

TPS Group: a never ending cash generator

April 27th, 2022, at 18:00

FY21 revenue and EBITDA margin in line with expectations but a much better than anticipated Net Financial Position

In FY21 TPS recorded a Value of Production of €37.6m (vs €37.9m expected), up 21% from 2020 and comfortably above pre-pandemic levels. Recording an even better performance, EBITDA stood at €7.6m (vs €7.4m expected), up 45% yoy, implying an EBITDA margin of 20% (vs 17% in 2020), perfectly in line with our expectations and slightly below the 22.5% recorded in 1H21 given the slight margin dilution after the acquisition of 80% of Air Support International (ASI) in July. Net profit stood at €3.6m, perfectly in line with our estimates, of which €3.4m pertaining to the group. The Net Financial Position further improved, from €10.8m in June 2021 (cash) to €14.6m in December 2021 (vs €7.5m expected), thanks to the continuous growth in cash flow from operating activities and the remarkable improvement in Net Operating Working Capital, whose ratio on VoP decreased to 31% from 46% in F20, doing definitely better than we had expected. The Company will propose to the Shareholders' Meeting, called for April 27, 2022, the distribution of a dividend of €0.06 per share, against expectations for no dividend distribution.

Corporate strategy and main growth drivers

TPS's expansion strategy is not expected to change in the years ahead. The management has reassured us about its key pillars: (i) diversification, (ii) expansion of the range of services with increasingly innovative solutions, and (iii) growth also through external lines. In our view, the true game changer for TPS could be the resumption at full speed of its expansion path also through M&A operations, given TPS ability to generate consistent cash flow over time. However, please note that our estimates are on TPS as is, stand-alone, so do not include potential future acquisitions.

Fine tuning to our 2021E-2023E estimates and FY24 new projections

FY21 Income Statement figures came in very close to our expectations, validating our forecasting methodology. However, we made some minor adjustments against the backdrop of the Ukraine war and rising input prices. Revenue projections were slightly revised downwards, broadly in line with the cut in estimates of Italian, European and World GDP and the cut made by analysts on expected revenues and CapEx of companies comparable to TPS and companies comparable to TPS customers, respectively. Amid rising input prices, we also adjusted TPS estimated cost structure mainly by assuming a double digit yoy increase in the Costs of Raw Materials and a single digit one in the Cost of Purchased Services in FY22. Altogether, Value of Production is now forecast to grow at a 21-24E CAGR of 6.5% to €45.5m in 2024, while EBITDA margin should slightly deteriorate to 18.5% in FY22 from 20.3% in FY21, amid rising costs, to then return to 20% in FY23. On the Balance Sheet side, we broadly confirmed our forecast for Fixed Assets and Consolidated Shareholders' Equity, which however changed a bit following CapEx and Net Income revisions, while we significantly revised our drivers for Net Operating Working Capital estimates, following the impressive performance recorded in FY21. NOWC absolute value has been revised downwards by about €3m both in FY22 and FY23, leading to a better than anticipated improvement in the Net Financial Position. Accordingly, Net Cash is expected to progressively increase, to reach more than €21m in FY24, from €14.6m of cash in FY21.

Valuation: TP raised to €9.1, BUY confirmed

We confirm our BUY recommendation with a 12-month Target Price of €9.1, computed as the simple average of the fair value from DCF, equal to €9.4/share (vs previous €8.4), and the relative market multiples valuation equal to €8.7/share (vs previous €9.1).

Target Price (€) **€9.1 from €8.8**
Recommendation **BUY**

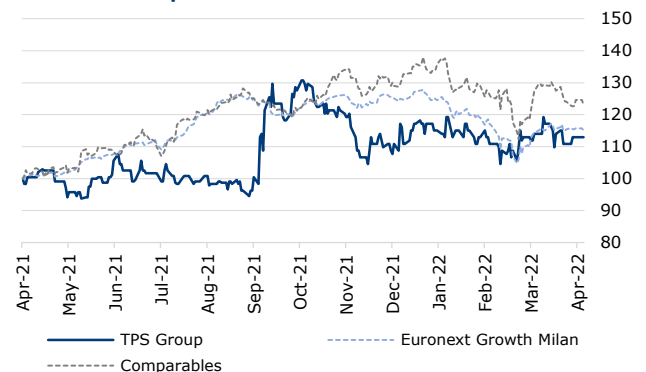
Price as of April 27th, 2022 5.3
 Number of shares (mln) 7.3
 Market capitalization (€, mln) 38.1

Performance **from IPO**
 Absolute +64%
 Max / Min 6.6/3.0
 Average daily volumes 6,184

(€mln)	2020	2021	2022E	2023E	2024E
VoP	31.0	37.6	40.0	43.6	45.5
yoy (%)	-16%	21%	6%	9%	4%
EBITDA	5.3	7.6	7.4	8.8	9.3
margin (%)	17%	20%	19%	20%	20%
EBIT	2.5	5.4	5.4	6.1	6.1
margin (%)	8%	14%	13%	14%	13%
Net Income	1.6	3.6	3.6	4.1	4.2
margin (%)	5%	9%	9%	9%	9%
Net Debt	(5.1)	(14.6)	(15.8)	(18.7)	(22.0)
Sh. Equity	20.8	24.3	28.1	32.2	36.3
Capex	1.2	1.3	1.6	2.6	3.2
FCFs	2.8	8.4	2.5	2.8	3.3

Source: Banca Profilo estimates and elaborations, Company data.

1Y normalized performance



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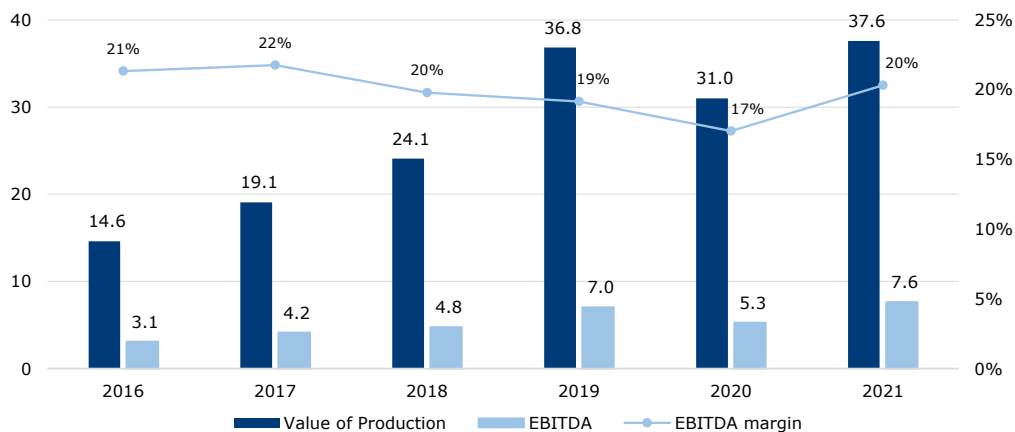
FY2021 results

Income Statement: main items in line with expectations and comfortably above pre-Covid levels

FY21 income statement figures in a nutshell

In FY21 TPS recorded a Value of Production of €37.6m (vs €37.9m expected), up 21% from 2020 and comfortably above pre-pandemic levels. Recording an even better performance, **EBITDA stood at €7.6m (vs €7.4m expected), up 45% yoy, implying an EBITDA margin of 20.3%** (vs 17% in 2020), perfectly in line with our expectations and slightly below the 22.5% recorded in 1H21 given the margin dilution coming from the acquisition of 80% of Air Support International (ASI) in July. Net profit stood at €3.6m, perfectly in line with our estimates, of which €3.4m pertaining to the group.

Figure 1: VoP and EBITDA annual trend from 2017 to 2021, € mln



Source: Banca Profilo elaborations on Company data

The Aerospace industry is in full swing, while uncertainty continued to partially affect automotive-related activities

Covid-19 aftermath still affected some TPS activities, mostly in the Automotive sectors, while the Aerospace showed some resilience. Automotive-related activities, mainly cost-engineering and projects on new car models, have continued to suffer the absence of fairs and motor shows, especially in the first half of 2021, while Avionics and Aeronautics, where the Group mainly operates through recurring activities, have continued to guarantee business continuity over the year. In terms of Business Unit, both the 2nd (Engineering & Cost Engineering) and the 3rd (Avionic Services & Information Technologies) showed a revenue increase, the 1st one (Technical Publishing & Training) recorded almost stable revenue while the 4th (Digital Content Management) showed declining revenues, still affected by the slowdown in clients' investments.

The contribution of ASI's acquisition

FY21 TPS consolidated figures include 100% numbers from ASI, acquired in July 2021. The main impacts on the income statement of TPS are expected to have been:

- An annual increase in revenues between €1m and €2m (ASI's revenues were equal to €1.3m in 2020 and €1.8m in 2019)
- A reduction in the incidence of labor costs, having ASI an average labor cost per employee lower than TPS (€32k vs €44k in 2019)
- An increase in the incidence of raw material costs, as ASI is mainly a manufacturing company while TPS has only a minority part of its business that is linked to the production of components

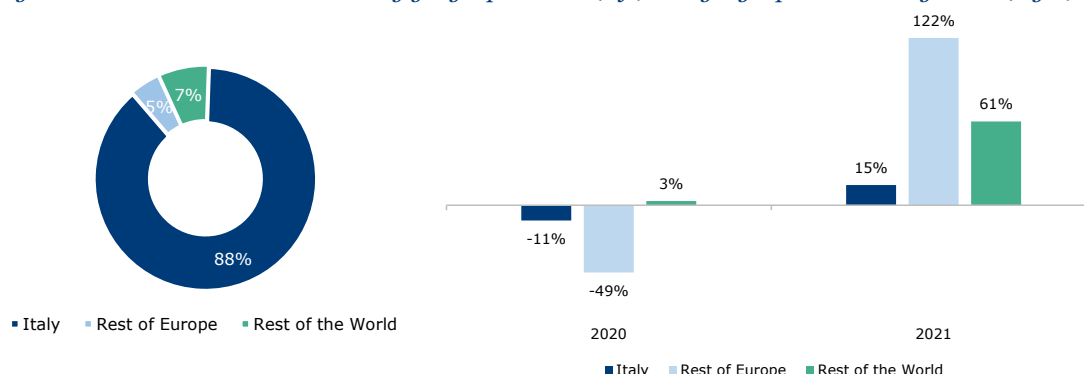
A slight margin dilution, considering that ASI's EBITDA margin was on average equal to 4% between 2017 and 2020 (vs 19% average of TPS)

FY21 revenues grew at a double-digit pace in all geographic areas where TPS operates

From a geographical point of view, FY21 revenues grew at a double-digit pace in all geographic areas where TPS operates. **Extra-EU revenues grew for the second year in a row, by 61% yoy and by about €1m, mainly thanks to the exploitation of the partnership with Changfa,** a leading Chinese manufacturer of agricultural vehicles. The value of this partnership has however not been disclosed, but it should represent an activity with a "great economic importance" that has been allowing TPS to

broaden its geographical perimeter of activity and achieve a greater degree of diversification. Revenues from Italy and Rest of Europe have grown by about 15% and 122%, respectively.

