

Officina Stellare

Sector: Technology



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Talent is (the new) king

Officina Stellare designs, engineers and manufactures a wide range of opto-mechanic equipment (from “simple” telescopes to highly complex optical systems) to be utilized for various applications in aerospace, defense and scientific research end markets.

FY22: Raw Materials and Skill Shortage affecting margins

Despite the outstanding top line growth (VoP at €13mn, Revenues +78% y/y), EBITDA (€3.3mn, -8% y/y) suffered from a steep increase in production costs and from the skill shortage that made the Group rely on external advisory services. Net Debt amounted to €6.4mn vs. €7.5mn of FY21, with ca. €4.9mn Capex offset by the cash-in of warrant (ca. €3.0mn).

Pipeline, Positioning and Reputation are escalating

As of 1Q23, OS commercial pipeline totalled €156.4mn, of which €31mn backlog and €125.4mn under negotiations. OS is now (i) a renowned contractor in the most ambitious NRRP aerospace programs, (ii) became a certified supplier of the US Army and (iii) is receiving more and more orders of higher average value, highlighting best-in-class R&D, engineering, production and managerial competences, alongside industry leaders.

Financial Forecasts postponed by ca. one year

Management is demonstrating to be able to catch many market opportunities arising from the Space Economy, and recent commercial developments outline a reliable multiannual plan of constant growth at a strong pace. However, the skill shortage that is affecting the industry should take a toll on OS development plan in the short-term, and we expect the company to tackle this problem in the next future, either organically or via M&A driven solutions.

Based on the current consolidation perimeter, we now expect:

- ◆ VoP at €40.7mn in 2025E, growing at 46% CAGR22A-25E;
- ◆ EBITDA at €11.5mn (EBITDA Margin close to 30%) in 2025E;
- ◆ OpFCF at 72% of EBITDA in 2025E (low NWC and steady Capex);
- ◆ Net Cash at €3.0mn in 2025E, from Net Debt of €6.4mn in 2022A.

Fair Value at €15.80 p/s (€15.70 Fully Diluted)

We update our fair value at €15.8 (€15.7 f.d.) down from €18.3 p/s (€17.6 f.d.) on the back of lower short-term financial forecasts. We believe that OS potential in the long run (incl. new strategic contracts, higher contribution by Think Quantum and Dynamic Optics, partnerships and possible M&A accretion) is an optionality that comes for free at our FV.

Market Price (€) 10.80

Fair Value p/s (€) 15.80

Fully Diluted Fair Value p/s (€) 15.70

KEY FINANCIALS (€m)	2022A	2023E	2024E
VALUE OF PRODUCTION	13.0	20.0	29.7
EBITDA	3.2	5.6	8.4
EBIT	0.8	2.4	4.9
NET PROFIT	0.5	1.9	3.6
EQUITY	14.1	16.1	19.7
NET FIN. POS.	-6.4	-5.0	-2.8
EPS ADJ. (€)	0.08	0.32	0.60
DPS (€)	0.00	0.00	0.00

Source: Officina Stellare (historical figures), Value Track (2023E-24E estimates)

RATIOS & MULTIPLES	2022A	2023E	2024E
EBITDA MARGIN (%)	24.3	28.0	28.2
EBIT MARGIN (%)	6.0	11.8	16.4
NET DEBT / EBITDA (x)	2.0	0.9	0.3
NET DEBT / EQUITY (x)	0.5	0.3	0.1
EV/SALES (x)	5.5	3.5	2.3
EV/EBITDA (x)	22.6	12.6	8.2
EV/EBIT (x)	91.5	29.9	14.0
P/E ADJ. (x)	nm	34.0	18.1

Source: Officina Stellare (historical figures), Value Track (2023E-24E estimates)

STOCK DATA

FAIR VALUE (€)	15.80 – 15.70 (*)
MARKET PRICE (€)	10.80
SHS. OUT. (m)	6.0
MARKET CAP. (€m)	65.3
FREE FLOAT (%)	22.6
AVG. -20D VOL. (#)	1,838
RIC / BBG	OS.MI / OS.IM
52 WK RANGE (€)	10.40 – 15.25

Source: Stock Market Data, (*) Fully Diluted

EQUITY RESEARCH PRODUCED ON BEHALF OF MIT SIM ACTING AS SPECIALIST ON OFFICINA STELLARE SHARES

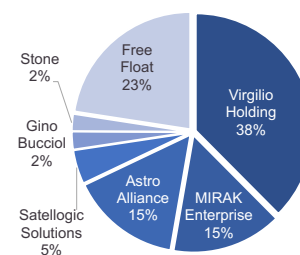


Business Description

Officina Stellare designs, engineers and manufactures a wide range of standard and complete turn-key “custom” opto-mechanic equipment to be utilized in various applications of aerospace, defense and scientific research end-markets.

In the coming years, we expect Officina Stellare to profit from the huge market opportunity represented by the so-called “New Space Economy” industry, the ecosystem represented by activities related to the merge between space and digital technologies, with most promising applications being Earth Observation, Laser Communication and Space Domain Awareness, Tracking & Ranging.

