

RESEARCH UPDATE



ADD

Fair Value: €7.69 (€7.64)

Price: €5.70

Upside: 35.0%

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Market Data:

Main Shareholders

| | |
|------------------|--------|
| BF Capital Srl | 61.63% |
| Hydra SpA | 10.40% |
| Italcode Srl | 2.72% |
| Mkt Cap (€ mn) | 41,859 |
| EV (€ mn) | 44,279 |
| Shares out. (mn) | 7.3 |
| Free Float | 25.3% |

Market multiples

| | 2019 | 2020 | 2021 |
|---------------|------|------|------|
| EV/EBITDA | | | |
| FNL | 9.7x | 8.2x | 6.9x |
| Comps median | 6.4x | 9.6x | 9.3x |
| FNL vs Median | 51% | -15% | -26% |

P/E

| | 2019 | 2020 | 2021 |
|---------------|-------|-------|-------|
| FNL | 21.3x | 18.7x | 14.7x |
| Comps median | 17.0x | 22.2x | 21.2x |
| FNL vs Median | 25% | -16% | -31% |

Stock Data:

| | |
|------------------------|----------|
| 52 Wk High (€) | 7.20 |
| 52 Wk Low (€) | 5.00 |
| Avg. Daily Trading 90d | 5,159 |
| Price Change 1w (%) | - 0.8696 |
| Price Change 1m (%) | -6.56 |
| Price Change YTD (%) | -7.3 |

Expectations Centered in Uncertain Scenario

| € Million | FY 17A | FY 18A | FY 19A | FY 20E | FY 21E | FY 22E | FY 23E |
|----------------|--------|--------|--------|--------|--------|--------|--------|
| Total Revenues | 22.4 | 29.5 | 34.6 | 43.7 | 47.7 | 50.6 | 53.5 |
| EBITDA | 3.3 | 4.2 | 4.7 | 5.6 | 6.7 | 7.5 | 8.1 |
| margin | 14.7% | 14.2% | 13.7% | 12.8% | 14.0% | 14.8% | 15.2% |
| Net Profit | 1.7 | 2.0 | 2.0 | 2.2 | 2.8 | 3.4 | 3.7 |
| margin | 7.5% | 6.8% | 5.7% | 5.1% | 6.0% | 6.7% | 7.0% |
| EPS | 0.25 | 0.29 | 0.28 | 0.31 | 0.39 | 0.46 | 0.51 |

Source: Company data, KT&Partners' estimates

2020 preliminary sales in line with expectations. In an overheated global economic scenario, FNL kept consolidating its leadership position within the labeling market. FY20 preliminary results show sales at €42.8mn, +30% YoY and fully in line with our latest estimates. Revenue growth was driven by the label division which increased by +42% YoY, and was also thanks to the acquisition of STAF Srl at the beginning of 2020.

Pushing the boundaries of technology products. In 2020, FNL enlarged its partnership network by signing agreements with three multinational players active in the AUTO-ID & Data Capture sector: **Datalogic**, **TSC Auto ID Technology Emea** and **Custom**. Thanks to these partnerships, FNL will be able to enrich its technology product offerings while further expanding its customer basis in Italy and abroad. Furthermore, FNL has announced the development of: i) the first automatic print&apply system for color labels suitable for any production chain, partnering with EPSON; and ii) Layerloop, the world's first 3D printer capable of mass-producing objects that incorporate RFID or NFC tags through a proprietary and patented printhead. The launch of this solution will allow FNL to enter the Additive Manufacturing segment, which shows substantial room for growth.

Market developments. The COVID-19 pandemic has considerably boosted the demand for labels and AIDC products in the food, healthcare, personal care, and logistics sectors, whereas "non-essential" sectors (i.e. automotive, travel and catering) were suffering. As for M&A activities, in November 2020, Esprinet - specialized in the B2B distribution of technology products, including printers and consumables - reinforced its position within the AIDC sector. It acquired a 100% stake in Dacom - a distributor of products for the AIDC sector - and IdMaint - specialized in maintenance services and pre- and post-sales technical support for Auto-ID products. The total deal consideration amounted to €13.9mn or EV/EBITDA of 6.1x.

