

ErreDue

Sector: Capital Goods



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Temporary hurdles aside, business keeps growing

ErreDue - player in on-site gas generation & purification customized solutions, including H₂ electrolyzers for green energy transition - is listed on EGM since Dec 2022 and is investing most of IPO proceeds to boost its output capacity. ErreDue is a "small" public company, with 22 employees cumulatively holding 70% of the Company.

1H24 Financials

ErreDue's 1H24 results are slightly below our estimates as for top line growth and margins, while boast higher net cash and backlog. In details:

- ◆ **VoP nearly flat y/y at €9.1mn** (-0.3% y/y), driven by: i) strong hydrolyser revenues, despite a delay in two large orders worth €950k; ii) traditional on-site industrial gas production business down 43% y/y on very weak capital good demand;
- ◆ **EBITDA was around €2.0mn** (vs. €2.8mn in 1H23, -30.0% y/y), also due to three temporary factors: delayed H₂ generator deliveries, R&D costs for Megawatt hydrolysers, start-up costs for the new Megawatt line due to start in 2025;
- ◆ **Net Cash improved to €17.3mn** from €16.3mn of FY23, despite the €1.4mn dividend payment, also thanks to negligible capex in the 1H.

Backlog stands at €22mn as of end-August (vs. €17.7 at end-June) with a 35%/65% split between 2H and FY25 respectively, and international business expanding fast (70% of 2025 backlog vs 32% of FY23 sales).

Fine-tuning of 2024E-26E estimates

Given the trends outlined in 1H we've fine-tuned our FY24E-26E estimates in order to factor i) weaker than expected demand for on-site industrial gas generators on uncertain macroeconomics and fiscal incentives; ii) delay of full operational capacity of the new Gigafactory to end-2025; iii) the above temporary factors impacting profitability. In 2024E-26E we now forecast: 1) VoP to get close to €42.8mn by FY26E (30% 3-yrs CAGR); 2) EBITDA and EBIT Margin (on VoP) at 28.7% and 20.8% by 2026E; 3) Net Cash Position to remain substantially stable at ca. €15.5mn by 2026E year-end.

Fair Value at €13.8 p/s: energy transition buz still for free

We fine tune **ErreDue Fair Value at €13.8 p/s** (down from €14.6 p/s), due to lower earnings combined with lower peers' multiples (and despite lower ERP). At €13.80, the stock would trade at 3.0x-9.7x-21.8x EV/Sales, EV/EBITDA, P/E Adj. 2025E multiples respectively, i.e., in line with sales multiples of electrolyzers manufacturers and still at some discount vs. EBITDA and EPS multiples of global industrial gas suppliers.

Fair Value (€)	13.8
Market Price (€)	8.6
Market Cap. (€m)	53.8

KEY FINANCIALS (€mn)	2023A	2024E	2025E
VALUE OF PRODUCTION	19.3	18.4	28.6
EBITDA	5.9	5.0	7.7
EBIT	4.1	2.9	4.9
NET PROFIT	3.4	2.4	4.0
EQUITY	30.9	32.0	34.5
NET FIN. POS.	16.3	15.4	11.6
EPS ADJ. (€)	0.54	0.39	0.63
DPS (€)	0.22	0.22	0.22

Source: ErreDue (historical figures)
Value Track (2024E-25E estimates)

KEY RATIOS	2023A	2024E	2025E
EBITDA MARGIN (%)	30%	27%	27%
EBIT MARGIN (%)	21%	16%	17%
NET DEBT / EBITDA (x)	nm	nm	nm
NET DEBT / EQUITY (x)	0.0	0.0	0.0
EV/SALES (x)	2.8	2.3	1.7
EV/EBITDA (x)	7.8	7.7	5.5
EV/EBIT (x)	11.4	13.3	8.6
P/E ADJ. (x)	18.4	22.2	13.6

Source: ErreDue (historical figures)
Value Track (2024E-25E estimates)

STOCK DATA

MARKET PRICE (€)	8.60
SHS. OUT. (m)	6.3
MARKET CAP. (€m)	53.8
ENTERPRISE VALUE (€m)	38.3
FREE FLOAT (%)	18.8
AVG. -20D VOL. ('000)	2,147
RIC / BBG	RDUE.MI / RDUE IM
52 WK RANGE	7.28 - 10.40

Source: Stock Market Data



Business Description

ErreDue is a well-known Italian player in R&D, production, and commercialization of an extensive array of on-site gas generation and purification customized solutions, ranging from H₂ electrolyzers, oxygen generators, gas purifiers and mixers, hydrogen refuelling stations, and N₂ generators. ErreDue has emerged as a central player across various sectors, i.e., industrial, laboratory and more recently solutions for green energy transition, such as power-to-gas technologies, hydrogen-fuelled mobility and industrial decarbonization. ErreDue is investing €12mn over 2023-2025 to boost its electrolyzers output capacity from 8MW to 60MW. ErreDue is a “small” public company, with 22 employees holding 70% of the Company.

Key Financials

€mn	2023A	2024E	2025E	2026E
Value of Production	19.3	18.4	28.6	42.8
y/y (%)	40.3%	-4.7%	55.6%	49.3%
EBITDA	5.9	5.0	7.7	12.2
EBITDA Margin (%)	30.5%	27.0%	26.9%	28.7%
EBIT	4.1	2.9	4.9	8.9
EBIT Margin (%)	21.0%	15.7%	17.2%	20.8%
Net Profit	3.4	2.4	4.0	6.9
y/y (%)	nm	-28.9%	63.8%	75.6%
Adjusted Net Profit	3.4	2.4	4.0	6.9
y/y (%)	nm	-28.9%	63.8%	75.6%
Net Fin. Position [Net debt (-) / Cash (+)]	16.3	15.4	11.6	15.5
Net Fin. Pos. / EBITDA (x)	nm	nm	nm	nm
Capex	-4.8	-3.9	-7.4	-2.8
OpFCF b.t.	-0.4	1.0	-1.5	7.3
OpFCF b.t. as % of EBITDA	-7.0%	20.5%	-19.9%	59.3%

Source: ErreDue (historical figures), Value Track (estimates)

Investment case

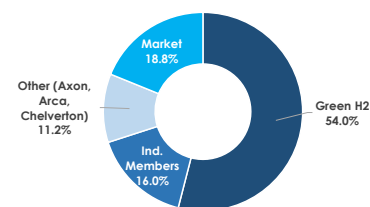
Strengths / Opportunities

- ◆ In-depth expertise in alkaline technology and R&D, focus on after sales
- ◆ Fully vertically integrated business model, with recurring revenues
- ◆ Increasing demand for electrolyzers, due to switch to on-site production and applications for green energy transition
- ◆ Profitable business (>30% EBITDA margin) and solid B/S (net cash).

Weaknesses / Risks

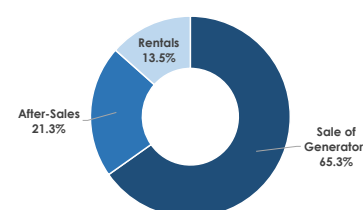
- ◆ Competitive threat from Chinese and potentially Indian markets
- ◆ Uncertain outlook for demand/supply balance of electrolyzes

Shareholders Structure



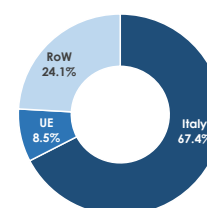
Source: ErreDue

FY23 Sales breakdown by contract



Source: ErreDue

FY23 Sales breakdown by Country



Source: ErreDue

Stock multiples @ €13.8 Fair Value

	2024E	2025E
EV / SALES (x)	4.3	3.0
EV / EBITDA (x)	14.3	9.7
EV / EBIT (x)	24.5	15.2
EV / CAP.EMP. (x)	4.3	3.3
OpFCF Yield (%)	6.5	7.4
P / E (x)	35.7	21.8
P / BV (x)	2.7	2.5
Div. Yield. (%)	1.6	1.6

Source: Value Track

1H24 Financials

Key Financials

ErreDue's 1H24 interim results are slightly below our estimates for FY24E; however, they present a strong outlook for the FY25E energy transition, with backlog already covering 55% of our FY total revenues. As regards **1H24 financials**, we flag the following:

- ◆ **VoP remained nearly flat year-on-year at €9.1mn** (-0.3% y/y), driven by:
 - i) **strong hydrolyser** revenues, with sales up 23% y/y despite a delay in two large orders (€950k worth), with H₂ representing 70% of 1H generator sales;
 - ii) **weak traditional on-site industrial gas production** business, seeing a 43% y/y drop in generator sales, due to a demand for capital goods which has proven weaker than expected;
 - iii) **steady growth in recurring revenues**, as Service & Spare parts (+10.8% y/y) and Rentals of generators (+8.5% y/y), representing ca. 38% of Revenues from Sales;
- ◆ **EBITDA was around €2.0mn** (vs. €2.8mn in 1H23, -30.0% y/y), with the margin falling to 25.7% from 35.9%, mostly due to three temporary factors, i.e., delayed H2 generator deliveries, high R&D costs (fully charged to P&L) required by the new Megawatt hydrolysers' prototypes, and the start-up costs (mainly labour costs, i.e. hiring and training) faced for the new Megawatt production line due to start in 2025;
- ◆ **EBIT at ca. €1.1mn** (vs. €1.9mn in 1H23, -42.7% y/y), due to lower EBITDA, with D&A charges roughly in line y/y;
- ◆ **Net Cash improved to €17.3mn** from €16.3mn of Dec 2023, despite the €1.4mn dividend payment, also thanks to negligible capex in the semester (due to the delays in the new plant as well as to the financial contribution received);
- ◆ **Backlog at €22mn as of end-August** (vs. €17.7 at end-June) with a 35%/65% split between 2H24E and FY25E, respectively, with international business expanding fast, as it has reached 70% of the 2025 backlog (while international revenues were only 32% of FY23 sales).

