Banca Profilo

Company Update

EDILIZIACROBATICA®

Robust growth despite Covid-19

May, 11th 2020 at 18:00

2019: another year of impressive growth

2019 figures confirmed EDAC's positive path since 2015: high double digit Value of Production growth (+59.5% yoy) to €41.8mln, higher than our estimate of €41.0mln. The EBITDA stood at €4.2mln, basically in line with 2018, whereas the EBITDA margin declined to 10.1% from 16.6% (and below our forecast at 12.4%) due to the integration of the French ETAIR and to the acceleration of growth through massive openings (11 new branches in 2019). At the end of 2019, net debt was €2.7mln, compared to a €2.1mln net cash position at the end of 2018 for increasing capex and net working capital needs.

Building sanitization: EDAC's prompt answer to Covid-19

EDAC, in the respect of Italian Government restriction, halted the maintenance works and stopped more than 150 sites. However, the Company promptly diversified its business offering building sanitization services to its clients, thus exploiting a new business opportunity from Covid-19 emergency and related lockdown.

2020E-2022E: our estimates revision

In terms of revenue, EDAC is expected to reach €49.5mln in 2020E (vs our previous forecast of €58.6mln), showing another year of double digit revenue growth, despite the stopping of activity for Covid-19 emergency and lockdown. For the following years, we project a prompt return to stronger turnover growth with sales CAGR 2019-2022E at 29% to over €84mln in 2022E (vs our previous forecast at €80mln). Considering EDAC'S 2019 results, we reduced our estimate on EBITDA, which we now see at €4.8mln in 2020E (from €8.8mln) with margin at 9.3% (from 15.0%). In 2020E-2022E we project €20mln of cumulated operating Cash Flows (vs our previous estimate at €25mln), partially used to finance higher than previously expected Capex (€11mln vs previous €3mln) and Net Working Capital needs (€9mln vs previous €8mln). Cumulated FCFs are now seen at €1.2mln in 2020E-2022E (from previous €13.9mln).

Valuation update: target price confirmed at €6.4: recommendation raised to BUY

Since there is no listed entity which operates in the same business as EDAC and given its scalable model, we chose the DCF method as the valuation approach.

Through cumulated FCFs 2020E-2023E of €7.1mln, a TV of €64mln and setting the WACC at 7.1% (in line with our previous Company Update), we get to an EV of €53.7mln and an Equity Value of €51mln. We thus confirm our TP at €6.4 per share. Given a potential upside of more than 40% on EDAC's price (€4.5 as of May, 6th 2020, before the increase of the following days) we move our recommendation from HOLD to BUY.

Target Price (€)	**6.4**	**from**	**6.4**
Recommendation	**BUY**	**from**	**HOLD**

Price as of May 11th	4.5
Number of shares (mln)	7.92
Market capitalization	29.4
Market segment	FTSE AIM ITALIA

Performance	**from IPO**
Absolute	+35%
Max / Min	8.7/2.8
Av. daily volumes ('000)	10.0

(€mln)	2019	2020E	2021E	2022E
Revenues	**39.3**	**49.5**	**64.4**	**84.4**
yoy change	*57.2%*	*26.1%*	*30.0%*	*31.0%*
VoP	**41.8**	**51.3**	**65.5**	**85.5**
yoy change	*59.5%*	*22.6%*	*27.9%*	*30.4%*
EBITDA	**4.2**	**4.8**	**6.3**	**11.9**
margin	*10.1%*	*9.3%*	*9.7%*	*13.9%*
EBIT	**2.4**	**1.8**	**2.3**	**6.1**
margin	*6.0%*	*3.5%*	*3.5%*	*7.2%*
Net income	**1.1**	**1.0**	**1.3**	**4.4**
margin	*2.8%*	*2.0%*	*2.0%*	*5.2%*
Net debt	**2.7**	**7.2**	**7.9**	**3.3**
Equity	**11.5**	**12.5**	**13.8**	**18.1**
FCF	(3.6)	(2.5)	(0.2)	3.8

Source: Banca Profilo estimates and elaborations, Company data.

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Executive summary

EdiliziAcrobatica in a nutshell: key investment drivers

A growing leading niche player in building renovation and maintenance

EdiliziAcrobatica (EDAC) is the largest Italian provider of outdoor residential building maintenance services through double-rope climbing technique.
Its offer competes primarily with players using traditional procedures such as scaffolds.

An innovative technique: double-rope climbing on site workers

EDAC is specialized in maintenance and renovation of buildings and other architectural structures using the double-rope climbing technique. The Group provides a wide range of services: securing and prompt intervention, renovation, installation, building cleaning, proofing, maintenance and rebuilding. The Covid-19 emergency and relative lockdown has given EDAC the opportunity of promptly setting up a new business: building sanitization.

An expanding retail network

EDAC was founded in 1994 and it is at the head of the Group which controls 5 operative subsidiaries (EDAC Versilia, EDAC Sicilia, EDAC Roma Trastevere and EDAC Biella and ETAIR the French Branch), 45 direct branches and 31 franchising (as of 31st December 2019).

R.Iovino and A.Marras controlling 76%

The Group is controlled by Riccardo Iovino and Anna Marras who own a 76% stake; free float is 23%.
During the First Exercise Period (closed at the end of September 2019) 198,937 Warrants were exercised and consequently converted in n.198,937 EDAC shares, at the price of €3.66 for each conversion share subscribed, for a total value of €728,109.42. The new share capital of EDAC is equal to €792,423.7 (as of the end of September 2019), divided into n. 7,924,237 ordinary shares.

In 2020 the Italian building market will slow its growth due to Covid-19 emergency

In 2019, in Italy some €130bn were invested in the Building and Construction Industry, including €64.9bn in the residential segment, which is projected to grow by 3% in 2020.
However, if it is assuming that the containment measures to mitigate the impact of Coronavirus crises will affect only the first quarter of 2020, it is estimate an impact on the contraction in the growth between 10%-15% in annual terms. It should be considered that in the event of an extension of the measures to contain the epidemic in the second quarter, the effects on the contraction of demand could be heavy.

Impressive sales growth in 2019: +59% yoy to €41.8mln

EDAC is a leader in its niche, with enormous growth potentials. In 2019 the Company generated €41.8mln (+59% yoy). EDAC is aiming at changing the mind set of building owners and condominium administrators through its superior and innovative market offering.

Focus on marketing, professional training and corporate culture

The HR department focuses on professional growth of its resources through training and target orienting. EDAC invests constantly on its employees through an in-house training academy (typically two training sessions in a month) focused on efficiency and self-improvement.

Profitability drivers: a scalable business model monitored by KPIs

EDAC's management expertise, long lasting partnerships with customers, workers training and support, successful track record, marketing and brand investments, are key entry barriers.
EDAC differentiates from all other players as it uses tested and standardized processes for branches and franchising openings, constantly monitored in-house trained personnel driven by key performance indicators.

Main Financial data (2016-2018) and estimates (2019E-2022E)

Outperformer of its reference market

Since 2016, EDAC has reported impressive turnover growth (46% CAGR in 2016-2019), well above its reference market (16%).

2019 financials: outstanding revenue growth

Since 2015, EDAC has reported outstanding sales growth (more than 40% on average). In 2019, the Company reported VoP at €41.8mln (+60% yoy), EBITDA for €4.2mln (-3.3% yoy) with margin at 10.1% (vs 16.6% in the 2018) and EBIT for €2.3mln (-37% yoy). At the end of December, net debt was €2.7mln from a net cash of €2.1mln at the end of FY18 mainly due to the increase in net invested capital from €8mln to €14mln.

High growth perspectives driven by a scalable business model through network expansion in Italy and abroad

Main corporate strategy is to capture a greater portion of the building maintenance and renovation market, through a consolidation of the leadership in Italy and a commercial push which includes both the Italian network expansion and an international growth.

In March 2019, the Company acquired ETAIR for €110k, a French company active in building renovations works using double-rope technique in the south-west of France, which has been recently wound up by French court. ETAIR acquisition is in line with EDAC's internationalization strategy announced during its IPO process.

2020E-2022E estimates revision:

The Covid-19 outbreak in Italy and its related lockdown led to the closing of EDAC's main business, leading to a potential slowdown in revenue growth for 2020E, partially mitigated by the introduction of the new sanitization business and new openings both in Italy and France. We therefore revised our estimates.

29% sales CAGR (from 27%) coming from a slowdown in 2020 but an acceleration in the following years

In 2020E, we are now expecting a slowdown in the positive path of EDAC's revenue, which will reach €51.5mln (vs previous €58.6mln). However, we have estimated a prompt recovery in the next years with a 29.5% sales CAGR 2019-2022E (vs previous 26.6%) reaching €84.4mln in 2022E (vs previous €79.7mln), mainly thanks to the increase of network expansion both in Italy and in France.

EBITDA margin lowered to 14% from 17% in 2022E

€1.2mln cumulated FCF (from €13.9mln)

The EBITDA in 2022E is forecasted at €11.9mln (prior seen at €13.6mln) with a margin at 13.9% lower than the 17.0% originally expected, mainly due to the higher costs related to the higher number of new direct branches now estimated (45 vs 18 prior estimated) and due to lower results in terms of marginality in 2019 than forecasted (10.1% vs 12.4% estimated). In 2020E-2022E period we project €20.0mln of cumulated operating Cash Flows (previously seen at €24.7mln), partially used to finance €10.9mln of Capex (previously seen at €2.9mln) and €9.2mln of operating Net Working Capital increase (previously seen at €8.0mln); cumulated FCFs in the period are expected at €1.2mln (vs previous €13.9mln), mainly due to lower EBIT, higher investments and a NWC that still need to be optimized.

Valuation Update

DCF approach to appraise a scalable business

Given EDAC scalable business through network expansion, showing high growth perspectives, and the lack of listed entities operating in the same business as EDAC, we chose to use the DCF method as a valuation approach.

A selected sample of listed companies in the Facility Management

For what concerns a benchmarking analysis we selected a sample of listed players active in the larger Industry of Facility Management services.

Within this Sector we analyzed ABM Industries (US, listed on NYSE), Mears Group (UK, listed on LSE), Rentokil Initial (UK, listed on LSE), HomeServe (UK, listed on LSE) and GDI Integrated Facility (Canada, listed on TSX). On average, the Sample show a mean EV/EBITDA 2020-2021E of 11.0x-9.7x respectively.

DCF assumptions

We run a DCF model, using our projections of FCFs for the explicit period 2020E-2023E, which lead to cumulated FCFs of €7.1mln (an annual average of €1.8mln) plus a Terminal Value of €63.9mln. We used a WACC of 7.1% and a 2% perpetual growth rate.

Valuation: TP €6.4/share confirmed; recommendation raised to BUY

The DCF method gives us an Enterprise Value of €53.7mln and an Equity Value of €50.7mln. We confirm our TP at €6.4 per share and considering a potential upside of more than 40% on EDAC's price (€4.5 as of May, 6th 2020, before the increase of the following days) we move our recommendation from HOLD to BUY.

