# TPS Group: an innovative and sound gem in the Aerospace industry of giants


*June 3rd, 2020, at 18:00*

## Highly specialized engineering services for the Aerospace & Defense and Automotive industries

TPS Group is an Italian innovative and sound gem that has been growing at double digit pace in two industries of giants, the Aerospace & Defense and the Automotive industries. The Group offers highly specialized engineering advisory and design services to major industrial group, such as Leonardo, Iveco and FCA. Within the offering range, TPS drafts technical publications, implements cost-engineering activities, develops proprietary software for avionics systems, designs and manufactures parts & components, trains and certifies technical maintainers for aircrafts and offers digital content management services.

## A history of consistent growth and rich in acquisitions

After its corporate governance reorganization started in 2008, when Mr. Alessandro Rosso and Mr. Massimiliano Anguillesi entered as CEO and General Manager respectively, TPS began a process of business diversification and expansion, also driven by acquisitions. Since 2016, TPS Group has acquired five companies and its Value of Production (VoP) has more than doubled, from €14.6mln in 2016 to €36.8mln in 2019 (+36% CAGR). TPS Group went public on AIM Italia in March 2017.

## Corporate strategy and our 2020E-2023E projections

TPS is set to diversify and expand its business further, through both organic and external growth. On an organic basis, in addition to the full roll out of synergies from recent acquisitions, the following drivers will support TPS' growth: i) the growing demand for electric vehicles, which will lead to an increase in TPS' advisory services on "full electric" systems, ii) its geographic expansion in Europe and the United States, iii) a further consolidation of the relationship with Leonardo, and iv) its great spirit of innovation and investments in R&D, which will favour the discovery of cutting-edge systems and services. According to our 2020-2023E estimates, the Value of Production (VoP) is expected to grow at a 13% CAGR to reach €43mln in 2023, and the EBITDA is seen just below €9mln in 2023, with margin improving from 19% in 2019 to 20% in 2023. We estimate cumulative operating FCF of more than €10mln or a yearly average of €2.6mln, including €8.3mln of cumulated capex.

## Valuation: 12-month Target Price at €6.6; BUY

We initiate our coverage with a BUY recommendation and a target price of €6.6 as the average of the DCF Fair Value and the relative market multiple valuation, implying a potential upside close to 80% as of market close on June 2. Through cumulated FCF 2020E-2023E of €10.4mln and a Terminal Value of €58mln, we get to an Enterprise Value of €54mln and to an Equity Value of €56.9mln, which led us to a Fair Value of €7.9/share. Our relative valuation based on the average 2020E-2021E median EV/EBITDA multiple (6.6x), led to an Equity Value of €39mln or €5.4/share.

| | |
|---|---|
| **Target Price (€)** | **6.6** |
| **Recommendation** | **BUY** |
| | |
| Price as of June 2nd | 3.7 |
| Number of shares (mln) | 7.2 |
| Market Capitalization (€ mln) | 26.8 |
| Market Segment | FTSE AIM ITALIA |
| **Performance** | **from IPO** |
| Absolute | +16% |
| Max / Min | 6.0/3.0 |
| Average daily volumes | 7,065 |

| *(€mln)* | 2019 | 2020E | 2021E | 2022E |
|---|---|---|---|---|
| **VoP** | **36.8** | **29.4** | **36.1** | **39.5** |
| *yoy change (%)* | *53%* | *-20%* | *23%* | *9%* |
| **EBITDA** | **7.0** | **4.7** | **6.3** | **7.7** |
| *margin (%)* | *19%* | *16%* | *17%* | *19%* |
| **EBIT** | **4.0** | **1.7** | **3.1** | **4.8** |
| *margin (%)* | *11%* | *6%* | *9%* | *12%* |
| **Net Income** | **2.4** | **1.0** | **2.0** | **3.1** |
| *margin (%)* | *7%* | *4%* | *6%* | *8%* |
| **Net Debt/(cash)** | **(2.9)** | **(3.1)** | **(6.9)** | **(10.5)** |
| Shareholders' Equity | 19.4 | 19.4 | 22.3 | 26.5 |
| Capex | 3.7 | 1.5 | 2.2 | 2.2 |
| **Free Cash Flow** | **(0.4)** | **2.2** | **2.6** | **2.5** |

*Source: Banca Profilo estimates and elaborations, Company data.*

**Francesca Sabatini**
*Head of Equity Research*
*francesca.sabatini@bancaprofilo.it*
*+39 02 58408 461*

**Benedetta Sorge**
*Equity Research Analyst*
*benedetta.sorge@bancaprofilo.it*
*+39 02 58408 570*

*Sales Desk*
*+39 02 58408 478*

**Contents**

**Executive summary** ..... **3**

*TPS in a nutshell: key investment drivers* ..... *3*

*Main Financial data (2018-2019) and estimates (2020E-2023E)* ..... *3*

*Valuation: DCF and market multiples approach* ..... *4*

*Key risks* ..... *4*

**SWOT analysis** ..... **6**

**The reference market** ..... **7**

*The Aerospace and Defense industry* ..... *7*

*The Automotive industry* ..... *9*

*TPS competitive arena: strategic positioning and competitive advantages* ..... *11*

**TPS overview and business model** ..... **13**

*The history of the Group, its growth, and the new organizational structure* ..... *13*

*The corporate structure* ..... *15*

*The ownership structure and management* ..... *17*

**Historical operating and financial performance** ..... **19**

*Main operating and financial data* ..... *19*

**Strategy and estimates** ..... **24**

*Corporate strategy* ..... *24*

*Our 2020E-2023E estimates* ..... *24*

*Key risks* ..... *30*

**Valuation** ..... **32**

*DCF Valuation* ..... *32*

*Relative market multiples valuation* ..... *33*

*DISCLAIMER* ..... *37*

# Executive summary

## *TPS in a nutshell: key investment drivers*

*TPS: the leading Italian player in the technical and engineering services for the A&D and Automotive industries*

The TPS Group was founded in 1964 as one of the first Italian companies offering an external analysis and drafting service of technical and manual documentation for the Aerospace & Defense industry. In the last three years, the Company has started a path of expansion and diversification, which has led TPS to decrease its dependence on the Aerospace sector and to have a significant presence also in the engineering services market dedicated to the Automotive industry. TPS offers highly specialized engineering consultancy and design services, such as drafting of technical publications, implementation of cost-engineering activities, development of proprietary software for avionics systems, designing and production of parts & components, training of technical maintainers for aircraft, and digital content management services including virtual reality and augmented reality platforms for the 4.0 Industry.

*A consolidated, defensive and highly innovative business*

TPS' business can be described as: i) consolidated, thanks to the strong existing relationships with large Italian industrial groups, ii) defensive, due to the partial visibility of revenues and the high entry barriers in the sectors of activity, and iii) characterized by a strong spirit of innovation and by a consolidated research and development activity.

*Breakdown of the Value of Production by business unit*

The Group structure is led by TPS SpA acting as the operating holding directly controlling seven subsidiaries. The Group's business model comprises four Strategic Business Units (SBU): i) Technical Publishing & Training (~36% of FY19 revenues), which contains the Technical Publishing activity and the Training activity, ii) Engineering & Cost Engineering (~36% of FY19 revenue), which includes the component design and production activity, the cost engineering activity and the aeronautical certifications, iii) Avionic Services & Information Technologies (~9.5% of FY19 revenue), which includes the development of proprietary software in the Avionics field, and iv) Digital Content Management (~18.5% of FY19 revenue), which includes information and images management on behalf of customers for technical and commercial purposes and VR and AR applications.

*Main market is Italy*

The Group is mainly active in the Italian market (~91% of FY19 revenues), while the remaining part of the revenues is generated in Europe (~4%), mainly Poland and Switzerland, and in the rest of the world (~5%).

*Long-term industrial drivers*

TPS is set to grow further, thanks also to the solidity of the long-term growth drivers of its reference end-markets.

Within the A&D industry, the Defense segment will sustain its growth as security threats intensifies, with a CAGR of about 3% over the 2019–2023, while commercial aircraft segment is expected to contract in 2020, after the partial stop in global air traffic, but to recover in two years and a half as long-term drivers remain intact.

Within the Automotive industry, before Covid-19, global vehicle production was expected to hit 110mln units by 2025. In particular, the development of electrified vehicles is expected to continue to gain momentum, especially in Europe, where market shares of diesel vehicles are continuously declining.

## *Main Financial data (2018-2019) and estimates (2020E-2023E)*

*36% VoP CAGR in 2016-2019*

After its corporate governance reorganization started in 2008, the Group started a process of business diversification and expansion, also driven by acquisitions. Since 2016, TPS has integrated five companies: the Group Value of Production (VoP) has more than doubled, from €14.6mln in 2016 to €36.8mln in 2019 (+36% CAGR) and its EBITDA has increased from €3.1mln to €7mln in the same period (+31% CAGR) with the EBITDA margin decreasing, from 21% in 2016 to 19% in 2019, due to the dilutive effect of acquisitions.

*Balance Sheet: very advanced management control and severe economic balance*

The Balance Sheet show a very advanced management control and severe economic balance.

- From a liquidity point of view, TPS show a consistent ability to generate cash despite investments which, net of acquisitions, equal on average to 7% of the VoP. At the end of 2019, net cash stood at €2.9mln, with cash & cash equivalents at €8.3mln;
- the rise in Net Operating Working Capital in 2019 are partially attributable to the recognition of trade receivables of acquired company and to the shifting of some customer receivables.

*2020E-2023E projections: VoP at €43mln in 2023, +13% CAGR*

According to our 2020E-2023E projections, TPS is set to grow further, thanks to the following drivers: i) the full roll out of synergies from acquisition, ii) the strong spirit of innovation and investments in R&D which will favour the discovery of cutting-edge systems and services, iii) the growing demand for electric vehicles which will lead to an increase in TPS' consulting services on "full electric" systems, iv) a further consolidation of the relationship with Leonardo, and v) a geographic expansion in Europe and the United States. According to our estimates, in the 2020-2023 period, the VoP is expected to grow at a 13% CAGR to reach €42.7mln in 2023, while EBITDA at a 22% CAGR to reach €8.6mln in 2023. We estimate a cumulative operating FCF of €10.4mln (€2.6mln per year on average), only partially invested in capex and operating NWC needs.

*A quick look at 2020*

As for the impacts of the pandemic and the lockdown, although most of the companies of the TPS Group remained open and active, some of their customers stopped their planned projects. We see this scenario to impact mainly:

- TPS' design and cost-engineering activities in the most cyclical sectors such as Automotive;
- TPS' training activities, as the courses had been stopped during the lockdown.

On the opposite, Avionics and Aerospace activities are seen as defensive. Among others, Leonardo confirmed all investment already planned for 2020.

## *Valuation: DCF and market multiples approach*

*DCF approach well appraises a cash generating model: Fair Value of €7.9 per share*

Given TPS' cash generating business model, a DCF method well adapts as a valuation approach. To run a DCF model, we used our projections of unlevered FCFs for the 2020E-2023E explicit period equal to a total of €10.4mln, already including cumulated capex for a total of €8.3mln. In order to get to the Equity Valuation we have considered the net cash as of the end of 2019 equal to €2.9mln. We used a WACC of 6.4% and a perpetual growth rate of 2%. The DCF method leads us to an Enterprise Value of €54.0mln and an Equity Value of €56.9mln, equal to a Fair Value of €7.9 per share.

*EV/EBITDA 2020E-2021E of 6.6x, equal to a per share value of €5.4*

For what concerns the market multiples approach, the listed European companies offering highly specialized engineering services and products to A&D & Automotive industries represent a fitting panel of "comparables" for suggesting an appropriate relative valuation. Our sample shows an average 2020E-2021E median EV/EBITDA of 6.6x, which led to an Equity Value of €39mln, equal to €5.4 per share.

*12-month TP at €6.6 Recommendation: BUY*

We then set our Target Price at €6.6/share as an average of the DCF and relative valuations, implying a potential upside close to 80% as of market close on June 2. We initiate our coverage with a BUY recommendation.

## *Key risks*

*Estimates execution risks*

Among the risk factors analysed, those with a significant probability of occurrence or a considerable potential impact on TPS' business are: the risk associated with customer concentration and the relative dependence of revenues on a few important customers, and the risk of contraction of demand or of economic downturns. The other risk factors implicit in TPS' business have a low probability of occurrence or a low potential impact

on the business and we do not believe they could significantly affect our projections, unless exceptional events occur.

*The risk associated with customer concentration:*
*- low probability*
*- very high impact*

TPS' business is typically characterized by long-term relationships with the main national players which represent a significant portion of the reference market and of the Group's revenues. TPS is therefore potentially exposed to the risk of default, termination and non-renewal of existing contractual relationships with these customers. This risk is endogenous to the sectors in which TPS operates and is partially counterbalanced by the reliability of customers, consisting of primary industrial realities, and by the type of agreements signed, long-term contracts that guarantee a discreet flexibility of action and high solvency standards. We evaluate this risk with a low level probability of occurrence, but with a very high potential impact on the business.

*The risk related to the contraction of demand:*
*- medium probability*
*- medium impact*

The business of TPS, like any other company, is exposed to the potential risk of contractions in demand deriving from a reduction in the activity of the main customers or from potential exogenous events that could negatively impact the business. This risk is partially offset by the defensive nature of TPS' business, derived from the partial visibility of revenues, the defensive endogenous character of the A&D industry and the high entry barriers in the sectors of activity, but the Automotive industry, due to its cyclical nature, is more exposed to a potential contraction in demand. We evaluate this risk with a medium level probability of occurrence and with a medium potential impact on the business.

# SWOT analysis

| STRENGTHS | WEAKNESSES |
|---|---|
| • Very advanced management control and severe economic balance<br>• Partial revenue visibility, thanks to multiannual agreements<br>• A strong-long term relationship with Leonardo which has lasted since the years of TPS foundation<br>• Resilience and defensive character of main end-market, the A&D industry<br>• High entry barriers in the sectors of activity<br>• Consolidated track-record in M&A operations | • Small size of the business<br>• End-markets concentration and Value of Production's dependence on few customers<br>• Absolute dependence on the Italian market which represents more than 90% of the Value of Production |

| OPPORTUNITIES | THREATS |
|---|---|
| • Strong spirit of innovation and investments in R&D that favour the discovery of cutting-edge systems and services<br>• Geographical expansion opportunities in the United States and in the European markets<br>• Specialization in the design of "full electric" systems and exposure to the growing trend of electric vehicles<br>• Potential increasing demand for virtual reality and augmented reality systems in a new normality characterized by social distancing | • Uncertainties regarding the recovery of the Automotive and Oil & Gas sectors after the economic impact of Covid-19<br>• Uncertainties regarding the recovery of global air traffic and the recovery of demand for commercial aircraft after the economic impact of Covid-19 |

# The reference market

*Sectoral exposure of revenues*

With more than 50 years of experience, TPS Group stands among the most important companies in the field of technical and engineering services for the Aerospace & Defense (~55% of revenues) and Automotive industries (~35% of revenues): in residual part the Group is also active in the Oil & Gas, Railway, and machinery sectors.

## *The Aerospace and Defense industry*

*Within global A&D industry, around 75% of generated revenues are attributable to the top 20 companies*

The Aerospace & Defense (A&D) industry comprises both Defense and Commercial aerospace: the former is mainly influenced by Government military spending while the latter by global air traffic, disposable income and global trade. The A&D industry is typically highly concentrated, with around 75% of generated revenues attributable to the top 20 companies: among them, Boeing and Airbus are the major players; within the Italian market the leading company is Leonardo, the most important client of TPS Group.

