Banca Profilo

Company Update

Robust growth despite Covid-19

EDILIZIACROBATICA®

October, 29th 2020 at 18:00

1H 2020: EDAC resilience to Covid-19

Despite Covid-19, EDAC's business showed a good revenue resilience in 1H20 (-3.7% yoy) thanks to revenue growth in 1Q20 (+15% yoy), which mitigated Covid-19 impact in the 2Q. EDAC promptly answered to lockdown introducing a new business line, sanitization, and setting up new openings (8 branches). Moreover, revenues from French branches increased by 18% yoy. EDAC's EBITDA declined to €1.4mln in 1H20 from €2.4mln in 1H19 due to significant fixed costs, mainly labour costs (49% of sales), given the Company's constant focus on human resources. At the end of June 2020, net financial debt stood at €4.2mln, up from €2.7mln at the end of 2019, for increasing in new working capital needs.

2020E-2023E estimates revision: still high double-digit growth; focus on cash preservation in a highly uncertain scenario

The outbreak of Covid-19 and related lockdown stopped EDAC's production; thus, we lowered revenue growth to 4.5% yoy in 2020 (€41.0mln vs our previous €49.5mln). For the following years, we revised our projections including the partial mitigation of negative pandemic effects through the introduction of buildings sanitization and network expansion; as a consequence, we also reduced investments for growth with the aim of preserving cash in a highly uncertain scenario. In 2019-2023E we now estimate sales CAGR at 23% (vs previous 26%) to reach €89.8mln (vs prior €100mln). We lowered our EBITDA forecast and we now expect an EBITDA margin of 8.9% in 2020 (from 9.3%) with a target reduced by 300bps to 13% in 2023E. In 2020E-2023E we project €26.4mln of cumulated operating Cash Flows (vs previous €32.4mln) partially used to finance Capex (€.8mln vs previous €14.4mln) and Net Working Capital needs (€9.4mln vs previous €12.2mln). Finally, we now expect €8.6mln of cumulated FCFs in 2020E-2023E, above our previous €7.1mln, given lowered Capex and Working Capital needs.

Valuation confirmed: target price at €6.4 and BUY recommendation

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

Through cumulated FCFs 2020E-2023E of €8.6mln, a TV of €66mln and a 7% WACC, we get to an EV of €57mln and an Equity Value of €51mln (in line with our previous valuation).

We thus confirm our TP at €6.4 per share. Given a potential upside of 29% on EDAC's price (€4.9 as of October, 29th 2020), we also confirm our BUY recommendation.

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

Price as of October 29th	4.93
Number of shares (mln)	8.03
Market capitalization	32.76
Market segment	FTSE AIM ITALIA

Performance	**from IPO**
Absolute	+47%
Max / Min	8.7/2.8
Av. daily volumes ('000)	11.1

(€mln)	2019	2020E	2021E	2022E
Revenues	**39.3**	**41.0**	**56.2**	**73.0**
yoy change	*57.2%*	*4.5%*	*36.9%*	*30.0%*
VoP	**41.8**	**42.2**	**57.3**	**74.2**
yoy change	*59.5%*	*0.9%*	*35.9%*	*29.4%*
EBITDA	**4.2**	**3.7**	**6.2**	**9.1**
margin	*10.1%*	*8.9%*	*10.9%*	*12.3%*
EBIT	**2.3**	**1.3**	**2.7**	**4.6**
margin	*5.9%*	*4.0%*	*5.7%*	*7.0%*
Net income	**1.1**	**0.9**	**1.9**	**3.3**
margin	*2.8%*	*2.2%*	*3.4%*	*4.5%*
Net debt	**2.7**	**6.1**	**6.4**	**2.9**
Equity	**11.5**	**12.1**	**14.0**	**17.2**
FCF	(3.6)	(1.2)	0.3	3.9

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), 58 direct branches (8 in France) and 35 franchising (as of 30th June 2020).

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 24%.
During the Second Exercise Period (closed at the end of September 2020), 108,261 Warrants were exercised (198,937 in the First Exercise Period) and consequently converted in n.108,261 EDAC's share at the price of €4.02 (priorly a t €3.66), for a total value of €435,209.22. The new share capital of EDAC is equal to €803,249.8 divided into 8,032,498 ordinary shares.

In 2020 the Italian building market will slow its growth due to Covid-19 emergency however, it is expected a strong recovery in the following years

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 the 2020, the introduction of containment measures to mitigate the impact of Covid-19 crises, stopped the production also in the Building and Construction Industry.
However, there are some drivers that can boost the recovery of renovation related to residential buildings in the following years:

- the decline in new construction sector in the last 10 years seen a drop of 68%, due to the higher attention in building maintenance especially for the historical structure;
- the extension of "bonus facciate 2020" to 2021, that allow customers to a 90% of tax reduction.

Despite the Covid-19 impact Edac showed resilience in terms of revenues reaching €18.7mln in 1H20

Nonetheless the Covid-19 impact, in the 1H20 the Company generated €18.8mln of Value of Production, almost in line with the first semester of the previous year (-3.7% 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 and estimates (2020E-2023E)

Outperformer of its reference market

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

1H20 financials: resilience to Covid-19

In the 1H20, the Company reported VoP at €18.7mln (-3.7% yoy), EBITDA for €1.4mln (-43% yoy) with margin at 7.3% (vs 12.4% in the 1H19) and EBIT for €0.4mln (-71% yoy). At the end of the 30th June, net debt was €4.2mln from a net debt of €2.7mln at the end of FY19 mainly due to an increase in net working capital (from €9.7mln to €12.4mln in six months).

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:

During 1H20, the Covid-19 outbreak in Italy and its related lockdown led to the closing of EDAC's main business for 40 days. Nevertheless, the Company showed a resilience in revenues, mitigating the impact of Covid-19 though the introduction of new services and by new openings both in Italy and France. We therefore only partially revised our 2020E-2023E considering Covid-19 impact on revenues and marginality due to EDAC's cost structure mainly based on fixed expenses (mostly labour).

21.4% VoP CAGR (from 24.8%) coming from a slowdown due to Covid-19 impact

In 2020E, we are now expecting a slowdown in the positive path of EDAC's revenue, which will reach €42.2mln in terms of Value of Production (vs previous €51.3mln). However, in the long period we now expect 21.4% VoP CAGR in 2019-2023E (vs previous 24.8%) to reach €90.9mln (vs previous €101.5mln), which is more than double the estimated value in 2020. Growth will be driven by network expansion, both in Italy and France. We include now 51 new openings in 2020E-2023E, which compares to 60 in our previous projections.

EBITDA margin lowered to 13.2% from 16.3% in 2023E

In 2020E-2023E, we expect EBITDA to increase to €12mln (vs our previous €16.5 mln) in 2023 from €4.2mln in 2019, with EBITDA margin expected to improve to 13.2% (16.3% our previous estimate) from 10.1% respectively.
Regarding our estimates we are now considering a lower EBITDA and margin mainly due to slower sales growth and considering EDAC's fixed cost structure mainly based on labour expenses needed to support the branches expansion.

€8.6mln cumulated FCF (from €7.1mln)

In 2020E-2023E we project €26.4mln of cumulated operating Cash Flows (vs previous €32.4mln), partially used to finance Capex (€9.8mln vs previous €14.4mln) and Net Working Capital needs (€9.4mln vs previous €12.6mln). As a consequence, we now expect €8.6mln of cumulated FCFs in 2020E-2023E, above our previous €7.1mln, given lowered Capex and Working Capital needs.

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 at 10.3X.

DCF assumptions

We run a DCF model, using our projections of FCFs for the explicit period 2020E-2023E, which lead to cumulated FCFs of €8.6mln (an annual average of €2.1mln) plus a Terminal Value of €66.3mln. We used a WACC of 7.0% and a 2% perpetual growth rate.

Valuation: TP €6.4/share and BUY recommendation confirmed

The DCF method leads us to an Enterprise Value of €57.2mln (vs our previous €53.7mln) and to an Equity Value of €51mln (in line with our previous Company update) or €6.4/share (unchanged from our last Company Update), including €6.1mln net debt in 2020E.

Thus, we confirm our TP at €6.4 per share and considering a potential upside of 27% on EDAC's price (€5.02 as of October, 29th 2020) we confirm our BUY recommendation.

