Vimi Fasteners Spa

Sector: Industrial fasteners

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Auto still biting, diversification only starts helping

Vimi Fasteners Group designs and manufactures highly engineered fastening solutions for a broad variety of industrial applications ranging from automotive (42% of FY2018 revenues) to oil & gas, infrastructures and aerospace.

1H19 "horribilis": sales -14% (pro-forma), EBIT just break-even

1H results mirror the tough picture of the car component industry (falling volumes/margins, increasing inventories) but reported figures benefit from full consolidation of MF Inox (acquired as of June 2018). On a pro-forma basis: 1H revenues -14% y/y (combining "Vimi standalone" -17% and MF Inox +8%), EBITDA halved to €2mn (8.4% margin vs 14.4% 1H18) and net loss of €0.2mn. Interim results were also affected by weak agro business and impact of the industrial reorganization (reducing 1H margin by 120bp).

Macro outlook & weak orderbook do not bode well for 2H

Net debt went up by €3.4mn over 1H to €18.1mn (including €1.5mn for IFRS16 impact), driven by capex (€1.8mn) and rise of NWC (€1.3mn). Order book at June was down 14% y/y to €19mn and this, combined with increased capacity/invested capital and lack of clear signs of turnaround in the car industry, does not bode well for the next quarters.

FY2019-20E forecasts revised downwards

1H key take-away are: 1) Oil&Gas and Energy business is much more resilient than Auto but accounts for less than 20%; 2) Vimi profitability is extremely exposed to revenues shortfalls. Despite the actions taken to improve efficiencies (impact expected on 4Q) and the good outlook in new sectors, our revised model incorporates a scenario with a one-year delay in recovery and higher margin pressure at least over FY2019-20E. Top line forecasts have been cut on average by 8% with negligible profits.

Fair value down €2.4 per share

The stock performance is likely to be penalised by negative news flow while valuation focus moves to revenues and capital employed, rather than earnings. A fair EV/IC of 1x (est. mid-cycle RoCE at 8%) suggests a value of €2.2/share, in line with current trading prices, while our DCF model leads to €2.7/share. We set our revised fair value at €2.4/share - as an average of the two criteria- which implies 1.1x EV/IC and 1.0x EV/Sales 2020E.

Fair Value (€)	**2.40**
Market Price (€)	**2.09**
Market Cap. (€m)	**27.8**

KEY FINANCIALS (€m)	2018PF	2019E	2020E
REVENUES FROM SALES	51.1	44.5	47.2
ADJ. EBITDA	7.5	4.5	5.3
ADJ. EBIT	4.1	0.1	0.6
ADJ. NET PROFIT	2.9	0.3	0.4
EQUITY	26.0	27.0	27.3
NET FIN. DEBT	14.2	21.0	17.6
EPS ADJ. (€)	0.22	0.02	0.03
DPS (€)	0.00	0.00	0.00

Source: Vimi Fasteners (historical figures), Value Track (2019E-20E estimates)

RATIOS & MULTIPLES	2018PF	2019E	2020E
ADJ. EBITDA MARGIN (%)	14.8	10.1	11.3
ADJ. EBIT MARGIN (%)	8.0	0.1	1.3
NET DEBT / EBITDA (x)	2.4	5.2	3.3
NET DEBT / EQUITY (x)	0.5	0.8	0.6
EV/SALES (x)	1.1	1.1	0.9
EV/EBITDA ADJ: (x)	7.7	11.5	9.0
P/E ADJ. (x)	15.0	nm	nm
DIV YIELD (%)	0.0	0.0	0.0

Source: Vimi Fasteners (historical figures), Value Track (2019E-20E estimates)

STOCK DATA	
FAIR VALUE (€)	2.40
MARKET PRICE (€)	2.09
SHS. OUT. (m)	13.3
MARKET CAP. (€m)	27.8
FREE FLOAT (%)	23.5
AVG. -20D VOL. (#)	2,525
RIC / BBG	VIM.MI / VIM IM
52 WK RANGE	2.06-3.28

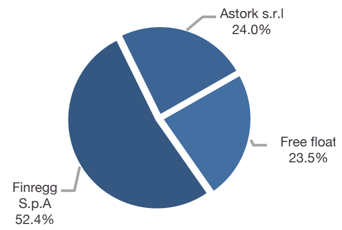
Source: Stock Market Data

Business Description

Vimi Fasteners is a leading player in the design and manufacturing of highly engineered fastening solutions, such as screws, studs and nuts, for a broad range of industrial applications, ranging from automotive to oil & gas and aerospace.

The Group is specialised in the production of high-performance fastening solutions for high temperature and high resistance applications and following the acquisition of MF Inox (June 2018), it has also developed a specific product know-how and commercial presence in the Oil &Gas sector.

Shareholders Structure



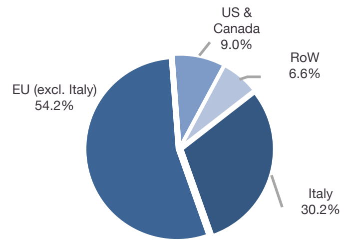
Source: Company SpA

Key Financials

€mn	2017PF	2018PF	2019E	2020E
Total Revenues	**50.2**	**52.3**	**45.5**	**48.4**
Chg. % YoY		4.2%	-13.1%	6.5%
EBITDA	**8.0**	**5.8**	**4.0**	**5.3**
EBITDA Margin (% of Tot. Revenues)	16.4%	11.1%	8.8%	11.0%
EBIT	**4.9**	**2.4**	**-0.4**	**0.6**
EBIT Margin (% of Tot. Revenues)	10.1%	4.6%	n.m.	1.3%
Net Profit	**2.7**	**1.6**	**1.0**	**0.4**
Net Fin. Debt	**19.9**	**14.2**	**21.0**	**17.6**
Net Fin. Debt / EBITDA (x)	2.5x	2.4x	5.2x	3.3x
Capex	3.6	5.7	3.8	3.2
OpFCF b.t.	**5.7**	**-3.4**	**-3.1**	**3.7**
OpFCF b.t. as % of EBITDA	71%	n.m.	n.m.	68%
EBITDA Adjusted	**8.0**	**7.5**	**4.5**	**5.3**
EBITDA Adj. Margin (% of Tot. Revenues)	16.4%	14.4%	9.9%	11.0%
EBIT Adjusted	**4.9**	**4.1**	**0.1**	**0.6**
EBIT Adj. Margin (% of Tot Revenues)	10.1%	7.8%	0.1%	1.3%
Adjusted Net Profit	**2.7**	**2.9**	**0.3**	**0.4**

