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DATE:	28/12/2023
TICKER:	GVS:IM
EXCHANGE:	Borsa italiana (EUR)
INDUSTRY:	Industrial Filtration
CURRENT PRICE:	5.65 EUR
TARGET PRICE:	2.65 EUR
RECOMMENDATION:	SELL

BUSINESS OVERVIEW

GVS is a family-controlled company operating in the field of filter solutions: headquartered in Italy, it has a large network of industrial sites and commercial offices worldwide. GVS specializes in the research and manufacture of high-performance filtration solutions for crucial applications in the healthcare, safety, energy, and transportation sectors. The company's commitment to innovation, sustainability, and customer satisfaction has made it a valued partner for enterprises throughout the world.

INVESTMENT SUMMARY

We are initiating coverage of GVS S.p.A. with a SELL recommendation and a target price of €2.65, representing a 53% downside from current price. We believe that GVS is overvalued by the market. Although the company has a strong track record of growth, the increasing operating costs (which account for approximately 75% of revenue) and the existence of strong competitors with multiple business units in addition to the filtration sector pose a strong challenge to current valuation. We believe that GVS S.p.A. will not be able to generate a reasonable growth in the medium- to long-term. Our valuation used the Discounted Cash Flow model (confirmed by What-if analysis) and is based upon GVS's adjacent margins, historical data and adjacent acquisitions.

While we acknowledge the company's potential for long-term growth, our investment horizon makes it difficult to fully capture this value within a 3-5 year timeframe. Therefore, we have determined that the current share price reflects the company's near-term prospects and have decided to sell our shares.

ECONOMIC MOAT

GVS' organizational structure is characterized by strong synergies among its divisions, driven by similar approval processes, common production technologies, and high-quality standards. The fully integrated system, organized in five phases, enables end-to-end control of the production chain. Key elements contributing to GVS's leadership include a unique global platform ensuring consistency, monthly plant-specific benchmarking reports, adoption of best practices like Zero-PPM in Energy & Healthcare, rigorous quality controls with swift corrective actions, and management incentives tied to defined KPIs. The company's emphasis on key process control, real-time production monitoring, and ERP systems designed on standard languages fosters collaboration with both internal and external professionals, solidifying its position in the sector.

Area	Grades	Comment
Business quality	A	GVS is a well-organized company and structure at a strategic and operational level, the entire production and research and development line allows GVS to be a highly competitive company despite its small size compared to some players in the industrial filtration market
Industry prospects	B	The industrial filtration industry has very favorable growth forecasts, favorable for huge investments
Ownership structure	B	Shares of capital held are very stable. Characterized by the ownership of the founding family and the presence of institutional investors who hold these shares continuously without speculative purposes
Valuation	C	GVS appears to be overvalued by the market, as our target price is lower than the current one at which the share is traded
Risks	B	Main risks are linked to high competition, regulatory changes, currency exchanges, strong correlation with the economic cycle

Figure 1
Source: Team Consensus

BUSINESS DESCRIPTION

GVS, a family controlled organization in filtration systems, is renowned for its high-performance solutions in healthcare, safety, energy, and mobility. Its commitment to innovation, sustainability, and customer satisfaction has made it a trusted partner worldwide. In a market dominated by a few big players, GVS has carved out its own niche, by consistently going above and beyond industry standards.

With 19 production units and 29 commercial offices globally, they're able to offer local support and custom solutions to their B2B customers. They offer a wide range of products, each designed to meet the unique needs of different sectors, like sterile filters for healthcare, respiratory protection equipment for hazardous environments, or air and fuel filters for the energy and mobility industry. Their growth got a major boost in 2020 when they went public. This gave them the financial muscle to expand their product lines, break into new markets, and develop cutting-edge technologies. Today, they're using this strength to solidify their position as a global leader in filtration solutions. With a continued focus on innovation, sustainability, and global reach, GVS is all set to keep shaping the future of filtration solutions, protecting people, equipment, and the environment for years to come.

GVS has been involved in a number of additional mergers and acquisitions, which have had a significant impact on its financial performance and strategy. GVS's M&A initiatives (Figure 2), which include the acquisitions of Haemotronic, STT, Goodman Brands, Abretec Group, and RPB Safety, have helped to increase revenue and diversify its portfolio. The recent deal for Shanghai Transfusion and Suzhou Transfusion, as well as the relocation of its Suzhou manufacturing plant, highlight GVS's strategic emphasizing new markets and strengthening its position in the oligopoly to diverse markets across the globe.

BUSINESS SEGMENTS

GVS operates across three main service lines (Figure 3), with **Healthcare and Life sciences** contributing 67% of revenues. Within this segment, GVS focuses on solutions for healthcare liquids, healthcare and laboratory air and gases, presenting a versatile product portfolio ranging from drug infusion to microbiology. In Healthcare Liquid, GVS is known to excel in infusion, transfusion and dialysis. In the air and gas sector in the healthcare sector, GVS can boast a broad product portfolio in the field of filtration and humidification. GVS also has a Laboratory division which aims to offer a wide range of products, from membranes to filtration solutions.

The **Energy and Mobility** service line, which contributes 16% to GVS's turnover, addresses critical issues such as pollution, electrification and the use of hydrogen. Divided into the Powertrain & Drivetrain, Safety & Electronics and Sports & Utility sub-areas, GVS provides flexible solutions, including fuel system filters and products for applications from racing tractors to marine uses.

Within **Health and Safety**, which represents the remaining 17% of GVS's sales, two sub-areas address the personal safety and aviation safety markets. In the personal safety sector, GVS is a major supplier of reusable masks and has entered the air purifying respirator segment through the acquisition of RBP. In the aviation safety industry, GVS is leveraging a broad and innovative product portfolio to

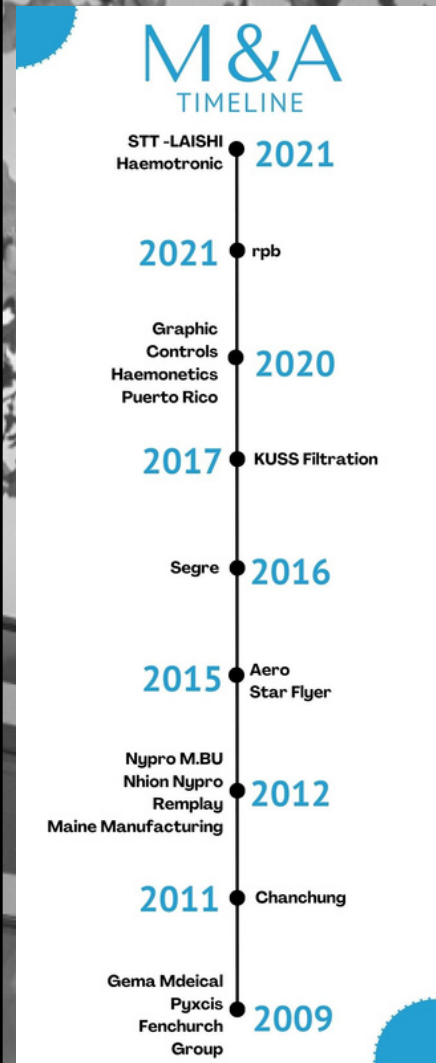


Figure 2
Source: GVS' Website

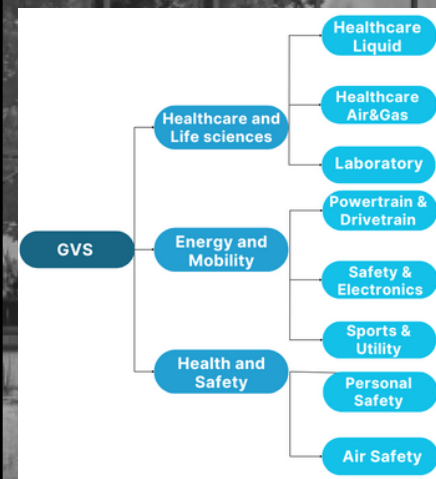


Figure 3
Source: GVS' Website

meet customer demands for lower energy costs and longer life of filtration solutions, with a focus on internationalization, particularly in the US. GVS's strategic alignment, commitment to quality control and adherence to best practices position it as a leader in providing complete filtration solutions tailored to evolving market demands.

INDUSTRY OVERVIEW

The industrial filtration market is projected to grow at a CAGR of 6% (Figure 4) from 2022 to 2029, surpassing USD 50 billion by 2029 compared to USD 29.5 billion in 2020 (Figure 5). This progress is also stimulated by the growing need for clean energy, pure water, safe food and advanced healthcare services, these needs therefore push companies in the sector and large institutional and non-institutional investors to bet on further growth of this sector. Other advancing factors include urbanization and the expansion of public services, which will inevitably contribute to the demand for more advanced filtration solutions. A significant contribution is also made by the healthcare sector, driven by advances in life sciences and the increasing adoption of filtration technologies in medical diagnostics and research.

The growing awareness of the role of health among Millennials has also forced many companies in different sectors to invest to support the increase in demand for organic foods, supporting the use of filtration processes also in the food industries. However, a key challenge, which inevitably represents also a great opportunity for the entire industry, is the energy sector. In fact, the high energy consumption in filtration processes is pushing more and more companies to require increasingly innovative and efficient filtration systems that require less energy, so that the profit potential of the latter is not damaged by the production process itself. Digitalization therefore represents an opportunity, allowing real-time monitoring of industrial filters and optimizing their maintenance.

The growth of Industry 4.0 contributes to the digitalization of processes, improving operational efficiency and real-time data collection. COVID-19 has had a significant impact on the global economy, and this industry in particular has evidenced how important the issues of prevention and - above all - of air filtration systems are for air quality. It is no coincidence that in the post-COVID-19 era many companies have decided to avail or strengthen their presence in markets that have air quality issues and severe medical shortages, such as the Asian market. The global industrial filtration market is divided by regions, with North America, Asia-Pacific (APAC), Europe, South America, and the Middle East & Africa (MEA) and obviously also Oceania (with Australia and New Zealand) being the main areas.