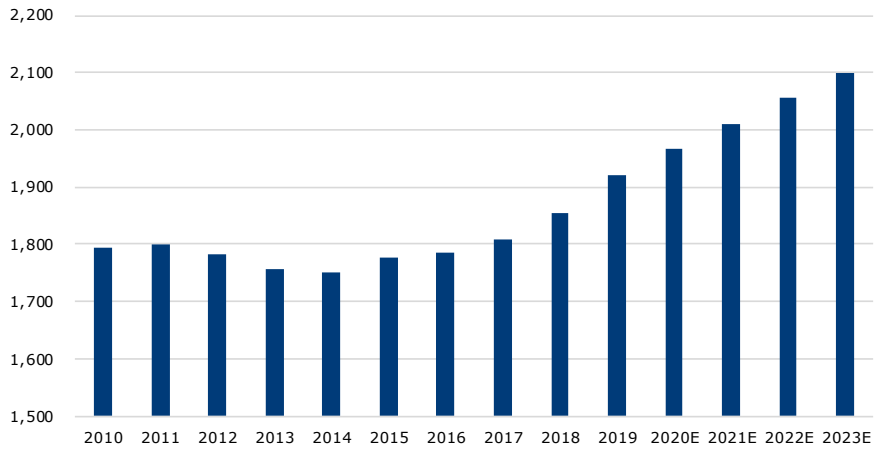
*The A&D industry had generated revenues of $760bn in 2018*

With an industry revenue of $760bn and operating profit of $81bn, the Aerospace and Defense (A&D) sector scored record revenues and profits in 2018. During 2019, the global A&D industry experienced a descent with divergent trends between the Defense and Commercial segments.

*Global defense spending expected to grow at a CAGR of about 3% over the 2019–2023 period, to $2.1 trillion*

Defense sustained its growth as security threats intensified. According to the last report by the The Stockholm International Peace Research Institute, total global military expenditure rose 3.6% yoy to $1.9 trillion in 2019, representing 2.2% of the global GDP. From a geographical point of view, the United States still represent the country with the highest defense spending in the world, which reached $732bn in 2019 (+5.3% yoy), followed by China with $261bn (+5.1% yoy) and India with $71.1bn (+6.8% yoy). Italy, TPS' main reference country, is in twelfth position worldwide, with military expenditure of $26.8bn, equal to 1.4% of GDP. According to the 2020 global Aerospace and Defense industry outlook by Deloitte, global defense spending is expected to grow at a CAGR of about 3% over the 2019–2023 period, to reach $2.1 trillion in 2023. Within the industry, the military rotorcraft segment is projected to grow at 3% on average (CAGR 2020-2025), according to Mordor Intelligence Market Research (Military Rotorcraft Market - Growth, Trends, and Forecast 2020 - 2025). All reported estimates do not consider Covid-19 potential impact.

*Figure 1: World military expenditure trend and estimates (before Covid-19), $ mln*

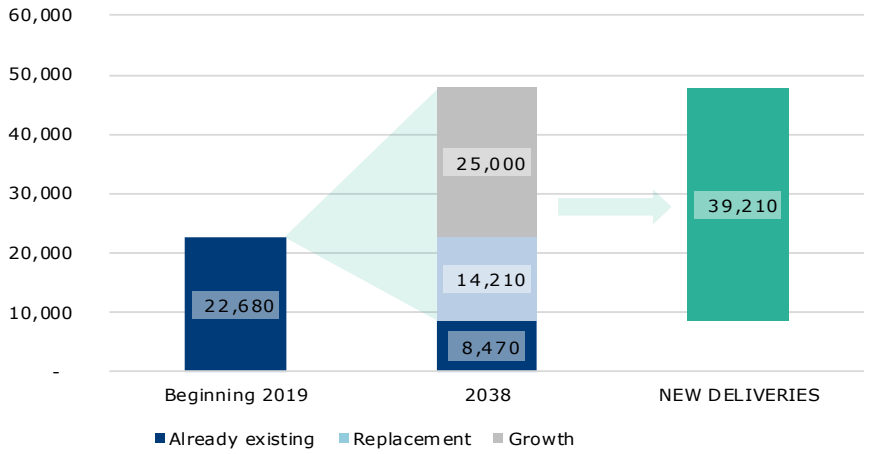



*Source: Banca Profilo elaborations on SIPRI and Deloitte data*

On the opposite, the Commercial aerospace sector showed a decline in deliveries in 2019, due to production related issues in certain aircraft models. Order backlog of commercial aircraft also decreased from its 2018 peak, moving from 14.4k aircraft to slightly more than 14k at the end of August 2019. Before Covid-19 emergency,

considering the life cycle of the aircraft, as well as the necessary and progressive replacement of the obsolete ones, commercial aerospace sector growth was expected to rebound, with nearly 40k units needed over the next two decades, mainly thanks to the constant growth in global air traffic.

*Figure 2: Number of new aircraft deliveries expected from early 2019 to 2038 (before Covid-19), units*

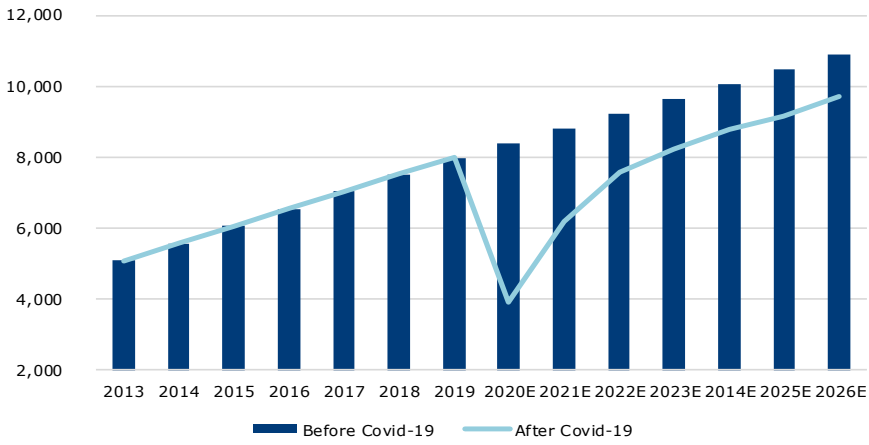



*Source: Banca Profilo elaborations on Airbus data (Global Market Forecast 2019-2038).*
*Note: Passenger aircraft (≥100 seats), Jet Freight Aircraft (>10 tonnes)*

*Global air traffic is expected to recover in two years and a half after the collapse in 2020*

The above data do not take into consideration the impacts of Covid-19. For the time being, the most recent projections on the aviation industry have been prepared by IATA and concern revenue passenger kilometer (RPK), an airline industry metric that shows the number of kilometers travelled by paying passengers, a proxy for air traffic. According to the last Air Passenger Forecasts (May 2020), RPK is seen dropping below 4 trillion in 2020 after having hit 8 trillion in 2019, but since long-term drivers remain unchanged, the market is expected to recover in two years and a half.

*Figure 3: Global RPKs forecast (before and after Covid-19), bn*

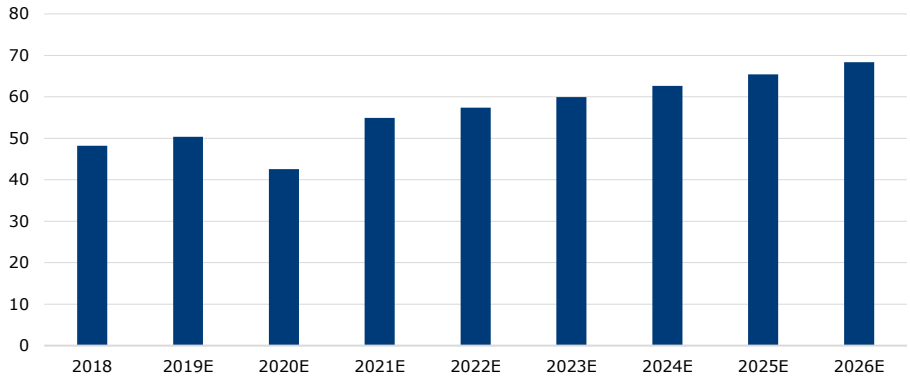



*Source: Banca Profilo elaborations on IATA data (COVID-19 Outlook for air travel in the next 5 years)*

*The helicopter market is expected to exceed $68bn by 2026*

Within the A&D industry, the helicopter market, the main reference market for TPS technical services, amounted to over $48bn in 2018 and by 2026 is expected to exceed $68bn in size, with a CAGR of 4.5% during the period. The demand for helicopters is expected to be sustained by the increasing demand for military helicopters and for emergency medical service (EMS) helicopters, with an expected strong growth in emerging markets.

*Figure 4: Size of the global helicopter market from 2018 to 2026, $ bn*




*Source: Statista, Fortune Business Insights*

*Simultaneously with the growth in new aircrafts, qualified personnel is expected to grow*

TPS is also active in technician training through its subsidiary Aviotrace Swiss, which trains and certifies aeronautical maintenance technicians.

Simultaneously with the growth in new aircrafts, qualified personnel are also expected to grow. The demand for specialized technical personnel will be guided not only by the growth of the air fleet, and consequently by the new deliveries of aircraft, but also by the modernization and the technological upgrade of existing ones. According to the 2019-2038 Boeing Pilot & Technician Outlook, the aerospace industry, as comprehensive of commercial aviation, business aviation and helicopter industries, will need 804k new civil aviation pilots, 769k new maintenance technicians and 914k new cabin crew by 2038. In particular, the need for maintenance technicians is estimated around 137k in Europe. These projections do not include potential impact of Covid-19.

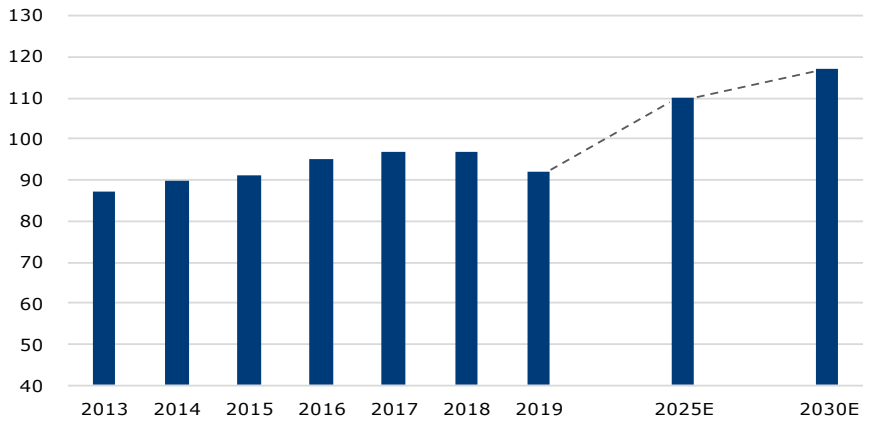
## *The Automotive industry*

*Before Covid-19 global vehicle production was expected to recover after the drop in 2019 and to hit 110mln by 2025*

Within the Automotive industry, TPS offers leading companies technical publishing, engineering & cost engineering services, as well as augmented reality and virtual reality applications.

The Automotive industry was stagnant in 2018 and contracted in 2019, following a 3% manufactured vehicles CAGR in 2013-2017. In 2019, almost 92mln of motor vehicles were produced worldwide, showing a 5% yoy contraction. This drop is mainly attributable to demand stagnation, the uncertainty related to the emissions targets and the trade war between the United States and China, which affected global value chains and consequently the supply of automotive components. Before Covid-19, global vehicle production was expected to recover and reach 110mln by 2025 (a 3% CAGR) driven by Asia and especially China, the largest passenger car producer worldwide.

*Figure 5: Worldwide motor vehicle production (before Covid-19), mln units*




*Source: Statista*

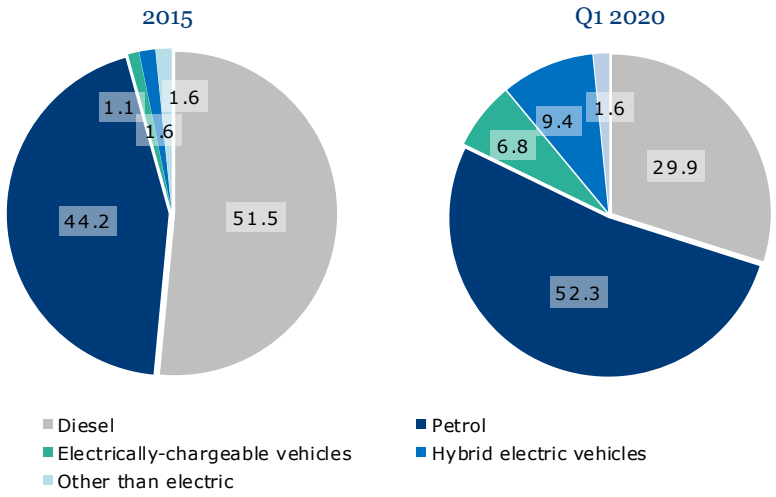
*Global auto sales are expected to drop by more than 12% in 2020, to 78.8mln units*

The impacts of Covid-19 on both production and demand cannot be yet quantified. However, according to IHS Markit projections, global auto sales are expected to drop by more than 12% in 2020, to 78.8mln units, a downgrade of 10mln compared to pre-coronavirus projections (January 2020). In Europe, autos demand is set at 15.6 mln units in 2020 (-13.6%n yoy), a volume downgrade of 1.9mln units versus pre-coronavirus estimates.

*New electric cars registrations grew by 100% yoy in Q1 2020*

As of car demand by type of fuel, ACEA auto sales figures for Q1 of 2020 show that the electrically-chargeable vehicle segment has significantly increased its market share in Europe, rising to 6.8% (from 2.5% in Q1 2019 and from 1.1% as of the end of 2015) against the backdrop of the overall decline in passenger car registrations due to the Covid-19 outbreak. From January to March 2020, electrically-chargeable vehicles (ECV) substantially benefited from the decline in diesel and petrol demand, growing 100.7% and totaling new 167k cars registered across the EU. Both the battery-electric (BEV) and plug-in hybrid (PHEV) segments provided a strong boost to this growth (+68.4% and +161.7% respectively).

*Figure 6: European trends in fuel type of new cars between 2015 and 2020 (% share)*




*Source: Banca Profilo elaborations on ACEA data*

*The growing demand for electric vehicles is a driver for TPS growth*

The development of electrified vehicles should continue to gain momentum, especially in Europe, where market share of diesel vehicles is declining. This is a positive trend for TPS, as the Group specializes in the design of "full electric" systems. The Group supports and advises car manufacturers during the development of electric vehicles from their body to the suspension, the floor and the bodywork, the battery and the driver controls.

## *TPS competitive arena: strategic positioning and competitive advantages*

*TPS operates in a segment characterized by high entry barriers*

As of today, there are no companies with a perfectly comparable business model to TPS, especially in terms of technical services offered. The European and national regulations governing these segments are very stringent and request highly specialized certification and engineering services to operate: TPS is highly focused on these services and its specialization and certifications represents a robust barrier to entry.

With this premise, we selected a sample of listed European companies, "comparables" to TPS, which offer highly specialized engineering services and products, with a predominant part of the revenues related to the A&D and Automotive industries, and most of the revenues generated in Europe.

