Sciuker Frames

Equity Research from Kepler Cheuvreux
Release date: 18 July 2022
Market data as of: 15 July 2022

Italy | Capital goods

MCap: EUR123.8m

The window in fashion

Hold (Not Rated)

Target Price:	EUR7.30 (none)
Current Price:	EUR5.70
Up/downside:	28.1%
Change in TP:	none
Change in Adj. EPS:	NM+ 22E/NM+ 23E

What's it all about?

Sciuker Frames is an established Italian producer of premium high-quality window frames which is carving out an impressive growth pathway, with a value of production (net revenues plus increase in inventories) that was 4.6x higher in 2021 versus the previous year (EUR103m vs. EUR23m). The key growth driver was the "Superbonus 110%", a fiscal incentive plan launched by the Italian government for 2020-23 to boost the building sector. The Italian windows market is expected to grow sizeably in 2022 and 2023 due to the tax benefits, which should support c. 40% of it. Sciuker aims to more than double its 2021 value of production by end-2024. However, there is a lack of visibility on the evolution of the fiscal incentives for the coming years and our estimates are at a discount at the top-line (33%) and EBITDA (44%) levels. We initiate coverage on Sciuker with a EUR7.3 TP and Hold rating, waiting for more visibility on the Italian macro and tax incentives to become more positive.

Niccolo Guido Storer
Equity Research Analyst
+39 02 8550 7209
nstorer@keplercheuvreux.com

Federico Belluati
Equity Research Analyst
+39 02 85 50 72 16
fbelluati@keplercheuvreux.com

Capital goods research team
Biographies at the end of this document

360 in 1 minute

Change in Sales:	none 22E/none 23E
Change in Adj. EBIT:	NM+ 22E/NM+ 23E

Key findings

- Sciuker Frames is an established Italian producer of premium high-quality window frames thanks to proprietary patented technologies. Its product offer mainly consists of wood-aluminium and wood-glass windows, which guarantee higher aesthetic standards.
- The Italian windows market saw a remarkable recovery in 2021 versus 2020, registering a demand of EUR5.4bn (2020: EUR4.4bn) that it set to grow even further. Fiscal incentives have a very significant weight in this sector, ranging from 30% to c.40% over the 2016-22E period.
- By far the most important of these measures has been the "Superbonus 110%", a 110% deduction plan applicable to the expenses incurred to improve a building's energy efficiency (see page 14). To fully capture the opportunities the plan offers, the company has integrated the Sciuker Ecospace subsidiary, which manages and outsources the mandatory non-core operations that must be carried out in order to trigger the bonus. This has contributed to impressive group growth, with its value of production rising from EUR23m in 2020 to EUR103m in 2021.
- These expansion trends are further reflected in two acquisitions performed in 2021 to enlarge the product portfolio and the acquisition of a new plant that is set to help Sciuker enlarge its capacity from 50,000 final products completed in 2021 to 160,000 by end-2024. The company also aims to double its value of production (EUR232m) and EBITDA (27.9% margin as in 2021) in 2024 versus 2021.
- Given the uncertainties on the fiscal incentives in the coming years, our estimates are at a discount to the company 2024 targets (33% on value of production and 44% on EBITDA). We run two DCF evaluations in which we use a 12.3% WACC and 2.0% terminal growth rate in both cases, but assume different fiscal incentives. The fair values are EUR8.0 and EUR6.6 per share in our supportive case and conservative scenarios and we use the average of these two values to set our TP of EUR7.3.
- At the end of this report, we also include a detailed ESG profile, which explores why we believe the company ranks quite well from a sustainability standpoint.

Bloomberg: SCK IM	Reuters: SCK.MI
Free float	42.1%
Avg. daily volume (EURm)	0.3
YTD abs performance	-45.7%
52-week high/low (EUR)	11.00/5.12

FY to 31/12 (EUR)	12/22E	12/23E	12/24E
Sales (m)	185.5	217.2	174.1
EBITDA adj (m)	46.0	53.2	36.3
EBIT adj (m)	39.2	44.6	27.5
Net profit adj (m)	22.9	26.0	16.0
Net financial debt (m)	20.1	1.8	-13.6
FCF (m)	-11.9	25.1	23.2
EPS adj. and ful. dil.	1.05	1.19	0.74
Consensus EPS	0.93	1.26	na
Net dividend	0.32	0.36	0.22

FY to 31/12	12/22E	12/23E	12/24E
P/E adj and ful. dil.	5.4	4.8	7.7
EV/EBITDA	3.4	2.6	3.3
EV/EBIT	3.9	3.1	4.4
FCF yield	-8.6%	18.2%	16.8%
Dividend yield	5.5%	6.3%	3.9%
ND(F+IFRS16)/EBITDA	0.4	0.0	-0.4
Gearing	33.2%	2.2%	-14.7%
ROIC	41.1%	34.2%	20.4%
EV/IC	1.7	1.4	1.3

Sector Most Pref.	Sector Least Pref.
CAF	Wärtsilä
GEA Group	
Hexagon	

Research Framework

Investment case

- Sciuker Frames has leadership positioning in the premium niche of the Italian windows market thanks to recognised technologies and a widespread presence in the country.
- The windows market is historically dependent on tax incentives (30-40% of the total since 2016) and these are the key growth driver of Sciuker's outstanding performance thanks to its Ecospace business for the Superbonus 110%. The group is pursuing M&A to generate efficiencies and further enlarge its product portfolio and capacity.
- Its activity has a positive correlation with sustainability, as it can have a huge impact on residential CO2 reduction.

Catalysts

- Further M&A activities and collaboration with key partners enlarging product portfolio.
- Supportive fiscal measures will enhance company performance.
- Positive backlog supporting growth's sustainability.

Valuation methodology

- Due to the lack of visibility on fiscal incentives for the coming years, we have forecast two different scenarios assuming a lower tax deduction rate. These are evaluated with a DCF model using a high WACC (12.3%) and a 2.0% terminal growth rate. The EUR7.3 TP is calculated as the average of them.
- At our TP the stock would trade at 1.0x EV/sales 2022E and at 4.1x EV/EBITDA 2022E, below its peers.

Risks to our rating

- 2022 and 2023 are still booming years as they will be pushed by fiscal incentives. There is low visibility on following years.
- Company's planned growth is higher than the overall market, entailing an extensive market share gain and/or a premiumization of it.
- Supply chain disruption can lead to delays and to margin compression as well as cash absorption from working capital.

Company description

Sciuker Frames is an established producer in the Italian window market and the leader in the premium segment given the high quality and design features of its products. It has a capillary distribution network across the country and proprietary patented technologies. Fiscal incentives are a relevant component of the company's business (especially Superbonus 110%) and they are captured by the Sciuker Ecospace subsidiary. Sciuker was listed in 2018 and is controlled by the Cipriano family.

Management

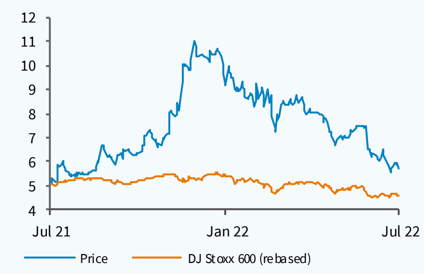
Marco Cipriano, Chiarman and CEO
Francesco Barreca, CFO

Key shareholders

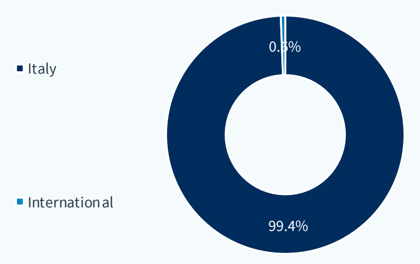
Free float	42.08%
H.Arm S.r.l. (Cipriano family)	51.42%
Marco Cipriano	4.23%
Romina Cipriano	2.26%

Key data charts

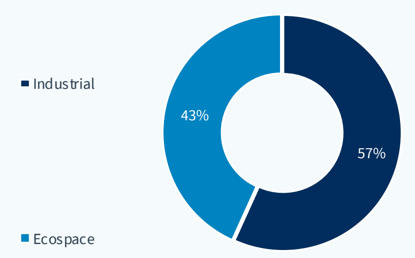
Price performance



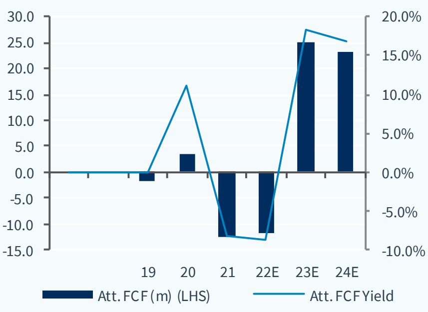
Sales split by region



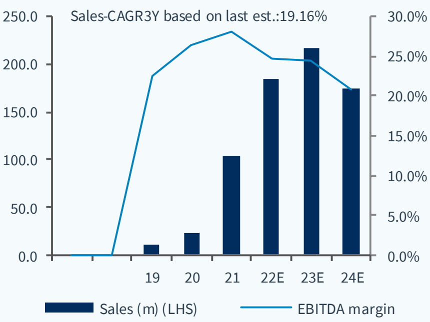
Sales split by division



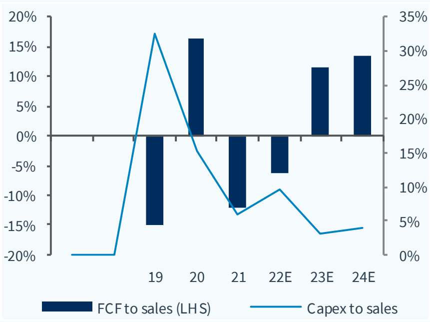
FCF



Sales and EBITDA margin



FCF and Capex to sales



SWOT analysis

Strengths

- Italian leadership in the premium segment of window frames.
- Positive correlation to sustainability.
- Patented proprietary technologies.
- High cash generation and marginality.

Weaknesses

- Exposure to 110% fiscal incentive set to expire in 2024.
- Negligibile geographic diversification.
- Flattish market trend.
- No distinction between chairman and CEO.

Opportunities

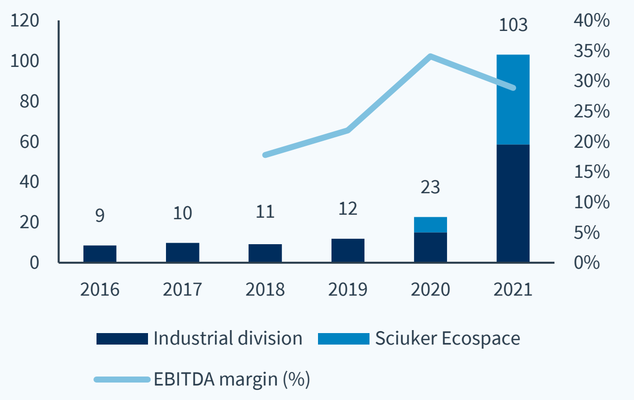
- Further M&A activity.
- Penetration in new markets.
- R&D success on new patented technologies.

Threats

- Raw materials availability and price inflation.
- Business plan execution risk in the industrial division.
- No renewal of fiscal incentives in Italy.
- Expiry of key patent in 2027.

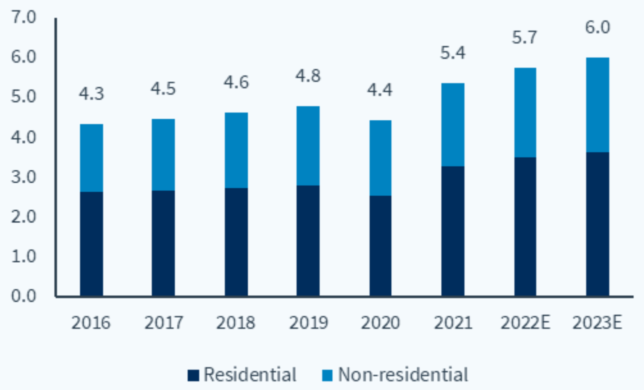
Investment case in six charts

Chart 1: Sciuker key historical financials (EURm)



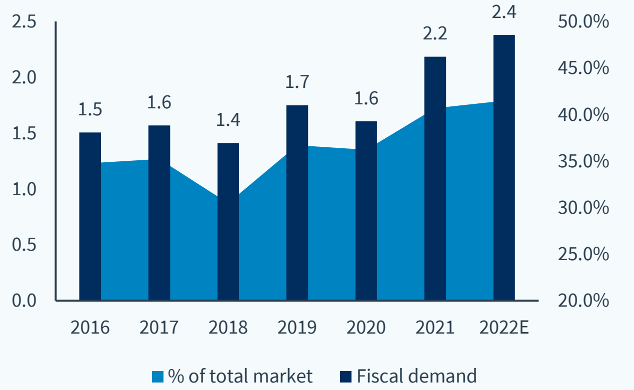
Source: Sciuker Frames, Kepler Cheuvreux

Chart 2: Windows and frames demand (EURbn)



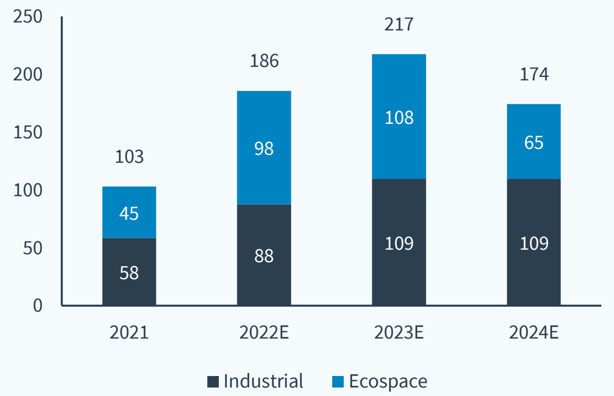
Source: UNICMI, Kepler Cheuvreux

Chart 3: Windows and frames demand from fiscal bonuses (EURbn)



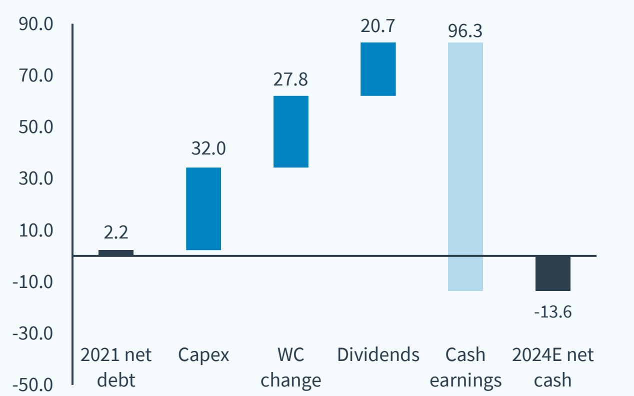
Source: UNICMI, Kepler Cheuvreux

Chart 4: 2022-24 estimated value of production (EURm)



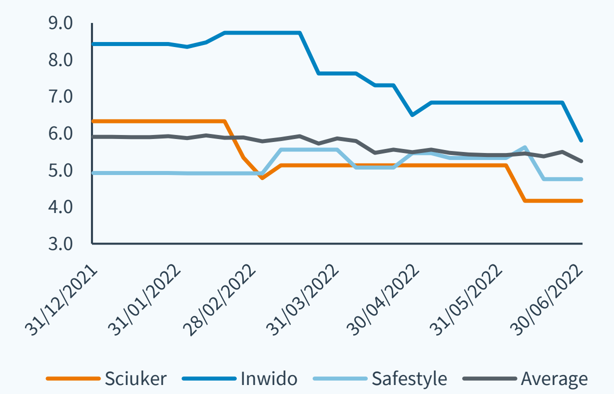
Source: Kepler Cheuvreux

Chart 5: 2021-2024E net debt evolution (EURm)



Source: Kepler Cheuvreux

Chart 6: Historical EV/EBITDA 2022E for Sciuker and its peers



Source: Bloomberg

Contents

Investment case summary

Sciuker is an Italian producer of premium high-quality window frames which is carving out an impressive pathway to achieve growth, with a value of production (net revenues plus increase in inventories) that was 4.6x higher in 2021 than in 2020 (EUR103m vs. EUR23m) and which is set to increase further. The key growth driver was the "Superbonus 110%", a massive fiscal incentive plan introduced by the Italian government in 2020 to boost the building sector that should last until 2025 (but with declining tax deduction rates from 2024).

The Italian windows market is expected to grow sizeably in 2022 and 2023 as a result of the "Superbonus 110%" component, which should account for c. 40% of the market. Sciuker has thus set the ambitious target to more than double its 2021 value of production by end-2024, with the aim of reaching EUR232m. However, there is a lack of visibility on the evolution of the fiscal incentives in the coming years, and our estimates are at a 33% discount. We initiate coverage on Sciuker Frames with a EUR7.3 TP and a Hold rating awaiting greater visibility on Italian macro and fiscal incentives to become more positive.

Company profile

Founded in 1996 by Marco Cipriano, who together with his sister Romina Cipriano still controls 57.9% of the company (37.6% and 20.3%, respectively), Sciuker is a player in the premium segment of the Italian windows and frames market. What sets Sciuker apart from its competitors are the high quality and design standards provided by the group's proprietary patented technologies. 2020 was a turning point for the group, with the acquisition of the Ecospace subsidiary (80% stake, now raised to 88%) allowing it to fully capture the opportunities that have arisen with the introduction of the government's fiscal incentives.

In 2018, the company's value of production amounted to c. EUR11m, while in 2021 it reached c. EUR103m, with business generated through Ecospace amounting to EUR44.5m. The group is almost entirely exposed to the Italian market (99% of value of production), and most of the revenues are concentrated in its home region of Campania, the only area in which Ecospace is active. The group now consists of four companies with the acquisition of GC Infissi and Teknika enlarging its product portfolio and output capacity. In October 2021, the company disclosed its 2021-24 industrial plan, which outlined the aim to more than double its 2021 value of production by end-2024 reaching EUR232m.

Reference market and positioning

The Italian windows market (the group's reference market) was valued at around EUR5.3bn in 2021 (vs. EUR4.8bn in 2019) and is expected to grow further after a flattish trend over the 2016-19 period and then a decline due to the pandemic situation. Thus, the underlying reason for the sector's current growth prospects lies mainly in fiscal incentives, which accounted for c.40% of the overall demand over 2016-21 (and it is expected to be in line with the past in 2022), and in particular due to the "Superbonus 110%", a massive plan from the Italian government that grants a 110% tax deduction on expenses incurred to improve buildings' energy class.

The windows market is highly fragmented among many small businesses, with companies with an annual turnover of more than EUR20m accounting for just c. 15% of it. Sciuker's most important competitors are non-listed companies, which do, however, work in different segments given their lower price range and quality.

Products and business model

Sciuker mainly designs natural windows in wood-aluminium and wood-structural glass, providing higher standards than most common PVC products. The group's patented technologies, developed by its dedicated R&D department, are a key advantage for its positioning in the market. Starting from the reception of a client's order, the whole production cycle lasts eight weeks on average. It starts with the design of the order sent from the reseller, followed by the sourcing of raw materials, mostly glass and wood.

The production process is entirely overseen by the group and embraces everything from the transformation of the raw materials to the assembly of the components subsequently produced. Given the strong demand for Ecospace projects, the group has temporarily outsourced part of window manufacturing for these works to third parties from eastern Europe. Sciuker Ecospace is a general contractor company: it coordinates Superbonus 110% projects through partnerships with specialised operators such as Sciuker S.p.A. for the installation of windows.