ErreDue: Key Financial Items 1H22 – 1H23 – 1H24

(€mn)	1H22	1H23	1H24	y/y (%)
Value of Production	6.0	9.1	9.1	-0.3%
EBITDA	1.7	2.8	2.0	-30.0%
<i>EBITDA Margin (% on VoP)</i>	<i>27.6%</i>	<i>31.0%</i>	<i>21.7%</i>	<i>-925bps</i>
EBIT	0.9	1.9	1.1	-42.7%
<i>EBIT Margin (% on VoP)</i>	<i>15.5%</i>	<i>21.0%</i>	<i>12.1%</i>	<i>-896bps</i>
Net Profit	0.7	1.5	1.0	-32.8%
OpFCF b.t. (before dev. Capex and IPO)	0.6	0.8	1.6	//
Net Fin. Position [Net debt (-) / Cash (+)]	2.6	14.8 (*)	17.3	//

Source: ErreDue, Value Track Analysis, (*) Adjusted for ca.€13.8mn capital injections (net of IPO costs) in 2H22

Top Line remaining smooth y/y despite considerable trials

1H24 Revenues from Sales came in at €7.7mn, declining -2.2% y/y (vs. €7.9mn), while Value of Production was down by ca. -0.3% y/y. Going more in details:

- ◆ Revenues from hydrolysers remained strong, with sales up 23% y/y despite the delay of two large orders (worth €950k and finalized in Q3), accounting for 70% of 1H generator sales;
- ◆ Sales of on-site technical gases, particularly nitrogen (-58% y/y), saw a significant decline, impacting margins, especially for the Saturn product, which we estimate to be a top-tier EBITDA contributor;
- ◆ In general, the "traditional business" related to on-site gas production across various industrial activities was heavily affected by the sharp decline in capital goods demand, with generator sales down 43% y/y.

In terms of outlook, management hinted that order acquisition related to generators for on-site gas production is still suffering from the ongoing Italian industrial crisis, particularly in the automotive, textile, and metalworking sectors, exacerbated by delays and the limited effectiveness of Industry 5.0. On the other hand, demand of H₂ generators for energy transition remains strong. Management also indicates that the new Gigafactory will be fully operational by end-2025, with the Megawatt production line potentially operational by mid-year, to support order execution of growing backlog.

ErreDue: Revenues Breakdown by Products / Services Offered 1H22-1H23-1H24

(€mn)	1H22	1H23	1H24	y/y
Generators and other products	3.4	5.2	4.8	-8.3%
As a % of Revenues	62.7%	66.4%	62.2%	//
o/w H ₂	//	2.7	3.4	23.2
Other gases	//	2.5	1.4	-42.9
Service and spare parts	1.0	1.5	1.7	10.8%
As a % of Revenues	18.6%	19.7%	22.3%	//
Rental of generators	1.0	1.1	1.2	8.5%
As a % of Revenues	18.8%	13.9%	15.4%	//
Revenues from Sales	5.4	7.9	7.7	-2.2%

Source: ErreDue, Value Track Analysis

ErreDue: Revenues Breakdown by Gas 1H22-1H23-1H24

(€mn)	1H22	1H23	1H24	y/y
Hydrogen	1.8	3.4	4.8	40.1%
As a % of Revenues	32.5%	43.3%	62.1%	//
Other gases	2.8	3.3	2.6	-21.7%
As a % of Revenues	50.7%	42.6%	34.1%	//
Other products	0.9	1.1	0.3	-73.6%
As a % of Revenues	16.8%	14.1%	3.8%	//
Revenues from Sales	5.4	7.9	7.7	-2.2%

Source: ErreDue, Value Track Analysis

ErreDue: Revenues Breakdown by Region 1H22-1H23-1H24

(€mn)	1H22	1H23	1H24	y/y
Italy	4.0	5.1	4.5	-11.6%
As a % of Revenues	72.6%	65.4%	59.1%	//
UE	0.6	1.0	0.9	-5.2%
As a % of Revenues	11.9%	12.4%	12.1%	//
Rest of the World	0.8	1.7	2.2	27.2%
As a % of Revenues	15.4%	22.2%	28.9%	//
Revenues from Sales	5.4	7.9	7.7	-2.2%

Source: ErreDue, Value Track Analysis

As for the other components of VoP the Company posted i) €126k related to Other Revenues, ii) €958k to change in inventories (including WIP) and iv) €324k due to the capitalization of costs for internally manufactured fixed assets (i.e., generators for rental), which mirrored the weak domestic performance of the traditional industrial gas generators.

ErreDue: Value of Production breakdown from 1H22 to 1H24

(€, mn)	1H22	1H23	1H24	y/y
Revenues from Sales	5.4	7.9	7.7	-2.2%
Δ Inventory (WIP)	0.2	0.3	1.0	201.3%
Δ Fixed Assets	0.3	0.7	0.3	-53.9%
Other Revenues	0.1	0.2	0.1	-46.8%
Value of Production	6.0	9.1	9.1	-0.3%

Source: ErreDue, Value Track Analysis

EBITDA suffered because of a few temporary factors

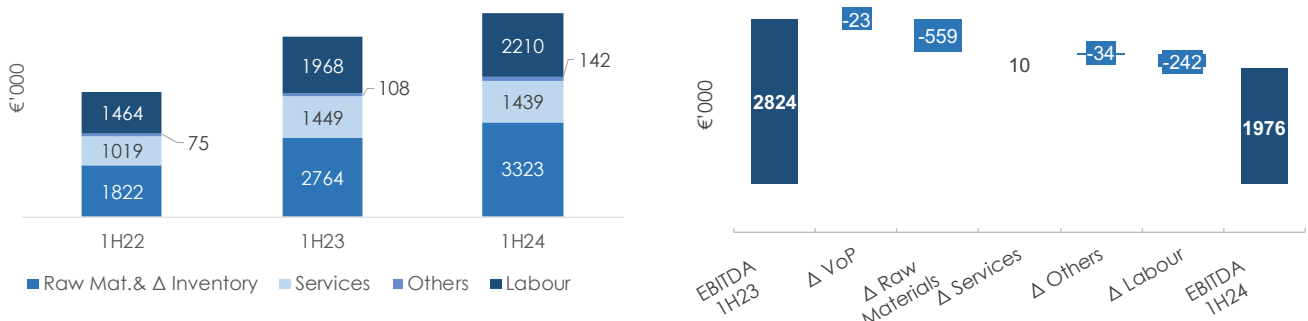
EBITDA was down 30% y/y at €2.0m (vs. €2.8mn in 1H23) and EBITDA Margin (on VoP) was down by 925bps to 21.7% (vs. 31.0% in 1H23) after Total Opex at €7.1mn (+13.1% y/y). However, the margin gap can be mostly explained by three temporary factors:

- ◆ the postponement (at the clients' request) of the delivery of two significant H₂ generators, initially scheduled for 1H and worth together ca. €950k, implied a €0.5mn EBITDA “loss”. These orders and the related contribution to EBITDA have been delivered in Q3;
- ◆ the extremely high R&D costs incorporated by the first prototypes of Megawatt hydrolysers, amounting to ca. €300/400k in 1H. These costs have been fully charged in the semester, in line with historical practice, but given the importance of the new product line, they are likely to be capitalised in the year-end financial statements and to gradually normalise;
- ◆ the labour costs related to hiring & training the team devoted to the Megawatt new line (the Gigafactory) due to start in 2025 (avg. # of employees increased from 83 in FY23 to 93 in 1H24).

As for EBITDA we reckon that

- ◆ the temporary factors mentioned above may affect margins more than expected, albeit this is likely to be limited to the current year and 1H25E;
- ◆ the weaker than expected capital good demand affecting industrial gas generators may last longer than expected as visibility for recover remains poor.

ErreDue: Costs Structure and EBITDA Bridge 1H22-1H23-1H24



Source: ErreDue, Value Track Analysis

Below EBITDA, the decrease of D&A charges by ca. €30k (-3.2% y/y), mainly due to the lower assets (generators) located to clients, drove **EBIT at €1.1mn (-42.7%)**.

Thanks to a) the positive financial income generated by the IPO proceeds (ca. €327k), temporarily invested in liquid securities such as BTPs, bonds, funds, and deposit accounts, pending Gigafactory investments, and b) a ~24% tax rate, 1H24 Net Profit stood at €1.0mn (vs. €1.5mn in 1H23) with Net Margin still at a healthy 11.5%.

