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ANTARES VISION | FY2019 results

BUY *(Unchanged)*

Target: € 11.4 *(€12ps)* | Risk: High

EQUITY RESEARCH

Italy | Technology

STOCK DATA	
Price €	10.5
Bloomberg code	AV IM
Market Cap. (€ mn)	610
Free Float	12%
Ordinary Shares Out. (mn)	57.9
52-week range	9-13
Daily Volumes	8,597

PERFORMANCE	1M	3M	12M
Absolute	9.4%	-2.1%	-16.7%
Rel. to FTSE all shares	8.1%	26.5%	4.9%

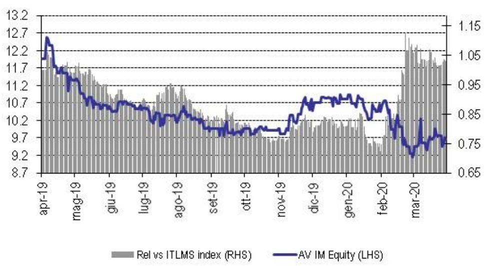
MAIN METRICS	2020E	2021E	2022E
Revenues	128	156	184
Adj.EBIT	23	37	46
Net income	20	26	33
Adj. EPS - € cents	26	45	56
DPS ord - € cents	0	9	11

MULTIPLES	2020E	2021E	2022E
P/E	31.2 x	23.2 x	18.4 x
P/E adj. ex-cash	39.4 x	22.0 x	16.8 x
Adj. EV/EBIT	26.9 x	15.7 x	12.2 x

REMUNERATION	2020E	2021E	2022E
Div. Yield ord	0.0%	0.9%	1.1%
FCF yield	0.8%	4.8%	4.4%

INDEBTEDNESS	2020E	2021E	2022E
NFP	14	43	64
Debt/EBITDA	n.m.	n.m.	n.m.
Interests cov	n.m.	n.m.	n.m.

PRICE ORD LAST 365 DAYS



SUBDUED RESULTS BUT MEDIUM-TERM STORY IS INTACT

AV reported FY19 results that resulted below our expectations mostly due to higher labour cost. Covid-19 is expected to impact 2020 economics but mega trends remain intact (or even reinforced).

■ FY19 wrap-up: strategic investments (labour) influenced results

- Sales=€122.4mn (+7.6%) vs €125.6mn exp.
- Adj. EBITDA=€31.5mn (+7.3%) vs €35.0mn exp.
- Net Income=€20.8mn (+4.4%) vs €23.8mn exp.
- NFP=€17.6mn vs €35mn exp. (at same accounting principles)

FY19 was below expectations while offering a flattish YoY trend:

- **Sales: with the same scope of consolidation and accounting principles** (IFRS 15 reduced 2018 sales by €-5mn), **organic sales showed a slight growth (+1.5% YoY) but lower than expected (implicitly +3% YoY after the 2018 restatement);**
- **First margin: it was better in % terms** (+950bps YoY at 73.2% vs. 72% expected) but €1mn below expectations in absolute terms;
- **EBITDA was affected by higher labour costs (€+2.5mn vs exp.): AV hired more than 130 employees on a stand-alone basis!** With the same scope of consolidation and accounting principles, we estimate a flat EBITDA YoY;
- **NFP was worse than expected due to lower EBITDA, higher NWC** (we estimate €-12mn ex FT vs €-4mn exp.) and M&A cash-outs (we did not include recent deals amounting to €4mn). **Reported NFP (€10.7mn)** was influenced by IFRS 16 leasing (about €3mn) and warrant effect (€+4.5mn).

■ Covid-19 to affect 2020 results but mega trends are intact

During the conference call, **management stressed the strategic relevance of the recent M&A deals (FT System in particular) and the positive impacts that this health crisis can trigger on business.** Main messages:

- **Structural trends are intact/strengthened by the current crisis** (greater need for security/transparency/quality). As an example, AV is collaborating with San Raffaele in Milan for a platform dedicated to the reduction of errors in the medicine distribution;
- **Industrial pilots are moving forward** with increasing attention from non-Pharmaceutical sectors (e.g. agricultural);
- **Impacts from Covid (postponements/delays)**: turnover is likely to fall with labour costs rising to support future development;
- **2021-22: in the m/t room to return to an EBITDA margin >25%** (vs 20% exp. in 2020 from 25.7% in 2019) **and with organic growth in sales >20%;**
- **M&A: focus on M&A both on small/medium size targets** (€50-60mn EV).

■ Estimates: 2020-21 Adj. EPS -48%/-27%

Based on company's indications, we have significantly cut our 2020-21 estimates (sales -22/-18%, Adj. EPS -48/-27%). 2020-21 organic sales growth is now -11% and +22%. Our Adj. EPS 2021 is +8% vs. 2019 PF (€24mn).

■ Equity story remains intact. Waiting for the rebound in order intake

While we have cut estimates significantly we have only slightly trimmed our target (-5% to €11.4ps or 2021 Adj.PE=25x) because we:

- **Remain confident on AV's mid-term growth opportunities supported by attractive market fundamentals, penetration of new end-markets and the synergies from the smart combination with FT System;**
- **See AV as a clear winner in the industry given its ability to deliver complex/technologically advanced solutions.**

MAIN FIGURES € mn	2017	2018	2019	2020E	2021E	2022E
Revenues	**90**	**114**	**122**	**128**	**156**	**184**
Growth	53%	27%	8%	4%	22%	18%
EBITDA	**24**	**29**	**32**	**26**	**40**	**49**
Growth	79%	23%	7%	-19%	57%	22%
Adj.EBIT	**23**	**29**	**29**	**23**	**37**	**46**
Growth	83%	24%	3%	-23%	64%	24%
EBIT	**23**	**29**	**29**	**23**	**37**	**46**
Growth	83%	24%	3%	-23%	64%	24%
Profit before tax	**22**	**27**	**29**	**21**	**36**	**45**
Growth	75%	21%	7%	-28%	68%	26%
Net income	**15**	**20**	**22**	**20**	**26**	**33**
Growth	67%	28%	12%	-12%	35%	26%
Adj. net income	**16**	**20**	**21**	**15**	**26**	**33**
Growth	76%	28%	4%	-27%	70%	26%

MARGIN	2017	2018	2019	2020E	2021E	2022E
Ebitda Margin	26.7%	25.8%	25.7%	20.0%	25.7%	26.7%
Ebitda adj Margin	26.7%	25.8%	25.7%	20.0%	25.7%	26.7%
Ebit adj margin	25.7%	25.1%	24.0%	17.6%	23.6%	24.9%
Pbt margin	25.1%	23.9%	23.9%	16.5%	22.8%	24.3%
Ni rep margin	17.2%	17.3%	18.0%	15.3%	16.9%	18.0%
Ni adj margin	17.3%	17.5%	17.0%	11.9%	16.7%	17.7%