Deconstructing the forecasts

Over the last two years, Sciuker Frames has seen outstanding growth in both its top line and margins, with its value of production growing from EUR11.9m in 2019 to EUR102.9m in 2021 and its EBITDA margin rising to 27.9% (21.6% in 2019). This trend has been driven in particular by the Ecospace subsidiary, which is focused on Superbonus 110% incentives for condominiums.

The group has a lean balance sheet, with an equity/fixed-assets ratio of 2.5x and low indebtedness (net financial debt/EBITDA of 0.1x in 2021). Current trading is showing a similar trend to what we have seen since 2020, with the Superbonus 110% plan representing the real growth driving force

As things stand at the moment, the Ecospace subsidiary should continue to grow even in 2023 since the Superbonus 110% plan is set to remain in place, leading to a EUR217m value of production in 2023 at a group level (Sciuker's guidance is at EUR205m). However, starting from 2024 there should be a lower tax deduction rate which makes us discount 2024 group's guidance on top line by 33% (EUR174 versus EUR232m). Due to the strong growth and some uncertainties on costs, we expect a higher dilution of margins than what outlined by the group leading to a 44% discount on 2024 EBITDA estimates (EUR36.3m versus EUR64.8m). All in all, for 2022-24 we expect cash earnings generation of EUR96.3m, which should see Sciuker turn cash positive from 2024.

Valuation and target price

Sciuker Frames is a special case in the windows market, as it has a subsidiary (Sciuker Ecospace) that is focused on the "Superbonus 110%" business and due to its market positioning (focus on Italian premium segment). Other listed peers (apart from Nusco which is similar, but smaller) are committed to more common PVC product lines and have a more diversified product offer. Consequently, while multiples can highlight how Sciuker is priced compared to its peers, we believe a DCF is a more appropriate method to carry out a full evaluation.

We assumed two different scenarios, each depending on a different performance of the Sciuker Ecospace business (and therefore negatively affecting also the industrial division) starting from 2025. However, in both cases we expect a decline in the company's top line and profitability. These assume common parameters, such as a 12.3% WACC (with a 3.2% risk-free rate, a 1.1 beta, and an 8.3% equity risk premium) and a terminal growth rate of 2.0%. We have respective EUR8.0 and EUR6.6 fair values per share for our supportive case and the more conservative case. We derive our TP of EUR7.3 for Sciuker Frames based on the average of these two methods and initiate coverage on the company with a Hold rating.

We have also presented a valuation if Sciuker's 2021-24 business plan targets were reached, leading to a fair value of EUR14.5 per share.

Company profile

Sciuker Frames was founded in 1996 by Marco Cipriano, who together with his sister Romina Cipriano controls the 57.9% of the group (37.6% and 20.3%, respectively). The group is a player in the premium segment of the Italian windows and frames market. Sciuker differentiates itself from its competitors through its high quality and design standards and the advantage afforded by its proprietary, patented technologies. 2020 was a turning point for the group with the acquisition of the Ecospace subsidiary (80% stake, now raised to 88%), which has allowed it to fully capture the opportunities stemming from the government's fiscal incentives, especially from the Superbonus 110% plan.

In 2018, the company's value of production amounted to c. EUR11m, while in 2021 it reached c. EUR103m, with business generated through Ecospace amounting to EUR44.5m. The group is entirely exposed to the Italian market, with most of the revenues concentrated in its home region of Campania, the only area in which Ecospace is active. The group now comprises four companies following the acquisitions of GC Infissi and Teknika, which have allowed the group to enlarge its product portfolio and output capacity.

Business description

A premium player in the Italian windows market

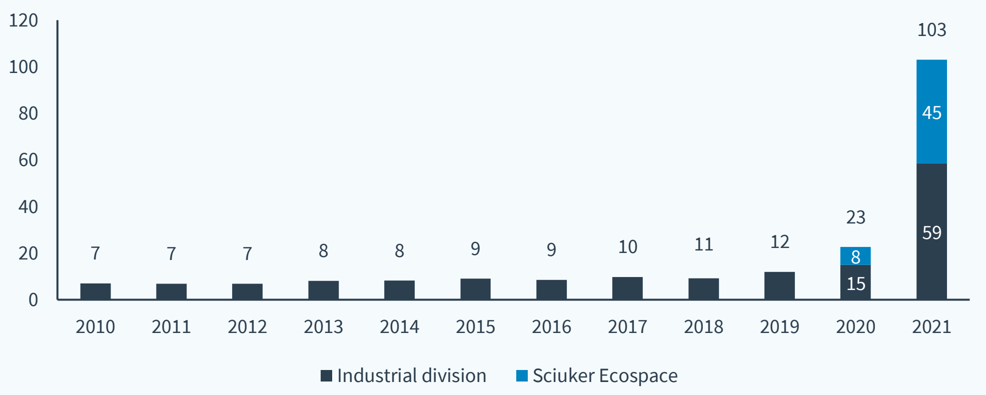
Business is enjoying strong government incentives: revenues were up exponentially over FY 2020-21

Sciuker Frames is an Italian player in the premium segment of the windows market, and the group's products stand out for their quality design and excellent sustainability standards.

Starting from 2020, Sciuker has gained further exposure to government initiatives thanks to the acquisition of Eco Contract, which it then renamed Sciuker Ecospace, specifically focusing on the richest portion of the incentive package – the so-called "Superbonus" with its 110% fiscal deduction – which has been a key growth driver for the group. In 2020, the value of production almost doubled from previous year amounting to c. EUR23m, while in 2021 it reached c. EUR103m, with business generated through Ecospace accounting for EUR44.5m.

The group's overall performance has also been supported by the consolidation in the Industrial division (with value of production rising from EUR15m to EUR59m), with the acquisitions of Teknika and GC Infissi that contributed more than EUR21m of sales. The group is almost entirely exposed to the Italian market (99% of value of production), and most of its revenues are concentrated in its home region, Campania, since this is the only area in which Ecospace operates. However, Campania is one of the regions with the lowest ratio of Superbonus 110% uptake in relation to eligible residential buildings.

Chart 7: Value of production, evolution (EURm)



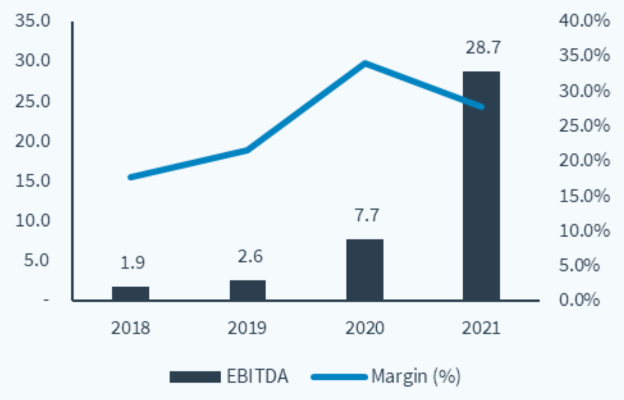
Source: Sciuker Frames, Kepler Cheuvreux

With also a well improved profitability

Profitability has also markedly improved, with EBITDA over value of production reaching 27.9% in 2021 from 17.7% of 2019. The underlying reason is attributable to the new business coming from the high-margin Sciuker Ecospace subsidiary (38.4% on total production in 2020). The outstanding growth seen in this business has led to an overall value of EUR28.7m in 2021, 11x higher than 2019.

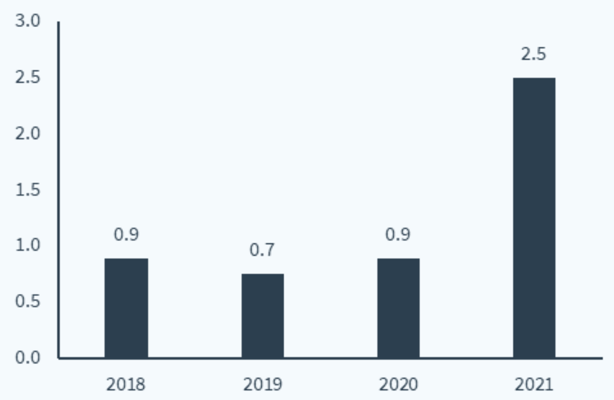
Moreover, despite the sizeable investments made in 2021 the company's indebtedness has decreased (also thanks to a capital increase performed in 2021), so much so that it is actually lower than EBITDA. At the end of 2021, net financial debt was c. 8% of EBITDA (EUR2.2m over EUR28.7m). The company also operates in an asset-light business, as the equity to fixed-assets ratio has grown materially, from 0.7x in 2019 to almost 2.5x in 2021.

Chart 8: EBITDA evolution (EURm)



Source: Sciuker Frames, Kepler Cheuvreux

Chart 9: Equity to fixed-assets ratio



Source: Sciuker Frames, Kepler Cheuvreux

Historical milestones: listed in 2018

Founded in 1996 and listed in 2018

Sciuker Frames was founded in 1996 in Avellino (50km east of Naples) by Marco Cipriano as a company involved in the design, production, and sale of wood-structural glass and wood-aluminium window frames. In 2001, the company inaugurated a proprietary R&D office, called Sciuker Lab, and since then it has worked to enlarge and extend its offer into other segments (Skill collection – entry level – launched in 2015; Offline collection – premium level – launched in 2017). The R&D laboratory has contributed to securing the company's current 16 patents, among which of note are the Stratec (2007) and Legatec technologies (2017); see page 24 for further details.

Together with its industrial operations, Sciuker Frames has also entered the retail space, with its first store opening in Avellino in 2004. This move was followed by four further store openings in more recent years in Bari, Cagliari, Milan, and Naples. In 2013, Sciuker became the owner of its production plant, which it had previously operated via a leasing agreement since 2008.

In August 2018, Sciuker Frames was listed on the Milan Stock Exchange, issuing a total of 3,572,000 new shares at an initial price of EUR1.4 per share and raising its equity by c. EUR5m.

At the time of the listing, which was primary only, the market capitalisation amounted to EUR15.3m and the free float was 32.6%. Previously, in a July 2018 extraordinary meeting, Sciuker decided to issue a warrant per every share following the eventual floating of the company. These rights were exercisable until 2021 on a yearly basis during a time period of two weeks at the price at the time of the IPO listing (hence EUR1.4), plus a 10% charge per every year passed since the listing. 98.8% of the warrants were exercised in May 2021 with a EUR1.86 strike price, raising Sciuker's equity by c. EUR20m.

Table 1: 2018-21 warrants details

Begin	End	Strike price (EUR)	Avg price (EUR)	Up/down (%)	Consequences
15/05/2019	31/05/2019	1.54	0.52	-66%	Not exercised
15/05/2020	01/06/2020	1.69	1.19	-29%	Not exercised
17/05/2021	31/05/2021	1.86	5.72	208%	98.8% exercised

Source: Sciuker Frames, Kepler Cheuvreux

2020-21: intense M&A to fully benefit from government incentives

The company's most recent years have also been characterised by an intense M&A activity. In 2020, Sciuker Frames acquired for EUR1.2m an 80% stake in Eco Contract (later renamed Sciuker Ecospace), an Italian general contractor that performed energy efficiency works (eligible for incentives) on condominiums and single-family units. In the same year, it divested its subsidiary Hub Frames, a Swiss company acquired in 2016 and active in the import/export of the company's products. Furthermore, it issued a EUR3m non-convertible bond with a seven-year maturity (and a pre-amortising period until 27/04/2021) to be allocated between production investments, reductions in commercial payables, and to benefit from some discounts on payables.

In 2021, Sciuker Frames closed two strategic acquisitions: first, it acquired GC Infissi and its two plants, a company specialised in the production of PVC frames (price paid: EUR2m + 50,000 Sciuker shares to be delivered on 15 January 2026), and then it acquired 60% of Teknika and its plant, a manufacturer of mosquito screens and other accessories (price paid: EUR2.9m plus an additional EUR1m in the event of revenues rising higher than EUR12m in 2022). The GC Infissi acquisition has allowed Sciuker Frames to broaden its offer (adding PVC on top of wood-structural glass and wood-aluminium), while the Teknika acquisition allows the company to be perceived as a one-stop shop for windows and related accessories.

Agreements with primary banks and with Enel X for fiscal credit transfer

It is also worth mentioning that over the past two years, the company has signed several agreements with primary Italian banks as well as with Enel X (part of Enel), in order to best exploit all the opportunities that the government fiscal incentives offer, and particularly those related to the transfer of fiscal credits (for further details, see the *Business model* section at page 23).

In October 2021, the company invested EUR10m in a new production plant in Pianoardine (Avellino), Italy, to double its production capacity.

Table 2: Sciuker Frames, milestones

1996	Marco Cipriano founds Sciuker Frames
2001	Sciuker Lab (R&D laboratory) is created
2007	Introduction of Stratec technology
2015	Introduction of Skill collection
2017	Introduction of Offline collection
2018	Sciuker Frames is listed
2020	Acquisition of Eco Contract (now Sciuker Ecospace)
2020	Agreement with Enel X for energy efficiency programmes
2021	Acquisition of G.C Infissi and Teknika
2021	EUR10m investment in new production plant in Pianoardine (Avellino)

Source: Sciuker Frames, Kepler Cheuvreux

Group structure

As mentioned, the group comprises four main companies:

- **Sciuker Frames S.p.A** is the company founded by Marco Cipriano in 1996, which controls the other subsidiaries with respective stakes of 88%, 63.5%, and 60% in Sciuker Ecospace, GC Infissi, and Teknika. It is active in the frames and windows market and designs natural windows in wood-aluminium and wood-structural glass. Sales amounted to EUR33.0m in 2021, while the backlog was at EUR47.7m as of March 2022.

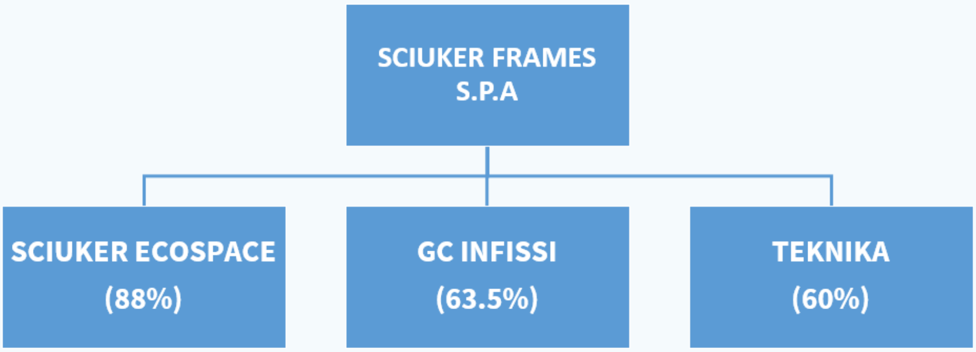
- **Sciuker Ecospace**, formerly Eco Contract, renamed after it was acquired in 2020, is an Italian general contractor that performs energy efficiency work (eligible for incentives) on condominiums to fully exploit the Superbonus 110% incentive programme. General contractors are companies in charge of the coordination of energy efficiency improvement works, which range from driving interventions to triggering the fiscal deductions, to the installation of frames directly through Sciuker Frames.

  Revenues amounted to EUR37.5m in 2021, while the backlog was at EUR155.4m as of March 2022 (EUR108.8m without intra-group activities). Sciuker Frames's former participation consisted of an 80% stake, which was later raised to 88%. This stake was estimated to be worth EUR1.4m at the end of FY 2021.

- **GC Infissi** is an Italian company active in the production, treatment, and installation of windows and frames. It contributes to the group's product portfolio enlargement, as it treats aluminium and PVC frames. The majority stake is held by Sciuker Frames (63.5%), though the CEO is the company's founder, Saverio Campo. GC Infissi has two production plants that cover a total area of 15,000 sqm and 140 employees. In 2021, it reported revenues of EUR13.5m with a EUR7m backlog in March 2022. Sciuker estimates that its stake in the company is valued at EUR2.5m.

- **Teknika S.r.l.** it is an Italian company focused on the production of accessories for windows, which include mosquito screens, roller shutters, and insulation devices. It has a production plant of 20,000 sqm and 120 employees. In 2021, revenues were EUR8.3m with a backlog of EUR3.5m in March 2022. The group values the stake at EUR2.9m.

Chart 10: Group structure (June 2022)



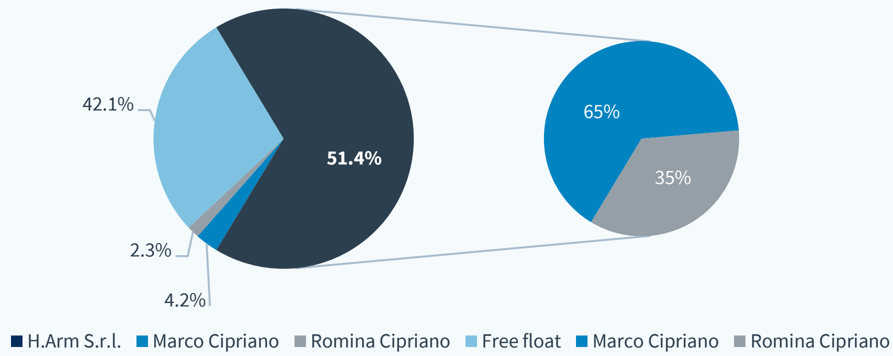
Source: Sciuker Frames

Shareholding structure

The group is mainly owned by the Cipriano family, through both the family holding H.ARM S.r.l. (which has 51.4% of the share capital) and directly owned shares.

- CEO and founder Marco Cipriano holds a 4.2% direct ownership and a 65% stake in H.ARM, implying an overall ownership of 37.6%.
- Vice- chairwoman Romina Cipriano, the founder's sister, has a 2.3% directly owned stake plus a 35% participation in H.ARM, for a total value of 20.3%.
- The remainder is owned by the market for a total free float of 42.1%.

Chart 11: Sciuker group shareholding structure (June 2022)



Source: Sciuker Frames

Reference market, positioning and strategy

The Italian windows market (which is the company's reference market) was valued at around EUR5.3bn in 2021 (vs. EUR4.8bn in 2019). It is now expected to grow further recovering from a flattish trend over the 2016-19 period and a decline during 2020 due to the pandemic situation. The underlying reason for the sector's current growth prospects mainly lies in the Italian fiscal incentives, which accounted for c. 30-40% of the overall demand over 2016-21, and in particular thanks to the "Superbonus 110%", a massive plan introduced in 2020 granting a 110% tax deduction on expenses to improve buildings' energy class. In 2022, fiscal bonuses should support 40% of the market.

The windows market is highly fragmented among small businesses, with companies with an annual turnover of more than EUR20m accounting for just c. 15% of it. Sciuker's most important competitors are non-listed companies, which do, however, work in different segments given their lower price range and quality.

In October 2021, the company disclosed its 2021-24 industrial plan, which outlined the aim to more than double its production value by end-2024, to EUR232m, to reach EUR64.8m EBITDA (27.9% margin) and to focus on sustainability.

