

Costamp

Sector: Metal machinery



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Weathering the perfect storm

Costamp Group is specialized in the engineering, production and trade of dies and molds for automotive components manufacturing.

FY19: financial performance in line with expectations

FY19 financial figures are aligned to our estimates for Costamp's top line, higher at EBITDA level and marginally lower for cash generation and are a useful proof of Costamp's ability to rebound from a disappointing 2H18. Costamp's VoP came in at €58.3mn, basically flat YoY (+0.5%), Adj. EBITDA margin increased by 730 bps YoY from 2.7% to 10.0%, and net income rebounded to positive territory, standing at €0.9mn. Net Debt increased to €29.1mn partly due to IFR16 and partly due to working capital.

Costamp remains proactive despite macro outlook

Expectations are that the car market will deeply suffer in 2020E as a result of Covid-19 virus outbreak. However, we do not expect this to affect Costamp as it is not exposed on current car volumes business. Indeed, Costamp is a developer and engineer of dies and molds that should be utilized to manufacture new car models one to three years from now. Technological leadership and innovation are, thus, the key competitive advantages to be exploited and strengthened in order to surf these volatile times, so we expect the group to keep pursuing growth strategies revolving around innovation, efficiency enhancement and expansion.

Turnaround completed. 2020E P&L forecasts slightly up

Costamp is reaping the benefit of its technological leadership and of the recently finalized turnaround of Modelleria Brambilla. These two factors are driving an increase in orders intake that allow us to confirm our 2020E-21E Revenues estimates while slightly improving profitability ones. Thus, we expect 2020E revenues up 7% YoY to €62.5mn, EBITDA up to €7.5mn (margin at 12%), Net profit to be around €2mn threshold. On the contrary, on the Balance Sheet side delays in payments from clients could lead to working capital absorption and to Net Financial Debt growing at €32mn.

Valuation

Costamp share price is affected by high volatility, as result of a low free float that implies low traded volumes.

Based on our updated estimates, Costamp shares are currently trading at 1.9x-1.7x EV/Sales and 15.5x-12.2x EV/EBITDA respectively on 2020E-21E.

Market Price (€) **2.06**

Market Cap. (€m) **87.8**

KEY FINANCIALS (€m)	2019A	2020E	2021E
REVENUES	58.3	62.5	67.0
EBITDA	5.7	7.5	9.1
EBIT	2.1	4.0	5.6
NET PROFIT ADJ.	0.9	2.2	3.3
EQUITY	23.6	25.8	29.0
NET FIN. POS.	-29.1	-31.0	-25.4
EPS ADJ. (€)	0.02	0.05	0.08
DPS (€)	0.00	0.00	0.00

Source: Company (historical pro-forma figures)
Value Track (2020E-21E estimates)

RATIOS & MULTIPLES	2019A	2020E	2021E
EBITDA MARGIN (%)	9.7%	12.0%	13.5%
EBIT MARGIN (%)	3.5%	6.4%	8.3%
NET DEBT / EBITDA (x)	5.1	4.1	2.8
NET DEBT / EQUITY (x)	123%	120%	88%
EV/EBITDA (x)	20.2	15.5	12.2
EV/EBIT (x)	55.6	29.1	19.9
P/E ADJ. (x)	92.9	39.5	26.1
DIV YIELD (%)	0.0	0.0	0.0

Source: Company (historical pro-forma figures)
Value Track (2020E-21E estimates)

STOCK DATA

MARKET PRICE (€)	2.06
SHS. OUT. (m)	42.6
MARKET CAP. (€m)	87.8
FREE FLOAT (%)	8.9
AVG. -20D VOL. (# shs)	2,220
RIC / BBG	MOLD.MI / MOLD IM
52 WK RANGE	1.60-2.60

Source: Stock Market Data

THIS EQUITY RESEARCH IS PRODUCED ON BEHALF OF INVEST BANCA S.P.A. THAT IS ACTING AS SPECIALIST ON COSTAMP GROUP SHARES

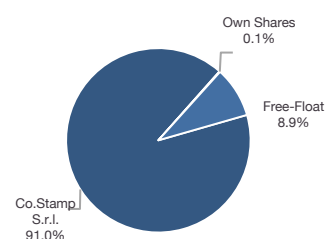


Business Description

Costamp group (MOLD IM / MOLD MI) designs, manufactures and commercialises die-casting molds for automotive components for high pressure (HPDC) and gravity low pressure (LPDC) processes.

The group is one of the very few players worldwide boasting a complete offer in terms of casting processes and products, offering to its clients a 360° service ranging from engineering & design to post sales assistance with timely and successful delivery of molds / dies of a superior quality.

Shareholders structure



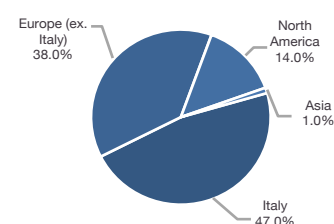
Source: Costamp

Key Financials

€mn	2018A	2019A	2020E	2021E
Net Revenues	58.0	58.3	62.5	67.0
Chg. % YoY	-1.6%	0.5%	7.1%	7.2%
EBITDA	1.6	5.7	7.5	9.1
EBITDA Margin (% of Net Revenues)	2.7%	9.7%	12.0%	13.5%
EBIT	-1.7	2.1	4.0	5.6
EBIT Margin (% of Net Revenues)	<0	3.6%	6.4%	8.3%
Net Profit	-1.7	0.9	2.2	3.3
Chg. % YoY	nm	nm	nm	51.7%
Adjusted Net Profit	-1.7	0.9	2.2	3.3
Chg. % YoY	nm	nm	nm	51.7%
Net Fin. Debt	21.8	29.1	-31.0	-25.4
Net Fin. Debt / EBITDA (x)	>10	5.1	4.1	2.8
Capex	-4.7	-3.2	-1.5	-0.5
OpFCF b.t.	6.9	-2.7	-0.1	7.9
OpFCF b.t. as % of EBITDA	nm	<0	<0	86.8%

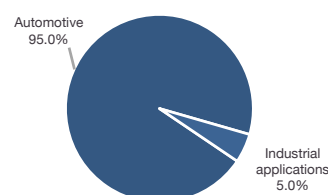
Source: Costamp (historical figures), Value Track (estimates)

Sales breakdown by geography



Source: Costamp

Sales breakdown by end market



Source: Costamp

Investment case

Strengths / Opportunities

- ◆ Completeness of product/service range and cross selling opportunities;
- ◆ Aluminum and EV cars / more restrictive CO₂ policies emission.

Weaknesses / Risks

- ◆ Customer concentration;
- ◆ Exposure to exogenous factors, e.g. diesel-gate or trade tariffs.

Costamp FY19 financial performance

Costamp Group IAS / IFRS based 2019 financial figures are in line with our estimates as far as the top line evolution is concerned, while a bit higher on operating profitability and a bit short on cash generation. Overall, we believe that these figures demonstrate Costamp's ability to rebound from a precarious 2H18, which was induced primarily by negative macro trends, and to successfully profit from MBR integration.

We underline that we compare actual FY19 figures with FY18 pro-forma ones that were taking into account Modelleria Brambilla business combination as if it was valid as of January 2018.

More in details:

- ◆ **Value of Production up +0.5% YoY** to €58.3mn;
- ◆ **EBITDA more than tripled** to €5.7mn, **EBITDA Adjusted at ca. €6.0mn**;
- ◆ EBITDA margin at 9.7%, **Adj. EBITDA margin at 10%, up +730bps YoY**;
- ◆ **Net Profit in positive territory**, standing at €0.9mn;
- ◆ **Net Debt higher at €29.1mn**, from €21.8mn as of 2018 year-end, i.e. a €7.3mn increase out of which €2.6mn relates to IFRS16 first time adoption effect.

