

# FY22: EBITDA resilience in an unprecedented scenario

April 27<sup>th</sup>, 2023, at 18:00

## FY22 above our estimates

FY22 Total Revenues increased by 5% yoy to €56.7m ( +5% vs our estimates). OEM rose by 20% yoy to €38.8m ( +10% vs our estimates), whereas the Aftermarket sales declined by 17% yoy to €16.6m ( -6% vs our estimates). OEM weight on total revenue moved up from 62% in FY21 to 70% in FY22. Adj. EBITDA declined by 4% to €13m ( +5% vs our projection) with margin contracting more than 2pp to 22% (in line with our forecast) due to higher raw materials costs which were only partially transferred to final customers.

EBIT decreased 19% yoy to €8.4m ( -12% vs our estimates), due to higher D&A, while Group Net profit was €2.3m ( -63% vs our estimates), down by 72% yoy. Net Profit declined significantly after IMF added Turkey to the list of hyperinflationary countries, dictating a €4.1m charge to comply with specific accounting standards as Cofle operates a Turkish division. Cofle BoD approved a €0.25 DPS. At the end of December 2022, adj. Net Debt rose to €3.3m (€2.7m reported) from 0 at the end of FY21.

## Estimates update: increasing 23-25E revenues, margin affected by higher labour cost

We increased our FY23 revenue estimates by 7%, which we now see growing by 9% yoy in 2023, thanks to both volumes and price. Volumes will be driven by the ramp up of sales thanks to Cofle France, as well as the launch of new products. Overall, we estimate a 9.5% FY22-25 CAGR (vs previous 6.6%), to reflect higher pricing. While updated pricing should bring relief on the marginality, labor cost is expected to put downward pressure on EBITDA margin as Turkey employees (2/3 of workforce) receive a wage adjustment for inflation. After the margin cut in FY23E of ~3% vs previous estimates, in FY24-25E we forecast ~1pp yearly EBITDA margin improvement vs FY23E reflecting pricing and input costs normalization. In FY23E we forecast €4.6m Group Net Profit or 7% profit margin. On the Balance Sheet side, we fine-tuned our estimates and maintained our assumption of Inventories returning to average levels following the stock piling in 2022. Finally, we estimate 2023-2026 cumulated FCFs at €24.5m or €6.1m on average (vs previous €29.1m and €7.3m).

## Valuation: BUY confirmed; TP cut to €15.1

We reduced our 12-month Target Price to €15.1. Given the significant potential upside vs current Cofle price, we confirm our BUY recommendation. Our Target Price is the weighted average between DCF and relative market multiples valuation. We cut our DCF valuation to €15.6/sh (vs previous €17.7) following lower FCFs and the effect of higher risk-free rate. Conversely, relative valuation improved to €13.8/sh (vs previous €12.8) due to multiples re-rating. Cofle trades EV/EBITDA 23-24E of 5x, below its peers' average at 6.3x, despite our forecasts point to similar cumulative revenue growth in 2023-24 and higher EBITDA margin.

**Target Price (€)** **€15.1 (from €16.5)**  
**Recommendation** **BUY (confirmed)**

### Company Profile

Ticker CFL IM (BBG), CFL-IT (FactSet)  
 Reference Industry Auto Parts & Equipment  
 Stock exchange Italian Stock Exchange  
 Reference Index FTSE Italia Small Cap

### Market Data

Last Closing Price €11  
 Number of shares (mln) 6.2  
 Market cap. (mln) €67.7

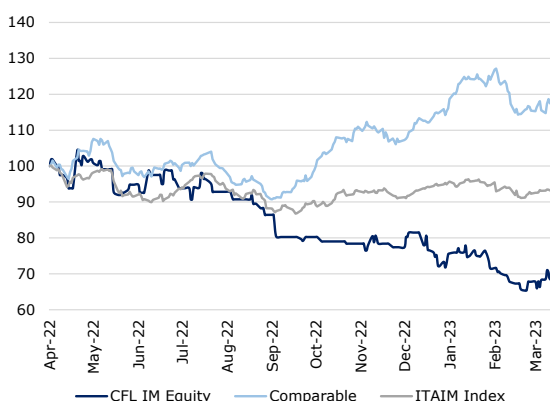
### 1Y performance

Absolute -32.1%  
 Max / Min 16.9/10.4  
 Average daily volumes 832

(€mln)	2021	2022	2023E	2024E	2025E
<b>Total revenue</b>	<b>53.9</b>	<b>56.7</b>	<b>61.8</b>	<b>69.0</b>	<b>74.4</b>
yoy (%)	44%	5%	9%	12%	8%
<b>Adj. EBITDA</b>	<b>13.5</b>	<b>13.0</b>	<b>13.0</b>	<b>15.2</b>	<b>17.0</b>
margin (%)	24%	22%	21%	21%	22%
<b>EBIT</b>	<b>10.4</b>	<b>8.4</b>	<b>8.3</b>	<b>11.2</b>	<b>12.9</b>
margin (%)	19%	15%	13%	16%	17%
<b>Group Net Profit</b>	<b>8.2</b>	<b>2.3</b>	<b>4.6</b>	<b>6.5</b>	<b>7.6</b>
margin (%)	15%	4%	7%	9%	10%
<b>Adj. Net Debt</b>	<b>0.0</b>	<b>3.3</b>	<b>4.0</b>	<b>2.8</b>	<b>1.5</b>
Adjusted Net debt (cash) reported	0.0	2.7			
<b>Sh. Equity</b>	<b>26.1</b>	<b>29.6</b>	<b>31.2</b>	<b>35.3</b>	<b>40.0</b>
Capex	(4.8)	(3.0)	(5.5)	(4.0)	(4.5)
FCFs	3.1	3.8	3.9	5.4	6.3

Source: Banca Profilo estimates and elaborations, Company data.

### 1Y rebased performance



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## SWOT analysis

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> <li>• Multinational Company</li> <li>• Strong commitment in eco-sustainability</li> <li>• A wide portfolio of patented products</li> <li>• Geographically diversified production</li> <li>• Top end customers</li> <li>• Focus on innovation and R&amp;D</li> <li>• Distinctive Know-How</li> <li>• Resilience to global recession</li> <li>• Long-lasting client relationships</li> </ul>	<ul style="list-style-type: none"> <li>• Revenue concentration by client</li> <li>• Slow process of digitalization</li> <li>• Exposure to Turkey</li> </ul>
OPPORTUNITY	THREATS
<ul style="list-style-type: none"> <li>• Large potential in Eastern Europe for both OEM and Aftermarket segments</li> <li>• Strategically positioned to boost long term expansion</li> <li>• Only at the beginning of international scalability</li> <li>• OEM Expansion into Luxury Automotive &amp; Light Commercial Vehicles</li> <li>• Growth through M&amp;A</li> <li>• Production capacity expansion</li> <li>• Major technological upgrade involving farm tractors in the next decade</li> </ul>	<ul style="list-style-type: none"> <li>• Intensifying competition within large manufacturers</li> <li>• High growth rates could lead to cost management issues</li> <li>• Internalization of Cofle process by its main customer</li> <li>• Cannibalization risk of products under Cofle's brand and Third-Party brand</li> </ul>

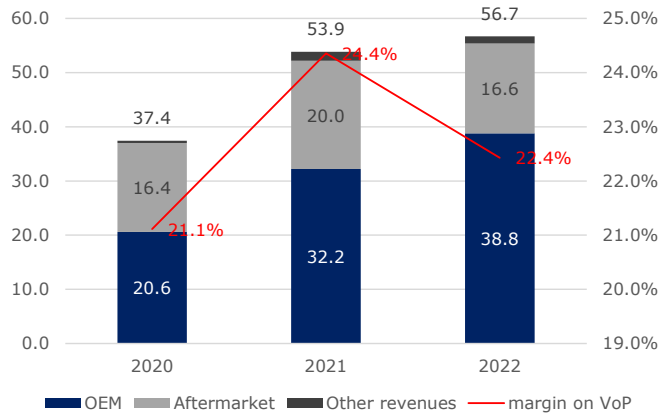
**FY22 results**

*Income Statement*

*FY22 Total Revenues up by 5% yoy*

Cofle reported its FY22 results: FY22 Total Revenues increased by 5% yoy to €56.7m ( +5% vs our estimates). The OEM turnover increased by 20% yoy to €38.8m (+10% vs our estimates), whereas the Aftermarket sales declined by 17% yoy to €16.6m (-6% vs our estimates). OEM increased its weight on total revenue from 62% in FY21 to 70% in FY22. Total revenue increased by 5% to €56.7m while VoP reached €58m.

*Figure 1: 2020-2022 Revenues by division (€/mln) and Adj. EBITDA margin (%)*

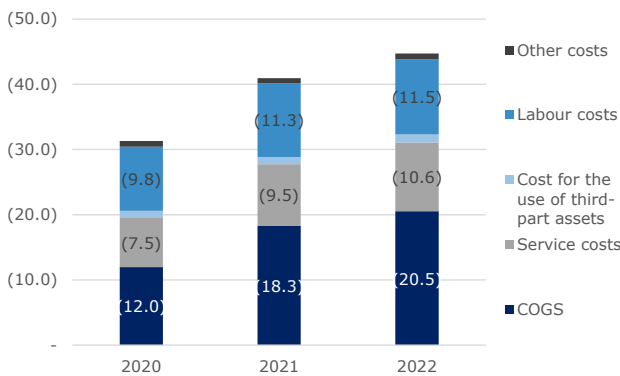


Source: Banca Profilo elaborations on companies' data

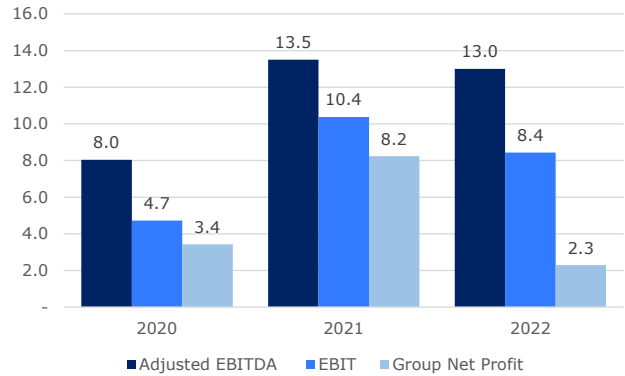
*EBITDA saw a 2pp contraction yoy*

EBITDA adjusted was €13m (+5% vs our estimates), declining by 4% yoy with EBITDA margin losing 2pp to 22% (in line with our estimates) due to higher raw materials cost which had only partially transferred to final customers.

*Figure 2: 2020-2022 Costs breakdown (€/mln)*



*Figure 3: 2020-2022 adj. EBITDA, EBIT and Net Profit (€/mln)*



Source: Banca Profilo elaborations on companies' data

EBIT came in at €8.4m (-11% vs our estimates), declining by 19% yoy due to higher amortization, while Group net profit was €2.3m (-63% vs our estimates), down by 72% yoy.

*Net profit affected by €4.1m Turkey hyperinflation charge*

Net profit declined significantly also because Turkey had been added to the list of hyperinflationary countries by the IMF, therefore a €4.1m charge was added to comply with specific accounting standards (which does not affect cash) as Cofle operates a Turkish division. Moreover, in FY21 the Turkish subsidiary benefitted from ~€1m of extraordinary income.

Cofle BoD approved a €0.25DPS.