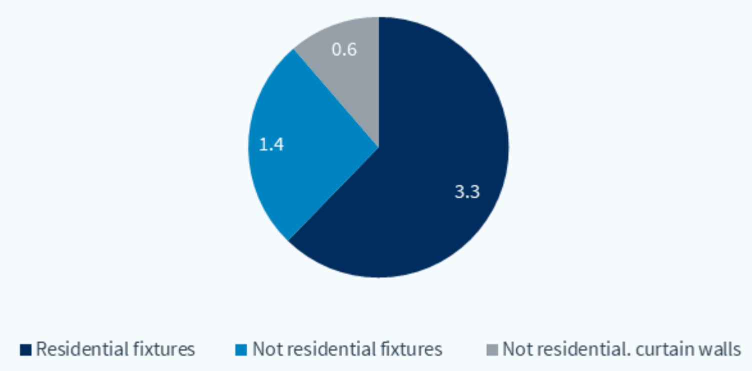
The reference market

Post-Covid rebound expected to be consolidated in FY 2022-23

Reference market is worth around EUR5.3bn

According to ISTAT, the Italian National Institute of Statistics, in 2021 investments in Italian residential and non-residential buildings were worth EUR69.5bn and EUR44.9bn, respectively. Of this amount, the windows market (Sciuker Frames's reference market) was worth c. EUR5.3bn: residential accounted for EUR3.3bn, while non-residential accounted for EUR1.4bn. The remaining EUR0.6bn came from curtain wall expenditure for non-residential purposes.

Chart 12: The Italian window market breakdown in 2021 (EURbn)



Source: ISTAT, Kepler Cheuvreux

2021 market above 2019 levels…

The Italian windows market has increased noticeably over the past five years, growing from around 7.2m total windows sold in 2016 to 8.5m in 2021 and registering a c. 3% CAGR over the period. The residential market, accounting for c. two-thirds of total volumes, has grown a touch above the average (3.5% CAGR), from 4.9m to 5.8m units sold, whereas the non-residential market has posted a 2.8% CAGR.

Following the Covid-related drop in 2020 (from 7.6m units in 2019 to c. 7m), the recovery in 2021 has been outstanding, especially on the housing side: sales of residential and non-residential frames rebounded by c. 26% and 8% YOY, respectively, after a decline of 10% and 4% in 2020. The market has therefore reached a level well above that of 2019 (+16% for the residential market, +4% for the non-residential, amounting to 8.5m units overall).

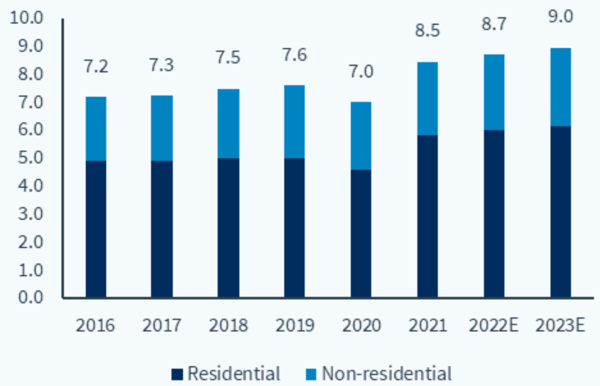
...with expectations for further growth

According to UNICMI, the Italian Union for Metal Construction Industries, this favourable trend is set to continue: the overall 2021-23 CAGR is expected to be at c. 3%, implying that 2023 will end with c. 18% more windows sold compared to 2019 (9.0m vs. 7.6m). A sizeable part of this growth is likely to come from the residential sector, which is expected to end 2023 around 22% higher than in 2019 (6.1m units vs. 5.1m), in particular thanks to renewals.

Windows sold for renewals increased remarkably in 2021, with around 20% more units sold than in 2019 (4.8m units vs. 4m). This trend is set to improve further, as UNICMI believes that total units sold could reach the 5m threshold by 2023. Among the drivers behind market growth expectations, it is worth mentioning the poor energy efficiency ratings of Italian buildings, in addition to the related incentives approved by the Italian government.

Indeed, according to the Sciuker group, around 60% of Italian residences (or 18m units) belong to energy-inefficient classes (a high level, though still below that of the European Union overall at 75%), and the fiscal bonuses should amount to 41% of total demand in the market in 2022. The strength of these measures becomes even clearer if we consider that residential windows sold have historically remained almost flat, posting a 0.8% CAGR between 2016 and 2019 (from 3.9m to c. 4.0m units sold). Similarly, windows sold for new houses have historically been stable, at around 1-1.1m units per year, and are expected to maintain a similar trend going forward.

Chart 13: Windows sold by year in Italy (millions of units)



Source: UNICMI, Kepler Cheuvreux

Chart 14: Residential windows sold in Italy, breakdown (mm of units)

Source: UNICMI, Kepler Cheuvreux

Demand expected to grow even in terms of value

The volume trend in the windows market has been reflected overall in the demand of the market. The residential business remained flattish overall during the 2016-19 period, with a CAGR of around 1.9%, representing almost 60% of total demand in these years, ranging from EUR2.6bn to EUR2.8bn.

In contrast, the non-residential business grew at a CAGR of c. 5.3%, moving from EUR1.7bn to almost EUR2.0bn over the same period. Covid-related disruptions caused an overall 7.0% contraction in 2020 (-8.5% for residential and -5.0% for non-residential), leading the market to fall from EUR4.8bn in 2019 to EUR4.4bn in 2020.

However, this decline was more than offset in 2021, when the market jumped by 28.5%. Looking ahead to 2022 and 2023, demand for both residential and non-residential buildings is likely to continue to grow at 3.5% and 4.1% CAGRs, respectively. Total revenues might therefore amount to around EUR6.0bn in 2023, i.e. c. 12% more than in 2021 and c. 26% more than in 2019, of which 61% from the residential segment.

Chart 15: Windows demand in Italy (EURbn)

Source: UNICMI Kepler Cheuvreux

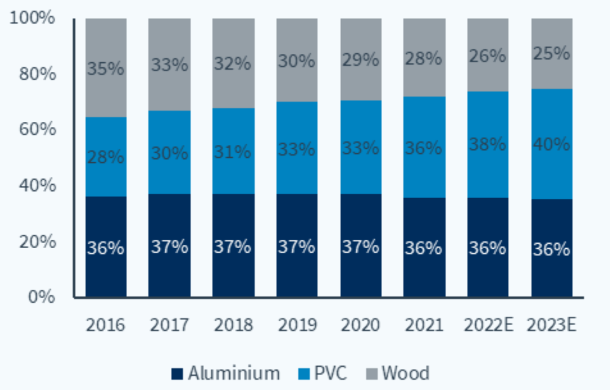
Market breakdown by material

Frames for both residential and non-residential purposes are mainly made in three different materials: wood, PVC, and aluminium. The biggest differences are with regards to resistance (where aluminium has the highest properties in this respect), weight (PVC is the lightest material), and design (PVC is the least attractive material), while heating insulation properties are similar for all three options.

Prices vary significantly: if we compare market shares in terms of value and volumes, wooden frames are the most expensive (value/volume ratio of 1.17), followed by aluminium (1.13), and PVC (0.82). PVC frames' more competitive pricing levels have also seen them recently increase their (value) market share sizeably, from c. 28% in 2016 to around 36% in 2021.

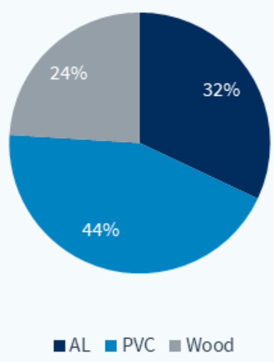
Gains in PVC frames have come to the detriment of wood, which has shown a similar, but opposite trend: it had a c. 28% market share in 2021, down from around 35% in 2016. Forecasts for the following two years suggest a similar development, with PVC frames set to further erode the market shares of wooden products, and to reach almost 40% of the market.

Chart 16:Italian frames market, breakdown by value



Source: UNICMI, Kepler Cheuvreux

Chart 17: Italian frames market, breakdown by volume (2021)



Source: UNICMI, Kepler Cheuvreux

Fiscal incentives: the Superbonus 110% and the Ecobonus

110% tax deduction on building's energy efficiency

In May 2020, the Italian government introduced the "Superbonus 110%" incentive system, based on a 110% tax deduction on expenses incurred to improve buildings' energy efficiency by at least two energy classes.

To qualify for the Superbonus 110%, an improvement of two energy efficiency classes is mandatory. Furthermore, a "driving intervention" must also be carried out. This could be:

What works are included in the plan?

- The thermal insulation of the building envelope.
- The substitution of individual heating systems with centralised systems.

- The replacement of heating systems for single-family dwellings contained within multi-family buildings but whose heating systems are functionally independent.

The duration and extent of the Superbonus 110% depends on who is the ultimate beneficiary and on when the works are completed. In detail:

- Condominiums and individual buildings (with up to four units inside) for residential use can benefit from a 110% deduction on expenses incurred up to 31 December 2023, 70% for expenses generated in 2024, and 65% for those sustained in 2025.
- 110% expenditure deductibility for social housing projects (IACP) is active until 31 December 2023 if at least 60% of the works are completed by mid-2023.
- Regarding interventions carried out on single-family buildings, the 110% deduction expires on 31 December 2022, provided that by the end of June 2022 at least 30% of the total works have been executed.

However, these expenses are all capped to avoid potential fraud and any unrealistic price inflation. The limits depend on which type of work is being carried out (for example, thermal insulation is the most expensive item) and on the number of units in an entire building. For example, works on the thermal insulation of the building envelope have a maximum deductible amount of EUR50,000 for single-family buildings or functionally independent real estate units within multi-family buildings. The same intervention has a limit of EUR40,000 per unit if the building incorporates up to eight units and EUR30,000 if there are more than eight individual units.

Once the driving intervention is completed, the beneficiary can choose to undertake further works such as, among others, replacing a building's frames. The related deductions here would be lower, as the tax benefit for replacing frames is only 50% of expense incurred, with a maximum of EUR60,000.

Table 3: Superbonus 110% – main conditions

Beneficiary	Deduction	Terms and conditions
Condos and individual buildings	110%	Until 2023
	70%	2024
	65%	2025
IACP	110%	By 31/12/2023 with 60% works completed at 30/06/2023
Natural person on single-family buildings	110%	By 31/12/2022 with 30% works completed at 30/06/2022

Source: Agenzia delle Entrate, Kepler Cheuvreux

The Ecobonus grants a 50- 90% tax deduction on selected works

However, there is more to the available incentives than just the Superbonus 110%. The so-called "Ecobonus", which incentivises any works to reduce energy requirements for heating and improve the thermal insulation of buildings (floors, windows, frames, etc.). The Ecobonus consists of five annual quotas and ranges from covering 50-90% of expenses.

For most interventions, the attributable deduction amounts to 65% of the total expenditure (involving mostly the heating system), while it amounts to 50% in the event of the replacement of frames and windows. The highest deduction rates involve major work such as interventions in the communal or structural shared areas of a condominium. The Ecobonus plan has deeper roots than the Superbonus 110%, as it was introduced in 2007 with a dedicated decree and is renewed on a yearly basis through the annual budget law.

However, considering the poor energy efficiency of Italian buildings (c. 60% of these, or 18m units, belong to inefficient energy classes), and in Europe in general (with 75% of buildings being energy inefficient), we believe the renewal of these incentives is quite certain in the coming years.

Tax credit management

Tax credits can be sold, allowing beneficiaries to carry out works (almost) for free

Therefore, the Superbonus 110% plan allows eligible individuals to renovate their homes (with a maximum of two houses per applicant) while receiving a relevant tax deduction. But how are these tax credits being managed?

Beneficiaries have several options. One possibility is to pay for works upfront and receive a 110% tax deduction from the Italian government to be enjoyed over a period of four (only for 2022) or five years (other bonuses usually cover a ten-year period).

Every year, beneficiaries will pay less taxes for an amount equal to one-fourth or one-fifth of 110% of their invoices, with a cap equal to the amount of taxes to be paid. Alternatively, as of July 2020, beneficiaries can also sell these credits either to the companies that have completed the works (no cash-out for the total amount of works; sale of the credits directly discounted in the invoices) or to financial institutions (in this case, beneficiaries have to first pay the total value of the invoices and then recover the money).

However, most banks have recently stopped buying these credits (or they have limited such operations to individual clients) because they had already reached full capacity under Italian law, which states that tax credits cannot be higher than the taxes banks should pay. The two most important financial institutions in Italy, Intesa Sanpaolo and UniCredit, have stopped purchasing these tax credits since February and April 2022, respectively.

Higher interest rates have made the bonus less enticing for banks and credit owners

The underlying idea of this scheme was that banks could have benefitted from an asset with a similar risk profile to a five-year Italian sovereign bond but with deeply higher yields, as these credits were acquired at a higher discount. Nevertheless, due to the increase in the five-year Italian bonds since last year (from c. 0.1% in June 2021 to c. 2.8% in June 2022), banks would need to buy these tax credits at a higher discount to get the same profitability. In numerical terms, a 270bp higher interest rate from the five-year Italian bond would lead to a 13.5% higher discount on the tax credit compared to previous conditions.

Consequently, the Superbonus 110% has become less appealing for the immediate beneficiaries of the tax credit (companies or final customers) as they cannot easily sell it as in the past.

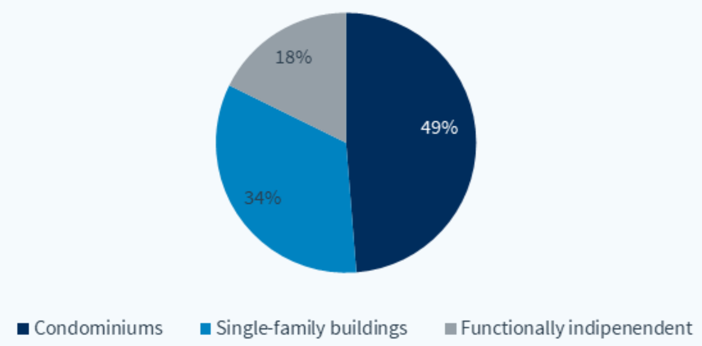
Effects of bonuses and controversies

The Superbonus 110% is having a sizeable effect on the Italian building market and on the Italian economy as a whole. As of the end of June 2022, ENEA, the Italian National Agency for New Technologies, Energy and Sustainable Economic Development, reported a total expenditure of EUR33.7bn since August 2021, of which EUR16.2bn from 2021 came from the Superbonus 110% plan, 1.2% higher than the amount government expected at end 2023.

A sizeable plan…

Condominiums are the category that has benefitted the most from this incentive, accounting for around half of the total (49%). The remainder is split between single-family buildings (34%) and functionally independent buildings (18%). Moreover, the Superbonus 110% accounted for 23.3% of the residential market in 2021, according to ISTAT estimates (EUR69.5bn). The size of this measure can be even further appreciated if we compare it with the Ecobonus's overall value of around EUR23bn over 2014-20.

Chart 18: Superbonus 110% main beneficiaries



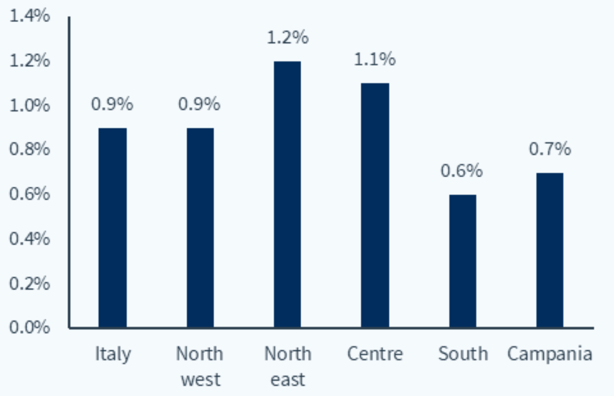
Source: ENEA, Kepler Cheuvreux

According to the research office CGIA, the Italian Association of Artisans and Small Businesses, at the end of January the overall national expenditure from the Superbonus 110% covered an estimated 0.9% of total residential buildings. On a regional level, Campania (49% of sales in 2020, 2021 data not disclosed), which is the most relevant area for Sciuker Frames, ranks thirteenth in terms of works as a percentage of total residential buildings (0.7%), below the

...with a still-low penetration

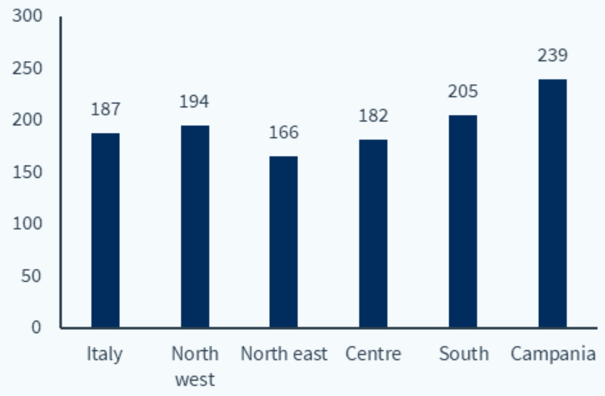
Italian average (0.9%), but slightly higher than average for the southern regions (0.6%). However, we note that Campania ranks third in terms of average expenditure, placing it above the average of any other main Italian area under consideration.

Chart 19: Interventions as a % of total residential buildings by region (%)



Source: CGIA, Kepler Cheuvreux

Chart 20: Interventions: average spending by region (EUR '000)



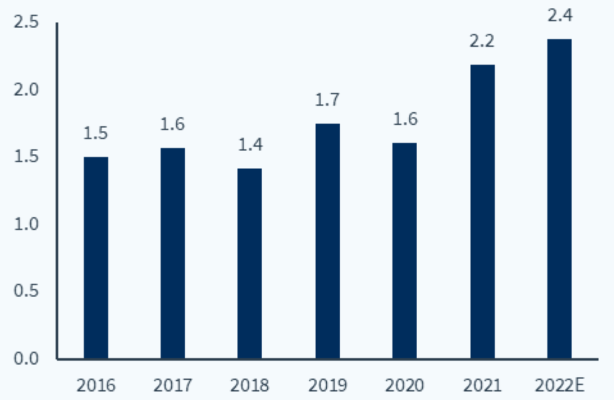
Source: CGIA, Kepler Cheuvreux

c. 40% of windows sales related to bonuses

On the other hand, according to data released by ENEA, tax incentives have historically had a remarkable effect on the windows and frames market. In fact, such mechanisms should have accounted for between 30% and 41% of overall demand over the 2016-21 period.

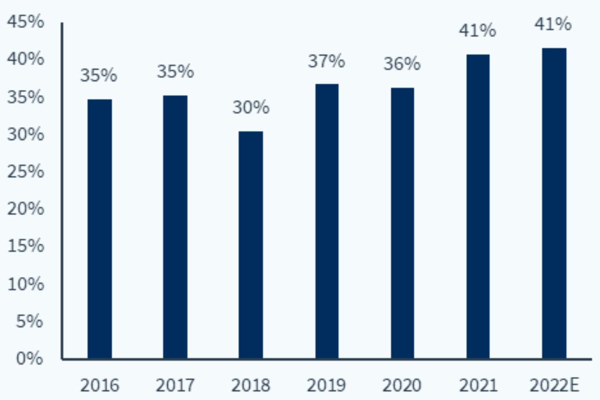
Moreover, this component has had a remarkable impact on the 2021 market recovery, growing from EUR1.6bn in 2020 to EUR2.2bn in 2021, accounting for 41% of overall demand. Since such incentives are also active for this year, UNICMI forecasts a similar weight in the mix (i.e. 41%).

Chart 21: Windows and frames demand from tax bonuses (EURbn)



Source: UNICMI, Kepler Cheuvreux

Chart 22: Weight of tax bonuses as a % of window market demand



Source: ENEA, UNICMI, Kepler Cheuvreux

Bonuses subject to tax fraud...

