

Current Market Price: € 10.90

T&T ready to expand in the Industrial world

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COVID-19 brings short-term uncertainty...

In its FY19 press release, AV reported a set of results that was below our estimates, primarily at the profitability level. At constant perimeter, the postponement of Russian tracing regulation led to overall stable sales yoy. At the P&L level, it is worth noting that FY19 EBITDA stood at c.€31m, below MBe of €35m, mainly due to higher-than-expected labour costs while First Margin (73.3% - ITA GAAP with FTS consolidated for three months) was in line with MBe. The FY19 EBITDA margin was 25.0%, also reflecting the dilutive impact of the consolidation of FT System (whose profitability is c.600bps below that of AV). On an IFRS basis, EBITDA came out at €31.5m, with an EBITDA margin of 25.8% (flat yoy). During last week results' Conference Call, the CEO clearly explained that 2020 will not be "made up" of 12 months. For AV, COVID-19 emergency resulted in the postponement of orders and on-site installations but not cancellations. In China, the company observed incremental investments in traceability and VI solutions after the COVID-19 outbreak.

...but growth opportunities too for Track & Trace and VI solutions

Amid the COVID-19 pandemic, the need for solutions granting product safety, integrity and process efficiency is expected to gather momentum among all the stakeholders. The acquisition of FT System, a leading supplier of Food& Beverage inspection equipment, is likely to speed up AV's diversification outside the Pharma industry and generate up/cross-selling synergies by adding traceability and Smart data solutions in the industrial sector. In the Pharma sector, all its long-term growth drivers remain intact (e.g., stringent government regulations, compliance with safety and quality requirements and increasing factory automation/big data/digitalisation), while in the non-pharma segment, the increasing regulatory push in countries such as Russia (Cosmetics, Tobacco and Food & Beverage), the US (Food) and China (Medical devices and Food & Beverage) should increase the adoption of T&T and VI solutions.

Business to resume low double-digit sales growth in 2021-22

We update our 2020 estimates to factor in around two months of sales' slippages due to the impact of the COVID-19 which will not be recovered over the year. During the conference call, the Company's CEO confirmed that hiring will continue in 2020 in order to cope with the projected business growth. Our assumptions for First Margin are overall unchanged (over 70% of sales), but the investments in personnel, coupled with lower sales, will therefore compress the EBITDA margin to c.21% (from 25% pro forma in 2019 - IFRS restated). This led to an average EPS cut of 37% in 2020-21. Going beyond 2020, we forecast AV's sales to grow at a CAGR of c.14% organically in 2021-22 assuming T&T up 10% CAGR and VI sales see mid-teens CAGR, along with increasing contributions from Services and Smart Data. We expect the group's sales to reach c.€162m in 2022E, with EBITDA of €40m (up from €26m in 2020E), implying a 24.5% margin. In this time horizon, FT System profitability is expected to gradually realign to that of AV. Net profit is expected to grow at 23% 2Y CAGR, reaching c.€28m in 2022E, and cumulative FCF should come in at c.€40m over the next three years, leading to €48m net cash.

	2019	2020E	2021E	2022E
EPS Adj (€)	0.37	0.31	0.38	0.47
DPS (€)	0	0	0	0
BVPS (€)	1.98	2.28	2.66	3.12
EV/Ebitda(x)	19.7	24.9	19.5	15.3
P/E adj (x)	28.7	35.3	28.8	23.3
Div.Yield(%)	0.0%	0.0%	0.0%	0.0%
OpFCF Yield(%)	6.9%	1.1%	1.4%	3.7%

Market Data

Market Cap (€m)	648
Shares Out (m)	59
Regolo Srl (%)	74%
Free Float (%)	12%
52 week range (€)	-
Rel Perf vs DJGL Italy DJ Total Market Italy (%)	
-1m	8.2%
-3m	24.5%
-12m	4.0%
21dd Avg. Vol.	10,940
Reuters/Bloomberg	ANV.MI / AV IM

