

## A Step Towards Innovation and Excellence

ADD | Fair Value: €5.6 | Current Price: €4.08 | Upside: +37.3%

Research Update

July 31<sup>st</sup>, 2024

€ Million	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Total Revenues	17.5	24.3	35.2	39.4	45.5	51.8	60.0
EBITDA	6.8	6.8	9.3	10.0	12.0	14.0	17.6
margin	38.6%	27.9%	26.5%	25.4%	26.3%	26.9%	29.4%
Net Profit	2.1	2.5	3.7	2.4	3.4	4.4	6.7
margin	11.8%	10.4%	10.5%	6.0%	7.4%	8.5%	11.2%
EPS	0.14	0.18	0.31	0.18	0.28	0.36	0.56
NFP	8.0	11.8	20.8	25.6	13.6	2.8	(9.9)

Source: Company Data (2022-2023), KT&Partners' Elaboration (2023-2027)

**Powerflex acquisition: Strengthening Mare Group's Technological Edge.** On July 23, 2024, Mare Group S.p.A. announced a binding agreement to acquire 100% of Powerflex S.r.l., a company specializing in the Aerospace & Defence sector and the production and testing of mechatronic systems. This acquisition marks a bold strategic expansion for Mare Group, significantly enhancing its technological capabilities and market presence. The transaction is valued at €1.15mn, with the payment structured as €0.15mn in cash and €1mn paid in 250,000 Mare Group shares. These shares may consist of, at the company's discretion and in any combination thereof, i) new shares issued with a capital increase to support the acquisition of Powerflex, or ii) existing treasury shares held in the portfolio, valued at €4.00 per share, or alternatively iii) in cash. The payment structure, must be decided at closing, expected by December 31<sup>st</sup>, and the shares allocated will be subject to a 36-month lock-up period. Powerflex reported FY23 revenues of approximately €4.0mn, with an EBITDA of €0.4mn (9.6% margin) and a net financial position of €1.3mn, resulting in an EV of €2.45mn and an EV/EBITDA multiple of 6.82x, consistent with Mare Group's valuation. The acquisition, which will be consolidated into Mare Group's accounts starting from FY2025, aims to leverage synergies, enhance client relationships, and drive significant revenue growth through cross-selling opportunities and strategic market expansion. Powerflex is expected to grow its revenues by 15% and align its EBITDA margin to Mare Group's level of 18-20%. The integration will also benefit from substantial tax incentives through Powerflex's operations in the Zona Economica Speciale (ZES), expected to generate tax credits equating to 50% of incremental revenues (€1mn increase expected). This transaction is anticipated to position Mare Group as a stronger player in the engineering and innovation sectors, emphasizing operational synergies and long-term growth potential.

**Estimates Confirmed.** Given that we are still awaiting the release of the consolidated results for the first half of 2024 and further clarification on the payment structure for the Powerflex acquisition, we confirm our latest estimates. According to our financial projections, we anticipate sales revenues growing at a CAGR2023-2027E of 22.9%, with the digital brand achieving €29.8mn in FY27 (CAGR2023-2027E of 15.7%), followed by Industrial, which recorded the highest CAGR2023-2027E of 32.9%, reaching €17.1mn in FY27 and consulting which is expected to hit €15.6mn in FY27 (CAGR2023-2027E of 31.0%). Total revenues are projected to reach €68.9mn in FY27 from €39.4mn in FY23. We expect EBITDA to experience a CAGR2023-2027E of +21.2%, reaching €21.6mn in FY27E, with an increasing EBITDA margin reaching 31.4% in FY27E (from 25.4% in FY23). Finally, net income FY24E is expected to reach €3.4mn (CAGR2023-2027E of 46.3%), while NFP is expected to decrease from €25.6mn in FY23 to -€25.9mn in FY27E, on the back of better NWC management and a greater cash-flow generation ability.

