CFA Institute Research Challenge

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CFA Institute Research Challenge

GVS Filter Technology S.p.A. (MI: GVS)

Factory Machinery & Equipment industry

CFA Institute Research Challenge | Initiation of coverage: 12th February 2023

HOLD

The time frame for the recommendation is 12 months;
over the long term, our rating becomes a STRONG-BUY.

ATH	17.5 €
First Trading Price	9.83 €
Stock Price	5.75 €
Target Price	5.77 €
Upside	0.36%
Dividend Yield	0.0%
Market Capitalization	1.01 B€
Free Float	36.88%
Total Shares	175M
CEO/family voting rights	73.68%

EXECUTIVE SUMMARY

Even though with our analysis through multiples and DCF model we see a -4.55% downside price action in the next months, we still recommend a **Hold** due to the company's bright future potential. GVS is a global filtration system producer born in Italy in 1979 with over 5500 employees and 29 offices around the globe between the sales department and production plants; it launched an IPO in June 2020. The key is the next FY24-25 in which the company challenge is to cut debt by 50% while maintaining +5% YoY revenue growth rate, all without increasing product prices; we think this plan is overly ambitious: with our model, we estimate a 1.4x target leverage as sustainable for the target revenue growth. As you gain knowledge reading the report you'll understand why we're not recommending a sell:

-Returning to normal EBITDA margin after covid: during covid, GVS became almost a mono-product type of industry producing masks for the pandemic, this destabilized the normal business model leading to a difficult return to pre-pandemic core business; this includes Adj. EBITDA Margin to come back at 23-27% after a spike to 40% in 2020, behind this target there is an ambitious plan for FY24-25 of debt reduction from 2.7x leverage to a 1.2 x and a target adj. EBITDA of 27%-28% as you'll understand in the valuation section (page: 6) we took this as target numbers in our model to understand if this aim is doable and how this could affect our target price.

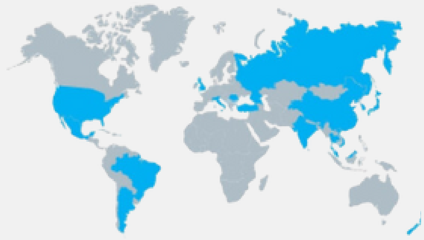
-The company invested in 17 M&A operations in the last 13 years in order to expand into new markets, but some of the last acquisitions require time to pay back [almost 450 million € for the last 3 acquisitions Y21-22] this could increase cash flows in the following years.

-Increasing demand is another key factor we took into account: the population's ageing could increase personal and government expenditure for healthcare, the core business of GVS accounting for almost 68% of revenue; in our investment summary (page: 3) we dedicate a paragraph to create a function to relate the increase of ageing in the countries where GVS is present and the growth of revenue, in order to better understand the impact on the business. Also, they are working on B2C expansion: the company is not only consolidating its B2B business but also increasing its share in B2C (from the actual 21%) through direct sales to hospitals of selected product niches. With all these positive factors, we're not confident recommending a sell: we see a potential in the market niche and a solid company: while one of the biggest competitors is losing market shares due to a 6b$ settlement for a lawsuit. At the same time, the next 2-year plan seems too ambitious in our opinion: with our model, we're not confident in the 5% sales growth and50% debt reduction, and our target price is slightly over the current market price this is the reason why we don't recommend a buy either. **Other analysts**: we furthermore took into account the work of other experts like: Christian Hinderaker and Akash Chandgothia in a 09/23 Goldman Sachs report with a sell

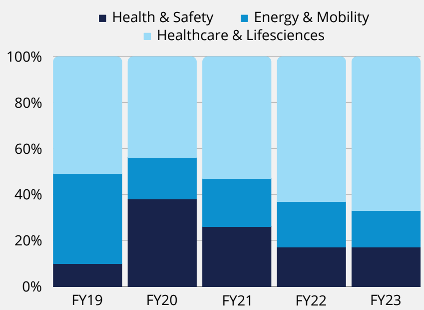
recommendation where they had a 4.90€ price target with a 15.2x EV/EBIT; Anna Frontani from Berenberg 01/24 with a buy and a target price of 7.5€ and Matteo Bonizzoni from Kepler Cheuvreux 11/23 with a buy and a target price of 5.7€; these are just some of the reports that we have analyzed to better understand market consensus and other expert's opinion in general.

BUSINESS DESCRIPTION

Overview: with a market cap of €1.06b and 2023E total revenues of €421.523m, GVS Group is a leading Italian manufacturer of a series of high-tech filtration solutions in Europe and a top player in the global landscape. It operates through 3 divisions Healthcare & Lifesciences, Energy & Mobility and Health & Safety (Exhibit 2). Founded in 1979 in Bologna by Grazia Valentini with the support of her father Renato, one of the first Italian insert moulding designers, GVS transformed in the span of 40 years from a healthcare equipment provider to a global group with 19 production sites and 10 commercial offices worldwide. (Exhibit 1). Within its first decade, 3 new productions had been established in Italy, obtaining in 1986 the first of an extensive list of patents pertaining to several fields, including the healthcare one. GVS' global expansion was kickstarted in 1993 by the inauguration of the first foreign-located commercial office in Belgrade. A significant moment in the company's history is its highly successful listing on the Milan Stock Exchange concluded on the 18th of June 2020 with a €8.15 offering price and an initial €1.86 market cap. Currently, GVS positions itself as a relevant provider in over 20 industries with 58 different implementation fields, relying on a 4869 full-time employee workforce. As mentioned, the company operates globally, particularly in North America and Europe (45.9% and 29.7% of revenues FY2023E, in accordance with GVS' expansion strategy in these markets while not overlooking its potential in Asia (see: *Revenue breakdown*).



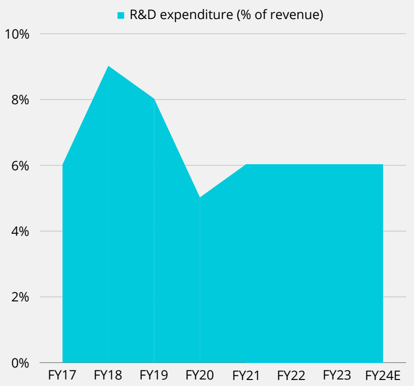
GVS plants and sales offices | Exhibit 1
company data & team elaboration



Historical Revenue by Division | Exhibit 2
company data & team elaboration

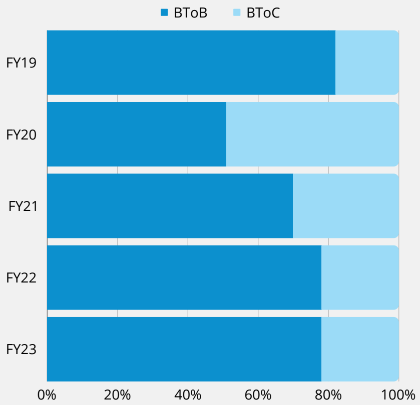
Business model

GVS has always used a "Glocal" approach which specifically involves relying on numerous production and commercial sites in various locations worldwide in order to ensure direct and close contact with its



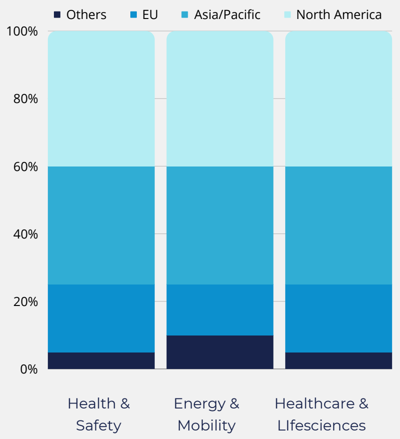
Trend of spending on R&D activities | Exhibit 3

company data & team elaboration



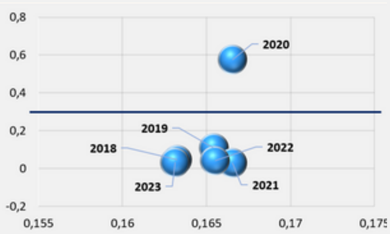
Historical revenue breakdown | Exhibit 4

company data & team elaboration



Geographical impact on the market value of the sector | Exhibit 5

company data & team elaboration



Cook-DFFIT Plot | Exhibit 6

The graph indicates data points with excessive influence on the regression where the blu line is the threshold level for excessive influence

company data & team elaboration

customers, while taking full advantage of the opportunities offered by globalization. We underline this last fundamental notion as GVS has conducted 18 M&As in the 2009-2022 period. The company's production process involves acquiring plastic resins and polymers on the market to, through its production processes, first be made into filtering materials and then into finished filters. GVS suppliers undergo a rigorous selection process based on criteria of professionalism, quality, and fairness. They are mainly local contractors and are placed at the centre of the production process, as they are required to adhere to behavioural principles compliant with GVS' values as well as to social and environmental best practices. All suppliers are required to comply with the "Supplier Code of Conduct 2022".

Customer base

GVS' market target is a B2B one and, to a lesser extent, includes B2C business segments with an exception being 2020 (Exhibit 4), through which a shift towards B2C activity has been observed mainly due to the COVID-19 pandemic. In FY2019-FY2023E, B2B revenue CAGR is 11.7%, while B2C revenue CAGR is 17.8%. The "Local for Local" approach aims to make products available to B2B clients directly at GVS's facilities, which serve as true distribution centres, resulting in a significant reduction in logistics chain costs. The B2C clientele, on the other hand, is served through an external distribution network and directly through e-commerce systems, management has set as a goal the increase of GVS' exposure to the B2C line of business through direct sales to selected hospitals of a specific roster of products (see "Revenue breakdown").

R&D

GVS defines itself as a "Quality Oriented" Group, as it aims to meet customer expectations and needs, pursuing a 100% defect-free production goal. The Group has 9 research centres distributed worldwide with 118 highly qualified employees, as well as 58 patent families. As an exhibit of its high propensity to innovation, the company reinvested approximately 6% of its revenues in research and development in 2022 (Exhibit 3), a nearly constant trend confirmed by an expected 5.73% R&D expenditure over revenues in FY2023E. (Appendix 14-15: forecasted balance sheet) Additionally, it consistently collaborates with excellent research centres, universities, and laboratories worldwide. These synergies have been fundamental in achieving numerous Quality, Environment, Health, and Safety certifications since 1995, as well as meeting the changing market expectations and customer demands, making reliability, quality, and attention to detail the Group's strengths.

