrated, therefore no warehouse owned



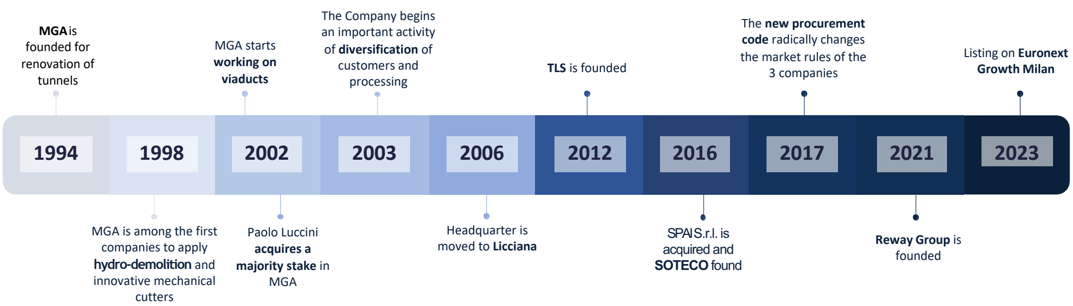
Source: Reway Group

Historical Milestones

The Group was legally born in December 2021 through the establishment of Reway Group S.r.l. (the "Parent Company"), with the aim of providing a unified corporate structure to the three operating companies. Nevertheless, all the operating subsidiaries have several years of experience (especially MGA, whose foundation dates back to 1994) and are **nationally recognised for reliability, timing and safety**. More recently, the Company has expanded with the foundation of TLS (2012) and SOTECO (2017), the latter resulting from a business unit acquisition.

In **March 2023**, Reway Group went public on Euronext Growth Milan.

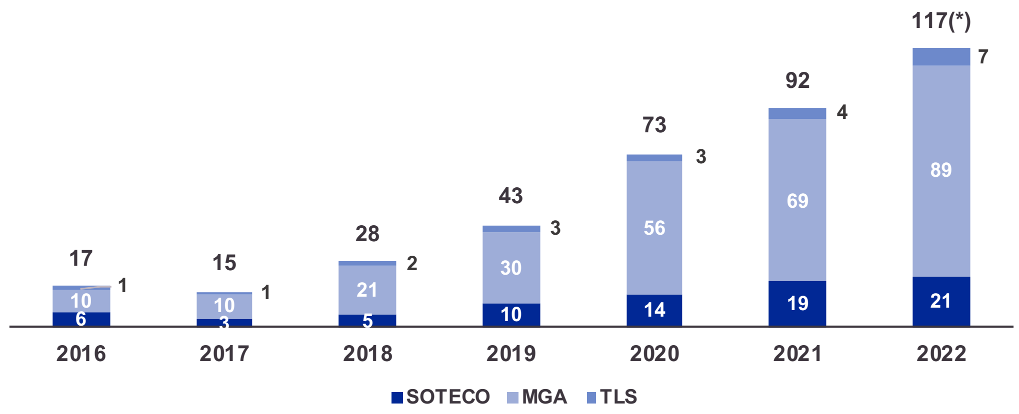
Reway Group: Historical Milestones



Source: Reway Group

2017 fiscal year has been, in our view, the most important one for RWG growth profile as a consequence of the introduction of the **New Public Procurement Code (D.lgs 19 April 2017, n.56)**, that led to significant changes in public tenders awarding criteria. With this brand new Code, the "lowest price" criterion, which rewarded companies that proposed the cheapest offer, has been replaced by the "most economically advantageous bid" one, in which the price is counterbalanced by an assessment on the quality of the proposal submitted. This change has allowed RWG to fully exploit its technical and commercial competitive advantages thus driving a win rate on new tenders up to 45% and a sound **36.4% Value of Production CAGR$_{16\text{-}22}$** up to ca. €110mn as of 2022PF.

Reway Group: Value of Production evolution FY2016PF- FY2022PF (€, mn)



Source: Reway Group, (*) Gross of €7mn intra-group revenues

Reway Group: Key Financials FY20PF-21PF-22PF

Profit & Loss (€, mn)	2020PF	2021PF	2022PF
Value of Production (net of intragroup revenues)	**73.2**	**91.76**	**110.5**
EBITDA	**18.9**	**16.9**	**19.6**
EBITDA Margin (% VoP)	*25.8%*	*18.4%*	*17.7%*
EBITA (*)	**17.6**	**15.0**	**17.9**
EBITA Margin (% VoP)(*)	*24.1%*	*16.4%*	*16.2%*

Balance Sheet (€, mn)	2020PF	2021PF	2022PF
Net Fixed Assets	4.4	23.6	22.9
Net Working Capital	11.6	19.1	21.2
Provisions	1.0	1.6	1.6
Total Capital Employed	**14.9**	**41.1**	**42.6**
Group Net Equity	**13.6**	**32.3**	**38.7**
Net Financial Position	**-1.3**	**-8.8**	**-3.9**

Source: Reway Group, Value Track Analysis (*) Before goodwill amortization charges

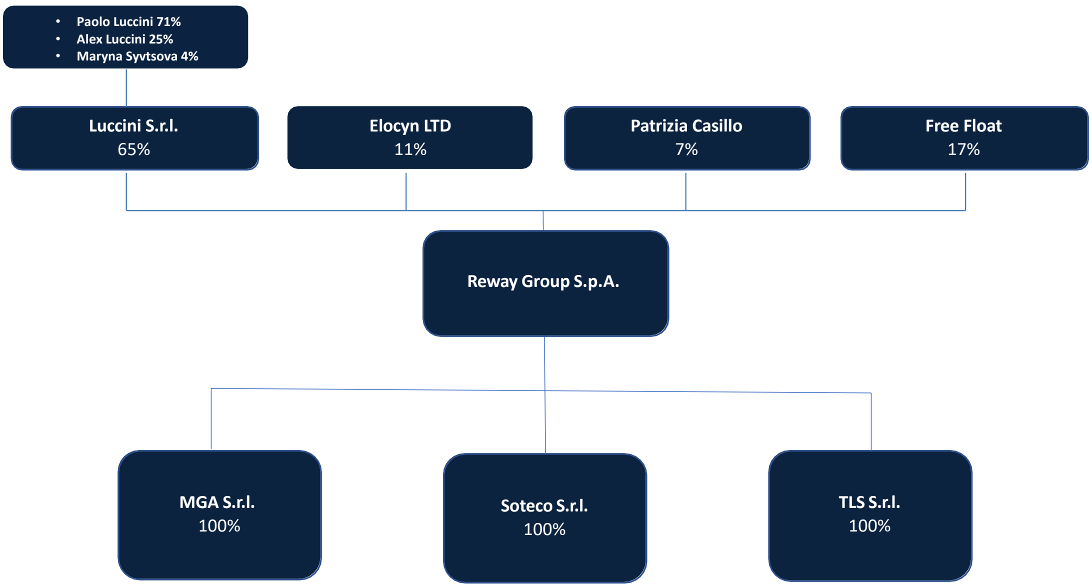
Shareholders structure

Mr. Paolo Luccini (RWG Founder and current Chief Executive Officer and Chairman) is RWG majority shareholder, indirectly owning ca. 46% of the Group' share capital via its family investment vehicle (Luccini S.r.l.).

Luccini S.r.l. owns some 65% of Reway Group S.p.A., while 18% is owned by non-operating minority shareholders and 16.75% is free float.

It's to be noted that the current shareholders structure is the result of a recent reorganization with Reway Group S.p.A. acquiring MGA minorities (45% stake) with a paper based deal.

Reway Group: Corporate Structure



Source: Reway Group

Top Management: Structure & Powers

- **Paolo Luccini** – CEO and Founder of MGA (1994), TLS (2014) and ultimately ReWay Group (2021), in which he serves as Managing Director and Chairman of the Board of Directors;
- **Federico della Gatta** – Chief Financial Officer of RWG since November 2021. After graduating in economics, he obtained two Master's degrees from the University of Virginia and ESADE business school. Prior to his actual role, he gained a 3 years' experience in Johnson and Johnson;
- **Alex Luccini** – After graduating as a surveyor in 2009, he started working at MGA as a technical clerk. In 2016, he acquires a company branch from SPAI S.r.l. and founds Soteco, where he serves as Technical Director and Sole Director. In 2021, following the establishment of Reway Group, he holds the position of Board Member of the Parent Company;
- **Giuseppe Carboni** – MGA Managing Director since October 2021. He graduated in Civil Engineering in 2001. Technical Director of Blu Bonifica since 2013. In 2018 he joins MGA.
- **Andrea Marini**– TLS sole director since 2015. After graduating as a surveyor, he started working at various engineering offices. In 2001, he was hired as a technical employee at the multinational Freyssinet and two years later at T.I.S. S.p.A. as Technical Director. In 2011 he worked with MGA and joined TLS in 2012 as Technical Director.

Reway Group key features and opportunities

Reway Group is optimally positioned to profit from the expected growth of the underlying reference market thanks to several competitive advantages that are leading to highly visible and profitable economic and financial profile. The strong market positioning of Reway Group is, in our view, sustainable thanks to the presence of several entry barriers.

Strong competitive positioning in a market poised to keep growing

Reway Group couples the positive chance of belonging to a reference sector poised to grow for a number of years ahead, and the merit of having developed the features necessary to be successful in it.

As far as the **Reference Sector** is concerned, we note that:

- **Growth rates are expected to remain positive in the next years,** driven by a strong political and institutional will asking for an improvement of quality and safety of the roads and highway networks, strong will that could also benefit from the NRRP funds;
- **Competition is fragmented, with no giants** (but for "captive" subsidiaries of motorways players, within the limits that Italian law grants to them), and this allows RWG to hold a leading position, with all its subsidiaries having both higher-ranking size and margins than competitors.

As far as the **Reway Group' operating features** that are making its growth successful, we underline the following ones:

- **End to end portfolio of services** allowing a "One Stop Shop" approach, highly appreciated by customers;
- **Full set of authorizations / certifications**: 1) SOA authorizations allow RWG to be one of the very few Italian players which can participate to unlimited amount tenders in several categories of works without the necessity to join a "consortium", thus creating significant entry barrier for new competitors; 2) ISO certifications ensure high quality standards as a guarantee of compliance with contractual conditions;
- **Innovative and reliable technical skills**, which are driving a 45% win rate on tenders;
- **Well-carved business model**, that is: 1) Structured in defined phases under the responsibility of specific departments; 2) Focused on highly value-added activities, with non-core ones outsourced to external suppliers;

Last but not least, we underline **Reway Group' economic and financial features** that should make its profile appealing to Investors:

- **High visibility on future business:** backlog in-house (namely secured future revenues from already won-tenders) stood at ca. €362mn as of December, on the top of which a €123mn order was obtained in 1Q23, including revenues up to 2027. This excellent visibility results from the combination of market growth rate and intrinsic features of works assignment (that are defined at good notice);
- **Asset light and cash generative business model:** the combined effect of a lean business model and low capital requirements results in a strong cash generation (as of FY22, Operating Free Cash Flow / EBITDA conversion stood at 72%), and sound Balance Sheet structure (Net Debt / EBITDA FY22 at ca. 0.2x despite the cash out of ca. €3.3mn one off dividends).

In the next pages more details on the above-mentioned key points.

#1 key market feature- Positive growth rates ahead

Reway Group is not active in road construction or resurfacing, the largest market segments, as it focuses on concrete structures' rehabilitation and on other reparation services only.

Despite being active only in market niches, the growth opportunity that RWG faces ahead is extremely relevant and attractive for the following reasons:

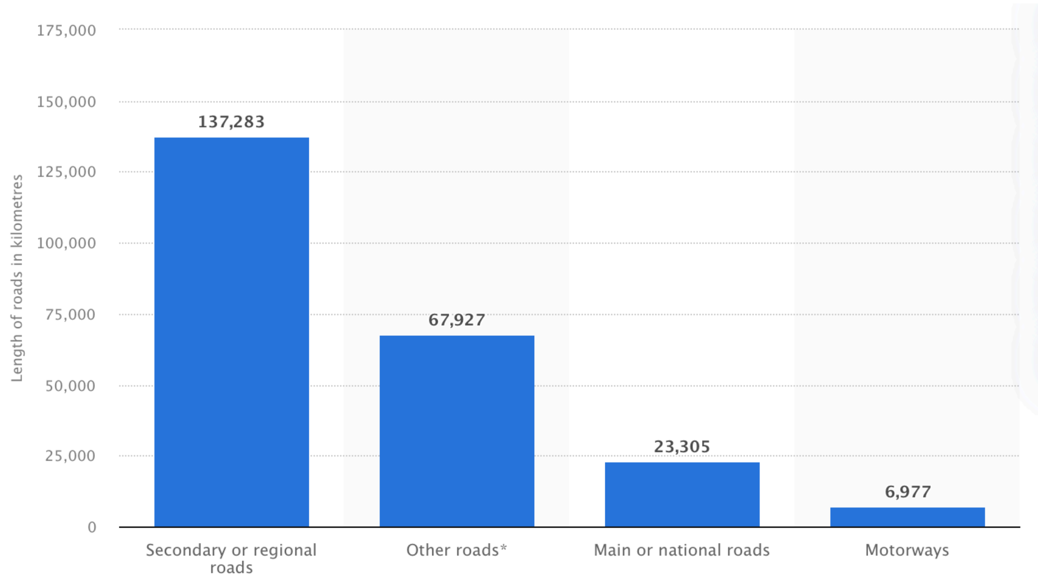
a) The highway network in Italy is long but old and not optimally maintained;
b) There's a strong political and institutional will asking for a revamp of maintenance and reparation works;
c) NRRP could add on top.

a) Italian highway network: long, but old and not optimally maintained

The geographic / morphological structure of the Italian land field is optimal for players such as Reway Group, as it calls for:

- Very long and structured road system: the Italian one is some 235,000 kilometers long, with some 3% being represented by the highway network, the reference market on which Reway Group focuses on;
- A high number of viaducts, galleries and bridges: along the road network managed by ANAS they are ca. 15,950, while along the Italian highway network they are ca. 4,370.

