ALANTRA
Italian Equity Research

23-Jan-24 9:00 AM

FAE TECHNOLOGY

Sector: Technology

Where tomorrow's tech embeds seamless solutions

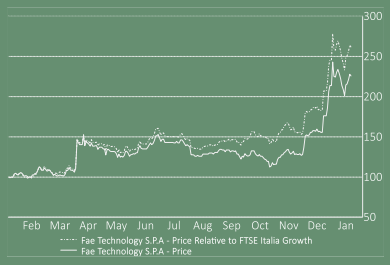
BUY
New Coverage

TP 4.7
New Coverage

Target Price Upside 38%

Ticker (BBG, Reut)	FAE IM / FAE.MI
Share price Ord. (Eu)	3.4
N. of Ord. shares (mn)	17.4
Total N. of shares (mn)	17.7
Market cap (Eu mn)	59
Total Market Cap (EU mn)	59
Free Float Ord. (%)	20%
Free Float Ord. (Eu mn)	12
Daily AVG liquidity Ord. (Eu k)	58

	1M	3M	12M
Absolute Perf.	45.1%	83.5%	129%
Rel.to FTSEMidCap	45.6%	69.5%	125%
52 weeks range		1.5	3.7



	FY22A	FY23E	FY24E
Sales	39	59	85
EBITDA adj.	3.9	6.4	10.1
Net profit adj.	2.1	3.7	6.0
EPS adj.	0.276	0.231	0.354
DPS - Ord.	0.000	0.000	0.000
EV/EBITDA adj.	5.6x	6.7x	5.3x
P/E adj.	8.6x	9.9x	7.9x
Dividend yield	0.0%	0.0%	0.0%
FCF yield	-5.1%	0.0%	6.0%
Net debt/(Net cash)	3.5	3.3	6.5
Net debt/EBITDA	0.5x	0.6x	0.3x

FAE Technology is an established solution provider, operating in the edge computing and EMS markets via a recognised platform offering engineering, prototyping, production, refurbishment, disposal services and supplying embedded custom electronic products, managing the entire lifecycle of different solutions. We expect net sales to grow by 37.5% FY22-25E CAGR. EBITDA should reach Eu12.4mn/12.0% margin in FY25E, benefiting from scale and the contribution of the recently acquired Elettronica GF. The EBITDA generation, a good control of WC dynamics and low capex requirement, should lead to a fast delivering, reaching 0.3x NFP/EBITDA in FY25E, vs. 0.9x in FY22. We initiate coverage with BUY and TP of Eu4.7/share based on the weighted average of 2024E EV/EBITDA of selected peers (30%) and DCF (70%).

- **The partner in embedded boards solutions**. FAE Technology, specialises in engineering, prototyping, production, and the supply of custom electronic products, including single-board computers and microcontrollers. The company offers integrated services, positioning itself as a partner in the entire lifecycle of embedded electronics solutions. FAE Technology operates with high customisation, contributing to the production process. It serves different sectors such as automotive, smart mobility, aerospace, and security. In 2022, FAE Technology reported robust financials, with total revenues of Eu40.3mn, marking a 63.9% YoY growth, and improved profitability through effective commercial efforts and disciplined cost control.
- **Unrivalled execution and edge solutions.** FAE Technology's distinct attributes, crucial for standing out among competitors, include swift execution, a commitment to innovation, and a diverse management team. These qualities reinforce FAE's position as an industry leader, ensuring lasting prominence and a competitive edge. The company has transitioned from a traditional electronic manufacturing service provider to an edge computing solutions specialist, notably with the acquisition of Elettronica GF. This strategic shift aligns FAE with advanced technologies, meeting emerging market needs and positioning for future growth. This evolution enables FAE to expedite innovation, diversification, and adaptation to the changing demands of a technology-driven landscape.
- **Evolution towards Cloud & AI Integration**. FAE Electronics is strategically pursuing sustained growth through customer loyalty, market expansion, and increased market share in the EMS industry. The recent acquisition of Elettronica GF aligns with FAE's strategy, establishing a comprehensive presence in sensors and edge computing. The company's evolution from local electronics to edge computing enhances profitability through system integration. Future plans may involve entering the cloud, AI, and big data markets, requiring a strategic approach and technology investment for potential benefits such as innovation, efficiency gains, and a competitive edge.
- **EBITDA margin expansion and ROCE above 30% as of 2024**. Top line is expected to show a 37.5% FY22-25E CAGR, driven by both organic growth and the consolidation of Elettronica GF. With a cost structure primarily composed of variable costs, FAE Technology aims to improve EBITDA from Eu3.9mn to Eu12.4mn in 2022-25, resulting in a margin increase from 9.7% to 12.0% in 2025. Elettronica GF is expected to enhance technological capabilities, contributing to improved integrated solutions. FAE Technology's disciplined approach to net working capital and moderate fixed asset requirements, coupled with anticipated FCF breakeven by 2025, suggests a positive financial outlook, including deleveraging and an increase in ROCE.
- **Initiation with BUY, TP of Eu4.7/share.** Listed in Nov-22, FAE Technology's stock price is up 127% from Eu1.5/share to Eu3.4/share, compared to -12% performance of the FTSE Italia Growth Index in the same period. We believe that no direct listed comparable is available. We have selected a panel of peers involved in the electronic technology market, from the field to the edge computing. Alantra initiates coverage on FAE Technology with a BUY rating and a TP fully diluted of Eu4.7, 38% upside, calculated as a weighted average of 2024E EV/EBITDA from selected peers (30% weight) and DCF (70% weight). The heavier emphasis on DCF reflects the need to account for long-term cash flow generation, which, in the short term, is impaired by the investments required to acquire Elettronica GF.

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Summary Financials (ITA GAAP)

P&L account (Eu mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenues	24.0	39.4	59.0	85.0	102.4
First Margin	9.7	13.0	21.6	30.9	37.2
EBITDA reported	2.6	3.9	6.4	10.1	12.4
D&A	(0.5)	(0.8)	(1.1)	(1.6)	(1.9)
EBIT reported	2.1	3.1	5.3	8.5	10.5
Net financial charges	(0.1)	(0.2)	(0.3)	(0.3)	(0.2)
Associates	0.0	0.0	0.0	0.0	0.0
Extraordinary items	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	1.9	2.9	5.0	8.2	10.3
Taxes	(0.5)	(0.8)	(1.4)	(2.2)	(2.8)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued activities	0.0	0.0	0.0	0.0	0.0
Net profit reported	1.5	2.1	3.7	6.0	7.6
EBITDA adjusted	**2.6**	**3.9**	**6.4**	**10.1**	**12.4**
EBIT adjusted	**2.1**	**3.1**	**5.3**	**8.5**	**10.5**
Net profit adjusted	**1.5**	**2.1**	**3.7**	**6.0**	**7.6**

Margins (%)	FY21A	FY22A	FY23E	FY24E	FY25E
First margin	39.5%	32.3%	36.0%	36.0%	36.0%
EBITDA margin	10.5%	9.7%	10.7%	11.8%	12.0%
EBITDA margin (adj)	10.5%	9.7%	10.7%	11.8%	12.0%
EBIT margin	8.5%	7.8%	8.8%	9.9%	10.2%
EBIT margin (adj)	8.5%	7.8%	8.8%	9.9%	10.2%
Net profit margin	5.9%	5.2%	6.1%	7.0%	7.3%
Net profit margin (adj)	5.9%	5.2%	6.1%	7.0%	7.3%

Growth rates (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenues	-	64.4%	49.8%	44.0%	20.4%
EBITDA	-	52.5%	63.6%	57.4%	22.8%
EBITDA adjusted	-	52.5%	63.6%	57.4%	22.8%
EBIT	-	50.4%	68.0%	61.3%	23.9%
EBIT adjusted	-	50.4%	68.0%	61.3%	23.9%
Pre-tax	-	50.7%	71.8%	63.4%	26.2%
Net profit	-	45.5%	73.2%	63.4%	26.2%
Net profit adjusted	-	45.5%	73.2%	63.4%	26.2%

Per share data	FY21A	FY22A	FY23E	FY24E	FY25E
Shares		15.333	16.373	17.436	17.436
N. of shares AVG		7.667	15.853	16.905	17.436
N. of shares diluted AVG		7.667	15.853	17.731	19.088
EPS		**0.276**	**0.231**	**0.354**	**0.433**
EPS adjusted		**0.276**	**0.231**	**0.354**	**0.433**
DPS - Ord.		**0.000**	**0.000**	**0.000**	**0.000**
DPS - Sav.		0.000	0.000	0.000	0.000
BVPS		1.404	1.040	1.329	1.722

Enterprise value (Eu mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Share price Ord. (Eu)	na	1.5	1.9	3.4	3.4
Market cap		22.9	31.4	59.5	59.5
Net debt/(Net cash)	4.6	3.5	3.3	6.5	4.2
Adjustments	0.7	0.8	1.2	1.7	2.0
Enterprise value		27.2	36.0	67.7	65.7

Cash flow (Eu mn)	FY21A	FY22A	FY23E	FY24E	FY25E
EBITDA reported	2.6	3.9	6.4	10.1	12.4
Net financial charges	0.0	0.0	(0.3)	(0.3)	(0.2)
Cash taxes	(0.1)	(0.9)	(1.4)	(2.2)	(2.8)
Ch. in Working Capital	(2.0)	(3.7)	(4.0)	(5.9)	(4.4)
Other Op. items	(0.1)	0.1	0.4	0.5	0.3
Operating cash flow	**0.4**	**(0.6)**	**1.2**	**2.2**	**5.4**
Capex	(0.6)	(3.3)	(2.8)	(2.2)	(1.8)
FCF	**(0.3)**	**(3.9)**	**(1.6)**	**0.0**	**3.6**
Disposals/Acquisitions	0.0	0.0	(0.3)	(3.2)	(1.2)
Changes in Equity	0.0	5.0	2.1	0.0	0.0
Others	(0.0)	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
Ch. in NFP	**(0.2)**	**1.1**	**0.2**	**(3.2)**	**2.4**

Ratios (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Capex/Sales	**2.7%**	**8.4%**	**4.7%**	**2.6%**	**1.8%**
Capex/D&A	1.3x	4.2x	2.4x	1.4x	1.0x
FCF/EBITDA	-10.3%	-99.3%	-24.9%	0.2%	28.7%
FCF/Net profit	-18.2%	-184.0%	-43.6%	0.3%	47.1%
Dividend pay-out	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**

Balance sheet (Eu mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Working capital	6.1	9.6	13.6	19.5	23.9
Fixed assets	2.9	5.4	7.4	11.2	12.4
Provisions & others	(0.7)	(0.8)	(1.2)	(1.7)	(2.0)
Net capital employed	**8.3**	**14.3**	**19.8**	**29.0**	**34.2**
Net debt/(Net cash)	**4.6**	**3.5**	**3.3**	**6.5**	**4.2**
Equity	3.6	10.8	16.5	22.5	30.0
Minority interests	0.0	0.0	0.0	0.0	0.0

Ratios (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Working capital/Sales	**25.5%**	**24.4%**	**23.1%**	**22.9%**	**23.3%**
Net debt/Equity	**127.4%**	**32.5%**	**20.2%**	**29.1%**	**13.9%**
Net debt/EBITDA	**1.8x**	**0.9x**	**0.5x**	**0.6x**	**0.3x**

Valuation	FY21A	FY22A	FY23E	FY24E	FY25E
EV/CE		**1.8x**	**1.7x**	**2.2x**	**1.8x**
P/BV		2.1x	1.9x	2.6x	2.0x
EV/Sales		0.7x	0.6x	0.8x	0.6x
EV/EBITDA		6.9x	5.6x	6.7x	5.3x
EV/EBITDA adjusted		**6.9x**	**5.6x**	**6.7x**	**5.3x**
EV/EBIT		8.7x	6.8x	8.0x	6.2x
EV/EBIT adjusted		**8.7x**	**6.8x**	**8.0x**	**6.2x**
P/E		10.8x	8.6x	9.9x	7.9x
P/E adjusted		**10.8x**	**8.6x**	**9.9x**	**7.9x**
ROCE pre-tax		26.1%	29.2%	32.9%	31.5%
ROE		**19.6%**	**22.2%**	**26.6%**	**25.2%**
EV/FCF		nm	-22.5x	4155.9x	18.4x
FCF yield		**nm**	**-5.1%**	**0.0%**	**6.0%**
Dividend yield		**0.0%**	**0.0%**	**0.0%**	**0.0%**

Source: Company data, Alantra estimates from 2023.

Strengths

R&D: leading to distinctive innovations

Innovative digital services: "My Fast PBCA" meets customer needs effectively

Established supply chain allows for faster exectution compared to market average

Talent attraction: ability to attract talend within its geographical district

Weaknesses

Elevated personnel expenses compared to Asian rivals

A certain cash absorption due to ongoing expansion

A rather concentrated cusomer base

Opportunities

High-value digital services: opportunity to further develop these services

Market expansion into untapped niches

M&A consolidating competitive position and expand into new geography

Scalability of "My Fast PBCA": room for services with high added value

Threats

Increased raw material costs due to macroeconomic factors

Supply chain disruption, amid ongoing international uncertainty

Key shareholders

GML Ventures (Lanza family): 67%

Gian Franco Argnani: 6%

NextStage AM: 6%

Sehme Sagl (Facchinetti Family): 1%

Free Float: 20%

Management

Gianmarco Lanza - Chairman and CEO

Marco Ferrari - CFO

Dario Ne - COO

Gabriele Braga - Sales & Mkt Director

Next events

TBD

Executive Summary

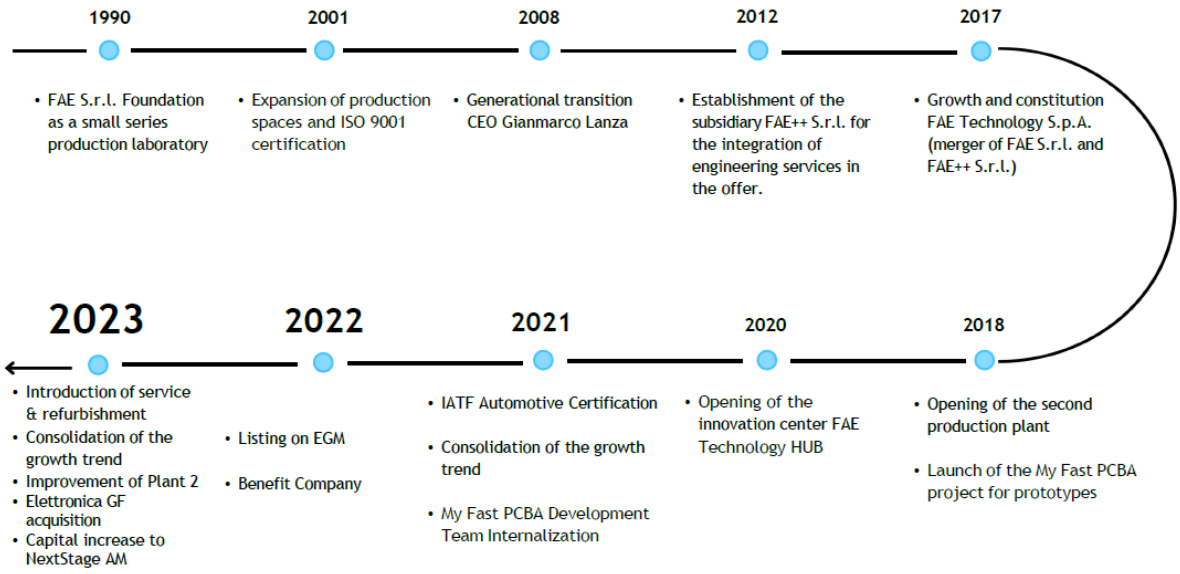
FAE Technology is an established solution provider, operating in the edge computing and EMS markets via a recognized platform offering engineering, prototyping, production, refurbishment, and disposal services, and supplying embedded custom electronic products. Thanks to its integrated service capabilities, the company is able to manage the entire lifecycle of different solutions in the field of embedded electronics, positioning itself more as a partner rather than a supplier. Fast execution, highly integrated solutions, and edge computing capabilities differentiate it from competitors. We expect net sales to grow by 37.5% FY22-25E CAGR. EBITDA should reach Eu12.4mn/12.0% margin in FY25E, benefiting from scale and the contribution of the recently acquired Elettronica GF. The EBITDA generation, good control of WC dynamics, and low capex requirement should lead to fast delivery, reaching 0.3x NFP/EBITDA in FY25E, vs. 0.9x in FY22. We initiate coverage with BUY and TP of Eu4.7/share fully diluted based on the weighted average of 2024E EV/EBITDA of selected peers with 30% weight and DCF with 70% weight.

Profile: The partner in embedded boards solutions

FAE Technology specialises in engineering, prototyping, production, and the supply of embedded custom electronic products. Their product range includes single-board computers and microcontrollers, serving as the foundation for embedded systems in IoT devices, industrial automation, and specific electronic applications. FAE stands out for its ability to develop, validate, transform, orchestrate the supply chain, and manage manufacturing processes swiftly, emphasizing speed as a key competitive advantage. With three facilities in Bergamo, the company offers integrated service capabilities, from production to services, positioning itself as a partner in the entire lifecycle of embedded electronics solutions. FAE operates with a high level of customization, allowing tailor-made solutions in different phases, primarily contributing to the production process. The company operates in innovative sectors related to the digital transformation of products, serving diverse markets such as automotive, smart mobility, aerospace, security, and more. In 2022, FAE reported robust financials, with total revenues of Eu40.3mn, marking a 63.9% YoY growth. Despite substantial growth, effective commercial efforts and disciplined cost control resulted in improved profitability, showcasing increased EBITDA, EBIT, and net profit, along with a healthier net financial position.

A story of constant development

Established in 1990 as a small series production laboratory, FAE Technology is now a transversal technological enabler



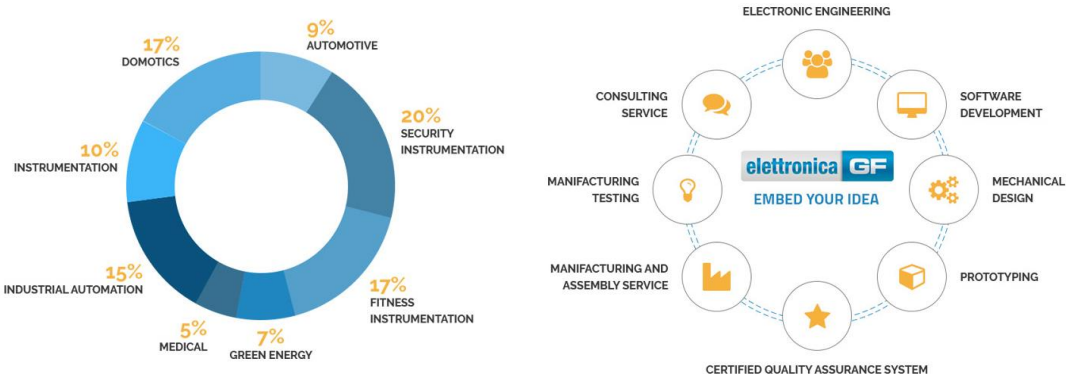
Source: Alantra elaboration on company presentation

A Quantum Leap: the Acquisition of Elettronica GF

In Nov-23, FAE Technology acquired Elettronica GF (EGF), specialising in end-to-end electronic system solutions based on microcomputers, panel PCs, and smart solutions. EGF is able to develop more advanced computing solutions, capable of enlarging the scope of the offer from sensors to edge computing. The acquisition aims to strengthen the technological know-how in end-to-end electronic systems, increasing the complexity and computational capabilities of the offer. Also, EGF develops in-house software (Board Support Package) to optimise the system chosen by the customer to work properly on the tailored hardware and provide a complete solution. With 60 skilled employees and a modern 5,500 sqm facility, EGF reported Eu10.9mn in sales and Eu1.7mn EBITDA in FY22, representing 30% of FAE's sales and 43% of EBITDA. FAE paid Eu5.6mn in cash, aiming to enhance its capabilities in microelectronics and embedded systems. This merger forms a complete entity covering sensor interface and data processing, crucial for FAE's solution ownership strategy and EGF's untapped potential for growth and value creation.

Elettronica GF Revenues by Fields of Application and Business Model

Customers are sure to have the best solutions available on the market thanks to a combination of hardware and software.



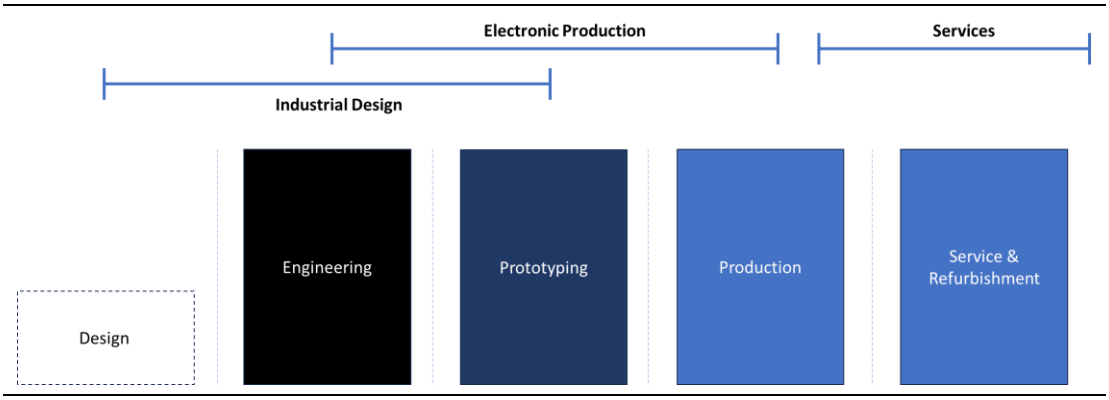
Source: Company Data

Business Model: A One-stop-shop solution provider

FAE Technology specialises in engineering, prototyping, and producing custom embedded electronic products, offering a comprehensive solution from idea inception to industrial production. Currently serving over 130 customers mainly in Italy and Europe, FAE Technology's business model encompasses phases of engineering, prototyping, production, and upcoming services and refurbishment, providing various entry points for customers to obtain electronic solutions ready for the market and ensuring recurring revenues. Starting from an idea, FAE Technology is able to develop a solution, validate its effectiveness, transform it into an industrial product, orchestrate the supply chain in a customised way, and manage the manufacturing processes, reducing the time to market for customers. The company optimizes the supply chain by managing special agreements with component manufacturers, framework agreements with distributors, and the qualification of third parties contributing to production. The tools engineering process focuses on designing and building necessary equipment for production lines, aligning with solution requirements. FAE Technology's approach emphasises efficiency and competitive solutions, making it a one-stop-shop in the digital transformation landscape.

Business Model Solutions Engineering

The preliminary phases consist of feasibility study and Proof of Concept realisation



Source: Alantra on Company presentation

Research & Development and Innovation Activities

R&D is managed by the internal engineering team and plays a key role in developing best-of-breed technology aimed at continuously proposing innovative and efficient products and solutions. FAE Technology developed a multifunctional space within the Kilometro Rosso Technology Park. This facility is dedicated to research, innovation and part of the engineering activities. Designed as a co-working space dedicated not only to employees but also to partner companies in the ecosystem to promote collaborative design and open innovation. In 2023, FAE Technology continued to invest in R&D activities, in particular, developing research projects financed in partnership with other companies, universities, and primary research centres, in order to support its customers in identifying research opportunities and thus contributing to their development.

