

ESAU Heads Towards Record-Breaking Year!

ADD | Fair Value: €5.84 (€5.23) | Current Price: €3.22 | Upside: 81.32%

€ Million	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Total Revenues	15.6	18.5	18.6	17.7	24.4	25.6	28.9
EBITDA	4.6	5.0	3.4	3.6	5.4	6.2	7.5
margin	29.5%	27.2%	18.2%	20.1%	22.3%	24.3%	26.0%
Net Profit	2.5	3.0	1.7	2.4	2.8	3.3	4.3
margin	15.8%	16.2%	9.1%	13.8%	11.4%	13.0%	14.8%
EPS	n.m.	0.23	0.13	0.19	0.22	0.26	0.34

Source: Company data; KT&Partners' elaboration

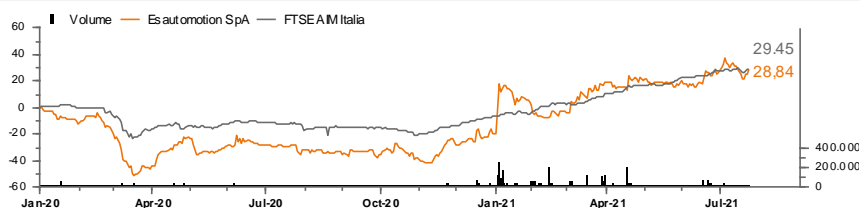
1H21 Unaudited Results Herald a Record Year. In 1H21 ESAU recorded high double-digit growth (+72.3% YoY) with sales reaching €14mn (vs €8.2mn in 1H20). The strong performance was mainly driven by a strong recovery in orders from historical clients – which, due to the COVID-19 pandemic in 2020, were forced to postpone their investments – and the acquisition of new clients. Preliminary results also confirm ESAU's strong cash generation ability, highlighting a net cash position as of June 30th, 2021, of €8.9mn (ca. 20% of ESAU current market capitalization). Net cash position improved by ca. €0.6mn since December 2020, despite €0.6mn dividend payment and the absorption of working capital following business growth. Leveraging on the strong cash position and balance sheet, greater growth prospects could come from M&As.

Market Update. According to Statista, the global industrial automation market value is forecasted to grow at a CAGR2020–26 of 8.4%, reaching ca. \$297bn by 2026. Within the industrial automation industry, the global CNC market is anticipated to reach \$23bn by 2026, increasing at a +5.8% CAGR2020–26. The growth of the CNC controller market is majorly driven by: i) the rising adoption of industrial automation in manufacturing industries; ii) the increasing demand for mass production across the automotive industry; and iii) reduction in operating costs and enhanced production efficiency of manufacturing plants with deployment of CNC machines.

Estimates Revision. We revised our FY21 topline estimates upward on the back of strong 1H21. We left our estimates unchanged from 2022 onwards as we believe that at this stage it is uncertain whether the high level of orders will last in the long run and be consolidated. There is a possibility that the high demand recorded in 4Q20 and 1H21 has been for anticipatory reasons as the speedy recovery of the manufacturing industries worldwide has putted pressure on the supply of necessary materials and other items. We now forecast FY21 revenues at €24.4mn, reaching €28.9mn in FY23. On the profitability side, we left EBITDA margin unchanged over the 2021–23 period, whereas we now expect FY21 at €5.4mn, amounting at €7.5mn in FY23. Finally, we expect the Company to remain cash positive throughout the forecast period, with net cash position going from €9.9mn in FY21 to €15.8mn in FY23.

Fair Value from €5.23ps to €5.84ps. Our valuation – based on both DCF and a market multiples model – returns an average equity value of €76.50mn or €5.84ps, implying a potential upside of +81.32% on the current market price.

Relative Performance Chart since January 2020



Research Update

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Market Data			
Main Shareholders			
Franco Fontana			34.56%
Gianni Senzolo			30.69%
Mkt Cap (€ mn)			42.2
EV (€ mn)			33.9
Shares issued (mn)			13.1
Shares outstanding (mn)			12.7
Free Float (%)			20.1
Market multiples			
	2020	2021	2022
EV/EBITDA			
Esautomotion SpA	9.5x	6.2x	5.5x
Comps median	27.9x	27.7x	22.3x
Esautomotion SpA vs Median	-66%	-77%	-75%
P/EPS			
Esautomotion SpA	16.8x	14.8x	12.3x
Comps median	42.3x	34.8x	32.5x
Esautomotion SpA vs Median	-60%	-58%	-62%
Stock Data			
52 Wk High (€)			3.70
52 Wk Low (€)			1.46
Avg. Daily Trading 90d			9,985
Price Change 1w (%)			-6.4%
Price Change 1m (%)			-3.0%
Price Change YTD (%)			49%

Note: Share Capital is calculated without considering multiple-voting shares

Key Figures – Esautomotion S.p.A.

