

UPDATE

EQUITY RESEARCH

SIM
INTEGRÆ

FAE Technology

Euronext Growth Milan | EMS | Italy

Production 02/10/2024, h. 06:30 pm

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Rating

BUY

unchanged

Target Price

€ 4,80

prev. € 5,00

Risk

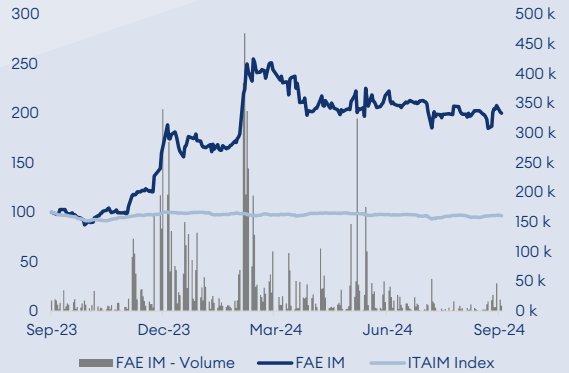


Medium

Upside potential

20,0%

Stocks performance relative to FTSE Italia Growth



Stock Data

Price	€ 4,00
Target price	€ 4,80
Upside/(Downside) potential	20,0%
Ticker	FAE IM
Market Cap (€/mln)	€ 70,46
EV (€/mln)	€ 77,60
Free Float	28,71%
Share Outstanding	17.615.875
52-week high	€ 5,16
52-week low	€ 1,69
Average daily volumes (3 months)	9.961

Key Financials (€/mln)	FY23A	FY24E	FY25E	FY26E
Revenues	60,72	77,00	85,00	95,50
EBITDA	6,37	8,15	9,40	11,05
EBIT	4,99	5,95	7,15	8,75
Net Income	3,25	3,85	4,70	5,90
NFP	7,14	8,86	5,81	2,21
EBITDA margin	10,0%	10,5%	11,0%	11,5%
EBIT margin	7,8%	7,7%	8,4%	9,1%
Net Profit margin	5,1%	5,0%	5,5%	6,1%

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Stock performance	1M	3M	6M	1Y
Absolute	3,1%	-7,8%	-16,0%	105,1%
to FTSE Italia Growth	3,4%	-6,7%	-14,9%	108,7%
to Euronext STAR Milan	5,8%	-4,8%	-11,2%	95,5%
to FTSE All-Share	4,9%	-7,9%	-13,2%	85,8%
to EUROSTOXX	3,0%	-8,5%	-13,6%	86,2%
to MSCI World Index	2,4%	-11,2%	-22,6%	77,4%

Main Ratios	FY23A	FY24E	FY25E	FY26E
EV/EBITDA	12,2x	9,5x	8,3x	7,0x
EV/EBIT	15,6x	13,0x	10,9x	8,9x
P/E	21,7x	18,3x	15,0x	12,0x

1H24A Results

Revenue for the first half of 2024 amounts to € 44.21 million. Consolidated EBITDA as of June 30, 2024, stands at € 5.82 million, corresponding to an EBITDA margin of 13.0%. EBIT, after depreciation and amortization amounting to € 1.15 million, is € 4.67 million, with an EBIT margin of 10.4%. Net Income stands at € 3.04 million. Lastly, the NFP has increased from € 7.14 million at FY23A to € 8.34 million of debt as of 1H24A.

Estimates Update

In light of the results published in the half-year report for 1H24A, we are revising our estimates for both the current year and the upcoming years. Specifically, we estimate FY24E revenues to be € 77.00 million, with an EBITDA of € 8.15 million, corresponding to a margin of 10.5%. For the following years, we expect revenues to increase to € 108.50 million (CAGR 23A-27E: 15.6%) by FY27E, with EBITDA reaching € 13.05 million (corresponding to a margin of 12.0%), up from € 6.37 million in FY23A (with an EBITDA margin of 10.0%).

Valuation Update

We conducted our valuation of the equity value of FAE Technology based on the DCF method and multiples of a sample of comparable companies. The DCF method (including, for prudential purposes, a specific risk of 2.5% in the calculation of the WACC) returned an equity value of € 85.5 million. Using market multiples, the equity value of FAE Technology is € 83.6 million (including a 25.0% discount). The results give an average equity value of approximately € 84.5 million. The target price is € 4.80, with a BUY rating and MEDIUM risk.