Key risks

Our estimates execution risks

Key risks:

- possible rising competition from either the traditional business of construction works with scaffolds or from new competitors given low entry barriers;
- executional risk related to the integration of French subsidiary ETAIR;
- new players might discover a new disruptive technique which would replace EDAC one;
- larger Company dimensions may generate problems in KPIs monitoring and corporate culture spreading;
- high growth rates can lead to cost management issues and challenge the Net Working Capital control;
- excessive growth worsening product mix and margins;
- higher than projected negative impact of Covid-19 on 2020 estimates;
- potential *upside* to our estimates due to any Government tax incentives for building renovation related to Covid-19 emergency, that cannot yet be quantified in EDAC's future numbers.

SWOT analysis

STRENGTHS

- Strongly investing on corporate culture, brand and innovative marketing strategy to sensitize potential final client
- A structured, trained sales team driven by commercial performance
- EdiliziAcrobatica gave the name to the Industry
- Market leader in providing outdoor residential building maintenance and restructuring through double-rope technique only
- Cost, time efficiency and security through the rope technique compared to traditional scaffolds (zero injury)
- High margins and cash generator driven by a rigorous cost control and working capital management
- Scalable business through standardized openings processes
- Wide presence in Italy
- Experienced management team with statistically proven track record

WEAKNESSES

- NWC optimization is crucial for the business
- ETAIR restructuring and integration is a key element for EDAC's internationalization strategy and profitability improvement
- Excessive growth worsening product mix and margins

OPPORTUNITY

- Accelerating growth and strengthening margin through network expansion
- International expansion through ad-hoc international partnerships and/or bolt on acquisitions
- Residential building industry of maintenance and renovation is changing its operating procedure, from large and extensive extraordinary works through standard scaffolds to planned and cheaper ordinary works throughout the year
- Real estate brokers moving into building management opening new opportunities for EDAC as a network supplier
- Large potential Italian addressable market
- New Government tax incentives on building renovation related to Covid-19 emergency

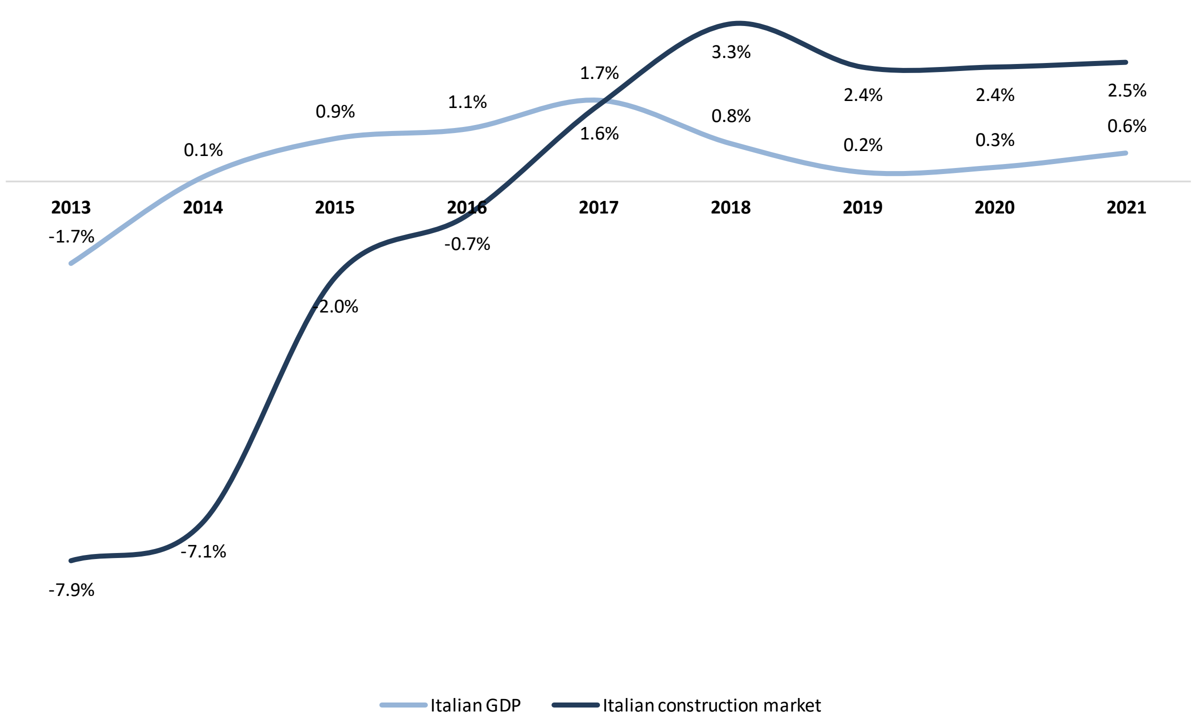
THREATS

- High level of competition within the existing players
- Competition from building restructuring and maintenance players
- High growth rates could lead to cost management issues
- KPIs monitoring and corporate culture spreading might become harder to manage and control as the Group rapidly extends its network

The reference market: the building renovation and maintenance market

EdiliziAcrobatica (EDAC) is the largest Italian provider of outdoor residential building maintenance through double rope and climbing technique. Its offer competes primarily with players using traditional procedures such as scaffolds. EDAC's reference market falls inside the larger Industry of building maintenance and renovations works.

Figure 1: Investments in construction market 2013-2021



Source: UNICMI processing of ISTAT data; February 2020

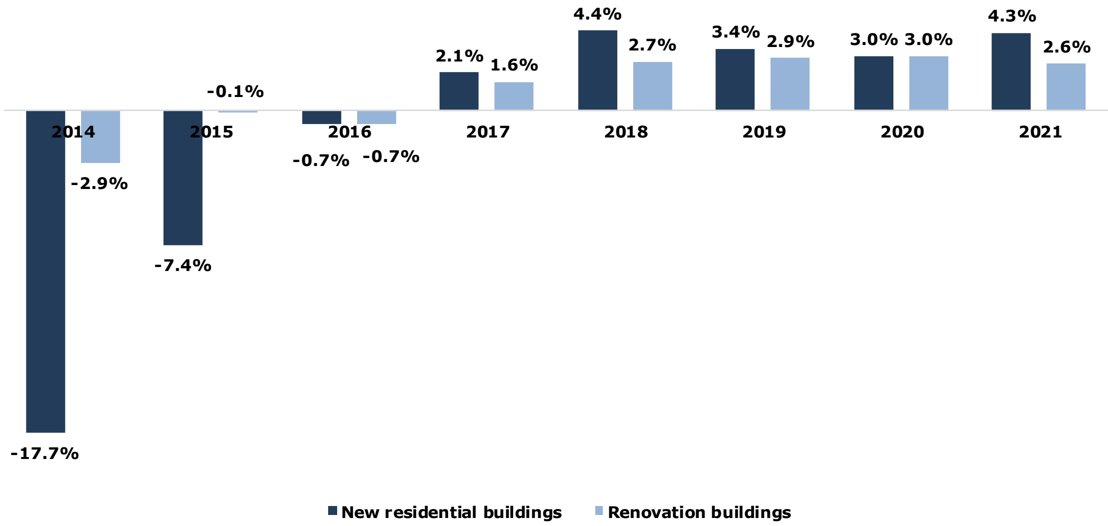
In 2019 almost €130bn invested in the Italian Construction Industry

EDAC's activity and the demand for its services are related to the Construction Industry. According to the UNICMI report, in 2018 the new construction market drove the Industry growth, but slowed down thereafter, in 2019.

In 2019, in Italy some €130bn were invested in the Building and Construction Industry, including €64.9bn in the residential segment, which is projected to grow by 3% in 2020.

In 2019, the Italian Construction Industry continued its positive path (which it had started in 2016), growing by 3.3% yoy. Moreover, it is expected to growth constantly at 2.4% for the next two years.

Figure 2: Investments in residential building 2014-2021



Source: UNICMI processing of ISTAT data; February 2020

In 2019 investments in residential buildings grew by+3.1%

In 2019, investments in residential buildings grew by more than 3% while in non-residential the increase was 2.2%. This positive trend is expected to continue in the next years. Within residential constructions, in 2019, investments increased by 3.4% in new buildings and by 2.9% in building renovations.

Coronavirus pandemic is expected to slowdown construction investments by 10-15% in 2020

Assuming that the Covid-19 lockdown will last no more than the first quarter of 2020, projections see a growth contraction between 10%-15% in annual terms. Therefore, the expected nominal growth of construction investments could slowdown in 2020. In the event the measures to contain the outbreak of Covid-19 extended into the second quarter of 2020, demand and consumption growth would be much heavier hit. The most affected segment is the residential segment for the diminishing of consumers' purchasing power.

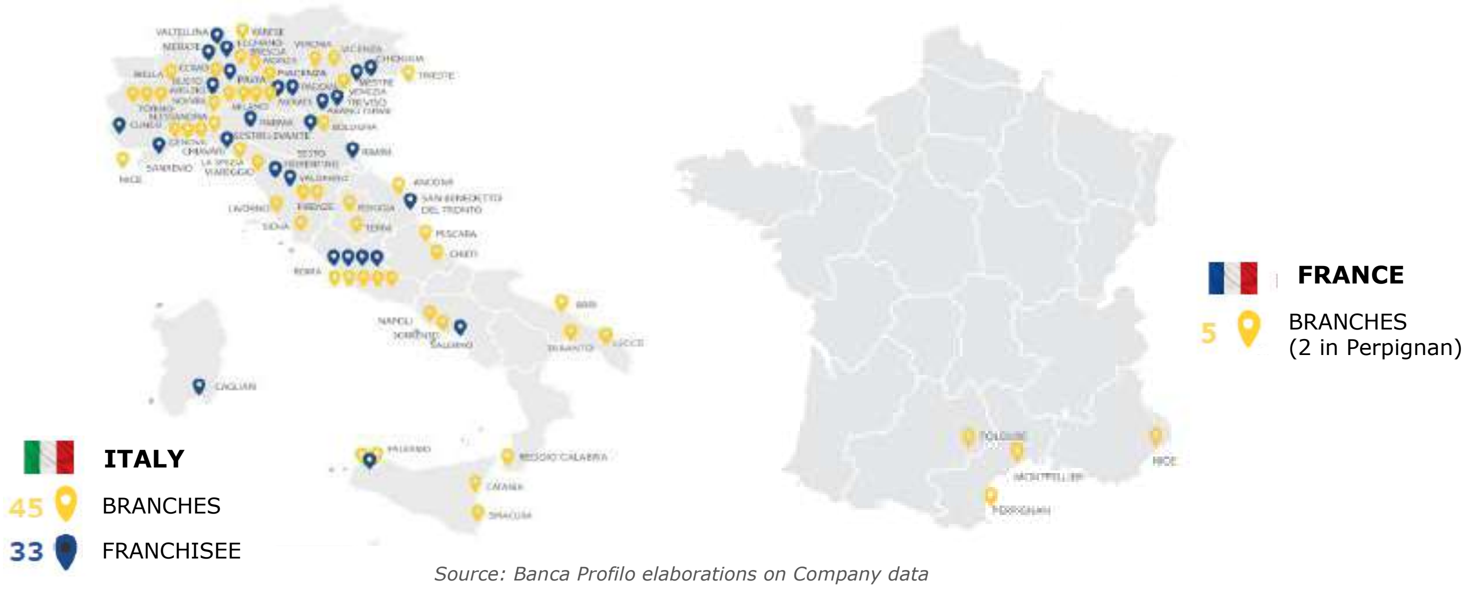
EDAC overview

The Group overview and activities

EDAC is a National integrated group active in building renovation and maintenance

In 2015, EDAC started its operations opening 5 franchisees. In 2019, the Company acquired ETAIR assets for €110k, a French company active in building renovations works with double rope technique in the south-west of France. ETAIR acquisition is in line with EDAC's internationalization strategy.

