

## Double-Digit Organic Growth also in Challenging Times

ADD | Fair Value: €9.0 (€9.0) | Current Price: €6.26 Upside: +44.5%

## Research Update

July 22, 2022 – 7.00 h

€ Million	FY18A	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Value of Production	29.5	34.6	45.3	52.8	65.2	79.9	87.6
EBITDA	4.2	4.7	6.6	8.2	9.4	11.6	13.1
margin	14.2%	13.7%	14.6%	15.5%	14.4%	14.5%	14.9%
Net Profit	2.0	2.0	2.6	3.0	4.1	5.4	6.2
margin	6.8%	5.7%	5.7%	5.7%	6.3%	6.7%	7.1%
EPS	0.29	0.28	0.35	0.41	0.56	0.73	0.85
NFP/(Cash)	(2.7)	(1.6)	2.9	2.6	2.2	(0.1)	(2.9)

Source: Company data, KT&Partners' elaboration

**1H22 preliminary results beat our estimates.** On July 20<sup>th</sup>, 2022, FNL-IT announced 1H22 preliminary sales, confirming business model validity and double-digit growth path despite the uncertain macroeconomic scenario. The company closes the first half of the year with organic growth of 22% to €30.8mn (without considering the contribution from recently acquired companies - Alfacod and ASE -that will be consolidated starting from July 1<sup>st</sup>, 2022), exceeding our expectations by ca. 10%. Business growth was driven by the label division that increased by ca. +29% YoY to €20.5mn (9.3% above our forecast) despite the shortage and the extended delivery time for label materials caused mainly by the strikes in some paper mills in Northern Europe. In the coming months, the management expects procurement will come back to normal levels, allowing the company to further increase its production activity. The technological products business line came in at €9.5mn (ca. 30% of total sales), up by +10.5% YoY and +13% our estimates whereas sales from technical support reached €0.7mn, +11% YoY but -3.8% compared to our estimates.

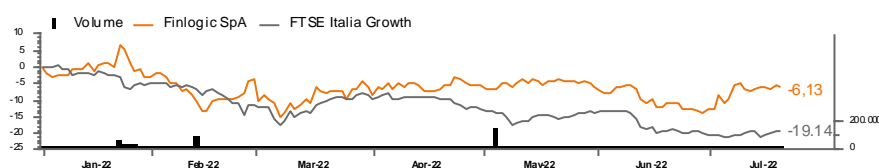
### 1H22 Preliminary Sales vs KT&Partners' estimates

€ million	1H19A	1H20A	1H21A	1H22A	YoY growth	1H22E	A vs E
Labels	9.6	13.6	16.0	20.5	28.5%	18.8	9.3%
Technological products	6.7	6.7	8.6	9.5	10.5%	8.4	13.0%
Technical Support	0.5	0.5	0.7	0.7	11.0%	0.8	-3.8%
Sales	16.8	20.8	25.3	30.8	21.9%	28.0	10.1%

Source: Company data, KT&Partners' elaboration

**Estimates and valuation under review for potential upgrade.** On July 4<sup>th</sup>, 2022, we revised our estimates following the acquisition of ASE Srl and the earlier than expected closing of the deal with Alfacod. VoP was expected to grow at a CAGR21–24 of 18.4% amounting to €87.6mn in 2024. We estimated EBITDA to grow at a slower pace than VoP (+17% CAGR21–24) as a result of the lower profitability of ASE Srl, reaching €13.1mn in FY24. Finally, we foresaw FY22 NFP at €2.2mn (considering both the postponement of part of the cash-out for the Alfacod acquisition and the cash-out for the acquisition of ASE Srl), gradually improving and reaching a net cash position of €2.9mn in FY24. Given 1H22 overperformance in a challenging environment, we put our estimates under review for a potential upgrade. We will update our estimates after the publication of the 1H22 results and management conference call. On the back of our current projections, we still see an upside of 44.5% on the current market price.