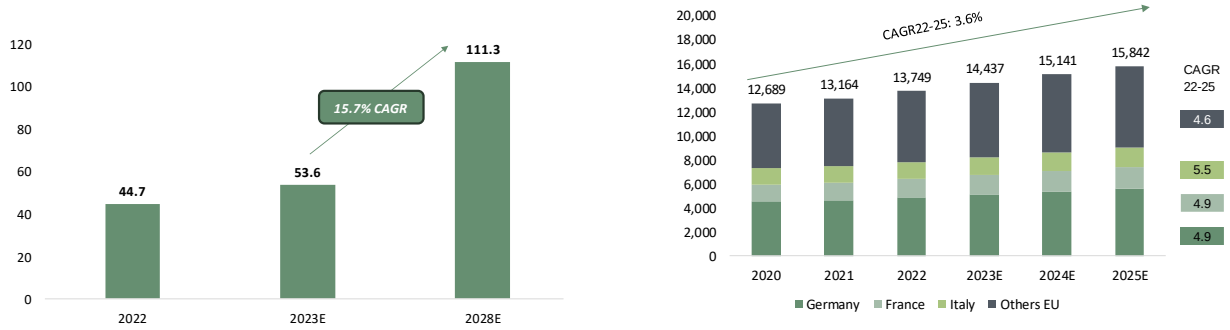
FAE Technology collaborates with MIT on the CityScanner project for urban data collection using low-cost sensors. They aim to develop a prototype IoT hardware device for AI applications and data visualization. In TinyML, FAE integrates machine learning and IoT for condition monitoring, focusing on predictive maintenance for industrial machinery using ultrasonic microphones. MyFASTPCBA is a web-based platform managing electronic prototypes, continuously evolving to incorporate necessary functionalities through a back-office system. LAB-3D-MES tests rapid PCB printing using additive technology, potentially integrating it into the MyFastPCBA platform.

Market: Growing on the edge to lead data appetite

FAE Technology has recently entered the edge computing space, also thanks to the Elettronica GF acquisition. According to a report by Markets and Markets, the industry is expected to grow from USD53.6bn in 2023 to USD111.3bn by 2028 (CAGR 15.7% 23-28). The growth is driven by the increasing use of IoT technology, complexity of analysis, and the necessity to process real-time data. On top of that, FAE's historical activity is rooted within the Electronic Manufacturing Service (EMS) market, an industry that entails a wide range of services ranging from PCB assembly to supply chain management. The Western European region, particularly Italy, is a key market focus, projected to experience a 3.6% CAGR in 2022-25 to Eu15.8bn. The company targets segments like Control & Industrial, Medical, and Automotive. The latter is expected to register the higher growth going forward (CAGR 22-25 of 7%). Global mega-trends shaping the EMS sector include climate change, urbanization, an aging population, and digital transformation. FAE Technology positions itself to align with these trends, anticipating growth and innovation within the dynamic end markets.

Global Edge Computing and Western Europe EMS markets (Eu bn lhs, Eu mn rhs)

The global Edge Computing market is expected to grow by 15.7% CAGR 2023-28, surpassing USD111bn - The EMS market is anticipated to grow by 3.6% CAGR 2022-25



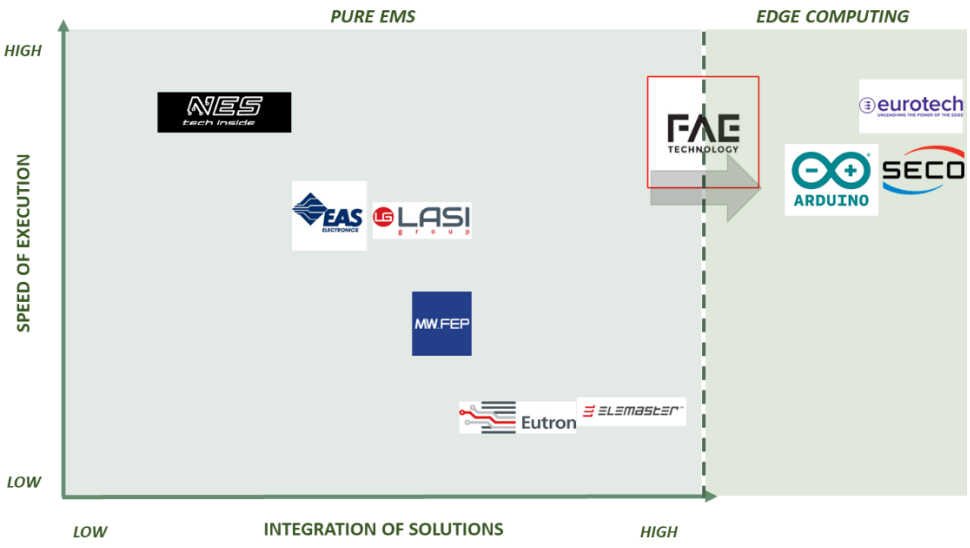
Source: Markets and Markets - ALANTRA estimates on Reed Electronic Research data

Competition: Unrivalled execution and edge solutions

FAE's distinctive attributes, contributing significantly to its differentiation amidst competitors, encompass a multitude of defining elements. These include (i) an unparalleled swiftness in executing offers and revolutionizing processes and strategies, (ii) a comprehensive commitment to digitize every facet of its operations, striving to evolve into an exemplar smart factory, (iii) an enduring commitment to innovation ingrained within the very fabric of the company and its endeavors, and (iv) a vibrant blend of youthful and seasoned management. These combined qualities converge to fortify FAE Technology's position as an industry leader, facilitating its sustained prominence and competitive edge within its market landscape. On top of that, the group has evolved from its roots as a traditional electronic manufacturing service provider to an edge computing solutions specialist, also thanks to the recent acquisition of Elettronica GF. This reflects a strategic shift towards embracing advanced technologies, addressing emerging market needs, and positioning itself for future growth. This move allows FAE to accelerate innovation, diversification, and response to the evolving demands of a technology-driven landscape.

Fast Execution, highly integrated solutions and edge computing capabilities

FAE Technology is able to provide customers the highest solution integration with the fastest execution vs. competitors



Source: Alantra, Company presentation

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Porter's Five Forces: Entry dynamics and power relations in Edge Computing and EMS markets

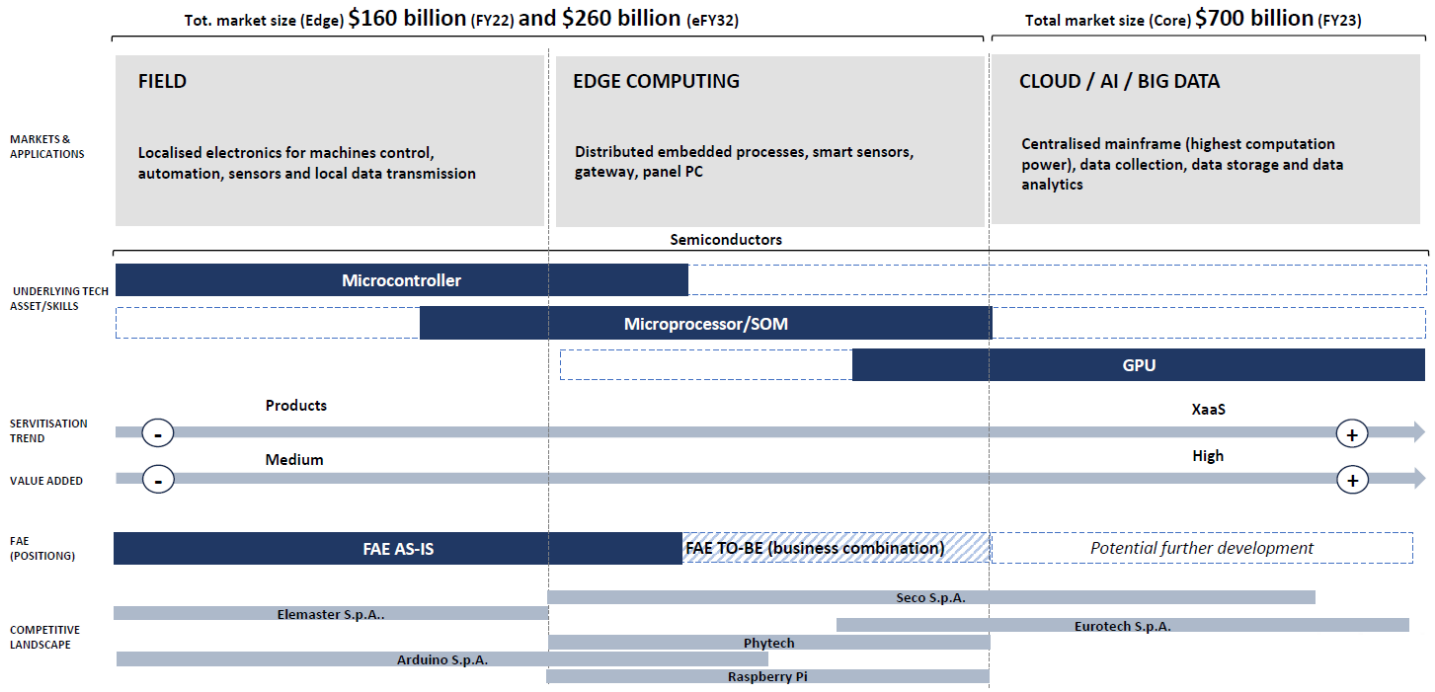
When applied to the Edge Computing and the Electronic Manufacturing Service (EMS) markets, Porter's Five Forces analysis offers insights into the forces shaping the industry landscape. In Edge Computing, entry barriers vary with the industry's fast pace, allowing for innovation. On the other hand, the EMS market faces high entry barriers due to significant capital requirements and specialized knowledge. Buyer power in Edge Computing fluctuates based on factors like alternative solutions, while EMS buyers, typically OEMs, hold moderate to high power. In terms of supplier power, Edge Computing suppliers' influence varies, while EMS depends on stable supply chains with moderate to high supplier power. Edge Computing faces threats from alternative technologies, and EMS providers counter substitutes through specialization. Competitive intensity is influenced by technological innovation and new entrants in Edge Computing, while EMS is highly competitive, requiring differentiation strategies.

Strategy: Evolution towards Cloud & AI Integration

FAE Technology aims to sustain growth by prioritising customer loyalty, market expansion, and increasing market share. Strategies involve leveraging strengths, resources, and innovation while emphasizing continuous evaluation and adaptation in the EMS industry. The acquisition of Elettronica GF aligns with FAE's strategy, creating a comprehensive entity covering sensors and edge computing. FAE's evolution from local electronics to edge computing signifies a shift towards system integration, enhancing profitability. Future steps may involve entering the cloud, AI, and big data markets through external growth for larger market access and higher returns, considering estimated market growth projections. As with Elettronica GF, the most appropriate and effective way to gain a foothold in this market is through external growth. Transitioning in EMS from edge computing to cloud services, AI, and big data offers growth avenues and competitiveness, necessitating a strategic approach and tech investment. Benefits encompass innovation, industry adaptation, efficiency gains, competitive edge, and customer-centricity. Challenges involve skill acquisition, data security, privacy compliance, and operational integration complexities. Strategic planning is vital for successful adoption.

The Elettronica GF acquisition allows valuable upstream integration in the edge computing and paves the way for future developments

Combined entity's positioning, addressable market and further future opportunities



Source: Company Presentation based on Global Market Insight end Fortune Business Inside data

Sales and EBITDA CAGR22-25 of 37.5% and 46.8%, respectively: a mix of organic growth and EGF…

In 2022, a distinctive year unfolded, marked by challenges such as supply chain constraints and mounting pressure on raw materials. Despite these hurdles, the company adeptly managed the significant surge in raw material expenses, ensuring substantial revenue growth while experiencing only a marginal dip in margins. This accomplishment underscores the company's resilience in not just weathering difficult economic conditions but also maintaining its competitive edge and financial robustness throughout market constraints. We expect revenues to show a 37.5% CAGR22-25 reaching Eu102.4mn in 2025. This is a combination of organic growth and the consolidation as of 2024 of Elettronica GF, with a contribution of Eu10.9mn in 2024, assuming its consolidation as of 1-Jan. This massive revenue growth, much more pronounced compared to the market growth, is anticipated to be primarily driven by the Solutions business line encompassing Engineering, Prototyping, and Production activities and representing some 96% of the group top line in 2025.

Top line growth driven by organic improvements and by the consolidation of Elettronica GF

Revenues are anticipated to show a 38.1% CAGR in 2022-25E

Eu mn	FY21A	FY22A	FY23E	FY24E	FY25E	CAGR
Solutions	**22.7**	**37.4**	**56.0**	**70.5**	**98.4**	***38.1***
Production	22.2	36.8	55.1	69.5	97.3	*38.3*
Prototyping	0.4	0.5	0.7	0.9	1.0	*25.6*
Engineering	0.2	0.1	0.1	0.1	0.1	*3.6*
Online Solutions / My Fast PBCA	**1.1**	**2.0**	**2.9**	**3.5**	**3.9**	***25.6***
Prototyping	1.1	2.0	2.9	3.5	3.9	*25.6*
Other Revenues	**0.2**	**0.1**	**0.1**	**0.1**	**0.1**	***9.3***
POC	0.1	0.1	0.1	0.1	0.1	*10.0*
Services	0.0	0.0	0.0	0.0	0.0	*5.0*
Other products	0.0	0.0	0.0	0.0	0.0	-
Revenues	**24.0**	**39.4**	**59.0**	**74.1**	**102.4**	***37.5***

Source: Company Data, Alantra

The disruption in the supply chain and the mounting pressure on raw materials experienced in 2022 are anticipated to ease as from 2023. FAE Technology's cost structure, represented primarily by variable costs accounting for more than 86% of total costs, allows only to a certain extent the operating leverage effect stemming from higher volumes. In addition, the consolidation of Elettronica GF adds technological know-how thanks to its expertise in products with higher computing capabilities, enlarging the offer with higher-performing boards capable of managing and analysing data on the edge. On top of that, EGF brings software development skills, enabling the provision of not only components but also integrated solutions. As a combined result, we project EBITDA to improve from Eu3.9mn to Eu12.4mn in 2022-25, with the margin increasing from 9.7% to 12.0% in 2025. The decline of Raw Materials as a percentage of sales is anticipated to be partially offset by a certain increase in Personnel costs as a result of a reinforcement of the operating structure linked to the solid revenue progression in the period.

EBIT and Net Profit margin to expand from 7.8% to 10.2% and 5.2% to 7.3%

Margin expansion below EBITDA is sustained by the marginal decline of the financial charges and flat tax rate

Eu mn	FY21A	FY22A	FY23E	FY24E	FY25E	CAGR
EBITDA	**2.6**	**3.9**	**6.4**	**10.1**	**12.4**	***46.8***
% margin	*10.5*	*9.7*	*10.7*	*11.8*	*12.0*	
D&A	(0.5)	(0.8)	(1.1)	(1.6)	(1.9)	
EBIT	**2.1**	**3.1**	**5.3**	**8.5**	**10.5**	***49.7***
% margin	*8.5*	*7.8*	*8.8*	*9.9*	*10.2*	
Net financial income (costs)	(0.1)	(0.2)	(0.3)	(0.3)	(0.2)	
Pre-tax profits	**1.9**	**2.9**	**5.0**	**8.2**	**10.3**	***52.3***
Taxes	(0.5)	(0.8)	(1.4)	(2.2)	(2.8)	
tax rate %	*25.0%*	*27.6%*	*27.0%*	*27.0%*	*27.0%*	
Net Profit	**1.5**	**2.1**	**3.7**	**6.0**	**7.5**	***52.7***
% margin	*5.9*	*5.2*	*6.1*	*6.9*	*7.3*	

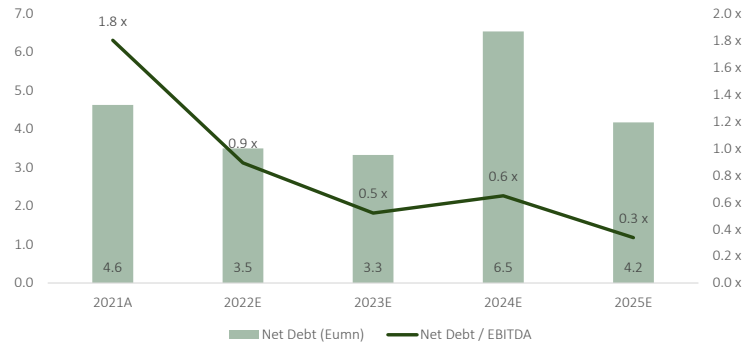
Source: Company Data, Alantra

…Balanced sheet with solid FCF emerging in 2025

Fae Technology's business model has relatively moderate fixed asset requirements. On top of that, the group has historically maintained net working capital under control. We expect management to sustain good NWC discipline, with estimated NWC/sales averaging 23% in FY23-25E (25% historically). Our capex projections entail mainly maintenance (ca. 3% of sales on average FY23-25E). The group is projected to achieve FCF breakeven by next year, with Eu3.6mn FCF in 2025E, implying a 29% EBITDA conversion. This should lead to deleveraging (FY22 net debt/EBITDA of 0.9x down to 0.3x in FY25E), despite considering the Eu4.7mn cash outflows related to the acquisition of Elettronica GF during FY23-25E. The relatively moderate level of capital employed, combined with the expected double-digit EBIT margin from 2024E, should enable ROCE (after-tax) to rise from 15% in FY22 to >20% in FY25E. Our model does not take into consideration any additional M&A.

Net Debt (Eu mn) and Net Debt/EBITDA (x) in FY21-25E

We believe that FAE Technology should face a fast-deleveraging path



Source: Company financial statements, Alantra estimates

Initiation with BUY, TP of EU4.7/ share

Alantra initiates coverage on FAE Technology with a BUY rating and a PT of Eu4.7, 38% upside, based on a weighted average multiple comparison and DCF methodologies. We believe FAE Technology presents an attractive investment opportunity due to its market positioning, diversified industry presence, strong commitment to innovation, and robust customer relationships established as an integrated solution provider. With a proven track record and a strategic approach to navigating technological shifts, FAE Technology is poised for sustained growth in the ever-evolving tech landscape. Investors seeking exposure to a company leading in technological integration and customer-centric solutions could consider FAE Technology a compelling addition to their portfolio. Listed in November 2022, FAE Technology's stock price is up 127% from Eu1.5/share to Eu3.4/share, compared to -12% performance of the FTSE Italia Growth Index in the same period.

Valuation summary - TP of Eu4.7/share

Valuation summary

Method	Equity Value		
	(Eu mn)	(Eu per share)	Weight (%)
DCF	95.4	5.0	70%
24E EV/EBITDA peers multiples	75.6	4.0	30%
Weighted AVG	**89.5**	**4.7**	

Source: Alantra

Main risks. We believe that the main risks related to FAE Technology's business are: 1) Supply chain vulnerability, 2) Influences of global economic factors, 3) Concerns regarding intellectual property and security, 4) Challenges of Technological Obsolescence, 5) Navigating regulatory compliance, 6) Dependency on a few key people/customers.

Profile: The partner in embedded boards solutions

FAE Technology specialises in engineering, prototyping, production, and the supply of embedded custom electronic products. Their product range includes single-board computers and microcontrollers, serving as the foundation for embedded systems in IoT devices, industrial automation, and specific electronic applications. FAE stands out for its ability to develop, validate, transform, orchestrate the supply chain, and manage manufacturing processes swiftly, emphasizing speed as a key competitive advantage. With three facilities in Bergamo, the company offers integrated service capabilities, positioning itself as a partner in the entire lifecycle of embedded electronics solutions. FAE operates with a high level of customization, allowing tailor-made solutions in different phases, primarily contributing to the production process. The company operates in innovative sectors related to the digital transformation of products, serving diverse markets such as automotive, smart mobility, aerospace, security, and more. In 2022, FAE reported robust financials, with total revenues of Eu40.3mn, marking a 63.9% YoY growth. Despite substantial growth, effective commercial efforts and disciplined cost control resulted in improved profitability, showcasing increased EBITDA, EBIT, and net profit, along with a healthier net financial position.

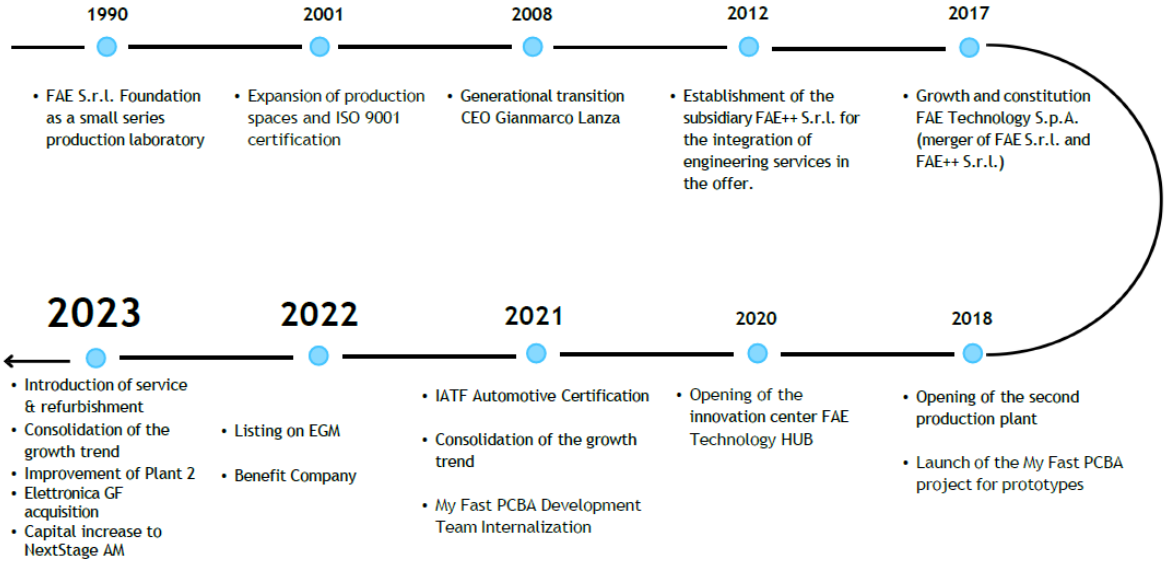
Pioneering Embedded Electronics

Founded in 1990 and headquartered in Gazzaniga near Bergamo, FAE Technology operates in engineering (from Proof of Concept to Industrial), prototyping & production, and the supply of embedded custom electronic products. These products typically include single-board computers, microcontrollers, and other hardware components for sensing and control requirements. These boards often serve as the foundation for embedded systems in various devices, such as IoT devices, industrial automation, and specific electronic applications. Starting from scratch, FAE Technology can develop a compact and integrated computing solution, validate its effectiveness, transform it into an industrial product with several applications, orchestrate the supply chain in a customised way, and manage the manufacturing processes. The superior rapidity with which the company can carry out the entire process is the key competitive advantage and a value generation driver. The company runs three facilities located in the province of Bergamo.

