

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 (55%) and China (18%) stand out.

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Market Data

Market Cap (Mn EUR and USD)	51.5	58.0
EV (Mn EUR and USD)	49.7	56.0
Shares Outstanding (Mn)	12.3	
-12m (Max/Med/Mín EUR)	4.40 / 3.86 / 3.00	
Daily Avg volume (-12m Mn)	0.1	
Rotation ⁽¹⁾	56.5	
Thomson Reuters / Bloomberg	NEA.MC / NEA SM	
Close fiscal year	31-Dec	

Shareholders Structure (%)

Nicolás-Correa Family	31.8
Desmasa	3.0
Board (Excl. Nicolas-Correa)	2.0
Free Float	63.2

Financials (Mn EUR)

	2018	2019e	2020e	2021e
Adj. nº shares (Mn)	12.2	12.3	12.3	12.3
Total Revenues	72.1	75.0	77.3	79.6
Rec. EBITDA	8.5	9.0	9.2	9.5
% growth	31.8	5.9	2.9	3.0
% Rec. EBITDA/Rev.	11.7	12.0	11.9	11.9
% Inc. EBITDA sector ⁽²⁾	7.3	2.6	6.1	5.0
Net Profit	7.9	6.8	7.0	7.0
EPS (EUR)	0.64	0.55	0.56	0.56
% growth	n.a.	-14.4	2.5	-0.1
Ord. EPS (EUR)	0.54	0.55	0.56	0.56
% growth	52.8	1.8	2.5	-0.1
Rec. Free Cash Flow ⁽³⁾	6.2	5.3	6.0	6.0
Pay-out (%)	23.4	30.0	30.0	30.0
DPS (EUR)	0.15	0.17	0.17	0.17
Net financial debt	1.5	-6.0	-10.0	-13.9
ND/Rec. EBITDA (x)	0.2	-0.7	-1.1	-1.5
ROE (%)	18.2	13.7	12.8	11.7
ROCE (%) ⁽⁴⁾	15.6	15.3	15.1	14.7

Ratios & Multiples (x)

	2018	2019e	2020e	2021e
P/E	6.5	7.6	7.4	7.4
Ord. P/E	7.7	7.6	7.4	7.4
P/BV	1.1	1.0	0.9	0.8
Dividend Yield (%)	3.6	4.0	4.1	4.0
EV/Sales	0.69	0.66	0.64	0.62
EV/Rec. EBITDA	5.9	5.5	5.4	5.2
FCF Yield (%) ⁽⁵⁾	12.0	10.4	11.7	11.7

(* 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) Calculated with a theoretical tax rate. Please refer to Appendix 2.
- (5) vs Thomson Reuters Europe Industrial Machinery and Equipment.

Not afraid of a change in the cycle

WE UPGRADE OUR ESTIMATES on the back of very positive results in 2018. All income statement items have increased, boosted by the growth in business volume seen in 2018. The concentration of the parent's activity in a single plant, control of costs and the improvement in margins have enhanced NEA's competitive position, consolidating an EBITDA margin of 12% (1.5p.p. higher than estimated).

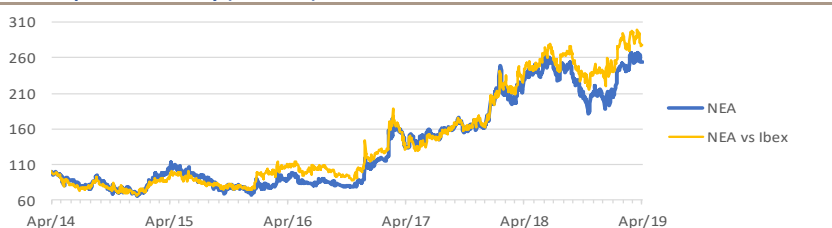
THE CYCLE APPEARS TO BE THE MAIN UNCERTAINTY... after the leap in revenue in 2018 (+22%) we expect a significant slowdown in growth in 2019e (+4%) and 2020e (+3%). Under these circumstances, we believe NEA to be reasonably shielded, as it could benefit during the first half of 2019 from the momentum of an order book that is above its historical average (EUR 34Mn at the 2018 close; 0.5x 2018 revenue).

FCF YIELD, 11% (CONVERSION OF C. 60% OF EBITDA IN REC. FCF), the result of a business with low working capital requirements (thanks to advances from customers that help with financing) and a zero impact of financial items. The company has EUR 17.1Mn in tax credits, that will help to keep the tax rate very low in coming years.

NET CASH POSITION: The ability to generate recurrent FCF of c. EUR 5.3Mn will boost net cash to EUR 6.0Mn in 2019e (11.6% of the current capitalisation). Even assuming a continuation of dividend payments (pay-out of 30% for 2019e-2021e; (initial yield of 4%), this would be compatible with NEA's very healthy capital structure.

EUR Mn	2019e (New)	Review (%)	2020e (New)	Review (%)	2021e (New)
Total Revenues	75.0	10.3%	77.3	11.4%	79.6
Recurrent EBITDA	9.0	25.8%	9.2	30.0%	9.5
Recurrent EBITDA growth	5.9%	4.5 p.p.	2.9%	3.4 p.p.	3.0%
Rec. EBITDA/Revenues	12.0%	1.5 p.p.	11.9%	1.7 p.p.	11.9%
Net Profit	6.8	42.8%	7.0	45.2%	7.0
Recurrent Free Cash Flow	5.3	46.7%	6.0	45.6%	6.0
ND / EBITDA	-0.7 x	-0.3 x	-1.1 x	-0.3 x	-1.5 x

Relative performance -5y (Base 100)



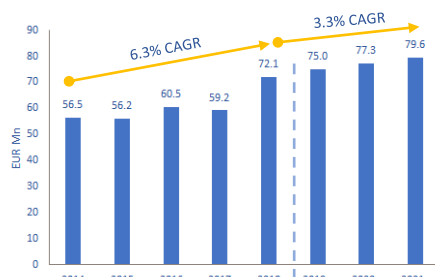
Stock performance (%)