Costamp Group: Key financials FY18PF and FY19

(€mn)	FY18PF	FY19	Chg. % YoY
Value of Production	58.0	58.3	0.5%
EBITDA	1.6	5.7	n.m.
EBITDA Margin (as % of VoP)	2.7%	9.7%	+700bps
EBITDA Adjusted	1.6	6.0	n.m.
Adj. EBITDA Margin (as % of VoP)	2.7%	10.0%	+730bps
EBIT	-1.7	2.1	n.m.
EBIT Margin (as % of VoP)	-2.9%	3.5%	+660bps
Net Profit	-1.7	0.9	n.m.
Net Financial Debt	21.8	29.1	n.m.

Source: Company figures, Value Track Analysis

Key messages of FY2019 figures

In our view, key messages of FY19 figures are the following:

- 1. Top line has gained back in 2H** what it lost in 1H19;
- 2. Higher profitability** as Modelleria Brambilla integration plan has been positively finalized;
- 3. Higher Net Debt** due to IFRS16 and to the necessity to extend clients' payment terms.

1. Top line has gained back in 2H what it lost in 1H19

As expected, **2019FY has had an opposite trend compared to 2018**. Indeed, while in 2018 we witnessed a gradual deterioration of trading conditions, and hence a 2H much weaker than 1H, on the contrary in 2019 2H was much stronger YoY (Revenues up +11% YoY in 2H), and substantially stable HoH, as revenues vary minimally from 1H19 figures. FY19 Revenues could have been even higher but final shipment of a couple of orders has been postponed to January 2020.

Indeed, despite weak global car registration market (FY19 global car sales volumes -4.4% YoY), Costamp was able to post a modest but above average VoP growth of 0.5%.

For the sake of clarity, we remind, however, that in 1H19 Group Revenues were down YoY not only due to the weak reference market but also due to a choice to refuse not profitable orders.

As far as Revenues breakdown is concerned, we don't have all details yet but we calculate that HPDC and LPDC should be lower YoY due to the aforementioned orders postponement while being offset by a double digit growth in Plastic business.

Costamp Group: Revenues evolution HoH

(€mn)	1H17	2H17	1H18	2H18	1H19	2H19
Value of Production	26.3	32.7	31.4	26.6	28.7	29.6
YoY change (%)	--	--	19.7%	-18.7%	-8%	11.2%

Source: Company figures, Value Track Analysis

Costamp Group: FY2018PF and FY2019 Value of Production breakdown

(€mn)	FY18PF	FY19	Chg. % YoY
Revenues from sales and services	55.62	56.67	1.9%
Other Revenues	2.42	1.68	-30%
Value of Production	58.0	58.35	0.5%

Source: Company figures, Value Track Analysis

2. Greater profitability as MBR integration plan has been positively finalized

FY19 EBITDA stood at €5.7mn, with a 9.7% margin vs. 2.7% as of FY18PF that was affected by late-year market deceleration / work-in-progress write-off and one-off write-downs of receivables linked to LPDC division. This increase is a positive sign, especially in light of the stable YoY revenues, and a demonstration of the priority Costamp gives to profitability, as seen by the actions taken in 1H19.

We calculate that net of some nonrecurring costs (we estimate some €0.3mn capital losses on disposed assets), **Adjusted EBITDA** would have been ca. **€6.0mn** with an **EBITDA margin at 10%, up +730bps YoY**.

Moreover, **EBIT bounced back to positive territory**, standing at €2.1mn with a 3.5% EBIT margin, a result which is due to relatively stable D&A charges YoY mixed with higher overall profitability.

Despite sound EBITDA and EBIT values, bottom line profitability was affected by higher YoY net interest expenses (20 basis point increase as a percent of annual revenue) and tax charges.

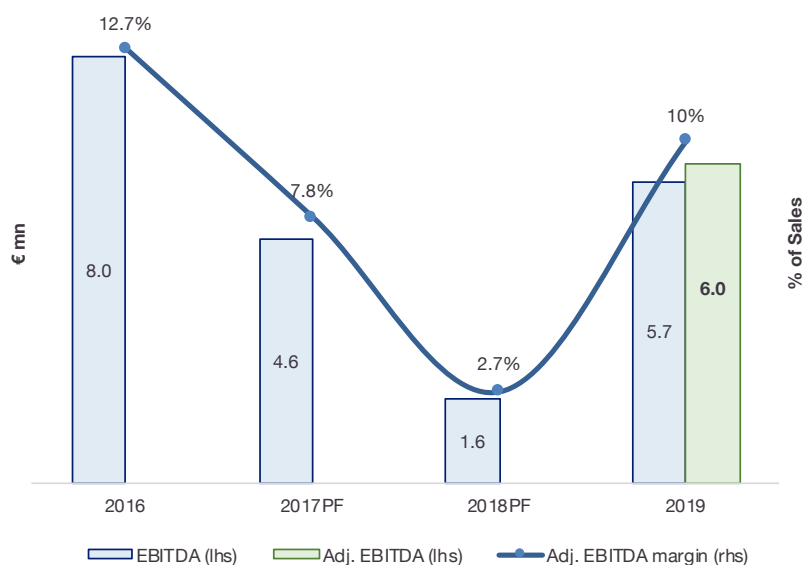
This led Costamp to record a FY19 Net Profit of €0.9mn, which still remains a clear step ahead in comparison to the €1.7mn net loss experienced in FY18.

Costamp Group: Reported EBITDA-EBIT-Net Profit evolution by semester

(€mn)	1H17	2H17	1H18	2H18	1H19	2H19
EBITDA	1.9	2.7	2.8	-1.2	3.0	2.7
EBIT	0.7	1.0	1.6	-3.3	1.2	0.9
Net Profit	0.1	0.2	0.8	-2.5	0.6	0.3

Source: Company figures, Value Track Analysis

Operating profitability evolution: FY16PF to FY19



Source: Costamp Group, Value Track Analysis

3. Higher Net Debt due to IFRS16 and to the necessity to extend clients' payment terms

Reported Net Debt stood at €29.1mn as of 2019 year-end, up from the €21.8mn as of 2018 year-end, but excluding ca. €2.6mn impact of IFRS16 first time accounting the Adjusted Net Debt was ca. €26.5mn. Gearing ratio (measured as Net Financial Debt / Net Equity) remains in excess of 100%.

Costamp Group: FY19 Balance Sheet

€ mn	FY18	FY19
Net Fixed assets	49.3	52.0
Net Working Capital	0.4	5.4
Severance pay and funds	4.9	4.7
Total Capital Employed	44.8	52.7
Group Net Equity	23.0	23.6
Net Fin. Position [Net debt (-) / Cash (+)]	-21.8	-29.1
Net Fin. Position ex IFRS16	-21.8	-26.5

Source: Costamp Group, Value Track Analysis

As we said, out of the €7.3mn Net Debt increase 2019 vs. 2018 year-end, a part was due to IFRS 16 while ca. €3.2mn is related to tangible and intangible capex (at least 75% development one due not to repeat in the next few years) and ca. €5.0mn is due to Working Capital absorption, as **Costamp held even longer than usual credit terms to clients** (historically high since clients are industries, like

automotive, with long payment periods, among two and six months), partially due to a few big clients postponing their payments to the first week of January 2020.

Costamp Group: FY19 Cash Flow Statement

€ mn	FY18	FY19
EBITDA	1.6	5.7
Op. WC requirements	9.0	-5.0
Capex	-4.7	-3.2
Cash Taxes	0.0	-0.2
Net Financial Charges	-0.7	-0.9
Other (incl. Fin. Inv.)	-1.1	-3.5 (*)
Change in Net Fin Position	5.1	-7.3

Source: Costamp Group, Value Track

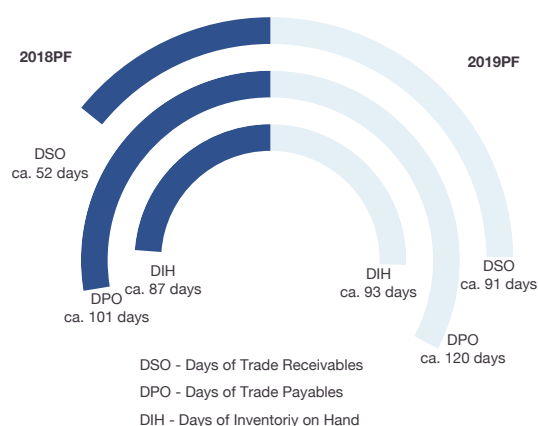
(*) IFRS accounting for €2.6mn

More in detail, as far as **Working Capital** is concerned:

- ◆ Inventory on hand stood at ca. 93 days as of 2019 year-end, ca. 6 days higher YoY;
- ◆ Days of Trade Receivables stood at ca. 91 days, up by roughly 80% YoY;
- ◆ Days of Trade Payables stood at ca. 120 days as of 2019 year-end, ca. 19 days higher YoY.

