

TPS	initiation of coverage	Italy	FTSE AIM Italia	A&D
Rating: BUY	Target Price: Euro 6,40		Risk: Medium	

Stock Performance	1M	3M	6M	1Y
Absolute	8,52%	-3,74%	46,50%	n.a.
vs FTSE AIM Italia	5,29%	-5,09%	29,62%	n.a.
vs FTSE All-Share	5,24%	-11,31%	32,69%	n.a.

Stock Data (at 25/10/2017)	
Price	€ 4,69
Bloomberg Code	TPS IM
Market Cap (€m)	27,65
EV (€m)	28,67
Free Float	15,23%
Share Outstanding	5.898.500
52-week high	€ 6,00
52-week low	€ 3,20
Company Agenda	n.a.

Key Financials (€m)	2016A	2017E	2018E	2019E
Sales	14,6	19,1	22,0	24,6
EBITDA	3,10	4,20	5,20	6,50
EBIT	3,00	3,70	4,50	5,70
Net Profit	1,90	2,30	3,00	4,00
EPS	0,32	0,39	0,51	0,68
EBITDA margin	21,3%	22,0%	23,6%	26,2%
EBIT margin	20,6%	19,3%	20,7%	23,1%
CAGR Sales	80,0%	30,8%	15,2%	11,8%
CAGR EBITDA	138,0%	35,5%	23,8%	25,0%

Main Ratios	2016A	2017E	2018E	2019E
EV/EBITDA	9,2 x	6,8 x	5,5 x	4,4 x
EV/EBIT	9,6 x	7,7 x	6,4 x	5,0 x
P/E	14,6 x	12,0 x	9,2 x	6,9 x
NFP/EBITDA	0,1 x	-0,8 x	-1,3 x	-1,8 x

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Company overview

TPS is specialized in providing technological services and engineering support to the Aerospace industry with a special focus on the more complex helicopters world. TPS Group covers the entire lifecycle of an airplane/helicopter, mainly on the civil side (90% of FY16 revenues). As of today, the group structure is led by TPS SpA acting as the operating holding controlling seven different companies having each a peculiar specialization in the different fields in the avionics businesses. TPS employs about 220 qualified workers (mainly highly specialized engineers and technicians) and is present in Italy through offices in Lombardia, Piemonte, Trentino and Marche. Main Headquarter is located in Gallarate (VA). Outside Italy, TPS is present in Switzerland and is going to open a new office in Philadelphia

1H17 Results

1H17 sales rose by 12,3% YoY to €8,9 mln, while Ebitda rose by 8,3% to €2,0 mln (Ebitda margin is 21,9% vs. 22,7% of 1H16). Sales growth is mainly due to the acquisition of ICB Srl. Compared to the scope of consolidations of 1H16, TPS S.p.A. and Adriatech more than offset the temporary reduction in revenues of the indirect subsidiary Aviotrace Swiss SA following the completion of a translation training contract. Lower Ebitda margin of 1H17 than 1H16 is due to the growth of personnel costs followed the consolidation of ICB Srl and the hire of high professional level workers in TPS and Adriatech to develop new project. Net cash improve to €1,8 mln (from debt of €0,3 mln FY16) also thanks to proceeds of IPO of €2,9 mln and operative free cash flow of €2,3 mln

Valuation Update

We assessed TPS's equity range according to the DCF and multiple methods with a sample of comparable companies. The DCF method results in an equity value of €43,8mln. The average equity value calculated using the multiple method exceeds €58.0 mln. We have then applied a discount of 25% obtaining a value of €43.5mln.

In order to check the consistency of our average ratios and relative valuation, we also divided our sample excluding companies with market capitalization higher than €2,0 bln, reaching €55,7 mln, i.e. €41,8 mln with 25% discount.

Moreover we also check the valuation only the companies listed on AIM UK, reaching an equity value of €32.1 mln. We take this prudent value in order to calculate the TPS equity value.

The average of the two valuation methodologies (€32,1 mln and €43,8 mln) is our target price: €38,0 mln or €6,4 per share, rating Buy, risk medium.

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1. Company Overview

1.1 Group structure

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As of today, the group structure is led by TPS SpA acting as the operating holding controlling seven different companies having each a peculiar specialization in the different fields in the avionics businesses:

- **TPS SpA** provides Technical Documentation and managing support for the Maintenance Cycle of a helicopter (ILS, Integrated Logistic Support). It defines the most suitable and efficient maintenance program for a craft (or a fleet) based on the customer's specific needs. The nature of this service is recurring;
- **NEOS Srl [94% controlled]** (acquired in 2013) is specialized producing multimedia technical contents. It supplies a full range of services and products for the creation and the management of technical documentation and training systems (CBT, Computer Based Training). NEOS also provides technical training directly in classrooms or through an interactive platform;
- **AVIOTRACE SWISS SA [90.2% controlled]** (acquired in 2013) is an EASA (European Aviation Safety Agency) certified Swiss subsidiary offering highly specialized training courses and maintenance tests for the sector's technicians for a continuous improvement in their training and educational background. It operates as an approved "Training Organization" according to European standard EASA-Part 147 of the Federal Office of Civil Aviation (FOCA) in Switzerland;
- **TPS AEROSPACE ENGINEERING SRL [70% controlled]** (established in 2015) provides engineering support aimed at specific alterations and renewal of an existing craft along with the installation of additional professional kits. According to the EASA Part.21 regulations, it is a POA (Production Organization Approval) and DOA (Design Organization Approval) approved Company. While POA enables the Company to design and produce some parts and components of a craft, DOA enables it to provide internal design. Included in the professional kit expertise, the Company has developed specific skills in the Medical System design for airplanes and helicopters;
- **ADRIATECH SRL [100% controlled]** (acquired in 2015) provides technical documentation and engineering services for the aeronautical industry with a focus on electrical and structural engineering. The company designs and create technical documentation as well as maintenance documents;
- **STEMAR CONSULTING [70% controlled]** (acquired in 2017) been operating for 25 years in the field of the automotive cost engineering. Stemar Consulting works closely to the world's leading automotive and aerospace OEMs and suppliers. The Company is highly qualified in the molding design and 2D and 3D design;
- **ICB SRL [100% controlled]** (acquired in 2017) provides IT services to OEMs as well as avionic software creations and multimedia training to personnel, including aeronautical training simulators. ICB, has a thirty year experience in the sector and is known as an absolute excellence.

TPS employs about 220 qualified workers (manly highly specialized engineers and technicians) and is present in Italy through offices in Lombardia, Piemonte, Trentino and Marche. Main Headquarter is located in Gallarate (VA). Outside Italy, TPS is present in Switzerland and is going to open a new office in Philadephia (USA).

The customer base is represented by the various divisions of Leonardo-Finmeccanica world (the main client) through its ex-controlled firms (AgustaWestland, OTO Melara, Alenia, etc), Mecaer, , Lufthansa, Piaggio Aero, Brembo, Ruag, Burke&Burke, Superjet Int.

The first five customers make about 80% of the total sales.

1.2 Shareholders

TPS is 80.5% owned by the Rosso family (Alessandro Rosso is the current CEO) and 4.2% owned by Mr. Massimiliano Anguillesi (current TPS Managing Director). The remaining part is free float.

1.3 The Value Chain

TPS's value chain follows a precise path starting with the engineering and consulting phase, continuing with technical publications & training and ending with the DOA and POA approved customization phase. Each of those steps requires strong technical expertizes and strong cooperation amongst the different business areas (SBU), representing one of the strongest TPS entry barriers.

