INVEST SECURITIES

CONSTRUCTION

EDILIZIACROBATICA

BUY

TARGET PRICE : 8€ (vs 9,2€) +69%

UPDATE REPORT

READY TO REACH NEW HEIGHTS

Taking into account the impact of the health crisis and the fact that management will be focusing more on growth than profitability in the short term, we are sticking to our BUY rating with a new target price of €8 (vs. €9.2). We have substantially lowered our estimates for 2020-22e (by more than 50% for EBITDA) to reflect the aforementioned factors (notably the uptick in investment), but the potential is intact and momentum is likely to start improving in H2 20. As we see it, EDAC will emerge from the health crisis even stronger, with €18m of gross cash following the €10m bond issue, a very favorable legislative environment in Italy (tax credit schemes), and a field of competitors (artisans and SMEs) that will not have weathered the crisis as well.

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H1 20 results were resilient despite challenging circumstances

Whereas margins disappointed in 2019 due to a sharp rise in investments (losses on new offices and ETAIR), the H1 2020 results reported late in September showed real resilience (revenues -3%, adjusted EBITDA -2%) even though business stopped for two months. EDAC also shored up its balance sheet during the summer by issuing a seven-year, €10m bond with very advantageous terms (3.3% coupon). This will allow the company to finance its organic growth (WCR) and potentially acquisitions.

Return to strong growth in H2, achieved at the expense of margins

Management is planning to step up its expansion (office openings) in France and Italy. A resurgence of the coronavirus in both countries during the autumn will not prevent the company from working, so we expect it to see a return to robust growth starting in H2 20, especially as the legislative environment will be particularly favorable in Italy with two new laws introducing substantial tax credits for renovation work (Facade bonus and ecobonus). That being said, strong revenue growth will not feed through in full to profitability given the investments EDAC will be making to expand its geographic footprint. We have therefore sharply lowered our EBITDA estimates for 2020-22e (by more than 50%), though normative profitability is not impacted (EBITDA margin of >10%) given the margins posted in 2019 by the mature offices in Italy (18.7%).

Robust growth momentum underappreciated – BUY, TP of €8 (vs. €9.2)

The stock has bounced back from the yearly low hit in March (€2.9), but is still down -32% YTD. We have revised our TP down to €8 (from €9.2) because we believe margins will be weaker in the short term. To err on the side of caution, we have also lowered our normative target (EBITDA margin of 12.5% vs. 15%). The investment case nonetheless remains particularly solid in our view, especially as EDAC's strong growth profile is more or less unique in Europe for a conventional business and/or sector. BUY rating reiterated, with the expectation that near-term results (H2 20) will show a return to robust growth.

in € / share	2020e	2021e	2022e
Adjusted EPS	0,07	0,38	0,67
chg.	*-81%*	*+415%*	*+79%*
estimates chg.	*-84%*	*-40%*	*-18%*

au 31/12	2020e	2021e	2022e
PE	64,6x	12,5x	7,0x
EV/Sales	1,03x	0,81x	0,65x
EV/EBITDA	22,2x	8,9x	5,3x
EV/EBITA	31,2x	9,6x	5,6x
FCF yield*	n.s.	n.s.	3,1%
Div. yield (%)	2,0%	n.s.	n.s.

* After tax op. FCF before WCR

key points	
Share price (€)	4,7
Number of Shares (m)	6,5
Market cap. (€m)	31
Free float (€m)	10
ISIN	IT0005351504
Ticker	EDAC-IT
DJ Sector	Industrial Services

	1m	3m	Ytd
Absolute perf.	-13,1%	-21,7%	-32,4%
Relative perf.	-16,5%	-25,3%	-25,7%

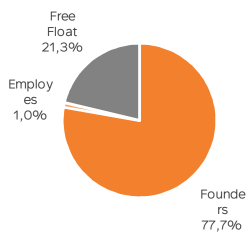
Source : Factset, Invest Securities estimates

INVESTMENT THESIS

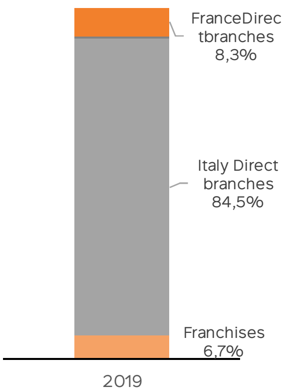
Atypical actor in the construction market, EDAC is an Italian group only exercising the trade of rope access for renovations and maintenance of buildings of more than 3 floors. Relatively recent, this technique has many advantages over scaffolding work. In a competitive landscape limited to SMEs and artisans, EDAC has chosen to industrialize its approach, particularly in the field of training. Already leader of the Italian market still partially penetrated, this strategy, completed by acquisitions of local actors, must enable it to conquer new European markets.

FINANCIAL DATA

Shareholders



Sales breakdown



Next events
nd

Share information	2015	2016	2017	2018	2019	2020e	2021e	2022e
Published EPS (€)	nd	0,36	0,19	0,32	0,14	0,21	0,31	0,60
Adjusted EPS (€)	**nd**	**0,37**	**0,27**	**0,38**	**0,09**	**0,07**	**0,38**	**0,67**
Diff. I.S. vs Consensus	*nd*	*nd*	*nd*	*+26,6%*	*-36,8%*	*-26,7%*	*+25,8%*	*nd*
Dividend	nd	0,00	0,00	0,00	0,10	0,00	0,00	0,00

Valuation ratios	2015	2016	2017	2018	2019	2020e	2021e	2022e
P/E	nd	nd	nd	8,9x	66,7x	64,6x	12,5x	7,0x
EV/Sales	nd	nd	nd	0,78x	1,28x	1,03x	0,81x	0,65x
VE/EBITDA ajusté	nd	nd	nd	4,5x	23,5x	22,2x	8,9x	5,3x
VE/EBITA ajusté	nd	nd	nd	5,0x	39,1x	31,2x	9,6x	5,6x
Op. FCF bef. WCR yield	nd	nd	nd	6,9%	1,5%	1,6%	4,8%	9,2%
Op. FCF yield	nd	nd	nd	n.s.	n.s.	n.s.	n.s.	3,1%
Div. yield (%)	nd	nd	nd	n.s.	n.s.	2,0%	n.s.	n.s.

NB : valuation based on annual average price for past exercise

Entreprise Value (€m)	2015	2016	2017	2018	2019	2020e	2021e	2022e
Share price in €	*nd*	*nd*	*nd*	*3,4*	*5,9*	*4,7*	*4,7*	*4,7*
Market cap.	nd	nd	nd	20,7	46,2	37,7	38,0	38,0
Net Debt	nd	nd	nd	-2,1	2,7	6,9	7,8	6,8
Minorities	nd	nd	nd	0,1	0,0	0,1	0,2	0,2
Provisions/ near-debt	nd	nd	nd	0,7	1,2	1,7	1,7	1,7
+/- Adjustments	nd	nd	nd	0,0	0,0	0,0	0,0	0,0
Entreprise Value (EV)	**nd**	**nd**	**nd**	**19,4**	**50,0**	**46,4**	**47,6**	**46,6**

Income statement (€m)	2015	2016	2017	2018	2019	2020e	2021e	2022e
Sales	nd	12,5	16,3	25,0	39,2	45,0	58,7	72,3
chg.	*nd*	*nd*	*+30,5%*	*+53,5%*	*+57,0%*	*+14,6%*	*+30,7%*	*+23,1%*
Adjusted EBITDA	nd	3,0	2,8	4,3	2,1	2,1	5,3	8,8
EBITA	**nd**	**2,7**	**2,3**	**3,9**	**1,3**	**1,5**	**4,9**	**8,4**
chg.	***nd***	***nd***	***-15,5%***	***+69,9%***	***-67,2%***	***+16,1%***	***+233,0%***	***+68,8%***
EBIT	nd	2,7	2,3	3,9	1,3	1,5	4,9	8,4
Financial result	nd	0,0	-0,1	-0,3	-0,3	-0,6	-0,5	-0,5
Corp. tax	nd	-0,8	-0,8	-1,1	-0,9	-0,9	-1,2	-2,4
Minorities+affiliates	nd	0,0	0,0	0,0	0,0	-0,1	-0,1	-0,1
Net attributable profit	nd	1,9	1,4	2,5	0,1	0,0	3,1	5,3
Adjusted net profit	**nd**	**1,9**	**1,5**	**2,5**	**0,7**	**0,6**	**3,0**	**5,4**
chg.	***nd***	***nd***	***-20,9%***	***+67,1%***	***-72,1%***	***-16,0%***	***+418,7%***	***+78,6%***