INDUSTRY OVERVIEW AND COMPETITIVE LANDSCAPE

INTRODUCTION

The 2023 global market size for sectors in which GVS operates (*research by Grand View Research*) is as follows: **Healthcare & Life Sciences at 8.8 trillion $** (4.2% CAGR), **Energy & Mobility at 3.7 trillion $** (5.5% CAGR), and **Health & Safety at 1.5 trillion $** (4.5% CAGR). The primary geographic areas contributing significantly are: North America, Asia-Pacific, and Europe (Exhibit 5). These segments encompass numerous manufacturers and retailers that often operate cross-sector due to the solutions provided by the broad range of innovative products from one sector to another. GVS positions itself in this context with core competencies currently focusing on highly innovative filtration solutions for critical applications, thereby enhancing the health and safety of end users.

INDUSTRY TRENDS

The strong focus on research and development, driven by quality and process expertise as a foundation for future growth (*company sources*), positions GVS in a leadership role in high-margin niche markets, fortified by entry barriers and supported by secular trends. The sectors are influenced by various trends that can impact business operations.

(I) AGING POPULATION: Population ageing serves as a **key driver** for innovation and growth in critical sectors such as **Healthcare & Life Sciences and Health & Safety**. This phenomenon is often linked to an increase in chronic diseases and complex medical conditions, necessitating targeted solutions and preventive actions (*research from the Journal of Aging and Health*). Companies that have been able to develop solutions tailored to the needs of the elderly population now enjoy a significant competitive advantage. (*For GVS's considerations on this, refer to the Investment Summary*).

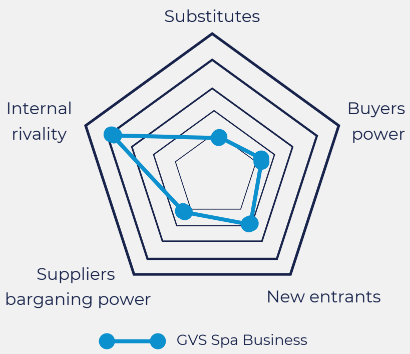
(II) GROWING INTEREST IN PREVENTION:

The Covid-19 pandemic has reshaped aspects of daily personal care, introducing products aimed at greater health prevention, such as masks. This phenomenon has led **global populations to a growing focus on their health** (*Research on WHO*). Furthermore, this shift toward prevention not only improves public health but also provides growth opportunities for companies focusing on research and development of preventive solutions. **GVS is well-positioned** to continue addressing this interest, as evidenced by the surge in sales during the pandemic years (*see appendix 3 "linear regression"*), where prevention was more prevalent than the linear trend in other years. The company can rely on its recognized service quality and an increasingly established brand, as demonstrated by historical outperformance relative to the market (*company sources*).

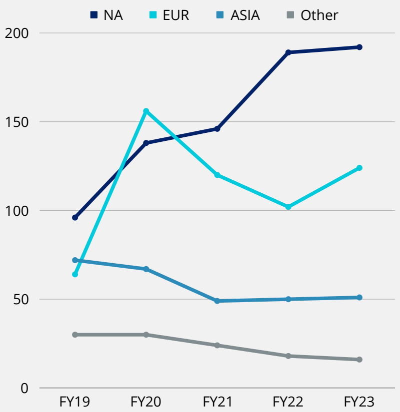
(III) GLOBAL POLLUTION:

Global pollution is becoming an increasing threat to the environment and people's health. Climate change, increased air pollution, and degradation of water resources are just some of the devastating impacts observed worldwide. However, this challenge also represents an opportunity for companies that can develop sustainable solutions. The growing demand for eco-friendly products and services from consumers, businesses, and governments **opens up new markets and growth possibilities** (*research from WHO*). Companies that best adapt to this trend and invest in clean technologies and processes will have a competitive advantage in the global market. For years, GVS has been engaged in research, environmental and quality control, offering best-in-class solutions with a comprehensive product portfolio for each operational division. For example, to address increased attention to biological risk (also supporting the growth of the B2C sector), GVS leverages its know-how to produce efficient, comfortable, and high-quality reusable masks (*company sources*).

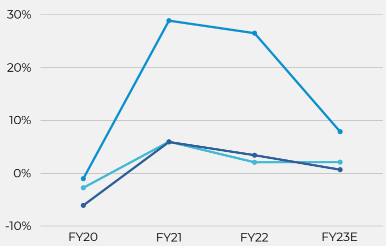
(IV) INDUSTRY REGULATIONS: Sectors of interest are influenced by government and community regulations related to public health protection and improvement. An example is the **European Green Deal**, which aims for climate neutrality by 2050. To achieve this goal, the EU is promoting various measures, including the promotion of sustainable mobility **from which the Energy & Mobility sector can benefit**. Consequently, companies are witnessing a significant increase in demand for innovative solutions aimed at reducing polluting emissions. Adhering to regulations is not only mandatory, but also a success and competitiveness factor for companies that know how to seize the opportunities offered (*research from the*



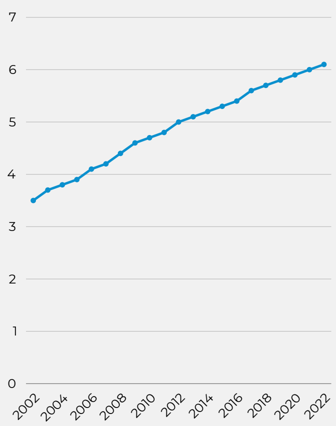
Porter's Five Forces Framework | Exhibit 7
company data & team elaboration



Historical Performance of Revenue by Segment | Exhibit 8
company data & team elaboration



GVS B2B growth comparison| Exhibit 9
company data & team elaboration



% of population over 80 EU | Exhibit 10
Eurostat data & team elaboration

European Commission). In this context, GVS faces increasingly stringent regulations imposed by governments on pollution (e.g., in water injection), responding promptly thanks to common production processes and the consequent filtration technology applied to solutions (in various end markets) for which there are rigorous and similar approval processes. For more information on how GVS approaches the European Green Deal, see the appendix (Bloomberg photo on GVS's commitment to meeting the 2050 agreement).

INDUSTRY ATTRACTIVENESS

(I) The degree of **internal rivalry** in the markets where the company operates is high due to the presence of numerous firms of varying sizes. GVS operates in highly specialized market niches with elevated entry barriers. Nevertheless, in certain segments, there is competitive pressure from global players (*e.g. Pall Corporation - appendix 5*).

(II) The threat of substitute products is low. GVS filtration solutions are critical components, custom-designed with stringent certification requirements, challenging to replace without impacting the performance and safety of the systems they are integrated into.

(III) The threat of new entrants is medium to medium-low. The technological expertise required and lengthy approval and certification processes discourage potential new players. However, expansion into new adjacent niches could attract focused competitors.

(IV) The bargaining power of customers is medium to low. GVS products are critical components custom-designed for OEM systems, with very high supplier switching costs. Furthermore, GVS establishes long-standing relationships spanning decades with its top customers.

(V) The bargaining power of suppliers is medium to low. GVS follows a verticalization approach, allowing it to internally produce most key components, reducing dependence on external suppliers. Additionally, the company can rely on a diversified network of small local suppliers (Exhibit 7).

GVS's COMPETITIVE POSITION

The global filtration market is divided among a few large competing companies and numerous smaller, locally operating players that collaborate to create a **barrier to price pressure**. GVS exclusively provides services to some of the major companies in the Healthcare, Life Sciences, and Energy & Mobility sectors through **enduring high-quality relationships**.

In fact, its clients's revenues are comparable to those of leading competitors offering a broader range of services to other companies. GVS has distinguished itself from the competition through its **expertise** in the infusion, transfusion, and dialysis sectors. Additionally, it offers an extensive assortment of filtration and humidification products, covering a wide range of solutions from **membranes to filtration solutions**. However, not all customer needs align with this value proposition. For instance, some clients may require a more comprehensive range of products or broader technological capabilities. GVS's competitive position is stronger in the Powertrain & Drivetrain and Safety & Electronics sectors of the Energy & Mobility market, where it has the broadest component coverage and the most extensive array of technological capabilities. Nevertheless, its position is weaker in the personal safety and air safety sectors, where it faces competition from companies that focus more on disposable products and have a broader market reach. Therefore, we believe that to maintain its competitive position, **GVS must continue to innovate and expand its product offerings.** It should also focus on building relationships with **new clients** and **expanding into new markets** such as Australia or other South American regions to remain a vertically integrated player with a large-scale filtration platform and proprietary know-how in membrane technology (team considerations and analysis).

In addition to GVS's unique positioning regarding the trends mentioned above, we consider the trend of **research and development activity for quality** as a critical success factor for GVS. The absolute quality of its products is sustained by research and development expenses, to create solutions with higher technological standards.

SWOT ANALYSIS

GVS can capitalize on the growing demand in filtration markets by leveraging its strengths, but it must also be mindful of competitive threats stemming from market trends and the macroeconomic environment (*see* Appendix 4: PEST Analysis). Indeed, GVS should seize opportunities to drive geographical expansion and increase B2C exposure, aiming to enhance sales resilience amid competitive pressures (f*or example, by forging strategic agreements with complementary companies to broaden offerings and reach new markets*). Nevertheless, the company's extensive experience in organic growth and a **proven strategy of value-added M&A** strongly suggest its commitment to a continuously prosperous growth trajectory (*Appendix 8*).

INVESTMENT SUMMARY

Thesis 1) Population's ageing as a growth factor

Estimation for a perpetual growth rate has been done by relating the population's ageing and revenue because people's expectation of life is increasing in the countries where GVS is operating (+100% number of people over 80 EU zone, Exhibit 10-14) therefore demand for healthcare products will expand (*see industry overview and competitive landscape*). This could represent a long-term perpetual growth rate, that we can implement in our valuation model, as the expenditure in healthcare & life science increases (actual OCSE average 9,9% health expenditure/GDP,); all combined this count for more than 80% of GVS's revenue (Healthcare & Life Sciences 67% + Health & Safety 17%). Through a statistical analysis on linear regression (*Appendix* 3), we calculated an R-square of 81.75% between the sales of GVS and the average ageing rate (Over 65/total population -*UN database*-) in the areas of highest incidence in the sector's size, this indicates better adaptation of the model to the data. Note the regression's slope that highlights a positive relationship between GVS's sales and ageing.

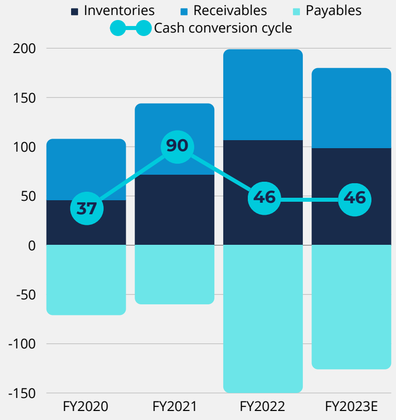
Thesis 2) Global wars

Even though wars usually mean losses and capital destruction, GVS could represent an increase in demand: as happened in 1995 with the opening of the first international office in Belgrade, during the Yugoslav wars, GVS became an ONU provider for the distribution of medical products. In this perspective, the escalation of global conflicts (Ukraine, Israel, Red Sea) could represent an increase in demand for GVS products from ONU and other global organizations that operate in war territories and will need healthcare products.

