GRIFAL

Initiation of coverage | **Buy**

11 November 2019 – 5:30 PM | *MARKET PRICE:* ***EUR3.51*** | *TARGET PRICE:* ***EUR4.67***

Packaging

Data

Shares Outstanding (m):	10.55
Market Cap. (EURm):	37.03
Enterprise Value (EURm):	42.37
Free Float (%):	24.3%
Av. Daily Trad. Vol. (m):	0.02
Main Shareholder:	G-Quattronove 68.4%
Reuters/Bloomberg:	GRALA.MI GRAL IM
52-Week Range (EUR)	2.9 6.8

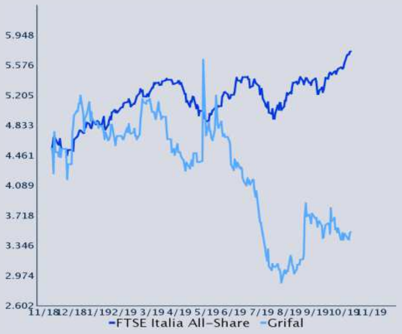
Source: Factset, UBI Banca estimates

Performance

	1m	3m	12m
Absolute	2.0%	6.4%	-30.5%
Rel. to FTSE IT	-6.8%	-5.2%	-41.8%

Source: Factset

Graph area Absolute/Relative 12 M



Source: Factset

Marco Cristofori
Senior Analyst
marco.cristofori@ubibanca.it
Tel. +39 0277814393
Dario Fasani
Analyst
dario.fasani@ubibanca.it
Tel. +39 02 62753014

Website: www.ubibanca.it

Disruptive product, innovative business model

We initiate coverage of Grifal with a Buy rating and target price of EUR4.67. The shares have sharply underperformed the market over the past 12 months (by 42%) after having skyrocketing in the first month of the listing (when Grifal was close to EUR10). We believe now is the perfect time to acquire a shareholding by investing in a growing story at its inception, with the share price close to its minimum. The company is ready to double its production capacity optimizing the production process while is adopting an innovative business model (integrated logistics, production lines located inside the best customers, partnerships with other packaging producers). In our view, this strategy should move Grifal from a small packaging solutions maker to a commodity supplier, therefore opening a potential enormous market. The main risk for the company are cardboard and EPE price fluctuations which could reduce profitability and potential alternative products launched by large international companies.

> Grifal is a leading industrial company providing innovative packaging solutions to >700 automotive, white goods, electronics, furniture and medical companies. The company will leverage on a disruptive corrugated cardboard product, called cArtù, which offers lower weight, lower cost and is 100% recyclable. In other word, cArtù is ecological and economical and, we believe, could rapidly replace other packaging commodity products. The company also produces packaging materials, mostly based on polyethylene foam. Grifal is 68.4% controlled by the founder's family, which still manages the company, was listed in 2018 at EUR2.60 raising EUR4.7 million.

> Grifal reported an excellent 1H19 (sales up 9.7%, EBITDA up 55.5% net profit tripled) but in our view the best is yet to come: we anticipate top line growth of around 14% this year, in line with the business plan, with EBITDA approaching EUR3 million. 2020-21 should see the rump up of cArtù which should lift the EBITDA margin >15% and the bottom line to EUR1.8 million.

> Even if Grifal seems expensive at a first glance, we believe that the current market price does not reflect the potential of its pioneering products and its innovative business model. Based on our conservative estimates the share offers >30% upside.

Financials

	2018	2019E	2020E	2021E
Revenues (EURm)	19.63	22.44	27.18	33.13
EBITDA (EURm)	2.21	2.97	3.80	4.99
EBITDA margin (%)	11.3%	13.2%	14.0%	15.1%
EBIT (EURm)	0.74	1.21	1.78	2.72
EPS (EUR)	0.04	0.07	0.09	0.12
CFPS (EUR)	0.09	0.17	0.12	0.24
DPS (EUR)	0.03	0.03	0.04	0.04

Source: Company Data, UBI Banca Estimates

Ratios — **priced on 8 November 2019**

	2018 *	2019E	2020E	2021E
P/E(x)	nm	52.1	39.1	28.2
P/CF(x)	29.6	15.0	13.9	12.5
P/BV(x)	7.3	3.5	3.3	3.1
Dividend Yield	0.5%	0.9%	1.0%	1.3%
EV/EBITDA(x)	27.8	14.3	13.0	10.8
Debt/Equity (x)	0.7	0.4	0.4	0.1
Debt/EBITDA (x)	2.4	1.5	1.3	0.4

Source: UBI Banca Estimates ** Based on 2018 average price*

Key Financials

(EURm)	2018	2019E	2020E	2021E
Revenues	19.63	22.44	27.18	33.13
EBITDA	2.21	2.97	3.79	5.00
EBIT	0.74	1.21	1.77	2.73
NOPAT	0.52	0.85	1.24	1.91
Free Cash Flow	-3.80	-1.22	-2.06	1.02
Net Capital Employed	12.86	14.78	17.96	18.74
Shareholders' Equity	7.50	10.46	13.15	16.58
Net Financial Position	5.36	4.32	4.81	2.16

Source: Company data, UBI Banca estimates

Key Profitability Drivers

	2018	2019E	2020E	2021E
Net Debt/Ebitda (x)	2.4	1.5	1.3	0.4
Net Debt/Equity (x)	0.7	0.4	0.4	0.1
Interest Coverage (%)	3.0	5.5	8.9	15.2
Free Cash Flow Yield (%)	-6.9%	nm	nm	2.0%
ROE (%)	5.1%	6.8%	8.5%	10.9%
ROI (%)	6.2%	8.1%	10.1%	13.9%
ROCE (%)	4.4%	5.7%	7.1%	9.7%

Source: Company data, UBI Banca estimates

Key Valuation Ratios

	2018 *	2019E	2020E	2021E
P/E (x)	nm	52.1	39.1	28.2
P/BV (x)	7.3	3.5	3.3	3.1
P/CF (x)	29.6	15.0	13.9	12.5
Dividend Yield (%)	0.5%	0.9%	1.0%	1.3%
EV/Sales (x)	3.1	1.9	1.8	1.6
EV/EBITDA (x)	27.8	14.3	13.0	10.8
EV/EBIT (x)	82.5	34.9	27.9	19.8
EV/CE (x)	4.8	2.9	2.8	2.9

Source: Company data, UBI Banca estimates ** Based on average 2018 price*

Key Value Drivers

(%)	2018	2019E	2020E	2021E
Payout	74.8%	44.5%	38.9%	36.2%
NWC/Sales	23.5%	13.4%	12.9%	7.4%
Capex/Sales	74.8%	44.5%	38.9%	36.2%

Source: Company data, UBI Banca estimates

Investment Case

Grifal is a leading industrial company specialized in the production of innovative and patented packaging solutions and commodities based on EPE (polyethylene) and corrugated cardboard.

Our investment case is based on the capacity of Grifal's management team to exploit its innovative product portfolio and the upcoming additional production capacity while its forward-looking strategy could add new revenues in the mid-term. The result should be an impressive growth of the top line (20% CAGR in 2018-21) and a remarkable margin improvement (EBITDA >15% in 2021 vs. 11.3% in 2018).

- The company is now at a turning point as it is moving from a provider of tailored packaging solutions, mostly to local customers to a supplier of commodities exploiting its innovative cArtù and cushionPaper, therefore entering a colossal market. This is the biggest opportunity for Grifal but could also be a risk if the company would not be able to keeping the pace of the potential soaring of the demand;
- Increased focus on cArtù and cushionPaper should gradually enhance the product mix, with a significant boost to margins. The average EBITDA margin of these corrugated cardboard products is >20% compared to low double digit margins for polyethylene products;
- Grifal internally projects and produces patented machinery to realize its innovative products and we believe this is a strong competitive advantage compared to the traditional packaging industry;
- The adoption of integrated logistics should strongly cut transportation costs and inventories as Grifal's production should be supplied directly to distributors which will be delivered to customers adopting the "just in time" philosophy;
- Additional sales could come from the engineering activity, such as rental fees and royalties for the machinery producing cArtù at the customer's site. This model is easily replicable and could allow rapid developments outside Italy;
- Although the company has a solid reputation for quality and offers innovative products, competitive factors impinge on its profitability as the larger size of some peers afford them significant economies of scale (the average 2016-18 EBITDA margin of peers is 15.4% compared with a three year average for Grifal of 10.7%). However, the doubling of production capacity, a lower weight of raw materials and the reduction of the transport costs thanks to the integrated logistic approach should allow Grifal to fill this gap;
- Grifal's core markets have been substantially positive over the past five years, driven by the expansion of E-commerce and by increased demand for environmental friendly packaging. We believe this trend will continue in future, and even accelerate.

Consequently we believe this to be the ideal time to gain exposure to Grifal, despite its high multiples which do not reflect the real potential of the company.

Our EUR4.67 target price, which offers 33% upside is based on a DCF valuation, with 70% weight, a relative valuation on a wide sample of packaging companies, not necessarily a perfect peer for Grifal, with a 10% weight, and a relative valuation based on Sealed Air, which is active in the same segments where Grifal is present (20% weight).

In our view, the main risks to the investment case are paper/cardboard and EPE price fluctuations which could reduce profitability, potential alternative products launched by large international companies.

Company profile

Founded in 1969 as a traditional packaging company producing boxes in corrugated cardboard by the Gritti family, who still manages the company, Grifal rapidly evolved becoming a highly-technological packaging company, operating in the EPE (polyethylene foam) and corrugated cardboard B2B segments. With around 100 employees, Grifal has one production site (Cologno al Serio, close to Bergamo) and is currently distributing in several countries (with Romania and Germany, where it has established a commercial branch, the most important) and revenues outside Italy are now 24% of total sales.

Figure 1 – Short history of Grifal

1969	Founding of the company as a cardboard box maker
1990	Packaging solution projects
1996	New plant in Cologno al Serio
1998	Creation of R&D department for packaging solutions
1999	Doubling of plant size, introduction of testing activity
2003	Introduction of Mondaplen (patented)
2010	Project and production of machinery
2015	Packaging solution for E-commerce
2016	Introduction of cArtù (patented)
2017	Production of Mondaplen in Germany
2018	Introduction of Inspiropack
2018	Listing on AIM stock market at EUR2.60
2019	Introduction of cushionPaper

Source: Company data

Compared to the traditional SME operating in the industry, Grifal stands out for its original business model, based on bespoke eco-friendly solutions designed to meet any customer's need and for the internal project and production of the machinery.

These innovative packaging solutions are:

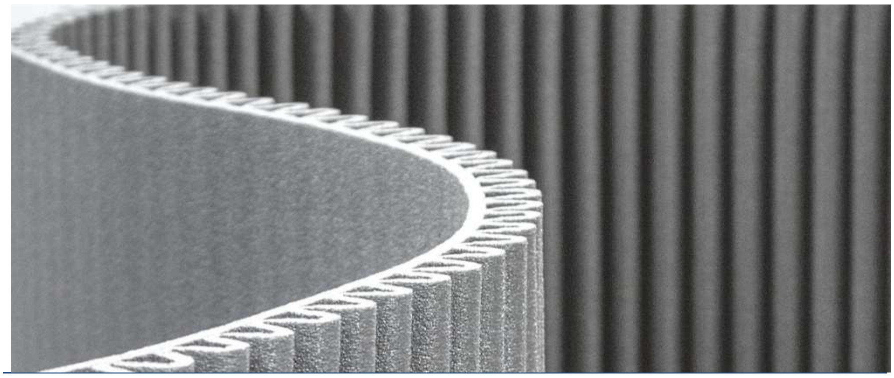
- Made possible by internally manufactured and patented machineries, which allow the company to quickly modify and update its industrial process;
- Subject to strict testing protocols in order to comply with regulatory and safety requirements (Grifal certified laboratory is the only one in Italy certified to perform over 20 testing protocols established by ISTA, the American organization that issues standards to test packaging performance under conditions that simulate typical transport cycles).

