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TESMEC

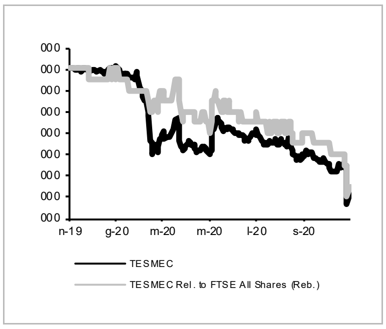
SECTOR: Industrials

Enrico Coco +39-02-77115.279
e-mail: enrico.coco@intermonte.it

Rights Issue May Be a Turning Point

- **Global player in integrated solutions for energy, telecom, and rail infrastructure**. Tesmec is active in the design, production and marketing of systems and integrated solutions for the construction, maintenance and diagnostics of infrastructure (overhead, underground and railway network) for the transport of energy, data (fibre optic and 5G telecom infrastructure). The group operates through three business divisions: Energy including the Stringing segment, where Tesmec has global leadership, and the Energy Automation segment; Trencher: high powered machines for linear and bulk excavation; and Rail: catenary installation, maintenance and diagnostics. Approx. 80% of sales are generated outside Italy.
- **Exposure to attractive end-markets, which are expected to grow faster in the post-Covid era. Green and digital drive market opportunities.** The company's business is exposed to markets characterised by significant growth opportunities in coming years associated with rising investments in infrastructure, driven by sustainability and digitalisation. Key end-markets for the group are: Energy&Renewables (involving the Energy and Trencher businesses), where Tesmec will benefit from investments associated with the energy transition, smart grids, and the growing share of renewables; Telecom&Fibre (involving the Energy and the Trencher businesses), where Tesmec will benefit from investments in fibre and 5G telecom infrastructures; Rail (involving the Energy and the Rail businesses), where Tesmec will benefit from investments in infrastructure maintenance and diagnostics driven by the focus on green mobility and more stringent legislation in Europe.
- **Increasing recurring services support better visibility on revenues, rising margins, and improving cash flow profile.** Group profitability is expected to grow significantly in coming years. Beside the impact of economies of scale and operating leverage, margin expansion is structurally supported by: the standardisation and rationalisation of the product portfolio compared to the current overlap of digital and traditional products; the growth expected at the Energy Automation business (software component); the development of rental and after-sales services at Trencher. The rationalisation of platforms should drive better working capital management (lower inventories), thus improving the cash flow profile.
- **2020-23 industrial plan.** The financial targets in the 2020-23 industrial plan were approved by the board on 3 September and point to a 2019-23 CAGR of +8.5%/10.0% for revenues and +17%/18.0% for EBITDA. Thanks to credit lines available to the group, the plan is not based on the proceeds from the capital increase. However, Tesmec needs to strengthen its balance sheet after NFP deterioration in recent years.
- **Rights issue of up to Eu35mn.** The rights issue was launched on 23 November and is guaranteed for Eu25.3mn (70%), of which Eu22mn by the majority shareholder TTC.
- **Valuation.** We value Tesmec (NOT RATED) through a DCF model yielding a fair value of equity pre-money (unchanged) at ca. Eu110mn. Assuming the full subscription of the capital increase (Eu35mn, 499,376,200 newly issued shares), we end up with a fair value per share ex rights of Eu0.22. This indicative valuation does not discount any execution risk in achieving the business plan targets and the need to build up a track record in combining growth with FCF generation to win investors' confidence. However, if targets are achieved, the stock has significant upside potential.

TESMEC - 12m Performance



STOCK DATA

Reuters code:	TES.MI
Bloomberg code:	TES IM

Performance	1M	3M	12M
Absolute	-39.7%	-50.9%	-72.5%
Relative	-51.8%	-60.5%	-65.6%

SHAREHOLDER DATA

Total No. Of shares (mn):	107
Max No. Of shares (post-RI) (mn)*:	602

*** ex-treasury shares, Eu35mn rights issue**

Main Shareholder:

TTC Group	46.1%

* *4services consolidated as from April 2020

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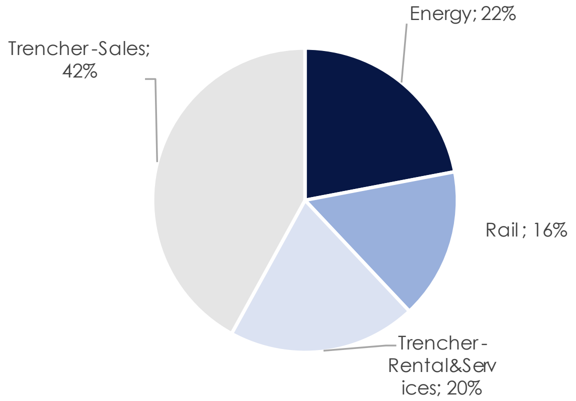
Executive Summary

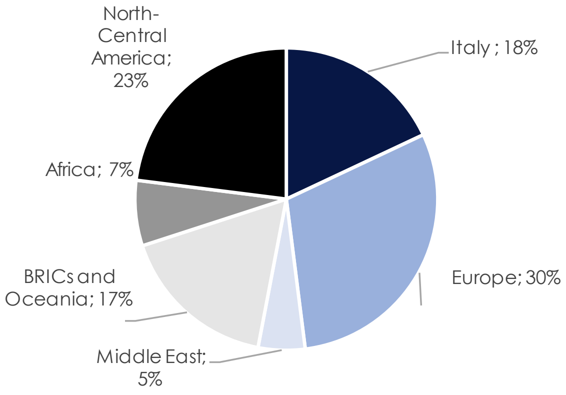
Global player in products and integrated solutions for energy, telecom, and rail infrastructure. Tesmec Group is active in the design, production and marketing of systems and integrated solutions for the construction, maintenance and diagnostics of infrastructure (overhead, underground and railway network) for the transport of energy, data (fibre optic and 5G telecom infrastructure) and materials (oil, gas and water), as well as technologies for quarrying and surface mining. The group operates through three business divisions: **Energy** (the Stringing BU, where Tesmec has global leadership, and the Energy Automation BU) accounting for 22% of pro-forma FY19 revenues; **Trencher** (high powered machines for linear and bulk excavation) accounting for 62% of FY19 pro-forma revenues; and **Rail** (catenary installation, maintenance and diagnostics) accounting for 16% of FY19 pro-forma revenues. The group's historical core business are Stringing machines for energy infrastructure and Trencher. In recent years, the company has developed its presence in Rail (connected rail vehicles and services for electrification, infrastructure maintenance and diagnostics) and Energy Automation (machines and sensors for power grids, leveraging on strong relationships with utilities). Approx. 80% of sales are generated outside Italy.

Revenue breakdown by business (2019 pro-forma)



Source: Company presentation November 2020

Revenue breakdown by geography (9M20)



Source: Company presentation October 2020

Exposure to attractive end-markets expected to grow faster in the post-Covid era. Green and digital drive market opportunities. The company's business is exposed to markets characterised by significant growth opportunities in coming years associated with rising investments in infrastructure driven by sustainability and digitalisation. The group's key end-markets are:

- **Energy&Renewables** (involving the Energy and Trencher businesses), where Tesmec will benefit from investments associated with energy transition and the growing share of renewables in the energy mix, the development of smart grids (key driver of the Energy Automation BU), as well as investments to improve the efficiency of electricity distribution and transmission. In particular, the solutions developed by Tesmec make it possible to use new generation conductors (HTLS - high temperature low sag - characterised by high operating temperatures and low elongation) for installation (reconductoring) of new conductors on existing structures;
- **Telecom&Fibre** (involving the Energy and the Trencher businesses), where Tesmec will benefit from growing investments in fibre and 5G telecom infrastructures. In particular, Tesmec machines and integrated solutions enable single-pass excavation, infrastructure laying and filling, while the *Clean&Fast* technology developed by Tesmec allows rapid and clean excavation with simultaneous dust and residue suction, making the technology particularly suitable for use in urban areas (lower environmental impact);
- **Rail** (involving the Energy and Rail businesses), where Tesmec will benefit from investments in infrastructure maintenance and diagnostics driven by the focus on green mobility and more stringent legislation in Europe aimed at increasing the safety and security of railway infrastructure. At the Rail business, the company has developed technological platforms and obtained European certification in recent years for integrated solutions regarding electrification, maintenance and automated infrastructure diagnostics without line breaks. This also supports the development of recurring revenues;
- **Surface mining** (involving the Trencher business), where Tesmec will benefit from technological developments in the extraction process ("smart mining"), oriented towards increasing environmental sustainability (use of trenchers vs. traditional processes using explosives).

Increasing recurring services and rationalisation of industrial platforms support better visibility on revenues, increased margins, and the cash flow profile. Group profitability is expected to grow significantly in coming years and to reach ca. 20% over the plan time horizon. Beside the impact of economies of scale and operating leverage, margin expansion is structurally supported by the standardisation and rationalisation of the product portfolio vs. the current overlap of digital and traditional products, growth expected in markets with higher profitability (i.e. the software component at the Energy Automation business), the development of rental and after-sales services in Trenchers, and growing recurring revenues in the Rail business. Investments in recent years have made the product portfolio more appealing and profitable (provider of integrated solutions, digitally connected machines, cybersecurity content). Moreover, the standardisation and rationalisation of platforms should drive better working capital management (lower inventories), thus improving the group cash flow profile.

2020-23 industrial plan foresees high-single digit revenue growth, improving margins, and focus on cash flow generation. 2020 guidance confirmed. Rights issue to strengthen the balance sheet. The financial targets in the 2020-23 industrial plan were approved by the board on 3 September 2020 and confirmed in November 2020 (rights issue prospectus), also with refence to 2020 guidance (97% of 4Q20 estimated revenues are covered by the backlog). Thanks to credit lines available to the group, Tesmec's industrial plan is not based on the proceeds from the capital increase. During 2020, Tesmec has obtained over Eu50mn in long-term financing backed by Italian state guarantee through the so-called Liquidity Decree. However, the group needs to strengthen its balance sheet after the deterioration of the NFP in recent years.