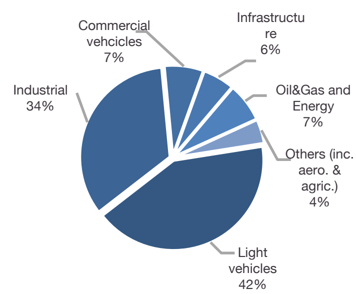
Source: Vimi Fasteners (historical figures), Value Track (estimates). Pro-Forma figures consolidate MF Inox as of 1.1.2017

Sales breakdown by geography



Source: Vimi Fasteners

Sales breakdown by industry



Source: Vimi Fasteners

Investment case

Strengths / Opportunities

- Highly engineered products with strong attention to quality;
- Presence in fast-growing end-markets (i.e. oil&gas, aerospace);
- Approach to clients based on co-engineering and strong partnerships;
- M&A opportunities in the aerospace field.

Weaknesses / Risks

- Auto: weak momentum & LT concerns (electrification/car sharing);
- Lack of a global manufacturing footprint and limited market coverage;
- Lower size if compared to main competitors

Stock multiples @ €2.4 Fair Value

	2019E	2020E
EV / SALES (x)	1.2	1.0
EV / EBITDA ADJ (x)	11.8	9.3
EV / CAP.EMP. (x)	1.1	1.1
OpFCF Yield (%)	<0	7.7
P / E ADJ (x)	n.m.	n.m.
P / BV (x)	1.2	1.2
Div. Yield. (%)	0.0	0.0

Source: Value Track

Auto: industry outlook

Market crisis should loosen grip in Q4, but will be longer than expected

The automotive industry has evolved significantly over the past decade, and key industry players are adapting to this evolution with clear focus (and heavy investments) on technology and collaboration/partnership with the entire supply chain.

However, if the market trend has been strong until 1H18, after summer 2018 the auto industry has been negatively hit by a multitude of factors, ranging from regulatory to political and industrial concerns: a "perfect storm", due to the combination of the overall weakening macro scenario with the endless trade wars negotiation, the shockwaves of Brexit and the USMCA deal, the new EU rules for car emission and consumption, the gradual shift from traditional ICE towards electrified power trains and other longer term trends like shared mobility and autonomous driving solutions. All these factors are behind the latest turbulent year for the car industry, with both OEMs and car suppliers still experiencing a decreasing demand and facing many obstacles all over the world.

According to the main stats published by LMC Automotive, **at the end of August global car sales volumes were decreasing at mid-single-digit pace**, while the US market was basically flat YoY, and the Chinese market with the European were facing negative growth rates for the second year in a row.

However, by looking at the same statistics during the latest weeks, the global market seems perhaps improving its momentum, as also reported by the Seasonally Adjusted Annual Rate (SAAR) released by LMC Automotive. The selling rate is increased to 94.9mn units/year, moving from 90.9mn and 90.2mn units/year in July and June respectively, recording the strongest value since August '18 WLTP-distorted results (i.e. positively impacted by the anticipation of car registrations ahead of the stricter WLTP requirement introduction).

In particular, reassuring data (i.e. smoothed trend) came in from the Chinese market, as 1H19 results had been penalized by the aggressive destocking activity taken by mostly dealers, prior to the launch of vehicles complaint with the State VI emissions standards.

Worldwide Light Vehicle Sales (YoY % chg.)

Region	1Q19	2Q19	July '19	August '19	Jan- Aug '19
USA	-2.7%	-1.5%	2.2%	10.5%	0.1%
Canada	-2.4%	-6.8%	-1.1%	0.4%	-4.2%
Western Europe	-3.1%	-3.1%	1.3%	-7.2%	-2.7%
Eastern Europe	-6.7%	-7.7%	-7.4%	-6.5%	-7.8%
Japan	-0.7%	3.0%	4.0%	6.9%	1.9%
Korea	-3.2%	-4.5%	-4.2%	-6.5%	-3.8%
China	-12.6%	-13.1%	-4.4%	-7.9%	-10.8%
Brazil/Argentina	-9.9%	-5.3%	2.3%	-9.9%	-6.5%
Others	-5.0%	-9.4%	-4.3%	-11.6%	-9.5%
World	**-6.4%**	**-6.8%**	**-1.5%**	**-3.9%**	**-5.9%**

Source: Value Track processing of LMC Automotive data

2020E-onwards: uncertainty still high

The global picture for automotive remains mixed: according to the current market sentiment and despite the smoothing trends - from September 2019 the YoY statistical comparison will be easier, thus making it possible to see somewhere positive monthly growth rates, highly predictable - the outlook is likely to remain negative till mid 2020 at least.

Similar to previous years, there are also a few drivers whose impact on specific auto segments and auto components is hard to predict: trends such as declining sedan sales, increasing alternative fuel powertrains especially electric vehicles, and more value-added services in digital retail will continue to remain dominant in the automotive industry. New and alternative forms of vehicle ownership are becoming more popular, especially subscription services and e-powered ride-hailing services.

That said, **global auto sales are expected to decline by some 2.5mn units, or 3.0% YoY in 2019E**, to around 92.1 mn units sold.

As for 2020E, we highlight the following:

- **As for the mature markets**, i.e. Western Europe, US, Japan and Korea are expected to face a flat-to-falling market demand in the foreseeable future, likely to witness some volume contractions over the next year too;
- **Growth opportunities should rely on emerging markets,** in particular Brazil, Russia, India, Turkey and China. Although these countries are currently in a slowdown phase, they are expected to drive the global market growth in the next years.

