Innovatec

Sector: Industrial Services

VALUETRACK

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Faster M&A offsets Superbonus effects

Innovatec is a pure play in the CleanTech industry, active in Energy Efficiency and Environmental Services & Circular Economy. The stock is listed on EGM since 2013 but got to the current structure only in 2021, following a restructuring strategy.

9M22 solid despite 3Q negative seasonality

Considering the adverse seasonality and despite macro and regulatory uncertainties, 9M22 results are in line with business plan growth targets:

- Revenues at €222.3mn (€58.6mn in 3Q22) vs.€237.8mn in FY21PF;
- EBITDA margin at ca. 12%, -160 bps vs. FY21PF, due to lower volumes of *HouseVerde* (pending definition of *Superbonus* rules), rolling corporate costs and rising transportation/energy charges; EBIT at €15.6mn (7% margin and ca. €5mn above FY21PF) owing to rising contribution of less capital-intensive Energy Efficiency business;
- Net Debt at €44mn, following heavy M&A activity and *HouseVerde* NWC extra requirements, the latter weighting for ca. €10mn.

Forecasts revision: Superbonus 90% taking its toll

Superbonus hick-ups and speed-up in M&A will affect FY22E financials, however, higher rebates on final clients, consolidation of recent deals and growing synergies should partially offset the lower profitability of the Energy Efficiency business from 2023E (Superbonus at 90%, etc.). For 2024E, we now expect Revenues at €394mn (18% $CAGR_{21PF-24E}$), EBITDA at €51mn (13% margin), NFD at €8.1mn after €35mn cumulated FCF.

Execution assessment: faster than expected M&A

After #5 earnings enhancing deals YTD, we estimate the Group should already exceed its 2024E M&A business plan targets, albeit investing ca. €4mn more than predicted (excl. acquired debt). Strong M&A skills and demonstrated abilities to promptly react to new market scenarios add credibility to the strategic business plan and we still view INC as a strong value, growth and "restructuring" play.

Fair Value at €2.5 p/s, long-term potential up to €3.3 p/s

We broadly confirm INC fair equity value at €2.5 p/s (from €2.6). Despite higher Net Debt, peers' multiples are supportive, longer-term DCF points at €2.7 p/s and 2-yrs rolling model to €3.3 p/s. We reiterate our positive view on the stock, based on (i) appealing equity story, focused on most attractive reference market opportunities (PV, Circular Economy), tied to dedicated funds, seized by highly experienced top management; (ii) brilliant execution capabilities and business updates, only affected by exogenous factors.

Fair Value (€)	**2.5**
Market Price (€)	**1.80**
Market Cap. (€mn)	**173.6**

KEY FINANCIALS (€m)	2021PF	2022E	2023E
REVENUES	237.8	295.4	346.7
EBITDA	32.9	38.6	44.8
EBIT	10.7	18.6	26.4
NET PROFIT	6.2	11.0	14.0
EQUITY	30.7	47.3	63.4
NET FIN. POS.	-10.0	-43.6	-33.9
EPS (€)	0.09	0.14	0.17
DPS (€)	0.00	0.00	0.00

Source: Innovatec (historical figures), Value Track (2022E-23E estimates)

KEY FINANCIALS (€m)	2021PF	2022E	2023E
EBITDA MARGIN (%)	13.8	13.1	12.9
EBIT MARGIN (%)	4.5	6.3	7.6
NET DEBT / EBITDA (x)	0.3	1.1	0.8
NET DEBT / EQUITY (x)	0.3	0.9	0.5
EV/SALES (x)	0.9	0.9	0.7
EV/EBITDA (x)	6.8	6.6	5.5
EV/EBIT (x)	20.9	13.6	9.3
P/E Adj. (x)	20.0	12.7	10.5

Source: Innovatec (historical figures), Value Track (2022E-23E estimates)

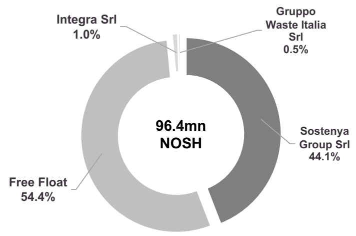
STOCK DATA	
FAIR VALUE (€)	2.50
MARKET PRICE (€)	1.80
SHS. OUT. (m)	96.4
MARKET CAP. (€m)	173.6
FREE FLOAT (%)	54.4
AVG. -20D VOL. (#)	336,308
RIC / BBG	INC.MI / INC IM
52 WK RANGE (€)	1.29-2.47

Source: Stock Market Data

Business Description

Innovatec is a pure-play in the cleantech Italian business with a focus on two main industries: Energy Efficiency & Renewables and Environment & Circular Economy. With its ability to respond quickly to changing legislation and competitive outlook while continuing to take advantage of new market opportunities, its extensive know-how cumulated over many technologies and client base, Innovatec can act across the entire value chain in the sustainability domain by leveraging its "sustainable by nature" business model and fully-integrated business strategy.

Shareholders Structure



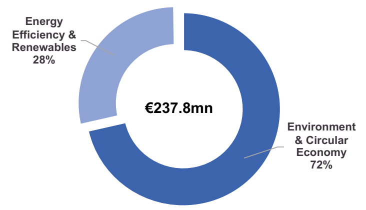
Source: Innovatec

Key Financials

€mn	2021A PF	2022E	2023E	2024E
Total Revenues	**237.8**	**295.4**	**346.7**	**394.2**
Chg. % YoY	47.1%	24.2%	17.4%	13.7%
EBITDA	**32.9**	**38.6**	**44.8**	**50.8**
EBITDA Margin (%)	13.8%	13.1%	12.9%	12.9%
EBIT	**10.7**	**18.6**	**26.4**	**32.4**
EBIT Margin (%)	4.5%	6.3%	7.6%	8.2%
Net Profit	**6.2**	**11.0**	**14.0**	**18.4**
Chg. % YoY	22.5%	76.7%	27.0%	31.6%
Adjusted Net Profit	**8.4**	**13.6**	**16.6**	**21.0**
Chg. % YoY	77.2%	62.8%	21.8%	26.7%
Net Fin. Position	**-10.0**	**-43.6**	**-33.9**	**-8.1**
Net Fin. Pos. / EBITDA (x)	0.3	1.1	0.8	0.2
Capex	-7.3	-19.4	-24.1	-11.0
OpFCF b.t.	**10.1**	**-1.1**	**25.2**	**42.8**
OpFCF b.t. as % of EBITDA	30.7%	-2.7%	56.2%	84.2%

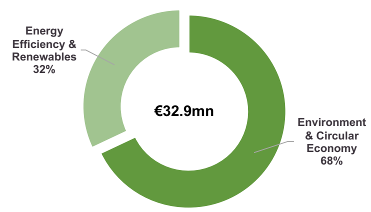
Source: Innovatec (historical figures), Value Track (estimates)

Revenues Breakdown by BU



Source: Innovatec (FY21PF)

EBITDA Breakdown by BU



Source: Innovatec (FY21PF)

Investment case

Strengths / Opportunities

- Set to benefit from the European Green Deal and Italian Recovery Fund;
- Exposure to most attractive segments of Energy and Environment industries (e.g., Renewables, Circular Economy);
- Strong M&A execution skills;
- "Sustainable by nature" and fully-integrated business model.

Weaknesses / Risks

- Energy Efficiency market dependent on national and European incentives;
- Business Plan execution risk, M&A discipline;
- Uncertain regulation updates on *Superbonus 110%*.

Stock multiples @ €2.5 Fair Value p/s

	2022E	2023E
EV / SALES (x)	1.1	0.9
EV / EBITDA (x)	8.3	7.0
EV / EBIT (x)	17.2	11.8
EV / CAP.EMP. (x)	3.5	8.3
OpFCF Yield (%)	n.m.	8.0
P / E Adj. (x)	17.7	14.5
P / BV (x)	5.7	4.3
Div. Yield. (%)	0.0	0.0

Source: Value Track

9M22 Key Financials

Despite the adverse business seasonality, inflation, macro and regulatory uncertainties, Innovatec reported solid results for 3Q22/9M22, in line with the Group business plan growth targets and close to those achieved during the entire 2021PF.

There are no Pro-Forma data for 3Q21/9M21, hence a y/y meaningful comparison is not possible; however, for 9M22 we highlight:

- **Total Revenues at €222.3mn** (€58.6mn in 3Q22) vs.€237.8mn in FY21PF;
- **EBITDA at €27.1mn** and **EBITDA margin at ca. 12%**, losing ca. 160 bps vs. FY21PF;
- **EBIT at €15.6mn**, ca. €5mn more than the entire FY21PF owing to lower D&A and allocations;
- **EBIT margin at 7%**, +250 bps vs. FY21PF (more favourable business mix);
- **Net Debt at €44mn** (€34mn adj. for €10mn of *HouseVerde* fiscal credits to be cashed-in).