TESMEC – Business Plan targets

(Eu mn)	2019 pro-forma	9M20 pro-forma	2020 target	2023 target
Revenues	199.6	116.8	ca. 170	275-290
Revenues CAGR 2019-2023				8.5%/10.0%
EBITDA	30.0	15.7	22-24	53-58
EBITDA Margin %	15,0%	13.4%	ca. 13.5%	ca. 20%
EBITDA CAGR 2019-2023				17.0%/18.0%
Capex	19.4 (stated)	9.0	13.6	14.1
Operating FCF (unlevered)	-1.1 (stated)	1.1	5.5	27-33
Net debt pro-forma	130.9	137.8	ca. 130	69-78
Net debt/EBITDA x	4,4x	n.m.	5.9x/5.4x	ca. 1.5x

Source: Rights Issue prospectus

Main shareholders committed to business development and investing in the capital increase. Majority shareholder TTC has assumed for itself and for controlled subsidiaries (owning 46.1% of Tesmec in aggregate) the irrevocable commitment of participating in the capital increase for a total amount of Eu21.9mn, of which Eu16.9mn relating to the pro-quota exercise of rights and Eu5.0mn relating to the subscription of Tesmec shares that are not taken up in the rights issue. Moreover, on 20 November 2020, Palladio Holding SpA signed an underwriting agreement through which it gave an irrevocable commitment to subscribe a maximum 50,000,000 Tesmec shares, should these not be exercised in the rights issue offer, for a maximum amount of Eu3.5mn. The capital Increase of Eu35 million is therefore guaranteed for a total amount of about Eu25.3mn (about 70% of the total amount), of which Eu22mn by TTC and its controlled companies, and Eu3.5mn by Palladio.

Valuation. We value Tesmec (NOT RATED) using our estimates for the 2020-2023 period, which are based on the indications in the 2020-2023 industrial plan (low end of the range). Our DCF model yields a fair value of equity pre-money (unchanged) at ca. Eu110mn. The fair value of equity is calculated by subtracting from the estimated EV the YE20 net debt of Eu133mn, Eu4mn for pension liabilities, and adding the net proceeds of the capital increase, assuming full subscription (499,376,200 newly issued shares). We end up with a fair value per share ex rights of Eu0.22. This indicative valuation does not discount any execution risk in achieving the business plan targets and the need to build up a track record in combining growth with FCF generation in order to win investors' confidence. However, if targets are reached, the stock has significant upside potential. On our estimates, at fair value ex option rights assuming full subscription of the capital increase of Eu0.22, Tesmec would trade at 6.8x EV/EBITDA 2021E and 5.0x EV/EBITDA 2022E.

SWOT Analysis

Strengths

- **Leading global player in Stringing, strong positioning in Trencher.** The group's historical core businesses are Stringing machines for energy infrastructure and Trencher. In recent years, the company has developed its presence in Rail and Energy Automation with the aim of strengthening Tesmec's positioning as a value-added solution provider.
- **Exposure to infrastructure investments.** The company's business is exposed to markets characterised by significant growth opportunities associated with rising investments in infrastructure (energy networks, smart grids, telecom networks, "smart mining") driven by sustainability and digitalisation.
- **Geographical diversification.** Tesmec is geographically diversified. More than 80% of revenues are generated outside Italy.
- **R&D and innovation**. Investments made in recent years have increased the value-added content of products (digital connected machines, cybersecurity), which supports pricing and margins.
- **Experienced management team.**

Weaknesses

- **Illiquid stock.** Tesmec has a current market cap of ca. Eu20mnn and shares are illiquid.
- **Financial leverage.** The group has a weak balance sheet (ca. 5x net debt/EBITDA post-money), although over Eu50mn of new credit lines were signed in 2020 through the so called Liquidity Decree.
- **Poor historical track record.** Net debt has increased since 2015. However, the focus of the plan on the current perimeter (investments already made) and working capital (lower inventories) should support the cash flow profile in coming years.
- **Smaller scale vs clients.**

Opportunities

- **Growth in profitability.** Margin expansion is structurally supported by the standardisation and rationalisation of the product portfolio vs. the current overlap of digital and traditional products, the growth expected in Energy Automation (software component), and the development of rental and after-sales services in Trenchers.
- **Increasing share of recurring revenues, better cash flow profile.** The business should enjoy better visibility thanks to the rising share of recurring services.
- **Margin growth is supported by a fixed cost structure that is already appropriate.** The expected increase in volumes would not require significant changes to the fixed cost base.
- **Additional growth opportunities not included in the plan.** Strengthening of the group's presence in North America at Stringing, further impetus in the rental business at Trencher, strengthening of diagnostic systems at Rail.

Threats

- **Execution risk embedded in 2020-23 plan**
- **Increasing competition and impact on pricing**

Source: Intermonte SIM

Capital Increase

Rights Issue Details

TESMEC – Rights Issue Details

Max Size	34,956,334	Eu
Price	0,07	Eu/share
No. shares before Rights Issue	107,084,000	shares
No. Treasury Shares	4,711,879	shares
No. Shares before Rights Issue (excl. Treasury Shares)	102,372,121	shares
Max No. Shares to be issued	499,376,200	shares
Max No. Shares after Rights Issue (incl. Treasury Shares)	606,460,200	shares
Max No. Shares after Rights Issue (excl. Treasury Shares)	601,748,321	shares
Subscription ratio	No. 200 new ordinary shares for every 41 existing ordinary shares	
Timing	- Subsciption period and pre-emptive rights: 23 November 2020 / 10 December 2020 - Rights trading period: 23 November 2020 / 4 December 2020	
Subscription & Underwriting Commitments	- Subscription commitment TTC Group (46,1%, Eu16.8mn) - Underwriting Commitments: TTC Group (up to Eu5mn), Palladio Holding (up to Eu3.5mn) - Total subscription and underwriting commitments: Eu25.3mn	
Use of proceeds	- Strenghtening the financial structure - Financing special business iniatives	

Source: TESMEC Rights issue Prospectus

TESMEC - Rights Issue: Subscription Price and Discount to TERP

		Current	**Eu35mn Rights Issue**
Reference price prior to announcement (16th November 2020)	Eu	0,184	
Current No. Shares (ex treasury shares)	mn	102,4	
Mkt cap as of 16th November 2020	mn	18,8	
Rights Issue size	**Eu mn**		**35,0**
Subscription price	Eu	0.07	
New shares to be issued	mn		499,4
No. of shares post rights issue (ex treasury shares)	mn		601,7
TERP	Eu		0.089
Discount Subscription Price vs. TERP	*%*		*-21,7%*
Discount Subscription Price vs. Price on 16th November 2020	*%*		*-62,0%*

Source: TESMEC press release, Intermonte

Terms and conditions of the proposed capital increase were set by the board of directors on 16 November 2020 in partial exercise of the proxy given by the shareholders' meeting on 21 May 2020. In execution of the capital increase, a maximum of 499,376,200 new Tesmec ordinary shares with no par value will be issued. The shares will be offered via a right issues to entitled shareholders at the ratio of 200 shares to every 41 Tesmec ordinary shares already held, at a subscription price of Eu0.07 per share (21.7% discount to TERP calculated on the reference price on 16 November 2020 of Eu0.184). The value of the right issue offer will therefore amount to a maximum of Eu34,956,334. With regards to the offer timetable:

- rights for the subscription of shares may be exercised from 23 November 2020 to 4 December 2020 (inclusive), and
- rights may be traded on the Mercato Telematico Azionario (MTA) from 23 November 2020 to 4 December 2020 (inclusive)

Those rights not exercised by the end of the offer period will be offered on the MTA. The timetable of the offer period will be announced through specific notification.

The proceeds of the capital increase (Eu24.3mn after estimated costs of maximum Eu1.3mn and including Eu9.4mn settled by compensation of the MTS (TTC group) credit relating to the acquisition of 4 Service S.r.l. by Tesmec in April 2020) are primarily aimed at strengthening the financial structure of the group and improving its net financial position, with the secondary objective of seizing additional growth opportunities. These special initiatives, not included in the business plan, regard the strengthening of Tesmec's presence in North America in the Stringing business, the internationalisation of Energy Automation in geographies in which the main customers (Italian utilities) operate, further impetus for the Trencher rental business, and the strengthening of diagnostic systems for railway networks.

Finally, we note that Tesmec's business plan presented at the beginning of September is financed through available liquidity and does not take the capital increase into account. During 2020, Tesmec obtained over Eu50mn in additional long-term financing via the SACE/Italian State guarantee made available under the so-called Liquidity Decree.

Subscription and Underwriting Commitments

Majority shareholder TTC has assumed for itself and the controlled subsidiaries FI.IND S.p.A, RX s.r.l., and MTS S.p.A. (owning 46.1% of Tesmec in aggregate) the irrevocable commitment to participate in the capital increase for a total amount of Eu21,865,664 of which: (i) Eu16,865,664 relating to the exercise of the rights due to TTC and its controlled subsidiaries; and (ii) Eu5,000,000 relating to the subscription of Tesmec shares that are not taken up in the rights issue.

Moreover, on 20 November 2020, Palladio Holding SpA signed an underwriting agreement through which it gave an irrevocable commitment to subscribe a maximum 50,000,000 Tesmec shares, should these not be exercised in the rights issue offer, for a maximum amount of Eu3.5mn. The Palladio commitment has priority over the TTC commitment to take up unsubscribed shares; therefore, residual shares as a consequence of unexercised rights will only be assigned to TTC once shares up to the maximum amount have been assigned to Palladio. The capital Increase of Eu35 million is therefore guaranteed for a total amount of about Eu25.3mn (about 70% of the total amount), of which Eu22mn by TTC and its controlled companies, and Eu3.5mn by Palladio.