TPS runs its businesses through five different SBUs:

SBU 1 refers **to technical documentation, maintenance analysis and cycles, and training content** and programs for both new machine and existing flying fleet. In other words and according to the EASA rules, an OEM needs to keep a continuous relationship with the user for the whole lifecycle of a craft. In case of any issue occurred on a single airplane/helicopter model, the constructor must update all other users of the specific craft on the new technical specifications/modification to adopt in order to avoid further inconvenient. Therefore, SBU1 activity goes beyond the simple craft delivery as the technical documentation has to be continuously evolved and sent to the users as a regular update or following to any specific event occurred on a single vehicle type worldwide.

Specific knowhow and own informative tools gave TPS the ability to work in compliance with the EASA rules and Leonardo's certifications.

The business line deals with the:

- study and definition of maintenance programs (ILS - Integrated Logistic Support);
- realization of flight and maintenance manuals;
- spare-parts catalogs supporting the training activities needed to train users and technicians (i.e. Certifying staff).

All those activities offered to an OEM, are mandatory to be EASA or FAA (USA) awarded and they refer to the regular update and customization of a single machine or a fleet.

SBU 2 provides engineering and design for avionics: electrical parts, interiors and structural parts. As well as in SBU1, SBU2 activity is supplied to a new craft model but also to the structural modification of an existing machine.

The business line mainly refers to the following areas:

- supporting the CPE (Chief Program Engineer) offices in technical problems occurred on the fleet during the flights and during the development of new helicopters;
- supporting customer' Engineering Offices in the design of systems and parts. The design activities refers to structural, mechanical, electrical and electro-avionic interventions.

All those activities, offered to an OEM, deal with the new and existing machines (i.e. applying changes and assembling new kits).

SBU 3 designs, certifies and produces parts and components for airplanes and helicopters and has a specific knowhow in aeromedical kit.

The reference customer of this unit is the end-user asking for kits installation for professional purposes.

SBU4 is working on avionic services and software design and production. The SBU supplies avionic informative services, which means part of the software that controls the equipment and systems of the airplane or helicopter.

The SBU develops test software, engineering for control systems and developments of simulators to train aerospace technicians.

SBU5 is corresponding with the new acquisition Stemar Consulting S.r.l. and works on Cost Engineering, which means the set of procedures and analysis developed to reduce the cost of production of a components or a complex machine.

It includes engineering activities, reverse engineering, cost analysis as well as tear down analysis for benchmark purposes.

Today SBU5 is mainly operating for automotive industry (most important customer: Ferrari) even though it has already realized benchmark analysis for some aerospace components.

2. The market

2.1 Global Aerospace & Defense industry

According to Deloitte's estimates, the global aerospace and defense (A&D) industry is expected to resume growth in 2017, after many years of subdued volumes.

The expected positive performance, takes into account the potential rise in the military expenditure, due to the increasing global tension and security threats, the instability in the Middle East, as well as higher US DoD budgets.

Growth in 2017 should derive from an increased US defense budget, the persistence of geopolitical tension and growth in the defense budgets in many key nations. In addition, a relatively stable global Macroeconomic growth, lower commodity prices (oil included) and the healthy passenger travel demand are all contributing to the expected production growth in in next-generation's commercial fleet. Defense budgets in the US, UK, France, Japan, Middle East and other nations do increase proportionally to the security requirements following the geopolitical tensions. On top of, Governments are spending in new generation defense equipment (including cyber, intelligence gathering, defense electronics, and precision strike capabilities).

2.2 Commercial aerospace sector

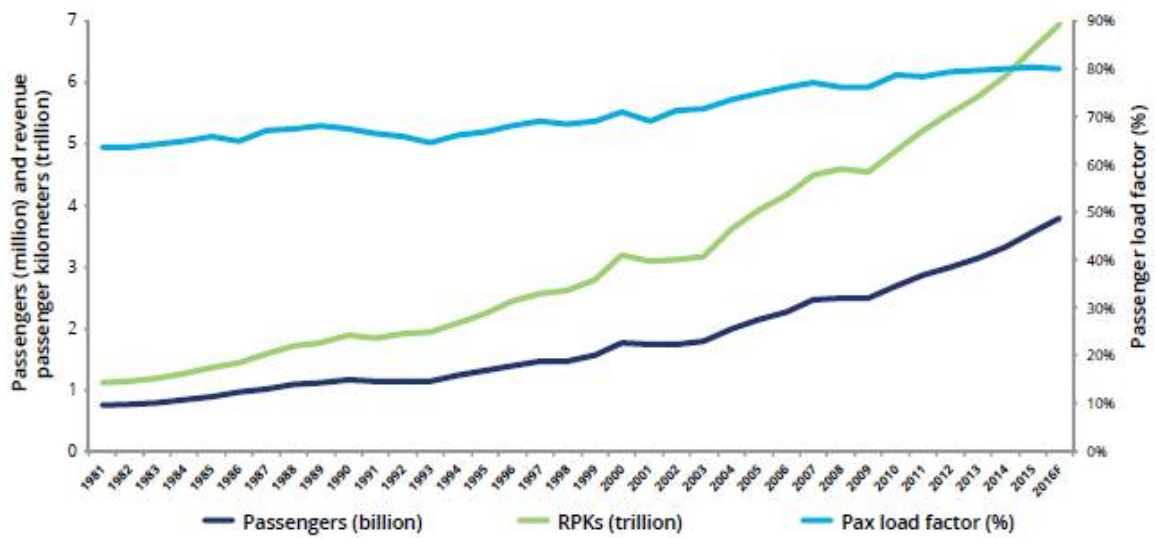
The global commercial aerospace sub-sector will likely experience a +0.3% YoY increase in revenues in 2017. A slight recovery after a slowdown in 2016 will primarily come from the next generation aircraft demand and the still growing passenger traffic, especially in Asia - Pacific and Middle East.

Although 96 additional large commercial aircraft are expected to be produced in 2017, a continued pricing pressure and product mix changes by the Airlines will likely result in a marginal change in the commercial aerospace sub-sector revenues only. Major OEMs Airbus and Boeing, have guided production rate increases in 2017 and 2018. Airbus' A320neo is likely to ramp up production in 2017, whereas the production rate of Boeing's 737 will pass from 42/month to 47/month in 2017 and 52/month in 2018. Travel demand (calculated as RPKs) has been increasing 4.7% CAGR over the last ten years, with passenger enplanements rising from slightly over 2.0 billion to more than 3.5 billion annually during this period. Increase in travel demand, driven by global demographics and wealth creation in Asia and the Middle East, translates into a significant order increase for new aircrafts.

Over the next 20 years, passenger and freight traffic are likely to grow at an average annual growth rate (AAGR) of 4.8% and 4.2% respectively, contributing to higher aircraft production. Several years of hefty order intakes fed an all time record in the commercial aircraft backlog in 2015 (c.a. 13,500 aircrafts), representing more than nine and a half years of the annual production currently.

As illustrated in the following chart, passenger travel demand increased more than 500% from 1981 to 2016, while passenger's load factor rose by 25.6% during the same period. Moreover, the number of people flying per year kept rising more than four times increase over the same period driven by affordable ticket pricing and route availability.

