Nicolás Correa

EQUITY - SPAIN
Sector: Industrials - Machine Tools

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Nicolás Correa (NEA) is a Spanish industrial (Burgos), whose core business is the design and manufacture of chip removal machine tools, specialising in milling machines for the general mechanical engineering industry (aerospace, automotive sectors, etc). Currently, sales in Spain account for 10% of the total (2018e). Among the 90% of exports Europe (40%) and China (24%) stand out.

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Market Data

Market Cap (Mn EUR and USD)	44.2	50.4
EV (Mn EUR and USD)	52.7	60.0
Shares Outstanding (Mn)	12.3	
-12m (High/Avg/Low EUR)	4.37 / 3.71 / 3.00	
Daily Avg vol.(-12m Mn EUR)	0.1	
Rotation(1)	79.9	
Thomson Reuters / Bloomberg	NEA.MC / NEA SM	

Shareholders Structure (%)

Nicolás-Correa Family	31.6
Desmasa	3.3
Board (Excl. Nicolas-Correa)	1.6
Free Float	63.5

Financials (Mn EUR)	2017	2018e	2019e	2020e
Total Revenues	59.2	65.4	68.0	69.4
Rec. EBITDA	6.4	7.0	7.1	7.1
% growth	*15.8*	*9.5*	*1.4*	*-0.5*
% Rec. EBITDA/Rev.	*10.9*	*10.8*	*10.5*	*10.2*
% Inc. EBITDA sector (2)	*13.0*	*6.4*	*11.2*	*8.5*
Net profit	2.2	4.7	4.7	4.8
EPS (EUR)	0.18	0.38	0.39	0.39
% growth	*-45.6*	*n.a.*	*0.6*	*0.9*
Ord.EPS (EUR)	0.36	0.36	0.39	0.39
% growth	*59.6*	*0.3*	*6.0*	*0.9*
Free Cash Flow(3)	5.8	1.8	3.6	4.1
Pay-out (%)	*0.0*	*40.0*	*45.0*	*50.0*
DPS (EUR)	0.00	0.15	0.17	0.19
Net financial debt	8.1	4.4	-2.4	-5.4
ND/Rec. EBITDA (x)	1.3	0.6	-0.3	-0.8
ROE (%)	*5.8*	*11.3*	*10.4*	*9.9*
ROCE (%)	*6.1*	*10.1*	*10.8*	*10.7*

Ratios & Multiples (x)	2017	2018e	2019e	2020e
P/E	19.8	9.4	9.3	9.2
Ord. P/E	9.9	9.9	9.3	9.2
P/BV	1.1	1.0	0.9	0.9
Dividend Yield (%)	*0.0*	*4.3*	*4.8*	*5.4*
EV/Sales	0.89	0.81	0.77	0.76
EV/Rec. EBITDA	8.2	7.5	7.4	7.4
Rec. FCF Yield (%)(3)	*13.2*	*4.0*	*8.2*	*9.4*

(*) Unless otherwise indicated, all the information contained in this report is based on: The Company, Thomson Reuters and Lighthouse

(1) Total volume traded in the share (Mn EUR) -12m vs Mkt Cap. Represents the % of the capitalisation traded -12m.
(2) Expected EBITDA growth (consensus) for the share's benchmark sector (Thomson Reuters Europe Industrial Machinery and Equipment).
(3) Based on recurrent FCF. Please refer to Appendix 2.
(4) vs Thomson Reuters Europe Industrial Machinery and Equipment.

NEA has done its homework

A FULL AND FINISHED RESTRUCTURING: After the serious crisis suffered by NEA in 2009-2012, the company implemented a tough restructuring and cost cutting process that culminated in 2017 with the closure of the plant at Itziar (Guipúzcoa, Spain). We would highlight three factors resulting from this restructuring that will help NEA to remain profitable even against an unfavourable cyclical backdrop: (i) a smaller and more flexible workforce, (ii) a focus on more profitable clients and (iii) a robust and de-leveraged capital structure.

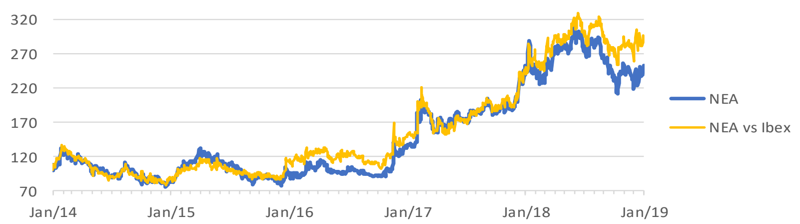
DECELERATION IS INEVITABLE. GDP is already slowing in all markets, especially in those to which NEA is most exposed (Europe and China: 75% of revenues). After the large increase in sales in 2018e (+10.4%) we expect a sharp deceleration in 2019 (+4.0%) and 2020 (+2.0%). 2019 will benefit from the momentum of an order book currently at highs (close to 0.8x Sales).

RESILIENT MARGINS: As a result of the restructuring and downsizing (assets, workforce). Despite the deceleration, we expect the EBITDA/Sales margin to be over 10% (2019-2020). This would mean a return to sector margin levels. The return of CAPEX to levels of 2% of Sales (2019e) will enable the consolidation of recurrent FCF of c. EUR 4.0 Mn in the mid-point of the cycle.

NET CASH POSITION: Leverage has been low since the conclusion of the restructuring (ND/EBITDA 2018e, 0.6x). This opens up the option of: i) non-organic growth (taking advantage of the cycle decline); and ii) a resumption of dividend payments. NEA will return to a Net Cash position in 2019e even assuming an (estimated) Pay Out of 40% in 2018e.

FCF YIELD, 10%: The sustaining of FCF (2019 and 2020) at levels of EUR 4.0Mn has an immediate effect on expectations for the FCF yield, which are 9.4% of 2020 earnings (vs 7.3% for the sector). Even in scenarios (not expected at present) of sharp falls in revenue in 2019 (-10%) we estimate positive FCF.

Relative performance -5y (Base 100)



Stock performance (%)	-1m	-3m	-12m	YTD	-3Y	-5Y
Absolute	8.1	9.8	0.3	10.5	175.1	152.8
vs Ibex 35	7.8	11.8	18.4	5.8	163.7	196.6
vs Ibex Small Cap Index	4.9	12.4	8.5	4.1	77.7	108.2
vs Eurostoxx 50	8.7	16.2	18.0	7.7	163.9	158.8
vs Sector benchmark(4)	2.0	17.4	27.8	3.6	108.3	119.9

Profitable again (for ever.....?)

NEA has concluded its restructuring and returned to profitability and so is a big success story. The numbers explain quite simply what has happened and in turn pose two key questions. What do we expect from NEA in 2019-2020? How would the company perform in a cyclical scenario even more adverse than expected?

A) 2013 – 2018: Restructuring and consolidation

Revenues and EBITDA, +3.2% and +39.0% (CAGR 2013 – 2018e) with an increase in the **EBITDA margin of +8.3p.p.**

2008 was the peak of the previous cycle. NEA obtained EUR 116Mn in revenues, a margin of 5.5% and FCF "sank" to EUR -6.5Mn. All the result of a strategy focused solely on gaining size.

In the first year of the credit crisis (2009) the company saw revenue halved! EBITDA losses (EUR -2.5Mn) and FCF record an historical low (EUR -8.5Mn). The period 2009-2013 reflected the interaction of two factors: the cycle (unfavourable) and negative operating profitability (a result of the business model chosen).

Strong financial structure: Reduction in ND of 80% in 2013-2018e

The consequence was exponential growth in debt. 2013 was the turning point: ND of EUR 20.7 Mn with EBITDA of EUR 1.4 Mn. At that moment a restructuring process began which took place over 2013-2018 and was based on three pillars:

Restructuring has meant streamlining the structure to return **the margin to sector levels**

1. **A lack of concern about revenue growth:** CAGR Sales (2013-2018e): +3.2%: The focus is now on profitability.
2. **Rationalisation of the structure:** disinvestment of the Itziar plant (sold for EUR 5.0Mn in December 2018), workforce reduction (23.6% between 2013 and 2017).
3. **Focus on the margin:** this rose from 2.4% (2013) to 10.8% (2018e).

Since 2013 the cycle has been favourable. And margin and debt reduction goals have been fully achieved. At this new starting point (2019) NEA does not have a debt problem (ND/EBITDA 0.6x) and has consolidated the potential to generate EUR 4-5Mn of Rec. FCF in the mid point of the cycle.

B) 2019 – 2020: Better prepared for the likely deceleration

Revenues and EBITDA, +3.0% and +0.5% (CAGR 2018e – 2020e) with a reduction in the **EBITDA margin of -0.5p.p.**

The central scenario is for deceleration in all markets. NEA is affected both in Europe (60% of Sales in 2018e) and emerging markets (China, 24% of Sales). Against this backdrop, we expect the company to decelerate strongly in 2019 (Sales growth, +4.0% vs +10.4% in 2018e) and even more so in 2020e (+2.0%). Exposure to the Spanish market is smaller (10% of Sales) and does not represent an advantage. However, the current strength of the order book does (c. EUR 50Mn in 3Q18; doubling that of 2017) and this should allow growth to outstrip that of the GDP in 2019 and be in line with inflation in 2020.

The interesting aspect is the results to expect after the restructuring and despite the unfavourable cycle. Our opinion for 2019 and 2020 can be resumed in three points:

1. **EBITDA/Sales > 10%**
2. **Recurrent FCF, EUR 4.0 Mn**
3. **Net Cash position**

At present this is reflected in a FCF yield of 8.2% (2019) and 9.4% (2020). And this despite the restructuring already having been reflected in the share price performance (+150%, -5y).

The return to Net Cash positions opens up the strategic option of taking advantage of the cycle decline to grow non-organically, and the possibility of resuming dividend payments. Underlining that the (financial, operating) structure with which the company faces the deceleration is optimum.

C) 2019 – 2020: What would happen if...?

Resilience: we only estimate FCF<0 with declines in revenues of over 10%

The basic idea is that of a company with certain resilience. But not that of a company that is not affected by the cycle. Nor that of a favourable cycle. The machine tool sector is inherently cyclical. And the cycle, barring surprises, will decelerate. The final question to answer is what to expect in an even worse scenario.

