INITIATION OF COVERAGE

ESAU: Investing in brain is rarely a mistake!

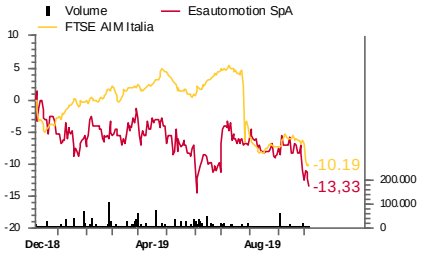
Fair Value: €4.21

Kevin TEMPESTINI
+39.02.83424007
ktempestini@ktepartners.com

Giancarlo DI VONA
+39.02.83424008
gdivona@ktepartners.com

Federica FIORENZA
+39.02.83424008
ffiorenza@ktepartners.com

Relative Performance Chart YTD



Market Data:	
Current Price (€)	2.86
Fair Value (€)	4.22
Market Cap (€mn)	37.47
Total shares issued (mn)	13.10
Total shares outstanding (mn)	12.93
52 Wk High (€)	3.70
52 Wk Low (€)	2.78
Free Float (%)	26.5
Avg. Daily Trading 90d	6523
Price Change 1w (%)	-5.61
Price Change 1m (%)	-8.33
Price Change YTD (%)	-8.48
EV/EBITDA 2019E	7.38
EV/EBITDA 2020E	6.13
P/E 2019E	15.27
P/E 2020E	13.87

Overview. Esautomotion S.p.A. (ESAU) – founded in 1962 as ESA GV - is one of the main Italian players active in the industrial automation sector. It designs, develops and sells **integrated mechatronic CNC systems** (software and hardware), **motors**, **drivers** and **other tools** for a range of industrial machines. With about 57 employees and about 40 value added resellers, the Group operates in over 90 countries.

Snapshot of the Market. According to UBS's estimates, the global automation market is worth $179.0bn in 2018 and it will reach $238.2bn by 2021, growing at a CAGR of 10%. Within the automation market, the industrial software segment – which also comprises CNC software suites - is expected to growth at a +9% CAGR2018-21, amounting to $43.6bn by 2021.

Group Historical Figures. Over the 2016-2018 period, the Group's revenue grew at a +20.8% CAGR, reaching €18.5mn in 2018. Over the same period, ESAU enjoyed outstanding profitability. Indeed, FY18 EBITDA margin came in at 27.2%, increasing by +2.0pp since 2016. Net income grew at a 38% CAGR2016-18, reaching €3.0mn in FY18 (+22%YoY).

1H19 Results. ESA's business showed good resilience in a 1H19 weakening scenario globally and despite sluggish demand for industrial machines. Indeed, ESAU's 1H19 total revenue grew by 2.5%YoY to €9.7mn, whereas Fanuc - ESAU's main competitor and market leader in the CNC market – also kept recording a negative performance in 1Q19 (revenue dropped by ca. 26%YoY, whereas EBIT and net income were ca. 47% lower with respect to 1Q18). Expansion of the offer to include hardware components at competitive prices on the one hand supported revenue growth, but on the other hand had a negative impact on ESAU's marginality, as they show lower profitability with respect to CNC systems. As a consequence, 1H19 EBITDA margin decreased to 21.0%. Finally, 1H19 net income dropped by ca. 38%YoY to €1.0mn with a net income margin of 10.6% (-7ppYoY).

Group's Strategy. As a response to a weakening international and domestic macroeconomic environment, ESAU has taken a counter-cyclical strategy, which is based on the following pillars: i) **facing a lower market demand** by increasingly developing high-end CNC solutions; ii) further **offer expansion** to include hardware components in order to fully satisfy customers' needs; iii) **market share increase** through **further expansion eastwards (China, Turkey and India)** and **the acquisition of new customers,** leveraging the traditional offer of **high-end solutions** with **medium and low-end solutions and high volumes**; **iv) lowering production costs; v) investing to penetrate German/Northern Europe and the U.S. markets;** and **v) acquisition of other manufacturers of CNC solutions or complementary products.**

Future Estimates. In the light of the weakening global scenario, price competition on hardware components and considering CNC machines' cyclicity, we expect revenue to grow by +2.7%YoY in FY19, increasing at a higher pace in the 2020-2022 period (+11.3% in 2020, +12.4% in 2021 and +13.5% in 2022). Revenue growth will be mainly driven by: i) the acquisition of new clients; ii) upselling and cross-selling activities; and iii) offer expansion to include hardware components. EBITDA is forecasted to growth at a +9.6% CAGR2018-22, reaching €7.3mn in 2022 with an EBITDA margin of 26.9% (we expect that over the 2019-22 period the negative impact on ESAU's profitability due to low market and change in product mix – which implies a higher weight of the HW components - will be in part counterbalanced by lower production, G&A and personnel costs). We expect net income to grow at +10.2% CAGR2018-22, amounting to €4.4mn by the end of 2022 and also benefiting from tax credit related to the IPO and patent box scheme.

Valuation. ESAU looks to be undervalued as it is trading at discount with respect to a sample of comparables belonging to the IA software segment (FY19 PE 15.3x vs 26.7x – FY19 EV/EBITDA 7.4x vs 17.4x), while showing a higher FY19E ROE (20.8% vs 17.0%). Our valuation - based on both the DCF and Multiple method - returns an average equity value of €55.23mn or €4.21ps, showing a potential upside of 47.4% on the current market price.

€ Million	Total Revenues	EBITDA	EBITDA Margin	EBIT	Net Profit	Net Margin
2016A	12.66	3.19	25.2%	2.35	1.57	12.4%
2017A	15.59	4.60	29.5%	3.51	2.46	15.8%
2018A	18.48	5.03	27.2%	3.77	3.00	16.2%
2019E	18.98	4.04	21.3%	2.60	2.45	12.9%
2020E	21.13	4.86	23.0%	3.18	2.70	12.8%
2021E	23.75	5.93	25.0%	4.14	3.49	14.7%
2022E	26.95	7.25	26.9%	5.43	4.41	16.4%

Source: Company data, KT&Partners' estimates

KT&Partners Srl
Via della Posta, 10 - Piazza Affari, 20123 Milano - Italy
Tel: +39.02.83424007 Fax: +39.02.83424011
segreteria@ktepartners.com

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Table 1: Esautomotion - Key Figures

Current price (€)	Fair Value (€)	Sector	Free Float (%)
2.86	4.22	Industrial Software	22.5

Per Share Data	2016A	2017A	2018A	2019E	2020E	2021E
Total shares issued (mn)	n.m.	n.m.	13.10	13.10	13.10	13.10
Total shares outstanding (mn)	n.m.	n.m.	13.10	12.93	12.93	12.93
EPS	n.m.	n.m.	0.23	0.19	0.21	0.27
Dividend per share (ord)	n.a.	n.a.	0.05	0.05	0.04	0.04
Dividend pay out ratio (%)	n.a.	n.a.	20.3%	20.0%	20.0%	20.0%
Profit and Loss (EUR thousand)						
Revenues	12,661	15,586	18,476	18,983	21,131	23,750
EBITDA	3,193	4,602	5,032	4,038	4,864	5,929
EBIT	2,351	3,505	3,767	2,602	3,175	4,136
EBT	2,294	3,463	3,670	2,577	3,150	4,111
Taxes	(721)	(997)	(673)	(123)	(448)	(624)
Tax rate	31%	29%	18%	5%	14%	15%
Net Income	1,573	2,466	2,997	2,455	2,702	3,487
Net Income attributable to the Group	1,573	2,464	2,996	2,455	2,702	3,487
Balance Sheet (EUR thousand)						
Total fixed assets	1,117	1,292	1,986	3,108	3,494	3,760
Net Working Capital (NWC)	2,775	4,307	5,843	6,270	6,914	7,524
Provisions	(89)	(243)	(262)	(495)	(735)	(985)
Total Net capital employed	3,803	5,356	7,567	8,883	9,672	10,299
Net financial position/(Cash)	677	36	(7,656)	(8,191)	(9,605)	(11,966)
Group Shareholder's Equity	3,124	5,318	15,220	17,075	19,277	22,264
Minorities	2	2	3	-	-	-
Total Shareholder's Equity	3,126	5,320	15,223	17,075	19,277	22,264
Cash Flow (EUR thousand)						
Net operating cash flow	-	-	4,341	3,561	4,282	5,170
Change in NWC	-	-	(1,536)	(427)	(644)	(610)
Capital expenditure	-	-	(1,864)	(1,829)	(1,979)	(1,963)
Other cash items/Uses of funds	-	-	11	137	144	154
Free cash flow	-	-	952	1,442	1,804	2,751
Enterprise Value (EUR thousand)						
Market Cap	n.a.	n.a.	41,316	37,475	37,475	37,475
Minorities	2	2	3	-	-	-
Net financial position/(Cash)	677	36	(7,656)	(8,191)	(9,605)	(11,966)
Enterprise value	n.a.	n.a.	33,663	29,283	27,870	25,509
Ratios (%)						
EBITDA margin	25.2%	29.5%	27.2%	21.3%	23.0%	25.0%
EBIT margin	18.6%	22.5%	20.4%	13.7%	15.0%	17.4%
Gearing - Debt/equity	21.7%	0.7%	-50.3%	-48.0%	-49.8%	-53.7%
Interest cover on EBIT	2.4%	1.2%	2.6%	1.0%	0.8%	0.6%
NFP/EBITDA	21.2%	0.8%	-152.1%	-202.8%	-197.5%	-201.8%
ROCE	61.8%	65.4%	49.8%	29.3%	32.8%	40.2%
ROE	50.4%	46.3%	19.7%	14.4%	14.0%	15.7%
EV/Sales	n.m.	n.m.	1.61	1.57	1.41	1.26
EV/EBITDA	n.m.	n.m.	5.93	7.38	6.13	5.03
P/E	n.m.	n.m.	12.51	15.27	13.87	10.75
Free cash flow yield	n.m.	n.m.	n.m.	5%	6%	9%
Growth Rates (%)						
Sales	-	23.1%	18.5%	2.7%	11.3%	12.4%
EBITDA	-	44.1%	9.3%	-19.8%	20.5%	21.9%
EBIT	-	49.1%	7.5%	-30.9%	22.0%	30.3%
Net Income	-	56.6%	21.6%	-18.1%	10.1%	29.0%

Investment Case

Focus on Esautomotion. ESAU was born in 2011 after the management buyout – carried out by Gianni Senzolo and Franco Fontana - of ESA GV, a financially distressed company operating as a software and high-end solutions provider.

With over 50 years of experience, ESAU is active in the B2B high-end CNC market, operating throughout the entire value chain, from R&D activities to technical support, passing through design, development and distribution of CNC systems (software and hardware) and other mechatronic components.

ESAU is the only manufacturer in the world that offers integrated CNC systems, specialized in application, able to cover all the processing phases (up to the interface) of sheet metal, wood and marble.

Strong Performance and Profitability. Since the management buyout, the Group has shown a great ability in matching sustainable growth with profitability and cash flow generation, leveraging the growth of the reference market, the cross-selling capacity and operating efficiency. ESAU's turnover has more than doubled over the last years, going from €8.1mn in FY12 to €18.5mn in FY18, while EBITDA margin went from 6.3% in FY12 to 28.7% in FY18.

A Global Presence. Since 2011, ESAU has also undertaken an internationalization process in 32 countries which allowed the company to directly sell abroad more than 50% of its products in 2018 (ca. 70%-80% if also considering indirect sales). China is one of the fastest growing markets (+47%YoY), increasing its incidence on turnover to 16% in FY18 vs 13% in FY17, underlining the importance for Chinese manufacturers of equipping their industrial machines with high-quality CNC systems. In the long run, ESAU aims to further increase its presence in China, which - according to management's estimates - should account for 40% of the Group's total turnover. In addition, by further delocalizing the production of hardware components in China (Shanghai), the Group will lower its purchase and production costs, thus improving its profitability. In line with this expansion strategy, in May 2019, ESAU acquired as customer one of the biggest Chinese players active in the press brakes, laser and punching machines segment.

Market Overview. According to UBS's estimates, the global automation market was worth $179.0bn in 2018 and it will reach $238.2bn by 2021, growing at a CAGR of 10%. Within the automation market, the industrial software segment – which also comprises CNC software suites - is expected to grow at a +9% CAGR2018-21, amounting to $43.6bn by 2021.

ESAU is performing better than its main competitor Fanuc - one of the biggest players active in the industrial automation market – which recorded a negative performance in both FY18 and 1Q19 due to: i) the impact of trade friction between the U.S. and China; and ii) sluggish domestic demand in the IT-related industry. In the light of the negative results and considering the uncertainty in the global economy, Fanuc revised downward its FY19 top line by ca. 20% and its EBIT and net income estimates by more than 50%.

