SERI INDUSTRIAL

BUY

Price (Eu): 3.40

Target Price (Eu): 5.80

SECTOR: Industrials

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An Electrifying Future: An Almost Free Call Option On Skyrocketing Lithium Business

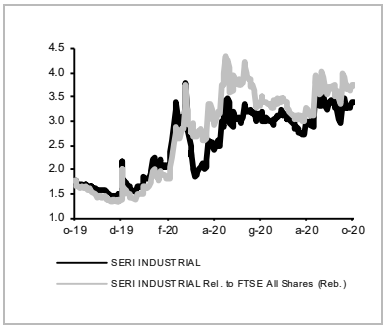
While operating as a unique group with a vertical, horizontal and circular approach to the battery market, we view SERI as a dual-faceted equity story that is approaching a key positive inflection point contingent on the success of the Teverola lithium project. Execution risks are clearly high, but the company's expertise, borne out by the award of government subsidies, should provide some visibility on the equity story. According to our analysis, we believe investors buying into SERI's shares are essentially acquiring a fairly-valued mature business mainly exposed to the lead-acid battery market and other industrial sectors, with the added bonus of a virtually free call option on the lithium business, which is expected to skyrocket from 1Q21. We initiate coverage on SERI with a target price of €5.8, which offers upside of 71% and therefore demands a BUY rating.

- **Company description: a circular economy player in the battery market...** founded in 1999, SERI is a circular economy player operating along the electric accumulators value chain. The company has two main divisions: **Plastic Materials (61% of revenue)**, recycling and production of plastic products and compounds for lead-acid batteries, the automotive business and several industrial sectors; **Electric Accumulators (39% of revenue)**, production and recycling of lead and lithium batteries for starters, traction and storage applications.
- **...set to reach a positive inflection point contingent on the success of the Lithium project.** Boasting multi-year experience in traditional batteries, in 2017 SERI embarked upon a significant expansion programme aimed at establishing a lithium battery business. The plan, supported financially by government funds from Italy and other EU countries within the European Battery Alliance, is being developed in two phases: **Teverola 1**, 0.3GWh capacity, set to start production of batteries for industrial, storage and special applications at the beginning of 2021; **Teverola 2**, 2.5/3.0GWh capacity, with first products expected by 2023 and further developments by 2026/27.
- **Market trends: increasing environmental focus creates huge potential for the battery market.** Driven by the ever-increasing focus on climate change, the battery market has tremendous potential. Batteries are key to curtailing emissions and enabling the decarbonisation of the economy, as they allow storage of electricity produced by intermittent renewable energy sources. While Covid-19 has made pre-pandemic market estimates less reliable (+10% 2018-25 CAGR in value terms), we think that underlying trends have not vanished, but expectations have simply shifted and even strengthened.
- **Key financials: skyrocketing growth and profitability expansion due to Lithium project.** Whilst Covid-19 will negatively affect 2020 results (revenue/EBITDA seen down -13%/-30%), we are modelling 2019-22 revenue/EBITDA CAGRs of +20%/+29% on the back of a skyrocketing Teverola 1 lithium business, which is envisaged to ramp-up from 1Q21 (Teverola 2 not included) and a relatively stable, but recovering, "current business". We do not expect tangible cash generation due to the increase in NWC as a result of the massive revenue growth, although the relevant CapEx was already deployed in 2018/19.
- **Valuation: TP €5.8.** We set a TP of €5.8 after applying a 10% liquidity discount to our 9-year DCF-based fair value. WACC is 7.4%, as we assume an equity risk premium of 6.0% (vs. the standard 5.0%) due to execution risk on the lithium project, and 2.0% terminal growth.

Key Figures	2018A	2019A	2020E	2021E	2022E
Sales (Eu mn)	133	157	135	213	272
Ebitda (Eu mn)	19	19	15	33	48
Net profit (Eu mn)	5	2	-2	9	19
EPS - New Adj.(Eu)	-0.049	0.107	-0.007	0.189	0.409
EPS - Old Adj.(Eu)					
DPS (Eu)	0.000	0.000	0.000	0.000	0.000

Ratios & Multiples	2018A	2019A	2020E	2021E	2022E
P/E Adj.	nm	31.8	nm	18.0	8.3
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Ebitda Adj.	13.9	10.4	15.6	7.3	4.7
ROCE	2.9%	3.5%	0.3%	8.1%	14.4%

SERI INDUSTRIAL - 12m Performance



RATING: New Coverage
TARGET PRICE (Eu): New Coverage

Ch. in Adj.EPS est:	2020E	2021E

STOCK DATA

Reuters code:	SERK.MI
Bloomberg code:	SERI IM

Performance	1m	3m	12m
Absolute	0.7%	8.6%	90.5%
Relative	1.6%	7.9%	99.1%
12 months H/L:			3.78/1.43

SHAREHOLDER DATA

No. of Ord. shares (mn):	47
Total No. of shares (mn):	47
Mkt Cap Ord (Eu mn):	161
Total Mkt Cap (Eu mn):	161
Mkt Float - ord (Eu mn):	60
Mkt Float (in %):	*37.4%*
Main shareholder:	
Civitillo Family	62.6%

BALANCE SHEET DATA	2020
Book value (Eu mn):	116
BVPS (Eu):	2.49
P/BV:	1.4
Net Financial Position (Eu mn):	-79
Enterprise value (Eu mn):	240

Please see important disclaimer on the last page of this report

SERI INDUSTRIAL - *KEY FIGURES*		2018A	2019A	2020E	2021E	2022E
	Fiscal year end	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022
PROFIT & LOSS (Eu mn)	Sales	133	157	135	213	272
	EBITDA	19	19	15	33	48
	EBIT	5	7	1	16	30
	Financial income (charges)	(4)	(3)	(4)	(4)	(4)
	Associates & Others					
	Pre-tax profit (Loss)	1	3	(3)	12	26
	Taxes	4	(1)	1	(3)	(7)
	Tax rate (%)	-295.5%	43.3%	27.0%	27.0%	27.0%
	Minorities & discontinue activities	(0)	(0)	0	0	0
	Net profit	5	2	-2	9	19
	Total extraordinary items	8	(4)	(2)	0	0
	Ebitda excl. extraordinary items	15	22	15	33	48
	Ebit excl. extraordinary items	2	10	2	16	30
	Net profit restated	(2)	5	(0)	9	19
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	45	47	47	47	47
	EPS stated fd	0.119	0.033	-0.047	0.189	0.409
	EPS restated fd	-0.049	0.107	-0.007	0.189	0.409
	BVPS fd	2.674	2.540	2.493	2.682	3.091
	Dividend per share (ord)	0.000	0.000	0.000	0.000	0.000
	Dividend per share (sav)					
	Dividend pay out ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
CASH FLOW (Eu mn)	Gross cash flow	18	15	12	25	36
	Change in NWC	(10)	10	(7)	(15)	(15)
	Capital expenditure	(39)	(39)	(15)	(7)	(10)
	Other cash items	(5)	5	0	0	0
	Free cash flow (FCF)	(31)	(14)	(10)	3	11
	Acquisitions, divestments & others	(3)	(8)	0	0	0
	Dividend	0	0	0	0	0
	Equity financing/Buy-back	17	(2)	0	0	0
	Change in Net Financial Position	(22)	(18)	(10)	3	11
BALANCE SHEET (Eu mn)	Total fixed assets	128	164	164	155	148
	Net working capital	48	39	46	62	77
	Long term liabilities	5	14	14	14	14
	Net capital employed	171	189	197	203	211
	Net financial position	(51)	(69)	(79)	(76)	(65)
	Group equity	120	120	118	127	146
	Minorities	2	2	2	2	2
	Net equity	118	118	116	125	144
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	161	161	161	161	161
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(51)	(69)	(79)	(76)	(65)
	Enterprise value	212	230	240	237	225
RATIOS(%)	EBITDA margin*	11.4%	14.1%	11.4%	15.3%	17.5%
	EBIT margin*	1.7%	6.7%	1.5%	7.7%	11.2%
	Gearing - Debt/equity	42.4%	57.4%	66.8%	59.8%	44.2%
	Interest cover on EBIT	1.4	2.0	0.2	4.0	7.7
	Debt/Ebitda	2.68	3.56	5.28	2.32	1.36
	ROCE*	2.9%	3.5%	0.3%	8.1%	14.4%
	ROE*	4.5%	1.3%	-1.9%	7.4%	14.3%
	EV/CE	1.2	1.2	1.2	1.2	1.1
	EV/Sales	1.6	1.5	1.8	1.1	0.8
	EV/Ebit	nm	22.1	nm	14.5	7.4
	Free Cash Flow Yield	-19.1%	-8.6%	-6.0%	1.8%	6.9%
GROWTH RATES (%)	Sales		17.3%	-13.5%	57.1%	27.8%
	EBITDA*		44.4%	-30.2%	112.0%	45.9%
	EBIT*		370.9%	-80.0%	685.8%	86.3%
	Net profit		-71.1%	nm	nm	116.6%
	EPS restated		nm	nm	nm	116.6%

** Excluding extraordinary items*

Source: Intermonte SIM estimates

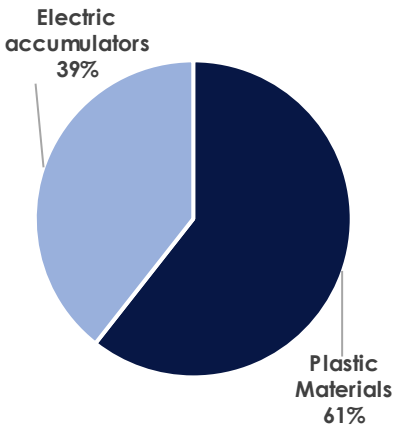
INDEX

Company presentation

Company at a glance

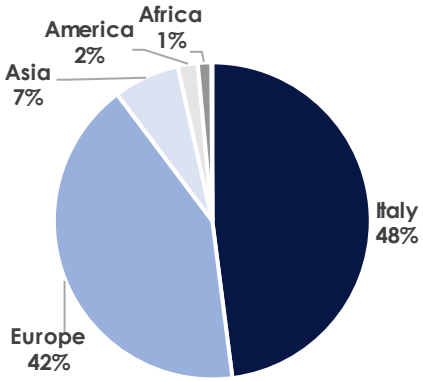
Founded in 1999, Seri Industrial ("SERI") is a circular economy player operating along the electric accumulators (i.e. batteries) value chain. Over the years, the group's business model has evolved through a combination of organic changes and M&A deals. It is now organised into two divisions: Plastic Materials (PM – 61% of revenue) and Electric Accumulators (EA – 39% of revenue). In the PM division, SERI recycles and produces plastic products and compounds, mainly for the electrical accumulators market, but also for the automotive, infrastructure, plumbing and sanitary ware, and shipbuilding industries. The EA division is active in the production and recycling of lead and lithium batteries for starters, traction and storage applications. In 2019, SERI generated revenue of €156.5mn (+17% YoY) with adj. EBITDA of €22.1mn (a 14.1% margin) and net debt/EBITDA of 3.1x. Headquartered in the province of Caserta in Southern Italy, the group has an international footprint as 42% of revenue comes from the rest of Europe and 10% from RoW, while exposure to Italy is at 48%. SERI has 14 production plants located across Italy, France, Poland and China. By channel, sales are made for ~65%/70% through the after-market channel.

Revenue breakdown by division (2019A)



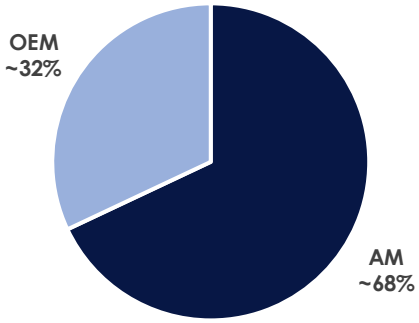
Source: company data

Revenue breakdown by geo area (2019A)



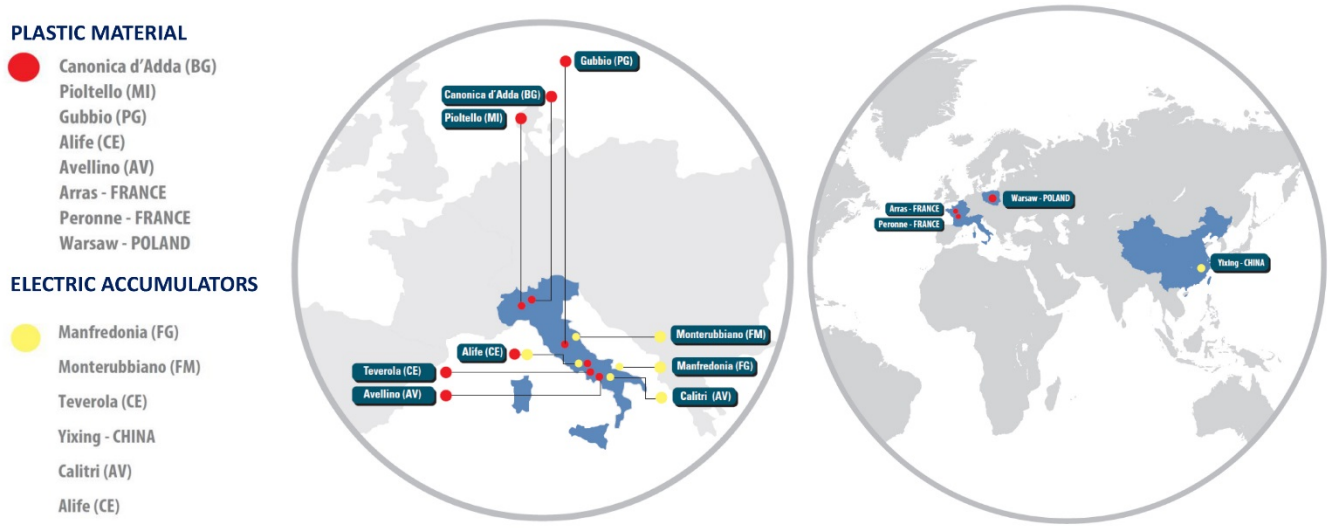
Source: company data

Revenue breakdown by channel (2019A)



Source: company data

Industrial footprint



Source: company presentation (Avellino plant is currently unused following a fire in 2019)

Shareholding structure

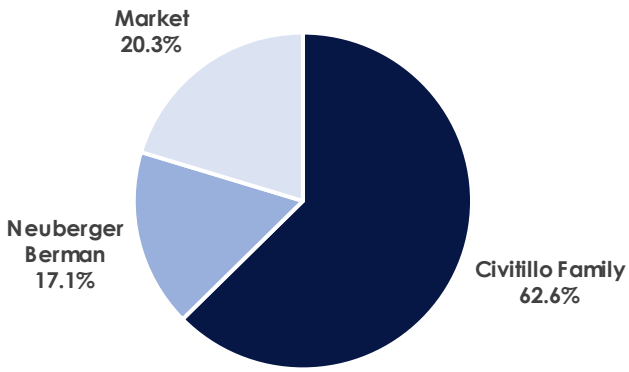
Who are SERI's shareholders? SERI is listed on Borsa Italiana's MTA market. The major shareholder is the Civitillo Family, who holds a 62.6% stake through the holding company Industrial SpA. The investment management company Neuberger Berman is the second largest shareholder, owning a 17.1% stake that was inherited when it took over management of the Atlante Fund from IMI Fondi Chiusi SGR. The remaining 20.3% is held by the market with no single shareholder above 1%. There are no shares or classes of shares with multiple voting rights.

How did SERI join the stock market? While the legal entity has been listed since February 2001, the group's current configuration came from the reverse merger of Seri Industrial with KR Energy (KRE) in 2017. KRE was a financially troubled company (2016: revenue of €1.6mn, negative EBITDA of €-4.5mn, net debt of €36.9mn) operating in the renewable energy sector. The Civitillo family had a 22.1% stake in KRE through a vehicle called Rise Equity. The deal (i.e. reverse merger with SERI), originally announced on 13th April 2017, was approved by the EGM on 25th May and closed on 29th June. In detail, it involved the transfer of 100% of the Seri Industrial share capital to KRE. 76.9% of the Seri Industrial share capital was held by Industrial SpA, controlled by the Civitillo family, and 23.1% by IMI Fondi Chiusi SGR. Through the support of independent experts and financial advisors (EnVent and EY), Seri Industrial was valued at ~€190mn, granting 399mn special shares (initially not admitted to trading, but with the same rights as ordinary shares) at a price of €0.477 per share (or €4.77 post reserve stock split). Seri Industrial represented ~92% of the post-merger share capital.