Estimates unchanged. We confirmed our estimates, anticipating total revenues at €53.5mn in 2023 (+7% CAGR2020-23) and EBITDA margin to progressively improve from 12.8% in 2020 to 15.2% in 2023. Net income after minorities is expected to achieve €2mn in FY20 and €3.7mn in FY23 (CAGR20-23 of 18.7%).

Fair value at €7.69ps. Our valuation - based on both the DCF and multiples method - returns an average equity value of €56.5mn or €7.69ps (+35.0% on the current market price), mainly following comps' multiples expansion.

Relative Performance Chart since IPO



Source: FactSet

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Finlogic S.p.A. - Key Figures

| Current price (€) | Fair Value (€) | | Free Float (%) | | | | | | | |
|--------------------------------------|----------------|---------|----------------|---------|---------|---------|---------|---------|---------|---------|
| 5.70 | 7.69 | | 25.26 | | | | | | | |
| Per Share Data | 2014A | 2015A | 2016A | 2017A | 2018A | 2019A | 2020E | 2021E | 2022E | 2023E |
| Total shares outstanding (mn) | n.m. | n.m. | n.m. | 6.75 | 6.96 | 7.08 | 7.34 | 7.34 | 7.34 | 7.34 |
| EPS | n.m. | n.m. | n.m. | 0.25 | 0.29 | 0.28 | 0.31 | 0.39 | 0.46 | 0.51 |
| Dividend per share (ord) | n.a. | n.a. | n.a. | 0.15 | 0.14 | 0.14 | 0.18 | 0.23 | 0.28 | 0.31 |
| Dividend pay out ratio (%) | n.a. | n.a. | n.a. | 60% | 50% | 51% | 60% | 60% | 60% | 60% |
| Profit and Loss (EUR thousand) | | | | | | | | | | |
| Revenues | 13,540 | 16,083 | 18,763 | 22,351 | 29,546 | 34,589 | 43,705 | 47,730 | 50,585 | 53,471 |
| EBITDA | 2,337 | 2,588 | 2,939 | 3,241 | 4,208 | 4,735 | 5,604 | 6,667 | 7,474 | 8,123 |
| EBIT | 1,753 | 2,002 | 2,351 | 2,640 | 3,049 | 3,240 | 3,549 | 4,479 | 5,310 | 5,868 |
| EBT | 1,744 | 1,988 | 2,327 | 2,421 | 3,006 | 3,173 | 3,458 | 4,389 | 5,219 | 5,777 |
| Taxes | (577) | (649) | (735) | (700) | (916) | (995) | (1,085) | (1,377) | (1,637) | (1,813) |
| Tax rate | 33% | 33% | 32% | 29% | 30% | 31% | 31% | 31% | 31% | 31% |
| Net Income (including minorities) | 1,167 | 1,340 | 1,592 | 1,721 | 2,090 | 2,178 | 2,373 | 3,012 | 3,582 | 3,965 |
| Net Income attributable to the Group | 1,167 | 1,338 | 1,580 | 1,670 | 2,012 | 1,969 | 2,243 | 2,846 | 3,385 | 3,747 |
| Balance Sheet (EUR thousand) | | | | | | | | | | |
| Total fixed assets | 1,689 | 2,102 | 2,043 | 2,265 | 4,328 | 7,069 | 10,364 | 8,877 | 7,412 | 5,857 |
| Net Working Capital (NWC) | 2,281 | 3,566 | 4,638 | 6,133 | 8,154 | 8,514 | 11,655 | 12,463 | 13,119 | 13,654 |
| Provisions | (534) | (626) | (838) | (890) | (1,304) | (1,510) | (2,043) | (2,612) | (3,200) | (3,806) |
| Total Net capital employed | 3,437 | 5,042 | 5,844 | 7,508 | 11,178 | 14,072 | 19,976 | 18,728 | 17,331 | 15,705 |
| Net financial position (NFP) | (1,221) | (853) | (536) | (4,316) | (2,741) | (1,569) | 1,718 | (1,195) | (4,466) | (8,026) |