1) Gazzaniga (BG), "Plant 1", 2,000sqm. Here, there are the main administrative and management functions, in addition to a few production departments with automated lines for both prototypes and production of series. The production facility represents the highest state of the art in terms of compliance with sector requirements.
2) Vertova (BG), "Plant 2", 5,500sqm. In this location, there are the warehouse, logistics, and various departments with processes complementary to the assembly of the boards, including special treatments, electromechanical completions, assembly of systems, and tests.
3) Stezzano (BG), FAE Technology HUB, a multifunctional space within the Kilometro Rosso Technology Park, 300 sqm. This office is dedicated to research, innovation, and part of the engineering activities. The office is designed as a co-working space dedicated not only to employees but also to partner companies in the ecosystem to promote collaborative design and open innovation.

A story of constant development

Established in 1990 as a small series production laboratory, FAE Technology is now a transversal technological enabler



Source: Alantra elaboration on company presentation

End-to-end process in embedded electronics

Thanks to its integrated service capabilities, the company is able to manage the entire lifecycle of different solutions in the field of embedded electronics, positioning itself more as a partner rather than a supplier.

Engineering FAE Technology provides consultancy for electronic design activities, PoC development, electronic design, and industrialisation. In other words, all the phases that, starting from a customer need, passing through the exploration of technology, arrive in the design cycle of an electronic board.

Prototyping The company is able to offer a fast electronic prototype service through its proprietary digital platform, MY Fast PCBA. Customers can easily configure, quote, and order their electronic prototype online.

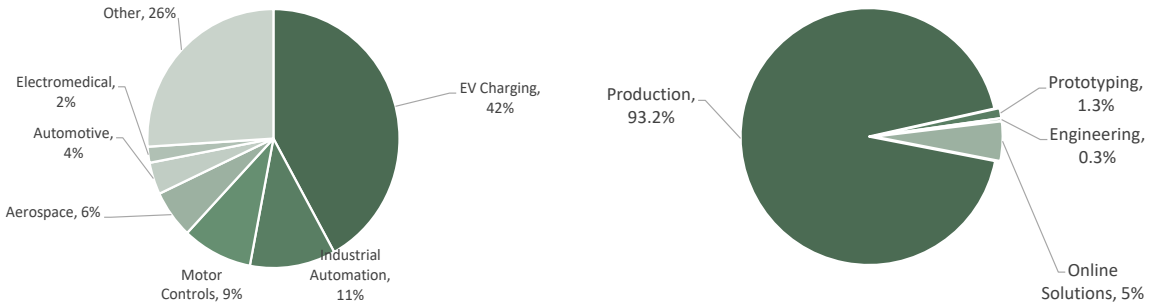
Production FAE Technology provides complete solutions, managing supply chain management processes, production, and testing of boards and electronic systems, dealing with the most advanced technologies.

Service Recently introduced, refurbishment and other services complete the group's business proposition throughout the entire product lifecycle. These services contribute to enhancing revenue streams and, to a certain extent, increasing recurring revenue.

These activities can be performed as independent services or related to a specific project, thus allowing FAE Technology to manage the entire life cycle of an electronic asset (electronics lifecycle asset manager). The direct supervision of all phases allows the company to act in a complex context such as the market of electronic components, maximizing the effectiveness of processes. Thanks to their direct supervision, the group can ensure constant research and the most up-to-date technology. FAE Technology is a transversal technological enabler in the electronics sector. The group, characterized by a low level of standardization, is able to intervene in different phases, always offering the customisation of all specifications needed timely and efficiently. Most of the group sales (93% FY22) stem from the production phase mainly in the EV charging application (42%).

2022 sales breakdown by application… and by segment

EV Charging applications represent the bulk of 2022 top line as well as production in terms of business segment

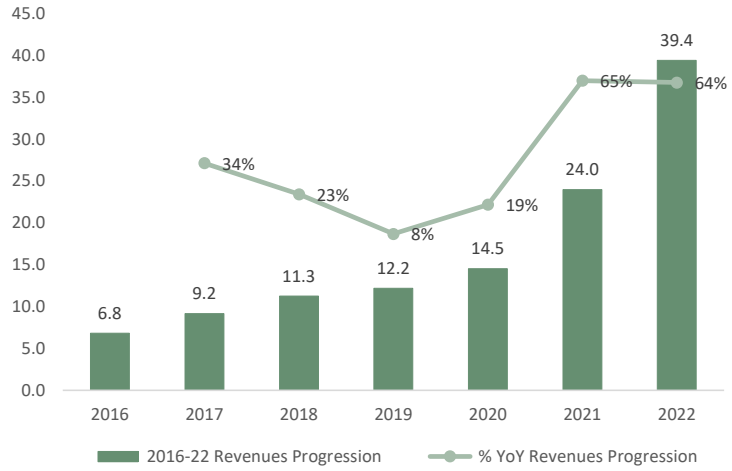


Source: Company presentation

The current extensiveness of electronics enables the company to operate in various innovative sectors involved in the digital transformation of products. FAE Technology encompasses all these sectors in its segment exposure, and, in particular, offers its services in the following markets: automotive, smart mobility, aerospace, security, smart agriculture, smart industry and industrial safety, electromedical, building automation and home appliances, energy management, smart grid, and lighting.

2016-22 sales progression (Eumn)… and % YoY sales increase

Top line has been consistently growing in the last seven years, with a sharp acceleration in the last three years



Source: Company presentation

FAE Technology reported total revenues of Eu40.3mn in 2022, marking a 63.9% YoY increase, all organic. The majority of the growth stemmed from production, with online solutions representing only a minor driver. Despite the substantial top-line growth, evidence of effective commercial efforts, coupled with timely and efficient production services, profitability improved only slightly lower than sales. Thanks to disciplined cost control, EBITDA increased by 52.5% YoY to Eu3.9mn, a 9.7% margin, and EBIT was up by 50.4% YoY to Eu3.1mn, a 7.8% margin. Net profit grew by 45.5% to Eu2.1mn compared to Eu1.4mn in 2021, and the net margin reached 5.2% from 5.9% in 2021. In this context of solid growth, net financial position (NFP) improved to Eu3.5mn from Eu4.6mn in 2021, resulting in a 0.9x NFP/EBITDA, down from 1.8x in 2021.

Management Structure

At the end of 2022 FAE Technology employed 93 people, of which 67 blue collars, 37 white collars 2 managers/executives. Of the total FTE, 10 are engineers and >50 have worldwide recognised IPC certifications.

Gianmarco Lanza – Chairman and CEO
38 years old, graduated from the Istituto Tecnico ISISS Valle Seriana, he entered the family business in 2008 at the age of 23, where he took over management and control. In FAE Technology, he directly contributed to each phase of the company's growth, starting from a structure that generated sales of Eu2.5mn with 20 employees. In particular, he managed the dimensional progression up to the current structure, the increase in company know-how, the expansion of services to the market, and the positioning in terms of brand and perceived value.

Marco Ferrari - CFO
39 years old, he obtained a degree in Business Administration and a Master of Science from Bocconi University. Prior to joining FAE Technology, Marco served as Chief Corporate Officer at Talent Garden, in charge of Finance & Accounting, Financial control, Legal and M&A, and Investors Relations. In previous experience, he was the Chief Financial Officer for seven years at Directa Plus, an AIM London-listed company. Other experiences include EY and Deutsche Bank.

Dario Ne – Chief Operation Officer
42 years old, graduated from I.T.I.S. P. Paleocapa, and he boasts 20 years of experience in electronic manufacturing. He focused on quality management system certification and process analysis. Over the past 5 years at FAE Technology, he added significant contributions towards IATF automotive certification processes. In the last 2 years as the COO, he actively managed the implementation of FAE Technology's new production layout and assets, fostering its continuous growth.

Gabriele Braga – Sales & Marketing Manager
52 years old, he holds a degree in electronic engineering from the University of Bologna. He started as a design engineer in telecom and spent most of his professional career in semiconductor technology and applications while working at Arrow Electronics. Currently, he serves as a board member at the Italian Electronic Industrial Association (ANIE). In 2022, he joined FAE Technology with the responsibility of expanding the group's market presence and evolving the business model.

Young, skilled and talented management team

Gianmarco Lanza (38, CEO and Chairman), Marco Ferrari (39, CFO), Dario Ne (42, COO) and Gabriele Braga (52, Sales & Mkt)

Source: Company presentation

Shareholder Structure and Corporate Governance

FAE Technology share capital is equal to Euro Eu0.5mn and it is divided into 16.4mn ordinary shares without indication of par value. The major shareholder is GML Venture, a company attributable to Gianmarco Lanza (CEO and Chairman) and Luciana Giudici (CEO's mother), with 66.8% of the share capital. Free float is 20.0%. Currently 7.1mn warrants are still outstanding (>80k warrants already exercised during first period in Nov-23), the conversion ratio is equal to 1 ordinary share for every 2 warrants held with increasing strike price, starting from the IPO price, at the rate of 10% per year for the remaining two exercise periods:

- 5-20 November 2024, strike price of Eu1.82.
- 5-20 November 2025, strike price of Eu2.00.

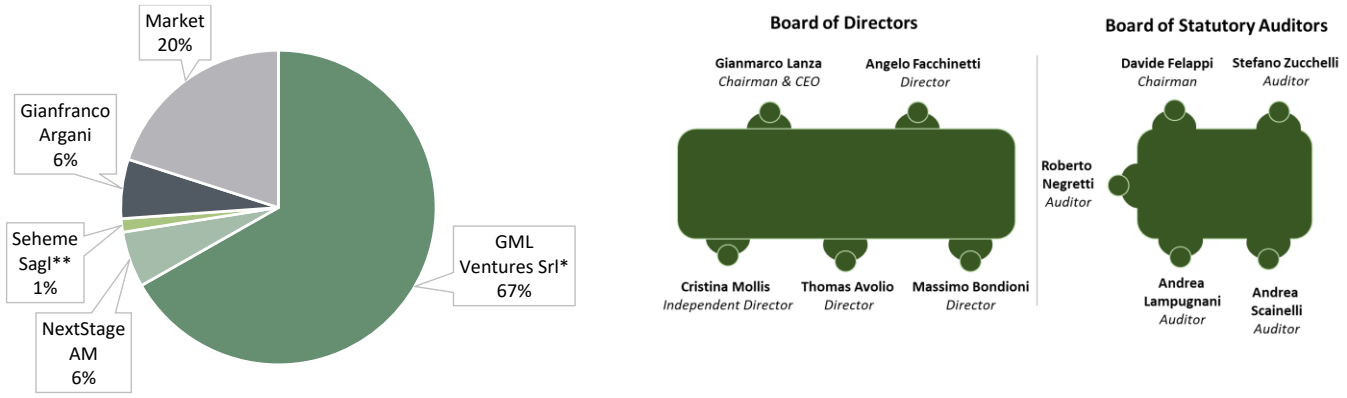
For the calculation of the fully diluted number of share we applied treasury share method, to consider the potential dilution implied by the existing instruments.

The company is managed by a Board of Directors of five members in charge for the three-year period 2022-24

- Gianmarco Lanza - Chairman and CEO)
- Angelo Facchinetti – Director
- Cristina Mollis – Independent Director
- Thomas Avolio – Director
- Massimo Bondioni – Director

Shareholder Structure and Corporate Governance

The company is managed by a Board of Directors of five members in charge for the three-year period 2022-24



Source: Company presentation; *: Linked with Gianmarco Lanza (CEO), **: Linked with Angelo Facchinetti (BoD Director)

A Quantum Leap: the Acquisition of Elettronica GF

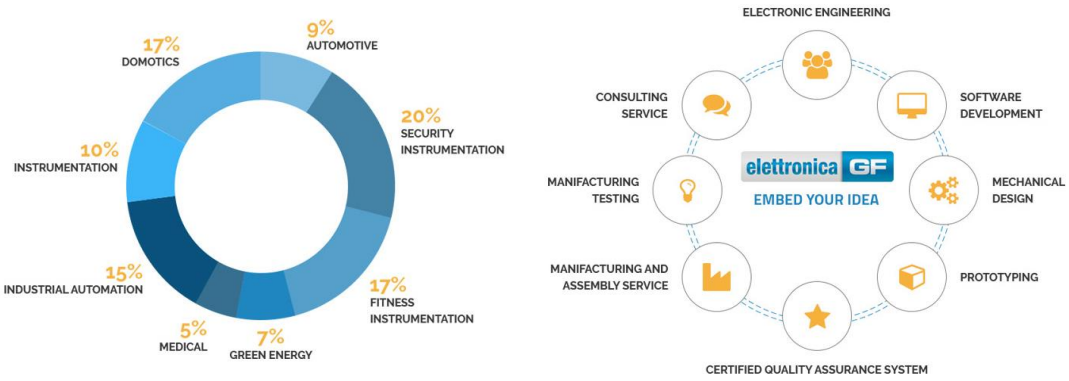
In Nov-23, FAE Technology acquired Elettronica GF (EGF), specialising in end-to-end electronic system solutions based on microcomputers, panel PCs, and smart solutions. EGF is capable of developing more advanced computing solutions, expanding the scope of the offer from sensors to edge computing. The acquisition aims to strengthen the technological know-how in end-to-end electronic systems, increasing the complexity and computational capabilities of the offer. Additionally, EGF develops in-house software (Board Support Package) to optimise the system chosen by the customer to work properly on the tailored hardware and provide a complete solution. With 60 skilled employees and a modern 5,500 sqm facility, EGF reported Eu10.9mn in sales and Eu1.7mn EBITDA in FY22, representing 30% of FAE's sales and 43% of EBITDA. FAE paid Eu5.6mn in cash, aiming to enhance its capabilities in microelectronics and embedded systems. This merger forms a complete entity covering sensor interface and data processing, crucial for FAE's solution ownership strategy and EGF's untapped potential for growth and value creation.

Elettronica GF: a strong focus on the embedded boards market with computing capabilities

At the beginning of Nov-23, FAE Technology announced the acquisition of 100% of Elettronica GF (EGF). Established in 1978 and headquartered in Faenza (RA), the company offers solutions and technologies that cover the entire production process for electronic systems. In other words, the company is focused on providing advanced microprocessor-based solutions, supporting higher computing requirements (e.g. edge computing), capable of processing massive amounts of data, analysis, and bringing computational capacity also to the edge. Its products include microcomputers, panel PCs, human-machine interface devices, highly complex solutions that equip end-to-end smart solutions.

Elettronica GF Revenues by Fields of Application and Business Model

Customers are sure to have the best solutions available on the market thanks to a combination of hardware and software.



Source: Company Data

Elettronica GF employs highly qualified specialists, including technicians, engineers, and software developers, with a total of approximately 60 collaborators, of which at least 20 are involved in technical and R&D activities. The company operates in a state-of-the-art production site, opened in 2019, and with an area of over 5,500 sqm, equipped with the latest generation production systems.

Elettronica GF, 2019-22 figures

5.9% top line CAGR in 2022-19, with EBITDA margin from 8.1% to 15.4% in the same period

Eu mn	2019A	2020A	2021A	2022A	$CAGR_{22-19}$
Sales	**8.7**	**8.5**	**10.8**	**10.9**	***5.9***
EBITDA	**0.7**	**0.7**	**1.1**	**1.7**	***24.2***
% margin	*8.1*	*7.9*	*10.0*	*15.4*	
Net Profit	**0.1**	**0.0**	**0.4**	**0.9**	***74.5***
% margin	*1.1*	*0.4*	*3.5*	*8.1*	
NFP	6.3	6.6	8.2	8.4	***7.4***
Equity	2.1	2.1	2.5	3.4	***12.8***
Employees	46	49	53	54	***4.1***

% YoY	2019A	2020A	2021A	2022A
Sales	-	*(2.7)*	*27.0*	*1.6*
EBITDA	-	*(5.4)*	*60.7*	*56.5*
Net Profit	-	*(65.3)*	*nm*	*132.2*
NFP	-	*5.8*	*22.6*	*2.5*
Equity	-	*1.4*	*18.0*	*35.4*
Employees	-	*6.5*	*8.2*	*1.9*

Source: Aida

In 2022 Elettronica GF generated sales to the tune of Eu10.9mn and an EBITDA of Eu1.7mn with a 15.2% margin. Net Financial Position landed at Eu8.4mn, or Eu5.7mn pro-forma, i.e. following the deconsolidation of a few real estate assets. The company represents a remarkable target in terms of size, accounting for almost 30% and more than 43% of FAE Technology's sales and EBITDA in 2022, respectively.

FAE Technology paid 6.7x $EV/EBITDA_{22A}$

In 2022, Elettronica GF generated sales to the tune of Eu10.9mn and an EBITDA of Eu1.7mn with a 15.2% margin. The Net Financial Position landed at Eu8.4mn, or Eu5.7mn pro-forma, i.e., following the deconsolidation of a few real estate assets. The company represents a remarkable target in terms of size, accounting for almost 30% and more than 43% of FAE Technology's sales and EBITDA in 2022, respectively.

Elettronica GF, acquisition's instalments and implied multiple

The bulk of the payment is in 2024. The price paid corresponds to 6.7x EV/EBITDA 2022A and 6.4x PE 2022A

Cash Out, EU mn	2023E	2024E	2025E	2026E	Total
Signing	0.3				
Closing		3.2			
18 months			1.2		
24 months				0.9	
Total	**0.3**	**3.2**	**1.2**	**0.9**	**5.6**

Implied Multiple, 2022A	
Price - Eu m	5.6
NFP pf 2022A Eu m	5.7
EV Eu m	**11.3**
EV/EBITDA x	**6.7**
PE x	**6.4**

Source: Aida

The rationale: Upstream integration (from embedded boards to computing solutions)

Both companies are active in embedded electronic boards. However, while FAE Technology has an established track record in providing tailor-made embedded boards and microcontrollers in a timely manner, Elettronica GF adds technological know-how thanks to its expertise in products with higher computing capabilities, enlarging the offer with higher-performing boards capable of managing and analysing data on the edge. Moreover, EGF brings software development skills, enabling it to provide not only components but also integrated solutions. The business combination, therefore, generates a complete player capable of covering the entire value chain: an operator specialised in the control system, i.e., in the sensor that is in the field, and in the edge computing solution that is able to manage and process the data that comes from the field. These are areas where custom solutions are used, not traditional computers. Previously, it was an activity that was purchased externally; FAE Technology considers ownership of the solutions offered to be a key aspect of its selling proposition. EGF has strong unexpressed potential, in terms of growth and value creation. In particular, the combined entity is expected to leverage the current integration structure with the capacity to develop edge products and solutions.

Business Model: A One-stop-shop solution provider

FAE Technology specialises in engineering, prototyping, and producing custom embedded electronic products, offering a comprehensive solution from idea inception to industrial production. Currently serving over 130 customers, mainly in Italy and Europe, FAE Technology's business model encompasses phases of engineering, prototyping, production, and upcoming services and refurbishment, providing various entry points for customers to obtain electronic solutions ready for the market and ensuring recurring revenues. Starting from an idea, FAE Technology is able to develop a solution, validate its effectiveness, transform it into an industrial product, orchestrate the supply chain in a customised way, and manage the manufacturing processes, reducing the time to market for customers. The company optimises the supply chain by managing special agreements with component manufacturers, framework agreements with distributors, and the qualification of third parties contributing to production. The tools engineering process focuses on designing and building necessary equipment for production lines, aligning with solution requirements. FAE Technology's approach emphasises efficiency and competitive solutions, making it a one-stop-shop in the digital transformation landscape.

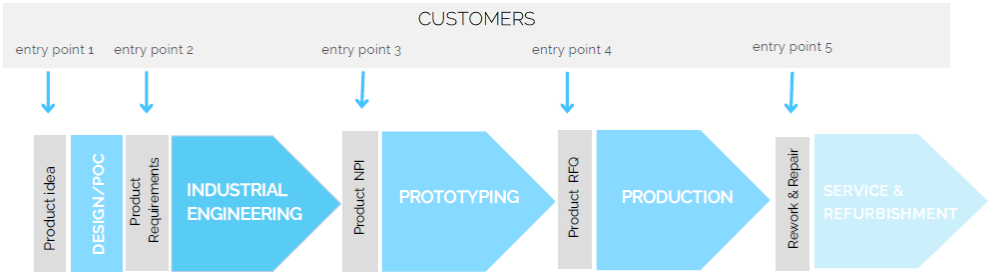
Covering the entire value chain

The group's customers are mainly Original Equipment Manufacturers (OEMs) producing electronic products for their functionality. They operate in new sectors with strong growth potential, namely transport electrification, smart city initiatives (involving the intelligent management of public transport, waste, mobility, and security), and artificial intelligence applications created directly on-board electronic microcontroller systems. FAE Technology currently serves more than 130 customers, primarily located in Italy and Europe.

FAE Technology's business model unfolds through a process that, from the initial concept, leads to the creation of a complete solution. This involves phases of engineering, prototyping, production, and upcoming services and refurbishment. The value chain is designed to offer various "entry points" to potential customers, allowing them to integrate the processes and obtain an electronic solution ready for the market, thereby generating recurring revenues.

Business Model and Customer Entry Points

From the initial concept to the complete solution, with several customer entry points



Source: Company presentation

Engineering

Within the Engineering phase, the group provides consultancy for electronic design activities, PoC development, electronic design, and industrialisation. The phase can be divided as follows:

1 - Design processes and feasibility studies – This first approach is aimed at understanding if and how electronic technology can support its needs. Together with the customers and/or its consultants (particularly when electronics enable digital transformation), FAE Technology carries out technological scouting and pre-feasibility analysis, making its know-how available and involving the most suitable electronic technology manufacturing companies.

2 - Development of a proof of concept (PoC) - This phase consists of creating an experimental electronic project aimed at validating an idea or a specific function. For the creation of PoC, developed internally within FAE Technology HUB by the internal engineering team, FAE Technology often uses commercial electronic boards (evaluation boards) to minimise the dedicated design and prototyping phases, thus reducing production times and costs. Together with several business partners, mechanical and electromechanical parts, and the software required to complete the application are created in a prototype manner, thus completing the electronic part of the PoC.

3 - Definition of the system architecture and project specifications - FAE Technology works together with the customer who has know-how regarding the required application. Once the specification has been defined, engineers proceed with the choice of the individual components and the design of the electrical diagram. The output of this phase is a complete electronic project and a materials list containing all the specifications of each individual component.

4 - PCB master layout development - The connections will be made on PCB, on which the components will be assembled, creating the PCBA. This is the initial and most impactful phase for the industrialization of the product. The engineers in charge of developing the layout work in synergy with the process engineering staff to have all the production know-how necessary to create the best possible product.