Shareholders Structure



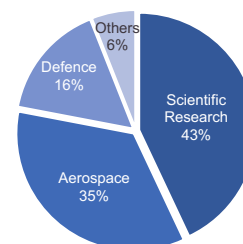
Source: Officina Stellare

Key Financials

€mn	2022A	2023E	2024E	2025E
Value of Production	13.0	20.0	29.7	40.7
Chg. % YoY	37.1%	53.3%	48.3%	37.3%
EBITDA	3.2	5.6	8.4	11.5
EBITDA Margin (% of VoP)	24.3%	28.0%	28.2%	28.2%
EBIT	0.8	2.4	4.9	7.8
EBIT Margin (% of VoP)	6.0%	11.8%	16.4%	19.2%
Net Profit	0.5	1.9	3.6	5.4
Chg. % YoY	-62.7%	nm	88.3%	50.2%
Adjusted Net Profit	0.5	1.9	3.6	5.4
Chg. % YoY	-62.8%	nm	88.3%	50.2%
Net Fin. Position	-6.4	-5.0	-2.8	3.0
Net Fin. Pos. / EBITDA (x)	2.0	0.9	0.3	nm
Capex	-4.9	-2.8	-2.6	-3.1
OpFCF b.t.	-1.9	1.9	3.4	8.2
OpFCF b.t. as % of EBITDA	-58.7%	33.1%	41.1%	71.5%

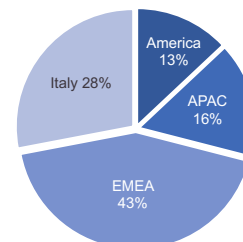
Source: Officina Stellare (historical figures), Value Track (estimates)

Revenues by End-Market



Source: Officina Stellare, FY22

Revenues by Geography



Source: Officina Stellare, FY22

Investment case

Strengths / Opportunities

- ◆ Exposure to the most promising applications of the New Space Economy;
- ◆ Scalable business model with best-in-class profitability;
- ◆ First Italian Space Factory securing end-to-end in-house value chain;
- ◆ High barriers to entry, no pure telescopes manufacture competitors.

Weaknesses / Risks

- ◆ Small size vs. more mature players of Aerospace and deep pocket SPACs;
- ◆ Capital intensive and talent intensive business, high Capex requirements need of skilled engineers to execute job orders in the Space Economy.

Stock multiples @ €15.80 Fair Value

	2023E	2024E
EV / SALES (x)	5.0	3.3
EV / EBITDA (x)	18.0	11.8
EV / EBIT (x)	42.8	20.2
EV / CAP.EMP. (x)	4.8	4.4
OpFCF Yield (%)	1.8	3.5
P / E (x)	49.8	26.5
P / BV (x)	6.1	5.0
Div. Yield. (%)	0.0	0.0

Source: Value Track

FY22 Financials

Akin to 1H22 results, OS FY22 financials mark a temporary break on EBITDA growth pace, burdened by a steep increase of production costs throughout the whole year and by the skill shortage that made the Group rely on external services. On the other hand, the outstanding top line growth, ever increasing orders intakes and backlog magnitude are strong signs of business development.

Key Figures & Messages

About FY22 financials, we believe worth to highlight:

- ◆ **Value of Production at €13.0mn**, +37% y/y;
- ◆ **EBITDA at €3.3mn**, -8% y/y affected by a sharp rise in raw materials and costs of services;
- ◆ **Capex at €4.9mn**, with ca. €2.0mn anticipated in FY22 to take advantage of new tax credits;
- ◆ **Net Debt at €6.4mn**, ca. €0.9mn cash generation vs. FY21, after the cash-in of some warrants.

Officina Stellare: Key Financials FY19-FY22

(IT GAAP, €mn)	FY19	FY20	FY21	FY22	y/y
Value of Production	7.9	7.4	9.5	13.0	37%
EBITDA	2.9	1.7	3.5	3.2	-8%
<i>EBITDA Margin (%)</i>	36.5%	23.5%	36.3%	24.3%	-12ppt
Capex	-3.3	-3.4	-3.6	-4.9	nm
Net Financial Position	0.2	-5.6	-7.5	-6.4	nm

Source: Officina Stellare

Key messages of 1H22 were confirmed by FY22 results, i.e.:

1. **Solid Revenues growth;**
2. **Rise of raw materials and services costs** implying operating margins reduction;
3. **Significant Capex deployment** counterbalanced by warrant conversion and NWC.

Revenues from Sales up y/y by all-time high 78% growth rate

OS reported FY22 **Value of Production at €13.0mn (+37% y/y)** broken down as follows:

- ◆ Revenues from Sales at €8.0mn vs. €4.5mn in FY21 (+78% y/y);
- ◆ WIP at €2.7mn vs. €2.5mn in FY21, stepping down from ca. 25% to 20% of VoP;
- ◆ Internally Generated Fixed Assets at €1.8mn vs. €1.7mn in FY21;
- ◆ Other components at €0.5mn, a bit down y/y vs. FY21 (€0.8mn);

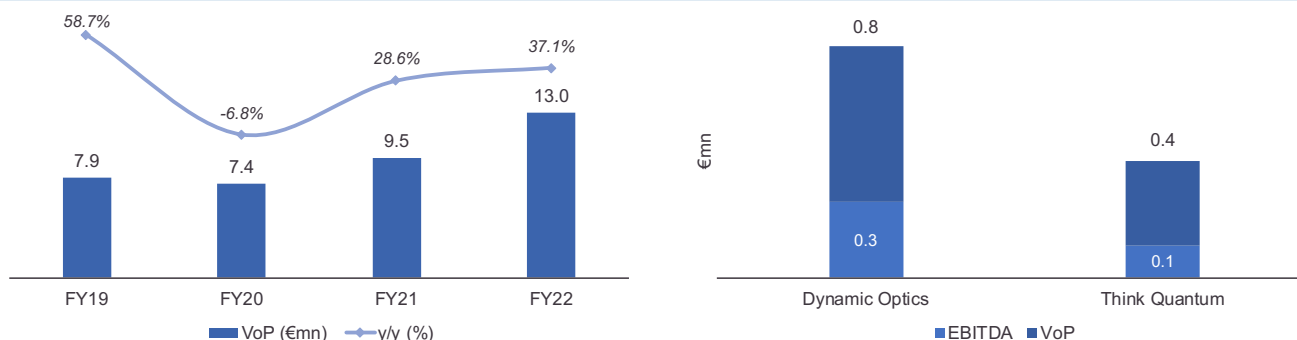
Officina Stellare: P&L FY19-FY22

(IT GAAP, €mn)	FY19	FY20	FY21	FY22	y/y
Revenues from Sales	3.8	5.7	4.5	8.0	78%
Δ Work In Progress	3.0	-0.1	2.5	2.7	8%
Δ Inventory (Finished Goods)	0.1	0.2	0.1	-0.1	nm
Δ Fixed Assets	0.7	1.0	1.7	1.8	4%
Other Revenues	0.3	0.6	0.7	0.6	-10%
Value of Production	7.9	7.4	9.5	13.0	37%

Source: Officina Stellare

OS Top Line benefitted from (i) the expansion of the Group production capacity and (ii) investments in manufacturing assets, supported by (iii) substantial orders intakes and backlog. In addition, FY22 was the first period with full-year contribution from OS subsidiaries, (iv) **Dynamic Optics** and **Think Quantum**, recording ca. €0.8mn and €0.4mn VoP and expanding the Group business lines towards Laser Communication and Cybersecurity.