*Table 1: 2020-2022 Income Statement (€/mln)*

<b>Profit &amp; Loss (€/mln)</b>		<b>2020</b>	<b>2021</b>	<b>2022</b>
OEM		20.6	32.2	38.8
	yoy	5%	56%	20%
	% on revenues	56.0%	61.7%	70.1%
Aftermarket		16.4	20.0	16.6
	yoy	-10%	22%	-17%
	% on revenues	44.0%	38.3%	29.9%
<b>Revenues</b>		<b>37.0</b>	<b>52.2</b>	<b>55.4</b>
	yoy	-2.2%	41.3%	6.1%
Other revenues		0.4	1.6	1.3
	% on revenues	1.1%	3.1%	2.4%
<b>Total revenues</b>		<b>37.4</b>	<b>53.9</b>	<b>56.7</b>
	yoy	-2.5%	44.1%	5.3%
Change in inventories		0.7	1.6	1.3
	% on revenues	1.9%	3.0%	2.3%
<b>Value of Production</b>		<b>38.1</b>	<b>55.4</b>	<b>58.0</b>
	yoy		46%	5%
<b>COGS</b>		<b>(12.0)</b>	<b>(18.3)</b>	<b>(20.5)</b>
	% on total revenues	32.1%	33.9%	36.2%
<b>Gross margin</b>		<b>25.4</b>	<b>35.6</b>	<b>36.2</b>
	% on total revenues	67.9%	66.1%	63.8%
Service costs		(7.5)	(9.5)	(10.6)
	% on revenues	20.4%	18.2%	19.1%
Cost for the use of third-part assets		(1.1)	(1.1)	(1.2)
	% on revenues	3.0%	2.1%	2.2%
Labour costs		(9.8)	(11.3)	(11.5)
	% on revenues	27%	22%	21%
Other costs		(0.9)	(0.8)	(0.9)
	% on revenues	2.4%	1.5%	1.6%
<b>EBITDA</b>		<b>6.0</b>	<b>12.9</b>	<b>12.0</b>
	margin on VoP	15.9%	23.3%	20.6%
	yoy	18.3%	113.3%	-7.2%
<b>Adjusted EBITDA</b>		<b>8.0</b>	<b>13.5</b>	<b>13.0</b>
	margin on VoP	21.1%	24.4%	22.4%
<b>D&amp;A</b>		<b>(1.3)</b>	<b>(2.5)</b>	<b>(3.4)</b>
<b>EBIT</b>		<b>4.7</b>	<b>10.4</b>	<b>8.4</b>
	margin on VoP	12.4%	18.7%	14.6%
	yoy	19.3%	119.8%	-18.7%
Financial income/(expenses)		(0.4)	(0.6)	(5.2)
	o/w Hyperinflation charges	-	-	(4.1)
Profit/(Loss) on foreign exchange		0.4	1.7	1.3
<b>Net financial expenses</b>		<b>0.3</b>	<b>1.2</b>	<b>(3.9)</b>
Taxes		(1.1)	(2.3)	(1.9)
	tax rate	22%	20%	42%
<b>Operating Net Profit</b>		<b>3.9</b>	<b>9.3</b>	<b>2.6</b>
	margin on VoP	10.2%	16.7%	4.6%
	Minorities	0.5	1.0	0.4
<b>Group Net Profit</b>		<b>3.4</b>	<b>8.2</b>	<b>2.3</b>

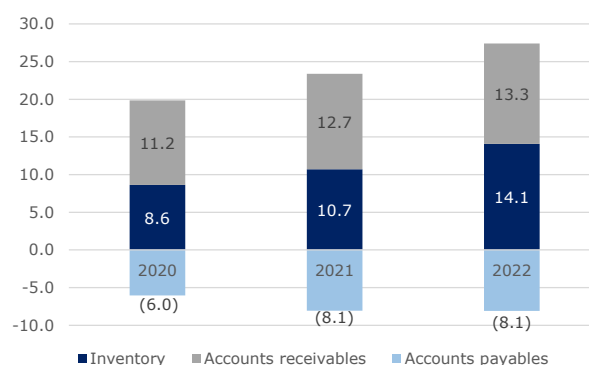
Source: Banca Profilo elaborations on companies' data

## Balance Sheet

### Inventory days increased following stockpiling

At the end of December 2022, Operating Net Working Capital increased to €19.3mln from €15.3mln a year earlier, including trade receivables at €13.3mln, trade payables at €8.1mln and €14.1mln of inventories. DSO remained stable at 84 despite a spike in 1H22 due to longer payments terms by multinational clients, DPO worsened by 8 days and Inventory Days rose by 18 days, reflecting Cofle decision to increase its stock of raw materials, due to supply constraints and longer delivery time.

Figure 4: Operating Net Working Capital evolution 2020-2022 (€, mln)



Source: Banca Profilo elaborations on companies' data

**Net debt increased to €3.3mln**

During FY22 Cofe issued a €5mln non-convertible bond as part of the Basket Bond program Euronext Growth. At the end of December 2022, adjusted net debt increased to €3.3mln (€2.7mln reported) from 0 at the end of 2021.

Table 2: 2020-2022 Balance Sheet (€/mln)

Balance sheet (€/mln)	2020	2021	2022
Inventory	8.6	10.7	14.1
% on VoP	22.6%	19.3%	24.3%
Inventory days	83	71	89
Accounts receivables	11.2	12.7	13.3
% on VoP	29.5%	22.8%	23.0%
DSO	108	83	84
Accounts payables	(6.0)	(8.1)	(8.1)
% on costs	28.5%	24.9%	22.8%
DPO	104	91	83
Costs	(21.2)	(32.5)	(35.6)
<b>Operating Net Working Capital</b>	<b>13.8</b>	<b>15.3</b>	<b>19.3</b>
yoy	4.2%	10.6%	26.3%
% on total revenues	37.0%	28.4%	34.1%
<b>Other Current Assets and Liabilities</b>	<b>(0.2)</b>	<b>(1.1)</b>	<b>0.4</b>
<b>Net Working Capital</b>	<b>13.6</b>	<b>14.2</b>	<b>19.8</b>
Intangibles	3.0	3.8	4.2
Tangibles	3.0	4.5	7.0
Financials	1.0	0.7	0.3
<b>Fixed Asset</b>	<b>6.9</b>	<b>9.1</b>	<b>11.5</b>
<b>Provisions</b>	<b>(1.6)</b>	<b>(0.8)</b>	<b>(1.8)</b>
<b>Net Invested Capital</b>	<b>18.9</b>	<b>22.5</b>	<b>29.4</b>
<b>Equity</b>	<b>10.2</b>	<b>26.1</b>	<b>29.6</b>
Cash	(3.2)	(15.5)	(20.3)
Short term bank debt	2.9	1.3	4.3
Long term bank debt	8.7	9.3	10.3
Other debt	0.3	1.2	0.7
Bond	-	-	4.9
IFRS 16 Adjustment Debt	4.8	4.3	3.5
Valdiporto adjustment	(0.8)	(0.6)	-
<b>Adjusted Net debt (cash)</b>	<b>12.7</b>	<b>0.0</b>	<b>3.3</b>
Liabilities	18.9	22.5	29.4
Adjusted Net debt (cash) reported	2.9	1.3	2.7

Source: Banca Profilo elaborations on companies' data

Strategy and estimates

Corporate strategies

Positive outlook in FY23

The Company gave an overall positive outlook for 2023 given the orders intake and the start of new projects during the first quarter.

New logistics plant

By the end of this year Cofle will open a new plant near Trezzo sull'Adda, which will lead to logistics optimization and digitalization, aiming at significantly reducing time to market.

Higher value per machine

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.

EPB released in 2022

On the AM side, the mechanical parking brake was a key product released in 2022; it uses an electro-actuated mechanism directly on the brake caliper. The technology has been patented since it differs substantially from the original EPB design but ensures interchangeability with existing original equipment and compliance with international technical specifications for EPB.

Figure 5: OEM new projects



Source: Company Data

New Ineos vehicles could provide further opportunities

Components installed on the Ineos Grenadier are a key revenue driver during FY23, Cofle produces the locking differential and the reduced gear unlock for the off-road vehicle. This will generate €3.8mln of total revenues for Cofle in the two-year period 2022/2023.

These products could represent a long-term opportunity for Cofle if implemented by Ineos in new vehicles. Currently, there are two available models of the car from the online configurator, with a third variant announced in 2020 as well as an EV model to be launched in 2026.

Cofle France: leveraging international expansion thanks to three highly experienced managers

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. This new division should allow Cofle to recover lost Aftermarket revenues following indirect exposure to the Russian market.

M&A commitment confirmed

Cofle will use the IPO proceeds also for acquisitions. The Company growth strategy by external lines involves an acceleration in the cross-selling process and penetration of new markets. More precisely, Cofle plans to acquire a majority stake (60-70%), while maintaining the target's management for a fixed period of time (3-5 years), after which call/put options might be exercised. On the OEM side, Cofle has analysed 13 potential targets focused on either electronic sensors, control units or joysticks, with production know-how and revenues in the €10mln range. Regarding the AM, the Company has examined 21 manufacturers and resellers of brake and clutch cables, brake hoses, brake pads and brake shoes.

*OEM driven by secular farm tractor growth*

The main underlying trend which sustains Cofle BM is the growing farm tractor segment, driven by the agricultural mechanization, increasing need for independence on raw materials food from European countries, global population growth, upgrade of existing fleets, Stage V regulation to reduce pollutants of off-road vehicles, demand for tractors from the Ukrainian market due to the destruction of the fleet by Russia.

*First sustainability report published*

Cofle has improved its ESG disclosure by releasing its first sustainability report in accordance with GRI standards at the end of 2022. We provide further details in the "ESG Analysis" section of this note.

*Our 2023E-2025E estimates*

*FY23E Revenues driven by both volumes and pricing*

We increased our revenue forecast by 7%, with a revenue growth of 9% in FY23E, due to volumes and pricing. The first is driven by the ramp up of sales thanks to Cofle France, as well the launch of new products. On the pricing side, 2023 will benefit from the adjusted price list, effective from 2H22. Moreover, assuming persisting inflation in Turkey we believe Cofle will further adjust its pricing, but the benefit could materialize in 2H23 and beyond. Overall we estimate a 9.5% FY22-25 CAGR (vs previous 6.6%), with ~1% higher revenue growth in FY24E vs previous estimates to reflect the higher pricing levels.

Figure 6: 2021-2025E Revenues by division (€/mln) and Adj. EBITDA margin (%)

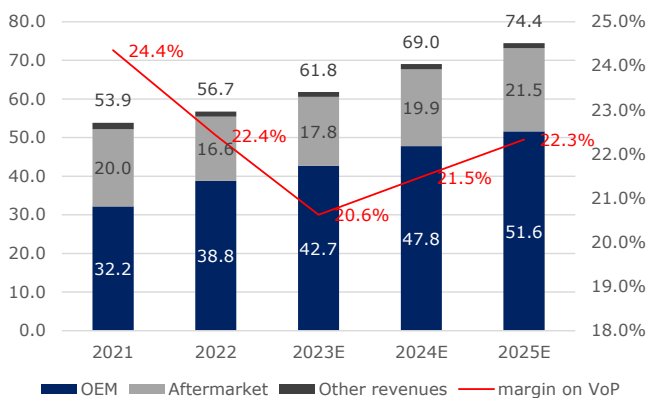
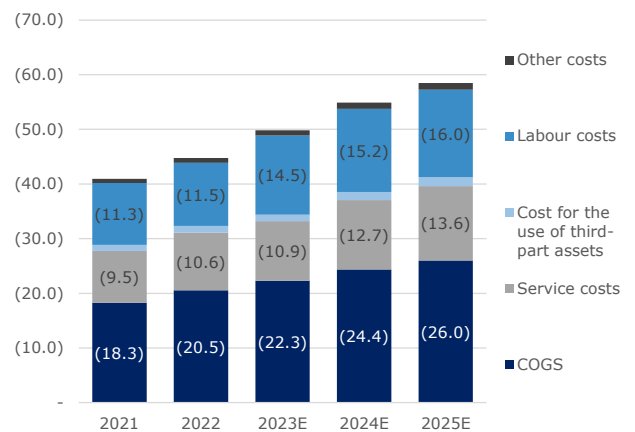


Figure 7: 2021-2025E Costs breakdown



Source: Banca Profilo elaborations on companies' data

*FY23E EBITDA: relief on materials but pressure from labor costs*

In the short-term we forecast a somewhat troubled evolution of marginality, Cofle's updated pricing should bring relief on the marginality; nevertheless, labor cost is expected to put downward pressure on EBITDA margin. More precisely, workers' wage in Turkey (381 out of Cofle's 572 employees) will be adjusted to account for inflation during 1H23. As already mentioned, we already factor in price adjustment to counterbalance part of the heightened labor cost.

