

A challenging environment as a fertile ground for growth

May 11th, 2022 at 18:00

A global OEM and AM manufacturer

Cofle is an international Original Equipment Manufacturer of control cables and remote-control systems for farming and earthmoving machines and, to a less extent, for luxury cars and commercial vehicles. It is a fully integrated company: its value chain includes the co-engineering with customers, pricing and prototyping, orders intaking, production and delivery. In the OEM division, Cofle branded equipment is built in-house according to customer's needs. The AM unit, which products range from brake cables to EPB systems, launches over 200 new items a year. Cofle has a global presence, including plants in Italy, Turkey, India, Brazil and China; it can count on more than 500 employees. Along with its fully integrated value chain and consolidated skills in farm equipment, its local presence in Turkey and India is an additional key competitive advantage.

A significant rebound in 2021: best results ever

In 2021 the Company recovered from Covid-19 impact, recording its highest results ever, with revenue at €52.2m (+41% yoy), driven mainly by OEM (+56% yoy) and, to a less extent, by AM (+22% yoy). Adjusted EBITDA came in at €13.5m, exceeding the PAS mechanism threshold, with margin improving 330bps to 24.4%. Group net income rose to €8.2m from €3.4m in 2020.

Strategic development and our 2022E-2025E estimates. 1Q22 on track

The tractors industry is expected to grow at a 5.8% CAGR20-27, mainly driven by i) population increase; ii) mechanization; iii) commitment to reduce tractors pollution; iv) concerns about malnutrition in developing countries; v) shorter tractor replacement cycle. The AM segment is expected to grow at a 3.4% CAGR22-30, driven by the search for best vehicle performance and the increasing miles record driven by growing vehicle population. For the next years, Cofle's growth strategy is based on i) new demand coming from EU Stage V Regulation; ii) EU release of constraints on 4mln hectares land; iii) the restoration of the Ukrainian tractors fleet; iv) penetrating the electronic components market for off-road vehicles, through M&A; v) anticipating new trends in tractors engineering through the new ITG Turkey; vi) upgrading logistics to reduce time-to-market. In our 2022-2024 estimates we left unchanged revenues at €68m (9% CAGR21-24E), but we shifted the weight in favour of OEM at 68% (vs previous 66%) in line with FY21 and 1Q22 trends. Adjusted EBITDA is now seen at €19m, with margin of 27.2% (vs 29.7%), due to higher raw materials costs. We forecast an adjusted net cash at €11.2m at the end of 2024 (vs previous €10m), including better-than-expected Net Operating Working capital management. Finally, we expect cumulated FCFs of €19m, including €7.5m of cumulated Capex and €7.6m Operating NWC needs. Our estimates are validated by positive 1Q22 results: revenue up by 9% yoy to €14.3m (OEM +10.6% yoy; AM +6.5% yoy), confirming our expectations of a greater share of revenue generated by OEM.

Valuation: 12-month target price at €19.2; BUY confirmed

We run DCF on an annual average FCF of €7.2m in 2022E-2025E and set a WACC at 7.9%. The international competitive arena includes a suitable sample of listed comparable: we run a relative market multiples valuation on 2023E EV/EBITDA at 6.0x. We confirm our 12-month target at €19.2 as the weighted average between the DCF (2/3) and market multiples (1/3) approaches. Given the potential upside on Cofle's price, we confirm our BUY recommendation.

Target price

€19.2 (unchanged)

Recommendation

BUY (unchanged)

Price as of May 10 th	€15.2
Number of shares (mln)	6.2
Market capitalization (€/mln)	82.4
Market segment	Euronext Growth
Performance	from IPO
Absolute	+17%
Max / Min	17.8 / 14
Average daily volumes ('000)	9,255

(€/mln)	2021	2022E	2023E	2024E
Revenue	52.2	56.7	62.3	67.7
yoy change (%)	41%	9%	10%	9%
VoP	55.4	58.1	63.8	69.4
yoy change (%)	46%	5%	10%	9%
Adjusted EBITDA	13.5	12.2	15.9	18.9
margin (%)	24%	21%	25%	27%
EBIT	10.4	9.5	12.8	15.5
margin (%)	19%	16%	20%	22%
Group Net income	8.2	7.2	9.6	11.5
margin (%)	15%	12%	15%	17%
Adj Net Debt (cash)	0.0	(1.9)	(5.4)	(11.2)
Shareholders' Equity	26.1	30.8	38	46.5
Capex	3.3	2.5	2.5	2.5
Free Cash Flow	4.1	4.7	5.5	8.4

Source: Banca Profilo estimates and elaborations, Company data.

Normalized performance (since IPO)



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Executive summary

Cofle in a nutshell

Cofle: OEM addressed to Agriculture; Aftermarket addressed to Automotive

Cofle is a multinational company operating as Original Equipment Manufacturer (OEM) (62% of Group's revenues) mainly for top worldwide producers of agricultural & earthmoving machineries, but also for luxury automotive and light commercial vehicles manufacturers. Cofle is also active in the Aftermarket (38% of Group's revenues), specialized in the production of automotive aftermarket parts on a global scale.

Vertically fully integrated value chain. Production plants in key geographies

Cofle production is organized and highly structured with global integrated facilities to meet top multinational customers' needs cantered on shifting from overstretched supply chain to locally based suppliers. Key competitive advantage is leveraging on established local presence especially in Turkey and India to lower production costs and boost market shares.

OEM value chain: from co-engineering to highly tailored made Cofle branded products

OEM products are meant to be highly customized and tailor made to meet the challenging requirements of top clients. Standardization is minimal enough to allow cost efficiency. The Group is part of its customers vendor list so that, when top companies in agricultural & earthmoving machinery industry are going to launch a new project, Cofle is involved from the beginning on any aspects related to control systems and cables. The life cycle of tractors/agricultural and/or earthmoving machineries usually ranges from 5 to 7 years; this means that anytime the Group is involved in a new project, Cofle is included in the vendor list of its clients for a long period: a key factor to strengthen the long-term relationships with customers.

Aftermarket: both Cofle branded and third-party branded products

The Aftermarket division offers highly standardized products serving both leading Aftermarket Players such as Continental and Bosch under third-party brand, as well as large distributors under Cofle's brand. The brand, with different logos, is registered in more than 15 Countries.

The two different categories of customers sale Cofle products through retail channel to selected compatible automakers, including luxury carmakers such as Porsche, Mercedes, Jaguar.

From Trezzo sull'Adda to Palazzo Mezzanotte

In almost 60 years of activity, Cofle has established an excellent relationship with their customers that is fundamental for Group constant growth and innovation. From a small local manufacturing company, thanks to the know-how developed over the years, Cofle became a global entity present in five countries: Italy, Turkey, India, Brazil and China, accounting more than 500 employees.

Cofle was listed on the Euronext Growth segment on 11th November 2021 at €13/share. The share capital is represented by 6,153,276 shares with a floating of 21.6% including the anchor investors (Smart Capital and Palladio) which own 310,608 shares.

Barbieri's Family owns the remaining 78.4% of Cofle Group through its holding Valfin Srl. In details: Walter Barbieri, Chairman and CEO of the Group, holds 70% of Valfin through Finan.co Srl, whereas Alessandra Barbieri, global Head of Communication and Marketing and Investor Relation Manager, owns 30% of the holding.

Main financial data and estimates (2021-2025E)

Revenue increased by 8.8% on average from 2015 to 2021.

From 2015 to 2021, Cofle's revenue grew from €34.1mln to €52.2mln, registering an average yearly increase of 8.8%. After a slowdown in growth in 2020, with revenue in line with 2019 due to the pandemic, in 2021 the Company registered a strong rebound driven by both business lines: the OEM, which rose by 56.3% yoy and the AM which rose by 21.9% yoy.

Farm tractors Industry is expected to grow at 5.8% CAGR 20-27E

In terms of units, the Industry is expected to grow at a 5.8% CAGR 2020-2027E, reaching an estimated value of \$103bn (vs \$85.5bn of 2021 estimates), driven by: i) EU approval for the cultivation of unused agricultural land to produce cereals and protein crops, potentially unlocking 4mln hectares in Europe, of which 200k in Italy; ii) the European Stage V Regulation, aimed at reducing pollutant emissions from tractors; iii) the consequences of the conflict in Ukraine, where Russian soldiers have been destroying or requisitioning the Country's tractors fleet, creating the conditions for a strong demand at the end of hostilities. The Aftermarket industry is expected to expand at a 3.4% CAGR 2022E-2030E, driven by: i) the pursuit of automobile drivers to enhance their vehicle performance in terms of exhaust sound, speed, and appearance parameters along with many other aspects; ii) the increasing miles record driven by growing vehicle population; iii) the increase in the average age of the automotive fleet (-1.5% of new passenger cars in European market in 2021), supporting the demand for spare parts.

Aftermarket Industry is expected to increase at 3.4% CAGR 22E-30E

Estimates revision: in 2022 no change in our revenue forecast; downward revision of margins but net working capital optimization

As regards 2022, we kept unchanged our previous revenue forecast at €56.7mln (+9% yoy); due to the heavy impact of raw materials costs starting from the 2H21 and persisting, we increased our estimates to €21.8mln from previous €19.3mln or 46% from 34% of revenue respectively; as a consequence, we now see adjusted EBITDA at €12.2mln or 21% margin, down from €15.8mln or 27% margin and some 340bps below 2021 figures. Although we expect lower margins for 2022 due to exogenous causes, Free cash flows will be sustained by Operating NWC optimization. Furthermore, we updated our projections in 2023-2024: we kept unchanged our previous revenues forecasts at €62.3mln and €67.7mln in 2023-2024; margins will register a strong rebound from their drop in 2022 due to costs normalization. However, raw materials and service costs are still projected higher than our old estimates, with an incidence of 40% and 18% respectively in 2024, compared to our old forecast at 33% and 17%. Therefore, we now expect adjusted EBITDA at €18.9 in 2024 or 27.2% margin (vs our previous estimate at 29.7%). Operating NWC estimates improved to €22.9mln in 2024E compared to previous €26.5mln thanks to better management of receivables and payables experienced in 2021, with operating NWC now seen at 33.4% of revenue vs previous forecast at 38.7%. Finally, we expect a net cash position of €11.2mln in 2024 compared to our previous estimate at €10mln.

In 2023-2024, strong rebound for margins

NWC and Fixed assets driven by business expansion

Valuation

DCF approach well appraises a cash generating model

Given Cofle's cash generating business model, a DCF method well adapts as a valuation approach. Furthermore, we have selected a sample of listed international companies "comparables" to Cofle, in order to suggest an appropriate sample for the relative valuation through market multiples.

DCF assumptions: €28.8mln of cumulated FCFs in 2022-2025; WACC at 7.9%

To run a DCF Model, we would use our projections of FCFs for the 2022E-2025E explicit period: €28.8mln of cumulated FCFs or €7.2mln as yearly average. We would use a WACC of 7.9% (in line with our previous report in December 2021) derived from: risk free rate at 3.0%, as implicitly expected by consensus on the 30Y Italian BTP yield curve (moving average of the last 100 days) with an estimated increase in interest rates; market risk premium equal to 5.5%; beta of 1.5, coming from the average of chosen listed peers; target Debt-to-Equity structure, with 54% weight of Equity.

Cofle: stronger margins compared to its competitive arena

We selected 9 "comparables" to Cofle: Brembo (Italy), Comer Industries (Italy), Haldex (Sweden), SKF (Sweden), CIE Automotive (Spain), Kongsberg Automotive (Norway), Suprajit Engineering (India), Mayville Engineering Company (USA), and Meritor Inc. (USA): in terms of sales, consensus estimate a fluctuating trend in growth, with an average 10.3% in 2022, a drop to 5.4% in 2023 and a strong rebound to 14.7% in 2024. For Cofle, we estimate a smoother trend, lower than consensus for its competitive arena in 2022 and 2024 but much higher in 2023.

In terms of EBITDA, we forecast for Cofle a much stronger performance during next years, with a margin seen at 27.2% in 2024 compared to a consensus on its peers of an average 15.2%.

*Market multiples
valuation: €15.4/share*

We used the adjusted EBITDA expected in 2023E, as we consider it as a normalized figure, whereas 2022E projections have been impacted by current uncertain and complex global growth and inflation scenario. This leads to an Equity Value of €94.9m or €15.4/share.

TP at €19.2/share; BUY

Since our last report (December 2021) market multiples have been impacted by the current context of high inflation, spike in raw materials prices, supply chain bottlenecks and Covid-related backlash in some regions. Current level of market multiples can thus be misleading and shall normalize in a more definite global growth and inflation scenario. Therefore, we choose to increase the weight of DCF valuation in our average-related (DCF, multiples) valuation method, as we expect a rerating of multiples in the coming months. Our weighted average of DCF fair value (2/3) and relative market multiples (1/3) valuation brings our 12-month Target Price to €19.2/share, unchanged vs our previous report in December. Given the significant potential upside on Cofle's closing price (as of May 10th, 2022), we confirm our BUY recommendation.

SWOT analysis

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • Multinational Company • Strong commitment in eco-sustainability • Strongly investing on corporate culture, brand awareness and innovative marketing • A wide portfolio of patented products • Geographically diversified production • Top end customers • Focus on innovation and R&D • Distinctive Know-How • Resilience to global recession • Long-lasting client relationships 	<ul style="list-style-type: none"> • Revenue concentration by client • Slow process of digitalization • High correlation between Automotive and Covid-19 crisis
OPPORTUNITY	THREATS
<ul style="list-style-type: none"> • New demand from the EU release of constraints on agricultural land • Large potential in Eastern Europe for both OEM and Aftermarket segments • Strategically positioned to boost long term expansion • Only at the beginning of international scalability • OEM Expansion into Luxury Automotive & Light Commercial Vehicles • Growth through M&A • Production capacity expansion • Major technological upgrade involving farm tractors in the next decade 	<ul style="list-style-type: none"> • Intensifying competition within large manufacturers • High growth rates could lead to cost management issues • Internalization of Cofle process by its main customer • Cannibalization risk of products under Cofle's brand and Third-Party brand

The reference market

Cofle's main businesses: Original Equipment Manufacturers and Aftermarket

Cofle is a multinational company operating as Original Equipment Manufacturer (OEM) (62% of Group's revenues) mainly for top worldwide producers of agricultural & earthmoving machineries, but also for luxury automotive and light commercial vehicles manufacturers. Cofle is also active in the Aftermarket (38% of Group's revenues), specialized in the production of automotive aftermarket parts on a global scale.

The Original Equipment Manufacturer Industry

Global farm tractors industry expected to grow at a 5.8% CAGR 2020-2027E

Cofle's main end market in the OEM segment is the agricultural and earthmoving machineries. Since 2016, the global farm tractors market grew constantly, even during the pandemic, where more than 1mln units of farm tractors have been sold (+5.2% yoy), of which 150k installing Cofle's systems. In terms of units, the Industry is expected to grow at a 5.8% CAGR 2020-2027E, reaching an estimated value of \$103bn (vs \$85.5bn of 2021 estimates), driven by:

Population dynamics and technological trend will drive the market

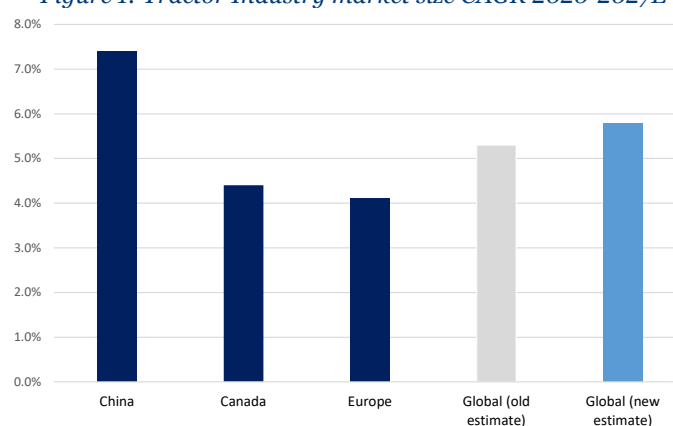
- population increase from 7.9bn in 2021 to about 10bn in 2050, which will stimulate food demand in next decades;
- rising mechanization and increasing productivity and efficiency requirements;
- commitment to reduce tractors pollution;
- crop production increase by 18% in the coming decade, from approximately 133.9 tonnes/hectares in 2021 to 158 in 2030;
- concerns about food poverty and malnutrition in developing countries;
- shorter tractor replacement cycle, from nearly 12 to 8 years;
- the introduction of alternative fuels that are likely to increase market growth;
- improved agricultural credit flow;
- labour migration

New trends will also drive the OEM market

In addition, new trends will boost the demand in OEM:

- EU approval for the cultivation of unused agricultural land to produce cereals and protein crops, potentially unlocking 4mln hectares in Europe, of which 200k in Italy;
- the European Stage V Regulation, aimed at reducing pollutant emissions from tractors. During this phase, all tractor manufacturers have taken advantage from this regulation to renew their cabins;
- the consequences of the conflict in Ukraine, where Russian soldiers have been destroying or requisitioning the Country's tractors fleet, creating the conditions for a strong demand at the end of hostilities.