Fig. 1 – Global Airline Traffic (1981 up to 2016F)



Source: Deloitte analysis of the following data: The Boeing Company, "Order and deliveries," accessed in November, 2016 <http://active.boeing.com/commercial/orders/index.cfm>; Airbus Group, "Orders and deliveries," accessed in November, 2016, <http://www.airbus.com/company/market/ordersdeliveries/>; UBS, US Aerospace and Defense Playbook, 14 October 2016; and Credit Suisse, Global Aerospace and Defense, 27 May 2016.

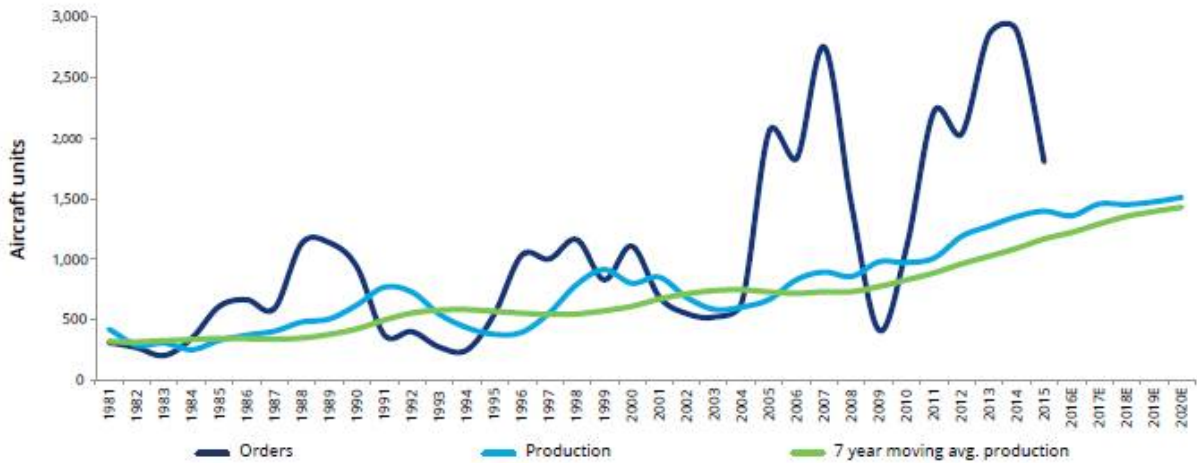
Over the last 20 years, commercial aircraft production rose 220.0%. Over the next decade the annual production in commercial aircraft is expected to increase 29.3%.

Looking at such an expected buoyant growth there are two significant trends and challenges to figure out:

- the attractiveness of this market and the potential entrance of new global competitors to the existing duopoly (Boeing, Airbus)
- The impact on the supply chain.

After an unexpected slowdown in 2016, 1,456 commercial aircraft will be produced in 2017 translating into a +7.1% YoY increase and a +22.5% in annual production compared to five years ago. Factors driving the slowdown in 2016 production in 2016, were the decision to shift to other new craft models, many delivery deferrals and issues related to the supply chain related issues. In five years, the sector should produce 1,550 aircrafts, i.e +14.0% increase from 2016.

Fig. 2 – History and forecast for large commercial aircraft orders and production (1981 - 2020F)

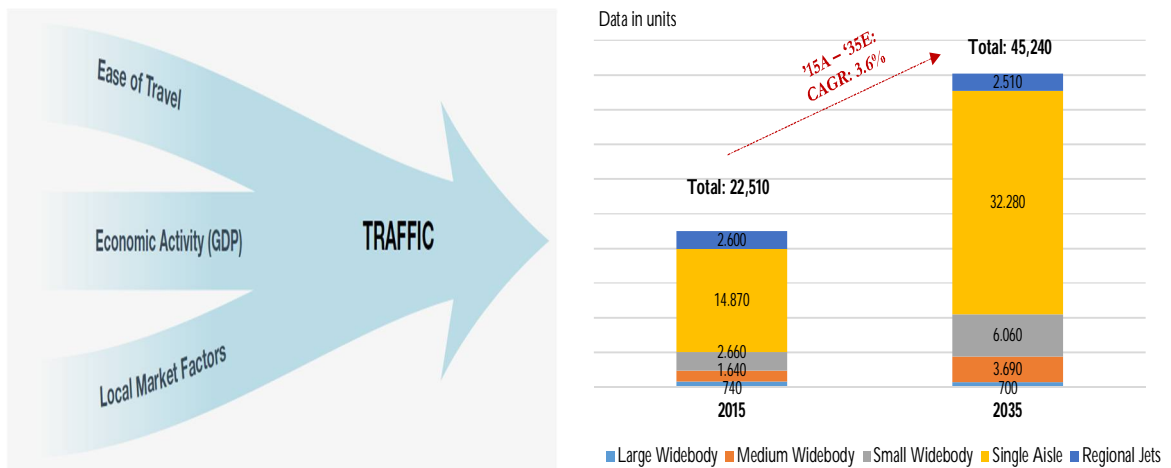


Source: Deloitte analysis of the following data: The Boeing Company, “Order and deliveries,” accessed in November, 2016 <http://active.boeing.com/commercial/orders/index.cfm>; Airbus Group, “Orders and deliveries,” accessed in November, 2016, <http://www.airbus.com/company/market/ordersdeliveries/>; UBS, US Aerospace and Defense Playbook, 14 October 2016; and Credit Suisse, Global Aerospace and Defense, 27 May 2016.

Using a seven-year moving average, production levels over the last 20 years have increased 120.5% since 1996. Over the next decade, commercial aircraft annual production should grow at an estimated 29.3%.

In 2015 (the most updated data available), there were approximately 22,510 jet airplanes in service, a number that is expected to double over the next 20 years to an in-service fleet of c.45,240 airplanes. In the next 10 years, the number of single-aisle and wide body airplanes replacing the old ones will double. Airplane replacement will cover 43% of total demand in 20 years propelled by the launch of replacement cycles from the Middle East airlines.

Fig. 3 – Airplanes in service (2015 – 2035F) – Breakdown by Airplane size



Source: Deloitte Touche Tohmatsu Limited (DTTL) Global Consumer & Industrial Products Industry group analysis of the following data: The Boeing Company, “Order and deliveries,” accessed in January 2016, <http://active.boeing.com/commercial/orders/index.cfm>; Airbus Group, “Orders and deliveries,” accessed in January 2016, <http://www.airbus.com/company/market/orders-deliveries/>; UBS, US Aerospace and Defense Playbook, 16 October 2015; and Credit Suisse, Global Aerospace and Defense, 16 October 2015.

The number of single aisle airplanes having more than 25 years reached an average 250-275 annually, a number expected to double to more than 500 p.a by the beginning of the next decade.

Similarly, the annual number of wide body airplanes having more than 25 years reached an average of 100, a number expected to double to more than 200 p.a by the beginning of the next decade.

