Banca Profilo

Initiation Coverage

Company:	Rating:	Target Price:	Sector:
DEA	**BUY**	**€14.1**	**Electric Utilities**

Investing in electricity distribution consolidation

September 11, 2024 at 18:00

Electricity Distribution with 90k PoD, IPO to finance acquisition of 24k PoD

Created in 2015, DEA is an electricity distributor carrying out the final phase of the supply chain (energy generation, transmission and distribution). It operates ~90k PoD across 4 regions where it acts as a natural monopolist. Revenues are output based and determined on tariffs set by the regulator ARERA, therefore, highly predictable, non-cyclical and protected against inflation, ensuring stability and limited downside risk. Distribution is carried under a 30-year concession expiring at the end of 2030 for all Italian operators. In addition, DEA operates in the non-regulated public lighting sector across 15 municipalities in 3 regions. In July DEA was listed on the EGM and raised €8mln to fund its external growth: in August, DEA acquired an 80% stake in ASPM for €3.7mln (5x EV/EBITDA23), bringing in 5k PoD, 4.1k PdR and lighting contracts in 8 municipalities.

Aggregating hub for small-scale operators amid industry consolidation

The sector is likely to see consolidation as future concessions will only be opened to distributors that by the end of 2025 operate at least 100k PoD. The Industry is highly fragmented in terms of number of distributors, but highly concentrated in terms of PoD with: i) E-Distribuzione (85%), ii) 5 companies (11%), iii) 116 companies (4%). DEA aims at leading the aggregation across the last group, made of small-scale operators managing <25k PoD, on average, not eligible for concessions renewal and too small to be large multi-utilities' targets. In addition, given the Bersani Law and subject to regulatory confirmation, no player will be allowed to own more than 25% of market share by 2030. In this scenario, DEA is well positioned to lead the consolidation, thanks to its demonstrated execution capacity (5 operations since 2023); the right to acquire 24k PoD (with a price cap of €20mln) and additional external growth potential through selected targets up to 31k PoD.

4 acquisitions in FY23, historical EBITDA margin at 32% and 45% payout ratio

In 2023 DEA acquired four companies through asset transfer. As a consequence, DEA reached a national scale at 85k PoD (from 33k in 2022). FY23 revenues were up by 25.6% yoy driven by the consolidation of Zecca in 2H23, while FY23PF revenues more than doubled as they assume full consolidation of Amaie, Energie Offida and Zecca. Same goes for EBITDA, that increased by 44.5% yoy in FY23, expanding margin by 3.4pp, but more than doubled in FY23PF, improving marginality by 3.5pp. During 2017-2022 revenues rose at a 3.8% CAGR, EBITDA increased at a 5.5% CAGR with marginality averaging at 32% and Net income margin averaged at ~10%. At the end of FY23PF, Net debt stood at €10.4mln from €8.3mln in FY22 as the integration of four companies was carried out through assets transfer with no recourse to additional debt. At the end of FY23PF, Net debt/EBITDA stood at 1x vs historical 1.9x. During 2017-2022, DEA allocated €3.3mln to dividends, with an average payout ratio of 45%. Preliminary 1H24 Total revenues (released in August), were €18.4mln, up by 161% thanks to a different consolidation scope. Revenue from sales were €16.2mln (53% of our FY24E).

FY24-26E: EBITDA CAGR at 12% (7.9% organic)

We estimate a Revenue CAGR of 11.9% (7.4% organic) in 2023PF-2026E driven by i) growth from Distribution primarily in FY24E due to changes in tariffs methodologies, ii) acquisition of ASPM. EBITDA CAGR is seen at 12% (7.9% organic) thanks to higher top line with marginality slightly diluted by ASPM. Capex are seen at €24mln Capex, concentrated in FY24E and FY25E, due to investments related to new electricity meters. We assume €0.7mln of annual dividends or ~40% of FY23 standalone Net Income. FY24E Net debt is seen at €8.2mln, with gradual annual improvements to a €1.7mln in FY26E.

Valuation: 12-month target at €14.1; BUY

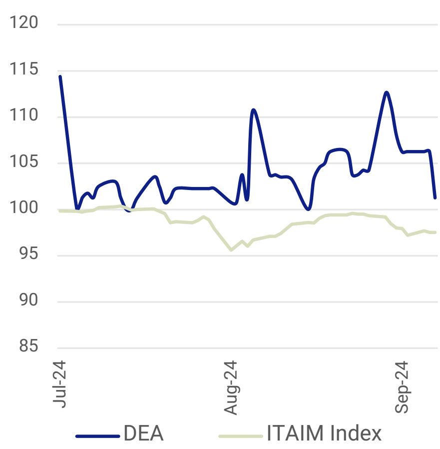
We value DEA using a weighted average of SOTP and market multiples. The SOTP is used to consider different contract duration and includes i) Distribution, with an EV of €101.4mln, based on DCF + FY24E RAB (€83.1mln), ii) Lighting, with an EV of €12mln based on DCF. Market multiples valuation is based on the median (10.3x) FY25 EV/EBITDA of our panel, leading to a €134.9mln EV. We subtract FY24E net debt of €8.2mln and take a weighted average (80% SOTP) to underweight multiples given lower marginality vs comparables. This leads to an Equity value of €111.1mln or €14.1/sh. DEA trades at a 5.4x EV/EBITDA 25E (vs average 10.3x), at a 1x equity RAB (RAB - Net debt, vs peers historical avg. 1.6x) and at 1x P/BV (vs peers median 1.7x). Given the potential upside on closing price (as of 11 September 2024) and undemanding valuation we set our BUY recommendation.

Company Profile

Bloomberg	DEA IM Equity
FactSet	DEA-IT
Stock Exchange	Italian Stock Exchange
Reference Index	FTSE Italia Growth
Market Data	
Last Closing Price	8.1
Number of shares (mln)	7.9
Market cap. (mln)	63.6
IPO Performance	
Absolute	1.3%
Max / Min	9.15 / 8

(€,mln)	22	23PF	24E	25E	26E
Total revenues (VoP)	**13.8**	**29.3**	**33.6**	**38.7**	**39.6**
yoy (%)	2.4%	111.7%	14.7%	15.4%	2.2%
EBITDA	**4.3**	**10.2**	**12.2**	**13.9**	**14.3**
margin (%)	31.3%	34.8%	36.3%	35.8%	36.2%
EBIT	**1.6**	**5.0**	**6.8**	**8.3**	**8.8**
margin (%)	11.7%	17.2%	20.2%	21.5%	22.2%
Net profit	**1.0**	**3.4**	**4.3**	**5.4**	**6.0**
margin (%)	7.5%	11.6%	12.9%	14.0%	15.1%
Net debt (cash)	**8.3**	**10.4**	**8.2**	**5.6**	**1.7**
Equity	34.0	67.2	79.7	84.4	89.7
Capex adj.	**(2.0)**	**(4.0)**	**(12.4)**	**(8.9)**	**(6.7)**
FCF			(3.0)	3.8	4.8

IPO Performance



Francesca Sabatini
Head of Equity Research
francesca.sabatini@bancaprofilo.it
+39 02 58408 461

Michele Calusa
Equity Research Analyst
michele.calusa@bancaprofilo.it
+39 02 5840 8784

Sales Desk
+39 02 58408 478

Contents

Contents 2
Executive summary 3
SWOT analysis 6
The reference industry 7
Natural monopoly, focus on M&A and low downside risk 10
History, structure and people 12
DEA: Electricity distribution in 4 regions 16
Fully regulated business 23
Historical financials 26
2024-2026 Estimates 32
Valuation 36
Offer structure and IPO Proceeds 42
Appendix 43
Disclaimer 48

Executive summary

Electricity distribution, concentration but high fragmentation

Final phase of electricity supply chain	Electricity distribution is the final phase of the supply chain (energy generation, transmission and distribution). Companies in the sector manage, operate, maintain and develop networks in medium and low voltage (MV/LV) under concession agreements.
Concessions expire in 2030	Current concessions expire in 2030 for all operators, access to tenders will be reserved for distributors serving at least 100k PoD by January 1, 2026. Operators that cannot participate to tenders or distributors who do not get their concession renewed will be remunerated by new concession holders based on the investments carried out.
New concessions by YE 2025	New tenders must be launched by the end of 2025 and envisage municipal lots (theoretical maximum of 7.9k) with a maximum size of 25% of the total market.
Concentration but high fragmentation	While there are more than 100 distributors, E-Distribuzione (Enel) has an 85% market share with 31.6mln PoD. The 5 other incumbents A2A, Acea, Iren, Dolomiti Energia and Hera hold an overall market share of 11%, leaving the remainder 4% across 116 distributors.

About DEA

Electricity distribution with a national footprint	Created in 2015, DEA is an Italian infrastructural operator of electricity distribution headquartered in Osimo (AN). The company's clientele comprises electricity suppliers and 15 municipalities in Abruzzo, Liguria, Lombardia and Marche.
Demonstrated execution capacity	After completing 4 deals in 2023 and 1 in 2024 it currently operates ~90k PoD (vs 33k PoD in 2022) across 4 regions where it acts as a natural monopolist.
IPO completed in July and acquisition in August	In July DEA was listed on the EGM and raised €8mln to fund its external growth: in August, DEA acquired an 80% stake in ASPM for €3.7mln (5x EV/EBITDA23), bringing in 5k PoD, 4.1k PDR and lighting contracts in 8 municipalities. ASPM generated Total revenues of €5.2mln in FY23 and EBITDA of €1.3mln, net debt at YE was €2mln.
Regulated, non-cyclical, low risk business	Distribution (84% FY23PF revenues) revenues are output based and determined on tariffs set by the regulator ARERA, therefore non-cyclical and protected against inflation, ensuring stability and limited downside risk. Moreover, distribution services contract have limited credit risk and defaults losses are compensated by CSEA, subjected to ARERA's supervision.
Active also in Public Lighting	In addition, DEA operates in the non-regulated public lighting sector (12.3% FY23PF revenues). This business is also carried out under concession agreements. The Company aims to get more contracts, especially in municipalities where it already operates as distributor enabling economies of scale.
Hub for market consolidation	The regulatory framework pushes the electricity distribution sector towards market consolidation. DEA aims at becoming an aggregating hub across small-scale operators (<25k PoD) which accounts for 4% of the market across 116 companies, not eligible for concessions renewal and too small to be large multi-utilities' targets. As of today, given the Bersani Law and subject to regulatory confirmation, no player will be allowed to own more than 25% of market share by 2030.
55k PoD acquisition pipeline	By 2024, DEA should surpass the 100k threshold by exercising the right to acquire 24k PoD (price cap at €20mln) from a primary distributor. Moreover, the Company is in preliminary discussions with 2 targets across two regions for a total of ~31k PoD.
Energy transition	The shift towards renewable energy sources and the rise of "prosumers" is likely to drive demand for energy data, which leads to better forecasting and load management. DEA aims to buy tech firms for advanced forecasting and data management, to provide digital services.

Main financial data (2017-2023PF)

2x EBITDA in FY23PF thanks to acquisitions	In 2023 the consolidation scope changed following the acquisition of four companies through asset transfer. FY23 revenues were up by 25.6% yoy driven by the consolidation of Zecca in 2H23, while FY23PF revenues more than doubled as they assume full consolidation of Amaie, Energie Offida and Zecca. Same goes for EBITDA, that increased by 44.5% yoy in FY23, expanding margin by 3.4pp, but more than doubled in FY23PF to €10.2mln with marginality expanding by 3.5pp. Margins and indebtedness in FY23 standalone, consolidated and PF figures were all better than the historical average.
High profitability	Historically (FY17-22) the Company kept good levels of profitability with an average EBITDA margin of ~32% growing at a 5.5% CAGR. Similarly, Net Income margin averaged at ~10%.
Generous dividend, 20-40% guidance	During 2017-2022 the Company allocated €3.3mln to dividends, with an average payout ratio of 45%. DEA expects to keep it in the 20-40% range.
Low debt levels	At the end of FY23PF, Net debt stood at €10.4mln from €8.3mln in FY22 as the integration of four companies was carried out through assets transfer with no recourse to additional debt. At the end of FY23PF, Net debt/EBITDA stood at 1x vs historical 1.9x.

Our forecasts (2024E-2026E)

7.4% Organic Revenue CAGR driven by Distribution	We estimate Revenue CAGR of 11.9% (7.4% organic) in 2023PF-2026E driven by Distribution, supported by i) change in tariff methodology (ROSS), ii) the adoption of a unique tariff methodology for all DEA's subsidiaries rather than applying individual different metrics, iii) higher WACC, iv) consolidation of Magliano di Tenna (<1% of Revenues), v) acquisition of ASPM, impacting the P&L from FY25.
Costs optimization from integrations	EBITDA CAGR is seen at 12% (7.9% organic) thanks to higher top line with marginality peaking if FY24E at 36.3% and slightly diluting from FY25E due to ASPM consolidation .
More capex in FY24E and FY25E	For the FY24E-26E period we estimate €24mln Capex, concentrated in FY24E and FY25E with €8.3mln and €8.9mln respectively, due to investments related to new electricity meters.
Annual dividends at €0.7mln	In FY24E-26E we estimate €0.7mln of annual dividends, representing ~40% of FY23 standalone Net Income (€1.8mln).
Net debt to decline	Overall, FY24E Net debt is seen at €8.2mln thanks to the completion of the IPO, with net proceeds after costs of €6.3mln, but offset by the acquisition of ASPM. After YE24 we see gradual annual improvements, reaching €1.7mln in FY26E.

Valuation

	We value DEA using a mix of: i) a SOTP model based on DCF method, separating distribution and lighting to properly consider different contract duration; ii) a market multiples valuation based on EV/EBITDA 2025.
Distribution: DCF to 2030E + RAB	For a DCF of Distribution we use our FCFs for Distribution until 2030E (€22.5mln), at the end of which all concessions expire. After discounting the FCFs, we add our FY24E RAB of €83.1mln, which leads to €101.4mln.
Lighting: DCF to 2047E	For lighting we use our forecasted FCFs during 2025-2047E (€20mln) to properly account for concessions expiry. We do not include a terminal value, essentially assuming no new concessions are won and existing ones are not renewed. We then discount FCF and calculate an EV of €12.0mln.
WACC at 6.0%	To discount the estimated FCFs we would use a 6.0% WACC, derived from i) risk free rate at 4.4%; ii) market risk premium of 5.5%; iii) beta of 0.4 coming from the average of chosen listed peers; iv) cost of debt of 5.3%; v) target Debt to Equity structure of 30%.

EV/EBITDA 25 at 10.3x	We identified the following 5 companies that operate in regulated sectors related to either distribution or transmission of electricity and gas: Terna, Italgas, Snam, Elia Group, Redes Energetica Nacionais and Redeia. We use the EV/EBITDA 25 multiple of 10.3x. This leads to an EV of €143.1mln.
Equity value €111.1mln, TP €14.1/sh	To calculate the Equity Value we subtract the FY24E net debt of €8.2mln and took a weighted average between the DCF (80%) and market multiples valuation (20%), to reflect a discount to multiples given lower marginality vs comparables. This leads to an Equity value of €111.1mln or €14.1/sh.
Diluted TP €14/sh	We also provide a diluted TP of €14/sh, which accounts for the effect of a stock dividend.
Rating BUY	DEA trades at a 5.4x EV/EBITDA 25E (vs average 9.8x), at 1x equity RAB (RAB - Net debt) (vs peers historical avg. 1.6x) and at 1x P/BV (vs peers average 1.7x). Given the potential upside on closing price (as of 11 September, 2024) and undemanding valuation we set our BUY recommendation.

SWOT analysis

STRENGTHS	WEAKNESSES
• Regulated non-cyclical business • Economies of scale with lighting business • Low debt levels • Generous dividend policy • High marginality	• Multiple voting shareholder class (10 to 1) • Inferior ROE • Capital intensive
OPPORTUNITIES	**THREATS**
• Option to acquire 24k PoD with a price cap • Acquisition pipeline of 31k PoD • Sector consolidation • Expansion of lighting in new municipalities • IoT / Data Management	• Limited visibility on 2030 tender process • Emergence of other PoD aggregators or competition from large multi-utilities

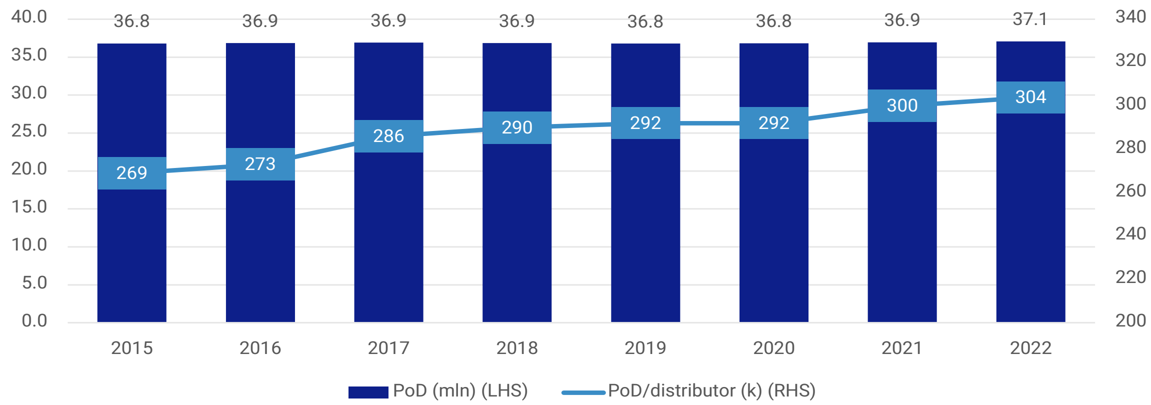
The reference industry

Electricity distribution is highly concentrated

Towards market consolidation

At the end of 2022 in Italy there were 122 electricity distributors, declining from 133 in 2012 following market consolidation. In the same period, Total PoD grew at a 0.09% CAGR reaching 37.1mln in 2022, with the number of PoD/Distributor moving to 304k from 269k in 2015.

Figure 1: Total PoD (mln, LHS), PoD/Distributor (k, RHS)



Source: Company Data based on ARERA

High market concentration

While there are more than 100 distributors, E-Distribuzione (Enel) has an ~85% market share with ~31.6mln PoD. The 5 other incumbents A2A, Acea, Iren, Dolomiti Energia and Hera hold an overall market share of 11%, leaving the remainder 4% across 116 distributors.

This concentration is inherited from the historical market structure of the sector, in 1962 most networks were combined under the monopolist Enel which oversaw the entire supply chain of the electricity sector. Some exceptions enabled the survival of small-scale operators and companies owned by municipalities which requested a concession. This concentration persisted after the market was liberalized in the 1990s and explains the vertical integration of suppliers/distributors.

Regional concentration

Distributors with less than 100k PoD tend to be regionally concentrated (e.g. Trentino, Alto Adige, Valle d'Aosta, Veneto, Abruzzo, Marche) reflecting the market structure before Bersani Decree (Legislative Decree 79/1999). Alternatively, they can be larger but dispersed (DEA, Zecca, Amaie, AMET).

