Banca Profilo

Company Update

TPS Group: resilience and diversification, the right ingredients for post Covid-19

September 28th, 2020, at 18:00

Target Price (€)	7.0 from 6.6
Recommendation	**BUY**
Price as of September 25th	3.2
Number of shares (mln)	7.2
Market Capitalization (€ mln)	23.3
Market Segment	FTSE AIM ITALIA
Performance	**from IPO (27/03/17)**
Absolute	+1%
Max / Min	6.0/3.0
Average daily volumes	6,815

(€mln)	2019	2020E	2021E	2022E
VoP	**36.8**	**30.9**	**36.7**	**39.9**
yoy change (%)	*53%*	*-16%*	*19%*	*9%*
EBITDA	**7.0**	**4.8**	**6.3**	**7.5**
margin (%)	*19%*	*16%*	*17%*	*19%*
EBIT	**4.0**	**2.3**	**3.3**	**4.9**
margin (%)	*11%*	*7%*	*9%*	*12%*
Net income	**2.4**	**1.4**	**2.1**	**3.3**
margin (%)	*7%*	*4%*	*6%*	*8%*
Net Debt/(cash)	**(2.9)**	**(5.1)**	**(8.2)**	**(12.2)**
Shareholders' Equity	19.4	20.0	22.8	27.2
Capex	3.7	1.1	2.2	2.2
Free Cash Flow	**(0.4)**	**2.6**	**2.0**	**2.7**

Source: Banca Profilo estimates and elaborations, Company data.

1H20 results that lead us to revise 2020E-2023E estimates upwards

In the first half of 2020, TPS Group has recorded a Value of Production (VoP) of €15.4mln (-7.0% yoy) and an EBITDA of €2.5mln (-15.5% yoy), with an EBITDA margin equal to 16.6% (18.3% in the first half of 2019), results that show a strong resilience of the Group in a very delicate moment for the economy and for the sector of technical services to industry. In light of its solid financial and operational fundamentals, we have revised our 2020E-2023E projections upwards and we expect TPS Group to return to pre-pandemic levels by the end of 2021, to then diversify and expand its business further, through both organic and external growth.

Covid-19 impact

The economic crisis triggered by Covid-19 has impacted TPS Group's activities with widely diverging trends between the various sectors in which the Group operates: while the automotive and heavy vehicles segment was the hardest hit, with several projects stopped or postponed to 2021, the aeronautical sector has demonstrated its resilience even in times of crisis, with an almost ordinary continuation of activities. As a consequence, it is clear that diversification is one of the strengths of TPS Group which is thus capable of reducing risks in times of uncertainty, as well as creating economies of scale and synergies in better times than these.

Corporate strategy and 2020E-2023E projections

We expect that, once returned to VoP pre-pandemic levels by the end of 2021, the Group will be able to continue its growth path both internally and externally. This thesis is also supported by financial resources available to TPS which, despite the liquidity crisis that characterized this historical period, boasts a negative Net Financial Position of €4.5mln (cash) as of the end of June. On an organic basis, in addition to the full roll out of synergies from recent acquisitions, we recall the numerous growth drivers: i) the growing demand for electric vehicles, ii) the geographic expansion in Europe and the United States, and iii) the great spirit of innovation and investments in R&D, which will favour the discovery of cutting-edge systems and services. According to our new 2020E-2023E estimates, the VoP is expected at €30.9mln in 2020, -16% yoy, to then grow at a 12% CAGR to reach €43.3mln in 2023; the EBITDA is seen just below €9mln in 2023, with margin improving from 16% in 2020 to 20% in 2023; cumulative operating FCF is revised upwards from €10.4mln to €11.0mln, with an annual average increasing from €2.6mln to €2.8mln.

Valuation: TP at €7.0 from €6.6, BUY confirmed

We confirm our BUY recommendation, with a Target Price of €7.0, revised upwards from €6.6, implying a potential upside higher than 100% as of market close on September 25. The Target Price is computed as the simple average of the Fair Value from DCF, equal to €8.0/share (vs previous €7.9/share), and the Equity Value per share from market multiples on 2021E-2022E median EV/EBITDA (5.8x), equal to €6.1/share (vs previous €5.4/share).

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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%). From 2021 the Company is also expected to operate in the United States.

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 historical data, Covid-19 impact, 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.

Covid-19 impact

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.

The Company has in any case demonstrated its ability to face the current crisis period: in the first half of the year the financial solidity has made possible to bear the severe delays in receipts recorded without resorting to extraordinary instruments, while the organizational and managerial skills and the measures to contain costs and cut deferred investments have enabled the Group to maintain satisfactory profitability level.

2020E-2023E projections: VoP at €43.3mln in 2023, +12% CAGR

According to our new 2020-2023E estimates, the VoP is expected at €30.9mln in 2020, -16% yoy, to then grow at a 2020-2023 12% CAGR to reach €43.3mln in 2023; the EBITDA is seen just below €9mln in 2023, with margin improving from 16% in 2020 to 20% in 2023. We expect that, once returned to pre-pandemic VoP levels by the end of 2021, the Group will be able to continue its growth path both internally and externally. On an organic basis, Company's growth will be supported by 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.

Valuation: DCF and market multiples approach

Fair Value of €8.0. per share

To run a DCF model, we used our updated forecasts of unlevered FCFs for the 2020E-2023E explicit period equal to a total of €11.0mln, revised upwards from €10.4mln, already including cumulated capex for a total of €8.0mln, revised downwards from €8.3mln. In order to get to the Equity Valuation, we have considered the net cash as of the end of June 2020, equal to €4.5mln. We used a WACC of 6.8% (vs previous 6.4%) and a perpetual growth rate of 2%. The DCF method leads us to an Enterprise Value of €53.0mln (vs previous €54.0mln) and an Equity Value of €57.5mln (vs previous €56.9mln), equal to a Fair Value of €8.0 per share (vs previous €7.9 per share).

EV/EBITDA 2021E-2022E of 5.8x, equal to a per share value of €6.1

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. In light of medium-high equity valuations, following deteriorating fundamentals, we excluded 2020 multiples from the calculation, sampling the median EV/EBITDA for 2021 and 2022. Our sample shows an average median EV/EBITDA of 5.8x, which led to an Equity Value of €44.1mln, equal to €6.1 per share (vs previous Equity Value of €5.4 per share).