	-1m	-3m	-12m	YTD	-3Y	-5Y
Absolute	-3.9	21.9	10.9	28.6	179.6	153.3
vs Ibex 35	-6.7	14.7	15.1	16.8	150.5	178.4
vs Ibex Small Cap Index	-3.9	18.6	23.2	18.3	89.7	131.5
vs Eurostoxx 50	-7.9	9.4	11.3	12.7	137.7	133.2
vs Sector benchmark ⁽⁵⁾	-13.3	5.5	12.9	5.0	105.1	94.6

Review of estimates: upgrade

The order book and resilient margins result in better numbers in 2019e

Chart 1. Total sales (2014 – 2021e)



2018 results show the growth started years ago has continued: (i) a 22% increase in revenue vs 2017, with (ii) a recurrent EBITDA margin close to 12% (vs 10.9% in 2017), proving that the decisions made during the restructuring were strategically correct.

The order book figure (EUR 34.4Mn 2018; +16% vs 2017) with an average duration of 6-7 months (chart 2), allows for a certain moderate optimism in 2019e projections, as, under these circumstances, NEA is reasonably shielded from an adverse macro scenario. However, we should not lose sight of the figure for new orders for 4Q 2018 (EUR 11Mn vs an average of EUR 21Mn in 2018), which could be anticipating the effects of a slowdown.

Accordingly, we upgrade our estimates (2019-2020)

This upgrade can be summarised in three main areas:

- **Revenue (EUR 75Mn; +10% vs initial estimates)**, boosted by higher volume in 2018 and an order book that is larger than the historical average; which NEA could benefit from in the first half of 2019e.
- **EBITDA (EUR 9Mn; +25% vs initial estimates)**, due mainly to the higher volume of revenues. In addition, the concentration of the parent’s activity in a single plant and control of costs have enhanced NEA’s competitive position and ability to maintain margins close to 12% (+1.5p.p. vs our initial estimate).
- **Net profit (+43% vs initial estimates)**. The previous points, together with a downgrade to the effective tax rate (9.3% vs our original estimate of 19.9%), causes 2019e net profit to rocket to EUR 6.8Mn.

Chart 2. Order intake, total sales and order book

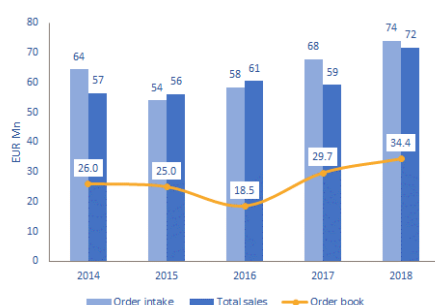
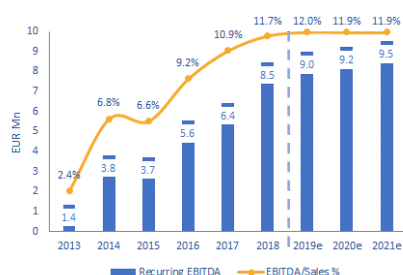


Chart 3. Rec EBITDA and EBITDA margin. (2014 – 2021e)



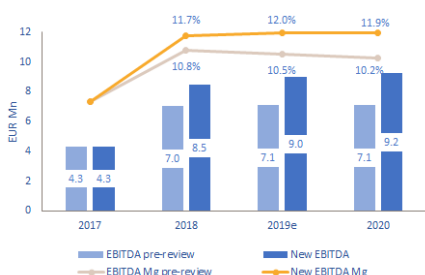
Deceleration of revenue growth (+3.3% CAGR 2019e-2021e) ...

According to CECIMO (European Association of the Machine Tool Industries), demand for machine tools will continue to grow until the first half of 2019 (although more slowly than in 2017 and 2018). In this scenario, the revenue growth seen in 2018 thanks to cyclical momentum (+22%), should normalise in 2019e (+4%) and 2020e (+3%), in line with the growth expected for global machine tool consumption in coming years (according to CECIMO 3Q 2018: +3.8% in 2019e, stabilising at growth of 3% in the next 4 years).

... with much better margins than the sector (12% of revenue)

We value the company’s focus on margins very positively (5p.p increase in EBITDA margin between 2014 and 2018) vs growth in volumes of previous periods. We think the company has reached an optimum operating profitability (higher than its main competitors), with an EBITDA margin of 12% (gross margin of 55,5%) vs an average of 8.7% for the milling machine subsector. Under these circumstances, NEA will generate EBITDA of close to EUR 9Mn in 2019 (EV/EBITDA of 5.5x vs 10.7x for industrial machinery industry).

Chart 4. Review impacto in EBITDA (1)



Ordinary net profit (+1,6% CAGR 2018-2020e)

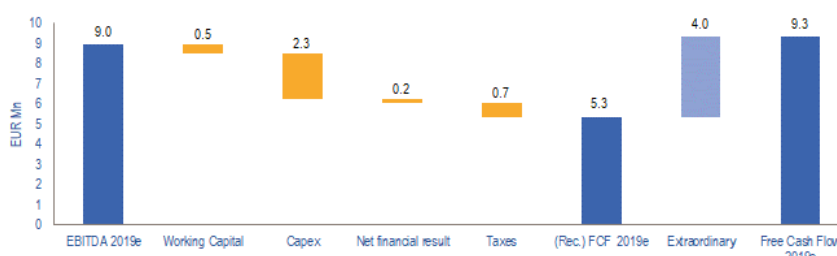
The continual financial de-leveraging has been reflected in lower financial expenses (5% of EBITDA in 2018 vs. +70% in 2013), with the contribution of financial items being immaterial in the mid term. In addition, the tax credits available to the company in 2018 (EUR 17.1Mn) will keep tax rates low (we assume an average rate of 10.6% until 2021e; vs tax income of EUR 0.9Mn in 2018).