2019E-20E Automotive Outlook

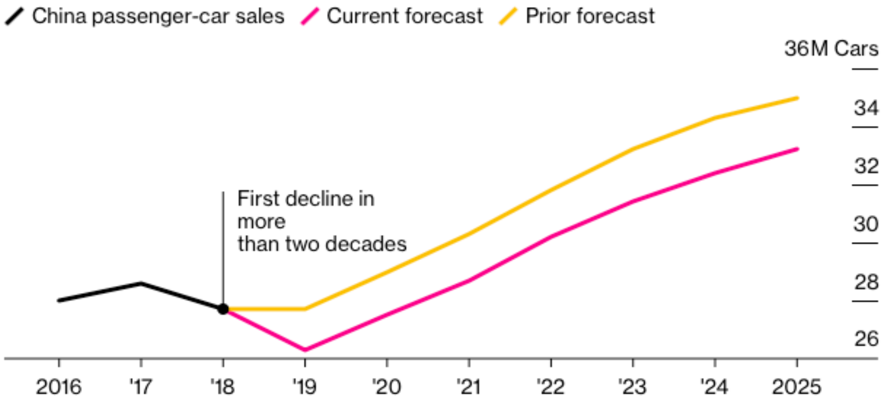
Region	Outlook	Overview
Europe (ex. Russia)	↓	Volume demand slightly lower (-1%/-0% YoY) in 2019E, and expected to stagnate in 2020E-22E
Russia	=	The market expected to end up flat or slightly positive in 2019E, and likely to record some positive trends afterwards
North America	↓	Volume demand in 2019E slightly lower (-1%/-2% YoY), expected to shrink again going forward
Latin America	↑	Growth potential in 2020E driven by the Brazilian market, assuming gradual normalization of Argentina market demand
Asia-Pacific (ex. China)	=	Market expected to be more or less stable in the foreseeable future
China	↓	Market demand should gradually stabilize as the year progresses, with volumes expected to remain slightly below 2018 level also in 2020E

Source: Value Track Analysis

- As for the **European countries** - and according to the latest forecasts from HIS Markit – total light vehicles sales are expected to bottom in 2019E, with similar numbers in car registrations through to 2022E. A similar forecast came from the European Car Manufactures' Association (ACEA), which recently revised downwards its estimate for 2019, with passenger car registrations expected to drop by 1% YoY.
- As for the **North American** market, a slight decrease is expected in 2019E, however sector analysts also predict a further dip over the next years, with vehicle sales expected to drop to 15.1mn units in 2021E from 17.3mn recorded in 2018;
- As for the **Chinese market** –passenger car sales will likely drop at mid-single digit in 2019E (*Source: LMC Automotive/IHS Markit*). The loss in purchasing power of the lower-end customers, together with the rising popularity and availability of car sharing ride-hailing services, are reducing the need for individuals to buy vehicles. That is why the market demand is expected

to decrease for the second year in a row, before recovering gradually; a modest growth should return in 2020E, but annual light vehicles sales should not recover 2017 level until 2021E.

Chinese market demand expected to shrink again in 2019



Source: LMC Automotiv, Updated forecasts as of June '19

What about the European auto and auto components manufacturers?

Within the global picture outlined above, it is worth to zoom on the domestic and European car and car components manufacturers, as Europe represents ca. 80% of Vimi Fasteners turnover.

For the **Italian market**, the main headache is named "**Maserati**", as the brand reported net revenues down by ca 40% y/y in 1H 2019 and recorded heavy losses also in 3Q in terms of car registration in Italy. Also, the Italian market (as France, Spain and UK) witnessed a drop in sales of diesel cars (-24% over Jan-Sept 2019), this affecting the demand of Vimi high performance products (e.g. turbocharges). The 13.8% rise in September car registrations in Italy should not mislead, as September 2018 sales were heavily affected by the sizeable car sale anticipations to August in order to avoid the new WLTP testing standards introduced on Sept. 1, 2018.

As for the **German and other European clients**, the level of production is still heavily penalized by falling export data for the German automotive industry, and the positive car registration figure of September (+22% y/y) was misleading, like in other EU markets, as it compares to the extraordinary situation of September 2018 (registrations recorded a 30% fall in Germany). At the time automakers, including large German ones as VW, could not offer enough models that complied with the new WLTP tests. On the other hand, it should be noted that while diesel sales in Germany have been much more resilient than in the rest of Europe, the large Tier 1 manufacturers of turbo engines and distributors were affected by the **16.4% fall in the number of diesel cars registered across the EU**, with diesel's market share falling from 36.3% in the 2Q 2018 to 31.3% in 2Q 2019 (according to ACEA).

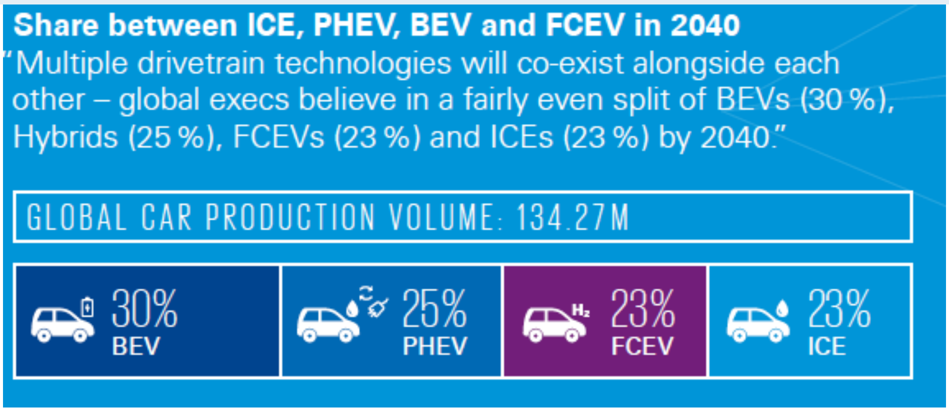
Electric: the shift is happening, but a slow speed

Electric cars are the industry's hot topic at the moment, especially as many carmakers have announced ambitious electrification plans for the coming years. OEMs across the world are investing heavily in lithium battery, with the aim of increasing output energy capacity and reducing the overall system cost, in order to reach the goal of $100 per kilowatt hour, estimated to be the current ICE drivetrain technology cost. Since the pure electrification technology still costs around $250 per kilowatt hour, the electrification phenomenon is coming but at a slow pace and the proliferation of these vehicles would remain limited for now.