Over the forecast period, North America is expected to maintain a dominant position (Figure 6), with a CAGR of 5.2%. This is attributable to increasing investment in the manufacturing sector to reduce particulate emissions and strict air pollution regulations. Asia-Pacific is expected to hold a significant share of the market due to the presence of major electronics industries, with China contributing significantly due to its production of electrical devices and semiconductors. Precisely because it is plausible to see the Asian market as a great opportunity, GVS has launched several acquisition operations with the aim of penetrating the market in the Far East. The presence on the Asian continent is already quite marked by the Bolognese company as it already has 3 factories in China and at least one production plant in India, Japan, Korea, Thailand and Malaysia. All these countries share remarkable annual

CAGR market forecast



Figure 4
Source: Exactitude Consultancy

Market Size

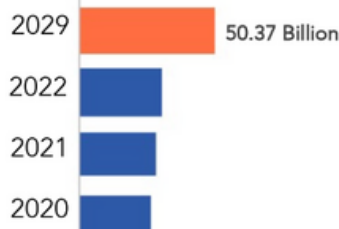


Figure 5
Source: Exactitude Consultancy

40% North America



Figure 6
Source: Exactitude Consultancy

economic growth rates, therefore representing investment opportunities for these companies, which see in these countries that have started very important industrial growth processes, easily achievable market shares as they are all affected by the same problems (air cleanliness, health safety at work due to the inhalation of toxic substances, etc.). However, a particular mention must be made of China, as GVS and many other foreign companies have encountered many difficulties in entering this market, given various complications, above all we can identify at least two: high competitiveness in terms of costs, the strong presence of the central government to manipulate and establish market shares, and the high level of corruption. For these reasons, the US market continues to represent a great certainty in terms of productivity and growth, in fact GVS has 5 production plants in overseas territories alone. Population growth, industrialization, and environmental concerns will drive the adoption of advanced filtration systems. Europe, with a projected CAGR of 5.4%, experiences a significant growth, mainly driven by the growing food, beverage and pharmaceutical industries. The presence of established producers and an emphasis on innovation will contribute to growth in the region. In the South America region, moderate growth is expected as a result of the gradual improvement in the economic and political situation. The promotion of industrial filtration by governmental and non-governmental organizations will contribute to growth. In summary, the global industrial filtration market is influenced by specific regional dynamics, with unique opportunities and challenges in each area.



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COMPETITIVE POSITIONING

Potential competitors

Sartorius: Sartorius stands out in the market with a primary engagement in the realm of medical supplies. The company's core operations revolve around the provision of medical equipment and supplies, showcasing a dedicated commitment to the healthcare industry.

Overlap with GVS: The overlap between Sartorius and GVS is limited, primarily owing to the stark differences in their business focuses. While Sartorius concentrates on the intricate domain of medical supplies, GVS specializes in air and liquid filtration solutions across diverse industries. The divergent nature of their primary focuses minimizes direct competition and positions them in distinct segments of the broader market.

Parker Hannifin: Parker Hannifin emerges as a versatile player in the industry, boasting a diversified business portfolio encompassing motion and control technologies. The company extends its influence beyond filtration to various sectors within the broader industrial landscape.

Overlap with GVS: Although there is an overlap in the filtration sector between Parker Hannifin and GVS, the former's expansive reach into motion and control technologies differentiates its overall business focus. Parker Hannifin's involvement in a broader spectrum of industrial solutions positions it as a multifaceted competitor, engaging with a diverse array of technologies.

Sulzer: Sulzer carves its niche in the market through a specialized focus on fluid engineering, particularly in the provision of pumps and services for rotating equipment. The company's expertise lies in the intricate dynamics of fluid systems.

Other Competitors by Section	
PALL	Healthcare and Life sciences
Merck	Healthcare and Life sciences
cytiva	Healthcare and Life sciences
Intersurgical	Healthcare and Life sciences
Filtertek	Healthcare and Life sciences
3M	Healthcare and Life sciences
AsahiKASEI	Healthcare and Life sciences
MANN+HUMMEL	Health and Personal Safety
Gore	Energy and mobility
NBC	Energy and mobility
Donaldson	Energy and mobility
Moldex	Health and Personal Safety
Honeywell	Health and Personal Safety
Bullard	Health and Personal Safety
camfil	Health and Personal Safety
MSA	Health and Personal Safety

Figure 8
Source: GVS' website

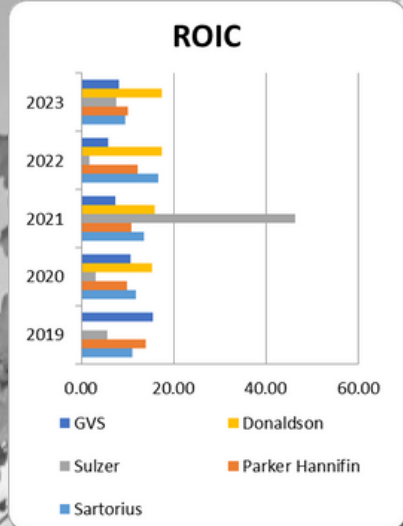


Figure 9 Source: Factset

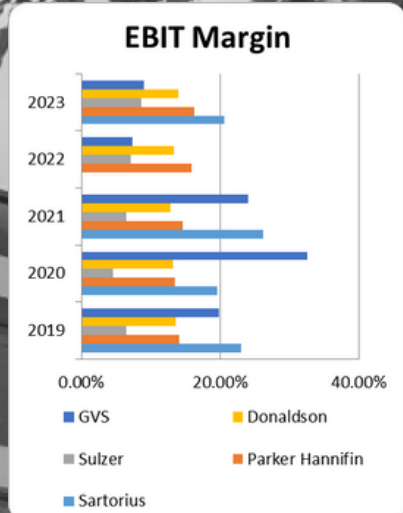


Figure 10 Source: Factset

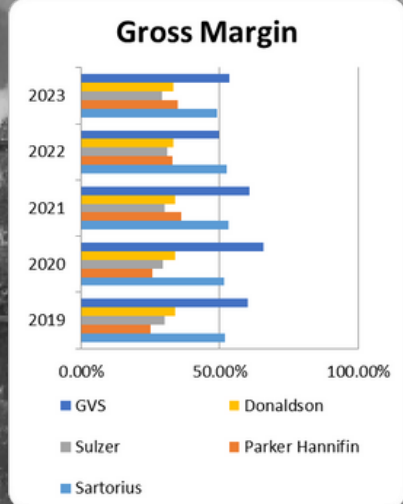


Figure 11 Source: Factset

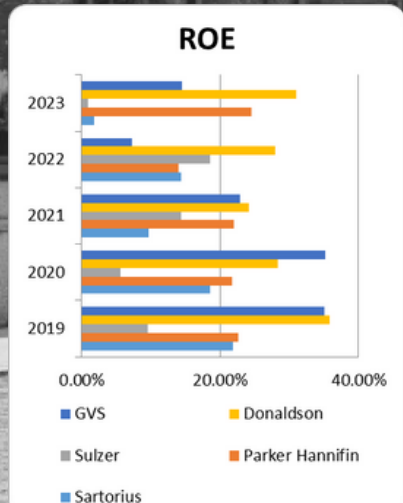


Figure 12 Source: Factset

Overlap with GVS: The overlap between Sulzer and GVS is limited, driven by Sulzer's emphasis on fluid engineering rather than specialized filtration. Sulzer's core competencies in fluid dynamics and rotating equipment underscore its unique positioning within the industry, creating a distinct market presence.

Donaldson Corporation: specializes in filtration solutions for various industries, while GVS focuses on air and liquid filtration across diverse sectors. Donaldson's commitment lies in providing comprehensive filtration solutions, whereas GVS concentrates on a broader range of filtration applications.

Overlap with GVS: The overlap between Donaldson Corporation and GVS is limited due to the stark differences in their business focuses. Donaldson's primary engagement is in offering comprehensive filtration solutions for industries, while GVS specializes in air and liquid filtration across various sectors. This divergence in their primary focuses minimizes direct competition, positioning them in distinct segments of the broader market.

GVS' PERFORMANCE VS. ITS COMPETITORS

In the contemporary financial landscape, a meticulous examination of key performance indicators (KPIs) is imperative for stakeholders, investors, and financial analysts seeking to make informed decisions. This academic paper delves into a comprehensive analysis of the financial performance metrics of five distinguished companies - Sartorius, Parker Hannifin, Sulzer, Donaldson, and GVS. The study spans five years, from 2019 to 2023, with a focus on critical indicators including Return on Invested Capital (ROIC), Earnings Before Interest and Taxes (EBIT) Margin, Gross Margin, and Return on Equity (ROE).

Return on Invested Capital (Figure 9): ROIC serves as a linchpin in evaluating a company's efficiency in capital deployment. Sartorius exhibits a consistent upward trend until 2022, with a marginal decrease in 2023. Parker Hannifin's performance is characterized by marked fluctuations, notably recovering from a substantial downturn in 2020. Sulzer, while showcasing an exceptional surge in 2021, experiences a sharp decline in 2022. Donaldson demonstrates substantial growth from 2019 to 2022, followed by a modest contraction in 2023. GVS displays notable fluctuations, achieving a zenith in 2019 and a nadir in 2023.

Earnings Before Interest and Taxes Margin (Figure 10): The EBIT Margin, a barometer of operational profitability, undergoes meticulous scrutiny. Sartorius reveals fluctuations but consistently maintains a robust EBIT Margin. Parker Hannifin demonstrates a steady increase over the observation period. Sulzer showcases a consistent ascent in EBIT Margin. Donaldson maintains stability in EBIT Margin, signaling resilience in operational profitability. GVS, after a significant surge in 2020, experiences a subsequent decrease.

Gross Margin (Figure 11): Gross Margin, reflective of profitability at the production level, is scrutinized. Sartorius sustains a relatively stable Gross Margin. Parker Hannifin, despite fluctuations, records an overall increase. Sulzer demonstrates moderate fluctuations, maintaining a respectable Gross Margin. Donaldson remains stable in Gross Margin. GVS, however, registers a decline from 2019 to 2023.

Return on Equity (Figure 12): ROE, a pivotal metric gauging profitability relative to shareholders' equity, undergoes a meticulous examination. Sartorius witnesses a gradual decline in ROE. Parker Hannifin displays fluctuations, maintaining a moderate ROE. Sulzer records an upswing in 2022, followed by a sharp downturn in 2023. Donaldson exhibits

fluctuations but sustains a relatively high ROE. GVS experiences fluctuations, reaching a peak in 2019 and subsequently decreasing in 2023. **Conclusion:** This comprehensive analysis provides stakeholders, investors, and financial analysts with nuanced insights into the financial dynamics of the scrutinized companies. The discerning examination of ROIC, EBIT Margin, Gross Margin, and ROE equips decision-makers with a robust understanding of each company's financial prowess. These insights, invaluable for strategic decision-making and future projections, contribute to a more informed and nuanced perspective on the financial standing of Sartorius, Parker Hannifin, Sulzer, Donaldson, and GVS.

