

The Company Loyal to Growth

ADD | Fair Value: €5.64 | Current Price: €2.95 | Upside: +91.3%

€ Million	FY19	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Total Revenues	37.3	57.5	40.1	83.7	95.4	102.0	109.0
EBITDA	3.9	6.8	2.0	6.4	8.2	9.8	11.5
margin	10.3%	11.9%	5.1%	7.7%	8.6%	9.6%	10.6%
Net Profit	2.2	4.3	1.4	4.1	5.2	6.3	7.6
margin	5.8%	7.5%	3.4%	4.9%	5.5%	6.2%	7.0%
NFP/ (Cash)	8.4	3.1	12.4	21.4	13.4	4.3	(6.5)

Source: Company Data (2019-2021), KT&Partners' Elaboration (2022-2025)

Overview. Promotica S.p.A., an Italian company established in 2003 in Desenzano del Garda (BS), is leader in the Italian loyalty sector. Promotica offers a 360° consultancy service dedicated to promotional planning and development, aiming to improve its clients' sales through consumer loyalty, increasing: "brand advocacy," wallet share, visitors' frequency, and spending volumes. Promotica's main goal is to propose the most complete and suitable solution to its clients' needs, providing a portfolio of personalized campaigns based on specific customer requests and needs. Indeed, Group offer range from short collection and self-liquidating campaigns to a catalogue of awards.

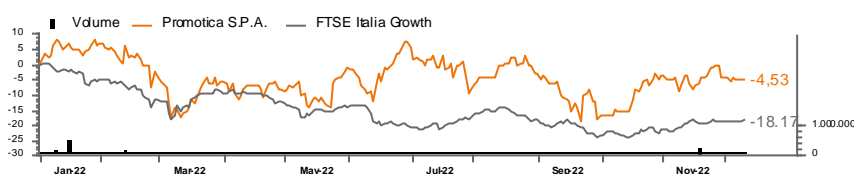
Market Overview. Promotica is active in the loyalty program industry, which is known to be a highly attractive market given its durable demand. Indeed, according to the Q1 2022 Global Loyalty Programs Survey, in the recent years the industry showed a CAGR 2017-2021 of 12.2%, expecting to reach \$3.45bn in 2022 (+11.8% YoY). However, the Market is expected to show this growth path also in the following year, at a CAGR 2022E-2026E of 11.3%, estimated to increase from \$3.1bn in 2021 to \$5.3bn by 2026E. In the recent years, some of the main Italian players have been acquired by international groups, making the Italian loyalty program industry even more competitive for Promotica, which has to compete with players having high international standing.

Group Historical Figures. In 2021, the cyclical nature of Promotica business, mixed with lockdowns imposed by governments to mitigate the spread of COVID-19 and the consequent closure of ports and companies in China, have forced the postponement of some Promotica's loyalty campaigns. Indeed, the Company registered FY21 revenues at €39.6mn, showing a decrease of 30.6% compared with the previous year. However, in 1H22, the Company showed a strong recovery with sales at €45.2mn (+93.3% YoY). Because of transport and raw materials' costs increase, in FY21 the EBITDA decreased at €2mn with a margin of 5.1% from €6.8mn in FY20 (with a margin of 11.9%). Finally, in FY21 Promotica reported a NFP of €12.4mn, raising from €3.1mn in FY20 due to the acquisition of Grani & Partners that occurred without the activation of dedicated credit lines and the financing of the working capital necessary to cope with the next royalty campaign acquired and to be carried out in 2022.

Future Estimates. We estimate sales revenues growing at a CAGR21A-25E of 28.7%, reaching €108.5mn in FY25E, considering: i) Promotica's expansion in new geographical markets and in new industries; ii) Promotica's offer straightening also through new partnerships with leading international players; and iii) the consolidation of the latest acquisitions. At the EBITDA level, we expect an increase over the FY22E-FY25E at a CAGR21A-25E of +54.2%, mainly driven by a better incidence in terms of raw material costs and a lower incidence of personnel expenses (nonetheless the introduction of new key figures essential to drive Promotica's growth). Finally, we expect Promotica turning into a cash positive NFP at FY25E, with a net cash of €6.5mn.

Valuation. Our valuation – based on DCF method – returns an equity value of €95.73mn or a fair value of €5.64ps, showing a potential upside of 91.3% on current market price.