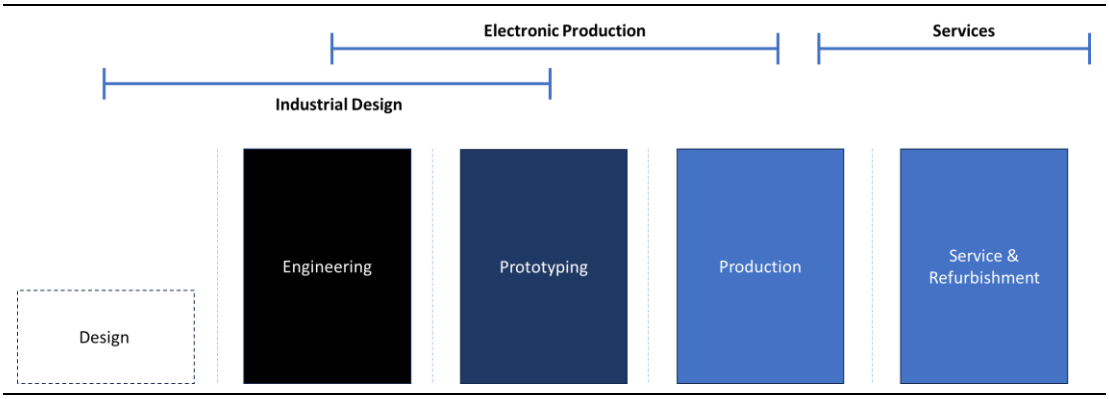
5 - Development of the Firmware – This completes the realisation of the project and consists of developing software allowing the different hardware components present on the project to properly communicate with each other and carry out their function. This phase makes the product complete and ready to incorporate the application software, often developed by third parties, which allows its functionality.

6 - Test Engineering activity - The type of testing system depends on various factors, mainly on the production volumes and the coverage requested. The test engineering staff within the engineering team manages the process, and depending on the type, it is carried out independently or with the support of specialised partners.

7 - Complete test system finalised and validated - The activity is completed with the creation of the entire test system and its launch directly in the production and testing departments. The validation phase allows the conclusion of the engineering activities via tests and/or certification tests and markings previously established within the specification.

Business Model Solutions Engineering

The preliminary phases consist of feasibility study and Proof of Concept realisation



Source: Alantra on Company presentation

Prototyping

In order to reduce the time to market (TTM), the group offers a fast-prototyping service: a department entirely dedicated to the creation of assembled prototypes and mini-electronics boards. Through the MY Fast PCBA service, customers overseeing the engineering phases and seeking greater autonomy can create their own electronic board prototype entirely online. This process can be summarized in 6 steps:

1 – Identification of required components - The creation of prototypes is carried out digitally and entirely by the 'My Fast PCBA' software, even if the order comes from an internal department. The required components are identified from online suppliers specialized in sampling materials, and the documentation and programs necessary for the realization of the prototype production process are prepared.

2 - Normalisation of the documentation - In case of unavailability of some components, the platform is able to propose possible compatible alternatives. The platform then normalises the documentation, facilitating the activity of the operators responsible for the final part of the programming of the systems, already significantly reduced by the type of machinery available, designed specifically for micro-series and therefore able to operate with setup times reduced to a minimum.

3 - Orders issued to suppliers - Once the preparation activity has been completed, through the internal digital platform, all orders are issued to suppliers, both for the components and for the PCB. The issuing of orders takes into account the planning and necessary production times.

4 - Arrival of components - The incoming process of materials for prototypes starts through a fully dedicated and specialised warehouse, significantly reducing processing times. All phases are digitalised, managed, and tracked by the platform.

5 - Assembly - Dedicated machinery for the assembly phase allows setup times and the creation of tools to be reduced to a minimum, in favor of an extremely flexible and efficient digital process. In greater detail, 'jet print' machines are used for the punctual dispensing of solder paste instead of traditional screen printing machines. The reduction oven uses Vapor Phase technology: it is no longer necessary to carry out targeted process engineering activities to identify the correct welding profiles.

6 - Testing - All prototypes are tested optically and parametrically to verify the quality of the manufacturing process. Tests are carried out in the prototype production department with standard instrumentation, with test reports tracked digitally.

Production

FAE Technology provides complete solutions, managing supply chain management processes, production, and testing of boards and electronic systems, dealing with the most advanced technologies:

1 - Process preparation / new product introduction – These steps are process engineering activities necessary for starting production. The production process is designed, and with it, all the documentation necessary to accompany each phase is produced and uploaded into the system. Assembly, testing, programming, and packaging instructions are created, along with quality control specifications and acceptance parameters.

2 - Supply chain management – Key in this phase is generating the best configuration so that the solution offered is as competitive as possible, both for the company and for the customer. Among the various activities covered by this phase are i) the management of special agreements directly with component manufacturers (special quotas), ii) the management of framework agreements with distributors to exploit the numerous value-added options available, iii) the choice and qualification of any third parties who contribute to the realisation of the production phases, bringing benefits in economic or specialization terms.

3 - The tools engineering process - All the equipment and tools necessary for the production phases are designed and built. The choice of the type of tools depends on the production lines chosen and the requirements of the solution.

Research & Development and Innovation Activities

R&D is managed by the internal engineering team and plays a key role in developing best-of-breed technology aimed at continuously proposing innovative and efficient products and solutions.

FAE Technology has developed a multifunctional space within the Kilometro Rosso Technology Park. This facility is dedicated to research, innovation, and part of the engineering activities. Designed as a co-working space dedicated not only to employees but also to partner companies in the ecosystem to promote collaborative design and open innovation. In 2023, FAE Technology continued to invest in R&D activities, in particular, developing research projects financed in partnership with other companies, universities, and primary research centres, to support its customers in identifying research opportunities and thus contributing to their development. Some of the main projects are:

CityScanner The CityScanner project, in collaboration with MIT in Boston, aims to develop an innovative system for data collection from the urban environment through "low-cost" sensors. FAE Technology's goal is to create a new prototype version of the IoT hardware device for use within the CityScanner project. This involves integrating new sensors to collect environmental parameters that enable artificial intelligence applications and the development of algorithms and data visualisation platforms/cloud dashboards.

TinyML TinyML represents the intersection between Machine Learning (ML) and the Internet of Things (IoT), involving the application of machine learning algorithms to embedded systems such as microcontrollers. The objective is to develop a TinyML application for condition monitoring, based on data collected by an ultrasonic microphone, with a focus on potential applications in the field of predictive maintenance for industrial machinery.

MyFastPCBA MyFASTPCBA is a project that develops an innovative and proprietary platform for managing assembled electronic prototypes (PCBA) via a fully integrated web-based interface. The project's evolution was to develop a module to extend the platform's back-office system to incorporate all the functionalities required by the process.

LAB-MES-3D The LAB-3D-MES project aims to test a new rapid technology prototyping technique developed for PCB printing using additive technology (with post-processing) and its potential integration within the MyFastPCBA platform.

Recent Innovation Initiatives Fuelled by R&D Activities

1 - Innovative Air Quality Monitoring System

FAE Technology has entered into a collaboration with the Massachusetts Institute of Technology - Sensible City Lab, resulting in the development of Flatburn. It is an innovative self-powered system powered by solar energy, designed for installation on vehicles. It monitors air quality, building energy efficiency, acoustic impact, and humidity levels.

On the back of this initiative, FAE Technology signed a partnership with INIT, a global leader in integrated IT solutions for public transport. This partnership marks the initiation of a preliminary industrial trial: FAE Technology will produce commercial-grade devices with the ultimate aim of scaling up future production.

Innovative Air Quality Monitoring System

Flatburn monitor various properties, including air quality, building energy efficiency, acoustic impact, and humidity levels

Massachusetts Institute of Technology

Source: Company presentation

2 – Electronic Board for Innovative Environmental Monitoring

In partnership with Finapp, FAE Technology has developed, engineered, prototyped, and manufactured the electronic boards for an innovative environmental monitoring probe. This cutting-edge device is designed to collect data for various crucial purposes, including optimizing agricultural irrigation to reduce water wastage, mitigating hydrogeological risks with innovative landslide warning systems, and mapping water distribution network leaks to enhance water resource management.

Electronic Board for Innovative Environmental Monitoring

This cutting-hedge device collects data for optimising agricultural irrigation

Finapp®

Source: Company presentation

3 – Air Quality Monitoring in Industries

FAE Technology, in partnership with Losma, is providing an integrated environmental sanitisation system. This device, equipped with a series of air quality detectors, enables continuous monitoring of pollution parameters across the production site.

The combination air purification/air pollution parameter detection system offers remote management capability and real-time data analysis. For 2024-26, FAE Technology is committed to its partnership with Losma and envisions further development to enhance environmental quality and industrial efficiency.

Air Quality Monitoring in Industries

This sanitisation system continuously monitors pollution parameters across the entire production site

LOSMA®
WORKING CLEAN, BREATHING HEALTHY

Source: Company presentation

4 – Smart Beverage Dispensing System

FAE Technology designed a Human Machine Interface and a control device for a global leading dispensing technology company. The product will be integrated into a smart beverage dispensing system to manage liquid valves and enable a modular configuration of the User Interface through different accessories (touch display, keypad controller). FAE Technology will supply these devices for 2024-26, supporting the client's innovation in the field of beverage dispensing technology.

Market: Growing on the edge to lead data appetite

FAE Technology has recently entered the edge computing space, also thanks to the Elettronica GF acquisition. According to a report by Markets and Markets, the industry is expected to grow from USD53.6bn in 2023 to USD111.3bn by 2028 (CAGR 15.7% 23-28). The growth is driven by the increasing use of IoT technology, complexity of analysis, and the necessity to process real-time data. On top of that, FAE's historical activity is rooted within the Electronic Manufacturing Service (EMS) market, an industry that entails a wide range of services ranging from PCB assembly to supply chain management. The Western European region, particularly Italy, is a key market focus, projected to experience a 3.6% CAGR in 2022-25 to Eu15.8bn. The company targets segments like Control & Industrial, Medical, and Automotive. The latter is expected to register higher growth going forward (CAGR 22-25 of 7%). Global mega-trends shaping the EMS sector include climate change, urbanisation, an aging population, and digital transformation. FAE Technology positions itself to align with these trends, anticipating growth and innovation within the dynamic end markets.

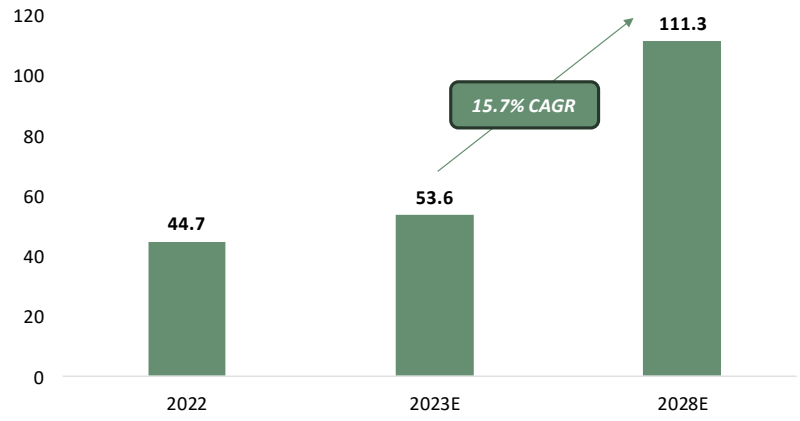
Edge computing market poised for 15.7% 23-28 CAGR

The edge computing market has witnessed significant growth, driven by the increasing demand for low-latency processing, real-time analytics, and the proliferation of Internet of Things (IoT) devices. Edge computing involves processing data closer to the source, reducing latency and enhancing the efficiency of applications and services across various industries. According to a report from Markets and Markets, the industry is expected to grow from USD53.6bn in 2023 to USD111.3bn by 2028 (CAGR 15.7% 23-28). The main drivers are:

1) IoT Appetite: The surge in IoT devices and applications demands efficient edge computing solutions for real-time data processing and decision-making.
2) 5G Rollout: The deployment of 5G networks enhances connectivity, enabling faster data transmission and supporting low-latency applications, driving the need for edge computing.
3) Demand for Low Latency: Applications requiring minimal latency, such as autonomous vehicles, virtual reality, and critical industrial processes, fuel the adoption of edge computing.
4) Industry 5.0 Initiatives: Manufacturing sectors are adopting Industry 4.0 principles, relying on edge computing for real-time monitoring, predictive maintenance, and process optimisation.

Global edge computing market (USDbn, 2022A-28E)

The market is expected to grow by 15.7% CAGR 2023-28, surpassing USD111bn.



Source: Markets and Markets

Electronic Manufacturing Service market: a pivotal sector in the embedded boards industry

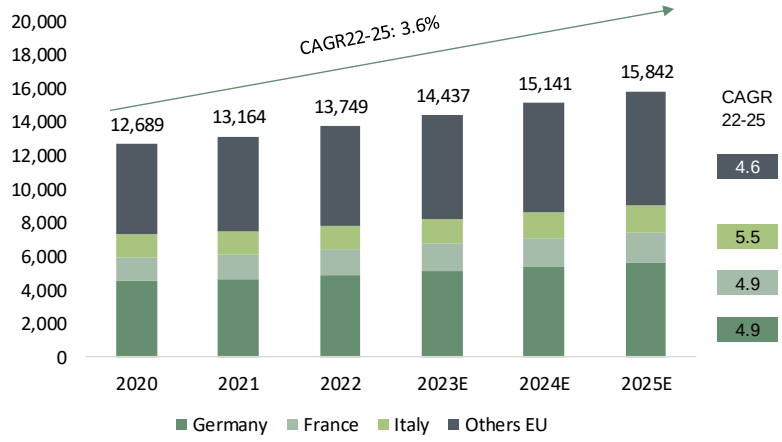
The Electronic Manufacturing Service (EMS) market is a pivotal sector within the global electronics industry, playing a critical role in the design, manufacturing, assembly, and testing of electronic components and devices for various industries. This sector encompasses a wide array of services, including printed circuit board (PCB) assembly, system integration, engineering design, supply chain management, and after-market services.

FAE Technology operates in the Electronic Manufacturing Services (EMS) market. In other words, this means the service of producing electronic components and assemblies for customers, especially for the industrial sector. This includes the whole range of order production, starting with materials procurement, through PCB assembly, to the creation and implementation of test concepts and qualification, to logistics and life-cycle services.

The market out there is huge and offers steady growth in the coming years. Considering the Western European region, the key reference macro area for the group, according to Reed Electronic Research, the market is anticipated to show a 3.6% CAGR in 2022-25, reaching over Eu15.8bn in 2025. More in detail, Italy, which accounted for more than 90% of FY22 revenues, is projected to report a 5.5% CAGR in 2022-25, representing approximately 11% of the total. It is the second-largest country in Europe after Germany.

Western Europe EMS market (Eu mn)

The market is anticipated to grow by 3.6% CAGR 2022-25. Italy represents the second country by value

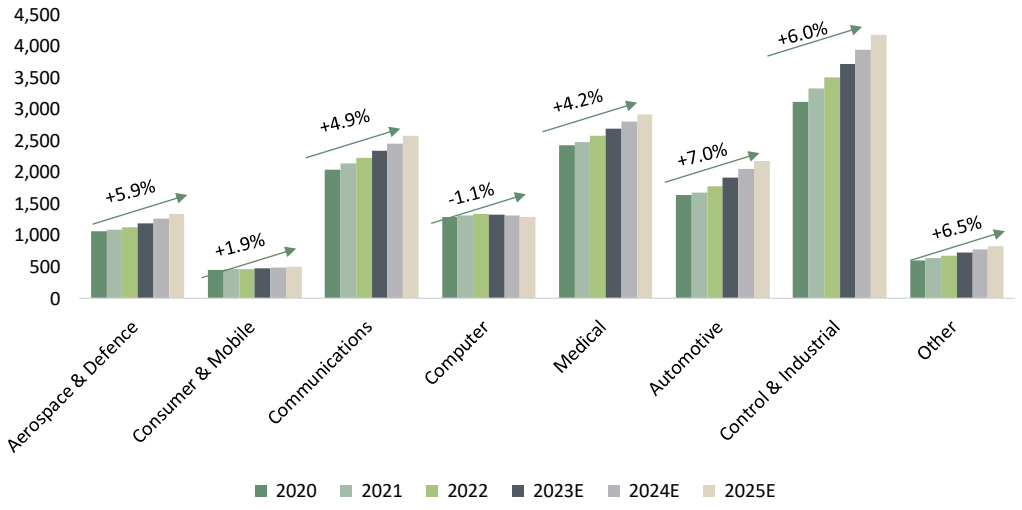


Source: ALANTRA estimates on Reed Electronic Research data

In terms of the end-market, the largest segment is Control & Industrial, totaling some 1/4 of the total, followed by Medical, Automotive, and Computer. The primary driver of the expected growth in 2022-25 is Automotive (46% of FAE Technology's FY22 sales, including EV Charging), followed by Control & Industrial. FAE Technology offers products and solutions to customers operating in almost all segments except for Computer and Consumer & Mobile, which represent only 14% of the total market and offer lower-than-average growth in the coming years.

West European EMS Market by Segment 2020-25

Mass volume sectors, i.e. Computer and Consumer & Mobile, account for only 14% of the total and they are not covered by FAE



Source: ALANTRA estimates on Reed Electronic Research data

Multiple megatrends underscore promising long-term prospects

A few global mega trends are anticipated to drive the sector's growth in the coming years. In particular:

- Climate Change – With the aim of reducing harmful emissions, many investments are being directed towards technology capable of developing and refining solutions that govern the key drivers of climate change. This involves tapping into a wave of innovation across all sectors, including water resources and sustainable food, sustainable construction, sustainable transport, renewables and electrification, recycling, and usage.

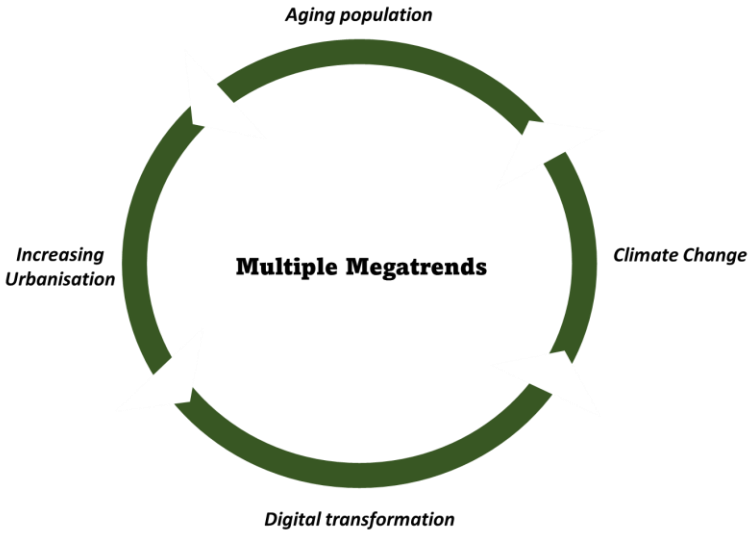
- Increasing Urbanisation – Today, some 56% of the world's population lives in cities. This trend is expected to continue, with the urban population more than doubling its current size by 2050. At that point, nearly 7 out of 10 people will live in cities. With more than 80% of global GDP generated in cities, urbanisation can contribute to sustainable growth through increased productivity and innovation if properly managed. 'Smart' urbanisation requires the management and monitoring of water, air, solid waste, mobility, traffic, infrastructure, and energy.

- Aging Population – Due to declining fertility rates and rising life expectancy, most countries are experiencing rising life expectancy and an ageing population. These trends first emerged in developed countries but are now seen in virtually all developing countries. This necessitates growing investments in technology with the aim of enabling and guaranteeing the safety and monitoring, care, and treatment of chronic diseases, as well as patient handling and transport systems.

- Digital Transformation - Involves the integration of digital technologies and solutions into every area of a business. This is a cultural change as much as a technological one, requiring companies to radically change the way of operating and offering customer experiences and benefits. This trend inevitably brings further development of wireless technology, Industry 4.0, robotics, A.I., security, and IoT.

Several megatrends underpin positive growth prospects in the reference market

Climate change, Aging population, Increasing Urbanisation and Digital transformation are bolstering the reference market



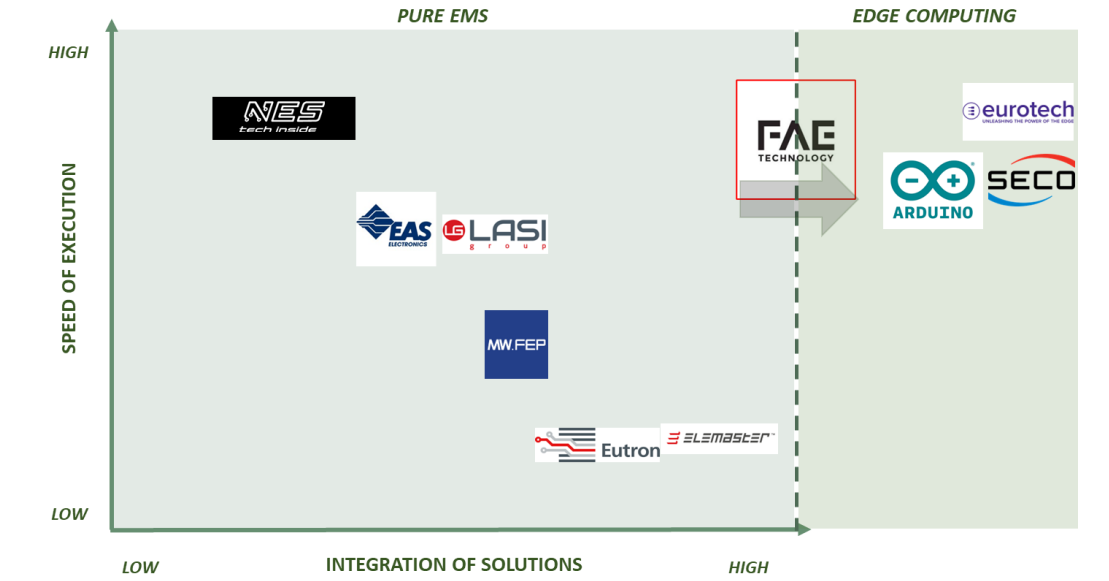
Source: Alantra

Competition: Unrivalled execution and edge solutions

FAE's distinctive attributes, contributing significantly to its differentiation amidst competitors, encompass a multitude of defining elements. These include: (i) An unparalleled swiftness in executing offers and revolutionizing processes and strategies. (ii) A comprehensive commitment to digitise every facet of its operations, striving to evolve into an exemplar smart factory. (iii) An enduring commitment to innovation ingrained within the very fabric of the company and its endeavours. (iv) A vibrant blend of youthful and seasoned management. These combined qualities converge to fortify FAE Technology's position as an industry leader, facilitating its sustained prominence and competitive edge within its market landscape. On top of that, the group has evolved from its roots as a traditional electronic manufacturing service provider to an edge computing solutions specialist, also thanks to the recent acquisition of Elettronica GF. This reflects a strategic shift towards embracing advanced technologies, addressing emerging market needs, and positioning itself for future growth. This move allows FAE to accelerate innovation, diversification, and response to the evolving demands of a technology-driven landscape.

Fast Execution, Highly Integrated solutions and edge computing capabilities

FAE Technology is able to provide customers the highest solution integration with the fastest execution vs. competitors



Source: Alantra, Company presentation

Entering the competitive arena of Edge computing…

The group, which has its historical roots in electronic manufacturing services, is in the process of evolving into a provider of edge computing solutions. This transition reflects a commitment to delivering sophisticated solutions that align with market demands and offer enhanced value to clients. Indeed, the strategic shift towards specialising in edge computing solutions signifies an elevation in product complexity, which comes with higher R&D effort and a broader range of value-added services with higher associated profit margins. This step commands a remapping of the competitive landscape with main competitors being mainly larger groups active in edge computing services (Arduino, Eurotech, Seco, etc.).