Two graphs all page

Cash conversion cycle FY18 and FY19



Working Capital bridge FY18 and FY19



Source: Costamp Group, Value Track analysis

Highly volatile reference market

Expectations are that the car market will deeply suffer in 2020E as a result of Covid-19 virus outbreak. However, we do not expect this to affect Costamp as it is not exposed on current car volumes business. Indeed, Costamp is a developer and engineer of dies and molds that should be utilized to manufacture new car models one to three years from now. That said, the outlook of the end market is necessary to be looked at, especially in the current volatile times.

Short term outlook of the reference market is negative

2019 was the second year in the row with decreasing light vehicles sales volumes and 2020 is very likely to be the third consecutive one.

Car sales down at mid-single digit rate in 2019

In 2019 the auto industry has been negatively hit by a multitude of factors, such as weakening macro scenario, endless trade war negotiations, Brexit uncertainties, USMCA deal, and new EU rules for car emission and consumption.

In this scenario, **only Western Europe managed to improve its car sales volumes YoY**, (+0.8%) driven by a sharp recovery in 4Q, with all five major economies recording buoyant results, but also benefitting from an easier YoY comparison. On the other hand, all remaining markets witnessed sector contractions for the second consecutive year, dropping to below pre-2016 total sales levels.

- ◆ Having sold ca. 17mn units for the year, the **US** recorded FY19 results that were roughly in line with sector analysts' expectations, thus corresponding to a **slightly declining market**;
- ◆ **Chinese light vehicle sales** were down -8.4% YoY penalized by the aggressive 1H19 destocking activity taken by dealers prior to the launch of vehicles compliant with State VI emissions standards.

Worldwide Light Vehicle Sales in FY18 and FY19 (units, mn)

Region	FY18	FY19
USA	17.3	17.0
Western Europe	16.2	16.3
Eastern Europe	4.2	4.1
China	27.7	25.4
World	94.5	90.3

Source: Value Track processing of LMC Automotive and Marketline data

Worldwide Light Vehicle Sales in FY19 (YoY % chg.)

Region	1Q19	2Q19	3Q19	4Q19	FY19
USA	-2.7%	-1.5%	0.8%	-2.4%	-1.4%
Western Europe	-3.1%	-3.1%	2.0%	9.0%	0.8%
Eastern Europe	-6.7%	-7.7%	-1.6%	6.9%	-2.2%
China	-12.6%	-13.1%	-6.3%	-3.1%	-8.4%
World	-6.4%	-6.8%	-2.7%	-1.6%	-4.4%

Source: Value Track processing of LMC Automotive and Marketline data

Coronavirus drives uncertainty on 2020 and worsen the outlook

Despite 2H19 market trends hinting to what could have been a recovery in the first months of 2020, the global economy is now facing the unexpected and disruptive challenge of COVID-19 (**Coronavirus**) spread in all major global markets, and poised to severely affect the automotive industry. This especially hold true for China, the world's biggest car market and also the epicentre of the virus outbreak in 4Q19-1Q20. Indeed, according to LMC Automotive:

- ◆ Light vehicle sales fell by 10% globally YoY in January and by 21% YoY in February 2020;
- ◆ Light vehicle sales in China dropped by 20% YoY in January and by 81% YoY in February 2020;

Worldwide Light Vehicle Sales in 2020 YTD (YoY % chg.)

Region	Jan '20	Feb'20	YTD
North America	-0.3%	6.8%	3.5%
Europe	-5.2%	-3.9%	-4.6%
Japan & Korea	-12.6%	-12.0%	-12.3%
China	-20.7%	-80.7%	-43.6%
Brazil / Argentina	-9.0%	-4.2%	-6.7%
RoW	-6.5%	-7.7%	-7.1%
World	-10.4%	-20.6%	-15.2%





Source: Value Track processing of LMC Automotive and Marketline data

Global picture for the automotive industry has thus turned increasingly uncertain with sector experts continuously updating their forecasts on the downside and now forecasting the global car sales market to decline for the third year in a row. S&P Global for example, is now forecasting **2020E global light vehicle sales to decline by some 15% YoY to less than 80mn units** vs. 90.3mn in 2019. While China appears to start recovering from the coronavirus outbreak, Europe and US are now in the most critical phase, with market demand to sharply decline mostly in 2Q.

That's why, also according to other industry experts (HIS and global banks), in this regard we believe:

- ◆ Chinese market to be down by -10% YoY, with some gradual recovery in 2H;
- ◆ European and US markets to face a more severe decline, in the 15%-20% YoY region;
- ◆ Rest of the world as well should be down YoY with possible selected sweet spots such as Brazil, Russia and Turkey outperforming.

2020E Automotive Outlook

Region	Trend	Overview
Europe (ex. Russia and Turkey)		Volume demand expected to decrease in 2020E at double-digit pace YoY, driven by Germany and UK slowdowns
Russia & Turkey		Market featured by a flat to falling demand
North America		Fall in market demand similar to the European one (-15-20%)
China		Market demand seen decreasing at high single digit rate

Source: Value Track Analysis

What we said so far in terms of car sales volumes obviously holds true also for **car production volumes**, both at global and regional level.

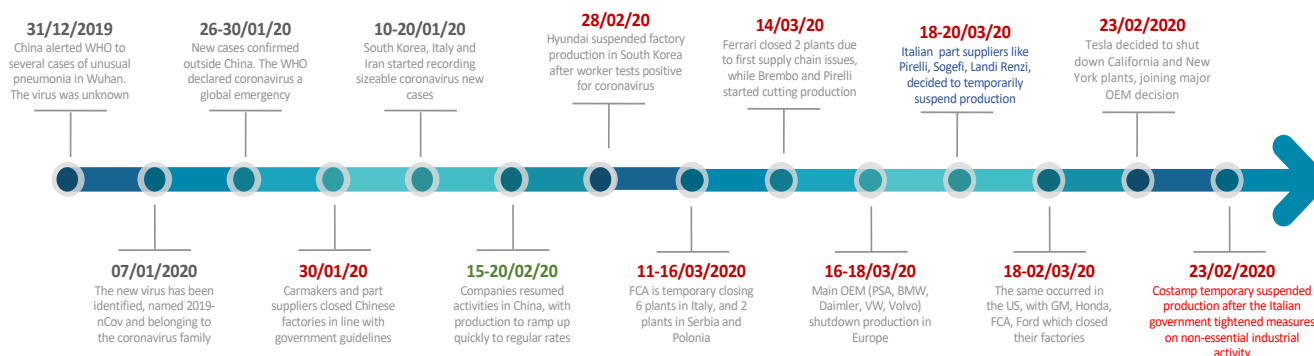
Indeed, sector analysts expect a **-10.8% decrease YoY in 1Q20E** (Europe -6.1% YoY), **while full year forecasts now range from -8.0% to a double-digit YoY decrease** depending on how the whole supply chain will be impacted in the next few months.

As far as this latter point is concerned, we note that several OEMs worldwide have temporarily stopped production starting as of March and, in Italy, also car component makers have been obliged (see the DPCM approved as of 22 March 2020) to halt their operations.

As a consequence, many Costamp Group comparables have revised downwards their guidance.

