

Innovatec

Sector: Industrial Services



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Renewables due to substitute Superbonus

Innovatec is a pure play in the CleanTech industry, active in Energy Efficiency (EE) and Environment & Circular Economy (ECE). The stock is listed on EGM since 2013 but got to the current structure only in 2021, following a restructuring strategy.

1H23 affected by same uncertainties of 2H22

1H23 was tough but in line with management expectations and highly impacted by the same external contingencies of 2H22-1Q23: regulatory stop and go of invoice discounts on fiscal credits and closure of key clients for inflationary pressures on energy costs. As a result, INC reported Revenues at €95.5mn (-41% y/y), EBITDA at 12.0mn (-46% y/y), but Environment & Circular Economy at €15.0mn (+18% y/y, thanks to greater contribution of landfills), EBIT at €2.2mn (suffering from the Revenues mix skewed towards waste disposal activities) and Net Debt at ca. €62mn (€44mn if adjusted for fiscal credits tax box), after ca. €15mn for Capex/M&A.

New Renewables business to contribute from 4Q23

Since 4Q22 Innovatec anticipated the slowdown of *HouseVerde* and decided to adopt new strategies: energy efficiency refocus towards B2B and PA customers (facilitated by the acquisition of *ESI*) and, more recently, the launch of a Renewables division dedicated to the authorisation, development and construction of PV systems (already a pipeline of 400 MWp). The new business plan expected in September should give more visibility on these projects, that we believe should start to significantly contribute to the Group P&L from 4Q23. In the Circular Economy business, INC is rapidly integrating the newly acquired companies and creating value from synergies (e.g., *Cobat*).

Forecasts fine-tuned pending new Business Plan

While 3Q23 should follow the usual weak business seasonality, we expect a significant rebound in 4Q23. However, we are revising INC top line down by 22%-14% for 2023E-24E due to *HouseVerde* (partially offset by new Renewables division) and *Cobat*. Profitability should enhance in percentage terms (increasing synergies and higher margins of Renewables), while Net Debt should land at ca. €55mn at the end of 2023E, despite new credit lines for the cash-in of fiscal credits still on BS (ca. €47mn as of June 2023).

Fair Value adjusted at €1.75 p/s (from €2.00)

We opted for a short-term valuation based solely on INC financials, as comparables' multiples experienced only a slight rerating since last update and DCF is not suitable at the current stage, with business plan that should enhance the visibility on new projects and financials. Therefore, our fair value is the result of an average 11% cut of EBITDA and €13mn higher Net Debt vs. previous 2023-24E forecasts, i.e. a 25 cents p/s cut.

Fair Value (€) 1.75
Market Price (€) 1.25
Market Cap. (€mn) 120.6

KEY FINANCIALS (€m)	2022A	2023E	2024E
REVENUES	289.2	241.9	292.9
EBITDA	32.4	30.1	38.4
EBIT	18.7	15.9	23.8
NET PROFIT	10.6	7.9	13.8
EQUITY	46.6	56.1	71.9
NET FIN. POS.	-49.7	-55.5	-35.1
EPS (€)	0.14	0.11	0.17
DPS (€)	0.00	0.00	0.00

Source: Innovatec (historical figures)
 Value Track (2023E-24E estimates)

KEY FINANCIALS (€m)	2022A	2023E	2024E
EBITDA MARGIN (%)	11.2	12.4	13.1
EBIT MARGIN (%)	6.5	6.6	8.1
NET DEBT / EBITDA (x)	1.5	1.8	0.9
NET DEBT / EQUITY (x)	1.1	1.0	0.5
EV/SALES (x)	0.7	0.9	0.7
EV/EBITDA (x)	6.6	7.3	5.2
EV/EBIT (x)	11.4	13.8	8.4
P/E Adj. (x)	8.8	11.4	7.3

Source: Innovatec (historical figures)
 Value Track (2023E-24E estimates)

STOCK DATA	
FAIR VALUE (€)	1.75
MARKET PRICE (€)	1.25
SHS. OUT. (m)	96.4
MARKET CAP. (€m)	120.6
FREE FLOAT (%)	54.6
AVG. -20D VOL. (#)	151,095
RIC / BBG	INC.MI / INC IM
52 WK RANGE (€)	1.22 - 2.12

Source: Stock Market Data



Business Description

Innovatec is a pure-play in the cleantech Italian business with a focus on two main industries: Energy Efficiency & Renewables and Environment & Circular Economy. With its ability to respond quickly to changing legislation and competitive outlook while continuing to take advantage of new market opportunities, its extensive know-how cumulated over many technologies and client base, Innovatec can act across the entire value chain in the sustainability domain by leveraging its "sustainable by nature" business model and fully-integrated business strategy.

Key Financials

(IT GAAP, €mn)	2022A	2023E	2024E
Total Revenues / Value of Production	237.8	241.9	292.9
y/y (%)	0.0%	1.7%	21.1%
EBITDA	32.9	30.1	38.4
EBITDA Margin (%)	13.8%	12.4%	13.1%
EBIT	10.7	15.9	23.8
EBIT Margin (%)	4.5%	6.6%	8.1%
Net Profit	6.2	7.9	13.8
y/y (%)	0.0%	27.3%	74.1%
Adjusted Net Profit	8.4	10.5	16.4
y/y (%)	0.0%	25.9%	55.8%
Net Fin. Position	-10.0	-55.5	-35.1
Net Fin. Pos. / EBITDA (x)	30.5%	184.5%	91.4%
Capex	-7.3	-19.3	-9.8
OpFCF b.t.	4.3	4.4	29.0
OpFCF b.t. as % of EBITDA	13.2%	14.5%	75.4%

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

Investment case

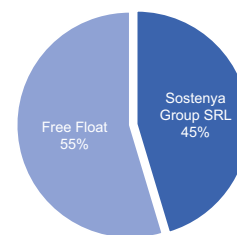
Strengths / Opportunities

- ◆ Set to benefit from the European Green Deal and Italian PNRR;
- ◆ Exposure to most attractive segments of Energy and Environment industries (e.g., Renewables, Circular Economy);
- ◆ Strong M&A execution skills;
- ◆ "Sustainable by nature" and fully-integrated business model.