From these 2 theses, you can see an increase in general demand in the future of GVS, so a question about why we do not recommend a purchase is legitimate: the first consideration is that all these trends stand out in the long term, so for short-term investment (12 months) these factors do not matter much; we also need to reveal our third thesis;

Thesis 3) the reasons behind a Hold instead of a buy

We came up with 3 principal reasons why we don't see GVS as the perfect investment for the short term: (I) no dividends: to achieve debt reduction and revenue growth GVS was forced to discontinue its dividend policy (dividend distribution occurred only in 2020 and 2021); (II) no M&A operations: after completing several transactions in 2021/22 for a total amount of = 450m€ the company needs to pause this policy and accumulate cash for future M&A transactions; the market will not appreciate this stop because GVS is a company that has grown thanks to its M&A program (17 in 13 years, E*xhibit 12*); moreover these investments will take time to payoff (once again the long term shows potential while the short term is shaky); (III) no buyback until 2025 a company usually proceed with a buyback when the share price is deeply undervalued, in order to not waste money, GVS has began its buyback program with a first trance between 8/10/2021 and 28/01/2022 for a total of 450.000 shares (0.26% of total equity)and a total value of 4844190€; the second trance will take place in 2026 if the company achieves the debt reduction target. We consider this as a warning sign that the share price could become really undervalued once the company complete the plan for the next two years.



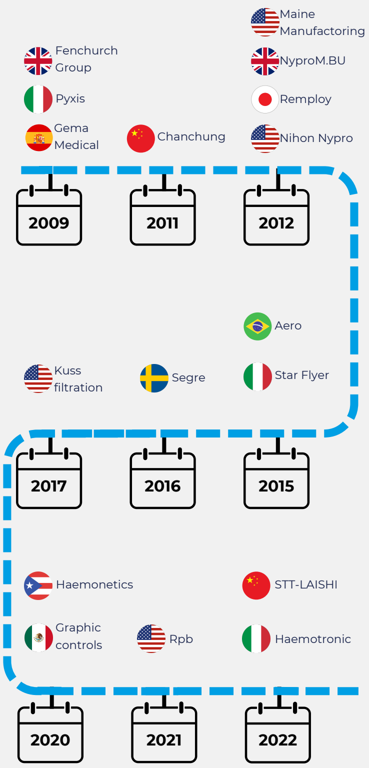
Cash Conversion Cycle | Exhibit 11

company data & team elaboration

FINANCIAL ANALYSIS

Margins & Returns GVS' margin performance in FY2023E is **positive**, albeit in a **decline** compared to the FY2019-FY2023E period with an adj. EBITDA and net profit margin respectively of 22% and 9%. Key items impacting the net profit margins are sold raw materials (33% of revenues), personnel expenses (31%), cost of services (13%) and amortization (6%). The items all increased in the FY2019-FY2023E period, excluding labour costs, resulting in the erosion of adj. EBITDA and net profit margins are mainly the result of a diminished capability of absorbing fixed costs due to a steep reduction in disposable mask sales, an increase in inventories and a delayed implementation of a pricing policy adjusted to the increase in raw materials and energy-related costs. Contrary to what happened in the FY2019-FY2021 period, GVS has not proceeded to approve any dividend distribution starting FY2022; this is expected to be the case for both FY2023 and FY2024. The goal of this shareholder remuneration policy is mainly linked to management's goal of **reducing leverage** to 1.2/1.3 levels by FY2025 while keeping the significant focus on investing in the company. A 0% pay-out ratio might **disincentivize investors from maintaining GVS stock** in their portfolios, especially if management plans to keep it at those same levels. Another element that will undoubtedly add to this sentiment is GVS' ROE declining from 35% in FY2019 to a meagre 6% in FY2023E.

The company's approach to counter the possible negative effects on its stock price comprehends a second round of buybacks (see: "Investment, cash and debt").

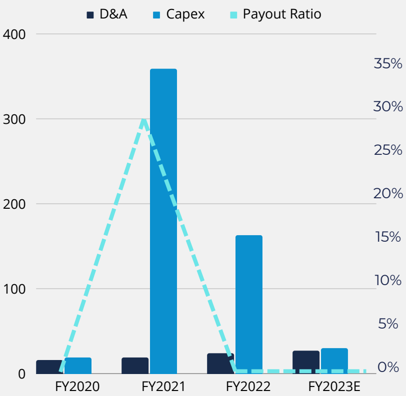


M&A operations| Exhibit 12

company data & team elaboration

Revenue breakdown

GVS' turnover has been biased towards a B2B predominance, reaching an average of 71.71% on the total FY2019-FY2023 turnover. The impact of the pandemic was not homogenous among B2B subsegments, as FY2020 moved the turnover balance in the B2C direction, which peaked at 49%. However, this change was short-lived, considering that the Health & Safety and the Healthcare & Lifesciences divisions which drove the bulwark of the 59.8% increase in revenue in FY2020 returned to the pre-pandemic growth trend by the end of FY2021. H&L has not witnessed any concerning decline in its growth rate trend during the period FY2019-FY2022, going from a 13.46% growth in FY2019 to a 36.09% growth in FY2022, even though FY2021 growth hit an expected low of 13.33%, after going through a splendid FY2020. E&M had always been the second segment by revenue until FY2020, during which it experienced a sharp decline due to the pandemic. This segment has managed to recover from a very negative FY2020 and exceed its FY2019 growth in the FY2021-FY2022 period. However, it is our projection that FY2023 will yield a negative growth of -13,60%. H&S accounted for the smallest portion of GVS' sales (10.33% avg. FY2017-FY2019) till FY2020 which witnessed the stellar performance of this segment, going from a growth of 18.20% in FY2019 to a growth of 479.36% in FY2020 due the exponential increase in demand of disposable masks during the first wave of the pandemic and lockdowns. The B2C segment (28.3% of revenues, avg. FY2019-FY2023) more than quadrupled its value during the pandemic (+337% revenues FY2019-FY2020, company data), however, B2C relevance has gone back down to almost its pre-pandemic levels. GVS plans to increase its focus on this area of business through increasing direct sales to hospitals of selected product niches thanks to the acquisition of STT which will allow the company to penetrate the Chinese healthcare facilities market and strengthen its blood segment portfolio. Upon conducting a breakdown of sales by geographic area, we observe that GVS is not over-exposed neither to the European nor NA markets although these account for the largest part of its business. However, we see that the GVS' expansion as a group through M&A has been a significant contributor to its increase in revenue throughout the years. We observed that although the E&M is expected to close FY2023 with a significant deficit, GVS' revenue is expected to grow due to the boost given to it by the H&L and H&S divisions thanks to the acquisition of respectively, the STT, Haemotronic and RPB groups in FY2022 and FY2021 which are expected to contribute to significant value creation. We underline how management's prescribing of lower leverage levels in the FY2024-FY2028 period will not result in a negative growth trend, even while potentially missing the opportunity for further M&As following the expected interest rate cuts by both the Federal Reserve and the ECB, starting FY2024. The necessity of this approach to GVS' leverage is further discussed in relation to its planned buyback operations (see Investment, cash and debt).



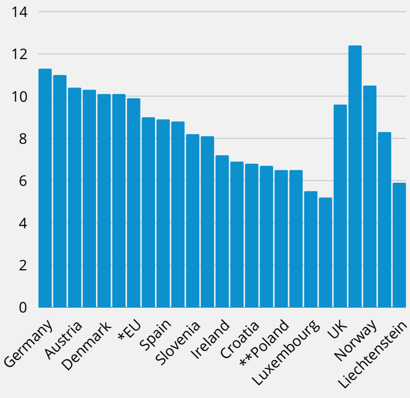
Capex & Dividend | Exhibit 13

company data & team elaboration

Investment, cash and debt

The swinging and expected-to-be-zero payout ratios for the FY2023-FY2025, high CapEx (expected avg. 66.914 mln in FY2024-FY2028, 2X FY2023 CapEx) and decreasing its adj. NFP (expected a 1.2-1.3 in FY2025) is evidence of a company focusing on its growth while keeping under check its debt levels and means of financing. This can be even more significant if FY2024 does not deliver on its expectations regarding interest rate cuts (expected avg. 5% ROD in FY2024-FY2028). Still, management is not oblivious to the ambitiousness of its goals and the historical and future general market's consideration of GVS' stock. GVS plans on a second round of buyback starting no sooner than FY2025, following the first round of buyback announced in FY2021 and executed starting FY2021 Q4. As of FY2022 Q1 450.000 had been bought back (0.26% of equity) worth a maximum of 6mln €. The company has opted to put as a maximum cap for the entire buy-back operation a threshold of 20% of the total equity. The goal of this approach is to help GVS' stock maintain satisfying levels in the next few years, considering a 0% payout ratio and a renovated focus on investments rather than directly rewarding shareholders.

Competitive profitability analysis In general, GVS does not fare poorly compared to its competitors as at



EU healthcare expenditure (% of GDP) | Exhibit 14

Eurostat data & team elaboration

FY22 in terms of profitability indicators. As for its adj. EBITDA margin, the company underperforms compared to its competitors (20.2% vs avg. 25.2%). However, it is worth noting that this indicator has been decreasing since FY21 for a variety of reasons, including but not limited to a delay in the implementation of a more passive pricing model, taking into consideration a **variety of key factors changes** (*see "Margins & Returns"*). Notably, we anticipate an increase in adj. EBITDA to 22% during FY2023E. In terms of net profit margin, on the other hand, GVS **slightly outperforms** its competitors (11.9% vs avg. 11% *Appendix 9*), showing a lower impact of depreciation, financial charges, and taxes on turnover, but presenting a lower ROE by 6.4 percentage points. Additionally, the company benefits from a greater margin generation capacity on turnover compared to its direct competitors (14.1% ROS avg. 13.8% in FY2019-FY2022), with an expected ROS of 15.65% in FY2023E.

RISKs

We're now taking into account the macro and sector risks that are more likely to occur and the impact on the share price [also taking into account the measurements by the GVS to mitigate them]. In this scenario analysis, we won't take into consideration all the macro risks we consider possible in the next 5 years (Exhibit 16), but the only one that could actually represent a drastic loss in value/share price [eg: currency risk won't be discussed since the GVS produces and sells in the same currency].