Figure 2: FY21 revenue breakdown by geographic area (left) and geographic revenue growth (right)



Source: Banca Profilo elaborations on Company data

Table 1: TPS Profit & Loss, 2018-2021 (€ mln)

		Profit & Loss (€/mln)				
		2018	2019	2020	2021	2021 EST
Value of Production		24.1	36.8	31.0	37.6	37.9
	yoy	26%	53%	-16%	21%	22%
Cost of materials and purchased services		(6.6)	(8.8)	(6.7)	(8.5)	(9.2)
	% on VoP	27%	24%	21%	23%	24%
Added Value		17.5	28.0	24.3	29.1	28.7
	yoy	37%	60%	-13%	20%	18%
Labour cost		(12.6)	(20.9)	(18.9)	(21.2)	(21.1)
	% on VoP	52%	57%	61%	56%	56%
Other Operating Expenses		(0.1)	(0.1)	(0.1)	(0.3)	(0.2)
	% on VoP	0%	0%	0%	1%	1%
Comprehensive cost of goods sold		(19.3)	(29.8)	(25.7)	(29.9)	(30.5)
	% on VoP	80%	81%	83%	80%	80%
EBITDA		4.8	7.0	5.3	7.6	7.4
	EBITDA Margin on VoP	20%	19%	17%	20%	20%
D&A		(1.2)	(3.0)	(2.8)	(2.2)	(2.0)
	% on VoP	5%	8%	9%	6%	5%
EBIT		3.5	4.0	2.5	5.4	5.4
	EBIT Margin on VoP	15%	11%	8%	14%	14%
Net financial income (expenses)		(0.2)	(0.3)	(0.2)	(0.2)	(0.1)
	% on VoP	1%	1%	1%	1%	0%
Net extraordinary income (expense)		0.1	(0.2)	(0.1)	(0.2)	(0.1)
	% on VoP	0%	1%	0%	0%	0%
EBT		3.4	3.4	2.2	5.1	5.2
	EBT Margin on VoP	14%	9%	7%	13%	14%
Income Tax Expense		(1.0)	(1.1)	(0.6)	(1.5)	(1.6)
	Tax rate	29%	31%	28%	30%	31%
Net Income		2.4	2.4	1.6	3.6	3.6
	% on VoP	10%	6%	5%	9%	9%
Basic EPS		0.40	0.35	0.21	0.47	0.49
	yoy	16%	-10%	-41%	128%	136%

Source: Banca Profilo elaborations on Company data

Balance Sheet: Net Cash equal to €14.6mln, the highest value ever recorded by TPS

Working capital optimization was the main FY21 highlight

As for Balance Sheet, Fixed Assets show a little decrease over the year, mainly due to the fact that D&A (€2.2mln) offset both CapEx (€1.2mln) and the consolidation of ASI's assets. **Working capital optimization was the main FY21 highlight, as operating working capital turnover ratio decreased from 46% in December 2020 to 31% in December 2021**, standing now comfortably below pre-pandemic levels (38% the FY18-19 average). This performance mostly came from the €2.6mln decrease in trade receivable, whose incidence on VoP declined to 39% from 53% in 2020 and 44% in 2019. Talks with TPS management showed that the only driver moving trade receivables downward was represented by customers. Some customers, including the main ones, have normalized their payment times from the anomalous situation of 2020, and TPS has thus recovered some credits accumulated during the previous year, without resorting to factoring operations.

The Net Financial Position reached the best value ever recorded by the Company

The increase in Shareholders' Equity, from €24.3mln to €20.8mln, is to be attributed to the Net Income recorded in the period, equal to €3.4mln. As a result of a decrease in Net Invested Capital (-€6.0mln) and an increase in Shareholder Equity (+€3.5mln), the **Net Financial Position showed a net improvement, from -€5.1mln at the end of 2020 to -€14.6mln (net cash) at the end of December 2021, reaching the best value ever recorded by the Company**. Thanks to the continuous growth in cash flow from operating activities and the improved dynamics of net operating working capital, cash & Cash equivalents reached €17.9bn, liquidity that will allow the management to resume at full speed an expansion plan based on both organic and external growth.

Free Cash Flow: impressive generation of free cash flow

FY21 Free Cash Flow stood at €8.5mln (vs €2.4mln expected)

FY21 estimated Free Cash Flow stood at €8.5mln (vs €2.4mln expected), marking a net improvement of €5.7mln or 206% on 2020. This increase mainly came from a consistent generation of operating cash flow driven by the increase in operating income as well as the improved dynamics in net operating working capital. However, talks with TPS management showed us that such working capital optimization should be considered a one-off and thus difficult to repeat in subsequent years. In general, we do not consider capital expenditures made in a business acquisition within the measurement of free cash flow, but only capital expenditures made in ordinary transactions. By including such capital expenditures in the analysis (€0.7mln), FY21 free cash flow would have been equal to €7.7mln.

Table 2: TPS Balance Sheet, 2018-2021 (€ mln)

Balance Sheet (€ / mln)					
	2018	2019	2020	2021	2021 EST
Intangible Assets	4.2	5.5	4.3	4.0	4.2
Property, Plant & Equipment	0.9	3.5	3.3	2.9	2.8
Financial Assets	0.1	0.2	0.2	0.2	0.2
Fixed Assets	5.2	9.2	7.7	7.1	7.2
Trade Receivable	11.7	16.1	16.3	14.5	18.6
Inventories	-	-	-	-	-
Trade Payable	(1.9)	(2.8)	(2.1)	(3.0)	(2.8)
Net Operating Working Capital	9.8	13.3	14.2	11.5	15.8
<i>% on VoP</i>	41%	36%	46%	31%	42%
Trade receivables (% on VoP)	48%	44%	53%	39%	49%
Inventories (% on VoP)	-	-	-	-	-
Trade payables (% on cost of services & materials)	29%	31%	32%	35%	30%
Other Assets	2.2	1.9	1.7	1.3	2.0
Other Liabilities	(4.0)	(4.3)	(3.9)	(5.2)	(4.3)
Funds	(2.9)	(3.7)	(4.0)	(5.0)	(4.6)
Invested Capital	10.4	16.5	15.8	9.7	16.1
CapEx	3.4	2.2	1.2	1.3	1.4
<i>Intangible</i>	3.2	2.0	0.3	0.6	0.8
<i>Tangible</i>	0.2	0.2	0.9	0.7	0.6
<i>Financial</i>	0.0	0.0	0.0	0.0	0.0
<i>% on VoP</i>	14%	6%	4%	4%	4%
Shareholders' equity	14.7	16.7	19.0	20.3	20.5
Group Net Income	2.3	2.3	1.5	3.4	3.7
Net Income attributable to third parties	0.1	0.0	0.0	0.1	0.3
Minority/Non Controlling Interest	0.4	0.3	0.3	0.4	0.0
Consolidated Shareholders' Equity	17.6	19.4	20.8	24.3	24.5
Financial Debt	2.5	2.3	1.6	1.0	1.6
Cash and cash equivalents	(9.9)	(8.3)	(9.5)	(17.9)	(11.8)
Leasing debt	0.4	0.4	0.3	0.3	0.3
Payables for rights of use	-	2.7	2.5	2.0	2.3
Other financial receivables	(0.0)	-	-	-	-
Net Financial Position (Cash)	(7.0)	(2.9)	(5.1)	(14.6)	(7.5)

Source: Banca Profilo elaborations on Company data

Table 3: TPS Free Cash Flow, 2018-2021 (€ mln)

Free Cash Flow (€ / mln)					
	2018	2019	2020	2021	2021 EST
EBIT	3.5	4.0	2.5	5.4	5.4
Tax rate	29%	31%	28%	30%	31%
NOPAT	2.5	2.7	1.8	3.8	3.8
D&A	1.2	3.0	2.8	2.2	2.0
Changes in Funds	0.1	0.1	0.3	1.1	0.6
Changes in Operating NWC	2.7	(2.6)	(0.9)	2.7	(2.5)
Capex	(3.4)	(2.2)	(1.2)	(1.3)	(1.4)
Free Cash Flow	3.2	1.1	2.8	8.4	2.4

Source: Banca Profilo elaborations on Company data

Strategy and estimates

Corporate strategy and main growth drivers

Both FY20 and FY21 results proved the resiliency of the Company

TPS Group expansion strategy physiologically suffered a partial setback in 2020, as the Covid-19 outbreak and its aftermath had interrupted the growth process by external lines and had caused a partial stop of automotive-related activities. Despite such a disruptive crisis, both FY20 and FY21 TPS results proved the resiliency of the Company and its ability to **generate substantial operating cash flows even in bad economic times**.

Three cardinal principles: diversification, innovation and M&A

TPS's expansion strategy is not expected to change in the years ahead. The management has reassured us its key pillars: (i) diversification, (ii) expansion of the range of services with increasingly innovative solutions, and (iii) growth also through external lines.

