Vimi Fasteners

Sector: Industrial fasteners

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It's time to bite the bullet

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

Fair Value (€)	**1.75**
Market Price (€)	**0.80**
Market Cap. (€m)	**10.7**

1H20 hit by Covid-19 (as expected)

1H financial results highlight a severe slowdown in business development, heavily hit by negative implications linked to Covid-19 outbreak. Sales fell by 23%, while EBITDA was down by 12%, with margin at 9.7% (up 118bp y/y) thanks to management actions and some operating efficiency achieved through the 2018-19 capex plan. A more resilient demand for fasteners was faced in the oil&gas sector, with negative growth attributable to the six weeks of missed production, due to lockdown. Worsening Net Debt at €21.8mn (+2.2mn vs Dec'19) fills in the tough picture of the manufacturing industry, with increasing inventories and lower payables.

First encouraging signs in 3Q, but uncertainty is still high

Backlog was significantly lower y/y at the end of 2Q, however market demand is starting to normalise in 3Q. While temporary elements like incentive schemes could drive a moderate recovery in the car industry in 2H, next quarters might still be challenging, as concerns about a second wave and a larger double-dip recession remain. On the positive side we highlight new initial contracts for light fasteners applied on EV, orders "on track" in the aerospace segment (albeit still small) and talks for new supply of big size fastening solutions in the naval sector.

FY20-21 forecasts almost unchanged

We slightly revised our forecasts, with average sales cut at mid-single-digit for 2020E-21E, EBITDA broadly unchanged and 2020E Net Loss at €0.5mn (€0.9mn loss in our previous estimates). We still foresee a gradual recovery over 2021E-22E, with EBITDA and EPS expected to increase at 17% 3-yr CAGR19-22. Net Debt is now expected stable y/y in 2020E.

Fair value at €1.75 (from €2.15)

Investors dissatisfaction for small size / small traded volumes stocks has led to a severe underperformance vs. selected peers and now implies cheap relative market multiples. On the contrary, fair multiples at 1.0x – 7.0x EV/Sales - EV/EBITDA 2021E drive to €1.75/share fair equity value, while our DCF model supports €2.00/share to be taken as reference point once visibility improves.

KEY FINANCIALS (€m)	2019A	2020E	2021E
REVENUES FROM SALES	46.3	37.3	41.1
EBITDA	4.2	3.9	5.6
EBIT	-0.2	-0.7	1.3
ADJ. NET PROFIT	0.4	-0.5	1.0
EQUITY	26.4	26.0	27.0
NET FIN. DEBT	19.6	20.0	17.0
EPS ADJ. (€)	0.08	<0	0.07
DPS (€)	0.00	0.00	0.00

Source: Vimi Fasteners (historical figures), Value Track (2020E-21E estimates)

RATIOS & MULTIPLES	2019A	2020E	2021E
EBITDA MARGIN (%)	9.0	10.5	13.7
EBIT MARGIN (%)	<0	<0	3.3
NET DEBT / EBITDA (x) (*)	2.1	3.0	1.5
NET DEBT / EQUITY (x)	0.7	0.8	0.6
EV/SALES (x)	1.1	0.8	0.7
EV/EBITDA ADJ: (x)	12.3	7.8	4.9
P/E ADJ. (x)	nm	nm	10.7
DIV YIELD (%)	0.0	0.0	0.0

Source: Vimi Fasteners (historical figures), Value Track (2020E-21E estimates) (*) excluding MF Inox earn-out and IFRS16

STOCK DATA	
FAIR VALUE (€)	1.75
MARKET PRICE (€)	0.80
SHS. OUT. (m)	13.3
MARKET CAP. (€m)	10.7
FREE FLOAT (%)	21.3
AVG. -20D VOL. (#)	18,525
RIC / BBG	VIM.MI / VIM IM
52 WK RANGE	0.78 – 2.20

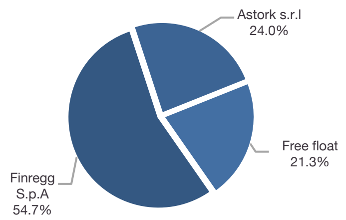
Source: Stock Market Data

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



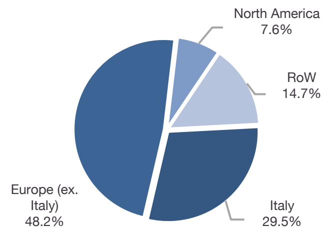
Source: Company SpA

Key Financials

€mn	2018PF	2019A	2020E	2021E
Revenues from Sales	**51.1**	**46.3**	**37.3**	**41.1**
Chg. % YoY	nm	-9.4%	-19.5%	10.3%
EBITDA	**5.8**	**4.2**	**3.9**	**5.6**
EBITDA Margin	11.4%	9.0%	10.5%	13.7%
EBIT	**2.4**	**-0.2**	**-0.7**	**1.3**
EBIT Margin		<0	<0	3.3%
Net Profit	**1.6**	**1.1**	**-0.5**	**1.0**
Chg. % YoY		-31.1%	nm	nm
Adjusted Net Profit	**2.9**	**0.4**	**-0.5**	**1.0**
Chg. % YoY		-87.0%	nm	nm
Net Fin. Debt	**14.2**	**19.6**	**20.0**	**17.0**
Net Fin. Debt / EBITDA (x)	2.4x	4.7x	5.1x	3.0x
Net Fin. Debt (ex. Earn-out & IFRS16)		**10.0**	**11.7**	**8.7**
Net Fin. Debt / EBITDA (x)		2.1x	3.0x	1.5x
Capex	5.7	3.3	2.0	2.5
OpFCF b.t.	**-3.4**	**2.8**	**-0.6**	**3.3**
OpFCF b.t. as % of EBITDA	nm	68%	nm	59%

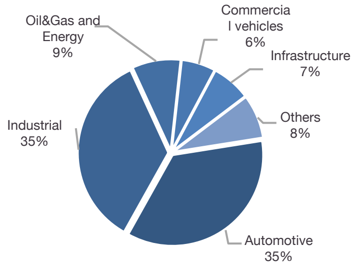
Source: Vimi Fasteners (historical figures), Value Track (estimates). Pro-Forma figures consolidate MF Inox as of 1.1.2018

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;

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 @ €1.75 Fair Value

	2020E	2021E
EV / SALES (x)	1.2	1.0
EV / EBITDA (x)	11.0	7.2
EV / CAP.EMP. (x)	0.9	0.9
OpFCF Yield (%)	<0	8.1
P / E ADJ (x)	nm	23.4
P / BV (x)	0.9	0.9
Div. Yield. (%)	0.0	0.0

Source: Value Track

1H20 Financials

Results negatively impacted by Covid-19

Vimi Fasteners just released its 1H20 financial results highlighting, as expected, a severe slowdown in business development, with negative YoY growth recorded across P&L, and extremely penalized by the current global crisis linked to Covid-19 outbreak.