Figure 1: Tractor Industry market size CAGR 2020-2027E

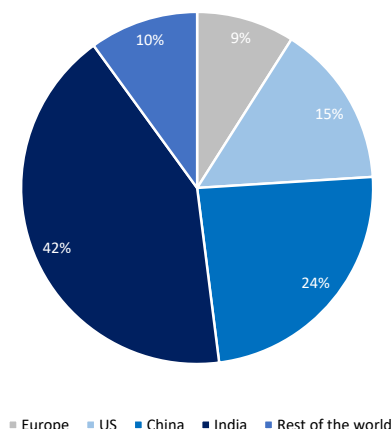


Source: Banca Profilo elaborations on "Farm Tractors - Global Market Trajectory & Analytics" data

China's tractor industry should show the biggest growth, depending on the pandemic evolution

China's tractor industry is forecasted to reach a market size of \$33.2bn in 2027, with a 7.4% CAGR 2020-2027E, followed by Canada with a 4.4% CAGR and Europe with a 4.1% CAGR. However, China is experimenting a Covid-related backlash, which has been affecting growth, logistics and supply.

Figure 2: 2020 global tractor market shares

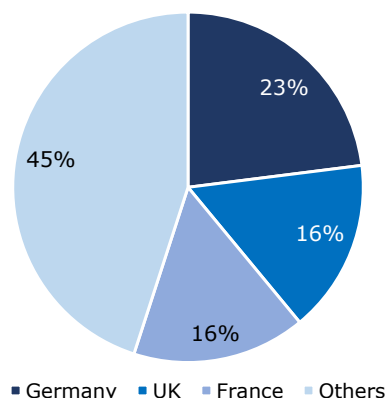


Source: Banca Profilo elaborations on Farm tractors – Global Market Trajectory & Analytics data

European tractor market expected to grow 4.1% CAGR 22E-27E: Germany is the leading market

The European agricultural tractors market is projected to register a 4.1% CAGR in 2022E-2027E. Germany is one of the largest markets: the country generates more than 27% of agricultural machinery and equipment components manufactured in Europe. Other big markets are UK where, in terms of value, the sales of tractors, coupled with the accessories, account for almost half of the expenditure of the farmer, and France, which has been a pioneer in mechanizing the agriculture sector. Agriculture in the European Union has traditionally been a labour-intensive sector, characterized by a higher number of seasonal immigrant workers moving to farm fields in the member states. However, an acute shortage of farm labour has currently surfaced on the farm fields in the Region: with the availability of advanced technology, coupled with the declining availability of farm labour, farmers are shifting toward the use of tractors in agriculture, as they aid in saving time and resources, decrease costs, and enhance productivity.

Figure 3: European agricultural tractor machinery market (revenue share)



Source: Banca Profilo elaborations on Mordor Intelligence data

Farm tractors: a very concentrated industry

The agricultural tractors market is highly concentrated, with very few players holding most of the market share. New product launches, partnerships, and acquisitions are main strategies for growing globally. Along with innovations and expansions, investments in R&D and developing novel product portfolios are likely to be crucial for the coming years. Main end-market players are key Cofle's costumers.

Figure 4: Tractor Industry major players



Source: Banca Profilo elaborations on Mordor Intelligence data

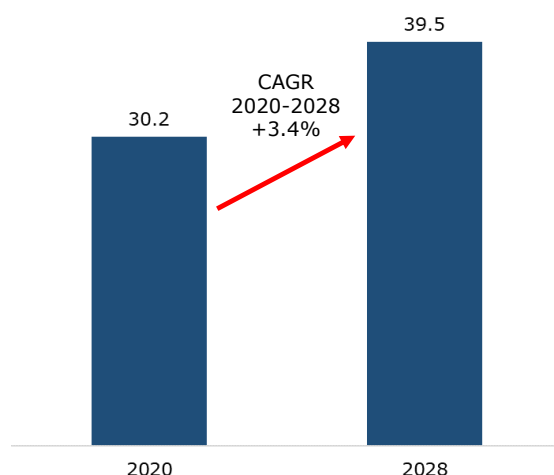
Global wheat production seen at 782mIn tons in 2022, impacted by the conflict

In 2022, global wheat production is seen at 782mIn tons, below previous estimates of 784mIn tons, mostly because of persistent drought in the US. Outlook for Ukraine is unchanged at "below-average-level" and the conflict is likely to reduce the harvested area by at least 20%. Due to the consequences of the conflict, Europe decided to release the constraints on unused agricultural land for the production of cereals and protein crops: this will potentially unlock 4mIn hectares in Europe, of which 200k in Italy, and is likely to stimulate demand for agricultural mechanization.

OEM's Automotive-related market is expected to increase at 3.4% CAGR21-28E

A small part of Cofle's OEM business relates to the Automotive market. This Industry is estimated to grow at \$39.5bn by 2028 at a 3.4% CAGR. Automotive OEMs are those manufacturers active in the production of high quality and finest components and devices for vehicles. These parts are used during the assembly and manufacturing of the vehicle.

Figure 5: Automotive OEMs market growth (\$bn)



Source: Banca Profilo elaborations on Mordor Intelligence data

Europe leads the Automotive OEM's market

Automotive OEM's growth will be driven by

- rapid technological products upgrade;
- need of light-weighted fuel-efficient advanced OEM parts amid presence of stringent regulations for fuel efficiency and vehicle emissions;
- Government incentives, high disposable incomes in developing countries and easy availability of raw materials;
- the increase in automotive production across emerging economies, associated with the high demand for luxury and hybrid vehicles;

- the rapid technological advancements and high demand for batteries due to increased focus on innovation in automotive parts as well as high demand for filters from diesel engine vehicles.

New trends adding to historical mega trends in Europe OEM

In addition, other new factors are expected to drive this market in the years to come:

- the rapid tech evolution and increasing demand for batteries coming from intensifying focus on automotive parts automation;
- high demand for filters addressed to diesel engine vehicles;
- rapid rise in the European demand for passenger cars and commercial vehicles outfitted with advanced brake technologies;
- increase in in Asia-Pacific vehicles demand.

However, the market of Automotive OEM has certain limitations which are expected to obstruct its potential growth, including high cost of OEM parts and components and the presence of counterfeit OEM products.

The Aftermarket Industry

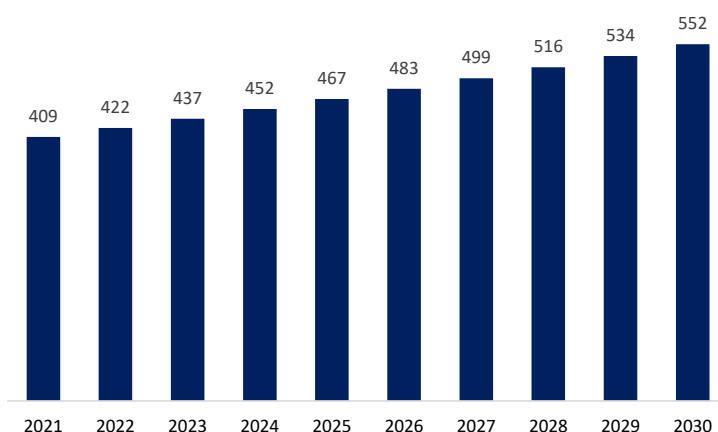
Aftermarket Industry to grow at 3.4% CAGR 22E-30E

The Aftermarket industry is related to companies that supply goods after remanufacturing, retailing, and distribution. Typically, it is a secondary market where goods, accessories, spare parts, and second-hand equipment are supplied. Automotive is one of the growing industries within the Aftermarket: global Automotive aftermarket size was worth \$408.5bn in 2021 and it is expected to expand at a 3.4% CAGR 2022E-2030E.

The market is driven by:

- the pursuit of automobile drivers to enhance their vehicle performance in terms of exhaust sound, speed, and appearance parameters along with many other aspects;
- the increasing miles record driven by growing vehicle population;
- the massive amount of vehicle maintenance that goes unperformed each year that is valued at almost \$60 billion.

Figure 6: Automotive Aftermarket size (\$/bn)



Source: Banca Profilo elaborations on Grand view research data

New factors involved in the market

Some new factors will also impact this market in upcoming years, such as:

- the increase in commodity prices, such as steel, plastic, silicon and aluminium;
- the impact of the conflict in Ukraine, which may cause supply shortage and push market sentiment towards caution;
- the increase in the average age of the automotive fleet (-1.5% of new passenger cars in European market in 2021), supporting the demand for spare parts.

Asia should lead the Aftermarket growth, but prudence is necessary

In terms of market size, Asia Pacific dominated the market with a share of 28.2% in 2021. At the end of 2030, growth is seen driven by China and the rest of Asia at an 8.1% and 6.5% CAGR 2017-2030E respectively. However, also in this case, Covid-related backlash is causing concerns on supply chain disruption from China, therefore prudence in expectations is necessary.

Figure 7: Aftermarket growth by region

Region	CAGR 17-30
Europe	1.5%
North America	1.6%
Cina	8.1%
Rest of Asia	6.5%
Rest of World	1.6%

Source: Grand view research

The Automotive Electronics market

Penetration of a new market for Cofle

Cofle decided to enter the Automotive electronics market, focusing on components for off-road vehicles, because the main supplier Elobau currently is having difficulties in managing significant growing demand and supply shortages, with consequent longer time-to-market, which leave demand for these products unsatisfied.

In order to quickly penetrate this market, Cofle is focusing on external growth, with a deal expected to be closed within 2022.

Global Automotive electronics market to grow 7.1% CAGR 22E-27E

The global Automotive Electronics market reached a value of \$272.3bn in 2021 and is expected to grow at 7.1% CAGR 2022E-2027E to \$415.6bn.

Automotive Electronics are employed in both on-road and off-road vehicles such as trucks, tractors, forklifts, excavators, motorcycles, and hybrid and electric cars. They are primarily used in the functioning of electronic fuel injection, driver assistance and infotainment system to improve the efficiency of the vehicle. Besides this, automotive electronics also include satellite-controlled devices for traffic surveillance and diagnostic tools to ensure optimum fuel utilization and maintain engine health.

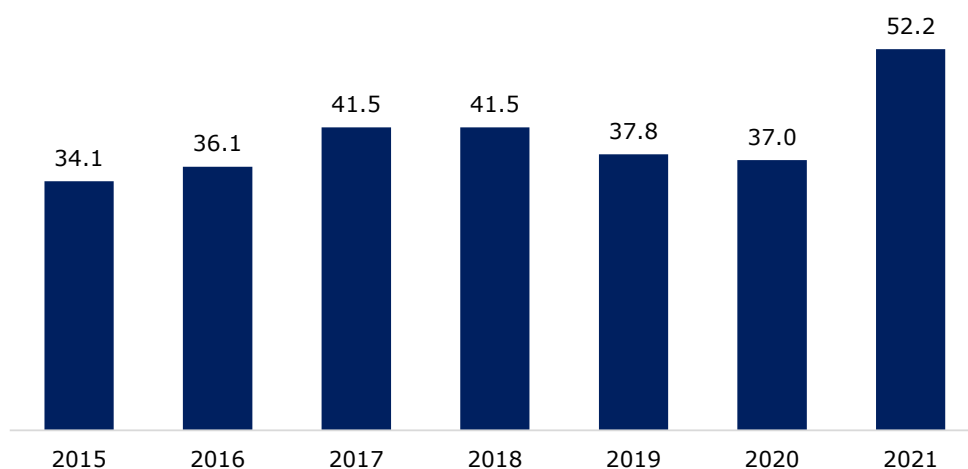
Historical operating and financial performance

Main operating and financial data FY21

Revenue increased by 8.8% on average from 2015 to 2021.

From 2015 to 2021, Cofle's revenue grew from €34.1mln to €52.2mln, registering an average yearly increase of 8.8%. After a slowdown in growth in 2020, with revenue in line with 2019 due to the pandemic, in 2021 the Company registered a strong rebound driven by both business lines: the OEM, which rose by 56.3% yoy and the AM which rose by 21.9% yoy.

Figure 8: Revenue evolution 2015 –2021 (€/mln)



Source: Banca Profilo elaborations on Company data

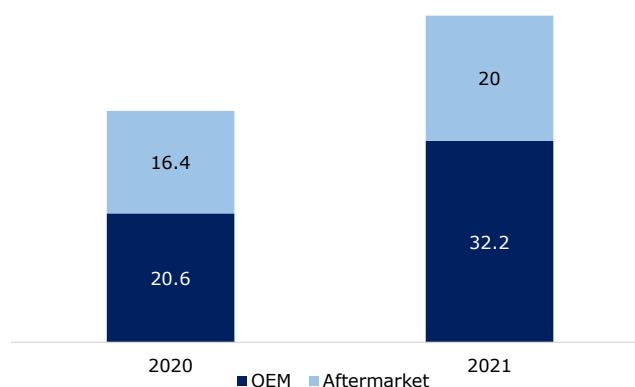
2021 results above our expectations

The results for 2021 were above our expectations, delivering total revenues of €53.9mln vs our estimates of €49.3mln, and an EBITDA of €12.9mln vs our forecast at €11.9mln. EBIT was slightly lower than our estimates (€10.4mln vs €10.7mln) due to higher D&A expenses, while Group net income was €1.2mln above expectations because of the positive impact of Turkish lira devaluation.

OEM: major contributor to Group sales

Cofle's revenues are mostly generated by the OEM division (62%), whereas the remaining part comes from the AM division (38%): in 2019 the two business units showed similar weight; since then the OEM business has prevailed and this trend is expected to continue also in the future.

Figure 9: Revenue breakdown by business unit 2020–2021 (€/mln)

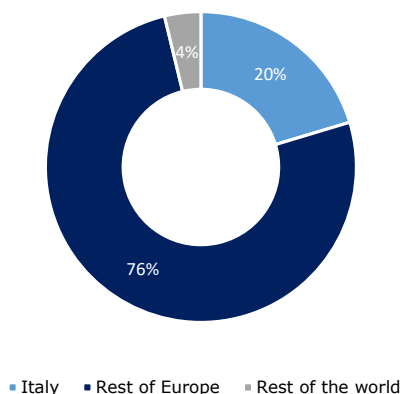


Source: Banca Profilo elaborations on Company data

Cofle is export-oriented: 80% of sales come from abroad

Cofle is an export-oriented company, with 200+ customers in more than 40 countries. In 2021, revenues coming from abroad accounted for about 80%: Europe is the leading market with a share of about 76% of total sales, followed by Italy at 20%.