In the event of a fall in revenues of 5% in 2019, we estimate a margin of 8% and FCF above EUR 2.0Mn. This implies a FCF yield of 5%, perhaps the most interesting aspect when valuing the result of all the efforts to restructure the company together with its impact on the share price.

A fall in revenue of 10% would leave FCF at EUR 1.0Mn underlining the argument that cyclical risk has been significantly reduced for NEA thanks to its restructuring. But, obviously, this has not disappeared...

A "recovery story"

Chart 1. % Revenues breakdown by geography

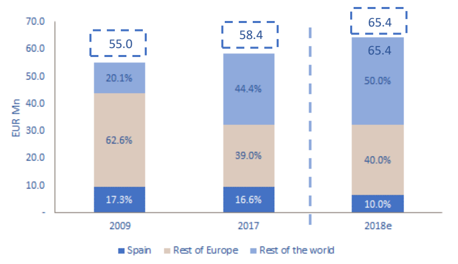


Chart 2. Rec. EBITDA and Rec. EBITDA margin evolution

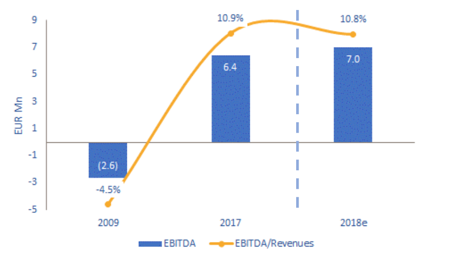


Chart 3. ND/Rec. EBITDA evolution

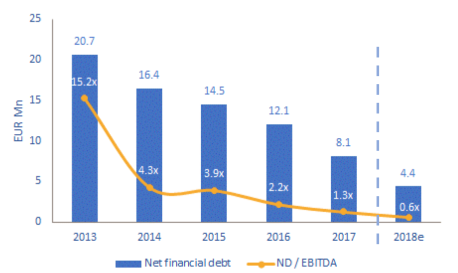
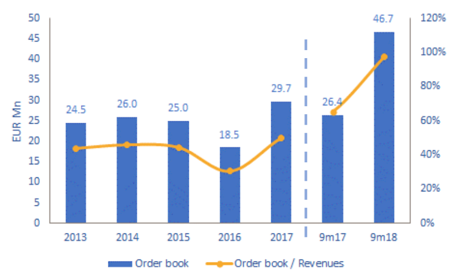


Chart 4. Order book evolution



Nicolás Correa (NEA) is a small Spanish industrial group (Market cap < EUR 45Mn) that designs and manufactures machine tools for the industrial sector in general, specialising in milling machines and machining centres. Nicolás Correa is a European leader in milling solutions.

Global operator with significant exposure to emerging markets

NEA's products are destined mainly for the general mechanical engineering sector with high dependence on the aerospace and automotive industries. Nearly 90% of sales are exports, with Europe and China being the company's main markets (60.0% and 24% of sales respectively in 2018e).

Currently, NEA continues efforts to improve its position in China (its main machine tool market) and India (3.7% of 2017 sales), and significantly increase its market share in Germany (12.0% of sales in 2017). In coming years we expect the weighting of exports to remain stable at 90% of sales.

Until 2017 the Group had two production plants in Burgos and Itziar (Guipúzcoa, Spain), but in the last quarter of 2017 took the decision to close the latter.

End of the restructuring process

After a period of strong growth that ended in 2008, with sales volumes of EUR 116.0Mn and EBITDA of EUR 6.4Mn (Sales +16% CAGR 2002-2008), NEA suffered an abrupt change of cycle in 2009, with sales falling dramatically (> 50%) and negative EBITDA of EUR -2.6Mn.

In 2013 – 2017 NEA concentrated efforts on (i) cost containment policies aimed at increasing margins and (ii) reducing debt. Accordingly, the industrial group we find at the end of 2017 is substantially different from that resulting from the abrupt change of cycle caused by the economic crisis of 2009:

4. **Positive EBITDA of EUR 6.4Mn in 2017** vs negative EBITDA of EUR -2.6Mn in 2009 with a similar sales figure.

5. **Simplified production structure:** In 2017 NEA closed the Itziar plant (around 50 employees), concentrating its activity in Burgos, with the aim of improving business efficiency through levering economies of scale. Despite the closure of the Itziar plant, in 2017 the Group generated total sales of EUR 59.2Mn (EUR 60.5Mn in 2016). In December 2018 the plant's land and installations were sold for EUR 5.0Mn (net carrying value of EUR 4.7Mn).

6. **Low net debt vs high gearing:** The cash generation of the last five years has allowed a significant reduction of net debt (reduction of EUR 17.3Mn in 2013-2018e), making possible levels of net cash from 2019e.

7. **Large order book:** EUR 46.7Mn at the end of 3Q 2018 (EUR 26.4Mn in the same period of the previous year, an increase of 77%) permitting continued optimism regarding sales volumes for 2019e.

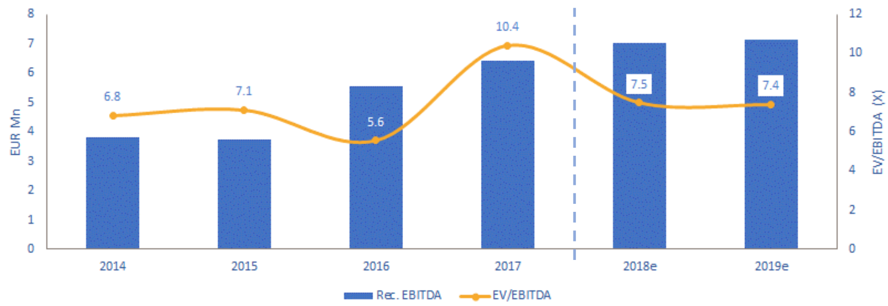
Chart 5. NEA stock price evolution

Restructuring with an impact on the share price

The change in the Company's profile as a result of the restructuring carried out in recent years (focus on more profitable clients, cost containment and concentration of production), together with the recovery of the machine tool cycle, has been reflected "at least partly" by the share price: in 2013-2018 the share price increased by 141% (and by an almost equal percentage relative to the IBEX 35), accompanying the improvement in EBITDA (reaching EUR 7.0 Mn in 2018e vs EUR 1.4Mn in 2013) and the 80% reduction in debt.

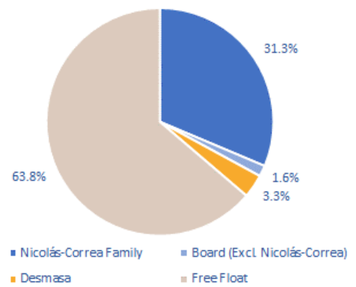
The rationalisation of the business began in 2013 and can be considered to have been concluded in 2018. This recovery was reflected in the share price performance, at least partially, in 2016-2017. When EBITDA consolidated above EUR 5 Mn and debt stopped being a problem. Now multiples are at 2014-2015 levels. EV/EBITDA 2019e is 15% below the listed machine tool sector.

Chart 6. Rec. EBITDA and EV/EBITDA(1) evolution



(1): Calculated over Total EBITDA (not over Recurrent EBITDA).

Chart 7. Shareholders structure

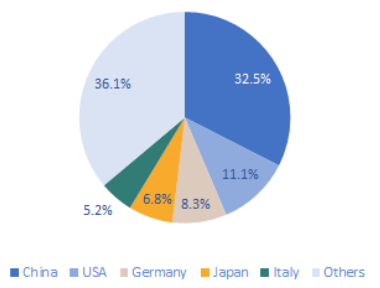


The shareholder base is stable and management is closely linked to the share price.

The founding family (Nicolás-Correa) owns c. 32% of capital, has three seats (out of seven) on the board of directors and maintains management of the company. They seem to be in it for the long run which ensures full alignment of interests with minority shareholders.

The cycle seen from the "core" of the industrial sector: the "machine tool"

Chart 8. Machine tool consumption by country



Note: Excluding parts and accessories
Source: VDW*(German Machine Tool Builders' Association)*

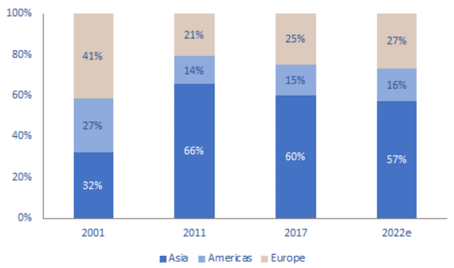
NEA designs and manufactures industrial milling machines (machine tools) mainly for carrying out machining work by chip removal in the general mechanical engineering industry. Process automation, additive manufacturing (3D printing) and the increase in electric vehicles (with fewer machined parts) are the main trends shaping the dimensions of the machine tool industry.

Machine tools: inevitably cyclical

Expansion and recession. The machine tool industry is located at the "core" of industrial production which necessarily gives it a significant cyclical component; industrial machinery investment decisions are some of the first to be postponed during a recession.

There was a period of boom between 2003 and 2008 (11.3% CAGR) followed by a correction of over 30% during the crisis that began in 2009 (the year in which NEA's sales fell by close to 50%). After a second boom between 2010 and 2012, global machine tool consumption grew moderately until 2017 (4.1% CAGR in 2013-2017).

Chart 9. Machine tool consumption by country evolution

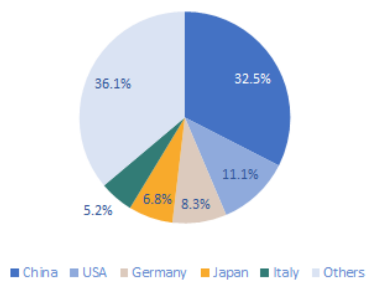


Source: 2001 and 2011 CECIMO. 2017 and 2022 Oxford Economics

Chart 10. Global Machine tool production evolution

Note: Excluding parts and accessories; 2017 figures refer to preliminary data
Source: VDW (German Machine Tool Builders' Association)

Chart 11. Machine tool production



Note: Excluding parts and accessories
Source: VDW*(German Machine Tool Builders' Association)*

According to Gardner Research, while in the 2003-2008 boom both Asia and Europe contributed significantly to the increase in global machine tool consumption, growth in 2010-2012 was mainly due to the increase in demand in Asia (with China being the main driver of global growth). In 2017 China remained the main consumer and producer of the machine tool industry with shares of 32.5% and 24.9% respectively (23.7% of NEA's sales volumes in 2017).