Innovatec: Key Financials 9M22 vs. FY21 pro-forma

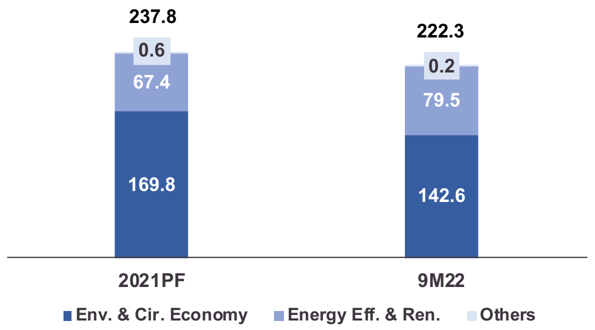
€mn	2021PF	1Q22	2Q22	3Q22	9M22
Total Revenues	**237.8**	**74.1**	**89.6**	**58.6**	**222.3**
EBITDA	**32.9**	**11.7**	**10.7**	**4.7**	**27.1**
EBITDA Margin (%)	*13.8%*	*15.8%*	*11.9%*	*8.0%*	*12.2%*
EBIT	**10.7**	**6.5**	**7.6**	**1.5**	**15.6**
EBIT Margin (%)	*4.5%*	*8.8%*	*8.5%*	*2.6%*	*7.0%*
Net Financial Position [Net Debt (-), Net Cash (+)]	**-10.0**	**-26.6**	**-28.9**	**-44.0**	**-44.0**

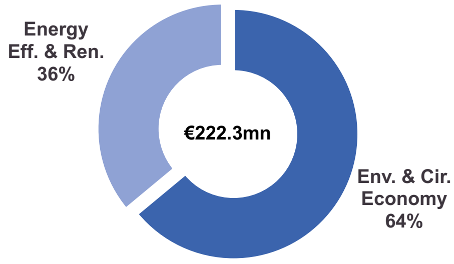
Source: Innovatec, Value Track Analysis

Total Revenues were at €222.3mn for 9M22, or €58.6mn for 3Q22, vs. €237.8mn of FY21PF:

- **Environment & Circular Economy,** reporting Revenues for **€142.6mn** for 9M22 (ca. €39.6mn in 3Q22), driven by higher average prices vs. 2021 more than compensating decreasing volumes of waste disposal activities. Worthy to mention, the business unit suffered from the usual adverse seasonality of the summer months, in line with management expectations, while on the other hand it benefitted from the consolidation of *SEA* (acquired in January 2022). As a matter of fact, companies acquired at the end of FY2021/beginning of FY2022 now represent the bulk of this division: *Cobat* totalled €83.4mn for 9M22 (€21.9mn in 3Q22), while *SEA* €4.5mn (ca. €1.4mn in 3Q22);
- **Energy Efficiency & Renewables,** recording 9M22 sales for **€79.5mn**, already exceeding FY21PF by over €18mn thanks to *HouseVerde* performance, as the activities linked to *Superbonus 110%* represent most of this division. However, 3Q22 Revenues totalled only €18.8mn (vs. ca. €36mn of 2Q22) due to (i) weak seasonality and (ii) the strategic decision to postpone activities on private condos waiting to a final definition on *Superbonus 110%* regulation.

Innovatec: Total Revenues Evolution and Contribution by Business Unit – 9M22 vs FY21 pro-forma





Source: Innovatec, Value Track Analysis

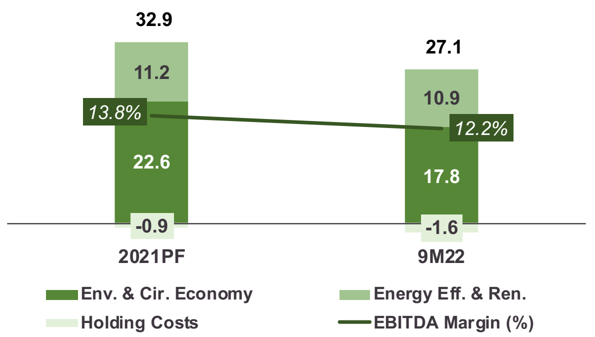
EBITDA stood at **€27.1mn** for 9M22 (€4.7mn in 3Q22). **EBITDA Margin at 12.2%** for 9M22 vs. 13.8% of FY21PF, with both business units suffering from temporary negative business cycle:

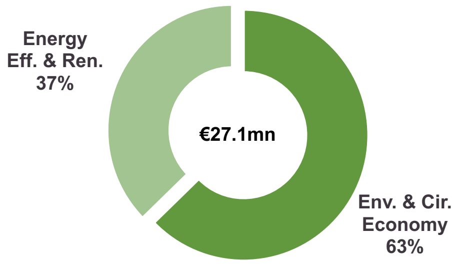
- **Environment & Circular Economy** EBITDA got to **€17.8mn** (€4.1mn in 3Q22), i.e. ca. 12.4% EBITDA Margin or approximately -100 bps vs. FY21PF caused by
  1. Lower activity of the third quarter (comparison of 9M vs FY21 is penalizing);
  2. Slight increase of transportation (collection) and waste disposal costs (variable costs only partially rebated to customers as of today);
  3. Increase of fixed costs after recent acquisitions and including also the costs and consultancy fees linked to the particularly high activity of M&A and ECM.

  On the positive side, *Cobat* maintained a 5%-6% profitability vs. 2% of last year.
- **Energy Efficiency & Renewables** reported an EBITDA of **€10.9mn**, very close to the €11mn of FY21PF but only €0.9mn in 3Q22 (4.5% EBITDA Margin), implying a 9M22 EBITDA Margin of 13.7% vs. 16.6% of FY21PF. It's crucial to note that this result is the combined effect of:
  1. Slowdown of new *HouseVerde* projects (see above), but rolling corporate costs;
  2. Increasing headcounts for the launch of the B2B photovoltaic business, at this point ready to go but due to start collecting orders in the next months and revenues from FY2023.

Overall, fixed overhead costs amounted to €1.6mn, of which €0.3mn accounted in 3Q22, and well above the FY2021 level.

Innovatec: EBITDA Evolution and Contribution by Business Unit – 9M22 vs FY21 pro-forma

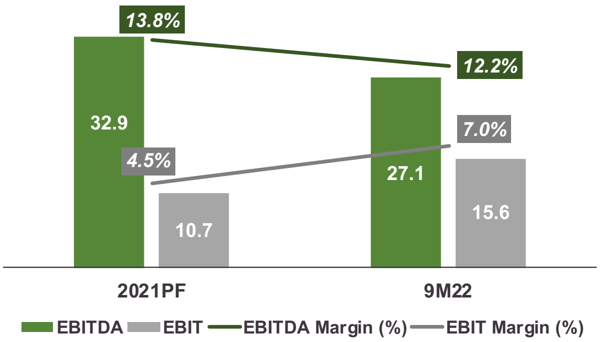


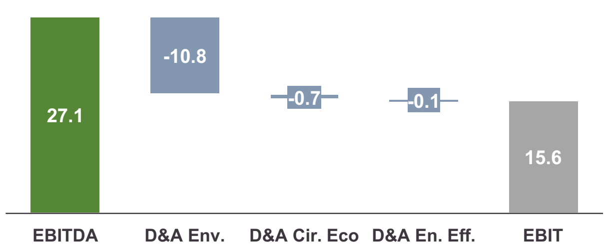


Source: Innovatec, Value Track Analysis

EBIT reached €15.6mn for 9M22 (€1.5mn in 3Q22), exceeding FY21PF figure by ca. €5mn thanks to much lower closure and post-closure provisions, and to a more favourable business mix (Energy Efficiency business unit much less capital intensive than Environment & Circular Economy). As a consequence, **EBIT margin increased to 8%** for 9M22 (despite the 3% margin reported in 3Q22), implying a +250 bps growth YTD.