Summing up, interim results provide the following qualitative insights:

- **A clear and inevitable weaker market demand faced so far**, with lower orders collected in the auto division, but also in other end-markets which are somehow cyclical and highly correlated to the current economic downturn (industrial, oil&gas, infrastructure, agriculture, aerospace);
- **Manufacturing activities held hostage of Coronavirus outbreak**, with plants and activities shutdown for at least six weeks, following the Italian Government decision to tight measures on non-essential industrial activities (DPCM March 22th);
- **The company put in place several actions to mitigate negative implications,** achieving some cost savings, also through the recourse to social safety measures. More, the opening of new credit lines would also allow a better management of possible short-term liquidity issues;
- **First signs of recovery in June**, with order backlog gradually growing, confirm some normalization in market demand. However, backlog was significantly lower YoY at the end of June;
- **New important agreements are ongoing or already signed,** for light fasteners applied in full electric supercars and in the aerospace field, as well as fastening solutions used for big size diesel turbocharges.

Moving to numbers, 1H20 financial results look very consistent with our full year expectations (released back on April'20), and can be summarized as follows:

- **Sales down at double-digit (-22.8% YoY)**, as a result of lower volumes recorded across all end-markets, which suffered a severe slowdown in March and April;
- **Lower reduction at EBITDA level (-12.2% YoY),** positively benefitting from management actions aimed at improving efficiencies;
- **Worsening Net Debt Position at €21.8mn**, mainly due to the unfavourable NWC dynamics.

Vimi Fasteners: 1H19-1H20 Key Financial Items

(€mn)	1H19	1H20	Δ YoY (%)
Revenues from Sales	**23.6**	**18.2**	**-22.8%**
EBITDA	2.0	1.8	-12.2%
EBITDA Margin (%)	*8.5%*	*9.7%*	+118bps
Net Profit	**0.0**	**-0.4**	**nm**
Capex	-1.8	-0.8	--
Net Fin. Position [Cash (+)]	**-19.6***	**-21.8**	--

Source: Vimi Fasteners, Value Track analysis (*) FY19 year-end

Sales collapsed by 22.2% YoY

Revenues from Sales came in at €18.2mn in the first half of the year, down 22.8% vs. €23.6mn achieved in 1H19, strongly hit by negative implications and difficulties linked to Covid-19 emergency and the temporary closing of production activities. Following the first two months of the year substantially in line YoY, a significant reduction in volumes was experienced since March, with a gradual recovery occurred in June, with volumes almost in line YoY.

Despite a weaker market demand across all end-markets, Vimi busines development was hardly impacted by the negative momentum faced by the auto industry, the main reference segment covering roughly 45% of Group turnover. In fact, according to LMC, the number of units sold in the first half decreased by 26.5% YoY, with a more severe contraction across Europe (-35% YoY), by far the main geography area for Vimi Fasteners, accounting ca. 80% of total sales in FY19.

Worldwide Light Vehicle Sales (YoY % chg.)

Region	1Q20	2Q20	1H20
USA	-13.8%	-33.2%	-24.0%
Canada	-22.0%	-43.0%	-34.1%
Western Europe	-23.1%	-53.8%	-38.7%
Eastern Europe	3.3%	-42.9%	-21.3%
Japan	-10.4%	-31.8%	-19.9%
Korea	-5.0%	20.1%	8.1%
China	-42.4%	6.5%	-18.7%
Brazil/Argentina	-13.0%	-62.6%	-38.8%
Others	-6.9%	-57.6%	-31.8%
World	**-21.2%**	**-31.8%**	**-26.5%**

Source: Value Track processing of LMC Automotive data

On the other side, fasteners delivered to oil&gas, aerospace, infrastructure and generally applied in a broad variety of industrial applications have shown a more resilient demand, with YoY negative growth mainly linked to the temporary shutdown imposed during the spring.

By looking at the different markets' contribution, we highlight that domestic revenues decreased by 25% YoY, despite the Italian market - which represented ca. 30% of total turnover (29% in FY19) – likely benefitted from MF Inox relatively stronger performance. The remaining 70% is attributable to foreign sales, of which i) ca. 45% in EU (excluding Italy) at €8.2mn (-35% YoY), ii) 8% in US and Canada (Sales at €1.4mn, -35% YoY), and lastly iii) RoW with sales more than doubled YoY.

Other revenues (public grants due to R&D projects and to some client compensation) stood at €0.5mn, while capitalized development costs were roughly €0.3mn.

Vimi Fasteners: Top-line evolution in 1H19-1H20

(€mn)	1H19	1H20	Δ YoY (%)	Char
Revenues from Sales	**23.6**	**18.2**	**-22.8%**	
Capitalized development costs	0.2	0.3		
Other Revenues	0.1	0.5		
Total Revenues	**23.9**	**19.0**	**-20.7%**	

Source: Vimi Fasteners, Value Track Analysis

Management actions to preserve profitability

In this perfect storm, the company put in place several actions to mitigate the severe and sustained slowdown of reference end-markets, achieving significant cost savings, and allowing EBITDA to drop less than proportionally to turnover decrease. Hence Total Opex stood at €17.2mn (-21.5% YoY), and as a result EBITDA came in at €1.8mn (-12.2% YoY), with Margin at 9.7%, moving from 8.5% as of 1H19 (+118bps YoY).

The main driver of margin improvement relies on the lower incidence of raw materials & consumable costs, at 36.1% on Sales (-150bps YoY), however we also highlight:

- **A more efficient organization of labour cost**, attesting at €5.6mn and decreasing 18% YoY, also thanks the recourse to social safety measures and lower adoption of "temporary" workers, as well as to the benefits of the production sites reorganization carried last year;
- **A better management of services costs**, with less extensive use of outsourced activities, which led to some margin internalization and a better optimization of labour force;
- Other Operating expenses almost flat YoY and mostly related to administrative costs.