2019e: a cooling of industrial growth amidst trade tensions

In 2017 global machine tool production grew 7.0% (9.0% in USD), reaching a volume of EUR 71.7Bn (VDW, German Machine Tool Builders' Association).

Machine tool manufacture in Europe increased by 8.0% in 2017, mainly driven by Chinese consumption. Moreover, although China increased its production capacity, it also increased its imports (mainly of machinery manufactured in Europe, with higher added value and quality) significantly (+14% in 2017).

For 2018e, Oxford Economics expects an increase in machine tool consumption of 8.5%, decelerating in 2019e (+3.6%), due mainly to: (i) trade tensions, (ii) a small slowdown in Chinese industrial growth (GDP 2019e +6.3% vs +6.6% 2018e and at risk of a downgrade), and (iii) global cyclical deceleration (2018e global GDP 3.7%: 0.2p.p. less than projected in April, with a risk of further downgrades in 2019). By regions, Oxford Economics expects Europe to growth in 2019e (4.7%), followed by America and finally Asia.

Europe: machine tool industry dominated by family companies

European machine tool manufacturers have a global market share of c. 46%, Europe being the main exporting region for this kind of machinery (CECIMO: European Association of the Machine Tool Industries). Within Europe, Germany and Italy stand out (16.5% and 7.7% of total production, respectively). Spain remains in the top 10 of global producers (close to 1.5% of global production).

According to CECIMO, close to 80% of European machine tool manufacturers are SMEs (<100 employees), and are mainly family enterprises. Also, unlike Asian manufacturers (higher volume production), European producers focus on higher added value production (less standardised machinery adapted to each client's needs).

Chart 12. NEA revenues growth vs "Milling machines peers"

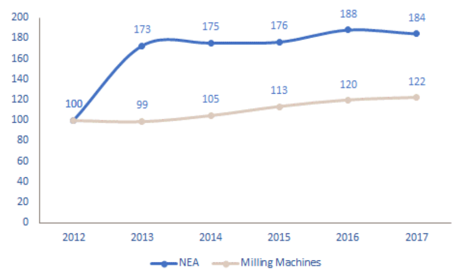


Chart 13. NEA EBITDA/Sales vs "Milling machines sector"

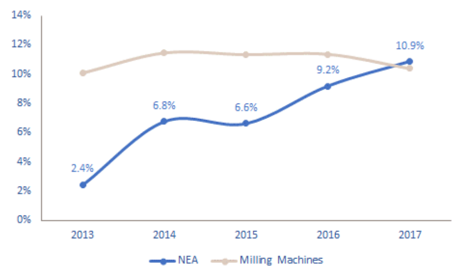


Chart 14. NEA and industry players key indicators

Company	Mkt. Cap	EV	Country	Rev. 12-17 CAGR	EBITDA/Sales 2017	ND/EBITDA 2017 (x)	P/E (x)
DMG Mori AG	3,456.0	3,243.0	Germany	2.9%	10.6%	(1.6)	29.8
Georg Fischer AG	3,051.0	3,523.0	Switzerland	2.9%	11.8%	0.5	13.9
Maschinenfabrik Berthold Hermle	316.0	177.0	Germany	5.8%	25.4%	(1.3)	4.5
Diskus Werke AG	160.0	255.0	Germany	8.3%	10.6%	2.2	22.1
Starrag Group Holding AG	134.0	159.0	Switzerland	1.8%	6.4%	0.8	13.0
Datron AG	48.0	41.0	Germany	8.8%	11.0%	(0.9)	13.3
Fidia SpA	20.0	40.0	Italy	-0.4%	-3.1%	n.a.	n.a.
Fabryka Obrabiarek Rafamet SA	10.0	19.0	Poland	0.3%	10.5%	2.3	61.6
Milling machines peers				**3.8%**	**10.4%**	**0.3**	**16.1**
Nicolas Correa SA	**44.2**	**52.7**	**Spain**	**12.5%**	**10.9%**	**1.3**	**9.7**
Machine tool				**1.6%**	**13.2%**	**0.5**	**16.7**

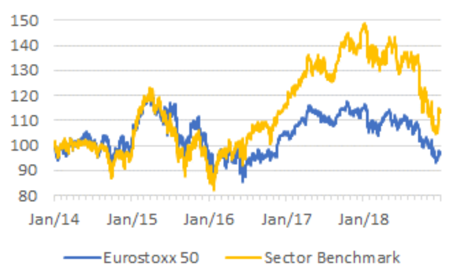
*Average P/E ratio for Milling machines peers does not include Fabryka Obrablarek Rafamet because it is not representative.
** Nicolás Correa (NEA) P/E ratio refers to Ordinary P/E (excluding EUR 2.1Mn extraordinary expenses during 2017).

Among European milling machine manufacturers, the most strictly comparable companies are Maschinenfabrik Berthold Hermle, Starrag Group and Fidia. In Spain, NEA's main competitors are family companies with private capital (such as Fagor Arrasate, Soraluze, Zayer and MTE, among others) with an average EBITDA margin of close to 10.0% in 2017 (vs 10.9% for NEA).

Despite everything, global demand is still healthy

The machine tool industry is at the "core" of industrial production where momentum is not good for three reasons: 1) exposure to China against a backdrop of evident cyclical deceleration and the risk of a change in import tariff policies which would impact the machine tool (milling machine) subsector; 2) uncertainty in the automotive industry due to regulatory changes; and 3) trade tensions between the US and China. All this has resulted in a general market correction (the Thompson Reuters Industrial Machinery & Equipment index slipped 17.7% in 2018 vs a 12.2% correction in the Eurostoxx 50 index). NEA has corrected by close to 18% since highs of June 2018.

Chart 15. Sector Benchmark(1) vs Eurostoxx 50 (5y)



(1) The sector benchmark index refers to the Thompson Reuters Europe Industrial Machinery and Equipment.

However, the kind of product manufactured by NEA (chip removal milling machines) has high added value (machinery adapted to each sector and client's needs) so could be less exposed to an increase in Chinese import tariffs (China has no replacement products to cover its high demand nor the technological capacity to produce these). Also, as chip removal milling machines have less exposure to the automotive sector (where metal forming machine tools predominate) we think the risk of losing clients in the current context is small.

In summary: despite the uncertainties which are having a multiplier effect on cyclical companies (such as NEA), global demand remains in good health. And the conditions of NEA's micro-sector (chip removal milling machines) offer a certain protection within the machine tool world.

Although more slowly, industrial companies continue to increase their capacity, so in the mid term (2019-2020) we expect demand for machine tools to continue to show moderate growth.

Maintain margins against a backdrop of deceleration?

Chart 16. Revenues evolution (2013-2020e)

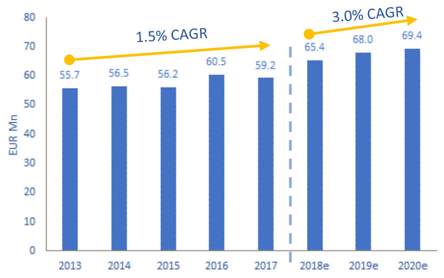


Chart 17. Holding Company Business plan

EUR Mn	2017e	2018e	2019e
Revenues	43.8	48.3	52.7
EBITDA	1.3	4.2	5.4
Profit Before Tax	0.2	4.0	5.1
Employees	188	195	197
Total Revenues growth	*0.0%*	*10.4%*	*9.0%*
Rec. EBITDA/Revenues	*3.0%*	*8.8%*	*10.3%*

Note: The business plan published by NEA refers solely to the parent company, Nicolás Correa S.A, which in 2017 represented 74.3% of Group revenue and 38.2% of Group EBITDA.
In 2017, the parent company exceeded the expectations included in the business plan in respect of EBITDA and EBT (+26.4% and +140.3%, respectively), with similar to estimated revenue (EUR 43.4Mn).

Chart 18. Rec. EBITDA and Rec. EBITDA margin evolution (2013 – 2020e)

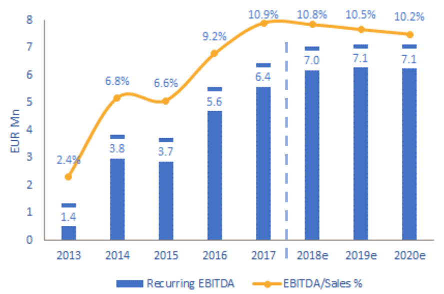
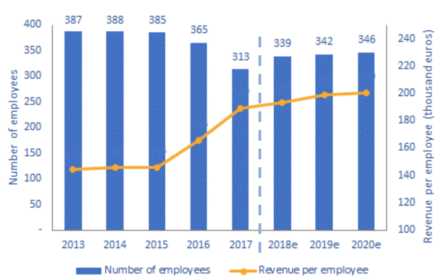


Chart 19. Number of employee's evolution



After the crisis NEA has been through (which has provided valuable lessons for the future) and the tough restructuring process we see as concluded with the closure of the Itziar plant in 2017 (14% reduction in the workforce), we believe NEA has achieved the desired level of operating profitability, becoming (i) a profitable company (EBITDA margin c.10%), with (ii) low leverage (ND/EBITDA 0.6x in 2018e).

Now there is only one question: Against a backdrop of evident cyclical deceleration, is what we have seen to date sustainable? Can current margins be maintained in a scenario of falling revenues? Answering this question requires a systematic analysis of the company's P&L statement.

The growth started years ago continued in the first 9 months of 2018: (i) an 18.5% increase in revenues vs the same period of the previous year, with (ii) an EBITDA margin of 10.3% (vs 4.8% in 3Q 2017), confirming that the decisions take in 2016 and 2017 were strategically correct (1.6p.p. improvement in the EBITDA margin between 2016 and 2018e).

Moreover, an order book at highs of the last five years (EUR 46.7Mn at 3Q18) is a fundamental reason to justify the company's ability to comply with the business plan presented for the parent (2018), although for 2019 initially envisaged growth does not seem achievable (we estimate sales growth of less than 5%, albeit at the consolidated level, vs 9% envisaged in the plan; chart 17).