Fig. 4 - Older, less efficient airplanes replaced with more efficient, newer generation airplanes

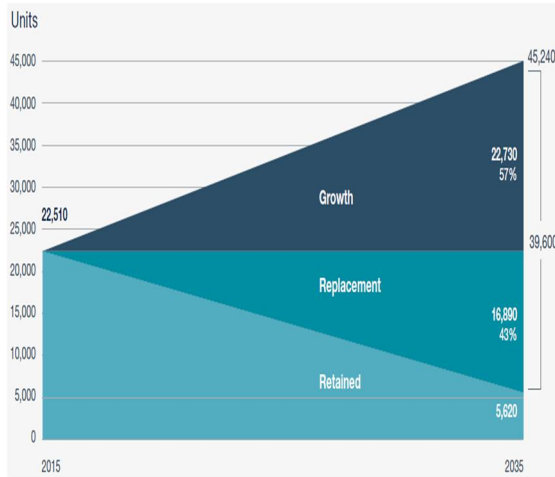
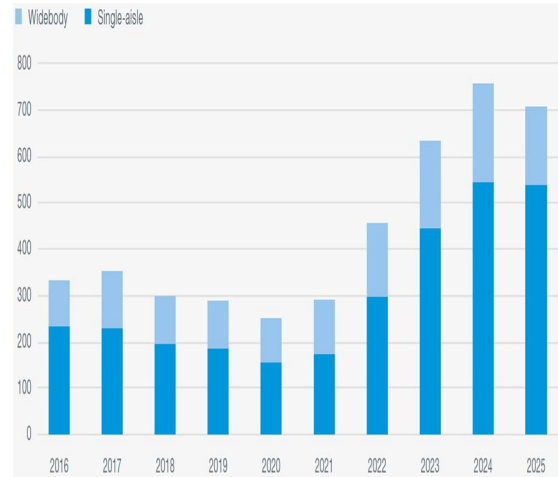


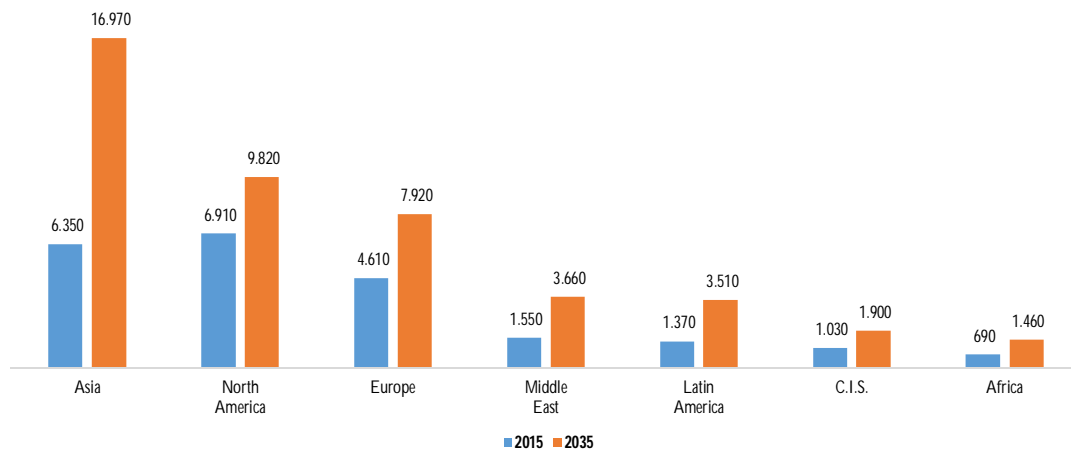
Fig. 5 - In-service aircraft reaching 25 years old



Source: Deloitte Touche Tohmatsu Limited (DTTL) Global Consumer & Industrial Products Industry group's analysis of the data from IATA, "Fact Sheet," November 2015 and data from The Boeing Company, Current Market Outlook (2015–2034), November 2015 and Airbus Group, Global Market Forecast (2016–2035), July 2016; Flight Global Ascend Online Data.

Asia & Pacific has become one of the biggest aviation markets in the world. Jet fleets have nearly doubled and forecasts for year 2035 amount to 16,970 airplanes. Another strong trend comes from the Middle-East's growth, expected to pass from 1,550 airplanes in 2015 to 3,660 in 2035. Other Regions expected to post high CAGRs are Latam (4.8%), Africa (3.8%), C.I.S. (3.1%), Europe (2.7%), North America (1.8%)

Fig. 6 - Total Fleet Delivery of Airplanes by Region (2015 – 2035)



Source: The Boeing Company, Current Market Outlook (2016–2035), July 2016.

Jointly to the aircraft demand, also the one for new professional profiles should grow. In particular:

News pilots. By 2035, the aviation industry will need to supply more than two million of new aviation personnel (617,000 commercial airline pilots, 679,000 maintenance technicians and 814,000 cabin crew);

New technicians: As the number of new generation planes will become more prevalent in the worldwide fleets over the next 20 years, airplanes reliability will improve as well as the increase in maintenance check intervals. Demand for maintenance personnel and technicians will raise accordingly;

New cabinet crew. Flight routes will expand and new generation airplanes with higher seat capacity will follow. This is why an increasing number of cabin crew personnel will be required to ensure the safety and comfort of passengers. Many regional markets have also changed regulations in requiring a greater number of cabin crew per single aircraft.

2.3 Helicopter market

According to a market research report “Global Helicopter Market Size, Share, Development, Growth and Demand Forecast to 2023 - Industry Insight by Type (Civil Helicopter, Military Helicopter)”, the global helicopter market is expected to witness a 3.4% CAGR17–2023. Ageing helicopter fleet, increasing usage of helicopters in disaster relief, and technological advancements are the major factors driving the growth of the global helicopter market. The market faces challenges such as economic uncertainty and ongoing crisis in the oil and gas industry.

The global market is expected to be positively impacted by the growing helicopter market in the emerging economies. The increasing compliance for helicopters in the emerging economies is expected to provide growth potential for the market during the forecast years. Countries such as China, Brazil and India have a huge market potential, as the government is spending huge capital for developing their civil and military helicopter fleet. The economy of developing nations has witnessed significant growth over the past few years. Moreover, the territorial disputes in Asia

compels governments to increase their defense spending. This is expected to result in increased procurement of military helicopters especially in the developing nations such as China and India.

The global helicopter market is concentrated in six top players generating more than 70% of the total revenues worldwide: Russian Helicopters, Lockheed Martin Corporation, Airbus SE, Leonardo, Bell Helicopter Textron Inc. and Boeing. The major players are investing huge CAPEX to develop light and medium civil helicopters and light and medium military helicopters with advanced security features and technology. Helicopter operators have shown interest in the purchase of technologically advanced medium civil helicopters specifically for application in law enforcement, firefighting, and medical services. Key competitors are specifically focusing on Latin America for expansion of civil helicopter fleet, as the operators in the region show strong purchase intention in the coming year for civil helicopters. Similarly, manufacturers are also investing in the Asia-Pacific region for the expansion of military as well as civil helicopter fleet. Russian Helicopters presented its latest developments during the China International Aviation & Aerospace Exhibition-2016. The company presented a wide range of civil helicopters models including medevac Ansats, a multi-purpose Mi-171A2 and a firefighting Ka-32A11BC.

According to Agusta Westland (now Leonardo Helicopters Division), the commercial helicopter industry is expected to grow by 3.3% p.a in the coming 10 years. Agusta expects to be the leader coming from an increased market positions thanks to the AW139 model.

Major players have more than 30% of revenues in the After Market and Maintenance industry (AFM).

In 2015, the sector of the Global Helicopter Training (i.e. training services with regards to engine, flight systems, information management systems, operation and maintenance, including simulation systems), was worth around USD 713 million and is expected to grow to USD 908 million in 2022 with an average growth of 4% per year. It is clear the direct connection between new planes and helicopters on the market with the need for increasing the number of specialized technicians.

