

Euronext Growth Milan



FY23 Earnings Season

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FTSE Italia Growth
Mkt Cap (€bn)

8,140
9.2

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EGM stance FY23: not brilliant at all

EGM FY23 earnings season outlines a weak aggregate picture, with top line up only 9% y/y (vs. historical growth rates > 30% and considering M&A). Ca. 30% of companies has reported top line down y/y, due to macroeconomic weakness, energy prices deflation, fiscal incentives cancellation.

Profitability was significantly affected from weaker top line and growth-related costs. EBITDA, EBIT, Net Profit were down -2% , -20% , -28% y/y respectively, much lower than consensus estimates.

Lower profits, high investments / M&A cash out and WC absorption drove Free Cash Flow erosion (Net Debt Adj. from €1.2bn in Dec '22 to €1.5bn in Dec '23), which was partially offset by IPO related capital injections. Still, leverage remains under control (1x ND/EBITDA).

Sector breakdown: Energy down, Tech and Media up

Sector breakdown points at different trends but similar top line growth rates across all industries but for the Energy sector, down -34% y/y.

In terms of EBIT growth, the picture is much more diversified, with Cons. Goods and Services, Health Care, Energy, Industrial reporting negative growth rates. Tech companies and Media on the contrary kept growing y/y.

As always, there are companies reporting good results

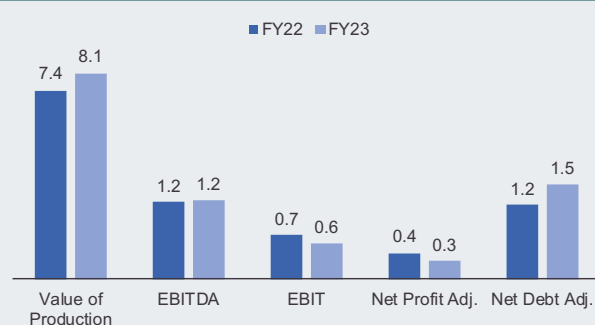
Despite the general uninspiring scenario, there are companies with decent size and that reported very good results. As far as size is concerned, we found out 21 companies with EBITDA >€15mn, and 27 with Net Profit >€5mn.

As far as the quality of FY23 results is concerned, we found out:

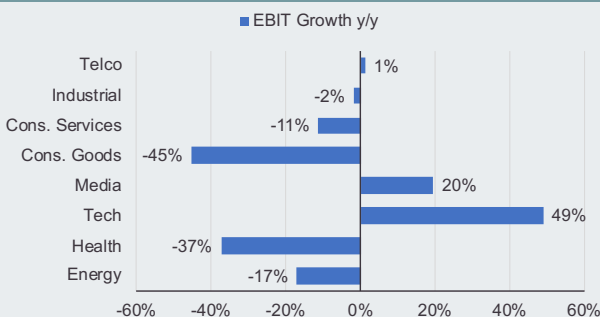
- ◆ 35 companies with top line growing >20% y/y, out of which 8 companies growing at >50% y/y pace (some of them also thanks to M&A);
- ◆ 12 companies that recorded EBIT growing >50% y/y;
- ◆ 23 companies generating FCF >€2mn and 6 companies >€10mn;

More important, **ca. 20 companies recorded positive y/y growth at both top line, operating profits and free cash flow generation level.**

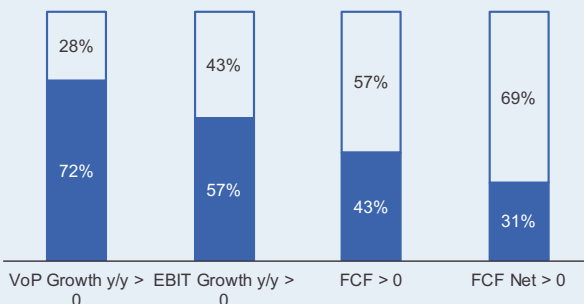
KEY AGGREGATE FINANCIALS FY23 VS. FY22 (€MN)



EGM: FY23 EBIT GROWTH Y/Y BY SECTOR



EGM: COMPANIES GROWING / GENERATING CASH (% OF TOT)



Source: ValueTrack Analysis on Company data



FY23 Aggregated Financials (#142)

EGM FY23 earnings season outlines a weak performance in terms of turnover growth with respect to the historical high double-digit rates we were used to. Nonetheless, top line was sustained by the contribution of M&A, while profitability was significantly affected from inflation pressures, with margins coming out at much lower figures than consensus estimates. Distressed profits, high investments (to support revenues growth) and working capital absorption implied significant free cash flow erosion, which was offset only by Equity capital injections of FY23 IPOs.