Officina Stellare: Group Value of Production FY19-FY22 and Subsidiaries Key Financials FY22



Source: Officina Stellare, Value Track Analysis

The outstanding Revenues expansion was driven by the delivery of projects mainly related to **Scientific Research** (43% of FY22 Revenues from Sales vs. 53% in FY21) and **Aerospace** (35% vs. 33%), followed by **Defence** (16% vs. 11%) and other end-markets. In terms of geographic locations, the majority of sales were generated from **EMEA** (43% vs. 17% in FY21) and **Italian** clients (28% vs. 5%), followed by **APAC** (16% vs. 28%) and **America** (13% vs. 50%).

Officina Stellare: Revenues from Sales by End-Market and Geography



Source: Officina Stellare, Value Track Analysis

EBITDA Margin down to 24%, affected by Raw Materials and Skill Shortage

From FY21 to FY22, EBITDA decreased to €3.2mn (-8% y/y), suffering from the substantial rise of production costs, and in particular of:

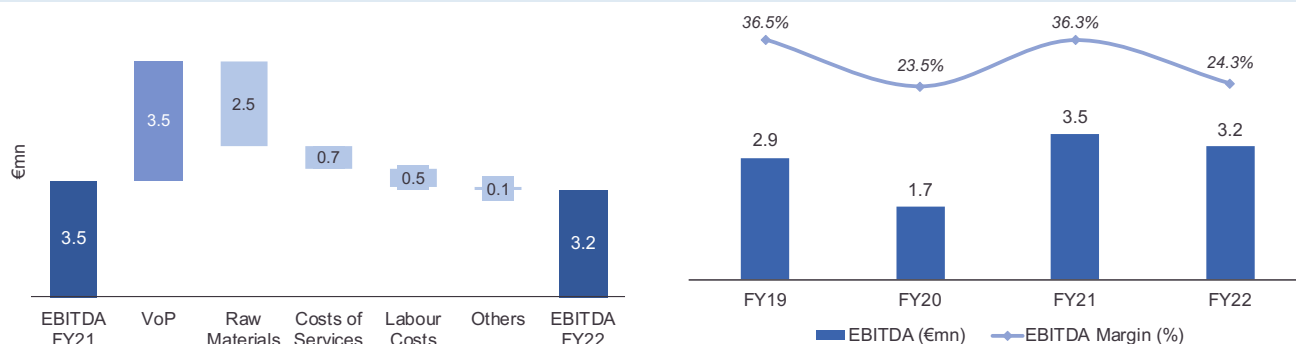
- ◆ **Raw Materials** doubling their incidence on VoP from 16% in FY21 to 32% in FY22 given inflationary pressures on alloys, compound and optical glasses;
- ◆ **Costs of Services** higher-than-expected due to much higher prices of energy sources (only partially offset by internal PV production) and the enormous difficulty of recruiting specialized personnel, requiring the support of the most expensive external engineering (“skill shortage”);

- ◆ **Labour Costs:** despite the skill shortage, the Group continued investments in human capital with the recruitment of highly qualified personnel in order to enhance and maximize internal engineering activities, high value-added.

It should also be noted that during 2022 OS Space Factory did not run at full productivity potential as the more complex machines needed indispensable start-up times that inevitably reduced efficiency.

On the positive, Dynamic Optics and Think Quantum reported very strong EBITDA Margin figures, at 38% and 28% thanks to their scalability in the most appealing sectors of the Space Economy.

Officina Stellare: EBITDA bridge FY21-FY22 and EBITDA evolution FY19-FY22



Source: Officina Stellare, Value Track Analysis

After ca. €2.4mn D&A (ca. €400k higher than FY21 after considerable investments especially in 2H22), **EBIT** stood at **€0.8mn**, with EBIT Margin at 6.0% vs. 15.8% of FY21.

Net Financial Charges (including FX loss and financial assets write-downs) totalled ca. €0.2mn, while P&L Minorities (related to Dynamic Optics and Think Quantum) amounted to ca. €125k. After ca. €0.3mn of fiscal benefits in 2H22, OS FY22 **Net Profit** was ca. **€0.5mn**.

Officina Stellare: P&L FY19-FY22

(IT GAAP, €mn)	FY19	FY20	FY21	FY22	y/y
Value of Production	7.9	7.4	9.5	13.0	37%
Raw Materials	-2.0	-1.8	-1.5	-4.0	165%
Costs of Services	-1.1	-1.8	-1.7	-2.4	40%
Costs of Rent	-0.1	-0.1	-0.1	-0.1	12%
G&A	-0.2	-0.1	-0.2	-0.2	38%
Labour Costs	-1.6	-1.8	-2.5	-3.1	21%
EBITDA	2.9	1.7	3.5	3.2	-8%
EBITDA Margin (%)	36.5%	23.5%	36.3%	24.3%	-12ppt
D&A	-1.0	-1.5	-2.0	-2.4	22%
EBIT	1.9	0.3	1.5	0.8	-48%
EBIT Margin (%)	24.1%	3.4%	15.8%	6.0%	-9.8ppt
Net Financial Charges	-0.1	-0.1	0.0	-0.2	nm
Taxes	-0.4	0.2	-0.2	0.0	-111%
Minorities	0.0	0.0	0.0	-0.1	226%
Net Profit	1.4	0.3	1.3	0.5	-63%