12-month Target Price at €7.0 from €6.6; BUY confirmed

We then set our Target Price at €7.0/share as an average of the DCF FV and relative valuations, up from €6.6 of the Initial Coverage, implying a potential upside higher than 100% as of market close on September 25. We confirm our 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 • Partial revenue visibility, thanks to multiannual agreements • A strong-long term relationship with Leonardo which has lasted since the years of TPS foundation • Resilience and defensive character of main end-market, the A&D industry • High entry barriers in the sectors of activity • Consolidated track-record in M&A operations	• 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 Value of Production

OPPORTUNITIES	THREATS
• Strong spirit of innovation and investments in R&D that favour 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	• Uncertainties regarding the recovery of the Automotive and Oil & Gas sectors after the economic impact of Covid-19 • Uncertainties regarding the recovery of global air traffic and the recovery of demand for commercial aircraft after the economic impact of Covid-19

1H 2020 results

Main operating and financial data

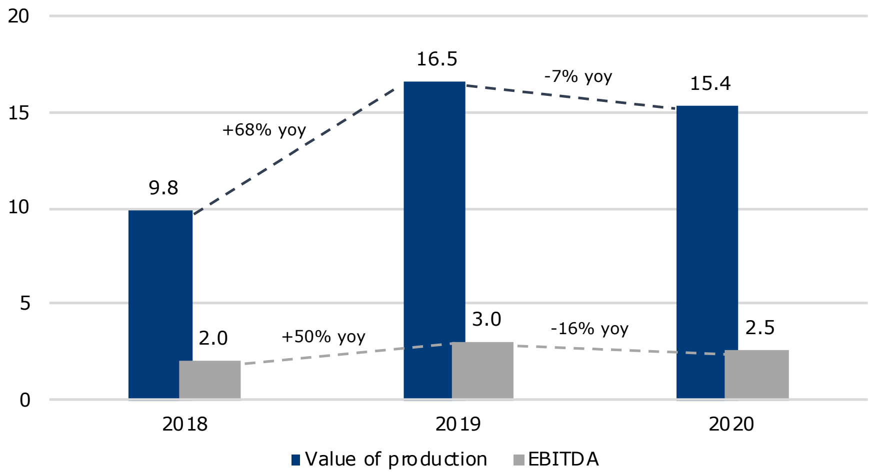
1H 2020 VoP at €15.4mln, -7% yoy and -15% yoy like-for-like

In the first half of 2020, TPS Group recorded a decrease in the value of production of approximately 7% yoy, at €15.4mln, as a result of the physiological slowdown in the volume of activity caused by the economic effects of the Covid-19 crisis. It is necessary to specify that the comparison with the first half of 2019 does not take place on a like-for-like basis, as 2020 results include also revenues from EMTB, acquired in September 2019: like-for-like, the reduction would have been approximately 15%, mainly concentrated in the technical activities carried out for the automotive industrial sector. The Group has in fact recorded an uneven trend in the performance of the various industrial sectors in which it operates: while the aeronautical segment has shown its resilience, the automotive segment has experienced sudden blocks of projects by some customers that have mainly affected the activities of the subsidiaries EMTB, Satiz TPM and Stemar.

1H 2020 VoP and EBITDA on track to exceed our previous FY20 estimate

If compared with our estimates for 2020 at the time of the Initial Coverage, the 1H20 value of production represented 52% of our previous forecast for the entire FY20, equal to €29.4mln, an excellent performance if we consider the operational difficulties during the months of the lockdown.

Figure 1: Value of Production 1H20 vs 1H19 and 1H18, € mln

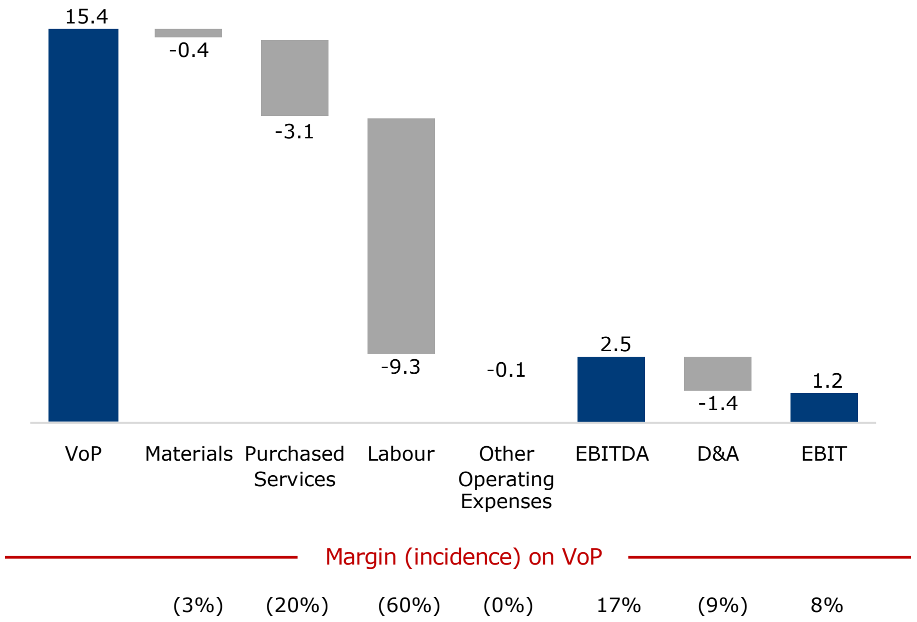


Source: Banca Profilo elaborations on Company data

EBITDA margin stood at 16.6%, less than two percentage points lower than 1H19 figure

With the sole exception of labour cost, the other cost items maintained a constant incidence compared to 1H 2019. Labour cost decreased by 4% yoy, despite the inclusion of the cost of employees of the newly acquired EMTB; this reduction is attributable to the use of the redundancy fund in the companies of the Group where the slowdown in activities has been more severe. The use of this instrument allowed the Group to maintain an EBITDA margin only less than two percentage points lower than 1H 2019 figure, at 16.6%. In absolute value, the EBITDA stood at €2.5mln, -15.6% yoy.

Figure 2: 1H20 cost structure, € mln



Source: Banca Profilo elaborations on Company data.

Net income stood at €0.6mln, down by 36% yoy

D&A recorded an increase of 13% yoy, at €1.4mln, mainly due to the investments made in the second half of 2019 and in the first six months of 2020, when the Group had to cope with the need to adapt work organization to work from home, making consistent investments in information technology. Consequently, EBIT fell by 34% yoy, to €1.2mln, while the EBIT margin decreased from 11% to 8%. Finally, net income stood at €0.6mln, down by 36% yoy.