Figure 2: Distributors (#) by number of PoD (2022)

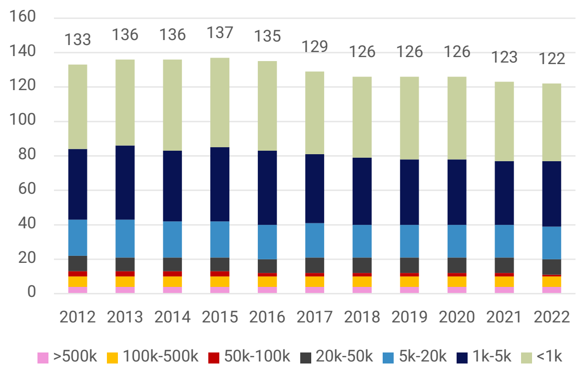
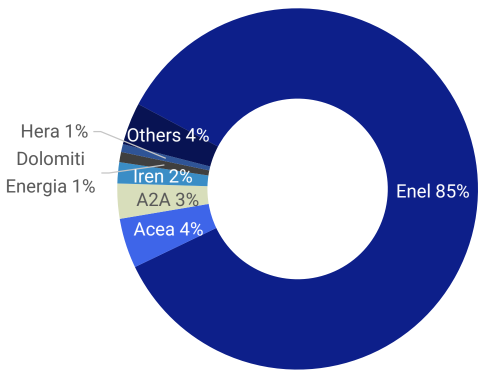


Figure 3: Market share by number of PoD (2022)



Source: ARERA

Concessions expire in 2030

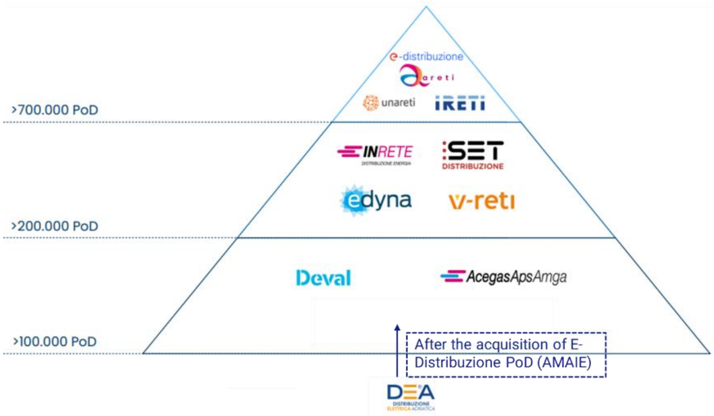
Current distributors operate under concessions expiring in 2030, at expiry access to tenders for the renewal or assignment of new concessions will be reserved for distributors serving at least 100k PoD by January 1, 2026. This will likely accelerate the consolidation trend with a further decline in the number of distributors. Moreover, the introduction of new generation electronic meters (2G meters) with cloud-based readings (smart metering systems) should also lead to a further concentration of operators, both due to the size of the necessary investments and the limited number of remote reading systems providers.

Operators that cannot participate to tenders or distributors who do not get their concession renewed will be remunerated by new concession holder successor based on investments carried out.

New tenders by 2025

New tenders must be launched by the end of 2025 and envisage municipal lots (theoretical maximum of 7.9k) with a maximum size of 25% of the total market.

Figure 4: Distributor with more than 100k PoD



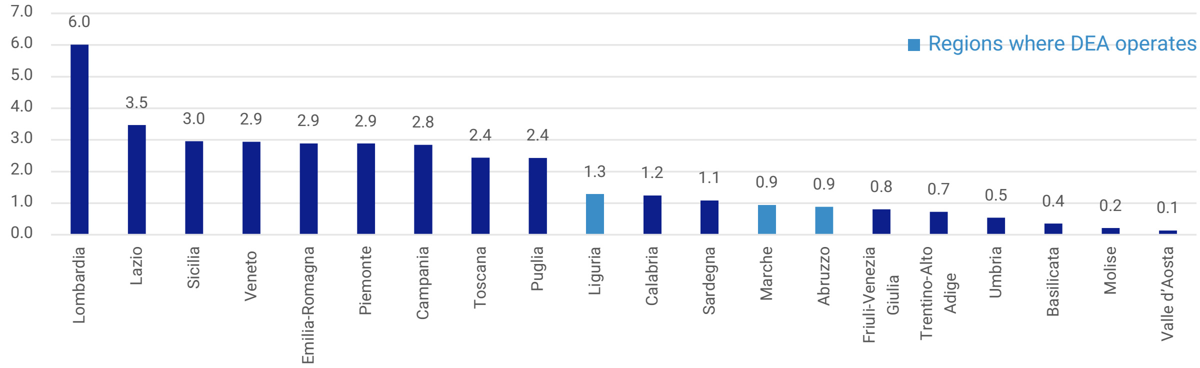
Source: Company Data, logos are the property of the respective businesses and are for illustrative purpose only

Energy Volumes

257TWh total energy distributed in 2022

In 2022 distributed electricity to households was 58TWh, the largest regions in population were also the regions with largest amounts of electricity distributed to households: Lombardia with 9.6TWh distributed and 4.9mln PoD, Lazio with 5.6TWh distributed and 2.8mln PoD, Campania with 5.0TWh distributed and 2.3mln PoD and Sicilia with 5.4TWh and 2.4mln PoD. Non-households electricity distributed in 2022 was 199TWh, Lombardia was largest region thanks to the high level of industrialization, with 47.7TWh distributed and 1.1mln PoD, Veneto with 21.8TWh distributed and 0.6mln PoD, Emilia Romagna with 18.2TWh distributed and 0.6mln PoD and Piemonte with 15.2TWh and 0.6mln PoD.

Figure 5: PoD (mln) by region



Source: ARERA

Figure 6: Energy distributed for households (GWh)

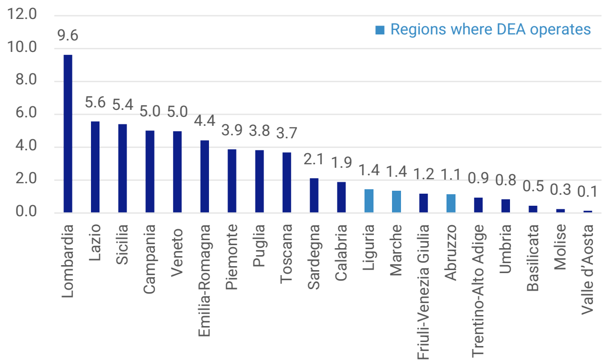
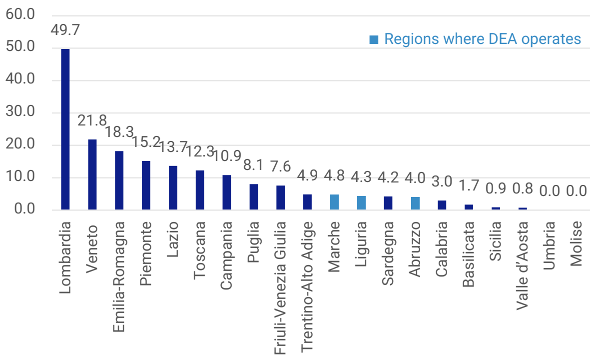


Figure 7: Energy distributed for non-households (TWh)



Source: ARERA

Challenges and opportunities

Challenges and opportunities from energy transition

In the coming years the sector is likely to undergo significant changes driven by the challenges and opportunities brought by the energy transition like:

- Fragmentation of energy production due to the diffusion of energy communities, which will require extension of network management activity by Terna as well as distributors;
- Growth in energy production from renewable sources;
- Expansion of distribution network electricity driven by new needs (like EV chargers) represent a growth opportunity of the sector.

Big data can unlock competitive edge

The upgrade to electronics meters is another key driver of change in the sector, as it represents a challenge to distributors that must carry out relevant investments and will have to manage large amounts of data. On the other hand, digital challenges can provide a competitive edge as effective data management enhances consumption trend analysis, improves forecast accuracy and enables cost-effective remote interventions.

Natural monopoly, focus on M&A and low downside risk

Local monopoly and regulatory protection

DEA (Distribuzione Elettrica Adriatica) is an electricity distributor and a natural monopolist in its local territory, facing low competition risk thanks to the regulatory market structure. The authority ARERA sets the tariff on which revenues are determined. This mechanism ensures stable revenues and predictable margins as operators can finance operating costs and pay investments. The business model is to be considered as non-cyclical because revenues are not linked to energy price and have limited exposure to volumes delivered. Distribution is carried under a 30-year concession expiring at the end of 2030 for all Italian operators. In addition, DEA operates in the non-regulated public lighting sector, with a network of 679km across 7 municipalities in 2 regions.

Concessions expire in 2030 and push towards market consolidation

All concessions expire at the end of 2030, the regulator has imposed a certain scale (>100k PoD by January 2026) to participate in tender processes to be defined by 2025. DEA strives to be an aggregating hub for small-scale operators (<25k) which account for 4% of the market across 116 companies.

Regulation 2030

As of today, given the Bersani Law and subject to regulatory confirmation, no player will be allowed to own more than 25% of market share by 2030.

Right to acquire 24k PoD

By 2024, DEA should surpass the 100k threshold by exercising the right to acquire 24k PoD from a primary distributor. This was granted after the acquisition of Amaie and includes a €20mln cap, implying a maximum price of €830/PoD (50% less than A2A-Enel deal).

Demonstrated execution capacity

The Company has demonstrated its high execution capacity by carrying out 6 operations, 4 of which in 2023 and 1 in August 2024, making DEA a distributor with a national footprint.

31k more PoD in the acquisition pipeline

The Company has identified and is in preliminary discussions with 2 targets across two regions, one of which in regions not currently served by DEA.

Table 1: DEA prospects

	Region	PoD	Notes
Prospect	Abruzzo	~1k	Awaiting confirmation to begin aggregation
Prospect	Liguria	~24k	Right to buy from a primary distributor
Prospect	Puglia	~30k	Owned by local authorities
Total		**~55k**	

Source: Company Data

423k PoD to be consolidated

Other potential targets are likely to be found among the 423k PoD served by small distributors with less than 25k PoD each.

High profitability and generous dividend (20-40% dividend policy)

Historically (FY17-22) the Company kept good levels of profitability with an average EBITDA margin of ~32% and Net Income margin of ~10%. Net debt/EBITDA always remained below ~2x. Margins and indebtedness in FY23 standalone, consolidated and PF figures were all better than the historical average. Finally, during 2017-2022 the Company allocated €3.3mln to dividends, with an average payout ratio of 45% and expects to keep it in the 20-40%.

Limited credit risk

Contracts governing distribution services require either banking or insurance guarantees to fasten contractual fulfillment from the customer (mainly the energy sellers). If a customer defaults, the losses are compensated by CSEA, subjected to ARERA's supervision.

Public lighting to diversify

In addition to the distribution business, 12.3% of FY23PF revenues were generated through public lighting contracts, governed by concessions with local authorities and not subject to ARERA tariffs. DEA aims at getting more public lighting service manager contracts, especially in municipalities where it already operates as distributor enabling better economies of scale.

The Company plans to carry out investments to replace current urban systems which improve marginality thanks to newer technologies which i) are more reliable, ii) use less power and cause less light pollution, iii) are multifunction with cameras and EV chargers, iv) are connected to a digital platform for remote management.

Energy transition

Demand for energy input and withdrawal data are likely to gradually increase to forecast demand and correct load management. This is driven by the energy transition and diffusion of widespread production from renewable sources, with the emergence of the "prosumer", small scale producers and consumers of electricity. DEA intends to acquire technology companies that develop forecasting tools and advanced data management & analytics solutions, to become a provider of digital services for producers and final users.

Figure 8: DEA Key Investment Remarks

Source: Company Data

History, structure and people

Company's evolution

2015: Formation of DEA	On December 22, 2014, Astea approved the separation of its energy distribution BU into the newly constituted DEA effective on January 1, 2015. This was carried out to comply with regulations, which required vertical integrated utilities to separate legal entities carrying out distribution services. Originally the BU included energy distribution BU in the municipalities of Osimo (AN) and Recanati (MC), amounting to 29.9k PoD and for a network length of 1,304km.
2016: Joint stock company and acquisition of ASP	In 2016 Azienda Servizi Polverigi Srl (ASP) transferred electricity distribution activities in the municipality of Polverigi (AN) to DEA. DEA was converted into a joint stock company, with Astea owning a 93% stake and ASP 7%. At the end of the year the Company operated a 1,415km network and 32.2k PoD.
2023	During 2023 the Company carried out several acquisition which completely changed the Company's perimeter.
1H23: Acquisition of Zecca	On June 27, 2023, Odoardo Zecca Srl (Zecca) transferred the distribution BU relating to the municipalities of Ortona and San Vito Chietino (Chieti). Zecca was valued at a €16.2mln. Following the acquisition, DEA network expanded to 2,099km and 50.8k PoD.
2H23: Acquisition of Magliano, Offida and AMAIE	During 2H23 DEA acquired the electrical distribution branch of Magliano di Tenna (FM). Moreover, Energie Offida Srl (Offida) and AMAIE, relating to municipalities of Offida (AP) and Sanremo (IM) transferred their distribution business to DEA. The 2 companies were valued at €3.0mln and €21mln respectively.
July 2024: IPO	In July DEA listed on the Euronext Growth Milan and raised €8mln.
August 2024: Acquisition of ASPM	In August, 2024 DEA acquired an 80% stake in ASPM for €3.7mln (5x EV/EBITDA23), which brought 5k PoD, 4.1k PDR and lighting contracts in 8 municipalities. ASPM generated Total revenues of €5.2mln in FY23 and EBITDA of €1.3mln, net debt at YE was €2mln.

Figure 9: PoD (#) (LHS), network length (km) (RHS)

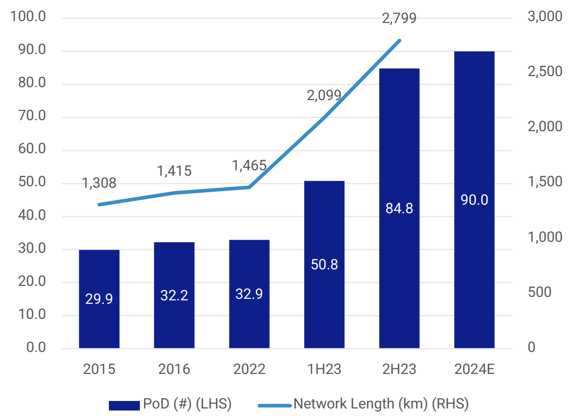
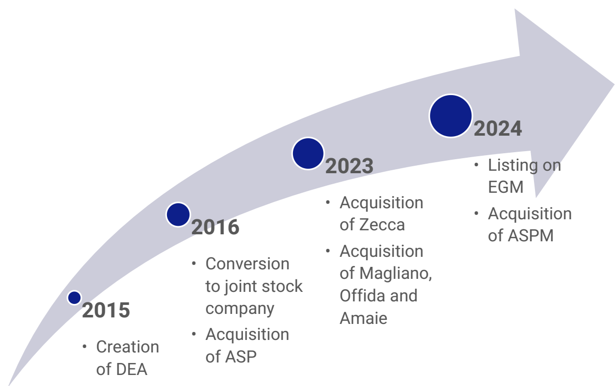


Figure 10: Company history



Source: Company Data

Figure 11: 2023 Acquisitions

	Price	Date
Offida	3,025,258	29/12/2023
Amaie	21,000,000	29/12/2023
Zecca	16,209,633	23/06/2023

Source: Company Data

ASPM, first transaction post-ipo

Expanding in Lombardia

On 22 August 2024, DEA announced it was awarded the tender for electricity distribution, gas distribution and public lighting services in five municipalities in Lombardia launched by Brescia municipality owned Brescia Infrastrutture.

Electricity (5k PoD), gas distribution (4.1k PDR) and public lighting

ASPM provides: electricity distribution and gas distribution in the Municipality of Soresina (CR) with 5,020 POD and 4,100 PDRs, as well as public lighting with 8,471 light points in the Municipalities of Manerbio (BS), Soresina (CR), Orzinuovi (BS), Robecco D'Oglio (CR), Rivarolo Mantovano (MN). We believe that the gas distribution business was included in the acquisition package but is not core to the company's operations.

Acquired at 5x EV/EBITDA, dilutive on EBITDA margin

As part of the transaction DEA acquired a 80% stake in ASPM Soresina for €3.7mln (5x EV/EBITDA23), of which i) €2.3mln for the acquisition of a controlling stake in ASPM; ii) a capital increase of €1.45mln. DEA will have the option to purchase the remaining 20% of the share capital at €0.9mln by 2032. The completion of the transaction is expected to take place approximately by October 2024.

In FY23, ASPM generated total revenues of €5.2mln (18% of DEA FY23PF) and with an EBITDA of €1.3mln (25.9% margin vs DEA 34.8% FY23PF), so it has a dilutive effect on DEA. The Company had a €2mln Net Debt at the end of FY23.

Group structure

Astea is the main shareholder, two share classes

The Company main shareholder in terms of both stake and voting rights is Astea with a 38.19% stake and 57.85% of voting rights. The market accounts for 12.65% with voting rights of 1.92%. This is due to the presence of a second class of shares with 10x multiple voting rights. Astea, Odoardo Zecca and ASP own most of multiple voting shares.

Figure 12: DEA Shareholder Structure

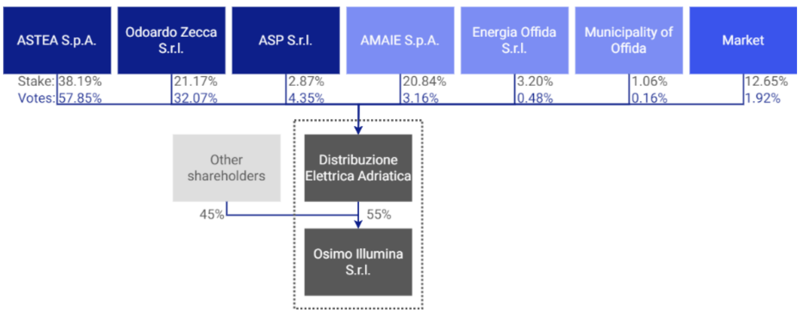
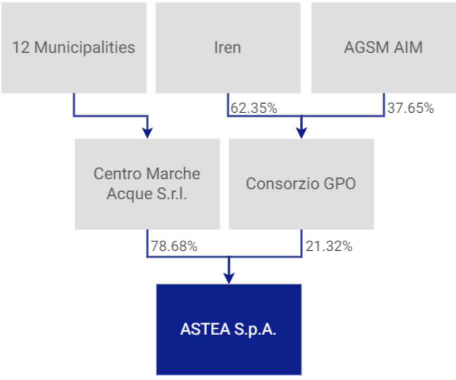


Figure 13: Astea Structure



Source: Banca Profilo elaborations on Company data

Astea

Astea is a multi-utility dedicated to the management of public services premises (water cycle, waste, gas distribution and electricity production). Astea's main shareholder is Centro Marche Acque Srl, with 78.68% (owned by 12 municipalities: Cingoli, Filottrano, Loreto, Montecassiano, Montefano, Montelupone, Numana, Osimo, Porto Recanati, Potenza Picena, Recanati and Sirolo) and by the GPO Consortium with 21.32% (62.35% owned by Iren and 37.65% by AGSM AIM).