Figure 10: 2021 revenue breakdown by region

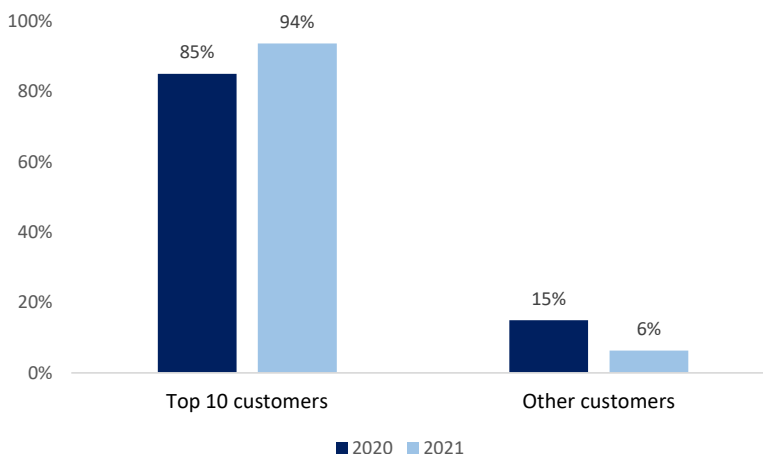


Source: Banca Profilo elaborations on Company data

OEM is a concentrated business unit

In 2021, Cofle's OEM division served almost 250 costumers, including top companies in the agricultural and earthmoving machinery business. This segment is highly concentrated, with clients mainly in Turkey (133), Italy (47) and Germany (12), which together account for €25.6mIn or 80% of OEM sales.

Figure 11: OEM's customers concentration trend

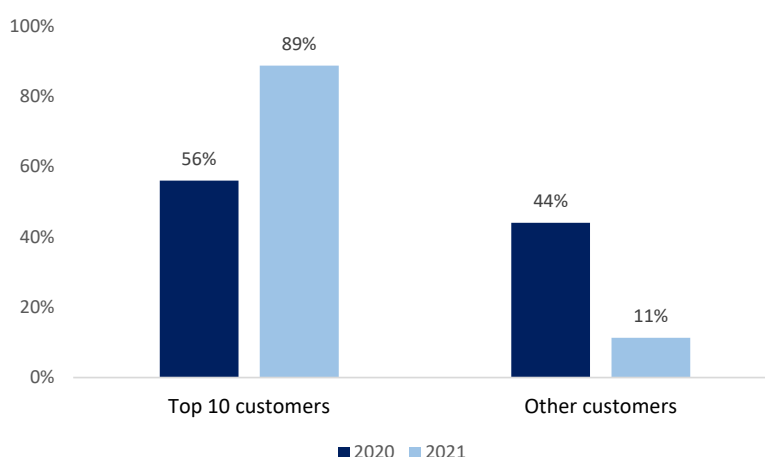


Source: Banca Profilo elaborations on Company data

AM sales also became more concentrated

As regards to the AM division, it served more than 110 customers including top companies in the automotive aftermarket business, mainly in Italy (19), Germany (9) and UK (8). This business line is more fragmented but, compared to 2020, it has also become more concentrated: top 10 clients now account for 89% of AM sales from 56% in 2020.

Figure 12: AM's customers concentration trend

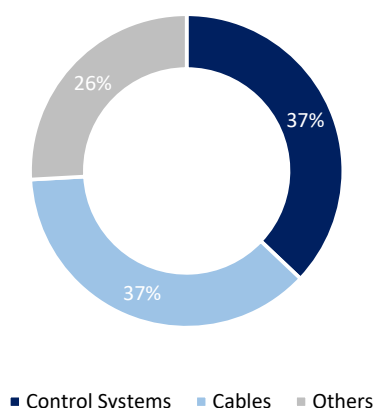


Source: Banca Profilo elaborations on Company data

OEM 2021 sales:
+56% yoy to €32mln

Cofle's OEM division is the most important in terms of sales. In 2021, it accounted for 62% of total sales vs 56% in 2020. It provides higher marginality and is less influenced by general sentiment. Control Systems and Cables represent key reference products with 74% of sales in 2021. Each category accounted for 37%; in particular, Cables turnover is made up of 22% by Push Cables and 15% by Pull Cables.

Figure 13: 2021 OEM's revenue breakdown by product



Source: Banca Profilo elaborations on Company data

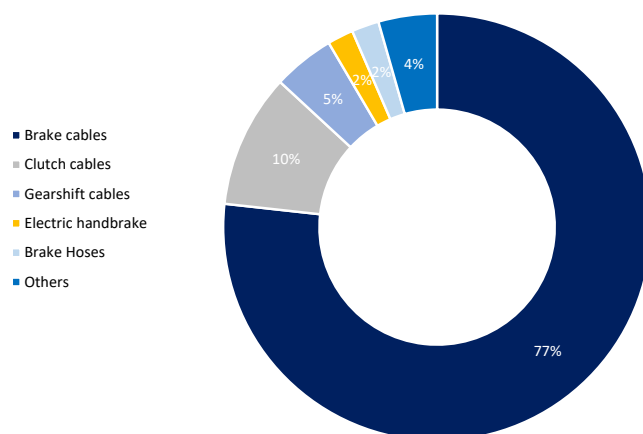
AM 2021 sales:
+22% yoy to €20mln

The AM division increased its turnover by 22% yoy to €20mln, reducing its weight on total sales to 38% from 44% in 2020: this trend is expected to continue because global uncertainties, such as the military conflict and supply chain shortages, impact on the demand and market sentiment. Brake Cables represented 77% of AM sales in 2021, followed by Clutch cables with 10%. The remaining part can be split into Gearshift cables (5%), Electric handbrake (2%) and Others (4%). Finally, a 2% is represented by Brake Hoses, one of the most recent Company's products.

Cofle's AM business may benefit from the ageing of existing vehicle fleet

In 2021, the Automotive market grew 5% yoy, only partially recovering from 2020 when it declined by 15% yoy: this stagnation may represent a growth driver for Cofle's AM demand due to the ageing of vehicles, which requires more spare parts.

Figure 14: 2021 Aftermarket's revenue breakdown by product

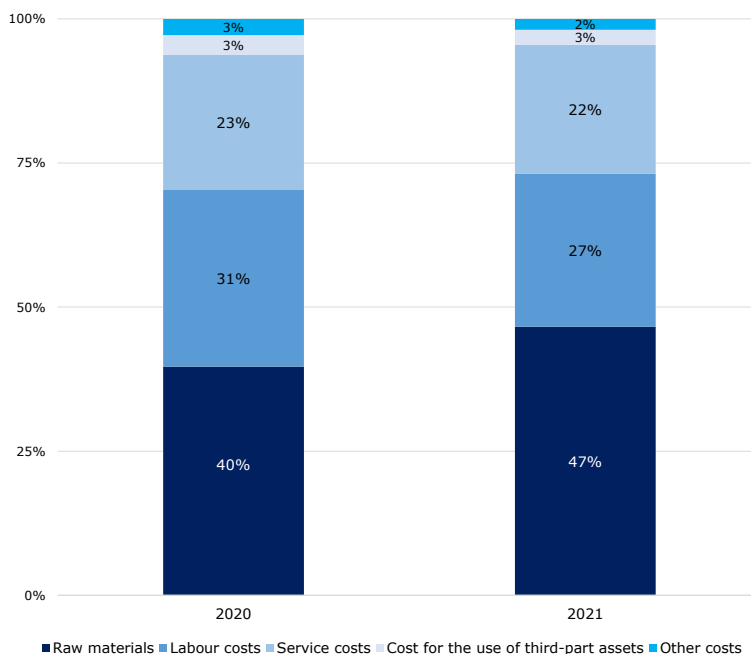


Source: Banca Profilo elaborations on Company data

Cost structure: a surge in raw materials pushed variable costs to 69% of revenues

Analysing Cofle's cost structure, in 2021 this was impacted by a surge in raw materials costs, which increased from €13.6mln in 2020 to €23mln in 2021, reaching 44% of revenues from 37% a year earlier. Due to this situation, variable costs surged to 69% of total costs from 63% in 2020. Among fixed costs, the main expenses are related to labour costs, equal to €11.3mln in 2021, up from €9.8mln in 2020, deriving from hirings (+10 units) and the stop to labour incentive measures.

Figure 15: Cost structure 2020–2021



Source: Banca Profilo elaborations on Company data

Adjusted EBITDA +69% yoy or 24% margin

In 2021, despite the surge in raw materials prices, adjusted EBITDA rose 69% yoy from €8mln to €13.5mln with margin improving by 330bps to 24.4%.

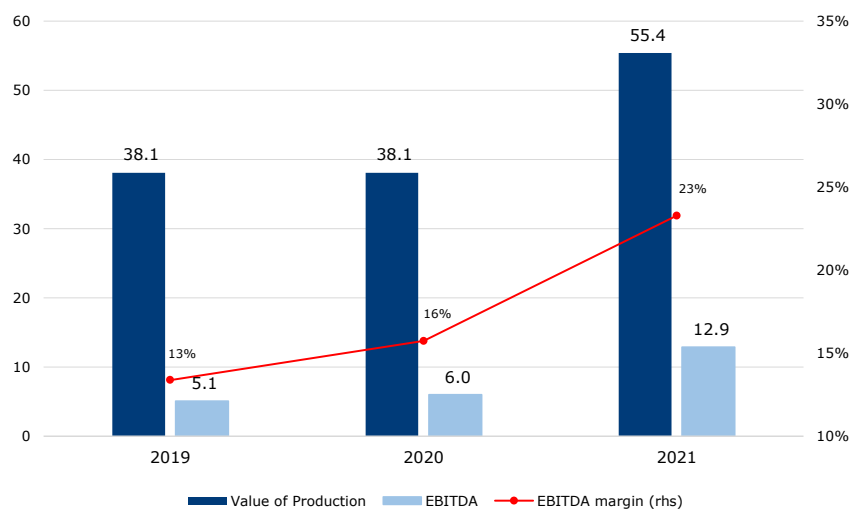
This rebound is partially driven by the recovery from the pandemic but also by:

- i) a rise in sales above expectations in the sector of off-road vehicles, especially in Italy (+35.9% yoy);
- ii) higher new tractor registrations in Turkey (+32.7% yoy);
- iii) market share consolidation in the AM;
- iv) a rapidly growing business volume in India.

EBITDA PAS target achieved

Furthermore, the Company was able to overcome the threshold of €13mln set as the Price Adjustment Share (PAS) mechanism. Hence 750,000 shares remained in the Barbieri Family's hands.

Figure 16: Value of Production and adjusted EBITDA trend 2019-2021 (€/mln)



Source: Banca Profilo elaborations on Company data

EBIT: +120% yoy to €10.4mln

EBIT moved up from €4.7mln in 2020 to €10.4mln in 2021 with margin improving 630bps to 18.7%, despite higher D&A (from €1.3mln to €2.5mln) more than offset by lower incidence of service and labour costs (18% and 22% respectively from 20% and 27% in 2020).

Group net income to €8.2mln from €3.4mln in 2020

Group net income rose to €8.2mln from €3.4mln in 2020. This increase came not only from higher margins but also from the substantial financial income coming from the Turkish lira devaluation, which contributed for €1.7mln to Group profit.

Table 1: Cofle's Profit & Loss 2019–2021

			2021A	
Profit & Loss (€/mln)	2019	2020	old estimate	actual
Revenues	37.8	37.0	48.7	52.2
yoy			32%	41%
OEM	19.7	20.6	30.0	32.2
yoy		4.8%	45%	56%
% on revenues	52%	56%	62%	62%
Aftermarket	18.1	16.4	18.7	20.0
yoy		-9.6%	14%	22%
% on revenues	48%	44%	38%	38%
Other revenues	0.5	0.4	0.6	1.6
Total revenues	38.3	37.4	49.3	53.9
yoy		-2%	32%	44%
Change in inventories	(0.3)	0.7	1.0	1.6
Value of Production	38.1	38.1	50.3	55.4
yoy		0%	32%	46%
Raw materials	(12.4)	(12.7)	(16.7)	(19.8)
Raw materials	(12.2)	(13.6)		(23.0)
Changes in inventories (raw materials)	(0.2)	1.0		3.2
% on revenues	32%	37%	34%	44%
COGS	(12.4)	(12.0)	(15.7)	(18.3)
% on total revenues	32%	32%	32%	34%
Gross margin	25.7	25.4	33.5	35.6
% on total revenues	67%	68%	68%	66%
Service costs	(7.1)	(7.5)	(8.5)	(9.5)
% on revenues	19%	20%	18%	18%
Cost for the use of third-part assets	(1.2)	(1.1)	(1.4)	(1.1)
% on revenues	3%	3%	3%	2%
Labour costs	(10.9)	(9.8)	(10.6)	(11.3)
% on revenues	29%	27%	22%	22%
Other costs	(1.3)	(0.9)	(1.2)	(0.8)
% on revenues	3%	2%	2%	1%
EBITDA	5.1	6.0	11.9	12.9
margin on VoP	13.4%	15.9%	23.6%	23.3%
yoy		18.3%	96.0%	113.3%
Non Recurring items	(0.1)	0.2	0.1	-
R&D Capitalization	0.6	0.7	-	-
IFRS 16 Adjustment	1.1	1.1	1.1	0.6
Adjusted EBITDA	6.8	8.0	13.0	13.5
margin on VoP	17.9%	21.1%	25.9%	24.4%
D&A	(1.2)	(1.3)	(1.2)	(2.5)
yoy		11.3%	-9.5%	92.4%
Provision for risks	-	(0.0)	(0.0)	(0.0)
EBIT	4.0	4.7	10.7	10.4
margin on VoP	10.4%	12.4%	21.2%	18.7%
EBT	3.8	5.0	10.4	11.6
margin on VoP	10.0%	13.1%	20.8%	20.8%
Taxes	(0.9)	(1.1)	(2.4)	(2.3)
Operating Net Profit	2.9	3.9	8.0	9.3
margin on VoP	7.6%	10.2%	16.0%	16.7%
Minorities	0.3	0.5	1.0	1.0
% minorities	11.7%	12.0%	12.0%	11.1%
yoy		34.3%	106.5%	138.1%
Group Net Profit	2.6	3.4	7.0	8.2

Source: Banca Profilo elaborations on Company data

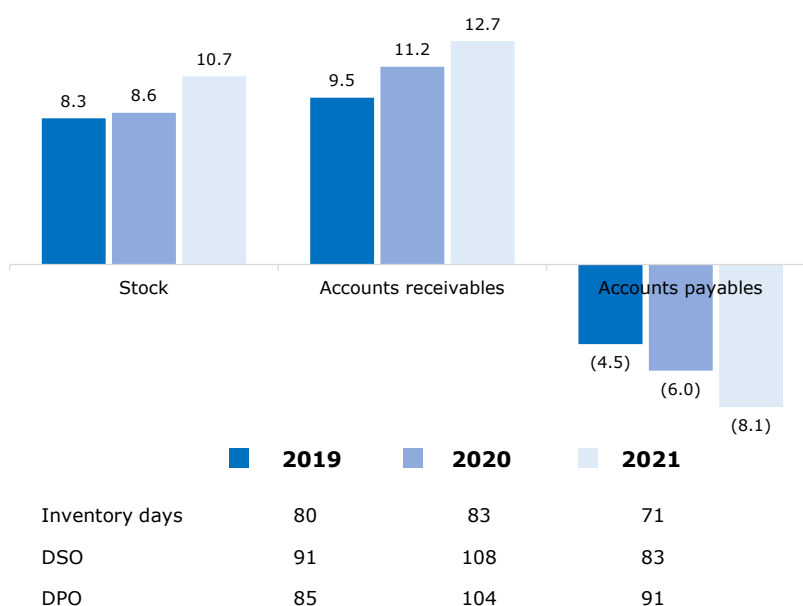
Balance Sheet:
expanding production
capacity to boost
growth

On the Balance Sheet side, at the end of 2021, the Group showed €9.1m of Fixed assets (€6.9m at the end of 2020), including €3.5m of tangible capex and €1.5m of intangible capex (€1.2m attributable to the capitalization of IPO costs). Structural total capex was therefore equal to €3.3m, higher than our previous estimates of €2m, due to stronger business expansion.

Operating NWC down
to 28.4% of total
revenues

Operating Net Working Capital rose to €15.3m at the end of 2021 (vs €19.2m of our old estimates) from €13.8m in 2020, reducing its incidence on total revenue to 28% from 37%, thanks to a lower incidence of stock and receivables which more than offset lower incidence of payables.