Source: Mediobanca Securities

Current Market Price: € 10.90

Valuation Matrix

Profit & Loss account (€ m)	2019	2020E	2021E	2022E
Turnover	122	126	143	162
Turnover growth %	2.7%	2.6%	13.8%	13.4%
EBITDA	32	26	33	40
EBITDA margin (%)	25.8%	20.5%	22.8%	24.5%
EBITDA growth (%)	-6.0%	-18.3%	26.2%	22.2%
Depreciation & Amortization	-2	-2	-3	-3
EBIT	29	23	30	37
EBIT margin (%)	24.0%	18.6%	21.0%	22.6%
EBIT growth (%)	-10.0%	-20.7%	28.5%	22.4%
Net Fin. Income (charges)	-1	-1	-1	0
Non-Operating Items	0	0	0	0
Extraordinary Items	1	0	0	0
Pre-tax Profit	29	22	29	37
Tax	-7	-4	-6	-8
Tax rate (%)	23.0%	16.0%	21.6%	22.3%
Minorities	-0	-0	-1	-1
Net Profit	22	18	22	28
Net Profit growth (%)	-2.2%	-16.7%	22.3%	23.6%
Adjusted Net Profit	22	18	22	28
Adj. Net Profit growth (%)	-4.5%	-15.4%	22.3%	23.6%

Multiples	2019	2020E	2021E	2022E
P/E Adj.	28.7	35.3	28.8	23.3
P/CEPS	20.8	30.3	24.3	19.8
P/BV	5.3	4.8	4.1	3.5
EV/ Sales	5.1	5.1	4.4	3.8
EV/EBITDA	19.7	24.9	19.5	15.3
EV/EBIT	21.1	27.5	21.2	16.6
EV/Cap. Employed	5.4	5.0	4.4	4.0
Yield (%)	0.0%	0.0%	0.0%	0.0%
OpFCF Yield(%)	6.9%	1.1%	1.4%	3.7%
FCF Yield (%)	2.0%	1.1%	1.2%	3.3%

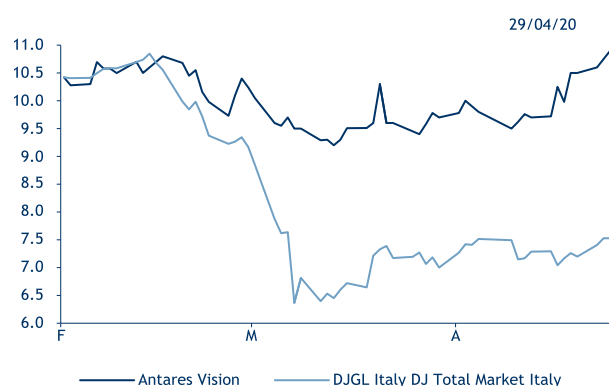
Per Share Data (€)	2019	2020E	2021E	2022E
EPS	0.37	0.31	0.38	0.47
EPS growth (%)	-2.2%	-17.2%	22.3%	23.6%
EPS Adj.	0.37	0.31	0.38	0.47
EPS Adj. growth (%)	-4.5%	-15.9%	22.3%	23.6%
CEPS	0.51	0.36	0.45	0.55
BVPS	1.98	2.28	2.66	3.12
DPS Ord	0	0	0	0

Balance Sheet (€ m)	2019	2020E	2021E	2022E
Working Capital	34	36	44	50
Net Fixed Assets	18	29	36	37
Total Capital Employed	114	128	143	150
Shareholders' Funds	117	136	158	186
Minorities	1	1	2	2
Provisions	8	8	9	10
Net Debt (-) Cash (+)	11	17	26	48

Cash Flow (€ m)	2019	2020E	2021E	2022E
Cash Earnings	30	21	27	33
Working Capital Needs	2	-2	-8	-6
Capex (-)	-13	-12	-10	-5
Financial Investments (-)	-63	-1	0	0
Dividends (-)	0	0	0	0
Other Sources / Uses	26	0	0	0
Ch. in Net Debt (-) Cash (+)	-18	6	9	22