ESG

ENVIRONMENT

Operating in the industrial filtration market, GVS did a good job maintaining the GHG emission in 2021 by 1% difference from the previous year (Figure 13), and a strong increase in renewable energy sources, 123% compared to the year before. What may be worrying is the fact that even though the company had deducted working hours by 14%, at the same time the total waste weight increased by 22% (Figure 15). This left some room for improvement in 2022, where with an increase of 20% in working hours, the total waste was only 6% more than in 2021. We should mention that a huge amount of the waste is non-hazardous, circling around 85% of the waste in the past years. With a boost in hours worked in 2022, in need of energy resources, GVS seems to rely more on “ready to use” ones, which are non-renewable (Figure 14). By year 2022, non-renewable resources experienced an intense growth of almost 40%. This can be the cause of the huge amount of natural gas released during this year, which impacts global warming. Regardless of all these changes and struggles, GVS seems to have a pretty good ESG risk rating score of 11.4 according to Morningstar sustainability, being 1 the lowest (Appendix 1). Also, the Group is ranked 8/631 in healthcare industry, and 570/15941 in global spectrum, which means that GVS actually is among top performing companies in relation to ESG.

SOCIAL

Being aware of the important role that a company can play in the society, GVS supports various activities to promote inclusive projects with a focus on people with disabilities, children, but not only. The organizations supported by GVS also operate in the scientific research field, and quality of medical care improvement. Some of the organizations we can mention are: “Save the Children”, “Fondazione Il Bene”, “Fondazione Rizzoli Bologna” etc. The company also strongly supports local suppliers, with around 70% of total spending on suppliers being local. Within the company itself, it also aims for a diverse workforce composition among its almost 5.000 employees, currently employing a majority of women (60%) (Figure 16). This is also reflected in the board of directors’ composition, with 4 women and 5 men, being mostly in the age range of 30-50 years old. As for gender pay-gap, GVS tries to keep it under control through HR, where in some cases, like GVS UK, it publishes an annual report on pay gaps. Concretely, in 2022, the mean gender pay gap was reported to be 17.2%, which was slightly above the whole economy mean of 14.9% .

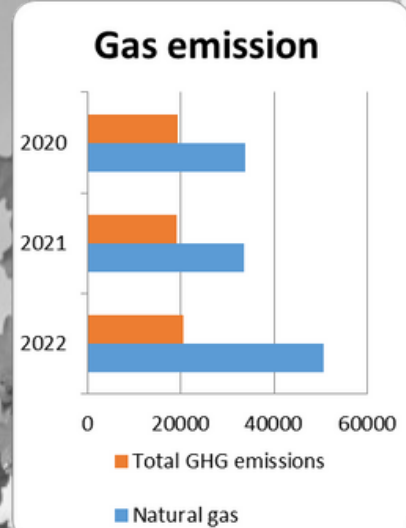


Figure 13 Source: GVS' NFS 2022

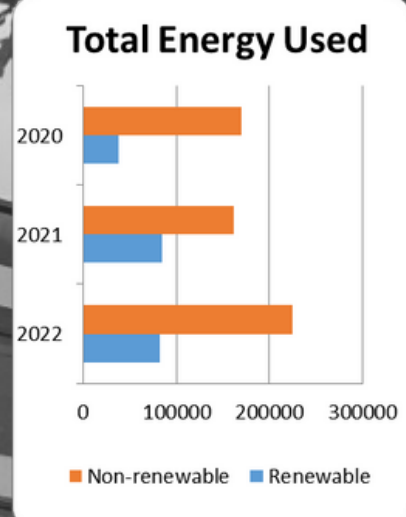


Figure 14 Source: GVS' NFS 2022

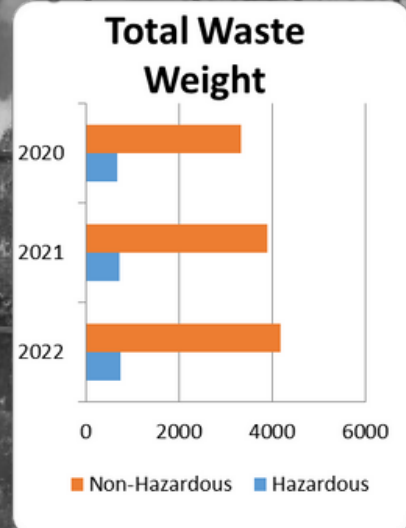


Figure 15 Source: GVS' NFS 2022

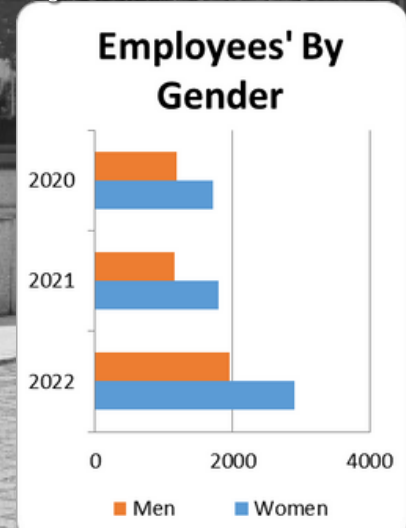


Figure 16 Source: GVS' NFS 2022

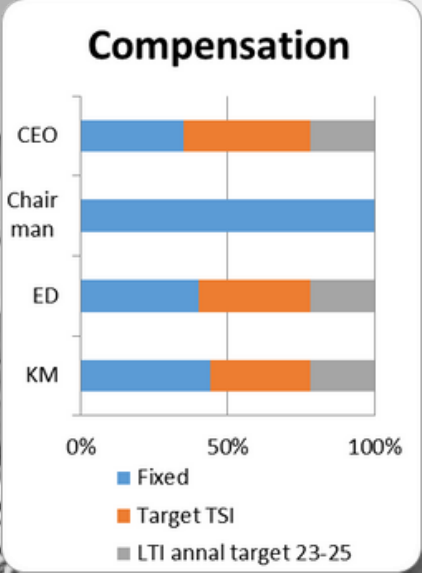


Figure 17
Source: GVS' Remuneration report



Figure 18
Source: Factset, GVS' Corporate governance report

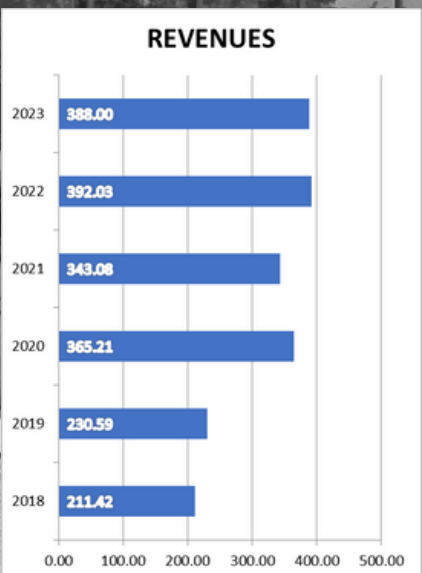


Figure 19
Source: Factset, GVS' Annual report

GOVERNANCE

Similarly to many other Italian SMEs, GVS is family founded and controlled, with the largest shareholder being the Scagliarini and Valentini families. More precisely, Massimo Scagliarini, CEO since 2003, holds 60% of the shares, but 73.7% of the voting rights (Figure 18).

BoD: With a one-tier board, the board of directors is made of 9 members, 4 of which are independent and non-executive directors. This board is diverse also in gender and age, where 4 of the members are women, and the age varies from 30 years and above. Some changes in the board were made during the year 2023: Alessandro Nasi, non-executive independent director, was appointed as Chairman, replacing the former Chairman and co-founder Grazie Valentini. The CFO role was also replaced, with Marco Pacini taking the place of Mario Saccone. The former remained however within the "circle", being appointed as CFO of Wallaby Spa (also owned by the family Valentini/Scagliarini families, and which acts as the group's investment manager in areas such as financial investments, real estate operations, coordination of group companies, and provision of administrative and financial services. Marco Scagliarini is the current CEO of Wallaby. The current COO of GVS, Matteo Viola, is also the CEO of a new acquisition in the US, and at the same time member of BoD. We can say that the power and control in GVS is concentrated, maybe because it recently went public, or because in general all family founded companies are like that. Still, keeping separated the role of CEO and Chairman reduces agency problems, and distributes the power slightly. The BoD has not appointed yet an Executive Committee, but it appointed two committees: the Appointments and Remuneration Committee, and the Control, Sustainability and Risk Committee.

Remuneration: As for CEO's compensation, 35% of it is fixed, and the rest is based on the company's targets, 43% on TSI and 22% on LTI annual target 23-25, where TSI is the short-term variable incentive, and LTI 23-25 is the long-term variable incentive (Figure 17). The chairman has a totally fixed compensation, while key managers and executive directors have similar compensation structure. This remuneration plan was voted with 97% pro and 3% against.

FINANCIAL ANALYSIS

Revenues (Figure 19): In 2020, GVS Spa witnessed a remarkable 59.8% revenue increase, reaching €363.3 million, driven by heightened demand for pandemic-related products in the Health & Safety and Healthcare & Life Science divisions. However, in 2021, sales declined to €343 million, reflecting a -9% organic growth decrease, primarily due to a 37.3% drop in Health and Safety sector revenues. Despite this, the division saw growth in the last quarter of 2021, driven by the positive impact of the RPB business acquisition. In 2022, GVS achieved a robust 15% revenue increase to €392 million, fueled by strategic acquisitions of Haemotronic and STT. The Healthcare & Life Sciences division notably grew, with an 81.1% surge in the Healthcare Liquid business to €75 million. As of September 30, 2023, GVS reported total revenue of €388 million, a 14.5% increase from the first nine months of 2022. The Healthcare & Life Sciences division witnessed substantial growth, attributing 38.1% to the Healthcare Liquid business, offsetting declines in the Healthcare Air & Gas and Laboratory sectors. The Energy & Mobility division faced a 14.3% revenue decrease, while the Health & Safety division experienced a positive trend with a 9.3% year-on-year increase in turnover, fueled by sector dynamics and strategic goal achievements.

The cash-flow earnings of GVS have been on an upward trend since 2017. The negative cash flow in the year 2017 was a result of capex of 112 million attributed to KUSS acquisition (Figure 20). The dip in the year 2021 because of acquisitions activity carried out including the acquisition of RPB Group. To conclude GVS has a very strong position in terms of free cash flow indicating high liquidity for dealing with short term indebtedness and a guarantee for long term indebtedness.

