

RACING FORCE

Company Update

BUY (Unchanged)

Target: **€ 6.8** (Prev. € 6.7)

Risk: High

STOCK DATA

Price €	5.4
Bloomberg code	RFG IM
Market Cap. (€ mn)	137
Free Float	35%
Shares Out. (mn)	25.7
52-week range	4.07 - 5.64
Daily Volumes (mn)	0.02

PERFORMANCE	1M	3M	12M
Absolute	2.7%	1.7%	18.4%
Rel. to FTSE all shares	-0.1%	-13.2%	-9.7%

MAIN METRICS	2021	2022E	2023E
Revenues	46.7	58.8	63.1
Adjusted EBITDA	9.0	11.5	12.6
Adj. net income	4.9	6.3	6.9
Adj. EPS - € cents	20.7	26.6	26.7
DPS ord - € cents	7.0	8.0	8.8

MULTIPLES	2021	2022E	2023E
P/E adj	n.a.	20.0 x	19.9 x
Adj. EV/EBITDA	n.a.	11.7 x	10.9 x

REMUNERATION	2021	2022E	2023E
Div. Yield ord	1.4%	1.5%	1.7%
FCF yield	-0.7%	-3.1%	0.6%

INDEBTEDNESS	2021	2022E	2023E
NFP	-3.2	-8.5	0.1
Debt/EBITDA	0.4 x	0.7 x	n.m.
Interests cov	12.1 x	28.8 x	32.7 x

PRICE ORD LAST 365 DAYS



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WE RAISE ESTIMATES ON THE WAKE OF STRONG EXECUTION

We are raising our expectations for 2022-23 and beyond, on the wake of the very strong top-line growth booked in 2022 and the progress on the execution of the medium-term growth drivers. Our numbers are not yet explicitly reflecting the option related to the military/defence projects, which will start to contribute in late 2024. Valuation fine-tuned to € 6.8PS, with core business at € 6.1PS and € 0.7PS from the diversification option.

■ **We update our numbers ahead of FY22 results to reflect the higher top-line** Racing Force (RFG) announced strong preliminary 2022 sales on February 9th. We have updated our 2022 profitability estimates, pending the full disclosure of FY22 results on March 29th, and provided our new estimates for 2023-24.

In more details, for FY22 we have raised the estimate of Adj. EBITDA by 8% to € 11.5mn, EBIT by 9% to € 8.7mn (margin close to 15%) and Net Income by 9% to € 6.9mn, mainly due to the higher turnover achieved in 2022 (€ 58.8mn). We are assuming a moderate operating leverage in FY22 (Adj. EBITDA margin +40bps YoY to 19.6%) to reflect the large investments incurred in 2022 to strengthen the group's production capacity and the inflationary dynamics on raw materials and logistics. We have worsened NFP estimate to € -8mn (pre €10mn capital increase, which took place in early 2023, and including leases) due to likely growth in working capital, and particularly inventory, to serve growth projects (development of technical wear in America) and to better manage supply chain issues.

For 2023, we raised revenues by +6% to € 63mn (+7% YoY), EBITDA by +7% to € 12.6mn (margin +30bps YoY), and Adj. NI by +10% to € 6.9mn (+9% YoY).

For subsequent years, revisions are around 4/5%. We do not yet explicitly incorporate in our estimates the diversification options in the defense business, waiting for more visibility on the projects, more likely after the release of FY22 results, due on March 29th.

Recent supportive newsflow

On February 20th, RFG announced an agreement with FOX Sports and Nascar for the adoption of Driver's Eye technology in upcoming Nascar competitions. With this agreement, Driver's Eye is adopted in 4 of the most relevant motorsport championships: Formula1, Repco SuperCar (Australia), Nascar and FormulaE, giving visibility and credibility to RFG's proprietary technology, which could also find applications in other areas outside motorsport.

On March 3rd, the company announced an agreement with Bahrain International Circuit to build a second floor of the plant where Racing manufactures Bell helmets. The project, to be completed by the end of 2023, will allow RFG to double production capacity and support business growth. The investment will be executed by the local partner, while Racing will invest in machinery and personnel, an effort that has already begun during 2022.

Valuation fine-tuned to € 6.8PS

We have fine-tuned our target to € 6.8PS, stemming from

- 1) a DCF valuation for the core business of € 6.1PS (from € 6.0 due to revised estimates, net of higher initial debt) and
- 2) an additional € 0.7PS value for the defense option.

The stock trades at 11-9x EV/EBITDA and 20-18x Adj PE 2023-24, on numbers that still do not factor in the contribution from the defense diversification option that will start generating revenues from 2H24.