MACRO & GEOPOLITICAL RISKS

Macro risk 1) rise of China's protectionism

Considering the possibility of an escalation in the war in the middle east, Taiwan and Ukraine, we need to estimate the impact on the global alliances this could easily divide the world and see commercial war take place: this could impact the 3 production centres in China and this could lead to a reduction of the 15.79% of revenue, also this would lead to an increase of inflation and cost of goods and services. Mitigations: although this could be seen as a dramatic loss, GVS production sites in China serve Chinese clients [government agreement for operating into the healthcare business and hospital's supplier] and other Asian consumers, this could lead to a minor impact on sales reduction.

Valuation impact: we take into consideration a price increase of 8% for raw materials that could impact the GVS price and bring it to: 5.87€

New Asia-Europe routes | Exhibit 15

Global Maritime Hub data

Macro risk 2) Increasing cost of debt

Even if is likely we end the increase in interest rates of ECB and FED **(**Exhibit 17**)**, we still have to consider the chance of a new inflation wave that would surely lead to new interest rate rise, causing the ROD to increase. This could represent a risk taking into account the high leverage the company now has.

Mitigations: GVS in the past year has agreed with the banks to use IRS to swap for a variable to fixed rate and the total ROD is now 3.605% this swap covers almost 75% of the total debt of 700 million€. We also need to remember the GVS target to reduce the leverage by half in the next 2 years. (This will contribute to reducing the overall impact of an IR rise).

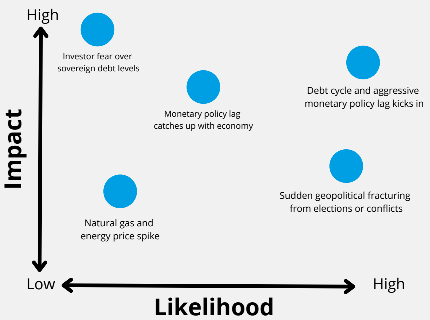
Valuation impact: We took into consideration the possibility of facing a ROD reaching 5.85% (30% increase on the cost of debt) on the 25% debt with variable IR, this could lead to a 5.31€ price per share.

Macro risk 3) Houthi rebels in the Red Sea

Supply chain disruption caused by the Houthi rebels in Yemen is a significant concern for GVS Spa: it is likely to experience a significant rise in shipping costs, impacting the overall cost of production, particularly in terms of importing goods and commodities needed for its European production lines. The threat of attacks by Houthi rebels has led to a substantial decrease in the number of container ships passing through the Red Sea and the Suez Canal. The reduced shipping capacity and the increased length of the journey from 19 days to 31 (65.5%increase) (Exhibit 15) has driven up transportation costs, as evidenced by the sharp increase in the Shanghai Containerised Freight Index, from 1500$ to 4000$ (+116%) [Singapore-Rotterdam route] and from Shanghai to Genoa doubled, from $1,956 to $4,178 compared to pre-pandemic rates.

Mitigations: Even though is not excessively reliant on importing goods from various global locations (manufacture and sale in the same geographical area), is likely to experience a significant rise in shipping costs, impacting the overall cost of production, it can result in delays for GVS.

Valuation impact: This could lead to a +19% in raw material and a -3% EBIDTA margin due to higher distribution costs, resulting in a -7.91% decrease in the price at 5.43€.



Macro Risks/Likelihood graph | Exhibit 16

Team elaboration

INTERNAL RISKS TO THE COMPANY:

Firm risk 1) Lawsuit against GVS

One of the competitors [3M] is now facing a class action in the USA for providing a low-quality product, since in this sector the quality tolerance is 0%, after 6 years in court they agreed to pay $6.01 billion to settle the lawsuits (almost 72.2% of the 2023 total sales).

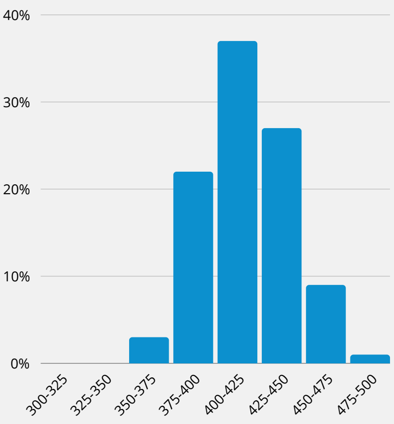
Mitigations: GVS's main business is B2B which decries the probability of a multibillion-dollar class action. Valuation impact: We took into consideration the possibility of facing an indemnity of 25% of the total 2023 sales. That could impact the GVS share price by -17.34% for a price of: 4.48€

Firm risk 2) competitor's new technology

Even though is difficult to find a suitable competitor that operates in the same sectors, we can analyse every single CGU as a separate business and weight it based on the total revenue of the sector, evidence provided by the company indicates that competitors usually work in different technology application, and often they buy-sell specific type of product between competitor in order to focus only on one type of technology.

Mitigations: GVS has a good partnership with the competitor landscape [supply/production interchange] this allows the Group only to focus on specific technology innovation, also the 5.7% of revenue invested in R&D (plus the 58 variety of patents) is enough to keep up with the competition.

Valuation impact: We took into consideration losing market shares and a consequential reduction of 3% in sales (while keeping the R&D at the constant level of 5.7%) this gives us a hypothetical price of: 5.38€



FED 18/12/2024 IR target probabilities | Exhibit 17

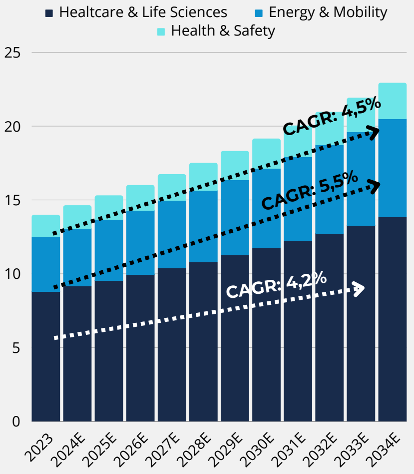
CME data & team elaboration

Firm risk 3) losing a key client

GVS is mainly a B2B company, so the risk of losing a big client is real: even if the single client doesn't account for more than 5% (total customers, including B2C, is roughly 4600) we still consider that.

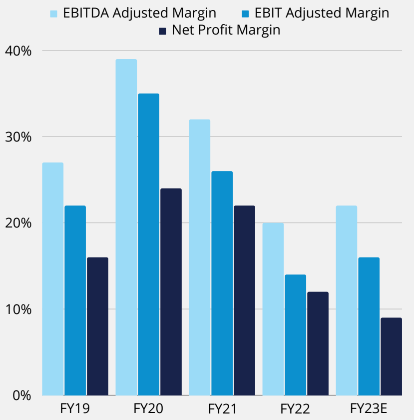
Mitigations: GVS has long-lasting contracts (20+ Y with the top clients) and usually their customers require a specific product that isn't available on the market, this gives GVS more stability in the B2B revenue.

Valuation impact: We analyse the possibility of losing a client and reduce the 2024 forecast revenue by 2% (considering the company growth target of 5%) this will price the stock at 5.56€



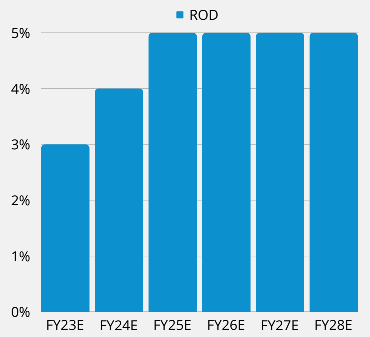
GVS sector growth estimates | Exhibit 18

company data & team elaboration



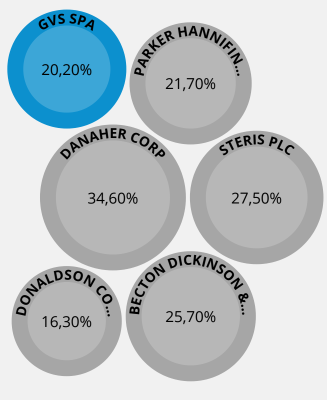
Historical Performance of GVS Margins | Exhibit 19

company data & team elaboration



Forecast on the GVS ROD | Exhibit 20

company data & team elaboration



EBITDA Adjusted margin comparison | Exhibit 21

company data & team elaboration

VALUATION

FUTURE GROWTH ASSUMPTIONS: REVENUES

Projected revenue levels for FY2023E are in line with company expectations, totalling €423m, with a 9.5% CAGR compared to FY2022, and 16.5% for the FY2020-FY2023E period. GVS' expected revenue CAGR for FY2023E-FY2025E is estimated to be between 4.5% and 5.5% (€467m-€476m). Observing revenue from clients' growth rates fluctuation throughout all of FY2017-FY2023E, we see that these have never been lower than 8% let alone negative, with the exception of FY2021, due to the steep decline in the H&S division performance, which had been extraordinarily boosted in FY2020 due to the COVID-19 pandemic, reporting an all-time high record-breaking 58.4% CAGR. These elements lead us to point to a 5.5% CAGR for overall revenues in FY2023E-FY2025E (*Exhibit 18*). However, this is not a sustainable upward trend for FY2023-FY2028E. Rather, it is meant for the FY2023E-FY2025E period only as it is partially fuelled by GVS' commitment to enacting a catalogue expansion alongside the assumption that its effort put forward effectively penetrating the Chinese hospitals market will be met with success (*see: Revenue breakdown*). We underline our projections' dependency on i)the launch of new healthcare-related products, whether currently in the developing stages or not, around the globe for the H&L division, ii) the successful enacting and organic developing of recently created synergies also leading to the forecasted increasing penetration of the aforementioned Chinese market, especially for the H&S division iii) the development and commercializing of new EV-specific filtration systems in the E&M business line. Considering the centrality of the wider healthcare sector in GVS' core business model, we estimate a correlation between its revenue growth rates and a population's average ageing index (*see: Industry overview and competitive landscape*). We estimate this last metric to settle at a single-digit index of 1.14% thus employing it as a fairly accurate representation of the CAGR for the FY2025E-FY2028E period revenue.

FUTURE GROWTH ASSUMPTIONS: MARGINS

As for **adj. EBITDAm**, our forecast is in line with **management's expectations at 22.4% of revenue and a €95m nominal value** (*Exhibit 19*). We have calculated an adj. EBITDAm which e**xcludes R&D costs**, with a historical imprint of ~6% on revenue from clients, which we have forecasted to be constant through all of FY2023E-FY2028E.