	Current price (€)	Fair Value (€)	Sector							Free Float (%)
	3.22	5.84	Industrial Software							20.08
Per Share Data	2016A	2017A	2018A	2019A	2020A	2021E	2022E	2023E	2024E	
Total shares issued (mn)	n.m.	n.m.	13.10	13.10	13.10	13.10	13.10	13.10	13.10	
Total shares outstanding (mn)	n.m.	n.m.	12.72	12.72	12.72	12.72	12.72	12.72	12.72	
EPS	n.m.	n.m.	0.24	0.13	0.19	0.22	0.26	0.34	0.40	
Dividend per share (ord)	n.a.	n.a.	0.05	0.04	0.05	0.05	0.06	0.07	0.09	
Dividend pay out ratio (%)	n.a.	n.a.	10.1%	16.7%	38.3%	26.0%	26.0%	26.0%	26.0%	
Profit and Loss (EUR million)										
Revenues	12.7	15.6	18.5	18.6	17.7	24.4	25.6	28.9	32.3	
EBITDA	3.2	4.6	5.0	3.4	3.6	5.4	6.2	7.5	8.7	
EBIT	2.4	3.5	3.8	1.8	1.9	3.8	4.6	5.9	7.0	
EBT	2.3	3.5	3.7	1.8	1.7	3.8	4.6	5.8	7.0	
Taxes	(0.7)	(1.0)	(0.7)	(0.1)	0.8	(1.0)	(1.2)	(1.6)	(1.9)	
Tax rate	31%	29%	18%	4%	-44%	27%	27%	27%	27%	
Net Income	1.6	2.5	3.0	1.7	2.4	2.8	3.3	4.3	5.1	
Net Income attributable to the Group	1.6	2.5	3.0	1.7	2.4	2.8	3.3	4.3	5.1	
Balance Sheet (EUR million)										
Total fixed assets	1.1	1.3	2.0	2.6	2.4	2.2	1.9	1.7	1.5	
Net Working Capital (NWC)	2.8	4.3	5.8	6.6	7.0	8.2	8.6	9.5	10.6	
Provisions	(0.1)	(0.2)	(0.3)	(0.3)	(0.3)	(0.7)	(1.1)	(1.5)	(1.9)	
Total Net capital employed	3.8	5.4	7.6	9.0	9.1	9.6	9.5	9.8	10.2	
Net financial position/(Cash)	0.7	0.0	(7.7)	(7.0)	(8.3)	(9.9)	(12.7)	(15.8)	(19.4)	
Total Shareholder's Equity	3.1	5.3	15.2	16.0	17.4	19.5	22.2	25.5	29.6	
Cash Flow (EUR million)										
Net operating cash flow	0.0	0.0	4.3	3.3	3.2	4.4	5.0	5.9	6.8	
Change in NWC	0.0	0.0	(1.5)	(0.8)	(0.4)	(1.2)	(0.4)	(0.9)	(1.1)	
Capital expenditure	0.0	0.0	(1.9)	(1.6)	(0.7)	(1.2)	(1.2)	(1.2)	(1.2)	
Other cash items/Uses of funds	0.0	0.0	(0.1)	(0.0)	(0.1)	0.2	0.2	0.2	0.2	
Free cash flow	0.0	0.0	0.9	0.9	1.9	2.2	3.5	4.0	4.7	
Enterprise Value (EUR million)										
Market Cap	n.a.	n.a.	41.4	36.3	42.2	42.2	42.2	42.2	42.2	
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net financial position/(Cash)	0.7	0.0	(7.7)	(7.0)	(8.3)	(9.9)	(12.7)	(15.8)	(19.4)	
Enterprise value	n.a.	n.a.	33.7	29.3	33.9	32.3	29.5	26.4	22.8	
Ratios (%)										
EBITDA margin	25.2%	29.5%	27.2%	18.2%	20.1%	22.3%	24.3%	26.0%	26.8%	
EBIT margin	18.6%	22.5%	20.4%	9.7%	10.6%	15.7%	18.0%	20.3%	21.8%	
Gearing - Debt/equity	21.7%	0.7%	-50.3%	-44.0%	-47.9%	-50.7%	-57.3%	-61.8%	-65.5%	
Interest cover on EBIT	2.4%	1.2%	2.6%	2.4%	9.3%	0.8%	0.7%	0.5%	0.5%	
NFP/EBITDA	21.2%	0.8%	-152.1%	-208.3%	-234.7%	-182.3%	-204.7%	-210.6%	-223.5%	
ROCE	61.8%	65.4%	49.8%	20.2%	20.6%	39.8%	48.5%	60.2%	69.1%	
ROE	50.4%	46.3%	19.7%	10.6%	14.1%	14.2%	15.0%	16.7%	17.3%	
EV/Sales	n.m.	n.m.	1.83	1.82	1.92	1.39	1.32	1.17	1.05	
EV/EBITDA	n.m.	n.m.	6.73	10.03	9.53	6.23	5.45	4.52	3.91	
P/E	n.m.	n.m.	13.67	24.19	16.74	14.76	12.30	9.61	8.00	
Free cash flow yield	n.m.	n.m.	n.m.	3%	7%	8%	13%	14%	17%	
Growth Rates (%)										
Sales	-	23.1%	18.5%	0.5%	-4.8%	37.8%	5.0%	12.9%	11.8%	
EBITDA	-	44.1%	9.3%	-32.9%	5.3%	52.9%	14.3%	20.7%	15.7%	
EBIT	-	49.1%	7.5%	-52.0%	3.2%	105.5%	19.8%	27.8%	20.0%	
Net Income	-	56.6%	21.6%	-43.5%	44.5%	13.4%	20.0%	28.0%	20.1%	