After the margin cut in FY23E of ~3% vs previous estimates, in FY24-25E we forecast ~1pp yearly EBITDA margin improvements reflecting pricing and input costs normalization.

*Net income, hyperinflationary headwinds*

In FY22, the IMF included Turkey in the list of hyperinflationary countries, thus requiring specific accounting treatments. The effects of the FY22 line retroactive includes FY21, but as the evaluation of the inflation has to be carried out over a three-year period, FY23 could also be affected by an additional non-cash charge. Our estimates do not include gains on forex nor further accounting adjustments.



In FY23 we estimate €4.6mln net income or 7% profit margin, while considerably higher than FY22 it remains several pp behind FY21 due to lower forecasted marginality at EBIT level as well as higher interest expense.

*Table 3: 2020-2025E Income Statement (€/mln)*

Profit & Loss (€/mln)	2020	2021	2022		2023E		2024E		2025E	
			Estimate	Actual	old	new	old	new	old	new
Revenues	37.0	52.2	53.1	55.4	56.8	60.5	62.2	67.7	67.7	73.1
yoy	-2%	41%	2%	6%	7%	9%	10%	12%	9%	8%
OEM	20.6	32.2	35.4	38.8	38.1	42.7	41.7	47.8	45.3	51.6
yoy	5%	56%	10%	20%	7%	10%	10%	12%	9%	8%
% on revenues	56%	62%	67%	70%	67%	71%	67%	71%	67%	71%
Aftermarket	16.4	20.0	17.7	16.6	18.8	17.8	20.6	19.9	22.4	21.5
yoy	-10%	22%	-12%	-17%	6%	7%	10%	12%	9%	8%
% on revenues	44%	38%	33%	30%	33%	29%	33%	29%	33%	29%
Other revenues	0.4	1.6	1.0	1.3	1.0	1.3	1.0	1.3	1.0	1.3
<b>Total revenues</b>	<b>37.4</b>	<b>53.9</b>	<b>54.2</b>	<b>56.7</b>	<b>57.9</b>	<b>61.8</b>	<b>63.3</b>	<b>69.0</b>	<b>68.7</b>	<b>74.4</b>
yoy	-2%	44%	1%	5%	7%	9%	9%	12%	9%	8%
Change in inventories	0.7	1.6	0.8	1.3	0.8	1.2	0.9	1.5	1.0	1.7
<b>Value of Production</b>	<b>38.1</b>	<b>55.4</b>	<b>54.9</b>	<b>58.0</b>	<b>58.7</b>	<b>63.0</b>	<b>64.2</b>	<b>70.6</b>	<b>69.7</b>	<b>76.1</b>
yoy	0%	46%	-1%	5%	7%	9%	9%	12%	9%	8%
<b>COGS</b>	<b>(12.0)</b>	<b>(18.3)</b>	<b>(19.6)</b>	<b>(20.5)</b>	<b>(20.3)</b>	<b>(22.3)</b>	<b>(21.8)</b>	<b>(24.4)</b>	<b>(23.1)</b>	<b>(26.0)</b>
% on total revenues	32%	34%	36%	36%	35%	36%	34%	35%	34%	35%
<b>Gross margin</b>	<b>25.4</b>	<b>35.6</b>	<b>34.5</b>	<b>36.2</b>	<b>37.6</b>	<b>39.5</b>	<b>41.5</b>	<b>44.6</b>	<b>45.7</b>	<b>48.4</b>
% on total revenues	68%	66%	64%	64%	65%	64%	66%	65%	66%	65%
Service costs	(7.5)	(9.5)	(10.3)	(10.6)	(10.7)	(10.9)	(11.7)	(12.7)	(12.7)	(13.6)
% on revenues	20%	18%	19%	19%	19%	18%	19%	18%	19%	18%
Cost for the use of third-part assets	(1.1)	(1.1)	(1.1)	(1.2)	(1.2)	(1.2)	(1.3)	(1.5)	(1.4)	(1.6)
% on revenues	3%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Labour costs	(9.8)	(11.3)	(10.9)	(11.5)	(11.6)	(14.5)	(12.7)	(15.2)	(13.9)	(16.0)
% on revenues	26%	21%	20%	20%	20%	23%	20%	22%	21%	21%
Other costs	(0.9)	(0.8)	(0.8)	(0.9)	(0.8)	(1.0)	(0.9)	(1.2)	(1.0)	(1.2)
% on revenues	2%	1%	1%	2%	1%	2%	1%	2%	1%	2%
<b>EBITDA</b>	<b>6.0</b>	<b>12.9</b>	<b>11.5</b>	<b>12.0</b>	<b>13.2</b>	<b>12.0</b>	<b>14.8</b>	<b>14.1</b>	<b>16.6</b>	<b>16.0</b>
yoy	18%	113%	-11%	-7%	15%	0%	12%	18%	12%	13%
margin on VoP	16%	23%	21%	21%	23%	19%	23%	20%	24%	21%
IFRS 16 Adjustment	1.1	0.6	0.8	1.0	0.8	1.0	0.8	1.0	0.8	1.0
<b>Adjusted EBITDA</b>	<b>8.0</b>	<b>13.5</b>	<b>12.3</b>	<b>13.0</b>	<b>14.0</b>	<b>13.0</b>	<b>15.6</b>	<b>15.2</b>	<b>17.4</b>	<b>17.0</b>
margin on VoP	21%	24%	22%	22%	24%	21%	24%	21%	25%	22%
<b>D&amp;A</b>	<b>(1.3)</b>	<b>(2.5)</b>	<b>(1.9)</b>	<b>(3.4)</b>	<b>(2.3)</b>	<b>(3.6)</b>	<b>(2.7)</b>	<b>(2.8)</b>	<b>(3.0)</b>	<b>(2.9)</b>
margin on VoP	-3%	-4%	-4%	-6%	-4%	-6%	-4%	-4%	-4%	-4%
Provision for risks	(0.0)	(0.0)	(0.0)	(0.1)	(0.0)	(0.1)	(0.0)	(0.1)	(0.0)	(0.1)
<b>EBIT</b>	<b>4.7</b>	<b>10.4</b>	<b>9.5</b>	<b>8.4</b>	<b>10.8</b>	<b>8.3</b>	<b>12.0</b>	<b>11.2</b>	<b>13.6</b>	<b>12.9</b>
margin on VoP	12%	19%	17%	15%	18%	13%	19%	16%	19%	17%
yoy	19%	120%	-9%	-19%	14%	-2%	11%	36%	13%	15%
<b>Net financial expenses</b>	<b>0.3</b>	<b>1.2</b>	<b>(0.1)</b>	<b>(3.9)</b>	<b>(0.3)</b>	<b>(0.8)</b>	<b>(0.2)</b>	<b>(0.7)</b>	<b>(0.1)</b>	<b>(0.6)</b>
Financial income/(expenses)	(0.4)	(0.6)	(0.7)	(5.2)	(0.8)	(0.8)	(0.7)	(0.7)	(0.7)	(0.7)
o/w Hyperinflation charges	-	-	-	(4.1)	-	-	-	-	-	-
Profit/(Loss) on foreign exchange	0.4	1.7	0.5	1.3	0.5	-	0.5	-	0.5	-
<b>EBT</b>	<b>5.0</b>	<b>11.6</b>	<b>9.4</b>	<b>4.5</b>	<b>10.6</b>	<b>7.5</b>	<b>11.8</b>	<b>10.5</b>	<b>13.4</b>	<b>12.3</b>
margin on VoP	13%	21%	17%	8%	18%	12%	18%	15%	19%	16%
Taxes	(1.1)	(2.3)	(2.3)	(1.9)	(2.6)	(2.2)	(3.0)	(3.2)	(3.4)	(3.7)
<b>Operating Net Profit</b>	<b>3.9</b>	<b>9.3</b>	<b>7.0</b>	<b>2.6</b>	<b>7.9</b>	<b>5.2</b>	<b>8.9</b>	<b>7.4</b>	<b>10.1</b>	<b>8.6</b>
margin on VoP	10%	17%	13%	5%	14%	8%	14%	10%	14%	11%
Minorities	0.5	1.0	0.8	0.4	0.9	0.6	1.0	0.9	1.1	1.0
% minorities	12%	11%	11%	14%	11%	12%	11%	12%	11%	12%
yoy	34%	138%	-24%	-71%	13%	97%	12%	41%	14%	17%
<b>Group Net Profit</b>	<b>3.4</b>	<b>8.2</b>	<b>6.2</b>	<b>2.3</b>	<b>7.1</b>	<b>4.6</b>	<b>7.9</b>	<b>6.5</b>	<b>9.0</b>	<b>7.6</b>

Source: Banca Profilo elaborations on companies' data

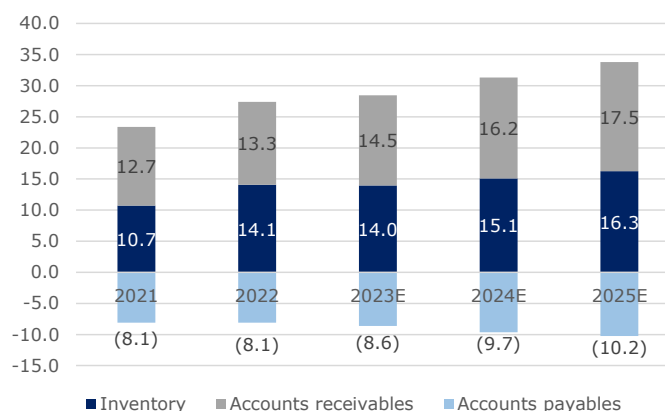
### Inventory days normalization

For FY23E we estimate ONWC at €19.8mln with incidence on revenues declining by 2pp as in FY22 Cofle carried out stock piling to ensure smoother operations. We kept DSO and DPO in line with FY results.

### Net debt

After adjusted net debt reached €3.3mln in FY22, we forecast an increase to €4mln in FY23E while from FY24 we foresee gradual annual improvements.