Grifal product line can be illustrated both from a brand perspective and from a destination perspective.
From a brand point of view, Grifal has internally developed and patented four main brands, moving progressively from polyethylene-based solutions (Mondaplen) to eco-friendly corrugated cardboard products (cArtù and cushionPaper) plus an hybrid application called InspiroPack:

1) **Mondaplen** is the first brand developed by Grifal in 2003 and represents an innovative patented process for creating protective packaging and void filling materials from corrugated layers of polyethylene, or other thermo-sensitive films or foams, laminated to one (single-face) or two (double-face) flat layers of the same or compatible materials. This translates into a product that

combines high protective performance while consuming much less raw material, retains flexibility even in thick layers and adapts to a wide variety of uses and applications.

Figure 2 – Mondaplen



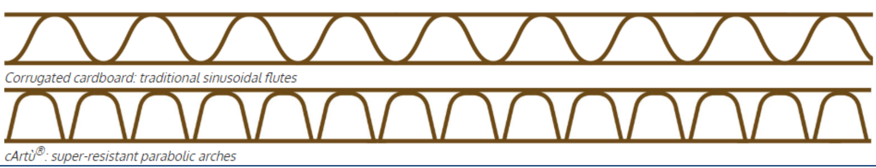
Source: Company website

In terms of revenues, Mondaplen is still Grifal's core brand, but its weight is steadily decreasing (71% of overall sales in FY17 vs. 65.7% in Jun-19) in favour of cArtù and cushionPaper, reflecting the Company's growing focus on eco-friendly corrugated cardboard products rather than plastic materials.

2) **cArtù** stands at the forefront of the company effort to meet innovation and environmental awareness: introduced in 2017, and patented, it is a completely new kind of corrugated cardboard with distinctive characteristics:

> Original flute for superior performance: thanks to a new industrial process, each flute is bordered by a deep fold that serves as reinforcing rib and assumes an arch-like parabolic profile instead of the typical sinusoidal profiles, ending up with a 10–20 mm flute height range yielding 50% more waves than traditional corrugated board. In this way, cArtù is able to provide better protection and shock absorption and withstand greater vertical compression, while reducing by 2/3's the amount of paper necessary to produce a protective box and completely eliminating the need to resort to plastic-based materials such as expanded polystyrene, polyethylene or polyurethane foams;

Figure 3 – cArtù parabolic arches vs traditional corrugated cardboard



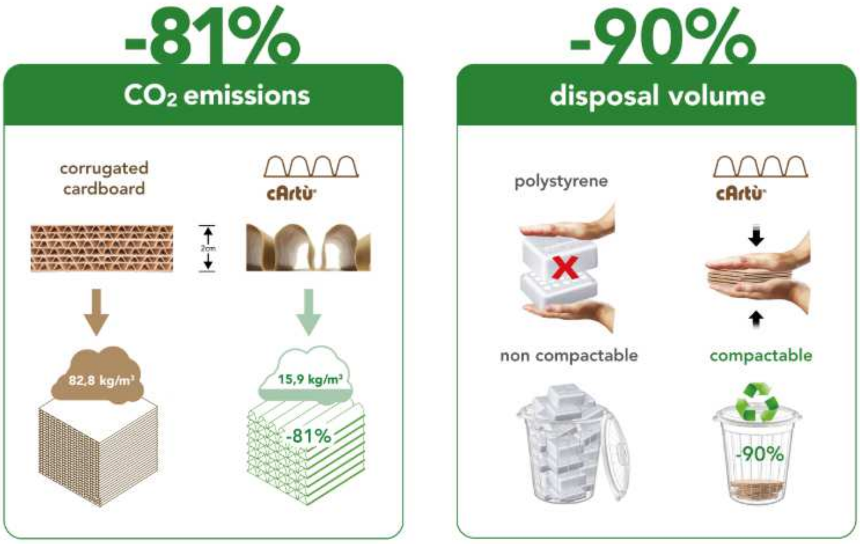
Source: Company website

> Superior flexibility: since cArtù can be made with relatively light paper, the material remains extremely flexible in the horizontal sense, making it ideal to wrap around shapes of all kinds;

> Full Eco-sustainability: like any other corrugated cardboard, it is 100% recyclable and can be disposed of along with other paper products. However, a cubic meter of cArtù can weigh up to 75% less than a cubic meter of corrugated cardboard, depending on the paper

used and the height of the flutes; this savings on raw material corresponds to a 74% reduction in CO_2 emissions to produce the same volume of finished product. Moreover, cArtù can be easily compacted to about 90% of its original volume, making it even more ecological.

Figure 4 – cArtù CO_2 emissions and disposal volume



Source: Company website

In the following weeks, Grifal plans to launch a new, improved cArtù

The idea is to sell cArtù directly to distributors, not to the final customers. In this way, the company will be able to exploit at least two main advantages:

- ✓ On one hand, the distributor burden itself with the transport cost, leading to a clean reduction in Grifal's operating expenses;
- ✓ On the other hand, the just in time supply chain allows a logistic optimization in terms of lower working capital.

We believe this solution could be strongly accretive in terms of value creation, bringing a positive impact both on the profitability side and the invested capital side.

cArtù still represents a small fraction of Grifal overall turnover, but its weight is growing at a dramatic speed (around 1% in Dec-17, around 4% in Dec-18 and >10% expected in Dec-19, implying a >10x growth over the period) and, given its unquestionable advantages, we believe it has all the credentials to become a key technological breakthrough in the industry. Moreover, cArtù presents a higher profitability compared with Mondaplen and therefore should strongly contribute to increase the company's profitability in the coming years. We expect cArtù to approach EUR10 million sales in 2021, corresponding to around 30% of forecasted revenues for the same year.

3) **cushionPaper** is a ready-to-use cArtù-based single-ply corrugated solution which easily wraps around objects of all shapes and sizes. Used to fill voids and brace products in shipping boxes, it provides substantial shock absorbing effects protecting delicate and fragile items from bumps and vibrations. Just as all Grifal's cardboard solutions, cushionPaper is 100% made from recycled paper (FSC certified) and is completely recyclable and ecological. More important, is cheaper than alternative products and strongly cut disposal costs.

We see this product as an innovative replacement for bubble wrap, plastic bags, polystyrene in all of its forms and other packaging materials harmful to the environment, opening in this way an enormous market to Grifal.

Figure 5 – cushionPaper typical wrapping application

Source: Company website

cushionPaper has been launched in 2019, so it is still in a start-up phase and its weight on Grifal overall revenues is currently negligible.
According to the management, the first feedback for this product is so positive that the company has already obtained the greenlight for the construction of one additional facility (part to be used as warehouse, the other part to hold future production lines for both cArtù and cushionPaper solutions) for an overall 5,700 sqm area besides the historical production site of Cologno al Serio. The building should start in 1Q20 and should be completed by Dec-2020.

4) **InspiroPack,** introduced in 2016, is a just-in-time packaging technology which makes use of heat softened film and vacuum sealing to securely fix products to a protective backing material such as Mondaplen or cArtù to preserve items in transit.
The transparent film allows customers to immediately identify the product and check for damages, tampering or missing components at a glance, while satisfying high-end markets in terms of protection, visual appeal and customization.

Figure 6 – Inspiropack typical protective application

Source: Company website

From a destination standpoint, Grifal product line can be divided between packaging solutions, which are tailored on the customer's needs, and commodities which are standard packaging products, generally characterized by high volumes.

In the past years Grifal was active mostly in packaging solutions, exploiting its project and testing skills, but in future we see a higher focus on commodities thanks to its innovative cushionPaper product.

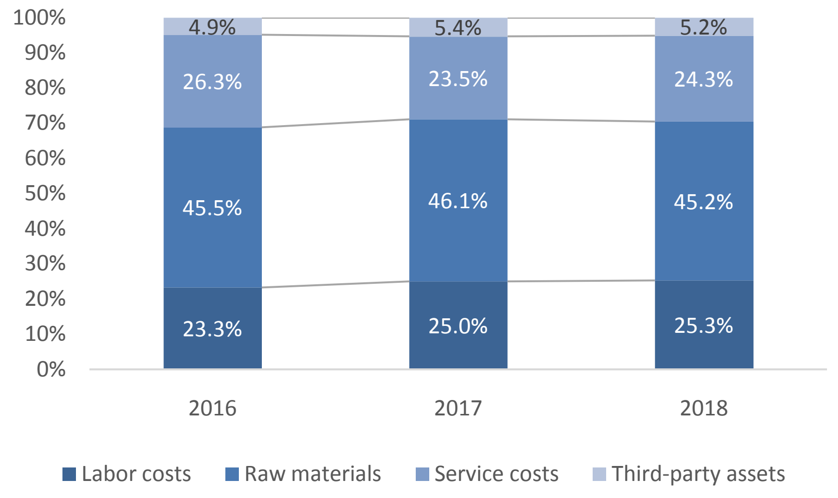
In addition, the company has some ancillary activities: we refer to the machine tools internally produced that are given to other packaging producers with a "loan for use" contract. One production line was already placed at "Jiffy Packaging", a German polyethylene producer and should produce royalties based on the turnover (we believe around 10%). This activity should be developed in the coming quarters, generating additional sales and margins. Grifal also performs packaging testing for third parties. We highlight that Grifal was the first Italian company certified by Amazon per projecting and testing special packaging for E-commerce.

Grifal products are mainly sold to several industries: automotive, mechanical, electronics, furniture including leading companies such as Alcatel Lucent, Cimbali, Brembo, Magneti Marelli, De Longhi, Philips, Kartell, ABB and Gewiss. The company has around 700 customers with a high concentration: the first ten clients represent nearly 45% of consolidated turnover and the first 50 around 78%.

The Group's cost structure shows that raw materials represented an average of 46% of sales in the past three years, services 25% and labour costs 25% and third-party assets (mainly rents) 5%.

Figure 7 – Grifal cost structure (EURm, %)

The cost structure has been relatively stable over the past three years.



Source: UBI Banca using company data

The main raw materials used by Grifal are polyethylene foam (about 40% of all raw material costs), followed by finished products (40% of raw material cost) and paper and cardboard (20%). Clearly the incidence of paper will increase dramatically along with the growth of the revenues of cArtù and cushionPaper.

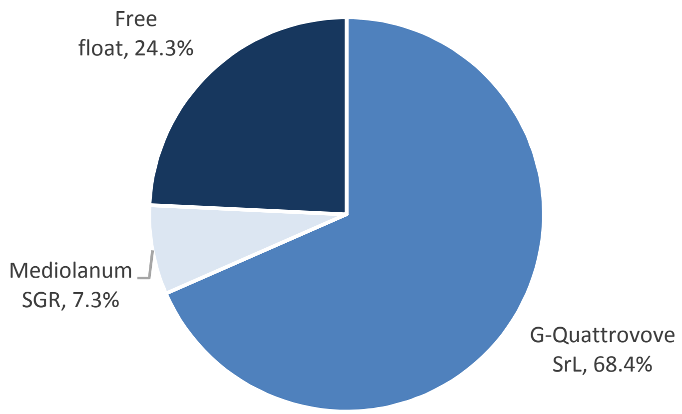
Shareholder structure

Grifal was listed on the Milan Stock Exchange, AIM segment, in June 2018 at EUR2.60 per share, raising EUR4.7 million. The company is controlled by the founder's family (Gritti) with a 64.9% stake through the holding G-Quattronove. The Gritti family is directly involved in managing Grifal with Mr. Fabio Angelo Gritti, acting as Chairman and CEO, and four other family members present on the board.

The Board is composed by 9 members of which one is independent. The total remuneration of the Board was EUR0.6 million (corresponding to 27% of 2018 EBITDA).

In July 2019, the main shareholder G-Quattronove completed the sale of 500,000 shares (corresponding to 4.77% of share capital) at EUR4.15 each to institutional investors, for a total consideration of EUR2.1 million. After the sale, G-Quattronove kept firmly control over Grifal, still holding a 68.4% stake in the company. Mediolanum SGR is the second shareholder with 7.3% while the free float currently stands at 24.3%.

Figure 8 – Shareholder structure



Source: Factset, Company data

Along with the listing, Grifal issued 1.95 million warrants of which 0.89 million were converted last July at EUR2.86 per share, increasing in this way the outstanding share number to 10.55 million. The remaining 1.06 million warrants could be converted in June 2020 (1-15) at EUR3.15 per share and in 2021 (1-15 June) at 3.46 per share. Given that warrants are currently in the money, we assume the full conversion in the next two years which would bring EUR3.34-3.67 million of fresh financial resources. In addition, the company owns further 0.13 million warrants which the Board could distribute to employees and/or to the Board members.

