

Elsa Solutions

Sector: Industrial Goods

IPO for an electrifying future

Elsa is a B2B industrial company specialized in motion control (commercialization of equipment, systems and components and power electronics, since 1982) and in special purpose batteries (lithium technology, since 2009). 54% owned by the Dal Pozzo family and managed by its 2nd generation, the Company landed on EGM last October to accelerate growth in the battery business.

Since 1982 in motion control, since 2009 in Industrial e-mobility

ELSA operates two business lines: E-motion (59% of FY22 Revenues), a motion control system integrator, assembling and re-selling solutions for activation, management & control of mechanical equipment, and Aliant (41% of Revenues), original design/equipment manufacturer (OEM/ODM) of special purpose lithium batteries (LFP). Key clients are manufacturers of OEM components or machinery for very diversified end sectors.

Industrial-applied LFP batteries: electrification at inflexion

Industrial Automation is expected to grow at mid-single digit, while global LFP battery market is seen to grow at 15.4% into 2030: here reference segments for ELSA are Industrial applications & Energy Storage Systems (with an option for Aliant to ride also the emerging hydrogen opportunity). Our model into FY2025 does not include neither the hydrogen fuel cell, nor the “second life battery” projects, to be executed with a longer-term horizon.

Strong growth into FY25 and beyond, fuelled by IPO

We expect for ELSA a 24% top line CAGR₂₀₂₂₋₂₅, with E-motion and Aliant to record CAGR of 5% and 44% respectively (factoring for the former a slow-down over 2H23-FY24 due to macro headwinds). The growth, coupled with higher margins for batteries and scale benefits, should drive EBITDA margins from 9% of FY22 to 11% by FY25E, while FY24E is expected to face a slight margin erosion, due to increasing costs/investments to support long-term growth, funded by recent IPO. Net net, we see a bottom line 39% CAGR₂₀₂₂₋₂₅, albeit we reckon main risks are macro, execution, technology.

Our fair Equity Value at €4.0 per share

Our fair Equity Value is €4.0 per share (vs €2.5 IPO price), resulting from peers' multiple analysis at maturity, focused on 2025E financials, and DCF model. These indicate values of €3.0 and €5.0 respectively, with such a gap due to i) particularly weak current equity multiples; ii) expected slowdown for EBITDA growth in FY24 (a year of strong investments on products/structure), iii) expected steady growth beyond FY25, thanks to material investments and costs carried over FY23-24E to exploit long term growth potential in an industry with long time-to-market.



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Fair Value (€)	4.00
Market Price (€)	5.60
Market Cap. (€m)	27.1

KEY FINANCIALS (€mn)	2022A	2023E	2024E
VALUE OF PRODUCTION	15.4	18.9	23.6
EBITDA	1.4	1.8	2.1
EBIT	1.1	1.6	1.8
NET PROFIT	0.7	0.9	1.0
EQUITY	3.9	9.0	10.1
NET FIN. POS.	-6.4	-4.8	-4.7
EPS (€)	0.30	0.24	0.28
DPS (€)	0.00	0.00	0.00

Source: Elsa Solutions (2022),
Value Track (2023E-24E estimates)

KEY RATIOS	2022A	2023E	2024E
EBITDA MARGIN (%)	9.1	9.8	8.9
EBIT MARGIN (%)	7.2	8.3	7.5
NET DEBT / EBITDA (x)	4.62	2.60	2.2
NET DEBT / EQUITY (x)	1.64	0.53	0.5
EV/SALES (x)	1.4	1.0	0.8
EV/EBITDA (x)	15.2	10.6	9.2
EV/EBIT (x)	19.0	12.4	10.9
P/E ADJ. (x)	13.3	16.4	14.2

Source: Elsa Solutions (2022),
Value Track (2023E-24E estimates)

STOCK DATA

FAIR VALUE (€)	4.00
MARKET PRICE (€)	5.60
SHS. OUT. (m)	3.68
MARKET CAP. (€m)	27.1
FREE FLOAT (%)	45.7
AVG. -20D VOL. ('000)	4,409
RIC / BBG	ELSA.MI / ELSA IM
52 WK RANGE	3.75-5.50

Source: Stock Market Data

EQUITY RESEARCH PRODUCED ON BEHALF OF MIT SIM
ACTING AS SPECIALIST ON ELSA SOLUTIONS SHARES



Business Description

Elsa Solutions (ELSA) is a B2B industrial company operating in the field of motion control and special purpose batteries. Established in 1982 as an early pioneer in the field of motion control, Elsa Solutions has continually evolved and expanded its offerings. In 2009, ELSA launched its second line of business, Aliant, an original equipment manufacturer (OEM) and original design manufacturer (ODM) specializing in special purpose batteries, with focus on lithium (LFP) and more recently hydrogen technologies.

Key Financials

€mn	2022A	2023E	2024E	2025E
Net Revenues	11.9	18.8	23.5	29.3
Chg. % YoY	nm	58.0%	24.5%	24.9%
EBITDA	1.0	1.8	2.1	3.3
EBITDA Margin (%)	8.4%	9.8%	8.9%	11.1%
EBIT	0.7	1.6	1.8	2.9
EBIT Margin (%)	6.1%	8.3%	7.6%	10.0%
Net Profit	0.4	0.9	1.0	1.9
Chg. % YoY	nm	nm	15.3%	81.2%
Adjusted Net Profit	0.4	0.9	1.0	1.9
Chg. % YoY	nm	nm	15.3%	81.2%
Net Fin. Position	-4.6	-4.8	-4.7	-3.7
Net Fin. Pos. / EBITDA (x)	4.6	2.6	2.2	1.1
Capex	-0.1	-2.5	-0.4	-0.4
OpFCF b.t.	0.0	-1.9	0.9	2.0
OpFCF b.t. as % of EBITDA	nm	nm	42.3%	62.3%

Source: Elsa Solutions (historical figures), Value Track (estimates)

Investment case

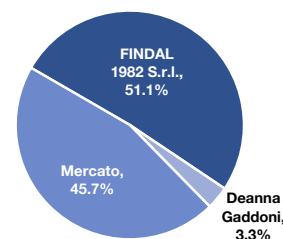
Strengths / Opportunities

- ◆ Excellent growth profile with good visibility and a substantial capacity expansion project almost finished;
- ◆ Diversified client base operating in “Defensive” end sectors;
- ◆ Exposure to energy transition / growing adoption of circular industrial practices, including attractive ventures in hydrogen and solid-state cells.

Weaknesses / Risks

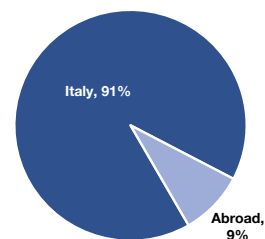
- ◆ Challenging to-do list involving some execution risk;
- ◆ Long OEMs contract time to market;
- ◆ Industrial automation segment vulnerable to a sluggish market outlook.

Shareholders Structure



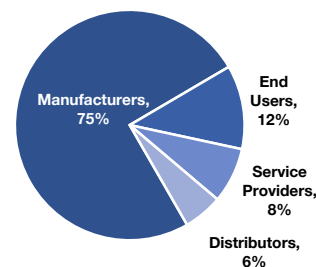
Source: Elsa Solutions

FY22 Revenues by geography



Source: Elsa Solutions

FY22 Revenues by business line



Source: Elsa Solutions

Stock multiples @ €4.00 Fair Value

	2023E	2024E
EV / SALES (x)	1.0	0.8
EV / EBITDA (x)	10.6	9.2
EV / EBIT (x)	12.4	10.9
EV / CAP.EMP. (x)	1.4	1.3
OpFCF Yield (%)	nm	4.6
P / E Adj. (x)	16.4	14.2
P / BV (x)	1.6	1.5
Div. Yield. (%)	0.0	0.0

Source: Value Track

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Executive Summary

Since 1982 partner of OEMs in motion control and since 2009 in lithium (LFP) batteries

Elsa Solutions (“the Company” or “ELSA”) operates in the field of motion control and special purpose batteries (**B2B**).

Under the control of the Dal Pozzo’s family the Company operates since 1982 in the Industrial Automation business, through **E-motion** (59.4% of FY22 Revenues), a **motion control** system integrator, assembling and re-selling solutions for activation, management and control of mechanical equipment.

In 2009, with the support of the second generation of the Dal Pozzo family, ELSA launched its second line of business, **Aliant** (40.6% of Revenues in FY22), an original equipment manufacturer (OEM) and original design manufacturer (ODM) specializing in **special purpose batteries**, with focus on lithium (LFP) and more recently hydrogen technologies.

Positioning is strong and relatively “safe”, considering size

The positioning of ELSA is quite specific and relatively safe, despite the smaller scale (€15mn revenues in FY22):

- 1) the **key clients** of the two divisions are **manufacturers of OEM components or industrial machinery** (75% of revenues in FY2022);
- 2) clients operate in **many different sectors**, from intralogistics/AGV (Automated Guided Vehicle) to machinery for paper, steel or glass plants;
- 3) ELSA clients are mostly Italian, but the **final products are often exported** in Europe and globally;
- 4) Aliant's customers are generally OEMs with **small to medium production runs**, which justifies the choice of a small, often domestic, supplier, while not being attractive for larger global players;
- 5) for these clients Aliant is their key and **main partner to manage the electrification process** and in this phase the Company flexibility, technology and reliability are key to secure contracts.

Lithium battery market due to accelerate: focus on industrial electrification and ESS

The key reference market for Aliant is the Global **LFP battery market, expected to grow at 15.4%** and whose reference sub-segment for the Company, i.e. Industrial applications + ESS - Energy Storage Systems, is valued at US\$3.5bn. LFP is expected to become the dominant stationary storage chemistry by 2030, surpassing lithium nickel manganese cobalt oxide (NMC), while also gaining popularity in the EV market, with an expected 20% market share in EV battery installations in 2025.

Factors contributing to the rise of LFP are: 1) shift towards more cost-effective chemistries/less critical minerals, 2) emerging EVs preference driven by technological advancements in maximum driving range and search for cost-optimization; 3) for Industrial applications Battery Electric Vehicles are demonstrating significant reduction in total ownership costs; 4) Growing renewable energy projects/gigafactories.

ESG profile keeps improving, with more circular economy in the cards

Management growth strategy includes an innovative project relative to **second life batteries**, which is currently under development and is planned to start from 2024. The value proposition of adding a real “second life” for batteries between their “first life” and the recycling process is extremely interesting: repurposing and refurbishing (i.e. re-using) batteries implies that packs can be used in stationary applications which promote affordability, energy efficiency, environmental-friendliness,

and sustainability - while it would also offer existing clients a solution for a cheaper disposal of their end-of life batteries. The roll-out of the project is likely to be gradual, as the life cycle of Aliant lithium batteries is not close to its end yet, and also because Aliant's client base (the easier captive reference market) is growing from a small base. Yet, prospects are very interesting, and Aliant may capitalise on an early mover status.

Terrific growth ahead, driven by Aliant: 24% CAGR at top line, 39% for earnings

According to our forecast model, ELSA could deliver a 24% in top line growth (VoP) over the next three years, driven by the LFP battery business. In fact, we assume revenues from E-motion and Aliant to record CAGR₂₀₂₂₋₂₀₂₅ of 5% and 44% respectively, and the sharp growth of the overall business, coupled with the higher profitability of the batteries & battery systems and with improving scale, should drive EBITDA margins from 9.1% of FY2022 to 11% of FY2025E, with room for further improvement in the longer terms. The forecasted growth in margins should drive earnings up by 2.7x, with an earning CAGR₂₀₂₂₋₂₀₂₅ of 39%.

While such a terrific growth is expected to require cash over FY2023-24E, both to support the expansion of output capacity and NWC needs, we assume a positive Free Cash Flow from FY2025 and expect a net debt position almost halved compared to June 2023 (€3.8mn) - with a solid NFD/EBITDA ratio just above 1x (1.2x) - thanks to the proceeds of the recent IPO (€3.3mn net).

Hydrogen at this stage just an option

Aliant is well positioned to ride also the emerging hydrogen opportunity: an untapped market globally valued at US\$206.6bn and expected to face a secular growth **fuelled by new applications**. However, the prospects of its potential applications and market size in the energy and power industry are still highly uncertain, with no shared views on most topics, as it was the case for LFP batteries only a few years ago. However, hydrogen does offer a few clear advantages over conventional batteries when it comes to long-term energy storage and it is the only viable carbon neutral static seasonal storage option currently available. Management intends to keep investing to remain at the forefront of possible applications, including *combined* solutions: **Aliant sold in Q4 2022 its first H2-FC-B pilot solution**, but now it needs to move into an integrated solution, supported by proprietary software and fully industrialized. The R&D related to this technology is one of the areas of potential use of IPO proceeds, albeit precise commitment by Elsa and timing will heavily depend on regulation and technological developments. Hence, for the time being our "post-money" model does not assume any really sizeable R&D effort, nor additional revenues related to this technology.

EGM listing to support medium term growth with €4.2mn gross cash injection

The EGM listing of October 2023, via a new share issue (€4.2/3.3mn gross/net proceeds), will be used to further accelerate growth by implementing the following strategies in the next 12/18 months:

1. **Accelerate the increase in production capacity**, which is poised to increase by 4x by 1H24 and much more in the long run (up to a 5-6x factor) compared to 2022;
2. **Strengthening of organizational structure**, through introduction of qualified personnel in manufacturing, business development, supply chain, assembly line, R&D, Second Life Project;
3. **Expansion of the client portfolio**, including a potential subsidiary in US, framework agreements with battery distributors, relevant product certifications;
4. **Acceleration of R&D projects**, related to both industrial automation and battery systems (Second Life's project and hydrogen);

5. **Business process improvement**, through new certifications (e.g. ISO 9001 and ISO 14001, RINA) and new software and IT systems to strengthen internal management, sales, and production progress;

The IPO will also allow for **better visibility**, providing Elsa with a stronger and more attractive profile for young talents and mid management and more powerful retention tools, as well as with a stronger **reputation** that should support the client base expansion. Finally, the capital injection has contributed to a visible rebalancing of the **capital** structure, with net proceeds equal to 1.8x FY23E EBITDA.

Key steps ahead:

#1 Significant capacity expansion (further scalable)

The first in order of execution and most strategic step ahead for management is to deliver a significant **increase of the battery output capacity**, relatively quickly. The total annual capacity of Aliant for its key product lines (traction batteries) could grow, by the end of FY2025, by a 3x factor compared to FY2022. This is instrumental to deliver the volume and top line growth we forecast, as we estimated the Company is running close to full capacity, and implies i) the expansion (in progress) of the production site in Imola by additional 1,800sqm from current ca. 900sqm, ii) gradual automation of the assembly phase, iii) new line and software for test and quality control, iv) hiring of the relative specialized staff. All this is expected to be fully finalised by the end of FY2024 2. However, the new production site is ready and scalable with the addition of new automated lines, relatively cheaply and seamless after FY2025 if required: according to management output capacity in the core traction battery line, could be further doubled with marginal capex.

#2 Strengthening of organization structure

The Company growth strategies for both segments do require, already in the short term, a major effort by management in terms of strengthening the corporate organization, as well as R&D and marketing/commercial areas. In more details, top management not only have to add manufacturing personnel already in coming months, but will also need to a) **strengthen the management team**; b) strengthen the **R&D** department; c) fill a few key positions in mid management including commercial, production and **business development** (US market, second life batteries, hydrogen systems).

Needless to say, the growth strategy carried in our “post money” scenario requires this effort to be strong and fast, albeit we reckon that i) it is now supported by **the listing** itself, whose **contribution in terms of visibility and retention** is likely to be significant, and ii) top management seems to be already working effectively on this front, and has increased the number of employees by 35% in the first 10 months of the year, reaching 46 people in October 2023.

Key issues:

#1 Macro outlook suggests a slowdown in investments in Industrial Automation

The reference market of motion control is the Italian Industrial Automation Market, valued at €7bn and expected to grow at a 7.0% CAGR₂₀₂₃₋₂₀₂₈, after a 23% jump in FY2022 vs FY2021. Being a B2B2B industry, **the Industrial Automation market is highly dependent on GDP stance**, as it reacts – albeit with a certain time lag - to recession and recovery phases. It is actually driven by the investment cycles, both domestic and European, as the Italian Automation districts are very much export driven - and in fact it reported record turnover over 2021 and 2022, when the Investments component of the Italian GDP was up by 18.6% and 9.4% respectively (in real terms).

From mid-2023 a GDP rebound is forecasted as inflationary pressure is expected to ease and the rise of production is expected to contribute to a GDP trend back to growth in 2H23 and stronger in 2024. Yet, the **Investment component of the domestic GDP (real) growth is expected to weaken significantly in 2023 (+0.2%)** and only slightly improve in 2024 (+2%), remaining well below the 2021-2022 trend and still subject to **further downward revisions**.

#2 Time to market of projects with OEMs is long

The bulk of ELSA business comes from its long-term partnerships with OEMs and this on the one hand provides a good stickiness of the business (product cycles are around 6/8 years), while on the other hand it implies that time to market is quite long and hence the benefits of a successful launch of new products or a successful offer with a new client take quite long to feed into the top line.

This is particularly true for Aliant, where historically it took 12/16 weeks to go from an order (following a successful bid or an inbound request by client) to a prototype and up to 20/28 months to go **from order to start of production** (with full scale volumes). Hence, it takes on **average 2 years** to see the full revenues of new clients or of new lines/products, **however** there are three additional trends to consider:

- 1) this **timing seems to be shortening** recently, as demand for electrification of industrial processes is gaining momentum;
- 2) volumes of **reorders tend to exceed the initial order**, as clients broaden the application of batteries to new models, lines or final clients;
- 3) **existing clients** set new orders for modified products with **much faster processes**.

#3 Execution and technology risks are always there

The “to do” list of management is extremely challenging for the next years and the battery business will also face a certain technology risk, given the extremely high level of innovation of the industry, which in turn implies to all players steady R&D investments.