Figure 8: 2021-2025E Operating Net Working Capital



Source: Banca Profilo elaborations on companies' data

Table 4: 2020-2025E Balance Sheet (€/mln)

Balance sheet (€/mln)	2020	2021	2022		2023E		2024E		2025E	
			Estimate	Actual	old	new	old	new	old	new
Inventory	8.6	10.7	12.4	14.1	13.0	14.0	14.2	15.1	15.5	16.3
% on VoP	23%	19%	23%	24%	22%	22%	22%	21%	22%	21%
Inventory days	83	71	83	89	81	81	81	78	81	78
Accounts receivables	11.2	12.7	14.0	13.3	14.6	14.5	15.8	16.2	17.2	17.5
% on VoP	30%	23%	26%	23%	25%	23%	25%	23%	25%	23%
DSO	108	83	93	84	91	84	90	84	90	84
Accounts payables	(6.0)	(8.1)	(7.7)	(8.1)	(7.5)	(8.6)	(8.0)	(9.7)	(8.4)	(10.2)
% on costs	28%	25%	22%	23%	21%	23%	21%	23%	21%	23%
DPO	104	91	81	83	78	83	78	83	78	83
<b>Operating Net Working Capital</b>	<b>13.8</b>	<b>15.3</b>	<b>18.8</b>	<b>19.3</b>	<b>20.2</b>	<b>19.8</b>	<b>22.1</b>	<b>21.7</b>	<b>24.2</b>	<b>23.5</b>
yoy	4%	11%	23%	26%	7%	3%	9%	9%	10%	9%
% on total revenues	37%	28%	35%	34%	35%	32%	35%	31%	35%	32%
Other Current Assets and Liabilities	(0.2)	(1.1)	(1.1)	0.4	(1.1)	0.4	(1.1)	0.4	(1.1)	0.4
<b>Net Working Capital</b>	<b>13.6</b>	<b>14.2</b>	<b>17.7</b>	<b>19.8</b>	<b>19.1</b>	<b>20.3</b>	<b>21.0</b>	<b>22.1</b>	<b>23.2</b>	<b>24.0</b>
Intangibles	3.0	3.8	3.3	4.2	3.8	4.6	4.2	5.0	4.0	5.5
Tangibles	3.0	4.5	8.8	7.0	9.4	8.5	9.7	9.2	9.9	10.3
Financials	1.0	0.7	0.7	0.3	0.7	0.3	0.7	0.3	0.7	0.3
<b>Fixed Asset</b>	<b>6.9</b>	<b>9.1</b>	<b>12.8</b>	<b>11.5</b>	<b>13.9</b>	<b>13.4</b>	<b>14.6</b>	<b>14.6</b>	<b>14.6</b>	<b>16.1</b>
Provisions	(1.6)	(0.8)	(0.8)	(1.8)	(0.8)	(1.9)	(0.9)	(2.0)	(0.9)	(2.0)
Other asset and liabilities	-	-	-	-	-	-	-	-	-	-
<b>Net Invested Capital</b>	<b>18.9</b>	<b>22.5</b>	<b>29.8</b>	<b>29.4</b>	<b>32.2</b>	<b>31.7</b>	<b>34.7</b>	<b>34.7</b>	<b>36.8</b>	<b>38.1</b>
<b>Equity</b>	<b>10.2</b>	<b>26.1</b>	<b>29.5</b>	<b>29.6</b>	<b>33.1</b>	<b>31.2</b>	<b>37.9</b>	<b>35.3</b>	<b>43.4</b>	<b>40.0</b>
Cash	(3.2)	(15.5)	(15.6)	(20.3)	(15.5)	(18.1)	(16.5)	(18.0)	(18.9)	(18.1)
Short term bank debt	2.9	1.3	1.3	4.3	1.3	3.8	1.3	3.5	1.3	3.1
Long term bank debt	8.7	9.3	13.4	10.3	12.1	9.3	10.9	8.3	9.8	7.5
Other debt	0.3	1.2	1.2	0.7	1.2	0.7	1.2	0.7	1.2	0.7
Bond	-	-	-	4.9	-	4.9	-	4.9	-	4.9
IFRS 16 Adjustment Debt	4.8	4.3	4.3	3.5	4.3	3.5	4.3	3.5	4.3	3.5
Valdiporto adjustment	(0.8)	(0.6)	-	-	-	-	-	-	-	-
<b>Adjusted Net debt (cash)</b>	<b>12.7</b>	<b>0.0</b>	<b>4.6</b>	<b>3.3</b>	<b>3.4</b>	<b>4.0</b>	<b>1.1</b>	<b>2.8</b>	<b>(6.6)</b>	<b>1.5</b>
Adjusted Net debt (cash) reported	12.7	0.0	4.6	2.7						
<b>Liabilities</b>	<b>18.9</b>	<b>22.5</b>	<b>29.8</b>	<b>29.4</b>	<b>32.2</b>	<b>31.7</b>	<b>34.7</b>	<b>34.7</b>	<b>36.8</b>	<b>38.1</b>

Source: Banca Profilo elaborations on companies' data

€6.1mln of yearly FCF

According to our estimates, cumulated 23-26E FCFs are €24.5mln, 16% below our previous estimates at €29.1mln due to considerably lower marginality at EBITDA level, higher capex counterbalanced by slightly lower ONWC needs. More precisely, we estimate €5.5mln of capex in FY23E as Cofle plans to open a new logistics plant. Average yearly FCF now stands at €6.1mln from previous €7.3mln.

*Table 5: FCF forecasts FY23E-FY26E*

<b>Free Cash Flow</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
EBIT	8.3	11.2	12.9	14.4
Taxes	(2.1)	(2.8)	(3.2)	(3.6)
<b>NOPAT</b>	<b>6.2</b>	<b>8.4</b>	<b>9.7</b>	<b>10.8</b>
D&A	<b>3.6</b>	<b>2.8</b>	<b>2.9</b>	<b>2.9</b>
<b>Operating cash flow</b>	<b>9.8</b>	<b>11.2</b>	<b>12.6</b>	<b>13.7</b>
Operating Net Working Cap	(0.5)	(1.8)	(1.9)	(1.9)
Other funds	0.2	0.0	0.0	0.1
Capex	(5.5)	(4.0)	(4.5)	(3.0)
<b>FCF</b>	<b>3.9</b>	<b>5.4</b>	<b>6.3</b>	<b>8.9</b>

Source: Banca Profilo elaborations on companies' data and Bloomberg

## Valuation

### DCF and market multiples

Fair value at €15.6/sh  
(down from €17.7/sh)

Market multiples valuation: €13.8/sh  
(up from €12.8/sh)

BUY confirmed;  
12-month TP reduced to €15.1/share

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.

Our DCF model leads to an Equity Value of €95.9 or €15.6/sh, down from previous €17.7 reflecting mainly lower FCFs and higher risk-free rate.

We considered the adjusted average 23E-24E EBITDA, which coupled with the 23-24 EV/EBITDA multiple of 6.3x leads to an EV of €88.2mln and Equity Value of €13.8/sh up from previous €12.8/sh.

Overall, we reduced significantly our cumulated FCF estimates (-16% vs previous) and updated our assumptions leading to a higher WACC. The re-rating of market multiples mitigated the TP cut, calculated as the average between DCF (75%) and MM (25%). We set our TP to €15.1/sh (vs previous €16.5/sh), given the significant upside on Cofle's closing price (as of April 26<sup>th</sup>, 2023), we confirm our BUY recommendation.

### DCF

DCF assumptions:  
€24.5mln of cumulated FCFs in 2023E-2026E  
€6.9mln as Terminal Value cash flow

€3.3mln net debt at the end of December  
8.3% WACC

DCF valuation:  
€15.6/share

To run a DCF Model, we use our projections of FCFs for the 2023E-2026E explicit period: €24.5mln of cumulated FCFs (vs previous €28.7mln) or €6.1mln as yearly average (vs previous €7.3mln).

To assess the Terminal Value, we used what we consider a perpetually sustainable Free Cash Flow of €6.9mln (vs previous €7.8mln), given by the average of the FCFs in the period 2024E-2026E. Finally, we assumed a 2% perpetual growth rate (unchanged).

In order to get to the Equity Valuation, we would consider the adjusted net debt as of the end of December 2022, equal to €3.3mln (vs previous €3.6mln in 1H22).

We use an 8.3% WACC (from previous 8%) derived from:

- 4.8% Risk Free rate from 4.6% in the last research, as the 30Y Italian BTP 100-day yield moving average and our assumed interest rates path (+0.5bps);
- 5.5% market risk premium (unchanged);
- 1.1 beta (unchanged);
- 40% target Debt-to-Equity structure (unchanged).

The DCF method leads us to an Enterprise Value of €99.1mln and to an Equity Value of €95.9mln, showing a fair value of €15.6/share.

Table 6: WACC calculation

WACC Calculation	
Perpetual growth rate	2.0%
<b>WACC</b>	<b>8.3%</b>
Risk free rate (30Y)	4.8%
Equity risk premium	5.5%
Levered Beta	1.1
<b>KE</b>	<b>11.0%</b>
Cost of debt	6.0%
Tax rate	30%
<b>KD</b>	<b>4.2%</b>

Table 7: FCF forecasts FY23E-FY26E

DCF Valuation	2023E	2024E	2025E	2026E	TV
Free Cash Flows (€ mln)	3.9	5.4	6.3	8.9	6.9
years	1	2	3	4	
discount factor	0.92	0.85	0.79	0.73	
NPV Cash flows (€ mln)	3.6	4.6	5.0	6.5	
Sum of NPVs (€ mln)	3.6	8.3	13.2	19.7	
Terminal Value (€ mln)					109.3
NPV Terminal Value (€ mln)					79.5
<b>Enterprise Value (€ mln)</b>					<b>99.1</b>
Adjusted Net debt (€ mln)					3.3
<b>Equity Value (€ mln)</b>					<b>95.9</b>
Number of shares					6.2
<b>Price per share (€)</b>					<b>15.6</b>

Source: Banca Profilo elaborations on companies' data and Bloomberg

## 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)*

*FY22: revenue €3.6bn;  
EBITDA margin 16.8%*

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)*

*FY22: revenue €1.2bn;  
EBITDA margin 14.5%*

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)*

*FY22: revenue SEK96.9bn;  
EBITDA margin 12.8%*

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:

- SCK focuses on rotating equipment

***Kongsberg Automotive (NOR)***

*FY22: revenue €906mIn; EBITDA margin 10.8%*

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

***Suprajit Engineering (IN)***

*FY22: revenue INR18.3bn; EBITDA margin 16.5%*

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.

Main similarities between Cofle and Suprajit:

- Suprajit is mainly active in cable production.

Main differences:

- Suprajit main reference market is India.

***Mayville Engineering Company (US)***

*FY22: revenue \$539mIn; EBITDA margin 11.3%*

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.

Main similarities between Cofle and Mayville:

- MEC is active both in the OEM and in the Aftermarket Industry with a diversified portfolio.

Main differences:

- Mayville revenues are only from US market.

***SAF Holland (GER)***

*FY22: revenue €1.6bn; EBITDA margin 9.3%*

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.

Main similarities between Cofle and SAF:

- SAF is active both in the OEM and in the Aftermarket Industry with a diversified portfolio.

Main differences:

- SAF is mainly active in the Truck Industry with little presence in the Agricultural segment.

***CIE Automotive (SPA)***

*FY22: revenue €3.8bn; EBITDA margin 16.4%*

CIE Automotive is a supplier of components, assemblies, and sub-assemblies for the global Automotive market, using complementary technologies and various associated processes.

Main similarities between Cofle and CIE:

- CIE Automotive has a diversified portfolio.

Main differences:

- CIE is mainly active in the Automotive Industry with little presence in the Agricultural segment.

### Relative market multiples valuation

**EV/EBITDA 23-24E:**  
6.3x

In order to assess our relative market multiples valuation, we chose the mean EV/EBITDA 2023-2024E, which is at 6.3x (as of April 24<sup>th</sup>), slightly higher than in our previous Company update (5.9x). As the Company uses ITA-GAAP accounting standards, we decide to apply the EBITDA that includes IFRS 16 adjustments (adjusted EBITDA) to give an international and consistent view to valuation. Our Cofle’s estimated sales growth in FY23E is 2.5pp below the group, our forecasted revenue growth considerably outpaces FY24E consensus for the group.

**Market multiples valuation: €13.8/share**

We used the adjusted EBITDA 2023-2024E, which leads to an Equity Value of €84.9mln or €13.8/share, +8% vs our previous update following higher market multiples.