Innovatec: EBITDA Margin and EBIT Margin Evolution(lh) - 9M22 vs FY21 and 9M22 EBITDA-EBIT bridge (rh)





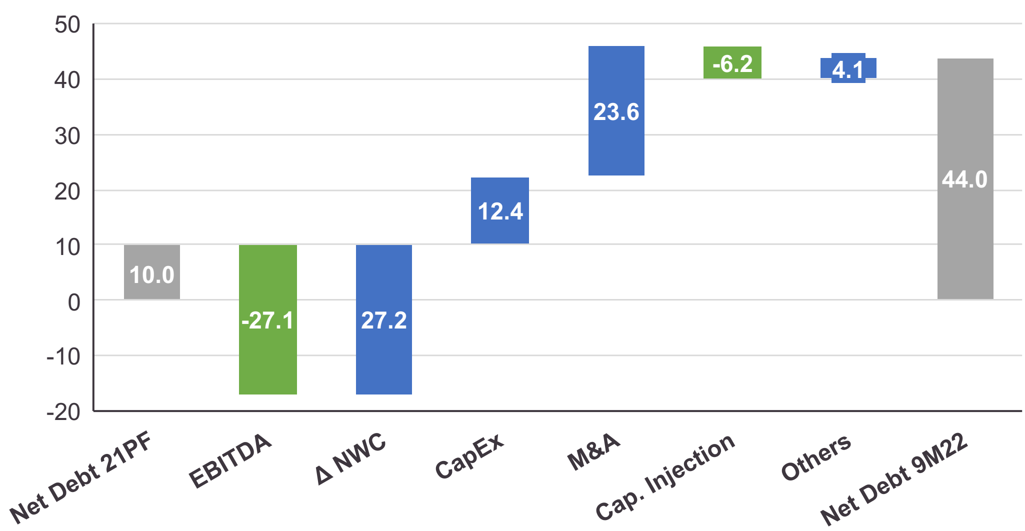
Source: Innovatec, Value Track Analysis

Compared to FY21PF, **Adj. Net Debt rose to €34mn** (€44mn including *HouseVerde* NWC) at the end of September, also due to the intensive M&A activity of the period (ca. €23.6mn including acquired debt, of which €2mn paid issuing INC new shares). More details on M&A on following sections of the report.

More, 9M22 CapEx amounted to €12.4mn, only partially offset by the accelerated book building of January (€4.2mn), while the other share issuance of last July (€2mn) was devoted to the ESI deal.

Finally, we rebate the strong delay of cash-in of tax credits related to *Superbonus 110%* works, following new fiscal regulations and banks' practices put in place since Q1. These changes are due to stay but the overall timing of these procedures should improve; yet it is taking longer than expected, also due to the worsened interest rate environment.

Innovatec: 9M22 Cash Flow (€mn)



Source: Innovatec, Value Track Analysis

Execution Assessment

On February 3rd, 2022, Innovatec presented a renewed business plan with strategic and financial targets to be reached by 2024. Over the following nine months the Group has been delivering a **timely execution of the strategic path** announced, demonstrating also **prompt reaction capabilities to the new scenarios** imposed by uncertain regulations on fiscal bonuses and despite a challenging market momentum. Therefore, the Company equity story is only marginally impacted by the new macro and regulatory scenario, and we continue to consider **INC as an appealing mix of a value, growth and "restructuring" play**.

2022-24 business plan targets and what has been achieved so far

Innovatec execution strategy is confirmed and our assessment is split between the two business units of the Group, aimed at seizing the ever-increasing opportunities of the European CleanTech industry arising from the strong demand driven by **sustainability themes** and **major Government support** with dedicated funds/policies towards a "zero emission" and "zero waste" society. We also briefly describe the steps undertaken in the innovation and venture capital space.

Energy Efficiency & Renewables: more balanced mix B2B / B2C

Innovatec first aim is to become a leader in the industry by increasing market share in its divisions, with relevant funds to intercept to drive exceptional business development:

- **B2C** (***HouseVerde*** project): benefitting from *Superbonus 110%* and future new national incentives acting as general contractor to facilitate the execution of technical works;
- **B2B** (***Innovatec Green Network*** project): EPC contractor of Agro-PV systems, fuelled by the energy transition activity introduced by *EU Green Deal* and *Italian Recovery Plan*.

While back in February the key driver for expansion was meant to be *HouseVerde* thanks to the booming nature of *Superbonus 110%* businesses, now the focus has shifted more towards the B2B division after (i) regulation uncertainties on new bonuses discount procedures and amounts (expected to be reduced, hence impacting business profitability and volumes); and (ii) financial institutions halting instalments and discounting procedures and more recently requiring higher fees post-tightening monetary policies.

The minority stakes acquired in *ESI* and *Frisbi*, the partnerships with *Coldiretti* and *Acli Terra*, and the purchase of *Albarum* three PV projects (more on the deals in the next section) represent the prompt reaction of the Group to these new market scenarios. Important volumes of Revenues from the B2B division should be generated from 2023 onwards. Mostly from the agro-PV developers and producers which have recently applied to the various tenders available to seize energy transition dedicated funds (€1.2bn), whose result should be visible in the coming months.

Still, *HouseVerde* should continue to heavily contribute to the BU development, albeit at a slower pace than expected, while as for FY2022 the financial results achieved by this project are extremely strong, according to 9M results and our Q4 estimates.

Hence, the Energy Efficiency business unit will continue to **guide families and businesses in the path of decarbonisation**, a priority of common European policy, while on the other it will offer **solutions to B2B and PA clients aimed at energy and environmental sustainability** and at the spread of PV systems, including agricultural and energy communities.

Environment & Circular Economy: M&A targets already achieved

Innovatec goals has always been to exploit the significant growth potential of the BU by:

- **Environmental Services**: increasing traditional treatment capacity of special non-hazardous waste through the extension of capacity and lifetime of existing landfills;
- **Circular Economy**: expanding service proposal of recycling processes (i) in core verticals (WEEE, batteries, tyres, paper) by heavy M&A activity to reach a national footprint (across the entire domestic market and not only in Northern regions); and (ii) developing innovative facilities in new verticals, such as *Metamorfosi* (recycling from mattresses) and *Innovatec Wall* (recycling from drywall).

Overall, the aim is to reduce the importance of the waste disposal activity in favour of recycling and recovery activities (Circular Economy increasing weight on Revenues vs. Environmental Services), following European “zero waste” policy on one hand and the EPR (Extended Producer Responsibility) directive (Circular Economy becoming extremely relevant for every producer) on the other.

Contrary to the Energy Efficiency BU, here the focus has been unchanged, and the majority of objectives has been already reached in terms of M&A and key actions. Indeed:

1. **M&A**: INC has already secured the 2024E Revenues and EBITDA targets from M&A (€15mn and €2.4mn, respectively, excluding Cobat), albeit investing a bit more than expected to accelerate the process of increasing the Group treatment capacity (ca. €16.6 excluding acquired debt vs. €12.4mn of the business plan, further details below). Now, INC is very close to reach a national footprint on treatment and recycle of WEEE, needing only one new facility in the South of Italy;
2. **Landfills**: requests for life and capacity extensions have been filed, but no response is arrived yet. Therefore, capex requirements have been slightly postponed;
3. **New Verticals of Circular Economy** (*Metamorfosi, Innovatec Wall*): Capex postponed following intense cash-out for M&A and longer Working Capital cycle due to fiscal credits as well as due to longer authorization processes.

Thanks to the recent developments of this business unit, Innovatec is now more than ever an **end-to-end integrated leader** in the provision of environmental services, with a **scalable business model that also ensures cost efficiency and flexibility to final consumers**.

Innovatec Venture: agreements in place for promising scouting and innovation

Innovatec Venture was set up as a vehicle to promote sustainable innovation by creating a factory in which innovative start-ups can thrive and evolve on an industrial scale. To achieve this, Innovatec Venture's role is not only that of an investor but also of a true industrial partner, providing its know-how, facilities and commercial footprint, with the aim of accelerating their scale-up. As part of its efforts to create a network of partners promoting sustainable innovation, Innovatec Venture announced the signing of various strategic collaboration agreements with:

- **Forest Valley Institute**, a non-profit company scouting interesting start-ups that aim at promoting Climate Innovation, i.e. the development of technology solutions to sustain the ecological transition of industries, city and territories;
- **Encubator** project (Politecnico di Milano), aimed at finding the seven best start-ups dedicated to energy transition and circular economy solutions;
- **Academy Start** (Liguria region) project, to sustain the most promising start-ups of the area through a dedicated mentorship program.

Also, Innovatec Venture has entered AIFI, the Italian Association of Private Equity, Venture Capital and Private Debt, that could enhance possibilities to find relevant partners in the CleanTech industry.

M&A Analysis: New Deals, Recap & outlook

Recent M&A and Partnerships

Since our last report of September, Innovatec has announced new M&A deals in the Environment & Circular Economy business (*PuliEcol Recuperi*, *AET*) and new strategic partnership for its B2B PV developments (*Coldiretti*, *Acli Terra*).