Cash flow statement (€m	2015	2016	2017	2018	2019	2020e	2021e	2022e
Adjusted EBITDA	nd	nd	2,8	4,3	2,1	2,1	5,3	8,8
Theoretical Tax / EBITA adju:	nd	nd	-0,7	-1,2	-0,4	-0,4	-1,5	-2,5
Capex	nd	nd	-0,9	-1,8	-1,0	-0,9	-1,6	-1,9
Operating FCF bef. WCR	**nd**	**nd**	**1,3**	**1,3**	**0,8**	**0,8**	**2,3**	**4,3**
Change in WCR	nd	nd	-2,2	-3,6	-4,1	-3,7	-2,9	-2,8
Operating FCF	**nd**	**nd**	**-0,9**	**-2,2**	**-3,4**	**-2,9**	**-0,6**	**1,5**
Acquisitions/disposals	nd	nd	0,0	0,1	-1,3	0,0	0,0	0,0
Capital increase/decrease	nd	nd	0,0	5,7	0,7	0,4	0,0	0,0
Dividends paid	nd	nd	-0,7	0,0	0,0	-0,8	0,0	0,0
Other adjustments	nd	nd	0,2	0,8	-0,9	-1,0	-0,3	-0,4
Published FreeCash Flow	**nd**	**nd**	**-1,4**	**4,3**	**-4,8**	**-4,2**	**-0,9**	**1,0**

Balance Sheet (€m)	2015	2016	2017	2018	2019	2020e	2021e	2022e
Assets	nd	0,7	1,2	2,5	5,1	7,1	7,6	8,7
Intangible assets/GW	nd	0,4	0,8	1,7	3,9	5,6	5,2	5,1
WCR	nd	2,4	3,6	6,2	10,2	14,4	17,3	20,1
Group equity capital	nd	2,0	2,0	9,9	11,5	12,8	15,3	20,1
Minority shareholders	nd	0,0	0,1	0,1	0,0	0,1	0,2	0,2
Provisions	nd	0,2	0,4	0,7	1,2	1,7	1,7	1,7
Net financial debt	**nd**	**0,9**	**2,3**	**-2,1**	**2,7**	**6,9**	**7,8**	**6,8**

Financial ratios	2015	2016	2017	2018	2019	2020e	2021e	2022e
Adjusted EBITDA margin	nd	24,1%	17,2%	17,2%	5,4%	4,7%	9,1%	12,1%
Adjusted EBITA margin	nd	21,8%	14,1%	15,6%	3,3%	3,3%	8,4%	11,5%
Adjusted Net Profit/Sales	nd	15,2%	9,2%	10,0%	1,8%	1,3%	5,2%	7,5%
ROCE	nd	87,3%	47,7%	45,0%	8,3%	6,9%	19,9%	29,0%
ROE adjusted	nd	96,7%	74,7%	25,1%	6,1%	4,6%	19,8%	26,9%
Gearing	nd	48,5%	116,9%	n.s.	23,2%	53,8%	50,9%	33,6%
ND/EBITDA (in x)	nd	0,3x	0,8x	-0,5x	1,3x	3,3x	1,5x	0,8x

Source : company, Invest Securities Estimates

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SUMMARY

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1 - BACKGROUND: DISRUPTIVE POSITIONING IN THE CONVENTIONAL BUILDING MARKET

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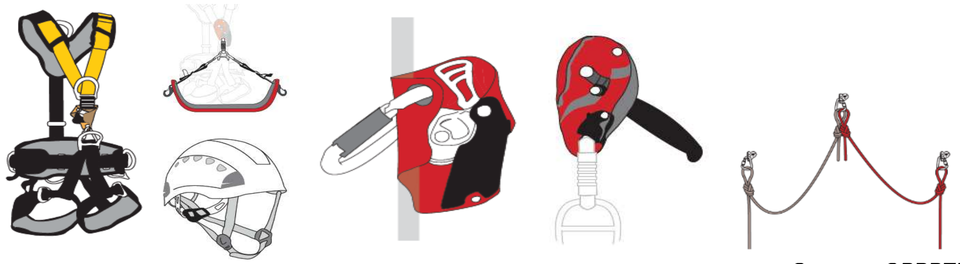
1 - Background: Disruptive positioning in the conventional building market

Italy's EDAC (EdiliziAcrobatica) is an atypical player in the building market in that its sole business is providing rope access services for renovation and maintenance work on buildings of more than three floors. This technique has numerous advantages over scaffolding, both in terms of costs and project completion times. Operating in a competitive industry dominated by artisans and SMEs, EDAC has opted to industrialize its approach, especially when it comes to training rope technicians (this being the main bottleneck in the segment), with the goal of establishing itself as a leader in Italy and eventually in Europe. The company delivered robust organic growth between 2013 and 2019 by expanding its point-of-sale network in Italy (revenues rose from €3.8m to €36m over the period). Early in 2019, it made its first foray into France with the acquisition of ETAIR, No. 4 in the French market (revenue contribution of €3.3m over nine months in 2019).

1.1 Rope access technique has real competitive advantages over traditional scaffolding

EDAC's only activity in the building sector is rope access. The techniques and equipment it uses are the same as those found in spelunking and mountain climbing, including ropes, harnesses, seats, helmets, fall arrest systems, descenders, tethers, snap hooks, blockers, anchors, and knots. For the safety of its employees, EDAC operates only using a double-rope system with a working rope that the technician uses to move about and a safety rope equipped with a fall arrest system.

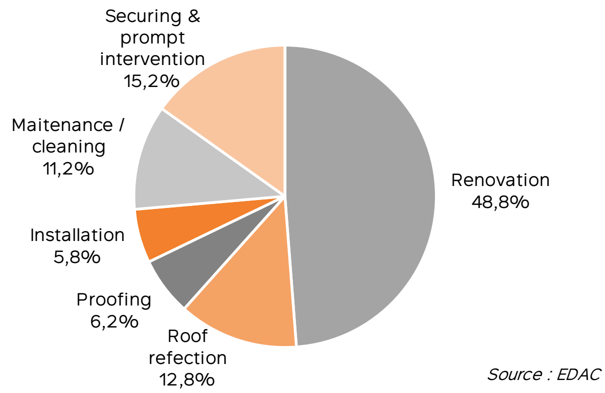
Main equipments used by rope access technicians



Source : OPPBTP

Rope access techniques are not designed for all types of building work. They are primarily suited for light interventions over short periods (about one week) on buildings with over three floors. Applications include renovation work (facades, gutters, wastewater evacuation, waterproofing, roofing, balconies, cornices, etc.), the installation of some types of equipment (bird deterrents, lighting systems, video surveillance equipment), and maintenance and cleaning (windows, roofs, solar panels, gutters, etc.).

Breakdown of EDAC's 2017 revenues by type of work



Source : EDAC

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1 - Background: Disruptive positioning in the conventional building market

Rope access has several advantages over scaffolding:

- Projects cost less and are completed more quickly since scaffolding requires installation and dismantlement and must be rented. For roof renovation, scaffolding can account for as much as 30% of total project costs,
- It facilitates access in hard-to-reach areas such as crawl spaces, small courtyards, etc.,
- No risk of thieves accessing a building via scaffolding,
- The visual impact on buildings is limited, which is clearly a plus notably for tourism sites, hotels and churches.

It is because of these advantages that, while residential construction makes up the bulk of EDAC's revenues (81% in 2017), public buildings and religious structures are also an important end-market for the company (10%).

1.2 An industrialized model sets EDAC apart from artisans and SMEs

Operating in a segment of the building sector dominated by artisans and SMEs, EDAC decided to organize its business in such a way as to be able to offer its services across the entire Italian market and to gradually expand into other countries. It currently has:

- About 40 employees based at its corporate headquarters with, in addition to the usual departments (finance, IT, support, marketing, HR), a large department that manages all aspects of the training of rope access technicians. This is a top priority for a company that wants to reduce accident risk (zero accidents in recent years) and have sufficient staff to keep up with demand. Unlike other companies in the segment, EDAC hires building industry professionals (masons, plumbers, electricians, etc.) who are taught rope access techniques. The department is managed by Anna Marras, No. 2 in the company and the second-largest shareholder with 15% of the capital (she owns 20% of the controlling holding company of Ricardo Iovino, who owns 77.7% of EDAC). Marras joined EDAC in 2007 and has 20 years' experience in the field of training. This focus on training is one of the main factors that sets the company apart.
- Local operating teams supervised by a regional head who oversees a sales manager and an operations manager running several offices. Between one and three people work under the sales manager. They handle business development, estimates, contract signing and customer satisfaction follow-up. The operations manager oversees between one and six teams of rope access technicians operating in tandem. At the end of 2019, EDAC had 78 offices in Italy employing 376 rope access technicians.

