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EQUITY RESEARCH

RACING FORCE SPA

BUY

RESULTS REVIEW
Press release

TP 6.5€ (vs 6.6€)
Up/Downside: 14%

Heavier Investments Than Expected

Yesterday after market close, Racing Force published its half-year results, showing an EBITDA of €7.9M (21.3% of revenue). These results fell below our expectations of €9.4M (25.3% of revenue) over a half-year, in particular marked by numerous recruitments. The message regarding the commercial dynamics at the beginning of H2 was reassuring.

After publishing revenue of €37.2M, Racing Force yesterday released its full results for H1 2023, which were marked by a drop in EBITDA, facing a record base effect going from €9.3M (27.8% of revenue) to €7.9M (21.3% of revenue).

This drop can mainly be attributed to three lines in the income statement, namely: 1) the gross margin, down 90bps explained by a less favourable product mix vs. 2022, notably with the 120% growth in the Others product class (8% of revenue) and generally made up of lower-margin products, 2) the increase in expenses linked to technical partnerships (+26.2%) for a greater number of contracts signed in 2023, and 3) above all, a significant increase in personal costs (+25%) following numerous recruitments over H1 (an average of 89 additional employees vs. H1 2022 and 66 additional vs. FY 2022). If these recruitments were intended to support growth in the group's core business, a large part of them were also intended for the group's diversification projects, particularly in the USA. Like an F1 formation lap, the group carried out the majority of its staffing before the start of the large-scale production on the Lift project for the US Air Force. In its press release, management announced that it had delivered the first batches of shells in August, in line with the group's plans.

Regarding the outlook, the group provided some information on the first months of H2 2023 which were positive, showing "significant growth." If H2 has historically shown a lower margin than H1, due to the seasonality of the group's activity, this gap should be less significant than that observed in FY 2022 (27.8% in H1 vs. 17.3% in H2). Although this difference should be less significant for FY 2023, yesterday's publication leads us to review our profit estimates for FY 2023. We are now calling for an EBITDA of €12.5m (vs. €13.5m previously), leading to a margin of 18.9% (vs. 20.5% previously). This can be attributed to both a drop in gross margin and greater than expected staff increases. Following these adjustments, our TP has been slightly downgraded to €6.5 (vs. €6.6 previously). We have reiterated our Buy rating.

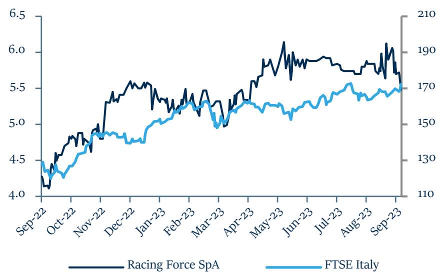
The group will present its results this morning at 10 a.m.

Key data	
Price (€)	5.7
Industry	Protective Equipment
Ticker	ALRFG-FR
Shares Out (m)	25.699
Market Cap (m €)	147.0
Next event	H1 Results - 9/21/2023

Ownership (%)	
SAYE S.p.A	52.7
GMP Investments Holdings Limited	5.0
Free float	42.3

EPS (€)	12/23e	12/24e	12/25e
Estimates	0.25	0.30	0.34
Change vs previous estimates (%)	-10.60	-8.70	-6.87

Performance (%)	1D	1M	YTD
Price Perf	0.0	-2.1	4.0
Rel FTSE Italy	-0.7	-5.8	-14.0



TP ICAP Midcap Estimates	12/22	12/23e	12/24e	12/25e
Sales (m €)	58.8	66.0	71.8	76.1
Current Op Inc (m €)	8.8	9.1	11.0	12.3
Current op. Margin (%)	15.0	13.8	15.3	16.1
EPS (€)	0.32	0.25	0.30	0.34
DPS (€)	0.12	0.10	0.12	0.13
Yield (%)	2.1	1.7	2.1	2.4
FCF (m €)	-1.4	-0.1	6.4	8.7

Valuation Ratio	12/23e	12/24e	12/25e
EV/Sales	2.2	2.0	1.8
EV/EBITDA	11.8	9.8	8.6
EV/EBIT	16.3	13.1	11.3
PE	23.1	19.0	17.0