PuliEcol Recuperi Srl (70%)

On October 28th, *Haiki+* (Environment & Circular Economy BU) finalized an agreement to **acquire a 70% stake of *PuliEcol Recuperi Srl***. *PuliEcol* is an Italy-based company with a complex of plants in San Severino Marche (Marche region) and active in the collection, treatment and recovery of waste from electrical and electronic equipment (WEEE). PuliEcol recorded FY21 Sales for €6.7mn, with a low double-digit EBITDA margin and ca. €2.4mn Net Debt. FY22E results are due to show promising growth figures.

We calculate INC finalized the acquisition at ca. **6.8x-6.0x EV/EBITDA 2023E-24E**. Indeed, **INC paid €2.8mn for the purchase** of 70% of *PuliEcol* share capital, settled as:

- €2.0mn cash on October 28th to Leonardo Compagnucci (seller that retains 30% stake);
- €0.4mn cash before December 31st, 2022, and €0.4mn before June 30th, 2022.

Innovatec has also the right of a call option for the remaining 30% that could be exercise before September 30th, 2026. A premium of €0.4mn should be paid depending on 2024E-25E EBITDA.

We appreciate the industrial rationale of the deal, clearly aimed at (i) strengthening the Group national footprint for WEEE treatment and recovery, (ii) increasing its strategic asset base with 2 new innovative treatment plants, (iii) levering on potential revenues and costs synergies also thanks the acquisition of *Cobat* and *SEA*.

AET Srl (70%)

On November 3rd, *Haiki+* agreed to **acquire a 70% stake of *AET Srl***, Italian-based company with a plant in San Pietro di Morubio (Veneto region) and active in the sorting, valorization and recycling of plastic material from WEEE. AET recorded FY21 Sales for €2.8mn, with a low double-digit EBITDA margin and ca. €1.8mn Net Debt. FY22E results are due to show promising growth and profitability figures.

We calculate INC finalized the acquisition at ca. **1.5x-1.3x EV/Sales 2023E-24E**, **paying €2.7mn for the purchase** of 70% of *PuliEcol* share capital, settled as:

- €0.85mn cash on November 3rd to Paolino Guido Pavan (seller that retains 30% stake);
- €0.55mn cash before December 31st, 2022, and €1.32mn before June 30th, 2027.

The agreement also outlines a Call Option for the remaining 30% to be exercised before June 30th, 2027, and a Put Option to be exercised within 60 days after. The operation should enable Innovatec to (i) widen the value chain of WEEE thanks to the additional business of plastic material recovery, (ii) increase its asset base with a new plant, (iii) internalize the acquired skillset and apply the plastic valorization and recovery activity to the other plants managed by the Group.

Coldiretti (Partnership)

On September 19th, *Innovatec Power* (Energy Efficiency BU) and *Coldiretti* (largest association representing and assisting Italian agriculture) signed a memorandum of understanding to collaborate in the development of technological innovation and digitalization of agricultural companies associated with *Coldiretti*. The aim is to help such companies to benefit from €1.5bn resources from Italian PNRR dedicated to the construction of PV power plants and to energy efficiency activities in the agricultural sector. The agreement should introduce innovative solutions such as (i) new PV plants and storage systems on the roofs of stables and agricultural companies; (ii) revamping of existing PV systems; (iii) circular economy client reports, (iv) renewable energy communities, (v) electric vehicles charging stations.

Acli Terra (Partnership)

On September 26th, *Innovatec Power* and *Acli Terra* (Italian professional agricultural association) signed a memorandum of understanding to support companies associated with *Acli Terra* in reducing energy consumptions through renewable energy efficiency processes. The objective is to promote the diffusion of PV plants to create energy communities in line with ONU 2030 Sustainable Development Goals. The agreement includes (i) conventional PV plants, (ii) agro-PV plants (compatible with ground cultivation) and (iii) PV and storage systems installed on the roof of agricultural buildings.

Recap on FY 2022 deals

While additional info on these operations can be found in previous reports, here we summarise all the deals announced so far this year:

1. ***Cobat***: on top of the €9.0mn for the purchase of a 56.45% stake in Dec 2021, plus €4.2mn debt, an additional **€2.3mn** cash-out was announced for a further 19.51% stake (getting to 75.96%);
2. ***SEA***: **€2.75mn** cash-out for the acquisition of a 65% controlling stake, plus **€5mn** of debt, plus an additional commitment for **€0.9mn** (to be paid over five years) for a further 24.996%, leading INC to own a 90% stake and a put/call on the residual 10% (already set at €750k);
3. ***ESI***: **€6.5mn** for the purchase of 29.58% of share capital, settled as €4.5mn cash on for the purchase of 1,430,823 shares from Integra SpA and €2.0mn through a stock swap, with INC issuing 1,000,000 new shares at €2.00 p/s reserved to Integra SpA, that in turn would swap those shares with 635,922 *ESI* Shares, valued at €3.145 p/s;
4. ***Frisbi***: **€1.0mn** for the 30% of post-money share capital, to be settled as €0.5mn reserved capital for 15% of the post-money share capital and €0.5mn reserved capital increase up to 6 months after the cash-out of the first tranche for a further 15%.
5. ***PuliEcol Recuperi***: **€2.8mn** for 70% stake, o/w €2.0mn already paid;
6. ***AET***: **€2.7mn** for 70% stake, o/w €0.85mn already paid.

We also outline other #2 deals that we include in CapEx but could be classified as M&A:

1. ***Bensi 3***: **€3.6mn** (€1.4mn cash and €2.2mn leasing), owner of the leasing of the property adjacent to Innovatec HQ, and currently rent as HQ of Green-Up;
2. ***Albarum***: **€1.0mn** for the acquisition of the 100% of #3 PV projects (ca. 100 MW in total).

Business Plan M&A targets already met

Leaving out the *Cobat* deal - already consolidated in FY2021 Pro-Forma financials - we count #5 M&A deals in 2022 to date, out of these #3 of them should be fully consolidated from 2022E (*SEA, PuliEcol Recuperi* and *AET*), while *ESI* and *Frisbi* represent peripheral assets, given the acquisition of ca. 30% stake of each company, with a P&L contribution below the EBIT line.

Considering all these deals (again *Cobat* is included in our INC "organic" projections), we calculate a significant accretion on the Group P&L already from 2022PF (assuming PuliEcol and AET contributing for 12 months). More importantly, we estimate that **INC should already exceed its M&A business plan targets** by over €5mn at Revenues level and by ca. €0.5mn at EBITDA level.

Innovatec: YTD M&A Impact on Innovatec P&L and Cash Flow Statement vs. Business Plan Targets

Key Financials (€mn)	Innovatec Pre-M&A			Innovatec Post-M&A (*)			M&A Impact (Actual)			M&A Impact (BP Targets)
	2022E	2023E	2024E	2022PF	2023E	2024E	2022PF	2023E	2024E	2024E
Revenues	289.4	328.1	373.8	305.6	346.7	394.2	16.1	18.6	**20.4**	**15.0**
EBITDA	37.8	42.4	47.9	39.7	44.8	50.8	1.9	2.5	**2.9**	**2.4**
Net Profit	**10.8**	**13.3**	**17.2**	**11.1**	**14.0**	**18.4**	**0.3**	**0.7**	**1.2**	**n.a.**
Equity Investment		2.3 (**)			18.9			**16.6**		**12.4**
Net Debt Acquired		0.0			9.0			**9.0**		**n.a.**
M&A Investment		**2.3**			**27.9**			**25.6**		**n.a.**

Source: Value Track Estimates, (*) ESI and Frisbi impacting only Net Profit and Equity Investment given acquisition of just 29.58% and 30% stakes, (**) €2.3mn referred to acquisition of 19.51% additional stake in Cobat (getting to ca. 76% total stake, but already consolidated since 2021)

Premium price for premium growth potential

At first glance, acquisition multiples of recent M&A (considering only consolidated companies) might appear demanding vs. historical market multiples (INC peers usually trading at 6.5x-7.5x EV/EBITDA FY1) and M&A targets have been faster but investing ca. €4mn more than planned. However, acquired targets should experience a booming top line growth, enhancing their profitability thanks to significant costs synergies and driving revenues synergies within the business unit. Hence, if we focus on medium-term multiples, we calculate an aggregate 7.1x EV/EBITDA in 2024E, year in which the three entities should contribute with ca. €3mn EBITDA in total (not even considering fully-enabled synergies and revenues synergies).