The first test for execution capabilities of the Company will be in the next quarters, as management is expected to deliver a material and smooth expansion of Aliant production capacity, i.e. they should i) avoid disruptions during the plant expansion, with new machinery addition and overall process reorganization; ii) minimize extraordinary charges and cost duplications; iii) deliver output targets and quality standards, iv) all this according to time schedule to meet rising demand. On this front the early indications of the plant and capacity expansion are reassuring: management indicates that as of October the plant is completed, it should be operating as of end of year and the automated line installed in 1H24.

In the longer run, the key challenges will include i) secure organization growth at all levels/areas, ii) NWC management in the expected slowdown of E-motion business and acceleration of Aliant's, and iii) manage R&D in effective and efficient way.

We initiate coverage with a Fair Value of €4.0 p/sh. based on FY25E multiples and DCF

We initiate coverage on ELSA Solutions with an estimated fair Equity Value at €4.0 per share. This is the result of two valuation methodologies: **peers' analysis at maturity**, split by business and focused on 2025E financials, and **DCF model**, both including assumptions and/or sensitivity analyses to assess and incorporate the risk related to Elsa Solutions early development phase, i.e. its execution, funding and visibility risk profile.

These methodologies indicate **values of €3.0 and €5.0 respectively**, and the relatively wide gap is due to a few specific factors:

- ◆ the multiple driven valuation is affected by i) particularly weak current equity multiples; ii) expected slowdown for ELSA EBITDA growth in FY24E (a year of strong investments on

products/structure to exploit the long term growth potential of the company), iii) the long time-to-market of new products and new clients, typical of the industrial automation industry;

- ◆ on the other side the DCF model captures also the expected steady growth beyond FY25, coming also thanks to the material investments and costs carried over FY23-24E (including those supported through the IPO proceeds).

As a result, our valuation approach implies 2023E-24E multiples which may appear demanding relative to peers, but we see these supported by the strong growth we expect from Elsa into FY25 (>30% EBITDA and Net Profit CAGR22P-25E) and beyond FY25: multiples “converge” in 2025E towards **0.6x EV/Sales, 5.7x EV/EBITDA and 7.9x P/E**, well below peers’ 2023E-24E multiples.

Corporate Profile

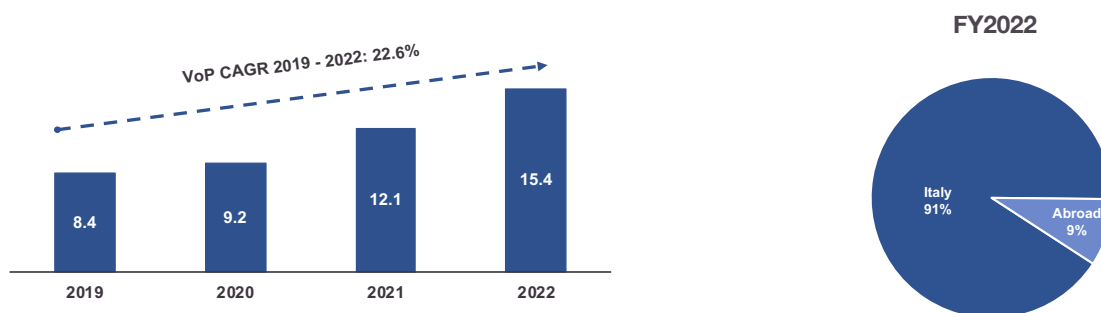
Elsa Solutions is a B2B industrial company, specialized in the commercialisation of equipment, systems and components for industrial automation and power electronics, while also providing services such as installation, maintenance, project consultancy, and remote assistance. Established in 1982 as an early pioneer in the field of motion control, Elsa Solutions has continually evolved and expanded its offerings. Since 2009, the company has diversified its product portfolio by introducing a comprehensive range of lithium accumulators under the Aliant Ultralight Battery brand, establishing itself as a first mover also in the Lithium technology (LFP).

Elsa Solutions at a glance

Elsa Solutions (“the Company” or “ELSA”) operates in the field of motion control and special purpose batteries. With **2022 Value of Production and EBITDA at €15.4mn and €1.4mn respectively**, Elsa Solutions is one of the main mid-size Italian players in its sector and counts among its customers leading companies of various and diversified sectors.

The Company is mainly active in the Italian market (ca.91% of FY22 revenues), while the residual part of the Revenues is generated mostly in Germany and Netherlands.

Elsa Solutions: VoP historical evolution (lhs, €mn) and breakdown by geography (rhs, %)



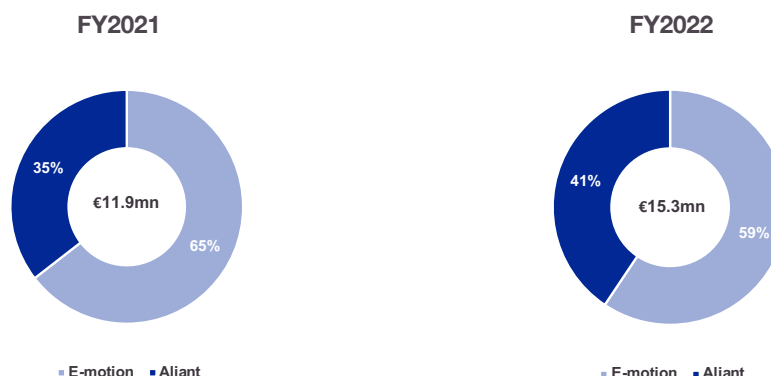
Source: Elsa Solutions, Value Track Analysis

Since 2009, the Company has been organized in **two business lines**, both **B2B**:

- E-motion** (59.4% of FY22Revenues), a **motion control** system integrator, assembling and re-selling solutions for activation, management and control of mechanical equipment;
- Aliant** (40.6% of Revenues in FY22), an original equipment manufacturer (OEM) and original design manufacturer (ODM) specializing in **special purpose batteries**, with focus on lithium and more recently hydrogen technologies.

The **key clients** of the two divisions are

- ◆ **manufacturers of OEM components or industrial machinery** (75% of revenues in FY2022), operating in many different sectors, from intralogistics/AGV to machinery for paper, steel or glass plants,
- ◆ **end users** of such plants and machinery (12%), operating in the most various end sectors,
- ◆ providers of aftermarket services (5%), which may be also part of above clients,
- ◆ distributors (8%).

Elsa Solutions: Revenues from Sales by business – FY2021 and FY2022


Source: Elsa Solutions, Value Track Analysis

Historical Milestones

Elsa Solutions was founded back in 1982, under the name “Commerciale Elsa S.r.l.”, by Enzo Dal Pozzo and Deanna Gaddoni, as one of the first Italian companies proposing solutions for industrial automation. Here we outline some key events that have shaped the history of Elsa Solutions.

- ◆ In **1990**, the land and the building in Via Einaudi are purchased;
- ◆ In **1998**, Daniela Dal Pozzo enters the company as administrative manager;
- ◆ In **2009**, Davide Dal Pozzo joins the company as technical manager and starts the Aliant business line, dedicated to lithium batteries;
- ◆ In **2010**, Commerciale Elsa becomes Elsa Solutions, and Enzo Dal Pozzo donates its shares (79%) to his sons Daniela and Davide;
- ◆ In **2012**, the land of Via Patarini is acquired;
- ◆ In **2018**, the factory in Via Patarini is built and Via Einaudi’s plant is converted into a warehouse;
- ◆ In **2022**, work begins on expanding the factory in Via Patarini,
- ◆ In **2023** (October), the Dal Pozzo family completes the listing process on EGM.

Corporate Governance

Shareholders and Group structure

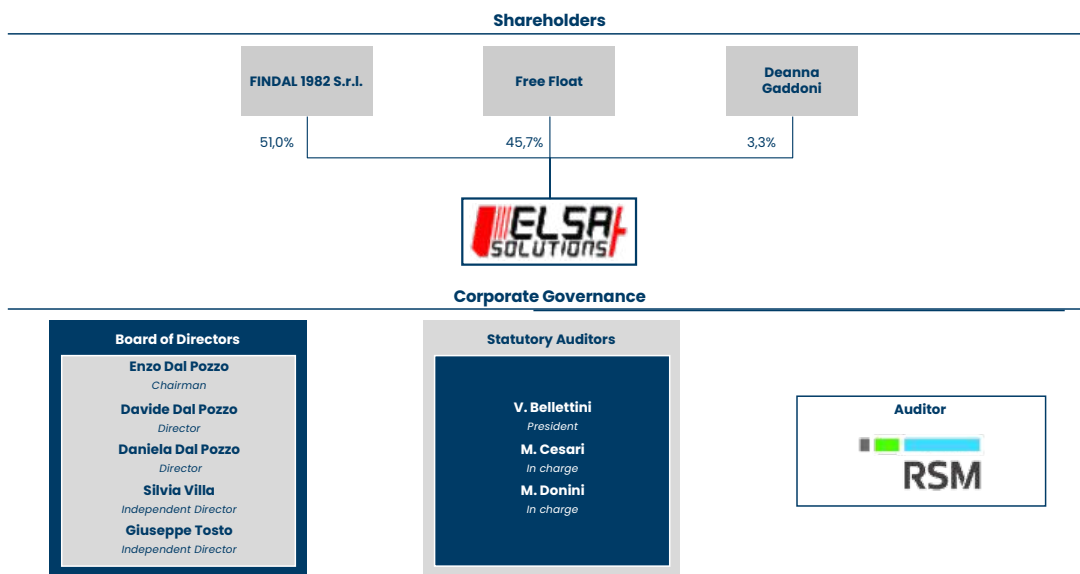
The majority shareholders are the siblings Davide and Daniela Dal Pozzo (each owning a 50% stake of their investment vehicle FINDAL 1982 Srl), who cover the roles of CEO and CFO respectively within the company. The remaining ownership is distributed among the free float (45.7%) and their mother, with a minor share of 3.3% as non-operating shareholder. FINDAL 1982 holding includes 564k special shares with multiple voting rights (3x vs ordinary shares), hence controlling 62.5% of voting rights.

Elsa Solutions: shareholding structure

Shareholder	Share Capital (€)	As % of Total	As % of voting rights
FINDAL 1982 Srl (incl. special shares)	1,880,000	51.0%	62.5%
Deanna Gaddoni	120,000	3.3%	2.5%
Free float	1,683,000	45.7%	35.0%
Total	3,683,000	100%	100%

Source: Elsa Solutions

Elsa Solutions: Shareholding structure and corporate governance



Source: Elsa Solutions. FINDAL 1982 is equally owned by Daniela and Davide Dal Pozzo

Top Management: Structure & Powers

With an average workforce of 34 employees in fiscal year 2022 and 46 as of October 2023, Elsa’s top management includes Enzo Dal Pozzo (Chairman), Davide Dal Pozzo (CEO) and Daniela Dal Pozzo (CFO). The background and responsibilities of the family key people are outlined below.

Elsa Solutions: key people

Role	Background & Responsibilities	
<p>Enzo Dal Pozzo Chairman</p>	<ul style="list-style-type: none"> Electronics Diploma; (1975): Founder of Elettronica Santerno (1982): Founder of Commerciale ELSA (1982-attuale): Chairman of ELSA Solutions 	
<p>Davide Dal Pozzo CEO</p>	<ul style="list-style-type: none"> Degree in Mechanical Engineering from the University of Bologna; Advanced Study Program at Massachusetts Institute of Technology; (2002-2006): Mechanical Designer at Commerciale Elsa; (2006-2009): Project Leader at Techne Technipack Engineering Italy S.p.A.; (2010-current): Technical Manager at Elsa Solutions. 	
<p>Daniela Dal Pozzo CFO</p>	<ul style="list-style-type: none"> Degree in Economics from the University of Bologna; Master in Business Administration at SDA Bocconi School of Management; (1998-2010): CFO at Commerciale Elsa S.r.l.; (2011-current): CFO at Elsa Solutions S.r.l.; (2014-current): has held various roles within Confindustria Emilia / Imola. 	

Source: Elsa Solutions

Business Profile

Elsa Solutions business is split in two lines: 1) E-motion, operates as a motion control intermediary distributor and system integrator, offering solutions for activation, management and control of mechanical equipment; 2) Aliant, operates as an OEM and ODM of special purpose batteries, with focus on lithium technology. Both business lines address only B2B customers, mostly OEMs, but while the former targets typical industrial/manufacturing sectors (paper, iron, plastic, glass etc.), the latter looks to Industrial E-mobility, as construction machinery, intralogistics, lifting.

Business Line #1 – E-motion

E-motion (59.4% of Total Revenues in FY22) operates as a **distributor** and **system integrator** of industrial automation systems. It acquires electronic and electromechanical components from manufacturers and resells them (mainly) on the domestic market, offering a package that includes value-added services (configuration, assembly, technical consultancy) alongside the products themselves, made available with very competitive delivery terms.

Thanks to its expertise in the field of mechatronics, E-motion operates as a:

- ◆ **System integrator**, responsible for designing, assembling and configuring (on premise and remotely) complete medium and large power systems (between 15 kW and 1,000 kW);
- ◆ **Service provider**, offering technical consultancy, installation, maintenance, configuration and repair of on and off-site motion control systems, thanks to a team of qualified technicians.

Its **suppliers** are manufacturers of components (DC Drive, AC motors, Inverters, Transducer) such as Sicomotori, Nidec, Magnetic, Motive, Hengstler, Radio Energie. The group of supplier is very much diversified, excluding one inverter manufacturer, yet most of these names have been working with Elsa for more than 15-20 years, sometimes act as supplier and client at the same time, on different components/solutions, and for all of them Elsa has a back-up or a potential back-up supplier.


E-motion: product offer and main suppliers

Product	Description	Product examples	Manufacturers
DC Drives	Electrical machinery that converts electrical energy into mechanical energy for industrial applications in the process industry		
AC SERVO motors	Asynchronous and vector motors		
	Synchronous and brushless motors		
Inverter	Wide range of industrial AC inverters		
Transducers	Encoder		
	Tachogenerators		 The best signal since 1928
Accessories	Converters, gearboxes, battery chargers, soft start		 -All for dreams

Source: Value Track Analysis

Clients are both manufacturers of plant and machinery in heavy industries (e.g. metal, glass, paper) as well as end users of the above machineries in different process or service industries (as packaging manufacturers and waste treatment companies). Over time, E-motion has established an extensive network of dealers (Elsa Points), spread all over the country, who developed longstanding relationships with Elsa, although not being bound by any exclusive contractual obligations.

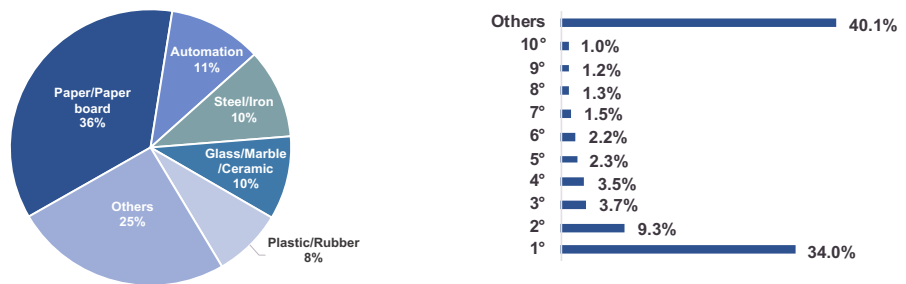
E-motion: main clients

	Products	Type
	Electric DC motors	<ul style="list-style-type: none"> manufacturers and end-users in the metal and steel industry manufacturers and end users in the waste sector
	Electric AC motors	<ul style="list-style-type: none"> OEMs operating in the blow-moulding sector OEMs operating in the glass tempering sector OEMs operating in the steel sector
	Turnkey solutions	<ul style="list-style-type: none"> manufacturers in the paper and cardboard sector manufacturers in the steel sector

Source: Elsa Solutions

While this business line boasts a strong diversification in terms of end-sectors, this is not true as for revenues distribution, as shown in the chart below, with the number one client (being number one since ever) still accounting for one third of revenues. Yet, we point out that: 1) the contribution weight is calculated on E-motion, which means that the weight on total Company’s revenues is almost halved; 2) revenues concentration among customers is steadily reducing over time and it is reasonable to assume that the picture is likely to keep gradually improving.

E-motion: Revenues from Sales by end-market (lhs) and by main client (rhs)



Source: Elsa Solutions, Value Track Analysis

The majority of E-motion's turnover is generated within Italy, accounting for nearly all of its sales, while only ca. 9% of its turnover is generated from international markets, mostly EU. However, it is reasonable to think that this figure understates the real exposure of the business to EU or global demand, as most of Elsa customers are strong exporters (as the whole Industrial Automation Italian industry).

The company follows a stock management policy that emphasizes maintaining a **high inventory level to mitigate supply risks and minimize delivery time for customers**. In 2022, this policy was further emphasized due to the evolving macroeconomic conditions, including component shortages, extended lead times for industrial products, and price and shipping time fluctuations.

While Elsa acknowledges the importance of providing support and assistance to customers **after the sale** – including technical assistance and predictive maintenance, remote control and Over-the Air updates, on site services for repair or retrofit activities - its primary focus lies in other areas of their business, such as product development, sales, and system integration. As a result, this activity contributes only marginally to the company's overall revenue, according to management.

Business Line #2 – Aliant

Aliant operates as original equipment manufacturer (OEM) and original design manufacturer (ODM) of **special purpose batteries for industrial and mission critical applications** (heavy duty, continuity, emergency, off-grid stationary).

This business line boasts a strong positioning, despite its small size, being Aliant a first mover in two technologies:

- ◆ **Lithium iron phosphate batteries:** type of rechargeable battery which differentiates from the most popular Lithium-ion battery as it uses the compound LiFePO₄ as the active material in the cell cathod. These batteries are being increasingly recognized in manufacturing industries for their superior characteristics, such as lower toxicity and cost, enhanced thermal stability, improved safety, and exceptional durability (3-4x times longer). Lithium-Ion batteries are still those with a higher energy density, which is, however, only necessary for applications requiring high voltage outputs or operation in extreme temperature conditions. According to management, the decision to be an early adopter of LiFePO₄ technology has proven to be a wise choice over time, earning significant goodwill vs clients and suppliers.