Figure 3: EDAC sales point in Italy and in France



Source: Banca Profilo elaborations on Company data

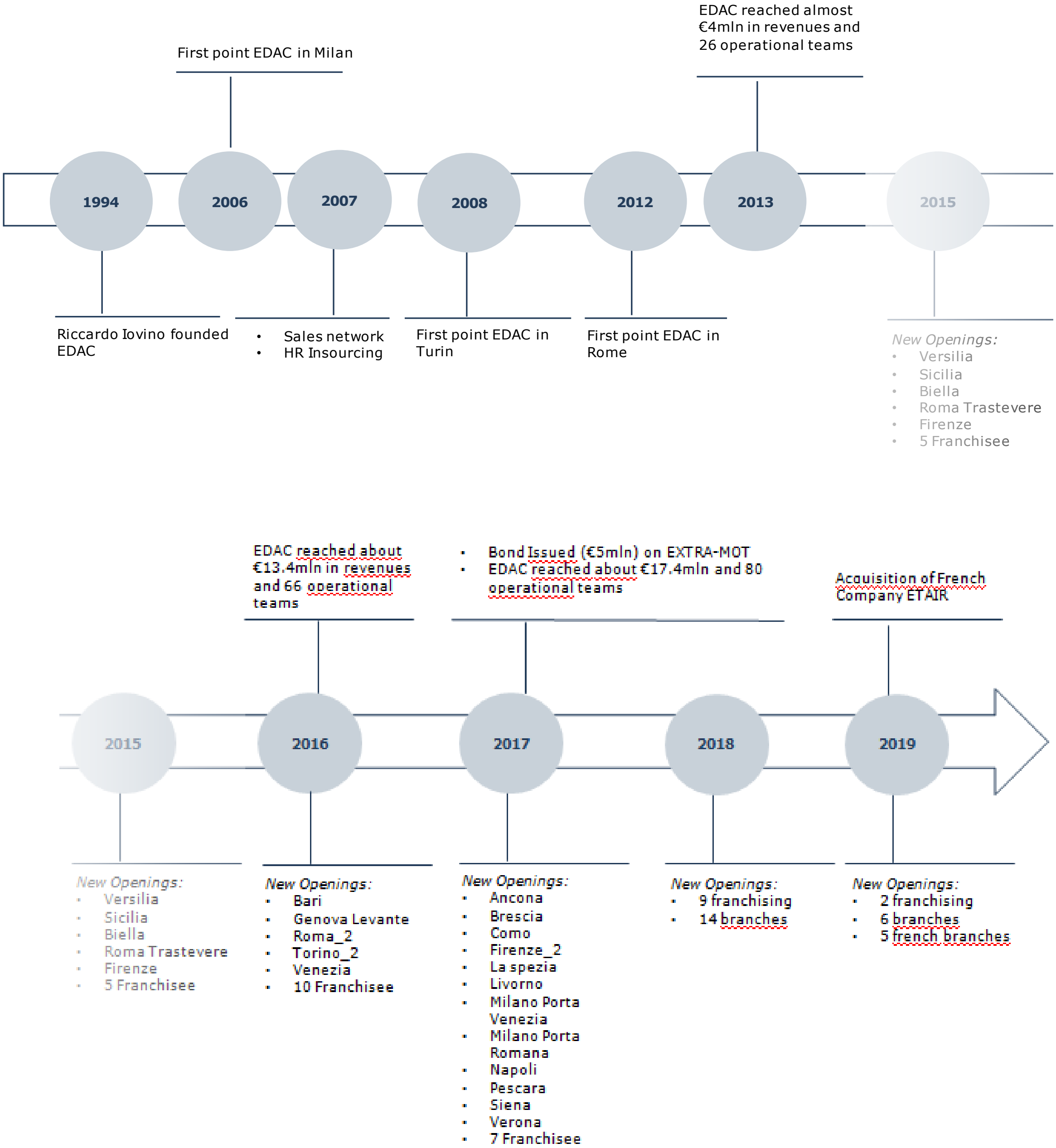
EDAC booster in 2019: + 20% the number of branches
more than 600 employees

At the end of 2019, EDAC has 45 direct branches and 33 franchising in Italy, 5 direct branches in France (Nice, Toulouse, Montpellier and Perpignan) for a total of 83 sales points (+19% yoy, from 70 in 2018).

In 2019 human capital working at EDAC included:

- 188 (+58% yoy) operation teams (14 in France);
- 376 (+58% yoy) workmen (28 in France);
- 625 (+127% yoy) total employees (43 in France);
- 6.500 (+35% yoy) building sites.

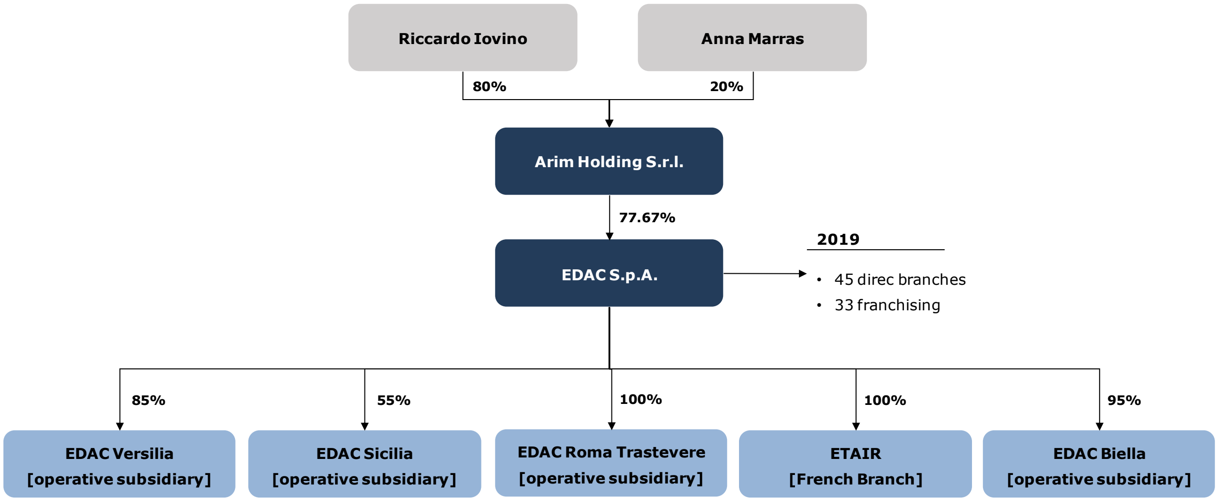
Figure 4: EDAC main milestones



Source: Banca Profilo elaborations on Company data

The Group is controlled at 78% by Arim Holding, which is held by Riccardo Iovino (80%) and Anna Marras (20%).
Moreover EDAC is directly controlling 4 Italian branches and 1 in France, ETAIR, which was acquired in March 2019.

Figure 5: EDAC Group perimeter



Source: Banca Profilo elaborations on Company data

EDAC is specialized in maintenance and renovation of buildings and other architectural structures using the double-rope climbing technique.
The Group provides a wide range of services, such as:

- securing and prompt intervention (removal of rickety objects from the building);
- renovation (restructuring and maintenance of facades, balconies and ledges; maintenance and replacement of gutters and downspouts);
- installation (execution of hydraulic system; bird net; life lines; advertising billboards);
- building cleaning (walls and facades; roofs; solar panels and windmills; gutters and downpipes);
- proofing (removal of localized infiltrations or the complete rebuilding of the waterproofing system that may concern balconies, roofs, ledge and hedges);
- maintenance (ordinary maintenance of hedges as well as the rebuilding);
- rebuilding (removal or encapsulation of slate and asbestos slabs);

A prompt answer to Covid-19: building sanitization

- as a prompt answer to Covid-19, the Company adapted its skills to offer building sanitization services. Moreover, EDAC introduced a new service via app that allows to hold condominium meetings via video conference for free to to its clients.

Management: long experience in the Group and sound track record

The Group is controlled by Riccardo Iovino, founder and CEO, and by Anna Marras, with a 62% and 16% post IPO stake respectively. Free float is 21% and the remaining is held by the employees.

The Group can count on a strongly experienced management team.

Riccardo Iovino: Founder and CEO

After a previous experience in the food trade, Mr. Iovino founded EDAC in 1994.

Anna Marras: Head of Training

Mrs. Marras has over twenty years of experience in professional training of top management of Italian companies (Gruppo Errebi Auto S.p.A., Audi Zentrum S.p.A., L'Oreal Academy, Maina Power Transmission). In 2004, she launched the first franchisee point of the managerial training group OSM International. She joined EDAC in 2007.

Carlo Sirombo: CFO

Mr. Sirombo has high standing experience as CFO: from 2015 to 2018 at Axactor Italy (Axactor Norway Group); from 2001 to 2007 at Saint Gobain Sekurit and Saint Gobain Glass (French multinational); from 1999 to 2001 at Agnesi 1824 (Colussi Group); from 1997 to 1999 at Audisio (CSM, Dutch multinational). Moreover, between 2007 and 2015, Carlo Sirombo has been the Head of Administration and General Affairs at Banca Ifis. Mr. Sirombo joined EDAC in Novembre 2019 with the role of CFO.

Vincenzo Polimeni: Head of Sales

After a Bachelor and a MSc degree in Architecture and Civil engineering, he obtained a Master's degree in Facility Management. He gained 14 years of experience in project and facility management in various Italian companies. Mr. Polimeni started at EDAC in 2013 as Area Manager for the Lazio region and then he became the Head of Sales.

Simone Muzio: Head of Operations

Mr. Muzio holds a Bachelor and Msc degree in Architecture. Thanks to almost 20 years of experience in project and facility management, in 2007 he was appointed Chief Operating Officer at EDAC.

Susanna Giardina: Head of HR

After a Bachelor degree in Foreign languages, she gained over 10 years of experience in HR and training programs. Ms. Giardina joined EDAC as Recruitment manager in 2012 and became the Head of HR thereafter.