Deceleration of revenue growth (+3.0% CAGR 2018-2020e) …

The revenue growth seen in 2018e thanks to cyclical momentum (+10.4%), should normalise in 2019e (+4.0%) and 2020e (+2.0%), in line with the growth expected for the machine tool industry (+3.6% in 2019e according to Oxford Economics).

Also, despite the closure of the Itziar plant in 2017, we think NEA still has sufficient capacity at its Burgos plant to continue to increase its activity without having to increase investment to achieve growth.

… with reasonable margins (between 10% and 11% of EBITDA)

We value the company's focus on margins very positively (6.6 p.p increase in the gross margin between 2013 and 2017) vs growth in volumes of previous periods.

We think the company has reached an optimum operating profitability (with a gross margin of 55%). In 2019e, a macro context shaped by (i) a global cyclical slowdown and (ii) exposure to the Chinese market (23.7% of sales), will exert slight downward pressure on margins: we estimate a 0.5p.p narrowing of the gross margin, remaining stable in 2020e (54.5% of revenues).

Below the gross margin line, we do not expect significant economies of scale. We estimate that (i) operating costs will grow in line with sales (+3.0% CAGR between 2018e and 2020e), while for (ii) personnel costs we expect the cost per employee to increase by 2% annually in coming years, assuming a relatively stable workforce (restructuring has already been completed and increases in productivity were already seen in 2017: 11.3% reduction in personnel costs).

In this scenario, the EBITDA margin remains relatively stable in 2018e-2020e: 10.8% in 2018e, narrowing slightly to 10.2% in 2020e (vs 10.1% for the European milling machine subsector). We think that in 2018e, 2019e and 2020e NEA will generate EBITDA of close to EUR 7.0Mn (exceeding the EUR 6.4Mn of EBITDA generated in 2008 obtained with much higher revenues than at present: EUR 116Mn; "almost double").

Chart 20. Ord. Net profit evolution (2013-2020e)

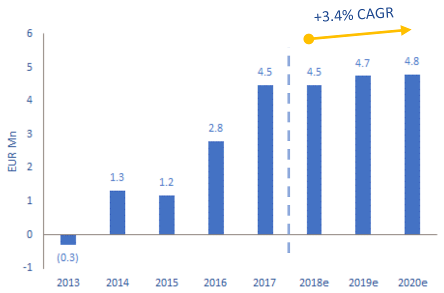


Chart 21. CAPEX/Sales and ND/EBITDA Rec. evolution (2013-2018e)

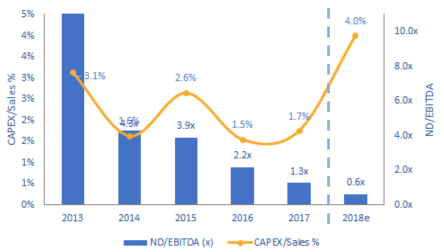


Chart 22. 2018e Recurrent FCF breackdown

Ordinary net profit (+3.4% CAGR 2018-2020e)

With no significant impact of financial expenses (EUR 0.2Mn in 2018e), the main P/L items below the EBIT line are minority interests and tax:

1. **Tax rate:** We estimate a tax rate of 20% for 2018e-2020e, assuming EUR 0.3Mn (out of a total of EUR 14.1Mn) of unused tax losses generated in prior years are offset each year. We think the tax burden could be reduced by up to a further EUR 1.2Mn depending on the extent to which said tax losses are used.

2. **Income by the equity method:** mainly comprise the shareholding in the Chinese company GNC Kunming (net carrying value of EUR 2.2Mn, control of 45%). In 2017 equity method results contributed a loss of EUR 0.3Mn. We assume that GNC Kunming will reach break-even in 2018e.

As we can see, the equity story rests almost exclusively on the company's ability to maintain its competitive position thanks to the flexibility (and experience) acquired after the crisis it underwent during the last change of cycle. In other words: to generate profits even in a situation of cyclical deceleration. We estimate growth of 6% in Ordinary NP in 2019.

Working capital

In 2013-2017 the company managed to reduce the Working Capital/Revenues ratio by 4.0 p.p (19.6% in 2017 vs 23.6% in 2013). Over the long term we assume a practically zero impact of working capital in terms of FCF.

CAPEX remains smaller than for comparables

NEA has maintained low levels of CAPEX in recent years (average of 2.0% in the last 5 years vs 4.0% for the industry). As a result of this, together with the concentration of activity in a single plant, we estimate an increase in CAPEX mainly in order to refurbish the Burgos plant to EUR 2.5Mn in 2018e (4% of revenues).

For 2019e and 2020e, we do not think higher CAPEX investment will be required, so we expect maintenance CAPEX of EUR 1.5Mn (2.1% of revenues), maintaining a level of investment close to that seen in 2017.

How much Free Cash Flow does NEA generate?

In 2013-2017 recurrent FCF generated by NEA improved by EUR 6.1Mn (from EUR -0.3Mn to EUR 5.8Mn in 2017), with the improvement in the company's profitability being the main driver of cash generation, the gross margin widening from 48.5% in 2013 to 55.1% in 2017 (with a positive impact on FCF of EUR 4.9Mn).

For 2018e we estimate recurrent FCF of EUR 1.8Mn vs EUR 5.8Mn in 2017. The EUR 4.1Mn reduction in recurrent FCF in 2018e is due mainly to: (i) a negative impact of working capital of EUR 2.0Mn (due to revenue growth in 2018e vs 2017), (ii) an increase in CAPEX of EUR 1.6Mn and (iii) an increase in the tax expense of EUR 1.2Mn.

Below the recurrent FCF line we have assumed deferred taxes will be offset in an amount of EUR 1.0Mn/year (maximum annual amount that can be offset out of a total of EUR 9.6Mn at the end of 2017), which gives the company a very favourable tax situation. As a result, the net impact on free cash flow of the tax expense remains small (around EUR 0.2 Mn a year). Also, in 2018e there was an extraordinary inflow of cash of EUR 1.0Mn (EUR 4.0Mn in 2019) from the sale of the Itziar installations in December 2018 for EUR 5.0Mn (generating extraordinary revenues of EUR 0.3Mn).

In the current scenario, in which the Company has achieved a profitable operating structure, we think that NEA will generate recurrent Free Cash Flow of EUR 3.6Mn in 2019e and EUR 4.1Mn in 2020e (Rec. FCF yield of 8.2% and 9.4%, respectively vs a machine tools industry average of 7.3%).

Chart 23. EPS and Pay/Out evolution

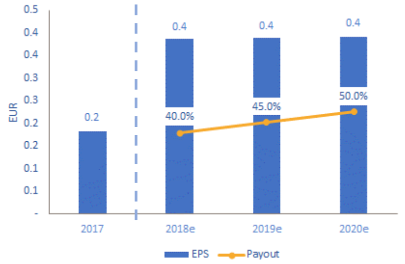
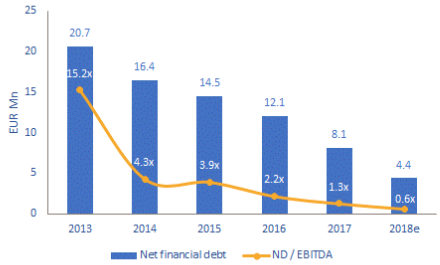


Chart 24. ND/EBITDA Rec. evolution (2013-2018e)



2018e: possible resumption of dividend payments

In 2008 (prior to the change of cycle in 2009) NEA paid a dividend of EUR 0.05/share against earnings for 2007 (Payout 14.6%, yield 1.5%).

Given the cash generation expected for 2018e and subsequent years (with the possibility of ending 2019e with net cash), we think NEA could pay a dividend of EUR 0.15/share in 2018e (payout 40%, slightly above the industry average of 35.0%; yield 4.3%, obtaining a yield of 5.4% in 2020e). Our model assumes moderate growth in the pay-out in the next 3 years, to 50% in 2020e. This is compatible with a very healthy capital structure which grants a certain capacity for (non-organic) growth in the mid and long term.

Debt reduction and financial strength

Since Group net debt peaked in 2012 (EUR 21.3Mn with EBITDA of EUR – 3.8Mn), NEA has been using the cash generated to reduce its leverage, with a c.80% reduction in net debt between 2013 and 2018e (ND/EBITDA of 0.6x in 2018e, in line with the machine tool industry: 0.5x), estimating a net cash position of EUR 2.4Mn in 2019e after paying a potential dividend (unconfirmed, estimated by Lighthouse) against 2018e earnings of EUR 1.9Mn.

In conclusion: the already completed restructuring gives NEA an enhanced ability to endure the “bad” stage of the cycle without “suffering”

Our central scenario is a significant slowdown in 2019e and 2020e. And in this scenario we think the company will be able to maintain margins (EBITDA/Sales) above 10% and generate recurrent FCF of close to EUR 4.0Mn. All this is the result of the restructuring carried out in the last 5 years. What would happen in a more negative (although not dramatic) cyclical situation? A scenario in which revenues were to fall by 5%. In this case FCF levels would continue to show “resistance”. And FCF would remain above EUR 2.0Mn. With zero debt.