Performance Chart – YTD



Initiation of Coverage

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Market Data

Main Shareholders	
Dieci.Sette S.r.l.	76.20%
Di Silvio Guglielmo	5.93%
Giochi Preziosi S.p.A.	2.95%
Grazioli Holding S.r.l.	1.03%
Mkt Cap (€ mn)	50.0
EV (€ mn)	62.4
Shares out. (mn)	17.0
Free Float	13.9%

Market multiples	2021	2022	2023
EV/EBITDA			
Promotica S.p.A.	n.m.	10.4x	8.1x
P/E			
Promotica S.p.A.	33.1x	12.2x	9.6x

Stock Data	
52 Wk High (€)	3.55
52 Wk Low (€)	2.36
Avg. Daily Trading 90d	11,333
Price Change 1w (%)	-0.34
Price Change 1m (%)	2.43
Price Change YTD (%)	-4.53

Key Figures – Promotica SpA

	Current price (€)	Fair Value (€)		Sector	Free Float (%)	
	2.95	5.64		Loyalty Program	13.9%	
Per Share Data	2020A	2021A	2022E	2023E	2024E	2025E
Total shares outstanding (mn)	16.0	16.0	17.0	17.0	17.0	17.0
EPS	0.27	0.09	0.24	0.31	0.37	0.45
Dividend per share (ord)	2%	n.a.	n.a.	n.a.	n.a.	n.a.
Dividend pay out ratio (%)	22%	n.a.	n.a.	n.a.	n.a.	n.a.
Profit and Loss (EUR million)	2020A	2021A	2022E	2023E	2024E	2025E
Total Revenues	57.5	40.1	83.7	95.4	102.0	109.0
EBITDA	6.8	2.0	6.4	8.2	9.8	11.5
EBIT	6.3	1.5	5.6	7.1	8.5	10.3
EBT	6.0	1.6	5.5	6.9	8.4	10.2
Taxes	-1.7	-0.2	-1.4	-1.7	-2.1	-2.5
Tax rate	28%	11%	25%	25%	25%	25%
Net Income	4.3	1.4	4.1	5.2	6.3	7.6
Net Income attributable to the Group	4.3	1.4	4.1	5.2	6.3	7.6
Balance Sheet (EUR million)	2020A	2021A	2022E	2023E	2024E	2025E
Total fixed assets	2.8	8.8	12.8	12.1	11.4	10.7
Net Working Capital (NWC)	12.7	17.3	29.4	27.7	26.1	24.0
Provisions	-0.6	-1.2	-1.6	-2.1	-2.5	-2.9
Total Net capital employed	14.8	24.8	40.6	37.8	35.0	31.8
Net financial position/(Cash)	3.1	12.4	21.4	13.4	4.3	-6.5
Group Shareholder's Equity	11.8	12.3	19.1	24.3	30.6	38.2
Minorities	0.0	0.1	0.1	0.1	0.1	0.1
Total Shareholder's Equity	11.8	12.4	19.2	24.4	30.7	38.3
Cash Flow (EUR million)	2020A	2021A	2022E	2023E	2024E	2025E
Net operating cash flow	5.1	1.9	5.0	6.4	7.6	9.0
Change in NWC	-2.7	-4.6	-5.9	1.7	1.7	2.0
Capital expenditure	1.9	-4.0	-1.6	-0.5	-0.5	-0.5
Other cash items/Uses of funds	2.1	-2.0	0.4	0.4	0.4	0.4
Free cash flow	6.5	-8.7	-11.5	8.0	9.2	10.9
Enterprise Value (EUR million)	2020A	2021A	2022E	2023E	2024E	2025E
Market Cap	25.6	49.4	50.0	50.0	50.0	50.0
Minorities	0.0	0.1	0.1	0.1	0.1	0.1
Net financial position/(Cash)	3.1	12.4	21.4	13.4	4.3	-6.5
Enterprise value	28.7	62.0	71.6	63.6	54.5	43.7
Ratios (%)	2020A	2021A	2022E	2023E	2024E	2025E
EBITDA margin	11.9%	5.1%	7.7%	8.6%	9.6%	10.6%
EBIT margin	10.9%	3.7%	6.7%	7.4%	8.4%	9.4%
Gearing - Debt/equity	26.0%	100.7%	112.3%	55.4%	14.1%	-17.0%
Interest cover on EBIT	5.0%	-7.4%	2.1%	1.6%	1.4%	1.1%
NFP/EBITDA	44.8%	607.3%	333.5%	163.8%	44.1%	-56.2%
ROCE	42.4%	6.0%	13.8%	18.7%	24.4%	32.3%
ROE	36.5%	11.2%	21.6%	21.5%	20.6%	20.0%
EV/Sales	1.16x	1.67x	0.80x	0.70x	0.66x	0.61x
EV/EBITDA	9.79x	n.m.	10.41x	8.14x	6.85x	5.79x
P/E	10.99x	33.07x	12.17x	9.61x	7.93x	6.56x
Free cash flow yield	10%	-13%	-17%	12%	14%	16%
Growth Rates (%)	2020A	2021A	2022E	2023E	2024E	2025E
Sales	54.1%	-30.2%	108.6%	14.0%	6.9%	6.9%
EBITDA	77.1%	-70.1%	214.1%	27.9%	18.8%	18.4%
EBIT	79.2%	-76.2%	274.0%	26.0%	20.9%	20.5%
Net Income	99.1%	-66.8%	188.2%	26.6%	21.3%	20.8%