- (i) **Diversification and geographical expansion** will be mainly aimed at expanding its presence in the United States – where the Company already has a non-operational headquarters –, and in China, where TPS signed in October 2020 an engineering service supply contract for CHANGFA, a large agricultural equipment manufacturer.
- (ii) The **expansion of the range of services** mainly relies on TPS R&D activities, oriented to the design of new systems and products able to integrate augmented reality and virtual reality applications. This is accompanied by the Cybersecurity project with which TPS aims to guarantee ever higher cybersecurity standards, a fundamental element in a sector such data sensitive as that of Aerospace & Defense.
- (iii) In our view, the true game changer for TPS could be the resumption at full speed of its **expansion path also through M&A operations**, mainly bolt-on acquisitions targeted at creating strategic value and increasing the degree of business diversification (partially resumed in 2021 with the acquisition of ASI). We believe the time is not ripe to fully resume it, also given TPS ability to generate consistent cash flow over time. However, please note that our estimates are on TPS as is, stand-alone, so do not include potential future acquisitions.

Our new 2022E-2024E Income Statement estimates

Estimates fine tuning: FY21 TPS figures validated our forecasting methodology; some adjustments against the backdrop of rising input prices

TPS FY20 and FY21 revenues came in very close to our expectations validating our top-line forecasting methodology. **The same happened for EBITDA and Net Income figures** which stood almost in line with our expectations, corroborating our assumptions regarding TPS cost structure. Consequently, to update our 2022E-2023E estimates and forecast 2024E figures we simply adjusted our methodology inputs against the actual economic context which envisages rising input prices and possible delays in the economic recovery. Both top-down and bottom-up drivers were adjusted accordingly.

Value of Production is now forecast to grow at a 21-24E CAGR of 6.6% to €45.5mIn in 2024

For **revenue forecast we adjusted the main top-down drivers of our model**: i) expected growth rate of Italian, European and Global GDP (revised slightly downwards from our previous Company update dated October 2021), ii) expected revenue growth rate of TPS's main competitors, if listed, or a proxy of them (broadly in line with our previous estimates), and iii) expected growth rate of future CapEx of TPS's main customers, if listed, or a proxy of them (revised slightly downwards from our previous update). By applying the same forecasting methodology explained in our Initial Coverage, we extended the explicit period to 2024. Altogether, **Value of Production is now forecast to grow at a 21-24E CAGR of 6.6%** to €45.5mIn in 2024.

EBITDA margin should slightly deteriorate in FY22, to 18.6% from

We acknowledge that the global economic context has significantly changed since our last Company Update, especially regarding rising raw materials and energy prices against the backdrop of the Covid-19 aftermath and the Ukraine war. Consequently,

20.3% in FY21, amid rising input prices, to then return to above 20% from FY23

we adjusted TPS estimated cost structure mainly by assuming a double digit yoy increase in the Costs of Raw Materials and a single digit one in the Cost of Purchased Services in FY22. The incidence of cost of materials and purchased services on VoP is thus expected to increase from 23% in FY21 to 24% in FY22. However, we should note that the incidence of raw materials, and thus its relative cost for TPS, is meaningless if compared to turnover. Raw materials represented less than 4% of VoP in FY21 and the increase recorded the past year was mainly due to ASI's acquisition, a Company with a very different cost structure from that of TPS. On the other hand, the costs of services represented about 18.8% of the VoP in FY21, therefore an increase, even single-digit, could push the incidence to 20.1% in FY22 according to our estimates. However, TPS's historical strategy has been based on progressive internalization of these costs, with an obviously negative impact on labor costs but a positive one on total operating costs and therefore on margins. Lastly, energy should represent less than 1% of revenue even estimating more than doubled energy prices in FY22.

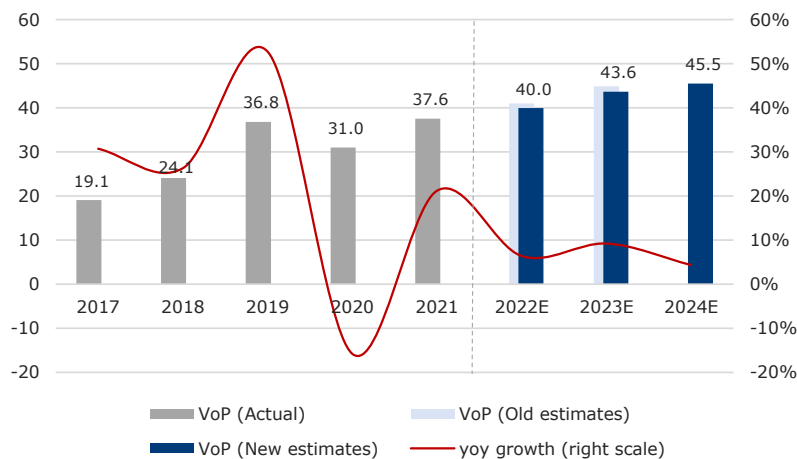
For FY23 and FY24 we estimated a scenario of progressive declining input prices. Consequently, EBITDA is expected to grow at a 21-24E CAGR of 6.7% to €9.3mIn, at the same pace of VoP. EBITDA margin should slightly deteriorate to 18.6% in FY22 from 20.3% in FY21, amid rising input prices, to then return above 20% in FY23 and be confirmed the following year.

Figure 3: Cost structure comparison: TPS vs ASI

2019-2020 Average Cost structure			
	Var. vs Fixed	TPS	ASI
Cost of Materials	V	3%	35%
Changes in inventories	V	0%	-5%
Cost of Services	V	20%	21%
Cost of Labour	F+V	59%	38%
Other Costs	F+V	0%	7%
2019-20 Average EBITDA Margin		18%	4%

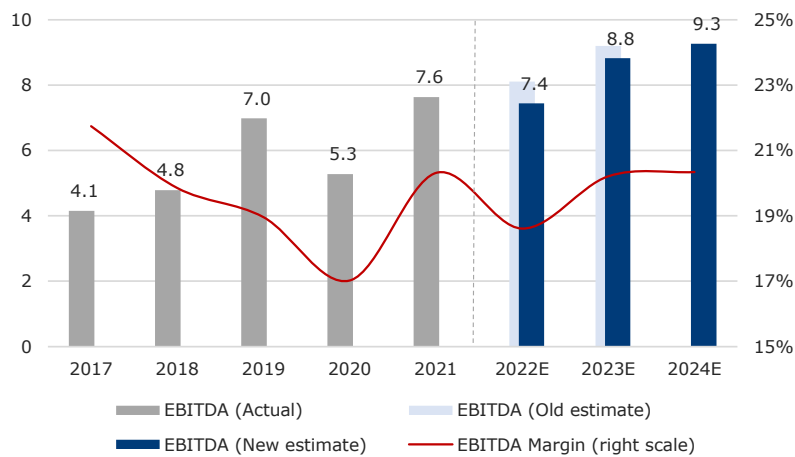
Source: Banca Profilo elaborations and estimates on Company data and public data

Figure 4: Value of Production trend 2017-2024E, € mln, and yoy growth (%)



Source: Banca Profilo elaborations and estimates on Company data

Figure 5: EBITDA and EBITDA margin trend 2017-2024E, € mln



Source: Banca Profilo elaborations and estimates on Company data

Table 4: TPS Profit & Loss evolution 2018-2024E, € mln

	Profit & Loss (€ / mln)									
	2018	2019	2020	2021		2022E		2023E		2024E
				Old	Actual	Old	New	Old	New	New
Total revenue	22.5	34.9	30.0	36.6	36.9	39.6	39.4	43.5	42.7	44.6
yoy		55%	-14%	22%	23%	8%	7%	10%	9%	4%
Other Revenue										
Value of production	24.1	36.8	31.0	37.9	37.6	41.0	40.0	44.9	43.6	45.5
yoy	26%	53%	-16%	22%	21%	8%	6%	9%	9%	4%
Cost of materials and purchased services	(6.6)	(8.8)	(6.7)	(9.2)	(8.5)	(10.1)	(9.6)	(11.1)	(10.2)	(10.4)
% on VoP	27%	24%	21%	24%	23%	25%	24%	25%	23%	23%
Added Value	17.5	28.0	24.3	28.7	29.1	30.9	30.3	33.8	33.4	35.1
% on VoP	73%	76%	79%	76%	77%	75%	76%	75%	77%	77%
Labour cost	(12.6)	(20.9)	(18.9)	(21.1)	(21.2)	(22.5)	(22.5)	(24.3)	(24.3)	(25.5)
% on VoP	52%	57%	61%	56%	56%	55%	56%	54%	56%	56%
Other Operating Expenses	(0.1)	(0.1)	(0.1)	(0.2)	(0.3)	(0.3)	(0.4)	(0.3)	(0.4)	(0.4)
% on VoP	0%	0%	0%	1%	1%	1%	1%	1%	1%	1%
COGS	(19.3)	(29.8)	(25.7)	(30.5)	(29.9)	(32.9)	(32.5)	(35.7)	(34.8)	(36.3)
% on VoP	80%	81%	83%	80%	80%	80%	81%	80%	80%	80%
EBITDA	4.8	7.0	5.3	7.4	7.6	8.1	7.4	9.2	8.8	9.3
EBITDA Margin on VoP	20%	19%	17%	20%	20%	20%	19%	20%	20%	20%
D&A	(1.2)	(3.0)	(2.8)	(2.0)	(2.2)	(2.6)	(2.0)	(3.3)	(2.8)	(3.1)
% on VoP	5%	8%	9%	5%	6%	6%	5%	7%	6%	7%
EBIT	3.5	4.0	2.5	5.4	5.4	5.5	5.4	5.9	6.1	6.1
EBIT Margin on VoP	15%	11%	8%	14%	14%	13%	13%	13%	14%	14%
Net financial income (expenses)	(0.2)	(0.3)	(0.2)	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
% on VoP	1%	1%	1%	0%	1%	0%	0%	0%	0%	0%
Net extraordinary income (expense)	0.1	(0.2)	(0.1)	(0.1)	(0.2)	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
% on VoP	0%	1%	0%	0%	0%	0%	0%	0%	0%	0%
EBT	3.4	3.4	2.2	5.2	5.1	5.3	5.1	5.6	5.8	5.9
EBT Margin on VoP	14%	9%	7%	14%	13%	13%	13%	13%	13%	13%
Income Tax Expense	(1.0)	(1.1)	(0.6)	(1.6)	(1.5)	(1.6)	(1.5)	(1.7)	(1.7)	(1.7)
Tax rate	29%	31%	28%	31%	30%	31%	30%	31%	30%	30%
Net Income	2.4	2.4	1.6	3.6	3.6	3.7	3.6	3.9	4.1	4.2
% on VoP	10%	6%	5%	9%	9%	9%	9%	9%	9%	9%
Basic EPS	0.40	0.35	0.21		0.47		0.48		0.54	0.55