Table 1: TPS Profit & Loss 1H18 – 1H20

Profit & Loss (€/mln)		30/06/2018	30/06/2019	30/06/2020
Value of production		**9.8**	**16.5**	**15.4**
	yoy	*10%*	*68%*	*-7%*
Cost of materials and services		(2.9)	(4.1)	(3.5)
	% on VoP	*29%*	*25%*	*23%*
Added Value		**7.0**	**12.4**	**11.9**
	yoy	*14%*	*78%*	*-4%*
Labour cost		(4.9)	(9.6)	(9.3)
	% on VoP	*50%*	*58%*	*60%*
Other Operating Expenses		(0.0)	(0.0)	(0.1)
	% on VoP	*0%*	*0%*	*0%*
Comprehensive cost of goods sold		(7.8)	(13.8)	(12.8)
	% on VoP	*80%*	*84%*	*83%*
EBITDA		**2.0**	**2.7**	**2.5**
	EBITDA Margin on VoP	*20%*	*16%*	*17%*
D&A		(0.5)	(1.0)	(1.4)
	% on VoP	*5%*	*6%*	*9%*
EBIT		**1.5**	**1.6**	**1.2**
	EBIT Margin on VoP	*16%*	*10%*	*8%*
Net financial income (expenses)		(0.0)	(0.1)	(0.1)
	% on VoP	*0%*	*0%*	*1%*
Net extraordinary income (expense)		(0.0)	(0.3)	(0.2)
	% on VoP	*0%*	*2%*	*1%*
EBT		**1.5**	**1.2**	**0.9**
	EBT Margin on VoP	*15%*	*8%*	*6%*
Income Tax Expense		(0.5)	(0.4)	(0.3)
Net Income		**1.0**	**0.8**	**0.6**
	% on VoP	*10%*	*5%*	*4%*
Group Net Income		**1.0**	**0.8**	**0.6**

Source: Banca Profilo elaborations on Company data

Balance Sheet: solid and robust financial and equity structure

At the end of June, TPS' Balance Sheet showed €8.7mln of fixed assets, decreasing from €9.2mln at the end of 2019, due to freezing of deferred investments; only tangible fixed assets grew after the investments in hardware made for the organization of work from home, and to the leasing contract of the new headquarters of TPS SpA starting from January 2020.

Net operating working capital grew by €0.2mln

Net operating working capital grew by €0.2mln, as a result of a greater reduction in trade payables than in trade receivables, due to the less recourse to external suppliers. However, operating working capital is expected to increase in the second half of the year, due to the deferral of receivables by some important customers from December to January, a recurring trend on an annual basis already reflected in the 2017 and 2018 financial statements.

€4.5mln of net cash at the end of June

From a liquidity point of view, TPS showed a consistent ability to generate cash: the net financial position stood at -€4.5mln, up from -€2.9mln at the end of 2019. The improvement is mainly attributable to a decrease in the value of the net invested capital and a parallel increase in shareholders' equity.

Table 2: Balance Sheet 1H19 – 1H20

Balance Sheet (€/mln)			
	30/06/2019	**31/12/2019**	**30/06/2020**
Intangible Assets	4.8	5.5	4.9
Property, Plant & Equipment	0.9	3.5	3.6
Financial Assets	0.2	0.2	0.2
Fixed Assets	**5.8**	**9.2**	**8.7**
Trade Receivable	12.9	16.1	15.5
Inventories	0.0	0.0	0.0
Trade Payable	(2.6)	(2.8)	(1.9)
Net Operating Working Capital	**10.2**	**13.3**	**13.6**
Other Assets	1.7	1.9	1.8
Other Liabilities	(4.4)	(4.3)	(4.8)
Funds	(2.7)	(3.7)	(3.8)
Invested Capital	**10.6**	**16.5**	**15.4**
Shareholders' equity	17.4	16.7	19.1
Shareholders' equity to third parties	0.4	0.3	0.3
Group Net Income	0.8	2.4	0.6
Minority/Non Controlling Interest	0.0	0.0	0.0
Consolidated Shareholders' Equity	**18.6**	**19.4**	**20.0**
Debts	1.8	2.3	0.8
Cash and cash equivalents	(10.0)	(8.3)	(8.5)
Leasing debt	0.4	0.4	0.4
Payables for rights of use	0.0	2.7	2.8
Other financial receivables	(0.0)	0.0	0.0
Net Financial Position (Cash)	**(7.9)**	**(2.9)**	**(4.5)**

Source: Banca Profilo elaborations on Company data

Strategy and estimates

Corporate strategy

The impact of Covid-19

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 some 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.

The Company has in any case demonstrated its ability to face the current crisis period: in the first half of the year the financial solidity has made it possible to bear the severe delays in receivables recorded without resorting to extraordinary instruments, while the organizational and managerial skills and the measures to contain costs and cut deferred investments have enabled the Group to maintain satisfactory profitability level.

TPS will continue to grow both organically and through external lines

Despite the advent of Covid-19, the Company has not changed its growth plan, both for external and internal lines. Explorations for potential M&A have suffered physiological slowdowns due to the pandemic, but are continuing, as well as the geographical expansion in the United States, currently postponed to 2021.

Our 2020E-2023E estimates

We expect the Group to return to double-digit growth

The economic crisis triggered by Covid-19 has considerably impacted the activities of TPS Group, but we expect that, once returned to VoP pre-pandemic levels by the end of 2021, the Group will be able to continue its growth path. This thesis is also supported by the financial resources available to the Group which, despite the liquidity crisis that characterized this historical period, boasts a negative Net Financial Position of €4.5mln (cash) as of the end of June.

Several drivers will support TPS future growth

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.

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 geographical growth differentials. To then best adapt this calculation to the TPS business, we have made the following assumptions:

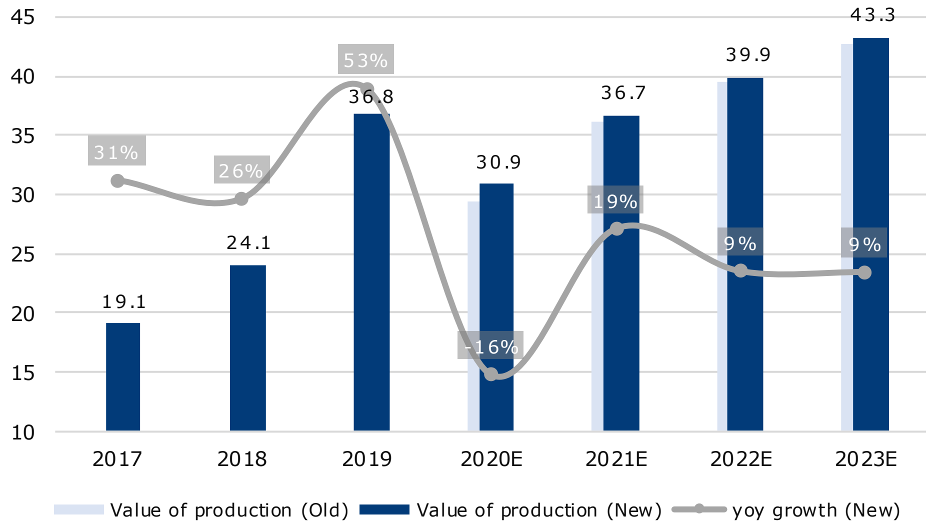
- in terms of over-under performance compared to the reference industry, we keep a cautious view for the 2020-2021 period, with growth below the reference market in 2020, due to the small size of TPS' business, and in line in 2021. There are in fact some elements of uncertainty that characterize both reference end-markets.
- 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 9% yoy, in line with that recorded in past years.