| Group Shareholder's Equity | 4,645 | 5,880 | 6,334 | 11,727 | 13,561 | 15,069 | 17,555 | 19,055 | 20,732 | 22,448 |
| Minorities | 13 | 15 | 47 | 98 | 359 | 571 | 702 | 867 | 1,064 | 1,282 |
| Total Shareholder's Equity | 4,658 | 5,895 | 6,380 | 11,824 | 13,920 | 15,640 | 18,257 | 19,923 | 21,797 | 23,731 |
| Cash Flow (EUR thousand) | | | | | | | | | | |
| Net operating cash flow | n.a. | 1,946 | 2,184 | 2,460 | 3,326 | 3,748 | 4,490 | 5,261 | 5,808 | 6,282 |
| Change in NWC | n.a. | (1,285) | (1,072) | (1,495) | (2,021) | (360) | (1,209) | (809) | (655) | (535) |
| Capital expenditure | n.a. | (560) | (161) | (380) | (689) | (2,704) | (2,632) | (700) | (700) | (700) |
| Investments in intangible assets | n.a. | (396) | (346) | (485) | (2,399) | (812) | (3,250) | - | - | - |
| Other cash items/Uses of funds | n.a. | 49 | 189 | 42 | 279 | 44 | 533 | 568 | 588 | 606 |
| Free cash flow | n.a. | (246) | 794 | 143 | (1,504) | (85) | (2,068) | 4,321 | 5,041 | 5,653 |
| Enterprise Value (EUR thousand) | | | | | | | | | | |
| Market Cap | n.a. | n.a. | n.a. | 32,739 | 36,575 | 39,990 | 41,859 | 41,859 | 41,859 | 41,859 |
| Minorities | 13 | 15 | 47 | 98 | 359 | 571 | 702 | 867 | 1,064 | 1,282 |
| Net financial position | (1,221) | (853) | (536) | (4,316) | (2,741) | (1,569) | 1,718 | (1,195) | (4,466) | (8,026) |
| Enterprise value | n.a. | n.a. | n.a. | 28,521 | 34,193 | 38,992 | 44,279 | 41,531 | 38,457 | 35,115 |
| Ratios (%) | | | | | | | | | | |
| EBITDA margin | 17.3% | 16.1% | 15.7% | 14.5% | 14.2% | 13.7% | 12.8% | 14.0% | 14.8% | 15.2% |
| EBIT margin | 12.9% | 12.4% | 12.5% | 11.0% | 10.3% | 9.4% | 8.1% | 9.4% | 10.5% | 11.0% |
| Gearing - Debt/equity | -26.3% | -14.5% | -8.5% | -36.8% | -20.2% | -10.4% | 9.8% | -6.3% | -21.5% | -35.8% |
| Interest cover on EBIT | 0.5% | 0.7% | 1.0% | 1.7% | 1.4% | 2.1% | 2.6% | 2.0% | 1.7% | 1.5% |
| NFP/EBITDA | -52.2% | -32.9% | -18.2% | -133.2% | -65.1% | -33.1% | 30.7% | -17.9% | -59.8% | -98.8% |
| ROCE | 51.0% | 39.7% | 40.2% | 35.2% | 27.3% | 23.0% | 17.8% | 23.9% | 30.6% | 37.4% |
| ROE | 25.1% | 22.8% | 25.0% | 14.2% | 14.8% | 13.1% | 12.8% | 14.9% | 16.3% | 16.7% |
| EV/Sales | n.m. | n.m. | n.m. | 2.05 | 1.55 | 1.33 | 1.05 | 0.96 | 0.91 | 0.86 |
| EV/EBITDA | n.m. | n.m. | n.m. | 14.15 | 10.89 | 9.68 | 8.18 | 6.88 | 6.13 | 5.64 |
| P/E | n.m. | n.m. | n.m. | 23.95 | 20.81 | 21.25 | 18.66 | 14.71 | 12.37 | 11.17 |
| Free cash flow yield | n.m. | n.m. | n.m. | 0.4% | -4.1% | -0.2% | -4.9% | 10.3% | 12.0% | 13.5% |
| Growth Rates (%) | | | | | | | | | | |
| Sales | n.a. | 18.8% | 16.7% | 19.1% | 32.2% | 17.1% | 26.4% | 9.2% | 6.0% | 5.7% |
| EBITDA | n.a. | 10.7% | 13.5% | 10.3% | 29.8% | 9.2% | 12.5% | 18.4% | 19.0% | 12.1% |
| EBIT | n.a. | 14.2% | 17.4% | 4.9% | 23.7% | 6.3% | 9.5% | 26.2% | 18.5% | 10.5% |
| Net Income | n.a. | 14.7% | 18.1% | 5.7% | 20.5% | -2.1% | 13.9% | 26.9% | 18.9% | 10.7% |