Source: Banca Profilo elaborations and estimates on Company data

Our new 2022E-2024E Balance Sheet and Free Cash Flow estimates

Our FY21 Balance Sheet estimates were pretty accurate excepts for Net Operating Working Capital; we thus revised NOWC drivers, expecting now a better than anticipated improvement

On the Balance Sheet side, while **our 2020 and 2021 estimates of Fixed Assets and Shareholders' Equity were pretty accurate, we missed Net Operating Working Capital actual figures, which showed an improvement far above expectations**, leading to a better-than-expected improvement also in the Net Financial Position. The management tipped us about the fact that the improvement in Net Operating Working Capital recorded in FY21 will be difficult to repeat since it depended on a process of normalizing payment times of clients from an abnormal situation seen in FY20, a situation strictly caused by the Covid-19 outbreak. Consequently, for the fine-tuning of our 2022E-2024E Balance Sheet estimates, we almost confirmed our forecast for Fixed Assets, and Consolidated Shareholders' Equity, which however changed a bit following CapEx and Net Income revisions, while **we significantly revised our drivers for Net Operating Working Capital estimates**. NOWC absolute value has been revised downwards by an average of about €4mIn in FY22-FY23, leading to a better than anticipated improvement in the Net Financial Position.

We have revised downwards our estimates on the NOWC over the entire explicit period: 37% of VoP in FY22, 40% in FY23 and 41% in FY24

As already stated, adjustments mainly concerned Net Operating Working Capital, Trade Receivable in particular, after the performance recorded in FY21. **We have revised downwards expected DSO over the entire explicit period**. DSO is however expected to progressively increase from the average 144 days recorded in FY21, when some customers, including the main ones, have normalized their payment times from the anomalous situation of 2020. We have confirmed expected DPO for Trade Payable in FY22, FY23, FY24, equal to 114 on average. Trade Payable for FY22 were revised slightly upwards following rising operating costs. Overall, **we have revised downwards our estimates on the Net Operating Working Capital** over the entire explicit period. The **incidence on VoP is now estimated at 37% in FY22** (vs previous 44%), to then progressively increase in FY23 and FY24, to 40% and 41%, respectively.

2022E-2024E Balance Sheet projections:

- *CapEx plan worth €7.4mIn*
- *Net Debt could reach more than €21mIn of cash in FY24*

Regarding remaining 2022E-2024E Balance Sheet projections, we estimate:

- 21E-24E aggregate CapEx worth €7.4mIn, estimated in relation to VoP: 4% of VoP in FY22, 6% in FY23 and 7% in FY24.
- Declining Total Fixed Assets, from €7.1mIn in FY21 to expected €6.3mIn in FY24, as D&A expenses should more than offset new investments;

Net Cash is expected to progressively improve, to reach more €22mIn of cash in FY24, from €14.6mIn of cash in FY21.

Free Cash Flow: cumulated 2022E-2024E of €8.6mIn

After the impressive performance shown in FY21, with an estimated Free Cash Flow of €8.4mIn, the Group is set to keep being cash generative over the entire explicit period. However, we estimate the value recorded in FY21 should not be easily repeatable, due to the extraordinary performance shown by working capital, the variation of which generated a positive flow of €2.7mIn. According to our Income Statement and Balance Sheet estimates, **we estimate €8.6mIn of aggregated 2022E-2024E Free Cash Flows**, equal to an annual average of €2.9mIn.

Table 5: TPS Balance Sheet evolution 2018-2024E, € mln

Balance Sheet (€/mln)										
	2018	2019	2020	2021		2022E		2023E		2024E
				Old	Actual	Old	New	Old	New	New
Intangible Assets	4.2	5.5	4.3	4.2	4.0	5.0	4.3	5.2	4.9	5.4
Property, Plant & Equipment	0.9	3.5	3.3	2.8	2.9	1.9	2.1	1.0	1.4	1.0
Financial Assets	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.0
Fixed Assets	5.2	9.2	7.7	7.2	7.1	7.1	6.6	6.5	6.5	6.3
Trade Receivable	11.7	16.1	16.3	19.2	14.5	20.7	16.8	22.5	19.0	20.3
Inventories	-	-	-	0.4	-	0.4	0.4	0.5	0.5	0.5
Trade Payable	(1.9)	(2.8)	(2.1)	(2.8)	(3.0)	(3.0)	(3.2)	(3.3)	(3.3)	(3.2)
Net Operating Working Capital	9.8	13.3	14.2	16.8	11.5	18.1	14.0	19.7	16.2	17.5
% on VoP	41%	36%	46%	44%	31%	44%	35%	44%	37%	38%
Trade receivables (% on VoP)	48%	44%	53%	51%	39%	51%	42%	50%	44%	45%
Inventories (% on VoP)	0%	0%	0%	1%	0%	1%	1%	1%	1%	1%
Trade payables (% on services & materials)	28%	31%	31%	30%	34%	29%	32%	29%	31%	30%
Other Assets	2.2	1.9	1.7	2.0	1.3	2.2	1.8	2.4	1.9	2.0
Other Liabilities	(4.0)	(4.3)	(3.9)	(4.3)	(5.2)	(4.8)	(4.4)	(5.3)	(4.8)	(4.8)
Funds	(2.9)	(3.7)	(4.0)	(4.6)	(5.0)	(5.3)	(5.7)	(6.0)	(6.4)	(6.7)
Invested Capital	10.4	16.5	15.8	17.0	9.7	17.4	12.2	17.3	13.5	14.4
Capex	3.4	2.2	1.2	1.4	1.3	2.5	1.6	2.7	2.6	3.2
Intangible	3.2	2.0	0.3	0.8	0.6	2.3	1.1	2.4	2.1	2.5
Tangible	0.2	0.2	0.9	0.6	0.7	0.2	0.5	0.2	0.5	0.6
% on VoP	14%	6%	4%	4%	3.6%	6%	4.0%	6%	6%	7%
Shareholders' equity	14.7	16.7	19.0	20.5	20.3	24.2	23.9	27.9	27.4	31.4
Group Net Income	2.3	2.3	1.5	0.3	3.4	0.4	3.5	0.5	3.9	4.0
Net Income attributable to third parties	0.1	0.0	0.0	3.7	0.1	3.8	0.1	4.1	0.1	0.1
Minority/Non Controlling Interest	0.4	0.3	0.3	3.7	0.4	3.8	0.6	4.1	0.7	0.8
Consolidated Shareholders' Equity	17.6	19.4	20.8	24.6	24.3	28.4	28.1	32.5	32.2	36.3
Financial Debt	2.5	2.3	1.6	1.6	1.0	1.6	1.6	1.7	1.6	1.6
Cash and cash equivalents	(9.9)	(8.3)	(9.5)	(11.8)	(17.9)	(15.2)	(20.0)	(19.3)	(22.7)	(25.9)
Leasing debt	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Payables for rights of use	-	2.7	2.5	2.3	2.0	2.2	2.2	2.1	2.1	2.0
Other financial receivables	(0.0)	-	-	-	-	-	-	-	-	-
Net Financial Position (Cash)	(7.0)	(2.9)	(5.1)	(7.5)	(14.6)	(11.1)	(15.8)	(15.2)	(18.7)	(22.0)

Source: Banca Profilo elaborations and estimates on Company data

Table 6: TPS Free Cash Flow evolution 2018-2023E

Cash Flow (€/mln)										
	2018	2019	2020	2021		2022E		2023E		2024E
				Old	Actual	Old	New	Old	New	New
EBIT	3.5	4.0	2.5	5.4	5.4	5.5	5.4	5.9	6.1	6.1
Tax rate	29%	31%	28%	31%	30%	31%	30%	31%	30%	30%
NOPAT	2.5	2.7	1.8	3.8	3.8	3.8	3.8	4.1	4.3	4.3
D&A	1.2	3.0	2.8	2.0	2.2	2.6	2.0	3.3	2.8	3.1
Changes in Funds	0.1	0.1	0.3	0.6	1.1	0.7	0.7	0.7	0.7	0.4
Changes in Operating NWC	2.7	(2.6)	(0.9)	(2.5)	2.7	(1.4)	(2.4)	(1.6)	(2.2)	(1.3)
Capex	(3.4)	(2.2)	(1.2)	(1.4)	(1.3)	(2.5)	(1.6)	(2.7)	(2.6)	(3.2)
Free Cash Flow	3.2	1.1	2.8	2.4	8.4	3.2	2.5	3.8	2.8	3.3

Source: Banca Profilo elaborations and estimates on Company data

Key risks

Estimates execution risks

The main risks related to the TPS business are: i) **the Group customer concentrations**, ii) the **potential demand contraction and the worsening of macro-economic scenario**, iii) the risk of losing qualified personnel, iv) potential problems of product liability, v) potential changes in the regulatory framework, vi) potential non-renewal of authorizations and certifications, and vii) the risk associated with the success of M&A operations.

Among these, we believe the risks with higher probability and significant potential impact on the business are only: i) the risk associated with customer concentration and the relative dependence of revenues on a few important customers, and ii) the risk of contraction of demand during bad economic times.