VoP: -16% in 2020 to rebound in 2021 and reach more than €43mln in 2023

In accordance with the previously described methodology and with the specific assumptions regarding TPS, we estimate the Value of Production at €30.9mln in 2020 (vs our previous estimates of €29.4mln) and at €36.7mln in 2021, +19% yoy; from 2021 to 2023 the VoP will grow at a 2020-2023 CAGR of 12% to reach €43.3mln in 2023 (vs our previous estimates of €42.7mln).

Figure 3: Value of Production trend 2018-2023E, € mln, and yoy growth (%)



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 (in line with previous estimates). 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: 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 11% yoy contraction, resulting in an increase in the incidence on the VoP to 61% (up by 1% from previous estimate) 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

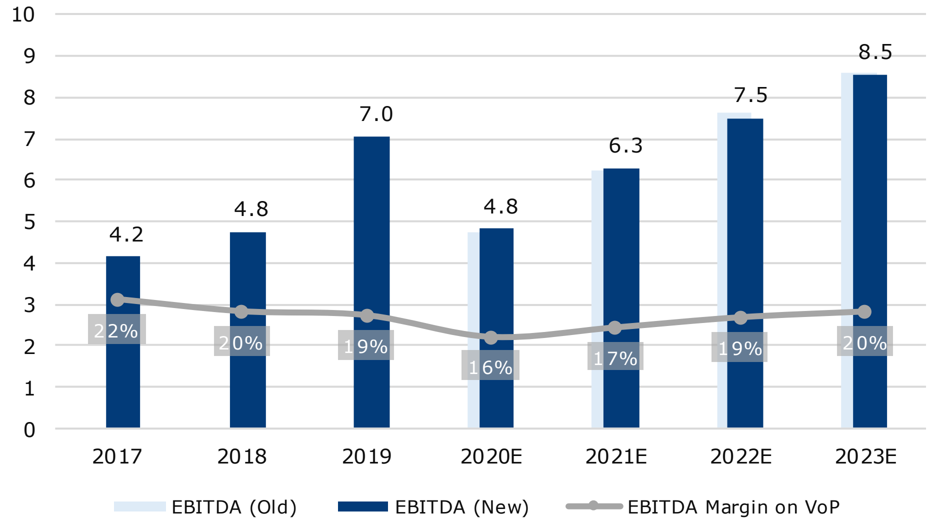
that it will contract in a less than proportional way compared to the VoP. From 2021 to 2023 we estimate the average cost per employee constant, setting it equal to the cost recorded in 2019 (44k) and we assume new hires, equal to 11 in 2021, 23 in 2022 and 29 in 2023.

- Other operating costs: we assume the same incidence on the value of production, equal to 0.3% throughout the entire forecasting period.

EBITDA margin estimated at 16% in 2020 to then gradually improve up to 20% in 2023

EBITDA is estimated to decrease by 31% yoy in 2020, due to the high incidence of labour costs and the contraction in VoP. In 2021 we estimate a recovery of 31% yoy to then grow at 2021-2023 CAGR of 17%. EBITDA margin is expected to drop to 16% in 2020 (in line with previous estimates) and then gradually improve over the 2021-2023 period, up to 20% in 2023 (in line with previous estimates), also thanks to the full grounding of potential deriving from the latest acquisitions, with synergies between the subsidiaries still feasible.

Figure 4: EBITDA and EBITDA margin trend 2017-2023E, € mln



Source: Banca Profilo elaborations and estimates on Company data

Net income at €4.1mln in 2023, up 13% CAGR compared to 2019

Finally, net income is expected at €1.4mln in 2020 and at €2.2mln in 2021. For the 2021-2013 period, Net income is estimated to grow at a CAGR of 37% to reach €4.1mln in 2023.

Table 3: TPS Profit & Loss evolution 2018-2023E, € mln

Profit & Loss (€/mln)		2018	2019	2020E Old	2020E New	2021E Old	2021E New	2022E Old	2022E New	2023E Old	2023E New
Value of production		**24.1**	**36.8**	**29.4**	**30.9**	**36.1**	**36.7**	**39.5**	**39.9**	**42.7**	**43.3**
	yoy	*26%*	*53%*	*-20%*	*-16%*	*23%*	*19%*	*9%*	*9%*	*8%*	*9%*
Cost of materials and purchased services		(6.6)	(8.7)	(7.0)	(7.2)	(8.7)	(8.6)	(9.5)	(9.3)	(10.2)	(10.1)
	% on VoP	*27%*	*24%*	*24%*	*23%*	*24%*	*23%*	*24%*	*23%*	*24%*	*23%*
Added Value		**17.5**	**28.1**	**22.3**	**23.6**	**27.5**	**28.1**	**30.0**	**30.6**	**32.5**	**33.2**
	yoy	*36%*	*61%*	*-20%*	*-16%*	*23%*	*19%*	*9%*	*9%*	*8%*	*9%*
Labour cost		(12.6)	(20.9)	(17.5)	(18.7)	(21.1)	(21.7)	(22.2)	(22.9)	(23.7)	(24.5)
	% on VoP	*52%*	*57%*	*60%*	*61%*	*58%*	*59%*	*56%*	*57%*	*56%*	*56%*
Other Operating Expenses		(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)	(0.1)	(0.2)
	% on VoP	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Comprehensive cost of goods sold		(19.3)	(29.8)	(24.6)	(26.0)	(29.9)	(30.4)	(31.8)	(32.4)	(34.1)	(34.8)
	% on VoP	*80%*	*81%*	*84%*	*84%*	*83%*	*83%*	*81%*	*81%*	*80%*	*80%*
EBITDA		**4.8**	**7.0**	**4.7**	**4.8**	**6.3**	**6.3**	**7.7**	**7.5**	**8.6**	**8.5**
	EBITDA Margin on VoP	*20%*	*19%*	*16%*	*16%*	*17%*	*17%*	*19%*	*19%*	*20%*	*20%*
D&A		(1.2)	(3.0)	(3.0)	(2.5)	(3.2)	(3.0)	(2.9)	(2.6)	(2.7)	(2.6)
	% on VoP	*5%*	*8%*	*10%*	*8%*	*9%*	*8%*	*7%*	*7%*	*6%*	*6%*
EBIT		**3.5**	**4.0**	**1.7**	**2.3**	**3.1**	**3.3**	**4.8**	**4.9**	**5.9**	**5.9**
	EBIT Margin on VoP	*15%*	*11%*	*6%*	*7%*	*9%*	*9%*	*12%*	*12%*	*14%*	*14%*
Net financial income (expenses)		(0.2)	(0.3)	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.0)
	% on VoP	*1%*	*1%*	*0%*	*1%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Net extraordinary income (expense)		0.1	(0.2)	(0.1)	(0.2)	(0.1)	(0.2)	(0.2)	(0.2)	(0.1)	(0.2)
	% on VoP	*0%*	*1%*	*0%*	*1%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
EBT		**3.4**	**3.5**	**1.5**	**1.9**	**2.9**	**3.0**	**4.5**	**4.7**	**5.7**	**5.7**
	EBT Margin on VoP	*14%*	*10%*	*5%*	*6%*	*8%*	*8%*	*11%*	*12%*	*13%*	*13%*
Income Tax Expense		(1.0)	(1.1)	(0.5)	(0.6)	(0.9)	(0.9)	(1.4)	(1.4)	(1.7)	(1.7)
	Tax rate	*29%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*
Net Income		**2.4**	**2.4**	**1.0**	**1.4**	**2.0**	**2.1**	**3.1**	**3.3**	**4.0**	**4.0**
	% on VoP	*10%*	*7%*	*4%*	*4%*	*6%*	*6%*	*8%*	*8%*	*9%*	*9%*