**Valuation Unchanged.** Our valuation - based on DCF and market multiples method (EV/EBITDA and P/E) - returns an equity fair value of €67.7mn, or €5.6ps, implying an upside of 37.3% on the current market price. We will consider updating our valuation based on both, the company's decision regarding the preferred payment method at closing of the Powerflex's acquisition and 1H24 consolidated results.

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### Market Data

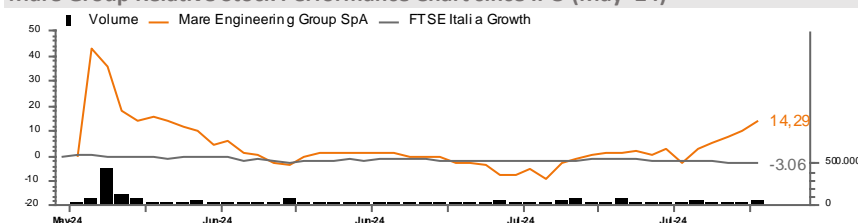
Main Shareholders	
Antonio Maria Zinno	25.20%
Marco Bellucci	18.40%
Valerio Griffa	14.79%
Other	24.60%
Initalia SpA	5.10%
Mkt Cap (€ mn)	49.2
EV (€ mn)	75.0
Shares out.	12.1
Free Float	11.9%

Market multiples	2023	2024	2025
EV/EBITDA			
Mare Group S.p.A.	6.9x	5.7x	4.9x
Comps Median	9.1x	7.8x	6.8x
Mare Group S.p.A. vs Median	-24.5%	-26.1%	-27.9%
P/E			
Mare Group S.p.A.	22.3x	14.6x	11.2x
Comps Median	16.8x	12.7x	10.5x
Mare Group S.p.A. vs Median	32.7%	14.7%	7.0%

### Stock Data

52 Wk High (€)	5.90
52 Wk Low (€)	3.08
Avg. Daily Trading 90d	42,146
Price Change 1w (%)	16.57
Price Change 1m (%)	n.a.
Price Change YTD (%)	n.a.