The risk associated with customer concentration: - low probability - very high impact

The Group's business is typically characterized by long-term relationships with the main national players which represent a significant portion of the reference market and of the Group's revenues. TPS is therefore potentially exposed to the risk of default, termination and non-renewal of existing contractual relationships with these customers. This risk is endogenous to the sectors in which TPS operates and is partially counterbalanced by the reliability of customers, consisting of primary industrial realities, and by the type of agreements signed, long-term contracts that guarantee a discreet flexibility of action and high solvency standards. We evaluate this risk with a low level of probability, but with a very high potential impact on the business.

The risk related to the contraction of demand: - medium probability - medium impact

The business of TPS, like any other company, is exposed to the potential risk of contractions in demand deriving from a reduction in the activity of the main customers or from potential exogenous events that could negatively impact the business. This risk is partially offset by the defensive nature of TPS' business, derived from the partial visibility of revenues, the defensive endogenous character of the A&D industry and the high entry barriers in the sectors of activity. However, TPS is also exposed to some more cyclical sectors, like the Automotive, where the Company has recorded an estimated 20% yoy contraction in revenue in FY20. Therefore, we evaluate this risk with a medium probability and with a medium potential impact on the business.

Table 7: Risk matrix

Impact	Very high	Risk associated with customer concentration				
	High					
	Medium	Risk related to product liability	Risk associated with M&A operations	Risk of contraction of demand or of economic downturns		
	Medium-Low	Risk of losing qualified personnel; Potential non-renewal of certifications				
	Low		Risk related to the regulatory framework			
Potential impact on the business VS likelihood of occurrence		Low	Medium-Low	Medium	High	Very high
		Likelihood				

Source: Banca Profilo elaborations and estimates on Company data

Valuation: increase in Target Price and BUY confirmed

Valuation methods used and final output

DCF method and market multiple

Given TPS cash generating business model, a two-stage DCF model well adapts as a valuation approach. Furthermore, we have carried out a relative valuation on market multiples of highly specialized engineering services companies mainly active in the Avionics and Automotive industries.

Fair value at €9.4/share, up from €8.4

Since our previous Company Update (October 12th, 2021):

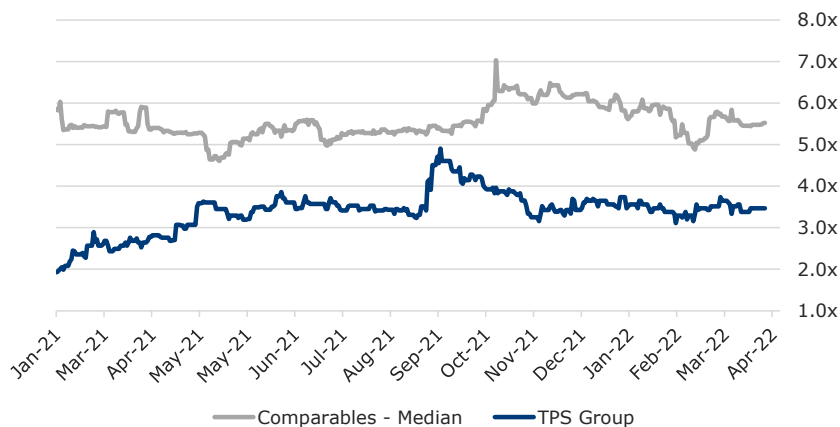
- we revised slightly downwards our 2022E-2023E estimates on cumulative Free Cash Flow, from €7.1mln to €5.3mln;
- we added FY24 new FCE estimates, but the new 2022E-2024E cumulative FCF (€8.6mln) lags by €0.9mln old cumulative 2021E-2023E estimates, equal to €9.5mln;
- we confirmed both the terminal value cash flow at €2.8mln and the WACC at 6.8%
- we significantly revised upwards our estimates of the Net Financial Position, following the excellent performance recorded in FY21. Within both DCF and market multiple valuation we updated the NFP to the value as of December 2021, equal to a cash position of €14.6mln, up from a cash position of €7.5mln estimated by us.

Being other inputs equal, the effect of the **upwards revision of NFP estimate** more than offset the effect coming from the downwards revision of FCF of the explicit period. **The new fair value came in at €9.3, up from our previous estimate of €8.4.**

Relative market multiples valuation down to €8.8/share from €9.1

As for the relative valuation we moved from using the FY21-22 average multiple to the FY22-23 one. With the same sample used in the latest Company Update, we got an average 2022-2023 EV/EBITDA multiple equal to 6.1x (vs previous 2021-2022 average of 7.6x), by applying an average 22E-23E TPS EBITDA equal to €8.1mln (down from the previous 21E-22E average of €7.8mln) and the actual FY21 Net Cash equal to €14.6mln (significantly better than our previous estimate of €7.5mln), we derived an **implied Equity Value per share of €8.8, down from the previous estimate of €9.1.** This downwards revision mainly comes from the derating of the reference multiple.

Figure 6: FY22 comparables' EV/EBITDA since January 2021

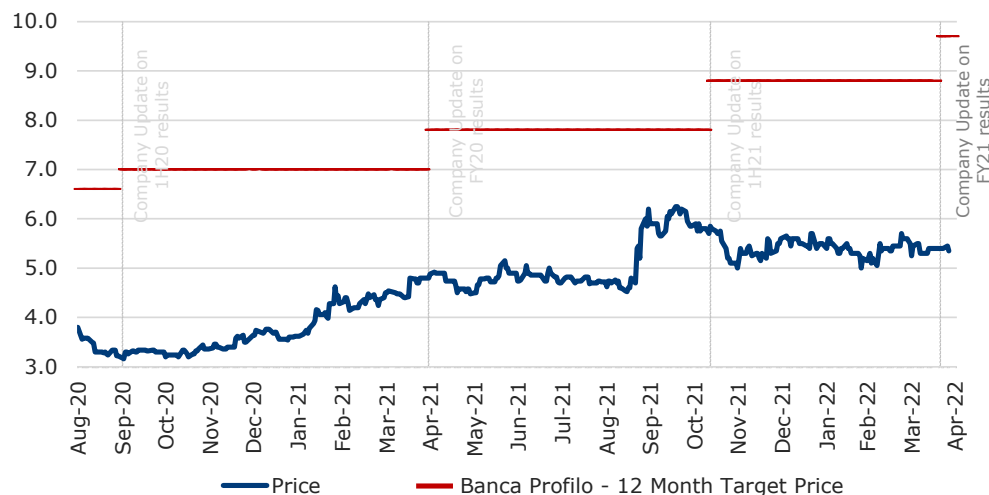


Source: Banca Profilo elaborations on FactSet data, as of April 21st, 2022

Target Price revised upwards to €9.1; BUY confirmed

We thus **confirm our BUY recommendation and raise our 12-month Target Price to €9.1**, computed as the simple average of the fair value from DCF, equal to €9.4/share (vs previous €8.4), and the share price implicit in market multiples equal to €8.7/share (vs previous €9.1).

Figure 7: Banca Profilo's Target Prices since TPS IPO



Source: Banca Profilo elaborations on FactSet data, as of April 22nd, 2022

DCF Valuation

Main DCF inputs:

- lower cumulated FCF over the explicit period
- better than expected NFP

To run a DCF model, we used our projections of **unlevered FCFs for the 2022E-2024E explicit period equal to a cumulated value of €8.6mln** (vs our previous 2021E-2023E aggregate estimate of €9.5mln), already including cumulated CapEx of €7.4mln (vs our previous 2021E-2023E aggregate estimate of €6.6mln) and cumulated NOWC needs of €6mln (vs our previous 2021E-2023E aggregate estimate of €5.5mln). Lastly, the Net Financial Position was set equal to that recorded at the end of December 2021, -€14.6mln, significantly up from our estimate of -€7.5mln.

Other main inputs confirmed, from 2% perpetual growth rate to long term FCF

In order to assess the Terminal Value, we factored in:

- an average yearly unlevered FCF of €2.8mln (vs previous 21E-23E average of €3.2mln)
- 2% perpetual growth rate.

Table 8: Unlevered FCFs

Cash flow (€/mln)	2018	2019	2020	2021	2022E	2023E	2024E	Over
EBIT	3.5	4.0	2.5	5.4	5.4	6.1	6.1	
Tax Rate	29%	31%	28%	30%	30%	30%	30%	
NOPAT	2.5	2.7	1.8	3.8	3.8	4.3	4.3	
D&A	1.2	3.0	2.8	2.2	2.0	2.8	3.1	
Changes in Funds	0.1	0.1	0.3	1.1	0.7	0.7	0.4	
Changes in Operating NWC	2.7	(2.6)	(0.9)	2.7	(2.4)	(2.2)	(1.3)	
Capex	(3.4)	(2.2)	(1.2)	(1.3)	(1.6)	(2.6)	(3.2)	
Free Cash Flow (FCF)	3.2	1.1	2.8	8.4	2.5	2.8	3.3	2.8

Source: Banca Profilo estimates and elaborations

DCF assumptions: WACC at 6.8%

We confirmed a WACC of 6.8% (in line with our previous estimates) derived from:

- risk free rate equal to 3.0%, as implicitly expected by consensus on the 30Y Italian BTP yield curve;
- market risk premium equal to 5.5% (in line with our previous estimates);
- beta of 0.9, coming from the average of chosen listed peers to TPS (in line with our previous estimates);
- target debt to equity structure, with 80% weight of Equity (in line with our previous estimates).

Table 9: WACC calculation

WACC Calculation	
Perpetual growth rate	2.0%
WACC	6.8%
Risk free rate (Italian 30Y yield)	3.0%
Equity Risk Premium	5.5%
Beta	0.90
Cost of Equity	8.0%
After tax cost of Debt	2.4%
Tax rate	30%

Source: Banca Profilo estimates and elaborations

**DCF Fair Value:
up from €8.4 to €9.4**

The DCF method leads us to an Enterprise Value of €54mIn and an Equity Value of €68.5mIn (vs our previous estimates of €53.8mIn and €61.3mIn, respectively) equal to a per share value of €9.4 (vs our previous estimate of €8.4).

