UBI Banca

SERI INDUSTRIAL

Company report — **Buy (maintained)**

31 March 2021 – 5:30 PM | *MARKET PRICE:* ***EUR4.94*** | *TARGET PRICE:* ***EUR8.1 (from EUR6.0)***

Industrials

Data

Shares Outstanding (m):	47.3	
Market Cap. (EURm):	233.6	
Enterprise Value (EURm):	326.4	
Free Float (%):	20.3%	
Av. Daily Trad. Vol. ('000):	100.2	
Main Shareholder:	Civitillo V. 65.56%	
Reuters/Bloomberg:	SERI.MI	SERI IM
52-Week Range (EUR)	1.99	5.67

Source: FactSet, UBI Banca estimates

Performance

	1m	3m	12m
Absolute	-0.2%	+15.7%	+141.0%
Rel. to FTSE IT	-8.1%	+4.9%	+94.9%

Source: FactSet

Graph area Absolute/Relative 12 M

Source: FactSet

Massimo Vecchio
Senior Analyst
massimiliano.vecchio@ubibanca.it
Tel. +39 02 62753016

Dario Fasani
Analyst
dario.fasani@ubibanca.it
Tel. +39 02 62753014

www.ubibanca.com/equity-research

Tev 1 operational. Tev 2 capacity upgraded

2020 was a tough year for SERI Industrial and 2H20 made no exception: despite flat revenues YoY (in line with guidance and with our estimates) profitability was particularly poor but tax credits allowed the company to hit our net profit estimates. More importantly, Teverola 1 (the Lithium batteries plant) is now operational and management expects to book around EUR50 million revenues in 2021 (50% of the entire 2020 company's revenues). On Teverola 2, the IPCEI EUR505 million grants should be awarded in April by the new Draghi-government which has a clear pro-environment stance. The capacity was upgraded to 7-8GWh/annum (revenues of EUR1.26/1.6 billion by 2024-27).

The market is particularly hot on batteries stocks and Teverola 1 represents the only Italian cells' plant (with the majority of projects arriving from 2024-25). Management is nurturing also the "as-is business" that provides profits and cash flow to support the future businesses: SERI announced an innovative JV with Unilever on recycled plastic that, according to management, could turn-in another EUR130 million revenues by 2024. We reiterate our Buy with EUR8.1 TP (which doesn't include Teverola 2 nor the Unilever JV) raised by 35% thanks to the reduction of the "execution discount" and to the peers re-rating and despite no major change in estimates.

> **2H20: profitability hit by Covid-related inefficiencies.** Revenues were flat YoY thanks to the Plastics division (benefiting from the OEMs' production ramp-up) while batteries were still down. Profitability was hit by: a) depletion of the raw materials inventories at lower prices than their original purchase price (both lead and plastics 2020 prices were lower than 2019 levels); b) the delay to 2021 of EUR4.2 million R&D grants on Teverola 1. The company built a EUR52 million fiscal credits to be utilized in the next 7 years.

> **Teverola 1 up and running: the only cell production facility in Italy.** SERI is already holding talks with customers that should translate into revenues from 2Q21 (at 50% utilization and a EUR400KWh avg. price). On Teverola 2, while waiting for the EUR505 million award SERI is talking with suppliers.

> **JV with Unilever on recycled plastic parts.** The JV should develop 130,000 tons capacity of recycled plastic using the most advanced technologies. Unilever will be one of the main customers and, the fact that such a large and well-known company partnered with SERI adds to the company industrial credibility. At full speed the plant could make EUR130 million in revenues. The JV investments will be basically self-financed (75% coming from public funds).

> **Reassuring 2021 guidance. Stock market is on fire on batteries stocks, Buy confirmed.** Whilst the equity story has never been focused on 2020, we admit results were worse than expected. For 2021 management sees a normalization, in line with our estimates. A new BP presentation and the exit from the black list could add positive newsflow to the industrial story.

Financials EURm

	2020	2021E	2022E	2023E
Total Revenues (EURm)	134.0	201.7	271.5	316.2
EBITDA Adj (EURm)	4.9	33.7	51.1	62.7
EBITDA Adj margin (%)	3.7%	16.7%	18.8%	19.8%
EBIT Adj (EURm)	-6.3	20.3	37.9	49.3
EPS (EUR)	-0.09	0.26	0.58	0.74
CFPS (EUR)	-0.14	0.29	0.53	0.79
DPS (EUR)	0.00	0.00	0.00	0.00

Source: Company data, UBI Banca estimates

Ratios (priced on 30 March 2021)

	2020*	2021E	2022E	2023E
P/E (x)	NM	19.0	8.4	6.7
P/CF (x)	NM	16.8	9.3	6.3
P/BV (x)	1.2	1.8	1.5	1.2
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
EV/EBITDA Adj. (x)	48.6	9.5	5.9	4.4
Debt/Equity (x)	0.8	0.7	0.4	0.2
Debt/EBITDA Adj. (x)	19.5	2.6	1.3	0.6

*Source: Company data, UBI Banca estimates * av. price*

Key Financials

(EURm)	2020A	2021E	2022E	2023E
Total Revenues	134.0	201.7	271.5	316.2
EBITDA Adj	4.9	33.7	51.1	62.7
EBIT Adj	-6.3	20.3	37.9	49.3
NOPAT	-11.5	15.4	28.1	36.2
Free Cash Flow	-7.4	8.7	19.7	27.6
Net Capital Employed	211.8	215.4	223.4	230.6
Shareholders' Equity	115.8	128.1	155.8	190.6
Net Financial Position	96.0	87.3	67.6	40.1

Source: Company data, UBI Banca estimates

Key Profitability Drivers

	2020A	2021E	2022E	2023E
Net Debt/EBITDA Adj (x)	19.5	2.6	1.3	0.6
Net Debt/Equity (x)	0.8	0.7	0.4	0.2
Interest Coverage (x)	0.6	9.2	17.7	34.5
Free Cash Flow Yield (%)	-5.2%	3.7%	8.4%	11.8%
ROE (%)	-3.7%	9.6%	17.8%	18.2%
ROI pre-tax (%)	-5.4%	9.4%	17.0%	21.4%
ROCE post-tax (%)	-0.4%	7.3%	13.6%	15.8%

Source: Company data, UBI Banca estimates, 2019 Debt includes IFRS16 impact

Key Valuation Ratios

	2020*	2021E	2022E	2023E
P/E (x)	NM	19.0	8.4	6.7
P/BV (x)	1.2	1.8	1.5	1.2
P/CF (x)	NM	16.8	9.3	6.3
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
EV/Sales (x)	1.8	1.6	1.1	0.9
EV/EBITDA Adj (x)	48.6	9.5	5.9	4.4
EV/EBIT Adj (x)	-38.2	15.8	8.0	5.6
EV/CE (x)	1.1	1.5	1.3	1.2

Source: Company data, UBI Banca estimates ** Based on average price*

Key Value Drivers

(%)	2020A	2021E	2022E	2023E
Payout	0.0%	0.0%	0.0%	0.0%
NWC/Sales	25.0%	22.0%	22.0%	23.0%
Capex/Sales	18.6%	4.0%	4.0%	4.0%

Source: Company data, UBI Banca estimates

Recent Developments: 2H20 results

> **2H20: shades and lights**. 2H20 showed a solid performance at top line level hinting at a normalization after two lockdowns that impacted severely the operations. Revenues were in line with the guidance provided at the time of 1H20 results and with our estimates. Profitability instead was worse than expected for supply-chain related constraints and due to management's choice to preserve the employees and the customers. In 2H20 Revenues of EUR76 million were -2% YoY (+2% the client-revenues, i.e. pure revenues and not value of production). To avoid disruption to the operations and to customers the company used raw materials stock which in fact decreased by EUR20.6 million over the course of the year. This preserved also the cash flow generation (in fact working capital released EUR7.7 million of cash despite a decrease in payables) but impacted negatively the EBITDA. The Plastics BU performed better than the Batteries one by reporting a +0.6% YoY in 2H20 (compared to -9.5% YoY of the Batteries).

> **Why profitability was so low.** Adj. EBITDA of EUR4.3 million of 2H20 was below our expectations for EUR16.3 million. Two main reasons: a) the aforementioned raw materials (lead and plastic), bought in 2019 at higher prices, were invoiced to customers at a lower price as contracts are based on standard indexes which in 2020 were around 10/15% lower; b) In our estimates we had a EUR4.2 million grants on an R&D project with Invitalia. The entire project was delayed due to Covid and it should be booked in 2H21. This was entirely going addictive to EBITDA. Even accounting for these two factors there would have been an EBITDA shortfall of around EUR4/5 million attributable to the -2% YoY revenues decline and by extra costs on the supply chain.