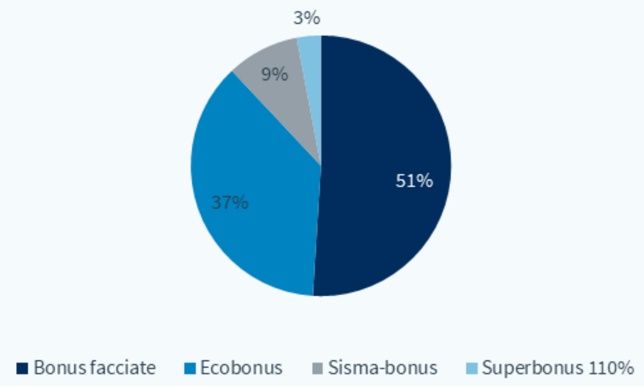
In February 2022, Italian Prime Minister Mario Draghi described the Superbonus 110% and other construction work plans as one of the biggest sources of fraud in the country, announcing that he would implement further controls on such programmes. These controls will be based on a risk index, sifting through tax activities, anti-mafia checks, anti-money laundering inspections, and data banks.

...but this is rare when it comes to the Superbonus 110% plan

Around the same time, the head of the Italian tax agency declared that total non-existent bonuses amounted to EUR4.4bn, with the seizure of EUR2.3bn out of a total of over EUR20bn. The most common types of fraud stem from fake credits, the purchase of credits using illegal capital, or the so-called “illegal financial” gains from ineligible subjects carrying out many tax credit purchase and sale operations.

According to estimates from OCPI, the Italian Public Accounts Observatory, which is part of the Catholic University of the Sacred Heart, 37% of fraudulent bonus activity comes from the Ecobonus, while only 3% is from the Superbonus 110%. This fraud is mainly related to the "Bonus facciate" (51%), an incentive scheme aimed at renewing buildings' external facades, in addition to the Sismabonus (9%), an incentive for works on buildings to increase their resistance to seismic movements (not included in the Superbonus 110%). Both these incentives have limited importance in terms of replacing windows and frames.

Chart 23: Most-used construction bonuses for fraudulent purposes (2021)



Source: OCPI, Kepler Cheuvreux

One of the underlying reasons why the Superbonus 110% is so reliable stems from the presence of an independent expert, in addition to compliance documentation to certify the requirements for the deduction. Consequently, these two elements have been taken as a reference and extended to the other deduction plans since last November. Moreover, preventive checks on sales communications and discounts on invoices referring to all types of home bonuses have gradually been tightened. Moreover, as of February 2022 the government is now imposing fines for fraudulent behaviour, and even imprisonment for those qualified technicians who make false statements.

Some hidden costs for the Italian government

However, there are also many other factors that contribute to a further rise in public expenditure, which is already high due to these incentives. Among these, we note the moral hazard risk, as individual beneficiaries are less motivated to check actual prices or to negotiate better conditions as they are not actually spending any money. On the contrary, individual beneficiaries could even benefit from higher prices since deductions are 10% higher than what they actually paid for the works. According to OCPI, the maximum coverable amount does not seem to be robust enough and could be avoided with the help of compliant technicians. This aspect is becoming even more significant due to the strong demand from individual beneficiaries and raw material inflation.

These incentives have mainly been carried out with a dual scope: to improve energy efficiency (the European Union is strongly committed to this) and to support the building sector, which otherwise would have been strongly jeopardised by the Covid pandemic. The benefits of these schemes are tangible and there is a great deal of potential for further benefits, as still only a limited portion of Italian buildings have applied for these programmes (0.9%), meaning there is still room for further opportunities.

Conclusion

Moreover, the rising demand for such incentive programmes is also leading to a greater need for raw materials, which companies can easily transfer to the final customers. In fact, there is no real incentive to contain costs, as indeed individuals even benefit from an increase in expenses as the deduction more than offsets such expenses. However, we note that the Italian minister of economics Daniele Franco stated that the Superbonus 110% and other building bonuses are not sustainable in the long run due to their high underlying costs. The consequent worries of a Superbonus 110% termination should then lead to an acceleration of requests in 2022 and in 2023.

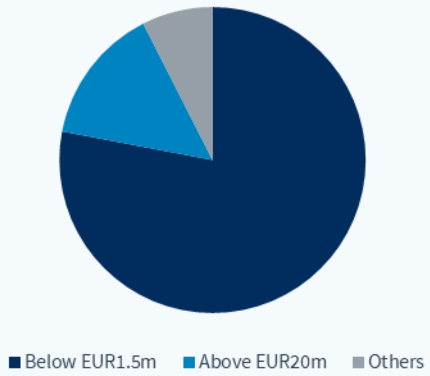
Positioning

Very fragmented market

Acting in a market niche with few direct competitors

The Italian frames market is highly fragmented: according to Sciuker Frames, 78% of this market is in the hands of small businesses with annual revenues of less than EUR1.5m. Companies with an annual turnover of above EUR20m account for just c. 15% of the market.

Chart 24: Market operators, breakdown by revenues (2021)



Source: Sciuker Frames, Kepler Cheuvreux

Nusco: the only listed Italian peer

According to Sciuker Frames's IPO prospectus (2017), the most important competitors in its market are non-listed companies, such as the Italian Secco Sistemi and Finstral, as well as international players like Drutex (Poland), Oknoplast (Poland), and QFORT (Romania). However, according to Sciuker, these companies are more focused on economies of scale and are characterised by lower price ranges, as well as lower quality.

In fact, at the time of its IPO, Sciuker Frames's average prices were the highest among the ten largest producers in Italy, as the company mainly operates in the premium segment. The only direct listed competitor of Sciuker Frames is Nusco, an Italian company that went public in August 2021, which is active in both the door and window markets.

Nusco's windows business unit registered revenues of EUR12m in 2021 (out of a total of EUR25m) and adjusted EBITDA of EUR1.8m. It produces PVC, aluminium, and wooden frames and works with around 1,000 independent resellers and 52 franchising stores. Like Sciuker Frames with Ecospace, it has a subsidiary called Nusco Energy that works as a general contractor to fully exploit the Superbonus 110% incentives. Similarly to Sciuker Frames, it also has a relevant exposure to Campania (70% of its total revenues) and a low focus on foreign markets (only 3% of revenues are generated abroad). Its price segment is in the medium-high range.

Strategy: 2021-2024 industrial plan

In October 2021, Sciuker Frames disclosed its 2021-24 industrial plan called "Direzione Sostenibilità" (direction sustainability), as energy efficiency is seen as a key driver to support company's business. The low energy efficiency of Italian (and European) buildings (18m buildings are classified as having low energy efficiency in Italy alone, or c. 60% of the total) is in fact well-reflected in the remarkable potential growth expected for the frames market, according to the UNICMI forecasts described above.

Positive environmental impact

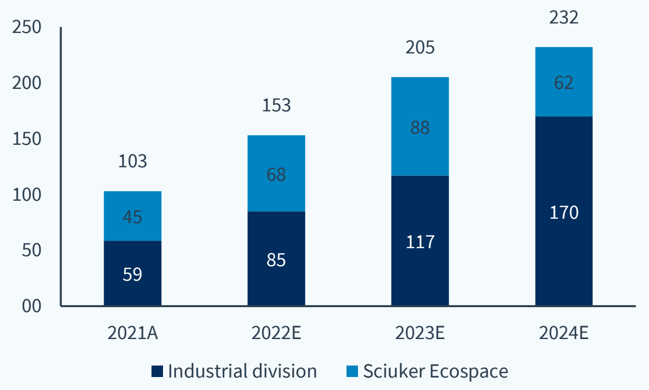
With regard to non-financial targets, Sciuker Frames aims to reduce CO2 emissions by 55% by 2030 and to have a net-zero impact by 2050. Moreover, we recall that an efficient thermal insulation leads to considerable emissions saving, as real estate has a heavy carbon footprint (it is responsible for 40% of global CO2 emissions, according to *Forbes*). For further details, please see our ESG insert at the end of the report.

Value of production set to more than double by 2024 (vs. 2021) and EBITDA margin above 27%

With all main fiscal bonuses still in place, Sciuker estimates that its overall value of production is set to grow at a 31% CAGR over the plan period, reaching EUR232m in 2024. The Superbonus 110% plan is expected to make a solid contribution to results, accounting for over 40% in both 2022 and 2023.

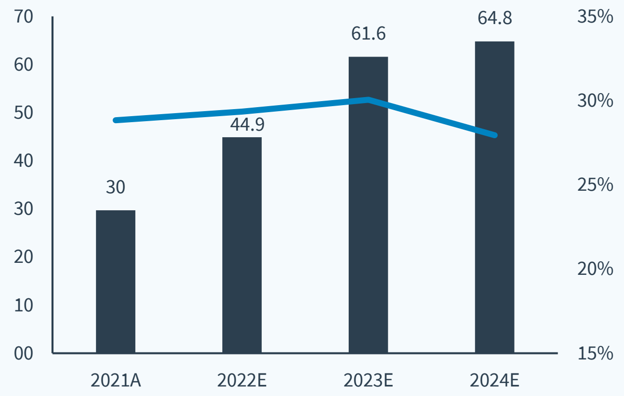
Along with a remarkable increase in turnover, the group also expects an EBITDA over the value of production ratio at above 27% for the entire planned period. In absolute terms, 2024E EBITDA is set to more than double versus 2021, reaching EUR64.8m (vs. EUR29.7m in 2021).

Chart 25: 2021-24E planned value of production (EURm)



Source: Sciuker Frames, Kepler Cheuvreux

Chart 26: 2021-24 EBITDA (EURm)



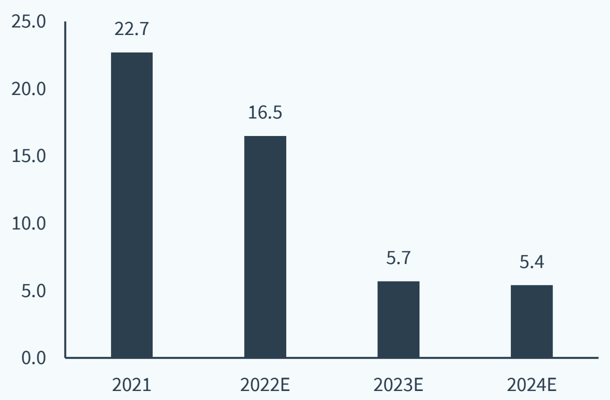
Source: Sciuker Frames, Kepler Cheuvreux

To reach net cash despite strong capex starting from 2022

To support its growth ambitions, Sciuker Frames invested EUR11m in 2021 to finance projects such as the acquisitions of Teknika and GC Infissi, in addition to a new production plant in Pianoardine (Avellino) that should double the group's output capacity. With regard to 2022, the company has budgeted for EUR16.5m in capex, before returning to a more normalised level in 2023 and 2024 (EUR5.7m and EUR5.4m, respectively).

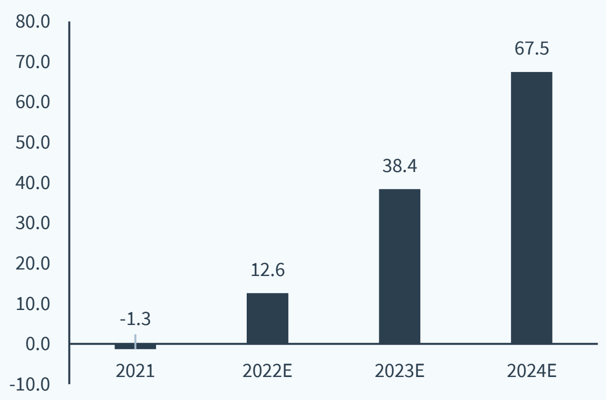
However, since capex in 2021 was less than half of the budgeted amount, the difference is expected to be recovered during the remaining years of the plan. Through these outflows, the group points to more than tripling its 2021 production capacity, from c. 50,000 annual final products to about 160,000 by 2024. Despite these investments, the abovementioned strong operating performance should allow the company to continue generating FCF, in addition to steadily improving its net cash position, which is expected to reach EUR67.5m in 2024.

Chart 27: 2021-24 business plan capital expenditure (EURm)



Source: Kepler Cheuvreux

Chart 28: 2021-24 business plan net cash/net debt (EURm)



Source: Kepler Cheuvreux

Further strategic details

According to the company's recently published ESG report, the group has shared that it aims to start further partnerships and foreign strategic "hubframes" to support the productivity of its Italian plants. It is also planning to make further acquisitions to consolidate its market share and to boost organic growth.

Products and business model

Sciuker Frames designs natural windows in wood-aluminium and wood-structural glass, providing higher standards than most common PVC products. The company's patented technologies, developed by its dedicated R&D department, are a key advantage for Sciuker Frames and its market positioning.

Starting with the reception of a client's order, the whole production cycle lasts eight weeks on average. It starts with the design of the order sent from the reseller, followed by the sourcing of raw materials, mostly glass and wood. The production process is entirely overseen by the group and consists of transforming the raw materials and subsequently assembling the components.

Given the strong demand for its Ecospace projects, the company has temporarily outsourced part of the manufacturing of related products to third parties from eastern Europe. Sciuker Ecospace is a general contractor company that coordinates Superbonus 110% projects through partnerships with specialised operators, such as Sciuker Frames for window installation.

Products

Since its foundation, Sciuker Frames has been designing natural windows in wood-aluminium and wood-structural glass. All of its products are based on patented technologies that have defined new production and aesthetic standards year after year, allowing the company to remain at the forefront of innovation and to obtain an exclusive market positioning.

For all of the Sciuker Frames lines, windows are available in triple glass to obtain greater thermal and acoustic insulation.

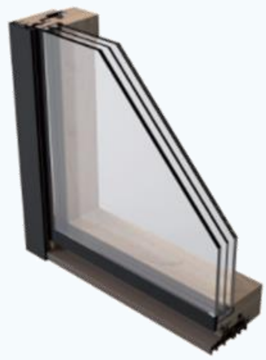
The company is currently offering five product lines. In more detail:

- **Offline (the hidden window):** Thanks to the extremely low depth of these doors (36mm for sliding doors and 48mm for casement windows), the profile of this product (integrated into the masonry) provides a sensation of continuity between indoor and outdoor spaces, ensuring maximum brightness. And it does all of this without renouncing the warmth of wood. Offline windows comply with all mechanical, thermal, and acoustic standards.

Chart 29: Offline window

Source: Company website, Kepler Cheuvreux

Chart 30: Offline window detail



Source: Company website, Kepler Cheuvreux

- **Exo (the essential window):** This is the first integrated window system in wood aluminium and wood structural glass, with a central node of 36mm for sliding windows and 81mm for casement windows. When designing this product, Sciuker worked on the maximum dematerialisation of the doors, guaranteeing an abundance of natural light and subtle lines. In its "zero" version, the Exo door guarantees 35% more light, creating a refined play of lines that enhances the lightness and design of the window.

Chart 31: Exo window

Source: Company website, Kepler Cheuvreux

Chart 32: Exo window detail

Source: Company website, Kepler Cheuvreux

- **Isik (the window of light):** Isik is a family of functional frames in structural glass and aluminium wood, with a design responding to the objectives of stability and warmth set forth by Stratec technology. Despite their smaller size, Isik products have a great visual presence and a strong bearing, with a balanced glass/door proportion (section of only 68mm).

  Comfort and safety are guaranteed by top-level anti-burglary hardware, and by the product's tilt-and-turn mechanisms. The drip tray (with non-visible water drainage holes) and the 90-degree coupling system in the corners of the external profiles (patented technology) enhance the aesthetics and minimalist design of this line. Around 30% more light enters the room compared to a standard window.

Chart 33: Isik window

Source: Company website, Kepler Cheuvreux

Chart 34: Isik window detail

Source: Company website, Kepler Cheuvreux

- **Stratek (the advanced window):** The Stratek line consists of wood aluminium window systems, with 90-degree corners coupling in aluminium profiles (patented system). It is specifically designed for renovation and renewal needs, especially for urban centres, where large windows and minimum opaque parts dimensions are required. This line takes its name from its Stratec technology, allowing for a choice of as many as 38 combinations of essences and colours. The reduced sash and frame height also favours maximum brightness. According to Sciuker, Stratek windows have an unlimited duration and do not need major maintenance.

Chart 35: Stratek window

Source: Company website, Kepler Cheuvreux

Chart 36: Stratek window detail

Source: Company website, Kepler Cheuvreux

Skill (the natural design window): Skill is a wood-aluminium collection created to meet market demand for a product with a natural design and high thermal insulation performance (lamellar wood on the inside and heat-profiled aluminium sheet on the outside).

The Skill collection boasts two patents: 1) Legatec Overlap Thermal Profile technology, concerning the application of heat-profiled profile on the external wood with a technological aluminium sheet alloy protected by a thermostatic insulating layer and external film based on acrylic resin, with a high functional performance that not only protects the wood from atmospheric agents, but also helps to preserve the shine and duration of the product; and 2) angular sash coupling, 90 degrees outside and 45 degrees inside, which recalls the style of traditional wood windows and therefore makes these frames ideal for renovations even in historic city centres.

Chart 37: Skill window

Source: Company website, Kepler Cheuvreux

Chart 38: Skill window detail

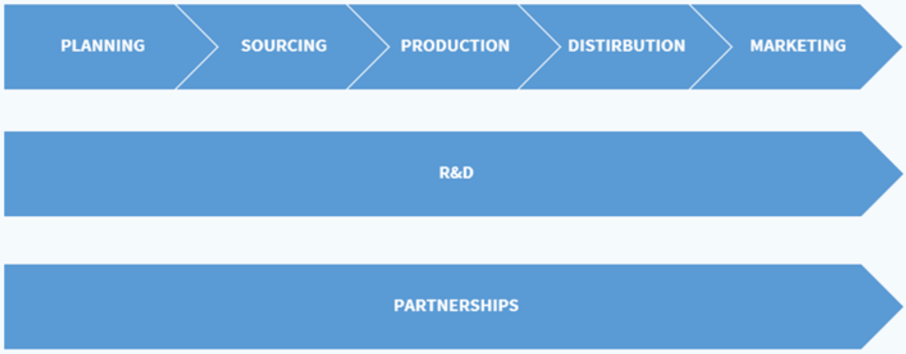
Source: Company website, Kepler Cheuvreux

Sciuker also designs and manufactures aluminium shutters. With overlapping doors on the frame, its snap fastening and 90-degree coupling in the corners (patented system) bring to mind the most complete style and design of the wooden shutters. Sciuker shutters fit any window and require minimum maintenance.

Business model

The company's value chain is quite lean and simple, mainly involving the following steps: 1) planning and design; 2) sourcing; 3) production; 4) distribution; and 5) marketing and promotion.

Chart 39: Sciuker Frames's value chain



Source: Sciuker Frames, Kepler Cheuvreux

Planning and design: R&D at the core

The group's production starts with the planning and design phase of any order sent from the reseller, who has previously reached an agreement with the customer with regard to the quote and product. This step is carried out by the company's proprietary R&D department called Sciuker Lab, which has been active since 2001. Since its inception, this department has provided strategic value, leading to 16 patents. We provide more details on two such patents below:

- **Stratec technology**. First patented in 2007, this technology consists of mainly using pine wood (cheap, common, and with excellent acoustic and thermal insulation) to produce windows, which are then finished by applying an external layer of fine wood (such as teak, ebony, oak, etc.).

  This represents a strong competitive advantage over its competitors, as on one hand it allows Sciuker Frames to bring to the market a premium product at an affordable price (capable of competing with PVC), while on the other it is still efficient in terms of inventory management and production complexity (less machinery and operations).

- **Legatec technology (overlap thermal profile)**. This patent (2017) consists of the application of an aluminium layer on the wooden frame through a specific resin. This technique allows for significant cost savings (it requires less aluminium than usual products), as well as a higher profile in terms of insulation: compared to a traditional wood-aluminium technology, in fact, it avoids the empty space between the layers (aluminium is clipped to wood), providing better acoustic and thermal insulation. The Legatec technology is at the base of the company's Skill product line.