Length of the road network in Italy in 2020, by road type



Source: Statista

Out of the whole Italian highway network, some 934 kilometres are managed by the state-owned company ANAS S.p.A. and the remaining 5,887 km given under concession to a total of 22 companies with 25 concessionary relationships. Two operators manage most of the highway kilometres:

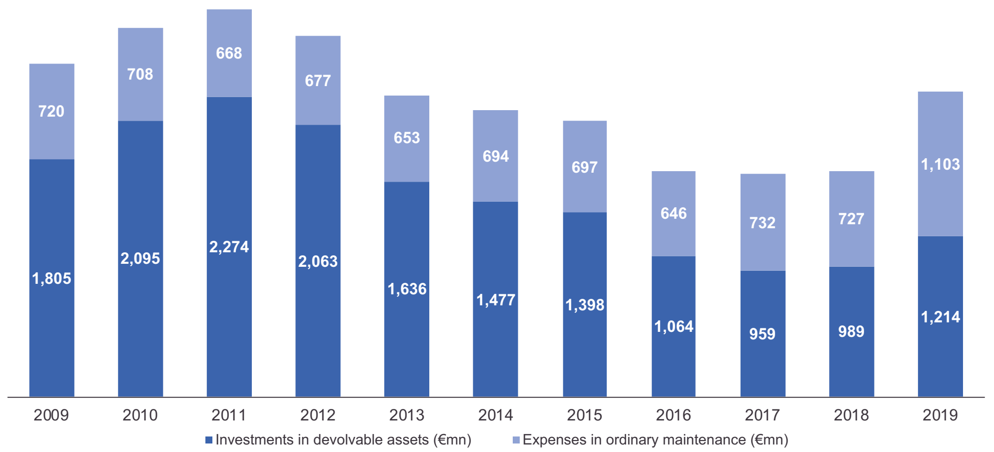
- Autostrade per l'Italia, managing 2,856 km;
- ASTM Group, managing 1,259 km;

with the remaining 20 concessionaires sharing relatively short stretches.

By the way, given this scenario it's no surprise that Reway Group's turnover breakdown by client is highly concentrated on the above-mentioned top three top-tier operators.

That said, we note that most of the above-mentioned infrastructures have been built in 1960-70 period, and that in the 2010-16 years the amount of investments in devolvable assets and expenses in ordinary maintenance suffered a continuous decrease and led to a widely perceived reduction in infrastructure quality and safety.

Investments in devolvable assets and expenses in ordinary maintenance (€mn)



Source: MIT, Direzione Generale per la Vigilanza sulle Concessionarie Autostradali (2019)

b) Strong political and institutional will asking for a revamp of maintenance and reparation works

After the catastrophic collapses of Polcevera viaduct (the so-called Ponte Morandi, Genoa, 14th August 2018) and of Caprigliola bridge (between La Spezia and Massa, April 2020), it has emerged a strong political and institutional will asking for a revamp of maintenance and reparation works, and the government has issued new circulars, guidelines, and regulations to support this effort.

Such effort already in 2019 has led to:

- Investments in devolvable assets rebounding to €1.214mn (+23% compared to 2018);
- Expenses in ordinary maintenance rebounding to €1.103mn (+50% compared to 2018);

More updated figures on the production of asphalt (or bituminous conglomerate), the head indicator of the state of maintenance of our road network, confirm that the revamp is still there.

Indeed, according to the latest available market data published by *Associazione Siteb – Strade Italiane e Bitumi*, we highlight the following:

- 37.6mn tonnes were produced in 2021 (a record figure in the last ten years), +17.5% compared to 2020, over-performing analysts' forecasts;
- As for the road construction sector, this is a **real return to pre-crisis levels**, with robust growth compared to 2016, when road construction and maintenance activities had bottomed out with only 22.3mn tonnes of asphalt.

As far as the future trend is concerned, visibility on a long-lasting growth is pretty high, sustained by multi-decade plans scheduled by highway network managers.

As for the market for devolvable assets, it is possible to estimate its size by using as a proxy the *ASPI 2020-2038 Economic and Financial Plan* taking into consideration that ASPI manages 49% of the Italian highway network. Reway Group calculates this market to be worth ca. €450m per annum.

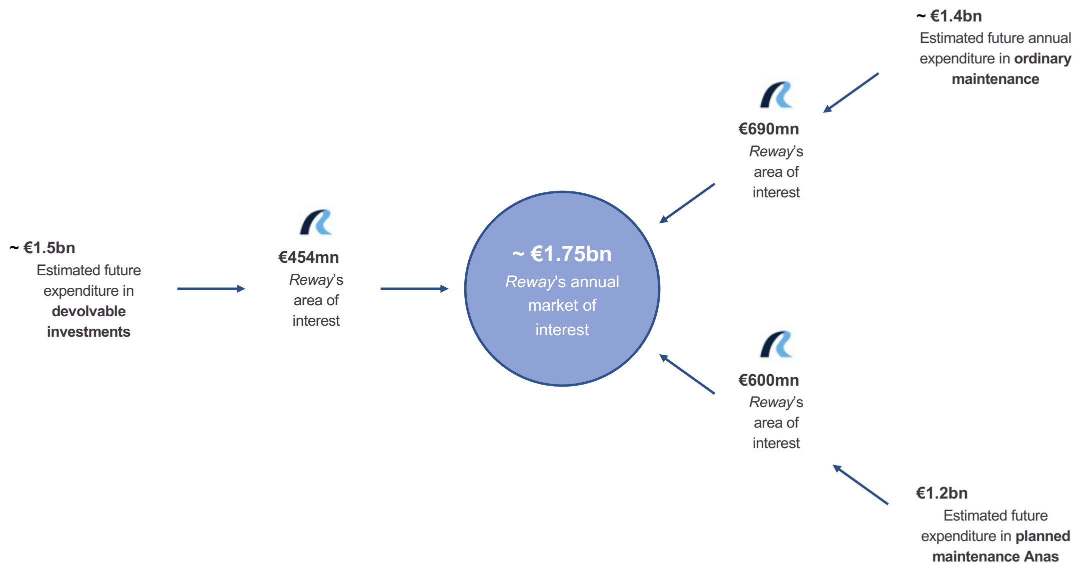
Instead, with reference to the Ordinary Maintenance market, based on historical averages Reway Group estimates its size in some €690m per annum.

Therefore, the total market size of the highway concession market may be calculated at ca. €1.145m, to which some €600m of the ANAS annual market may be added.

Summing up, **RWG annual market of interest might stand at ca €1.7bn**, out of which:

- **Ca. €450mn** in devolvable investments (calculated as the market share of 30% on estimated annual nationwide investments);
- **Ca. €690mn** in ordinary maintenance expenses (calculated as the market share of 50% on estimated annual nationwide investments);
- **Ca. €600mn** in ANAS scheduled maintenance expenditure (calculated as the market share of 50% on estimated annual nationwide investments).

Concrete works rehabilitation's potential market



Source: Reway Group Management

c) NRRP as an additional development boost

The **Recovery and Resilience Plan interventions** widely addresses infrastructures, amounting at ca. €60bn, out of which Construction should account some €14.1bn (21.2% of total), other market services some €8.4bn (5.3% of total) and manufacturing some €6.2bn (2.3% of total).

Forward-looking, it is emphasised that the resources already earmarked will also be increased by the additional investments earmarked for the introduction of digital remote monitoring systems for the safety of arterial roads and the consequent urgent works to secure damaged roads, bridges and viaducts.

#2 key market feature - Fragmented competitive structure with no giants

Reway Group is the sole company that covers all stages of the restoration chain. Some competitors have other main business sectors and compete only partially with the Group companies. Instead, others compete on the same works portfolio but with a much smaller size.

What arises from the analysis of competitors' financials (only 2021FY is available so far), is:

- All Reway subsidiaries have both higher-ranking size and margins in absolute terms;
- A lower percentage margin is noticeable in MGA versus its competitors, as the companies are at different points on the growth curve;
- Soteco and TLS have margins far more elevated than their competitors, thanks not merely to the capacity and efficiency of their workforce but also – in Soteco's case – to the tunnel finishing activity in which it installs internally developed lighting panels and for which it has evident marginality advantages.

As a matter of facts, the market can be defined as highly fragmented and poses to RWG interesting opportunities to act as consolidator (see the chapter “Growth Strategies” on this point).

Reway Group vs market competitors

FY21 (€'000)	MGA S.r.l.	Average competitors (*)	SOTECO S.r.l	Average competitors (**)	TLS S.r.l.	Average competitors (***)
Value of Production	68,738	20,626	18,920	10,807	4,480	5,049
EBITDA	11,627	4,912	4,446	450	752	465
EBITDA Margin	***16.9%***	***23.8%***	***23.5%***	***4.2%***	***16.8%***	***9.2%***
Net Profit	7,255	3,895	2,937	198	779	46

Source: registroimprese.it

(*) M&D Srl, Mosconi Srl, Tre Più Impresa Srl

(**) CIR Ambiente SpA, Safital Srl, Bianchini Angelo Srl

(***) TLS Srl, AGOM International, Srl, Padana Interventi Srl

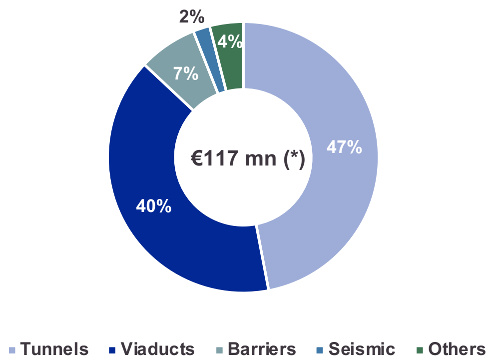
#1 key RWG operating feature – End-to-end portfolio of services

Reway Group carries out three main types of activities out of which the first two services can be carried out by both MGA and Soteco interchangeably, while the latter one (seismic upgrading) can be provided only by TLS:

1. Viaduct and tunnel rehabilitation (ca.40% and ca. 47% of total Group Revenues respectively);
2. Installation of safety and sound-absorbing barriers (ca.7% of total Group Revenues);
3. Seismic upgrading of viaducts (ca.2% of total Group Revenues).

Reway Group's Portfolio of Services (lhs) and contribution to FY2022 Revenues (rhs)

	MGA	SOTECO	TLS (Tecnologie Lavori Stradali)
Viaduct Rehabilitation	✓	✓	✓
Tunnel Rehabilitation	✓	✓	
Seismic Upgrading			✓
Installation of Barriers	✓	✓	



Source: Reway Group, (*) Inclusive of intra-group revenues

Viaduct and tunnel rehabilitation

Viaduct and tunnel concrete works restoration activities consist of four main phases:

1. **Demolition**: deteriorated concrete coating is mechanically removed, either through a rotating cutting wheel (milling, only for tunnels) or through high pressure water jetting (hydro-demolition).
2. **Internal structure reinforcement**: application or restoration of supporting reinforcement;
3. **Coating**: covering process of the erected structure with mortars and cements;
4. **Cladding and lighting**: for viaduct rehabilitation, the last stage involves the application of protective paints, while for tunnels there is waterproofing and lighting panels installation, which allow to maximize the efficiency of the lighting system and ensure energy savings.

Rehabilitation of Viaduct (lhs) and Tunnels (rhs)

Source: Reway Group

Installation of safety and sound-absorbing barriers

There are mainly two types of barriers installed by Reway:

- **Sound-absorbing barriers**: panels with noise-absorbing capacity, used to surround highway sections passing near population centres to minimize environmental and noise pollution. They are mainly made of concrete, aluminum, steel and glass coupled with sound-absorbing materials.
- **Safety barriers** (i.e. guard rail): metal fences preventing drivers from pulling off the road or trespassing into the oncoming lane.

Barrier installation activity is divided into three phases and requires: 1) Excavating the embankment; 2) Anchoring the vertical components below the excavation surface; 3) Rail fastening to pillars.

Installation of sound absorbing (lhs) and safety barriers (rhs)

Source: Reway Group

Seismic upgrading of viaducts

It is carried out by the subsidiary TLS, and consists of lifting the viaduct vault using hydraulic jacks in order to replace old bearings with new earthquake-resistant ones. The choice of lifting methodology depends on the type of structure, and can be done from above or below.

Viaduct lifting from below (lhs) and above (rhs)

Source: Reway Group

#2 key RWG operating feature - Full set of authorizations and certifications

For safety and legal reasons, also highways managed by private concessionaries need to follow strict public procurement rules in order to assign maintenance and reparation works to suppliers.

We note that from this point of view, RWG boasts a very solid competitive positioning. Indeed, for several type of reparation or construction service, RWG owns so called SOA certifications, setting the maximum amount that the supplier can be awarded in a tender.

Thanks to its SOA certifications, RWG is one of the very few Italian players which can participate to unlimited amount tenders in several categories of works (OG3, OG4, OS34).

Indeed, the size of works that a supplier can tender for is determined by a score ranging from 1 to 8 (with 1 being the minimum required to participate in a low amount public tender), with the possibility for a supplier to improve its score by meeting certain production targets in a given category.

As of now RWG boasts 8 score in three categories, two for MGA and one for Soteco.