ErreDue: P&L 1H22 – 1H23 – 1H24

(€, mn)	1H22	1H23	1H24	y/y
Revenues from Sales	5.4	7.9	7.7	-2.2%
Δ Inventory (WIP)	0.2	0.3	1.0	201.3%
Δ Fixed Assets	0.3	0.7	0.3	-53.9%
Other Revenues	0.1	0.2	0.1	-46.8%
Value of Production	6.0	9.1	9.1	-0.3%
Raw Materials Costs	-2.7	-4.3	-3.3	-22.7%
Δ Inventory (Raw Materials)	0.8	1.6	0.0	-98.8%
Gross Profit	4.2	6.3	5.8	-9.2%
Gross Margin (%)	69.9%	69.7%	63.4%	-623bps
Costs of Services	-1.0	-1.4	-1.4	-0.7%
Costs of Rent & Others	-0.1	-0.1	-0.1	31.5%
Labour Costs	-1.5	-2.0	-2.2	12.3%
EBITDA	1.7	2.8	2.0	-30.0%
EBITDA Margin (%)	27.6%	31.0%	21.7%	-925bps
D&A	-0.7	-0.9	-0.9	-3.2%
EBIT	0.9	1.9	1.1	-42.7%
EBIT Margin (%)	15.5%	21.0%	12.1%	-896bps
Interest Expenses / Other Non-Op. Items	0.0	0.1	0.3	129.8%
Pre-Tax Profit	0.9	2.1	1.4	-30.9%
Taxes	-0.2	-0.5	-0.4	-25.1%
Net Profit	0.7	1.5	1.0	-32.8%
Net Profit Margin (%)	11.3%	17.0%	11.5%	-555bps

Source: ErreDue, Value Track Analysis

OpFCF b.t. at ca. 82% of EBITDA due to negligible capex

As for the Balance Sheet / Cash Flow Statement, we note:

- ◆ Net Fixed Assets stood ~€10.4mn, almost €970k lower vs. FY23 (€11.3mn), with tangible and intangible investments at €733k in 1H24 vs. €3.8mn in 1H23, down y/y mainly due to a delay of a few months in the capex allocated to the Gigafactory. However, it is worth noting that in 1H24 the €907k grant from SIMEST, already received as a non-repayable contribution, is recorded under plant accounts, thereby reducing tangible fixed assets and “hiding” the actual capex undertaken;
- ◆ Net Working Capital stood at roughly €4.0mn (lower by ~€300k vs. FY23), with an increase in inventory (from €5.6mn in FY23 to €6.6mn in 1H24), more than offset by a decrease in Trade Receivables (from €3.7mn to €3.3mn) and an increase in other liabilities and accrued expenses and deferred income and down payments (€3.0mn to €4.2mn).

As a result, **OpFCF b.t. (and before development Capex) stood at more than 80% of the EBITDA**, still stressing the strong cash generation abilities of the ErreDue, also thanks to negligible capex, benefitting by ca. €907k by SIMEST, and the positive Δ NWC by ca. €300k.

As a consequence, the **Net Cash Position has improved to €17.3mn** (vs. €16.3mn and €14.8mn recorded in FY23 and 1H23, respectively).

However, as for cash flow, the positive 1H FCF (€2.4mn, according to our estimates, i.e. prior to the €1.4mn dividends), may turn negative in 2HE and 1H25E. This will depend on the actual pace of capex related to the Gigafactory, and is fully in line with expectations.

ErreDue: Cash Flow 1H23 – 1H24

(€ mn)	1H23	1H24
EBITDA	2.8	2.0
Δ NWC / Δ Provisions	-1.2	0.4
Maintenance Capex	-0.1	-0.4
Electrolyzers for Rentals	-0.7	-0.3
OpFCF b.t. (before dev. Capex and IPO)	0.8	1.6
As a % of EBITDA	29.6%	82.0%
Cash Taxes	-0.5	-0.4
OpFCF a.t. (before dev. Capex and IPO)	0.3	1.2
Development Capex	-3.0	0.0
IPO Costs	0.0	0.0
Capital Injections	0.0	0.0
Other (incl. Financial Inv.)	0.0	0.8 (*)
Net Financial Charges	0.1	0.3
Dividends Paid	0.0	-1.4
Δ Net Financial Position	-2.6	1.0

Source: ErreDue, Value Track Analysis, (*) Including €907k grant from SIMEST, received as a non-repayable contribution

ErreDue: Balance Sheet FY22 – 1H23 – FY23 – 1H24

(€ mn)	FY22	1H23	FY23	1H24
Inventories	3.6	5.5	5.6	6.6
Trade Receivables	3.2	3.2	3.7	3.3
Other Current Assets	0.9	1.0	1.0	0.9
Trade Payables	2.4	2.5	2.6	2.5
Other Payables	2.7	3.3	3.4	4.2
<i>o/w Down Payments</i>	1.3	1.2	1.0	1.4
<i>Others</i>	1.4	2.0	2.4	2.8
Net Working Capital	2.6	3.9	4.3	4.0
Goodwill	0.0	0.0	0.0	0.0
Tangibles & Intangibles (ex-Goodwill)	8.4	11.3	11.3	10.3
Financial assets	0.0	0.0	0.0	0.0
Net Fixed Assets	8.4	11.3	11.3	10.4
Provisions	0.9	0.9	1.0	1.1
Total Capital Employed	10.2	14.3	14.6	13.3
Group Net Equity	27.5	29.1	30.9	30.6
Net Fin. Position [Net debt (-) / Cash (+)]	17.4	14.8	16.3	17.3

Source: ErreDue, Value Track Analysis

Worthy to note, **ErreDue holds a total of approx. €21.2mn liquidity**, consisting of €3.2mn in available cash and €17.9mn in financial assets, part of which is likely to be allocated to the construction of the Gigafactory by the end of 2025.

ErreDue: Net Financial Position Structure FY22 – 1H23 – FY23 – 1H24

(€ mn)	FY22	1H23	FY23	1H24
Cash and deposits (+)	19.0	3.9	4.7	3.2
Debt to Banks within 12 months (-)	-0.7	-0.7	-0.5	-0.5
Current Net Financial Position	18.3	3.2	4.1	2.8
Long term financial credits (+)	0.0	14.3	14.3	17.9
Debt to Banks over 12 months (-)	-0.1	-1.9	-1.8	-1.6
Debt to Parent Co. / Other Sh.holders (-)	-0.8	-0.8	-0.4	-1.8
Non-Current Financial Position	-0.9	11.6	12.2	14.5
Net Fin. Position [Net debt (-) / Cash (+)]	17.4	14.8	16.3	17.3

Source: ErreDue, Value Track Analysis

Forecasted Financials 2024E-26E

1H results are not entirely aligned with our FY24E forecasts in terms of revenues and profitability, though, on the positive side, a) Net Cash is slightly higher also due to the postponement of capex intended for Gigafactory and linked to the rental business (impacted by the significant slowdown in domestic capital god demand) and b) order backlog keeps growing, driven by demand for energy transition. As a result, we're fine tuning our 2024E-26E estimates, in particular:

- ◆ Top line downward revision (~5/10% per annum), driven by:
 1. Order intake for generators related to on-site gas production impacted by the uncertain macroeconomic environment and delays in domestic fiscal incentives, while demand for H2 generators supporting the energy transition remains robust, leading to a shift in revenue mix;
 2. Full operational new Gigafactory now expected by the end of 2025, with the Megawatt (MW) production line potentially becoming effective by mid-year to support order fulfilment;
 3. Traditional businesses facing a slower growth in 2024-25E, due to weak investments and uncertainties in legislation, with recovery starting from 2026E, though at a moderate pace;
 4. Rental business' sharp halt in 1H, due to weak domestic demand, should resume growth from 2H25E, thus pace of internally generated fixed assets falls (virtually to zero in 2H24E);
- ◆ Lower EBITDA-EBIT projections as i) we reckon that the temporary factors previously mentioned (i.e., lower sales of nitrogen impact margins, especially for the Saturn product, order delays, inefficiencies in energy transition, etc.) could affect margins more than initially expected, and ii) revenues from the traditional business (generators and rentals) are much lower than expected;
- ◆ Positive 1H FCF could turn negative from as capex for the Gigafactory accelerates, albeit the picture may be improved by potential grants (already requested and pending approvals).