Source: Company data, KT&Partners' estimates

Valuation

Based on our estimates, we have carried out our valuation on a multiples and DCF analysis basis:

- EV/EBITDA and P/E multiple, with a 10% liquidity discount, which returns a value of €6.82 per share.
- DCF analysis, based on WACC of 9% and 1.5% perpetual growth, returns a value of €8.27 per share.

In order to take into account the resiliency of FNL's business and its high visibility we derived the company fair value through a weighted average of the DCF and multiple valuation models. We gave therefore a 60% weight to the price based on DCF, and a 40% weight to the price returned by the multiples method. The weighted average of the two methods yields a fair value of €7.69 per share with an equity value of €56.5mn.

Market Multiples Valuation

Following the comparables analysis, we proceeded with the definition of market multiples of the peer group, focusing on data for the three-year period 2020-22.

Peer Group Valuation Table - 2020-22 Multiples

| Company Name | Exchange | Market Cap | EV/SALES 2020 | EV/SALES 2021 | EV/SALES 2022 | EV/EBITDA 2020 | EV/EBITDA 2021 | EV/EBITDA 2022 | EV/EBIT 2020 | EV/EBIT 2021 | EV/EBIT 2022 | P/E 2020 | P/E 2021 | P/E 2022 |
|--|--------------|--------------|---------------|---------------|---------------|----------------|----------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|
| AstroNova, Inc. | NASDAQ | 64 | 0.92x | 0.86x | n.a. | 10.38x | 9.10x | n.a. | 52.93x | 28.71x | n.a. | 98.00x | 43.12x | n.a. |
| Avery Dennison Corporation | NYSE | 10,567 | 2.14x | 2.05x | 1.96x | 14.12x | 13.24x | 12.41x | 17.50x | 16.36x | 15.24x | 22.23x | 20.55x | 18.58x |
| Datalogic S.p.A. | Milan | 840 | 1.73x | 1.53x | 1.41x | 19.58x | 10.98x | 9.35x | 59.49x | 17.80x | 13.93x | 80.09x | 23.58x | 18.21x |
| Fuji Seal International, Inc. | Tokyo | 925 | 0.71x | 0.68x | 0.66x | 5.84x | 5.55x | 5.35x | 9.90x | 9.15x | 8.33x | 13.67x | 12.25x | 11.14x |
| Lintec Corporation | Tokyo | 1,440 | 0.60x | 0.57x | 0.54x | 5.58x | 5.03x | 4.71x | 9.96x | 8.36x | 7.55x | 18.73x | 15.11x | 13.51x |
| Sato Holdings Corporation | Tokyo | 616 | 0.71x | 0.67x | 0.64x | n.a. | n.a. | n.a. | 20.96x | 13.34x | 10.95x | 8.31x | 22.97x | 19.05x |
| ScanSource, Inc. | NASDAQ | 541 | 0.29x | 0.29x | 0.29x | 8.77x | 9.47x | 7.66x | 11.13x | 12.36x | 9.56x | 12.43x | 13.29x | 9.66x |
| Seiko Epson Corp. | Tokyo | 5,672 | 0.76x | 0.74x | 0.73x | 7.08x | 6.58x | 6.56x | 21.44x | 15.80x | 14.64x | 52.12x | 21.22x | 19.47x |
| Zebra Technologies Corporation Class A | NASDAQ | 17,533 | 5.16x | 4.67x | 4.42x | 25.63x | 21.79x | 19.60x | 28.08x | 23.40x | 21.58x | 32.71x | 27.43x | 24.15x |
| Average peer group | | 4,244 | 1.45x | 1.34x | 1.33x | 12.12x | 10.22x | 9.38x | 25.71x | 16.14x | 12.72x | 37.59x | 22.17x | 16.72x |
| Median peer group | | 925 | 0.76x | 0.74x | 0.70x | 9.58x | 9.29x | 7.66x | 20.96x | 15.80x | 12.44x | 22.23x | 21.22x | 18.39x |
| Finlogic SpA | Milan | 42 | 1.05x | 0.96x | 0.91x | 8.18x | 6.88x | 6.13x | 12.92x | 10.23x | 8.63x | 18.66x | 14.71x | 12.37x |