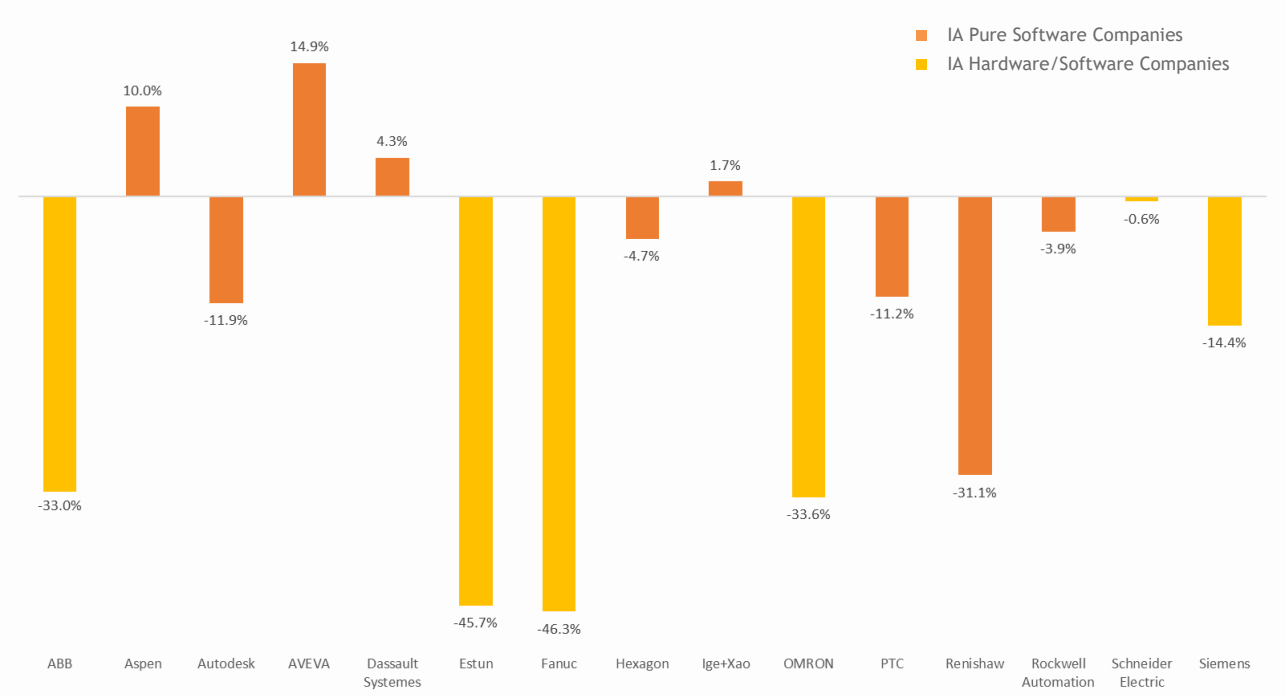
With weaker economic indicators, exchange rate volatility, trade tensions and significant cooling of demand - especially in the APAC countries - most companies active in the industrial automation industry and industrial machinery players also revised downward their guidance for the upcoming years. Biesse Group, for example, released a profit warning on June 21, 2019, - lowering FY19

revenue and EBITDA targets by ca. 13% and 35%, respectively - as a result of: i) the slowdown in demand in the overall machinery industry segment (1H19 order intake decreased by 15%-20% with respect to 1H18); ii) a reduction in the Group's 1H19 order intake by ca. 17% YoY; and iii) an international context in progressive deterioration.

Comparables Analysis. In order to define ESAU's peer sample, we carried out an in-depth analysis of listed companies active in the industrial automation industry that provide software and hardware solutions. In our sample, companies with a higher incidence in the software business are characterized by a higher marginality and higher revenues growth. By also comparing peers' historical growth and profitability with ESAU, we note that ESAU's marginality is more in line with companies with a higher incidence of the software component (i.e. Renishaw, Hexagon, Ige+Xao, Dassault, Rockwell and Fanuc), while showing a higher revenue growth profile.

Looking at the entire sample of 15 industrial automation pure software and HW/SW players, we note that - over the last 12 months - financial analysts revised downward EPS's estimates for the ending fiscal year for more than two-thirds of companies. On average, EPS's estimates were lowered by ca.15%.

Chart 1: EPS's Estimates Revision for a Sample of 15 Industrial Automation Pure Software and HW/SW Players



Source: FactSet, KT&Partners' Elaboration

Valuation. We think that ESAU represents an interesting opportunity, given its substantial undervaluation with respect to other industrial automation players. Indeed, ESAU is trading at a discount of 43% with respect to the median FY19 P/E of its comps. At the same time, the company shows a higher FY19 ROE (20.8% vs 17.0%).

Company Overview

Esautomotion Group

ESAU is an Italian company based in Carpi (Modena, Italy), which is active in the industrial automation sector and designs, develops and sells **integrated mechatronic CNC systems (software and hardware)**, **motors**, **drivers** and **other tools** for a range of industrial machines.

ESAU distinguishes itself from other industry players by being the only one to offer integrated CNC systems, specialized in application, able to cover all the processing phases (up to the user interface) of the following materials:

- Sheet metal (more than 50% of turnover);
- Wood (15% of turnover);
- Marble (13% of turnover).
- Others (22% of turnover)

The Group **internally designs** and **develops** CNC software (the core business). CNC hardware is internally designed but **production is outsourced**.

The product portfolio is also leveraged with an extensive sales and customer services network, which includes 40 value added resellers in over 90 countries. This allows the Group to provide worldwide pre- and post-sales assistance/technical support.

With about 57 employees, the Group operates worldwide through its:

- Headquarter and R&D department in Carpi (Italy);
- 2 production and sales subsidiaries located in Shanghai and São Paulo;
- 1 sales subsidiary in Barcelona;
- 40 value added resellers.

Figure 1: Footprint and Distribution

Source: Company presentation

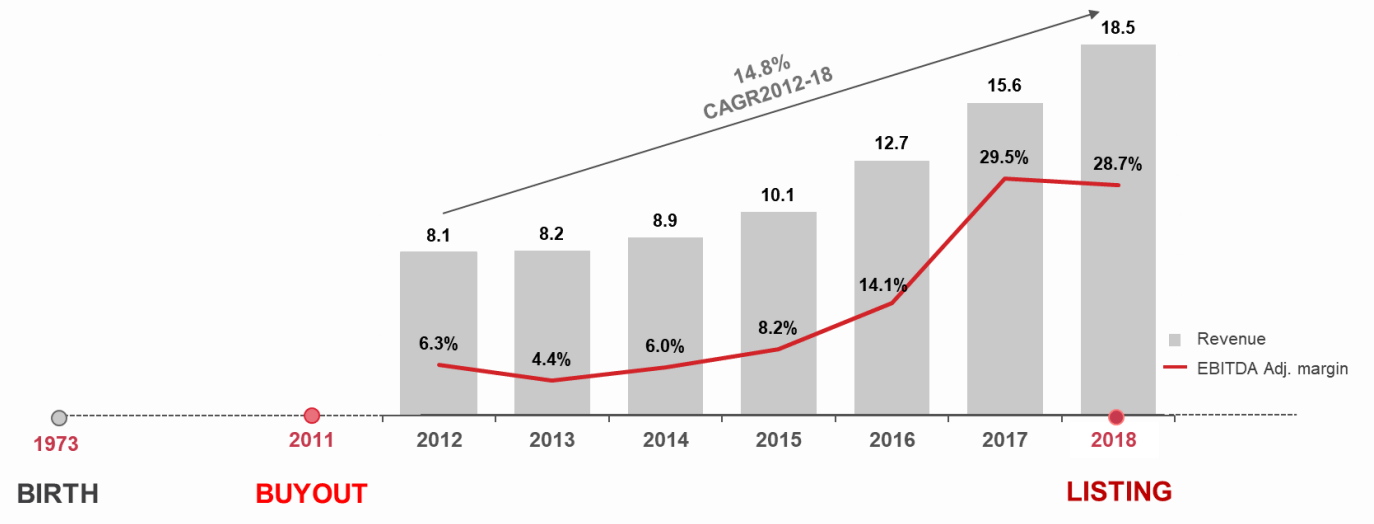
Group's History

ESAU **started up in 2011,** following the takeover of operational assets from ESA GV, a software and high-end technological solutions provider for numerical control machines, which was founded in 1973. The takeover was conducted by Gianni Senzolo (ESA GV's General Manager and ESAU CEO) and Franco Fontana (ESAU's Chairman), with the aim of relaunching the business.

In 2018, ESAU was listed on the AIM Italia Market - raising €10.3mn with a market cap of €35.1mn – with the aim of strengthening its leadership and seizing the growth and diversification opportunities offered by the market.

Since the buyout, ESAU has more than doubled its turnover to €18.5mn in FY18 in 44 countries, while displaying a notable profitability performance. Indeed, EBITDA margin went from 6.3% in FY12 to 28.7% in FY18.

Chart 2: Key Milestones



Source: Company presentation

The remarkable performance, recorded over less than 10 years, is the result of the implementation of a growth strategy based on the following drivers:

- **Focus on synergic and profitable market niches.** ESAU has always targeted entry into dimensionally interesting - neither too big to be targeted form big competitors nor too small to be not profitable for ESAU-CNC market segments, within which it is possible to play a reference role. At the same time, ESAU prototypes and develops CNC software/solutions suitable for new synergistic applications;
- **Hardware optimization and a complete full package.** Since the buyout ESAU re-engineered his products and reduce them to only 2 different types of modular CNC hardware which can be equipped with different accessories and, above all, many ESAU's CNC application software used by customers for working different materials. Furthermore, over the years the company has increasingly sought to integrate its offer with "soft hardware components" like motors, drivers, peripherals modules and other tools. By offering a full-range solution, ESAU is able to better meet customers' needs, ensure remote assistance and avoid the

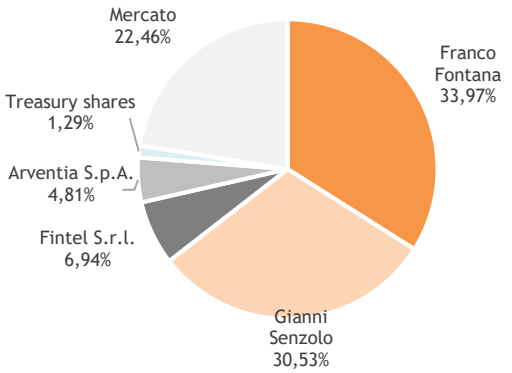
uncertainty of starting up machines equipped with components from other suppliers;

- **Internationalization.** Since the buyout, ESAU has significantly expanded its global presence by establishing new production and/or commercial subsidiaries and leveraging on a network of over 40 value added resellers. In particular:
  - In 2015, ESAU established its first production/commercial site in Brazil through Esautomotion do Brasil Serviço de Automaçao Ltda;
  - In 2016, ESAU entered the Chinese market through the establishment of Esautomotion Trading Co. - a commercial subsidiary recently transformed into a production site – with the twofold objectives of being closer to final customers and lowering procurement costs of hardware components for CNC systems;
  - At the end of 2018, a new commercial branch, Esautomotion Iberica SL, was opened in Spain;
  - In order to expand its footprint in northern Europe (specifically in Germany) and the U.S., in November 2018, ESAU hired 2 executive members – Mr. Jan Hilpert and Mr. Marc Hilpert - of Power Automation, a leading German company active in the CNC market for over 20 years.
- **Full service.** By completing its offer with customer service and teleassistance, ESAU is able to meet its worldwide clients' daily needs;
- **High-end and low-end solutions.** In order to increase its market share in emerging countries like China and Turkey, ESAU acquires new customers with high-end solutions and then conquers new market shares with low-end solutions as in the mid-term any simple CNC will be replaced with a more profitable one.
- **Turnkey solutions.** ESAU provides plug and play/ready to use solutions which can be further customizable according to the specific application.

Ownership and Group Structure

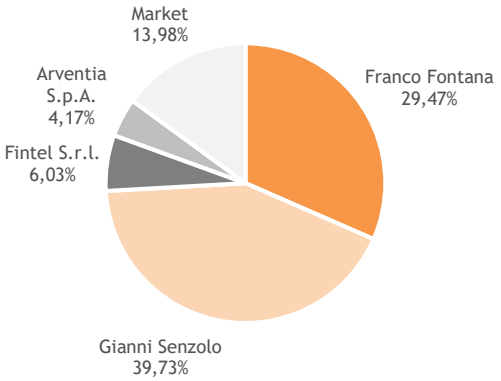
Franco Fontana and Gianni Senzolo – ESAU's founders and top managers - are the main shareholders with a stake of 33.97% and 30.53%, respectively. At the IPO, Fintel Srl – mainly owned by Claudio Bulgarelli - bought 6.94% of ESAU whereas Arventia SpA – mainly owned by Gian Maurizio Argenziano - acquired a 4.81% stake. The remaining 22.46% - excluding treasury shares (1.29%) - is held by the market.

Chart 3: Share Capital



Source: Company data

Chart 4: Voting Capital



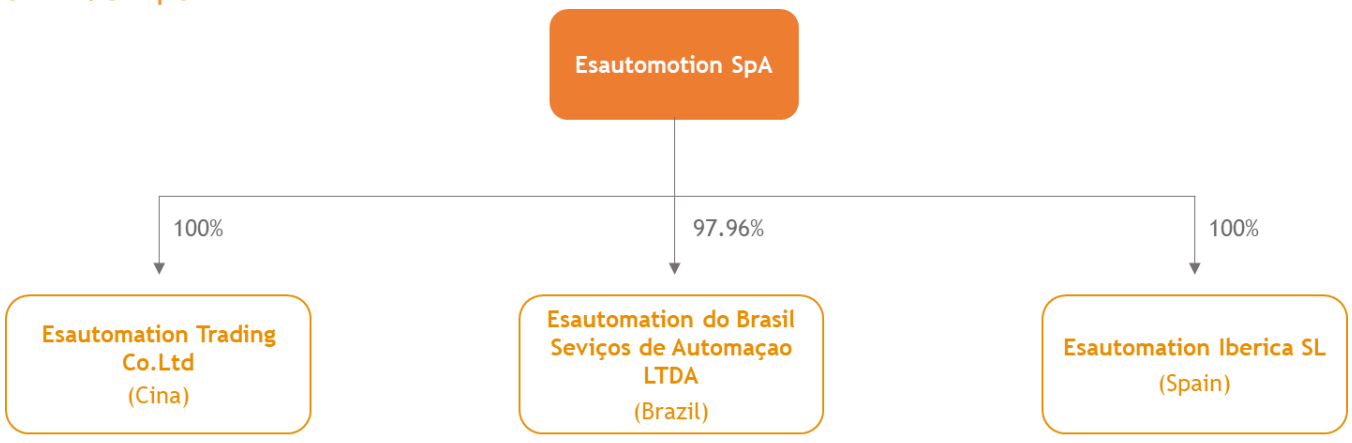
Source: Company data

Esautomotion S.p.A is the holding company of Esautomotion Group and it totally controls:

- **Esautomotion Trading Co. Ltd.** Founded in 2016, it is based in Shanghai and it carries out – mainly in Asia - production and commercial activities in the CNC sector;
- **Esautomotion Iberica SL.** Established in December 2018, it is ESAU's Spanish subsidiary, based in Barcelona, which provides technical and commercial assistance throughout the Iberian peninsula.