Key Figures & Ratios	2019	2020E	2021E	2022E
Avg. N° of Shares (m)	59	59	59	59
EoP N° of Shares (m)	59	59	59	59
Avg. Market Cap. (m)	620.8	648	648	648
Enterprise Value (m)	618.8	642	635	608
Adjustments (m)	9	10	12	8
Labour Costs/Turnover	25%	33%	31%	28%
Depr. & Amort./Turnover	2%	2%	2%	2%
Turnover / Op.Costs	1.3	1.3	1.3	1.3
Gearing (Debt / Equity)	-9%	-12%	-16%	-25%
EBITDA / Fin. Charges	-45.0	-25.8	-65.0	>10
Net Debt / EBITDA	-0.3	-0.6	-0.8	-1.2
Cap. Employed/Turnover	94%	102%	100%	93%
Capex / Turnover	11%	10%	7%	3%
Pay out	0%	0%	0%	0%
ROE	19%	14%	14%	15%
ROCE (pre tax)	26%	18%	21%	24%
ROCE (after tax)	20%	15%	16%	19%

Source: Mediobanca Securities



Source: Mediobanca Securities

FY19 results - Growing labor costs hitting margins

On April 20, Antares Vision unveiled its 2H/FY19 results. Antares Vision disclosed its FY19 results under ITA GAAP and for the first time presented them also under IFRS principles. Below we comment AV's results under ITA GAAP principles for better comparability with our forecasts:

- ◆ FY19 core sales came in at €122.3m, up by c.3% yoy mainly thanks to the contribution from the 3-month consolidation of FT System;
- ◆ FY19 EBITDA was €30.6m, below MBe of €35m, mainly due to higher-than-expected labour costs (partly tempered by lower service costs) while First margin was in line with MBe. FY19 EBITDA margin was 25.0% (vs 28.2% in FY18) with the yoy decline in EBITDA margin trend penalised by the consolidation of FT System (whose profitability is reported c.600bps below the one of AV). On an IFRS basis, EBITDA was €31.5m, with EBITDA margin of 25.8% (flat yoy);
- ◆ FY19 EBIT came in at €28.9m vs MBe of €33.7m;
- ◆ FY19 adj. net profit of €20.9m vs €24.2m expected. Adjustments amount to €1.6m one-off costs reported below the EBIT line;
- ◆ Net cash as of 2019YE was €17.6m, worse than MBe of c.€30m. This was driven by the €3.3m cash-out for Orobix (not included in our estimates as the closing occurred in December) and by higher-than-expected capex and financial investments. WC trend was in line with our estimate

As concerns the outlook, the management stated that:

- ◆ AV was not forced to stop production in 1Q20, as its operations were included in so-called essential activities by the Italian government. That said, the company is recording some slowdown in the pace of new installations and this may result in a delay of invoicing in the first part of 2020;
- ◆ While in the short-term the Covid-19 emergency will cause a slowdown in global economic activity, AV expects that this situation will accelerate the adoption of T&T/Visual Inspection solutions outside the pharma sector;
- ◆ During 2020 AV will further strengthen its structure (also in sight of a transition to the STAR segment) and will continue to invest on external growth, with the CEO mentioning potential further bolt-on acquisition to enhance AV digital portfolio, as well as the possibility of larger-size deal to strengthen the positioning in Pharma or in F&B.

Antares Vision - FY19 results vs MB expectations (ITA GAAP)

€m	2019A	2018A	YoY chg.	2019E	A vs E
Total sales	122.3	119.2	2.6%	126.1	-3.0%
EBITDA	30.6	33.6	-8.8%	35.1	-12.9%
EBITDA margin	25.0%	28.2%		27.9%	
EBIT	28.9	32.7	-11.5%	33.7	-14.0%
EBIT margin	23.7%	27.4%		26.7%	
Adj. Net profit	20.9	22.6	-7.4%	24.2	-13.7%
Net Debt/(Cash)	(17.6)	(28.7)		(29.9)	