### Mare Group Relative Stock Performance Chart since IPO (May '24)

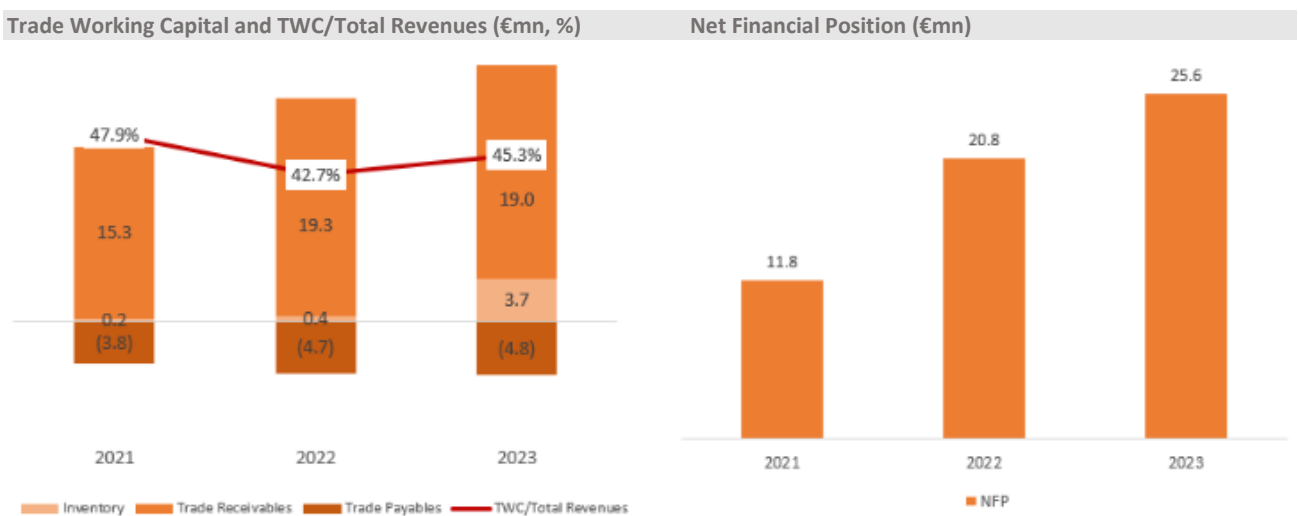
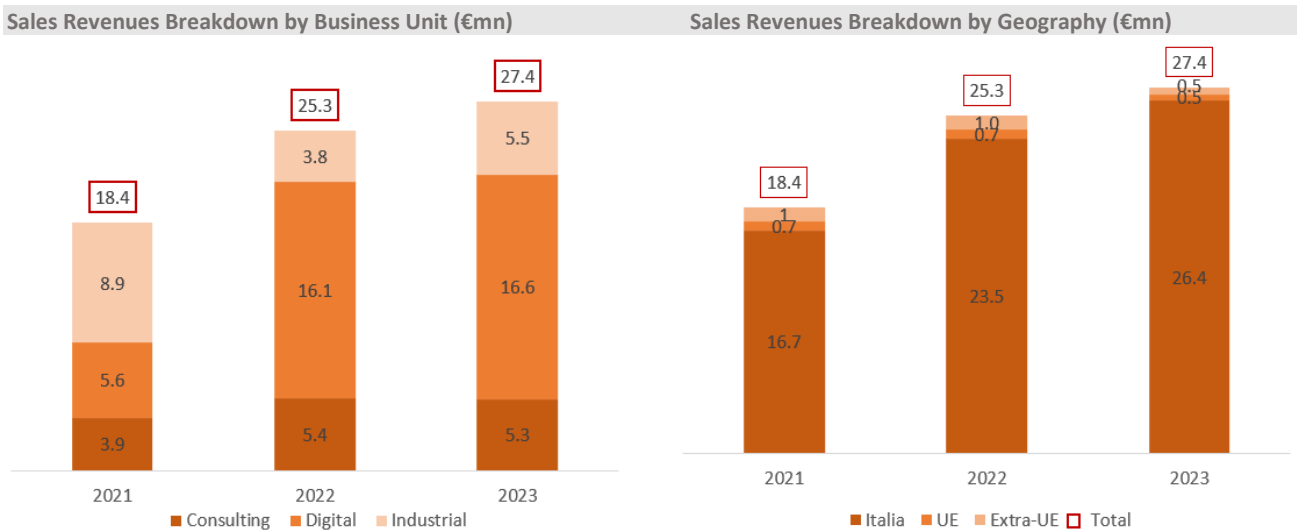
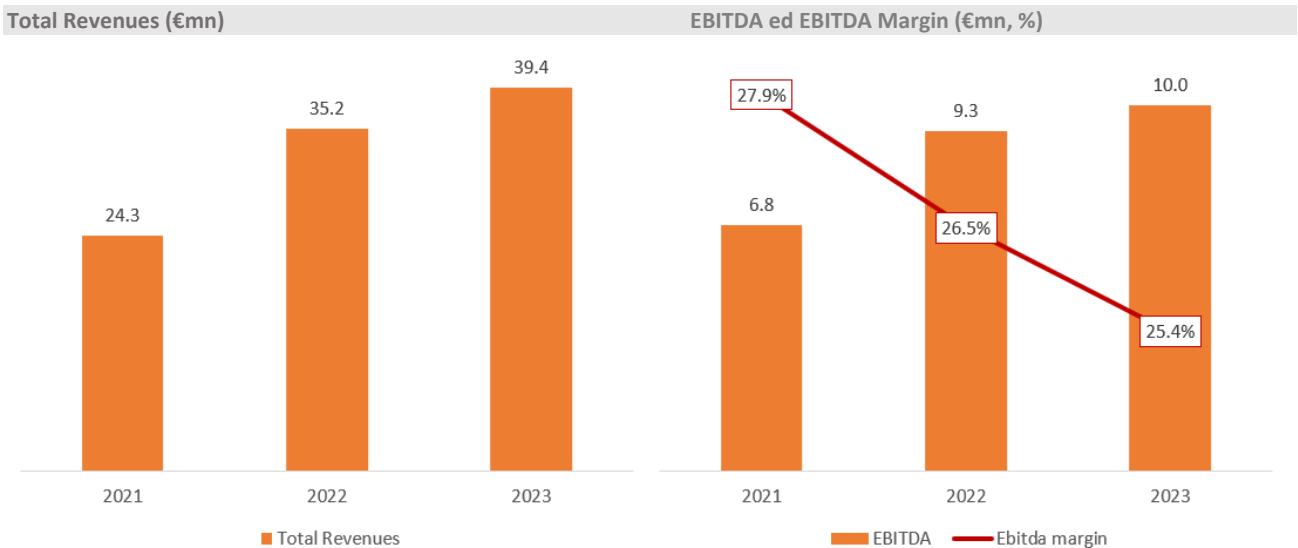