As a result, the excitement for the "electric vehicle" contrasts with reality: even if sales volume of ICE cars fell by 5%, and electrified cars (BEV, PHEV, HEV, EREV) posted an increase of 36% in 1H19, ICE still accounts for more than 90% of passenger car global sales. Focusing on pure electric vehicles (BEV) global sales increased by 92% to 765K units, with a global market share at ca. 1.7%, i.e. fewer than 2 in 100 vehicles sold globally were powered by a fully electric engine.

Summing up, the shift towards the electrification is happening but not at the speed governments and car makers want, and the current picture does not fully reflect what market expectations of a few years ago. Indeed, even if the ICE powertrain has lost some market share over the last years (i.e. from 96% of 2016 to 91% of 1H19) and sales of electrified cars are soaring, those of full electric vehicles (BEVs) are still facing the same issues: they're quite expensive, the infrastructure's not ready yet and there are still concerns about battery ranges. This explains why the 30% market share expected in 2040 remains the big challenge for BEVs which are still a niche segment, despite available incentives worldwide. The same challenge also applies to Fuel Cell Vehicles (FCEV), expected to co-exist with other powertrains and cover a market share of ca. 23% as of 2040E, since they are still relying on a negligible market penetration in terms of cars sold.

Share between ICE, PHEV, BEV and FCEF in 2040E



Source: KPMG; Global Automotive Executive Survey 2019

Interim results

Weak demand in automotive, partially offset by diversification

Vimi Fasteners just released interim results highlighting negative YoY growth in main financial items, with Revenues and EBITDA decreasing by 11% and 16% YoY respectively, or by 14% and 49% YoY on a pro-forma basis (i.e. assuming MF Inox consolidated since January 1st, 2018).

Operating profit was negative (-€0.08mn), strongly penalized by the negative momentum faced by the auto industry, i.e. the main end-market for Vimi (ca. 42% of revenues in FY 2018PF) and by the increased D&A costs.

In this perfect storm, the company put in place several actions to mitigate the severe and sustained slowdown of the automotive market, definitely pushing on diversification. As a matter of fact, fastening solutions delivered to oil & gas, aerospace and generally used in a broad variety of industrial applications have shown a more resilient market demand and are positively contributing to consolidated figures.

That said, total Revenues reached €23.9mn, i.e. -14% vs 1H18 PF, with Vimi standalone decreasing by ca. 17% YoY, whereas MF Inox highlighted a healthy and organic growth (+8% YoY), with positive business development continuing in 3Q19.

By looking at the different markets' contribution, we highlight that domestic revenues decreased by 25% YoY on a reported basis, with the Italian market which represented ca. 30% of total turnover (34% in 1H18 PF), while the remaining 70% is attributable to foreign sales, in particular Germany, England, USA and China, which highlighted flat volumes YoY.

Vimi Fasteners: Top-line evolution in 1H19

End Market	Growth	Overview
Automotive	↓↓	Double-digit sales decrease (around 20% YoY), following the unexpected volume drops from top clients (both OEM and TIER1/2)
Industrial	=	YoY growth basically flat, aligned to the DGP growth in the Euro area
Agriculture	↓	A slight decrease mainly due to some order postponed by US main clients
Aerospace	↑↑	Still small numbers in absolute terms, however important contracts have been signed with key players active in the aerospace market
Commercial vehicles	=	YoY growth basically flat, aligned to the GDP growth in the Euro area
Oil & gas	↑↑	Double-digit growth YoY, facing a strong momentum, positively benefitting from the rise in oil price

Source: Vimi Fasteners, Value Track Analysis

Vimi Fasteners: Top-line evolution in 1H19

(€ mn)	1H18 PF (*)	1H19	Change vs. PF
Vimi	24.1	19.9	-17.1%
MF Inox	3.6	4.0	+7.7%
Total Revenues	**27.7**	**23.9**	**-13.8%**

Source: Vimi Fasteners, Value Track Analysis (*) Value Track estimate, considering MF Inox consolidated as of 01/01/2018

Profitability collapsed also because of extraordinary costs

The company experienced a deep deterioration in profitability for the second semester in a row, with **EBITDA decreasing by 49% YoY to ca. €2.0mn,** corresponding to an EBITDA margin of 8.3% (i.e. -600 bps if compared to 1H18PF, almost aligned to 2H18). If adjusted for non-recurring items (i.e. €0.3mn extraordinary costs related to the reorganization of the production facility occurred across 2H18-1H19), **Adj. EBITDA came in at €2.2mn** (-42% YoY). 1H19 took place on the same page of 4Q18, with main automotive clients still deferring or freezing their orders, causing a negative impact on margins and on inventories.

In this context, management started downsizing (ca. 30 units vs Dec. '18), but the main cost savings will be effective only as of 2H19. Labour cost on sales increased by ca. 390bps. YoY, despite they were flat in absolute value, notwithstanding the consolidation of MF Inox on 6 months (vs 1 month only in 1H 2018). Rental & leasing costs, as well as cost of services have been managed and "helped" by new accountings, while changes in raw material prices have not affected profitability, since major contracts include "price adjustment" clauses. Finally, profitability at EBITDA level has been positively impacted by €140K of lower leasing costs, due to the effect of the new accounting standard IFRS16 relative to lease contracts.

Higher D&A charges (also due to IFRS16) for +€0.4mn YoY pushed 1H EBIT close to zero (-€0.08mn), or to ca. €0.2mn on adjusted basis (-78% YoY). At bottom line, the Net Loss of €0.2m, was also burdened by higher net financial charges, due to the increased net financial debt position.