Table 8: Sample margin and revenue growth

Company	EBITDA margin				Sales Growth			
	2021	2022	2023E	2024E	2021	2022	2023E	2024E
Brembo SpA	17.5%	16.8%	17.5%	17.9%	25.8%	30.7%	6.2%	5.0%
Comer Industries SpA	13.0%	14.5%	13.6%	14.1%	51.0%	106.9%	1.7%	3.1%
SKF AB	17.2%	12.8%	14.4%	15.7%	9.2%	18.6%	3.5%	2.2%
CIE Automotive SA	17.9%	16.4%	16.9%	17.5%	7.3%	24.1%	7.0%	3.8%
Kongsberg Automotive ASA	11.3%	10.8%	6.7%	6.9%	14.7%	8.3%	10.9%	4.9%
Suprajit Engineering Ltd	15.9%	16.5%	14.8%	15.6%	4.7%	11.9%	51.3%	13.2%
Mayville Engineering Co Inc	5.4%	11.3%	12.0%	12.6%	27.2%	18.6%	5.3%	4.1%
SAF-Holland SE	9.3%	9.3%	10.2%	10.5%	29.9%	25.6%	9.5%	2.6%
<b>Mean</b>	<b>13.4%</b>	<b>13.6%</b>	<b>13.3%</b>	<b>13.9%</b>	<b>21.2%</b>	<b>30.6%</b>	<b>11.9%</b>	<b>4.9%</b>
Cofle SpA	24.4%	22.4%	20.6%	21.5%	41.3%	6.1%	9.3%	11.8%

Source: Banca Profilo estimates and elaborations on Bloomberg (as of April 24<sup>th</sup>, 2023)

Table 9: Sample EV/EBITDA

Company	EV / EBITDA		
	2022	2023E	2024E
Brembo SpA	8.1x	7.3x	6.8x
Comer Industries SpA	6.0x	6.3x	5.9x
SKF AB	8.2x	6.8x	6.3x
CIE Automotive SA	7.2x	6.6x	6.1x
Kongsberg Automotive ASA	3.2x	4.7x	4.4x
Suprajit Engineering Ltd	15.7x	11.6x	9.7x
Mayville Engineering Co Inc	5.9x	5.2x	4.9x
SAF-Holland SE	7.3x	5.9x	5.5x
<b>Mean</b>	<b>7.3x</b>	<b>6.6x</b>	<b>6.0x</b>
<b>Median</b>	<b>6.8x</b>	<b>6.4x</b>	<b>5.9x</b>
Cofle SpA	5.9x	5.3x	4.8x

Source: Banca Profilo estimates and elaborations on Bloomberg (as of April 24<sup>th</sup>, 2023)

Table 10: Market multiples valuation

Relative Valuation on market multiples	
EV/EBITDA 23-24	EBITDA adjusted
6.3x	14.1
ENTERPRISE VALUE	ADJ. NET DEBT
88.2	3.3
EQUITY VALUE	
84.9	
Price per share	<b>13.8</b>

## The reference market

*Cofle's main businesses: Original Equipment Manufacturers and Aftermarket*

Cofle is a multinational company operating as Original Equipment Manufacturer (OEM) (70% of Group's revenues) mainly for top worldwide producers of agricultural & earthmoving machineries, but also for luxury automotive and light commercial vehicles manufacturers. Cofle is also active in the Aftermarket (30% of Group's revenues), specialized in the production of automotive aftermarket parts on a global scale.

### 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, driven by:

*Population dynamics and technological trend will drive the market*

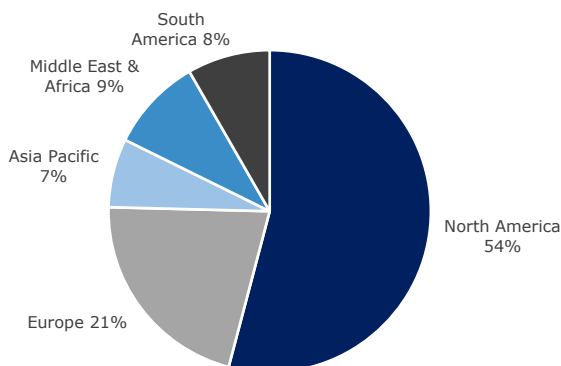
- population increase from 7.9bn in 2021 to about 10bn in 2050, which will stimulate food demand in next decades;
- rising mechanization and increasing productivity and efficiency requirements;
- commitment to reduce tractors pollution;
- crop production increase by 18% in the coming decade, from approximately 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:

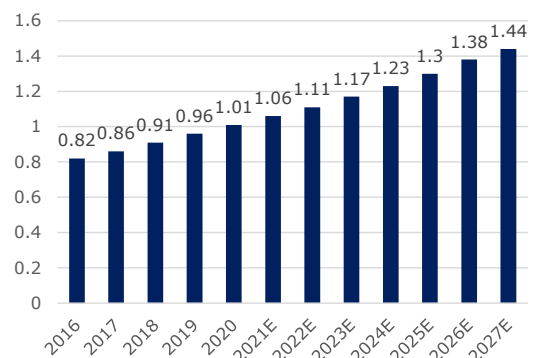
- the European Stage V Regulation, aimed at reducing pollutant emissions from tractors. During this phase, tractor manufacturers have taken advantage from this regulation to renew their cabins;
- the consequences of the conflict in Ukraine, where Russian soldiers have been destroying or requisitioning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

Figure 9: 2021 global tractor market shares



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

Figure 10: Global Farm Tractors Market Forecast (mln units)



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



*Central European Agricultural Machinery expected to grow 4.3% CAGR 21-30E*

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 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 11: Tractor Industry major players*



*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 782mIn tons in 2022, impacted by the conflict*

In 2022, global wheat production is seen at 782mIn tons, below previous estimates of 784mIn 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 4mIn hectares in Europe, of which 200k in Italy, and is likely to stimulate demand for agricultural mechanization.

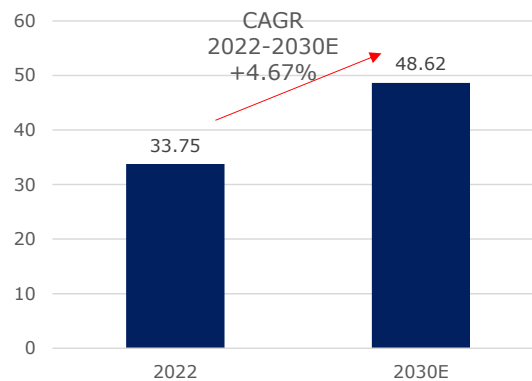
*OEM's Automotive-related market is*

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

*expected to increase at 4.7% CAGR22-30E*

components and devices for vehicles. These parts are used during the assembly and manufacturing of the vehicle.

**Figure 12: 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**

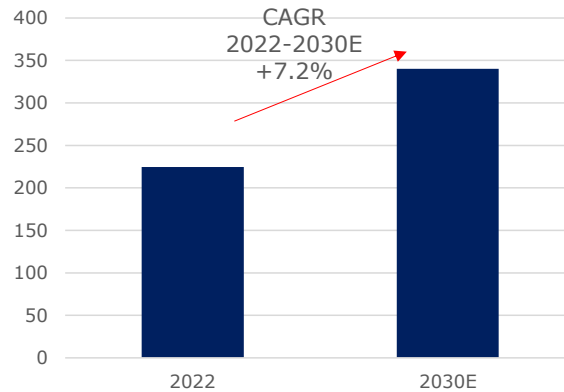
*Aftermarket Industry to grow at 7.2% CAGR 22-27E*

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 13: 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.

## ESG Analysis

### FY21 Sustainability Report

*The first Sustainability Report in 2022*

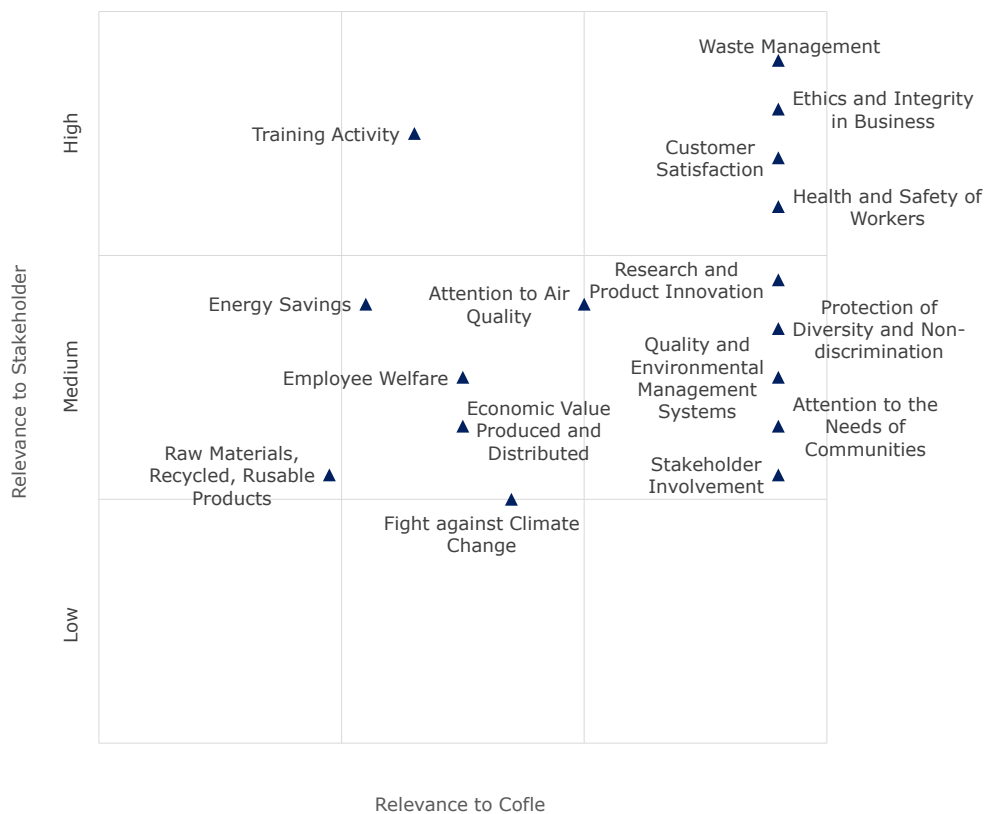
To best involve stakeholders and to communicate in an increasingly transparent way its ESG goals, Cofle has published its first Sustainability Report in December 2022. The Company has issued the report in accordance with GRI standards.

### Materiality Assessment

*Materiality Assessment*

The purpose of the materiality analysis is to determine the most relevant issues for the company and its stakeholders, and to decide which issues should be included in the Sustainability Report. The following figure explains the results.

Figure 14: Materiality Assessment



Source: Banca Profilo elaborations on Company data

Figure 15: Commitments by sector

Sector	Commitment	Time Target	SDG
Raw materials. Recycled materials, reusable products	<ul style="list-style-type: none"> <li>Study of new packaging methods to replace the use of plastic packaging.</li> </ul>	2023	
Use of energy from renewable sources combating climate change	<ul style="list-style-type: none"> <li>Feasibility study for installation of geothermal plant</li> <li>100% Renewable Energy</li> <li>Purchase of GO certificates to increase the share used of electricity from renewable sources</li> </ul>	2023-24	 
Combating climate change	<ul style="list-style-type: none"> <li>Scope 3 greenhouse gas emissions inventory and redefinition of reporting boundary.</li> </ul>	2023	
Protection of diversity and non-discrimination	<ul style="list-style-type: none"> <li>Increased percentage of women in the company (with the opening of the new logistics hub)</li> </ul>	2023	
Employee well-being	<ul style="list-style-type: none"> <li>Start of prevention project with free medical examinations for employees in collaboration with LILT (Italian League for the Fight against Cancer)</li> </ul>	2023	
Ethics and integrity in business	<ul style="list-style-type: none"> <li>Adoption of the Management and Control Organizational Model pursuant to Legislative Decree .231/01.</li> </ul>	2023	
Ethics and integrity in business	<ul style="list-style-type: none"> <li>Study and inclusion of ESG objectives in the remuneration systems of CEOs and managers</li> </ul>	2023-24	
Ethics and integrity in business	<ul style="list-style-type: none"> <li>Progressive enlargement of the scope of sustainability reporting to cover that of Group consolidation in full.</li> </ul>	2023-24	

Source: Banca Profilo elaborations on Company data

### Environmental sustainability

#### Plastic raw materials from local suppliers

Raw materials needed by Cofle for the production process consist of metals and plastic. The Company provides a breakdown of the percentage from recycled sources. The purchase of plastics is carried out nearby the Company's HQ reducing the impact at the logistics level, whereas components, semi-finished and finished cables from third-party suppliers, for strategic reason are acquired from subsidiaries in Turkey and India, with some others located in China, Taiwan, Japan and Thailand.