### Relative Performance Chart YTD



Equity Research Team  
[connect@ktepartners.com](mailto:connect@ktepartners.com)

Federica FIORENZA  
[ffiorenza@ktepartners.com](mailto:ffiorenza@ktepartners.com)  
 +39 340 5372563

Valentina ZANONI  
[vzanoni@ktepartners.com](mailto:vzanoni@ktepartners.com)  
 +39 331 6316783

### Market Data

Main Shareholders	
BF Capital Srl	61.6%
Hydra SpA	10.4%
Italcode Srl	2.7%
Mkt Cap (€ mn)	46
EV (€ mn)	53
Shares out. (mn)	7.3
Free Float	25.3%

Market multiples	2021	2022	2023
EV/EBITDA			
FNL	6.5x	5.7x	4.6x
Comps median	5.7x	6.1x	4.8x
FNL vs Median	14%	-8%	-3%
P/E			
FNL	15.3x	11.1x	8.5x
Comps median	12.4x	14.1x	10.8x
FNL vs Median	23%	-21%	-21%

### Stock Data:

52 Wk High (€)	7.24
52 Wk Low (€)	5.40
Avg. Daily Trading 90d	4,473
Price Change 1w (%)	7.93
Price Change 1m (%)	0.64
Price Change YTD (%)	1.8

Note: we adjust NFP for the cash-out related to the acquisition of ASE and Alfacod