Vimi Fasteners: 1H19 from EBITDA to Net Profit

(€ mn)	1H18	1H18 PF (*)	1H19	Change YoY (*)
Total Revenues	**26.8**	**27.7**	**23.9**	**-14%**
COGS	-17.6		-15.1	
Labour cost	-6.9		-6.9	
EBITDA Reported	**2.4**	**4.0**	**2.0**	**-49%**
EBITDA Adjusted	***2.4***	***4.0***	***2.3***	***-42%***
D&A	-1.5	-1.6	-2.0	
Amortization for RoU	-	-	-0.1	
EBIT Reported	**0.9**	**2.4**	**-0.1**	**nm**
EBIT Adjusted	***0.9***	***2.4***	***0.2***	***-77%***
Net financial income/expenditure	0.0		-0.2	
Pre-Tax Profit	**0.9**	**2.4**	**-0.3**	**nm**
Income Taxes	-0.2		0.1	
Net Profit	**0.7**	**1.7**	**-0.2**	**nm**
Adj. Net Profit	***0.7***	***1.7***	***0.0***	***-99%***

Source: Vimi Fasteners, Value Track Analysis (*) Value Track estimate, considering MF Inox consolidated as 01/01/2018. YoY change based on PF

Higher NWC and Capex charges pushed up Net Debt position

At Balance Sheet / Cash Flow statement level, we note the following items:

- **Net Fixed Assets** at ca.€34mn from €32mn of December 2018;
- **Net Working Capital at €12.0mn from €10.7mn**, while in terms of sales it moved from 21.6% of Dec '18 (18.3% of June '18) to 25.4% at the end of June '19, as result of:

- the increase in inventories, attributable to the above-mentioned delay in deliveries required by major customers;
- the significative decrease in trade payables and other operating liabilities (-€4.2mn), only partially offset by lower amount of trade receivables (-€2.3mn).

- **In terms of Cash Flow,** the Group faced (*i*) the outlined €1.3mn cash absorption due to working capital dynamics, (*ii*) €1.8mn capex, and *(iii)* €1.5mn debt increase due to the leasing contracts accounting (IFRS16);
- **Worsening Net Financial Debt,** at €18.1mn (+€3.4mn vs Dec'18), which includes the above mentioned RoU for €1.5mn and the net present value of the earn-out of €4.8mn, to be paid in steps by 2022 as from the acquisition agreement of MF Inox. While **plain vanilla Net debt/EBITDA ratio (annualized) stands at 4.5x**, **the Net Debt adjusted** for lease and earn out (€11.7mn), corresponds to an annualized Net Debt/EBITDA **ratio of ca. 3x**.

Vimi Fasteners: 1H19 Balance Sheet

(€ mn)	Dec 2018 (*)	1H19
Net Fixed assets	32.0	33.8
Net Working Capital	10.7	12.0
Severance pay and funds	2.5	2.4
Total Capital Employed	40.3	43.4
Group Net Equity	25.6	25.3
Net Fin. Position [Net debt (-) / Cash (+)]	**-14.7**	**-18.1**

Source: Vimi Fasteners, Value Track Analysis (*) 2018 end-year figures have been adjusted by the Company in 1H19 for the finalization of PPA of the newly acquired company MF Inox

Vimi Fasteners: Net Debt walk in 1H19

Source: Value Track Analysis (*) 2018 end-year Net Debt has been adjusted in 1H19 by the Company for the finalization of PPA of the newly acquired company MF Inox

New 2019E-21E forecasts

Our updated forecasts 2019E-'21E

We are updating our 2019E-'21E estimates basically driven by the following items:

- **Automotive revised again downwards:** as previously discussed, the industry is still facing a declining YoY growth, with the Italian and German market, both strategic markets for Vimi, heavily impacted by the current market trends. Although small signs of recovery have been recorded in the latest months, the ramp up is slower than we forecasted six months ago and with Vimi top clients still deferring orders.
- **Fine-tuning estimates for other end-markets,** in details:
  - Volumes related to **Infrastructure / Oil&Gas and Energy sectors revised upwards** (on average +9% in the forecasted period), following the strong momentum undertook by MF Inox. We believe, this subsidiary is likely to exploit strong growth opportunities also thanks to the specialized approach based on a very high service and on "quick deliver on time order";
  - Fastening solutions applied for a broad variety of **industrial applications** expected to experience a **slight lower growth**;
  - **Higher growth rates** should be recorded in the **aerospace and motorsport** segments, also due to the increasing number of contracts signed with leading players in these fields.
- **Worsened margins outlook**, as direct outcome of lower demand and increased margin pressure on the automotive clients (both OEMs and Tier1);
- **Net Debt Position revised upwards,** as a result of the negative free cash flow reported in 1H19, combined with further capex planned in 2H and NWC still not normalised. We have also revised the expected pay out policy and now do not assume any dividend payment over the forecast period.

