

TPS Group

Sector: Business Services

2024 progressing positively

TPS is a B2B tech enabler providing, to top tier industrial groups, highly specialized engineering advisory and design services, including technical publications, cost engineering, avionics software development, components manufacturing, training & certification and digital content management.

Key takeaways from the meetings

Here are the takeaways a series of investors meetings with the company:

- ◆ The management expressed optimism in the company's 2024 performance to date and stated that it is in line with its expectations. We remind that our forecasts call for Revenues to grow at ca. 7.2% CAGR_{23A-26E}, with profitability remaining robust (EBITDA margin >18%). During 2024-2026, this is expected to result in ca. €30mn cumulated EBITDA and €13mn cumulated Free Cash Flow;
- ◆ As for underlying markets, aerospace and defense are the most dynamic ones, driven by key clients initiating several new projects. Opportunities are also noted in the energy and heavy machinery sectors, while automotive is more sluggish as mass market clients are relocating their engineering projects in low-cost countries;
- ◆ The integration of companies acquired back in 2H22-2023 is progressing well, and should positively impact margins in 1H24. However, we do not expect significant margin improvements in the full year, as the scheduled wage adjustments under the industry labour agreement in 2H24 should take their toll;
- ◆ Growth strategies are substantially confirmed: 1) M&A, which will be the primary use of the cash position and where TPS is scrutinizing several opportunities in Aeronautics, Railway, and Industrial Automation; 2) Possible expansion in US, also leveraging HB Technology's Philadelphia office; 3) Expansion of the service portfolio;
- ◆ The ability to attract and retain skilled labor remain a key focus. The management believes that TPS widespread presence in Italy and the Training Academy are proving to be crucial in mitigating churn, which is higher among young workers, especially in Northern Italy.

Our take: strong investment case, very undemanding price

The meeting confirmed a robust investment case, ideal for value investors seeking strong cash flows at very attractive valuations.

Based on our estimates, we highlight the following: 1) At the current price, the stock trades at 3.3x EV/EBITDA 2024, while the sector stands at more than double that figure; 2) EFCF Yield is forecasted consistently over 10%; 3) 35-40% of the current Equity Value is represented by the cash position.



Analysts

Marco Greco

+39 02 80886654

marco.greco@value-track.com

Luca Bernini

luca.bernini@value-track.com

Fair Value (€) 9.50

Market Price (€) 6.40

Market Cap. (€m) 46.5

KEY FINANCIALS (€m)	2023	2024E	2025E
REVENUES	48.3	51.8	55.5
EBITDA	8.7	9.5	10.4
EBIT	6.7	7.4	7.9
NET PROFIT	3.3	4.8	5.2
EQUITY	31.1	35.7	40.6
NET CASH POSITION	10.6	15.0	20.0
EPS ADJ. (€)	0.66	0.66	0.71
DPS (€)	0.08	0.08	0.08

Source: TPS Group (historical figures), Value Track (2024E-25E estimates)

RATIOS & MULTIPLES	2023	2024E	2025E
EBITDA MARGIN (%)	17.9	18.3	18.7
EBIT MARGIN (%)	13.8	14.4	14.3
NET DEBT / EBITDA (x)	nm	nm	nm
NET DEBT / EQUITY (x)	nm	nm	nm
EV/SALES (x)	0.6	0.6	0.5
EV/EBITDA (x)	3.4	3.3	2.5
EV/EBIT (x)	4.4	4.2	3.3
P/E ADJ. (x)	8.4	9.6	9.0

Source: TPS Group (historical figures), Value Track (2024E-25E estimates)

STOCK DATA

FAIR VALUE (€)	9.5
MARKET PRICE (€)	6.4
SHS. OUT. (m)	7.3
MARKET CAP. (€m)	46.5
FREE FLOAT (%)	16.4
AVG. -20D VOL.	3,294
RIC / BBG	TPS.MI / TPS.IM
52 WK RANGE	5.05 – 7.45

Source: Stock Market Data



TPS Group: Profit & Loss 2023A-26E

(€, mn)	2023A	2024E	2025E	2026E
Value of Production	48.3	51.8	55.5	59.6
Raw Materials, Δ Inventory (Finished Goods)	-1.9	-2.3	-2.5	-2.7
Costs of Services	-10.7	-11.1	-11.9	-12.8
Labour Costs	-27.0	-28.9	-30.7	-32.7
EBITDA	8.7	9.5	10.4	11.3
EBITDA Margin (%)	17.9%	18.3%	18.7%	19.0%
D&A (excl. goodwill)	-1.9	-2.0	-2.4	-2.8
Provisions	-0.1	0.0	0.0	-0.1
EBIT	6.7	7.4	7.9	8.5
EBIT Margin (%)	13.8%	14.4%	14.3%	14.2%
Interest Expenses	-0.2	-0.1	-0.1	0.0
Other Non-Operating Income/Expenses	-0.1	0.0	0.0	0.0
Extraordinary Items	-1.2	0.0	0.0	0.0
Taxes	-1.6	-2.2	-2.4	-2.5
Minorities	-0.2	-0.3	-0.3	-0.3
Net Profit	3.3	4.8	5.2	5.5