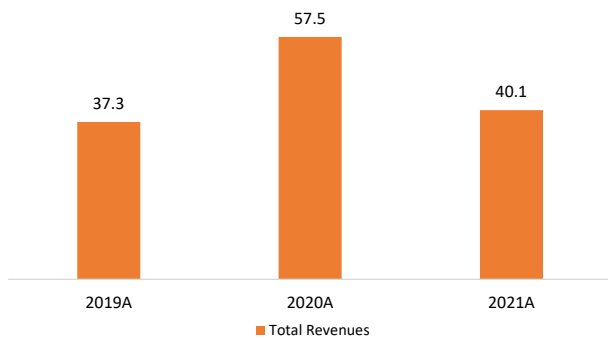
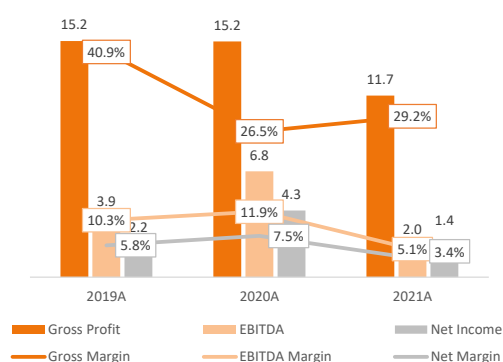
Source: Company Data (2020-2021), KT&Partners' forecasts (2022-2025)

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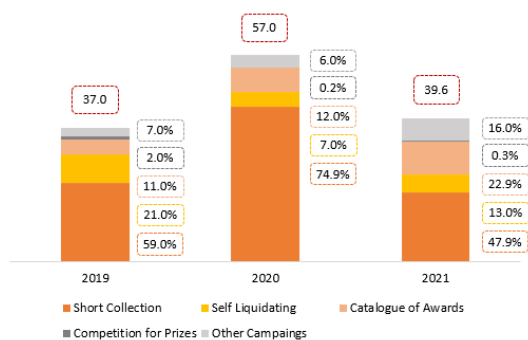
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Key Charts

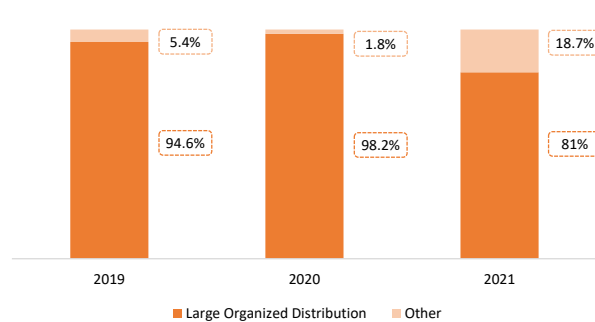
Total Revenues (€mn)

Gross Profit, EBITDA and Net Income (€mn, %)¹

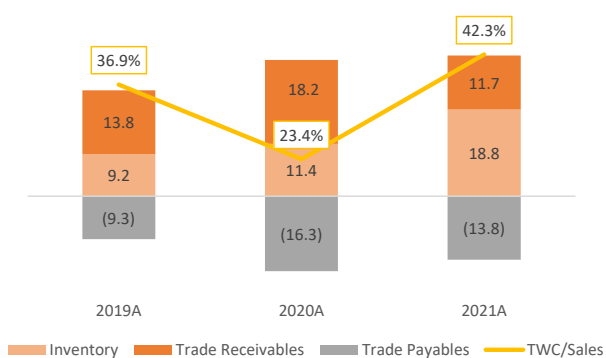
Sales Revenues breakdown per Loyalty Campaign (€mn, %)