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	WEAKNESSES
• 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	• 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	THREATS
• 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	• 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

1H20 results and milestones:

Increasing the number of sales points:
+7 in Italy
+3 in France

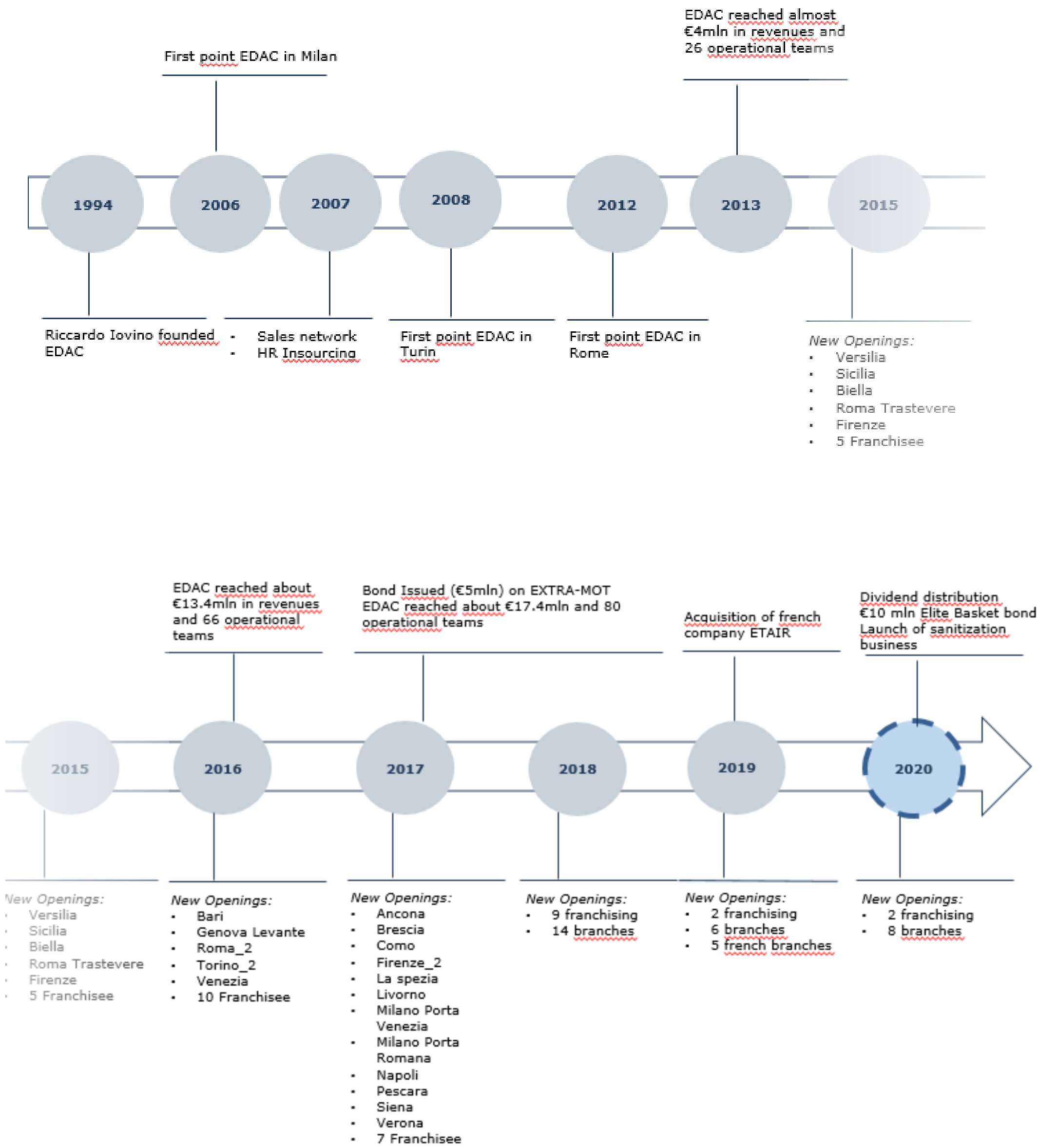
At the end of June 2020, EDAC had 50 direct branches and 35 franchising in Italy, 8 direct branches in France for a total of 93 sales points (from 83 at the end of 2019).
In 1H20 human capital working at EDAC included:

- 182 operation teams;
- 364 workmen;
- 909 total employees;
- 93 business unit.

EDAC first Acrobatic Point in Apulia

EdiliziAcrobatica announced the opening of its first Acrobatic Point franchising in Lecce. EdiliziAcrobatica in Apulia is composed by five employees, two of which are double-rope climbing on site workers and the objective is to introduce 18 new resources both workers and sales employees by the end of the year, in order to offer new job opportunities.

Figure 1: EDAC main milestones



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);
- 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 its clients. The app supports EDAC in the creation of brand awareness with its consumers, moreover through the app the Company reached 200 new clients.

A prompt answer to Covid-19: building sanitization

Main operating and financial data

1H20: Value of Production -3.7% yoy to €18.7mln

The sanitization: a prompt answer to Covid-19

In 1H20, Value of Production showed a 3.7% yoy contraction to €18.7mln (36% of our prior 2020E estimates), due to the outbreak of Covid-19 and lockdown which temporarily interrupted Company’s activities. In mid-March, EDAC had to stop its main business for almost 40 days. However, as a prompt answer the Company started a new business, building sanitization, which reached €250k of revenues in few months.

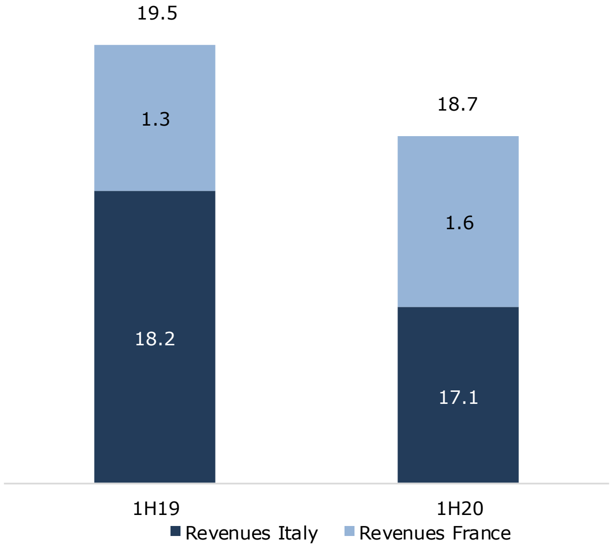
In 1Q20, EDAC’s turnover had increased by 15% yoy to €8.9mln; without the lockdown, the Company had estimated an increase of more than 45% yoy in FY20.

Covid-19 impact mitigated by good performance in 1Q20

Resilience to Covid-19: +8 branches in 1H20

Nonetheless Covid-19 impact, in the 1H20 EDAC opened 8 new direct branches, 5 in Italy 3 in France, (vs our forecast of 10 new branches in the entire year) and 2 new franchisee in Italy (vs our +5 in the FY20).
The Company registered €17.1mln of Value of Production in Italy (-5.8% yoy) and €1.6mln in France (+18.1% yoy). Regarding revenue breakdown by division, EDAC gross revenues from sites were €16.1mln, slightly below the €16.8mln in the 1H19.

Figure 2: Value of production 1H20 vs 1H19 (€mln)

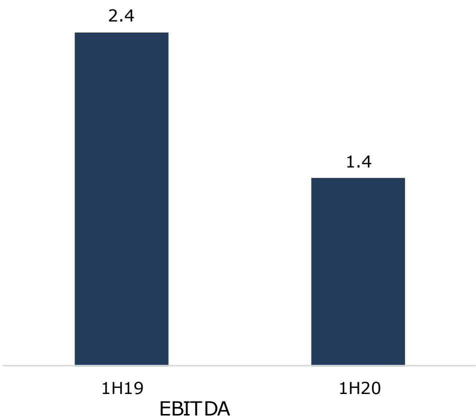


Source: Banca Profilo elaborations on Company data

1H20: EBITDA at €1.4mln or 7.3% margin

In the 1H20, the EBITDA decreased to €1.4mln from €2.4mln in the 1H19, representing the 29% of our prior FY20 estimates. The contraction is mainly due to Covid-19 impact on EDAC's Value of Production and by G&A costs. Moreover, in France the EBITDA was affected by a loss of €150k in a project that must be considered a non-recurring event.
Total costs accounted for €17.3mln in the 1H20 (€17.0 in the 1H19); most of them are related to labour costs (49% on sales) due to the increasing number of hirings.
EDAC showed a 7.3% EBITDA margin, down by 500bps yoy and 200bps below our prior forecast on FY20.