*Alten (FR), FY19*
*€2.6bn of revenues*
*12% EBITDA margin*

**Alten** is a French multinational technology consulting and engineering company which provides design and research projects for the technical and information systems divisions in the industrial, telecommunications, and service sectors. Alten Group supports the development strategy of its customers in the fields of innovation, R&D and technological information systems. For the aeronautics industry, Alten offers, among others, avionics systems, propulsion systems and configuration management.

*Sogeclair (FR), FY19*
*€185mln of revenues*
*9% EBITDA margin*

**Sogeclair** is a French international company active in the design and manufacturing, integration and support of major aero structures and aircraft interiors components. The company also offers simulation and stress analysis, training solutions and configuration management at program, engineering & industrial levels. Sogeclair has a global presence in the fields of aeronautics, space, civil and military transport.

*TP Group (UK), FY19*
*€55mln of revenues*
*6% EBITDA margin*

**TP Group PLC** is an English specialist engineering and support services company that designs and develops advanced technologies, software, complex equipment and systems, across defense, space, energy and intelligence & communications industries.

*Bertrandt Group (DE), FY19*
*€1.1bn of revenues*
*9% EBITDA margin*

**Bertrandt Group** is a German company active in the engineering consulting and production support services to the Automotive and Aeronautics industry. The company provides outsourcing services for the design, development, construction and testing of components, interiors, engines and drive trains. Bertrandt's services include all process steps in the project phases of conceptual design, product design, development, modelling, tool production, vehicle construction and production planning, right through to start of production and production support.

*Akka Technologies (FR), FY19*
*€1.8bn of revenues*
*9% EBITDA margin*

**Akka Technologies** is a French globally operating engineering and technology consulting company, active in the aeronautics, automotive, oil & gas, rail, defense, information systems, and telecommunications industries. For the Aerospace industry, Akka designs and develops, among others, flight control systems, aircraft power systems, propulsion systems and offers maintenance engineering.

*Meggitt (UK), FY19*
*€2.1bn of revenues*
*25% EBITDA margin*

**Meggitt** is an international UK based engineering group, specialized in aerospace, defense and electronics products. The company manufactures aircraft instruments and valves, water injection systems, compact heat exchangers, smoke detection systems and defense systems, including aerial target systems and surveillance drones. Meggitt markets its products internationally.

*EDAG Engineering Group (DE), FY19*
*€783mln of revenues*
*8% EBITDA margin*

**EDAG Engineering Group** is a Germany-based engineering services provider with a core business in the global Automotive industry. The company's expertise includes the integrated development and optimisation of vehicles, production facilities, derivatives and modules. EDAG offers complementary engineering services such as design and concept development, vehicle validation and testing, development of electrics and automation technology, among others. EDAG also designs and develops technologies for applications in the Automotive industry, including lightweight construction, electric mobility, digitalization, integral safety and new production technologies.

*Figeac Aero (FR), FY19*
*€428mln of revenues*
*16% EBITDA margin*

**FIGEAC-Aero** is a France-based company engaged in the manufacture of parts and components for aerospace industry. It offers a range of products and services such as design, manufacture and assembly of subassemblies; manufacture of structural parts, ranging from small fittings to large panels; supply of engine parts, such as vertical lathe,

blades, and milling of aluminium and hard materials; and manufacture of precision parts, such as landing gear and thrust inverters. The company's customer base includes Airbus, Embraer, ATR, Boeing and Bombardier among others.

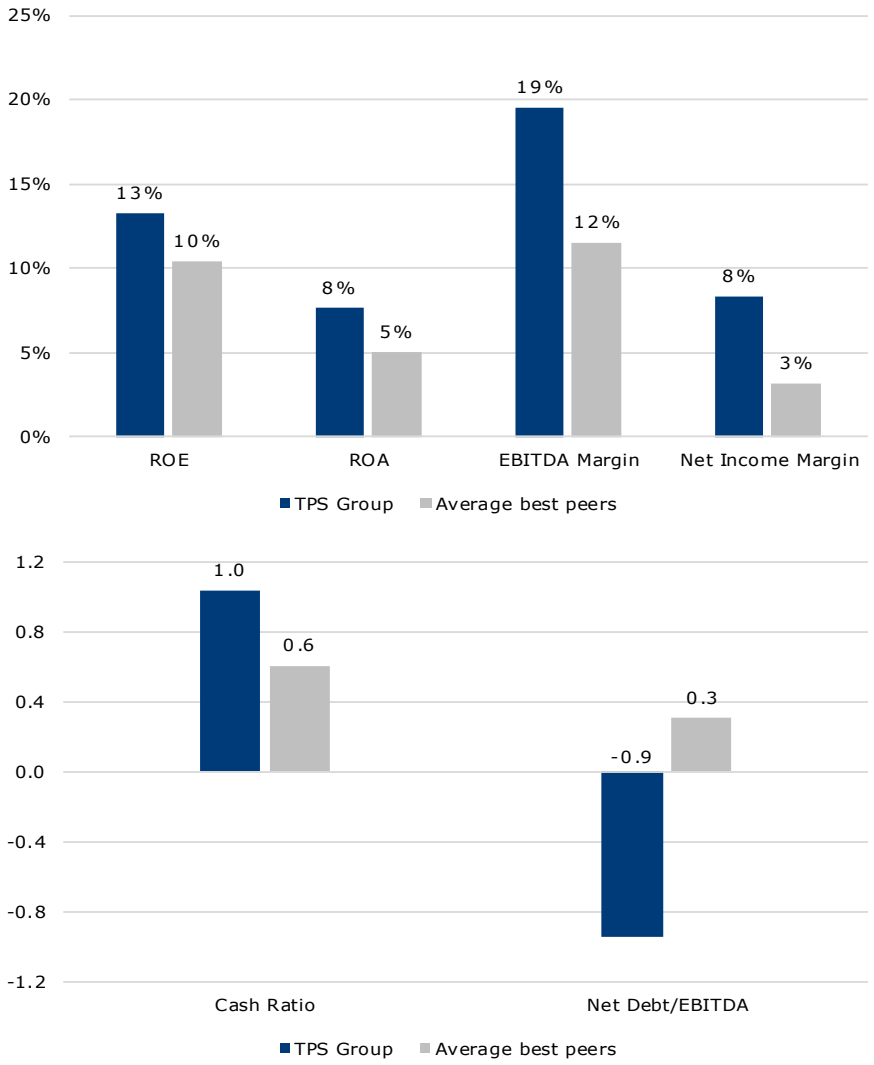
*TXT e-solutions (IT), FY19*
*€59mln of revenues*
*12% EBITDA margin*

**TXT e-solutions** is an Italy-based company engaged in the information and communication technologies (ICT) market. It provides software, system integration, IT services and services-based solutions to enterprises belonging to different end-markets, mainly Aerospace & Defense, Industrial & Automotive and FinTech. Within the A&D industry, TXT provides airplane manufacturer, OEMs and airline companies with customized software solutions and services core engineering consulting across the entire aircraft life-cycle and value chain.

*Benchmarking analysis*

Within the selected sample of "comparables", TPS stands out in terms of profitability, with a 2018-2019 average ROE of 13% compared to the average best peer's one of 10%, a ROA of 8% vs 5%, an EBITDA margin of 19% vs 12% and a Net Income margin of 8% compared to the average best peer's one of 3%. In terms of solvency and debt, TPS stands out both for its above average cash ratio, despite the acquisitions made, and for its positive net cash position.

*Figure 7: Main listed players – average 2018-2019 ratios*




*Source: Banca Profilo elaborations on Company data, FactSet*

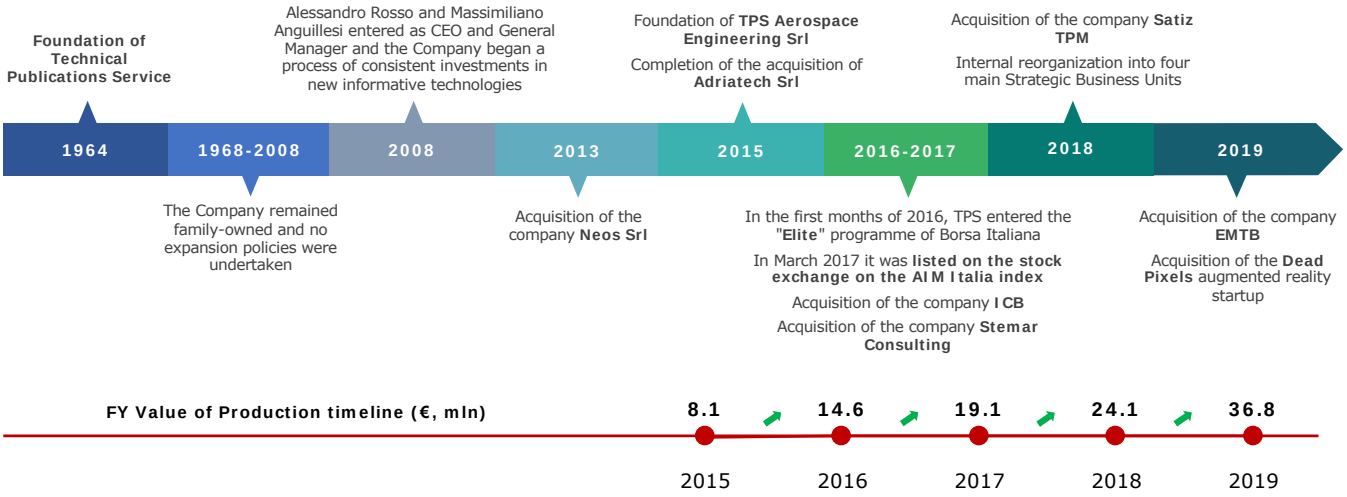
# TPS overview and business model

*The history of the Group, its growth, and the new organizational structure*

*TPS, a history rich in acquisitions*

The TPS Group was founded in 1964 as one of the first Italian companies offering an external analysis and drafting service of technical and manual documentation for the aeronautical industry. Until the 1990s, the Company remained family-owned and no expansion policies were undertaken until the 2000s. After its corporate governance reorganization that saw Mr. Alessandro Rosso and Mr. Massimiliano Anguillesi entering as CEO and General Manager respectively, the Company began a process of business diversification and expansion, also driven by a path of successful acquisitions. After having obtained the Elite certification by Borsa Italiana in 2016, TPS Group went public on AIM Italia in March 2017. Since then, the Group has continued its growth path, both organic and through acquisitions bringing its Value of Production from €14.6mln in 2016 to €36.8mln in 2019, +36% CAGR.

*Figure 8: TPS' main milestones*




*Source: Banca Profilo elaborations on Company data*

*TPS Group stands out in the field of technical and engineering services for the A&D and Automotive industries*

With more than 50 years of experience, TPS Group stands among the most important companies in the field of technical and engineering services for the Aerospace & Defense (~55% of revenues) and Automotive industries (~35% of revenues): in residual part the Group is also active in the Oil & Gas, Railway, and machinery sectors. TPS capabilities range from technical manuals to augmented reality and from the design of avionics software to the production of components and multimedia training platforms, among others.

*The Group operates through four strategic business units*

The Group's business model comprises four Strategic Business Units (SBU), defined in 2018 in order to both allow the best integration of the newly acquired Satiz TPM and to optimize the internal organizational processes.

1. Technical Publishing & Training SBU (~36% of total FY19 revenue), which contains the Technical Publishing activity and the Training activity. The technical publications are a series of documentation such as use manuals, flight manuals, maintenance manuals and spare parts catalogs, relating to complex vehicles, such as an aircraft. The technical publication services are operated for leading companies operating in the avionics and Automotive sector, such as Leonardo, in the context of long-term framework agreements. The second activity contained in this business unit is that of training of maintenance technicians for the avionics segment: TPS has trained, in 6 years of activity, more than a thousand technicians with LMA license.

2. Engineering & Cost Engineering (~36% of FY19 revenue), which includes the component design and production activity, the cost engineering activity and the aeronautical certifications. The engineering design and production activity includes the manufacturing of industrial components for the Aeronautic, Automotive, Oil & gas and Railway sectors. The cost-engineering activity concerns the analysis of an existing component with the aim to rethink and redesign it in a way that it can increase the quality to cost ratio.
3. Avionic Services & Information Technologies (~9.5% of FY19 revenue), which includes the development of proprietary software in the avionics field and the verification of the correct functioning of existing ones (such as the automatic flight control vibration monitoring or communication systems).
4. Digital Content Management (~18.5 of FY19 revenue), which includes information and images management on behalf of customers for technical or commercial purposes (user's manual set up or various marketing materials).

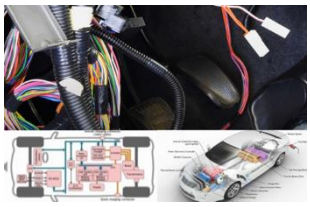
*Figure 9: Examples of TPS' products and services*

1° SBU
Technical Publishing & Training

TPS produces technical manuals for complex machines, such as Leonardo aircraft or Iveco trucks. The technical publications are divided into descriptive manuals, maintenance manuals and manuals related to the supply of spare parts.

Through Aviotrace Swiss SA, an EASA Part 147 (AMTO) certified Swiss training organization, TPS trains and certifies aeronautical maintenance technicians.

2° SBU
Engineering & Cost Engineering



TPS designs and produces industrial components for the Aeronautic, Automotive, Oil & Gas and Railway sectors.

Through cost-engineering activities, TPS is able to analyze an already existing component in order to rework and redesign it in a way that is cheaper or of higher quality.

3° SBU
Avionic Services & Information Technologies

TPS develops proprietary software in the avionics field and verifies the correct functioning of existing ones.

TPS tests software installed within the on-board systems of both civil and military aircraft.

4° SBU
Digital Content Management

TPS manages information and images on behalf of customers not only for technical purposes, but also for commercial projects, such as the preparation of marketing material.

After the acquisition of Dead Pixels, TPS saw a strong push in the direction of augmented reality and virtual reality.

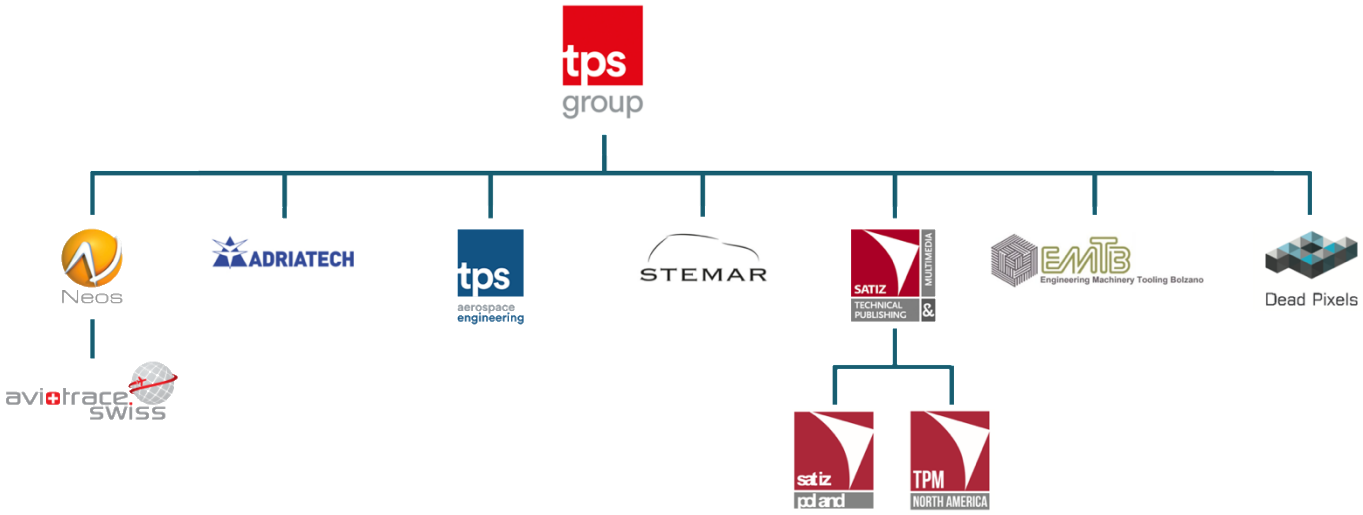
*Source: Banca Profilo elaborations on Company data*

## The corporate structure

*TPS SpA holds the majority of seven companies' capital*

The group structure is led by TPS SpA acting as the operating holding directly controlling seven subsidiaries, two of which were acquired in 2019, EMTB and Dead Pixels.