Esautomotion S.p.A. also owns 97.96% of **Esautomotion do Brasil Seviços de Automaçao LTDA**, the Group's Brazilian production and commercial branch based in Mococa (São Paulo).

Chart 5: Group Structure



Source: Company data

Management Team

Esautomotion's top management team consists of the founders and managers who, in 2011, were responsible for ESA GV's management buyout.

Franco Fontana (Chairman and Founder)

Franco Fontana is the Chairman and founder of ESAU. He started his career in the machine tools/CNC sector in 2011. He was the CEO of DMTG Europe Srl for 14years, the Italian subsidiary of Dalian Machine Tool Group (the major Chinese manufacturer of machine tools)

Gianni Senzolo (CEO and Founder)

Prior to being appointed CEO of ESAU in 2011, Gianni Senzolo worked for 6 years as General Manager of ESA GV. He boasts 32 years of experience in the CNC sector. He has also covered managerial roles in leading industrial companies like ECS and Aerre.

Andrea Senzolo (Sales Manager and Board Member)

Andrea Senzolo joined ESAU in 2012. Previously, he worked for RedCom (an Italian manufacturer of plasma and laser cutting machines), initially covering the role of Europe Sales Manager; later, he was in charge of the company's global network.

Lorenzo Brandoli (R&D Director)

After gaining a degree in electronic engineering from the University of Bologna, Lorenzo Brandoli started to work for companies operating in the automation and IT sector. He joined ESA GV in 1991 as a researcher, and in 2007 he was appointed R&D Director, maintaining this position even after the buyout.

Board of Directors

The Board of Directors is composed of the Chairman Franco Fontana, the CEO Gianni Senzolo, Andrea Senzolo and 4 other independent directors.

Gian Maurizio Argenziano

Gian Maurizio Argenziano is CEO and founder of Arventia Group. He has held leading positions as CEO and an investor in over 80 companies (e.g. ABN AMRO Capital S.p.A, Heller Financial). Previously, he was the Chairman of the AIFI's Tax & Legal Commission. Registered with the UK's FCA for the CF1 and CF30 controlled functions, he is also a professor at LIUC University.

Claudio Bulgarelli

Having graduated in mechanical engineering, since 1973 Claudio Bulgarelli has been an entrepreneur, president and CEO in several companies active in the mechanical, hydraulics and automatic machines sectors. Currently, he is the Chairman of FIN TEL S.r.l, a board member of Sabaf S.p.A, and one of the main shareholders (through FIN TEL S.r.l) of Interpump, an Italian manufacturer of high-pressure plunger pumps.

Giulio Centemero

Giulio Centemero has been a chartered accountant and statutory auditor since 2009. From 2009 to 2015, he worked as Parliamentary Assistant at the European Parliament. Currently, he is a partner of OCAdvisory and an Italian politician.

Angelo Gervasi

Angelo Gervasi has been a chartered accountant since 1996. He is also an entrepreneur and has covered managerial roles in companies operating in several sectors.

Business Model

With over 50 years of experience, ESAU is active in the B2B high-end CNC market, operating throughout the entire value chain, from R&D activities to technical support, passing through design, development and distribution of CNC solutions.

About 48% of ESAU's workforce is involved in R&D and software development activities, with the aim of continuously updating and innovating its offer to better meet clients' evolving needs.

ESAU designs and develops its solutions, starting from analysis of the market's needs and demand, which is mainly carried out through customer interviews or by participating in international fairs. More often, ESAU proactively develops solutions anticipating customers' needs.

Once the solution has been designed and prototypes have been made in all hardware and software parts, ESAU stars a deep testing process in house and with customers.

Then hardware components (PCs, motors, drivers and other components) are produced through outsourcing, enabling ESAU to:

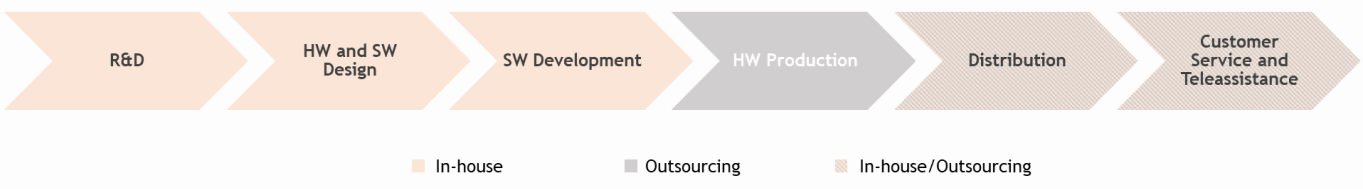
i. save on materials procurement costs and be more competitive even with Chinese manufacturers;

ii. double-check the quality of each hardware component after a first control is carried out by the supplier before the delivery;

iii. delocalize production and to be closer to its clients.

Once the hardware's quality control phase has been completed and CNC hardware is equipped with the CNC software, ESAU distributes its solutions globally through both its commercial subsidiaries and a network of 40 resellers.

Figure 2: CNC Value Chain



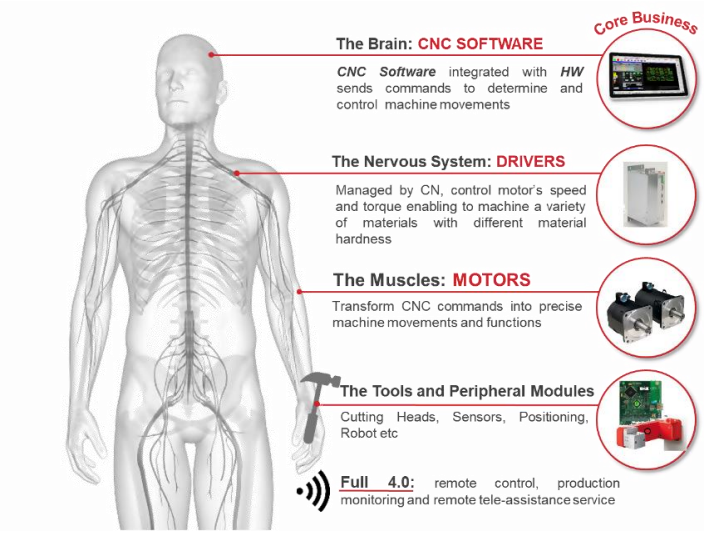
Source: Company presentation

A Full-Package Solution Backed by Lifecycle Support

ESAU provides a completely integrated offer, which includes all the solutions (software and hardware) needed to control and automate CNC machines' motions. In more detail, ESAU provides:

1. **CNC systems (CNC software** and **hardware),** which represent the **brain** of the machine, as they send commands to control machine movements;
2. **drivers** and **motors,** which can be seen as the **nervous systems** and the **muscles,** respectively, of the machine, since they allow different materials to work by transforming commands into precise machine motions;
3. **other tools/accessories -** such as cutting heads, sensors and positioning tools-networking.

Figure 3: A Full-Package Solution



Source: Company presentation

ESAU's package is completed by worldwide on-site and online 24/24 assistance.

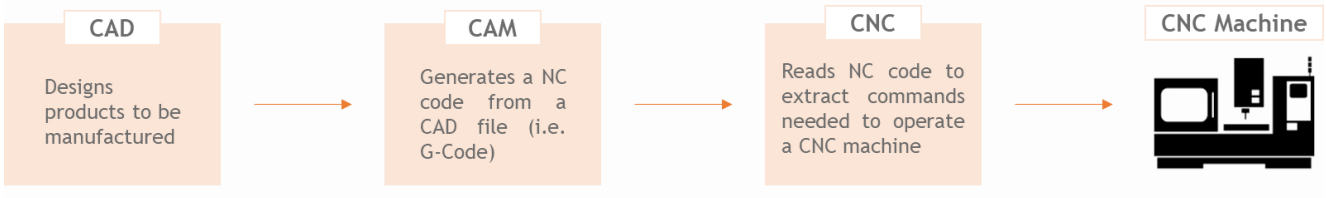
The integrated offer makes ESAU a key partner for industrial machines manufacturers, as they can equip all their different machines with a customized CNC system provided by a single supplier.

CNC Systems

A CNC is a **real-time motion control system** for industrial machinery, which enables processing of materials without human intervention. In more detail, machine movements are determined by executing programmed sequences of commands, such as speed of material feed, speed and depth of cut, and other functions such as turning a spindle, interpolated axis movement or applying heat to a process.

In modern CNC systems, the design of a mechanical part is defined using computer aided design (CAD) software; then it is transformed into manufacturing directives (i.e. G-CODE) by computer-manufacturing (CAM) software. The resulting directives are translated through CNC software into specific commands and then loaded into the CNC machines for processing materials and producing a customized part or product.

Figure 4: How Do CNC Machines Work?



Source: Company presentation

Figure 5: ESA's CNC System

Source: Company presentation

CNC systems represent ESAU's core business - accounting for 52% of total revenue – and they consist of a hardware and a software component.

Looking at the hardware component, ESAU provides 2 types of CNC hardware, which are suitable for all CNC applications. Recently, ESAU has designed new CNC hardware based on ARM technology.

As for the CNC software, this can be further divided into CNC basic software and CNC application software.

The CNC basic software is applicable to all kinds of industrial machines and it consists of the following 4 modules:

- Hardware abstraction layer;
- Firmware program;
- Real-time database. ESAU's database is real-time enriched by experience and know-how acquired during the machining of new materials/thickness;
- Shared memory program.

Figure 6: ESA's CNC Application Software

Source: Company presentation

In addition to the basic software, ESAU provides several CNC application software programs, each one specifically developed for a different type of industrial machine according to the materials to be processed and the activities to be performed by the machine. In more detail, ESAU's CNC application software is mainly addressed to control operations of:

i. bending machines and other metalworking machines like laser, plasma and calender machines;
ii. woodworking machines;
iii. marbleworking machines;
iv. waterjet machines;
v. transfer machines.

It's worth mentioning that all the CNC application software shares the same standard user interface. This allow both machine manufacturers and machine users- which use a customized CNC system for each different type of CNC machine employed to work the same material - to reduce the costs of new staff or training.

Figure 7: ESA's Drivers

Motors, Drivers, Other Tools and Peripheral Modules

ESAU also engages in the distribution of the so-called "small hard CNC systems" like motors, drivers and other tools, which accounted for 48% of FY18 total revenue.

Drivers (CNC machines' nervous system) are high-powered devices which take signals generated from a control system and transmit electricity to a servo motor in order to produce motion. Typically, drivers control the motor's speed, torque or position, enabling it to machine a variety of materials with different material hardness.

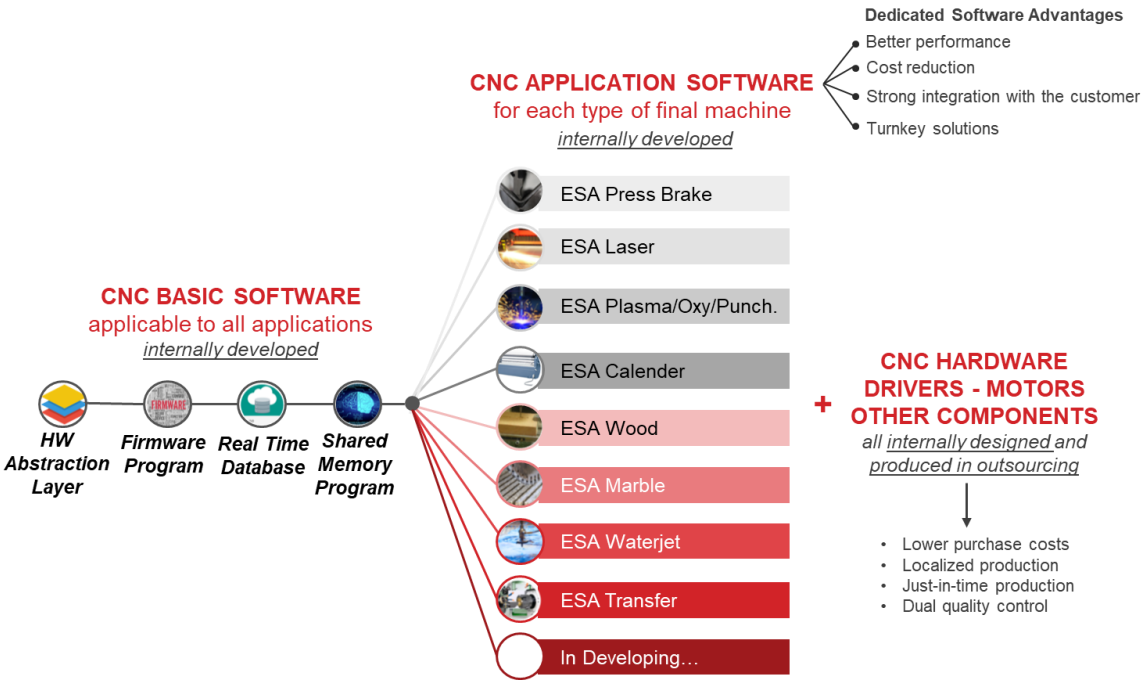
An **encoder** attached to the servo motor reports the motor's actual status back to the servo drivers. The drivers then compare the actual motor status with the commanded motor status. In case of any deviation from the CNC commands, the drivers correct the motor's speed, torque or positioning.
Servo motors (CNC machines' muscles) control, in turn, the overall motion of the workpiece and other tools like cutting heads and robots along multiple axes (from 2 to more than 200 axis for any CNC).