Source: Company data, KT&Partners' elaboration

Valuation

Following the projections of ESAU's future financials, we carried out the valuations of the Company by applying the DCF and market multiples methods:

1. EV/EBITDA and P/EPS multiples, which returns a value of €6.90ps;
2. DCF analysis based on WACC of 11.1% and 1.5% perpetual growth, returns a value of €4.78ps.

The average of the two methods yields a fair value of €5.84ps or an equity value of €76.50mn.

Valuation Recap

	Equity Value €mn	Value per share €
DCF	62.64	4.78
EV/EBITDA	106.84	8.15
P/EPS	73.87	5.64
Average Multiples	90.36	6.90
Total Average	76.50	5.84

Source: FactSet, KT&Partners' elaboration

Market Multiples Valuation

Following the comparables analysis, we proceeded with the definition of market multiples for each peer group, focusing on 2021-22 data.

Peer Comparison – Market Multiples 2021-2022

Company Name	Exchange	Market Cap	EV/SALES 2020	EV/SALES 2021	EV/SALES 2022	EV/EBITDA 2020	EV/EBITDA 2021	EV/EBITDA 2022	EV/EBIT 2020	EV/EBIT 2021	EV/EBIT 2022	P/EPS 2020	P/EPS 2021	P/EPS 2022
Fanuc Corporation	Tokyo	39,165	7.3x	6.1x	5.7x	29.5x	25.7x	16.3x	36.0x	22.6x	20.1x	48.9x	31.8x	28.4x
Renishaw plc	London	4,221	6.9x	6.2x	5.7x	26.4x	33.2x	19.4x	n.m	28.9x	25.1x	n.m	37.7x	32.5x
Dassault Systemes SA	Euronext Paris	59,108	13.6x	12.7x	11.6x	n.m	n.m	31.3x	n.m	39.9x	36.0x	n.m	n.m	46.7x
Hexagon AB Class B	OMXStockholm	35,147	9.9x	8.9x	8.3x	31.5x	30.1x	22.3x	36.7x	32.3x	29.5x	n.m	37.5x	35.1x
Rockwell Automation, Inc.	NYSE	29,534	5.5x	5.2x	4.9x	23.6x	27.7x	22.5x	32.1x	28.5x	25.1x	32.5x	32.2x	29.9x
IGE+XAO SA	Euronext Paris	339	8.9x	n.a.	n.a.	27.9x	25.3x	n.a.	29.8x	n.m	n.m	42.3x	n.m	n.m
Average peer group		27,919	8.7x	7.8x	7.2x	27.8x	28.4x	22.4x	33.6x	30.4x	27.2x	41.2x	34.8x	34.5x
Median peer group		32,340	8.1x	6.2x	5.7x	27.9x	27.7x	22.3x	34.0x	28.9x	25.1x	42.3x	34.8x	32.5x
Esautomotion SpA	Milan	42	1.9x	1.4x	1.3x	9.5x	6.2x	5.5x	18.1x	8.8x	7.4x	16.8x	14.8x	12.3x

Source: FactSet, KT&Partners' elaboration

We based our evaluation upon our estimates of ESAU's EBITDA and EPS for 2021 and 2022.