Vimi Fasteners: New vs. Old estimates 2019E-21E Update

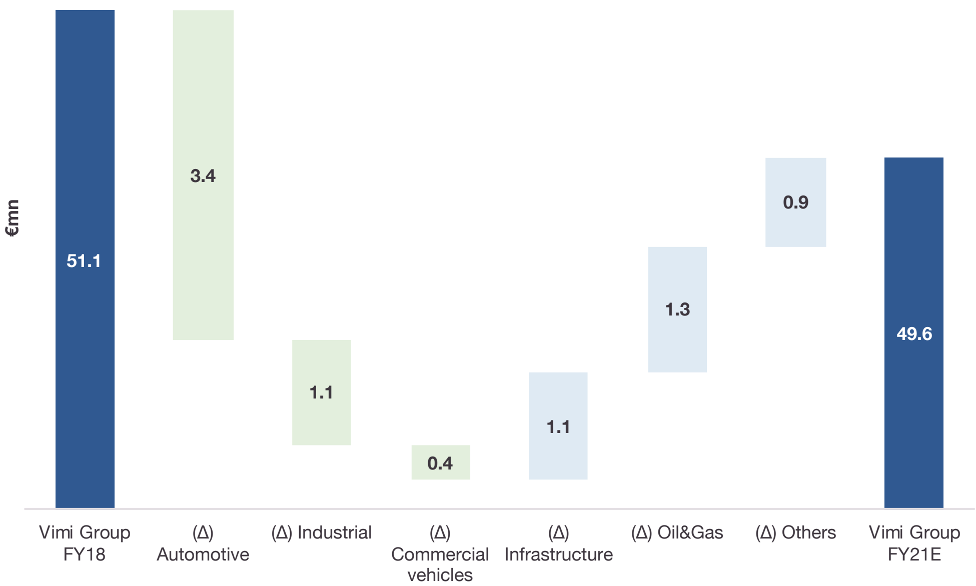
	2019E			2020E			2021E		
(€mn)	Old	New	Δ(%)	Old	New	Δ(%)	Old	New	Δ(%)
Total Revenues	**49.2**	**45.5**	*-8%*	**53.3**	**48.4**	*-9%*	**55.0**	**51.1**	*-7%*
EBITDA Adj.	**6.7**	**4.5**	*-33%*	**8.0**	**5.3**	*-33%*	**8.6**	**7.2**	*-17%*
EBITDA Adj. margin (%)	*13.6%*	*10.1%*	*-351bps*	*15.0%*	*11.3%*	*-367bps*	*15.4%*	*14.5%*	*-93bps*
EBIT Adj.	**2.5**	**0.1**	*-97%*	**3.3**	**0.6**	*-81%*	**3.8**	**2.4**	*-37%*
EBIT Adj. margin (%)	*5.1%*	*0.1%*	*-498bps*	*6.2%*	*1.3%*	*-488bps*	*6.8%*	*4.8%*	*-201bps*
Net Profit	**1.7**	**0.3**	*-82%*	**2.8**	**0.4**	*-87%*	**2.8**	**1.7**	*-37%*
Extra. Incomes (charges)	0.5	0.5	*-7%*						
Group Net Equity	27.6	27.0		29.7	27.3		32.1	29.1	
Net Fin. Pos.	**-17.2**	**-21.0**		**-12.6**	**-17.6**		**-8.6**	**-12.8**	

Source: Value Track Analysis

That said, the impact on our 2019E-'20E forecasts can be summarized as follows:

1. **Downward revision of revenues from sales,** by some 8% and 9% in 2019E and 2020E respectively, mostly due to the uncertainty prevailing in the auto industry, expected to negatively affect Vimi business unit, while MF Inox is expected to grow at double-digit 3yrs CAGR;

Vimi Fasteners: Revenues from Sales 2018PF-21E by end-market



Source: Value Track Analysis

2. **Profitability revised sharply downwards**, with EBITDA Adj. expected to come at €4.5mn and €5.3mn in 2019E-20E, i.e. on average 33% below our previous estimates. This comes as a combination of the lower top line (i.e. lower capacity utilization rate), only partially offset by the small headcount reductions planned;
3. **At EBIT level** the effect of new accounting standards should be virtually nil, but the material capex plan implemented over 2018-2019 is going to weigh via higher D&A charges;
4. **Pay-out policy** has been changed as said above in the light of weaker results and higher Net debt/EBITDA ratio, assuming no dividend payment over the 2019E-21E period;
5. **M&A options should also be limited** by the increased net debt/EBITDA ratio: 3.3x, or 3.0x excluding IFRS16, in FY2020E does not leave much room to leverage in the light of existing covenants on outstanding debt. However, we believe that a small, selective deal is still at reach, also in the short term.

Differently from what we expected six months ago, we now foresee the company **to witness a tough second half too** - given the weak orders as of June (-14%) and the lack of clear signs of demand improvement. At this stage it is more likely to expect a turnaround, driven by the car industry demand in mid 2020.

The following tables summarise our updated model over the 2019E-2021E forecast period.

Vimi Fasteners: Profit & Loss 2018PF-21E

(€mn)	2018PF	2019E	2020E	2021E	CAGR18- 21
Revenues from Sales	**51.1**	**44.5**	**47.2**	**49.6**	**-1.0%**
Total Revenues	52.3	45.5	48.4	51.1	-0.8%
COGS	-32.4	-29.1	-30.3	-31.1	
Labour costs	-14.1	-12.3	-12.8	-12.8	
EBITDA	**5.8**	**4.0**	**5.3**	**7.2**	**7.4%**
EBITDA Adj.	**7.5**	**4.5**	**5.3**	**7.2**	
EBITDA margin (%)	*14.8%*	*10.1%*	*11.3%*	*14.5%*	
D&A	-3.5	-4.4	-4.7	-4.8	
EBIT	**2.4**	**-0.4**	**0.6**	**2.4**	**-0.3%**
EBIT Adj.	**4.1**	**0.1**	**0.6**	**2.4**	
EBIT margin (%)	*8.0%*	*0.1%*	*1.3%*	*4.8%*	
Net Financial Charges	-0.2	-0.4	-0.3	-0.1	
Pre-tax profit	**2.2**	**-0.8**	**0.4**	**2.3**	
Taxes	-0.6	1.8	0.0	-0.5	
Net Profit	**1.6**	**1.0**	**0.4**	**1.7**	**2.9%**
Net Adj. Profit	**2.9**	**0.3**	**0.4**	**1.7**	**-15.6%**

Source: Vimi Fasteners (historical figures), Value Track (2019E-21E estimates)

Vimi Fasteners: Balance sheet 2018PF-21E

(€mn)	2018PF	2019E	2020E	2021E
Net Fixed assets	31.0	35.6	34.0	32.2
Net Working Capital	11.0	13.4	11.9	10.8
Severance pay and other funds	1.9	1.0	1.1	1.1
Total Capital Employed	**40.1**	**48.0**	**44.9**	**41.9**
Group Net Equity	26.0	27.0	27.3	29.1
Net Fin. Position [Net debt (-) / Cash (+)]	**-14.2 (*)**	**-21.0**	**-17.6**	**-12.8**

Source: Vimi Fasteners (historical figures), Value Track (2019E-21E estimates) (*) as reported in the FY18 financial statement