Weaknesses / Risks

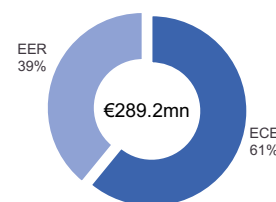
- ◆ Energy Efficiency market dependent on national and European incentives;
- ◆ Business Plan execution risk, M&A discipline;
- ◆ Uncertain regulation updates on *Superbonus 110%*.

Shareholders Structure



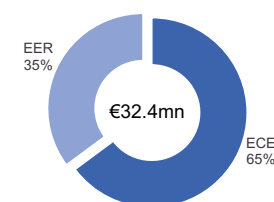
Source: Innovatec

Revenues by Business Unit



Source: Innovatec, FY22

EBITDA by Business Unit



Source: Innovatec, FY22

Stock multiples @ €1.75 Fair Value p/s

	2023E	2024E
EV / SALES (x)	1.1	0.8
EV / EBITDA (x)	8.9	6.5
EV / EBIT (x)	16.8	10.4
EV / CAP.EMP. (x)	2.4	2.3
OpFCF Yield (%)	1.6	11.7
P / E Adj. (x)	16.0	10.3
P / BV (x)	3.4	2.7
Div. Yield. (%)	0.0	0.0

Source: Value Track

1H23 Preliminary Financials

Key Financials & Messages

1H23 was tough for Innovatec, as anticipated by management at the release of 1Q23 KPIs, and highly impacted by external contingencies of such as the stop of invoice discounts on fiscal credits and the closure of key clients for inflationary pressures on energy costs. As a result, INC reported:

- ◆ **Total Revenues at €95.5mn**, -41% y/y with Energy Efficiency & Renewables down 75% y/y;
- ◆ **EBITDA at 12mn**, -46% y/y, but Environment & Circular Economy at €15.0mn (+18% y/y);
- ◆ **EBITDA Margin at 12.6%**, only 110bps down y/y thanks to greater contribution of landfills;
- ◆ **EBIT at €2.2mn**, suffering from the Revenues mix skewed towards waste disposal activities;
- ◆ **EBIT Margin at 2.3%** vs. 1H22 8.6%, as human development intensified during the semester;
- ◆ **Net Debt at €62mn** (€44mn if adjusted for fiscal credits tax box), after Capex/M&A of €15mn.

Innovatec: Key Financials 1H22-1H23P

Key Financials (IT GAAP, €mn)	1Q22	1Q23	2Q22	2Q23	1H22	1H23	y/y
Total Revenues / Value of Production	74.1	49.4	88.9	46.1	163.0	95.5	-41%
EBITDA	11.7	8.0	10.7	4.0	22.4	12.0	-46%
EBITDA Margin (%)	15.8%	16.2%	12.0%	8.7%	13.7%	12.6%	-110bps
EBIT	6.5	2.6	7.6	-0.4	14.1	2.2	-73%
EBIT Margin (%)	8.8%	5.3%	8.5%	-0.9%	8.6%	2.3%	-630bps
Net Financial Position	-26.6	-56.4	-29.5	-62.0	-29.5	-62.0	nm

Source: Innovatec, Value Track Analysis

From these financials, we inferred the following key messages:

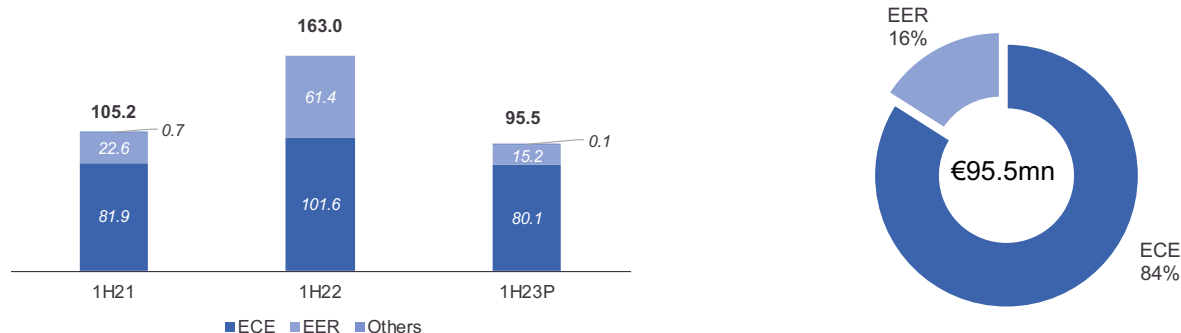
1. **Top Line heavily affected** by lower volumes of both business units due to inflationary pressures on core verticals and halting of discount procedures on *Superbonus* works;
2. **EBITDA growing** because of higher weight of Environment business (landfills carrying great EBITDA margin) more than offsetting Energy Efficiency negative margins and Group holding costs, but **EBIT negatively impacted** by burdening waste disposal allocation expenses;
3. **Net Debt increasing** as the thin EBITDA of the quarter could not compensate for a combination of sizeable Net Working Capital, steady Capex plan and further minor M&A.

