KT&Partners

COMPANY UPDATE

FINLOGIC
Labelling & Barcode Solutions

Fair Value: €7.11
(Prev. €7.08)

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Relative Performance Chart YTD

Market Data:	
Current Price (€)	5.55
Fair Value (€)	7.11
Market Cap (€mn)	38.63
52 Wk High (€)	6.00
52 Wk Low (€)	4.94
Free Float (%)	23.06
Avg. Daily Trading 90d	2,309.52
Price Change 1w (%)	45.67
Price Change 1m (%)	67.67
Price Change YTD (%)	68.69
EV/EBITDA 2019E	7.08
EV/EBITDA 2020E	5.75
P/E 2019E	14.79
P/E 2020E	11.87

Capacity expansion will drive future growth

Overview. Finlogic is one of the Italian leaders in label production and in thermal transfer ribbon distribution, the sole distributor of SATO printers in Italy, and an important benchmark in the world of barcodes and RFID technologies, offering high-performance thermal transfer and digital color printers, terminals and barcode readers for Automatic and Industrial Identification.

Strong M&A execution. In 2018, Finlogic closed four M&As, strengthening the technology business and incorporating almost €5.3mn of incremental revenues and also expanding its expertise in the software sector for warehouse applications. At the end of the year, the company signed an agreement for the acquisition of a 51% stake in Smart Lab Industries 3D, entering in the 3D printer business, a market expected to grow at 24% CAGR in the 2015-2020 period. M&A is a pillar in Finlogic's growth strategy, and the management has repeatedly confirmed the intention to act as a consolidator in the Italian labeling and Automatic Identification sector.

FY2018 results. On March 28, 2019, the BoD released its 2018 results. The 2018 Total Revenues stand at €29.5mn (+32.2% YoY), 9.2% lower than our estimate, which considered the full year contribution of the acquired companies. In fact, according to our estimates, FINLOGIC 2018 proforma revenues would have been €31.1mn or just 4.3% lower than our estimates. EBITDA reached €4.2mn, +29.8% YoY, while EBITDA margin decreased at 14.2% from 14.5% in 2017. The EBITDA growth and margin reduction were mainly influenced by the acquisition and the increased contribution of the technological division. Excluding minorities, the Net Income was €2.0mn, +20.5% with respect to the previous year. The NFP reached €2.74mn (net cash) decreasing by €1.6mn YoY, after €2,3mn investments in Capex and M&As, €1.0mn dividend payments and €0.8mn capital increase related to warrant exercise.

Revised estimates. On the back of the FY18 results and the contraction in Italian investment confidence, we lowered by 2.7% our 2019 Total Revenues forecast factoring in a lower growth of the technological division. We increased our 2020 top-line forecast by 2.8% thanks to a new investment plan, recently announced by the company, which implies a growing contribution of the labeling division. Given our expected top-line reduction in 2019, we lowered by 3.1% our EBITDA forecast at €5.12mn. On the other hand, we increased by 4.6% our 2020 EBITDA estimates on the back of increased growth of the higher margins labelling division. In particular, we increased by 30bps our 2020 EBITDA margin reflecting the new product mix.

Fair Value fine-tuned at €7.11 from €7.08. Finlogic is currently trading at 7.0x-5.7x 2019-2020 EV/EBITDA and 14.8x-11.9x 2019-2020 P/E. At current valuation the company is trading, with respect to its peers, at a discount of 26% on EV/EBITDA and 18% on a P/E.

€ Million	Total Revenues	EBITDA	EBITDA Margin	EBIT	Finlogic Net Profit	Net Margin	EPS
2016A	18.76	2.94	15.7%	2.35	1.58	8.4%	0.23
2017A	22.35	3.24	14.5%	2.47	1.67	7.5%	0.25
2018A	29.55	4.21	14.2%	3.05	2.01	6.8%	0.29
2019E	34.26	5.12	14.9%	3.89	2.61	7.6%	0.38
2020E	39.26	6.30	16.1%	4.84	3.26	8.3%	0.47
2021E	42.29	7.01	16.6%	5.83	3.94	9.3%	0.57