- ◆ **Nemak** is expecting downward spiraling 2020E revenues, having targeted a 5% YoY decrease mainly driven by: 1) reduction of export to China, 2) softer trading conditions globally, and 3) change in regions mix. Coronavirus effect has not been taken into account yet;
- ◆ **Georg Fischer** has reiterated its medium term 3-5% target growth rate, but at the same time has stated that coronavirus will have, for sure, both operational and financial implications for them.
- ◆ **American Axle** stated that at the midpoint of its 2020 sales target, they have included an estimated impact of lower production in China due to the coronavirus outbreak of approximately \$25mn, but they warned that if the impact of this virus begins to impact production in other regions of the world, it could have a greater impact on AAM, just like others.
- ◆ **Park Ohio Holdings** stated that is prudent to temporarily forgo providing 2020 EPS guidance due to the coronavirus outbreak and its uncertain impact on POH global operations and customer supply chains.

COVID-19 is shutting car plant in Europe just as factories in China reopen



Source: ValueTrack Analysis

Medium / long term growth potential still there

The medium to long term impact of technological and market evolution should drive extremely interesting growth opportunities for Costamp Group, the most relevant being the transition to Electric Vehicles and the higher utilisation of aluminium.

EV transition. Gradually taking place even if large-scale adoption is distant

Costamp is due to profit from Electric Vehicles transition as this will lead OEMs to heavily invest in the renewal of their product range.

As far as this point is concerned, we note that the percentage of fully electric vehicles sold globally is still extremely low, i.e. ca. 2.5% in 2019, therefore it is clear that the shift towards electrification is not occurring at the speed governments and car manufacturers desire.

However, numbers are rising year by year. Indeed, for what concerns the EU, the market by light vehicle type, as percentage of new car registrations in 2019, is split as follows:

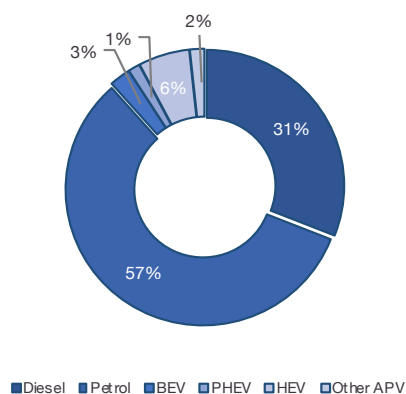
- ◆ Diesel: 31% (vs. 36% in FY18);
- ◆ Petrol: 57%
- ◆ Alternatively powered vehicles (APV): 12%.

During 2019, demand for alternatively powered vehicles (APV) grew significantly (+43% YoY), witnessing a particularly strong acceleration over 4Q19 (+66% YoY).

Electrically chargeable vehicles (ECV) represent the main driver of this growth, with battery electric vehicles (BEV) and plug-in hybrids vehicles (PHEV) posting remarkable growth rates (+76% and +86% respectively over 4Q19).

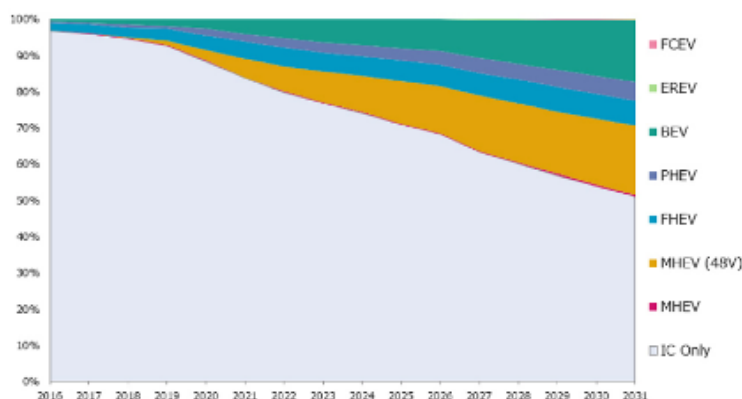
As indication of the incidence of EVs on markets, the current EU car industry composition and the trend of the expected global market share up until 2031 are hereby represented.

New car registration by fuel type in the EU



Source: Value Track processing of ACEA data

2016A-2031E: Global light vehicle sales by powertrain typology



Source: LMC Automotive (February 2020)

Aluminium opportunity. Market expected to grow slowly but steadily

Costamp is specialized in the manufacturing of moulds and dies aimed at the production of what are primarily aluminium based car parts. On top of this, Costamp generates nearly 90% of its revenue in Europe.

Therefore, in order to assess Costamp's future market-driven outlook, a 360-degree analysis of the EU aluminium market is well deserved.

Demand drivers of aluminium based car parts

We remind that the use of aluminium in vehicles is strongly correlated with the market demand for EVs, but even more so to the pollution/emission regulations adopted by national and supranational authorities.

Aluminium, with its lightweight nature, makes vehicles more energy efficient, thus facilitating ICE car manufacturers in matching more stringent EU CO₂ emission targets per vehicle that will come into place as years go by without undermining product quality.

Furthermore, as lighter vehicles consume less energy (or battery power in this specific case), they can thus travel for longer. The ultimate result is a higher-quality product.

For the above-mentioned reasons, **industry experts forecast a ca. 10% increase in average aluminium utilisation (in kg terms, per car produced) within the next five years.**

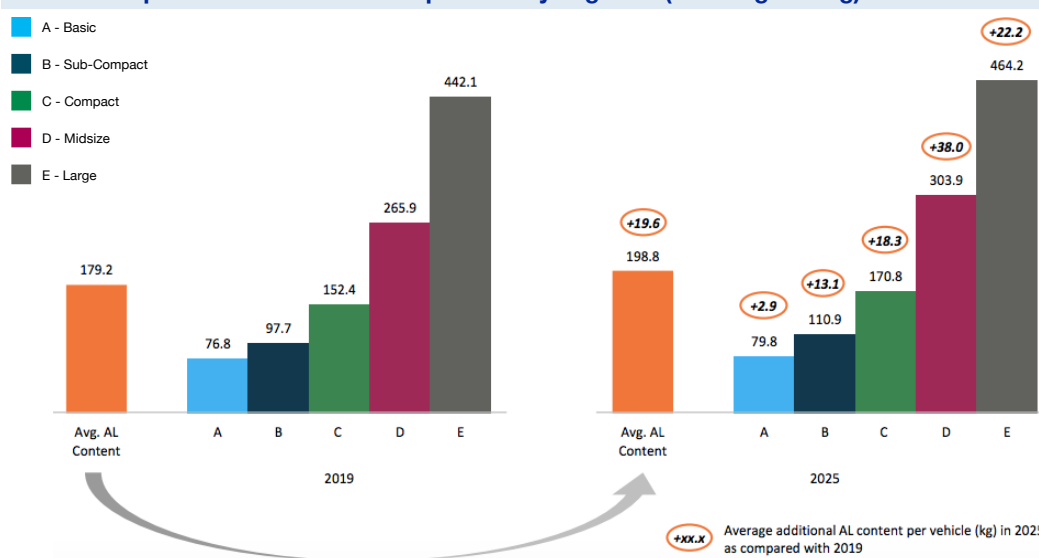
Not surprisingly, the degree of growth is directly proportional to the average weight of the segment, with:

- ◆ Midsize segment witnessing the greatest increase, i.e. +38% vs 2019 level;
- ◆ Large segment incorporating by far the highest aluminium weight per vehicle both in 2019 and 2025 (442kg and 464kg, respectively).

Last but not least, by looking at Costamp's current client base, Maserati and BMW definitely stand out as important aluminium adopters (net weights of 378kg and 294kg per vehicle, respectively), while Nissan, Volkswagen, Skoda, Renault and Dacia fall below the market average of 179kg.