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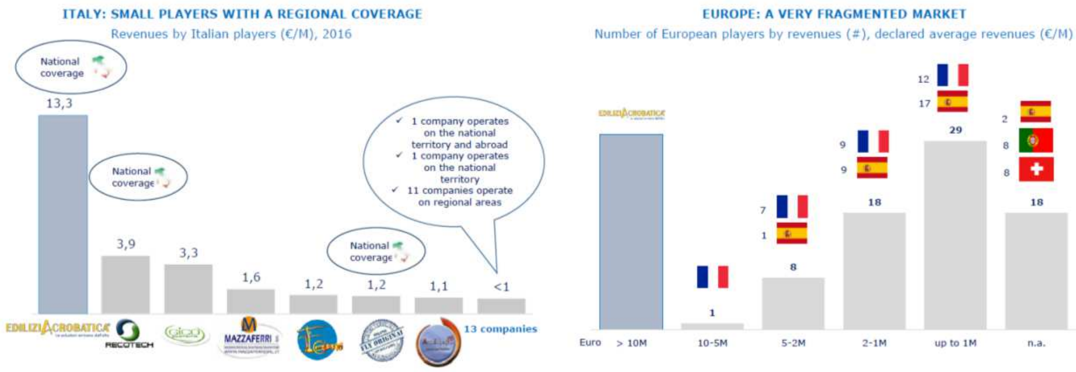
1 - Background: Disruptive positioning in the conventional building market

1.3 Replicating the model outside Italy via acquisitions

These solid structures and organizational models have proven so effective that EDAC management has set ambitious goals for the future. When EDAC went public late in 2018, raising €5.7m, it said it planned to use the IPO proceeds to consolidate its positions in Italy by extending its geographic coverage (15% to 20% of proceeds), as its presence was still limited in southern Italy and Sicily. More importantly, it said it would earmark 35% to 40% for acquiring local companies, notably in France, Spain, Portugal and Switzerland.

As noted above, most rope access specialists are artisans and SMEs. In June of 2017, EDAC hired consultancy Cerved to analyze the competitive landscape in the main European markets (based on 2016 revenues). The analysis showed that EDAC was the only company that generated revenues of more than €10m in 2016, and only one other firm (JADE in France) posted revenues of more than €5m. Nearly 65 companies were identified with revenues of between €1m and €5m, and they will be potential targets for EDAC. A first move was made early in 2019 with the takeover of ETAIR, the No. 4 player in France (2019 revenue contribution of €3.3m over nine months).

EDAC's competitive universe



Sources : EDAC, Cerved

EDAC management intends to announce more deals over the coming months, though they are likely to be smaller give the size of the targets available. These acquisitions would give EDAC local footholds so it can replicate its model (notably training) and then develop organically in the new markets. By way of illustration, ETAIR was based in the south of France (Perpignan) and has, since being taken over by EDAC, opened seven new offices (in Lyons, Marseille, second office in Perpignan, Montpellier, Nice, Narbonne and Toulouse).

1.4 Impressive growth momentum since 2013

EDAC's revenues rose from €3.8m to €42.5m between 2013 and 2019. This robust growth was fueled by: (i) strong gains in Italy (revenues up from €3.8m to €39.2m between 2013 and 2019) as the company grew its office network organically (78 in 2019 vs. 4 in 2013) to gradually cover all of Italy, and (ii) the initial effects of expansion outside Italy with the acquisition of ETAIR in 2019.

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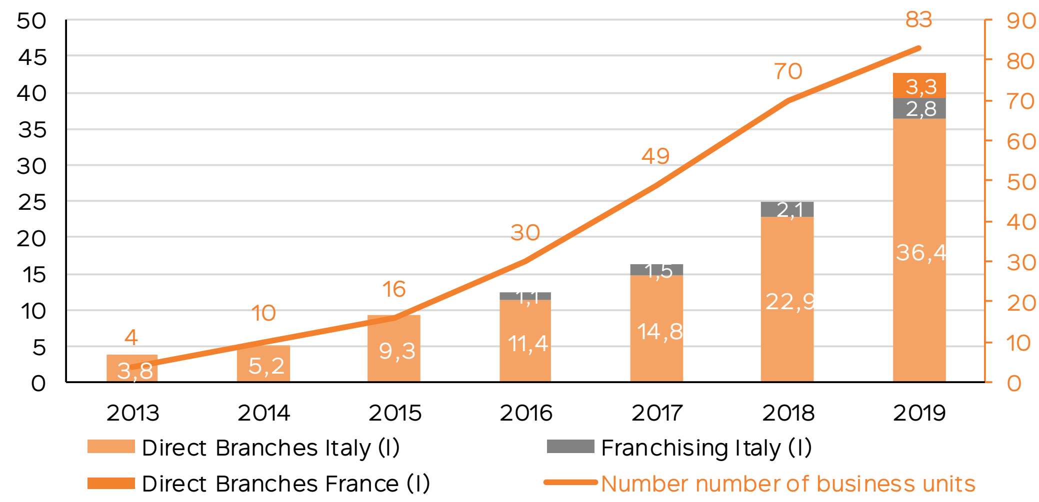
1 - Background: Disruptive positioning in the conventional building market

Trend in the number of offices and revenues since 2013



Source : EDAC

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2 - OUTLOOK FOR 2020-22: FOCUS ON GROWTH AND WINNING MARKET SHARE

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2 - Outlook for 2020-22: Focus on growth and winning market share

If we significantly lower our estimates of results for the coming years, this is primarily due to the fact that they dated from the beginning of the year and did not include (i) the acceleration of investments (vs profitability) for extend its geographic network in France and Italy and (ii) the impact of the health crisis in H1 20. Once this reset has been carried out, the Italian group is not lacking in strengths with (i) good resistance in its activity in H1 20 (-3%), (ii) a strengthened financial structure (€18m in cash at the end of September) following the issue in July of a €10m bond at attractive conditions (3.3%) and above all (iii) a particularly favorable legislative framework in Italy (increase in tax credits) which should make it possible to regain the path of strong growth in H2, knowing that EDAC's activities are not impacted at this stage by the resurgence of covid-19. While management seems to favor the conquest of market share over CT, the return to an EBITDA margin> 10% is not called into question, as evidenced by the profitability generated by mature agencies in Italy. However, we include a 2022e EBITDA margin of only 12.1% (vs. 17.2% in 2018 and 5.4% in 2019).

2.1 A look at the 2019 results taking into account the significant investments made

After appointing Carlo Sirombo as CFO, EDAC changed some of its accounting practices last year in terms of reporting (notably the segmentation of operating costs) and accounting treatment (capitalization of start-up costs for new offices). This makes a comparison with the results of previous years tricky, especially where EBITDA is concerned. For this reason, and to get a better idea of the “cash” performance of results, we have made adjustments for certain elements, primarily the capitalization of start-up costs, which totaled €2m in 2019. While this change temporarily complicated the analysis of the company’s performances, we believe the new reporting method provides a much clearer picture of EDAC’s results at a time when it is seeing robust growth and making significant structural investments, and we can only welcome the additional clarity.

Adjusted operating results in 2016-19

in €m, 12/31	2016	% CA	2017	% CA	2018	% CA	2019	% CA
Revenue	12,47		16,28		24,98		39,22	
change			*+31%*		*+54%*		*+57%*	
Cost of sales	-6,19	-49,6%	-9,65	-59,3%	-12,16	-48,7%	-20,73	-52,9%
Adjusted contract margin	6,28	50,4%	6,62	40,7%	12,82	51,3%	18,49	47,1%
change			+5%		+94%		+44%	
Adjusted opex	-3,28	-26,3%	-3,82	-23,4%	-8,52	-34,1%	-16,36	-41,7%
Adjusted EBITDA	3,00	24,1%	2,81	17,2%	4,30	17,2%	2,13	5,4%
change			-7%		+53%		-50%	
Depreciation	-0,29	-2,3%	-0,51	-3,1%	-0,40	-1,6%	-0,85	-2,2%
Adjusted EBITA	2,72	21,8%	2,29	14,1%	3,90	15,6%	1,28	3,3%
change			-16%		+70%		-67%	
Adjustements	-0,06	-0,5%	-0,34	-2,1%	-0,25	-1,0%	1,04	2,7%
Published EBIT	2,66	21,3%	1,95	12,0%	3,65	14,6%	2,32	5,9%
change			-27%		+87%		-36%	
Cost of net debt	-0,03	-0,3%	-0,10	-0,6%	-0,30	-1,2%	-0,36	-0,9%
Other financials	0,00		0,00		0,03		0,09	
Financial results	-0,03		-0,10		-0,28		-0,28	
Profit before tax	2,62	21,0%	1,85	11,4%	3,38	13,5%	2,04	5,2%
change			-29%		+82%		-39%	
Tax	-0,82	-31,3%	-0,77	-41,7%	-1,11	-33,0%	-0,94	-46,2%
Minorities	0,01	0,1%	-0,04	-0,3%	-0,04	-0,2%	-0,01	0,0%
Net attribuable profit	1,81	14,5%	1,04	6,4%	2,22	8,9%	1,09	2,8%
change			-43%		+114%		-51%	
Adjustements	0,08	0,6%	0,46	2,8%	0,27	1,1%	-0,40	-1,0%
Adjusted Net Profit	1,89	15,2%	1,49	9,2%	2,50	10,0%	0,70	1,8%
change			-21%		+67%		-72%	

Source : EDAC, estimations IS

2 - Outlook for 2020-22: Focus on growth and winning market share

In terms of revenues (and not operating income, which is what EDAC reports), the 2019 performance was solid: revenues rose 57% during the year (+44% organic), to €39.2m (vs. €41m forecast). On the other hand, profitability fell sharply with declines in adjusted gross margin (-4.2 pts to 47.1%), adjusted EBITDA (-52% to €2.1m) and adjusted EBITA (-71% to €1.3m). Adjusted net profit came in at €0.7m (-71%). These figures were well below our estimates (at the start of the year, our EBITDA forecast was for €5.3m) and reported results (2019 reported EBITDA of €4.2m, net profit of €1.1m) due to an acceleration of investments rather than to a structural profitability problem, as we discuss later in this report. We nonetheless wish EDAC management had given more advance notice about this increase in investment and the impact it would have on profitability.