Source: resentation

Figure 8: ESA's Motors

Source: Company presentation

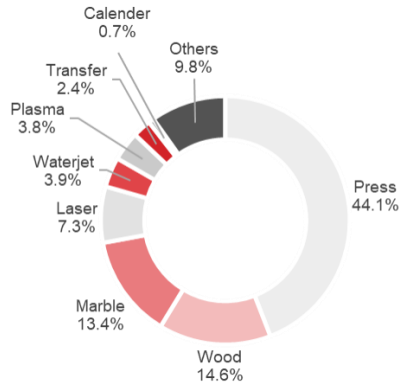
Figure 9: ESAU's Full-Package Offer



Source: Company presentation

By looking at ESAU's solutions according to the machines on which they will be installed, we note that in 2018 solutions dedicated to metalworking machines (press brake, laser, plasma and calender) accounted for the bulk of the Group's total revenues (more than 50%), followed by applications addressing the machining of wood (14.6%) and marble (13.4%).

Chart 6: Revenue by Application



Source: Company presentation

Customer Service and Teleassistance

ESAU is also able to ensure online and 24/7 remote worldwide support and technical assistance, thanks to both its commercial subsidiaries and a network of 40 value added resellers. The global service network is a key strategic lever for ESAU as 80% of machine manufacturers export to the rest of the world and need to assure their customers faster and reliable services.

In detail, ESAU provides assistance throughout the whole cycle from sales support and first installation at the machine manufacturer's premises to worldwide assistance to the final purchaser of CNC machines.

Furthermore, remote assistance and teleassistance services are enabled by the possibility of connecting all products with information systems, sensors and peripherals modules.

Figure 10: ESAU's Lifecycle Support

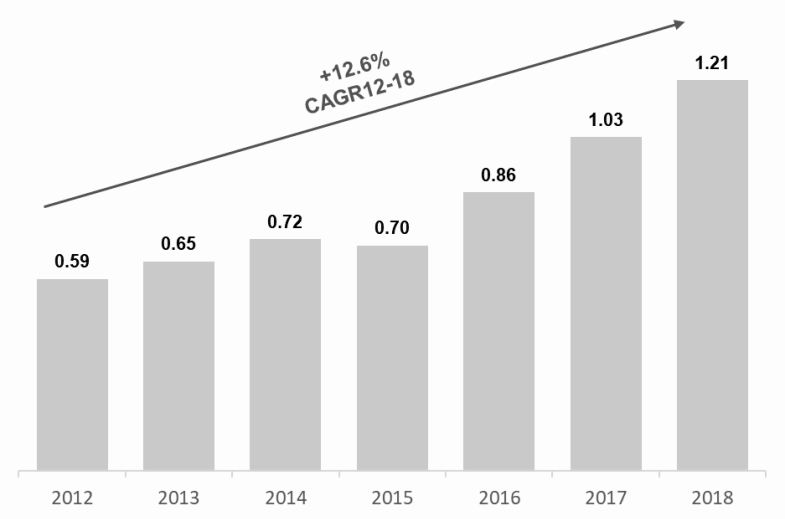
Source: Company presentation

Focus on R&D

Thanks to its R&D team of 26 employees (46% of the workforce), ESAU continuously updates and innovates its solutions in order to follow market trends, remain competitive within the global market and anticipate competitors' moves. The cornerstone for future growth is the ability to hire and retain a highly skilled workforce.

Since 2012, the Group has invested over €5.7mn in R&D (€1.2mn in FY18) creating – often in co-development with its clients - innovative and high-quality solutions at competitive costs.

Chart 7: ESAU's Historical R&D Investment



Source: Company presentation

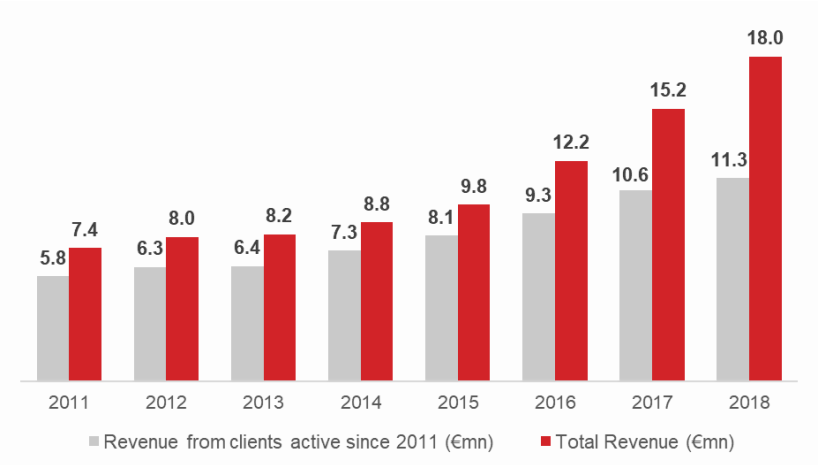
ESAU's R&D activities cover several areas. Below are reported some of the main R&D projects in which ESAU has invested in recent years and/or is continuing to address its resources:

- **green solutions.** The press brake market is increasingly asking for hybrid and electric CNC machines to replace the hydraulic ones, with the aim of saving energy and costs, lower waste and improving machine performance. A traditional press brake is equipped with hydraulic pumps and circuits, which move the main press. It needs strong motors (40kW and more) continuously working and a large quantity of oil (40l and more). ESAU has developed, in collaboration with its clients (Gade, Warcom and other), CNC systems for hybrid and electric press brakes, which allow to reduce the motors' size (from 40kW to 20kW and 18kW for hybrid and electric press, respectively) and oil usage, thus reducing waste, costs and pollution;
- **laser solutions.** The laser market is one of the faster-growing markets in the world, especially in China. In the upcoming years, it will replace metal cutting technologies like plasma, oxy, punching and shears. In order to acquire market share and compete with the laser market leader, ESAU is trying to develop an innovative CNC solution for this application and it has also shifted its production in China.

Customer Portfolio

The Group boasts a loyal basis of more than 280 customers in Italy and abroad. Most of ESAU's turnover is recurrent. Indeed, since the buyout, about 63% of total revenue has been generated by historical and recurrent clients which continuously have bought since at least 5 years.

Chart 8: Customer Loyalty Dynamics



Source: Company presentation

ESAU is a key supplier of both leading and small CNC machine manufacturers for the processing of metal, wood, marble and other residual materials.

By way of an illustration, the U.S. subsidiary of Mitsubishi - which itself produces numerical controls for other applications- equips its press-bending machines with ESAU's CNC systems, emphasizing ESAU's leadership in the deformation industry. Furthermore, SCM – worldwide leading company in the wood sector – is one of ESAU's main long-standing clients (more than 30 years of collaboration) which employs ESAU solutions for almost all its manufacturing machines.

Figure 11: ESA's Main Clients

Source: Company presentation

Customer acquisitions take place mainly thanks to:

- **market references,** as top manufacturers in the world employ ESAU's CNC solutions;
- **international tech fairs,** where current and prospective clients have the possibility to see many high-tech machines equipped with ESAU's solutions;

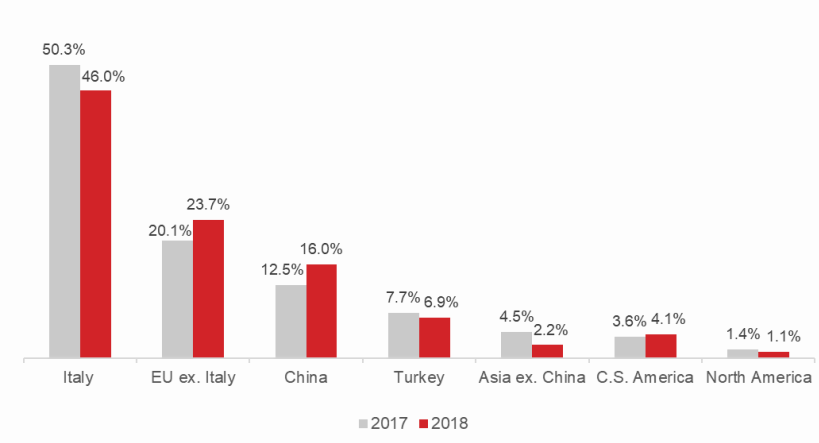
- **periodic visits to prospective clients,** which may be interested in new technology, more support, more competitive solutions.

Furthermore, by offering a full range of products, ESAU is able to lock in its relationship with clients, expanding sales with the same customer to additional applications and device components.

Geographical Presence and Distribution

Since 2011, ESAU has undertaken an internationalization process in 32 countries, which has allowed the company to directly sell abroad more than 50% (ca. 70%-80% when also considering indirect sales) of its products in 2018. Italy represents the main market, growing by 17% YoY to €9.3mn in 2018. However, Italy's incidence[1] (46%) on overall revenues decreased in favor of other European countries (24%) and China (16%). China is one of the fastest growing markets, as domestic manufacturers are increasingly exporting their CNC machines equipped with high-end European CNC systems.

Chart 9: Geographical Breakdown of Revenues



Source: Company data

ESAU aims at further increasing its presence in China by acquiring new clients with high-end solutions and then increasing its share by selling low-end solutions. Furthermore, by delocalizing hardware component production in China (Shanghai), the Group will lower its purchase and production costs, thus improving its profitability.

To expand its exposure in northern Europe, specifically in Germany, ESAU has hired 2 top managers with long-standing experience in the automation sector, since they have worked for over 20 years at PowerAutomation, a leading German company active in the CNC market.

At the end of 2018, ESAU also established a commercial and service subsidiary in Spain in order to further penetrate the Iberian territory and expand its exportation in South, Central and North America.

[1] Italy's turnover also includes revenues of end-customers that export machines equipped with CNC systems.

Market Overview and Positioning

Automation Market

Automation involves the use of a set of technologies and automatic control devices to operate industrial processes/equipment with minimal or reduced human intervention, achieving 4 key goals:[2]

i. **working safety improvement.** Automated devices/equipment can perform tasks which are dangerous or physically demanding for humans;

ii. **costs reduction.** Manufacturing costs can be reduced by replacing increasingly expensive labor costs with ever-cheaper machines;

iii. **higher productivity** and **better quality** (by reducing human errors);

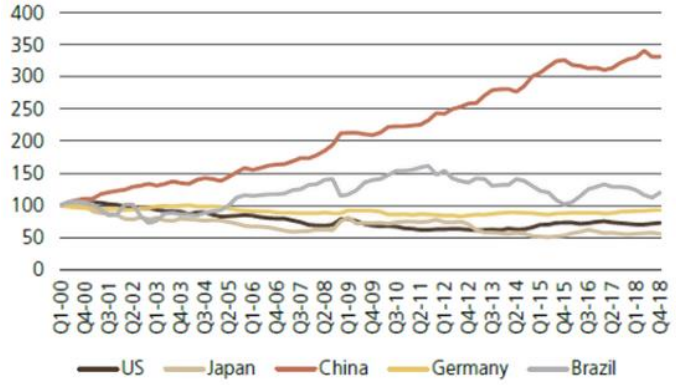
iv. **higher flexibility**. The higher demand for customized products can be met by reprogramming software instead of changing the machines.

Advances in industrial automation are directly linked to – and have, above all, an impact on – the performance of many end-use industries, which need to achieve repeatability of processes while respecting high volume and high-quality requirements. In particular, industries like the automotive, aviation, semiconductor, furniture, metals and materials, oil and gas, packaging and other sectors are increasingly adopting **machine tools and other kinds of automation equipment/devices in their production processes**.

In more detail, manufacturing is one of the most important application areas for automation technology. Manufacturing activities - that were formerly carried out manually - are increasingly entirely automated ("lights out" production concept) thanks to **cheaper**, **more capable** and **more flexible robotics** and **automation systems**. Indeed, the cost of robots, CNC machines, automation software and hardware components (sensors and processors) has fallen over time. At the same time, in emerging countries such as China, rising labor costs, labor shortage and an aging population have made automation a more attractive solution for many businesses. Furthermore, automation solutions have become more sophisticated, enabling performance of more complex operations than in the past.

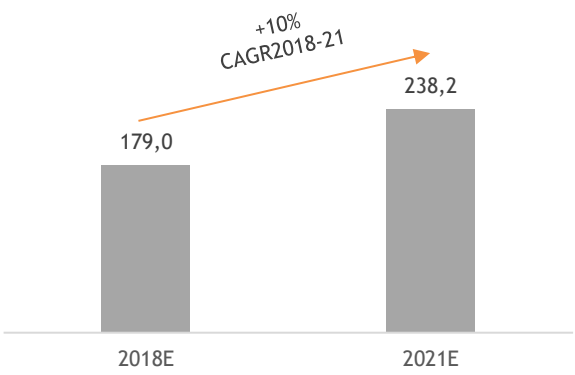
According to UBS's estimates, the global automation market was worth $179.0bn in 2018 and it will reach $238.2bn by 2021, growing at a CAGR of 10%.

Chart 10: Relative Unit Labor Costs (Indexed to 100 in the year 2000)



Source: OECD

Chart 11: Automation Market Outlook



Source: UBS's estimates

[2] McKinsey: "The great re-make: Manufacturing for modern times"

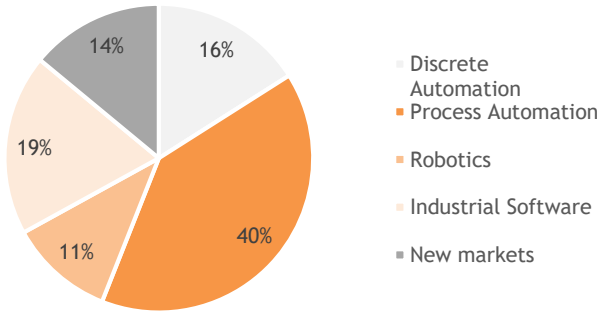
In the coming years, the industrial automation market's growth will be mainly driven by:

1. the **enabling technologies of the Industry 4.0**;
2. the **increasing demand for mass personalization across end users**;
3. the **rising adoption of industrial robots** in the manufacturing sector driven by collaborative robots;
4. **government initiatives** toward the adoption of industrial automation technologies.

The 2018 automation market can be split into the following segments:

- **discrete automation** (16%), which refers to manufacturing operations that transform raw materials into finished goods;
- **process automation** (40%), which refers to manufacturing processes such as assembly, packaging, monitoring and so on;
- **robotics** (11%);
- **industrial software** (19%), which comprises sales of pure-play software;
- 3D printing, AI and drones (14%).