SHARE DATA	2017	2018	2019	2020E	2021E	2022E
EPS - € cents	n.a.	37.2	38.0	33.6	45.3	57.0
Growth	n.a.	-	2%	-12%	35%	26%
Adj. EPS - € cents	n.a.	37.5	35.8	26.3	44.7	56.2
Growth	n.a.	-	-5%	-27%	70%	26%
DPS ord - € cents	n.a.	0.0	0.0	0.0	9.1	11.4
BVPS	n.a.	1.0	2.0	2.4	2.8	3.3

VARIOUS - € mn	2017	2018	2019	2020E	2021E	2022E
Capital employed	31	22	107	124	122	129
FCF	3	10	6	5	29	27
Capex	2	2	10	10	6	3
Working capital	27	37	52	57	55	65

INDEBTNESS - €mn	2017	2018	2019	2020E	2021E	2022E
NFP	9	30	11	14	43	64
D/E	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Debt/EBITDA	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Interests cov	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.

MARKET RATIOS	2017	2018	2019	2020E	2021E	2022E
P/E	n.a.	26.9 x	28.7 x	31.2 x	23.2 x	18.4 x
P/E adj	n.a.	26.6 x	30.4 x	40.0 x	23.5 x	18.7 x
P/E adj. ex-cash	n.a.	25.1 x	28.6 x	39.4 x	22.0 x	16.8 x
PBV	n.a.	10.2 x	5.4 x	4.5 x	3.7 x	3.2 x

EV FIGURES	2017	2018	2019	2020E	2021E	2022E
EV/Sales	n.a.	4.42 x	5.0 x	4.7 x	3.7 x	3.0 x
Adj. EV/EBITDA	n.a.	17.1 x	19.3 x	23.7 x	14.4 x	11.4 x
Adj. EV/EBIT	n.a.	17.6 x	20.6 x	26.9 x	15.7 x	12.2 x
EV/CE	n.a.	22.7 x	5.7 x	4.9 x	4.8 x	4.3 x

REMUNERATION	2017	2018	2019	2020E	2021E	2022E
Div. Yield ord	n.a.	0.0%	0.0%	0.0%	0.9%	1.1%
FCF yield	n.a.	1.9%	0.9%	0.8%	4.8%	4.4%
ROCE	52.5%	93.2%	21.1%	13.6%	22.7%	26.7%
ROE	38.3%	37.9%	18.9%	14.3%	16.1%	17.3%

Source: Company data and EQUITA SIM estimates. 2018 multiples and numbers are pre-money.

BUSINESS DESCRIPTION

AV is an entrepreneurial story and one of the leading global players in the production and marketing of solutions for tracking drugs (T&T, about 55% of pro-forma sales of the Group) **and machines for visual inspection** (about 33% of pro-forma sales).

After 10 years from its set-up, AV:

- **Is the world's leading pharmaceutical Track & Trace (T&T) solutions provider**, and one of the top players in visual inspection for the pharma/beverage sector;
- **Serves the entire market and it is the main supplier and in some cases the sole suppliers of 10 of the 20 most important pharmaceutical groups in the world (Sanofi, Abbott etc.)** having installed 2000+ serialisation lines at 200+ production facilities globally.
- **Generates almost €142mn sales and €36mn EBITDA (pro forma, 12M of FT System).**

In 2019, AV executed a quite interesting and strategic acquisition buying FT System (EV=€60mn), an Italian company operating in the F&B inspection business.

The financial structure is very strong (2019 cash neutral) also thanks to the recent capital increases coming from the new industrial partners and from the ALP.I SPAC (for a total of €90mn).

The m/l term strategy is clear:

- To continue benefitting from favourable regulatory trends in the pharmaceutical segment (e.g global penetration of T&T phase 1 <30%);
- Penetrating new reference markets (T&T on industrial sectors) and
- Expanding into the field of visual inspection and software development for corporate data management.

AV was listed in 2019 thanks to the SPAC ALP.I and the current shareholding structure is the following: Regolo (two founders) at 74%, Sargas (holding composed by important entrepreneurs like the Barilla family) at 14% and free-float at 12%.

ANTARES VISION – 4Y HISTORICAL TREND

	2016	2017	2018	2019*
Sales	**58.7**	**89.6**	**113.8**	**122.4**
Yoy growth	31.3%	52.7%	26.9%	7.6%
EBITDA	**13.4**	**24.0**	**29.3**	**31.5**
margins	22.8%	26.7%	25.8%	25.7%

*Source: Equita SIM on company *Including 3M of FT System*

Strenghts/opportunities	Weaknesses/threats
• Strong relationships with main Pharmaceutical and Beverage companies	• Still high exposure to the Pharma sector
• Technological leadership and production flexibility	• Dependence on regulation (T&T Pharma)
• Exposure to growing sectors	• Not full control of the production side (externalization)
• Expansion in industrial sectors	• Increase in the cost/complexity of finding the workforce necessary
• Cross-selling opportunities	• Potentially “disruptive” technological innovation from competitors
• M&A deals	
• Increased exposure to corporate software	

SUBDUED RESULTS BUT STRATEGIC INVESTMENT IN THE WORKFORCE

FY19 results (including 3 months of FT System):

- Sales=€122.4mn (+7.6%) vs €125.6mn exp.
- Adj. EBITDA=€31.5mn (+7.3%) vs €35.0mn exp.
- Net Income=€20.8mn (+4.4%) vs €23.8mn exp.
- NFP=€17.6mn vs €35mn exp. (at same accounting principles)

While FY19 results were not subdued in absolute terms (basically flat if we exclude FT System) they were not in line with a company supposed in 2020 to grow on a LFL basis.

That said, before analysing results we point out two aspects:

- **AV changed its accounting standards from ITA GAAP to IFRS/IAS. In particular IFRS 15 brought important modifications.** In fact, IFRS 15 changed the way sales are considered. Sales are now accounted when machines are actually installed (vs ITA GAAP when machines are delivered). This new accounting rule brought material changes to 2018 (minimal on 2019): €-5.4mn of sales and -€4.2mn of EBITDA.

  Here below you can see all the changes (P&L and BS level).