Source: TPS Group, Value Track Analysis

TPS Group: Cash Flow Statement 2023A-26E

(€mn, IAS IFRS)	2023A	2024E	2025E	2026E
EBITDA	8.7	9.5	10.4	11.3
Δ Net Working Capital	-6.8	0.5	0.5	-0.9
Capex	-2.8	-3.1	-3.3	-3.6
Δ Provision	1.6	0.3	0.4	0.4
OpFCF b.t.	0.7	7.4	8.0	7.2
As a % of EBITDA	7.9%	77.9%	76.7%	63.6%
Cash Taxes	-1.6	-2.2	-2.4	-2.5
Others (incl. Financial Inv.)	-2.8	0.0	0.0	0.0
Net Financial Charges	-0.2	-0.1	-0.1	0.0
Dividends Paid	-0.6	-0.6	-0.6	-0.6
Net Cash Generated (Absorbed)	-5.0	4.5	4.9	4.1

Source: TPS Group, Value Track Analysis

TPS Group: Balance Sheet 2023A-26E

(€mn, IAS IFRS)	2023A	2024E	2025E	2026E
Net Fixed Assets	11.0	12.1	13.0	13.7
Net Working Capital	15.5	14.9	14.3	15.2
Provisions	6.0	6.3	6.7	7.1
Total Capital Employed	20.6	20.7	20.7	21.9
Group Net Equity	31.1	35.7	40.6	45.9
Net Fin. Position [i.e. Net Debt (-) Cash (+)]	10.6	15.0	20.0	24.0