Data Sample

EGM currently counts #205 listed companies. However, for our analysis we excluded:

- ◆ #4 stocks suspended from trading that did not approve any financial KPI: *Agatos, Enertronica, and Italia Independent Group, MeglioQuesto*;
- ◆ #3 stocks ending their fiscal year in June: *ABP Nocivelli, Creatives Group, Eviso*;
- ◆ #21 financial stocks for which items such as Revenues and EBITDA are not strictly applicable;
- ◆ #9 stocks that did not approve any kind of financial KPI (audited nor preliminary) and without any consensus estimates for FY23 (*Bertolotti, Ecosuntek, Eligo, e-Novia, Go Internet, Illa, Neurosoft, Poligrafici Printing, Prismi*).

Hence, we took into consideration a total of #168 companies, divided as follows:

1. #142 stocks that reported the full set of FY23 audited figures up to April 5th, 2024.
2. #8 stocks that reported FY23 preliminary financials but not yet the full set;
3. #18 stocks that did not provide any FY23 KPI, for which we considered FY23 consensus estimates.

Aggregated Financials y/y (#142 Companies)

Considering the #142 stocks data sample and their FY23 results, we highlight:

- ◆ **Value of Production** at **€8.1bn**, +9% y/y;
- ◆ **EBITDA** and **EBIT** at **€1.2bn** and **€560mn**, i.e. -2% and -20% y/y, respectively;
- ◆ **EBITDA Margin** and **EBIT Margin** at **15.2%** and **7.0%**, respectively;
- ◆ **Net Profit Adj.** at **€296mn**, -strongly down y/y (-28%) vs. €412mn of FY22;
- ◆ **Net Debt Adj.** (net of Equity capital injections) at ca. **€1.5bn**, up by €312mn vs. December 2022.
- ◆ **Net Debt** at ca. **€1.3mn**, reported gross of capital injections and “only” €70mn higher y/y.

EGM: Key Aggregated Financials (#142 Companies)

€mn	FY22	FY23	y/y
Value of Production	7,389	8,053	9.0%
EBITDA	1,242	1,224	-1.5%
<i>EBITDA Margin (%)</i>	<i>16.8%</i>	<i>15.2%</i>	<i>-160bps</i>
EBIT	696	560	-19.5%
<i>EBIT Margin (%)</i>	<i>9.4%</i>	<i>7.0%</i>	<i>-240bps</i>
Net Profit Adj.	412	296	-28.1%
<i>Net Margin Adj. (%)</i>	<i>5.6%</i>	<i>3.7%</i>	<i>-190bps</i>
Net Debt	1,184	1,255	70
Net Debt Adj. (*)	1,184	1,496	312
<i>Net Debt / EBITDA (x)</i>	<i>0.95</i>	<i>1.03</i>	<i>nm</i>
<i>Net Debt Adj. / EBITDA (x)</i>	<i>0.95</i>	<i>1.22</i>	<i>nm</i>