Odoardo Zecca

Odoardo Zecca is a producer and supplier of electricity for a specific market segment (*maggiore tutela*).

ASP

ASP is a gas distributor in the Municipality of Polverigi.

Amaie Amaie is a local public company, owned by the Municipality of Sanremo, active in the electricity distribution sectors, public lighting and shareholder in companies active in waste collection and management of the integrated water service.

Energie Offida Energie Offida is a multi-service company, owned by the Municipality of Offida, active in electricity distribution and public lighting.

Figure 14: DEA subsidiaries

Source: Company Data

Osimo Illumina Osimo Illumina is a special purpose company established to manage the public lighting services in the municipality of Osimo (AN). DEA holds class A shares which entitle the holder to receive 90% of the share profits, 90% of the liquidation share, the right to receive first the reimbursement of the share capital paid by DEA. The structure was created as the concession was awarded to a JV, other shareholders are Astea Energia (35%) and CO.GE.PA. (10%). Astea Energia deals with the sale of natural gas and electricity and is owned by Gruppo SGR while CO.GE.PA. is active in the telecommunications sector.

Key people

Andrea Osimani (CEO) holds a degree in Law from the University of Macerata, he has worked as lawyer since 1987 and was appointed CEO of DEA in 2017.

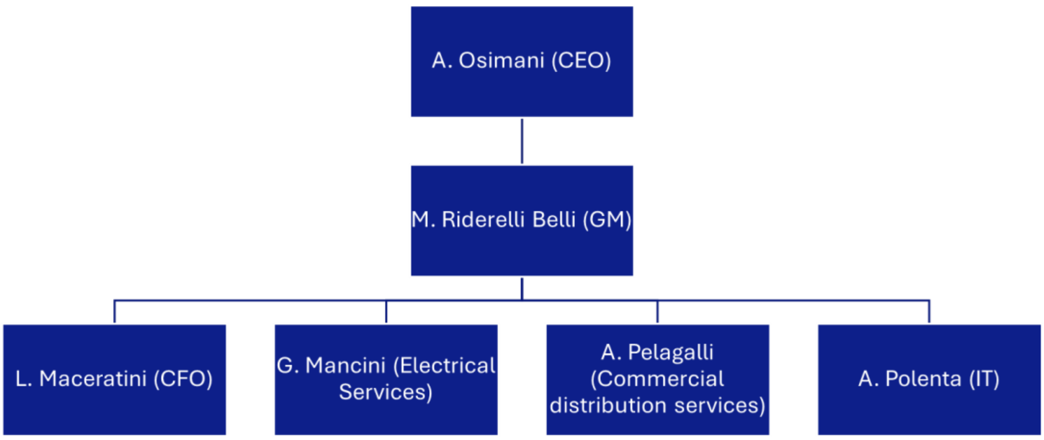
Massimiliano Riderelli Belli (General Manager) holds a degree in Mechanical Engineering from the Polytechnic University of Marche and completed an Executive Master in Management of Public Enterprises at SDA Bocconi School of Management. He was appointed GM of Astea in 2015 and then DEA.

Lucia Maceratini (CFO) holds a Degree in Economics and Business Management from the Polytechnic University of Marche, she has over 30 years of experience across roles at AST, Astea and DEA.

At the beginning of 2024 the Company employed 81 people.

9 Members of the BoD The Board of directors has 9 members: Paolo Angelici (Chairman), Antonio Osimani (CEO), Elena D'Arrigo (Independent), Eleonora Chiocchi (Independent), Matteo Andracco, Alessandro Morini, Damiano Corsalini, Gennaro Zecca and Micaela Cristina Capelli.

Figure 15: Key figures in the organizational structure



Source: Company Data

Table 2: Board of Directors

Name	Role
Paolo Angelici	Chairman
Antonio Osimani	CEO & Director
Eleonora Chiocchi	Independent Director
Elena D'Arrigo	Independent Director
Gennaro Zecca	Director
Matteo Andracco	Director
Alessandro Morini	Director
Damiano Corsalini	Director
Micaela Cristina Capelli	Director

Source: Company Data

DEA: Electricity distribution in 4 regions

Medium operator in the electricity distribution

Operations across three regions

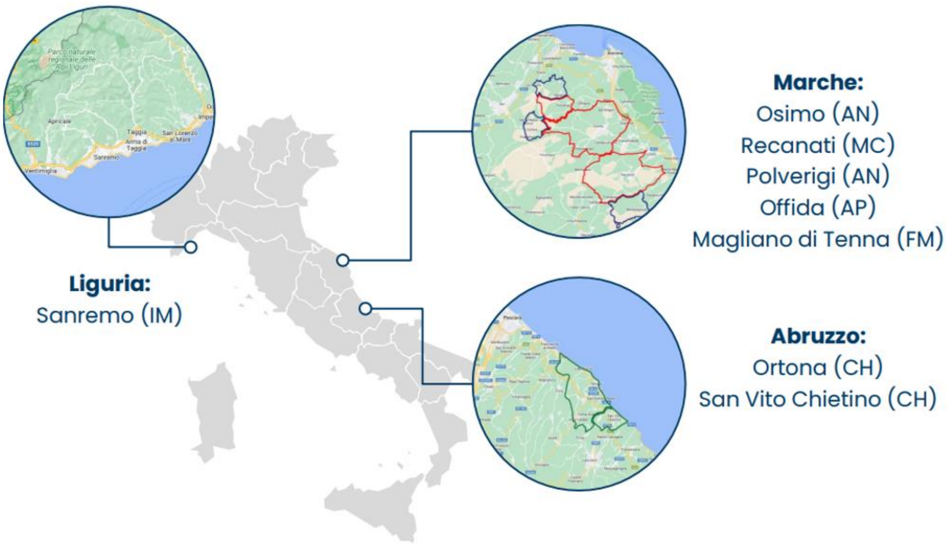
DEA is an Italian infrastructural operator of electricity distribution headquartered in Osimo (AN), managing, operating, maintaining and developing networks in medium and low voltage (MV/LV) under concession agreements. The company's clientele comprises electricity suppliers and seven municipalities in Abruzzo, Liguria and Marche. DEA also undertakes processing activities focused on detecting and providing validated measurement data of electricity injected into and withdrawn from distribution and transmission networks.

~90k PoD served

DEA's 2023 network was located across Abruzzo, Liguria and Marche, spanning 2,799km of which 828km of medium voltage and 1,971km of low voltage network. The Company operates 4 primary substations and 1,280 secondary substations catering to 85k Point of Delivery (PoD). Considering 2022 data, DEA is the 11th largest electricity distributor in Italy.

The acquisition of ASPM brought 5k PoD in Lombardia, increasing served PoD to ~90k.

Figure 16: Geography of DEA activities in 2023



Source: Company data

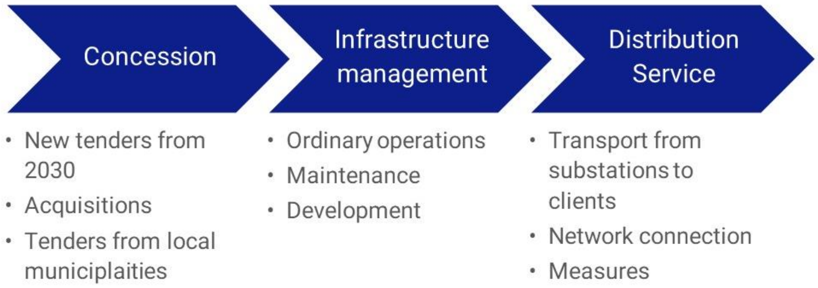
Concessions in the electricity distribution

Electricity distribution concession expire at the end of 2030

DEA's activity is carried out under a thirty-year ministerial concession for electrical distribution, obtained in 2001 by Astea. All electricity distribution concessions in Italy expire on December 31, 2030, without any tender before the deadline. Future tenders will be opened to distributors that on January 1, 2026, operate at least 100k PoD, have technical know-how and solid financial statements.

Until 2030, the Company can expand its operations by acquiring companies or by participating to tenders launched by municipalities, as subjects owning a distribution concession decide to put it to tender as they are no longer able to manage it due to financial reasons or complexity stemming from regulation, like the case of Magliano di Tenna (FM).

Figure 17: Distribution value chain



Source: Banca Profilo elaborations on Company data

Overview and position of distribution in the electricity supply chain

The process begins with the generation of electricity, usually at power plants located outside densely populated areas. These power plants convert primary energy sources, such as coal, natural gas, nuclear power, or renewables, into electrical energy.

Electricity transmission is carried out by Terna

Generated electricity is then stepped up to high voltage levels using transformers as it reduces the losses and makes long-distance transmission feasible. The high-voltage electricity is transported to primary substations located closer to consumers via power lines. This step is carried out by Terna, the owner and operator of the transmission infrastructure operating within a monopoly regime.

Distribution is the final phase of energy transportation

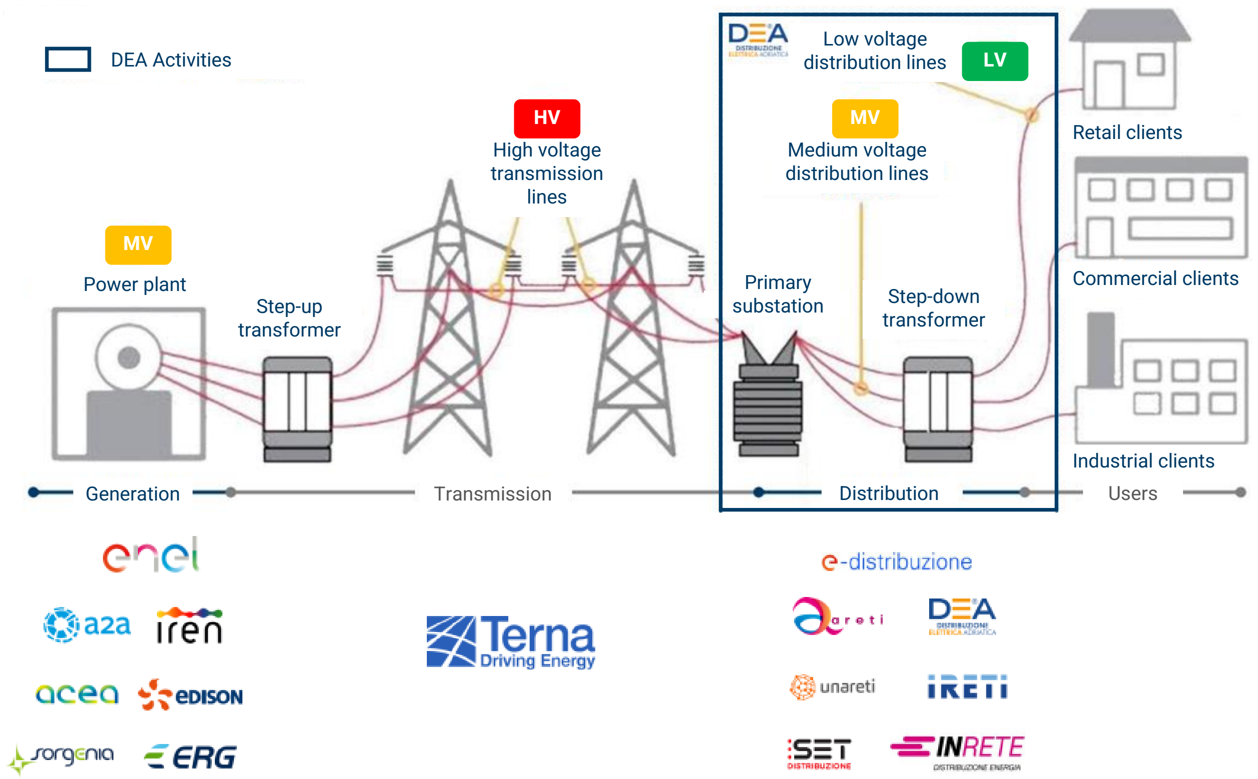
Primary substations mark the boundary point between transmission and distribution and belong to the distribution company. Primary substations house high/medium voltage transformers, from which all medium voltage lines originate. However, medium voltage is still too high for domestic/industrial/commercial users. Therefore, secondary substations with step-down transformers further reduce the voltage to a level suitable for transportation on low voltage lines.

The distribution network infrastructure includes:

1. AT/MT transformation substations (primary substations), which serve as points of interconnection between the network and high and medium voltage grids;
2. Medium voltage networks, with voltages ranging from over 1 kV to 35 kV;
3. MT/BT transformation substations (step-down transformers/secondary substations), serving as points of interconnection between medium and low voltage networks;
4. Low voltage networks, with voltages below 1 kV.

To access the distribution service, end-users (consumers or wholesalers acting on behalf of consumers) must subscribe to a distribution service contract, in accordance with current regulations.

Figure 18: Electricity supply chain



Source: Banca Profilo elaborations on Company data, logos are the property of the respective businesses and are for illustrative purpose only

Infrastructure Management of electricity distribution

DEA carries out four main types of ordinary operations on its network:

- Operation and control of the facilities
- Emergency response
- Shutdown and securing of facilities
- Inspections on facilities

Operation and control of facilities is carried out remotely

Operation and control of facilities includes remote maneuvers on the distribution network by modifying the operating state of the switches and/or disconnectors that connect the various elements constituting the network. This allows for the adjustment of the network configuration based on maintenance needs or to isolate any faulty sections for necessary repairs.

Signals, measurements and data pertaining to the network's status are acquired locally at the facilities and relayed through the telecommunication network. This information is continuously monitored by personnel to promptly identify and address any anomalies or faults

Emergency response

Emergency responses are carried out by internal staff to address hazardous situations that arise from failures of electrical components or due to anomalies, restoring the efficiency and functionality. These activities operate 24/7, ensuring availability across the managed territory. Interventions are triggered either by customer reports received via the company's toll-free number or by alarms from the telecontrol system.

Shutdown and securing of facilities

Shutdown and securing of facilities are carried out by internal staff to render a facility unavailable to allow for intervention and restore necessary conditions for normal operation.

Inspections on facilities

Inspections on facilities are primarily carried out by Company's personnel to monitor the technical conditions of the infrastructure, detect any interference with new third-party works, vegetation, operational irregularities, anomalies or dangers to the network itself. These activities are typically performed at predefined intervals.

DEA carries out maintenance on its operated network

As the operator of the distribution network, DEA is responsible for conducting maintenance activities. These activities are divided into two categories: ordinary maintenance and extraordinary maintenance. Ordinary maintenance involves actions on electrical systems aimed at maintaining or restoring their efficiency without altering their technical or functional characteristics. Extraordinary maintenance, includes activities focused on renewing and extending the useful life of systems, which may involve modifications to their technical characteristics but not their functional characteristics.

Maintenance transitioning to condition-based

Previously, DEA conducted maintenance activities according to the "scheduled" method, adhering to predetermined schedules regardless of the conditions of the systems, but the company is gradually adopting the "condition-based" method, targeting interventions to resolve potential faults or anomalies identified. This approach aims to limit interventions to cases of actual degradation of the component, requiring frequent updates on the status of systems achieved through continuous real-time data collection. To facilitate this transition, DEA is gradually implementing online monitoring systems and decision support tools equally effective.

Maintenance tasks generally take place on temporarily inactive systems, which are not operational for transmission activities. Condition-based maintenance, in addition, helps minimize the need to make network elements unavailable. These tasks are carried out by specialized teams of technicians deployed across the territory, who directly address the components of the systems.

Interventions encompass expansion or evolution of the network, including potential transport capacity reductions, which involve modifications to both technical and functional characteristics of the network or decommissioning existing facilities.

Development interventions may be driven by:

- Functional service requirements to establish new connections and transformer stations, as well as the expansion or decommissioning of existing facilities, sometimes prompted by third-party requests (clients and/or producers);
- Regulatory obligations or directives from authorities necessitating technical, technological or morphological adjustments to the facilities;
- Internal needs such as rationalizing facility configurations to enhance efficiency may prompt these interventions.
- Requests from local authorities or third-party owners of areas where network facilities are situated, for instance a modification to the route of an existing connection due to interference with third-party infrastructure such as a building.

For development interventions requested by third parties, the company generates network connection revenues if the request comes from: i) an end-user, the electricity retail company pays the connection contribution to DEA, ii) an energy producer, the producer pays the contribution to DEA.

For infrastructure investments, DEA proceeds both internally with its personnel and purchased materials and through construction contracts. Based on current regulations for works: i) up to €150k, the company may proceed through direct assignment; ii) €150k-1mln, DEA initiates a tender with at least 5 bidders; iii) >€1mln, DEA initiates a tender with at least 10 bidders.

The investments made are included in the calculation of the RAB, net of received contributions, to be remunerated in the tariff charged to operators.

Distribution Service

DEA provides to its customers (electricity sellers) the service distribution, which includes: i) the transport of electricity from the primary substations to the end user; ii) the connection of electrical systems of end users (households and businesses) and of producers to the network; iii) the metering service, by processing electricity data input and withdrawal on the networks.

Limited credit risk The Company issues invoices on a monthly basis and the collection terms amount to ~30 days. DEA's exposure to credit risk is limited as contractual fulfillment has to be ensured by bank guarantees, security deposits or rating opinions. Furthermore, if a customer defaults a reimbursement is provided by CSEA with the loss shared among distributors.

CSEA CSEA (Cassa per i Servizi Energetici e Ambientali) is an entity under the supervision of ARERA and collects some tariff components and system charges from operators to be paid to distributors according to ARERA's rules.

Regulated tariff By providing services and investing in the network DEA receives a tariff to cover operating costs, depreciation and return on capital invested. This is regulated and determined by ARERA, which updates the rates annually. Part of the tariff is not proportional to the volume distributed which limits revenue downside risk.