*Figure 10: TPS' corporate structure*




*Source: Banca Profilo elaborations on Company data*

The division into business units does not necessarily reflect the division of activities between the subsidiaries: to offer a clear overview of the subsidiaries and their activities, we show a simplified diagram to indicate, for each subsidiary, the business units in which it operates.

*Figure 11: Organizational structure of TPS for subsidiaries and for Strategic Business Units*

| Business Unit / Company | | TPS S.p.A. | NEOS | Aviotrace Swiss | Adriatech | TPS Aerospace Engineering | Stemar Consulting | Satiz TPM | EMTB | Dead Pixels |
|---|---|---|---|---|---|---|---|---|---|---|
| Year of acquisition or incorporation | | | 2013 | 2013 | 2015 | 2015 | 2017 | 2018 | 2019 | 2019 |
| 1° SBU | Technical Publishing & Training | ✗ | | ✗ | ✗ | | | ✗ | | |
| 2° SBU | Engineering & Cost Engineering | | | | ✗ | ✗ | ✗ | ✗ | ✗ | |
| 3° SBU | Avionic Services & IT | ✗ | | | | | | ✗ | | |
| 4° SBU | Digital Content Management | | ✗ | | | | | ✗ | | ✗ |

*Source: Banca Profilo elaborations on Company data*

**TPS SpA** specializes in the creation of technical documentation and in the definition and the management of helicopters maintenance lifecycle (ILS, Integrated Logistic Support) in order to identify the most suitable and effective maintenance procedure during the life of the vehicle. During 2019, ICB Divisione Avionica, a company acquired in 2017, was incorporated into TPS SpA. With the merger by incorporation of the subsidiary ICB, TPS SpA is also active in the development and testing of software installed within the on-board systems of both civil and military aircraft.

**Neos Srl**, acquired in 2013, is responsible for designing and creating aeronautical technical publications in the industrial sector and manages a multimedia platform for the training of technical maintenance personnel, pilots and aeronautical technicians. The company is wholly owned by TPS SpA.

**Aviotrace Swiss** is a Maintenance Training Organisation (MTO) EASA part 147 for the training and certification of aeronautical maintenance technicians. The company offers

tailor made training services, with both classical teaching method in the classroom and innovative methods such as training with multimedia and virtual systems. The company is wholly owned by Neos Srl.

**Adriatech Srl**, acquired in 2015, is an ISO 9001 certified company, provides technical services to the aviation industry for mechanical structural design, electro-avionics and plant engineering, as well as technical publications. Adriatech is wholly owned by TPS SpA.

**TPS Aerospace Engineering**, established in 2015, is certified by EASA as DOA (Design Organization Approval) and POA subpart G (Production Organization Approval). The company specializes in the design of aeronautical medical systems and the personalization of kits for surveillance and video recording aircraft. The company is wholly owned by Neos Srl.

**Stemar Consulting Srl**, acquired in 2017, specializes in the supply of Cost Engineering services and in Benchmarking in both the Automotive and aeronautical sectors. The company has a long experience in mould construction and in 2D-3D design with innovative CAD-CAM softwares. The company is 70% controlled by TPS SpA.

**Satiz Technical Publishing & Multimedia Srl**, acquired in 2018, produces technical documentation, planning and communication services for companies operating in the Automotive, railway, naval and defense sectors. Within the Automotive sector, the company is also active in the design of mechanical, electrical components, and both external and internal vehicles' parts, with a specialization within the full-electric propulsion. The company is the most diversified among the group's subsidiaries, being active in all four strategic business units. In 2017, the production value of the Stpm group stood at €15.6mln, with an EBITDA of about €1.5mln (EBITDA margin close to 10%). The company is wholly owned by TPS SpA and controls, in turn: i) Satiz Poland, a company active in the digital content management services mainly for the Automotive sector in Poland and ii) TPM North America, a non-operating company based in Lansing, Michigan.

**EMTB, Engineering Machinery Tooling Bolzano Srl**, acquired in 2019, is an engineering company which designs and prototypes defense vehicles, transportation vehicles (e.g., trucks), agricultural machinery and other specialty vehicles (e.g., mining equipment, cableways). EMTB has a long-lasting experience in engineering innovation, as demonstrated by a recently patented concept of gearbox for agricultural machines. The company is wholly owned by TPS SpA.

**Dead Pixels Srl**, acquired in 2019, is an innovative start-up specialized in the creation of augmented reality and virtual reality platforms. The portfolio of Dead Pixels today includes projects developed in the following areas: i) Industry 4.0, with VR/AR experiences to enable safe training and remote maintenance, ii) Marketing applications, with immersive VR/AR tours enabling users to explore the environment that surrounds them and to interact with it, and iii) Systems architecture, with 3D models of objects and 3D navigable applications. The company is 80% controlled by TPS SpA.

*TPS competitive advantages: highly specialized personnel and persisting investments in R&D*

Among the main elements of success and competitive advantages of TPS, the Company can boast a highly specialized staff, as well as the use of cutting-edge systems internally developed by its R&D department.

Among the most recent innovative projects, TPS:

- developed an STC, aeronautical patent, for a multi-platform medical system, not yet marketed, but which has already made it possible to sell 10 single-platform systems;
- developed an augmented reality software for the FCA Group. Through a viewer, customers can customize the car's interiors and live the vehicle security systems. This software was expected to be presented at the Geneva Motor Show 2020.

*Main end-market is Italy*

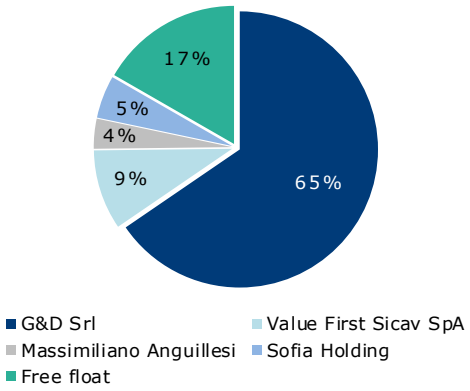
From a geographical point of view, TPS Group operates mainly in Italy, where it generates around 90% of its revenues. Abroad it is present in Switzerland, Poland and in the United States.

## The ownership structure and management

*65% of TPS is controlled by G&D srl*

TPS is controlled by G&D srl, an holding company wholly owned by Patrizia Ghione; 9% is held by Value First Sicaf, an Italian investment company; 5% is held by Sofia Holding, a financial services company; 4% is held by Ing. Massimiliano Anguillesi, member of the Board of Directors. The Free Float stands at 17%.

*Figure 12: Ownership structure*




*Source: Banca Profilo elaborations on Company data, FactSet*

*TPS corporate governance*

TPS Board of Directors includes seven members, whereas the Board of Statutory Auditors is made up of five members. The directors and auditors will remain in office until the approval of the 2022 financial statements.

*TPS Board of Directors: long experience and sound track record*

TPS Group is managed by people who have gained significant experience in the industries and in the geographical areas in which the Group operates. The Board of Directors is composed as follows.

Alessandro Rosso: President and CEO. Graduated in Electronic Engineering from the Polytechnic of Turin, he subsequently obtained a master's in business administration from New York University. He started his experience in the sector of technical services and industrial production at ILTE SpA, becoming first general manager and then chief executive officer. He has also developed experiences in the field of renewable energy, in the technical industrial field, and in automotive engineering.

Massimiliano Anguillesi: Director. After graduating in Aerospace Engineering at the University of Pisa, he started working in the logistics. In 2007, he co-founded a start-up specialized in the project management of RAMS (Reliability Availability Maintainability Safety) and LSA (Logistic Support Analysis). He participated to some relevant international projects in the aeronautical field, including the construction of the Eurofighter and NH90 aircrafts.

Andrea Faraggiana: Director. After graduating in Economics of Markets and Financial Intermediaries at the Luigi Bocconi University, he began his career in the financial sector with a focus on M&A. From 2009 to 2017 he worked at Tamburi Investment Partners in the field of private and public equity investments, holding roles of increasing responsibility up to becoming Deputy General Manager in May 2016. He is now the Investment Director at First Capital SpA and Value First SICAF.

Giovanni Mandozzi: Director. After obtaining his diploma as an industrial expert with a specialization in telecommunications, in 1973 he started his career at the Breda Nardi Costruzioni Aeronautiche as designer and planner until 1982, the year in which he attended a specialization course for helicopter instructors. He then started to work for Augusta SpA, where, in 1986, he became head of the NH500-AMI program. Since 1997 he had held the position of technical and administrative director of the S.T.F. Srl, a company he co-founded. Since 2015 he has been the technical and administrative

director of Adriatech Srl, a TPS Group company, in which he also holds the position of vice-chairman of the Board of Directors.

Alessandro Scantamburlo: Director. After graduating with honors in Industrial Design at the Faculty of Architecture of the Polytechnic of Turin, in 1988 he started his activity at Telemecanique SpA as technical editor. From 1989 to 1997 he worked firs as an after sales manager and then as head of the pre-press production center at ILTE SpA. Since 1998 he had worked at Fiat SpA, before returning to ILTE SpA in 2002, first as pre-press manager and after-sales director and subsequently as chief operating officer of the human resource sector. Since 2010 he has actively collaborated with the TPS Group.

Raffaella Pallavicini: Independent Director. After graduating with honors in Law from the University of Rome "La Sapienza", she began practicing the profession of lawyer at the Court of Milan. In 2000 he joined L'Espresso Publishing Group, initially as head of litigation and, since 2010, as head of corporate affairs.

Stefano Pedrini: Independent Director. After a master's degree in Engineering Management at the University of Bergamo and a Ph.D. in Economics and Management of Technology at an Italian University Consortium, he began his academic career in 2006, first at the University of Bergamo and then at the Milan Polytechnic and the Turin Polytechnic. At the same time, starting from 2008, it provides consultancy services in various areas including M&A operations, creation of industrial plans and budgeting.

*Board of Statutory Auditors*

The Board of Statutory Auditors is composed by five members: the President, Luigi Gagliardi, and the standing auditors Marco Curti and Nicola Miglietta, as well as the deputy auditors Stefania Barsalini and Alessandro Maruffi.

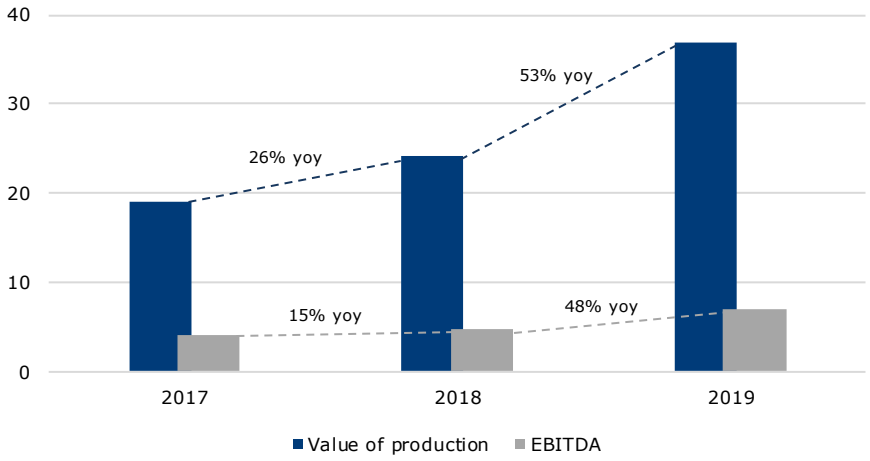
# Historical operating and financial performance

## *Main operating and financial data*

*2017-2019: TPS Value of Production growing at 39% CAGR*

In 2017-2019, TPS Value of Production (VoP) grew at 39% CAGR, including both organic and external growth. In 2019, the VoP rose 53% yoy to €36.8mln (7% at constant Group perimeter). External growth derived from the consolidation Satiz TPM and from the acquisition and consolidation of Dead Pixels and EMTB. In 2019, TPS has broadly outperformed both reference markets, A&D and Automotive which, using the S&P 1200 Global indices as a proxy, showed revenue growth of 2.8% and 1.7% respectively.

*Figure 13: TPS Value of Production and EBITDA from 2017 to 2019, € mln*

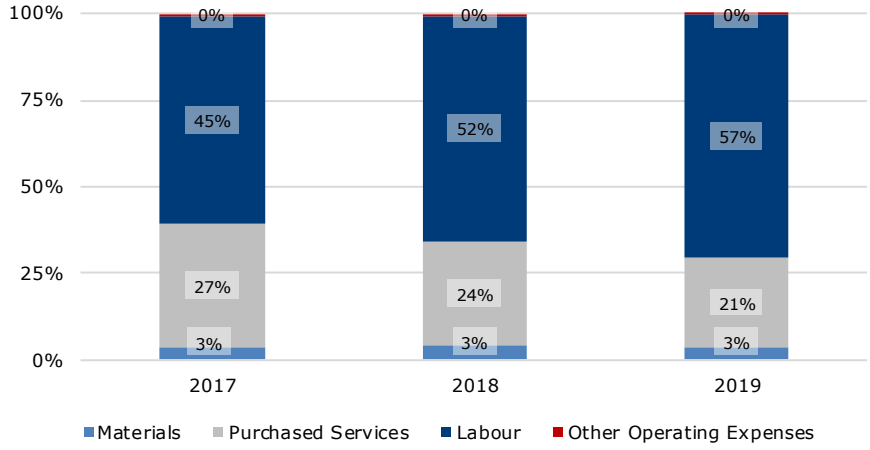



*Source: Banca Profilo elaborations on Company data*

*70% of COGS are labour costs, with an incidence on VoP > 80%*

The cost of goods sold (COGS) in 2019 stood at € 29.8mln, more than 80% of the VoP. Of these, 70% consists of labour costs while the remaining mostly relates to raw materials and purchased services.

*Figure 14: Cost incidence on VoP from 2017 to 2019, %*




*Source: Banca Profilo elaborations on Company data*

*Raw materials at 3% of VoP*

The cost for raw materials was €1.1mln in 2019, only 3% of the VoP. These costs mainly refer to the raw materials used for the design and manufacturing of avionic and automotive components, especially by TPS Aerospace Engineering, Satiz TPM and TPS SpA.

*Services at over 20% of VoP*

The cost of services stood at €7.6mln in 2019 or 21% of the VoP, and it mainly refers to the outsourcing of specific jobs to skilled figures, required for the need of special expertise or for dealing with peak demand periods. The incidence of the cost of services on the VoP has gradually decreased over the years as most of the needed skills have been gradually internalized, through the increase in highly qualified internal staff, even through acquisitions.