Porto Aviation Group: New vs. Old estimates

(€ mn)	2024E			2025E			2026E		
	Old	New	Change	Old	New	Change	Old	New	Change
<i>Traditional generators and other</i>	10.9	10.6	-3.0%	12.2	10.6	-13.6%	13.6	11.5	-15.3%
<i>After-sales services</i>	4.2	3.9	-8.3%	5.1	4.4	-12.0%	6.1	5.3	-12.0%
<i>Rentals of generators</i>	2.4	2.2	-8.4%	2.6	2.4	-7.8%	3.0	2.6	-13.6%
<i>Energy transition</i>	0.0	0.0	<i>nm</i>	6.5	7.8	20.0%	15.6	18.2	16.7%
Revenues from Sales	17.5	16.7	-5.0%	26.3	25.2	-4.4%	38.3	37.6	-1.6%
Other Revenues	0.5	0.5	0.0%	0.5	0.5	0.0%	0.6	0.6	0.0%
Δ Inventory (Finished Goods) and WIP	0.9	0.9	0.0%	1.3	1.3	0.0%	1.9	1.9	0.0%
Δ Internally Generated Fixed Assets	1.6	0.4	-75.0%	1.7	1.7	0.0%	2.6	2.6	0.0%
Value of Production	20.5	18.4	-10.1%	29.8	28.6	-3.9%	43.4	42.8	-1.4%
EBITDA	5.9	5.0	-16.2%	8.9	7.7	-13.8%	13.5	12.2	-9.5%
EBITDA Margin (% on VoP)	28.9%	27.0%	-195bps	30.0%	26.9%	-310bps	31.2%	28.7%	-255bps
EBITDA Margin (% on Revenues)	33.8%	29.8%	-398bps	34.0%	30.6%	-335bps	35.4%	32.5%	-283bps
D&A	-2.1	-2.1	-1.0%	-3.0	-2.8	-6.4%	-3.5	-3.3	-3.8%
EBIT	3.8	2.9	-24.5%	6.0	4.9	-17.6%	10.1	8.9	-11.5%
EBIT Margin (% on VoP)	18.7%	15.7%	-299bps	20.0%	17.2%	-284bps	23.2%	20.8%	-236bps
EBIT Margin (% on Revenues)	21.8%	17.4%	-449bps	22.6%	19.5%	-311bps	26.3%	23.7%	-263bps
Net profit	2.9	2.4	-15.9%	4.7	4.0	-15.7%	7.8	6.9	-11.0%
Net Fin. Pos. [Net Debt (-) Cash (+)]	14.1	15.4	1.3	11.9	11.6	-0.3	16.8	15.5	-1.3
OpFCF a.t. (before dev. Capex and IPO)	4.0	3.6	-10.7%	3.2	2.7	-16.2%	6.1	5.1	-16.6%
Capex	-6.5	-3.9	-40.1%	-6.2	-7.4	19.4%	-2.8	-2.8	0.0%

Source: Value Track Analysis

Our new 2024E-26E forecasts can be summarized as follows:

- ◆ Value of Production expected to move from €18.4mn in 2024E to ca. €42.8mn at the end of the forecasted period (ca. 30% CAGR_{23A-26E});
- ◆ Operating profitability slightly reducing over the next three years with EBITDA and EBIT Margin expected respectively at 32.5% and 20.8% (on Sales) by 2026E;
- ◆ Despite negative Δ NWC dynamics in FY25E-26E, OpFCF b.t. (before development Capex)/EBITDA ratio stands on average at ~60% over the FY24E-26E period;
- ◆ Net Cash Position to remain substantially stable at ca. €15.5mn by 2026E year-end, with ~€25mn cumulated EBITDA more than covering €9mn of cumulated residual capex for the Gigafactory.

ErreDue: 2023A-26E P&L Forecasts

(€mn)	2023A	2024E	2025E	2026E
Value of Production	19.3	18.4	28.6	42.8
Raw Materials, Δ Inventory (Raw Materials)	-6.4	-6.1	-9.7	-14.9
Costs of Services	-2.8	-2.7	-4.2	-6.2
Costs of Rent & Others	-0.1	-0.1	-0.1	-0.1
Labour Costs	-3.9	-4.3	-6.4	-8.6
EBITDA	5.9	5.0	7.7	12.2
<i>EBITDA Margin (% on VoP)</i>	<i>30.5%</i>	<i>27.0%</i>	<i>26.9%</i>	<i>28.7%</i>
D&A and Provisions	-1.8	-2.1	-2.8	-3.3
EBIT	4.1	2.9	4.9	8.9
<i>EBIT Margin (% on VoP)</i>	<i>21.0%</i>	<i>15.7%</i>	<i>17.2%</i>	<i>20.8%</i>
Interest Expenses and Other Non-Operating Inc./Exp.	0.4	0.3	0.3	0.2
Pre-Tax Profit	4.5	3.2	5.2	9.1
Taxes	-1.1	-0.7	-1.2	-2.2
Net Profit	3.4	2.4	4.0	6.9

Source: ErreDue, Value Track Analysis

ErreDue: 2023A-26E Balance Sheet

(€mn)	2023A	2024E	2025E	2026E
Net Fixed Assets	11.3	13.1	17.8	17.2
Net Working Capital	4.3	4.5	6.4	8.8
Provisions	1.0	1.1	1.2	1.4
Total Capital Employed	14.6	16.5	23.0	24.6
Group Net Equity	30.9	32.0	34.5	40.1
Net Fin. Pos. [Net Debt (-) Cash (+)]	16.3	15.4	11.6	15.5

Source: ErreDue, Value Track Analysis

ErreDue: 2023A-26E Cash Flow Statement

(€mn)	2023A	2024E	2025E	2026E
EBITDA	5.9	5.0	7.8	12.3
Δ NWC / Δ Provisions	-1.5	0.0	-1.8	-2.2
Maintenance Capex	-0.4	-0.2	-0.2	-0.2
Electrolyzers for Rentals	-1.4	-0.4	-1.7	-2.6
OpFCF b.t. (before dev. Capex and IPO)	2.6	4.3	4.0	7.3
<i>As a % of EBITDA</i>	<i>44.7%</i>	<i>86.9%</i>	<i>51.6%</i>	<i>59.3%</i>
Cash Taxes	-1.1	-0.7	-1.2	-2.2
OpFCF a.t. (before dev. Capex and IPO)	1.6	3.6	2.7	5.1
Development Capex	-3.0	-2.6 (*)	-5.5	0.0
R&D Costs	0.0	-0.7	0.0	0.0
Other (incl. Financial Inv.)	0.0	0.0	0.0	0.0
Net Financial Charges	0.4	0.3	0.3	0.2
Dividends Paid	0.0	-1.4	-1.4	-1.4
Δ Net Financial Position	-1.1	-0.9	-3.9	3.9

Source: ErreDue, Value Track Analysis, (*) Including €907k grant from SIMEST, received as a non-repayable contribution

Valuation

Fair Equity Value at €13.8 p/s

We fine tune ErreDue's **Fair Equity Value of €13.8 p/s (down from €14.6 p/s)**, based on the average outcome of the following valuation methodologies:

- ◆ **Relative Valuation**, based on peers' multiples and looking at the Group in two different ways, i.e., 1) as a whole and, 2) valuing separately the two businesses - traditional gas generators and new Megawatt for energy transition – with a Sum-Of-The-Parts (SOTP) model. The two approaches hint at €12.2-€14.7 range, with average **€13.5 p/s** Fair Equity Value. SOTP provides useful details about where value comes from;
- ◆ **Discounted Cash Flow**, here again we 1) look at the Group as a whole and 2) split the streams of the two different businesses, building different models. The two exercises provide a value range of €13.5-€14.5 p/s, also considering different capital structures, with **€14.1 p/s** average.

At €13.8 p/s, ErreDue stock would trade at **3.0x EV/Sales, 9.7x EV/EBITDA, 21.8x P/E Adj. 2025E**, in line with sales multiples of electrolysers manufacturers and still at some discount vs. EBITDA and earnings multiples of global industrial gas suppliers. The table below shows the sensitivity of key multiples to different fair values per share.

ErreDue: Multiples Sensitivity at Various Stock Price Levels

Fair Equity Value p/s (€)	EV/Sales (x)			EV/EBITDA (x)			EV/EBIT (x)			P/E Adj. (x)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
€ 9.20	2.5	1.8	1.1	8.5	6.0	3.4	14.6	9.4	4.7	23.8	14.5	8.3
€ 10.70	3.1	2.2	1.4	10.4	7.2	4.2	17.8	11.3	5.8	27.7	16.9	9.6
€ 12.20	3.7	2.6	1.6	12.3	8.4	5.0	21.0	13.2	6.8	31.6	19.3	11.0
€ 13.80	4.3	3.0	1.9	14.3	9.7	5.8	24.5	15.2	7.9	35.7	21.8	12.4
€ 15.20	4.8	3.3	2.1	16.0	10.8	6.5	27.5	17.0	8.9	39.3	24.0	13.7
€ 16.70	5.3	3.7	2.4	17.9	12.1	7.3	30.8	18.9	10.0	43.2	26.4	15.0
€ 18.20	5.9	4.1	2.6	19.8	13.3	8.0	34.0	20.8	11.0	47.1	28.7	16.4

Source: Value Track Analysis

Relative Valuation

Based on the following peers' analysis we performed two different methodologies, i.e., a relative valuation for the whole Group and a SOTP analysis splitting ErreDue business into: i) traditional business and ii) new energy transition segment.

In terms of valuation time horizon, we run the **peers' multiple analysis of the Company as a whole on FY2024 and FY2025**, while for **SOTP we focused on 2025E-26E** as reference years, as in 2024E the new energy transition production is not expected to contribute.

Also, while the traditional business could be valued by looking at EV/EBITDA multiples of comparables, all the peers involved in the manufacture of electrolysers are not profitable yet, hence our valuation primarily relied on EV/Sales multiples.