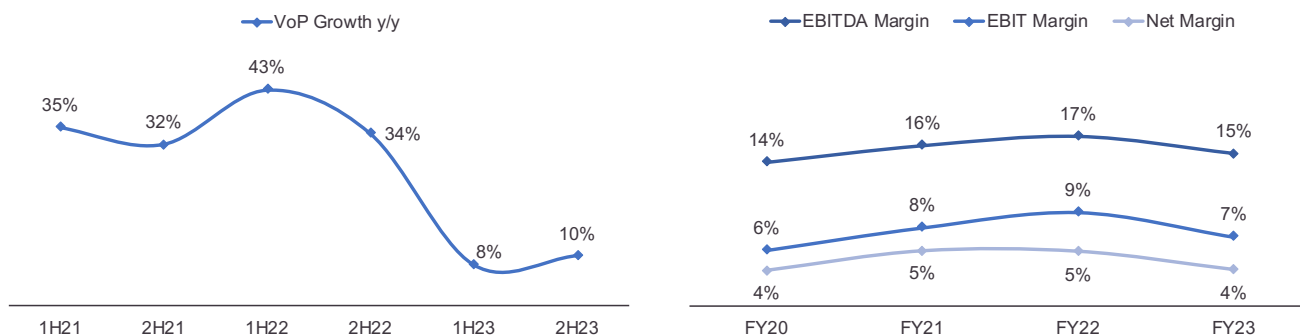
Source: Value Track Analysis, (*) Net of Equity Capital Injections

Flattening Growth Rates and Profitability

EGM is a stock market focused on small but fast-growing companies. Despite that, it experienced a notable deceleration during FY23, with a high-single digit growth that also includes M&A contribution. Indeed, historical growth rates have usually been around and even above 30%, while only at 9% in FY23.

Furthermore, after 3-years of growth trend, margins have concurrently faced adversity due to huge investments to support top line growth. Thus, margins reached their lowest point in the past 5/6 semesters, going down just above FY20 levels.

EGM: Top Line Growth y/y and Margins Evolution (#142 Companies)



Source: Value Track Analysis

Free Cash Flow Erosion

We calculate an aggregate Free Cash Flow erosion of ca. €312mn (excluding Equity capital increases) between January and the end of December 2023, with only ca. 32% of our sample (#45 companies out of #142) generating positive FCF. On the other hand, if we include capital injections, we obtain a “lighter” aggregate FCF erosion of ca. €70mn, with #61 companies generating positive FCF.

Once again, these results confirm that FCF generation remains a medium/long-term objective, often sacrificed to meet top line targets.

EGM: Aggregate Cash Flow Evolution (#142 Companies)

€mn	y/y
Net Financial Position FY22	-1,184
EBITDA	1,224
Others	-1,536
Net Financial Position Adj. FY23	-1,496
Equity Capital Injections	241
Net Financial Position FY23	-1,255

Source: Value Track Analysis

Aggregated Financials A/E

FY23 reported financials came out lower than what consensus was expecting, more in line with what we outlined in our latest stock guide of November 2023, suggesting a more cautious approach given the highly demanding estimates despite a disappointing 1H23. We highlight:

- ◆ **Value of Production** reported at ca. **4% lower than estimates**;
- ◆ **EBITDA and EBIT** ca. **6% and 20% lower** than forecasts, respectively;

- ◆ **EBITDA Margin** and **EBIT Margin** ca. **30bps** and **150bps lower**, respectively;
- ◆ **Net Profit Adj.** ca. **27% lower** than consensus;
- ◆ **Net Debt Adj.** ca. **€100mn worse** than estimates, almost entirely related to the miss of Net Profit rather than Capital Employed items.

EGM: Key Aggregated Financials (#142 Companies)

€mn	FY23 Est.	FY23 Act.	A/E
Value of Production	8,353	8,053	-3.6%
EBITDA	1,297	1,224	-5.7%
<i>EBITDA Margin (%)</i>	<i>15.5%</i>	<i>15.2%</i>	<i>-30bps</i>
EBIT	704	560	-20.4%
<i>EBIT Margin (%)</i>	<i>8.4%</i>	<i>7.0%</i>	<i>-140bps</i>
Net Profit Adj.	405	296	-26.7%
<i>Net Margin Adj. (%)</i>	<i>4.8%</i>	<i>3.7%</i>	<i>-110bps</i>
Net Debt	-1,153	-1,255	-102
Net Debt Adj. (*)	-1,394	-1,496	-102
<i>Net Debt / EBITDA (x)</i>	<i>0.89</i>	<i>1.03</i>	<i>nm</i>
<i>Net Debt Adj. / EBITDA (x)</i>	<i>1.07</i>	<i>1.22</i>	<i>nm</i>

Source: Value Track Analysis, (*) Net of Equity Capital Injections

Aggregated Financials FY22-FY23 (#168 Companies)