Note 1: “EBITDA pre-review” refers to estimated EBITDA in the initiation of coverage published on jan 17, 2019.

How much Free Cash Flow does NEA generate?

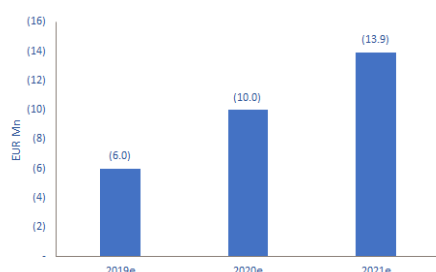
In the current scenario, in which the company has achieved a profitable operating structure, we think that NEA will generate recurrent Free Cash Flow of EUR 5.3Mn in 2019e and EUR 6.0Mn in 2021e (recurrent FCF to the firm yield of 11.0% and 12.2%, respectively vs a sector average of 5.8%).

Chart 5. Free Cash Flow (2) 2019e



Note 2: Including an extraordinary cash inflow (EUR 4Mn) related to the amount pending collection from the sale of the Itziar plant.

Chart 6. Net financial cash (2019e – 2021e)



Financially solid beyond doubt (in an adverse cycle too)

Since Group net debt peaked in 2012 (EUR 21.3Mn), NEA has been using the cash generated to reduce its leverage, with a 93% reduction in net debt between 2013 and 2018 (ND/Rec. EBITDA of 0.2x in 2018, in line with the machine tool industry: 0.5x). However, the FCF of EUR 9.3Mn estimated for 2019e (including an extraordinary collection of EUR 4.0Mn for the sale of the Itziar plant), will enable NEA to achieve a net cash position of EUR 6.0Mn in 2019e; after paying a dividend of EUR 1.8Mn against 2018 earnings (in line with expectations).

The company's financial strength means we assume dividend payments will continue going forward. We assume a pay-out of 30% for 2019e-2021e (initial yield of 4%).

2019e – 2021e: What would happen if...?

In conclusion: we maintain the equity story which 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 decade. Now there is only one question: against a backdrop of evident cyclical deceleration in NEA's main markets (Europe: 65% of sales and China: 18% of sales), can current levels of profitability be maintained in a scenario of falling revenue?

The basic idea is that of a company with a certain resilience, but not that of a company that is unaffected 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 vs 2018, we estimate a margin of 9.8% and recurrent FCF of c. EUR 4.0Mn which implies a FCF yield of 7.6%. Perhaps this is the most interesting aspect when valuing the result of this "success story" and its impact on the share price. A fall in revenue of 10% (vs 2018) would leave FCF at EUR 3.0Mn, underlining the argument that cyclical risk has been significantly reduced for NEA thanks to its restructuring, although obviously it has not disappeared...

	Base Case 2019e	Worst Case 2019e	Worst Worst Case 2019e	Worst Case vs Base Case	Worst Worst Case vs Base
EUR Mn					
Total Revenues growth	4.0%	0.0%	-5.0%		
Total Revenues	75.0	72.1	68.5	-3.8%	-8.7%
Recurrent EBITDA	9.0	8.0	6.7	-11.3%	-25.5%
Rec. EBITDA/Revenues	12.0%	11.0%	9.8%		
Recurrent EBITDA growth	5.9%	-6.1%	-21.1%		
Working Capital Increase	(0.5)	(0.8)	(0.5)		
Capex	(2.3)	(2.2)	(2.1)		
Net Financial Result affecting	(0.2)	(0.2)	(0.2)		
Taxes	(0.7)	(0.5)	(0.1)		
Recurrent Free Cash Flow	5.3	4.4	3.9	-17.9%	-27.4%
Net Cash	(6.0)	(5.0)	(4.5)		
FCF Rec. Yield %	10.4%	8.6%	7.6%		