## Key Figures – Finlogic S.p.A.

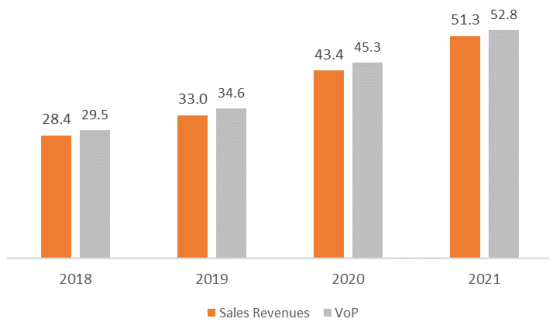
	Current price (€)	Fair Value (€)	Free Float (%)						
	6.3	9.0	25.26						
	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E
<b>Per Share Data</b>									
Total shares outstanding (mn)	6.75	6.96	7.08	7.34	7.34	7.34	7.34	7.34	7.34
EPS	0.25	0.29	0.28	0.35	0.41	0.56	0.73	0.85	1.00
Dividend per share (ord)	0.15	0.14	0.14	0.20	0.20	0.14	0.44	0.51	0.60
Dividend pay out ratio (%)	60%	50%	51%	57%	50%	24%	60%	60%	60%
<b>Profit and Loss (EUR million)</b>									
Revenues	21.4	28.4	33.0	43.4	51.3	63.6	77.9	85.4	93.0
EBITDA	3.2	4.2	4.7	6.6	8.2	9.4	11.6	13.1	14.7
EBIT	2.6	3.0	3.2	3.9	5.0	6.4	8.3	9.5	11.2
EBT	2.4	3.0	3.2	3.7	4.8	6.2	8.1	9.4	11.1
Taxes	(0.7)	(0.9)	(1.0)	(1.0)	(1.6)	(1.8)	(2.4)	(2.7)	(3.2)
Tax rate	29%	30%	31%	26%	32%	29%	29%	29%	29%
Net Income (including minorities)	1.7	2.1	2.2	2.8	3.3	4.4	5.8	6.7	7.8
Net Income attributable to the Group	1.7	2.0	2.0	2.6	3.0	4.1	5.4	6.2	7.3
<b>Balance Sheet (EUR million)</b>									
Total fixed assets	2.3	4.3	7.1	15.4	14.5	17.2	15.8	14.1	12.6
Net Working Capital (NWC)	6.1	8.2	8.5	12.6	15.0	17.6	20.0	22.6	24.9
Provisions	(0.9)	(1.3)	(1.5)	(2.7)	(2.9)	(5.0)	(5.7)	(6.4)	(7.2)
Total Net capital employed	7.5	11.2	14.1	25.3	26.6	29.8	30.1	30.3	30.2
Net financial position (NFP)	(4.3)	(2.7)	(1.6)	2.9	2.6	2.2	(0.1)	(2.9)	(6.4)
Group Shareholder's Equity	11.7	13.6	15.1	21.7	23.2	26.4	28.5	31.0	33.9
Minorities	0.1	0.4	0.6	0.8	0.8	1.3	1.7	2.1	2.7
Total Shareholder's Equity	11.8	13.9	15.6	22.5	24.0	27.7	30.2	33.2	36.6
<b>Cash Flow (EUR million)</b>									
Net operating cash flow	2.5	3.3	3.7	5.4	6.9	7.3	9.2	10.3	11.4
Change in NWC	(1.5)	(2.0)	(0.4)	(4.1)	(2.4)	(0.2)	(2.4)	(2.6)	(2.3)
Capital expenditure	(0.4)	(0.7)	(3.3)	(7.0)	(1.8)	(2.5)	(1.5)	(1.5)	(1.5)
Investments in intangible assets	(0.5)	(2.4)	(0.8)	(3.9)	(0.3)	(3.5)	(0.2)	(0.2)	(0.2)
Other cash items/Uses of funds	0.0	0.3	0.0	1.0	(0.0)	0.0	0.5	0.6	0.6
Free cash flow	0.1	(1.5)	(0.6)	(8.6)	2.4	1.0	5.6	6.6	8.0
<b>Enterprise Value (EUR million)</b>									
Market Cap	32.7	36.6	40.2	44.1	44.9	46.0	46.0	46.0	46.0
Minorities	0.1	0.4	0.6	0.8	0.8	1.3	1.7	2.1	2.7
Net financial position	(4.3)	(2.7)	(1.6)	2.9	2.6	2.2	(0.1)	(2.9)	(6.4)
Enterprise value	28.5	34.2	39.2	47.7	48.3	49.5	47.6	45.2	42.2
<b>Ratios (%)</b>									
EBITDA margin	14.5%	14.2%	13.7%	14.6%	15.5%	14.4%	14.5%	14.9%	15.4%
EBIT margin	11.0%	10.3%	9.4%	8.6%	9.4%	9.8%	10.3%	10.9%	11.7%
Gearing - Debt/equity	-36.8%	-20.2%	-10.4%	13.2%	11.0%	8.2%	-0.3%	-9.3%	-18.8%
Interest cover on EBIT	1.7%	1.4%	2.1%	4.3%	2.8%	2.4%	1.8%	1.4%	1.1%
NFP/EBITDA	-1.3x	-0.7x	-0.3x	0.4x	0.3x	0.2x	0.0x	-0.2x	-0.4x
ROCE	35.2%	27.3%	23.0%	15.4%	18.6%	21.4%	27.4%	31.5%	37.0%
ROE	14.2%	14.8%	13.1%	11.9%	13.0%	15.7%	18.9%	20.1%	21.6%
EV/Sales	2.5x	1.9x	1.6x	1.2x	1.0x	0.8x	0.7x	0.6x	0.6x
EV/EBITDA	16.5x	12.7x	11.3x	8.1x	6.5x	5.7x	4.6x	4.1x	3.6x
P/E	27.5x	22.8x	23.3x	17.8x	15.3x	11.1x	8.5x	7.4x	6.3x
Free cash flow yield	0.3%	-3.0%	-1.3%	-17.4%	4.9%	2.1%	11.3%	13.4%	16.2%
<b>Growth Rates (%)</b>									
Sales	19.1%	32.2%	17.1%	30.8%	16.7%	23.6%	22.5%	9.6%	8.9%
EBITDA	10.3%	29.8%	9.2%	12.5%	39.6%	23.5%	15.2%	22.9%	13.1%
EBIT	4.9%	23.7%	6.3%	20.6%	26.8%	28.8%	29.6%	15.2%	17.3%
Net Income	5.7%	20.5%	-2.1%	31.0%	16.7%	37.3%	30.4%	15.6%	17.7%