Economics & Financials

TABLE 1 – ECONOMICS & FINANCIALS

CONSOLIDATED INCOME STATEMENT (€/mln)	FY23A	FY24E	FY25E	FY26E	FY27E
Revenues	60,72	77,00	85,00	95,50	108,50
Other Revenues	3,14	0,60	0,60	0,60	0,60
Value of Production	63,86	77,60	85,60	96,10	109,10
COGS	43,20	48,25	53,00	59,40	67,20
Services	6,82	8,50	9,20	10,20	11,50
Use of Asset	0,58	1,00	1,10	1,20	1,30
Employees	6,70	11,40	12,60	13,90	15,70
Other Operating Expenses	0,18	0,30	0,30	0,35	0,35
EBITDA	6,37	8,15	9,40	11,05	13,05
<i>EBITDA Margin</i>	<i>10,0%</i>	<i>10,5%</i>	<i>11,0%</i>	<i>11,5%</i>	<i>12,0%</i>
D&A	1,39	2,20	2,25	2,30	2,30
EBIT	4,99	5,95	7,15	8,75	10,75
<i>EBIT Margin</i>	<i>7,8%</i>	<i>7,7%</i>	<i>8,4%</i>	<i>9,1%</i>	<i>9,9%</i>
Financial Management	(0,40)	(0,60)	(0,60)	(0,55)	(0,50)
EBT	4,59	5,35	6,55	8,20	10,25
Taxes	1,34	1,50	1,85	2,30	2,85
Net Income	3,25	3,85	4,70	5,90	7,40

CONSOLIDATED BALANCE SHEET (€/mln)	FY23A	FY24E	FY25E	FY26E	FY27E
Fixed Assets	11,18	11,80	11,55	11,25	10,95
Account receivable	12,10	14,70	16,20	18,20	20,60
Inventories	18,95	23,00	25,30	28,40	32,20
Account payable	15,84	18,10	19,90	22,30	25,20
Operating Working Capital	15,20	19,60	21,60	24,30	27,60
Other receivable	6,15	8,50	8,60	8,70	8,80
Other payable	5,35	6,80	6,90	7,00	7,10
Net Working Capital	16,01	21,30	23,30	26,00	29,30
Severance Indemnities & Other Provisions	1,86	2,20	2,30	2,40	2,50
NET INVESTED CAPITAL	25,32	30,90	32,55	34,85	37,75
Share Capital	0,56	0,56	0,56	0,56	0,56
Reserves	14,37	17,63	21,48	26,18	32,07
Net Income	3,25	3,85	4,70	5,90	7,40
Equity	18,19	22,04	26,74	32,64	40,04
Cash & Cash Equivalent	5,98	2,64	5,19	8,29	12,29
Short Term Financial Debt	8,09	6,00	5,80	5,60	5,40
M/L Term Financial Debt	5,03	5,50	5,20	4,90	4,60
Net Financial Position	7,14	8,86	5,81	2,21	(2,29)
SOURCES	25,32	30,90	32,55	34,85	37,75

CONSOLIDATED CASH FLOW (€/mln)	FY24E	FY25E	FY26E	FY27E
EBIT	5,95	7,15	8,75	10,75
Taxes	1,50	1,85	2,30	2,85
NOPAT	4,45	5,30	6,45	7,90
D&A	2,20	2,25	2,30	2,30
Change in NWC	(5,30)	(2,00)	(2,70)	(3,30)
Change in receivable	(2,60)	(1,50)	(2,00)	(2,40)
Change in inventories	(4,06)	(2,30)	(3,10)	(3,80)
Change in payable	2,26	1,80	2,40	2,90
Change in others	(0,90)	0,00	0,00	(0,00)
Change in provisions	0,34	0,10	0,10	0,10
OPERATING CASH FLOW	1,69	5,65	6,15	7,00
Capex	(2,82)	(2,00)	(2,00)	(2,00)
FREE CASH FLOW	(1,13)	3,65	4,15	5,00
Financial Management	(0,60)	(0,60)	(0,55)	(0,50)
Change in Financial debt	(1,62)	(0,50)	(0,50)	(0,50)
Change in equity	0,00	0,00	0,00	0,00
FREE CASH FLOW TO EQUITY	(3,35)	2,55	3,10	4,00