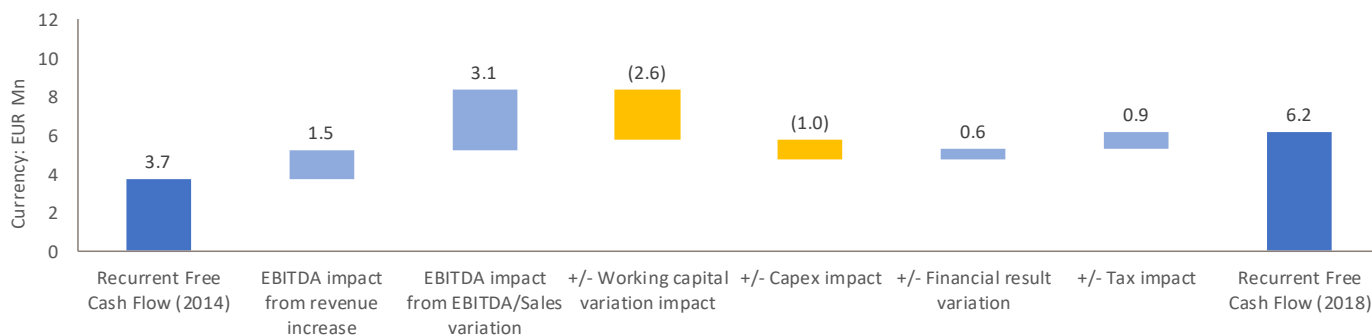
Appendix 1. Financial Statements

Balance Sheet (EUR Mn)	2014	2015	2016	2017	2018	2019e	2020e	2021e		
Intangible assets	0.2	0.7	0.4	0.4	0.3	0.3	0.3	0.3		
Fixed assets	22.8	22.4	17.0	16.7	12.7	13.8	14.4	15.1		
Other Non Current Assets	10.4	10.4	9.8	9.6	10.5	10.5	10.5	10.5		
Financial Investments	1.0	0.9	2.9	2.5	6.4	2.4	2.4	2.5		
Goodwill & Other Intangibles	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5		
Current assets	32.5	28.8	28.2	30.6	36.2	37.6	38.7	39.8		
Total assets	76.4	72.6	67.8	69.4	75.5	74.0	75.8	77.6		
Equity	32.7	34.3	37.2	39.4	47.1	52.1	57.0	61.9		
Minority Interests	3.4	3.4	0.7	0.7	0.8	0.9	1.1	1.2		
Provisions & Other L/T Liabilities	2.7	2.7	2.1	2.1	2.3	2.3	2.3	2.3		
Net financial debt	16.4	14.5	12.1	8.1	1.5	(6.0)	(10.0)	(13.9)		
Current Liabilities	21.2	17.7	15.8	19.0	23.8	24.7	25.4	26.2		
Equity & Total Liabilities	76.4	72.6	67.8	69.4	75.5	74.0	75.8	77.6		
CAGR										
P&L (EUR Mn)	2014	2015	2016	2017	2018	2019e	2020e	2021e	14-18	18-21e
Total Revenues	56.5	56.2	60.5	59.2	72.1	75.0	77.3	79.6	6.3%	3.3%
<i>Total Revenues growth</i>	1.4%	-0.5%	7.7%	-2.1%	21.8%	4.0%	3.0%	3.0%		
COGS	(26.6)	(25.8)	(27.2)	(26.6)	(32.1)	(33.4)	(34.4)	(35.4)		
Gross Margin	29.9	30.4	33.3	32.6	40.1	41.7	42.9	44.2	7.5%	3.3%
<i>Gross Margin/Revenues</i>	53.0%	54.1%	55.0%	55.1%	55.5%	55.5%	55.5%	55.5%		
Personnel Expenses	(15.3)	(16.4)	(16.6)	(14.8)	(16.9)	(17.5)	(18.0)	(18.5)		
Other Operating Expenses	(10.8)	(10.3)	(11.1)	(11.4)	(14.6)	(15.2)	(15.7)	(16.2)		
Recurrent EBITDA	3.8	3.7	5.6	6.4	8.5	9.0	9.2	9.5	22.0%	3.9%
<i>Recurrent EBITDA growth</i>	181.4%	-2.6%	49.3%	15.8%	31.8%	5.9%	2.9%	3.0%		
<i>Rec. EBITDA/Revenues</i>	6.8%	6.6%	9.2%	10.9%	11.7%	12.0%	11.9%	11.9%		
Restructuring Expenses	-	-	-	(2.1)	-	-	-	-		
Other non-recurrent Income / Costs	-	-	-	-	-	-	-	-		
EBITDA	3.8	3.7	5.6	4.3	8.5	9.0	9.2	9.5	22.0%	3.9%
<i>EBITDA growth</i>	181.4%	-2.6%	49.3%	-22.1%	95.7%	5.9%	2.9%	3.0%		
<i>EBITDA/Sales</i>	6.8%	6.6%	9.2%	7.3%	11.7%	12.0%	11.9%	11.9%		
Depreciation & Provisions	(1.6)	(1.7)	(2.2)	(1.4)	(1.3)	(1.2)	(1.3)	(1.3)		
Capitalized Expense	0.1	0.3	0.0	-	0.1	-	-	-		
EBIT	2.4	2.3	3.4	3.0	7.3	7.8	7.9	8.2	32.1%	4.0%
<i>EBIT growth</i>	162.2%	-4.6%	48.4%	-11.9%	143.9%	6.9%	2.4%	2.8%		
<i>EBIT/Revenues</i>	4.2%	4.1%	5.6%	5.0%	10.1%	10.3%	10.3%	10.3%		
Impact of Goodwill & Others	-	-	-	-	-	-	-	-		
Net Financial Result	(1.1)	(0.9)	(0.6)	(0.3)	(0.5)	(0.2)	(0.1)	(0.1)		
Income by the Equity Method	0.0	(0.1)	0.0	(0.3)	0.0	0.0	0.0	0.0		
Ordinary Profit	1.3	1.3	2.7	2.4	6.8	7.6	7.9	8.1	50.4%	6.2%
<i>Ordinary Profit Growth</i>	n.a.	1.6%	103.9%	-13.6%	186.2%	12.5%	3.1%	3.3%		
Extraordinary Results	-	-	1.9	-	0.4	-	-	-		
Profit Before Tax	1.3	1.3	4.7	2.4	7.2	7.6	7.9	8.1	52.5%	4.3%
Tax Expense	0.0	(0.2)	0.1	(0.0)	0.9	(0.7)	(0.8)	(1.0)		
<i>Effective Tax Rate</i>	n.a.	12.3%	n.a.	0.2%	n.a.	9.3%	9.8%	12.7%		
Minority Interests	0.0	0.2	(0.6)	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)		
Discontinued Activities	-	-	-	-	-	-	-	-		
Net Profit	1.4	1.4	4.1	2.2	7.9	6.8	7.0	7.0	55.3%	-4.1%
<i>Net Profit growth</i>	n.a.	0.2%	203.0%	-45.6%	251.8%	-13.8%	2.5%	-0.1%		
Ordinary Net Profit	1.3	1.4	2.1	4.3	6.6	6.8	7.0	7.0	48.9%	1.6%
<i>Ordinary Net Profit growth</i>	n.a.	0.7%	56.3%	104.4%	52.8%	2.5%	2.5%	-0.1%		
CAGR										
Cash Flow (EUR Mn)	2014	2015	2016	2017	2018	2019e	2020e	2021e	14-18	18-21e
Recurrent EBITDA						9.0	9.2	9.5	22.0%	3.9%
Working Capital Increase						(0.5)	(0.4)	(0.4)		
Recurrent Operating Cash Flow						8.5	8.8	9.1	8.1%	5.6%
CAPEX						(2.3)	(1.9)	(2.0)		
Net Financial Result affecting the Cash Flow						(0.2)	(0.1)	(0.1)		
Tax Expense						(0.7)	(0.8)	(1.0)		
Recurrent Free Cash Flow						5.3	6.0	6.0	13.7%	-0.8%
Restructuring Expense & Others						-	-	-		
- Acquisitions / + Divestures of assets						-	-	-		
Extraordinary Inc./Exp. Affecting Cash Flow						4.0	-	-		
Free Cash Flow						9.3	6.0	6.0	11.4%	-7.2%
Capital Increase						-	-	-		
Dividends						(1.8)	(2.0)	(2.1)		
Net Debt Variation						(7.5)	(4.0)	(3.9)		