This department is made up of a group of technicians and designers, coordinated by CEO Marco Cipriano and assisted by engineers Rocco Cipriano (the inventor of the patents and father of the CEO and of the vice chairwoman) and Ruggero Galasso. Sciuker Lab aims to embrace production efficiency (waste reduction, productivity, environmental impact) and product innovation, in addition to satisfying its customers' needs and offering an outstanding performance.

In April 2018, Rocco Cipriano sold his patents for EUR500,000, an amount which was then converted into equity after the IPO at the initial price. According to international laws, patented rights have a 20-year average maturity. Consequently, two of these patents are expected to expire by 2025: one involves the internal layer of the window (expiring in October 2024), while the other (expiring in June 2025) has to do with some improvements on composed frames. Stratec technology, which is considered to play a key role in the group's competitive advantage, was patented in 2007 and it should be set to expire in 2027.

Sourcing

Once the design of an ordered product is completed, the group contacts its suppliers to source the raw materials it needs for production. The most used component is obviously glass, which is fully Saint-Gobain-certified, as the group not only sells the frame but also the whole window. Wood (entirely FSC-certificated) is the second-most used material, as it is also widely used in products involving aluminium, as in the case of Legatec technology-related products.

In 2021, the company had a total of 678 suppliers, 109 more than in 2020, 96% of which are located in Italy (of which 39% are from same region of the sourced plant). The group is committed to looking for new suppliers only in the event that its current partners are unable to meet the company's needs. In that case, the process would then be divided into three steps, starting with market research to find potential suppliers in line with company's business.

New partners must complete a questionnaire to ensure that their quality control system is compliant with ISO 9001 standards or that they are willing to obtain such qualifications shortly. Sciuker also verifies any new partners' reputation, financial stability, and legal compliance. Finally, the purchasing department sends a quote specifying required details for the product or the service.

Production

The group has six production plants in Italy, all owned and managed by the group, with an overall space of 130,000 sqm and 537 workers as of October 2021. Out of these, half belong to Sciuker Frames (all of which are located in the Campania region), while the remaining plants coming from acquired companies Teknika (one plant focused on mosquito screens) and GC Infissi (one plant focused on PVC and another on aluminium) are in Piedmont.

However, since 2017 Sciuker Frames S.p.A. has outsourced the production in its own plant, although it continues to monitor this periodically. All in all, the production process is entirely overseen by the group and can be split into two main phases.

First, the raw material is transformed into the standard semi-finished product through carpentry works that are completely automated, thus maximising the use of resources and reducing processing time. Once the semi-finished products arrive at the warehouse, they are assembled with other components (glass, for instance).

In order to offer a personalised product according to customers' needs, the assembly activity is mainly manual. Thanks to Sciuker Frames's technologies (Stratec in particular), the production process is very efficient as it uses the same production line for every product (as the starting wood is also the same).

Starting from the reception of a client's order, the whole production cycle lasts eight weeks on average, depending on the complexity of the product (the Skill collection, which is for an entry-level segment, has an average lead time of six weeks, for instance). Given the current capacity, Sciuker aims to more than triple its output production by 2024, with a target of reaching 160,000 goods produced, up from around 50,000 in 2021.

However, this addition is not enough to meet the strong demand the company is seeing. Therefore, Sciuker Frames is temporarily outsourcing part of its processes to third parties with strong expertise located in eastern Europe (such as in Poland and the Balkans). The outsourced products are dedicated to Superbonus 110%-related projects, for which Sciuker S.p.A. has agreed to provide Sciuker Ecospace with windows with certain properties but which are not necessarily branded as Sciuker products. Consequently, every product under the Sciuker Frames brand name is made in the company's proprietary plants.

Table 4: Group's production plants

Place	Product	Managed	sqm	Workers
Campania (Italy)	Wood-aluminium, Wood-glass	Sciuker Frames	20,000	150
Campania (Italy)	Wood-aluminium, Wood-glass	Sciuker Frames	70,000	90
Campania (Italy)	Wood	Sciuker Frames	5,000	37
Piedmont (Italy)	PVC	GC Infissi	5,000	60
Piedmont (Italy)	Aluminium	GC Infissi	10,000	80
Piedmont (Italy)	Accessories (ex. mosquito screens)	Teknika	20,000	120

Source: Sciuker Frames, Kepler Cheuvreux

Distribution and after sales

Sciuker Frames's distribution network is made up of five flagship stores (in Avellino, Bari, Cagliari, Milan, and Naples) directly managed by the company, and around 500 selected partners across the country, which are exclusive resellers (i.e. they cannot sell products from direct competitors).

Moreover, the company can leverage on multi-firm agents who promote – to resellers and/or end customers – purchase and sale contracts in their areas of respective competencies, with exclusive rights and without powers of representation. To maintain the highest standards in terms of customer service, the group is also committed to its after-sales services.

These after-sales services include the assistance and formation of its commercial partners with regard to various aspects such as software to make preliminary offers to clients or how to manage a store properly. In addition, the company's guarantees are longer than required by law (two years for final customers and a year in other cases), such as its 20-year guarantee for the Legatec layer (which is exclusively for the Skill collection) and its 15-year guarantee for the overall performance of its windows and frames, further certifying the high-quality standards of the group's products.

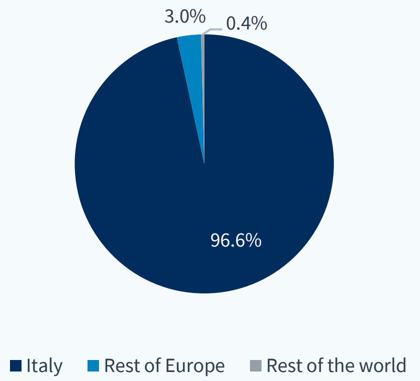
The results are clear, as customer satisfaction surveys highlight the high quality of its products and their relative price. In 2021, the group's sales are almost entirely from Italy (99% of the total).

Marketing and promotion

The group carries out marketing activities to make its differentiation known to potential new clients. For example, the group has participated in national and international fairs dedicated to the sector, such as the international fair on building held last year in Shanghai in collaboration with its partner Wind Constructions.

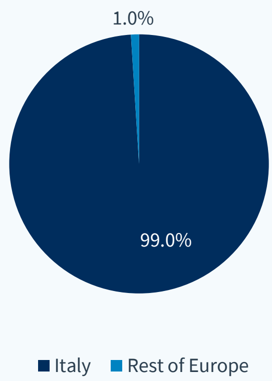
Moreover, the group also invests in outdoor panels and dedicated adverts in design and furniture magazines, while it also displays its production through its store network (including resellers). Regarding the online channel, it makes digital adverts and carries out SEO (search engine optimisation) activities for the group's products, in addition to website and social media marketing on the main social networks.

Chart 40: 2021 suppliers, geographical breakdown



Source: Kepler Cheuvreux

Chart 41: 2021 revenues, geographical breakdown



Source: Kepler Cheuvreux

Sciuker Ecospace business model

Starting in 2020, the group has integrated its subsidiary Sciuker Ecospace S.r.l to fully benefit from the Superbonus 110% plan established by the Italian government to improve building energy efficiency in the country. In fact, Sciuker Ecospace S.r.l is a general contractor company that is mainly in charge of coordinating works for energy efficiency in condominiums. These range from the driving interventions to trigger tax deductions to installing windows directly through Sciuker Frames.

Consequently, Sciuker Ecospace organises this entire process using three value chains:

- Assigning projects to experts like technicians and companies dedicated to the group's non-core operations such as those for heating systems and charging stations.
- Installing the required materials in buildings through a proprietary subsidiary.
- The frames and windows business, which is managed by Sciuker Frames S.p.A.

The goodwill from this operation lies in the fact that Sciuker Ecospace manages "driving interventions" (see *Fiscal incentive: the Superbonus 110% and the Ecobonus* section further on for details), which are mandatory to trigger tax deductions, and uses Sciuker Frames for all work involving windows and frames.

Partnerships

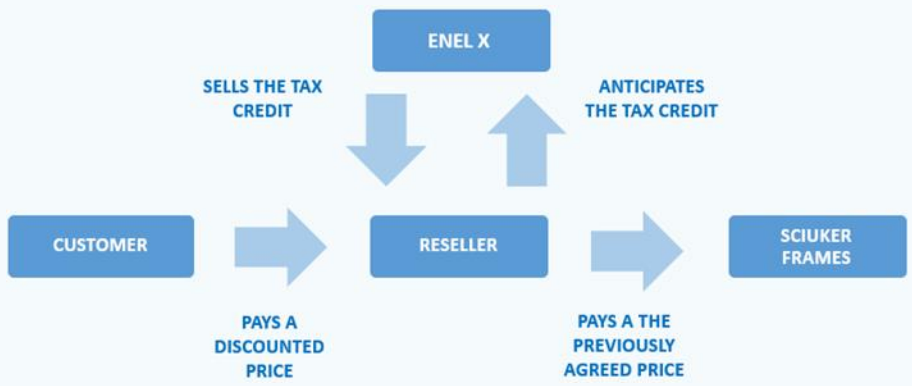
To fully benefit from the energy transition, the company has entered into some partnerships with players outside the windows sector. Sciuker Frames's collaboration with Enel X (which started in 2020) helps it to develop joint initiatives and projects for improving sustainability and living comfort standards through the credit transfer.

The Enel X partnership

Enel X is part of Enel Group, which is active in the Italian energy efficiency services market through four different activities: e-Industries, e-Mobility, e-City, and e-Home. Thanks to the latter, the company aims at managing the domestic ecosystem and offering innovative automation products and services, for smarter, safer, more efficient houses. This partnership can be explained in the following steps:

- The final customer pays a largely discounted price to the reseller.
- The reseller cashes in what was paid by the customer and receives the remaining part of the ticket's value as a tax credit from the government.
- The reseller sells its tax credit to Enel X at a discounted price. Enel X then uses its tax credit to lower Enel Group's tax expenditure.
- Sciuker Frames receives an amount that has been previously agreed with the reseller.

Chart 42: The Enel X partnership agreement



Source: Sciuker Frames, Kepler Cheuvreux

Agreement with MPS for EUR50m tax credits

Furthermore, the agreement with MPS, signed in March 2021, was for the sale of tax credits for EUR50m deriving from the Ecobonus 110% fiscal scheme. Through this collaboration, Sciuker is freed from having to manage the tax credits and can cash in the amount at a discounted value. At the same time, MPS has low-risk credit (since it comes from the Italian state) that can be used for tax deduction purposes.

Deconstructing the forecasts

Sciuker Frames has seen outstanding growth over the last two years, both in terms of its top line and margins, with its value of production skyrocketing from EUR9.8m in 2018 to EUR102.9m in 2021 and EBITDA margin rising to 27.9%. This trend has been spurred in particular by the Ecospace subsidiary, which is focused on Superbonus 110% incentives for condominiums. The group has a lean balance sheet with an equity/fixed assets ratio of 2.5x and a low level of indebtedness (net financial debt/EBITDA of 0.1x in 2021). Current trading at the end of March 2022 is showing a similar trend to the one we have seen since 2020, with the Superbonus 110% as the real growth driving force.

Our estimates see the Ecospace subsidiary growing in 2023E, then declining by 40% in 2024E, as the Superbonus 110% plan should remain in place for condominiums until 2023. We also expect a higher margin dilution than what the company has outlined. Our estimates are therefore at a discount versus what was guided by the company for 2024 both on value of production (25%) and EBITDA (44%). All in all, for the 2022-24E period we expect cash earnings generation of EUR96.3m, which is likely to turn Sciuker cash-positive from 2024E.

2018-21: strong top-line and earnings progression

Value of production up 10x, EBITDA margin up from 18% to 28%

2021 value of production almost 10x 2018 levels

Since 2020, Sciuker has seen impressive growth, thanks especially to the acquisition of the Sciuker Ecospace subsidiary, which is focused on the fiscal incentives established by the Italian government to boost energy efficiency in the country's buildings.

The group's value of production almost doubled in 2020, going from EUR12m of 2019 (EUR11m in 2018) to EUR23m. In 2021, the group saw even steeper growth, with the top line at around 4.5x that of the previous year, reaching EUR103m. Of this amount, the Ecospace subsidiary is likely to have accounted for 34% and 43% of the mix in 2020 and 2021, respectively. Moreover, the company's overall performance was also supported by the consolidation in the industrial division (from a EUR15m value of production to EUR59m), with the two acquisitions of GC Infissi and Teknika made in 2021 contributing more than EUR21m of sales.

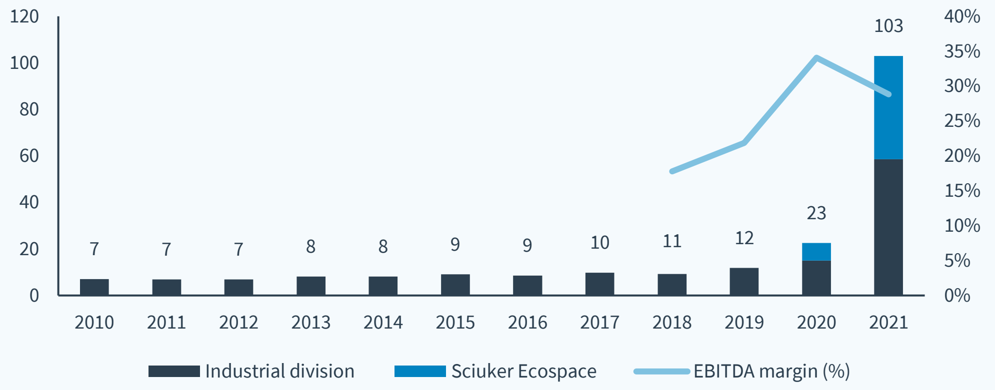
Change of business model and Sciuker Ecospace behind the 10% rise in margins

Profitability has also markedly improved, with EBITDA/value of production reaching 27.9% in 2021, up from 17.7% in 2018. The underlying reason mainly stems from the change in business model and economies of scale. The two most important cost components are raw materials (mainly for the industrial division) and costs of services (which have a strong incidence in the Ecospace business, as they include expenses for the outsourced actions to complete projects for the Superbonus 110% plan).

In 2021, raw materials and costs of services accounted for 21.6% and 43.9% of value of production, respectively. Ecospace boasts higher margins than the rest of the group: in 2020 (2021 data has not been disclosed), it reported a 38.4% EBITDA/total production versus 34.0% at the group level. According to our estimates, the rest of the group should therefore have posted an EBITDA margin of around 31% from a consolidated standpoint, i.e. excluding intra-group operations.

At the EBIT level, being in an asset-light business (see our *Business description* section further on) leads to a low weight of D&A, which was further decreased by the company's top-line growth: D&A fell from 8.8% of value of production in 2018 to 2.0% in 2021. Other non-monetary costs are mainly related to non-eligible credits (EUR1.2m in 2021, remaining in line with the top line trend) and to EUR2.0m of provisions. All in all, EBIT followed a similar trend to EBITDA, going from a 7.5% margin in 2018 to 22.9% in 2021.

Chart 43: 2010-2021 Sciuker's value of production and EBITDA margin (EURm)



Source: Sciuker Frames, Kepler Cheuvreux

Below the EBIT line, 2021 financial charges rose to EUR2.6m, mainly due to the increase in bank charges from the sale of Superbonus 110% tax credits. The tax rate has been flat at c. 29% over the last two years, since the business has normalised and it is carried out almost entirely from Italy. As a result, net income rose from EUR0.1m in 2018 to EUR13.4m in 2021.

Table 5: Summary 2018-21 P&L

EURm	2018	2019	2020	2021
Value of production	**10.5**	**11.9**	**22.6**	**102.9**
Raw materials	-2.1	-2.4	-5.1	-22.2
Cost of services	-5.5	-5.9	-8.8	-45.2
Personnel	-0.5	-0.6	-0.5	-5.8
Others, net	-0.5	-0.4	-0.5	-0.9
EBITDA	**1.9**	**2.6**	**7.7**	**28.7**
Margin (% v. of production)	**17.7%**	**21.6%**	**34.0%**	**27.9%**
D&A	-0.9	-0.9	-1.3	-2.1
Provision	-0.1	-0.3	-2.2	-2.0
Write-downs	0.0	-0.4	-0.4	-1.2
EBIT	**0.8**	**0.9**	**3.8**	**23.5**
Margin (% v. of production)	**7.5%**	**7.6%**	**17.0%**	**22.9%**
Financial income (charges)	-0.3	-0.4	-0.8	-2.6
Profit before tax	0.5	0.5	3.8	20.9
Taxes	-0.4	-0.3	-1.1	-6.0
Tax rate (%)	73.5%	49.8%	28.6%	28.8%
Minorities	0.0	0.0	0.4	1.5
Net profit	**0.1**	**0.3**	**2.3**	**13.4**
Margin (% v. of production)	**1.2%**	**2.2%**	**10.2%**	**13.0%**

Source: Sciuker Frames, Kepler Cheuvreux

Low indebtedness with an asset-light business model

Capital employed equally split between working capital and fixed assets

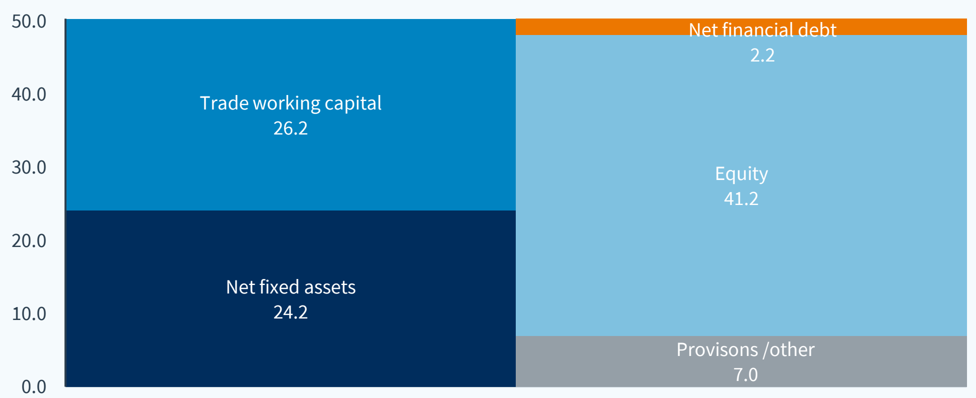
The company's balance sheet is quite lean. Invested capital at the end of FY 2021 amounted to EUR50.4m, with around half of this represented by working capital. Fixed assets, in fact, amounted to EUR24.2m, while trade working capital totalled c. EUR26.2m. As a percentage of value of production, trade working capital stood at 25.5% at the end of FY 2021, showing an increase from 8.1% at the end of FY 2020. The underlying reasons mainly stem from the growth in receivables related to the success of Sciuker Ecospace (from 9.7% to 23.1%) and to its inventory expansion (from 26.7% to 33.9%).

Mainly financed by own sources

On the liability side, working capital and fixed assets are mainly financed by shareholder funds accounting for EUR41.2m, which rose by EUR29.5m from 2020, mainly thanks to profit of c. EUR14.9m and the EUR20.1m capital increase coming from the exercise of warrants. However, part of these inflows has been absorbed by the payment of EUR4.0m dividends. Net financial debt is low (5% of group's equity), and it has declined over the last two years from EUR5.3m at the end of 2018 to EUR2.2m at the end of 2021.