> **The tax credit: EUR52 million to be used presumably in the next 7 years.** The EBITDA difference translated down to the pre-tax level while the booking of a EUR10.6 million tax credit allowed the Adj. Net Income (EUR4.8 million) to be in line with our estimates. The company booked a total of EUR52 million tax credits due to: a) the investments it has done in under-developed area of Italy; b) higher tax deductions linked to the D&A on re-valued assets; c) R&D investments (under the "Industria 4.0" scheme). Those credits will be used presumably in the forthcoming years and will have a positive impact on the cash flow.

> **EUR23.4 million capex (17.5% on sales) booked in FY2020**. The Net debt position of EUR96.0 million was already disclosed and incorporate a yearly capex of EUR23.4 million which was above our expectations and mostly related to the completion of Teverola 1. NWC declined by EUR7.7 million in the year mostly thanks to the EUR7.1 million decline in inventories while payables and receivables declines compensated each other.

Figure 1 – 2H20 and FY20 results

(EURm, %)	2H19A	2H20A	YoY chg.	2H20E	A/E chg.	FY19A	FY20A	YoY chg.	FY20E	A/E chg.
Total sales	77.6	76.0	-2.0%	78.1	-2.7%	156.5	134.0	-14.4%	136.1	-1.5%
EBITDA Adj.	14.2	4.3	-69.8%	16.3	-73.7%	22.1	4.9	-77.7%	16.9	-70.9%
EBITDA margin %	18.3%	5.6%		20.9%		14.1%	3.7%		12.4%	
EBIT	16.6	(5.6)	Nm	8.3	NS	6.7	(11.5)	Nm	2.4	NS
EBIT margin %	21.4%	-7.4%		10.6%		4.3%	-8.5%		1.8%	
Net profit	14.2	3.7	-74.2%	5.7	-35.4%	1.5	(4.0)	Nm	(2.0)	100.8%
Industrial Net Debt/(Cash)	69.0	96.0		96.0	0.0%	69	96	39.0%	96.0	0.0%
Adj. Net profit	13.9	4.8	-65.4%	4.9	-1.9%	1.3	(1.1)	Nm	(1.0)	9.2%

Source: Company data, UBI Banca estimates

TEVEROLA 1: Up and running. A recap of business model and financials

Now that Teverola 1 is up and running, and considering the delay on the initial plans, we think it is worth to revisit the business model of this division and its financials.

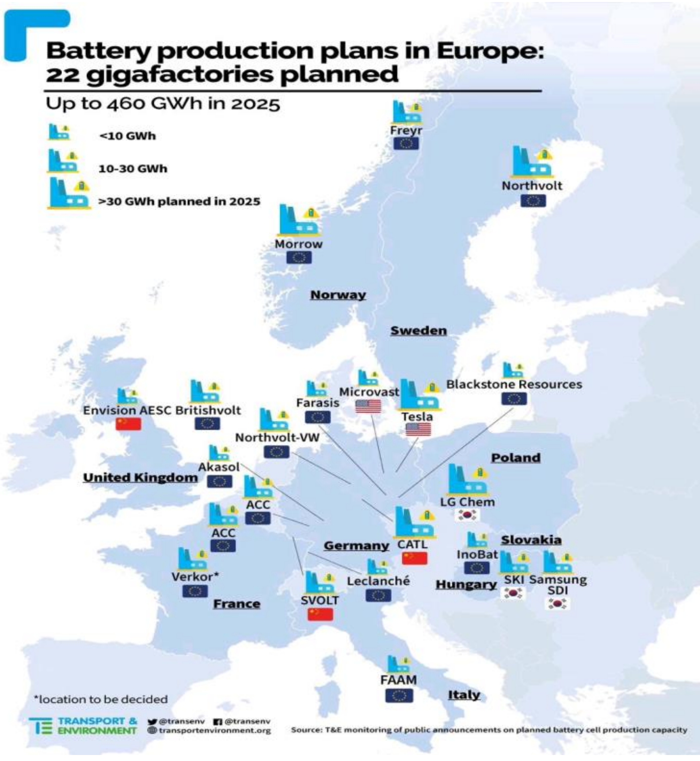
The Business Model

Management, through its "Lithium project" plans to replicate the circular economy business developed for the lead-acid batteries to the li-ion accumulators. With an installed capacity of 300MWh SERI plans to produce soft pouch batteries (generation 1 and, eventually, 2) targeting "niche" applications like motive power (i.e. forklifts, ground movement machines, light traction, telehandlers, etc.), ESS, Public transport, Naval and Defence. SERI will focus on customers/applications that require tailored, high performing batteries and to customers/markets where the ESG is a factor in purchasing decisions (i.e. re-cycling and second life). The fact that 80% of a cell cost is represented by raw materials leaves us with two main strategic implications:

- Low-cost countries don't have a sustainable competitive advantage which, instead, is represented by investing in R&D;
- Securing key raw materials supply is imperative, and SERI did exactly that when it entered a JV with an Argentinian lithium mine;
- Eventually the IPCEI program (Teverola 2) should give the financial resources to develop a recycling/second life model.

There are really few plants in Europe and only one in Italy. Furthermore, the majority of the plants are under constructions.

Figure 2 – Battery production plans in Europe



Source: Volkswagen Power Day Presentation

While the average selling price will depend from the blend of applications served, our estimates are based on a EURKw/h 420 price in 2021, declining below 400 by 2024.

The Financials

We assumed that the ramp-up will be gradual over the course of 2021. We expect that the customer base will be mostly represented by utilities like Enel X, Enel Green Power and the likes (for ESS applications), the consumer market (for domestic storage) and industrial companies like Merlo, Jungheinrich and the likes (for industrial applications).

The Gross margin of companies like Varta and CATL is above 30% and (with Varta produces both electric and lead-acid batteries, the latter being less profitable). Furthermore, their electric batteries are more mass-market than the one to be produced at Teverola (price difference is huge, EUR200/250 KWh at pack level for EVs and more than EUR400/500 KWh on niche applications, in our view). We would assume that Teverola I could easily reach the 25% EBITDA margin level considering also the low fix cost base (75 FTE in 2020 and, we assume, other fix costs for EUR2/3 millions). We expect that this level should be reached by 2022, when the facility should be at cruise speed.

Figure 3 Teverola I estimates

	2021E	2022E	2023E	2024E	2025E	2026E	2027E
MWh	113.0	248.6	323.2	371.7	379.1	386.7	394.4
YoY growth		120.0%	30.0%	15.0%	2.0%	2.0%	2.0%
Price (EUR/KWh)	420.0	411.6	403.4	395.3	387.4	379.6	372.1
YoY growth	-2.0%	-2.0%	-2.0%	-2.0%	-2.0%	-2.0%	-2.0%
Revenues	47.5	102.3	130.4	146.9	146.9	146.8	146.7
YoY growth		115.6%	27.4%	12.7%	0.0%	0.0%	0.0%
EBITDA	10.4	25.6	32.6	36.7	36.7	36.7	36.7
EBITDA margin	22.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%

Source: UBI Banca estimates

An approach to the fair value

While we assigned a fair value to the entire company as we believe this is the most correct approach, it is worth to try and understand the value that a single project like Teverola I could have on a standalone basis.