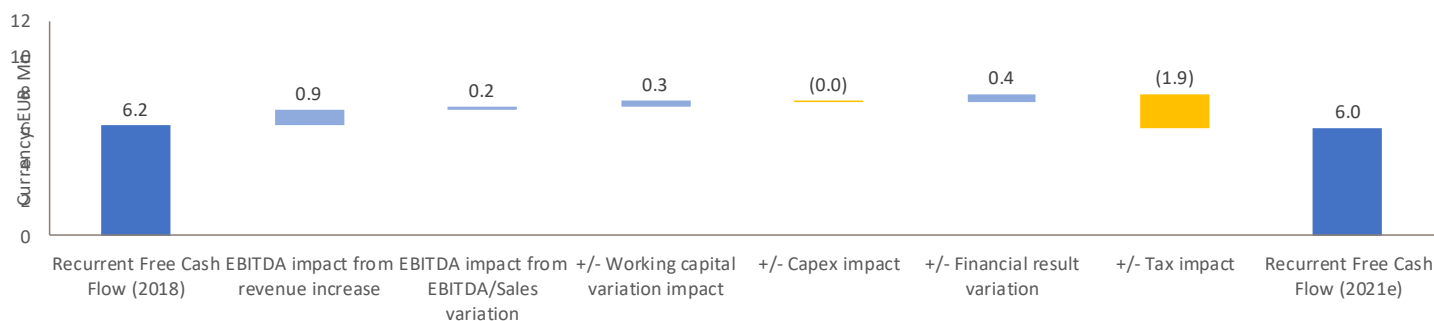
Appendix 2. Free Cash Flow

A) Cash Flow Analysis (EUR Mn)	2015	2016	2017	2018	2019e	2020e	2021e	CAGR	
								15-18	18-21e
Recurrent EBITDA	3.7	5.6	6.4	8.5	9.0	9.2	9.5	31.6%	3.9%
<i>Recurrent EBITDA growth</i>	-2.6%	49.3%	15.8%	31.8%	5.9%	2.9%	3.0%		
<i>Rec. EBITDA/Revenues</i>	6.6%	9.2%	10.9%	11.7%	12.0%	11.9%	11.9%		
+/- Working Capital increase	0.2	-1.3	0.8	(0.7)	(0.5)	(0.4)	(0.4)		
= Recurrent Operating Cash Flow	3.9	4.3	7.2	7.7	8.5	8.8	9.1	25.3%	5.6%
<i>Rec. Operating Cash Flow growth</i>	-30.6%	9.0%	67.8%	7.4%	9.5%	4.4%	3.0%		
<i>Rec. Operating Cash Flow / Sales</i>	7.0%	7.1%	12.1%	10.7%	11.3%	11.4%	11.4%		
- CAPEX	(1.5)	(0.9)	(1.0)	(1.9)	(2.3)	(1.9)	(2.0)		
- Net Financial Result affecting Cash Flow	(0.9)	(0.6)	(0.3)	(0.5)	(0.2)	(0.1)	(0.1)		
- Taxes	(0.2)	0.1	(0.0)	0.9	(0.7)	(0.8)	(1.0)		
= Recurrent Free Cash Flow	1.4	2.8	5.8	6.2	5.3	6.0	6.0	63.2%	-0.8%
<i>Rec. Free Cash Flow growth</i>	-61.6%	97.3%	108.4%	5.7%	-13.2%	12.8%	-0.3%		
<i>Rec. Free Cash Flow / Revenues</i>	2.5%	4.6%	9.8%	8.5%	7.1%	7.8%	7.6%		
- Restructuring expenses & others	0.1	(0.1)	0.0	-	-	-	-		
- Acquisitions / + Divestments	0.9	0.2	1.2	-	-	-	-		
+/- Extraordinary Inc./Exp. affecting Cash Flow	-	-	(2.1)	1.4	4.0	-	-		
= Free Cash Flow	2.4	2.9	5.0	7.5	9.3	6.0	6.0	47.1%	-7.2%
<i>Free Cash Flow growth</i>	-51.7%	23.8%	71.4%	50.1%	24.1%	-35.5%	-0.3%		
<i>Recurrent Free Cash Flow - Yield (s/Mkt Cap)</i>	2.8%	5.4%	11.3%	12.0%	10.4%	11.7%	11.7%		
<i>Free Cash Flow Yield (s/Mkt Cap)</i>	4.6%	5.7%	9.7%	14.6%	18.2%	11.7%	11.7%		
B) Analytical Review of Annual Recurrent Free Cash Flow Performance (Eur Mn)									
	2015	2016	2017	2018	2019e	2020e	2021e		
Recurrent FCF(FY - 1)	3.7	1.4	2.8	5.8	6.2	5.3	6.0		
EBITDA impact from revenue increase	(0.0)	0.3	(0.1)	1.4	0.3	0.3	0.3		
EBITDA impact from EBITDA/Sales variation	(0.1)	1.5	1.0	0.6	0.2	(0.0)	(0.0)		
= Recurrent EBITDA variation	(0.1)	1.8	0.9	2.0	0.5	0.3	0.3		
+/- Working capital variation impact	(1.6)	(1.5)	2.0	(1.5)	0.2	0.1	(0.0)		
= Recurrent Operating Cash Flow variation	(1.7)	0.4	2.9	0.5	0.7	0.4	0.3		
+/- CAPEX impact	(0.6)	0.6	(0.1)	(0.9)	(0.3)	0.3	(0.1)		
+/- Financial result variation	0.2	0.2	0.3	(0.2)	0.3	0.0	0.0		
+/- Tax impact	(0.2)	0.3	(0.1)	0.9	(1.6)	(0.1)	(0.3)		
= Recurrent Free Cash Flow variation	(2.3)	1.4	3.0	0.3	(0.8)	0.7	(0.0)		
Recurrent Free Cash Flow	1.4	2.8	5.8	6.2	5.3	6.0	6.0		
C) "FCF to the Firm" (pre debt service) (EUR Mn)									
	2015	2016	2017	2018	2019e	2020e	2021e	CAGR	
EBIT	2.3	3.4	3.0	7.3	7.8	7.9	8.2	47.2%	4.0%
* Theoretical tax rate	12.3%	0.0%	0.2%	0.0%	9.3%	9.8%	12.7%		
= Taxes (pre- Net Financial Result) ⁽¹⁾	(0.3)	-	(0.0)	-	(0.7)	(0.8)	(1.0)		
Recurrent EBITDA	3.7	5.6	6.4	8.5	9.0	9.2	9.5	31.6%	3.9%
+/- Working Capital increase	0.2	(1.3)	0.8	(0.7)	(0.5)	(0.4)	(0.4)		
= Recurrent Operating Cash Flow	3.9	4.3	7.2	7.7	8.5	8.8	9.1	25.3%	5.6%
- CAPEX	(1.5)	(0.9)	(1.0)	(1.9)	(2.3)	(1.9)	(2.0)		
- Taxes (pre- Financial Result)	(0.3)	-	(0.0)	-	(0.7)	(0.8)	(1.0)		
= Recurrent Free Cash Flow (To the Firm)	2.2	3.4	6.1	5.8	5.5	6.1	6.1	38.8%	1.6%
<i>Rec. Free Cash Flow (To the Firm) growth</i>	-54.4%	54.9%	83.5%	-5.9%	-5.1%	11.6%	-0.9%		
<i>Rec. Free Cash Flow (To the Firm) / Revenues</i>	4%	6%	10%	8%	7%	8%	8%		
- Acquisitions / + Divestments	0.9	0.2	1.2	-	-	-	-		
+/- Extraordinary Inc./Exp. affecting Cash Flow	-	-	(2.1)	1.4	4.0	-	-		
= Free Cash Flow "To the Firm"	3.1	3.6	5.3	7.1	9.5	6.1	6.1	32.8%	-5.3%
<i>Free Cash Flow (To the Firm) growth</i>	-43.8%	17.4%	47.4%	35.2%	32.7%	-35.4%	-0.9%		
<i>Rec. Free Cash Flow To the Firm Yield (o/EV)</i>	4.4%	6.7%	12.4%	11.6%	11.0%	12.3%	12.2%		
<i>Free Cash Flow "To the Firm" - Yield (o/EV)</i>	6.1%	7.2%	10.6%	14.4%	19.1%	12.3%	12.2%		