MAIN FIGURES € mn	2019PF	2020	2021	2022E	2023E	2024E
Revenues	36.6	33.7	46.7	58.8	63.1	67.0
Growth	-	-8%	38%	26%	7%	6%
EBITDA	4.2	5.4	7.9	11.5	12.6	14.0
Growth	-	28%	47%	46%	9%	11%
Adjusted EBITDA	4.2	5.4	9.0	11.5	12.6	14.0
Growth	-	28%	67%	29%	9%	11%
EBIT	2	2.8	5.5	8.7	9.3	10.2
Growth	-	59%	94%	59%	6%	10%
Profit before tax	3.1	2.1	5.2	8.9	8.9	9.9
Growth	-	-31%	144%	70%	-1%	11%
Net income	2.4	1.4	4.2	6.9	6.9	7.7
Growth	-	-41%	190%	66%	-1%	11%
Adj. net income	2.4	1.4	4.9	6.3	6.9	7.7
Growth	-	-41%	243%	29%	8%	11%

MARGIN	2019PF	2020	2021	2022E	2023E	2024E
Ebitda Margin	11.4%	15.9%	16.9%	19.6%	19.9%	20.9%
Ebitda adj Margin	11.4%	15.9%	19.2%	19.6%	19.9%	20.9%
Ebit margin	4.9%	8.4%	11.8%	14.9%	14.7%	15.2%
Pbt margin	8.5%	6.4%	11.2%	15.2%	14.1%	14.8%
Ni rep margin	6.6%	4.3%	8.9%	11.8%	10.9%	11.5%
Ni adj margin	6.6%	4.3%	10.6%	10.8%	10.9%	11.5%

SHARE DATA	2019PF	2020	2021	2022E	2023E	2024E
EPS - € cents	12.6	7.4	17.5	29.0	26.7	29.8
Growth	-	-41%	135%	66%	-8%	11%
Adj. EPS - € cents	12.6	7.4	20.7	26.6	26.7	29.8
Growth	-	-41%	178%	29%	0%	11%
DPS ord - € cents	n.a.	0.0	7.0	8.0	8.8	9.8
BVPS - €	0.3	0.4	1.3	1.5	2.3	2.5

VARIOUS - € mn	2019PF	2020	2021	2022E	2023E	2024E
Capital employed	27.5	27.2	33.1	43.6	59.7	60.8
FCF	1.7	0.6	-0.8	-4.0	0.8	6.6
Capex	0.7	1.1	5.3	4.0	8.1	3.3
Working capital	8.3	9.8	11.7	20.4	20.6	21.2

INDEBTNESS - €mn	2019PF	2020	2021	2022E	2023E	2024E
NFP	-17.8	-18.7	-3.2	-8.5	0.1	4.5
D/E	2.8 x	2.3 x	0.1 x	0.2 x	n.m.	n.m.
Debt/EBITDA	4.3 x	3.5 x	0.4 x	0.7 x	n.m.	n.m.
Interests cov	0.8 x	5.7 x	12.1 x	28.8 x	32.7 x	45.5 x

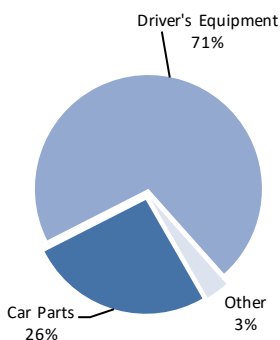
MARKET RATIOS	2019PF	2020	2021	2022E	2023E	2024E
P/E	35.8 x	60.4 x	29.6 x	18.3 x	19.9 x	17.9 x
P/E adj	35.8 x	60.4 x	25.0 x	20.0 x	19.9 x	17.9 x
PBV	13.7 x	10.6 x	4.1 x	3.6 x	2.3 x	2.1 x
P/CF	18.0 x	22.0 x	16.8 x	13.9 x	13.5 x	12.0 x

EV FIGURES	2019PF	2020	2021	2022E	2023E	2024E
EV/Sales	3.46 x	3.75 x	2.71 x	2.30 x	2.17 x	1.98 x
Adj. EV/EBITDA	30.3 x	23.6 x	14.1 x	11.7 x	10.9 x	9.5 x
Adj. EV/EBIT	70.8 x	44.5 x	19.3 x	15.4 x	14.8 x	13.0 x
EV/CE	4.6 x	4.7 x	3.8 x	3.1 x	2.3 x	2.2 x