…while confirming to be at the forefront of the EMS industry

FAE Technology competes with pure EMS players that provide services related to the production of embedded boards. The competitive arena is populated by diversified large players, with the embedded board business being a minor part of their core activities (Seco, Eurotech, etc.) and embedded board specialists like FAE Technology. Within the latter cluster, we have selected some of the main players in Italy.

Despite being relatively small compared to its peers in terms of revenues (average FY22 sales of the samples stood at approximately Eu90mn), FAE Technology boasts above-average EBITDA and net profit margins. Moreover, in the last two years, FAE Technology has been able to grow above the average of its peers across the board.

Main figures of Italian EMS specialists

FAE Technology boasts above-average EBITDA and net profit margins and CAGR 20-22 across the board vs other EMS specialists

							CAGR 20-22		
Company	Sales	EBITDA	%Margin	Net Profit	%Margin	Net Debt/EBITDA	Sales	EBITDA	Net Profit
FAE Technology	39.4	3.9	9.9%	2.1	5.4%	0.9x	62%	116%	165%
Elemaster	327.7	24.7	7.5%	11.7	3.6%	0.8x	17%	20%	8%
MV.FEP	94.4	4.6	4.8%	0.3	0.3%	4.0x	19%	295%	nm
Eutron	60.5	1.6	2.7%	5.8	9.6%	Cash	28%	48%	349%
LASI Group	49.7	1.8	3.7%	(0.1)	-0.2%	8.3x	19%	nm	nm
EAS Electronic	48.0	6.7	14.0%	4.2	8.7%	1.2x	40%	92%	79%
Net Electronic SMT	10.5	1.5	14.5%	0.8	7.3%	Cash	7%	nm	nm
Average			**5.9%**		**3.4%**	**3.0x**	**26%**	**114%**	**142%**
Median			**6.2%**		**4.5%**	**1.2x**	**19%**	**104%**	**106%**

Sources: Alantra, AIDA

The risk of new competitors entering the market is considered low as the level of investment needed to compete in the industry is substantial, and a high level of technological know-how is also required to develop products. In the Electronic Manufacturing Services (EMS) sector, there are several barriers to entry that can limit access for new competitors:

- **Investments in Technology and Equipment:** EMS requires a sophisticated and expensive technological infrastructure, including specialised machinery, advanced production tools, and management software. High initial costs can discourage new entrants.

- **Specialised Skills**: The need for highly qualified personnel in engineering, production, and supply chain management poses a challenge for new companies that must invest time and resources in training and acquiring expertise.

- **Supplier and Supply Chain Relationships**: Established relationships with reliable suppliers and a solid supply chain are difficult to build and require time. Companies already in the sector may benefit from established relationships that can be challenging for new entrants to replicate.

- **Certifications and Quality Standards**: Adherence to quality standards, compliance certifications, and regulatory requirements are essential in the EMS sector. Obtaining these certifications requires time and significant investments.

- **Economies of Scale:** Economies of scale can provide a significant competitive advantage in the EMS sector. Existing companies with higher production volumes may benefit from lower unit costs compared to new entrants.

- **Long-Term Contract Agreements**: Established relationships with customers through long-term contracts can make it difficult for new competitors to establish a solid customer base.

- **Intellectual Property and Specialised Knowledge**: Established companies in the sector may have extensive technological knowledge and intellectual property, making it difficult for new entrants to compete on this basis.

In summary, barriers to entry in the EMS sector are significant and require substantial commitments in terms of financial, technological investments, and human resources to overcome them and effectively compete in the market.

Porter's Five Forces

When applied to Edge Computing and the Electronic Manufacturing Service (EMS) markets, Porter's Five Forces analysis offers insights into the forces shaping the industry landscape. In Edge Computing, entry barriers vary with the industry's fast pace, allowing for innovation. On the other hand, the EMS market faces high entry barriers due to significant capital requirements and specialised knowledge. Buyer power in Edge Computing fluctuates based on factors like alternative solutions, while EMS buyers, typically OEMs, hold moderate to high power. In terms of supplier power, Edge Computing suppliers' influence varies, while EMS depends on stable supply chains with moderate to high supplier power. Edge Computing faces threats from alternative technologies, and EMS providers counter substitutes through specialisation. Competitive intensity is influenced by technological innovation and new entrants in Edge Computing, while EMS is highly competitive, requiring differentiation strategies.

For an EMS player entering Edge Computing, success involves acquiring edge technology expertise, forming strategic alliances, potentially integrating vertically, offering customisation flexibility, optimising the supply chain, prioritising quality and reliability, addressing data security, communicating integration strengths, investing in R&D, and early client engagement. This strategic approach aims to establish a competitive presence in the dynamic Edge Computing market.

Threat of New Entrants:

In the rapidly evolving landscape of Edge Computing, the threat of new entrants is characterised by a dynamic interplay of technological expertise and innovation. Essential skills in computing, networking, and software development form the foundation for potential entrants, allowing them to introduce novel solutions. The fast-paced nature of the technology industry facilitates the integration of innovative ideas; however, as the market matures, barriers to entry are expected to heighten. The increasing complexity and specialisation required could potentially deter new players from entering the market.

Contrastingly, the market for Electronics Manufacturing Services (EMS) presents formidable barriers to entry, creating a distinct landscape. High capital requirements, specialised knowledge, and the necessity for well-established relationships with suppliers pose substantial challenges. Often dominated by large, established companies with extensive manufacturing capabilities, the EMS market safeguards itself against the influx of new entrants, ensuring a select group of players dominate the industry.

Bargaining Power of Buyers:

In the realm of Edge Computing, the bargaining power of buyers varies significantly based on factors such as the diversity of available solutions, standardisation, and ease of integration. Enterprises seeking edge computing solutions wield differing levels of power, with their influence influenced by the extent to which alternative solutions are readily available and the ease with which those solutions can be integrated into existing infrastructure.

Conversely, in the EMS sector, where original equipment manufacturers (OEMs) serve as the primary buyers, their bargaining power hinges on factors like company size and the ease with which they can switch between different EMS providers. Price sensitivity and the availability of alternative suppliers significantly influence the extent of buyer power in this market.

Bargaining Power of Suppliers:

Within the Edge Computing market, suppliers, encompassing hardware manufacturers, software developers, and connectivity providers, exert varying degrees of bargaining power. The significance of specific technologies, the uniqueness of components, and the availability of alternative suppliers contribute to the dynamics of supplier power. The stability of the supply chain becomes paramount for Edge Computing providers, with any disruptions potentially impacting their operations.

In the EMS sector, the suppliers of electronic components wield moderate to high bargaining power, particularly when critical components have limited sources. The interdependence between EMS providers and their suppliers underscores the necessity for a stable supply chain, making any disruptions a potential threat to seamless operations.

Threat of Substitute Products or Services:

In the ever-evolving landscape of Edge Computing, the threat of substitutes looms in the form of alternative technologies or approaches addressing computational challenges. This threat intensifies with the emergence of new technologies capable of reshaping the entire market landscape. As such, adaptability and continuous innovation become critical for Edge Computing providers to mitigate the threat posed by substitutes.

Similarly, in the EMS market, threats of substitutes emerge from alternative manufacturing solutions or the potential for original equipment manufacturers (OEMs) to opt for in-house production. However, EMS providers counteract this threat by offering specialised services and cost-effective solutions, thereby limiting the attractiveness of substitutes.

Intensity of Competitive Rivalry:

For Edge Computing, the intensity of competitive rivalry is contingent on the pace of technological innovation and the influx of new market players. As the market evolves, competition may escalate, especially if there are low barriers to entry and a surge in demand for innovative solutions. This dynamism necessitates adaptability and a keen focus on differentiation strategies for companies to assert their competitive advantage.

In the EMS sector, the competitive landscape is highly intense, featuring global and regional players vying for market share based on factors such as cost, quality, and flexibility. Differentiation strategies become indispensable for companies to carve out a distinctive identity and establish a competitive edge in the fiercely contested EMS market.

SWOT

The company thrives on R&D investments, offering innovative digital services like "My Fast PCBA" and leveraging a robust supply chain for swift execution. Yet, high personnel costs and cash absorption during expansion pose challenges. Future prospects involve enhancing digital services, exploring new markets, and potential mergers for a competitive advantage. However, rising raw material costs and supply chain disruptions amid global uncertainty are looming threats.

Strengths

The company excels in its substantial investment in R&D, leading to distinctive innovations. The provision of innovative digital services, such as "My Fast PCBA," enables the fulfillment of customer needs. Additionally, the company's well-established supply chain, cultivated over years in the sector, enables faster execution compared to market averages. Moreover, the company has honed its ability to attract talent within its geographical district over time.

Weaknesses

One prominent aspect involves elevated personnel expenses compared to Asian rivals, alongside the ongoing expansion phase causing substantial cash absorption. In addition, the company presents a rather concentrated customer base.

Opportunities

Future opportunities lie in further developing high-value digital services and expanding into untapped market niches. Exploring acquisition and merger opportunities with other industry players could consolidate the company's competitive position. Additionally, the "My Fast PCBA" platform offers room for scalable services with high added value.

Threats

Potential threats involve possible increases in raw material costs due to macroeconomic factors and possible supply chain disruptions amid ongoing international uncertainty.

Strategy: Evolution towards Cloud & AI Integration

FAE Electronics aims to sustain growth by prioritising customer loyalty, market expansion, and increasing market share. Strategies involve leveraging strengths, resources, and innovation while emphasising continuous evaluation and adaptation in the EMS industry. The acquisition of Elettronica GF aligns with FAE's strategy, creating a comprehensive entity covering sensors and edge computing. FAE's evolution from local electronics to edge computing signifies a shift towards system integration, enhancing profitability. Future steps may involve entering the cloud, AI, and big data markets through external growth for larger market access and higher returns, considering estimated market growth projections. As with Elettronica GF, the most appropriate and effective way to gain a foothold in this market is through external growth. Transitioning in EMS from edge computing to cloud services, AI, and big data offers growth avenues and competitiveness, necessitating a strategic approach and tech investment. Benefits encompass innovation, industry adaptation, efficiency gains, a competitive edge, and customer-centricity. Challenges involve skill acquisition, data security, privacy compliance, and operational integration complexities. Strategic planning is vital for successful adoption.

Field, edge computing and a possible expansion to cloud/AI/big data

FAE intends to continue its development and growth strategy, with the aim of retaining customer loyalty, expanding the customer base, as well as consolidating and increasing in the coming years the market share held in the sectors representing its core business. The most effective strategy will depend on its unique strengths, market positioning, available resources, and long-term goals. Continuous evaluation, adaptation, and innovation are key to staying relevant and successful in the dynamic EMS industry. In detail:

- Innovation and R&D Focus: Emphasise continuous innovation and invest significantly in R&D to stay ahead in technology, enabling the development of cutting-edge products and services. This aims to become a champion in the CyberFactory field both in terms of production and simulation software and in terms of equipment and systems. Keep up with technological advancements and trends such as IoT, AI, and automation to offer advanced and competitive services.

- Agility and Flexibility: Maintain flexibility in operations to adapt swiftly to market changes, customer demands, and technological advancements. This includes agile manufacturing processes and adaptable supply chains.

- Quality Assurance and Compliance: Ensure stringent quality control measures and compliance with industry standards and regulations to build trust and reliability among clients.

- Cost Efficiency and Optimisation: Streamline operations to reduce costs without compromising quality. This can involve efficient supply chain management, optimizing manufacturing processes, and exploring cost-effective sourcing strategies.

- Customer-Centric Approach: Focus on understanding and meeting customer needs promptly. Offer personalised solutions, excellent customer service, and quick response times.

- Diversification and Niche Focus: Explore diversification into related industries or focus on specific niches within the EMS sector to differentiate offerings and expand market reach.

- Partnerships and Collaborations: Forge strategic partnerships or collaborations with complementary businesses, suppliers, or technology providers to enhance capabilities and market presence.

- Sustainability and Green Initiatives: Incorporate environmentally friendly practices and technologies to align with growing environmental concerns and regulations.

- Global Presence and Market Expansion: Consider expanding into emerging markets or regions where demand for electronics manufacturing services is growing.

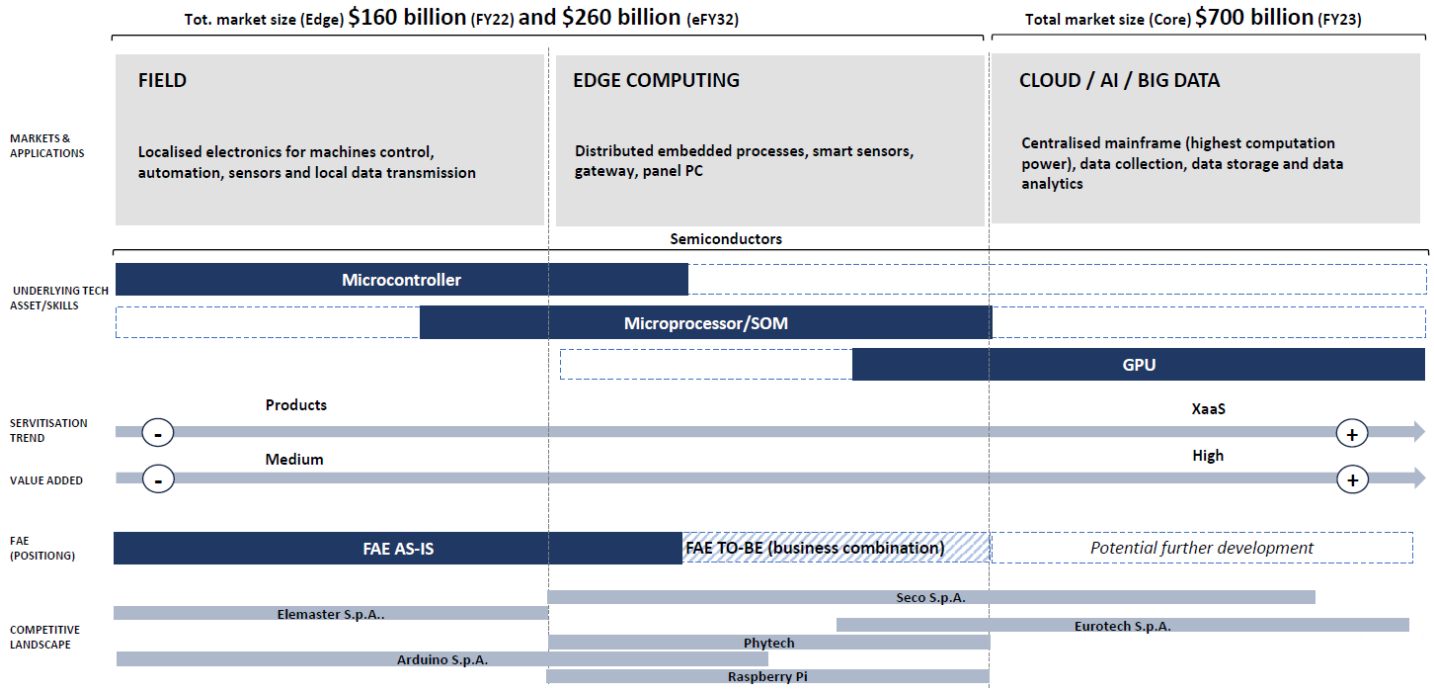
The acquisition of Elettronica GF aligns with FAE Technology's strategy and sets the stage for future advancements. This merger creates a comprehensive entity covering the entire value chain: specialising in field sensors and edge computing solutions for data processing. These areas rely on custom solutions rather than traditional computers, which FAE now prioritises ownership as part of its value proposition. EGF holds substantial untapped potential for growth and value creation. Notably, the combined entity aims to maximise its integrated structure to develop advanced edge products and solutions.

The following chart clearly explains the development path undertaken by FAE Technology. Starting as a player operating in the field, i.e. localised electronics for machines control, automation, sensors, and local data transmission segment, now FAE Technologies is also present in the edge computing, that is to say distributed embedded processes, smart sensors, gateway, and panel PC segment. In terms of underlying technology, the presence means the move from microcontrollers to also microprocessors and SOM, i.e. system on a module is a board-level circuit that integrates a system function in a single module. This implies a higher servitisation, moving from products to services and consequently more generous profitability and returns.

The next possible further step goes in the direction of cloud, AI, and big data; this implies access to centralised mainframe granting higher computation capabilities, data collection, storage, and analytics. Also in this case, as was done with Elettronica GF, the most appropriate and effective way to get a foothold in this market is to enter through external growth. The market size is larger as well as the underlying growth and the returns on capital here. The field and the edge computing segments are anticipated to increase from USD160bn to USD260bn in 2032 (5.0% CAGR), according to Global Market Insight projections. The cloud, AI, and big data segment is estimated at USD700bn in 2023.

The Elettronica GF acquisition allows valuable upstream integration in the edge computing and paves the way for future developments

Combined entity's positioning, addressable market and further future opportunities



Source: Company Presentation based on Global Market Insight end Fortune Business Inside data

Overall, the strategic move from edge computing to cloud services and to AI and big data presents significant opportunities for growth, innovation, and staying competitive in the EMS sector. However, it requires a well-thought-out strategy, investment in technology, and a focus on mitigating associated challenges. This shift offers several advantages for a company operating in the EMS sector. In detail:

- **Diversification and Innovation:** Transitioning toward edge computing, cloud services, AI, and big data demonstrates a commitment to innovation and diversification. This move allows for the exploration of new revenue streams and markets beyond traditional manufacturing.

- **Meeting Industry Demands:** Edge computing, cloud services, and AI are integral to the evolving landscape of electronics manufacturing. They enable efficient data processing, real-time analytics, predictive maintenance, and smart manufacturing solutions, meeting the demands of modern electronic devices and systems.

- **Enhanced Efficiency and Scalability:** Leveraging cloud services and big data analytics can improve operational efficiency, streamline processes, and facilitate scalability. It allows for the handling of vast amounts of data, optimising production, supply chain management, and decision-making.

- **Competitive Advantage:** Investing in these technologies can provide a competitive edge by offering more advanced and comprehensive services to clients. Companies can provide end-to-end solutions, including IoT integration, data analytics, and AI-driven insights, setting themselves apart in the market.

- **Customer-Centric Approach:** Edge computing and cloud services allow for the delivery of real-time, personalised experiences to end-users. This shift can align with the increasing demand for customised electronic products and services in various industries.

On the other hand, this strategic shift also comes with its own set of challenges that have to be managed. Adopting edge computing, cloud services, and AI requires a skilled workforce and specialised expertise. Companies might need to invest in training or hiring professionals with these skill sets. Moreover, handling large volumes of data through cloud services and AI entails significant responsibilities regarding data security and privacy. Ensuring compliance with regulations and implementing robust security measures is crucial. Integrating edge computing, cloud services, and AI seamlessly into existing operations can be complex. It might require a phased approach, careful planning, and potentially, changes in infrastructure.

Recent Results: FY22 and 1H23

FAE Technology's latest figures depict a conscientious and smart approach to cost control, resulting in a notable market share expansion while maintaining a consistent level of profitability. Despite facing significant inflationary pressures, the company effectively mitigated the sharp escalation in raw material expenses, enabling robust revenue growth with only a slight reduction in margins. This showcases the company's resilience in navigating challenging economic conditions while sustaining its competitive position and financial strength.

FY22: tremendous growth and rather resilient margins in a heavy inflationary context

In 2022, revenues reached Eu39.4mn, reporting a significant 64.4% increase from Eu24.0mn in 2021. 95% of revenues came from the Solutions business line, totalling Eu37.4mn. Specifically, Eu36.7mn stems from Production activities, Eu0.5mn from Prototyping, and Eu0.1mn from Engineering. The Online Solutions/My Fast PCBA business line accounted for Eu2.0mn, constituting 5% of the total revenues, a noticeable rise from Eu1.1mn in 2021.

The Value of Production amounted to Eu40.3mn, marking a substantial 63.9% increase from Eu24.6mn recorded in 2021. This value includes Revenue for Eu39.4mn, Inventory Changes for Eu0.5mn, and Other Revenues and Gains for Eu0.4mn, which, apart from other revenues, incorporate an increase in fixed assets due to internal works amounting to Eu0.2mn.

FY22 results experienced a significant top line progression, driven by the Solution business line

Revenues soared by 64.4% YoY, with the bulk of the progression represented by the Production segment of the Solution business line

Eu mn	FY22	FY21	% YoY
Solutions	**37.4**	**22.7**	***64.5***
Production	36.8	22.2	*65.6*
Prototyping	0.5	0.4	*40.1*
Engineering	0.1	0.2	*(24.4)*
Online Solutions / My Fast PBCA	**2.0**	**1.1**	***80.6***
Prototyping	2.0	1.1	*80.6*
Other Revenues	**0.1**	**0.2**	***(50.6)***
POC	0.1	0.1	*(48.6)*
Services	0.0	0.0	*(60.0)*
Other products	0.0	0.0	*nm*
Revenues	**39.4**	**24.0**	***64.4***

% on total	FY22	FY21
Solutions	***94.8***	***94.8***
Production	*93.2*	*92.6*
Prototyping	*1.3*	*1.5*
Engineering	*0.3*	*0.7*
Online Solutions / My Fast PBCA	***5.0***	***4.5***
Prototyping	*5.0*	*4.5*
Other Revenues	***0.2***	***0.7***
POC	*0.2*	*0.6*
Services	*0.0*	*0.1*
Other products	*0.0*	*0.0*
Revenues	***100.0***	***100.0***

Source: Company Data

In 2022, EBITDA experienced a 52.5% increase compared to the 2021 period, climbing from Eu2.6mn to Eu3.9mn. The rise in raw material costs was influenced by macroeconomic trends, yet the impact was alleviated by a more substantial contribution from the Solutions and Online Solutions business lines in the revenue mix compared to the previous period. Further, collaborative measures were taken with clients to offset the burden of increased costs. Despite the revenue increase, the relative rise in raw material costs concerning the Production Value was contained, moving from 60.5% in FY21 to 67.7% in FY22.

While efficiently managing other cost components, the company further contained the impact on the EBITDA Margin, which stood at 9.7%, down from 10.5% in FY21. Additionally, in 2022, the company made strategic decisions that were less profitable in the short term. This was because these decisions required time for development and a strong commercial effort to overcome market obstacles, with the expectation of higher profits in the future. This strategic choice is deemed essential to position FAE Technology as a market leader in high-potential markets. EBIT stood at Eu3.1mn, marking a 50.4% increase from Eu2.1mn in FY21. EBIT margin improved from 7.8% to 8.5%.

FY22 EBITDA margin decreased only marginally YoY despite the strong top line surge and the strong inflationary environment

The increase of Raw Materials stemming from the highly inflationary environment, was almost entirely offset by a decline in Services and a tight cost management

Eu mn	FY22	FY21	% YoY
Net revenues	39.4	24.0	*64.4*
Value of Production	**40.3**	**24.6**	***63.9***
Raw Materials	(27.3)	(14.9)	*83.5*
Services	(4.5)	(2.9)	*53.6*
Personnel Costs	(4.3)	(3.8)	*13.1*
Rents	(0.2)	(0.3)	*(40.4)*
Other Operating Costs	(0.1)	(0.1)	*50.0*
EBITDA	**3.9**	**2.6**	***52.5***
% margin	*9.7*	*10.5*	

Eu mn	FY22	FY21	% YoY
D&A	(0.8)	(0.5)	*61.8*
EBIT	**3.1**	**2.1**	***50.4***
% margin	*7.8*	*8.5*	
Net financial income (costs)	(0.2)	(0.1)	
Pre Tax Profit	**2.9**	**1.9**	***50.7***
Taxes	(0.8)	(0.5)	
Tax Rate	*27.6%*	*25.0%*	
Net Profit	**2.1**	**1.5**	
% margin	*5.2*	*5.9*	***45.5***

Source: Company Data

Net Financial Position improved to Eu3.5mn, from Eu4.6mn in 2021. This reduction was driven by the combined effect of an increase in non-current debt (related to both investment support and restructuring of the debt timeline, with a greater weight of long term debt) and the fresh resources resulting from the listing on the EGM.