Top Line affected by same uncertainties of 2H22

Total Revenues were reported at **€95.5mn**, implying a 41% reduction y/y. We highlight:

- ◆ **Environment & Circular Economy (ECE)** reporting Revenues at **€80.1mn**, declining by 21% y/y following the slow down of production activity of *Cobat* and *Vescovo Romano* energy-intensive clients (batteries and paper). We mark that *Ecobat* (*Cobat* main client) has resumed its production activity since May, thus we expect much higher volumes on 2H23. On the other hand, we understand that *GreenUp* activities (landfills) are holding well on solid demand and pricing.
- ◆ **Energy Efficiency & Renewables (EER)** reporting Revenues at **€15.2mn**, down 75% y/y due to the stop of *Superbonus* discounting procedures and the decision of not acquiring new contracts in the current uncertain regulatory scenario and without new bank credit lines for the cash-in of mounting fiscal credits. However, 4Q23 (as 3Q23 should also be weak due to usual business seasonality) will see the contribution of Energy Efficiency B2B/PA projects and the new leg dedicated to photovoltaic plants authorizations (“Renewables”, more on next chapters).

Innovatec: Total Revenues by Business Unit



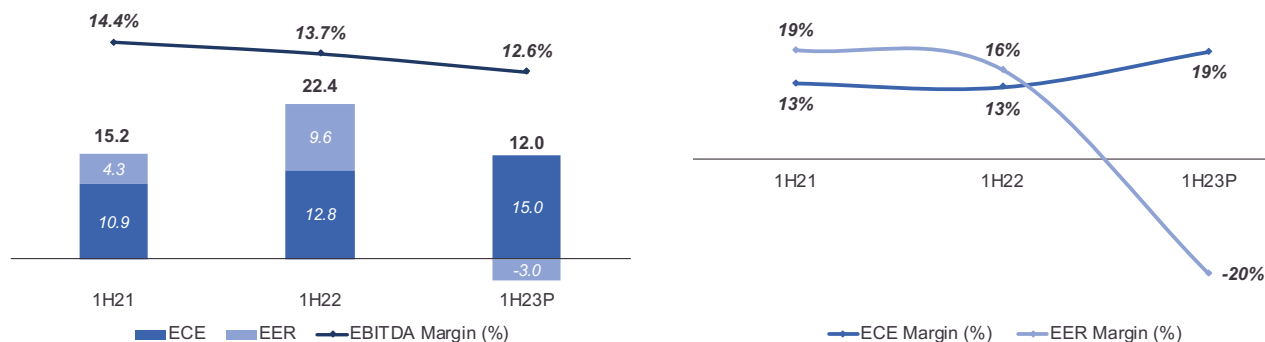
Source: Innovatec, Value Track Analysis

EBITDA Margin almost in line y/y, EBIT suffering due to Revenues mix

Group **EBITDA** decreased to **€12.0mn** (-46% vs. 1H22 €22.4mn), more than proportionally vs. revenues (**EBITDA Margin** at **12.6%** vs. 13.7% in 1H22) due to the weak contribution from Circular Economy and Energy Efficiency, combined with increased fixed costs of HouseVerde and Group holding expenses, which more than offset the stronger results of Environment activities. In detail:

- ◆ **Environment & Circular Economy (ECE)** EBITDA at **€15.0mn** (after allocation of holding costs) vs. €12.8mn in 1H22 (+18% y/y), and an **18.8%** EBITDA Margin (+62obps y/y) driven by:
 1. Strong contribution of landfills/waste disposal activities on Revenues mix, carrying an EBITDA Margin usually above 45%;
 2. New actions to pursue efficiencies, optimizations and synergies with recently acquired Circular Economy companies (EBITDA Margin further improved despite weak top line);
 3. The above more than offset the lower contribution from decreased volumes on key Circular Economy verticals (batteries and paper, i.e. *Cobat* and *Vescovo Romano*).
- ◆ **Energy Efficiency & Renewables (EER)** reporting EBITDA at **-€3.0mn** (including allocated holding expenses) vs. €9.6mn in 1H22, and EBITDA Margin at **-19.9%** vs. 15.6%, due to:
 1. Delays on ongoing construction sites and decision of not collecting new orders on *HouseVerde* after the stop of invoice discounting and lack of new credit lines available, given the relevant amount of fiscal credits still on the balance sheet;
 2. Increasing headcounts and start-up costs for the launch of *Innovatec Power B2B/PA* and the new leg of the Renewables, accelerated in 1H to offset the faster than expected deceleration of *Superbonus* driven activities, but whose contribution to Revenues has still to come.

Innovatec: EBITDA and EBITDA Margin by Business Unit (Holding Costs Allocated)

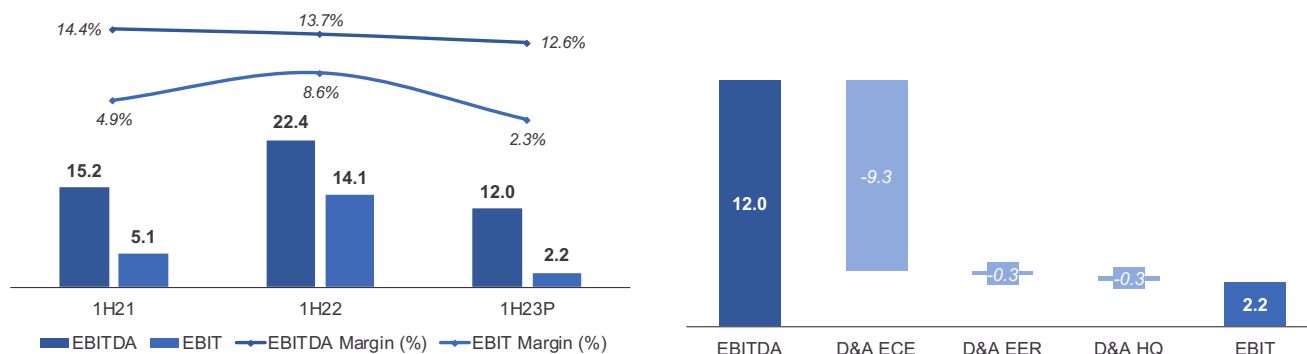


Source: Innovatec, Value Track Analysis

EBIT totaled **€2.2mn** (-73% y/y), with **EBIT Margin** at **2.3%** (-630bps y/y), affected by:

1. Less favourable Revenues mix towards the more capital-intensive Environment business (burdened by high landfills allocation following significant volume consumption). Nonetheless, the optimization of disposal and recovery sites operational management continues;
2. Negative contribution from the Energy Efficiency business unit (EBIT below -€3mn);
3. Ongoing human resources development (average 1H23P employees at 417 vs. 336 on average in FY22), with higher management, organization and control expenses.