In April 2018, the company has been classified as an innovative small company ("PMI innovativa"). This classification gives Grifal several advantages: some tax savings, the possibility of remunerating staff through a tax-free "work for equity plan" while investors in the company could benefit from a tax credit of 30% of their investment (up to EUR1.0 million for individuals and EUR1.8 million for legal entities per annum) thereby increasing the appeal of future capital increases and/or warrants emission.

Strategy

After a solid track record as a local high-quality supplier of tailored packaging solutions Grifal is moving a step forward trying to enter the big game of commodity packaging solutions.

To reach this goal, the company's strategy may be outlined as follows:

> **Focus on cardboard products:** Grifal aims to launch cArtù and cushionPaper as a new standard for packaging and therefore most of the upcoming investments will be in that direction. These innovative products already received a warm welcome from large customers thanks to their technical advantages: a lower price compared to existing products coupled with a strong green feeling. If successful, this strategy should significantly increase Grifal's profitability while opening a large and fast-growing market;

> **New distribution strategy:** Grifal will adopt an integrated logistics approach. Grifal's production should be supplied directly to distributors which will be delivered to customers adopting the "just in time" philosophy The main benefit should a sharp reduction of transportation costs and inventories with the additional advantage to be closer to clients, a key factor to succeed in the packaging industry;

> **Product range expansion:** Grifal aims to widen its product range and enter new high-profitability niches while increasing complementary applications thanks to the extreme versatility of cArtù production process. The recent acquisition of a 15% stake in Buxkin BV, a Dutch company that markets solutions for acoustic treatments and the decoration of interior spaces, goes precisely in that direction. Grifal machines, in fact, will be adopted to create a new line of environmentally friendly products made with felt and recycled leather;

> **Increasing production capacity:** Grifal is doubling its production capacity through the construction of one additional facility (to be used as warehouse and to hold future production lines for both cArtù and cushionPaper solutions) for an overall 5,700 sqm area besides the historical production site of Cologno al Serio. The building should start in 1Q20 and should be completed by Dec-2020. We remind that Grifal internally projects and produces the machinery to realize its innovative products;

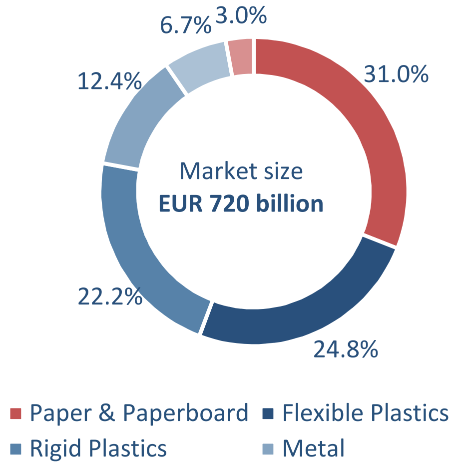
> **Growing outside the domestic market,** mostly thanks to partnerships with other packaging players, given its patented machinery through "loan to use" contracts which should generate fees but also accelerate the awareness of cArtù as a green product at lower cost. The company already finalized four agreements (in Italy) and received several cooperation offers from foreign packaging producers based in Germany, Israel and Eastern Europe.

Excluding the business plan up to 2020 (detailed in another paragraph) the company does not have any official long term target in terms of top line growth or operating profitability. However, we believe that the EBITDA margin of Sealed Air (18.8% in 2018) should be a long term target.

Reference market

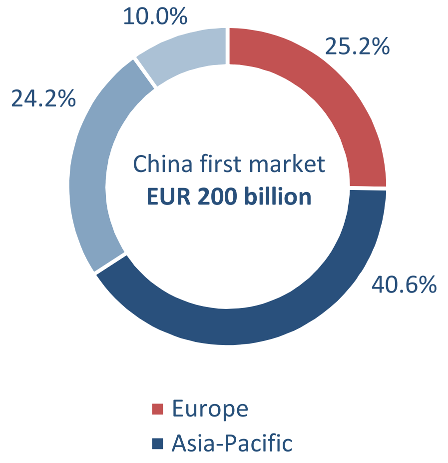
Over the past decade, the global packaging industry has experienced a constant growth driven by the economic expansion of China and other emerging regions and industry consolidation. This positive trend is expected to continue in the years to come.

Figure 9 – Global Packaging Market by material (2018)



Source: Allied Market Research, PwC Analysis

Figure 10 – Global packaging Market by geography (2018)



Source: Allied Market Research, PwC Analysis, McKinsey

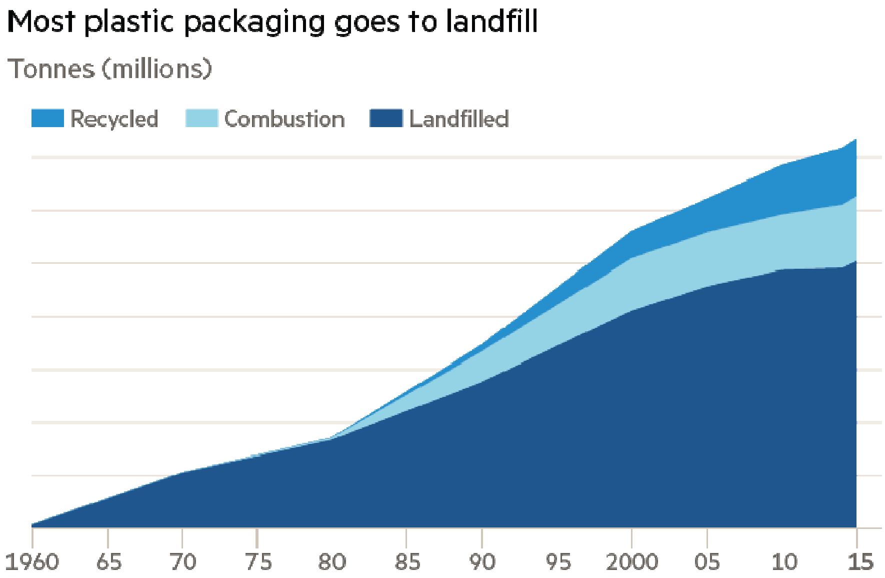
Most of this growth will be fuelled by emerging markets, which will contribute >70% of world packaging consumption growth until 2022, corresponding to around EUR95 billion increase in the period (*source: Smithers Pira*), mainly driven by the increasing population and urbanization of such regions.
China should further consolidate its leading position, moving from the current EUR200 billion to EUR250 billion in 2022 (worldwide 28% market share according to McKinsey) thanks to the booming of e-commerce and the rise in Chinese population's disposable income.
Instead, US and Europe, respectively second and third packaging regions by size, should experience lower growth rates: the former should marginally benefit from the increasing demand of the healthcare industry, while the latter is expected to reach EUR210 billion in 2023 thanks to the accelerating consumption in Eastern European countries (*source: Smithers Pira*).

Despite sluggish growth rates, western countries are the first economies experiencing a deep change in packaging demand: the card-board and paper-based solutions are steadily affirming as serious alternative to plastic packaging.

In fact, besides its unquestionable advantages in terms of cost, shock resistance and durability, plastic packaging is doomed to suffer the growing focus on environment and sustainability themes, both in terms of corporates' goals and government regulations. This "eco" trend is forcing Governments to introduce a "plastic tax" which would make cardboard packaging more attractive.

According to the National Association for PET Container Resources, out of the 8.3 billion metric tons of plastic produced worldwide so far, 6.3 billion metric tons has become plastic waste. Of that, only 9% percent has been recycled. The vast majority (79%) is accumulating in landfills or sloughing off in the natural environment as litter. Therefore, at some point, much of it ends up in the oceans, the final sink.

Figure 11 – The end of life of plastic packaging

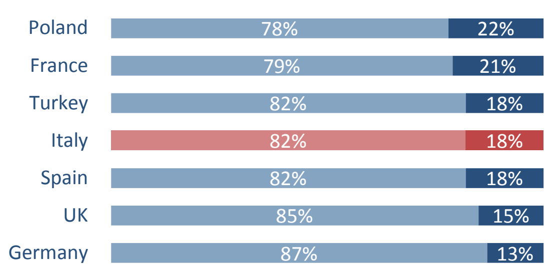


Source: American Chemistry and National Association for PET Containers Resources

This environmental damage is shifting from an externality to a business cost:

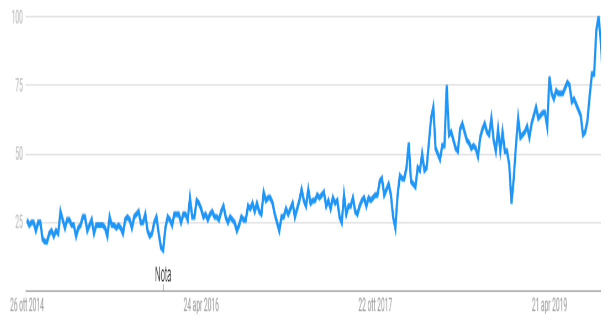
- ➢ Public opinion increasingly winces at the word "plastic": as observed by the European Consumer Packaging Perceptions study, four out of five European consumers (81%) said that, given the choice, they would choose cartonboard/cardboard packaging over plastic;

Figure 12 – European consumer preference between cardboard and plastic packaging



Source: Pro Carton - European Consumer Packaging Perceptions study (2018)

Figure 13 – Public awareness of plastic leakage



Source: Google Trends

- ➢ Risk of plastic taxes by national and supranational entities:
  - The 2020 Italian Draft Budget Law could introduce a 1EUR tax for each kg of plastic packaging, leading to an estimated average annual EUR138 duty per capita (*source: Federconsumatori*), despite EUR450 million already paid by firms on a yearly basis for plastic collection and recycle (*source: Confindustria*);

- Recently, a European tax on plastic waste is gaining momentum as a way to partially offset the EUR13 billion annual budget hole left (likely) by Brexit. Such a tax would be consistent with the EU stated commitment to move towards a circular economy;
- In the US, 16 states have adopted state-wide plastic bag legislation. As a result, there are currently about 52 approved bills in the US compared to 30 in 2015, which mostly revolve around banning single-use plastics, replacing plastics, and increasing recycling targets. In addition >90 similar bills are pending to be approved over the next 3 years.

➢ Bioplastic as an alternative seems still far: according to 2018 data collected by the European Bioplastic Association, Italy produced around 88,500 tons of bioplastic (+21% vs. 2017 figure) which is less than 3% of the plastic packaging produced in Italy last year. Such niche should increase at double digit growth rates in the coming years, compared to a 2.0% and 2.1% expected respectively in 2019 and 2020 for the traditional plastic segment due to the stagnant trend of export, but is should remain immaterial in the next few years.

Given these drawbacks, it is not surprising that cardboard and paper-based solutions are expected to emerge as natural winners and enjoy higher growth rates, moving from an EUR223 billion global market in 2018 to around EUR270 billion in 2023 (3.7% CAGR over the period) according to Smithers Pira.

Moreover, it seems such solutions will fit perfectly with the main trends that are shaping the industry:

✓ **E-commerce boom**: since some 80% of e-commerce goods are packaged in corrugated boxes (*source: MetsaBoard*), the constantly growing online retail market (USD5.5 trillion in 2023 according to Smithers Pira) is expected to boost the demand for containerboard;

✓ **Retail revolution**: retail-ready packaging has established itself as a major cost saver for retailers, especially in Western Europe. This ongoing profit pressure is providing an impetus to use more retail ready formats as a labour-saving solution, as it is estimated that these secondary packaging formats can reduce shelf restocking and handling costs by up to 50%;

✓ **Packaging digitalization**: the application of IoT technologies to packaging solutions allows to: (1) On the manufacturing side, help machinery to exchange information, optimize production runs and inventory, improving overall efficiency; (2) On the product side, increase consumer engagement with products and develop track and trace solutions at single unit level;

✓ **Digital printing advancements**: by providing custom variations that give products on-shelf distinctions, packaging substrates such as cartons, labels and corrugated boxes enable innovative, eye-catching marketing solutions. According to a recent survey by ilsole24ore, product packaging influences the purchase decision of 75% customers.