Maximum dilution for shareholders not subscribing the rights issue (calculated assuming the complete subscription of the capital increase for the maximum amount of Eu35mn) is 82.3%.

TESMEC – Rights Issue, Existing Commitments

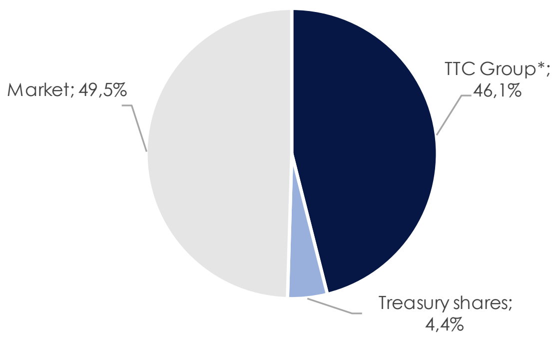
	Subscription Commitment		**Underwriting commitment**		**Total Commitment**	
	Eu mn	Shares mn	Eu mn	Shares mn	Eu mn	Shares mn
TTC	16,8	240,6	5,0	71,4	21,8	312,1
Palladio Holding S.p.A			3,5	50,0	3,5	50,0
Total Commitments					**25,3**	**362,1**

Source: TESMEC press release, Intermonte

Current Shareholder Base

Current Tesmec share capital amounts to Eu10,708,400, composed of 107,084,000 ordinary shares without a par value. At the current date, the company holds 4,711,879 treasury shares (i.e. 4.4% of total share capital). TTC (investment holding of the Caccia Dominioni family) directly and indirectly owns 46.1% of the total share capital, including a direct stake of 30.3%, and a 15.8% stake indirectly owned through controlled subsidiaries (FI.IND S.p.A., RX s.r.l., MTS s.r.l.).

TESMEC - Shareholding (ownership of share capital %)



Source: Rights Issue Prospectus. *Includes TTC s.r.l., FI.IND S.p.A., RX s.r.l., MTS s.r.l.

TESMEC - Shareholding (ownership of shares)

	Shares mn	**Shares %**
- TTC s.r.l.	32,4	30,3%
- FI.IND	15,3	14,3%
- RX	1,0	1,0%
- MTS	0,5	0,5%
Total TTC (Caccia Dominioni Family)	**49,3**	**46,1%**
Treasury shares	4,7	4,4%
Quaero Capital Funds	8,5	7,9%
Other Financial Investors	44,6	41,6%
Total shares	**107,1**	**100,0%**

Source: Rights Issue Prospectus

Company Profile

Tesmec in a Nutshell

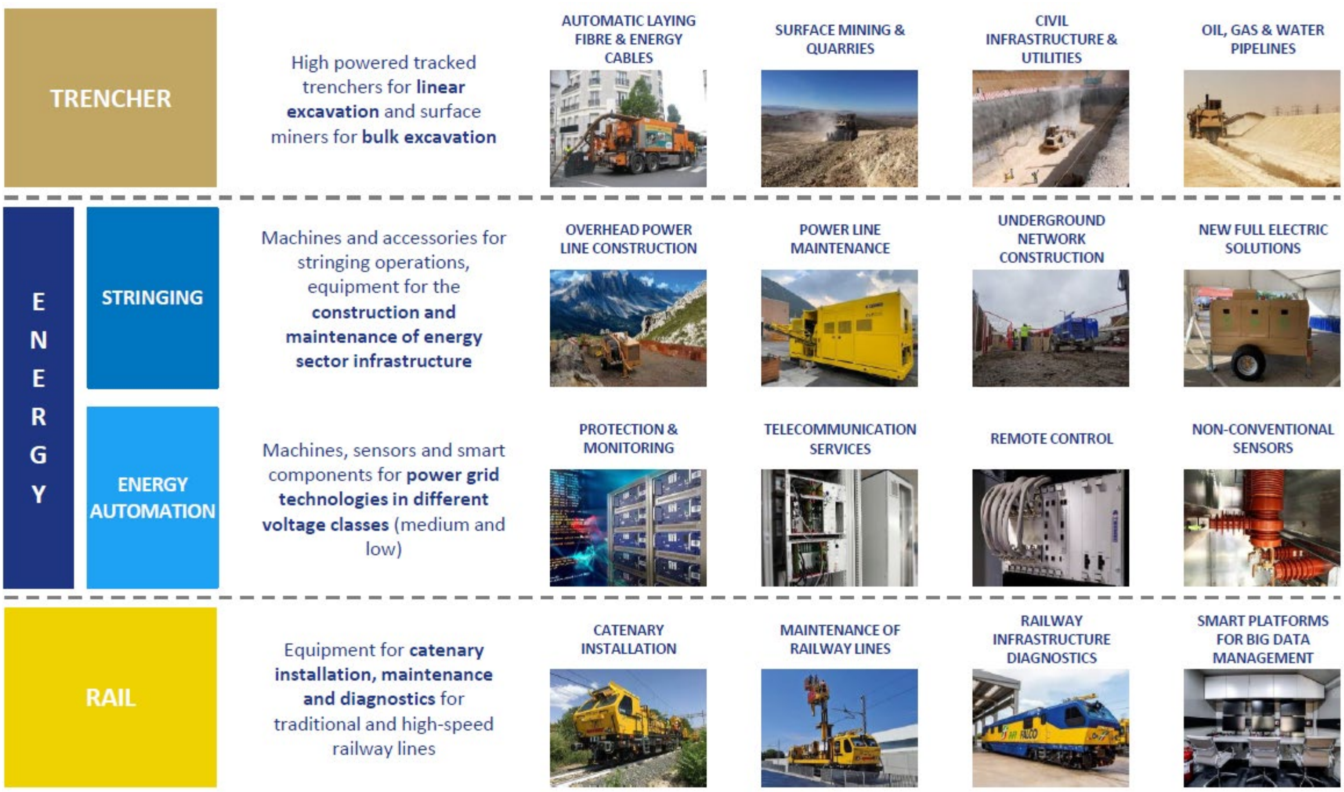
Tesmec Group is active in the design, production and marketing of systems and integrated solutions for the construction, maintenance and diagnostics of infrastructure (overhead, underground and railway network) for the transport of energy, data (fiber optic and 5G infrastructure) and materials (oil, gas and water), as well as technologies for quarrying and surface mining.

Tesmec operates through three business divisions: Energy (Stringing segment, Energy Automation segment), Trencher, and Rail. **Stringing** (machines for the construction and maintenance of energy infrastructure) and **Trencher** (high powered machines for linear and bulk excavation), where Tesmec has a global leadership position, represent the group's historical core business. In recent years, the company has developed its presence in **Rail** (catenary installation, maintenance and diagnostics, synergetic with the Stringing business) and **Energy Automation** (machines, sensors, and smart components for power grids in different voltage classes, leveraging on strong relationships with utilities). The business strategy aims at consolidating Tesmec's position as a solution provider in its three business areas (Energy, Trencher, Railways), by exploiting expected growth in infrastructure investments driven by the trends of energy transition, digitalisation, and sustainability.

The group was founded in Italy in 1951 and IPOed on the Italian Stock Exchange in 2010. The company operates through 8 production plants: Grassobbio (Bergamo), Endine Gaiano (Bergamo), Sirone (Lecco), Monopoli (Bari), Padova, and Patrica (Frosinone) in Italy, Alvarado (Texas, USA) and Durtal in France. Tesmec has ca. 900 employees.

In 2019, Tesmec group reported pro-forma revenues (i.e. including 12 months consolidation of 4Service, active in the Trencher rental business and acquired in April 2020) of Eu200mn vs. Eu195mn in 2018, pro-forma EBITDA of Eu30mn (15% margin) vs. Eu22mn (11.5%) in 2018 post IFRS16, net profit of Eu2mn vs. Eu3mn in 2018 due to higher D&A and forex losses, net invested capital of Eu175mn vs. Eu121mn in 2018, and net financial debt of Eu131mn vs. Eu78mn in 2018 including the impact of the acquisition of 4Service (Eu21mn EV) and Eu26mn in higher working capital.

Business Overview



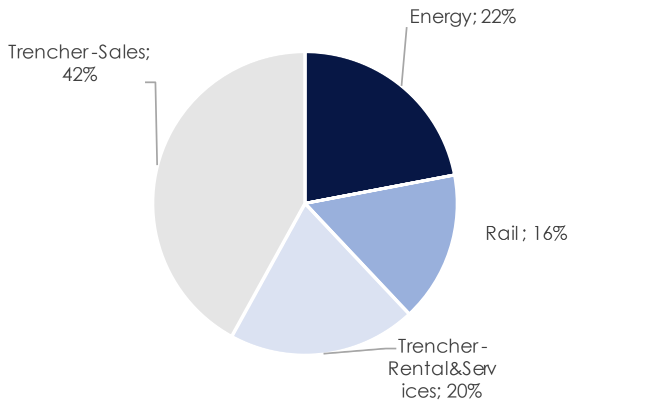
Source: Company Presentation November 2020

Operating segments

The Group operates through three divisions:

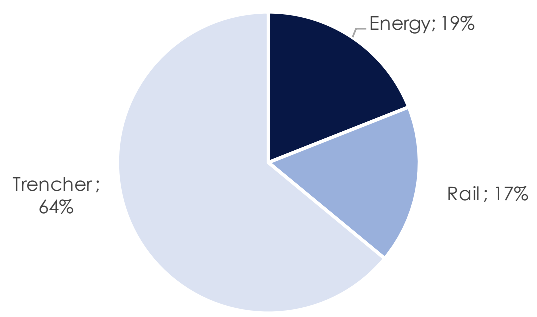
- **Energy (22% of 2019 pro-forma revenues, 19% of pro-forma EBITDA).** Tesmec designs, manufactures and markets machines and integrated systems for the construction and maintenance of overhead and underground power lines, fibre optic networks (Stringing segment), as well as equipment and systems for the automation, efficiency, management and monitoring of high, medium and low voltage electrical networks and substations (Energy Automation segment). The Energy segment is a key driver of the expected growth assumed in the 2020-23 plan both for top line and profitability, thanks to Stringing volumes back to historical levels and significant growth in Energy Automation driven by the digitalisation of energy networks.
- **Trencher (62% of 2019 pro-forma revenues, 64% of pro-forma EBITDA).** Tesmec designs, produces, sells and rents out trencher machines for excavation and mining, installation of pipelines, construction of telecommunication infrastructure, and excavation of underground power networks, as well as the provision of specialised excavation services. Trencher machines are offered for rental both with or without an operator (hot or wet rental the former, and cold or dry rental the latter).
- **Rail (16% of 2019 pro-forma revenues, 17% of pro-forma EBITDA).** Tesmec designs, manufactures and markets machines and integrated systems for the installation and maintenance of railway catenary; devices for railway catenary and track diagnostics; as well as customised machines for special operations on the line.