When including both the #8 companies with preliminary figures and the #18 stocks with no official KPI but with consensus estimates, our sample of #168 companies highlight the following FY23E financials:

- ◆ **Value of Production** at **€9.6bn**, +3% y/y;
- ◆ **EBITDA** and **EBIT** at **€1.4bn** and **€658mn**, i.e. +2% and -13% y/y, respectively;
- ◆ **EBITDA Margin** and **EBIT Margin** at **14.5%** and **6.8%**, respectively;
- ◆ **Net Profit Adj.** at **€343mn**, down y/y vs. €417mn Net Profit Adj. of FY22 (-17.9%);
- ◆ **Net Debt Adj.** (net of Equity capital injections) at **€1.8bn**, ca. €419mn higher than December '22.

EGM: Key Aggregated Financials (#168 Companies)

€mn	FY22	FY23	y/y
Value of Production	9,330	9,636	3.3%
EBITDA	1,377	1,402	1.8%
<i>EBITDA Margin (%)</i>	<i>14.8%</i>	<i>14.5%</i>	<i>-30bps</i>
EBIT	752	658	-12.5%
<i>EBIT Margin (%)</i>	<i>8.1%</i>	<i>6.8%</i>	<i>-130bps</i>
Net Profit Adj.	417	343	-17.9%
<i>Net Margin Adj. (%)</i>	<i>4.5%</i>	<i>3.6%</i>	<i>-90bps</i>
Net Debt	-1,375	-1,506	-131
Net Debt Adj. (*)	-1,375	-1,794	-419
<i>Net Debt / EBITDA (x)</i>	<i>1.00</i>	<i>1.07</i>	<i>nm</i>
<i>Net Debt Adj. / EBITDA (x)</i>	<i>1.00</i>	<i>1.28</i>	<i>nm</i>

Source: Value Track Analysis, (*) Net of Equity Capital Injections

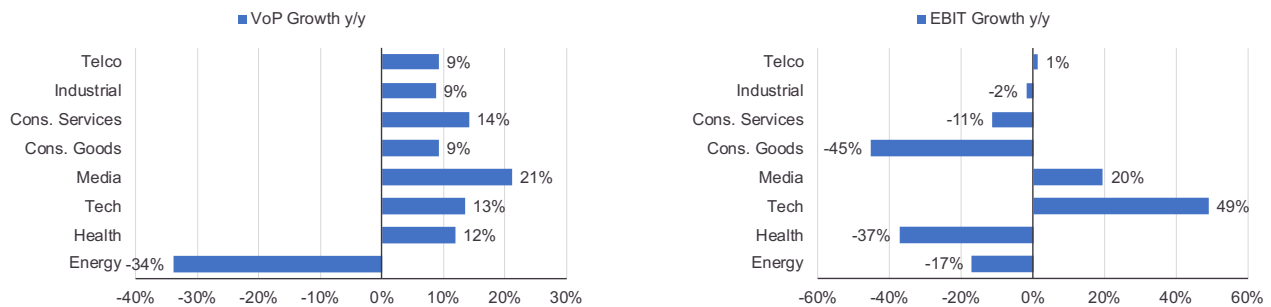
Sector Analysis

Looking at the #168 stocks data sample from a sector breakdown, we noticed how the 3% aggregate top line growth is the result of very different industries trends. Most sectors grew much higher than the aggregate value (range of 9%-21%) except for the Energy sector, which instead recorded a decrease of 34% (even worse than the -19% recorded in 1H23). On the contrary, Media was the fastest growing sector (+21%), followed by Consumer Services (+14%), Technology (+13%), and Health Care (+12%).

EBIT growth saw a much more diversified path across the various sectors:

- ◆ Consumer Goods had the highest decrease (-45%), burdened by some exceptional situations (e.g., Portobello fee) followed by Health (-37%) and Energy (-17%), coherently with 1H23.
- ◆ Consumer Services, down 43% in 1H23, recovered in 2H23 but still lag behind, with FY at -11%;
- ◆ Industrial Goods recorded a strong increase in 1H23 (+14%) but was unable to confirm this trend in the second half of the year. As a consequence, FY23 EBIT was 2% lower than FY22;
- ◆ Tech and Media had the highest increase (+49% and +20%, respectively), while Telco reported a flattish result compared to FY22 (+1% y/y).