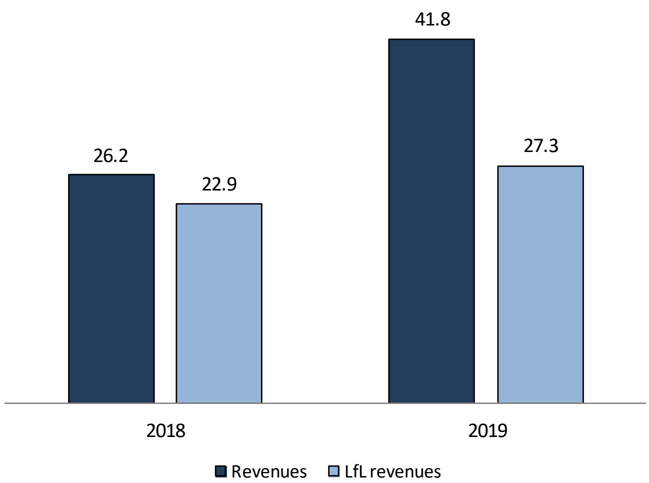
2019 results: boosting sales growth

Main operating and financial data

2019 Value of Production: €41.8mln +59% yoy +20% yoy like-for-like

In 2019, the Group Value of Production reached €41.8mln, in line with our prior expectation at €41.0mln (including €3.4mln from the French Branch (+59.3% yoy), driven by a faster than expected set up of new branches and higher average revenues per branch, both in Italy and in France. The increase in revenues continues to be driven by direct operating offices (€36.4 mln higher than our forecasts at €35.3mln; +59% yoy) which account for 87% of Group VoP. Revenues from franchising rose by 33.3% yoy in 2019 reaching €2.8mln of sales above our expectation at €1.62mln).

Figure 6: Value of Production 2019 vs 2018 (€mln)



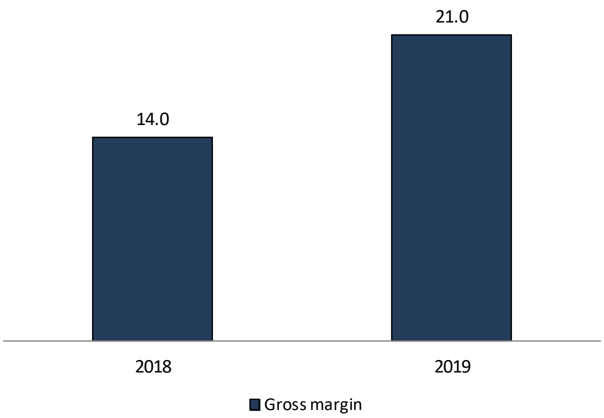
Source: Banca Profilo elaborations on Company data

During 2019, EDAC opened 11 direct branches (including 5 new direct branches in France) and 2 franchisees in Italy, we have prior estimated 6 new direct branches and 5 new franchisees. If we adjust sales for France and for R&D grants, we get revenues of €27.3mln (+20.2% yoy) in 2019. At the end of 2019 EDAC had 83 sales offices, increasing from 70 in 2018, and 6,500 construction sites, up from 4,800 a year earlier.

Gross profit at €21.0mln or 50% margin

In 2019, gross profit increased to €21mln, above our expectation at €18.6mln, with gross margin losing 4 ppts to 50% due to both new workers hiring, which led to a decrease in the average seniority of the business units, and to lower productivity, for the training period needed for newly introduced employees.

Figure 7: Gross margin 2019 vs 2018 (€mln)

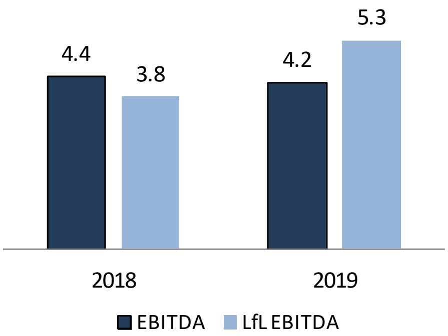


Source: Banca Profilo elaborations on Company data

EBITDA at €4.2mln (-3.3% yoy) for structure expansion to support further growth

The EBITDA slightly declined to €4.2mln below our forecasts at €5.1mln (-3.3% yoy) in 2019 for the rapid turnover growth and the consequent organization expansion including more structured personnel dedicated to marketing and G&A, aimed at supporting future growth. The margin in 2019 stood at 10.1% (16.6% in the 2018), missing our consensus at 12.4%

Figure 8: EBITDA 2019 vs 2018 (€mln)



Source: Banca Profilo elaborations on Company data.

EBIT down to €2.3mln due to new capitalized investments

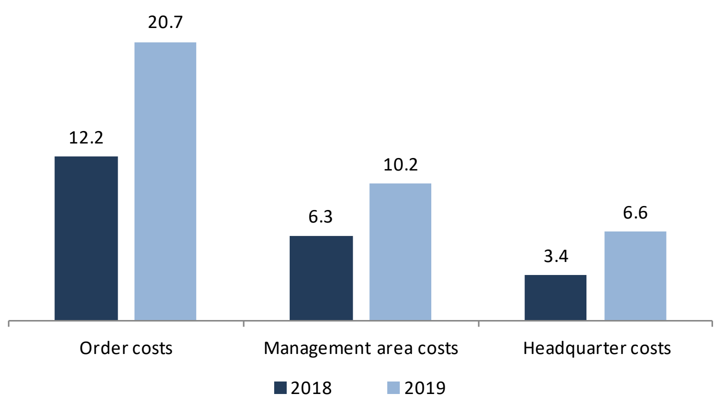
2019 EBIT reached €2.3mln, missing our consensus at €4.3mln (-36.5% yoy), representing a 5.6% margin. EBIT declined for recent capitalized investments and consequent higher D&A (from €0.7mln in 2018 to €1.9mln in 2019): startup costs for the openings; the Euronext France listing (in February 2019); ETAIR acquisition (in March 2019) and restructuring.

Costs rose to €37.5mln for marketing expenses leading to additional contracts

In 2019, the total costs moved up from €21.8mln to €37.5mln due to the increase in materials and acrobats costs, G&A and marketing expenses. Direct costs represented more than 80% (€31mln) of total costs. EDAC is constantly investing in marketing: in 2019 a tv advertisement was launched to enhance the recruiting, and the Company

sponsored the Italian football team, Torino. As the effect of marketing efforts, in 2019, more than half of new contracts derived from the marketing campaign.
The Company is highly focused on employees training: in 2019, it spent 65,000 hours to train its employees.

Figure 9: Costs analysis 2019 vs 2018 (€mln)



Source: Banca Profilo elaborations on Company data.

Finally, net income stood at €1.1mln, or 2.6% margin, we have prior forecasted €2.8mln.

Table 1: EDAC Profit & Loss 2017-2019

Profit & Loss (€/mln)		2017	2018	2019
Revenues		**16.3**	**25.0**	**39.3**
	yoy	*30.5%*	*53.2%*	*57.2%*
Gross revenues from sites		14.8	22.9	36.4
	% on VoP	*85%*	*87%*	*87%*
Fee from franchising		0.5	0.6	0.9
	% on VoP	*3%*	*2%*	*2%*
Royalties		0.4	0.9	1.1
	% on VoP	*2%*	*3%*	*3%*
Training and support for franchisee		0.3	0.2	0.2
	% on VoP	*2%*	*1%*	*0%*
Resale of goods to franchisee		0.3	0.4	0.7
	% on VoP	*2%*	*1%*	*2%*
Contribution & other revenues		1.0	1.2	2.5
	% on VoP	*6%*	*5%*	*6%*
Sanitization				
	% on VoP			
Value of production		**17.4**	**26.2**	**41.8**
	yoy	*30.1%*	*51.0%*	*59.5%*
Raw materials		(2.6)	(3.7)	(5.8)
Change in inventories		0.6	0.7	0.9
Services		(3.2)	(6.2)	(8.9)
Other costs		(0.1)	(0.5)	(1.2)
Subcontracting		(0.3)	(1.5)	(2.7)
Labour costs		(9.3)	(10.8)	(19.9)
EBITDA		**2.5**	**4.4**	**4.2**
	margin	*14.2%*	*16.6%*	*10.1%*
D&A		(0.5)	(0.7)	(1.9)
Provision for risks		-	-	-
EBIT		**2.0**	**3.7**	**2.3**
	margin	*12.0%*	*14.6%*	*5.9%*
Net financial expenses		(0.1)	(0.3)	(0.3)
Extraordinary items		-	-	-
EBT		**1.9**	**3.4**	**2.0**
Taxes		(0.8)	(1.1)	(0.9)
	tax rate	*41.6%*	*32.9%*	*46.4%*
Net profit		**1.1**	**2.3**	**1.1**
	margin	*6.7%*	*9.1%*	*2.8%*

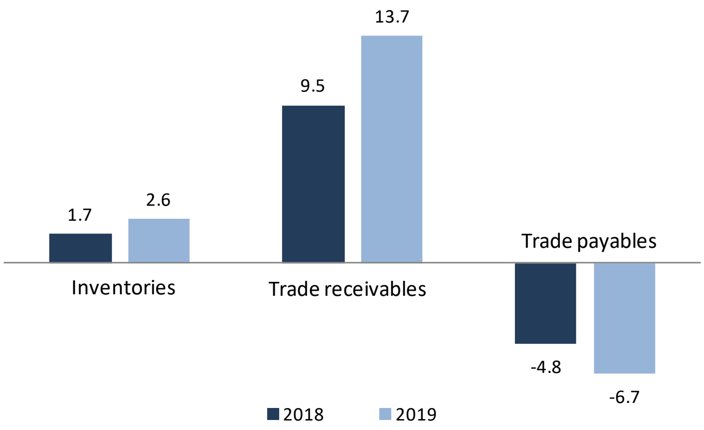
Source: Banca Profilo elaborations and estimates on Company data

Operating NWC increase follows sales

On the Balance Sheet side, the operating NWC increased by over 50% to €9.6mln at the end of 2019 (we forecasted €8.9mln), mainly driven by a rise in account *growth*

receivables derived from sales growth.

Figure 10: Operating NWC 2019 vs 2018 (€mln)



Source: Banca Profilo elaborations and estimates on Company data

At the end of 2019 EDAC has net debt of €2.7mln due to €9.8mln of cash and €12.5mln of debt

The net cash (€2.1mln) available at the end of 2018 has been absorbed, leading to a net debt position of €2.7mln at the end of 2019 (we estimated €1.2mln of debt).
The investments in the period have been:

- €2.1mln of start-up costs for the new branches in Italy;
- €0.6mln of equipment costs;
- €0.6mln of asset in the French subsidiary;
- €1mln for the Euronext listing, start-up costs in France and advisory costs for potential M&A in Spain;
- €0.4mln for the acquisition of financial assets;
- €0.3mln for investing in new projects;
- €0.2mln of leasing costs;
- €0.5mln for AIM listing.

Table 2: EDAC Balance Sheet 2017-2019

Balance Sheet (€/mln)	2017	2018	2019
Stock	1.0	1.7	2.6
Accounts receivables	6.5	9.5	13.7
Accounts payables	(2.3)	(4.8)	(6.7)
Operating Net Working Capital	**5.2**	**6.4**	**9.6**
Other current assets & liabilities	(1.0)	(0.6)	0.1
Net Working Capital	**4.2**	**5.8**	**9.8**
Intangible	0.8	1.7	3.9
Tangible	0.3	0.8	1.2
Financials	0.1	-	-
Fixed assets	**1.1**	**2.5**	**5.1**
Funds	(0.4)	(0.7)	(1.2)
Other non current assets & liabilities	(0.5)	0.3	0.5
Net Invested Capital	**4.4**	**8.0**	**14.3**
Equity	**2.1**	**10.1**	**11.5**
Share capital	0.6	0.8	0.8
Reserves	0.4	7.0	9.6
Net profit	1.0	2.2	1.1
Minorities	0.1	0.1	0.0
Net debt (cash)	**2.3**	**(2.1)**	**2.7**
Liabilities	**4.5**	**8.0**	**14.3**

Source: Banca Profilo elaborations and estimates on Company data

Some 200k of new shares coming from warrants conversion in 2019

Regarding the warrants, during their first exercise period (closed at the end of September 2019), 198,937 warrants have been exercised and converted in 198,937 EDAC shares, at the price of €3.66 for a total value of €728,109.42.
Therefore, EDAC's new share capital is equal to €792,423.7 divided into 7,924,237 ordinary shares.