Source: Officina Stellare

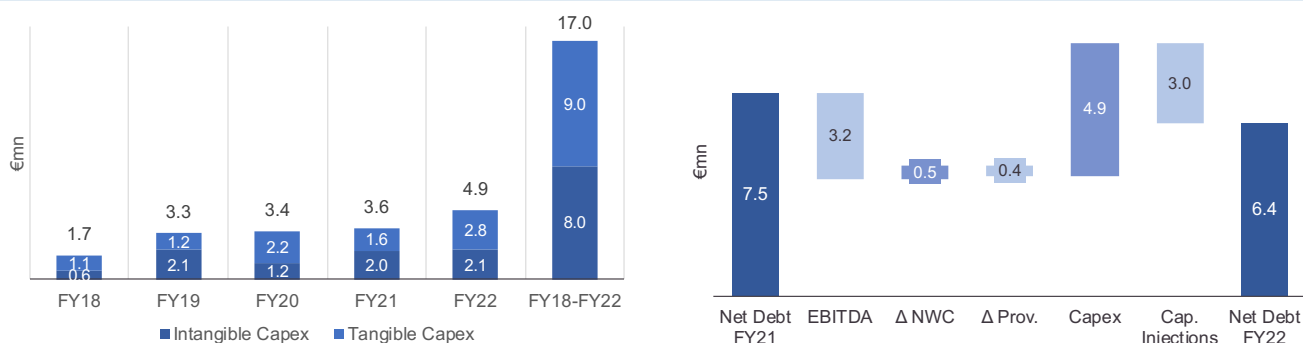
Space Economy requiring more and more Capex

Over FY22 Officina Stellare completed the Space Factory and deployed a further investment plan (ca. €2mn) to secure additional engineering (recruiting process) and productive capacity, and significant tax credits (close to €1.6mn). Total **Capex** for **€4.9mn** should provide the necessary equipment (e.g., a new white room ISO 6 and the largest advanced metrology instrument in the world) to cope with the substantial backlog and growth prospects of the Group, and enable complex spatial payload integrations (e.g., Leonardo orders).

Despite the capital-intensive year, **Net Debt** decreased to **€6.4mn** (€7.5mn FY21 year-end), due to:

- ◆ **Net Working Capital** only partially eroding OpFCF, with Payables offsetting the increase of Inventory and Receivables. NWC weight on VoP reduced from ca. 76% to ca. 59%;
- ◆ **Group Net Equity** benefitting from €3.0mn warrants conversion (371,250 at €7.99 p/s).

Officina Stellare: Capex FY18-FY22 and Net Debt bridge FY21-FY22



Source: Officina Stellare, Value Track Analysis

Officina Stellare: Net Working Capital FY19-FY22

(IT GAAP, €mn)	FY19	FY20	FY21	FY22
Inventory	6.8	6.9	9.5	12.2
Trade Receivables	0.8	1.5	3.0	4.0
Trade Payables	0.7	1.1	0.9	2.7
Other Current Assets	1.5	2.5	2.2	3.5
Other Current Liabilities	5.1	4.9	6.5	9.3
Net Working Capital	3.2	5.0	7.2	7.7

Source: Officina Stellare, Value Track analysis

Officina Stellare: Balance Sheet FY19-FY22

(IT GAAP, €mn)	FY19	FY20	FY21	FY22
Net Fixed Assets	4.8	9.6	11.3	13.9
Net Working Capital	3.2	5.0	7.2	7.7
Provisions	0.7	0.7	0.6	1.0
Total Capital Employed	7.4	13.9	17.9	20.6
Group Net Equity	7.5	8.4	10.4	14.1
Net Financial Position	0.2	-5.6	-7.5	-6.4

Source: Officina Stellare, Value Track analysis

Commercial & Corporate Developments

After the Satellogic alliance of May 2022, Officina Stellare business kept on expanding with many more commercial agreements in several end-markets, through both Italian and European aerospace NRRP-linked projects and US-based defence programs.

The designation of OS as prime contractor in some complex projects commissioned by the Italian Space Agency (ASI) and the European Space Agency (ESA) highlights best-in-class engineering, production and managerial competences, essential features for an increasingly significant positioning alongside the historic industry leaders.

More, the approval of the €6.6mn "Mac Tech" project (Monitoring and Communication Technologies for the New Space Economy) by the Ministry of Enterprises and Made in Italy, remarks on the quality of internal R&D programs, their technical and strategic value, not only for the Group, but for the national interest.

Commercial Developments

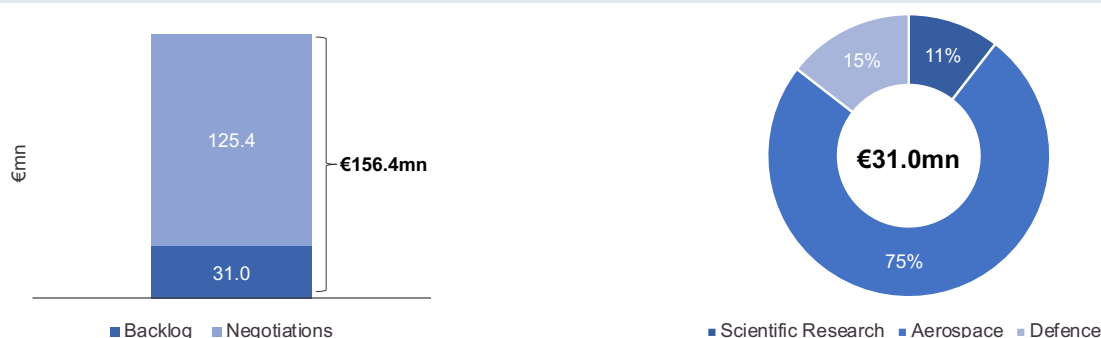
As of 1Q23, Officina Stellare's **commercial pipeline** totalled **€156.4mn**, split as follows:

- 1. Backlog** (orders already signed) at **€31.0mn**, of which 75% from Aerospace, 15% from Defence and 11% from Scientific Research clients. Most significant orders applications regard Earth Observation, Laser & Quantum Communication.
- 2. Value of Negotiations** at **€125.4mn**, divided among €25.1mn from international institutional tenders, €54.2mn for offers directly made to clients and €93.8mn for negotiations up to 2026.