2019 Revenues pro-forma



Source: Company presentation November 2020

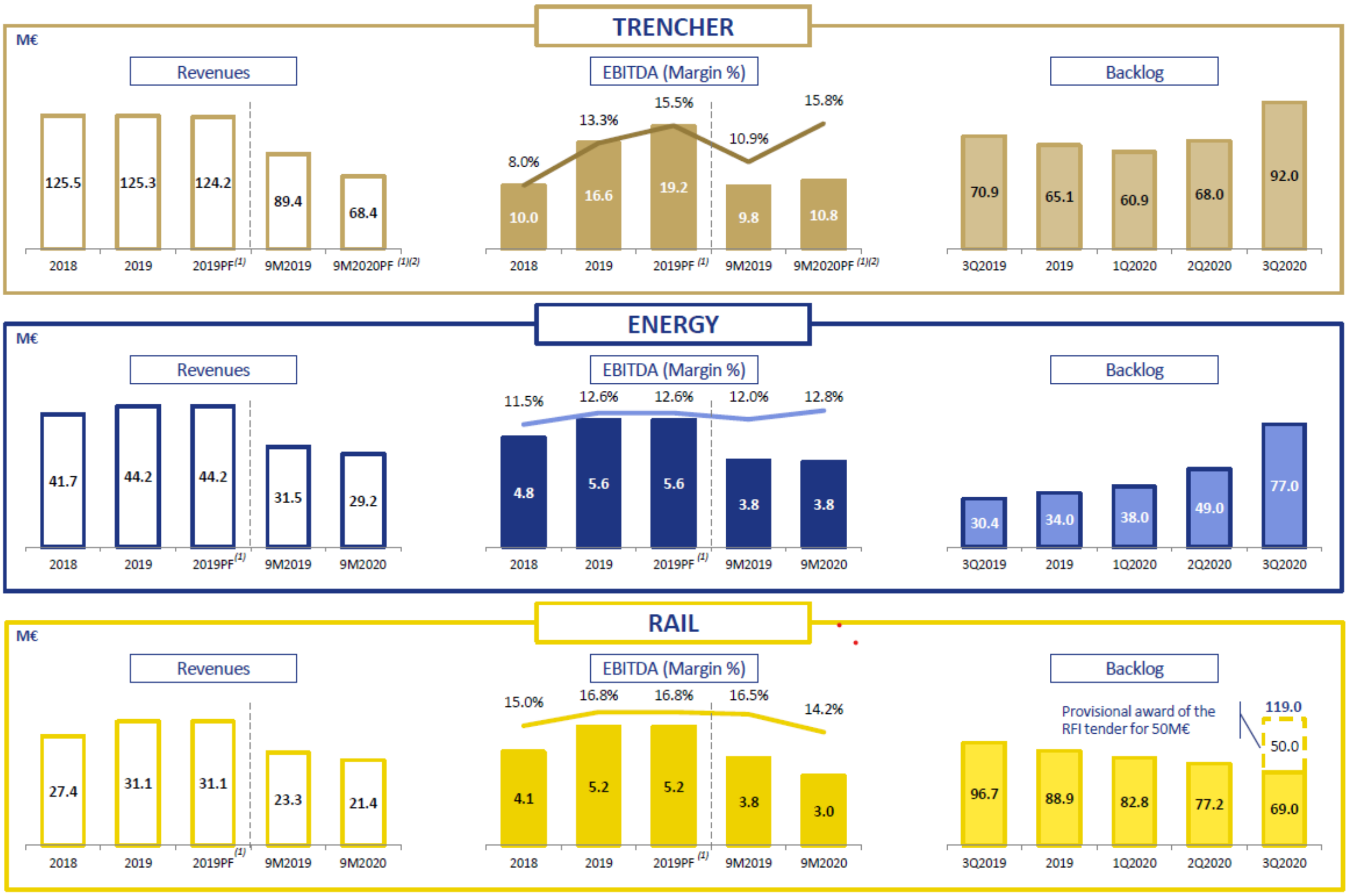
2019 EBITDA pro-forma



Source: Company presentation November 2020

(see table on the next page)

Recent trends – Business breakdown



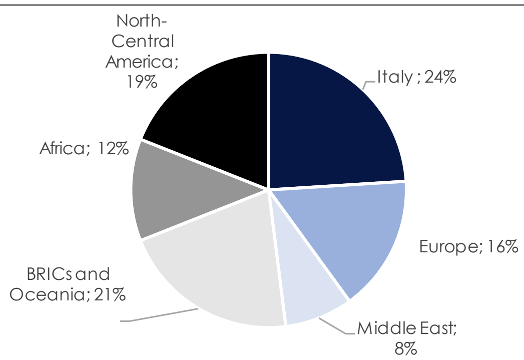
Source: Company Presentation. 1) Pro-forma includes 4Service; 2) Reported 9M20 revenues Eu66.2mn, EBITDA Eu8.9mn, EBITDA margin 13.4%

Activity breakdown by geography

Tesmec has a global commercial presence and over 80% of sales are generated outside Italy. The group operates through foreign subsidiaries and sales offices in the USA, South Africa, West Africa, Australia, New Zealand, Russia, Qatar and China. The following charts highlight the pro-forma revenue breakdown (i.e. including the 4Service trencher rental business) by business line for 9M19 and 9M20.

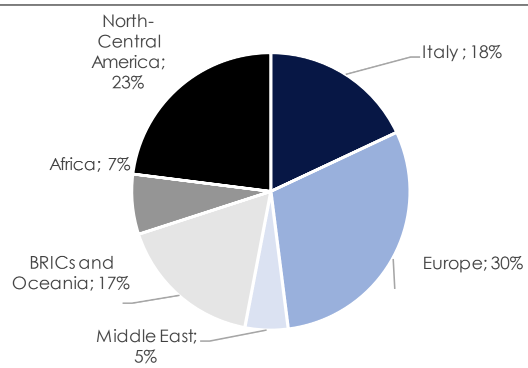
In the first 9 months of 2020, the group generated 81.4% of sales in markets outside Italy, with 28% of sales denominated in USD. Most of the sales denominated in USD are generated by Tesmec's US plant in Texas (natural hedging), while ca. 20% of sales in USD relate to production from the Italian plants, whose costs are in EUR. Management estimates that a 5% devaluation of USD vs. EUR would impact net profit by -Eu1.1mn, and a 5% devaluation of the Australian dollar vs. EUR would impact net profit by -Eu0.6mn.

Revenue breakdown by geography 9M19



Source: Company presentation 9M20 results

Revenue breakdown by geography 9M20



Source: Company presentation 9M20 results

Business Plan 2020-2023

Strategic Pillars of the 2020-23 Industrial Plan

On 3 September 2020, Tesmec approved the 2020-23 industrial plan. The plan envisages the consolidation of the company's position as a solution provider in the three business areas (Trencher, Energy, Rail), **leveraging the investments made over the past years and the growth trends associated with the energy transition, digitalisation, and sustainability.**

Strategic pillars of the plan are:

- **the focus on the existing business portfolio** (Trencher, Railway, and Energy, with the latter divided into Stringing and Energy Automation) **and geographies**, with focus on areas where revenues are more foreseeable;
- **the evolution of the business model from a supplier of products and services to a solution provider and system integrator**, with increasing flexibility to satisfy customers' needs for process automation, digitalisation, and sustainability;
- **the increase in the recurring revenue stream** through the development of the businesses launched in recent years (Rail and Energy Automation), and growth of the Trencher rental business;
- **the implementation of an organisational structure** capable of improving performance in terms of execution, cost efficiency, and cash flow generation in all business segments.