NFP improved also thanks the right issue linked to the EGM listing

The fresh resources stemming from the listing on the EGM contributed to improve the year-end NFP

Eu mn	FY22	FY21	% YoY
Fixed Assets	5.4	2.9	*88.4*
Working Capital	9.6	6.1	*57.4*
o/w Trade Working Capital	7.9	7.1	*11.6*
Funds	(0.8)	(0.7)	*9.0*
Invested Capital	**14.3**	**8.3**	***72.6***
Cash and Cash Equivalents	(3.3)	(0.3)	*nm*
Short Term Debt	2.3	3.0	*(22.6)*
Long Term Debt	4.5	2.0	*129.7*
Net Financial Position debt/(cash)	**3.5**	**4.6**	***(24.4)***
Shareholder Equity	10.8	3.6	*196.1*
Capital Employed	**14.3**	**8.3**	***72.5***

Eu mn	FY22	FY21
Capex	3.3	0.6
NFP/EBITDA x	0.89	1.80
NFP/Shareholder Equity x	0.33	1.27
Short Term Debt	*34%*	*61%*
Long Term Debt	*66%*	*39%*
Net Debt	***100%***	***100%***

Source: Company Data

1H23 showed revenues up by 57% YoY and EBITDA margin at 10.2%

1H23 Value of Production totalled Eu29.5m, up 62.8% YoY from Eu18.1mn in 1H22. Top line comprises Revenues for Eu27.3mn, Inventory Changes for Eu1.8mn, and Other Revenues and Gains for Eu0.3mn, including an increase in fixed assets due to internal work amounting to Eu0.1mn capitalised from R&D department. This substantial revenue surge was primarily driven by the Solutions business line encompassing Engineering, Prototyping, and Production activities and representing more than 96% of group top line.

Interim results experienced a massive growth in top line, drive by the Solution business line

Revenues soared by 57% YoY, with the bulk of the progression represented by the Production segment of the Solution business line

Eu mn	1H23	1H22	% YoY
Solutions	**26.2**	**16.8**	***56.6***
Production	26.1	16.5	*58.0*
Prototyping	0.0	0.1	*nm*
Engineering	0.1	0.1	*24.4*
Online Solutions / My Fast PBCA	**1.1**	**0.6**	***74.4***
Prototyping	1.1	0.6	*74.4*
Other Revenues	**0.0**	**0.0**	***(39.5)***
POC	0.0	0.0	*(51.4)*
Services	0.0	0.0	*33.3*
Other products	0.0	0.0	*nm*
Revenues	**27.3**	**17.4**	***57.0***

% on total	1H23	1H22
Solutions	***96.1***	***96.3***
Production	*95.7*	*95.1*
Prototyping	*0.0*	*0.8*
Engineering	*0.4*	*0.4*
Online Solutions / My Fast PBCA	***3.9***	***3.5***
Prototyping	*3.9*	*3.5*
Other Revenues	***0.1***	***0.2***
POC	*0.1*	*0.2*
Services	*0.0*	*0.0*
Other products	*0.0*	*0.0*
Revenues	***100.0***	***100.0***

Source: Company Data

EBITDA came in at Eu3.0mn, up by 63.8% from Eu1.8mn in 1H22. EBITDA margin remained unchanged at 10.2%. The increase in raw materials, rising from 65.6% in 1H22 to 67.6% in 1H23, is attributed to the highly inflationary macroeconomic environment and production mix. However, this increase was entirely offset by a decrease in the percentage of service costs from 12.0% to 10.8% and overall economies of scale in structural costs due to increased sales volumes alongside disciplined cost management. EBIT amounted to Eu2.5mn, marking a 55.2% increase from Eu1.6mn reported for the comparable period in the previous fiscal year. The EBIT margin experienced a slight decline from 8.8% in 1H22 to 8.4% in 1H23. This marginal decrease is attributed to increased investment intensity and a subsequent rise in amortizations, supporting production capacity in line with revenue growth.

1H23 EBITDA margin unchanged YoY despite the strong top line surge

The increase of Raw Materials attributed to the highly inflationary environment, was entirely offset by a decline in Services and a tight cost management

Eu mn	1H23	1H22	% YoY
Net revenues	27.3	17.4	*57.0*
Value of Production	**29.5**	**18.1**	***62.8***
Raw Materials	(19.9)	(11.9)	*67.7*
Services	(3.2)	(2.2)	*46.0*
Personnel Costs	(3.0)	(2.0)	*49.8*
Rents	(0.3)	(0.2)	*54.0*
Other Operating Costs	(0.1)	(0.0)	*158.6*
EBITDA	**3.0**	**1.8**	***63.8***
% margin	*10.2*	*10.2*	

Eu mn	1H23	1H22	% YoY
D&A	(0.5)	(0.2)	*120.4*
EBIT	**2.5**	**1.6**	***55.2***
% margin	*8.4*	*8.8*	
Net financial income (costs)	(0.2)	(0.1)	
Pre Tax Profit	**2.3**	**1.5**	***55.4***
Taxes	(0.7)	(0.4)	
Tax Rate	*28.5%*	*29.1%*	
Net Profit	**1.7**	**1.1**	
% margin	*5.7*	*5.9*	***56.7***

Source: Company Data

Working Capital reached Eu11.9mn, an increase from Eu9.6mn in the previous year. This growth was primarily driven by higher non-trade payables (net of non-trade debts) which rose from Eu2.2mn to Eu4.7mn, mainly associated with a VAT credit of Eu0.3mn. Trade Working Capital amounted to Eu8.5mn, showing a slight increase compared to Eu7.9mn recorded on December 31, 2022. This upturn is attributed to higher inventory levels, partially counterbalanced by the increase in trade payables due to the overall rise in the value of production. Trade receivables remained steady owing to ongoing efforts aimed at optimizing working capital.

Net Financial Position increased to Eu5.8mn, from Eu3.5mn on December 31, 2022. This increase primarily stems from a decline in available liquid assets, which were utilized to support the cash absorption linked to revenue growth. Additionally, a new medium-to-long-term financing of Eu1.0mn was secured in June to partially fund a new production line, contributing to this rise in indebtedness.

Capex dedicated to a new production line drove the increase in NFP

Despite the massive top line growth, trade working capital remained tight under control

Eu mn	1H23	FY22	% YoY
Fixed Assets	7.0	5.4	*29.2*
Working Capital	11.9	9.6	*24.3*
o/w Trade Working Capital	8.5	7.9	*6.8*
Funds	(0.8)	(0.8)	*(2.6)*
Invested Capital	**18.2**	**14.3**	***27.7***
Cash and Cash Equivalents	(1.5)	(3.3)	*(53.6)*
Short Term Debt	2.5	2.3	*7.7*
Long Term Debt	4.8	4.5	*6.8*
Net Financial Position debt/(cash)	**5.8**	**3.5**	***65.0***
Shareholder Equity	12.4	10.8	*15.5*
Capital Employed	**18.2**	**14.3**	***27.7***

Eu mn	1H23	FY22
Capex	4.4	3.3
NFP/EBITDA x	1.91	0.89
NFP/Shareholder Equity x	0.46	0.33
Short Term Debt	*34%*	*34%*
Long Term Debt	*66%*	*66%*
Net Debt	***100%***	***100%***

Source: Company Data

Estimates

In 2022, the company adeptly navigated supply chain challenges and rising raw material costs, maintaining robust revenue growth while experiencing minor margin adjustments. FAE Technology's competitive advantage is underscored by its adaptability, strong digitisation drive, commitment of innovation, and a well-balanced management team. Foreseeing a remarkable 37.5% revenue CAGR in 2022/25, driven by organic expansion and the integration of Elettronica GF, particularly bolstering the Solutions division. This accelerated growth trajectory, outstripping market progression, anticipates substantial EBITDA improvement, reaching Eu12.4mn in 2025, with a 12.0% margin, despite expected incremental personnel costs aligned with reinforced operational structures to match the upward revenue trajectory.

Sales $CAGR_{22-25}$ of 37.5%: a combination of organic growth and the consolidation of EGF

In 2022, a distinctive year unfolded, marked by challenges such as supply chain constraints and mounting pressure on raw materials. Despite these hurdles, the company adeptly managed the significant surge in raw material expenses, ensuring substantial revenue growth while experiencing only a marginal dip in margins. This accomplishment underscores the company's resilience in not just weathering difficult economic conditions but also maintaining its competitive edge and financial robustness throughout these demanding times.

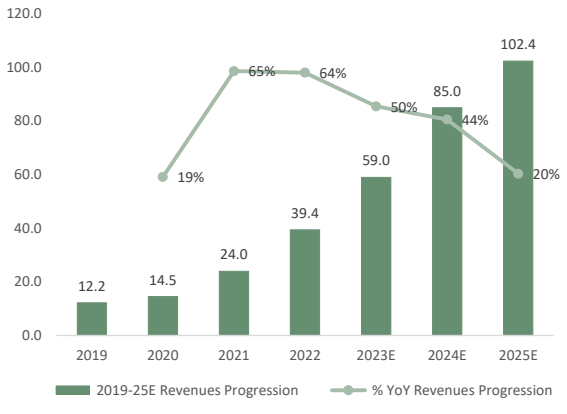
FAE differentiates amidst competitors thanks to: 1) an unparalleled swiftness in executing offers and revolutionising processes and strategies, 2) a comprehensive commitment to digitise every facet of its operations, 3) an enduring commitment to innovation, and 4) a vibrant blend of youthful and seasoned management. The combination of these attributes strengthens FAE Technology's position as an industry leader, enabling the group to surpass the reference market's growth.

We expect revenues to show a 37.5% CAGR from 2022 to 2025, reaching Eu102.4mn in 2025. This is a combination of organic growth and the consolidation as of 2024 of Elettronica GF, with a contribution of Eu10.9mn in 2024, assuming its consolidation as of 1-Jan. This massive revenue progression, much more pronounced compared to the market growth, is anticipated to be primarily driven by the Solutions business line encompassing Engineering, Prototyping, and Production activities and representing some 96% of group top line in 2025.

Strong top line growth expected in 2022-25, driven by organic improvements and by the consolidation of Elettronica GF

Revenues are anticipated to show a 38.1% CAGR in 2022-25

Eu mn	FY21A	FY22A	FY23E	FY24E	FY25E	CAGR
Solutions	**22.7**	**37.4**	**56.0**	**70.5**	**98.4**	***38.1***
Production	22.2	36.8	55.1	69.5	97.3	*38.3*
Prototyping	0.4	0.5	0.7	0.9	1.0	*25.6*
Engineering	0.2	0.1	0.1	0.1	0.1	*3.6*
Online Solutions / My Fast PBCA	**1.1**	**2.0**	**2.9**	**3.5**	**3.9**	***25.6***
Prototyping	1.1	2.0	2.9	3.5	3.9	*25.6*
Other Revenues	**0.2**	**0.1**	**0.1**	**0.1**	**0.1**	***9.3***
POC	0.1	0.1	0.1	0.1	0.1	*10.0*
Services	0.0	0.0	0.0	0.0	0.0	*5.0*
Other products	0.0	0.0	0.0	0.0	0.0	-
Revenues	**24.0**	**39.4**	**59.0**	**74.1**	**102.4**	***37.5***



Sources: Company Data, Alantra

EBITDA margin should benefit from scale and the contribution of EGF acquisition

The disruption in the supply chain and the mounting pressure on raw materials experienced in 2022 are anticipated to ease as of 2023. FAE Technology's cost structure, primarily represented by variable costs constituting more than 86% of total costs, allows, to a certain extent, the operating leverage effect stemming from higher volumes. In addition, the consolidation of Elettronica GF adds technological know-how thanks to its expertise in products with higher computing capabilities, enlarging the offering with higher-performing boards capable of managing and analysing data on the edge. On top of that, EGF brings software development skills, enabling the provision of not only components but also integrated solutions.

As a combined result, we project EBITDA to improve from Eu3.9mn to Eu12.4mn in 2022-25, with the margin increasing from 9.7% to 12.0% in 2025. The decline of Raw Materials as a percentage of sales is anticipated to be partially offset by a certain increase in Personnel costs as a result of a reinforcement of the operating structure linked to solid revenue progression in the period.

EBITDA margin to expand from 9.7% to 12.0%

Margin expansion is driven by a certain operating leverage and the consolidation of Elettronica GF

Eu mn	FY21A	FY22A	FY23E	FY24E	FY25E	CAGR
Net revenues	**24.0**	**39.4**	**59.0**	**85.0**	**102.4**	***37.5***
Value of Production	**24.6**	**40.3**	**59.9**	**85.9**	**103.2**	***36.8***
Raw Materials	(14.9)	(27.3)	(38.3)	(55.0)	(66.1)	
Services	(2.9)	(4.5)	(6.5)	(8.8)	(10.8)	
Personnel Costs	(3.8)	(4.3)	(6.6)	(9.0)	(10.8)	
Rents	(0.3)	(0.2)	(0.3)	(0.4)	(0.5)	
Other Operating Costs	(0.1)	(0.1)	(1.8)	(2.6)	(2.6)	
EBITDA	**2.6**	**3.9**	**6.4**	**10.1**	**12.4**	***46.8***
% margin	*10.5*	*9.7*	*10.7*	*11.8*	*12.0*	

Source: Company Data, Alantra

EBIT and Net Profit to grow to Eu10.5mn and Eu7.5mn, respectively

We expect EBIT and Net Profit to grow from Eu3.1mn and Eu2.1mn in 2022, respectively, to Eu10.5mn and Eu7.5mn, reaching margins of 10.2% and 7.3% (up from 7.8% and 5.2%, respectively). Despite the increase in D&A expected for 2024, entirely connected with the acquisition of Elettronica GF, we believe that EBIT should grow slightly above EBITDA in terms of CAGR at a 49.7% 22A-25E CAGR vs 46.8%. Financial charges are anticipated to slightly diminish in the period as a result of a lower NFP. Furthermore, the tax rate should remain almost stable at 27.0%. As a result, Net Profit is projected to show a 52.9% CAGR, growing from Eu2.1mn to Eu7.6mn in 2022/25.

EBIT and Net Profit margin to expand from 7.8% to 10.2% and 5.2% to 7.3%

Margin expansion below EBITDA is sustained by the marginal decline of the financial charges and flat tax rate

Eu mn	FY21A	FY22A	FY23E	FY24E	FY25E	CAGR
EBITDA	**2.6**	**3.9**	**6.4**	**10.1**	**12.4**	***46.8***
% margin	*10.5*	*9.7*	*10.7*	*11.8*	*12.0*	
D&A	(0.5)	(0.8)	(1.1)	(1.6)	(1.9)	
EBIT	**2.1**	**3.1**	**5.3**	**8.5**	**10.5**	***49.7***
% margin	*8.5*	*7.8*	*8.8*	*9.9*	*10.2*	
Net financial income (costs)	(0.1)	(0.2)	(0.3)	(0.3)	(0.2)	
Pre-tax profits	**1.9**	**2.9**	**5.0**	**8.2**	**10.3**	***52.5***
Taxes	(0.5)	(0.8)	(1.4)	(2.2)	(2.8)	
tax rate %	*25.0%*	*27.6%*	*27.0%*	*27.0%*	*27.0%*	
Net Profit	**1.5**	**2.1**	**3.7**	**6.0**	**7.6**	***52.9***
% margin	*5.9*	*5.2*	*6.1*	*7.0*	*7.3*	

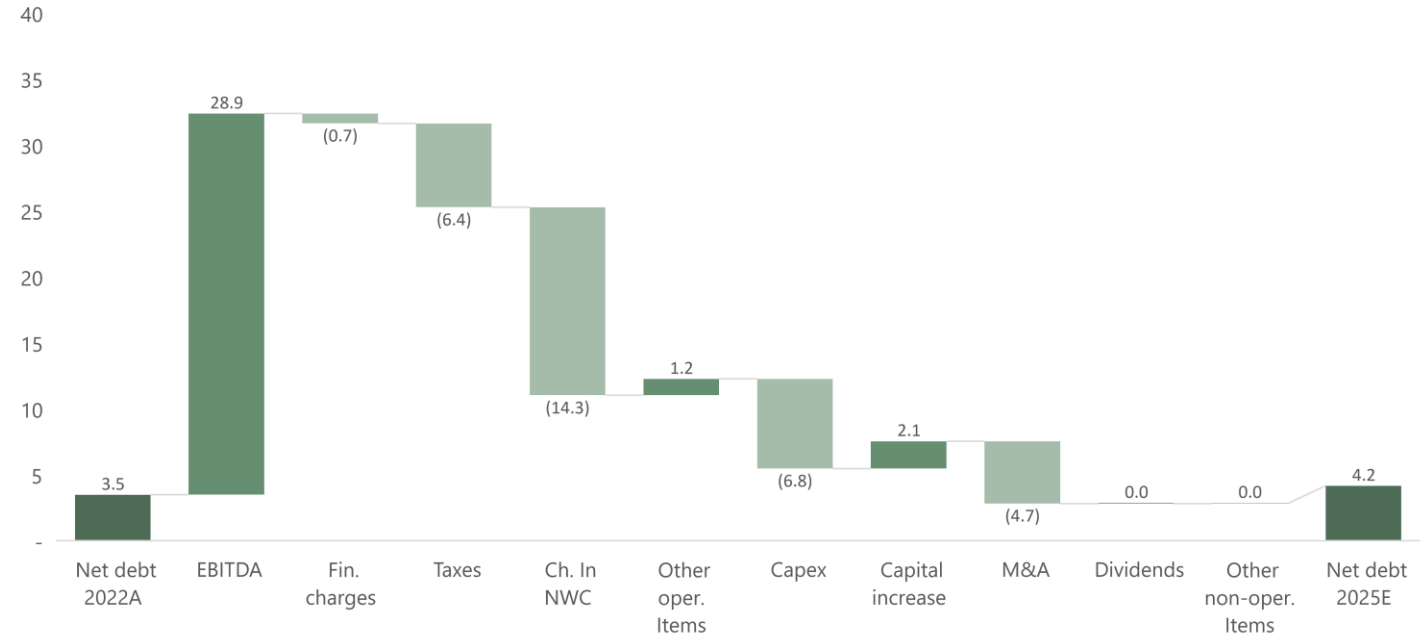
Source: Company Data, Alantra

Balanced sheet with solid FCF emerging in 2025

The Fae Technology business model has relatively moderate fixed asset requirements, with total fixed assets on sales weighing 14% in FY22. On top of that, the group has historically maintained net working capital under control, with NWC/Sales usually close to 25% on the historical average. We expect management to sustain good NWC discipline, with estimated NWC/sales averaging approximately 23% in FY23-25E. Our capex projections mainly entail maintenance (approximately 3% of sales on average in FY23-25E). The group is projected to achieve FCF breakeven by 2024E, with Eu3.6mn FCF in 2025E, implying a 29% EBITDA conversion. This should lead to deleveraging (FY22 net debt/EBITDA of 0.9x down to 0.3x in FY25E), despite considering the Eu4.7mn cash outflows related to the acquisition of Elettronica GF during FY23-25E. The relatively moderate level of capital employed, combined with the expected double-digit EBIT margin from 2024E, should enable ROCE (after-tax) to rise from 15% in FY22 to >20% in FY25E. Our model does not account for potential M&A transactions, which could present a solid upside to our numbers.

2022-25E Net debt bridge

The EBITDA generation, a good control of WC dynamics and low capex requirement, should lead to a fast delivering, reaching 0.3x NFP/EBITDA in FY25E (0.9x in FY22).



Sources: Company financial statements, Alantra estimates

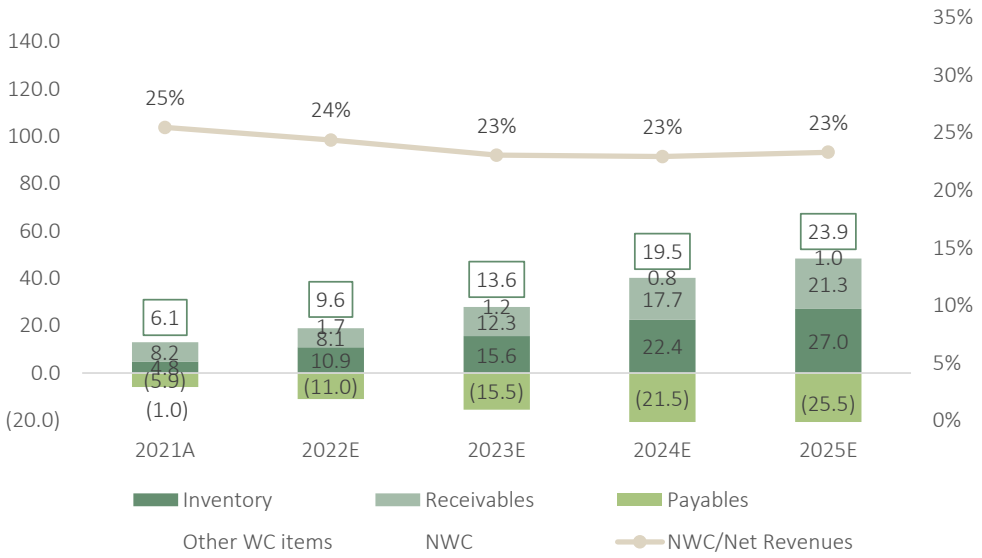
Moderate asset requirements with NWC well under control

Fae Technology has a relatively asset-light business, with total fixed assets on sales weighing 14% in FY22. On top of that, the group has historically maintained net working capital under control with NWC/Sales of approximately 25%. We expect the NWC/Sales ratio to be at approximately 23% on average in FY23-25E, broadly in line with historical figures.

All in all, NWC is projected, assuming Days of Inventory (DOI) close to average historical figures of 95 days. Days Sales Outstanding (DSO) and Days Payable Outstanding (DPO) should remain in line with 2022, respectively at 75 and 112 days.