Chart 12: Automation Market Breakdown



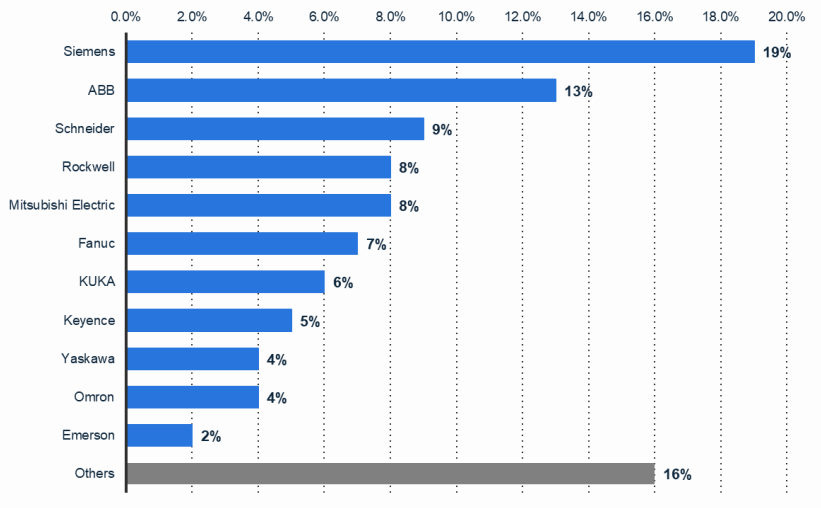
Source: UBS's estimates

Figure 12: Automation Market Breakdown

Source: Siemens's Capital Market Day

The discrete automation segment is highly concentrated. In 2017, the top 5 players held more than 50% of the total market share. Besides, this segment is almost totally controlled by European and Japanese players and a few U.S. companies.

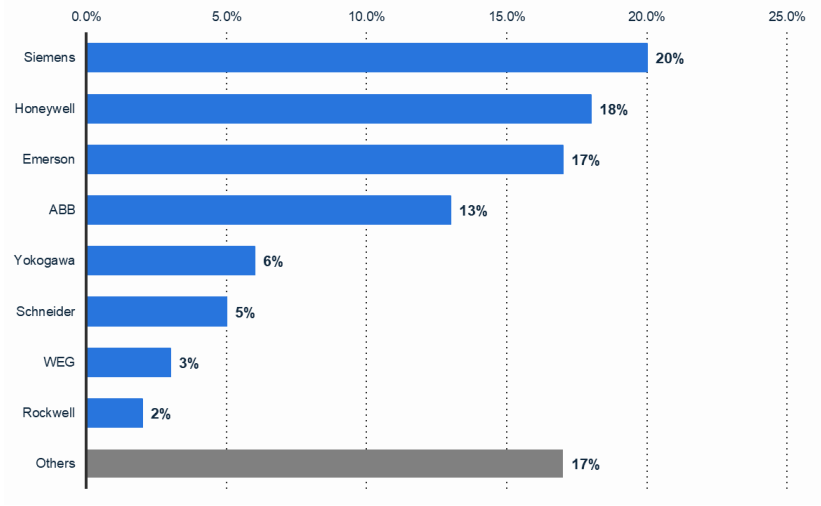
Chart 13: Discrete Automation Market by Manufacturer in 2017



Source: Statista

As for the process automation segment, similarly to the discrete one, the top 6 players controlled over 70% of market value in 2017.

Chart 14: Process Automation Market by Manufacturer in 2017



Source: Statista

Industrial Automation Software

In order to better understand the industrial automation market, it is better to illustrate the major product segments in the industrial automation hierarchy.

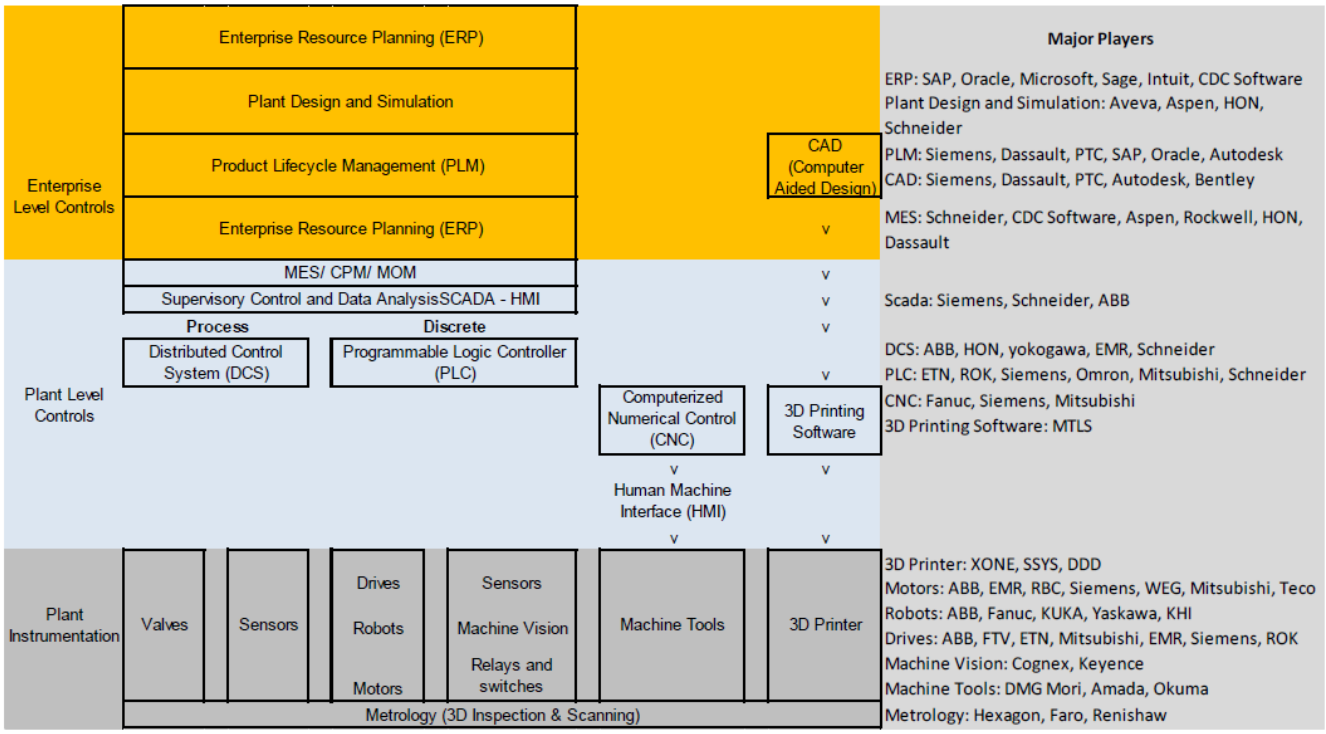
Enterprise level controls are at the top of the hierarchy, consisting of planning and information-sharing technologies functioning as a decision-making support system integrating external and internal data. The main software suites are:

- **ERP (Enterprise Resource Planning) -** started as accounting software and incorporating, over time, finance, manufacturing, sales and service and relationship management data. This segment is dominated by: SAP, ORACLE and Microsoft;
- **PLM (Product Lifecycle Management) -** is a software solution consolidating production information and facilitating and coordinating the manufacture, service and disposal of the resources involved in the production process. This segment is dominated by: Dassault Systems, Siemens, PTC, Autodesk (more known for architecture applications);

Plant level controls is a linking layer between the enterprise systems (ERP and PLM) and the plant-floor machines. At this level, the software solutions are extremely industry-specific. The main software suites are:

- **MES (Manufacturing Execution System)** – is a software system managing the manufacturing operation at a factory level**. Main players in this segment are: Schneider (Invensys), ABB, Siemens, Rockwell, Honeywell, Dassault, SAP, Yokogawa, GE, Aspen Technology;**
- **SCADA (Supervisory Control and Data Acquisition)** – is an industrial control software which coordinates and sends instructions to PLCs, DCSs and CNCs. **Main players in this segment are: Schneider (Invensys), ABB, Siemens, Yokogawa, GE;**
- **DCS (Distributed Control System) -** is a computerized control system for a process or plant usually with a large number of control loops, in which autonomous controllers are distributed throughout the system, but there is central operator supervisory control**. Main players in this segment are: Schneider (Invensys), ABB, Siemens, Emerson, GE;**
- **PLC (Programmable Logic Control) -** is the most widespread device used in industrial automation. The PLC consists of a hardware component - which entails cables and other physical objects – and by a software component which sends instructions for the program to be executed. **Main players in this segment are: Siemens, Rockwell Automation, Mitsubishi, OMRON, Schneider;**
- **CNC (Computer Numerical Control) -** is the evolution of PLC: in addition to all the functions typical of PLCs, the CNC software allows to control all functions and motions of a machine tool by means of a prepared program containing coded alphanumeric data. **Main players in this segment are: Siemens, Mitsubishi Electric, FANUC and ESAU.**

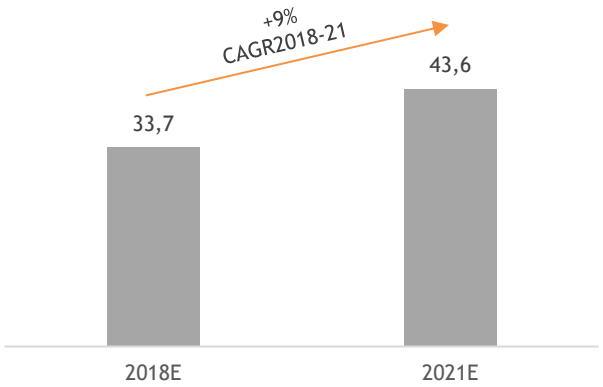
Figure 13: Industrial Automation Hierarchy



Source: Credit Suisse Research

Within the automation market, strong growth opportunities are represented by the industrial software segment, which is expected to witness a CAGR of 9% over the 2018-21 period, amounting to $43.6bn by 2021.[3]

Chart 15: Industrial Automation Software Outlook



Source: UBS's estimates

In 2017, according to Mordor Intelligence's research, 7 out of 11 global leading industrial software companies are European (e.g. Siemens, ABB and Schneider Electric) with a total market share above 50%.

[3] UBS's estimates. Note: Industrial software estimates include only sales from software companies, whereas software sales of industrial companies like Siemens, ABB are incorporated in the discrete/process automation market.

Among industrial automation software, CNC software has increased its market value over the past years thanks to the growing demand for automated manufacturing, which has led to an increasing diffusion of CNC machines.

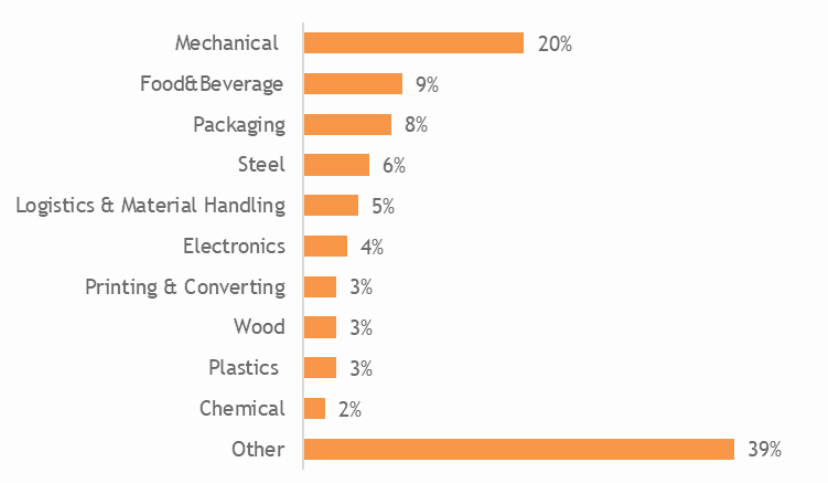
CNC systems are employed for several machining operations as they are able to achieve a high level of accuracy, complexity, speed, productivity, 4.0 integration and greater repeatability. One of the largest segments of the CNC market is metalworking machinery; however, the application of CNC systems has also expanded in other areas such as laser cutting, waterjet, wood/plastics/glass machinery.

Germany, Japan, and the U.S. are among the developed countries specialized in the high-end CNC products, whereas emerging countries play an important role in the manufacturing of the low-end ones. In 2018, China had a CNC rate of machine tools at 29.7% in 2018, far lower than Europe, the U.S., Japan and other developed countries (Japan: over 90%; Germany: above 75%; the U.S.: beyond 80%).[4]

Focus Italy

Since 2013, the Italian industrial automation market has grown at a CAGR of 7%, reaching €5.1bn in 2018. In the second half of 2018, there was a slowdown, more pronounced in the last quarter, due to both national and global uncertainty, which limited growth by a few percentage points (+7.3% vs 11.6% in 2017). The Italian mechanical sector ranks first (share of 20%) among industrial sectors that adopt automation technologies, followed by the food and packaging industries.

Chart 16: Top 10 End-Market of the Italian Automation Industry



Source: ANIE Automazione - "Osservatorio dell'Industria Italiana dell'Automazione"

According to UCIMU's data, during 2018 total orders for machine tools showed a negative change of 0.8%, due to a notable decrease in the domestic market (-11.5% YoY), which offset growth of foreign orders (+5.25 YoY). The negative performance recorded by the domestic market was mainly due to: i) Italian

[4] Source: Research and Market: "Global CNC Machine Tool Markets Report 2019-2025: Focus on the Chinese Industry Featuring 12 Foreign and 20 Chinese Manufacturers".

macroeconomic uncertainty, which led to a decreasing trend in investments in machine tools; and ii) the review of incentive plans ("*super ammortamento*").

Chart 17: Evolution of Orders and Investments in the Italian Machine Tools Industry

Source: ANIE Automazione – "Osservatorio dell'Industria Italiana dell'Automazione"

In the first quarter of 2019, the machine tools industry kept experiencing a negative trend with reference to orders from both domestic and foreign markets, which declined by 9.8%YoY and 8.2%YoY, respectively.