We thought that a DCF would better capture the specificity of this investment case. Our assumptions were:

- NWC/Sales at 20%, in line with competitors' figures;
- An additional EUR50 million of resources (debt) will be needed in terms of working capital and start-up costs;
- The tax profile will be similar to a standard Italian-based business (i.e no tax incentives whatsoever);
- A 6.2% WACC based on a 1.1 beta and a low leveraged structure (around 1x Debt/EBITDA on the terminal year). The cost of debt at 4.5% (pre-tax) is probably too conservative but we wait to have evidence of the financing lines to have a more precise idea;
- A 1.75% perpetual growth rate, after 2030 when the business will be at cruise speed;

The resulting fair value for this new activity was EUR245 million (or EUR5.2 per share) as can be found in the next figure:

Figure 4 – WACC assumptions

(EURm)	
Risk free rate	2.0%
Equity Risk Premium	4.5%
Beta	1.10
Cost of equity	**7.0%**
Net Cost of debt	**3.2%**
Leverage	20.0%
WACC	**6.2%**

Source: UBI Banca estimates

Figure 5 – DCF summary

(EURm)	
PV of future cash flows	137.8
PV of Terminal Value	157.2
Enterprise Value	**295.0**
Net Debt/(Cash)	50.0
Equity Value	**245.0**
Number of shares (m)	47.3
Equity Value per share (EUR)	**5.2**

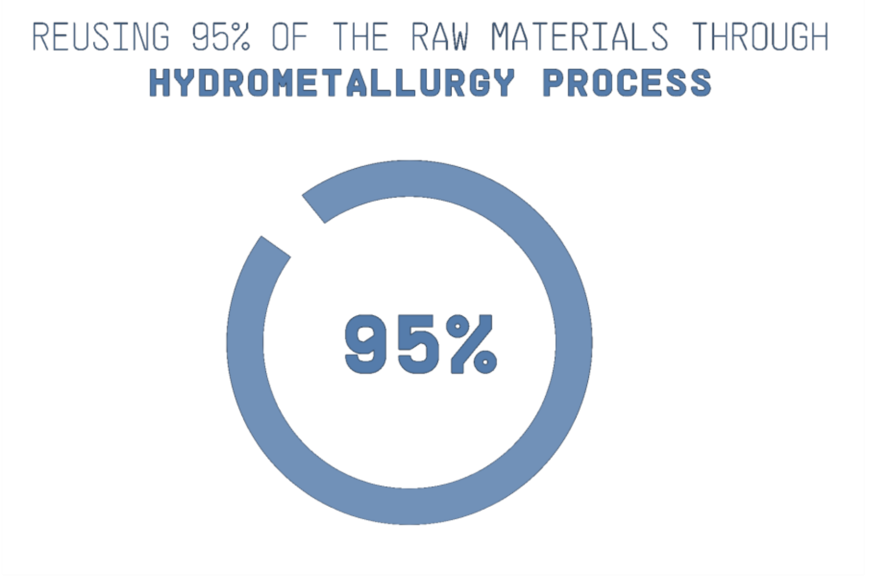
Source: UBI Banca estimates

The European battery industry is shaping up

Since our last report the European battery industry moved some significant steps. Here below the summary of the most important news emerged during 2H20 that are shaping the European industry:

- **A European standard was defined:** in mid-December the European Commission has adopted a proposal for a new EU regulation for batteries, setting European standards that manufacturers should follow. The labelling system introduced involves all the characteristics of the battery, from an ethical supply of raw materials, through the sustainable production and finally to the recycling of the end of life battery;
- **The Italian government set aside EUR570 million to finance the IPCEI on lithium batteries (14 August 2020):** Still another decree (called "Inter-ministeriale") is due before finally assigning the funds. We believe that the "Recovery funds" will also be instrumental on that front;
- **Volkswagen opened the group's first pilot plant for recycling electric car batteries in Germany (Salzgitter).** The aim is the industrialized recovery of valuable raw materials such as lithium, nickel, manganese and cobalt in a closed loop together with aluminium, copper and plastics, achieving a recycling rate of more than 90% over the long term. The unique feature of the Salzgitter plant is that it only recycles batteries that can no longer be used for other purposes. Before the battery is recycled, an analysis determines whether the battery is still powerful enough to be given a second life in mobile energy storage systems such as the flexible rapid charging station or the mobile charging robot. The plant has been designed to initially recycle up to 3,600 battery systems per year during the pilot phase—this is the equivalent to more than 1,600 tons;

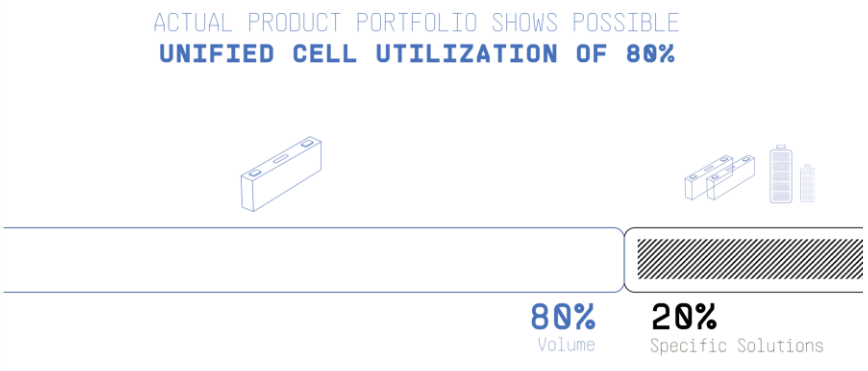
Figure 6 – VW estimates of raw materials recycling levels



Source: Volkswagen Power Day Presentation

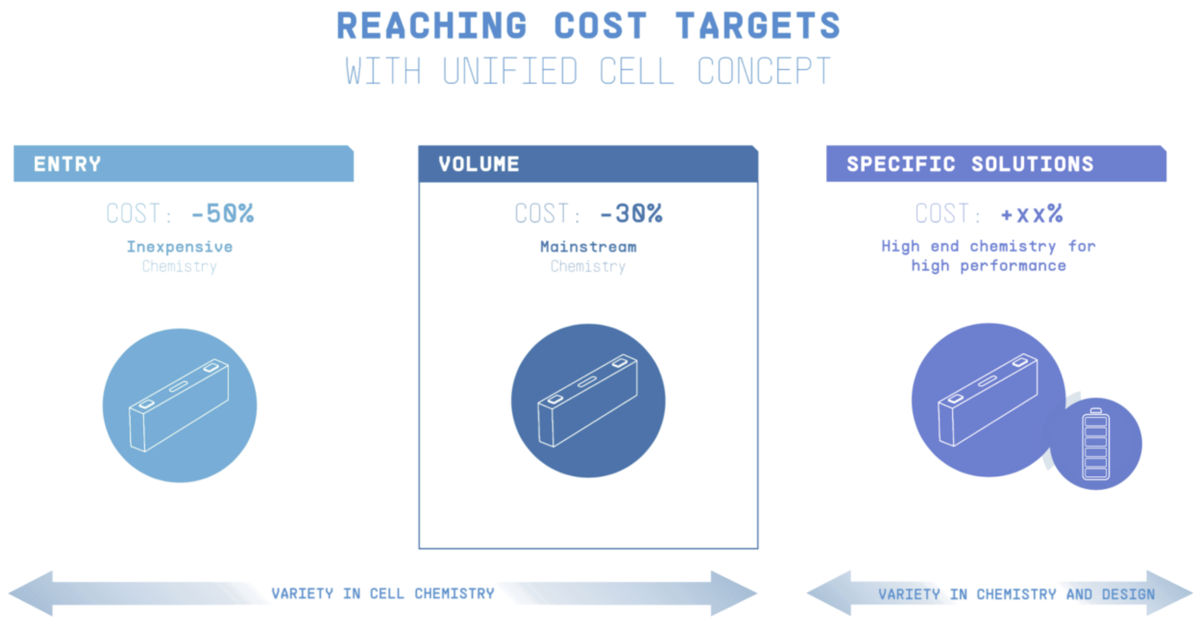
- **Volkswagen will build 6 giga-factories in Europe**. The German company held on 15 March its first "power day" where, in an effort to accelerate mass adoption of electric cars, announced it aims to build six European giga-factories by 2030 and to reinforce the European EV charging infrastructure network. Volkswagen wants to have six battery cell factories operating in Europe by 2030, which it will build alone or with partners (CEO Herbert Diess presented together with the CEOs of BP, Enel and Iberdrola to underscore their support). The envisaged joint production capacity is around 240 gigawatt hours (GWh) a year, adding the first 40 GWh would come from Sweden's Northvolt, with production starting in 2023. This will be followed by a factory in Spain, France or Portugal in 2026 and a site in Poland, Slovakia or the Czech Republic by 2027. Two more plants will be set up by 2030. While the first two factories are already reflected in Volkswagen's financial planning, the group is currently in "deep discussions" about how the subsequent plants fitted with financial targets (this may lead to the IPO of Porsche). Volkswagen is also working on a major expansion of charging infrastructure, a lack of which is still seen as a big barrier to the mass adoption of battery-powered cars: via existing efforts and partnerships with BP, Enel and Iberdrola, Volkswagen aims to operate about 18,000 public fast-charging points in Europe by 2025. This represents a five-fold expansion of the existing fast-charging network adding it would invest EUR 400 million in the initiative. In North America, Volkswagen targets 3,500 fast-charging points by the end of 2021 via its Electrify America unit, while in China the group aims for 17,000 by 2025. On average, VW expects to drive down the cost of battery systems to significantly below EUR100 per kilowatt hour so to make e-mobility "affordable and the dominant drive technology." VW plan means, on the negative side, that: a) batteries costs (EUR/KWh) are poised to decline. For Teverola 2 we would assume, in 2024, a EUR180 KWh price; b) competition (and more capacity) is coming. Viceversa, on the positive side, VW plans mean that: a) VW implicitly believes that there will be a battery shortage as EV sales ramp-up; b) No plants should be built in Italy; c) The 240 GWh production planned explains how SERI, with its 300 MWh at Teverola 1 and >3 GWh at Teverola 2 is playing into niches of the markets, where prices are higher. VW itself envisages that 20% of its needs will be "special" and would require tailor made solutions (see next 2 figures here below).

