

Company: **Cofle** Rating: **BUY** Target Price: **€11.9 (from €15.1)** Sector: **Auto Parts & Equipment**

## Turkey's hyperinflation fuels uncertainty

October 18, 2023

### Revenue growth driven by OEM

In 1H23 Cofle reported consolidated revenues up by 8% yoy to €29.7m. OEM turnover increased by 10% yoy to €20.4m, while Aftermarket sales were up by 5% yoy to €9.3m thanks to new commercial strategies in the Eurozone and Eastern Europe. OEM increased its weight on total revenue from 68% in 1H22 to 69% in 1H23. Final revenue figures (€29.7m) were 8% lower compared to unaudited pre-release figure from July (€32.2m) due to hyperinflation charges in relation to Turkey which were not included in the preliminary figures in July (net effect on sales was -€3.2m). 1H23 Total revenues (VoP) were €30.8m and 49% on our FY23 estimate (€63m) [Please refer to our Company Update on April 28, 2023], thus still on track to reach our estimates if compared to 1H22/FY22 (50%). Adjusted EBITDA was €5.4m, declining by 21% yoy with EBITDA margin losing 6pp to 18% due to higher labour cost (+20% yoy) in Turkey due to collective bargaining driven by inflation adjustments. Our FY23E EBITDA adjusted margin estimate was 21%, and ~2pp below 2022 level; so the margin decline is larger than our forecast.

### Turkey's hyperinflation charges continue to afflict Net income

EBIT came in at €2.7m declining by 44% yoy, while group net profit was €0.6m falling by 79% yoy. In fact, the bottom line was negatively affected by ~€1.8m of charges related to hyperinflation, which were not applied in 1H22 but only in 2H22. At the end of June 2023, net debt increased to €3.3m from €-0.2m (cash positive) at the end of 2022, driven by higher investments levels at €4.8m. The latter included €1.2m for the new logistics plant in Italy which will be operational from November 2023. Moreover, €1.5m for new production department in Turkey to increase production capacity and internalize production of electrical components.

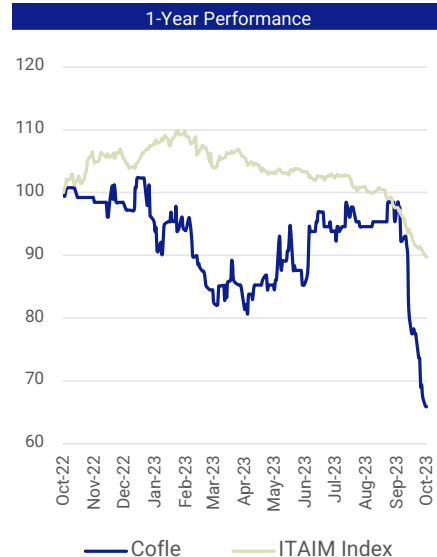
### Net income margin estimates cut due to lower EBITDA and hyperinflation charges

We confirm our 23E-25E revenues and added forecasts for 2026. On average, we reduced Adj. EBITDA margin by 2.4pp to reflect the contraction witnessed in 1H23. In the last two semesters, net income has been impacted by hyperinflation charges in relation to Turkey, calculated on end of period exchange rate and Turkish CPI. Given consensus forecasts on Turkish CPI indicate a 54.4% yoy increase in 2023 we included a net effect of forex gains and hyperinflation charges of €-0.5m in 23E. Due to the complexities in the accounting treatment as well as the inherent heightened macroeconomic uncertainty, visibility on these costs remains very limited. Taking into considerations lower EBITDA forecasts and hyperinflation costs, on average we lowered net income margin by 4.4pp in 23E-25E.

### Valuation: BUY confirmed; 12-month target price cut to €11.9/sh

We cut our 12-month Target Price to €11.9/sh from previous €15.1/sh. Our Target Price is the weighted average between DCF (75%) and relative market multiples valuation (25%). DCF valuation was brought down to €12.2/sh (from €15.6/sh) following lower FCFs in FY23-26E of €18.4m (-25% vs previous estimate) and TV of €5.7m (-17% vs previous estimate) due to lower marginality. For the market multiples valuation, we considered the EV/EBITDA 23-24 of 6.2x (in line with our last update). This led us to an Equity Value of €11.1/sh (from €13.8/sh) due to lower EBITDA adj. Cofle trades at a discount on EV/EBITDA23 (5.5x) vs comparable (6.6x) due to lower expected sales growth but despite higher marginality. Given the significant potential upside vs current Cofle price, we confirm our BUY recommendation.

Company Profile					
Bloomberg	CFL IM				
FactSet	CFL-IT				
Stock Exchange	Italian Stock Exchange				
Reference Index	FTSE Italia Growth				
Market Data					
Last Closing Price	8.5				
Number of shares	6.2				
Market cap. (mln)	52.3				
1Y Performance					
Absolute	-34%				
Max / Min	13.2 / 8.5				
(€mln)	2021	2022	2023E	2024E	2025E
<b>Total revenue (VoP)</b>	<b>55.4</b>	<b>58.0</b>	<b>63.0</b>	<b>70.6</b>	<b>76.1</b>
yoy (%)		5%	9%	12%	8%
<b>Adj. EBITDA</b>	<b>13.5</b>	<b>13.0</b>	<b>11.1</b>	<b>13.5</b>	<b>15.5</b>
margin (%)	24%	22%	18%	19%	20%
<b>EBIT</b>	<b>10.4</b>	<b>8.4</b>	<b>5.9</b>	<b>9.7</b>	<b>11.6</b>
margin (%)	19%	15%	9%	14%	15%
<b>Group Net Profit</b>	<b>8.2</b>	<b>2.3</b>	<b>1.8</b>	<b>3.1</b>	<b>4.7</b>
margin (%)	15%	4%	3%	4%	6%
<b>Adj. Net Debt</b>	<b>0.0</b>	<b>3.6</b>	<b>7.9</b>	<b>9.2</b>	<b>9.1</b>
<b>Sh. Equity</b>	<b>26.1</b>	<b>29.6</b>	<b>29.4</b>	<b>31.7</b>	<b>35.0</b>
Capex	(4.8)	(3.0)	(5.7)	(4.0)	(4.5)
FCFs	3.1	3.8	1.4	3.7	5.4



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

**Michele Calusa**  
 Equity Research Analyst  
 michele.calusa@bancaprofilo.it

Sales Desk  
 +39 02 58408 478

## Table of Contents

SWOT analysis .....	3
1H23 results.....	4
Strategy and estimates .....	7
Corporate strategies .....	7
Our 23E-26E estimates .....	7
Valuation.....	10
DCF .....	10
Cofle's competitive arena.....	10
Market multiples .....	13
Appendix: The reference market.....	14
The Original Equipment Manufacturer Industry .....	14
The Aftermarket Industry.....	17
Appendix: Overview and business model.....	19
A multinational company leading OEM and IAM market segments .....	19
Original Equipment Manufacturer business model.....	19
Aftermarket business model .....	20
Shareholders' structure after IPO .....	21
History .....	22
Group structure .....	23
Disclaimer .....	27

## SWOT analysis

### STRENGTHS

- Multinational Company
- Strong commitment in eco-sustainability
- Strongly investing on corporate culture, brand awareness and innovative marketing
- A wide portfolio of patented products
- Geographically diversified production
- Top end customers
- Focus on innovation and R&D
- Distinctive Know-How
- Resilience to global recession
- Long-lasting client relationships

### WEAKNESSES

- Revenue concentration by client
- Slow process of digitalization
- Exposure to Turkey

### OPPORTUNITY

- New demand from the EU release of constraints on agricultural land
- Large potential in Eastern Europe for both OEM and Aftermarket segments
- Strategically positioned to boost long term expansion
- Only at the beginning of international scalability
- OEM Expansion into Luxury Automotive & Light Commercial Vehicles
- Growth through M&A
- Production capacity expansion
- Major technological upgrade involving farm tractors in the next decade

### THREATS

- Intensifying competition within large manufacturers
- High growth rates could lead to cost management issues
- Internalization of Cofle process by its main customer
- Cannibalization risk of products under Cofle's brand and Third-Party brand

## 1H23 results

### Revenue growth driven by OEM

Cofle reported its 1H23 results: consolidated revenues were up by 8% yoy to €29.7m, OEM turnover increased by 10% yoy to €20.4m, while Aftermarket sales were up by 5% yoy to €9.3m thanks to new commercial strategies in the Eurozone and Eastern Europe. OEM increased its weight on total revenue from 68% in 1H22 to 69% in 1H23. Final revenue figures (€29.7m) were 8% lower compared to unaudited pre-release figure from July (€32.2m) due to hyperinflation charges in relation to Turkey which were not included in the preliminary figures in July (Net effect on sales was -€3.2m). 1H23 Total revenues (VoP) were €30.8m and 49% on our FY23 estimate (€63m) [Please refer to our Company Update on 28 April 2023], thus still on track to reach our estimates if compared to 1H22/FY22 (50%).

### EBITDA margin contraction due to higher labor cost

Adjusted EBITDA was €5.4m, declining by 21% yoy with EBITDA margin losing 6pp to 18% driven by higher labour cost (+20% yoy) in Turkey due to collective bargaining coming from inflation adjustments. Our FY23E EBITDA adjusted margin estimate was at 21%, and ~2pp below 2022 level; so the margin decline is larger than our forecasts.

### Net income still affected by hyperinflation

EBIT came in at €2.7m declining by 44% yoy, while group net profit was €0.6m falling by 79% yoy. The bottom line was negatively affected by ~€1.8m of charges related to hyperinflation in Turkey, which were not applied in 1H22 but only in 2H22. These costs are volatile, as they represent an adjustment based on Turkish CPI and end of period exchange rates.