EGM: Top Line and EBIT Growth y/y by Sector

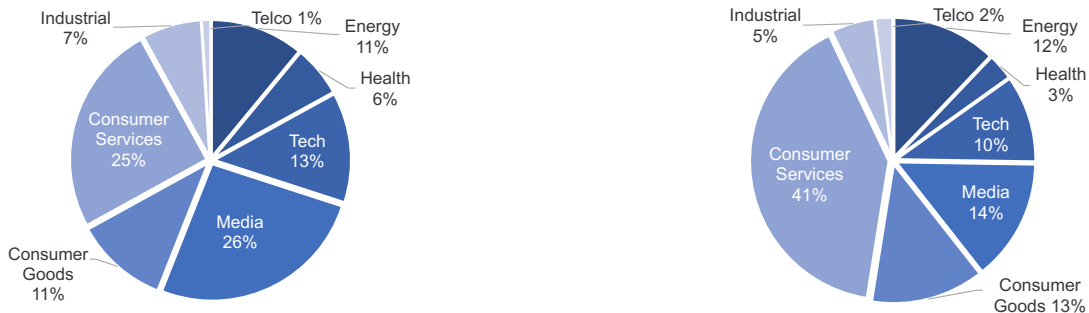


Source: Value Track Analysis

In terms of FY23 top line breakdown, we stress how the contribution from various sectors significantly changed from the results of 1H23. Indeed, while Consumer and Industrial Goods were the largest contributors at the end of 1H23, Media and Consumer Services has now taken the lead at 26% and 25%, respectively. Energy, Health, and Telco confirm themselves as the smallest contributors.

Looking at EBIT breakdown, dynamics are similar: Consumer and Industrial Goods lost 9 and 35 percentage points since 1H23, respectively. On the opposite, Consumer Services increased from 10% to 41%, Tech from 4% to 10% and Media from 5% to 14%.

EGM: FY23 Top Line and EBIT by Sector



Source: Value Track Analysis

Cluster Analysis

Since aggregates and average figures often hide much more interesting information, we decided to present our data sample of #168 companies considering various size, growth, profitability, and cash flow clusters. Despite the aggregate picture highlighting a general weak performance in FY23, these clusters brighten up the view for some (very few) companies.

Based on the following key stats, we inferred the strong polarization of EGM, with only a dozen companies reporting sound financial figures for the FY23 earnings season:

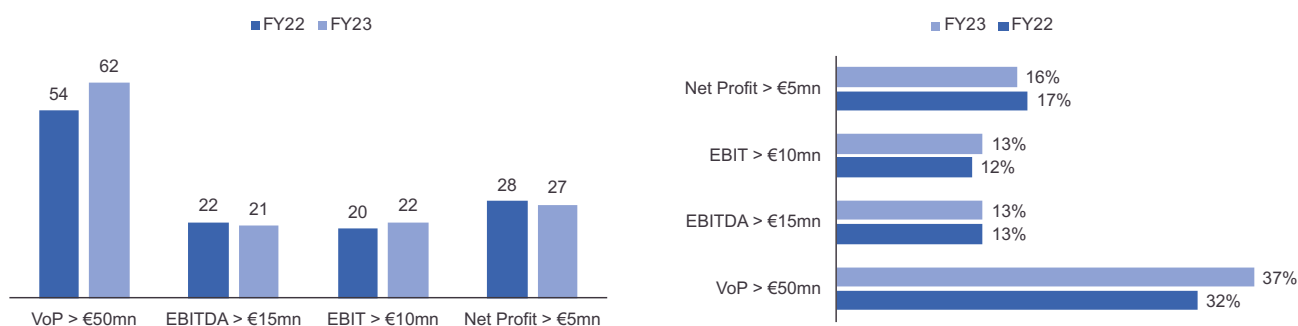
1. The average turnover size of an EGM company is confirmed and still below €50mn. Only 13% of EGM stocks reported an EBITDA above €15mn and only 16% a Net Profit above €5mn;
2. A strong majority (ca. 70%) of EGM companies reported a growing top line y/y (also considering M&A contribution), but only ca. 15% also reported a growing EBIT and a positive FCF generation;
3. One out of five companies grew higher than 20% y/y, but only #8 companies vaunted a VoP growth above 50% (also thanks to M&A);
4. About #10 companies recorded an EBIT growth above 50%, a sign that these companies were able to absorb the higher expenses generated from M&A operations;
5. While it's true that the market burnt cash over FY23, there are about #20 stocks generating FCF in excess of €2mn and also #6 companies in excess of €10mn;
6. There are only a few "gems" for the FY23 earnings season. Only about #20 companies recorded a positive growth in absolute value at top line, profit margins and net financial position level.