Source: Company data, KT&Partners' elaboration

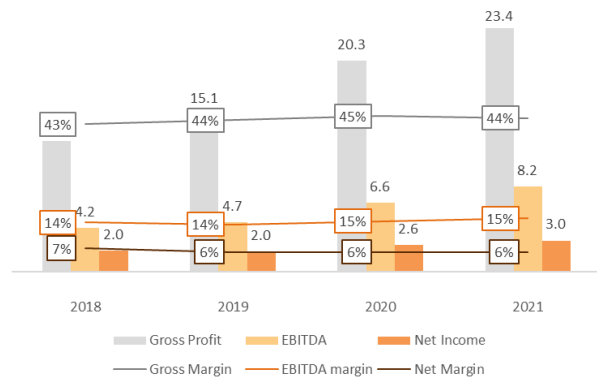
Note: we calculate EV/Sales and EV/EBITDA multiple by adjusting FY21 NFP for the cash-out related to the acquisition of Alfacod and ASE

## Key Charts

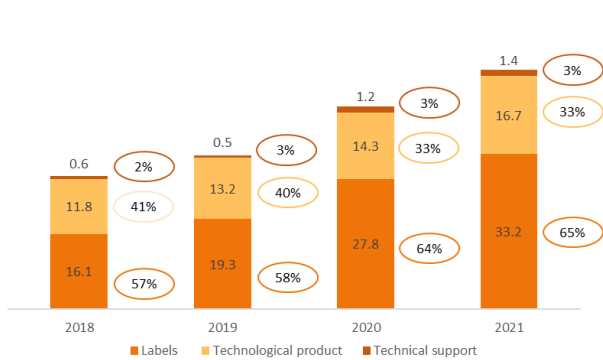
Sales Revenues and Value of Production (€mn)



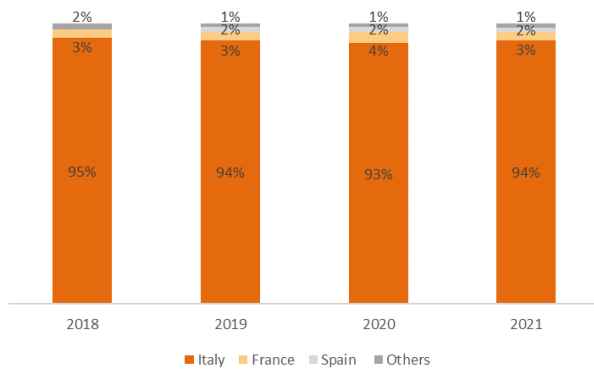
Gross Margin, EBITDA Margin, Net Margin (€mn, %)



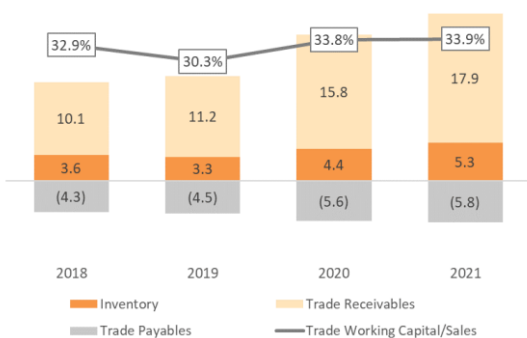
Sales Revenues by Business Line (€mn)



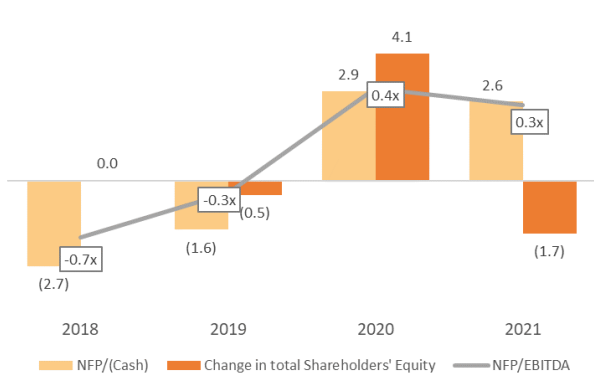
Sales Revenue by Geography (%)