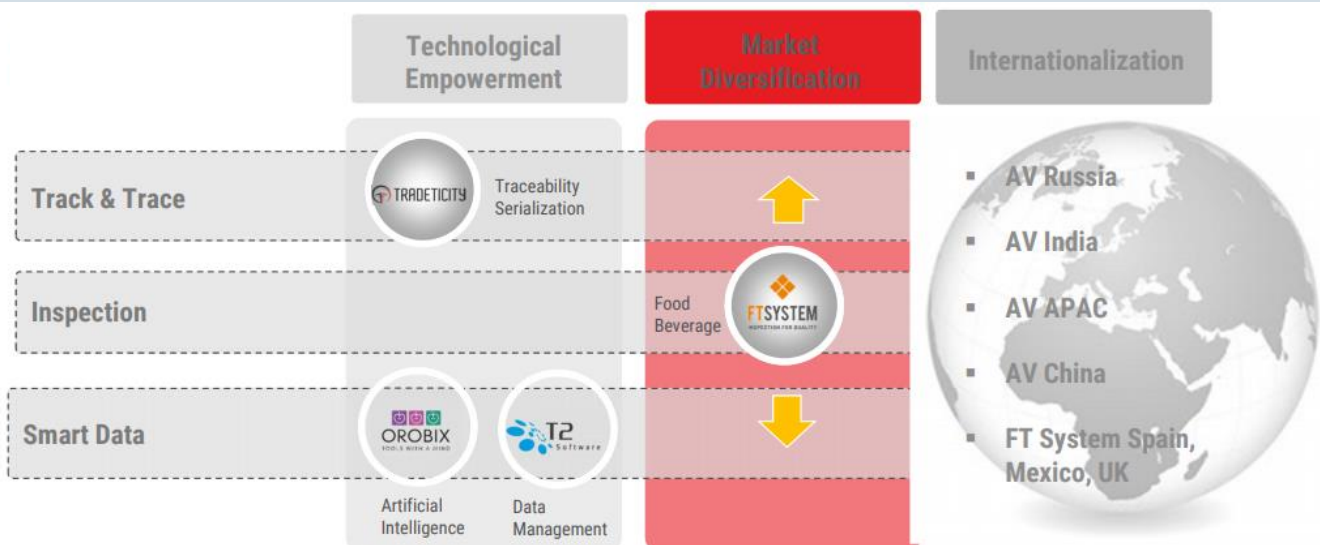
Source: Mediobanca Securities

Growth to restart within Pharma and beyond

AV's evolution continued relentlessly in 2019 and in the first part of 2020, as the group expanded its product/service offer and its geographical presence, establishing direct presence in Russia, India, Brazil, Asia Pacific and strengthening its presence in Germany. Along with geographical expansion, AV strategy focused on further penetration of both the pharma and non-pharma opportunities, and on a strengthening of its offer in the Software/Smart Data segment. This was partly achieved through M&A, with the group completing four acquisitions since its listing one-year ago (for a total investment of around €60m), namely:

- ♦ on September 13, AV completed the acquisition of **T2 software**, a small Brazilian company operating as supplier of smart data management solutions and as a consultant for serialization and traceability projects;
- ♦ on September 30, AV announced the closing of the acquisition of **FT System**, an Italian supplier of inspection machines/solutions mainly for the beverage industry (c.€26m annual turnover). The acquisition of FT System will allow AV to strengthen its positioning outside the pharma industry, as the acquired company has a portfolio of around 2,000 F&B customers in Italy and abroad;
- ♦ on November 22, AV acquired a c.40% stake in **Orobix**, an Italian company offering AI solutions for processes automation for players operating in the Life Sciences and manufacturing industries. This is a small acquisition (c.€3m cash-out) aiming at strengthening AV's know-how and offering in the software/smart data management segment;
- ♦ on 21 April 2020, AV completed the acquisition of a c.80% stake in **Tradeticity**, a Croatian start-up founded in 2017 and offering specialised software for Track&Trace in the pharma industry.