Profitability margins (Figure 21): Profitability margins have been following a similar trajectory as the revenue up until 2021 with the highest being in 2020 following a dip in 2021 owing to the surge in demand in 2020 due to the pandemic and dip in 2021 due to fall in the business of professional and disposable masks. The drop in 2022 was due to several reasons: delay in applying the increase in sales price to offset the increase in production costs relating to raw materials and energy; by normalization of profitability linked to the lower sales attributable to COVID pandemic; increase in the item amortization/depreciation attributable to the acquisitions of RPB, STT and Haemotronic and for the remaining part attributable to the acceleration of the investment plans implemented by the Group over the last few years, in order to cope with the necessary increase in production capacity.

CAPEX (Figure 23): GVS spends approximately 7% of its revenue on capital expenditures with 5% spent on buying new assets and 2% on maintenance. Filtration business is a highly capital intensive industry and the fact that GVS spends only 7% of its income on CAPEX indicates that it grows mainly via reinvestment in other companies and acquisitions owing to which even the depreciation of the company grows at a stable rate. Dec 2017 stands out in terms of CAPEX because of heavy cash outflow of Euro 111 million to acquire KUSS group. The acquisition was closed on July 17th 2018. GVS's consistent and substantial investments in capital expenditures indicate a strategic foresight and a dedication to securing a competitive advantage. By directing funds towards the acquisition, enhancement, or maintenance of physical assets, GVS positions itself for long-term success. This approach not only reflects confidence in the company's current operations but also signals a proactive stance in adapting to industry advancements and technological evolution.

Debt (Figure 24): The dynamic nature of GVS's debt profile reveals a nuanced financial strategy that aligns with the company's broader objectives. Fluctuations in debt levels suggest a thoughtful and deliberate approach to capital structure management. Whether leveraging debt for strategic initiatives or deleveraging during periods of financial strength, GVS's debt decisions are integral to shaping its risk profile, optimizing capital costs, and ensuring financial flexibility.

GVS has a positive liquidity from both short term (Figure 25) and long-term (Figure 26) perspective. Current liabilities exceeded the current assets of the company in the year 2022 owing to the increase in payables for indirect taxes, payables to employees and to social security institutions and advances received from customers owing to the acquisitions of STT and Haemotronic. The increase in other non-current liabilities at 31 December 2022 mainly refers to deferred tax liabilities recognized following the purchase price allocation relating to the acquisitions of STT and Haemotronic.

From a long term perspective the company is a good financial health. Also it is important to consider that since GVS uses debt to mainly to finance its acquisitions it is convenient to consider that assets from these acquisitions

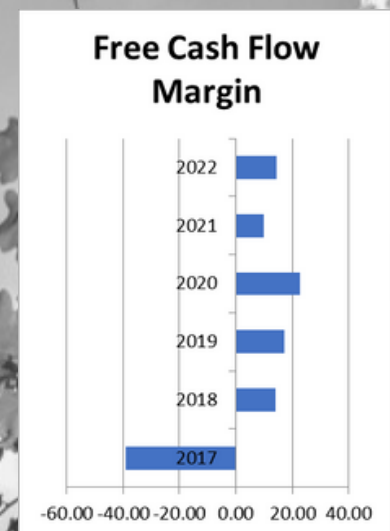


Fig. 20 Source: Factset, GVS' Annual report

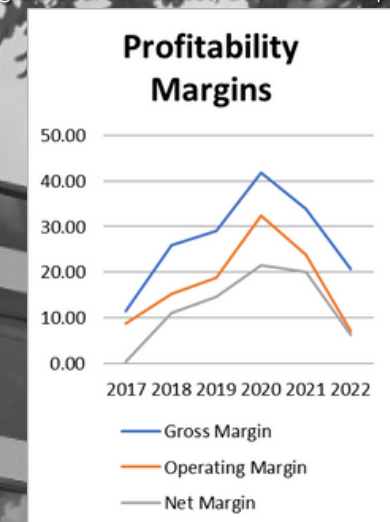


Fig. 21 Source: Factset, GVS' Annual report

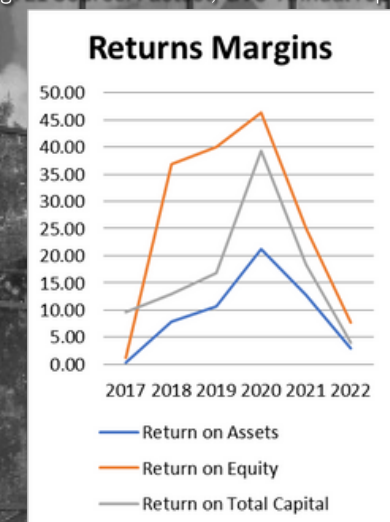


Fig. 22 Source: Factset, GVS' Annual report

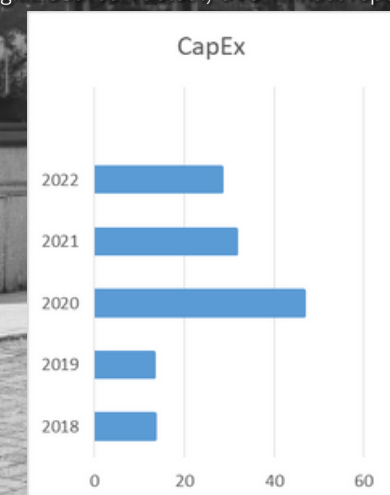


Fig. 23 Source: Factset, GVS' Annual report

Debt

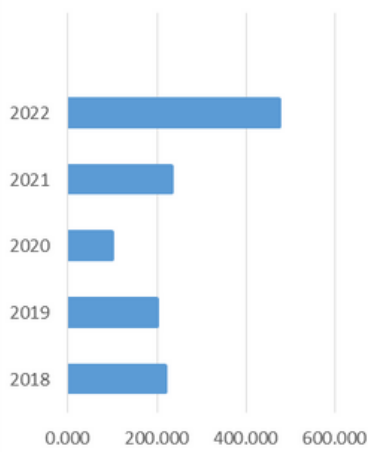


Fig.24 Source: Factset, GVS' Annual report

Short-Term Financial Position

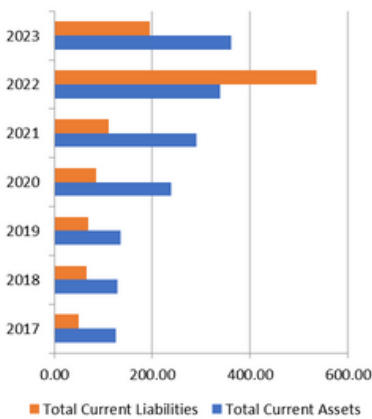


Fig.25 Source: Factset, GVS' Annual report

Long-Term Financial Position

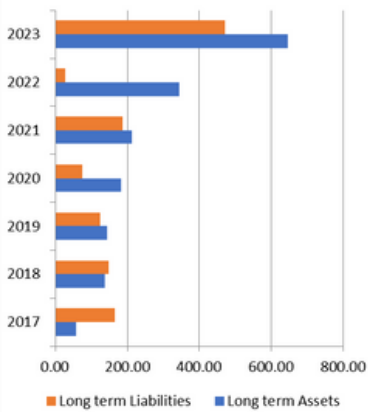


Fig.26 Source: Factset, GVS' Annual report

Cash Flow allocation

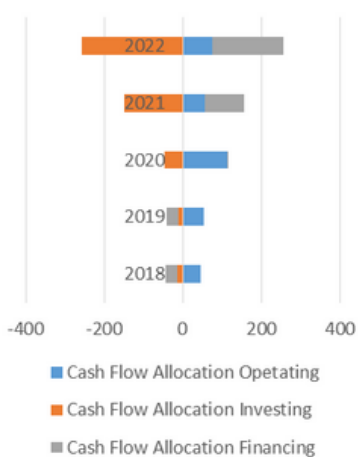


Fig. 27 Source: Factset, GVS' Annual report

shall provide a synergy benefits coming from the combined company in terms of increased revenue , reduced costs , improved operational efficiency etc., which shall be higher than the price of acquisition paid.

Cash Flow Allocation (Figure 27):

Operating Activities: GVS's ability to consistently generate positive cash flow from operating activities is the lifeblood of its business. This positive cash flow not only supports day-to-day operations but also provides a solid foundation for the pursuit of strategic objectives. It signifies operational efficiency, customer demand, and effective management of working capital.

Investing Activities: The negative values in investing activities underscore GVS's commitment to future growth and innovation. These investments could encompass a spectrum of initiatives, including research and development, acquisitions, or capital projects. By willingly allocating resources to these endeavors, GVS positions itself as a forward-thinking organization, willing to invest in its own evolution and market leadership.

Financing Activities: GVS's engagement in financing activities, with both positive and negative values, reveals a company strategically managing its capital. Positive values may stem from successful capital raises or equity transactions, indicating investor confidence and support for GVS's initiatives. Negative values may arise from deliberate debt repayments, showcasing a focus on optimizing the capital structure and reducing financial risk.

VALUATION

We issue a SELL recommendation on GVS S.p.A with a 12-month target price of €2.65, representing a 53.10% downside from its 12/28/2022 €5.65 closing price (Figure 28, Appendix 11). Our recommendation is based on a Free Cash Flow to the Firm (FCFF) Discounted Cash Flow (DCF) model incorporating GVS's historical data continued acquisitions, and expanding margins. We then run our FCFF DCF model through scenario and sensitivity analysis to assess the input variability impact on the implied price.

Component	Rate	Methodology
Risk-free rate	3.23%	Current rate of a five year Italian T-bond rate
Equity risk premium	7.81%	Excess return of the Moody rating over the Italian T-bond rate
Beta	0.66	Raw beta for a 90-day period
Cost of equity	9.44%	Calculated using Capital Asset Pricing Model (CAPM)
Pre-tax cost of debt	5.62%	Sum of the risk-free rate and adjusted default spread
Tax rate	24%	Current effective tax rate in third quarter of GVS
After-tax cost of debt	4.27%	
WACC	8.35%	Calculated using 0.265x D/E ratio

Figure 28 Source: Team Consensus

SENSITIVITY ANALYSIS

The sensitivity analysis evaluates the impact of varying key financial parameters on the share price of a company (Appendix 13). Ranging from changes in the Weighted Average Cost of Capital (WACC) and explicit growth rates to fluctuations in Capital Expenditure (CAPEX) and the Cost of Goods Sold (COGS), it is clear to see the adjustments in share prices. Generally, higher WACC and lower growth rates are associated with reduced share prices, emphasizing the importance of managing financial costs and fostering growth. Additionally, the analysis underscores the significance of optimizing CAPEX and COGS, as fluctuations in these variables demonstrate notable effects on share prices.