Source: Company data, KT&Partners' estimates

Table 1: Finlogic S.p.A. - Key Figures

Current price (€)	Fair Value (€)							Free Float (%)	
5.55	7.11							23.06	

Per Share Data	2014A	2015A	2016A	2017A	2018A	2019E	2020E	2021E	2022E
Total shares outstanding (mn)	n.m.	n.m.	n.m.	6.75	6.96	6.96	6.96	6.96	6.96
EPS	n.m.	n.m.	n.m.	0.25	0.29	0.38	0.47	0.57	0.62
Dividend per share (ord)	n.a.	n.a.	n.a.	0.15	0.14	0.23	0.28	0.34	0.37
Dividend pay out ratio (%)	n.a.	n.a.	n.a.	60%	50%	60%	60%	60%	60%
Profit and Loss (EUR thousand)									
Revenues	13,540	16,083	18,763	22,351	29,546	34,263	39,258	42,287	45,609
EBITDA	2,337	2,588	2,939	3,241	4,208	5,121	6,301	7,005	7,629
EBIT	1,753	2,002	2,351	2,465	3,049	3,889	4,838	5,828	6,351
EBT	1,744	1,988	2,327	2,421	3,006	3,819	4,759	5,766	6,308
Taxes	(577)	(649)	(735)	(700)	(916)	(1,107)	(1,379)	(1,671)	(1,828)
Tax rate	33%	33%	32%	29%	30%	29%	29%	29%	29%
Net Income	0	2	12	51	78	100	125	152	166
Net Income attributable to the Group	1,167	1,338	1,580	1,670	2,012	2,612	3,255	3,944	4,315
Balance Sheet (EUR thousand)									
Total fixed assets	1,689	2,102	2,043	2,265	4,328	4,596	4,632	4,955	5,177
Net Working Capital (NWC)	2,281	3,566	4,638	6,133	8,154	8,777	9,557	9,662	10,145
Provisions	(534)	(626)	(838)	(890)	(1,303)	(1,404)	(1,518)	(1,641)	(1,774)
Total Net capital employed	3,437	5,042	5,844	7,508	11,179	11,968	12,671	12,976	13,548
Net financial position (NFP)	(1,221)	(853)	(536)	(4,316)	(2,741)	(3,737)	(4,988)	(7,067)	(8,976)
Group Shareholder's Equity	4,645	5,880	6,334	11,727	13,560	15,183	16,870	18,861	20,809
Minorities	13	15	47	98	359	523	789	1,182	1,714
Total Shareholder's Equity	4,658	5,895	6,380	11,824	13,920	15,705	17,659	20,042	22,523
Cash Flow (EUR thousand)									
Net operating cash flow	n.a.	1,970	2,204	2,594	3,292	4,015	4,922	5,335	5,801
Change in NWC	n.a.	(1,285)	(1,072)	(1,495)	(2,021)	(623)	(780)	(105)	(483)
Capital expenditure	n.a.	(560)	(161)	(380)	(689)	(1,250)	(1,250)	(1,250)	(1,250)
Investments in intangible assets	n.a.	(396)	(346)	(485)	(2,399)	(250)	(250)	(250)	(250)
Other cash items/Uses of funds	n.a.	49	189	42	278	101	114	123	133
Free cash flow	n.a.	(222)	814	276	(1,538)	1,993	2,757	3,852	3,951
Enterprise Value (EUR thousand)									
Market Cap	n.a.	n.a.	n.a.	32,754	36,563	38,626	38,626	38,626	38,626
Minorities	13	15	47	98	359	523	789	1,182	1,714
Net financial position	(1,221)	(853)	(536)	(4,316)	(2,741)	(3,737)	(4,988)	(7,067)	(8,976)
Enterprise value	n.a.	n.a.	n.a.	28,535	34,181	35,412	34,427	32,741	31,364
Ratios (%)									
EBITDA margin	17.3%	16.1%	15.7%	14.5%	14.2%	14.9%	16.1%	16.6%	16.7%
EBIT margin	12.9%	12.4%	12.5%	11.0%	10.3%	11.4%	12.3%	13.8%	13.9%
Gearing - Debt/equity	-26.3%	-14.5%	-8.5%	-36.8%	-20.2%	-24.6%	-29.6%	-37.5%	-43.1%
Interest cover on EBIT	0.5%	0.7%	1.0%	1.8%	1.4%	1.8%	1.6%	1.1%	0.7%
NFP/EBITDA	-52.2%	-32.9%	-18.2%	-133.2%	-65.1%	-73.0%	-79.2%	-100.9%	-117.7%
ROCE	51.0%	39.7%	40.2%	32.8%	27.3%	32.5%	38.2%	44.9%	46.9%
ROE	25.1%	22.8%	25.0%	14.2%	14.8%	17.2%	19.3%	20.9%	20.7%
EV/Sales	n.m.	n.m.	n.m.	1.28	1.16	1.00	0.87	0.81	0.75
EV/EBITDA	n.m.	n.m.	n.m.	8.80	8.12	6.67	5.42	4.88	4.48
P/E	n.m.	n.m.	n.m.	21.89	18.17	14.79	11.87	9.79	8.95
Free cash flow yield	n.m.	n.m.	n.m.	0.8%	-4.2%	5.2%	7.1%	10.0%	10.2%
Growth Rates (%)									
Sales	n.a.	18.8%	16.7%	19.1%	32.2%	16.0%	14.6%	7.7%	7.9%
EBITDA	n.a.	10.7%	13.5%	10.3%	29.8%	9.2%	21.7%	23.0%	11.2%
EBIT	n.a.	14.2%	17.4%	4.9%	23.7%	27.6%	24.4%	20.5%	9.0%
Net Income	n.a.	14.7%	18.1%	5.7%	20.5%	29.9%	24.6%	21.1%	9.4%