To facilitate analysis of its 2019 results, EDAC broke them down into three sub-segments: (i) mature offices in Italy (opened before 2018), (ii) new offices in Italy (opened since 2018) and (iii) the contribution from France.

Breakdown of 2019 results

in €m, 12/31	2018 Total	2019 Senior Italy	Junior Italy	France	Total branches	Franchisee revenue	Total
Revenue	**24,98**	**27,30**	**5,84**	**3,27**	**36,42**	**2,81**	**39,22**
change	*+53,5%*	*+19,1%*					
Cost of sales	*-12,16*	*-13,98*	*-4,28*	*-2,1*	*-20,4*	*-0,3*	*-20,7*
Adjusted contract margin	**12,82**	**13,32**	**1,57**	**1,13**	**16,0**	**2,5**	**18,5**
change	***0***	***0***	***0***	***0***	***0***	***0***	***0***
in % revenue	**51,3%**	**48,8%**	**26,8%**	**34,6%**	**44,0%**	**88,0%**	**47,1%**
Other products	1,16	0,40	0,0	0,0	0,4	0,0	0,4
Opex excl. Hodling costs	-6,32	-6,12	-2,4	-0,9	-9,5	-0,7	-10,2
in % revenue	-25,3%	-22,4%	-41,1%	-28,6%	-26,0%	-25,8%	-26,0%
Coûts centraux	-3,37	-2,50	-2,1	-0,7	-5,2	-1,4	-6,6
in % revenue	-13,5%	-9,2%	-35,7%	-19,9%	-14,4%	-49,5%	-16,9%
Adjusted EBITDA	**4,30**	**5,10**	**-2,92**	**-0,41**	**1,77**	**0,36**	**2,13**
Adjusted EBITDA margin	**17,2%**	**18,7%**	**-50,0%**	**-12,4%**	**4,9%**	**12,7%**	**5,4%**
Adjusted depreciation	-0,40	-0,66	-0,17	-0,02	-0,85	0,00	-0,85
in % revenue	-1,6%	-2,4%	-2,9%	-0,6%	-2,3%	0,0%	-2,2%
Adjusted EBITA	**3,90**	**4,44**	**-3,09**	**-0,43**	**0,93**	**0,36**	**1,28**
Adjusted EBITA margin	**15,6%**	**16,3%**	**-52,9%**	**-13,0%**	**2,5%**	**12,7%**	**3,3%**

Source : EDAC, IS estimates

The key takeaways from this analysis are:

- The mature offices in Italy have yet to reach cruising speed and still have the potential to deliver significant growth (+19% in 2019): average revenue per office is €1m compared with a normative average of €1.3m-€1.5m. Profitability was also strong at the mature offices, with gross margin of 48.8% and adjusted EBITDA margin of 18.7%. This gives an idea of how profitable the recently opened offices can become.

- The new offices opened since 2018 in Italy (18 in all) posted revenues of €5.8m and an adjusted EBITDA loss of €2.9m. As we see it, the main culprit was that average revenue per office was just €0.3m, below the €0.7m required to reach breakeven. The need to train rope access technicians and get teams up to speed weighs on gross margin (just 26.8% vs. 48.8% for mature offices), and operating costs (€4.5m) are not yet covered.

- The French activities contributed revenues of €3.3m and an adjusted EBITDA loss of €0.4m. EDAC invested considerable sums in France to replicate the Italian model (training center, sales teams, new offices to round out geographic coverage), which temporarily depressed margins.

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- The franchises contributed €2.8m of revenues in 2019, for a 36% increase. Management had relied on this model in the past to speed up geographic expansion in Italy, but it is now focused on opening offices on its own. The strong gains recorded in 2019 reflect the expansion of the franchise network in 2017-18 (16 offices added out of a total of 31), but growth rates should level off over the coming years given that few new franchises were added in 2019 (+2) and the first half of 2020 (+2).

This more detailed analysis of the company's results puts into perspective what might have been seen as a disappointing operating performance. We understand that EDAC will be focusing first and foremost on revenue growth now, even if it means temporarily sacrificing margins, but it is not because of doubts about its model or the potential for normative margins (adjusted EBITDA margin >15%).

2.2 H1 20 results were fairly resilient

EDAC reported resilient H1 2020 earnings on September 25th, bearing in mind that its business was severely affected by the lockdowns ordered due to the health crisis. The company lost 40 days of business (from March 9th to May 3rd), i.e. nearly two months. It quickly adapted with the launch in Italy late in March of building disinfection services (e.g. lobbies, stairwells, elevators), though this activity is only expected to make a small revenue contribution (€1m in FY 2020 by our estimates).

Half-yearly profit & loss statement

in €m, 12/31	S1 19	% CA	S2 19	% CA	2019	% CA	S1 20	% CA
Revenue	**18,10**		**21,13**		**39,22**		**17,59**	
change					*+57%*		*-3%*	
Cost of sales	-10,02	-55,4%	-10,71	-50,7%	-20,73	-52,9%	-9,65	-54,8%
Adjusted contract margin	**8,08**	**44,6%**	**10,41**	**49,3%**	**18,49**	**47,1%**	**7,95**	**45,2%**
change					**+44%**		**-2%**	
Adjusted opex	-6,77	-37,4%	-9,59	-45,4%	-16,36	-41,7%	-7,21	-41,0%
Adjusted EBITDA	**1,30**	**7,2%**	**0,83**	**3,9%**	**2,13**	**5,4%**	**0,74**	**4,2%**
change					**-50%**		**-43%**	
Depreciation	-0,45	-2,5%	-0,40	-1,9%	-0,85	-2,2%	-0,24	-1,4%
Adjusted EBITA	**0,85**	**4,7%**	**0,43**	**2,0%**	**1,28**	**3,3%**	**0,50**	**2,8%**
change					**-67%**			
Adjustements	0,63	3,5%	0,41	1,9%	1,04	2,7%	-0,06	-0,3%
Published EBIT	**1,48**	**8,2%**	**0,84**	**4,0%**	**2,32**	**5,9%**	**0,44**	**2,5%**
change					**-36%**			
Cost of net debt	-0,18	-1,0%	-0,18	-0,8%	-0,36	-0,9%	-0,16	-0,9%
Other financials	0,01		0,08		0,09		0,04	
Financial results	**-0,17**		**-0,10**		**-0,28**		**-0,12**	
Profit before tax	**1,31**	**7,2%**	**0,74**	**3,5%**	**2,04**	**5,2%**	**0,33**	**1,8%**
change					**-39%**			
Tax	-0,55	-41,8%	-0,40	-54,0%	-0,94	-46,2%	-0,32	-98,3%
Minorities	0,01	0,1%	-0,02	-0,1%	-0,01	0,0%	0,02	0,1%
Net attribuable profit	**0,78**	**4,3%**	**0,32**	**1,5%**	**1,09**	**2,8%**	**0,02**	**0,1%**
change					**-51%**			
Adjustements	-0,29	-1,6%	-0,11	-0,5%	-0,40	-1,0%	0,26	1,5%
Adjusted Net Profit	**0,49**	**2,7%**	**0,21**	**1,0%**	**0,70**	**1,8%**	**0,28**	**1,6%**
change					**-72%**			

Source : EDAC, IS estimates

Revenues ended the first half at €17.6m (-3%), adjusted gross profit fell to €7.9m (-2%) and adjusted EBITDA came in at €0.74m (vs. €1.3m in H1 19). Adjusted EBITA reached €0.5m (vs. €0.8m in H1 19) and reported net profit was €0m (vs. €0.8m in H1 19). The health crisis interrupted what had been solid growth momentum, and profitability was hurt by a rise in operating costs (+6%) due to the development plan (ten new company-owned offices vs. H1 19) that was only partially offset by government support mechanisms (short-time working). It should be noted that the