Innovatec: Acquisition Multiples of YTD M&A (only consolidated businesses)

Valuation / Target Company	SEA			PuliEcol Recuperi			AET			Total M&A		
	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Equity Value (100%)	**4.4**	**4.4**	**4.4**	**4.0**	**4.0**	**4.0**	**3.9**	**3.9**	**3.9**	**12.3**	**12.3**	**12.3**
Net Financial Position	-5.0	-4.9	-4.6	-2.2	-2.1	-1.9	-1.7	-1.6	-1.5	-9.0	-8.6	-8.0
EV	9.4	9.4	9.1	6.2	6.1	5.9	5.6	5.5	5.4	21.3	21.0	20.4
EV/EBITDA (x)	**12.1**	**8.7**	**6.9**	**8.1**	**6.8**	**6.0**	**16.6**	**11.5**	**9.8**	**11.2**	**8.6**	**7.1**

Source: Value Track Estimates, (*) ESI and Frisbi not included in the analysis as not consolidated

Additional M&A potential and potential impact

Despite a few deals already finalized we believe INC could further exploit the massive consolidation opportunities in the industry, while controlling at the same time its financial leverage, i.e. without exceeding 1.5x Net Debt/EBITDA and Net Debt/Net Equity.

In fact, we estimate INC could expand its business by another 10% in the next 12 months by capturing further M&A opportunities on its leverage potential, based on our new 2023E estimates (detailed on next chapter) and assuming target(s) are acquired at 7.2x EV/EBITDA FY1 (in line with peers' multiples). Hence, INC could buy extra-growth of revenues and EBITDA, get a post-deal Net Debt/EBITDA ratio of 1.5x without further recapitalizations and, considering current interest rates on outstanding debt (ca. 5.5%), witness earnings and FCF accretion.

Innovatec: Potential War Chest and impact from Additional M&A

€mn	2023E
INC EBITDA 2023E *(VT Estimates)*	44.8
INC Net Debt 2023E *(VT Estimates)*	33.9
INC Net Debt / EBITDA (x)	**0.76**
Target Co's EBITDA FY1	5.8
Target Co's EV (= Additional Debt for INC)	41.5
Target Co's EV/EBITDA FY1 (x)	**7.2**
INC Net Debt Post-Deal	75.3
INC EBITDA Post-Deal	50.6
INC Net Debt / EBITDA Post-Deal (x)	**1.50**
Additional Cost of Debt (5.5% Interest Rate, post tax)	-1.7
Additional FCF/Earnings from Target Co	2.6
M&A Impact on INC Earnings / FCF	**0.9**

Source: Value Track Analysis

The implied Debt/Equity ratio in the simulation above would amount to 1.1x, in line with usual covenants.

Of course, a lower acquisition multiple or a lower interest rate on debt would point to additional war chest already from 2023E, and make deals more appealing, as shown in the table below, in a simplified simulation with no synergies and fixed rates.

Innovatec: M&A Impact Sensitivity to Debt Interest Rate and Target Co EV/EBITDA FY1

M&A Impact (€mn)		Target EV / EBITDA				
		5.2x	**6.2x**	**7.2x**	**8.2x**	**9.2x**
Interest Ratee	**4.5%**	2.2	1.6	1.2	0.9	0.6
	5.0%	2.1	1.5	1.0	0.7	0.5
	5.5%	1.9	1.3	**0.9**	0.6	0.3
	6.0%	1.7	1.2	0.7	0.4	0.2
	6.5%	1.6	1.0	0.6	0.3	0.0

Source: Value Track Analysis

Forecasts 2022E-24E

Estimates Revision

The trends outlined in 3Q22 should impact FY financial statements, following the slowdown of *HouseVerde* deliveries, higher structural costs (due to M&A) and rising operating expenses (due to energy and transportation inflation). Much of these costs should be rebated on final consumers and offset by growing synergies from 2023E onwards (*PuliEcol* and *AET* to be consolidated on P&L from January 2023), while the sharp rise of *Superbonus* discounting rates should impact Energy Efficiency profitability slightly more than expected.

In details, we revise:

- **Total Revenues** down by 1.6% in 2022E, as a consequence of *HouseVerde* postponement of works related to private condos in favour of villas (dedicated *Superbonus 110%* due to halt at the end March 2023 if 30% of works was finalized at the end of September) and to the lower pace of work execution due to longer fiscal credits discounting procedures by banks. For 2023E-24E our forecasts point to an upward revision of ca. 3% thanks to the full-year contribution of *PuliEcol* and *AET*. We remind that a slowdown of building renovation works for 2023-24E was already included in our previous update, albeit offset by the stronger output of the B2B PV business, strengthened by recent deals of *ESI* and *Frisbi*.

- **EBITDA** to lose c.a. €3.5mn in 2022E (because of lower Revenues on a relatively fixed cost structure) and ca. €2mn in 2023E-24E, with EBITDA margin closer to 13% vs 14% previously targeted, due to the lower contribution of the Energy Efficiency unit, partially compensated by the M&A contribution from 2023E in the Circular Economy unit. Indeed, government is set to confirm *Superbonus* incentives via fiscal credits with the new "*Decreto Aiuti 4ter*", albeit at lower rates of Government contributions already from 2023, if required documentation was not filed before 24 Nov. 2022 (i.e. 90% in 2023, then 70% in 2024 and 65% in 2025), more details on new decree in the Appendix. Innovatec has already started contractual revision procedures to share the impact of lower Government contributions with clients and suppliers (being in everyone's interest to continue to benefit from the incentive), as well as negotiating additional credit plafonds with financial institutions for a quicker cash-in of fiscal credits.

  On Environment & Circular Economy, we expect (i) price rebates and (ii) higher cost efficiency thanks to increasing synergies that should establish a solid barrier vs. potential inflationary pressures on raw materials and component costs.

  Despite the expected re-balance between the two business units and within the B2B and B2C activities of the Energy Efficiency business unit, we now assume B2C Energy Efficiency to represent ca. 22% of the Group EBITDA over 2023-2024E, assuming margins for these activities to fall from ca. 16% of FY2021/22E to 11% in 2024E.

- **EBIT** decreasing in line with EBITDA, as D&A and allocations for closure and post-closure landfills provisions should be in line with our latest estimates.

- **Net Profit** harmed by heavier financial charges - on higher net debt but flattish interest rates due to the issue of a new €8mn basket bond (pending full details we assume 5.5% fixed rate, 6 years' maturity) - and by higher minorities.

- **Net Financial Position** worsened by (i) *PuliEcol,* and *AET* investments, (ii) some additional Capex requirements (including *Albarum* investment), and (iii) adjustments to the acquisition of *SEA* minorities and debt. We rebate the temporarily higher volatility on *HouseVerde* and *Cobat* working capital that we believe should progressively normalize.

Innovatec: New vs. Old 2022E-24E estimates

Key Financials (IT GAAP, €mn)	2022E			2023E			2024E		
	Old	New	*Δ (%, €mn)*	Old	New	*Δ (%, €mn)*	Old	New	*Δ (%, €mn)*
Total Revenues	300.4	295.4	*-1.6%*	335.3	346.7	*3.4%*	381.6	394.2	*3.3%*
EBITDA	42.2	38.6	*-8.6%*	46.2	44.8	*-2.9%*	52.6	50.8	*-3.4%*
EBITDA Margin (%)	*14.0%*	*13.1%*	*-99bps*	*13.8%*	12.9%	*-84bps*	*13.8%*	12.9%	*-89bps*
EBIT	22.4	18.6	*-16.9%*	28.3	26.4	*-6.4%*	34.5	32.4	*-6.3%*
EBIT Margin (%)	*7.5%*	6.3%	*-115bps*	*8.4%*	7.6%	*-80bps*	*9.1%*	8.2%	*-84bps*
Net Profit	12.5	11.0	*-11.6%*	16.2	14.0	*-13.6%*	20.8	18.4	*-11.4%*
Net Financial Position	-27.3	-43.6	*-16.3*	-18.0	-33.9	*-15.9*	5.8	-8.1	*-13.9*

Source: Value Track Analysis

Forecasts 2022E-24E

Here below we report the full set of our updated financial forecasts. In brief, we forecast:

- **Total Revenues at €394mn in 2024E**, growing at 18.4% $CAGR_{21PF\text{-}24E}$ and now closer to the company's 2024E **target of €405mn;**
- **EBITDA at €50.8mn** with **EBITDA Margin at ca. 13% in 2024E,** this compared to a **€55mn target** and 13.7% margin as from the 2022-2024 Business Plan;
- **EBIT at €32.8mn** (3x 2021PF) and **EBIT Margin at 8.2% in 2024E** (vs 9% target);
- **Net Profit at €18.4mn**, growing at a $CAGR_{21PF\text{-}24E}$ of 43.5%, post minorities and assuming a zero-pay-out policy;
- **Net Debt to €8.1mn in 2024E** from €10.0mn in 2021PF despite over €27mn spent in M&A (including debt acquired). This compares to a more positive stance provided by INC business plan and it is mostly due to a higher M&A bill (ca. **€15**mn above the amount factored in the 3-year plan) and to our more cautious assumptions in terms of cumulated 2022-24E EBITDA and Capex.