TPS group's activities are directly linked to the number of helicopters in fleet and to the flying hours that the fleet carries out. Taking into account TPS data and based on Leonardo analysis, it is possible to forecast:

- expected growth of 15% of in the number of aircraft delivered compared to the previous decade;
- Finmeccanica is currently launching two new helicopter models with an expected production up to 2,300-2,500 helicopters:
 - the AW169 - dedicated to the market of medium-small size helicopters;
 - the AW189 - oriented to medium-large size vehicles.
- AW609 TiltRotor is an extremely innovative machine that could revolutionize the concept of air transport in the medium-short range with the ambition to erode the market share of small fixed-wing aircrafts;
- Expected rising number of flying hours (from 560,000 hours flown in 2015 to 622,000 hours flown in 2016 foreseen);
- Average life cycle of a helicopter, which amounts to about 30-35 years.

We believe that the civil helicopter market drivers for the next years could be summarized as of:

- the on-going modernization cycle of parapublic and commercial helicopters is expected to reach completion by the end of the forecasted period, with gradually diminishing opportunities for new procurements;

- the present economic slowdown and static emerging economies in Asia-Pacific (APAC) and Latin America are reducing revenue opportunities for commercial operators, who are likely to refocus their activities in Western regions;
- the civil helicopter market in Western regions, however, is not only already highly concentrated, but is expected to be deeply affected by the current energy price crisis.

2.4 Main entry barriers

Among competitors, TPS Group operates in a contest of strong entries barriers for foreign operators, due to involvement in military development, difficulty to obtain supplier certification from Leonardo-Finmeccanica Group and strong relation with customers.

Moreover, TPS is able to tailor-made the solutions for its customers, also thanks to proprietary software developed which is extremely difficult and expensive to replace.

The strong integration with client's development and production processes, allowed TPS to become a long-term partners of its main clients.

Entry barriers are summarized as follow:

- A wide set of Technological assets. TPS has massively invested in ILS (integrated logistic support) by creating own platforms and software. For instance a) the LSA Management Tools: an in-house created platform gathering all technical information related to a life cycle of any complex system able to process them and to extract an optimized maintenance and replacement procedure of a craft. That is able to predict the deterioration of a single component and to assess the costs of maintenance or remedies; b) Amerigo and Amerigo4Mobile: in-house created IT tools directly linked to SAP Agusta Westland. The customer is able to order in real time any spare part for maintenance or interior setup. This is also possible through all devices connected to the web; c) R&D department has also performed a software able to create multimedia procedures to form flight manuals, maintenance manuals and spare parts catalogs. All these are available in HD videos and pictures. d) A multimedia training platform for multimedia technical training and distance learning; e) TPS Smart: translation services tools to manage the whole translation project; f) Wiring Diagram Builder: a web based tool aimed at optimizing the efficiency of the electrical cabling and automatically generating a wiring diagram. The facility is also able to generate a clear representation of the electric diagram and help engineers in the reading of the circuits. The elevated quality of those platforms and their output allow customers to speed up the timing in selling the machines.
- Human capital: TPS team has a very long and visible track-record in skills, expertizes and competence range (from A&D to Multimedia and training). The management team as well carries a strong engineering background and knowledge of the sector's value chain.
- Certifications: besides the general quality certificates ISO 9000, a wide set of international certifications were obtained during the years and are synonymous for a highly recognized trust and reliability by the market. Those certifications are essential to provide the SBU1, 2, 3 services.
 - EASA certification as a DOA and a POA: endorsement for the design, the certification and production of kits (parts &/or components) for the aeronautic industry.
 - EASA Academy 147: an Approved Maintenance Training Organization, offering Type Training and Familiarization Training for business and commercial aircraft.

- a direct client's certifications. The customer undergo frequent inspections in order to keep the suppliers under their provider's list. They've been awarded with both the AgustaWestland and Selex Supplier Qualifications by Leonardo/Finmeccanica.

3. Historical and forecast data

3.1 1H17 results

1H17 consolidated results includes ICB Srl acquired in June 2017 (Stemar Consulting has been acquired in July). According to TPS' management, 1H17 was the most important period in the recent history of the TPS Group. Significant projects, which have enabled the Group to significantly strengthen its presence on the market, have been implemented. The strategy adopted in recent years, expanding the skills of training and multimedia content, engineering and customer-designed design, aeronautical software development and the establishment of TPS Aerospace Engineering, has enabled the company to become one of the most important company in the field of aeronautical technical services.

The market position allows TPS to be involved in new major projects that will further strengthen and further develop the entire Group. Recognizing the propensity to technological innovation in the application and evolution of its business model, TPS got the qualification of Innovative SMEs in June.

1H17 sales rose by 12,3% YoY to €8,9 mln, while Ebitda rose by 8,3% to €2,0 mln (Ebitda margin is 21,9% vs, 22,7% of 1H16). Sales growth is mainly due to the acquisition of ICB Srl. Compared to the scope of consolidations of 1H16, TPSS.p.A. and Adriatech more than offset the temporary reduction in revenues of the indirect subsidiary Aviotrace Swiss SA following the completion of a translation training contract.

Lower Ebitda margin of 1H17 than 1H16 is due to the growth of personnel costs followed the consolidation of ICB Srl and the hire of high professional level workers in TPS and Adriatech to develop new project.

Net cash improve to €1,8 mln (from debt of €0,3 mln FY16) also thanks to proceeds of IPO of €2,9 mln and operative free cash flow of €2,3 mln and also considered investments of €2,8 mln for ICB and Stemar acquisitions and Neos Srl and Aviotrace Swiss SA participations increase.

3.2 Strategic guidelines for 2017-20F

According to TPS' management they expect sales of €1,9 mln, (+30% in line with our forecast) and Ebitda of €4,2 mln (+35% in line with our forecast). Net cash is expected to be of €3,5 mln (€3,4 mln our forecast).

Our 2017-20F forecast takes into account TPS management's strategic view.

TPS Group will continue to grow through new acquisitions in Italy and in Europe, with a strict focus in superior expertise in order to strengthen and expand the services/products quality across the value chain. Moreover TPS's management will keep investing in diversify the business. We believe that the major effort should be addressed in:

- Aviation: TPS Aerospace Engineering has built a highly specialized team in designing, certifying and producing medical kits. The Company has already developed two aeronautical patents: a stretcher system for helicopters and an incubator transport system. The Company will also work for the marketing and the production of the above mentioned facilities;
- Training center: Given the strong demand for specialized technicians, the opening of an Aviotrace Swiss subsidiary in Central Italy is likely to start in 2017-18. The new Aviotrace Swiss training center for aircraft maintenance will be based in the Marche region and it will be the first one to provide these kind of services;
- Adding manufacturing: TPS Group has built a team to assess which 3D Metal printing technology would be the most appropriate to become leader in the technological transition to the Adding Manufacturing Technology. In the meanwhile, the launch of a new production line adopting a 3D Metal printing technology is expected within 3 years.

We believe that the appropriate investment over the period would be of €1,14 mln. After the investments in 2016, we expected that the company is going to invest c.50% in 2017-20F.

We believe that the majority of the investment would be addressed to human resources and developments of informative platforms to improve efficiency of the services provided as well as enlarge the set of activities. With the current Group perimeter, we forecast that in 2020 employees will rise to 273 units from 147 in 2016 (16,7% 2016-20F CAGR).