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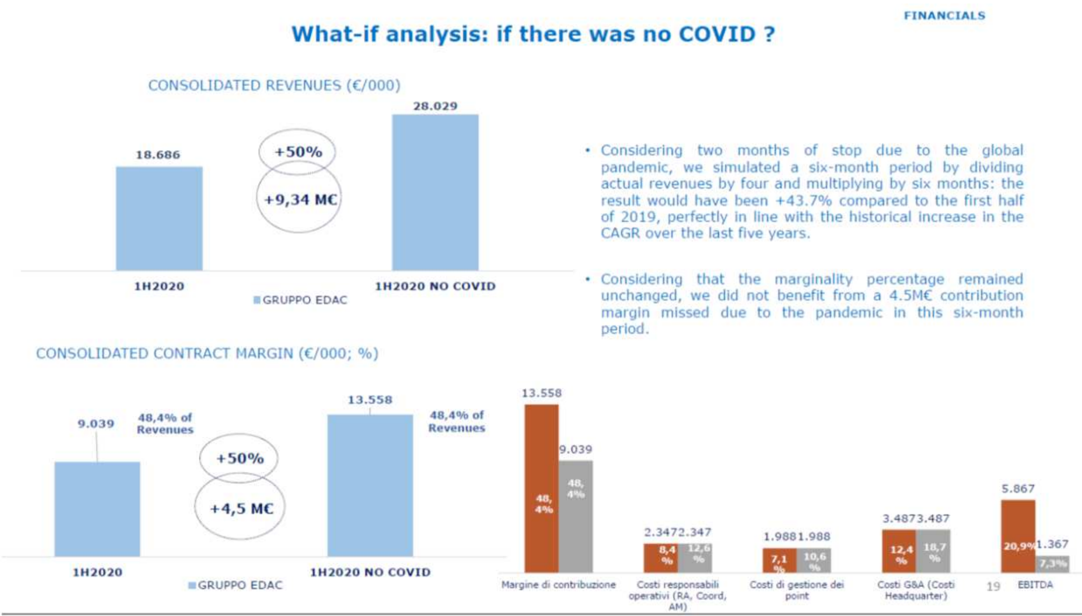
company's figures are very different from ours (especially EBITDA – the company reported €1.4m), due to the impact of capitalized production (€0.6m).

When reporting its H1 results, management provided an estimate of what it believes it could have delivered without the health crisis. Its calculations were fairly simplistic in that (i) H1 20 revenues were restated to strip out two months when business was stopped (i.e. dividing revenues by four and then multiplying by six), but (ii) no adjustments were made for cost savings, notably resulting from short-time working. According to this analysis, the company would have generated growth of close to 50%, in line with recent trends, and much higher profitability, though management's reported EBITDA estimate of €5.9m is too high in our view.

EDAC's estimate of how COVID-19 affected its H1 20 results



Source : EDAC, Cerved

In terms of cash flow, while its results were trending lower in H1 2020, management scaled back its consumption of operating cash flow, such that FCF from operations ended the period at -€1.5m vs -€2.4m a year earlier. This reflected a less disadvantageous change in WCR (-€1.8m vs. -€3.3m) at a time of slowing growth. WCR ended June 2020 at €12m, equivalent to 124 days of sales. This was up sharply from end-June 2019 (97 days) and end-2019 (88 days), as the health crisis caused delays in collecting payments on invoices issued in H2 19. It should be recalled that payment times with EDAC's customers (building managers) are very long (137 days at end-2019, 163 days at end-June 2020), though this does not translate into nonpayment risks. Management is not concerned about the situation and hopes to see a return to average payment times for Italy sometime in H2 2020. Because its FCF from operations was negative, EDAC's net debt rose from €1.6m to €4.2m, or 1.3x EBITDA.

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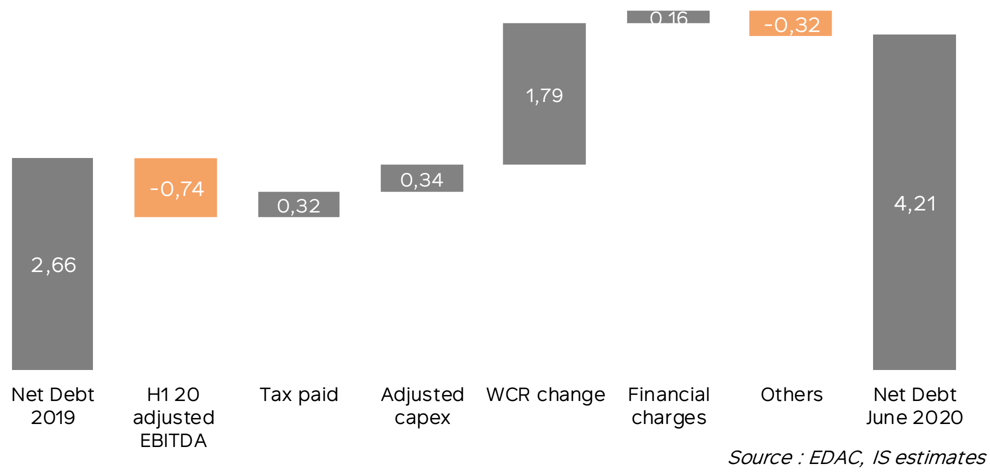
Trend in net debt in H1 2020



Source : EDAC, IS estimates

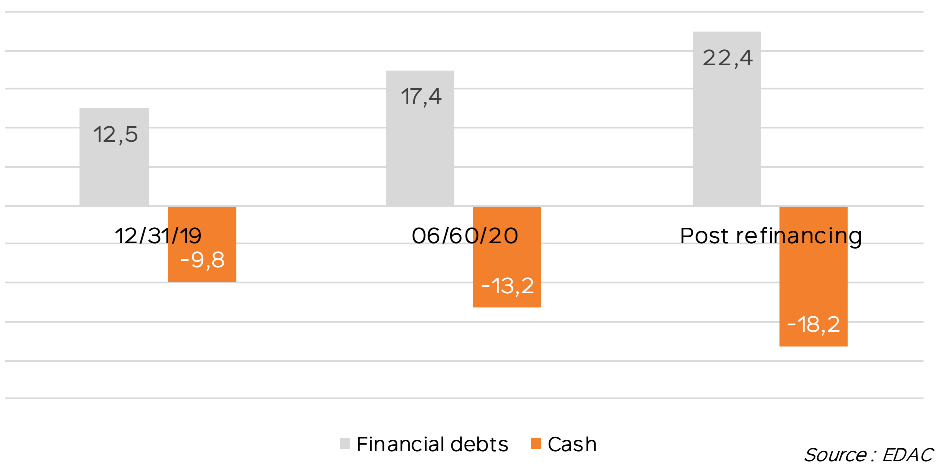
As we see it, given the impact the health crisis could have had on companies in its line of work, EDAC kept the damage to a minimum. Because most of its rivals are SMEs and midsized companies that are not necessarily as financially sound, EDAC will probably emerge from the health crisis even stronger.

2.3 Significant financial resources to carry out its strategy

As of end-June 2020, EDAC's net debt stood at €4.2m (+€1.6m in the first half), factoring in €17.4m of financial debt and €13.2m of cash. In other words, solvency is not an issue, especially as the company's treasury got a big boost during the summer when it issued a €10m bond subscribed by Intesa, due 2027 and with a coupon of just 3.3%. In the current context, the terms are particularly attractive and this financing more or less removes all concerns about how the company will fund its growth over the medium and long terms.

EDAC took the opportunity to optimize its balance sheet with the early redemption late in September of two bonds issued in 2017 for a combined total of €5m. The bonds paid interest of 4% and 5%. This refinancing left EDAC with €18m of cash, enough to cover its WCR and potential acquisitions.

Trend in EDAC's financial situation



Source : EDAC

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2.4 Legislative changes could supercharge growth in Italy

The lockdown in Italy took a toll on the company in H1 2020 (40 days of business lost, from March 9th to May 3rd), but the outlook is better for H2. While there is reason to be somewhat cautious about how the health situation will evolve, a COVID-19 resurgence is unlikely to have the same impact as in H1 2020 insofar as it would not prevent EDAC from continuing to operate in Italy or in France.

This return to business growth could be boosted by a particularly favorable legislative context as well. Indeed, Italy's economic recovery plan includes two measures that would energize EDAC's market:

- "Facade bonus"

Italy's 2020 finance law raises the tax deduction for painting and renovating the exterior facade of buildings in city centers from 50% to 90%, as part of the country's effort to rehabilitate its urban architectural heritage. It applies to all facade work (walls, gutters, balconies, etc.), i.e. all the kinds of work EDAC does. Tax deductions can be claimed on 90% of the total cost of the work and amortized over ten years. Eligibility is restricted by geographic criteria (zones A and B, i.e. historic city centers) yet this is unlikely to impact EDAC since these are the same zones where rope access techniques offer the most advantages over scaffolding. The law will in theory only remain in effect for one year, but it could be extended since the health crisis interfered with facade work in H1 2020. In any event, the facade bonus should be a boon for EDAC in H2 2020.

- Ecobonus

Italy introduced the ecobonus in 2009 to improve energy efficiency in buildings by offering tax credits for thermal insulation work, solar panels, etc. The bonus was originally set at between 50% and 65% of project costs, depending on the type and cost of work, but in July 2020 it was raised to 110% (!) as part of the economic recovery plan. Those who have eligible facade work done can either claim a 110% tax deduction over five years or have the work entirely financed by banks. For instance, Intesa SanPaolo is offering to purchase the 110% tax credits from individual home and residential building owners at 102%.

The new deduction rate, applicable to work done between January 1st 2020 and December 31st 2021, can be expected to drive business growth in the construction industry. Energy renovation is not a core business for EDAC, so it would have to adapt its service offering, but we believe the company and its management team are agile enough (re the disinfection services launched in the spring) to find a way to capitalize on the tax incentives. As with the facade bonus, the ecobonus will be a major source of support for EDAC's business in H2 2020 and probably beyond.