We also recall that profitability was impacted by non-recurring items in 1H19, i.e. €0.3mn extraordinary costs related to the reorganization of the production facility. On Adj. basis EBITDA margin was basically flat YoY, despite drop in volumes.

Below the EBITDA, higher D&A charges (also inflated by IFRS16) pushed 1H20 EBIT in the negative field at -€0.4mn vs -€0.1mn as of 1H19 (€0.2mn on adjusted basis). At bottom line, Net Loss of €0.2m, after €0.2mn of financial expenses and €0.2mn of positive income taxes.

Vimi Fasteners: P&L in 1H19 and 1H20

(€mn)	1H19	1H20	Δ YoY (%)
Total Revenues	**23.9**	**19.0**	***-20.7%***
Raw materials & consumables	-8.9	-6.6	
Cost of Services	-5.7	-4.6	
Other Operating costs	-0.5	-0.4	
Labour cost	-6.9	-5.6	
Total Opex	-21.9	-17.2	
EBITDA Reported	**2.0**	**1.8**	***-12.2%***
EBITDA Margin (%)	*8.5%*	*9.7%*	*118bps*
EBITDA Adjusted	*2.3 (*)*	1.8	*-23.2%*
D&A	-2.0	-2.2	
EBIT Reported	**-0.1**	**-0.4**	***nm***
EBIT Margin (%)	*-0.3%*	*-2.3%*	*-193bps*
EBIT Adjusted (*)	0.2	-0.4	nm
Net financial income/expenditure	-0.2	-0.2	
Pre-Tax Profit	**-0.3**	**-0.6**	***nm***
Income Taxes	0.1	0.2	
Net Profit	**-0.2**	**-0.4**	***nm***
Adj. Net Profit	**0.0**	**-0.4**	***nm***

Source: Vimi Fasteners, Value Track Analysis (*) Adj. for one-off logistic costs faced in 1H19

Worsening NWC pushed up Net Debt position

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

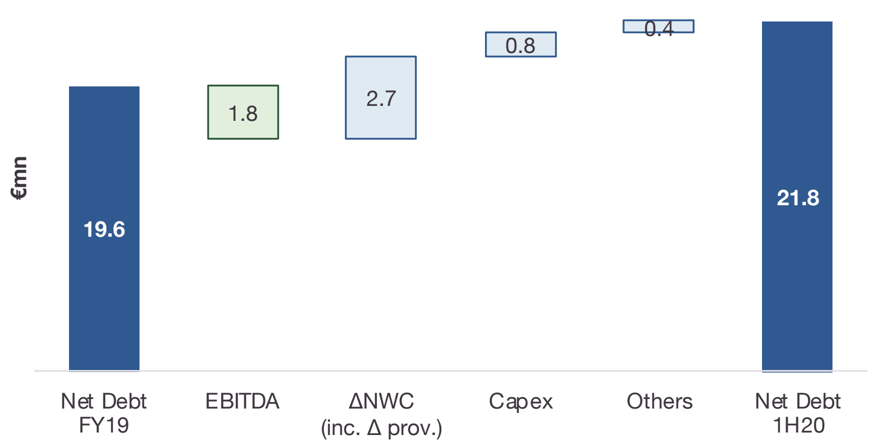
- **Net Fixed Assets** at ca.€39mn from €40mn of December 2019;
- **Net Working Capital at €11.3mn from €8.4mn**, while as a % of sales it moved from 25.9% of June '19 (18.0% as of Dec'19) to 30.4% (annualized) at the end of June '20, as a result of:
    - the increase in inventories (+€1.0mn), likely due to some delay or postponement in deliveries required by customers, as well as to the sudden slowdown in market demand, almost offset by a similar decrease in trade receivables;
    - the significative decrease in trade payables and other operating liabilities (-€3.0mn);
- **In terms of Cash Flow,** the Group faced (*i*) the outlined €2.9mn cash absorption due to working capital dynamics, (*ii*) €0.8mn capex, and *(iii)* €0.4mn other residual items;
- **Worsening Net Financial Debt,** at €21.8mn (+€2.2mn vs Dec'19), which includes RoU for €4.5mn and the net present value of the earn-out of €3.8mn, 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 6.0x**, **the Net Debt adjusted** for lease and earn out, corresponds to an annualized Net Debt/EBITDA **ratio of ca. 3.7x**. Worthy of notice, restrictive covenants on Net Debt have been freezed for June and December 2020.

Vimi Fasteners: 1H19, FY19 and 1H20 Balance Sheet

(€ mn)	1H19	FY19	1H20
Net Fixed assets	33.8	39.7	38.7
Net Working Capital	12.0	8.4	11.3
as % of Sales (annualised)	*25.9%*	*18.0%*	*30.4%*
Severance pay and funds	2.4	2.1	2.3
Total Capital Employed	**43.4**	**46.0**	**47.8**
Group Net Equity	**25.3**	**26.4**	**26.0**
Net Fin. Position [Net debt (-) / Cash (+)]	**-18.1**	**-19.6**	**-21.8**

Source: Vimi Fasteners, Value Track Analysis

Vimi Fasteners: Net Debt walk in 1H20



Source: Value Track Analysis

Vimi Fasteners: FY19, 1H20 NFP Analysis

(€ mn)	FY19	1H20
Cash and deposits	6.8	10.4
Debt to banks within 12-months (*)	-12.0	-8.4
Other current financial liabilities	-3.8	-2.6
Debt to third parties (Earn-out)	-1.0	-1.0
Current Net Financial Position	**-3.2**	**0.3**
Debt to banks over12-months	-12.5	-19.2
Debt to third parties (Earn-out)	-3.8	-2.8
Non-Current Net Financial Position	**-16.4**	**-22.0**
Net Fin. Position [Net debt (-) / Cash (+)]	**-19.6**	**-21.8**

Source: Vimi Fasteners, Value Track Analysis

New updates

Auto industry: outlook remains unpredictable

The global outlook for the automotive industry remains still negative, at least for 2020E. Covid-19 adverse impact is still quite unpredictable, given the daily number of new reported cases, and the low chances to see a treatment/vaccine by the end of 2020.

Hence, the global picture for the automotive industry is still highly uncertain with sector experts continuously updating their forecasts and now forecasting the global **2020E car sales market to plunge 20% to about 73mn vehicles** vs. 90.3mn in 2019, as recently released by *S&P Global*. While China is almost back to normal, and it is expected to be the only market to return on 2019 volumes by 2022E, auto sales in Europe and US are unlike to recover 2019 figures in the next two years.