Antares Vision: Recap of organic and inorganic expansion in the last year



Source: Company presentation

Pharma - focus on Russian deadline and on enhancing the digital offer

In the Pharma space, Antares Vision continued on its strategy of new product/solutions development, with the focus being on the growth of inspection machines and on the gradual integration of smart data/software solutions into AV's offer. Below the key updates on the pharma business provided by the management during the conference call on FY19 results:

- ◆ the most relevant regulatory deadline in 2020 refers to the Russian market (serialization + aggregation). As a reminder, the deadline was originally set at end-2019, but it has been delayed to end-2020. AV's management unveiled that AV has arisen as the #1 traceability platform (out of more than 50 referenced companies), adding that the company has started to deliver first lines at the end of 2019 and is well positioned to take advantage of the additional demand created by the upcoming regulatory deadline;
- ◆ the investments in Orobix and in Tradeticity will further strengthen AV's digital portfolio and will allow the company to strengthen its competitive hedge on its historical competitors, by including more innovative technologies in its offering;
- ◆ AV is also working to expand its presence in sectors adjacent to the Pharma universe. The company was selected by Italy's Ministry of Economic Development to develop a "smart ward" platform, aiming at enhancing the stock management of drugs and medical devices in hospitals. First pilots will be launched in 2020.

Extra Pharma - T&T hype growing fast, with AV set to play a leading role

Increasing adoption of T&T solutions is becoming a trendy theme even outside the pharma sector, as regulators and producers/brands are more and more focused on ensuring full "Trustparency" also in the supply chains of Beverage, Cosmetics, Medical devices and Food. According to AV's management, the ongoing Covid-19 emergency may accelerate the shift to a new approach in the Industrials/consumers space, with higher care on quality/authenticity of products and the need to ensure full transparency through the supply chain. Below, the key updates by country on traceability regulations outside the pharma sector:

- ◆ **Russia** is acting as a front-runner, as the regulatory deadline for serialisation does not apply only to the pharma sector, but it also involves many other industrial sectors. Serialisation has already been introduced for Tobacco and Alcohols supply chains, and it is now being extended to other markets, including milk, mineral water & soft drinks, food, shoes, tires, watches and other luxury goods. Russia may therefore be seen as a sort of pilot country, and it is set to represent for Industrials' serialisation what Turkey did for the pharma sector back in 2012;
- ◆ **China** is expected to adopt an approach similar to the Russian one, as it has introduced a law to serialise Food & Beverage production lines within the program Made in China 2025. In the shorter-term, serialisation is becoming mandatory in the sector of medical devices in 2020, with AV already reporting strong order collection in the first months of the year;
- ◆ **Europe and the US** have started to introduce serialisation deadlines for Medical Devices (EU, 2020-21) and Cannabis (US, 2020). More notably, regulators are showing growing interest in extending serialisation to the Food & Beverage sectors and, while official deadlines have not been set up yet, we flag that this may materially expand the potential addressable market for suppliers of T&T solutions such as AV;
- ◆ Among the other main emerging markets, **Brazil** (Beverage and Tobacco), **Turkey** (Beverage and cosmetics) and **India** (medical devices, cosmetics and Tobacco) are all showing the willingness to introduce traceability regulations, with regulatory deadlines expected to kick-in by 2022-23.

Antares Vision: Recap of next traceability deadline outside the pharma sector



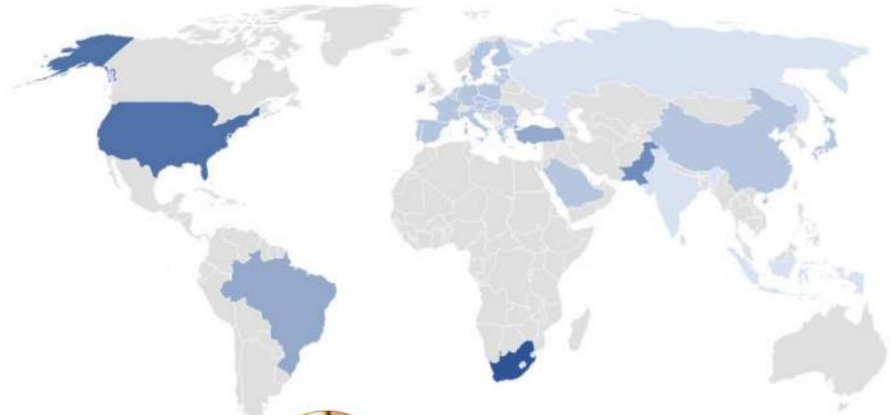
MEDICAL DEVICES

CHINA -2020
EU -2020 - 2021
INDIA -2022
IRELAND -2020
JAPAN -2022
SAUDI ARABIA -2020



COSMETICS

RUSSIA -2020
INDONESIA -2023
INDIA -2020
TURKEY 2023 (tbd)