4. Economics & Financials

Fig. 7 – P&L

P&L	2015A	2016A	2017F	2018F	2019F	2020F
Value of production	8.123,3	14.601,3	19.127,6	21.996,8	24.636,4	27.913,0
Cost of good sold	(3.539,1)	(6.051,0)	(6.396,9)	(7.356,5)	(8.090,9)	(9.167,0)
Value added	4.584,3	8.550,2	12.730,7	14.640,3	16.545,4	18.746,0
Personnel costs	(3.211,6)	(5.375,4)	(8.450,2)	(9.387,3)	(10.019,6)	(10.864,1)
Other income/cost	(86,1)	(59,5)	(76,4)	(61,5)	(61,3)	(64,6)
EBITDA	1.286,6	3.115,4	4.204,2	5.191,6	6.464,6	7.817,4
<i>Ebitda margin</i>	<i>15,8%</i>	<i>21,3%</i>	<i>22,0%</i>	<i>23,6%</i>	<i>26,2%</i>	<i>28,0%</i>
Depreciations	(81,9)	(101,5)	(510,4)	(645,6)	(766,5)	(825,0)
EBIT	1.204,8	3.014,0	3.694,0	4.546,2	5.698,3	6.992,6
<i>Ebit margin</i>	<i>14,8%</i>	<i>20,6%</i>	<i>19,3%</i>	<i>20,7%</i>	<i>23,1%</i>	<i>25,1%</i>
Financial income/charges	(174,0)	(134,1)	(95,0)	(48,0)	(45,0)	(45,0)
Extraordinady items	(91,8)	(195,6)	(340,0)	(235,0)	0,0	0,0
Pre-tax profit	939,1	2.684,6	3.259,2	4.263,4	5.653,6	6.947,9
Taxes	(412,2)	(772,4)	(977,8)	(1.236,4)	(1.611,3)	(1.945,4)
Net profit	526,9	1.912,2	2.281,5	3.027,0	4.042,3	5.002,5

Source: TPS and Integrae SIM estimates

Fig. 8 – A&L

A&L	2015A	2016A	2017F	2018F	2019F	2020F
Intangible assets	136,6	221,1	2.239,5	2.059,3	1.773,3	1.433,8
Tangible assets	763,5	729,5	960,0	1.015,0	1.020,0	1.020,0
Financial assets	17,5	18,9	20,0	20,0	20,0	20,0
Fixed Assets	917,5	969,5	3.219,5	3.094,3	2.813,3	2.473,8
Receivables	3.883,7	5.532,7	7.270,0	8.135,8	9.044,6	10.171,1
Payables	(983,6)	(1.609,4)	(1.530,0)	(1.934,9)	(2.238,9)	(2.637,1)
Net working capital	2.900,1	3.923,3	5.740,0	6.200,9	6.805,7	7.534,0
Other assets	433,0	1.148,4	853,0	570,0	550,0	550,0
Other liabilities	(1.285,2)	(1.601,4)	(2.386,0)	(2.400,0)	(2.850,0)	(3.170,0)
Other A&L	(852,2)	(453,0)	(1.533,0)	(1.830,0)	(2.300,0)	(2.620,0)
Provisions	(267)	(896)	(2.450)	(2.750)	(3.350)	(3.940)
Net invested capital	2.698,0	3.543,4	4.976,5	4.715,2	3.969,0	3.447,8
Total equity	1.308,1	3.216,2	8.367,7	11.394,7	15.437,0	20.439,5
Net debt (cash)	1.390,0	327,2	(3.391,2)	(6.679,5)	(11.468,0)	(16.991,7)
Cover	2.698,0	3.543,4	4.976,5	4.715,2	3.969,0	3.447,8

Source: TPS and Integrae SIM estimates

Fig. 9 – Cash Flow

CASH FLOW	2016A	2017F	2018F	2019F	2020F
EBITDA	3.115,4	4.204,2	5.191,6	6.464,6	7.817,4
Taxes	(772,4)	(977,8)	(1.236,4)	(1.611,3)	(1.945,4)
EBITDA net of taxes	2.343,0	3.226,4	3.955,2	4.853,3	5.872,0
Change in inventory					
Change in trade receivables	(1.649,0)	876,0	(865,8)	(908,8)	(1.126,5)
Change in trade payables	625,8	(172,0)	404,9	304,0	398,2
Change in OWC	(1.023,2)	704,0	(460,9)	(604,8)	(728,2)
Change in other assets	(715,5)	380,0	283,0	20,0	-
Change in other liabilities	316,2	74,0	14,0	450,0	320,0
Change in NWC	(1.422,4)	1.158,0	(163,9)	(134,8)	(408,2)
Operating Cash Flow	920,6	4.384,4	3.791,2	4.718,5	5.463,7
Capex & Disposal	(328,0)	(3.200,0)	(520,0)	(485,0)	(485,0)
Change in Provision / TFR	628,9	99,0	300,0	600,0	590,0
Free Cash Flow	1.221,5	1.283,4	3.571,2	4.833,5	5.568,7
Net interest expenses	(134,1)	(95,0)	(48,0)	(45,0)	(45,0)
Extraordinary item	(195,6)	(340,0)	(235,0)	-	-
Change on net Equity	195,0	2.870,0	-	-	-
Net Cash flow before financial payment	1.086,8	3.718,4	3.288,2	4.788,5	5.523,7
Financial payables due to banks					
Financial payables due to others	(24,1)				
Financial payables due to shareholders					
Net Cash flow	1.062,7	3.718,4	3.288,2	4.788,5	5.523,7
Opening Net Debt	1.390,0	327,2	(3.391,2)	(6.679,5)	(11.468,0)
Closing Net Debt (cash)	327,2	(3.391,2)	(6.679,5)	(11.468,0)	(16.991,7)
Change in Net Debt	(1.062,7)	(3.718,4)	(3.288,2)	(4.788,5)	(5.523,7)

Source: TPS and Integrae SIM estimates

5. Valuation

We assessed TPS's equity range according to the DCF and multiple methods with a sample of comparable companies.

5.1 Competitive analysis

Differentiation factors

- **TPS is the only one in the market able to follow the customer through the whole value chain**, where other competitors do provide only single expertizes. The high portfolio of services provided is a plus for a client aiming at keeping costs under control by applying to few providers.
- **A wide set of IT assets supporting the service provided.** Differently from any competitor, TPS has massively invested in ILS (integrated logistic support) by creating own platforms and software. For instance **a) LSA Management Tools:** an in-house created platform gathering all technical information related to a life cycle of any complex system able to process them and to extract an optimized maintenance and replacement procedure of a craft. That is able to predict the deterioration of a single component and to assess the costs of maintenance or remedies; **b) Amerigo and Amerigo4Mobile:** in-house created IT tools directly linked to SAP Agusta Westland. The customer is able to order in real time any spare part for maintenance or interior setup; **c) R&D department** has also performed a software able to create multimedia procedures to form flight manuals, maintenance manuals and spare parts catalogs. All these are available in HD videos and pictures. **d) A multimedia training platform** for multimedia technical training and distance learning; **f) Wiring Diagram Builder:** a web based tool aimed at optimizing the efficiency of the electrical cabling and automatically generating a wiring diagram. The facility is also able to generate a clear representation of the electric diagram and help engineers in the reading of the circuits. The elevated quality of those platforms and their output allow customers to speed up the timing in selling the machines.
- **TPS is an innovative SME** as it dedicates about 5% of its yearly top line to R&D (mandatory request is 3%).
- **Human capital:** TPS team has a very long and visible track record in skills, expertizes and competence range (from A&D to Multimedia and training). The management team carries a strong engineering background and knowledge of the sector's value chain. TPS' Team provides high quality and flexibility to work on different tasks and their turnover is only 5%.
- **Certifications:** besides the general quality certificates ISO 9000, during the first part of 2017 TPS Group achieved the certification ISO 9100, which is specifically designed for aerospace industry. In addition to that, a wide set of international certifications were achieved during the years and are synonymous for a highly recognized trust and reliability by the market. Those certifications are essential to provide the SBU1, 2, 3 and 4 services. **a) EASA certification as a DOA and a POA:** endorsement for the design, the certification and production of kits (parts and/or components) for the aeronautic industry. **b) EASA Academy 147:** an Approved Maintenance Training Organization, offering Type Training and Familiarization Training for business and commercial aircraft. **c) a direct client's certifications.** The customer underdo frequent inspections in order to keep the suppliers under their provider's list. Leonardo Finmeccanica has awarded them with both the AgustaWestland and Selex Supplier Qualifications.

