

## Confirming the Anti-Cyclical Performance

ADD | Fair Value: €8.25 (€8.25) | Current Price: €4.42 | Upside: +86.6%

€ Million	FY18A	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Total Revenues	18.5	18.6	17.7	28.6	31.2	33.6	36.0
EBITDA	5.0	3.4	3.6	8.0	8.8	9.6	10.3
margin	27.2%	18.2%	20.1%	28.1%	28.2%	28.5%	28.7%
Net Profit	3.0	1.7	2.4	5.0	5.2	5.8	6.4
margin	16.2%	9.1%	13.8%	17.6%	16.8%	17.3%	17.6%
EPS	0.23	0.13	0.19	0.40	0.41	0.46	0.50
NFP	(7.7)	(7.0)	(8.3)	(10.5)	(14.0)	(18.2)	(22.9)

Source: Company data; KT&Partners' elaboration

### 1H22 preliminary sales recorded double-digit growth in line with our expectations.

Despite uncertain macroeconomic scenario, 1H22 preliminary sales grew by +19.9% YoY, confirming the growth path started on the first half of 2020 and validating the anti-cyclical strategy adopted by the Company. Indeed, although the CNC market is affected by raw materials shortage and extended delivery time, the Company expect to close the first half of the year with €16.7mn of sales, almost in line with our estimates (+3.1pp). The business growth was mainly driven by: i) domestic market (+40 YoY); and ii) Turkey (+20 YoY). China – one of the main ESAU-IT's foreign markets – increased by +3% YoY notwithstanding the stop of Esautomotion Trading (Shanghai) Co. due to lockdown restrictions occurred in 1Q22. ESAU-IT's top-management also confirmed to have further improved the profitability through operating leverage. The Company kept a strong net cash position of €8.5mn despite a €2mn worsening compared to December 2021 mainly due to: i) ca. €1.3mn dividend payment; ii) ca. €0.8mn for advance payment of taxes; and iii) the absorption of working capital following the in inventories to face the shortage of semiconductors and other materials. It worth to point out that ESAU-IT's top management expects procurement will come back to normal levels, allowing the Company to further increase its production activity and reduce the NWC cash absorption.

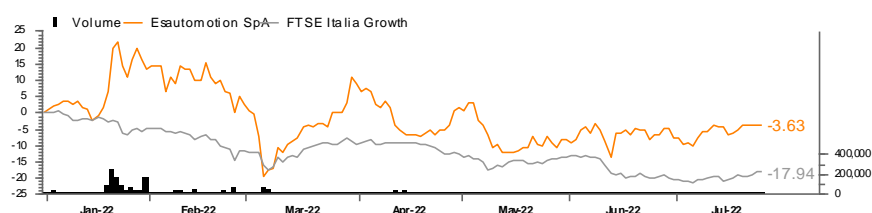
### 1H22 Preliminary Sales vs KT&Partners' estimates

€ Millions	1H19	1H20	1H21	1H22 Preliminary	YoY Growth	1H22E	A vs E %
Revenues from sales and services	9.6	8.1	13.9	16.7	19.9%	16.2	3.1%

Source: Company data, KT&Partners' elaboration

**Estimates and valuation confirmed.** On the back of 1H22 almost aligned with our expectations and while waiting for 1H22 audited results, we confirmed our latest estimates updated on April 1<sup>st</sup>, 2022. Total revenues were expected to grow at a CAGR21–24 of 8.0% amounting to €36mn in 2024. We estimated EBITDA to grow at a higher pace than total revenues (+8.7% CAGR21–24) as a result of the economy of scale in terms of labor costs, reaching €10.3mn in FY24. Finally, we foresaw FY22 net cash position of €14mn, reaching €22.9mn in FY24. We will update our estimates and valuation after the publication of the 1H22 audited financial results and management conference call. On the back of our current projections, we still see a potential upside of +86.6% on the current market price.