Figure 3: EBITDA 1H20 vs 1H19 (€mln)



Source: Banca Profilo elaborations on Company data

EBIT down to €0.4mln due to new capitalized investments

1H20 EBIT stood at €0.4mln, (-71% yoy), representing 26% of our full year 2020 old estimates. EBIT margin declined to 2.3% from 7.5% in the 1H19. EBIT declined due to higher amortization:

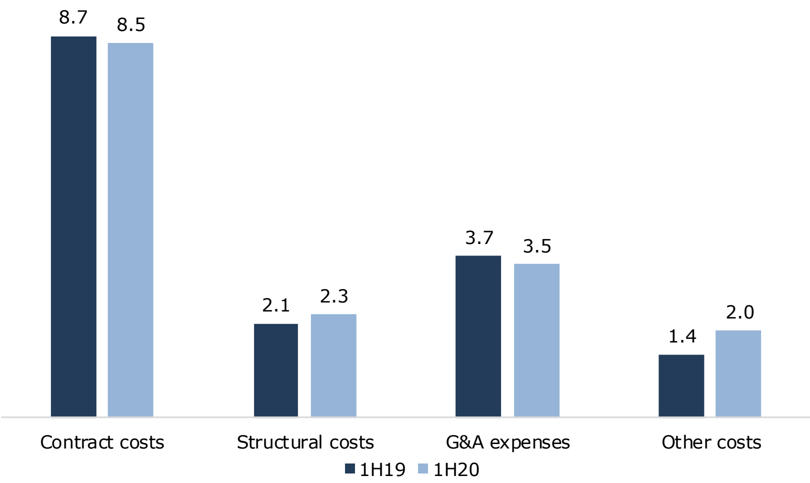
- start-up costs in Italy (+10 new branches in 2018, +5 in 2019 and +5 in 1H20;
- start-up costs in France (+5 new branches in 2019, +3 in 1H20);
- 2018 AIM Italia listing and 2019 Euronext listing;

- 2019: Etair (EDAC France) acquisition.

Costs rose to €17.3mln due to the start up of new branches

Nonetheless the decrease in revenues, during the 1H20, total costs moved up from €17.0 in the 1H19 to €17.3mln, mainly due to higher structural costs and to the expenses related to branches' openings. EDAC is constantly investing in marketing: in 2020 it renewed the sponsorship with the Italian football team, Torino. Moreover, EDAC is constantly focused on employees training: in the 1H20, it spent 21.289 hours to train its employees.
In the 1H20 direct costs amounted to €8.5mln, 52% of total costs, while indirect costs stood at €7.8mln.

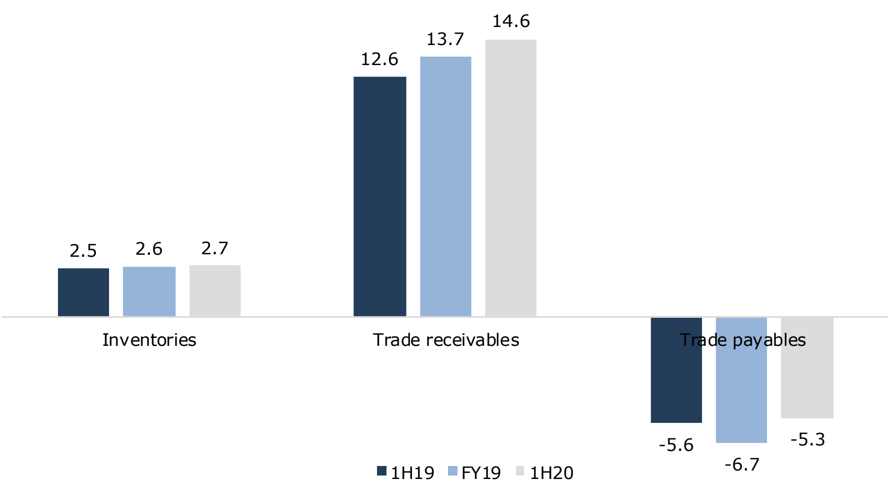
Figure 4: Costs analysis 1H20 vs 1H19 (€mln)



Source: Banca Profilo elaborations on Company data.

Finally, net income declined from €762k in the 1H19 to €5k in the 1H20, mainly due to the loss at EDAC's French branch (€-202k). In the 1H20, net financial expenses decreased to €162k (€185k in the 1H19) due to a lower cost of funding (2.7% vs 3.5%), thanks to the renegotiation of the €10mln loan.

Figure 5: Operating NWC 1H20 vs 1H19 (€mln)



Source: Banca Profilo elaborations and estimates on Company data

At the end of June 2020: net debt at €4.2mln

On the Balance Sheet side, the operating NWC reached €11.9mln at the end of June 2020, increasing from €9.6mln at the of December 2019; net debt rose from €2.7mln at the end of 2019 to €4.2mln at the end of 1H20, due to an increase in net working capital (from €9.7mln to €12.4mln in six months).

Table 1: EDAC Interim Main Financials 1H19-1H20

	1H19	1H20
Revenues	**18.1**	**17.3**
yoy	*59.3%*	*-4.2%*
Gross revenues from sites	16.8	16.1
Fee from franchising	0.4	0.2
Royalties	0.5	0.5
Training and support for franchisee	0.1	0.2
Resale of goods to franchisee	0.2	0.2
Contribution & other revenues	1.3	1.1
Sanitization		0.3
Value of production	**19.4**	**18.7**
yoy	*74.6%*	*-3.7%*
Raw materials	(2.8)	(2.1)
Change in inventories	0.8	0.0
Services	(4.0)	(4.6)
Other costs	(0.4)	(0.2)
Subcontracting	(1.2)	(1.3)
Labour costs	(9.4)	(9.1)
EBITDA	**2.4**	**1.4**
margin	*12.4%*	*7.3%*
D&A	(0.9)	(0.9)
Provision for risks	-	-
EBIT	**1.5**	**0.4**
Net debt	**2.3**	**4.2**

Source: Banca Profilo elaborations and estimates on Company data

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.

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

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

During 1H20, the Covid-19 outbreak in Italy and its related lockdown led to the closing of EDAC's main business for 40 days. Nevertheless, the Company showed a resilience in revenues, mitigating the impact of Covid-19 though the introduction of new services and by new openings both in Italy and France. We therefore only partially revised our 2020E estimates considering Covid-19 impact on revenues and marginality due to EDAC's cost structure mainly based on fixed expenses (mostly labour).

Table 2: EDAC main changes in 2020E estimates

Profit & Loss (€/mln)		2018	2019	2020E Old	2020E New
Revenues		**26.2**	**39.3**	**49.5**	**41.0**
	yoy	*51.0%*	*49.9%*	*26.1%*	*4.5%*
Gross revenues from sites		22.9	36.4	43.4	38.2
	% on VoP	*87%*	*87%*	*85%*	*90%*
Fee from franchising		0.6	0.9	1.3	0.4
	% on VoP	*2%*	*2%*	*3%*	*1%*
Royalties		0.9	1.1	1.5	1.1
	% on VoP	*3%*	*3%*	*3%*	*3%*
Training and support for franchisee		0.2	0.2	0.3	0.4
	% on VoP	*1%*	*1%*	*1%*	*1%*
Resale of goods to franchisee		0.4	0.7	1.0	0.5
	% on VoP	*1%*	*1%*	*2%*	*1%*
Contribution & other revenues		1.2	2.5	1.7	1.1
	% on VoP	*5%*	*5%*	*3%*	*3%*
Sanitization			-	2.0	0.5
	% on VoP		*0%*	4%	*1%*
Value of production		**26.2**	**41.8**	**51.3**	**42.2**
	yoy	*51.0%*	*59.5%*	*22.6%*	*0.9%*
Raw materials		(3.7)	(5.8)	(7.1)	(5.1)
Change in inventories		0.7	0.9	0.9	0.9
Services		(6.2)	(8.9)	(11.9)	(9.5)
Other costs		(0.5)	(1.2)	(1.2)	(0.5)
Subcontracting		(1.5)	(2.7)	(3.3)	(2.5)
Labour costs		(10.8)	(19.9)	(23.9)	(21.8)
			-51%	-48%	-53%
EBITDA		**4.4**	**4.2**	**4.8**	**3.7**
	margin	*16.6%*	*10.1%*	*9.3%*	*8.9%*
D&A		(0.7)	(1.9)	(3.1)	(2.1)
Provision for risks		-	-	-	-
EBIT		**3.66**	**2.3**	**1.6**	**1.6**
	margin	*14.0%*	*5.6%*	*3.3%*	*4.0%*
Net financial expenses		(0.3)	(0.3)	(0.2)	(0.4)
Extraordinary items		-	-	-	-
EBT		**3.4**	**2.0**	**1.4**	**1.3**
Taxes		(1.1)	(0.9)	(0.5)	(0.4)
	tax rate	*32.9%*	*46.1%*	*32.0%*	*30.0%*
Net profit		**2.3**	**1.1**	**1.0**	**0.9**
	margin	*8.7%*	*2.6%*	*2.0%*	*2.2%*