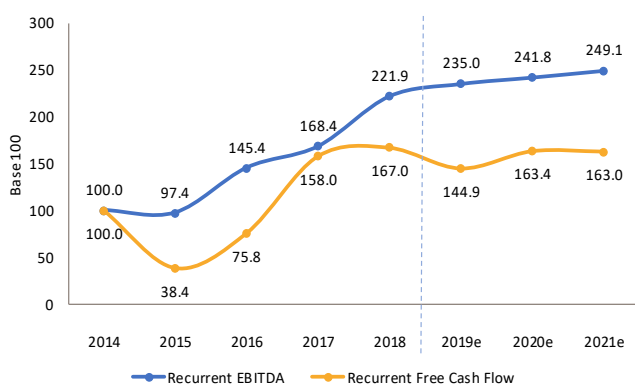
Recurrent Free Cash Flow accumulated variation analysis (2014 - 2018)



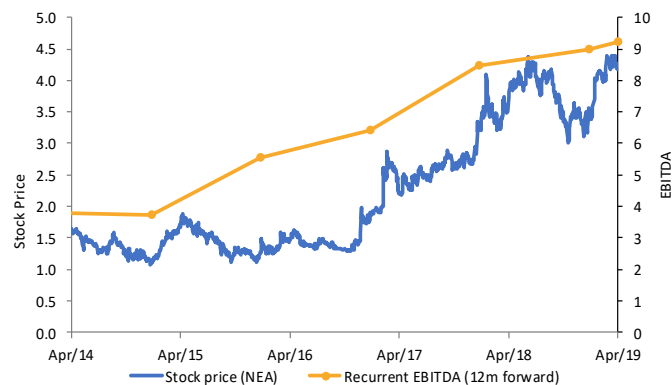
Recurrent Free Cash Flow accumulated variation analysis (2018 - 2021e)