EV/EBITDA Multiple Valuation

Multiple Valuation (€mn)	2021E	2022E
EV/EBITDA Comps	27.7x	22.3x
ESA EBITDA	5.4	6.2
Enterprise value	150.4	138.2
ESA FY20A Net Debt	-8.3	-8.3
Equity Value	158.8	146.5
Average Equity Value	152.6	
Liquidity Discount	30%	
Equity Value Post-Discount	106.8	
Number of shares (thousand)	13,103	
Value per Share €	8.2	

Source: FactSet, KT&Partners' elaboration

P/EPS Multiple Valuation

Multiple Valuation (€mn)	2021E	2022E
P/EPS Comps	34.8x	32.5x
ESA EPS	0.22	0.26
Equity Value per Share	7.6	8.5
Average Value per Share	8.1	
Liquidity Discount	30%	
Value per Share €	5.6	

Source: FactSet, KT&Partners' elaboration

DCF Valuation

We have also conducted our valuation using a four-year DCF model, based on 11.1% cost of equity, 3% cost of debt and a D/E ratio of 20% (Damodaran for Machinery where ESAU is included). The cost of equity is a function of the risk-free rate of 0.7% (Italian 10y BTP), 5.39% equity risk premium (Damodaran – June ERP T12 m with sustainable payout) and a premium for size and liquidity of 3.97% (lower with respect to our previous valuation following a stable ESAU's market cap of €40mn+ over the last three months). We, therefore, obtained 9.7% WACC.

We discounted 2021E-24E annual cash flows and considered a terminal growth rate of 1.5%; then we carried out a sensitivity analysis on the terminal growth rate (+/- 0.25%) and on WACC (+/- 0.25%).

DCF Valuation

€ Million	2021E	2022E	2023E	2024E
EBIT	3.8	4.6	5.9	7.0
Taxes	(1.0)	(1.2)	(1.6)	(1.9)
D&A	1.4	1.4	1.4	1.4
Change in Net Working Capital	(1.2)	(0.4)	(0.9)	(1.1)
Change in Funds	0.4	0.4	0.4	0.4
Net Operating Cash Flow	3.4	4.7	5.2	5.9
Capex	(1.2)	(1.2)	(1.2)	(1.2)
FCFO	2.2	3.5	4.0	4.7
g	1.5%			
Wacc	9.7%			
FCFO (discounted)	2.1	3.1	3.2	3.4
Discounted Cumulated FCFO	11.8			
TV	58.3			
TV (discounted)	42.5			
Enterprise Value	54.3			
NFP FY20	(8.3)			
Equity Value	62.6			
Current number of shares (k)	13.1			
Value per share (€)	4.78			

Source: Company Data, KT&Partners' elaboration

Sensitivity Analysis (€mn)

€ Million		WACC				
Terminal growth Rate		10.2%	9.9%	9.7%	9.4%	9.2%
	1.0%	57.1	58.5	60.0	61.6	63.2
	1.3%	58.3	59.7	61.3	62.9	64.7
	1.5%	59.5	61.0	62.6	64.4	66.2
	1.8%	60.7	62.4	64.1	65.9	67.9
	2.0%	62.1	63.8	65.6	67.6	69.7

Source: Company Data, KT&Partners' elaboration

Appendix

Peer Comparison

We carried out an in-depth analysis of public companies that could potentially be considered as peers of ESAU, considering its two business units together with its growth profile and the profitability structure.

We built a six-company sample which includes:

- **Dassault Systemes SA:** listed on the Paris Euronext, with a market capitalization of €59.1bn, Dassault Systemes provides software solutions and consulting services. It offers end-to-end software applications which cover a wide range of industry segments. In 2020, the company revenues reached €4.5bn.
- **Fanuc Corporation:** listed on the Tokyo stock exchange, with a market capitalization of €39.2bn, Fanuc Corp. engages in the development, manufacture, sale and maintenance of CNC systems, lasers, robot systems, robomachines, roboshot, robocut and nano robots. It operates through the following divisions: Factory Automation (FA), Robot, and Robomachine. In 2020, the company revenues reached €4.2bn.
- **Hexagon AB:** quoted on the Stockholm stock exchange, with a market capitalization of €35.1bn, Hexagon AB provides information technology 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 2020, the company revenues reached €3.8bn.
- **Ige+Xao SA:** quoted on the Euronext Paris exchange, with a market capitalization of €0.3bn, Ige+Xao SA engages in design, production, sales and support for Computer Aided Design (CAD) and Product Lifecycle Management (PLM) software. In 2020, the company revenues reached €0.03bn.
- **Renishaw plc.:** listed on the London stock exchange, with a market capitalization of €4.2bn, Renishaw engages in the design, manufacture, and marketing of metrology and healthcare products. In 2020, the company revenues reached €0.6bn.
- **Rockwell Automation, Inc.:** listed on the NYSE, with a market capitalization of €29.5bn, 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 segments. The Architecture and Software segment contains hardware, software, and communication components of its integrated control and information architecture. In 2020, the company revenues reached €5.4bn.