Figure 17: Operating Net Working Capital 2019–2021 (€/m)

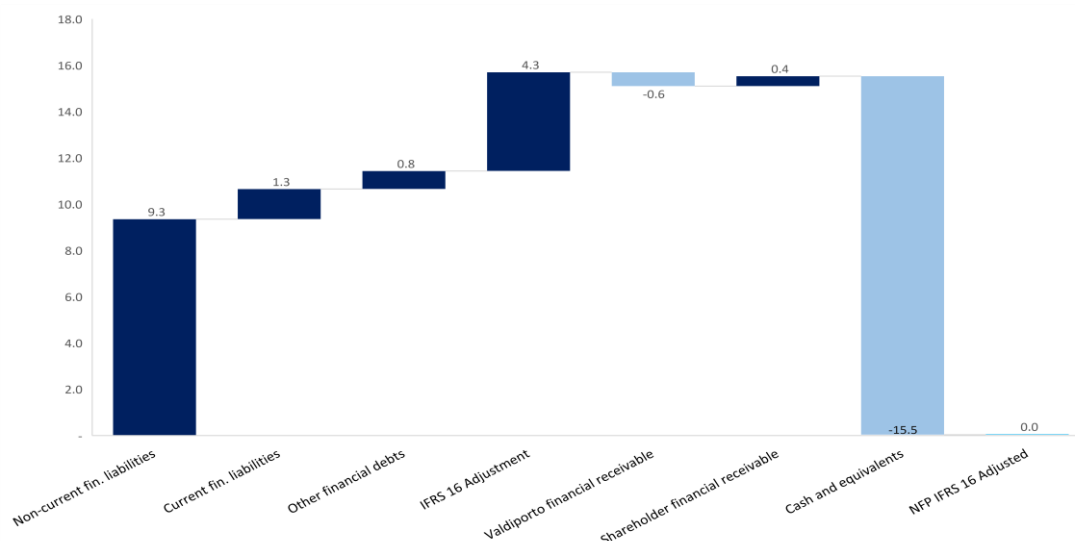


Source: Banca Profilo elaborations on Company data

IPO proceeds almost
erased net debt

At the end of 2021, adjusted net debt fell from €12.7m in 2020 to €31.35k (vs €0.6m of our old estimates), thanks to the IPO proceeds and cash flow generation.

Figure 18: 2021 adjusted net financial position (€/m)



Source: Banca Profilo elaborations and estimates on Company data

Table 2: Cofle's Balance Sheet 2019-2021 (€/mln)

Balance sheet (€/mln)	2019	2020	2021A	
			old estimate	actual
Stock	8.3	8.6	10.3	10.7
Accounts receivables	9.5	11.2	15.4	12.7
Accounts payables	(4.5)	(6.0)	(6.6)	(8.1)
Operating Net Working Capital	13.3	13.8	19.2	15.3
yoy	0.0%	4.2%	38.8%	10.6%
Other current asset and liabilities	(1.2)	0.2	(0.9)	(1.1)
Net Working Capital	12.0	14.0	18.3	14.2
Intangibles	0.9	3.0	4.7	3.8
Tangibles	3.4	3.0	3.6	4.5
Financials	1.1	1.0	0.1	0.7
Fixed Asset	5.4	6.9	8.4	9.1
Funds	(1.8)	(1.6)	(1.8)	(0.8)
Other asset and liabilities	0.0	0.0	-	0.0
Net Invested Capital	15.7	19.3	24.9	22.5
Equity	7.1	10.2	28.8	26.1
Net debt (cash)	8.6	9.1	(3.9)	(3.6)
IFRS 16 Adjustment	6.0	4.8	4.5	4.3
Valdiporto adjustments	(0.1)	(1.3)		(0.6)
Adjusted net debt (cash)	14.5	12.7	0.6	0.0
Liabilities	15.7	19.3	24.9	22.5

Source: Banca Profilo elaborations and estimates on Company data

Free Cash Flow 2021 at €4.1mln

Given an Operating Cash Flow of €9.7mln and Capex of €3.3mln (excluding IPO costs), the Free Cash Flow stood at €4.1mln in 2021, compared to our estimate at €2.4mln. This came from a lower change in Operating NWC (€1.5mln vs €4.3mln) due to a faster cash collection capacity and higher payables.

Table 3: Cofle's Free Cash Flow 2019-2021 (€/mln)

Free Cash Flow (€/mln)	2019	2020	2021A	
			old estimate	actual
EBIT		4.7	10.7	10.4
taxes		(1.4)	(3.2)	(3.1)
NOPAT		3.3	7.5	7.3
D&A		1.3	1.2	2.5
Operating cash flow		4.6	8.6	9.7
Change in Net operating working capital		(0.6)	(4.3)	(1.5)
Other funds		(0.1)	0.1	(0.9)
Capex		(0.2)	(2.0)	(3.3)
Free Cash Flow		3.7	2.4	4.1

Source: Banca Profilo elaborations and estimates on Company data

2022-2025 Strategy and financial estimates

Corporate strategies and ongoing projects

*Clear goals:
exploitation of new
demand; penetration of
new markets;
anticipation of future
trends; M&A
opportunities*

For the next years, Cofle is set to consolidate its global presence and expand its business further.

The Company's growth strategy is based on the following key pillars:

- OEM business:
 - penetrating the market for off-road vehicles electronic components to catch unsatisfied demand due to supply chain shortages;
 - exploiting the new impulse to agricultural mechanization that will come from the release of land constraints by the European Union;
 - benefiting from the demand for tractors from the Ukrainian market due to the destruction of the fleet by Russia;
 - creation of ITG Turkey to export Italian design and know-how for tractors and to capture new trends in tractors engineering;
 - catching the wave of secular population and food demand dynamics. In 2027, the Farm Tractors market is expected to be worth \$103bn;
 - strengthening its foreign presence;
 - innovating through R&D (new mechatronic products);
 - external growth through acquisitions in order to accelerate the cross-selling process and penetrate new markets;
 - further strengthening of long-term relationships with current customers;
 - expanding the Italian OEM logistic centre to serve top costumer with higher volumes and faster time-to-market.
- Aftermarket business:
 - penetrating the European Automotive Aftermarket as it is expected to grow by 23% in 5 years, from €209bn in 2020 to €257bn in 2025E;
 - leveraging on Italian and Turkish production plants to serve more mature Western European customers;
 - leveraging on Italian and Indian production plants to serve the promising high growth Eastern European market;
 - seizing on the huge opportunities coming from the EPB and Brake Hoses newly developed range of products;
 - external growth through acquisitions in order to accelerate the cross-selling process;
 - upgrading logistics in order to reduce the time-to-market

*New projects to boost
revenue growth*

Recent projects are going to expand products range.

- INEOS GRENADIER: Cofle's technology will be aboard this new off-road vehicle and is expected to bring €3.8mln over 2022E-2023E;
- STAGE V: the European Stage V Regulation is now in force to reduce pollutant emissions from off-road vehicles. In this phase, tractor manufacturers renewed their cabins including Cofle's controls systems, such as PTO, handbrake and shifter levers;
- NEW PUSH BUTTONS: the Company is developing innovative electronic buttons with reed technology and internal LED. On average, a tractor contains between 15 and 20 of these buttons which are sold for a unit price of €5-7;
- ITG Turkey: the new subsidiary will be focused on the design and engineering of off-road vehicles;
- BRAKE HOSES: success above expectations due to high standard quality;
- ELECTRONIC PARKING BRAKE SYSTEM: Cofle is second to leading manufacturer of this product, which it expects to grow 5% yoy on average in the next years.

Our 2022E-2024E estimates revision

Focus on 2022E: no change in our revenue forecast; downward revision of margins but net working capital optimization

Following FY2021 results above our expectations but needing to evaluate a scenario of inflationary pressures, weakening economic growth and geopolitical tensions, we revised our FY2022 estimates. We basically kept revenue projections unchanged but revised downward our forecast on marginality for the persisting increase in raw materials, energy and transportation, for increasing interest rates and for potential raw materials procurement shortage. On the Balance Sheet, we appreciated net working capital optimization and slightly increased capex. We end up with some 7% rise in Free Cash Flow in 2022E.

Shifting revenue breakdown towards OEM at 68% vs previous 64%

In details, we kept unchanged our previous revenue forecast in 2022 at €56.7mln (+9% yoy); yet we shifted part of the contribution towards OEM business, from €36mln to €38.3mln or from 64% to 68% contribution to revenues, in line with FY21 trend, which has been confirmed by recent 1Q22 disclosure. Furthermore, the Aftermarket business is affected by general sentiment, which is currently impacted by the Ukraine war and the surge in commodities price. Opposite, the OEM is benefiting from recent trends: the acceleration in demand in Agriculture in a scenario of procurement shortage; the approval from the EU for the cultivation of unused agricultural land and the European Stage V Regulation, that will both boost agricultural mechanization; the consequences of the conflict in Ukraine, where the tractors fleet will have to be rebuilt.

Lower margins due to the persisting increase in raw materials prices

Due to the heavy impact of raw materials costs starting from the 2H21 and persisting, we increased our estimates to €21.8mln from previous €19.3mln or 46% from 34% of revenue respectively. Moreover, we reflected into 2022E the cost of services and labour trend seen in 2021, thus increasing the first to €11.2mln from previous €9.6mln and reducing the latter to €11.6mln from €12mln (including some 30 additional units, but also a decline in the average cost due to the additional use of cheaper workforce). Therefore, we now see adjusted EBITDA at €12.2mln or 21% margin, down from €15.8mln or 27% margin and some 340bps below 2021 figures.

Finally, Group net income is now expected at €7.2mln from our previous estimate at €8.8mln. We assume further Turkish lira devaluation this year as a government measure to face unsustainable inflation (70%).

Improved management of Net Working Capital

Although we expect lower margins for 2022 due to exogenous causes, Free cash flows will be sustained by Operating NWC optimization: stock is seen at €12mln (unchanged from previous estimates), but receivables will be down to €13.7mln from €18mln of old estimates. On the other side, payables will experiment a slight increase from €8.1mln in 2021 to €9mln in 2022, compared to €7.5mln of old projections.

As regards to Fixed assets, we estimate a value of €9.7mln compared to our previous €8.2mln for higher tangible capex following a more rapid expansion of the business.

Finally, net financial position is further reduced to a net cash position of €1.9mln compared to previous estimates of €0.9mln, thanks to the improvement of NWC management.

Estimates revision for 2023-2024

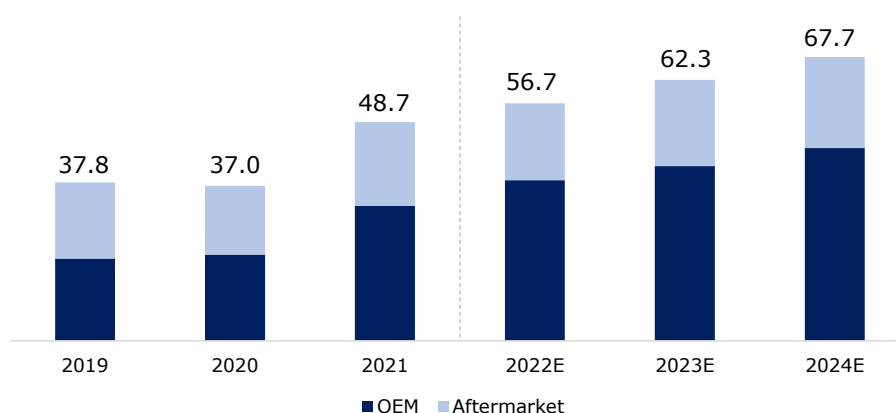
Following our estimates revision on 2022, we updated our projections in 2023-2024. We kept top line forecast unchanged, with margins recovering from the drop in 2022 and registering strong growth thanks to costs normalization, as we expect a peak in raw materials, and boosted by new Company's projects which imply improving marginality. On the Balance Sheet, we increased NWC following projected business expansion and kept a slight increase in capex.

An increasing share in OEM business

In details, we kept unchanged our previous revenues forecasts at €62.3mln and €67.7mln in 2023-2024; again, we shifted part of the contribution towards OEM business, from 66% to 68% in 2024 considering the persistence of the aforementioned trends in OEM at the expense of the Aftermarket. Overall, we expect a 9% revenue CAGR 21-24E driven by i) new products; ii) increasing demand for agricultural

mechanization; iii) the penetration of electronic components market also supported by M&A operations; iv) above expectations sales of brake hoses and EPB system.

Figure 19: Revenue trend 2019-2024E (€/mln)

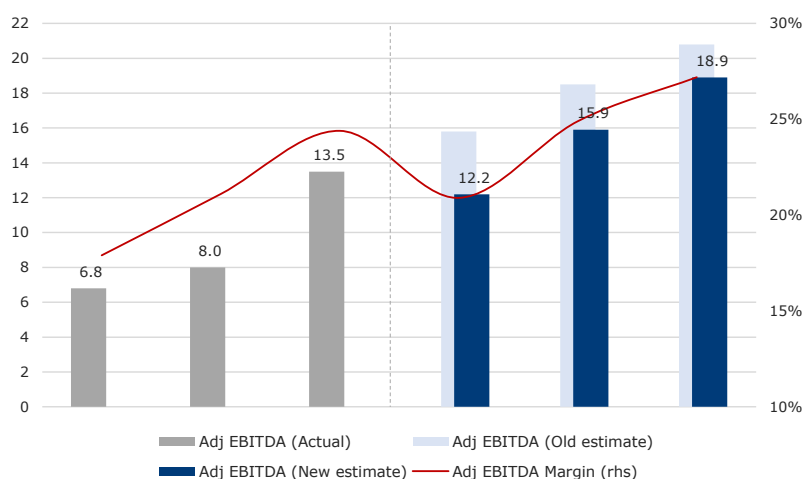


Source: Banca Profilo elaborations and estimates on Company data

Strong rebound for margins

Margins will register a strong rebound from their drop in 2022 due to costs normalization. However, raw materials and service costs are still projected higher than our old estimates, with an incidence of 40% and 18% respectively in 2024, compared to our old forecast at 33% and 17%. Therefore, we now expect adjusted EBITDA at €18.9 in 2024 or 27.2% margin (vs our previous estimate at 29.7%) with a stronger rebound to 30.3% yoy in 2023 and 18.8% yoy in 2024 compared to our previous projections at 17% yoy and 12% yoy respectively, thanks to higher marginality of the OEM business.

Figure 20: Adjusted EBITDA (€/mln) and adjusted EBITDA margin (%) trend 2019-2024E



Source: Banca Profilo elaborations and estimates on Company data

Finally, Group net income is expected at €11.5mln in 2024 from our previous estimates of €11.8mln. As for the dividends, we assume a constant 24% pay-out ratio on consolidated Net income.