Recurrent EBITDA vs Recurrent Free Cash Flow



Stock performance vs EBITDA 12m forward



Appendix 3. Historical performance ⁽¹⁾

Historical performance (EUR Mn)														CAGR		
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019e	2020e	2021e	08 - 18	18-21e
Total Revenues	116.0	58.0	34.0	63.9	31.7	54.7	56.5	56.2	60.5	59.2	72.1	75.0	77.3	79.6	-4.6%	3.3%
Total Revenues growth	26.9%	-50.0%	-41.3%	87.9%	-50.4%	72.7%	3.2%	-0.5%	7.7%	-2.1%	21.8%	4.0%	3.0%	3.0%		
EBITDA	6.4	(2.6)	(5.4)	4.1	(3.8)	2.4	3.8	3.7	5.6	4.3	8.5	9.0	9.2	9.5	2.9%	3.9%
EBITDA growth	26.9%	n.a.	106.0%	n.a.	n.a.	n.a.	56.5%	-2.6%	49.3%	-22.1%	95.7%	5.9%	2.9%	3.0%		
EBITDA/Sales	5.5%	n.a.	n.a.	6.4%	n.a.	4.5%	6.8%	6.6%	9.2%	7.3%	11.7%	12.0%	11.9%	11.9%		
Net Profit	4.4	(5.1)	(8.6)	0.7	(7.1)	(0.3)	1.4	1.4	4.1	2.2	7.9	6.8	7.0	7.0	6.1%	-4.1%
Net Profit growth	1.2%	n.a.	68.1%	n.a.	n.a.	-95.7%	n.a.	0.2%	203.0%	-45.6%	251.8%	-13.8%	2.5%	-0.1%		
Adjusted number shares (Mn)	12.5	12.5	12.4	12.3	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.3	12.3	12.3		
EPS (EUR)	0.35	n.a.	n.a.	0.06	n.a.	n.a.	0.11	0.11	0.34	0.18	0.64	0.55	0.56	0.56		
EPS growth	1.9%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.2%	n.a.	-45.6%	n.a.	-14.4%	2.5%	-0.1%		
Ord. EPS (EUR)	0.33	n.a.	n.a.	0.04	n.a.	n.a.	0.11	0.11	0.17	0.35	0.54	0.55	0.56	0.56		
Ord. EPS growth	-2.1%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.7%	56.3%	n.a.	52.8%	1.8%	2.5%	-0.1%		
CAPEX	4.8	2.7	0.7	1.9	0.4	1.7	(0.9)	(1.5)	(0.9)	(1.0)	(1.9)	(2.3)	(1.9)	(2.0)		
CAPEX/Sales %	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.6%	2.6%	1.5%	1.7%	2.7%	3.0%	2.5%	2.5%		
Free Cash Flow	(6.5)	(8.5)	(0.3)	(4.5)	(1.6)	0.3	4.9	2.4	2.9	5.0	7.5	9.3	6.0	6.0	n.a.	-7.2%
ND/EBITDA (x) ⁽²⁾	0.7x	n.a.	n.a.	3.6x	n.a.	5.3x	4.3x	3.9x	2.2x	1.9x	0.2x	-0.7x	-1.1x	-1.5x		
P/E (x)	8.4x	n.a.	n.a.	18.5x	n.a.	n.a.	9.9x	11.5x	5.2x	17.5x	5.1x	7.6x	n.a.	n.a.		
EV/Sales (x)	0.4x	0.7x	0.9x	0.5x	0.9x	0.6x	0.5x	0.5x	0.5x	0.8x	0.5x	0.7x	0.6x	0.6x		
EV/EBITDA (x) ⁽²⁾	6.8x	n.a.	n.a.	7.6x	n.a.	13.1x	6.8x	7.1x	5.6x	10.4x	4.6x	5.5x	5.4x	5.2x		
Absolute performance	-41.6%	-22.0%	-35.7%	-30.1%	-32.4%	85.0%	-15.8%	17.0%	36.9%	83.1%	1.7%	28.6%				
Relative performance vs Ibx 35	-3.6%	-40.0%	-22.1%	-19.5%	-29.1%	52.4%	-18.8%	26.0%	39.7%	70.5%	19.6%	16.8%				

Note 1: The multiples are historical, calculated based on the price and EV at the end of each year, except (if applicable) in the current year, when multiples would be given at current prices. The absolute and relative behavior corresponds to each exercise (1/1 to 31/12). The source, both historical multiples and the evolution of the price, is Thomson Reuters.

Note 2: All ratios and multiples on EBITDA refer to total EBITDA (not to recurrent EBITDA).

Appendix 4. Main Competitors 2019e

EUR Mn		Atlas Copco	Georg Fischer	Danieli	Average	Starrag	Fidia	Datron AG	NEA.MC
Market data	Ticker (Reuters)	ATCOa.ST	FIN.S	DANI.MI		STGN.S	FDA.MI	DARG.DE	NEA.MC
	Country	Sweden	Switzerland	Italy		Switzerland	Italy	Germany	Spain
	Market cap	31,106.3	3,516.6	1,265.0	11,962.6	146.3	24.9	48.3	51.5
	Enterprise value (EV)	31,474.4	3,767.9	386.3	11,876.2	151.0	37.9	41.3	49.7
Basic financial information	Total Revenues	9,227.8	3,593.8	2,653.8	5,158.5	364.0	58.0	66.0	75.0
	Total revenues growth	-1.8%	-11.5%	5.1%	-2.7%	5.4%	0.4%	10.0%	4.0%
	2y CAGR (2019e - 2021e)	2.9%	4.6%	5.9%	4.5%	1.3%	n.a.	n.a.	3.0%
	EBITDA	2,364.3	457.9	246.4	1,022.9	22.8	4.2	8.0	9.0
	EBITDA growth	-1.4%	-3.3%	10.1%	1.8%	15.8%	467.6%	14.3%	5.9%
	2y CAGR (2019e - 2021e)	3.0%	4.8%	1.9%	3.2%	8.8%	n.a.	n.a.	3.0%
	EBITDA/Revenues	25.6%	12.7%	9.3%	15.9%	6.3%	7.3%	12.1%	12.0%
	Net profit	1,478.7	247.3	107.6	611.2	9.4	1.8	n.a.	6.8
	Net profit growth	-8.1%	-0.2%	85.6%	25.7%	26.5%	n.a.	n.a.	-13.8%
	2y CAGR (2019e - 2021e)	4.9%	7.3%	-2.5%	3.2%	12.6%	n.a.	n.a.	1.2%
	Capex	299	173.6	81.7	184.7	7.1	1.2	n.a.	2.3
	CAPEX/Sales %	3.2%	4.8%	3.1%	3.7%	1.9%	2.1%	n.a.	3.0%
	Free Cash Flow	1,519.0	219.4	161.1	633.1	10.0	2.2	8.9	9.3
	Net financial debt	345.5	125.5	(942.1)	(157.0)	2.6	9.2	(8.9)	(6.0)
ND/EBITDA (x)	0.1	0.3	(3.8)	(1.1)	0.1	2.2	(1.1)	(0.7)	
Outstanding shares	1,215.3	4.1	74.4		3.4	5.1	n.a.	12.3	
Pay-out	53.9%	38.3%	11.5%	34.5%	31.4%	21.1%	n.a.	30.0%	
Multiples and ratios	P/E (x)	21.3	14.0	18.4	17.9	20.2	25.0	11.3	7.6
	P/BV (x)	6.6	2.5	0.7	3.3	0.9	1.9	1.5	1.0
	EV/Revenues (x)	3.4	1.0	0.1	1.5	0.4	0.7	0.6	0.7
	EV/EBITDA (x)	13.3	8.2	1.6	7.7	6.6	8.9	5.2	5.5
	ROE	33.2	19.2	3.7	18.7	4.6	8.6	13.0	13.7
	FCF Yield (%)	4.7	6.2	(1.0)	3.3	3.8	12.4	4.8	10.4
	DPS	0.7	23.1	0.2	8.0	0.9	0.1	0.3	0.2
	Price close	25.9	857.5	18.2		43.5	4.9	12.1	4.2
	Dvd Yield	2.5%	2.7%	0.9%	2.0%	2.0%	1.5%	2.5%	4.0%