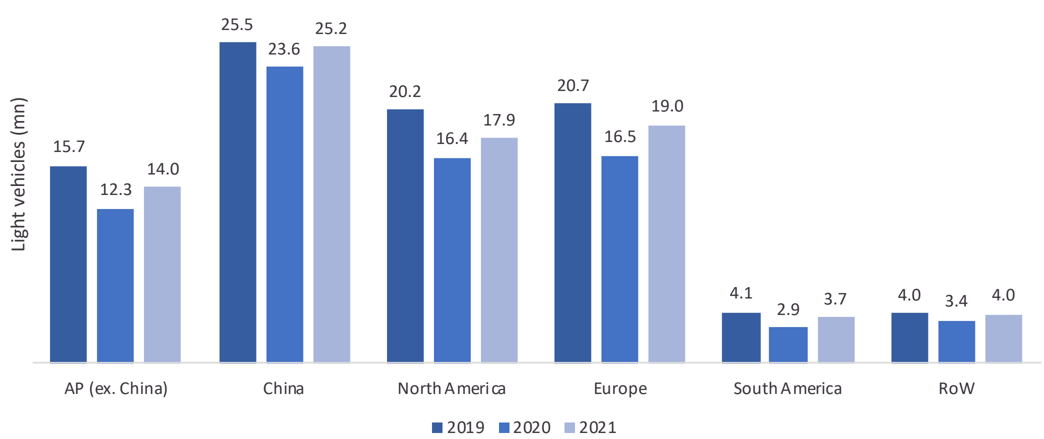
Thus, according to the current market sentiment, worldwide sales are likely to fall for some months ahead, as in details:

- **Europe** – auto sales likely to drop 10% and 5% in 3Q and 4Q, with annual sales (2020E) expected to remain below -20% YoY;
- **US** – similarly to European market, car sales are expected to decrease by 21% YoY;
- **China** – expected to be the most dynamic market, with vehicle demand at historically high levels in the June-August period, and sales to ease over the next few months.

Similar estimates were released by *LMC automotive*, with global light vehicles market demand expected at roughly 75mn units in 2020E. Despite a slightly more optimistic view in 2020, experts believe that positive but temporary factors like incentive schemes to encourage the purchase of low emission vehicles, will fade over the coming quarters, and would lead to a moderated recovery in global light vehicle sale in 2021.

Indeed, excluding a possible worst scenario of a second wave and the adoption of stricter social control measures (lockdown), the YoY statistical comparison in 1H21 will be easier, thus making it possible to see brisk growth rates ahead, and according to the same market research provider, **global light vehicle sales in 2021E is expected to increase high-single digit**.

Global light vehicle demand: market projections (LMC automotive)

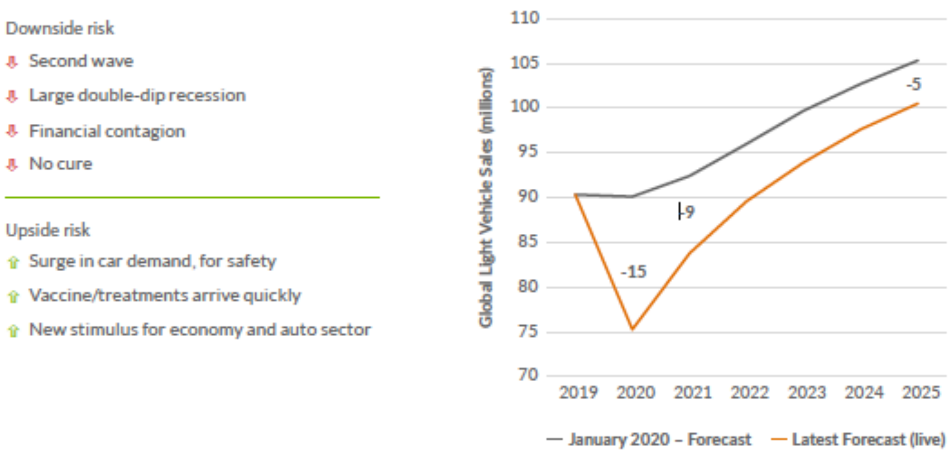


Source: Value Track processing LMC automotive data

Against the picture described above, we believe 2021 would be another challenging year for both OEMs and auto parts suppliers, as concerns still remain with some further downside risks outpacing the upsides (as reported in the box).

Anyway, looking beyond 2021, global car sales is expected to come back on 2019 volumes not earlier than 2022E, whilst the 100mn unit sold threshold is now expected to come as of 2025 (with a 3-years delay vs January'20 estimates).

Global light vehicle demand and ongoing risks (LMC automotive)



Source: LMC automotive

Moving to production, the global restart was better than expected, with an overall improvement in performance across 2020. Following a -29% YTD performance as of July, the output in the second half of the year should be almost on par YoY. As for the 2021E production volumes, LCM experts has predicted a 15% YoY increase, slightly revising (upwards) their forecasts released back on May.

Our new forecasts 2020E - '22E

We are updating our 2020E-'21E estimates, and extending our forecasts to 2022E, basically driven by the following items:

- **Automotive revised again downwards:** as previously discussed, despite small and encouraging signs of recovery were recorded in the latest months, there is still a lot of uncertainty with downside risks rising from a second wave of Covid-19 and its potential implications. Also, we expect ramp up to be slower than the one forecasted six months ago.
- **Fine-tuning estimates for the other end-markets,** in details:
  - Volumes related to **Infrastructure / Oil&Gas and Energy sectors revised downwards** as well fastening solutions applied for a broad variety of **industrial applications** to experience a **slightly lower growth**, as results of the weaker macro outlook;
  - **Higher growth rates** should be recorded in the **aerospace and motorsport** segments, given the increasing number of contracts signed with leading players;
- **Improved margins**, as direct outcome of some cost optimization, with further cost savings and margin internalization still to be exploited, also thanks to the on-going insourcing project;
- **Lower than expected capex,** with non-necessary investments rescheduled.