## Key Figures - Mare Engineering Group SpA

	Current price (€)	Fair Value (€)	Sector					Free Float (%)
	4.08	5.6	Technology					11.9%
Per Share Data	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E
Total shares outstanding (mn)	n.a.	n.a.	n.a.	12.05	12.05	12.05	12.05	12.05
EPS	n.a.	n.a.	n.a.	n.a.	0.28	0.36	0.56	0.90
Dividend per share (ord)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Dividend pay out ratio (%)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Profit and Loss (EUR million)	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E
Total Revenues	17.5	24.3	35.2	39.4	45.5	51.8	60.0	68.9
Sales	16.8	18.4	25.3	27.4	38.4	46.1	54.2	62.4
EBITDA	6.8	6.8	9.3	10.0	12.0	14.0	17.6	21.6
EBIT	3.2	3.2	3.8	4.8	5.5	6.8	10.0	15.7
EBT	3.0	2.6	3.4	3.7	4.7	6.2	9.5	15.4
Taxes	(0.9)	(0.1)	0.3	(1.3)	(1.4)	(1.8)	(2.7)	(4.5)
Tax rate	31%	3%	-10%	35%	29%	29%	29%	29%
Net Income	2.1	2.5	3.7	2.4	3.4	4.4	6.7	10.9
Net Income attributable to the Group	1.7	2.1	3.7	2.2	3.4	4.4	6.7	10.9
Balance Sheet (EUR million)	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E
Total fixed assets	11.1	18.5	24.6	29.1	27.9	23.9	18.9	15.6
Net Working Capital (NWC)	9.5	9.8	17.0	18.4	20.0	19.5	20.8	21.2
Provisions	(2.0)	(2.8)	(2.8)	(3.1)	(4.9)	(6.9)	(9.0)	(11.4)
Total Net capital employed	18.7	25.5	38.8	44.4	43.0	36.5	30.6	25.5
Net financial position/(Cash)	8.0	11.8	20.8	25.6	13.6	2.8	(9.9)	(25.9)
Group Shareholder's Equity	10.3	10.7	18.0	18.6	29.1	33.5	40.3	51.2
Minorities	0.3	3.1	0.0	0.2	0.2	0.2	0.2	0.2
Total Shareholder's Equity	10.7	13.8	18.0	18.8	29.3	33.7	40.4	51.4
Cash Flow (EUR million)	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E
Net operating cash flow	5.8	6.8	9.7	8.4	10.4	12.0	14.7	17.1
Change in NWC	(9.5)	(0.3)	(6.8)	(1.8)	(1.6)	0.5	(1.2)	(0.4)
Capital expenditure	(14.1)	(7.5)	(9.9)	(9.1)	(4.8)	(2.6)	(2.1)	(2.2)
Other cash items/Uses of funds	1.5	(2.6)	(1.8)	(0.3)	1.3	1.5	1.6	1.8
Free cash flow	(16.3)	(3.6)	(8.8)	(2.8)	5.3	11.3	13.0	16.3
Enterprise Value (EUR million)	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E
Market Cap	n.a.	n.a.	n.a.	49.2	49.2	49.2	49.2	49.2
Minorities	0.3	3.1	0.0	0.2	0.2	0.2	0.2	0.2
Net financial position/(Cash)	8.0	11.8	20.8	25.6	13.6	2.8	(9.9)	(25.9)
Enterprise value	n.m.	n.m.	n.m.	75.0	63.0	52.1	39.5	23.5
Ratios (%)	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E
EBITDA margin	38.6%	27.9%	26.5%	25.4%	26.3%	26.9%	29.4%	31.4%
EBIT margin	18.5%	13.3%	10.7%	12.1%	12.1%	13.2%	16.7%	22.8%
Gearing - Debt/equity	n.m.	n.m.	n.m.	n.m.	46.8%	8.3%	-24.5%	-50.6%
Interest cover on EBIT	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
NFP/EBITDA	1.18x	1.74x	2.23x	2.55x	1.14x	0.20x	-0.56x	-1.20x
ROCE	17.3%	12.7%	9.7%	10.8%	12.8%	18.7%	32.7%	61.8%
ROE	16.8%	20.0%	20.6%	11.8%	11.6%	13.1%	16.7%	21.3%
EV/Sales	n.a.	n.a.	n.a.	2.51x	1.79x	1.49x	1.27x	1.10x
EV/EBITDA	n.a.	n.a.	n.a.	6.86x	5.75x	4.93x	3.90x	3.18x
P/E	n.a.	n.a.	n.a.	22.34x	14.60x	11.19x	7.31x	4.51x
Free cash flow yield	n.a.	n.a.	n.a.	-4.1%	7.7%	16.4%	18.9%	23.7%
Growth Rates (%)	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E
Sales	n.a.	38.8%	45.2%	11.9%	15.3%	14.0%	15.8%	14.8%
EBITDA	n.a.	0.2%	38.0%	7.4%	19.3%	16.6%	26.3%	22.8%
EBIT	n.a.	0.0%	16.4%	27.2%	14.8%	24.7%	46.1%	57.3%
Net Income	n.a.	23.1%	46.6%	-35.8%	41.3%	30.5%	53.2%	62.0%