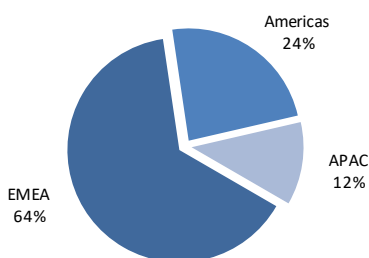
REMUNERATION	2019PF	2020	2021	2022E	2023E	2024E
Div. Yield ord	0.0%	0.0%	1.4%	1.5%	1.7%	1.8%
FCF yield	1.9%	0.6%	-0.7%	-3.1%	0.6%	4.8%
ROE	n.a.	19.8%	25.9%	19.5%	14.5%	12.3%
ROCE	n.a.	7.0%	13.3%	15.5%	12.0%	13.0%

Source: Company data and Equita SIM estimates

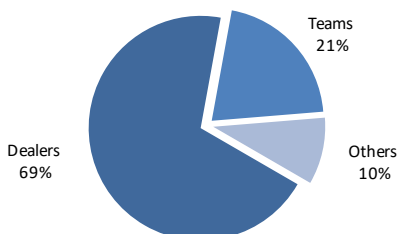
REVENUES BY COUNTRY - 2021



REVENUES BY PRODUCT - 2021



REVENUES BY DISTRIBUTION CHANNEL - 2021



BUSINESS DESCRIPTION

Racing Force Group is an international manufacturer (born from the 2019 acquisition of Bell Helmets by OMP Racing) **active in the design, production and distribution of Motorsport Safety Equipment**, a small (>€250mn) but global niche within Motorsport, which mainly includes:

- **Driver's Equipment (more than 70% of 2021 sales):** racing helmets, fire-retardant suits and underwear, racing shoes and gloves;
- **Car Parts (less than 30% of 2021 sales):** racing seats, harnesses, roll bars, steering wheels, fire extinguisher systems, racing accessories.

With **2021 revenues of € 46.7mn**, a 2019pf-21 **12.9% organic CAGR** and a **2021 Adj. EBITDA margin of 19.2%**, the Group today boasts an international footprint, with **sales in 80 countries**, more than **480 employees** located in **7 facilities worldwide in 3 different continents** (o/w, 3 production sites, 3 R&D centers and 6 show-rooms) and, most importantly, a winning and consolidated presence in all major motorsport championships (60% of Formula 1 drivers wear a Bell Helmet).

The Group's offer range includes OMP, Bell and Zeronoise branded products (more than 2,000 items), which are split between **homologated** (c70% of revenues) and **not homologated** (c30% of revenues) ones. RFG owns the OMP and Zeronoise brands and the perpetual worldwide licenses to use the Bell trademark in connection with the development, manufacturing and distribution of motorsport helmets.

Revenues are **extremely diversified** in terms of **customers (+3,400 customers worldwide**, with the top 10 customers accounting for c22% of sales in 2021, of which just one weighting for more than 5%), **and geographies** (sales in 80 countries with no countries, except US, accounting for more than 20% of total sales in 2020), and are mainly generated indirectly through **independent Dealers (69% of 2021 sales)**, and directly to top **Teams and Car Manufacturers (21% of 2021 sales)**.

The group has also embarked in interesting and promising diversification projects:

- **Driver's Eye:** a micro-camera fitted in a special niche inside the helmet, the sole technology homologated by FIA, allowing to film the race "through the eyes of the driver" and already adopted by Formula E and, since 2021, Formula 1.
- **Ballistic Defense Helmets and Jet Pilot Helmet's Shell:** new products with advanced technical performances positioning RFG as a credible player in these new markets.

Key managers are Paolo Delprato (Chairman and CEO), Stephane Cohen (co-CEO), Alexandros Haristos (COO).

The company is controlled by SAYE, the holding company of the Delprato family, owning 53% of the capital. Key managers are also present in the share capital.

Strengths / Opportunities	Weaknesses /Threats
<ul style="list-style-type: none"> - Premium, well-known and historical brands, with outstanding reputation - R&D know-how and almost fully vertical integrated supply chain and manufacturing - Low suppliers and customer concentration 	<ul style="list-style-type: none"> - Niche market with moderate growth rates - Quite consolidated core market, with c70% in the hands of 3 players
<ul style="list-style-type: none"> - Commercial synergies post Bell Helmet acquisition: increase of OMP branded products reach in NA, and increase of Bell helmets penetration in open-face categories - Diversification in adjacent markets: Defense Ballistic Helmets and Jet Pilot Helmets - Scalability of Driver's Eye technology in core and adjacent markets 	<ul style="list-style-type: none"> - Disruptive innovations from competitors, mainly in terms of technologies or products performances - Reputational damage from product failures / quality leaks - Higher competitions in top categories from larger non "core" players such as Puma