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FINANCIAL DATA

Income Statement	12/20	12/21	12/22	12/23e	12/24e	12/25e
Sales	33.7	46.7	58.8	66.0	71.8	76.1
Changes (%)	31.2	38.4	25.9	12.3	8.8	6.0
Gross profit	20.1	27.2	36.8	40.8	44.7	47.6
% of Sales	59.7	58.3	62.6	61.8	62.3	62.6
EBITDA	**5.4**	**7.9**	**11.7**	**12.5**	**14.7**	**16.1**
% of Sales	15.9	16.9	19.8	18.9	20.5	21.2
Current operating profit	**2.8**	**5.5**	**8.8**	**9.1**	**11.0**	**12.3**
% of Sales	8.4	11.8	15.0	13.8	15.3	16.1
EBIT	2.8	5.5	8.8	9.1	11.0	12.3
Net financial result	-0.7	-0.3	-0.1	-0.3	-0.3	-0.3
Income Tax	-0.7	-1.1	-1.2	-2.5	-3.0	-3.3
Tax rate (%)	33.1	20.4	13.4	27.9	27.9	27.9
Net profit, group share	**1.4**	**4.2**	**7.5**	**6.4**	**7.7**	**8.7**
EPS	0.07	0.18	0.32	0.25	0.30	0.34

Financial Statement	12/20	12/21	12/22	12/23e	12/24e	12/25e
Goodwill	5.7	5.7	6.2	6.2	6.2	6.2
Tangible and intangible assets	8.8	13.1	15.5	20.0	20.9	20.3
Right of Use	4.1	2.4	3.1	3.1	3.1	3.1
Financial assets	1.8	0.4	0.3	0.3	0.3	0.3
Working capital	10.0	12.5	19.8	21.8	22.2	22.8
Other Assets	0.2	0.7	0.6	0.6	0.6	0.6
Assets	30.7	34.7	45.6	52.1	53.4	53.4
Shareholders equity group	8.2	29.9	36.5	49.7	54.9	60.5
Minorities	0.3	0.0	0.0	0.0	0.0	0.0
LT & ST provisions and others	1.0	1.2	1.3	1.3	1.3	1.3
Net debt	21.2	3.5	7.8	1.0	-2.8	-8.5
Other liabilities	0.0	0.1	0.0	0.0	0.0	0.0
Liabilities	30.7	34.7	45.6	52.1	53.4	53.4
Net debt excl. IFRS 16	17.0	1.0	4.5	-2.3	-6.1	-11.7
Gearing net	2.5	0.1	0.2	0.0	-0.1	-0.1
Leverage	4.0	0.4	0.7	0.1	-0.2	-0.5

Cash flow statement	12/20	12/21	12/22	12/23e	12/24e	12/25e
CF after elimination of net borrowing costs and taxes	4.0	6.7	11.1	9.8	11.5	12.5
ΔWCR	-1.7	-2.2	-8.0	-2.0	-0.4	-0.5
Operating cash flow	2.4	4.5	3.2	7.8	11.0	12.0
Net capex	-1.1	-5.3	-4.5	-7.9	-4.7	-3.3
FCF	1.2	-0.8	-1.4	-0.1	6.4	8.7
Free Cash Flow excl IFRS 16	17.0	1.1	4.5	-2.3	-6.1	-11.7
Acquisitions/Disposals of subsidiaries	0.0	0.0	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0	0.0	0.0
Change in borrowings	5.9	-2.5	-4.4	0.0	0.0	0.0
Dividends paid	-0.0	-1.3	-1.7	-3.0	-2.5	-3.1
Repayment of leasing debt	-0.7	-0.3	-0.7	0.0	0.0	0.0
Equity Transaction	0.5	18.8	0.0	10.0	0.0	0.0
Others	-3.6	-0.4	0.1	0.0	0.0	0.0
Change in net cash over the year	3.3	13.5	-8.1	6.8	3.8	5.6

ROA (%)	3.3%	6.4%	10.7%	7.4%	8.3%	8.7%
ROE (%)	17.5%	13.9%	20.7%	12.8%	14.1%	14.3%
ROCE (%)	7.0%	12.8%	16.8%	12.7%	14.9%	16.7%