### Relative Performance Chart YTD



## Research Update

July 28, 2022 – 7.00 h

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### Market Data

Main Shareholders			
Franco Fontana			34.56%
Gianni Senzolo			30.69%
Mkt Cap (€ mn)			57.9
EV (€ mn)			47.4
Shares issued (mn)			13.1
Shares outstanding (mn)			12.7
Free Float (%)			24.9

Market multiples	2021A	2022E	2023E
EV/EBITDA			
Esautomotion SpA	5.9x	5.4x	4.9x
Comps median	21.9x	19.2x	13.6x
Esautomotion SpA vs Median	-73%	-72%	-64%
P/EPS			
Esautomotion SpA	11.1x	10.7x	9.7x
Comps median	26.7x	26.1x	23.4x
Esautomotion SpA vs Median	-58%	-59%	-59%

Stock Data	
52 Wk High (€)	6.00
52 Wk Low (€)	3.14
Avg. Daily Trading 90d	5,356
Price Change 1w (%)	-2.6%
Price Change 1m (%)	-7.9%
Price Change YTD (%)	-5.6%

Note: Share Capital is calculated considering multiple-voting shares

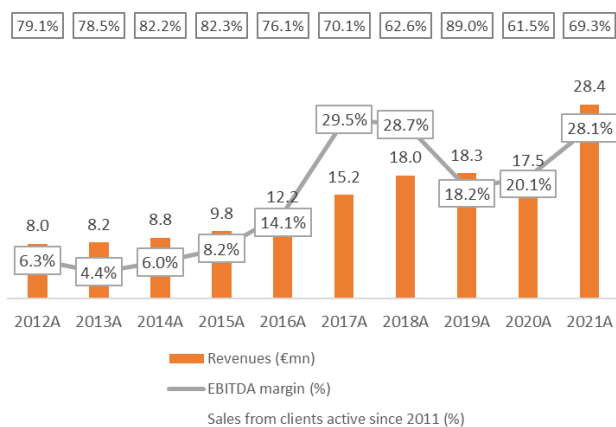
## Key Figures – Esautomotion S.p.A.