Source: Banca Profilo elaborations and estimates on Company data

2020E-2023E Balance Sheet projections: Capex at €8.0mln and NWC at €4.8mln

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

- €8.0mln of capex in four years, mostly intangible (down from previous estimate of €8.3mln). For 2020, we estimate capex at €1.1, revised downwards from €1.5mln: despite the approximately €0.7mln invested in software in the 1H to enable work from home, the Company has blocked deferred investments; for 2021-2023 period we forecast cumulated capex of €6.9mln (in line with previous estimate), representing investments needed to maintain the competitive profile of the Company and to strengthen the business of the Group.
- €4.8mln of Operating Net Working Capital increase in four years (down from previous €5.2mln) for which we project an increase in the incidence on VoP to 45% in 2020 to drop thereafter to an average of 41% over the following three years.

Net cash at €16.7mln in 2023

On a stand-alone basis, the net cash position is expected to improve further to reach some €16.7mln in 2023 (vs previous €14.5mln). No dividend distribution is forecast in in our estimates.

Table 4: TPS Balance Sheet evolution 2018-2023E, € mln

Balance Sheet (€/mln)	2018	2019	2020E Old	2020E New	2021E Old	2021E New	2022E Old	2022E New	2023E Old	2023E New
Intangible Assets	4.2	5.5	5.4	4.4	5.5	4.5	5.8	5.1	6.0	5.7
Property, Plant & Equipment	0.9	3.5	2.5	3.2	1.6	2.2	0.6	1.3	0.1	0.6
Financial Assets	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Fixed Assets	**5.2**	**9.2**	**8.1**	**7.7**	**7.2**	**7.0**	**6.5**	**6.6**	**6.3**	**6.4**
Trade Receivable	11.7	16.1	16.2	16.4	17.4	18.1	20.2	19.7	21.8	21.1
Inventories	-	-	-	-	-	-	-	-	-	-
Trade Payable	(1.9)	(2.8)	(2.0)	(2.3)	(2.4)	(2.6)	(3.3)	(2.8)	(3.3)	(3.0)
Net Operating Working Capital	**9.8**	**13.3**	**14.1**	**14.0**	**15.0**	**15.5**	**16.9**	**17.0**	**18.6**	**18.1**
% on VoP	*41%*	*36%*	*48%*	*45%*	*42%*	*42%*	*43%*	*42%*	*43%*	*42%*
Trade receivables (% on VoP)	*49%*	*44%*	*55%*	*53%*	*48%*	*49%*	*51%*	*49%*	*51%*	*49%*
Inventories (% on VoP)	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Trade paybles (% on COGS)	*10%*	*9%*	*8%*	*9%*	*8%*	*9%*	*10%*	*9%*	*10%*	*9%*
Other Assets	2.2	1.9	2.1	2.2	2.6	2.7	2.9	2.9	3.1	3.1
Other Liabilities	(4.0)	(4.3)	(4.1)	(5.1)	(5.1)	(6.1)	(5.6)	(6.6)	(6.0)	(7.2)
Funds	(2.9)	(3.7)	(4.0)	(4.0)	(4.4)	(4.4)	(4.7)	(4.9)	(5.1)	(5.3)
Invested Capital	**10.4**	**16.5**	**16.3**	**14.9**	**15.4**	**14.6**	**16.0**	**15.0**	**16.8**	**15.2**
Capex	**3.4**	**3.7**	**1.5**	**1.1**	**2.2**	**2.2**	**2.2**	**2.2**	**2.4**	**2.4**
Intangible	3.2	3.5	1.4	0.3	2.1	2.1	2.1	2.1	2.3	2.3
Tangible	0.2	0.2	0.1	0.8	0.1	0.1	0.1	0.1	0.2	0.2
% on VoP	*14%*	*10%*	*5%*	*4%*	*6%*	*6%*	*6%*	*6%*	*6%*	*6%*
Shareholders' equity	14.7	16.7	18.1	18.4	20.0	20.4	23.1	23.7	27.0	27.6
Group Net Income	2.3	2.4	1.0	1.3	2.0	2.1	3.1	3.2	3.9	4.0
Shareholders' equity attributable to third parties	0.3	0.3	0.3	0.3	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	0.0	0.0	0.0	0.0
Consolidated Shareholders' Equity	**17.4**	**19.4**	**19.4**	**20.0**	**22.3**	**22.8**	**26.5**	**27.2**	**31.3**	**31.9**
Debts	2.5	2.3	2.3	1.7	2.4	1.7	2.4	1.7	2.4	1.7
Cash and cash equivalents	(9.9)	(8.3)	(8.5)	(10.0)	(12.4)	(13.1)	(15.9)	(17.1)	(20.0)	(21.6)
Leasing debt	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Payables for rights of use	-	2.7	2.7	2.8	2.7	2.8	2.7	2.8	2.7	2.8
Other financial receivables	(0.0)	-	-	-	-	-	-	-	-	-
Net Financial Position (Cash)	**(7.0)**	**(2.9)**	**(3.1)**	**(5.1)**	**(6.9)**	**(8.2)**	**(10.5)**	**(12.2)**	**(14.5)**	**(16.7)**

Source: Banca Profilo elaborations and estimates on Company data

Free Cash Flow of €11.0mln 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 €11.0mln of aggregated Free Cash Flow in four years, revised upwards from €10.4mln, net of comprehensive €8.0mln of capex.