Figure 1: EUR/TRY

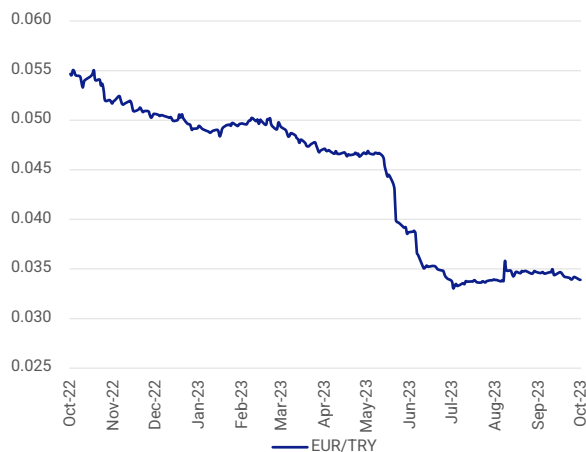
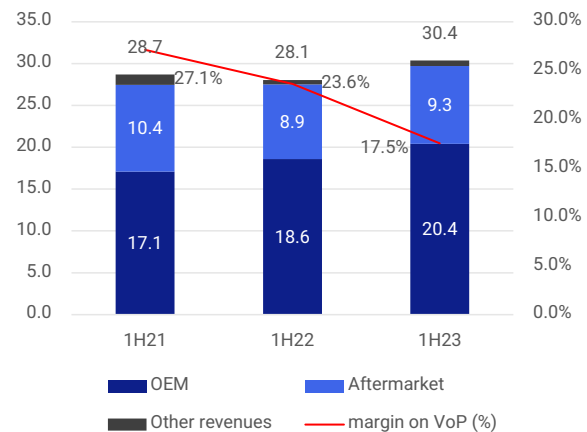


Figure 2: Revenue breakdown and EBITDA margin (%)



Source: Banca Profilo elaborations and estimates on Company data

### Higher investment levels in 1H23

At the end of June 2023, net debt increased to €3.3m from €-0.2m (cash positive) at the end of 2022, driven by higher investments levels at €4.8m. The latter included €1.2m for the new logistics plant in Italy as well as €1.5m for new production department in Turkey to increase production capacity and internalize production of electrical components. Investments are expected to become operational by 2024.

Table 1: Revenue breakdown 1H21-1H23 (€, mln)

Revenue breakdown (€/mln)	1H21	2021	1H22	2022	1H23
OEM	17.1	32.2	18.6	38.8	20.4
<i>yoy (%)</i>	100%	56%	9%	20%	10%
<i>on Sales (%)</i>	62%	62%	68%	70%	69%
Aftermarket	10.4	20.0	8.9	16.6	9.3
<i>yoy (%)</i>	32%	22%	-14%	-17%	5%
<i>on Sales (%)</i>	38%	38%	32%	30%	31%
<b>Sales</b>	<b>27.5</b>	<b>52.2</b>	<b>27.6</b>	<b>55.4</b>	<b>29.7</b>
<i>yoy (%)</i>	67.6%	41.3%	0.3%	6.1%	7.9%
Other revenues	1.2	1.6	0.5	1.3	0.7
<i>on revenues (%)</i>	4.5%	3.1%	0.0%	2.4%	2.2%
<b>Revenues</b>	<b>28.7</b>	<b>53.9</b>	<b>28.1</b>	<b>56.7</b>	<b>30.4</b>
<i>yoy (%)</i>	75.1%	44.1%	-2.2%	5.3%	8.3%
Change in inventories	(0.0)	1.6	0.7	1.3	0.4
<i>on revenues (%)</i>	0.0%	3.0%	2.5%	2.3%	1.3%
<b>Total revenues (VoP)</b>	<b>28.7</b>	<b>55.4</b>	<b>28.8</b>	<b>58.0</b>	<b>30.8</b>
<i>yoy (%)</i>	84%	46%	0%	5%	7%

Source: Banca Profilo elaborations and estimates on Company data

Table 2: Income statement 1H21-1H23 (€, mln)

Profit & Loss (€/mln)	1H21	2021	1H22	2022	1H23
Total revenues (VoP)	28.7	55.4	28.8	58.0	30.8
Total Raw Materials	(9.4)	(19.8)	(10.7)	(21.8)	(12.2)
Service costs	(4.7)	(9.5)	(5.3)	(10.6)	(6.0)
Cost for the use of third-part assets	(0.6)	(1.1)	(0.6)	(1.2)	(0.7)
Labour costs	(5.9)	(11.3)	(5.6)	(11.5)	(6.7)
Other costs	(0.3)	(0.8)	(0.5)	(0.9)	(0.9)
<b>EBITDA</b>	<b>7.8</b>	<b>12.9</b>	<b>6.0</b>	<b>12.0</b>	<b>4.2</b>
<i>margin on VoP (%)</i>	27%	23%	21%	21%	14%
<i>yoy (%)</i>	242%	113%	-23%	-7%	-30%
<b>Adjusted EBITDA</b>	<b>7.8</b>	<b>13.5</b>	<b>6.8</b>	<b>13.0</b>	<b>5.4</b>
<i>margin on VoP (%)</i>	27%	24%	24%	22%	18%
Amortization	(0.1)	(0.8)	(0.4)	(1.1)	(0.5)
Depreciation	(0.5)	(1.7)	(0.8)	(2.4)	(1.0)
Write off	-	(0.0)	-	(0.0)	-
<b>EBIT</b>	<b>7.1</b>	<b>10.4</b>	<b>4.8</b>	<b>8.4</b>	<b>2.7</b>
<i>margin on VoP (%)</i>	25%	19%	17%	15%	9%
<i>yoy (%)</i>	0%	120%	-32%	-19%	-44%
Financial income/(expenses)	(0.2)	(0.6)	(0.4)	(5.2)	(2.6)
<i>o/w Hyperinflation charges</i>	-	-	-	(4.1)	(1.8)
Profit/(Loss) on foreign exchange	0.5	1.7	0.3	1.3	1.4
Other financial income/(expenses)	-	0.0	0.0	0.0	0.1
<b>Net financial expenses</b>	<b>0.2</b>	<b>1.2</b>	<b>(0.1)</b>	<b>(3.9)</b>	<b>(1.1)</b>
Taxes	(1.8)	(2.3)	(1.4)	(1.9)	(0.8)
<b>Operating Net Profit</b>	<b>5.5</b>	<b>9.3</b>	<b>3.4</b>	<b>2.6</b>	<b>0.8</b>
Minorities	0.7	1.0	0.4	0.4	0.2
<b>Group Net Profit</b>	<b>4.9</b>	<b>8.2</b>	<b>3.0</b>	<b>2.3</b>	<b>0.6</b>
<i>margin on VoP (%)</i>	17%	15%	10%	4%	2%

Source: Banca Profilo elaborations and estimates on Company data

Table 3: Balance Sheet 1H21-1H23 (€, mln)

Balance sheet (€/mln)	1H21	2021	1H22	2022	1H23
Inventory	9.6	10.7	12.6	14.1	13.3
Accounts receivables	15.1	12.7	14.1	13.3	14.4
Accounts payables	(7.0)	(8.1)	(7.2)	(8.1)	(8.4)
<b>Operating Net Working Capital</b>	<b>17.7</b>	<b>15.3</b>	<b>19.5</b>	<b>19.3</b>	<b>19.2</b>
Other Current Assets	3.3	2.2	2.5	3.4	3.8
Other Current Liabilities	(4.6)	(3.3)	(3.9)	(3.0)	(4.4)
<b>Net Working Capital</b>	<b>16.5</b>	<b>14.2</b>	<b>18.1</b>	<b>19.8</b>	<b>18.7</b>
Intangibles	2.9	3.8	3.9	4.2	3.6
Tangibles	4.2	4.5	5.8	7.0	10.1
Financials	0.2	0.7	0.3	0.3	0.4
<b>Fixed Asset</b>	<b>7.2</b>	<b>9.1</b>	<b>10.0</b>	<b>11.5</b>	<b>14.1</b>
Provision for risks	(0.1)	(0.2)	(0.2)	(1.1)	(1.1)
Pensions	(0.7)	(0.6)	(0.7)	(0.6)	(0.6)
<b>Net Invested Capital</b>	<b>22.9</b>	<b>22.5</b>	<b>27.2</b>	<b>29.4</b>	<b>31.0</b>
<b>Equity</b>	<b>13.6</b>	<b>26.1</b>	<b>27.4</b>	<b>29.6</b>	<b>27.4</b>
Net debt (cash)	9.4	(3.6)	(0.2)	(0.2)	3.6
Liabilities	22.9	22.5	27.2	29.4	31.0
Net debt (cash) reported	9.4	(3.6)	(0.2)	(0.2)	3.3
Adjusted Net debt (cash)	14.9	0.0	3.6	3.6	8.5

Source: Banca Profilo elaborations and estimates on Company data

## Strategy and estimates

### Corporate strategies

<b>New logistics plant</b>	In November 2023 Cofle will open a new logistics plant near Trezzo sull'Adda for its OEM division, which will lead to logistics optimization and digitalization, aiming at significantly reducing time to market.
<b>€1.5mln for electronics department in Turkey</b>	Cofle's Turkey subsidiary invested in new machinery and plants to increase production capacity, and in a new electronics production department to internalize the production of electronic components.
<b>Higher value per machine</b>	Cofle plans to continue its growth in electronics and mechatronics through new products, targeting the OEM sector. The Company's goal is to expand its product portfolio, aiming at being able to fully equip a tractor's cabin, potentially achieving higher sales per machine.
<b>New Ineos vehicles could provide further opportunities</b>	Components installed on the Ineos Grenadier are a key revenue driver during FY23-24, Cofle produces the locking differential and the reduced gear unlock for the off-road vehicle. This will generate €5.5mln of total revenues for Cofle in the two-year period 2023/2024. These products could represent a long-term opportunity for Cofle if implemented by Ineos in new vehicles.
<b>Cofle France: two key agreements</b>	<p>In 2022 Cofle set up its French division to be directly present in the Region, tackling market opportunities thanks to 3 managers with extensive knowledge of the sector. The new unit could also unlock previously untapped opportunities across Spain, Portugal, Maghreb and Benelux. The expansion will require €1.5mln of investment over the next three years. This is in line with Cofle's IPO plan to expand geographically.</p> <p>In 2023, the French subsidiary has entered into two significant commercial agreements with: the second-largest European spare parts distribution group and with a spare parts distributor that is part of a large industrial group in the automotive sector</p>