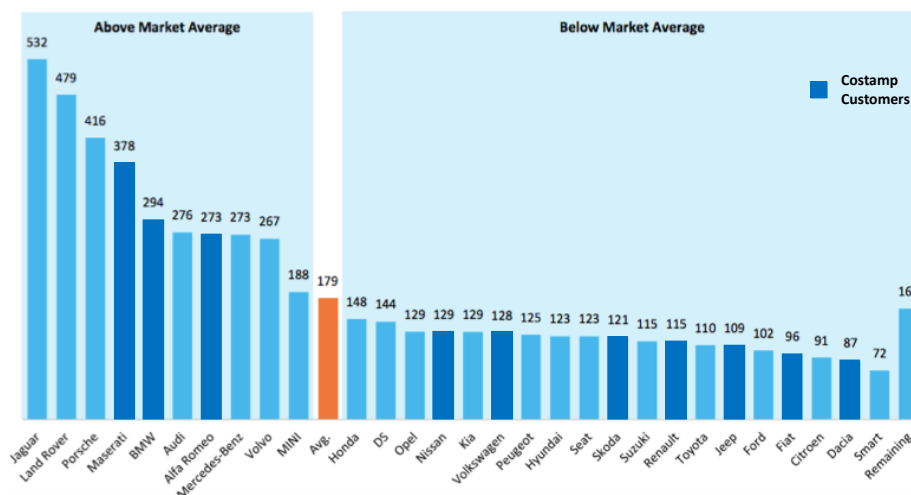
FCA offers contrasting results among its different brands: Maserati and Alfa Romeo are frequent users of aluminium within their product assemblance, while Jeep and Fiat only incorporate 109kg and 96kg per car, respectively.






Aluminium presence within car composition by segment (net weight in kg)



Source: DuckerFrontier (commissioned by European Aluminium)

Aluminium content per vehicle brand in the EU (2019)



A - Basic	B - Sub-Compact	C - Compact	D - Midsize	E - Large
Opel Adam	Audi Q2	BMW i3	Jaguar I-Pace	Audi e-tron
				
2019 Production: ~27K units Total AL Content 2019: 2.6 KT Avg. AL Content 2019: 110kg	2019 Production: ~82K units Total AL Content 2019: 12.5 KT Avg. AL Content 2019: 164kg	2019 Production: ~40K units Total AL Content 2019: 14.5 KT Avg. AL Content 2019: 367kg	2019 Production: ~21K units Total AL Content 2019: 15.0 KT Avg. AL Content 2019: 704kg	2019 Production: ~29K units Total AL Content 2019: 22.8 KT Avg. AL Content 2019: 804kg





Source: DuckerFrontier (commissioned by European Aluminium)

As reported by Ducker Frontier, aluminium derived from casting processes represented 65% of all the aluminium content in EU cars in 2019, a weight due to decrease to 59% by 2025 in favour of extrusion and sheet components, which should benefit from the increasing popularity of EVs.

It is worthy to note that for what strictly pertains to Costamp, **cast components will continue to be the primary car parts derived from aluminium**. However, Costamp has recently decided to enter the LPF business, and will thus start producing dies for forged car parts as well.

In this regard, **the outlook for forged components is deemed stable**: aluminium forges are expected to rise from 10.2kg per vehicle in 2019 to 10.7kg in 2025, resulting however in a slightly smaller weight on the total aluminium vehicle incidence (5.7% in 2019 to 5.4% in 2025).

Aluminium content in EU cars: 2019 vs 2025E, by type

2019			2025		
		Average Al Content Per Vehicle			Average Al Content Per Vehicle
		179.2 kg			198.8 kg
	Cast	116.0 kg		Cast	118.1 kg
	Sheet	34.0 kg		Sheet	43.2 kg
	Extrusions*	19.0 kg		Extrusions*	26.7 kg
	Forged	10.2 kg		Forged	10.7 kg

Source: DuckerFrontier (commissioned by European Aluminium)

*Extrusions exclude forging stocks

Costamp's 2020E onwards growth strategies

Within the highly volatile scenario we have so far described, Costamp is maintaining a growth-oriented approach, i.e. it is pursuing a few well-defined strategic guidelines almost always based on continuous innovation of products and processes.

A precise set of strategies to keep growing, once Covid-19 is solved

We expect Costamp Group to keep pursuing a well-defined growth strategy based on:

- ◆ Exploitation of **intragroup cross-selling opportunities**, i.e. Modelleria Brambilla's LPDC products and "old" Costamp's network of clients;
- ◆ Adoption of a "make or buy" production process, which means **outsourcing low-added-value processes** in favour of greater focus on the ones which are paramount to company performance;
- ◆ Closer and closer **partnership with OEMs and Tier 1 players**, in order to collaborate on precise innovative projects without the participation of direct competitors;
- ◆ **International M&A driven expansion**, with the goal to acquire a strong presence in the areas where OEMs and Tier 1 current and prospective clients operate, namely: USA, Germany and Mexico today, and China and India tomorrow;
- ◆ **Continuous innovation of products and processes**, thanks to an outstanding and successful R&D effort (see below for further details).

Continuous innovation of products and processes

Costamp is definitively working hard to keep innovating its production processes and diversifying its products portfolio. Some of the most promising development projects under finalization and poised to start generating revenues soon are:

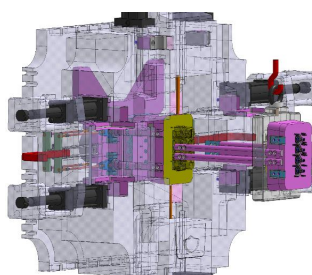
- ◆ "Puzzle Die" technology;
- ◆ Cavity insert fast change tooling design;
- ◆ Low Pressure Forging (LPF);
- ◆ Cement-based foundry cores;
- ◆ Production of components for luxury car vehicles.

It is also worthy to note that Costamp has recently finalised the installation of a new moulding machine for the die closure trial, one of the biggest in the sector.

1. Puzzle Die Technology



2. Cavity Insert Change



3. LPF Technology Results



Source: Costamp Group

“Puzzle Die” technology

“Puzzle Die” configuration is an innovative tooling layout which favours thermal-mechanic stress dissipation on dies, thus causing the latter to require very little maintenance throughout their use.

Through this technique, **Costamp is able to produce a stamp puzzle whose useful lifetime is twice as long as the average for dies coming from competitors.**

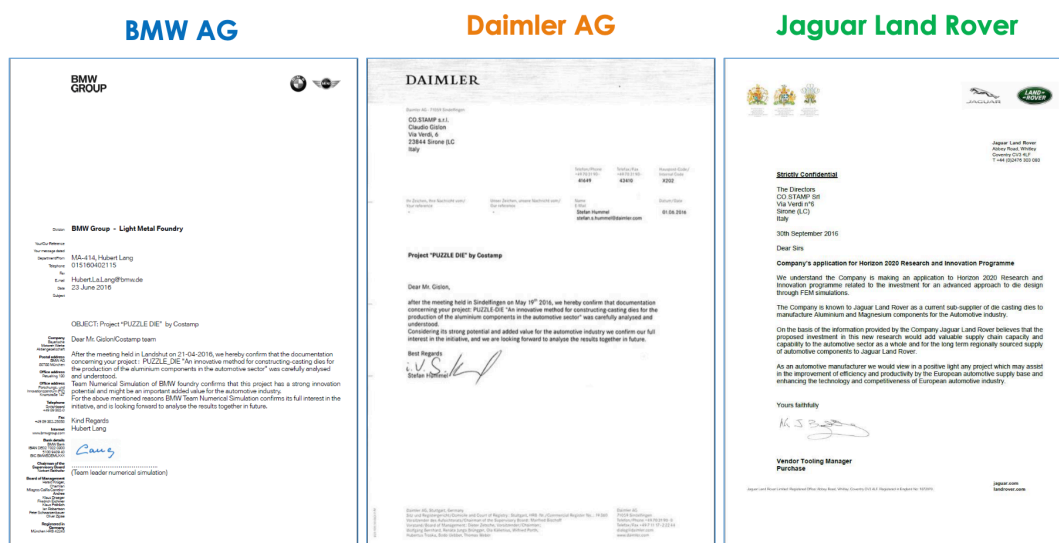
Despite a higher unit cost with respect to the classic die, “puzzle die” moulds weigh less on the price of the diecasting component due to their low maintenance costs and their longer lifetime (this means that their price can be spread over more production cycles).

This in turn allows Costamp’s clients to ultimately offer more competitive prices to its own OEM clients, which for them means more potential business activity and growth.