Source: Banca Profilo elaborations and estimates on Company data

2020E: Sales growth reduced by 15% due to Covid-19 impact; still +4% on 2019

Following EDAC's opening of 8 new branches during 1H20, we increased the number of new openings in FY2020 to 13 from our prior estimates at 10. Despite this, we reduced our sales estimate in 2020E from €49.5mln to €41.0mln, including lower revenues per branch than prior estimated. We now project a 4.5% yoy growth in 2020, reducing our prior estimates by about 17%. Moreover, given EDAC's prompt response, introducing the new building sanitization service, and consequent turnover at €250k in 1H20, we reduced our expectations for the FY2020 to €0.5mln from our previous projection at €2.0mln.

EBITDA margin lowered by 40bps to 8.9%.

Regarding the marginality we now estimate an EBITDA margin at 8.9% for the FY20, down by 40bps from our prior projection, as in 1H20 EBITDA margin was 7.3%. Regarding labour costs, we assumed the redundancy fund during the halting of activity and a lower number of new hiring. We now see €21.8mln of labour costs vs our prior €23.9mln, yet still representing more than 50% of sales.

Due to the readapting of investments policy in this contest of economic uncertainty, we reduced our Capex projection for the FY20 and lowered relative D&A. As results, we estimate an EBIT margin at 4.0%, slightly above our previous projection at 3.3%.

Capex cut from €4.0mln to €1.5mln for cash preservation

On the Balance sheet side, we lowered 2020 Capex to €1.5mln from our previous €4mln for cash flow preservation given the highly uncertain period linked to the outbreak of Covid-19. Moreover, our new estimates are in line with Capex in 1H20 which amounted to €964k. We expect most investments to be addressed to intangible assets, such as the start-up costs of new branches.
We finally reduced our net debt estimate to €6.1mln at the end of 2020 (€7.2mln previously seen) for lower Capex and net operating working capital related to lower turnover.

Dividend distribution: >60% payout

In August, EDAC's approved to distribute part (€761k) of its 2019 net income (€1.2mln).

FCF higher than our previous estimate for a cut in CAPEX and NWC absorption

Despite slower sales growth and EBITDA margin below our previous 2020 target, the cut in Capex and in NWC absorption leads us to lower negative FCF, from -€2.5mln to -€1.2 mln.

Table 1: EDAC main changes in 2020E estimates

Balance Sheet (€/mln)	2018	2019	2020E Old	2020E New
Stock	1.7	2.6	3.2	3.5
Accounts receivables	9.5	13.7	18.5	15.4
Accounts payables	(4.8)	(6.7)	(9.1)	(6.1)
Operating Net Working Capital	**6.4**	**9.6**	**12.7**	**12.8**
% on sales	**24%**	**25%**	**26%**	**31%**
Other current assets & liabilities	(0.6)	0.1	0.1	0.1
Net Working Capital	**5.8**	**9.8**	**12.8**	**12.9**
Intangible	1.7	3.9	4.9	3.4
Tangible	0.8	1.2	1.9	1.7
Financials	-	-	-	-
Fixed assets	**2.5**	**5.1**	**6.8**	**5.1**
Funds	(0.7)	(1.2)	(1.4)	(1.3)
Other non current assets & liabilities	0.3	0.5	1.5	1.5
Net Invested Capital	**8.0**	**14.3**	**19.7**	**18.2**
Equity	**10.1**	**11.5**	**12.5**	**12.1**
Share capital	0.8	0.8	0.8	0.8
Reserves	7.0	9.6	10.7	10.4
Accumulated profit/loss	-	-	-	-
Net profit	2.2	1.1	1.0	0.9
Minorities	0.1	0.0	0.1	0.1
Net debt (cash)	**(2.1)**	**2.7**	**7.2**	**6.1**

Cash flow (€/mln)	2018	2019	2020E Old	2020E New
EBIT	3.7	2.3	1.6	1.6
taxes	(1.1)	(0.9)	(0.5)	(0.4)
NOPAT	**2.5**	**1.4**	**1.2**	**1.2**
D&A	0.7	1.9	3.1	2.1
Operating cash flow	**3.2**	**3.3**	**4.3**	**3.3**
Operating Net Working Capital change	(1.2)	(3.3)	(3.0)	(3.1)
Other funds	0.3	0.5	0.2	0.1
Capex	(1.8)	(4.0)	(4.0)	(1.5)
FCF	**0.5**	**(3.6)**	**(2.5)**	**(1.2)**

Source: Banca Profilo elaborations and estimates on Company data

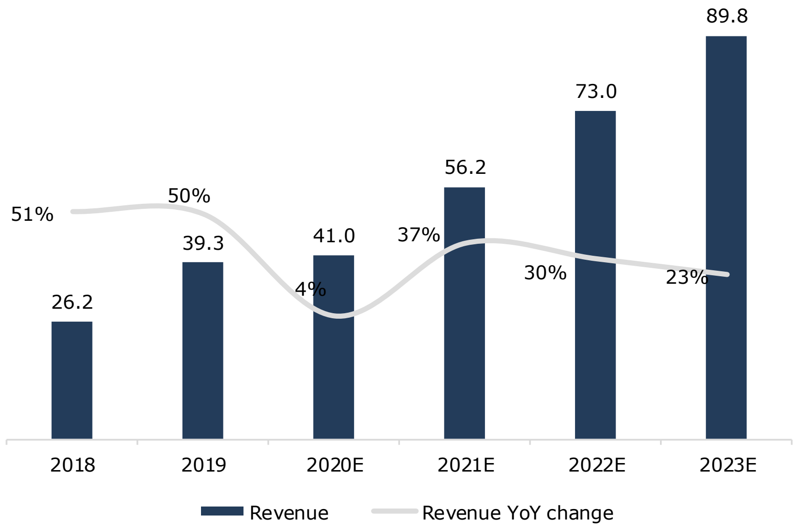
Revising our 2020E-2023E estimates

Our estimates include the integration of ETAIR in France, acquired in March 2019, and the effects of Covid-19 emergency.
In our revised projections we included the partial mitigation of negative pandemic effects, especially in 2020E, through the introduction of buildings sanitization and new openings. However, in the long period we need to take into consideration lower Company's revenue growth as the result of lower investments, for preserving cash in a highly uncertain scenario.

21% VoP CAGR 2019-2023E to over €90mln

We now expect 21.4% VoP CAGR in 2019-2023E (vs previous 24.8%) to reach €90.9mln (vs previous €101.5mln), which is more than double the estimated value in 2020. Growth will be driven by network expansion, both in Italy and France. We include now 51 new openings in 2020E-2023E, which compares to 60 in our previous projections.

Figure 6: EDAC revenue trend (€mln;%)



Source: Banca Profilo elaborations and estimates on Company data

EBITDA improving to €12mln in 2023E (13.2% margin) from €4.2mln in 2019 (10.1% margin)

In 2020E-2023E, we expect EBITDA to increase to €12mln (vs our previous €16.5 mln) in 2023 from €4.2mln in 2019, with EBITDA margin expected to improve to 13.2% (16.3% our previous estimate) from 10.1% respectively.
Regarding our old estimates we are now considering a lower EBITDA and margin mainly due to slower sales growth and considering EDAC's fixed cost structure mainly based on labour expenses needed to support the branches expansion.