Innovatec: 2021PF-24E Revenues and EBITDA by BU

(IT GAAP, €mn)	2021PF	2022E	2023E	2024E	*CAGR (%)*
Total Revenues	237.8	295.4	346.7	394.2	*18.4%*
o/w Energy Efficiency	67.4	100.5	122.0	150.0	*30.6%*
o/w Environmental Services	169.9	194.9	224.7	244.2	*12.9%*
EBITDA	32.9	38.6	44.8	50.8	*15.6%*
EBITDA Margin (%)	***13.8%***	***13.1%***	***12.9%***	***12.9%***	***-95bps***
o/w Energy Efficiency	10.5	12.7	14.0	15.9	*14.7%*
EBITDA Margin (%)	*15.6%*	*12.6%*	*11.5%*	*10.6%*	*-505bps*
o/w Environmental Services	22.3	25.9	30.8	34.9	*16.0%*
EBITDA Margin (%)	*13.2%*	*13.3%*	*13.7%*	*14.3%*	*113bps*

Source: Innovatec, Value Track Analysis

Innovatec: 2021PF-24E P&L

(IT GAAP, €mn)	2021PF	2022E	2023E	2024E	CAGR (%)
Total Revenues	**237.8**	**295.4**	**346.7**	**394.2**	***18.4%***
EBITDA	**32.9**	**38.6**	**44.8**	**50.8**	***15.6%***
EBITDA Margin (%)	*13.8%*	*13.1%*	*12.9%*	*12.9%*	*-95bps*
Depreciation & Amortization & Allocations	-22.2	-20.0	-18.4	-18.4	
EBIT	**10.7**	**18.6**	**26.4**	**32.4**	***44.5%***
EBIT Margin (%)	*4.5%*	*6.3%*	*7.6%*	*8.2%*	*370bps*
Net Fin. Income (Charges)	0.1	0.1	-3.0	-2.6	
Non-Operating Items	0.0	0.4	0.7	0.9	
Pre-Tax Profit	**10.8**	**19.1**	**24.1**	**30.7**	***41.8%***
Taxes	-4.0	-6.5	-8.0	-10.0	
Tax Rate (%)	*-36.8%*	*-34.1%*	*-33.2%*	*-32.5%*	
Group Net Profit	**6.8**	**12.6**	**16.1**	**20.7**	***44.9%***
Group Net Profit Margin (%)	*2.9%*	*4.3%*	*4.6%*	*5.3%*	*239bps*
Minorities	-0.6	-1.5	-2.1	-2.3	
Net Profit	**6.2**	**11.0**	**14.0**	**18.4**	***43.5%***
Net Profit Margin (%)	*2.6%*	*3.7%*	*4.0%*	*4.7%*	*205bps*

Source: Innovatec, Value Track Analysis

Innovatec: 2021PF-24E Cash Flow Statement

(IT GAAP, €mn)	2021PF	2022E	2023E	2024E
EBITDA	**30.8 (*)**	**38.6**	**44.8**	**50.8**
∆ NWC	-17.9	-15.5	4.8	1.6
Capex	-7.3	-19.4	-24.1	-11.0
∆ Provisions	2.4	-4.7	-0.4	1.5
OpFCF b.t.	**8.0**	**-1.1**	**25.2**	**42.8**
As a % of EBITDA	*26.0%*	*-2.7%*	*56.2%*	*84.2%*
Cash Taxes	-4.0	-6.5	-8.0	-10.0
OpFCF a.t.	**4.1**	**-7.6**	**17.2**	**32.8**
Capital Injections	1.8	6.0	0.0	0.0
Other Op. Items / M&A	-26.6	-32.1	-4.4	-4.4
Net Financial Charges	0.1	0.1	-3.0	-2.6
Dividends Paid	0.0	0.0	0.0	0.0
∆ Net Financial Position	**-20.7**	**-33.6**	**9.8**	**25.8**

Source: Innovatec,. Value Track Analysis (*) EBITDA Reported (net of Cobat)

Innovatec: 2021PF-24E Balance Sheet

(IT GAAP, €mn)	2021PF	2022E	2023E	2024E
Net Working Capital	6.7	22.2	17.3	15.8
As a % of Total Revenues	*2.8%*	*7.5%*	*5.0%*	*4.0%*
Net Fixed Assets	77.2	107.2	118.0	116.0
Provisions	43.2	38.5	38.1	39.6
Total Capital Employed	**40.7**	**90.9**	**97.2**	**92.2**
As a % of Total Revenues	*17.1%*	*30.8%*	*28.0%*	*23.4%*
Shareholders' Equity	25.4	42.4	56.4	74.8
Minorities' Equity	5.3	4.9	7.0	9.3
Group Net Equity	**30.7**	**47.3**	**63.4**	**84.1**
Net Fin. Position [i.e. Net Debt (-) Cash (+)]	**-10.0**	**-43.6**	**-33.9**	**-8.1**

Source: Innovatec, Value Track Analysis

Valuation

The (i) postponement of activities linked to *Superbonus 110%* and slightly lower related margins and (ii) the higher financial indebtedness due to heavier-than-expected M&A activity made us adjust our forecasts. This has slightly impacted INC short-term valuation. Still, we are broadly confirming the Group **fair equity value to €2.5 per share** (from €2.6 p/s), hinting at ca. 40% upside from current market price.

We reiterate our very positive view on the stock, considering:

1. **Brilliant business updates**, only affected by exogenous factors such as adverse macroeconomic drivers and uncertainty on fiscal bonuses regulation;
2. **Clear and confirmed strategic path,** adapted to respond to changing market scenarios, but still fully on track to achieve the business plan targets (a Business Plan update is expected in the first months of 2023);
3. **Strong M&A execution capabilities**, demonstrated with potentially earning-enhancing deals delivered much faster than expected to accelerate sales and costs synergies;
4. **Medium-term rolling valuation model pointing at €3.3 fair value p/s**, a surge of ca. 1.8x from current market price over the next two years, based on current market ratings and subject to additional growth opportunities not factored in our estimates (landfills expansion, further M&A, direct financing from EU Green Deal and/or Italian Recovery Fund);
5. **Spotless renewed equity story**, focused on the most attractive market opportunities of the Energy and Environment industries (e.g. secular trends of Energy transition and Circular Economy), tied to dedicated European and national funds, intercepted by highly experienced top management.

Our €2.5 fair value p/s is the average of:

- **Long-term DCF model**, with 8.4% WACC and 7.2x TV/EBITDA exit multiple, returning a €2.7 fair equity value p/s (from €2.8 p/s);
- **Short-term Peers' Analysis**, returning a €2.2 fair value p/s (from €2.4 p/s), much more impacted by new 2022-23E estimates.

At fair value INC stock would trade at **1.1x-0.9x EV/Sales, 8.3x-7.0x EV/EBITDA 2022E-23E**.

Innovatec: Implicit Multiples Sensitivity between €1.9-€3.1 Share Price

Share price	EV / Sales (x)		EV / EBITDA (x)		EV / EBIT (x)		P / E Adj. (x)	
	2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E
€ 1.9	0.9	0.7	6.8	5.7	14.1	9.7	13.5	11.0
€ 2.2	1.0	0.8	7.6	6.3	15.7	10.7	15.6	12.8
€ 2.5	**1.1**	**0.9**	**8.3**	**7.0**	**17.2**	**11.8**	**17.7**	**14.5**
€ 2.8	1.2	1.0	9.1	7.6	18.8	12.9	19.8	16.3
€ 3.1	1.3	1.1	9.8	8.3	20.3	14.0	21.9	18.0

Source: Value Track Analysis

Discounted Cash Flow Model

Our model returns a **€2.7 fair equity value per share** and derives WACC from the Capital Asset Pricing Model approach, relying on the following assumptions:

- 2.0% risk free rate in line with medium / long term target inflation;
- 0.75 unlevered Beta and 7.8% Equity Risk premium (Damodaran online web site);
- 1.0% small/mid cap additional risk premium;
- 3.0% after-tax cost of debt implicitly calculated considering the above-mentioned 2.0% risk free rate, a 2.0% credit spread and 24% corporate tax rate;
- 30% target capital structure (Net Debt/Total Capital Employed), given INC potential reinvestments of the strong cash generation expected over the next few years.

Hence, we calculate an 8.4% WACC.