Innovatec: Group EBITDA and EBIT (lhs) and D&A by Business Unit (rhs)



Source: Innovatec, Value Track Analysis

Net Debt > €60mn: cash-in of fiscal credits in 4Q23

Net Debt rose to ca. €62mn vs. €56.4mn as of 1Q23 and €49.7mn as of FY22. Adjusted for ca. €18mn *Superbonus* fiscal credits in the Group tax box (close to be cashed-in), **Net Debt Adjusted** amounted to **€44mn** (vs. FY22 €42mn). Key cash flow movements were:

- ◆ **Net Working Capital** witnessed an increase mainly due to the strong contribution of the waste disposal business. On the positive side, Innovatec cashed-in €18.5mn fiscal credits related to FY22 *Superbonus* works (ca. €47mn still on the balance sheet, including €18mn in the tax box, to be compensated with income taxes or cashed-in from suppliers, subcontractors and banks);
- ◆ **Capex of €11.6mn** mainly deployed towards landfills capacity extension (e.g., *Bossarino*, additional 600k cubic meters), the new treatment plant for lithium batteries (€1.4mn for annual capacity of ca. 4ktons per year) and new equipment. We also outline the new authorizations for the drywall treatment plan (*Ecological Wall*, 300ktons per year) and *Lazzate* (50ktons per year treatment plan) and the expansion of the *Albonese* landfill (400k cubic meters);
- ◆ **M&A worth ca. €3.6mn**, including (i) ca. €827k for pro-quota *ESI SPA* rights-issue of May 2023 (getting to 32.47% of *ESI* share capital from 29.58%); (ii) €2.5mn investment for a minority stake (ca. 2%) in *Arum SPA* to sanction the strategic partnership with *BF SPA* for the development of energy efficiency systems in the Agri-Tech market; (iii) ca. €0.3mn to increase the Group participation in *SEA SRL* to 100%;
- ◆ **Financial Debts to Suppliers**, which appear overdue as of June 2023 are also included among financial items inflating the net financial position, but which we expect to be paid as soon as fiscal credits are cashed in and most likely by the end of year.

Overall, INC is at the moment reporting a Group Net Debt/EBITDA ratio around 2x (based on Group FY23E EBITDA guidance) and 1.4x on adjusted Net Debt/ EBITDA.

Business & Corporate Developments

Already since the last months of 2022 Innovatec anticipated the slowdown of *HouseVerde* and decided to adopt new strategies on both business units to substitute the *Superbonus*-dedicated business, finding the right balance between volumes and margins:

- ◆ **Energy Efficiency & Renewables:** refocus towards B2B and PA customers (facilitated by the acquisition of *ESI*) and launch of a new division dedicated to the authorisation, development and construction of PV systems (through *ESI*, *Eliospower*, *Albarum*, *Frisbi*; more details below);
- ◆ **Environment & Circular Economy:** core business unit, now aimed at further development of plant capacity and integration of newly acquired companies (*Cobat*, *SEA*, *PuliEcol*, *AET*) in order to further create value from business and cost synergies.

Here follows a recap of the most significant business and corporate developments concerning Innovatec since the start of 2023 (in chronological order).

We remark that at the end of September, Innovatec should present a new business plan with medium-term financial targets (2023E-26E) and involving all the companies recently acquired and included in the consolidation perimeter (recap on 2022 M&A on our report of November 2022).

Business Developments

Environment: Lazzate and Ecological Wall: New Treatment & Recovery Plants

Between January and May 2023, Innovatec received the authorisations to build two new waste treatment and recovery plants:

- ◆ **Lazzate:** new waste treatment and recovery plant in Lazzate (MB) immediately ready for construction. The plant will provide significant environmental benefits by reducing the amount of waste destined for final disposal: (i) authorised capacity for the treatment of 50k tons of non-hazardous industrial waste per year; (ii) fully automated and equipped with the most advanced technologies available; (iii) area of about 13,000 square metres (3,000 of which will be covered). The new plant will be built in 2023 with an expected investment of about €3.5mn (of which €2.5mn due in 2023), in line with the assumptions and timing of the Company business plan.
- ◆ **Ecological Wall:** new treatment and recovery plant in Lodi (LO) dedicated to drywall (€4.8mn Capex, o/w €0.8mn already invested), to be operative and start to generate sales from 1Q24. The plant will be fully automated and equipped with the most advanced technologies on the market, while extending over a total area of about 5,330 square meters (of which 2,612 covered). It will provide significant environmental benefits in the construction sector by allowing (i) optimal end-of-life management of drywall and (ii) secondary raw material to be fed back into production processes, with a maximum authorized annual treatment capacity of 30ktons.