Historical Financials

Over the 2016-18 period, ESAU experienced a significant increase in revenues, which recorded a +20.8% CAGR growth, reaching €18.5mn in 2018.

Overall, operating costs grew at the lower pace of 19.2% CAGR2016-18, allowing ESAU's EBITDA to stand at €5.0mn in FY18, from €3.2mn in FY16 (+25.5% CAGR2016-18).[5] EBITDA margin went from 25.2% in FY16 to 27.2% in FY18, thanks also to efficient management of operational costs and a virtuous operating leverage.

As for the bottom line, net income grew at a CAGR2016-18 of 38%, reaching €3.0mn at the end of 2018 (+21.5%YoY). Bottom line growth is also reflected in net income margin, which went from 12.4% in FY16 to 16.2% in FY18, thanks also to lower tax incidence.

Table 2: Income Statement 2016A-2018A

€ thousand	FY16A	FY17A	FY18A	CAGR 16A-18A
Revenues from sales and services	12,176	15,107	17,941	21.4%
Other Revenues	485	479	535	5.0%
Total Revenues	**12,661**	**15,586**	**18,476**	**20.8%**
Growth %		*23.1%*	*18.5%*	
Products and Raw materials	(6,689)	(7,395)	(9,137)	16.9%
Gross Profit	**5,972**	**8,191**	**9,339**	**25.1%**
Gross Margin	*47.2%*	*52.6%*	*50.5%*	
Cost of Services	(1,202)	(1,854)	(2,285)	37.9%
Personnel Expenses	(1,484)	(1,587)	(1,578)	3.1%
Other Operating Expenses	(93)	(148)	(444)	118.5%
EBITDA	**3,193**	**4,602**	**5,032**	**25.5%**
EBITDA margin	*25.2%*	*29.5%*	*27.2%*	
Growth %		*44.1%*	*9.3%*	
D&A and Provisions	(842)	(1,097)	(1,265)	22.6%
EBIT	**2,351**	**3,505**	**3,767**	**26.6%**
EBIT margin	*18.6%*	*22.5%*	*20.4%*	
Growth %		*49.1%*	*7.5%*	
Financial Income and Expenses	(57)	(41)	(97)	30.5%
EBT	**2,294**	**3,463**	**3,670**	**26.5%**
Taxes	(721)	(997)	(673)	-3.4%
Tax Rate	*31.4%*	*28.8%*	*18.3%*	-23.6%
Net Income	**1,573**	**2,466**	**2,997**	**38.0%**
Net margin	*12.4%*	*15.8%*	*16.2%*	
Growth %		*56.8%*	*21.5%*	

Source: Company data

ESAU capitalizes the R&D expenses that are related to development of proprietary solutions. As a result of this policy, the level of Capex – in large part composed of R&D costs - was equal to €1.08mn in 2017 and €1.8mn during 2018.

[5] FY18 EBITDA would have been better (€5.3mn) if it hadn't been penalized by €0.27mn one-off costs related to the IPO, the start-up in the German/Northern Europe market and the headquarters relocation.

Trade working capital reached €6.3mn in 2018, following the growth of the business and the increased inventory (+€1.99mn YoY) due to the acquisition of raw materials for the hardware components.

At the end of 2018, the company presented a net cash position of €7.6mn thanks to cash raised through the IPO in July 2018. Between 2016 and 2017, the net financial position improved from €0.6mn to €0.0mn in 2017, resulting mostly from a decrease in long-term liabilities.

Table 3: Balance Sheet 2016A-2018A

€ thousand	FY16A	FY17A	FY18A
Goodwill	98	98	98
Intangible	895	1,049	1,210
Tangible	124	144	677
Other LT Assets	0	1	1
Fixed Assets	**1,117**	**1,292**	**1,986**
Trade receivables	5,254	6,242	6,650
Inventory	1,026	1,917	3,898
Trade Payables	(2,461)	(3,162)	(4,291)
Trade Working Capital	**3,819**	**4,997**	**6,257**
Other assets and liabilities	(1,044)	(690)	(414)
Net Working Capital	**2,775**	**4,307**	**5,843**
Other Provisions	**(89)**	**(243)**	**(262)**
Net Capital Employed	**3,803**	**5,356**	**7,567**
Group shareholders' equity	3,124	5,318	15,220
Minority shareholders' equity	2	2	3
Total shareholders' equity	**3,126**	**5,320**	**15,223**
Short-term debt / Cash (-)	(573)	(659)	(7,968)
Long-term liabilities	1,250	695	312
Net Financial Position	**677**	**36**	**(7,656)**
Sources	**3,803**	**5,356**	**7,567**

Source: Company data

1H19 Financial Results

1H19 financial results showed good resilience in ESAU's business in a weakening macroeconomic scenario and despite cooling demand for industrial machines. Indeed, ESAU's 1H19 total revenue grew by 2.5%YoY to €9.7mn, whereas Fanuc - ESAU's main competitor and market leader in the CNC market - also continued to record negative performance in 1Q19 [6](from April to June 2019): Fanuc's 1Q19 revenue dropped by ca. 26%YoY, whereas EBIT and net income were ca. 47% lower with respect to 1Q18.

1H19 EBITDA came in at €2.0mn, down by ca. 20%YoY. Expansion of the product range to include hardware components at competitive prices on the one hand supported revenue growth, but on the other hand had a negative impact on ESAU's marginality, as hardware components show a lower profitability with respect to CNC systems. As a consequence, 1H19 EBITDA margin decreased by 5.8pp to 21.0%.

Looking at the bottom line, 1H19 net income dropped by ca. 38%YoY, whereas net income margin decreased by ca. 7pp compared with 1H18.

Table 4: 1H19 Results

€ thousand	1H17	1H18	1H19	YoY growth
Revenues from sales and service	7,357	9,467	9,567	*1.1%*
Other Revenues	24	14	154	*1000.0%*
Total Revenues	**7,381**	**9,481**	**9,721**	**2.5%**
Growth %		*28.5%*	*2.5%*	
Products and Raw materials	(3,683)	(4,721)	(5,178)	*9.7%*
Gross Profit	**3,698**	**4,760**	**4,543**	**-4.6%**
Gross Margin		*50.2%*	*46.7%*	*-3.5%*
Cost of Services	(790)	(1,351)	(1,405)	*4.0%*
Personnel Expenses	(749)	(822)	(968)	*17.8%*
Other Operating Expenses	(20)	(45)	(124)	*175.6%*
EBITDA	**2,139**	**2,542**	**2,046**	**-19.5%**
EBITDA margin		*26.8%*	*21.0%*	*-5.8%*
Growth %		*18.8%*	*-19.5%*	
D&A and Provisions	(433)	(532)	(671)	*26.1%*
EBIT	**1,706**	**2,010**	**1,375**	**-31.6%**
EBIT margin		*21.2%*	*14.1%*	*-7.1%*
Growth %		*17.8%*	*-31.6%*	
Financial Income and Expenses	(23)	(30)	(8)	*-73.3%*
EBT	**1,683**	**1,980**	**1,367**	**-31.0%**
Taxes	(514)	(322)	(338)	*5.0%*
Tax Rate		*16.3%*	*24.7%*	
Net Income	**1,169**	**1,658**	**1,029**	**-37.9%**
Net margin		*17.5%*	*10.6%*	*-6.9%*
Growth %		*41.8%*	*-37.9%*	

Source: Company data

[6] Fanuc's Fiscal Year ends on 31st March.

Group's Strategy

In order to face a weakening international and domestic macroeconomic environment, ESAU has adopted a counter-cyclical strategy, which is based on the following pillars:

a. Further expansion of the **offer** to include other hardware components in order to fully satisfy customers' needs;
b. **Facing a lower market demand** by increasingly developing high-end CNC solutions. Indeed, when there are downward market expectations, final clients look to replace their old machines with new, more automated ones, which present higher productivity and better performance;
c. **Market share increase** through:
    - **further expansion eastwards (China, Turkey and India)** where: i) there are still good opportunities for growth, even if the low-end machines market will suffer from high competition; and ii) high-end and medium machine manufacturers need high-quality CNC systems to export as well as to be competitive with western producers in the domestic market;
    - **the acquisition of new customers,** leveraging sales of **high-end solutions** with **medium and low-end solutions** which have **lower profitability but higher volumes;**
    - **early stage share acquisition,** as in the mid-term any simple CNC will be replaced with a more profitable one.
d. **Facing a low price environment** by being able to compete on production costs, not only with Chinese players but also with other global competitors;
e. **Penetrate German/Northern Europe and the U.S. markets;**
f. **Acquire self-making CNC manufacturers** - which may not have economy of scale and need to reduce costs - and/or manufacturers of complementary products to CNC to grow faster.

Future Financials

Deconstructing Forecasts

Financial projections over the 2019-22 period take into consideration ESAU's business model, strategy and internalization activity. No impact from future M&A is considered in our forecast.

Starting from the top line, revenues are foreseen to be €27.0mn by the end of the period, growing at a CAGR2018-22 of 9.9%. We expect FY19 revenue to register lower growth (+2.7%) with respect to the latest year, in the light of the weakening global scenario, price competition on hardware components and considering CNC machines' cyclicity. We forecast revenue to resume increasing at a higher pace in the 2020-22 period (+11.3% in 2020, +12.4% in 2021 and +13.5% in 2022).

Revenue growth will be mainly driven by:

- the acquisition of new clients, also thanks to the internalization process;
- upselling and cross-selling potential to its existing clients;
- offer expansion to include hardware components, as they have a strategic connotation for the company in order to maintain and increase its market share.

Table 5: Income Statement 2016A-2022E

€ thousand	FY16A	FY17A	FY18A	FY19E	FY20E	FY21E	FY22E	CAGR 18A-22E
Revenues from sales and services	12,176	15,107	17,941	18,433	20,519	23,062	26,170	9.9%
Other Revenues	485	479	535	550	612	688	780	9.9%
Total Revenues	**12,661**	**15,586**	**18,476**	**18,983**	**21,131**	**23,750**	**26,951**	**9.9%**
Growth %		*23.1%*	*18.5%*	*2.7%*	*11.3%*	*12.4%*	*13.5%*	
Products and Raw materials	(6,689)	(7,395)	(9,137)	(10,249)	(11,244)	(12,408)	(13,818)	10.9%
Gross Profit	**5,972**	**8,191**	**9,339**	**8,734**	**9,886**	**11,343**	**13,133**	**8.9%**
Gross Margin	*47.2%*	*52.6%*	*50.5%*	*46.0%*	*46.8%*	*47.8%*	*48.7%*	
Cost of Services	(1,202)	(1,854)	(2,285)	(2,396)	(2,565)	(2,767)	(3,010)	7.1%
Personnel Expenses	(1,484)	(1,587)	(1,578)	(1,843)	(1,949)	(2,076)	(2,224)	9.0%
Other Operating Expenses	(93)	(148)	(444)	(456)	(508)	(571)	(648)	9.9%
EBITDA	**3,193**	**4,602**	**5,032**	**4,038**	**4,864**	**5,929**	**7,251**	**9.6%**
EBITDA margin	*25.2%*	*29.5%*	*27.2%*	*21.3%*	*23.0%*	*25.0%*	*26.9%*	
Growth %		*44.1%*	*9.3%*	*-19.8%*	*20.5%*	*21.9%*	*22.3%*	
D&A and Provisions	(842)	(1,097)	(1,265)	(1,436)	(1,689)	(1,792)	(1,821)	9.5%
EBIT	**2,351**	**3,505**	**3,767**	**2,602**	**3,175**	**4,136**	**5,430**	**9.6%**
EBIT margin	*18.6%*	*22.5%*	*20.4%*	*13.7%*	*15.0%*	*17.4%*	*20.1%*	
Growth %		*49.1%*	*7.5%*	*-30.9%*	*22.0%*	*30.3%*	*31.3%*	
Financial Income and Expenses	(57)	(41)	(97)	(25)	(25)	(25)	(25)	-28.8%
EBT	**2,294**	**3,463**	**3,670**	**2,577**	**3,150**	**4,111**	**5,405**	**10.2%**
Taxes	(721)	(997)	(673)	(123)	(448)	(624)	(991)	10.2%
Tax Rate	*31.4%*	*28.8%*	*18.3%*	*4.8%*	*14.2%*	*15.2%*	*18.3%*	0.0%
Net Income	**1,573**	**2,466**	**2,997**	**2,455**	**2,702**	**3,487**	**4,414**	**10.2%**
Net margin	*12.4%*	*15.8%*	*16.2%*	*12.9%*	*12.8%*	*14.7%*	*16.4%*	
Growth %		*56.8%*	*21.5%*	*-18.1%*	*10.1%*	*29.0%*	*26.6%*	

Source: Company data and KT&Partners' elaborations

The change in the product mix will entail an increase in production and raw materials costs' incidence, which will negatively impact FY19 gross margin by

4.5pp. Starting from 2020, we expect that cost savings coming from the production of hardware components in China will gradually decrease the incidence of costs of products and raw materials (from 53.2% in FY20 to 51.3% in FY22). This is expected to result in a ca. 100bps annual positive contribution on gross margin until 2022.

EBITDA is forecasted to growth at a +9.6% CAGR2018-22, reaching €7.3mn in 2022. EBITDA margin is expected to decrease by ca. 6pp in 2019 to 21.3%. Then it is expected to resume growth, reaching 26.9% in 2022.

Looking at the bottom line, we expect net income to grow at +10.2% CAGR2018-22, amounting to €4.4mn by the end of 2022 (net margin is projected to be in the region of 13%/16.5%). It will be also positively affected by:

- tax credit related to the IPO;
- patent box scheme for a total positive contribution over the 2019-21 period.

Over the forecasted period, Capex - mainly related to R&D investments - is expected to be ca. €2mn on an annual basis.