Table 4: Cofle's Profit & Loss 2021-2024E (€/mln)

		2021A		2022E		2023E		2024E	
Profit & Loss (€/mln)		old estimate	actual	old	new	old	new	old	new
Revenues		48.7	52.2	56.7	56.7	62.3	62.3	67.7	67.7
	yoy	32%	41%	16%	9%	10%	10%	9%	9%
	OEM	30.0	32.2	36.0	38.3	40.4	41.7	44.7	46.0
	yoy	45%	56%	20%	19%	12%	9%	11%	10%
	% on revenues	62%	62%	64%	68%	65%	67%	66%	68%
	Aftermarket	18.7	20.0	20.7	18.3	21.9	20.6	23.0	21.7
	yoy	14%	22%	11%	57%	6%	12%	5%	5%
	% on revenues	38%	38%	36%	32%	35%	33%	34%	32%
Other revenues		0.6	1.6	0.7	0.8	0.8	0.9	0.8	1.0
Total revenues		49.3	53.9	57.4	57.5	63.1	63.2	68.5	68.7
	yoy	32%	44%	16%	7%	10%	10%	9%	9%
Change in inventories		1.0	1.6	1.1	0.6	1.2	0.7	1.4	0.7
Value of Production		50.3	55.4	58.5	58.1	64.3	63.8	69.9	69.4
	yoy	32%	46%	16%	5%	10%	10%	9%	9%
Raw materials		(16.7)	(19.8)	(19.3)	(21.8)	(20.6)	(23.1)	(22.3)	(23.9)
Raw materials			(23.0)		(25.8)		(26.8)		(27.1)
Changes in inventories (raw materials)			3.2		4.1		3.7		3.2
	% on revenues	34%	44%	34%	46%	33%	43%	33%	40%
COGS		(15.7)	(18.3)	(18.1)	(21.2)	(19.3)	(22.5)	(21.0)	(23.2)
	% on total revenues	32%	34%	32%	37%	31%	36%	31%	34%
Gross margin		33.5	35.6	39.3	36.3	43.8	40.7	47.6	45.4
	% on total revenues	68%	66%	68%	63%	69%	64%	69%	66%
Service costs		(8.5)	(9.5)	(9.6)	(11.2)	(10.6)	(11.0)	(11.5)	(12.0)
	% on revenues	18%	18%	17%	20%	17%	18%	17%	18%
Cost for the use of third-part assets		(1.4)	(1.1)	(1.7)	(1.2)	(1.8)	(1.3)	(2.0)	(1.4)
	% on revenues	3%	2%	3%	2%	3%	2%	3%	2%
Labour costs		(10.6)	(11.3)	(12.0)	(11.6)	(12.5)	(12.2)	(12.8)	(12.8)
	% on revenues	22%	22%	21%	20%	20%	20%	19%	19%
Other costs		(1.2)	(0.8)	(1.4)	(0.8)	(1.5)	(0.9)	(1.6)	(1.0)
	% on revenues	2%	1%	2%	1%	2%	1%	2%	1%
EBITDA		11.9	12.9	14.6	11.6	17.3	15.3	19.6	18.3
	margin on VoP	23.6%	23.3%	24.9%	19.9%	26.9%	23.9%	28.0%	26.3%
	yoy	96.0%	113.3%	22.9%	-10.4%	18.7%	32.1%	13.3%	19.5%
Non Recurring items		0.1	-	0.1	-	0.1	-	0.1	-
R&D Capitalization		-	-	-	-	-	-	-	-
IFRS 16 Adjustment		1.1	0.6	1.1	0.6	1.1	0.6	1.1	0.6
Adjusted EBITDA		13.0	13.5	15.8	12.2	18.5	15.9	20.8	18.9
	margin on VoP	25.9%	24.4%	27.0%	20.9%	28.7%	24.9%	29.7%	27.2%
D&A		(1.2)	(2.5)	(1.4)	(2.0)	(1.7)	(2.5)	(1.9)	(2.7)
	yoy	-9.5%	92.4%	21.8%	-17.0%	17.9%	19.6%	15.2%	11.1%
Provision for risks		(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
EBIT		10.7	10.4	13.1	9.5	15.6	12.8	17.6	15.5
	margin on VoP	21.2%	18.7%	22.4%	16.3%	24.2%	20.0%	25.2%	22.3%
EBT		10.4	11.6	12.9	10.1	15.4	13.4	17.4	16.2
	margin on VoP	20.8%	20.8%	22.1%	17.4%	23.9%	21.0%	25.0%	23.3%
Taxes		(2.4)	(2.3)	(3.0)	(2.0)	(3.5)	(2.6)	(4.0)	(3.2)
Operating Net Profit		8.0	9.3	10.0	8.1	11.9	10.8	13.4	13.0
	margin on VoP	16.0%	16.7%	17.0%	14.0%	18.4%	16.8%	19.2%	18.7%
	Minorities	1.0	1.0	1.2	0.9	1.4	1.2	1.6	1.4
	% minorities	12.0%	11.1%	12.0%	11.1%	12.0%	11.1%	12.0%	11.1%
	yoy	106.5%	138.1%	23.8%	-12.4%	19.2%	32.3%	13.3%	20.6%
Group Net Profit		7.0	8.2	8.8	7.2	10.5	9.6	11.8	11.5

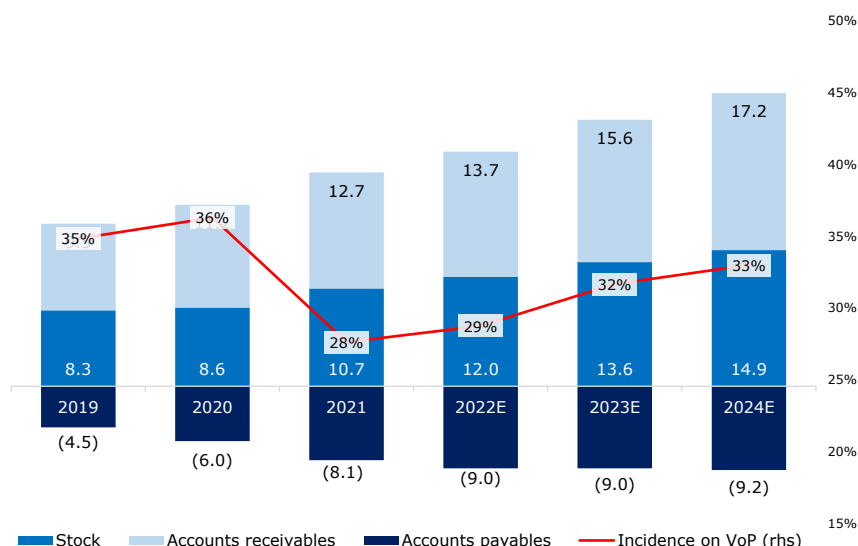
Source: Banca Profilo elaborations and estimates on Company data

NWC and Fixed assets driven by business expansion

Operating NWC estimates improved to €22.9mln in 2024E compared to previous €26.5mln thanks to better management of receivables and payables experienced in 2021, with operating NWC now seen at 33.4% of revenue vs previous forecast at 38.7%. Fixed assets are now seen at €10mln in 2023 and €10.1mln in 2024, compared to €9mln and €9.5mln respectively, mainly driven by higher tangible capex.

Finally, we expect a net cash position of €11.2mln in 2024 compared to our previous estimate at €10mln.

Figure 21: Operating Net Working Capital projections 2019-2024E (€/mln)



Source: Banca Profilo elaborations and estimates on Company data

Table 5: Cofle's Balance sheet 2021-2024E (€/mln)

	2021A		2022E		2023E		2024E	
Balance sheet (€/mln)	old estimate	actual	old	new	old	new	old	new
Stock	10.3	10.7	12.0	12.0	13.2	13.6	14.4	14.9
Accounts receivables	15.4	12.7	18.0	13.7	19.7	15.6	21.5	17.2
Accounts payables	(6.6)	(8.1)	(7.5)	(9.0)	(8.4)	(9.0)	(9.3)	(9.2)
Operating Net Working Capital	19.2	15.3	22.5	16.8	24.6	20.2	26.5	22.9
yoy	38.8%	10.6%	17.1%	9.7%	9.5%	20.4%	7.9%	13.5%
Other current asset and liabilities	(0.9)	(1.1)	-	(1.1)	(0.9)	(1.1)	(0.9)	(1.1)
Net Working Capital	18.3	14.2	22.5	15.7	23.7	19.1	25.7	21.8
Intangibles	4.7	3.8	3.9	2.6	4.2	2.1	4.4	1.5
Tangibles	3.6	4.5	4.2	6.4	4.7	7.2	5.0	7.8
Financials	0.1	0.7	0.1	0.7	0.1	0.7	0.1	0.7
Fixed Asset	8.4	9.1	8.2	9.7	9.0	10.0	9.5	10.1
Funds	(1.8)	(0.8)	(2.0)	(0.8)	(2.1)	(0.8)	(2.1)	(0.9)
Other asset and liabilities	-	0.0	-	0.0	-	0.0	-	0.0
Net Invested Capital	24.9	22.5	28.7	24.6	30.6	28.3	33.1	31.0
Equity	28.8	26.1	34.1	30.8	40.6	38.0	47.6	46.5
Net debt (cash)	(3.9)	(3.6)	(5.4)	(6.2)	(9.9)	(9.7)	(14.5)	(15.5)
IFRS 16 Adjustment	4.5	4.3	4.5	4.3	4.5	4.3	4.5	4.3
Valdiporto adjustments		(0.6)		-		-		-
Adjusted net debt (cash)	0.6	0.0	(0.9)	(1.9)	(5.4)	(5.4)	(10.0)	(11.2)
Liabilities	24.9	22.5	28.7	24.6	30.6	28.3	33.1	31.0

Source: Banca Profilo elaborations and estimates on Company data

**€18.6mln of cumulated
Free Cash Flows in
2022E-2024E**

According to our P&L and Balance Sheet estimates, for the period 2022E-2024E we end up with €18.6mln of cumulated Free Cash Flows, compared to our previous projection at €23.8mln, including €7.5mln of cumulated Capex and €7.6mln of Operating NWC needs (vs previous €6.6mln and €7.4mln respectively).

Table 6: Cofle's FCFs 2021-2024E (€/mln)

	2021A		2022E		2023E		2024E	
Free Cash Flow (€/mln)	old estimate	actual	old	new	old	new	old	new
EBIT	10.7	10.4	13.1	9.5	15.6	12.8	17.6	15.5
taxes	(3.2)	(3.1)	(3.9)	(2.8)	(4.7)	(3.8)	(5.3)	(4.6)
NOPAT	7.5	7.3	9.2	6.6	10.9	8.9	12.3	10.8
D&A	1.2	2.5	1.4	2.0	1.7	2.5	1.9	2.7
Operating cash flow	8.6	9.7	10.6	8.7	12.6	11.4	14.3	13.6
Change in Net operating working capital	(4.3)	(1.5)	(4.2)	(1.5)	(1.2)	(3.4)	(2.0)	(2.7)
Other funds	0.1	(0.9)	0.2	0.0	0.1	0.0	0.0	0.0
Capex	(2.0)	(3.3)	(2.2)	(2.5)	(2.2)	(2.5)	(2.2)	(2.5)
Free Cash Flow	2.4	4.1	4.4	4.7	9.3	5.5	10.1	8.4

Source: Banca Profilo elaborations and estimates on Company data

Main risks

New risks coming from complex and uncertain scenario

Downside risks to our estimates can be related to:

- the length of the war in Ukraine, which may have indirect repercussions due to the possible impact on Cofle's key customers;
- the trend in the prices of commodities, which create a gap between the payment of raw materials and the collection of sales;
- the tensions on supply chain, which may have an impact on some product lines, such as those related to semiconductors, of Cofle's key customers;
- the absorption of high inflation in Turkey on labour and rental costs;
- the failure to intercept the new demand coming from European Stage V Regulation and the Ukrainian market;
- the intensifying competition with large manufacturers;
- cost management issues due to the expansion of business and the penetration of new markets.

Figure 22: Cofle's risks matrix

IMPACT	Very high				Surge in the commodity prices	
	High			Impact of war on Cofle's key customers		
	Medium	Cost management issues following expansion of business	Intensifying competition with large manufacturers		Tensions on supply chain	
	Medium-low			Absorption of high inflation in Turkey on costs		
	Low					
Potential impact on the business vs likelihood of occurrence		Low	Medium-low	Medium	High	Very high
		LIKELIHOOD				

Source: Banca Profilo elaborations and estimates on Company data

Valuation

DCF method and market multiples

Given Cofle's cash generating business model, a DCF method well adapts as a valuation approach. Furthermore, we have selected a sample of listed international companies "comparables" to Cofle, in order to suggest an appropriate sample for the relative valuation through market multiples.

DCF valuation

DCF assumptions: €28.8mln of cumulated FCFs

To run a DCF Model, we would use our projections of FCFs for the 2022E-2025E explicit period: €28.8mln of cumulated FCFs or €7.2mln as yearly average.

7.9% WACC

We would use a WACC of 7.9% (in line with our previous report in December 2021) derived from:

- risk free rate at 3.0%, as implicitly expected by consensus on the 30Y Italian BTP yield curve (moving average of the last 100 days) with an estimated increase in interest rates;
- market risk premium equal to 5.5%;
- beta of 1.5, coming from the average of chosen listed peers;
- target Debt-to-Equity structure, with 54% weight of Equity.

€8mln as Terminal Value cash flow

To assess the Terminal Value, we used what we consider a perpetually sustainable Free Cash Flow of €8mln (vs our previous €7.6mln), given by the average of the FCFs in the period 2023E-2025E, thus excluding the extraordinary low 2022E FCF. Finally, we assumed a 2% perpetual growth rate (unchanged).

In order to get to the Equity Valuation, we would consider the adjusted net debt as of the end of 2021, equal to €31.4k, which includes the IPO proceeds.

Table 7: WACC calculation

WACC Calculation	
Perpetual growth rate	2%
WACC	7.9%
Risk free rate (30Y) (Bloomberg projections)	3.0%
Equity risk premium	5.5%
Beta	1.5
KE	11.3%
Cost of debt	5.4%
Tax rate	30%
KD	3.8%

Source: Banca Profilo estimates and elaborations

DCF valuation: €20.5/share

The DCF method leads us to an Enterprise Value of €126.4mln and to an Equity Value of €126.3mln, showing a fair value of €20.5/share.

Cofle's competitive arena

A sample of 9 listed companies

There are no listed companies that can be considered as good as "comparables" to Cofle, for significant differences in terms of business model and company size. Starting from a wide list of Original Equipment Manufacturing and Aftermarket listed companies, we firstly conducted a comparative analysis based on four main macro-categories: business model, product range, international brand awareness and positioning and company size. Secondly, we concentrated on growth prospects,

cash generation and debt leverage. Based on these results, we selected 9 “comparables” to Cofle: Brembo (Italy), Comer Industries (Italy), Haldex (Sweden), SKF (Sweden), CIE Automotive (Spain), Kongsberg Automotive (Norway), Suprajit Engineering (India), Mayville Engineering Company (USA), and Meritor Inc. (USA).

Table 8: Cofle's competitive arena

Similarity with Cofle	Company	Country	Currency	Sales 2021 (€/mln)	EBITDA 2021 (€/mln)	OEM	Aftermarket	End market	Products
80%	Suprajit Engineering	India	INR	16,409	2363	x	x	Automotive; Agriculture	Cable; Lighting transmission systems
65%	Kongsberg Automotive	Norway	NOK	831	65	x	x	Automotive	Transmission systems; Control systems; Frames for heavy and light vehicles
58%	Brembo	Italy	EUR	2,777	486	x	x	Automotive	Brakes
58%	Comer Industries	Italy	EUR	604	79	x	x	Agriculture; Industrial	Transmission systems
50%	CIE Automotive	Spain	EUR	3,269	575	x	x	Automotive	Brakes; Frames; Transmission systems; Interiors
50%	Meritor	US	USD	3,833	318	x	x	Agriculture; Industrial	Axles; Brake and suspension solutions
43%	Haldex	Sweden	SEK	4,612	586	x	x	Industrial	Brakes
40%	SKF	Sweden	SEK	81,732	13,731	x	x	Automotive	Transmission systems
30%	Mayville Engineering Company	US	USD	455	42	x	x	Agriculture; Sport; Construction machine; Light and Heavy vehicles	Engine components; Cooling system components; Handrails and full electro-mechanical assemblies

Source: Banca Profilo elaborations on companies' data

Brembo (ITA)
FY21: revenue €2.8bn;
EBITDA margin 17.5%

Brembo is the world leader and acknowledged innovator of brake technology for automotive vehicles. Brembo supplies high performance brake systems for the most important manufacturers of cars, commercial vehicles, and motorbikes worldwide, as well as clutches and other components for racing. Brembo is also a leader in the racing sector and has won more than 500 championships. Today the company operates in 15 countries on 3 continents, with 26 production and business sites, and a pool of over 11,000 employees, about 10% of whom are engineers and product specialists active in the R&D.

Main similarities between Cofle and Brembo:

- Brembo is Italian and it is active in the Automotive market, with a particular focus on brakes.

Main differences:

- Brembo does not address to the Agriculture sector; its main product are brakes whereas Cofle has a wider range of offering.