Lead Acid Battery vs. lithium-Ion (Li-Ion) vs. lithium-iron-phosphate (LiFePo4)

Feature	Lead Acid Battery	Lithium - Ion	Lithium-iron-phosphate
Energy Density	Low	High	Medium
Safety	Medium (presence of toxic materials)	Low (risk of fire and Explosions)	Excellent (no risk of fire/ Explosions)
Life cycles	Low	Medium-High	Very High
Eco - friendly	No	No	Yes

Source: Elsa Solutions

- ◆ **Hydrogen systems:** Aliant Battery made a strategic move into the hydrogen sector and in 4Q22 achieved its first sale of a hydrogen cogeneration pilot unit (a fuel cell battery system) to **Hylife Innovations**, a Dutch developer of sustainable power solutions. The 30 kWh system will be integrated into Hylife's Innovahub, which utilizes green hydrogen to power residential buildings, aligning with the Netherlands' goals of emission reduction and energy transformation. Although the technology has generated limited revenue to date, management plans to invest in this high-potential solution to enter the ESS segment with innovative turnkey solutions.

Its key **suppliers** are primarily international cell manufacturers, mainly located in China, with cells representing around half of total purchase costs, followed by suppliers of electrical and electronic components. As for E-motion, the supplier base is strictly monitored with second tier manufacturers for each key component, to reduce any risk on the supply chain.

Aliant: Product Offer

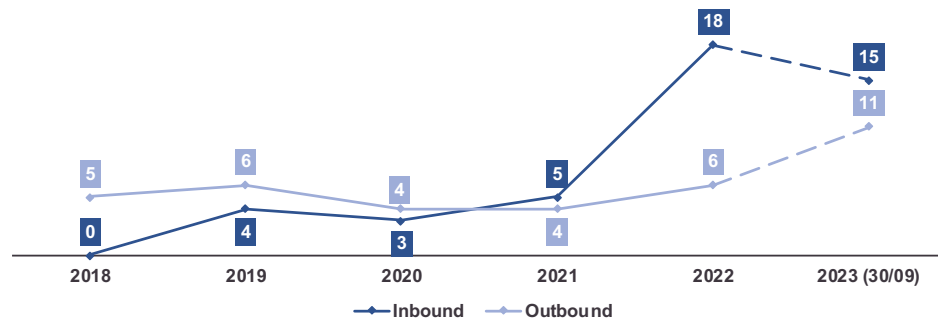
Product	Type	Applications	Product examples
Lithium batteries	Serie EK – Automation batteries	Traction batteries designed for: aerial platforms, road sweepers, electric buses, telehandlers, AGVs/LGVs, earthmovers, mini cranes and mini excavators	
	Serie E – Power Supply batteries	Ultralight batteries designed for scooters, toys, bikes, UPS and telecom	
	Serie EA/EY – Stationary batteries	Ultralight batteries designed for portable devices, small storage systems, industrial cleaners, AGV shuttles, alarm units	
	Serie NEK – Batteries for marine services and propulsion	Low and high voltage batteries for marine storage systems (sail&motor yachts and commercial ships)	
	Serie YLP/XR – Starter batteries	Batteries used in motorbike racing (SBK and MOTOGP), quads, ATR and snowmobiles	
Hydrogen systems	H2FCB (Hydrogen fuel cell battery systems) with power between 30 kW and 250 kW – System integrating hydrogen fuel cells and lithium batteries for an energy storage solution without any CO ₂ emissions (100% carbon-free).	Systems designed for E-mobility for industrial applications and stationary power generation (standard solution incorporated in containers)	

Source: Elsa Solutions

Aliant's business model is focused on OEM clients, which require a **long commercial process and an even longer time to move from prototype to full production**, as the electrification process undertaken by them and final users is strategic. We can split the whole path in 3 phases:

- 1) The **Commercial phase** is developed in “Outbound mode”, in which the contact is generated by the sales team, and “Inbound mode”, in which Aliant is directly contacted by the customer. The number of acquired projects experienced a remarkable growth since 2018, increasing from 4 to 24 projects in 2022, with a notable rise in the proportion of Inbound requests and a steady growth confirmed in 2023 (as from chart below);

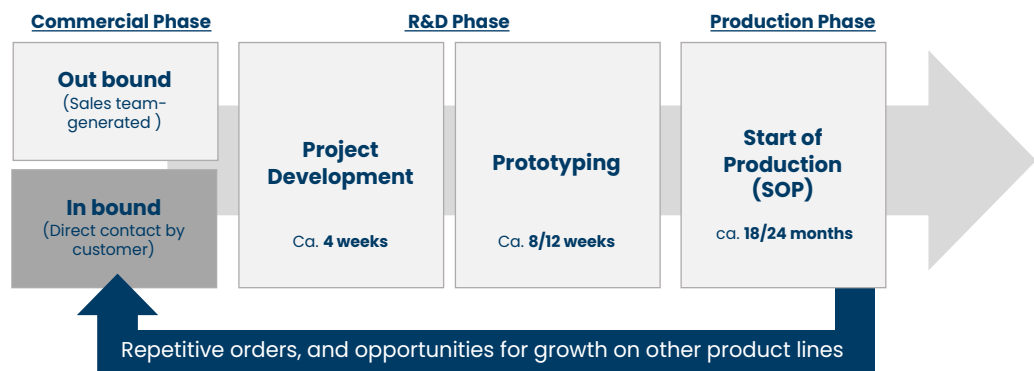
Aliant: number of acquired projects by origination type



Source: Elsa Solutions

- 2) The **R&D phase** involves the development of projects, typically taking around 4 weeks, followed by the prototype development, which spans approximately 8-12 weeks. Once the client receives its prototype(s), it may take up to 24 months of utilization and tests to move to the next step, i.e. to pass the first order;
- 3) The successful completion of a project leads to Start of Production (SOP) and to recurring annual orders that can extend over a period of 5-8 years. In the **Production phase**, Aliant assembles cells, circuit boards, BMSs and other components into custom-designed cases, resulting in highly personalized batteries that have a longer lifespan due to their tailored / optimized features.

Aliant: Business Model



Source: Elsa Solutions

Aliant's **customers** are generally OEMs with small to medium production runs, approaching electrification for the first time with initial annual requirement of ca. 200-300 lithium traction batteries or 500-2,000 starter batteries. These needs justify the choice of a small, flexible, and often domestic supplier. For this type of OEMs, Aliant is the perfect main, strategic supplier of a wide range of tailor-made batteries, more in specific:

- ◆ Start & Light Injection: car and motorbike motorsport;
- ◆ Industrial / Motive: GSE, automated guided vehicles (AGV), telehandlers, forklifts;
- ◆ Industrial / Stationary: UPS, ESS, Telecom.

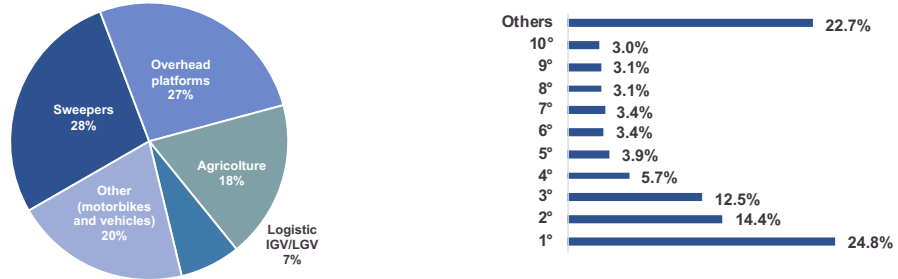
Aliant: main clients

	Product	Client	Product	Client
	YLP/XR Lithium starter batteries	• OEMs in motorbikes and automotive sectors	EY / EY+ service and semi-traction lithium batteries	• OEMs in packaging and industrial vehicles sector
	NEK lithium batteries for services and marine propulsion	• OEMs in the marine sector	EK traction lithium batteries	• OEMs operating in various sectors (sweepers, aerial platforms, food, industrial applications, agriculture)
Lithium Deep Cycle E / EA batteries	• OEMs in food and waste sectors			

Source: Elsa Solutions

As for E-motion, Aliant has also witnessed a decline in customer concentration, a trend we expect to continue and that seems much faster compared to E-motion: in FY2023E we expect the contribution of the largest client to reduce around 20% of the total Aliant Revenues.

Aliant: Revenues from Sales by end-market (lhs) and by main client (rhs)



Source: Elsa Solutions, Value Track Analysis

Approximately 40% of ELSA international revenues are generated by Aliant (ca. €500k), mostly in Europe. However, Elsa has already established agreements with partner companies located in key foreign markets such as North and South America, Brazil, and Japan. These agreements: 1) allow the partners to utilize the Aliant brand within specific geographic regions; 2) stipulate a minimum annual order requirement and periodic orders; 3) do not involve royalties for the brand’s usage.

Aliant: Commercial Footprint



Source: Elsa Solutions

Strong synergies within the two business lines

The two businesses benefit from strong synergies due to:

- 1) their shared expertise in industrial **electronics**;
- 2) the presence of a common highly specialized **technical department**;
- 3) the **scale** benefit of sharing SG&A and some R&D;
- 4) **cross selling opportunities**, as suggested by the first orders of a “combined” product, involving motion & power solutions. This requires in fact a comprehensive approach during project development, with a strong focus on meeting specific application requirements: Elsa’s team is currently working on the conversion of a diesel-powered drilling machine into a fully electric system powered by batteries or electric grid. The project includes the supply of: 1) a high-performance customized battery energy storage system with a charger for public charging stations; 2) an inverter and electric motor for hydraulic pump actuation.

Reference Markets

Elsa Solutions benefits from the exposure to two distinct but close and growing markets. E-motion focuses on the Italian Industrial Automation Market, worth €7bn and expected to grow at a 7.0% CAGR₂₀₂₃₋₂₀₂₈; Aliant, on the other hand, targets the global LFP battery segment, worth US\$3.6bn (excluding the EVs segment) and expected to grow at a 15.4% CAGR₂₀₂₃₋₂₀₃₀. Both target markets are driven by strong, well demonstrated and global secular trends: 1) Growing penetration of high efficiency automated systems and Battery Electric Industrial Vehicles due to noticeable efficiency improvements; 2) Increasing demand for sustainable, clean energy solutions in line with initiatives such as EU Green Deal.

These long-term trends have been also supported in 2021-2022 and 1H2023 by very positive macroeconomics, namely the strong domestic investment cycle, while this driver is likely to weaken from 2H2023, despite a mildly recovery of GDP.

Interconnected markets driven by secular growth trend

Elsa Solutions is strategically positioned to benefit from its presence in two dynamic and growing markets that hold numerous opportunities for expansion. In addition, its prospective R&D pipeline provides exposure to promising emerging trends, by including projects related to battery recycling, hydrogen market, and solid-state cells.

As far as the **E-motion** is concerned, we highlight the following key points:

- ◆ The reference market of motion control is the Italian Industrial Automation Market, valued at €7bn and expected to grow at a 7.0% CAGR₂₀₂₃₋₂₀₂₈;
- ◆ This industry is strongly concentrated in Lombardy and Emilia Romagna regions, realises most of its turnover on the OEM channel (60%) and targets Mechanics, Packaging, Food, Logistics, Electronics as main destination sectors;
- ◆ The Industrial Automation market is highly dependent on GDP stance, which after a bleak 1H23 is poised for a marginal rebound from 2H23, however it is more influenced by the specific investment component (driven also by monetary and fiscal policies) of domestic and EU GDP (as ELSA clients are heavily exporters) and its outlook is less positive. On the other hand, we highlight ELSA exposure towards clients operating in “defensive” end sectors;
- ◆ In the medium to long term, the growth drivers for the industry are primarily driven by "secular" factors such as the increasing automation of industrial production processes, which has been accelerated by the COVID-19 outbreak, the need for digital transformation and factory automation practices (including safety) and the restless energy efficiency driven investments.

As far as the **Aliant** is concerned, we highlight the following key points:

- ◆ The key reference market is the Global LFP battery market, expected to grow at 15.4% and whose reference sub-segment (i.e. Industrial + ESS) is valued at US\$3.6bn;
- ◆ LFP is expected to become the dominant stationary storage chemistry by 2030, surpassing lithium nickel manganese cobalt oxide (NMC), while also gaining popularity in the EV market, i.e. expected 20% market share in EV battery installations in 2025;
- ◆ Factors contributing to the rise of LFP are: 1) a shift towards more cost-effective chemistries/less critical minerals, 2) an emerging EVs preference driven by technological advancements in maximum driving range as well as research for cost-optimization; 3) Industrial Battery Electric Vehicles are demonstrating significant reduction in total ownership costs; 4) Growing renewable energy projects/gigafactories;

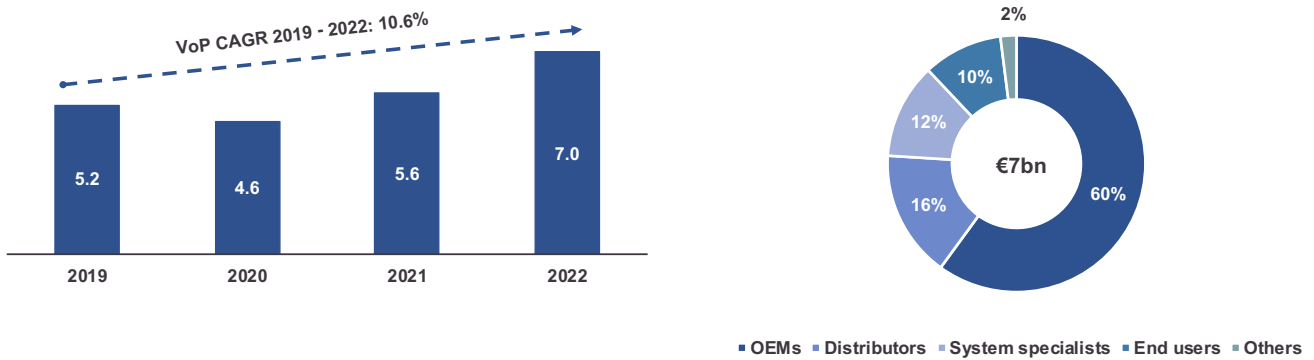
- ◆ Aliant is well positioned to ride also the emerging hydrogen opportunity, exposing to an untapped market globally valued at US\$206.6bn and expected to grow at a +7.5% CAGR₂₀₂₃₋₂₀₄₀.

E-motion

Growing market with Lombardy and Emilia Romagna as main hubs

E-motion is primarily active in the **Italian industrial automation market**, which according to ANIE (federation of Italian electronics and electrical engineering companies) has a value of **€7bn**, in 2022, up by 23% over 2021, supported by a strong re-pricing effect. The main sales channels for automation components and systems are aligned with those covered by ELSA Solutions: OEMs (60%); Distributors (16%); System specialist (12%) and End users (10%).

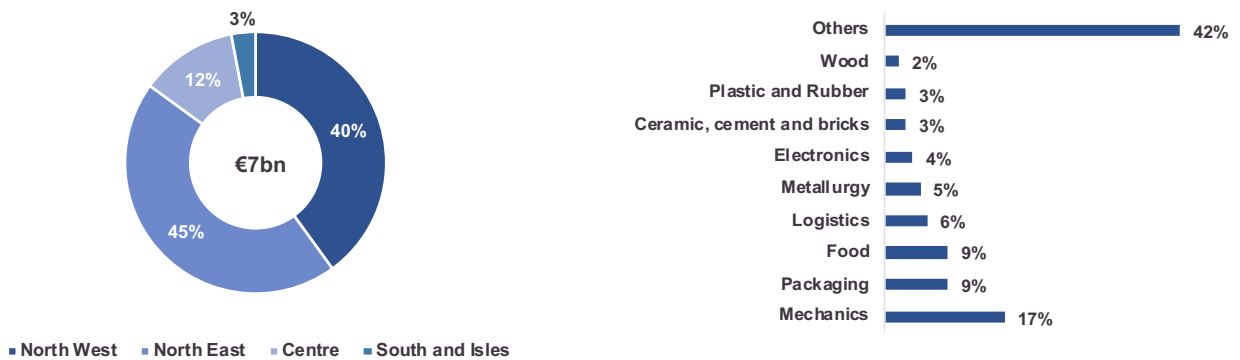
Italian Automation market value (€bn, lhs) and breakdown by channel (rhs)



Source: ANIE Automazione

The products for industrial automation are intended for various applications, in different industrial sectors: Mechanics (17%); Packaging (9%); Food (9%); Logistics (6%); Metallurgy (5%); etc. Most of the Italian companies operating in the industrial automation market are concentrated in North East Italy (45%), with a strong presence in Emilia-Romagna (22%).

Italian Automation market - breakdown by region (lhs) and top 10 destination sectors for components (rhs)



Source: ANIE Automazione

Short term driven by macro economical stance, but due to slow

Being a B2B2B industry, **the Industrial Automation market is highly dependent on GDP stance**, as it reacts – albeit with a certain time lag - to recession and recovery phases, and it is driven by the investment cycles.

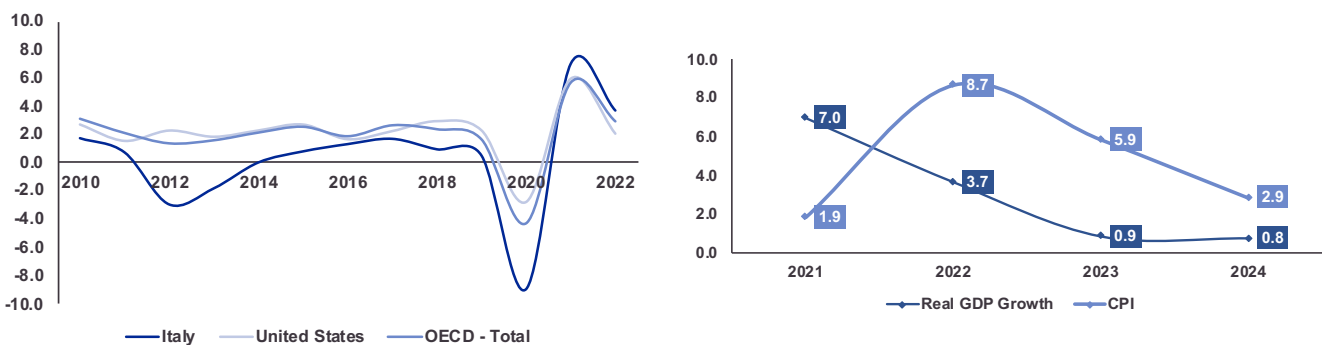
After macro volatility of leading economies as Germany in FY22 and bleak 1H23, the macroeconomic outlook is expected showcasing a marginal growth in the next biennium, with Italian GDP mildly recovering from 2H23 (+0.9% y/y in FY23E), as well as EU (+0.8%). However, the Italian industrial automation sector is mostly driven by the Investment component of GDP - both domestic and European, as the Italian Automation districts are very much export driven - and in fact it reported record turnover over 2021 and 2022, with annual growth rates above 20%, driven by investments: in 2021 and 2022 the Investments component of the Italian GDP was up by 18.6% and 9.4% respectively (in real terms).