Source: FAE Technology and Integrae SIM estimates

Company Overview

FAE Technology is the tech company at the head of the Group of the same name and active in the electronics sector. FAE Technology was established in 1990, in Gazzaniga, in the Province of Bergamo, Italy, by Francesco Lanza, and it is specialized in the production of small series of electronic boards, with various dedicated and integrated assets, and is capable of rapidly enabling electronic innovation in the various sectors affected by its pervasiveness, including electric mobility, the Internet of Things (IoT), industrial automation 4.0, and aerospace. Since 2008, the Group has been led by President and CEO Gianmarco Lanza, son of the founder Francesco Lanza.

At its Kilometro Rosso Hub, the Group is actively engaged in open innovation and collaborative research, and, qualifying as a Benefit Company in 13 May 2022, places a strong emphasis on sustainability and corporate social responsibility. It benefits from strategic collaborations with prestigious sector bodies and renowned university and research institutes, such as its partnership with the “Senseable City Lab” of the Massachusetts Institute of Technology (MIT) in Boston.

In the second half of 2023, the Group incorporated the company Elettronica GF Srl, a reference player in the supply of proprietary microprocessor-based electronic systems, such as panel PCs, SOMs and Single Board Computers intended for various applications.

1H24A Results

It should be noted that the financial statements as of December 31, 2023, represent the Group's first consolidated financial statements. As outlined in paragraph 32 of OIC 17, issued by the Italian Accounting Organization, since December 31, 2023, is the Group's first consolidated financial statement, no comparative income statement data is provided for June 30, 2023. However, the balance sheet is comparable with the consolidated financial statement drawn up as of December 31, 2023.

TABLE 2 – 1H24A VS 1H23A

€/mln	Revenues	EBITDA	EBITDA %	EBIT	Net Income	NFP
1H24A	44,21	5,82	13,0%	4,67	3,04	8,34

Source: Integrae SIM

In a press release, the Company, commenting on the half-year results, stated: *“The results achieved in the first half of 2024 mark further progress in the Group’s dimensional development and consolidate the progress made in recent years. A growth path driven by internal efforts, but also supported by the rapid integration of Elettronica GF, which has enhanced our technological offering, and recently by IpTronix, which will enable us to expand our expertise to include solutions of high and very high complexity. Thanks to our technological assets and know-how, we are ready to seize the opportunities offered by the market.”*

Revenues for the first half of 2024 amount to € 44.21 million, thanks to the strong growth of the Solutions Business Line, driven by engineering, prototyping activities, and the sale of proprietary embedded solutions, as well as the development of My Fast PCBA, the proprietary platform dedicated to fast prototyping. Specifically, in 1H24A, the Solutions Business Line generated revenues of € 42.46 million (95.0% of the total), while the My Fast PCBA platform contributed € 1.142 million (3.0% of the total).

Consolidated EBITDA as of June 30, 2024, stands at € 5.82 million, corresponding to an EBITDA margin of 13.0%. This result reflects sustained and targeted commercial and development activities, supported by the strengthening of the organizational structure, both at the managerial and technical levels. This consolidation has allowed the Group to complete its set of strategic resources and competencies, which are fundamental for ensuring sustainable and long-term growth.

EBIT, after depreciation and amortization of € 1.15 million, stands at € 4.67 million, with an EBIT margin of 10.4%. Net Income is € 3.04 million.

Lastly, NFP increased from € 7.14 million in FY23A to € 8.34 million in debt as of 1H24A, an increase attributable to the Company’s ongoing investments aimed at updating production layouts and technologies. The Company is also continuing its consolidation path in the reference market, also thanks to the recent signing, on September 24, 2024, of a binding agreement for the acquisition of 100.0% of the capital of IpTronix Srl, a company founded in 2001,

specializing in custom hardware and software design for FPGA, embedded, IoT, and wireless communication systems.