Key points of OS' commercial pipeline are:

- ◆ Already signed / under definition contracts related to NRRP Space Economy see OS involved in the **most ambitious national program of Earth Observation** (IRIDE constellation), working hand in hand with prestigious Italian aerospace companies (Leonardo, Argotec);
- ◆ Increasing backlog from Defense clients, becoming a **qualified supplier of the US Army**;
- ◆ **Rising number of orders y/y** and **increasing average order value**: 1Q23 intakes of ca. €12.2mn (vs. €11.5mn in 1Q22, of which a single order worth €8.5mn, and vs. €4.2mn in 1Q21), with three orders worth over €3mn and one worth ca. €2mn. Even more importantly, these orders are part of multi-annual programs that could entail new potential contracts for about €22mn, confirming OS as strategic supplier of primary international aerospace agencies and companies.

Officina Stellare: Commercial Pipeline and Backlog by End-Market as of March 31st, 2023



Source: Officina Stellare, Value Track Analysis

Hereby a summary of the most recent commercial events. We remind that due to NDA agreements, Officina Stellare is not entitled to communicate some of its contracts.

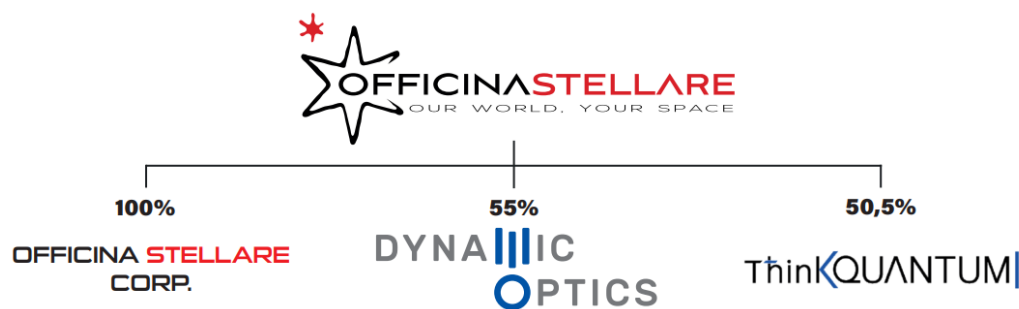
- ◆ **January 2022** – New supply contract worth **ca. €8.5mn** for the construction of a series of space telescopes to be delivered in 2022-23 and is part of a multi-year program to create an innovative LEO satellite constellation for EO services based on high-quality geo-spatial data.
- ◆ **January 2022** – OS signs a new supply contract worth **ca €1.5mn** for the realization of a series of multi-spectral optical payloads for high-quality Earth Observation purposes with a primary international player of the EMEA region active in the defense and intelligence sectors of the Aerospace industry. The order is set to be delivered at last in 1Q24.
- ◆ **May 2022** – Officina Stellare and Satellogic, international leader for Earth Observation activities, signed the investment agreement concerning their strategic alliance (more details on previous reports):
- ◆ **May 2022** – End of the third (and last) exercise window of “Warrant Officina Stellare 2019-2022”, with 371,250 warrant converted in 371,250 shares at €7.99 p/s.
- ◆ **July 2022** – ThinkQuantum Srl signs its first supply contract with an important US company.
- ◆ **August 2022** – Officina Stellare signs a new contract worth **ca. €1.7mn** for the supply of a multispectral optical payload for high-resolution Earth Observation in the Very Low Earth Orbit (VLEO) for the micro-satellite “EarthNext” with the Italian National Space Agency (ASI)
- ◆ **August 2022** – OS obtains an ESG certification from Generation Female, after meeting Generation Impact 2030 certification standards;
- ◆ **November 2022** - OS signs a new ESA supply contract for the realization of a prototype of a scalable adaptive optics module for Earth optical stations. The project will also involve Dynamic Optics and Think Quantum;
- ◆ **November 2022** – New supply contract for the realization of two optical systems for a station prototype for Satellite Laser Range (“SLR”) of the GALILEO Navigation Satellite System (GNSS);
- ◆ **January 2023** – New, five-years supply contract with Photo-Sonics worth **over €9mn** for the delivery of new generation optical systems for the MITS (“Multispectral Imaging and Tracking System”) project, promoted by the US Defence Department. Officina Stellare Corp. (US subsidiary) will play a key role;
- ◆ **January 2023** – Approval of the “Mac Tech” 36 months project from the Italian Ministry of Enterprises and Made in Italy, concerning financial reliefs of ca. €3mn after R&D of **ca. €6.6mn** dedicated to key enabling technologies in quantum Free Space Optical Communication (FSOC) and Earth Observation;
- ◆ **February 2023** – New, 30 months contract with Argotec worth **ca. €3.3mn** for the delivery of a series of payloads for the realization of “IRIDE”, the Italian satellites constellation for Earth Observation (linked to NRRP funds, under ESA management with the support of ESA);
- ◆ **March 2023** – OS signs two 14 months contracts worth **€3.8mn** with Leonardo for the realization of two high resolution optical systems for Earth Observation purposes of PLATiNO3 and PLATiNO4 missions of ASI (“Agenzia Spaziale Italiana”);
- ◆ **March 2023** – New, 24 months order from the Gran Sasso Science Institute (GSSI) worth **€1.95mn** for the delivery of the TERZINA optical system for the NUSES (“Neutrinos an Seismic Electromagnetic Signals) space mission.