INVESTMENT RISKS

Supply chain disruption: GVS relies on a complex supply chain system to manufacture and distribute its products. Disruptions in the supply chain can lead to product shortages, increased costs, and lost sales. In recent years, supply chain disruptions have happened as a consequence of COVID-19 pandemic, the war in Ukraine, and the ongoing global shortage of semiconductors. These disruptions have caused the company to experience delays in product shipments and increased costs.

Currency risks: GVS operates on a global level, and its operations are exposed to fluctuations in exchange rates which could affect the company's profitability (Figure 30). Direct impact on sales: GVS generates revenues from sales in a variety of currencies. When the exchange rate between the euro and another currency, such as the US dollar, changes, it can affect the value of GVS Spa's sales in that currency. Indirect impact on costs: GVS also purchases raw materials, components, and other inputs from a variety of sources.

Interest Rate Risk: GVS relies on borrowed funds (debt) to finance its operations and utilizes its surplus cash by investing in low-risk, short-term financial instruments called money market instruments. Changes in interest rates affect both the cost of borrowing (debt) and the potential returns on these investments, ultimately impacting the company's overall financial charges.

Since some of GVS's debt features variable interest rates, they are exposed to the potential risks of fluctuating interest rates. To mitigate this risk, the company actively manages its debt portfolio by utilizing hedging instruments, aiming to minimize or even eliminate the impact of interest rate changes on its bottom line.

Regulatory Challenges: The medical device and filtration industries are highly regulated, and GVS must comply with a complex web of regulations in order to bring its products to market. Changes to regulations can be costly and time-consuming, and they can also make it difficult for GVS to compete with its rivals.

Heavy Competition: The medical device and filtration industries are highly competitive, and GVS faces competition from a number of other companies, both domestic and international. GVS Spa operates in an oligopoly market. This means that there are only a few firms that dominate the market, and they all have significant market power. These firms engage in extreme competition in terms of price, quality of goods, technology and also after-sale services for customer retention, sustainability of products and distribution channels. . GVS being one of the competitors of this market must carefully manage its decision making in all relevant matters for all the competitive advantages because oligopolies are very challenging market structures owing to following reasons: complexity in product differentiation, inelastic demand, and heavy investment to enter the market

Economic Downturn: A global economic downturn could lead to decreased demand for health and filtration products, as businesses and consumers may have less disposable income to spend on healthcare and other essential goods. The economic downturn in Italy has had a significant impact on GVS Spa's revenue and sales. The company's revenue in Italy decreased by 10% in 2022, and its sales decreased by 8%.

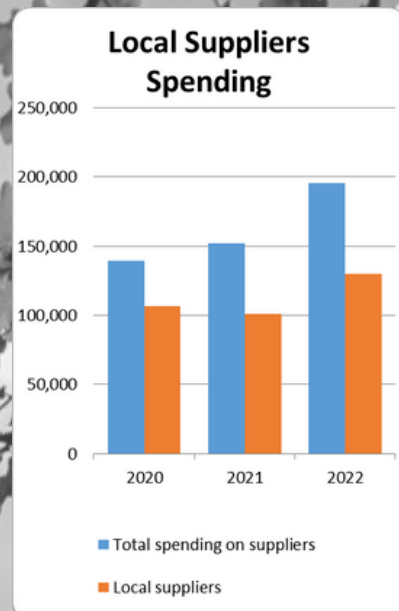


Figure 29
Source: GVS' NFS 2022

Currencies used by GVS
Brazilian Real
Argentine Peso
Chinese Renminbi
American Dollar
Hong Kong Dollar
Japanese Yen
Korean Won
Russian Ruble
Turkish Lira
Mexican Peso
Romanian Ron
British Pound
Malaysian Ringgit
Indian Rupee
New Zealand Dollar
Vietnamese Dong
Thai Baht

Figure 30
Source: GVS' Annual report 2022

APPENDIX

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ESG rating Morningstar

GVS SpA	Sulzer AG	Sartorius AG	Parker-Hannifin Corp.
ESG RISK RATING 11.4 Low 	ESG RISK RATING 20.2 Medium 	ESG RISK RATING 17.7 Low 	ESG RISK RATING 28.0 Medium
EXPOSURE Low 	EXPOSURE Medium 	EXPOSURE Low 	EXPOSURE Medium
MANAGEMENT Strong 	MANAGEMENT Strong 	MANAGEMENT Average 	MANAGEMENT Average

Appendix 1 Source: Morningstar Sustainalytics

Management Team

 Massimo Scagliarini CEO	 Paola Musuraca HR Director	 Luca Zanini VP HC&LS
 Matteo Viola COO	 Rozemaria Bala General Counsel	 Claudio Tonielli VP E&M
 Marco Pacini CFO	 Luca Querzè VP R&D	 Pierre Dizier VP H&S

Appendix 2 Source: GVS's presentation

Shareholders Ownership

Scagliarini Massimo	60.00%
Capital Research & Management Co. (World Investors)	4.98%
Wertheimer Ruth	3.12%
Mediolanum Gestione Fondi SGRpa	2.92%
Invesco Asset Management Ltd.	2.23%
T. Rowe Price International Ltd.	1.71%
The Vanguard Group, Inc.	1.40%
Fideuram Asset Management SGR SpA	1.05%
Fidelity Management & Research Co. LLC	0.89%
Amundi Asset Management SA (Investment Management)	0.72%
Capital Research & Management Co. (Global Investors)	0.68%
Norges Bank Investment Management	0.67%
Royce & Associates LP	0.57%
FIL Investments International (Italy)	0.53%
Oddo BHF Asset Management SAS	0.52%
Arca Fondi SGR SpA	0.50%
Invesco Advisers, Inc.	0.49%
BlackRock Fund Advisors	0.46%
Azimut Capital Management SGR SpA	0.45%
Joh. Berenberg, Gossler & Co. KG (Investment Management)	0.44%

Appendix 3 Source: Factset

PORTER'S FIVE FORCES ANALYSIS



POTENTIAL NEW ENTRANTS

Barriers to Entry: highly regulated market, hard to enter; Strict quality standards and certifications which are also costly; long validation process.

Existing Distribution Channels: established relationships with distributors and suppliers, making it challenging for new entrants to access these channels; superior brand awareness, long relationships



POWER OF BUYERS

Number of Buyers: Reduced dependence on individual customers, its customers are mostly other companies (OEMs relationship); B2B.

Switching Costs: buyers may face switching costs if they need to re-qualify or retest new filter suppliers; high cost in case of product failure; customization of filters may increase the switching costs.

Appendix 4 Source: Team Consensus



POWER OF SUPPLIERS

Number of Suppliers: GVS works with local suppliers; they might have bargaining power.

Uniqueness of Services: high quality and unique materials required might increase the power of suppliers



AVAILABILITY OF SUBSTITUTES

Identify Substitutes: Alternative filter technologies or different purification methods can be found, even though GVS offers a variant portfolio of products to satisfy the consumers' needs.

Switching costs: the importance of filtration for health and safety can limit the impact of substitutes, high quality and certified products are needed



COMPETITION IN THE INDUSTRY

Number of Competitors: highly competitive market, especially medical one; numerous competitors internationally speaking.

Rate of Industry Growth: growth at a CAGR of 6%.

Exit Barriers: technology and equipment investments can make exiting the market costly.

SWOT ANALYSIS

STRENGTHS

S

- Innovative Filtration Solutions
- Global Presence
- Expertise in Healthcare and Life Sciences
- Diversified Product Portfolio
- Quality and Certifications

WEAKNESSES

W

- Dependency on Economic Conditions: particularly in sectors like automotive and industrial that are sensitive to economic downturns
- Market Concentration: If GVS relies heavily on specific markets or industries, changes in those markets could significantly impact its overall performance

OPPORTUNITIES

O

- Rising Demand for Filtration Products: the global focus on health, air quality, and environmental sustainability creates opportunities for GVS to capitalize on the increasing demand for filtration products
- Technological Advancements: staying competitive in the market
- Expansion into Emerging Markets

THREATS

T

- Regulatory Changes: changes in regulations, particularly in healthcare and environmental standards, could impact GVS's operations and require adaptations to meet new compliance requirements.
- Global Economic Uncertainty: economic uncertainties, such as recessions or global economic downturns, may affect the overall demand for filtration products across industries