The company's objective is to reach an adj. EBITDAm of 27-28% by FY2025E and for it to be maintained throughout all of FY2025E-FY2028E, thanks to the launch of **new projects and their effects on company margins (€15m) and the use of its operational leverage, linked to the increase in sales volumes (€24m-€26m).**

Furthermore, we forecast, as very much expected by the company, an i**ncrease in labour costs** due to inflation in FY2023E-FY2025E by **€9m-€11m**. On the other hand, we project a **consistent imprint of raw materials on revenue during all of FY2023E-FY2025E**, consequently, we define **a 27.5% EBITDAm** forecast in **FY2025E** as accurate and reasonable due to a 5.5% revenue yoy increase, a more moderate labour cost increase and a constant raw material expenditure imprint.

FUTURE GROWTH ASSUMPTIONS: CapEx

Regarding investments in both tangible and intangible assets, we forecast an **increase in CapEx** in the FY2023-FY2028E period, thanks to a 7% average imprint on revenue (€31.4m). However, we expect an **increase in D&A relevance settling at an average of 6.5%-6.7%**, therefore we also obviously expect a decline in fixed assets in FY2023E-FY2028E.

FUTURE GROWTH ASSUMPTIONS: NET FINANCIAL POSITION

Agreeing with management expectations, we forecast a **decrease in the company's adj. NFP from €265-€285 in FY2023E to €155m-€175m in FY2025E.** We calculated the adj. NFP by subtracting infra-group lending to the NFP, which we estimate at €358m as of FY2023E. Management's goal is to decrease its adj. leverage from 2.7x/2.8x to 1.2x/1.3x by FY2025E, creating new liquidity. Consequently, this approach entails both in company's NFP and financial leverage. However, we expect a relatively moderate increase in interest expenses causing an uptick in ROD at €24m in FY2025E (*see: Investment, cash and debt)*.

DISCOUNTED CASH FLOW

We believe DCF to be the most suitable method to drive the bulwark of our efforts into evaluating GVS within an asset framework. We forecasted FCFOs for FY2024E-FY2028E (Appendix 15) through company data within its cash flow statements. We considered a 5.5% revenue CAGR for FY2023E-FY2025E and a 1.14% CAGR in FY2025E-FY2028E (*see: Future growth assumptions: revenues*).

We set an adj. EBITDAm target for FY2025E is 27.5%, which we kept consistent from FY2025E all the way to the end of the period taking into consideration at FY2028E. Doing so, we assessed a **€5.96/share fair price**, a 3.64% upside from the current price (€5.75/share as of 02/01/2024). We performed a **Montecarlo** simulation to move from a deterministic conception to a stochastic one for the determination of the target price. (*Appendix 16*)

WACC.

To calculate the cost of capital we used the classic **"Capital Asset Pricing Model"** method through which we made our estimates for the whole FY2024E-FY2028E period (Appendix 10). In fact, as it can be intuitively understood, the WACC is not projected to be a constant since we expect a decrease in debt and thus a **reduction of the company's financial leverage** *(see: Future growth assumptions: Net Financial Position).*

Terminal Value Our calculation of the terminal value was made possible by an estimation of the perpetual FCFO growth rate (g). The rate taken into account for this piece of valuation equals the growth index taken into consideration to protect the company's future revenues which is the average ageing index *(see: Future Growth Assumptions: Revenues and Industry Overview and Competitive Landscape).*

RELATIVE VALUATION

Considering GVS' non-unique market positioning, meaning that a relative valuation would be rather fruitful, we selected a competitors pool in order to employ a comparison model, within an asset framework, by using the market multiples method. The multiples used are EV/EBITDA, preferred to EV/EBIT as the companies taken into consideration have different D&A management policies, and EV/SALES. We observe *(appendix 11*) that GVS values are positioned under the median value. This indicates a possible future upward EV movement, which will tend to the median since, at the moment, the market is under-valuing GVS' sales-(EV/Sales)-and-operating-margins-generating(EV/EBITDA) capabilities. We underline the fairness of the DCF valuation previously presented as its conclusions are confirmed by the team's comparable companies analysis, indicating a €5.97/share, with 3.64% upside from current price.

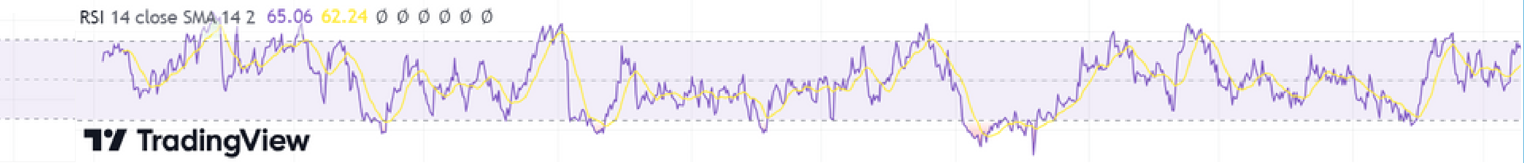
Daily chart TA targets | Exhibit 22

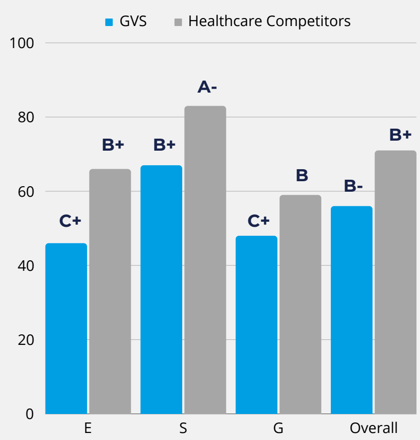
Trading view data & team elaboration

TECHNICAL ANALYSIS To achieve a complete analysis we'll cover the technical analysis as well: we're looking at the chart with a long-term perspective focusing on macro-trends and long timeframe (1D – 1W); we start with using **Fib. Retracement** tool (table x to find out more) capturing the ATH and the bottom of the entire lifespan of the stock, gives us a possible resistance in the next month (May-June) of 6.4€ from there the price could easily break out targeting the 7.33€ level of resistance (because in the gap there is low liquidity resistance); if the move towards the upside fails, we identified the 4.08€ as support (last chance of rebound before revisiting the bottom at 2.93€). The golden ratio sitting at 10.29-12.02€ is now far from being reached. Moving on with **EMAs** (Table y: exponential moving average) we clearly see the last 90Days rally (+38.65%) is supported by short-term EMAs (21 and 55 periods on the daily chart) while the long-term ones are acting as resistance (100D at 5.59€ and 200D at 6.67€). Also, we added some trendlines and horizontal support/resistance to better capture key levels.

Negative Divergence between RSI and Price Action: A negative divergence occurs when the price action makes higher highs, indicating an uptrend, but the Relative Strength Index (RSI) makes lower highs, suggesting that momentum is weakening. This can often be a **bearish signal**, indicating that the uptrend may be running out of strength and could reverse.

To summarise: if momentum is keeping up our first target area is: 6.46€ and if we find market support (plus macro conditions improve) in the long run we can't exclude a 7.6-8.2€ area to land; instead, if this upswing is coming to an end, the momentum slows down and global problems become worse, we expect to reach the 4.7€ level and our worst case scenario is re-visiting the level of 4.08€ (*Exhibit 22*).





GVS Scores vs Industry Peers | Exhibit 23

Bloomberg data & team elaboration

ENVIRONMENTAL SOCIAL GOVERNANCE

Our ESG analysis's goal is to evaluate GVS' overall sustainability score. The model presented by the team is based on a comparison between GVS' Refinitiv ESG scores ratings and its competitors in the healthcare sector. The ESG score considers 186 metrics: including 3 Environmental, 4 Social and 3 Governance key factors. The competitors' roster selection is based on both business model affinity and company guidance regarding its own positioning within the market. Despite GVS' ESG score improving from a C+ to B- in FY2020-FY2022, it remains noticeably lower than the competition's average performance (*Exhibit* 23).

ENVIRONMENTAL

GVS performs comparatively poorly regarding the Environmental pillar too. This is mainly due to the key Emissions metric, through which evident is the lack of a specific emissions target (and reduction thereof) policy laid out by GVS. Furthermore, we underline that GVS has maintained a consistent total GHG emissions to worked hours ratio throughout the last years (Exhibit 25). We draw the same conclusions regarding power intensity (~ 4% in FY2022) since work hours increased in a proportional manner to the energy consumed. As for GVS' Resource Use score, the company does have a specific policy aiming at improving its water and energy consumption efficiency, as well as an increase in the imprint of reusable energy employment from 19.33% in FY2020 to 26.74% in FY2022 (source: Refinitiv). We underline this as the result of a commendable effort by the company as the average reusable energy source employment ratio is 10.66% as of FY2022 (source: Refinitiv). However, another aspect that penalizes the GVS' E score concerns its catalogue's low recycling/reusing ratio. On the other hand, GVS operates 11 environmental and or energy management systems certified plants (UNI EN ISO 14001 and ISO 50001) setting the transition to the use of reusable energy sources as a significant goal alongside obtaining further certifications within the field like ISO 14001.

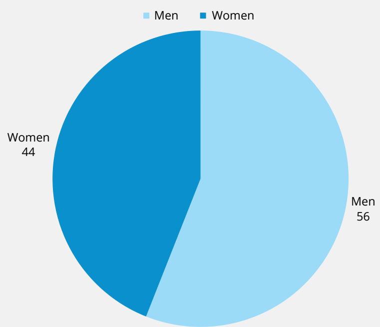
SOCIAL

GVS's social score is its strongest selling trait within our ESG valuation, despite it being poorer than its competitors' average score (*Exhibit* 23), as it prioritises three targets to be hit soon: i) a systemic reduction of work-related accidents; ii) obtaining the ISO 45.000 certification iii) reduction of employee turnover. The company does generate a significant social impact on the communities it operates within as 94% of employees are full-time hires (60% females as stated by company guidance). We highlight that GVS' revenue breakdown by continent is consistent with its employee distribution in terms of geographical location (Exhibit 26). As far as work-related accidents are concerned, the company is effectively pursuing its aforementioned goal as the workplace accidents index has nearly halved from 2% in FY2021 to 1.1% in FY2022. We underline 2 critical aspects concerning the company's Social pillar: i) high turnover rates (45.7% in FY2022), with potential impact on both production sites' productivity and thus profitability; ii) a decrease in average employee training hours from 23 in FY2020 to 18 in FY2022.

GOVERNANCE

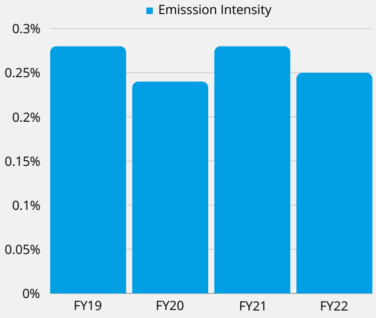
Regarding the Governance pillar, the gap between GVS and its competitors is both rather limited and improving, going from C- in FY2020 to C+ in FY2022.