Why is SERI on the CONSOB blacklist? How can it come off the list? Given KRE's critical financial situation, CONSOB added it to the so-called "blacklist" at the end of 2007. This obliges the company to communicate information about the status of its financial position on a monthly and quarterly basis. While signs of the troubled financial conditions of KRE are still partially visible today, it is clear that the listed entity is no longer in the critical situation that triggered its inclusion on the blacklist. To the best of our knowledge, SERI has requested that CONSOB revaluate its position with a view to the company potentially being removed from the list. While visibility on the timing is unclear, we believe the outcome of the review is reasonably certain, and news of the company's removal from the blacklist will be a positive future catalyst.

Does SERI have warrants? On 3rd July 2017, Seri Industrial issued 99.3mn "Warrant Uno SERI 2017-22" in favour of ordinary shareholders who did not hold special shares (special shares were assigned to the contributors of the stake in Seri Industrial in the reverse merger). Warrants were awarded for free, with shareholders receiving 3 warrants for each share they held. These warrants grant the right to subscribe 1 newly-issued share at a strike price of €5.03 for every 10 warrants held. Exercise periods are the last 10 days of trading prior the end of a calendar quarter (in March, June, September and December) and run until the end of 2022. Currently, SERI has 47.3mn shares outstanding, while the conversion of warrants can bring up to 9.9mn newly issued shares.

Shareholder structure

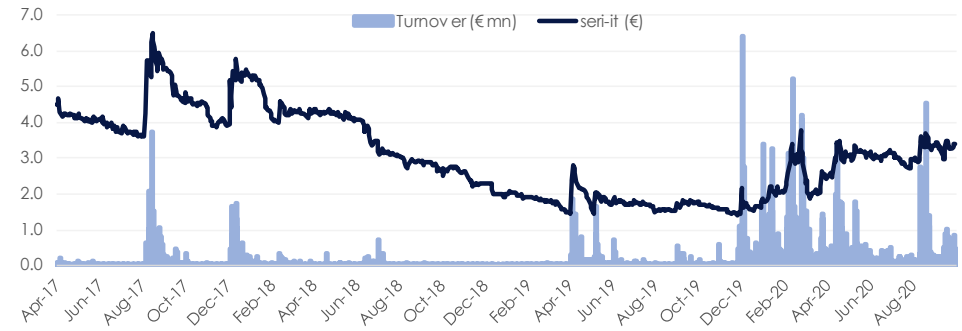


Source: company data

Share price and liquidity

As indicated in the previous paragraph, the company is listed on the MTA market. The stock is currently trading at €3.40, some 139% above the 52-week low and -10% below its 52-week high. YTD the stock is up +90%. Over the last 12 months, 0.23mn shares were traded on average during a single session, for trading turnover of €0.60mn.

Share price performance and liquidity



Source: FactSet

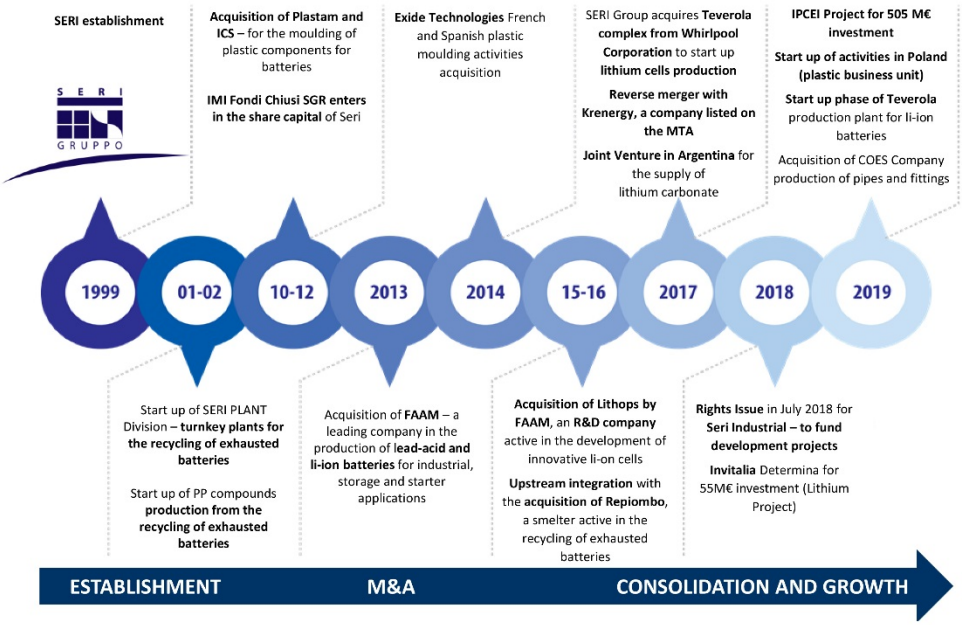
History

Early days. Founded in 1999, SERI started to operate as a general contractor supporting initiatives receiving government subsidies through funds for the development of Southern Italy. The Group then deployed its engineering and design expertise to specialise in the construction of recovery plants and the recycling of exhausted batteries. SERI also started up the production of plastic granules in polypropylene regenerated from waste plastics from exhausted battery recyclers.

M&A-fuelled growth. From 2010 the company embarked upon a significant development plan, initially carried out through M&A deals such as Plastam and ICS (moulding of plastic components for batteries), FAAM (lead-acid and li-ion batteries) and Exide Technologies (plastic moulding), backed by private equity player IMI Fondi Chiusi SGR.

Consolidation and Lithium projects. The company then entered a phase of consolidation and further growth driven by the Lithium (Teverola 1 and 2) projects which we will describe in more detail later in this report.

SERI history



Source: company presentation

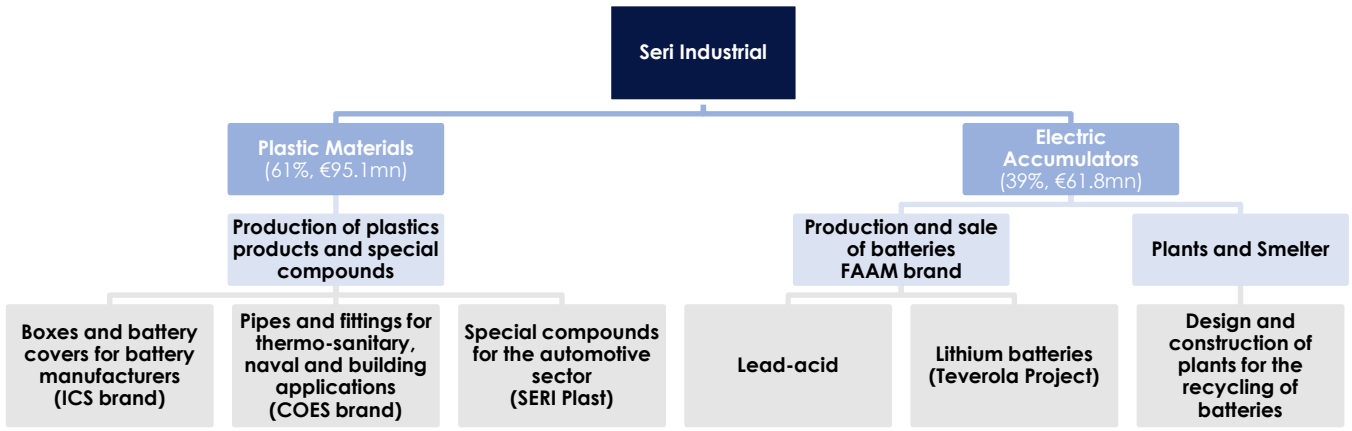
Business model description

Introduction

SERI is a circular economy player operating with varying intensity in different stages of the value chain of electric accumulators, from the procurement of raw materials, to manufacturing, sale and recycling. The group is organised into two divisions:

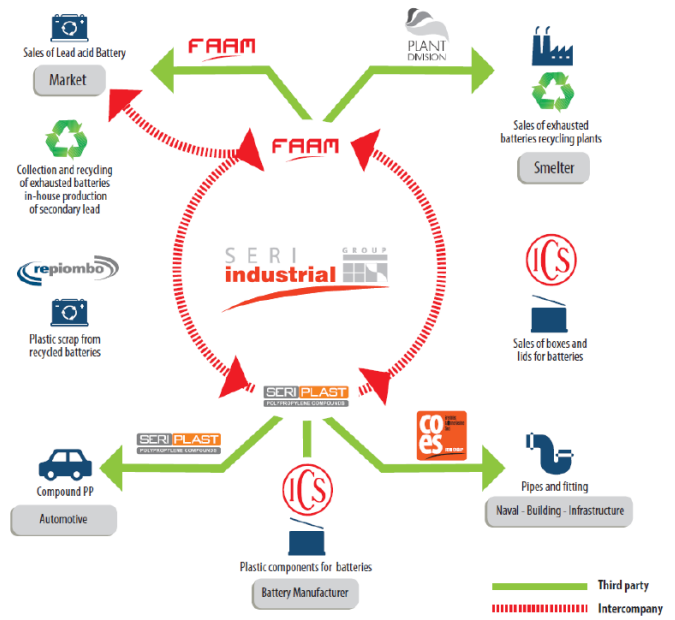
- **The Plastic Materials division (61% of 2019 revenue)** manufactures plastic products and compounds, mainly for the electrical accumulators market, but also for the automotive, infrastructure, plumbing and sanitary ware, and shipbuilding industries. The PM division also provides the EA division with the same products it sells to external customers, such as battery boxes and lids;
- **The Electric Accumulators division (39% of 2019 revenue)** ultimately produces lead-acid and lithium batteries for starters, traction and storage applications. In this division, the company also offers services for the design and construction of plants for secondary lead (smelters) and plastic material scrap from exhausted lead-acid batteries. While the division's sales are currently entirely represented by lead-acid batteries, SERI is expected to start selling lithium batteries in the coming months (1Q21) thanks to a significant investment programme ("Lithium" or "Teverola 1" project) that got underway in 2017.

SERI structure



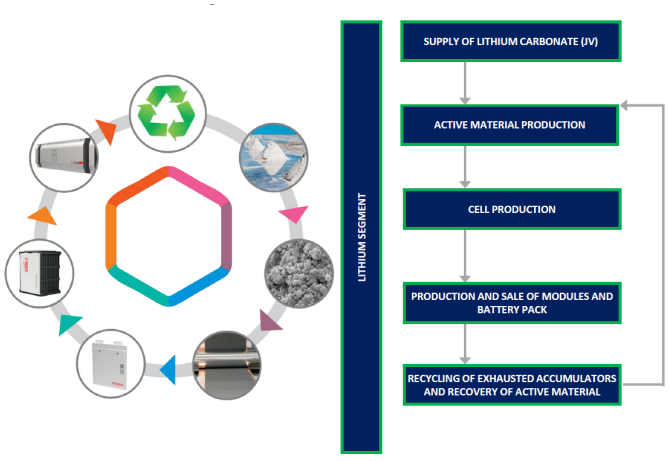
Source: Intermonte SIM

SERI current business model



Source: company presentation

SERI lithium business model



Source: company presentation

Plastic Materials division

The Plastic Materials division (61% of group revenue in 2019) is responsible of the production of:

- **Battery boxes and lids (50% of divisional revenue, 30% of the group in 2019)** for battery makers, mainly in the automotive and industrial markets, through the ICS brand;
- **Pipes and fittings (39% divisional revenue, 24% of the group in 2019)** for the infrastructure, plumbing and sanitary ware, and shipbuilding industries through the COES brand;
- **Special compounds (11% divisional revenue, 7% of the group in 2019)** from both recycled polymers for battery makers (mainly captive business for ICS), as well as for the automotive market, through the Seri Plast brand.

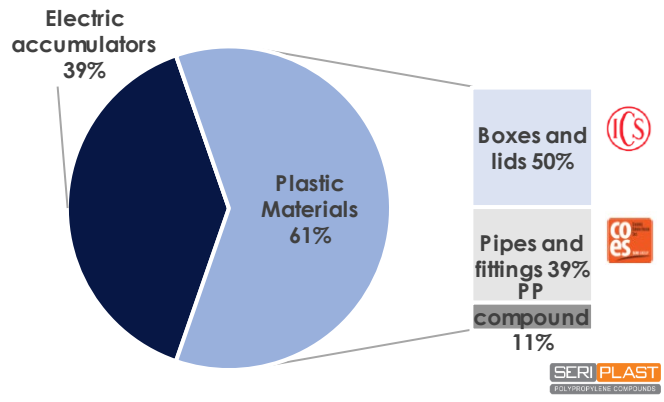
Production footprint: 7 plants strategically located close to clients. Divisional activity is carried out in eight plants located in Canonica D'Adda (BG), Pioltello (MI), Gubbio (PG), Alife (CE), Peronne and Arras (France) and Pruszkow (Poland), which started production in November 2019, dedicated to plastic boxes and lids for electric accumulators for starters, traction and storage applications. It is worth emphasising that this production footprint is a key competitive advantage, as plants located near to client's locations/plants allows for effective relationships and a competitive cost structure, given the high impact of transportation costs on the final price.

Automotive and Industrial the main end-markets. The division's main clients are Exide Technologies, other international players and the internal EA division for the battery market and Fincantieri for pipes & fittings products, but also main Tier 1 players in the Automotive industry (for the compound division – such as Prima Sole Components, SAPA Group, etc.). The main end markets are therefore the automotive and industrial sectors for battery boxes and lids, as well as for special compounds (61% of divisional revenue, 37% of the group total), while pipes & fittings provide some diversification, as exposure is mainly to the infrastructure, plumbing and sanitary ware, and shipbuilding industries. In terms of sales channels, we highlight that the division is mostly geared to OEM sales for special compounds, although we highlight that battery boxes and lids clients (ICS division) are in turn exposed to the AM channel. Although nothing has yet been confirmed, the special compounds business could be positively influenced by the introduction of a tax of €0.80/kg (at European level) on non-recycled plastic, pencilled in for 2021.

Raw materials: mostly recycled (including internally) with monthly/quarterly pass-through of price fluctuations. Raw material costs come to ~51/54% of the division revenue, so they are an important discussion point. As the name suggests, the main input used to obtain the final product is plastic, more specifically polypropylene. As proof of its circular business model, for the most part raw materials come from the waste plastic recovered from exhausted batteries and other scraps that SERI buys from other players, but also recycles internally, and only partially from virgin material. The final purchasing price for raw materials is set through a formula based on a specific index, ICIS LOR Propylene C3 or Polypropylene PP in the case of SERI, with the addition/subtraction of a defined spread/discount. More importantly, commodity price risk is significantly reduced as final product prices are subject to a pass-through mechanism on a monthly/quarterly basis. When analysing net sales trends, it is therefore also important to bear in mind the influence played by fluctuations in raw materials.

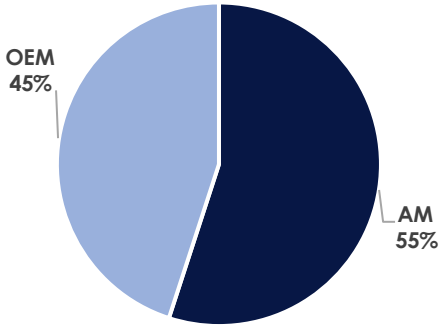
Key financials. In 2019, the division generated €95.1mn in revenues in 2019, with net sales at €89.6mn, +50% vs. 2018 benefitting from the consolidation of COES (Pipes & Fittings business). EBITDA margin was 8.3% for EBITDA of €7.9mn, or 41% of the group total, but adjusted for the negative effects of the fire at the Avellino plant EBITDA would have been ~€10.2mn for a 10.8% margin.

Plastic Materials: revenue breakdown by business (2019A)



Source: company presentation

Plastic Materials: revenue breakdown by channel (2019A)



Source: company presentation

Electric Accumulators

The Electric Accumulators division (39% of group revenue in 2019), also called "FIB", specialises in **the design, production and sale of highly efficient lead-acid and lithium batteries** for motive power, storage, starters and specialty applications, while also offering after sales assistance services (98% of the division's revenue, 39% of the group total). The business operates through the FAAM brand. In addition, the division also offers **plant design and construction services** for the production of secondary lead from the recovery of exhausted accumulators. However, these services are largely offered internally (captive business or 2% of divisional external revenue, >1% of the group total).

