

Outstanding Growth in 3Q2022 Sales

ADD | Fair Value: €7.50 (€7.50) | Current Price: €4.26 | Upside: +76.1%

€ Million	FY18A	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Total Revenues	18.5	18.6	17.7	28.6	33.1	35.7	38.2
EBITDA	5.0	3.4	3.6	8.0	9.3	10.2	11.0
margin	27.2%	18.2%	20.1%	28.1%	28.0%	28.5%	28.7%
Net Profit	3.0	1.7	2.4	5.0	5.3	6.1	6.7
margin	16.2%	9.1%	13.8%	17.6%	16.0%	17.2%	17.6%
EPS	0.23	0.13	0.19	0.40	0.42	0.48	0.53
NFP	(7.7)	(7.0)	(8.3)	(10.5)	(13.0)	(17.9)	(23.2)

Source: Company data (2018–2021); KT&Partners' elaboration (2022–2024)

3Q22 results: continued growth at double-digit pace. Based on results, over the January–September 2022 period, ESAU-IT's sales grew to €25.3mn, up by +26.2% vs 9M2021 and almost in line with the growth recorded by the FA division of FANUC – one of the market's leaders in CNC – which over the same period increased by +29.4%. In 3Q22, ESAU-IT recorded a remarkable performance of +44.4%, recording €8.9mn sales (vs €6.2mn of 3Q21), despite the summer break and the persistence of extended delivery times due to the shortage of raw materials and the slowdown in demand that the Italian machine tools market has experienced in 2022. Business growth was driven by all geographical areas: i) Turkey (+32 YoY); ii) domestic market (+29 YoY); iii) Iberian Peninsula (+18% YoY); iv) LATAM (+15% YoY); and v) China and Taiwan (+12 YoY). Moreover, ESAU-IT improved its net cash position by €0.8mn to €9.5mn from €8.5mn in 1H22, also thanks to improvement in profitability. The net cash position is still, however, below FY21 figures, mainly due to the absorption of working capital following business growth and the strong increase in stock inventory due to the advance purchase of semiconductors and other raw materials to counter the supply-chain disruptions.

9M2022 & 3Q2022 Sales

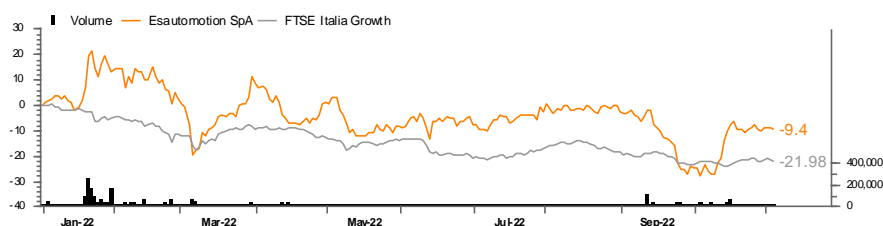
€ Millions	9M2020	9M2021	9M2022	YoY %
Revenues from sales and services	12.5	20.1	25.3	26.2%

€ Millions	3Q2020	3Q2021	3Q2022	YoY %
Revenues from sales and services	4.4	6.2	8.9	44.4%

Source: Company data

Estimates and valuation confirmed. On October 12, 2022, we revised our 2022–2024 estimates following the 1H22 financial results and considering the positive trend in the receipt of orders that ESAU-IT has recorded. We revised upward total revenues, increasing our expectations of CAGR21–24 by 2.2pp to 10.1%, reaching €38.2mn by 2024. We estimated EBITDA to grow at a higher pace than total revenues (+10.9% CAGR 21–24) as a result of the economy of scale in terms of labor costs, reaching €10.3mn in FY24. We predicted a FY22 net cash position of €13mn, reaching €23.2mn in FY24. On the back of our current projections, we confirm our valuation – based on DCF and market multiples – which returns an average equity value of €98.3mn or €7.50ps, implying a potential upside of 76.1% on the current market price.