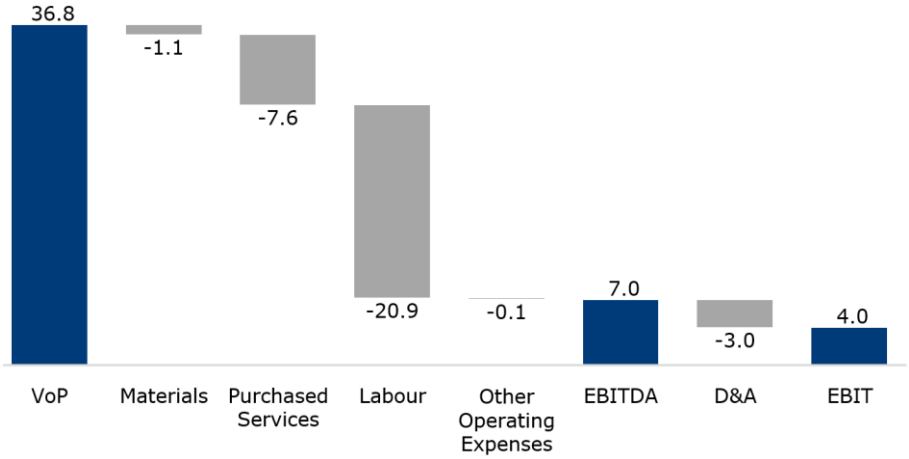
*Labour at almost 60% of VoP*

Labour cost stood at €20.9mln in 2019, equal to 57% of the VoP. The significant increase that occurred in 2019, +66% yoy, depended on the different consolidation perimeter, due to the entry of Dead Pixels and EMTB workers, and on the new hiring needed to support business expansion and to increase highly qualified internal staff.

*EBITDA margin at 19.1% in 2019 from 21.7% in 2017 due to dilutive acquisitions*

In 2017-2019 EBITDA grew at a CAGR of 20%, while from 2018 to 2019 by 48% yoy, mostly driven by turnover growth derived from the Group perimeter expansion. Nevertheless, the EBITDA margin lost 260bps in the same period to 19.1% in 2019, due to the diluting effect of acquisitions.

*Figure 15: 2019 cost structure, € mln*




*Source: Banca Profilo elaborations on Company data.*

*EBIT CAGR 2017-2019 at 9%*

In 2019, D&A amounted to €3mln, a 142% yoy increase compared to €1.2mln in 2018, due to i) the different corporate perimeter considered, ii) the investments made in recent years by the various Group companies – TPS capex stood at €3.7mln in 2019 –, and iii) the depreciation charge of €0.8mln relating to IFRS 16, according to which leasing assets are reckoned among fixed assets as a counterpart of the financial debt implicit in the contract.

EBIT grew with a CAGR of 9% in the 2017-2019 period and 14% yoy in 2019, at €4mln, small increases compared to what was seen for the EBITDA. This is due to the large increase in D&A expenses mentioned in the previous paragraph.

In 2019, net extraordinary expenses stood at €0.2mln, related to the reorganization carried out by the Group after the acquisition of Satiz TPM, and net financial expense were equal to €0.3mln: this figure includes interest related to the application of the IFRS16 principle, bank charges and commissions and foreign exchange expenses, which mainly refer to the subsidiary Aviotrace Swiss and are given by the CHF / EUR conversion of the receivables and payables of the subsidiary.

Finally, also following a higher absolute weight of taxes, with an average tax rate of 30%, up from 29% in 2018, the Group Net Income before minority interest resulted substantially in line with 2018, at €2.4mln, +1% yoy.

*Table 1: TPS Profit & Loss 2018-2019*

| Profit & Loss (€/mln) | | |
|---|---|---|
| | **2018** | **2019** |
| **Value of production** | **24.1** | **36.8** |
| *yoy* | *26%* | *53%* |
| Cost of materials and purchased services | (6.6) | (8.7) |
| *% on VoP* | *27%* | *24%* |
| **Added Value** | **17.5** | **28.1** |
| *yoy* | *36%* | *61%* |
| Salaries Wages and Employee Benefits | (12.6) | (20.9) |
| *% on VoP* | *52%* | *57%* |
| Other Operating Expenses | (0.1) | (0.1) |
| *% on VoP* | *0%* | *0%* |
| **Comprehensive cost of goods sold** | (19.3) | (29.8) |
| *% on VoP* | *80%* | *81%* |
| **EBITDA** | **4.8** | **7.0** |
| *EBITDA Margin on VoP* | *20%* | *19%* |
| D&A | (1.2) | (3.0) |
| *% on VoP* | *5%* | *8%* |
| **EBIT** | **3.5** | **4.0** |
| *EBIT Margin on VoP* | *15%* | *11%* |
| Net financial income (expenses) | (0.2) | (0.3) |
| *% on VoP* | *1%* | *1%* |
| Net extraordinary income (expense) | 0.1 | (0.2) |
| *% on VoP* | *0%* | *1%* |
| **EBT** | **3.4** | **3.5** |
| *EBT Margin on VoP* | *14%* | *10%* |
| Income Tax Expense | (1.0) | (1.1) |
| *Tax rate* | *29%* | *30%* |
| **Net Income** | **2.4** | **2.4** |
| *% on VoP* | *10%* | *7%* |

*Source: Banca Profilo elaborations on Company data*

*Balance Sheet: solid and robust financial and equity structure*

At the end of 2019, TPS' Balance Sheet showed €9.2mln of fixed assets, increasing from €5.2mln in 2018, with both tangible and intangible assets recording a strong increase compared to 2018. The rise in the former is mainly attributable to the rights of use for leased vehicles, equipment and plants, while intangible assets showed a significant increase both for the development costs relating to TPS projects and for the goodwill deriving from the consolidation of some subsidiaries.

The rise in Net Operating Working Capital in 2019 to €13.3mln from €9.8mln at the end of 2018 are partially attributable to the recognition of trade receivables acquired by EMTB and Dead Pixels and to the shifting of some customer receivables from the end of 2019 to January 2020. Ex of acquisitions, the actual change on receivables would have been equal to an increase of €3.3mln.

*€2.9mln net cash at the end of 2019*

From a liquidity point of view, TPS show a consistent ability to generate cash despite investments which, net of acquisitions, equal on average to 7% of the VoP. At the end of 2019, net cash stood at €2.9mln, with cash & cash equivalents at €8.3mln, down from €9.9mln in 2018, due to the cash payment for the acquisition of EMTB.

*Table 2: TPS Balance Sheet 2018-2019*

| Balance Sheet (€/mln) | | |
|---|---|---|
| | **2018** | **2019** |
| Intangible Assets | 4.2 | 5.5 |
| Property, Plant & Equipment | 0.9 | 3.5 |
| Financial Assets | 0.1 | 0.2 |
| **Fixed Assets** | **5.2** | **9.2** |
| Trade Receivable | 11.7 | 16.1 |
| Inventories | - | - |
| Trade Payable | (1.9) | (2.8) |
| **Net Operating Working Capital** | **9.8** | **13.3** |
| *% on VoP* | *41%* | *36%* |
| Trade receivables (% on VoP) | *49%* | *44%* |
| Inventories (% on VoP) | *0%* | *0%* |
| Trade paybles (% on COGS) | *10%* | *9%* |
| Other Assets | 2.2 | 1.9 |
| Other Liabilities | (4.0) | (4.3) |
| Funds | (2.9) | (3.7) |
| **Invested Capital** | **10.4** | **16.5** |
| ***Capex*** | **3.4** | **3.7** |
| *Intangible* | 3.2 | 3.5 |
| *Tangible* | 0.2 | 0.2 |
| *% on VoP* | *14%* | *10%* |
| Shareholders' equity | 14.7 | 16.7 |
| Group Net Income | 2.3 | 2.4 |
| Shareholders' equity attributable to third pa | 0.3 | 0.3 |
| Minority/Non Controlling Interest | 0.1 | 0.0 |
| **Consolidated Shareholders' Equity** | **17.4** | **19.4** |
| Debts | 2.5 | 2.3 |
| Cash and cash equivalents | (9.9) | (8.3) |
| Leasing debt | 0.4 | 0.4 |
| Payables for rights of use | - | 2.7 |
| Other financial receivables | (0.0) | - |
| **Net Financial Position (Cash)** | **(7.0)** | **(2.9)** |

*Source: Banca Profilo elaborations on Company data*

*€2.8mln of FCFs in 2018-2019*

In 2018-2019, cumulated Free Cash Flows were some €2.8mln, including €7.1mln capex, mainly related to acquisitions and development costs. The drop in Free Cash Flows that occurred in 2019 is mainly attributable to the worsening of working capital. As previously specified, in order to compute the Free Cash Flow for 2018 and 2019, we considered these variables net of changes deriving from the incorporation of the acquired companies. Also changes in funds are calculated net of acquisitions.

*Table 3: TPS Cash Flow 2018-2019*

| Cash Flow (€/mln) | | |
|---|---|---|
| | **2018** | **2019** |
| EBIT | 3.5 | 4.0 |
| Tax rate | 0.3 | 0.3 |
| **NOPAT** | **2.5** | **2.8** |
| D&A | 1.2 | 3.0 |
| Changes in Funds | 0.1 | 0.1 |
| Changes in Operating NWC | 2.7 | (2.6) |
| Capex | (3.4) | (3.7) |
| **Free Cash Flow** | **3.2** | **(0.4)** |

*Source: Banca Profilo estimates and elaborations on Company data*

# Strategy and estimates

## *Corporate strategy*

*TPS will continue to grow both organically and through external lines*

TPS aims at diversifying and expanding its business further, both through organic and external growth, and the extraordinary operations carried out during 2018 and 2019 were preparatory to continue the growth path:

- the capital increase in 2018 aimed to provide the Group with financial resources for targeted M&A operations;
- the reorganization of the Group's activities into four strategic business units is allowing synergies in processes and IT systems;
- the acquisitions of Satiz TPM in 2018 and Dead Pixels and EMTB in 2019 involved obtaining new skills and projects in areas other than Aeronautics, mainly Automotive, Industrial and Virtual & Augmented reality, laying the foundations for a more diversified business growth.

## *Our 2020E-2023E estimates*

*We expect the Group to outpace its reference market*

In addition to the full roll out of synergies from acquisitions, the following drivers will support TPS future growth:

- the consolidated relationship with Leonardo;
- the strong spirit of innovation and investments in R&D which will favour the discovery of cutting-edge systems and services;
- the growing demand for electric vehicles, a positive trend for TPS as the Group is specialized in the design of "full electric" systems;
- the potential expansion in geographical terms. As of today, TPS is present in Switzerland and Poland and has two offices, not yet operational, in the United States. We believe TPS will aim at internationalization, through the penetration of the US market and the entrance in Austria and Germany through its subsidiary EMTB, headquartered in Bolzano.

*In 2020 A&D is expected to outperform Automotive*

As for the impacts of the pandemic and the lockdown, although most of the companies of the TPS Group remained open and active, some of their customers stopped their planned projects. We see this scenario to impact mainly:

- TPS' design and cost-engineering activities in the most cyclical sectors such as Automotive;
- TPS' training activities, as the courses had been stopped during the lockdown.

On the opposite, Avionics and Aerospace activities are seen as defensive. Among others, Leonardo confirmed all investment already planned for 2020.

*Value of Production: estimates assumptions*

Our estimates are on TPS Group as is, stand alone, at constant exchange rates, and derive from the following calculation assumptions.

We have built a matrix of cross-growth between the reference sector and the geographical area. Starting from the breakdown of the Value of Production by industry of reference we estimated the evolution up to 2022 of each of them. We calculated the annual Value of Production as the sum of the individual sector revenues and we adjusted the total for the growth differential that Europe and Italy, TPS' main reference markets, are expected to record with respect to the world economy. To then best adapt this calculation to the TPS business, we have made the following assumptions:

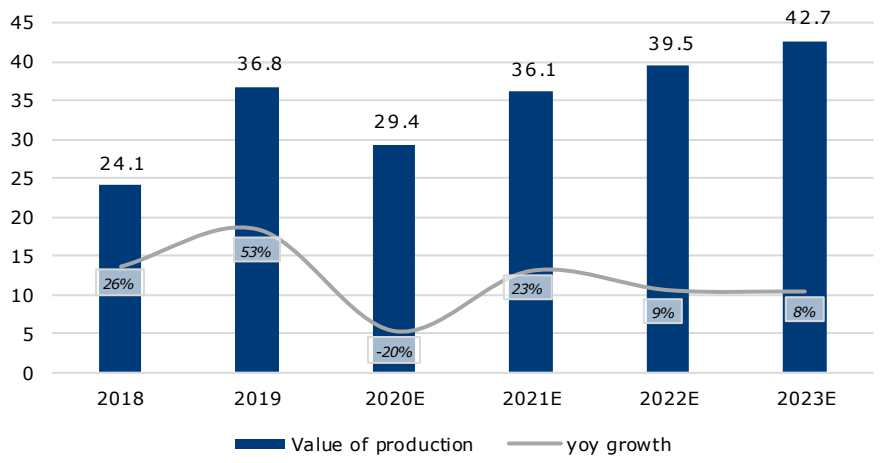
- for 2020 we assume that the sectoral and geographical exposures of TPS will remain unchanged compared to 2019; for 2021 and for 2022 we instead assume that the incidence of the A&D industry will drop slightly, in favour of the Automotive and minor sectoral exposures (Railway, Industrials, Oil & Gas), and that the incidence of the Italian market will also drop slightly in favour of an increase in exposure to the European and US markets;
- in terms of over-under performance compared to the reference industry, we keep a cautious view for the 2020-2021 period, with growth below the reference market in 2020, due to the small size of TPS' business, and in line in 2021. There are in fact some elements of uncertainty that characterize both reference end-markets. In the A&D industry, global traffic and the recovery in demand for commercial aircraft will depend on: i) the impact of the economic crisis on the disposable income of consumers and on their propensity to travel expenses, ii) the potential increase in airfares which could adversely affect air traffic, and iii) the potential reduced ability of airlines to purchase new planes and to implement investments for modernization, as government bail-outs could impose greater equity/cash reserves. According to IATA, global air traffic is expected to recover in two years and a half. As for the Automotive, the industry is set to decline in double digits this year and we expect most of the companies redrawing their strategic roadmap for the near term, deferring their planned capex till 2022 to preserve cash and cope with supply chain disruptions. We expect investments to remain driven by the need to meet stringent emission regulation.
- For 2022, assuming that in 2021 TPS will return to a Value of Production almost equal to that recorded in 2019, we estimate a growth higher than that of the reference market, based on the average organic outperformance recorded by TPS in 2018 and in 2019.

For 2023 we estimate an organic growth of 8% yoy, in line with that recorded in past years.

*VoP: -20% in 2020 to rebound in 2021 and reach just below €43mln in 2023*

In accordance with the previously described methodology and with the specific assumptions regarding TPS, we estimate the Value of Production at €29.4mln in 2020 and at €36.1mln in 2021, +23% yoy; from 2021 to 2023 the VoP will grow with a CAGR of 9% and reach €42.7mln in 2023.