Table 2: EDAC Income State 2018-2023E

Profit & Loss (€/mln)		2018	2019	2020E Old	2020E New	2021E Old	2021E New	2022E Old	2022E New	2023E Old	2023E New
Revenues		**26.2**	**39.3**	**49.5**	**41.0**	**64.4**	**56.2**	**84.4**	**73.0**	**100.1**	**89.8**
	yoy	*51.0%*	*49.9%*	*26.1%*	*4.5%*	*30.0%*	*36.9%*	*31.0%*	*30.0%*	*18.7%*	*23.0%*
Gross revenues from sites		22.9	36.4	43.4	38.2	57.2	52.6	75.6	68.2	89.4	83.8
	% on VoP	*87%*	*87%*	*85%*	*90%*	*87%*	*92%*	*88%*	*92%*	*88%*	*92%*
Fee from franchising		0.6	0.9	1.3	0.4	1.8	0.6	2.5	1.0	3.2	1.4
	% on VoP	*2%*	*2%*	*3%*	*1%*	*3%*	*1%*	*3%*	*1%*	*3%*	*2%*
Royalties		0.9	1.1	1.5	1.1	2.0	1.2	2.6	1.6	3.3	2.1
	% on VoP	*3%*	*3%*	*3%*	*3%*	*3%*	*2%*	*3%*	*2%*	*3%*	*2%*
Training and support for franchisee		0.2	0.2	0.3	0.4	0.4	0.4	0.6	0.5	0.7	0.7
	% on VoP	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*
Resale of goods to franchisee		0.4	0.7	1.0	0.5	1.4	0.6	1.8	0.7	2.3	0.7
	% on VoP	*1%*	*1%*	*2%*	*1%*	*2%*	*1%*	*2%*	*1%*	*2%*	*1%*
Contribution & other revenues		1.2	2.5	1.7	1.1	1.1	1.1	1.1	1.1	1.3	1.1
	% on VoP	*5%*	*5%*	*3%*	*3%*	*2%*	*2%*	*1%*	*2%*	*1%*	*1%*
Sanitization			-	2.0	0.5	1.6	0.8	1.2	1.0	1.2	1.2
	% on VoP		*0%*	4%	*1%*	*2%*	*1%*	*1%*	*1%*	*1%*	0.0
Value of production		**26.2**	**41.8**	**51.3**	**42.2**	**65.5**	**57.3**	**85.5**	**74.2**	**101.5**	**90.9**
	yoy	*51.0%*	*59.5%*	*22.6%*	*0.9%*	*27.9%*	*35.9%*	*30.4%*	*29.4%*	*18.7%*	*22.6%*
Raw materials		(3.7)	(5.8)	(7.1)	(5.1)	(9.4)	(8.6)	(12.4)	(11.1)	(14.7)	(13.9)
Change in inventories		0.7	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Services		(6.2)	(8.9)	(11.9)	(9.5)	(11.8)	(10.6)	(13.7)	(13.3)	(15.0)	(14.7)
Other costs		(0.5)	(1.2)	(1.2)	(0.5)	(1.2)	(1.2)	(1.2)	(1.2)	(1.7)	(1.2)
Subcontracting		(1.5)	(2.7)	(3.3)	(2.5)	(4.3)	(3.7)	(5.5)	(4.7)	(6.5)	(6.5)
Labour costs		(10.8)	(19.9)	(23.9)	(21.8)	(33.5)	(28.0)	(41.8)	(35.6)	(48.0)	(43.6)
			-51%	-48%	-53%						
EBITDA		**4.4**	**4.2**	**4.8**	**3.7**	**6.3**	**6.2**	**11.9**	**9.1**	**16.5**	**12.0**
	margin	*16.6%*	*10.1%*	*9.3%*	*8.9%*	*9.7%*	*10.9%*	*13.9%*	*12.3%*	*16.3%*	*13.2%*
D&A		(0.7)	(1.9)	(3.1)	(2.1)	(4.3)	(3.0)	(5.4)	(4.0)	(4.0)	(3.2)
Provision for risks		-	-	-	-	-	-	-	-	-	-
EBIT		**3.66**	**2.3**	**1.6**	**1.6**	**2.0**	**3.2**	**6.5**	**5.1**	**12.5**	**8.8**
	margin	*14.0%*	*5.6%*	*3.3%*	*4.0%*	*3.2%*	*5.7%*	*7.7%*	*7.0%*	*12.5%*	*9.8%*
Net financial expenses		(0.3)	(0.3)	(0.2)	(0.4)	(0.2)	(0.5)	(0.1)	(0.5)	(0.1)	(0.4)
Extraordinary items		-	-	-	-	-	-	-	-	-	-
EBT		**3.4**	**2.0**	**1.4**	**1.3**	**1.9**	**2.7**	**6.4**	**4.6**	**12.4**	**8.4**
Taxes		(1.1)	(0.9)	(0.5)	(0.4)	(0.6)	(0.8)	(2.1)	(1.4)	(4.0)	(2.5)
	tax rate	*32.9%*	*46.1%*	*32.0%*	*30.0%*	*32.0%*	*30.0%*	*32.0%*	*30.0%*	*32.0%*	*30.0%*
Net profit		**2.3**	**1.1**	**1.0**	**0.9**	**1.3**	**1.9**	**4.4**	**3.3**	**8.5**	**5.9**
	margin	*8.7%*	*2.6%*	*2.0%*	*2.2%*	*2.0%*	*3.4%*	*5.2%*	*4.5%*	*8.5%*	*6.6%*

Source: Banca Profilo elaborations and estimates on Company data

Net income rising to €5.9mln in 2023E from €1.1mln in 2019

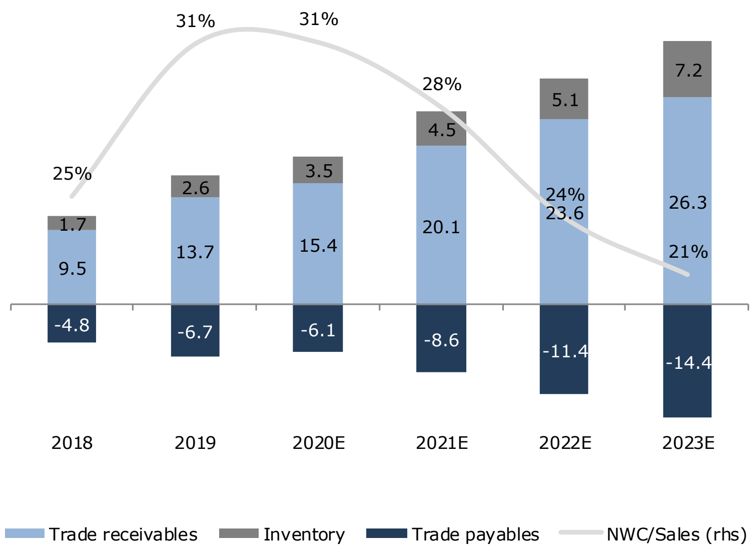
Lower Capex reduce D&A and we end up with improving net income (from €1.1mln in 2019) to €5.9mln in 2023E (vs our prior forecast at €8.5mln).

Balance Sheet projections: lower Capex due to cash flow preservation

With regards to Balance Sheet, in our 2020-2023 projections we:

- reduced Capex to €9.8mln from previous €14.4mln, mostly related to start-up costs for network expansion;
- reduced operating Net Working Capital to €19.1mln from previous €22.2mln in 2023E, yet with an average ratio to sales increasing to 26% from our previous 24%.

Figure 7: Net working capital composition and dynamics (€mln and %)



Source: Banca Profilo elaborations and estimates on Company data

NWC optimisation still on focus: from 32% on sales in 2020E to 22% in 2023E

The Group's management is still 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. Moreover, the impact on Ecobonus 110% policy will have effect only for 2020E-2021E.

Net debt improving from €6.1mln to €0.7 net cash at the end of 2023E

Regarding the Net debt, we see a gradual decrease from €6.1mln in 2020E to a net cash position of €0.7mln in 2023E, mainly thanks to NWC optimisation and lower Capex.