Corporate Developments

Regarding OS capital structure, we highlight:

- ◆ Conversion of 371,250 warrants at 1:1 conversion ratio at €7.99 per share, for a total €2,966,287.5 capital injection. This was the last exercise period of “Warrant Officina Stellare 2019-2022”, with remaining 3,479 warrants now ineffective;
- ◆ Approval from Board of Directors and Extraordinary Shareholder Meeting of “Warrant Satellogic 2022-2025”, the relative capital injection (up to ca. €7.7mn) and acceptance of Emiliano Kargieman (CEO of Satellogic) as new member of OS BoD;
- ◆ Satellogic acquisition of 4.7% share capital of OS from existing shareholders on September 30th, 2022, starting the financial commitment of the new strategic alliance with a cash out of ca. €3.8mn;
- ◆ Entrance in OS share capital (2.3% stake) of Stone Srl, an investment vehicle of a group of entrepreneurs from Veneto region, focused on companies with high growth potential in advanced technology sectors including the Space Economy.

Officina Stellare: Corporate Structure



Source: Officina Stellare

Forecasts 2022E-2025E

Officina Stellare Growth Catalysts

At **Market Level**, we highlight:

1. New Space Economy's growth is a secular trend, boosted by resources dedicated to Aerospace and Defense industries:
 - i. European RRF, Italian NRRP, ASI and NASA multiannual financing plans, contributing to Italian Aerospace budget of over €4.6bn (Italy 6th/7th in the world relative to GDP);
 - ii. Rising Defence spending following geopolitical tensions, with Italy already spending ca. \$32bn in 2021 (US leading with \$801bn);
2. On the longer-run, the development of new technologies in strategically important market sectors, such as optical communications (i.e. laser, quantum) and cybersecurity should drive a second boost to OS end-markets;
3. As many similar secular trends, also the New Space Economy suffers stop and go phases as a result of:
 - i. Capital intensity: the need for substantial investments in technologies, facilities, productive assets require easy access to capital markets, so when public/private valuations decrease (as in FY20 and in FY22), the lower capacity / willingness to raise funds drives lower capex/opex budgets and, at the end of the day, less revenues;
 - ii. Talent-intensity: the rising need for engineers and technicians doesn't always match with the offer of such skills, thus reducing the "output capacity" of Space Economy players.

At **Company Level**, Officina Stellare boasts:

1. Good reputation at both national and international levels in the Aerospace and Defence industries (see "*Commercial Developments*" paragraph)
2. All-time high commercial pipeline, with rising number of orders and average order value;
3. New strategic (and financial) partnerships (e.g., Satellogic) that should further strengthen OS reputation and orders intakes;
4. Subsidiaries active in some of the most promising sectors of the Space Economy (Dynamic Optics, Think Quantum) and ready to untap the vast potential of the US Defence market (OS Corp.);
5. Very fast developing programs, to be supported by strategic M&A that could tackle:
 - i. The current bottleneck generated by lack of talent and;
 - ii. An expansion into contiguous markets that would allow for a more comprehensive and value-added product and service offering.

Estimates Update 2023E-25E

New commercial and corporate developments, together with the booming prospects of the New Space Economy, outline a reliable multiannual plan of constant growth at a strong pace.

However, the skill shortage that is affecting the whole compartment is taking a toll on Officina Stellare development plan in the short-term, affecting our previous estimates with ca. **1 year postponement**.

In more details, our change of estimates was influenced by the following drivers:

- ◆ **Top Line:** on the negative: 1) slower satellites launches (Space X changing launcher, which is requiring larger loads hence the need of requalifying all the payloads accordingly) impacting a whole lot of industry players, including Satellogic and other OS clients) and; 2) engineering bottleneck halting the Group work-in-progress.

On the positive: 1) many orders should be delivered in 2023E, hence reducing the gap between Revenues from Sales and Value of Production (also benefitting from tax credits related to 2022A investments), and; 2) Dynamic Optics and Think Quantum should also increase their contribution, especially from 2024E onwards.

- ◆ **Operating and Net Profitability:** higher raw materials prices should still affect OS margins, but we expect more and more economies of scale thanks to all in-house production and the entire equipment line ultimately running at full speed. As a consequence, we forecast Officina Stellare to get back close to 30% EBITDA Margin already as of 2023E and close to 20% EBIT Margin in 2025E.
- ◆ **Cash Flow:** Inventory should reduce with the increasing percentage of orders deliveries; therefore we do not expect NWC to absorb much cash (in line with 2022A results). Capex should be lower than last year's but at ca. €3mn per period facing the advanced technologies, know-how and innovation required by the Space Factory. Nonetheless, we expect OS to generate over €9mn positive FCF over the next three years.

Officina Stellare: New vs Old Estimates

(IT GAAP, €mn)	2023E			2024E			2025E		
	Old	New	Δ	Old	New	Δ	Old	New	Δ
Value of Production	25.0	20.0	-20%	43.8	29.7	-32%	51.0	40.7	-20%
EBITDA	7.4	5.6	-25%	13.7	8.4	-39%	16.6	11.5	-31%
EBITDA margin (%)	29.7%	28.0%	-170bps	31.3%	28.2%	-310bps	32.5%	28.2%	-430bps
EBIT	4.4	2.4	-47%	10.7	4.9	-54%	13.3	7.8	-41%
EBIT margin (%)	17.8%	11.8%	-600bps	24.4%	16.4%	-800bps	26.0%	19.2%	-680bps
Net Profit	3.2	1.9	-41%	8.0	3.6	-55%	9.2	5.4	-41%
Net Financial Position	-3.6	-5.0	-1.4	0.0	-2.8	-2.9	7.3	3.0	-4.3

Source: Value Track Analysis

New Forecasts 2023E-25E

Key Estimates

As a result of the above drivers, we forecast Officina Stellare to reach the following figures in 2025E:

- ◆ **Value of Production at €40.7mn**, growing at 46% CAGR_{22A-25E};
- ◆ **EBITDA at €11.5mn** and EBITDA Margin at 28.2% (+390bps vs. 2022A);
- ◆ **OpFCF (b.t.) up to 72% of EBITDA**, thanks to low NWC absorption and steady Capex;
- ◆ **Net Cash at €3.0mn**, from Net Debt of €6.4mn in 2022A.