Scores of SOA Certifications and maximum amount of works awardable

Score	Max. Amount Awardable (€)
I	258 k
II	516 k
III	1.03 mn
III Bis	1.50 mn
IV	2.58 mn
IV Bis	3.50 mn
V	5.16 mn
VI	10.33 mn
VII	15.50 mn
VIII	Unlimited

Source: Reway Group

Reway Group: SOA Certifications

Category	MGA	Soteco	TLS	Description
OG3	VIII	IV	III Bis	Roads, Highways, Bridges, Viaducts, Railways, Subways
OG4	VIII	V	-	Subsurface works
OG8	II	-	-	River, defense, hydraulic and reclamation works
OS7	I	-	-	General works finishing
OS8	-	II	-	Waterproofing works
OS11	IV Bis	-	IV	Special structural equipment
OS21	IV	-	-	Special structural works
OS23	III Bis	-	-	Demolition of works
OS34	I	VIII	-	Noise abatement systems for mobility infrastructure
OS12A	III Bis	-	-	Safety road barriers
OS18A	-	III Bis	-	Structural steel components

Source: Reway Group

In addition to SOA, the Group also boasts several ISO certifications, with the aim of maintaining high quality standards, which are essential for the smooth management of operations and as well, represent for the client a guarantee of compliance with contractual conditions.

Reway Group: ISO Certifications

Certification	MGA	SOTECO	TLS	Description
ISO 9001	✓	✓	✓	Quality Management Certificate
ISO 14001	✓	✓	✓	Environmental Management Systems Certificate
ISO 20400	✓	-	-	Sustainable Sourcing Certificate
ISO 37001	✓	✓	-	Certificate on Corruption Prevention
ISO 39001	✓	✓	✓	Certificate on Road Safety Management
ISO 45001	✓	✓	✓	Certificate on Occupational Safety Management
ISO 50001	✓	-	-	Certificate on Energy Management
SA 8000	✓	✓	-	Certificate on Corporate Social Responsibility

Source: Reway Group

#3 key RWG operating feature – Innovative and reliable technical skills

In the recent years Reway Group has achieved **45% win rate on tenders**, which is quite high for players in the industry, enabling RWG to choose among the various orders those that are most profitable ones.

Main drivers of such strong capability of winning orders are, in addition to the already mentioned points, the following ones:

- **Excellent Track Record**: The Group's subsidiaries have a proven history of deliveries, at a rate of approximately 15 construction sites per year. As a result, its brands boast an excellent reputation in terms of compliance with schedules as well as quality of the work performed.
- **Focus on technology**: the use of highly technologically innovative machinery is crucial to minimize construction site inconveniences for users (traffic, roadway changes), as well as maintaining a high level of safety for workers.

  In addition, the Group has always been active in the development of innovative materials to improve efficiency and sustainability standards. It has recently been working on new fiberglass structures (which, compared to metals, are radar-transparent and unbreakable), and on a new reinforcement technique for tunnels. Previously, Soteco and MGA developed a highly-reflective lighting panels providing 40% energy savings with negligible maintenance costs.

  These innovations have taken years of collaboration and represent a further entry barrier for potential competitors;
- **Specialized workforce**: RWG relies on a highly specialized workforce, which is quite rare in the industry but crucial to ensures on-time deliveries. Technicians must be well qualified, as they have to operate costly machines, within a short time frame, and could cause significant damage in case of a mistake.

  For this reason, Reway does its utmost to attract and retain talent, by providing best-in-class salaries, employee-friendly policies (i.e. flexible working hours, corporate welfare plan) and continuous training.

  Noteworthy, the difficulty in finding highly skilled workmen is both a barrier to entry for new competitors and a bottleneck for the group's output capacity, which cannot suddenly increase.

#4 key RWG operating feature - Well-carved business model

Reway Group provides its services mainly to highway concessionaires and road operators and only sometimes to construction companies or general contractors.

Reway Group' Suppliers and Customers

Suppliers

- **Raw materials suppliers:** mortars, chemicals, resin/metal products, and small construction tools
- **Services suppliers:** technical consulting, heavy equipment rental, relationships with subcontractors
- **Other non-core services suppliers:** site signs installation, scaffolding installation, resurfacing

Reway Group

- **Viaduct and tunnel rehabilitation**
- **Installation of safety and sound-absorbing barriers**
- **Seismic upgrading of viaducts**

Customers

- **Companies of major works**
- **Highway concessionaires**
- **Road and highway operators**

anas GRUPPO FS ITALIANE
autostrade per l'italia
pavimental
Autostrada dei Fiori
SALT
ITINERA

Source: Reway Group

Reway Group approach to business origination and execution is well-carved, and can be clustered in several phases, each one in charge of specific departments:

1. Evaluation of possible orders / Call for order assignment;
2. Financing of the works awarded;
3. Execution of the works;
4. Reporting and billing work-in-progress achievements.

1 - Evaluation of possible orders / Call for order assignment

The technical management of each RWG subsidiary independently analyses and selects a number of potential contracts for which the Group may propose itself (public tenders) or which are proposed to them (direct contracts and subcontracts).

If a decision is made to participate in a public bidding, the Tender Office, together with the Technical Office of the participating subsidiary, prepares and submits the documentation.

2 - Financing of the works awarded

Upon the effective acquisition of the job order, activities are undertaken by the Finance Department to cover the initial financial requirements needed to setup the works site and to purchase raw materials needed to execute the works.

Down payment from Contracting entities in the 20% region of total order value are usually collected, while additional bank debt (or invoice factoring) may be raised.

3 - Execution of the works

The Construction Site department organizes the teams for each project, schedules the activities and ensures the supply of resources, equipment and materials at each production site, coordinating with the relevant offices.

To support the logistics chain, and to maintain adequate stocks of materials, each company holds small warehouses in the regions of interest, which remain operational for the time needed by the construction site as a storage of materials and equipment.

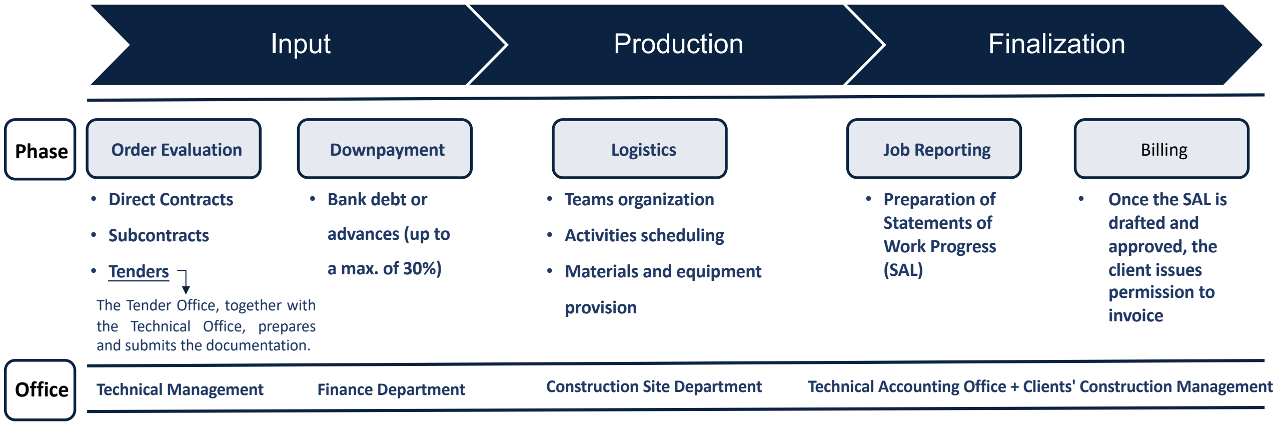
We note that when non-core activities are involved in the order (heavy equipment rentals, site signs installation, scaffolding installation, resurfacing), RWG usually outsources them to external suppliers.

4 - Reporting and billing of work-in-progress achievements

As work progresses, the Technical Accounting Department works together with the clients' Construction Management, by preparing monthly or bimonthly Progress Reports (so-called "SAL - Stato Avanzamento Lavori") based on periodic site visits.

After the SAL is approved and signed by both parties, it is subject to a certification process by the client, who then formally grants the authorization to issue the invoice.

Reway Group's Business Model Workflow



Source: Reway Group, Value Track Analysis

#1 key RWG economic feature – Lean structure = high returns / cash generation and sound Balance Sheet

Reway Group runs a lean and asst light business model generating high returns on capital employed and materially positive cash flows.

Lean organizational structure

RWG organizational structure is extremely flat. Indeed, in FY22 out of the total 392 average headcount, the number of managers stood at 6 (1% of total), coordinating 42 white collars and 344workmen (87% of total).

Low requirement of Fixed Assets

RWG group business model is labour intensive but not that capital intensive. Indeed, it doesn't require a high level of Fixed Assets as machineries have a very long useful life.

As a consequence, Net Fixed Assets (excl. goodwill) stands at a low 7% - 7.5% incidence on Value of Production, thus supporting healthy Returns on Equity and Capital Employed.

Cash generation as well is positive, (72% Operating Free Cash Flow / EBITDA conversion as of FY2022), even if less stable in magnitude due to the absorption of Trade Receivables (see later on for more details on this point).

Reway Group: Light Net Fixed Assets figure = High ROIC values

Net Fixed Assets (€mn, Fiscal Year)	2021PF	2022PF
Tangible Assets	4.9	5.6
Intangible Assets (excl. Goodwill)	1.0	1.0
Financial Assets	1.0	1.3
Net Fixed Assets (excl. Goodwill)	**6.9**	**7.9**
As % of Value of Production	7.5%	7.3%

ROIC Analysis (%)	2021PF	2022PF
ROIC b.t. (%, on avg. IC t-1,t excl. Goodwill)	*61.7%*	*64.6%*
ROIC a.t. (%, on avg. IC t-1,t excl. Goodwill)	*40.1%*	*40.2%*

Source: Reway Group, Value Track Analysis

Sound Balance Sheet

Thanks to the cash generation capability of its business, RWG boasts a sound balance sheet (Net Debt / EBITDA at ca. 0.2x in FY22) despite the distribution, back in FY2022, of some €3.3mn dividends.

This is a further competitive advantage as to be active in the infrastructure maintenance market, a sound financial profile is a necessary requirement.

Indeed, for the Contracting entity, RWG's financial strength is a guarantee that the work will be completed with no financial constraint.

Reway Group: Leverage and Coverage ratios

(%, x)	2021PF	2022PF
Gearing (i.e. Net Debt / Equity, %)	27%	10%
Net Debt / Tot. Capital Employed (%)	21%	9%
Net Debt / EBITDA (x)	0.5	0.2
EBITA / Net Fin Charges (x)	>10	>10

Source: Reway Group, Value Track Analysis

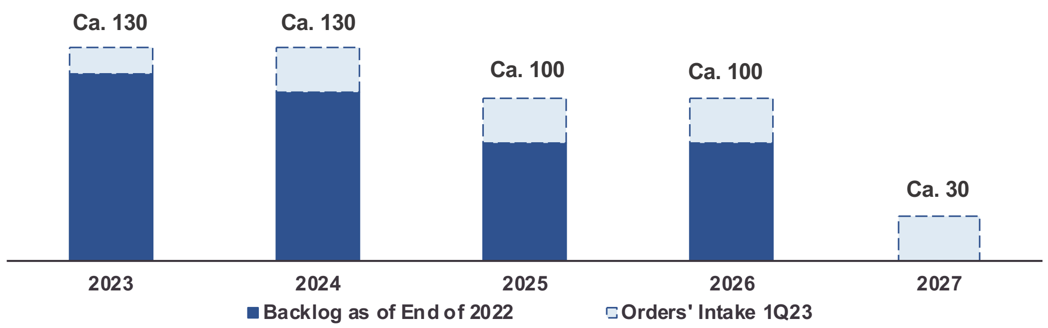
#2 key RWG economic feature - Highly visible business evolution

Reway Group enjoys a high visibility on the medium-term evolution of its business.

Indeed, as of 31 December 2022 the **backlog in-house** (namely secured future revenues from already won-tenders) stood at **ca. €362mn**, and further **ca. €123mn orders acquired in 1Q23** are to be added (gross of orders already delivered in the same quarter). On top of this amount, we estimate some further €66mn orders' intake within 2023 (not included in the chart below).

As a matter of facts, we note that our 2023E and 2024 Value of Production estimates are already covered at 100% and 89% respectively by the above-mentioned backlog figures.

Reway Group: Breakdown of Backlog by year of expected invoicing (€, mn)



Source: Reway Group, Value Track Analysis

Such an outstanding visibility is the result of the following drivers:

- the stance of the reference market;
- the intrinsic features of works assignment / execution process;

Stance of the reference market

As far as the stance of the reference market is concerned, see the dedicated chapter of this report, but we just note that Reway Group is active in the concrete rehabilitation sector, a maintenance niche that is being affected by multi-year investment plans allocating budgets for ordinary maintenance, as well as investments in devolvable assets (i.e. modernization activities and extraordinary maintenance).

Intrinsic features of works assignment / execution process

The major share of RWG's contracts is related to multi-annual framework agreements assigned via Public Tenders, while only a minority share of works are "spot" ones and / or awarded directly from clients.

To be more precise, we can identify the following types of works assignment by Contracting entities:

a. Works awarded via **Public Tenders**, having as their object a single project (e.g., rehabilitation of a specific tunnel);

b. Works awarded as well via Public Tenders, but within **Framework agreements**, covering a broader working area / works of longer duration and / or involving several different infrastructures;

c. **Directly awarded works**, resulting from contracting without the need for tendering, for interventions of minimum amounts. These works are a minority share;

d. **Subcontracted works,** assigned by a General Contractor in charge of coordinating the whole process of design / engineering / execution of works on big infrastructures.

Headwinds to face

Reway Group also has some headwinds / question marks to face, related to both the reference market / regulatory scenario (a new Public Procurement Code has been approved by the Government a few weeks ago) and to company specific features (e.g. the exposure to volatility in raw materials prices, the concentration of revenues on a very small number of clients, the limited operating leverage, and the absorption of cash throughout the whole order execution cycle).