2018 Results Summary

Finlogic's Revenues hit €29.5mn in 2018, growing by 32.2% YoY, 9.2% lower than our estimate, which considered the full-year contribution of the four acquired companies. In fact, according to our estimates, Finlogic's 2018 proforma revenues would have been €31.1mn, or just 4.3% lower than our estimates.

The 2018 results confirmed Finlogic's track record and strengths in the labeling segment, which grew by 18% YoY, while the technological segment increased by 58% YoY, substantially influenced by the 2018 M&A activities. The technological segment now accounts for 41.4% of Finlogic's sales, increasing its incidence by more than 6%. In 2018, Finlogic strengthened its offering in software for warehouse management, completing its offering in the Automatic Identification sector from labeling to software, so creating significant cross-selling opportunities for the coming years.

Finlogic's FY18 **EBITDA** increased by 29.8% YoY, reaching €4.2mn, 12.3% lower than our estimate, which considered the full year contribution of the acquired companies. The EBITDA margin was 14.2%, with a decrease of 300bp in terms of margin (14.5% to 14.2%), mainly due to the higher incidence of the technological segment.

The bottom line reached €2.1mn, recording a growth of 21.4% YoY, which is a lower growth than EBITDA due to higher D&A related to the new acquisitions. Furthermore, FY18 Net Income is 15.3% lower than our previous estimate, mainly due to the difference in EBITDA. Excluding minorities, the Net Income was €2.0mn, +20.5% with respect to the previous year (16% below our projection).

Finally, the NFP reached €2.74mn (net cash), decreasing by €1.6mn YoY, after €2.3mn investments in Capex and M&As, €1.0mn dividend payments and €0.8mn capital increase related to warrant exercise.

Table 2: Finlogic 2018 Results

€ thousand	FY16A	FY17A	FY18A	YoY growth	FY18E	A vs E
Labels	12,728	13,640	16,100	18.0%	16,130	-0.2%
Technological products	5,001	7,447	11,777	58.1%	14,509	-18.8%
Technical Support	251	308	554	79.9%	401	38.2%
Sales	17,980	21,395	28,431	32.9%	31,041	-8.4%
Growth %		19.0%	32.9%		45.1%	
Other revenues	738	830	1,043	25.7%	1,350	-22.7%
Changes in stocks of semi-finished and finished goods	45	127	(23)	-118.1%	143	-116.1%
internally generated Fixed assets			95			
Total Revenues	18,763	22,351	29,546	32.2%	32,533	-9.2%
		19.1%	32.2%			
Cost of Goods Sold	(10,381)	(12,722)	(16,957)	33.3%	(18,570)	-8.7%
Gross Profit	8,382	9,630	12,589	30.7%	13,963	-9.8%
Gross Margin	44.7%	43.1%	42.6%		42.9%	
Labour Cost	(2,934)	(3,400)	(4,334)	27.5%	(4,998)	-13.3%
Services	(2,453)	(2,938)	(3,983)	35.6%	(4,078)	-2.3%
Other Operating Costs	(57)	(50)	(64)	26.8%	(88)	-27.7%
EBITDA	2,939	3,241	4,208	29.8%	4,799	-12.3%
EBITDA margin	15.7%	14.5%	14.2%		14.8%	-3.4%
D&A&Write-Down	(588)	(776)	(1,159)	49.4%	(1,036)	11.9%
EBIT	2,351	2,465	3,049	23.7%	3,763	-19.0%
EBIT margin	12.5%	11.0%	10.3%		12.0%	
Financial Income and Expenses	(24)	(45)	(43)	-3.9%	(63)	-31.7%
Extraordinary items					(100)	-100.0%
EBT	2,327	2,421	3,006	24.1%	3,600	-16.5%
Taxes	(735)	(700)	(916)	30.8%	(1,132)	-19.1%
Net Income	1,592	1,721	2,090	21.4%	2,469	-15.3%
Net margin	8.5%	7.7%	7.1%		7.6%	
Minorities	12	51	78	52.9%	74	5.3%
Net Income attributable to the Group	1,580	1,670	2,012	20.5%	2,395	-16.0%
Group Net margin	8.4%	7.5%	6.8%		7.4%	
NFP (Cash)	(536)	(4,316)	(2,741)		(1,985)	