Public lighting

Public lighting in 15 municipalities

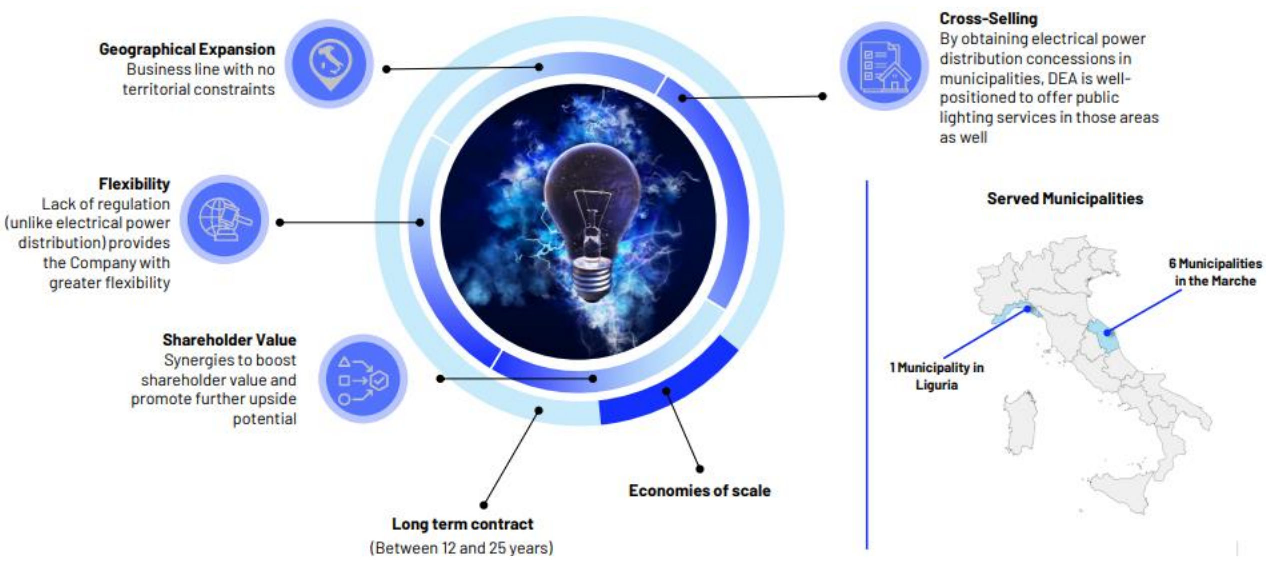
DEA designs, constructs and carries out maintenance activities of public lighting systems thanks to concession agreements. In 2023, the Company managed a network of 679km relating to the public lighting service across 7 municipalities in 2 Italian regions. These services are not regulated by ARERA and can be performed as a supplementary activity by distribution companies. The acquisition of ASPM brought public lighting contracts across 8 new municipalities in Lombardia.

The annual fee per lighting point is determined by the procurement contract and is annually revalued, reflecting changes in labor costs and energy prices. The service also encompasses the provision of electrical energy for public lighting systems, which DEA purchases and resells to the Municipality.

Concession contracts from municipalities

A concession contract can be initiated in two ways. Either municipalities directly propose it or a company proposes a project that a local authority must recognize as being in the public interest. In the second scenario, the company that proposes the project holds a pre-emptive right during the awarding process.

Figure 19: Distribution value chain



Source: Company data

Table 3: Duration of public lighting concessions

City	Beginning	Duration	Expiry
Osimo (AN)	2022	25 years	2047
Recanati (MC)	2015	25 years	2040
Montelupone (MC)	2016	25 years	2041
Santa Maria Nuova (AN)	2018	12 years	2030
Agugliano (AN)	2020	12 years	2032
Polverigi (AN)	2020	12 years	2032
Sanremo (IM)	2000	30 years	2030

Source: Company data

Clients & Suppliers

DEA's clientele: Electricity operators and Municipalities

DEA serves two distinct customer groups:

- Electricity sector operators engage with DEA for the distribution of electricity. This includes independent sellers operating in the open market as well as energy wholesalers acting on behalf of other sellers. These customers are keen on selling energy within DEA's coverage area. To operate, they must be registered in the operator registry at ARERA and possess a dispatching contract with Terna, responsible for electricity transmission in Italy. DEA verifies compliance with these requirements during contract initiation and continuously monitors adherence through information exchanges with the Integrated Information System (IIS).
- Municipalities and local authorities are targeted by DEA for their public lighting needs. DEA proposes project financing solutions to municipalities for lighting projects deemed of public interest. Upon evaluation, municipalities issue tenders, with DEA as the project initiator holding the right of first refusal over other bidders.

DEA's suppliers

DEA's main suppliers are:

- Terna and E-Distribuzione, which are not substitutable, since the Company, as an electricity distribution operator, must pay the former the transmission fee and the latter the electricity transport fee.
- Astea Energia, which is the electricity supplier for consumption related to the public lighting service in the managed territories. It is also in this case a non-substitutable entity as it is a participant in the project financing that the company was awarded in the various municipalities.
- Astea, which provides administrative, secretarial and legal, procurement and personnel management services on the basis of a service contract.
- Odoardo Zecca and Energie Offida, both of whom DEA acquired in 2023, have signed contracts for the maintenance of MV plants in their respective regions (Abruzzo and Marche).

The others are suppliers of materials for ordinary and extraordinary maintenance and are all replaceable, in the sense that they were chosen based on a procedure according to the procurement code.

Figure 20: Top 10 Clients FY23PF (% on Revenue)

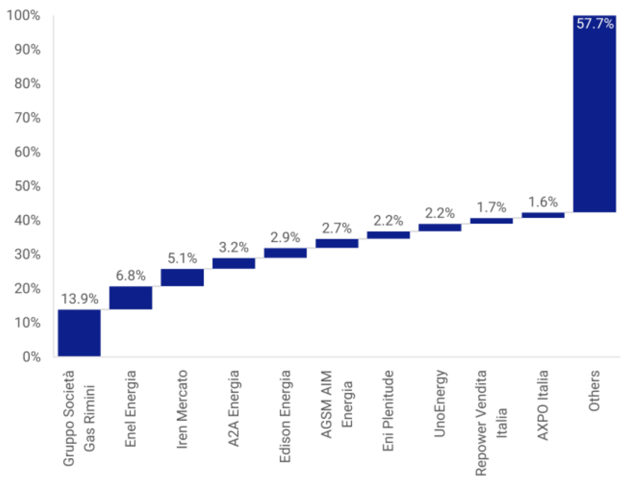
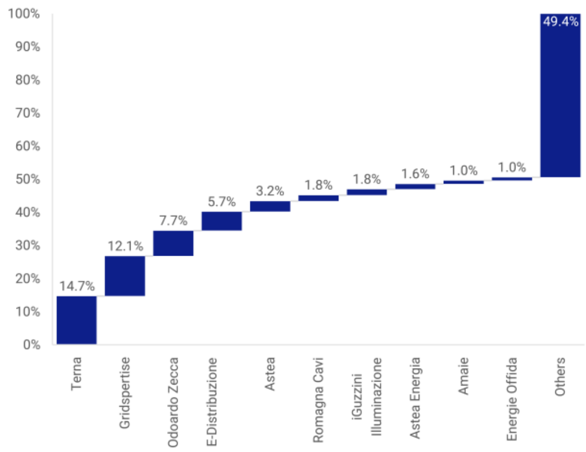


Figure 21: Top 10 Suppliers FY23PF (% on total costs)



Source: Banca Profilo elaborations on Company data

Fully regulated business

A single national price charged to final customers

The electricity distribution service is regulated, pursuant to article 3 of Law 481/1995, by ARERA. Prices for distribution and metering are charged to final customers as a separate line in an electricity bill, to be collected by the energy supplier which are then paid to the local distributor.

The final costs that will be charged are determined on a nationwide basis by ARERA and are updated annually. These costs are referred to as the "Mandatory Tariff" and in the annual document prices published are:

- ¢€/client, ¢€/kWh, ¢€/kW for the distribution activity
- ¢€/client, ¢€/kWh for the metering activity

Tariff regulation until 2023

Decoupled tariff (Mandatory + Individual)

ARERA also establishes a constraint on admitted revenues, based on several significant variables, including the size of the served territory, the type of terrain served (whether it's urban, rural, or mountainous) and the number of customers served.

From 2012 until the end of 2023, the restriction on the admitted revenues of each operator was recognized in the individual tariff or company tariff, based on the number of customers of each type of user (domestic, other low/medium/high voltage) or of distributed kilowatt. This was published by ARERA provisionally by 31 March of the year t to which the tariff refers and definitively by 28 February of the year t+1.

Therefore, each distributor generates revenues from two regulated tariffs i) mandatory tariff ii) company tariff, leading to the tariff decoupling, where revenues allowed for the operator are released from the scale variables used for invoicing and for determining actual revenues. This creates a difference between admitted and actual revenues, which are compensated for each operator by CSEA in year t+1 compared to the reference year t of the tariff.

RAB remuneration with 6% WACC

Electricity distributors earn revenue not only based on operating expenses, but also through a WACC applied to the RAB. During each regulatory period, ARERA, establishes the main parameters for calculating the WACC. The current regulatory period is 2022-2027 and is divided into two subperiods. WACC is updated at the end of the subperiods or, during the current 3-year period, if a change observed in a parameter would result in a change in WACC of at least 50 bps. The mechanism was triggered (Resolution 556/2023/R/com) and led to the update of WACC to 6% (from 5.2%) for 2024.

Tariff regulation from 2024

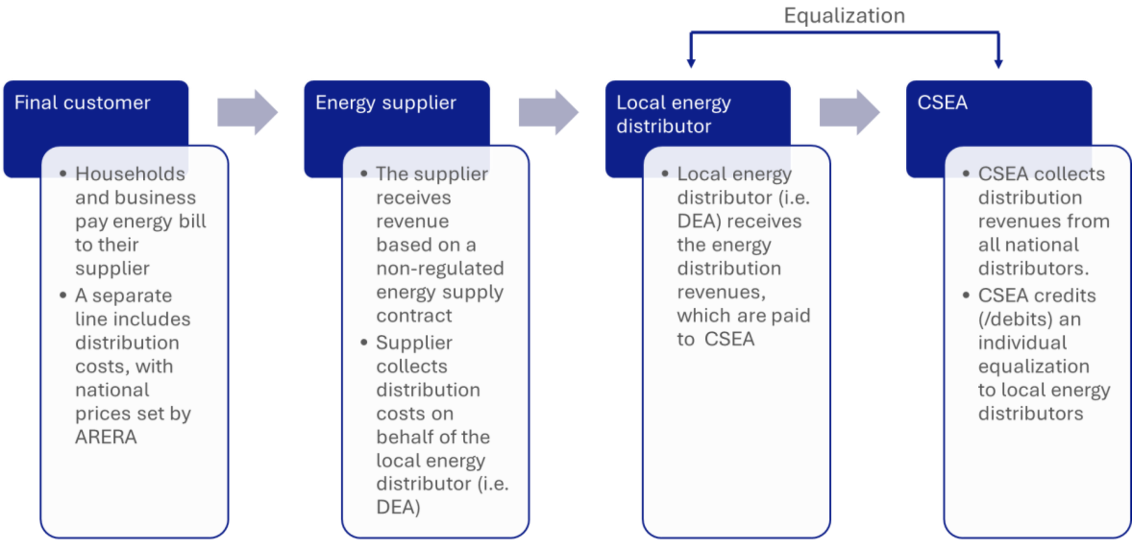
Towards Totex with ROSS

Starting from 2024, ARERA has adopted a different tariff methodology for electricity distribution, which keeps some legacy components. The ROSS model envisions a progression from the hybrid method, which differentiates between operating costs (regulated by the price cap) and capital costs (rate of return regulation), towards a Totex method (ROSS). The ROSS approach aims to reduce incentives to over-investments, as operators might have a WACC for an investment smaller than the WACC on RAB set by the authority. The period prescribed by the regulation included in TIROSS runs from 2024 to 2031, with two four-year subperiods.

The tariff decoupling system remains, but the restriction on revenues admitted according to the ROSS regime is only applied to companies with more than 25k served customers.

DEA will use a "unified" tariff for 2024 as it has 85k PoD, while in 2023 tariffs were based on aggregates specific to each acquired company, which might have involved the adoption of special methodologies.

Figure 22: Distribution revenue collection



Source: Banca Profilo

Expected total expenditure communicated

Under this new regime, operators must communicate the total eligible expenditure ex ante for tariff purposes for the regulatory period 2024-2027 based on the four-year period 2022-2025. The total expenditure is defined by article 35 of the TIROSS annex to resolution 163/2023/R/com and is calculated as operational cost baseline + capital expenditure baseline.

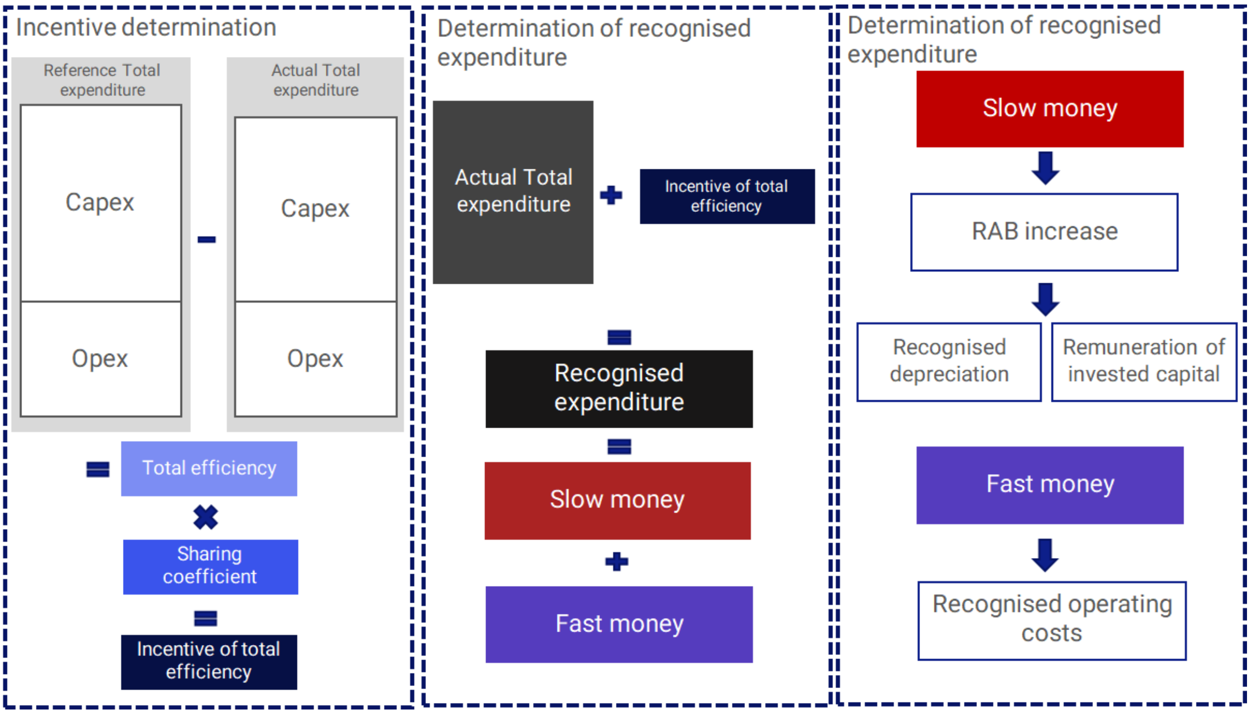
Therefore, eligible expenditure for 2024 for the first year of application of the TIROSS, is derived from 2022 CAS (annual results with accounting rules for regulatory purposes) and from the investments communicated to ARERA for 2022. Admissible total expenditure for each year from 2025 to 2027 derives from estimates provided by operators for the years from 2023 to 2025.

During the TIROSS regulation period the total expenditure of the t-th year is compared with the actual expenditure of the same year (CAS + investments reported). This will be available to the regulator starting from year t+2 compared to the publication of the provisional tariff for year t. ARERA (article 18 of resolution 497/2023/R/eel) determines the definitive tariff by 31 March of the year t+2 and the equalization balances are settled with a time lag greater than one year compared to previous regulation. ARERA allows for a request of an advance payment of the equalization in year t.

Slow money and fast money

Under the TIROSS method invested capital is still remunerated using the WACC, this is part of the “slow money” along with depreciation, which increases the RAB. The provisional “slow money” share is determined from the product of the total expenditure of year t and the rate of capitalization. For electricity distribution and measure the capitalization rate is set by the regulator and differs for clusters of operators, based on historic data and forecasts. The provisional fast money (Opex) share is determined by subtracting the slow money share from the total expenditure.

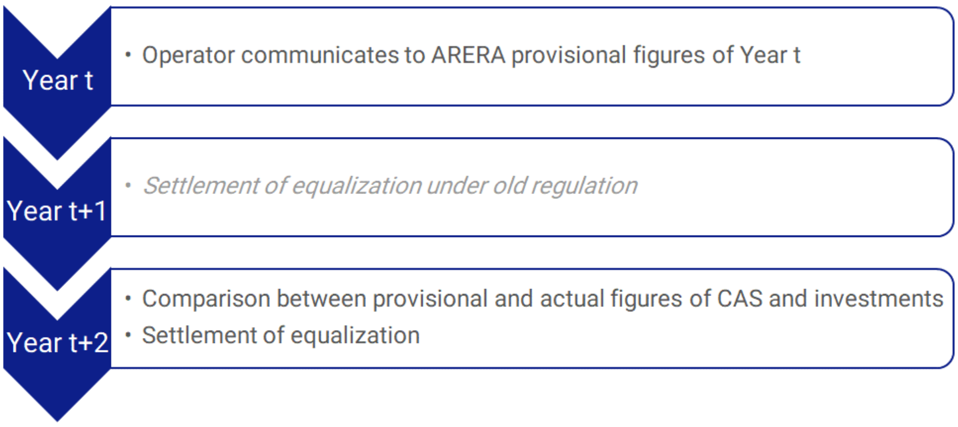
Figure 23: ROSS-base model



Source: Banca Profilo elaborations on ARERA

Efficiency incentives During each year of the regulatory period, the operational efficiency incentive is the portion left to the companies resulting from the difference between total expenditure and actual total expenditure. In the first year of implementation, the company retains 100% of this incentive while for the following three years, the retention rate is reduced to 50%. If efficiencies are lower than expected a symmetrical mechanism is applied.

Figure 24: Settlement of equalization under ROSS



Source: Banca Profilo elaborations on Energy Advisors

Historical financials

Consolidation and FY23PF

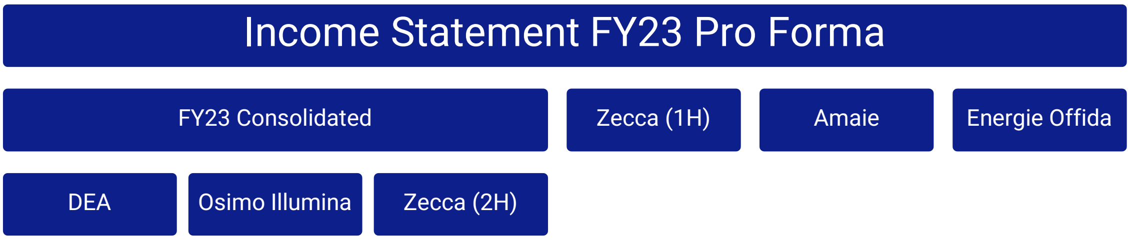
Pro Forma figures reflect deals carried out in 2023

Following aggregations and acquisitions carried out throughout 2023, Pro Forma figures more accurately represent the Company. While results before FY23 only represent a portion of the current group, they are still relevant as they represent a consistent historical view not affected by acquisitions.

FY23 Consolidation scope includes DEA, Osimo Illumina and Zecca 2H23 (on June 27, 2023). The Pro Forma Income statement includes Zecca 1H23, Amaie (acquired on December 29, 2023), Energie Offida (acquired on December 31, 2023).