The purchase of components deemed as critical continues to be made from local suppliers, which ensure the Company's high levels of service and flexibility.

#### Commitments to reduce resources and leakages

During the production phase Cofle strives to reuse, recover or recycle the waste materials that constitute the leakages and to reduce the amounts of natural and energy resources used.

#### Distribution of final products with cardboard or materials to be returned

Transport of semi-finished and finished products is carried out by the company's own vehicles, while the delivery of finished products to the customer is usually done by a carrier imposed by the customer in most cases. In half of the cases, the products are delivered in returnable packaging or shared with the customer, and in the other half, in disposable cardboard packaging. In some cases, plastic material (e.g. bubble wrap) is used inside the boxes to prevent damage during transport either at the request of customers or due to the fragility of the product.

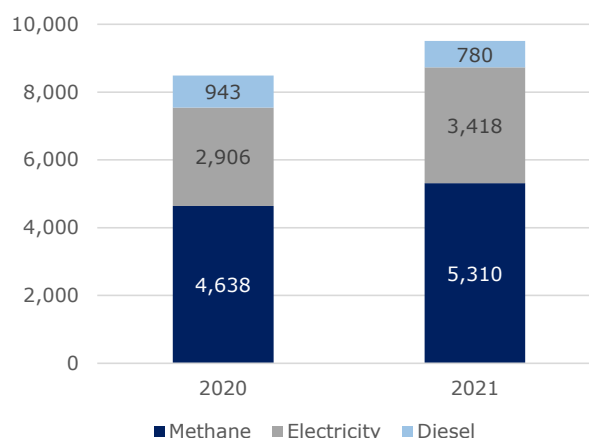
#### Energy intensity index improved by 18.8% yoy

Cofle's Energy consumption derives primarily from the use of process machines and their auxiliary processes; other uses are related to utilities. In 2021, the energy intensity index, calculated as total energy consumption per k euro of revenue shows a reduction of 18.8% yoy, as the increase in energy consumption (+12%) was lower than the increase in sales.

Table 11: Raw material consumption and % from recycling

Raw Materials	2020	2021
Alluminium [t]	44.1	100.6
% from recycling	95.8%	96.5%
% raw material	5.0%	5.0%
Zamak [t]	36.9	56.1
% from recycling	97.0%	97.0%
% raw material	3.0%	3.0%
Plastic [t]	84.3	152.7
% from recycling	0.0%	0.0%
% raw material	100.0%	100.0%
Total Raw Materials [t]	165.2	309.4
% from recycling	47.2%	49.0%
% raw material	52.8%	51.0%

Figure 16: Total energy consumption



Source: Banca Profilo elaborations on Company data Source: Banca Profilo elaborations on Company data

Share of energy from renewable sources increased in 2021

The Company installed a solar PV system in 2016, which in 2021 covered 10.5% of the electricity requirements, (vs 9.6% in 2020). This was driven by an increase in the plant's electricity production (+16.1%) and an increase in the share of self-consumption (+29.8%) compared to the energy sold to the national grid.

Considering only the electrical energy consumed in 2021, 44.7% (+0.6pp yoy) of it comes from renewable sources while of the total energy consumed, 16.1% (+1pp yoy) comes from renewable sources.

Water usage increased due to higher level of activity in 2021

In 2021 water usage increased (+48.9% yoy) due to higher level of activity and increased presence on the farm compared to 2020; the farms are not located in zones where there is little capacity or inability to meet human and ecological water demand.

The performance indicator calculated as Megaliters withdrawn per k euro of revenue shows a lower growth (+8.4%) due to the more than proportional increase in net revenue. In 2021, the increase in water discharges compared to 2020 is a direct consequence of the increase in water withdrawals.

Figure 17: Energy consumption from renewable sources

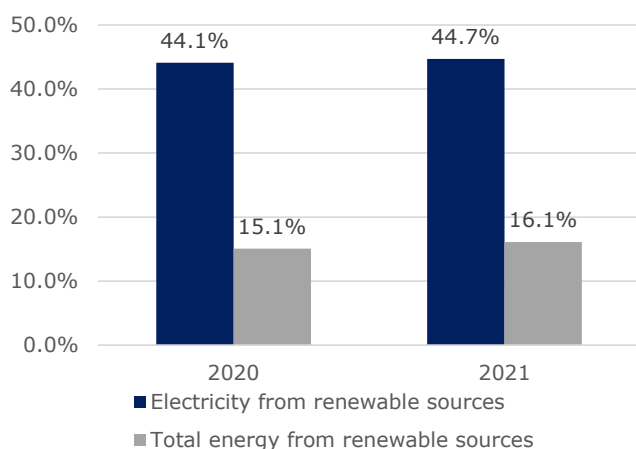
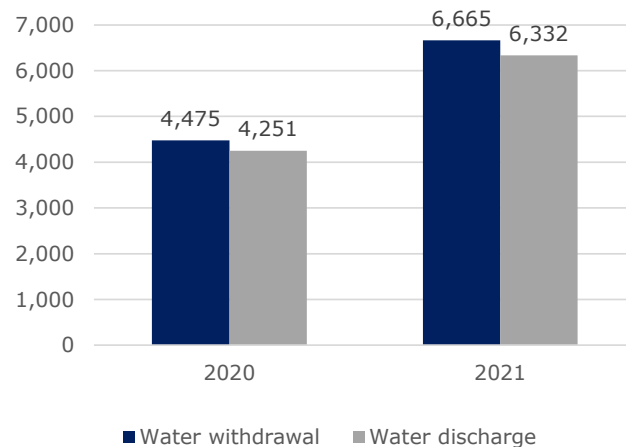


Figure 18: water withdrawal and consumption



Source: Banca Profilo elaborations on Company data Source: Banca Profilo elaborations on Company data

Waste produced by Cofle destined to recycling, in 2021 accounted for 99.3% of the total, while waste destined for disposal was 0.7% of the total, mostly destined for energy recovery (waste-to-energy). In 2021, hazardous waste accounted for 0.8% of the total waste generated. In 2021, hazardous waste accounted for 0.8% of the total waste generated.

**KPI related to waste decreased**

The KPI tonnes of waste per thousand of revenue decreased in 2021 by 14.8% also determined, as for the other indicators, by the more than proportional increase in revenue.

Figure 19: Waste for recycling and for disposal (t)

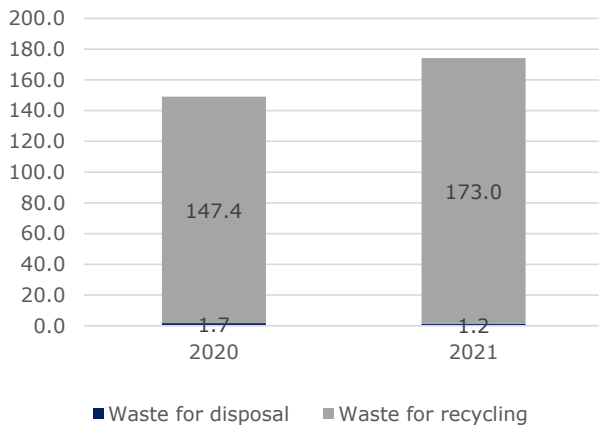
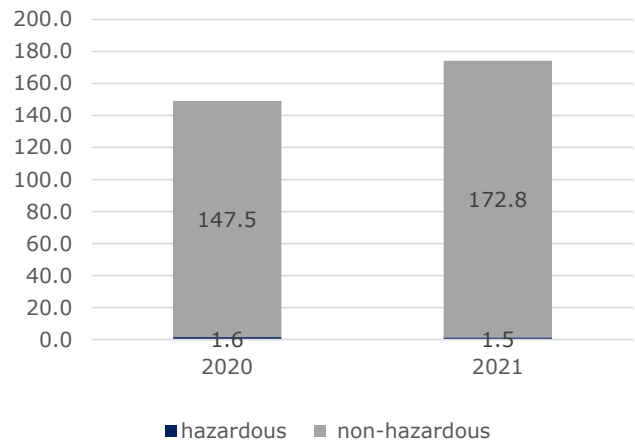


Figure 20: Non-hazardous and hazardous waste (t)



Source: Banca Profilo elaborations on Company data

Source: Banca Profilo elaborations on Company data

**Annual self-checks**

The monitoring plan prescribes annual self-checks for all relevant emission points. The results were all below the maximum allowed.

Table 12: Particulates measures and maximum

Emission	Pollutant	Maximum (mg/Nm <sup>3</sup> )	Results (mg/Nm <sup>3</sup> )	Note
E2	Particulates	10.0	2.1	Measured on 26/11/2021
	COV	20.0	3.8	
E3	Particulates	1000.0%	1.20	Measured on 26/11/2021
	Metalli	10.0%	< 0.026	
E4	Particulates	10.0	1.2	Measured on 26/11/2021
	Metalli	0.1	< 0.018	
E5	Particulates	1000.0%	0.62	Measured on 26/11/2021
	Metalli	10.0%	< 0.023	
E6	Particulates	10.0	0.7	Measured on 26/11/2021
	Metalli	0.1	< 0.019	
E7	Particulates	1000.0%	0.51	Measured on 26/11/2021
	Metalli	10.0%	< 0.022	
E8	COV	20.0	5.55	Measured on 26/11/2021
	Particulates	10.0	1.54	
	COV	20.0	3.39	

Source: Banca Profilo elaborations on Company data

Table 13: Emissions

Emissions into the atmosphere (kg)	2020	2021
<b>Emissions from production processes</b>		
Particulates	15,44	14,64
COV	19,29	15,67
<b>Emissions from thermal plants</b>		
Particulates	173,34	183,12
COV	153,96	170,19

Source: Banca Profilo elaborations on Company data

**Cofle voluntarily monitors emissions**

Cofle does not have monitor emissions under the Emission Trading System (EU ETS), nevertheless Cofle monitors its direct and indirect greenhouse gas emissions according to the Greenhouse Gas Protocol by distinguishing emissions into categories or Scopes.

**Scope 3 emissions represent 70% of total emissions**

In 2021, total greenhouse gas emissions amounted to 1,731.1 tCO<sub>2</sub>e and were mainly determined by indirect Scope 3 emissions, which account for 70.1% of total emissions. The increase in Scope 3 emissions compared to 2020 was caused by an increase in consumption of raw materials and materials, packaging and fuels used. The increase in indirect Scope 2 emissions is caused by an increase in electricity

taken from the grid, while the increase in Scope 1 emissions is derived from the increased combustion of methane for heat production.