Relative Performance Chart YTD



Research Update

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Market Data

Main Shareholders			
Franco Fontana			34.56%
Gianni Senzolo			30.69%
Mkt Cap (€ mn)			55.8
EV (€ mn)			42.8
Shares issued (mn)			13.1
Shares outstanding (mn)			12.7
Free Float (%)			24.9

Market multiples	2021A	2022E	2023E
EV/EBITDA			
Esautomotion SpA	5.6x	4.9x	4.5x
Comps median	17.3x	15.8x	14.8x
Esautomotion SpA vs Median	-68%	-69%	-70%
P/EPS			
Esautomotion SpA	10.7x	10.2x	8.8x
Comps median	24.4x	21.9x	21.5x
Esautomotion SpA vs Median	-56%	-53%	-59%

Stock Data

52 Wk High (€)	6.00
52 Wk Low (€)	3.29
Avg. Daily Trading 90d	13,606
Price Change 1w (%)	-1.4%
Price Change 1m (%)	21.0%
Price Change YTD (%)	-9%

Note: Share capital is calculated considering multiple-voting shares.

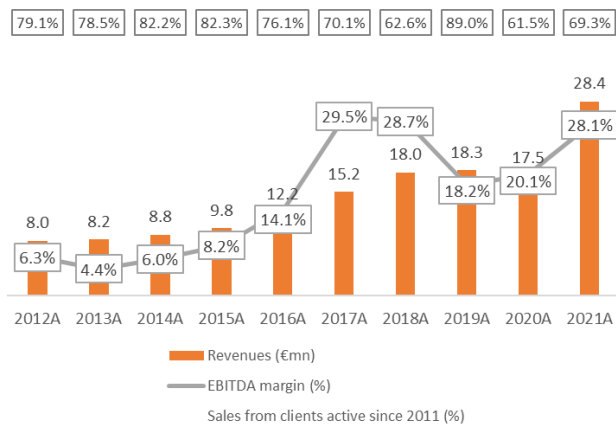
Key Figures – Esautomotion S.p.A.