*Figure 16: TPS Value of Production trend 2018-2023E, € mln*




*Source: Banca Profilo elaborations and estimates on Company data*

*Cost assumptions*

Our costs assumptions are based on the following drivers:

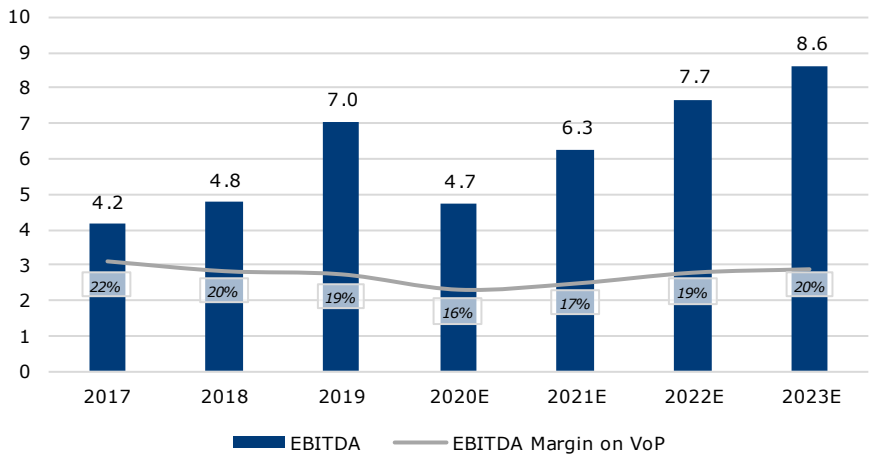
- Cost of materials and purchased services: for both of them we keep constant the incidence on the VoP recorded in 2019, equal to 3% and 21% respectively. The incidence of raw materials thus remains in line with the historical average, while that of services stops the downward trend recorded in past years: as explained in the previous paragraphs, the incidence of these costs has decreased over time because they have been internalized with new acquisitions; by not considering future M&A transactions in the estimates, this margin is assumed to be constant.
- Labour costs: for 2020 we assume a 16% yoy contraction, resulting in an increase in the incidence on the VoP to 60% from 57%; during the current year the cost of labour will be partially amortized by the use of the CIG, but, being largely characterized by fixed costs, we assume that it will contract in a less than proportional way compared to the VoP. From 2021 to 2023 we estimate the average cost per employee constant, setting it equal to the cost recorded in 2019 (44k) and we assume new hires, equal to 5 in 2021, 25 in 2022 and 35 in 2023.
- Other operating costs: we assume the same incidence on the value of production, equal to 0.3% throughout the entire forecasting period.

*EBITDA margin at 19.1% in 2019 from 21.7% in 2017 due to dilutive acquisitions*

EBITDA is estimated to decrease by 33% yoy in 2020, due to the high incidence of labour costs and the contraction in VoP. In 2021 we estimate a recovery of 33% yoy and from 2021 to 2023 a CAGR of 17%. EBITDA margin is expected to drop to 16% in 2020 and then gradually improve over the 2021-2023 period, up to 20.2% in 2023, also thanks to the full grounding of the potential deriving from the latest acquisitions, with synergies between the subsidiaries still feasible.

In 2020 and 2021 D&A will be impacted by the huge investments made by the Group, reaching €3mln and €3.2mln respectively. In 2022 and 2023 D&A is estimated to decrease to €2.9mln and €2.7mln respectively, due to a lower incidence of capex.

*Figure 17: TPS EBITDA and EBITDA margin trend 2017-2023E, € mln*




*Source: Banca Profilo elaborations and estimates on Company data*

*Net income at €4mln in 2023, up 13% CAGR compared to 2019*

Net income is expected at €1mln in 2020 and at €2mln in 2021. For the 2021-2013 period, Net income is expected to grow with a CAGR of 41% to reach €4mln in 2023.

*Table 4: TPS Profit & Loss evolution 2018-2023E, € mln*

| Profit & Loss (€/mln) | | | | | | |
|---|---|---|---|---|---|---|
| | **2018** | **2019** | **2020E** | **2021E** | **2022E** | **2023E** |
| **Value of production** | **24.1** | **36.8** | **29.4** | **36.1** | **39.5** | **42.7** |
| *yoy* | *26%* | *53%* | *-20%* | *23%* | *9%* | *8%* |
| Cost of materials and purchased services | (6.6) | (8.7) | (7.0) | (8.7) | (9.5) | (10.2) |
| *% on VoP* | *27%* | *24%* | *24%* | *24%* | *24%* | *24%* |
| **Added Value** | **17.5** | **28.1** | **22.3** | **27.5** | **30.0** | **32.5** |
| *yoy* | *36%* | *61%* | *-20%* | *23%* | *9%* | *8%* |
| Labour cost | (12.6) | (20.9) | (17.5) | (21.1) | (22.2) | (23.7) |
| *% on VoP* | *52%* | *57%* | *60%* | *58%* | *56%* | *56%* |
| Other Operating Expenses | (0.1) | (0.1) | (0.1) | (0.1) | (0.1) | (0.1) |
| *% on VoP* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* |
| **Comprehensive cost of goods sold** | (19.3) | (29.8) | (24.6) | (29.9) | (31.8) | (34.1) |
| *% on VoP* | *80%* | *81%* | *84%* | *83%* | *81%* | *80%* |
| **EBITDA** | **4.8** | **7.0** | **4.7** | **6.3** | **7.7** | **8.6** |
| *EBITDA Margin on VoP* | *20%* | *19%* | *16%* | *17%* | *19%* | *20%* |
| D&A | (1.2) | (3.0) | (3.0) | (3.2) | (2.9) | (2.7) |
| *% on VoP* | *5%* | *8%* | *10%* | *9%* | *7%* | *6%* |
| **EBIT** | **3.5** | **4.0** | **1.7** | **3.1** | **4.8** | **5.9** |
| *EBIT Margin on VoP* | *15%* | *11%* | *6%* | *9%* | *12%* | *14%* |
| Net financial income (expenses) | (0.2) | (0.3) | (0.1) | (0.1) | (0.1) | (0.1) |
| *% on VoP* | *1%* | *1%* | *0%* | *0%* | *0%* | *0%* |
| Net extraordinary income (expense) | 0.1 | (0.2) | (0.1) | (0.1) | (0.2) | (0.1) |
| *% on VoP* | *0%* | *1%* | *0%* | *0%* | *0%* | *0%* |
| **EBT** | **3.4** | **3.5** | **1.5** | **2.9** | **4.5** | **5.7** |
| *EBT Margin on VoP* | *14%* | *10%* | *5%* | *8%* | *11%* | *13%* |
| Income Tax Expense | (1.0) | (1.1) | (0.5) | (0.9) | (1.4) | (1.7) |
| *Tax rate* | *29%* | *30%* | *30%* | *30%* | *30%* | *30%* |
| **Net Income** | **2.4** | **2.4** | **1.0** | **2.0** | **3.1** | **4.0** |
| *% on VoP* | *10%* | *7%* | *4%* | *6%* | *8%* | *9%* |

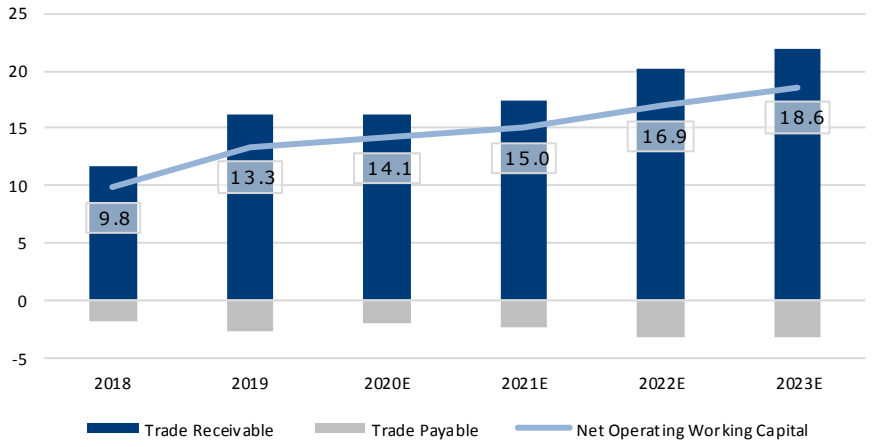
*Source: Banca Profilo elaborations and estimates on Company data*

*Balance Sheet projections: increasing capex (€8.3mln) and NWC (€5.2mln)*

Regarding our Balance Sheet projections (2020E-2023E), we estimate:

- €8.3mln of capex in four years, mostly intangible. Given the current situation, in 2020 we project a reduction in capex, which we estimate at €1.5mln, while in the 2021-2023 period we forecast cumulated capex of €6.8mln, investments needed to maintain the competitive profile of the Company and to strengthen the business of the Group.
- €5.2mln of Operating Net Working Capital increase in four years, for which we project an increase in the incidence on VoP to 48% in 2020 to drop thereafter to an average of 43% over the following three years.

*Figure 18: TPS Net working capital composition and dynamics 2018-2023E, € mln*




*Source: Banca Profilo elaborations and estimates on Company data*

*Net cash at €14.5mln in 2023*

On a stand-alone basis, the net cash position is expected to improve further to reach some €14.5mln in 2023. No dividend distribution is forecast in in our estimates.

*Table 5: TPS Balance Sheet evolution 2018-2023E, € mln*

| Balance Sheet (€/mln) | | | | | | |
|---|---|---|---|---|---|---|
| | **2018** | **2019** | **2020E** | **2021E** | **2022E** | **2023E** |
| Intangible Assets | 4.2 | 5.5 | 5.4 | 5.5 | 5.8 | 6.0 |
| Property, Plant & Equipment | 0.9 | 3.5 | 2.5 | 1.6 | 0.6 | 0.1 |
| Financial Assets | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| **Fixed Assets** | **5.2** | **9.2** | **8.1** | **7.2** | **6.5** | **6.3** |
| Trade Receivable | 11.7 | 16.1 | 16.2 | 17.4 | 20.2 | 21.8 |
| Inventories | - | - | - | - | - | - |
| Trade Payable | (1.9) | (2.8) | (2.0) | (2.4) | (3.3) | (3.3) |
| **Net Operating Working Capital** | **9.8** | **13.3** | **14.1** | **15.0** | **16.9** | **18.6** |
| *% on VoP* | *41%* | *36%* | *48%* | *42%* | *43%* | *43%* |
| Trade receivables (% on VoP) | *49%* | *44%* | *55%* | *48%* | *51%* | *51%* |
| Inventories (% on VoP) | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* |
| Trade paybles (% on COGS) | *10%* | *9%* | *8%* | *8%* | *10%* | *10%* |
| Other Assets | 2.2 | 1.9 | 2.1 | 2.6 | 2.9 | 3.1 |
| Other Liabilities | (4.0) | (4.3) | (4.1) | (5.1) | (5.6) | (6.0) |
| Funds | (2.9) | (3.7) | (4.0) | (4.4) | (4.7) | (5.1) |
| **Invested Capital** | **10.4** | **16.5** | **16.3** | **15.4** | **16.0** | **16.8** |
| ***Capex*** | **3.4** | **3.7** | **1.5** | **2.2** | **2.2** | **2.4** |
| *Intangible* | 3.2 | 3.5 | 1.4 | 2.1 | 2.1 | 2.3 |
| *Tangible* | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.2 |
| *% on VoP* | *14%* | *10%* | *5%* | *6%* | *6%* | *6%* |
| Shareholders' equity | 14.7 | 16.7 | 18.1 | 20.0 | 23.1 | 27.0 |
| Group Net Income | 2.3 | 2.4 | 1.0 | 2.0 | 3.1 | 3.9 |
| Shareholders' equity attributable to third parties | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Minority/Non Controlling Interest | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Consolidated Shareholders' Equity** | **17.4** | **19.4** | **19.4** | **22.3** | **26.5** | **31.3** |
| Debts | 2.5 | 2.3 | 2.3 | 2.4 | 2.4 | 2.4 |
| Cash and cash equivalents | (9.9) | (8.3) | (8.5) | (12.4) | (15.9) | (20.0) |
| Leasing debt | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Payables for rights of use | - | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 |
| Other financial receivables | (0.0) | - | - | - | - | - |
| **Net Financial Position (Cash)** | **(7.0)** | **(2.9)** | **(3.1)** | **(6.9)** | **(10.5)** | **(14.5)** |

*Source: Banca Profilo elaborations and estimates on Company data*

*Free Cash Flow of €10.4mln in in four years*

According to our Profit & Loss and Balance Sheet estimates, the Group will keep being cash generative in the four years 2020E-2023E. We estimate €10.4mln of aggregated Free Cash Flow in four years, net of comprehensive €8.3mln of capex.

*Table 6: TPS Free Cash Flow evolution 2018-2023E*

| Cash Flow (€/mln) | | | | | | |
|---|---|---|---|---|---|---|
| | **2018** | **2019** | **2020E** | **2021E** | **2022E** | **2023E** |
| EBIT | 3.5 | 4.0 | 1.7 | 3.1 | 4.8 | 5.9 |
| Tax rate | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| **NOPAT** | **2.5** | **2.8** | **1.2** | **2.2** | **3.3** | **4.1** |
| D&A | 1.2 | 3.0 | 3.0 | 3.2 | 2.9 | 2.7 |
| Changes in Funds | 0.1 | 0.1 | 0.3 | 0.4 | 0.4 | 0.4 |
| Changes in Operating NWC | 2.7 | (2.6) | (0.8) | (0.9) | (1.9) | (1.6) |
| Capex | (3.4) | (3.7) | (1.5) | (2.2) | (2.2) | (2.4) |
| **Free Cash Flow** | **3.2** | **(0.4)** | **2.2** | **2.6** | **2.5** | **3.2** |

*Source: Banca Profilo elaborations and estimates on Company data*

## *Key risks*

*Estimates execution risks*

The main risks related to the TPS business are: i) the Group customer concentrations, ii) the potential demand contraction and the worsening of macro-economic scenario, iii) the risk of losing qualified personnel, iv) potential problems of product liability, v) potential changes in the regulatory framework, vi) potential non-renewal of authorizations and certifications, and vii) the risk associated with the success of M&A operations.
Among these, we believe the risks with higher probability and significant potential impact on the business are only: i) the risk associated with customer concentration and the relative dependence of revenues on a few important customers, and ii) the risk of contraction of demand or of economic downturns. Regarding the other risks, or for their low likelihood of occurrence, or for their low potential impact on the business, we do not believe they could significantly affect our projections, unless exceptional events occur.

*The risk associated with customer concentration:*
*- low probability*
*- very high impact*

The Group's business is typically characterized by long-term relationships with the main national players which represent a significant portion of the reference market and of the Group's revenues. TPS is therefore potentially exposed to the risk of default, termination and non-renewal of existing contractual relationships with these customers. This risk is endogenous to the sectors in which TPS operates and is partially counterbalanced by the reliability of customers, consisting of primary industrial realities, and by the type of agreements signed, long-term contracts that guarantee a discreet flexibility of action and high solvency standards. We evaluate this risk with a low level of probability, but with a very high potential impact on the business.

*The risk related to the contraction of demand:*
*- medium probability*
*- medium impact*

The business of TPS, like any other company, is exposed to the potential risk of contractions in demand deriving from a reduction in the activity of the main customers or from potential exogenous events that could negatively impact the business. This risk is partially offset by the defensive nature of TPS' business, derived from the partial visibility of revenues, the defensive endogenous character of the A&D industry and the high entry barriers in the sectors of activity. We evaluate this risk with a medium probability and with a medium potential impact on the business.

*The risk of losing qualified personnel:*
*- low probability*
*- medium-low impact*

The sector in which the Group operates is characterized by the need for companies to have a highly specialized staff with high technical skills. If a significant number of specialized professionals should leave TPS, in case of difficulty to find equally qualified substitutes, the innovation capacity and growth prospects of the Group could be affected. In this context, TPS has historically been able to maintain a particularly limited turnover level. We evaluate this risk with a low probability and with a medium-low potential impact on the business.