Chart 25. Recurrent EBITDA and Rec. FCF sensitivities

EUR Mn	Base Case 2019e	Worst Case 2019e	Worst Worst Case 2019e	Worst Case vs Base Case	Worst Worst Case vs Base
Revenues growth	*4.0%*	*0.0%*	*-5.0%*		
Total Revenues	68.0	65.4	62.1	*-3.8%*	*-8.7%*
EBITDA	7.1	6.2	5.1	*-12.9%*	*-29.0%*
EBITDA / Revenues	10.5%	*9.5%*	*8.1%*		
EBITDA growth vs 2018e	1.4%	*-11.7%*	*-28.0%*		
+/- Working Capital inc.	(0.7)	(0.6)	(0.7)		
+/- Capex	(1.5)	(1.5)	(1.5)		
+/- Financial result	(0.1)	(0.1)	(0.1)		
+/- Taxes	(1.2)	(1.0)	(0.7)		
Recurrent FCF	3.6	3.0	2.1	*-16.5%*	*-42.0%*
ND / EBITDA	-0.3x	-0.3x	-0.2x		
Rec. FCF. Yield %	8.2%	6.9%	4.8%		

Valuation inputs

Valuation inputs - Discounted Cash Flow

DCF - Valuation inputs	2018e	2019e	2020e	Terminal Value
Free Cash Flow "To the Firm"	**4.0**	**8.8**	**5.2**	**75**

			Best Case	Worst Case
Market Cap	**44.2**	At the date of this report		
Net financial debt	**8.1**	Debt net of Cash (last financial year)		
Cost of Debt	2.4%	Net debt cost	2.00%	2.75%
Effective tax rate (T) [(1)]	20.0%	T (Normalised tax rate)	=	=
Cost of Net Debt	**1.9%**	**Kd = Cost of Net Debt * (1-T)**	**1.6%**	**2.2%**
Risk free rate (rf)	1.4%	Rf (10y Spanish bond yield)	=	=
Equity risk premium	6.0%	R (own estimate)	5.5%	6.5%
Beta (B)	1.3	B (Thomson Reuters)	1.2	1.4
Cost of Equity	**9.2%**	**Ke = Rf + (R * B)**	**8.0%**	**10.5%**
Equity / (Equity + Net Debt)	84.4%	E (Market Cap as equity value)	=	=
Net Debt / (Equity + Net Debt)	15.6%	D	=	=
WACC	**8.0%**	**WACC = Kd * D + Ke * E**	**7.0%**	**9.2%**
G "Razonable"	**1.0%**		**1.5%**	**0.5%**

Note 1: In 2020e we estimate DTA amounting to EUR 6,6Mn (which could reduce the tax impact at FCF level).

Valuation inputs - Multiples

Company	Mkt. Cap	P/E 2018e	BPA 18 - 20 CAGR	EV/EBITDA 18	EBITDA 18 - 20 CAGR	EV/Sales 18	Sales 18 - 20 CAGR	EBITDA margin 18	FCF yield (%) 18	FCF 18 - 20 CAGR
Atlas Copco AB	26,291.0	18.0	3.3%	11.2	1.5%	2.9	2.6%	26.2%	5.3	7.7%
Georg Fischer	3,171.1	12.5	2.5%	7.5	1.2%	0.9	-2.3%	11.8%	5.3	23.5%
Danieli	1,204.0	20.3	33.2%	1.4	5.4%	0.1	4.6%	8.6%	(3.3)	n.a.
Klingelnberg	315.0	15.0	15.2%	9.3	14.8%	1.2	8.0%	12.4%	2.7	48.1%
Machine-Tools		**16.5**	**13.6%**	**7.3**	**5.7%**	**1.3**	**3.2%**	**14.8%**	**2.5**	**26.4%**
Fidia	25.6	n.a.	n.a.	26.0	79.0%	0.7	6.3%	2.8%	(2.0)	n.a.
Starrag	140.0	18.8	33.5%	8.6	20.7%	0.5	4.7%	5.7%	3.8	31.6%
Datron AG	50.1	14.2	17.3%	7.2	15.5%	0.8	9.5%	10.9%	3.5	127.3%
Milling Machines		**16.5**	**25.4%**	**13.9**	**38.4%**	**0.7**	**6.8%**	**6.5%**	**1.8**	**79.5%**
Nicolás Correa	44.3	9.4	3.5%	7.5	0.5%	0.8	3.0%	10.8%	**4.0**	16.7%

Valuation inputs - Free Cash Flow sensitivity analysis (2019e)

A) EBITDA and EV/EBITDA sensitivity to changes in EBITDA/Sales

Scenario	EBITDA/Sales 19e	EBITDA 19e	EV/EBITDA 19e
Max	11.5%	7.8	6.7x
Central	10.5%	7.1	7.4x
Min	9.5%	6.5	8.2x

B) Rec. FCF and Rec. FCF - Yield sensitivity to changes in EBITDA and CAPEX/sales

Rec. Free Cash Flow	Capex/Sales 19e		
EBITDA 19e	1.1%	2.1%	3.1%
7.8	5.0	4.3	3.6
7.1	4.3	3.6	3.0
6.5	3.6	3.0	2.3

Scenario	FCF/Yield 19e		
Max	11.3%	9.8%	8.2%
Central	9.8%	8.2%	6.7%
Min	8.2%	6.7%	5.2%

What could go wrong?

We consider risks to be those that could have a significant negative impact on our projections, mainly those for operating profit and free cash flow:

1. **A cyclical sector with margin narrowing possible.** Although in recent years NEA has focused on its most profitable clients (with a gross margin of close to 55% in the last three years), we identify a number of factors that could have a negative impact on the Company's margins: (I) the cyclical nature of the sector and fierce competition; and (ii) protectionist trading policies (the US-China trade war).

   Any slowdown affecting those sectors which are the principal destinations for machine tools (mainly aerospace and automotive) would negatively impact the Company's margins. A 5 p.p narrowing of NEA's gross margin would mean a return to levels seen at the beginning of the last crisis (2011: 50.3%), and would reduce 2019e recurrent EBITDA by c.50% (vs the current estimate), taking recurrent FCF to break-even levels.

2. **Asian market exposure.** NEA has high exposure to the Chinese market (23.7% of 2017 sales; in the Spanish milling subsector it has a share of over 85%), where GDP growth is declining and showing the smallest YoY growth since 2009 (2019e GDP +6.3% vs +6.6% 2018e and at risk of a downgrade). Any slowdown in the Chinese market (economic deceleration and, especially, a toughening of machine tool sector tariffs) would have a negative impact on both NEA's sales volumes and margins.

3. **Increase in CAPEX requirements.** Given the crisis experienced by the Company in recent years, CAPEX investments have been small (2.1% of sales on average in 2013-2017 vs 4.0% for the industry). We estimate in increase in CAPEX for 2018e (2018e CAPEX / sales of 4.0% vs 1.7% in 2017) in order to upgrade the Burgos plant (EUR 2.6Mn).

   For 2019 and 2020 we estimate CAPEX / sales of 2.1% (+30% vs depreciation, but still below the industry average). A 2 p.p increase in estimated CAPEX requirements for 2019e would have an impact on recurrent FCF of EUR 1.4Mn (-34.0%).

4. **Maintaining the current order book.** Given the current stage of the cycle in which NEA finds itself, we think it a risk to maintain the current order book (EUR 46.7Mn in 3Q 2018 vs EUR 26.4Mn in the same period of the previous year: +76.9%). We think the current level is high (the highest in five years) and could decline more (or more quickly) than expected in coming months.

5. **Working capital management.** NEA manufactures to order, with each milling machine taking an average of 6-7 months to produce, which means working capital fluctuates according to the Group's order book and production capacity, with a gap of EUR 2.1Mn between the 2013 high and the 2015 low (EUR 13.1Mn and EUR 11.1Mn).

6. **A resumption of dividend payments.** Given NEA's cash generation and financial strength, we think the Company might resume dividend payments in 019e (EUR 0.2/share) against 2018e earnings (payout 40%, yield 4.5%; reaching a yield of 5.7% in 2020e). However, a 50% reduction in 2019e recurrent EBITDA would imply negative cash generation and would rule out all chance of a resumption of dividend payments.

7. **Technology.** This is a longer term risk arising from the machine tool industry's exposure to the automotive and aerospace sectors which are undergoing "disruption", something that could affect demand in the short and mid terms. However, NEA produces "chip removal" type milling machines destined for the general mechanical engineering sector (with less exposure to the auto sector than metal "forming" machines). Despite this, NEA is also affected by the risk from technological change

Management is "tied" to the share price

Chart 26. Board of Directors

Name	Category	Position	% Shares
Nicolás-Correa, Jose Ignacio[1]	Executive	Chairman	0,00%
Nicolás-Correa, Ana Maria	Other external	Secr. Board	2,45%
Sancor (Nicolás-Correa, Bibiana)	Property	Board	29,13%
Pinto, Carmen	Executive	CEO	0,76%
Oriol, Felipe	Other external	Board	0,81%
Sáenz, Alfredo	Independence	Board	0,00%
Miranda, Rafael	Independence	Board	0,00%
Total			33,2%

Note[1]: Jose Ignacio Nicolás-Correa owns and indirect position amounting to 29.13% of the Capital through the Company Sancor Capital S.L.
Source: CNMV

After Alantra's exit in October 2013 (it had held a 12.8% stake), controlling shareholders have remained stable in the last 5 years (except for the exit of Doosan: 10% of capital in 2017, bought back by the Nicolás-Correa family).

1. **The founding family (Nicolás-Correa) remains the core shareholder** with an indirect and direct shareholding of at least 32% of capital and three seats (out of seven) on the board of directors (one of them executive).

2. **Carmen Pinto, new CEO.** She was appointed in November 2017 in order to lead the Group's new business plan. Carmen Pinto holds 93,606 shares in NEA (0.76% of capital).

3. **The board of directors is fully aligned with minority shareholders' interests.** The board comprises seven members; two executive, two independent, two external and one proprietary director (Sancor Capital S.L., represented by Bibiana Nicolás-Correa). As a whole, the board of directors directly controls 33.2% of capital.

4. **The management team has significant experience of the sector.** And lengthy service in the company (over 40 years in the case of the Chairman and over 15 years in the case of the CEO). Fully focused on organic growth: in the last 3 years (ND/EBITDA < 2.5x) no corporate transactions have been carried out.

5. **Management's interests aligned with those of minority shareholders via** (i) the steering committee's high exposure to the share price (controlling, directly or indirectly, c.30% of capital), and (ii) incentives to meet goals via bonuses:

   a) Net profit < EUR 1.5Mn: no variable compensation is accrued.

   b) Net profit between EUR 1.5Mn and EUR 2.5Mn: Variable compensation from 10% of gross fixed compensation for profit of EUR 1.5Mn to 24% for profit of EUR 2.5Mn and higher.

   c) If net profit is more than 120% that established in the business plan, variable compensation could reach 120% of gross fixed compensation.

   d) In addition, the CEO shall receive 22,066 shares (0.2% of capital) of treasury stock held by NEA (77,198 shares acquired in 2011 and 2012) according to the degree of achievement of the Business plan for 2017, 2018 and 2019.