Note 1: Financial data, multiples and ratios based on market consensus (Thomson Reuters). In the case of the company analyzed, own estimates (Lighthouse).

Note 2: All ratios and multiples on EBITDA refer to total EBITDA (not to recurrent EBITDA).

Appendix 5. Valuation inputs

Inputs for the DCF Valuation Approach

	2019e	2020e	2021e	Terminal Value ⁽¹⁾		
Free Cash Flow "To the Firm"	9.5	6.1	6.1	71		
Market Cap	51.5	At the date of this report				
Net financial debt	1.5	Debt net of Cash (last financial year)				
					Best Case	Worst Case
Cost of Debt	2.0%	Net debt cost			2.0%	2.5%
Effective tax rate (T)	20.0%	T (Normalised tax rate)			=	=
Net debt cost	1.6%	$K_d = \text{Cost of Net Debt} * (1-T)$			1.6%	2.0%
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)	1.4	B (Thomson Reuters)			1.4	1.6
Cost of Equity	9.5%	$K_e = R_f + (R * B)$			9.1%	11.8%
Equity / (Equity + Net Debt)	97.2%	E (Market Cap as equity value)			=	=
Net Debt / (Equity + Net Debt)	2.8%	D			=	=
WACC	9.3%	$WACC = K_d * D + K_e * E$			8.9%	11.5%
G "Reasonable"	1.5%				2.0%	1.0%

(1) Terminal value calculated over recurrent Free Cash Flow "to the Firm" in the last estimated year with a normalised tax rate for the long term of 20%.

Inputs for the Multiples Valuation Approach

Company	Ticker Reuters	Mkt. Cap	P/E 19e	EPS 19e-21e	EV/EBITDA 19e	EBITDA 19e-21e	EV/Sales 19e	Revenues 19e-21e	EBITDA/Sales 19e	FCF Yield 19e	FCF 19e-21e
Atlas Copco	ATCOa.ST	31,106.3	21.3	5.4%	13.3	3.0%	3.4	2.9%	25.6%	4.7%	2.7%
Georg Fischer	FIN.S	3,516.6	14.0	5.7%	8.2	4.8%	1.0	4.6%	12.7%	6.2%	7.9%
Danieli	DANI.MI	1,265.0	18.4	3.3%	1.6	1.9%	0.1	5.9%	9.3%	-1.0%	-19.9%
Machine-tools			17.9	4.8%	7.7	3.2%	1.5	4.5%	15.9%	3.3%	-3.1%
Fidia	FDA.MI	24.9	25.0	n.a.	8.9	n.a.	0.7	n.a.	7.3%	12.4%	n.a.
Starrag	STGN.S	146.3	20.2	12.9%	6.6	8.8%	0.4	1.3%	6.3%	3.8%	-2.9%
Datron AG	DARG.DE	48.3	11.3	n.a.	5.2	n.a.	0.6	n.a.	12.1%	4.8%	n.a.
Milling machines			18.8	12.9%	6.9	8.8%	0.6	1.3%	8.6%	7.0%	-2.9%
Nicolás Correa	NEA.MC	51.5	7.6	1.2%	5.5	3.0%	0.7	3.0%	12.0%	10.4%	6.0%

Free Cash Flow sensitivity analysis (2020e)

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

Scenario	EBITDA/Sales 20e	EBITDA 20e	EV/EBITDA 20e
Max	12.9%	10.0	5.0x
Central	11.9%	9.2	5.4x
Min	10.9%	8.5	5.9x

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

Rec. FCF EUR Mn	CAPEX/Sales 20e			Scenario	FCF/Yield 20e		
EBITDA 20e	1.5%	2.5%	3.5%		Max	Central	Min
10.0	7.6	6.8	6.0	Max	14.7%	13.2%	11.7%
9.2	6.8	6.0	5.3	Central	13.2%	11.7%	10.2%
8.5	6.0	5.3	4.5	Min	11.7%	10.2%	8.7%

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Recommendation History

Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
11-Apr-2019	n.a.	4.18	n.a.	n.a.	Review of estimates	David Lopez Sanchez
01-Mar-2019	n.a.	3.99	n.a.	n.a.	12m Results 2018	David Lopez Sanchez
17-Jan-2019	n.a.	3.59	n.a.	n.a.	Initial Coverage	David Lopez Sanchez