Source: Company data and KT&Partners' elaborations

Estimates Revision

On the back of the FY18 results and the contraction in Italian investment confidence, we slightly lowered our 2019 Total Revenues forecast, factoring in a lower growth of the technological division, implying a 2.7% reduction in 2019. On the other hand, we increased by 2.8% our top-line forecast for 2020 on the back of higher growth of the labelling division, also thanks to the new investment plan that the company has recently announced. We therefore increased therefore our Capex estimate at an annual level of €1.5mn for the forecast period.

On February 28, 2019, Finlogic acquired **Smart Lab Industrie 3d Srl** for €80k, continuing its M&A path and expanding its offer to additive manufacturing, a market expected to grow at 24% CAGR in the 2015-2020 period.

Given our expected top-line reduction in 2019, we lowered by 3.1% our EBITDA forecast at €5.12mn, and we increased by 4.6% our 2020 EBITDA estimate on the back of increased growth of the higher margins labelling division. In particular, we increased by 30bps our 2020 EBITDA margin, reflecting the new product mix.

Looking at the bottom line, we now expect €2.61mn in 2019 and €3.3mn in 2020, with an increase of 4.9% and 13.9% with respect to our previous estimates, thanks to the tax incentive schemes related to investments in the South of Italy. For this reason, we reduced the tax rate from 30% to 29%.

The key points of our forecast are as follow:

- FY19E Revenues at €34.3mn, reaching €39.2mn in FY20E (15.3% CAGR FY18E-FY20);
- FY19E EBITDA at €5.1mn, reaching €6.3mn in FY20E (22.4% CAGR FY18E-FY20);
- FY19E Group Net Income at €2.6mn, reaching €3.3mn in FY20E (27.2% CAGR FY18E-FY20).

Table 3: Finlogic Estimates Revisions

€ thousand	2018A	2019E Old	2019E New	Change	2020 Old	2020 New	Change
Total Revenues	29,546	35,209	34,263	-2.7%	38,201	39,258	2.8%
YoY Change (%)		19.2%	16.0%		8.5%	14.6%	
EBITDA	4,208	5,286	5,121	-3.1%	6,024	6,301	4.6%
YoY Change (%)		25.6%	21.7%		14.0%	23.0%	
EBITDA Margin (%)	14.2%	15.0%	14.9%		15.8%	16.1%	
EBIT	3,049	3,893	3,889	-0.1%	4,432	4,838	9.2%
YoY Change (%)		27.7%	27.6%		13.8%	24.4%	
Group Net Income	2,012	2,491	2,612	4.9%	2,857	3,255	13.9%
YoY Change (%)		23.8%	29.9%		14.7%	24.6%	
Net Debt (Cash)	(2,741)	(2,546)	(3,737)	46.8%	(3,811)	(4,988)	30.9%
YoY Change (%)		-7.1%	36.3%		49.7%	33.5%	

Source: Company data, KT&Partners' elaborations

Valuation

Based on our estimates, we have carried out our valuation on multiples and DCF analysis basis and have taken the average price provided by these two models. This has led to a fair value of €7.11 per share.