Vimi Fasteners: New vs. Old estimates 2020E-21E Update

(€mn)	2020E			2021E		
	Old	New	Δ (%)	Old	New	Δ (%)
Revenues from Sales	**39.4**	**37.3**	***-5.4%***	**43.8**	**41.1**	***-6.2%***
EBITDA	**3.8**	**3.9**	***2.6%***	**5.9**	**5.6**	***-4.3%***
EBITDA Margin (%)	*9.7%*	*10.5%*	*83bps*	*13.4%*	*13.7%*	*27bps*
EBIT	**-0.9**	**-0.7**	***nm***	**0.8**	**1.3**	***58.5%***
EBIT Margin (%)	*<0*	*<0*	*nm*	*1.9%*	*3.3%*	*134bps*
Net Profit	**-0.9**	**-0.5**	***nm***	**0.5**	**1.0**	***>100%***
Capex	2.7	2.0		3.0	2.5	
Net Debt	**19.6**	**-20.0**		**17.7**	**17.0**	

Source: Value Track Analysis

That said, the impact on our 2019E-'22E forecasts can be summarized as follows:

1. **Revenues from Sales** revised down mid-single digit in 2020E-21E, mostly due to the uncertainty prevailing in the auto industry, expected to negatively affect this business unit. Hence, we expect revenues to reach ca. €45mn in 2022E, slight below the 2019A (pre-Covid level) of €46.3mn and implying a negative 3-yr CAGR of 1.0%.

Vimi Fasteners: 2019A-22E Total Revenues by end-market

(€mn)	2019A	2020E	2021E	2022E	3yr CAGR
Automotive	**16.5**	**11.9**	**13.1**	**14.4**	**-4.5%**
YoY Growth (%)	-22%	-28%	10%	10%	
as (% of Total Sales)	*36%*	*32%*	*32%*	*32%*	
Industrial	**16.2**	**13.8**	**15.1**	**16.1**	**-0.3%**
YoY Growth (%)	-5%	-15%	10%	6%	
as (% of Total Sales)	*35%*	*37%*	*37%*	*36%*	
Commercial Vehicles	**2.8**	**2.1**	**2.3**	**2.5**	**-3.8%**
YoY Growth (%)	-16%	-25%	10%	8%	
as (% of Total Sales)	*6%*	*6%*	*6%*	*6%*	
Infrastructure	**3.2**	**2.9**	**3.1**	**3.4**	**1.7%**
YoY Growth (%)	14%	-8%	6%	8%	
as (% of Total Sales)	*7%*	*8%*	*8%*	*8%*	
Oil&Gas and Energy	**4.0**	**3.7**	**3.9**	**4.3**	**5.1%**
YoY Growth (%)	20%	-8%	5%	10%	
as (% of Total Sales)	*9%*	*10%*	*9%*	*9%*	
Others (including agric/aero/marine)	**3.6**	**2.9**	**3.6**	**4.4**	**6.6%**
YoY Growth (%)	10%	-20%	25%	21%	
as (% of Total Sales)	*8%*	*8%*	*9%*	*10%*	
Total Revenues from Sales	**46.3**	**37.3**	**41.1**	**44.9**	**-1.0%**
YoY Growth (%)	**-9%**	**-20%**	**10%**	**9%**	

Source: Value Track Analysis

2. **Profitability almost unchanged in 2020E**, with EBITDA expected to come at €3.9mn, (+2.6% vs previous estimate) while it is revised slightly downwards for 2021E (€5.6mn, -4.3% vs previous expectation), as a result of lower turnover. A gradual recovery is now expected in 2022E, with EBITDA at €6.6mn with Margin at 14.8% (i.e. implying a 17% 3-yr CAGR);
3. **At EBIT level**, the lower 2020-2022 capex plan is going to reduce the D&A charges;
4. **M&A options should also be limited** by the increased net debt/EBITDA ratio: 5.1x in 2020E, or 3.0x excluding € 4.5mn due to IFRS16 and the net present value of MF Inox earn-out to be paid in 2022E (€3.8mn), does not leave much room to leverage in the light of existing covenants on outstanding debt.

Differently from what we expected six months ago, we now foresee the company **to witness a tough 2H20 and 1Q21 as well** - given the weak orders as of June 2020 and the lack of clear signs of demand improvement. The following tables summarise our updated model over the 2019A-2022E forecast period.

Vimi Fasteners: Profit & Loss 2019A-22E

(€mn)	2019A	2020E	2021E	2022E	3yr CAGR
Revenues from Sales	**46.3**	**37.3**	**41.1**	**44.9**	***-1.0%***
Total Revenues	**47.1**	**38.3**	**42.2**	**46.1**	***-0.7%***
COGS	-29.9	-23.5	-25.6	-27.8	
Labour costs	-13.0	-10.8	-10.9	-11.7	
EBITDA	**4.2**	**3.9**	**5.6**	**6.6**	***16.9%***
EBITDA Adj.	**4.8**	**3.9**	**5.6**	**6.6**	
EBITDA margin (%)	*10.3%*	*10.5%*	*13.7%*	*14.8%*	
D&A	-4.3	-4.6	-4.3	-4.2	
EBIT	**-0.2**	**-0.7**	**1.3**	**2.4**	***nm***
EBIT Adj.	**0.4**	**-0.7**	**1.3**	**2.4**	
EBIT margin (%)	*1.0%*	*-1.8%*	*3.3%*	*5.4%*	
Net Financial Charges	-0.4	-0.3	-0.3	-0.3	
Pre-tax profit	**-0.6**	-1.0	1.0	2.2	
Taxes	1.7	0.5	-0.1	-0.3	
Net Profit	**1.1**	**-0.5**	**1.0**	**1.8**	***17.7%***
Net Adj. Profit	**0.4**	**-0.5**	**1.0**	**1.8**	***68.7%***

Source: Vimi Fasteners (historical figures), Value Track (2020E-22E estimates)

Vimi Fasteners: Balance sheet 2019A-22E

(€mn)	2019A	2020E	2021E	2022E
Net Fixed assets	39.7	37.1	35.4	33.9
Net Working Capital	8.4	11.1	10.9	10.5
Severance pay and other funds	2.1	2.3	2.3	2.5
Total Capital Employed	**46.0**	**45.9**	**44.0**	**41.9**
Group Net Equity	26.4	26.0	27.0	28.8
Net Fin. Position [Net debt (-) / Cash (+)]	**-19.6**	**-20.0**	**-17.0**	**-13.1**