Source: TPS Group, Value Track Analysis

DISCLAIMER

THIS DOCUMENT IS PREPARED BY VALUE TRACK S.R.L. THIS DOCUMENT IS BEING FURNISHED TO YOU SOLELY FOR YOUR INFORMATION ON A CONFIDENTIAL BASIS AND MAY NOT BE REPRODUCED, REDISTRIBUTED OR PASSED ON, IN WHOLE OR IN PART, TO ANY OTHER PERSON. IN PARTICULAR, NEITHER THIS DOCUMENT NOR ANY COPY THEREOF MAY BE TAKEN OR TRANSMITTED OR DISTRIBUTED, DIRECTLY OR INDIRECTLY, INTO CANADA OR JAPAN OR AUSTRALIA TO ANY RESIDENT THEREOF OR INTO THE UNITED STATES, ITS TERRITORIES OR POSSESSIONS. 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. THIS DOCUMENT DOES NOT CONSTITUTE OR FORM PART OF, AND SHOULD NOT BE CONSTRUED AS, AN OFFER, INVITATION OR INDUCEMENT TO SUBSCRIBE FOR OR PURCHASE ANY SECURITIES, AND NEITHER THIS DOCUMENT NOR ANYTHING CONTAINED HEREIN SHALL FORM THE BASIS OF OR BE RELIED ON IN CONNECTION WITH OR ACT AS AN INVITATION OR INDUCEMENT TO ENTER INTO ANY CONTRACT OR COMMITMENT WHATSOEVER. THIS DOCUMENT HAS NOT BEEN PUBLISHED GENERALLY AND HAS ONLY BEEN MADE AVAILABLE TO INSTITUTIONAL INVESTORS. IN MAKING AN INVESTMENT DECISION, POTENTIAL INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE COMPANY AND ITS GROUP INCLUDING THE MERITS AND RISKS INVOLVED. THIS DOCUMENT IS FOR DISTRIBUTION IN OR FROM THE UNITED KINGDOM ONLY TO PERSONS WHO: (I) HAVE PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (AS AMENDED, THE “**FINANCIAL PROMOTION ORDER**”), (II) ARE PERSONS FALLING WITHIN ARTICLE 49(2)(A) TO (D) (“HIGH NET WORTH COMPANIES, UNINCORPORATED ASSOCIATIONS ETC.”) OF THE FINANCIAL PROMOTION ORDER, (III) ARE OUTSIDE THE UNITED KINGDOM, OR (IV) ARE PERSONS TO WHOM AN INVITATION OR INDUCEMENT TO ENGAGE IN INVESTMENT ACTIVITY (WITHIN THE MEANING OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000) IN CONNECTION WITH THE ISSUE OR SALE OF ANY SECURITIES MAY OTHERWISE LAWFULLY BE COMMUNICATED OR CAUSED TO BE COMMUNICATED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS “**RELEVANT PERSONS**”). THIS DOCUMENT IS DIRECTED ONLY AT RELEVANT PERSONS AND MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS DOCUMENT RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS. IN ITALY THIS DOCUMENT IS BEING DISTRIBUTED ONLY TO, AND IS DIRECTED AT QUALIFIED INVESTORS WITHIN THE MEANING OF ARTICLE 100 OF LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998, AS AMENDED, AND ARTICLE 34-TER, PARAGRAPH 1, LETTER B), OF CONSOB REGULATION ON ISSUERS NO. 11971 OF MAY 14, 1999, AS SUBSEQUENTLY AMENDED (THE “**ISSUERS’ REGULATION**”) PROVIDED THAT SUCH QUALIFIED INVESTORS WILL ACT IN THEIR CAPACITY AND NOT AS DEPOSITARIES OR NOMINEES FOR OTHER SHAREHOLDERS, SUCH AS PERSONS AUTHORISED AND REGULATED TO OPERATE IN FINANCIAL MARKETS, BOTH ITALIAN AND FOREIGN, I.E.: A) BANKS; B) INVESTMENT FIRMS; C) OTHER AUTHORISED AND REGULATED FINANCIAL INSTITUTIONS; D) INSURANCE COMPANIES; E) COLLECTIVE INVESTMENT UNDERTAKINGS AND MANAGEMENT COMPANIES FOR SUCH UNDERTAKINGS; F) PENSION FUNDS AND MANAGEMENT COMPANIES FOR SUCH FUNDS; G) DEALERS ACTING ON THEIR OWN ACCOUNT ON COMMODITIES AND COMMODITY-BASED DERIVATIVES; H) PERSONS DEALING EXCLUSIVELY ON THEIR OWN ACCOUNT ON FINANCIAL INSTRUMENTS MARKETS WITH INDIRECT MEMBERSHIP OF CLEARING AND SETTLEMENT SERVICES AND THE LOCAL COMPENSATORY AND GUARANTEE SYSTEM; I) OTHER INSTITUTIONAL INVESTORS; L) STOCKBROKERS; (2) LARGE COMPANIES WHICH AT INDIVIDUAL COMPANY LEVEL MEET AT LEAST TWO OF THE FOLLOWING REQUIREMENTS: – BALANCE SHEET TOTAL: 20,000,000 EURO, – NET REVENUES: 40,000,000 EURO, – OWN FUNDS: 2,000,000 EURO; (3) INSTITUTIONAL INVESTORS WHOSE MAIN ACTIVITY IS INVESTMENT IN FINANCIAL INSTRUMENTS, INCLUDING COMPANIES DEDICATED TO THE SECURITISATION OF ASSETS AND OTHER