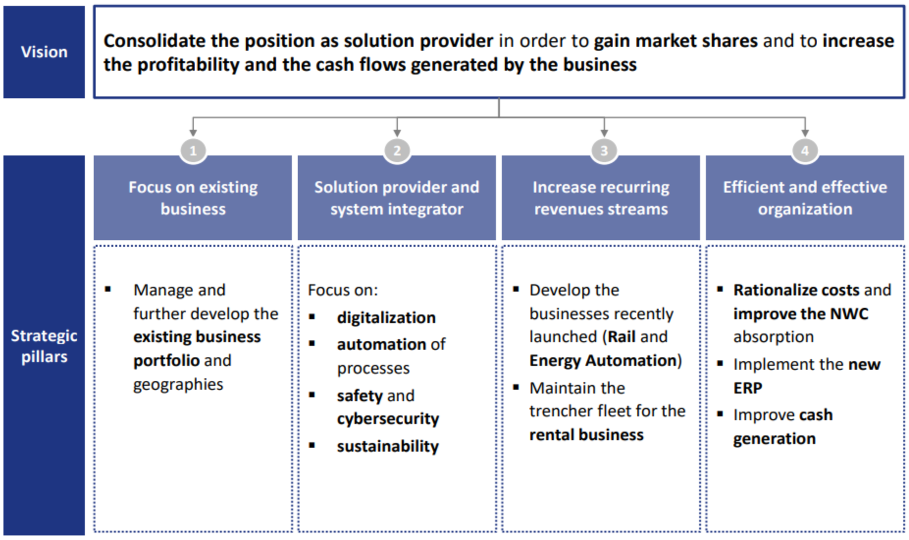
By business segment:

- at the **Energy** business, the plan aims to accelerate international growth in the Energy Automation segment by completing the product range, enhancing the system integrator role and leveraging on the sales network for the Stringing segment. The plan also aims to innovate the Stringing business through the development of green technologies (electric machines) and strengthen the position in interconnection projects in Europe and North America. The Energy segment is a key driver of the expected growth assumed in the plan both for top line and profitability, with an estimated contribution of 30% to the group's sales in 2023, up from 22% in 2019 thanks to Stringing volumes back to historical levels and significant growth in Energy Automation driven by the digitalisation of energy networks. The growing contribution of Energy Automation in the product mix should also drive significant growth of divisional margins, estimated above 21% in 2023, up from ca. 13% in 9M20 on pro-forma basis

- at the **Trencher** business, the strategy is focused on growth in the rental and service field, enhancing Tesmec's role as a solution provider for fibre installation and automatic laying of energy cables, leveraging the strong demand for Clean&Fast technology developed by Tesmec, which reduces the environmental impact in urban centres. Although growing, the Trencher segment is expected to reduce its contribution to group sales in 2023 to ca. 55%. We note that the higher contribution from rentals and after-sales services as well as the rationalisation of the product range and technological platforms should drive an increase in Trencher's EBITDA margin to over 17% in 2023, up from 15.8% for 9M20 pro-forma.

- at the **Rail** business, the plan aims to strengthen the position in the diagnostic systems segment (solutions provider for unmanned diagnostic and data management platforms), and pursue an international growth strategy in Europe, leveraging on the know-how and certification achieved in the Italian market. The contribution of the Rail business should remain broadly stable at ca. 15% of group's revenues in 2023. The development of higher margin diagnostic solutions and recurring services should drive the Rail EBITDA margin above 17% in 2023, up from ca. 14% for 9M20 pro-forma.

Industrial plan 2020-23 – Corporate strategy



Source: Company presentation September 2020

Industrial plan 2020-23 – Key drivers of growth by end market

Sector	BU	Main markets	Market growth	Key growth drivers
ENERGY & RENEWABLES	ENERGY TRENCHER		Power grid 23% 2019-2040 Smart Grid CAGR 11.8% 2019-2025	▪ Environmental issues and greater focus on **energy saving** and **efficiency** ▪ Faster growth of **renewables** in the electricity sector ▪ Trends related to **electrification** (e.g. electric cars) and **cybersecurity**
TELECOM & FIBRE	ENERGY TRENCHER		CAGR 5% 2020-2025	▪ Increase in **internet users** and demand for high-speed internet ▪ Growth in **demand for improved IT infrastructure**, especially in emerging economies
RAIL	ENERGY RAIL		CAGR 2.2% 2019-2025	▪ Pushing **improvement** and **safety** of existing railways in order to reduce accidents (Italy and Europe) ▪ Technical market trends include technologies for **alternative traction systems** (hybrid, zero emission …)
SURFACE MINING	TRENCHER		CAGR 1.5% 2020-2023	▪ Growing attention to **security** standards resulting in increase in **regulations** on the use of explosives ▪ Need for technological changes to increase sustainability while reducing operational costs (**smart mining**)
CONSTRUCTION AND UTILITIES*	TRENCHER		n.a.	▪ **Demographic boom**, new cities or enlargement of existing ones (Africa and Asia) ▪ Increasing investment in **water pipes**, irrigation/drainage and wastewater management
PIPELINE	TRENCHER		n.a.	▪ Oil and natural gas **price issues** ▪ More **restrictive regulations** on ageing pipelines in developed markets ▪ Growing **gas demand** (Asia- Pacific, Russia, Africa) and need for additional pipeline capacity

*Note: * increase in average annual investment to reach Paris Accord targets compared to current trends*
Source: IEA, WEO, 2019

Main Tesmec target sectors / Secondary Tesmec target sectors

Source: Company Presentation November 2020

Financial targets

The financial targets in the 2020-23 industrial plan were approved by the board on 3 September 2020 and confirmed by the board on 10 November 2020 as the recent operating performance of the group is in line with 2020 guidance and the assumptions of the industrial plan in regard to both revenues (97% of 4Q20 revenues covered by backlog) and profitability (cost management in line with 3Q20, thus contributing more than proportionally to profitability for all of FY20). Tesmec's industrial plan is not based on the proceeds from the capital increase thanks to credit lines available to the group. During 2020, Tesmec has obtained over Eu50mn in long-term financing backed by Italian state guarantee through the so-called Liquidity Decree.

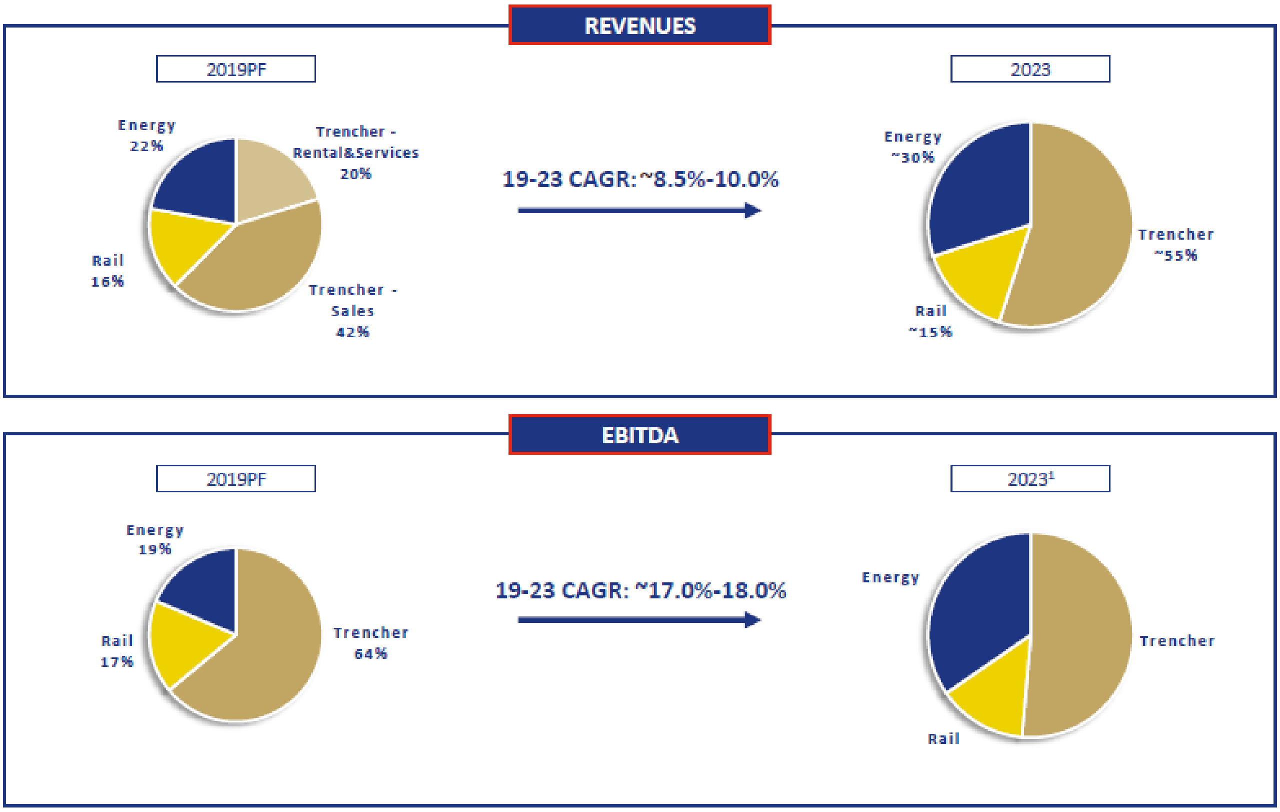
Eu275-290mn Revenues (+8.5%/10.0% CAGR2019-23). The plan assumes FY20 pro-forma revenues (i.e. including consolidation of 4Services for 12 months) at ca. Eu170mn, down from Eu200mn pro-forma in FY19 due to the impact of the Covid-19 pandemic on volumes in the first half of the year (-25% YoY) as a consequence of the shutdown of production sites, mainly in Italy. Production activities resumed during June and 3Q20 showed a marked recovery (stable YoY revenues) vs. the 1H20 trend. We note that backlog covers 97% of revenues expected for 4Q20.

As for the subsequent years, the plan assumes revenues growing in all business segments, with consolidated revenues expected to reach Eu275-290mn in 2023 (+17.0%/+19.5% CAGR2020-23), of which 30% contributed by Energy (22% in FY19), 55% by Trencher (62% in FY19) and 15% by Rail (16% in FY19). Key growth drivers of revenues in coming years are Energy Automation and Stringing (energy transition), expected investments in telecom infrastructure, and international growth in the Rail segment after the awards obtained in the Italian market. We point out that the focus on recurring revenues (rental and services) should also increase visibility of the business. The backlog (Eu238mn as of September 2020 or Eu288mn including the Eu50mn provisional award of the RFI tender vs. 198mn as of September 2019) covers 48% of group's revenues for 2021, 22% for 2022, 9% for 2023).