	Current price (€)	Fair Value (€)	Sector					Free Float (%)
	4.26	7.50	Industrial Software					24.9
Per Share Data	2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E
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	0.42	0.48	0.53	0.58
Dividend per share (ord)	0.05	0.04	0.05	0.05	0.10	0.10	0.12	0.13
Dividend pay out ratio (%)	10.1%	16.7%	37.6%	26.0%	25.2%	25.2%	25.2%	25.2%
Profit and Loss (EUR million)								
Total Revenues	18.5	18.6	17.7	28.6	33.1	35.7	38.2	40.9
EBITDA	5.0	3.4	3.6	8.0	9.3	10.2	11.0	11.9
EBIT	3.8	1.8	1.9	6.4	7.3	8.4	9.2	10.2
EBT	3.7	1.8	1.7	6.4	7.2	8.4	9.2	10.2
Taxes	(0.7)	(0.1)	0.8	(1.4)	(2.0)	(2.3)	(2.5)	(2.7)
Tax rate	18%	4%	-44%	21%	27%	27%	27%	27%
Net Income	3.0	1.7	2.4	5.0	5.3	6.1	6.7	7.4
Balance Sheet (EUR million)								
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	11.4	11.8	12.2	12.4
Provisions	(0.3)	(0.3)	(0.3)	(0.4)	(0.7)	(1.0)	(1.3)	(1.7)
Total Net capital employed	7.6	9.0	9.1	11.4	12.9	12.8	12.6	12.3
Net financial position/(Cash)	(7.7)	(7.0)	(8.3)	(10.5)	(13.0)	(17.9)	(23.2)	(29.2)
Total Shareholder's Equity	15.2	16.0	17.4	21.9	25.9	30.7	35.8	41.5
Cash Flow (EUR million)								
Net operating cash flow	4.3	3.3	3.2	6.7	7.3	7.9	8.5	9.2
Change in NWC	(1.5)	(0.8)	(0.4)	(2.4)	(2.1)	(0.4)	(0.4)	(0.2)
Capital expenditure	(1.9)	(1.6)	(0.7)	(1.1)	(1.7)	(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	3.7	6.3	6.9	7.8
Enterprise Value (EUR million)								
Market Cap	41.4	36.3	23.4	41.7	55.8	55.8	55.8	55.8
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)	(13.0)	(17.9)	(23.2)	(29.2)
Enterprise value	33.7	29.3	15.1	31.2	42.8	37.9	32.7	26.6
Ratios (%)								
EBITDA margin	27.2%	18.2%	20.1%	28.1%	28.0%	28.5%	28.7%	29.1%
EBIT margin	20.4%	9.7%	10.6%	22.4%	21.9%	23.6%	24.2%	24.9%
Gearing - Debt/equity	-50.3%	-44.0%	-47.9%	-48.1%	-50.2%	-58.4%	-64.7%	-70.5%
Interest cover on EBIT	2.6%	2.4%	9.3%	-0.5%	0.3%	0.2%	0.2%	0.2%
NFP/EBITDA	-1.5x	-2.1x	-2.3x	-1.3x	-1.4x	-1.8x	-2.1x	-2.5x
ROCE	49.8%	20.2%	20.6%	56.2%	56.2%	65.9%	73.1%	82.9%
ROE	19.7%	10.6%	14.1%	23.0%	20.4%	20.0%	18.8%	17.9%
EV/Sales	2.5x	2.4x	2.6x	1.6x	1.4x	1.3x	1.2x	1.1x
EV/EBITDA	9.0x	13.4x	12.7x	5.6x	4.9x	4.5x	4.1x	3.8x
P/E	18.1x	32.0x	22.1x	10.7x	10.2x	8.8x	8.1x	7.3x
Free cash flow yield	n.m.	2%	4%	7%	8%	14%	15%	17%
Growth Rates (%)								
Revenues	18.5%	0.5%	-4.8%	61.8%	15.8%	7.6%	7.1%	7.1%
EBITDA	9.3%	-32.9%	5.3%	126.3%	15.5%	9.3%	8.0%	8.6%
EBIT	7.5%	-52.0%	3.2%	242.8%	13.6%	15.8%	9.7%	10.2%
Net Income	21.6%	-43.5%	44.5%	106.1%	4.9%	15.8%	9.7%	10.2%

Source: Company data, KT&Partners' elaboration

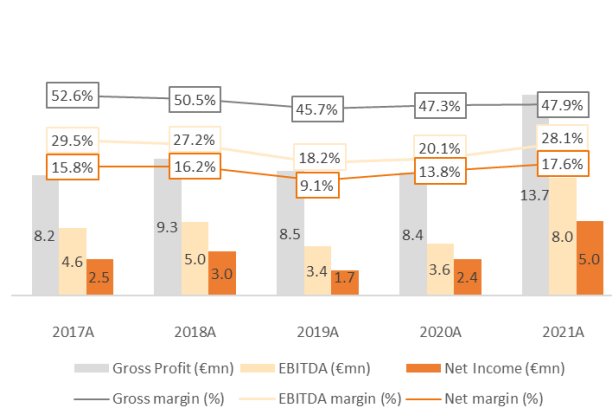
Key Charts

Revenue and EBITDA margin (€mn, %)



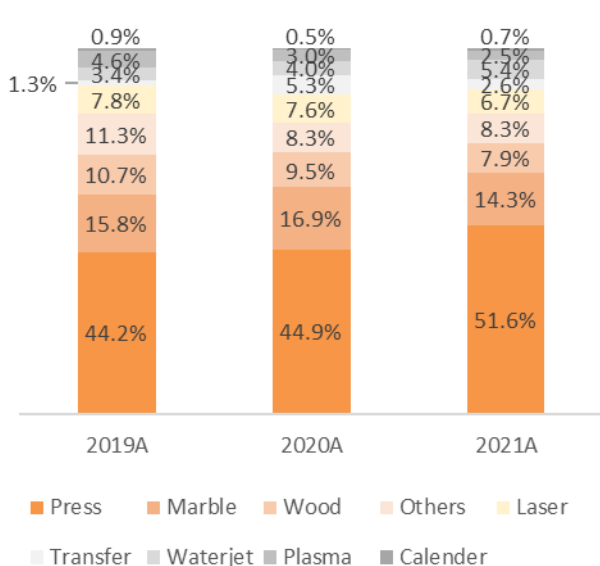
Source: Company data, KT&Partners' elaboration.