This positive momentum is even confirmed by the fact that transactions involving the cardboard segment accounted for 55% of 2018 total transaction occurring in the packaging industry (*source: Mergermarket, EY*).

In this reshaping context, Italy represents one of the most important European packaging market both in volume and value terms.

Over the last year, Italian packaging industry was positively affected by the performance of manufacturing activity (+1.7% growth at constant prices according to Prometeia) overcoming EUR33 billion turnover (+2.6% vs. 2017) and reaching a production of 16.7 million tons (+2.4% vs. 2017). The trade balance kept positive for >EUR2 billion with Western Europe confirming the first export region, counting for 86% of overall exports sales.

The Italian packaging production is expected to show a 1.5% CAGR in the period 2018-2022, with a modest 0.8% growth forecasted for 2019 (*source: Italian Packaging Institute*), driven by the high quality and sustainability properties of Italian output.

Figure 14 – Italian packaging market

(tons 000)	2007A	2008A	2009A	2010A	2011A	2012A	2013A	2014A	2015A	2016A	2017A	2018A	2019E
Production	16,941	16,415	14,558	15,357	15,247	14,483	14,436	15,017	15,368	15,867	16292	16,673	16,806
growth rate		-3.1%	-11.3%	5.5%	-0.7%	-5.0%	-0.3%	4.0%	2.3%	3.2%	2.7%	2.3%	0.8%
Export	2628	2581	2337	2589	2666	2532	2537	2630	2707	2708	2823	2,849	2,949
growth rate		-1.8%	-9.5%	10.8%	3.0%	-5.0%	0.2%	3.7%	2.9%	0.0%	4.2%	0.9%	3.5%
Import	1393	1237	1120	1365	1411	1411	1338	1631	1786	1920	1956	1,991	2,090
growth rate		-11.2%	-9.5%	21.9%	3.4%	0.0%	-5.2%	21.9%	9.5%	7.5%	1.9%	1.8%	5.0%
Domestic Market	15,706	15,071	13,341	14,133	13,992	13,362	13,237	14,018	14,447	15,079	15,425	15,815	15,947
growth rate		-4.0%	-11.5%	5.9%	-1.0%	-4.5%	-0.9%	5.9%	3.1%	4.4%	2.3%	2.5%	0.8%

Source: Italian Packaging Institute, Prometeia, Istat

Focusing on the plastic segment, in 2018 the market registered a 1% growth rate, exceeding 3.0 million tons (compared to 64.4 million tons at European level). The trend in volume features a decline in the use of virgin plastics, balanced by the increase in the adoption of recycled plastics, up 6%.

Figure 15 – Italian plastic packaging market

(tons 000)	2007A	2008A	2009A	2010A	2011A	2012A	2013A	2014A	2015A	2016A	2017A	2018A
Production	3469	3179	2875	2996	2936	2779	2733	2,663	2,744	2,889	2,974	3,007
Export	1147	1098	1026	1097	1117	1039	1003	1,006	1,015	1,019	1,057	1,046
Import	390	373	365	370	370	417	422	488	531	567	594	579
Domestic Market	2,712	2,454	2,214	2,269	2,189	2,157	2,152	2,145	2,260	2,437	2,511	2,540

Source: Italian Packaging Institute, Prometeia, Istat

As far as foreign trade is concerned, a drop in both imports (-2.6%) and exports (-1.1%) is reported. The downturn in exports is mainly due to stretch film for wrapping and accessories.

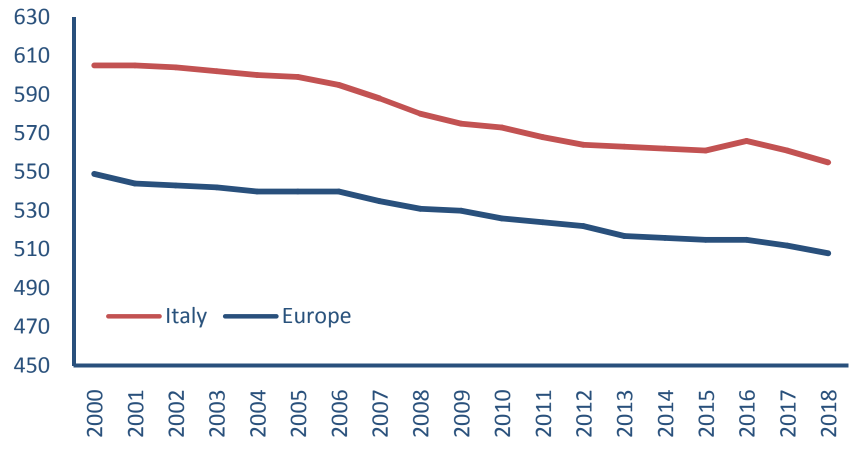
Moving to the cardboard segment, Italy is the second European producer in volume terms (3.9 million tons, +2.5% vs. 2017 and 7 billion sqm, +3.6% vs. 2017) behind Germany (7.9 billion sqm, +0.6% over 2017) and is followed by France and UK, respectively in third and fourth position. Overall, Italy holds a 16% share of European cardboard packaging production (*source: FEFCO*).

However, we believe that Italy has still a hidden potential that could be wielded:

1) **Export increase:** despite the steady decrease in Italian average corrugated board basis weight per sqm (from 573 g in 2010 to 555 g in 2018) we are still far away from the European average (508 g/sqm in 2018) and worldwide top performers. Narrowing further such gap is crucial to succeed in highly competitive,

mature markets, increasingly focused on raw material reduction (currently export stands at 32.8% of overall production, according to Cerved data);

Figure 16 – Evolution of average basis weight for corrugated boards (g/sqm)



Source: GIFCO

2) **E-commerce not yet at full speed**: compared to other western economies, in Italy the penetration of e-commerce is still low at 7% (*source: Politecnico di Milano, Osservatorio eCommerce B2C, May 2019*). The expected, rapid growth of e-commerce in Italy could certainly act as springboard for additional growth;
3) **Innovation leadership**: Italian cardboard packaging companies invest annually around EUR420 million on R&D against a comprehensive European figure of EUR3.5 billion and stands out for >300 patents filed in recent years (*source: Comieco*);
4) **Industry consolidation**: several drivers are forcing the fragmented Italian (and European) market towards consolidation:
    - The increased pressure on margin is forcing corrugated packaging players to operate more efficiently and increase their market share;
    - The location of production plants: corrugated board sheets are typically economically viable for a distance of up to 400km, but preferably within 200km. Therefore, larger players seeks potential, smaller competitors located in strategic geographical positions;
    - The growing investments needed to meet sustainability and environmental requirements are becoming unbearable to small size firms.

    However, we do not expect such consolidation to happen as quickly as witnessed in the US, mainly due to the predominance of family owned companies not ready to sell.

Our conclusion is that cardboard packaging should grow fast in the coming years, overperforming the growth of the packaging industry as a whole. This trend should clearly favor Grifal which could exploit its innovative products making cArtù cushion paper a new standard in the industry.

SWOT Analysis

Figure 17 – SWOT Analysis

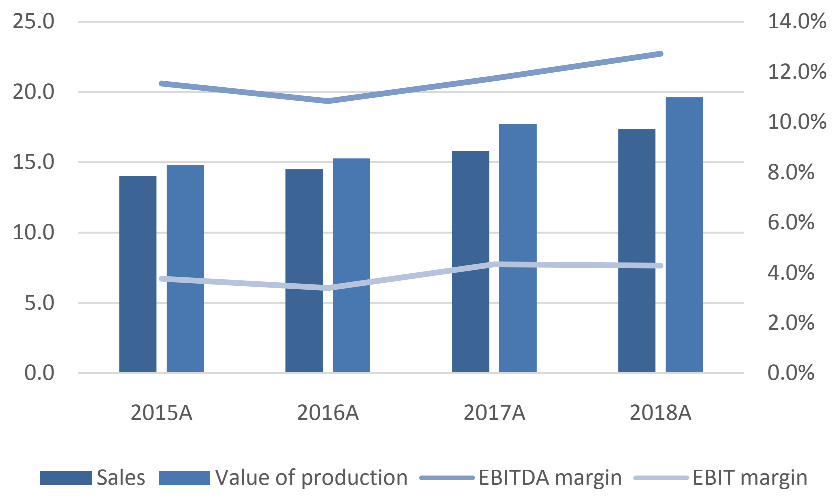
Strengths	Weaknesses
Innovative business model based on tailor made solutions conceived to meet any customer's requirement; cArtù is already establishing as the new technological breakthrough in the industry; Over time the company has shown a strong attitude towards product innovation (InspiroPack System being a case in point); Grifal was the first Italian player enlisted in Amazon Packaging Support and Supplier Network (APASS); Strong management team which founded the company, with diversified knowledge and clear vision of the market in the years to come; Fully internal design and manufacturing of production machines and high flexibility on industrial processes; The company can boast 16 patents, most of which with international validity; Complementarity of the product line (for instance the InspiroPack technology perfectly fits with both cArtù and Mondaplen solutions).	Strong concentration in the domestic market (81% of sales at Dec-18); Dependence on a limited number of key customers (top 5 and 10 clients represented respectively 29.7% and 44.7% of overall sales in FY18) and suppliers (top 5 and 10 providers accounted respectively for 36.0% and 51.6% of total supply in FY18); Low cash generation in 2019-21 as Grifal is still in the early stage of its strategy to increase production capacity and adopting its innovative business model; Limited production capacity and production constraints could limit the speed of rump-up for cArtù and cushionPaper.
Opportunities	**Threats**
The company was not involved at all in the recent investigation regarding the cartel implemented to distort the competitive dynamics in the Italian market for corrugated cardboard sheets and for corrugated cardboard packaging; The creation of a "Grifal Network" announced by the management should further consolidate the relationships with existing clients, foster partnerships with other packaging firms and open the doors to foreign markets; Increasing environmental awareness; Growing numbers for B2B and B2C e-commerce at both international and national level (according to the Chamber of commerce of Milan, the number of Italian companies relying on e-commerce experienced a 68% increase between 2014 and 2019); Spill over effect: we believe that the visibility granted by cArtù brand success and the Company listing will lead to a wider customer base for the remaining business units.	Paper, cardboard and EPE price fluctuations (raw material costs represented 45% of comprehensive production costs in FY18 and 46% in PF17); Increasing competition and potential entry of large international companies; Technological breakthrough in the packaging technology, particularly for the material used; Delays in building the new plant.

Source: UBI Banca estimates

2018 and 1H19 results

Grifal reported FY18 results significantly above the FY17 figure but below the original business plan briefly illustrated in the IPO admission document. Revenues increased from EUR15.8 million to EUR17.4 million (+9.8% growth) thanks to the consolidated demand for high quality products and the higher contribution of cArtù and international markets on total sales. Instead, we believe that the negative differential with the business plan 2018 forecast (EUR18.5 million or -6.5%) is explained by the generalised slowdown occurred in the European manufacturing industry in 2H18.

Figure 18 - Revenues and profitability margin trend



Source: Company data, UBI Banca estimates

Looking at operating results, despite the higher price of corrugated cardboard (+9% vs. 2017), the declining trend of polyethylene (-6% vs. 2017) reduced slightly material costs (40.1% of sales in FY18 compared to 41.3% in FY17), leading to an EBITDA double digit growth (+19.1% vs. 2017) to EUR2.2 million or 11.3% margin, which is higher than the PF2017 10.5% profitability but lower than the 12.5% 2018 profitability assumed in the business plan. After EUR1.5 million D&A (EUR0.3 million up vs. 2017 for new capex plan and R&D), Grifal reached EUR0.7 million EBIT, corresponding to a 3.8% margin, broadly in line with both FY17 result and the business plan.

The bottom line was substantially comparable to the 2017 figure (EUR0.39 million vs. EUR0.36 million in FY17) due to higher financial expenses (EUR0.23 million vs. 0.16 million in FY17). Out of such net profit, the company approved a dividend distribution for EUR0.29 million (EUR0.03 per share), corresponding to a 75% payout.

Regarding the balance sheet, the positive effect of IPO on net debt (decreased from EUR6.5 million to EUR5.4 million or from 3.5x Net Debt/EBITDA in 2017 to around 2.4x in Dec-18) and the significant aforementioned investment plan (EUR4.6 million of which EUR1.2 million in plant & equipment) pushed up the net invested capital, which nearly achieved the EUR14 million mark.