ANTARES VISION: INCOME STATEMENT (IFRS RECONCILIATION)

Detailed overview of main income statement IFRS items reconciliation to Italian GAAP

€'000	FY18 GAAP	Adjustments	FY18 IFRS		FY19 GAAP	Adjustments	FY19 IFRS
Revenues	**119,165**	**(5,380)**	**113,786**		**142,664**	**83**	**142,747**
Value of Production (VoP)	**121,482**	**(5,380)**	**116,102**		**149,386**	**83**	**149,469**
COGS	(37,577)	1,155	(36,422)		(37,154)	(64)	(37,218)
Commercial costs	(3,219)	-	(3,219)		(3,190)	2	(3,188)
Installation expenses	(4,025)	-	(4,025)		(5,992)	-	(5,992)
First Margin	76,661	(4,225)	72,436	1	103,050	21	103,071
First Margin % on Revenues	*64.3%*		*63.7%*		*72.2%*		*72.2%*
Third party assets	(1,533)	-	(1,533)	2	(2,668)	824	(1,844)
Operating expenses	(101)	-	(101)		(134)	-	(134)
Services	(15,363)	0	(15,363)		(23,075)	33	(23,042)
Added Value	59,663	(4,225)	55,438		77,173	877	78,050
Added Value % on Revenues	*50.1%*		*48.7%*		*54.1%*		*54.7%*
Labour cost	(26,107)	14	(26,092)	3	(42,099)	54	(42,045)
EBITDA	33,556	(4,211)	29,346		35,075	931	36,006
EBITDA % on Revenues	*28.2%*		*25.8%*		*24.6%*		*25.2%*
D&A and provisions	(871)	94	(777)	4	(1,921)	(459)	(2,380)
EBIT	32,686	(4,117)	28,569		33,154	472	33,626
EBIT % on Revenues	*27.4%*		*25.1%*		*23.2%*		*23.6%*
Financial items	(897)	(26)	(922)	5 6	(455)	3,473	3,018
Extraordinary and other items	(259)	(169)	(427)	4	(1,611)	(1,464)	(3,075)
Earnings before tax (EBT)	31,531	(4,311)	27,220		31,087	2,481	33,568
EBT % on Revenues	*26.5%*		*23.9%*		*21.8%*		*23.5%*
Taxes	(8,656)	1,202	(7,454)		(8,261)	353	(7,907)
Net Profit	22,874	(3,109)	19,766		22,826	3,835	26,661
Minority interest	(306)	277	(29)		(372)	(38)	(410)
Net profit of the group	22,568	(2,832)	19,737		22,455	2,797	25,251
Net profit % on Revenues	*18.9%*		*17.3%*		*15.7%*		*17.7%*

IFRS Adjustments

1. **IFRS 15:** revenues recognition
2. **IFRS 16:** Leasing
3. **IAS 19:** Severance Indeminity Fund
4. **IAS 38:** Intangible Assets
5. **IAS 32:** Warrant
6. **IFRS 2:** Share based payement
7. Other minor adjustement: India consolidation with equity method

Source: Antares Vision
Notes: FY19 figures including full-year FTS contribution

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Source: Company presentation

ANTARES VISION: BALANCE SHEET (IFRS RECONCILIATION)

Detailed overview of main balance sheet IFRS items reconciliation to Italian GAAP

€'000	FY18 GAAP	Adjustments	FY18 IFRS		FY19 GAAP	Adjustments	FY19 IFRS
Tangible assets	6,556	-	6,556	2	11,198	2,762	13,959
Intangible assets	2,362	(75)	2,287	4	64,310	(1,669)	62,641
Financial assets	-	-	-		3,813	-	3,813
Fixed assets	**8,917**	**(75)**	**8,843**		**79,321**	**1,093**	**80,414**
Inventory	22,241	-	22,241		25,574	-	25,574
Trade receivables	41,451	-	41,451		56,505	-	56,505
Trade payables	(26,287)	-	(26,287)		(29,731)	-	(29,731)
TWC	**37,405**	**-**	**37,405**		**52,349**	**-**	**52,349**
Other assets	6,700	6,760	13,460		9,222	7,792	17,014
Other liabilities	(8,926)	(25,377)	(34,303)	1	(9,999)	(25,309)	(35,309)
NWC	**35,180**	**(18,617)**	**16,563**		**51,571**	**(17,518)**	**34,054**
Employees' leaving indemnity	(2,102)	(499)	(2,601)	3	(4,221)	(1,466)	(5,687)
Bad debt and other provisions	(529)	-	(529)		(1,817)	-	(1,817)
Net Invested Capital	**41,467**	**(19,191)**	**22,276**		**124,855**	**(17,891)**	**106,964**
Cash and cash equivalents	62,619	-	62,619		118,380	-	118,380
Financial debt	(25,529)	-	(25,529)	5	(95,330)	(4,514)	(99,844)
Leasing debt	(6,707)	-	(6,707)	2	(5,446)	(2,314)	(7,760)
Net Cash	**30,383**	**-**	**30,383**		**17,604**	**(6,828)**	**10,776**
Equity	**71,850**	**(19,191)**	**52,659**	1 2 3 4 5 6	**142,459**	**(24,719)**	**117,740**

IFRS Adjustments

1. **IFRS 15:** revenues recognition
2. **IFRS 16:** Leasing
3. **IAS 19:** Severance Indeminity Fund
4. **IAS 38:** Intangible Assets
5. **IAS 32:** Warrant

Source: Antares Vision

Source: Company presentation

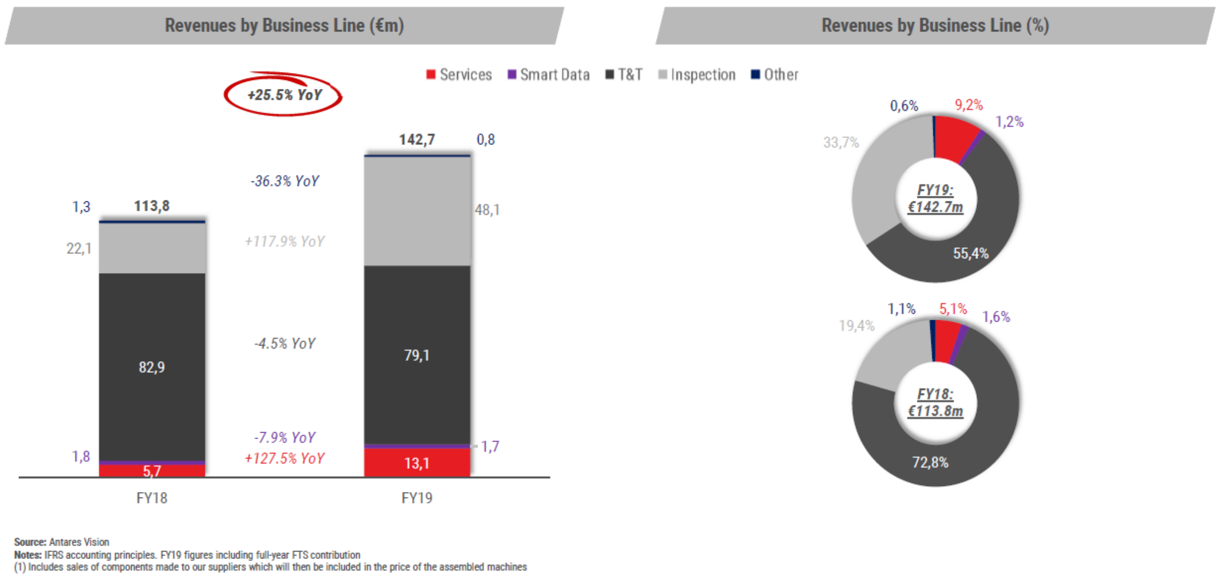
- **AV presented its results displaying the "new AV" (pro-forma numbers with 12 months of FT System).**
  We estimate that FT System (12M, pro-forma) added about €26mn of sales (mostly Inspection sales + services) and about €6mn of EBITDA.
  On one hand, it better presents the new company (with a much better diversification) but on the other hand we do not have a full overview on some underlying organic trends.
  On top of that, we underline that all EBIT/EBITDA numbers are already adjusted excluding non-recurring elements emerging from the business combination with ALPI and the M&A process (e.g transaction costs). All these items were put below the EBIT line.