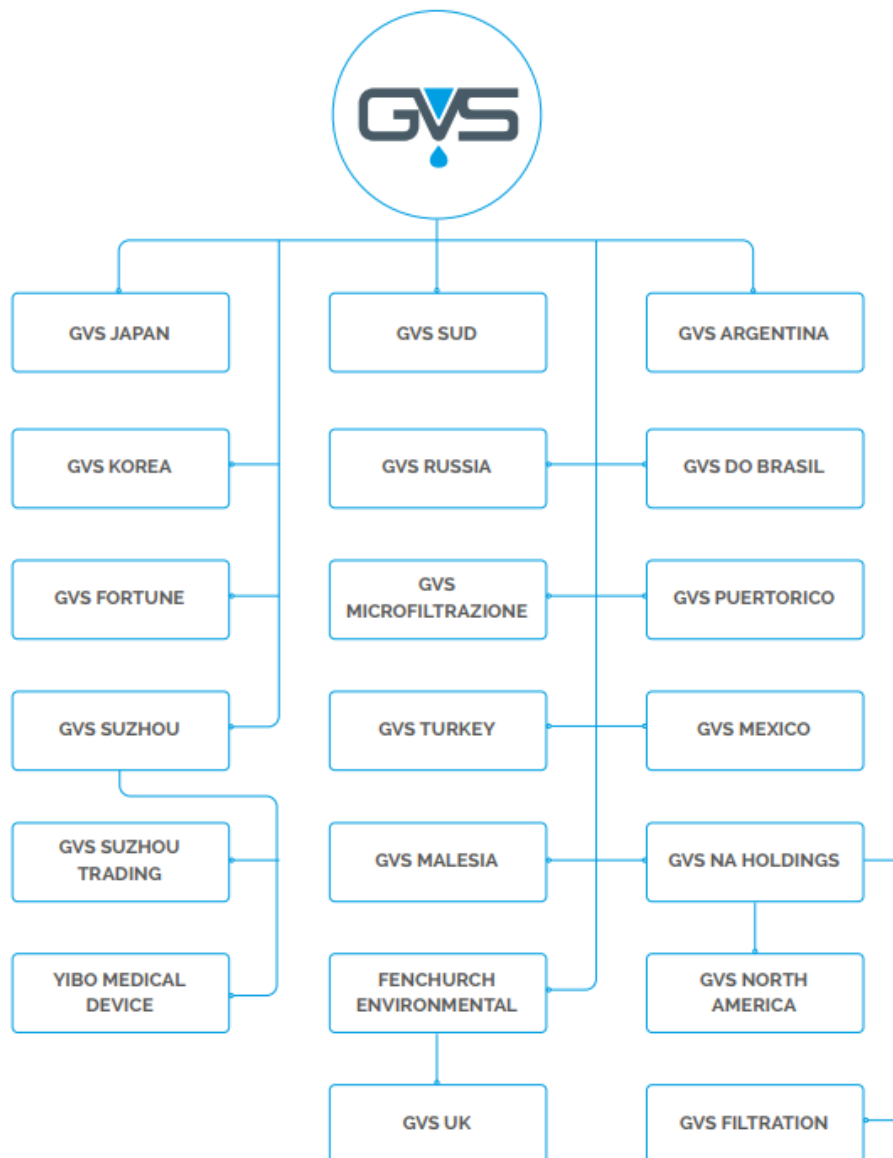
Appendix 5 Source: Team Consensus

Global presence

Country	Country	Business Line								R&D laboratory
		Healthcare & Life Sciences			Energy & Mobility			Health & Safety		
		Healthcare Liquid	Healthcare Air & Gas	Laboratory	Powertrain & Drivetrain	Safety & Electronics	Sports & Utility	Personal Safety	Air Safety	
Zola Predosa 1		✓		✓	✓	✓				✓
Zola Predosa 2		✓								✓
Avellino		✓				✓				
Mirandola		✓								✓
Borgocarbonara		✓								
Sanford, Maine		✓		✓		✓				✓
Bloomer, Wisconsin					✓		✓			
Findlay, Ohio					✓		✓	✓		✓
Westborough		✓		✓						
Detroit								✓		✓
Shagai		✓								✓
Suzhou		✓	✓		✓	✓		✓	✓	✓
Morecambe			✓					✓	✓	✓
Monterrey		✓	✓	✓	✓	✓	✓	✓	✓	✓
Reynosa		✓								
Monte Mor		✓	✓	✓	✓			✓		✓
Ciorani		✓	✓	✓	✓	✓		✓	✓	✓
Porto Rico		✓								

Appendix 6 Source: GVS' presentation

Group Structure*



Appendix 7 Source: GVS' Annual report 2022

Financial year ended 31 December							
(in thousands of Euro)	2020	of which non-recurring	2020 from ordinary operations	%	2019	of which non-recurring	2019 from ordinary operations
Revenues from sales and services	363,296		363,296	100.0%	227,416		227,416
Other revenues and proceeds	1,916		1,916	0.5%	3,169	759	2,410
Total revenues	365,212		365,212	100.5%	230,585	759	229,826
Cost of raw materials purchases and variations in inventories	(88,560)	(65)	(88,495)	-24.4%	(67,884)		(67,884)
Services	(36,216)	(4,553)	(31,663)	-8.7%	(23,442)	(518)	(22,924)
Various operating costs	(3,197)		(3,197)	-0.9%	(3,460)	(144)	(3,316)
Added value	237,240	(4,618)	241,858	66.6%	135,799	97	135,702
Cost of labour	(98,877)	(1,080)	(97,797)	-26.9%	(73,583)	(1,47)	(73,436)
EBITDA	138,363	(5,698)	144,061	39.7%	62,216	(50)	62,266
Amortisation and depreciation	(19,030)	(3,865)	(15,165)	-4.2%	(16,302)	(3,912)	(12,390)
Provisions and writedowns	(335)		(335)	-0.1%	(250)		(250)
EBIT	118,998	(9,563)	128,561	35.4%	45,664	(3,962)	49,626
Financial proceeds and charges	(13,107)	-	(13,107)	-3.6%	(1,990)	-	(1,990)
Pre-tax result	105,891	(9,563)	115,454	31.8%	43,674	(3,962)	47,636
Income tax	(27,808)	409	(28,217)	-7.8%	(10,582)	485	(11,067)
Group's and minority shareholders' net profit or loss	78,083	(9,154)	87,237	24.0%	33,092	(3,477)	36,569

Financial year ended 31 December							
(in thousands of Euro)	2021	of which non-recurring	2021 from ordinary operations	%	2020	of which non-recurring	2020 from ordinary operations
Revenues from sales and services	338,126		338,126	100.0%	363,296		363,296
Other revenues and proceeds	4,949	3,644	1,305	0%	1,916		1,916
Total revenues	343,075	3,644	339,431	100.0%	365,212	-	365,212
Cost of raw materials purchases and variations in inventories	(96,094)	(1,548)	(94,546)	-28%	(88,560)	(65)	(88,495)
Services	(36,662)	(2,068)	(34,594)	-10%	(36,216)	(4,553)	(31,663)
Various operating costs	(5,390)	(1,583)	(3,807)	-1%	(3,197)		(3,197)
Added value	204,929	(1,555)	206,484	61%	237,240	(4,618)	241,858
Cost of labour	(98,599)		(98,599)	-29%	(98,877)	(1,080)	(97,797)
EBITDA	106,330	(1,555)	107,885	32%	138,363	(5,698)	144,061
Amortisation and depreciation	(23,528)	(5,384)	(18,144)	-5%	(19,030)	(3,865)	(15,165)
Provisions and writedowns	(462)		(462)	0%	(335)		(335)
EBIT	82,340	(6,939)	89,279	26%	118,998	(9,563)	128,561
Financial proceeds and charges	7,418	(630)	8,048	2%	(13,107)	-	(13,107)
Pre-tax result	89,758	(7,569)	97,327	29%	105,891	(9,563)	115,454
Income tax	(22,153)	(184)	(21,970)	-6%	(27,808)	409	(28,217)
Group's and minority shareholders' net profit or loss	67,604	(7,753)	75,358	22%	78,083	(9,154)	87,237

Financial year ended 31 December							
(in thousands of Euro)	2022	of which non-recurring	2022 Adjusted	%	2021	of which non-recurring	2021 Adjusted
Revenues from sales and services	387,591		387,591	100.0%	338,126		338,126
Other revenues and proceeds	4,442		4,442	1.1%	4,949	3,644	1,305
Total revenues	392,033	-	392,033	101.1%	343,075	3,644	339,431
Cost of raw materials purchases and variations in inventories	(141,198)	(6,717)	(134,481)	-34.7%	(96,094)	(1,548)	(94,546)
Services	(54,573)	(1,967)	(52,606)	-13.6%	(36,662)	(2,068)	(34,594)
Various operating costs	(5,301)		(5,301)	-1.4%	(5,390)	(1,583)	(3,807)
Added value	190,961	(8,684)	199,645	51.5%	204,929	(1,555)	206,484
Cost of labour	(123,529)	(2,897)	(120,632)	-31.1%	(98,599)		(98,599)
EBITDA	67,432	(11,581)	79,013	20.4%	106,330	(1,555)	107,885
Amortisation and depreciation	(37,972)	(14,216)	(23,756)	-6.1%	(23,528)	(5,384)	(18,144)
Provisions and writedowns	(506)		(506)	-0.1%	(462)		(462)
EBIT	28,955	(25,797)	54,752	14.1%	82,340	(6,939)	89,279
Financial proceeds and charges	5,671	(2,571)	8,242	2.1%	7,418	(630)	8,048
Pre-tax result	34,625	(28,368)	62,993	16.3%	89,758	(7,569)	97,327
Income tax	(10,505)	6,017	(16,522)	-4.3%	(22,153)	(184)	(21,969)
Group's and minority shareholders' net profit or loss	24,120	(22,351)	46,471	12.0%	67,604	(7,753)	75,357

The 9-month period closed on 30th September							
(in thousands of Euro)	2023	of which non-recurring	2023 Adjusted	%	2022	of which non-recurring	2022 Adjusted
Revenue from sales and services	313,108		313,108	100.0%	273,495		273,495
Other operating income	4,653	1,619	3,034	1.0%	2,544		2,544
Total revenues	317,761	1,619	316,142	101.0%	276,039	-	276,039
Raw materials purchases costs and variation in inventories	(103,896)		(103,896)	-33.2%	(93,588)	(3,959)	(89,629)
Services costs	(42,361)	(268)	(42,093)	-13.4%	(38,870)	(1,031)	(37,839)
Other operating costs	(6,193)	(2,317)	(3,876)	-1.2%	(3,368)		(3,368)
Added value	165,311	(966)	166,277	53.1%	140,213	(4,990)	145,203
Personnel costs	(98,052)	(858)	(97,194)	-31.0%	(90,918)	(2,632)	(88,286)
EBITDA	67,259	(1,824)	69,083	22.1%	49,295	(7,622)	56,917
Amortisation and depreciation	(32,225)	(12,784)	(19,441)	-6.2%	(26,028)	(8,742)	(17,286)
Provisions and writedowns	(633)		(633)	-0.2%	(342)		(342)
EBIT	34,401	(14,608)	49,009	15.7%	22,925	(16,364)	39,289
Financial income and costs	(13,348)	(2,323)	(11,025)	-3.5%	37,640	(1,580)	39,220
Pre-tax result	21,052	(16,931)	37,984	12.1%	60,565	(17,944)	78,509
Income tax	(5,222)	3,973	(9,195)	-2.9%	(15,490)	4,065	(19,555)
Group's and minority shareholders' net profit or loss	15,831	(12,958)	28,789	9.2%	45,075	(13,879)	58,954

Cash Flow Statement (Operating and Investing Activities) 2019-2020

Cash flow generated / (absorbed) by operations before variations in net working capital	141.176	61.731
Variation in inventories	(21.008)	1.707
Variation in trade receivables	(6.165)	4.919
Variation in trade payables	18.182	(5.244)
Variation in other assets and liabilities	(1.718)	1.804
Use of provisions for risks and charges and for employee benefits	(118)	(191)
Taxes paid	(16.277)	(9.827)
Net cash flow generated / (absorbed) by operations	114.073	54.899
Investments in tangible assets	(27.306)	(10.252)
Investments in intangible assets	(4.059)	(2.811)
Disposal of tangible assets	608	4.448
Investment in financial assets	(4.443)	(1.888)
Disinvestment in financial assets	191	349
Payment for purchase of businesses, net of cash on hand acquired	(10.534)	-
Net cash flow generated / (absorbed) by investment	(45.543)	(10.154)