FY24E – FY27E Estimates

TABLE 3 – ESTIMATES UPDATES FY24E-27E

€/mln	FY24E	FY25E	FY26E	FY27E
Revenues				
New	77,00	85,00	95,50	108,50
Old	83,00	95,50	108,50	n/a
Change	-7,2%	-11,0%	-12,0%	n/a
EBITDA				
New	8,15	9,40	11,05	13,05
Old	9,75	12,10	14,25	n/a
Change	-16,4%	-22,3%	-22,5%	n/a
EBITDA %				
New	10,5%	11,0%	11,5%	12,0%
Old	11,7%	12,6%	13,1%	n/a
Change	-1,2%	-1,6%	-1,6%	n/a
EBIT				
New	5,95	7,15	8,75	10,75
Old	7,65	9,90	11,95	n/a
Change	-22,2%	-27,8%	-26,8%	n/a
Net Income				
New	3,85	4,70	5,90	7,40
Old	5,25	6,85	8,30	n/a
Change	-26,6%	-31,4%	-29,0%	n/a
NFP				
New	8,86	5,81	2,21	(2,29)
Old	8,21	4,46	0,31	n/a
Change	n/a	n/a	n/a	n/a

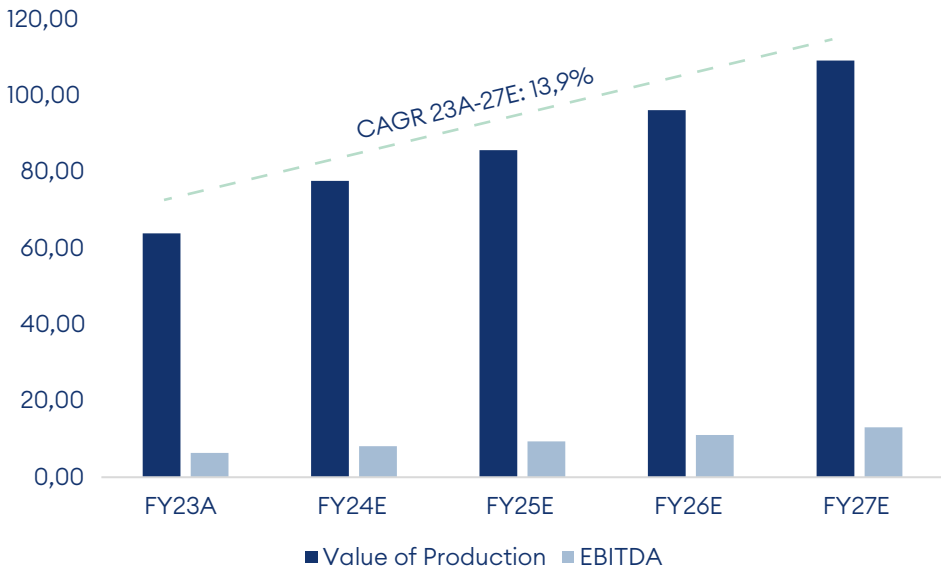
Source: Integrae SIM

In light of the results published in the 1H24A half-year report, we are revising our estimates for both the current year and the coming years. Specifically, we estimate FY24E revenues of € 77.00 million and an EBITDA of € 8.15 million, corresponding to a margin of 10.5%. Although commercial development activities and ongoing efforts in innovation and research, both in terms of products and production processes, continue to ensure the Group's high level of competitiveness and a long-term strategic advantage, current market conditions necessitate a reassessment of growth estimates. The changing macroeconomic conditions, coupled with an unstable political and geopolitical context, lead us to anticipate slower growth in the second half compared to the first half of the year. Therefore, a temporary slowdown is expected, with a stronger recovery anticipated in the first quarter of 2025. Nonetheless, the Group maintains strict discipline in managing structural costs and continues to pursue cost-efficiency measures. These efforts, combined with an increasingly revenue-oriented mix toward engineering activities and proprietary solutions sales, will progressively improve the Group's profitability in the medium to long term. For the following years, we expect revenues to grow to € 108.50 million

(CAGR 23A-27E: 15.6%) by FY27E, with EBITDA reaching € 13.05 million (corresponding to a margin of 12.0%), up from € 6.37 million in FY23A (corresponding to an EBITDA margin of 10.0%).