Source: Company Data (2020-2023), KT&amp;Partners' Forecasts (2024-2027)

## Key Charts



## Company Overview

### Mare Engineering Group SpA

Born in 2001 in the context of University Federico II in Naples, Mare Engineering Group SpA (“Mare Group”) is a digital engineering company that develops and transfers innovation from large to small enterprises with a strong focus on digital and sustainability transition.

Thanks to an intensive R&D activity focused on Rail, Aerospace & Defense, and AI segments, the Company developed different proprietary products and solutions, tailored to customer requests with different sizes and business sectors (i.e. SYPLA Rail). Leveraging on Delfi.ai, a “hyperautomated” proprietary platform, Mare Group offers covers consulting, digital solution development, industrial process, and product design through 3 commercial brands:



- **Mare Digital** excels in incorporating digital technologies into diverse processes and crafting tailored products and services. It offers software solutions from Mare Group and its partners, all accessible via the Delfi.ai platform, enabling businesses to leverage cutting-edge tools and applications designed to drive digital transformation and operational efficiency.



- **Mare Consulting** provides specialized assistance in accessing and managing funds and incentives designed to foster innovation within processes and enhance competitiveness. This service focuses on leveraging financial opportunities to support companies in their growth and development strategies, ensuring they can maximize their potential through innovation;



- **Mare Industrial** caters to businesses seeking innovation in products and processes, along with cost optimization. Their services span Plant and Green Engineering, prototyping, optimization, training, quality control, and IoT solutions, offering a comprehensive approach to enhance operational efficiency and sustainability.

Boasting more than 1000 clients, 300+ employees (in 2024), and 13 operational and sales offices, Mare Group holds a distinctive positioning within Italy’s innovation ecosystem. Its broad and synergistic product portfolio, enriched by substantial R&D investments and strategic mergers and acquisitions (12 deals since 2019), underscores its commitment to making digital transformation and sustainability accessible, scalable, and economically viable for Italian SMEs.