For the terminal value, we apply an exit 7.2x TV/EBITDA multiple to INC EBITDA 2030E in line with sector's historical average for FY1.

In addition, it is worth to mention that our model includes additional liabilities for €35.6mn, linked to the cost of minorities (namely *Vescovo Romano, Cobat, SEA, PuliEcol, AET*), the costs for the closure/post closure of the landfill business (in line with allocations in the balance sheet) and adjusted for new peripheral assets for ca. €10mn (including €5.2mn *ESI*, €1mn *Frisbi*).

Innovatec: DCF Model

DCF Model	(€mn)
PV of future cash flows FY23E-FY30E	146.8
PV of Terminal Value @ 7.2x TV/EBITDA FY30E	191.5
Fair Enterprise Value	**338.3**
Net Financial Position FY22E	-43.6
Less minorities and other liabilities, plus peripheral assets	-35.6
Fair Equity Value	**259.1**
NOSH (mn)	96.4
Fair Equity Value p/s (€)	**2.7**

Source: Value Track Analysis

Innovatec: DCF model sensitivity to WACC (%) and TV/EBITDA exit multiple (x)

Equity Value p/s (€)		TV / EBITDA				
		6.4x	6.8x	7.2x	7.6x	8.0x
WACC	7.4%	2.7	2.8	2.9	3.0	3.1
	7.9%	2.6	2.7	2.8	2.9	3.0
	8.4%	2.5	2.6	**2.7**	2.8	2.9
	8.9%	2.4	2.5	2.6	2.7	2.8
	9.4%	2.3	2.4	2.5	2.6	2.7

Source: Value Track Analysis

Peers' analysis

Peers' analysis gives a **€2.2 fair equity value per share,** based on EV/EBITDA fair multiples of 7.5x-6.1x for FY2022E-FY23E, i.e. in line with current trading ratings of Italian and international comparables, whose market multiples have recently re-rated despite more bearish macroeconomic settings.

Innovatec: Peers' stock trading multiples

Peers Cluster	Market Cap (€mn)	EV / Sales (x)		EV / EBITDA (x)		EV / OpFCF (x,*)		P / E Adj. (x)	
		2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E
Energy Efficiency - Average	**711.9**	**1.3**	**1.1**	**7.1**	**5.5**	**9.0**	**6.7**	**13.1**	**10.0**
Energy Efficiency – Median	62.0	0.9	0.6	6.4	4.7	8.1	5.9	12.5	9.8
Environmental Services - Average	**618.7**	**1.4**	**1.2**	**8.1**	**6.7**	**14.6**	**14.8**	**16.2**	**14.9**
Environmental Services - Median	352.9	1.2	1.2	6.8	7.1	14.1	13.5	14.9	13.8
Total Average	**669.9**	**1.3**	**1.2**	**7.5**	**6.1**	**11.6**	**10.3**	**14.5**	**12.2**
Total Median	**154.5**	**0.9**	**0.7**	**6.8**	**5.9**	**10.1**	**9.7**	**13.5**	**11.9**
Innovatec @ Mkt Price	**173.6**	**0.9**	**0.7**	**6.6**	**5.5**	**13.2**	**11.9**	**12.7**	**10.5**

Source: Market Consensus, Value Track Analysis, (*) OpFCF computed as (EBITDA-Capex)

According to the model above we value the stock at 7.5x-6.1x EV/EBITDA for FY22E-23E, in line with peers' total average, and get to a fair equity value per share of €2.2. Same as in our DCF model, for the Equity estimate we considered some additional liabilities, which are linked to the cost of minorities, the costs for the closure/post closure of the landfill business, as well as the Group peripheral assets.

Innovatec: Valuation at fair multiples (EV/EBITDA)

(€ mn)	2022E	2023E
Fair Multiple EV/EBITDA(x)	7.5	6.1
Innovatec EBITDA	38.6	44.8
Fair Enterprise Value	**291.2**	**271.5**
Net Financial Position	-43.6	-33.9
Less minorities and other liabilities, plus peripheral assets	-35.6	-38.2
Fair Equity Value	**211.9**	**199.4**
NOSH (mn)	96.4	96.4
Fair Equity Value p/s (€)	**2.2**	

Source: Value Track Analysis

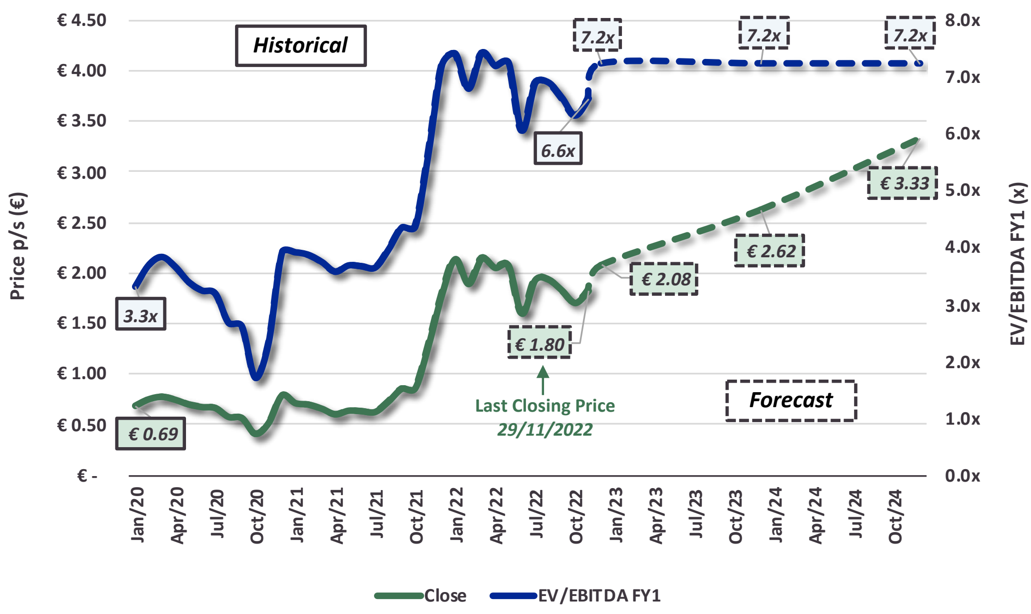
Updating our Rolling Valuation model

While our €2.5 fair value per share is a base-case / short term scenario, we do not rule out substantial value accretion coming from a longer term horizon and/or additional growth opportunities not factored in our estimates, including (a) the **extension of Bedizzole landfill** residual life; (b) **direct financing from EU Green Deal and Italian PNRR**, on top the boost expected by Government funds to final demand in Energy Efficiency and Circular Economy; (c) free cash flow **reinvestment for additional M&A**.

In order to evaluate the medium-term impact of a seamless execution of the Business Plan 2022-24E and of Innovatec management ability to reap further opportunities, we run a **Rolling Valuation model.** It assumes the stock to maintain a valuation multiple of 7.2x EV/EBITDA, in line with peers' FY1 average over the last year (as a proxy for "normalized" or mid-cycle multiple), that would translate into a **€3.33 value per share in two years' time (November 2024E)**.

This implies ca. 1.8x two-year cash-on-cash return on current market price (€1.80 p/s as 29/11/22).