Division composition set to change significantly after Lithium project ramp-up. While at the moment the division's sales are almost entirely realised through lead-acid batteries, it is set to reap the benefits of the significant investment programme in lithium batteries undertaken from 2017, known as "Teverola 1" or "Lithium project". We will discuss the Lithium project in the next chapter.

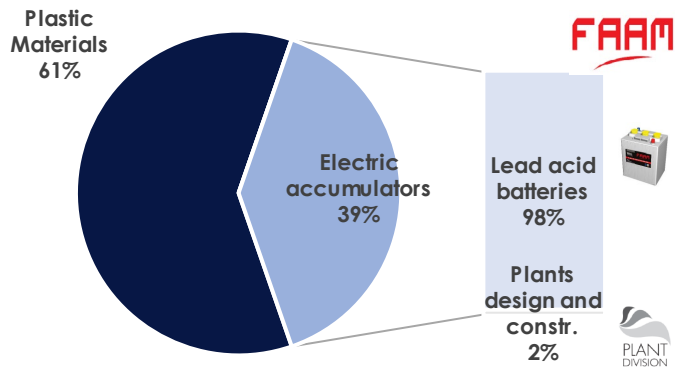
Clients mainly include aftermarket players in the automotive, heavy trucks, motive power, UPS (Uninterruptible Power Supply), telco and energy industries (OEM channel exposure is residual). The division's clients are mainly involved in the aftermarket channel for the automotive, heavy truck and motive power industries to which FAAM provides traction and starter lead-acid batteries, while exposure to the OEM channel is minor. Other clients that purchase storage batteries include UPS and telco operators as well as energy generators. Main clients are: ENEL, Toyota Material Handling, OM Still, EMROL, Jungheinerich, Magneti Marelli and Trenitalia.

Domestic production footprint, plus a plant in China. The EA division manufactures its lead-acid batteries in Italy where it has 5 operating plants for starters and stationary batteries. In addition, SERI has a plant in China in the city of Yixing where it produces batteries for traction applications. On this point, we highlight that in 1H19 the company uncovered that the former CEO and Commercial Director of the Chinese subsidiary (YIBF) carried out a series of illegitimate actions to the detriment of SERI. Nevertheless, in April 2019 SERI acted by dismissing the manager and initiating legal proceedings (€0.3mn one-off cost) that could result in a positive financial outcome for SERI, though it is hard to estimate the potential amount.

Raw materials currently purchased externally, but the aim is to recycle internally. Commodity price risk offset with monthly/quarterly pass-through contracts. Quite obviously, lead is the main raw material used to manufacture lead-acid batteries and raw materials weigh for ~50/53% of the division's revenue. While currently purchased externally, SERI is aiming to satisfy its lead needs internally (85%) through the recycling of exhausted batteries, partly collected directly from company clients (25%) from which both plastic and secondary lead could be extracted. This process is called smelting and is carried out by Repiombo Srl, a company in which SERI has a 99% stake. Beyond the positive environmental impact, the company expects to lower its raw material bills by some 4%. For the time being, raw material price fluctuations are offset with the same policy used in the PM division, i.e. a pass-through to final prices on a monthly/quarterly basis.

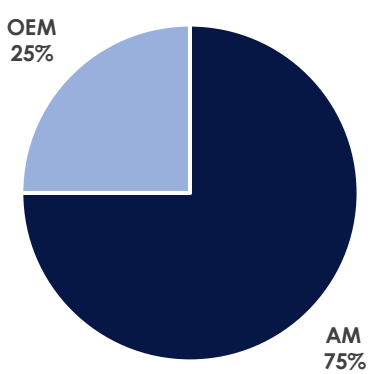
Key financials. In 2019, the division posted revenue of €61.8mn (39% of the group total), with net sales of €54.7mn, down -6% YoY, but profitability improved to 20.2%, up 5.4pp YoY as the company exited the automotive business due to its low profitability.

Electric Accumulators: revenue breakdown by business (2019A)



Source: company presentation

Electric Accumulators: revenue breakdown by channel (2019A)



Source: company presentation

Lithium project

Boasting multi-year experience in the field of batteries, in 2017 SERI decided to expand its business horizontally, embarking on a significant investment programme to develop a lithium battery business. The plan, supported financially by government funds as we will illustrate in more detail later, is being developed in two phases based on accumulating plant capacity:

- **Teverola 1, 0.3GWh capacity, set to start production of soft pouch cells based on gen 1 and 2a technology for industrial, storage and special application at the beginning of 2021;**
- **Teverola 2, 2.5/3.0GWh capacity, with first products expected by 2023 (Gen 3a/3b batteries) and then Gen 4 All-Solid-State with Li metal anode from 2026.**

Teverola Lithium Project

TEVEROLA 1		TEVEROLA 2
Start up: I Q 2021		**Project timesheet**: 2021-2027
37.000 sqm indoor		**42.000 sqm indoor**
Capacity: First step 300 MWh		**Capacity**: 2,5/3 GWh at the end of the R&D&I project
Technology: Gen 1 LFP soft pouch (gen 2 availability too)	280.000 sqm of complex area (80.000 indoor - scalable)	**Technology**: Gen 3b and 4 (solid state)
55 M€ Investments		**505 M€ of public grant**(Capex and Opex)
Applications: Motive Power, ESS, Public transport, Naval and Defense		50 ton/day of battery treatment in the **recycling pilot line**
Joint Venture in **Argentina** for the **supply of lithium carbonate**		**Applications**: mainly Automotive and storage
Ability to adapt the chemistry used in the realization of the cell (e.g. Automotive)		**Partnership with European players** along the supply chain

Source: company presentation

In the batteries business, SERI has a dedicated research centre managed by FAAM that, thanks to its innovative projects, has allowed the company to win public support for the Teverola 1 and 2 projects. The research centre for lithium-ion cells is located in Turin, while activities on lead-acid and electronic components for lithium batteries such as the BMS and packs are carried out in Monterubbiano. Some of the innovative projects are listed below:

- FAR SEAS Project, in collaboration with the Italian Navy (Marina Militare Italiana) for the development of Li-ion battery technology (including a specific Battery Management System) for submarines;
- Military Vehicles Li-ion Battery Project, in partnership with the Italian Ministry of Defence – Directorate of Terrestrial Armaments and Iveco Defence Vehicle - for the application of lithium technology on military vehicles;
- Public transport bus revamping, based on the previous experience in the city of Turin together with GTT (public transport company) buses. FAAM converts old, diesel-fuelled vehicles (equipped with lead-acid batteries) into 100% electric vehicles using lithium batteries;
- Lithium battery recycling: using the know-how developed in the lead batteries sector over the years. Some ongoing European projects are underway;
- New chemicals for lithium-ion cells, analysis of performance of all new materials carried out in the Turin labs;
- Specific storage (ESS Large System), for the mass production of large storage systems, from 30 kWh up to 5 MWh.

Teverola 1

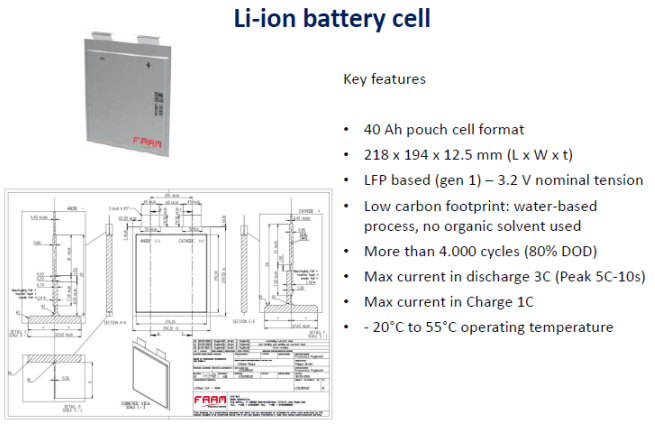
Low capacity, but targeting niche applications (same approach as in lead-acid). The plant's initial capacity will be 0.3GWh, which the company expects to saturate quite rapidly. Given its size, the plant will be relatively small compared to the other Gigafactories that are expected to come onstream throughout the world and are aiming for capacity well in excess of 15GWh. However, we argue that SERI is targeting market niches with requirements that differ from those eyed by the big Asian players, especially the automotive industry. Indeed, SERI is targeting specific applications such as motive power (i.e. forklifts), energy storage systems, public transport, naval and defence. On motive power, the company will offer its existing clients a dual solution: higher performance with more expensive lithium batteries, or lower performance with cheaper lead-acid batteries. In the meantime, for public transport, naval and defence, SERI already has specific customised projects in place.

Timetable: ramp-up expected at the beginning of 2021. "Teverola 1" is the first phase of the broader lithium project. Launched in 2017 and originally expected to be completed at the end of 2019, a series of bureaucratic and organisational issues (connection to utilities), including the Covid-19 pandemic that postponed final testing (to be made by suppliers from outside the EU that have suffered travel restructions) from 1H20 to 2H20, delayed the ramp-up of the plant at the beginning of 2021. Production will be carried out at the former Whirlpool plant in Teverola and SERI will use Whirlpool employees that have already been trained in the research centre of Turin and Monterubbiano. The investment has been already completed and the plant is undergoing the commissioning phase.

Investment of ~€55mn (€40mn tangible CapEx, €15mn in R&D) with 36%/30% supported by subsidised loans/grants from the Italian government. The project foresees a total investment of ~€55mn in both PP&E and intangibles of which ~€20mn (~36%) and ~€17mn (~30%) funded through subsidised public sector loans and grants (Invitalia). At the end of 2019, slightly more than €10mn of grants, booked as "Other revenue", had already been disbursed in SERI's favour, with the remaining ~€6mn relative to R&D activity on the active raw material.

Technology: LFP soft pouch. The plant will focus on the production of soft pouch cells (form factor) based on the lithium-iron-phosphate technology that promises high life spans, safety, and low cost through enhanced power and energy density (due in part to the lack of other raw materials such as nickel). This technology has been developed internally by the Turin research centre, with SERI's key differentiator being a water-based solution.

Li-ion battery cell



Source: company presentation

SERI lithium battery pack

Source: company presentation

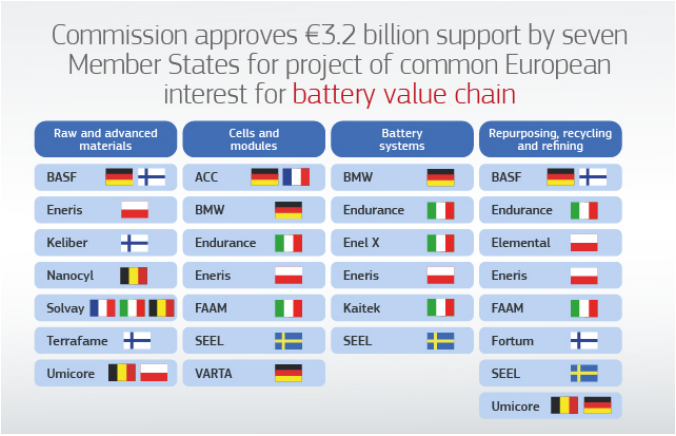
Teverola 2 & IPCEI programme

Investment of €505mn entirely subsidised by EU grants under the IPCEI program. On 19th December 2019 the European Commission, as part of its IPCEI (Important Projects of Common European Interest) programme, approved a total of €3.2bn in grants in favour of 17 companies operating in various European countries. The aim of the project is to facilitate the energy transition towards electric mobility in order to meet emissions targets by fostering the development of a complete value chain starting from raw materials, going through cell and module production to battery systems and finally repurposing, recycling and refining. In that context, Italy was awarded €570mn, of which €505mn has been assigned to SERI. Under the FAAM brand, the "Teverola 2" plant will focus on cells and modules and the repurposing, recycling and refining phases.

Capacity of 2.5/3.0GWh targeting mass-market applications such as automotive. Thanks to the resources provided under the IPCEI program, SERI expects to build a 2.5 to 3.0GWh capacity plant (depending on the development of equipment prices). Given the much larger capacity than the Teverola 1 project, SERI will aim to target mass-market applications such as the automotive market and storage. In addition, the company plans to set up a 50t/day battery treatment plant in the recycling pilot line.

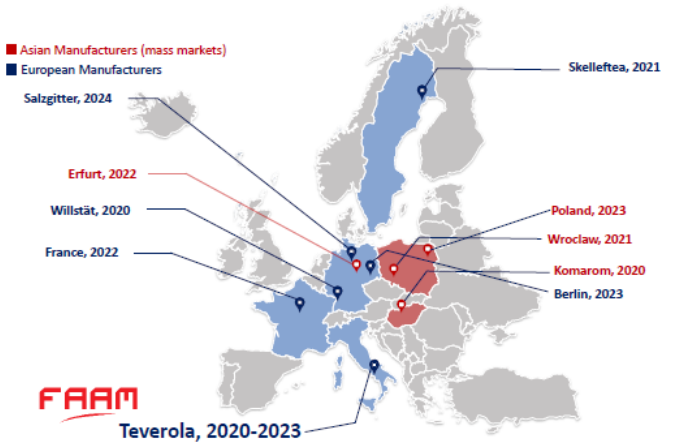
Timeline: 2021-27. While the company is setting up credit/financing lines to finance the official start of the project (credit lines will then be repaid by the government), the project is expected to be completed in 2027. Nevertheless, SERI expects that after an R&D phased carried out between 2020 and 2022, the Teverola 2 site will be able to produce generation 3a and 3b batteries from 2023. The project is then expected to go to step 4 from 2026 with the industrialisation of All-Solid-State batteries. The project is expected to create the only Italian Gigafactory within the context of the European landscape.

IPCEI projects



Source: company presentation

EU Gigafactory landscape



Source: company presentation

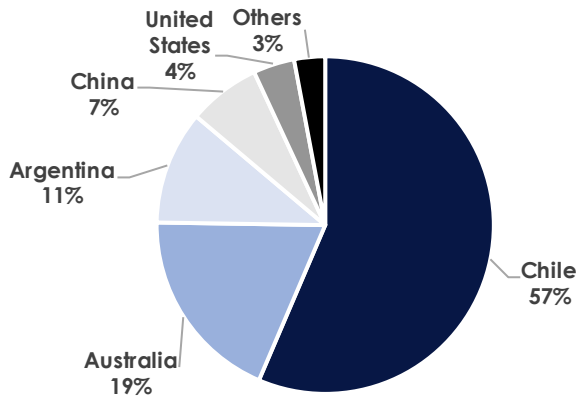
Raw materials JV

In December 2017, SERI signed an agreement with JEMSE, an Argentinian state-owned company, to form a Joint Venture for the construction of a plant to manufacture the active materials SERI will use for its lithium-iron-phosphate or LiFePo batteries.

Under the agreement, SERI will have 40% of the JV and provide production expertise and training processes, while JEMSE will make 5% of total annual production of lithium carbonate available to Jujuy Litio SA (~22kton/y scalable to ~45kton/y in the near future).

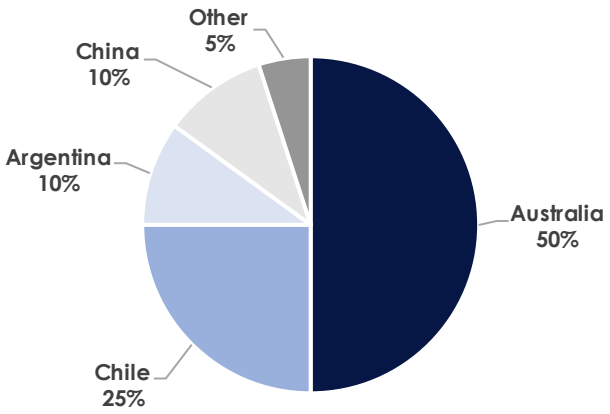
The deal will provide SERI a more stable and competitively priced supply of raw materials.