Our fair value takes the average of the following methods:

- EV/EBITDA and P/E multiple, with a 10% liquidity discount, which returns a value of €6.44 per share.

- DCF analysis, based on WACC of 8.6% and 1.5% perpetual growth, returns a value of €7.79 per share.

Peer Comparison

We carried out an in-depth analysis of public companies that could potentially be considered as peers of Finlogic, considering its main business lines: label production and technological products distribution.

We built a 10-company sample, which includes:

1. **AstroNova Inc.**, listed on NASDAQ, with a market capitalization of $148mn, is a global leader in developing and applying data visualization technologies in products serving industrial, packaging, aerospace and defense markets. In particular, through one of its business lines, AstroNova provides labeling solutions ranging from tabletop label printers to industrial label presses. During FY2018, the company had $136.7mn revenues, 63% of which came from the Product Identification business segment;

2. **Avery Dennison Corp.**, listed on NYSE, with a market capitalization of $9.5bn, engages in the provision of labeling and packaging products and solutions for several industries, ranging from consumer-packaged goods to medical and healthcare, from automotive to apparel. During FY2017, the company recorded $7.2bn revenues, $4.8bn of which came from the Labeling and Graphic business unit (68%);

3. **Datalogic SpA**, listed on the Milan Stock Exchange, with a market capitalization of €1.2bn, is a global technology leader in the Automatic Data Capture and process automation markets, specialized in the designing, production and distribution of barcode readers, mobile computers, scanners, RFID systems etc. In particular, Datalogic offers its solutions to the retail, manufacturing, healthcare and transportation industries. During FY2018, Datalogic reported revenues of €631mn, 93% of which came from the main business unit (data capture and process automation);

4. **Esprinet SpA**, listed on the Milan Stock Exchange, with a market capitalization of €230mn, engages in the B2B distribution of a wide range of technology products, among which printers, consumables (i.e. toner, ink cartridges etc.) are included. The company reported €3.6bn revenues during FY2018;

5. **Fuji Seal International Inc.**, listed on the Tokyo Stock Exchange, with a market capitalization of ¥243bn, engages in the development and sale of packaging solutions, offering shrink sleeve labels, self-

adhesive labels, spouted pouches and packaging machinery. The company reported ¥123bn revenues during the first nine months of the fiscal year, with self-adhesive labels accounting for 15.4% and shrink labels accounting for 64.3%;

6. **Lintec Corp.**, listed on the Tokyo Stock Exchange, with a market capitalization of ¥190bn, develops and sells pressure-sensitive materials, specialty paper products and films. In particular, through its "printing and variable information-related products", it offers adhesive papers and films for seal and labels, barcode label supplies and digital label printing machines. Lintec Corp. reported ¥249bn revenues during FY2018, ca. 48.9% of which came from the "printing and variable industrial materials products";

7. **Sato Holdings Corp.**, listed on the Tokyo Stock Exchange, with a market capitalization of ¥92bn, is a global provider of Automation Identification and Data Capture solutions, which leverage on barcodes, QR codes, and RFID technologies. During the first three quarters of the fiscal year, the company reported ¥86.7bn revenues;

8. **ScanSource, Inc.**, listed on NASDAQ, with a market capitalization of $933mn, is a global leader in offering Automatic Identification and Data Capture technologies, providing barcode scanners, digital printers and selling technology products such as Epson, Honeywell, Toshiba and Zebra products. During FY2018, ScanSource Inc. reported $3.8bn net sales, with a 68% contribution coming from the barcode, networking and security business unit;

9. **Seiko Epson Corp.**, listed on the Tokyo Stock Exchange, with a market capitalization of ¥689bn, engages in the development, production and sale of technology products through three segments: printing solutions, visual communications and wearable products and industrial solutions. Specifically, the printing solution segment offers, among others, inkjet printers, scanners and label printers. During FY2018, Seiko Epson Corp. recorded ¥829bn revenues, of which ¥737bn came from the printing solutions segment (66%);

10. **Zebra Technologies Corp.**, listed on NASDAQ, with a market capitalization of $11.4bn, is a global leader in the Automatic Identification and Data Capture market, designing, manufacturing and selling a broad range of products, including: barcode scanners, RFID readers, printers for barcode labeling identification, and self-adhesive labels. During FY2018, the company generated $4.2bn revenues.

Secondly, we analyzed the peers by considering their marginalities and historical growth rates.