- **Sharp-sighted target selection:** In the recent years, TPS has been able to select, acquire, quickly integrate and extract value from the acquired companies. One of the secrets is to leave the former owners in the capital by retaining their commitment in managing it as it was in the past.
- **No body rental:** differently from the other competitors providing a mere body rental service, TPS's services are rather provided through a constant presence within a contract signed with the customer, offering technical support as well as engineering solutions.

Defensive factors

- **A strong long-term relationship with Leonardo Finmeccanica.** Leonardo Finmeccanica is TPS' main client making c.a. 70% of the whole revenue base (meant as all the controlled Cos providing orders to TPS: AgustaWestland, Alenia Aermacchi, Selex, Oto Melara, etc). Normally the collaboration contract have an average 2-5 year duration. This liaison is active since the years of TPS foundation and it explains the grade of reliability and trust with the client. Being present in all the value chain is a guarantee for a long run collaboration. Of course having a big chunk of the business depending to one client is a threat but the nature of Leonardo, a systemic Italian Company, acts as a clear visibility point and an opportunity for TPS' international expansion. On the other side the nature of the business makes a service provider tied to one of the helicopters OEMs in the world (AgustaWestland, Airbus, Bell, Sikorsky) and the easy trespassing from civil to defense is a clear barrier for any other competitor entry.
- **Market's entry barriers.** The elevated track record in the industry, the certifications, the expertizes, the R&D and technical strengths, the distinctive skills from the work force and management's reputation are all together the bricks of the barrier; something impossible to build in the short/mid run.
- **The civil aerospace exposure:** TPS' A&D exposure splits between Civil Aerospace (90%) and Defense (10%). Firms with exposure to the civil Aerospace deserve higher multiples to reflect faster growth in the sector. On top of it the aftermarket massive presence and
- **The aftermarket exposure:** as anticipated, TPS business is mainly focused on the existing craft fleet as it provides maintenance, publications, engineering service for any single variation/issue occurred in a single machine's lifecycle (30/35 years). This is to explain that TPS's sustainability is not directly connected to new fleet orders that are rather an on top of. To be clear it is correlated to the maintenance of the new machines coming on the market but the existing fleet is already the sustainability topic. Only 30% of TPS' intake comes from new fleet orders.
- **Revenue visibility.** For the sake of simplicity one could say that c.a 70% of revenues have an average of 18 months coverage.
- **TPS solutions is a part of the single helicopter sold.** The price of a helicopter locks also a maintenance plan through its entire life cycle. This is why, being the provider skilled and selected by the OEM for that service, TPS is actually a component of the whole purchased combination. This is a high defensive topic as it is very difficult to break that legacy with the OEM.

5.2 Main ratios

Fig. 10 – Main ratios

Ratios	2016A	2017E	2018E	2019E	2020E
Liquidity					
Current ratio	2,45	3,14	3,88	4,57	5,35
Quick ratio	2,45	3,14	3,88	4,57	5,35
Cash ratio	0,37	1,06	1,75	2,51	3,29
Solvency					
Long-term debt-to-equity	0,63	0,34	0,29	0,25	0,21
Debt-to-equity	1,28	0,65	0,50	0,43	0,37
Total debt-to-asset	0,47	0,36	0,30	0,28	0,25
Financial leverage	2,75	1,83	1,65	1,55	1,47
Interest coverage ratio	22,42	40,07	98,53	126,18	158,55
EBITDA interest coverage	23,15	45,40	112,55	143,22	177,09
NFP/Equity	0,10	-0,42	-0,58	-0,73	-0,81
NFP/EBITDA	0,10	-0,81	-1,27	-1,73	-2,12
Performance					
Cash flow to revenue	0,05	0,23	0,16	0,18	0,19
Cash flow on assets	0,09	0,29	0,19	0,19	0,18
Cash return on equity	0,25	0,54	0,31	0,29	0,26
Cash to operating income	0,26	1,17	0,78	0,80	0,75
Activity ratio					
Days of inventory on hand	0	0	0	0	0
Days of sales outstanding	144	138	139	137	135
Days of payables outstanding	51	36	36	36	36
Cash conversion cycle	92	102	102	100	99
Working capital turnover	3,72	3,45	3,41	3,43	3,45
Fixed asset turnover	15,06	6,15	7,10	8,77	11,29
Asset turnover	1,65	1,29	1,17	1,03	0,93
Capital Employed turnover	2,85	3,63	4,12	5,26	6,55
Profitability ratio					
Gross profit margin	58,6%	66,6%	66,6%	67,2%	67,2%
EBITDA margin	21,3%	22,0%	23,6%	26,2%	28,0%
EBIT margin	20,6%	19,3%	20,7%	23,1%	25,1%
Net profit margin	13,1%	11,9%	13,8%	16,4%	17,9%
ROI	43,1%	32,7%	40,0%	53,5%	63,9%
ROA	21,6%	15,5%	16,1%	16,9%	16,7%
ROCE	58,9%	70,4%	85,3%	121,2%	164,1%
ROE	59,5%	28,5%	26,5%	26,2%	24,4%

Source: TPS and Integrae SIM estimates

Also thanks to the IPO proceeds, TPS enjoys a good liquidity and a negative NFP (i.e. cash). We think therefore that in the coming years TPS would be ready to grab other M&A opportunities on top of the internal investments for growth.

Since the company has no inventories, current ratio is equal to quick ratio.

Solvency ratios are strong and would keep improving every year all over the 2017-2020e plan.

The cash conversion cycle would remain flat over the plan period (approx. 100 days) but we still see room to improve it (especially by widening the DPO).

Fixed asset turnover and consequently asset turnover would decrease in 2017 mainly due to the increase in the value of intangibles assets (AIM listing costs and the goodwill of ICB). However, we are confident that the fixed asset turnover would come back to the FY16 level within five years (standard goodwill investments payback period).

TPS overperforms materially its competitors in terms of profitability (see Fig. 17).

We are confident that TPS business is sustainable over the long period. Company is very well placed in the competitive environment and it constantly outperforms its competitors on the profitability side (despite their greater brand recognition).

Being cash positive and carrying a very little debt, TPS could further improve its capital structure management and it could expand the business thanks to new M&A deals.

5.3 DCF model

The input data are provided below:

Fig. 11 – Main input data

Data	
D/E	0.64
Theoretical tax rate	27.90%
Risk free	0.60%
β Unlevered	0.82
β Levered	1.20
Market risk premium	8.40%
CAPM (Ke)	13.16%
Kd	2.50%
Specific risk	2.50%

Source: Integrae SIM estimates

It results in a WACC equals to 10.90%

Fig. 12 – DCF Model

	(mln/€)
NPV Cash Flow (2017-2020)	12.4
NPV TV	28.0
Enterprise Value	40.4
NFP at 31/12/2017E	(3.4)
Equity Value	43.8

Source: Integrae SIM

This result in an equity value of €43,8 mln.