Overall, 1H19 results were positive for Grifal and globally in line with the company business plan. The top line moved from EUR8.9 million in 1H18 to EUR9.8 million, reporting a 9.7% increase. From a geographical standpoint, all regions went up, in particular foreign markets, consistently with the aspiring internationalization objectives pursued by the company: Italy grew by 2.0%, while Europe and RoW rose respectively by 45.1% and 29.1%. We understand that the firm is benefitting from the national and international success of cArtù brand, as confirmed by the license contract signed in the semester for the outsourced production of cArtù packaging solutions. Moreover, we remind that, according to the management, Grifal currently cannot manufacture more than three production lines for license use per year, therefore we do not expect other licence contracts to be concluded until the beginning of 2020.

Despite a higher personnel cost (27.9% of sales in 1H19 vs. 24.9% in 1H18 due to the higher number of employees required to meet the increased production activity) and higher service cost, the revenues improvement led to an EUR1.5 million EBITDA in the first half, which implies a 15.5% margin on sales, way higher than the 1H18 and 1H17 figures (11.0% and 10.5% respectively). In details, the company profitability has been positively affected by: 1) The lower cost of paper caused by the higher weight of cArtù on comprehensive turnover; 2) The extraordinary IPO tax credit of EUR0.5 million. We highlight that stripping out this one-off tax credit, EBITDA would have reached EUR1.0 million, corresponding to a 10.4% margin, broadly in line with the historical performance of Grifal.

After EUR0.8 million D&A (EUR0.3 million higher than 1H18 due to substantial investments in R&D and plants & equipment) and as consequence of the higher EBITDA, EBIT jumped to EUR0.7 million, corresponding to a 85.2% increase vs. 1H18. As a result, the operating profitability of the first half (7.2%) has clearly improved compared to both 1H18 (4.2%) and 1H17 (3.3%).
Going down to the bottom line, net profit moved from EUR0.2 million in 1H18 to EUR0.6 million also thanks to a lower tax rate (7.5% vs. 36.2%). By adjusting the bottom line for the IPO tax credit, Grifal would have barely reached breakeven.

Figure 19 – Grifal 1H19 consolidated results

(EURm)	1H18A	1H19A	% Chg.
Sales total	**8.89**	**9.75**	**9.7%**
Value of production	**9.70**	**11.42**	**17.7%**
EBITDA	**0.97**	**1.52**	**55.5%**
% margin	**11.0%**	**15.5%**	
EBIT	0.38	0.70	85.4%
% margin	4.2%	7.2%	
Pre tax	0.25	0.60	139.0%
Net attributable result	**0.16**	**0.56**	**246.9%**
Net debt/(cash)	4.21	3.93	-6.5%

Source: Company data

NWC rose to EUR5.4 million (vs. EUR4.5 million in FY18 and EUR4.3 million in 1H18) mainly due an increase of tax credits and trade receivables. Net Debt dropped to EUR3.9 million from EUR5.4 in Dec-18 after EUR0.3 million dividend distribution and EUR2 million investments (of which EUR0.8 million for plants and equipment and EUR0.5 million for capitalised R&D) thanks to the positive contribution deriving from the conversion of 889,782 warrants (corresponding to an EUR2.5 million intake). This net financial position returned a 0.4 Net Debt/Equity ratio and a 2.6 Net Debt/EBITDA ratio at 1H19, leaving space for potential small-size acquisitions.

As anticipated above, the company has recently obtained the authorizations for the construction of one facility (one to be used as warehouse and to hold future production lines for both cArtù and cushionPaper solutions) for an overall 5,700 sqm area besides the historical production site of Cologno al Serio. The building should start in 1Q20 and should be completed by Dec-2020.

2019-20 Business plan

At the end of March, Grifal updated the business plan presented along with the listing in June 2018. The new plan accelerates the upgrade of the production lines of cArtù with the target of tripling the production capacity while reducing the weight of the raw materials, adopting a new production process. Therefore, 2019 forecasts have been slightly reduced (by 7% at value of production level and by 5% at EBITDA level).

The new business plan targets a value of production 2017-20 CAGR of 15% and an EBITDA CAGR of 25%, thus implying an EBITDA margin close to 15%. After EUR2 million of D&A costs EBIT should reach EUR1.6 million in 2020. Net debt for Dec-19 has been lowered to EUR6.1 million as investments have been postponed to 2020.

Figure 20: Grifal business plan

(EURm)	2018A	2019E	2020E
Sales	18.6	19.7	24.5
VoP	19.5	22.2	26.9
EBITDA	2.4	3.0	3.6
% margin	12.5%	13.5%	13.4%
D&A	(1.6)	(1.8)	(2.0)
EBIT	0.8	1.2	1.6
% margin	4.2%	5.4%	6.0%
NWC	4.0	5.0	6.0
% sales	20.8%	22.6%	22.2%
Net debt (cash)	2.3	6.1	7.7

Source: Company data

Overall, the targets of the business plan are achievable in our view, also in light of the positive results reported in 1H19. The business plan does not give indications on 2021 which should be the first year with the new production capacity fully at regime, therefore implying a significant top line growth and sizeable profitability improvements.

Financial projections

Grifal sells several products that offer different margins. In other words, the product mix of revenues could strongly affect profitability. In particular, we believe cArtù has a higher margin than other products (even if this data is not disclosed by Grifal). In addition, the new production process, at regime in 2021, should help to reduce the weight of raw materials, thus allowing further margin improvements.

Revenues are expected to increase by 13.1% in 2019 and value of production by 14.3%, broadly in line with the company's business plan, thus anticipating a sound growth also in the second half of the year (sales up 16.6%, VoP up 11.1%) but with a different product mix: cArtù should more than double compared with 2018, reaching 10.6% of total sales while Mondaplen should grow by 6% and other products are projected to increase by 5%. We expect further top line growth in 2020-21, on the back of the potential adoption of cushionPaper (made with cArtù technology) as a commodity packaging material used for delicate surfaces and the increased production capacity (from end 2020). In summary, we estimate a top line 2018-21 CAGR of 20.2%, with value of production exceeding EUR33 million in 2021. We highlight that our estimates do not include the additional sales that could come from the engineering activity, such as rental fees and royalties for the machinery producing cArtù at the customer site.

Figure 21 – Estimates by product

(EURm)	2017	2018	2019E	2020E	2021E
Mondaplen sales	11.3	9.0	9.5	9.7	9.9
Mondaplen EBITDA	1.2	1.1	1.2	1.3	1.2
% margin	11.0%	12.0%	12.5%	13.0%	12.6%
cArtù sales	0.2	0.7	2.1	5.0	9.5
cArtù EBITDA	0.0	0.1	0.4	1.1	2.1
% margin	0.0%	6.7%	20.6%	21.9%	22.3%
Other products sales	4.3	7.7	8.0	9.6	10.8
Other products EBITDA	0.4	0.5	1.1	1.2	1.3
% margin	9.7%	6.1%	13.4%	12.0%	12.4%

Source: Company data, UBI Banca estimates

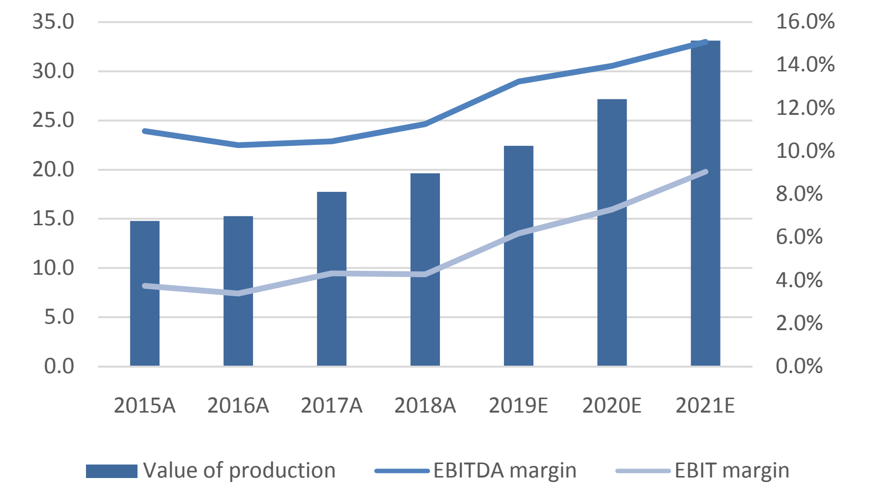
We forecast a consolidated EBITDA margin of 13.2% this year (on the value of production) compared with 11.3% in 2018, including the extraordinary IPO tax credit of EUR0.5 million. This remarkable improvement should be possible thanks to the higher weight of cArtù, which deserves higher margins, the reduction of raw material prices and the full utilization of the production capacity. We expect further growth in the EBITDA margin in 2020 and 2021 for four main reasons:

- **Different product mix**, with a higher share of income coming from cArtù and cushionPaper which generate a much higher EBITDA margin;
- The benefits stemming from its **new production process** which should strongly reduce raw materials while increasing efficiencies;
- **Additional production capacity** which should reduce the fixed costs increasing the operating leverage;
- The advantages coming from the introduction of Grifal's **innovative business model.** In particular the upcoming integrated logistics should strongly cut transportation costs and inventories as Grifal's production should be supplied directly to distributors which will be delivered to customers adopting the "just in time" philosophy.

Additional gains, not included in our forecasts could come from concessions, machinery rental fees, royalties and partnerships with other packaging producers.

After annual D&A costs of about EUR2 million, EBIT is expected to rise to EUR1.2 million this year, reaching EUR2.7 million in 2021.

Figure 22 - Revenues and profitability margin trend



Source: Company data, UBI Banca estimates

Below the operating line, Grifal is expected to report EUR0.2 million p.a. of financial charges in coming years. The tax rate is expected to remain at around 30%, slightly above 2018 (when it was 26%) but in line with 2016-17. As a result, net profit should reach EUR0.7 million in 2019, EUR1.1 million in 2020 and EUR1.8 million in 2021.

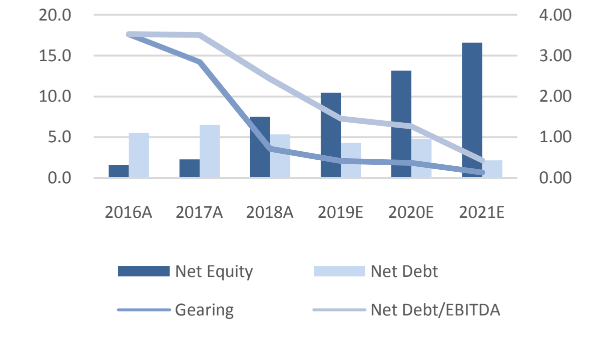
Our estimates include a DPS of EUR0.03 (pay-out ratio of 45% and a 0.9% yield at the current market price) increasing to EUR0.035 for 2020 and EUR0.045 for 2021 (both with a pay-out ratio around 37%) implying a yield of 1.0%-1.3%.

The company's operating cash flow generation is satisfactory (about EUR1 million p.a. on average over the past three years) and we believe this trend will accelerate in future. Capex is expected to reach EUR3.0 million this year and EUR3.5 million in 2020, after EUR4.6 million in 2018, as the company is investing in new production capacity expanding its production site in Cologno al Serio. In 2021 we expect some capex reduction as the investment plan should be concluded.

Grifal reported net debt of EUR5.4 million at Dec-18, with a gearing of 0.71x which was lowered by cash in coming from the listing (EUR4.7 million of capital increase) while the net debt/EBITDA ratio was 2.4x (vs. 3.5x in 2017). 2019 benefitted from the warrant conversion which added EUR2.5 million of fresh financial resources and therefore net debt should decline to EUR4.3 million despite significant capex. In the coming years we included in our estimates the full conversion of the outstanding warrants (50% in 2020 for a cash in of EUR1.9 million, and 50% in 2021 for a cash in of EUR2.1 million) and therefore our net debt estimates are much lower than the company's business plan. Overall, we believe the company's financial structure is not particularly stressed and that the warrants conversion would provide the company all the financing which is needed for a rapid expansion.