The peers have a level of marginality which is virtually in line with Finlogic's: the average EBITDA margin in 2018 recorded by the peers was 11.4%, whereas Finlogic's margin registered in the same period was 14.2%. At Net Income level, the peers' average net margin was equal to 5.2%, while Finlogic's was 6.8%.

However, when considering each peer, we note that Esprinet SpA has a marginality that is significantly lower when compared with the other companies in the sample; this difference is much broader at the EBITDA level and is systematically observed even during the previous years. Indeed, the average EBITDA margin of Esprinet SpA for the 2015-18 period was 1.35%,

whereas the peers' average EBITDA margin (excl. Esprinet SpA) was 13.5% over the same period. On this basis, we decided to exclude Esprinet SpA from the peers' panel, due to the significant difference in the marginality levels.

**Table 4: Marginalities and Growth Rates Analysis**

Company Name	FY2018 Sales (€mn)	FY2018 EBITDA Margin	FY2018 Net Margin
AstroNova, Inc.	116	n.a.	4.2%
Avery Dennison Corporation	6,068	13.8%	6.5%
Datalogic S.p.A.	631	17.2%	9.9%
Esprinet S.p.A.	3,571	0.8%	0.4%
Fuji Seal International, Inc.	1,309	14.3%	4.7%
Lintec Corporation	n.a.	n.a.	n.a.
Sato Holdings Corporation	n.a.	n.a.	n.a.
ScanSource, Inc.	3,226	3.6%	0.9%
Seiko Epson Corp.	n.a.	n.a.	n.a.
Zebra Technologies Corporation Class A	3,564	18.8%	10.0%
Average Peer Group		11.4%	5.2%
Finlogic SpA	30	14.2%	6.8%

Note: data refers to FY2018.

Source: Company data and FactSet data

Thereafter, we compared Finlogic's marginality and growth profiles with those of the final peers' panel. In particular, looking at the marginality, we note that, for the 2015-18 period, Finlogic's EBITDA margins and net margins were higher than the peers'. Over the 2015-18 period, on average, Finlogic reported a 15.1% EBITDA margin and a 7.8% net margin, whereas the peers' panel had a 12.0% EBITDA margin and a 4.3% net margin.

Chart 1: Marginality Comparison
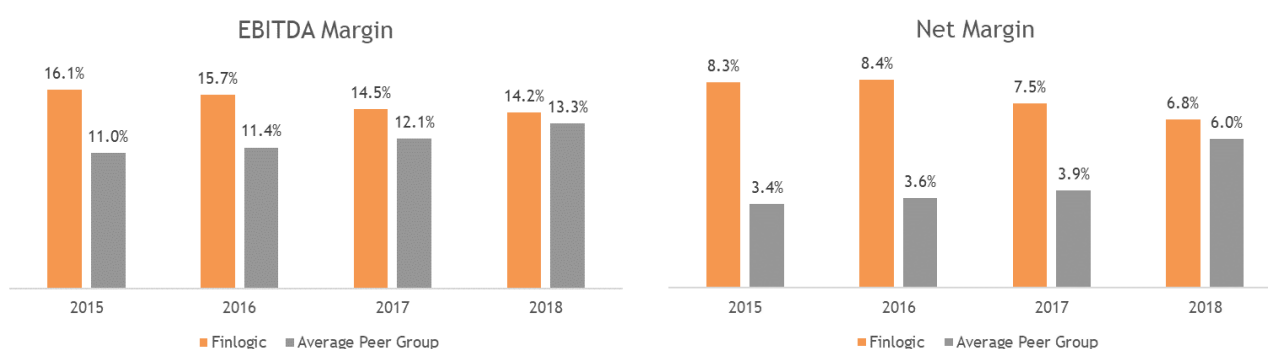
Source: Company data and FactSet data

Looking at the growth rates, we highlighted the same trend for both the past growth rates and the expected growth rates.

Indeed, over the 2015-18 period, Finlogic's financials grew at a higher pace than the comparables: sales, EBITDA and Net Income recorded a +22.8%, +17.6% and +14.6% CAGR over this period, respectively. Moreover, according to our projections, we expect Finlogic's financials, over the 2018-20 period, to grow at +14.9%, +22.4% and +27.2% CAGR, respectively.