In light of this revolutionary innovation, Costamp firmly believes that it can attract clients that before “Puzzle Die” were essentially out of reach.

As the picture below shows, global-scale car manufacturers are demonstrating strong interest for this new technology.

Official Endorsements by “premium” OEMs in relation to Puzzle Die technology



Source: Costamp Group

Cavity insert fast change tooling design

Costamp has adopted a new technology which will permit the substitution of damaged or worn parts of the die holder without needing to withdraw the die from the HPDC machine.

What this ultimately means is **lower downtime periods, and thus faster resuming of production**, which implies greater productivity and efficiency.

Low Pressure Forging

Costamp has recently patented the Low-Pressure Forging technology, which enables the diecasting of various components not only in **a production cycle time which is one-third the one required with current production processes**, but also guaranteeing a **higher-quality final product**.

In this regard, Costamp has already built the first LPF moulding machine and has market-wide aspirations for such technology, being ideal for the manufacturing of aluminium cars and truck wheels.

Cement-based foundry cores

Along with Italcementi Heidelberg Cement Group, Costamp is pursuing an R&D project focused on the effectiveness of cement-based foundry cores in the diecasting process.

Were the project to prove successful:

- ◆ **the components resulting from diecasting could incorporate new shapes;**
- ◆ **many technical limitations present today could become surmountable;**
- ◆ **a greater number of components could be developed.**

Moreover, this technology revolving around the adoption of cement-based foundry cores is believed to be very versatile in its application, and thus could be utilised in a variety of fields.

Production of components for luxury car vehicles.

Last but not least, with its installation of the first moulding machine for diecasting of low-pressure components, **Costamp has announced its forward vertical integration into the production of components for luxury car vehicles**, now being able to manage the entire process from prototyping to delivery of finite series pieces.

2020E-onwards financial forecasts

Assessment on Costamp exposure to Covid-19

Costamp had not suffered any material damage from Covid-19 outbreak so far. Indeed:

- ◆ It gained several orders from both old and new clients which, due to the viral outbreak in China, have stopped transactions with Chinese suppliers and begun ordering from Costamp;
- ◆ It did not experience problems with its suppliers as Costamp doesn't purchase electronic components / equipment from China, rather it sources mechanical components from Europe.

Neither the new legislative scenario post DPCM March 22nd aimed at fighting Covid-19 outbreak by halting all non-necessary productions has severely impacted operations, as:

- ◆ Engineering, administrative and commercial activities are fully operative in smart working mode, in order to guarantee service continuity;
- ◆ Foundry division is still active as it is engaged in the production of aluminium components applied in the medical field, also used in the construction of lung ventilation machines.

2020E estimates revised upwards despite Covid-19 outbreak

Costamp has received several medium-scale orders since December, e.g.:

- ◆ A set of high-pressure diecasting moulds from a multinational American foundry group to deliver by July 2020 and worth €2.7mn;
- ◆ 9 sets of low-pressure diecasting shells and foundry cores from Baomarc Automotive Solutions Group to deliver by June 2020 and worth €2.2mn;
- ◆ An order from a major German car manufacturer worth €2.3mn, with a delivery due between March 2020 and January 2022 and payment spread across the three years (40% of the value in 2020, 40% in 2021, and 20% in 2022);
- ◆ A new order from a best in class US OEM for a total worth of €4.2mn, with delivery due within FY20 and related to high pressure die casting division;

As it has already developed a backlog worth almost the VoP achieved in 2019, we are **confirming our 2020E-21E Revenues estimates while slightly improving profitability ones**. Only Net Debt is seen worsening due to longer payment terms from clients.

Costamp Group: New vs. Old 2020E-21E estimates

(€mn)	2020E			2021E		
	Old	New	Δ (%)	Old	New	Δ (%)
Value of Prod.	61.5	62.5	2%	67.0	67.0	0%
EBITDA	6.6	7.5	14%	8.8	9.1	3%
EBITDA Margin (%)	10.8%	12.0%		13.2%	13.5%	
EBIT	3.2	4.0	25%	5.4	5.6	4%
EBIT margin (%)	5.2%	6.4%		8.1%	8.3%	
Net Profit	1.6	2.2	27%	3.0	3.3	10%
Capex	-2.5	-1.5		-2.0	-0.5	
OpFCF b.t.	2.0	-0.1		5.7	7.9	
Net Fin. Pos.	-25.7	-31.0	-5.3	-22.5	-25.4	-3.0

Source: Value Track Analysis

Details on the drivers of 2020E-21E estimates revision

We now expect 2020E revenues up 7% YoY to €62.5mn, EBITDA up to €7.5mn (margin at 12%), Net profit to be around €2mn threshold and Net Debt growing at €32mn due to WC absorption

With regards to **revenues**, our upwards revision is result of two forces:

- ◆ The recent positive orders' intake coupled with the above-mentioned postponement of some orders from 2019 to January 2020;
- ◆ The relative insensitivity to the coronavirus outbreak, as Costamp primarily builds dies and only to a very limited extent constructs actual automotive components, which, unlike the former, are strongly affected by a fall in consumer car demand.

With regards to the second point, it is worthy to note that at the moment Costamp is mainly working on moulds for new car models which will begin production in 2021, and thus their demand is not affected by the current macroeconomic developments.

For what concerns **profitability**, our revision is driven by:

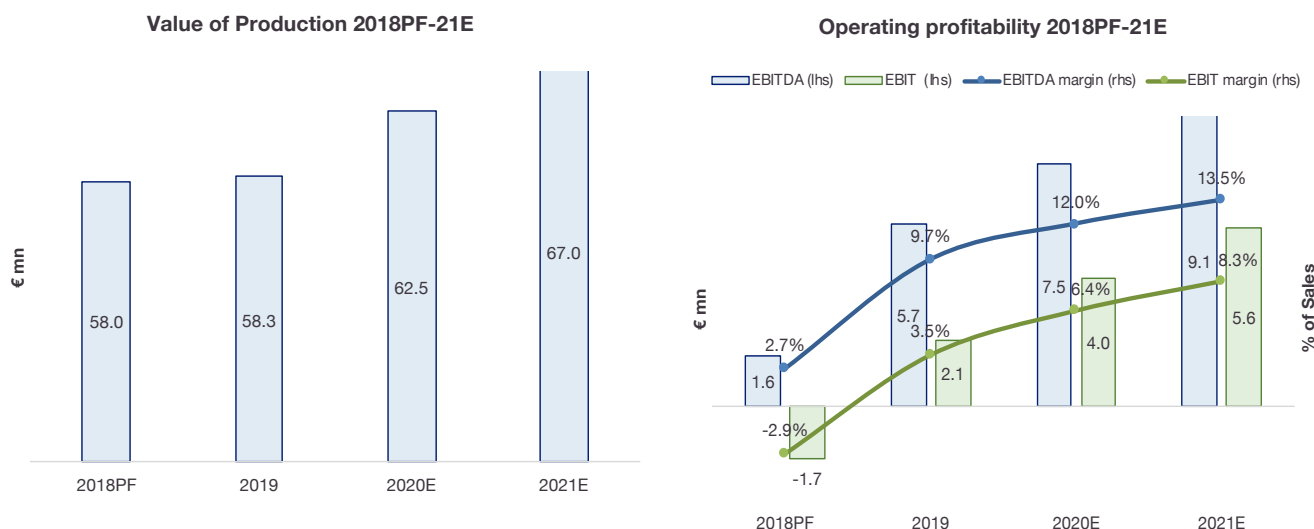
- ◆ Positively benefiting from new measures aimed at production efficiency improvement, e.g. centralisation of cross-divisional costs, adoption of mechanisms allowing machinery to work on multiple products simultaneously, outsourcing of low-added value activities;
- ◆ Low negative impact due to the DPCM March 22nd, with Costamp facility plants expected to be close at least for 2 weeks but engineering activities remaining fully operating;
- ◆ A different approach towards suppliers, as Costamp aims to obtain some price discounts by offering faster payment terms.