What are the main messages from the FY19 analysis?

- **<u>Organic Sales:</u> If we consider the same accounting methods and perimeter, AV delivered slightly growing sales (+1.5% vs +3% exp.).**
  As expected the main "culprit" was Pharma T&T that declined by 4% YoY suffering the record sales reported in 2018 and the postponement to 2020 of the T&T regulation in Russia. That said, we think that the Russian market started to generate some sales (€0-10mn).
  As expected, **industrial T&T solutions contributed minimally** (€0.9mn) waiting for the full deployment of the multiple pilots on the market (impact 2021/2022) **while Pharma Inspection grew materially (+12% at €20mn)** mostly thanks to the new inspection machines and company investments;

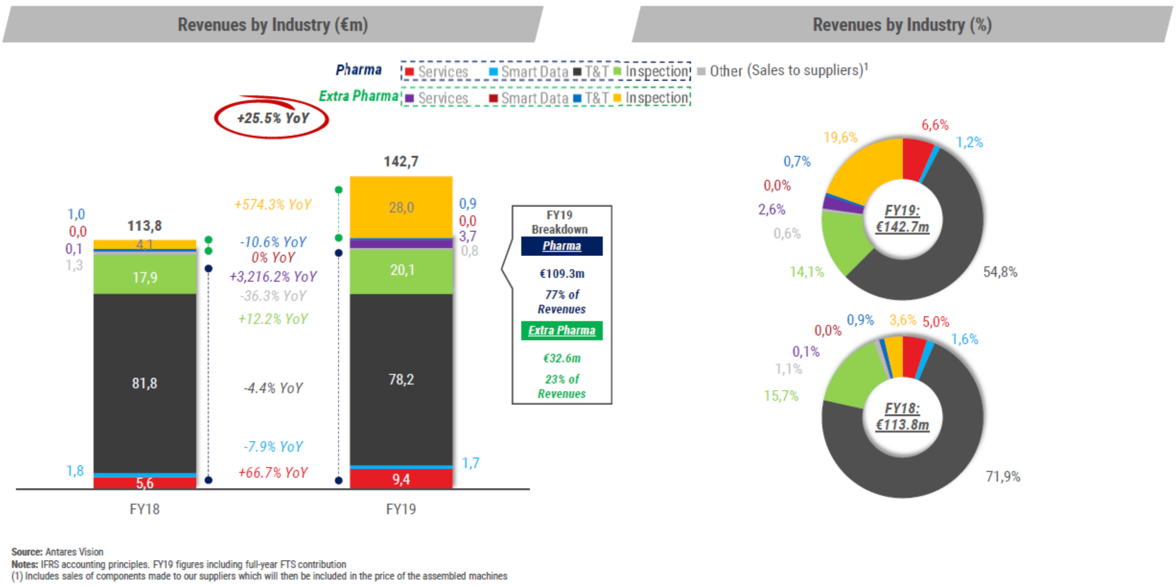
- **<u>Combined Sales:</u>** looking at the following slides, AV, thanks to the acquisition of FT System, acquired a **much better product/industry/geographical diversification** (2019 vs 2018) improving its risk profile (lower exposure to T&T regulation that can make numbers more volatile);