Finally, we remind that we expect **FY2024E to be a year of transition**, affected by a much lower growth in traditional business (weak capital good demand on high interest rates and uncertain macro-outlook) and by capex and initial opex required by the start-up of the Gigafactory due in 2025. This in turn suggests that **metrics on FY24E multiples will be much less favourable for ErreDue**, while FY25E forecasts will start incorporating a recovery in investment cycle of traditional generators

and the early deliveries of green hydrogen applications, as the Gigafactory will become gradually operating by year-end.

Stock Market Multiples Benchmark

All our clusters trade at demanding multiples (the whole list of peers' multiples can be found in the Appendix). More in details:

- ◆ Industrial **Gas Suppliers** vaunts exceptional operating profitability (EBIT Margin above 15%) and trade at median 5.1x EV/Sales, **14.3x EV/EBITDA**, 22.6x EV/EBIT and 25.8x P/E 2024E;
- ◆ Given the strong potentiality of H₂ in the global energy transition and the expected growth profile, both **Electrolysers Manufacturers and Fuel Cells** producers trade at demanding **EV/Sales** multiples, even if they are still far from positive operating profits (within these clusters, only De Nora, Bloom Energy and Doosan Fuel Cells have meaningful EV/EBITDA, EV/EBIT and P/E multiples, driving high median values).

That said, **ErreDue looks very cheap vs. all clusters (30%-60% discounts** on EV/Sales, EV/EBITDA 2025E, respectively). While on the one hand the discount is justified vs. industrial gas global leaders or players such as De Nora and Thyssenkrupp, we believe the stock deserves some rerating.

ErreDue: Peers Trading Multiples

Peers	EV/Sales (x)			EV/EBITDA (x)			EV/EBIT (x)			P/E Adj. (x)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Industrial Gas Suppliers												
Average	4.9	4.7	4.4	14.1	13.3	12.4	21.4	19.9	18.5	26.1	23.8	22.0
Median	5.1	4.9	4.6	14.3	13.4	12.5	22.6	20.6	19.0	25.8	23.3	21.3
Electrolysers Manufacturers												
Average	3.2	2.4	1.3	11.9	14.5	8.6	15.6	13.9	12.7	23.6	19.7	21.7
Median	3.0	2.2	1.3	11.9	14.5	9.9	15.6	13.9	13.3	23.6	19.7	24.5
Other Hydrogen Players												
Average	4.2	2.7	2.2	24.1	14.6	16.1	nm	nm	19.7	nm	39.1	33.1
Median	3.7	2.1	1.3	24.1	14.6	14.9	nm	nm	19.7	nm	39.1	33.1
Total Average	3.9	3.0	2.3	16.6	13.9	12.0	20.2	18.7	16.4	25.6	25.7	24.1
Total Median	3.3	2.4	1.8	15.0	13.4	11.5	19.9	18.1	16.4	24.0	23.3	25.5
ErreDue	2.3	1.7	1.0	7.7	5.5	3.1	13.3	8.6	4.3	22.2	13.6	7.7
<i>Discount vs. Total Median. (%)</i>	-30%	-29%	-43%	-48%	-59%	-73%	-33%	-53%	-74%	-7%	-42%	-70%

Source: Market Consensus, Value Track Analysis

Relative Valuation #1: The Group as a Whole

In order to set the fair multiples for ErreDue, we apply a **10% discount** to the rating of the overall peers' universe, as on the one hand we believe a 20/30% discount is reasonable vs large global players in gas production, while on the other no discount is probably needed when comparing ErreDue to the other new entrants in the green hydrogen segment.

If we apply such a discount on the median of all key metrics (EV/Sales, EV/EBITDA, EV/EBIT and P/E), and focus on **FY2024E and FY2025E**, we get to a Fair Equity Value of **€12.2/share**.

ErreDue: Group Relative Valuation (based on peers' multiples)

Relative Valuation 2024E-25E	EV/Sales (x)		EV/EBITDA (x)		EV/EBIT (x)		P/E Adj. (x)	
	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Peers' Median (x)	3.3	2.4	15.0	13.4	19.9	18.1	24.0	23.3
Discount (%)	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%
Fair Multiples (x)	3.0	2.1	13.5	12.0	17.9	16.3	21.6	21.0
Fair Equity Value p/s (€)	10.4	10.4	13.1	16.7	10.7	14.6	8.4	13.3
Average Fair Equity Value p/s (€)					12.2			

Source: Market Consensus, Value Track Analysis

Relative Valuation #2: Sum of The Parts

With a simplified SOTP model we evaluate separately i) the traditional and consolidated business, focused on industry and laboratory applications, and 2) the new segment, focused on large H₂ generators for energy transition applications. This methodology is still based on market multiples of peers but offers the benefit that we can apply different multiples and/or different discounts for each business segment. Hence:

- ◆ **Traditional business** is valued on the back of FY25E-FY26E EV/EBITDA of gas providers (median), applying a 25% discount due to different size, liquidity, competitive positioning etc.,
- ◆ **“Megawatt” business** (for energy transition) is valued on EV/Sales for FY25E and FY26E (median) but here we do not apply any discount, as most players in the Electrolyser Manufacturers group are larger than ErreDue but in the same order of magnitude and have weaker financials.

The table below summarizes the outcome of this exercise, which provides a range of value of €13.4-16.0 per share and a mid-point of **€14.7 p/s**.

The additional key information provided by this model is that most of value is still related to the **traditional and fully consolidated business of ErreDue**, i.e. on-site gas generators for the most various industries and laboratories: this business accounts for ca. 70% of Group based on FY2025E, with Energy transition at 30%, while these relative contributions move to 63% / 37% based on FY2026E, with the increasing contribution of the Megawatt business mirroring its increasing financial performance. On average we estimate **traditional business represents ca 67% of equity value vs 33% for Megawatt**, i.e., **€9.7 p/s and €5.0 p/s respectively**.

ErreDue: Sum of the Parts Valuation (based on peers' multiples)

Sum of the Parts Valuation	Traditional Business		Energy Transition		ErreDue Group	
	2025E	2026E	2025E	2026E	2025E	2026E
Fair EV/Sales (x)			2.2	1.3		
Fair EV/EBITDA (x)	10.0	9.4				
Enterprise Value (€mn)	50.0	53.2	21.9	31.4	71.9	84.6
As a % of total	70%	63%	30%	37%	100%	100%
Net Financial Position (€mn)					11.6	15.5
Fair Equity Value (€mn)					83.4	100.0
NOSH (mn)					6.3	
Fair Equity Value p/s (€)					13.4	16.0
Average Fair Equity Value p/s (€)	9.7		5.0		14.7	

Source: Market Consensus, Value Track Analysis

Discounted Cash Flow

Our DCF analysis is also run with two different stand points: Group as a whole – traditional and Megawatt segments - and via separate free cash flow profiles and valuations for the two segments.

The **Group DCF model** considers the two business as a whole and is run through the use of two capital structures: a target / levered one and the current (cash positive). The outcome of the Group DCF is an **Equity Value at €14.0 p/s**, within a €13.5-€14.5mn range, depending on the capital structure considered.

The **DCF by business segment**, starting from the specific contributions of the two businesses to the Group performance, provides a very similar outcome of **€14.1 p/s** - the difference being related to a slightly different WACC, depending on mix of capital structure - but it also indicates what is the value of each business: ca. **53% (€7.6 p/s) is attributable to traditional business**, while the remaining **47% (€6.6 p/s)** should arrive from the **new Megawatt** product line.

WACC Assumptions

Our model derives an **11.4% Rolling WACC** from the Capital Asset Pricing Model approach, relying on the assumptions below and assuming the current capital structure (unlevered); while based on a **target capital structure** (20% D/D+E) our WACC comes at **10.7%**.

The key assumptions for our DCF models are:

- ◆ 2025E-2030E as time horizon for explicit forecasts;
- ◆ 2.0% Risk Free Rate in line with medium term inflation target;
- ◆ Unlevered Beta equal to 1.13 (Source: Damodaran web site), as European Machinery companies;
- ◆ Implied Italian Equity Risk premium at 5.19% (down from 5.62%, *Source: Damodaran web site*);
- ◆ 3.5% Company specific Risk Premium (small cap + low liquidity);
- ◆ 4.5% Pre-Tax Cost of Debt;
- ◆ 20% Net Debt/Capital Employed ratio (as Target Capital Structure);
- ◆ 1.0% Perpetuity Growth Rate (“g”);
- ◆ Corporate tax rate at 24%.

Group DCF model

That said as for our DCF assumptions, the results of our models are reported in the tables below, with Fair Equity Value p/s at **€13.5** assuming the current unlevered capital structure, with unlevered Beta and Rolling WACC, and **€14.5** Fair Equity Value p/s on a target slightly levered capital structure.