Consequently, in 2021 the group had a low indebtedness level with a net financial debt/EBITDA of 0.1x versus 2.9x in 2018. The company also operates using an asset-light business, as the equity/fixed asset ratio has grown materially from 0.9x in 2018 to 2.5x in 2021.

Chart 44: Balance sheet at end-2021 (EURm)



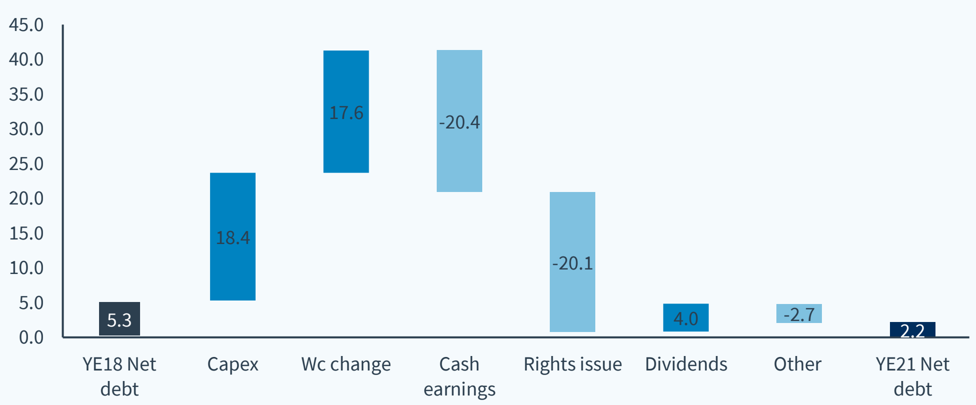
Source: Sciuker Frames, Kepler Cheuvreux

Cash generation held back by working capital build-up, warrants financed capex and dividends

Sciuker' s cash earnings, calculated as net profit plus non-cash items and minorities, have historically been positive with a growing trend, rising from EUR1.7m in 2018 to EUR15.3m in 2021. However, as seen above, working capital has tended to absorb part of these inflows, as seen last year when operating free cash flow was negative due to this component (EUR21.8m cash absorption).

Capex has been relevant in the past, as it comprises, among others, the acquisitions of GC Infissi and Teknika, which have both contributed to the group's remarkable growth. As highlighted above, in the same year the exercise of warrants rights also led to a capital increase of EUR20.1m. The group paid EUR4.0m in dividends in 2021 entailing a 30.2% pay-out ratio, and it has also paid EUR6.1m in June 2022 (30.0% pay-out ratio).

Chart 45: FY 2018-21 net debt bridge (EURm)



Source: Sciuker Frames, Kepler Cheuvreux

Current trading update

Backlog higher than the targeted FY 2022 value of production as of April 2022

Sciuker is performing well so far this year, with a EUR167m consolidated backlog as of April, 9% higher than the targeted value for FY 2022 of EUR153m. This result can be split as follows:

- EUR58.2m from the industrial business, comprising the companies that effectively manufacture the windows and frames (Sciuker Frames, GC Infissi, and Teknika), 68.5% of the target disclosed last year for FY 2022 (EUR85m).
- EUR108.8m from the Sciuker Ecospace subsidiary, reaching a consolidated order backlog (i.e. excluding intra-group activities) that was 58.8% higher than the total previously targeted amount for FY 2022 (EUR68m).

These results are primarily driven by the Superbonus 110% incentive plan progressing above expectations (in fact the requests at national level as of May 2022 are 1.2% higher than the amount government expected at end 2023).

Estimates

Value of production benefitting from Superbonus 110%, but with lower margins

In our model we split the value of production in the two main divisions: industrial and Superbonus 110%-related activities (i.e., Ecospace). As a remainder, there is an intra-group component deriving from Superbonus 110% projects which is accounted in the industrial division because it involves the substitution of windows frames.

We expect Ecospace to reach EUR98m in 2022 (EUR30m above company guidance following the strong trading update as of April), with a positive impact on the industrial business (EUR88m, EUR3m above company guidance) and leading to an overall EUR186m at group level. Regarding the following years, the question is how much the Ecospace subsidiary will continue to grow and support the rest of the business. As described on page 15 (and as reported below for simplicity), Ecospace is exclusively committed to condominiums, for which the Superbonus 110% incentive plan will remain fully operative until 31 December 2023, then becoming a 70% tax relief in 2024 and 65% in 2025

Table 6: Superbonus 110% – conditions for Sciuker Ecospace clients

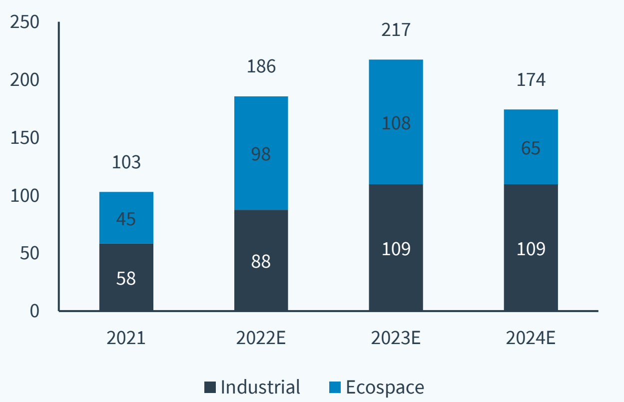
Beneficiaries	Deduction	Terms and conditions
Condos and individual buildings	110%	Until 2023
Condos and individual buildings	70%	2024
Condos and individual buildings	65%	2025

Source: Agenzia delle Entrate, Kepler Cheuvreux

Value of production set to peak in 2023E

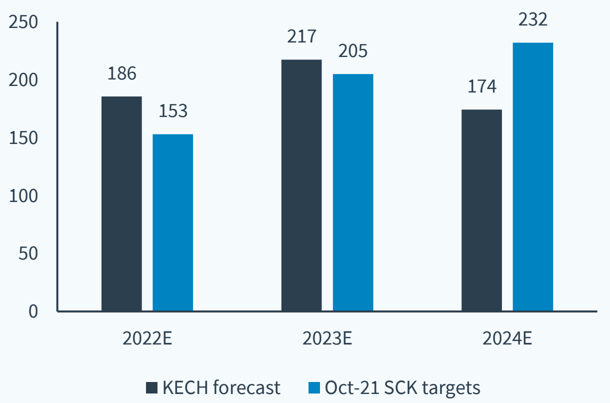
This, along with the termination of part of the current backlog, leaves us to assume an increase in the value of production to EUR217m in 2023E (plus 17% YOY), while 2024E is set to be a turning point, with a reduction in the tax deductibility from the Superbonus 110% falling to 70%, which we believe should lead to a c. 40% decline in the related business segment. Despite the negative performance of this division, we estimate that the industrial segment is set to be in line with 2023, which would be even higher if we were to exclude intra-group activities (which are accounted for in the industrial division).

Chart 46: 2021-24E value of production breakdown (EURm)



Source: Kepler Cheuvreux

Chart 47: 2022-24 estimated value of production vs. targets (EURm)

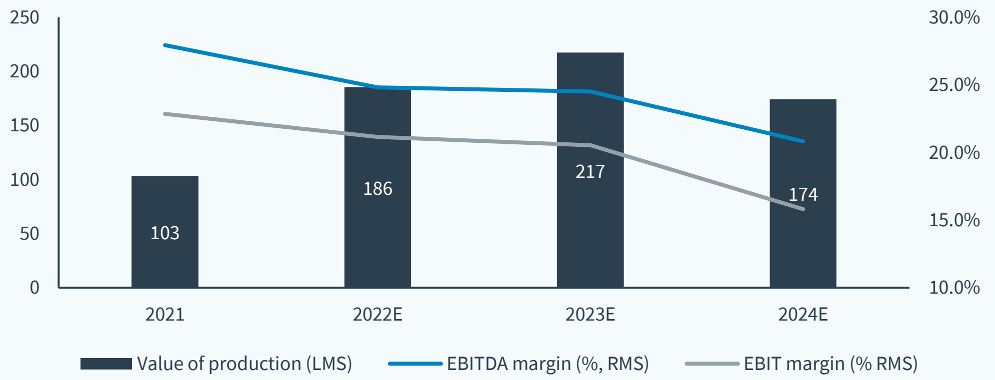


Source: Kepler Cheuvreux

As for profitability, the company outlined in its industrial plan presentation that the EBITDA margin should be between 28% and 30% over the 2022-24 period. However, given the uncertainties in terms of the high incidence of service costs from the Ecospace business (we expect these to reach 45% of value of production in the 2022-2024 period) and raw materials, we believe there could be a margin dilution.

Wood and especially glass prices are in fact skyrocketing, with the latter growing by high double digits and to be reversed to clients. Consequently, we estimate a more conservative EBITDA margin in the 24.8-20.8% range in the following years. At the EBIT level, D&A is likely to have a limited weight in the business mix, accounting for between 1.5% and 2.7% over the value of production by 2024. Therefore, assuming a level of provisions in line with the value of production development and write-downs in line with 2021, we forecast an EBIT margin of between 15.8% and 21.2%.

Chart 48: Value of production and margins 2021-24E



Source: Sciuker Frames, Kepler Cheuvreux

Below the EBIT line, financial charges are mainly related to the improved performance of Ecospace and are only partly attributable to the group's financial indebtedness level. Consequently, these financial charges are set to rise in 2022E and 2023E, reaching EUR3.5m and EUR4m, respectively. Assuming a flat tax rate of 29.0%, given that the business should remain mostly focused on Italy for the coming years, we expect it to generate a net profit of EUR22.9m in FY 2022, 74% above the previous year's level. We forecast 2024E net profit to fall to EUR16.0m.

Table 7: 2021-24E summary P&L (EURm)

EURm	2021	2022E	2023E	2024E
Value of production	**102.9**	**185.5**	**217.2**	**174.1**
Raw materials	-22.2	-44.5	-52.1	-45.3
Cost of services	-45.2	-83.5	-97.7	-78.4
Personnel	-5.8	-9.6	-11.9	-12.5
Others	-0.9	-1.9	-2.2	-1.7
EBITDA	**28.7**	**46.0**	**53.2**	**36.3**
Margin (%)	**27.9%**	**24.8%**	**24.5%**	**20.8%**
D&A	-2.1	-2.7	-4.2	-4.8
Provisions	-2.0	-2.0	-2.0	-2.0
Write-downs	-1.2	-2.1	-2.5	-2.0
EBIT	**23.5**	**39.2**	**44.6**	**27.5**
Margin (%)	**22.9%**	**21.2%**	**20.5%**	**15.8%**
Financial income (charges)	-2.6	-3.4	-3.9	-2.4
Profit before tax	20.9	35.8	40.7	25.1
Taxes	-6.0	-10.4	-11.8	-7.3
Tax rate (%)	28.8%	29.0%	29.0%	29.0%
Minorities	1.5	2.6	2.9	1.8
Net profit	**13.4**	**22.9**	**26.0**	**16.0**

Source: Sciuker Frames, Kepler Cheuvreux

Company set to be net cash in FY 2024E, despite working capital and capex

Our estimates for Sciuker's cash generation are not only impacted by the positive profit performance expected in the coming years, but also by the targeted capex of EUR50.3m over 2021-24.

However, in 2021 capex was EUR10m lower than the company had budgeted for (EUR21m) due to some bureaucratic delays (according to the company), and we expect this difference to be transferred to subsequent years. As outlined above, these investments should be allocated to improving the group's output capacity and acquiring new plants, machinery, etc.

Regarding the change in working capital, we expect EUR27.8m to be absorbed over the FY 2022-24E time horizon. However, in 2024E we forecast a decrease in working capital due to a lower top line and payables from the Ecospace business.

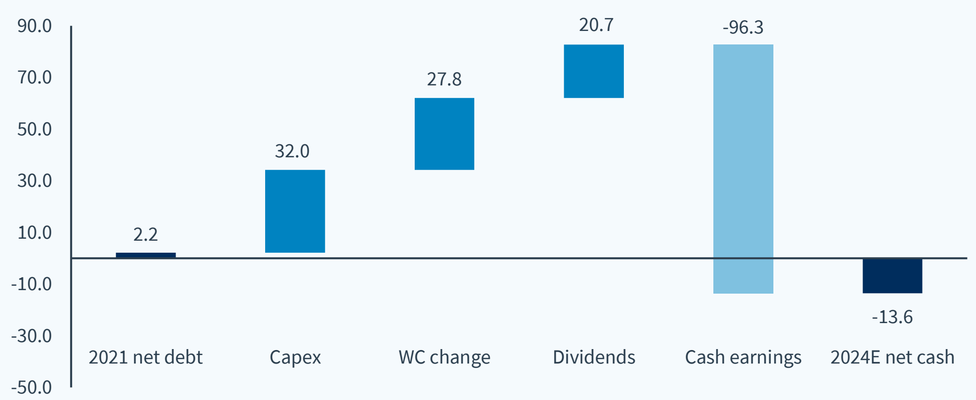
Table 8: 2021-24E summary cash flow (EURm)

EURm	2021	2022E	2023E	2024E
Net Profit	13.4	22.9	26.0	16.0
D&A	5.2	6.8	8.6	8.7
Minorities and Others	-3.3	2.6	2.9	1.8
Cash earnings	**15.3**	**32.2**	**37.5**	**26.6**
Delta WC	-21.8	-26.1	-5.4	3.6
Operating FCF	**-6.5**	**6.1**	**32.1**	**30.2**
Capex	-11.0	-18.0	-7.0	-7.0
Disposals	0.0	0.0	0.0	0.0
Acquisition	-5.0	0.0	0.0	0.0
FCFF	**-17.5**	**-11.9**	**25.1**	**23.2**
Rights issue	20.1	0.0	0.0	0.0
Dividends	-4.0	-6.1	-6.9	-7.8
Others	1.7	0.0	0.0	0.0
FCF	0.2	-17.9	18.3	15.4
Net Financial Debt (Cash)	**2.2**	**20.1**	**1.8**	**-13.6**

Source: Kepler Cheuvreux

Operating free cash flow should be positive starting from FY 2022E, despite the impact from the working capital changes. However, this year's estimated capex cash absorption of EUR18m and the already paid EUR6.1m dividends should lead to a net debt peaking at EUR20.1m. This situation is likely to improve in FY 2023, when working capital increases will be less intense and cash earnings are set to be more than enough to cover both working capital and capex. Sciuker should therefore return to a net debt that is in line with 2021 levels in the same year, despite EUR6.9m dividends (entailing a 30% pay-out ratio which we extend to following years). In 2024, the decrease in the top line will be reflected in lower cash earnings but also in a cash generation from a lower working capital. Consequently, the 2024E free cash flow should decrease to EUR30.2m (5.8% lower than previous year) but making the group cash positive (EUR13.6m).

Chart 49: 2021-2024E net debt evolution (EURm)



Source: Sciuker Frames, Kepler Cheuvreux

Valuation and target price

Sciuker Frames is a special case in the windows market, as it includes a subsidiary (Sciuker Ecospace) focused on the Superbonus 110% business and due to its market positioning (focus on Italian premium segment). Other listed peers (apart from Nusco which is similar but smaller) are committed to more common PVC product lines and have a more diversified product offer. Consequently, multiples can highlight how Sciuker is priced compared to its peers, but we believe a DCF is a more appropriate method for a full evaluation.

We have assumed two different scenarios, each depending on a different performance of the Ecospace business (and therefore negatively affecting also the industrial division) starting from 2025. In both cases we expect a decline in the company's top line and profitability. These assume common parameters, such as a 12.3% WACC (with a 3.2% risk-free rate, a 1.1 beta, and an 8.3% equity risk premium) and a terminal growth rate of 2.0%. We have respectively EUR8.0 and EUR6.6 fair values per share for our supportive case and the more conservative case. We derive our TP of EUR7.3 for Sciuker Frames calculated as average of these two methods and rate the company a Hold.

At the end of this section, we also show a valuation in the event that Sciuker were to reach the 2021-24 targets described in its industrial plan, leading to fair value of EUR14.5 per share.

Peer comparison: few listed window and frames companies

Nusco is the only Italian peer (even if it is smaller)

As previously highlighted in the *Positioning* section, despite being in a very competitive sector like windows and frames, Sciuker is almost a domestic-only company. Moreover, its business is oriented towards the premium segment and Superbonus 110%-related projects. The only comparable listed player in the Italian market is Nusco, which has also a similar division to Sciuker Ecospace (called Nusco Energy). Nusco is based close to Sciuker (both are from Campania region), but it is a notably smaller company with a market cap of around EUR25m.

Therefore, we have decided to extend the list of peers to include some European listed companies that are active in the windows (mainly PVC) market:

- **Deceuninck (market cap: EUR300m)** is a Belgian company and is the number two global manufacturer of PVC and composite profiles for windows, doors, and other building products such as for wall and ceiling covering. The business is split into three different geographic divisions: Europe (50%), Turkey and Emerging Markets (25%), and the US (25%). In 2021, the company reported EUR838m sales with EBITDA of EUR97.7m.
- **Epwin Group (market cap: GBP120m / EUR140m)**: is a British manufacturer of low maintenance building products. It supplies products and services to the repair, maintenance and improvement (RMI) segment in the new build and social housing sectors. The company's segments include Extrusion and Moulding, and Fabrication and Distribution. The Extrusion and Moulding segment is engaged in extrusion and marketing of PVC and aluminium window profile systems, PVC cellular roofline and cladding, decking, rigid rainwater and drainage products The Fabrication and Distribution segment is involved in the fabrication, marketing and distribution of windows and doors, cellular roofline, cladding, rainwater, drainage and decking products. In 2021, the company reported revenues of GBP343m (EUR402m) and EBITDA of GBP51m (EUR60m).
- **Eurocell (market cap: GBP250m / EUR290m)** is a British company that manufactures, distributes, and recycles unplasticised polyvinyl chloride (UPVC) window, door, conservatory, and roofline systems. The company is engaged in the extrusion of UPVC window and building products to the new and replacement window market, as well as the sale of building materials across the UK. The company's segments include Profiles and Building Plastics. The Profiles segment, in turn, includes extrusion and the sale of PVC windows and building products to the new and replacement windows markets. The Building Plastics segment includes the sale of building plastic materials. In 2021, the company reported revenues of GBP343m (EUR402m) and EBITDA of GBP51m (EUR59m).

- **Installux (market cap: EUR100m)** is a France-based company that manufactures products for building professionals. It is present in three business sectors: building and residential improvement, ready-to-install, and fitting of commercial spaces. The company provides doors and windows, gates, canopies, terrace and roof awnings, interior fittings, and detachable aluminium partition walls. In 2021, its revenues amounted to EUR138.7m and with EBITDA of EUR19.3.
- **Inwido (market cap: SEK7bn /EUR650m)** is a Swedish manufacturer of windows and doors. The company develops, produces, and sells environmentally friendly wooden windows and aluminium-clad wooden windows and doors. It also provides a range of related services and accessories to consumers, carpenters, intermediaries, building companies, and manufacturers of prefabricated homes. It is divided into four segments: Sweden, Nordic, Europe (operations in Poland, the UK, Ireland, Russia, and Austria) and Supply, providing components and services for windows and doors. Its 2021 revenues came in at SEK7.7bn (EUR717m), with EBITDA of SEK1.16bn (EUR107m).
- **Safestyle UK (market cap: GBP55m / EUR65m)** is a British company engaged in the sale, manufacture, and installation of replacement uPVC windows and doors for the UK homeowner market. The company's segment includes the sale, design, manufacture, installation, and maintenance of domestic, double-glazed replacement windows and doors. In 2021, it reported revenues of GBP143m (EUR167) and EBITDA of GBP14.5m (EUR17m).