ANTARES VISION: REVENUES BY BUSINESS LINES



Source: Company presentation

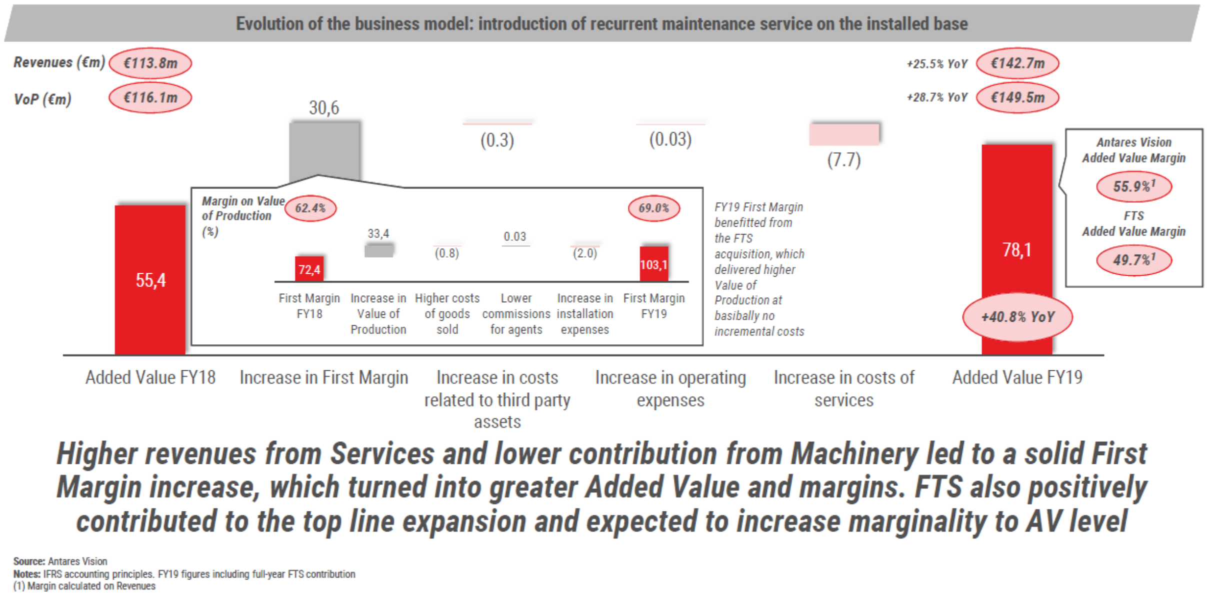
ANTARES VISION: REVENUES BY INDUSTRY



Source: Company presentation

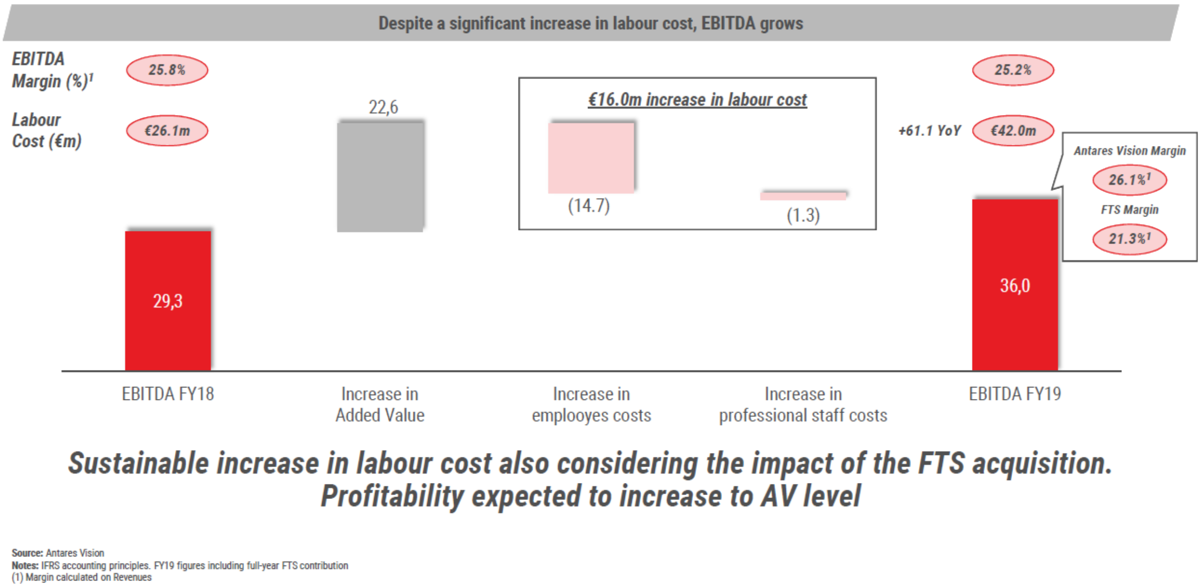
- **<u>EBITDA:</u> If we consider the same accounting methods and perimeter, AV delivered a flattish EBITDA (IFRS 16 added about €0.7mn of additional EBITDA in 2019).** In our view this result is not in line with the high-growth profile of AV (also considering €2.7mn of additional R&D costs) but we need to stress that AV was able to materially improve its first profit (higher service component, better mix) reinvesting this improvement in its most strategic cost line: labour. **We estimate that at the end of FY19, AV added (on a stand-alone basis) more than 130 workers (from a starting point of 357)!**

ANTARES VISION: ADDED VALUE BRIDGE (PRO FORMA)



Source: Company presentation

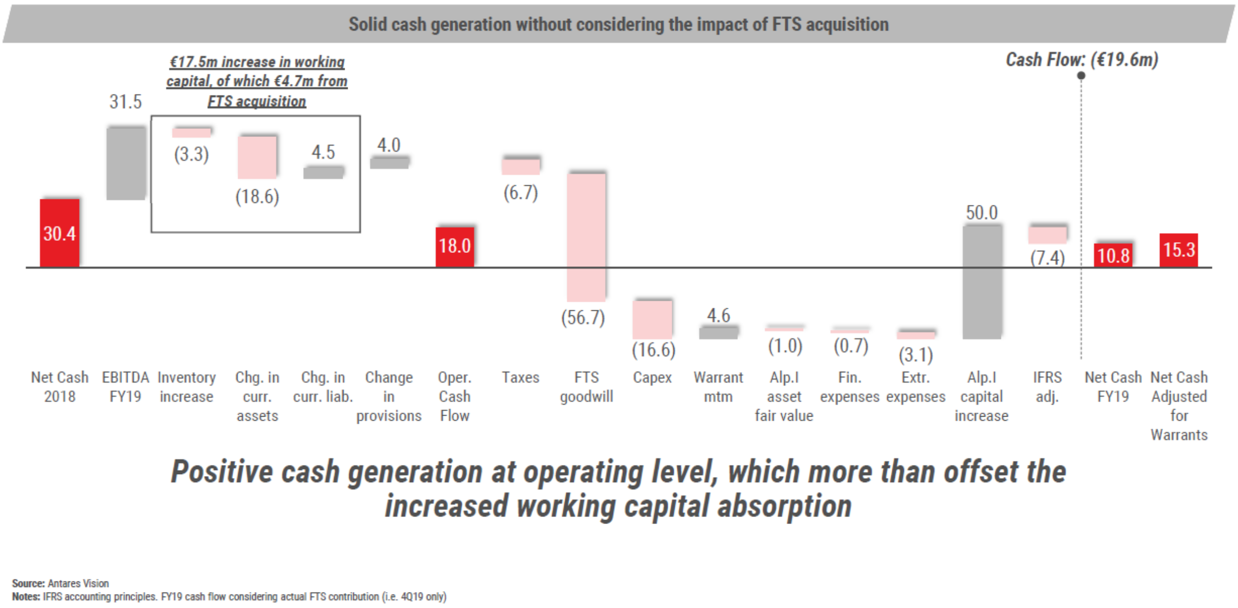
ANTARES VISION: EBITDA BRIDGE (PRO FORMA)



Source: Company presentation

- **<u>Cash generation:</u> AV was not a year of robust FCF generation (we estimate about few mn of FCF) due to two specific elements:** 1) NWC that absorbed about €12mn (ex FT System) of cash mostly linked to some pick-up in activity over the last months (notably Russia) and 2) Abundant Capex investments in material assets (about €5mn mostly Real Estate) that are not strictly recurrent.