Table 10: DCF valuation

DCF Valuation (€ mln, except for the target price)	2018	2019	2020	2021	2022E	2023E	2024E	Over
Free Cash Flow (FCF)			2.8	8.4	2.5	2.8	3.3	2.8
Years					1	2	3	
Discount factor					0.94	0.88	0.82	
NPV Cash flows					2.3	2.5	2.7	
Sum of NPVs					2.3	4.8	7.5	
Terminal Value								56.2
NPV Terminal Value								49.2
Enterprise Value								54.0
Net Financial Position (cash) FY21E								(14.6)
Minorities FY2020								(0.0)
Equity Value								68.5
Current outstanding shares								7.3
Target Price (€)								9.4

Source: Banca Profilo estimates and elaborations

Relative market multiples valuation

Implicit share price from market multiple (22-23 average EV/EBITDA 6x) equal to €8.8

To assess a relative valuation of TPS through the market multiples approach, we selected a sample of listed European companies, “comparables” to TPS, which offer highly specialized engineering services, mainly to the Avionics and Automotive industries: Alten, Sogclair, Bertrandt, EDAG Engineering Group, FIGEAC-Aero and TXT e-solutions. With this sample, we got an average 2022-2023 EV/EBITDA multiple equal to 6x (vs previous 2021-2022 average of 7.6x). By applying an average 22E-23E TPS EBITDA equal to €8.1m (down from the previous 21E-22E average of €7.8m), and the actual FY21 Net Cash equal to €14.6m (significantly better than our previous estimate of €7.5m), we derived an implied Equity Value per share of €8.7, down from the previous estimate price of €9.1.

Table 11: Sample benchmarking on sales growth and EBITDA margin

Company	Currency	Market Cap (Mln)	EV	Sales growth					EBITDA margin					
				2020	2021	2022E	2023E	2024E	2020	2021	2022E	2023E	2024E	
		27/04/2022												
Alten SA	FR	4,261	4,394	-11%	25%	17%	9%	7%	9%	13%	12%	12%	12%	12%
Sogclair	FR	71	86	-33%	-2%	6%	9%	N.A.	7%	8%	10%	11%	N.A.	
Bertrandt AG	DE	444	608	-19%	3%	54%	-24%	5%	7%	8%	8%	12%	13%	
EDAG Engineering Group AG	CH	294	432	-17%	5%	8%	6%	12%	10%	11%	12%	13%	16%	
FIGEAC-AERO	FR	167	515	-42%	-3%	24%	13%	N.A.	19%	11%	14%	16%	N.A.	
TXT e-solutions SpA	IT	124	103	16%	40%	19%	8%	5%	12%	15%	15%	15%	23%	
Mean				-18%	12%	21%	3%	8%	11%	11%	12%	13%	15%	
Median				-18%	4%	18%	8%	7%	9%	11%	12%	13%	14%	
TPS	EUR	38.1	23.6	-16%	21%	6%	9%	4%	17%	20%	19%	20%	20%	

 Source: Banca Profilo elaborations on FactSet data, as of April 21st, 2022

Table 12: Market multiple

Company	EV / EBITDA			EV / Sales			P / E			
	27/04/2022	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Alten SA		10.5x	9.7x	9.1x	1.3x	1.2x	1.1x	16.8x	15.3x	15.3x
Sogclair		6.9x	5.4x	N.A.	0.7x	0.6x	N.A.	21.9x	12.9x	12.9x
Bertrandt AG		5.6x	5.1x	4.1x	0.5x	0.6x	0.5x	11.8x	9.8x	9.8x
EDAG Engineering Group AG		4.7x	4.2x	4.0x	0.6x	0.6x	0.5x	10.0x	8.5x	8.5x
FIGEAC-AERO		12.0x	9.2x	7.9x	1.6x	1.4x	1.3x	N.A.	19.6x	19.6x
TXT e-solutions SpA		6.0x	5.7x	5.1x	0.9x	0.8x	0.8x	14.5x	13.1x	13.1x
Mean		7.6x	6.6x	6.1x	0.9x	0.9x	0.8x	15.0x	13.2x	13.2x
Median		6.4x	5.6x	5.1x	0.8x	0.7x	0.8x	14.5x	13.0x	13.0x
TPS		3.1x	3.2x	2.7x	0.6x	0.6x	0.5x	11.1x	10.9x	9.7x
Premium (Discount) on median		-52%	-43%	-48%	-20%	-18%	-30%	-24%	-16%	-26%
Premium (Discount) vs TXT		-49%	-44%	-48%	-30%	-29%	-30%	-24%	-17%	-26%

 Source: Banca Profilo elaborations on FactSet data, as of April 21st, 2022

Table 13: Implicit price per share

Valuation on EV/EBITDA market multiple (€ mln, except for the target price)		
	2022E	2023E
Median EV/EBITDA best peers	6.4x	5.6x
Average 2022-2023		6.0x
EBITDA	7.4	8.8
Enterprise Value	47.9	49.2
Net Financial Position (cash) FY21		(14.6)
Current Minorities	0.1	0.1
Equity Value	62.4	63.6
Average Equity Value		63.0
Current outstanding shares		7.3
Price per share (€)		8.7

 Source: Banca Profilo elaborations on FactSet data, as of April 21st, 2022

APPENDIX

The core business in a nutshell

Brief summary of TPS core business activities

Here we briefly recall TPS core business activities. However, we expect the corporate perimeter may change in 2022, even significantly, given the consistent available cash and the management’s clear intentions of resuming a growth path through external lines.

An innovative and sound gem in the Aerospace & Automotive industries of giants

The core business of TPS consists in providing a wide range of technical and consulting engineering services mainly to helicopter and automobile design and manufacturing companies. To a lesser extent, TPS also offers services to machinery manufacturers and players of the ropeway sectors. Among the many services offered, TPS drafts technical publications for complex machines, develops application software – from specific avionics software to innovative applications such as augmented reality ones –, designs industrial components, and trains and certifies aeronautical maintenance technicians. The different activities of TPS are collected in four different business units.

Figure 8: Examples of TPS’ products and services

1° SBU
Technical Publishing & Training



TPS drafts technical manuals for complex machines, such as aircrafts and trucks. The technical publications are divided into descriptive manuals, maintenance manuals and manuals related to the supply of spare parts.



Through Aviotrace Swiss SA, an EASA Part 147 (AMTO) certified Swiss training organization, TPS trains and certifies aeronautical maintenance technicians.

2° SBU
Engineering & Cost Engineering



TPS designs and partly produces industrial components. In particular, it’s specialized in designing and producing aviation mission equipments and gearbox systems based on full-powershift technology.



Through cost-engineering activities, TPS is able to analyze an already existing component in order to rework and redesign it in a way that is cheaper or of higher quality.

3° SBU
Avionic Services & Information Technologies



TPS develops proprietary complex aviation systems for both civil and military aircraft and verifies the correct functioning of the existing ones.



TPS tests software installed within the on-board systems of both civil and military aircraft.

4° SBU
Digital Content Management



TPS manages information and images on behalf of customers not only for technical purposes, but also for commercial projects, such as the preparation of marketing material.



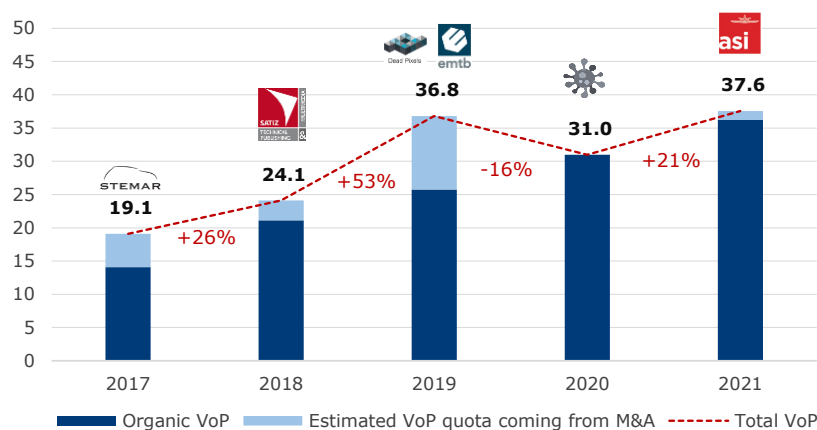
TPS develops Augmented, Virtual and Mixed reality projects that offer several business opportunities, from remote support, to training, from sales to marketing activities.

The historical double-digit growth of revenues

Historical double-digit growth of revenues With the only exception of FY20, TPS Value of Production has been growing at a double-digit pace since its IPO in 2017, driven not only by like-for-like growth but also by an external growth path with bolt-on operations, namely acquisition of smaller companies targeted at creating strategic value, as well as conglomerate transactions aimed at diversifying the business and entering new markets.

A history of acquisition The acquisition of ASI, completed on July 5th, is just TPS latest acquisition. Since 2016, the Company has acquired and integrated five other companies, and the Group Value of Production (VoP) has more than doubled since then, from €14.6mln in 2016 to €37.6mln in 2021 (+36% CAGR), almost maintaining a stable EBITDA margin at about 20%, despite the dilutive effect of some acquisitions.