Table 5: TPS Free Cash Flow evolution 2018-2023E

Cash Flow (€/mln)	2018	2019	2020E Old	2020E New	2021E Old	2021E New	2022E Old	2022E New	2023E Old	2023E New
EBIT	3.5	4.0	1.7	2.3	3.1	3.3	4.8	4.9	5.9	5.9
Tax rate	29%	30%	30%	30%	30%	30%	30%	30%	30%	30%
NOPAT	**2.5**	**2.8**	**1.2**	**1.6**	**2.2**	**2.3**	**3.3**	**3.4**	**4.1**	**4.2**
D&A	1.2	3.0	3.0	2.5	3.2	3.0	2.9	2.6	2.7	2.6
Changes in Funds	0.1	0.1	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Changes in Operating NWC	2.7	(2.6)	(0.8)	(0.7)	(0.9)	(1.5)	(1.9)	(1.5)	(1.6)	(1.2)
Capex	(3.4)	(3.7)	(1.5)	(1.1)	(2.2)	(2.2)	(2.2)	(2.2)	(2.4)	(2.4)
Free Cash Flow	**3.2**	**(0.4)**	**2.2**	**2.6**	**2.6**	**2.0**	**2.5**	**2.7**	**3.2**	**3.6**

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
- medium impact

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 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:
- medium-low probability
- 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:
- low probability
- 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:
- medium-low probability
- 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 6: 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; 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: €2.8mln yearly FCF on average (revised upwards from €2.6mln)

To run a DCF model, we use our projections of unlevered FCFs for the 2020E-2023E explicit period: €11.0mln cumulated and €2.8mln as yearly average (vs previous estimates of €10.4mln and €2.6mln respectively), including cumulated capex of €8.0mln or €2.0mln as yearly average (vs previous estimates of €8.3mln and €2.1mln respectively). We finally have considered the net cash position as of the end of June 2020 (€4.5mln).

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

- an average yearly unlevered FCF of €2.8mln
- 2% perpetual growth rate

Table 7: Unlevered FCFs

Cash flow (€/mln)	2018	2019	2020E	2021E	2022E	2023E	Over
EBIT	3.5	4.0	2.3	3.3	4.9	5.9	
Tax Rate	0.3	0.3	0.3	0.3	0.3	0.3	
NOPAT	**2.5**	**2.8**	**1.6**	**2.3**	**3.4**	**4.2**	
D&A	1.2	3.0	2.5	3.0	2.6	2.6	
Changes in Funds	0.1	0.1	0.4	0.4	0.4	0.4	
Changes in Operating NWC	2.7	(2.6)	(0.7)	(1.5)	(1.5)	(1.2)	
Capex	(3.4)	(3.7)	(1.1)	(2.2)	(2.2)	(2.4)	
Free Cash Flow (FCF)	**3.2**	**(0.4)**	**2.6**	**2.0**	**2.7**	**3.6**	**2.8**

Source: Banca Profilo estimates and elaborations

DCF assumptions: WACC at 6.8%

We use a WACC of 6.8% (vs previous 6.4%), derived from:

- risk free rate equal to 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 equal to 5.5%, higher than the 5% stated in the Initial Coverage report, due to the increasing market uncertainty over the post-Covid trends and effects;
- 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 8: WACC calculation

WACC Calculation	
Perpetual growth rate	2.0%
WACC	**6.8%**
Risk free rate (Italy 30Y)	3.0%
Equity Risk Premium	5.5%
Beta	0.90
Cost of Equity	8.0%
Cost of Debt	2.8%
Tax rate	30.0%

Source: Banca Profilo estimates and elaborations

DCF Fair Value: €8.0/share vs previous €7.9/share

The DCF method leads us to an Enterprise Value of €53.0mln and an Equity Value of €57.5mln or €8.0/share (increasing from our previous Equity Value equal to €56.9mln or €7.9/share).

Table 9: DCF valuation

DCF Valuation (€ mln, except for the target price)	2018	2019	2020E	2021E	2022E	2023E	Over
Free Cash Flow (FCF)			**2.6**	**2.0**	**2.7**	**3.6**	**2.8**
Years			1	2	3	4	
Discount factor			0.94	0.88	0.82	0.77	
NPV Cash flows			2.5	1.8	2.3	2.8	
Sum of NPVs			2.5	4.2	6.5	9.3	
Terminal Value							56.9
NPV Terminal Value							43.8
Enterprise Value							53.0
Net Financial Position 1H 2020							(4.5)
Minorities 2019							0.05
Equity Value							57.5
Current outstanding shares							7.2
Target Price (€)							**8.0**

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, FIGEAC-Aero and TXT e-solutions.

Table 10: Sample benchmarking on sales growth and EBITDA margin

Company	Currency	Market Cap (Mln)	EV	Sales growth					EBITDA margin				
		24/09/2020		2018	2019	2020E	2021E	2022E	2018	2019	2020E	2021E	2022E
Alten	EUR	2,641.7	2,744.1	*14%*	*16%*	*-8%*	*3%*	*3%*	*10%*	*11%*	*8%*	*10%*	*11%*
Sogeclair	EUR	31.0	60.5	*8%*	*16%*	*-32%*	*8%*	*7%*	*10%*	*9%*	*4%*	*7%*	*10%*
Akka Technologies	EUR	335.7	562.7	*13%*	*20%*	*-8%*	*6%*	*4%*	*7%*	*9%*	*3%*	*9%*	*10%*
Bertrandt	EUR	322.6	466.0	*3%*	*4%*	*-10%*	*8%*	*5%*	*10%*	*9%*	*8%*	*10%*	*11%*
EDAG Engineering Group	EUR	195.0	424.7	*9%*	*-1%*	*-14%*	*5%*	*6%*	*11%*	*8%*	*4%*	*9%*	*11%*
Meggitt	GBp	1,968.7	2,879.9	*2%*	*6%*	*-15%*	*8%*	*6%*	*23%*	*25%*	*15%*	*20%*	*21%*
FIGEAC-AERO	EUR	87.9	387.3	*14%*	*15%*	*-30%*	*19%*	*13%*	*15%*	*16%*	*5%*	*10%*	*11%*
TXT e-solutions	EUR	97.5	56.0	*11%*	*48%*	*12%*	*10%*	*8%*	*10%*	*12%*	*12%*	*12%*	*14%*
Mean				***8%***	***10%***	***-14%***	***7%***	***5%***	***12%***	***12%***	***7%***	***11%***	***12%***
Median				***8%***	***11%***	***-12%***	***7%***	***5%***	***10%***	***9%***	***6%***	***10%***	***11%***
TPS	***EUR***	***23.3***	***18.8***	***26%***	***53%***	***-16%***	***19%***	***9%***	***20%***	***19%***	***16%***	***17%***	***19%***

Source: Banca Profilo estimates and elaborations on FactSet (as of September 24th, 2020)

EV/EBITDA 2021E-2022E of 5.8x

In light of medium-high equity valuations, following deteriorating fundamentals, we excluded 2020 multiples from the calculation, sampling the median EV/EBITDA for 2021 and 2022. Our sample shows a median EV/EBITDA 2021E-2022E of 5.8x, from which we derived an average Equity Value of €44.1mln, equal to a per share value of €6.1 (vs previous Equity Value of €39mln and €5.4 per share).