CANNABIS

USA -2020
THAILAND -2020



TOBACCO

RUSSIA -2020
PAKISTAN 2021 - 2023
INDIA -2020
SOUTH AFRICA - 2022
BRAZIL - 2022



BEVERAGE

RUSSIA - 2020
TURKEY 2021 - 2023
BRAZIL -2020
CHINA 2021 - 2025



FOOD

EUROPE -ON GOING
USA -ON GOING
RUSSIA -2021
CHINA 2021 - 2025
PAKISTAN 2021 - 2023

Source: Company presentation

Increasing adoption of T&T/Visual Inspection solutions beyond the pharma sector is a key theme supporting AV's mid to long-term growth prospects (as a reminder, potential size of T&T and VI for the industrial segments could be >5x bigger than that of Pharma). AV's is in our view in a suitable position to take advantage of new business opportunities arising in the Industrials/consumers space, as: 1) it can capitalise on its leadership product positioning and know-how in the pharma space; and 2) it has already completed some strategic moves to support expansion outside the pharma sector, including:

- ◆ the **acquisition of FT System**, which allowed AV to rapidly strengthen its positioning in Visual Inspection for the beverage industry and to gain access to an established portfolio of >2,000 customers between Italy, France, the US, Mexico, Brazil, the UK, Spain, China and India;
- ◆ the **partnership with Sargas** (an investment vehicle including among the others Guido Barilla, LVMH's Managing Director Belloni and Luigi Berlusconi). As a reminder, the partnership will include the launch of pilot projects for new applications of AV's solutions, with Sargas' members potentially opening up new end-markets such as food & beverage and luxury/cosmetics, as well as offering an established commercial network to better penetrate emerging markets such as Brazil and Russia;
- ◆ the recent launch of further pilots such as the **Agrifood project** in collaboration with Italy's Ministry for Economic Development (to develop traceability solutions for the food and wine supply chains), or the **Amazon project** to enhance transparency through the supply chains of the e-commerce player in the US and Europe.

Change in 2020-21 estimates. Introduction of 2022 forecasts

We expect Antares Vision's top-line to grow at c.10% CAGR in organic terms over the period 2019-22E, or 14% in 2021-22. In FY20, we are factoring in around two months of sales' slippage due to COVID-19 impact which will not be recovered over the year. This impact will be overall offset by the full integration of FT System (3 months consolidated in 2019).

With regard to 2021-22 period, we expect sales to recover a low-double digit growth pace (c.14%) in organic terms reaching sales of c.€162m in 2022E based on the following divisional assumptions:

- ◆ **T&T.** We expect the T&T business to grow in the high-single-digit area after a top-line decline in 2020E. We forecast the division to grow at c.10% CAGR in the 2021-22E period, driven by the geographical expansion in countries, such as Brazil and Russia, in which regulation is expected to support serialisation demand. US aggregation deadline by 2022 is expected to bring some initial effects in 2021;
- ◆ **Visual Inspection** should reach €55m sales in 2022 quickly recovering the decline expected in 2020. The two key drivers are the wider product range in the Pharma segment plus the contribution of FT system operating mainly in the Beverage sector. Increasing traceability regulations in non-pharma may speed up the underlying growth of both VI and T&T solutions in many industrial clusters;
- ◆ **Services** should grow in tandem with volumes (9% 2019-22 CAGR), as these revenues are linked to the gradual increase in the installed base;
- ◆ **Smart Data** are expected to generate c.€7m revenues in 2022 (from c.€2m in 2019). This is a division where the company invested a lot in the past months finalising several acquisitions in the field of AI and Data Management.

We provide a summary of the breakdown of sales forecasts by business in the table below.