	Current price (€)	Fair Value (€)	Sector					Free Float (%)
	4.42	8.25	Industrial Software					24.9
<b>Per Share Data</b>	<b>2018A</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
Total shares issued (mn)	13.10	13.10	13.10	13.10	13.10	13.10	13.10	13.10
Total shares outstanding (mn)	12.72	12.72	12.72	12.72	12.72	12.72	12.72	12.72
EPS	0.24	0.13	0.19	0.40	0.41	0.46	0.50	0.55
Dividend per share (ord)	0.05	0.04	0.05	0.05	0.10	0.10	0.11	0.13
Dividend pay out ratio (%)	10.1%	16.7%	37.6%	26.0%	25.2%	25.2%	25.2%	25.2%
<b>Profit and Loss (EUR million)</b>								
Total Revenues	18.5	18.6	17.7	28.6	31.2	33.6	36.0	38.6
EBITDA	5.0	3.4	3.6	8.0	8.8	9.6	10.3	11.2
EBIT	3.8	1.8	1.9	6.4	7.2	8.0	8.7	9.6
EBT	3.7	1.8	1.7	6.4	7.2	8.0	8.7	9.6
Taxes	(0.7)	(0.1)	0.8	(1.4)	(1.9)	(2.1)	(2.4)	(2.6)
Tax rate	18%	4%	-44%	21%	27%	27%	27%	27%
Net Income	3.0	1.7	2.4	5.0	5.2	5.8	6.4	7.0
<b>Balance Sheet (EUR million)</b>								
Total fixed assets	2.0	2.6	2.4	2.4	2.2	2.0	1.7	1.5
Net Working Capital (NWC)	5.8	6.6	7.0	9.4	10.3	10.9	11.5	11.4
Provisions	(0.3)	(0.3)	(0.3)	(0.4)	(0.6)	(0.7)	(0.9)	(1.1)
Total Net capital employed	7.6	9.0	9.1	11.4	11.9	12.1	12.3	11.8
Net financial position/(Cash)	(7.7)	(7.0)	(8.3)	(10.5)	(14.0)	(18.2)	(22.9)	(28.7)
Total Shareholder's Equity	15.2	16.0	17.4	21.9	25.9	30.3	35.2	40.6
<b>Cash Flow (EUR million)</b>								
Net operating cash flow	4.3	3.3	3.2	6.7	6.9	7.4	8.0	8.6
Change in NWC	(1.5)	(0.8)	(0.4)	(2.4)	(0.9)	(0.6)	(0.6)	0.0
Capital expenditure	(1.9)	(1.6)	(0.7)	(1.3)	(1.4)	(1.4)	(1.4)	(1.4)
Other cash items/Uses of funds	(0.1)	(0.0)	(0.1)	0.1	0.2	0.2	0.2	0.2
Free cash flow	0.9	0.9	1.9	3.1	4.7	5.7	6.2	7.5
<b>Enterprise Value (EUR million)</b>								
Market Cap	41.4	36.3	23.4	57.9	57.9	57.9	57.9	57.9
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net financial position/(Cash)	(7.7)	(7.0)	(8.3)	(10.5)	(14.0)	(18.2)	(22.9)	(28.7)
Enterprise value	33.7	29.3	15.1	47.4	43.9	39.7	35.1	29.2
<b>Ratios (%)</b>								
EBITDA margin	27.2%	18.2%	20.1%	28.1%	28.2%	28.5%	28.7%	29.1%
EBIT margin	20.4%	9.7%	10.6%	22.4%	23.1%	23.7%	24.2%	24.9%
Gearing - Debt/equity	-50.3%	-44.0%	-47.9%	-48.1%	-54.0%	-60.2%	-65.1%	-70.9%
Interest cover on EBIT	2.6%	2.4%	9.3%	-0.5%	0.3%	0.3%	0.2%	0.2%
NFP/EBITDA	-152.1%	-208.3%	-234.7%	-131.1%	-158.6%	-190.1%	-221.1%	-255.8%
ROCE	49.8%	20.2%	20.6%	56.2%	60.5%	66.1%	71.0%	81.3%
ROE	19.7%	10.6%	14.1%	23.0%	20.3%	19.2%	18.1%	17.3%
EV/Sales	2.6x	2.6x	2.7x	1.7x	1.5x	1.4x	1.3x	1.2x
EV/EBITDA	9.4x	14.0x	13.3x	5.9x	5.4x	4.9x	4.6x	4.2x
P/E	18.8x	33.2x	23.0x	11.1x	10.7x	9.7x	8.9x	8.0x
Free cash flow yield	n.m.	2%	4%	7%	10%	12%	13%	16%
<b>Growth Rates (%)</b>								
Revenues	18.5%	0.5%	-4.8%	61.8%	9.1%	7.6%	7.1%	7.1%
EBITDA	9.3%	-32.9%	5.3%	126.3%	9.6%	8.8%	7.9%	8.6%
EBIT	7.5%	-52.0%	3.2%	242.8%	12.6%	10.6%	9.5%	10.2%
Net Income	21.6%	-43.5%	44.5%	106.1%	4.0%	10.7%	9.5%	10.2%

Source: Company data, KT&amp;Partners' elaboration

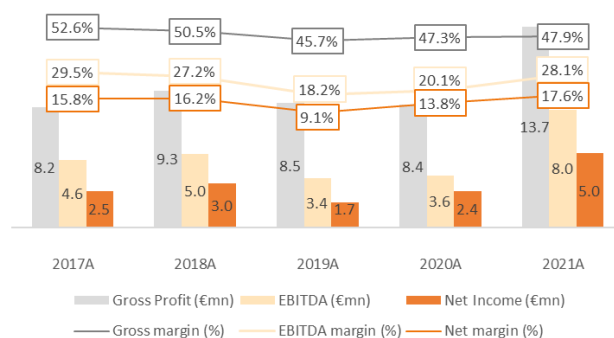
## Key charts

Revenue and EBITDA margin (€mn, %)