Executive Compensation:



BoD Gender diversity diversity | Exhibit 24

company data & team elaboration

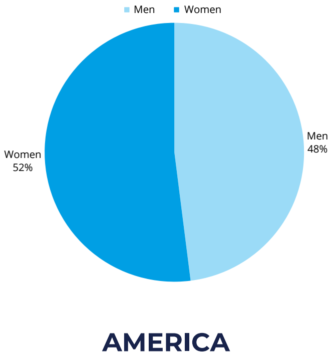


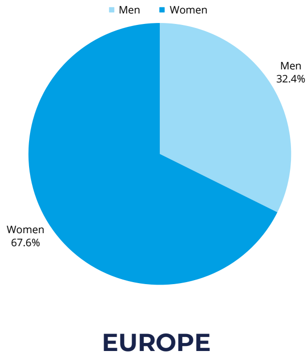
Historical Emission Intensity | Exhibit 25
company data & team elaboration

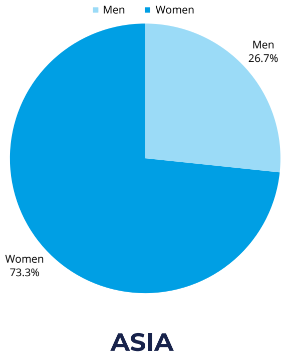
Both Board members' and strategic executive's compensation is regulated by GVS' Compensation Policy for FY2023, as well as Shares Performance Plan for FY2023-FY2025, which puts particular emphasis on aligning the beneficiaries and shareholders' interests in the medium-long term; both by rewarding the achievement of the targets laid out in the Group's industrial plan and the retention of figures regarded as strategic for the company's development. Stock attributed to each beneficiary, as defined by the stock options plan, is subordinate to 1- or 2-years unavailability clause, depending on the position held.

Board of Directors:

The Board of Directors was nominated on the 3rd of May 2023 and counts 9 members as of FY2023 Q4, whom will remain in office until the voting on FY2025 end-of-year financial statement. Most board members are independent and there is an almost perfectly balanced distribution of seats among the two genders (*Exhibit* 24). Gender imprint has remained consistent throughout all FY2020-FY2023 (source: company data). There are also no foreseeable generational transfer issues as GVS' own founder Grazia Valentini introduced both Massimo and Marco Scagliarini to the business, having been now respectively CEO and non-executive chief officer for 20 years. Therefore, the Boards stability is definitely one of the Group's strongly positive aspects.







Labour force distribution by region and gender | Exhibit 26
company data & team elaboration

Shareholder	Shares	% of shares
GVS	105000000	60%
7-industries holdings	5465000	3.12%
Free float	64535000	36.88%

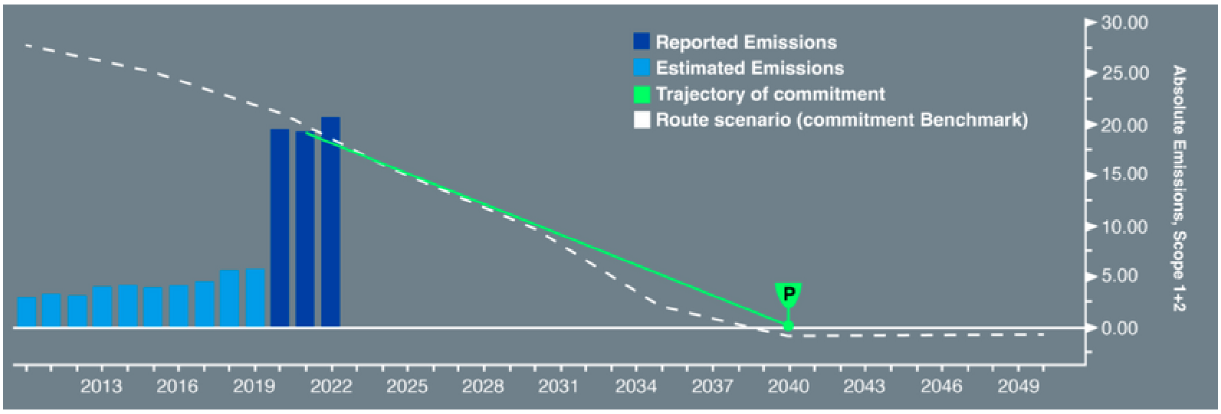
Relevant shareholding positions | Exhibit 27
company data & team elaboration

Public and Inside Ownership:

GVS' Equity consists of 175m ordinary shares with no nominal value. Only two relevant shareholding positions can be observed (>3%), while the remaining equity portion is represented by market float (*Exhibit* 27). Furthermore, we note that GVS Group is legally controlled by CEO Massimo Scagliarini, a fact that, along with the first buyback round completed in FY2022 Q1, involving 450.000 shares, reflects the Board's confidence in the future positive performance of the Group and consequently, the stock.

Appendix 1

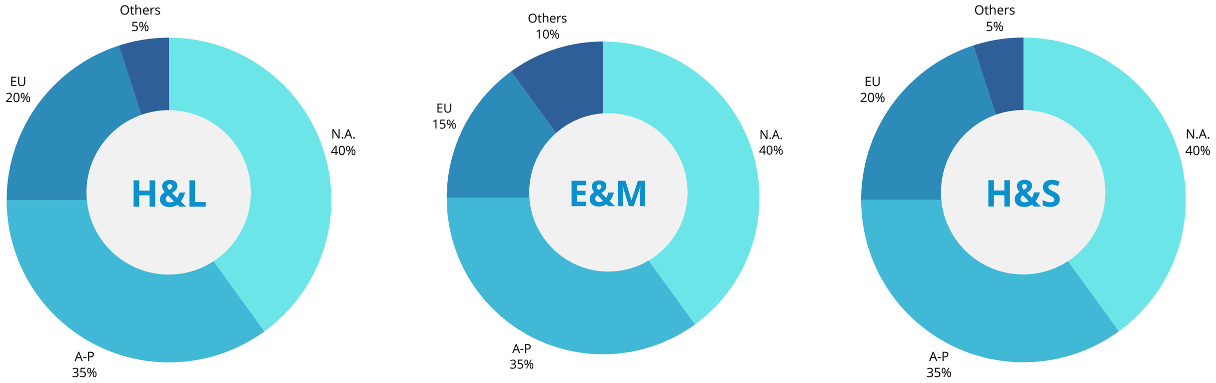
NET ZERO 2050 PATH



The chart depicts GVS's commitment to the "Net Zero 2050" scenario (Source: Bloomberg). This scenario envisions net-zero emissions by 2050, along with a global warming limit of 1.5°C (Model by Network for Greening the Financial System). The histogram outlines the thousands of metric tons of CO2 emitted by the company on an annual basis. For the years 2020, 2021, and 2022, the emissions have been reported through Scope 1 and 2 reports, while estimates were made for previous years (By Bloomberg). Scope 1 pertains to greenhouse gas (GHG) emissions directly generated by the company, while Scope 2 relates to indirect emissions (as their production occurs outside the company) generated by the energy purchased, acquired, and consumed by the company. The green segment indicates GVS's commitment trajectory (reported through the Carbon Disclosure Project) towards "Net Zero 2025," wherein there would be a 100% reduction in absolute emissions by 2040 (with a time horizon from 2021). Finally, the dashed line represents the "net-zero pathway" scenario, a benchmark for the trajectory.

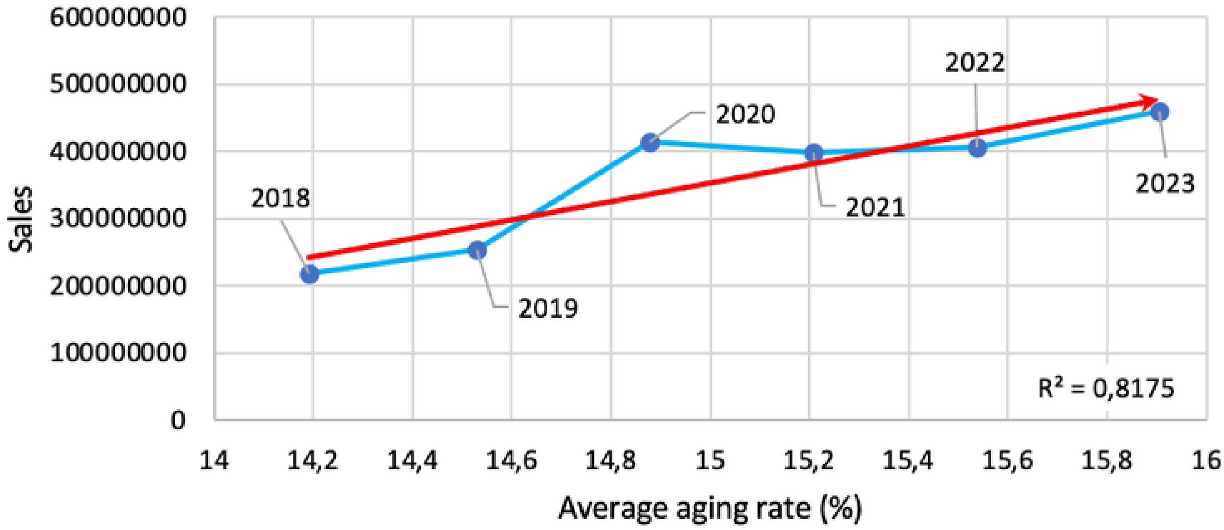
Appendix 2

Geographical impact on the market value of the sectors



Appendix 3

Linear regression analysis on sales compared to the average aging rate of N.A., EU. and ASIA



The examined linear regression chart provides strong evidence of a positive correlation between the global population aging rate and sales. Therefore, as the average age of the population increases, there is an observed rise in sales of GVS products and services. The correlation coefficient (R^2) of 0.8175 indicates that 81.75% of the variability in GVS sales is explained by the global population aging rate. This is a very high value, highlighting a robust connection between the two variables. The regression's associated p-value is 0.0133, below the standard significance level (0.05). This implies that the probability of the observed relationship being random is less than 5%. Regarding correlation coefficients, the angular one is 138,520,045.3, indicating that, for every 1% increase in the global population aging rate, GVS sales increase on average by 138,520,045.3 units. Meanwhile, for the intercept, -1,724,088,948, if the global population aging rate were 0%, GVS sales would be -1,724,088,948 units. However, this value is unrealistic as the aging rate cannot be negative. The analysis of the residual plot (team elaborations) does not reveal anomalous patterns, suggesting that homoscedasticity and normality of residuals are satisfied. Moreover, there are no data points exerting excessive influence on the regression. Further considerations are necessary, including that the analysis relies on globally aggregated data, which may lead to significant differences between various regions. The model does not incorporate other variables that could influence GVS sales, such as the economic development level, birth rate, or the spread of new technologies. Lastly, the sample size is equal to 6, a limited figure that could impact the reliability of the results.