Trade Working Capital (€mn, %)



NFP, NFP/EBITDA and Change in Total Shareholders' Equity



## Overview

### Company description

Finlogic (FNL-IT) is one of the main Italian reference players in the automatic identification and labeling system sector. The Group has a complete integrated offer – including labels (also based on RFID technologies), label printers and reading systems – distributed by an extensive sales force, covering the entire Italian territory. Clients' services and retention are ensured by a dedicated technical support team.

After listing on EGM Market on June 9<sup>th</sup>, 2017 – with a capital raise of €6.3mn – FNL-IT has pursued an ambitious strategy based on both organic growth and opportunities for external lines. The company is committed to consolidating its national presence to become a leading player in a very fragmented and easily scalable market.

At the IPO, the Volta family, Datalogic's founder and main shareholder, acquired a 2.87% stake of FNL-IT through the holding company, Hydra SpA. Afterwards, Hydra SpA increased its ownership to 10.78%, becoming FNL-IT's second shareholder, with the aim of supporting the industrial growth and internationalization path of the Group.

### Investment case

- **A high-quality company.** Over the period 2017–21 the company was able to match sustainable sales growth (+24% CAGR) – thanks to both organic and external lines – with profitability growth, +25% CAGR EBITDA growth, and cash flow generation. The cash conversion ratio (OCF/EBITDA) was on average +47%.
- **Cross-selling opportunities based on an integrated offer.** Thanks to the integrated offer, which comprises consumables (labels and ribbon), hardware (labels printers and barcode readers) and technical support, the Group boasts strong cross-selling capacity.
- **A consolidator in the Italian labeling and automatic identification market.** Over the 2017–22 period, FNL-IT has closed ten M&A deals (Multitec, Tecmark, Iride Italia, Mobile Project, Smart Lab Industrie 3d, System Code, STAF, Socialware Italy Srl, Alfacod and ASE Srl), integrating its labels and technology business. We think that over the coming years FNL-IT could leverage on its cash generation ability and strong balance sheet to further accelerate its growth through external lines.

### Recent developments

- On June 30<sup>th</sup>, 2022 FNL-IT announced to have closed the acquisition of a **51% stake in ASE Srl** – active in the print-apply market – for a total consideration of €255k.
- In June 2022, FNL-IT announced that it had acquired a **100% stake in Alfacod Srl** – a leading system integrator within the Italian AIDC market – for a total consideration of €4.55mn.
- FNL-IT appointed **Davide Guerra** – previously employed by Datalogic and Zebra Technology – as **Chief of Sales and Marketing Officer** to strengthen the company's marketing and commercial structure.
- In September 2021, FNL-IT signed a binding agreement for the **acquisition of the remaining 49% stake in Mobile Project Srl** – engaged in software development in the automatic identification segment – with the aim to build an in-house software division.
- In July 2021, FNL-IT announced it had completed activities aimed to strengthen the production capacity of its plant in Acquaviva delle Fonti (Bari), which it acquired in 2019 for a total amount of €2.4mn over the 2019–21 period. Thanks to the purchase of the latest generation machinery and a 30% increase in surface area, production capacity increased by 20%.

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- ADD – FOR A FAIR VALUE > 15% ON CURRENT PRICE
- HOLD – FOR A FAIR VALUE < 15% AND > -15% ON CURRENT PRICE
- REDUCE – FOR A FAIR VALUE < -15% ON CURRENT PRICE



Via della Posta, 10 – Piazza Affari, 20123 Milano – Italy  
Tel: +39.02.83424007 Fax: +39.02.83424011  
[segreteria@ktepartners.com](mailto:segreteria@ktepartners.com)