Reway Group boasts several positive features, but is not immune from headwinds, related to both the reference market / regulatory scenario and to company specific features.

As far as the **Reference Market / Regulatory Scenario** is concerned, we note that in recent years the **Public Procurement Code** has been subject to numerous amendments, not always consistent each other, but at the end of the day these amendments proved to be very positive on Reway Group's capability to win new contracts. We note that in the very latest weeks a new Public Procurement Code has been approved by the Government and the impact on Reway Group is still to be proven.

As far as **Reway Group's specific features** are concerned, we need to raise a flag on some points:

- **Revenue concentration on a very few clients:** in FY2022, RWG's top 3 customers accounted for ca. 95% of its total revenues;
- **Limited operating leverage**: high incidence of costs that are proportional to revenues limit the profitability improvements that can be achieved mainly through positive revenue mix evolution;
- **Exposure to volatility of raw materials prices**, which: 1) Represent some 20% of Revenues; 2) Cannot be entirely rebated to customers; 3) Must be incurred at the beginning of the production cycle;
- **Absorption of cash throughout the whole order execution cycle** due to the necessity to finance the majority of orders' initial set up costs and to the long time needed to cash in bills from clients.

1 market headwind – Evolving Regulatory Scenario

The Public Procurement Code has undergone profound changes over the years having a noteworthy impact on the operations and margins of companies active in the sector.

We identify three different eras:

- **Until 2015:** the tendering system was based on tenders for individual projects and the award criterion was driven by so-called "Maximum Discount". Group companies won tenders with an average discount of 25-27%;
- **From 2015 to 2018**: Under the management of Minister Del Rio, the Ministry of Infrastructures abandoned the "Maximum Discount" criterion in favour of the so-called "Most Economically Advantageous Tender" (MEAT), allowing bidders to win a contract basing their offer on aspects other than just price. Indeed, it considers both a technical offer (worth 70%) and an economic one (30%). The average discount decreased to ca. 12%;
- **From 2018 to date**: The tender for individual projects has been increasingly joined by the Framework Agreement, where the Contracting entity allocates an amount without an executive project. The main contract is followed by add-ons that define the operational modalities;
- **From April 2023**: A new Public Procurement Code was approved, introducing a set of new regulations that are raising several doubts and concerns among parties and sector players, even if the impact on RWG at a first analysis can be judged as positive. Indeed:

1. A major impetus was given to the planning system for priority works (including road infrastructure);
2. The threshold for the compulsory inclusion of price revision clauses upon the occurrence of costs changes was reduced to 5% (previously 10%), with 80% of the increased cost being recognised in favour of contractors;
3. The limitation on the percentage of works that can be subcontracted was removed, with the main benefit for RWG of being able to be awarded the entire potential work (especially since RWG is subcontracting with two of its major customers);
4. New rules for consortia, which will need to include at least a company with the certifications and financial requirements to carry out the work independently (previously, it was common for consortia of micro-companies to win big contracts that they were then unable to perform). RWG is expected to benefit from this norm, as it may be brought in when a consortium is interested in taking a particularly large order (indeed, the latest €123mn order was acquired through a consortium).

We acknowledge that the true impact on RWG (as well as on the entire sector) is still to be proven, especially since the rules of the new code will be subject to a transitional period until 31 December 2023, marked by the partial coexistence of new and old regulations.

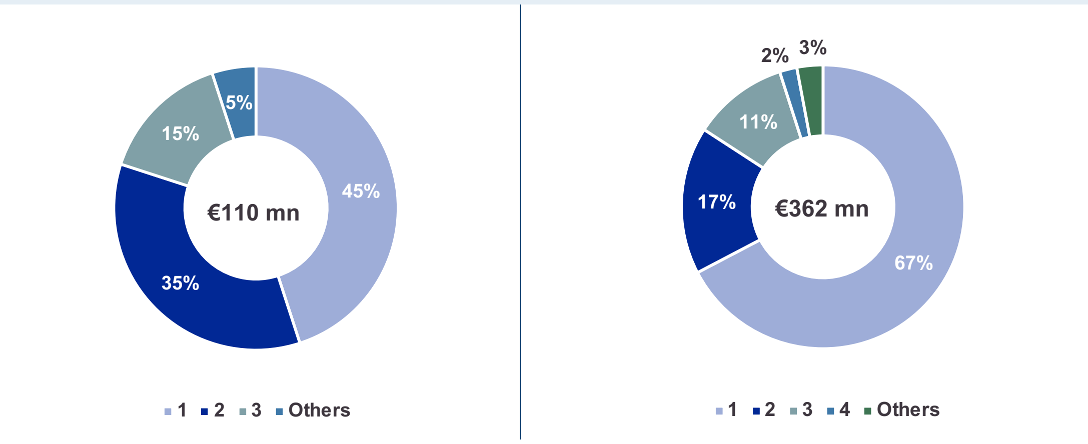
1 company specific headwind – Revenue concentration on very few clients

We previously mentioned that RWG provides its services mainly to top tier highway concessionaires and road operators, and that this is an extremely concentrated market, with Autostrade per l'Italia, Gavio Group and ANAS accounting for the 90% of it.

As a result, also RWG Revenues structure and Order book are highly concentrated. Indeed:

- In FY2022, RWG's top 5 customers accounted for 95% of total revenues;
- As of December 2022, RWG's top 3 clients represent close to 95% of 2023-2026 backlog.

Reway Group: FY22 Revenues Concentration (lhs) and Backlog Concentration FY22 (rhs)



Source: Reway Group, Value Track Analysis

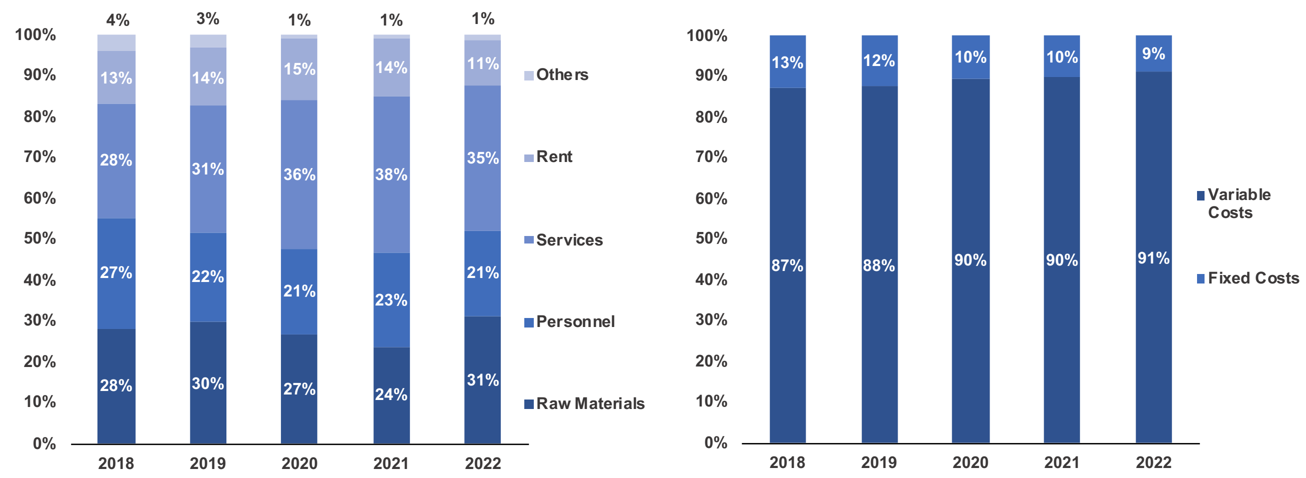
2 company specific headwind – Limited operating leverage

One of RWG's distinctive features is to have a low degree of operating leverage, resulting from a high incidence of costs that are proportional to Value of Production (workmen labour costs, rents of machineries and equipment, purchase of raw materials, outsourcing of non-core activities), while rather limited incidence of fixed costs (directors /managers, rental fees related to warehouses and offices, other G&A costs).

Indeed, we calculate that, on average, Contract Margin for RWG stands at ca. 25% with EBITDA margin at ca. 17.5%-18%. This means that costs that are directly billable to works account for some 75% of order's value, while G&A / headquarter costs account for only some 7%-7.5% of order's value.

As a matter of facts, "variable" costs account for ca.90% of total operating costs, thus limiting the profitability improvement potential due to "scale effect".

Reway Group: Operating Costs breakdown (lhs) and Variable / Fixed Costs incidence (rhs)

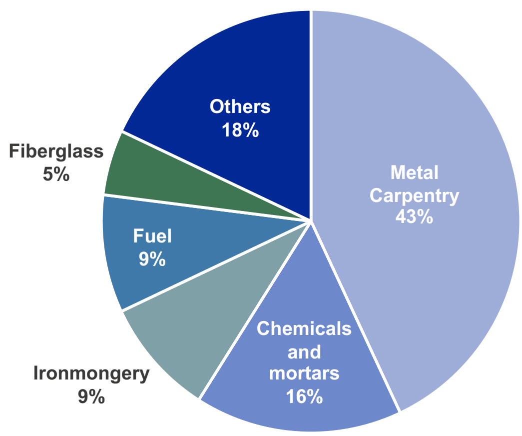


Source: Reway Group, Value Track Analysis

3 company specific headwind – Exposure to volatility of Raw Materials prices

Raw Materials historically account for some 20% of RWG Revenues, with the most impactful raw materials being metal carpentry (43% of total Raw Materials costs), chemicals and mortars (16%), Ironmongery (9%), Fuel (9%) and Fiberglass (5%).

Reway Group: Raw Materials costs breakdown



Source: Reway Group, Value Track Analysis

Reway Group signs contracts with clients where the risk of raw materials prices is taken by RWG itself, and this is a risk when volatility in raw material prices increases.

In order to mitigate such risk, RWG usually purchases in advance the raw materials needed to execute planned works. However, this is not always possible due to shortages and problems in the supply chain. This was the case of 1H22 that witnessed a surge in the cost of cement, steel, mortars and aluminium, whose impact on RWG margins has been offset only thanks to some actions put in place by the government, namely:

- Ex-post verification of the impact of raw materials price increases and related reimbursement;
- Authorization for suppliers to increase prices to clients by some 20% on "ongoing works";
- Authorization for suppliers to charge prices to clients on "new works" based on the new inflation-adjusted ANAS 2022 price list.

4 company specific headwind – Absorption of cash throughout the whole order execution cycle

Reway Group boasts an on-order driven / work in progress business model, where every new order that RWG starts working on determines an initial cash absorption, as RWG purchases raw materials and set up the working site. The client only partially finances these initial costs with a down payment usually worth some 20% of the total order.

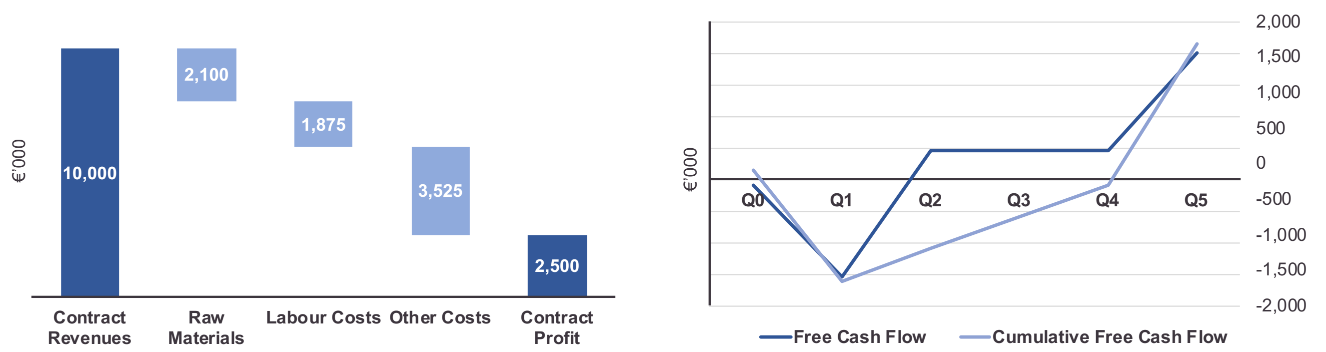
Further payments by the client are regulated by the percentage of completion of the order, to be assessed every couple of months (sometimes even month by month), with the client taking ca. 40 days to acknowledge the accuracy of the calculation, thus greenlighting the issue of the invoice, and taking further 60 days to settle the payment.

As a matter of facts, RWG eventually get a cumulate positive free cash flow only at the end of works.

Just to make an example, if we take into account a €10mn order to be evenly executed in ca. four quarters and generating a 25% Contract Margin, the impact on RWG financials would be as follows:

- Q0 and Q1 would be cash burning periods, as Inventory and Receivables more than offset the first down payment received;
- Q2, Q3, Q4 would instead show strong cash generation, but a positive cumulated free cash flow would be achieved only in Q5, with the cash-in of the final invoice from the client.