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Methodology

This Report may mention evaluation methods defined as follows:
1. DCF method: discounting of future cash flows generated by the company's operations. Cash flows are determined by the analyst's financial forecasts and models. The discount rate used corresponds to the weighted average cost of capital, which is defined as the weighted average cost of the company's debt and the theoretical cost of its equity as estimated by the analyst.
2. Comparable method: application of market valuation multiples or those observed in recent transactions. These multiples can be used as references and applied to the company's financial aggregates to deduce its valuation. The sample is selected by the analyst based on the characteristics of the company (size, growth, profitability, etc.). The analyst may also apply a premium/discount depending on his perception of the company's characteristics.
3. Assets and liabilities method: estimate of the value of equity capital based on revalued assets adjusted for the value of the debt.
4. Discounted dividend method: discounting of estimated future dividend flows. The discount rate used is generally the cost of capital.
5. Sum of the parts: this method consists of estimating the various activities of a company using the most appropriate valuation method for each of them, then realizing the sum of the parts.

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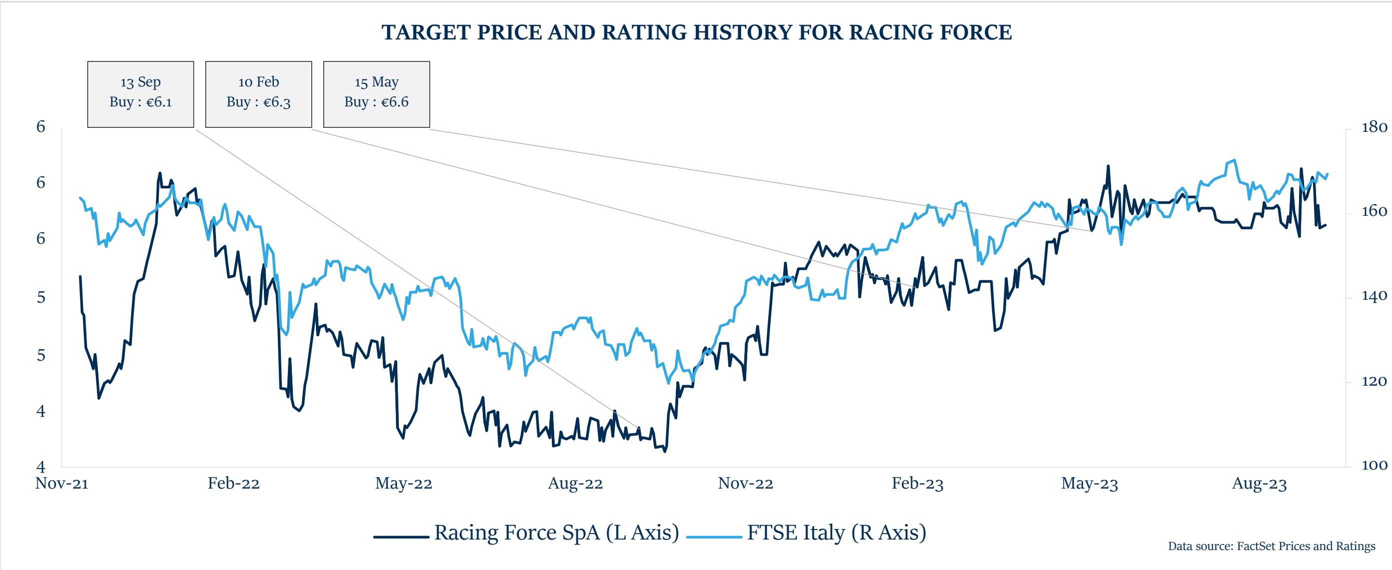
G. Midcap and the Issuer have agreed to the provision by the former to the latter of a service for the production and distribution of the investment recommendation on the said Issuer: Racing Force SpA

History of investment rating and target price – Racing Force SpA



Distribution of Investment Ratings

Rating	Recommendation Universe*	Portion of these provided with investment banking services**
Buy	80%	66%
Hold	16%	44%
Sell	3%	25%
Under review	1%	100%

Midcap employs a rating system based on the following:
Buy: Expected to outperform the markets by 10% or more over a 6 to 12 months horizon.
Hold: expected performance between -10% and +10% compared to the market over a 6 to 12 months horizon.
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The history of ratings and target prices for the Issuers covered in this report are available on request at https://researchtpicap.midcapp.com/en/disclaimer.

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