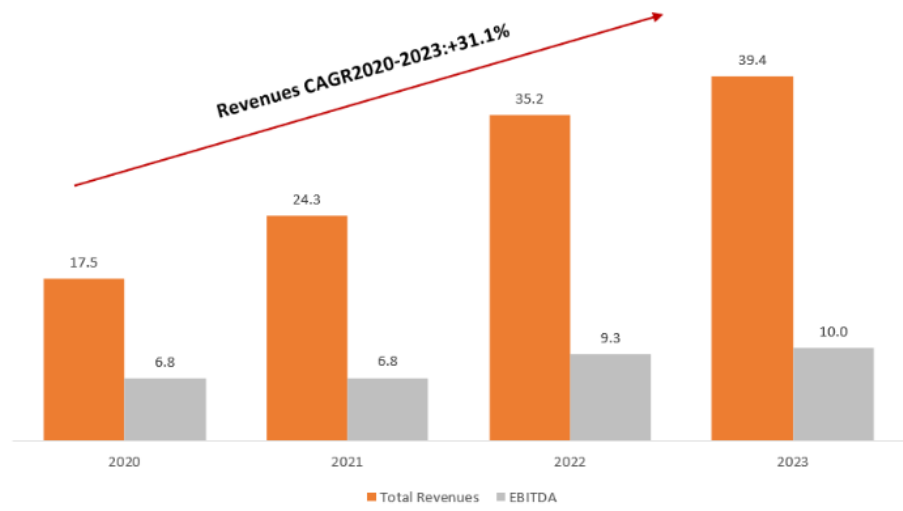
#### Key Highlights Mare Engineering Group SpA

			
R&D Activity	Strong M&A Track Record	Wide Product Portfolio	Full Stack Value Chain + Proprietary Platform

Source: Company Presentation

Since FY20, driven by the ability to diversify and innovate the business, the Company has been able to grow at a CAGR2020-2023 of +31.1%, increasing from €17.5mn of total revenues in FY20 to €39.4mn in FY23 driven in part by organic growth, but largely by robust M&A activity resulting in the integration of 12 new entities since 2019. Looking at the EBITDA level, the Company also registered a significant improvement over the 2020-2023 period, moving from €6.8mn in FY20 to €10.0mn in FY23, growing at a CAGR2020-2023 of 14.1%.

2020-2023 Mare Engineering Group's Total Revenues Revenues and EBITDA (€mn)



Source: Company data

## Mare Group Acquires a 100% stake in Powerflex S.r.l.

On July 23, 2024, Mare Group S.p.A. announced a binding agreement to acquire 100% of Powerflex S.r.l., a company specialized in the strategic Aerospace & Defence sector and the production and testing of mechatronic systems. This acquisition marks a bold strategic expansion for Mare Group, significantly enhancing its technological capabilities and market presence. The closing of the acquisition is expected to be by the end of the year. By integrating Powerflex's cutting-edge technology and extensive experience, Mare Group is well-positioned to set new benchmarks in innovation and excellence.

The shares will be acquired from the following shareholders: 41% from Pietro Di Lorenzo, 19% from Immobili S.r.l., 17% from Riccardo De Lucia, 15% from Michele Antonio Di Lorenzo, and the remaining 8% from Mauro Fontana, for a total value of €1,150,000. The payment will be made as follows: €1mn (approximately 90% of the total consideration) will be paid through the transfer of up to 250,000 Mare Group shares. These shares may consist of, at the company's discretion and in any combination thereof, i) new shares issued with a capital increase to support the acquisition of Powerflex, or ii) existing treasury shares held in the portfolio, valued at €4.00 per share, or alternatively iii) in cash. The remaining €150k will be paid in cash to Immobili S.r.l.