Clusters by Size

In terms of size, we noticed that:

- ◆ There are #62 stocks reporting FY23 Value of Production in excess of €50mn (vs. #54 in FY22);
- ◆ **EGM confirms itself as a SME-focused segment, with ca. 63% of companies recording a turnover below €50mn;**
- ◆ There is a very similar number of companies in FY22 and FY23 above our EBITDA (€15mn), EBIT (€10mn), and Net Profit (€5mn) thresholds.

EGM: Number of Companies at Various Thresholds



Source: Value Track Analysis

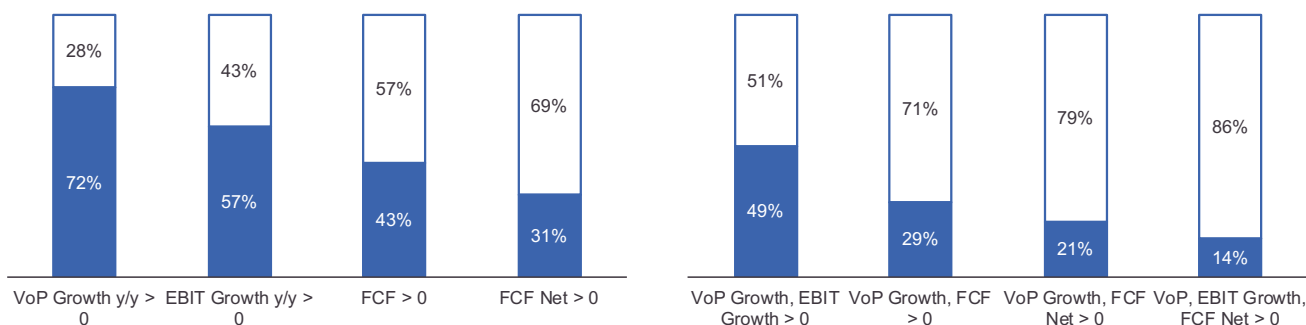
Clusters by Growth Rate, Profitability, and Cash Flow Generation

In terms of growth, profitability, and cash flow generation, we highlight:

- ◆ **#121 companies (72% of the data sample) with a higher FY23 VoP vs. FY22;**
- ◆ **#96 companies (57%) with a higher EBIT vs. FY22;**
- ◆ **#93 companies (55%) with a higher Net Profit vs. FY22;**

- ◆ **#52 companies (31%) generating positive FCF (net of equity capital injections);**
- ◆ **#83 companies (49%) with a higher VoP and EBIT vs. FY22;**
- ◆ **#48 companies (29%) with a higher VoP and a positive Free Cash Flow;**
- ◆ **#35 companies (21%) with a higher VoP and a positive Free Cash Flow (net capital inj.);**
- ◆ **#24 companies (14%) with a higher VoP and EBIT, and a positive FCF (net cap. inj.).**

EGM: Number of Companies Reporting Positive VoP Growth, EBIT Growth, FCF Generation



Source: Value Track Analysis

Looking at a deeper level, EGM polarization is even more obvious. Indeed, we counted:

- ◆ **#35 companies (21%) with a meaningful y/y VoP growth above 20%;**
- ◆ Only #15 companies (9%) with a meaningful y/y VoP growth above 35%;
- ◆ Only #8 companies (5%) with a meaningful y/y VoP growth above 50%;

EGM: Value of Production Growth y/y (#168 Companies)