Strategy and estimates

Corporate strategies

Capture a greater portion of the international building maintenance and renovation market

Main corporate strategy is to capture a greater portion of the building maintenance and renovation market, through a consolidation of the leadership in Italy and a commercial push which includes an international expansion.
External growth through M&A is also planned to enter new geographies, both in Europe and Americas, starting from Spain.

EDAC's will focus on :

- consolidating its leadership in Italy though branches and franchisees expansion;
- boosting its brand image and awareness through marketing campaigns;
- empowering its organizational structure;
- international expansion through M&A.

International expansion has started: listing on Euronext and ETAIR acquisition

In the first quarter of 2019, EDAC completed its dual listing project on the Euronext Paris, aimed to open up to international markets. In fact, in March 2019, EDAC acquired the French comparable ETAIR for €110k, a French company active in building renovations works with double rope technique in the south-west of France.

Coronavirus: building sanitization as EDAC's new business opportunity

EDAC, in the respect of Italian Government restriction that halted the production to mitigate the Coronavirus impact, decided to stop working for 160 building sites. However, the Company promptly diversified its business offering environmental sanitization services to its clients, investing in the acquisition of machinery, detergents and safety devices for staff. A new business opportunity has been found from Covid-19 emergency and related lockdown. We include the new business in our forecasts for the period 2020E-2023E.

Moreover, to strengthen its relationship with clients (mainly building administrators) EDAC introduced a new service via app that allows to hold condominium meetings via video conference for free.

Focus on: 2020E estimates benchmarking

2020E estimates revision

The Covid-19 outbreak in Italy and its related lockdown led to the closing of EDAC's main business with a potential slow down in Company's growth, partially mitigated by the introduction of new services and by new openings both in Italy and in France. We therefore revised our estimates.

Table 3: EDAC main changes in 2020E estimates

Profit & Loss (€/mln)		2018	2019	2020E Old	2020E New
Revenues		**26.2**	**39.3**	**58.6**	**49.5**
	yoy	*51.0%*	*57.2%*	*45.5%*	*26.1%*
Contribution & other revenues		1.2	2.5	0.0	1.7
Value of production		**26.2**	**41.8**	**58.6**	**51.3**
	yoy	*51.0%*	*59.3%*	*45.5%*	*22.6%*
EBITDA		**4.4**	**4.2**	**8.8**	**4.8**
	margin	*16.6%*	*10.1%*	*15.0%*	*9.3%*
EBIT		**3.66**	**2.32**	**7.9**	**1.6**
	margin	*14.0%*	*5.6%*	*13.0%*	*3.3%*
EBT		**3.4**	**2.0**	**7.6**	**1.4**
Net profit		**2.3**	**1.1**	**5.3**	**1.0**
	margin	*8.7%*	*2.6%*	*9.1%*	*2.0%*

Balance Sheet (€/mln)	2018	2019	2020E Old	2020E New
Operating Net Working Capital	**6.4**	**9.6**	**12.3**	**12.7**
Net Working Capital	**5.8**	**9.8**	**12.2**	**12.8**
Fixed assets	**2.5**	**5.1**	**3.8**	**6.8**
Net Invested Capital	**8.0**	**14.3**	**11.7**	**19.7**
Equity	**10.1**	**11.5**	**14.6**	**12.5**
Net debt (cash)	**(2.1)**	**2.7**	**(2.9)**	**7.2**

Cash flow (€/mln)	2018	2019	2020E Old	2020E New
EBIT	3.7	2.3	7.9	1.6
taxes	(1.1)	(0.9)	(2.3)	(0.5)
NOPAT	**2.5**	**1.4**	**5.6**	**1.2**
D&A	0.7	1.9	(0.9)	3.1
Operating cash flow	**3.2**	**3.3**	**6.5**	**4.3**
Operating Net Working Capital change	(1.2)	(3.3)	(3.4)	(3.0)
Other funds	0.3	0.5	(3.4)	0.2
Capex	(1.8)	(4.0)	(1.0)	(4.0)
FCF	**0.5**	**(3.6)**	**2.2**	**(2.5)**

Source: Banca Profilo elaborations and estimates on Company data

2020E: Sales growth reduced by 15% to 26% due to Covid-19

Since in 2019 EDAC opened 11 new branches, we increased the number of new openings to 10 in 2020 vs our previous +8. Despite this, we reduced our sales estimate in 2020E from €58.6mln (+45% yoy) to €49.5mln (+26% yoy) due to the Coronavirus impact on EDAC's activity, which had to halt the sites on which its was working and to shutdown its branches. However, the Company expects to mitigate this revenue loss with some €2mln of turnover coming from its new sanitization services.

EBITDA margin lowered by 570bps to 9.3%.

We also reduced our EBITDA margin projections on 2020 to 9.3% from our previous 15%, slightly below 2019 results, mainly due to lower expected revenue growth but persisting fixed costs and due to an EBITDA Company's results in 2019 that have missed our consensus, 10.1% vs 12.4% forecasted.

Regarding labour costs, we assumed the redundancy fund during the halting of activity.
We lowered EBIT 2020 to €1.6mln from our previous projection at €7.9mln, due to higher D&A (€3.1mln vs our previous forecast at €0.9mln) deriving from higher Capex in 2019 and 2020 than expected (€4.0mln vs our forecast at €0.8mln) to support EDAC's expansion growth programme.

€2.1mln net cash at the end of FY18 absorbed by capex leading to negative FCF in 2020E

On the Balance sheet side, we now project higher capex in 2020E at €4mln lower than €1mln prior seen, to support the biggest network expansion.
Net cash position of €2.1mln at the end of FY18 has been absorbed by investments in 2019, leading to an expected net debt of €7.2mln at the end of 2020E (vs previous cash seen at €2.9mln).
Lowering sales growth, EBITDA margin and increasing Capex leads us to a decrease in the expected FCF for the year 2020 to a negative €2.8mln from our previous forecast of a positive €2.2mln.

Revising our 2020E-2022E estimates and adding 2023E

EDAC's 2020 numbers will be hit by Covid-19 yet mitigated by the set up of new openings and sanitization

Our estimates include the integration of ETAIR, acquired in March 2019, and the effects of Covid-19 emergency.
In our revisited forecasts we included the partial mitigation of negative pandemic effects, especially for the 2020E, through the introduction of the buildings sanitization activity and the higher number of projected new openings.

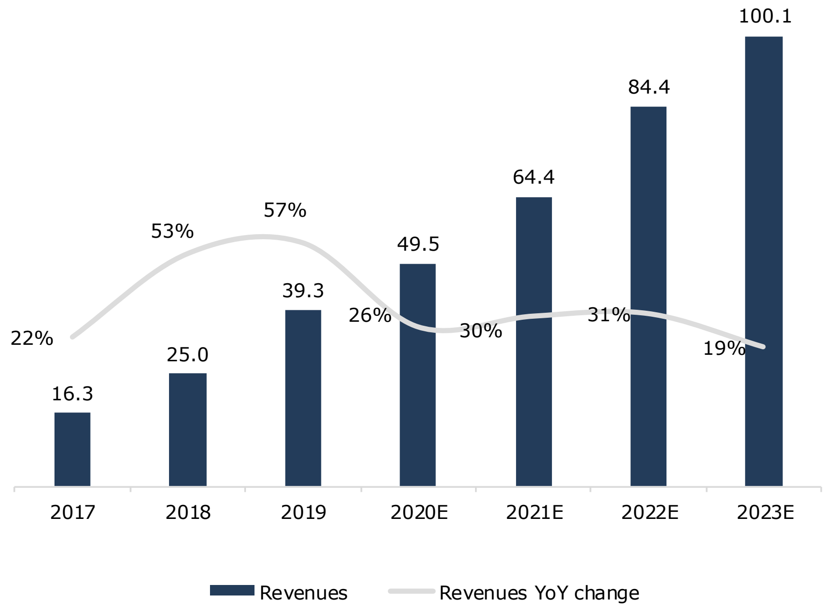
Sales CAGR 2019-2022E raised to 29% to over €84mln

We now expect a 29.0% revenue CAGR in 2019-2022E (vs previous 26.6%) to reach €84.4mln (vs previous €80mln). Furthermore, we now project revenues below our prior estimations in 2020E (€49.5mln vs €58.6mln), but a more rapid recovery in the next years, as regarding we now ends up with sales in 2022E at €84.4mln above our prior estimations at €79.7mln, boosted by higher network growth both in Italy and in France.
We raised our sales projections assuming: i) more openings, following the higher number of new branches and franchisees in 2019 compared to our expectations; ii) higher productivity by direct branches; iii) ETAIR contribution to sales growth; iv) some €1.5mln yearly sales from the new sanitization business.
Furthermore, we added estimates for the year 2023E when we project revenue to reach €100.1mln (+18.7% yoy).

Network expansion 2020E-2023E: +60 branches +27 franchisees

In 2020E-2023E we forecast the following new openings: 10 in 2020E (vs previous 6); 50 branches and 22 franchisees in 2021E-2023E (vs previous 12 and 10 respectively in 2021E-2022E only).

Figure 11: EDAC revenue trend (€mln)



Source: Banca Profilo elaborations and estimates on Company data

EBITDA improving to €16.5mln in 2023E (16% margin) from €4.2mln in 2019 (10% margin); yet lowered vs our previous projections

In 2020-2023E, we expect the EBITDA to increase to €16.5mln (from €4.2mln in 2019), with EBITDA margin improving to 16.3% (from 10.1% in 2019).
In 2022E we forecast €11.9mln EBITDA (vs previous €13.6mln) with a 13.5% margin (vs previous 17%). We lowered our expectations on EBITDA margin due to lower results in 2019 than forecasted. Moreover, we have considered also higher costs due to the higher number of new direct branches now estimated, leading us to estimates an increase in new workers hiring, thus to an increase in personnel costs (€41.8mln in 2022E and €48.0mln in 2023E vs €35.9mln prior forecasted in 2022E).