Comer Industries (ITA)
FY21: revenue €604mln;
EBITDA margin 13%

Comer is the leading global player in the design and manufacture of advanced engineering systems and mechatronics solutions for power transmission. The Company operates in the agricultural and industrial machinery sectors. In the field of agriculture, it deals with applications for machines for the preparation and application of the soil, while in the industrial sector for construction machines, mines and others. The main products are related to transmissions (gearboxes, reducers, multipliers and both angular and parallel axis transmissions).

Main similarities between Cofle and Comer:

- Comer is Italian and it is active in the Agricultural market.

Main differences:

- Comer is not active in the Automotive, its products mainly relate to transmission systems.

SKF (SWE)
FY21: revenue
KR81.7bn; EBITDA
margin 16.8%

SKF is a leading global supplier of products, solutions and services within bearings, seals, lubrication systems and services. Working to reduce friction, make things run faster, longer, cleaner and more safely. Doing this in the most effective, productive and sustainable way contributes to our vision of a world of reliable rotation.

SKF engages in the manufacture of machine and rotating equipment. It operates through the Industrial Market and Automotive Market business segments. The Automotive Market segment provides a range of products, solutions, and services to manufacturers of cars, light trucks, heavy trucks, trailers, buses, two-wheelers, and the vehicle aftermarket.

Main similarities between Cofle and SKF:

- SKF is active in both OEM and Aftermarket Industry.

Main differences:

- SCK focuses on rotating equipment

Kongsberg Automotive (NOR)
FY21: revenue
NOK831mln; EBITDA
margin 7.8%

Kongsberg Automotive engages in the development, manufacture, and trade of components, accessories, and spare parts. It operates through the following segments: Interior, Powertrain & Chassis Products, and Specialty Products. The Interior segment involves in the development and delivering of seat comfort and climate solutions. The Powertrain & Chassis Products segment develops and manufactures powertrain systems and chassis related products for heavy and light duty vehicles including, gearshift systems for automatic and manual transmissions, clutch actuation, and advanced vehicle dynamics. The Specialty Products segment provides driver control and fluid handling systems for commercial vehicles and passenger cars, as well as innovation products and software.

Main similarities between Cofle and Kongsberg:

- Kongsberg Automotive is active both in the OEM and Aftermarket Industry.

Main differences:

- Kongsberg's end market is mainly Automotive

Suprajit Engineering (IN)
FY21: revenue
INR16.4bn; EBITDA
margin 14.4%

The Suprajit Group is a global leader in the automotive cable and halogen bulb industry. With a competitive manufacturing base in India, UK, US and Mexico, the Group provides the optimal product development and manufacturing solutions to its domestic and international customers. Suprajit today has carved a niche for itself as a pioneer in the design and manufacture of Mechanical Control Cables and is recognized as India's largest cable maker and worlds largest in the two-wheeler cable market. As a part of its strategic expansion into Non-Automotive-Cables and Controls market, Suprajit acquired Wescon Controls Inc USA in 2015 and has also diversified into Automotive Lighting business through acquisition of Phoenix Lamps Limited in 2014.

Main similarities between Cofle and Suprajit:

- Suprajit is mainly active in cable production.

Main differences:

- Suprajit main reference market is India.

Mayville Engineering Company (US)
FY21: revenue
\$455mln; EBITDA
margin 9.3%

Mayville Engineering Company (MEC) engages in the manufacturing of metal components. The firm offers a broad range of prototyping and tooling, production fabrication, coating, assembly, and aftermarket components. Its customers operate in a diverse end market, including heavy- and medium-duty commercial vehicle, construction, powersports, agriculture, military, and other end markets.

Main similarities between Cofle and Mayville:

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

Main differences:

- Mayville revenues are only from US market.

Haldex (SWE)
FY21: revenue at
KR4.6bn; EBITDA
margin 12.7%

Haldex is a leading manufacturer of reliable and innovative brake systems and air suspension solutions that enhance the safety, dynamics, and durability of heavy vehicles. Haldex's customers are mainly large manufacturers of trucks, buses and trailers in North America, Europe, and Asia. On the aftermarket, Haldex offers spare parts and servicing to distributors, workshops, and large logistics companies.

Main similarities between Cofle and Haldex:

- Haldex is active both in the OEM and in the Aftermarket Industry mostly with brakes.

Main differences:

- Haldex main end market is the Industrial industry.

CIE Automotive (SPA)
FY21: revenue €3.3bn;
EBITDA margin 17.6%

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

Main similarities between Cofle and CIE:

- CIE Automotive has a diversified portfolio.

Main differences:

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

Meritor (US)
FY21: revenue \$3.8bn;
EBITDA margin 8.3%

Meritor engages in the design, production and trade of integrated systems, modules, and components to equipment manufacturers. It operates through the following segments: Commercial Truck and Trailer and Aftermarket and Industrial. The Commercial Truck and Trailer segment supplies drivetrain systems and components, including axles, drivelines and braking and suspension systems, for medium- and heavy-duty trucks and other applications. The Aftermarket and Industrial segment provide axles, brakes, drivelines, suspension parts and other replacement parts to commercial vehicle and industrial aftermarket customers in North America and Europe.

Main similarities between Cofle and Meritor:

- Meritor is active in the Agricultural Industry and in brake production.

Main differences:

- Meritor is also active in the Industrial Industry with the US as main reference market.

Cofle's competitive advantages

Cofle, to strengthen its OEM market positioning, leverages on distinctive know-how, high flexibility to meet customer needs, optimal price/quality ratio and engineering support to stand out from the crowd.

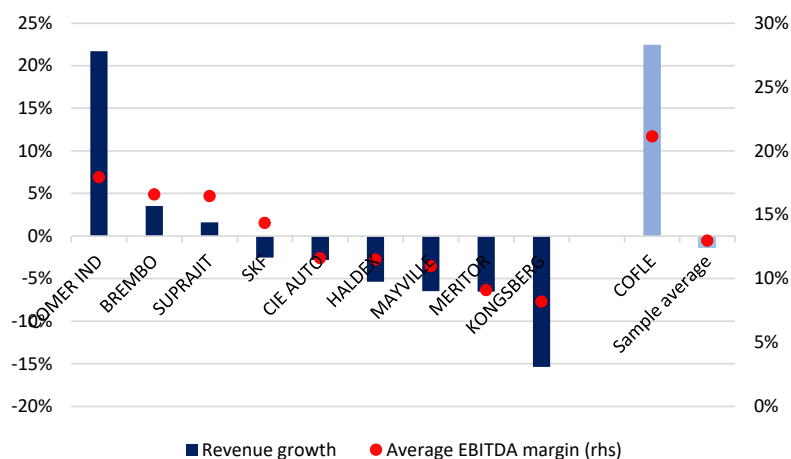
Whereas to strengthen its AM market positioning, Cofle leverages on extremely wide products catalogue, optimal price/quality ratio, low time to delivery and customized catalogue extension to achieve the ideal market positioning.

Benchmarking analysis

Cofle among the best in class

Our benchmarking analysis shows Cofle ranking among the best in class for what concerns revenue growth and EBITDA margin, above the average for both parameters in 2019-2021, confirming its potential and the goodness of its strategies.

Figure 23: Cofle's competitive arena revenue growth and average EBITDA margin (2019-2021)

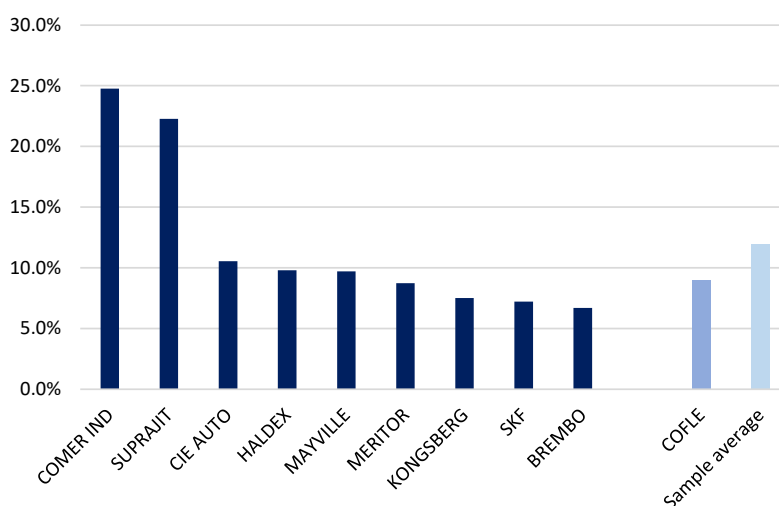


Source: Banca Profilo elaborations on Factset data

Revenue consensus at 11.9% CAGR 2021-2023E

In details, in terms of revenues, consensus sees an average +11.9% CAGR for 2021-2023E.

Figure 24: Cofle's competitive arena revenue growth (2021-2023E CAGR)



Source: Banca Profilo elaborations on Factset data

Cofle: stable revenue growth

In terms of sales, consensus estimate a fluctuating trend in growth, with an average 10.3% in 2022, a drop to 5.4% in 2023 and a strong rebound to 14.7% in 2024. For Cofle, we estimate a smoother trend, lower than consensus for its competitive arena in 2022 and 2024 but much higher in 2023.

Table 9: Sample sales growth consensus

Company	Sales growth				
	2020	2021	2022E	2023E	2024E
Brembo S.p.A.	-14.8%	25.8%	7.7%	6.3%	5.1%
Comer Industries SpA	-2.2%	164.6%	10.8%	5.6%	3.5%
Haldex AB	-22.2%	15.1%	17.4%	4.6%	3.9%
SKF AB Class B	-13.0%	9.2%	11.8%	2.8%	3.5%
CIE Automotive, S.A.	-19.2%	13.4%	11.2%	11.3%	6.4%
Kongsberg Automotive ASA	-15.5%	13.9%	-17.2%	4.8%	n.a.
Suprajit Engineering Limited	3.7%	10.7%	19.9%	16.0%	35.6%
Mayville Engineering Company, Inc.	-31.2%	27.2%	15.9%	6.4%	4.7%
Meritor, Inc.	-19.8%	21.2%	9.7%	5.3%	1.4%
Mean	-12.0%	11.4%	10.3%	5.4%	14.7%
Cofle	-2.0%	41.0%	9.0%	10.0%	9.0%

Source: Banca Profilo elaborations on Factset data (as of May 09th, 2022)

Stronger margins compared to its competitive arena

In terms of EBITDA, we forecast for Cofle a much stronger performance during next years, with a margin seen at 27.2% in 2024 compared to a consensus on its peers of an average 15.2%.

Table 10: Sample EBITDA margin consensus

Company	EBITDA margin				
	2020	2021	2022E	2023E	2024E
Brembo S.p.A.	17.6%	18.1%	17.5%	17.8%	18.0%
Comer Industries SpA	12.1%	9.8%	12.4%	13.1%	13.5%
Haldex AB	3.4%	12.0%	11.1%	12.0%	12.5%
SKF AB Class B	14.0%	17.2%	16.2%	17.0%	17.7%
CIE Automotive, S.A.	15.0%	17.6%	17.1%	17.5%	18.2%
Kongsberg Automotive ASA	6.2%	8.6%	10.0%	10.4%	n.a.
Suprajit Engineering Limited	14.3%	14.1%	15.2%	15.9%	15.3%
Mayville Engineering Company, Inc.	15.3%	10.2%	12.4%	13.4%	14.6%
Meritor, Inc.	9.5%	11.0%	12.0%	12.2%	12.0%
Mean	11.9%	13.2%	13.8%	14.4%	15.2%
Cofle	21.1%	24.4%	20.9%	24.9%	27.2%

Source: Banca Profilo estimates and elaborations on Factset data (as of May 09th, 2022)

Relative market multiples valuation

EV/EBITDA 2023E of 6.0x

In order to assess our relative market multiples valuation, we chose the mean EV/EBITDA 2023E, which is at 6.0x (as of May, the 09th).

As the Company uses ITA-GAAP accounting standards, we decide to apply the EBITDA that includes IFRS 16 adjustments to give an international and consistent view to valuation.

Table 11: Sample EV/EBITDA

Company	EV / EBITDA				
	2020	2021	2022E	2023E	2024E
Brembo S.p.A.	8.8x	6.8x	6.5x	6.0x	5.7x
Comer Industries SpA	15.8x	7.4x	5.3x	4.7x	4.4x
Hallex AB	24.2x	5.9x	5.4x	4.8x	4.5x
SKF AB Class B	8.9x	6.6x	6.3x	5.8x	5.4x
CIE Automotive, S.A.	10.2x	7.7x	7.1x	6.2x	5.6x
Kongsberg Automotive ASA	9.8x	6.7x	7.7x	5.3x	n.a.
Suprajit Engineering Limited	20.2x	18.5x	14.4x	11.8x	9.1x
Mayville Engineering Company, Inc.	3.9x	4.7x	3.3x	2.9x	2.5x
Meritor, Inc.	11.4x	8.1x	6.8x	6.3x	6.3x
Mean	12.6x	8.0x	7.0x	6.0x	5.4x
Median	10.2x	6.8x	6.5x	5.8x	5.5x

Source: Banca Profilo estimates and elaborations on Factset (as of May 09th, 2022)

Market multiples valuation: €15.4/share

We used the adjusted EBITDA expected in 2023E, as we consider it as a normalized figure, whereas 2022E projections have been impacted by current uncertain and complex global growth and inflation scenario. This leads to an Equity Value of €94.9mln or €15.4/share.

Table 12: Market multiples valuation

Relative Valuation on market multiples 2023E	
EV/EBITDA	Adjusted EBITDA
2023E	2023E
6.0x	15.9
ENTERPRISE VALUE	Adjusted NET DEBT FY21
95.0	0.0
EQUITY VALUE	
94.9	
Price per share	15.4

Source: Banca Profilo estimates and elaborations on Factset (as of May 09th, 2022)

Since our last report (December 2021) market multiples have been impacted by the current context of high inflation, spike in raw materials prices, supply chain bottlenecks and Covid-related backlash in some regions. Current level of market multiples can thus be misleading and shall normalize in a more definite global growth and inflation scenario. Therefore, we choose to increase the weight of DCF valuation in our average-related (DCF, multiples) valuation method, as we expect a rerating of multiples in the coming months.

Figure 25: Sample average EV/EBITDA trend


Source: Banca Profilo estimates and elaborations on Factset

TP at €19.2/share; BUY Our weighted average of DCF fair value (2/3) and relative market multiples (1/3) valuation brings our 12-month Target Price to €19.2/share, unchanged vs our previous report in December.

Given the significant potential upside on Cofle's closing price (as of May 10th, 2022) we confirm our BUY recommendation.

Shareholders' structure after IPO

Cofle: 78.4% Barbieri's family

Cofle was listed on the Euronext Growth on November the 11th, 2021 at €13/share. The share capital is represented by 6,153,276 shares with 21.6% free float, including the anchor investors (Smart Capital and Palladio) which own 310,608 shares. Barbieri's Family owns the remaining 78.4% through its holding Valfin Srl. In details, Walter Barbieri, Chairman and CEO, holds 70% of Valfin through Finan.co Srl whereas Alessandra Barbieri, global Head of Communication and Marketing and Investor Relator Manager, owns 30% of the holding.

24months lock up period

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

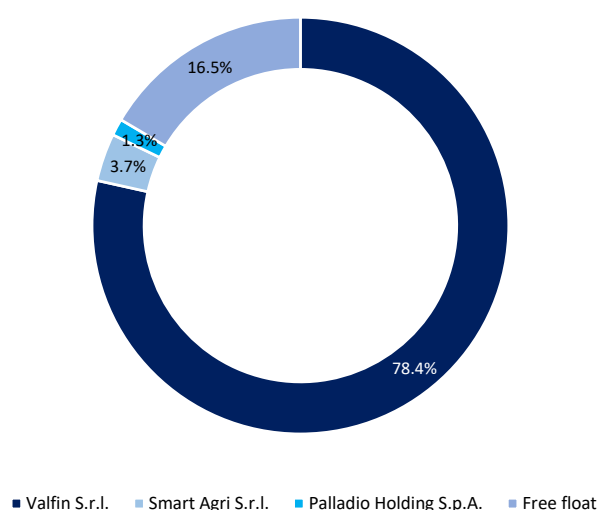
Warrant distribution

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

The Company achieved an adjusted EBITDA of €13.5mIn, avoiding the activation of the Price Adjustment Shares (PAS)

A Price Adjustment Shares (PAS) had been set as a protective mechanism for investors: the Company had committed to achieve an adjusted EBITDA of €13mIn in 2021. If the adjusted EBITDA target had been lower, the mechanism would have envisaged the progressive cancellation of up to 750,000 shares, or up to 15% of the shares held by founding shareholders. However, the mechanism did not activate because the Company exceeded the target with an adjusted EBITDA of €13.5mIn in 2021, so the shareholders' structure remains the same.