2019-22E - Revenues by business (IFRS compliant)

	2019A*	2020E	% ch.	2021E	% ch.	2022E	% ch.
T&T	79.9	68.3	-14%	76.0	11%	83.7	10%
% total	56.0%	54.4%		53.2%		51.7%	
Visual Inspection	48.0	40.7	-15%	46.9	15%	54.7	17%
% total	33.7%	32.4%		32.9%		33.8%	
Services	13.2	13.1	-1%	14.9	14%	17.1	15%
% total	9.2%	10.4%		10.4%		10.6%	
Smart Data	1.7	3.5	n.m.	5.0	n.m.	6.5	30%
% total	1.2%	2.8%		3.5%		4.0%	
Total	142.7	125.6	3%	142.8	14%	162.0	13%

Source: Mediobanca Securities, * FT System 12 months consolidated.

Over the next three years, the company plans to slightly further increase its workforce, after the strong FTEs expansion made in 2018-19, in order to cope with the expected business growth. Phasing of these investments may affect/help the profitability of a single year.

Our First Margin assumptions are overall unchanged (above 70% on sales) but these investments in personnel, coupled with lower sales, will compress the EBITDA margin to c.21% in 2020 (from c.25% pro-forma 2019 - IFRS restated). In 2022, we see an EBITDA margin close to 25%, back to 2019 level.

Antares Vision - 2019-22E EBITDA to net profit estimates (IFRS compliant)

(€m)	FY2019A*	FY2020E	FY2021E	FY2022E
EBITDA	31.5	25.8	32.5	39.7
Margin %	25.8%	20.5%	22.8%	24.5%
D&A	-2.1	-2.5	-2.6	-3.1
EBIT	29.4	23.3	30.0	36.7
Margin %	24.0%	18.6%	21.0%	22.6%
Net financial charges	-0.7	-1.0	-0.5	0.0
Taxes**	-6.7	-3.6	-6.4	-8.2
Group net profit	22.1	18.4	22.5	27.8

Source: Mediobanca Securities, *FT System 3 months consolidated, **Includes Patent Box Benefit.

Compared to our estimates pre-COVID-19 emergency, we cut 2020-21 EPS by 37% on average.

2021-21 change in estimates. Introduction of 2022 forecasts (IFRS compliant)

(€m)	New FY20	Old FY20	% chg.	New FY21	Old FY21	% chg.	FY22
Total sales	125.6	160.1	-22%	142.8	180.3	-21%	162.0
EBITDA	25.8	43.5	-41%	32.5	50.6	-36%	39.7
EBITDA margin	20.5%	27.2%		22.8%	28.1%		24.5%
EBIT	23.3	41.8	-44%	30.0	48.7	-38%	36.7
EBIT margin	18.6%	26.1%		21.0%	27.0%		22.6%
Net profit	18.4	29.7	-38%	22.5	34.8	-35%	27.8
Net debt/(Cash)	(16.6)	(48.9)		(25.5)	(77.1)		(47.8)

Source: Mediobanca Securities

At balance sheet level, we forecast a cumulated FCF generation of almost €40m over the estimates horizon based on the following assumptions:

- ◆ **Change in working capital.** We expect net working capital on sales to be in the 30% area over the period, leading to a cumulated cash absorption of c.€16m in the 2020E-22E period;
- ◆ **Capex.** We see capex gradually decreasing over the 3Y period (from €12m in 2020 to c.€5m in 2022). In our estimates we included c.€4m of additional capex related to the capitalisation of a part of the R&D costs, related to some pilot projects in the industrial sector to be developed in the coming years. This last item is expected to be close to zero in 2022;
- ◆ We do not forecast any **dividend payment** given that in our view AV is going to prioritize the re-deployment of its cash flows to finance potential external growth opportunities.

Antares Vision - 2019-22E cash flow statement

(€m)	FY2019A	FY2020E	FY2021E	FY2022E
Cash earnings	54.2	21.4	26.7	32.7
Net working capital change	1.8	-2.2	-8.2	-6.0
Capex	-13.3	-13.4*	-9.5	-4.5
Free cash flows	42.7	5.8	9.0	22.3
Dividends	0.0	0.0	0.0	0.0
Others	2.3	0.0	0.0	0.0
Change in net debt	45.0	5.8	9.0	22.3

Source: Mediobanca Securities, *includes Tradeticity acquisition worth c.€1.4m

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Outperform	Neutral	Underperform	Not Rated	Restricted	Coverage suspended
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