Source: FactSet data and KT&Partners' estimates

We based our evaluation upon 2020, 2021 and 2022 median EV/EBITDA and P/E multiples and our estimates of Finlogic's EBITDA and net income for 2020, 2021 and 2022. Additionally, considering the existing differences in terms of liquidity between Finlogic and its comparables, we applied a 10% liquidity discount on the median multiples.

Multiple Valuation

| Multiple Valuation (€mn) | 2020E | 2021E | 2022E | Multiple Valuation (€mn) | 2020E | 2021E | 2022E |
|---|-------|-------|-------|---|-------|-------|-------|
| EV/EBITDA multiple comparison | 9.58 | 9.29 | 7.66 | P/E multiple comparison | 22.23 | 21.22 | 18.39 |
| Peer Group EV/EBITDA netted from 10% liquidity discount | 8.62 | 8.36 | 6.89 | Peer Group P/E netted from 10% liquidity discount | 20.01 | 19.10 | 16.55 |
| Finlogic EBITDA | 5.60 | 6.67 | 7.47 | Finlogic earnings | 2.24 | 2.85 | 3.38 |
| Enterprise value | 48.30 | 55.72 | 51.51 | Equity Value | 44.88 | 54.37 | 56.03 |
| 1H20 NFP* | 3.42 | 3.42 | 3.42 | Number of shares (mn) | 7.34 | 7.34 | 7.34 |
| Equity Value | 44.88 | 52.30 | 48.10 | Value per share | 6.11 | 7.40 | 7.63 |
| Number of shares (mn) | 7.34 | 7.34 | 7.34 | Fair Value (Avg) - € ps | 7.05 | | |
| Value per share | 6.11 | 7.12 | 6.55 | | | | |
| Fair Value (Avg) - € ps | 6.59 | | | | | | |

*Note: 1H20 NFP was adjusted by the €1.242mn capital increase related to the warrant conversion.

Source: FactSet data and KT&Partners' estimates

DCF Model

We also conducted our valuation using a four-year DCF model based on 10% cost of equity, 3.0% cost of debt and a target capital structure with 20% of debt, in line with the average D/E ratios observed for listed companies operating in similar sectors.¹ We, therefore, obtained 9% WACC.²

By discounting 2019E-22E annual cash flows and considering a terminal growth rate of 1.5%, we derive a fair value of €8.27p.s.