World lithium reserves (2019)



Source: USGS.com

World lithium supply (2019)



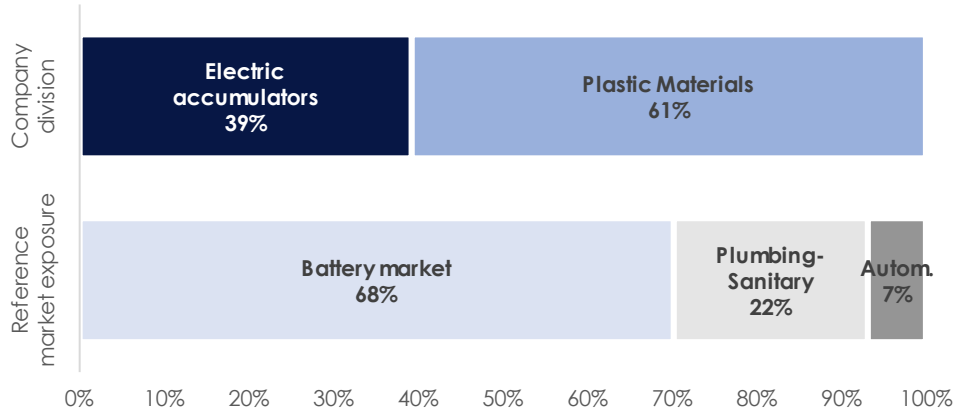
Source: Volkswagen

Market outlook

Exposure and historical market trends

SERI's business is ~70% exposed to the battery market, and this proportion is set to increase. As we explained earlier, SERI is exposed to electric battery market trends. Indeed, in addition to the EA division, the PM division also derives 50% of its revenue (29% of the group total) from business with battery makers, while the rest (pipes & fittings and special compounds) is with players operating in the automotive, infrastructure, plumbing and sanitary ware, and shipbuilding industries. Even more importantly, we need to stress that exposure to the battery market, which is currently only to the lead-acid segment, can only increase bearing in mind the Teverola lithium projects.

Company's divisional revenue exposure by market (2019A)

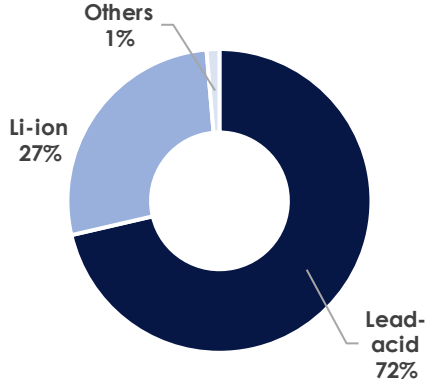


Source: Intermonte SIM on company data

A steadily growing market, but trends need to be assessed by technology and end markets. First invented in the 19th century, batteries have a long history. In 2018 the global rechargeable battery market was worth ~$80bn, a 2% increase vs. 2017 and a +7% CAGR since 2015. However, in order to have a more thorough overview of the market and its trends, it is useful to break it down based on two key aspects: technology and end-markets.

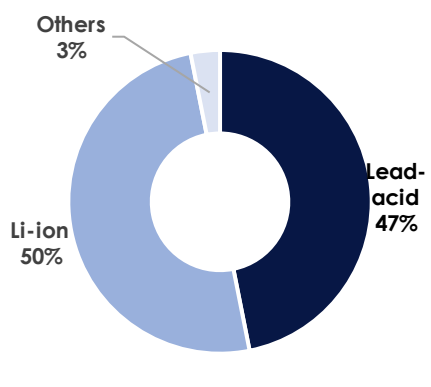
Lithium batteries now #1 in value, but lead-acid still #1 for volumes. The first distinction we need to draw, beyond rechargeable and non-rechargeable batteries, is based on technology. The main ones in use are lead-acid and lithium, covering 97% of the market. Lead-acid is the most widespread technology and has been around the longest, still representing ~72% of the market in terms of GWh (i.e. volumes), but in recent years lithium batteries have increased their market presence, and since 2018 have a slightly larger share of the market in US$ terms. Despite the higher price, this performance is attributable to the fact that lithium batteries have a significantly higher energy density than lead acid batteries. This means that more energy can be stored in a lithium-ion battery using the same physical space.

Battery volume by technology (2018)



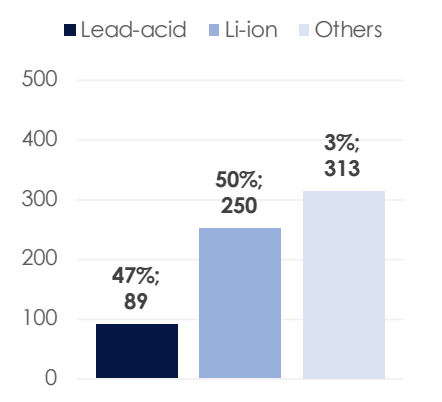
Source: Avicenne 2018

Battery value by technology (2018, $80bn)



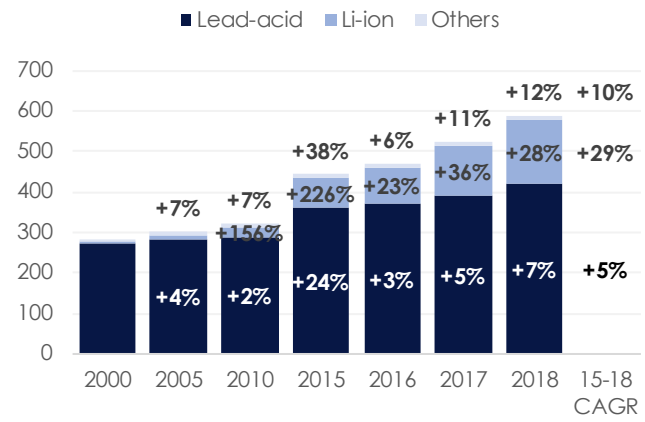
Source: Avicenne 2018

Battery price by technology ($ per KWh)



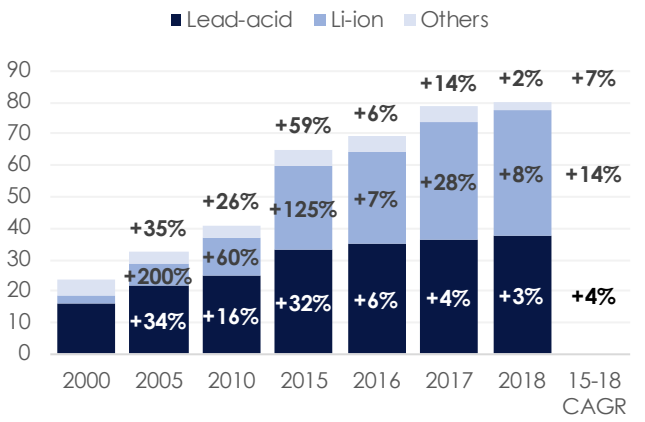
Source: Intermonte SIM on Avicenne 2018

Battery market volume by technology (in GWh)



Source: Avicenne 2018
top label refers to overall market

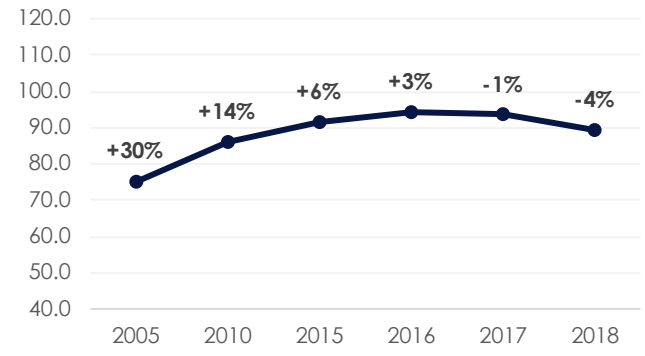
Battery market value by technology (in $ bn)



Source: company data
top label refers to overall market

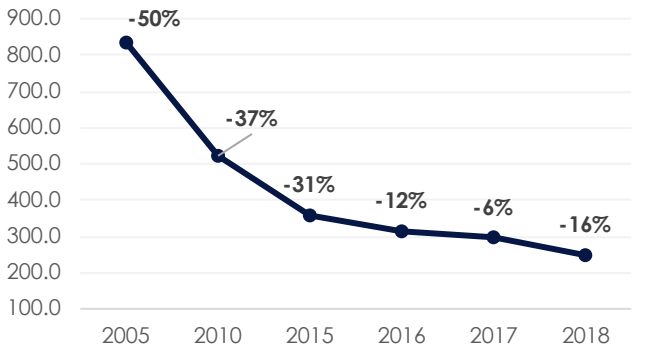
Battery prices a function of technological advancements and raw material fluctuations: lead more stable, while lithium dropped significantly being a new technology. Looking at the quantities and values shown above, we can implicitly obtain battery prices. As we can see from the graphs below, beside the difference in absolute terms for lead-acid and lithium batteries, the prices of the two types of batteries have witnessed different trends over the last few years. Indeed, while a KWh of lead-acid battery was priced at ~$90 in 2018, its price has remained fairly stable in the $75-95 range since 2006. In the meantime, lithium battery prices have dropped from more than $800 per KWh to ~$250 in 2018. We explain this difference mainly as the lead-acid battery market is a mature market, while lithium took off with the advent of smartphones in 2005. Indeed, lithium batteries recorded higher technological and manufacturing improvements, but also (and probably most importantly) lower raw material prices, as lithium mines have ramped up significantly. In any case, raw material price volatility should not be a problem for SERI in light of pass-through contracts.

Lead-acid battery prices ($ per KWh)



Source: Avicenne 2018

Lithium battery prices ($ per KWh)

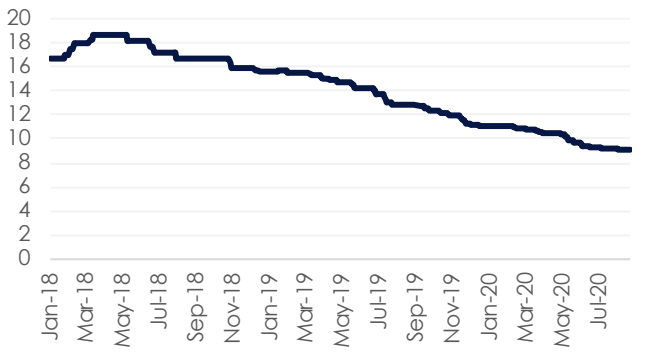


Source: company data

Lead Cash Official LME ($/t)

Source: FactSet

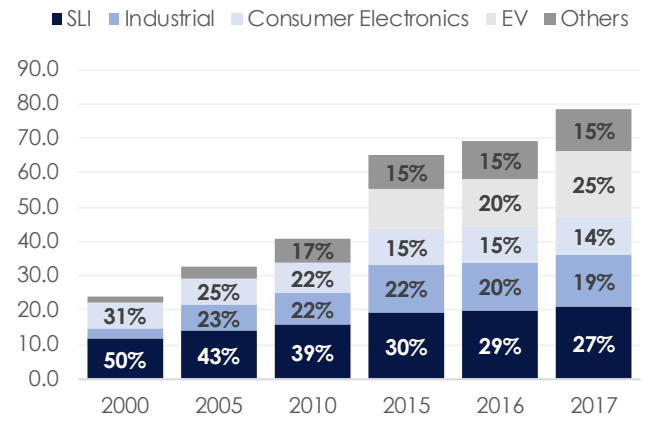
Europe Lithium Carbonate 99.5% ($ per Kg)



Source: Bloomberg

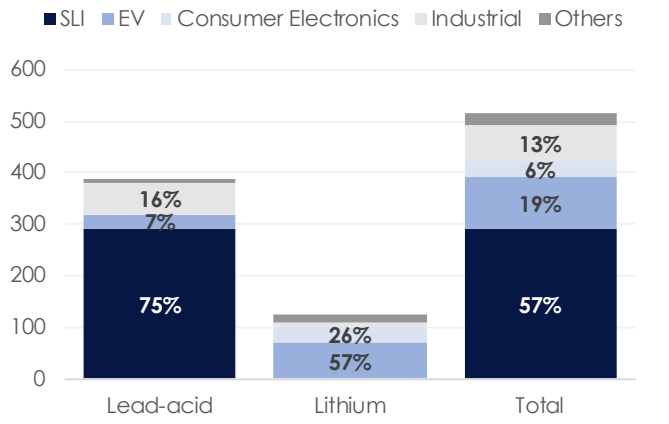
Trends by end market: SLI the most relevant category in terms of volume, but Electric Vehicles and Industrial markets are growing rapidly. In terms of volume, the most important end market is the SLI (starter batteries for cars, trucks, motorbikes and boats) as it represents ~ 57% of overall industry volumes, only using lead-acid batteries (there are no lithium SLI batteries). In the meantime, while in 2000 the share was zero, EV (electric vehicles) were the second largest category at the end of 2017 (~19%) with no signs of slowdown in sight given the increasing focus on transport decarbonisation. Industrials, the category that features stationary and motive power (i.e. forklift, telecom, UPS and ESS applications), represents ~ 13% of volumes, while consumer electronics stood at 6%.

Global battery market by end market ($ bn)



Source: Avicienne 2018
SLI = Start Light and ignition batteries for car, trucks, moto, boat
EV = Electric Vehicles (BEV, PHEV, Hybrid, e-bus and e-bikes)

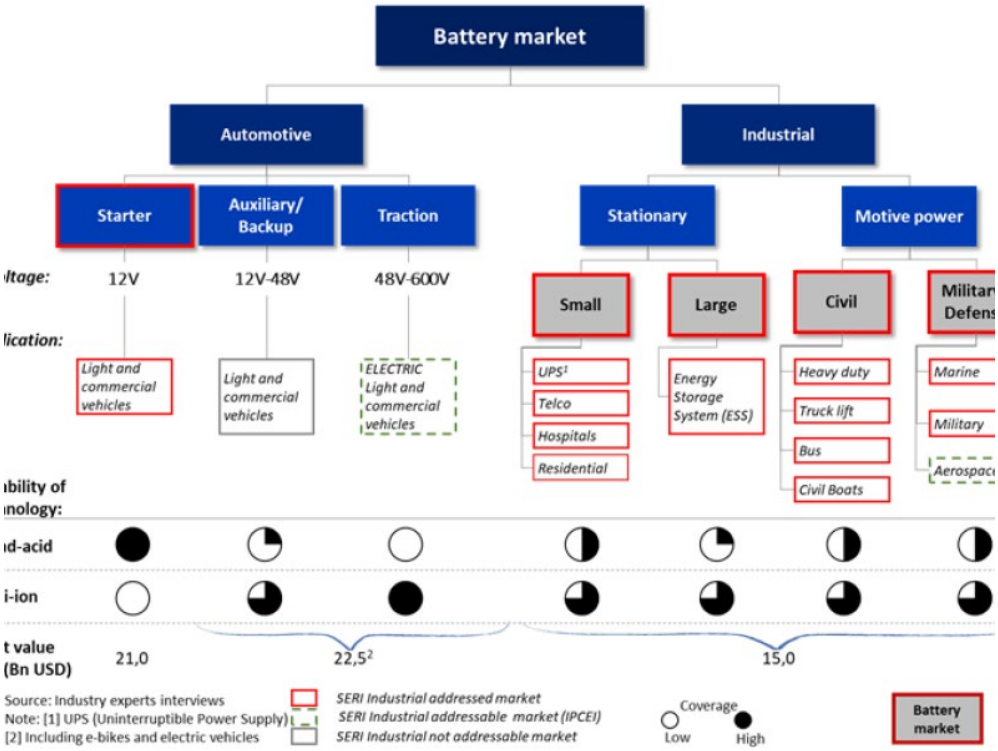
Global battery market by end market and technology (2017, in GWh)



Source: company data

As indicated above, SERI is mainly exposed to the rechargeable battery market with a particular presence in the automotive and industrial markets. For the automotive sector, the group provides starter batteries for both light and commercial vehicles clients. It also serves both the stationary and motive power segments of the industrial market, with small and large storage battery systems as well as the civil engineering and military/defence sectors.

Battery market and SERI addressed markets



Source: company presentation

Market outlook

Covid-19 pandemic only postponed market growth (+10% CAGR 2018-25); underlying trends reinforced by increasing environmental focus. Driven by the ever-increasing focus on climate change, the battery market has tremendous potential. In the context of efforts to curtail emissions through the decarbonisation of the economy, batteries are key to storing electric energy produced by intermittent renewable energy sources. While the overall market was expected to increase at a +10% CAGR between 2018 and 2025 in value terms, Covid-19 has made pre-pandemic estimates less reliable. However, we think it is fair to say that underlying trends have not vanished, but expectations have simply shifted. Indeed, we believe that the growth trajectory of the battery market has been reinforced by the above-mentioned environmental focus, even though the macro outlook seems less supportive.