APPENDIX: ESTIMATE REVISION AND VALUATION TABLES

ESTIMATE REVISION (€ mn)						
	2022E	2022E	2023E	2023E	2024E	2024E
	Prev.	Curr.	Prev.	Curr.	Prev.	Curr.
Revenues	55.3	58.8	59.7	63.1	63.8	67.0
% chg		6.4%		5.6%		4.9%
Abs chg		3.5		3.3		3.1
Adj. EBITDA	10.6	11.5	11.7	12.6	13.4	14.0
% chg		8.2%		6.9%		4.1%
Abs chg		0.9		0.8		0.5
EBIT	8.0	8.7	8.5	9.3	9.7	10.2
% chg		9.0%		9.2%		5.3%
Abs chg		0.7		0.8		0.5
Net income	6.4	6.9	6.3	6.9	7.3	7.7
% chg		8.8%		9.6%		5.5%
Abs chg		0.6		0.6		0.4
Adj EPS	24.3	26.6	24.4	26.7	28.2	29.8
% chg		9.7%		9.6%		5.5%
Abs chg		2.4		2.3		1.5
FCF	0.8	-4.0	-0.7	0.8	5.7	6.6
% chg		-573.9%		-208.9%		16.3%
Abs chg		-4.8		1.5		0.9
CAPEX	3.0	4.0	8.0	8.1	3.2	3.3
% chg		33.3%		1.8%		4.9%
Abs chg		1.0		0.1		0.2
NFP	-3.6	-8.5	3.4	0.1	7.0	4.5
% chg		133.2%		-96.1%		-36.7%
Abs chg		-4.8		-3.3		-2.6

Source: Equita SIM estimates & company data

DFCF ANALYSIS - CORE BUSINESS (€ mn)								
Assumptions			2023E	2024E	2025E	2026E	2027E	Beyond
g	3.0%	Sales	63.1	67.0	71.0	73.9	76.8	79.1
WACC	8.2%	Change %	7.3%	6.1%	6.1%	4.0%	4.0%	3.0%
		Adj. EBITDA	12.6	14.0	15.2	15.8	16.4	16.9
		Change %	9.0%	11.3%	8.4%	4.0%	4.0%	11.4%
		Margin	19.9%	20.9%	21.3%	21.3%	21.3%	21.3%
		D&A	-3.3	-3.8	-4.1	-4.1	-4.2	-4.4
		Adj. EBIT	9.3	10.2	11.1	11.7	12.2	12.5
		Change %	5.8%	10.2%	8.4%	5.8%	4.0%	13.3%
		Margin	14.9%	14.7%	15.2%	15.6%	15.8%	15.8%
		Taxes	-2.0	-2.2	-2.4	-2.6	-2.7	-2.8
		EBIT after Tax	7.3	8.0	8.6	9.1	9.4	9.7
		Change %	7.7%	9.8%	8.2%	5.1%	4.0%	12.6%
		Capex	-8.5	-3.7	-4.0	-4.1	-4.2	-4.4
		capex/sales	13.6%	5.6%	5.6%	5.5%	5.5%	5.5%
		(increase) decrease in NWC	-0.2	-0.6	-1.3	-0.9	-1.0	-0.8
		Free Cash Flow before minorities	1.8	7.4	7.5	8.1	8.5	9.0
		FCF Minorities	0.0	0.0	0.0	0.0	0.0	0.0
		Free Cash Flow after minorities	1.8	7.4	7.5	8.1	8.5	9.0
# of shares (mn)	25.7	Discount Factor	0.99	1.07	1.16	1.26	1.36	1.36
Target Price (€ PS)	6.1	PV of FCF	1.8	6.9	6.4	6.5	6.2	6.6

Source: Equita SIM estimates

CORE BUSINESS - DCF SENSITIVITY ANALYSIS (€ PS)

WACC		Perpetual growth		
		2.5%	3.0%	3.5%
		7.7%	6.3	6.8
8.2%	5.7	6.1	6.6	
8.7%	5.2	5.6	6.0	

Source: Equita SIM estimates

BRIDGE TO TARGET PRICE

	EBITDA	A&D	EV	Discount factor	Value Creation		
	2025E (€ mn)	multiple	€ mn	3Y	€ mn	€ ps	%
Defense upside	2.4	11.0x	26.4	15%	17	0.7	11%
DCF - core business					156	6.1	89%
Target Price					174	6.8	

Source: Equita SIM estimates

STATEMENT OF RISKS

The primary factors that could **negatively impact RFG** include:

- Failure to cope with rapid changes in FIA homologation requirements;
- Disruptive innovations from competitors, mainly in terms of technologies or products performances;
- Reputational damage from product failures or quality leaks;
- Loss of market share in top categories, reducing brands' visibility and cross selling opportunities;
- Sharp increase in logistics and energy costs, not matched by price increases;
- Value disruptive M&A deals;
- Termination of the Bell Licence 1;
- Deterioration in the geopolitical situation affecting market demand.