According to the EU Commission latest forecast scenario (September 2023), we report the following:

- ◆ In 1H23 Real GDP growth weakened (+0.2%) influenced by the delayed impact of inflation on consumer spending and decline in investment due to the 4Q22 bounce in interest rates, as well as the phasing out of the temporary construction incentives, and subdued external demand;
- ◆ From 2H23 - despite 0.3% Italian GDP Forecast cut on 2023-24E - there's potential for a slight rebound as inflationary pressure is expected to ease and the rise of production, driven by re-stocking and investments (funds allocated within PNRR, Transition 4.0 projects), is expected to contribute to a GDP trend back to growth in 2H, leading to a +0.9% FY23E and +0.8% FY24E;
- ◆ The Investment component of the domestic GDP (real) growth is expected to weaken significantly in 2023 (+0.2%) and only slightly improve in 2024 as the fall in housing construction is offset by RRF-supported increases in investment in infrastructure and equipment (+2%), still remaining well below the 2021-2022 trend (+18.6%/+9.4% respectively).

Within this framework, the Italian Observatory on Industrial Automation (*ANIE Automazione*, May 2023) expects the demand to remain sound for the Electrotechnology and Electronics sectors, continuing to benefit from the stimulus of investments linked to the digital and green transitions (Industry 4.0 and 5.0), thus maintaining the rate of expansion of turnover and volumes in strong growth territory, forecasting for 2023 a growth of 15% (after the 23% growth reported in 2022), and still in positive territory in 2024, albeit in sharp slowdown. We anticipate the possibility of downward revisions in these forecasts due to recent adjustments to GDP projections and contrasting signals in recent short-term indicators, including: 1) stabilization in industrial production after several months of decline (IPI +0.2% MoM in August); 2) decreasing business confidence climate (IESI -1.7% MoM in September).

GDP Historical Growth Rates in Italy, OECD, USA (% , lns) and Italian Forecasted Growth Rate GDP/CPI



Source: OECD, CSC, Value Track analysis

Medium / Long Term secular drivers hint at a mid-high single digit CAGR

While GDP evolution is the main driver in the short term, in the medium to long term, growth drivers of the industry are related to “secular” factors such as the increasing automatization of all industrial production processes, where room for growth is wide. This trend was further boosted by The COVID-19 outbreak, which has triggered the manufacturing sector in Italy to re-evaluate its conventional production processes, fundamentally driving the digital transformation and factory automation practices across the production lines.

According to *Mordor Intelligence*, the **Italian Automation Market is expected to grow at a ca.7.0% CAGR₂₀₂₃₋₂₀₂₈**, boosted by several key drivers: 1) Growing use of automation and digitalization in production processes (Industry 4.0); 2) Growing demand for industrial robots and for eased components integration within motion control; 3) Automation-supportive policies to improve domestic’s energy efficiency (Industry 5.0 Sustainability); 4) SMEs-supportive policies to encourage the adoption of factory automation solutions (Industry 5.0 Resiliency and Safety purposes).

Aliant

LFP Market seen to keep growing at high double-digit rate

Aliant specializes in the LiFePO₄ electric battery industry, which represents approximately 29-30% of the overall Lithium-Ion market. According to market consensus, such industry is worth ca. **US\$13.8bn** and is projected to grow at a ca. **15.4% CAGR₂₀₂₃₋₂₀₃₀**, driven by:

- ◆ Volatility of critical mineral prices, mainly nickel and cobalt;
- ◆ Increasing demand for LFP batteries in automotive sector;
- ◆ Growing industrial automation space and technological developments;
- ◆ Growing demand from renewable energy projects.

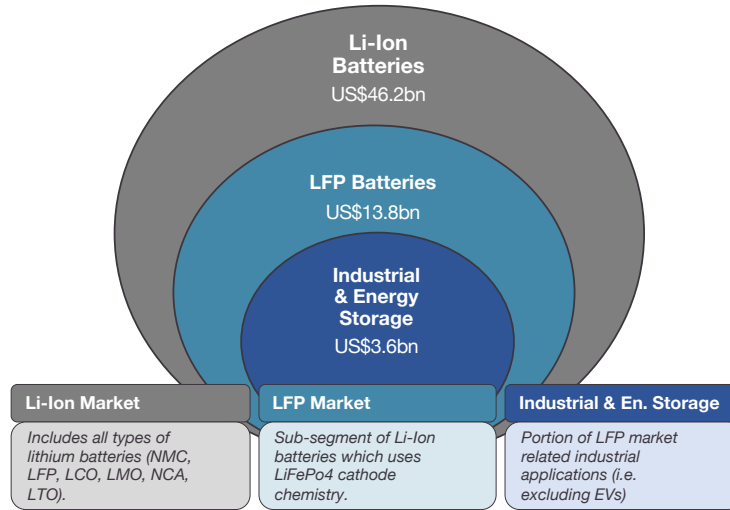
LFP Batteries Global Market Size and CAGR

Market Research Provider	2022 Market Value (US\$bn)	CAGR 2023-2030 (%)
<i>P&S Intelligence</i>	12.9	13.4%
<i>Markets & Markets</i>	14.7	14.9%(*)
<i>Precedence Research</i>	14.6	15.8%
<i>Verified Market Research</i>	12.4	19.4%
Median	13.8	15.4%

Source: Market Researches, (*) 2023 - 2028

In terms of main components, the LFP segment is split in automotive (ca.78%), energy storage (22%), and industrial applications (6%). We choose to consider the latter two as Aliant's potential reference market, which therefore currently stands **US\$3.6bn** (29% of total LFP).

Aliant: Reference Market



Source: Elsa Solutions

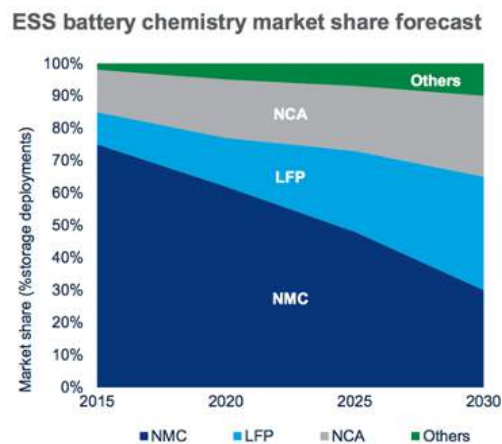
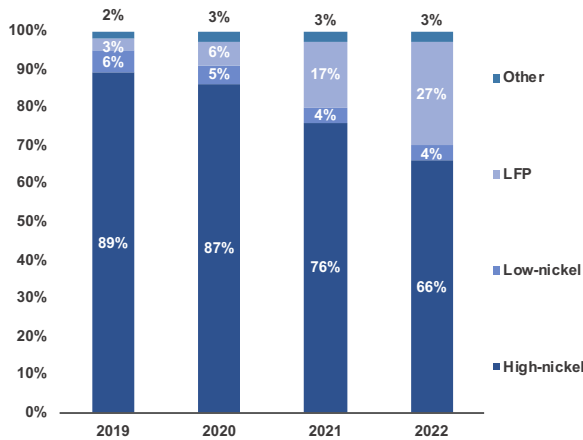
...driven by LFP technology penetration

In 2022, lithium nickel manganese cobalt oxide (NMC) remained the dominant battery chemistry with a market share of ca.60% (most of the high-nickel segment), followed by lithium iron phosphate (LFP) with a share of just under 27%, and nickel cobalt aluminium oxide (NCA) with a share of about 8% (*International Energy Agency*).

According to recent researches (McKinsey, Wood Mackenzie), lithium-iron-phosphate (LFP) is poised to overtake lithium-manganese-cobalt-oxide (NMC) as the dominant stationary storage chemistry within the decade, in a global market of demand exceeding 3,000 GWh by 2030.

While LFP will steal the show for ESS applications, Wood Mackenzie says it will take a while for LFP to break into the global passenger EV sector. However, it is expected that the usage of LFP chemistry will gradually increase and exceed 20% of EV battery installations by 2025.

Lithium-Ion battery market share by chemistry historical (lhs) and forecasted ESS share (rhs)



Source: International Energy Agency, Wood Mackenzie

This market is being boosted by a number of factors, such as:

- ◆ **Recent volatility of critical mineral prices:** fluctuating prices and availability of critical minerals have influenced battery chemistry developments. Concerns over cobalt mining and increased prices of nickel have prompted a shift towards chemistries with lower reliance on these minerals, such as LFP batteries, despite their lower energy density. The increased convenience of LFP batteries arises from their reduced dependence on expensive and volatile minerals like cobalt and nickel, making them a more cost-effective and stable alternative.

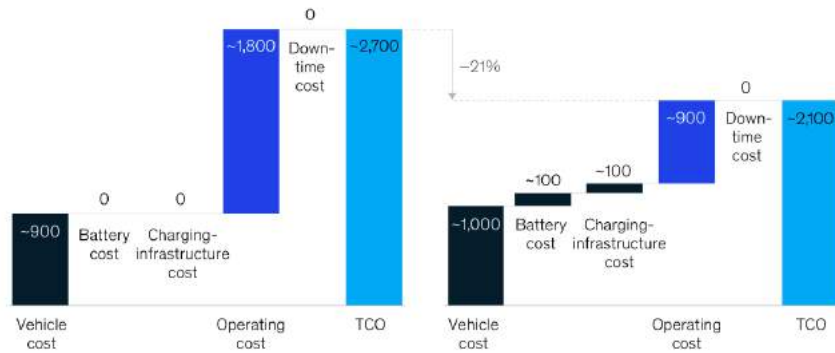
Price of battery materials: Nickel (lhs) and Cobalt (rhs)



Source: Focus Economics

- ◆ **Cost advantages in EVs segment:** in the race to build a more affordable electric car, **auto makers are swiftly embracing the adoption of LFP batteries**, following the example set by Chinese manufacturers who have been using this technology for an extended period. Safety advantages, long lifecycle and lower costs have led to EV makers starting to accept the trade-off of lower energy density in adopting LFP batteries. Additionally, due to an ever improving driving range performance (LFP battery packs now capable of more than 500km of range), manufacturers are increasingly keen to use this rising technology, which already comprise 17% of the global EV market (*AlixPartners 2022 Global Automotive Outlook*). Just to provide some examples, Tesla will use LFP batteries in 50% of their new vehicles, Ford plans to open an LFP battery plant in Michigan, and Stellantis is considering to source LFP batteries for their vehicles in Termoli with ACC. While Elsa does not directly serve the automotive sector as one of its end markets, the increasing demand for these batteries and rising penetration and hence global volumes, will create positive spillover effects on other industries that can benefit the company.
- ◆ **Untapped potential in the industrial automation space:** unlike automotive sector, the industrial vehicle/equipment market is far behind the electrification curve, despite significant potential for the electric transition due to the objective efficiency advantages of electric power, including rapid recharging, minimized downtime, idle power consumption, and increased durability. In particular, the use of BEVs (battery electric vehicles) instead of ICEs (internal combustion engines) allows a reduction in total cost of ownership (TOC) of more than 20%, and this gap is destined to expand as BEV technologies become more and more economically viable (McKinsey). This, coupled with industrial equipment undergoing technological advancements that require LFP batteries (e.g. warehouse robotics, AGVs, intralogistics systems), and with a clear improving in work environment, create an untapped market opportunity for Aliant.

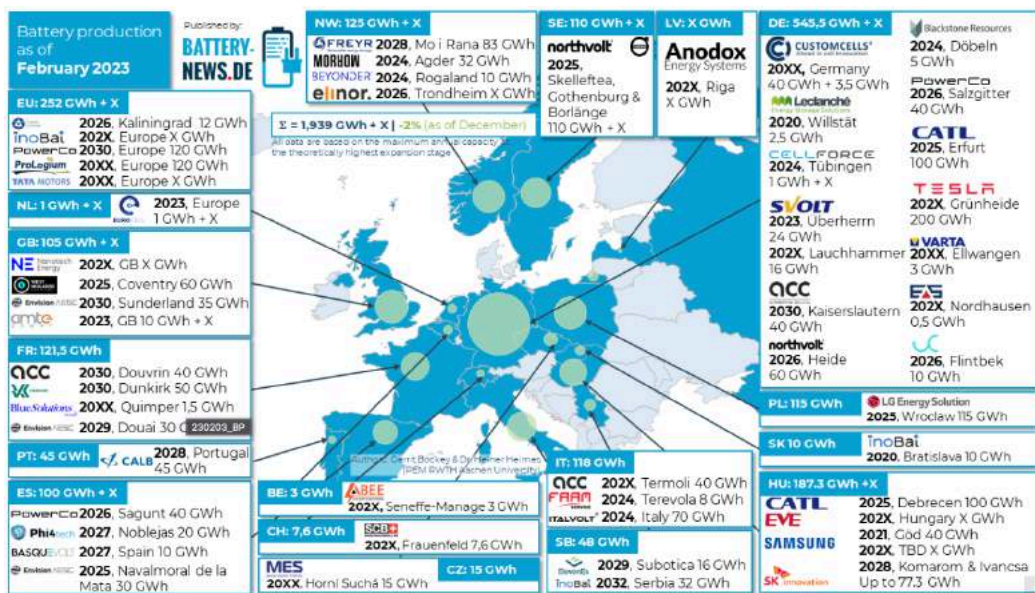
Total Cost of Ownership (industrial) : battery electric vehicle (BEV) vs. internal combustion engine (ICE)



Source: McKinsey

- ◆ **Growing need of clean energy & 2030 EU targets push growth of EU cells/batteries:** to meet the rising demand for clean energy solutions (mainly EV), driven by initiatives like the EU Green Deal, while building a EU technology leadership, producers are turning to gigafactories as a cost-effective and EU based production solution. Europe is set to see the establishment of over 50 gigafactories, with a combined maximum production capacity of 1,939GWh (at the theoretically higher expansion stage).

Map of European battery projects



Source: BatteryNews

...with an eye wide open to Hydrogen

As for the Hydrogen technology, the prospects of its potential applications and market size in the energy and power industry are still highly uncertain, with no shared views on most topics, as it was the case for LFP only a few years ago.

However, hydrogen does offer a few clear advantages over conventional batteries when it comes to long-term energy storage, thanks to its 1) high energy density (100x above lithium batteries, based on mass) and 2) very limited energy loss and performance degradation.

Hydrogen can be used as a fuel and as storage or energy carrier: operators need a large amount of stored clean energy during non-peak production hours and it allows vast quantities of clean energy to be stored for long durations for use in peak demand and seasonal energy balancing. Hydrogen can be generated from electrolysis using excess renewable electricity during peak production hours, and/or once produced, hydrogen can be used in stationary fuel cells for power generation and/or stored as a compressed gas, cryogenic liquid or wide variety of loosely bonded hydride compounds for longer-term use.

As hydrogen is the only viable carbon neutral static seasonal storage option currently available, management intend to keep investing to remain at the forefront of possible applications, including *combined* solutions (as Aliant first H₂-FC-B pilot solution).

Growth Strategy

Elsa Solutions intends to growth in both its segments of business, albeit the contribution to growth of Aliant is expected to be much stronger than E-motion, given the younger, stronger and more innovative business profile of the former and the extremely rosy prospects of lithium batteries. In particular management intends to exploit the more traditional segment of motion control by i) diversification of products and ii) broadening and internationalization of client portfolio; while as for batteries, Aliant will i) increase significantly its output capacity to cope with volumes expected from recently acquired projects, ii) expand and diversify the client base and iii) launch a new line of products based on second life batteries. A third area of R&D investment and potential source of growth for the medium term is that of fuel cell systems and hydrogen UPS, a segment just entered by Aliant. All the above strategies imply a major effort by management in terms of corporate organization and HR: ELSA has started a process to strengthen the management team and R&D department, diversify its mid management including commercial, production and business development and hire and retain additional resources in both production and technical support. Opportunities are great, but strategy is challenging: a smooth and seamless increase of battery output, thanks to the extension of the existing plant, is the first challenge ahead in terms of execution.

Different drivers and growth strategies for E-motion and Aliant

The two segments of the Company's business face different drivers and management is set to follow specific actions for each of them in order to secure steady growth ahead, namely for motion control management will focus on product, client and market diversification, while the strategy for special purpose batteries is more articulated, counterbalanced by a very attractive growth potential though.

E-motion

The key elements of E-motion strategy are the following:

- ◆ Diversification of **product offer**, by 1) adding new components, 2) moving further from offers of products to offers of automation systems, 3) entering new verticals;
- ◆ Broadening of the **client base** by acquiring new clients with recurring and rising volume needs, especially in the size bracket of €1mn annual turnover, i.e. the "large" accounts for E-motion;
- ◆ Reaching an **international** client base (today only 9% of turnover is made abroad), including the offer of direct technical assistance in the **US market**, in order to support clients in their global after sale service;
- ◆ The above elements bring as a corollary an increasing penetration with OEMs and end users (e.g. industrial or service companies) and a decreasing contribution from indirect channels as distributors and service providers (after sales).