Figure 26: Cofle's shareholders' structure post-IPO



Source: Banca Profilo elaborations on Company data

Use of proceeds

The IPO proceeds will be used to expand production and logistic capacity on a global scale, for R&D and M&A.
More in details:

- Production capacity expansion (10%-20% of IPO proceeds) in India by investing in new production lines and machineries to achieve market positioning as local supplier and acquire share in a highly promising market;
- Strategic logistics (10%-20% of IPO proceeds): an OEM logistic center in Italy to serve top costumers, demanding high volumes and fast time to delivery; reduction of time to market in AM below 4 weeks;
- R&D (10%-20% of IPO proceeds): investing in innovation to launch new mechatronic systems (high value-added products) further improving the excellence standard in OEM;
- Digital transformation (5%-10% of IPO proceeds): IT systems upgrade, business intelligence and data analysis;
- Commercial network (5%-10% of IPO proceeds) expansion mainly in AM.

Moreover, the Company has planned to grow through M&A:

- in the OEM with the aim to quickly penetrate the field of electronic components for off-road vehicles. Cofle has already identified one target Company, with some €10mln revenues, and will try to close the deal within 2022;
- in the AM, to increase market share and expand the products range. The scouting phase is on-going.

APPENDIX

Company's evolution

Since 1964: from a local Italian firm to a global presence

In 1964 Bruno Barbieri founded Cofle, introducing an innovative way in manufacturing Control Cables for the Automotive Industry. The first production line was OEM for the most important Italian brands.

During the 70's the Company grew rapidly, moving into a new manufacturing plant. The Automotive control cables range, as well as the systems for Agricultural and Earth Moving Machines, are greatly extended. Moreover, Cofle started distributing its solutions on a global basis.

In the 80's Cofle launched its first plant for internal production of cables, inner tubes, covered wire ropes, cover conduits for pull and push-pull cables is created; the starting of this process for verticalization of production would allow Cofle to become an "all-in-house" company.

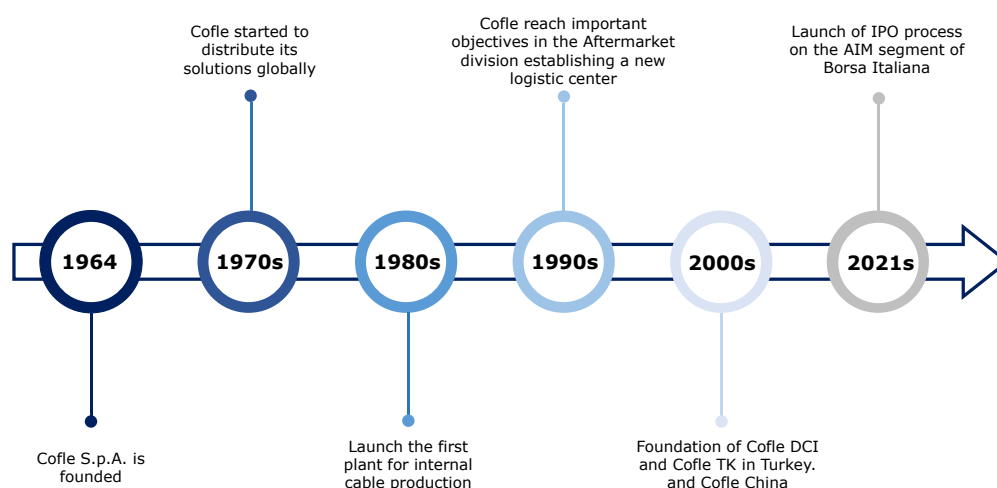
In the 90's Cofle reached important milestones in the Aftermarket division: its increasingly recognition within the markets induced Cofle to establish a new logistic center, including a 4,000 sqm warehouse. During these years, Cofle started his expansion abroad founding Tabo in Turkey, set up for producing Aftermarket articles originally addressed to Middle East and North Africa.

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

In June 2021 leveraging on its know-how, brand awareness and attractive financials, Cofle started the IPO process on the EG segment of Borsa Italiana to accelerate growth. The Group aims at expanding further its products range, breaking into underpenetrated markets and seize on M&A opportunities.

Today Cofle is a worldwide Group: it is present in 4 Countries with 6 production sites, 4 modern and efficient logistic centres, 2 design and co-engineering departments, and can count on over 500 employees. The Aftermarket catalogue counts more than 7,000 items, adding around 200 new codes per year.

Figure 27: Cofle's timeline



Source: Banca Profilo elaborations on Company data

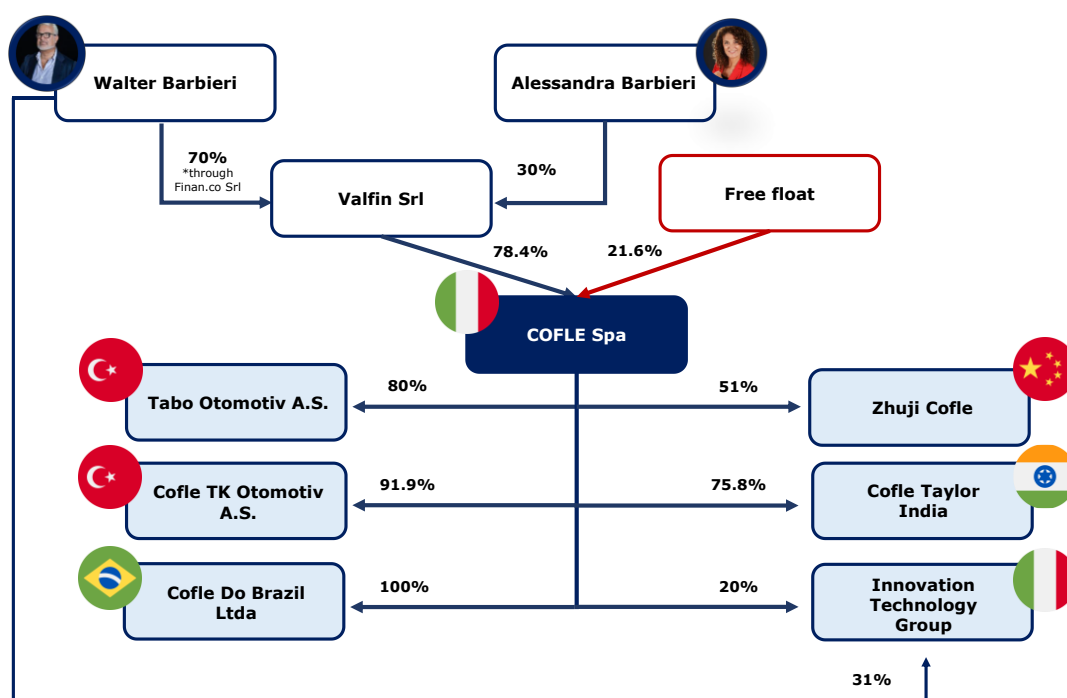
Group structure

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Barbieri's Family owns the remaining 78.4% of Cofle Group through its holding Valfin Srl. In details: Walter Barbieri, Chairman and CEO of the Group, holds 70% of Valfin through Finan.co Srl whereas Alessandra Barbieri, global Head of Communication and Marketing and Investor Relation Manager, owns 30% of the holding.

Figure 28: Group structure post-IPO



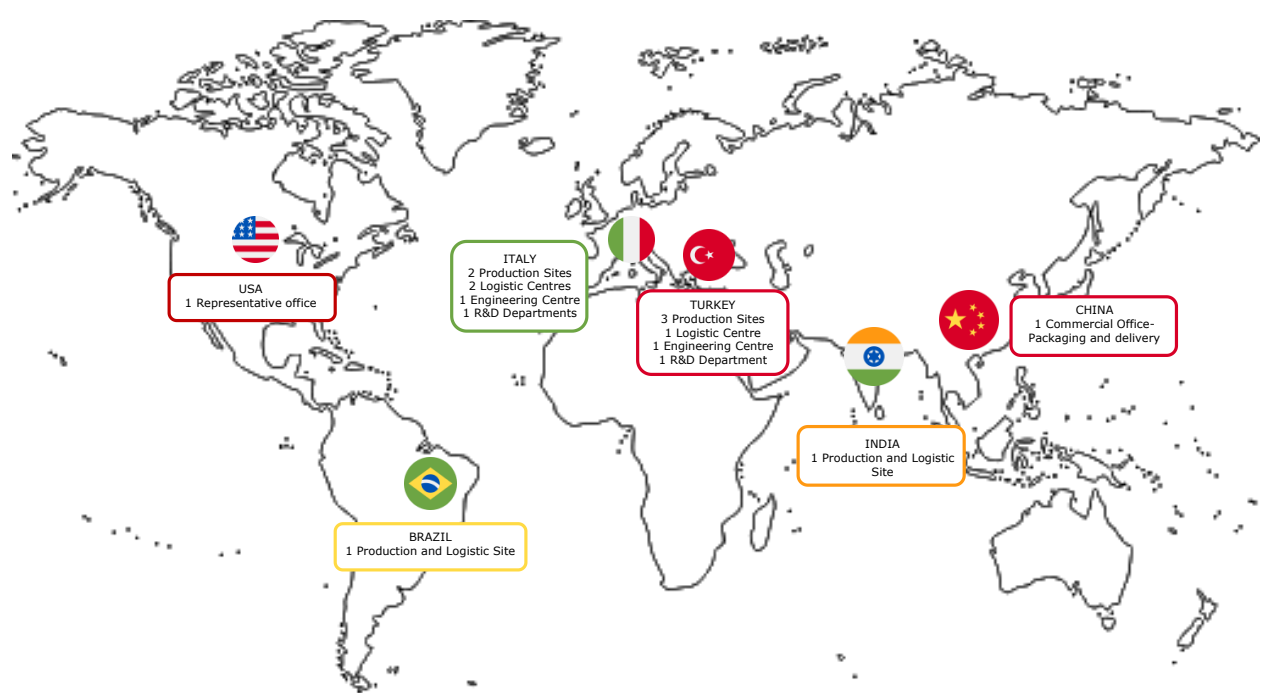
Source: Banca Profilo elaborations on Company data

Cofle's worldwide presence

The Group has production sites in Brazil, India, Italy and Turkey, over 22,000 sqm worldwide.

As of September 2021, Cofle owns 6 production plants, 4 warehouse, 2 engineering centres, 2 R&D centres and 2 representative offices around the world. The biggest production plant is in Italy with a production capacity of 3mln units, followed by two plants in Turkey, having 2.5mln of production capacity each.

Figure 29: Cofle’s production and logistic plants



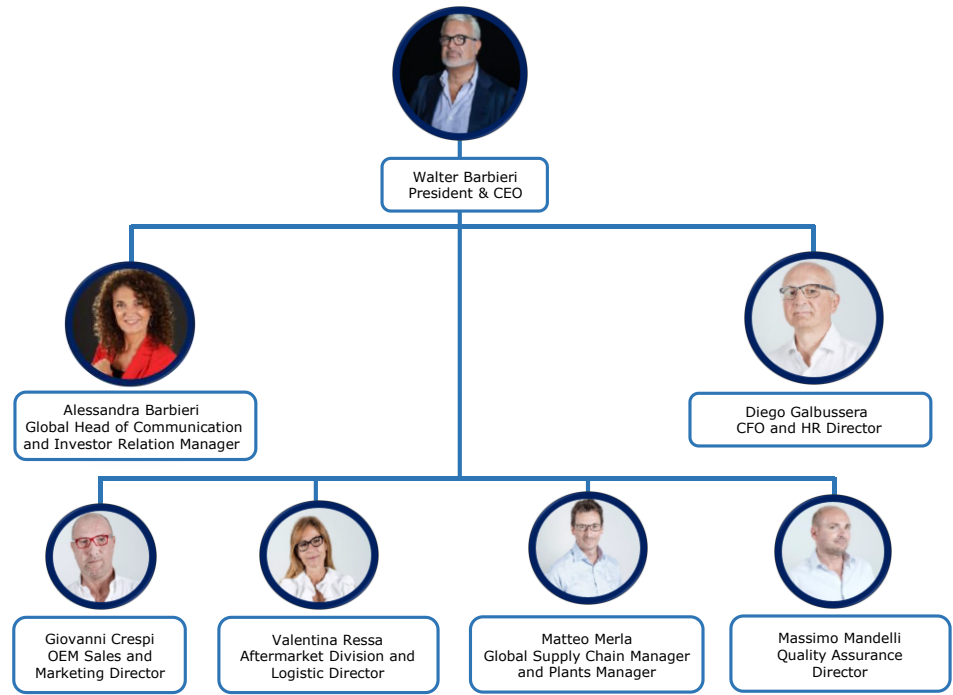
Source: Banca Profilo elaborations on Company data

Top Management

A strongly experienced management team

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

Figure 30: Cofle’s top management



Source: Banca Profilo elaborations on Company data

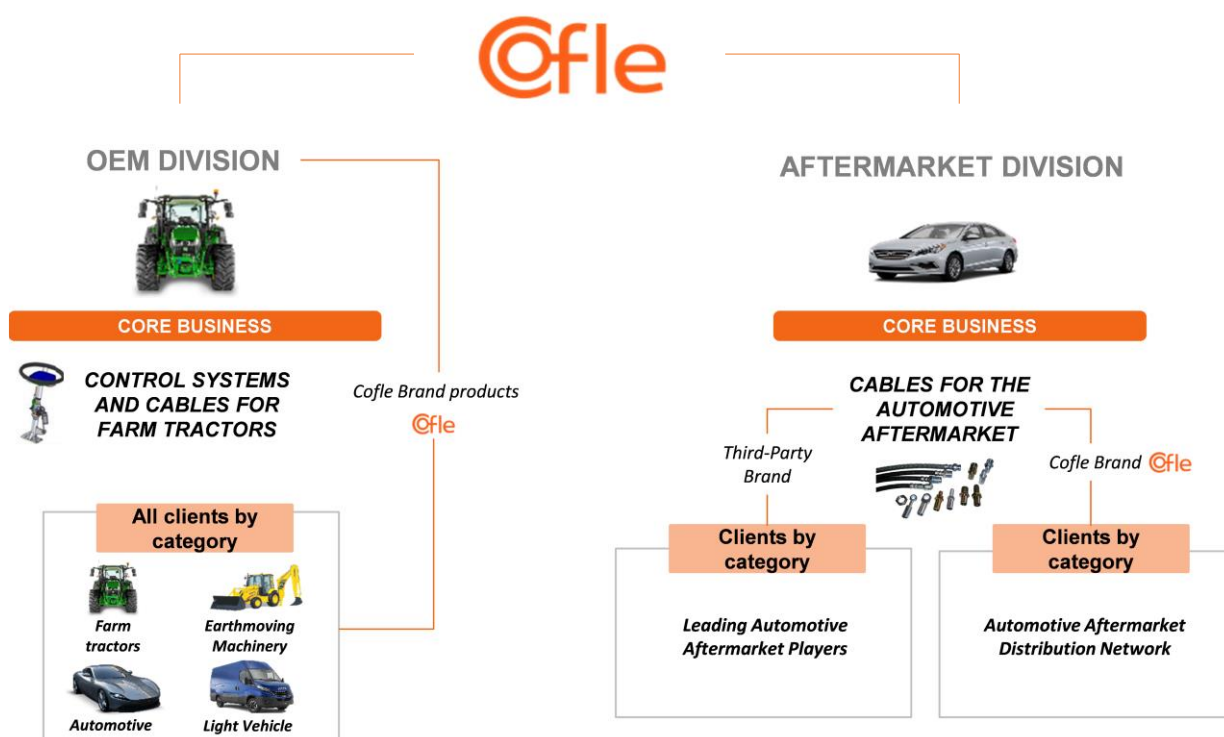
Cofle: a distinctive business model

Cofle: a multinational company leading OEM and AM market segments

Cofle's business model is becoming more focused on the OEM division

Cofle is a multinational company operating both in the Original Equipment Manufacturers (OEM) for top worldwide manufacturers of agricultural & earthmoving machineries, luxury automotive and light commercial vehicles, and in the Aftermarket (AM), specialized in the production of automotive aftermarket parts on a global scale.