Circular Economy: Partnership with Osai Green Tech

In February 2023, Innovatec announced that its sub-holding **Haiki+ SRL** (Environment & Circular Economy business) and **Osai Green Tech** (part of the Group *Osai Automation System*) have signed a partnership aimed at developing special treatment plants and technologies focused on recycling and reuse in circular economy. *Osai Green Tech* launched in 2015 its RE4M (Recycling for Manufacturing) project. In 2022, the company presented an innovative system for the automated extraction and selection of electronic components for the recovery of critical and precious metals and its first plant will be built in 2023 in partnership with Iren Group. *Osai* is a benefit company focused on recycling of waste products in the same verticals where Innovatec operates, as WEEE, batteries, PV panels: it should develop and supply a treatment plant for Innovatec based on RE4M as well as identify and develop innovative solutions for other verticals.

Energy Efficiency B2C: Stop to Fiscal Credits Discounting

On February 16th, 2023 the Italian Government approved the “*Decreto Blocca Cessioni*”, immediately effective, that (i) halted tax credits discount at invoicing on real estate works related to fiscal bonuses such as *Superbonus 110%* and (ii) banned the possibility of discounting such fiscal credits. The fiscal incentives were maintained, but from February 2023 the works have to be funded by the real estate owner, which will cash-in his tax credits only gradually, over a 4-year period. Nothing changed for works already in progress or approved – and compliant to the new requirements - yet it is clear that (i) the appeal of fiscal incentives under the new rules is massively diminished, and (ii) new rules affected *HouseVerde* backlog, as the funding and pricing of these orders needed a renegotiation.

Environment: Landfill Expansion in Bossarino and Albonese

During 1H23, *GreenUp SPA* (*Haiki+* subsidiary dedicated to waste disposal activities), announced significant developments on both its proprietary landfills (*Bedizzole* being under concession):

- ◆ **Bossarino:** in March 2023, Innovatec announced the completion of works for the expansion of the first tank of the *Bossarino* landfill (SV), increasing the volume capacity by about 600k cubic meters for non-hazardous industrial waste. State-of-the-art and functional landfills, such as the one in *Bossarino*, remain, within the framework of EU directives and EU 2030 targets, an indispensable tool in the waste management cycle for the disposal of the final residues from treatment plants that can no longer be processed and recovered. We expect ca. €5.5mn investments between 2023E-24E for all the enhancements of *Bossarino*.
- ◆ **Albonese:** in May 2023, Innovatec received the authorisation to expand the non-hazardous industrial waste disposal plant of *Albonese* (PV) for ca. 400k cubic meters. The expansion will take place with state-of-the-art engineering and functional techniques while complying with all regulatory and environmental criteria.

Renewables: New Business for the Development of PV Plant Capacity

Together with the disclosure of FY22 approved financials (March 2023), Innovatec announced significant developments concerning the newly established Renewables business division, following last year acquisitions of *ESI SPA*, *Frisbi SRL* and *Albarum SRL*. Indeed, other than leverage on the excellent engineering and execution skills of *ESI* and acting as **EPC and O&M contractor** for photovoltaic (“PV”) and Agri-PV systems, Innovatec has also launched a new leg dedicated to the **asseveration of permits/authorizations for the development of large-scale onshore PV plants**, a business that should evolve along distinct phases:

1. Short-Term: mere asseveration and sale of authorizations, highly remunerative business managed by the two legal entities *Eliospower SRL* and *Albarum SRL*;
2. Medium-Term: authorization, construction and sale of plants (“*turn-key*”), thanks to *ESI* and third parties’ capabilities, with Innovatec acting as general contractor;
3. Long-Term: authorization, construction and (potentially) management of plants, with in-house renewable energy production and sale to families, businesses and energy communities through *Frisbi*, provided timing, energy pricing and funding are favourable/available.

It is still unclear the timespan of these three phases, but we believe that given Italy current status (according to *PNIEC*, 25 GW of PV capacity installed at the end of 2022, with target of 80 GW by 2030) and the amount of players entering this business, the next 24/36 months will be crucial to secure a significant share of the permits/authorizations market.

We believe that the new business plan should add more visibility on this new project. However, Innovatec can already count on a PV development pipeline currently exceeding 400MWp.

Energy Efficiency PA: Partnership with Selettra Illuminazione Pubblica SRL

On May 31st, 2023, **Innovatec Power SRL** (Energy Efficiency business) and **Selettra Illuminazione Pubblica SRL** signed four contracts worth a total of ca. €60mn and with a duration of 15 years for the provision of services for the energy efficiency enhancement of buildings and public lighting installations owned by several municipalities in the Salento area, participating in the G.R.O.W.S. (“Green Revolution Of Wealth in Salento”) project.

Innovatec Power will take care (as agent in the various contracts for ca. 33%) of the requalification and management of public buildings according to nZEB (“Nearly Zero Energy Building”) principles while reducing their environmental impact and saving resources.

Energy Efficiency B2B: Partnership with BF SPA

In June 2023, following the partnerships with *Coldiretti* and *Acli Terra* of last September (more on our report of Nov ’22), Innovatec e **BF SPA** disclosed the launch of an important strategic partnership to develop and offer solutions related to integrated energy efficiency systems for the Agri-Tech market.

To sanction the partnership, Innovatec invested €2.5mn for a minority stake (ca. 2%) in **Arum SPA**, current relative majority shareholder of *BF* at 21.89% (whose shareholder’s base includes *Coldiretti* and other leading investors in the Italian agribusiness and financial scene).

BF is active through its subsidiaries, in all sectors of the Italian agro-industrial supply chain, with over 11,000 hectares of land between Emilia-Romagna, Tuscany and Sardinia producing 100% Made in Italy agricultural products (through *Bonifiche Ferraresi SPA*, the largest Italian agricultural company by utilized agricultural area).

The project will involve (i) a set of activities designed to implement energy innovation in agriculture and (ii) R&D joint investments for the development of smart energy efficiency plant systems and services that should enhance the value of waste and increase the amount of recovered materials during production processes.