ErreDue: Group DCF Model with Rolling WACC

(€mn, g = 1.0%)	(€mn)
PV of Future Cash-Flows 2025E-2030E	18.5
PV of Terminal Value 2030E (implied TV/EBITDA at 4.8x)	50.5
Fair Enterprise Value	69.1
Net Financial Position 2024E	15.4
Minorities, Other Liabilities / Assets	0.0
Fair Equity Value	84.5
Number of Shares (mn)	6.3
Fair Equity Value p/s	13.5

Source: Value Track Analysis

ErreDue: Group DCF Model with WACC @ Target Capital Structure

(€mn, g = 1.0%)	(€mn)
PV of Future Cash-Flows 2025E-2030E	19.1
PV of Terminal Value 2030E (implied TV/EBITDA at 5.1x)	56.2
Fair Enterprise Value	75.32
Net Financial Position 2024E	15.4
Minorities, Other Liabilities / Assets	0.0
Fair Equity Value	90.8
Number of Shares (mn)	6.3
Fair Equity Value p/s	14.5

Source: Value Track Analysis

ErreDue: Sensitivity of Group DCF Model @ Target Capital Structure

Fair Equity Value (€mn)		Perpetuity Growth (%)				
		0.50%	0.75%	1.00%	1.25%	1.50%
WACC (%)	10.1%	15.6	15.9	16.3	16.6	17.0
	10.6%	14.8	15.1	15.3	15.6	16.0
	11.1%	14.0	14.3	14.5	14.8	15.1
	11.6%	13.4	13.6	13.8	14.0	14.3
	12.1%	12.7	12.9	13.1	13.3	13.5

Source: Value Track Analysis

DCF by Business Segment – Traditional vs Megawatt (Energy Transition)

In our DCF analysis by business segment we split the “traditional” and the new “energy transition” business segments, running separate projections into 2030 and assuming different assumptions in terms of capital structure and risk profile. The result shown in the table below indicates that the Fair Equity Value for the Group stands at **€14.1 p/s** and it is attributable for ca. **54% to the traditional business segment**, with the residual stemming from “energy transition”.

In terms of equity value per share the split would therefore be €7.6 for traditional business and €6.6 for the Megawatt segment. Not surprisingly DCF model appears relatively more “generous” to the new Megawatt business, as it factors longer term streams compared to peer market multiples.

ErreDue: DCF Model by Business Segment

Fair Equity Value (€mn)	Traditional Business	Energy Transition	ErreDue Group
Capital Structure	Target (20% D/D+E)	Current (cash)	
WACC (%)	9.1%	12.9%	
g (%)	0.8%	1.6%	
PV of Future Cash-Flows 2025E-2030E	11.5	7.2	
PV of Terminal Value 2030E	27.6	26.5	
Enterprise Value	39.0	33.8	72.8
Net Financial Position 2024E			15.4
Fair Equity Value			88.3
NOSH (mn)			6.3
Fair Equity Value p/s	€7.5	€6.6	14.1

Source: Value Track Analysis

Appendix 1: ErreDue's Business Model

Vertically integrated business model from R&D to After-Sales services

One of the most important key features / competitive advantage that **ErreDue** boasts, in our view, is that the company **internally covers all the steps of the value chain**, from R&D to After-Sales services. Such a vertically integrated and fully in-house business model is possible thanks to:

- ◆ The expertise gained over the years by the company and its management;
- ◆ The internally developed “technology stack” that combines machines, Computerized Numerical Control (CNC) supervising tools, and proprietary operating firmware.

As a result, ErreDue is capable to design, produce, and assemble all technological components of its products internally, maintaining complete control over its production chain, from raw materials to finished products. And in the after-sale phase, it is possible to effectively provide remote support and predictive maintenance services. Among the main **benefits** that arise from such advantages, we would underline the following:

- ◆ Safeguarding the Company's proprietary know-how;
- ◆ Enhancing efficiency and product reliability;
- ◆ Generating recurring after sales business;
- ◆ Maximizing profit margins.

Main phases of the business model

More in details, the main **phases** of ErreDue business model can be summarized as:

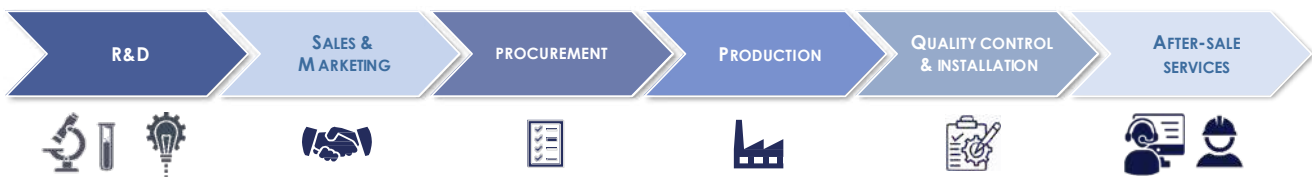
Phase # 1: R&D;

Phase # 1: Design / Procurement / Production;

Phase # 1: Orders acquisition (Go-to-market);

Phase # 1: After-Sales.

ErreDue: Phases of the business model



Source: ErreDue

Phase #1 - R&D: New products and technologies to fit client needs

We calculate that **around 7-8% of ErreDue's revenues is devoted to R&D**, with **all costs being charged on P&L** and part of them being eligible for Government R&D support (tax credits).

Key points to underline are:

- ◆ ErreDue has a dedicated area of 500m² entirely designed for R&D activities, which will be further widened and optimized following the reorganization of the whole Group sites and location in 2024. R&D staff is made of 10 people, including the head of the department;
- ◆ The R&D department conducts a wide range of research and tests, integrating electronic, chemical, computer science, and mechanical fields, on cutting-edge technologies and innovative

product applications, with the aim to continuously improve its commercial offerings for existing customers and to attract new ones;

- ◆ ErreDue has chosen not to pursue patent protection for its solutions to avoid public disclosure of the technical descriptions of its innovative activities. Though, to protect its know-how, it has applied logical security measures, legal protection measures and physical and document protection measures;
- ◆ In order to maximise the efficiency of its R&D effort, ErreDue also **cooperates with top tier public and private institutions** on themes such as PEM and AEM electrolytic cells, advanced systems for methanol production, development of new polymeric materials. Main partners are:
 - ENEA (National Agency for New Technologies, Energy and Sustainable Economic Development);
 - CNR (National Research Council);
 - Several Italian universities;
 - Spinpet S.r.l., a spin-off from the University of Pisa.

Phase #2 - From design to production: production processes entirely in-house

The integrated supply chain management process can be divided into three further steps:

1. Design & Development;
2. Procurement;
3. Production.

1. Design & Development

The design and development process begins with the results of basic research, or a need expressed by clients or identified through market research.

To initiate a new project, approval from the R&D head, the appointment of a dedicated project manager, and a clear definition of the objectives for which the initiative is undertaken are required.

The process is overseen by a project manager and is structured as follows:

1. The project is managed by the design and development function to verify the actual feasibility of the proposed functional and performance requirements;
2. Regulatory and statutory requirements are analyzed;
3. Development team drafts the Project plan i.e., it produces technical documentation, identifies elements to be tested, determines the target performance ranges, identifies material codes and product descriptions that need to be ordered to create a prototype, and issues compliance statements;
4. Final testing of prototype. If the tests are successful, the new solution is added to the product catalog.

2. Procurement

ErreDue manufactures based on clients' demand and not to build inventory stocks of semi-finished / finished products. As such, the procurement phase is mainly linked to the planning and execution of purchase orders.

Key points to underline are:

- ◆ Purchasing is carried out by each department of the Company according to specific needs; this allows orders to be formulated by highly-specialized individuals with deep knowledge of the uses of each purchased component;

- ◆ ErreDue purchases through direct “spot” orders several raw materials such as steel, iron, aluminum, polypropylene, polycarbonate, caustic soda, potash, nickel, palladium, iridium, ruthenium, carbon molecular sieves, zeolite, activated carbon, calcium chloride;
- ◆ In addition, ErreDue also purchases synthetic fibers and membranes, metal chassis, electric transformers, PLCs and expansion hardware. Regarding electrical components, supply contracts are annual and include supplies with pre-set targets linked to specific discounts.
- ◆ Depending on the discount offered by suppliers, ErreDue decides if to negotiate large quantity purchases with advance payments;
- ◆ Except for Nafion, a polymeric membrane utilized in the electrolytic cell of PEM electrolyzers, which is made from a material based on a proprietary patent held by DuPont Group, ErreDue is **not dependent on any key supplier**.

3. Production

We said before that ErreDue **internally performs nearly all the processes for constructing / assembling / mounting / testing its machinery** and, where necessary, independently produces the solutions needed for such constructions or, if available on the market, makes customized modifications to machine tools supplied by 3rd parties.

Furthermore, to protect the exclusivity and secrecy of its corporate know-how, the company manufactures critical parts containing proprietary technology at its own premises, equipped with two large CNC milling machines and other dedicated equipment.

The industrial machinery produced by ErreDue consists basically of five distinct parts, as follows:

ErreDue: Components for machinery construction	
Component	Description
1. Electrolytic cell	The central element of the machinery, ErreDue has developed various models of electrolytic cells both with alkaline (made of plastic components produced with proprietary molds and designed internally) and PEM technology (made with catalyzed membranes using catalysts designed and produced internally)
2. Electrical part	Designed and assembled internally
3. Operating software	Designed internally and proprietary
4. Process components	Such as tanks, internal piping, collectors, end plates for nitrogen and hydrogen generators, designed internally at the Lavaiano plant
5. Chassis	A component without know-how, generally provided by the same clients who rent the Company's machinery for their own production

Source: ErreDue

We note that for **large-scale plants**, from 1 MW onwards, ErreDue has created a team of engineers dedicated exclusively to this project, and the construction is entirely carried out by the Company. For this type of machinery, ErreDue has purchased a milling machine dedicated to special processing to prevent the dissemination of design drawings for such solutions to external suppliers.