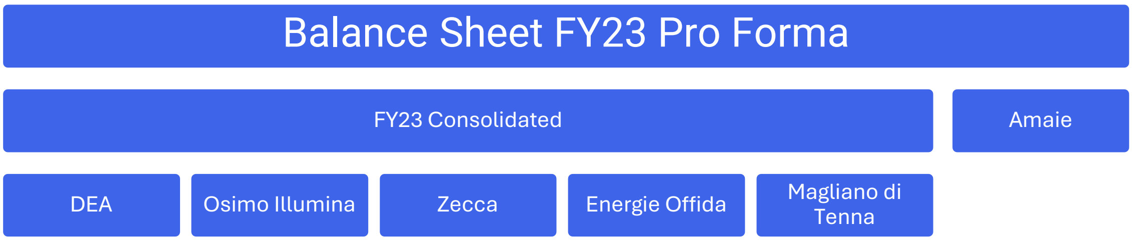
As the acquisition of Energie Offida and Magliano di Tenna were completed before YE 2023, they are fully included in FY23 consolidated balance sheet, the only addition to FY23PF vs FY23 is Amaie acquisition which had effective date January 1, 2024. We also point out that the acquisition of Amaie did not include its NWC, therefore FY23PF balance sheet does not reflect an ordinary NWC.

Figure 25: FY23PF Income Statement



Source: Banca Profilo elaborations on Company data

Figure 26: FY23PF Balance Sheet



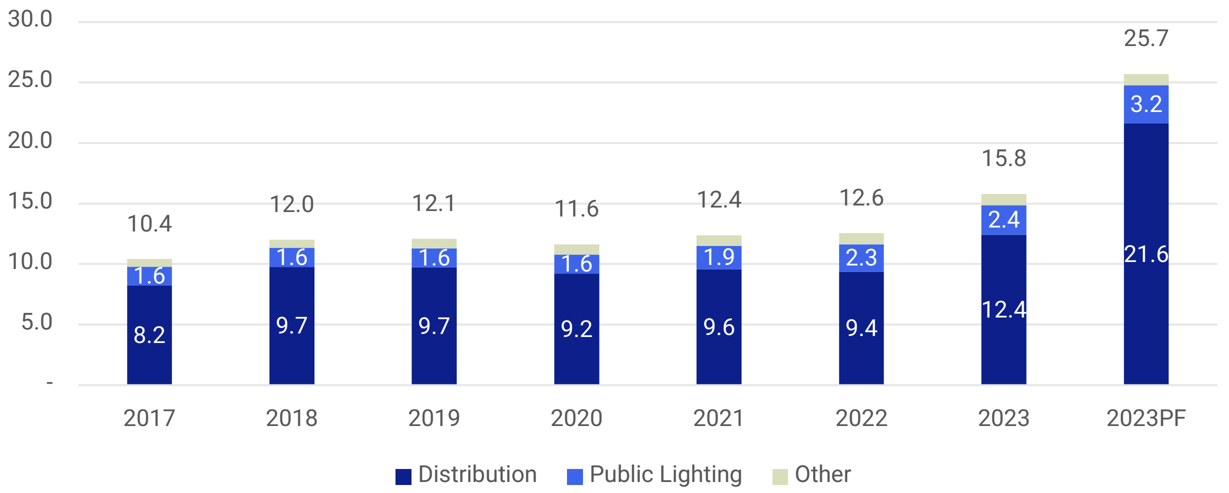
Source: Banca Profilo elaborations on Company data

2017-2023PF Financials

3.8% revenue CAGR in 2017-2022

During 2017-2022 revenues improved at a 3.8% CAGR, with the only contraction recorded in 2020 (-3.8% yoy), driven by the decline in revenues from Distribution activities (-5.3% yoy). Other are primarily generated by the service contract with parent company Astea for activities related to gas distribution, metering service, IT services.

Figure 27: FY17-23PF Revenue breakdown by BU (€,mln)



Source: Banca Profilo elaborations on Company data

Deals completed in 2023 drive FY23PF revenue growth

FY23 revenues were up by 25.6% yoy driven by the consolidation of 2H23 Zecca, FY23PF revenues more than doubled as they assume full consolidation of Amaie, Energie Offida, Magliano di Tenna and Zecca.

Main Opex relate to the Cost of services, which was, on average, 33% on Total Revenues during 2017-2022. In FY23PF, the Cost of services accounted 33.4% of Total Revenues and was driven by electricity transport/transmission service, asset maintenance, service contract with Astea. Material costs include energy costs for the Lighting BU, in FY22 they were €1.1mln. Finally, labor costs averaged at 17.4% in FY17-22, in FY23PF they increased by €2.7mln as they include Amaie employees, though is still aligned to historical average at 17.4%.

32.4% EBITDA margin in 2017-2022

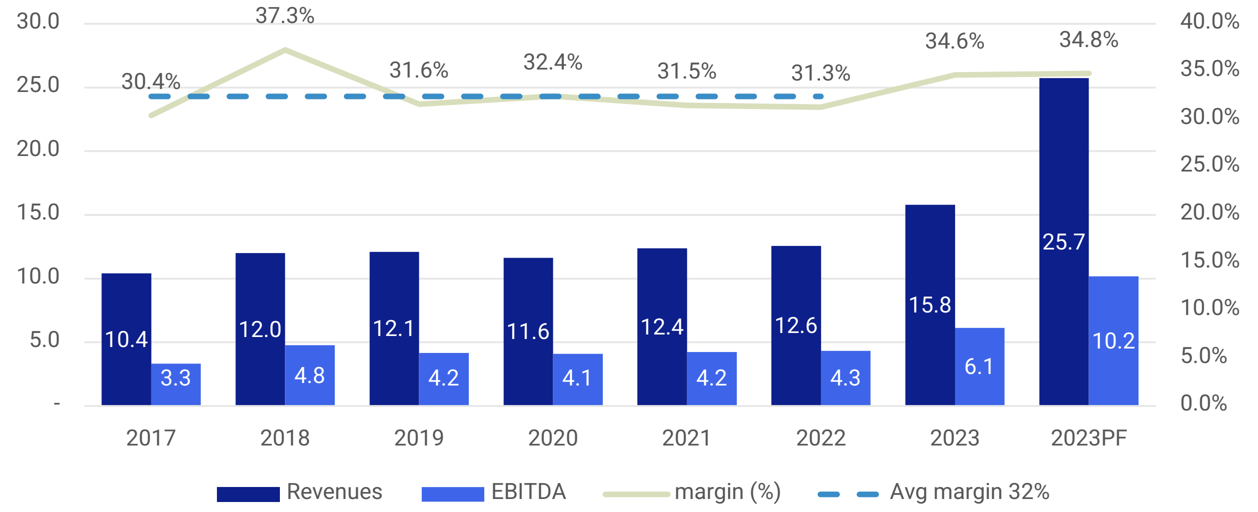
34.8% in 2023PF

During 2017-2022, EBITDA improved at a 5.5% CAGR and averaged at 32.4%. EBITDA marginality peaked in FY18 thanks to one-off positive components of tariff equalization amounting to €1.2mln. Consolidation of 2H23 Zecca in FY23 drove the significant improvement of +44.5% yoy as well as a margin expansion of +3.4pp. The remainder acquisitions and Zecca 1H23 led to a more than doubling of EBITDA in FY23PF, as well as a margin expansion of +3.5pp.

Rock solid marginality

During FY20, despite the revenue contraction EBITDA was down by 1.9% while margin improved by 0.8pp yoy.

Figure 28: Revenues, EBITDA (LHS) (€,mln) and EBITDA margin FY17-23PF (%) (RHS)



Source: Banca Profilo elaborations on Company data

EBIT and Net income margin peaked at 21.8% in FY18, after which they reverted to lower (normalized) levels also due to growing weight of D&A. Acquisitions positively impacted both margins in FY23 and FY23PF. Net income increased 3x to €3.4mln in FY23PF vs FY22.

Figure 29: EBIT and margin FY17-23PF (€,mln)

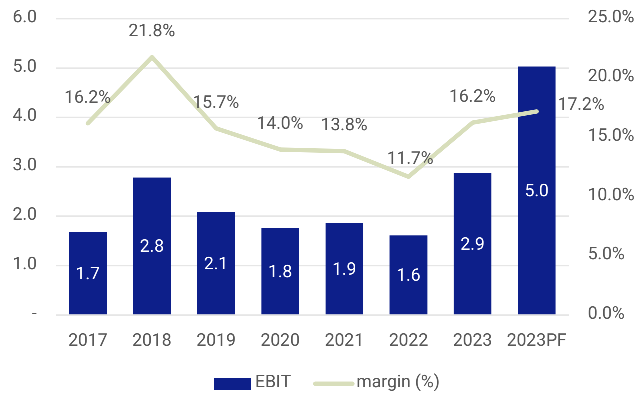
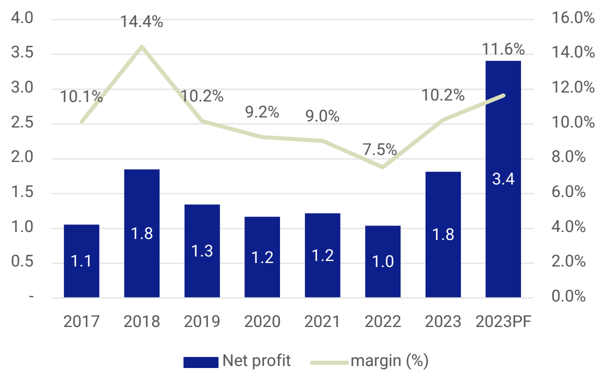


Figure 30: Net profit and margin FY17-23PF (€,mln)



Source: Banca Profilo elaborations on Company data

Table 4: Revenue breakdown by BU FY17-23PF (€,mln)

Revenue breakdown (€,mln)	2017	2018	2019	2020	2021	2022	2023PF
Distribution	8.2	9.7	9.7	9.2	9.6	9.4	21.6
yoy (%)	n.a.	18.5%	-0.3%	-5.3%	3.8%	-2.0%	130.6%
on sales (%)	79.0%	81.2%	80.3%	79.1%	77.3%	74.6%	84.0%
Public Lighting	1.6	1.6	1.6	1.6	1.9	2.2	3.2
yoy (%)	n.a.	3.0%	-2.0%	0.0%	23.6%	15.7%	40.7%
on sales (%)	15.0%	13.4%	13.0%	13.5%	15.7%	17.9%	12.3%
Other	0.6	0.7	0.8	0.9	0.9	0.9	0.9
yoy (%)	n.a.	5.0%	22.5%	6.7%	0.6%	8.9%	-1.7%
on sales (%)	6.0%	5.5%	6.7%	7.4%	7.0%	7.5%	3.6%
Revenues	**10.4**	**12.0**	**12.1**	**11.6**	**12.4**	**12.6**	**25.7**
yoy (%)	n.a.	15.3%	0.8%	-3.8%	6.3%	1.6%	104.8%

Source: Company Data

Table 5: Revenue breakdown FY17-23PF (€,mln)

Income Statement (€,mln)	2017	2018	2019	2020	2021	2022	2023	2023PF
Revenues	10.4	12.0	12.1	11.6	12.4	12.6	15.8	25.7
Other revenues	0.5	0.8	1.1	1.0	1.1	1.3	1.9	3.5
Total revenues (VoP)	**10.9**	**12.8**	**13.2**	**12.6**	**13.5**	**13.8**	**17.7**	**29.3**
yoy (%)	n.a.	17.3%	3.3%	-4.5%	6.9%	2.4%	31.2%	111.7%
Material costs	(1.3)	(1.6)	(2.1)	(1.9)	(2.2)	(2.3)	(2.4)	(3.4)
Costs of services	(3.8)	(4.0)	(4.4)	(4.2)	(4.4)	(4.5)	(6.4)	(9.8)
Cost for the use of third-part assets	(0.2)	(0.2)	(0.2)	(0.1)	(0.2)	(0.2)	(0.3)	(0.6)
Labor costs	(2.2)	(2.2)	(2.2)	(2.2)	(2.3)	(2.3)	(2.4)	(5.1)
Other operating expenses	(0.1)	(0.1)	(0.3)	(0.1)	(0.2)	(0.2)	(0.2)	(0.3)
EBITDA	**3.3**	**4.8**	**4.2**	**4.1**	**4.2**	**4.3**	**6.1**	**10.2**
margin (%)	30.4%	37.3%	31.6%	32.4%	31.5%	31.3%	34.6%	34.8%
yoy (%)	n.a.	43.8%	-12.4%	-1.9%	3.7%	1.9%	44.5%	135.5%
D&A	(1.6)	(1.9)	(2.1)	(2.3)	(2.3)	(2.7)	(3.2)	(5.1)
Provisions	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	(0.1)	(0.1)
EBIT	**1.7**	**2.8**	**2.1**	**1.8**	**1.9**	**1.6**	**2.9**	**5.0**
margin (%)	16.2%	21.8%	15.7%	14.0%	13.8%	11.7%	16.2%	17.2%
yoy (%)	n.a.	65.3%	-25.3%	-15.2%	5.8%	-13.6%	54.1%	212.0%
Net financial expenses	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)	(0.3)
Taxes	(0.5)	(0.8)	(0.6)	(0.4)	(0.5)	(0.4)	(0.8)	(1.3)
Net profit	**1.1**	**1.8**	**1.3**	**1.2**	**1.2**	**1.0**	**1.8**	**3.4**
margin (%)	10.1%	14.4%	10.2%	9.2%	9.0%	7.5%	10.2%	11.6%

Source: Company Data

The acquisition of Amaie did not bring in NWC changes. During 2017-2022 Net debt/EBITDA was on average 1.9x.

At the end of FY23PF, Other current liabilities (net of receivables) worth €5.2mln were: i) €675k receivables towards CSEA and €2.4mln payables to CSEA for system charges which had been reinserted from 2Q23, (ii) €0.5mln tax debt; (iii) €0.6mln remaining to be paid to the Municipality of Magliano of Tenna (FM) for the purchase of the electrical distribution and metering branch, (iv) debts to the parent company for taxes due to advance payment carried out by Astea for tax consolidation.

At the end of FY23PF, Net debt stood at €10.4mln and included: i) €10.8mln of bank debt, ii) €3.2mln to parent Companies, €2.4mln following Zecca capital increase, which is to be paid by YE 2025, iii) other debt of €0.2mln and iv) €3.8mln liquidity.

Figure 31: Net debt (€,mln) (LHS), Net debt/EBTDA (RHS)

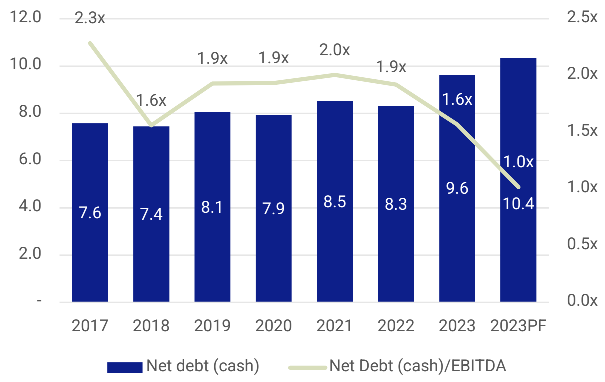
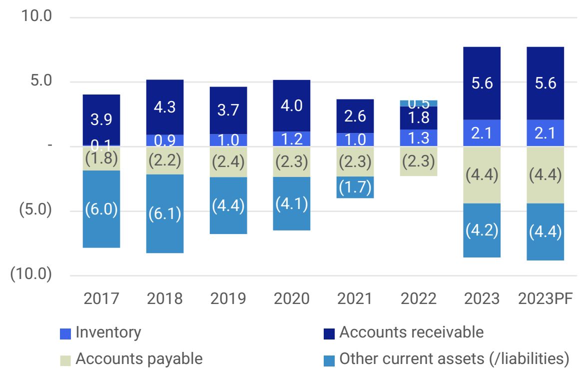


Figure 32: NWC FY17-23PF (€,mln)



Source: Banca Profilo elaborations on Company data

Historical Capex/Sales 19%

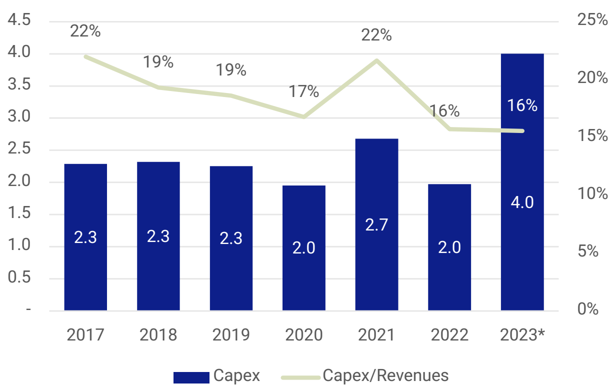
During 2017-2022 the Company carried out Capex for €13.5mln or €2.2mln/year, representing on average 19% of sales. In FY23 Capex spiked to €27.6mln and reflect the acquisitions carried out, we adjusted the figure for €23.6mln in acquisitions, which leads to a €4mln adjusted Capex or 16% on FY23PF revenues. More precisely, DEA invested €1.6mln to strengthen and expand MV/LV lines, €0.5mln for substations, ~€1.1mln to substitute 2G electricity meters (to be completed by FY25), €0.4mln for intangibles related to software.

45% payout ratio

During 2017-2022 the Company allocated €3.3mln to dividends, with an average payout ratio of 45%.

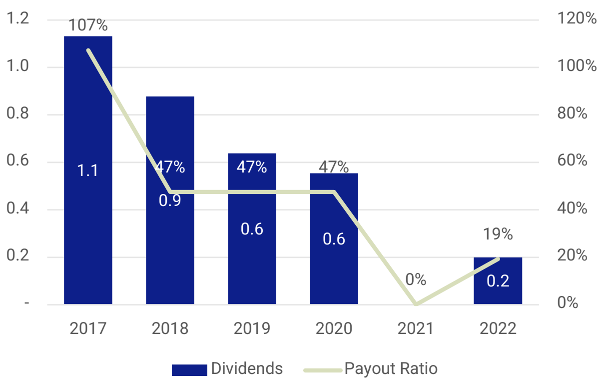
~22% of cumulated FY24-26E EBITDA is seen converting in €8.4mln FCFs, accelerating in FY26E at 34% when investments for electricity meters are completed.