Figure 7 – VW expectations of standard vs. specialty batteries usage



Source: Volkswagen Power Day Presentation

Figure 8 – VW expectations of batteries cost decline



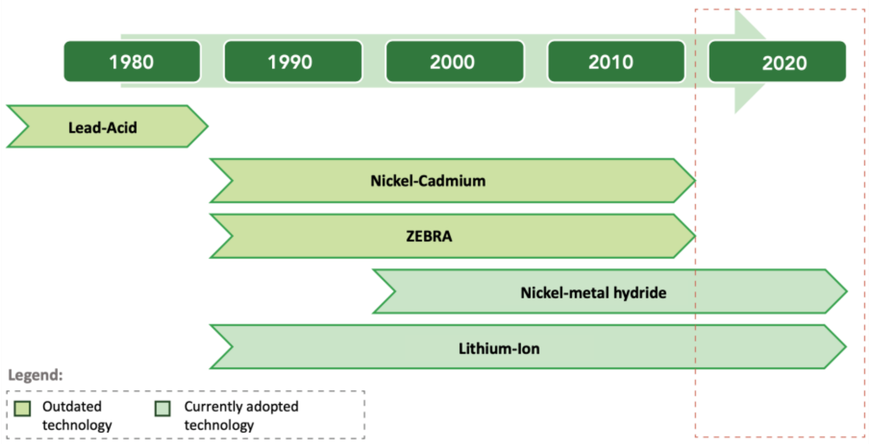
Source: Volkswagen Power Day Presentation

- **IVECO, Scania, Daimler, MAN, Volvo, DAF and Ford, agreed to stop selling diesel engines by 2040 (10 years before the EU 2050 target).** Electric, hydrogen and alternative fuels will be promoted instead. Gas too should be out of the way. While trucks are usually excluded from the suspects list when talking about pollution and CO2, they represent 1/5 of the total oil demand (source IEA) and produce 1/3 of the CO2 emitted in transportation. Whilst 2040 is far away (above all in stock market timing terms!) investments are already in place now and who will get it wrong (in terms of technology) risks to left out of business. CNH is pushing on hydrogen for trucks thanks to its (very discussed) partnership with Nikola but we believe the company is also looking at electric for its light trucks.

What is happening on the technology development?

From the technological point of view the year behind us brought some novelties in a sector that is evolving at the speed of light. Let's try to recap first the current standpoint: the next figure shows how the battery has evolved overtime from lead to adding also Lion batteries:

Figure 9 – Timetable of battery technologies



Source: Polytechnic University of Milan - Smart Mobility Report 2020

The Lion batteries are installed in all the BEV and PHEV vehicles while 50% of the FCEV uses the Nichel-metal hydride (NiHM) based ones. Those batteries have different features that can be summarized with Lion having the highest energy density but also being more expensive:

Figure 10 – Batteries' features and related cost

Features	Lead-Acid	Nickel-Cadmium	ZEBRA	Nickel-metal hydride	Lithium-Ion
Mass energy density (Wh/kg)	25-50	40-80	100-120	30-80	60-260
Useful life (cycles)	300-2,000	1,000-2,500	2,500-3,000	500-1,500	500-1,000
Cost (EUR/kWh)	100-200	350-750	100-250	150-250	130-200

Source: Polytechnic University of Milan - Smart Mobility Report 2020

With all the research and investment done on both Lion and NiHM their features are going to improve overtime while the cost should go down:

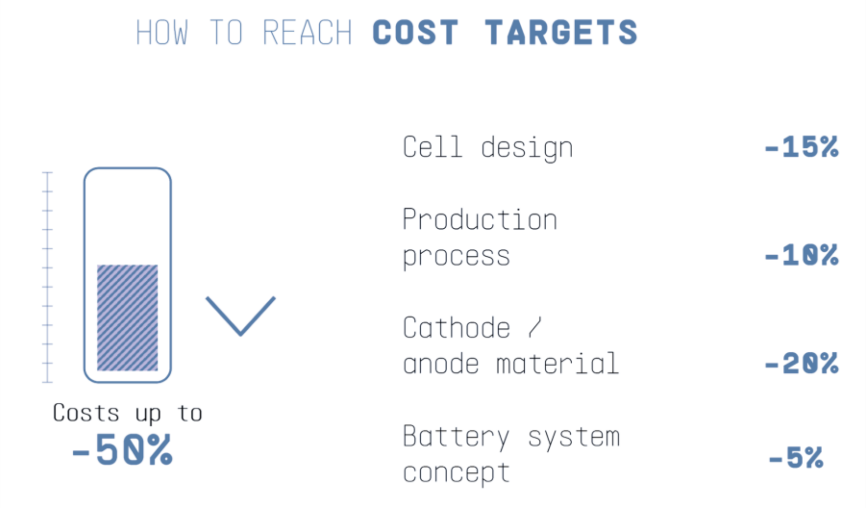
Figure 11 – Lithium-Ion expected technology development

Features Lithium-Ion	Current value	2030 expected value	Impact
Mass energy density (Wh/kg)	60-260	275	High
Useful life (cycles)	500-1,000	>1,000	Low
Cost (EUR/kWh)	130-200	80-120	Medium

Source: Polytechnic University of Milan - Smart Mobility Report 2020

Volswagen for instance, believes that batteries costs would decline by 50% by 2030:

Figure 12 – VW estimates of batteries cost decline by 2030 (split by driver)



Source: Volkswagen Power Day Presentation

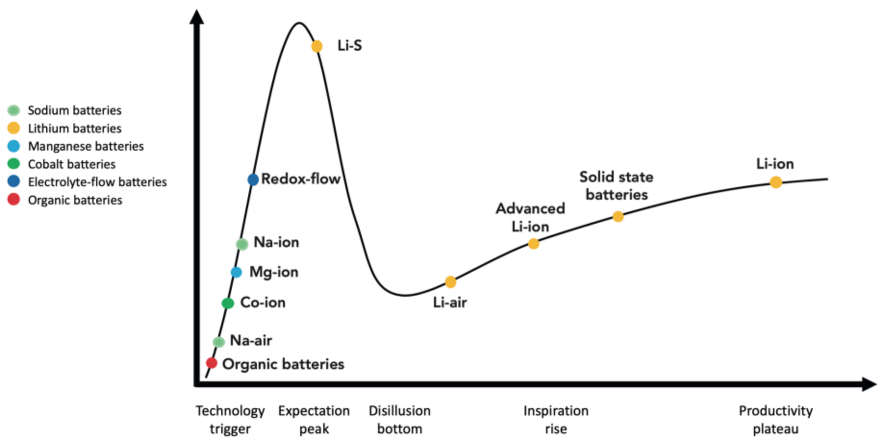
The performance of the Lion batteries should improve thanks to the use of new materials (mostly for the cathode) that should increase the density while enlarging the useful life: the substitution of the graphite with the silicon and the use of cobalt/nickel/manganese/aluminium to reduce the use of rare-hearths material (to increase the ESG focus) are all good examples of what it is happening.

New uses, like the V2G (vehicle to grid) would require a different way of dissipating the heat.

The future therefore may bring additional innovation in the sector:

- **Solid state batteries:** this technology main feature is its stability in the high-speed recharge, higher safety (less inflammable) and lower ageing. On the other hand, its energy density is lower. There are several companies (better, start-ups) that are developing similar products but still in the early development phase;
- **LFP battery (lithium ferrophosphate)** have the major drawback of low energy density. But, because of low cost, low toxicity, well-defined performance, long-term stability and the fact that they are cobalt-free are used in several application. Research to improve the energy density would add to the benefits of this kind of batteries;
- **Electrolyte-flow batteries (zync-bromine and vanadium salts):** the battery recharge doesn't happen with the electricity but substituting the electrolyte;
- **Organic batteries:** characterized by the full recyclability of raw materials used, for extremely high energy density and for the ability to carry out fast charging. The technology consists in the chemistry of organic cells based on graphene and therefore not uses rare, toxic or expensive materials such as metals.