ANTARES VISION: CASH GENERATION

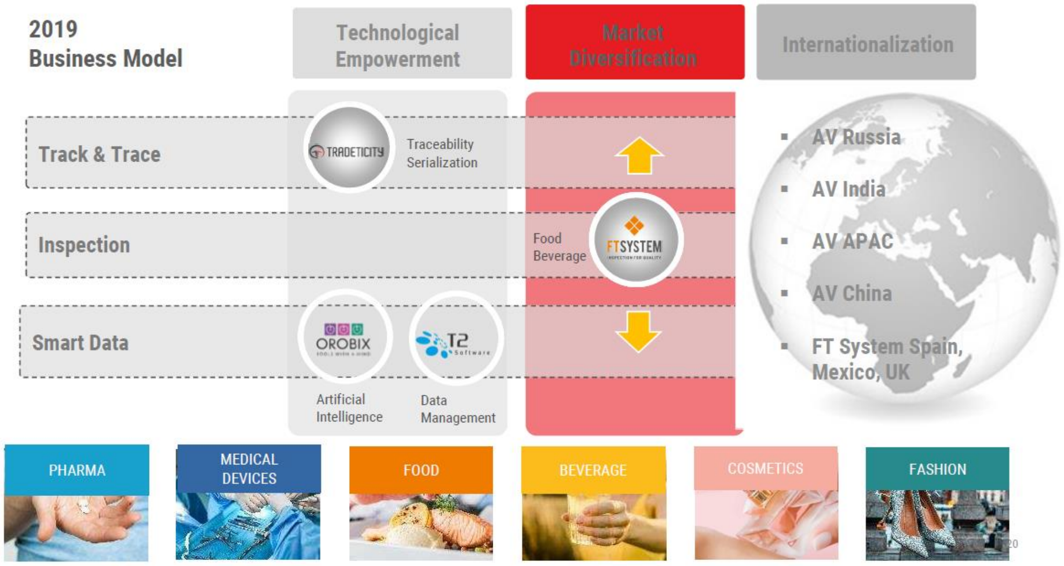


Source: Company presentation

FY19: A YEAR OF STRATEGIC STEPS

While from a quantitative point of view results were not strong as expected in our IPO research, 2019 was a particularly rich year from a strategic point of view with the Management able to improve its technological solutions, positioning and diversification.

DISCOVER THE POWER OF TRUSTPARENCY



Source: Company pr

ANTARES VISION: LEADERSHIP IN PHARMA

Source: Company presentation

ANTARES VISION: MARKET DIVERSIFICATION

- **New acquisition**
  - ✓ **FT System**, food & beverage Inspection, Italy

- **Strategic Endorsement**
  - ✓ Appointed by the Ministry of Economic Development to set up a traceability platform for **Agrifood products** to preserve Made in Italy value, from farm to fork.

- **Wider Customers Portfolio**
  - ✓ More than 2000 customers from FT SYSTEM, including the big player in beverage industry.

- **Ongoing Pilot Projects**
  - ✓ Pilot projects are ongoing with most important player in food and beverage, in Italy and US dealing with **anticounterfeiting, transparency of supply chain, recalls management, brand protection and customer engagement**

- **New Opportunities**
  - ✓ Cross selling within Beverage and food inspection, adding traceability and smart data

Source: Company presentation

ANTARES VISION: LEADING TECH INNOVATION

- **New acquisitions**
  - ✓ **T2 software**, data management to maximize performance, Brazil
  - ✓ **Orobix**, Artificial Intelligence, Italy
  - ✓ **Tradeticity**, Traceability software (2020)

- **Cooperation with International Research Centers**
  - ✓ Elettra Sincrotrone Trieste
  - ✓ Fraunhofer

- **New developments**
  - ✓ **Advanced Artificial Vision and Sensors**
    - Hyperspectral technology NIR (pharma, agrifood)
    - Detection of foreign objectives in food and beverage
  - ✓ **Advanced data collection and analysis techniques**
    - Artificial Intelligence
    - Cloud technologies
    - Blockchain technologies
    - Advanced compression and storage methods (data, images, videos)
  - ✓ **Authentication technologies**
  - ✓ **Connectivity and communications**
    - Geolocation
    - CyberSecurity
    - 5G
  - ✓ **Smart Greenhouse Project** (analysis of basil growth aimed to optimize production and to ensure the highest quality

- **New Innovation Center**
  - ✓ **CSMT** (Centre for Multisectoral and Technological Services) place of consolidated networking and different skills, for: Exploitation and promotion of research, Technology Transfer Incubator of start-ups, technical and specialist training

- **New partnerships**
  - ✓ Sacred Hearth Catholic University in Brescia
  - ✓ University of Brescia
  - ✓ University of Parma
  - ✓ University of Genova

Source: Company presentation

ANTARES VISION: ENHANCING INTERNAL ORGANIZATION

- **New Service Business Unit**
  - ✓ Develop Services Business and Customer Satisfaction
  - ✓ Service Business Profitability
  - ✓ Service Assurance for all others Business Units

- **New Building**
  - ✓ **Enlargement Headquarters in Travagliato adding 3000 sqm**
    - 1800 sqm for Production and Warehouse
    - 1200 sqm for additional offices
  - ✓ **Design through BIM (Building Information Model)**
    - Reduced Cost and Mitigated Risk
    - Improved Coordination and Clash Detection
    - Greater efficiency in building maintenance

- **Empowerment team management**
  - ✓ Strengthening Management by Performance, developing growth plan for managers and employees
  - ✓ Efficiency challenge: time optimization and cost saving

- **Corporate Social responsibility**
  - ✓ Internal community
  - ✓ Environmental Sustainability
  - ✓ Cultural Heritage
  - ✓ Social Support
  - ✓ Research and Innovation

Source: Company presentation

SMART DEAL: FT SYSTEM

In September, AV bought 100% of FT System (FT). With this deal, AV increased visibility on its strategy to enlarge business beyond Pharma and T&T solutions. FT:

- **Is an Italian company, a leader in the development of control and inspection solutions in the beverage industry**;
- **In 2019 generated sales of about €26mn with high margins** (EBITDA about € 6mn);
- **Has global exposure** (we estimate that Italy accounts for about 20% of sales) and a fragmented client base (we estimate that the top 10 clients account for 1/3 of sales). The client portfolio is made up of 2000 companies in more than 60 countries;
- **Has a similar business model to AV**: lean production (outsourcing), clients are both end-customers and packaging machinery producers, NWC/sales is at 25-30%.

FT SYSTEM – PRODUCTS

EMPTY BOTTLE INSPECTION - Full Inspection

CODE INSPECTION - Presence, Integrity, Correspondence, Reading

FILL LEVEL INSPECTION - Foam Compensation Technology

LINE MONITORING AND SAMPLING SYSTEM

Source: Company Website

Main transaction terms:

- **EV paid was ~€60mn (equity=€67.7mn).** The sellers were: Arol Group (80%, producer of capping/closure systems) and the two founders;
- **AV and Arol signed an industrial partnership** with the aim of creating a complete offer: control and inspection, product traceability along the supply chain and data management.