Table 6: Balance Sheet 2016A-2022E

€ thousand	FY16A	FY17A	FY18A	FY19E	FY20E	FY21E	FY22E
Goodwill	98	98	98	98	98	98	98
Intangible	895	1,049	1,210	1,383	1,575	1,908	2,345
Tangible	124	144	677	1,626	1,820	1,753	1,642
Other LT Assets	0	1	1	1	1	1	1
Fixed Assets	**1,117**	**1,292**	**1,986**	**3,108**	**3,494**	**3,760**	**4,086**
Trade receivables	5,254	6,242	6,650	6,759	7,524	8,456	9,596
Inventory	1,026	1,917	3,898	4,413	4,685	4,825	4,990
Trade Payables	(2,461)	(3,162)	(4,291)	(4,491)	(4,885)	(5,348)	(5,906)
Trade Working Capital	**3,819**	**4,997**	**6,257**	**6,680**	**7,324**	**7,934**	**8,680**
Other assets and liabilities	(1,044)	(690)	(414)	(410)	(410)	(410)	(410)
Net Working Capital	**2,775**	**4,307**	**5,843**	**6,270**	**6,914**	**7,524**	**8,270**
Other Provisions	**(89)**	**(243)**	**(262)**	**(495)**	**(735)**	**(985)**	**(1,245)**
Net Capital Employed	**3,803**	**5,356**	**7,567**	**8,883**	**9,672**	**10,299**	**11,110**
Group shareholders' equity	3,124	5,318	15,220	17,075	19,277	22,264	25,978
Minority shareholders' equity	2	2	3	0	0	0	0
Total shareholders' equity	**3,126**	**5,320**	**15,223**	**17,075**	**19,277**	**22,264**	**25,978**
Short-term debt / Cash (-)	(573)	(659)	(7,968)	(8,996)	(10,270)	(12,491)	(15,253)
Long-term liabilities	1,250	695	312	805	665	525	385
Net Financial Position	**677**	**36**	**(7,656)**	**(8,191)**	**(9,605)**	**(11,966)**	**(14,868)**
Sources	**3,803**	**5,356**	**7,567**	**8,883**	**9,672**	**10,299**	**11,110**

Source: Company data and KT&Partners' elaborations

The product mix change will lead to an increase in 2019-22 inventory which - along with the increase in distribution - will result in net working capital growth.

Changes in shareholders' equity will be due to registration of the periodic result and the dividend payout. Indeed, for the 2019-22 period, we assume a 20% payout, lower than the ratio observed during the last fiscal year.

We expect that ESAU will continue to generate positive cash flow over the period and net cash will increase over time from €7.7mn in 2018 to ca. €14.9mn by the end of 2022.

Table 7: Cash Flow 2019E-2022E

€ thousand	FY19E	FY20E	FY21E	FY22E
EBITDA	**4,038**	**4,864**	**5,929**	**7,251**
Income Taxes	(123)	(448)	(624)	(991)
Change in NWC	(427)	(644)	(610)	(746)
Change in provision	137	144	154	165
Operating Cash Flow	**3,625**	**3,918**	**4,848**	**5,679**
CAPEX	(1,829)	(1,979)	(1,963)	(2,052)
Investments in financial assets	-	-	-	-
FCFO	**1,796**	**1,938**	**2,886**	**3,627**

Source: Company data and KT&Partners' elaborations

Valuation

Following the projections of ESAU's future financials, we carried out the valuations of the company by applying:

i. **the market multiples analysis, obtaining a fair value of €4.3ps;**
ii. **the DCF model,** deriving a price of **€4.2ps.**

By averaging the target prices arising from the 2 methods, we obtain a €4.21ps fair value (+47.4% upside).

Peer Comparison

In order to define Esautomotion's peer sample, we carried out an in-depth analysis of listed companies active in the industrial automation industry that provide software and hardware solutions. Over the recent period, there has been a strong convergence between mainly hardware companies and mainly software companies. This convergence was pursued through acquisitions and partnership:

- Since 2007, **Siemens** has invested more than €10bn in order to expand its offer into software solutions for industrial automation, building its leadership position;
- In April 2017, **ABB** acquired Austrian B&R, expanding its offering into software-based solutions for factoring automation;
- In January 2014, **Schneider** acquired **Invensys -** a global automation player with a large installation base and a strong software presence - **for a total consideration of €5bn;**
- In June 2018, **Rockell Automation acquired an 8.4% stake in PTC for $1bn** - becoming its third-biggest shareholder – with the aim of leveraging on PTC software capabilities (CAD and life management software) to make smarter manufacturing processes for customers;
- **ABB and Dassault Systemes** entered a global software partnership for digital industries, offering an end-to-end solution to customers with a focus on factory automation and robotics, process industry automation, as well as electrification solutions for smart buildings.

Consequently, we built a sample of 16 companies, which include:

- **Fanuc Corporation**: listed on the Tokyo stock exchange, with a market capitalization of €33.4bn. Fanuc Corp engages in the development, manufacture, sale and maintenance of computer numerical control (CNC) systems, lasers, robot systems, robomachines, roboshot, robocut and nano robots. It operates through the following divisions: Factory Automation (FA), Robot, and Robomachine. In 2018, the company revenues reached €4.9bn.

- **Aspen Technology, Inc**: listed on NASDAQ, with a market capitalization of €7.6bn. Aspen Inc. provides asset optimization solutions. It develops its applications to design and optimize processes across the engineering, manufacturing and supply chain. It operates through the subscription, software and services segments. In 2018, the company revenues reached €0.4bn.

- **Autodesk, Inc.**: listed on NASDAQ, with a market capitalization of €29.4bn. Autodesk Inc. engages in the design of software and services. It also offers development and manufacturing software, which provides

manufacturers in different industries with comprehensive digital design, engineering, and production solutions. In 2018, the company revenues reached €2.1bn.

- **AVEVA Group plc**: listed on the London stock exchange, with a market capitalization of €6.7bn. AVEVA Group Plc engages in provision of engineering and industrial software. It operates through the following geographical segments: Asia Pacific, EMEA, and Americas. In 2018, the company revenues reached €0.8bn.

- **Dassault Systemes SA**: listed on the Paris Euronext, with a market capitalization of €34.6bn. Dassault Systemes provides software solutions and consulting services. It offers end-to-end software applications which cover a wide range of industry segments. In 2018, the company revenues reached €3.4bn.

- **PTC Inc.**: listed on the NASDAQ, with a market capitalization of €6.9bn. PTC engages in the development and provision of software-based product management and development solutions. It operates through the Software Products and Professional Services segments. In 2018, the company revenues reached €1bn.

- **Renishaw plc.**: listed on the London stock exchange, with a market capitalization of €2.9bn. Renishaw engages in the design, manufacture, and marketing of metrology and healthcare products. In 2018, the company revenues reached €0.6bn.

- **Siemens AG**: listed on the Xetra stock exchange, with a market capitalization of €81.0bn. Siemens engages in the production and supply of systems for power generation, power transmission, and medical diagnosis. It operates through the following segments: Power and Gas; Wind Power and Renewables; Energy Management; Building Technologies; Mobility; **Digital Factory**; Process Industries and Drives; Healthcare; and Financial Services. In 2018, the company revenues reached €83bn.

- **ABB Ltd**: listed on the Swiss stock exchange, with a market capitalization of €35.9bn. ABB engages in the development and provision of power and automation technologies. It operates through the following business segments: Electrification Products; Robotics and Motion; Industrial Automation; Power Grids; and Corporate and Other. In 2018, the company revenues reached €23bn.

- **Rockwell Automation, Inc.**: listed on the NYSE, with a market capitalization of €16.9bn. Rockwell Automation, Inc. engages in the provision of industrial automation and information services. It operates through the Architecture and Software, and Control Products and Solutions segment. The Architecture and Software segment contains hardware, software, and communication components of its integrated control and information architecture. In 2018, the company revenues reached €5.6bn.

- **OMRON Corporation**: listed on the Tokyo stock exchange, with a market capitalization of €10.6bn. OMRON Corp. engages in the manufacture and sale of automation components, equipment, and systems. It operates through the following segments: Industrial

Automation; Electronic and Mechanical Components; Automotive Electronic Components; Social Systems, Solutions, and Services; Healthcare; and Others. The industrial automation segment manufactures and sells control components and equipment for factory automation and production machinery. In 2018, the company revenues reached €6.6bn.

- **Schneider Electric SE**: listed on the Euronext Paris, with a market capitalization of €44.7bn. Schneider Electric SE engages in the digital transformation of energy management and automation. It operates through the Energy Management and Automation segments. The Automation segment comprises industrial automation, control, and sensor technologies. In 2018, the company revenues reached €25.7bn.

- **Estun:** listed on the Shezen Stock Exchange, it is one of the major players in the domestic market for servo systems and CNC systems for metal-forming machine tools. It started its CNC system business by being an OEM for Delem (a CNC system brand from the Netherlands) and later established its own brand. Its major CNC system competitors in China are Fanuc, Siemens, ESAU, Cybelec, Nanjing Zerong, and Yangzhou Daqi, among others. According to Gongkong, its servomanufacturing plant started production in 2008, allowing it not only to substantially lower its servo costs for CNC systems, but also to expand its servo product categories. Gongkong estimates that it was ranked number 2 in market share among domestic servo system players in 2013.

- **Hurco Companies, Inc.**: listed on the NASDAQ, with a market capitalization of €0.2bn. Hurco Inc. is an industrial technology company, which engages in the design, manufacture and sale of computerized machine tools. It also offers machine tool components, software options, control upgrades, accessories and replacement parts for its products, as well as customer service and training and applications support. In 2018, the company revenues reached €0.2bn.

- **Hexagon:** quoted on the Stockholm stock exchange, with a market capitalization of €15.1bn. Hexagon AB provides information technologies solutions that drive productivity and quality across geospatial and industrial enterprise applications. The company operates through the following business segments: Geospatial Enterprise Solutions and Industrial Enterprise Solutions. In 2018, the company revenues reached €3bn.

- **Ige+Xao SA:** quoted on the Euronext Paris, with a market capitalization of €0.2bn. Ige+Xao SA engages in design, production, sales and support for Computer Aided Design (CAD) and Product Lifecycle Management (PLM) software. In 2018, the company revenues reached €0.02bn.

In order to better understand our peer sample, we analyze for each company the incidence on revenues, within the industrial automation business unit, of the Software & Service and Hardware segments. Nine companies in the sample are pure software companies, while for the remaining 7 companies the software contribution ranges from 15%, as in the case of Siemens, to 46%, as in the case of OMRON Corporation.

Table 8: Comparables' Revenue Breakdown

Company Name	Industrial Software&Services	Hardware	Other Business
ABB Ltd.	27%	32%	41%
Aspen Technology, Inc.	100%	0%	0%
Autodesk, Inc.	100%	0%	0%
AVEVA Group plc	100%		0%
Dassault Systemes SA	100%		0%
Estun Automation Co. Ltd.	50%		50%
Hexagon	100%		0%
Fanuc Corporation	43%	58%	0%
Hurco	4%		96%
Ige + Xao	100%		0%
OMRON Corporation	46%	27%	27%
PTC Inc.	100%		0%
Renishaw plc	100%		0%
Rockwell Automation, Inc.	100%		0%
Schneider Electric SE	24%		76%
Siemens AG	15%		85%

Source: Company Data, FactSet, KT&Partners' elaborations

In our sample, companies with a higher contribution from the software business are characterized by a higher marginality and higher revenues growth, with 3 main exceptions:

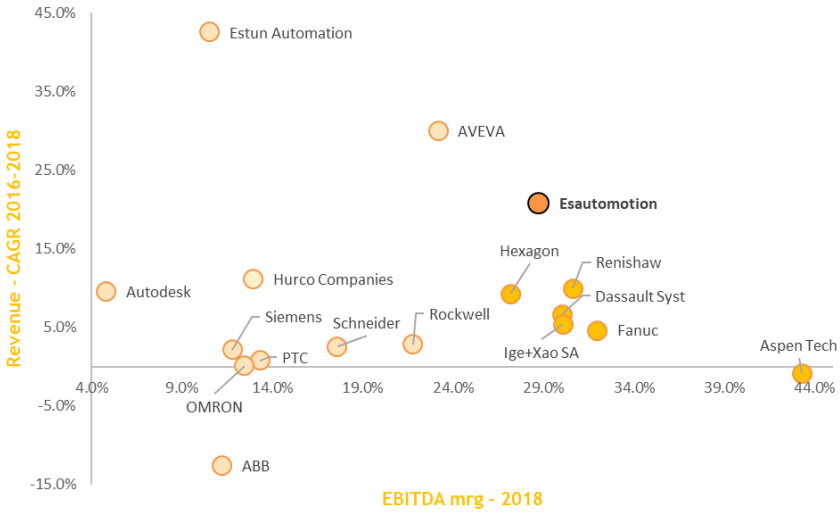
1) Autodesk - which reached break-even in terms of EBITDA in 2019, with an EBITDA margin of around 5% (reporting period January 2019) - is expected to reach an EBITDA margin of around 29% in FY20;

2) Fanuc which, even if it presents an exposure to software and service segment of less than 50%, has a very profitable business with a 32% EBITDA margin;

3) Siemens which, thanks to its digital industry division (€16bn of revenues and 18-19% adjusted EBITDA margin in 2018), is the leader in the industrial software segment, but this business unit accounted only for 20% of Siemens' FY18 total revenues.

By also comparing peers' historical growth and profitability with ESAU, we note that ESAU's marginality is more in line with companies with a higher incidence of the software component (i.e. Renishaw, Hexagon, Ige+Xao, Dassault, Rockwell and Fanuc), while showing a higher revenue growth profile.