Cash Flow Estimates

| € million | | 2021E | 2022E | 2023E |
|--------------------------------|--------------|-------------|-------------|-------------|
| EBIT | | 4.48 | 5.31 | 5.87 |
| Taxes | | -1.41 | -1.67 | -1.84 |
| D&A | | 2.19 | 2.16 | 2.26 |
| Change in Net Working Capital | | -0.81 | -0.66 | -0.54 |
| Net Operating Cash Flow | | 4.45 | 5.15 | 5.75 |
| Capex | | -0.70 | -0.70 | -0.70 |
| FCFO | | 3.75 | 4.45 | 5.05 |
| | 02/02/2021 | 31/12/2021 | 31/12/2022 | 31/12/2023 |
| t | | 0.91 | 1.91 | 2.91 |
| g | 1.5% | | | |
| Wacc | 9.0% | | | |
| FCFO (discounted) | | 3.47 | 3.78 | 3.93 |
| Discounted Cumulated FCFO | 11.17 | | | |
| TV | | | | 68.14 |
| TV (discounted) | 53.00 | | | |
| Enterprise Value | 64.17 | | | |
| 1H20 NFP* | 3.4 | | | |
| Equity Value | 60.76 | | | |
| Current number of shares | 7.34 | | | |
| Value per share (€) | 8.27 | | | |

*Note: 1H20 NFP was adjusted by the €1.242mn capital increase related to the warrant conversion.

Source: FactSet data and KT&Partners' estimates

¹ Source: Damodaran's website.

² Further inputs include: (i) 1.16 beta; (ii) 0.65% risk-free rate; (iii) 5.81% market risk premium; and (iv) 3.0% premium for size.

APPENDIX

Peer Comparison

We built a nine-company sample, which includes:

1. **AstroNova Inc.**, listed on NASDAQ, with a market capitalization of €64mn, 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 FY19, the company had \$137mn revenues, 63.5% of which came from the product identification business segment;
2. **Avery Dennison Corp.**, listed on the NYSE, with a market capitalization of €11bn, 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 FY19, the company recorded \$7.0bn revenues, \$4.7bn of which came from the labeling and graphic business unit (67%);
3. **Datalogic SpA**, listed on the Milan Stock Exchange, with a market capitalization of €0.8bn, 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 FY18, Datalogic reported revenues of €613mn;
4. **Fuji Seal International Inc.**, listed on the Tokyo Stock Exchange, with a market capitalization of €1bn, engages in the development and sale of packaging solutions, offering shrink sleeve labels, self-adhesive labels, spouted pouches and packaging machinery. The company reported ¥162bn revenues during FY18, with self-adhesive labels accounting for 15.3%, shrink labels accounting for 55.9% and other labels accounting for 0.96%;
5. **Lintec Corp.**, listed on the Tokyo Stock Exchange, with a market capitalization of €1.4bn, 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 ¥251bn revenues during FY19, ca. 49.0% of which came from the “printing and variable industrial materials products”;
6. **Sato Holdings Corp.**, listed on the Tokyo Stock Exchange, with a market capitalization of €0.6bn, is a global provider of automation identification and data capture solutions, which leverage on barcodes, QR codes, and RFID technologies. During FY18, the company reported ¥116.2bn sales;
7. **ScanSource, Inc.**, listed on NASDAQ, with a market capitalization of €0.5bn, 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 FY18, ScanSource, Inc. reported \$3.8bn net sales, with a

68% contribution coming from the barcode, networking and security business unit;

8. **Seiko Epson Corp.**, listed on the Tokyo Stock Exchange, with a market capitalization of €5.7bn, 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 FY19, Seiko Epson Corp. recorded ¥1,080bn sales, of which ¥723bn came from the printing solutions segment (6%);
9. **Zebra Technologies Corp.**, listed on NASDAQ, with a market capitalization of €17bn, 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 FY19, the company generated \$4.5bn revenues.

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- ADD - FOR A FAIR VALUE > 15% ON CURRENT PRICE
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