Production Facilities

ErreDue's production phase is carried out by 49 dedicated resources as of December 202e, across **six sheds**, all (except for the R&D area) owned and divided between the production site for large plants (700m²), processing and laboratory (1,000m²), R&D (500m²), production headquarters and

commercial offices (2,000m²), warehouse (1,050m²), and an additional operational site (2,300m²) in Lavaiano (Pisa) for sheet metal processing.

It's paramount to remember that the company back in **June 2023**, has finalized an agreement to purchase **another site** with **16,000 m²** total surface area.

ErreDue's goal in the next quarters is to unify in a single main facility the construction of H-MW series plants and on-site industrial plants, the processing of components and tools, and the warehouse, maintaining a dedicated site for laboratory machinery and those based on PEM technology, and a property for the headquarters, administrative offices, and R&D activities.

This **reorganization** should allow the disposal of one of the existing sites.

Phase #3 - Go-to-market: Mostly direct sales or rental

The commercial organization consists of 8 personnel, with people dedicated to industrial alkaline generators, mixers, and dryers, allocated by i) Northern Italy, ii) Central- Southern Italy, and iii) international markets.

Other resources are specifically assigned to the commercialization of machinery intended for laboratories and products based on PEM technology.

Except for the international distribution of laboratory machinery, which ErreDue manages through a network of dealers, the Company does not utilize distribution channels for the sale of its machinery but operates directly with internal resources or through multi-agency representatives, located all-over globally, normally with no territorial exclusivity, via:

- ◆ **Referrers** in United Arab Emirates, Austria, Germany, England, Spain, China, France, India - individuals compensated with a commission depending on the discount given to the customer;
- ◆ **Dealers** - entities that purchase the machinery and resell it within their relevant markets and the Company grants a discount due to their assumption of credit risk with their counterpart.

Worthy to note, **ErreDue's machines can be offered either for sale or for rent**, each technicality having its own features, as follows:

Sale of Electrolyzers

- ◆ Once orders are confirmed, machines are **delivered within an average period of 4 months**, along with user and maintenance manuals, electrical diagrams, and compliance certification or specific certifications required for certain applications;
- ◆ The contractual conditions typically include an **advance payment** upon order confirmation amounting to 30% of the total contract value, which increases to 50% for machinery made with solutions that must meet specific client requests;

For sales within Italian territory, the **balance** of the payment, after deducting the aforementioned advance, is made in installments at 30, 60, and 90 days from delivery, while for foreign clients, the balance is usually settled before delivery;

- ◆ The sales agreements may stipulate that testing be conducted, in the presence of the client, at the Company's premises once the production and assembly phase is completed, before shipment;
- ◆ Machines enjoy a twelve-month warranty, which, however, does not cover components subject to wear and is typically provided ex-works from the Livorno plant.

Rental of Electrolyzers

- ◆ Predominantly limited to the Italian territory, this commercial scheme allows customers to avoid up-front costs for equipment investments and, at the same time, it generates predictable and recurring revenues to ErreDue. Routine and extraordinary maintenance services are included in the rental fee;

- ◆ Being accounted as capex, these machines do generate Depreciation charges in ErreDue's P&L, albeit always much lower than the rental fee charged to clients;
- ◆ Rental contracts are fully indexed to inflation and have an average **duration of 65 months**, with an automatic renewal of 24 months at the end of the term, unless cancelled by the client within the third month prior to the contractual expiration;
- ◆ At the end of the contract, machines still have a market value (even if fully depreciated), of approximately 60% of the initial one: they can indeed be redeemed or rented again to the same customer or sold to 3rd parties with a capital gain. In terms of cash flow, we estimate that the average payback period on these machines is 2.5-3.5 years;
- ◆ To cover any potential damage that might arise from improper handling of the provided machinery, clients are required to sign specific agreements and to secure adequate insurance coverage, in addition to providing ErreDue with an indemnity regarding any liability or recourse arising from such events;
- ◆ The rental agreements stipulate that throughout their duration, the machinery remains the property of ErreDue and must be placed in areas at the client's premises that are always accessible to the Company's staff.

Phase #4 - After-Sales: Operational excellence & client satisfaction with good returns

After-sales services provide a steady flow of **recurring revenues** to ErreDue with very **attractive margins**, thanks to the fact that machinery's estimated useful life is around 15-20 years and the supply of spare parts - handled directly by the sales force outside of existing maintenance contracts - typically entails nice operating margins.

ErreDue's after-sales activity comprises 10 specialized personnel taking care of clients throughout the entire "process", from the design of the plant to the installation and continues with subsequent support after the machinery has been commissioned. These activities include maintenance contracts and spare parts supply.

The key features of the after-sales services are:

- ◆ Each client is granted the opportunity to perform factory acceptance testing (FAT), or to conduct a **usage test** at ErreDue's premises before the machinery is delivered;
- ◆ After installation and testing, ErreDue performs continuous **remote monitoring** of each installed machinery, promptly performing both routine and extraordinary maintenance, avoiding sudden production stops;
- ◆ ErreDue ensures to clients **prompt and reliable responses**, due to the fact that i) assistance is provided by internal resources, ii) Company always holds spare parts and accessories;
- ◆ Particular attention is devoted to **personnel training** both at the time of hiring and subsequently for updating on new technologies.

Appendix 2: Products & Services Portfolio

Products and Services

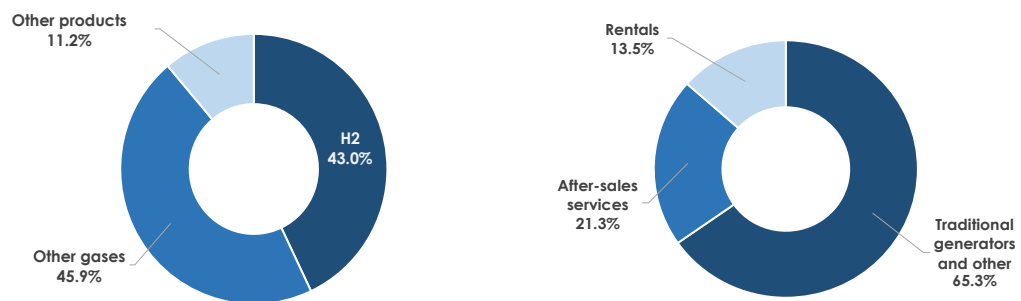
ErreDue's **product offering** has undergone significant enlargement in recent years, starting with traditional industrial gas generators and now including H₂ alkaline (AWE, i.e. Alkaline Water Electrolyser) and PEM (i.e. Proton Exchange Membrane) technologies, N₂ and O₂ generators, and purifiers /mixers /stabilisers.

In addition, the vertical integration allows ErreDue to offer additional **key services** aimed at 1) supporting clients and hence contribute to retain them and, b) providing recurring revenues with good medium-term visibility.

ErreDue provides the split of the revenues from products and services offered as follows:

- ◆ **by gas** i.e., by type of gas generator/machine: **1)** hydrogen, **2)** other gases (N₂ and O₂) and **3)** other products;
- ◆ **by contract** i.e., depending on the terms of the product or service provided: **1)** sale of generators, **2)** after sales services and spare parts and **3)** rental of generators.

ErreDue: Revenues split by gas and by type of contract (FY23)



Source: ErreDue, Value Track Analysis

1. Sale of Products (€10.8mn or ca. 65% of FY23 revenues)

ErreDue **highly-diversified product portfolio comprises #39 product models** – with plans to launch two additional models soon – addressing hydrogen, but also ultra-pure nitrogen and oxygen generation plants for industrial, laboratory and energy transition plant applications.

Additionally, crucial to ErreDue's strategic advantage is its comprehensive **all in-house capability** in concept development, design, component manufacturing, and assembly.

This end-to-end control over production processes allows ErreDue to craft **tailor-made solutions** that precisely meet the specific requirements of its clientele, facilitating competitive differentiation in the market.

In a nutshell, the Company enjoys a competitive advantage based upon the fact that its generators:

- ◆ can meet **the most demanding requirements**;
- ◆ can be **customized** to best suit the customers' needs;
- ◆ are seen as the **top-end benchmark in the industry**.

#1 Hydrogen / H₂

ErreDue's primary offerings in hydrogen gas generation include:

- ◆ **H₂ Alkaline Electrolysers** (i.e. *Mercury*) – Products engineered to satisfy industrial demand, complementing biogas production and serving as potential clean energy storage solution. They support continuous operation (24 h / 7 days) and boast significant scalability;
- ◆ **H₂ PEM Generators** (i.e. *Sirio*, *MarsBox*, *Mars*) – Generators employing proprietary PEM technology and predominantly utilized in biogas production processes and metal heating treatment.

Systems' pressure settings can be customized, ranging 15-30 bar, and support a maximum capacity that can be adjusted from 0.5 to 2 normal cubic meters per hour (nmc/h).