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2.5 Adjustments to our estimates: Growth at the expense of profitability in the short term

We had not updated our estimates since February 24th, when the 2019 revenues were reported. The revisions shown here take into account:

- The change in accounting method, with the company now capitalizing expenses associated with the opening of new offices and amortizing them over three years. Our figures are thus quite different from those reported by the company since the start of 2020, in terms of revenues (we exclude some operating income including capitalized production and subsidies) and of EBITDA, EBITA and capex.
- The impact of the health crisis, as reflected in the H1 20 results reported late in September and the growth outlook for H2, when tax incentives will act as a catalyst.
- The latest schedule for opening new offices (18 in 2020 vs. 10 previously) with an acceleration planned in H2, which will have an impact this year but mostly in 2021 and 2022 (on average, it takes a new office 12-24 months to reach €1m of revenues and thus normative profitability).
- A more cautious approach to profitability, as management's comments about aggressively winning market share in France and Italy and stepping up the office opening plan suggest to us that margins will only return to a normative level (EBITDA margin > 15%) once growth and related investments have slowed.

As shown in the table below, these elements have led us to sharply downgrade our estimates.

Revisions to our estimates for 2020-22e

in €m, 12/31	2020e			2021e			2022e
	New	Prev.	Change	New	Prev.	Change	New
Revenue	45,0	52,1	-14%	58,7	62,0	-5%	72,3
change	+15%	+28%		+31%	+19%		+23%
Adjusted EBITDA	2,1	8,0	-74%	5,3	10,3	-48%	8,8
Adj. EBITDA margin	4,7%	15,4%		9,1%	16,6%		12,1%
Adjusted EBITA	1,5	5,8	ns	4,9	7,8	-37%	8,4
Adj EBITA margin	3,3%	11,1%		8,4%	12,6%		11,5%
Adjusted EPS	0,07	0,46	ns	0,38	0,63	ns	0,67
change	-17%	+171%		ns	+37%		+79%

Source : IS estimates

The revenue estimates in the table above were revised to take on board:

- The acceleration of the plan to open new offices, both in France and Italy, with, for instance, eight new locations scheduled to open in France this year 2020 (vs. five in our previous estimate) and ten in Italy (vs. five previously).
- More cautious assumptions about how quickly the new offices (those opened after 2018) will ramp up, knowing that average sales per new office, in France and Italy alike, reflect a mix: revenues at the offices opened in 2019 are expected to gradually climb toward €1m while those of newer ones will be very low in year 1, especially if the opening occurs late in the year. We have factored in average revenues per office of €0.5m in 2020, which may prove too conservative given what mature offices are delivering (€1.0m in 2019, €1.3m anticipated in 2022). This underscores the considerable potential for growth once the expansion of the office network is complete: if we assume average revenues of €1m per office across the network, EDAC could generate €95m of revenues, which is 40% higher than our estimate for 2022e.

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- As regards momentum in France, we have assumed that trends would be similar to Italy in terms of the ramp-up of new offices and revenues per office. Eighteen months after the ETAIR takeover, EDAC management is more optimistic than us on this front, citing a more favorable pricing environment and, more importantly, a market structure in France (several national networks of building managers, such as Foncia) that is better suited to its industrial model than that of its artisan/SME rivals. Since we were not able to see the results of this proactive approach in H1 20 due to the health crisis, we are waiting to have more visibility before possibly becoming more bullish on this front.

EDAC's 2018-22e revenues

in €m, 12/31	2018	2019	2020e	2021e	2022e
Italy senior branches	27	27	27	27	27
change	+0%	+0%	+0%	+0%	+0%
Revenues / senior Italy BU	0,85	1,01	1,06	1,22	1,34
change	+55%	+19%	+5%	+15%	+10%
Italy junior branches	12	18	28	34	40
change		+50%	+56%	+21%	+18%
Revenues / junior Italy BU		0,32	0,29	0,41	0,49
change		+0%	-10%	+40%	+19%
France branches		5	13	18	28
change		0	+160%	+38%	+56%
Revenue / France BU		0,65	0,42	0,50	0,48
change		0,00	-35%	+18%	-4%

in €m, 12/31	2018		2019		2020e		2021e		2022e	
Senior Italy revenues	22,9	92%	27,3	70%	28,7	64%	33,0	56%	36,3	50%
change			+19%		+5%		+15%		+10%	
Junior Italy revenues			5,8	15%	8,2	18%	13,9	24%	19,5	27%
change			ns		+40%		+70%		+40%	
France revenues			3,3	8%	5,5	12%	9,0	15%	13,5	19%
change			0		+68%		+64%		+50%	
Branches revenues	***22,9***	***92%***	***36,4***	***93%***	***42,3***	***94%***	***55,9***	***95%***	***69,2***	***96%***
change	***+55%***		***+59%***		***+16%***		***+32%***		***+24%***	
Franchisee revenues	***2,1***	***8%***	***2,8***	***7%***	***2,6***	***6%***	***2,9***	***5%***	***3,1***	***4%***
change	***+36%***		***+36%***		***-7%***		***+10%***		***+7%***	
Total revenues	**25,0**	**100%**	**39,2**	**100%**	**45,0**	**100%**	**58,7**	**100%**	**72,3**	**100%**
change	***+54%***		***+57%***		***+15%***		***+31%***		***+23%***	

Source : EDAC, IS estimates

All in all, we have made only minor changes to our revenue estimates (-5%) with the exception of 2020 (-14%), when there will be a two-month revenue shortfall.

As previously indicated, our revised adjusted EBITDA margin estimate is based on much more conservative assumptions about past performances (margin >17% between 2016 and 2018), to reflect the steep investments made (training center, sales and marketing expenses) to support the anticipated surge in revenue growth. This does not affect the potential for normative profitability, given that the company could: (i) keep gross margin at >45%, (ii) better leverage overheads (€6.6m in 2019, or 16% of revenues vs. <12% before) and, more importantly, development costs (primarily the sales network), which are currently at a level adapted to revenues per office 2 to 3 times higher for new entities.

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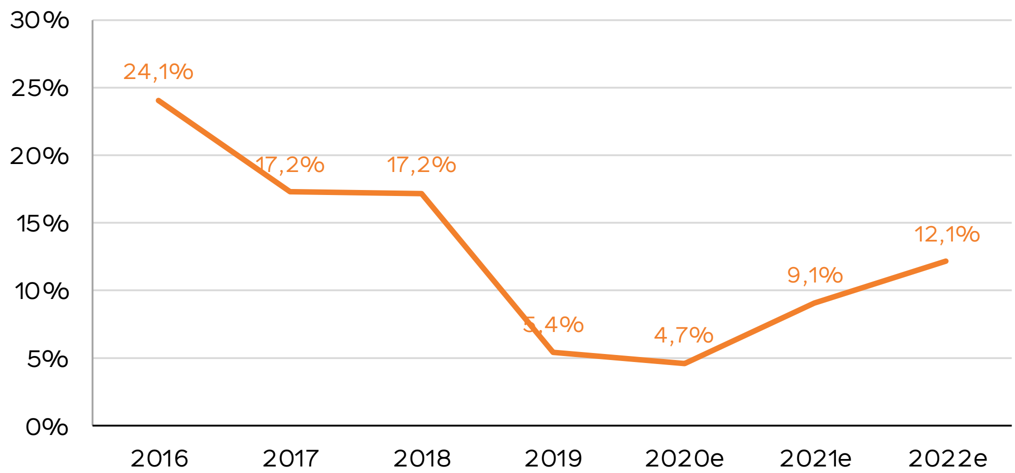
EDAC's adjusted EBITDA margin in 2016-22e



Source : EDAC, estimations IS

In terms of cash flow, our revised estimates imply the consumption of €3.6m of operating cash flow in total in 2020-21e, with cash flow becoming positive again in 2022e. Given its cash situation (€18.2m following the bond buybacks), EDAC has more than enough financial resources to fund its organic growth and even to make more acquisitions, either to speed up its expansion in the French market or to make inroads into other European countries.