Net income: €8.5mln in 2023E from €1.1mln in 2019

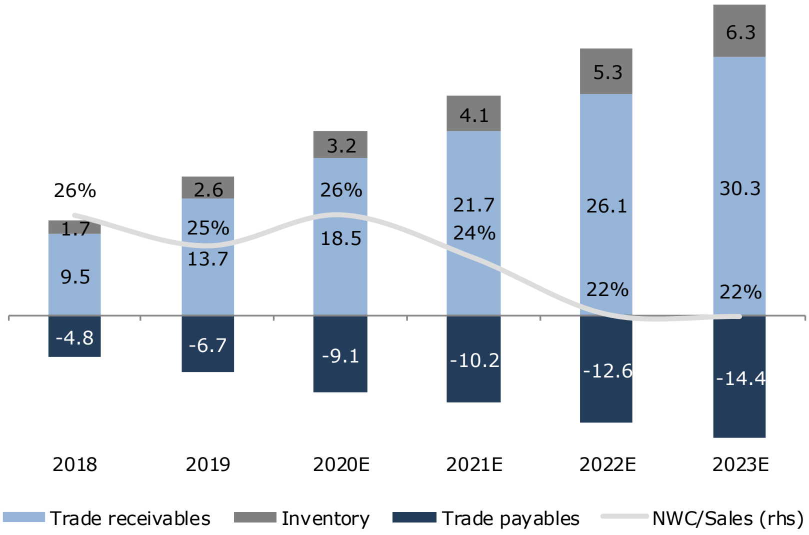
The forecasted EBITDA will be partially absorbed by increasing D&A coming from higher capex to support Company's growth (€18.42mln of Capex in the period 2019-2023E;
Finally, we end up with Net income improving from €1.1mln in 2019 to €8.5mln in 2023E (€8.9mln prior forecasted in the 2022E vs €4.4mln now projected in 2022E).

Balance Sheet projections: increasing Capex and NWC

With regards to our Balance Sheet projections (2020E-2023E), we have included:

- €14mln Capex (vs previous €3mln in 2020E-2022E mainly due to more openings);
- operating Net Working Capital at €22.2mln in 2023E (vs previous €16.9mln in 2022E), and an average ratio to sales at 24% in 2020E-2023E (vs previous 21%) due to a strong contribution of account receivables and inventory.

Figure 12: Net working capital composition and dynamics (€mln and %)



Source: Banca Profilo elaborations and estimates on Company data

NWC optimisation still on focus: from 26% on sales in 2020E to 22% in 2023E

The high double digit sales growth through network expansion need to be sustained by improving the operating Net Working Capital turnover. The Group's management is well focused on NWC optimization: it introduced the client receivables turnover as one of the KPIs for rewarding the sales force, in order to speed up receivables cash in; furthermore, it planned the outsourcing of older receivables management.
We see Net debt to gradually decrease from €7.2mln in 2020E to a net cash position of €2.6mln in 2023E, mainly thanks to NWC optimisation. We previously estimated a net cash position (€13mln) in 2022E because of slower revenue growth with consequent lower NWC cash absorption and lower capex.

Table 4: EDAC Balance Sheet 2018-2023E

Balance Sheet (€/mln)	2018	2019	2020E Old	2020E New	2021E Old	2021E New	2022E Old	2022E New	2023E New
Operating Net Working Capital	6.4	9.6	12.3	12.7	15.2	15.6	16.9	18.8	22.2
Net Working Capital	5.8	9.8	12.2	12.8	15.1	15.5	16.8	18.9	22.4
Fixed assets	2.5	5.1	3.8	6.8	4.0	6.3	4.2	4.5	4.2
Net Invested Capital	8.0	14.3	11.7	19.7	13.8	21.7	13.8	21.4	24.0
Equity	10.1	11.5	14.6	12.5	20.0	13.8	26.9	18.1	26.6
Net debt (cash)	(2.1)	2.7	(2.9)	7.2	(6.2)	7.9	(13.1)	3.3	(2.6)

Source: Banca Profilo elaborations and estimates on Company data

More than €30mln of cumulated Operating Cash Flows dried out by Capex and Working Capital needs

In 2020E-2023E period we project €32.4mln of cumulated operating Cash Flows (vs previous €24.7mln in 2020E-2022E), partially used to finance Capex (€14.4mln vs previous €3mln in 2020E-2022E for a faster new openings pace) and Net Working Capital needs (€12.6mln vs previous €8.0mln in 2020E-2022E). We therefore now expect cumulated FCFs at €7.1mln in 2020E-2023E, lower than our previous forecast at €14mln in 2020E-2022E, given higher projected Capex and still to be optimized Net Working Capital dynamics.

Table 5: EDAC Free Cash Flow evolution 2019-2023E

Cash flow (€/mln)	2018	2019	2020E Old	2020E New	2021E Old	2021E New	2022E Old	2022E New	2023E New
EBIT	3.7	2.3	7.9	1.6	10.8	2.0	12.8	6.5	12.5
taxes	(1.1)	(0.9)	(2.3)	(0.5)	(3.1)	(0.6)	(3.8)	(2.1)	(4.0)
NOPAT	**2.5**	**1.4**	**5.6**	**1.2**	**7.7**	**1.4**	**9.0**	**4.5**	**8.6**
D&A	0.7	1.9	(0.9)	3.1	(0.8)	4.3	(0.8)	5.4	4.0
Operating cash flow	**3.2**	**3.3**	**6.5**	**4.3**	**8.4**	**5.7**	**9.7**	**9.8**	**12.5**
Operating Net Working Capital change	(1.2)	(3.3)	(3.4)	(3.0)	(2.9)	(2.9)	(1.7)	(3.2)	(3.4)
Other funds	0.3	0.5	(3.4)	0.2	(2.9)	0.6	(1.7)	0.5	0.4
Capex	(1.8)	(4.0)	(1.0)	(4.0)	(1.0)	(3.6)	(1.0)	(3.3)	(3.5)
FCF	**0.5**	**(3.6)**	**2.2**	**(2.5)**	**4.6**	**(0.2)**	**7.1**	**3.8**	**6.0**

Source: Banca Profilo elaborations and estimates on Company data

Estimates execution risks

Key risks:

- possible rising competition from either the traditional business of construction works with scaffolds or from new competitors given low entry barriers;
- executional risk related to the integration of French subsidiary ETAIR;
- new players might discover a new disruptive technique which would replace EDAC one;
- larger Company dimensions may generate problems in KPIs monitoring and corporate culture spreading;
- high growth rates can lead to cost management issues, optimal product mix allocation and last but not least the Net Working Capital control;
- higher than projected negative impact of Covid-19 on 2020 estimates;
- potential *upside* to our estimates due to any Government tax incentives for building renovation related to Covid-19 emergency, that cannot yet be quantified in EDAC's future numbers;
- Excessive growth worsening product mix and margins.

Valuation

DCF approach to appraise a fast growing scalable business model

Since there is no listed entity which operates in the same business of EDAC and given EDAC scalable business, the standardized processes for network rollout, with proven track record, a DCF method well adapts as a valuation approach.

DCF

DCF assumptions: €1.8mln yearly FCF on average

To run a DCF model, we use our projections of unlevered FCFs for the 2020E-2023E explicit period: €7.1mln cumulated and €1.8mln on average (vs our previous estimates of €13.9mln and €3.5mln respectively, but in 2020E-2022E). Compared to our previous estimates, FCFs have decreased due to higher investments to support a faster network expansion and to more NWC needs.

In order to assess the Terminal Value, we factor in:

- an unlevered FCF of €3.2mln (as the average of the FCFs in 2021E-2023E), which is unchanged compared to our last Company Update;
- 2% perpetual growth rate (unchanged vs our previous Company Update).

Table 6: Unlevered FCFs

Cash flow (€/mln)	2019	2020E	2021E	2022E	2023E	TV
EBIT	2.3	1.6	2.0	6.5	12.5	
taxes	(0.9)	(0.5)	(0.6)	(2.1)	(4.0)	
NOPAT	**1.4**	**1.2**	**1.4**	**4.5**	**8.6**	
D&A	1.9	3.1	4.3	5.4	4.0	
Operating cash flow	**3.3**	**4.3**	**5.7**	**9.8**	**12.5**	
Operating Net Working Capital change	(3.3)	(3.0)	(2.9)	(3.2)	(3.4)	
Other funds	0.5	0.2	0.6	0.5	0.4	
Capex	(4.0)	(4.0)	(3.6)	(3.3)	(3.5)	
FCF	**(3.6)**	**(2.5)**	**(0.2)**	**3.8**	**6.0**	**3.2**

Source: Banca Profilo estimates and elaborations

DCF assumptions

We apply a WACC of 7.1% (from 7% in our previous Update) derived from:

- a risk free rate of 3.5%, including the 30Y Italian BTP yield and assuming a 1% increase in the medium term;
- market risk premium of 5%;
- beta of 1.1, coming from the average of a selected sample of listed companies in the Facility Management industry;
- a debt to equity target structure with a 63% weight of Equity.

Table 7: WACC calculation

WACC Calculation	
perpetual growth rate	2.0%
WACC	**7.1%**
risk free rate (30Y) (Bloomberg projections)	3.5%
equity risk premium	5%
beta	1.1
KE	9.1%
cost of debt	5.4%
tax rate	32%
KD	3.7%

Source: Banca Profilo estimates and elaborations

DCF valuation: Equity value at €51.0mln vs previous €50.9mln

The DCF method leads us to an Enterprise Value of €53.7mln (vs our previous €52.1mln) and to an Equity Value of €51.0mln (from previous €50.9mln) or €6.4/share (unchanged from our last Company Update), including the €2.7mln net debt at the end of 2019.

Table 8: DCF valuation

DCF Valuation	2019	2020E	2021E	2022E	2023E	TV
Free Cash Flows (€/mln)	(3.6)	(2.5)	(0.2)	3.8	6.0	3.2
years		1.0	2.0	3.0	4.0	
discount factor		0.9	0.9	0.8	0.8	
NPV Cash flows (€/mln)		(2.3)	(0.2)	3.1	4.5	
Sum of NPVs (€/mln)		(2.3)	(2.5)	0.6	5.2	
Terminal Value (€/mln)						63.9
NPV Terminal Value (€/mln)						48.6
Enterprise Value (€/mln)						**53.7**
Net debt end of 2019 (€/mln)						2.7
Equity Value (€/mln)						**51.0**
number of shares (mln)						7.9
Per share value (€)						**6.4**

Source: Banca Profilo estimates and elaborations

Target Price confirmed at €6.4 Recommendation raised to BUY from HOLD

Despite we have considered higher potential growth and a well-managed Covid-19 scenario, we have ended up with Enterprise Value substantially in line with our prior Company Update, because of the estimated FCFs will be absorbed by higher Capex to support Company's fast expansion; moreover, the NWC still needs to be optimized.
Finally, we confirm the Target Price at €6.4 per share. Given a potential upside of more than 40% on EDAC's price (€4.5 as of May, 6th 2020, before the increase of the following days) we move our recommendation from HOLD to BUY.

Relative Valuation on multiples

Despite the lack of suitable comparable useful to produce a fair benchmarking analysis, we provide a list of peers that best adapts to EDAC business model. Therefore, we concentrate our research on listed players active in a business similar to EDAC's one, but also in the larger Industry of Facility Management services. Within this sector we selected: ABM Industries INC (US, listed on NYSE), Mears Group Plc (UK, listed on LSE), Rentokil Initial Plc (UK, listed on LSE), HomeServe (UK, listed on LSE) and GDI Integrated Facility (Canada, listed on TSX).