Evolution of NWC (Eu mn) and NWC/Sales (%) in FY21-25E

WC should be under control and projected to 23% on sales



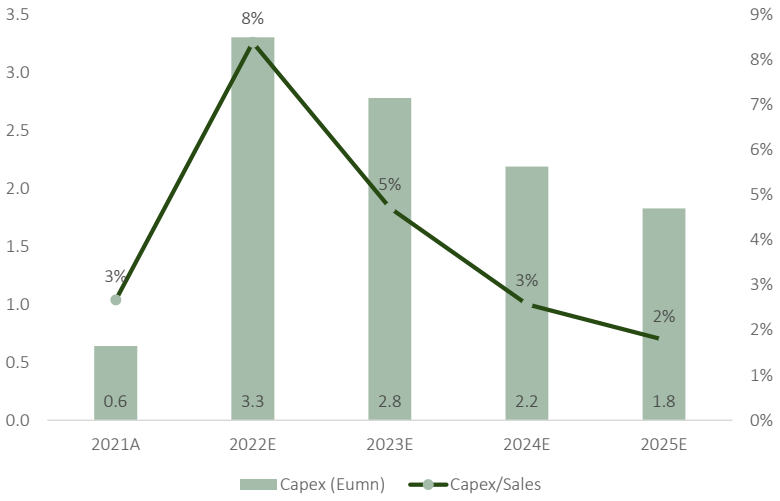
Source: Xxxxx

Strong FCF generation should emerge in 25E

The business requires relatively low capex, which has increased in the past to favour production capacity expansion. Indeed in 2022, capex/sales reached 8% due to investments in new production lines. We factor in mainly maintenance capex in FY23-25E, delivering capex/sales of 3% on average or a combined cash-out of Eu6.8mn.

Capex (Eu mn, FY21-25E) and capex/sales (%) projections refer mainly to maintenance

We have factored in mainly capex for maintenance

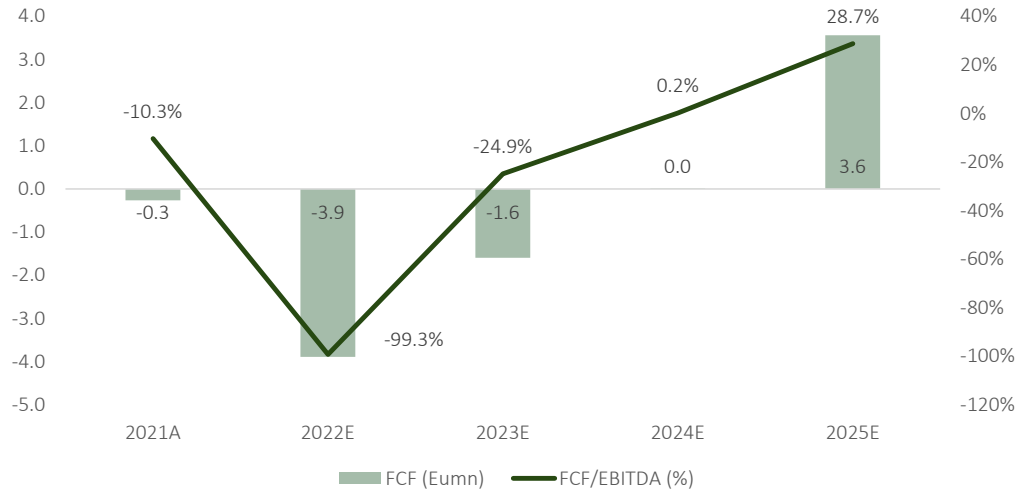


Source: Company financial statements, Alantra estimates

The group should generate a solid FCF starting from 2025 (FCF/EBITDA conversion close to 30%) after reaching a breakeven level in 2024.

Strong FCF is expected from 2025 (Eu mn, FY21-25E) with a sound EBITDA conversion (%)

A sound EBITDA conversion of c. 30% should be visible from 2025



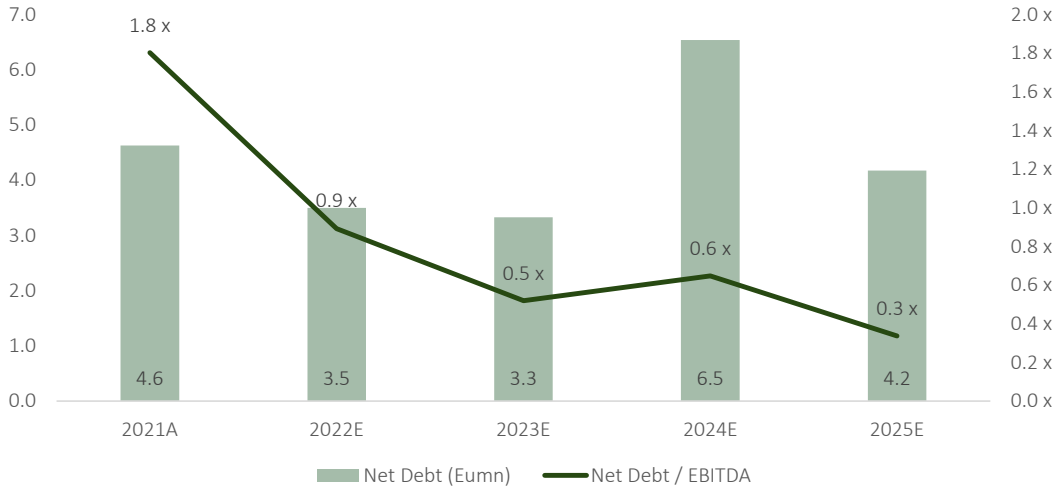
Source: Company financial statements, Alantra estimates

….and fast deleveraging

This should lead to a fast deleveraging (from net debt/EBITDA of 0.9x in FY22 to 0.3x in FY25E) with a net debt position of Eu4.2mn in FY25E, despite considering the Eu4.7mn cash outflows related to the acquisition of Elettronica GF during FY23-25E.

Net Debt (Eu mn) and Net Debt/EBITDA (x) in FY21-25E

We believe that FAE Technology should face a fast-deleveraging path



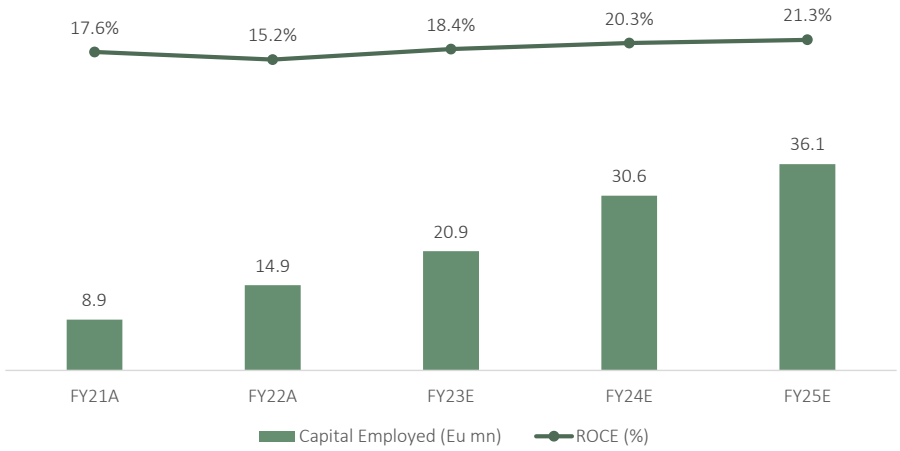
Source: Company financial statements, Alantra estimates

ROCE should rise to >20% by 25E

The anticipated increase in EBIT margin from 2024 onwards, coupled with a comparatively modest level of invested capital, is poised to elevate the Return on Capital Employed (ROCE) after taxes from 15% in the fiscal year 2022 to over 20% by the fiscal year 2025.

Capital Employed (Eu mn) and ROCE (%)

The group delivered ROCE (including goodwill) of 15.2% in 2022A; we expect that Fae Technology's ROCE to rise to 21.3% in 2025E



Source: Company financial statements, Alantra estimates; Note: ROCE is defined as: Adj. EBIT*(1-Norm. Tax Rate)/(Fixed Assets + NWC)

Valuation: TP of Eu4.7/share

Alantra initiates coverage on FAE Technology with a BUY recommendation and a TP of Eu4.7/share fully diluted, 38% upside, based on a weighted average multiple comparison and DCF methodologies.

We believe FAE Technology presents an attractive investment opportunity due to its market positioning, diversified industry presence, strong commitment to innovation, and robust customer relationships established as an integrated solution provider. With a proven track record and a strategic approach to navigating technological shifts, FAE Technology is poised for sustained growth in the ever-evolving tech landscape. Investors seeking exposure to a company leading in technological integration and customer-centric solutions could consider FAE Technology a compelling addition to their portfolio, deriving advantages from the favourable trajectory of the company's growth and value.

Listed in November 2022, FAE Technology's stock price is up 127% from Eu1.5/share to Eu3.4/share, compared to -12% performance of the FTSE Italia Growth Index in the same period.

Market performance since IPO

FAE Technolgy is up 127% from IPO, outperforming the FTSE Italia Growth (-12%).

Source: Factset, Alantra

Valuation approach based peer multiples

We believe that no direct peer comparable is available in Italy. In addition, the company is in the midst of a profound evolution. Started as a player operating in embedded boards, FAE Technologies is now also present in edge computing and has just embarked on a medium-to-long-term journey towards the cloud, AI, and big data. In terms of underlying technology, this presence means the move from microcontrollers to also microprocessors and SOM. This implies a higher level of servitisation, moving from products to services and consequently, more generous profitability and returns.

We have selected a panel of peers involved in the electronic technology market. They are all involved to a certain extent across the entire value chain of the industry, from the field to edge computing. Size varies a lot within the sample, as well as profitability and returns. The higher the weight of services and software components, the greater the profitability of the company. The largest player is STMicroelectronics with a Eu37bn market cap, as well as the most profitable with an average 2023-25E EBITDA margin of 35.1%. The smallest peer is Eurotech with an Eu80mn market cap. The least lucrative player is the US Plexus Corporation with a 6.8% average EBITDA margin in 2023-25E.

Peers – Company description

We have selected a panel of peers involved in the electronic technology market, involved alongside the value chain of the industry, from the field to the edge computing

Company	Country	Mkt Cap (Eu mn)	Company Description
Electronic Technology			
Advantech Co., Ltd.	TAIWAN	8,385	Advantech Co., Ltd. engages in manufacturing and sales of embedded computing boards, industrial automation products, and applied and industrial computers. It operates through the following segments: Industrial Internet of Thing Services (IIoT); Embedded Board and Design in Services (EIoT); Allied Design Manufacture Services (Allied DMS); Intelligent Services (SIoT); and Advantech Service Plus (AS+). The EIoT segment focuses on the provision of embedded boards, systems, and peripheral hardware and software. The Allied DMS segment includes networks and communications; data acquisition and control; and provides customized collaboration designs and services. The AS+ segment offers global repair, technical support, and warranty services. The company was founded by Tien Chung Chen, Chun Sheng Ho and Ko Chen Liu on September 7, 1981 and is headquartered in Taipei, Taiwan.
Eurotech S.p.A.	ITALY	80	Eurotech SpA engages in the research, development, and marketing of miniaturized computers. The firm designs, develops and delivers Edge Computers and Internet of Things (IoT) solutions complete with services, software and hardware to system integrators and enterprises. It operates through the following geographical segments: Europe, North America and Asia. The company was founded on September 30, 1992 and is headquartered in Amaro, Italy.
Jabil Inc.	UNITED STATES	14,602	Jabil, Inc. engages in the provision of manufacturing services and solutions. It operates under the Electronics Manufacturing Services (EMS) and Diversified Manufacturing Services (DMS) segments. The EMS segment focuses on leveraging information technology, supply chain design and engineering, technologies largely centered on core electronics, utilizing a large-scale manufacturing infrastructure, and the ability to serve a broad range of end markets. The DMS segment provides engineering solutions with an emphasis on material sciences, machining, tooling, and molding of highly engineered plastic and metal parts. The company was founded by William E. Morean and James Golden in 1966 and is headquartered in St. Petersburg, FL.
Kontron AG	GERMANY	1,467	Kontron AG engages in the provision of IoT solutions in a variety of vertical markets. The firm's brand include S&T, is one of the IT service provider in Central and Eastern Europe offering a range of IT services including datacenter and SAP operations, workplace management, IT security or IT consulting. It operates through the following business segments: IoT Solutions Europe, IoT Solutions America, and IT Services. The IoT Solutions Europe focuses on developing solutions through a combined portfolio of hardware, software, and services in the areas of Internet of Things (IoT) and Industry 4.0. The IT Services segment includes all activities involving IT service business. The company was founded by Hermann Oberlehner in 1990 and is headquartered in Vienna, Austria.
Plexus Corp.	UNITED STATES	2,486	Plexus Corp. engages in the provision of electronic manufacturing services. The company operates through the following geographical segments: Americas (AMER), Europe, Middle East, and Africa (EMEA), and Asia-Pacific (APAC). The company was founded by Peter Strandwitz, Shirani Ramin and John L. Nussbaum in 1979 and is headquartered in Neenah, WI.
SECO S.p.A.	ITALY	405	SECO SpA designs and manufactures proprietary technological solutions for microcomputers and other integrated systems for personal computer miniaturization. It operates through the following product and service areas: Custom Edge Systems, Edge Platforms, and IoT Solutions. The Custom Edge Systems area consists of embedded computer systems including control panels, hardware components, software, and mechatronic parts designed for the needs of customers. The Edge Platforms area or personal computer modules or computer-on-modules focuses on miniature computers with low consumption. The IoT or Internet-of-Things Solutions area develops the combination of sensors with data collection, aggregation, and processing. The company was founded by Luciano Secciani and Daniele Conti on March 28, 1979 and is headquartered in Arezzo, Italy.
Shenzhen Fastprint Circuit Tech Co. Ltd.	CHINA	2,637	Shenzhen Fastprint Circuit Tech Co., Ltd. engages in the design, research, development, production, and sale of printed circuit boards (PCBs). It offers semiconductors, double-sided and multi-layer PCBs, domestic commerce and material supply services, digital video surveillance systems, industrial control computers and systems, and servo control mechanisms. The company was founded on March 18, 1999 and is headquartered in Shenzhen, China.
Silergy Corp.	TAIWAN	4,559	Silergy Corp. engages in the research, development, manufacture, and sale of power management integrated circuits. It offers battery charge management chips, direct current to direct current conversion chips, over-protection chips, light-emitting diode backlight driver chips, alternate current to direct current conversion chips, and energy measurement integrated circuits. Its products are widely used in consumer electronics, industrial, information, and network communication products. The company was founded on February 7, 2008 and is headquartered in New Taipei, Taiwan.
Sino Wealth Electronic Ltd. Class A	CHINA	859	Sino Wealth Electronic Ltd. engages in the research and development, design, and sales of integrated circuit chips. Its main products are industrial control microcontroller chip, lithium battery management chip and AMOLED. The company was founded on July 13, 1994 and is headquartered in Shanghai, China.
STMicroelectronics NV	FRANCE	36,896	STMicroelectronics NV engages in the design, development, manufacture, and marketing of components, application-specific integrated circuits, full custom devices and semi-custom devices for analog, digital and mixed-signal applications. It operates through the following segments: Automotive and Discrete Group, Analog, MEMS and Sensors Group, and Microcontrollers and Digital ICs Group. The Automotive and Discrete Group segment is composed of all dedicated automotive ICs, and discrete and power transistor products. The Analog, MEMS and Sensors Group segment includes low-power high-end analog ICs, smart power products for industrial, computer and consumer markets, touch screen controllers, low power connectivity solutions and metering solutions for smart grid and all MEMS products. The Microcontrollers and Digital ICs Group segment deals with general purpose and secure microcontrollers, EEPROM
TTM Technologies, Inc.	UNITED STATES	1,363	TTM Technologies, Inc. engages in the manufacture and sale of printed circuit boards and backplane assemblies. It operates through the following segments: Printed Circuit Board (PCB), RF&S Components, and Electro-Mechanical Solutions. The PCB segment consists of fifteen domestic PCB and sub-system plants, five PCB fabrication plants in China, and one in Canada. The RF&S Components segment consists of one domestic RF component plant and one RF component plant in China. The E-M Solutions segment consists of three custom electronic assembly plants in China. The company offers products such as backplanes, system integration, chassis assemblies, integrated circuit substrates and chips, and engineering services. TTM Technologies was founded on March 20, 1978 and is headquartered in Santa Ana, CA.

Source: Factset, Alantra

FAE Technology exhibits margins broadly in line with those of peers in the period FY23-FY25E. However, we expect the business to post better revenues and EBITDA growth, with a 22-25E sales CAGR of 38% and an almost 47% EBITDA CAGR in the same period. These achievements are not only the result of the consolidation of Elettronica GF but also a combination of the underlying solid organic growth and the evolution towards more and more evolved and lucrative services.

Financials – FAE Technology versus selected peers

Margins broadly in line with peers median. Expected growth rates far above comparable, also thanks to the acquisition of Elettronica GF

Company	Country	Mkt Cap (Eu mn)	FY23E - FY25E average margins					CAGR FY22A - FY25E			
			EBITDA Margin	EBIT Margin	Net Income Margin	Capex / Sales	Dividend Payout	Sales	EBITDA	EBIT	Net profit
FAE TECHNOLOGY	ITALY	59	11.5%	9.6%	6.8%	3.0%	0.0%	37.5%	46.8%	49.7%	52.9%
PEERS	Average	6,704	15.6%	11.0%	9.7%	6.0%	28.2%	7.4%	15.2%	35.3%	11.6%
	Median	2,486	13.6%	7.7%	6.9%	4.1%	35.7%	7.7%	6.3%	8.2%	8.4%
Advantech Co., Ltd.	TAIWAN	8,385	20.5%	19.1%	16.5%	1.3%	74.3%	4.2%	6.0%	6.5%	6.0%
Eurotech S.p.A.	ITALY	80	10.0%	4.9%	2.6%	4.1%	0.0%	10.1%	37.4%	114.4%	nm
Jabil Inc.	UNITED STATES	14,602	8.0%	5.3%	3.6%	2.9%	3.4%	-1.2%	4.4%	8.2%	15.7%
Kontron AG	GERMANY	1,467	11.2%	7.7%	6.3%	4.1%	47.4%	12.0%	49.5%	173.0%	nm
Plexus Corp.	UNITED STATES	2,486	6.8%	5.2%	3.7%	2.5%	na	8.5%	10.0%	12.7%	12.2%
SECO S.p.A.	ITALY	405	23.9%	16.0%	8.5%	9.3%	0.0%	12.4%	24.6%	39.5%	33.2%
Shenzhen Fastprint Circuit Tech Co. Ltd. Class A	CHINA	2,637	12.6%	6.4%	6.0%	8.1%	46.3%	20.9%	19.9%	21.3%	8.4%
Silergy Corp.	TAIWAN	4,559	13.6%	9.5%	13.6%	3.5%	35.7%	3.0%	-2.1%	-4.8%	-4.5%
Sino Wealth Electronic Ltd. Class A	CHINA	859	16.3%	14.2%	16.2%	3.7%	40.8%	7.7%	6.3%	6.7%	6.0%
STMicroelectronics NV	FRANCE	36,896	35.1%	25.9%	22.3%	20.8%	6.1%	4.4%	5.4%	3.5%	1.5%
TTM Technologies, Inc.	UNITED STATES	1,363	14.2%	7.2%	6.9%	6.2%	na	-0.3%	6.1%	7.7%	25.6%
Electronic Technology	Average		15.6%	11.0%	9.7%	6.0%	28.2%	7.4%	15.2%	35.3%	11.6%
	Median		13.6%	7.7%	6.9%	4.1%	35.7%	7.7%	6.3%	8.2%	8.4%

Source: Factset, Alantra

The greater is the technology contribution, the higher are trading multiples. FAE Technology trades at a 21% discount vs the median FY24E EV/EBITDA of peers, and at a some 50% discount vs the median FY24E PE.

Trading multiples

Company	Country	Mkt Cap (Eu mn)	EV/EBITDA			EV/EBIT			PE			EV/Sales		
			FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
FAE TECHNOLOGY	ITALY	59	5.6 x	6.7 x	5.3 x	6.8 x	8.0 x	6.2 x	8.6 x	9.9 x	7.9 x	0.6 x	0.8 x	0.6 x
Premium (discount) to Peers' Median			-44%	-21%	-26%	-59%	-44%	-38%	-60%	-48%	-44%	-85%	-74%	-73%
PEERS	Average		60.9 x	14.8 x	10.4 x	35.3 x	21.8 x	13.7 x	41.6 x	24.4 x	16.2 x	5.5 x	4.5 x	3.7 x
	Median		10.0 x	8.5 x	7.1 x	16.7 x	14.3 x	10.1 x	21.6 x	19.0 x	13.9 x	3.9 x	3.1 x	2.4 x
Advantech Co., Ltd.	TAIWAN	8,385	20.9 x	18.9 x	16.6 x	22.6 x	20.5 x	17.7 x	26.9 x	25.3 x	22.5 x	4.2 x	3.9 x	3.5 x
Eurotech S.p.A.	ITALY	80	14.7 x	8.5 x	4.9 x	105.8 x	18.5 x	7.3 x	na	28.7 x	11.1 x	1.0 x	0.8 x	0.7 x
Jabil Inc.	UNITED STATES	14,602	6.5 x	6.6 x	6.0 x	10.0 x	10.0 x	8.9 x	14.5 x	13.8 x	11.7 x	0.5 x	0.5 x	0.5 x
Kontron AG	GERMANY	1,467	9.8 x	8.1 x	7.1 x	14.5 x	11.8 x	10.1 x	19.5 x	16.6 x	13.9 x	1.1 x	0.9 x	0.8 x
Plexus Corp.	UNITED STATES	2,486	10.0 x	10.6 x	9.2 x	13.0 x	14.3 x	11.8 x	17.4 x	19.0 x	14.4 x	13.0 x	14.3 x	11.8 x
SECO S.p.A.	ITALY	405	9.0 x	7.6 x	5.9 x	14.0 x	11.3 x	8.6 x	23.7 x	17.6 x	13.4 x	2.1 x	1.8 x	1.5 x
Shenzhen Fastprint Circuit Tech Co. Ltd. Clas	CHINA	2,637	35.9 x	22.4 x	18.1 x	91.8 x	46.1 x	29.2 x	76.5 x	44.9 x	27.3 x	3.9 x	3.1 x	2.4 x
Silergy Corp.	TAIWAN	4,559	511.7 x	46.6 x	22.5 x	na	63.7 x	26.9 x	179.0 x	56.8 x	29.7 x	9.3 x	7.1 x	5.4 x
Sino Wealth Electronic Ltd. Class A	CHINA	859	37.7 x	22.3 x	12.8 x	54.3 x	23.6 x	13.8 x	37.0 x	24.3 x	16.4 x	4.7 x	3.4 x	2.7 x
STMicroelectronics NV	FRANCE	36,896	6.2 x	6.3 x	5.2 x	8.3 x	8.7 x	7.0 x	10.6 x	11.5 x	10.0 x	2.2 x	2.1 x	1.9 x
TTM Technologies, Inc.	UNITED STATES	1,363	7.1 x	5.4 x	5.7 x	19.0 x	11.6 x	9.6 x	11.4 x	9.8 x	8.1 x	19.0 x	11.6 x	9.6 x
Electronic Technology	Average		60.9 x	14.8 x	10.4 x	35.3 x	21.8 x	13.7 x	41.6 x	24.4 x	16.2 x	5.5 x	4.5 x	3.7 x
	Median		10.0 x	8.5 x	7.1 x	16.7 x	14.3 x	10.1 x	21.6 x	19.0 x	13.9 x	3.9 x	3.1 x	2.4 x

Source: Factset, Alantra

We consider EV/EBITDA and we look at 2024 figures since it is the first year of 100% consolidation of the recently acquired Elettronica GF. We adjust the Net Financial Position for the future instalments related

Valuation (Eu mn), using peers' multiples

Eu mn	Electronic Technology FY23E	FY24E	FY25E
EBITDA	6.4	10.1	12.4
EV/EBITDA Peer Group	10.0x	8.5x	7.1x
Premium (Discount)	*0%*	*0%*	*0%*
EV/EBITDA Peer Group after premium (discount)	10.0x	8.5x	7.1x
EV based on multiples	64.2	85.9	88.2
Net Financial Position (adj)	(3.3)	(8.6)	(6.3)
Adjustments	(1.2)	(1.7)	(2.0)
Equity Value on EV/EBITDA	**60**	**76**	**80**
Eu Per Share	**3.1**	**4.0**	**4.2**

Eu mn	FY23E	FY24E	FY25E
EBIT	5.3	8.5	10.5
EV/EBIT Peer Group	16.7x	14.3x	10.1x
Premium (Discount)	*0%*	*0%*	*0%*
EV/EBIT Peer Group after premium (discount)	16.7x	14.3x	10.1x
EV based on multiples	88.2	121.3	106.6
Net Financial Position	(3.3)	(8.6)	(6.3)
Adjustments	(1.2)	(1.7)	(2.0)
Equity Value on EV/EBIT	**84**	**111**	**98**
Eu Per Share	**5.5**	**6.8**	**5.1**

Eu mn	FY23E	FY24E	FY25E
Net income	3.7	6.0	7.6
PE Peer Group	21.6x	19.0x	13.9x
Premium (Discount)	*0%*	*0%*	*0%*
P/E Peer Group after premium (discount)	21.6x	19.0x	13.9x
Equity Value on P/E	**79**	**114**	**105**
Eu Per Share	**5.2**	**6.9**	**5.5**

Source: Alantra

Valuation based on DCF approach

We believe that the DCF is an appropriate methodology to capture the quality profile of the group (e.g. attractive ROIC and growing profitability). In our DCF valuation we assume 5 years of estimates, with 10.7% WACC and 2.0% terminal growth rate. Our DCF suggests a valuation of Eu5.0/share.