Eu53-58mn EBITDA (+17.0%/18.0% CAGR 2019-2023). The plan assumes a reduction of the EBITDA margin in FY20 to ca. 13.5% vs. 15.0% in FY19 on a pro-forma basis, reflecting the decrease in turnover in the first half of the year (the 3Q20 EBITDA margin was over 300bps higher YoY). This trend should continue in 4Q (rental business, product mix, reduction of fixed costs), resulting in an EBITDA target for FY20 of Eu22-24mn vs. Eu30mn pro-forma in FY19. Profitability is expected to improve in the coming years, with EBITDA reaching Eu55-58mn in FY23 (ca. 20% margin), implying an EBITDA CAGR2020-23 of +30%/38% based on the assumed 2020 base and 2023 guidance range. The growth in the margin is driven by a lower expected incidence of variable costs on revenues, broadly stable fixed costs as the current structure sustains higher volumes, a better mix of products and systems, rationalisation of the product portfolio, and better pricing on digital products. In detail, the plan assumes:

- Trencher EBITDA margin at >17% in 2023 vs. 13.3% in 2019 (driven by higher contribution of rental and after-sales services, rationalisation and standardisation of technological platforms);
- Energy EBITDA margin at >21% in 2023 vs. 12.6% in 2019 (driven by stronger contribution of Energy Automation vs. Stringing, growth in the software component within Energy Automation, premium pricing in digital machines in Stringing vs. the current overlap in the product range, economies of scale);
- Rail EBITDA margin at >17.0% in 2023 vs. 16.8% in FY19 (driven by development of diagnostic solutions and growth in recurring services, economies of experience).

Industrial plan 2020-23 – Evolution of revenue and EBITDA Mix



Source: Company Presentation November 2020

Industrial plan 2020-23 – Evolution of BU EBITDA margin

	EBITDA Margin			
	2019	9M2020PF	2023E	KEY DRIVERS
TRENCHER	13.3%	15.8%	>17.0%	▪ Higher contribution of rental and after-sales service (higher EBITDA margin) ▪ Efficiency in production and logistics thanks to product range rationalisation and standardisation of technological platforms
ENERGY	12.6%	12.8%	>21.0%	▪ Product mix: stronger contribution of Energy Automation solutions ▪ Stringing: – premium price digital machines – product range rationalisation – procurement process efficiency ▪ Energy Automation: – product range rationalisation – benefits from economies of experience – from products to systems (significant software component) ▪ Economies of scale
RAIL	16.8%	14.2%	>17.0%	▪ Development of diagnostic solutions and recurring services (higher margins than for vehicles) ▪ Geographical diversification ▪ Economies of experience

Source: Company Presentation November 2020

Capex (Eu60mn cumulative in 2020-23). Fixed investments focused on the existing business are budgeted as broadly stable in absolute terms at ca. Eu15mn per year during the plan horizon (slightly higher in 2021 and 2022, and slightly lower in 2023 at ca. 5% of estimated revenues). Key investment areas are:

- at the Stringing business, completion of the full electric product line;
- at Energy Automation, R&D investments and equipment for the implementation and enlargement of the recently acquired Patrica plant;
- at Trencher, investments for the maintenance of the rental business fleet and R&D to develop new products and technologies;
- in the Rail segment, capex mainly involves the development of hybrid and full electric vehicles and certification;
- development of the new ERP system (Eu 4.3mn within 1Q22) aimed at improving the quality of information flows within the group.

The plan envisages **operating FCF** growing in 2021 and 2022, up from Eu5.5mn in 2020 and reaching Eu27-33mn in 2023 thanks to rising EBITDA and improvements to the management of **working capital** (lower inventories driven by standardisation and rationalisation of the product portfolio and platforms at the Trencher business, elimination of overlap between traditional and digital products in Stringing, the growing software component at Energy Automation). As a result, **NFP/EBITDA** is expected to improve from 5.9x/5.4x in 2020 not including the net proceeds from the capital increase to ca. 1.5x in 2023, with **net debt** down from ca. Eu130mn in 2020, to Eu69/78mn in 2023.

TESMEC – Business Plan targets

(Eu mn)	2019 pro-forma	9M20 pro-forma	2020 target	2023 target
Revenues	199.6	116.8	ca. 170	275-290
Revenues CAGR 2019-2023				8.5%/10.0%
EBITDA	30.0	15.7	22-24	53-58
EBITDA Margin %	15,0%	13.4%	ca. 13.5%	ca. 20%
EBITDA CAGR 2019-2023				17.0%/18.0%
Capex	19.4 (stated)	9.0	13.6	14.1
Operating FCF (unlevered)	-1.1 (stated)	1.1	5.5	27-33
Net debt pro-forma	130.9	137.8	ca. 130	69-78
Net debt/EBITDA x	4,4x	n.m.	5.9x/5.4x	ca. 1.5x

Source: Rights Issue prospectus

Valuation

We use a DCF approach to estimate Tesmec's equity value. The valuation is made using our estimates for the 2020-2023 period, which are based on the indications in the 2020-2023 Industrial plan (low end of the range). Our DCF model yields a fair value of equity pre-money (unchanged) of ca. Eu110mn. This is based on:

- a two-stage model, with explicit estimates for 2020-23E and a long-term growth rate at 2.0%
- a risk-free rate at 2.5%, equity premium of 5.5%, cost of equity of 13%, and weighted average cost of capital of 8.3%;

The fair value of equity is calculated by subtracting from the estimated EV (Eu247mn) the YE20 net debt of Eu133mn, Eu4mn for pension liabilities, and adding the net proceeds of the capital increase of Eu24.3mn after estimated costs of a maximum of Eu1.3mn and Eu9.4mn settled by compensation of the MTS (TTC group) credit relating to the acquisition of 4Service S.r.l. by Tesmec in April 2020.

Assuming full subscription of the capital increase with 499,376, 200 newly issued shares (total shares post rights issue of 606.5mn including treasury shares), we end up with a fair value per share ex rights issue of Eu0.22. This is an indicative valuation as it does not discount any execution risk in achieving the business plan targets and the need to build up a track record in combining growth with FCF generation.

TESMEC – DCF model

(Eu mn)	2020E	2021E	2022E	2023E	TV
Revenues	168,6	213,1	242,5	274,6	280,1
YoY Growth	-16,0%	26,4%	13,8%	13,2%	2,0%
EBITDA (as stated)	20,9	34,2	43,5	52,5	42,0
margin %	12,4%	16,1%	18,0%	19,1%	15,0%
D&A	(21,2)	(21,5)	(21,5)	(21,5)	(16,8)
EBIT	(0,3)	12,8	22,0	31,0	25,2
Taxes on EBIT	0,0	(3,3)	(5,6)	(7,8)	(7,6)
tax rate	*0,0%*	*-25,8%*	*-25,4%*	*-25,3%*	*-30,0%*
NOPAT	**(0,3)**	**9,5**	**16,4**	**23,2**	**17,6**
Change in WC	(4,8)	(0,3)	(3,6)	(5,9)	0,0
Capex	(15,0)	(14,1)	(14,6)	(16,5)	(16,8)
Capex/Sales	*-8,9%*	*-6,6%*	*-6,0%*	*-6,0%*	*-6,0%*
Unlevered FCF	**1,0**	**16,6**	**19,8**	**22,3**	**17,6**
TV					**278,8**
Discount factor	0,98	0,90	0,84	0,77	0,71
Discounted Free cash flow	**1,0**	**15,0**	**16,6**	**17,2**	**198,4**

Discounted free cash flows 2021-2023E	49
NPV of Terminal value	198
Total EV	**247**
Net financial position (YE20)	(133)
Other Liabilities	(4)
Net proceeds of the capital increase	24
Total Equity	**135**
N. of shares post rights issue (mn)	606,5
N. of shares post rights issue ex. treasury shares	601,7
Fair value per share (Eu)	**0,22**

Source: Intermonte estimates

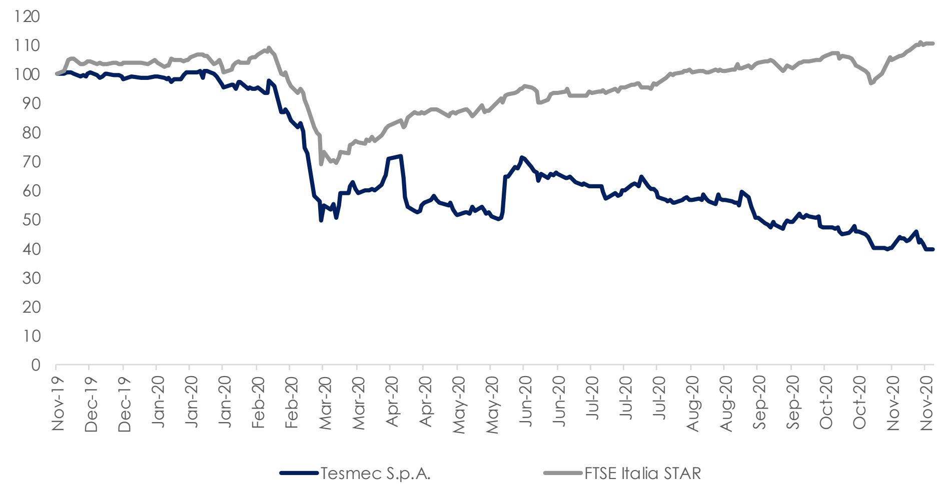
We think Tesmec has no direct peers, as competitors are either private companies or divisions of industrial conglomerates. In the table below, we show the multiples of some Italian industrial small cap companies which may represent suitable comparisons to Tesmec (international presence, technology and R&D driven). Tesmec multiples shown in the table are based on our forecasts.