Table 5: EDAC Balance Sheet 2018-2023E

Balance Sheet (€/mln)	2018	2019	2020E Old	2020E New	2021E Old	2021E New	2022E Old	2022E New	2023E Old	2023E New
Operating Net Working Capital	**6.4**	**9.6**	**12.7**	**12.8**	**15.6**	**15.9**	**18.8**	**17.3**	**22.2**	**19.1**
Net Working Capital	**5.8**	**9.8**	**12.8**	**12.9**	**15.5**	**15.8**	**18.9**	**17.4**	**22.4**	**19.2**
Fixed assets	**2.5**	**5.1**	**6.8**	**5.1**	**6.3**	**4.5**	**4.5**	**3.7**	**4.2**	**3.8**
Net Invested Capital	**8.0**	**14.3**	**19.7**	**18.2**	**21.7**	**20.4**	**21.4**	**20.1**	**24.0**	**22.4**
Equity	**10.1**	**11.5**	**12.5**	**12.1**	**13.8**	**14.0**	**18.1**	**17.2**	**26.6**	**23.1**
Net debt (cash)	**(2.1)**	**2.7**	**7.2**	**6.1**	**7.9**	**6.4**	**3.3**	**2.9**	**(2.6)**	**(0.7)**

Source: Banca Profilo elaborations and estimates on Company data

Elite Basket Bond: €10mln for seven years at 3%

EDAC subscribed a contract for the issue of € 10 mln bond as part of the Intesa Sanpaolo Basket Bond Program in partnership with ELITE, a project aimed at supporting Italian SMEs. More in details, the bonds will be fully subscribed by Intesa Sanpaolo in one tranche with an issue price equal to 100% of the nominal value. The minimum amount of each bond is € 0.1 million. The duration of the loan is seven years, with a pre-amortization period of two years. Furthermore, the bond has an annual fixed interest rate of 3.3%. The bond has the aim to support EDAC development in new markets, especially abroad, even though M&A deals. The Company will also use these proceeds to support Company's net working capital needs mainly due to revenues increase.

€8.6 mln of cumulated Operating Cash Flows

In 2020E-2023E we project €26.4mln of cumulated operating Cash Flows (vs previous €32.4mln), partially used to finance Capex (€9.8mln vs previous €14.4mln) and Net Working Capital needs (€9.4mln vs previous €12.6mln). As a consequence, we now expect €8.6mln of cumulated FCFs in 2020E-2023E, above our previous €7.1mln, given lowered Capex and Working Capital needs.

Table 6: 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 Old	2023E New
EBIT	3.7	2.3	1.6	1.6	2.0	3.2	6.5	5.1	12.5	8.8
taxes	(1.1)	(0.9)	(0.5)	(0.4)	(0.6)	(0.8)	(2.1)	(1.3)	(4.0)	(2.2)
NOPAT	**2.5**	**1.4**	**1.2**	**1.2**	**1.4**	**2.4**	**4.5**	**3.8**	**8.6**	**6.6**
D&A	0.7	1.9	3.1	2.1	4.3	3.0	5.4	4.0	4.0	3.2
Operating cash flow	**3.2**	**3.3**	**4.3**	**3.3**	**5.7**	**5.4**	**9.8**	**7.9**	**12.5**	**9.8**
Operating Net Working Capital change	(1.2)	(3.3)	(3.0)	(3.1)	(2.9)	(3.2)	(3.2)	(1.4)	(3.4)	(1.8)
Other funds	0.3	0.5	0.2	0.1	0.6	0.4	0.5	0.5	0.4	0.5
Capex	(1.8)	(4.0)	(4.0)	(1.5)	(3.6)	(2.3)	(3.3)	(3.0)	(3.5)	(3.0)
								-		-
FCF	**0.5**	**(3.6)**	**(2.5)**	**(1.2)**	**(0.2)**	**0.3**	**3.8**	**3.9**	**6.0**	**5.5**

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 as 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: €2.1mln yearly FCF on average

To run a DCF model, we use our projections of unlevered FCFs for the 2020E-2023E explicit period: €8.6mln cumulated and €2.1mln on average (vs our previous estimates of €7.1mln and €1.8mln respectively). Compared to our previous estimates, FCFs have increased due to lower investments to preserve cash in this uncertain period and lower NWC needs due to lower revenues growth considered.

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 7: Unlevered FCFs

Cash flow (€/mln)	2019	2020E	2021E	2022E	2023E	TV
EBIT	2.3	1.6	3.2	5.1	8.8	
taxes	(0.9)	(0.4)	(0.8)	(1.3)	(2.2)	
NOPAT	**1.4**	**1.2**	**2.4**	**3.8**	**6.6**	
D&A	1.9	2.1	3.0	4.0	3.2	
Operating cash flow	**3.3**	**3.3**	**5.4**	**7.9**	**9.8**	
Operating Net Working Capital change	(3.3)	(3.1)	(3.2)	(1.4)	(1.8)	
Other funds	0.5	0.1	0.4	0.5	0.5	
Capex	(4.0)	(1.5)	(2.3)	(3.0)	(3.0)	
FCF	**(3.6)**	**(1.2)**	**0.3**	**3.9**	**5.5**	**3.2**

Source: Banca Profilo estimates and elaborations

DCF assumptions: WACC at 7.0%

We apply a WACC of 7.0% (from 7.1% in our previous Update) derived from:

- risk free rate equal to 3.0%, as implicitly expected by consensus on the 30Y Italian BTP yield curve (moving average of the last 100 days);
- market risk premium of 5.5%;
- beta of 1.1, as the average of a selected sample of listed companies in the Facility Management industry;
- a debt to equity target structure with a 66% weight of Equity;

In order to get to the Equity Valuation, we would consider the adjusted net debt as of the end FY20, equal to €6.1mln, in order to include the Elite Basket Bond of €10mln and the planned renegotiation of debt in the 2H20.
We finally include the updated number of shares after warrants exercise in the 2H20 from 7.9mln to 8.0mln.

Table 8: WACC calculation

WACC Calculation	
perpetual growth rate	2.0%
WACC	**7.0%**
risk free rate (30Y) (Bloomberg projections)	3.0%
equity risk premium	5.5%
beta	1.1
KE	9.2%
cost of debt	5.4%
tax rate	30%
KD	3.8%

Source: Banca Profilo estimates and elaborations

DCF valuation: Equity value at €51mln in line with our previous estimate

The DCF method leads us to an Enterprise Value of €57.1mln (vs our previous €53.7mln) and to an Equity Value of €51mln (in line with our previous Company update) or €6.4/share (unchanged from our last Company Update), including €6.1mln net debt in 2020E.

Table 9: DCF valuation

DCF Valuation	2019	2020E	2021E	2022E	2023E	TV
Free Cash Flows (€/mln)	(3.6)	(1.2)	0.3	3.9	5.5	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)		(1.1)	0.3	3.2	4.2	
Sum of NPVs (€/mln)		(1.1)	(0.8)	2.4	6.6	
Terminal Value (€/mln)						66.3
NPV Terminal Value (€/mln)						50.6
Enterprise Value (€/mln)						**57.1**
Net debt end of 2020E (€/mln)						6.1
Equity Value (€/mln)						**51.0**
number of shares (mln)						8.0
Per share value (€)						**6.4**

Source: Banca Profilo estimates and elaborations

€6.4 Target Price and BUY Recommendation confirmed

Despite we have lowered mid-term growth due to Covid-19 impact and highly uncertain scenario, we end up with an higher Enterprise Value than our prior Company Update, because of higher FCFs that will be partially absorbed by lower Capex to preserve cash flow in the period of economic uncertainty and lower NWC needs as consequence of lower revenues growth considered. Nonetheless higher Enterprise Values we end up with an Equity Value in line with our previous valuation (€51.1mln vs prior seen at €51.0mln) as consequence of higher net debt (now at €6.1mln vs previous €2.7mln) mainly due to the basket bond subscribed in the 2H20.

Thus, we confirm our previous Target Price at €6.4 per share.

Given a potential upside of 29% on EDAC's closing price (€4.9 as of October 29th 2020), we confirm our BUY recommendation.

Table 10: Liquidity indicators

Liquidity indicators			
Start Date	31/05/2020	03/01/2020	03/08/2019
End Date	28/10/2020	01/06/2020	31/12/2019
Days with no trades on total trading days	1%	2%	2%
Average daily volume on free float	**0.08%**	**0.22%**	**0.11%**

Source: Banca Profilo estimates and elaborations on Factset data

Liquidity discount

To assess the stock's liquidity, we carried out an analysis on two indicators for three different periods, all consisting of approximately 100 trading days. It emerged that Edac's average daily trading volumes are very little if compared to its free float.
We therefore advise investors to monitor the liquidity of the stock and, if considered appropriate, to eventually apply a liquidity discount.