Table 11: EV/EBITDA market multiple

Valuation on EV/EBITDA market multiple (€ mln, except for the target price)			
	2021E		**2022E**
Median EV/EBITDA best peers	6.4x		5.1x
Average EV/EBITDA 2020-2021		**5.8x**	
EBITDA	6.3		7.5
Enteprise Value	36.2		43.1
Net Financial Position 1H 2020		(4.5)	
Liquidity Discount			
Current Minorities	0.0		0.0
Equity Value	40.7		47.6
Average Equity Value		44.1	
Current outstanding shares		7.2	
Target Price (€)		**6.1**	
Potential Upside on Last Price		**189%**	

Source: Banca Profilo estimates and elaborations on FactSet data (as of September 24th, 2020)

Liquidity discount

To assess the stock's liquidity, we carried out an analysis on two indicators for four different periods, all consisting of approximately 100 trading days. It emerged that in the last five months, with data as of September 18, the TPS stock has undergone a trend reversal both as regards to an increase in the days without trading, and as regards to the reduction of the average daily volume on the free float. We therefore advise investors to monitor the liquidity of the stock and, if considered appropriate, to eventually apply a liquidity discount.

Table 12: Liquidity Indicators

Liquidity Indicators				
Start date	21/04/2020	03/01/2020	03/08/2019	03/08/2018
End date	18/09/2020	01/06/2020	31/12/2019	31/12/2018
Days with no trades on total trading days	36.1%	20.2%	32.4%	40.2%
Average daily volume on Free float	0.21%	0.30%	0.25%	0.32%

Source: Banca Profilo estimates and elaborations on FactSet data (as of September 18th, 2020)

12-month Target Price at €7.0/share BUY recommendation

We set our target price at €7.0/share as the average of the DCF Fair Value and the result from the relative valuations, implying a potential upside higher than 100% as of market close on September 25, 2020. We confirm our BUY recommendation.

Figure 5: TPS' price from IPO vs 12-months Target Price

Source: Banca Profilo estimates and elaborations on FactSet data (as of September 25th, 2020)

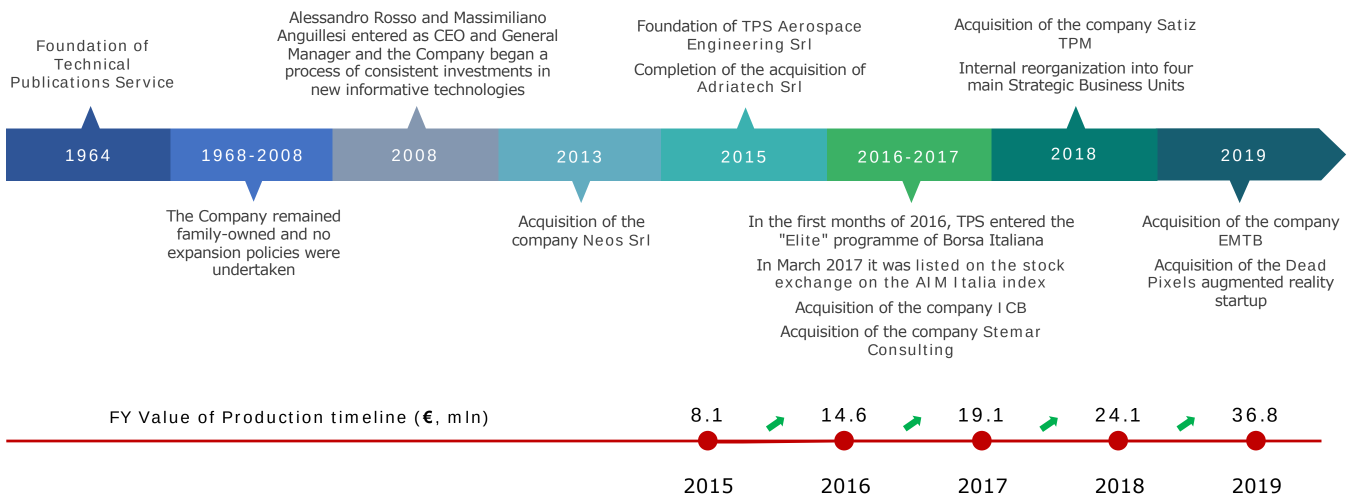
TPS overview and business model

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 6: 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.

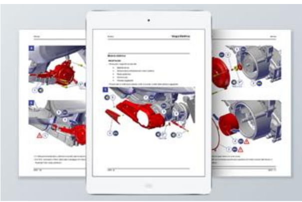
The Group operates through four strategic business units

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).

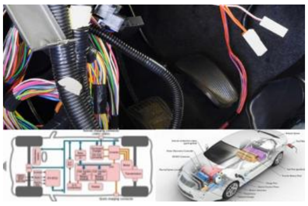
Figure 7: Examples of TPS’ products and services

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.

2° SBU
Engineering & Cost Engineering



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

3° SBU
Avionic Services & Information Technologies

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

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.

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

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.

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

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

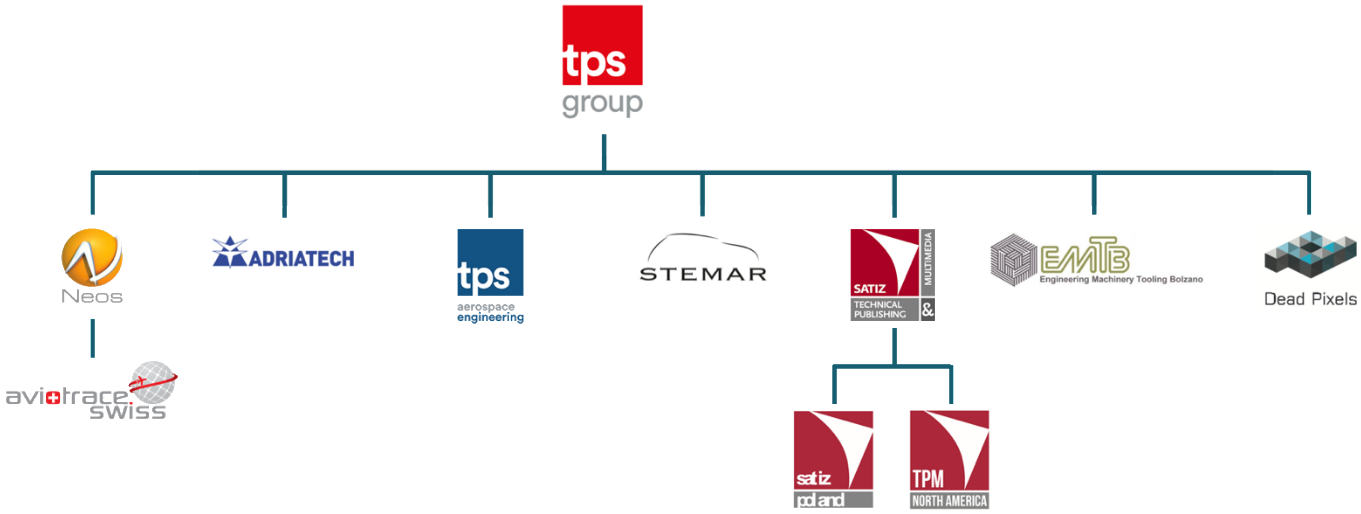
Source: Banca Profilo elaborations on Company data