ErreDue: H₂ Generators

Sirio



Mercury



MarsBox



Mars



Electrolysers 500kW



Source: ErreDue

#2 Other gases / N₂ - O₂

ErreDue also offers other gas generators such as:

- ◆ **Ultrapure N₂ Generators** – Generators instrumental in pivotal industrial domains as semiconductor fabrication, metallurgy, laser cutting of plastics. A modular design offers the possibility of gradual post-installation capacity enhancement;
- ◆ **Plug&Play N₂ Generators** – Machines producing pressurized nitrogen streams directly interfaced with the laser system, achieving flow rates that can reach up to 500 normal cubic meters per day. They are tailored for laser cutting applications;
- ◆ **N₂ Generators** – Machines constructed with stainless steel and suited for environments where sanitary conditions are paramount, such as food packaging and sterile pharmaceutical manufacturing processes;
- ◆ **O₂ Generators** – Generators designed for efficiency that achieve up to 95% purity with low maintenance, and suitable for uses such as water purification and aquaculture.

ErreDue: Other Gases Generators

Saturn



Venus



NitroBOX



Mizar



GN Inox



Lyra



Galileo



Gemini



Aries



Source: ErreDue

#3 Other products

ErreDue offers additional products as well, such as:

- ◆ **Gas Purifiers** – Devices facilitating the recycling of gases, allowing both economic savings and retrieval of elements that would, otherwise, be dispersed into the environment.
They are designed to integrate seamlessly with any ErreDue generator and can purify and reuse hydrogen, argon, oxygen, nitrogen, methane, etc.
- ◆ **Electronic Gas Mixers** – Devices capable of forming one or more mixtures of arbitrary percentage between two/three gases.
The control device of the mixer is a PLC that communicates with an LCD operator panel.
Through this device the user can select the desired concentration of the mixture and get information about the status of the ongoing process;
- ◆ **Air compressors** – Devices feeding N₂ or O₂ generators, managed autonomously by a PLC with a touchscreen control panel that allows the display and modification of parameters.
They operate independently, producing only the amount required by the machinery with no waste, and include a storage tank to support consumption peaks.

ErreDue: Other Products

Gas Purifier



Electronic Mixer



Andromeda



Pegaso



Orion Z



Orion P



Source: ErreDue

2. Provision of Services (€5.7mn or ca. 35% of FY23 revenues)

ErreDue provides services, as well, such as:

- ◆ **After sales** services;
- ◆ **Rental of electrolysers.**

#1 After-sales services: maintenance and spare parts

In **FY23**, ErreDue's reported **€3.5mn after-sales revenues** (vs. €2.4mn in FY22), including €2.6mn from spare-parts (up from €1.7mn in FY22) and €0.9mn from maintenance and assistance services (up from €0.7mn in FY22).

Notably, maintenance and spare-parts replacement represent a captive and growing segment of ErreDue's business, correlated with the expanding global installed base of the Company's plants.

We note that over 56% of the revenue generated in 2023 from maintenance and spare parts was due to hydrogen generation equipment as electrolytic cells are the most-costly component to replace, having an operational lifespan of approximately 40,000 hours, vs. an estimated useful life of the electrolyser between 15 and 20 years.

Customer care is crucial at ErreDue for ensuring client satisfaction. Indeed, the Company's gas generation and treatment solutions are integral to broader production facilities; thus, any unexpected generator downtime or malfunction can disrupt the entire production process and worsen ErreDue's reputation as a highly reliable partner.

ErreDue maintains its high level of service using advanced remote monitoring software and a highly specialized technical department, which includes ca. 10 maintenance technicians. ErreDue supports clients from the design phase to installation:

- ◆ **Upon project completion**, ErreDue personnel train customers on product operation, maintenance, and optimal management of the generated gas. During the Factory Acceptance Testing (FAT) phase at ErreDue's facilities, customers can ensure that the equipment fulfils its intended function and meets all specifications and requirements before installation;

- ◆ **Post-installation**, ErreDue proprietary remote-control software enables continuous monitoring of the performance and condition of installed generators and other equipment, facilitating timely predictive and extraordinary maintenance and preventing unforeseen production stoppages.

Additionally, the software helps the Company efficiently plan for the production of made-to-stock spare parts, ensuring their immediate availability.

Many clients opt for annual maintenance contracts, which offer additional assurance for smooth operations and cost management.

#2 Rental of Electrolyzers

In **FY23**, rental business revenues totalled approx. **€2.2mn** (vs. €2.0mn in FY22 and FY21).

ErreDue manufactures generators that hold as assets on its balance sheet while being rented out to clients who make regular instalment payments, thus generating a steadily increasing stream of recurring revenues over time to ErreDue.

These rental agreements are indexed to inflation, with an average duration of 65 months and automatic renewal at the end of the term, unless termination is explicitly requested.

In some cases, machines have been rented to the same client for over 15 years, with agreements renewed twice. On the opposite, some other clients choose to purchase the generators after a few years of rental, finding ownership more cost-effective.

The rental option is particularly appealing to new customers who are trying onsite gas generation for the first time, allowing them to explore an emerging technology without a significant initial capital expenditure and without the risks associated with managing a new technology asset.

It's worth describing the accounting features of such business:

- a. Rental fees are recognised as Revenues from sales;
- b. In-house manufacturing costs of the machines offered for rental are capitalized (see previous section with comments on historical financials as for Value of Production and Capex) and then depreciated over a **6.7-year period (15% amortization rate)**, although their functional lifespan can extend up to 15-20 years;
- c. Once machines offered for rental are fully amortized, the income generated flows down directly to EBT, or if the asset is sold after the rental period, it generates a capital gain accounted within Top Line.

It is estimated that at the end of a 6-year rental contract, a generator still retains ~60% of its original construction value, albeit almost fully amortized.

Appendix 3: Peers' profile

ErreDue: Industrial Gas Suppliers

Sol (SOL) – Italian multinational active in the production, applied research and sale of technical, pure and medical gases and homecare services, with operations in Europe, Brazil, Morocco, India and Turkey.

Air Liquide (AI) – French multinational supplying industrial gases and services to various industries including medical, chemical and electronic manufacturers. Second-largest supplier of industrial gases with operations in >80 countries.

Linde (LIN) – Global multinational chemical company founded in Germany and, since 2018, domiciled in Ireland and headquartered in the United Kingdom. Linde is the world's largest industrial gas company by market share and revenue.

Air Products & Chemicals (APD) – American international corporation whose principal business is selling essential industrial gases and chemicals to customers in dozens of industries.

ErreDue: Electrolysers Manufacturers

Industrie De Nora (DNR) – Largest global supplier of high-performing coatings and electrodes & electrochemical services. It should also materially benefit from the uptick in green hydrogen via its newly set energy transition segment.

Thyssenkrupp Nucera (NCH2) – Multinational company that designs industrial scale, high current density electrolysers for the chlor-alkali and hydrogen sectors. De Nora and Thyssenkrupp as strategic investors.

Nel Hydrogen (NEL) – Norwegian but global company providing solutions for the production (electrolysers), storage and distribution of hydrogen from renewable energy sources.

Plug Power (PLUG) – American company offering end-to-end green hydrogen ecosystem, from production (electrolysers), storage, and delivery to energy generation (fuel cells).

ITM Power (ITM) – Energy storage and clean fuel UK company that designs, manufactures, and integrates electrolysers based on proton exchange membrane technology to produce green hydrogen using renewable electricity and tap water.

McPhy Energy (MCPHY) – French company that specializes in manufacturing and marketing hydrogen production and storage equipment from water electrolysis. The group also provides electrolysers and storage containers.

HydrogenPro (HYPRO) – Norwegian technology company and an OEM for high-pressure alkaline electrolyser systems for large-scale green hydrogen plants.

Enapter (H2O) – German-based company developing plug-and-play Anion Exchange Membrane (AEM) electrolysers to be manufactured at scale, enabling solutions in refueling, energy storage, industry, power-to-x, and research.

Green Hydrogen Systems (GREENH) – Danish company that designs and manufactures efficient, standardized and modular electrolysers for production of green hydrogen with renewable energy sources.

ErreDue: Other Hydrogen Peers

Ceres Power (CWR) – United Kingdom-based developer of clean energy technology, electrolysis for the creation of green hydrogen, and fuel cells for power generation.

Bloom Energy (BE) – American company manufacturing and marketing solid oxide fuel cells for the distributed generation of electricity on-site.

Ballard Power Systems (BLDP) – Canadian company that develops and manufactures proton exchange membrane fuel cell products for markets such as heavy-duty motive, portable power, material handling as well as engineering services.

Powercell Sweden (PCELL) – Swedish company that specializes in the development and production of hydrogen electric fuel cell stacks and systems for aviation, marine, power generation, off & on road industries.

FuelCell Energy (FCEL) – US-based company, global leader in designing, manufacturing, operating and servicing direct fuel cell power plants.

Doosan Fuel Cell (336260) – South Korean company that develops environment-friendly fuel cell with high efficiency for power generation facilities.

Nikola Corporation (NKLA) – American manufacturer of heavy-duty commercial battery-electric vehicles, fuel-cell electric vehicles, and energy solutions.

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