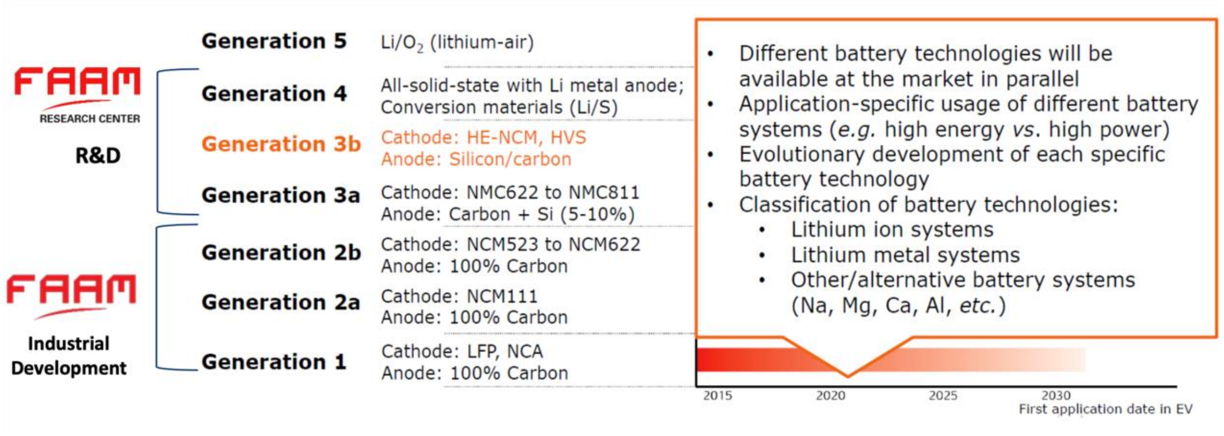
Figure 13 – Hype cycle model for battery technologies



Source: Polytechnic University of Milan - Smart Mobility Report 2020 (elaboration from Carnegie Mellon University)

The plan envisaged by the EBA was to arrive up to the solid-state batteries (described in the graph below as "generation 4"):

Figure 14 – SERI Industrial Lithium Project technology roadmap



Source: Company presentation

What is SERI Industrial doing on batteries?

The sector is evolving at the speed of light, as it is typical for such innovative technologies when they are in great demand (i.e. funds flow-in speeding up the discovery process). For sector player is mandatory to stay on the hedge of the technology so the question is "what SERI is doing on all of the three aspects touched before (production standards, technology development, competition coming and diesel substitution, mostly in public transport)?"

It is worth mentioning that SERI is able to sell the entire battery pack, so cells+electronics and this is particularly impacting on specialty products where the company can boast a high selling price. A similar concept is applied to the ESS applications: being able to sell the entire pack (including the inverters for instance), SERI has a distinctive competitive advantage and can ask for a higher price (because it delivers a higher value to customers).

Battery standard & technology development

As far as the new European standards, SERI already stated on its internet site that it's project for the realization of the first Italian Gigafactory, is in line with goals set by the European Commission and is based on the research, development and industrialization of sustainable batteries for industrial, stationary and electric vehicles applications and also on the recycling/repurposing at the end of life. This is not surprising considering that the company was involved since the beginning in the European Battery Alliance (EBA). It would have been extremely unusual if its standards would have been different from the one set by the EU.

Diesel substitution and the public transport market

As far as the possible substitution of the diesel propulsion, this is quite likely in the public transportation. According to Enel-X there are in Italy 60,000 buses that needs an upgrade that could cost around EUR20 billion. For this reason, the business model could be more a leasing one rather than a pure sale to local transport companies. SERI Industrial has been developing technologies for electric buses: the company was public (back in 2011) in confirming its prototyping project with the city of Turing and GTT, the local public transport company, with whom it developed a bus revamping technology to convert from diesel to 100% electric.

Exploring market niches to avoid competition (and keep selling prices high)

The company is also actively pursuing several other market niches, the most evident and interesting of which could be the one of the submarines. According to IlSole24 ore (article enclosed, Italian only unfortunately) Fincantieri could sign "within some weeks" the contract with the Italian Navy for the 2 electric-powered submarines (worth EUR1.35 billion) with an option for another 2 submarines (total contract value EUR2.3 billion). The submarines will have lithium ion batteries to have more autonomy and speed when the submarine emerges. While there is nothing official neither from Fincantieri nor from SERI Industrial we believe that the award of this contract is gaining visibility. What we know is that SERI worked in the recent past with Fincantieri and Marina Italiana for a similar prototype. Obviously, the contract will be of enormous importance for SERI not only in economic terms but also in terms of references. It will also be the first evidence that the company efforts in the lithium ion batteries is beginning to payoff. For SERI Industrial the value could be around EUR42 million to be split over a number of years (we believe at least 4).

The plastic business and the JV with Unilever

The logic of being in the plastic business

The excitement around the hot batteries business overshadowed SERI's activities in the plastic business which are extremely relevant both in terms of financials and sustainability (i.e. circular economy).

The major driver of this business is the ever-growing needs of the world to recycle plastic. This culminated recently in taxes on the plastic production that are significant when compared to the overall cost of the product itself.

On top of that, as every raw material price may fluctuate heavily creating tensions along the supply-chain. Right now, the prices of all types of plastic are experiencing abnormal increases and it is difficult to find the raw material There is a significant shortage of polymers, with the consequent hoarding and explosion in prices: the increase in two months was 50%. The price of polyvinyl chloride (PVC) exiting the United States has flown to 1,625 dollars a ton, polypropylene has doubled in price compared to 2019 and polyethylene is at its highest since 2008.

Recycled plastic brings the advantage for SERI's customers to reduce their cost base and, for automotive OEMs, to reduce the weight of some components.

SERI Plast deals with the production of thermoplastic compounds mainly based on polypropylene recovered from post-consumers scraps and virgin raw materials. In the early 2000s, SERI Plast developed a polypropylene compound, now approved by the major worldwide battery manufacturers, specially designed for the production of boxes and lids for starter and traction batteries (and used internally for the realization of boxes and lids and sold to big customers – such as Exide). The long and strict cooperation with battery manufacturers and automotive sector customers (Tier 1 supplying FIAT, BMW and VW) has pushed SERI Plast to inaugurate, in 2011, a specific division dedicated to the production of polypropylene compounds for the automotive industry.

The JV with Unilever

SERI Plast, on 22 March, has signed a long-term industrial and commercial agreement with Unilever (under the form of a JV) to further develop its Plastic Material business unit taking profit of the market demand of recycled plastic, with a circular economy perspective. The agreement involves also the conversion of the Unilever plant in Pozzilli (Isernia, Italy) with an expected production capacity of 130 thousand tons will be installed for the production of plastic materials from the recovery of post-consumer packaging ensuring the transition from a linear consumption model (take, transform and throw) to a full circular model.

The Italian Ministry of Economic Development together with the Molise Region and the Trade Unions) where involved in the negotiations to verify, with the support of Invitalia, the industrial suitability, in order to ensure the business continuity of all the workers currently employed at the site.

According to the press release the agreement envisages:

- the establishment of a 50/50 Newco between SERI Plast and Unilever;
- the terms and conditions for the purchase and industrial conversion of the Pozzilli Plant (currently owned by Unilever), and the re-deployment of the workers currently operating in the Site;
- the submission of a proposal for a program agreement for an estimated investment of EUR75 million;
- the sharing of the guidelines for the signing of shareholders' agreements that will

include a governance in the hands of SERI Plast and the possibility for SERI Plast to increase its stake in the Newco;

- the commitment to sign a contract for the supply of the Site's products from Newco to Unilever.

We understand from press articles that the plant should be operational in 2024 (12/18 months after the site will be handed over to SERI Industrial). Thanks to all the institutional support we believe that part of the EUR75 million investments could be funded by public grants (with or without recourse, like it was the case for Teverola 1).

The fact that the JV already has a significant customer (Unilever) coupled with the fact that the technology will be co-developed and should be state-of-the-art are clearly the major positives of this agreement.

In terms of revenues management expects to sell its plastic derivatives anywhere between EUR/Kg 1.0 and 1.1. Translated into revenues implies a maximum of EUR130 million revenues. The sector leader in Italy, Montello S.p.A. enjoys very high profit margins in 2019 a 20% EBIT margin and almost a 30% EBITDA margin) and reported revenues of EUR144 million. On its site it says it has 300,000 tons per annum of packaging waste in post-consumer plastic. It also collected 695,000 tons of recycled waste.