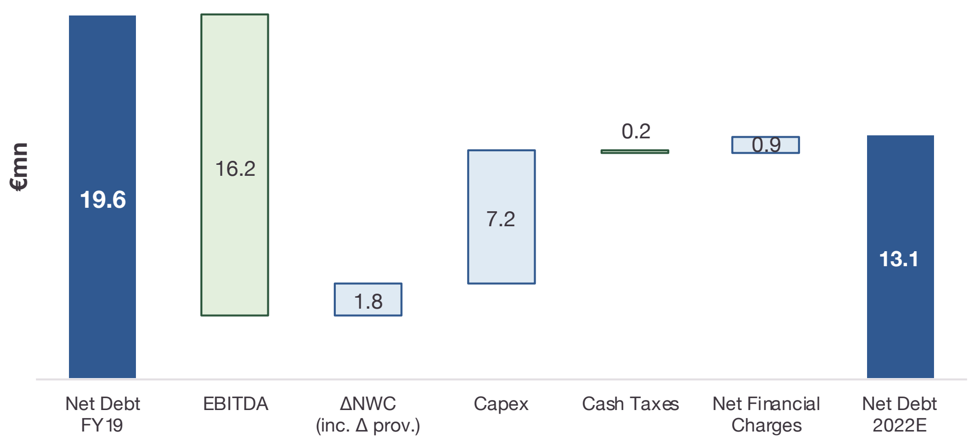
Source: Vimi Fasteners (historical figures), Value Track (2020E-22E estimates)

Vimi Fasteners: Cash flow Statement 2019A-22E

(€mn)	2019A	2020E	2021E	2022E
EBITDA	**4.2**	**3.9**	**5.6**	**6.6**
Op. NWC requirements	2.4	-2.7	0.2	0.4
Capex (excl. Fin. Inv.)	-3.3	-2.0	-2.5	-2.7
Change in provisions	-0.4	0.2	0.0	0.1
Cash Taxes	-2.7	0.5	-0.1	-0.3
OpFCF a.t.	**0.1**	**-0.1**	**3.3**	**4.2**
Other (incl. Fin. Inv. and IFRS16)	-4.6	0.0	0.0	0.0
Net Financial Charges	-0.4	-0.3	-0.3	-0.3
Dividend paid	0.0	0.0	0.0	0.0
Change in Net Fin Position	**-4.9**	**-0.4**	**3.0**	**3.9**

Source: Vimi Fasteners (historical figures), Value Track (2020E-22E estimates)

Vimi Fasteners: Net Debt walk 2019A-22E



Source: Value Track (2020E-22E estimates)

Market price, relative positioning and valuation

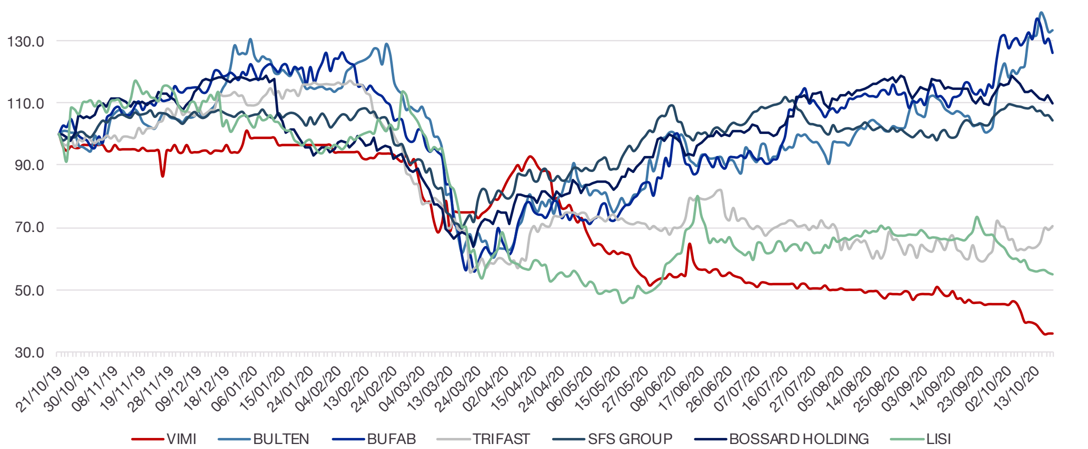
Share price biased by "poor liquidity"

Vimi Fasteners – as well as main players specialized in the engineering, production and trade of high-performance fastening solutions – relies on the automotive sector as its main end market, or on other sectors that are somehow cyclical too (oil&gas, energy, infrastructure, industrial application).

These sectors are for sure among the ones most heavily impacted by the global crisis linked to the Covid-19 outbreak. However, if we look back at 1-year performance of Vimi selected peers, we find at least 4 stocks facing an impressive recovery, following the sudden and sharp drop occurred in March. On the other side, Trifast and Lisi have experienced a poor 1-year performance, with share prices down 30% and 45% respectively, and their currently Market Caps in line with those displayed during the lockdown.

In this "perfect storm", Vimi reported the worst 1-year share performance, underperforming by far the overall sector, and the stock is currently trading well below the price levels seen in the first wave of the pandemic. At current €0.80 share price, i.e. €10.7mn Market Cap, Vimi is trading at 0.7x EV/Sales and 4.9x EV/EBITDA based on 2021E forecasts. Although we reckon that Vimi deserves a certain discount, due to its much smaller size and low level of diversification (vs. broad range players), we believe that current stock price is influenced by the poor liquidity (i.e. free-float turnover at roughly 70% across the latest year).

Vimi Fasteners: Selected peers' 1-year share price evolution (Normalize, base=100)



Source: Value Track Analysis

It's not a matter of expected growth or recovery speed

By looking at the main financial indicators of selected peers we highlight:

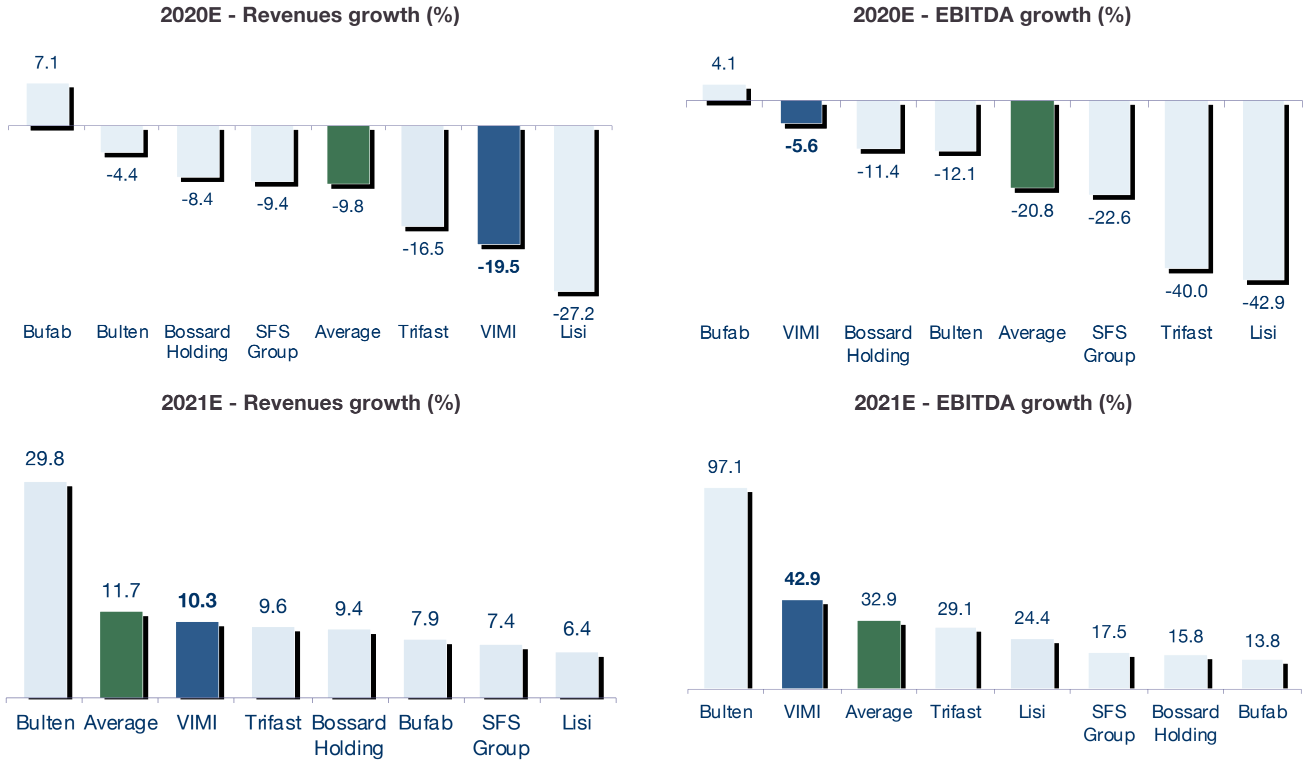
- **Peers' turnover is going to fall in 2020E (as expected),** on average by 10% yoy, with Bulten and Lisi, characterized by a less diversified business (i.e. almost entirely correlated to the auto industry), which are likely to experience the most severe organic decline in 2020E. We reckon that Bulten and Bufab, which are expected to perform better than peers as from charts below, benefit from recent M&A contribution (whereas organic sales decreased by 21% and 15% yoy respectively in 1H2020);

- **Peers profitability is highly related to the global economy downturn**, hence it is expected to decrease, with only Bufab expected to post a positive growth in 2020, mostly due to M&A though;
- **A generalized recovery is likely in 2021E**, with both top line and EBITDA level expected to increase at double-digit rates.

Within this context, we expect Vimi:

- **To face a drop in 2020E sales almost in line with specialty players, albeit** mitigation actions taken by the management, coupled with the operating efficiencies due to the capex plan undertook in 2018-19, would lead to a **moderate mid-single digit decrease at EBITDA** level;
- **To post a recovery in 2021E faster than peers**, with sales likely to get benefits from diversification, particularly in the aerospace and marine sector, as well as in the oil&gas field. Conversely, **automotive** is expected to lose ground, with its weight on total sales gradually decreasing (from 42% in 2019 **to 37% of revenues as of 2021E**, according to our model).

Vimi Fasteners: Key financial figures vs. peers



Source: Value Track Analysis

Fair value at €1.75 (from €2.15)

We assess Vimi fair valuation **focusing on short term valuation based on fair relative EV/Sales and EV/EBITDA multiples.** Hence, assuming a fair 1x EV/Sales multiple of 7x EV/EBITDA (2021E), **we get a fair equity value per share of €1.75**, while DCF model – which incorporates low visibility in the medium and long-term – supports an intrinsic value of €2.0 per share.

Here below, we provide a sensitivity analysis of Vimi Group stock trading multiples assuming a market price ranging between €1.35 and €2.15.

Vimi Fasteners: Sensitivity of implicit stock trading multiples in the €1.35 - €2.15 range

Share price (€)	EV / Sales (x)		EV / EBITDA (x)		P / B (x)		EV / IC (x)	
	2020E	2021E	2020E	2021E	2020E	2021E	2020E	2021E
€1.35	1.0	0.9	9.7	6.2	0.7	0.7	0.8	0.8
€ 1.55	1.1	0.9	10.3	6.7	0.8	0.8	0.9	0.9
€ 1.75	1.2	1.0	11.0	7.2	0.9	0.9	0.9	0.9
€ 2.00	1.2	1.0	11.7	7.7	1.0	1.0	1.0	1.0
€ 2.15	1.3	1.1	12.4	8.1	1.1	1.1	1.1	1.0

Source: Value Track Analysis

Comparing market multiples

In terms of market multiples, the fasteners' segment trades at 2020-21E multiples well above those recorded in April (when we last published on Vimi). We also hint to the following considerations:

- **Earnings momentum remains weak** due to a combination of weak demand in the car industry, high uncertainty and low visibility linked to a possible second wave of Covid-19 outbreak;
- **The diversification policy is proving to be successful**, with positive market stances from aerospace, motorsport and marine; while MF Inox (oil&gas and infrastructure) keeps growing;
- **Chances to finalize M&A deals are extremely limited,** in the light of existing covenants (albeit frozen for the whole 2020) and of the outstanding net debt position;
- **Vimi deserves a certain multiple discount to leading players** due to its much smaller size and weaker financial performance following the recent slowdown in market demand.

Having said that, at current €0.8 market price, Vimi is trading at undemanding valuation: 0.7x EV/Sales and 4.9x EV/EBITDA on 2021E, incorporating a deep discount vs. peers. In fact, our peers' group trades at 1.1x and 8.5x EV/Sales and EV/EBITDA respectively for 2021E.

However, within the group most diversified players (less exposed to car industry) trade on multiples respectively above 1.5x and 10x, while specialty players like Bulten and Lisi (the former with 96% of sales coming from automotive, the latter also exposed to the aerospace, which has not shown a notable uptick since the sudden closure of March) currently trade at average 0.7x EV/Sales and 5.5x EV/EBITDA.

We believe Vimi rating should lay in between the two, on the back of its business mix, and assuming a **fair multiple of 1x EV/Sales and 7x EV/EBITDA** we get to an **indication of €1.75 per share**, implying a material upside from current market value.