Officina Stellare: Key Financials 2022A-2025E

(IT GAAP, €mn)	2022A	2023E	2024E	2025E	CAGR
Value of Production	13.0	20.0	29.7	40.7	46%
EBITDA	3.2	5.6	8.4	11.5	54%
EBITDA Margin (%)	24.3%	28.0%	28.2%	28.2%	390bps
OpFCF b.t.	-1.9	1.9	3.4	8.2	nm
Net Financial Position	-6.4	-5.0	-2.8	3.0	nm

Source: Officina Stellare, Value Track Analysis

Financial Statements 2022A-25E

Profit & Loss 2022A-25E

(IT GAAP, €mn)	2022A	2023E	2024E	2025E	CAGR
Value of Production	13.0	20.0	29.7	40.7	46%
Raw Materials	-4.0	-6.0	-8.9	-12.2	45%
Costs of Services	-2.4	-3.3	-4.9	-6.7	41%
Costs of Rent	-0.1	0.0	0.0	0.0	-100%
G&A	-0.2	-0.5	-1.0	-1.5	82%
Labour Costs	-3.1	-4.6	-6.5	-8.8	42%
EBITDA	3.2	5.6	8.4	11.5	54%
<i>EBITDA Margin (%)</i>	<i>24.3%</i>	<i>28.0%</i>	<i>28.2%</i>	<i>28.2%</i>	<i>390bps</i>
D&A	-2.4	-3.2	-3.5	-3.7	15%
EBIT	0.8	2.4	4.9	7.8	115%
<i>EBIT Margin (%)</i>	<i>6.0%</i>	<i>11.8%</i>	<i>16.4%</i>	<i>19.2%</i>	<i>1,320bps</i>
Net Financial Charges	-0.2	-0.2	-0.1	-0.1	-28%
Taxes	0.0	-0.3	-1.1	-2.3	-585%
Minorities	-0.1	0.0	0.0	0.0	-100%
Net Profit	0.5	1.9	3.6	5.4	123%

Source: Officina Stellare, Value Track Analysis

Officina Stellare: Balance Sheet 2022A-25E

(IT GAAP, €mn)	2022A	2023E	2024E	2025E
Net Fixed Assets	13.9	13.6	12.9	12.6
Net Working Capital	7.7	7.9	10.1	10.3
Provisions	1.0	0.4	0.6	0.8
Total Capital Employed	20.6	21.1	22.5	22.1
Group Net Equity	14.1	16.1	19.7	25.1
Net Financial Position	-6.4	-5.0	-2.8	3.0

Source: Officina Stellare, Value Track Analysis

Officina Stellare: Cash Flow Statement 2022A-25E

(IT GAAP, €mn)	2022A	2023E	2024E	2025E
EBITDA	3.2	5.6	8.4	11.5
Δ NWC (incl Provisions)	-0.1	-1.0	-2.3	-0.2
Capex (excl. Fin. Inv.)	-4.9	-2.8	-2.6	-3.1
OpFCF b.t.	-1.9	1.9	3.4	8.2
<i>As a % of EBITDA</i>	<i>-58.7%</i>	<i>33.1%</i>	<i>41.1%</i>	<i>71.5%</i>
Cash Taxes	0.0	-0.3	-1.1	-2.3
Capital Injections	3.0	0.0	0.0	0.0
Others (incl. Fin. Inv.)	0.1	0.0	0.0	0.0
Net Financial Charges	-0.1	-0.2	-0.1	-0.1
Δ Net Fin Position	1.1	1.4	2.2	5.8

Source: Officina Stellare, Value Track Analysis

Valuation

We set OS Fair Equity Value to **€15.80 p/s** (€15.70 based on Fully Diluted NOSH), down from €18.30 p/s (€17.60 Fully Diluted) on the back of lower short-term financial forecasts.

We decided to focus our valuation no later than 2024E due to scarce medium-term visibility, taking a more cautious approach given recent delays caused by external factors, namely the postponement of satellites launches and, more importantly, the skill shortage that is affecting the whole industry.

Hence, for the time being we do not rely on longer-term valuation based on DCF and Roll-Forward techniques, but we believe that OS potential in the long run (including new strategic contracts, partnerships and possible M&A accretion) is an optionality that comes for free at our fair value.

The significant downwards estimates revision is partially offset by the sound contribution that we expect from OS subsidiaries, i.e. Think Quantum and Dynamic Optics, prone to exploit the opportunities arising from the secular trend of quantum encryption on one hand and from first movers advantage in the adaptive optics market on the other.

At €15.80 p/s OS would trade at **11.8x-8.1x EV/EBITDA 2024E-25E**, in line with OS current trading multiples for 2023E-24E and foreign peers 2024E EV/EBITDA.