Aliant

As for the lithium batteries, Aliant key targets in order of execution/timing are:

- ◆ A significant **increase of the battery output capacity**, thanks to i) the expansion (in progress) of the production site in Imola by additional 1,800sqm from current ca. 900sqm, ii) partial automation of the assembly phase with a new line that should be full operative from mid-2024, iii) new line and software for test and quality control. We expect the total annual capacity of Aliant for key product lines (traction batteries) could grow, by the end of FY2025, by a 3x factor compared to FY2022;
- ◆ The new production organization of the site and the redundant production spaces will allow for further **significant scalability**, with additional room for further expansion and the opportunity

of adding a new fully automatized assembly line that could push the output capacity up by a 6-8x factor compared to FY2022 with marginal capex and production disruptions,

- ◆ A faster, smoother and more automatized production process is crucial to allow the company to **move into full production all the projects already awarded** and still in development or with clients still in the process of testing prototypes;
- ◆ Acquisition of **new clients** (in progress) with acceleration of the offer activity and leveraging on Aliant strong hit rate and soaring demand in the lithium battery segment. The company's client list is diversifying and expanding month by month, especially considering that the “electrification process”, i.e. the transition from internal combustion engine to battery powered vehicles in industrial processes is still in its early stages;
- ◆ **Diversification** of OEM client in terms of sectors and markets, with special focus on US service. While this move may appear not justified by the current size of the business, it should be considered that i) costs and investments would be shared with the other business segment of ELSA (see further down) and ii) this would materially strengthen Elsa positioning towards its current and prospect clients, often requiring local after sale support for their US end users;
- ◆ Launch a new line of products based on **second life batteries** (project under development). The value proposition of adding a real “second life” for batteries between their “first life” and the recycling process is extremely interesting: repurposing and refurbishing (i.e. re-using) batteries implies that packs can be used in stationary applications which promote affordability, energy efficiency, environmental-friendliness, and sustainability. Also, while this would allow Aliant to enter the segment of storage for renewable energy power production, it would also offer existing clients a solution for a cheaper disposal of their end-of life batteries. The roll-out of the project is likely to be gradual, as the life cycle of Aliant lithium batteries is not close to its end yet, and also because Aliant’s client base (the easier captive reference market) is growing from a small base. Yet, prospects are very interesting, and Aliant may capitalise on an early mover status.
- ◆ Finally, Aliant intends to focus its R&D investments also on **hydrogen systems**, which may become a significant source of growth for the medium term. This because of a combination of two factors: 1) the Company has been a pioneer in this technology and it sold at the end of 2022 its first hydrogen fuel cell battery system, i.e. a comprehensive solution which integrates hydrogen power supply, battery energy storage, and three-phase AC power output; 2) the hydrogen technology is expected to be transformational for the long term storage needs and the sector prospects are extremely attractive, despite unclear yet.

With a few common steps for both businesses

All the above strategies for both segments do require, already in the short term, a major effort by management in terms of corporate organization, R&D and marketing/commercial presence, as this is a pre-requisite of an effective and timely execution.

In more details the critical areas of execution for both business segments are:

- ◆ **Corporate organization / HR** efforts - The Company has already began investing in its overheads (+11 units since June) as well as in its business operations in order to
 - strengthen the management team;
 - strengthen the R&D department;
 - fill a few key positions in mid management including commercial, financial controlling, production and business development (US market, second life batteries, hydrogen systems);
 - hire and retain additional resources in both production and technical support, bearing in mind that Aliant’s needs in particular are quite specific.

- ◆ **R&D** – The product diversification, the required certifications and the planned entry in the second life batteries and hydrogen system segments do require major efforts in terms of R&D investment and management focus in coming years. The first mover advantage requires these efforts to be timely and effective.

The R&D department is a key asset and will be instrumental to execute ELSA strategy. In particular, its main goals over the next years will be:

- ✓ Development of **proprietary electronics** (i.e. private labelled circuit boards and components) and components to support the E-motion offer, by increasing product differentiation and competitive advantage in Industrial Automation;
- ✓ Securing the **certifications** of process and products (ISO, RIA), required for the planned diversification in terms of markets and end-sectors already in FY2024;
- ✓ Effective and flexible integration of the **hydrogen fuel cell** technology in the Aliant battery offer, which in turn should pave the way to new end usage like ESS;
- ✓ **Proprietary automotive grade BMS** to introduce the automotive high value functionalities (e.g. safety, robustness) to the industrial applications (heavy duty and mission critical);
- ✓ Testing and monitoring of **new technologies**, as Solid State Cells to ensure early adoption and implementation of this game-changing technology in its proprietary batteries;

So far, the Company has always charged its R&D costs in the P&L, with no capitalizations, but the planned efforts on new strategic certifications may require **increasing efforts, both in terms of costs and investments** (e.g. dedicated equipment, climate cells, numerical simulation software and 3D CAD), and the change of accounting principles adopted.

- ◆ **US expansion** – for both motion control and batteries, management intend to build a local and direct presence in the US, initially leveraging on the Atlanta based US distributor and spreading investments and structure costs over the two segments. The main function of the US office is to provide support and maintenance solutions to customers with international branches and a strong US presence, ensuring efficient after sales support by Elsa.

Execution will be challenging, first test in next quarters (on new plant)

From the above considerations it emerges that the “to do” list of management is quite challenging for the next years and that the battery business will also face a certain technology risk, given the extremely high level of innovation of the industry, which in turn implies steady R&D investments.

The first test for execution capabilities of the Company will be in the next quarters, as management is expected to deliver a material and smooth expansion of Aliant production capacity, i.e. they should i) avoid disruptions during the plant expansion, with new machinery addition and overall process reorganization; ii) minimize extraordinary charges and cost duplications; iii) deliver target output and quality standards, iv) all this according to time schedule to meet rising demand.

Use of IPO proceeds

The net proceeds from the recent listing will be used to further accelerate medium term growth by implementing the following strategies in the next 12/18 months:

1. **Acceleration of increase in production capacity**, which may increase even faster than in our current assumptions / model and up to a 6-8x factor compared to 2022. The expansion currently in progress (4x output capacity by 2H2024 vs FY2022) will be achieved via a few steps, including: i) completion of the new adjacent plant (virtually completed); ii) the acquisition of a new automated production line (supply agreement to be finalized shortly), iii) installation in 1H24 (fully operational from 2H24); iv) addition of new workstations and quality control equipment; v) the ongoing hiring program within the production department;
2. **Strengthening of organizational structure**, through introduction of qualified personnel in support of the following areas / projects: financial control, business development, supply chain, assembly line, R&D, Second Life Project;
3. **Expansion of the client portfolio**, through increased marketing efforts (including specialised sector fairs/events), Italian / US sales networks development (including a potential subsidiary within the existing distributor in Atlanta), framework agreements with battery distributors, and obtainment of relevant product certifications for improved market penetration;
4. **Acceleration of R&D projects**, related to both industrial automation and battery systems (hydrogen and Second Life's project): equipment and climatic cells for product and prototype testing will be installed in 2024, along with numerical simulation software and 3D CAD;
5. **Business process improvement**, through the acquisition of process certifications (ISO 9001 and ISO 14001) and implementation of software and IT systems to strengthen internal management, sales, and production process;
6. Last but not least, the IPO allows for **better visibility** in the labour market, providing Elsa with a stronger and more attractive profile for young talents and mid management, as well as with more powerful staff retention tools.

SWOT Analysis

Elsa Solutions will face in coming years a number of very attractive opportunities, arising from the energy transition and the accelerating adoption of circular and sustainable practices in the industrial world. These trends are secular and pervasive and will offer a great chance also to smaller players like Elsa, if properly positioned in defensive niches as we see the Company.

Yet, on the other hand the technology challenge is significant as it is the execution risk of managing a strategy of exponential growth of size and complexity.

Good mix of strengths and opportunities, albeit different for the two segments

Reported in the charts below, we highlight the key elements of our SWOT analysis for each of the two business segments.

E-motion: SWOT Analysis

STRENGTHS
1. Prompt response for small customized orders with high service level and 40 years track record
2. Motion control is seen to grow by 7.0% 5-yr CAGR and is "stabilized" by maintenance business with final clients
3. Global leaders of industrial automation are based in Emilia Romagna , with strong advantage for service level
4. Clients offer good diversification and a relatively defensive and indirectly international exposure

OPPORTUNITIES
1. International Expansion in various markets (e.g., US), in synergy with Aliant
2. Expansion of product range, proprietary components and electronics (synergy with Aliant)
3. Cross selling opportunities with Aliant

WEAKNESSES
1. Margin upside is limited , as business model does not benefit from entry barrier and scale.
2. Business model requires high stocks , thus limiting scalability

THREATS
1. Potential shortage of products and supply chain disruptions would affect turnover and profitability
2. Exposure to component pricing and FX volatility
3. Exposure to Italy and EU investment cycle

Source: Value Track Analysis

Aliant: SWOT Analysis

STRENGTHS
1. EU LFP battery market is seen to grow at 15% p.a. into 2030
2. Small customized order size in special purpose and mission critical apps, make this niche unattractive to large players
3. Early mover in LFP chemistry and in hydrogen fuel cell, should now start accelerating top line and benefit from scale
4. OEM client base offers good visibility of orders (avg 5-8 year)
5. Industrial/heavy duty buz. implies good sector diversification
6. New investments provide spare capacity and fully scalable size

OPPORTUNITIES
1. International Expansion in various markets (e.g., US), in synergy with E-Motion
2. Expansion of product range with more electronics / BMS (synergy with E-Motion on electronics and cross selling)
3. Hydrogen Fuel Cell technology
4. Project for a Second Life battery-based ESS as a new line, a retention tool for clients and a progress in ESG scoring

WEAKNESSES
1. For OEM time to market is long (ca.2 years from prototype)
2. Aliant running at full capacity utilization in FY2023
3. Small scale in R&D
4. Material cash requirements ahead for capacity expansion, R&D, commercial push, rising overheads

THREATS
1. Challenging Execution of Aliant articulated strategy and of overall exponential growth
2. Potential shortage of production capacity , if expansion plans do not meet targets and/or deadlines
3. Exposure to component pricing and volume volatility (cells) and to macro-outlook (Investment cycle)
4. Major technology discontinuity

Source: Value Track Analysis

Historical Financials

Elsa Solutions in the past years reported very solid growth rates, including year 2020 (when thanks to the support of the battery business the top line witnessed a positive trend), with Revenues up by almost 30% p.a. over FY2021-2022 to €15.4mn. Gross margins stand historically around 30%, but were lower in FY2022, as the jump in raw material and transport costs was not passed onto the Aliant clients promptly enough; while EBITDA margin averaged in the high single digits (€1.4mn or 9.1% in FY2022). Growth absorbed a lot of NWC – as the motion control business requires a lot of stocks to grant service levels - and Net Financial Debt as of Dec 2022 was €6.5mn.

Elsa Solutions 1H2023 results – released on September 29th – have indicated a further robust top line growth (ca. +40% y/y) and substantially doubled EBITDA and Net Profit compared to 1H22. On the other hand, the Company experienced a further increase in debt, primarily due to the short-term working capital requirements and the investments required to expand production facilities and boost output capacity from FY2024.

Key Data & Messages

In our view, there are three main points to underline about Elsa Solution financial profile:

- 1. Top line growth pace at 29.5% CAGR₂₀₋₂₂** to €15.4mn as of FY22;
- 2. Gross Margin at 27%-30% of VoP**, weighed off by a significant raw material incidence;
- 3. Average EBITDA margin at ca. 9%** between FY20-FY22;
- 4. Significant weight of inventories at ca.35-40% of VoP** during FY20-22;
- 5. Net Debt in FY22 at €6.5mn**, burdened by higher working capital absorption related to Elsa's stock management policy aimed at minimizing risks associated with import and delivery times.

Elsa Solutions: Key Financials FY20-FY22

(€, mn)	2020	2021	2022	Δ 2022/2021
Value of Production	9.2	12.1	15.4	27.5%
Gross Profit	2.8	3.6	4.2	15.51%
Gross Margin (%)	30.3%	30.0%	27.2%	-282bps
EBITDA	0.9	1.0	1.4	38.6%
EBITDA Margin (%)	9.8%	8.3%	9.1%	+73bps
Net Profit	0.4	0.4	0.7	67.9%
Net Margin (%)	3.8%	3.5%	4.6%	+110bps
Net Financial Position	-4.0	-4.6	-6.5	-€1.9mn

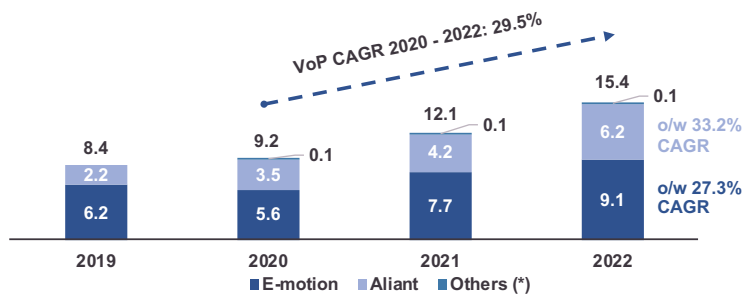
Source: Elsa Solutions, Value Track Analysis

Top line historically growing double digit

In FY20-22, Elsa Solution has been able to grow at a **29.5% CAGR** reaching €15.4mn Value of Production. This amount, historically includes ca.1% of Other Revenues (€117k in FY22) referred to income not directly attributable to the Group's core business, mainly related to transport expenses reimbursements or other cash contribution (trade fair bonus, tax credits, etc).

The business has been very resilient also in 2020, despite the pandemic, thanks to Aliant business. As far as business lines are concerned, Aliant is gradually increasing its share of turnover, moving from 26.5% in FY19 (€2.2mn) to 40.6% in FY22 (€6.2mn).

Elsa Solutions FY19-FY22: Evolution of Value of Production by Business Line

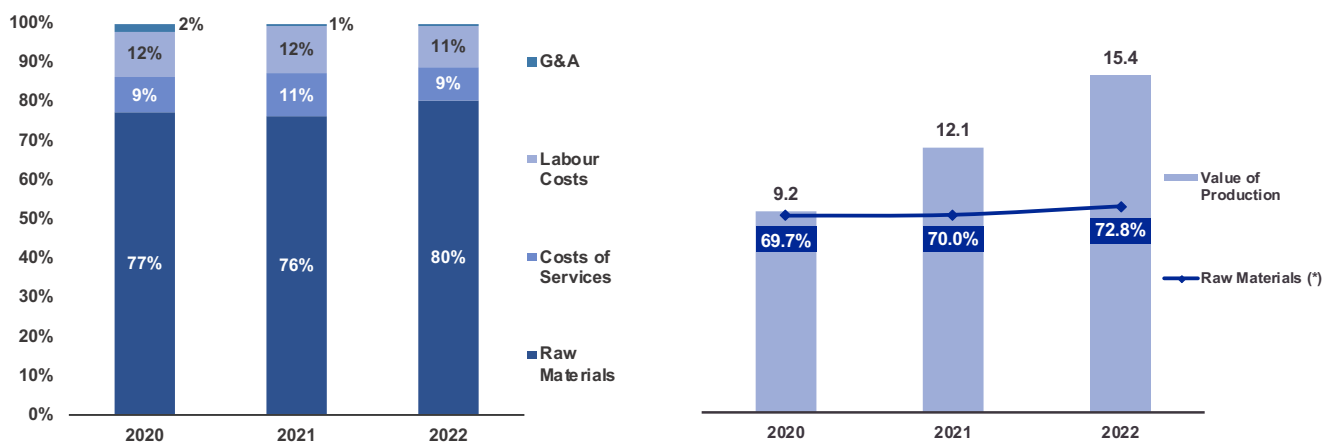


Source: Elsa Solutions, Value Track analysis, (*) Others at ca. €100k/year

Cost Analysis: Raw Materials account for ca.70% of VoP

Elsa Solutions’ total operating costs base (ex D&A) stood at roughly €14.0mn at the end of FY22, i.e. ca. 91% of Net Revenues out of which Raw materials (mainly motors/drives/inverters for E-motion and cells/circuit boards for Aliant) accounted for ca. 73% of Value of Production, while Labour costs (ca. 9.6%) and Services (ca. 8.1%, which include also the BoD/top management costs) represent, respectively, second and third most important cost item. The increasing weight of raw material costs in FY2022 was mostly due to the inflation of cells and components for batteries, combined with the fact that Aliant was not able to pass the higher costs of onto clients until the beginning of FY2023.

Elsa Solutions: Operating Cost structure (lhs) and Raw Materials incidence on VoP (rhs)



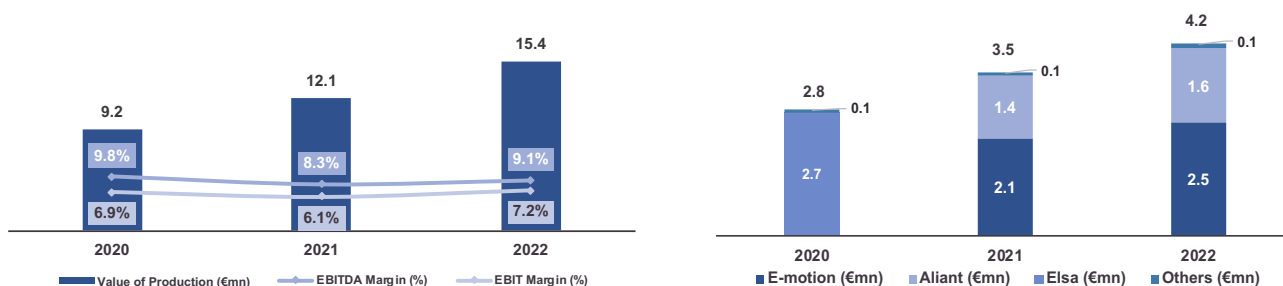
Source: Elsa Solutions, Value Track Analysis, (*) including Δ inventory

EBITDA 24.5% CAGR 2020-22, but still room for margin improvement thanks to Aliant

As for FY22 profitability, we report:

- ◆ **EBITDA** reaching **€1.4mn** (+39% y/y) and **EBITDA margin at 9.1%**, benefitting from a mix effect within the business lines and despite higher operating costs (+26.5% before D&A).
- ◆ **EBIT** reaching **€1.1mn** (vs. €0.7mn as of FY21) and **EBIT margin at 7.2%**, following EBITDA’s trend, due to broadly stable D&A (around €260k-€280k);
- ◆ **Net Profit** at **€0.7mn**, growing more than proportionally due some saving on taxes and Net Financial Charges.