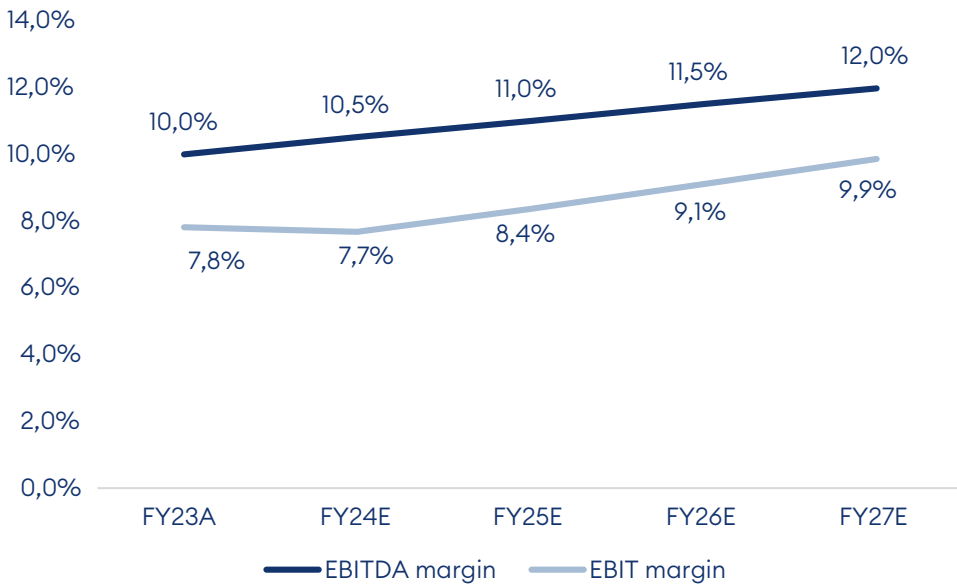
On the balance sheet, we estimate FY27E to have a cash-positive NFP of € 2.29 million. Regarding technological innovation, the Group will continue to invest strategically to support digitization processes, focusing on the development and evolution of the proprietary My Fast PCBA platform, as well as the new digital platform dedicated to refurbishment and disposal activities, My Smart Refurbishment. Additionally, R&D efforts related to proprietary solutions in the embedded and edge computing sectors will be strengthened, which, along with intelligent connectivity and advanced sensors, are key elements for supporting the Group's future growth.

CHART 1 - VOP AND EBITDA FY23A-27E



Source: Integrae SIM

CHART 2 - MARGIN FY23A-27E



Source: Integrae SIM

CHART 3 – CAPEX FY23A-27E

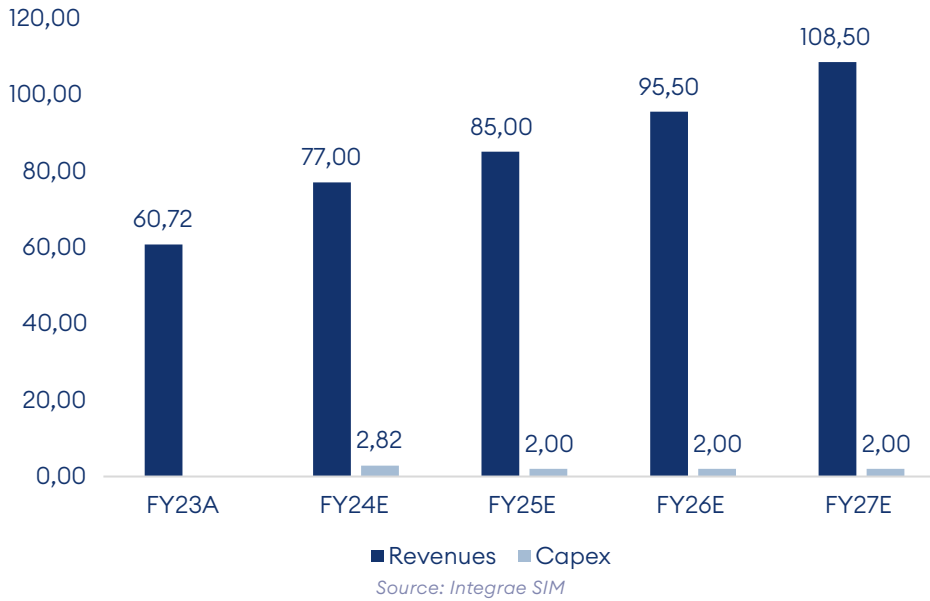
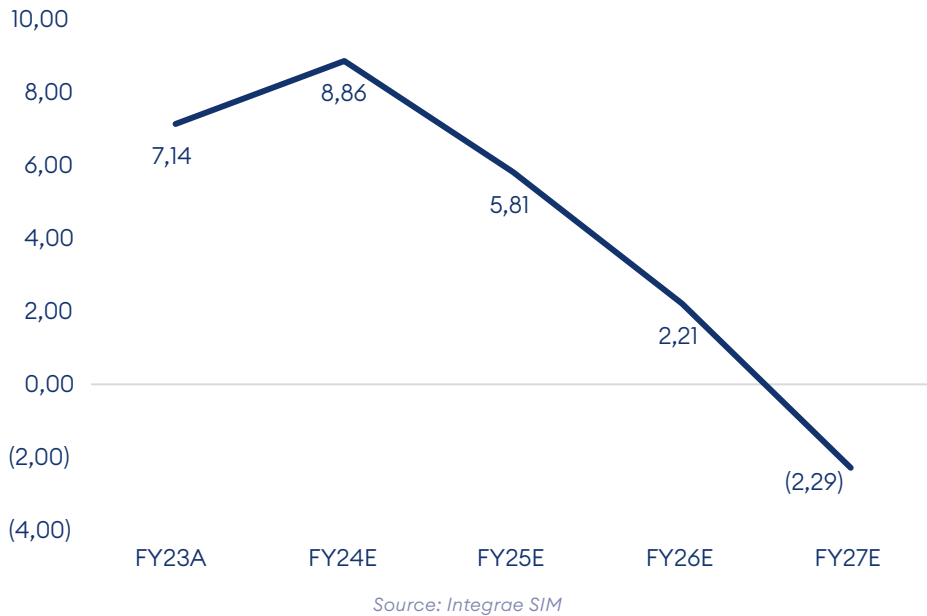