FINANCIAL TRANSACTIONS (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS “**RELEVANT PERSONS**”). ANY PERSON WHO IS NOT A RELEVANT PERSON SHOULD NOT ACT OR RELY ON THIS DOCUMENT OR ANY OF ITS CONTENTS. THIS DOCUMENT IS NOT ADDRESSED TO ANY MEMBER OF THE GENERAL PUBLIC IN ITALY. UNDER NO CIRCUMSTANCES SHOULD THIS DOCUMENT CIRCULATE AMONG, OR BE DISTRIBUTED IN ITALY TO (I) A MEMBER OF THE GENERAL PUBLIC, (II) INDIVIDUALS OR ENTITIES FALLING OUTSIDE THE DEFINITION OF “QUALIFIED INVESTORS” AS SPECIFIED ABOVE OR (III) DISTRIBUTION CHANNELS THROUGH WHICH INFORMATION IS OR IS LIKELY TO BECOME AVAILABLE TO A LARGE NUMBER OF PERSONS. THIS DOCUMENT IS BEING DISTRIBUTED TO AND IS DIRECTED ONLY AT PERSONS IN MEMBER STATES OF THE EUROPEAN ECONOMIC AREA (“**EEA**”) WHO ARE “QUALIFIED INVESTORS” WITHIN THE MEANING OF ARTICLE 2(1)(E) OF THE PROSPECTUS DIRECTIVE (DIRECTIVE 2003/71/EC), (“**QUALIFIED INVESTORS**”). ANY PERSON IN THE EEA WHO RECEIVES THIS DOCUMENT WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT IT IS A QUALIFIED INVESTOR. ANY SUCH RECIPIENT WILL ALSO BE DEEMED TO HAVE REPRESENTED AND AGREED THAT IT HAS NOT RECEIVED THIS DOCUMENT ON BEHALF OF PERSONS IN THE EEA OTHER THAN QUALIFIED INVESTORS OR PERSONS IN THE UK, ITALY AND OTHER MEMBER STATES (WHERE EQUIVALENT LEGISLATION EXISTS) FOR WHOM THE INVESTOR HAS AUTHORITY TO MAKE DECISIONS ON A WHOLLY DISCRETIONARY BASIS. THE COMPANY, VALUE TRACK S.R.L. AND THEIR AFFILIATES, AND OTHERS WILL RELY UPON THE TRUTH AND ACCURACY OF THE FOREGOING REPRESENTATIONS AND AGREEMENTS. ANY PERSON IN THE EEA WHO IS NOT A QUALIFIED INVESTOR SHOULD NOT ACT OR RELY ON THIS DOCUMENT OR ANY OF ITS CONTENTS. THE EXPRESSION “PROSPECTUS DIRECTIVE” MEANS DIRECTIVE 2003/71/EC (AND AMENDMENTS THERETO, INCLUDING THE 2010 PD AMENDING DIRECTIVE, TO THE EXTENT IMPLEMENTED IN THE RELEVANT MEMBER STATE), AND INCLUDES ANY RELEVANT IMPLEMENTING MEASURE IN THE RELEVANT MEMBER STATE AND THE EXPRESSION “2010 PD AMENDING DIRECTIVE” MEANS DIRECTIVE 2010/73/EU. THIS DOCUMENT HAS BEEN PRODUCED INDEPENDENTLY OF T.P.S. S.P.A. (THE “**COMPANY**”) AND ITS SHAREHOLDERS, AND ANY FORECASTS, OPINIONS AND EXPECTATIONS CONTAINED HEREIN ARE ENTIRELY THOSE OF VALUE TRACK S.R.L. AND ARE GIVEN AS PART OF ITS NORMAL RESEARCH ACTIVITY AND SHOULD NOT BE RELIED UPON AS HAVING BEEN AUTHORISED OR APPROVED BY ANY OTHER PERSON. VALUE TRACK S.R.L. HAS NO AUTHORITY WHATSOEVER TO MAKE ANY REPRESENTATION OR WARRANTY ON BEHALF OF THE COMPANY, ITS SHAREHOLDERS, ANY OF ITS ADVISORS, OR ANY OTHER PERSON IN CONNECTION THEREWITH. WHILE ALL REASONABLE CARE HAS BEEN TAKEN TO ENSURE THAT THE FACTS STATED HEREIN ARE ACCURATE AND THAT THE FORECASTS, OPINIONS AND EXPECTATIONS CONTAINED HEREIN ARE FAIR AND REASONABLE, VALUE TRACK S.R.L. HAS NOT VERIFIED THE CONTENTS HEREOF AND ACCORDINGLY NONE OF VALUE TRACK S.R.L., THE COMPANY, ITS SHAREHOLDERS, ANY ADVISORS TO THE COMPANY OR ITS SHAREHOLDERS OR ANY OTHER PERSON IN CONNECTION THEREWITH NOR ANY OF THEIR RESPECTIVE DIRECTORS, OFFICERS OR EMPLOYEES, SHALL BE IN ANY WAY RESPONSIBLE FOR THE CONTENTS HEREOF AND NO RELIANCE SHOULD BE PLACED ON THE ACCURACY, FAIRNESS, OR COMPLETENESS OF THE INFORMATION CONTAINED IN THIS DOCUMENT. NO PERSON ACCEPTS ANY LIABILITY WHATSOEVER FOR ANY LOSS HOWSOEVER ARISING FROM THE USE OF THIS DOCUMENT OR OF ITS CONTENTS OR OTHERWISE ARISING IN CONNECTION THEREWITH. TO THE EXTENT PERMITTED BY LAW AND BY REGULATIONS, VALUE TRACK S.R.L. (OR ITS OFFICERS, DIRECTORS OR EMPLOYEES) MAY HAVE A POSITION IN THE SECURITIES OF (OR OPTIONS, WARRANTS OR RIGHTS WITH RESPECT TO, OR INTEREST IN THE SHARES OR OTHER SECURITIES OF) THE COMPANY AND MAY MAKE A MARKET OR ACT AS A PRINCIPAL IN ANY TRANSACTIONS IN SUCH SECURITIES.