Officina Stellare: Multiples Sensitivity at Various Stock Price Levels

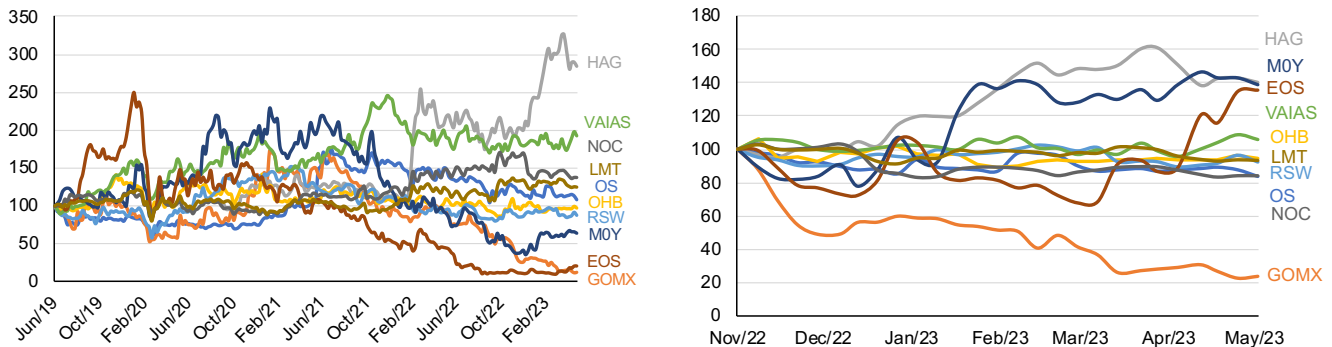
Price p/s (€)	EV/EBITDA (x)			EV/EBIT (x)			P/E Adj. (x)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Market Price - €10.80	12.6	8.2	5.4	29.9	14.0	8.0	34.0	18.1	12.0
Fair Value - €15.80	18.0	11.8	8.1	nm	20.2	11.8	nm	26.5	17.6
Fair Value FD - €15.70	18.0	11.8	8.1	nm	20.2	11.8	nm	28.6	19.0

Source: Value Track Analysis

Peers Analysis / Sum of the Parts

OS comparables are trading in line with our last update of ca. six months ago. Over the same period, Officina Stellare slightly underperformed (-16% ca.) the majority of its peers. As a consequence, OS is now trading at ca. 35% discount vs. peers' 12.8x EV/EBITDA 2024E vs. 30% in October, and only 17% above the closing price of its IPO day, despite the exceptional results accomplished and future growth prospects.

Officina Stellare: Weekly Stock Performance vs. Foreign Peers since OS IPO (lhs) and L6M (rhs)



Source: Value Track Analysis

Officina Stellare: Peers Trading Multiples

Peers	EV/Sales (x)		EV/EBITDA (x)		EV/EBIT (x)		P/E Adj. (x)	
	2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E
Foreign Peers								
GomSpace	0.5	0.4	nm	nm	nm	nm	nm	nm
Hensoldt	1.9	1.7	11.1	9.2	14.8	12.0	28.8	21.7
OHB	0.6	0.5	6.8	5.5	10.4	7.9	14.8	11.3
Renishaw	3.7	3.5	14.4	12.3	18.5	16.1	23.0	20.2
Vaisala	2.7	2.5	15.6	14.0	20.5	17.4	27.6	23.0
Mynaric	7.3	4.2	nm	nm	nm	nm	nm	nm
Electro Optic Systems	1.1	0.8	nm	14.0	nm	nm	nm	nm
Northrop Grumman	2.0	1.9	14.5	13.5	19.2	17.6	19.7	18.5
Lockheed Martin	2.0	1.9	13.1	12.8	15.2	14.9	16.9	16.8
Average	2.4	1.9	12.6	11.6	16.5	14.3	21.8	18.6
Median	2.0	1.9	13.7	12.8	16.9	15.5	21.3	19.4
Domestic Peers								
El.En.	1.2	1.1	9.4	7.9	11.2	9.1	17.5	14.7
Saes Getters	2.0	1.8	8.4	7.3	11.0	9.1	18.8	16.3
Avio	0.6	0.5	10.3	7.2	nm	21.5	37.9	21.4
Average	1.3	1.1	9.4	7.5	11.1	13.3	24.7	17.5
Median	1.2	1.1	9.4	7.3	11.1	9.1	18.8	16.3
Total Average	2.1	1.7	11.5	10.4	15.1	14.0	22.8	18.2
Total Median	1.9	1.7	11.1	10.8	15.0	14.9	19.7	18.5
Officina Stellare	3.5	2.3	12.6	8.2	29.9	14.0	34.0	18.1

Source: Market Consensus, Value Track Analysis

Our SOTP valuation returns a **Fair Enterprise Value of €98.5mn**, obtained by:

- ◆ Applying peers’ 12.2x EV/EBITDA 2024E multiple to **Officina Stellare SPA** EBITDA 2024E;
- ◆ Performing the Venture Capital Method (i.e., “Valuation at Maturity”) to **Think Quantum** and **Dynamic Optics**. While for the latter we took Arqit Quantum as reference comparable (Nasdaq-listed player active in quantum encryption), we valued Dynamic Optics based on OS Group foreign peers multiples (product offering closer to Officina Stellare as a whole). Given TQ more appealing growth path tied to the secular trend of quantum communication, we applied a higher EV/Sales vs. DO. We considered the high execution risk of very early-stage businesses that still need to prove their scalability by applying a 30% discount rate to both the companies.

Officina Stellare: Think Quantum and Dynamic Optics Valuation at Maturity in 2025E

Fair Enterprise Value (€mn)	Think Quantum	Dynamic Optics
Fair EV/Sales @ Maturity in 2025E (x)	5.0x	2.5x
Value of Production in 2025E	4.0	2.5
Fair EV @ Maturity in 2025E	20.0	6.3
Fair EV Value Today (discounted w/IRR @ 30.0%)	10.1	3.2
Officina Stellare Group Stake (%)	50.5%	55.0%
Fair Enterprise Value	5.1	1.7

Source: Value Track Analysis

Officina Stellare: Sum of the Parts Valuation

Fair Equity Value (€mn)	OS SPA	TQ	DO	OS Group	OS Group - Fully Diluted
Fair EV/EBITDA 2024E	12.2x				
Enterprise Value	91.6	5.1	1.7	98.5	98.5
Net Financial Position 2024E				-2.8	4.8
Adjustments				0.0	0.0
Fair Equity Value				95.6	103.3
NOSH				6.0	6.6
Fair Equity Value p/s (€)				15.80	15.70

Source: Value Track Analysis

Officina Stellare full dilution would be the result of cashing in all the Stallogic warrant at their respective exercise price, implying a potential capital injection of ca. €7.7mn and ca. 0.6mn new shares (more details in previous reports).

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