Reway Group: Free Cash Flow simulation (rhs) for WIP Accounting



Source: Value Track Analysis

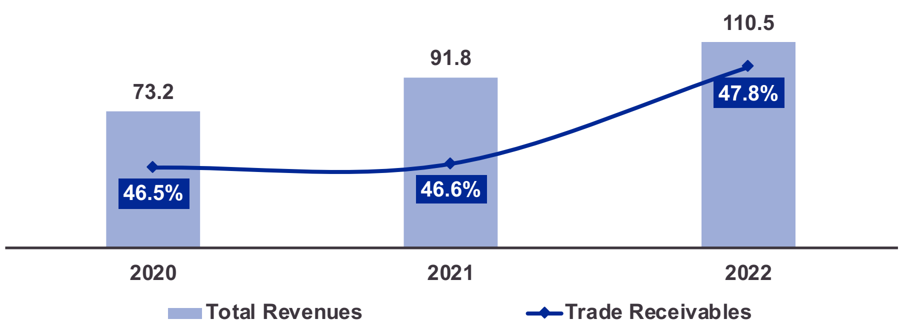
Reway Group: Cash Flow Statement simulation for WIP Accounting

(IT GAAP, €'000)	Q0	Q1	Q2	Q3	Q4	Q5	Cumulative
Down Payments	2,000	0	2,000	2,000	2,000		8,000
Final Invoice						2,000	2,000
Total Cash-In (+)	**2,000**	**0**	**2,000**	**2,000**	**2,000**	**2,000**	**10,000**
Raw Materials	-2,100						-2,100
Labour Costs		-469	-469	-469	-469		-1,875
Other Contract Expenses		-881	-881	-881	-881		-3,525
Net Financial Charges		-20	-20	-20	-20		-80
Taxes		-182	-182	-182	-182		-726
Total Cash-Out (-)	**-2,100**	**-1,552**	**-1,552**	**-1,552**	**-1,552**	**0**	**-8,306**
Free Cash Flow (+) / (-)	**-100**	**-1,552**	**449**	**449**	**449**	**2,000**	**1,694**
Cumulative Free Cash Flow (+) / (-)	**-100**	**-1,652**	**-1,203**	**-755**	**-306**	**1,694**	**1,694**

Source: Value Track Analysis

Just to hint at how impactful the financial cycle of RWG business is, we note that Trade Receivables incidence on Total Revenues usually hover around 46-48%.

Reway Group: Trade Receivable on Total Revenues



Source: Reway Group, Value Track Analysis

Growth Strategies

In order to keep growing at high double-digit pace, we expect management to pursue the following strategies: 1) push consolidating of market positioning in the core "road infrastructure reparation" business; 2) extend of technical know-how by acquisition of small targets; 3) leverage on know-how and skills in contiguous markets (e.g. railway infrastructures and maritime ports).

We consider Reway Group, even on a pre-IPO money basis, as having the skills and the opportunity to expand its market shares in the domestic field and ultimately integrate its product offering with new value-added services.

The forthcoming IPO and related proceeds represent a further source of upside potential that may be exploited to support additional growth.

In the next future, we suppose management to focus on the following growth drivers / strategies:

1. **Consolidation of market positioning** in the core "road infrastructure reparation" business;
2. **Extension of technical know-how by acquisition of small / highly specialized companies**;
3. **Leverage on know-how and skills in contiguous markets** (e.g. railway infrastructures and maritime ports), both via organic growth and acquisition of well-established market players.

1 - Consolidation of market positioning in the core business

Given the flawed presence of core "road infrastructure reparation" business operators, Reway boasts wide room to grow organically. To reach this goal, RWG should devolve new investments for obtaining even more innovative equipment and should hire further specialized workforce.

2 - Extension of technical know-how by acquisition of small targets

Through vertical integration, Reway Group might seize M&A opportunities across three main directions, with the potential target companies being:

- Suppliers operating in a sector that is going to face an investment increase by highway concession operators, such as expansion joints and bearings for viaducts;
- Companies delivering innovative and sustainable raw materials, preferable to iron and aluminium, with the view to facilitate infrastructure health monitoring, for instance, "fiberglass linings";
- Enterprises providing services such as road body maintenance and emergency services, and environmental services (e.g., cleaning and reclamation), thus enabling RWG to respond to concessionaires requiring general maintenance services.

For the sake of completeness, we note that RWG has no track record yet in M&A.

3 - Leverage on know-how and skills in contiguous markets

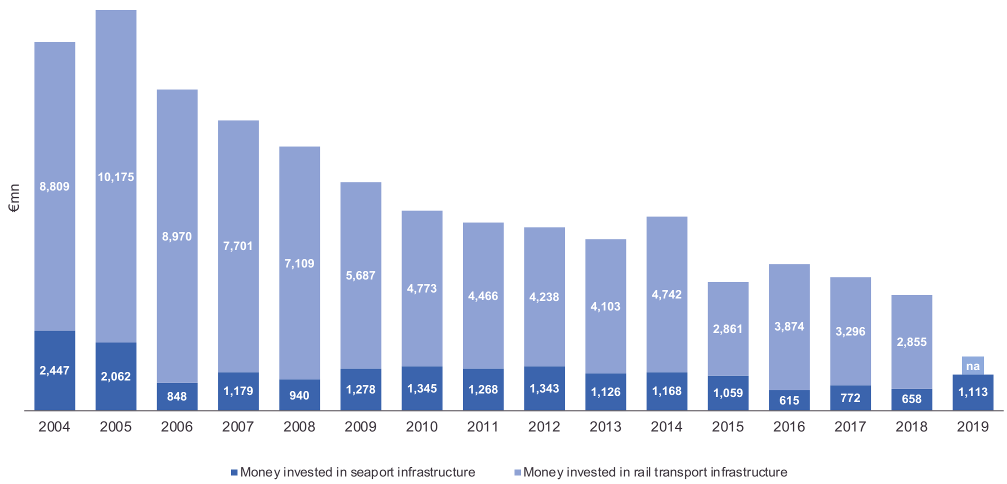
To achieve higher business diversification and even higher operating margins, RWG aims at directly or indirectly approaching two growing and profitable markets, i.e. **Railway** and **Maritime** ones, where RWG could leverage its know-how in reparation and rehabilitation services provisioning.

We note that the historical path of investments in Italian maritime and railway infrastructures is very similar to the highways one previously described, i.e. a declining trend, that should be reverted in the next few years.

According to Statista, the highest number of seaport infrastructure investments was recorded back in 2004, at over €2.4bn. Instead, in 2019, investments amounted to over €1.1bn.

On the other hand, rail transport infrastructure investments amounted to roughly €2.8bn in 2018. With €10.1bn, the highest amount of investment in rail transport infrastructure happened in 2005.

Money invested in seaport and railways infrastructure in Italy from 2004 to 2019



Source: Statista

The Italian railways market opportunity

Rail transport is seen pivotal to sustainable mobility, as revealed in the European Commission's Sustainable and Smart Mobility Strategy (2020), which aims at doubling high speed rail traffic by 2030, with an expected doubling of high-speed railway lines globally by 2035 to cover around 100,000km worldwide (Source: Global Construction Outlook 2021, Bloomberg Intelligence, December 2020).

High speed railway projects should materially shorten travel times and provide low-carbon services.

Particularly, analysing the Italian railways market, we outline that:

- It is one of the most important parts of the infrastructure of Italy, with a total length of **24,227 km** of which active lines are 16,723 km.
- RFI (Rete Ferroviaria Italiana), a state-owned infrastructure manager, administers most of the Italian rail infrastructure for a total length of active lines at ca. 16,723 km, out of which 7,505 km are double tracks.
- In the next 10 years, **€110bn are planned to be invested in Italian rail infrastructure**. As a matter of fact, RFI 2022-2031 industrial plan yearns for promoting a collective and sustainable multimodal transport network focused on highly integrated transport hubs and doubling the rail freight transport shares.

The Italian maritime market opportunity

The current national port logistics network includes **58 ports** and 24 dry ports. Italy represents the second largest European country (second to the Netherlands) for the movement of goods by sea and second only to the UK for short-sea shipping.

As far as the Italian maritime market is concerned, we note that:

- The logistics network is one of the enabling factors for the country's success in the challenge of international trade: in 2019, the movement of goods amounted to almost 500mn tonnes, operated mainly on ships carrying liquids (37%, especially oil and derivatives), containers (23%) and ferries (22%).
- Trieste, Genoa, Ravenna, Taranto, Livorno and Gioia Tauro ports are among the **top #5 ports in the Mediterranea**n for cargo handling in various categories.
- **The investments scheduled for port development by the NRRP, and national resources amount to €9.2bn**. In total, interventions are planned in 47 ports located in 14 regions and under the responsibility of 16 Port System Authorities (AdSP). 46.9% of the investments referred to Southern Italy ports, 37.7% to those in the North, and the remaining to Central Italy.

Financials 2022PF-25E

Reway Group boasts a profitable business model with sound cash flow generation, even if it has to finance the initial phases of works demanded by clients.

Key points of forecasts are: 1) Top line expected to keep growing at ca. 13% rate, driven by existing backlog and by new orders' intake; 2) EBITDA - EBITA margin stable at ca. 17.7% - 15.1%; 3) OpFCF / EBITDA in the 65%-70% region despite Working Capital absorption, driving Net Cash Position up to ca. €47mn in 2025E.

2022PF-25E at a glance

We note the following key points about Reway Group's actual/forecasted financial profile:

- Group financials reported according to Italian OIC accounting principles;
- 2022 figures reported on a Pro-Forma basis as the current consolidation perimeter of the Group was not actually existing at that time;
- 2022PF-25E Reported EBIT and Net Profit affected by the recent paper-based acquisition of MGA minorities that has generated more than €15mn non tax deductible goodwill to be amortized in 10 years. EBITA (or Adjusted EBIT before goodwill) and Adjusted Net Profit are obviously not impacted by such non-cash accounting item;
- **Top line** historically growing double digit, at **36.4% CAGR$_{16\text{-}22}$** to €110.5mn as of FY22, and expected to keep growing at a sound double digit **13.4% CAGR$_{22A\text{-}25E}$** to ca. €161mn in 2025E, driven by existing >€400mn backlog and by ca. €200mn annual orders' intake, substantially in line with 2022's level;
- Positive and steady operating profitability: EBITDA - EBITA margin at ca. 17.9% - 15.1% in FY22 and beyond, leading to **€29mn - €25mn EBITDA – EBITA respectively in 2025E**;
- Asset light business model, with **OpFCF / EBITDA in the 65%-70%** region despite Working Capital absorption, and **Net Cash Position** expected to increase up to ca. **€47mn in 2025E** (assuming no dividend distribution nor M&A deals).

Reway Group: Key forecasts 2022PF-25E

(€, mn)	2022PF	2023E	2024E	2025E
Value of Production	**110.5**	**127.0**	**145.6**	**161.0**
EBITDA	**19.6**	**22.3**	**26.1**	**29.2**
EBITDA Margin (%)	*17.7%*	*17.6%*	*17.9%*	*18.1%*
EBITA	**17.9**	**18.9**	**22.0**	**24.6**
EBITA Margin (%)	*16.2%*	*14.9%*	*15.1%*	*15.3%*
Adj. Net Profit	**11.6**	**12.7**	**15.1**	**17.0**
OpFCF b.t.	**14.1**	**15.1**	**17.3**	**20.9**
As a % of EBITDA	*71.9%*	*67.8%*	*66.5%*	*71.5%*
Net Fin. Pos. [Net Debt (-) Cash (+)]	**-3.9**	**23.2**	**33.6**	**46.9**

Source: Value Track analysis

Profit & Loss: Top line up double digit, steady Operating profitability

We're modelling Reway Group's 2023E-25E P&L evolution based on the following assumptions:

- Ca. €200mn annual orders' intake in 2023E-25E, substantially in line with the 2022's level;
- Book-to-Bill ratio at average 1.4x, going along with a ca. 13% annual increase in Value of Production, in line with RWG expected capability to progressively increase its output capacity;
- Contract margin stable at ca. 25%, with no scalability effect due to the high incidence of costs that are directly proportional to Value of Production. Moreover, the impossibility to forecast the future evolution of raw material prices suggests a conservative approach;
- EBITDA - EBITA margin substantially stable as well, respectively at ca. 17.7% - 15.1%, leading to €29mn - €25mn EBITDA – EBITA respectively in 2025E;
- Close to zero incidence of financial charges, and Tax rate stable at ca. 34%.

Reway Group: Backlog and Orders' intake evolution 2022PF-25E

(€, mn)	2022PF	2023E	2024E	2025E
Backlog BoP (Beginning of Period)	247.4	362.0	425.0	482.9
(+) Orders Intake	**232.0**	**189.0**	**202.5**	**216.0**
Book-to-Bill	1.98	1.50	1.40	1.35
(-) Orders Delivered (*)	**-117.4**	**-126.0**	**-144.6**	**-160.0**
Backlog EoP (End of Period)	**362.0**	**425.0**	**482.9**	**538.9**

Source: Value Track analysis, (*) = Value of Production

Reway Group: Profit & Loss 2022PF-25E

(€, mn)	2022PF	2023E	2024E	2025E
Value of Production	**110.5**	**127.0**	**145.6**	**161.0**
Raw Materials, Δ Inventory (Finished Goods)	-28.5	-32.8	-37.6	-41.6
Gross Profit	**82.0**	**94.2**	**108.0**	**119.4**
Gross Margin (%)	***74.2%***	***74.2%***	***74.2%***	***74.2%***
Costs of Services	-32.2	-36.2	-41.5	-45.9
Costs of Rent	-10.3	-12.7	-14.6	-16.1
G&A	-1.1	-1.2	-1.4	-1.6
Labour Costs	-18.8	-21.8	-24.5	-26.7
EBITDA	**19.6**	**22.3**	**26.1**	**29.2**
EBITDA Margin (%)	***17.7%***	***17.6%***	***17.9%***	***18.1%***
D&A (excl. goodwill)	-1.5	-2.8	-3.4	-3.8
Provisions	-0.2	-0.6	-0.7	-0.8
EBITA	**17.9**	**18.9**	**22.0**	**24.6**
EBITA Margin (%)	***16.2%***	***14.9%***	***15.1%***	***15.3%***
Goodwill amortization	-1.7	-1.7	-1.7	-1.7
EBIT	**16.2**	**17.3**	**20.3**	**23.0**
Interest Expenses	-0.2	-0.2	0.2	0.4
Pre-Tax Profit	**16.0**	**17.1**	**20.5**	**23.3**
Taxes	-6.1	-6.0	-7.1	-8.0
Minorities	0.0	0.0	0.0	0.0
Net Profit	**10.0**	**11.1**	**13.4**	**15.3**
Adjusted Net Profit	**11.6**	**12.7**	**15.1**	**17.0**