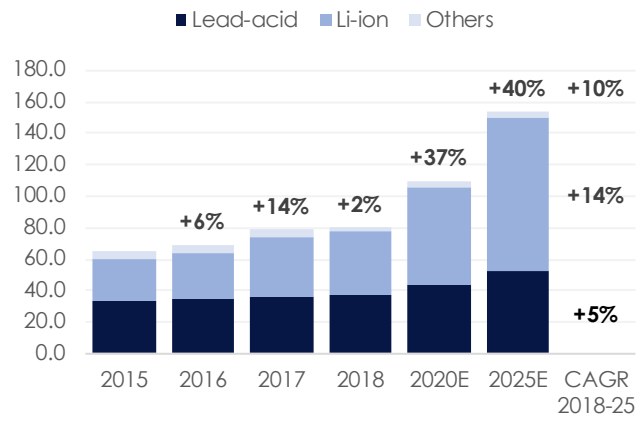
Lithium segment to provide the bulk of growth, but lead-acid batteries remain viable. Looking at the market by technology, the trends seen over the last few years will basically persist. Both lead-acid and lithium batteries are expected to show positive growth rates with the latter outpacing the former, providing the bulk of the growth (~80%) until it represents ~64% of the market vs. ~50% in 2018. In any case, we do not expect the lead-acid battery market to be disrupted by lithium batteries despite featuring a lower level of energy density. In a nutshell, we believe that each battery technology will have a certain role to play in different applications: lead-acid batteries require much less energy to produce, are easier to recycle (less effort and higher recovery rates) and have better safety performance at a cheaper price.

Batteries for Electric Vehicles set to skyrocket… given the regulatory pressure on carmakers in the short-to-medium term and expected consumer preferences in the medium-to-long term, EV are expected to account for a steadily increasing share of global auto sales over the next decade. Forecasts for the share of BEV/Hybrid vehicle sales in 2030 indicate 14%/34% compared to 1%/2% in 2015, while ICE vehicles are expected to represent half of the market. Consequently, the battery market for EV is expected to skyrocket over the next few years, growing at a +44% CAGR in volume terms.

…but Industrial segment also to grow massively. While, SERI will not enter the EV battery market until completion of the Teverola 2 project, with the ramp-up of the Teverola 1 project expected for the beginning of 2021 the company is planning to target specific market niches within the Industrial sector, namely power for forklifts, earth moving machines, light traction and naval as well as Storage/ESS for large and small domestic systems. In particular, these niches are all expected to grow at a double-digit rate driven by superior performance and lower total cost of ownership (TCO).

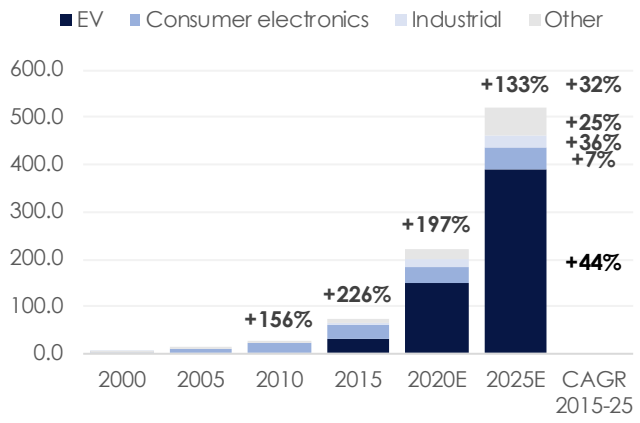
Last but not least, Plastic Materials for construction and automotive industries will offer attractive growth. Driven by increasing demand for lightweight materials due to the higher weight of EV and a rise in investments in residential and commercial infrastructure, the plastic materials market for the automotive and construction industries is expected to offer attractive growth rates of ~7% over the coming years. Although nothing has been confirmed yet, the special compounds business could be positively influenced by the introduction of a tax of €0.80/kg (at European level) on non-recycled plastic, which is pencilled in for 2021.

Battery market value by technology forecast (in $ bn)



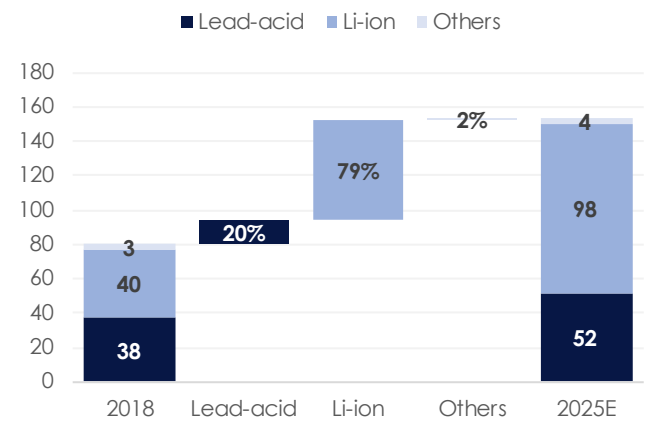
Source: Avicenne 2018

Battery market volume by end market forecast (in GWh)



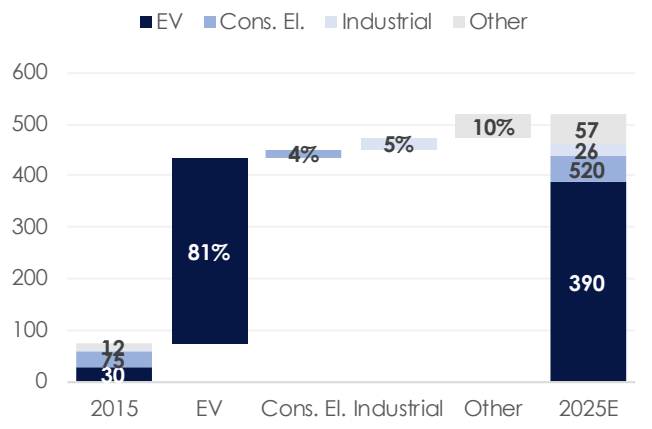
Source: Avicenne 2018

Battery market value growth bridge by technology (in $ bn)



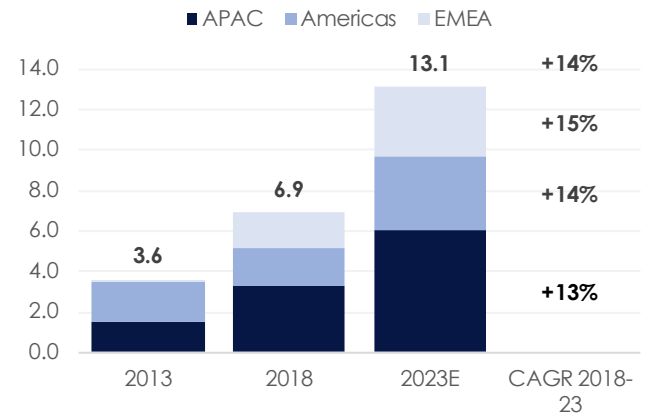
Source: Avicenne 2018

Battery market volume growth bridge by end market forecast (in GWh)



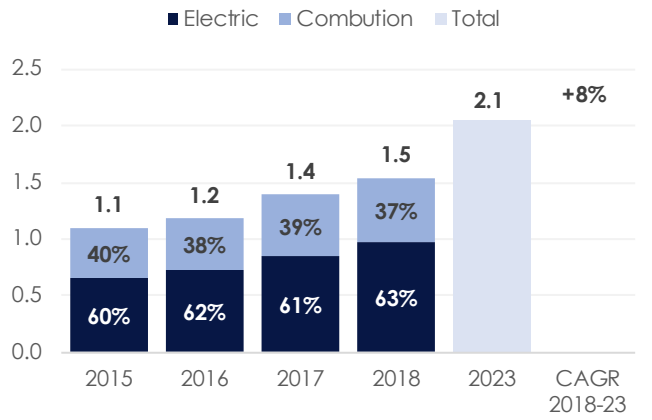
Source: Avicenne 2018

Energy storage market ($ bn)



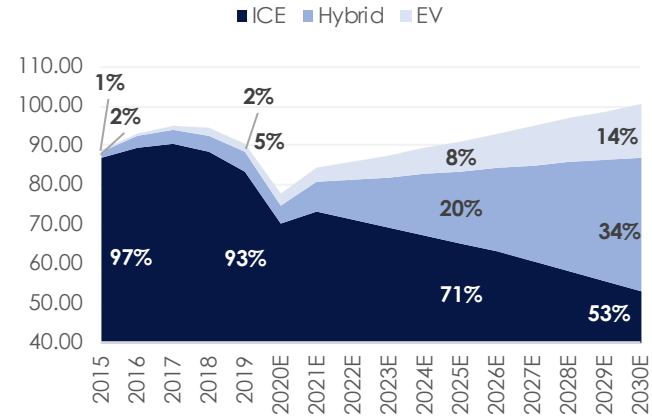
Source: Battery Energy Storage Market, Update 2019

Global forklift production (mn units)



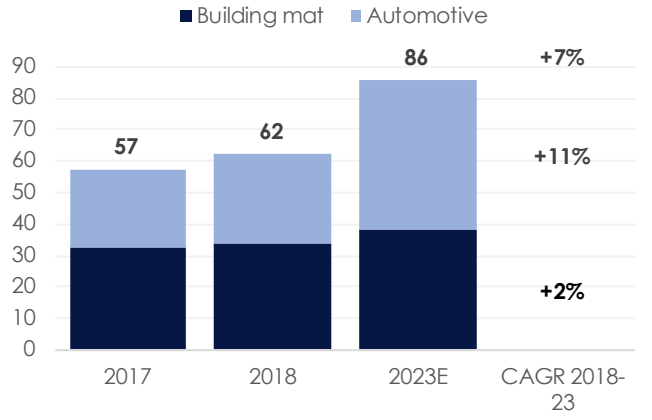
Source: World Industrial Truck Statistics

Global light vehicle sales by power train (mn units)



Source: LMC and Intermonte SIM estimates

Plastic Materials markets ($ bn)



Source: Markets and Markets, Navigant Consulting, Bloomberg, Statista, Businessweek, ZIV, Allianz

Financials: Historical Trends and Forecasts

Segment results and projections

Revenues grew at a +7% CAGR between 2013 and 2019. From 2010, SERI embarked upon expanding beyond the boundaries of its initial core business (i.e. plant engineering) through a combination of both organic and non-organic initiatives. Among M&A, we highlight the following deals: Plastam and ICS (moulding of plastic components for batteries) in 2010/12, FAAM (lead-acid and li-ion batteries) in 2013, Exide Technologies (plastic moulding) in 2014 and COES (pipes & fittings) in 2019. Data provided by the company stretching back to 2013 indicate a +7% revenue CAGR to 2019. Net sales came in at €143.2mn in 2019, up +22% YoY, while revenues were €156.5mn benefitting from "Other revenues" mainly in the form of other income (i.e. other income and R&D grants) and cost capitalisation for internal work.

Revenue growth to accelerate to +20% YoY up to 2022, with the turnover base to change drastically over the coming years. On the back of a relatively stable current business and skyrocketing lithium business, we are modelling revenue growth to €272.1mn in 2022 for a +20% 2019-22 CAGR. Driven by the ramp-up of the lithium business, with the operational and commercial phase of the Teverola 1 project foreseen starting as early as 1Q21, we expect the composition of the group's turnover to undergo major changes over the coming years. While the company will recognise the economic benefits of the project under the Electric Accumulator division as sales will be made through the FAAM brand, we believe it makes sense to show the expected contribution from the Teverola projects as a separate line. This also helps isolate the trends expected for the company's "current business", which is represented by lead-acid batteries (39% of the group), battery boxes and lids (30%), pipes & fittings (24%) and special compounds (7%). In this respect, we forecast the "current business" and lithium business to represent 55% and 41% of SERI's revenue respectively in 2022 (the remainder is classified under "Other").

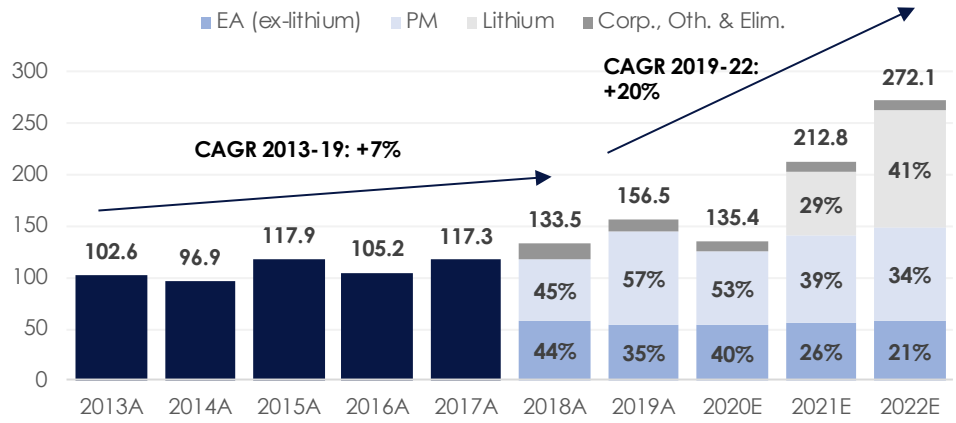
"Current business" expected to recover from Covid-19 impact in 2022. While 2020 is expected to close with revenues of €135.4mn, down -13% YoY (1H was down -27% and the company indicates a flat 2H YoY) due to Covid-19, we expect the pandemic-related shortfall in the "current business" to be recovered as soon as 2022, with growth of +12%/ +7% in 2021/22. Our forecast point to a +1% CAGR 2019-22 for net sales for the current business trend, based on the following assumptions:

- **Full recovery for lead-acid batteries (+2% CAGR 2019-22).** As shown in the market outlook section, prior to the pandemic the lead-acid battery market was expected to grow at a ~+5% CAGR from 2018 to 2025. Clearly the pandemic is changing the outlook, leading us to embed lower figures for 2020 and a slightly higher growth rate for 2021, albeit from a lower base. Nevertheless, we do not assume any significant business disruption. All in all, we assume the lead-acid battery related business to grow at a +2% CAGR to 2022 considering the more resilient trend offered by the after-market channel (direct business) and the recovery of the OEM channel in 2021, to which the company is exposed through battery boxes and lids, recorded under the Plastic Materials division which will benefit from the recent investment in the Polish plant;
- **Marginal growth (+1% CAGR 2019-22) for pipes & fittings and special compounds for automotive business lines**. Once again, pre-pandemic market estimates are no longer consistent with the current outlook. We therefore embrace a lower outlook for 2020, followed by a swifter rebound in 2021 and 2022 buoyed by recoveries in the infrastructure, plumbing and sanitary ware, and shipbuilding industries (for pipes & fitting) and in auto sales (for special compounds). Our estimates point to a +1% revenue CAGR 2019-22 for these businesses.

Lithium business to provide the real boost to SERI's revenue. While the current business is only expected to offer mild growth, the real game changer for SERI will be the ramp-up of the Teverola 1 project foreseen for 1Q21. Indeed, we expect massive growth for the lithium business, going from zero in 2020 to €112.5mn in 2022. We forecast such skyrocketing growth on the back of a sharp surge in volumes, with capacity saturation for the 0.3GWh plant at ~42%/~83% in 2021/22, as according to the company customer interest and demand is very high. Finally, considering the strategy to target small market niches with battery packs (battery pack = battery cells + modules) for custom applications, the average selling price per KWh would be much higher than is seen for mass market applications (~$150 see in the automotive industry). Therefore, we assume a starting average selling price (ASP) of €500.

Teverola 2 not embedded in our forecast. The Teverola 2 plant would be a further game changer for the company, but we are not including it in our forecast as it is too early to have full visibility on the ramp-up of the plan. In addition, our estimates do not include the impact of the IPCEI subsidies as they are basically expected to offset costs sustained to set up the business. We remind that the Teverola 2 project should have a capacity of 2.5/3.0GWh, but will target more mass-market applications, which offer a lower ASP.