Chart 2: Growth Rates Comparison
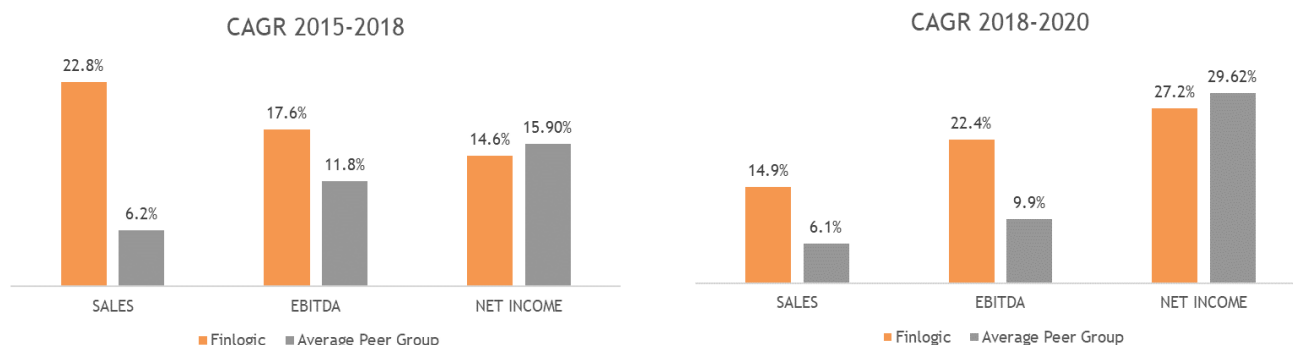
Source: Company data, FactSet data and KT&Partners' estimates

Market Multiples Valuation

Following the comparables analysis, we proceeded with the definition of market multiples of the peer group, focusing on 2019 and 2020 data.

Table 5: Peer Group Valuation Table – 2019 Multiples

Company Name	Exchange	Market Cap	EV/SALES 2019	EV/EBITDA 2019	EV/EBIT 2019	P/E 2019
AstroNova, Inc.	NASDAQ	149	1.22	10.15	19.01	25.68
Avery Dennison Corporation	NYSE	8,494	1.55	11.15	13.64	17.33
Datalogic S.p.A.	Milan	1,295	1.91	11.42	13.33	18.91
Fuji Seal International, Inc.	Tokyo	1,877	1.40	9.36	15.14	20.35
Lintec Corporation	Tokyo	1,516	0.60	5.13	7.99	13.39
Sato Holdings Corporation	Tokyo	739	0.77	6.41	10.72	17.13
ScanSource, Inc.	NASDAQ	873	0.30	7.88	8.90	10.63
Seiko Epson Corp.	Tokyo	5,640	0.59	5.04	9.33	12.14
Zebra Technologies Corporation Class A	NASDAQ	10,608	3.00	14.20	15.41	17.76
Average peer group		2,573	1.26	8.97	12.61	17.04
Median peer group		1,406	1.22	9.36	13.33	17.33
Finlogic SpA	Milan	39	1.06	7.08	9.32	14.79

Source: FactSet data and KT&Partners' estimates

Table 6: Peer Group Valuation Table – 2020 Multiples

Company Name	Exchange	Market Cap	EV/SALES 2020	EV/EBITDA 2020	EV/EBIT 2020	P/E 2020
AstroNova, Inc.	NASDAQ	149	n.a.	n.a.	n.a.	n.a.
Avery Dennison Corporation	NYSE	8,494	1.49	10.54	12.77	15.66
Datalogic S.p.A.	Milan	1,295	1.81	10.64	12.14	17.19
Fuji Seal International, Inc.	Tokyo	1,877	1.32	8.63	13.34	18.03
Lintec Corporation	Tokyo	1,516	0.58	4.81	7.24	12.08
Sato Holdings Corporation	Tokyo	739	0.73	5.72	9.07	14.45
ScanSource, Inc.	NASDAQ	873	0.29	7.49	8.34	9.79
Seiko Epson Corp.	Tokyo	5,640	0.58	4.67	8.41	11.02
Zebra Technologies Corporation Class A	NASDAQ	10,608	2.87	13.38	15.18	16.50
Average peer group		3,466	1.21	8.23	10.81	14.34
Median peer group		1,516	1.03	8.06	10.60	15.05
Finlogic SpA	Milan	39	0.92	5.75	7.49	11.87

Source: FactSet data and KT&Partners' estimates

We based our evaluation upon 2019 and 2020 median EV/EBITDA and P/E multiples and our estimates of Finlogic's EBITDA and Net Income for 2019 and 2020. Additionally, considering the existing differences in terms of liquidity between Finlogic and its comparables, we applied a 10% liquidity discount on the median multiples.