Source: Reway Group, Value Track Analysis

Balance Sheet and Cash Flow Statement: Positive cash generation

We expect Reway Group to enjoy a strong Operating Cash Flow b.t. generation over the next years, at **ca. 65%-70% of EBITDA** as a consequence of the above-mentioned P&L results and of:

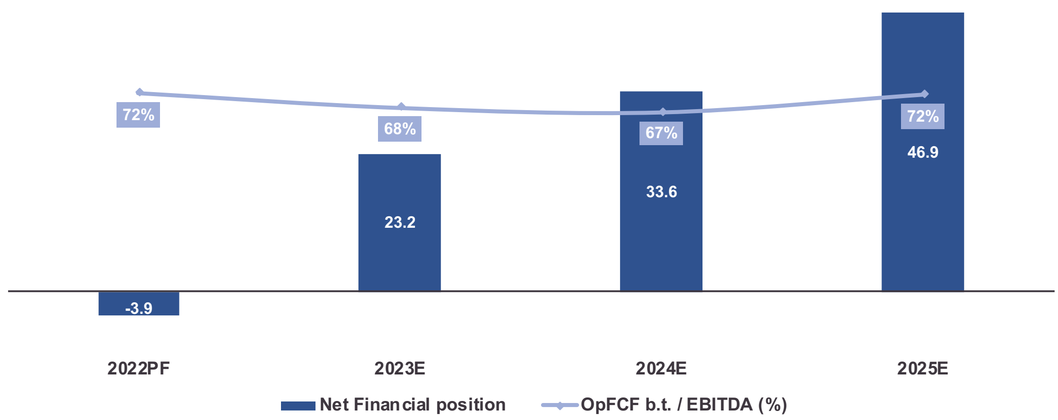
- Limited need for capex, (ca. 3% of Value of Production), given the asset light profile of RWG business model;
- Net Working Capital stable at ca. 20%-21% of Value of Production, as a consequence of heavy burden of Trade Receivables (ca. 47% of VoP) only partially offset by Trade Payables.

Reway Group: Net Working Capital 2022PF-25E

(€, mn)	2022PF	2023E	2024E	2025E
Inventories	0.7	1.0	1.2	1.3
Trade Receivables	**52.9**	**59.4**	**68.2**	**75.3**
DSO (gg, on VoP + VAT)	143.0	140.0	140.0	140.0
Trade Receivables / VoP (%)	*47.8%*	*46.8%*	*46.8%*	*46.8%*
Trade Payables	**22.6**	**29.7**	**34.0**	**37.4**
DPO (gg, on Total Operating Costs)	87.6	100.0	100.0	100.0
Trade Payables / VoP (%)	*20.5%*	*23.4%*	*23.3%*	*23.3%*
Down Payments	1.0	1.3	1.5	1.6
Other Current Assets	-0.4	2.5	2.9	3.2
Other Current Liabilities	-8.2	-7.0	-7.0	-7.0
Net Working Capital	**21.2**	**25.0**	**29.8**	**33.8**
Net Working Capital / VoP (%)	***19.2%***	***19.7%***	***20.5%***	***21.0%***

Source: Reway Group, Value Track Analysis

Reway Group: OpFCF and Net Financial Position evolution 2022PF-25E (*)

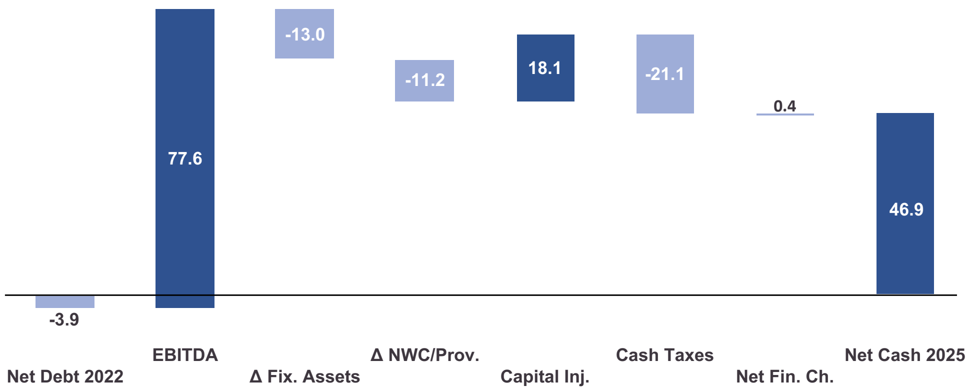


Source: Reway Group, Value Track Analysis

(*) 2023E Net Financial Position including €18.1mn net proceeds from IPO

Also taking into account the €18.1mn net proceeds from IPO, we forecast **2025E Net Cash Position at ca. €47mn**, i.e. a cumulated €51mn Free Cash Flow generation (€32.7mn net of IPO proceeds) in 2023E-25E years.

Reway Group: Net Financial Position bridge 2022PF-25E



Source: Reway Group, Value Track Analysis

Reway Group: Balance Sheet 2022PF-25E

(€mn, IT GAAP)	2022PF	2023E	2024E	2025E
Net Fixed Assets (incl. Goodwill)	22.9	21.7	20.3	18.9
Net Working Capital	21.2	25.0	29.8	33.8
Provisions	1.6	2.0	2.5	3.0
Total Capital Employed	**42.6**	**44.7**	**47.7**	**49.7**
Group Net Equity	**38.7**	**67.9**	**81.3**	**96.6**
Net Fin. Position [i.e. Net Debt (-) Cash (+)]	**-3.9**	**23.2**	**33.6**	**46.9**

Source: Reway Group, Value Track Analysis

Reway Group: Cash Flow Statement 2022PF-25E

(€, mn)	2022PF	2023E	2024E	2025E
EBITDA	19.6	22.3	26.1	29.2
Δ NWC	-2.1	-3.8	-4.8	-4.0
Capex (excl. Financial Inv.)	-3.3	-3.8	-4.4	-4.8
Δ Provisions	0.0	0.4	0.5	0.5
OpFCF b.t.	**14.1**	**15.1**	**17.3**	**20.9**
As a % of EBITDA	*71.9%*	*67.8%*	*66.5%*	*71.5%*
Cash Taxes	-6.1	-6.0	-7.1	-8.0
OpFCF a.t.	**8.0**	**9.1**	**10.2**	**12.9**
Capital Injections	0.0	18.1	0.0	0.0
Others (incl. Financial Inv.)	0.4	0.0	0.0	0.0
Net Financial Charges	-0.2	-0.2	0.2	0.4
Dividends Paid	-3.3	0.0	0.0	0.0
Δ Net Financial Position	**4.9**	**27.1**	**10.5**	**13.3**
Net Financial Position	**-3.9**	**23.2**	**33.6**	**46.9**

Source: Reway Group, Value Track Analysis

Valuation

We initiate coverage on Reway Group with €4.75 Fair Equity Value per share (€182.9mn Fair Equity Value) obtained as a simple average of: 1) DCF model analysis; 2) Peers analysis based on current stock trading multiples; 3) Peers analysis based on historical stock trading multiples.

We set **fair Equity Value per share at €4.75**, obtained by taking into account the following valuation methodologies:

- **DCF model**, aimed at capturing RWG medium-term growth potential, cash generation capability and risk profile, leading at ca. €4.94 p/s.;
- **Peers Analysis** built on both current and historical peers' multiples, aimed at assessing RWG valuation based on its 2023E-24E expected performance compared to peers and leading to €4.91 and €4.40 p/s respectively.

Reway Group: Valuation Summary

Valuation Methodologies	Fair Equity Value p/s (€)	Fair Equity Value (€, mn)
DCF Model	4.94	190.3
Current Market Multiples	4.91	188.9
Historical Market Multiples	4.40	169.6
Fair Equity Value (avg.)	**4.75**	**182.9**

Source: Value Track Analysis

Based on our 2023E-24E estimates, at fair value the stock would trade **at 7.1x - 5.7x EV/EBITA, 8.4x - 6.8x EV/EBITA** and **14.4x - 12.1x P/E Adj.**

Reway Group: Sensitivity of implicit stock trading multiples

Eq. Value p.s.	EV / Sales (x)		EV / EBITDA (x)		EV / EBITA (x)		P /E Adj.(x)	
	2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E
4.62	1.2	1.0	6.9	5.5	8.2	6.6	14.0	11.8
4.68	1.2	1.0	7.0	5.6	8.3	6.7	14.2	12.0
4.75	**1.3**	**1.0**	**7.1**	**5.7**	**8.4**	**6.8**	**14.4**	**12.1**
4.82	1.3	1.0	7.3	5.8	8.6	6.9	14.6	12.3
4.88	1.3	1.1	7.4	5.9	8.7	7.0	14.8	12.5

Source: Value Track Analysis

Peers Analysis

Choice of Comparables

Due to the absence of listed companies specifically focused on highways' tunnels / viaducts reparation, we select, as possible peers for Reway Group, companies active in the provisioning of construction, maintenance and engineering services to the infrastructure industry with a focus on roads (RWG current main end market) and railways or maritime ports (RWG possible future additional end markets) (*Find in Appendix the business profile of selected peers*).

Comparing Reway Group with selected peers, we note that the latters tend to either provide a more complete offer but only to a limited range of end-sectors (Salcef, A.B.P. Nocivelli, Veidekke) or to perform fewer core activities but targeted to more verticals (Webuild, DBA Group). Peab and AF Gruppen are the most diversified companies of the pool, while Construction Partners, NRC Group and Bilfinger are the most specialized ones.

Reway Group: Business comparison vs. Peers

Peers	Activities				Sectors			
	Construction	Maintenance	Engineering	Other	Roads	Railways	Maritime	Other
Domestic Peers								
Webuild	✓		✓	✓	✓	✓	✓	✓
Salcef	✓	✓	✓	✓		✓		
A.B.P. Nocivelli	✓	✓	✓	✓				✓
DBA Group			✓	✓	✓	✓	✓	✓
International Peers								
Construction Partners	✓				✓			
Peab	✓	✓	✓	✓	✓		✓	✓
Veidekke	✓	✓	✓	✓		✓		✓
NRC Group	✓	✓		✓		✓		
Bilfinger		✓		✓				✓
AF Gruppen	✓	✓	✓	✓	✓	✓		✓
Reway Group		✓			✓			

Source: Value Track Analysis

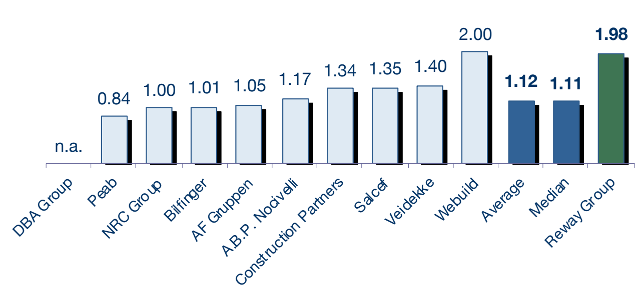
Reway Group better than Peers on most KPIs

Comparing Reway Group with selected peers we note that, but for the lower size and diversification, RWG stands better on almost all the KPIs that can be taken into account, such as:

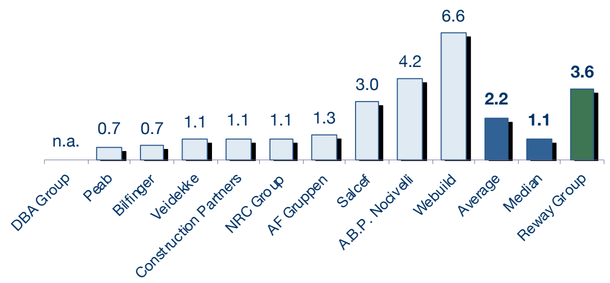
1. **Backlog Coverage**. Reway boasts the second highest book-to-bill ratio and one of the strongest backlog/revenues multiple of the selection, signalling great visibility on Revenues;
2. **Expected Growth**. Partially due to the lower size (RWG €126mn Value of Production FY23E vs. €2.4bn peers' median), but growing faster than peers, at 16% $CAGR_{21A-24E}$;
3. **Operating Profitability**. Thanks to its focus on value added maintenance activities, we forecast RWG to maintain much higher EBIT Margin than peers (2023E at 13.7% vs. 6.5% for peers);
4. **Return on Capital**. We expect RWG to maintain higher than average ROCE thanks to its light business model (Capex / VoP at 3.0%) and strong operating profitability;
5. **Financial Leverage**. We forecast RWG Net Debt / EBITDA at <0, as half of its peers.