Profitability Evolution (€mn, %)



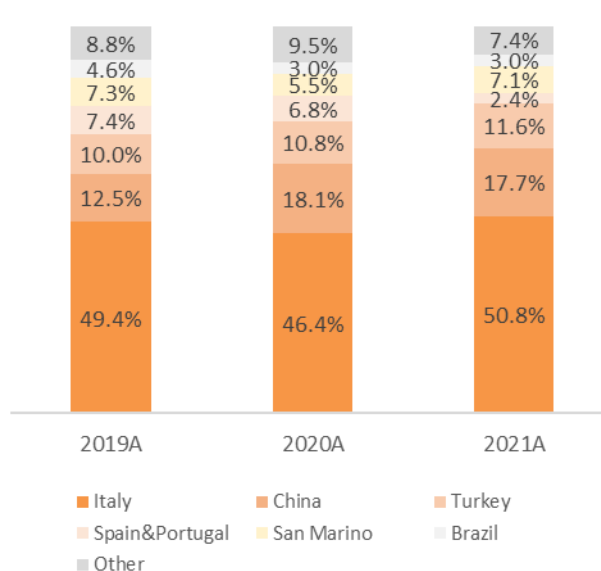
Source: Company data, KT&Partners' elaboration

Revenues by Application (%)



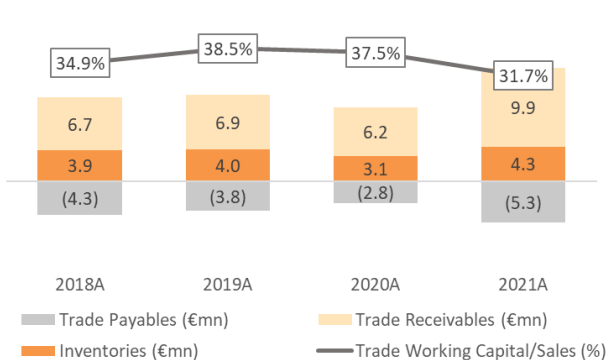
Source: Company data, KT&Partners' elaboration

Revenues by Geography (%)



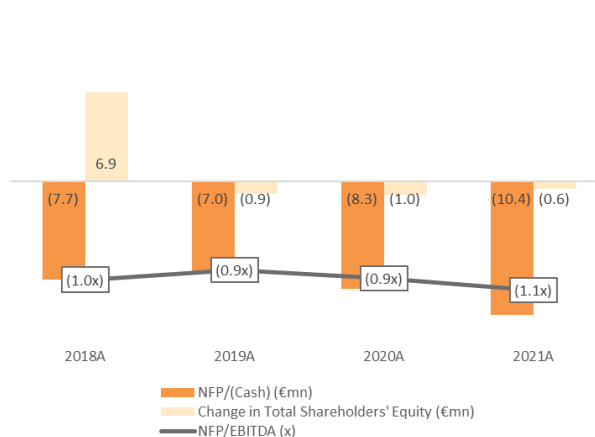
Source: Company data, KT&Partners' elaboration

Trade Working Capital (€mn, %)



Source: Company data, KT&Partners' elaboration

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



Source: Company data, KT&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, 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

- **Good portfolio and order intake despite a market slowdown.** According to ESAU-IT's management, the Company is still recording a positive order intake, supporting growth outlook. Furthermore, the management expects that growth could also benefit from the decoupling and reshoring that could offset the slowing in demand that the machine tools market has been recording in 2022. Indeed, according to UCIMU, in 1H22 orders for machine tools declined by 10.7% compared to 1H21.
- **Strong R&D activities to strengthen product offerings.** R&D remains the Group's largest investment area, enabling to develop Industry 4.0 and consolidate product performance in new application areas. The company has invested in the last three years (2020 - 2022) about 4.8% of sales in R&D.

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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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