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 8: 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 9: 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

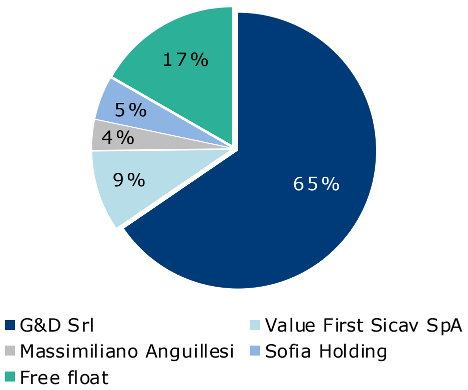
From a geographical point of view, TPS Group operates mainly in Italy, where it generates around 90% of its revenues. Abroad it is present in Switzerland, Poland and in the United States.

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 10: Ownership structure



Source: Banca Profilo elaborations on Company data, Borsa Italiana

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.

Figure 11: Composition of the Board of Directors

Board of Directors	Position	Executive	Independent	Minority	Birth year	Gender	Nationality
Alessandro Rosso	Chairman and CEO	x			1964	M	Italian
Massimiliano Anguillesi	General Manager	x			1971	M	Italian
Alessandro Scantamburlo	Director				1963	M	Italian
Giovanni Mandozzi	Director				1952	M	Italian
Andrea Faraggiana	Director				1982	M	Italian
Raffaella Pallavicini	Director		x		1969	F	Italian
Stefano Pedrini	Director		x		1983	M	Italian
Other important roles	Position				Birth year	Gender	Nationality
Rossella Sanna	Investor Relator					F	Italian

Source: Banca Profilo elaborations on Company data

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.

TPS "ID Card"

Recommendation	Target Price	Upside
BUY	**7.0 €**	**116%**

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 and Oil & Gas sectors after the economic impact of Covid-19
- Uncertainties regarding the recovery of global air traffic and 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"

September 28 - 18:00

Recommendation	Target Price	Upside
BUY	**7.0 €**	**116%**

Main Financials

(€ mln)	2018	2019	2020E	2021E	2022E
Value of production	**24.1**	**36.8**	**30.9**	**36.7**	**39.9**
yoy change	*26%*	*53%*	*-16%*	*19%*	*9%*
Added Value	17.5	28.1	23.6	28.1	30.6
Margin on VoP (%)	*73%*	*76%*	*77%*	*77%*	*77%*
EBITDA	**4.8**	**7.0**	**4.8**	**6.3**	**7.5**
yoy change	*15%*	*48%*	*-32%*	*30%*	*19%*
EBITDA margin on VoP (%)	*20%*	*19%*	*16%*	*17%*	*19%*
EBIT	**3.5**	**4.0**	**2.3**	**3.3**	**4.9**
EBIT margin on VoP (%)	*15%*	*11%*	*7%*	*9%*	*12%*
EBT	3.4	3.5	1.9	3.0	4.7
Margin on VoP (%)	*14%*	*10%*	*6%*	*8%*	*12%*
Net income	**2.4**	**2.4**	**1.4**	**2.1**	**3.3**
Margin on VoP (%)	*10%*	*7%*	*4%*	*6%*	*8%*
Net debt (cash)	**(7.0)**	**(2.9)**	**(5.1)**	**(8.1)**	**(12.1)**
Shareholders Equity	14.7	16.7	18.4	20.4	23.7
Net OWC	9.8	13.3	14.0	15.6	17.1
Capex	(3.4)	(3.7)	(1.1)	(2.2)	(2.2)
Free Cash Flow	3.2	(0.4)	2.6	1.9	2.7

Company Description

Company Sector	Aerospace & Defense
June 2nd price (€)	3.2
Number of shares (mln)	7.2
Market Cap (€ mln)	23.3
Reference Index	FTSE AIM ITALIA
Main Shareholders	G&D srl
Main Shareholder stake	65%
Free Float	17%
Daily Average Volumes	6,820
Sample of comparables	Alten, Sogeclair, Akka Technologies, Bertrandt, EDAG Engineering Group, Meggitt, FIGEAC-Aero, TXT e-solutions

Breakdown by business unit

(€ mln)	2018	2019	2020E	2021E	2022E
Technical Publishing & Training	N.A.	12.5	10.6	12.4	13.5
Engineering & Cost Engineering	N.A.	12.7	10.7	12.6	13.7
Avionic & Informative Technologies	N.A.	3.3	2.8	3.3	3.6
Digital Content Management	N.A.	6.5	5.5	6.4	7.0
Revenues	**22.5**	**34.9**	**29.6**	**34.7**	**37.9**

Data of peers

	2019	2020E	2021E
Revenue Growth (yoy)	*10%*	*-14%*	*7%*
EBITDA Margin	*12%*	*7%*	*11%*
Net Icome Margin	*2%*	*-2%*	*4%*
Net Debt/EBITDA	*1.0x*	*4.8x*	*1.9x*

Average data

Solvibility Ratios

	2018	2019	2020E	2021E	2022E
Net Debt (cash)/Equity	-0.4x	-0.2x	-0.3x	-0.4x	-0.4x
Net Debt (cash)/EBITDA	-1.5x	-0.4x	-1.1x	-1.3x	-1.6x
EBIT Interest Coverage Ratio	18.6x	26.6x	16.9x	23.9x	35.6x

Multiples of peers

	2020E	2021E
Average EV/EBITDA	7.1x	5.9x
Median EV/EBITDA	6.4x	5.1x

Financial and Operative ratios

	2018	2019	2020E	2021E	2022E
Operating WC Turnover	2.5	2.8	2.2	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%*	*7%*	*9%*	*12%*
ROIC	*24%*	*17%*	*11%*	*16%*	*23%*
Capex/VoP	*14%*	*10%*	*4%*	*6%*	*6%*
D&A/Capex	48%	140%	219%	135%	117%

Source: FactSet, Banca Profilo estimates and elaborations

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ADDITIONAL INFORMATION

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