Appendix 4

Pest Analysis

P. The political dimension reflects government influences on industries, emphasizing the impact of legislation, policies, and government decisions on business activities. Concerning the taxation of healthcare and safety products in various countries where GVS operates, the **COVID-19** pandemic has been a significant turning point. **Governments** worldwide have adopted diverse strategies, maintaining, lowering, or, in some cases, temporarily eliminating **taxes on essential healthcare products**. Additionally, managing the health emergency has led to bureaucratic simplifications in the healthcare sectors of certain governments (*including Italy*), while others have shown increased financial support and resources for scientific research and the development of innovative healthcare products, aiming to enhance public health and prevent future crises. The company has a unique opportunity to capitalize on the global change induced by the COVID-19 pandemic. Government strategies, ranging from tax reductions to increased investments in research, create a favorable scenario for the company.

E. From an **economic perspective**, the analysis of **GDP** in GVS's operational countries shows a positive trend, recording an **average increase of 14% between 2018 and 2022**. This growth indicates robust economic expansion in the company's key markets, potentially resulting in increased demand for healthcare products and services offered by GVS. At the same time, **national healthcare spending as a percentage of GDP** has experienced an **average increase of 10%** in GVS's operational countries. This increase reflects increased financial commitment by governments to the healthcare sector, with positive impacts on the company's costs and profits. Such an increase could stimulate demand for healthcare products and services offered by GVS, opening new market perspectives. However, a weakness for GVS is created by a significant dependency on GDP. Another relevant aspect is the interest rate on financing, which GVS has mitigated through **IRS swap contracts**, ensuring a fixed rate. This strategy aims to reduce exposure to the risk arising from interest rate fluctuations and potential financial solvency issues, ensuring greater financial stability for the company. Internal projections indicate a significant decrease in financial indebtedness, in line with this strategy.

S. This factor has undergone significant changes in **global habits** post-COVID. There is a clear increase in focus on prevention and health, with greater awareness of personal hygiene and the safety of healthcare products. This shift has impacted consumer preferences and the **demand for safety and health products** provided by GVS. At the same time, a **relevant demographic evolution** is observed. There has been an average increase of about 6% in the populations of the countries where the company operates in the last 5 years, leading to an increase in the average age of the population and, in some countries, an increase in the aging rate (population over 65 years old) with greater demand for healthcare products and services.

T. Thanks to the distribution of its research and development centers in various global areas, **GVS provides a highly efficient and personalized service** in line with its customers' demands: from the conception and design of products to their validation and large-scale production. The Group's R&D strategy is twofold, aiming for both the **introduction of new products** and the i**nnovation of production processes**. This process is divided into various stages, from the ideation and initiation of the design cycle for new products or processes to the actual large-scale industrialization.

Appendix 5

GVS product prices vs competitors in B2C market (Personal Safety sub-sector)

The table aims to provide a brief overview of the products that GVS, with a strong focus on biological risk, offers to end consumers through its network of authorized distributors. It also compares their prices with substitute products from other competing companies (3M, Dräger, and Honeywell). GVS operates through distributors, meaning that product prices may vary depending on the distributor, order quantity, and ongoing special offers. Therefore, the reported prices refer to those proposed by the retailers.

From the overview, we can observe that, thanks to the acquisition of RBP (company sources), GVS has positioned itself in a high-margin segment, specifically that of electro-ventilated air purifying respirators, thus completing its product range. Furthermore, it is notable that products belonging to broader markets are more competitive in terms of price (per unit and including VAT).

Appendix 6

BUSINESS DESCRIPTION Board of directors

Name	Age	Actual Role	In office since	Independent	Commitees	
					Remuneration	Risk & Control
Alessandro Nasi	49	Chairman	19/06/2020	YES	NO	NO
Massimo Scagliarini	58	CEO	24/07/1990	NO	NO	NO
Grazia Valentini	81	Director & Founder	18/03/1987	NO	NO	NO
Marco Scagliarini	59	Managing Director	24/07/1990	NO	NO	NO
Marco Pacini	52	Director	03/05/2023	NO	NO	NO
Pietro Cordova	63	Director	03/05/2023	YES	YES	YES
Anna Tanganelli	42	Director	03/05/2023	YES	NO	YES
Michela Schizzi	41	Director	19/06/2020	YES	YES	NO
Simona Scarpaleggia	63	Director	03/05/2023	YES	YES	YES

Source: Report on Corporate Governance and Ownership Structure 2022, Company data, Team elaboration

Appendix 7

Financial analysis synthesis framework

We developed a synthesis framework analysing and displaying a general but comprehensive overview of GVS' state through the FY2020-FY2023E period, assessing the company's capability to fulfil the primary business equilibriums.

Regarding turnover, the cash conversion cycle has evidently increased from 37 days in FY2020 to an expected 46 days in FY2023E, with a significant peak of 90 days reached in FY2021, primarily due to an increase in inventory days. This increase is attributable to increased costs related to the inventory value assigned following the purchase price allocation of the RPB Group, as well as increased raw material purchases made to anticipate future price hikes and to avoid supply chain issues. In confirmation of the aforementioned, inventory days recorded in FY2022 amount to 46.

GVS observed patrimonial balance in almost all administrative periods, except for FY2022, in which the company's fixed assets coverage ratio hit an insufficient 0.61 value. At first glance, this last result might lead to a mistaken consideration, namely that the company has financed itself in the short term to make new investments in fixed capital. In reality, the increase in short-term financial debts is essentially due to the reclassification of a significant portion of medium/long-term financial debts under this item, as provided by IAS 1. The increase in fixed assets is linked to the increase in shareholdings for the acquisitions of STT and Haemotronic, financed using liquid funds and the subscription of medium/long-term financial debts (€230m). Notably, the adjusted short-term financial debt decreased from €79.095k in FY2021 to €60.001k in FY2022, despite an increase in net medium/long-term financial debt from €186.937k to €435.474k during the same period.

Regarding GVS' financial stability, we note that despite the company's leverage increasing from 0.41 in FY2020 to 1,58 in FY2023E, it is not particularly high for a listed company with no recorded issue at raising capital on the market. The increase in leverage is mainly due to the M&As carried out in recent years, nonetheless management has announced its goal of adjusting its financial position by reducing its adjusted leverage ratio from an expected 2.7x/2.8x FY2023E to 1.2x/1.3x by FY2025 Q4.

We observed a positive profitability equilibrium throughout FY2020-FY2023E as ROI consistently dominates ROD levels. We underline that the company's operational performance has significantly decreased from 60.91% in FY2020 to a very modest 7.79% in FY2022, with an ever so slightly better 9.33% in FY2023E. This trend is almost completely in line with GVS' ability to generate margins on sales (see: "Margins and returns, Competitive profitability analysis").

As for the company's cash flow availability towards its debt, meaning its debt-servicing ability, GVS has consistently maintained a DSCR greater than 1 throughout all FY2020-FY2023E, exhibiting sufficient debt repayment capacity. We deem worth of note that the reduction of the DSCR during FY2021-FY2023E (dropping from 1.78 to 1.02) is an indirect consequence of the company's increased leveraged position, leading to a rise in both interest expenses (91.11% CAGR in FY2021-FY2023E) and payments on medium/long-term financial debt (41.09% CAGR for FY2021-FY2023E).

Synthesis Framework	FY23E	FY22	FY21	FY20
Rotation				
Operating revenues	417.477	387.591	338.126	363.296
Net operating invested capital	700.235	703.148	403.19	211.078
Turnover	59,62%	55,12%	83,86%	172,11%
Fixed capital	646.53	653.824	318.727	173.877
Net operating working capital	53.69	49.324	84.463	37.201
Monetary cycle	46	46	90	37
gg inventory	85	99	77	46
gg receivables	7	86	77	62
gg payables	109	139	64	71
Patrimonial equilibrium	YES	NO	YES	YES
Equity	341.855	327.675	295.346	242.698
-Extra	-	-	-	-
Medium/long term financial indebtedness	417.222	68.871	186.937	75.306
Fixed assets coverage ratio	1,17	0,61	1,51	1,83
Financial equilibrium	YES	YES	YES	YES
Short term financial indebtedness	122.875	446.550	66.135	23.168
-Liquidity	- 181.718	- 139.948	- 145.230	- 130.093
Net short term financial indebtedness	- 58.843	306.602	- 79.095	- 106.925
PFN	358.379	375.473	107.842	- 31.619
Leverage	1,58	1,57	0,86	0,41
Economic equilibrium	YES	YES	YES	YES
ROI	9,33%	7,79%	22,14%	60,91%
ROD	4,97%	1,84%	1,23%	13,58%
ROS	15,65%	14,13%	26,40%	35,39%
Financial proceeds and charges	- 17.797	5.671	7.418	- 13.107
Repayment capacity	YES	YES	YES	YES
EBITDA Adjusted	92.111	79.013	107.885	144.060
- Delta net operating working capital	- 4.374	35.139	- 47.262	1.399
- Income tax	- 12.260	- 16.522	- 21.969	- 28.217
Net operating cash flow	75.477	97.630	38.654	117.242
Repayment of long-term financial payables	52.075	43.861	18.543	103.325
DSCR	1,02	1,83	1,78	1,00

Appendix 8

SWOT analysis

S

- Established position in specific filtration segments (infusion, transfusion and dialysis);
- Broad product portfolio covering filtration and humidification;
- Comprehensive product coverage, from membranes to filtration solutions.

W

- Limited focus on a small number of large customers in specific sectors;
- Value proposition not always adapted to all market needs;
- Weaker position in the personal security and aviation security sectors;
- Significant dependence on the GDP performance of the countries in which it operates.

O

- Growth in the global filtration market;
- Geographical expansion into new markets such as Australia and South America;
- Increased exposure to B2C to improve sales resilience;
- Strengthening relationships with new customers.

T

- Fierce competition from large players and small local operators;
- Expected slowdown in economic growth.