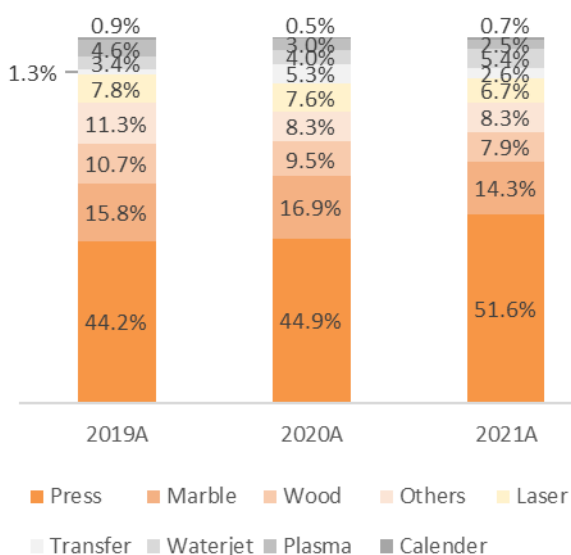
Source: Company data, KT&amp;Partners' elaboration.

Profitability Evolution (€mn, %)



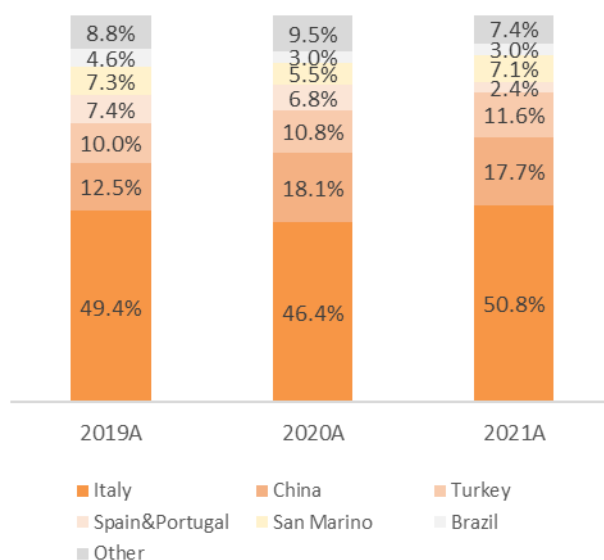
Source: Company data, KT&amp;Partners' elaboration

Revenues by Application (%)



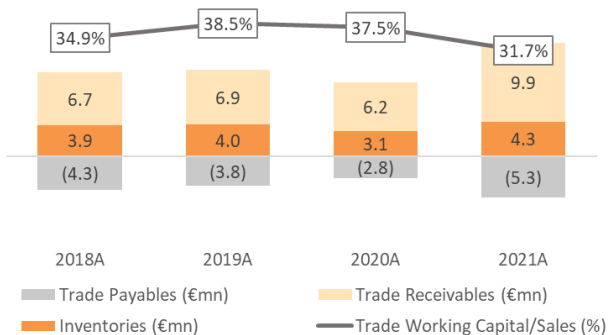
Source: Company data, KT&amp;Partners' elaboration

Revenues by Geography (%)



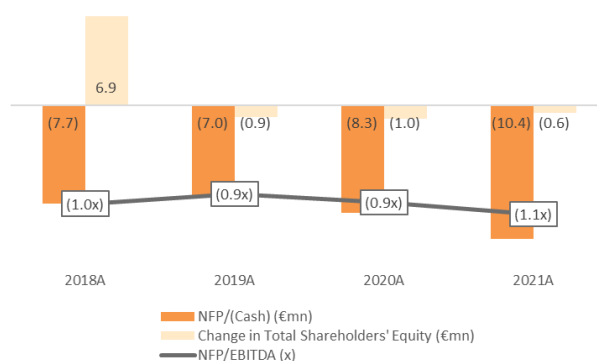
Source: Company data, KT&amp;Partners' elaboration