Peer group valuation vs. Tesmec (mkt price and fair value)

	Market Cap	EV/SALES			EV/EBITDA			P/E		
	Eu mn	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Salcef Group S.p.A	489	1,4 x	1,4 x	1,4 x	5,7 x	5,8 x	5,6 x	13,1 x	11,2 x	10,5 x
Sabaf S.p.A.	159	1,2 x	1,1 x	1,0 x	6,5 x	5,6 x	5,2 x	12,9 x	11,0 x	10,4 x
Gefran S.p.A.	74	0,7 x	0,6 x	0,5 x	5,4 x	4,3 x	3,5 x	21,5 x	11,2 x	9,0 x
Prima Industrie S.p.A.	149	0,8 x	0,6 x	0,6 x	11,7 x	6,6 x	5,8 x		15,8 x	13,1 x
Biesse S.p.A.	470	0,9 x	0,7 x	0,6 x	10,9 x	7,6 x	5,2 x	65,3 x	21,2 x	12,4 x
Peers Median		**0,9 x**	**0,7 x**	**0,6 x**	**6,5 x**	**5,8 x**	**5,2 x**	**17,3 x**	**11,2 x**	**10,5 x**
Tesmec (post right issue Eu35mn @mkt price Eu0.094)	57	1,0 x	0,7 x	0,6 x	8,1 x	4,5 x	3,2 x	n.m.	10,2 x	4,3 x
Tesmec (post right issue Eu35mn @fair value Eu0.222)	135	1,5 x	1,1 x	0,9 x	11,8 x	6,8 x	5,0 x	n.m.	24,1 x	10,2 x

Source: Facset, Intermonte estimates

Tesmec vs. FTSE Italia STAR (1-year performance rebased)



Source: Facset

Earnings trends and financials

In 2019, Tesmec group reported pro-forma revenues (i.e. including 12 months consolidation of 4Service, active in the Trencher rental business and acquired in April 2020) of Eu200mn vs. Eu195mn in 2018, pro-forma EBITDA of Eu30mn (15% margin) vs. Eu22mn (11.5%) in 2018 post IFRS16, net profit of Eu2mn vs. Eu3mn in 2018 due to higher D&A and forex losses, net invested capital of Eu175mn vs. Eu121mn in 2018, and net financial debt of Eu131mn vs. Eu78mn in 2018 including the impact of the acquisition of 4Service (Eu21mn EV) and Eu26mn in higher working capital.

As for 2020-23, our P&L estimates (unchanged) are broadly aligned to the low-end of the business plan targets. We estimate 2023 revenues at Eu275mn (vs. target of Eu275-290mn), up from Eu169mn (pro-forma) in 2020E, and EBITDA of Eu53mn (vs. target of Eu53-58mn), up from Eu22mn (pro-forma) in 2020E.

We expect the 2020E net loss at Eu3.5mn (down from a net loss of Eu4.8mn in 9M20), turning to a profit of Eu6mn in 2021E and Eu20mn in 2023E.

We estimate operating FCF at Eu23mn in 2023E (vs. target of Eu27-33mn) and Eu65mn cumulative in 2020-23E, with net debt at Eu133mn in 2020E (target ca. Eu130mn) and Eu83mn in 2023 (target Eu69-78mn) not including the proceeds of the capital increase. The net debt estimate includes Eu60mn in cumulative capex over the plan horizon and working capital on sales at 28% on avg. in 2020-2023.

Based on the assumption above, we estimate net debt/EBITDA at 1.6x in 2023 (target ca. 1.5x) before considering the proceeds from the capital increase (Eu24.3mn after estimated costs of a maximum of Eu1.3mn and including Eu9.4mn settled by compensation of the MTS (TTC group) credit relating to the acquisition of 4Service S.r.l. by Tesmec in April 2020). Our detailed estimates with divisional breakdowns are shown in the following tables.

TESMEC – Profit & Loss Statement 2016-2023E

(Eu mn)	2016	2017	2018	2019	2020E*	2021E	2022E	2023E
Energy	42	52	42	44	45	55	65	78
Trencher	81	106	125	125	94,2*	123	138	152
Railway	6	17	27	31	30	35	40	45
Revenues	**128,5**	**175,6**	**194,6**	**200,7**	**168,6***	**213,1**	**242,5**	**274,6**
YoY change %	-22%	37%	11%	3%	-16%	26%	14%	13%
YoY change Eu mn	-36	47	19	6	-32	45	29	32
Raw material	-41,5	-78,3	-87,5	-88,0	-72,5	-89,5	-101,9	-115,3
Cost of services	-15,6	-30,9	-32,6	-35,4	-25,3	-32,0	-36,4	-41,2
Personnel	-23,7	-46,3	-50,1	-52,6	-43,7	-55,2	-62,8	-71,1
Other income/costs	-39,2	0,6	-5,6	2,8	-6,2	-2,2	2,1	5,6
Operating costs	-120	-155	-176	-173	-148	-179	-199	-222
YoY change %	-16%	29%	13%	-1%	-15%	21%	11%	12%
Energy	4,6	8,0	4,8	5,6	5,7	8,9	12,0	15,2
Trencher	2,9	10,3	10,0	16,6	11.2*	20,0	24,9	29,1
Railway	1,0	2,4	4,1	5,2	4,1	5,3	6,6	8,1
EBITDA	**8,5**	**20,7**	**18,9**	**27,4**	**20,9***	**34,2**	**43,5**	**52,5**
margin %	6,6%	11,8%	9,7%	13,7%	12,4%	16,1%	18,0%	19,1%
YoY change %	-61,4%	143,5%	-8,6%	45,1%	-23,9%	63,8%	27,1%	20,6%
D&A	-12,8	-14,6	-15,245	-19,075	-21,2	-21,5	-21,5	-21,5
EBIT	-4,3	6,1	3,7	8,4	-0,3	12,8	22,0	31,0
margin %	-3,3%	3,5%	1,9%	4,2%	-0,2%	6,0%	12,5%	11,3%
YoY change %	-133,6%	-241,9%	-39,7%	127,7%	-103,1%	-4990,1%	72,7%	40,8%
Financial expenses	-2,7	-7,6	-3,371	-4,18	-4,96	-5,3	-4,5	-4,1
Pretax profit	-7,0	-1,5	0,3	4,2	-5,2	7,5	17,5	26,9
YoY change %	-176,9%	-78,6%	-120,4%	1270,6%	-224,5%	-242,9%	135,0%	53,5%
Taxes	3,0	0,1	-0,3	-1,2	1,7	-1,9	-4,4	-6,7
Tax rate %	43,1%	6,7%	85,6%	29,3%	33,3%	25,0%	25,0%	25,0%
Net Profit before minorities	-4,0	-1,4	0,0	3,0	-3,5	5,6	13,1	20,2
YoY change %	-155,7%	-64,9%	-103,1%	6643,2%	-217,3%	-260,7%	135,0%	53,5%
Minorities	0,2	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net Profit	**-3,8**	**-1,4**	**0,0**	**3,0**	**-3,5**	**5,6**	**13,1**	**20,2**

Source: Company data, Intermonte estimates. * 4services consolidated as from April 2020. FY20E pro-forma revenues Eu171mn, EBITDA of Eu22mn

TESMEC – Balance Sheet 2016-2023E

(Eu mn)	2016	2017	2018	2019	2020E*	2021E	2022E	2023E
Intangible assets	18,9	18,3	18,0	40,6	40,6	40,6	40,6	40,6
Tangible assets	47,3	46,1	45,3	42,5	36,3	28,9	22,0	17,0
Financial assets	3,9	3,9	4,0	3,9	3,9	3,9	3,9	3,9
Net fixed assets	70,1	68,4	67,3	87,0	80,8	73,4	66,5	61,5
Inventories	69,2	63,1	73,6	69,9	57,3	60,5	60,6	65,9
Receivables	49,4	39,9	52,6	67,9	92,7	102,3	114,0	123,6
Payables	-31,2	-39,5	-54,4	-57,5	-47,2	-59,7	-67,9	-76,9
Other assets/liabilities	-11,4	-2,7	-22,9	-7,3	-25,0	-25,0	-25,0	-25,0
Net working capital	76,0	60,8	48,9	73,0	77,8	78,1	81,7	87,6
Other long term assets/liabilities	0,5	0,9	4,7	4,2	17,2	15,8	15,8	15,8
Net Invested Capital	**146,6**	**130,1**	**120,9**	**164,2**	**175,9**	**167,4**	**164,0**	**164,8**
Net Debt /(Cash)	96,7	85,3	77,7	118,0	133,1	119,0	102,5	83,2
Minorities	1,7	1,7	1,7	1,7	1,7	1,7	1,7	1,7
Shareholders funds	48,2	43,1	41,5	44,5	41,0	46,6	59,7	79,9
Total Shareholders Funds	49,9	44,8	43,2	46,2	42,7	48,3	61,5	81,7
Total Sources	**146,6**	**130,1**	**120,9**	**164,2**	**175,9**	**167,4**	**164,0**	**164,8**

Source: Company data, Intermonte estimates. *4services consolidated as from April 2020

TESMEC – Cash Flow 2016-2023E

(Eu mn)	2016	2017	2018	2019	2020E*	2021E	2022E	2023E
EBITDA	8,5	20,7	18,9	27,4	20,9	34,2	43,5	52,5
Capex	-13,7	-14,8	-14,1	-14,3	-15,0	-14,1	-14,6	-16,5
Taxes	3,0	0,1	-0,3	-1,2	1,7	-0,5	-4,4	-6,7
Change in working capital	-14,1	15,2	11,9	-24,1	-4,8	-0,3	-3,6	-5,9
Other operating items	14,9	10,6	-3,9	-4,1	-1,4	0,0	0,0	0,0
Free Cash Flow	-1,4	31,8	12,6	-16,3	1,4	19,4	21,0	23,4
Financial charges	-4,8	-4,9	-5,0	-5,7	-5,0	-5,3	-4,5	-4,1
Acquisitions/Disposals	-3,5	-3,7	0,0	0,0	-21,1	0,0	0,0	0,0
Change in Equity	0,0	0,0	0,0	0,0	9,4	0,0	0,0	0,0
Dividends	-2,6	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Others	5,5	-11,7	0,0	-18,2	0,0	0,0	0,0	0,0
Decrease/(Increase) in Net Debt	-6,8	11,4	7,6	-40,2	-15,3	14,1	16,5	19,3
Net Debt end of period	**96,7**	**85,3**	**77,7**	**117,9**	**133,1**	**119,0**	**102,5**	**83,2**
Capex/Sales	10,7%	8,4%	7,2%	7,1%	8,9%	6,6%	6,0%	6,0%
Working Capital/Sales	59,2%	34,7%	25,1%	36,4%	46,2%	36,7%	33,7%	31,9%
Net Debt/EBITDA	11,4 x	4,1 x	4,1 x	4,3 x	6,4 x	3,5 x	2,4 x	1,6 x