Elsa Solutions: FY20-FY22: Evolution of VoP, EBITDA/EBIT Margin (lhs) and Gross Profit Breakdown by line (rhs)



Source: Elsa Solutions, Value Track Analysis

Balance Sheet & Cash Flow

At Balance Sheet / Cash Flow level we note:

- ◆ **Net fixed assets at €5.0mn**, with no significant change within the period. Of this, €4.8mn are related to tangible assets, of which €4.5mn for offices and production facilities;
- ◆ **Working capital at €6.0mn** in FY22 (at 38.7% of VoP) due to Elsa’s stock management policy aimed at minimizing risks associated with the supply chain and maximizing the service level for the E-motion business. This approach became more pronounced in FY22 due to electronic component shortages, longer delivery lead times, and volatile pricing and shipping conditions;

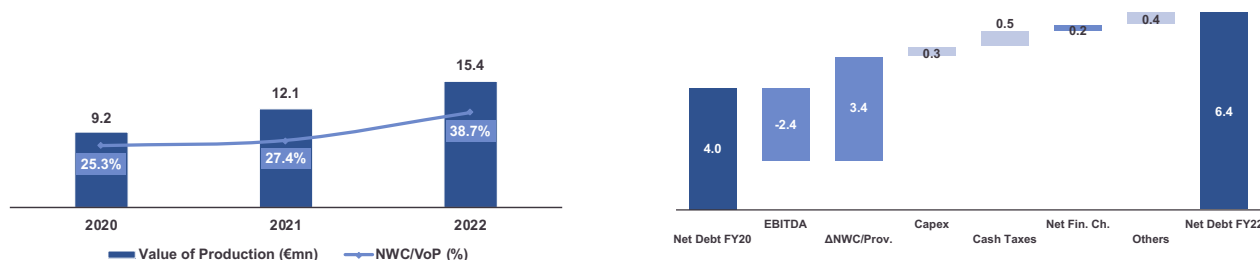
Elsa Solutions: Working Capital Structure FY20-FY22

(€, mn)	2020	2021	2022
Inventories	2.0	3.7	6.6
Trade Receivables	2.3	4.6	5.2
Trade Payables	2.2	4.8	5.8
Other Current Assets and Liabilities	0.2	-0.1	0.0
Net Working Capital	2.3	3.3	6.0

Source: Elsa Solutions, Value Track Analysis

- ◆ **Net Debt at €6.4mn**, weighed by €2.6mn Working Capital Absorption in FY22 and ca. €200k CapEx (o/w €122k related to the initial investments for the shed construction).

Elsa Solutions: VoP vs. Net Working Capital (lhs) and Net Financial Position bridge FY20-FY22 (rhs)



Source: Elsa Solutions, Value Track Analysis

P&L, Cash Flow Statement and Balance Sheet FY2020-2022

Elsa Solutions: P&L FY2020-2022

(€, mn)	2020	2021	2022
Value of Production	9.2	12.1	15.4
Raw Materials, Δ Inventory (Finished Goods)	-6.4	-8.5	-11.2
Gross Profit	2.8	3.6	4.2
Gross Margin (%)	30.3%	30.0%	27.2%
Costs of Services	-0.8	-1.2	-1.2
Costs of Rent	0.0	0.0	0.0
G&A	-0.2	0.0	0.0
Labour Costs	-1.0	-1.3	-1.5
EBITDA	0.9	1.0	1.4
EBITDA Margin (%)	9.8%	8.3%	9.1%
D&A	-0.3	-0.3	-0.3
Provisions	0.0	0.0	0.0
EBIT	0.6	0.7	1.1
Interest Expenses	-0.1	-0.1	-0.1
Other Non-Operating Income/Exp.	0.0	0.0	0.0
Pre-Tax Profit	0.5	0.6	1.0
Taxes	-0.2	-0.2	-0.3
Minorities	0.0	0.0	0.0
Net Profit	0.4	0.4	0.7
Net Profit Margin (%)	3.8%	3.5%	4.6%

Source: Elsa Solutions, Value Track Analysis

Elsa Solutions: Cash Flow FY2020-2022

(€, mn)	2020	2021	2022
EBITDA	0.9	1.0	1.4
Δ NWC	-2.3	-1.0	-2.6
Capex (excl. Financial Inv.)	-0.2	-0.1	-0.2
Δ Provisions	0.3	0.1	0.2
OpFCF b.t.	-1.3	0.0	-1.3
As a % of EBITDA	<i>nm</i>	-4.5%	-91.9%
Cash Taxes	-0.2	-0.2	-0.3
OpFCF a.t.	-1.5	-0.2	-1.6
Capital Injections	0.0	0.0	0.0
Others (incl. Financial Inv.)	0.0	0.0	-0.1
Net Financial Charges	-0.1	-0.1	-0.1
Dividends Paid	-0.1	-0.2	-0.1
Δ Net Financial Position	-1.6	-0.6	-1.8

Source: Elsa Solutions, Value Track Analysis

Elsa Solutions: Balance Sheet FY2020-2022

(€, mn)	2020	2021	2022
Net Fixed Assets	5.1	5.0	5.0
Net Working Capital	2.3	3.3	6.0
Provisions	0.3	0.4	0.5
Total Capital Employed	7.1	7.9	10.4
Group Net Equity	3.1	3.3	3.9
Net Financial Position	-4.0	-4.6	-6.4

Source: Elsa Solutions, Value Track Analysis

Positive 1H23 results in line with expected trend

Elsa Solutions released its half-year results on September 29th, showcasing robust growth (ca. +40% y/y) and substantially doubling both EBITDA and Net Profit compared to 1H22. At the same time, the Company experienced an increase in debt levels, primarily to address its short-term working capital requirements and to fund the expansion of its production site in Imola, in advance of the IPO. The June 2023 Net Financial Position does not benefit yet of the October 2023 IPO proceeds.

Elsa Solutions: Key Financials 1H22-2H23-1H23

(€, mn)	1H22	2H22	1H23	1H YoY
Value of Production	7.2	8.2	10.1	40%
Gross Profit	2.0	2.2	2.8	42%
Gross Margin (%)	27.0%	27.3%	27.5%	45bps
EBITDA	0.6	0.8	1.2	100%
EBITDA Margin (%)	8.6%	9.5%	12.3%	371bps
Net Profit	0.3	0.4	0.7	106%
Net Margin (%)	4.5%	4.7%	6.6%	212bps
Net Financial Position (EOP)	-6.4	-6.6	-7.0	-€0.6mn

Source: Elsa Solutions, Value Track Analysis

Robust top line growth, approaching +40% YoY

In 1H23, Elsa Solution has been able to grow at nearly **40% YoY**, reaching €10.1mn Value of Production. Growth was fairly uniform for the two divisions Aliant (41.2% YoY) and E-motion (39.0% YoY), accounting for 41.5% and 58.5% of the company's Net Revenues respectively. Additionally, the Value of Production includes approximately €66k of Other Revenues, which relate to the reimbursement of packaging costs and transport expenses.

Elsa Solutions: Key Financials 1H22-2H23-1H23

(€, mn)	1H22	2H22	1H23	1H23 YoY
Value of Production, o/w	7.2	8.2	10.1	39.7%
Aliant	3.0	3.2	4.2	41.2%
E-motion	4.2	4.9	5.9	39.0%
Other Revenues	0.1	0.1	0.1	13.8%

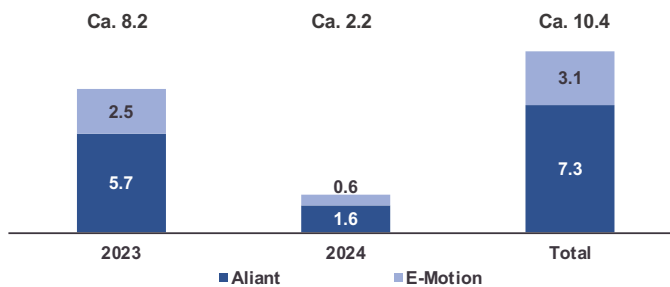
Source: Elsa Solutions, Value Track Analysis

Backlog confirms good visibility on battery segment

As of 30 June 2023, the **backlog in-house** (namely secured future revenues from already signed contracts) stood at ca. **€10.4mn**, of which ca.79.3% (€8.2mn) pertaining to 2H23 and 20.7% related to FY24E (€2.2mn).

As a matter of facts, we note that our 2H23E Net Sales estimates are already covered at 93%, while FY24E is 11% covered by the above-mentioned backlog figures. This confirms a good visibility on the short/medium-term evolution of the business.

Elsa Solutions: Breakdown of Backlog as of June 2023 by year of expected invoicing (€, mn)



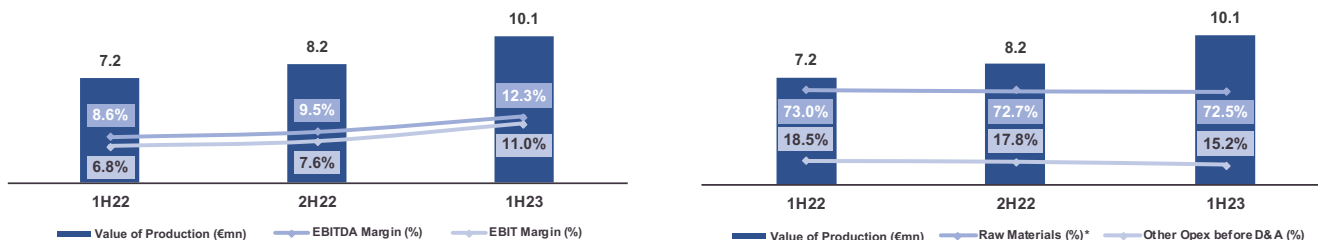
Source: Elsa Solutions, Value Track analysis

EBITDA and Net profit doubled YoY, cost structure well-managed

In terms of profitability, we report:

- ◆ **EBITDA** reaching **€1.2mn**, doubling YoY and **EBITDA margin at 12.3%** (vs. 8.6% 1H22, +371bps), despite higher operating costs base (+34.0% before D&A) related to increased operations. Still, cost structure remains well-managed, and very much under control in terms of incidence on Value of Production with respect to 1H22, with the following major swings:
 - 1) Raw materials, +38.8% due to higher purchases in response to increased orders;
 - 2) Personnel costs, +24.2% and reaching a total of 35 employees as of 30 June 2023;
 - 3) Other operating expenses (including G&A and Rent), which remained largely consistent;
- ◆ **EBIT** reaching **€1.1mn** (vs. €0.5mn as of 1H22) and **EBIT margin at 11.0%**, following EBITDA's trend, due to flat D&A (at ca. €130k);
- ◆ **Net Profit** at **€0.7mn**, doubling despite higher Net Financial Charges and taxes.

Elsa Solutions: 1H22-2H22-1H23 Evolution of VoP, EBITDA/EBIT Margin (lhs) and cost incidence on VoP (rhs)



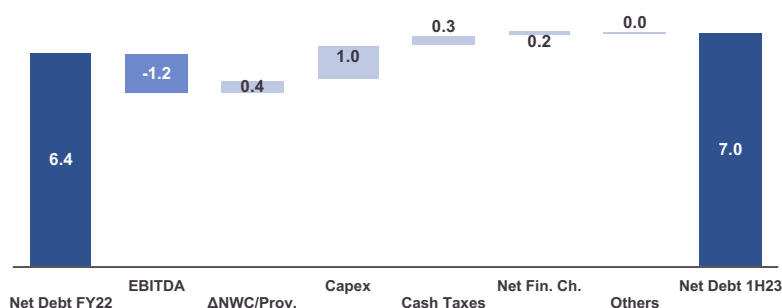
Source: Elsa Solutions, Value Track Analysis, (*) including Δ inventory

Balance Sheet & Cash Flow

At Balance Sheet / Cash Flow level we note:

- ◆ **Net fixed assets** at **€5.9mn** (vs. €5.0mn in Dec 2022), with the change almost entirely attributable to the costs associated to the expansion of the production facility;
- ◆ **Working capital** at **€6.3mn** (vs. €6.0mn in Dec 2022), reflecting increased operations leading to higher receivables, related tax items and inventories (in accordance with the aforementioned re-stocking policy), only partially offset by trade payables;
- ◆ **Net Debt** at **€7.0mn** (vs. €6.4mn in Dec 2022), primarily due to €0.4mn NWC absorption, €1.0mn investments (o/w €827k related to the shed expansion) and some €0.5mn between interest charges and taxes.

Elsa Solutions: Net Financial Position bridge FY22 - 1H23 (€, mn)



Source: Elsa Solutions, Value Track analysis

P&L, Cash Flow Statement and Balance Sheet 1H22-2H22-1H23

Elsa Solutions: P&L 1H22-2H22-1H23

(€, mn)	1H22	2H22	1H23
Value of Production	7.2	8.2	10.1
Raw Materials, Δ Inventory (Finished Goods)	-5.3	-5.9	-7.3
Gross Profit	2.0	2.2	2.8
Gross Margin (%)	27.0%	27.3%	27.5%
Costs of Services	-0.6	-0.6	-0.6
Labour Costs	-0.7	-0.8	-0.9
EBITDA	0.6	0.8	1.2
EBITDA Margin (%)	8.6%	9.5%	12.3%
D&A	-0.1	-0.1	-0.1
EBIT	0.5	0.6	1.1
Interest Expenses	0.0	-0.1	-0.2
Pre-Tax Profit	0.5	0.5	0.9
Taxes	-0.1	-0.2	-0.3
Net Profit	0.3	0.4	0.7
Net Profit Margin (%)	4.5%	4.7%	6.6%

Source: Elsa Solutions, Value Track Analysis

Elsa Solutions: Cash Flow 1H22-2H22-1H23

(€, mn)	1H22	2H22	1H23
EBITDA	0.6	0.8	1.2
Δ NWC	-2.6	0.0	-0.4
Capex (excl. Financial Inv.)	-0.1	-0.1	-1.0
Δ Provisions	0.2	0.0	0.0
OpFCF b.t.	-1.9	0.6	-0.2
<i>As a % of EBITDA</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>
Cash Taxes	-0.1	-0.2	-0.3
OpFCF a.t.	-2.1	0.5	-0.5
Capital Injections	0.0	0.0	0.0
Others (incl. Financial Inv.)	0.5	-0.6	0.0
Net Financial Charges	0.0	-0.1	-0.2
Dividends Paid	0.0	-0.1	0.0
Δ Net Financial Position	-1.6	-0.3	-0.6

Source: Elsa Solutions, Value Track Analysis

Elsa Solutions: Balance Sheet 2H22-1H23

(€, mn)	2H22	1H23
Net Fixed Assets	5.0	5.9
Net Working Capital	6.0	6.3
Provisions	0.5	0.5
Total Capital Employed	10.4	11.7
Group Net Equity	3.9	4.7
Net Financial Position	-6.4	-7.0

Source: Elsa Solutions, Value Track Analysis

Forecasts 2023E-25E

We expect ELSA to keep growing fast into 2025, driven by the Aliant business line: 24.1% Value of Production CAGR_{22-25E}, EBITDA margin up by 204bp to 11.1% in 2025E and at bottom line a 38.7% CAGR_{22-25E}. This ambitious expansion plan will require funding in terms of investments (capex for expanding production capacity first of all) and working capital (growth driven absorption), yet we expect the company to improve its financial structure, benefitting from €4.2mn of IPO proceeds (gross of related costs of ca. €0.9mn) and due to the accelerating Free Cash Flow generation, which will be clearly visible from 2025E, thus reducing net debt position to €3.7mn by 2025E. This growth path implies also a certain execution risk, mainly related to the required expansion of Aliant EK battery production capacity (minimum 4x within the next three years), the strengthening of the organization at various levels and R&D focus.

Forecasts guidelines

As for our 2023E-25E financial estimates, it is worth to underline the following considerations:

- ◆ Reporting and forecasts are built in accordance with IFRS GAAP principles (OIC);
- ◆ The split of profitability of the two business lines (both historical and forecasted) is an estimate;
- ◆ Our model is “post-money”, i.e. it does factor the capital injection from IPO, and a use of proceeds consistent with the growth strategy and with a gradual rebalancing of the capital structure.

Key Forecasts

In our base case, Elsa Solutions key financials should evolve as follows:

- ◆ **Value of Production** increasing at 24.1% CAGR_{2022-25E} to **€29.4mn in 2025E**;
- ◆ **Gross Profit at €8.8mn in 2025E**, improving current levels of Gross Margin;
- ◆ **EBITDA at €3.3mn in 2025E**, growing much faster than top line, with **Margin at 11.1% in 2025E**, gaining ca.200bps in the next three years;
- ◆ **Net Debt to €3.8mn in 2025E**, with Elsa Solutions starting to generate some relevant FCF in the same year after two years of strong investments to support growth.

Elsa Solutions: Key Financials FY22A-FY25E

(€, mn)	2022	2023E	2024E	2025E	22-25E CAGR*
Value of Production	15.4	18.9	23.6	29.4	24.1%
Gross Profit	4.2	5.3	6.7	8.8	28.3%
Gross Margin (%)	27.2%	28.0%	28.5%	30.0%	3.4%
EBITDA	1.4	1.8	2.1	3.3	32.8%
EBITDA Margin (%)	9.1%	9.8%	8.7%	11.1%	204bps
Net Profit	0.7	0.9	1.0	1.9	38.7%
Net Margin (%)	4.6%	4.7%	4.2%	6.4%	181bps
Net Financial Position	-6.4	-5.0	-4.7	-3.8	€2.7mn

Source: Elsa Solutions, Value Track Analysis, (*) Δ bps for margins

Profit & Loss Account

Revenues from Sales growing at 24% CAGR

We forecast Elsa Solutions to reach **Revenues from Sales of €29.3mn in 2025E**, almost doubling compared to FY22, and **revenues breakdown to revert in favor of Aliant**.