Table 9: Comparison with European listed peers

Name	MKT cap	P/E		EV/Sales		EV/EBITDA		EBITDA margin		EV/EBIT		EBIT margin	
	(EURm)	2022E	2023E	2022	2023	2022	2023	2022E	2023E	2022	2023	2022E	2023E
Deceuninck	300	10.1	9.9	0.4	0.4	3.8	3.3	10.9%	11.8%	6.5	5.2	6.4%	7.2%
Epwin	140	8.7	8.4	0.6	0.6	2.7	2.6	11.2%	11.4%	9.1	8.6	6.0%	6.3%
Eurocell	290	8.1	7.8	0.7	0.7	4.3	4.1	15.3%	15.6%	8.4	7.8	8.9%	9.2%
Installux	100	13.5	11.9	0.5	0.5	4.2	3.8	12.8%	13.3%	7.2	6.6	10.7%	7.7%
Inwido	650	8.8	8.7	0.8	0.8	5.8	5.4	14.0%	13.9%	4.9	10.1	11.0%	10.9%
Nusco	25	n.a	n.a	1.0	0.9	11.0	7.0	12.5%	15.4%	12.4	7.4	8.2%	11.8%
Safestyle	65	15.9	7.0	0.4	0.3	4.8	3.8	7.4%	10.4%	9.9	4.7	3.6%	6.9%
Average		**10.9**	**9.0**	**0.6**	**0.6**	**5.2**	**4.3**	**12.0%**	**13.1%**	**8.3**	**7.2**	**7.8%**	**8.6%**
Sciuker	**120**	**5.4**	**4.8**	**0.8**	**0.6**	**3.4**	**2.6**	**24.8%**	**24.5%**	**3.9**	**2.1**	**21.2%**	**20.5%**

Source: Bloomberg, FactSet, Kepler Cheuvreux

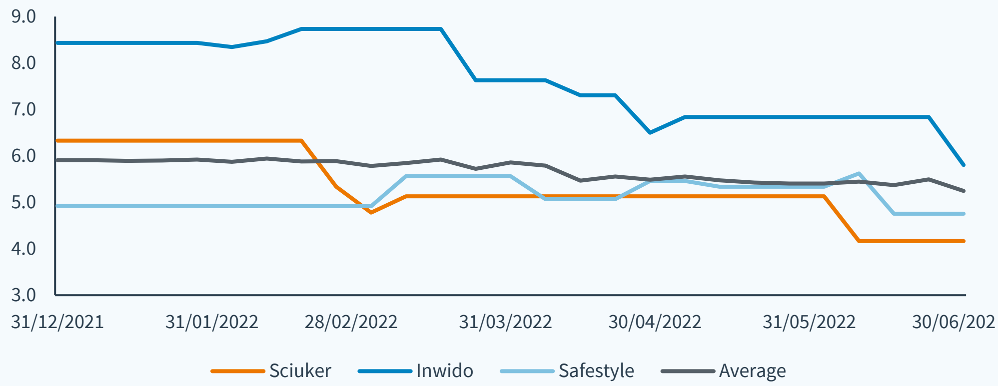
The company is trading at a discount to peers

As we explained previously, Sciuker is a special case due to its unique business model (for the Eco Space subsidiary) and positioning (most of its peers are active in the less sophisticated PVC segment), which is why it boasts the highest margins in its peer group. Looking at the multiples based on Sciuker's current price and our expectations, the EV/sales ratio is overall in line with the sector average both for 2022 and 2023. However, looking at the EV/ EBITDA ratio (but we can extend this concept also to the EV/EBIT and to the P/E), we see that it is trading below the market since it has one of the lowest ratios in our sample of peers. Probably, part of this discount is due to its almost exclusive exposure to the Italian market (with the related uncertainties regarding the macro situation in that country and the Superbonus 110%) and to its business model (limited diversification, with fiscal incentives playing a key role). However, Nusco (which is covered by just one analyst and has a c. EUR25m market cap) has the highest multiples in the sector and it is the most similar company to Sciuker.

Sciuker's valuation has decreased more than the peers (based on consensus)

Moreover, after analysing the evolution of consensus on the EV/EBITDA 2022E ratio, it seems clear that the related market valuation has decreased quite noticeably since the beginning of 2022. In fact, its peers' average EV/EBITDA 2022 as of January 2022 stood at 5.9, but it is currently at 5.2. On the other hand, Sciuker's multiple decreased more than proportionally to the rest of the market from 6.3 (more than peers) to 4.2 in 2022 (at a discount). This decreasing trend is probably related to raw material price inflation and macro-related concerns. However, we think the difference between Sciuker and the market is attributable, among other factors, to the uncertainties surrounding the Superbonus 110%.

Chart 50: Historical EV/EBITDA 2022E evolution for Sciuker and its peers



Source: Bloomberg

DCF: the most appropriate valuation method, returning a TP of EUR7.3

Our DCF model is based on the following assumptions:

- Explicit cash flow projections for 2023-28E, discounted to the end of 2022. Given the lack of visibility on the Superbonus 110% plan over the coming years and its relevant importance in terms of group's performance, we have simulated two alternative scenarios: one is more bullish and the other more bearish.

  As explained above, the group is mainly focused on capturing the opportunity in condominiums stemming from this incentive plan, which is set to last until 2025 (even though with lower deduction rates from 2024). That said, we believe there will likely continue to be public energy efficiency incentives due to the low energy efficiency of European buildings overall (see our Strategy:2021-2024 industrial plan section) and to the long track record of such plans (the Ecobonus was established in 2007).

  Two cash flow projected scenarios for 2025-2028

  However, we do not expect future incentive plans to be as appealing as the current 110% deduction policy, and the deductions will probably return to a more normalised level. In fact, sales are expected to decline in both of these scenarios, as anticipated in our forecasts for 2024E. In the more supportive scenario, we expect the industrial business to move from EUR115m to around EUR130m, while the Ecospace subsidiary sales should be at around EUR40m, leading to an overall performance in line with 2024. In the conservative scenario, we factored in a sharp decrease in the Superbonus 110% business (c. minus 60%) in 2025 that should continue in the following years (c. EUR15m of revenues in 2028). Consequently, with the industrial division struggling due to this trend, we expect overall sales in the bearish scenario to be in the EUR133m to EUR140m range in the 2025-28 period.

  Moreover, because of the higher profitability of the Ecospace division, we not only expect a lower value of production, but also lower margins in our more conservative scenario. In fact, starting from 2025 we assume that the EBITDA margin will be at c. 19.0% in the bearish case, 1.5% lower than the supportive case.

- A terminal growth rate of 2%.
- A WACC of 13.2%, reflecting: 1) a risk-free rate of 3.2%; 2) a market risk premium of 8.3% (both 1 and 2 are house assumptions); 3) a beta of 1.1 given the small size of the company and its business cyclicality; 4) a gross cost of debt of 1.5%; and 5) a leverage ratio of 0%, as the group is set to be soon cash positive.
- Minorities are valued at 6.5x 2023E earnings (in line with the whole group valuation) and discounted to the end of 2022 WACC.
- Net financial debt of EUR20.1m in 2022E.

In light of the above considerations, the two terminal values both imply a multiple of 6.1x on the terminal EBITDA. As reported in table below, a combination of these inputs causes our DCF models to return a fair value of EUR8.0 for each Sciuker Frames share in our supportive case and of EUR6.6 per share in our more conservative scenario. Consequently, assigning the same probability to both scenarios, we estimate a fair value of EUR7.3.

Table 10: DCF details and key underlying assumptions

	Supportive scenario		Conservative scenario		Assumptions	
	Total	Per share	Total	Per share		
DCF 2023-2028	108	5.0	102	4.7	Beta	1.1
Terminal value	97	4.4	72	3.3	Equity risk premium	8.3%
Enterprise value	204	9.4	174	8.0	Risk-free rate	3.2%
(Debt)/Cash	-20	-0.9	-20	-0.9	Net cost of debt	1.5%
Minorities	-10	-0.5	-10	-0.5	Leverage	0.0
Equity value	**174**	**8.0**	**144**	**6.6**	WACC	13.2%
					Terminal growth	2.0%

Source: Kepler Cheuvreux

Sensitivity analysis

We have also carried out a sensitivity analysis on our TP regarding our terminal WACC and terminal growth rate assumptions.

Table 11: Sensitivity analysis on TP

WACC	Terminal growth rate						
	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
10.8%	7.6	7.8	8.1	8.4	8.7	9.0	9.4
11.3%	7.3	7.5	7.7	8.0	8.3	8.6	8.9
11.8%	7.0	7.2	7.4	7.6	7.9	8.2	8.5
12.3%	6.8	7.0	7.1	7.3	7.6	7.8	8.1
12.8%	6.6	6.7	6.9	7.1	7.3	7.5	7.7
13.3%	6.4	6.5	6.6	6.8	7.0	7.2	7.4
13.8%	6.2	6.3	6.4	6.6	6.7	6.9	7.1

Source: Kepler Cheuvreux

Among our findings, we see potential upside of 6.3% with a growth rate of 3.0% (1.0% more than our assumptions) and an unchanged WACC. However, assuming a 100bp increase in the WACC (which almost corresponds to a 1.2 beta instead of 1.1), our fair value for Sciuker would be 7.3% lower (EUR6.8). On the contrary, if we lower our WACC estimate by 1.0% (corresponding to a c. 1.0 beta instead of 1.1), we would have an 8.8% higher target price (i.e. EUR8.0).

Finally, at our EUR7.3 target price, the company would trade at 1.0 EV/sales for 2022 (0.9 and 1.1 for 2023 and 2024 respectively), above the market average. Regarding the EV/EBITDA ratio (but similar conclusions can be drawn also on EV/EBIT and P/E), it should trade at a 4.1 EV/EBITDA for 2022 (3.6 and 5.2 for 2023 and 2024 respectively), better than the current multiples but still at a discount to its peers, mainly justified by the Superbonus 110% component.

Table 12: Sciuker Frames' multiples at our target price

	2022E	2023E	2024E
P/E	6.9	6.1	9.9
EV /Sales	1.0	0.8	0.9
EV/EBITDA	4.1	3.2	4.3
EV/EBIT	4.8	3.8	5.6

Source: Kepler Cheuvreux

We also carried out a simulation to see if management's 2021-24 targets can be reached

While we prefer to take a conservative approach to our estimates (and to our valuation) due to the lack of visibility on the evolution of the Superbonus 110%, we also ran a scenario (not included in our final valuation) in which the management were able to reach the targets set out in the 2021-24 business plan. We recall that Sciuker has shared the envisaged value of production, EBITDA, capex and net cash evolution for the 2021-24 period. Consequently, for the other components such as D&A and financial charges, we have used our estimates, adapting them to a different top-line and margin situation.

However, starting from 2025 we do not have visibility on the group's targets. We therefore expect the value of production to increase by 5% YOY, since it is expected to grow by 13% in 2024 (while it should grow by 24% in 2023), when we think the 110% tax deduction should be over. As for EBITDA, we estimate that the EBITDA margin should be in the 23.4-24.7% range for these years. Working capital movements have been simplified assuming a flat working capital/value of production ratio of around 24.0%. We have also assumed that the group would be net cash positive at the end of 2022, as it guided last October (EUR12.6m).

Finally, we have adopted the same assumptions that we used for our valuation:

- A terminal growth rate of 2%.
- A WACC of 13.2%, reflecting: 1) a risk-free rate of 3.2%; 2) a market risk premium of 8.3% (both 1 and 2 are house assumptions); 3) a beta of 1.1 given the small size of the company and its business cyclicality; and 4) a gross cost of debt of 1.5%; and 5) a target leverage ratio of 0%, as the group is cash positive from 2022.
- Minorities valued at 6.5x 2023E earnings (in line with the whole group valuation) and discounted to the end of 2022 WACC.

All in all, we think the fair value would be EUR14.5 per share in this scenario.

Table 13: Fair value valuation if company's targets are reached

	Total	Per share	Assumptions	
DCF 2023-2028	137	6.3	Beta	1.1
Terminal value	183	8.4	Equity Risk Premium	8.3%
Enterprise value	320	14.7	Risk free rate	3.2%
(Debt)/Cash	13	0.6	Net Cost of debt	1.5%
Minorities	-17	-0.8	Leverage	0.0
Equity value	316	**14.5**	WACC	12.3%
			Terminal growth	2.0%

Source: Kepler Cheuvreux

Italy | Capital goods | MCap: EUR 123.6m

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Niccolo Guido Storer
Equity Research Analyst
nstorer@keplercheuvreux.com
+39 02 8550 7209

In coordination with ESG Research Team
Josep Pujal | jpujal@keplercheuvreux.com | +33 1 5365 3526
Elsa Blotière | eblotiere@keplercheuvreux.com | +33 1 70 98 85 21
James Rydge | jrydge@keplercheuvreux.com | +44 (0) 207 621 5185
Paul Marsland | pmarsland@keplercheuvreux.com | +44 207 621 5160

ESG Highlights: *Good environmental footprint, lack of visibility on governance*

- **Governance:** Highly influenced by the founder CEO/chairman who, along with his sister, owns 58% of the group. No details on board or top management remuneration are disclosed.
- **Environment:** Given the strong economic performance and growth of the business, emissions are not comparable even though this section is well-detailed. Good and further improving circular economy approach.
- **Products:** Highest quality and environmental standards to improve residential's environmental footprint.
- **Supply chain:** Nearshoring and long-term relationships. 64% of new suppliers are evaluated based on environmental criteria.

Thematic focus

Information on our ESG methodology

Governance

Board	Sciuker Frames has a traditional Italian governance model with a board of directors and a board of statutory auditors. The board of directors is made up of five members, of whom two are women, respecting the threshold established by Borsa Italiana of one third of the less represented gender. Marco Cipriano, who was the founder, is both chairman and CEO and his sister Romina Cipriano is vice-chairwoman. Overall, they own a 58% combined stake (38% and 20% respectively), justifying the presence of only one independent member. The board meets yearly and it was confirmed in April 2022. In order to ensure maximum transparency, ethics, and rigor in the conduct of company activities, Sciuker Frames adopted a management and control model compliant with the related rules of Legislative Decree 231 / 2001 (MOG 231) by resolution of the board of directors of 3 March 2020. Among the goals for 2022, the group has outlined a plan to establish an ESG committee to support the board in managing ESG issues.
Remuneration	The company did not publish a remuneration report in 2021 or previous years.
Shareholder rights alignment	The main shareholder of Sciuker Frames is H-ARM S.r.l with a 51.4% stake. In turn, H-ARM is owned by Marco Cipriano (65%) and Romina Cipriano (35%) who directly own 4.2% and 2.3% of the company respectively. All in all, Marco has 37.6% of total capital, while Romina has 20.3%.
Integrity/quality of reporting	We do not see any issues in terms of expenses capitalisation of off-balance sheet items, non-recurring items are negligible as demonstrated by an EBITDA reported that is almost the same of the adjusted one since 2019.
Business ethics	The process of identifying and assessing compliance risks is divided into two main phases: 1) there is the mapping of activities at risk of crime which is carried out through the analysis of work flows and the creation of individual interviews to internal staff members; and 2) the company creates a matrix system aimed at relating the potential risks identified with the crimes envisaged by Legislative Decree 231/2001(MOG 231) and with the company activities that could be dangerous. The company has a code of ethics as well as a whistleblowing policy, guaranteeing anonymity for employees signalling any fact to the board of statutory auditors. In order to improve the relationship with stakeholders, the company has conducted a materiality analysis of the most important topics both for stakeholders and the company itself. Among them, the most important are environment, customer care, and product responsibility. In 2022, it was declared "Sustainability leader 2022" based on an analysis carried out by *Il Sole 24 Ore* and *Statista* concerning environmental, social and economic sustainability.

Environment

How does the company manage its own footprint?

The company is historically committed to the environmental cause, and its control system for water and energy consumption received UNI EN ISO 9001 and UNI EN ISO 14001 certification in 2003. Due to its strong sales performance and the implementation of dual working shifts to meet higher demand, its energy consumption has increased significantly and is not comparable with the past.

The company's Scope 1 emissions amounted to 66.19 tonnes of CO2e in 2021, more than double 2020 levels (29.11 tonnes of CO2e), mainly related to the heating of the plants of GC Infissi and Teknika (41%) and for the car fleet (19%, entirely fuelled by methane). Indirect emissions (Scope 2 emissions) are markedly higher than Scope 1 emissions and have shown a similar trend, jumping from 240 tonnes of CO2e in 2020 to 496 tonnes of CO2e in 2021.

Sciuker's disclosure is very transparent, as it also publishes the levels of other polluting elements such as NOx, SOx, organic volatile fragments, and particulate emissions. Sciuker Frames' plant built in 2010 has 1,368 solar panels that meet 34% of the company's annul electricity needs, thus lowering the level of CO2 emissions. Among its goals for 2022, the group aims to reach 80% of electricity generated by renewables.

The group also highlights the quantities of raw materials utilised by Sciuker Spa of which wood and glass have the heaviest weight at 763 and 616 tonnes in 2021 respectively. Of these, at the moment, wooden components are the only materials to benefit from a complete recycling process as the group has developed the "Circle Frames" project through its partnership with accredited suppliers who create panels with wooden wastes.

The company aims to develop a similar initiative for glass and aluminium waste by 2022. In recent years, the amount of recycled materials used by Sciuker SpA has risen sharply: from 20% of the total in 2019 to 38% in 2021.

However, wood treatment generates large quantities of wood shavings that are collected and sent to a boiler of 2,730kW that fulfils Sciuker SpA's heating needs. The group is also planning to remove plastic materials from packaging and to use only recycled paper or cardboard for its marketing initiatives such as flyers, cases, samples, etc. Waste generation mainly consists of non-hazardous waste, which is entirely recycled (either used for heating or sold to an external company). Hazardous waste accounts for c. 1% of the company's total waste. Water consumption is not relevant to the company's business model, as it is used only for toilets and sinks purposes.

Positive climate change impact

Leveraging on the proprietary technologies it has developed, the group is able to maximise the energy efficiency of its processes and positively contribute to the environmental cause. According to the company, old and damaged fixtures can lead to almost 40% of heating escaping.

Sciuker estimates that around 70% of all Italian buildings were built prior to the introduction of the current rules on energy efficiency, meaning that the installation of more recent products can have a tangible impact on the building's environmental footprint. With the acquisition in 2020 of Eco Contract Srl, now Sciuker Ecospace Srl, the company works as a general contractor for energy efficiency projects according to the Ecobonus110%. The results are clear: the group estimates that it has reduced annual CO2e emissions by 87,684 tonnes.

Moreover, in 2018 Sciuker Frames (along with its partners) started a project in Milan to plant native trees with the aim of neutralising a quantity of greenhouse gas emissions equal to 1,000,000 kg of CO2 equivalent in the coming years. By purchasing Sciuker Frames windows, customers can adopt a tree in their name within the Sciuker Forest and monitor the quantities of CO2 captured by the plant on the 4planet.sciuker.it website. Further urban forestry activities are due to start in the coming months in other Italian cities.

Social

Health & safety

Since 2019, neither the company nor its subcontractors have recorded any injuries or illnesses. However, Sciuker Frames and Sciuker Ecospace still do not have the ISO45001 certificate guaranteeing safety standards in the work environment, while GC Infissi and Teknika do.