*The risk related to product liability:*
*- low probability*

TPS is active in the field of design and construction of aerospace and automotive components and there is a risk of any design or production defects of the products. This eventuality would expose the Group to potential legal actions by third parties who were

| | |
|---|---|
| *- medium impact* | able to demonstrate the causal link between the damage suffered and the activity of the Group. For this reason, TPS has taken out insurance policies to protect itself against this risk. We evaluate this risk with a low level of probability and with a medium potential impact on the business. |
| *The risk related to the regulatory framework:*<br>*- medium-low probability*<br>*- low impact* | TPS operates in sectors with a high level of legislation and regulations, both national and European. The possible introduction in the sector of a more restrictive regulatory framework and the consequent need to sustain unexpected costs of adaptation to the new regulations could have negative effects on the Group's economic situation. We evaluate this risk with a medium-low level of probability and with a low potential impact on the business. |
| *The risk associated with the non-renewal of authorizations and certifications:*<br>*- low probability*<br>*- medium-low impact* | TPS is required to obtain and maintain specific authorizations and administrative certifications in relation to the design and construction of certain products and to the supply of certain services. These authorizations and certifications can be suspended, revoked or not renewed by the competent authorities for different reasons, including compliance with the requirements imposed by the applicable legislation. We evaluate this risk with a low probability but with a medium-low potential impact on the business. |
| *The risk associated with the success of M&A operations:*<br>*- medium-low probability*<br>*- medium impact* | One of the pillars of TPS' growth is represented by acquisitions. The difficulties potentially connected to these operations, such as delays in their completion as well as any difficulties encountered in the integration processes, like unexpected costs and liabilities, could have the effect of a potential slowdown of the Group's growth process. We evaluate this risk with a medium potential impact on the business but with a medium-low probability as TPS has a consolidated track-record in this type of operations. |

*Table 7: Risk matrix*

| | | | | | | |
|---|---|---|---|---|---|---|
| **Impact** | Very high | Risk associated with customer concentration | | | | |
| | High | | | | | |
| | Medium | Risk related to product liability | Risk associated with M&A operations | Risk of contraction of demand or of economic downturns | | |
| | Medium-Low | Risk of losing qualified personnel;<br><br>Potential non-renewal of certifications | | | | |
| | Low | | Risk related to the regulatory framework | | | |
| **Potential impact on the business VS likelihood of occurrence** | | Low | Medium-Low | Medium | High | Very high |
| | | **Likelihood** | | | | |

*Source: Banca Profilo elaborations and estimates on Company data*

# Valuation

*DCF method and market multiple*

Given TPS' cash generating business model, a DCF method well adapts as a valuation approach. Furthermore, we have selected a sample of listed European companies, "comparables" to TPS, which offer highly specialized engineering services, mainly to the Avionics and Automotive industries, to run also a market multiple relative valuation.

## *DCF Valuation*

*DCF assumptions*

To run a DCF model, we use our projections of unlevered FCFs for the 2020E-2023E explicit period: €10.4mln cumulated and €2.6mln as yearly average, including cumulated capex of €8.3mln or €2.1mln as yearly average.
In order to get to the Equity Valuation we have considered the net cash position at the end of 2019 (€2.9mln).

In order to assess the Terminal Value, we factor in:

- an average yearly unlevered FCF of €2.6mln
- 2% perpetual growth rate

*Table 8: Unlevered FCFs*

| Cash flow (€/mln) | 2018 | 2019 | 2020E | 2021E | 2022E | 2023E | Over |
|---|---|---|---|---|---|---|---|
| EBIT | 3.5 | 4.0 | 1.7 | 3.1 | 4.8 | 5.9 | |
| Tax Rate | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | |
| **NOPAT** | **2.5** | **2.8** | **1.2** | **2.2** | **3.3** | **4.1** | |
| D&A | 1.2 | 3.0 | 3.0 | 3.2 | 2.9 | 2.7 | |
| Changes in Funds | 0.1 | 0.1 | 0.3 | 0.4 | 0.4 | 0.4 | |
| Changes in Operating NWC | 2.7 | (2.6) | (0.8) | (0.9) | (1.9) | (1.6) | |
| Capex | (3.4) | (3.7) | (1.5) | (2.2) | (2.2) | (2.4) | |
| **Free Cash Flow (FCF)** | **3.2** | **(0.4)** | **2.2** | **2.6** | **2.5** | **3.2** | **2.6** |

*Source: Banca Profilo estimates and elaborations*

*DCF assumptions: WACC at 6.4%*

We use a WACC of 6.4%, derived from:

- risk free rate of 3.0%, as implicitly expected by consensus on the 30Y Italian BTP yield curve (moving average of the last 100 days) with an estimated increase in interest rates;
- market risk premium of 5%;
- beta of 0.9, coming from the average of chosen listed peers to TPS;
- target debt to equity structure, with 80% weight of Equity

*Table 9: WACC calculation*

| WACC Calculation | |
|---|---|
| Perpetual growth rate | 2.0% |
| **WACC** | **6.4%** |
| Risk free rate (Italy 30Y) | 3.0% |
| Equity Risk Premium | 5.0% |
| Beta | 0.9 |
| Cost of Equity | 7.5% |
| Cost of Debt | 2.8% |
| Tax rate | 30.0% |

*Source: Banca Profilo estimates and elaborations*

*DCF fair value: €7.9/share*

The DCF method leads us to an Enterprise Value of €54.0mln and an Equity Value of €56.9mln or €7.9/share.

*Table 10: DCF valuation*

| DCF Valuation (€ mln, except for the target price) | 2018 | 2019 | 2020E | 2021E | 2022E | 2023E | Over |
|---|---|---|---|---|---|---|---|
| **Free Cash Flow (FCF)** | | | **2.2** | **2.6** | **2.5** | **3.2** | **2.6** |
| Years | | | 1 | 2 | 3 | 4 | |
| Discount factor | | | 0.94 | 0.88 | 0.83 | 0.78 | |
| NPV Cash flows | | | 2.1 | 2.3 | 2.0 | 2.5 | |
| Sum of NPVs | | | 2.1 | 4.3 | 6.4 | 8.8 | |
| Terminal Value | | | | | | | 58.0 |
| NPV Terminal Value | | | | | | | 45.2 |
| Enterprise Value | | | | | | | 54.0 |
| Net Debt 2019 | | | | | | | (2.9) |
| Minorities 2019 | | | | | | | 0.05 |
| Equity Value | | | | | | | 56.9 |
| Current outstanding shares | | | | | | | 7.2 |
| **Target Price (€)** | | | | | | | **7.9** |

*Source: Banca Profilo estimates and elaborations*

## *Relative market multiples valuation*

*EV/EBITDA used to assess the market multiples valuation of TPS*

In order to assess a relative valuation of TPS through the market multiples approach, we selected a sample of listed European companies, "comparables" to TPS, which offer highly specialized engineering services, mainly to the Avionics and Automotive industries: Alten, Sogeclair, Akka Technologies, Bertrandt, EDAG Engineering Group, Meggitt, TP Group, FIGEAC-Aero and TXT e-solutions.

*Table 11: Sample benchmarking on sales growth and EBITDA margin*

| Company | Currency | Market Cap (Mln) | EV | Sales growth | | | | | EBITDA margin | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 29/05/2020 | | 2018 | 2019 | 2020E | 2021E | 2022E | 2018 | 2019 | 2020E | 2021E | 2022E |
| Alten | EUR | 2,467.7 | 2,570.1 | *14%* | *16%* | *-8%* | *3%* | *3%* | *10%* | *11%* | *8%* | *10%* | *11%* |
| Sogeclair | EUR | 51.6 | 82.5 | *8%* | *16%* | *-8%* | *8%* | *-5%* | *10%* | *9%* | *7%* | *9%* | *11%* |
| Akka Technologies | EUR | 558.0 | 785.1 | *13%* | *20%* | *-2%* | *7%* | *2%* | *7%* | *9%* | *8%* | *10%* | *10%* |
| Bertrandt | EUR | 362.6 | 506.1 | *3%* | *4%* | *-7%* | *7%* | *3%* | *10%* | *9%* | *8%* | *9%* | *10%* |
| EDAG Engineering Group | EUR | 149.3 | 378.9 | *9%* | *-1%* | *-9%* | *7%* | *6%* | *11%* | *8%* | *8%* | *10%* | *11%* |
| Meggitt | GBp | 2,162.6 | 3,073.8 | *2%* | *6%* | *-12%* | *10%* | *7%* | *23%* | *25%* | *19%* | *20%* | *21%* |
| TP Group | GBp | 40.9 | 31.7 | *33%* | *41%* | *26%* | *N.A.* | *N.A.* | *6%* | *6%* | *8%* | *N.A.* | *N.A.* |
| FIGEAC-AERO | EUR | 108.7 | 390.2 | *14%* | *15%* | *3%* | *-15%* | *6%* | *15%* | *16%* | *15%* | *14%* | *15%* |
| TXT e-solutions | EUR | 105.9 | 64.4 | *11%* | *48%* | *9%* | *6%* | *8%* | *10%* | *12%* | *10%* | *12%* | *14%* |
| **Mean** | | | | ***12%*** | ***15%*** | ***-3%*** | ***7%*** | ***3%*** | ***11%*** | ***11%*** | ***10%*** | ***12%*** | ***12%*** |
| **Median** | | | | ***9%*** | ***16%*** | ***-8%*** | ***7%*** | ***3%*** | ***10%*** | ***9%*** | ***8%*** | ***10%*** | ***11%*** |
| **TPS** | ***EUR*** | ***26.8*** | ***23.9*** | ***26%*** | ***53%*** | ***-20%*** | ***23%*** | ***9%*** | ***20%*** | ***19%*** | ***16%*** | ***17%*** | ***19%*** |

*Source: Banca Profilo estimates and elaborations on FactSet (as of May 29th, 2020)*

*EV/EBITDA 2020E-2021E of 6.6x*

Our sample shows a median EV/EBITDA 2020E-2021E of 6.6x, from which we derived an average Equity Value of €39mln, equal to a per share value of €5.4.

*Table 12: EV/EBITDA market multiple*

| Valuation on EV/EBITDA market multiple (€ mln, except for the target price) | | | |
|---|---|---|---|
| | 2020 | | 2021 |
| Median EV/EBITDA best peers | 6.9x | | 6.3x |
| **Average EV/EBITDA 2020-2021** | | **6.6x** | |
| EBITDA | 4.7 | | 6.3 |
| Net Debt 2019 | | (2.9) | |
| Enteprise Value | 31.1 | | 41.2 |
| Current Minorities | 0.0 | | 0.0 |
| Equity Value | 33.9 | | 44.0 |
| Average Equity Value | | 39.0 | |
| Current outstanding shares | | 7.2 | |
| **Target Price (€)** | | **5.4** | |

*Source: Banca Profilo estimates and elaborations on FactSet (as of May 29th, 2020)*

*12-month target price at €6.6/share BUY recommendation*

In order to assess current market valuation of the Covid-19 emergency scenario on TPS and similar companies to TPS Group and to set a 12-month target price, we blended the fair value derived from the DCF valuation with the relative market multiples valuation.

We thus set our 12-month target price at €6.6/share as the average of the DCF and relative valuations, implying a potential upside close to 80% as of market close on June 2, 2020.

Our recommendation is BUY.

*Figure 19: TPS' price from IPO vs 12-months Target Price*


*Source: Banca Profilo estimates and elaborations on FactSet (as of June 2nd, 2020)*

| TPS "ID Card" | Recommendation | Target Price | Upside |
|---|---|---|---|
| | **BUY** | **6.6 €** | **79%** |

## Company Overview

The TPS Group was founded in 1964 as one of the first Italian companies offering an external analysis and drafting service of technical and manual documentation for the Aeronautical industry. With more than 50 years of experience, TPS Group stands out as the leading Italian player in the field of technical and engineering services for the Aerospace & Defense (~55% of revenues) and Automotive industries (~35% of revenues): in residual part the Group is also active in the Oil & Gas, Railway, and machinery sectors. TPS capabilities range from technical manuals to augmented reality and from the design of avionics software to the production of components and multimedia training platforms, among others. After its corporate governance reorganization started in 2008, the Company began a process of business diversification and expansion, also driven by a path of successful acquisitions which increased both the range of services and the customer base. After having obtained the Elite certification by Borsa Italiana in 2016, TPS Group went public on AIM Italia in March 2017. Since then, the Group has acquired and consolidated five companies active in various industrial fields, and its Value of Production has more than doubled, from €14.6mln in 2016 to €36.8mln in 2019 (+36% CAGR). Net of acquisitions, TPS has historically recorded an organic growth of at least 7% yoy, thanks also to the consolidation of commercial relations with important industrial groups such as Leonardo, Iveco and FCA. According to our 2020E-2023E estimates, TPS is set to diversify and expand its business further, with a Value of Production expected to grow at a 13% CAGR to reach €43mln in 2023. In addition to the full roll out of synergies from recent acquisitions, the business will be supported by the following drivers: i) its geographic expansion in Europe and the United States, ii) the consolidation of already strong commercial relations with important industrial groups, iii) its great spirit of innovation and investments in R&D, which will favour the discovery of cutting-edge systems and services, and iv) the technological boost from virtual and augmented reality applications and from the specialization in the design of systems for electric vehicles.