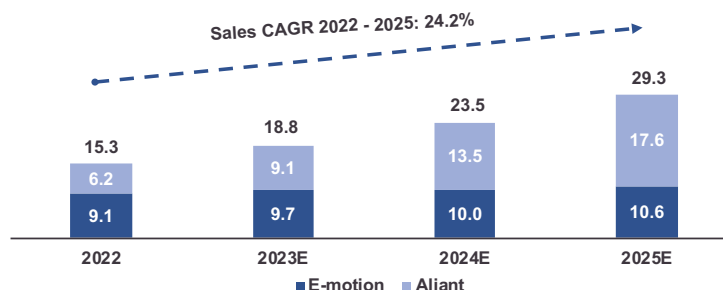
This is due to the recurring nature of **Aliant** core battery orders (EK lines), which combined with the solid flow of new clients/orders over FY2022 and FY2023 to date, is expected to generate a compounding effect on sales. In fact, as already described, once the order goes in production (SOP, Start of Production), it is repeated from the OEM clients for an average of 6/7 years, i.e. the lifespan of the final product. In addition, volumes and/or value of orders often tend to growth from the first/initial one, as the client's business grows, it extends the use of Aliant batteries to other models or it requires more powerful batteries.

As for **E-motion** we assume short-term growth to exhibit a slight deceleration compared to the long-term industry growth, with a subsequent recovery expected from 2025 onward. This is due to two opposite drivers we expect to compensate: i) on the one hand we expect the product range of the Company to keep widening and the contribution of the new proprietary electronics & components (i.e. private labelled circuit boards and components) to support ELSA competitive positioning and market share, but ii) on the other hand demand for Industrial Automation may slow down in coming quarters below its long term growth trend, due to the macro elements already outlined.

As a result, we expect Revenues to grow,

- ◆ for **E-motion at 5.3% CAGR_{2022-25E} to €10.6mn in 2025E** (36% of VoP);
- ◆ for **Aliant at 44.5% CAGR_{2022-25E} to €17.6mn in 2025E** (64% of VoP).

Elsa Solutions: Revenues from Sales and evolution



Source: Value Track Analysis

While Aliant's pace of growth may seem ambitious at first sight, we believe it to be at reach as:

- 1) it is fully supported by the planned **increase of production capacity**, which is poised to be by the end of FY2025 ca. four times stronger than in FY2022;
- 2) 2024E revenues are supported by a strong **backlog** (€10.4mn as of Sept 2023);
- 3) 2024/25E volumes are driven on the one hand by the **existing orders under production** (recurring) and on the other hand by the **new projects we expect to enter production** in the next quarters, being acquired in FY2022-2023 and currently in the prototyping or pre/prototyping phase;
- 4) track record suggests that ongoing customer relationships have consistently resulted in **recurring orders with increasing value**, as from the two examples described in the chart below, where following the successful introduction of the first electric vehicle, these clients started

receiving requests for electrification across their full product range and Aliant benefitted with material increases in the value of annual orders;

- 5) the potential growth of recurring orders described above is hard to predict and it is not factored in our model **over the forecast horizon**, hence this simply may represent a **potential upside**;
- 6) **over the longer term**, on the contrary, we assume new orders acquired from FY2024 - and to start to provide full contribution to the Company top line from FY2026 - to have increasing average values. This should capture the trend of increasing demand for more powerful batteries and may somehow incorporate the impact of “organic growth”: it is expected to support long term growth of Aliant once orders in SOP since 2019-2020 will start running out of production (end of product lifespan).

Two cases of order evolution: sweepers manufacturer (lhs) and agriculture vehicles manufacturer (rhs), in volumes



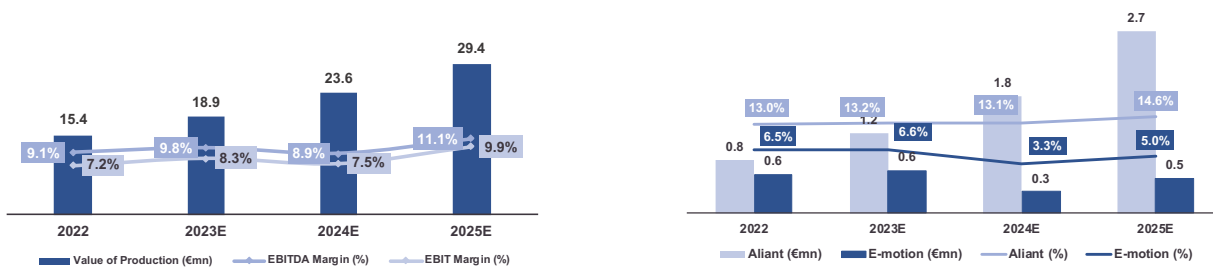
Source: Elsa Solutions, Value Track Analysis

Profitability expected to benefit from a favourable revenue mix evolution

Our main assumptions as for profitability and margins are the following:

- ◆ **Gross Margin** progressively back to 2020-2021 levels (ca.30% of VoP) due to the normalization of costs of raw materials and to the price adjustments of Aliant products (started in Q1 2023), after the volatility recorded in FY2022. Gross Profit should reach **€8.8mn in 2025E**;
- ◆ **EBITDA Margin** gradually improves toward **11.1% in 2025E**, benefitting from the normalization of gross margins and by the increasing contribution of Aliant which we estimate to boast much higher margins. Still, we expect profitability to experience a modest contraction in FY24E, due to the increased cost structure (headcounts, roll-out of new capacity, R&D, product diversifications) to exploit growth potential also thanks to the IPO, combined with the subdued performance of E-motion expected for the next quarters;
- ◆ **EBIT** pressured from higher D&A (following capex completed to expand production capacity and IPO cost amortization) but getting to **€2.5mn in 2025E**, ca. 8.9% EBIT Margin;
- ◆ **Net Profit** growing at **€1.9mn in 2025E**, assuming higher net financial charges /cost of debt and a broadly stable tax rate.

Elsa Solutions: VoP, EBITDA & EBIT Margins evolution (lhs); EBITDA and EBITDA Margin by business line



Source: Elsa Solutions, Value Track Analysis

Elsa Solutions: P&L FY22-FY25

(€, mn)	2022	2023E	2024E	2025E
Value of Production	15.4	18.9	23.6	29.4
Raw Materials, Δ Inventory	-11.2	-13.6	-16.6	-20.6
Gross Profit	4.2	5.3	7.0	8.8
Gross Margin (%)	27.2%	28.0%	29.5%	30.0%
Costs of Services	-1.2	-1.5	-2.0	-2.5
Costs of Rent	0.0	0.0	-0.2	-0.2
G&A	0.0	-0.1	-0.1	-0.1
Labour Costs	-1.5	-1.9	-2.6	-2.7
EBITDA	1.4	1.8	2.1	3.3
EBITDA Margin (%)	9.1%	9.8%	8.9%	11.1%
D&A (excl. Goodwill)	-0.3	-0.3	-0.3	-0.3
EBIT	1.1	1.6	1.8	2.9
Interest Expenses	-0.1	-0.3	-0.3	-0.2
Other Non-Operating Income/Expenses (including FX)	0.0	0.0	0.0	0.0
Pre-Tax Profit	1.0	1.3	1.5	2.7
Taxes	-0.3	-0.4	-0.4	-0.8
Net Profit	0.7	0.9	1.0	1.9
Net Profit Margin (%)	4.6%	4.7%	4.4%	6.4%

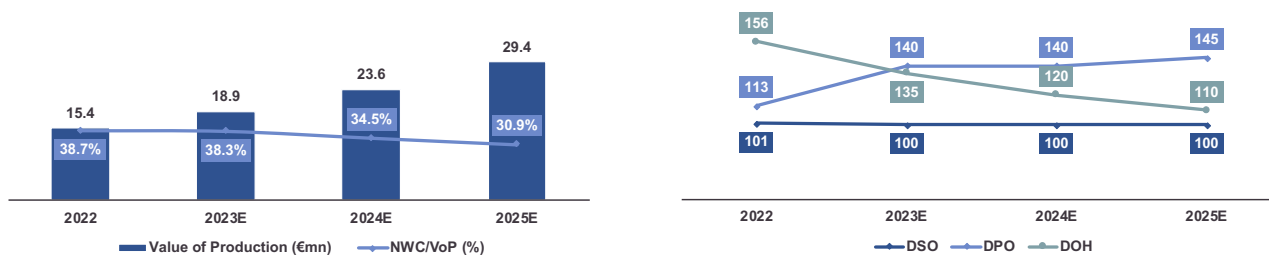
Source: Elsa Solutions, Value Track Analysis

Balance Sheet & Cash Flow Statement

The described rapid growth will necessarily absorb cash over a 12/24-month horizon, in more details:

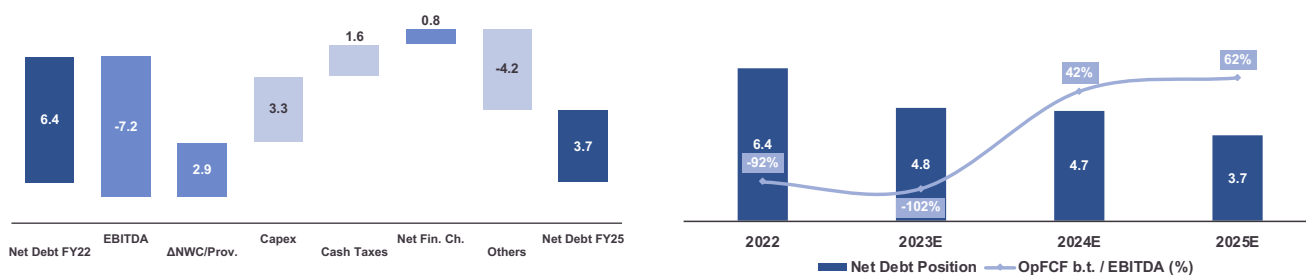
- ◆ **Net Debt** at €3.7mn in FY25E, clearly benefitting from €4.2mn gross IPO proceeds, €3.3mn net of the €0.9mn IPO costs (capitalized and included in the capex line), which are entirely absorbed by Capex and working capital needs; we expect FCF generation to be mostly visible starting from FY25E.
- ◆ **Net Working Capital** declining to ca.31% of VoP in 2025E after a normalization of stock levels;
- ◆ **Net Fixed Assets** to peak at €7.3mn in 2024E due to sizeable capex mostly devoted to the expansion of production capacity.

Elsa Solutions: FY22-25E NWC on VoP (%), (lhs) and Cash Conversion Cycle (days, rhs)



Source: Value Track Analysis

Elsa Solutions: Net Debt bridge (lhs) and Net Debt & OpFCF/EBITDA Evolution (rhs)



Source: Value Track Analysis

Elsa Solutions: Balance Sheet FY22-FY25

(€, mn)	2022	2023E	2024E	2025E
Net Fixed Assets	5.0	7.2	7.3	7.3
Net Working Capital	6.0	7.3	8.1	9.1
Provisions	0.5	0.6	0.7	0.8
Total Capital Employed	10.4	13.8	14.7	15.6
Group Net Equity	3.9	9.0	10.1	11.9
Net Financial Position	-6.4	-4.8	-4.7	-3.7

Source: Elsa Solutions, Value Track Analysis

Elsa Solutions: Cash Flow FY22-FY25

(€, mn)	2022	2023E	2024E	2025E
EBITDA	1.4	1.8	2.1	3.3
Δ NWC	-2.6	-1.3	-0.9	-0.9
Capex (incl. IPO cost in FY23E)	-0.2	-2.5	-0.4	-0.4
Δ Provisions	0.2	0.1	0.1	0.1
OpFCF b.t.	-1.3	-1.9	0.9	2.0
As a % of EBITDA	-91.9%	-101.9%	42.3%	62.3%
Cash Taxes	-0.3	-0.4	-0.4	-0.8
OpFCF a.t.	-1.6	-2.3	0.4	1.2
Capital Injections (gross)	0.0	4.2	0.0	0.0
Others	-0.1	0.0	0.0	0.0
Net Financial Charges	-0.1	-0.3	-0.3	-0.2
Dividends Paid	-0.1	0.0	0.0	0.0
Δ Net Financial Position	-1.8	1.6	0.1	1.0

Source: Elsa Solutions, Value Track Analysis

Valuation

We start coverage on ELSA Solutions with a €4.0 fair equity value p/s (€14.7mn equity value), calculated as average of two valuation methodologies: peers' analysis at maturity, split by business and focused on 2025E financials, and DCF model, both including assumptions and/or sensitivity analyses to assess and incorporate the risk related to early development phase, i.e. execution strategy, growth management. Our fair valuation implies for 2024E multiples which may appear demanding relative to peers, yet one should consider that i) its rating is supported by the strong growth into FY2025E (>30% EBITDA and Net Profit CAGR22P-25E) and the acceleration expected after FY2025E, and ii) FY24E margins are affected by the "dilutive" impact of the increased costs to support growth (new products, stronger R&D and organization, etc.), also in the light of recent IPO. Multiples should "converge" towards 0.6x EV/Sales, 5.6x EV/EBITDA and 7.9x P/E in 2025E (at fair value), at discount to current (undemanding) peers' FY23-24E ratings. Lastly, we note that the indications coming from DCF and market multiples valuations (€3.0 and €5.0 per share respectively) imply at the moment a wide gap, with the current market price (up 120% from IPO price) more aligned to the former and discounting most of the medium-term earnings potential.

Elsa Solutions Fair Equity Value

We calculate a fair value per share at **€4.0**, derived with two valuation methodologies:

- ◆ **Peers analysis at maturity, based on the two business lines**, justified by two needs, i.e. i) factoring the different positioning, prospects and peers of the two business lines, and ii) consider that Aliant is in a scale-up phase and is expected to face a strong acceleration over FY2023-2024. This valuation method returns an average equity value of €11.0mn (**€3.0 per share**);
- ◆ **DCF model on rolling and target capital structures** (average value of **€5.0 per share**), assessing ELSA Solutions potential on the medium/long-term horizon, with WACC embedding a "small cap" risk premium.

At our fair value the stock would trade at **0.8x EV/Sales, 9.2x EV/EBITDA, and 14.2x P/E for 2024E**, supported by strong growth at operating margins and bottom line (>30% CAGR_{22-25E}) and by the steady acceleration expected from FY2025E onwards, given Elsa Solutions business model in its Aliant division.

Elsa Solutions: Sensitivity of implicit stock trading multiples

Stock Price	EV / Sales (x)			EV / EBITDA (x)			P / E Adj.(x)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
€ 2.5	1.0	0.8	0.6	10.0	8.8	5.3	15.3	13.3	7.3
€ 3.5	1.0	0.8	0.6	10.3	9.0	5.5	15.9	13.8	7.6
€ 4.0	1.0	0.8	0.6	10.6	9.2	5.6	16.4	14.2	7.9
€ 4.5	1.1	0.8	0.6	10.8	9.5	5.8	17.0	14.7	8.1
€ 5.5	1.1	0.9	0.7	11.1	9.7	5.9	17.5	15.2	8.4

Source: Value Track Analysis

#1 Peers Analysis at Maturity

Our valuation at maturity starts from the expected financial KPIs of ELSA Solutions and its business lines in a future year, when the business has undergone a ramp-up of sales and margins, in our case we are taking FY2025E.

At this point we have two possible approaches:

1. we try to figure out the potential Enterprise Value “at maturity”, i.e. in 2025, of each business line and the sum of the two, by applying traditional valuation techniques (e.g. EV/EBITDA), and then we discount this value to present, with a sufficiently high discount rate in order to capture both the intrinsic risk of the Company business, the execution risk and its potential funding needs;
2. we simply consider the current valuation of peers, for each business line, on their 2025E multiples and apply these to 2025E KPIs of ELSA businesses. In this case we get directly to the current valuation of ELSA business lines and of the whole company.

Despite the need of a valuation at maturity is mostly related to the battery business, while motion control could be valued on FY23E-24E multiples, for the sake of simplicity, both business lines are valued through peers’ analysis at maturity (FY2025E). This may appear penalizing for E-motion, also in the light of the hurdle rate applied (25%) for a business with low intrinsic risk; however, given its high stock levels and the risk that the expected macro-driven slowdown in the investment cycle is stronger than expected, we rather stay on the safe side.

Choice of Comparables

In both cases above, we need a relatively good set of peers for each business and our clusters are composed by the following comparables, mostly represented by domestic names, due to the Company’s size and reference market (especially for motion control):

- ◆ **Aliant peers**, firms directly operating in the battery/storage systems industry (Seri Industrial, Aton Green Storage, Energy) or indirectly involved in the sector (Cembre, Tenax International); here we have considered also a few international peers (EU and US), whose economics are however not very meaningful over FY2023-2024, as they are growing very fast, but investing heavily and reporting all negative margins;
- ◆ **E-motion peers**, names of the Industrial Automation sector, all domestic and operating in various businesses pertaining to the production of industrial equipment and machineries.