Table 7: Multiple Valuation

Multiple Valuation (€mn)	2019E	2020E
EV/EBITDA multiple comparison	9.36	8.06
Peer Group EV/EBITDA netted from 10% liquidity discount	8.43	7.25
Finlogic EBITDA	5.12	6.30
Enterprise value	43.16	45.69
Finlogic Net Debt (FY2018)	-2.74	-2.74
Equity Value	45.90	48.43
Number of shares (mn)	6.96	6.96
Value per share	6.60	6.96
Target Price - € ps	6.78	

Multiple Valuation (€mn)	2019E	2020E
P/E multiple comparison	17.33	15.05
Peer Group P/E netted from 10% liquidity discount	15.59	13.55
Finlogic earnings	2.61	3.26
Equity Value	40.74	44.10
Number of shares (mn)	6.96	6.96
Value per share	5.85	6.34
Fair Value (Avg) - € ps	6.09	
Target Price (Avg.) - € ps	6.44	

From our multiple analysis, we derive a value of €6.44p.s., 10.3% below our previous estimate (€7.18p.s.) due to the peers' multiple contraction of around 10.5% on EV/EBITDA and 26.8% on P/E, mainly related to the price performance of Datalogic, Sato Holdings and Litec over the last six months.

Table 8: Peers' Price Change (%)

Company Name	Price change % 3Month	Price change % 6Month	Price change % 1Year	Price change % YTD
AstroNova, Inc.	29.5%	8.6%	49.3%	27.0%
Avery Dennison Corporation	30.6%	5.7%	8.7%	26.6%
Datalogic S.p.A.	9.5%	-30.4%	-8.3%	8.7%
Fuji Seal International, Inc.	0.6%	-3.1%	-8.3%	0.6%
Lintec Corporation	5.5%	-16.4%	-18.9%	5.5%
Sato Holdings Corporation	1.1%	-26.8%	-21.8%	1.1%
ScanSource, Inc.	9.7%	-4.4%	6.9%	6.6%
Seiko Epson Corp.	13.1%	-9.5%	-5.8%	13.1%
Zebra Technologies Corporation Class A	47.5%	27.9%	54.9%	36.0%
Average	16.3%	-5.4%	6.3%	13.9%
Median	9.7%	-4.4%	-5.8%	8.7%

DCF Model

We also conduct our valuation using a four-year DCF model based on 9.8% cost of equity, 3.0% cost of debt and a target capital structure with 15% of debt, in line with the average D/E ratios observed for listed companies operating in similar sectors[1]. **We, therefore, obtained 8.6% WACC[2].**

By discounting 2019E-22E annual cash flows and considering a terminal growth rate of 1.5%, **we derive a fair value of €7.79p.s.**

Table 9: Cash Flow Estimates

€ million		2019E	2020E	2021E	2022E
EBIT		3.89	4.84	5.83	6.35
Taxes		-1.11	-1.38	-1.67	-1.83
D&A		1.23	1.46	1.18	1.28
Change in Net Working Capital		-0.62	-0.78	-0.11	-0.48
Change in Funds		0.10	0.11	0.12	0.13
Net Operating Cash Flow		**3.49**	**4.26**	**5.35**	**5.45**
Capex		-1.50	-1.50	-1.50	-1.50
FCFO		**1.99**	**2.76**	**3.85**	**3.95**
g	*1.5%*				
Wacc	*8.6%*				
FCFO (discounted)		1.88	2.39	3.07	2.90
Discounted Cumulated FCFO	10.24				
TV					56.18
TV (discounted)	41.25				
Enterprise Value	**51.49**				
NFP FY2018	-2.74				
Equity Value	**54.23**				
Current number of shares	**6.96**				
Value per share (€)	**7.79**				

Source: KT&P estimates

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[1] *Source: Damodaran's website.*

[2] *Further inputs include: (i) 1.01 beta; (ii) 2.5% risk-free rate; (iii) 5.1% market risk premium (source: Damodaran's website); and (iv) 2.0% premium for size.*

DISCLAIMER