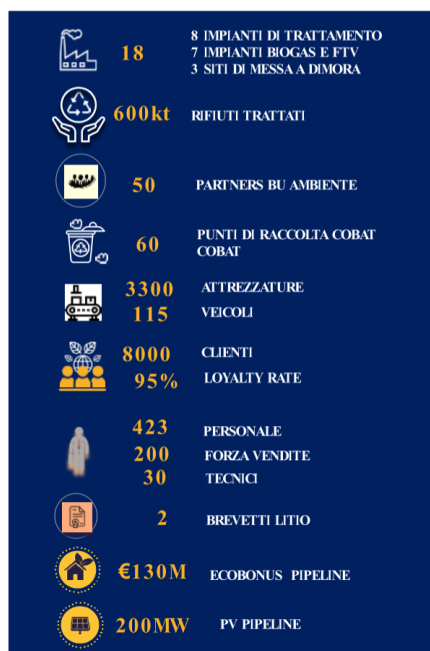
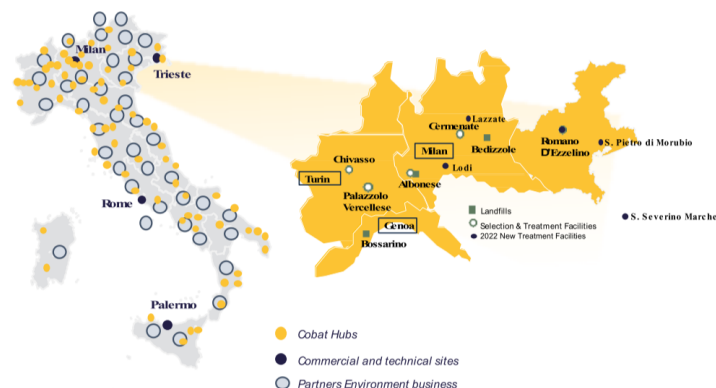
Innovatec: Group Business Structure



END TO END INTEGRATION

Source: Innovatec (May 2023)

Innovatec: Group Asset Base



Source: Innovatec (May 2023)

Corporate Developments

Basket Bond

In December 2022, Innovatec issued a **non-convertible bond of €8mn**, within the Euronext Growth Basket Bond program. *Cassa Depositi e Prestiti* acted as anchor investor by underwriting 50% of the notes issued, with the remaining 50% taken by *Mediocredito Centrale* and *Banca Finnat*. The bond expires in October 2028, amortizing from April 2024, bearing a 5.21% fixed annual interest rate.

New CEO and CFO Appointed

In January 2023, the BoD appointed **Matteo Marini** as new Group CEO. He held positions of increasing responsibility at *ABB*; he was Chairman of the Board of Directors of *IMQ Group* and member of the BoD of *Costacurta SPA* since 2015. In 2020, he founded an innovative start-up for the development of applications ("Internet of Things") in the field of waste collection.

In May 2023, **Andrea Cederle** became new Group CFO, furtherly reinforcing Innovatec top-management structure. A graduate in Economics, he has previously held positions as CFO and Managing Director in Italy and abroad at major multinationals, including *Accenture* and *Coeclerici Group*. His previous position was as Country CFO of *BT Italia* of the *British Telecom* group.

ESI Rights Issue

On April, Innovatec subscribed all the pro-quota new ordinary shares of ESI rights issue, for a total cash-out of ca. €827k, getting to **32.47% of ESI share capital** from 29.58%.

Loan Agreement with Ver Capital SGR

On July 6th, 2023, **Haiki+ SRL** signed a new loan agreement worth €10mn from **Ver Capital SGR** (Ver Capital Credit Partners SME VII fund) with the aim of supporting the Circular Economy business and incentivize the ecological transition. The loan is backed by a SACE guarantee, has an amortizing structure and matures at the end of 2028.

Forecasts 2023E-24E

Estimates Review

We are temporarily fine-tuning our forecasts only on the back of lower-than-expected 1H23 financials and of the confirmed FY23E guidance, but pending the new business plan that should be disclosed at the end of September and that could significantly improve the visibility on INC updated strategies, projects (e.g., new *Renewables* leg, as previously outlined) and medium-term financial targets.

We believe that 3Q23 would be aligned with previous quarters, also due to the usual weak business seasonality, but in 4Q23 we expect a significant rebound in operations. However, given FY23 financial results will be very much back loaded, we adjust our model staying a bit below management indications in terms of EBITDA. In more details we adjust our forecasts as follows:

- ◆ **Total Revenues** down by 22%-14% on 2023E-24E respectively, mainly due to *HouseVerde* business, which has restarted only in July after new credit lines for the cash-in of fiscal credits have been granted. We also expect delays from the *Innovatec Power B2B/PA* stream, that should be only partially offset by the sale of the first authorizations for the development of large scale PV plants (*Renewables* business). In the Circular Economy business unit, we lowered *Cobat* 2023E-24E sales by ca. 20% due to the closure of its main client for almost the entire 1H23.
- ◆ **EBITDA** down by ca. €6mn in 2023E (totaling €30.1mn, ca. €2mn short of INC guidance) and by €2mn in 2024E. However, EBITDA Margin should increase by ca 60bps and 130bps respectively, mainly thanks to (i) much stronger contribution from higher profitability business as *Renewables* vs. *B2B/PA* energy efficiency activities and (ii) the much better EBITDA Margin of *Cobat* (ca. 10% vs. 6%-7% previously forecasted).
- ◆ **Net Debt** up by ca. €13mn-€14mn, worsening after (i) the higher-than-expected incidence of Net Working Capital on 1H23 (still a lot of fiscal credits to be cashed-in), (ii) the investments in *Arum*, *SEA* and *ESI* recapitalization, previously not embedded in our estimates.