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.

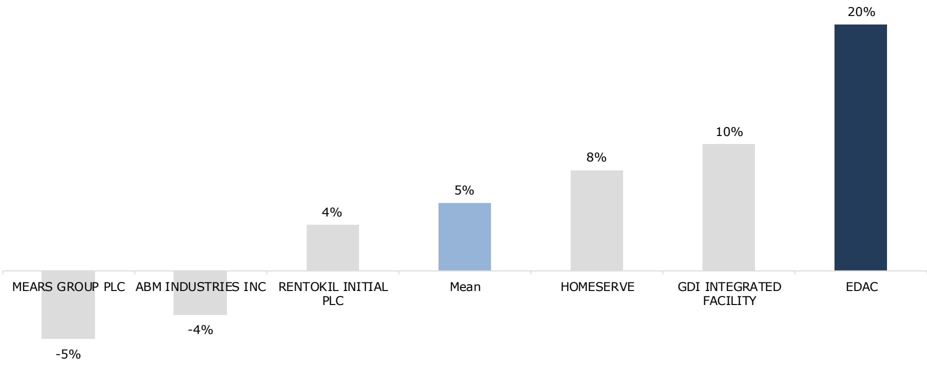
HomeServe (UK): home repairs and assistance services

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 2019, GDI Integrated Facility Service Inc. generated total revenues of approximately CAD $1.3bn.

Figure 8: Main listed players in the Industry – revenue CAGR 2019-2021E



Source: Banca Profilo elaborations on Company data, Facset

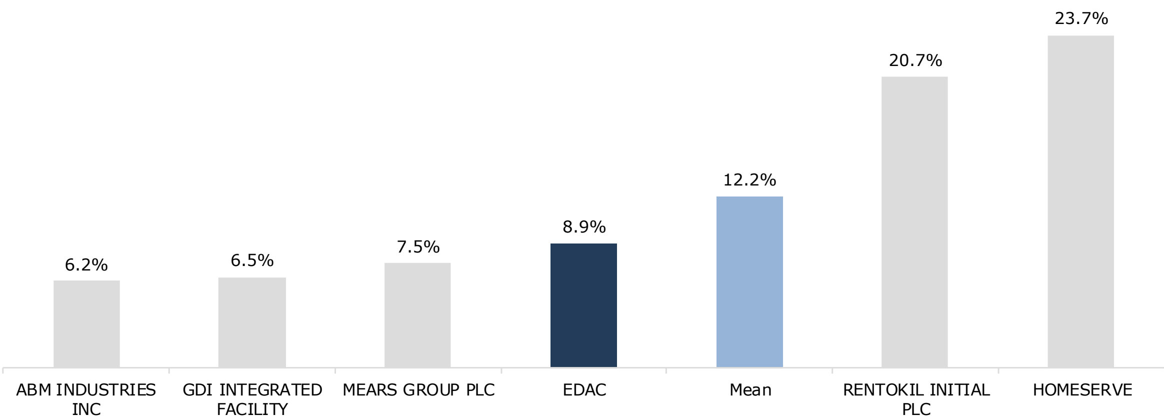
EDAC is expected to grow faster than peers

In the 2019-2021E 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 9: 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 11: Market multiples

Company name	Country	Market Cap	Net debt	EV
ABM INDUSTRIES INC	US	2,394.07	982.0	3,376.1
MEARS GROUP PLC	US	119.34	25.8	145.1
RENTOKIL INITIAL PLC	US	10,247.04	926.0	11,173.0
HOMESERVE	US	3,904.26	243.4	4,147.7
GDI INTEGRATED FACILITY	CAN	834.25	108.5	942.7
EDAC	ITA	32.76	6.1	38.9

Source: Banca Profilo elaborations on Facset (as of 29th October 2020)

V/EBITDA 2020E-2021E 10.6x-10.1x

Our sample of similar players active in the larger Facility Management industry, shows a mean EV/EBITDA 2020E-2021E at 10.3X

Table 12: Market multiples

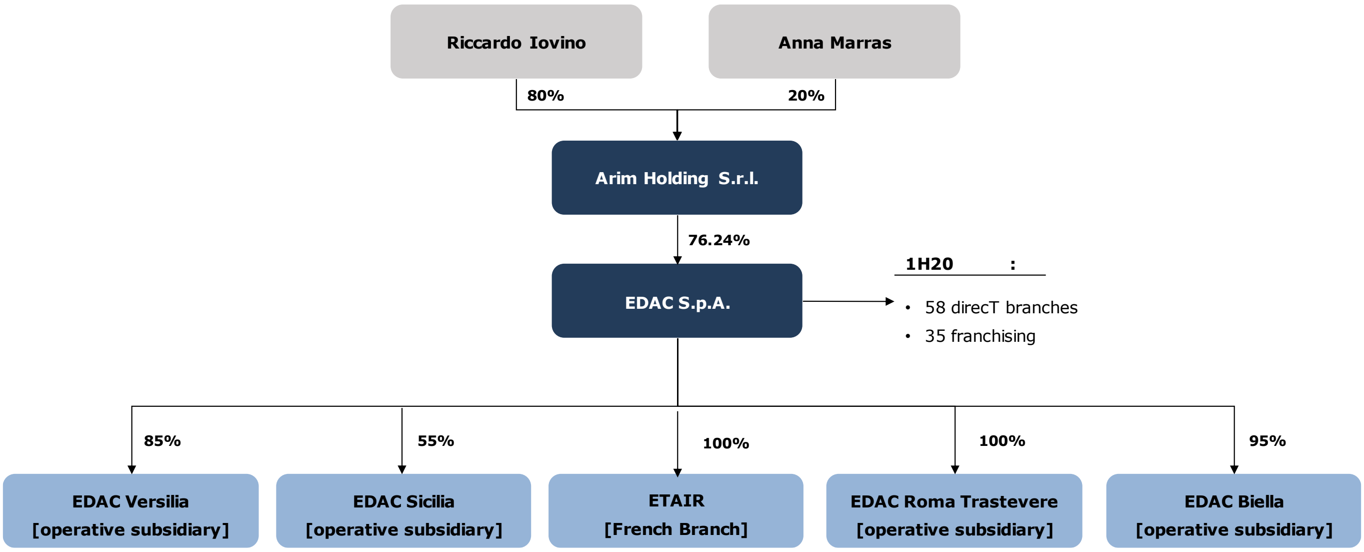
Company	EV / Sales		EV / EBITDA	
	2021E	2022E	2021E	2022E
ABM INDUSTRIES INC	0.5x	na	9.2x	na
MEARS GROUP PLC	0.6x	0.5x	4.9x	4.4x
RENTOKIL INITIAL PLC	3.9x	3.7x	17.7x	16.3x
HOMESERVE	3.5x	3.3x	14.3x	13.1x
GDI INTEGRATED FACILITY	0.5x	0.4x	7.1x	6.4x
Mean	**1.8x**	**2.0x**	**10.6x**	**10.1x**
EDAC	**0.9x**	**0.6x**	**9.9x**	**5.9x**

Source: Banca Profilo estimates and elaborations on Facset (as of 29th October 2020)

Shareholders' structure

The Group is controlled with 76.24% by Arim Holding which is held by Riccardo Iovino (80%) and Anna Marras (20%). In August the Board member Riccardo Iovino has resigned and ARIM Holding joined the Board, of which Iovino is the Director and main stakeholder. To guarantee continuity in the management of the group, Iovino will be Board member representing ARIM Holding. EDAC free float is 21% and the remaining is held by the employees.
Moreover, EDAC is directly controlling 4 Italian branches and 1 in France, ETAIR, which was acquired in March 2019.

Figure 11: EDAC Group perimeter



Source: Banca Profilo elaborations on Company data

Warrant EDAC 2018-2021

At the IPO 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).

Second warrant exercise period – end of September 2020

During the Second Exercise Period (closed at the end of September 2020), 108,261 Warrants were exercised (198,937 in the First Exercise Period) and consequently converted in n.108,261 EDAC's share at the price of €4.02 (priorly a t €3.66), for a total value of €435,209.22. The new share capital of EDAC is equal to €803,249.8 divided into 8,032,498 ordinary shares.
After the exercise of warrants the free float increased from 23% to 24%.
The third and last exercise period will start from 1st to 30th of September with a strike price of €4.43.
However, considering the worse scenario in case fully dilution the free float will increase to 28.9%.