Financial Projections

- **Teverola 1 to begin invoicing in mid-2Q21. The plant is finally operational, and a virtual inauguration took place yesterday.** In the press release the company mentions that the technical performances were even better than originally planned and that the bidding activity has begun given that now customers can sample the product. The 300MWh/annum capacity should be reached in 2022 while management expects to hit a 50% in 2021 which, based on the EUR400KWh price, should turn something like EUR50 million in revenues this year. Our estimates are in line with the company ones in 2021 while we remain little more conservative on 2022 when we expect an 83% utilization rate. With a 20% EBITDA margin, Teverola 1 should add EUR10 million to the group EBITDA figure.
- **The "as-is" business (lead acid batteries and plastics) to be back to 2019 levels in our view.** Management said that the "as-is" business should recover the lost ground and be in 2021 where it was supposed to be in 2020. In our estimates we are assuming that 2021 will be at the same levels of 2019 and our conservative stance is explained by the stress under which the supply-chain still is and by the risk of further (partial) lockdowns.
- **All in all, only a fine-tune to our 2021-22 estimates.** While we marginally lowered our EBITDA on supply-chain extra costs and time-lag in passing through raw material fluctuations we basically left our EPS estimates unchanged thanks to the lower tax rate. The worsening Net Debt has to do with extra-capex and a more cautious approach on NWC absorption. Our estimates do not include Teverola 2 and the JV with Unilever (nor the relative investments and impact on the P& and Balance sheet in terms of provisions). We will update our forecasts when the EUR505 million award will be official and after the BP presentation which should include also some more details on the JV.

Figure 15 – Old vs. new estimates

	2020A	2021E			2022E			2023E
(EURm)		**New**	**Old**	**% Chg.**	**New**	**Old**	**% Chg.**	**New**
Sales	125.6	217.3	196.7	-9.5%	274	266	-2.9%	311.2
Adj. EBITDA	2.3	35.1	33.7	-4.1%	51	51.1	-0.3%	62.7
Adj. EBIT	(11.5)	21.7	20.3	-6.2%	38	37.9	-0.6%	49.3
%	-9.1%	10.0%	10.3%		13.9%	14.2%		15.8%
EPS	(0.09)	0.26	0.26	-1.9%	0.56	0.58	4.3%	0.74
Adj. EPS	(0.02)	0.26	0.27	2.1%	0.56	0.60	6.2%	0.75
Net Debt/(Cash)	(96.0)	(76.4)	(87.3)	-12.5%	(59.8)	(67.6)	-11.5%	(40.1)

Source: Company data, UBI Banca estimates

Valuation

- **Raising our TP of to EUR8.1 (from EUR 6.0).** The solid peers performances, the marginal improvement in estimates and the slightly higher leverage ratio are the main reason for the 10% increase in our fair value from EUR8.6 to EUR9.5 p.s.. The increase in the target price is higher (35%) because we are halving the 30% "execution risk discount" now that Teverola 1 is in operations. The remaining execution risk has to do with the speed of the ramp-up phase, the velocity of the first revenues and the margins associated. Once these factors will be more evident (we assume with 2Q21 results) the execution risk will be normalized. Our EUR9.5 p.s fair value can be split by Teverola 1 (EUR5.2) and the "as-is" business (EUR4.3). Our target price doesn't include Teverola 2 nor the Unilever JV. On that front we would wait for the official award of the EUR505 million grants (which should happen in April and will kick-start construction works) and the BP presentation that could add details on the business model and the strategy (including the targeted segments). On the Unilever JV too we wait for the BP presentation while we understand that talks are still on-going with the stakeholders to define the moment when SERI will start to refurbish the plant.
- **Teverola 2: alone it could be worth EUR18.5 per share.** Considering a 7GWh/annum capacity at EUR/KWh180 price means EUR1.26 billion in revenues. Assuming a margin anywhere close to 20% returns a EUR252 million EBITDA. We began to do a valuation exercise and we came out with the idea that a DCF is the best option to value a business that will start to produce cash flows from 2024. It allows to consider the perpetual growth options and the investments needed to start-up the plant. Our DCF would return a fair value of EUR18.5 per share or EUR873 million. While we acknowledge that the visibility right now is low, and that construction has yet to start, the launch of Teverola 1 brought us to begin to look at the next steps.
- **The only producer in Italy of battery cells, and one of the few in Europe.** While the battery sector is on fire on the stock markets and several players announced plans to launch production sites or increase capacity, the majority of the needs are still satisfied through Asian players (sometimes with factories located in Europe). SERI has the advantage to be already operational with Teverola 1 and we believe it will not be difficult to sell the entire plant capacity by year end.
- **Risks:** execution risks in terms of extra-costs in ramping up the production; overcapacity as a consequence of all the recently announced initiatives by competitors; price declining faster than expected.

Figure 16 – Valuation summary

(EUR)	New	Old	% difference
DCF	9,3	8,8	6%
Peers comparison	10,8	9,3	16%
EVA	8,5	7,8	9%
Average	**9,5**	**8,6**	**10%**
Discount	15%	30%	
Target price	**8,1**	**6,0**	
Current price	4,9	4,9	
Upside	93%		

Source: Company data, UBI Banca estimates

Figure 17 – Peer multiples (priced on 30 March 2021)

	Tier	Price	Currency	Mkt.Cap.	EV/EBITDA			EV/EBIT			P/E		
				(bn)	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Varta	I	125.0	USD	5.1	17,5 x	13,9 x	12,5 x	23,3 x	18,5 x	16,6 x	33,6 x	26,8 x	24,2 x
EnerSys	I	76.5	USD	3.3	8,4 x	8,8 x	7,4 x	11,4 x	12,6 x	10,6 x	20,6 x	16,6 x	13,9 x
Umicore	I	44.6	EUR	11.0	13,2 x	12,5 x	11,1 x	19,1 x	18,1 x	15,7 x	25,8 x	24,2 x	20,8 x
GEM	I	1.2	USD	5.6	19,5 x	16,1 x	14,5 x	30,2 x	23,5 x	21,2 x	36,5 x	26,2 x	23,6 x
SolarEdge	II	221.1	USD	11.4	39,3 x	29,9 x	23,8 x	51,9 x	36,1 x	27,6 x	70,6 x	53,1 x	40,1 x
Ganfeng Lithium	II	10.5	USD	16.4	107,6 x	48,9 x	32,2 x	140,4 x	57,6 x	37,0 x	129,2 x	59,9 x	40,7 x
Cont. Amperex	II	40.4	USD	94.0	67,9 x	43,9 x	31,1 x	123,7 x	73,6 x	52,0 x	143,1 x	93,4 x	67,9 x
Average – All peers					**34,2 x**	**21,7 x**	**14,5 x**	**46,1 x**	**27,7 x**	**18,4 x**	**52,7 x**	**34,5 x**	**23,3 x**
Average – Tier I					**14,6 x**	**12,8 x**	**9,1 x**	**21,0 x**	**18,2 x**	**12,8 x**	**29,1 x**	**23,5 x**	**16,5 x**
Seri Industrial		**4.94**	**EUR**	**0.23**	**9.5 x**	**5.9 x**	**4.4 x**	**15.8 x**	**8.0 x**	**5.6 x**	**19.0 x**	**8.4 x**	**6.7 x**
Premium/(Discount) to Tier I					-35.0%	-56.1%	-51.8%	-24.7%	-56.0%	-56.2%	-34.7%	-64.2%	-59.3%

Source: FactSet, UBI Banca estimates

ESG Picture

Corporate Governance	
Does the company have a combined Chair/CEO?	No
Percentage of independent directors	42.9% (3 out of 7, including the Chairman)
Percentage of female directors	28.6% (2 out of 7)
Does the company have loyalty shares?	No
Does major shareholders (if any) have a "shareholders pact" in place?	No
Has the company adopted a "poison pill" or "change of control" clauses?	No
Potential dilution from stock options outstanding + not yet granted?	No
CEO remuneration detail (fixed salary)	EUR215 thousand
Chairman remuneration detail (fixed salary)	EUR140 thousand
Is the share price included in the MBO criteria?	No
Percentage of treasury shares	0.0%

Climate related risk

Has the company defined GHG-emissions targets? Yes

How does the company assess climate-related risk?

Seri Industrial's commitment to protect the environment manifests itself not only in the will and ability to market products composed of recycled materials, but also in its responsible management of resources.