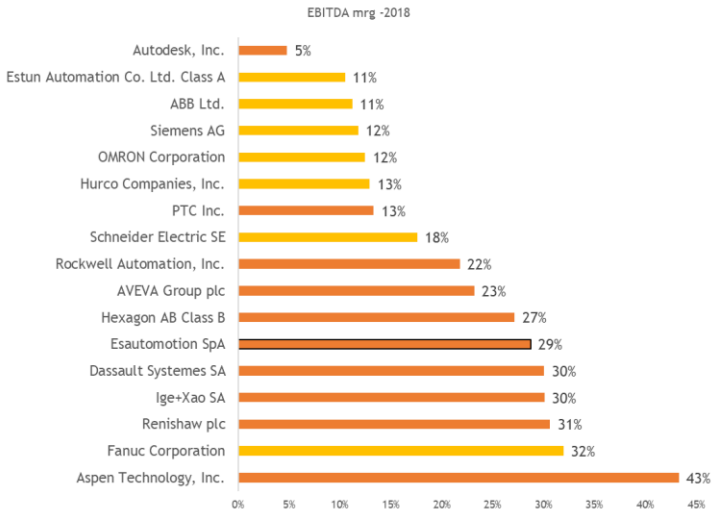
Chart 18: Comparables Analysis by Revenue and EBITDA margin



Source: FactSet, KT&Partners' elaborations

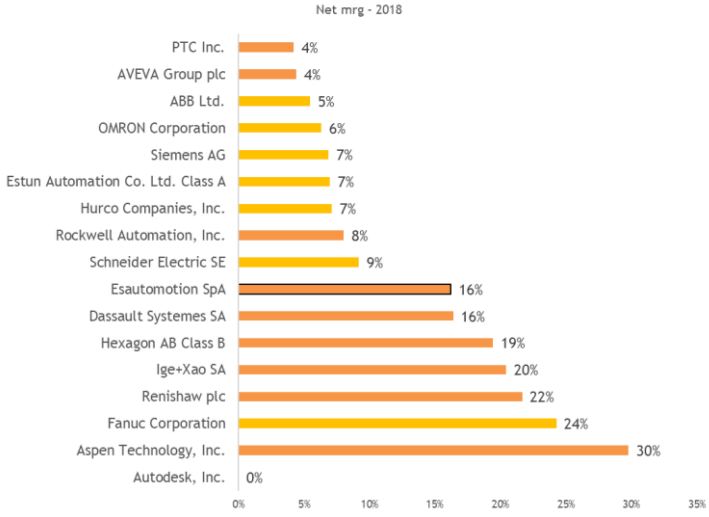
Further details on the peer sample's marginality are reported in the graphs below.

Chart 19: Comps EBITDA Margin



Source: FactSet, KT&Partners' elaborations

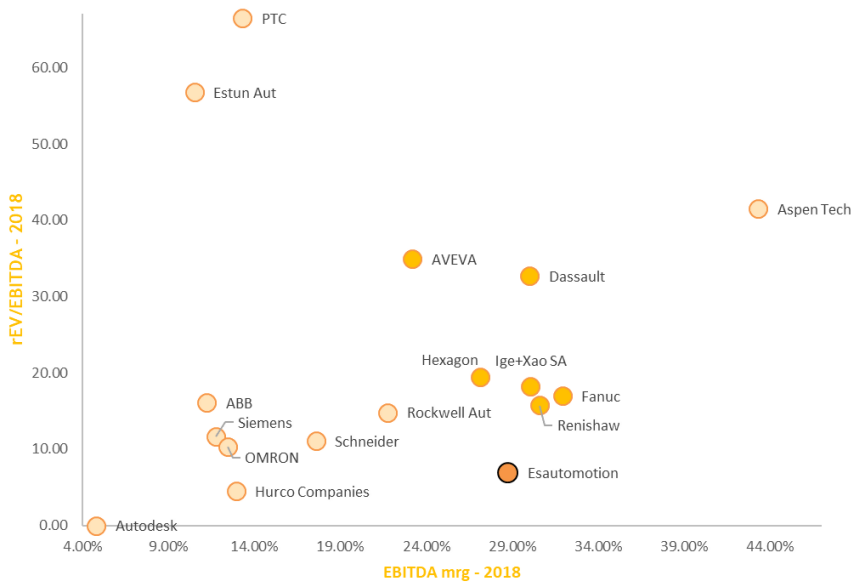
Chart 20: Comps Net Margin



Source: FactSet, KT&Partners' elaborations

To deeply investigate the comparables group, we decided to analyze the EV/EBITDA and the EBITDA margin. The graph below shows that higher marginality corresponds with higher EV/EBITDA. However, despite high profitability, ESAU looks to be undervalued with respect to peers that present a similar EBITDA margin.

Chart 21: Comparables Analysis by EV/EBITDA and EBITDA Margin



Source: FactSet, KT&Partners' elaborations

In the table below, we report 2018, 2019 and 2020 market multiples of the whole sample separated into pure software companies and hardware/software automation players, with the latter showing lower average/median multiples.

Table 9: Industrial Automation Pure Software and HW/SW Companies

	Company Name	Exchange	Market Cap	EV/SALES 2018	EV/SALES 2019	EV/SALES 2020	EV/EBITDA 2018	EV/EBITDA 2019	EV/EBITDA 2020	EV/EBIT 2018	EV/EBIT 2019	EV/EBIT 2020	P/E 2018	P/E 2019	P/E 2020
Pure Software Companies	Dassault Systemes SA	Euronext Paris	34,601	9.2x	8.1x	7.2x	30.7x	22.5x	19.9x	39.7x	24.8x	22.1x	n.m	37.3x	33.2x
	Renishaw plc	London	2,931	4.3x	4.2x	3.9x	18.4x	16.2x	14.2x	26.0x	21.9x	18.8x	28.0x	26.3x	22.7x
	Hexagon AB Class B	OMXStockholm	15,105	4.6x	4.4x	4.2x	17.0x	13.4x	12.4x	19.1x	18.0x	16.4x	20.7x	20.7x	18.2x
	Rockwell Automation, Inc.	NYSE	16,984	3.2x	3.0x	3.0x	14.9x	13.3x	13.3x	16.8x	15.0x	14.9x	37.8x	20.4x	18.9x
	Aspen Technology, Inc.	NASDAQ	7,576	14.7x	14.0x	12.8x	30.2x	27.9x	24.7x	31.1x	28.3x	25.3x	32.9x	32.1x	28.8x
	AVEVA Group plc	London	6,724	7.6x	7.2x	6.8x	32.6x	26.1x	23.2x	n.m	27.5x	25.8x	n.m	35.3x	31.1x
	PTC Inc.	NASDAQ	6,887	6.9x	6.1x	5.4x	n.m	22.4x	17.4x	n.m	27.0x	20.9x	n.m	36.5x	26.9x
	Autodesk, Inc.	NASDAQ	29,378	13.7x	10.2x	8.4x	n.m	n.m	24.2x	n.m	n.m	26.6x	n.m	n.m	32.4x
	Ige+Xao SA	Euronext Paris	211.31	6.48	5.97	5.73	21.54	18.57	17.76	22.64	19.65	18.74	33.10	27.09	25.16
Hardware/Software Automation Companies	ABB Ltd.	SIX Swiss	35,855	1.8x	1.6x	1.6x	15.9x	13.5x	11.0x	22.6x	23.2x	15.0x	27.9x	26.9x	18.2x
	Siemens AG	XETRA	81,005	1.3x	1.3x	1.2x	11.0x	10.6x	9.9x	16.9x	15.8x	13.9x	14.3x	16.3x	15.0x
	Schneider Electric SE	Euronext Paris	44,731	1.9x	1.8x	1.8x	11.1x	10.6x	9.9x	13.6x	12.9x	11.9x	19.0x	17.7x	15.6x
	Hurco Companies, Inc.	NASDAQ	198	0.5x	n.a.	n.a.	4.2x	n.m	n.m	4.7x	n.m	n.m	11.0x	n.m	n.m
	Fanuc Corporation	Tokyo	33,364	5.5x	5.8x	5.2x	17.2x	21.2x	17.1x	21.3x	31.4x	23.6x	27.8x	43.8x	33.9x
	OMRON Corporation	Tokyo	10,629	1.4x	1.6x	1.5x	11.6x	13.1x	11.1x	16.2x	20.3x	16.6x	25.1x	29.5x	25.0x
	Estun Automation Co. Ltd. Class A	Shenzhen	964	5.8x	5.0x	3.9x	n.m	n.m	27.1x	n.m	n.m	n.m	n.m	n.m	43.9x
	Average peer group		20,447	5.6x	5.3x	4.8x	18.2x	17.7x	16.9x	20.9x	22.0x	19.3x	25.2x	28.4x	25.9x
	Median peer group		12,867	5.0x	5.0x	4.2x	17.0x	16.2x	17.1x	20.2x	21.9x	18.8x	27.8x	27.1x	25.2x
	Esautomotion SpA	Milan	37	1.6x	1.6x	1.4x	5.9x	7.4x	6.1x	7.9x	11.5x	9.4x	12.5x	15.3x	13.9x

Source: FactSet, KT&Partners' elaborations

Market Multiple Valuation

Following our previous analysis based on business segment, marginality and growth, we decided to further narrow our sample by including only those companies that we considered to be more in line with ESAU's profile.

Table 10: Peers Comparison – Market Multiples 2018-20

Company Name	Exchange	Market Cap	EV/SALES 2018	EV/SALES 2019	EV/SALES 2020	EV/EBITDA 2018	EV/EBITDA 2019	EV/EBITDA 2020	EV/EBIT 2018	EV/EBIT 2019	EV/EBIT 2020	P/E 2018	P/E 2019	P/E 2020
Fanuc Corporation	Tokyo	33,364	5.5x	5.8x	5.2x	17.2x	21.2x	17.1x	21.3x	31.4x	23.6x	27.8x	43.8x	33.9x
Renishaw plc	London	2,931	4.3x	4.2x	3.9x	18.4x	16.2x	14.2x	26.0x	21.9x	18.8x	28.0x	26.3x	22.7x
Dassault Systemes SA	Euronext Paris	34,601	9.2x	8.1x	7.2x	30.7x	22.5x	19.9x	39.7x	24.8x	22.1x	n.m	37.3x	33.2x
Hexagon AB Class B	OMXStockholm	15,105	4.6x	4.4x	4.2x	17.0x	13.4x	12.4x	19.1x	18.0x	16.4x	20.7x	20.7x	18.2x
Rockwell Automation, Inc.	NYSE	16,984	3.2x	3.0x	3.0x	14.9x	13.3x	13.3x	16.8x	15.0x	14.9x	37.8x	20.4x	18.9x
Ige+Xao SA	Euronext Paris	211	6.5x	6.0x	5.7x	21.5x	18.6x	17.8x	22.6x	19.7x	18.7x	33.1x	27.1x	25.2x
Average peer group		17,199	5.6x	5.2x	4.9x	19.9x	17.5x	15.8x	24.3x	21.8x	19.1x	29.5x	29.3x	25.3x
Median peer group		16,044	5.0x	5.1x	4.7x	17.8x	17.4x	15.6x	22.0x	20.8x	18.8x	28.0x	26.7x	23.9x
Esautomotion SpA	Milan	37	1.6x	1.6x	1.4x	5.9x	7.4x	6.1x	7.9x	11.5x	9.4x	12.5x	15.3x	13.9x

Source: FactSet, KT&Partners' elaborations

We based our evaluation upon 2019 and 2020 median EV/EBITDA and P/E multiples and our estimates of ESAU's EBITDA and net income for 2019 and 2020. Additionally, we applied a 25% size/liquidity discount in order to factor in differences from the peer sample.

Table 11: Multiple Valuation

Multiple Valuation (€mn)	2019E	2020E
EV/EBITDA Comps	17.4x	15.6x
ESA EBITDA	4.0	4.9
Enterprise value	**70.2**	**76.0**
ESA FY18E Net Debt	-7.7	-7.7
Equity Value	**77.9**	**83.7**
Average Equity Value	**80.8**	
Liquidity Discount	*25%*	
Equity Value Post-Discount	**60.6**	
Number of shares (thousand)	**13,103**	
Value per Share €	**4.6**	

Multiple Valuation (€mn)	2019E	2020E
P/E Comps	26.7x	23.9x
ESA Net Income	2.5	2.7
Equity Value	**65.6**	**64.6**
Average Equity Value	**65.1**	
Liquidity Discount	*25%*	
Equity Value Post-Discount	**48.8**	
Number of shares (thousand)	**13,103**	
Value per Share €	**3.7**	
Fair Value (Avg.)	**4.2**	

Source: FactSet, KT&Partners' elaborations

DCF Model

We also conducted our valuation using a 4-year DCF model, based on 10.1% cost of equity, 3.0% cost of debt and a target capital structure with 27% of debt, in

line with the average D/E ratios observed for listed companies operating in similar sectors.[7] **We, therefore, obtained 8.5% WACC.**[8]

By discounting 2019E-2021E annual cash flows and considering a terminal growth rate of 1.5%, **we derive a fair value of €4.3ps.**

Table 12: DCF Valuation

€ million	2019E	2020E	2021E	2022E
EBIT	**2,602**	**3,175**	**4,136**	**5,430**
Taxes	(477)	(582)	(758)	(996)
D&A	1,340	1,593	1,696	1,725
Change in Net Working Capital	(427)	(644)	(610)	(746)
Change in Funds	233	240	250	261
Net Operating Cash Flow	**3,270**	**3,783**	**4,714**	**5,674**
Capex	(1,829)	(1,979)	(1,963)	(2,052)
FCFO	**1,442**	**1,804**	**2,751**	**3,622**
g	***1.5%***			
Wacc	***8.5%***			
FCFO (discounted)	1,414	1,631	2,293	2,784
Discounted Cumulated FCFO	8,122			
TV	52,712			
TV (discounted)	40,504			
Enterprise Value	**48,626**			
NFP FY2018A	(7,656)			
Equity Value	**56,282**			
Current number of shares (k)	**13,103**			
Value per share (€)	**4.30**			

Source: FactSet, KT&Partners' elaborations

[7] *Source: Damodaran's website.*

[8] *Further inputs include: (i) 1.03 beta; (ii) 0.93% risk-free rate; (iii) 5.96% equity risk premium (source: Damodaran's website); and (iv) 3.0% premium for size.*

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KT&PARTNERS

Via della Posta, 10 - Piazza Affari, 20123 Milano - Italy
Tel: +39.02.83424007 Fax: +39.02.83424011
segreteria@ktepartners.com