With regards to the **Net Financial Position**, the worsening compared to our previous estimates is mainly driven by working capital deterioration, a result of Costamp decisions to:

- ◆ Reduce the payment periods to suppliers (see above);
- ◆ Allow longer credit terms to clients, in order not to grant price discounts.

Last but not least, we remind that as we saw for 2020E, some orders to be finalised in December might change the P&L picture depending on their shipment before or after the year end.

Costamp Group: Financial KPIs 2018Pf-21E



Source: Value Track analysis

Costamp Group: Profit & Loss 2018PF-21E

(€mn)	2018PF	2019A	2020E	2021E
Value of Production	58.0	58.3	62.5	67.0
COGS	-40.4	-36.8	-38.7	-41.5
Labour costs	-16.2	-15.9	-16.2	-16.4
EBITDA	1.6	5.7	7.5	9.1
EBITDA margin (%)	2.8%	9.7%	12.0%	13.5%
D&A	-3.2	-3.6	-3.5	-3.5
EBIT	-1.7	2.1	4.0	5.6
EBIT margin (%)	< 0%	3.5%	6.4%	8.3%
Net Financial Charges	-0.7	-0.9	-1.0	-0.9
Pre-tax profit	-2.4	1.1	3.0	4.7
Taxes	0.7	-0.2	-0.8	-1.4
Net Profit	-1.7	0.9	2.2	3.3

Source: Costamp Group (historical figures), Value Track (2019E-21E estimates)

Costamp Group: Balance sheet 2018PF-21E

(€mn)	2018PF	2019A	2020E	2021E
Net Fixed assets	49.3	52.0	50.0	47.0
Net Working Capital	0.4	5.4	11.5	12.2
Severance pay and other funds	4.9	4.7	4.7	4.7
Total Capital Employed	44.8	52.7	56.8	54.5
Group Net Equity	23.0	23.6	25.8	29.0
Net Fin. Position [Net debt (-) / Cash (+)]	-21.8	-29.1	-31.0	-25.4

Source: Costamp Group (historical figures), Value Track (2020E-21E estimates)

Costamp Group: Cash flow Statement 2018PF-21E

(€mn)	2018PF	2019A	2020E	2021E
EBITDA	1.6	5.7	7.5	9.1
Op. NWC requirements	9.0	-5.0	-6.1	-0.7
Capex (excl. Fin. Inv.)	-4.7	-3.2	-1.5	-0.5
Change in provisions	1.1	-0.2	0.0	0.0
Cash Taxes	0.7	-0.2	-0.8	-1.4
OpFCF a.t.	7.6	-2.9	-0.9	6.5
Other (incl. Fin. Inv. and IFRS16)	-1.8	-3.5	0.0	0.0
Net Financial Charges	-0.7	-0.9	-1.0	-0.9
Change in Net Fin Position	5.1	-7.3	-1.9	5.6

Source: Costamp Group (historical figures), Value Track (2020E-21E estimates)

Stock Performance

Costamp shares still highlight high volatility, as result of the very low free float (8.9%), which implies low traded volumes, i.e. around 2,300 traded shares per day on average across the latest 6 months, with share price ranging from €1.61 and €2.52 on the same reference period.

Costamp – 6M share price / traded volumes evolution



Source: S&P Capital IQ

Taking into account new forecasts, Costamp shares are currently trading at 1.9x-1.7x EV/Sales and 15.5x-12.2x EV/EBITDA respectively on 2020E-21E.

Costamp Group: Sensitivity of implicit stock trading multiples

Equity Value (100%)	€-per share	EV/SALES			EV/EBITDA			EV/EBIT			P/E		
		2019A	2020E	2021E	2019A	2020E	2021E	2019A	2020E	2021E	2019A	2020E	2021E
€64mn	€ 1.50	1.6	1.5	1.3	16.4	12.6	9.8	45.3	23.8	16.1	69.7	29.6	19.5
€75mn	€ 1.75	1.8	1.7	1.5	18.3	14.0	11.0	50.4	26.5	18.0	81.3	34.6	22.8
€85mn	€2.00	2.0	1.9	1.7	20.2	15.5	12.2	55.6	29.1	19.9	92.9	39.5	26.1
€96mn	€ 2.25	2.1	2.0	1.8	22.0	16.9	13.4	60.8	31.8	21.8	104.5	44.5	29.3
€107mn	€ 2.50	2.3	2.2	2.0	23.9	18.3	14.5	66.0	34.5	23.8	116.1	49.4	32.6

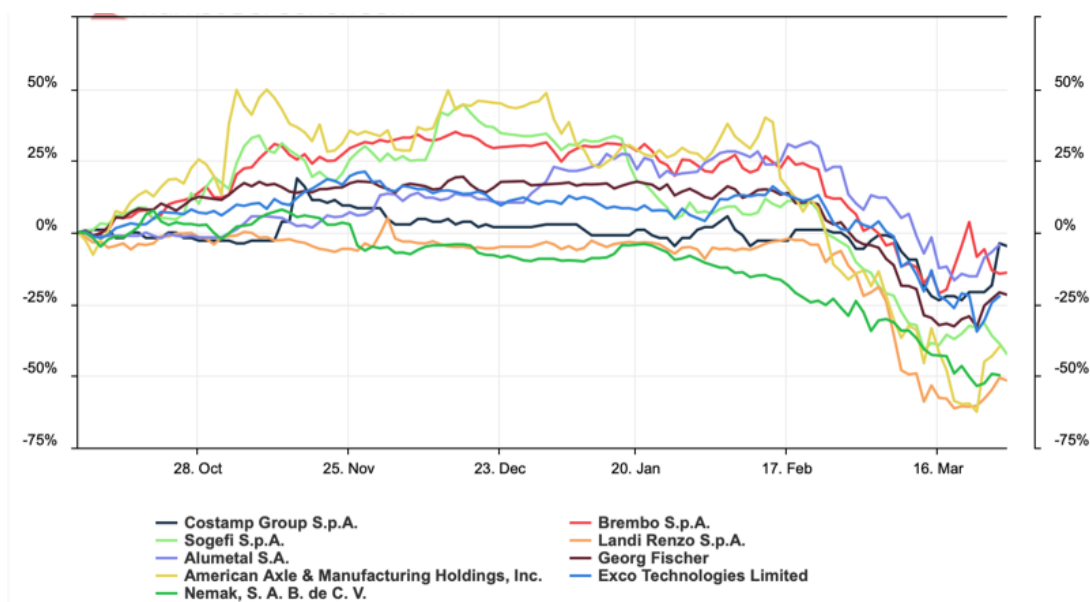
Source: Value Track estimates and analysis

Costamp vs. Peers

Costamp Group – as well as main players specialized in the engineering, production and trade of dies and moulds – has the automotive sector as its main end market, or other sectors that are somehow cyclical too (e.g. industrial applications).

These sectors are among the ones that have been most heavily impacted by the “perfect storm” we well know. That’s why if we look back at six-months market performance we do not find any stock in positive territory, with all companies experiencing a drop over the latest month.

Normalized Peers Stock behaviour October 2019 – March 2020



Source: Market Screener

Costamp Group: Peers' stock trading multiples

Company	EV/Sales (x)			EV / EBITDA (x)			EV / EBIT (x)			P / E (x)		
	2019A	2020E	2021E	2019A	2020E	2021E	2019A	2020E	2021E	2019A	2020E	2021E
Alumetal	0.4	0.4	0.4	5.3	5.6	5.1	8.0	8.1	7.2	7.6	8.3	7.5
Georg Fisher	0.7	0.7	0.7	7.3	6.9	5.4	9.7	10.2	7.7	14.4	12.7	10.2
Park Ohio	0.4	0.4	0.4	4.8	5.1	4.6	7.1	7.6	6.5	4.4	4.5	3.8
Freni Brembo	0.5	0.5	0.5	6.3	6.5	6.0	10.2	11.5	10.0	12.5	14.2	13.2
Sogefi	0.5	0.6	0.5	3.1	3.1	2.9	13.5	13.5	11.1	30.6	20.4	10.9
Landi Renzo	1.2	1.2	1.1	4.2	5.3	3.6	8.1	12.7	6.9	7.1	17.1	6.1
Nemak	0.7	0.5	0.5	3.1	3.6	3.2	7.5	8.5	7.2	5.8	7.6	5.6
American Axle	0.5	0.6	0.5	3.6	3.7	3.2	7.8	9.6	7.8	nm	nm	4.2
Exco Tech.	0.4	0.4	0.4	3.6	3.3	3.0	5.2	4.8	4.2	7.1	6.9	6.4

Source: Market Consensus, Value Track Analysis

Appendix: A recap of Costamp profile

Molds and dies manufacturer for automotive industry

Costamp group is an Italian based dynamic entity engaged in the **engineering, production and trade of dies and molds for the automotive industry**.