SERI revenue (€ mn)



Source: company data (A), Intermonte SIM estimate (E)

SERI revenue breakdown (€ mn)

	2018A	2019A	2020E	2021E	2022E	CAGR 2019A-22E
Electric Accumulators (lead-acid)	58.2	54.7	53.7	56.3	58.0	+2%
Plastics materials	59.6	89.6	71.7	83.9	91.4	+1%
Corporate, Other & Elim.	(0.1)	(1.2)	(1.2)	(1.2)	(1.2)	+0%
Current business	**117.7**	**143.2**	**124.2**	**139.0**	**148.3**	**+1%**
Lithium	**0.0**	**0.0**	**0.0**	**62.5**	**112.5**	**n.a.**
Net sales	**117.7**	**143.2**	**124.2**	**201.5**	**260.8**	**+22%**
Other income & Int. Work.	15.8	13.3	11.3	11.3	11.3	-5%
Group revenue	**133.5**	**156.5**	**135.4**	**212.8**	**272.1**	**+20%**
Electric Accumulators (lead-acid)		-6%	-2%	+5%	+3%	
Plastics materials		+50%	-20%	+17%	+9%	
Corporate, Other & Elim.		n.m.	+0%	+0%	+0%	
Current business		**+22%**	**-13%**	**+12%**	**+7%**	
Lithium		n.m.	n.m.	n.m.	**+80%**	
Net sales		**+22%**	**-13%**	**+62%**	**+29%**	
Other income & Int. Work.		-16%	-15%	+0%	+0%	
Group revenue (YoY growth)		**+17%**	**-13%**	**+57%**	**+28%**	

Source: company data (A), Intermonte SIM estimate (E)

SERI lithium business assumptions

Assumptions business Lithium	2018A	2019A	2020E	2021E	2022E	CAGR 2019A-22E
Theoretical Capacity (MWh)	0.0	0.0	300.0	300.0	300.0	
Capacity sold (MWh)	0.0	0.0	0.0	125.0	250.0	
Utilization	0.0%	0.0%	0.0%	42%	83%	
Price (€/MWh)	0.0	0.0	0.0	500.0	450.0	
YoY growth %	n.m.	n.m.	n.m.	n.m.	-10.0%	
Net sales	**0.0**	**0.0**	**0.0**	**62.5**	**112.5**	
YoY growth	n.m.	n.m.	n.m.	n.m.	+80.0%	

Source: company data (A), Intermonte SIM estimate (E)

Income Statement

Revenue to grow at +20% CAGR 2019-22 despite Covid-19, driven by Teverola 1 ramp-up. As we have just described, we forecast SERI group revenue to increase at a +20% CAGR between 2019 and 2022, despite the -13% YoY decrease expected for this year due to Covid-19. While the current business will return to growth next year, the real breakthrough for SERI will be the ramp-up of the Teverola 1 project, which will bring revenue to €272.1mn in 2022 from €156.5mn in 2019.

Adj. EBITDA to reach €47.6mn, expanding at a +29% CAGR 2019-22. Whilst operating leverage will negatively affect 2020 results, with EBITDA decreasing by -30% YoY to €15.4mn for an 11.4% margin (-2.7pp), we forecast a profitability expansion in the coming years to 15.3% in 2021 and 2022. Hence, we project group EBITDA to arrive at €47.6mn in 2022 for a +29% CAGR vs. 2019. Our forecast is based on the assumption that the "current business" will return to 2019 profitability levels in 2022 (14%), consistent with the revenue scenario outlined in the previous paragraph. On the other hand, we are assuming the lithium business already to be at 20% in 2021 and expand further to 23% in 2022 thanks to strong operating leverage and the positioning of the company's products. This is consistent with the average profitability of SERI's peers.

Net income climbing to €19.3mn in 2022 from €1.9mn in 2019. We are modelling a net profit of €19.3mn in 2022, significantly up from the €1.9mn of 2019 and the €(2.2)mn loss envisaged for 2020. Starting from our EBITDA estimate, we arrive at our net profit forecast by assuming:

- Increasing D&A and provisions (from €11.6mn in 2019 to €17.1mn in 2022) reflecting the 2018-19 CapEx plan;
- A cost of debt to the tune of 5%, in line with 2019, resulting in net interest charges of €3.9mn on average;
- Tax rate of 27.0%.

Income statement (€ mn)

	2018A	2019A	2020E	2021E	2022E	CAGR 2019A-22E
Net sales	117.7	143.2	124.2	201.5	260.8	+22%
Others	15.8	13.3	11.3	11.3	11.3	-5%
Revenue	**133.5**	**156.5**	**135.4**	**212.8**	**272.1**	**+20%**
YoY growth	+98.8%	+17.3%	-13.5%	+57.1%	+27.8%	
- Total prod. and op. costs	(118.2)	(134.5)	(120.1)	(180.2)	(224.5)	
Adj. EBITDA	**15.3**	**22.1**	**15.4**	**32.6**	**47.6**	**+29%**
YoY growth	+118.4%	+44.4%	-30.2%	+112.0%	+45.9%	
Adj. EBITDA margin %	11.4%	14.1%	11.4%	15.3%	17.5%	
- D&A & prov .	(13.1)	(11.6)	(13.3)	(16.3)	(17.1)	
Adj. EBIT	**2.2**	**10.4**	**2.1**	**16.4**	**30.5**	**+43%**
YoY growth	-33.1%	+370.9%	-80.0%	+685.8%	+86.3%	
Adj. EBIT margin %	1.7%	6.7%	1.5%	7.7%	11.2%	
- Non-recurring costs	2.7	(3.7)	(1.5)	0.0	0.0	
+/- Net fin. inc./(exp.)	(3.6)	(3.4)	(3.6)	(4.1)	(4.0)	
Pre-tax income	**1.4**	**3.3**	**(3.0)**	**12.2**	**26.5**	**+101%**
Tax rate %	-295.5%	43.3%	27.0%	27.0%	27.0%	
- Tax income	4.0	(1.4)	0.8	(3.3)	(7.2)	
Net income	**5.4**	**1.9**	**(2.2)**	**8.9**	**19.3**	**+118%**
YoY growth	+448.7%	-65.3%	-219.3%	-503.0%	+116.6%	
Net income margin %	4.0%	1.2%	-1.6%	4.2%	7.1%	
- Minorities	(0.0)	(0.3)	0.0	0.0	0.0	
Net income to shareholders	**5.3**	**1.5**	**(2.2)**	**8.9**	**19.3**	**+132%**
Adj. net income	**(2.2)**	**5.1**	**(0.3)**	**8.9**	**19.3**	**+56%**
YoY growth	-327.5%	-328.1%	-106.6%	-2771.5%	+116.6%	
Net income margin %	-1.7%	3.2%	-0.2%	4.2%	7.1%	
Adj. EPS	**(0.05)**	**0.11**	**(0.01)**	**0.19**	**0.41**	**+56%**
YoY growth	+0.0%	-316.6%	-106.6%	-2771.5%	+116.6%	

Source: company data (A), Intermonte SIM estimate (E)

Balance Sheet & Cash Flow Statement

In light of the massive growth expected in the lithium business, we do not expect tangible cash flow generation for SERI over the 2020-22 period due to the net working capital build, as the company already invested in fixed assets in 2018 and 2019. We therefore foresee the €69.0mn net debt position at YE19 remaining fairly stable to 2022, as SERI will be able to achieve substantial cash generation only once the lithium project reaches more ordinary growth rates (a sort of steady state). Nevertheless, considering the strong EBITDA growth, leverage will drop to 1.4x in 2022 compared to 3.1x in 2019. Consistent with our P&L assumptions, we are not including cash flows from Teverola 2.

In greater detail, our numbers are driven by the following assumptions:

- **Net working capital.** At the end of 2019, SERI had a cash conversion cycle of 108 days. We expect it to increase in 2020 driven by an expected build-up of inventories in preparation for the ramp-up of the Teverola plant and decrease in DPO (2019 was inflated by the COES purchase), then decrease to 105 days in 2022 driven by a lower level of inventories, better timing of cash collection and payment terms. Implicitly, we assume net working capital to be ~ 29.1% of sales between 2019 and 2022;
- **CapEx**. After the significant investments made in 2018 and 2019 (€39.1mn on average per year) to set up the lithium project, we expect capital investments by SERI to moderate over the coming years as was seen in 1H20 when the company spent around €9.5mn. We are forecasting average CapEx of €10.7mn between 2020 and 2022, or 6.0% of sales;
- **Cash-out/in from acquisitions/divestments.** As we are not including any M&A transactions in our forecast before they are announced, our model does not assume any cash-out/in from external transactions;
- **Dividends, buyback and equity financing.** The company has no dividend policy in place and is not carrying out a buyback plan. Moreover, we are not modelling any cash-in from the conversion of warrants until such conversion takes place, but we have considered this factor in our valuation model.

Balance sheet (€ mn)

	2018A	2019A	2020E	2021E	2022E	AVG 2020E-22E
Trade net working capital	57.0	53.9	60.7	76.0	91.3	35%
Other current assets/(liabilities)	(8.6)	(14.4)	(14.4)	(14.4)	(14.4)	-7%
Working capital	**48.4**	**39.5**	**46.3**	**61.6**	**76.9**	**28%**
Net fixed assets	127.5	163.6	164.3	155.1	147.9	79%
Long-term liabilities	(4.9)	(14.0)	(14.0)	(14.0)	(14.0)	-7%
Total fixed asset	**122.6**	**149.7**	**150.4**	**141.1**	**134.0**	**72%**
Invested capital	**171.1**	**189.2**	**196.7**	**202.7**	**210.8**	**100%**
Net debt/(cash)	50.9	69.0	78.7	75.8	64.7	36%
Equity	118.5	118.4	116.2	125.1	144.4	63%
Minorities	1.6	1.8	1.8	1.8	1.8	1%
Total sources	**171.1**	**189.2**	**196.7**	**202.7**	**210.8**	**100%**

Source: company data (A), Intermonte SIM estimate (E)

Cash flow statement (€ mn)

	2018A	2019A	2020E	2021E	2022E	Cumul. 2020E-22E
NFP beginning of the period	**(28.9)**	**(50.9)**	**(69.0)**	**(78.7)**	**(75.8)**	
Net Income	**5.4**	**1.9**	**(2.2)**	**8.9**	**19.3**	**26.0**
D&A	13.1	12.7	14.3	16.3	17.1	47.7
Change in working capital & Others	(9.6)	10.3	(6.8)	(15.3)	(15.3)	(37.4)
Cash flow from operations	**8.8**	**24.9**	**5.3**	**9.9**	**21.2**	**36.4**
Capex	(39.5)	(38.7)	(15.0)	(7.0)	(10.0)	(32.0)
FCF	**(30.6)**	**(13.8)**	**(9.7)**	**2.9**	**11.2**	**4.4**
Acquisitions	(2.8)	(7.9)	0.0	0.0	0.0	0.0
Dividends, buybacks and equity financ	16.5	(1.6)	0.0	0.0	0.0	0.0
Others (incl. IFRS 16)	(5.1)	5.2	0.0	(0.0)	0.0	(0.0)
Change in NFP	**(22.0)**	**(18.1)**	**(9.7)**	**2.9**	**11.2**	**4.4**
NFP end of the period	**(50.9)**	**(69.0)**	**(78.7)**	**(75.8)**	**(64.7)**	

Source: company data (A), Intermonte SIM estimate (E)

Ratio

	2018A	2019A	2020E	2021E	2022E	AVG 2019A-22E
CCC (Cash Conversion Cycle, in days	148	108	155	115	105	121
NWC/Sales %	36.3%	25.2%	34.2%	28.9%	28.3%	29.1%
Capex/Sales %	29.6%	24.7%	11.1%	3.3%	3.7%	10.7%
Net debt/EBITDA	3.3x	3.1x	5.1x	2.3x	1.4x	3.0x
D/E %	43.0%	58.3%	67.8%	60.6%	44.8%	57.9%
ROCE %	1.3%	5.5%	1.1%	8.1%	14.4%	7.3%
ROE %	-1.9%	4.3%	-0.3%	7.1%	13.4%	6.1%
FCF conversion	-200.6%	-62.7%	-63.2%	9.0%	23.4%	-23.3%
Cost of debt	5.6%	4.7%	4.5%	5.2%	5.7%	5.0%

Source: company data (A), Intermonte SIM estimate (E)

1H20 results

1H20 results affected by Covid-19. SERI reported its 1H20 results on 21st September. The company reported a -26% YoY drop in net sales to €54.1mn, heavily penalised by the Covid-19 pandemic despite the Jan-Feb period being in line with company expectations. By division, the Plastic Materials division fell by(-36%), suffering from the exposure to the OEM channel where manufacturers (auto and infrastructure) were forced to halt activities, partly offset by the more resilient trend showed by the Electric Accumulators division (-6%) as it mainly deals with after-market customers. While the gross margin was essentially stable YoY at 47% and OpEx contracted by €3.6mn, the fall in revenue reduced fixed cost absorption leading to a decrease in the EBITDA margin to 1.1% vs 10.0% in 1H19. Broadly stable D&A and net financial expenses brought the net loss to €(7.6)mn vs €(1.4)mn last year. The positive NWC movement and CapEx reduction safeguarded cash generation, with FCF being at €1.1mn and net debt at €72.1mn vs €69.0mn at YE19.

2H20 expected to be flat YoY. On 2H20, the company said that it saw a YoY increase in revenues in July and August with a healthy backlog that demonstrates the recovery of commercial and production activities. Management is therefore expecting 2H20 revenue to be broadly flat YoY.

1H20 results (€ mn)

	1H19A	2H19A	2019A	1H20A	2H20E	2020E
Electric accumulators	25.5	29.3	54.7	24.0	29.7	53.7
Plastic Materials	48.4	41.3	89.6	30.8	40.9	71.7
Other income & Int. Work.	(0.7)	(0.4)	(1.2)	(0.6)	(0.5)	(1.2)
Net sales	**73.1**	**70.1**	**143.2**	**54.1**	**70.1**	**124.2**
Other	5.9	7.5	13.3	3.9	7.4	11.3
Revenue	**79.0**	**77.6**	**156.5**	**58.0**	**77.5**	**135.4**
Electric accumulators	-12%	+0%	-6%	-6%	+1%	-2%
Plastic Materials	+59%	+41%	+50%	-36%	-1%	-20%
Other income & Int. Work.	n.a.	+433%	+1339%	-13%	+22%	+0%
Net sales	**+23%**	**+20%**	**+22%**	**-26%**	**-0%**	**-13%**
Other	-26%	-5%	-16%	-34%	-1%	-15%
Revenue	**+17%**	**+17%**	**+17%**	**-27%**	**-0%**	**-13%**

Source: company data (A), Intermonte SIM estimate (E)

1H20 results key highlights (€ mn)

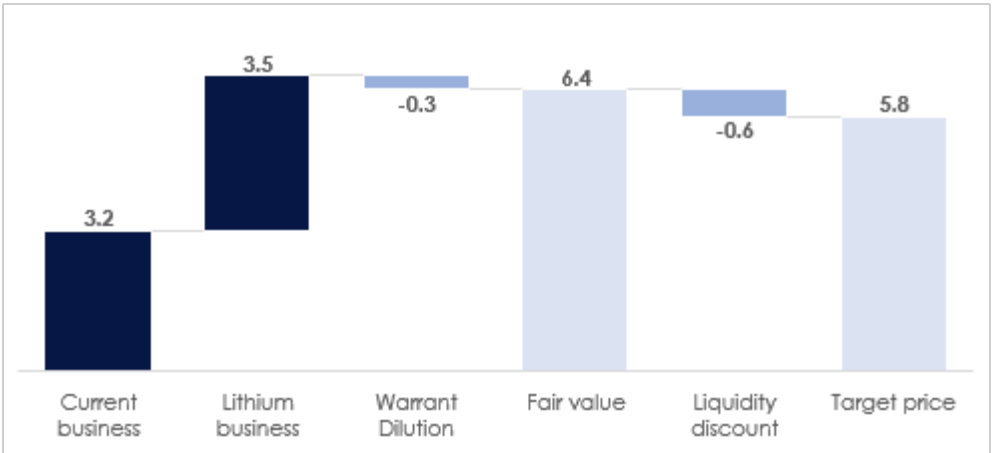
P&L	1H19A	2H19A	2019A	1H20A	2H20E	2020E
Revenue	**79.0**	**77.6**	**156.5**	**58.0**	**77.5**	**135.4**
YoY growth	+6.3%	+30.9%	+17.3%	-26.6%	-0.1%	-13.5%
- Net production costs	(40.8)	(35.9)	(76.7)	(30.6)	(36.7)	(67.3)
Gross profit	**38.2**	**41.6**	**79.8**	**27.4**	**40.8**	**68.1**
YoY growth	+5.5%	+44.3%	+22.7%	-28.3%	-2.0%	-14.6%
Gross margin %	48.3%	53.6%	51.0%	47.2%	52.6%	50.3%
- Total operating costs	(30.3)	(27.4)	(57.7)	(26.7)	(26.0)	(52.7)
Adj. EBITDA	**7.9**	**14.2**	**22.1**	**0.6**	**14.7**	**15.4**
YoY growth	-34.9%	+346.8%	+44.4%	-91.8%	+4.0%	-30.2%
Adj. EBITDA margin %	10.0%	18.3%	14.1%	1.1%	19.0%	11.4%
- D&A & prov.	(5.8)	(5.9)	(11.6)	(5.2)	(8.2)	(13.3)
Adj. EBIT	**2.1**	**8.3**	**10.4**	**(4.5)**	**6.6**	**2.1**
YoY growth	-71.1%	-265.4%	+370.9%	-315.1%	-20.8%	-80.0%
Adj. EBIT margin %	2.7%	10.7%	6.7%	-7.8%	8.5%	1.5%
- Non-recurring costs	(0.7)	(3.0)	(3.7)	(1.3)	(0.1)	(1.5)
+/- Net fin. inc./(exp.)	(1.6)	(1.8)	(3.4)	(1.5)	(2.1)	(3.6)
Pre-tax income	**(0.2)**	**3.5**	**3.3**	**(7.4)**	**4.3**	**(3.0)**
Tax rate %	-493.9%	8.0%	43.3%	-3.9%	-25.6%	27.0%
- Tax income	(1.1)	(0.3)	(1.4)	(0.3)	1.1	0.8
Net income	**(1.4)**	**3.2**	**1.9**	**(7.6)**	**5.4**	**(2.2)**
YoY growth	-134.2%	+139.9%	-65.3%	+457.4%	+68.3%	-219.3%
Net income margin %	-1.7%	4.2%	1.2%	-13.2%	7.0%	-1.6%
- Minorities	(0.4)	0.1	(0.3)	0.2	(0.2)	0.0
Net income to shareholders	**(1.7)**	**3.3**	**1.5**	**(7.4)**	**5.2**	**(2.2)**
Operating cash flow	**22.4**	**2.4**	**24.9**	**10.5**	**(5.3)**	**5.3**
Capex	(25.2)	(13.5)	(38.7)	(9.4)	(5.6)	(15.0)
FCF	**(2.8)**	**(11.1)**	**(13.8)**	**1.1**	**(10.9)**	**(9.7)**
Net debt/(cash)	**40.4**	**69.0**	**69.0**	**72.1**	**78.7**	**78.7**
Net debt/EBITDA	3.7 x	3.1 x	3.1 x	4.9 x	5.1 x	5.1 x