Figure 9: VoP annual trend from 2017 to 2021, € mln



Source: Banca Profilo elaborations on Company data

A deep dive into the latest TPS's acquisition

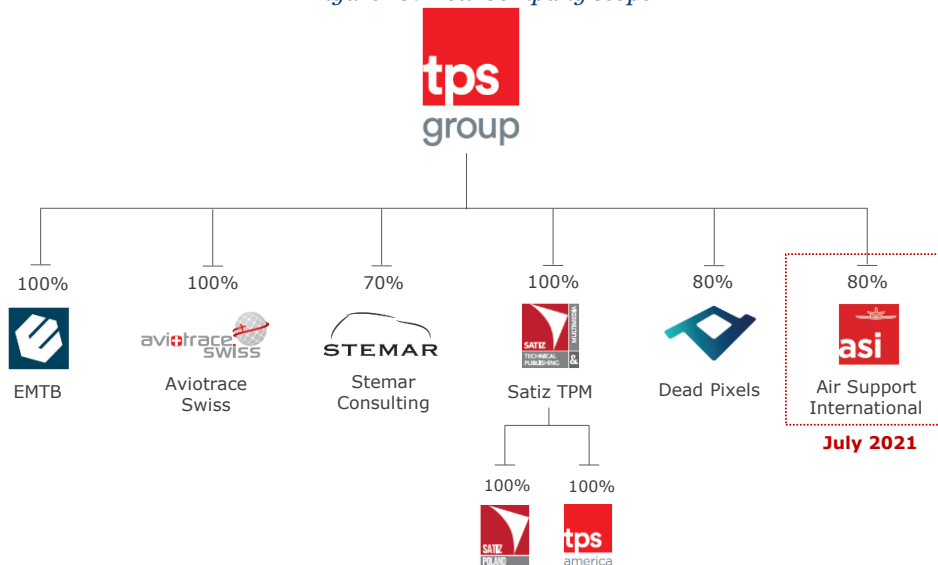
ASI is a certified EASA Part 145 Company specialized in maintenance and installation interventions for aeronautical equipment on private aircraft, mainly Cessna and Beechcraft aircraft of the Textron Group. ASI offers a wide range of installation and maintenance services, such as the overhaul of internal combustion engines, the installation of avionics equipment or antennas and the installation of radio systems. From a business point of view, there is complementarity between ASI's services and TPS's activities, since TPS is a manufacturer of several avionics kits (but not an installer), while ASI is an installer of the same kits (but not a manufacturer); the two companies are therefore in two consecutive phases of the value chain, thus creating potential revenue synergies for the TPS Group. Indeed, through this acquisition, TPS intends to offer its customers an integrated service that, starting from the design, certification, and production of aeronautical kits, might also extend to their installation on board. Moreover, interesting complementarity factors have been identified between the ASI structure and the Training Academy of the TPS Group.

Financial highlights:

- All cash acquisition (€500k)
- EV/Sales of 0.5x
- Dilutive acquisition

ASI employed about 18 people in 2020 and recorded revenue of €1.3mln in that year, down 27% yoy due to government restrictions on economic activity. The acquisition was an all-cash one, with a total payment of about €500k for 80% of ASI, with a put-call option on the remaining 20% by June 2026 on the basis of the economical-financial results reached by the Company in 2025. Considering that ASI's financial debts were equal to zero, the transaction implied an EV/Sales multiple of about 0.5x, with an approximately 50% discount compared to listed TPS' peers. The acquisition is dilutive in terms of EBITDA margin. We do not estimate goodwill as the price paid for the acquisition is, according to our estimates, in line with ASI shareholders' equity.

Figure 10: New Company scope



Source: Banca Profilo elaborations on Company data.

The Group structure

As for the corporate structure, in the first half of 2021 TPS completed the Group's reorganization project, with the merger by incorporation of the subsidiaries Neos Srl, Adriatech Srl and TPS Aerospace Engineering Srl into TPS SpA, the operating holding. To date, TPS SpA controls directly five subsidiaries, which will become six with the incorporation of ASI at the end of the year. Each subsidiary has its own specialization, of which we will provide a brief overview below.

TPS SpA, the operating holding

TPS SpA specializes in the creation of technical documentation and in the definition and the management of helicopters maintenance lifecycle (ILS, Integrated Logistic Support) in order to identify the most suitable and effective maintenance procedure during the life of the vehicle. The Company is also specialized in the development and the testing of aircraft software and in the design of aeronautical medical systems.

Aviotrace Swiss, an MTO Easa Part 147

Aviotrace Swiss is a Maintenance Training Organisation (MTO) EASA Part 147 for the training and certification of aeronautical maintenance technicians. The company offers tailor made training services, with both classical teaching method in the classroom and innovative methods such as training with multimedia and virtual systems.

Satiz TPM, a leading design Company for the Automotive industry

Satiz Technical Publishing & Multimedia Srl produces technical documentation, planning and communication services for companies operating in the Automotive, railway, naval and defense sectors. Within the Automotive sector, the company is also active in the design of mechanical, electrical components, and both external and internal vehicles' parts, with a specialization in the full-electric propulsion. The company is the most diversified among the group's subsidiaries, being active in all four strategic business units.

EMTB, complex systems design activities and engineering support

EMTB, Engineering Machinery Tooling Bolzano Srl, acquired in 2019, develops complex systems design activities and provides engineering support to national and international manufacturers of operating machinery for the agricultural, special vehicles, equipment and ropeway systems industries. EMTB has a long-lasting experience in engineering innovation, as demonstrated by a recently patented concept of gearbox for agricultural machines.

Dead Pixels, designers of augmented reality and virtual reality platforms

Dead Pixels Srl, acquired in 2019, is an innovative start-up specialized in the creation of augmented reality and virtual reality platforms. The portfolio of Dead Pixels today includes projects developed in the following areas: i) Industry 4.0, with VR/AR experiences to enable safe training and remote maintenance, ii) Marketing applications, with immersive VR/AR tours enabling users to explore the environment that surrounds them and to interact with it, and iii) Systems architecture, with 3D models of objects and 3D navigable applications.

ASI, the newly acquired

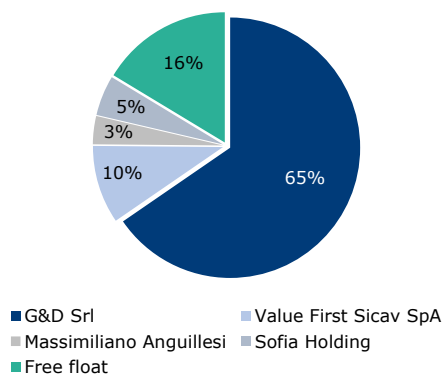
ASI, acquired in July 2021, is a certified EASA Part 145 Company specialized in maintenance and installation interventions for aeronautical equipment on private aircraft, mainly Cessna and Beechcraft aircraft of the Textron Group.

The ownership structure and the management

65% of TPS is controlled by G&D srl

TPS is controlled by G&D srl, an holding company wholly owned by Patrizia Ghione; 10% is held by Value First Sicaf, an Italian investment company (up from previous 9%); 5% is held by Sofia Holding, a financial services company; 3% is held by Ing. Massimiliano Anguillesi, member of the Board of Directors. The Free Float stands at 16%.

Figure 11: Ownership structure



Source: Banca Profilo elaborations on Company data, Borsa Italiana, as of April 21st, 2022

TPS corporate governance

TPS Board of Directors includes seven members, whereas the Board of Statutory Auditors is made up of five members, who will remain in office until the approval of the 2022 financial statements. Since our previous Company Update, there has been a change within the Board of Directors. After the resignation of Andrea Faraggiana, Managing Partner at Smart Capital, the Board of TPS appointed by co-optation Di Meo Stefano who will remain in charge until the next Shareholders' Meeting.

Figure 12: Composition of the Board of Directors

Board of Directors	Position	Executive	Independent	Minority	Birth year	Gender	Nationality
Alessandro Rosso	Chairman and CEO	x			1964	M	Italian
Massimiliano Anguillesi	General Manager	x			1971	M	Italian
Alessandro Scantamburlo	Director				1963	M	Italian
Giovanni Mandozzi	Director				1952	M	Italian
Stefano Di Meo	Director				n.a.	M	Italian
Raffaella Pallavicini	Director		x		1969	F	Italian
Stefano Pedrini	Director		x		1983	M	Italian
Other important roles	Position				Birth year	Gender	Nationality
Rossella Sanna	Investor Relator					F	Italian

Source: Banca Profilo elaborations on Company data

TPS Board of Directors: long experience and sound track record

TPS Group is managed by people who have gained significant experience in the industries and in the geographical areas in which the Group operates. The Board of Directors is composed as follows.

Alessandro Rosso: President and CEO. Graduated in Electronic Engineering from the Polytechnic of Turin, he subsequently obtained a master's in business administration from New York University. He started his experience in the sector of technical services and industrial production at ILTE SpA, becoming first general manager and then chief executive officer. He has also developed experiences in the field of renewable energy, in the technical industrial field, and in automotive engineering.

Massimiliano Anguillesi: Director. After graduating in Aerospace Engineering at the University of Pisa, he started working in the logistics. In 2007, he co-founded a start-

up specialized in the project management of RAMS (Reliability Availability Maintainability Safety) and LSA (Logistic Support Analysis). He participated to some relevant international projects in the aeronautical field, including the construction of the Eurofighter and NH90 aircrafts.

Giovanni Mandozzi: Director. After obtaining his diploma as an industrial expert with a specialization in telecommunications, in 1973 he started his career at the Breda Nardi Costruzioni Aeronautiche as designer and planner until 1982, the year in which he attended a specialization course for helicopter instructors. He then started to work for Augusta SpA, where, in 1986, he became head of the NH500-AMI program. Since 1997 he had held the position of technical and administrative director of the S.T.F. Srl, a company he co-founded. Since 2015 he has been the technical and administrative director of Adriatech Srl, a TPS Group company, in which he also holds the position of vice-chairman of the Board of Directors.

Alessandro Scantamburlo: Director. After graduating with honors in Industrial Design at the Faculty of Architecture of the Polytechnic of Turin, in 1988 he started his activity at Telemecanique SpA as technical editor. From 1989 to 1997 he worked first as an after sales manager and then as head of the pre-press production center at ILTE SpA. Since 1998 he had worked at Fiat SpA, before returning to ILTE SpA in 2002, first as pre-press manager and after-sales director and subsequently as chief operating officer of the human resource sector. Since 2010 he has actively collaborated with the TPS Group.

Stefano Di Meo: Director. Chief Financial Officer at First Capital, with previous experience in Private Equity (Abacus Invest, Absolute Ventures), Corporate Finance and M&A (Pigreco), and Finance & Accounting (Abitare In). He graduated in Accounting, Financial Management and Control at the Bocconi University.

Raffaella Pallavicini: Independent Director. After graduating with honors in Law from the University of Rome "La Sapienza", she began practicing the profession of lawyer at the Court of Milan. In 2000 he joined L'Espresso Publishing Group, initially as head of litigation and, since 2010, as head of corporate affairs.