Innovatec: New vs. Old 2023E-24E Estimates

Key Financials (IT GAAP, €mn)	2023E			2024E		
	Old	New	Δ	Old	New	Δ
Total Revenues / Value of Production	308.6	241.9	-21.6%	342.2	292.9	-14.4%
EBITDA	36.5	30.1	-17.5%	40.6	38.4	-5.4%
EBITDA Margin (%)	11.8%	12.4%	60bps	11.9%	13.1%	130bps
EBIT	21.3	15.9	-25.3%	26.1	23.8	-8.6%
EBIT Margin (%)	6.9%	6.6%	-30bps	7.6%	8.1%	50bps
Net Profit	12.0	7.9	-34.1%	15.3	13.8	-9.5%
Net Financial Position	-42.6	-55.5	-13.0	-21.2	-35.1	-14.0

Source: Value Track Analysis

Forecasts 2023E-24E

Despite the downwards estimates revision, Innovatec still boasts an appealing financial profile over the next two years, especially in terms of profitability and free-cash-flow generation. Here below we report the full set of our updated financial forecasts. In brief, for **2024E**, we forecast:

- ◆ **Total Revenues at €293mn**, slightly higher than 2022A and with more profitable sales mix;
- ◆ **EBITDA at €38.4mn and EBITDA Margin at 13.1%** (+190bps vs. 2022A);
- ◆ **EBIT at 23.8mn** (13% CAGR_{22A-24E}) and **EBIT Margin at 8.1%** (+160bps vs. 2022A);
- ◆ **Net Profit at 13.8mn**, post minorities and assuming a zero-pay-out policy;

- ◆ **Net Debt to 35.1mn** from €49.7mn in 2022A, with ca. €20mn FCF generation in 2024E.

Innovatec: Revenues and EBITDA by Business Unit 2022A-24E

(IT GAAP, €mn)	2022A	2023E	2024E	CAGR _{22A-24E}
Total Revenues / Value of Production	289.2	241.9	292.9	1%
o/w Energy Efficiency & Renewables (EER)	112.6	67.0	90.0	-11%
o/w Environment & Circular Economy (ECE)	175.5	174.9	202.9	8%
o/w Others	1.1	0.0	0.0	nm
EBITDA	32.4	30.1	38.4	9%
EBITDA Margin (%)	11.2%	12.4%	13.1%	190bps
o/w Energy Efficiency & Renewables (EER)	11.4	5.9	9.8	-7%
EER EBITDA Margin (%)	10.2%	8.9%	10.9%	80bps
o/w Environment & Circular Economy (ECE)	21.0	24.1	28.6	17%
ECE EBITDA Margin (%)	11.9%	13.8%	14.1%	220bps

Source: Innovatec, Value Track Analysis

Innovatec: P&L 2022A-24E

(IT GAAP, €mn)	2022A	2023E	2024E	CAGR _{22A-24E}
Total Revenues / Value of Production	289.2	241.9	292.9	1%
Operating Expenses	-256.8	-211.8	-254.5	
EBITDA	32.4	30.1	38.4	9%
EBITDA Margin (%)	11.2%	12.4%	13.1%	190bps
D&A	-10.7	-12.0	-12.7	
Provisions	-3.1	-2.1	-1.9	
EBIT	18.7	15.9	23.8	13%
EBIT Margin (%)	6.5%	6.6%	8.1%	160bps
Interest Expenses	-1.9	-2.6	-1.5	
Pre-Tax Profit	16.8	13.3	22.3	15%
Taxes	-5.3	-3.8	-6.5	
Minorities	-0.9	-1.6	-2.0	
Net Profit	10.6	7.9	13.8	14%

Source: Innovatec, Value Track Analysis

Innovatec: Balance Sheet 2022A-24E

(IT GAAP, €mn)	2022A	2023E	2024E
Net Fixed Assets	122.8	134.1	131.7
Net Working Capital	19.2	24.4	23.1
Provisions	45.7	46.9	47.8
Total Capital Employed	96.3	111.6	107.1
Group Net Equity	46.6	56.1	71.9
Net Financial Position [Net Debt (-), Net Cash (+)]	-49.7	-55.5	-35.1

Source: Innovatec, Value Track Analysis

Innovatec: Cash Flow Statement 2022A-24E

(IT GAAP, €mn)	2022A	2023E	2024E
EBITDA	32.4	30.1	38.4
Δ NWC	-12.6	-5.2	1.3
Capex (excl. Financial Inv.)	-21.7	-19.3	-9.8
Δ Provisions	-0.5	-1.0	-1.0
OpFCF b.t.	-2.4	4.7	29.0
<i>As a % of EBITDA</i>	<i>-7.4%</i>	<i>15.5%</i>	<i>75.4%</i>
Cash Taxes	-5.3	-3.8	-6.5
OpFCF a.t.	-7.6	0.8	22.5
Capital Injections	6.2	0.0	0.0
Others (incl. Financial Inv.)	-36.6	-3.6	0.0
Net Financial Charges	-1.6	-3.0	-2.1
Dividends Paid	0.0	0.0	0.0
Δ Net Financial Position	-39.7	-5.8	20.4

Source: Innovatec, Value Track Analysis

Valuation

We adjusted Innovatec **Fair Value at €1.75 p/s** (from €2.00 p/s).

Pending the new business plan that should be disclosed soon, we decided to stick to a short-term valuation analysis based solely on INC financials, post-downwards estimates revision. Indeed:

- ◆ **Peers Analysis:** comparables’ stock multiples experienced only a slight rerating but did not go much far from the values exhibited at the time of our last update (March 2023);
- ◆ **DCF:** long-term methodology not fully suitable for INC at the current stage, pending a new business plan that should unveil updated strategies and operations, and improve the visibility of business, new projects and medium-/long-term financials.