### Our 23E-26E estimates

<b>EBITDA margin reduced</b>	We confirm our 23E-25E revenues and added our forecasts for 2026. We reduced change in inventories and increased services to better align EBITDA marginality to 1H23 results. The generalized increase in costs derives from rising costs in Turkey which have been impacted by renegotiations due to hyperinflation. Therefore, on average 23E-25E adj. EBITDA margin is now 2.3pp below our previous estimates.
<b>Including hyperinflation charges assumptions</b>	<p>In order to take into account the impact of hyperinflation, Cofle applied IAS 29 and IAS 21. Values in the foreign currency are adjusted by using end of period CPIs and translated using end of period exchange rates rather than the average. The latter greatly increases the volatility of incurred costs. Given consensus forecasts on Turkish CPI indicate a 54.4% yoy increase in 2023, we expect a further charge in 2H23 of €1mln, which leads to a total of €2.8mln in 23E. We also added gains in forex of €2.8mln in 23E, leading to a net effect of forex related charges of €-0.5mln. We added a similar assumption in 24E to maintain a more conservative EBIT. Due to the complexities in the accounting treatment as well as the inherent heightened macroeconomic uncertainty, we note that visibility on these costs is very limited.</p> <p>Taking into considerations lower EBITDA forecasts and hyperinflation costs, on average we reduced net income margin by 4.5pp in 23E-25E.</p>

Table 4: Revenue breakdown FY21-FY26E (€, mln)

Revenues	2021	2022	2023E	2023E	2024E	2024E	2025E	2025E	2026E
			old	new	old	new	old	new	new
OEM	32.2	38.8	42.7	42.7	47.8	47.8	51.6	51.6	55.8
yoy (%)		20%	10%	10%	12%	12%	8%	8%	8%
% on revenues	62%	70%	71%	71%	71%	71%	71%	71%	71%
Aftermarket	20.0	16.6	17.8	17.8	19.9	19.9	21.5	21.5	23.2
yoy (%)		-17%	7%	7%	12%	12%	8%	8%	8%
% on revenues	38%	30%	29%	29%	29%	29%	29%	29%	29%
<b>Sales</b>	<b>52.2</b>	<b>55.4</b>	<b>60.5</b>	<b>60.5</b>	<b>67.7</b>	<b>67.7</b>	<b>73.1</b>	<b>73.1</b>	<b>79.0</b>
Other revenues	1.6	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Change in inventories	1.6	1.3	1.2	1.2	1.5	1.5	1.7	1.7	1.8
<b>Total revenues (VoP)</b>	<b>55.4</b>	<b>58.0</b>	<b>63.0</b>	<b>63.0</b>	<b>70.6</b>	<b>70.6</b>	<b>76.1</b>	<b>76.1</b>	<b>82.1</b>
yoy (%)		5%	9%	9%	12%	12%	8%	8%	8%

Source: Banca Profilo elaborations and estimates on Company data

Table 5: Income statement FY21-FY26E (€, mln)

Profit & Loss (€/mln)	2021	2022	2023E	2023E	2024E	2024E	2025E	2025E	2026E
			old	new	old	new	old	new	new
<b>Total revenues (VoP)</b>	<b>55.4</b>	<b>58.0</b>	<b>63.0</b>	<b>63.0</b>	<b>70.6</b>	<b>70.6</b>	<b>76.1</b>	<b>76.1</b>	<b>82.1</b>
Raw materials	(23.0)	(25.0)	(27.0)	(27.2)	(29.8)	(29.8)	(31.4)	(31.4)	(33.6)
Change in inventories (raw materials)	3.2	3.2	3.5	2.7	3.9	3.0	3.8	3.1	3.4
Service costs	(9.5)	(10.6)	(10.9)	(12.1)	(12.7)	(13.5)	(13.6)	(14.5)	(15.6)
Cost for the use of third-part assets	(1.1)	(1.2)	(1.2)	(1.2)	(1.5)	(1.5)	(1.6)	(1.6)	(1.8)
Labour costs	(11.3)	(11.5)	(14.5)	(14.5)	(15.2)	(15.2)	(16.0)	(16.0)	(17.4)
Other costs	(0.8)	(0.9)	(1.0)	(1.5)	(1.2)	(1.1)	(1.2)	(1.2)	(1.3)
<b>EBITDA</b>	<b>12.9</b>	<b>12.0</b>	<b>12.0</b>	<b>9.2</b>	<b>14.1</b>	<b>12.4</b>	<b>16.0</b>	<b>14.5</b>	<b>15.9</b>
yoy (%)		-7%	0%	-23%	18%	35%	13%	16%	10%
margin on VoP (%)	23%	21%	19%	15%	20%	18%	21%	19%	19%
<b>Adjusted EBITDA</b>	<b>13.5</b>	<b>13.0</b>	<b>13.0</b>	<b>11.1</b>	<b>15.2</b>	<b>13.5</b>	<b>17.0</b>	<b>15.5</b>	<b>17.0</b>
margin on VoP (%)	24%	22%	21%	18%	21%	19%	22%	20%	21%
D&A	(2.5)	(3.4)	(3.6)	(3.3)	(2.8)	(2.7)	(2.9)	(2.8)	(2.8)
Provision for risks	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
<b>EBIT</b>	<b>10.4</b>	<b>8.4</b>	<b>8.3</b>	<b>5.9</b>	<b>11.2</b>	<b>9.7</b>	<b>12.9</b>	<b>11.6</b>	<b>13.1</b>
margin on VoP (%)	19%	15%	13%	9%	16%	14%	17%	15%	16%
yoy (%)		-19%	-2%	-31%	36%	65%	15%	20%	12%
Financial income/(expenses)	(0.6)	(5.2)	(0.8)	(4.9)	(0.7)	(4.5)	(0.7)	(1.3)	(1.2)
o/w Hyperinflation charges	-	(4.1)	-	(3.3)	-	(3.0)	-	-	-
Profit/(Loss) on foreign exchange	1.7	1.3	-	2.8	-	1.5	-	-	-
Taxes	(2.3)	(1.9)	(2.2)	(1.5)	(3.2)	(2.7)	(3.7)	(4.1)	(4.8)
<b>Operating Net Profit</b>	<b>9.3</b>	<b>2.6</b>	<b>5.2</b>	<b>2.3</b>	<b>7.4</b>	<b>4.0</b>	<b>8.6</b>	<b>6.2</b>	<b>7.1</b>
margin on VoP (%)	17%	5%	8%	4%	10%	6%	11%	8%	9%
Minorities	1.0	0.4	0.6	0.6	0.9	1.0	1.0	1.5	1.7
<b>Group Net Profit</b>	<b>8.2</b>	<b>2.3</b>	<b>4.6</b>	<b>1.8</b>	<b>6.5</b>	<b>3.1</b>	<b>7.6</b>	<b>4.7</b>	<b>5.4</b>

Source: Banca Profilo elaborations and estimates on Company data



Table 6: Balance Sheet FY21-FY26E (€, mln)

Balance sheet (€/mln)	2021	2022	2023E	2023E	2024E	2024E	2025E	2025E	2026E
			old	new	old	new	old	new	new
Inventory	10.7	14.1	14.0	14.7	15.1	15.9	16.3	16.8	17.9
Accounts receivables	12.7	13.3	14.5	14.5	16.2	16.2	17.5	17.5	18.9
Accounts payables	(8.1)	(8.1)	(8.6)	(9.1)	(9.7)	(9.9)	(10.2)	(10.4)	(11.1)
<b>Operating Net Working Capital</b>	<b>15.3</b>	<b>19.3</b>	<b>19.8</b>	<b>20.0</b>	<b>21.7</b>	<b>22.3</b>	<b>23.5</b>	<b>23.9</b>	<b>25.7</b>
Other Current Assets and Liabilities	(1.1)	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
<b>Net Working Capital</b>	<b>14.2</b>	<b>19.8</b>	<b>20.3</b>	<b>20.5</b>	<b>22.1</b>	<b>22.7</b>	<b>24.0</b>	<b>24.3</b>	<b>26.1</b>
Intangibles	3.8	4.2	4.6	4.3	5.0	4.8	5.5	5.2	5.2
Tangibles	4.5	7.0	8.5	9.3	9.2	10.1	10.3	11.4	11.4
Financials	0.7	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
<b>Fixed Asset</b>	<b>9.1</b>	<b>11.5</b>	<b>13.4</b>	<b>13.9</b>	<b>14.6</b>	<b>15.2</b>	<b>16.1</b>	<b>16.9</b>	<b>16.9</b>
Other Non Current Assets	(0.8)	(1.8)	(1.9)	(1.9)	(2.0)	(2.0)	(2.0)	(2.0)	(2.1)
<b>Net Invested Capital</b>	<b>22.5</b>	<b>29.4</b>	<b>31.7</b>	<b>32.4</b>	<b>34.7</b>	<b>35.9</b>	<b>38.1</b>	<b>39.2</b>	<b>40.9</b>
Share capital	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Share premium reserve	14.9	14.9	14.9	14.9	14.9	14.9	14.9	14.9	14.9
Accumulated profit/loss	4.9	13.9	14.4	15.5	16.4	16.1	19.8	17.2	19.8
Net profit	8.2	2.3	4.6	1.8	6.5	3.1	7.6	4.7	5.4
Minority share	1.4	1.8	0.6	0.6	0.9	1.0	1.0	1.5	1.7
<b>Equity</b>	<b>26.1</b>	<b>29.6</b>	<b>31.2</b>	<b>29.4</b>	<b>35.3</b>	<b>31.7</b>	<b>40.0</b>	<b>35.0</b>	<b>38.5</b>
Net debt (cash)	(3.6)	(0.2)	0.5	3.0	(0.6)	4.3	(1.9)	4.2	2.4
<b>Liabilities</b>	<b>22.5</b>	<b>29.4</b>	<b>31.7</b>	<b>32.4</b>	<b>34.7</b>	<b>35.9</b>	<b>38.1</b>	<b>39.2</b>	<b>40.9</b>
Adjusted Net debt (cash)	0.0	3.6	4.0	7.9	2.8	9.2	1.5	9.1	7.3