Figure 33: Capex FY17-23* (€,mln) (LHS), Capex/Revenues (%) (RHS)



*2023 Capex net of €23.6mln of acquisitions

Figure 34: Dividend FY17-22 (€,mln) (LHS), (%) (RHS)



Source: Banca Profilo elaborations on Company data

Table 6: Balance sheet FY17-23PF (€,mln)

Balance sheet	2017	2018	2019	2020	2021	2022	2023	2023PF
Tangible	38.5	38.3	38.4	37.9	37.1	36.7	45.8	62.9
Intangibles	3.4	3.9	4.1	4.2	4.4	4.0	20.5	20.5
Financials & Others	0.0	0.0	0.0	0.0	0.9	0.9	0.5	0.5
Fixed assets	**41.8**	**42.3**	**42.5**	**42.1**	**42.4**	**41.6**	**66.8**	**83.9**
Inventory	0.1	0.9	1.0	1.2	1.0	1.3	2.1	2.1
Accounts receivable	3.9	4.3	3.7	4.0	2.6	1.8	5.6	5.6
Accounts payable	(1.8)	(2.2)	(2.4)	(2.3)	(2.3)	(2.3)	(4.4)	(4.4)
Operating net working capital	**2.2**	**3.0**	**2.3**	**2.8**	**1.4**	**0.8**	**3.3**	**3.3**
Other current assets (/liabilities)	(6.0)	(6.1)	(4.4)	(4.1)	(1.7)	0.5	(4.2)	(4.4)
Net Working Capital	**(3.8)**	**(3.1)**	**(2.1)**	**(1.3)**	**(0.3)**	**1.3**	**(0.9)**	**(1.1)**
Other liabilities	(0.5)	(0.4)	(0.5)	(0.5)	(0.6)	(0.6)	(3.9)	(5.2)
Net Invested capital	**37.6**	**38.8**	**39.8**	**40.2**	**41.5**	**42.3**	**62.0**	**77.6**
Equity	**30.0**	**31.3**	**31.8**	**32.3**	**33.0**	**34.0**	**52.4**	**67.2**
Net debt (cash)	**7.6**	**7.4**	**8.1**	**7.9**	**8.5**	**8.3**	**9.6**	**10.4**

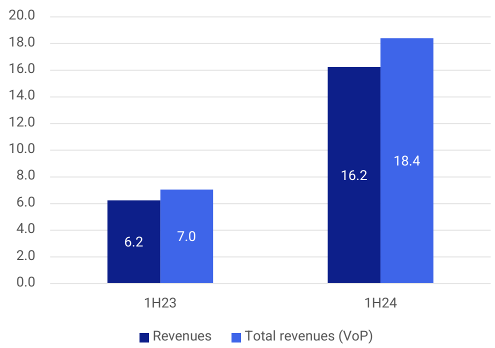
Source: Company Data

1H24 Update

On August 2, DEA published 1H24 preliminary Total revenues at €18.4mln, up by 161% thanks to a different consolidation scope. Revenue from sales were €16.2mln (53% of our FY24E).

On 1 August 2024 ARERA published resolution no. 338/2024/R/eel relating to the determination of the provisional reference tariffs for electricity distribution and measurement services for the year 2024 referring to DEA. Based on this determination, DEA applies a single tariff calculated according to the TIROSS method to all assets managed in all regions where it operates.

Figure 35: 1H24 Preliminary results



Source: Company Data

2024-2026 Estimates

Distribution revenue growth driven by change in tariff methodology

We estimated separately revenues from Distribution, Lighting and Other, with an overall CAGR of 11.9% (7.4% organic ex-ASPM) driven by i) growth from the distribution business primarily in FY24E, ii) acquisition of ASPM, impacting the P&L from FY25.

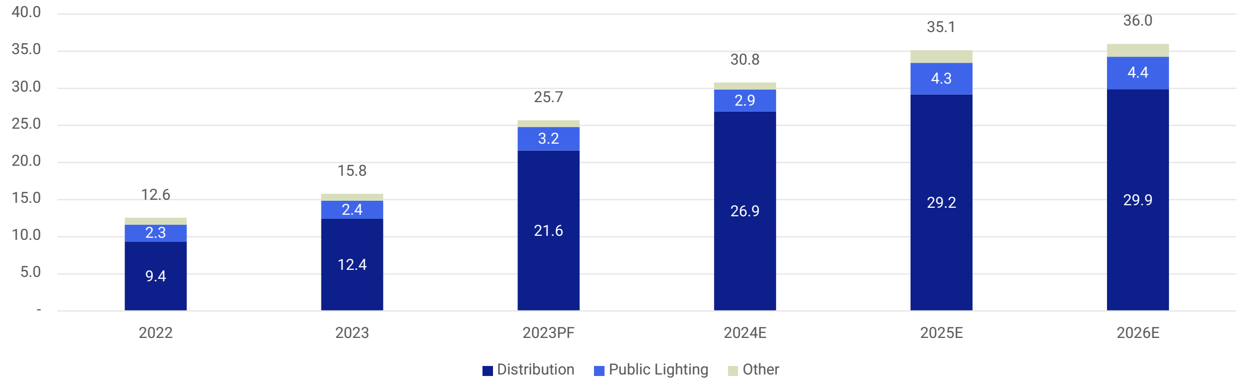
We estimate a 11.4% revenue CAGR in Distribution (9.3% organic) in FY23PF-FY26E with a jump in Distribution sales in FY24E vs FY23PF (+24.3% yoy), driven by i) change in tariff methodology (ROSS), ii) the adoption of a unique tariff methodology for all DEA's subsidiaries rather than applying individual different metrics. In fact, FY23PF figures are the sum of revenues from subsidiaries, some using "parametric" tariffs as they operated <25k PoD, iii) higher WACC, iv) consolidation of Magliano di Tenna (<1% of Revenues). Consolidation of electricity distribution activities from ASPM affects revenues from FY25E and is estimated at €1.5mln.

Our Distribution revenues forecasts include RAB remuneration on FY23PF of €73.5mln using a 6% WACC, recognizable Opex and depreciation from aggregated FY22 figures (of all currently owned entities) disclosed to ARERA, transmission and connection revenue. Equalizations are already included in our main revenue drivers. It is important to note that revenue are not estimated based on the expected energy distributed.

In Lighting, in FY24E we expect a decline in revenues of 7%, reflecting a reversion to standard contractual revenues as FY23PF included costs based on requests from municipalities and higher energy costs. Both lead to higher costs so the effect on EBITDA is offset. From FY25E we include €1.7mln of revenues from public lighting contracts of ASPM.

Finally, Others are seen growing at a 23.1% CAGR in FY23PF-26E driven by the inclusion of €0.7mln from ASPM in FY25E related primarily to gas distribution.

Figure 36: FY22-26E Revenue breakdown by BU (€,mln)



Source: Company Data, Banca Profilo Estimates

EBITDA margin to surpass 36% in FY24E, ASPM dilution in FY25E

We estimate an EBITDA CAGR of 12% (7.9% organic) thanks to higher top line, with marginality slightly diluted by ASPM. In FY24E EBITDA margin is seen at 36.3% (+1.5pp yoy), while FY25E EBITDA margin is seen declining to 35.8% on the back of margin dilution due to consolidation of ASPM.

Figure 37: Total Revenues, EBITDA, margin FY23PF-27E (€,mln)

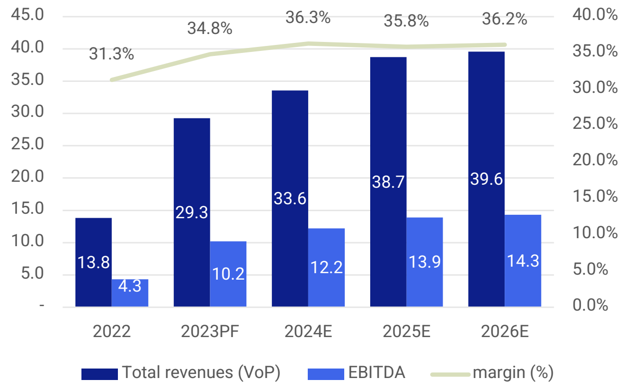
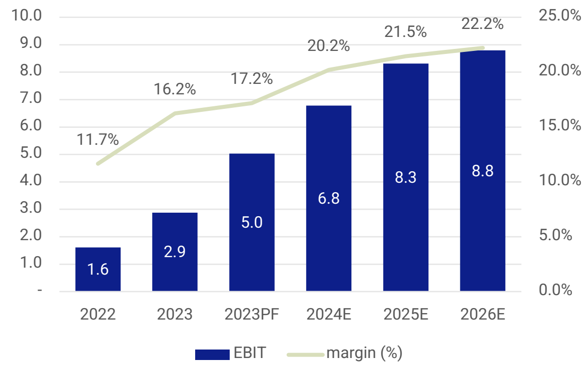


Figure 38: EBIT, margin FY23PF-27E (€,mln)



Source: Company Data, Banca Profilo Estimates

Net income is seen growing at a 20.7% CAGR in FY23PF-26E (15.3% organic CAGR) thanks to growing marginality at EBIT level, impact of ASPM on top line and declining net financial expenses as outstanding debt gradually declines.

Table 7: Revenue breakdown FY23PF-26E

Revenue breakdown (€,mln)	2023PF	2024E	2025E	2026E
Distribution	21.6	26.9	29.2	29.9
yoy (%)	130.5%	24.3%	8.6%	2.4%
on sales (%)	84.0%	87.3%	83.0%	83.0%
Public Lighting	3.2	2.9	4.3	4.4
yoy (%)	40.6%	-7.0%	45.2%	2.7%
on sales (%)	12.3%	9.6%	12.2%	12.2%
Other	0.9	1.0	1.7	1.7
yoy (%)	-1.4%	3.0%	77.4%	2.0%
on sales (%)	3.6%	3.1%	4.8%	4.8%
Revenues	**25.7**	**30.8**	**35.1**	**36.0**
yoy (%)	104.8%	19.6%	14.2%	2.4%

Source: Company Data, Banca Profilo Estimates

Table 8: Income Statement FY23PF-26E

Income Statement (€,mln)	2023PF	2024E	2025E	2026E
Revenues	25.7	30.8	35.1	36.0
Other revenues	3.5	2.8	3.6	3.6
Total revenues (VoP)	**29.3**	**33.6**	**38.7**	**39.6**
yoy (%)	111.7%	14.7%	15.4%	2.2%
Material costs	(3.4)	(3.9)	(4.5)	(4.6)
Costs of services	(9.8)	(11.0)	(12.5)	(12.6)
Cost for the use of third-part assets	(0.6)	(0.6)	(0.7)	(0.8)
Labor costs	(5.1)	(5.6)	(6.7)	(6.9)
Other operating expenses	(0.3)	(0.3)	(0.4)	(0.4)
EBITDA	**10.2**	**12.2**	**13.9**	**14.3**
margin (%)	34.8%	36.3%	35.8%	36.2%
yoy (%)	135.5%	19.6%	13.9%	3.1%
D&A	(5.1)	(5.3)	(5.5)	(5.4)
Provisions	(0.1)	(0.1)	(0.1)	(0.1)
EBIT	**5.0**	**6.8**	**8.3**	**8.8**
margin (%)	17.2%	20.2%	21.5%	22.2%
yoy (%)	212.0%	34.8%	22.5%	5.8%
Net financial expenses	(0.3)	(0.7)	(0.7)	(0.4)
Taxes	(1.3)	(1.7)	(2.2)	(2.4)
Net profit	**3.4**	**4.3**	**5.4**	**6.0**
margin (%)	11.6%	12.9%	14.0%	15.1%
Minorities	(0.0)	(0.1)	(0.1)	(0.2)
Group net profit	**3.4**	**4.3**	**5.3**	**5.8**

Source: Company Data, Banca Profilo Estimates

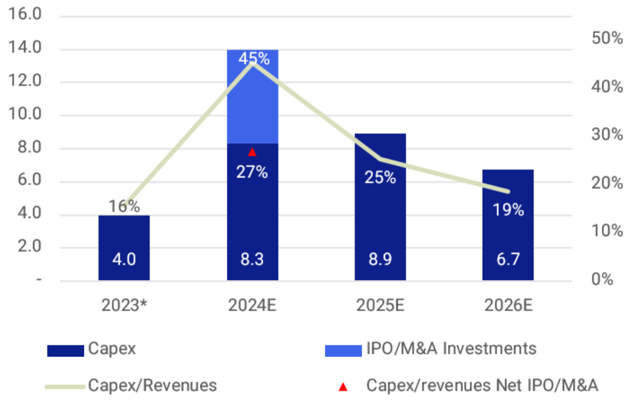
FY24E Operating NWC is seen increasing to €6.9mln from €3.3mln in FY23PF, due to i) ASPM consolidation, ii) higher needs also from Amaie (acquired ex-NWC), therefore we considered as a baseline FY23 ONWC weight on Revenues of 21.2%. Other current assets (/liabilities) are seen growing to €-7.3mln, primarily reflecting our assumptions on CSEA net liability, stemming from advance payments of equalization (unearned revenue). This leads to NWC of €-0.4mln in FY24E.

For the FY24E-26E period we estimate €24mln Capex (ex-IPO/acquisitions), concentrated in FY24E and FY25E with €8.3mln and €8.9mln respectively, due to investments related to new electricity meters.

In FY24E-26E we estimate €0.7mln of annual dividends, representing ~40% of FY23 standalone Net Income (€1.8mln).

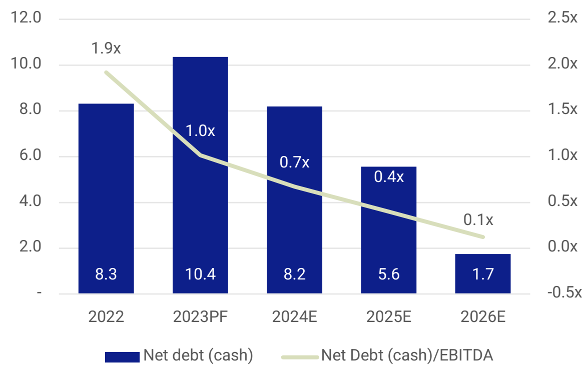
Overall, FY24E Net debt is seen at €8.2mln thanks to the completion of the IPO, with net proceeds after costs of €6.3mln, but offset by the acquisition of ASPM. After YE24 we see gradual annual improvements, reaching €1.7mln in FY26E.

Figure 39: Capex FY23*-26E (€,mln) (LHS), Capex/Revenues (%) (RHS)



*2023 Capex net of €23.6mln of acquisitions

Figure 40: Net debt (€,mln) (LHS), Net debt/EBTDA (RHS)



Source: Company Data, Banca Profilo Estimates

Table 9: Balance Sheet FY23PF-26E

Balance sheet (€,mln)	2023PF	2024E	2025E	2026E
Tangible	62.9	71.9	76.3	78.5
Intangibles	20.5	21.1	20.2	19.3
Financials & Others	0.5	0.5	0.5	0.5
Fixed assets	**83.9**	**93.5**	**96.9**	**98.3**
Inventory	2.1	3.8	3.9	4.0
Accounts receivable	5.6	12.0	12.3	12.6
Accounts payable	(4.4)	(8.9)	(8.7)	(8.8)
Operating net working capital	**3.3**	**6.9**	**7.5**	**7.8**
Other current assets (liabilities)	(4.4)	(7.3)	(9.2)	(9.4)
Net Working Capital	**(1.1)**	**(0.4)**	**(1.7)**	**(1.6)**
Other liabilities	(5.2)	(5.2)	(5.3)	(5.2)
Net Invested capital	**77.6**	**87.9**	**90.0**	**91.5**
Equity	**67.2**	**79.7**	**84.4**	**89.7**
Net debt (cash)	**10.4**	**8.2**	**5.6**	**1.7**

Source: Company Data, Banca Profilo Estimates

Valuation

SOTP, multiples and historical RAB premium

We value DEA using a mix of: i) a SOTP model based on DCF method, separating distribution and lighting to properly consider different contract duration; ii) a market multiples valuation based on EV/EBITDA 2025. The ending results could then be compared to the Company's RAB and might also be compared to historical RAB premium/discount of peers.

SOTP

First, we estimated DEA's overall FCF and then lighting FCFs, leaving the remainder portion attributable to distribution.

Distribution: DCF to 2030E + RAB

We model FCFs for Distribution during 2025E-2030E (€22.5mln), at the end of which all concessions expire.

Lighting: DCF to 2047E

For lighting we forecast FCFs during 2025E-2047E (€20mln) to properly account for concessions expiry. We do not include a terminal value, essentially assuming no new concessions are won and existing ones are not renewed.

Table 10: FCF estimates 2024E-2030E

Free Cash Flow	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	6.8	8.3	8.8	9.2	9.5	9.8	10.4
Taxes	(1.9)	(2.4)	(2.5)	(2.6)	(2.7)	(2.8)	(3.0)
NOPAT	4.8	5.9	6.3	6.5	6.8	7.0	7.4
D&A	5.3	5.5	5.4	5.3	5.3	5.3	5.0
Change in NWC	(0.7)	1.3	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)
Change in other	(0.0)	0.1	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Capex*	(12.4)	(8.9)	(6.7)	(6.7)	(6.7)	(6.7)	(6.7)
FCF	**(3.0)**	**3.8**	**4.8**	**5.0**	**5.2**	**5.4**	**5.6**
o/w FCF Lighting	-	1.1	1.2	1.2	1.2	1.3	1.3
o/w FCF Distribution	-	2.7	3.6	3.8	4.0	4.2	4.3

*Source: Banca Profilo Estimates, *IPO costs excluded*

Table 11: FCF Lighting 2031E-2047E

	31E	32E	33E	34E	35E	36E	37E	38E	39E	40E	41E	42E	43E	44E	45E	46E	47E
FCF Lighting	1.2	1.2	1.1	0.8	0.8	0.7	0.8	0.8	0.8	0.8	0.5	0.5	0.5	0.5	0.5	0.5	0.6

Source: Banca Profilo Estimates

WACC at 6.0%

To discount the estimated FCFs we would use a 6.0% WACC, derived from:

- risk free rate at 4.4%, as implicitly expected by consensus on the 30Y Italian BTP yield curve in a scenario of next-to come easing monetary policy;
- market risk premium of 5.5%;
- beta re-levered of 0.4, coming from the average of unlevered beta of chosen listed peers;
- cost of debt of 5.3%;
- target Debt to Equity structure of 30%.

After discounting Distribution's 25-30E FCF we obtain an EV of €18.3mln to which we add the FY24E RAB of €83.1mln. This led to an EV for the division of €101.4mln.

We then discount 25-47E Lighting FCF and calculate an EV of €12.0mln.

Finally, we sum up the estimated EV of distribution and lighting, leading to an EV of €113.3mln. We then subtract our FY24E net debt of €8.2mln. This leads to an equity value of €105.2mln.

Table 12: WACC Assumptions

WACC Calculation	
Perpetual growth rate	n.a.
Risk free rate (30Y)	4.4%
Equity risk premium	5.5%
Unlevered Beta	0.3
Levered Beta	0.4
KE	6.6%
Cost of debt	5.3%
Tax rate	28.7%
KD	3.8%
Target D/E	30.0%
D/D+E	23.1%
E/D+E	76.9%
WACC	**6.0%**

Source: Banca Profilo Estimates

Table 13: SOTP valuation

SOTP	Method	EV	WACC
Distribution	DCF FY25-30E + FY24E RAB TV	101.4	6.0%
Public lighting	DCF to FY25-47E, no TV	12.0	6.0%
Enterprise Value		**113.3**	
Net Debt FY24E		8.2	
Equity Value		**105.2**	

Source: Banca Profilo Estimates

Multiple valuation

As already highlighted, electricity distribution activities are often carried out by utilities companies operating in several sectors, making it difficult to find listed pure distribution players. We identified 6 companies that operate in regulated sectors related to either distribution or transmission of electricity and gas.