Working conditions

The group has 402 employees, more than three times the number it had in 2020 due to the acquisition of Teknika and GC Infissi and the expansion of the Ecospace business. This is also

	reflected in a hiring rate of 49% thanks to the growth of the business, which is even stronger than in previous years (18%). The turnover rate is line with the past, at 4%. The company's workforce is predominantly made up of men (87%), especially in the production businesses, which is the same as for other peers in the sector. However, the percentage of women has almost doubled from 7% of the total to around 13%. Employee training amounted to 19,284 hours in 2021, corresponding to 46 hours per employee and in line with 2020 levels. Training was given in both hard and soft skills depending on employee requirements. The company also promotes employee welfare, implementing remote working and projects aimed at supporting parenthood.
Product responsibility	Due to the nature of the business, product responsibility is one of the most relevant issues for both stakeholders and Sciuker Frames. For this reason, the company is strongly committed to guaranteeing that all its wood is certified by the Forest Stewardship Council (FSC), that aluminium is completely certified by the UNI 6060 certificate or by the REACH (the EU's rules for human protection against chemicals), and that all glass products come with the Saint-Gobain certificate. End products differ in terms of the materials and production techniques used. Sciuker Frames windows are CE certified, guaranteeing quality and security standards. Moreover, the products are compliant with the CasaClima "A class" and with the minimum environmental requirements (CAM) defined by the Italian environmental decree. Even the marketing department is committed to helping the environment by only using recycled paper and cardboard for flyers, cases, samples, etc. The company has an unchanged production process that uses the same production lines for its entire product range. This allows it to produce windows with a wide choice of precious woods, better thermal insulation, greater stability, homogeneity of grain, and lighter weight in an environmentally friendly way. These characteristics are also confirmed by the award of CATAS7 certifications on resistance and the results of the tests conducted on ageing by simulating a 25-year life cycle. The focus on technological improvement is attributable to its R&D department, SciukerLab, which has led to the filing of 16 patents. The company evaluates customer relationships on a yearly basis through questionnaires. The main result in 2021 was the overall higher customer satisfaction level, not only with the design or value for money, but also the entire customer experience starting with better trained staff and a clearer description of the various production stages. Word of mouth remains the main channel to boost brand awareness. Since 2021, the company has been a member of the ANGA, which allows the company to transport customers' old frames, providing a further service to its customers.
Human rights and local communities	Sciuker is engaged in activities that have a positive impact on the community, especially in the areas in which it operates most, such as the planting of local trees in Milan. Among these initiatives, there is the project Forcella alla luce del giorno (Forcella in the light of day), a urban and social recovery initiative focused on investing in young people in the Forcella neighbourhood of Naples.
Supply chain	Sciuker frames is committed to looking for new suppliers only in the event that its current partners are not able to satisfy the company's needs. The process is divided into three steps and starts with market research to find potential suppliers in line with the company's business. New partners complete a questionnaire to ensure their quality control system is compliant with ISO 9001 standards or to determine if they are willing to obtain the certification in a short timeframe. In this case, they complete another survey where they disclose further details on their organisational approach. Sciuker also checks the reputation, financial stability, and legal compliance of new partners. Finally, the purchasing department sends a quote specifying required details for the product or the service. Every year, the group reviews its suppliers and gives them a reliability score. In 2021, the company had 678 suppliers in total, 109 more than in 2020, of which 29 are suppliers of the acquired companies Teknika and GC infissi. Out of these, 11% were evaluated using environmental criteria in 2021 (of which 64% of new suppliers), while in 2020 only 4% were reviewed based on this criteria. Around 3% of them were evaluated based on social criteria. Around 96.6% of suppliers come from Italy, of which 37.6% are local partners, meaning they are based in the same region as the production plant they service. Starting from 2017, the company has outsourced the entire productive process which consists of

	the construction and assembly of wood-aluminium windows and fixtures, including installation, assistance after-sales, routine maintenance on plants, as well as cleaning, gardening and front office services. These activities are carried out by the contracting company at the Sciuker Frames plant and through its plants, machinery, equipment, services, raw materials and / or semi-finished products.

Valuation table

Market data as of: 15 July 2022

FY to 31/12 (EUR)	12/19	12/20	12/21	12/22E	12/23E	12/24E
Per share data (EUR)						
EPS adjusted	0.02	0.11	0.62	1.05	1.19	0.74
% Change		340.8%	480.2%	70.9%	13.5%	-38.2%
EPS adjusted and fully diluted	0.02	0.11	0.62	1.05	1.19	0.74
% Change		340.8%	480.2%	70.9%	13.5%	-38.2%
EPS reported	0.02	0.11	0.62	1.05	1.19	0.74
% Change		340.8%	480.2%	70.9%	13.5%	-38.2%
EPS Consensus				0.93	1.26	
Cash flow per share	0.19	0.33	-0.30	0.28	1.48	1.39
Book value per share	0.76	0.52	1.83	2.72	3.62	3.94
DPS	0.00	0.00	0.28	0.32	0.36	0.22
Number of shares, YE (m)	10.9	21.7	21.7	21.7	21.7	21.7
Nbr of shares, fully diluted, YE (m)	10.9	21.7	21.7	21.7	21.7	21.7
Share price						
Latest price / year end	1.1	2.8	10.5	5.7	5.7	5.7
52 week high		3.3	11.0	10.7		
52 week low		0.7	2.9	5.6		
Average price (Year)		1.3	6.3	5.7	5.7	5.7
Enterprise value (EURm)						
Market capitalisation		27.6	137.4	123.8	123.8	123.8
Net financial debt	7.6	2.4	2.2	20.1	1.8	-13.6
Pension provisions	0.0	0.0	0.0	0.0	0.0	0.0
IFRS 16 debt	0.0	0.0	0.0	0.0	0.0	0.0
Market value of minorities			0.0	10.5	10.5	10.5
MV of equity affiliates (net of tax)			0.0	0.0	0.0	0.0
Others			0.0	0.0	0.0	0.0
Enterprise value			139.5	154.4	136.1	120.7
Valuation						
P/E adjusted		12.0	10.3	5.4	4.8	7.7
P/E adjusted and fully diluted		12.0	10.3	5.4	4.8	7.7
P/E consensus				6.1	4.5	
P/BV		2.5	3.5	2.1	1.6	1.4
P/CF		3.9	na	20.1	3.9	4.1
Dividend yield (%)		0.0%	4.4%	5.5%	6.3%	3.9%
FCF yield (%)		11.2%	-8.2%	-8.6%	18.2%	16.8%
ROE (%)		23.6%	52.5%	46.3%	37.7%	19.5%
ROIC (%)		9.4%	53.6%	41.1%	34.2%	20.4%
EV/Sales			1.36	0.83	0.63	0.69
EV/EBITDA adj.			4.8	3.4	2.6	3.3
EV/EBIT adj.			5.9	3.9	3.1	4.4
EV/NOPAT			8.3	5.5	4.3	6.2
EV/IC			3.0	1.7	1.4	1.3
ROIC/WACC			4.3	3.3	2.8	1.7
EV/IC over ROIC/WACC			0.7	0.5	0.5	0.8

Income statement

FY to 31/12 (EUR)	12/19	12/20	12/21	12/22E	12/23E	12/24E
Sales	**11.9**	**22.6**	**102.9**	**185.5**	**217.2**	**174.1**
Gross profit	9.6	14.0	50.5	-44.5	-52.1	-45.3
EBITDA reported	2.6	7.7	28.7	46.0	53.2	36.3
EBITDA adjusted	**2.7**	**6.0**	**28.8**	**46.0**	**53.2**	**36.3**
Depreciation and amortisation	-0.9	-1.3	-2.1	-2.7	-4.2	-4.8
Goodwill impairment	0.0	0.0	0.0	0.0	0.0	0.0
Other financial result and associates	-0.7	-2.6	-3.1	-4.1	-4.4	-3.9
EBIT reported	0.9	3.8	23.5	39.2	44.6	27.5
EBIT adjusted	**1.0**	**2.1**	**23.6**	**39.2**	**44.6**	**27.5**
Net financial items	-0.4	-0.8	-2.6	-3.4	-3.9	-2.4
Associates	0.0	0.8	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0
Earnings before tax	0.5	3.8	20.9	35.8	40.7	25.1
Tax	-0.3	-1.1	-6.0	-10.4	-11.8	-7.3
Net profit from continuing op.	0.3	2.7	14.9	25.4	28.9	17.8
Net profit from disc. activities	0.0	0.0	0.0	0.0	0.0	0.0
Net profit before minorities	0.3	2.7	14.9	25.4	28.9	17.8
Minorities	0.0	-0.4	-1.5	-2.6	-2.9	-1.8
Net profit reported	**0.3**	**2.3**	**13.4**	**22.9**	**26.0**	**16.0**
Adjustments	0.0	0.0	0.0	0.0	0.0	0.0
Net profit adjusted	**0.3**	**2.3**	**13.4**	**22.9**	**26.0**	**16.0**
Sales % Change		89.8%	355.4%	80.3%	17.1%	-19.8%
EBITDA reported % Change		199.3%	274.2%	60.1%	15.7%	-31.9%
EBITDA adjusted % Change		123.8%	381.7%	59.7%	15.7%	-31.9%
EBIT reported % Change		326.0%	511.3%	66.8%	13.6%	-38.2%
EBIT adjusted % Change		112.8%	998.5%	66.4%	13.6%	-38.2%
Earnings before tax % Change		632.3%	444.9%	71.4%	13.5%	-38.2%
Net profit from cont. op. % Change		942.2%	443.1%	70.9%	13.5%	-38.2%
Net profit reported % Change		776.4%	480.2%	70.9%	13.5%	-38.2%
Net profit adjusted % Change		776.4%	480.2%	70.9%	13.5%	-38.2%
Gross profit margin (%)	80.3%	61.8%	49.1%	-24.0%	-24.0%	-26.0%
EBITDA margin (%)	22.4%	26.5%	28.0%	24.8%	24.5%	20.8%
EBIT margin (%)	8.5%	9.5%	22.9%	21.2%	20.5%	15.8%
Net profit margin (%)	2.2%	10.2%	13.0%	12.3%	11.9%	9.2%
Tax rate (%)	49.8%	28.6%	28.8%	29.0%	29.0%	29.0%
Payout ratio (%)	0.0%	0.0%	45.5%	30.0%	30.0%	30.0%
EPS reported (EUR)	0.02	0.11	0.62	1.05	1.19	0.74
EPS adjusted (EUR)	0.02	0.11	0.62	1.05	1.19	0.74
EPS adj and fully diluted (EUR)	0.02	0.11	0.62	1.05	1.19	0.74
DPS (EUR)	0.00	0.00	0.28	0.32	0.36	0.22
EPS reported % Change		340.8%	480.2%	70.9%	13.5%	-38.2%
EPS adjusted % Change		340.8%	480.2%	70.9%	13.5%	-38.2%
EPS adj and fully diluted % Change		340.8%	480.2%	70.9%	13.5%	-38.2%
DPS % Change			+chg	12.8%	13.5%	-38.2%
Consensus Sales (EURm)				153.0	205.0	
Consensus EBITDA (EURm)				43.5	58.0	
Consensus EBIT (EURm)				38.5	51.6	
Consensus EPS (EUR)				0.93	1.26	

Cash flow statement

Market data as of: 15 July 2022

FY to 31/12 (EUR)	12/19	12/20	12/21	12/22E	12/23E	12/24E
Net profit before minorities	0.3	2.7	14.9	25.4	28.9	17.8
Depreciation and amortisation	0.9	1.3	2.1	2.7	4.2	4.8
Goodwill impairment	0.0	0.0	0.0	0.0	0.0	0.0
Change in working capital	0.5	3.7	-21.8	-26.1	-5.4	3.6
Others	0.4	-0.6	-1.7	4.1	4.4	3.9
Levered post tax CF before capex	**2.1**	**7.1**	**-6.5**	**6.1**	**32.1**	**30.2**
% Change		240.8%	-chg	+chg	422.6%	-6.0%
Capex	-3.9	-3.5	-6.0	-18.0	-7.0	-7.0
Free cash flow	**-1.8**	**3.7**	**-12.5**	**-11.9**	**25.1**	**23.2**
% Change		+chg	-chg	+chg	+chg	-7.7%
Acquisitions	0.0	0.0	-5.0	0.0	0.0	0.0
Divestments	0.0	0.0	0.0	0.0	0.0	0.0
Dividend paid	0.0	0.0	-4.0	-6.1	-6.9	-7.8
Share buy back	0.0	0.0	0.0	0.0	0.0	0.0
Capital increases	0.0	0.0	20.1	0.0	0.0	0.0
Others	-0.5	1.6	1.7	0.0	0.0	0.0
Change in net financial debt	**2.3**	**-5.3**	**-0.2**	**17.9**	**-18.3**	**-15.4**
Change in cash and cash equiv.		16.6	-22.4	-0.6	0.0	0.0
Attributable FCF	-1.8	3.1	-11.2	-10.6	22.6	20.8
Cash flow per share (EUR)	0.19	0.33	-0.30	0.28	1.48	1.39
% Change		71.4%	-chg	+chg	422.6%	-6.0%
FCF per share (EUR)	-0.16	0.14	-0.52	-0.49	1.04	0.96
% Change		+chg	-chg	+chg	+chg	-7.7%
Capex / Sales (%)	32.6%	15.4%	5.8%	9.7%	3.2%	4.0%
Capex / D&A (%)	414.0%	277.4%	287.1%	668.8%	167.0%	146.6%
Cash flow / Sales (%)	17.6%	31.6%	-6.3%	3.3%	14.8%	17.3%
FCF / Sales (%)	-15.0%	16.2%	-12.1%	-6.4%	11.6%	13.3%
FCF Yield (%)		11.2%	-8.2%	-8.6%	18.2%	16.8%
Unlevered FCF Yield (%)			-6.7%	-5.3%	18.7%	18.7%

Balance sheet

FY to 31/12 (EUR)	12/19	12/20	12/21	12/22E	12/23E	12/24E
Cash and cash equivalents	21.4	38.0	15.6	15.0	15.0	15.0
Inventories	5.5	6.0	34.9	61.0	68.4	57.2
Accounts receivable	4.1	2.2	23.8	61.0	71.4	59.6
Other current assets	0.0	0.0	0.0	0.0	0.0	0.0
Current assets	**31.0**	**46.2**	**74.2**	**137.0**	**154.8**	**131.9**
Tangible assets	11.1	13.1	16.7	20.6	20.4	20.2
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Other Intangible assets	1.1	1.2	7.3	18.7	21.8	24.2
Financial assets	0.0	0.0	0.0	0.0	0.0	0.0
Other non-current assets	0.0	0.1	0.1	0.1	0.1	0.1
Non-current assets	**12.2**	**14.4**	**24.2**	**39.5**	**42.3**	**44.5**
Short term debt	15.0	21.0	3.3	15.0	15.0	15.0
Accounts payable	4.6	6.4	32.5	64.7	75.7	58.3
Other short term liabilities	0.2	0.7	3.3	8.3	9.8	7.8
Current liabilities	**19.8**	**28.1**	**39.0**	**88.0**	**100.5**	**81.1**
Long term debt	14.0	19.4	14.5	20.1	1.8	-13.6
Pension provisions	0.0	0.0	0.0	0.0	0.0	0.0
IFRS16 Debt	0.0	0.0	0.0	0.0	0.0	0.0
Other long term provisions	0.0	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	1.1	1.5	3.7	7.8	12.2	16.2
Non-current liabilities	**15.1**	**20.9**	**18.2**	**27.9**	**14.0**	**2.6**
Shareholders' equity	8.3	11.2	39.7	59.1	78.5	85.6
Minority interests	0.0	0.4	1.5	1.5	4.1	7.0
Total equity	**8.3**	**11.7**	**41.2**	**60.6**	**82.6**	**92.7**
Balance sheet total	**43.3**	**60.6**	**98.4**	**176.4**	**197.1**	**176.4**
% Change		40.2%	62.3%	79.3%	11.7%	-10.5%
Book value per share (EUR)	0.76	0.52	1.83	2.72	3.62	3.94
% Change		-31.7%	253.2%	48.8%	32.9%	9.1%
Net financial debt	7.6	2.4	2.2	20.1	1.8	-13.6
IFRS16 Debt	0.0	0.0	0.0	0.0	0.0	0.0
Pension provisions	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0
Net debt	7.6	2.4	2.2	20.1	1.8	-13.6
Net fi. debt (+IFRS16) / EBITDA (x)	2.9	0.4	0.1	0.4	0.0	-0.4
Trade working capital	5.1	1.8	26.2	57.3	64.2	58.6
Net working capital	4.8	1.1	22.9	49.0	54.4	50.7
NWC/Sales	40.5%	5.0%	22.3%	26.4%	25.0%	29.1%
Inventories/sales	46.5%	26.7%	33.9%	32.9%	31.5%	32.9%
Invested capital	17.1	15.6	47.1	88.5	96.7	95.3
Net fin. debt / FCF (x)	-4.3	0.7	-0.2	-1.7	0.1	-0.6
Gearing (%)	92.3%	20.5%	5.3%	33.2%	2.2%	-14.7%
Goodwill / Equity (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Research ratings and important disclosures

The term "KEPLER CHEUVREUX" shall, unless the context otherwise requires, mean each of KEPLER CHEUVREUX and its affiliates, subsidiaries and related companies (see “Regulators” table below).

The investment recommendation(s) referred to in this report was (were) completed on 15/07/2022 16:00 (GMT) and was first disseminated on 18/07/2022 4:56 (GMT).

Unless otherwise stated, all prices are aligned with the “Market Data date” on the front page of this report.

Disclosure checklist - Potential conflict of interests

Company Name	ISIN	Disclosure
Deceuninck	BE0003789063	nothing to disclose
Sciuker Frames	IT0005340051	KEPLER CHEUVREUX and the issuer have agreed that KEPLER CHEUVREUX will produce and disseminate investment research on the said issuer as a service to the issuer

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Rating Breakdown	A	B
Buy	61%	67%
Hold	30%	25%
Reduce	6%	0%
Not Rated/Under Review/Accept Offer	3%	8%
Total	100%	100%

Source: Kepler Cheuvreux
A: % of all research recommendations
B: % of issuers to which material services of investment firms are supplied

12 months rating history

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Company Name	Date	Business Line	Rating	Target Price	Closing Price
Deceuninck (EUR)	24/08/2021 05:13	Equity Research	Buy	4.50	3.73
	01/12/2021 09:25	Equity Research	Buy	4.20	3.45
	04/02/2022 06:45	Equity Research	Hold	3.60	3.34
	25/02/2022 06:39	Equity Research	Hold	3.00	2.77

Credit research does not issue target prices. Left intentionally blank.

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About the authors

Niccolo Guido Storer
Main author
nstorer@keplercheuvreux.com
+39 02 8550 7209

Niccolo Storer is an Equity Research Analyst with a focus on Italian Mid and Small caps in the industrial/consumer space. He joined Kepler Cheuvreux in May 2018.Previously, he spent almost eight years in Milan at Mediobanca, working as a generalist Equity Research Analyst and being in charge of the Mid and Small cap product, collecting ideas on all the stocks covered not included in the main Index. At the beginning of his career, he also served as an Auditor at KPMG. Niccolò Storer has a Master's degree in Finance from the Università Bocconi. He also has a Certificate in Business English from the University of Cambridge.

Federico Belluati
Co-author
fbelluati@keplercheuvreux.com
+39 02 85 50 72 16

Federico joined Kepler Cheuvreux in September 2021 after a short time working in asset management. He has a Bachelor's Degree in Finance from Bocconi University. He is a junior member of the Italian Equity research team focusing on mid-caps.

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