Source: Banca Profilo elaborations and estimates on Company data

Cumulated FCFs reduced by 25% to €18.4mln

According to our estimates, cumulated 23E-26E FCFs are €18.4mln, 25% below our previous estimates at €24.5mln primarily due to lower marginality at EBITDA level.

Table 7: FCF forecasts FY23E-FY26E

Free Cash Flow (€/mln)	2023E	2023E	2024E	2024E	2025E	2025E	2026E	2026E
	old	new	old	new	old	new	old	new
EBIT	8.3	5.9	11.2	9.7	12.9	11.6	14.4	13.1
taxes	(2.1)	(1.5)	(2.8)	(2.4)	(3.2)	(2.9)	(3.6)	(3.3)
<b>NOPAT</b>	<b>6.2</b>	<b>4.4</b>	<b>8.4</b>	<b>7.3</b>	<b>9.7</b>	<b>8.7</b>	<b>10.8</b>	<b>9.8</b>
D&A	3.6	3.3	2.8	2.7	2.9	2.8	2.9	2.8
<b>Operating cash flow</b>	<b>9.8</b>	<b>7.7</b>	<b>11.2</b>	<b>9.9</b>	<b>12.6</b>	<b>11.5</b>	<b>13.7</b>	<b>12.6</b>
Change in Net operating working capital	(0.5)	(0.7)	(1.8)	(2.2)	(1.9)	(1.6)	(1.9)	(1.8)
Other funds	0.2	0.2	0.0	0.0	0.0	0.0	0.1	0.1
Capex	(5.5)	(5.7)	(4.0)	(4.0)	(4.5)	(4.5)	(3.0)	(3.0)
<b>Free Cash Flow</b>	<b>3.9</b>	<b>1.4</b>	<b>5.4</b>	<b>3.7</b>	<b>6.3</b>	<b>5.4</b>	<b>8.9</b>	<b>7.8</b>

Source: Banca Profilo elaborations and estimates on Company data

## Valuation

### DCF and market multiples

We carry out the valuation of Cofle using a DCF method and through market multiples based on a sample of listed international companies "comparable" to Cofle

TP €11.9/sh (from 15.1/sh), BUY

We took the weighted average between DCF (75%) and relative market multiples valuation (25%) and ended up with a TP of €11.9/sh (vs previous €15.1/sh). Given the significant potential upside on Cofle closing price (as of October 17, 2023), we maintain a BUY recommendation.

### DCF

€18.4mln of cumulated FCFs in 23E-26E

To run a DCF Model, we use our projections of FY23-26E of €18.4mln (-25% vs previous estimate) and TV of €5.7mln (-17% vs previous estimate). These changes reflect lower expected marginality.

8% WACC

We would use an 8% WACC (unchanged), derived from:

- risk free rate at 5.2%, 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 of 50bps;
- market risk premium equal to 5.5%;
- beta of 1 (vs previous 1.1) coming from the average of chosen listed peers;
- target Debt to Equity structure of 67%

**Table 8: DCF Valuation**

DCF Valuation	2023E	2024E	2025E	2026E	TV	Valuation	WACC Calculation		
Free Cash Flows (€,mln)	1.4	3.7	5.4	7.8	5.7	Enterprise Value (€,mln)	84	Perpetual growth rate	2.0%
Years	1	2	3	4		Net debt (cash) (€,mln)	8.5	<b>WACC</b>	<b>8.0%</b>
Discount factor	0.93	0.86	0.79	0.73		Equity Value (€,mln)	75.1	Risk free rate (30Y)	5.2%
Terminal Value					94.0	Number of shares	6.2	Equity risk premium	5.5%
NPV	1.3	3.2	4.3	5.8	69.0	Price per share €	12.2	Levered Beta	1.0
<b>Sum of NPVs (€,mln)</b>	<b>1.3</b>	<b>4.5</b>	<b>8.8</b>	<b>14.6</b>	<b>83.6</b>			KE	10.9%
								Cost of debt	5.4%
								Tax rate	30%
								KD	3.8%
								Target D/E	67%

Source: Banca Profilo elaborations and estimates

### Cofle's competitive arena

#### A sample of 8 listed companies

There are no listed companies that can be considered as good as "comparable" to Cofle, for significant differences in terms of business model and company size. Starting from a wide list of Original Equipment Manufacturing and Aftermarket listed companies, we firstly conducted a comparative analysis based on four main macro-categories: business model, product range, international brand awareness and positioning and company size. Secondly, we concentrated on growth prospects, cash generation and debt leverage. Based on these results, we selected 9 "comparable" to Cofle: Brembo (Italy), Comer Industries (Italy), SAF Holland (Germany), SKF (Sweden), CIE Automotive (Spain), Kongsberg Automotive (Norway), Suprajit Engineering (India), Mayville Engineering Company (USA), and Meritor Inc. (USA).

#### Brembo (ITA)

Brembo is the world leader and acknowledged innovator of brake technology for automotive vehicles. Brembo supplies high performance brake systems for the most important manufacturers of cars, commercial vehicles, and motorbikes worldwide, as well as clutches and other components for racing. Brembo is also a leader in the racing sector and has won more than 500 championships. Today the company operates in 15 countries on 3 continents,

with 26 production and business sites, and a pool of over 11,000 employees, about 10% of whom are engineers and product specialists active in the R&D.

Main similarities between Cofle and Brembo:

- Brembo is Italian and it is active in the Automotive market, with a particular focus on brakes.

Main differences:

- Brembo does not address to the Agriculture sector; its main product are brakes whereas Cofle has a wider range of offering.

#### **Comer Industries (ITA)**

Comer is the leading global player in the design and manufacture of advanced engineering systems and mechatronics solutions for power transmission. The Company operates in the agricultural and industrial machinery sectors. In the field of Agriculture, it deals with applications for machines for the preparation and application of the soil, while in the industrial sector for construction machines, mines and others. The main products are related to transmissions (gearboxes, reducers, multipliers and both angular and parallel axis transmissions).

Main similarities between Cofle and Comer:

- Comer is Italian and it is active in the Agricultural market.

Main differences:

- Comer is not active in the Automotive, its products mainly relate to transmission systems.

#### **SKF (SWE)**

SKF is a leading global supplier of products, solutions and services within bearings, seals, lubrication systems and services. Working to reduce friction, make things run faster, longer, cleaner, and more safely. Doing this in the most effective, productive, and sustainable way contributes to our vision of a world of reliable rotation.

SKF engages in the manufacture of machine and rotating equipment. It operates through the Industrial Market and Automotive Market business segments. The Automotive Market segment provides a range of products, solutions, and services to manufacturers of cars, light trucks, heavy trucks, trailers, buses, two-wheelers, and the vehicle aftermarket.

Main similarities between Cofle and SKF:

- SKF is active in both OEM and Aftermarket Industry.

Main differences:

- SKF focuses on rotating equipment

#### **Kongsberg Automotive (NOR)**

Kongsberg Automotive engages in the development, manufacture, and trade of components, accessories, and spare parts. It operates through the following segments: Interior, Powertrain & Chassis Products, and Specialty Products. The Interior segment involves in the development and delivering of seat comfort and climate solutions. The Powertrain & Chassis Products segment develops and manufactures powertrain systems and chassis related products for heavy and light duty vehicles including, gearshift systems for automatic and manual transmissions, clutch actuation, and advanced vehicle dynamics. The Specialty Products segment provides driver control and fluid handling systems for commercial vehicles and passenger cars, as well as innovation products and software.

Main similarities between Cofle and Kongsberg:

- Kongsberg Automotive is active both in the OEM and Aftermarket Industry.