Fig. 13 – Sensitivity analysis

		WACC						
		10,3%	10,5%	10,7%	10,9%	11,1%	11,3%	11,5%
G	1,75%	49,1	48,1	47,1	46,1	45,2	44,3	43,4
	1,50%	48,2	47,2	46,2	45,3	44,4	43,6	42,7
	1,25%	47,3	46,3	45,4	44,5	43,7	42,9	42,1
	1,00%	46,4	45,5	44,6	43,8	43,0	42,2	41,4
	0,75%	45,6	44,8	43,9	43,1	42,3	41,6	40,8
	0,50%	44,9	44,0	43,2	42,4	41,7	41,0	40,3
	0,25%	44,2	43,4	42,6	41,8	41,1	40,4	39,7
	0,00%	43,5	42,7	42,0	41,2	40,5	39,9	39,2

Source: Integrae SIM

5.4 Multiples valuation

Our sample includes some companies operating in the same sectors as TPS, but it differs in terms of market capitalization (TPS much lower) and organizational structure (Source: Infinaancials).

Fig. 14 – Comparable – Financials (FY16 data)

Company	Profitability					Capital Structure	
	ROE	ROCE	EBITDA margin	EBIT margin	Net Income margin	NFP /Equity	Equity /Assets
Peer Median	16,03	11,99	17,67	11,67	8,70	0,44	39,41
Pennant International Group pl...	21,25	38,27	15,28	11,88	11,16	-0,29	72,51
Cohort plc	5,07	0,65	11,54	0,47	3,26	-0,11	63,30
Meggitt PLC	7,39	4,72	21,91	11,46	8,59	0,48	46,23
Ultra Electronics Holdings plc	17,12	11,80	19,71	12,03	7,41	0,71	33,93
L3 Technologies Inc.	15,69	11,21	11,46	9,52	6,75	0,64	38,97
Rockwell Collins Inc.	36,73	15,03	22,49	19,00	13,84	0,86	27,04
Bharat Seats Limited	21,72	14,53	4,66	2,58	1,48	0,80	23,45
Elbit Systems Ltd	15,96	11,03	12,94	9,31	7,27	0,10	36,01
CAE Inc.	12,51	10,23	21,03	13,20	9,30	0,36	38,86
Aerospace Industrial Developme...	17,44	12,17	16,18	10,31	7,62	0,69	39,84
TransDigm Group Inc.	-69,41	14,00	43,79	39,48	18,49	-13,21	-6,07
Hexcel Corp.	20,61	16,81	22,64	17,95	12,46	0,52	51,86
Triumph Group Inc.	-4,82	1,52	14,16	1,61	-1,22	1,33	19,17
Curtiss-Wright Corp.	14,71	14,40	19,16	14,66	8,88	0,32	42,50
Esterline Technologies Corp.	6,44	6,53	13,50	8,54	5,10	0,38	53,14
HEICO Corp.	16,09	14,18	23,62	19,28	11,35	0,40	51,37
Figgeac Aero SA	16,47	10,66	22,15	16,06	10,02	0,98	33,50
Filtronc plc	33,06	17,57	7,09	4,92	8,81	-0,24	55,15
TPS	59,5	58,9	21,3	20,6	13,1	0,1	0,36

Source: Infinaancials

TPS has outperformed all its peers from a profitability point of view. Regarding the capital structure ratio, TPS's NFP/Equity ratio is lower than its competitors (in 2017 is even better since the NFP is negative, i.e. cash).

Fig. 15 – Comparable – Forecast Multiples

Company	Market Cap (€)	EV/EBITDA				EV/EBIT				P/E			
		2017F	2018F	2019F	2020F	2017F	2018F	2019F	2020F	2017F	2018F	2019F	2020F
Pennant International Group plc	33									14,0	12,1		
Cohort plc	192	8,5	8,3	8,6		12,8	11,6	9,7		14,5	13,6	13,5	
Meggitt PLC	4.245	9,5	9,5	8,6	7,7	12,2	11,6	10,8	10,1	13,6	12,8	12,0	11,7
Ultra Electronics Holdings plc	1.671	11,7	10,0	9,2	8,6	13,1	12,2	10,9	9,7	15,6	14,5	13,5	12,4
L3 Technologies Inc.	11.182	12,2	11,5	11,0	10,6	14,5	13,7	13,0	12,3	19,3	18,1	16,1	15,5
Rockwell Collins Inc.	14.516	12,1	9,0	8,5	8,1	13,6	10,8	9,7	9,0	18,0	15,5	14,0	12,9
Bharat Seats Limited	41	8,1	7,3			8,1	7,3			19,2	16,1		
Elbit Systems Ltd	4.514	13,0	12,3	11,6		17,8	16,7	15,8		21,3	19,6	18,4	
CAE Inc.	3.869	9,8	9,3	9,0		14,7	13,5	12,9		20,0	17,8	16,6	
Aerospace Industrial Development Corp.	927	10,1	9,5	8,9		16,2	15,1	14,3		18,2	15,0	14,5	
TransDigm Group Inc.	11.306	12,9	12,0	11,4	10,4	15,0	13,6	12,7	12,0	21,0	18,9	17,4	15,5
Hexcel Corp.	3.980	11,6	10,2	9,3	8,6	15,1	13,4	12,2	11,7	19,7	17,5	16,2	14,1
Triumph Group Inc.	1.153	8,7	6,8	5,0		14,8	9,3	7,5		11,1	9,6	7,6	
Curtiss-Wright Corp.	3.436	10,2	9,5	8,9		13,7	12,7	11,5	12,0	20,4	18,9	16,6	16,5
Esterline Technologies Corp.	2.270	10,8	9,9	9,2		16,2	14,6	13,5		19,6	18,6	16,5	
HEICO Corp.	4.878	17,2	15,3	14,3		21,0	18,6	17,1	17,2	36,1	32,2	29,1	28,8
Figeac Aero SA	619	9,2	7,2	5,6		14,0	10,5	8,3		17,6	12,8	9,1	
Filtronics plc	28	6,3	5,4	4,9		7,8	6,5	5,8		10,4	8,9	7,8	
Average		10,7	9,6	9,0	9,0	14,2	12,5	11,6	11,7	18,3	16,2	14,9	15,9

Source: Infinaancials

The average equity value calculated using the multiple method exceeds €58.0 mln. We have then applied a discount of 25% obtaining a value of €43.5mln.

In order to check the consistency of our average ratios and relative valuation, we also divided our sample excluding companies with market capitalization higher than €2,0 bln, reaching €55,7 mln, i.e. €41,8 mln with 25% discount.

Moreover we also check the valuation only the companies listed on AIM UK, reaching an equity value of €32.1 mln. We take this prudent value in order to calculate the TPS equity value.

The average of the two valuation methodologies (€32,1 mln and €43,8 mln) is our target price: €38,0 mln or €6,4 per share, rating Buy, risk medium.

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Equity Total Return (ETR) for different risk categories			
Rating	Low Risk	Medium Risk	High Risk
BUY	ETR >= 22.5%	ETR >= 25%	ETR >= 30%
HOLD	-20% < ETR < 22,5%	-20% < ETR < 25%	-15% < ETR < 30%
SELL	ETR <= -25%	ETR <= -20%	ETR <= -15%
U.R.	Rating e/o target price Under Review		
N.R.	Stock Not Rated		

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