Figure 23 – Financial structure evolution

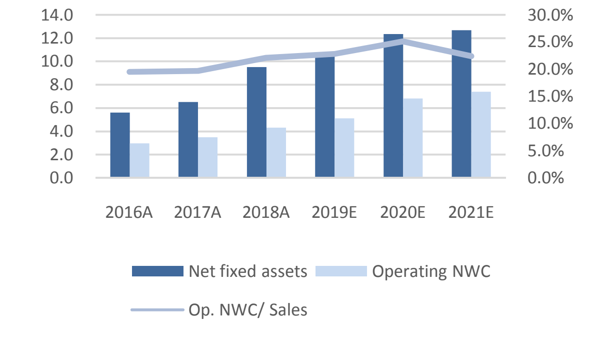
We expect a slight reduction in net debt thanks to the warrants conversion taking gearing to 0.41x in 2019 and net debt /EBITDA ratio to 1.5x. The financial structure should further improve in 2021 thanks to lower capex and higher operating cash flow generation.



Source: Company data, UBI Banca estimates

Figure 24 – Net fixed assets and operating NWC evolution

We cautiously assume a stable operating NWC to sales ratio in coming years, even if integrated logistics could reduce inventories. Net fixed assets are expected to increase on the back of the extraordinary capex for the new plant.

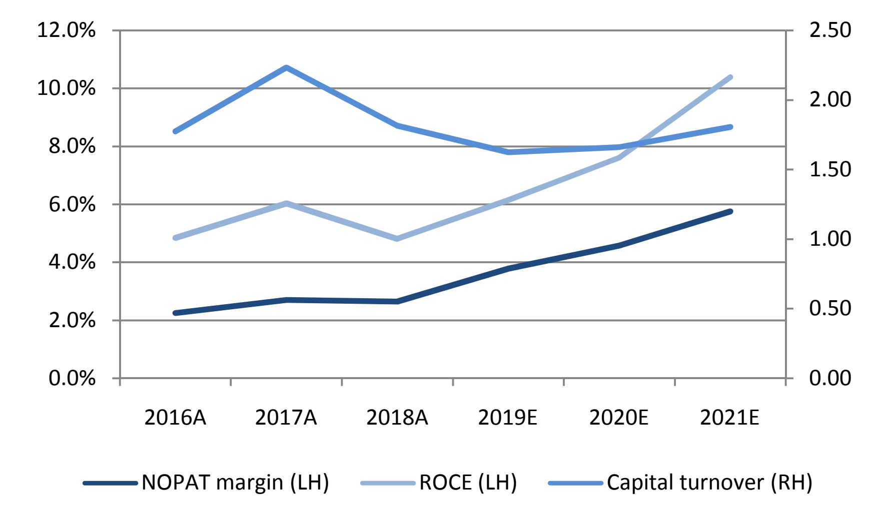


Source: Company data, UBI Banca estimates

Operating net working capital has always been high for Grifal (the average of the past three years is 20% of revenues with 2018 at 22%) as the company has substantial inventories (the average is about 35 days), and high trade receivables (>110 days over the past three years) given the high proportion of Italian clients (>80% of revenues), while trade payables have payment terms of 76 days on average. Adding net fixed assets at about 40% of sales (49% in 2018), we calculate an average capital turnover (sales / invested capital) of 1.9x in the past three years, driving 2018 ROCE to 4.8%. For 2019-20 we forecast a progressive deterioration of capital turnover, mostly due to higher fixed assets but an improvement in 2021 when D&A should be in broadly line with capex. ROCE should remain well above the WACC (estimated at 6.0%) in 2020-21 providing strong value creation.

Figure 25 – NOPAT margin, Capital Turnover and ROCE trend

2018 ROCE was penalised by the reduction of the capital turnover. In the coming year the recovery of the Nopat margin coupled with a slight increase in capital turnover should lead a progressive increase of ROCE (10.4% expected in 2021)



Source: Company data, UBI Banca estimates

The raw material risk

With >40% of revenues absorbed by raw materials in the past three years Grifal is clearly subject to the price fluctuations of paper, cardboard and EPE. This said, the different sales mix (higher production derived by paper) and the upcoming new production process should significantly lower the content of raw materials as it was already evident in 1H19 when raw materials represented 38.1% of value of production compared with 41.6% in 1H18. The company aims to reduce the impact of raw materials to 37% of value of production in the long term and we incorporated in our estimates a progressive reduction of raw materials (from 40.1% in 2018 to 38.5% in 2021) assuming raw material prices in line with 2018.

We ran a sensitivity analysis on the raw materials assuming that the company should be able to transfer to customers just 50% of the raw material price increase.

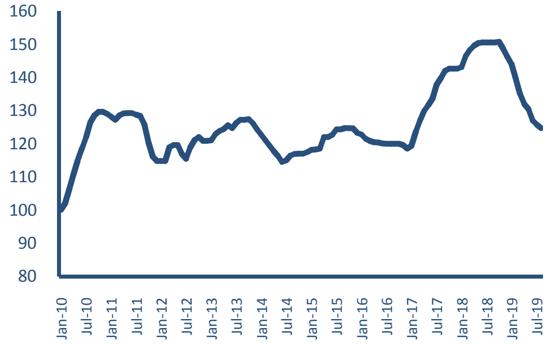
Figure 26 – Sensitivity analysis on raw material price fluctuations on EBITDA margin

	2019E	2020E	2021E
Value of production	22.4	27.2	33.1
Raw material	8.9	10.6	12.8
% on VoP	39.6%	39.0%	38.5%
EBITDA	3.0	3.8	5.0
% margin	13.2%	14.0%	15.1%
+10%	11.0%	11.8%	12.9%
+20%	8.9%	9.7%	10.8%
+30%	6.9%	7.7%	8.8%

Source: UBI Banca estimates

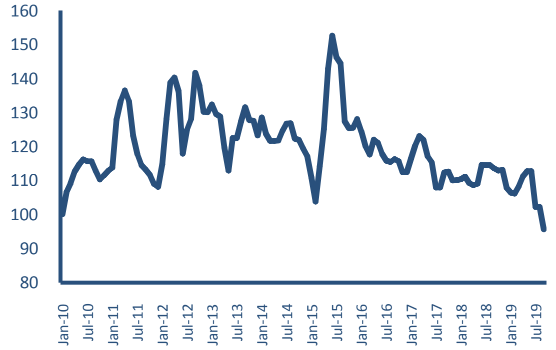
As shown in the table above, an increase of 10% of raw material price would imply a decrease of the EBITDA margin to 11.8% in 2020. Assuming an increase of 30%, the margin would decline to 7.7%. On the opposite, a decline of 10% in raw material prices would increase 2020 EBITDA margin to 15.9%. In other words, we believe that raw material price fluctuations have a limited impact on EBITDA margin, mitigated by the adoption of the new production process and by the increase of the weight of cArtù on consolidated turnover.

Figure 27 – Corrugated cardboard price trend per ton (Jan-2010 = 100)



Source: Prometeia, Camera di Commercio Milano

Figure 28 – Packaging plastic material price trend per ton (Jan-2010 = 100)



Source: Prometeia, Camera di Commercio Milano

Valuation

Our target price of EUR4.67 per share is based on a DCF valuation, with 70% weight, a relative valuation on a wide sample of packaging companies, not necessarily a perfect peer for Grifal, with a 10% weight, and a relative valuation based on Sealed Air, which is active in the same segments where Grifal is present (20% weight). We gave a higher weight to our DCF valuation as Grifal is now at a turning point: it is changing its business model and in the meantime it is launching its cushionPaper solution which could drastically change the product mix in the coming years. Therefore, we believe 2019-20 will be years of transitions, making relative valuations less significant than a DCF which has a longer time horizon. At the target price, Grifal would trade at 13.8x 2021 EV/EBITDA, which is still above the average multiple for our peer sample (6.4x) and Sealed Air (10.0x).

Figure 29 – Valuation summary

(EUR)		**Weight**
DCF Valuation	5.54	70.0%
Relative Valuation	2.02	10.0%
Relative Valuation on Sealed Air	2.94	20.0%
Target price	**4.67**	**100.0%**
Current price	3.51	
Potential upside	33.1%	

Source: UBI Banca estimates

DCF

Over the past three years Grifal was a value destroyer, reflecting its modest EBIT margin (4% on average), the decline in capital turnover (from 1.77x in 2016 to 1.24x in 2018). However, starting from this year, the company should reverse and we expect rising EBIT margin backed by Grifal's new strategy and products and rising capital turnover from 2021 when the investment plan should be completed.

Our prudent DCF model gives a fair value of EUR5.54 per share.

To calculate the company's WACC, we used the following assumptions:

> a risk-free rate of 2.5%, which is our long-term assumption for the interest rate on Italian bonds (2% inflation target of ECB plus 0.5% real interest, in line with the long term historical average);

> a market risk premium of 4.5%;

> an unleveraged beta of 0.76, based on the average of Packaging & Containers industry, and Paper & Forest industries in Europe (*source: Damodaran Jan-19*). This beta becomes 1.13 when leveraged;

> A debt spread of 3.0% which should be above the real cost of financing for Grifal;

> A debt/equity ratio of 42/58, which is the structure reported in 2018.

> A terminal growth rate of 2% and an operating margin of 9.0% at terminal value, which is above the 4.3% EBIT margin reported in 2018 but in line with our expectation for 2021;

We calculated a WACC of 5.96%

Figure 30 - WACC and embedded DCF assumptions

WACC assumptions		Embedded DCF assumptions	
Risk-free rate	2.5%	Revenue CAGR 2019-2027 (%)	13.2%
Debt spread (%)	3.0%	Target EBIT margin at terminal value (%)	9.0%
Cost of debt [net] (%)	3.7%	D&A. on sales (avg. 2019-2027) (%)	7.9%
Market risk premium (%)	4.5%	Capex on sales (avg. 2019-2027) (%)	9.2%
Beta (x)	1.13		
Cost of equity (%)	7.6%		
Weight of Debt	42%		
Weight of Equity	58%		
WACC	**5.96%**		

Source: UBI Banca estimates

Figure 31 – DCF Valuation

Our DCF valuation implies an EV/EBITDA of 5.1x at terminal value

	Valuation (EUR m)	% Weight	Per share (EUR)
Sum of PV 2019-27 FCF	7.8	12%	0.74
Terminal value	57.1	88%	5.41
Total Enterprise value	**64.9**	**100%**	**6.15**
- Pension provision	(1.1)		(0.10)
- Net cash (debt)	(5.4)		(0.51)
Total Equity value	**58.5**		**5.54**
Number of shares outstanding (m)	10.6		
Fair value per share (EUR)	**5.54**		

Source: UBI Banca estimates

Our valuation shows a significant sensitivity to the terminal growth rate (increasing it from 2% to 3% our fair value would increase by 34%) and WACC (1% decline in WACC, +32% in our fair value.

Figure 32 – Sensitivity analysis

g / Wacc	1.00%	1.50%	2.00%	2.50%	3.00%
5.00%	5.50	6.29	7.34	8.81	11.02
5.50%	4.88	5.49	6.29	7.34	8.82
6.00%	4.38	4.87	5.49	6.29	7.35
5.96%	4.41	4.91	**5.54**	6.36	7.44
7.00%	3.61	3.95	4.36	4.86	5.49
7.50%	3.32	3.61	3.95	4.36	4.86
8.00%	3.06	3.31	3.60	3.94	4.36

Source: UBI Banca estimates

Relative valuation

Grifal has no directly comparable peers that are listed, although there are several listed companies active in packaging of both plastic and cardboard (see appendix for further details) that include six companies with market capitalisations of over EUR5 billion. Our sample of companies has reported high single digit average growth sales in the past few years with and strong growth in 2018 (+14.2%) after a slowdown in 2017. The average EBITDA margin of around 16.7% has been reported in the past five years, well above that of Grifal.

Based on a relative 2019-21 EV/EBITDA Grifal would be valued at EUR2.02 per share while other metrics (for example P/E or EV/EBIT) are not significant in our view, as the company is in the midst of its strategic investment plan.

We also used the multiples of Sealed Air, an American multinational company which offers packaging solutions and commodities similar to Grifal. Based on Sealed Air current EV/EBITDA multiples, Grifal would be valued EUR2.94 per share.