Figure 13: EDAC shareholding structure before and after warrant subscription

Sciuker Frames S.p.A. shareholding structure	N° of ordinary shares	N° of warrant	N° of warrant subscribed	N° of ordinary shares post 2020 warrant subscription	Old shareholding structure	Shareholding structure post 2020 warrant subscription
Riccardo Iovino	4,833,785		-	4,833,785	61.0%	60.2%
Anna Marras	1,188,636		-	1,188,636	15.0%	14.8%
Employees	79,242		-	79,242	1.0%	1.0%
Free float	1,822,575	651,750	108,261	1,930,836	23.0%	24.0%
Total	**7,924,237**	**651,750**	**108,261**	**8,032,498**	**100.0%**	**100.0%**

Source: Banca Profilo elaborations on Company data

EdiliziAcrobatica "ID Card"

Recommendation	Target Price	Upside
BUY	6.4 €	29%

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 the 2020, the introduction of containment measures to mitigate the impact of Covid-19 crises, stopped the production also in the Building and Construction Industry. However, there are some drivers that can boost the recovery of renovation related to residential buildings in the following years: i) the decline in new construction sector in the last 10 years seen a drop of 68%, due to the higher attention in building maintenance especially for the historical structure; ii) the extension of "bonus facciate 2020" to 2021, that allow customers to a 90% of tax reduction. 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. Despite Covid-19, EDAC's business showed a good revenue resilience in 1H20 (-3.7% yoy) thanks to revenue growth in 1Q20 (+15% yoy), which mitigated Covid-19 impact in the 2Q. EDAC promptly answered to lockdown introducing a new business line, sanitization, and setting up new openings (8 branches). Moreover, revenues from French branches increased by 18% yoy. EDAC's EBITDA declined to €1.4mln in 1H20 from €2.4mln in 1H19 due to significant fixed costs, mainly labour costs (49% of sales), given the Company's constant focus on human resources. At the end of June 2020, net financial debt stood at €4.2mln, up from €2.7mln at the end of 2019, for increasing in new working capital needs.

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.

EdiliziAcrobatica "ID Card"

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Recommendation	Target Price	Upside
BUY	6.4 €	29%

Main Financials

(€ mln)	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Revenue	**12.5**	**16.3**	**25.0**	**39.3**	**41.0**	**56.2**	**73.0**	**89.8**
yoy change		*30.5%*	*53.2%*	*57.2%*	*4.5%*	*36.9%*	*30.0%*	*23.0%*
Vop	**13.3**	**17.4**	**26.2**	**41.8**	**42.2**	**57.3**	**74.2**	**90.9**
yoy change		*30.1%*	*51.0%*	*59.5%*	*0.9%*	*35.9%*	*29.4%*	*22.6%*
EBITDA	**2.9**	**2.5**	**4.4**	**4.2**	**3.7**	**6.2**	**9.1**	**12.0**
yoy change		*-16.0%*	*76.2%*	*-3.6%*	*-10.9%*	*66.5%*	*46.5%*	*31.2%*
margin (%)	*22.1%*	*14.2%*	*16.6%*	*10.0%*	*8.9%*	*10.9%*	*12.3%*	*13.2%*
EBIT	**2.7**	**2.0**	**3.7**	**2.3**	**1.6**	**3.2**	**5.1**	**8.8**
margin (%)	*21.3%*	*12.0%*	*14.6%*	*5.9%*	*3.9%*	*5.6%*	*6.9%*	*9.7%*
EBT	**2.6**	**1.9**	**3.4**	**2.0**	**1.3**	**2.7**	**4.6**	**8.4**
margin (%)	*20.9%*	*11.4%*	*13.5%*	*5.2%*	*3.0%*	*4.7%*	*6.3%*	*9.2%*
Net income	**1.8**	**1.1**	**2.3**	**1.1**	**1.3**	**2.7**	**4.6**	**8.4**
margin (%)	*14.4%*	*6.7%*	*9.1%*	*2.8%*	*3.0%*	*4.7%*	*6.3%*	*9.2%*
Net Debt (cash)	**0.9**	**2.3**	**-2.1**	**2.7**	**6.1**	**6.4**	**2.9**	**-0.7**
Shareholders Equity	**2.4**	**2.1**	**10.1**	**11.5**	**12.1**	**14.0**	**17.2**	**23.1**
Operating Net Working Capital	4.1	5.2	6.4	9.6	12.8	15.9	17.3	19.1
Fixed assets	0.7	1.1	2.5	5.1	5.1	4.5	3.7	3.8
Net invested capital	3.4	4.4	8.0	14.3	18.2	20.4	20.1	22.4
Operating Free Cash Flow	**1.8**	**1.7**	**3.2**	**3.3**	**3.3**	**5.4**	**7.9**	**9.8**
Capex and acquisitions	(1.0)	(0.9)	(1.8)	(4.0)	(1.5)	(2.3)	(3.0)	(3.0)
Free Cash Flow	**(2.8)**	**(0.0)**	**0.5**	**(3.6)**	**(1.2)**	**0.3**	**3.9**	**5.5**

Company Description

Company Sector	Building & construction, renovation and maintenance
Price (€)	4.5
Number of shares (mln)	8.0
Market Cap (€mln)	32.8
Reference Index	FTSE AIM Italia
Main Shareholders	Riccardo Iovino
Main Shareholder stake	61%
Free Float	24%
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	-36.9	-48.3	-61.2	-73.4
of which variable	*35.7%*	*38.2%*	*46.7%*	*41.0%*	*39.5%*	*39.7%*	*39.9%*	*39.0%*
of which fixed	*64.3%*	*61.8%*	*53.3%*	*59.0%*	*60.5%*	*60.3%*	*60.1%*	*61.0%*
% on sales	*84.9%*	*93.0%*	*84.5%*	*90.9%*	*89.8%*	*86.0%*	*83.8%*	*81.8%*
Business scalability								
Revenue from branches	11.4	14.8	22.9	36.4	38.2	52.6	68.2	83.8
N° of new branches	*7*	*12*	*12*	*11*	*13*	*12*	*13*	*13*
Revenue from franchising	1.1	1.6	2.1	2.9	1.5	1.9	2.7	3.4
N° of new franchising	*10*	*7*	*9*	*2*	*4*	*3*	*5*	*5*

Facility management: data of peers

	2019	2020E	2021E
Revenue Growth (yoy)	*57.2%*	*4.5%*	*36.9%*
EBITDA margin	*10.0%*	*8.9%*	*10.9%*
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	1.6x	1.0x	0.3x	-0.1x
Net debt (cash) / Equity	0.4x	1.1x	-0.2x	0.2x	0.5x	0.5x	0.2x	0.0x
Net debt (cash) / Net Invested Capital	28%	53%	-26%	19%	34%	31%	14%	-3%

Facility management: multiples of peers

	2021E	2022E
EV / Sales	1.8x	2.0x
EV / EBITDA	10.6x	10.1x

Average data

Financial and Operative ratios

	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Days of receivables	123	119	114	104	110	105	95	86
Days of payables	115	118	147	136	125	135	140	150
Days of inventories	11	19	21	20	25	24	21	24
Tax rate	*31.4%*	*41.6%*	*32.9%*	*46.4%*	*30.0%*	*30.0%*	*30.0%*	*30.0%*
ROIC	*53.5%*	*24.6%*	*28.5%*	*7.6%*	*4.9%*	*9.2%*	*16.2%*	*26.3%*
ROE	*74.9%*	*51.1%*	*22.5%*	*9.5%*	*7.3%*	*13.5%*	*18.9%*	*25.5%*
Capex/Sales	*-7.6%*	*-5.2%*	*-7.4%*	*-10.2%*	*-3.7%*	*-4.1%*	*-4.1%*	*-3.3%*
D&A to Capex	71%	60%	38%	47%	140%	132%	134%	106%
NWC to sales	33%	32%	26%	25%	31%	28%	24%	21%

EDAC multiples

	2021E	2022E
EV / Sales	0.9x	0.6x
EV / EBITDA	9.9x	5.9x

Source: Facset Banca Profilo estimates and elaborations

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ADDITIONAL INFORMATION

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