VoP Growth y/y (*)	> 20%	> 35%	> 50%
Number of Companies (#)	35	15	8
As a % of Total	21%	9%	5%

Source: Value Track Analysis, (*) Including M&A, but considering only stocks with FY23 VoP above €15mn

- ◆ **#21 companies (13%) with a meaningful y/y EBIT growth above 20%;**
- ◆ **#17 companies (10%) with a meaningful y/y EBIT growth above 35%;**
- ◆ **#12 companies (7%) with a meaningful y/y EBIT growth above 50%;**

EGM: EBIT Growth y/y (#168 Companies)

EBIT Growth y/y (*)	> 20%	> 35%	> 50%
Number of Companies (#)	21	17	12
As a % of Total	13%	10%	7%

Source: Value Track Analysis, (*) Considering only stocks with FY23 EBIT above €5mn

- ◆ **#23 companies (14%) generating positive FCF in excess of €2mn;**
- ◆ **#13 companies (8%) generating positive FCF in excess of €5mn;**
- ◆ **#6 companies (4%) generating positive FCF in excess of €10mn.**

EGM: Free Cash Flow (#168 Companies)

Free Cash Flow	> €2mn	> €5mn	> €10mn
Number of Companies (#)	23	13	6
As a % of Total	14%	8%	4%

Source: Value Track Analysis

Combining growth rates and FCF generation, we spotted:

- ◆ #19 companies (11%) able to grow faster than 20% at both VoP and EBIT level;
- ◆ #8 companies (5%) able to grow faster than 40% at both VoP and EBIT level;
- ◆ #13 companies (8%) able to grow faster than 20% and generate over €1mn FCF;
- ◆ #6 companies (4%) able to grow faster than 15% and generate over €2.5mn FCF;

EGM: VoP and EBIT Growth y/y (#168 Companies)

VoP and EBIT Growth y/y (*)	> 20%	> 40%
Number of Companies (#)	19	8
As a % of Total	11%	5%

Source: VT Analysis, (*) Including M&A, but considering only stocks with FY23 VoP above €15mn and EBIT above €2.5mn

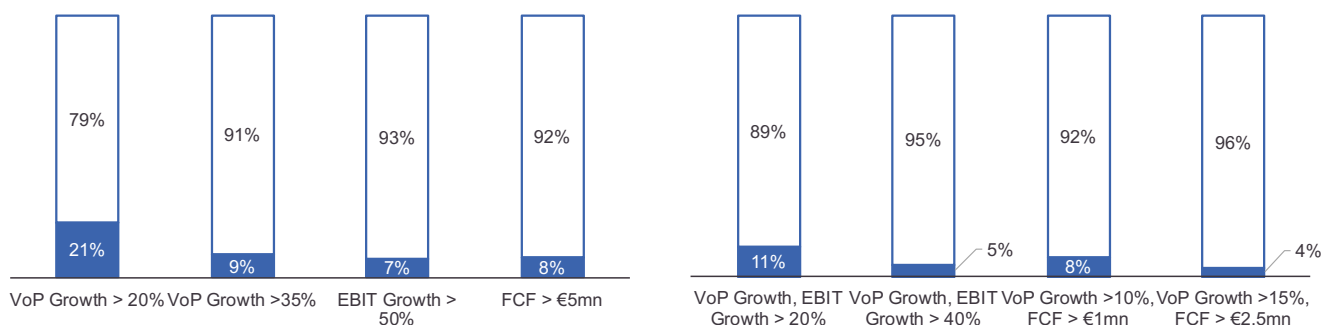
EGM: VoP Growth y/y and FCF (#168 Companies)

VoP Growth y/y and FCF (*)	VoP > 10% & FCF > €1mn	VoP > 15% & FCF > €2.5mn
Number of Companies (#)	13	6
As a % of Total	8%	4%

Source: Value Track Analysis, (*) Including M&A

Last but not least, there are **only about #20 companies** that were able to mark a positive growth in absolute value at top line, profit margins and net financial position level.

EGM: EGM: Number of Companies Reporting Positive VoP Growth, EBIT Growth, FCF Generation (*) at Various Thresholds



Source: Value Track Analysis, (*) FCF net of equity capital injections

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