DCF Valuation

(Eu mn)	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	TV
EBITDA	6.4	10.1	12.4	14.4	18.8	20.4	19.2
taxes on EBIT	(1.4)	(2.3)	(2.8)	(3.3)	(4.1)	(4.7)	(4.8)
Non recurring Cash-out	0.0	0.0	0.0	0.0	0.0	0.0	
NWC Change	(4.0)	(5.9)	(4.4)	(3.0)	(4.9)	(5.5)	
Capex	(3.1)	(5.4)	(3.0)	(2.8)	(1.8)	(2.1)	(1.4)
Capex/Revenues	*-5.2%*	*-6.4%*	*-3.0%*	*-2.5%*	*-1.3%*	*-1.3%*	*-1.3%*
Free cash flow	**(2.1)**	**(3.5)**	**2.2**	**5.2**	**8.1**	**8.1**	**150.3**
Disc. Free Cash Flow	**(2.1)**	**(3.1)**	**1.7**	**3.8**	**5.4**	**4.8**	**99.3**
Year	*0.1*	*1.1*	*2.1*	*3.1*	*4.1*	*5.1*	*4.1*

Total Disc. FCF	0.4
Terminal value	99.3
Total EV (Eu mn)	**99.7**
NFP FY22A	(3.5)
Adjustments*	(0.8)
TOTAL Equity Value	**95.4**
# of shares (mn)	19.1
Fair Value per share (Eu)	**5.0**

Implied multiples	FY23E	FY24E	FY25E	FY26E
EV/ Adj. EBITDA	15.6 x	10.3 x	8.2 x	8.2 x
EV/Adj. EBIT	19.0 x	12.2 x	9.7 x	9.7 x
P/Adj. E	26.1 x	15.9 x	12.6 x	12.6 x

Source: Alantra

Valuation with sensitivity based on DCF

Term. Growth \ Wacc	8.7%	9.7%	10.7%	11.7%	12.7%
1.50%	6.6	5.5	4.7	4.0	3.5
1.75%	6.8	5.7	4.8	**4.2**	3.6
2.00%	7.1	5.9	**5.0**	4.3	3.7
2.25%	7.4	**6.1**	5.2	4.4	3.8
2.50%	7.7	6.4	5.3	4.6	3.9

Source: Alantra

We set a target price of Eu4.7 per share fully diluted, calculated as a weighted average of 2024 estimated EV/EBITDA from selected peers (30% weight) and discounted cash flow (DCF) analysis (70% weight). The heavier emphasis on DCF reflects the need to account for long-term cash flow generation, which in the short term is harmed by the investments required to acquire Elettronica GF.

Valuation summary - TP of Eu4.7/share

Valuation summary

Method	Equity Value		
	(Eu mn)	(Eu per share)	Weight (%)
DCF	95.4	5.0	70%
24E EV/EBITDA peers multiples	75.6	4.0	30%
Weighted AVG	**89.5**	**4.7**	

Source: Alantra

Main risks

In the realm of Embedded Computing and Electronic Manufacturing Services (EMS) businesses, we identify several key risks associated with FAE Technology's operations in these markets. These factors can be succinctly summarised as follows:

Supply Chain Vulnerabilities

The reliance on a stable supply chain for electronic components underscores the susceptibility to potential shortages and disruptions. These challenges have profound repercussions, affecting production schedules and amplifying operational costs, thereby demanding strategic resilience. By broadening the sources of electronic components, FAE Technology mitigates the risk associated with a single-point failure in the supply chain. Establishing relationships with multiple suppliers enhances flexibility and resilience, reducing the impact of potential shortages or disruptions from a specific supplier. In more detail, since FAE Technology is capable of covering the end-to-end process, it is also able to address the design of technical solutions to maximize the effectiveness of the supply chain. Additionally, the stock levels of critical items are determined and regularly monitored.

Dependence on a few customers

The company's revenues stream could be potentially at risk due to its dependence on a limited number of key customers. This concentration in turnover exposes the business to potential challenges, as any fluctuations or changes in the purchasing patterns, financial health, or market dynamics of these specific customers could significantly impact the overall financial stability of the company. With the acquisition of Elettronica GF, this risk is moderately mitigated and should contribute to enhance the resilience of the business against potential uncertainties associated with the concentrated turnover. We believe that something more than 50% of turnover is generated by a single customer.

Dynamic Currency Fluctuations

Operating on an international scale and conducting business in multiple currencies exposes organisations to the inherent volatility of exchange rates. Implementing effective hedging strategies helps FAE Technology manage the impact of dynamic currency fluctuations. Utilising financial instruments such as currency futures or options enables the company to hedge against adverse exchange rate movements, providing a level of financial protection and stability.

Concerns Regarding Intellectual Property and Security

The meticulous handling of sensitive information related to product designs and manufacturing processes brings forth a myriad of security concerns. This encompasses the looming threat of data breaches, the potential theft of intellectual property, entanglement in legal disputes, and the overarching specter of reputational damage. Ensuring the vigilant protection of intellectual assets is crucial to mitigate these complex risks. Through investment in cutting-edge cybersecurity measures, encompassing encryption, secure networks, and routine audits, FAE Technology substantially minimizes the threat of data breaches and intellectual property theft. The implementation of a comprehensive cybersecurity framework strengthens the overall resilience of the company's information infrastructure. FAE Technology has cybersecurity insurance in place, along with a bolstered IT team capable of effectively managing these risks.

Challenges of Technological Obsolescence

The rapid pace of technological advancements frequently renders manufacturing equipment and processes obsolete. This requires businesses to commit to an ongoing cycle of investment, promoting adaptability and agility to stay competitive in the continually changing technological environment. Rather than reacting passively to technological advancements, FAE Technology takes a proactive approach by continuously innovating and future-proofing. Consistent updates to manufacturing equipment and processes, along with strategic investments in research and development, guarantee that the company stays at the forefront of technological trends, thereby reducing the risk of obsolescence.

Navigating Regulatory Compliance

The complex network of international regulations and standards requires a careful dedication to compliance. The repercussions of failing in this area are significant, encompassing legal complications, financial penalties, and the potential loss of lucrative business opportunities. Navigating this regulatory landscape necessitates a nuanced comprehension and a proactive stance. Forming a dedicated compliance management team and implementing robust internal processes can effectively address international regulations and standards. Consistent monitoring, training programs, and staying informed about regulatory changes empower FAE Technology to navigate the intricate landscape and sidestep legal consequences. Compliance becomes an inherent aspect of the corporate culture.

Environmental and Sustainability Considerations

The burgeoning emphasis on environmental consciousness precipitates regulatory changes that challenge businesses to recalibrate their operations. Meeting evolving sustainability standards demands proactive adaptation, often entailing additional costs as companies strive to align with the dynamic regulatory paradigm. Embracing sustainability becomes not just an ethical imperative but also a strategic necessity for long-term resilience in an ever-changing business environment. FAE Technology is the status of Benefit Company. To attain this status, companies must integrate a shared benefit goal alongside profit objectives, operate responsibly for all stakeholders, appoint an 'Impact Manager', and produce an annual report summarising impact assessments and objectives.

Challenging talent hiring and retention.

In order to offer best-of-breed solutions to clients, the group needs to attract and retain talents who have specific skills related to the field of embedded computing and electronic applications. These individuals are challenging to find and retain within the group, but we believe that FAE Technology is well-positioned to do so, thanks to its market-leading position in Italy in the area in which it operates, as well as its status as a publicly listed company. In addition, FAE Technology has in place a share option plan and offers a well-structured, enticing welfare program.

Appendix

FAE Technology – Revenue breakdown by products

Eu mn	FY21A	FY22A	FY23E	FY24E	FY25E
Revenues by Product	**24.0**	**39.4**	**59.0**	**74.1**	**102.4**
Solutions	**22.7**	**37.4**	**56.0**	**70.5**	**98.4**
Production	22.2	36.8	55.1	69.5	97.3
Prototyping	0.4	0.5	0.7	0.9	1.0
Engineering	0.2	0.1	0.1	0.1	0.1
Online Solutions / My Fast PBCA	**1.1**	**2.0**	**2.9**	**3.5**	**3.9**
Prototyping	1.1	2.0	2.9	3.5	3.9
Other Revenues	**0.2**	**0.1**	**0.1**	**0.1**	**0.1**
POC	0.1	0.1	0.1	0.1	0.1
Services	0.0	0.0	0.0	0.0	0.0
Other products	0.0	0.0	0.0	0.0	0.0
Revenues by Product % YoY	***65%***	***64%***	***50%***	***25%***	***38%***
Solutions	***59%***	***64%***	***50%***	***26%***	***40%***
Production	*68%*	*66%*	*50%*	*26%*	*40%*
Prototyping	*-42%*	*40%*	*50%*	*15%*	*15%*
Engineering	*-63%*	*-24%*	*1%*	*5%*	*5%*
Online Solutions / My Fast PBCA	***nm***	***81%***	***50%***	***20%***	***10%***
Prototyping	*nm*	*81%*	*50%*	*20%*	*10%*
Other Revcenues	***-14%***	***-51%***	***9%***	***9%***	***9%***
POC	*-5%*	*-49%*	*10%*	*10%*	*10%*
Services	*-36%*	*-60%*	*5%*	*5%*	*5%*
Other products	*nm*	-	*1%*	*1%*	*1%*
Revenues by Product % on Total	***100%***	***100%***	***100%***	***100%***	***100%***
Solutions	***95%***	***95%***	***95%***	***95%***	***96%***
Production	*93%*	*93%*	*93%*	*94%*	*95%*
Prototyping	*1%*	*1%*	*1%*	*1%*	*1%*
Engineering	*1%*	*0%*	*0%*	*0%*	*0%*
Online Solutions / My Fast PBCA	***5%***	***5%***	***5%***	***5%***	***4%***
Prototyping	*5%*	*5%*	*5%*	*5%*	*4%*
Other Revcenues	***1%***	***0%***	***0%***	***0%***	***0%***
POC	*1%*	*0%*	*0%*	*0%*	*0%*
Services	*0%*	*0%*	*0%*	*0%*	*0%*
Other products	*0%*	*0%*	*0%*	*0%*	*0%*

Sources: Company data, Alantra

FAE Technology – Revenue breakdown by geography

Eu mn	FY21A	FY22A	FY23E	FY24E	FY25E
Revenues by Geography	**24.0**	**39.4**	**59.0**	**74.1**	**102.4**
Italy	23.3	39.0	56.1	69.6	92.1
EU	0.2	0.3	2.4	3.0	8.2
Extra-EU	0.5	0.1	0.6	1.5	2.0
Revenues by Geography - % YoY	**-**	***64%***	***50%***	***25%***	***38%***
Italy	-	*68%*	*44%*	*24%*	*32%*
EU	-	*42%*	*807%*	*25%*	*176%*
Extra-EU	-	*-75%*	*385%*	*151%*	*38%*
Revenues by Geography - % on total	***100%***	***100%***	***100%***	***100%***	***100%***
Italy	*97%*	*99%*	*95%*	*94%*	*90%*
EU	*1%*	*1%*	*4%*	*4%*	*8%*
Extra-EU	*2%*	*0%*	*1%*	*2%*	*2%*

Sources: Company data, Alantra

FAE Technology – P&L

Eu mn	FY21A	FY22A	FY23E	FY24E	FY25E
Net revenues	**24.0**	**39.4**	**59.0**	**85.0**	**102.4**
YoY Growth	-	*64.4%*	*49.8%*	*44.0%*	*20.4%*
Organic	-	64.4%	49.8%	25.5%	20.4%
M&A				18.5%	
Value of Production	**24.6**	**40.3**	**59.9**	**85.9**	**103.2**
YoY Growth	-	*63.9%*	*48.7%*	*43.3%*	*20.2%*
Organic	-	63.9%	48.7%	43.3%	20.2%
Raw Materials	**(14.9)**	**(27.3)**	**(38.3)**	**(55.0)**	**(66.1)**
YoY Growth	-	*83.5%*	*40.5%*	*43.3%*	*20.2%*
% total revenues	*-60.5%*	*-67.7%*	*-64.0%*	*-64.0%*	*-64.0%*
Services	**(2.9)**	**(4.5)**	**(6.5)**	**(8.8)**	**(10.8)**
YoY Growth	-	*53.6%*	*44.5%*	*36.0%*	*23.2%*
% total revenues	*-11.9%*	*-11.1%*	*-10.8%*	*-10.3%*	*-10.5%*
Personnel Costs	**(3.8)**	**(4.3)**	**(6.6)**	**(9.0)**	**(10.8)**
YoY Growth	-	*13.1%*	*53.0%*	*36.8%*	*20.2%*
% total revenues	*-15.5%*	*-10.7%*	*-11.0%*	*-10.5%*	*-10.5%*
Rents	**(0.3)**	**(0.2)**	**(0.3)**	**(0.4)**	**(0.5)**
YoY Growth	-	*-40.4%*	*44.6%*	*43.3%*	*20.2%*
% total revenues	*-1.4%*	*-0.5%*	*-0.5%*	*-0.5%*	*-0.5%*
Other Operating Costs	**(0.1)**	**(0.1)**	**(1.8)**	**(2.6)**	**(2.6)**
YoY Growth	-	*50.0%*	*1570.6%*	*43.3%*	*0.2%*
% total revenues	*-0.8%*	*-3.1%*	*-3.0%*	*-3.0%*	*-2.5%*
Operating Costs	**(22.0)**	**(36.4)**	**(53.5)**	**(75.8)**	**(90.9)**
YoY Growth	-	*65.3%*	*47.1%*	*41.7%*	*19.9%*
% total revenues	*-89.5%*	*-90.3%*	*-89.3%*	*-88.3%*	*-88.0%*
EBITDA	**2.6**	**3.9**	**6.4**	**10.1**	**12.4**
YoY Growth	-	*52.5%*	*63.6%*	*57.4%*	*22.8%*
on net revenues %	*10.7%*	*9.9%*	*10.9%*	*11.9%*	*12.1%*
% total revenues	*10.5%*	*9.7%*	*10.7%*	*11.8%*	*12.0%*
D&A	**(0.5)**	**(0.8)**	**(1.1)**	**(1.6)**	**(1.9)**
YoY Growth	-	*61.8%*	*45.6%*	*39.6%*	*17.0%*
% total revenues	*-2.0%*	*-1.9%*	*-1.9%*	*-1.9%*	*-1.8%*
EBIT	**2.1**	**3.1**	**5.3**	**8.5**	**10.5**
YoY Growth	-	*50.4%*	*68.0%*	*61.3%*	*23.9%*
% total revenues	*8.5%*	*7.8%*	*8.8%*	*9.9%*	*10.2%*
Net financial income (costs)	**(0.1)**	**(0.2)**	**(0.3)**	**(0.3)**	**(0.2)**
YoY Growth	-	*45.6%*	*17.8%*	*18.6%*	*-39.3%*
% total revenues			*-0.4%*	*-0.4%*	*-0.2%*
Pre-tax profits	**1.9**	**2.9**	**5.0**	**8.2**	**10.3**
YoY Growth	-	*50.7%*	*71.8%*	*63.4%*	*26.2%*
% total revenues	*7.9%*	*7.2%*	*8.4%*	*9.5%*	*10.0%*
Taxes	**(0.5)**	**(0.8)**	**(1.4)**	**(2.2)**	**(2.8)**
tax rate %	-25.0%	-27.6%	*-27.0%*	*-27.0%*	*-27.0%*
Net Profit	**1.5**	**2.1**	**3.7**	**6.0**	**7.6**
YoY Growth	-	*45.5%*	*73.2%*	*63.4%*	*26.2%*
% total revenues	*5.9%*	*5.2%*	*6.1%*	*7.0%*	*7.3%*

Sources: Company data, Alantra

FAE Technology – Balance Sheet

(Eu mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Inventory	**4.8**	**10.9**	**15.6**	**22.4**	**27.0**
% total revenues	*19.7%*	*27.0%*	*26.0%*	*26.1%*	*26.2%*
DIO	*72*	*98*	*95*	*95*	*95*
Receivables	**8.2**	**8.1**	**12.3**	**17.7**	**21.3**
% total revenues	*33.4%*	*20.1%*	*20.5%*	*20.6%*	*20.7%*
DSO	*123*	*74*	*75*	*75*	*75*
Payables	**(5.9)**	**(11.0)**	**(15.5)**	**(21.5)**	**(25.5)**
% external costs incl. CAPEX	*31.6%*	*32.7%*	*31.6%*	*31.4%*	*31.4%*
DPO	*113*	*112*	*112*	*112*	*112*
Other current assets	0.5	2.8	3.0	4.2	5.1
% total revenues	*2.0%*	*6.8%*	*5.0%*	*5.0%*	*5.0%*
Other current liabilities	(1.5)	(1.1)	(1.8)	(3.4)	(4.1)
% total revenues	*-6.2%*	*-2.7%*	*-3.0%*	*-4.0%*	*-4.0%*
Net Working capital	**6.1**	**9.6**	**13.6**	**19.5**	**23.9**
% total revenues	24.8%	23.8%	22.7%	22.7%	23.1%
Property, plant and equipment	2.5	3.6	4.5	4.4	3.5
Right of Use Assets	0.0	0.0	0.0	0.0	0.0
Intangible assets	0.3	1.7	2.8	6.7	8.7
o/w goodwill	0.0	0.0	0.0	0.0	0.0
Financial assets	0.1	0.1	0.1	0.1	0.1
Investments in other companies	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Total fixed assets	**2.9**	**5.4**	**7.4**	**11.2**	**12.4**
Employee pension benefits	(0.7)	(0.7)	(1.1)	(1.5)	(1.9)
Other liabilities (funds)	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)
Net Invested Capital	**8.3**	**14.3**	**19.8**	**29.0**	**34.2**
Current Lease Liabilities	0.0	0.0	0.0	0.0	0.0
Non-Current Lease Liabilities	0.0	0.0	0.0	0.0	0.0
Short Term debts	2.5	1.5	1.5	1.5	1.5
Long Term debts	2.5	5.3	5.3	9.0	9.0
Short term credits	0.0	0.0	0.0	0.0	0.0
Cash	(0.3)	(3.3)	(3.5)	(4.0)	(6.4)
Net Debt (Cash)	**4.6**	**3.5**	**3.3**	**6.5**	**4.2**
Share capital	0.4	0.5	0.5	0.5	0.5
Reserves	1.8	8.1	12.3	16.0	22.0
Net result	1.5	2.1	3.7	6.0	7.6
Minorities	0.0	0.0	0.0	0.0	0.0
Shareholders Equity	**3.6**	**10.8**	**16.5**	**22.5**	**30.0**
Source of Funds	**8.3**	**14.3**	**19.8**	**29.0**	**34.2**

Sources: Company data, Alantra

FAE Technology – Cash-flow statement

(Eu mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Net Profit before minorities	1.5	2.1	3.7	6.0	7.6
Interests	0.0	0.0	0.3	0.3	0.2
Taxes	0.5	0.8	1.4	2.2	2.8
Losses (gains) on disposal of fixed assets	(0.0)	(0.0)	0.0	0.0	0.0
Provisions/Writedowns	0.3	0.4	0.0	0.0	0.0
D&A	0.4	0.8	1.1	1.6	1.9
Change in net working capital	(2.0)	(3.7)	(4.0)	(5.9)	(4.4)
Interests paid			(0.3)	(0.3)	(0.2)
Taxes paid	(0.1)	(0.9)	(1.4)	(2.2)	(2.8)
Use of funds	(0.1)	(0.1)	0.4	0.5	0.3
Other operating items	0.0	0.0			
Cash flow from operating activities	**0.4**	**(0.6)**	**1.2**	**2.2**	**5.4**
Intangibles (CAPEX)	(0.1)	(1.7)	(0.8)	(0.7)	(0.8)
% total revenues	*-0.5%*	*-4.3%*	*-1.3%*	*-0.8%*	*-0.8%*
Tangibles (CAPEX)	(0.5)	(1.6)	(2.0)	(1.5)	(1.0)
% total revenues	*-2.1%*	*-3.9%*	*-3.3%*	*-1.7%*	*-1.0%*
Intangibles + Tangible	**(0.6)**	**(3.3)**	**(2.8)**	**(2.2)**	**(1.8)**
% total revenues	*-2.6%*	*-8.2%*	*-4.6%*	*-2.5%*	*-1.8%*
Financials	(0.0)	(0.0)			
% total revenues	*0.0%*	*-0.1%*			
(Acquisitions) / Disposals	0.0	0.0	(0.3)	(3.2)	(1.2)
% total revenues	*0.1%*	*0.0%*			
Cash flow from investment activities	**(0.6)**	**(3.3)**	**(3.1)**	**(5.4)**	**(3.0)**
	-2.5%	*-8.2%*	*-5.1%*	*-6.3%*	*-2.9%*
New debt				3.7	
Change in shareholders equity	0.0	5.0	2.1		
Dividends	0.0	0.0			
Other items	0.0	0.0	0.0	0.0	0.0
Change in NFP	**(0.2)**	**1.1**	**0.2**	**(3.2)**	**2.4**
NFP at year beginning	(4.4)	(4.6)	(3.5)	(3.3)	(6.5)
NFP at YE (debt)/cash	**(4.6)**	**(3.5)**	**(3.3)**	**(6.5)**	**(4.2)**

Sources: Company data, Alantra

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