Vimi Fasteners: Peers' stock trading multiples

Company	EV/Sales (x)		EV / IC (x)		EV / EBITDA (x)	
	2020E	2021E	2020E	2021E	2020E	2021E
Bulten	0.7	0.6	1.1	1.1	10.3	5.8
Trifast (*)	0.9	0.8	1.3	1.3	10.5	7.9
Bossard Holding	1.5	1.4	2.1	2.0	12.1	10.3
SFS Group	2.0	1.9	2.4	2.3	12.8	10.7
Lisi	0.8	0.8	0.8	0.8	6.8	5.2
BUFAB	1.5	1.3	1.8	1.8	12.8	11.1
Average	**1.2**	**1.1**	**1.6**	**1.5**	**10.9**	**8.5**
Median	**1.2**	**1.1**	**1.6**	**1.6**	**11.3**	**9.1**
Vimi @ €0.80 market price	0.8	0.7	0.7	0.6	7.8	4.9
Discount % vs. avg.	*-34%*	*-40%*	*-59%*	*-59%*	*-28%*	*-42%*
Discount % vs. med.	*-30%*	*-37%*	*-58%*	*-60%*	*-31%*	*-46%*

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.

Thus, assuming financial statements projection starting from 2021E to 2029E and terminal value at 2030YE obtained applying a 1% Perpetuity Growth Rate (PGR), we get a €2.0 equity value per share, (down vs. €2.3 of April'20), which incorporates the lower visibility on long-term profitability and a slower recovery to pre-Covid level for the car industry.

Vimi Fasteners: DCF model

€mn	
PV of future cash flows 2021E-2029E	23.9
PV of Terminal value @ 2030E	22.6
Fair Enterprise value	**46.5**
Net Fin. Position 2020E year-end	-20.0
Fair Equity value	**26.5**
Fair Equity value per share (€)	**2.00**

Source: Value Track Analysis

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

		Perpetuity Growth Rate				
		0.00%	0.50%	1.00%	1.50%	2.00%
WACC	10.2%	1.96	2.06	2.16	2.28	2.41
	10.4%	1.89	1.98	2.07	2.18	2.30
	10.6%	1.81	1.90	**2.00**	2.09	2.21
	10.8%	1.74	1.82	1.91	2.01	2.11
	11.0%	1.68	1.75	1.83	1.93	2.03

Source: Value Track Analysis

Break up analysis

As a safety crosscheck, we run a break-up analysis to assess the relative valuation of Vimi business units, which from an operating point of view differ as follows:

- **Vimi business unit** (based in Novellara) involved in the engineering and manufacturing of high temperature and high resistance fasteners applied in the most demanding powertrains, and thus particularly exposed to auto and industrial end-markets, and for a residual stake to motorsport and aerospace;
- **MF Inox**, a Como based manufacturer of nickel alloy and stainless fasteners (corrosion resistant and suitable for high and low temperature applications), which is supported by a business model based on high level of service (quick deliveries), and a sound profitability (EBITDA Margin at 47% on average in 2017-19 period). It was acquired back in 2018, for 100% equity value of €17.0mn (given by a purchase price of €12.0mn – based on a cash position of €2.1mn – and a maximum earnout of €5.0mn to be paid as of 2022), corresponding to ca. 2.3x EV/Sales and 4.8x EV/EBITDA FY0.

As reported in the table below, and based on our revenues model, the contribution of MF Inox is roughly 13-19% (average) on Sales in the 2018A-21E period, while it is significantly higher at EBITDA level (i.e. the EBITDA Margin of MF Inox is expected to be close to 40% in 2020E-21E, slightly below the level recorded in the past years).

Vimi Fasteners: key financials by business unit (*)

€mn	2018A	2019A	2020E	2021E
Group Revenues from Sales	**51.1**	**46.3**	**37.3**	**41.1**
YoY change (%)		***-9.4%***	***-19.5%***	***10.3%***
o/w Vimi	44.5	38.5	30.0	33.5
YoY change (%)		*-13.5%*	*-22.0%*	*11.5%*
MF Inox	6.6	7.8	7.2	7.6
YoY change (%)		*18.4%*	*-7.4%*	*5.4%*
Group EBITDA	**5.8**	**4.2**	**3.9**	**5.6**
YoY change (%)		***-28.5%***	***-5.6%***	***42.9%***
o/w Vimi	2.8	0.6	1.1	2.6
YoY change (%)		*-80.0%*	*100.1%*	*131.5%*
MF Inox	3.0	3.6	2.8	3.0
Group EBITDA Margin	***11.4%***	***9.0%***	***10.5%***	***13.7%***
o/w Vimi	*6.3%*	*1.5%*	*3.8%*	*7.8%*
MF Inox	*45.5%*	*46.2%*	*38.8%*	*39.4%*
EV / Sales (Group) (**)	*1.1x*	*1.1x*	*0.8x*	*0.7x*
EV / EBITDA (Group) (**)	*9.8x*	*12.3x*	*7.8x*	*4.9x*

Source: Value Track Analysis *(*) Value Track estimates and calculations*

(**) based on average market price in FY18 and FY19 and on €0.8 per share in FY20E and FY21E

Deducting from Group's EV (at current market price) the value of MF Inox based on acquisition multiples applied to its 2019A financials, returns a valuation of €10.0mn for Vimi stub, which implies relatively undemanding 2021E multiples of 0.3x EV/Sales and 3.8x EV/EBITDA.

The same exercise based on our €1.75 fair stock value gives implied multiples of 0.7x EV/Sales and 8.7x EV/EBITDA (2021E).

We note that on average Vimi Group has been trading at 1.1x EV/Sales and ca. 11x EV/EBITDA (based on average prices since its listing) in the pre-pandemic period, as reported above.

Vimi Fasteners: break up valuation

€mn	@ €0.80 market price	@ €1.75 fair-value
Market Cap (a)	€10.7	€24.0
Net Debt 2021YE (incl. earnout) (b)	€17.0	€17.0
Enterprise value (c)=(a+b)	**€27.7**	**€41.0**
o/w MF Inox (d)	€17.7	€17.7
Implicit EV Vimi stub (c-d)	**€10.0**	**€23.7**
Implicit EV/Sales 21E	*0.3x*	*0.7x*
Implicit EV/EBITDA 21E	*3.8x*	*8.7x*

Source: Value Track Analysis

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