Innovatec: Rolling Valuation - Trend of share price and EV/EBITDA FY1



Source: Value Track Analysis

Appendix – Peers' Trading Multiples

Innovatec: Peers' stock trading multiples

Peers Cluster	Market Cap (€mn)	EV / Sales (x)		EV / EBITDA (x)		EV / OpFCF* (x,*)		P / E Adj. (x)	
		2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E
Edilizia Acrobatica	125.8	0.9	0.8	3.8	3.5	4.1	3.8	7.4	6.8
Sciuker	161.4	1.0	0.6	3.4	2.3	4.8	2.7	6.5	5.2
Nusco	27.4	0.7	0.6	5.6	4.2	nm	4.9	10.9	8.4
A.B.P. Nocivelli	114.2	0.7	0.6	5.4	4.7	6.4	5.7	11.9	11.4
Comal	34.2	1.1	0.8	13.3	9.6	20.0	13.3	21.3	17.1
Renergetica	56.6	0.8	0.6	9.6	8.6	9.7	8.7	13.0	12.4
ESI	17.6	4.6	3.8	7.2	5.0	8.8	5.9	14.1	9.8
Agatos	7.7	0.7	0.5	>30	3.0	nm	3.7	nm	2.2
Inspired	62.0	2.2	2.6	5.1	4.5	7.1	6.4	10.0	6.2
Arcadis	3,369.4	0.3	0.2	9.9	8.8	12.0	10.7	18.3	16.4
Spie	3,854.6	1.0	1.0	7.2	6.7	8.1	7.5	17.4	14.7
Energy Efficiency – Average	**711.9**	**1.3**	**1.1**	**7.1**	**5.5**	**9.0**	**6.7**	**13.1**	**10.0**
Energy Efficiency – Median	62.0	0.9	0.6	6.4	4.7	8.1	5.9	12.5	9.8
Mo-bruk	206.6	0.6	0.6	6.8	7.7	11.7	23.2	9.7	8.6
Renewi Plc	509.9	3.6	3.2	4.5	4.5	10.1	8.6	7.2	8.1
Biffa Plc	1,419.3	0.6	0.6	8.6	8.0	17.9	15.1	41.2	27.4
Seri Industrial	293.0	1.2	1.2	19.4	9.4	nm	16.2	nm	24.4
Séché Environnement	750.1	1.9	1.3	6.2	5.9	15.9	13.5	15.7	14.9
Lassila & Tikanoja	412.7	1.3	1.2	6.1	5.8	13.2	12.3	14.3	13.2
Pizzorno Environnement	135.9	0.7	0.7	3.8	3.3	6.7	11.2	15.4	14.5
Befesa	1,692.8	0.7	0.6	9.9	8.4	15.1	13.0	15.7	13.8
Greenthesis	147.7	2.0	1.9	7.7	7.1	26.3	19.7	10.6	9.2
Environmental Services – Average	**618.7**	**1.4**	**1.2**	**8.1**	**6.7**	**14.6**	**14.8**	**16.2**	**14.9**
Environmental Services – Median	412.7	1.2	1.2	6.8	7.1	14.1	13.5	14.9	13.8
Total Average	**669.9**	**1.3**	**1.2**	**7.5**	**6.1**	**11.6**	**10.3**	**14.5**	**12.2**
Total Median	**154.5**	**0.9**	**0.7**	**6.8**	**5.9**	**10.1**	**9.7**	**13.5**	**11.9**
Innovatec @ Mkt Price	**173.6**	**0.9**	**0.7**	**6.6**	**5.5**	**13.2**	**11.9**	**12.7**	**10.5**

Source: Market Consensus (Stock prices as of 24-11-2022, INC as of 29-11-2022), Value Track Analysis, (*) OpFCF computed as (EBITDA-Capex)

Appendix – *Decreto Aiuti 4ter* on *Superbonus*

The "*Decreto Aiuti Quarter*" was published on the Italian Official Journal on 18th November 2022, with *Superbonus 110%* amendments thus becoming official.

Here is a brief recap of the most important changes of regulation.

What's new with "*Decreto Aiuti Quater*" on *Superbonus 110%?*

Type of building/Entity	Key Regulations
Condominiums and multi-family buildings (*)	◆ 110% deduction available up to 31 December 2022; ◆ 90% deduction available up to 31 December 2023 (before the new decree, the percentage was 110% for 2023 as well) (**); ◆ 70% deduction available up to 2024; ◆ 65% deduction available up to 2025.

(*) i.e., buildings with no more than 4 units even if owned by a single owner or co-owned by several parties;
(**) the maxi-deduction at 110% is also available in 2023 if the CILA (certified notice of beginning of works) has been issued before 25 November 2022 and, in the case of works on condominium buildings, if the condominium meeting also approved the execution of the works before 25 November 2022.

Single-family dwellings	◆ Postponement to 31 March 2023 (previously on 31 December 2022) of the deadline for completing the 110% *facilitating* works, provided that, on 30 September 2022, works have been carried out for at least 30% of the total intervention (*non-facilitating* works may also be included in the calculation); ◆ For works started on / after 1 January 2023, the deduction is also 90% for expenses incurred before 31 December 2023, as long as: (i) the taxpayer holds the right of ownership or other real right of use of real estate unit; (ii) the property unit is used as the principal dwelling; (iii) the taxpayer has a reference income not exceeding €15k (*).

(*) To calculate the reference income, it is necessary to add up the total income of the applicant, the spouse (or cohabiting partner or civil partner) and the family members who are tax dependent. The amount obtained is divided by a coefficient, which is equal to 1 if there is only the applicant. If there is also a cohabiting partner/married partner, 1 is added to the coefficient; if there is one dependent family member, 0.5 is added; with two family members, 1 is added; with three or more family members, 2 is added.

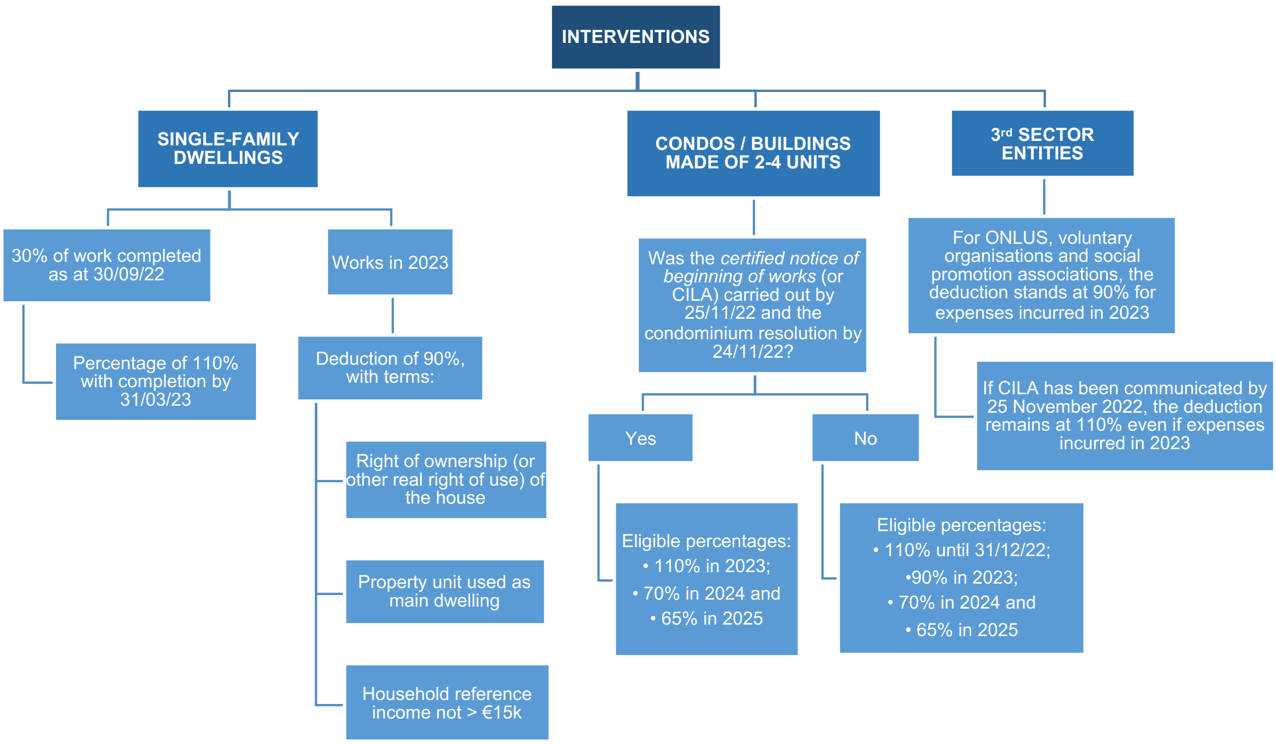
No profit organizations (ETS)	◆ For non-profit, volunteers' organizations and social promotion associations, the deduction stands at 90% for expenses incurred in 2023. If CILA has been communicated by 24 November 2022, the deduction remains at 110% even for expenses incurred in 2023 (*).

(*) The superbonus, on the other hand, continues to apply at the rate of 110% until 2025 for entities that carry out activities for the provision of social, health and care services, and whose board members do not receive any remuneration or allowance for their office, for work on real estate falling within the cadastral categories B/1, B/2 and D/4, as property, bare ownership, usufruct or gratuitous loan.

Tax Credits	Key Regulations
Tax Credits	◆ Already recognized tax credits may be discounted in 10 years (instead of 5 years, as planned originally, and 4 years from 1.1.2022), if the related communication was sent by the assignee to the Revenue Agency before 31 October 2022. This measure is aimed at lightening financial institutions annual cash-out per single operation, hence easing up the market. Also, the portion of the tax credit not used in one year cannot be discounted in subsequent years and cannot be claimed back; ◆ The is no proposal for the cash-in of tax credits arising from new operations (i.e., tax credits not yet recognized).

Source: IPSOA, Various, ValueTrack Analysis

What's new with "*Decreto Aiuti Quater*" on *Superbonus 110%?*



Source: IPSOA, Various, ValueTrack Analysis

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