• Source: Team Elaboration •

Appendix 8

ESG pillars for competition analysis

	Company	GVS SpA	Sartorius AG	Becton Dickinson & Co	Medtronic PLC	Draegerwerk AG & Co KGaA	Asahi Intecc Co Ltd	Average Peers
	ESG Score	56	84	83	73	64	58	71
E	Environmental Pillar	46	62	78	76	73	41	66
	Resource Use	48	70	96	99	91	19	75
	Emissions	41	66	91	84	81	50	74
	Environmental Innovation	50	50	50	50	50	50	50
S	Social Pillar	67	90	94	89	87	55	83
	Workforce	64	86	93	100	99	61	88
	Human Rights	59	93	93	93	80	54	83
	Community	81	87	94	97	81	10	74
	Product Responsibility	63	91	97	72	91	91	88
G	Governance Score	48	88	70	52	30	53	59
	Management	66	90	75	50	25	70	62
	Shareholders	6	75	54	58	29	15	46
	CSR Strategy	17	95	70	53	52	22	58

Source: Refinitiv, Team elaboration

Appendix 9

Financial analysis: competitive profitability analysis

FY2022	Revenues	EBITDA Ajusted margin	Net profit margin	ROE	ROIC	ROS	ROA
GVS SPA	387,59	20,2%	11,9%	7,4%	4,7%	14,1%	5,4%
DANAHER CORP	31.471,00	34,6%	22,9%	14,4%	10,7%	27,6%	8,4%
STERIS PLC	4.585,06	27,5%	5,3%	3,7%	4,1%	5,8%	2,1%
BECTON DICKINSON & CO	18.870,00	25,7%	8,6%	6,7%	5,1%	12,1%	3,2%
DONALDSON COMPANY INC	3.306,60	16,3%	10,0%	29,4%	20,0%	13,3%	12,8%
PARKER HANNIFIN CORP	15.861,61	21,7%	8,3%	14,8%	8,6%	10,2%	5,1%
AVERAGE COMPETITORS	14.818,85	25,2%	11,0%	13,8%	9,7%	13,8%	6,3%

Appendix 10

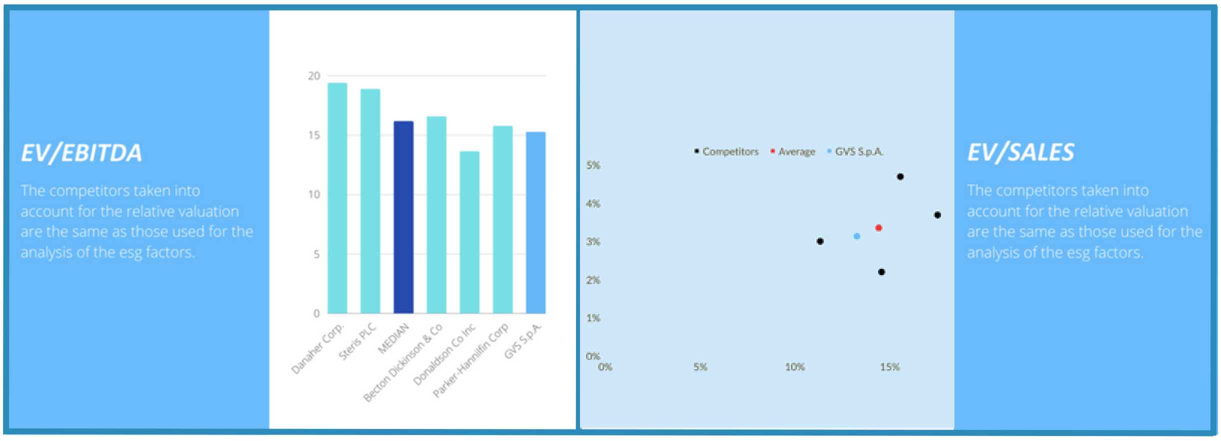
Valuation: CAPM & WACC breakdown

CAPM	*KE = RF + B*(ERP)*				
	2024	2025	2026	2027	2028
risk free rate	2,021%	10-YEAR GERMAN BUND YIELD			
β (raw)	0,77	0,74	0,72	0,70	0,69
β unlevered	0,38	0,38	0,38	0,38	0,38
leverage	1,44	1,32	1,26	1,20	1,14
ERP	7,81%	DAMODARAN: EQUITY RISK PREMIUM(ITALY)			
Ke	8,034%	7,765%	7,637%	7,515%	7,399%

	WACC=KE*E/(E+D)+KD*D/(E+D)				
	2024	2025	2026	2027	2028
E/(E+D)	0,642	0,662	0,682	0,682	0,682
D/(E+D)	0,358	0,338	0,318	0,318	0,318
Cost of debt(Kd)	6,037%	7,296%	7,296%	7,296%	7,296%
The cost of debt was estimated to be equal to ROD (return on debt), the ratio of financial charges to the net financial position					
Tax rate	27%	27%	27%	27%	27%
WACC	6,734%	6,941%	6,903%	6,836%	6,772%

Appendix 11

Valuation: relative valuation maps



Appendix 12

Valuation: statements

ASSETS						
Millions of €	**2023E**	**2024E**	**2025E**	**2026E**	**2027E**	**2028E**
Fixed assets	647	633	622	612	604	598
Trade credits	81	81	81	82	83	84
Trade debts	(126)	(126)	(126)	(127)	(129)	(130)
Inventory	99	96	94	95	96	97
NWC	54	51	49	50	50	51
Invested Capital	**701**	**684**	**671**	**662**	**654**	**649**

Appendix 13

Valuation: statements

LIABILITIES						
Millions of €	**2023E**	**2024E**	**2025E**	**2026E**	**2027E**	**2028E**
Equity	342	342	342	346	350	354
Financial debts	540	493	450	434	419	405
Cash	(182)	(151)	(121)	(119)	(115)	(110)
NFP	358	342	329	315	304	295
Total	**701**	**684**	**671**	**662**	**654**	**649**

Appendix 14

Valuation: income statement

INCOME STATEMENT						
Millions of €	**2023E**	**2024E**	**2025E**	**2026E**	**2027E**	**2028E**
Revenues	**423**	**447**	**472**	**477**	**482**	**488**
Materials	(139)	(146)	(154)	(156)	(158)	(160)
Services	(73)	(67)	(62)	(65)	(67)	(70)
Labour	(141)	(153)	(153)	(153)	(153)	(153)
EBITDA	**71**	**81**	**103**	**104**	**105**	**106**
D&A	(43)	(42)	(41)	(41)	(40)	(39)
EBIT	**28**	**39**	**62**	**63**	**65**	**67**
Financial charges	(18)	(21)	(24)	(32)	(31)	(30)
Profit before taxes	**10**	**18**	**38**	**31**	**34**	**37**
Taxes	(7)	(5)	(10)	(8)	(9)	(10)
Net profit	**3**	**13**	**28**	**23**	**25**	**27**

Appendix 15

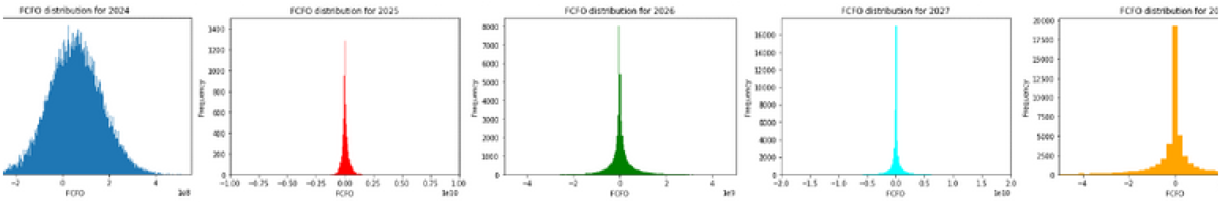
Valuation: cash flow statement

CASH FLOWS					
Millions of €	**2024E**	**2025E**	**2026E**	**2027E**	**2028E**
EBITDA	81	103	104	105	106
ΔNWC	3	2	(1)	(1)	(1)
Gross operating cash flow	84	105	103	104	105
Taxes	(5)	(10)	(8)	(9)	(10)
Net operating cash flow	79	95	95	95	95
Capex	(29)	(30)	(33)	(34)	(33)
FCFO	50	65	62	61	61

Appendix 16

Montecarlo simulation

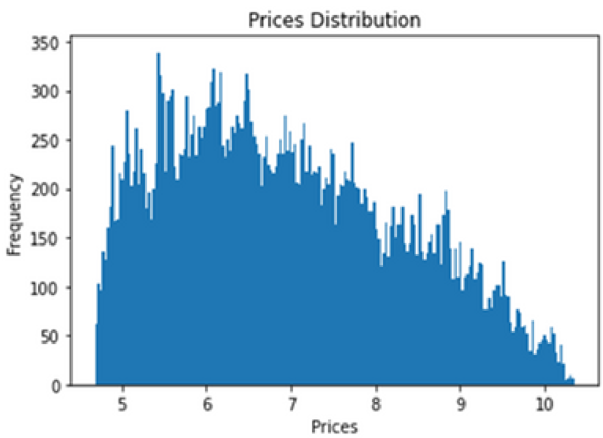
We performed a **Montecarlo simulation on the DCF model** to move from a deterministic conception to stochastic for the determination of the target price.
Additionaly, we carried out a **sensitivity analysis** for the Wacc combination and perpetual growth rate. Results confirm our **HOLD recommendation.**
We carried out **50K simulations** for each useful variable (EBITDA, CAPEX, Net operating invested capital, income tax, FCFO and PFN) through the **Monte Carlo method**. By extending the simulations on the FCFOs in the years following 2024 (until 2028, **total simulations performed = 600K**) we were able to notice how, due to **the principle of mean reversion**, the FCFOs of the following years tend more and more frequently towards their average value.



We then carried out a **sensitivity analysis** on the target price through the combination of the simulated data together with the **WACC** and the **perpetual growth rate** for values defined by us.
<u>Sensitivity Analysis:</u>

	Terminal Growth rate					
	TP	0,5%	1%	**<u>1,14%</u>**	1,3%	1,8%
W	5%	7,50 €	8,38 €	8,67 €	9,02 €	10,37 €
A	6%	6,23 €	6,81 €	7,00 €	7,22 €	8,04 €
C	**<u>6,55%</u>**	5,70 €	6,18 €	6,33 €	6,52 €	7,16 €
C	7%	5,34 €	5,76 €	5,89 €	6,04 €	6,59 €
	8%	4,69 €	5,00 €	5,09 €	5,21 €	5,60 €

Finally, through a further Monte Carlo simulation (between the limit values of 4.67 and 10.38) on target prices, we obtained a **HOLD probability of 53%**, where the upper and lower limits of the range considered are the **BULL** and **BEAR** scenarios respectively.



In light of these analyses, we believe that the **most correct target price** is the one that fluctuates around the value of **€6.65** as the **average of 1.25 million** simulated prices.

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