Figure 21: Greenhouse gas emissions

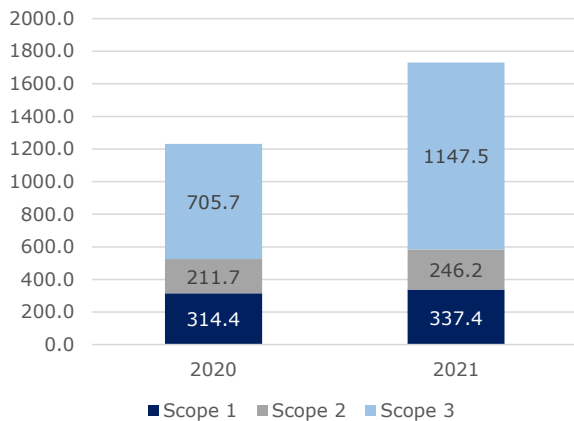
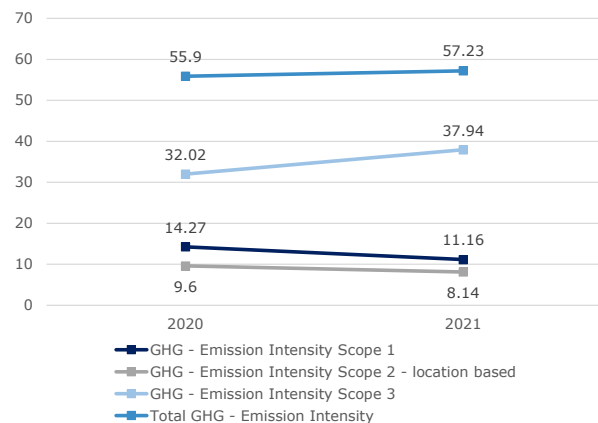


Figure 22: Emission Intensity



Source: Banca Profilo elaborations on Company data Source: Banca Profilo elaborations on Company data

Table 14: Greenhouse gas emissions

GREENHOUSE GAS EMISSIONS	2020	2021
<b>Scope 1</b>		
Emissions from thermal plants for methane combustion	tCO2e 266.8	305.7
Emissions from thermal plants for diesel combustion	tCO2e 47.6	31.7
<b>Total Scope 1 emissions</b>	<b>tCO2e 314.4</b>	<b>337.4</b>
<b>Scope 2</b>		
Emissions from electricity consumption from the location-based network	tCO2e 211.7	246.2
Emissions for electricity consumption from the market-based network	tCO2e 304.2	343.6
<b>Total Scope 2 emissions - location based</b>	<b>tCO2e 211.7</b>	<b>246.2</b>
<b>Scope 3</b>		
Metals and alloys	tCO2e 139.0	258.6
Plastics	tCO2e 262.7	475.7
<b>RAW MATERIALS AND MATERIALS</b>	<b>tCO2e 401.7</b>	<b>734.4</b>
Wood packaging	tCO2e 1.0	34.4
Plastic packaging	tCO2e 182.5	226.7
Cardboard packaging	tCO2e 66.0	82.7
<b>PACKAGING</b>	<b>tCO2e 249.5</b>	<b>343.8</b>
Methane	tCO2e 34.5	52.1
Diesel	tCO2e 14.5	12.0
<b>FUELS USED Extraction and transport</b>	<b>tCO2e 49.0</b>	<b>64.0</b>
Waste disposed of	tCO2e 0.8	0.6
Waste recovered	tCO2e 3.1	3.7
<b>WASTES disposed of and recovered</b>	<b>tCO2e 3.9</b>	<b>4.2</b>
Water withdrawn from aqueduct	tCO2e 1.5	1.0
<b>WATER CONSUMPTION withdrawn from aqueduct</b>	<b>tCO2e 1.5</b>	<b>1.0</b>
<b>Total Scope 3 emissions</b>	<b>tCO2e 705.7</b>	<b>1147.5</b>
<b>Total Scope 1 + Scope 2</b>	<b>tCO2e 526.1</b>	<b>583.6</b>
<b>Total Scope 1 + Scope 2 + Scope 3</b>	<b>tCO2e 1231.8</b>	<b>1731.1</b>

Source: Banca Profilo elaborations on Company data

### Social issues

#### Women represent an increasing share of employees

From 2020 to the present there was a slight increase in the number of employees from 141 to 142 at the end of 2021. Women account for 41.5% of the company population, with a percentage increase in female workers.

The breakdown in terms of professional category and age group has kept the percentages virtually unchanged over the three years of reporting. The least present population in the company is young people under 30, and the average age of Cofle employees is 47, with an average seniority of 16 years.



*All employees on a permanent contract*

100% of Cofle employees are employed on a permanent contract basis. The use of part-time contracts concerns 7.7% of the employees, with quite similar percentages in the previous year.

*Table 15: Employees by type of contract*

Roles	2020			2021		
	Men	Women	Tot	Men	Women	Tot
Directors	0	0	0	0	0	0
Middle managers	4	1	5	4	1	5
Employees	21	117	38	23	16	39
Workers	56	42	98	56	42	98
<b>Total</b>	<b>81</b>	<b>160</b>	<b>141</b>	<b>83</b>	<b>59</b>	<b>142</b>

Source: Banca Profilo elaborations on Company data

*Table 16: Employees by age*

Roles	2020			2021		
	Men	Women	Tot	Men	Women	Tot
<30	14	1	15	13	3	16
30-50	38	24	62	38	22	60
>50	29	35	64	32	34	66
<b>Total</b>	<b>81</b>	<b>60</b>	<b>141</b>	<b>83</b>	<b>59</b>	<b>142</b>

Source: Banca Profilo elaborations on Company data

*Most terminations due to retirement*

The few terminations are mainly due to retirements: 3 in 2020, 5 in 2021, all covered by a larger number of recruitments, thus continuing the physiological plan of generational turnover. Cofle proceeds to search for external candidates only after verifying that there are no potential internal candidates. The company periodically hosts university students in internships or 'school-to-work' alternation.

*Table 17: Training hours*

Hours of Training	2020			2021		
	Men	Women	Tot	Men	Women	Tot
Middle managers	24	12	18	9	0	4.5
Employees	135	92	114	110	19	64.5
Workers	179	51	115	216	144	180
<b>Total</b>	<b>338</b>	<b>155</b>	<b>247</b>	<b>335</b>	<b>163</b>	<b>249</b>

Source: Banca Profilo elaborations on Company data

*Table 18: Remote working*

Remote working	2021		
	Men	Women	Tot
Remote workers	18	9	27
% that used remote work	66.7%	52.9%	61.4%
Total days of remote work	102	62	164
% of days worked remotely	2.5%	1.5%	4.0%

*Bonus linked to company-wide target*

Annual performance bonuses are linked to the achievement of the company budget, without any link to performance appraisals with personal targets.

*Safety at the workplace*

Occupational health and safety at Cofle is managed in accordance with the provisions of Legislative Decree 81/08 without any specific management system implemented. In 2019, Cofle joined the WCM (World Class Manufacturing) in the Safety Pillar, introducing a structured 'way of thinking' in the company, participatory and widespread.

*Table 19: Salary ratio by gender*

Basic salary ratio women/men by category	2020	2021
Middle managers	0.85	0.9
Employees	0.95	0.95
Workers	0.95	0.95

*Table 20: Injuries statistics*

Injuries	2020			2021		
	Men	Women	Tot	Men	Women	Tot
# of injuries	2	0	2	1	0	1
# lost days due to injuries	11	0	11	2	0	2
Accident Frequency Index (per million hours worked)	9.58	0	9.58	4.31	0	4.31
Accident Severity Index (per million hours worked)	0.42	0	0.42	0.07	0	0.07

Source: Banca Profilo elaborations on Company data

*Cofle social projects support local heritage, fight famine, improve health infrastructures and employee’s wellbeing*

The actions in Cofle's CSR actions are aimed at improving the conditions of the people working in the company, the local communities and projects in the international sphere. The initiatives include:

- Corporate Golden Donor status of Fondo Italiano per l’Ambiente (FAI), which gives employee discounted FAI memberships;
- Rwanda projects with Movimento Lotta Fame nel Mondo (MLFM);
- Donations for 2 rooms in an oncologic prevention center with Lega Italiana per la Lotta contro i Tumori (LILT);
- New green building which hosts the cantine, changing room, infirmary and a relax room.

*Value Chain*

All suppliers involved in the Cofle SpA supply chain are required to comply with the provisions of the Code of Ethics, the Code of Conduct, the forthcoming Model 231 and company procedures. The selection of suppliers involves the Purchasing and Quality departments, the former choosing suppliers on the basis of traditional criteria such as commercial and production requirements, the latter by assessing the quality of the product supplied. In addition, each supplier is asked to accept the Code of Supplier Code of Conduct as well as to fill in a self-assessment questionnaire on ethical issues, environmental and quality issues (ISO certifications). The Supplier Code of Conduct was approved in 2019, all suppliers are required to accept the contents, the violation of which transforms business relations with the company up to the eventual termination of the contracts (in the three reporting years considered this has not happened).

The final evaluation of suppliers is precisely defined in the Operating Procedure - Supplier Evaluation of Suppliers, which is updated periodically.

*Valuation*

The self-assessment generates a score that assigns a class to the supplier, then Cofle monitors them to make sure they maintain the requirements over time. To monitor suppliers' commitment to sustainability issues, each year Cofle itself also conducts audits to selected suppliers to verify that the scores obtained in the assessments described above.

*Table 21: Evaluation of suppliers*

<b>Suppliers Evaluation</b>	<b>2020</b>	<b>2021</b>
% suppliers assessed by sustainability criteria	100%	100%
Possession of certifications (% of total)	90%	90%
Suppliers assessed with audits (% of total)	0% due to COVID	5%
Suppliers whose relationships were terminated as a result of audits and reasons (% of total)	0	0

*Source: Banca Profilo elaborations on Company data*

**Governance**

*Traditional Governance systems*

The Corporate Governance of is structured according to the traditional model and includes Shareholders' Meeting, Board of Directors, Board of Statutory Auditors and Audit Company. Cofle S.p.A. are traded on EGM (Euronext Growth Milan), since November 2021. The Board of Directors consists of 5 members, one of whom is independent.

*World Class Manufacturing since 2019*

In 2019, Cofle Italia adopted the WCM (World Class Manufacturing) methodology, which is based on ten pillars defined as technical and the same number of pillars defined as managerial. Each of the technical pillars is divided into seven steps or steps to be followed in order to achieve the set objectives objectives, with the identification of the issues and problems to be addressed, the solution activities and the countermeasures to be applied, ending with an improvement of methods and structures used.

***UNI EN ISO 9001 and  
ISO 14001***

Cofle Italia has an integrated quality-environment management system in accordance with the standards UNI EN ISO 9001 and 14001 ISO 9001 certification ensures a tool aimed at improving quality through the identification and satisfaction of customer needs and the increase in the effectiveness and efficiency of internal processes.

APPENDIX

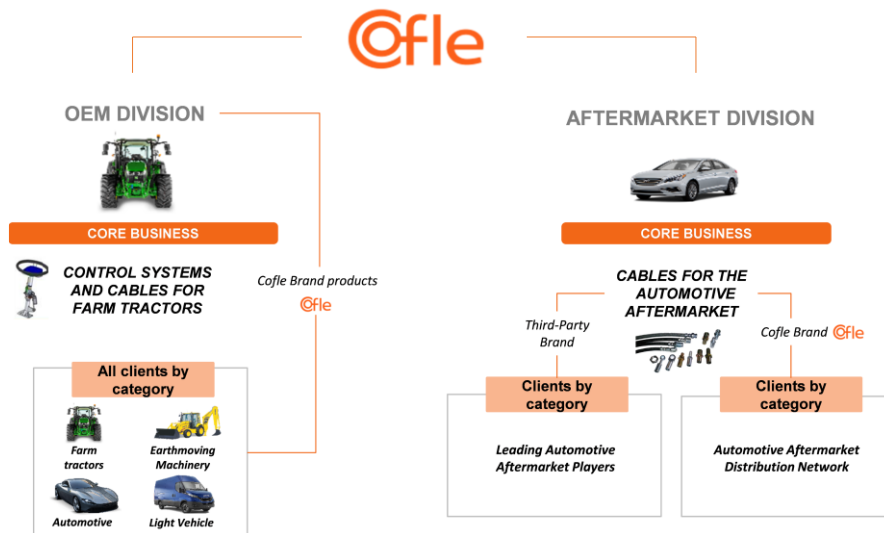
Cofle: a distinctive business model

Cofle: a multinational company leading OEM and AM 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 23: 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 24: 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 AM 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 25: 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 26: 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.