2020-2021

Cash flow generated / (absorbed) by operations before variations in net working capital	109.637	141.176
Variation in inventories	(9.530)	(21.008)
Variation in trade receivables	(4.671)	(6.165)
Variation in trade payables	(6.411)	18.182
Variation in other assets and liabilities	(662)	(1.718)
Use of provisions for risks and charges and for employee benefits	(265)	(118)
Taxes paid	(32.616)	(16.277)
Net cash flow generated / (absorbed) by operations	55.483	114.073
Investments in tangible assets	(19.440)	(27.306)
Investments in intangible assets	(3.755)	(4.059)
Disposal of tangible assets	7.184	608
Investment in financial assets	(3.372)	(4.443)
Disinvestment in financial assets	358	191
Payment for purchase of businesses, net of cash on hand acquired	(129.217)	(10.534)
Net cash flow generated / (absorbed) by investment	(148.242)	(45.543)

2021-2022

Cash flow generated / (absorbed) by operations before variations in net working capital	73.697	109.637
Variation in inventories	3.144	(9.530)
Variation in trade receivables	(11.921)	(4.671)
Variation in trade payables	13.834	(6.411)
Variation in other assets and liabilities	9.133	(662)
Use of provisions for risks and charges and for employee benefits	(1.919)	(265)
Taxes paid	(9.846)	(32.616)
Net cash flow generated / (absorbed) by operations	76.121	55.483
Investments in tangible assets	(17.841)	(19.440)
Investments in intangible assets	(5.024)	(3.755)
Disposal of tangible assets	129	7.184
Investment in financial assets	(4.116)	(3.372)
Disinvestment in financial assets	6.451	358
Payment for purchase of business unit net of cash on hand acquired	(236.027)	(129.217)
Net cash flow generated / (absorbed) by investment	(256.429)	(148.242)

Interim Cash Flow Statement

2022-2023

Cash flow generated / (absorbed) by operations before variations in net working capital	71.981	54.954
Variation in inventories	4.923	(19.301)
Variation in trade receivables	14.506	(3.143)
Variation in trade payables	(23.165)	1.118
Variation in other assets and liabilities	1.850	442
Use of provisions for risks and charges and for employee benefits	(5.169)	(1.670)
Taxes paid	(8.341)	(6.843)
Net cash flow generated / (absorbed) by operations	56.586	25.556
Investments in tangible assets	(17.433)	(14.003)
Investments in intangible assets	(4.639)	(3.686)
Disposal of tangible assets	539	43
Investment in financial assets	(83.025)	(6.686)
Disinvestment in financial assets	22.280	6.451
Payment for purchase of business unit net of cash on hand acquired	-	(236.025)
Net cash flow generated / (absorbed) by investment	(82.279)	(253.906)

Balance Sheet

2017-22

QVS S.p.A	DEC '22	DEC '21	DEC '20	DEC '19	DEC '18	DEC '17	Liabilities & Shareholders' Equity
Assets							Current
Cash & Short-Term Investments	139.76	145.06	129.94	61.94	47.25	43.39	ST Debt & Curr. Portion LT Debt
Short-Term Receivables	89.82	69.19	59.43	40.49	44.26	44.00	Accounts Payable
Accounts Receivables, Net	74.15	54.65	53.84	35.75	40.32	36.13	Income Tax Payable
Other Receivables	16.67	14.54	5.59	4.74	3.94	7.87	Other Current Liabilities
Inventories	108.15	73.84	48.43	32.43	36.32	33.54	Total Current Liabilities
Other Current Assets	1.50	1.75	0.68	1.12	0.84	5.39	Long-Term
Total Current Assets	339.22	289.84	238.48	135.98	128.67	126.31	Long-Term Debt
Net Property, Plant & Equipment	143.40	88.04	77.36	56.93	55.98	54.08	Provision for Risks & Charges
Property, Plant & Equipment - Gross	327.16	211.83	182.78	143.98	136.78		Deferred Tax Liabilities
Accumulated Depreciation	183.77	123.79	105.42	87.05	80.80		Other Liabilities
Total Long-Term Investments	7.34	0.48	0.00	0.17	0.34	3.12	Total Liabilities
Intangible Assets	494.85	227.74	90.98	99.85	100.92	94.19	Equity
Goodwill	246.66	98.38	65.41	70.02	68.84	91.40	Common Equity
Other Intangible Assets	248.18	129.36	25.57	29.83	32.08	2.79	Common Stock Pari/Carry Value
Other Tax Assets	19.03	17.36	18.39	17.94	19.67		Additional Paid-In Capital/Capital Surplus
Other Assets	4.76	0.96	0.96	0.37	0.34	1.07	Retained Earnings
Deferred Charges		0.00	0.00	0.00	0.00	1.07	Cumulative Translation Adjustment/Unrealized For. Exch. Gain
Tangible Other Assets	4.76	0.96	0.96	0.37	0.34	1.07	Other Appropriated Reserves
Total Assets	1,008.59	624.43	426.18	311.24	305.91	278.77	Treasury Stock
							Total Shareholders' Equity
							Accumulated Minority Interest
							Total Equity
							Total Liabilities & Shareholders' Equity

Appendix 10 Source: Factset

DCF Calculations

All figures are in millions	-5	-4	-3	-2	-1	0	1	2	3	4	5
GVS	€ 208.90	€ 227.42	€ 363.30	€ 338.13	€ 387.59	€ 388.00	€ 402.36	€ 417.24	€ 432.68	€ 448.69	€ 465.29
REVENUE	€ 2.52	€ 3.17	€ 1.92	€ 4.95	€ 4.44						
OTHER INCOME	€ 211.42	€ 230.59	€ 365.21	€ 343.08	€ 392.03	€ 388.00	€ 402.36	€ 417.24	€ 432.68	€ 448.69	€ 465.29
TOTAL REVENUE	€ 62.32	€ 67.88	€ 88.56	€ 96.09	€ 141.20						
Purchase and consumption cost of raw materials , finished goods and semi f	€ 70.65	€ 73.58	€ 98.88	€ 98.60	€ 123.53						
Personnel Expenses	€ 22.92	€ 23.44	€ 36.22	€ 36.66	€ 54.57						
Cost of Services	€ 2.87	€ 3.46	€ 3.20	€ 5.39	€ 5.30						
Other Operating Costs	€ 158.76	€ 168.37	€ 226.85	€ 236.75	€ 324.60	€ 309.00	€ 301.77	€ 312.93	€ 324.51	€ 336.52	€ 348.97
COGS	€ 0.75	€ 0.73	€ 0.62	€ 0.69	€ 0.83	€ 0.80	€ 0.75	€ 0.75	€ 0.75	€ 0.75	€ 0.75
COGS AS A % OF REVENUE	€ 18.42	€ 16.30	€ 19.03	€ 23.53	€ 37.97	€ 32.23	€ 33.42	€ 34.65	€ 35.94	€ 37.27	€ 38.64
DEPRICIATION & AMORTIZATION	€ 52.66	€ 62.22	€ 138.36	€ 106.33	€ 67.43	€ 79.00	€ 100.59	€ 104.31	€ 108.17	€ 112.17	€ 116.32
EBITDA	€ 0.25	€ 0.27	€ 0.38	€ 0.31	€ 0.17	€ 0.20	€ 0.25	€ 0.25	€ 0.25	€ 0.25	€ 0.25
EBITDA AS A % OF REVENUE	€ 18.42	€ 16.30	€ 19.03	€ 23.53	€ 37.97	€ 32.23	€ 33.42	€ 34.65	€ 35.94	€ 37.27	€ 38.64
D&A	€ 0.09	€ 0.07	€ 0.05	€ 0.07	€ 0.10	€ 0.08	€ 0.08	€ 0.08	€ 0.08	€ 0.08	€ 0.08
D&A AS A % OF REVENUE	€ 34.25	€ 45.91	€ 119.33	€ 82.80	€ 29.46	€ 46.78	€ 67.17	€ 69.66	€ 72.23	€ 74.91	€ 77.68
EBIT	€ 0.16	€ 0.20	€ 0.33	€ 0.24	€ 0.08	€ 0.12	€ 0.17	€ 0.17	€ 0.17	€ 0.17	€ 0.17
EBIT AS A % OF REVENUE	€ 0.33	€ 0.32	€ 0.28	€ 0.25	€ 0.24	€ 0.24	€ 0.24	€ 0.24	€ 0.24	€ 0.24	€ 0.24
TAX Rate	€ 22.95	€ 31.45	€ 85.92	€ 62.10	€ 22.39	€ 35.55	€ 51.05	€ 52.94	€ 54.90	€ 56.93	€ 59.04
EBIT (1-TAX)	€ 18.42	€ 16.30	€ 19.03	€ 23.53	€ 37.97	€ 32.23	€ 33.42	€ 34.65	€ 35.94	€ 37.27	€ 38.64
ADD (DEP and AMORTIZATION)	€ 13.37	€ 13.06	€ 31.37	€ 23.20	€ 22.87	€ 25.64	€ 28.16	€ 29.21	€ 30.29	€ 31.41	€ 32.57
(LESS) CAPEX	€ 0.06	€ 0.06	€ 0.09	€ 0.07	€ 0.06	€ 0.07	€ 0.07	€ 0.07	€ 0.07	€ 0.07	€ 0.07
CAPEX AS A % OF REVENUE	€ -1.99	€ 1.38	€ -8.99	€ -20.61	€ 5.06	€ 10.93	€ 11.33	€ 11.75	€ 12.18	€ 12.64	€ 13.10
(LESS) CHANGES IN WORKING CAPITAL	€ -0.01	€ 0.01	€ -0.02	€ -0.06	€ 0.01	€ 0.03	€ 0.03	€ 0.03	€ 0.03	€ 0.03	€ 0.03
CHANGES IN WC AS A % OF REVENUE	€ 29.98	€ 33.31	€ 82.57	€ 83.04	€ 32.43	€ 31.21	€ 44.97	€ 46.64	€ 48.36	€ 50.15	€ 52.01
FCFF											
PV BASED ON WACC							€ 41.51	€ 39.72	€ 38.02	€ 36.38	€ 34.82
TV											€ 190.45
											€ 831.90

PV OF TV	€ 557.00
EV	€ 747.46
DEBT	€ 283.38
SHARE O/S	175.00
EQUITY VALUE	€ 464.08
SHARE PRICE	€ 2.65

Explicit growth rate	3.7%
CHANGE IN WC AS A % OF REVENUE	2.80%
COGS AS A % OF REVENUE	75%
CAPEX AS A % OF REVENUE	7.00%
BETA	0.661312
LEVERED BETA	0.7945444
RISK FREE RATE	3.2%
ADJUSTED DEFAULT SPREAD	2.4%
SOVEREIGN CDS SPREAD	1.3%
ERP	7.8%
KOD	5.6%
After tax KOD	4%
D/E RATIO	0.2650879
EQUITY	1069
DEBT	283.379
TAX	24%
CAPITAL	1352.379
COE	9.4%
WACC	8.35%
PERPETUAL GROWTH RATE	0.04