Reway Group: Benchmark vs. Peers

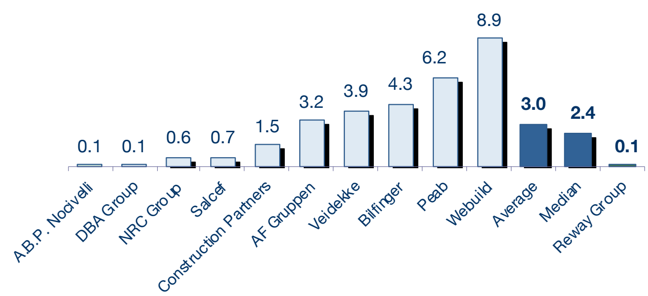
Book-to-Bill (latest, x)



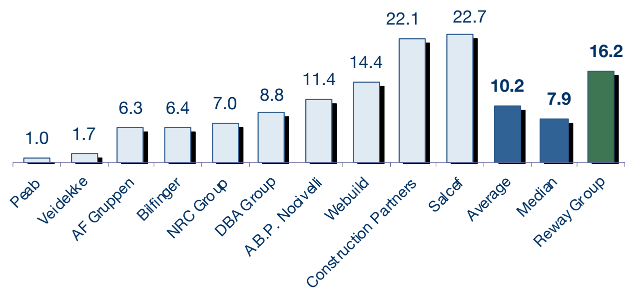
Backlog (latest) / Revenues 2023E (x)



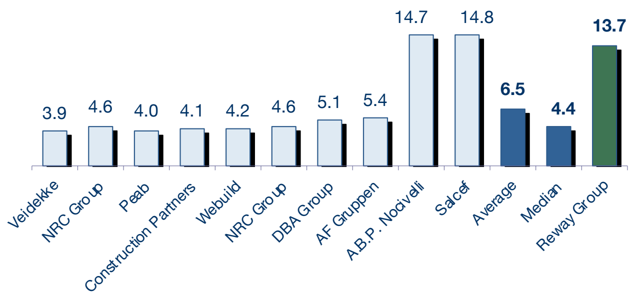
Revenues 2023E (€bn)



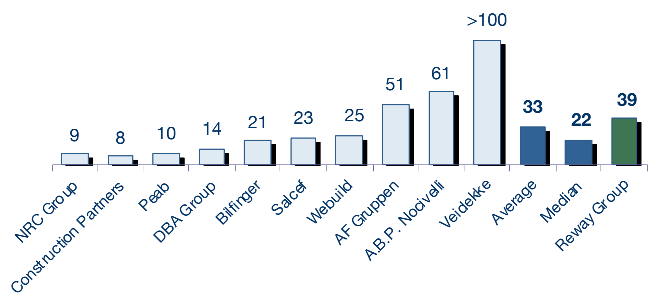
Revenues CAGR$_{21A-24E}$ (%)



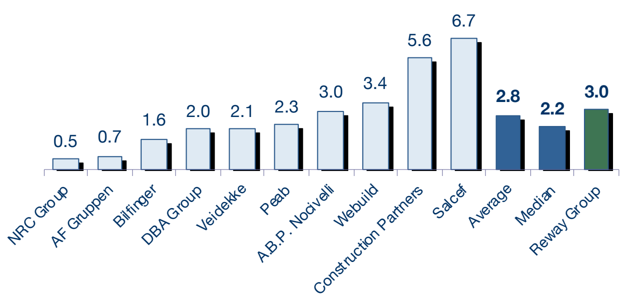
EBIT Margin 2023E (%)(*)



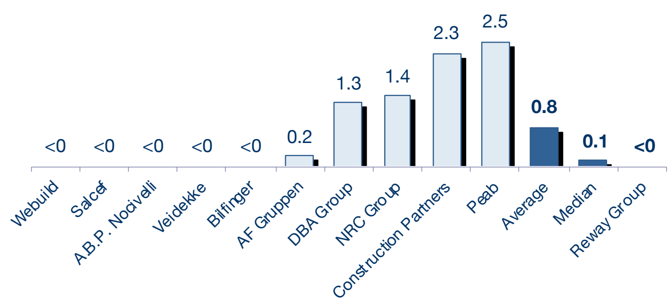
ROCE (b.t.) 2023E (%)



Capex / Revenues 2023E (%)



Net Debt / EBITDA 2023E (x)



Source: Market Consensus, Value Track Analysis, (*) EBITA for Reway Group

1 - Valuing Reway Group based on peers' current stock multiples

We take into consideration 2023E as base valuation year, and EV/EBITA and Adj. P/E as the most appropriate "standard" reference multiples, capable to properly take into account the different profitability and capital intensity of the various companies included in the sample.

In our analysis we also include EV/Backlog EBITA per annum, i.e. the amount of annual EBITA that companies' backlog should generate based on the current level of backlog and on the normalized EBITA margin divided the number of years in which the backlog should be executed based on current revenue level.

That said, we note that peers' multiples are quite scattered, with domestic peers almost always trading at discount vs international ones, and international peers boasting a wide dispersion between the most expensive (Construction Partners) and the cheapest ones (NRC Group).

In order to smooth such dispersion, we set as "fair" 2023E multiples values that are intermediate between average and median ones, i.e. 8.8x EV/EBITA, 14.6x Adj. P/E, 10.1x EV/ Backlog EBITA p.a.

Such analysis leads to calculate Reway Group **fair Equity Value** per share at **€4.91mn**.

Reway Group: Peers' Trading Multiples

Peers	Mkt Cap (€mn)	EV / EBITA (x)		P / E Adj. (x)		EV/Backlog EBITA p.a.	
		2023E	2024E	2023E	2024E	2023E	2024E
Domestic Peers							
Webuild	1,951	4.6	3.9	16.0	12.7	5.5	5.3
Salcef	1,310	12.9	10.5	18.9	15.3	16.0	15.8
A.B.P. Nocivelli	119	6.0	5.2	12.2	12.0	7.6	6.9
DBA Group	17	5.8	4.7	4.1	3.8	n.a.	n.a.
Average	**849**	**7.3**	**6.1**	**12.8**	**11.0**	**9.7**	**9.3**
Median	**715**	**5.9**	**5.0**	**14.1**	**12.4**	**6.5**	**6.1**
International Peers							
Construction Partners	1,236	26.2	20.3	38.3	27.6	31.6	30.7
Peab	1,446	10.3	10.1	8.6	8.5	9.2	9.0
Veidekke	1,495	9.0	9.2	13.6	12.9	9.4	9.4
NRC Group	81	5.1	3.8	4.3	3.8	7.2	6.0
Bilfinger	1,471	7.0	6.2	15.3	12.5	7.2	7.3
AF Gruppen	1,605	9.9	10.4	16.6	15.9	12.3	12.4
Average	**1,222**	**11.2**	**10.0**	**16.1**	**13.5**	**12.8**	**12.5**
Median	**1,458**	**9.4**	**9.7**	**14.4**	**12.7**	**9.3**	**9.2**
Total Average	**1,073**	**9.7**	**8.4**	**14.8**	**12.5**	**11.8**	**11.4**
Total Median	**1,378**	**8.0**	**7.7**	**14.4**	**12.6**	**8.4**	**8.1**
RWG Fair Multiple		**8.8**		**14.6**		**10.1**	
Fair Equity Value Per Share (€)		**4.94**		**4.83**		**4.94**	

Source: Market Consensus, Value Track Analysis

2 - Valuing Reway Group based on Historical Peers' Multiples

Peers' stock trading multiples in recent years have been affected by pretty high volatility driven by exogenous shocks such as Covid-19 outbreak in 2020, macroeconomic rebound in 2021 and official interest rates tightening in 2022.

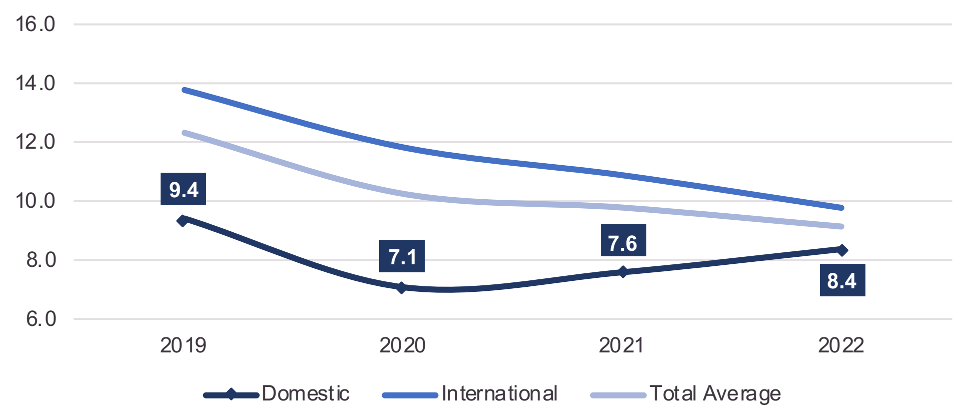
We take into account:

- Peers' FY0 stock trading multiples from 2019 to 2022 (market cap as of 31/12 of each year);
- EV/EBITA and Adj. P/E as most correct multiples (and not being so straightforward to recalculate historical multiples based on Backlog EBITA);
- Domestic peers (historically trading at ca. 20% discount vs. international comparables) as appropriate reference ones given RWG small size and focus on Italian clients.

The result of these assumptions is 8.1x EV/EBITA and 12.7x Adj. P/E "fair" multiples.

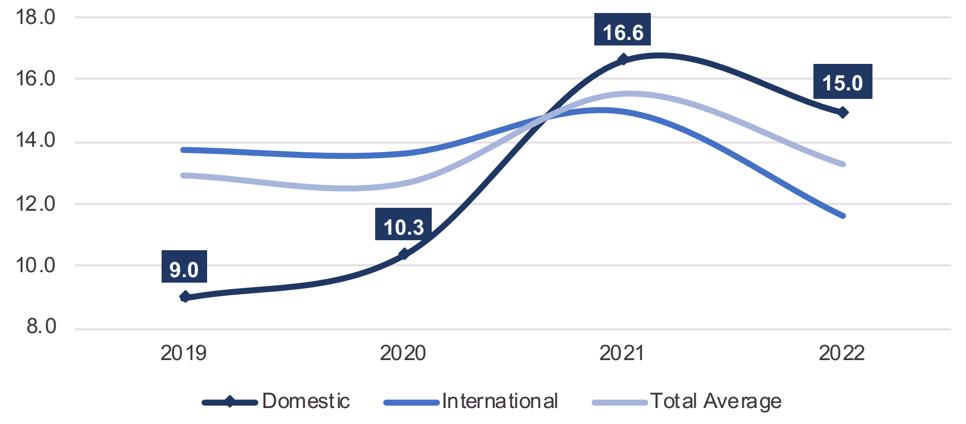
Applying the above mentioned "fair" multiples to Reway Group 2023E financials, leads to calculate Reway Group **fair Equity Value per share at €4.40**.

Reway Group: Peers' Historical EV/EBITA multiple evolution



Source: Market Consensus, Value Track Analysis

Reway Group: Peers' Historical Adj. P/E multiple evolution



Source: Market Consensus, Value Track Analysis

3 - Value Maps cross check

Value maps confirm a positive correlation between stock trading multiples and financial performance of the selected companies.

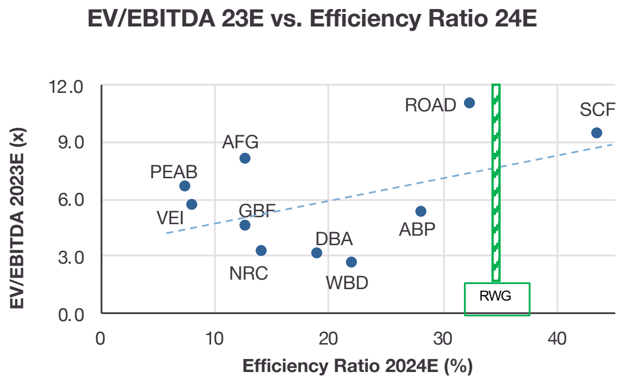
More in details, stock trading multiples are higher for those companies boasting:

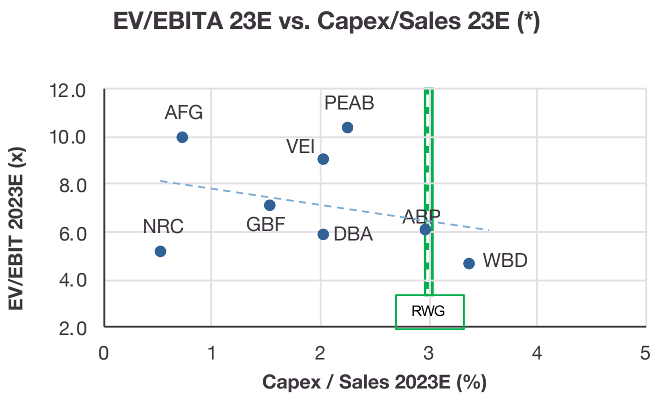
- Higher Efficiency ratio (arithmetical sum of Revenues CAGR and EBITDA Margin);
- Lower fixed asset intensity of the business;
- Faster growth, measured at Net Profit level.

From this point of view, Reway Group should be rewarded with higher-than-average multiples given its better than peers financial profile.

More in particular, taking into account our current 13% forecast for RWG Net Profit $CAGR_{21A-24E}$, we note that a fair P/E 23E could stand in the 15x region.

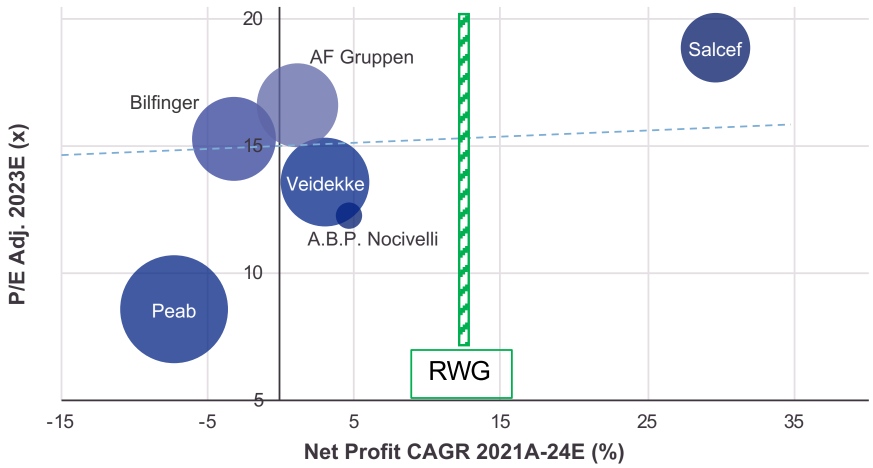
Reway Group: Peers' Value Maps





Source: Market Consensus, Value Track Analysis, (*) ROAD, SCF out of scale

Reway Group: P/E Adj. 23E vs. Net Profit $CAGR_{21A-24E}$ (*)



Source: Market Consensus, Value Track Analysis, (*) Bubble size depending on Net Profit 2023E magnitude

Discounted Cash Flow Model

We base our DCF model on the following assumptions of our "Rolling capital structure" based

- Time horizon for explicit forecasts is 2024E - 30E;
- 2.0% Risk Free Rate in line with medium term inflation target;
- Unlevered Beta at 0.84, (Source: Damodaran web site, Construction / Engineering companies);
- Implied Italian Equity Risk premium at 8.1% (Source: Damodaran web site, January '23 Update);
- 3.0% Company specific Risk Premium, as result of 2.5% small-size risk premium and 0.5% client concentration risk premium;
- 4.0% Pre-Tax Cost of Debt, supported by an optimal interest coverage ratio;
- 2% Perpetuity Growth Rate ("g").