FCF in 2018-22e

in €m, 12/31	2018	% CA	2019	% CA	2020e	% CA	2021e	% CA	2022e	% CA
Adjusted EBITDA	4,30	17,2%	2,13	5,4%	2,09	4,7%	5,35	9,1%	8,75	12,1%
Theorical tax	-1,17	-4,7%	-0,38	-1,0%	-0,45	-1,0%	-1,48	-2,5%	-2,51	-3,5%
Capex	-1,78	-7,1%	-0,97	-2,5%	-0,89	-2,0%	-1,57	-2,7%	-1,95	-2,7%
Operating FCF bf WCR	**1,35**	**5,4%**	**0,77**	**2,0%**	**0,75**	**1,7%**	**2,29**	**3,9%**	**4,30**	**5,9%**
WCR change	-3,59	-14,4%	-4,15	-10,6%	-3,69	-8,2%	-2,89	-4,9%	-2,83	-3,9%
Operating FCF	**-2,25**	**-9,0%**	**-3,38**	**-8,6%**	**-2,94**	**-6,5%**	**-0,60**	**-1,0%**	**1,46**	**2,0%**
Acquisitions/disposals	0,05	0,2%	-1,25	-3,2%	0,00	0,0%	0,00	0,0%	0,00	0,0%
Capital increase/decrease	5,72	22,9%	0,73	1,9%	0,44	1,0%	0,00	0,0%	0,00	0,0%
Dividends paid	0,00	0,0%	0,00	0,0%	-0,76	-1,7%	0,00	0,0%	0,00	0,0%
Other adjustments	0,80	3,2%	-0,87	-2,2%	-0,98	-2,2%	-0,29	-0,5%	-0,44	-0,6%
Net de	**4,32**	**17,3%**	**-4,77**	**-12,2%**	**-4,24**	**-9,4%**	**-0,89**	**-1,5%**	**1,02**	**1,4%**

Source : EDAC, IS estimates

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3 – STRONG GROWTH OUTLOOK IS UNDERVALUED – BUY, TP OF €8 (VS. €9.2)

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3 – Strong growth outlook is undervalued – BUY, TP of €8 (vs. €9.2)

The stock has rebounded from the yearly low of €2.9 (hit early in March) but is still down 32% YTD. Our new TP of €8 (versus €9.2) reflects the lower profitability projected in the short term and the downward revision of our normative target (adjusted EBITDA margin of 12.5% vs. 15%). Yet we still find the investment case particularly attractive, especially because EDAC's strong growth outlook is nearly unique in Europe for a traditional business and/or sector. BUY rating reiterated with the expectation that the short-term earnings momentum (H2 20) will be strong.

3.1 Peer comparison is still not meaningful

EDAC clearly stands out from all the other companies in its sector due to its strong growth profile. Other building/construction firms (Eiffage, Vinci, Bouygues, Skanska, Strabag, Hochtief, NCC, Peab) and facility management specialists (Rentokil, ServiceMaster, Stericycle, HomeServe, Mears Group, Elis, MITIE) are nowhere near matching EDAC's growth (2020-223 CAGR of 0% compared with +23% for EDAC). Nor would a comparison based on earnings multiples for 2020-22e be meaningful since significant investments will depress EDAC's profitability in the short term. All of this suggests to us that EDAC's normative potential still cannot be fully captured in a peer comparison.

Building and Facility Management peers

	Country	Share price (€)	Market Cap (€m)	Ytd change	EBITDA margin 20e	Revenue CAGR 19-22
Rentokil	United Kingdom	6,1	11 225	+13%	20,5%	+2%
ServiceMaster	United States	39,4	5 199	+14%	17,5%	-2%
Stericycle	United States	61,1	5 591	+7%	18,3%	-8%
HomeServe	United Kingdom	13,8	4 629	-8%	23,9%	+7%
Mears Group	United Kingdom	1,7	188	-51%	8,0%	-2%
Elis	France	12,9	2 861	-30%	33,7%	-2%
MITIE	United Kingdom	0,3	407	-61%	5,3%	+9%
Facility Management				-16%	18,2%	+0%
Eiffage	France	79,7	7 813	-22%	14,4%	+0%
Vinci	France	87,4	53 622	-12%	13,3%	+1%
Bouygues	France	32,6	12 406	-14%	8,3%	-1%
Skanska	Denmark	20,3	8 531	+1%	6,4%	-0%
Strabag	Germany	26,8	2 943	-14%	7,3%	-1%
Hochtief	Germany	72,1	5 094	-37%	7,0%	+0%
NCC	Sweden	14,7	1 595	+1%	5,3%	+0%
Peab	Sweden	8,9	2 638	-0%	7,8%	+6%
Building/Construction				-12%	8,7%	+1%
EDAC	Italy	4,7	31	-32%	4,7%	+23%

Source : Factset Estimates

	EV/Sales			EV/EBITDA			EV/EBIT			PE		
	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e
Rentokil	4,00x	3,72x	3,51x	19,5x	16,9x	15,4x	32,5x	27,0x	24,1x	41,2x	33,7x	30,0x
ServiceMaster	3,59x	3,52x	3,37x	20,6x	19,1x	18,0x	29,8x	26,9x	24,0x	53,3x	35,1x	32,7x
Stericycle	3,19x	3,11x	2,88x	17,4x	16,2x	14,1x	22,7x	21,2x	19,9x	32,2x	29,0x	24,4x
HomeServe	3,82x	3,49x	3,22x	16,0x	14,2x	12,8x	22,7x	19,6x	17,0x	29,5x	25,7x	22,5x
Mears Group	0,43x	0,42x	0,42x	5,4x	3,7x	3,5x	33,8x	9,7x	9,9x	ns	7,7x	7,3x
Elis	2,26x	1,99x	1,86x	6,7x	5,9x	5,4x	26,5x	16,4x	14,6x	22,2x	13,1x	11,7x
MITIE	0,18x	0,15x	0,12x	3,3x	2,6x	1,9x	5,9x	4,1x	3,0x	7,0x	5,7x	5,9x
Facility Management	**2,50x**	**2,34x**	**2,20x**	**12,7x**	**11,2x**	**10,2x**	**24,8x**	**17,8x**	**16,0x**	**30,9x**	**21,4x**	**19,2x**
Eiffage	1,13x	1,02x	0,96x	7,9x	6,1x	5,6x	15,0x	9,6x	8,8x	21,3x	11,1x	9,8x
Vinci	1,76x	1,57x	1,48x	13,2x	9,5x	8,5x	28,7x	15,5x	13,2x	38,4x	18,0x	15,2x
Bouygues	0,45x	0,42x	0,40x	5,4x	4,3x	3,9x	16,0x	9,2x	8,0x	23,2x	12,0x	10,5x
Skanska	0,50x	0,50x	0,47x	7,7x	9,0x	7,6x	9,6x	11,6x	10,2x	13,1x	15,7x	13,8x
Strabag	0,17x	0,15x	0,14x	2,3x	2,1x	1,8x	4,8x	4,0x	3,5x	9,3x	8,3x	7,6x
Hochtief	0,20x	0,16x	0,14x	2,8x	2,3x	1,8x	4,7x	3,6x	2,9x	10,3x	7,9x	6,9x
NCC	0,36x	0,35x	0,33x	6,7x	6,0x	5,7x	13,2x	10,6x	10,0x	13,3x	11,5x	11,4x
Peab	0,56x	0,54x	0,48x	7,1x	8,0x	7,2x	9,5x	11,7x	10,2x	10,2x	12,7x	11,7x
Bâtiment	**0,64x**	**0,59x**	**0,55x**	**6,6x**	**5,9x**	**5,3x**	**12,7x**	**9,5x**	**8,3x**	**17,4x**	**12,1x**	**10,9x**
EDAC	**1,03x**	**0,81x**	**0,65x**	**22,2x**	**8,9x**	**5,3x**	**31,2x**	**9,6x**	**5,6x**	**64,6x**	**12,5x**	**7,0x**

Source : Factset Estimates

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3 – Strong growth outlook is undervalued – BUY, TP of €8 (vs. €9.2)

3.2 DCF-based target revised down to €8 from €9.2

We calculated our TP using a DCF model with the following parameters:

- The estimates described in part two of this report for 2020-22;
- A gradual slowing of revenue growth in 2022-28 to about +1.5% in 2029;
- Normative adjusted EBITDA margin of 12.5%. We deliberately adopted a conservative estimate compared with what the company delivered in 2016-18 (18.6% on average), to take into account that margins will be lower in the short term, due to heavy investments, and that competition will intensify over the medium term as EDAC's success in rope access services attracts other players from the construction industry;
- Capex and depreciation, excluding capitalized production, representing 3% of revenues on a normative basis, with both aggregates gradually moving toward this level;
- A normative tax rate of 30%, in line with the assumption for 2020-29;
- A gradual stabilization of WCR at 25% of revenues or 90 days of sales at a normative pace. This should be considered fairly conservative, since there will in theory be an improvement over the medium to long term as France, where payment terms are more favorable than in Italy, comes to account for a larger share of business.