Table 14: Listed comparables

Company Name	Country	Currency	Market Cap	Description
Terna	Italy	EUR	16,333	Electricity transmission in Italy
Italgas	Italy	EUR	4,137	Gas distribution in Italy and Greece
Snam	Italy	EUR	15,416	Gas transmission in Italy
REN	Portugal	EUR	1,625	Electricity and gas transmission in Portugal
Elia Group	Belgium	EUR	7,801	Electricity transmission in Belgium and Germany
Redeia	Spain	EUR	9,491	Electricity transmission in Spain, Peru, Chile and Brazil

Source: Bloomberg, Banca Profilo

Terna

Terna is Italy's primary electricity transmission and dispatching operator, managing ~75k km of high-voltage lines with 26 foreign interconnections. Moreover, the Company is active in the following non-regulated sectors: i) production of transformers and cables, ii) concession of infrastructure usage rights, iii) EPC and O&M services for the energy sector, iv) private interconnectors. The Company's RAB was €20.4bn at the end of FY23, according to Terna's business plan is set to grow at an 8% CAGR until 2028, reaching €30.6bn. In FY23 96% of EBITDA was generated from Regulated activities, while the remainder derived from Non-Regulated activities.

In FY23 the Company reported revenue of €3.1bn (+8% yoy) and EBITDA of €2.1bn, with margin of 68.5%.

Snam

Snam owns and operates Italy's natural gas distribution network made of high-and medium-pressure pipes. The Company transports gas on behalf of importers, distributors and companies supplying Italian households. Snam has two main Bus i) Gas Infrastructure (99% of EBUTDA) primarily comprises regulated activities for transport, storage and LNG; ii) Energy Transition, which includes activities related to decarbonization projects, biomethane and energy efficiency. The Company's RAB was €22.4bn at the end of FY23, according to Snam's business plan it is set to grow at a >6% CAGR until 2027. In FY23 99% of EBITDA was generated from Regulated activities, while the remainder derived from Non-Regulated activities.

In FY23 the Company reported revenue of €4.2bn (+21% yoy) and EBITDA of €2.4bn, with margin of 56.5%.

Italgas

Italgas is an Italian gas distributor operating a 79k km network and 7.8mln delivery points (of which 0.6mln in Greece). The Company's RAB was €8.8bn at the end of FY23 (of which €0.7bn related to Greece activities), according to Italgas business plan it is set to reach €11.1bn growing at a 3.1% CAGR until 2029. In FY23 95% of EBITDA was generated from Regulated activities, while the remainder derived from Non-Regulated activities.

In FY23 the Company reported revenue of €2.5bn (+17% yoy) and EBITDA of €1.1bn, with margin of 46.9%.

Redes Energéticas Nacionais (REN)

Redes Energéticas Nacionais (REN) is an electricity and gas transmission company, operating in Portugal. The Company operates a 9,409 km electricity network and 1,375 km gas pipeline as well as the LNG Terminal and the underground storage facilities. The Company also has a 7.5% stake in a Hydroelectric plant in Mozambique and activities in Chile, international activities were ~5% of FY23 EBITDA.

In FY23 the Company reported revenue of €0.7bn (+10.8% yoy) and EBITDA of €0.5bn, with margin of 77.3%.

Elia Group Elia Group is an electricity transmission company, operating in Belgium with Elia Transmission Belgium and in Germany with 50Hertz Transmission. 50Hertz operates a 10,600km network in north and east Germany and accounts for 58% of FY23 EBITDA, while Elia Transmission has an 8,849km network in Belgium which generates 42% of EBITDA. Less than 1% of EBITDA is generated by non-regulated activities which includes offshore grid connections, underwater cable and other power consultancy services.

In FY23 the Company reported revenue of €4bn (-3% yoy) and EBITDA of €1.2bn, with margin of 32%.

Redeia Redeia is a Spanish company active in the electricity transmission in Spain, Peru, Chile and Brazil. Moreover, it is also active in telecommunications, where it operates satellite infrastructure in Spain, Portugal and Latam and leasing of a dark fibre backbone network in Spain. In FY23 83% of Revenues were from Electricity-related activities, while the remainder derived from telecommunication.

In FY23 the Company reported revenue of €2.1bn (+2% yoy) and EBITDA of €1.5bn, with margin of 71.6%.

Table 15: Peers' Key ratios

Company Name	Div. Yield	P/BV	ROE	Leverage (A/E)	Net debt/EBITDA	Net Income Margin
	12M	**2023**	**2023**	**2023**	**2023**	**2023**
Terna	4.2%	2.6	14.2%	3.7	4.9	28.4%
Italgas	6.9%	1.6	17.6%	4.7	5.5	17.1%
Snam	6.1%	2.0	14.9%	4.4	6.5	26.7%
REN	6.3%	1.1	9.9%	3.8	5.3	22.9%
Elia Group	1.9%	1.4	5.8%	3.4	6.7	8.4%
Redeia	5.7%	1.7	13.2%	2.8	3.9	32.3%
Average	**5.2%**	**1.7**	**12.6%**	**3.8**	**5.5**	**22.7%**
Median	**5.9%**	**1.7**	**13.7%**	**3.8**	**5.4**	**24.8%**
DEA (PF)	n.a.	1.0	6.7%	1.4	1.0	11.5%

Source: Bloomberg, Banca Profilo Estimates

Table 16: Peers' revenue growth and EBITDA margin

Company Name	Revenue Growth				EBITDA Margin			
	2022	**2023**	**2024E**	**2025E**	**2022**	**2023**	**2024E**	**2025E**
Terna	14%	8%	14%	4%	71%	68%	69%	69%
Italgas	4%	17%	-30%	4%	51%	47%	74%	73%
Snam	6%	21%	-5%	5%	63%	56%	68%	69%
REN	4%	11%	47%	5%	81%	77%	52%	51%
Elia Group	41%	0%	18%	17%	28%	34%	32%	34%
Redeia	7%	2%	-11%	5%	72%	72%	70%	71%
Average	**13%**	**10%**	**5%**	**6%**	**61%**	**59%**	**61%**	**61%**
Median	**6%**	**9%**	**4%**	**5%**	**67%**	**62%**	**69%**	**69%**
DEA	2%	112%	15%	15%	31%	35%	36%	36%

Source: Bloomberg, Banca Profilo Estimates

The selected panel trades at a median 2025E EV/EBITDA of 10.3x and PE of 15.5x, with a 5.4x Net Debt/EBITDA. Considerably higher leverage (3.8x) vs DEA 1.4x explains a portion of the panel's superior ROE.

Table 17: Peers' Multiples

Company Name	EV/EBITDA			PE		
	2023	2024	2025	2023	2024	2025
Terna	12.6	11.0	10.6	18.4	16.3	16.9
Italgas	9.0	8.2	8.0	9.4	8.7	8.6
Snam	13.0	11.5	11.0	13.6	12.5	12.2
REN	8.6	8.5	8.4	10.9	14.2	14.2
Elia Group	12.7	12.3	10.0	24.0	19.9	16.7
Redeia	10.1	11.7	11.1	13.8	18.9	18.1
Average	**11.0**	**10.5**	**9.8**	**15.0**	**15.1**	**14.5**
Median	**11.3**	**11.3**	**10.3**	**13.7**	**15.3**	**15.5**
DEA	7.6	6.2	5.4	19.8	15.6	12.6

Source: Bloomberg

We consider the group median EV/EBITDA 25E to value DEA, which based on our FY25E €13.9mln EBITDA leads to an EV of 143.1mln. We subtract FY24E net debt of €8.2mln and get an equity value of €134.9mln.

Target Price and rating

Equity value €111.1mln, TP €14.1/sh

We took a weighted average between the DCF (80%) and market multiples valuation (20%), to reflect a discount to multiples given lower marginality vs comparables. This gives an Equity Value of €111.1mln or €14.1/sh.

Diluted TP €14/sh

We also provide a diluted TP of €14/sh, which accounts for the effect of a stock dividend.

Rating BUY

DEA trades at a 5.4x EV/EBITDA 25E (vs median 10.3x), at 1x equity RAB (RAB - Net debt) (vs peers historical avg. 1.6x) and at 1x P/BV (vs peers 1.7x). Given the potential upside on closing price (as of 11 September, 2024) and undemanding valuation we set a BUY recommendation.

Table 18: Valuation

Mix	Equity Value	Weight
DCF	105.2	80%
Multiples	134.9	20%
Total	**111.1**	
Shares	7.9	
TP	**14.1**	
Shares post bonus share	8.0	
Diluted TP	14.0	

Source: Banca Profilo elaborations

Historical RAB Premium

We collected historical RAB from the peers group, adjusted for net debt and compared it to average market cap in the corresponding year.

Table 19: Historical premium on RAB

	[Market Cap/(RAB - Net debt)]							
	2017	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**Average**
Terna	1.4x	1.3x	1.6x	1.8x	1.8x	1.5x	1.5x	**1.6x**
Italgas	1.7x	1.7x	1.6x	1.4x	1.4x	2.1x	2.0x	**1.7x**
Snam	1.7x	1.5x	1.8x	1.9x	2.3x	1.7x	2.5x	**1.9x**
REN	1.3x	1.4x	1.9x	1.9x	1.3x	1.1x	2.0x	**1.5x**
Elia Group	0.6x	0.7x	1.2x	2.7x	1.2x	1.5x	2.4x	**1.5x**
Average	**1.3x**	**1.3x**	**1.6x**	**1.9x**	**1.6x**	**1.6x**	**2.1x**	**1.6x**

Source: Company Data, Bloomberg

A2A PoD acquisition

While we would not suggest using it as valuation methodology, we highlight a highly relevant transaction for the sector that was carried out earlier this year. In March 2024, A2A announced the acquisition from E-Distribuzione (Enel) of a 90% stake in a newly created corporate vehicle controlling ~800k PoD for €1.2bn, valuing each at ~€1.7k.

Table 20: Acquisition of ~800k PoD by A2A from E-Distribuzione

A2A transaction		
Price	€1.2bn	90%
Value	€1.4bn	100%
PoD	~800k	
Value/PoD	~€1,690	

Source: A2A, Banca Profilo elaborations

Offer structure and IPO Proceeds

IPO

Raised €8mln

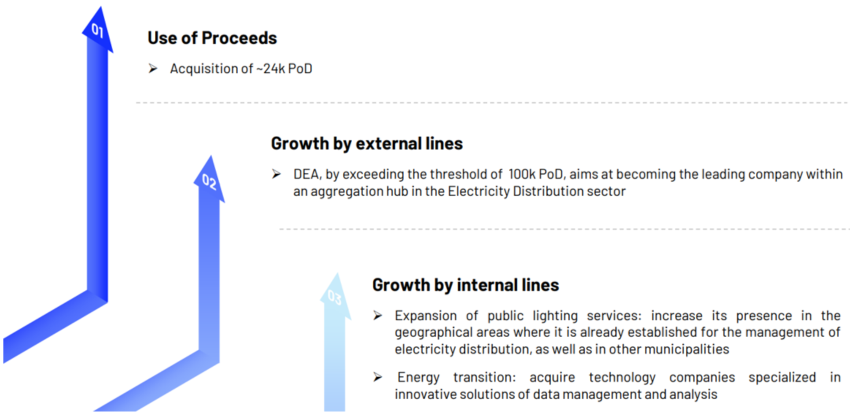
The transaction was completed in July when DEA was listed on the EGM, raising €8 million. Existing shareholders are subject to an 18-month lock-up period. The negotiated share class carries standard (1x) voting rights.

Acquisition of 24k PoD

Proceeds from the IPO will be used to:

- Acquire 24k PoD from a primary distributor (€20mln cap), exercising the option obtained from Amaie acquisition;
- Carry out further acquisitions, as after surpassing the 100k threshold DEA can become an aggregation hub for electricity distribution;
- Expand the presence of public lighting services in areas where DEA already operates as a distributor;
- Acquire technology companies specialized in innovative solutions of data management and analysis.

Figure 41: Use of proceeds



Source: Company data

Warrants

Shareholders that participated in the IPO received 1 free warrant per share, 5 warrants can be exchanged during the exercise periods for a share. Warrants were also awarded to over-allotment shares (greenshoe). Warrants can be exercised during the periods at a growing price,

As warrants have been given exclusively to new shareholders, the exercise would have a dilutive effect for former shareholders and to those not exercising the option.

Table 21: Warrants Exercise Periods

	Beginning	Ending	Price	vs IPO
First Exercise Period	02/06/2025	30/06/2025	10.4	30%
Second Exercise Period	01/06/2026	30/06/2026	11.2	40%
Third Exercise Period	01/06/2027	30/06/2027	12.0	50%

Source: Company Data

Stock dividend

Shareholders that participated in the IPO and hold DEA's shares for at least 6 months from the listing date will receive a 1 stock dividend for every 10 shares held.

Appendix

ESG

Astea publishes the sustainability report	The parent company Astea has been publishing the Sustainability Report for several years, adhering to GRI standards. Astea was awarded the '2021 Financial Statements Oscar' for small and medium-sized private companies, an initiative by Ferpi, the Italian Stock Exchange and Bocconi University. This award recognizes not just financial performance, but also transparency and stakeholder engagement in creating the annual sustainability report. Finally, during 2022 the Group was the winner of the Industria Felix Award, a recognition awarded by a coordinated scientific committee from the Luiss University of Rome
Environment	In 2022, DEA cut public lighting electricity consumption by 6% yoy through lamp replacements, reducing emissions and light pollution. Overall energy consumption at all locations also fell by 10%. Additionally, DEA implemented two storage systems to boost self-consumption and enhance voltage quality.
Social	DEA is strongly oriented to customer satisfaction, conducting regular surveys to identify improvement areas. Its supplier selection policy ensures respect for human rights, the environment and local businesses. DEA provides ongoing employee training and prioritizes worker health and safety through initiatives like the "Progetto Ergonomia" and "Play Sicurezza". It supports work-life balance with flexible schedules and renews annually its agreement with a center dedicated to employing individuals with disabilities. It collaborates with local schools and universities, welcoming students for various projects and scholarships. Finally, DEA values trade unions and strives to prevent conflicts through continuous engagement and shared decision-making.
Governance	The current Board of Directors consists of one-third members from the less represented gender. The company has implemented an organizational model and control system in line with Legislative Decree 231/2001 and is committed to establishing a governance structure that adheres to EGM best practices.

Board and top management

Paolo Angelici (Chairman of BoD)	Paolo Angelici (Chairman of the BoD) holds bachelor's degree in Law and a postgraduate Master's degree in European Union Law, both from the University of Macerata. His experiences include: • (2002-present): Lawyer at Angelici law firm; • (2011-2014): Vice President and administrator of Infinito Vita, Mutual Aid Society; • (2011-2017): Independent administrator of BCC di Recanati e Colmurano; • (2023-present): President of DEA; • Assisted in bankruptcy procedures.
Antonio Osimani (CEO)	Antonio Osimani (CEO) holds a bachelor's degree in Law from the University of Macerata. His experiences include: • (1987-present): Lawyer at Osimani law firm; • (2017-present): CEO of DEA.
Massimiliano Riderelli Belli (General Manager)	Massimiliano Riderelli Belli (General Manager) holds a degree in Mechanical Engineering from the Polytechnic University of Marche and completed an Executive Master in Management of Public Enterprises at SDA Bocconi School of Management. His experiences include: • (1995-2000): Area Manager at iGuzzini Illuminazione SpA;

- (2000-2015): Manager of the Environmental Health and Heritage Area at Astea;
- (2001-2010): Technical Director at Park.o. SpA;
- (2015-current): General Director at Astea;
- (2023-current): General Director at DEA;

Sole director of some companies of Astea.

Lucia Maceratini (CFO)

Lucia Maceratini (CFO) holds a Degree in Economics and Business Management from the Polytechnic University of Marche. Her experiences include:

- (1993-2002): Management control manager at AST-Azienda Servizi Territoriali SpA (Recanati);
- (2002-2013): Management control manager of Astea;
- (2013-2017): Head of Administration, Planning and Control Area Astea;
- (2018-current): Manager of Administration, Planning and Control Area Astea;
- (2021-current): Interim Manager of the General and Corporate Affairs Area at Astea;

Director of some companies of Astea.

Giacomo Mancini (Head of Electric Services)

Giacomo Mancini (Head of Electric Services) holds a Degree in Mechanical Engineering. His experiences include:

- (2000): Technical employee of Eusebi Impianti;
- (2000-2002): Teacher of technical subjects at professional institutes;
- (2001-2003): Technical employee at ASPEA SpA;
- (2003-2009): Head of Design Office at Astea;
- (2009-2015): Electrical Services Manager at Astea;

(2015-current): Electrical Services Manager at DEA - Electrical Distribution Adriatica SpA.

Alessandro Pelagalli (Head of commercial services of distribution)

Alessandro Pelagalli (Head of commercial services of distribution) holds a Degree in Economics and Business Management from the University of Ancona and a Master in Commercial Planning for Local Public Service Companies at Bocconi University. His experiences include:

- (1985-2002): Sales Manager at AST-Territorial Services Company SpA (Recanati);
- (2002-2015): Sales Manager at Astea;

(2015-current): Head of Commercial Distribution Services at DEA.

Eleonora Chiocchi (Independent Director)

Eleonora Chiocchi (Independent Director) holds a scientific high school diploma. Her experiences include:

- (2016-current): Debt collection specialist at Crediger Srl;
- (2023-current): Director at DEA.

Elena D’Arrigo (Independent Director)

Elena D’Arrigo (Independent Director) holds a degree in Environmental and Territorial Engineering at the University of Florence. Her experiences include:

- (2004-2012): Senior Manager at AREA group;
- (2012-2016): Partner and Associate at AGENIA Srl;
- (2016-2020): Manager of technical and commercial services of the Water Service Integrated at IRETI SpA (Iren group);
- (2020-current): Head of Business Development and Rates Management at IRETI SpA (Iren group);
- (2023-current): Director at DEA;

Director at some companies of the IREN group.

Gennaro Zecca (Director)

Gennaro Zecca (Director) holds a degree in Nautical Disciplines from the Naval University Institute of Naples. His experiences include:

- (1992-current): Sole Director and General Manager at Odoardo Zecca Srl (electricity production and distribution);
- (2006-2013): President of Tamarete Energia Srl (power plant management) ;
- (2010-current): CEO at Neveroil Srl (renewable fields);
- (2013-current): President and CEO of Zecca 1905 Immobilia Srl (real estate company);
- (2015-2018): Administrator at ASPM Soresina Energia (energy sales);
- (2019-current): President of Zelo Srl (sale of energy on the free market);
- (2015-2019): President of Confindustria Chieti Pescara and member of the General Council of Confindustria Nazionale;
- (2020-current): Councillor at the Pescara branch of the Bank of Italy;
- Member of the Board of Directors of the Hubruzzo Foundation.

Matteo Andracco (Director)

Matteo Andracco (Director) holds a degree in Law from the University of Genova. His experiences include:

- (2014-current): Lawyer;
- Vice president of Amaie BoD, from 2023 Chairman of the BoD and CEO,

Alessandro Morini (Director)

Alessandro Morini (Director) holds a degree in Law. His experiences include:

- Lecturer at the University of Genova and since 1991, at the University of Bergamo as a researcher and associate professor of commercial law
- Member of the commercial law professors' associations “Orizzonti del Diritto Commerciale” and “Associazione Disiano Preite”;
- Member of the editorial board of the journal “Il Diritto Marittimo”;
- Lawyer registered with the Genova Bar Association;
- Arbitrator at the Milan Chamber of Arbitration.