Main differences:

- Kongsberg's end market is mainly Automotive

<b>Suprajit Engineering (IN)</b>	<p>The Suprajit Group is a global leader in the automotive cable and halogen bulb industry. With a competitive manufacturing base in India, UK, US and Mexico, the Group provides the optimal product development and manufacturing solutions to its domestic and international customers. Suprajit today has carved a niche for itself as a pioneer in the design and manufacture of Mechanical Control Cables and is recognized as India's largest cable maker and worlds largest in the two-wheeler cable market. As a part of its strategic expansion into Non-Automotive-Cables and Controls market, Suprajit acquired Wescon Controls Inc USA in 2015 and has also diversified into Automotive Lighting business through acquisition of Phoenix Lamps Limited in 2014.</p> <p>Main similarities between Cofle and Suprajit:</p> <ul style="list-style-type: none"> <li>• Suprajit is mainly active in cable production.</li> </ul> <p>Main differences:</p> <ul style="list-style-type: none"> <li>• Suprajit main reference market is India.</li> </ul>
<b>Mayville Engineering Company (US)</b>	<p>Mayville Engineering Company (MEC) engages in the manufacturing of metal components. The firm offers a broad range of prototyping and tooling, production fabrication, coating, assembly, and aftermarket components. Its customers operate in a diverse end market, including heavy- and medium-duty commercial vehicle, construction, powersports, Agriculture, military, and other end markets.</p> <p>Main similarities between Cofle and Mayville:</p> <ul style="list-style-type: none"> <li>• MEC is active both in the OEM and in the Aftermarket Industry with a diversified portfolio.</li> </ul> <p>Main differences:</p> <ul style="list-style-type: none"> <li>• Mayville revenues are only from US market.</li> </ul>
<b>SAF Holland (GER)</b>	<p>Following the acquisitions of Haldex by SAF Holland, we include the latter in our sample. SAF Holland is a manufacturer of chassis-related systems and components such as axle and suspension systems, primarily for trailers and semi-trailers, but also for trucks and buses.</p> <p>Main similarities between Cofle and SAF:</p> <ul style="list-style-type: none"> <li>• SAF is active both in the OEM and in the Aftermarket Industry with a diversified portfolio.</li> </ul> <p>Main differences:</p> <ul style="list-style-type: none"> <li>• SAF is mainly active in the Truck Industry with little presence in the Agricultural segment.</li> </ul>
<b>CIE Automotive (SPA)</b>	<p>CIE Automotive is a supplier of components, assemblies, and sub-assemblies for the global Automotive market, using complementary technologies and various associated processes.</p> <p>Main similarities between Cofle and CIE:</p> <ul style="list-style-type: none"> <li>• CIE Automotive has a diversified portfolio.</li> </ul> <p>Main differences:</p> <ul style="list-style-type: none"> <li>• CIE is mainly active in the Automotive Industry with little presence in the Agricultural segment.</li> </ul>

## Market multiples

EV/EBITDA 23-24 at  
6.2x

For the market multiples valuation, we considered the EV/EBITDA 23-24 of 6.2x (in line with our last update). This led us to an Equity Value of €11.1/sh (from €13.8/sh) due to lower EBITDA adj. Cofle trades at a discount on EV/EBITDA23 (5.5x) vs comparable (6.6x) due to lower expected sales growth but despite higher marginality.

**Table 9: Sample EV/EBITDA**

Company	EV / EBITDA		
	2022	2023E	2024E
Brembo SpA	6.9x	6.1x	5.6x
Comer Industries SpA	5.0x	4.4x	4.1x
SKF AB	7.6x	5.7x	5.7x
CIE Automotive SA	6.6x	5.9x	5.6x
Kongsberg Automotive ASA	3.0x	5.2x	4.4x
Suprajit Engineering Ltd	17.5x	14.5x	11.6x
Mayville Engineering Co Inc	6.1x	5.7x	4.9x
SAF-Holland SE	7.5x	5.2x	5.4x
<b>Mean</b>	<b>7.5x</b>	<b>6.6x</b>	<b>5.9x</b>
<b>Median</b>	<b>6.8x</b>	<b>5.7x</b>	<b>5.5x</b>
Cofle SpA	4.7x	5.5x	4.5x

Source: Banca Profilo estimates and elaborations on Bloomberg (as of October 17, 2023)

**Table 10: Sample EBITDA margin and Revenue Growth**

Company	EBITDA margin			Sales Growth		
	2022	2023E	2024E	2022	2023E	2024E
Brembo SpA	16.8%	17.4%	17.8%	30.7%	10.1%	4.4%
Comer Industries SpA	14.5%	16.4%	16.6%	106.9%	2.5%	4.3%
SKF AB	12.8%	15.7%	15.7%	18.6%	9.4%	-0.3%
CIE Automotive SA	16.4%	17.7%	18.1%	24.1%	3.7%	4.3%
Kongsberg Automotive ASA	10.8%	5.6%	6.1%	8.3%	10.5%	7.9%
Suprajit Engineering Ltd	17.1%	13.8%	15.6%	11.9%	50.2%	10.7%
Mayville Engineering Co Inc	11.3%	10.9%	11.7%	18.6%	10.5%	8.9%
SAF-Holland SE	9.3%	9.8%	10.4%	25.6%	30.7%	-6.6%
<b>Mean</b>	<b>13.6%</b>	<b>13.4%</b>	<b>14.0%</b>	<b>30.6%</b>	<b>16.0%</b>	<b>4.2%</b>
Cofle SpA	22.4%	17.7%	19.1%	6.1%	9.3%	11.8%

Source: Banca Profilo estimates and elaborations on Bloomberg (as of October 17, 2023)

## Appendix: The reference market

### The Original Equipment Manufacturer Industry

**Global farm tractors industry expected to grow at a 5.5% CAGR 2021-2031E**

Cofle’s main end market in the OEM segment is the agricultural and earthmoving machineries. Since 2016, the global farm tractors market grew constantly, even during the pandemic, where more than 1mln units of farm tractors have been sold (+5.2% yoy), of which 150k installing Cofle’s systems. In terms of units, the Industry is expected to grow at a 5.5% CAGR 2021-2031E, reaching an estimated value of \$145bn.

**Population dynamics and technological trend will drive the market**

The main factors driving sector growth are:

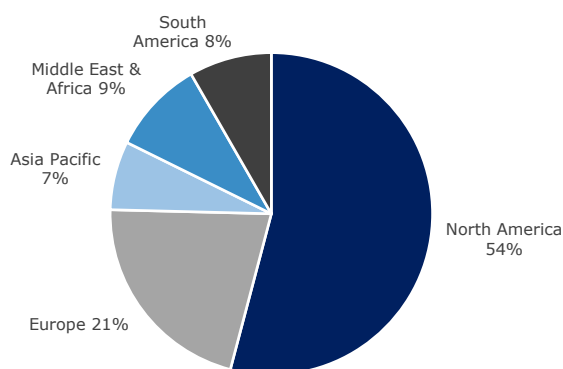
- population increase from 7.9bn in 2021 to about 10bn in 2050, which will stimulate food demand in next decades;
- rising mechanization and increasing productivity and efficiency requirements;
- commitment to reduce tractors pollution;
- crop production increase by 18% in the coming decade, from approximately 133.9 tonnes/hectares in 2021 to 158 in 2030;
- concerns about food poverty and malnutrition in developing countries;
- shorter tractor replacement cycle, from nearly 12 to 8 years;
- the introduction of alternative fuels that are likely to increase market growth;
- precision farming and increase in adoption of farm technology;
- labour migration

**New trends will also drive the OEM market**

In addition, new trends will boost the demand in OEM:

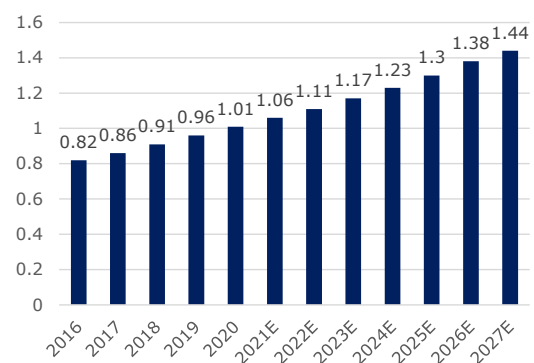
- the European Stage V Regulation, aimed at reducing pollutant emissions from tractors. During this phase, tractor manufacturers have taken advantage from this regulation to renew their cabins;
- the consequences of the conflict in Ukraine, where Russian soldiers have been destroying or requisitioning the Country’s tractors fleet, creating the conditions for a strong demand at the end of hostilities.

**Figure 3: 2021 global tractor market shares**



Source: Banca Profilo elaborations on Farm Tractor Market: Global Industry Analysis and Forecast (2022-2029)

**Figure 4: Global Farm Tractors Market Forecast (mln units)**



Source: Banca Profilo elaborations on "Farm Tractors - Global Market Trajectory & Analytics" data

**Central European Agricultural Machinery expected**

The Western and Central Europe Agricultural Machinery is projected to grow significantly driven by the extensive government support for farm mechanization, moreover, given the rapid

to grow 4.3% CAGR  
21-30E

urbanization, which reduces arable land, governments are taking initiatives to help farmers extract more output from their land.

Market research points to a 3.4% CAGR in 21-30E in Western Europe and to a 4.3% CAGR in 21-30E in Central Europe. Germany is one of the largest markets: the country generates more than 27% of agricultural machinery and equipment components manufactured in Europe. Other big markets are UK where, in terms of value, the sales of tractors, coupled with the accessories, account for almost half of the expenditure of the farmer, and France, which has been a pioneer in mechanizing the Agriculture sector.

Agriculture in the European Union has traditionally been a labour-intensive sector, characterized by a higher number of seasonal immigrant workers moving to farm fields in the member states. However, an acute shortage of farm labour has currently surfaced on the farm fields in the Region: with the availability of advanced technology, coupled with the declining availability of farm labour, farmers are shifting toward the use of tractors in Agriculture, as they aid in saving time and resources, decrease costs, and enhance productivity.

China's tractor  
industry should show  
the largest growth

China's tractor industry is forecasted to grow at a 5.8% CAGR 2022-2027E.