Source: company data (A), Intermonte SIM estimate (E)

Valuation

While operating as a unique group with a vertical, horizontal and circular approach to the battery market, we view SERI as a dual-faceted equity story that is approaching a key positive inflection point contingent on the success of the Teverola lithium project. As we explain later in this section, we are setting a target price of €5.8 per share after applying a 10% liquidity discount to our DCF-based fair value. More interestingly, we estimate that at the current level, the stock is only fully pricing in the company's current business, which we remind is mainly exposed to the lead-acid market and other industrial sectors. Hence, we believe that investors buying into SERI's shares are essentially acquiring a fairly valued mature business, with the added bonus of a virtually free call option on the lithium business, which is expected to skyrocket from 1Q21. We are not including the Teverola 2 project for the time being, as it is too early to have clear visibility on the ramp-up of the plan. In light of the 71% upside to our €5.8 TP, we initiate coverage on the name with a BUY recommendation.

Target price (€ per share)



Source: Intermonte SIM estimate

SERI implicit multiples

	Multiples @ current price				Multiples @ target price (fully diluted)			
	2019A	2020E	2021E	2022E	2019A	2020E	2021E	2022E
EV/SALES	1.5 x	1.8 x	1.1 x	0.8 x	2.2 x	2.7 x	1.7 x	1.3 x
EV/EBITDA*	10.4 x	15.6 x	7.3 x	4.7 x	15.9 x	23.4 x	11.0 x	7.3 x
EV/EBIT*	22.1 x	115.1 x	14.5 x	7.4 x	33.7 x	173.3 x	21.9 x	11.4 x
P/E*	31.8 x	n.m.	18.0 x	8.3 x	65.5 x	n.m.	37.2 x	17.2 x
FCF yield %	n.m.	n.m.	1.8%	6.9%	n.m.	n.m.	0.9%	3.4%

Source: Intermonte SIM estimate (* calculated on adjusted metrics)

As described in previous chapters, the group is set to see a dramatic reshaping of its turnover base thanks to the exponential growth envisaged for the lithium business, expected to ramp-up as of 1Q21 and representing 41% of group revenue in 2022 (€112.5mn) from 0% in 2019. On the other hand, we believe that SERI's current business, mainly exposed to trends in the lead-acid battery market (68%), but also to the plumbing and sanitary ware (22%) and automotive markets (7%), has reached an almost steady-state status, although with a much less pronounced execution risk than the lithium project.

Considering these facts:

- First of all, we adopted a DCF valuation approach aimed at capturing the long-term growth opportunity offered by the lithium project while also taking into account the higher risk, as it is not an established franchise;
- Secondly, we have also tried to dissect the valuation for each side of SERI's equity story, which as we mentioned features two different growth and risk profiles;
- Last but not least, consistent with our explicit forecasts, we excluded the Teverola 2 project from our calculations, as it is too early to have better visibility on the ramp-up of the plan.

Our analysis leads us to set a fully diluted target price of €5.8 per share after applying a 10% liquidity discount to a fair value of €6.4, not including the potential from the Teverola 2 project that we estimate can add €4.0 per share to our target price. The main assumptions underpinning our valuation are:

- 9-year time horizon in order to capture the full potential of the lithium business as well as a hypothetical cyclical economic decline, as we prefer to err on the cautious side. After our explicit estimates spanning to 2022, we assumed 2023 to be another year of robust growth, but after a -8% revenue drop in 2024, we forecast a 2.5% revenue CAGR to 2029. We assume EBITDA margin to remain at ~18% with D&A matching CapEx on sales;
- WACC: 8.8% based on:
  - Risk-free rate of 2.0%;
  - D/E of 67.8%;
  - Equity Risk Premium of 6.0%, higher than our ordinary 5.0% risk premium to factor in the higher risk of the lithium business;
  - Beta unlevered of 1.0;
  - Cost of debt of 3.5% pre-tax;
  - Tax shield of 27.0%;
- Terminal growth rate: 2.0% (an average of the projected rates for the current business and the lithium business);
- Fully diluted number of shares: 57.2mn (47.3mn shares outstanding plus 9.9mn from the warrant conversion) as our fair equity value would be above the €5.03 strike price for the 2017-22 warrant. We also consider the €49.9mn cash-in from the exercise of the warrant, which partly offsets the higher number of shares.

In order to reach our second objective, we have decided to repeat the DCF exercise, but excluding cashflows from the Lithium business, leaving us with an educated guess of the implicit cashflows for the current business. Moreover, we find it reasonable to assume an ordinary equity risk premium and lower cost of debt for the mature business given that it is already established and running, which brings the WACC to 6.1%, but also a lower terminal growth rate (1.0%).

Our analysis suggests that a fair valuation for the current business could be €3.2 per share, almost in line with the current share price. Implicitly, the lithium business, which would have a WACC of 8.6%, would have a valuation of €3.5 per share and would essentially come as an almost free call option for investors.

DCF summary and sensitivity (€ mn)

SUM PV(FCF)	136.9
PV TV	259.9
Enterprise Value	**396.8**
-/+ Net debt/(cash) @ YE20	78.7
Equity value	**318.1**
Cash-in from warrant conv ersion	49.9
Equity value + Cash-in from Warr. conv.	**368.0**
Shares outstanding	47.3
Shares from issued warr. Conv .	9.9
Fair value per share (€)	**6.4**
Discount	10%
Target price (€)	**5.8**
Actual share price (€)	3.4
Upside/(Downside)	**70.6%**

		Terminal growth rate				
		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	5.4%	7.7	8.4	9.4	10.7	12.6
	6.4%	6.1	6.6	7.2	7.9	8.8
	7.4%	5.1	5.4	5.8	6.2	6.8
	8.4%	4.3	4.6	4.8	5.1	5.4
	9.4%	3.6	3.8	4.1	4.2	4.5

Source: Intermonte SIM estimate

To conclude, as mentioned, we are not including the Teverola 2 project in our valuation, as it is too early to have clear visibility on the ramp-up of the plan. However, based on a quick and dirty calculation considering a plant capacity of 2.5/3.0GWh, an ASP of €150 per MWh, a 20% EBITDA margin, 10-year time horizon, 10% WACC and 8.0x EV/EBITDA multiple, it could be worth around €4.0 per share today, leading to a potential target price of €9.8 if successfully executed.

Peers

Varta AG (HQ: Germany; Market Cap: €5,430mn). VARTA AG engages in the research, development, production, sale, and marketing of micro batteries and energy storage solutions. It operates through the following two segments: Microbatteries and Power & Energy. The company was founded by Adolf Müller in 1887 and is headquartered in Ellwangen, Germany.

EnerSys (HQ: United States; Market Cap: €2,913mn). EnerSys manufactures and markets industrial batteries. It engages in stored energy solutions for industrial applications, manufactures and distributes reserve power and motive power batteries, chargers, power equipment and battery accessories to customers. The company operates its business in two primary industrial battery product lines: Motive power batteries and Reserve power batteries. The Motive power batteries, which are used to provide power for manufacturing, warehousing and other material handling equipment, primarily electric industrial forklift trucks, mining equipment, diesel locomotive starting and other rail equipment. The Reserve power batteries, which are used for backup power for the continuous operation of critical applications in telecommunications systems, uninterruptible power systems, applications for computer and computer-controlled systems, and other specialty power applications, including security systems, premium starting, lighting and ignition applications, in switchgear, electrical control systems used in electric utilities, large scale energy storage, energy pipelines, in commercial aircraft, satellites, military aircraft, submarines, ships and tactical vehicles. EnerSys was founded in October 2000 and is headquartered in Reading, PA.

Voltabox AG (HQ: Germany; Market Cap: €57mn). Voltabox AG engages in the manufacture and development of battery systems for use in the electro mobility. It operates through the Europe, and North America segments. The Europe segment comprises of the Voltapower, Voltamotion, and Voltafore product areas. The North America segment includes the Voltapower product area. The company was founded on November 28, 2013 and is headquartered in Delbruck, Germany.

GS Yuasa Corporation (HQ: Japan; Market Cap: €1,507mn). GS Yuasa Corp. is a holding company, which engages in the manufacture and supply of batteries, power supply systems, lighting equipment, and other specialty electrical equipment. It operates through the following segments: Domestic Automotive Batteries, Domestic Industrial Batteries and Power Supplies, Overseas Operations, Automotive Lithium-ion Batteries, and Other. The Domestic Automotive Batteries segment produces and sells lead-acid batteries for automotive. The Domestic Industrial Batteries and Power Supplies segment covers rectifiers, lead, alkali, and general batteries, and power supply systems. The Overseas Operations segment manufactures and markets batteries and power supply devices in the international market. The Automotive Lithium-ion Batteries segment handles lithium-ion batteries for vehicles. The Other segment includes environment related equipment, mobile communication batteries, battery related equipment, battery manufacturing equipment, and applications batteries. The company was founded on April 1, 2004 and is headquartered in Kyoto, Japan.

Akasol AG (HQ: Germany; Market Cap: €394mn). Akasol AG engages in developing and manufacturing liquid-cooled, high performance, rechargeable Lithium-ion battery systems for buses, commercial vehicles, rail vehicles, ships, industrial vehicles and stationary applications. It operates through the following two segments On-Highway and Off-Highway. The On-Highway Segment supplies manufacturers of hybrid and fully electric buses and commercial vehicles. The Off-Highway Segment focuses on battery systems and services for manufacturers of rail vehicles, industrial vehicles and ships, along with stationary systems for storing energy from renewable sources. The company was founded by Sven Schulz, Felix von Borck, Björn Eberleh, and Stephen Raiser in 2008 and is headquartered in Darmstadt, Germany.

Peer group trading multiples

Company name	HQ	PX (Lc. C.)	Mkt C. (€ mn)	EV/SALES			EV/EBITDA			EV/EBIT			PE		
				2019A	2020E	2021E	2019A	2020E	2021E	2019A	2020E	2021E	2019A	2020E	2021E
SERI@ our TP	IT	**3.4**	**160.8**	**2.19 x**	**2.61 x**	**1.65 x**	**15.6 x**	**22.9 x**	**10.7 x**	**32.9 x**	**169.7 x**	**21.4 x**	**54.2 x**	**-820.9 x**	**30.7 x**
SERI@ our est.	IT	**3.4**	**160.8**	**1.47 x**	**1.77 x**	**1.11 x**	**10.4 x**	**15.6 x**	**7.3 x**	**22.1 x**	**115.1 x**	**14.5 x**	**31.8 x**	**-481.2 x**	**18.0 x**
SERI@ cons. est.	IT	**3.4**	**160.8**	**1.47 x**	**1.76 x**	**1.07 x**	**10.4 x**	**14.2 x**	**6.8 x**	**34.3 x**	**99.9 x**	**10.9 x**	**113.3 x**	**-85.0 x**	**12.6 x**
VARTA	DE	113.7	4,596	12.08 x	5.53 x	4.20 x	46.0 x	21.3 x	14.0 x	61.3 x	25.7 x	15.4 x	85.5 x	40.1 x	30.1 x
ENERSYS	US	73.2	2,631										15.6 x	16.7 x	13.2 x
VOLTABOX	DE	3.0	48	0.95 x	0.55 x	0.50 x				-0.8 x	-6.5 x	16.0 x	-0.6 x	-14.5 x	27.6 x
GS YUASA	JP	1.9	1,276	0.08 x	0.09 x	0.10 x	0.8 x	0.8 x	1.0 x	1.5 x	2.0 x	2.0 x	11.2 x	17.5 x	12.8 x
AKASOL	DE	55.0	333	7.09 x	5.03 x	2.66 x	-98.3 x	481.2 x	24.5 x	-88.5 x	-217.3 x	55.0 x	-71.7 x	-216.5 x	63.8 x
Average				**5.05 x**	**2.80 x**	**1.86 x**	**-17.2 x**	**167.8 x**	**13.2 x**	**-6.6 x**	**-49.0 x**	**22.1 x**	**8.0 x**	**-31.3 x**	**29.5 x**
Prem./disc. (vs our TP)				**-57%**	**-7%**	**-12%**	**-191%**	**-86%**	**-18%**	**-598%**	**-446%**	**-3%**	**576%**	**2519%**	**4%**
Prem./disc. (vs our est.)				**-71%**	**-37%**	**-40%**	**-161%**	**-91%**	**-45%**	**-434%**	**-335%**	**-35%**	**296%**	**1435%**	**-39%**
Prem./disc. (vs cons. est.)				**-71%**	**-37%**	**-43%**	**-161%**	**-92%**	**-49%**	**-619%**	**-304%**	**-51%**	**1315%**	**171%**	**-57%**

Source: Intermonte SIM estimate, FactSet consensus

Peer group key financials

Company name	SALES growth				EBITDA margin %				EBIT margin %				CAPEX/SALES %				CAGR 2019A-22E		
	2019A	2020E	2021E	2022E	2019A	2020E	2021E	2022E	2019A	2020E	2021E	2022E	2019A	2020E	2021E	2022E	SALES	EBITDA	EBIT
SERI@ our est.	**+17%**	**-13%**	**+57%**	**+28%**	**14.1%**	**11.4%**	**15.3%**	**17.5%**	**6.7%**	**1.5%**	**7.7%**	**11.2%**	**24.7%**	**11.1%**	**3.3%**	**3.7%**	**20%**	**29%**	**43%**
SERI@ cons. est.		**-13%**	**+63%**	**+26%**	**12.4%**	**12.0%**	**15.8%**	**18.4%**	**4.3%**	**1.8%**	**9.8%**	**13.6%**	**37.4%**	**9.2%**	**1.9%**	**2.9%**	**21%**	**38%**	**78%**
VARTA	+33%	+135%	+33%	+25%	25.3%	23.9%	29.5%	29.6%	19.5%	21.5%	27.2%	28.3%	28.3%	40.7%	27.1%	19.1%	57%	66%	78%
ENERSYS	+10%	-8%	+7%		12.1%	12.0%	13.1%		7.8%	8.6%	9.6%		3.3%	2.2%	2.4%				
VOLTABOX	-15%	+5%	+33%		0.5%				n.m.	-8.3%	3.1%								
GS YUASA	+1%	-9%	+8%	+2%	9.9%	9.2%	9.1%	9.3%	5.5%	4.3%	4.9%	5.5%	4.6%	5.7%	7.8%	8.2%	0%	-2%	0%
AKASOL	+120%	+53%	+97%	+75%	-6.7%	3.4%	9.2%	10.1%	-11.1%	-2.3%	4.8%	6.7%	48.3%	51.7%	10.9%	6.5%	74%	n.m.	n.m.
Peers AVG	**+30%**	**+35%**	**+35%**	**+34%**	**8.2%**	**12.1%**	**15.2%**	**16.3%**	**5.4%**	**4.7%**	**9.9%**	**13.5%**	**21.1%**	**25.1%**	**12.0%**	**11.3%**	**44%**		

Source: Intermonte SIM estimate, FactSet consensus

Risks

Track record. Although the company boasts a long experience in the field of lead-acid batteries, it has little experience with mass production of lithium batteries.