Damiano Corsalini

Damiano Corsalini (Director) holds a degree in Law. His experiences include:

- (2018-current): Lawyer registered with the Macerata Bar Association;

Micaela Cristina Capelli

Micaela Cristina Capelli (Director) holds a degree in Business and Law from Bocconi University. Her experiences include:

- (2000-2002): Equity market listing at Borsa Italiana
- (2003-2012): Investment banking at Centrobanca
- (2013-2016): Manager of capital markets and private & corporate banking units at UBIBanca;
- (2016-2017): Director capital markets and corporate & real estate advisor at Banca Esperia;
- (2017-2020): Equity partner at iStarter;
- (2018-current): Board member and investor relations at Growens.

Other

Table 22: Main distributors of electricity in Italy

Company Name	Distribution Activity	Group	Area	Network (km)	PoD (k)	PoD (%)
E-Distribuzione	Electricity	Enel	Italy	1,165,131	31,545	85%
ARETI	Electricity	Acea	Roma	31,768	1,655	4%
Unareti	Electricity, gas	A2A	Milano, Brescia	14,328	1,163	3%
IRETI	Electricity, gas, water	Iren	Torino, Parma, Vercelli	7,872	701	2%
Set Distribuzione	Electricity	Dolomiti Energia	Trento	12,000	337	1%
Inrete Distribuzione Energia	Electricity, gas	Hera	Modena, Imola	10,570	264	1%
V Reti	Electricity, gas	AGSM AIM	Vicenza, Verona	4,450	244	1%
Edyna	Electricity, gas	-	Bolzano	9,129	238	1%
AcegasApsAmga	Electricity, gas, water	Hera	Trieste, Gorizia	2,314	164	0%
Deval	Electricity	-	Val D'Aosta	4,271	130	0%
DEA	Electricity	Astea	Marche, Abruzzo, Liguria	2,799	85	0%
ASM Terni	Multiutility	Acea	Terni	n.a.	65	0%
Reti Valtelling Valchiavenna	Electricity, gas	ACinque	Sondrio	579	26	0%
RetiPiù	Electricity, gas	A2A	Seregno	240	26	0%
LD Reti	Electricity, gas	A2A	Cremona	1,015	n.a.	n.a.
Camuna Energia	Electricity	A2A	Brescia	19	n.a.	n.a.
Others					423	1%
Total				**1,266,485**	**37,066**	

Source: Company Data based on ARERA

DEA

Recommendation	Target Price	Upside
BUY	**14.1 €**	**75%**

Overview

Electricity distribution is the final phase of the supply chain (energy generation, transmission and distribution). Companies in the sector manage, operate, maintain and develop networks in medium and low voltage under concession agreements. Created in 2015, DEA is an Italian infrastructural operator of electricity distribution headquartered in Osimo (AN). After completing 4 deals in 2023 and 1 in 2024 it currently operates 90k PoD (vs 33k PoD in 2022) across 4 regions where it acts as a natural monopolist. Distribution revenues are output based and determined on tariffs set by the regulator ARERA, therefore non-cyclical and protected against inflation, ensuring stability and limited downside risk. Moreover, distribution services contract have limited credit risk and in case of defaults losses are compensated by CSEA, subjected to ARERA's supervision. In addition, DEA operates in the non-regulated public lighting sector, across 15 municipalities in 3 regions. This business is also carried out under concession agreements.

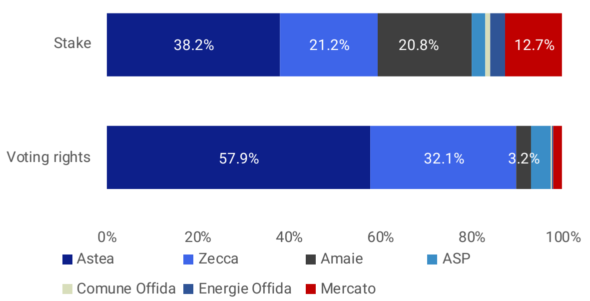
Main Financials

(€,mln)	**2022**	**2023PF**	**2024E**	**2025E**	**2026E**
Revenues	12.6	25.7	30.8	35.1	36.0
Other revenues	1.3	3.5	2.8	3.6	3.6
Total revenues (VoP)	**13.8**	**29.3**	**33.6**	**38.7**	**39.6**
yoy (%)	*2.4%*	*111.7%*	*14.7%*	*15.4%*	*2.2%*
EBITDA	**4.3**	**10.2**	**12.2**	**13.9**	**14.3**
margin (%)	*31.3%*	*34.8%*	*36.3%*	*35.8%*	*36.2%*
EBIT	**1.6**	**5.0**	**6.8**	**8.3**	**8.8**
margin (%)	*11.7%*	*17.2%*	*20.2%*	*21.5%*	*22.2%*
Net profit	**1.0**	**3.4**	**4.3**	**5.4**	**6.0**
margin (%)	*7.5%*	*11.6%*	*12.9%*	*14.0%*	*15.1%*
Net debt (cash)	**8.3**	**10.4**	**8.2**	**5.6**	**1.7**
Equity	34.0	67.2	79.7	84.4	89.7
Operating NWC	0.8	3.3	6.9	7.5	7.8
Capex adj.	(2.0)	(4.0)	(12.4)	(8.9)	(6.7)
Free Cash Flow			(3.0)	3.8	4.8

Company Description

Company Sector	Electric Utilities
Price (€)	8.1
Number of shares (mln)	7.9
Market Cap (€ mln)	63.6
Reference Index	FTSE Italia Growth
Main Shareholders	Astea, Odoardo Zecca, Amaie
Free Float	12.7%
Daily Average Volumes (30D)	2,260
Sample of comparables	Terna, Italgas, Snam, Elia Group, REN, Redeia

Main shareholders



Revenues Breakdown

	2022	**2023PF**	**2024E**	**2025E**	**2026E**
Distribution	9.4	21.6	26.9	29.2	29.9
on sales (%)	*74.6%*	*84.0%*	*87.3%*	*83.0%*	*83.0%*
Public Lighting	2.3	3.2	2.9	4.3	4.4
on sales (%)	*17.9%*	*12.3%*	*9.6%*	*12.2%*	*12.2%*
Other	0.9	0.9	1.0	1.7	1.7
on sales (%)	*7.5%*	*3.6%*	*3.1%*	*4.8%*	*4.8%*

Key Ratios

	2022	**2023PF**	**2024E**	**2025E**	**2026E**
ROE	*3.1%*	*6.7%*	*5.9%*	*6.6%*	*6.9%*
ROA	*2.1%*	*4.7%*	*4.1%*	*4.6%*	*4.9%*
Leverage	1.5	1.4	1.4	1.4	1.4
DSO (Days)	*52*	*80*	*143*	*128*	*128*
DPO (Days)	*116*	*114*	*207*	*174*	*174*
Capex/sales	*15.7%*	*15.6%*	*45.4%*	*25.4%*	*18.7%*
Net Debt/EBITDA	1.9x	1.0x	0.7x	0.4x	0.1x
Interest Coverage Ratio	9.9x	18.4x	9.8x	11.5x	23.1x

Multiples

	2023	**2024E**	**2025E**
EV/EBITDA	7.6x	6.2x	5.4x
PE	19.8x	15.6x	12.6x
P / BV	1.0x		

Peers Data

	2022	**2023**	**2024E**	**2025E**
Sales Growth (yoy)	*12.8%*	*9.8%*	*5.3%*	*6.4%*
EBITDA Margin	*61.2%*	*59.1%*	*61.1%*	*61.2%*
Net Income Margin	*21.2%*	*22.7%*	*22.1%*	*21.4%*
EV / EBITDA		11.3	11.3	10.3
PE		13.7	15.3	15.5
P / BV		1.7x		

Source: Bloomberg, Banca Profilo estimates and elaborations

Strengths

Regulated non-cyclical business
Economies of scale with lighting business
Low debt levels
Generous dividend policy
High marginality

Weaknesses

Multiple voting shareholder class (10 to 1)
Inferior ROE
Capital intensive

Opportunities

Option to acquire 24k PoD with a price cap
Acquisition pipeline of 36k PoD
Sector consolidation
Expansion of lighting in new municipalities
IoT / Data Management

Threats

Limited visibility on 2030 tender process
Emergence of other PoD aggregators or competition from large multi-uti

Disclaimer

ANALYST'S AND BANK'S INFORMATION

THIS DOCUMENT CONCERNING DEA, (THE "ISSUER" OR THE "COMPANY") HAS BEEN DRAFTED BY FRANCESCA SABATINI WHO IS EMPLOYED BY BANCA PROFILO SPA ("THE BANK") AS FINANCIAL ANALYST; FRANCESCA SABATINI IS RESPONSIBLE FOR THE DRAFTING OF THE DOCUMENT.

BANCA PROFILO SPA IS A BANK AUTHORISED TO PERFORM BANKING AND INVESTMENT SERVICES; IT IS PART OF BANCA PROFILO BANKING GROUP (THE "GROUP") AND IT IS SUBJECT TO THE MANAGEMENT AND CO-ORDINATION OF AREPO BP SPA (THE "PARENT COMPANY"). SATOR PRIVATE EQUITY FUND "A" LP (THE "PARENT ENTITY") HOLDS INDIRECT CONTROL PARTICIPATION INTERESTS IN BANCA PROFILO.

THE BANK IS REGISTERED WITH THE ITALIAN BANKING ASSOCIATION CODE NO. 3025 AND IS SUBJECT TO THE REGULATION AND SURVEILLANCE OF THE BANK OF ITALY AND OF CONSOB (COMMISSIONE NAZIONALE PER LE SOCIETÀ E LE BORSA). THE BANK HAS PREPARED THIS DOCUMENT FOR ITS PROFESSIONAL CLIENTS ONLY, PURSUANT TO DIRECTIVE 2004/39/EC AND ANNEX 3 OF THE CONSOB REGULATION ON INTERMEDIARIES (RESOLUTION N. 16190). THIS DOCUMENT IS BEING DISTRIBUTED AS OF [September 12, 09:00].

THE ANALYST FRANCESCA SABATINI WHO HAS DRAFTED THIS DOCUMENT HAS SIGNIFICANT EXPERIENCE IN BANCA PROFILO SPA AND OTHER INVESTMENT COMPANIES. THE ANALYST AND ITS RELATIVES DO NOT OWN FINANCIAL INSTRUMENTS ISSUED BY THE ISSUER AND SHE DOES NOT ACT AS SENIOR MANAGER, DIRECTOR OR ADVISOR FOR THE ISSUER. THE ANALYST DOES NOT RECEIVE BONUSES, INCOME OR ANY OTHER REMUNERATION CORRELATING, DIRECTLY OR INDIRECTLY, TO THE SUCCESS OF THE INVESTMENT BANKING OPERATIONS OF BANCA PROFILO SPA

A REDACTED VERSION OF THIS REPORT HAS BEEN DISCLOSED TO THE ISSUER TO PERMIT TO IT TO REVIEW AND COMMENT ON FACTUAL INFORMATION RELATING TO THE ISSUER AND THIS REPORT HAS BEEN AMENDED FOLLOWING SUCH DISCLOSURE PRIOR TO ITS FINAL DISSEMINATION.

THIS DOCUMENT IS BASED UPON INFORMATION THAT WE CONSIDER RELIABLE, BUT THE BANK HAS NOT INDEPENDENTLY VERIFIED THE CONTENTS HEREOF. THE OPINIONS, ESTIMATES AND PROJECTIONS EXPRESSED IN IT ARE AS OF THE DATE HEREOF AND ARE SUBJECT TO CHANGE WITHOUT NOTICE TO THE RECIPIENT. PAST PERFOMANCE IS NOT GUARANTEE OF FUTURE RESULTS.

THIS REPORT HAS BEEN PREPARED BY ITS AUTHORS INDEPENDENTLY OF THE COMPANY AND ITS SHAREHOLDERS, SUBSIDIARIES AND AFFILIATES. THE BANK HAS NO AUTHORITY WHATSOEVER TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATION OR WARRANTY ON BEHALF OF THE COMPANY, ANY OTHER PERSON IN CONNECTION THEREWITH. IN PARTICULAR, THE OPINIONS, ESTIMATES AND PROJECTIONS EXPRESSED IN IT ARE ENTIRELY THOSE OF THE AUTHOR HEREOF.

NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE AS TO AND NO RELIANCE SHOULD BE PLACED ON THE FAIRNESS, ACCURACY, COMPLETENESS OR REASONABLENESS OF THE INFORMATION, OPINIONS AND PROJECTIONS CONTAINED IN THIS DOCUMENT, AND NONE OF THE BANK, THE COMPANY, NOR ANY OTHER PERSON ACCEPTS ANY LIABILITY WHATSOEVER FOR ANY LOSS HOWSOEVER ARISING FROM ANY USE OF THIS DOCUMENT OR ITS CONTENTS OR OTHERWISE ARISING IN CONNECTION THEREWITH.

NO DUPLICATION

NO PART OF THE CONTENT OF THE DOCUMENT MAY BE COPIED, FORWARDED OR DUPLICATED IN ANY FORM OR BY ANY MEANS WITHOUT THE PRIOR CONSENT OF THE BANK. BY ACCEPTING THIS REPORT, YOU AGREE TO BE BOUND BY THE FOREGOING LIMITATIONS.

NO OFFER OR SOLICITAION

THIS DOCUMENT DOES NOT CONSTITUTE AN OFFER OR INVITATION OR FORM PART OF AN OFFER, SOLICITATION OR INVITATION TO PURCHASE ANY SECURITIES, AND NEITHER THIS DOCUMENT NOR ANYTHING CONTAINED HEREIN SHALL FORM THE BASIS OF ANY CONTRACT OR COMMITMENT WHATSOEVER.

RECIPIENTS

THIS DOCUMENT IS GIVEN TO YOU SOLELY FOR YOUR INFORMATION ON A CONFIDENTIAL BASIS AND MAY NOT BE REPRODUCED OR REDISTRIBUTED, IN WHOLE OR IN PART, TO ANY OTHER PERSON. IN PARTICULAR, NEITHER THIS DOCUMENT NOR ANY COPY HEREOF MAY BE TAKEN OR TRANSMITTED IN OR INTO THE UNITED STATES (THE "U.S."), AUSTRALIA, CANADA OR JAPAN OR REDISTRIBUTED, DIRECTLY OR INDIRECTLY, IN THE U.S., AUSTRALIA, CANADA OR JAPAN. ANY FAILURE TO COMPLY WITH THIS RESTRICTION MAY CONSTITUTE A VIOLATION OF U.S., AUSTRALIAN, CANADIAN OR JAPANESE SECURITIES LAWS.

THIS DOCUMENT IS BEING DISTRIBUTED ONLY TO, AND IS DIRECTED ONLY AT, PERSONS WHO 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. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS COMMUNICATION RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS.

IN CASE THAT THIS DOCUMENT IS DISTRIBUTED IN ITALY IT SHALL BE DIRECTED ONLY AT QUALIFIED INVESTORS WITHIN THE MEANING OF ARTICLE 100(1) (A) OF LEGISLATIVE DECREE NO. 58 OF FEBRUARY 24, 1998, AS AMENDED, AND ARTICLE 34-TER, PARA. 1, LETT B), OF CONSOB REGULATION NO. 11971 OF 1999, AS AMENDED. THIS DOCUMENT IS NOT ADDRESSED TO ANY MEMBER OF THE GENERAL PUBLIC IN ITALY. IN NO CIRCUMSTANCES SHOULD THIS DOCUMENT CIRCULATE AMONG OR BE DISTRIBUTED TO (I) A MEMBER OF THE GENERAL PUBLIC, (II) INDIVIDUALS OR ENTITIES FALLING OUTSIDE THE DEFINITION OF "QUALIFIED INVESTORS" AS SPECIFIED ABOVE OR (III) TO DISTRIBUTION CHANNELS THROUGH WHICH INFORMATION IS OR IS LIKELY TO BECOME AVAILABLE TO A LARGE NUMBER OF PERSONS.

THE DISTRIBUTION OF THIS DOCUMENT IN OTHER JURISDICTIONS MAY BE RESTRICTED BY LAW AND PERSONS INTO WHOSE POSSESSION THIS DOCUMENT COMES SHOULD INFORM THEMSELVES ABOUT, AND OBSERVE, ANY SUCH RESTRICTION. ANY FAILURE TO COMPLY WITH THESE RESTRICTIONS MAY CONSTITUTE A VIOLATION OF THE LAWS OF ANY SUCH OTHER JURISDICTION.

CONFLICTS OF INTEREST

THE BANK MAY, FROM TIME TO TIME, DEAL IN, HOLD OR ACT AS MARKET MAKER OR ADVISER, BROKER OR BANKER IN RELATION TO THE FINANCIAL INSTRUMENTS, OR DERIVATIVES THEREOF, OF PERSONS, FIRMS OR ENTITIES MENTIONED IN THIS DOCUMENT, OR BE REPRESENTED IN THE GOVERNING BODIES OF THE COMPANY. IN FACT, THE BANK HAS BEEN GLOBAL COORDINATOR IN THE IPO PROCESS, IT IS PRESENTLY EGA AND CORPORATE BROKER.

BANCA PROFILO SPA HAS ADOPTED INTERNAL PROCEDURES FOR THE PREVENTION AND AVOIDANCE OF CONFLICTS OF INTEREST WITH RESPECT TO THE RECOMMENDATIONS, WHICH CAN BE CONSULTED ON THE RELEVANT SECTION OF ITS WEBSITE (WWW.BANCAPROFILO.IT, IN THE SECTION "CLIENTI AZIENDALI E ISTITUZIONALI/ANALISI E RICERCA).

EQUITY RESEARCH PUBLICATIONS IN LAST 12M

THE BANK PUBLISHES ON ITS WEBSITE WWW.BANCAPROFILO.IT, ON A QUARTERLY BASIS, THE PROPORTION OF ALL RECOMMENDATIONS THAT ARE 'BUY', 'HOLD', 'SELL' OR EQUIVALENT TERMS OVER THE PREVIOUS 12 MONTHS, AND THE PROPORTION OF ISSUERS CORRESPONDING TO EACH OF THOSE CATEGORIES TO WHICH SUCH PERSON HAS SUPPLIED MATERIAL SERVICES OF INVESTMENT FIRMS SET OUT IN SECTIONS A AND B OF ANNEX I TO DIRECTIVE 2014/65/EU OVER THE PREVIOUS 12 MONTHS.

ADDITIONAL INFORMATION

THE BANK PROVIDES ALL OTHER ADDITIONAL INFORMATION, ACCORDING TO ARTICLE 114, PARAGRAPH 8 OF LEGISLATIVE DECREE 58/98 ("FINANCIAL DECREE") AND COMMISSION DELEGATED REGULATION (EU) 2016/958 AS OF 9 MARCH 2016 (THE "COMMISSION REGULATION") ON THE RELEVANT SECTION OF ITS WEBSITE (WWW.BANCAPROFILO.IT, IN THE SECTION "CLIENTI AZIENDALI E ISTITUZIONALI/ANALISI E RICERCA").