BREAKING NEWS

EQUITY RESEARCH

July 11th 2023

algoWatt

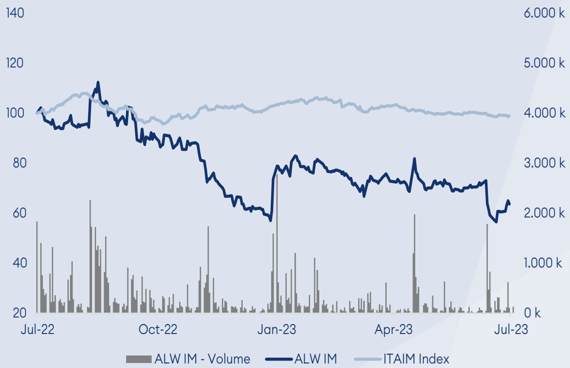
Euronext Growth Milan | GreenTech | Italy

Start of the financial recovery process

Rating	Target Price	Risk	ALW IM Price
U/R	U/R	Medium	€ 0,52

Stock Data	
Price	€ 0,52
Target price	U/R
Upside/(Downside) potential	N/A
Ticker	ALW IM
Market Cap (€/mln)	€ 24,09
EV (€/mln)	€ 36,83
Free Float	55,66%
Share Outstanding	46.322.455
52-week high	€ 0,97
52-week low	€ 0,47
Average daily volumes (3 months)	220.362

Stocks performance relative to FTSE Italia Growth



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Start of the financial recovery process

In its press release dated June 19th, 2023, AlgoWatt, a Green Tech company listed on the Euronext Milan (EXM) market, announced the approval of its Updated Financial Plan and new 2023-25 Business Plan. These proposals are part of the financial rebalancing project presented in the letter to shareholders and participationg financial instrument holders dated June 19, and aimed at overcoming the recent phase of financial challenges.

In particular, following what was communicated on March 24, 2023, the Company has resolved to submit an application for a Group Negotiated Composition, which will allow the start of a non-judicial restructuring process with a view to maintaining business continuity. This voluntary and out-of-court process, involving the Chamber of Commerce, has the objective of identifying a solution of negotiation with the Company's creditors. The process will be started by filing the application for the appointment of an Expert, pursuant to Article 12 et seq. of the Business Crisis and Insolvency Code, as per Legislative Decree of January 12, 2019, No. 14, as amended. Once the application has been filed, the instrument envisages:

- A request for protection from creditors;
- A request for access to the benefit for the deferment of overdue tax debt - which contributes to increasing the difficulty of finding funds and therefore creates an obstacle for the development of the business - by 10 years;

The Updated Financial Plan was presented at the same time as the proposed application, replacing and supplementing the old Recovery Plan and Financial Agreement signed by the Company and its financial creditors from June 21st to July 9th, 2021. The old Plan had positive effects in terms of debt relief and industrial turnaround, though the rigidity of the debt constraints it imposed made it impossible to make use of new lines of credit to support working capital. With the impossibility of obtaining financing, the Company found itself facing progressive exclusion from the registers of suppliers of customers of greater importance and size, in addition to exclusion from participation in public and private tenders. In this context, considering the tax debt imbalance, the Company's strategy, aimed at developing high value-added as-a-service platforms, has not proved to be sufficiently effective in guaranteeing the sustainable development of the business.

The new Updated Financial Plan is presented as a solution to this particular situation, providing for a debt-to-equity swap, that is, the conversion of the Company's financial debt into equity capital, accomplished via a specific increase of reserved capital, through the early conversion of the equity financial instruments issued by the Company (SFP ALW) in the execution of previous agreements. In this way, financial creditors will be granted the opportunity to participate in the future growth of the Company's business, in the context of the out-of-court restructuring process. The proposal envisages:

- The issuing of a maximum number of new ordinary shares amounting to € 53.50 million, of expressed nominal value, with regular entitlement and rights equivalent to shares already outstanding, at the price of € 0.56 per share;
- The conversion of the participationg financial instrument into approximately 24.00 million new shares, the subscription price of which will be determined on the basis of the fair value of the shares, subject to the fairness opinion of an independent expert.

Considering that, to the approximately € 29.70 million of debt already transformed into participationg financial instrument stock and prospectively converted into equity, a further € 10.00 million relating to financial creditors will be added, and considering the Updated Financial Plan, an overall cut in debt of around € 40.00 million is estimated. There is also the possibility of inserting a lock-up clause both in the reserved capital increase and in the agreement for the early conversion of partecipating financial instruments. Furthermore, the Financial Plan provides for the publication of a prospectus for the listing of the newly issued shares.

The Expert, Dr. Giovanni La Croce, a chartered accountant based in Milan, nominated for the Group Negotiated Composition, will have to draw up a Report (as per Letter C, Paragraph 1, of Article 23 of the Business Crisis and Insolvency Code) - following the signing of the capital increase and taking into account settlement agreements with suppliers and the rescheduling of tax debt - expressing an opinion on the financial rebalancing of the Company and on the early termination of the terms of the old 2021 Plan, which will be fully replaced through the stipulation of the Restructuring Agreement (as per Article 23, Paragraph 1, Letter C of the CCII). This Agreement must provide for the maintenance of AlgoWatt's working capital lines for a period of time as to allow refinancing through access to new funds in relation to the sale of trade receivables. Furthermore, it should be noted that, on July 6, 2023, the Chamber of Commerce published in the Company's Register the application for protective measures for assets, as per Article 18, Paragraph 1, of Legislative Decree 14/2019, and approval of the Expert. AlgoWatt has filed an application before the competent Court of Milan for the confirmation of the requested protective measures, as per Article 19 of Legislative Decree 14/2019.