COST OF EQUITY	
BETA	0.661312
LEVERED BETA	0.7945444
RISK FREE RATE	3.2%
ERP	7.8%
CAPM	9.44%
COST OF DEBT	
Pre-Tax Cost of Debt	5.6%
Effective Tax Rate	24%
Cost of Debt	4.27%
WACC	
Weight of Equity	79.046%
Weight of Debt	20.954%
WACC	8.35%

Appendix 11 Source: Team Consensus

WACC Calculation Assumptions

Risk Free Rate	3.23%	Current rate of 5-year Italian T-bond rate
Equity Risk Premium	7.81%	Excess return of the Moody rating over Italian T-bond rate
Beta	0.66	Raw Beta for a 90-day period
Levered Beta	0.794	
Adjusted Default Spread	2.40%	
Cost of Equity	9.44%	Calculated using CAPM
Pre-tac Cost of Debt	5.62%	Sum of the risk-free rate and Adjusted Default Spread
Tax rate	24%	Current effective tax rate in Q3 of GVS
After-tac Cost of debt	4.27%	
WACC	8.35%	Calculated using a 0.265X D/E ratio
Explicit growth rate	3.70%	Calculated based on average growth of revenue in the past 5 years and expected revenue growth from company data
EBITDA as % of Revenues	25%	Calculated based on EBITDA of the past 5 years and expected revenue growth from company data
Terminal growth rate	4%	A terminal growth rate of 4% based on the average of expected growth rate of filtration industry within the range of 2%-6%

Appendix 12 Source: Team Consensus

Sensitivity Analysis

PERPETUAL GROWTH RATE	WACC					
	2.65	6.40%	7.40%	8.40%	9.40%	10.40%
2%	3.23307832	2.246536257	1.581855587	1.107132461	0.75333	
3%	4.369937225	2.904406373	1.997946139	1.386681199	0.94957	
4%	6.453757777	3.94925891	2.603168759	1.769766507	1.20714	
5%	11.51446483	5.864821895	3.564404685	2.326981499	1.5601	
6%	41.87870717	10.51690343	5.32667055	3.211970017	2.0735	

EXPLICIT GROWTH RATE	WACC					
	2.65	6.40%	7.40%	8.40%	9.40%	10.40%
1.7%	5.747567698	3.474666049	2.252716643	1.49590978	0.98477	
2.7%	6.094002634	3.707552249	2.424736352	1.630372954	1.09399	
3.7%	6.453757777	3.94925891	2.603168759	1.769766507	1.20714	
4.7%	6.827219793	4.200040155	2.788197143	1.914230165	1.32433	
5.7%	7.214782803	4.460154987	2.980008287	2.06390631	1.44569	

COGS	WACC					
	2.65	6.40%	7.40%	8.40%	9.40%	10.40%
65%	11.94302591	7.735597176	5.474235249	4.074162511	3.12897	
70%	9.198391845	5.842428043	4.038702004	2.921964509	2.16805	
75%	6.453757777	3.94925891	2.603168759	1.769766507	1.20714	
80%	3.70912371	2.056089777	1.167635514	0.617568505	0.24622	
85%	0.964489642	0.162920645	-	-	-	

CAPEX	WACC					
	2.65	6.40%	7.40%	8.40%	9.40%	10.40%
2%	10.06511839	6.440270927	4.492028292	3.285816509	2.4715	
7%	6.453757777	3.94925891	2.603168759	1.769766507	1.20714	
12%	2.842397162	1.458246893	0.714309226	0.253716504	-	
17%	-	-	-	-	-	
22%	-	-	-	-	-	

	EXPLICIT GROWTH RATE					
	2.65	1.70%	2.70%	3.70%	4.70%	5.70%
2%	1.3498891	1.476622	1.607968457	1.74406	1.88503	
3%	1.7349588	1.880999	2.032420214	2.18937	2.35202	
4%	2.2969385	2.471157	2.651875103	2.83928	3.03356	
5%	3.1941003	3.413303	3.6407919	3.87681	4.12159	
6%	4.8537392	5.156157	5.470166425	5.7961	6.13431	

	COGS					
	2.65	65%	70%	75%	80%	85%
1.7%	4.9597843	3.628361	2.296938542	0.96552	-	
2.7%	5.2524624	3.86181	2.471157031	1.0805	-	
3.7%	5.5560594	4.103967	2.651875103	1.19978	-	
4.7%	5.8708876	4.355083	2.839278592	1.32347	-	
5.7%	6.1972651	4.615411	3.033556884	1.4517	-	

	PERPETUAL GROWTH RATE					
	2.65	2%	3%	4%	5%	6%
65%	3.8023501	4.515407	5.55605939	7.21739	10.2906	
70%	2.7051593	3.273914	4.103967246	5.42909	7.8804	
75%	1.6079685	2.03242	2.651875103	3.64079	5.47017	
80%	0.5107776	0.790927	1.199782959	1.85249	3.05993	
85%	-	-	-	0.0642	0.64969	

	CAPEX					
	2.65	2%	7%	12%	17%	22%
2%	3.05164	1.60797	0.1643	-	-	
3%	3.66596	2.03242	0.39888	-	-	
4%	4.56252	2.65188	0.74123	-	-	
5%	5.99382	3.64079	1.28777	-	-	
6%	8.64153	5.47017	2.2988	-	-	

	CAPEX					
	2.65	2%	7%	12%	17%	22%
1.7%	4.04881	2.29694	0.54507	-	-	
2.7%	4.30096	2.47116	0.64135	-	-	
3.7%	4.56252	2.65188	0.74123	-	-	
4.7%	4.83376	2.83928	0.8448	-	-	
5.7%	5.11494	3.03356	0.95217	-	-	

Appendix 13 Source: Team Consensus

Profitability Margins

GVS	2017	2018	2019	2020	2021	2022
Gross Margin	11.47%	25.98%	29.16%	41.73%	33.92%	20.66%
Operating Margin	8.82%	15.22%	18.79%	32.31%	23.73%	7.00%
Net Margin	0.37%	11.04%	14.55%	21.49%	19.99%	6.22%
Return on Assets	0.34%	7.89%	10.72%	21.17%	12.87%	2.95%
Return on Equity	1.25%	36.81%	0.40%	46.34%	25.13%	7.74%
Return on Common Equity	1.25%	36.81%	40.04%	46.34%	25.13%	7.74%
Return on Total Capital	9.58%	12.97%	16.89%	39.26%	18.49%	4.09%
Return on Invested Capital	0.45%	10.54%	15.10%	29.04%	16.90%	5.75%

Appendix 14 Source: Fact Set

Board of Directors 2022

Board of Directors													
Position	Members	Year of birth	Date of first appointment (*)	In office since	In office until	List (presenters) (**)	List (M/m) (***)	Exec.	Non-Exec.	Indep. Code	Indep. CFA	No. other appointments (****)	Attendance (****)
Chairman	Grazia Valentini	1942	18/03/1987	13/03/2020	31/12/2022	N/A	N/A		x			-	10/10
Chief Executive Officer	Massimo Scagliarini	1965	24/07/1990	13/03/2020	31/12/2022	N/A	N/A	x				-	10/10
Director	Marco Scagliarini	1964	24/07/1990	13/03/2020	31/12/2022	N/A	N/A	x				-	8/10
Director	Mario Saccone	1967	23/07/2010	13/03/2020	31/12/2022	N/A	N/A	x				-	10/10
Director	Matteo Viola	1974	23/05/2018	13/03/2020	31/12/2022	N/A	N/A	x				-	8/10
Director	Nadia Buttignol	1977	13/03/2020	19/06/2020	31/12/2022	N/A	N/A		x	x	x	-	10/10
Director	Arabella Caporello	1972	13/03/2020	19/06/2020	31/12/2022	N/A	N/A		x	x	x	1	9/10
Director	Alessandro Nasi	1974	13/03/2020	19/06/2020	31/12/2022	N/A	N/A		x	x	x	7	9/10
Director	Michela Schizzi	1982	13/03/2020	19/06/2020	31/12/2022	N/A	N/A		x	x	x	-	10/10

No. of meetings held during the reference financial year: 10

Indicate the quorum required for submission of lists by minority shareholders for the election of one or more members (per Article 147-ter of the CFA): 2.50%

NOTES

* This symbol indicates the Director in charge of the internal control and risk management system.

(*) Date of first appointment of each Director means the date on which the Director was appointed for the first time (ever) in the Issuer's BoD.

(**) This column indicates whether the list from which each Director was drawn was submitted by shareholders (indicating "Shareholders") or by the Board of Directors (indicating "Board of Directors").

(***) This column indicates whether the list from which each Director has been drawn is "majority" (indicating "M") or "minority" (indicating "m").

(****) This column shows the number of offices as Director or Auditor held by the person concerned in other listed companies or companies of significant size. Offices held in several companies belonging to the same group will count for only one unit.

(****) This column shows the attendance of Directors at Board meetings (indicate the number of meetings attended compared with the total number of meetings which could have been attended; e.g. 6/8; 8/8 etc.).

Appendix 15 Source: GVS' report on corporate governance

Committees 2022

Board of Directors		Control, Risk and Sustainability Committee		Appointments and Remuneration Committee	
Position	Members	(*)	(**)	(*)	(**)
Chairman (non-executive - non-independent)	Grazia Valentini			7/7	M
Chief Executive Officer	Massimo Scagliarini				
Director (executive - non-independent)	Marco Scagliarini				
Director (executive - non-independent)	Mario Saccone				
Director (executive - non-independent)	Matteo Viola				
Director (non-executive - independent in accordance with the CFA and Code)	Nadia Buttignol	11/11	M		
Director (non-executive - independent in accordance with the CFA and Code)	Arabella Caporello	11/11	P		
Director (non-executive - independent in accordance with the CFA and Code)	Alessandro Nasi			7/7	M
Director (non-executive - independent in accordance with the CFA and Code)	Michela Schizzi	11/11	M	7/7	P
No. of meetings held during the reference financial year:		11			7

NOTE

(*) This column shows the attendance of Directors at Board meetings (indicate the number of committee meetings attended compared with the total number of meetings which could have been attended; e.g. 6/8; 8/8 etc.).

(**) This column indicates the title of the Director within the committee: (") "P": chairman; "M": member

Appendix 16 Source: GVS' report on corporate governance