Figure 33 – Peer comparison and valuation based on multiples (priced on 8 November 2019)

Company	Market Cap	P/E			EV/EBITDA			EV/EBIT		
	(EURm)	2019	2020	2021	2019	2020	2021	2019	2020	2021
Berry Global	5,025	12.9 x	10.9 x	9.4 x	10.7 x	7.4 x	6.8 x	18.0 x	13.1 x	11.6 x
BillerudKorsnas	2,263	27.5 x	17.7 x	13.4 x	10.3 x	7.9 x	6.6 x	25.3 x	15.9 x	11.8 x
Cascades	831	14.4 x	13.2 x	10.7 x	5.7 x	5.4 x	4.8 x	10.1 x	10.9 x	9.2 x
DS Smith	6,108	10.9 x	10.7 x	10.4 x	7.2 x	6.9 x	6.4 x	11.2 x	10.8 x	10.2 x
Graphic Packaging	4,253	18.4 x	16.3 x	14.7 x	7.1 x	6.8 x	6.6 x	12.8 x	11.8 x	11.2 x
International Paper Company	16,441	10.5 x	12.1 x	12.5 x	7.2 x	7.8 x	7.6 x	11.2 x	12.8 x	12.9 x
Metsa Board	2,305	16.0 x	16.3 x	14.0 x	9.1 x	9.3 x	8.7 x	13.9 x	14.3 x	12.9 x
Mpact	166	8.7 x	6.9 x	5.7 x	3.8 x	3.2 x	2.8 x	7.6 x	6.0 x	5.0 x
Pacific Millennium Packaging	157	10.6 x	8.5 x	6.8 x	6.2 x	5.4 x	4.6 x	8.9 x	7.6 x	6.2 x
Packaging Corporation of America	9,783	14.9 x	16.5 x	16.8 x	8.6 x	9.2 x	9.2 x	11.6 x	12.8 x	13.0 x
Smurfit Kappa Group	7,450	11.2 x	11.5 x	10.9 x	6.7 x	6.7 x	6.4 x	9.9 x	10.1 x	9.6 x
Tomoku	300	6.1 x	5.2 x	5.0 x	4.6 x	4.3 x	4.0 x	8.2 x	7.2 x	6.7 x
Average		**13.5 x**	**12.2 x**	**10.9 x**	**7.3 x**	**6.7 x**	**6.2 x**	**12.4 x**	**11.1 x**	**10.0 x**
Median		**12.1 x**	**11.8 x**	**10.8 x**	**7.2 x**	**6.9 x**	**6.5 x**	**11.2 x**	**11.4 x**	**10.7 x**
Sealed Air	**5,611**	**14.4 x**	**13.3 x**	**12.2 x**	**10.1 x**	**9.2 x**	**8.6 x**	**12.5 x**	**11.5 x**	**10.6 x**

Source: Factset, UBI Banca estimates

At our EUR4.67 per share target price, Grifal would trade at 16.8x 2020 EV/EBITDA, which is above the average multiple of our sample of peers (6.7x) and of Sealed Air (9.2x).

Figure 34 – Implicit multiples based on our EUR4.67 target price

(x)	2019E	2020E	2021E
P/E	69.3 x	52.0 x	37.6 x
EV/EBITDA	18.4 x	16.8 x	14.2 x
EV/EBIT	45.0 x	36.0 x	25.9 x
EV/Sales	3.45 x	3.33 x	3.52 x
P/BV	4.71 x	4.42 x	4.08 x
EV/ Capital employed	3.69 x	3.55 x	3.78 x

Source: UBI Banca estimates

Appendix: short description of listed competitors

Sealed Air is a leading provider of packaging solutions for the food, e-Commerce, electronics and industrial markets. For food industries, the company provides integrated packaging materials, equipment, automation and service solutions. For e-Commerce, electronics and industrial markets, Sealed Air offers a broad range of sustainable protective packaging materials and automation solutions that prevent product damage and enhance 'out-of-the-box' customer experience while increasing order fulfillment velocity. The firm leverages its iconic brands, including Cryovac food packaging and Bubble Wrap protective packaging. Sealed Air was founded in 1960 and is headquartered in Charlotte, North Carolina.

Berry Global Group is a supplier of value added engineered materials, specialty materials and consumer packaging with customized solutions. It operates through the Consumer Packaging, Health, Hygiene & Specialties, and Engineered Materials business units. The Consumer Packaging segment is comprised of containers, foodservice items, closures, over caps, bottles, prescription containers, and tubes. The Health, Hygiene & Specialties business consists of unwoven specialty materials and films used in hygiene, personal care, industrial, construction and filtration applications. The Engineered Materials segment includes tapes and adhesives, polyethylene based film products, can liners, printed films and specialty coated, and laminated products. Listed since 2012 in the NYSE, Berry Global is headquartered in Evansville, Indiana.

BillerudKorsnäs engages in the manufacture and supply of renewable packaging materials and operates through the Packaging Paper, Consumer Board and Corrugated Solutions business units. The Packaging Paper segment offers kraft and sack paper, as well as packaging for food, industrial purposes, medical applications, and carrier bags. The Consumer Board business unit develops and markets cartonboard used in packaging for beverages, yoghurt, refrigerated and frozen food products, and consumer goods. Lastly, the Corrugated Solutions supplies materials to corrugated board manufacturers and packaging solutions to brand owners. The company was founded on November 29, 2012 and is headquartered in Solna, Sweden. BillerudKorsnäs is part of the Nasdaq Exchange Nordic and Swedish sustainability indices as one of 50 leading Nordic respectively Swedish sustainable companies.

Cascades is a Canadian paper and packaging company that produces, converts and sells packaging and tissue products composed primarily of recycled fibers. Established in 1964, Cascades is a multinational business with close to 100 operating facilities and more than 11,700 employees across Canada, the United States and Europe. The Corporation currently operates four business segments: Containerboard, Boxboard Europe, Specialty Products and Tissue Papers.

DS Smith is a leading provider of packaging solutions. It focuses on the manufacture of sustainable corrugated case materials and specialty papers, providing recycling and waste management services, and plastic packaging fully reusable and recyclable. Moreover, the company can boast an independent packaging consultancy business to help its customers to make their packaging design work better for their brands by enhancing product utility and reducing environmental impact. DS Smith operates through the following geographical segments: United Kingdom, Western Europe, Northern Europe, Central Europe and Italy, and North America. The company was founded in 1940 and is headquartered in London, the United Kingdom.

Graphic Packaging Holding Company, headquartered in Atlanta, Georgia, is a leading provider of paper-based packaging solutions for a wide variety of products to food, beverage, foodservice, and other consumer product companies. The Company operates on a global basis, is one of the largest producers of folding cartons and paper-based foodservice products in the US, and holds leading market positions in solid bleached sulfate paperboard, coated unbleached kraft paperboard and coated-recycled paperboard. The Company's customers include many of the world's most widely recognized companies and brands.

International Paper Company is a leading global producer of renewable fiber-based packaging, pulp and paper products with manufacturing operations in North America, Latin America, Europe, North Africa, India and Russia. It operates through the Industrial Packaging, Global Cellulose Fibers, and Printing Papers business units. The Industrial Packaging segment involves in the manufacturing of containerboards, which include linerboard, medium, recycled linerboard, recycled medium, and saturating kraft. The Global Cellulose Fibers segment offers cellulose fibers products and specialty pulps. The Printing Papers segment includes manufacturing of the printing and writing papers.

Metsä Board is a leading European producer of premium paperboards. The company has gone through a substantial transformation process from a loss-making paper producer into a profitable paperboard company. FY2017 was Metsä Board's first full year as a pure-play paperboard company. Its main products are folding boxboard and white kraftliners, which are used especially in consumer goods packaging, retail-ready and food service applications. The company is leader in the European market, while it is a significant player in the Asia-Pacific region and among the biggest importers of folding boxboard and coated white-top kraftliner in the US. Metsä Board was founded in 1986 and is headquartered in Espoo, Finland.

Mpact engages in the business of paper and plastic packaging. It offers a range of products such as corrugated packaging, recycled-based cartonboard and containerboard, recovered paper collection, polyethylene terephthalate preforms, styrene trays, and plastic jumbo bins in the field of food, beverage, personal care, homecare, pharmaceutical, agricultural, environmental and retail markets. The company was founded in 2004 and is headquartered in Johannesburg, South Africa.

Pacific Millennium Packaging is a corrugated packaging supplier with over twenty years of experience, operating eleven production plants in China. The company is mainly engaged in the manufacturing and sale of corrugated boxes, pallets, display stands, heavy duty packaging and specialised packaging products mainly for the food, home appliances, electronics, garments, and industrial machinery industries. The company completed its global offering and listing on the Main Board of the Stock Exchange of Hong Kong Limited on 21 December 2018.

Packaging Corporation of America is the third largest producer of containerboard products and the third largest producer of uncoated freesheet in North America. It operates six containerboard mills, two white paper mills and 95 corrugated products manufacturing plants and is primarily active in the US. The company reports in three segments: Packaging, Paper and Corporate and Other. The main business is represented by the Packaging segment: PCA produces a wide variety of corrugated packaging products, including conventional shipping containers used to protect and transport manufactured goods, multi-color boxes and displays with strong visual appeal that help to merchandise the packaged product in retail locations. Founded in 1959 and headquartered in Lake Forest, IL, PCA became a publicly traded company on the NYSE in 2000.

Smurfit Kappa Group is one of the largest player worldwide in the design, manufacture and supply of paper-based packaging solutions. In particular, the company is European leader in production volume in corrugated packaging, containerboard and bag-in-box and is the only Pan-American producer of containerboard and corrugated packaging, operating in 23 European countries and 12 American countries with 350 production sites worldwide. Overall, It primarily serves food, beverage, and household consumables sectors. The company was founded in 1934 and is headquartered in Dublin, Ireland.

Tomoku is a company active in the packaging industry, in particular its core business is represented by the production of corrugated paper, corrugated paper containers, and printed paper packaging materials. The company was founded in 1940 and is headquartered in Tokyo.

Income Statement

(EURm)	2018	2019E	2020E	2021E
Net Revenues	19.63	22.44	27.18	33.13
EBITDA	2.21	2.97	3.79	5.00
EBITDA margin	11.3%	13.2%	14.0%	15.1%
EBIT	0.74	1.21	1.77	2.73
EBIT margin	3.8%	5.4%	6.5%	8.2%
Net financial income /expense	-0.22	-0.20	-0.18	-0.15
Associates & Others	0.00	0.00	0.00	0.00
Profit before taxes	0.52	1.02	1.60	2.57
Taxes	-0.13	-0.30	-0.48	-0.77
Minorities & discontinuing ops	0.00	0.00	0.00	0.00
Net Income	0.39	0.71	1.12	1.80

Source: Company data, UBI Banca estimates

Balance Sheet

(EURm)	2018	2019E	2020E	2021E
Net working capital	4.43	5.11	6.81	7.41
Net Fixed assets	9.53	10.73	12.35	12.69
M/L term funds	-1.10	-1.06	-1.20	-1.36
Capital employed	12.86	14.78	17.96	18.74
Shareholders' equity	7.50	10.46	13.15	16.58
Minorities	0.00	0.00	0.00	0.00
Shareholders' funds	7.50	10.46	13.15	16.58
Net financial debt/(cash)	5.36	4.32	4.81	2.16

Source: Company data, UBI Banca estimates

Cash Flow Statement

(EURm)	2018	2019E	2020E	2021E
NFP Beginning of Period	6.50	5.36	4.32	4.81
Group Net Profit	0.39	0.71	1.12	1.80
Minorities	0.00	0.00	0.00	0.00
D&A	1.47	1.76	2.02	2.27
Change in Funds & TFR	0.00	0.00	0.00	0.00
Gross Cash Flow	1.85	2.47	3.14	4.07
Change In Working Capital	-1.03	-0.69	-1.70	-0.59
Other	0.00	0.00	0.00	0.00
Operating Cash Flow	0.83	1.78	1.44	3.47
Net Capex	-4.62	-3.00	-3.50	-2.45
Other Investments	0.00	0.00	0.00	0.00
Free Cash Flow	-3.80	-1.22	-2.06	1.02
Dividends Paid	0.00	-0.29	-0.32	-0.44
Other & Chg in Consolid. Area	0.27	0.00	0.00	0.00
Chg in Net Worth & Capital Incr.	4.68	2.54	1.88	2.07
Change in NFP	1.15	1.04	-0.49	2.66
NFP End of Period	5.36	4.32	4.81	2.16