6. **Non executive directors receive no compensation other than a per diem** to compensate them for attendance at meetings without prejudice to their independence. The maximum compensation to be paid to members of the board of directors has been fixed since 2016 at EUR 0.4Mn (total compensation paid the board in 2017 was EUR 0.3Mn).

7. **The Company has no explicit commitment to pay a dividend** or a certain level of Pay Out. The last dividend payment was made in 2008 for EUR 0.05/share charged to profits for 2007 (Pay Out 14.6%). In 2013-2018e, NEA's cash generation was used mainly to pay back debt (net debt: EUR 4.4Mn in 2018e vs EUR 20.7Mn in 2013; a reduction of 83.8%).

Appendix 1. Financial Statements

Balance Sheet (EUR Mn)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Intangible assets	0.2	0.2	0.7	0.4	0.4	0.4	0.4	0.4
Fixed assets	22.9	22.8	22.4	17.0	16.7	13.4	13.8	14.1
Other Non Current Assets	10.8	10.4	10.4	9.8	9.6	8.6	7.6	6.6
Financial Investments	1.5	1.0	0.9	2.9	2.5	6.5	2.5	2.5
Goodwill & Other Intangilbles	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5
Current assets	26.3	32.5	28.8	28.2	30.6	32.6	34.0	34.7
Total assets	**71.2**	**76.4**	**72.6**	**67.8**	**69.4**	**71.1**	**67.9**	**67.9**
Equity	30.9	32.7	34.3	37.2	39.4	44.1	47.0	49.6
Minority Interests	3.1	3.4	3.4	0.7	0.7	0.7	0.7	0.7
Provisions & Other L/T Liabilities	3.3	2.7	2.7	2.1	2.1	2.1	2.1	2.1
Net financial debt	20.7	16.4	14.5	12.1	8.1	4.4	(2.4)	(5.4)
Current Liabilities	13.1	21.2	17.7	15.8	19.0	19.7	20.5	20.9
Equity & Total Liabilities	**71.2**	**76.4**	**72.6**	**67.8**	**69.4**	**71.1**	**67.9**	**67.9**

									CAGR	
P&L (EUR Mn)	**2013**	**2014**	**2015**	**2016**	**2017**	**2018e**	**2019e**	**2020e**	**13-17**	**17-20e**
Total Revenues	**55.7**	**56.5**	**56.2**	**60.5**	**59.2**	**65.4**	**68.0**	**69.4**	***1.5%***	***5.4%***
Total Revenues growth	*69.3%*	*1.4%*	*-0.5%*	*7.7%*	*-2.1%*	*10.4%*	*4.0%*	*2.0%*		
COGS	(28.7)	(26.6)	(25.8)	(27.2)	(26.6)	(29.4)	(30.9)	(31.6)		
Gross Margin	**27.0**	**29.9**	**30.4**	**33.3**	**32.6**	**36.0**	**37.1**	**37.8**	***4.8%***	***5.0%***
Gross Margin(o / Revenues)	*48.5%*	*53.0%*	*54.1%*	*55.0%*	*55.1%*	*55.0%*	*54.5%*	*54.5%*		
Personnel Expenses	(15.0)	(15.3)	(16.4)	(16.6)	(14.8)	(16.3)	(16.8)	(17.3)		
Other Operating Expenses	(10.6)	(10.8)	(10.3)	(11.1)	(11.4)	(12.6)	(13.1)	(13.4)		
Recurrent EBITDA	**1.4**	**3.8**	**3.7**	**5.6**	**6.4**	**7.0**	**7.1**	**7.1**	***47.5%***	***3.4%***
Recurrent EBITDA growth	*n.a.*	*181.4%*	*-2.6%*	*49.3%*	*15.8%*	*9.5%*	*1.4%*	*-0.5%*		
Rec. EBITDA/Revenues	*2.4%*	*6.8%*	*6.6%*	*9.2%*	*10.9%*	*10.8%*	*10.5%*	*10.2%*		
Restructuring Expenses	-	-	-	-	(2.1)	-	-	-		
Other non-recurrent Costs	-	-	-	-	-	-	-	-		
EBITDA	**1.4**	**3.8**	**3.7**	**5.6**	**4.3**	**7.0**	**7.1**	**7.1**	***33.6%***	***17.9%***
EBITDA growth	*n.a.*	*181.4%*	*-2.6%*	*49.3%*	*-22.1%*	*62.6%*	*1.4%*	*-0.5%*		
EBITDA/Revenues	*2.4%*	*6.8%*	*6.6%*	*9.2%*	*7.3%*	*10.8%*	*10.5%*	*10.2%*		
Depreciation & Provisions	(1.5)	(1.6)	(1.7)	(2.2)	(1.4)	(1.2)	(1.1)	(1.1)		
Capitalized Expense	1.0	0.1	0.3	0.0	-	-	-	-		
EBIT	**0.9**	**2.4**	**2.3**	**3.4**	**3.0**	**5.8**	**6.0**	**6.0**	***34.5%***	***26.2%***
EBIT growth	*n.a.*	*162.2%*	*-4.6%*	*48.4%*	*-11.9%*	*95.9%*	*3.6%*	*-1.0%*		
EBIT/Revenues	*1.6%*	*4.2%*	*4.1%*	*5.6%*	*5.0%*	*8.9%*	*8.9%*	*8.6%*		
Impact of Goodwill & Others	-	-	-	-	-	-	-	-		
Net Financial Result	(1.1)	(1.1)	(0.9)	(0.6)	(0.3)	(0.2)	(0.1)	0.0		
Income by the Equity Method	(0.1)	0.0	(0.1)	0.0	(0.3)	-	-	-		
Ordinary Profit	**(0.3)**	**1.3**	**1.3**	**2.7**	**2.4**	**5.6**	**5.9**	**6.0**	***n.a.***	***36.1%***
Ordinary Profit Growth	*-96.1%*	*n.a.*	*1.6%*	*103.9%*	*-13.6%*	*135.6%*	*6.0%*	*0.9%*		
Extraordinary Results	-	-	-	1.9	-	0.3	-	-		
Profit Before Tax	**(0.3)**	**1.3**	**1.3**	**4.7**	**2.4**	**5.9**	**5.9**	**6.0**	***n.a.***	***36.1%***
Tax Expense	(0.0)	0.0	(0.2)	0.1	(0.0)	(1.2)	(1.2)	(1.2)		
Effective Tax Rate	*-13.0%*	*-0.5%*	*12.3%*	*-1.8%*	*0.2%*	*19.9%*	*19.9%*	*20.0%*		
Minority Interest	0.2	0.0	0.2	(0.6)	(0.1)	-	-	-		
Discontinued Activities	-	-	-	-	-	-	-	-		
Net Profit	**(0.1)**	**1.4**	**1.4**	**4.1**	**2.2**	**4.7**	**4.7**	**4.8**	***n.a.***	***28.9%***
Net Profit growth	*-98.8%*	*n.a.*	*0.2%*	*203.0%*	*-45.6%*	*111.0%*	*0.6%*	*0.9%*		
Ordinary Net Profit	**(0.3)**	**1.3**	**1.2**	**2.8**	**4.5**	**4.5**	**4.7**	**4.8**	***n.a.***	***2.4%***
Ordinary Net Profit growth	*-95.7%*	*n.a.*	*-11.3%*	*136.7%*	*59.6%*	*0.3%*	*6.0%*	*0.9%*		

									CAGR	
Cash Flow (EUR Mn)	**2013**	**2014**	**2015**	**2016**	**2017**	**2018e**	**2019e**	**2020e**	**13-17**	**17-20e**
Recurrent EBITDA						**7.0**	**7.1**	**7.1**	***47.5%***	***3.4%***
Working Capital Increase						(1.2)	(0.7)	(0.3)		
Recurrent Operating Cash Flow						**5.8**	**6.4**	**6.8**	***29.5%***	***-1.8%***
Capex						(2.6)	(1.5)	(1.5)		
Net Financial Result affecting the Cash Flow						(0.2)	(0.1)	0.0		
Taxes						(1.2)	(1.2)	(1.2)		
Recurrent Free Cash Flow						**1.8**	**3.6**	**4.1**	***n.a.***	***-10.8%***
Restructuring Expense & Others						-	-	-		
- Acquisitions / + Divestures of assets						1.0	1.0	1.0		
Extraordinary Inc./Exp. Affecting Cash Flow						1.0	4.0	-		
Free Cash Flow						**3.8**	**8.6**	**5.1**	***n.a.***	***0.8%***
Capital Increase						-	-	-		
Dividends						-	(1.9)	(2.1)		
Net Debt Variation						(3.8)	(6.8)	(3.0)		