In our opinion this deal makes both financial and industrial sense as:

- **AV invested part of its cash at ~10x EV/EBITDA**, a fair multiple for a company with high margins and interesting growth prospects (we estimate mid-single digit organic sales growth over the cycle ex Covid-19);
- **It will allow AV to develop interesting commercial synergies**: 1) expansion of the offer in F&B, 2) development of cross-selling and 3) extension of the geographical presence;
- **We see limited integration risks as the founders will remain within the Group;**
- **It reduces AV's exposure to T&T Pharma regulations** which can create volatility on numbers (as it is happening).

FOCUS ON THE STRATEGIC DEVELOPMENT. COVID-19 TO HIT RESULTS

During the conference call, the Management reiterated its firm confidence in the company's strategic positioning and mid-term growth prospects.

Main hints:

- **2020 outlook: they did not provide a specific guidance but they underlined that Covid-19 will have an impact:** turnover is likely to fall with labour costs rising to support future development; **Order intake (not quantified) grew mid/high single digit in 2019;**
- **Structural trends are intact/strengthened by the current crisis** (greater need for security/transparency/quality). As an example, AV is collaborating with San Raffaele in Milan for a platform dedicated to the reduction of errors in the medicine distribution;
- **Industrial pilots are moving forward** with increasing attention from non-Pharmaceutical sectors;
- **2021-22: in the m/t room to return to an EBITDA margin >25%** (vs 20% exp. in 2020 from 25.7% in 2019) **and with organic growth in sales >20%;**
- **FT system: they target to bring its margins to the AV's one thanks to cross selling (delta margins of about 500bps pre Covid-19);**
- **M&A: focus on M&A both on small/medium size targets** (€50-60mn EV).
- **China: the company is well-positioned to secure a leading role in the implementation of drug traceability projects** (the so called "Made in China 2025"). They expect the first impacts in terms of turnover as of 2020 (we estimate >€5mn of sales) in a market that is huge (>#2000 pharmaceutical lines) and unpenetrated;
- **Russia:** sales from Russia were limited in FY (€0-10mn). However, **the company is building strong relationships with the Government and with both local and international companies** (not just in the Pharma sector) and expects to see the first tangible benefits from 2020;
- **Vision solutions: major opportunities.** Investments in the development of the Inspection machines segment are paying off with a significant jump in 2019 (>3x sales vs €2/3mn in 2018) and a further and visible step-up in sight;
- **First margin: the company has room to generate a margin in the region of 73%** thanks to an increase in the services/software component (first margin of almost 100%);
- **Listing on the main market: AV announced that it has started the activities for the transition to the MTA market. In order to enter this market, AV needs to increase its free float (currently at 12%) to a level of 25% (MTA)/35% (STAR).**

ESTIMATES: 2020-21 ADJ. EPS -48%/-27%

Based on company's indications, we have significantly cut our 2020-21 estimates (sales -22/-18%, Adj. EPS -48/-27%). Main assumptions/considerations:

- **2020-21 organic sales growth is now -11% and +22% respectively**. In 2020, T&T Pharma will be the most affected area (we estimate top-line -25%) while we see some stabilization in the Pharma Inspection (much more resilient);
- **Operating leverage will be important in 2020** as AV will not stop the hiring spree (we estimate labour costs at about €46mn vs €42mn PF in 2019) in order to be prepared for the rebound. **In 2020 we estimate EBITDA to decrease by about €10mn on a pro-forma basis (about -30% YoY);**
- **Our Adj. Net Income 2021 is +8% vs. 2019 PF (€24mn).**

ANTARES VISION - CHANGE IN ESTIMATES (2019-2021)

	2019E	2020E	2021E	2019A	2020E	2021E	2019A	2020E	2021E
	Previous Estimates			Current Estimates					
Sales	**125.6**	**164.9**	**191.8**	**122.4**	**127.7**	**155.7**	**-2.6%**	**-22.6%**	**-18.8%**
yoy	5.4%	31.3%	16.3%	7.6%	4.4%	21.9%			
Adj. EBITDA	**35.0**	**45.0**	**54.7**	**31.5**	**25.6**	**40.1**	**-10.1%**	**-43.1%**	**-26.8%**
yoy	4.4%	28.4%	21.7%	7.3%	-18.8%	56.7%			
Adj. EBIT	**33.5**	**43.0**	**52.1**	**29.4**	**22.5**	**36.8**	**-12.2%**	**-47.6%**	**-29.3%**
margins	26.7%	26.0%	27.2%	24.0%	17.6%	23.6%	**-2.6%**	**-8.4%**	**-3.5%**
yoy	2.4%	28.3%	21.3%	2.9%	-23.4%	63.6%			
Adj. Net Income	**23.4**	**29.4**	**35.8**	**20.8**	**15.3**	**25.9**	**-10.0%**	**-48.0%**	**-27.5%**
yoy	2.9%	25.3%	22.0%	4.4%	-26.7%	70.1%			
NFP	**34.3**	**51.8**	**74.8**	**10.7**	**13.8**	**42.8**	**-23.6**	**-38.0**	**-32.1**

Source: Company data and EQUITA SIM estimates

ANTARES VISION - PROFITABILITY DEVELOPMENT (2018-2021, €mn)

	2018	%	2019*	%	2020E	%	2021E	%	2022E	%
Total Sales	**113.8**		**122.4**		**127.7**		**155.7**		**184.0**	
YoY Growth (%)	*27%*		*8%*		*4%*		*22%*		*18%*	
Cogs	-34.1		-24.5		-27.8		-32.9		-42.2	
Commercial costs	-3.2		-3.1		-3.1		-3.8		-4.5	
Installation expenses	-4.0		-5.2		-2.6		-3.9		-4.1	
First Margin	**72.4**	**63.7%**	**89.6**	**73.2%**	**94.3**	**73.8%**	**115.2**	**74.0%**	**133.2**	**72.4%**
YoY Growth (%)	*22%*		*24%*		*5%*		*22%*		*16%*	
Services	-15.4		-20.4		-21.0		-23.3		-26.3	
Personnel	-26.1		-36.5		-45.7		-48.3		-54.9	
Other costs	-1.7		-1.2		-2.0		-3.5		-3.0	
Adj. EBITDA	**29.3**	**25.8%**	**31.5**	**25.7%**	**25.6**	**20.0%**	**40.1**	**25.7%**	**49.0**	**26.7%**
YoY Growth (%)	*23%*		*7%*		*-19%*		*57%*		*22%*	
Non recurring	0.0		0.0		0.0		0.0		0.0	
EBITDA	**29.3**	**25.8%**	**31.5**	**25.7%**	**25.6**	**20.0%**	**40.1**	**25.7%**	**49.0**	**26.7%**
YoY Growth (%)	*23%*		*7%*		*-19%*		*57%*		*22%*	
D&A	-0.8		-2.1		-3.1		-3.3		-3.2	
EBIT	**28.6**	**25.1%**	**29.4**	**24.0%**	**22.5**	**17.6%**	**36.8**	**23.6%**	**45.8**	**24.9%**
YoY Growth (%)	*24%*		*3%*		*-23%*		*64%*		*24%*	
Adj. EBIT	**28.6**	**25.1%**	**29.4**	**24.0%**	**22.5**	**17.6%**	**36.8**	**23.6%**	**45.8**	**24.9%**
YoY Growth (%)	*24%*		*3%*		*-23%*		*64%*		*24%*	
Net financial exp.	-1.1		-3.2		-1.4		-1.3		-1.2	
Other items	-0.3		3.0		0.0		0.0		0.0	
Profit Before Tax	**27.2**		**29.2**		**21.1**		**35.5**		**44.6**	
YoY Growth (%)	*21%*		*7%*		*-28%*		*68%*		*26%*	
taxes	-7.5		-6.7		-1.0		-8.5		-10.7	
minorities	0.0		-0.4		-0.6		-0.7		-0.8	
Net Income	**19.7**		**22.1**		**19.5**		**26.3**		**33.1**	
YoY Growth (%)	*28%*		*12%*		*-12%*		*35%*		*26%*	
Adj. Net Income	**19.9**		**20.8**		**15.3**		**25.9**		**32.6**	
YoY Growth (%)	*28%*		*4%*		*-27%*		*70%*		*26%*	