Figure 5: 2021 global tractor market shares



Source: Banca Profilo elaborations on Mordor Intelligence data

Farm tractors: a very  
concentrated industry

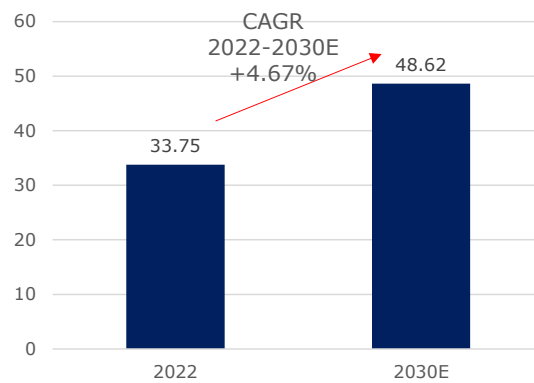
The agricultural tractors market is highly concentrated, with very few players holding most of the market share. New product launches, partnerships, and acquisitions are main strategies for growing globally. Along with innovations and expansions, investments in R&D and developing novel product portfolios are likely to be crucial for the coming years. Main end-market players are key Cofle's costumers.

Global wheat  
production seen at  
782mln tons in 2022,  
impacted by the  
conflict

In 2022, global wheat production is seen at 782mln tons, below previous estimates of 784mln tons, mostly because of persistent drought in the US. Outlook for Ukraine is unchanged at "below-average-level" and the conflict is likely to reduce the harvested area by at least 20%. Due to the consequences of the conflict, Europe decided to release the constraints on unused agricultural land for the production of cereals and protein crops: this will potentially unlock 4mln hectares in Europe, of which 200k in Italy, and is likely to stimulate demand for agricultural mechanization.

OEM's Automotive-  
related market is  
expected to increase  
at 4.7% CAGR22-30E

A small part of Cofle's OEM business relates to the Automotive market. This Industry is estimated to grow to \$48.6bn by 2030 at a 4.7% CAGR. Automotive OEMs are those manufacturers active in the production of high quality and finest components and devices for vehicles. These parts are used during the assembly and manufacturing of the vehicle.

**Figure 6: Automotive OEMs market growth (\$bn)**

Source: Banca Profilo elaborations on Global Automotive Original Equipment Manufacturer (OEMs) Market – Industry Trends and Forecast to 2030

### Europe leads the Automotive OEM's market

Automotive OEM's growth will be driven by

- rapid technological products upgrade;
- need of light-weighted fuel-efficient advanced OEM parts amid presence of stringent regulations for fuel efficiency and vehicle emissions;
- Government incentives, high disposable incomes in developing countries and easy availability of raw materials;
- the increase in automotive production across emerging economies, associated with the high demand for luxury and hybrid vehicles;
- the rapid technological advancements and high demand for batteries due to increased focus on innovation in automotive parts as well as high demand for filters from diesel engine vehicles.

### New trends adding to historical mega trends in Europe OEM

In addition, other new factors are expected to drive this market in the years to come:

- the rapid tech evolution and increasing demand for batteries coming from intensifying focus on automotive parts automation;
- high demand for filters addressed to diesel engine vehicles;
- rapid rise in the European demand for passenger cars and commercial vehicles outfitted with advanced brake technologies;
- increase in in Asia-Pacific vehicles demand.

However, the market of Automotive OEM has certain limitations which are expected to obstruct its potential growth, including high cost of OEM parts and components and the presence of counterfeit OEM products.



## The Aftermarket Industry

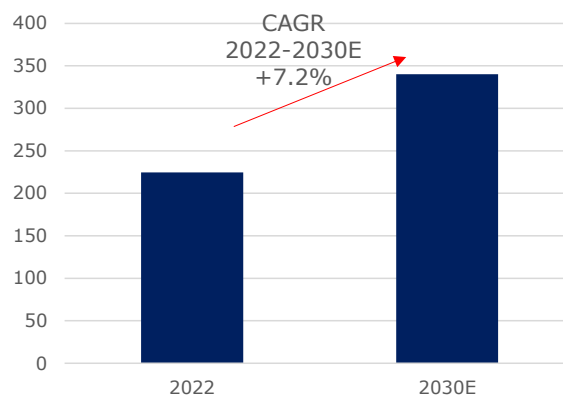
**Aftermarket Industry to grow at 7.2% CAGR 22-27E**

The Aftermarket industry is related to companies that supply goods after remanufacturing, retailing, and distribution. Typically, it is a secondary market where goods, accessories, spare parts, and second-hand equipment are supplied. Automotive is one of the growing industries within the Aftermarket: global Automotive aftermarket size was worth \$224.5bn in 2021 and it is expected to expand at a 7.2% CAGR 2022E-2027E.

The market is driven by:

- focus on environmental sustainability, with demand for catalytic converters and electronic chips to improve fuel economy;
- the pursuit of automobile drivers to enhance their vehicle performance in terms of exhaust sound, speed, and appearance parameters along with many other aspects;
- the increasing miles record driven by growing vehicle population;
- the massive amount of vehicle maintenance that goes unperformed each year that is valued at almost \$60 billion.

**Figure 7: Automotive Aftermarket market growth (\$bn)**

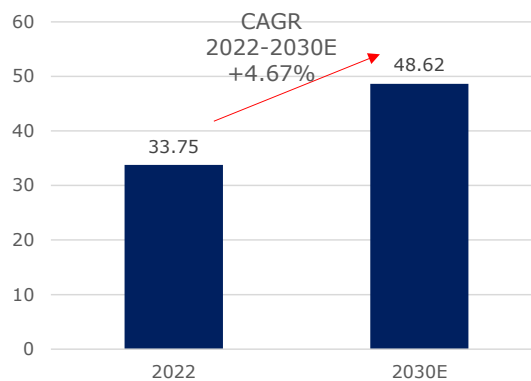


*Source: Banca Profilo elaborations on Global Automotive Aftermarket Market Research Report – Demand Analysis & Opportunity Outlook 2027*

**New factors involved in the market**

Some new factors will also impact this market in upcoming years, such as:

- the increase in commodity prices, such as steel, plastic, silicon and aluminium;
- the impact of the conflict in Ukraine, which may cause supply shortage and push market sentiment towards caution;
- the increase in the average age of the automotive fleet (-1.5% of new passenger cars in European market in 2021), supporting the demand for spare parts.

**Figure 8: Automotive OEMs market growth (\$bn)**

Source: Banca Profilo elaborations on Global Automotive Original Equipment Manufacturer (OEMs) Market – Industry Trends and Forecast to 2030

### Europe leads the Automotive OEM's market

Automotive OEM's growth will be driven by

- rapid technological products upgrade;
- need of light-weighted fuel-efficient advanced OEM parts amid presence of stringent regulations for fuel efficiency and vehicle emissions;
- Government incentives, high disposable incomes in developing countries and easy availability of raw materials;
- the increase in automotive production across emerging economies, associated with the high demand for luxury and hybrid vehicles;
- the rapid technological advancements and high demand for batteries due to increased focus on innovation in automotive parts as well as high demand for filters from diesel engine vehicles.

### New trends adding to historical mega trends in Europe OEM

In addition, other new factors are expected to drive this market in the years to come:

- the rapid tech evolution and increasing demand for batteries coming from intensifying focus on automotive parts automation;
- high demand for filters addressed to diesel engine vehicles;
- rapid rise in the European demand for passenger cars and commercial vehicles outfitted with advanced brake technologies;
- increase in in Asia-Pacific vehicles demand.

However, the market of Automotive OEM has certain limitations which are expected to obstruct its potential growth, including high cost of OEM parts and components and the presence of counterfeit OEM products.

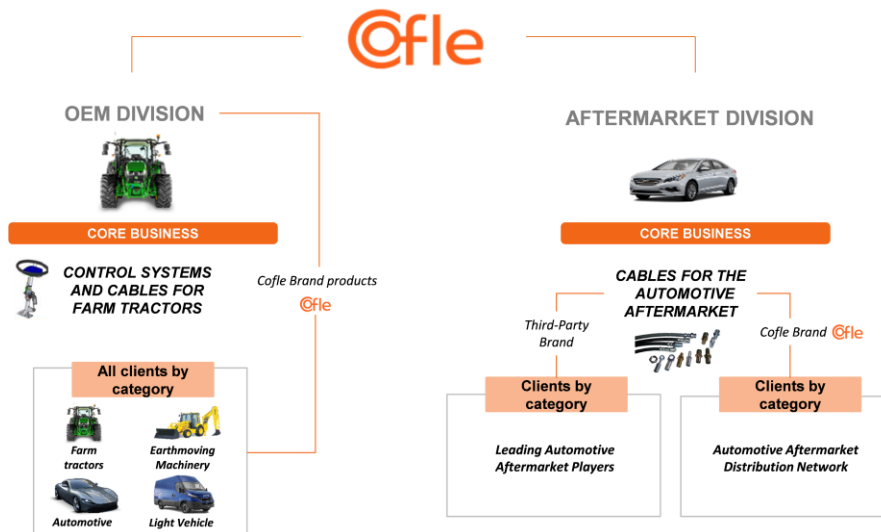
## Appendix: Overview and business model

### A multinational company leading OEM and IAM market segments

Cofle's business model is becoming more focused on the OEM division

Cofle is a multinational company operating both in the Original Equipment Manufacturers (OEM) for top worldwide manufacturers of agricultural & earthmoving machineries, luxury automotive and light commercial vehicles, and in the Aftermarket (AM), specialized in the production of automotive aftermarket parts on a global scale.