Figure 31: Cofle's business model overview



Source: Banca Profilo elaborations on Company data

Original Equipment Manufacturer business model

OEM includes three product categories: Control Systems, Cables and others

Cofle's Original Equipment Manufacturers division offers three wide product categories:

- Control Systems: a wide range of customized control systems covering every industrial application (from agricultural to earthmoving machineries), including:
 - Joysticks
 - Power shuttles
 - Speed reverse controls
 - PTOs
 - Spool valves
 - Brake levers
 - Pedals
 - Gearshift systems

- Cables: wires and sheaths in-house by using state-of-art technologies and 3D control systems. Cables may be split up according to the following categories:
 - Pull Cables: brake cables, clutch cables, accelerator cables, others;
 - Push Cables: Transmission shift cables, valves cables, PTO cables, others.
- Others: further products according to customers' requests, including
 - Steering columns and motion driving systems
 - Die castings
 - Sheetmetals
 - Plastics

Original Equipment Manufacturer value chain

OEM fully integrated value chain for highly tailored made products

OEM products are meant to be highly customized to meet the challenging requirements of top clients. Standardization is minimal enough to allow cost efficiency

Figure 32: Cofle's OEM value chain



Source: Banca Profilo elaborations on Company data

1 to 3 years to develop high distinctive customized products

Production and delivery to clients take place at a global scale: once Cofle is involved in a project as the Original Equipment Manufacturer (OEM), the Group becomes the client's global supplier. An OEM project usually takes from 1 to 3 years, due to the highly distinctive know-how involved.

Aftermarket business model

Aftermarket: highly standardized products

Opposite to OEM, Aftermarket products are meant to be highly standardized and serve both leading AM players under third-party brands, as well as large distributors under Cofle's. The AM catalogue offers more than 7,000 solutions, to meet customer needs. The four main Cofle's products are:

- Clutch cables;
- Brake cables;
- Brake hoses;
- Gear shift cables.

Figure 33: Cofle's Aftermarket core products



Source: Banca Profilo elaborations on Company data

Aftermarket value chain

From reverse-engineering to products catalogue expansion

The Aftermarket division works as a push strategy business with a short-term time-to-delivery approximately equal to 3-4 weeks from picking and packaging to delivery.

Cofle's Aftermarket R&D department is responsible for the reverse-engineering activities focused on the latest models of automobiles.

In the reverse-engineering process Cofle's Aftermarket R&D department perform a detailed analysis on the original product, to understand the technical characteristics, the raw material utilized and the quality of the product. Given its vast experience, Cofle's R&D department is often able to provide upgrades and improvements even on the original product.

In the next phases, Cofle estimates the final cost of production and carries out a benchmark pricing survey to make the final decision on pricing (the latter being highly impacted by the price of original products).

In the last two phases, Cofle launch the production and catalogue update to expand the range of available products serving both top aftermarket players (third-party brand on the final product usually subject to a validation process by the client) as well as large aftermarket distributors (Cofle brand on the final product usually without any validation process by the client).

Figure 34: Cofle's Aftermarket value chain



Source: Banca Profilo elaborations on Company data

Research and Development at Cofle

One R&D department per business unit

OEM and AM divisions are structured according to two different R&D departments:

- OEM R&D is based on Co-Engineering principles: Cofle focuses its efforts on disrupting the state-of-the-art technologies to propose its OEM customers the most innovative solutions;
- AM R&D is based on Reverse-Engineering principles: Cofle focuses its efforts on staying always update with the latest innovation introduced by automakers.

Main R&D departments are in Italy and Turkey

Research and development activities are carried out internally and externally, through 6 people in Italy and 22 people in Turkey. In particular, Cofle Tk has a dedicated "Designed Center" which employs 22 people actively engaged in the development of new product for the OEM market.

Moreover, ITG (Innovation Technology Group), Cofle's subsidiary, develops new ideas and technological solution to create innovative, cutting-edge products both for business areas as well as the manufacturing process.

Cofle: great attention to sustainability

Cofle's headquarter surrounding by a natural reserve

Cofle has always paid great attention to sustainability and corporate social responsibility.

Cofle's headquarters is in Trezzo sull'Adda, a town situated between Milan and Bergamo, in a renewed area for its historical heritage and natural beauty. Over time, the land surrounding the plant has become a natural reserve, and Cofle paid attention to allow its plant and its surrounding park to coexist. For this reason, in addition to applying a strict and constant control over all production waste, in 2012 the Group set up solar panels that allow to cut down energy costs and reduce the environmental impact.

Moreover, complying with Cofle's philosophy to protect the environment, the new plant in Pozzo d'Adda was the first to adhere to their Plastic Free project. The old water coolers were replaced with still and sparkling water dispensers that are connected directly to the water supply. Cofle's employees can quench their thirst using re-usable cups. Finally, they replaced the plastic cups and stirrers of hot drinks dispensers with recyclable paper cups and wooden stirrers.

Cofle is active in charity

In 2020 Cofle decided to continue supporting Movimento MLFM's efforts against poverty and to sponsor the Mother of Divine Providence Primary School in Muhura, Rwanda.

Finally, FAI (Fondo Ambiente Italiano) and Cofle joined for Italy's future. The Group joined FAI membership program "Corporate Golden Donor", as part of their corporate social responsibility policy in 2021.











Cofle's certifications


Cofle certificate its products and sustainability


Cofle owned various certifications to validate its products' quality and attention to main corporate, social, environmental responsibilities.

Cofle plans to confirm the international certification of its plants located in different Countries, adding new ones by 2023.

Figure 35: Cofle's ISO/IA TF certification maps

COFLE PLANTS	2019	2020	2021	2022	2023
COFLE IT			+		
COFLE TK			+		
COFLE do BRASIL					
COFLE TAYLOR INDIA			+		
TABO					

 Sustainability Audit done by CNHInd.



* DEPENDING ON FUTURE OPPORTUNITIES

Source: Companies' data

ISO certification:
for Quality
Management Systems
and standard for
Environmental
Management Systems

The ISO 9001:2015 standard for Quality Management Systems and the ISO 14001:2015 standard for Environmental Management Systems are two internationally recognized standards by the International Organization for Standardization (ISO).

In addition, the plant in Turkey was able to renew its IATF 16949 certification through a surveillance audit, a standard by the International Automotive Task Force (IATF) that establishes the requirements for a Quality Management System (QMS), specifically for the automotive sector.

**Occupational health
and safety**

ISO 45001:2018 specifies requirements for an occupational health and safety (OH&S) management system, and gives guidance for its use, to enable organizations to provide safe and healthy workplaces by preventing work-related injury and ill health, as well as by proactively improving its OH&S performance. Cofle is working to obtain this certification in 2023.

**IATF (International
Automotive Task Force)**

IATF 16949 emphasizes the development of a process-oriented quality management system that provides for continuous improvement, prevention and reduction of waste and changes in the supply chain. The goal is to meet customer requirements efficiently and effectively. Its purpose is to optimize production and logistics processes. The WCM model detects waste and losses and it introduces new tools and new methods to increase efficiency. The WCM model follows the Zero Concepts-Target: i) Zero accidents ii) Zero machine breakdowns iii) Zero defects iv) Zero customer claims v) Zero waste.

**CNH Industries
Sustainability
References**

**Cofle
"ID Card"**
**Recommendation
BUY**
**Target Price
19.2 €**
**Upside
26%**
Company Overview

Cofle is an international Original Equipment Manufacturer of control cables and remote-control systems for farming machines, earthmoving machines and, to a less extent, for luxury cars and commercial vehicles. It is a fully integrated company: its value chain includes the co-engineering with customers, pricing and prototyping, orders intaking, production and delivery. In the OEM division there is no product catalogue as Cofle branded equipment is built in-house according to customer's needs. The AM unit, which products range from brake cables to EPB systems, launches over 200 new products a year. Cofle has a global presence with plants in Italy, Turkey, India, Brazil and China and can count on more than 500 employees. Along with its fully integrated value chain, established local presence in Turkey and India and consolidated skills in farm equipment are additional key competitive advantages. In 2021 the Company recovered from Covid-19 impact, recording its highest revenues ever at €52.2mln, driven mainly by OEM (+56.3% yoy) and, to a less extent, by AM (+21.9% yoy). Adjusted EBITDA came in at €13.5mln, exceeding the PAS mechanism threshold, with margin improving 330bps to 24.4%. Group net income rose to €8.2mln from €3.4mln in 2020. The tractors industry is expected to grow at a 5.8% CAGR20-27, mainly driven by i) population increase; ii) mechanization; iii) commitment to reduce tractors pollution; iv) concerns about malnutrition in developing countries; v) shorter tractor replacement cycle. The AM segment is expected to grow at a 3.4% CAGR22-30, driven by the search for best vehicle performance and the increasing miles record driven by growing vehicle population. For the next years, Cofle's growth strategy is based on i) new demand coming from Stage V Regulation; ii) the EU release of constraints on 4mln hectares land; iii) the restoration of the Ukrainian tractors fleet; iv) penetrating the electronic components market for off-road vehicles, through M&A; v) anticipating new trends in tractors engineering thanks to the setup of ITG Turkey; vi) upgrading logistics to reduce the time-to-market. In our 2022E-2024E estimates we left unchanged revenues to €68mln (9% CAGR21-24E), but we shifted the weight in favour of OEM at 68% (vs previous 66%) in line with FY21 and 1Q22 trends. Adjusted EBITDA is now seen at €19mln, with margin of 27.2% (vs 29.7%), due to higher raw materials costs. We forecast an adjusted net cash at €11.2mln at the end of 2024 (vs previous €10mln), thanks to better-than-expected Net Operating Working capital management. Finally, we expect cumulated FCFs of €19mln, including €7.5mln of cumulated Capex and €7.6mln Operating NWC needs. Our estimates are validated by positive 1Q22 results, which see revenues at €14.3mln (+9.2% yoy), with the OEM rising by 10.6% yoy and the AM growing by 6.5% yoy, confirming our expectations of a greater share of revenue generated by OEM. We run a DCF on an annual average FCF of €7.2mln in 2022E-2025E and set a WACC at 7.9%. The international competitive arena includes a suitable sample of listed comparable: we run a relative market multiples valuation on 2023E EV/EBITDA at 6.0x. We confirm our 12-month target at €19.2 as the weighted average between the DCF (2/3) and market multiples (1/3) approaches. Given the potential upside on Cofle's price, we confirm our BUY recommendation.

SWOT Analysis
Strengths

- Multinational Company
- Strong commitment in eco-sustainable practices
- Strongly investing on corporate culture, brand awareness and innovative marketing
- A wide portfolio of patented products
- Geographically diversified production
- Top end customers
- Production plants close to its customer

Weaknesses

- Revenue concentration by client
- Slow process digitalization
- High correlation between Automotive and Covid-19 crisis

Opportunities

- New demand from the release of constraints on agricultural land by the European Union
- Large potential in Eastern Europe addressable markets for both OEM and AM segments
- Strategically positioned to boost long term expansion
- Only at the beginning of international scalability
- OEM Expansion into Luxury Automotive & Light Commercial Vehicles
- Growth through M&A
- Production capacity expansion
- Major technological upgrade involving farm tractors in the next decade

Threats

- Intensifying competition within large manufacturers
- High growth rates could lead to cost management issues
- Internalization of Cofle process by its main customer
- Cannibalization risk of products under Cofle's brand and Thirty-Party brand
- Substitute products competition

Main catalysts

- 👍 Entry in the market of electronic components for off-road vehicles
- New demand from European Regulation and Ukrainian market
- Creation of ITG Turkey to export Italian design and know-how and to be aware of new trends in tractors engineering
- Upgrading logistics to reduce the time to market
- Leveraging on its production plants to serve the promising high growth in foreign markets
- M&A deals to expand the offering range

Main risks

- 👎 Impact of the war in Ukraine on Cofle's key customers
- Increase in the price of raw materials
- Tensions on supply chain
- Absorption of high inflation in Turkey on costs
- Failure to intercept new demand coming from European Stage V Regulation and Ukrainian market
- Intensifying competition within large manufacturers
- Cost management issues due to the expansion of business and penetration of new markets

**Cofle
"ID Card"**

may 11, 2022 at 18:00

Recommendation

BUY

Target Price

19.2 €

Upside

26%

(€/000)	2020	2021	2022E	2023E	2024E
Total revenue	37.4	53.9	57.5	63.2	68.7
yoy change	-2.5%	44.1%	6.8%	9.9%	8.7%
EBITDA	6.0	12.9	11.6	15.3	18.3
EBITDA margin (%)	15.9%	23.3%	19.9%	23.9%	26.3%
ADJUSTED EBITDA	8.0	13.5	12.2	15.9	18.9
Adj EBITDA margin (%)	21.1%	24.4%	20.9%	24.9%	27.2%
EBIT	4.7	10.4	9.5	12.8	15.5
EBIT margin (%)	12.4%	18.7%	16.3%	20.0%	22.3%
Group Net income	3.4	8.2	7.2	9.6	11.5
Margin (%)	9.0%	14.9%	12.4%	15.0%	16.6%
Adjusted net debt/(cash)	12.7	0.0	(1.9)	(5.4)	(11.2)
Shareholders Equity	10.2	26.1	30.8	38.0	46.5
Net Operating Working Capital	13.8	15.3	16.8	20.2	22.9
Capex and acquisitions	0.2	3.3	2.5	2.5	2.5
Free Cash Flow	3.8	4.1	4.7	5.5	8.4

Revenue breakdown by business unit	2020	2021	2022E	2023E	2024E
Original Equipment Manufacturer	20.6	32.2	38.3	41.7	46.0
Aftermarket	16.4	20.0	18.3	20.6	21.7

Solvability Ratios	2020	2021	2022E	2023E	2024E
Net debt (cash) / EBITDA	1.4x	(0.3)x	(0.5)x	(0.6)x	(0.8)x
Net debt (cash) / Equity	0.9x	(0.1)x	(0.2)x	(0.3)x	(0.3)x

Financial and Operative ratios	2020	2021	2022E	2023E	2024E
Tax rate	22%	20%	20%	20%	20%
ROIC	20%	37%	31%	36%	40%
ROE	38%	35%	26%	28%	28%
Days Sales Outstanding	108	83	86	89	90
Days Sales Of Inventory	83	71	76	78	79
Days Payables Outstanding	104	91	89	87	86
Fixed asset turnover ratio (FAT)	5.3	5.8	5.8	6.2	6.7
Capex/Sales	0%	6%	4%	4%	4%
Current ratio	6.8	18.0	19.8	22.5	24.7

Source: Factset, Banca Profilo estimates and elaborations

Company Description

Company Sector	Automotive
Price (€)	15.2
Number of shares (mln)	6.2
Market Cap (€ mln)	82.4
Reference Index	FTSE ITALIA GROWTH
Main Shareholders	Valfin S.r.l.
Main Shareholder stake	78.4%
Free Float	16.5%
Daily Average Volumes	9,255
Sample of comparables	Brembo, Comer Industries, Haldex, SKF, CIE Automotive, Kongsberg Automotive, Suprajit, Mayville, Meritor

Data of peers	2020	2021	2022E	2023E
Sales Growth (yoy)	-12.0%	11.4%	10.3%	5.4%
EBITDA Margin	11.9%	13.2%	13.8%	14.4%

Average data

Multiples of peers	2022E	2023E
Best peers (margins and cash flows)		
EV / EBITDA	14.4x	11.8x

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ADDITIONAL INFORMATION

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