## SWOT Analysis

### Strengths

- Very advanced management control and severe economic balance
- Partial revenue visibility, thanks to multiannual agreements
- Strong-long term relationship with Leonardo which has lasted since the years of TPS foundation
- Resilience and defensive character of main end-market
- High entry barriers in the sectors of activity
- Consolidated track-record in M&A operations

### Weaknesses

- Small size of the business
- End-markets concentration and value of production's dependence on few customers
- Absolute dependence on the Italian market which represents more than 90% of the VoP

### Opportunities

- Strong spirit of innovation and investments in R&D that favor the discovery of cutting-edge systems and services
- Geographical expansion opportunities in the United States and in the European markets
- Specialization in the design of "full electric" systems and exposure to the growing trend of electric vehicles
- Potential increasing demand for virtual reality and augmented reality systems in a new normality characterized by social distancing

### Threats

- Uncertainties regarding the recovery of the Automotive a Oil & Gas sectors after the economic impact of Covid-19
- Uncertainties regarding the recovery of global air traffic a the recovery of demand for commercial aircraft after the economic impact of Covid-19

## Main catalysts

Full grounding of the potential deriving from the latest acquisitions (synergies between the subsidiaries are still feasible)
M&A operations expected to continue in the coming years
Potential internationalization in Europe and the United States

## Main risks

Risk associated with customer concentration and the relative dependence of revenues on a few important customers
Economic impact of Covid-19 on the demand for commercial aircrafts, helicopters and automobiles

# TPS "ID Card"

June 3rd, 2020 - 16:00

| Recommendation | Target Price | Upside |
|---|---|---|
| **BUY** | **6.6 €** | **79%** |

## Main Financials

| (€ mln) | 2018 | 2019 | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|
| **Value of production** | **24.1** | **36.8** | **29.4** | **36.1** | **39.5** |
| *yoy change* | *26%* | *53%* | *-20%* | *23%* | *9%* |
| Added Value | 17.5 | 28.1 | 22.3 | 27.5 | 30.0 |
| *Margin on VoP (%)* | *73%* | *76%* | *76%* | *76%* | *76%* |
| **EBITDA** | **4.8** | **7.0** | **4.7** | **6.3** | **7.7** |
| *yoy change* | *15%* | *48%* | *-33%* | *33%* | *23%* |
| *EBITDA margin on VoP (%)* | *20%* | *19%* | *16%* | *17%* | *19%* |
| **EBIT** | **3.5** | **4.0** | **1.7** | **3.1** | **4.8** |
| *EBIT margin on VoP (%)* | *15%* | *11%* | *6%* | *9%* | *12%* |
| EBT | 3.4 | 3.5 | 1.5 | 2.9 | 4.5 |
| *Margin on VoP (%)* | *14%* | *10%* | *5%* | *8%* | *11%* |
| **Net income** | **2.4** | **2.4** | **1.0** | **2.0** | **3.1** |
| *Margin on VoP (%)* | *10%* | *7%* | *4%* | *6%* | *8%* |
| **Net debt (cash)** | **(7.0)** | **(2.9)** | **(3.1)** | **(6.9)** | **(10.5)** |
| Shareholders Equity | 14.7 | 16.7 | 18.1 | 20.0 | 23.1 |
| Net OWC | 9.8 | 13.3 | 14.1 | 15.0 | 16.9 |
| Capex | (3.4) | (3.7) | (1.5) | (2.2) | (2.2) |
| Free Cash Flow | 3.2 | (0.4) | 2.2 | 2.6 | 2.5 |

## Company Description

| | |
|---|---|
| Company Sector | Aerospace & Defense |
| Last price (€) | 3.7 |
| Number of shares (mln) | 7.2 |
| Market Cap (€ mln) | 26.8 |
| Reference Index | FTSE AIM ITALIA |
| Main Shareholders | G&D srl |
| Main Shareholder stake | 65% |
| Free Float | 17% |
| Daily Average Volumes | 7,065 |
| Sample of comparables | Alten, Sogeclair, Akka Technologies, Bertrandt, EDAG Engineering Group, Meggitt, TP Group, FIGEAC-Aero, TXT e-solutions |

## Breakdown by business unit

| (€ mln) | 2018 | 2019 | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|
| Technical Publishing & Training | | 12.5 | 9.9 | 12.2 | 13.3 |
| Engineering & Cost Engineering | | 12.7 | 10.0 | 12.4 | 13.5 |
| Avionic & Informative Technologies | | 3.3 | 2.6 | 3.2 | 3.5 |
| Digital Content Management | | 6.5 | 5.1 | 6.3 | 6.9 |
| **Revenues** | **22.5** | **34.9** | **27.7** | **34.0** | **37.2** |

## Data of peers

| | 2019 | 2020E | 2021E |
|---|---|---|---|
| Revenue Growth (yoy) | *15%* | *-3%* | *7%* |
| EBITDA Margin | *11%* | *9%* | *12%* |
| Net Icome Margin | *3%* | *3%* | *4%* |
| Net Debt/EBITDA | *0.6x* | *1.0x* | *1.3x* |

*Average data*

## Solvibility Ratios

| | 2018 | 2019 | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|
| Net Debt (cash)/Equity | -0.4x | -0.2x | -0.2x | -0.3x | -0.4x |
| Net Debt (cash)/EBITDA | -1.5x | -0.4x | -0.7x | -1.1x | -1.4x |
| EBIT Interest Coverage Ratio | 18.6x | 26.6x | 11.4x | 20.2x | 31.1x |

## Multiples of peers

| | 2020E | 2021E |
|---|---|---|
| Average EV/EBITDA | 7.6x | 6.5x |
| Median EV/EBITDA | 6.9x | 6.3x |

## Financial and Operative ratios

| | 2018 | 2019 | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|
| Operating WC Turnover | 2.5 | 2.8 | 2.1 | 2.4 | 2.3 |
| Asset Turnover | 0.8 | 1.0 | 0.8 | 0.9 | 0.9 |
| Tax rate | *29%* | *30%* | *30%* | *30%* | *30%* |
| ROE | *14%* | *13%* | *5%* | *9%* | *12%* |
| ROIC | *24%* | *17%* | *7%* | *14%* | *21%* |
| Capex/VoP | *14%* | *10%* | *5%* | *6%* | *6%* |
| D&A/Capex | 48% | 140% | 199% | 141% | 130% |

*Source: FactSet, Banca Profilo estimates and elaborations*

## DISCLAIMER

### ANALYST'S AND BANK'S INFORMATION

*THIS DOCUMENT CONCERNING NEODECORTECH S.P.A, (THE "ISSUER" OR THE "COMPANY") HAS BEEN DRAFTED BY FRANCESCA SABATINI WHO IS EMPLOYED BY BANCA PROFILO S.P.A. ("THE BANK") AS FINANCIAL ANALYST; FRANCESCA SABATINI IS RESPONSIBLE FOR THE DRAFTING OF THE DOCUMENT.*

*BANCA PROFILO S.P.A. IS A BANK AUTHORISED TO PERFORM BANKING AND INVESTMENT SERVICES; IT IS PART OF BANCA PROFILO BANKING GROUP (THE "GROUP") AND IT IS SUBJECT TO THE MANAGEMENT AND CO-ORDINATION OF AREPO BP S.P.A. (THE "PARENT COMPANY"). SATOR PRIVATE EQUITY FUND "A" LP (THE "PARENT ENTITY") HOLDS INDIRECT CONTROL PARTICIPATION INTERESTS IN BANCA PROFILO.*

*THE BANK IS REGISTERED WITH THE ITALIAN BANKING ASSOCIATION CODE NO. 3025 AND IS SUBJECT TO THE REGULATION AND SURVEILLANCE OF THE BANK OF ITALY AND OF CONSOB (COMMISSIONE NAZIONALE PER LE SOCIETÀ E LE BORSA). THE BANK HAS PREPARED THIS DOCUMENT FOR ITS PROFESSIONAL CLIENTS ONLY, PURSUANT TO DIRECTIVE 2004/39/EC AND ANNEX 3 OF THE CONSOB REGULATION ON INTERMEDIARIES (RESOLUTION N. 16190). THIS DOCUMENT IS BEING DISTRIBUTED AS OF [NOVEMBER, 23RD, 17:48].*

*THE ANALYST FRANCESCA SABATINI WHO HAS DRAFTED THIS DOCUMENT HAS SIGNIFICANT EXPERIENCE IN BANCA PROFILO S.P.A. AND OTHER INVESTMENT COMPANIES. THE ANALYST AND ITS RELATIVES DO NOT OWN FINANCIAL INSTRUMENTS ISSUED BY THE ISSUER AND SHE DOES NOT ACT AS SENIOR MANAGER, DIRECTOR OR ADVISOR FOR THE ISSUER. THE ANALYST DOES NOT RECEIVE BONUSES, INCOME OR ANY OTHER REMUNERATION CORRELATING, DIRECTLY OR INDIRECTLY, TO THE SUCCESS OF THE INVESTMENT BANKING OPERATIONS OF BANCA PROFILO S.P.A.*

*A REDACTED VERSION OF THIS REPORT HAS BEEN DISCLOSED TO THE ISSUER TO PERMIT TO IT TO REVIEW AND COMMENT ON FACTUAL INFORMATION RELATING TO THE ISSUER AND THIS REPORT HAS BEEN AMENDED FOLLOWING SUCH DISCLOSURE PRIOR TO ITS FINAL DISSEMINATION.*

*THIS DOCUMENT IS BASED UPON INFORMATION THAT WE CONSIDER RELIABLE, BUT THE BANK HAS NOT INDEPENDENTLY VERIFIED THE CONTENTS HEREOF. THE OPINIONS, ESTIMATES AND PROJECTIONS EXPRESSED IN IT ARE AS OF THE DATE HEREOF AND ARE SUBJECT TO CHANGE WITHOUT NOTICE TO THE RECIPIENT. PAST PERFOMANCE IS NOT GUARANTEE OF FUTURE RESULTS.*

*THIS REPORT HAS BEEN PREPARED BY ITS AUTHORS INDEPENDENTLY OF THE COMPANY AND ITS SHAREHOLDERS, SUBSIDIARIES AND AFFILIATES. THE BANK HAS NO AUTHORITY WHATSOEVER TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATION OR WARRANTY ON BEHALF OF THE COMPANY, ANY OTHER PERSON IN CONNECTION THEREWITH. IN PARTICULAR, THE OPINIONS, ESTIMATES AND PROJECTIONS EXPRESSED IN IT ARE ENTIRELY THOSE OF THE AUTHOR HEREOF.*

*NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE AS TO AND NO RELIANCE SHOULD BE PLACED ON THE FAIRNESS, ACCURACY, COMPLETENESS OR REASONABLENESS OF THE INFORMATION, OPINIONS AND PROJECTIONS CONTAINED IN THIS DOCUMENT, AND NONE OF THE BANK, THE COMPANY, NOR ANY OTHER PERSON ACCEPTS ANY LIABILITY WHATSOEVER FOR ANY LOSS HOWSOEVER ARISING FROM ANY USE OF THIS DOCUMENT OR ITS CONTENTS OR OTHERWISE ARISING IN CONNECTION THEREWITH.*

### NO DUPLICATION

*NO PART OF THE CONTENT OF THE DOCUMENT MAY BE COPIED, FORWARDED OR DUPLICATED IN ANY FORM OR BY ANY MEANS WITHOUT THE PRIOR CONSENT OF THE BANK. BY ACCEPTING THIS REPORT, YOU AGREE TO BE BOUND BY THE FOREGOING LIMITATIONS.*

### NO OFFER OR SOLICITAION

*THIS DOCUMENT DOES NOT CONSTITUTE AN OFFER OR INVITATION OR FORM PART OF AN OFFER, SOLICITATION OR INVITATION TO PURCHASE ANY SECURITIES, AND NEITHER THIS DOCUMENT NOR ANYTHING CONTAINED HEREIN SHALL FORM THE BASIS OF ANY CONTRACT OR COMMITMENT WHATSOEVER.*

### RECIPIENTS

*THIS DOCUMENT IS GIVEN TO YOU SOLELY FOR YOUR INFORMATION ON A CONFIDENTIAL BASIS AND MAY NOT BE REPRODUCED OR REDISTRIBUTED, IN WHOLE OR IN PART, TO ANY OTHER PERSON. IN PARTICULAR, NEITHER THIS DOCUMENT NOR ANY COPY HEREOF MAY BE TAKEN OR TRANSMITTED IN OR INTO THE UNITED STATES (THE "U.S."), AUSTRALIA, CANADA OR JAPAN OR REDISTRIBUTED, DIRECTLY OR INDIRECTLY, IN THE U.S., AUSTRALIA, CANADA OR JAPAN. ANY FAILURE TO COMPLY WITH THIS RESTRICTION MAY CONSTITUTE A VIOLATION OF U.S., AUSTRALIAN, CANADIAN OR JAPANESE SECURITIES LAWS.*

*THIS DOCUMENT IS BEING DISTRIBUTED ONLY TO, AND IS DIRECTED ONLY AT, PERSONS WHO ARE QUALIFIED INVESTORS WITHIN THE MEANING OF ARTICLE 2(1)(E) OF THE PROSPECTUS DIRECTIVE (DIRECTIVE 2003/71/EC) (ALL SUCH PERSONS BEING REFERRED TO AS "RELEVANT PERSONS"). THIS DOCUMENT MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS COMMUNICATION RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS.*

*IN CASE THAT THIS DOCUMENT IS DISTRIBUTED IN ITALY IT SHALL BE DIRECTED ONLY AT QUALIFIED INVESTORS WITHIN THE MEANING OF ARTICLE 100(1) (A) OF LEGISLATIVE DECREE NO. 58 OF FEBRUARY 24, 1998, AS AMENDED, AND ARTICLE 34-TER, PARA. 1, LETT B), OF CONSOB REGULATION NO. 11971 OF 1999, AS AMENDED. THIS DOCUMENT IS NOT ADDRESSED TO ANY MEMBER OF THE GENERAL PUBLIC IN ITALY. IN NO CIRCUMSTANCES SHOULD THIS DOCUMENT CIRCULATE AMONG OR BE DISTRIBUTED TO (I) A MEMBER OF THE GENERAL PUBLIC, (II) INDIVIDUALS OR ENTITIES FALLING OUTSIDE THE DEFINITION OF "QUALIFIED INVESTORS" AS SPECIFIED ABOVE OR (III) TO DISTRIBUTION CHANNELS THROUGH WHICH INFORMATION IS OR IS LIKELY TO BECOME AVAILABLE TO A LARGE NUMBER OF PERSONS.*

*THE DISTRIBUTION OF THIS DOCUMENT IN OTHER JURISDICTIONS MAY BE RESTRICTED BY LAW AND PERSONS INTO WHOSE POSSESSION THIS DOCUMENT COMES SHOULD INFORM THEMSELVES ABOUT, AND OBSERVE, ANY SUCH RESTRICTION. ANY FAILURE TO COMPLY WITH THESE RESTRICTIONS MAY CONSTITUTE A VIOLATION OF THE LAWS OF ANY SUCH OTHER JURISDICTION.*

### CONFLICTS OF INTEREST

*THE BANK MAY, FROM TIME TO TIME, DEAL IN, HOLD OR ACT AS MARKET MAKER OR ADVISER, BROKER OR BANKER IN RELATION TO THE FINANCIAL INSTRUMENTS, OR DERIVATIVES THEREOF, OF PERSONS, FIRMS OR ENTITIES MENTIONED IN THIS DOCUMENT, OR BE REPRESENTED IN THE GOVERNING BODIES OF THE COMPANY. IN FACT, THE BANK IS PRESENTLY CORPORATE BROKER OF THE ISSUER.*

*BANCA PROFILO S.P.A. HAS ADOPTED INTERNAL PROCEDURES FOR THE PREVENTION AND AVOIDANCE OF CONFLICTS OF INTEREST WITH RESPECT TO THE RECOMMENDATIONS, WHICH CAN BE CONSULTED ON THE RELEVANT SECTION OF ITS WEBSITE (WWW.BANCAPROFILO.IT, IN THE SECTION "CLIENTI AZIENDALI E ISTITUZIONALI/ANALISI E RICERCA).*

### EQUITY RESEARCH PUBLICATIONS IN LAST 12M

*THE BANK PUBLISHES ON ITS WEBSITE WWW.BANCAPROFILO.IT, ON A QUARTERLY BASIS, THE PROPORTION OF ALL RECOMMENDATIONS THAT ARE 'BUY', 'HOLD', 'SELL' OR EQUIVALENT TERMS OVER THE PREVIOUS 12 MONTHS, AND THE PROPORTION OF ISSUERS CORRESPONDING TO EACH OF THOSE CATEGORIES TO WHICH SUCH PERSON HAS SUPPLIED MATERIAL SERVICES OF INVESTMENT FIRMS SET OUT IN SECTIONS A AND B OF ANNEX I TO DIRECTIVE 2014/65/EU OVER THE PREVIOUS 12 MONTHS.*

### ADDITIONAL INFORMATION

*THE BANK PROVIDES ALL OTHER ADDITIONAL INFORMATION, ACCORDING TO ARTICLE 114, PARAGRAPH 8 OF LEGISLATIVE DECREE 58/98 ("FINANCIAL DECREE") AND COMMISSION DELEGATED REGULATION (EU) 2016/958 AS OF 9 MARCH 2016 (THE "COMMISSION REGULATION") ON THE RELEVANT SECTION OF ITS WEBSITE (WWW.BANCAPROFILO.IT, IN THE SECTION "CLIENTI AZIENDALI E ISTITUZIONALI/ANALISI E RICERCA").*