In accordance with the proposed Updated Financial Plan, which relies on the forecast data elaborated by the Company's management, and in order to recover from the current financial situation, AlgoWatt's Board of Directors has elaborated, in collaboration with the strategic consultancy firm STAM Srl, the new Business Plan for the three-year period 2023-25, details of which were given in the press release dated March 24, 2023. The Business Plan provides for the optimization of the business model through the pursuit of three main objectives:

- The achievement of the leadership position in the Twin Transition market, offering digital solutions for energy and environmental transactions through the optimal integration of cutting-edge technology and AlgoWatt's digital know-how, supported by the purely industrial matrix of TerniEnergia Progetti. This orientation lays the foundations for the reorganization of the business model of the Company, opening the way to overcoming the Operating Model proposed in the previous Business Plan;

- The evolution of the Company's role from simple provider to partner;
- The consolidation of the Company's position in the Digital Circular Economy market.

The pursuit of these strategic lines is based on four drivers, which are fundamental for the industrial growth of the Company, namely: the achievement of financial sustainability; EPC and O&M, with TerniEnergia Progetti; Research, Development and Innovation (RD&I); and optimization of the business portfolio.

The new optimized business model envisages two operating lines:

- The Digital Energy & Circular Economy line integrates the activities currently carried out by the Company regarding the digital transformation and the energy and ecological transition, which, by leveraging smart technologies, allows customers to use resources more sustainably. This business line also involves Research, Development & Innovation (RD&I) at the service of the search for innovative solutions in the field of the Twin Transition and the Digital Circular Economy (including, for example, software platforms for smart building and smart cities, Virtual Power Plant (VPP) solutions, energy resource aggregators, and digitalization services for the ecological transition of the Cleantech industry). Furthermore, through various framework agreements, new partnerships have been developed, aimed at increasing participation in tenders of national and European Community scope, and pursuing the objective of doubling volumes;
- The Greentech Industry line includes the System Integration activity of TerniEnergia Progetti, as well as its work as a partner in the design, construction and management of renewable energy and energy efficiency plants, including activities oriented to EPC, O&M, utility-scale solar, Renewable Energy Communities (RECs), collective self-consumption and building energy management. The objective for the development of this business line is to leverage the Group's track record of industrial excellence and the recent digital integration to bring customers a complete offering covering every stage of the renewable energy chain. In this regard, the Greentech industry represents an operating line free from direct investments and capital intensive activities, allowing for an efficient and competitive approach to the market in growth, due to the second Integrated National Plan for Energy and Climate (PINEC), set to add a new average annual additional capacity of around 4.60 GW.

The Business Plan envisages that the increase in revenues and margins, estimated to reach its fully operational value (13.0%) by 2025, will take place at the same time as the substantial debt reduction of the Company, accomplished through the implementation of the measures that were indicated in the new Updated Financial Plan. The implementation of the recovery project will allow the creation of the best conditions for leveraging the Company's positioning in sectors with high growth potential, opening up new credit lines for current and future projects, improving the conditions of access to such credit, allowing the qualification of the company in the registers of suppliers of major customers, and allowing guarantees to be extended to the Greentech industry.

Management estimates project a CAGR 2023-25 for the value of production equal to 51.0%, with cumulative product revenues of approximately € 124.00 million, of which € 18.00 million in relation to 2023, € 42.00 million in relation to 2024, and € 64.00 million in relation to 2025. The main drivers of the anticipated revenue growth are:

- The development of the Greentech industry (forecast to account for approximately 19.0% of turnover in 2023, 88.0% in 2024, and 91.0% in 2025);
- The growth of the Digital Energy & Environment business line;
- The expansion of the RD&I design portfolio;
- Proceeds from the sale of assets, platforms and contracts of a non-strategic nature.

On the basis of the Company's communications and on observations of the evolution of the Company's financial situation and its growth prospects, we have changed our recommendation: **target price Under Review (U/R), rating Under Review (U/R) and risk Medium.**

Disclosure Pursuant to Delegated Regulation UE n. 2016/958

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Date	Price	Recommendation	Target Price	Risk	Comment
20/07/2022	0,86	Buy	1,40	Medium	Breaking News
09/08/2022	0,80	Buy	1,50	Medium	Update
20/01/2023	0,63	Buy	1,50	Medium	Breaking News
06/02/2023	0,64	Buy	1,50	Medium	Breaking News
08/02/2023	0,67	Buy	1,50	Medium	Breaking News
10/02/2023	0,69	Buy	1,50	Medium	Breaking News
10/05/2023	0,60	Buy	1,50	Medium	Breaking News
12/06/2023	0,59	Buy	1,50	Medium	Breaking News

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Equity Total Return (ETR) for different risk categories

Rating	Low Risk	Medium Risk	High Risk
BUY	ETR >= 7.5%	ETR >= 10%	ETR >= 15%
HOLD	-5% < ETR < 7.5%	-5% < ETR < 10%	0% < ETR < 15%
SELL	ETR <= -5%	ETR <= -5%	ETR <= 0%
U.R.	Rating e/o target price Under Review		
N.R.	Stock Not Rated		

Valuation methodologies (long term horizon: 12 months)

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