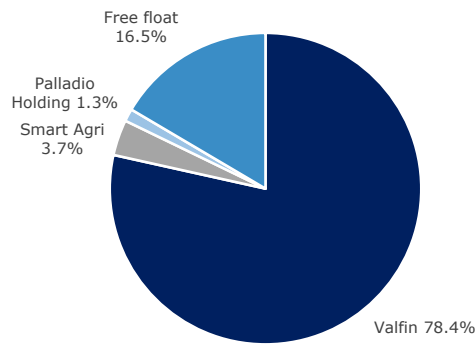
**24 months lock up period**

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

**Warrant distribution**

At the IPO, the Company issued 1 free warrant each 4 stocks for investors upon the IPO. The conversion will be 1 warrant for 1 new issued share with a strike price at +15% to IPO price in the first exercise period (12 months from the IPO) and +30% to IPO price in the second exercise period (24 months from the IPO).

Figure 27: Cofle’s shareholders’ structure post-IPO



Source: Banca Profilo elaborations on Company data

*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.

*Company’s evolution*

*1964 – Cofle’s origin*

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.

*1970s – beginning of global sales*

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.

*1980s – internal production of cables*

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.

*1990s – set up of operations in Turkey*

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.

2000s – Cofle China

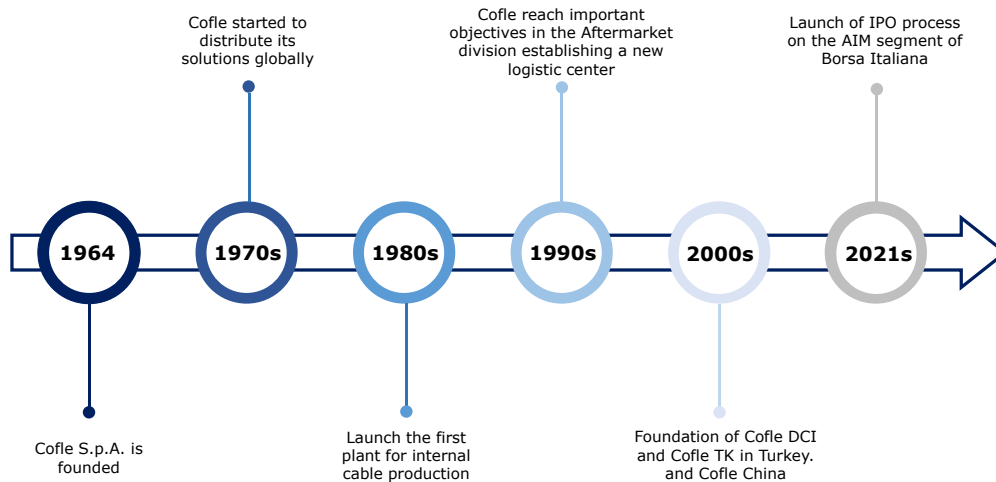
In the new millennium, the Company has been pushing on international expansion. Cofle DCI and Cofle TK, both in Turkey, and Cofle China were set up, meanwhile laying the groundworks for Cofle do Brasil, which started its first production in 2016 and Cofle Taylor India in 2018.

2021 – Listing on the Euronext Growth

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&A opportunities.

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.

Figure 28: 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 11<sup>th</sup>, 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 29: Group structure post-IPO

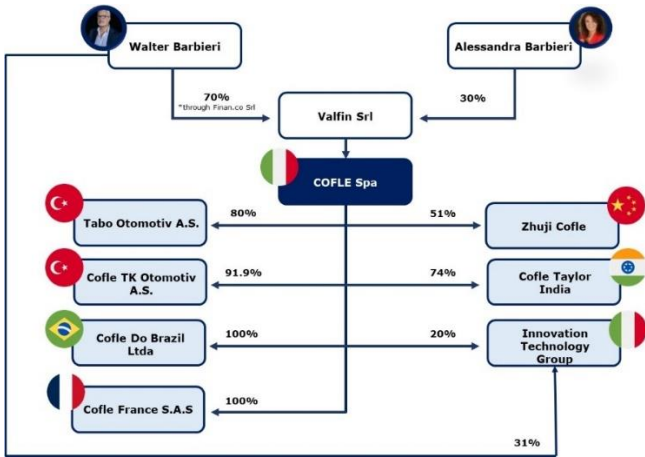
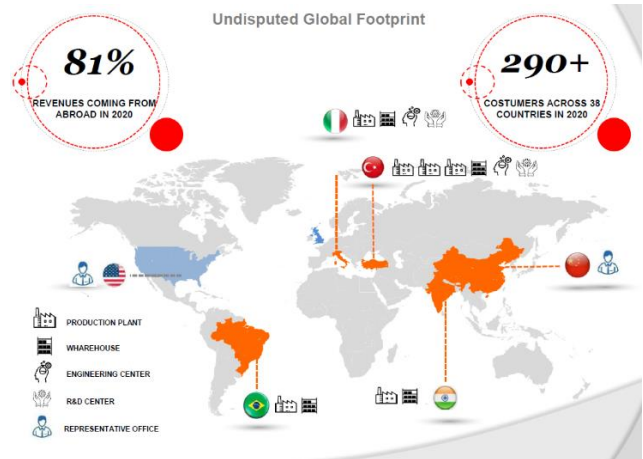


Figure 30: Cofle's production and logistic plants



Source: Banca Profilo elaborations on Company data

Cofle's global footprint

The Group has production sites in Brazil, India, Italy and Turkey, over 17,000 sqm worldwide.

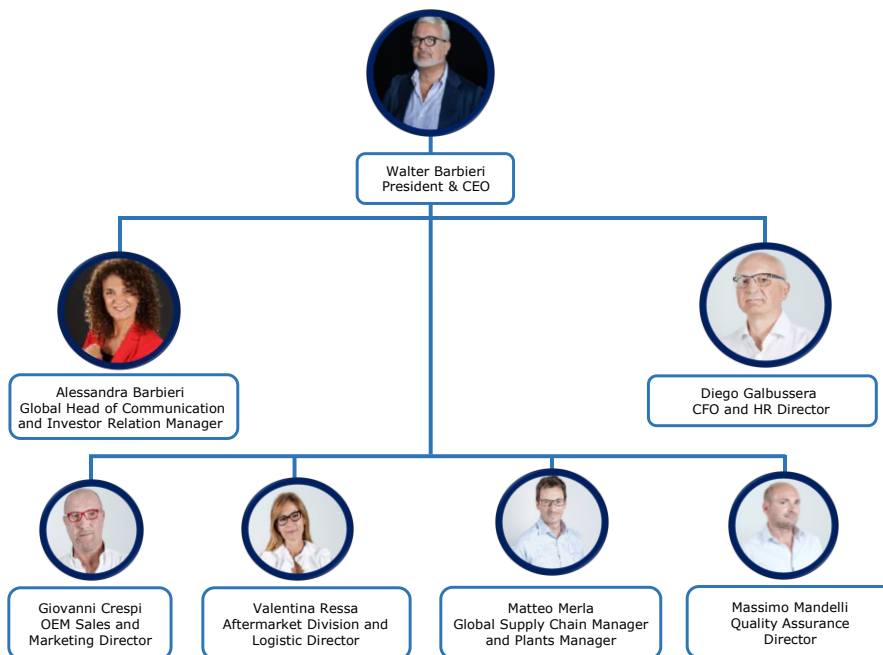
As of October 2022, Cofle owns 6 production plants, 4 warehouse, 2 engineering centres, 2 R&D centres and 3 representative offices around the world (including the new France subsidiary). The Italian and Indian plants have a production capacity of 2.5mln units each, the three plants in Turkey have more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

Top Management

An experienced management team

The Barbieri Family owns 100% of the holding Valfin: the CEO Walter Barbieri holds 70%, whereas the Head of Global Communication and Marketing and Investor Relation manager Alessandra Barbieri, owns the 30% of the Company. The Group can count on a strongly experienced management team.

Figure 31: Cofle's top management



Source: Banca Profilo elaborations on Company data

**Cofle  
"ID Card"**

Recommendation  
**BUY**

Target Price  
**15.1 €**

Upside  
**38%**

**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"**

Apr 27, 2023 at 18:00

Recommendation

Target Price

Upside

**BUY**
**15.1 €**
**38%**

(€/000)	2021	2022	2023E	2024E	2025E
<b>Total revenue</b>	<b>53.9</b>	<b>56.7</b>	<b>61.8</b>	<b>69.0</b>	<b>74.4</b>
yoy change	44.1%	5.3%	9.0%	11.7%	7.8%
<b>EBITDA</b>	<b>12.9</b>	<b>12.0</b>	<b>12.0</b>	<b>14.1</b>	<b>16.0</b>
EBITDA margin (%)	23.3%	20.6%	19.0%	20.0%	21.0%
<b>ADJUSTED EBITDA</b>	<b>13.5</b>	<b>13.0</b>	<b>13.0</b>	<b>15.2</b>	<b>17.0</b>
Adj EBITDA margin (%)	24.4%	22.4%	20.6%	21.5%	22.3%
<b>EBIT</b>	<b>10.4</b>	<b>8.4</b>	<b>8.3</b>	<b>11.2</b>	<b>12.9</b>
EBIT margin (%)	18.7%	14.6%	13.1%	15.9%	17.0%
<b>Group Net income</b>	<b>8.2</b>	<b>2.3</b>	<b>4.6</b>	<b>6.5</b>	<b>7.6</b>
Margin (%)	14.9%	3.9%	7.3%	9.2%	9.9%
<b>Adjusted net debt/(cash)</b>	<b>0.0</b>	<b>3.3</b>	<b>4.0</b>	<b>2.8</b>	<b>1.5</b>
Adjusted net debt/(cash) (Reported)	0.0	2.7	-	-	-
Shareholders Equity	26.1	29.6	31.2	35.3	40.0
Net Operating Working Capital	14.2	19.8	20.3	22.1	24.0
Capex and acquisitions	(4.8)	(3.0)	(5.5)	(4.0)	(4.5)
Free Cash Flow	3.1	3.8	3.9	5.4	6.3

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	0.1x	0.1x	0.0x
Net debt (cash) / Equity	0.0x	0.3x	0.3x	0.2x	0.1x

Financial and Operative ratios	2021	2022	2023E	2024E	2025E
Tax rate	20%	42%	30%	30%	30%
ROIC	37%	17%	18%	23%	24%
ROE	35%	9%	17%	21%	21%
Days Sales Outstanding	83	84	84	84	84
Days Sales Of Inventory	91	83	83	83	83
Days Payables Outstanding	174	167	167	167	167
Capex/Sales	9%	5%	9%	6%	6%
Current ratio	18.0	6.4	7.4	9.1	10.9

Source: Bloomberg, Banca Profilo estimates and elaborations

**Company Description**

Company Sector	Automotive
Price (€)	11.0
Number of shares (mln)	6.2
Market Cap (€ mln)	67.7
Reference Index	FTSE ITALIA GROWTH
Main Shareholders	Valfin S.r.l.
Main Shareholder stake	78.4%
Free Float	16.5%
Daily Average Volumes	832
Sample of comparables	Brembo, Comer Industries, SKF, CIE Automotive, Kongsberg Automotive, Suprajit, Mayville

**Data of peers**

	2021	2022	2023E	2024E
Sales Growth (yoy)	21.2%	30.6%	11.9%	4.9%
EBITDA Margin	13.4%	13.6%	13.3%	13.9%

Average data

**Multiples of peers**

	2022	2023E	2024E
EV / EBITDA	7.3x	6.6x	6.0x

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### ADDITIONAL INFORMATION

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