The Group is configured as among the very few global B2B players and strategic suppliers able to provide a **complete offer** in terms of:

1. **Processes:** High pressure die casting (HPDC), low pressure die casting (LPDC) & gravity;
2. **Products:** Molds and dies for the production of structural and powertrain car components made of aluminum, magnesium, cast iron and plastic.

Costamp Group at a glance

Business Unit	HPDC DIES (70% 2018 revenues)	LPDC & GRAVITY DIES (20% 2018 revenues)	PLASTIC DIES (10% 2018 revenues)
Alloy	Aluminum Magnesium	Aluminum Cast iron	Plastic
Market	Automotive (95% of 2018 revenues) / lighting / heating / industrial appliances		
Main application	Structural parts Powertrain components	Powertrain Structural parts	Bumpers Door Panels
Machines Used by customers	HPDC machines from 500 tons up to 4500 tons	Pouring machines	Injection machines from 160 tons up to 3000 tons

Source: Costamp

A family owned business...

The Group has been founded back in 1968 and the son of the founder are still firmly at the helm of the group with ca. 91% of total share capital while the stock market owns the remaining 9%.

Costamp Group: Shareholders structure

Shareholders	# of shares	%
Co.Stamp S.r.l	38,768,407	90.99%
Treasury Shares	54,753	0.13%
Free-Float	3,782,287	8.88%
Total	42,605,447	100.00%

Source: Costamp Group

The group is headquartered in **Sirone** (Lecco, Italy) where it has its main production unit, and also has a plant in **Rivalta** (Torino, Italy), specialized in plastic injection moulds.

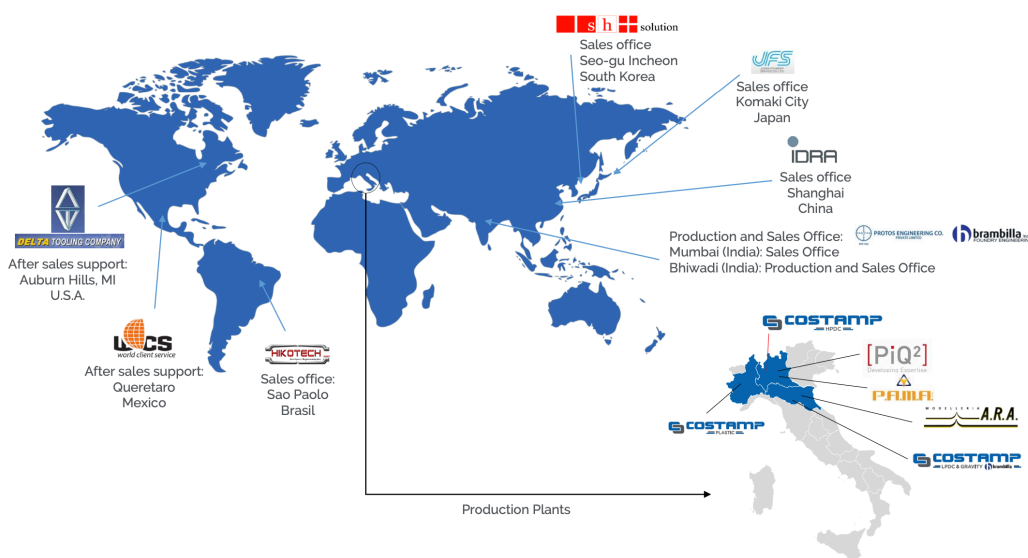
Additional plants are located in **Correggio** (Reggio Emilia, Italy), **Bologna** (Italy), **Azzano Mella** (Brescia, Italy) and **Brescia** (Italy).

...with a widespread international business footprint

In the latest years the Group has expanded its global market coverage and direct linkage with targeted customers by rolling out important business partnerships with local businesses all around the globe.

More in particular, thanks to its partners, the company provides an international direct on-site after-sale support in North America, China, Brazil, Iran and India and Mexico.

Costamp International footprint



Source: Costamp

Tailor made approach and turn-key service

Costamp Group has a **tailor-made approach**, i.e. it works on orders and not for warehouse, boasting a **complete turn-key service** to clients structured on the following main steps:

- 1) Project management;
- 2) Design;
- 3) Dies and molds manufacturing;
- 4) Sampling, customization, post-sales support.

Project management. The group is strategically positioned in the car manufacturing chain not only as Sub-Supplier for machining but also as Engineering & Design partner, thanks to its die casting simulation software capability and to the above-mentioned sampling activity based on an internal foundry.

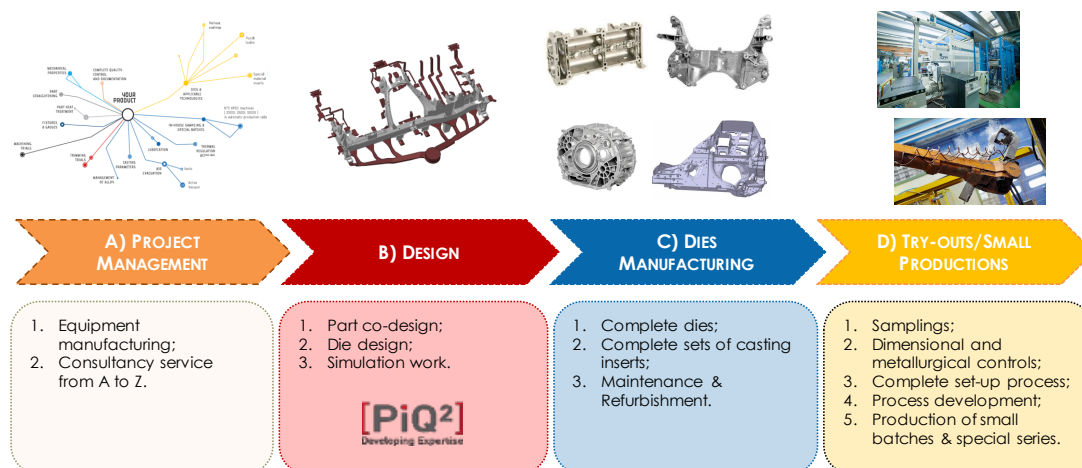
Design. This phase takes place in continuous collaboration with the end-user: the aim is to create products fulfilling the customers' production and quality need, offering dies less complex and easier for the user to manage, together with optimized and improved performances.

Manufacturing. Once the die project is complete, the company enters **the draw phase**. This is done for both the complete dies and the related sets of casting insert.

Sampling, customization and post-sales support. These phases are dedicated to the production of samples, small productions and special series, and are essential steps in order to finalize a product characterized by the maximum level of efficiency.

By the way, Costamp is able to anticipate any issue that may occur in the realization of the piece needed and is equipped with an internal foundry department. Here the samples are subjected to the first try-out, then they have to step by the quality control, which is both dimensional and metallurgical, and finally they can complete the set up.

Costamp offer: A turn-key service



Source: Costamp

We note that such “haute couture” service implies that Costamp serves a relatively small number of clients, **ca. 80 customers**, but composed by leading names both in the car components business and in direct car manufacturing (OEMs), e.g. Ferrari and Maserati.

Costamp client base: Outstanding names, high loyalty



Source: Costamp

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