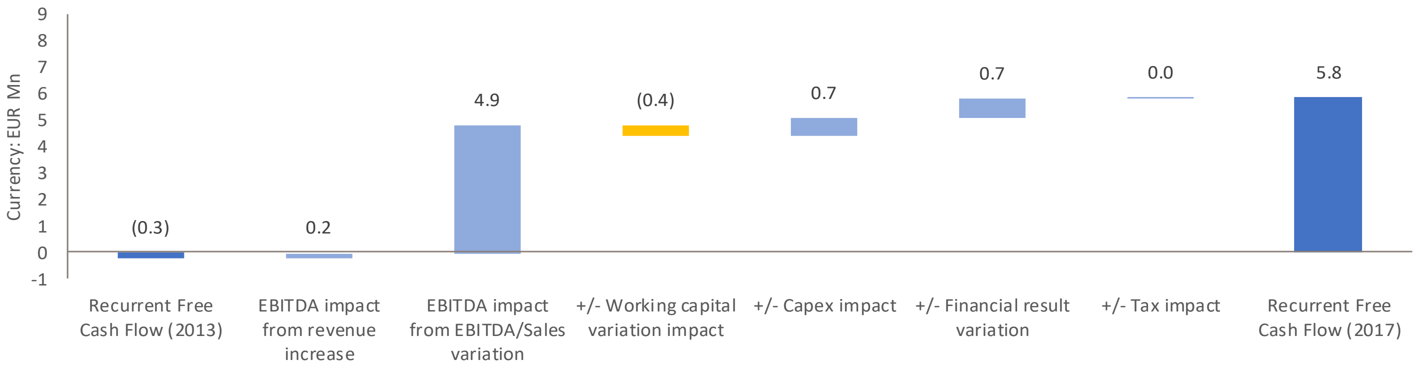
Appendix 2. Free Cash Flow

A) Cash Flow Analysis (EUR Mn)	2014	2015	2016	2017	2018e	2019e	2020e	CAGR 14-17	CAGR 17-20e
Recurrent EBITDA	**3.8**	**3.7**	**5.6**	**6.4**	**7.0**	**7.1**	**7.1**	***19.0%***	***3.4%***
Recurrent EBITDA growth	*181.4%*	*-2.6%*	*49.3%*	*15.8%*	*9.5%*	*1.4%*	*-0.5%*		
Rec. EBITDA/Revenues (%)	*6.8%*	*6.6%*	*9.2%*	*10.9%*	*10.8%*	*10.5%*	*10.2%*		
+/- Working Capital increase	1.8	0.2	(1.3)	0.8	(1.2)	(0.7)	(0.3)		
= Recurrent Operating Cash Flow	**5.7**	**3.9**	**4.3**	**7.2**	**5.8**	**6.4**	**6.8**	***8.3%***	***-1.8%***
Rec. Operating Cash Flow growth	*121.5%*	*-30.6%*	*9.0%*	*67.8%*	*-19.4%*	*10.2%*	*6.6%*		
Rec. Operating Cash Flow / Sales	*10.0%*	*7.0%*	*7.1%*	*12.1%*	*8.9%*	*9.4%*	*9.8%*		
- Capex	(0.9)	(1.5)	(0.9)	(1.0)	(2.6)	(1.5)	(1.5)		
- Net Financial Result affecting Cash Flow	(1.1)	(0.9)	(0.6)	(0.3)	(0.2)	(0.1)	0.0		
- Taxes	0.0	(0.2)	0.1	(0.0)	(1.2)	(1.2)	(1.2)		
= Recurrent Free Cash Flow	**3.7**	**1.4**	**2.8**	**5.8**	**1.8**	**3.6**	**4.1**	***16.5%***	***-10.8%***
Rec. Free Cash Flow growth	*n.a.*	*-61.6%*	*97.3%*	*108.4%*	*-69.6%*	*105.6%*	*13.6%*		
Rec. Free Cash Flow / Revenues	*6.5%*	*2.5%*	*4.6%*	*9.8%*	*2.7%*	*5.4%*	*6.0%*		
- Restructuring expenses & others	0.5	0.1	(0.1)	0.0	-	-	-		
- Acquisitions / + Divestments	0.7	0.9	0.2	1.2	1.0	1.0	1.0		
+/- Extraordinary Inc./Exp. affecting Cash Flow	-	-	-	(2.1)	1.0	4.0	-		
= Free Cash Flow	**4.9**	**2.4**	**2.9**	**5.0**	**3.8**	**8.6**	**5.1**	***0.8%***	***0.8%***
Free Cash Flow growth	*n.a.*	*-51.7%*	*23.8%*	*71.4%*	*-24.8%*	*129.2%*	*-40.5%*		
Recurrent Free Cash Flow - Yield (s/Mkt Cap)	*8.3%*	*3.2%*	*6.3%*	*13.2%*	*4.0%*	*8.2%*	*9.4%*		
Free Cash Flow Yield (s/Mkt Cap)	*11.1%*	*5.3%*	*6.6%*	*11.3%*	*8.5%*	*19.5%*	*11.6%*		

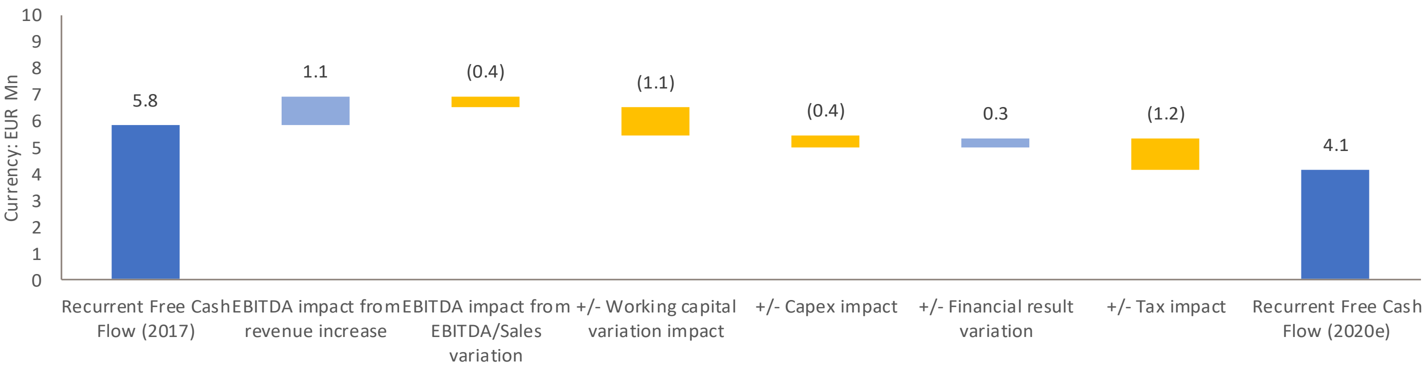
B) Analytical Review of Annual Recurrent Free Cash Flow Performance (Eur Mn)	2014	2015	2016	2017	2018e	2019e	2020e
Recurrent FCF(FY - 1)	**(0.3)**	**3.7**	**1.4**	**2.8**	**5.8**	**1.8**	**3.6**
EBITDA impact from revenue increase	0.0	0.0	0.3	-0.1	0.7	0.3	0.1
EBITDA impact from EBITDA/Sales variation	2.4	(0.1)	1.5	1.0	(0.1)	(0.2)	(0.2)
= Recurrent EBITDA variation	**2.5**	**-0.1**	**1.8**	**0.9**	**0.6**	**0.1**	**0.0**
+/- Working capital variation impact	0.6	(1.6)	(1.5)	2.0	(2.0)	0.5	0.5
= Recurrent Operating Cash Flow variation	**3.1**	**(1.7)**	**0.4**	**2.9**	**(1.4)**	**0.6**	**0.4**
+/- Capex impact	0.8	(0.6)	0.6	(0.1)	(1.6)	1.2	(0.0)
+/- Financial result variation	(0.0)	0.2	0.2	0.3	0.1	0.1	0.1
+/- Tax impact	0.0	(0.2)	0.3	(0.1)	(1.2)	(0.0)	(0.0)
= Recurrent Free Cash Flow variation	**4.0**	**(2.3)**	**1.4**	**3.0**	**(4.1)**	**1.9**	**0.5**
Recurrent Free Cash Flow	**3.7**	**1.4**	**2.8**	**5.8**	**1.8**	**3.6**	**4.1**

C) "FCF to the Firm" (pre debt service) (EUR Mn)	2014	2015	2016	2017	2018e	2019e	2020e	CAGR 14-17	CAGR 17-20e
EBIT	**2.4**	**2.3**	**3.4**	**3.0**	**5.8**	**6.0**	**6.0**	***7.6%***	***26.2%***
** Effective Tax Rate*	*-0.5%*	*12.3%*	*-1.8%*	*0.2%*	*19.9%*	*19.9%*	*20.0%*		
= Taxes (pre- Net Financial Result)	0.0	(0.3)	0.1	(0.0)	(1.2)	(1.2)	(1.2)		
Recurrent EBITDA	**3.8**	**3.7**	**5.6**	**6.4**	**7.0**	**7.1**	**7.1**	***19.0%***	***3.4%***
+/- Working Capital increase	1.8	0.2	(1.3)	0.8	(1.2)	(0.7)	(0.3)		
= Recurrent Operating Cash Flow	**5.7**	**3.9**	**4.3**	**7.2**	**5.8**	**6.4**	**6.8**	***8.3%***	***-1.8%***
- Capex	(0.9)	(1.5)	(0.9)	(1.0)	(2.6)	(1.5)	(1.5)		
- Taxes (pre- Financial Result)	0.0	(0.3)	0.1	(0.0)	(1.2)	(1.2)	(1.2)		
= Recurrent Free Cash Flow (To the Firm)	**4.8**	**2.2**	**3.4**	**6.1**	**2.0**	**3.7**	**4.1**	***8.9%***	***-12.4%***
Rec. Free Cash Flow (To the Firm) growth	*409.1%*	*-54.5%*	*57.8%*	*80.2%*	*-67.2%*	*84.7%*	*10.8%*		
Rec. Free Cash Flow (To the Firm) / Revenues	0.1	0.0	0.1	0.1	0.0	0.1	0.1		
- Acquisitions / + Divestments	0.7	0.9	0.2	1.2	1.0	1.0	1.0		
+/- Extraordinary Inc./Exp. affecting Cash Flow	-	-	-	(2.1)	1.0	4.0	-		
= Free Cash Flow "To the Firm"	**5.5**	**3.1**	**3.7**	**5.4**	**4.0**	**8.8**	**5.2**	***-0.8%***	***-1.2%***
Free Cash Flow (To the Firm) growth	*n.a.*	*-44.1%*	*19.8%*	*45.5%*	*-24.9%*	*116.9%*	*-40.9%*		
Rec. Free Cash Flow To the Firm Yield (o/EV)	*9.0%*	*4.1%*	*6.5%*	*11.7%*	*3.8%*	*7.1%*	*7.8%*		
Free Cash Flow "To the Firm" - Yield (o/EV)	*10.5%*	*5.9%*	*7.0%*	*10.2%*	*7.7%*	*16.7%*	*9.9%*		

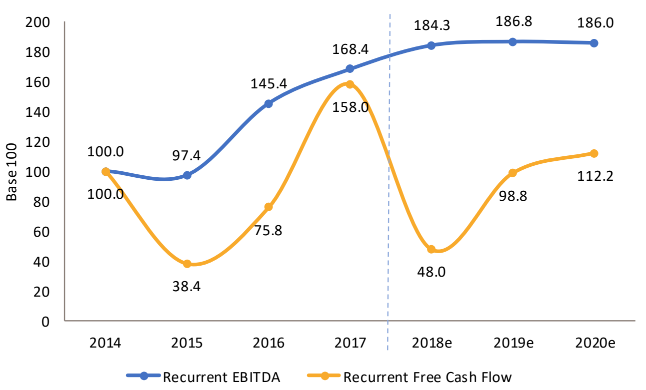
Recurrent Free Cash Flow accumulated variation analysis (2013 - 2017)