Figure 9: Cofle's business model overview



Source: Banca Profilo elaborations on Company data

### Original Equipment Manufacturer business model

OEM includes three product categories: Control Systems, Cables and others

Cofle's Original Equipment Manufacturers division offers three wide product categories:

- Control Systems: a wide range of customized control systems covering every industrial application (from agricultural to earthmoving machineries), including:
  - Joysticks
  - Power shuttles
  - Speed reverse controls
  - PTOs
  - Spool valves
  - Brake levers
  - Pedals
  - Gearshift systems
- Cables: wires and sheaths in-house by using state-of-art technologies and 3D control systems. Cables may be split up according to the following categories:
  - Pull Cables: brake cables, clutch cables, accelerator cables, others;
  - Push Cables: Transmission shift cables, valves cables, PTO cables, others.
- Others: further products according to customers' requests, including
  - Steering columns and motion driving systems
  - Die castings
  - Sheetmetals

- Plastics

OEM fully integrated value chain for highly tailored made products

OEM products are meant to be highly customized to meet the challenging requirements of top clients. Standardization is minimal enough to allow cost efficiency

Figure 10: Cofle's OEM value chain



Source: Banca Profilo elaborations on Company data

1 to 3 years to develop high distinctive customized products

Production and delivery to clients take place at a global scale: once Cofle is involved in a project as the Original Equipment Manufacturer (OEM), the Group becomes the client's global supplier. An OEM project usually takes from 1 to 3 years, due to the highly distinctive know-how involved.

**Aftermarket business model**

Aftermarket: highly standardized products

Opposite to OEM, Aftermarket products are meant to be highly standardized and serve both leading AM players under third-party brands, as well as large distributors under Cofle's. The IAM catalogue offers more than 7,000 solutions, to meet customer needs. The four main Cofle's products are:

- Clutch cables;
- Brake cables;
- Brake hoses;
- Gear shift cables.

Figure 11: Cofle's Aftermarket core products



Source: Banca Profilo elaborations on Company data

From reverse-engineering to products catalogue expansion

The Aftermarket division works as a push strategy business with a short-term time-to-delivery approximately equal to 3-4 weeks from picking and packaging to delivery.

Cofle's Aftermarket R&D department is responsible for the reverse-engineering activities focused on the latest models of automobiles.

In the reverse-engineering process Cofle's Aftermarket R&D department perform a detailed analysis on the original product, to understand the technical characteristics, the raw material utilized and the quality of the product. Given its vast experience, Cofle's R&D department is often able to provide upgrades and improvements even on the original product.

In the next phases, Cofle estimates the final cost of production and carries out a benchmark pricing survey to make the final decision on pricing (the latter being highly impacted by the price of original products).

In the last two phases, Cofle launch the production and catalogue update to expand the range of available products serving both top aftermarket players (third-party brand on the final product usually subject to a validation process by the client) as well as large aftermarket distributors (Cofle brand on the final product usually without any validation process by the client).

**Figure 12: Cofle's Aftermarket value chain**



Source: Banca Profilo elaborations on Company data

### Shareholders' structure after IPO

**Cofle: 78.4%**

**Barbieri's family**

Cofle was listed on the Euronext Growth on November the 11<sup>th</sup>, 2021 at €13/share. The share capital is represented by 6,153,276 shares with 21.6% free float, including the anchor investors (Smart Capital and Palladio) which own 310,608 shares.

Barbieri's Family owns the remaining 78.4% through its holding Valfin Srl. In details, Walter Barbieri, Chairman and CEO, holds 70% of Valfin through Finan.co Srl whereas Alessandra Barbieri, global Head of Communication and Marketing and Investor Relator Manager, owns 30% of the holding.

**24 months lock up period**

Shareholders have a 24 month lock up period since the start of negotiations (November 11<sup>th</sup>, 2021).

**Warrant distribution**

The Company issued 1 free warrant each 4 stocks for investors upon the IPO.

Following the amendment of the Warrant rules, there are 2 remaining Warrant exercise periods. The Second Exercise Period (2 November 2023 to 30 November 2023) at €14.95 (IPO price +15%) and the Third Exercise Period (4 November 2024 to 29 November 2024) with at €16.90 (IPO price +30%).

**Use of proceeds**

The IPO proceeds will be used to expand production and logistic capacity on a global scale, for R&D and M&A.

More in details:

- Production capacity expansion (10%-20% of IPO proceeds) in India by investing in new production lines and machineries to achieve market positioning as local supplier and acquire share in a highly promising market;
- Strategic logistics (10%-20% of IPO proceeds): an OEM logistic centre in Italy to serve top costumers, demanding high volumes and fast time to delivery; reduction of time to market in AM below 4 weeks;
- R&D (10%-20% of IPO proceeds): investing in innovation to launch new mechatronic systems (high value-added products) further improving the excellence standard in OEM;

- Digital transformation (5%-10% of IPO proceeds): IT systems upgrade, business intelligence and data analysis;
- Commercial network (5%-10% of IPO proceeds) expansion mainly in AM.

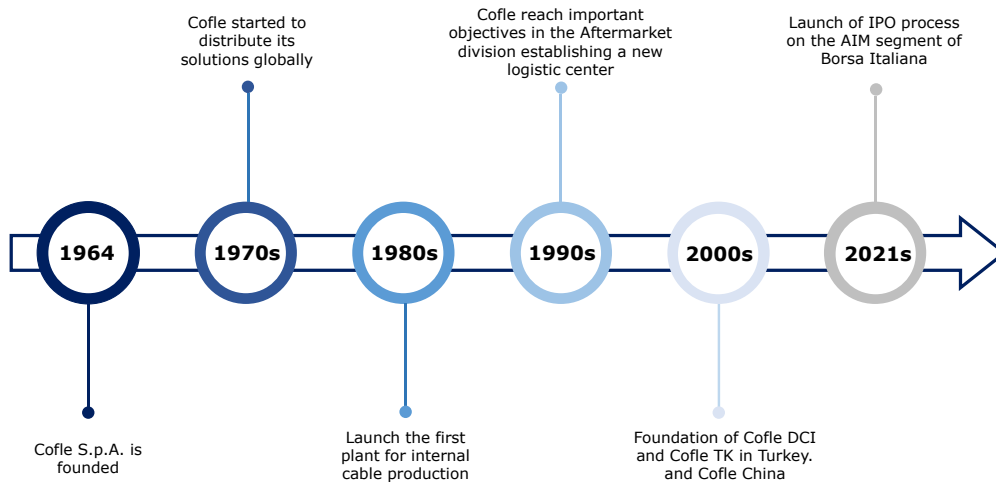
Moreover, the Company has planned to grow through M&A:

- in the OEM with the aim to quickly penetrate the field of electronic components for off-road vehicles. Cofle has already identified one target Company, with some €10mln revenues, and will try to close the deal within 2022;
- in the AM, to increase market share and expand the products range. The scouting phase is on-going.

## History

<b>1964 – Cofle’s origin</b>	In 1964 Bruno Barbieri founded Cofle, introducing an innovative way in manufacturing Control Cables for the Automotive Industry. The first production line was OEM for the most important Italian brands.
<b>1970s – beginning of global sales</b>	During the 70’s the Company grew rapidly, moving into a new manufacturing plant. The Automotive control cables range, as well as the systems for Agricultural and Earth Moving Machines, are greatly extended. Moreover, Cofle started distributing its solutions on a global basis.
<b>1980s – internal production of cables</b>	In the 80’s Cofle launched its first plant for internal production of cables, inner tubes, covered wire ropes, cover conduits for pull and push-pull cables is created; the starting of this process for verticalization of production would allow Cofle to become an “all-in-house” company.
<b>1990s – set up of operations in Turkey</b>	In the 90’s Cofle reached important milestones in the Aftermarket division: its increasingly recognition within the markets induced Cofle to establish a new logistic centre, including a 4,000 sqm warehouse. During these years, Cofle started his expansion abroad founding Tabo in Turkey, set up for producing Aftermarket articles originally addressed to Middle East and North Africa.
<b>2000s – Cofle China</b>	In the new millennium, the Company has been pushing on international expansion. Cofle DCI and Cofle TK, both in Turkey, and Cofle China were set up, meanwhile laying the groundworks for Cofle do Brasil, which started its first production in 2016 and Cofle Taylor India in 2018.
<b>2021 – Listing on the Euronext Growth</b>	<p>In June 2021 leveraging on its know-how, brand awareness and attractive financials, Cofle started the IPO process on the EG segment of Borsa Italiana to accelerate growth. The Group aims at expanding further its products range, breaking into underpenetrated markets and seize on M&amp;A opportunities.</p> <p>Today Cofle is a worldwide Group: it is present in 4 Countries with 6 production sites, 4 modern and efficient logistic centres, 2 design and co-engineering departments, and can count on over 500 employees. The Aftermarket catalogue counts more than 7,000 items, adding around 200 new codes per year.</p>

Figure 13: Cofle's timeline



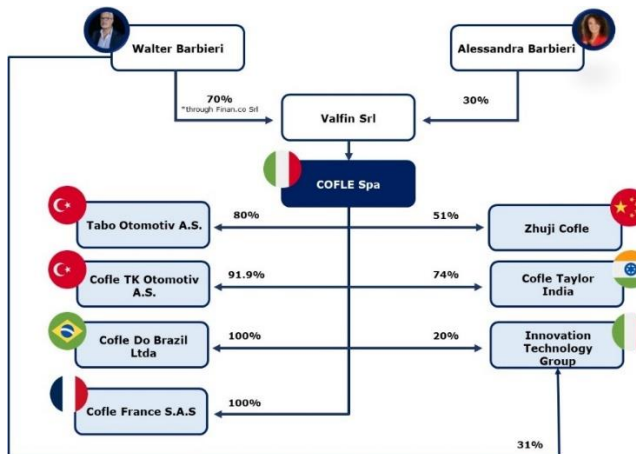
Source: Banca Profilo elaborations on Company data

Group structure

Cofle: 78.4%  
Barbieri's family

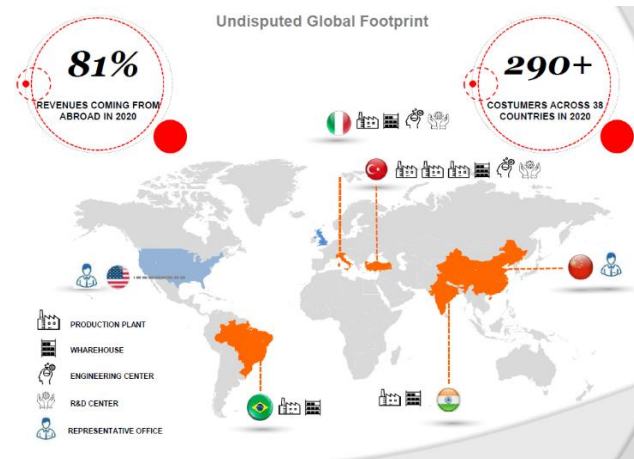
Cofle was listed on the Euronext Growth segment on November 11th, 2021 at €13/share. The share capital was represented by 6,153,276 shares with a floating of 21.6% including the anchor investors (Smart Capital and Palladio) with 310,608 shares. Barbieri's Family owns the remaining 78.4% of Cofle Group through its holding Valfin Srl. In details: Walter Barbieri, Chairman and CEO of the Group, holds 70% of Valfin through Finan.co Srl whereas Alessandra Barbieri, global Head of Communication and Marketing and Investor Relation Manager, owns 30% of the holding.