EDAC's FCF 2020-29 estimates

in €m, 12/31	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Revenues	25,0	39,2	45,0	58,7	72,3	86,8	101,4	115,5	127,9	137,7	144,0	146,2
change	*+44%*	*+57%*	*+15%*	*+31%*	*+23%*	*+20%*	*+17%*	*+14%*	*+11%*	*+8%*	*+5%*	*+1,5%*
Adjusted EBITDA	4,3	2,1	2,1	5,3	8,8	10,5	12,4	14,2	15,8	17,1	17,9	18,3
Adj. EBITDA Margin	*17,2%*	*5,4%*	*4,7%*	*9,1%*	*12,1%*	*12,2%*	*12,2%*	*12,3%*	*12,3%*	*12,4%*	*12,4%*	*12,5%*
Capex	-1,8	-1,0	-0,9	-1,6	-1,9	-2,4	-2,8	-3,3	-3,7	-4,0	-4,3	-4,4
Capex in	*-7,1%*	*-2,5%*	*-2,0%*	*-2,7%*	*-2,7%*	*-2,7%*	*-2,8%*	*-2,8%*	*-2,9%*	*-2,9%*	*-3,0%*	*-3,0%*
Depreciation	-0,4	-0,8	-0,6	-0,4	-0,4	-0,8	-1,3	-1,8	-2,5	-3,2	-3,8	-4,4
% revenues	*-1,6%*	*-2,2%*	*-1,3%*	*-0,7%*	*-0,6%*	*-0,9%*	*-1,3%*	*-1,6%*	*-2,0%*	*-2,3%*	*-2,7%*	*-3,0%*
WCR	6,2	10,2	14,4	17,3	20,1	23,8	27,4	30,7	33,5	35,5	36,6	36,5
WCT / Revenues (%)	*24,6%*	*26,0%*	*32,0%*	*29,4%*	*27,8%*	*27,4%*	*27,0%*	*26,6%*	*26,2%*	*25,8%*	*25,4%*	*25,0%*
Tax Rate	-30,0%	-30,0%	-30,0%	-30,0%	-30,0%	-30,0%	-30,0%	-30,0%	-30,0%	-30,0%	-30,0%	-30,0%
Synthesis												
EBITDA	4,3	2,1	2,1	5,3	8,8	10,5	12,4	14,2	15,8	17,1	17,9	18,3
Tax	-1,2	-0,4	-0,4	-1,5	-2,5	-2,9	-3,3	-3,7	-4,0	-4,2	-4,2	-4,2
Capex	-1,8	-1,0	-0,9	-1,6	-1,9	-2,4	-2,8	-3,3	-3,7	-4,0	-4,3	-4,4
WCR change	-3,6	-4,1	-4,2	-2,9	-2,8	-3,7	-3,6	-3,3	-2,8	-2,0	-1,0	0,0
Operating FCF	**-2,2**	**-3,4**	**-3,4**	**-0,6**	**1,5**	**1,6**	**2,6**	**3,9**	**5,3**	**6,9**	**8,4**	**9,8**
change		ns	ns	ns	ns	ns	+66,7%	+48,4%	+37,1%	+28,8%	+22,1%	+16,4%
Discounting adj.			0,5	1,5	2,5	3,5	4,5	5,5	6,5	7,5	8,5	9,5
Discounted FCF			-3,3	-0,5	1,2	1,2	1,8	2,4	3,0	3,6	4,0	4,3

Source : EDAC, estimations IS

Regarding discount rates, we applied a WACC of 9.00%, based on:

- A risk-free rate of -0.16%, corresponding to the weighted average of 10-year European government bonds.
- A risk premium of 5.72%, corresponding to the inverse of the 2021 P/E for the Euro Stoxx in relation to the risk-free rate.
- A beta of 1.6x, intended to reflect the additional risk specifically associated with EDAC given its relatively small size and the strong growth it is expected to see over the next three years.
- 0% financial leverage, since this type of business does not require taking on significant debt.

This DCF model yields an EV of €68m, of which €55m is associated with the terminal value based on LT growth of +1.5%. Subtracting EDAC's net debt at end-2019 (-€2.7m) and provisions (-€1.2m), and adding back the cash-in from the exercise of the warrants in 2020-21 (+€0.4m), the equity value works out to €64.5m, or €8.0 per share, based on 8.03m diluted shares (with exercise of warrants).

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3 – Strong growth outlook is undervalued – BUY, TP of €8 (vs. €9.2)

Enterprise value to equity value

	Valuation €m	Valuation €/share
2020-29e FCF	13,4	1,7
Terminal Value	54,6	6,8
Enterprise Value (EV)	68,0	8,5
Net cash at end 2019	-2,7	-0,3
Warrant cash-in	0,4	0,1
Provisions	-1,2	-0,2
Equity valuation	64,5	8,0
Fully diluted shares		8,03

Source : estimations IS

As regards the sensitivity of our target price to the DCF parameters, note the important role played by the normative margin assumption. It should be recalled that our model factors in a normative EBITDA margin of 12.5%. If we apply our core LT EBITDA margin assumption of 15% (which would not be unreasonable based on the margins posted in 2016-18), our target would move up to €10.2. While we cannot use the higher margin figure at this time, given that the focus will be on growth rather than profitability in the near term, if margin ends up expanding in 2021 and especially in 2022, we would move to a more bullish stance.

Sensitivity of our TP to the DCF parameters

Long term growth \ WACC	7,5%	8,0%	8,5%	9,0%	9,5%	10,0%	10,5%
+0,5%	9,5	8,6	7,9	7,2	6,6	6,0	5,6
+1,0%	10,2	9,2	8,3	7,6	6,9	6,3	5,8
+1,5%	11,0	9,8	8,9	8,0	7,3	6,7	6,1
+2,0%	11,9	10,6	9,5	8,6	7,7	7,0	6,4
+2,5%	13,0	11,5	10,2	9,2	8,2	7,5	6,8

Source : estimations IS

Long term EBITDA margin \ WACC	7,5%	8,0%	8,5%	9,0%	9,5%	10,0%	10,5%
+7,5%	5,0	4,5	4,0	3,6	3,3	2,9	2,7
+10,0%	8,0	7,2	6,4	5,8	5,3	4,8	4,4
+12,5%	11,0	9,8	8,9	8,0	7,3	6,7	6,1
+15,0%	14,0	12,5	11,3	10,2	9,3	8,5	7,8
+17,5%	16,9	15,2	13,7	12,5	11,4	10,4	9,5

Source : estimations IS

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SWOT ANALYSIS

STRENGTHS

- Training center
- Structuring of the services and the model
- European leader

WEAKNESS

- Very long period for repayment
- Very high exposure to the Italian market

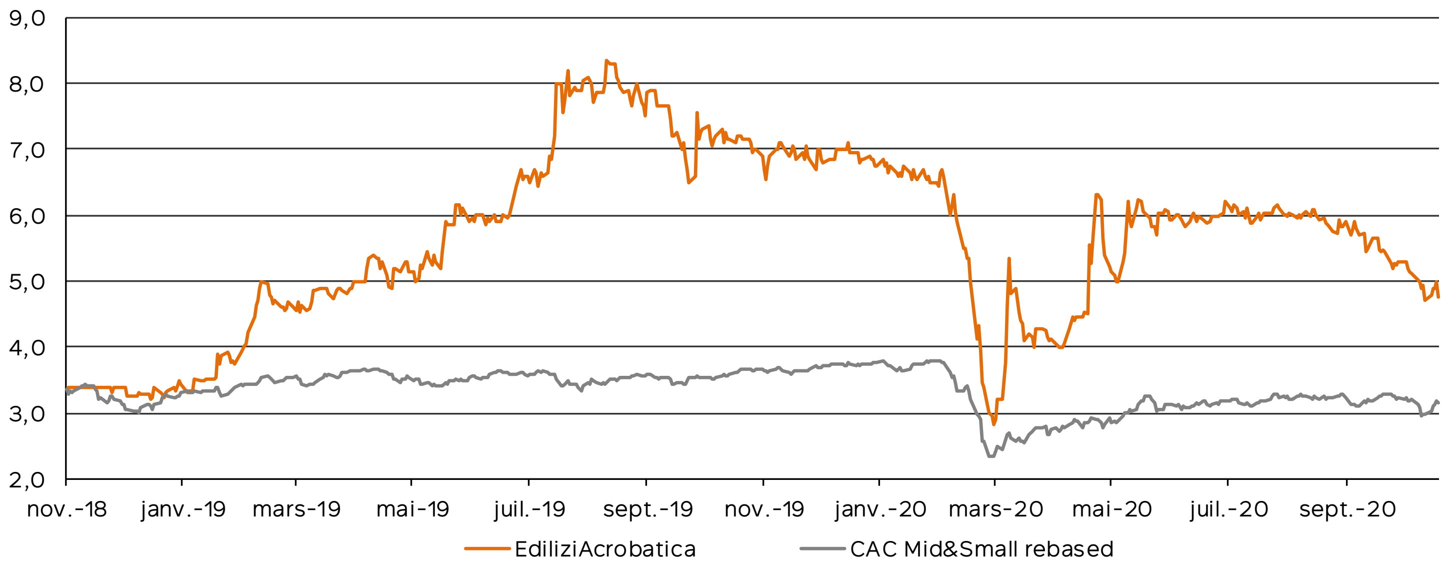
OPPORTUNITIES

- Fragmentation of the market
- Competition limited to SMEs/artisans

THREATS

- Arrival on the market of giant construction companies
- Difficulties to replicate the model outside Italy

SHARE PRICE SINCE IPO



DETECTION OF CONFLICTS OF INTEREST

	Corporate Finance	Treasury stocks holding	Prior communication to company	Analyst's personal interest	Liquidity contract	Listing Sponsor	Research Contract
EdiliziAcrobatica	No	No	Yes	Non	Yes	Yes	Yes

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