CHART 4 – NFP FY23A-27E



Valuation

We conducted our valuation of the equity value of FAE Technology based on the DCF method and multiples of a sample of comparable companies.

DCF Method

TABLE 4 – WACC

WACC				8,68%
D/E 66,67%	Risk Free Rate 2,74%	β Adjusted 1,1	α (specific risk) 2,50%	
K_d 3,00%	Market Premium 6,80%	β Relevered 1,2	K_e 13,02%	

Source: Integrae SIM

For prudential purposes, we included a specific risk of 2.5%. The result is therefore a WACC of 8.68%.

TABLE 5 – DCF VALUATION

DCF		% of EV
FCFO actualized	19,8	21%
TV actualized DCF	72,8	79%
Enterprise Value	92,6	100%
NFP (FY22A)	7,1	
Equity Value	85,5	

Source: Integrae SIM

With the above data and taking our estimates and assumptions as a reference, the result is **an equity value of € 85.5 million.**

TABLE 6 – EQUITY VALUE – SENSITIVITY ANALYSIS

€/mln	Growth Rate (g)	WACC						
		7,2%	7,7%	8,2%	8,7%	9,2%	9,7%	10,2%
	3,0%	148,1	130,5	116,3	104,7	94,9	86,6	79,5
	2,5%	133,7	119,2	107,2	97,2	88,7	81,4	75,1
	2,0%	122,1	109,9	99,6	90,9	83,4	76,9	71,2
	1,5%	112,6	102,1	93,1	85,5	78,8	73,0	67,8
	1,0%	104,6	95,4	87,6	80,7	74,7	69,4	64,7
	0,5%	97,8	89,7	82,7	76,6	71,1	66,3	62,0
	0,0%	91,9	84,7	78,5	72,9	67,9	63,5	59,5

Source: Integrae SIM

Market multiples

Our panel is made up of companies operating in the same sector as FAE Technology, though many with larger capitalizations. These companies are the same used to calculate Beta for the DCF method. The panel is made up of:

TABLE 7 – MARKET MULTIPLES

Company Name	EV/EBITDA			EV/EBIT			P/E		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
SECO S.p.A.	n/a	n/a	n/a	n/a	n/a	n/a	37,5 x	16,7 x	12,0 x
Jabil Inc.	6,5 x	7,5 x	7,0 x	9,2 x	11,0 x	10,0 x	14,0 x	13,7 x	11,9 x
Plexus Corp.	13,6 x	11,8 x	10,7 x	19,4 x	15,9 x	14,7 x	24,8 x	20,3 x	17,4 x
Unimicron Technology Corp.	8,5 x	4,9 x	4,3 x	28,2 x	8,9 x	7,2 x	23,9 x	10,8 x	8,8 x
Celestica Inc.	8,5 x	7,8 x	7,7 x	10,7 x	9,6 x	7,3 x	13,4 x	12,1 x	10,1 x
Shenzhen Fastprint Circuit Tech Co. Ltd.	13,7 x	9,4 x	6,5 x	129,0 x	60,1 x	35,3 x	75,2 x	44,4 x	28,1 x
Silergy Corp.	57,4 x	30,7 x	21,0 x	75,2 x	35,3 x	22,6 x	74,6 x	36,4 x	25,3 x
Peer median	11,1 x	8,6 x	7,4 x	23,8 x	13,4 x	12,3 x	24,8 x	16,7 x	12,0 x

Source: Infiniti

TABLE 8 – MARKET MULTIPLES VALUATION

€/mln	FY25E	FY26E	FY27E
Enterprise Value (EV)			
EV/EBITDA	104,14	94,87	95,95
EV/EBIT	170,08	117,39	132,48
P/E	116,50	98,35	89,14
Enterprise Value post 25% discount			
EV/EBITDA	78,10	71,15	71,96
EV/EBIT	127,56	88,04	99,36
P/E	87,38	73,76	66,85
Equity Value			
EV/EBITDA	72,29	68,93	74,25
EV/EBIT	121,75	85,83	101,65
P/E	87,38	73,76	66,85
Average	93,81	76,17	80,92

Source: Integrae SIM

The equity value of FAE Technology was calculated using the average of EV/EBITDA, EV/EBIT and P/E market multiples. After applying a 25.0% discount, the result was **an equity value of € 83.6 million.**

Equity Value

TABLE 9 – EQUITY VALUE

Average Equity Value (€/mln)	84,5
Equity Value DCF (€/mln)	85,5
Equity Value multiples (€/mln)	83,6
Target Price (€)	4,80

Source: Integrae SIM

The results give an average equity value of approximately € 84.5 million. **The target price is therefore € 4.80 (prev. € 5.00). We confirm the BUY rating and MEDIUM risk.**

TABLE 10 – TARGET PRICE IMPLIED VALUATION MULTIPLES

Multiples	FY23A	FY24E	FY25E	FY26E
EV/EBITDA	14,4 x	11,2 x	9,8 x	8,3 x
EV/EBIT	18,4 x	15,4 x	12,8 x	10,5 x
P/E	26,0 x	22,0 x	18,0 x	14,3 x

Source: Integrae SIM

TABLE 11 – CURRENT PRICE IMPLIED VALUATION MULTIPLES

Main Ratios	FY23A	FY24E	FY25E	FY26E
EV/EBITDA	12,2x	9,5x	8,3x	7,0x
EV/EBIT	15,6x	13,0x	10,9x	8,9x
P/E	21,7x	18,3x	15,0x	12,0x

Source: Integrae SIM

Disclosure Pursuant to Delegated Regulation UE n. 2016/958

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The table below, shows INTEGRAE SIM's recommendation, target price and risk issued during the last 12 months:

Date	Price	Recommendation	Target Price	Risk	Comment
04/10/2023	1,91	Buy	4,20	Medium	Update
28/11/2023	1,94	Buy	4,60	Medium	Update
12/12/2023	2,35	Buy	4,60	Medium	Breaking News
19/12/2023	2,36	Buy	4,60	Medium	Breaking News
06/05/2024	4,00	Buy	5,00	Medium	Update
25/09/2024	3,98	Buy	5,00	Medium	Breaking News

The list of all recommendations on any financial instrument or issuer produced by Integrae SIM Research Department and distributed during the preceding 12-month period is available on the Integrae SIM website.

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Equity Total Return (ETR) for different risk categories

Rating	Low Risk	Medium Risk	High Risk
BUY	ETR \geq 7.5%	ETR \geq 10%	ETR \geq 15%
HOLD	-5% < ETR < 7.5%	-5% < ETR < 10%	0% < ETR < 15%
SELL	ETR \leq -5%	ETR \leq -5%	ETR \leq 0%
U.R.	Rating e/o target price Under Review		
N.R.	Stock Not Rated		

Valuation methodologies (long term horizon: 12 months)

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