*Source: EQUITA SIM estimates and Company data *Including 3 months of FT System sales*

TARGET PRICE -5%. MEDIUM-TERM EQUITY STORY IS INTACT

While trading momentum has decelerated, we have only slightly trimmed our target (-5% to €11.4ps or 2021 Adj.PE=25x) because:

- **Although 2019 results were below expectations, AV is making the right strategic choices (e.g. focus on innovation, rational M&A etc.);**
- **Structural trends that supported growth until 2018 and expansion projects in markets such as Russia/China are intact;**
- **AV has net cash and substantial financial resources (€160mn gross liquidity from 5Y amortizing loans) to continue the consolidation process.**

<u>**Key catalyst:**</u> **indications on the 2H trend (after an expected weak 1H20) in order to better assess the underlying trend and the 2021 outlook.**

ADJ EBIT MULTIPLE VALUATION

	2022	SENSITIVITY	
(A) 2022E multiple	15.0 x	14.0 x	16.0 x
(B) 2022 Ebit Adj	45.8	45.8	45.8
(C)=(A)x(B) EV (EUR)	**689.5**	**643.7**	**735.3**
(D) Net Debt (EUR)	64	64	64
(E) Adjustments to NFP	-13	-13	-13
(F) Dividends to cash in	0	0	0
(G) = (C)+(D)+(F) Total stock value (EUR)	**741**	**695**	**787**
(G) Discount (1+Ke)	0.9	0.9	0.9
(H)=(E)/(F) Stock value (EUR)	**666**	**625**	**708**
(I) N.shares	58.8	58.8	58.8
(J) Price by multiple methods	**11.4**	**10.6**	**12.0**

Source: EQUITA SIM estimates

STATEMENT OF RISK

In our view, the primary elements that could negatively impact AV include:

- Increase in competition;
- Significant deterioration in the macroeconomic reference scenarios;
- Significant reduction in spending of Pharmaceutical companies;
- Dilution due to the issuance of new shares;
- Postponement of Pharma regulations;
- Execution risk of M&A deals.

P&L	2017	2018	2019	2020E	2021E	2022E
Revenues	**90**	**114**	**122**	**128**	**156**	**184**
Growth	53%	27%	8%	4%	22%	18%
Total opex	-66	-84	-91	-102	-116	-135
Growth	45%	29%	8%	12%	13%	17%
Margin	-73%	-74%	-74%	-80%	-74%	-73%
EBITDA	**24**	**29**	**32**	**26**	**40**	**49**
Growth	79%	23%	7%	-19%	57%	22%
Margin	27%	26%	26%	20%	26%	27%
D&A	-1	-1	-2	-3	-3	-3
Extraordinaries	0	0	0	0	0	0
EBIT	**23**	**29**	**29**	**23**	**37**	**46**
Growth	83%	24%	3%	-23%	64%	24%
Margin	26%	25%	24%	18%	24%	25%
Net financial profit/Expenses	0	-1	-3	-1	-1	-1
Profits/exp from equity inv	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other financial profit/Exp	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total financial expenses	**0**	**-1**	**-3**	**-1**	**-1**	**-1**
Non recurring pre tax	0	0	3	0	0	0
Profit before tax	**22**	**27**	**29**	**21**	**36**	**45**
Growth	75%	21%	7%	-28%	68%	26%
Taxes	**-6**	**-7**	**-7**	**-1**	**-9**	**-11**
Tax rate	-28%	-27%	-23%	-5%	-24%	-24%
Minority interests	**-1**	**0**	**0**	**-1**	**-1**	**-1**
Non recurring post tax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net income	**15**	**20**	**22**	**20**	**26**	**33**
Growth	67%	28%	12%	-12%	35%	26%
Margin	17%	17%	18%	15%	17%	18%
Adj. net income	**16**	**20**	**21**	**15**	**26**	**33**
Growth	76%	28%	4%	-27%	70%	26%
Margin	17%	18%	17%	12%	17%	18%

CF Statement	2017	2018	2019	2020E	2021E	2022E
Cash Flow from Operations	17	20	28	21	30	37
(Increase) decrease in OWC	-12	-9	-13	-6	5	-7
(Purchase of fixed assets)	-2	-2	-10	-10	-6	-3
(Other net investments)	0	0	-64	0	0	0
(Distribution of dividends)	0	0	0	0	0	-5
Rights issue	0	40	50	0	0	0
Other	-1	-29	-11	-2	0	0
(Increase) Decrease in Net Debt	2	21	-20	3	29	22

Source: Equita SIM and company data

INFORMATION PURSUANT TO EU REGULATION 2016/958 supplementing Regulation EU 596/2014 (c.d. MAR)

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RECOMMENDATION/RATING	Low Risk	Medium Risk	High Risk
BUY	ETR >= 10%	ETR >= 15%	ETR >= 20%
HOLD	-5% <ETR< 10%	-5% <ETR< 15%	0% <ETR< 20%
REDUCE	ETR <= -5%	ETR <= -5%	ETR <= 0%

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Date	Rec.	Target Price (€)	Risk	Comment
20 June 2019	BUY (n.a.)	12.8 (n.a.)	High	Initiation of coverage

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HOLD	55.1%	45.5%
REDUCE	3.6%	3.9%
NOT RATED	1.8%	2.6%

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