Vimi Fasteners: Cash flow Statement 2018PF-21E

(€mn)	2018PF	2019E	2020E	2021E
EBITDA	**5.8**	**4.0**	**5.3**	**7.2**
Op. NWC requirements	-2.9	-2.4	1.5	1.2
Capex (excl. Fin. Inv.)	-5.7	-3.8	-3.2	-3.0
Change in provisions	-0.6	-0.9	0.0	0.0
Cash Taxes	-0.6	0.0	0.0	-0.5
OpFCF a.t.	**-3.9**	**-3.1**	**3.7**	**4.8**
As % of EBITDA	n.m.	n.m.	68%	67%
Capital Injections	10.0	0.0	0.0	0.0
Other (incl. Fin. Inv. and IFRS16)	0.3	-3.2	0.0	0.0
Net Financial Charges	-0.2	-0.4	-0.3	-0.1
Dividend paid	-0.5	0.0	0.0	0.0
Change in Net Fin Position	**5.8**	**-6.7**	**3.4**	**4.7**

Source: Vimi Fasteners (historical figures), Value Track (2019E-21E estimates)

Valuation

The valuation of Vimi at the moment raises more issues than ever, because of a few short- and medium-term factors:

- **Earnings momentum remains weak** due to a combination of weak demand in the car industry and in the agro segment;
- Also, the Company has undertaken a major **capex plan** in 2018, due to completion in 2H 2019, which has **overlapped with falling demand and destocking**;
- **Longer term issues** on the core end market of automotive remain crucial and strategy about long term global footprint of the company (and of its clients too) are uncertain, given trade wars;
- On the other hand, the **diversification policy is proving to be successful** and we expect more to come, as management keeps building Vimi's presence in aerospace and motorsport and MFInox keeps growing double digit;
- Excluding **M&A**, Vimi will get only 36% of its revenues from the car industry by FY2021E, but minor selective deals could contribute to speed up the process.

All the above suggests that **valuations based on 2019E-20E earnings could be too penalising** and could "throw out the baby with the bathwater", and also the Group in a few years down the road could be quite different from the past.

Hence, we decided to **focus on a valuation based on Capital Employed and DCF model**, albeit we acknowledge that i) the news flow in coming months will remain negative, ii) we have no visibility yet about Vimi's long term profitability in the automotive business, iii) actual timing and terms for diversification are not unknown.

Assuming a fair EV/IC multiple of 1x (2020E) we get a value per share of **€2.15**, while **DCF supports a value of €2.67** per share. Averaging the two types of methodologies we get to a **fair equity value of €2.4 per share** (from €2.8). At fair value the company would trade at 1.1x EV/IC, 1.0x EV/Sales, 9.3x EV/EBITDA Adj. based on 2020E forecasts.

Here below, we provide a sensitivity analysis of Vimi Group stock trading multiples assuming a market price ranging between €2.0 and €2.8.

Vimi Fasteners: Sensitivity of implicit stock trading multiples in the €2.0 - €2.8 range

Share price (€)	EV / Sales (x)		EV / EBITDA ADJ (x)		P / B (x)		EV / IC (x)	
	2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E
€2.00	1.0	0.9	10.6	8.3	1.0	1.0	1.0	1.0
€ 2.20	1.1	1.0	11.2	8.8	1.1	1.1	1.0	1.0
€ 2.40	**1.2**	**1.0**	**11.8**	**9.3**	**1.2**	**1.2**	**1.1**	**1.1**
€ 2.60	1.2	1.1	12.4	9.8	1.3	1.3	1.2	1.2
€ 2.80	1.3	1.1	13.0	10.3	1.4	1.4	1.2	1.2

Source: Value Track Analysis

Peers Analysis

In line with our previous updates, we have **seven potential comparable companies**, some of which provide wide-range solutions, while others focus on specific end-sectors. In details:

- **Specialty players -** Bulten, Lisi;
- **Broad range players -** Trifast, Bossard, SFS Group, Bufab, Arconic.

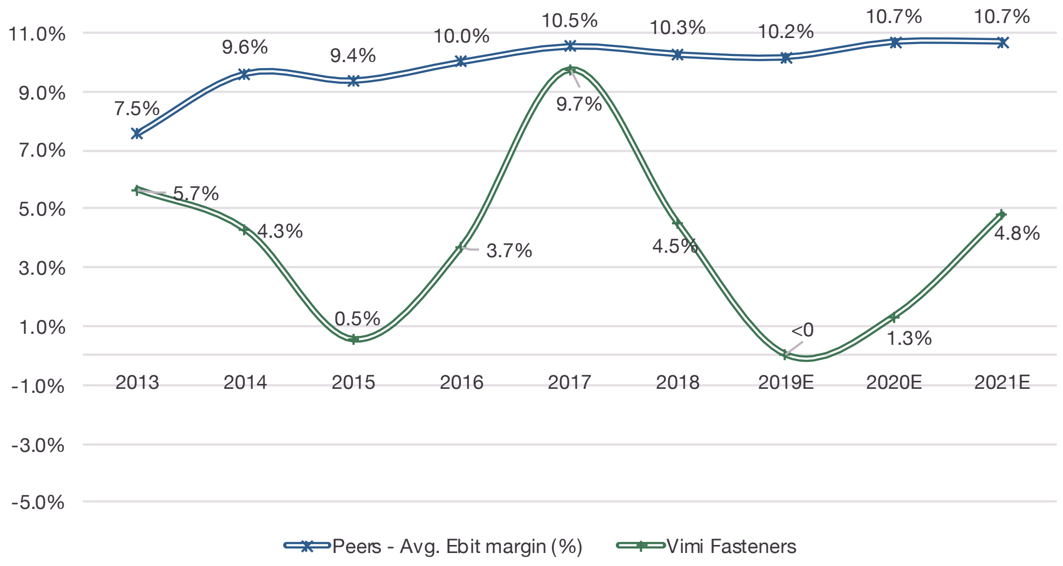
We also underline that some of these companies run a "lighter" business model, where part or most of turnover is related to outsourced products, as distributors or "supply chain partners":

- **Integrated players -** Bulten, Lisi, SFS Group, Arconic;
- **Supply Chain partners -** Trifast, Bossard, Bufab.