P&L	2019	2020	2021	2022E	2023E	2024E
Revenues	36.6	33.7	46.7	58.8	63.1	67.0
Growth	-	-8%	38%	26%	7%	6%
Total opex	-16.7	-13.6	-19.5	-22.8	-24.4	-25.9
Growth	-	-19%	43%	17%	7%	6%
Margin	-46%	-40%	-42%	-39%	-39%	-39%
Adjusted EBITDA	4.2	5.4	9.0	11.5	12.6	14.0
Growth	-	28%	47%	46%	9%	11%
Margin	11.4%	15.9%	19.2%	19.6%	19.9%	20.9%
Depreciation& amortization	-2.2	-2.3	-2.3	-2.6	-3.1	-3.6
Provisions	-0.2	-0.2	-0.1	-0.2	-0.2	-0.2
Depreciation&provision	-2.4	-2.5	-2.4	-2.8	-3.3	-3.8
EBIT	1.8	2.8	5.5	8.7	9.3	10.2
Growth	-	59%	94%	59%	6%	10%
Margin	4.9%	8.4%	11.8%	14.9%	14.7%	15.2%
Net financial profit/Expenses	-5.6	-0.9	-0.7	-0.4	-0.4	-0.3
Forex/Intercompany loans	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other financial profit/Exp	6.9	0.2	0.4	0.6	0.0	0.0
Total financial expenses	1.3	-0.7	-0.3	0.2	-0.4	-0.3
Non recurring pre tax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Profit before tax	3.1	2.1	5.2	8.9	8.9	9.9
Growth	-	-0.3	1.4	0.7	0.0	0.1
Taxes	-0.7	-0.7	-1.1	-2.0	-2.0	-2.2
Tax rate	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Non recurring post tax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net income	2.4	1.4	4.2	6.9	6.9	7.7
Growth	-	-41%	190%	66%	-1%	11%
Margin	6.6%	4.3%	8.9%	11.8%	10.9%	11.5%
Adj. net income	2.4	1.4	4.9	6.3	6.9	7.7
Growth	-	-41%	243%	29%	8%	11%
Margin	6.6%	4.3%	10.6%	10.8%	10.9%	11.5%
CF Statement	2019	2020	2021	2022E	2023E	2024E
Cash Flow from Operations	n.a.	3.3	6.4	9.1	9.6	10.9
(Increase) decrease in ONWC	n.a.	-1.7	-1.9	-8.7	-0.2	-0.6
(Purchase of fixed assets)	n.a.	-1.1	-5.3	-4.4	-8.5	-3.7
(Other net investments)	n.a.	-3.2	-0.6	0.0	0.0	0.0
(Distribution of dividends)	n.a.	0.0	-1.3	-1.7	-1.9	-2.3
Rights issue	n.a.	0.1	18.8	0.0	9.7	0.0
Other	n.a.	1.7	-0.5	0.4	0.0	0.0
(Increase) Decrease in Net Debt	n.a.	-0.9	15.5	-5.3	8.6	4.3

Source: Equita SIM estimates and company data

INFORMATION PURSUANT TO EU REGULATION 2016/958 supplementing Regulation EU 596/2014 (c.d. MAR)

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In the past EQUITA SIM has published studies on Racing Force Group

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EXPECTED TOTAL RETURN FOR THE VARIOUS CATEGORIES OF RECOMMENDATION AND RISK PROFILE

RECOMMENDATION/RATING	Low Risk	Medium Risk	High Risk
BUY	ETR >= 10%	ETR >= 15%	ETR >= 20%
HOLD	-5% <ETR< 10%	-5% <ETR< 15%	0% <ETR< 20%
REDUCE	ETR <= -5%	ETR <= -5%	ETR <= 0%

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Date	Rec.	Target Price (€)	Risk	Comment
nil				

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BUY	56.1%	64.2%
HOLD	42.0%	32.8%
REDUCE	0.0%	0.0%
NOT RATED	1.9%	3.0%

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