Stefano Pedrini: Independent Director. After a master's degree in Engineering Management at the University of Bergamo and a Ph.D. in Economics and Management of Technology at an Italian University Consortium, he began his academic career in 2006, first at the University of Bergamo and then at the Milan Polytechnic and the Turin Polytechnic. At the same time, starting from 2008, it provides consultancy services in various areas including M&A operations, creation of industrial plans and budgeting.

Board of Statutory Auditors

The Board of Statutory Auditors is composed by five members: the President, Luigi Gagliardi, and the standing auditors Marco Curti and Nicola Miglietta, as well as the deputy auditors Stefania Barsalini and Alessandro Maruffi.

SWOT analysis

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • Very advanced management control and severe economic balance • Partial revenue visibility, thanks to multiannual agreements • A strong-long term relationship with Leonardo which has lasted since the years of TPS foundation • Resilience and defensive character of main end-market, the A&D industry • High entry barriers in the sectors of activity • Consolidated track-record in M&A operations 	<ul style="list-style-type: none"> • Small size of the business • End-markets concentration and Value of Production's dependence on few customers • Absolute dependence on the Italian market which represents more than 85% of the Value of Production
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • Full roll out of synergies from recent acquisitions • Strong spirit of innovation and investments in R&D that favour the discovery of cutting-edge systems and services • Geographical expansion opportunities in the United States, in the European markets and in China • Specialization in the design of "full electric" systems and exposure to the growing trend of electric vehicles • Potential increasing demand for virtual reality and augmented reality systems in a new normality characterized by social distancing 	<ul style="list-style-type: none"> • Challenging market environment in the automotive sector, where chip shortage recovery may not happen until 2023 and may indirectly cause a decline in new projects

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**TPS
"ID Card"**

 Recommendation
BUY

 Target Price
9.1 €

 Upside
73%
Company Overview

The TPS Group was founded in 1964 as one of the first Italian companies offering an external analysis and drafting service of technical and manual documentation for the Aeronautical industry. With more than 50 years of experience, TPS Group stands out as the leading Italian player in the field of technical and engineering services for the Aerospace & Defense (estimated ~55% of revenues) and Automotive industries (estimated ~35% of revenues): in residual part the Group is also active in the Oil & Gas, Railway, and machinery sectors. TPS capabilities range from technical manuals to augmented reality and from the design of avionics software to the production of components and multimedia training platforms, among others. After its corporate governance reorganization started in 2008, the Company began a process of business diversification and expansion, also driven by a path of successful acquisitions which increased both the range of services and the customer base. After having obtained the Elite certification by Borsa Italiana in 2016, TPS Group went public on AIM Italia in March 2017. Since then, the Group has acquired and consolidated six companies active in various industrial fields, and its Value of Production has more than tripled, from €14.6m in 2016 to €37.6m in 2021. Net of acquisitions, TPS has historically recorded an organic growth of at least 7% yoy, thanks to the consolidation of commercial relations with important industrial groups and its geographic expansion in Europe and China. In FY21 TPS recorded a Value of Production of €37.6m, up 21% from 2020 and comfortably above pre-pandemic levels. Recording an even better performance, EBITDA stood at €7.6m, up 45% yoy, implying an EBITDA margin of 20% (vs 17% in 2020), slightly below the 22.5% recorded in 1H21 given the slight margin dilution after the acquisition of 80% of Air Support International (ASI) in July 2021. The Net Financial Position further improved, from €10.8m in June 2021 (cash) to €14.6m in December 2021, thanks to the continuous growth in cash flow from operating activities and the remarkable improvement in Net Operating Working Capital.

SWOT Analysis
Strengths

- Very advanced management control and severe economic balance
- Partial revenue visibility, thanks to multiannual agreements
- Strong-long term relationship with consolidated and financially and economically sound industrial groups
- Resilience and defensive character of main end-market
- High entry barriers in the sectors of activity
- Consolidated track-record in M&A operations

Weaknesses

- Small size of the business
- End-markets concentration and value of production's dependence on few customers
- Absolute dependence on the Italian market which represents more than 85% of the VoP

Opportunities

- Strong spirit of innovation and investments in R&D that favor the discovery of cutting-edge systems and services
- Geographical expansion opportunities in the United States and in the European markets
- Specialization in the design of "full electric" systems and exposure to the growing trend of electric vehicles
- Potential increasing demand for virtual reality and A.R. systems in a new normality characterized by social distancing
- Full roll out of synergies from recent acquisitions

Threats

- Challenging market environment in the automotive sector, where chip shortage recovery may not happen until 2023 and may indirectly cause a decline in new projects

Main catalysts

- 👍 Full grounding of the potential deriving from the latest acquisitions
M&A operations expected to continue in the coming years
Internationalization in Europe and the United States

Main risks

- 👎 Risk associated with customer concentration and the relative dependence of revenues on a few important customers
Risk related to product liability





TPS "ID Card"

27/04/2022, 18:00

Recommendation
BUY

Target Price
9.1 €

Upside
73%

Main Financials (€ mln)					
	2019	2020	2021	2022E	2023E
Value of Production	36.8	31.0	37.6	40.0	43.6
<i>yoy change</i>	53%	-16%	21%	6%	9%
Added Value	28.0	24.3	29.1	30.3	33.4
<i>Margin on VoP (%)</i>	76%	79%	77%	76%	77%
EBITDA	7.0	5.3	7.6	7.4	8.8
<i>yoy change</i>	46%	-24%	45%	-3%	19%
<i>EBITDA margin on VoP (%)</i>	19%	17%	20%	19%	20%
EBIT	4.0	2.5	5.4	5.4	6.1
<i>EBIT margin on VoP (%)</i>	11%	8%	14%	13%	14%
EBT	3.4	2.2	5.1	5.1	5.8
<i>Margin on VoP (%)</i>	9%	7%	13%	13%	13%
Net Income	2.4	1.6	3.6	3.6	4.1
<i>Margin on VoP (%)</i>	6%	5%	9%	9%	9%
Net debt (cash)	(2.9)	(5.1)	(14.6)	(15.8)	(18.7)
Shareholders Equity	16.7	19.0	20.3	23.9	27.4
Net OWC	13.3	14.2	11.5	14.0	16.2
Capex	(2.2)	(1.2)	(1.3)	(1.6)	(2.6)
Free Cash Flow	1.1	2.8	8.4	2.5	2.8

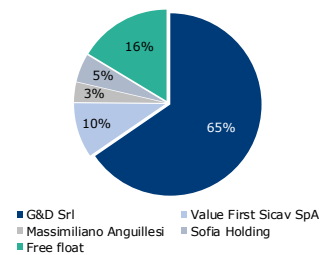
Solvability Ratios					
	2019	2020	2021	2022E	2023E
Net Debt (cash)/Equity	-0.2x	-0.2x	-0.6x	-0.6x	-0.6x
Net Debt (cash)/EBITDA	-0.4x	-1.0x	-1.9x	-2.1x	-2.1x
EBIT Interest Coverage Ratio	14.2x	11.3x	24.9x	53.4x	63.2x

Financial and Operative ratios					
	2019	2020	2021	2022E	2023E
Operating WC Turnover	36%	46%	31%	35%	37%
Fixed Asset Turnover	400%	401%	533%	1722%	2726%
Tax rate	31%	28%	30%	30%	30%
ROE	12%	7%	15%	13%	13%
ROIC	17%	11%	39%	48%	50%
Capex/VoP	6%	4%	4%	4%	6%
D&A/Capex	139%	232%	163%	128%	106%

Source: FactSet, Banca Profilo estimates and elaborations

Company Description	
Company Sector	Aerospace & Defense
Price as of 27/04/2022	5.3
Number of shares (mln)	7.3
Market Cap (€ mln)	38.1
Reference Index	FTSE AIM ITALIA
Main Shareholders	G&D srl
Main Shareholder stake	65%
Free Float	16%
Daily Average Volumes	6,184
Sample of comparables	Alten, Sogclair, Akka Technologies, Bertrandt, EDAG Engineering, FIGEAC-Aero, TXT e-solutions

Ownership structure



Data of peers				
	2021	2022E	2023E	2024E
Avg. Revenue Growth	12%	21%	3%	8%
Avg. EBITDA Margin	11%	12%	13%	15%

Multiples of peers			
	2022E	2023E	2024E
Average EV/EBITDA	7.6x	6.6x	6.1x
Median EV/EBITDA	6.4x	5.6x	5.1x
Average P/E	15.0x	13.2x	13.2x
Median P/E	14.5x	13.0x	13.0x

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EQUITY RESEARCH PUBLICATIONS IN LAST 12M

THE BANK PUBLISHES ON ITS WEBSITE WWW.BANCAPROFILO.IT, ON A QUARTERLY BASIS, THE PROPORTION OF ALL RECOMMENDATIONS THAT ARE 'BUY', 'HOLD', 'SELL' OR EQUIVALENT TERMS OVER THE PREVIOUS 12 MONTHS, AND THE PROPORTION OF ISSUERS CORRESPONDING TO EACH OF THOSE CATEGORIES TO WHICH SUCH PERSON HAS SUPPLIED MATERIAL SERVICES OF INVESTMENT FIRMS SET OUT IN SECTIONS A AND B OF ANNEX I TO DIRECTIVE 2014/65/EU OVER THE PREVIOUS 12 MONTHS.

ADDITIONAL INFORMATION

THE BANK PROVIDES ALL OTHER ADDITIONAL INFORMATION, ACCORDING TO ARTICLE 114, PARAGRAPH 8 OF LEGISLATIVE DECREE 58/98 ("FINANCIAL DECREE") AND COMMISSION DELEGATED REGULATION (EU) 2016/958 AS OF 9 MARCH 2016 (THE "COMMISSION REGULATION") ON THE RELEVANT SECTION OF ITS WEBSITE (WWW.BANCAPROFILO.IT, IN THE SECTION "CLIENTI AZIENDALI E ISTITUZIONALI/ANALISI E RICERCA").