Furthermore, **by looking at the profitability path across 2013A-21E**, as reported in the chart below, we also underline that:

- **Peers profitability** is related to the global economy cycle, however the current margin pressure is not very marked and should not persist beyond 2019, while average EBIT margins are expected to go back to 2017 levels and beyond in just two years;
- **Vimi has faced higher margin volatility,** with EBIT margin ranging from 0.5% of 2015 (diesel gate) to 9.7% as of 2017 (pro-forma, including MF Inox) and reaching in 2018-2019E margins well below average on both stated and adjusted EBIT, as described above;
- We assume **for Vimi a slower recovery into 2021E**, i.e. the slight recovery in profitability is far from 2017 peak. In fact, margins in 2019E-20E are affected by the combination of increased capex and falling volumes and margin pressure, and over 2021E we incorporate the technological uncertainty for Vimi core products.

Vimi Fasteners (*) & Peers: 2013A-21E EBIT margin evolution (%)



Source: Market Consensus, Value Track Analysis (*) EBIT for 2013-2016 refers to Vimi stand-alone, i.e. pre MF Inox acquisition

The following table confirms that Vimi is expected to report financial performances below peers, albeit the gap is less marked towards the other specialty players as Bulten and Lisi.

Vimi Fasteners: Peers' Group key performance info (2019-20E)

Company	Revenues growth (%)		EBIT margin (x)		ROIC (%)		Net Debt/EBITDA (x)	
	2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E
Bulten	2%	15%	5%	7%	8%	10%	1.5	1.4
Trifast (**)	1%	3%	11%	11%	17%	17%	0.5	0.2
Bossard Holding	5%	3%	12%	12%	21%	20%	0.8	0.5
SFS Group	4%	3%	14%	14%	18%	18%	0.0	0.0
Lisi	5%	4%	9%	9%	11%	12%	1.2	0.9
Bufab	6%	3%	10%	10%	14%	14%	2.2	1.8
Arconic	3%	4%	10%	11%	15%	15%	1.8	1.6
Average	**4%**	**5%**	**10%**	**11%**	**15%**	**15%**	**1.2**	**1.0**
Median	**4%**	**3%**	**10%**	**11%**	**15%**	**15%**	**1.2**	**0.9**
VIMI	**-8% (*)**	**6%**	**0%**	**1%**	**0%**	**1%**	**4.7**	**3.3**

Source: Market Consensus, Value Track Analysis (*) Based on reported revenues (**) Fiscal year ends 30/06

Comparing market multiples

In terms of market multiples, the fasteners' segment trades at 2019-20E multiples slightly below those recorded in April (when we last published on Vimi). Also, we stick to our view that:

- **Vimi deserves a certain multiple discount** due to its much smaller size and weaker financial performance following the recent market demand windfalls;
- We prefer to focus on multiples offering a valuation "through the cycle" (**EV/Invested Capital**), also supported by the DCF model (see below).

If we consider the EV/IC multiples, the peers' group trades at median 1.5x (2020E) - supported by the players with steady high double-digit returns - while closer peers like Bulten and Lisi trade at 0.7-1.3x. We believe that Vimi is unlikely to trade above these levels until a clear sector rerating occurs and a **fair value of 1.0x EV/IC** gets to an **indication of €2.2 per share**, which supports the current share price.

Vimi Fasteners: Peers' stock trading multiples

Company	EV/Sales (x)		EV / IC (x)		EV / EBITDA (x)		EV / EBIT (x)		P / E (x)	
	2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E
Bulten	0.6	0.5	0.8	0.8	6.0	4.6	10.7	7.5	12.0	7.6
Trifast (*)	1.0	0.9	1.5	1.4	8.5	7.9	9.1	8.5	16.6	14.7
Bossard Holding	1.2	1.1	2.0	1.8	8.3	7.8	9.6	9.0	11.3	10.9
SFS Group	1.7	1.6	2.3	2.1	9.2	8.5	12.7	11.6	17.2	15.9
Lisi	1.1	1.0	1.4	1.3	7.5	6.7	12.4	10.7	15.1	13.0
BUFAB	1.3	1.2	1.8	1.6	11.1	10.2	12.9	11.8	14.5	13.4
Arconic	1.1	1.1	1.6	1.5	7.7	7.1	10.8	9.7	16.1	14.2
Average	**1.1**	**1.1**	**1.6**	**1.5**	**8.3**	**7.5**	**11.2**	**9.8**	**14.7**	**12.8**
Median	**1.1**	**1.1**	**1.6**	**1.5**	**8.3**	**7.8**	**10.8**	**9.7**	**15.1**	**13.4**

Source: Market Consensus, Value Track Analysis. (*) Fiscal year ends 30/06

Discounted Cash Flow Model

We update our DCF model assuming a target capital structure, with a 40% D/(D+E) ratio, an overall cost of Equity of 15.9% and a **10.6% WACC,** as calculated in the following table.

Vimi Fasteners: WACC calculation

Risk free	2.0%
Risk Premium	9.0%
Credit spread	1.5%
Beta Levered	1.3
Small Cap Mkt Risk Premium	2.0%
COST OF EQUITY	**15.9%**
COST OF DEBT after tax	2.7%
Target D/D+E	40%
WACC	**10.6%**

Source: Value Track Analysis

Thus, assuming financial statements projection starting from 2020E to 2028E and terminal value at 2029YE obtained applying a 2% Perpetuity Growth Rate (PGR), which corresponds to an exit multiple of 9.4x EV/EBIT and 6.3x EV/EBITDA, we obtain a **fair Equity value per share at €2.67.**

Vimi Fasteners: DCF model

€mn	
PV of future cash flows 2020E-2028E	28.3
PV of Terminal value @ 2029E	28.4
Fair Enterprise value	**56.7**
Net Fin. Position 2019E year-end	-21.2
Fair Equity value	**35.6**
Fair Equity value per share (€)	**2.67**

Source: Value Track Analysis

Vimi Group: Fair Equity Value per share - Sensitivity Analysis to WACC and PGR

		Perpetuity Growth Rate				
		1.00%	**1.50%**	**2.00%**	**2.50%**	**3.00%**
WACC	**10.2%**	2.61	2.74	2.88	3.05	3.23
	10.4%	2.52	2.64	2.78	2.93	3.10
	10.6%	2.43	2.54	**2.67**	2.81	2.97
	10.8%	2.34	2.45	2.57	2.70	2.86
	11.0%	2.26	2.36	2.48	2.60	2.74

Source: Value Track Analysis

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