ABM Industries (USA): facility management

ABM Industries Inc., founded in 1909 and listed on the NYSE, based in New York (USA), is a facility management group with more than 350 offices in the United States and over 20 international locations. The Group offers a variety of facility management services, such as air conditioning, engineering, cleaning, energy and lighting solutions, parking, security and other outsourcing services, through stand-alone or integrated solutions, aimed at industrial and institutional customers (buildings commercial, airports, schools and hospitals). In 2019, ABM Industries Inc. generated total revenues of around $6.4bn.

Mears Group (UK): housing, repairs and maintenance

Mears Group Plc, founded in 1988, with headquarter in Gloucester (UK) and listed on the LSE, is a group active in the housing sector (repairs and maintenance, housing management, new homes, improvement interventions, insourcing - in IT areas, operational management, asset management, HR, finance, health & safety, compliance & procurement - facility management, estate services (gardening services), student life (management of student residences) and social assistance in the UK. Customers are represented by local authorities, registered social landlords, private landlords, tenants and service users, communities, charities. In 2019, Mears Group Plc generated revenues of around £0.9bn.

Rentokil (UK): pests control

Rentokil Plc, founded in 1925 and listed at the LSE, headquarters in Camberley (UK) is an international player that operates in the management and control of pests (from rodents to insects), in toilets (supply and maintenance of products such as sanitizers, towels, paper and towel dispensers, soap dispensers) and in the supply and washing of uniforms. With over 1800 local service teams worldwide, Rentokil Plc is present in 70 countries (North America, Europe, UK, Asia and the rest of the world). In 2019, Rentokil Plc generated total revenues of around £2.7bn.

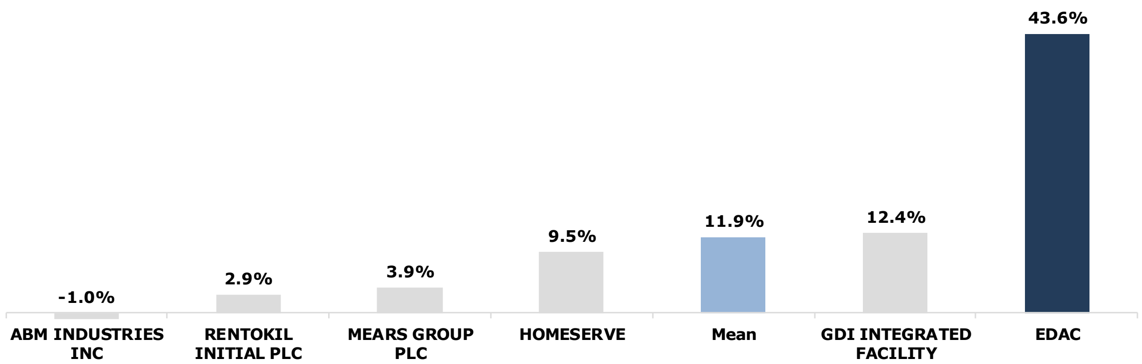
HomeServe (UK): home repairs and assistance services

HomeServe Plc, founded in 1993, with headquarter in Walsall (UK) and listed on the LSE, is a group active in the provision of home repairs and assistance services for plumbing, heating and electrical systems, through the offer of packages monthly assistance, using a network of professional technicians and contractors. The Group collaborates with insurance companies and with 18 major service and energy companies to provide services to homes. In 2019, HomeServe generated total revenues of £1.0bn.

GDI Integrated Facility Services (CAD): facility management

GDI Integrated Facility Services Inc., founded in 1926, headquartered in Montreal (Canada) and listed on the TSX (Toronto Stock Exchange), is a group that offers concierge and cleaning services (from desks to carpets, floors, exterior facilities and interior parking) repair and other services (services of security, management and control of pests) in Canada and US through 32 own distribution centers and a network of over 620 franchisees. Customers are retail, residential, industrial and institutional. In 2018, GDI Integrated Facility Service Inc. generated total revenues of approximately CAD $1.3bn.

Figure 13: Main listed players in the Industry – revenue CAGR 2018-2020E



Source: Banca Profilo elaborations on Company data, Facset

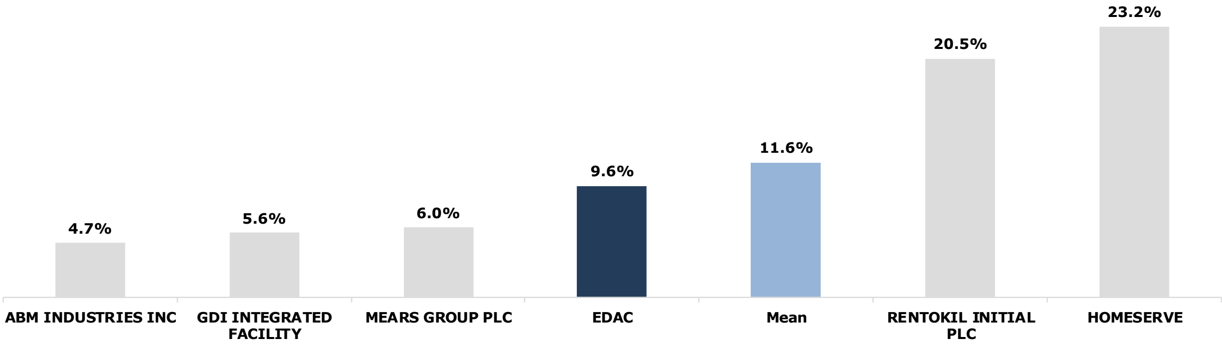
EDAC is expected to grow faster than peers

In the 2018-2020E period EDAC revenue growth potential is well above peers' average.

EDAC EBITDA slightly below its Industry

With respect to the EBITDA margin, EDAC showed an EBITDA margin slightly below its peers' average in 2020E mainly due to margins dilution generated by ETAIR acquisition.

Figure 14: Main listed players in the Industry – EBITDA margin 2020E



Source: Banca Profilo elaborations on Company data, Facset

In addition to a different business model, selected peers differentiate from EDAC on three main features: peers are significantly larger in size and EDAC has a much lower liquidity on the stock market.

Table 9: Market multiples

Company name	Country	Market Cap	Net debt	EV
ABM INDUSTRIES INC	US	2,069.56	982.0	3,051.6
MEARS GROUP PLC	US	187.28	136.1	323.3
RENTOKIL INITIAL PLC	US	8,902.65	1,051.0	9,953.7
HOMESERVE	US	3,737.86	430.7	4,168.5
GDI INTEGRATED FACILITY	CAN	623.48	176.1	799.6
EDAC	ITA	29.36	1.8	31.2

Source: Banca Profilo elaborations on Facset (as of 6th May 2020)

EV/EBITDA 2020E-2021E 11.7x-10.2x

Our sample of similar players active in the larger Facility Management industry, shows a mean EV/EBITDA 2020E-2021E of 11.7x-10.2x.

Table 10: Market multiples

Company	EV / Sales		EV / EBITDA	
	2020E	2021E	2020E	2021E
ABM INDUSTRIES INC	0.5x	0.5x	10.3x	9.7x
MEARS GROUP PLC	0.4x	0.3x	7.5x	5.6x
RENTOKIL INITIAL PLC	3.8x	3.5x	18.8x	16.2x
HOMESERVE	3.6x	3.3x	15.3x	14.2x
GDI INTEGRATED FACILITY	0.4x	0.3x	6.7x	5.2x
Mean	**1.7x**	**1.6x**	**11.7x**	**10.2x**
EDAC	**1.3x**	**1.0x**	**12.8x**	**11.2x**

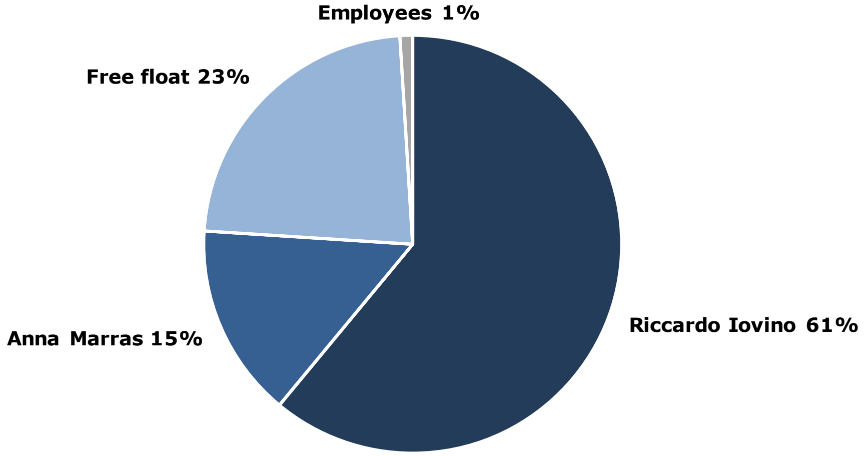
Source: Banca Profilo estimates and elaborations on Facset (as of 6th May 2020)

Shareholders' structure

Shareholders

The Group is controlled by Riccardo Iovino, founder and CEO, and by Anna Marras, with a post IPO stake of ca. 61% and ca. 15% respectively. Free float is 23% and the remaining is held by the employees.

Figure 15: EDAC shareholding structure

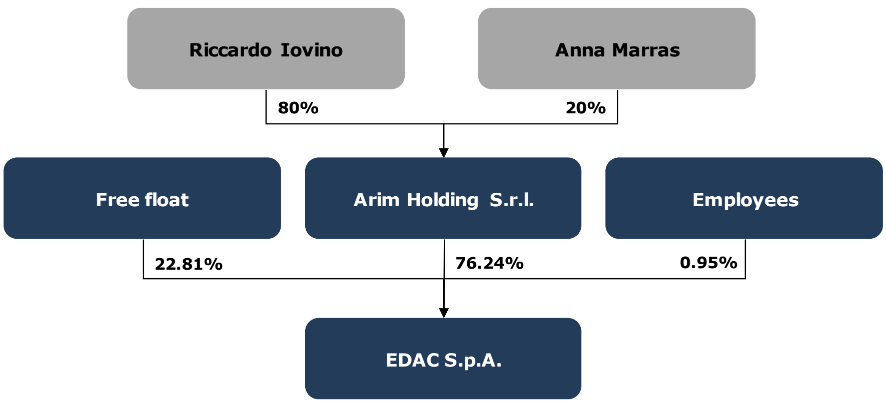


Source: Banca Profilo elaborations on Company data

Group structure

Riccardo Iovino and Anna Marras stakes in EDAC are held through a holding vehicle named ARIM Holding.

Figure 16: Group structure



Source: Banca Profilo elaborations on Company data

Listed on the AIM

The Company was listed on the AIM segment of the Milan Stock Exchange on 19th November 2018 through a primary offering of 1.73mln shares at €3.33/share. Total shares are 7.92mln and the market capitalization is €57.5mln (as of 18th October 2019).
Furthermore, the Company issued 1 warrant every 4 ordinary share, therefore have been listed on the market 0.43mln warrant with a maturity of 3 years, a 3 years exercise period (2019-2020-2021) and a strike price of IPO price +10% for each exercise period (step-up).