The result is ca. 11.8% WACC, (equal to Cost of Equity as we forecast RWG is currently cash positive), leading to a fair Equity of **€4.94mn**.

Reway Group: DCF Model with Rolling Capital Structure

(€mn, g = 2.0%)	**(€mn)**
PV of Future Cash-Flows 2023E-2030E	70.2
PV of Terminal Value 2030E	97.0
Fair Enterprise Value	**167.2**
Net Financial Position 2023E	23.2
Minorities, Other Liabilities / Assets	0.0
100% Fair Equity Value	**190.3**
Fair Equity Value per share (€)	**4.94**

Source: Value Track Analysis

Reway Group: Sensitivity of DCF Model with Rolling Capital Structure

Fair Equity Value (€mn)		**Perpetuity Growth (%)**				
		1.50%	**1.75%**	**2.00%**	**2.25%**	**2.50%**
WACC (%)	**11.3%**	193.8	196.7	199.7	202.9	206.2
	11.5%	189.4	192.1	194.9	**197.9**	201.0
	11.8%	185.2	187.7	**190.3**	193.1	196.1
	12.0%	181.2	**183.5**	186.0	188.6	191.4
	12.3%	177.3	179.6	181.9	184.4	187.0

Source: Value Track Analysis

Appendix: Reway Group financials 2021PF-25E

Reway Group: Profit & Loss 2021PF-25E

(€, mn)	2021PF	2022PF	2023E	2024E	2025E
Value of Production	**91.8**	**110.5**	**127.0**	**145.6**	**161.0**
Raw Materials, Δ Inventory (Finished Goods)	-17.7	-28.5	-32.8	-37.6	-41.6
Gross Profit	**74.1**	**82.0**	**94.2**	**108.0**	**119.4**
Gross Margin (%)	***80.7%***	***74.2%***	***74.2%***	***74.2%***	***74.2%***
Costs of Services	-28.7	-32.2	-36.2	-41.5	-45.9
Costs of Rent	-10.5	-10.3	-12.7	-14.6	-16.1
G&A	-0.6	-1.1	-1.2	-1.4	-1.6
Labour Costs	-17.4	-18.8	-21.8	-24.5	-26.7
EBITDA	**16.9**	**19.6**	**22.3**	**26.1**	**29.2**
EBITDA Margin (%)	***18.4%***	***17.7%***	***17.6%***	***17.9%***	***18.1%***
D&A (excl. goodwill)	-1.9	-1.5	-2.8	-3.4	-3.8
Provisions	0.0	-0.2	-0.6	-0.7	-0.8
EBITA	**15.0**	**17.9**	**18.9**	**22.0**	**24.6**
EBITA Margin (%)	***16.4%***	***16.2%***	***14.9%***	***15.1%***	***15.3%***
Goodwill amortization	-2.0	-1.7	-1.7	-1.7	-1.7
EBIT	**13.1**	**16.2**	**17.3**	**20.3**	**23.0**
Interest Expenses / Other non-op. items	-0.1	-0.2	-0.2	0.2	0.4
Pre-Tax Profit	**12.9**	**16.0**	**17.1**	**20.5**	**23.3**
Taxes	-4.5	-6.1	-6.0	-7.1	-8.0
Net Profit	**8.4**	**10.0**	**11.1**	**13.4**	**15.3**
Adjusted Net Profit	**10.4**	**11.6**	**12.7**	**15.1**	**17.0**

Source: Reway Group, Value Track Analysis

Reway Group: Balance Sheet 2021PF-25E

(€mn, IT GAAP)	2021PF	2022PF	2023E	2024E	2025E
Net Fixed Assets (incl. Goodwill)	23.6	22.9	21.7	20.3	18.9
Net Working Capital	19.1	21.2	25.0	29.8	33.8
Provisions	1.6	1.6	2.0	2.5	3.0
Total Capital Employed	**41.1**	**42.6**	**44.7**	**47.7**	**49.7**
Group Net Equity	**32.3**	**38.7**	**67.9**	**81.3**	**96.6**
Net Fin. Position [i.e. Net Debt (-) Cash (+)]	**-8.8**	**-3.9**	**23.2**	**33.6**	**46.9**

Source: Reway Group, Value Track Analysis

Reway Group: Cash Flow Statement 2021PF-25E

(€, mn)	2021	2022PF	2023E	2024E	2025E
EBITDA	16.9	19.6	22.3	26.1	29.2
Δ NWC	-7.5	-2.1	-3.8	-4.8	-4.0
Capex (excl. Financial Inv.)	-1.5	-3.3	-3.8	-4.4	-4.8
Δ Provisions	0.6	0.0	0.4	0.5	0.5
OpFCF b.t.	**8.5**	**14.1**	**15.1**	**17.3**	**20.9**
Cash Taxes	-4.5	-6.1	-6.0	-7.1	-8.0
OpFCF a.t.	**3.9**	**8.0**	**9.1**	**10.2**	**12.9**
Capital Injections	-1.3	0.0	18.1	0.0	0.0
Others (incl. Financial Inv.)	-0.6	0.4	0.0	0.0	0.0
Net Financial Charges	-0.1	-0.2	-0.2	0.2	0.4
Dividends Paid	-6.4	-3.3	0.0	0.0	0.0
Δ Net Financial Position	**-4.5**	**4.9**	**27.1**	**10.5**	**13.3**

Source: Reway Group, Value Track Analysis

Appendix 2: Work in Progress accounting

The order driven / work in progress business model managed by Reway Group determines some peculiarities also from the accounting point of view.

Indeed, order driven business models are regulated by OIC 23 principle (set by the Italian Organization of Accounting) that rules the recognition of Revenues and Costs depending on the percentage of completion of the order, that's to say in advance if compared to the cash in of payments from the client.

Just to make an example, if we take into account a €10mn order to be evenly executed in ca. four quarters, generating a 25% Contract Margin, with a 20% initial down payment and the cash in of executed works in at least 145 days (Work in Progress assessed every 45 days, acknowledgement of the accuracy of the calculation by client in ca. 40 days, further 45-60 days to cash in the related payment), the impact on RWG financials would be as follows:

Reway Group: Typical schedule of payments from Clients and Revenue accounting in the P&L

(IT GAAP, €'000)	Q0	Q1	Q2	Q3	Q4	Q5	Cumulative
Percentage of Completion (%)	*0%*	*25%*	*50%*	*75%*	*100%*	*100%*	*100%*
Payments from Clients	2,000	0	2,000	2,000	2,000	2,000	10,000
Revenues accounting in P&L	0	2,500	2,500	2,500	2,500	0	10,000

Source: Value Track Analysis

More in details, the accounting impact on P&L, Cash Flow Statement and Balance Sheet would be as follows:

Profit & Loss

As previously mentioned, the accrual of Revenues and Costs follows the percentage of completion rule. We also underline that below Contract Profit, some financial costs have to be suffered related to the initially negative free cash flow, and taxes as well impact the bottom line.

Reway Group: P&L Simulation for WIP Accounting

(IT GAAP, €'000)	Q0	Q1	Q2	Q3	Q4	Q5	Cumulative
Revenues from Sales	0	0	0	0	10,000	0	10,000
Invoices to be Issued	0	2,500	2,500	2,500	-7,500	0	0
Total Revenues from Sales	**0**	**2,500**	**2,500**	**2,500**	**2,500**	**0**	**10,000**
Raw Materials	0	-525	-525	-525	-525	0	-2,100
Labour Costs	0	-469	-469	-469	-469	0	-1,875
Other Contract Costs	0	-881	-881	-881	-881	0	-3,525
Total Contract Costs	0	-1,875	-1,875	-1,875	-1,875	0	-7,500
Contract Profit (*)	**0**	**625**	**625**	**625**	**625**	**0**	**2,500**
Contract Margin (%)	*nm*	*25%*	*25%*	*25%*	*25%*	*nm*	*25%*
Net Financial Charges	0	-20	-20	-20	-20	0	-80
Taxes	0	-182	-182	-182	-182	0	-726
Net Profit	**0**	**424**	**424**	**424**	**424**	**0**	**1,694**

Source: Value Track Analysis, (*) EBITDA, EBIT, EBT assumed equal to Contract Profit

Balance Sheet

In our "single order" simulation we are not assuming any investment related to equipment, so Net Fixed Assets is equal to zero, nor any payables or provision (just for simplicity). As a matter of fact, Capital Employed relates only to Trade Receivables and to Unbilled Revenues.

Reway Group: Balance Sheet Simulation for WIP Accounting

(IT GAAP, €'000)	Q0	Q1	Q2	Q3	Q4	Q5
Inventory	2,100	1,575	1,050	525	0	0
Trade Receivables on issued invoices	0	0	0	0	2,000	0
Accrued Revenues (Unbilled Revenues)	0	2,500	5,000	7,500	0	0
Current Assets	2,100	4,075	6,050	8,025	2,000	0
Trade Payables	0	0	0	0	0	0
Deferred Revenues (Down Payments)	2,000	2,000	4,000	6,000	0	0
Current Liabilities	2,000	2,000	4,000	6,000	0	0
Net Working Capital = Capital Employed	**100**	**2,075**	**2,050**	**2,025**	**2,000**	**0**
Group Net Equity	0	424	847	1,271	1,694	1,694
Net Financial Position	**-100**	**-1,652**	**-1,203**	**-755**	**-306**	**1,694**

Source: Value Track Analysis

Cash Flow Statement

Cash Flow accounting depends on Down Payments and Unbilled Revenues;

- Q0 and Q1 are cash burning periods, as Inventory and increasing Unbilled Revenues more than offset the first Down Payment received;
- Q2, Q3, Q4 show instead strong cash generation, as Unbilled Revenues are written off the balance sheet as the order is delivered;
- Q5 only accounts for the cash-in of the final invoice from the client, with all the work finalized;

Overall, there is positive FCF generation, with EBITDA being fully converted into Operating FCF, as differences in Net Working Capital are null across the period. The only cash items that reduce Operating FCF are Cash Taxes and Net Financial Charges (required to fund Q0-Q1).

Reway Group: Cash Flow Statement (Accounting View) Simulation for WIP Accounting

(IT GAAP, €'000)	Q0	Q1	Q2	Q3	Q4	Q5	Cumulative
EBITDA	0	625	625	625	625	0	2,500
Δ Net Working Capital	-100	-1,975	25	25	25	2,000	0
Δ Provisions	0	0	0	0	0	0	0
Capex	0	0	0	0	0	0	0
OpFCF (b.t.)	**-100**	**-1,350**	**650**	**650**	**650**	**2,000**	**2,500**
Cash Taxes	0	-182	-182	-182	-182	0	-726
OpFCF (a.t.)	**-100**	**-1,532**	**469**	**469**	**469**	**2,000**	**1,774**
Net Financial Charges	0	-20	-20	-20	-20	0	-80
Δ Equity	0	0	0	0	0	0	0
Others	0	0	0	0	0	0	0
Δ Net Financial Position	**-100**	**-1,552**	**449**	**449**	**449**	**2,000**	**1,694**

Source: Value Track Analysis

Appendix 3: Reway Group Peers' profile

Reway Group: Peers' Business Profile

Webuild – Italian construction company specialized in infrastructure sectors such as sustainable mobility, hydropower, water management and green buildings. Among others, projects include roads, bridges, rails, water treatment plans.

Salcef – Italian company active in the railway industry providing integrated solutions for the construction of new lines and the renewal/rehabilitation/maintenance of existing ones. Salcef also produces concrete products, such as tunnel segments.

A.B.P. Nocivelli – Italian company primarily engaged in the facility management industry. It provides Public Private Partnership transactions for the design and construction of health care and hospital facilities and a variety of public services.

DBA Group – Italian company providing professional and technical services for architectural and engineering design and supervision of infrastructures (also for the transportation industry). It also designs hardware/software integrated systems.

Construction Partners – US-based civil infrastructure company that specializes in the construction and maintenance of roadways. It provides a variety of products and services to both public and private infrastructures (incl. highways, bridges).

Peab – Sweden-based company active in the civil engineering and construction industry. Its civil engineering business unit handles infrastructure projects, also involving the management and maintenance of roads, streets and ports.

Veidekke – Norway-based construction contractor that develops, builds and maintains infrastructure projects. Its infrastructure business area also provides maintenance services for roads and railways.

NRC Group – Norway-based infrastructure company offering a complete set of services for transport-related infrastructure in markets such as rail and civil engineering. Rail construction and maintenance weighted ca. 66% on 2021 Revenues.

AF Gruppen – Norway-based industrial company acting as general contractor in the entire value chain of infrastructures, from development and engineering to construction and maintenance of roads, rail, airports, buildings, tunnels, etc.

Bilfinger – Germany-based international industrial services provider, including industrial maintenance, insulation, scaffolding, engineering solutions. Engineering and maintenance solutions weighted ca. 80% on 2021 Revenues.

DISCLAIMER