Source: Company data, UBI Banca estimates

Financial Ratios

(%)	2018	2019E	2020E	2021E
ROE	5.1%	6.8%	8.5%	10.9%
ROI (pre-tax)	6.2%	8.1%	10.1%	13.9%
Net Fin. Debt/Equity (x)	0.7	0.4	0.4	0.1
Net Fin. Debt/EBITDA (x)	2.4	1.5	1.3	0.4
Interest Coverage	3.0	5.5	8.9	15.2
NWC/Sales	22.6%	22.8%	25.1%	22.4%
Capex/Sales	23.5%	13.4%	12.9%	7.4%
Pay Out Ratio	74.8%	44.5%	38.9%	36.2%

Source: Company data, UBI Banca estimates

Per Share Data

(EUR)	2018	2019E	2020E	2021E
EPS	0.04	0.07	0.09	0.12
DPS	0.03	0.03	0.04	0.04
Op. CFPS	0.09	0.17	0.12	0.24
Free CFPS	-0.40	-0.12	-0.17	0.07
BVPS	0.78	0.99	1.06	1.14

Source: Company data, UBI Banca estimates

Stock Market Ratios

(x)	2018 *	2019E	2020E	2021E
P/E	nm	52.1	39.1	28.2
P/OpCFPS	66.5	20.8	30.3	14.6
P/BV	7.3	3.5	3.3	3.1
Dividend Yield (%)	0.5%	0.9%	1.0%	1.3%
Free Cash Flow Yield (%)	-6.9%	nm	nm	2.0%
EV (EURm)	61.30	42.37	49.41	53.96
EV/Sales	3.1	1.9	1.8	1.6
EV/EBITDA	27.8	14.3	13.0	10.8
EV/EBIT	82.5	34.9	27.9	19.8
EV/Capital Employed	4.8	2.9	2.8	2.9

Source: Company data, UBI Banca estimates ** Based on average 2018 price*

Growth Rates

(%)	2018	2019E	2020E	2021E
Growth Group Net Sales	10.6%	14.3%	21.1%	21.9%
Growth EBITDA	19.0%	34.5%	27.7%	31.6%
Growth EBIT	8.5%	63.2%	46.2%	54.0%
Growth Net Profit	6.9%	84.6%	57.2%	61.3%

Source: Company data, UBI Banca estimates

Disclaimer

Analyst Declaration

*This research report (the "**Report**") has been prepared by Marco Cristofori and Dario Fasani on behalf of UBI Banca S.p.A. ("**UBI Banca**") in the context of the ancillary service provided by UBI Banca named "Investment research and financial analysis or other forms of recommendation relating to transactions in financial instruments" under Paragraph 5), Section B, Annex I of the Directive 2014/65/EU ("MiFID II"). UBI Banca is an Italian bank under art. 4 (1)(27) of MiFID II and it is supervised by the European Central Bank and duly authorised to provide investment services pursuant to Article 1, Paragraph 5, letter a), b), c), c-bis), e) and f) of the Legislative Decree 24 February 1998, n° 58 under the supervision of the Italian Authority for the financial markets (Consob). UBI Banca has its head office at Piazza Vittorio Veneto 8, 24122 Bergamo.*

The analyst who prepared the Report, and whose name and role appear on the front page, certifies that:

a. *The views expressed on the company, mentioned herein (the "**Company**") accurately reflect his personal views, but does not represent the views or opinions of UBI Banca, its management or any other company which is part of or affiliated with UBI Banca group (the "**UBI Banca Group**"). It may be possible that some UBI Banca Group officers may disagree with the views expressed in this Report;*

b. *He has not received, and will not receive any direct or indirect compensation in exchange for any views expressed in this Report;*

c. *The analyst does not own any securities and/or any other financial instruments issued by the Company or any financial instrument which the price depends on, or is linked to any securities and/or any financial instruments issued by the Company.*

d. *Neither the analyst nor any member of the analyst's household serves as an officer, director or advisory board member of the Company.*

e. *The remuneration of the analyst is not directly tied to transactions for services for investment firms or other types of transactions it or any legal person, part of the same group performs, or to trading fees it or any legal person that is part of the same group receives.*

f. *The analyst named in this document is a member of AIAF.*

General disclosure

This Report is for information purposes only. This Report (i) is not, nor may it be construed, to constitute, an offer for sale or subscription or of a solicitation of any offer to buy or subscribe for any securities issued or to be issued by the Company, (ii) should not be regarded as a substitute for the exercise of the recipient's own judgement. In addition, the information included in this Report may not be suitable for all recipients. Therefore the recipient should conduct their own investigations and analysis of the Company and securities referred to in this document, and make their own investment decisions without undue reliance on its contents. Neither UBI Banca, nor any other company belonging to the UBI Banca Group, nor any of its directors, managers, officers or employees, accepts any direct or indirect liability whatsoever (in negligence or otherwise), and accordingly no direct or indirect liability whatsoever shall be assumed by, or shall be placed on, UBI Banca, or any other company belonging to the UBI Banca Group, or any of its directors, managers, officers or employees, for any loss, damage, cost, expense, lower earnings howsoever arising from any use of this Report or its contents or otherwise arising in connection with this Report.

The information provided and the opinions expressed in this Report are based upon information and data provided to the public by the Company or news otherwise public, and refers to the date of publication of the Report. The sources (press publications, financial statements, current and periodic releases, as well as meetings and telephone conversations with the Company's representatives) are believed to be reliable and in good faith, but no representation or warranty, express or implied, is made by UBI Banca as to their accuracy, completeness or correctness. Past performance is not a guarantee of future results. Any opinions, forecasts or estimates contained herein constitute a judgement as of the date of this Report, and there can be no assurance that the future results of the Company and/or any future events involving directly or indirectly the Company will be consistent with any such opinions, forecasts or estimates. Any information herein is subject to change, update or amendment without notice by UBI Banca subsequent to the date of this Report, with no undertaking by UBI Banca to notify the recipient of this Report of such change, update or amendment.

This document was sent to the Issuer alone in the draft version for the sole purpose of verifying the correctness of the factual data contained therein and was subject to modification exclusively in relation to these factual elements.

Organizational and administrative arrangements to prevent conflicts of interests

UBI Banca maintains procedures and organizational mechanism (physical and non physical barriers designed to restrict the flow of information between the unit which performs investment research activity, and other units of UBI Banca) to prevent and professionally manage conflicts of interest in relation to investment research in accordance with art. 23 of Directive 2014/65/EU and under art. 34 (3) and art. 37 of the Regulation 2017/565/EU.

More specifically, UBI Banca has established, implements and maintains an effective conflicts of interests policy aimed at preventing and managing the potential conflicts of interest that could occur during the performance of the investment research services.

Insofar as the above mentioned organizational and administrative arrangements established by UBI Banca to prevent or manage potential conflicts of interests are not sufficient to ensure, with reasonable confidence, that risks of damage to the interests of the client will be prevented, UBI Banca engages to provide a clear disclosure of the specific conflicts of interests arising from the performance of investment research services, including a description of the sources of those conflicts and the steps undertaken to mitigate them, taking into account the nature of the client to whom the disclosure is being made.

For further information please see UBI Banca's website (www.ubibanca.com/equity-research - *"Informativa sintetica sull'attività di ricerca"*) *and* (www.ubibanca.com/Mifid - "*Policy sintetica conflitti di interessi*"). More details about the conflicts of interests policy will be provided by UBI Banca upon request.

Disclosure of interests and conflicts of interests pursuant to Delegated Regulation 2016/958/EU

In relation to the Company the following interest/conflict of interest have been found:

> - *UBI Banca acts as Corporate Broker for Grifal.*
> - *UBI Banca may have long or short positions with the issuer*

On the basis of the checks carried out no other interest/conflict of interest arose.

Frequency of updates

UBI Banca aims to provide continuous coverage of the companies in conjunction with the *timing of periodical accounting reports and any exceptional event that occurs affecting the issuer's sphere of operations and in any case at least twice per year. The companies for which UBI Banca acts as Sponsor or Specialist are covered in compliance with regulations of the market authorities.*

For further information please refer to www.ubibanca.com/equity-research

Valuation methodology

UBI Banca's analysts value the Company subject to their recommendations using several methods among which the most prevalent are: the Discounted Cash Flow method (DCF), the Economic Value Added method (EVA), the Multiple comparison method, the SOP method and the NAV method.

The analysts use the above valuation methods alternatively and/or jointly at their discretion. The assigned target price may differ from their fair value, as it also takes into account overall market/sector conditions, corporate/market events, and corporate specifics (i.e. holding discounts) reasonably considered to be possible drivers of the company's share price performance. These factors may also be assessed using the methodologies indicated above.

For further information please refer to www.ubibanca.com/equity-research.

Ranking system

UBI Banca's analysts use an "absolute" rating system, not related to market performance. The explanation of the rating system is listed below:

Buy: if the target price is 15% higher than the market price, over the next 12 months.

Hold: if the target price is 15% below or 15% above the market price, over the next 12 months.

Sell: if the target price is 15% lower than the market price, over the next 12 months.

No Rating: the investment rating and target price have been suspended as there is not sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect. Alternatively, No Rating is assigned in certain circumstances when UBI Banca is acting in any advisory capacity in a strategic transaction involving the Company.

Target price: the market price that the analyst believes that the share may reach within a one-year time horizon.

Market price: closing price on the day before the issue date of the report, appearing on the first page.

Distribution

Italy: This document is intended for distribution in electronic form to "Professional Clients" and "Qualified Counterparties" as defined by Legislative Decree 24 February 1998, n. 58 and by Consob Regulation n. 16190 dated 29.10.2007, as further amended and supplemented.

This Report has been released within 30 minutes from the timing reported on the front page.

IN THE UNITED KINGDOM, THIS DOCUMENT IS BEING DISTRIBUTED ONLY TO, AND IS DIRECTED ONLY AT PERSONS WHO (A) ARE (I) PERSONS FALLING WITHIN ARTICLE 19 OR ARTICLE 49 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (AND ONLY WHERE THE CONDITIONS CONTAINED IN THOSE ARTICLES HAVE BEEN, OR WILL AT THE RELEVANT TIME BE, SATISFIED) OR (II) ANY OTHER

*PERSONS TO WHOM IT MAY BE LAWFULLY COMMUNICATED; AND (B) ARE QUALIFIED INVESTORS WITHIN THE MEANING OF ARTICLE 2(1)(E) OF THE PROSPECTUS DIRECTIVE (DIRECTIVE 2003/71/EC), (ALL SUCH PERSONS BEING REFERRED TO AS "**RELEVANT PERSONS**"). THIS DOCUMENT MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS.*

THIS REPORT DOES NOT CONSTITUTE A PROSPECTUS WITHIN THE MEANING OF ARTICLE 652A OR ART. 1156 OF THE SWISS CODE OF OBLIGATIONS OR A LISTING PROSPECTUS WITHIN THE MEANING OF THE LISTING RULES OF THE SIX SWISS EXCHANGE OR ANY OTHER TRADING VENUE IN SWITZERLAND, OR A SIMILAR COMMUNICATION WITHIN THE MEANING OF ART. 752 THE SWISS CODE OF OBLIGATIONS, AND HAS BEEN PREPARED WITHOUT REGARD TO SWISS LAWS AND REGULATIONS, AND DOES NOT CONSTITUTE AN OFFER TO SUBSCRIBE FOR, BUY OR OTHERWISE ACQUIRE ANY SECURITIES OF THE COMPANY.

Distribution of ratings

Equity rating dispersion in the past 12 months			
Buy	***Hold***	***Sell***	***No Rating***
90.7%	*7.4%*	*1.9%*	*0.0%*
Proportion on issuers to which UBI Banca has supplied investment banking services relating to the last 12 months			
Buy	***Hold***	***Sell***	***No Rating***
83.3%	*100%*	*100%*	*-*

For further information regarding yearly and quarterly rating statistics and descriptions, please refer to www.ubibanca.com/equity-research.