First warrant exercise period – end of

During the First Exercise Period (closed at the end of September 2019) 198,937 Warrants were exercised and consequently converted in n.198,937 EDAC shares, at

September 2019

the price of €3.66 for each conversion share subscribed, for a total value of €728,109.42.
The new share capital of EDAC is equal to €792,423.7 (as of the end of September 2019), divided into n. 7,924,237 ordinary shares.

24 months lock up period

Riccardo Iovino, Anna Marras and the employees agreed to a lock-up period of 24 months from the day of listing on AIM.

EdiliziAcrobatica "ID Card"

Recommendation	Target Price	Upside
BUY	**6.4 €**	**43%**

Company Overview

Foundend in 1994, EdiliziAcrobatica (EDAC) is the largest Italian provider of outdoor residential building maintenance through double rope and climbing technique, its offer competes primarily with players using traditional procedures such as scaffolds. The Group is controlled by Riccardo Iovino and Anna Marras which owns the 100% stake. In 2019, in Italy some €130bn were invested in the Building and Construction Industry, including €64.9bn in the residential segment, which is projected to grow by 3% in 2020.

However, if it is assuming that the containment measures to mitigate the impact of Coronavirus crises will affect only the first quarter of 2020, it is estimate an impact on the contraction in the growth between 10%-15% in annual terms. It should be considered that in the event of an extension of the measures to contain the epidemic in the second quarter, the effects on the contraction of demand could be heavy. EDAC is aiming to change the mind set of building owners and condominium administrators thanks to a superior and innovative market offering compared to the traditional one. The HR department is a key competitive advantage for EDAC, it focuses on professional growth of its resources throughout training and target orienting. EDAC invests constantly on its employees through an in-house training academy (typically two training sessions in a month) focused on efficiency and self-improvement. EDAC's management expertise, long lasting partnerships with customers, workers training and support, successful track record, marketing and brand investments, are entry barriers for potential competitors. EDAC uses tested and standardized processes for its network expansion and differentiates from all other players for in-house trained personnel constantly monitored and driven by key performance indicators. In 2019 EDAC generated revenues for €39.3mln (+57.2% yoy), EBITDA for €4.2mln with margin of 10.1% (from 16.6% in 2018). It shows a financial structure including €2.7mln of net debt . According to our estimates in the 2019-2023E period revenue is expected to grow at 26.4% on average (CAGR) to €100.1mln with EBITDA close at €16.5mln or 16.3% margin and €8.5mln Net income, leading to a Free Cash Flow of €6.0mln, including capex of about €3.5mln in 2023E.

SWOT Analysis

Strengths

- Strongly investing on corporate culture, brand and innovative marketing strategy to sensitize potential final client
- A structured, trained sales team driven by commercial performance
- EdiliziAcrobatica gave the name to the Industry
- Market leader in providing outdoor residential building maintenance and restructuring through double-rope technique only
- Cost, time efficiency and security through the rope technique compared to traditional scaffolds (zero injury)
- High margins and cash generator driven by a rigorous cost control and working capital management
- Scalable business through standardized openings processes
- Wide presence in Italy
- Experienced management team with statistically proven track record

Weaknesses

- NWC optimization is crucial for the business
- ETAIR restructuring and integration is a key driver for EDAC's internationalization strategy and profitability improvement
- Excessive growth worsening product mix and margins

Opportunities

- Accelerating growth and strengthening margin through network expansion
- International expansion through ad-hoc international partnerships and/or bolt on acquisitions
- Residential building industry of maintenance and renovation is changing its operating procedure, from large and extensive extraordinary works through standard scaffolds to planned and cheaper ordinary works throughout the year
- Real estate brokers moving into building management opening new opportunities for EDAC as a network supplier
- New Government tax incentives on building renovation related to Covid-19 emergency.
- Large potential Italian addressable market

Threats

- High level of competition within the existing players
- Competition from building restructuring and maintenance players
- High growth rates could lead to cost management issues
- KPIs monitoring and corporate culture spreading might become harder to manage and control as the Group rapidly extends its network

Main catalysts

M&A deals to enter new geographies and new market niches

Quicker or higher margins improvement driven by Group synergies

Further network expansion in the Italian and French market

Main risks

Competition from international building players which might see opportunities in this new business

Less than expected new franchising openings

Less than expected new branches openings

Less than estimated reference market growth in the next three years

Issues deriving from ETAIR restructuring and integration

Higher than projected negative impact of Covid-19 on 2020 estimates

Potential upside to our estimates due to any Government tax incentives for building renovation related to Covid-19 emergency, that cannot yet be quantified in EDAC's future numbers.

Banca Profilo

Equity Research

EdiliziAcrobatica "ID Card"

mag, 11 2020 - 20:06

Recommendation	Target Price	Upside
BUY	**6.4 €**	**43%**

Main Financials

(€ mln)	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Revenue	**12.5**	**16.3**	**25.0**	**39.3**	**49.5**	**64.4**	**84.4**	**100.1**
yoy change		*30.5%*	*53.2%*	*57.2%*	*26.1%*	*30.0%*	*31.0%*	*18.7%*
Vop	**13.3**	**17.4**	**26.2**	**41.8**	**51.3**	**65.5**	**85.5**	**101.5**
yoy change		*30.1%*	*51.0%*	*59.5%*	*22.6%*	*27.9%*	*30.4%*	*18.7%*
EBITDA	**2.9**	**2.5**	**4.4**	**4.2**	**4.8**	**6.3**	**11.9**	**16.5**
yoy change		*-16.0%*	*76.2%*	*-3.6%*	*13.9%*	*32.5%*	*87.7%*	*38.8%*
margin (%)	*23.5%*	*15.2%*	*17.4%*	*10.7%*	*9.7%*	*9.8%*	*14.1%*	*16.5%*
EBIT	**2.7**	**2.0**	**3.7**	**2.3**	**1.6**	**2.0**	**6.5**	**12.5**
margin (%)	*21.3%*	*12.0%*	*14.6%*	*5.9%*	*3.3%*	*3.2%*	*7.7%*	*12.5%*
EBT	**2.6**	**1.9**	**3.4**	**2.0**	**1.4**	**1.9**	**6.4**	**12.4**
margin (%)	*20.9%*	*11.4%*	*13.5%*	*5.2%*	*2.9%*	*2.9%*	*7.6%*	*12.4%*
Net income	**1.8**	**1.1**	**2.3**	**1.1**	**1.0**	**1.3**	**4.4**	**8.5**
margin (%)	*14.4%*	*6.7%*	*9.1%*	*2.8%*	*2.0%*	*2.0%*	*5.2%*	*8.5%*
Net Debt (cash)	**0.9**	**2.3**	**-2.1**	**2.7**	**7.2**	**7.9**	**3.3**	**-2.6**
Shareholders Equity	**2.4**	**2.1**	**10.1**	**11.5**	**12.5**	**13.8**	**18.1**	**26.6**
Operating Net Working Capital	4.1	5.2	6.4	9.6	12.7	15.6	18.8	22.2
Fixed assets	0.7	1.1	2.5	5.1	6.8	6.3	4.5	4.2
Net invested capital	3.4	4.4	8.0	14.3	19.7	21.7	21.4	24.0
Operating Free Cash Flow	**1.8**	**1.7**	**3.2**	**3.3**	**4.3**	**5.7**	**9.8**	**12.5**
Capex and acquisitions	(1.0)	(0.9)	(1.8)	(4.0)	(4.0)	(3.6)	(3.3)	(3.5)
Free Cash Flow	**(2.8)**	**(0.0)**	**0.5**	**(3.6)**	**(2.5)**	**(0.2)**	**3.8**	**6.0**

Company Description

Company Sector	Building & construction, renovation and maintenance
Price (€)	4.5
Number of shares (mln)	7.9
Market Cap (€mln)	29.4
Reference Index	FTSE AIM Italia
Main Shareholders	Riccardo Iovino
Main Shareholder stake	61%
Free Float	23%
Daily Average Volumes ('000)	10.0
Sample of comparables	ABM Industries Inc, Mears Group Plc, Rentokil Initial Plc, Homeserve, GDI Integrated Facility

Costs and business scalability analysis

	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Operative costs								
Total operative costs	-10.6	-15.2	-21.1	-35.7	-44.1	-55.9	-69.0	-79.4
of which variable	*35.7%*	*38.2%*	*46.7%*	*41.0%*	*43.1%*	*37.9%*	*37.8%*	*37.4%*
of which fixed	*64.3%*	*61.8%*	*53.3%*	*59.0%*	*56.9%*	*62.1%*	*62.2%*	*62.6%*
% on sales	*84.9%*	*93.0%*	*84.5%*	*90.9%*	*89.0%*	*86.7%*	*81.8%*	*79.3%*
Business scalability								
Revenue from branches	11.4	14.8	22.9	36.4	43.4	57.2	75.6	89.4
N° of new branches	*7*	*12*	*12*	*11*	*10*	*15*	*20*	*15*
Revenue from franchising	1.1	1.6	2.1	2.9	4.1	5.6	7.5	9.5
N° of new franchising	*10*	*7*	*9*	*2*	*5*	*6*	*8*	*8*

Facility management: data of peers

	2019	2020E	2021E
Revenue Growth (yoy)	*57.2%*	*26.1%*	*30.0%*
EBITDA margin	*10.1%*	*9.3%*	*9.7%*
Net Debt / Equity	*0.2x*		

Average data

Solvibility ratios

	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Net debt (cash) / EBITDA	0.3x	0.9x	-0.5x	0.7x	1.5x	1.2x	0.3x	-0.2x
Net debt (cash) / Equity	0.4x	1.1x	-0.2x	0.2x	0.6x	0.6x	0.2x	-0.1x
Net debt (cash) / Net Invested Capital	28%	53%	-26%	19%	37%	36%	15%	-11%

Facility management: multiples of peers

	2020E	2021E
EV / Sales	1.7x	1.6x
EV / EBITDA	11.7x	10.2x

Average data

Financial and Operative ratios

	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Days of receivables	123	119	114	104	110	99	91	89
Days of payables	115	118	147	136	143	144	145	145
Days of inventories	11	19	21	20	19	19	19	19
Tax rate	*31.4%*	*41.6%*	*32.9%*	*46.4%*	*32.0%*	*32.0%*	*32.0%*	*32.0%*
ROIC	*53.5%*	*24.6%*	*28.5%*	*7.6%*	*4.9%*	*5.9%*	*20.4%*	*35.3%*
ROE	*74.9%*	*51.1%*	*22.5%*	*9.5%*	*7.8%*	*9.3%*	*24.1%*	*31.8%*
Capex/Sales	*-7.6%*	*-5.2%*	*-7.4%*	*-10.2%*	*-8.1%*	*-5.6%*	*-3.9%*	*-3.5%*
D&A to Capex	71%	60%	38%	47%	79%	120%	163%	114%
NWC to sales	33%	32%	26%	25%	26%	24%	22%	22%

EDAC multiples

	2020E	2021E
EV / Sales	1.3x	1.0x
EV / EBITDA	12.8x	11.2x

Source: Facset Banca Profilo estimates and elaborations

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