Elsa Solutions: Peers' Market Positioning

Peers	HQ	Business	Mkt Cap (€mn)	Sales 2023E (€mn)	EBITDA Margin 23E (%)
Aliant Peers					
Seri Industrial	Italy	Energy Storage	148	249	10.7
Energy	Italy	Energy Storage	71	85	18.3
Aton Green Storage	Italy	Energy Storage	40	51	19.7
Cembre	Italy	Connectors and Cables	538	219	29.6
Tenax	Italy	Sweepers	10	21	9.3
Lion e-mobility	Germany	Energy Storage	25	60	n.m.
Forsee Power	France	Energy Storage	188	164	n.m.
Microvast	US	Energy Storage	389	335	n.m.
Proterra	US	Energy Storage & Transit vehicles	14	437	n.m.
E-motion peers					
Esautomotion	Italy	Electric components	59	41	26.4
LU-VE	Italy	Electric components	411	631	12.7
Marzocchi Pompe	Italy	Industrial hydraulics	27	51	17.0
Comer Industries	Italy	Industrial machinery	763	1,253	16.5
SIT	Italy	Industrial machinery	60	325	8.2
Elsa Solutions	Italy	Automation/batteries	21	19	9.8

Source: Value Track Analysis (USD/EUR rate @ 0.95)

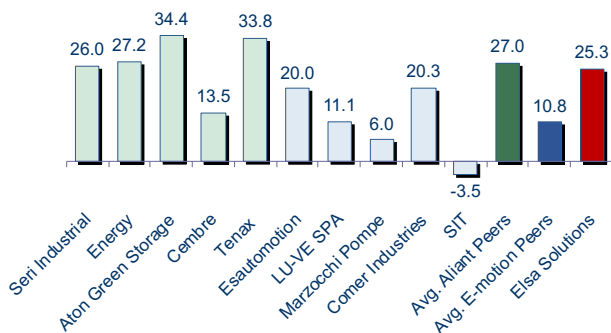
Operating Benchmark

In comparing Elsa Solutions with selected peers we point out that from an operating point of view it is useful to consider the two business lines separately, given these industries' outlook is very different, while we watch at Elsa Solution as a whole when considering Company's returns and leverage. In addition, given that international peers are still loss making, we do not include them; however, we point out that these four names are expected to report top line growth rates over 2022-24E of 51.6% (average CAGR). In particular, as for

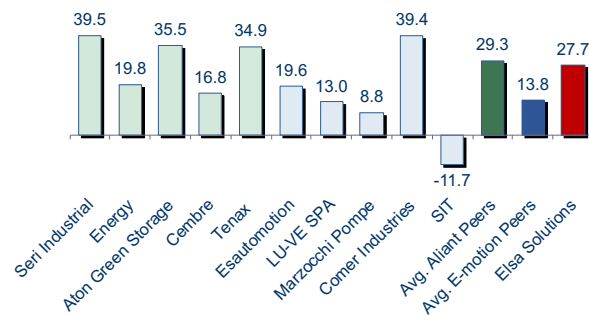
- 1. Expected Growth.** We expect the Company to grow **in between domestic peers and international names as for batteries**, (2022-24E CAGR for Aliant 47.3%, domestic peers 27.0%, international names 51.6%); while **for motion control** our assumptions are **below** those of **peers**, which in Industrial Automation are expected to at an approximately doubled rate compared to 5.3% of E-motion, as shown in the charts below;
- 2. Operating Profitability.** Elsa Solutions should grow also at profitability level (EBITDA Margin from ca. 9.6% to 11.1% 2023-2025E), but we forecast **margins well below the average of peers** for both Aliant and E-motion with EBITDA Margin 2024E at 14.6% - 5.0%, respectively, while peers of both clusters stay at mid double digit;
- 3. Financial Leverage.** We estimate that even **including the IPO** proceeds, the Company will have to accept a slightly **higher leverage than competitors** to fund expansion, with de-leveraging expected not earlier than 2025E;
- 4. Return on Capital.** We expect Elsa Solutions to report a ROCE of ca. 11%, ca. 24% below its peers, also due to material CapEx planned in current year.

Elsa Solutions: Benchmark vs. Domestic Peers (CAGR 2022-24)

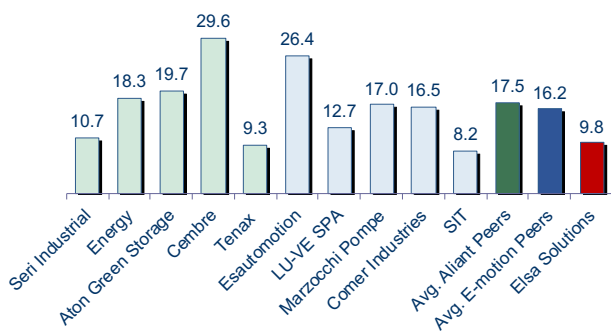
2yr Sales CAGR (%)



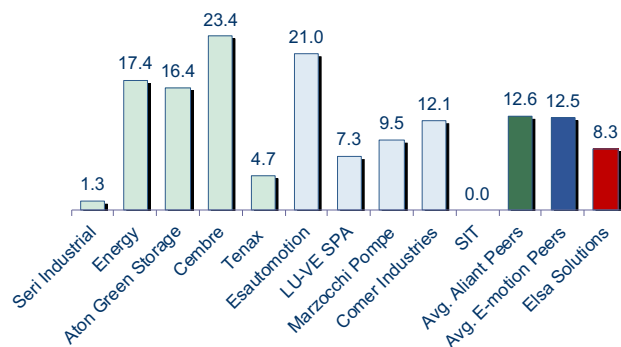
2yr EBITDA CAGR (%)



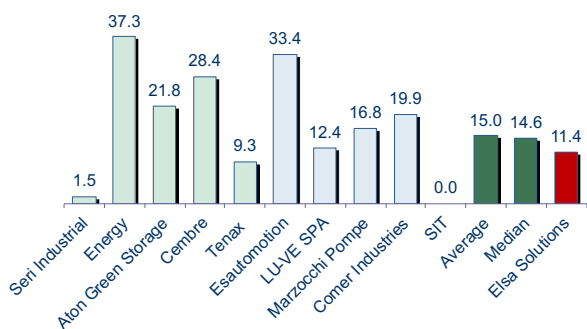
EBITDA Margin 2023E (%)



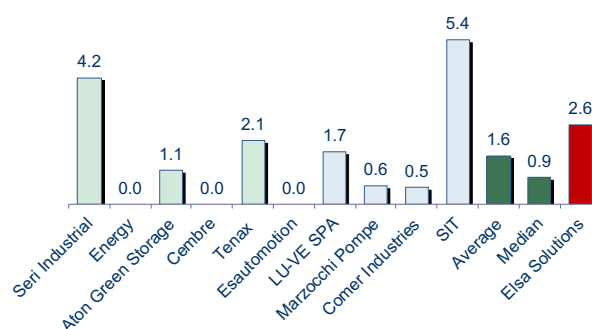
EBIT Margin 2023E (%)



ROCE 2023E (%)



Net Debt / EBITDA 2023E (x)



Source: Market Consensus, Value Track Analysis

Trading Multiples Benchmark

Overall, we observe that the multiples of both clusters are not excessively fragmented and are not far from each other. In particular, with reference on FY2023E-2024E:

- ◆ **Aliant** cluster **peers** trade at average **6.5x-4.7x EV/EBITDA** and **1.0x-0.8x EV/Sales**;
- ◆ **E-motion** cluster **peers** trade at average **5.8x-4.6x EV/EBITDA** and **0.9x-0.7x EV/Sales**.

Elsa Solutions: Peers' Trading Multiples

Peers	EV/Sales (x)			EV/EBITDA (x)			P/E Adj. (x)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Aliant Peers									
Seri Industrial	1.0	0.8	0.7	9.8	4.9	4.6	nm	8.1	7.9
Energy	0.5	0.3	0.2	2.6	1.8	1.2	6.9	6.0	5.0
Aton Green Storage	1.0	0.9	0.8	5.2	4.4	3.7	7.2	6.2	5.4
Cembre	2.4	2.1	1.8	8.0	7.0	6.1	14.0	12.7	11.6
Tenax	0.6	0.5	0.4	6.9	5.1	4.2	19.3	12.1	10.7
Lion e-mobility	0.7	0.4	0.3	nm	nm	nm	nm	nm	nm
Forsee Power	1.3	1.0	0.8	nm	nm	nm	nm	nm	nm
Microvast	1.2	0.6	0.4	nm	nm	nm	nm	nm	nm
Proterra	0.0	nm	0.0	nm	nm	nm	nm	nm	nm
Aliant Peers - Average	1.0	0.8	0.6	6.5	4.7	4.0	11.9	9.0	8.1
Aliant Peers - Median	1.0	0.7	0.4	6.9	4.9	4.2	10.6	8.1	7.9
E-motion Peers									
Esautomotion	1.3	0.9	0.7	4.9	3.4	2.5	9.2	6.7	5.9
LU-VE SPA	0.9	0.8	0.7	6.8	6.0	5.4	13.3	11.7	9.8
Marzocchi Pompe	0.7	0.6	0.5	4.0	3.2	2.9	8.3	7.3	5.8
Comer Industries	0.9	0.8	0.7	5.3	4.7	4.2	7.5	7.2	6.5
SIT	0.6	0.6	0.5	7.7	5.7	4.9	nm	20.3	7.0
E-motion Peers - Average	0.9	0.7	0.6	5.8	4.6	4.0	9.6	10.6	7.0
E-motion Peers - Median	0.9	0.8	0.7	5.3	4.7	4.2	8.8	7.3	6.5
Total Average	0.9	0.8	0.6	6.1	4.6	4.0	10.7	9.8	7.5
Total Median	0.9	0.8	0.6	6.1	4.8	4.2	8.8	7.7	6.7

Source: Value Track Analysis

Valuing Elsa Solutions at maturity

Our estimates on Elsa Solutions outline an acceleration phase in the next years and we believe more solid financials for an assessment “**at maturity**” **should be achieved in 2025E**, the year in which the company should reach a level of EBITDA around €3.3mn. This concept of *maturity* refers mostly to the company scale and its life cycle in the battery business, while we do not see Elsa Solution *mature* in terms of growth potential at all – we would rather expect a further acceleration of the battery business after FY2025E, based on recent new clients’ acquisitions, on FY2024 “investments” and on likely organic growth of existing clients and potential news on new project and technologies (hydrogen).

As anticipated, in order to focus on Elsa Solutions valuation “at maturity”, we follow two approaches:

1. We forecast what could be the value of ELSA two business lines in FY2025, assuming that i) the company could be valued in line with its peers and ii) the sector multiples are broadly unchanged, i.e. the sector does not materially re-rate/de-rate compared to today. In short, we apply to ELSA 2025E KPIs the **current 2023E multiples of the comparable companies** identified above: average **6.5x-5.8x EV/EBITDA for Aliant and E-motion respectively**. Then, as this is the valuation expected for 2025, in order to calculate the expected equity value as of today, we apply a **25% IRR**, consistent with investments in expansion phase, where there’s still risk of execution and of further potential funding needs.
2. We simply look at **peers’ multiples on year 2025**, corresponding to **4.0x FY25E EV/EBITDA** for both Aliant and E-motion. This method is more straightforward, while it probably discounts the low visibility on macro-outlook on the one side, but does not incorporate the higher execution risk of ELSA compared to listed and larger peers on the other side.

Elsa Solutions: Peers’ multiples at Maturity by business line

(€, mn)	Aliant	E-motion
EBITDA 2025E	2.7	0.5
Target FY1 EV/EBITDA	6.5x	5.8x
EV Business Line at 2025E	17.9	3.1
EV Elsa Solutions at 2025E	21.0	
Net Debt 2025E	-3.7	
Equity at 2025E	17.3	
(1) Equity (discounted at 25% IRR)	12.6	
EBITDA 2025E	2.7	0.5
EV/EBITDA 2025E (peers’)	4.0x	4.0x
EV Business Line	10.9	2.1
EV Elsa Solution	13.1	
Net Debt 2025E	-3.7	
(2) Equity	9.4	
Equity mid-point (1) & (2)	11.0	

Source: Elsa Solutions, Value Track Analysis

#2 DCF Valuation

We run a DCF model on the Company as a whole and calculate a **fair Equity Value** per share of **€5.0**, depending on Elsa capital structure. Our DCF assumptions are:

- ◆ reference date Dec 2023, with 2024E-30E as explicit forecasts time horizon;
- ◆ 2% Perpetuity Growth Rate (“g”);
- ◆ TV calculated with perpetual growth model, which implies exit multiples at discount to current FY23E market multiples, i.e. between 4.6x and 5.2x EV/EBITDA;
- ◆ 2.0% risk-free rate in line with medium/long-term ECB inflation target;
- ◆ 1.1 unlevered beta, i.e. the average of estimates for Electric components, Machinery, Auto & Truck (Source: Damodaran);
- ◆ 6.45% implied Italian equity risk premium (Source: Damodaran);
- ◆ 2.5% Elsa Solutions specific small-size / execution risk premium;
- ◆ 3.0% pre-tax and 2.3% after-tax cost of debt.

On a rolling capital structure, Elsa Solutions WACC starts from 10.3% in 2023E (35% Net Debt/Total Capital Employed) and lands at 11.6% in 2030E (Net Cash). At target 30% leverage structure, Elsa Solutions WACC is fixed at 10.5% for the whole period.

Elsa Solutions: DCF Model outcomes

€mn	Rolling Capital Structure	Target Capital Structure
PV of Future Cash-Flows 2024E-2030E	6.9	7.2
PV of Terminal Value 2030E	14.5	17.8
Fair Enterprise Value	21.4	25.0
Net Financial Position 2023E	-4.8	-4.8
Adjustments	0.0	0.0
Fair Equity Value	16.6	20.2
Fair Equity mid-point		18.4
Fair Equity value p/sh		5.0

Source: Value Track Analysis

Elsa Solutions: Sensitivity of DCF Model @ Target Capital Structure

Fair Equity Value (€mn)		Perpetuity Growth (%)				
		1.00%	1.50%	2.00%	2.50%	3.00%
WACC (%)	9.5%	21.4	22.7	24.2	25.8	27.7
	10.0%	19.7	20.8	22.0	23.4	25.1
	10.5%	18.1	19.1	20.2	21.4	22.7
	11.0%	16.7	17.6	18.5	19.5	20.7
	11.5%	15.4	16.2	17.0	17.9	18.9

Source: Value Track Analysis

Appendix – Peers' Description

Aliant: Peers' Business Profile

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

Energy – The Company is primarily engaged in the Industry of storage systems for energy from renewable sources on residential, commercial and industrial market and also dedicated to Utilities and Electric Mobility.

Aton Green Storage – It operates in the engineering and production of storage equipment for photovoltaic systems. The Company provides an Industrial line of production of electronic boards for air conditioning systems for trains and battery remote control systems for forklifts, charging systems for electric cars. It operates locally.

Cembre – Manufacturer of electrical compression connectors and cable accessories for panel building and installation, medium voltage cables and other applications, operating through several subsidiaries based in the United Kingdom, France, Spain, Norway, Germany, the United States as well as Italy.

Tenax – Tenax designs and produces low-voltage, fully electric road sweepers and street washers, with a wide range of customized solutions, which can be combined with a modular range of low-voltage battery chargers and completely interchangeable batteries.

Lion e-mobility – Lion e-mobility is a German fully automated producer of lithium-ion (NMC and LFP) battery packs for a wide range of applications such as buses, commercial vehicles, marine, industrial vehicles but also stationary energy storage with an annual production capacity of 2 GWh, the equivalent to 45k battery packs.

Forsee Power - Forsee Power (France) designs and manufactures smart battery systems for electromobility markets that require complex battery systems with high value-add: Light Vehicles (two/three-wheelers, go-karts, small autonomous and robotic vehicles) and Heavy Vehicles (buses, special trucks, off-highway vehicles, trains and ships).

Microvast - It is a global leader in lithium-ion batterie (LTO, LFP, NMC), vertically integrated with full control from R&D, to manufacturing of battery packs and energy storage system (ESS), including core battery chemistry and with established manufacturing worldwide. It provides solutions for many industries, including CEV, utility-scale ESS, heavy equipment.

Proterra - Proterra Powered & Energy line produces i) proprietary battery systems and electrification solutions for global commercial vehicle OEMs and ii) turnkey fleet-scale, high-power charging solutions and software services; Transit line is an OEM of electric transit buses for US public transit agencies, airports, universities, and other commercial transit fleets.

E-motion: Peers' Business Profile

Esautomotion – B2B manufacturer of electronic components for industrial automation purposes, and more specifically computer numerical control (CNC). The Company's product offering includes CNC for bending applications, applications, Motors and Drives, Remote Peripheral Modules, and Cutting Heads.

LU-VE – Electrical components and equipment company primarily focused on refrigeration and air conditioning products. Offers a wide range of commercial and industrial coolers, condensers, and accessories with global footprint.

Marzocchi Pompe – Manufacturer of pumps and pumping equipment, specialized in external gear pumps and motors, with a wide product offer for various applications, as micro hydraulics, displacement, flanges, shafts, and porting.

Comer Industries – Technology company specializing in power transmission systems for agricultural and industrial machinery: engineering systems and mechatronic solutions to manufacturers worldwide, in agricultural, construction, forestry, marine, and renewable energy industries.

SIT – Components and systems manufacturer for Industrial machinery and equipment, focused on security and control systems for domestic gas appliances. Produces gas mutters, controls, fans, sensors, exhaust kits for boilers, stoves, and range hoods. Operates globally with subsidiaries and manufacturing sites in many countries.

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LA MANGATA OSSERVANZA DI TALI RESTRIZIONI POTREBBE COSTITUIRE UNA VIOLAZIONE DELLE LEGGI DEGLI STATI UNITI, CANADA, GIAPPONE O AUSTRALIA O DELLE ALTRE GIURISDIZIONI. IL PRESENTE DOCUMENTO NON COSTITUISCE O FORMA PARTE DI, NE' VA CONSIDERATO IN ALCUN MODO, UN'OFFERTA O UN INVITO PER LA SOTTOSCRIZIONE O L'ACQUISTO DI STRUMENTI FINANZIARI. NÈ IL PRESENTE DOCUMENTO NÈ QUANTO IN ESSO CONTENUTO NON COSTITUISCE INOLTRE UNA PROPOSTA CONTRATTUALE OVVERO UN'ASSUNZIONE DI OBBLIGHI DI QUALSIASI GENERE. IL PRESENTE DOCUMENTO NON È STATO PUBBLICATO MA È SOLAMENTE STATO MESSO A DISPOSIZIONE DI INVESTITORI QUALIFICATI. QUALSIASI DECISIONE DI SOTTOSCRIVERE O ACQUISTARE LE AZIONI NELL'AMBITO DELL'OFFERTA DOVRÀ QUINDI FONDARSI ESCLUSIVAMENTE SULLE INFORMAZIONI CONTENUTE NEI DOCUMENTI DI OFFERTA PRODOTTI IN CONNESSIONE ALL'OFFERTA. 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