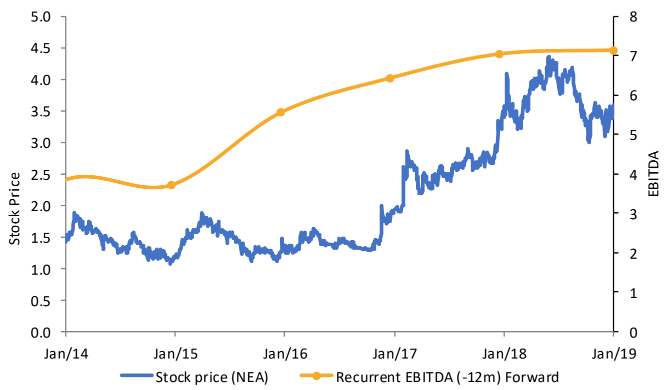
Recurrent Free Cash Flow estimated variation analysis (2017 - 2020e)



Recurrent EBITDA vs Recurrent Free Cash Flow



Stock performance vs EBITDA 12m forward



Appendix 3. Historical performance [1]

Historical performance (EUR Mn)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018e	CAGR 07 - 17
Total Revenues	**91.4**	**116.0**	**58.0**	**34.0**	**63.9**	**31.7**	**55.7**	**56.5**	**56.2**	**60.5**	**59.2**	**65.4**	*-4.2%*
Total Revenues growth	*37.5%*	*26.9%*	*-50.0%*	*-41.3%*	*87.9%*	*-50.4%*	*75.8%*	*1.4%*	*-0.5%*	*7.7%*	*-2.1%*	*10.4%*	
EBITDA	**5.0**	**6.4**	**(2.6)**	**(5.4)**	**4.1**	**(3.8)**	**1.4**	**3.8**	**3.7**	**5.6**	**4.3**	**7.0**	*-1.4%*
EBITDA growth	*846.7%*	*26.9%*	*n.a.*	*106.0%*	*n.a.*	*n.a.*	*n.a.*	*181.4%*	*-2.6%*	*49.3%*	*-22.1%*	*62.6%*	
EBITDA/Revenues	*5.5%*	*5.5%*	*n.a.*	*n.a.*	*6.4%*	*n.a.*	*2.4%*	*6.8%*	*6.6%*	*9.2%*	*7.3%*	*10.8%*	
Net Profit	**4.3**	**4.4**	**(5.1)**	**(8.6)**	**0.7**	**(7.1)**	**(0.1)**	**1.4**	**1.4**	**4.1**	**2.2**	**4.7**	*-6.3%*
Net Profit growth	*n.a.*	*1.2%*	*n.a.*	*68.1%*	*n.a.*	*n.a.*	*-98.8%*	*n.a.*	*0.2%*	*203.0%*	*-45.6%*	*111.0%*	
CAPEX/Sales %	*1.9%*	*4.1%*	*4.6%*	*1.9%*	*3.0%*	*1.2%*	*3.1%*	*1.6%*	*2.6%*	*1.5%*	*1.7%*	*4.0%*	
CAPEX	(1.8)	(4.8)	(2.7)	(0.7)	(1.9)	(0.4)	(1.7)	(0.9)	(1.5)	(0.9)	(1.0)	(2.6)	
Free Cash Flow	**7.9**	**(6.5)**	**(8.5)**	**(0.3)**	**(4.5)**	**(1.6)**	**(0.8)**	**4.9**	**2.4**	**2.9**	**5.0**	**3.8**	*-4.4%*
ND/EBITDA (x) [2]	-0.4x	0.7x	n.a.	n.a.	3.6x	n.a.	15.2x	4.3x	3.9x	2.2x	1.9x	0.6x	
P/E (x)	14.8x	8.8x	n.a.	n.a.	28.1x	n.a.	n.a.	9.9x	11.5x	5.2x	17.5x	9.4x	
EV/Sales (x)	0.7x	0.4x	0.7x	0.9x	0.5x	0.9x	0.6x	0.5x	0.5x	0.5x	0.8x	0.8x	
EV/EBITDA (x) [3]	12.6x	6.8x	n.a.	n.a.	7.6x	n.a.	23.5x	6.8x	7.1x	5.6x	10.4x	7.5x	
Absolute performance	*-41.6%*	*-22.0%*	*-35.7%*	*-30.1%*	*-32.4%*	*85.0%*	*-15.8%*	*17.0%*	*36.9%*	*83.1%*	*1.7%*	*10.5%*	
Relative performance vs Ibex 35	*-3.6%*	*-40.0%*	*-22.1%*	*-19.5%*	*-29.1%*	*52.4%*	*-18.8%*	*26.0%*	*39.7%*	*70.5%*	*19.6%*	*5.8%*	

Note 1: Multiples (calculated based on Market Cap and EV of each fiscal year) unless for 2018e, in which multiples are presented as of the day of this report. Source of historical multiples is Thomson Reuters. Absolute and relative performance refer to each fiscal year (01, Jan – 31, Dec).

Note 2: ND/EBITDA is calculated over total EBITDA. In 2017 ND/Rec. EBITDA is 1.3x.

Note 3: Calculated over Total EBITDA (not over recurrent EBITDA).

Appendix 4. Main Competitors (2018e)

	EUR Mn	*Atlas Copco*	Georg Fischer	Danieli	Klingelnberg	Average	Fidia	Starrag	Datron AG	
Market data	Ticker (Reuters)	ATCOa.ST	FIN.S	DANI.MI	KLIN.S		FDA.MI	STGN.S	DARG.DE	NEA.MC
	Country	Sweden	Switzerland	Italy	Switzerland		Italy	Switzerland	Germany	Spain
	Market cap	26,291.0	3,171.1	1,204.0	315.0	7,745.3	25.6	140.0	50.1	44.3
	Enterprise value (EV)	27,013.4	3,641.8	322.4	321.8	7,824.8	39.8	163.9	42.9	52.7
Basic financial information	Total Revenues	9,196.6	4,124.9	2,667.8	279.2	4,067.1	53.8	334.3	55.0	65.4
	Total Revenues growth	*-22.3%*	*16.2%*	*5.7%*	*8.6%*	*2.0%*	*16.8%*	*-3.6%*	*9.6%*	*10.4%*
	2y CAGR (2018e - 2020e)	*2.6%*	*-2.3%*	*4.6%*	*8.0%*	*3.2%*	*6.3%*	*4.7%*	*9.5%*	*3.0%*
	EBITDA	2,413.6	485.4	229.4	34.6	790.8	1.5	19.2	6.0	7.0
	EBITDA growth	*-23.2%*	*16.0%*	*2.5%*	*22.3%*	*4.4%*	*-208.4%*	*-14.1%*	*8.8%*	*9.5%*
	2y CAGR (2018e - 2020e)	*1.5%*	*1.2%*	*5.4%*	*14.8%*	*5.7%*	*79.0%*	*20.7%*	*15.5%*	*0.5%*
	EBITDA/Revenues	*26.2%*	*11.8%*	*8.6%*	*12.4%*	*14.8%*	*2.8%*	*5.7%*	*10.9%*	*10.8%*
	Net Profit	1,485.5	255.3	61.0	18.9	455.2	(0.2)	7.4	3.5	4.7
	Net Profit growth	*-12.8%*	*15.6%*	*5.2%*	*33.1%*	*10.3%*	*-94.8%*	*-28.3%*	*-11.3%*	*111.0%*
	2y CAGR (2018e - 2020e)	*3.3%*	*2.5%*	*33.2%*	*15.2%*	*13.6%*	*n.a.*	*33.5%*	*17.3%*	*3.5%*
	CAPEX/Sales %	*3.2%*	*4.6%*	*3.2%*	*1.9%*	*3.2%*	*2.8%*	*2.6%*	*n.a.*	*4.0%*
	Free Cash Flow	1,390.0	169.0	(39.3)	8.6	382.1	(0.5)	5.4	1.8	3.8
	Net financial debt	554.9	181.2	(851.3)	(11.1)	(31.6)	9.2	19.8	(8.1)	4.4
	ND/EBITDA (x)	0.2	0.4	(3.7)	(0.3)	(0.9)	6.0	1.0	(1.4)	0.6
	Pay-out	*36.4%*	*36.5%*	*9.3%*	*49.6%*	*33.0%*	*0.0%*	*59.4%*	*22.6%*	*40.0%*
Multiplos and Ratios	P/E (x)	18.0	12.5	20.3	15.0	16.5	n.a.	18.8	14.2	9.4
	P/BV (x)	5.9	2.4	0.7	1.9	2.7	1.9	0.9	1.7	1.0
	EV/Revenues (x)	2.9	0.9	0.1	1.2	1.3	0.7	0.5	0.8	0.8
	EV/EBITDA (x)	11.2	7.5	1.4	9.3	7.3	26.0	8.6	7.2	7.5
	ROE	*29.5*	*20.5*	*3.3*	*14.2*	*16.9*	*1.4*	*3.7*	*12.0*	*11.3*
	FCF Yield (%)	*5.3*	*5.3*	*(3.3)*	*2.7*	*2.5*	*(2.0)*	*3.8*	*3.5*	*4.0*
	Dvd Yield	*3.0%*	*2.9%*	*0.9%*	*3.0%*	*2.5%*	*0.0%*	*3.2%*	*1.6%*	*4.3%*

Note 1: Financial data, Multiples and Ratios based on 2018e market consensus (Thomson Reuters). In the case of the Company analyzed, estimates were base on Lighthouse analysis.

Note 2: No market data is included for DMG Mori AG (GILG.DE), (Hermle MBHG_p.F) and Diskus Werke (DISG.DE), as there is no market consensus for 2018e and following.

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Recmendation History

Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
17-jan-19	n.a.	3.59	n.a.	n.a	Initial Coverage	David Lopez Sanchez