Figure 14: Group structure post-IPO



Source: Banca Profilo elaborations on Company data

Figure 15: Cofle's production and logistic plants



Cofle's global footprint

The Group has production sites in Brazil, India, Italy and Turkey, over 17,000 sqm worldwide. As of October 2022, Cofle owns 6 production plants, 4 warehouse, 2 engineering centres, 2 R&D centres and 3 representative offices around the world (including the new France subsidiary). The Italian and Indian plants have a production capacity of 2.5mln units each, the three plants in Turkey have more than 5mln of combined production capacity while the Brasil OEM plant has 0.45mln capacity.

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**Cofle**  
**"ID Card"**
**Recommendation**  
**BUY**
**Target Price**  
**11.9 €**
**Upside**  
**40%**
**Company Overview**

Cofle is an international Original Equipment Manufacturer of control cables and remote-control systems for farming machines, earthmoving machines and, to a less extent, for luxury cars and commercial vehicles. It is a fully integrated company: its value chain includes the co-engineering with customers, pricing and prototyping, orders intaking, production and delivery. In the OEM division there is no product catalogue as Cofle branded equipment is built in-house according to customer's needs. The AM unit, which products range from brake cables to EPB systems, launches over 200 new products a year. Cofle has a global presence with plants in Italy, Turkey, India, Brazil and China and can count on more than 500 employees. Along with its fully integrated value chain, established local presence in Turkey and India and consolidated skills in farm equipment are additional key competitive advantages.

In 2022 revenues increased by 6% yoy to €55.4mln, driven mainly by OEM (+20% yoy, whereas the Aftermarket sales declined by 17% yoy to €16.6mln. Adjusted EBITDA came in at €13mln, down by 4% yoy with 22.4% margin. Group net income declined to €2.3mln from €8.2mln in 2021 due to an hyperinflation charge in relation to Turkey exposure. The tractors industry is expected to grow at a 5.5% CAGR21-31, mainly driven by i) population increase; ii) mechanization; iii) commitment to reduce tractors pollution; iv) concerns about malnutrition in developing countries; v) shorter tractor replacement cycle. The AM segment is expected to grow at a 7.2% CAGR22-27, driven by i) the search for best vehicle performance, ii) focus on environmental sustainability, with demand for catalytic converters and electronic chips to improve fuel economy, iii) the increasing miles record driven by growing vehicle population. For the next years, Cofle's growth strategy is based on i) new demand coming from Stage V Regulation; ii) the restoration of the Ukrainian tractors fleet; iii) anticipating new trends in tractors engineering thanks to the setup of ITG Turkey; iv) upgrading logistics to reduce the time-to-market.

**SWOT Analysis**
**Strengths**

- Multinational Company
- Strong commitment in eco-sustainable practices
- Strongly investing on corporate culture, brand awareness and innovative marketing
- A wide portfolio of patented products
- Geographically diversified production
- Top end customers
- Production plants close to its customer

**Weaknesses**

- Revenue concentration by client
- Slow process digitalization
- Exposure to Turkey

**Opportunities**

- Large potential in Eastern Europe addressable markets for both OEM and AM segments
- Strategically positioned to boost long term expansion
- Only at the beginning of international scalability
- OEM Expansion into Luxury Automotive & Light Commercial Vehicles
- Growth through M&A
- Production capacity expansion
- Major technological upgrade involving farm tractors in the next decade

**Threats**

- Intensifying competition within large manufacturers
- High growth rates could lead to cost management issues
- Internalization of Cofle process by its main customer
- Cannibalization risk of products under Cofle's brand and Third-Party brand

**Main catalysts**

- 👍 Entry in the market of electronic components for off-road vehicles
- New demand from European Regulation and Ukrainian market
- Creation of ITG Turkey to export Italian design and know-how and to be aware of new trends in tractors engineering
- Upgrading logistics to reduce the time to market
- Leveraging on its production plants to serve the promising high growth in foreign markets
- M&A deals to expand the offering range

**Main risks**

- 👎 Impact of the war in Ukraine on Cofle's key customers
- Increase in the price of raw materials
- Tensions on supply chain
- Absorption of high inflation in Turkey on costs
- Failure to intercept new demand coming from European Stage V Regulation and Ukrainian market
- Intensifying competition within large manufacturers
- Cost management issues due to the expansion of business and penetration of new markets

**Cofle**  
**"ID Card"**

 Recommendation  
**BUY**

 Target Price  
**11.9 €**

 Upside  
**40%**
**Main Financials**

(€mln)	2021	2022	2023E	2024E	2025E
<b>Total revenue (VoP)</b>	<b>55.4</b>	<b>58.0</b>	<b>63.0</b>	<b>70.6</b>	<b>76.1</b>
<i>yoy change</i>		4.6%	8.6%	12.1%	7.9%
<b>EBITDA</b>	<b>12.9</b>	<b>12.0</b>	<b>9.2</b>	<b>12.4</b>	<b>14.5</b>
<i>EBITDA margin (%)</i>	23.3%	20.6%	14.6%	17.6%	19.0%
<b>ADJUSTED EBITDA</b>	<b>13.5</b>	<b>13.0</b>	<b>11.1</b>	<b>13.5</b>	<b>15.5</b>
<i>Adj EBITDA margin (%)</i>	24.4%	22.4%	17.7%	19.1%	20.4%
<b>EBIT</b>	<b>10.4</b>	<b>8.4</b>	<b>5.9</b>	<b>9.7</b>	<b>11.6</b>
<i>EBIT margin (%)</i>	18.7%	14.6%	9.3%	13.7%	15.3%
<b>Group Net income</b>	<b>8.2</b>	<b>2.3</b>	<b>1.8</b>	<b>3.1</b>	<b>4.7</b>
<i>Margin (%)</i>	14.9%	3.9%	2.8%	4.4%	6.2%
<b>Adjusted net debt/(cash)</b>	<b>0.0</b>	<b>3.6</b>	<b>7.9</b>	<b>9.2</b>	<b>9.1</b>
Net debt (cash)	-3.6	-0.2	3.0	4.3	4.2
Shareholders Equity	26.1	29.6	29.4	31.7	35.0
Net Operating Working Capital	14.2	19.8	20.5	22.7	24.3
Capex and acquisitions	(4.8)	(3.0)	(5.7)	(4.0)	(4.5)
Free Cash Flow	3.1	3.8	1.4	3.7	5.4

**Revenue breakdown by business unit**

	2021	2022	2023E	2024E	2025E
Original Equipment Manufacturer	32.2	38.8	42.7	47.8	51.6
Aftermarket	20.0	16.6	17.8	19.9	21.5

**Solvency Ratios**

	2021	2022	2023E	2024E	2025E
Net debt (cash) / EBITDA	0.0x	0.1x	0.3x	0.3x	0.3x
Net debt (cash) / Equity	0.0x	0.3x	0.7x	0.7x	0.6x

**Financial and Operative ratios**

	2021	2022	2023E	2024E	2025E
Tax rate	20%	42%	40%	40%	40%
ROIC	37%	17%	11%	16%	18%
ROE	35%	9%	8%	13%	18%
Days Sales Outstanding	83	84	84	84	84
Days Payables Outstanding	161	144	143	143	143
Capex/Sales	9%	5%	9%	6%	6%
Current ratio	18.0	6.4	3.9	4.8	5.7

Source: Bloomberg, Banca Profilo estimates and elaborations

**Company Description**

Company Sector	Auto Parts & Equipment
Price (€)	8.5
Number of shares (mln)	6.2
Market Cap (€ mln)	52.3
Reference Index	FTSE ITALIA GROWTH
Main Shareholders	Valfin S.r.l.
Main Shareholder stake	78.4%
Free Float	16.5%
Daily Average Volumes (30D)	872
Sample of comparables	Brembo, Comer Industries, SKF, CIE Automotive, Kongsberg Automotive, Suprajit, Mayville

**Data of peers**

	2021	2022	2023E	2024E
Sales Growth (yoy)	21%	31%	16%	4%
EBITDA Margin	13%	14%	13%	14%

Average data

**Multiples of peers**

	2022	2023E	2024E
EV / EBITDA	7.5x	6.6x	5.9x

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## EQUITY RESEARCH PUBLICATIONS IN LAST 12M

THE BANK PUBLISHES ON ITS WEBSITE [WWW.BANCAPROFILO.IT](http://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](http://WWW.BANCAPROFILO.IT), IN THE SECTION "CLIENTI AZIENDALI E ISTITUZIONALI/ANALISI E RICERCA").