Therefore, our fair value revision is the result of:

1. **Lower EBITDA:** 11% average cut in EBITDA for 2023E-24E, translating into ca. €12 cents p/s, all the rest being equal;
2. **Higher Net Debt:** our revised estimates outline ca. €13mn additional leverage in 2023E, equal to ca. €13 cents p/s, all the rest being equal.

These adjustments imply a cut of ca. €25 cents compared to our €2.00 Fair Value p/s of March, i.e. an updated Fair Value of €1.75 p/s.

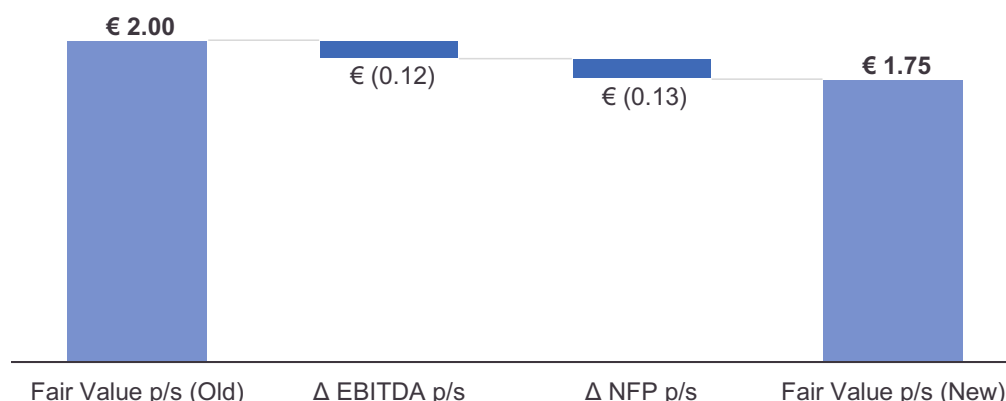
At fair value INC would trade at **1.1x-0.8x EV/Sales and 8.9x-6.5x EV/EBITDA 2023E-24E**.

Innovatec: Multiples Sensitivity at Various Stock Price Levels

Share Price	EV / Sales (x)		EV / EBITDA (x)		EV / EBIT (x)		P / E Adj. (x)	
	2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E
€ 1.15	0.9	0.7	7.0	5.0	13.2	8.0	10.5	6.8
€ 1.45	1.0	0.8	7.9	5.7	15.0	9.2	13.3	8.5
€ 1.75	1.1	0.8	8.9	6.5	16.8	10.4	16.0	10.3
€ 2.05	1.2	0.9	9.9	7.2	18.7	11.7	18.8	12.0
€ 2.35	1.3	1.0	10.8	8.0	20.5	12.9	21.5	13.8

Source: Value Track Analysis

Innovatec: New vs. Old Fair Value p/s (€)



Source: Innovatec, Value Track Analysis

Innovatec: Peers Trading Multiples

Peers	EV/Sales (x)		EV/EBITDA		EV/EBIT		P/E Adj.	
	2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E
Energy Efficiency & Renewables								
EdiliziAcrobatica	0.9	0.8	4.9	4.2	5.3	4.6	8.7	7.3
A.B.P. Nocivelli	0.8	0.7	4.7	4.1	5.3	4.6	11.2	11.1
Comal	0.6	0.5	6.7	5.2	7.9	6.1	7.4	5.8
Renergetica	4.0	2.5	10.1	5.9	11.3	6.5	13.5	9.4
ESI	0.4	0.3	5.8	3.6	7.8	4.6	12.3	8.4
Agatos	0.7	0.3	4.2	1.4	6.8	1.7	5.1	1.3
Inspired	1.2	1.1	5.6	5.1	6.9	6.5	8.4	7.8
Arcadis	1.1	0.9	9.3	8.2	13.0	11.2	16.6	14.1
Spie	0.6	0.6	7.3	6.5	10.5	9.3	16.6	14.9
Average	1.1	0.9	6.5	4.9	8.3	6.1	11.1	8.9
Median	0.8	0.7	5.8	5.1	7.8	6.1	11.2	8.4
Environment & Circular Economy								
Greenthesi	1.5	1.3	6.4	5.6	9.3	8.0	8.2	6.7
Seri Industrial	1.4	1.0	13.1	6.6	nm	11.7	nm	12.9
RES	2.2	1.4	8.6	4.5	12.7	6.0	19.0	8.4
Mo-bruk	3.9	3.4	8.0	7.2	8.4	7.6	10.3	9.1
Renewi	0.6	0.5	4.5	4.1	9.0	7.9	7.7	6.3
Séché Environnement	1.3	1.2	6.6	6.0	14.2	12.7	16.8	15.3
Lassila & Tikanoja	0.7	0.6	5.5	5.1	12.9	11.3	12.6	11.1
Pizzorno Environnement	0.9	0.7	4.1	3.5	14.3	12.9	17.1	16.4
Befesa	1.7	1.5	9.2	7.7	13.8	11.3	14.6	13.0
Aurea	0.3	0.3	8.6	6.6	nm	nm	nm	39.6
Average	1.4	1.2	7.5	5.7	11.8	9.9	13.3	13.9
Median	1.4	1.1	7.3	5.8	12.8	11.3	13.6	12.0
Total Average	1.3	1.0	7.0	5.3	10.0	8.0	12.1	11.5
Total Median	0.9	0.8	6.6	5.2	9.3	7.8	12.3	9.4
Innovatec	0.9	0.7	7.3	5.2	13.8	8.4	11.4	7.3
<i>Discount vs. Total Average. (%)</i>	<i>-30%</i>	<i>-34%</i>	<i>4%</i>	<i>-2%</i>	<i>39%</i>	<i>5%</i>	<i>-6%</i>	<i>-36%</i>

Source: Market Consensus, Value Track Analysis

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