Scale: lower scale vs big players. The lithium battery market has attracted relevant investment, with major players seeking to maximise scale in order to reduce unit costs. In this context, we highlight that SERI's capacity will only be a fraction of that of the major industry players, and we see the risk for significant pricing pressure in the industry. We would nevertheless highlight that SERI will target niche market segments with custom applications.

Bureaucracy: red tape creates risks of hiccups. SERI's lithium investment plans are tied to government resources. By definition, such processes generate significant amounts of red tape, making the chance of hiccups an ever-present concern.

Technological (1/2): disruption of lithium batteries. Lithium batteries are a relatively new product to the market and their success depends at least in part on the expected decrease in costs, which hinges on technological improvements.

Technological (2/2): cannibalisation of lead-acid batteries. Although lead-acid and lithium batteries are expected to coexist, we believe there are some cannibalisation risks for lead-acid batteries. SERI is also expected to market the new lithium battery to clients that already purchase lead-acid batteries. The company, on the back of sector analyses, considers the risk to be limited, as lead-acid batteries are mainly tied to the AM segment, while lithium will be exposed to the OE channel.

Human Resources. Human resources are a critical asset to succeed. Talent attraction and retention will be key for SERI.

Raw material volatility. Raw materials represent slightly more than 50% of revenue for SERI and price fluctuation can influence SERI's results. Nevertheless, SERI has pass-through contracts that, if effectively designed, can significantly limit any such impact.

Appendix

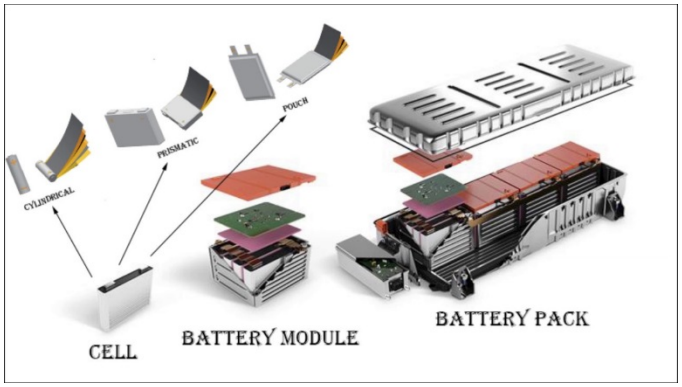
What does "Lithium battery" mean?

In common parlance, "lithium battery" is a widely used term, but is often used with different meanings in different contexts. In order to clarify, we highlight that a cluster of cells make up a module and a cluster of modules make up a pack:

- **Cell.** Basic unit of a Lithium-ion battery that exerts electric energy by charging and discharging. Made by inserting cathode, anode, separator and electrolyte into a rectangular aluminium case. The three most common formats are prismatic (a rectangular box), pouch and cylindrical, similar to the ones in a torch you might have at home;
- **Module.** A battery assembly put into a frame by combining a fixed number of cells to protect the cells from external shocks, heat or vibration;
- **Pack.** The final shape of the battery system installed in an EV. Composed of modules and various control/protection systems including a BMS (battery management system), a cooling system, etc.

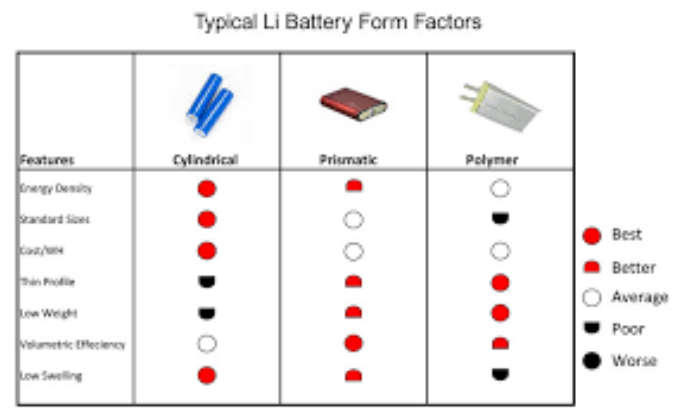
The manufacture of battery cells is a very different industrial process to the manufacture of battery packs or modules. Battery cell production is primarily a chemical process, while module and pack production is a mechanical assembly process.

Battery cell, module and pack



Source: Google images

Battery cell form factor



Source: Google images

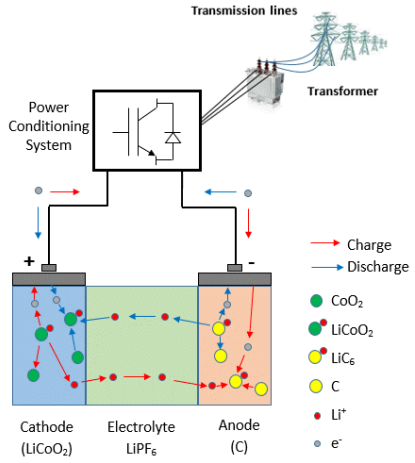
How do Lithium Batteries work?

Chemistry

DISCHARGING: All lithium-ion battery technologies generally work in the same way. On discharging, the mobile lithium ions (Li^+) travel through the electrolyte and reach the positive plate, where they combine with the electrons travelling from the negative plate and through the external conductor. On the way to the positive plate the electrons make electrical work, providing energy to any equipment fed by the battery.

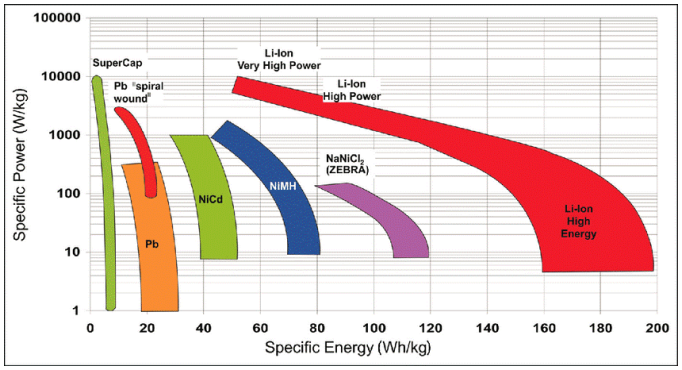
CHARGING: If a voltage charge is applied across the battery plates, electrons are forced to move through the conductor to the negative plate. Simultaneously, the lithium ions (Li^+) start travelling to the negative plate through the electrolyte where they combine with the arriving electrons. The battery is now in a charged state.

Lithium battery functioning



Source: boltta.com

Power and Energy Density



Source: boltta.com

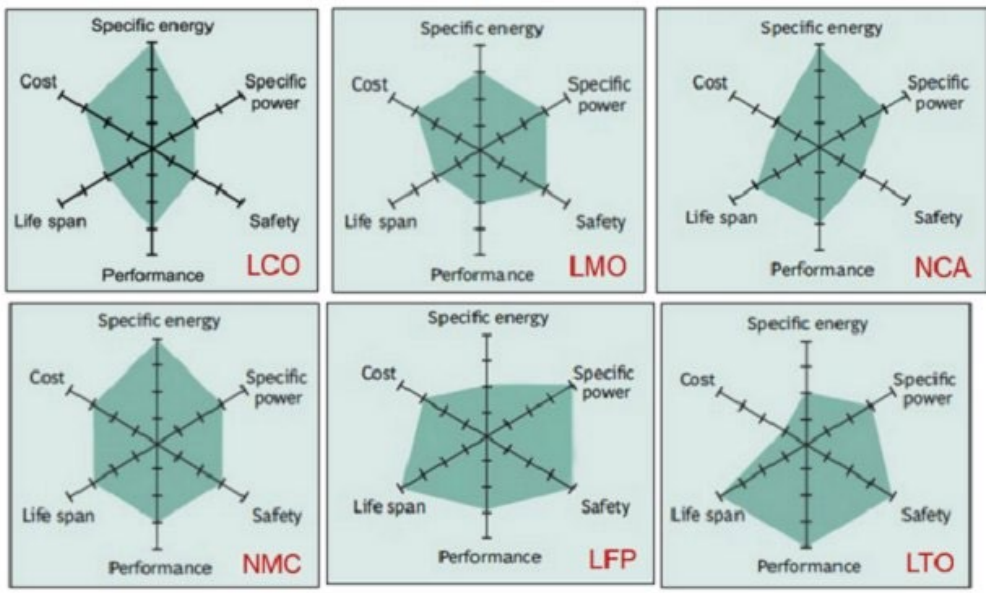
Characteristics of Lithium-Ion Technologies

Lithium-ion cells are manufactured in different type of cathode materials. Which can be Lithium Cobalt Oxide (liCoO$_2$) LCO, Lithium Manganese Oxide (LiMn$_2$O$_4$) LMO, Lithium Nickel Manganese Cobalt Oxide (LiNiMgCoO$_2$) NMC, Lithium Iron Phosphate (LiFePO$_4$) LFP, Lithium Nickel Cobalt Aluminum Oxide (LiNiCoAlO$_2$) NCA, and Lithium Titanate (Li$_2$TiO$_3$) LTO.

The spider diagrams below show relative magnitude values corresponding to specific energy, specific power, safety, performance, life span, and cost of the six most widespread Lithium-ion battery technologies.

LFP Lithium-ion cells are safe due to the thermal stability and high specific power, making this a highly suitable solution for energy storage and backup power.

Characteristics of Different Lithium-Ion Technologies



DETAILS ON STOCKS RECOMMENDATION

Stock NAME	SERI INDUSTRIAL		
Current Recomm:	BUY	Previous Recomm:	--
Current Target (Eu):	5.80	Previous Target (Eu):	--
Current Price (Eu):	3.40	Previous Price (Eu):	--
Date of report:	12/10/2020	Date of last report:	--

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 2.5% and a risk premium of 5.0% are being used.

Frequency of research: quarterly.

Reports on all companies listed on the S&PMIB40 Index, most of those on the MIDEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

Explanation of our ratings system:

BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

NEUTRAL: stock performance expected at between +10% and – 10% compared to the market over a 12 month period;

UNDERPERFORM: stock expected to underperform the market by between –10% and -25% over a 12 month period;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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Intermonte SIM is authorised by CONSOB to provide investment services and is listed at n° 246 in the register of brokerage firms.

As at 30 September 2020 Intermonte's Research Department covered 124 companies. Intermonte's distribution of stock ratings is as follows:

BUY:	07,44 %
OUTPERFORM:	52,07 %
NEUTRAL:	33,88 %
UNDERPERFORM	06,61 %
SELL:	00,00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (52 in total) is as follows:

BUY:	11,54 %
OUTPERFORM:	59,62 %
NEUTRAL:	28,84 %
UNDERPERFORM	00,00 %
SELL:	00,00 %

CONFLICT OF INTEREST

In order to disclose its possible conflicts of interest Intermonte SIM states that:

Intermonte SIM S.p.A. is acting as placement agent in Tesmec's capital increase with an agreement with the company for the publication of an equity research regarding the company and the transaction. Intermonte will receive fees from the company for its activity as placement agent.

Within the last year, **Intermonte SIM** managed or co-managed/is managing or is co-managing an Institutional Offering and/or managed or co-managed/is managing or is co-managing an offering with firm commitment underwriting of the securities of the following Companies: BPER, IEG and Iervolino Entertainment.

Intermonte SIM has provided in the last 12 months / provides / may provide investment banking services to the following companies: Abitare In, Aedes, Aeroporto di Bologna, Alkemy, Azimut, Banca Ifis, Cellularline, ePrice, Falck Renewables, Guala Closures, H-Farm, IEG, Iervolino Entertainment, Mittel, Nova Re, Retelit, Saes Getters, Somec, Tesmec, TXT, UBI Banca, and WIIT.

Intermonte SIM is Specialist and/or Corporate Broker and/or Sponsor and/or Broker in charge of the share buy back activity of the following Companies: Abitare In, Aedes, Alkemy, Ambienthesis, Aquafil, Avio, Banca Ifis, Banca Sistema, Be, Cattolica, CFT, Cellularline, Credito Valtellinese, Cyberoo, DeA Capital, El.En, Eles, Elica, Emak, Falck Renewables, Fimit - Fondo Alpha, Fine Foods, Gefran, Go Internet, Gpi, Gruppo Fos, Guala, H-Farm, IEG, Iervolino Entertainment, IndelB, Industrial Stars Of Italy 3, Luve, Notorious, Openjobmetis, Reno de Medici, Reply, Retelit, Saes Getters, Servizi Italia, Sesa, Seri Industrial, Somec, Tinexta, Tesmec, Tamburi, Txt, Vetrya, and WIIT

Intermonte SIM has a contractual commitment to act as liquidity provider on behalf of third parties for the following companies: Banca Sistema, Restart, and Unieuro

Intermonte SIM performes as a market maker for the following companies: A2A, Anima, Atlantia, Autogrill, Azimut Holding, BAMI, Banca Generali, Banca Mediolanum, Brembo, Buzzi, CNHI, Enel, ENI, Exor, Fineco. FCA, FTMIB, Generali, Italgas, Iren, Intesa Sanpaolo, Leonardo, Mediobanca, Moncler, Mediaset, Pirelli&C, Prysmian, Poste, Ferrari, Saipem, Snam, STM, Tenaris, Telecom Italia, Telecom Italia sav, Terna, UBI, Unicredit, Unipol, UnipolSai.

Intermonte SIM is a member of the CBOE Europe Equities Liquidity Provider Program for the following financial instruments: A2A, Atlantia, ATSM, Autogrill, Azimut Holding, Banca Generali, Banca Mediolanum, Banco BPM, Bca Monte dei Paschi di Siena, Bca Pop Emilia Romagna, Banca Pop Sondrio, Buzzi Unicem, Buzzi Unicem rsp, Campari, CIR- Compagnie Industriali Riunite, Credito Emiliano, Danieli & C., Danieli & C. Risp NC, Diasorin, Enel, Eni, Generali, Hera, Intesa Sanpaolo, Iren, Italgas, Italmobiliare, Leonardo, Maire Tecnimont, Mediaset, Mediobanca, Pirelli & C., Poste Italiane, Prysmian, Recordati, S.I.A.S., Saipem, Salini Impregilo, Salvatore Ferragamo, Snam, Telecom Italia, Telecom Italia rsp, Terna, Tod's, UBI Banca, Unicredit, Unipol, Unipolsai.

Through its Websim Division, **Intermonte SIM** acts as an Retail Investor Research Provider on behalf in regard to the following companies: Aedes, Banca Ifis, Banca Sistema, Cattolica Assicurazioni, Cellularline, CFT Group, Circle, Coima RES, Comer Industries, Crowdfundme, Digital Bros, Digital Magics, Elettra Investimenti, Falck Renewables, Fiera Milano, Finlogic, First Capital, FOPE, Gefran, Generali Assicurazioni, Giglio, Go Internet, H-Farm, Ilpra, Indel B, ISI/Salcef, Italiaonline, La Doria, LVenture, MailUp, Maps, Masi Agricola, Molmed, Neodecortech, Piaggio, Portale Sardegna, Primi sui Motori, Retelit, Safe Bag, Somec, SOS Travel, Tinexta, TPS, WITT,

Through its Websim Division, **Intermonte SIM** carries out marketing / communication activities on behalf of the following equity crowdfunding 200Crowd, BacktoWork24, Crowdfundme, Opstart and the following issuers: Banca IMI, BNP Paribas, Credit Suisse, Exane, Leonteq, Unicredit, Vontobel, Wisdomtree.

Intermonte SIM SpA holds net long or short positions in excess of 0.5% of the overall share capital in the following issuers:

Emittente	%	Long/Short
COGEME SET SPA	1,6	SHORT
IKF	0,57	SHORT
LIFE CARE CAPITAL	0,59	LONG
OLIDATA	0,74	SHORT

INTERMONTE SIM is MIFID compliant - for our Best Execution Policy please check our Website MiFID

Further information is available