SERI Industrial has adopted since its foundation a circular economy business model, investing significant resources to accelerate the decarbonization process.

All the Company's plants boast appropriate environment authorizations (ISO 9001, ISO45001 and ISO 14001 among the others).

Social Responsibilities	
Does the company publish a separated Sustainability report?	Yes
Does the company have a Chief SRI/CSR officer (or a committee)?	Yes, Mr. Orsini
Does the Chief SRI/CSR officer votes in any of the company's committee?	Yes
Is the Investor Relation officer a different person from CFO (or other officers)?	Yes
Is the ESG strategy integrated in the Business Plan (or in the group strategy)?	Yes
Does the company have an ethical code?	Yes
How is the cybersecurity issue managed?	Standard practices

Income Statement

(EURm)	2020A	2021E	2022E	2023E
Total Revenues	134.0	201.7	271.5	316.2
EBITDA	2.3	33.7	51.1	62.7
EBITDA margin	1.7%	16.7%	18.8%	19.8%
EBIT	-11.5	20.3	37.9	49.3
EBIT margin	-8.6%	10.1%	14.0%	15.6%
Net financial income /expense	-3.3	-3.5	-2.7	-1.7
Associates & Others	0.0	0.0	0.0	0.0
Profit before taxes	-14.8	16.8	35.2	47.6
Taxes	10.6	-4.5	-7.5	-12.9
Minorities & discontinuing ops	0.2	0.0	0.0	0.0
Net Income	-4.1	12.3	27.7	34.8

Source: Company data, UBI Banca estimates

Balance Sheet

(EURm)	2020A	2021E	2022E	2023E
Net working capital	31.4	43.3	58.7	71.7
Net Fixed assets	174.5	169.2	166.8	166.1
Funds	5.9	2.9	-2.1	-7.1
Capital employed	211.8	215.4	223.4	230.6
Shareholders' equity	114.0	126.3	154.0	188.8
Minorities	1.8	1.8	1.8	1.8
Shareholders' funds	115.8	128.1	155.8	190.6
Net financial debt/(cash)	96.0	87.3	67.6	40.1

Source: Company data, UBI Banca estimates

Cash Flow Statement

(EURm)	2020A	2021E	2022E	2023E
NFP Beginning of Period	69.0	96.0	87.3	67.6
EBITDA	2.3	33.7	51.1	62.7
Interest expenses	-3.7	-3.7	-2.9	-1.8
Cash taxes	10.6	-4.5	-7.5	-12.9
Change in Working Capital	7.6	-11.9	-15.4	-13.0
Other	-20.3	3.0	5.0	5.0
Operating Cash Flow	-3.5	16.5	30.3	40.0
Net Capex	-23.4	-7.9	-10.7	-12.4
Other	0.0	0.0	0.0	0.0
Free Cash Flow	-26.9	8.7	19.7	27.6
Dividends Paid	0.0	0.0	0.0	0.0
Other & Chg in Consolid. Area	0.0	0.0	0.0	0.0
Chg in Net Worth & capital Incr.	0.0	0.0	0.0	0.0
Change in NFP	-26.9	8.7	19.7	27.6
NFP End of Period	96.0	87.3	67.6	40.1

Source: Company data, UBI Banca estimates

Financial Ratios

(%, x)	2020A	2021E	2022E	2023E
ROE	-3.7%	9.6%	17.8%	18.2%
ROI	-5.4%	9.4%	17.0%	21.4%
Net Fin. Debt/Equity (x)	0.8	0.7	0.4	0.2
Net Fin. Debt/EBITDA Adj (x)	19.5	2.6	1.3	0.6
Interest Coverage (x)	0.6	9.2	17.7	34.5
NWC/Sales	25.0%	22.0%	22.0%	23.0%
Capex/Sales	18.6%	4.0%	4.0%	4.0%
Pay Out Ratio	0.0%	0.0%	0.0%	0.0%

Source: Company data, UBI Banca estimates

Per Share Data

(EUR)	2020A	2021E	2022E	2023E
EPS	-0.09	0.26	0.58	0.74
DPS	0.00	0.00	0.00	0.00
Op. CFPS	-0.07	0.35	0.64	0.85
Free CFPS	-0.16	0.18	0.42	0.58
BVPS	2.45	2.71	3.29	4.03

Source: Company data, UBI Banca estimates

Stock Market Ratios

(%, x)	2020*	2021E	2022E	2023E
P/E	-35.1	19.0	8.4	6.7
P/CF	-21.5	16.8	9.3	6.3
P/BV	1.2	1.8	1.5	1.2
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
Free Cash Flow Yield (%)	-5.2%	3.7%	8.4%	11.8%
EV (EURm)	239.3	320.9	301.2	273.7
EV/Sales	1.8	1.6	1.1	0.9
EV/EBITDA Adj	48.6	9.5	5.9	4.4
EV/EBIT Adj	-38.2	15.8	8.0	5.6
EV/Capital Employed	1.1	1.5	1.3	1.2

Source: Company data, UBI Banca estimates ** Based on 2020 average price*

Growth rates

(%)	2020A	2021E	2022E	2023E
Growth Group Net Sales	-14.4%	50.5%	34.6%	16.5%
Growth EBITDA Adj	-77.7%	583.6%	51.9%	22.6%
Growth EBIT Adj	-160.1%	-425.0%	86.3%	30.1%
Growth Net Profit	-337.1%	-385.7%	125.0%	25.7%

Source: Company data, UBI Banca estimates

DISCLAIMER

*This research report (the "**Report**") has been prepared by Massimo Vecchio and Dario Fasani (the "**Analysts**") on behalf of UBI Banca S.p.A. ("**UBI Banca**") in the context of the ancillary service provided by UBI Banca named "Investment research and financial analysis or other forms of recommendation relating to transactions in financial instruments" under Paragraph 5), Section B, Annex I of the Directive 2014/65/EU ("MiFID II"). UBI Banca is an Italian bank under art. 4 (1)(27) of MiFID II, it is part of Intesa Sanpaolo group ("**Intesa Group**"), under the direction and control of Intesa Sanpaolo and it is supervised by the European Central Bank and duly authorised to provide investment services pursuant to Article 1, Paragraph 5, letter a), b), c), c-bis), e) and f) of the Legislative Decree 24 February 1998, n° 58 under the supervision of the Italian Authority for the financial markets (Consob). UBI Banca has its head office at Piazza Vittorio Veneto 8, 24122 Bergamo.*

The Analyst who prepared the Report, and whose name and role appear on the front page, certifies that:

- *a. The views expressed on the company, mentioned herein (the "**Company**") accurately reflect his personal views, but does not represent the views or opinions of UBI Banca, its management or any other company which is part of or affiliated with Intesa Group. It may be possible that some Intesa Group officers may disagree with the views expressed in this Report;*
- *b. He has not received, and will not receive any direct or indirect compensation in exchange for any views expressed in this Report;*
- *c. The Analyst does not own any securities and/or any other financial instruments issued by the Company or any financial instrument which the price depends on, or is linked to any securities and/or any financial instruments issued by the Company.*
- *d. Neither the Analyst nor any member of the Analyst's household serves as an officer, director or advisory board member of the Company.*
- *e. The remuneration of the Analyst is not directly tied to transactions for services for investment firms or other types of transactions it or any legal person, part of the same group performs, or to trading fees it or any legal person that is part of the same group receives.*
- *f. Massimo Vecchio is a member of AIAF.*

General disclosure

This Report is for information purposes only. This Report (i) is not, nor may it be construed, to constitute, an offer for sale or subscription or of a solicitation of any offer to buy or subscribe for any securities issued or to be issued by the Company, (ii) should not be regarded as a substitute for the exercise of the recipient's own judgement. In addition, the information included in this Report may not be suitable for all recipients. Therefore the recipient should conduct their own investigations and analysis of the Company and securities referred to in this document, and make their own investment decisions without undue reliance on its contents. Neither UBI Banca, nor any other company belonging to the Intesa Group, nor any of its directors, managers, officers or employees, accepts any direct or indirect liability whatsoever (in negligence or otherwise), and accordingly no direct or indirect liability whatsoever shall be assumed by, or shall be placed on, UBI Banca, or any other company belonging to the Intesa Group, or any of its directors, managers, officers or employees, for any loss, damage, cost, expense, lower earnings howsoever arising from any use of this Report or its contents or otherwise arising in connection with this Report.