Peer Comparison – Performance Analysis

Company Name	Price change % 3Month	Price change % 6Month	Price change % 1Year	Price change % YTD	Price change % From Latest Update (19/04/2021) to Date
Fanuc Corporation	-1.6%	-6.6%	21.8%	0.0%	-8.0%
Renishaw plc	-24.6%	-19.8%	2.4%	-14.0%	-23.1%
Dassault Systemes SA	13.9%	30.7%	52.1%	33.4%	15.8%
Hexagon AB Class B	13.4%	27.1%	69.1%	29.1%	13.9%
Rockwell Automation, Inc.	11.9%	22.4%	32.3%	19.3%	12.0%
IGE+XAO SA	33.3%	32.0%	53.8%	31.3%	36.8%
Average	7.7%	14.3%	38.6%	16.5%	7.9%
Median	12.6%	24.7%	42.2%	24.2%	13.0%
Esautomotion SpA	-1.9%	12.8%	65.6%	47.2%	11.0%

Source: FactSet, KT&Partners' elaboration

Peers Comparison – Sales (€mn) and Sales CAGR (%)

Company Name	Sales					CAGR 19-'23
	2019	2020	2021	2022	2023	
Fanuc Corporation	4,208	4,461	5,384	5,737	5,990	76.7%
Dassault Systemes SA	4,018	4,452	4,777	5,226	5,681	77.1%
Renishaw plc	651	580	652	713	770	88.2%
Rockwell Automation, Inc.	5,935	5,656	5,976	6,413	6,684	91.5%
Hexagon AB Class B	3,908	3,771	4,191	4,486	4,750	86.4%
IGE+XAO SA	34	33	n.a.	n.a.	n.a.	n.a.
Esautomotion SpA	19	18	24	26	29	71.8%
Average Peers	3,126	3,159	4,196	4,515	4,775	72.8%

Source: FactSet, KT&Partners' elaboration

Peers Comparison – EBITDA Margin, EBIT Margin and Net Margin

Company Name	EBITDA Margin					EBIT Margin					Net Margin			
	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023	2020	2021	2022	2023
Fanuc Corporation	26.4%	28.6%	34.2%	35.1%	35.5%	17.4%	20.4%	27.0%	28.5%	29.3%	17.1%	21.7%	22.8%	23.8%
Dassault Systemes SA	30.9%	29.9%	36.7%	36.9%	36.2%	21.1%	16.3%	31.7%	32.1%	32.8%	11.0%	23.8%	24.1%	24.8%
Renishaw plc	23.4%	20.9%	28.3%	29.1%	29.8%	16.6%	11.3%	21.4%	22.5%	23.2%	0.1%	16.9%	18.6%	19.2%
Rockwell Automation, Inc.	22.4%	20.0%	20.8%	21.7%	22.4%	20.1%	17.2%	18.3%	19.4%	19.9%	16.2%	18.4%	14.9%	15.5%
Hexagon AB Class B	30.2%	32.7%	37.0%	37.2%	37.2%	25.0%	26.9%	27.4%	28.1%	28.4%	16.4%	21.4%	22.0%	22.4%
IGE+XAO SA	30.8%	35.2%	n.m.	n.m.	n.m.	26.0%	29.9%	n.m.	n.m.	n.m.	24.4%	n.m.	n.m.	n.m.
Average	27.4%	27.9%	31.4%	32.0%	32.2%	21.0%	20.3%	25.2%	26.1%	26.7%	14.2%	20.5%	20.5%	21.1%
Esautomotion SpA	18.2%	20.1%	22.3%	24.3%	26.0%	9.7%	10.6%	15.7%	18.0%	20.3%	13.8%	11.4%	13.0%	14.8%

Source: FactSet, KT&Partners' elaboration

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- ADD – FOR A FAIR VALUE > 15% ON CURRENT PRICE
- HOLD – FOR A FAIR VALUE <15% AND >-15% ON CURRENT PRICE
- REDUCE – FOR A FAIR VALUE < -15% ON CURRENT PRICE



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