Source: Company data, Intermonte estimates. *4services consolidated as from April 2020

Appendix

Recent Results

1H20 Results

The first half 2020 was influenced by the actions taken by public authorities to contain the spread of the COVID-19 pandemic. After the slowdown and lockdown phases, which characterised the months of March and April, Tesmec restarted its activities in May, reaching full operations during June, which drove turnover growth and an improvement to margins in 2Q compared to the first quarter. The increase in the net financial debt was impacted by the increase in net working capital. In 1H20, group revenues on a pro-forma basis decreased by 25.1% YoY to Eu72.9mn (Energy -24%, Trencher -27%, Rail -19%), with 2Q at -18.2% after -31.8% reported in 1Q. 1H20 pro-forma EBITDA was Eu9.8mn, down 18.8% YoY (-28.1% in 1Q and -10.1% in 2Q), with margins up 100bps YoY to 13.4% thanks to actions on costs and the higher rental business. Net profit was negative by Eu3.9mn vs. Eu0.6mn in 1H19 due to higher D&A and exchange rate losses of Eu0.7mn (vs. gains of Eu0.3mn in 1H19). Net financial debt increased from Eu118mn as at end 2019 to Eu143mn as of June 2020 including a Eu10.3mn increase in working capital and Eu8.1mn from the change in the consolidation area (acquisition of 4Services).

9M20 results

3Q20 showed a marked improvement to operating trends compared to the first half of the year, with stable volumes (sales in line with 3Q19) but profitability improving (16.4% EBITDA margin vs. 11.3% in 3Q19 thanks to the integration of the rental business) and better cash flow generation (Eu5mn reduction in net debt vs. end-June). In 3Q20, sales at Eu46mn were stable YoY after a -25% decline in 1H. EBITDA of Eu7.5mn increased over 40% YoY vs. the -19% posted in 1H. EBIT at Eu1.8mn tripled vs. 3Q19 (Eu0.6mn), with net profit slightly negative vs. Eu0.2mn in 3Q19 due to provisions for ForEx losses. Net debt at Eu138mn decreased Eu5mn vs. end-June (vs. a +Eu3mn increase in 3Q19) thanks to better working capital management. The backlog stood at Eu238mn vs. Eu194mn in 1H20 and does not include the Eu50mn provisional award by RFI for diagnostic vehicles at the Railways division. For 9M20, pro-forma sales were Eu119mn vs. the target of ca. Eu170mn in FY20, and EBITDA was Eu18mn vs. the FY20 target of Eu22-24mn. It is worth mentioning the impressive 3Q20 order intake in Energy Automation and Trenchers (aggregate Eu90mn, or 2.5x the sales booked in the quarter at the two divisions), which provides good visibility on achieving FY20 targets (97% of 4Q revenues covered by the backlog) as well as FY21 trends.

Tesmec – 1H/9M20 results

(Eu mn)	1H19	3Q19	9M19	1H120	YoY	3Q20	YoY	9M20	YoY
Energy	21,9	9,5	31,5	16,8	-24%	12,4	30%	29,2	-7%
Trencher	59,2	30,2	89,4	40,8	-31%	25,4	-16%	66,2	-26%
Railways	16,3	7,0	23,3	13,2	-19%	8,2	17%	21,4	-8%
Revenues	**97,5**	**46,8**	**144,2**	**70,8**	**-27%**	**46,0**	**-2%**	**116,8**	**-19%**
Revenues PF	**97,5**	**46,8**	**144,2**	**73,0**	**-25%**	**46,0**	**-2%**	**119,0**	**-17%**
Energy	2,8	1,0	3,8	1,7	-38%	2,1	105%	3,8	0%
Trencher	6,4	3,4	9,8	4,5	-30%	4,4	30%	8,9	-9%
Railways	2,9	0,9	3,8	1,9	-34%	1,1	20%	3,0	-21%
EBITDA	**12,1**	**5,3**	**17,4**	**8,2**	**-33%**	**7,5**	**42%**	**15,7**	**-10%**
EBITDA PF	**12,1**	**5,3**	**17,4**	**9,8**	**-19%**	**7,5**	**42%**	**17,6**	**1%**
Margin	**12,4%**	**11,3%**	**12,1%**	**13,4%**		**16,4%**		**14,8%**	
EBIT	3,3	0,6	3,9	-1,6	n.m.	1,8	n.m.	0,2	n.m.
Margin	3,4%	1,3%	2,7%	-2,2%		3,9%		0,2%	
Net Profit	0,6	0,2	0,8	-3,9	n.m.	-0,9	n.m.	-4,8	n.m.
Net Debt	**112,5**	**115,6**	**115,6**	**143,0**	**27%**	**137,8**	**-19%**	**137,8**	**-19%**

Source: Company presentation

Acquisition of 4Service s.r.l.

On 16 April 2020, Tesmec announced the reorganisation of the trencher rental business through the acquisition by Tesmec of 100% of 4 Service s.r.l., a company operating in the trencher rental business and owned by MTS, which in turn is controlled by Tesmec's main shareholder TTC. The acquired company (32 trenches owned) has been integrated into Tesmec's trencher business of Tesmec USA (16 trenchers owned) and reorganised internally via a dedicated BU. The industrial rationale of the acquisition relates to the strengthening of the rental business model in line with market trends (higher flexibility for clients with limited investments in capex, a more complete and wider range of equipment available for the type of work to be performed). From a financial point of view, in FY19 4Service s.r.l. reported revenues of Eu6.9mn and EBITDA of Eu5.2mn. Net of intercompany eliminations, the deal had a negligible impact on Tesmec revenues (elimination of sales related to the trenchers sold by Tesmec to 4Service) and a Eu4mn positive net contribution to EBITDA on a pro-foma basis. The agreed price of Eu21.1mn EV (equity value Eu9.4mn) implied a multiple on EBITDA of 4.1x (5.3x based on the net EBITDA contribution to Tesmec).

Management Team

Details of the skills and experience of members of the management team:

- **Ambrogio Caccia Dominioni** is the Group's Chairman and Managing Director. Ambrogio Caccia Dominioni graduated in Business and Economics from the Catholic University of Milan. From 1971 to 1979, he worked for Andersen Consulting S.p.A. and was director of the Industry Finance – Leasing division. In 1980, he started work for the family-owned company which eventually became "M.T.S. Officine Meccaniche di Precisione S.p.A."; over time, it became an international group with diversified activities in various sectors and countries.
- **Paolo Mosconi** graduated in Civil Engineering from Milan Polytechnic University. He began his career in business in 1987 at NCR S.p.A in Milan. In 1989, he joined Tesmec as Commercial Director of the stringing machinery department. After significant experience in management in European and Far East markets, he became Commercial Director of Tesmec in 1996, assuming full responsibility for the Company's commercial activity. He is currently General Manager and Commercial Director of Tesmec.
- **Carlo Caccia Dominioni** is the Business Unit Manager of the Energy Division (Stringing & Automation) and brings more than 9 years of experience in the energy sector. Carlo joined Tesmec Group in 2013 as an M&A and Corporate Development analyst focusing on business expansion initiatives, and later served as Business Development and Integration Leader for the Energy Automation Division in 2015. Carlo's leadership and experience brought him to be appointed as Energy Automation Business Unit Manager in 2017. Before joining Tesmec Group, Carlo worked as a Business Analyst for Bain & Company for a Year. Carlo graduated magna cum laude from Bocconi University in Milan and holds a Master of Science in Business Administration.
- **Marco Paredi** graduated in Business Economics and Business Management from Bergamo University in 2006. He has a Master in "Marketing and Managerial Culture for Italian-Chinese Trading Relationships" from Bergamo University. He held the role of Group Controller at BM Group until 2011 when he joined the Brembo Group, first as Plant Controller and then as Business Controller at Brembo SGL Carbon Ceramic Brakes S.p.A. From 2013 to 2015, he was Local CFO at the Turin branch of the Brembo Group, Sabelt S.p.A. He has been Group Controller at Tesmec since 2015, Investor Relations Manager since 2018, and on 10 January 2020 was given responsibility for preparing the company's financial reports.

Board of Directors

Members of the board of directors:

	Post	Date of appointment	Place and Date of Birth
Ambrogio Caccia Dominioni	Chairman	23 February 2010	Morbegno(So), 27 August 1946
Alfredo Brignoli	Vicepresident	23 February 2010	Ponteranica (Bg), 10 December 1920
Gianluca Bolelli	Vicepresident	23 February 2010	Castelmaggiore (Bo), 18 September 1959
Gianluca Vacchi	Director	23 February 2010	Bologna, 5 August 1967
Luca Poggi	Director	23 February 2010	Bologna, 14 May 1961
Michele Carlo Felice Milani	Director	23 February 2010	Milano, 6 June 1968
Caterina Caccia Dominioni	Director	23 February 2010	Morbegno (So), 18 August 1979
Gioacchino Attanzio	Director*	23 February 2010	Madrid, 9 November 1943
Sergio Arnoldi	Director*	23 February 2010	Bergamo, 6 February 1947
Guido Giuseppe Amria Corbetta	Director*	23 February 2010	Milano, 4 May 1959

Source: Rights Issue prospectus. * Independent

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 2.5% and a risk premium of 5.0% are being used.

Frequency of research: quarterly.

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BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

NEUTRAL: stock performance expected at between +10% and – 10% compared to the market over a 12 month period;

UNDERPERFORM: stock expected to underperform the market by between –10% and -25% over a 12 month period;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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OUTPERFORM:	52,07 %
NEUTRAL:	33,88 %
UNDERPERFORM	06,61 %
SELL:	00,00 %

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OUTPERFORM:	59,62 %
NEUTRAL:	28,84 %
UNDERPERFORM	00,00 %
SELL:	00,00 %

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