The information provided and the opinions expressed in this Report are based upon *information and data provided to the public by the Company or news otherwise public, and refers to the date of publication of the Report. The sources (press publications, financial statements, current and periodic releases, as well as meetings and telephone conversations with the Company's representatives) are believed to be reliable and in good faith, but no representation or warranty, express or implied, is made by UBI Banca as to their accuracy, completeness or correctness. Past performance is not a guarantee of future results. Any opinions, forecasts or estimates contained herein constitute a judgement as of the date of this Report, and there can be no assurance that the future results of the Company and/or any future events involving directly or indirectly the Company will be consistent with any such opinions, forecasts or estimates. Any information herein is subject to change, update or amendment without notice by UBI Banca subsequent to the date of this Report, with no undertaking by UBI Banca to notify the recipient of this Report of such change, update or amendment.*

Organizational and administrative arrangements to prevent conflicts of interests

UBI Banca maintains procedures and organizational mechanism (physical and non-physical barriers designed to restrict the flow of information between the unit which performs investment research activity, and other units of UBI Banca) to prevent and professionally manage conflicts of interest in relation to investment research in accordance with art. 23 of Directive 2014/65/EU and under art. 34 (3) and art. 37 of the Regulation 2017/565/EU. UBI Banca is organized in such a way as to minimize conflicts of interest and has within the meaning of art. 20 (1) of the Regulation (EU) No 596/2014/EU and has adequate control procedures in place to counter infringements of the obligations laid down in Article 20 (1) of the Regulation (EU) No 596/2014. More specifically, UBI Banca has established, implements and maintains an effective conflicts of interests policy aimed at preventing and managing the potential conflicts of interest that could occur during the performance of the investment research services.

Insofar as the above mentioned organizational and administrative arrangements established by UBI Banca to prevent or manage potential conflicts of interests are not sufficient to ensure, with reasonable confidence, that risks of damage to the interests of the client will be prevented, UBI Banca engages to provide a clear disclosure of the specific conflicts of interests arising from the performance of investment research services, including a description of the sources of those conflicts and the steps undertaken to mitigate them, taking into account the nature of the client to whom the disclosure is being made.
For further information please see UBI Banca's website (www.ubibanca.com/equity-research - *"Informativa sintetica sull'attività di ricerca"*) *and* (www.ubibanca.com/Mifid - "*Policy sintetica conflitti di interessi"*). More details about the conflicts of interests policy will be provided by UBI Banca upon request.

Disclosure of interests and conflicts of interests pursuant to Delegated Regulation 2016/958/EU

- *UBI Banca acts as Corporate Broker for SERI Industrial*
- *UBI Banca may have long or short positions not exceeding the threshold of 0.5% of the total issued share capital of the issuer*

On the basis of the checks carried out no interest/conflict of interest arose.

Frequency of updates

UBI Banca aims to provide continuous coverage of the companies in conjunction with the timing of periodical accounting reports and any exceptional event that occurs affecting the issuer's sphere of operations and in any case at least twice per year. The companies for which UBI Banca acts as Sponsor or Specialist are covered in compliance with regulations of the market authorities.

For further information please refer to www.ubibanca.com/equity-research

Valuation methodology

UBI Banca's analysts value the Company subject to their recommendations using several methods among which the most prevalent are: the Discounted Cash Flow method (DCF), the Economic Value Added method (EVA), the Multiple comparison method, the SOP method and the NAV method.

The analysts use the above valuation methods alternatively and/or jointly at their discretion. The assigned target price may differ from their fair value, as it also takes into account overall market/sector conditions, corporate/market events, and corporate specifics (i.e. holding discounts) reasonably considered to be possible drivers of the company's share price performance. These factors may also be assessed using the methodologies indicated above.

For further information please refer to www.ubibanca.com/equity-research.

Ranking system

UBI Banca's analysts use an "absolute" rating system, not related to market performance. The explanation of the rating system is listed below:

Buy: if the target price is 15% higher than the market price, over the next 12 months.

Hold: if the target price is 15% below or 15% above the market price, over the next 12 months.

Sell: if the target price is 15% lower than the market price, over the next 12 months.

No Rating: the investment rating and target price have been suspended as there is not sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect. Alternatively, No Rating is assigned in certain circumstances when UBI Banca is acting in any advisory capacity in a strategic transaction involving the Company.

Target price: the market price that the analyst believes that the share may reach within a one-year time horizon.

Market price: closing price on the day before the issue date of the report, appearing on the first page.

Distribution

Italy: This document is intended for distribution in electronic form to "Professional Clients" and "Qualified Counterparties" as defined by Legislative Decree 24 February 1998, n. 58 and by Consob Regulation n. 20307 dated 15 February 2018, as further amended and supplemented.

Spain: This document is intended for distribution in electronic form to "Professional Clients" and "Eligible Counterparties" as defined by Royal Legislative Decree 4/2015, of 23 October, approving the revised text of the Securities Market Act, as further amended and supplemented.

IN THE UNITED KINGDOM, THIS DOCUMENT IS BEING DISTRIBUTED ONLY TO, AND IS DIRECTED ONLY AT PERSONS WHO (A) ARE (I) PERSONS FALLING WITHIN ARTICLE 19 OR ARTICLE 49 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (AND ONLY WHERE THE CONDITIONS CONTAINED IN THOSE ARTICLES HAVE BEEN, OR WILL AT THE RELEVANT TIME BE, SATISFIED) OR (II) ANY OTHER PERSONS TO WHOM IT MAY BE LAWFULLY COMMUNICATED; AND (B) ARE QUALIFIED INVESTORS WITHIN THE MEANING OF ARTICLE 2(1)(E) OF THE PROSPECTUS DIRECTIVE (DIRECTIVE 2003/71/EC), (ALL SUCH PERSONS BEING REFERRED TO AS "RELEVANT PERSONS"). THIS DOCUMENT MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS.

IN FRANCE, THIS DOCUMENT IS BEING DISTRIBUTED ONLY TO, AND IS DIRECTED ONLY AT PERSONS WHO ARE CONSIDERED AS PROFESSIONAL CLIENTS WITHIN THE MEANING OF ARTICLES L. 533-16 AND D. 533-11 ET SEQ. OF THE FRENCH CODE MONETAIRE ET FINANCIER (THE FRENCH FINANCIAL CODE) OR AS ELIGIBLE COUNTERPARTIES, AS DEFINED IN ARTICLES L. 533-20 AND D. 533-13 ET SEQ. OF THE FRENCH FINANCIAL CODE.

IN IRELAND, THIS DOCUMENT IS BEING DISTRIBUTED ONLY TO, AND IS DIRECTED ONLY AT, PERSONS WHO ARE QUALIFIED INVESTORS WITHIN THE MEANING OF ARTICLE 2(1)(E) OF THE PROSPECTUS DIRECTIVE (DIRECTIVE 2003/71/EC, AS AMENDED FROM TIME TO TIME, INCLUDING BY DIRECTIVE 2010/73/EC) ("QUALIFIED PERSONS"). THIS DOCUMENT MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT QUALIFIED PERSONS.

THIS REPORT DOES NOT CONSTITUTE A PROSPECTUS WITHIN THE MEANING OF ARTICLE 652A OR ART. 1156 OF THE SWISS CODE OF OBLIGATIONS OR A LISTING PROSPECTUS WITHIN THE MEANING OF THE LISTING RULES OF THE SIX SWISS EXCHANGE OR ANY OTHER TRADING VENUE IN SWITZERLAND, OR A SIMILAR COMMUNICATION WITHIN THE MEANING OF ART. 752 THE SWISS CODE OF OBLIGATIONS, AND HAS BEEN PREPARED WITHOUT REGARD TO SWISS LAWS AND REGULATIONS, AND DOES NOT CONSTITUTE AN OFFER TO SUBSCRIBE FOR, BUY OR OTHERWISE ACQUIRE ANY SECURITIES OF THE COMPANY.

Distribution of ratings

Equity rating dispersion in the past 12 months			
Buy	***Hold***	***Sell***	***No Rating***
76.3%	*22.8%*	*0.0%*	*0.9%*
Proportion on issuers to which UBI Banca has supplied investment banking services relating to the last 12 months			
Buy	***Hold***	***Sell***	***No Rating***
57.5%	*11.5%*	*100%*	*100%*

For further information regarding yearly and quarterly rating statistics and descriptions, please refer to www.ubibanca.com/equity-research.

Historical ratings and target prices

Date	Rating	Target Price (EUR)	Market Price (EUR)
18 May 2020	BUY (initiation)	6.00	2.98
17 June 2020	BUY	6.00	3.09
22 September 2020	BUY	6.00	3.04

12 November 2020	BUY	6.00	3.10