Trade Working Capital (€mn, %)



Source: Company data, KT&amp;Partners' elaboration

NFP and Change in Total Shareholders' Equity (€mn)



Source: Company data, KT&amp;Partners' elaboration

## Overview

### Company description

Esautomotion (ESAU-IT) is active in the B2B high-end CNC market, developing and selling Integrated Mechatronic CNC Systems (Software and HW), Motors, Drivers, and other tools for the automation of industrial production machines. ESAU-IT is the only manufacturer in the world that offers integrated CNC systems able to cover all the processing phases (up to the interface) of sheet metal, wood, and marble.

ESAU-IT listed on Euronext Growth Milan on July 6<sup>th</sup>, 2018, with an IPO market capitalization of ca. €35.1mn and ca. €9mn of capital raised, aimed at: i) further expanding eastward (China, Turkey and India); ii) expanding offer in both high- and low-end CNC markets, including other hardware components as well; and iii) acquiring self-making CNC manufacturers and/or manufacturers of complementary products to CNC.

### Investment case

- **Strong Performance, Profitability, and Cash Generation.** 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 opportunities, and operating efficiency. ESAU-IT's turnover has gone from €8mn in FY12 to €28.3mn in FY21, while EBITDA margin went from 6.3% in FY12 to 28.1% in FY21. Finally, a strong cash generation was recorded as well. At the end of 2021, OCF/EBITDA and FCF/EBITDA ratios stood at 54% and 39%, respectively, leading net cash position to €10.5mn (from €8.3mn in FY20). Leveraging on the strong cash position and balance sheet, greater growth could come from M&As.
- **Strategy's validity confirmed also during weakening macroeconomic scenarios.** The adoption over the 2019-20 period of a counter-cyclical strategy (i.e., aggressive price policy in order to acquire and retain clients, expansion of the product range to include hardware components, expansion in China and Turkey, and relocation of part of production eastward) has allowed ESAU-IT to show a good resilience in a weakening macroeconomic scenario.
- **New opportunities to foster business growth.** The recovery in global demand for machine tools – the primary market for CNC systems – has been driven by: i) a renovation wave involving CNC machines in developed countries, also boosted by government measures, where the installed fleet is 5-20 years old and risks becoming obsolete; ii) the gradual shift from manual machines to CNC machines in emerging countries, where the current installed CNC fleet is 20%-45% of the total.
- **A Global Presence.** Since 2011, ESAU-IT has also undertaken an internationalization process in 32 countries, which allowed the company to directly sell abroad ca. 50% of its products in 2020 (ca. 80% if also considering indirect sales). China is one of the fastest growing markets, with an incidence on turnover of ca. 18% in FY21, underlining the importance for Chinese manufacturers of equipping their industrial machines with high-quality CNC systems.

### Recent developments

- **Client base expansion.** In 2021, ESAU-IT acquired new clients that are suppliers of international brands (Tesla, BMW, and CRRC, the world's largest rolling stock manufacturers), allowing the company to increase its visibility.
- **A strengthened management team.** In 2021, ESAU-IT has appointed two figures with long experience in the CNC market as R&D Manager (Francesca Villosi) and Production Manager (Lorenzo Ruspaggiari).
- **Production delocalization regarding Asian sales in Shanghai.** In 2020 ESAU-IT promoted, through its Chinese subsidiary, a joint venture in China – with two companies already suppliers of ESAU-IT in Italy – with the aim of starting local production.

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IN THIS STUDY DCF AND MULTIPLE VALUATION MODELS HAVE BEEN USED. RECOMMENDATIONS FOLLOW THE FOLLOWING RULES:

- 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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