Regarding the payment through treasury shares, it should be noted that the company has initiated a buyback program for up to 1mn shares, purchasable at a maximum premium of 20% over the share price. To date, the company holds 47k shares, equivalent to 0.39% of the shares in circulation, with an estimated value of approximately €200k.

This structured payment plan provides Mare Group with flexibility while aligning the interests of the existing Powerflex shareholders with the long-term success of the combined entity, with the specific payment method to be chosen at the closing.

Powerflex reported FY23 revenues of approximately €4.0mn, with an EBITDA of €0.4mn (9.6% margin) and a net financial position of €1.3mn. The detailed financial breakdown includes a gross profit of €3.0mn (77.1% margin), EBITDA of €0.4mn (9.1% margin), EBIT of €0.3mn (6.5% margin), and a net profit of €0.1mn (3.4% margin). Considering the NFP of €1.3mn, the EV of Powerflex is calculated at €2.45mn. This results in a 6.82x EV/EBITDA multiple based on the 2023 EBITDA, completely aligned with the multiple of Mare Group at the time of the announcement, reflecting a consistent valuation approach for both entities. Given the acquisition structure and the valuation of Powerflex, the goodwill generated is expected to be minimal. The financial results of Powerflex will be consolidated into Mare Group's accounts starting from FY2025, following the expected closing by December 31, 2024.

The acquisition has strategic rationale and synergy due to the following reasons:

**Enhancing Technical Capabilities:** Powerflex, established in 1996, is recognized for delivering high-quality mechanical and electronic engineering solutions across Defence, Avionics, Aerospace, Naval, and Railway sectors. This acquisition enables Mare Group to integrate advanced mechatronic system production and testing capabilities, thus broadening its service offerings.

**Strengthening Client Relationships:** Powerflex has established significant relationships with technologically advanced clients, including Leonardo, a key player in the aerospace and defence industries. Mare Group aims to leverage these relationships, to enhance its presence and strengthen its value proposition to both existing and new clients.

**Operational and Financial Efficiency:** Integrating Powerflex, Mare Group is expected to eliminate duplicate costs and create cost synergies. This integration is projected to elevate Powerflex's EBITDA margins to align with Mare Group's current levels of 18-20% over the strategic plan period.

**Revenue Growth through Cross-Selling:** The acquisition facilitates cross-selling opportunities, leveraging Powerflex's expertise and Mare Group's established market presence. This synergy is anticipated to drive significant revenue growth, with Powerflex expected to grow its revenues by 15%, aided by Mare Group's planned CAPEX investments of c. €1mn in 2025.

**Utilization of Strategic Incentives:** Powerflex's operations in the Zona Economica Speciale (ZES) provide access to substantial tax incentives. These incentives, expected to generate tax credits equating to 50% of incremental revenues (€1mn expected for Mare), will enhance profitability and support further growth.

**Innovation and Market Expansion:** Powerflex's focus on sustainability, innovation, and advanced engineering solutions aligns well with Mare Group's strategic priorities. The acquisition also supports Mare Group's internationalization strategy, particularly in expanding its footprint in global markets where Powerflex operates in.

The transaction, which is expected to close by December 31, 2024, is contingent upon certain conditions including the separation of Powerflex's real estate assets and Golden Power authorization. This acquisition is anticipated to position Mare Group as a stronger player in the engineering and innovation sectors. The integration process will emphasize achieving operational synergies and driving growth through expanded service offerings and strategic market positioning.

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IN THIS STUDY, DCF AND MULTIPLE VALUATION MODELS HAVE BEEN USED. RECOMMENDATIONS FOLLOW THE FOLLOWING RULES:

- ADD – FOR A FAIR VALUE > 15% ON CURRENT PRICE
- HOLD – FOR A FAIR VALUE < 15% AND > – 15% ON CURRENT PRICE
- REDUCE – FOR A FAIR VALUE < – 15% ON CURRENT PRICE

Mare Engineering Group SpA

Price: €4.08 | Fair Value: €5.6

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KT&PARTNERS

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