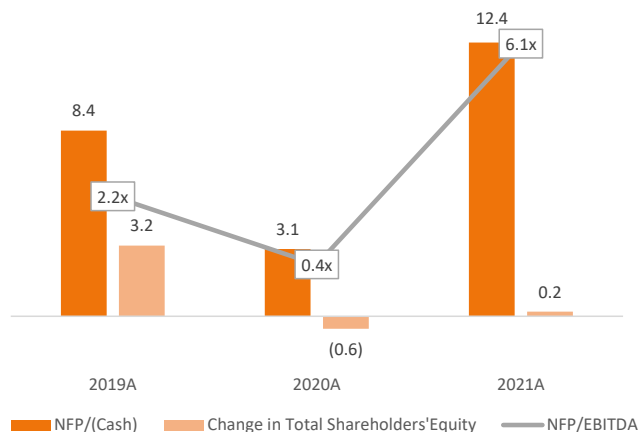
Sales Revenues breakdown per Industry (%)



Trade Working Capital (€mn, %)



NFP, Change in Shareholders' Equity and NFP/EBITDA (€mn)

¹ Margins are calculated on Total Revenues

Investment Case

A consolidated leader in the Loyalty market... With almost 20 years of experience, Promotica is one of the Italian leading companies active in the loyalty sector. Promotica offers a 360° consultancy service dedicated to promotional planning and development, aiming to improve its clients' sales through consumer loyalty, increasing: "brand advocacy," wallet share, visitors' frequency, and spending volumes.

...gaining new market shares through its M&A activities... Nonetheless the Italian loyalty program industry is becoming even more competitive. In recent years, Promotica gained significant market shares thanks to its last four strategic acquisitions, which had also the aim to strengthen the Group offer: i) in 2020, Promotica acquired 100% of Kiki Lab - Ebeltoft Italy, a company with consolidated experience in research, training and services related to retail world; ii) in November 2021, acquired 80% of Grani & Partners S.r.l, one of the main players at a global level in the promotional market for products dedicated to children; iii) in March 2022, Promotica acquired the Incentive & Loyalty Business Unit owned by Giglio Group S.p.A., to further consolidate its position in the loyalty sector, with new expertise in the Martech area; iv) in June 2022, Promotica continues to strengthen its value chain through the acquisition of the 100% of Mercati S.r.l, specialized in the creation, design, and import of items for the home, person and leisure, conceived in an innovative and cosmopolitan way with the right relationship between style and practicality.

...in a high-growing and consolidated Industry... Promotica is active in the loyalty program industry, which is known to be a highly attractive market given its durable demand. Indeed, according to the Q1 2022 Global Loyalty Programs Survey, in the recent years the industry showed a CAGR 2017-2021 of 12.2%, expecting to reach \$3.45bn in 2022 (+11.8% YoY). However, the market is expected to show this growth path also in the following year, reporting a CAGR 2022E-2026E of 11.3% and it is estimated to increase from \$3.1bn in 2021 to \$5.3bn by 2026E. Moreover, in recent years, some of the main Italian players has been acquired by major international groups, making the Italian loyalty program industry even more competitive for Promotica, that now has to compete with players having high international standing.

... offering a wide range of tailor-made services and activities... Promotica's main goal is to propose the most completed and suitable solution to its clients' needs, providing a portfolio of personalized campaigns based on specific customer requests.

...to its high standing clients... Promotica customer portfolio includes leading brands active mainly in large-scale distribution, industrial, pharmaceutical, financial, and oil sectors and widely known internationally. Over the years, Promotica strengthened strong relationship with its customers, proposing campaigns designed and planned on their specific needs, anticipating market trends.

...leveraging on its disruptive business model.... Promotica plays a key role in the realization and management of loyalty programs, making exclusive deals with its suppliers that guarantee the right product volume needed for the campaigns. At the same time, Promotica is the ideal partner for its customers, thanks to its tailor-made approach and skills.

...and on strong relationship with its suppliers... Promotica boasts long-standing relationships with its suppliers, excellent Italian manufacturers of products mainly related to the home furnishings sector, whose products are in line with new market trends. Moreover, Promotica also actively participates in the design and scouting of new items by providing added value not only to its final customers but also to suppliers.

...all while being a sustainable and inclusive ESG Company. Promotica pays strong attention to create a welcoming and people-oriented work environment, constantly striving to enhance and develop each employee professional skills. For Promotica, people are the heart of Group's business, as the Group believes that thanks to capable and motivated people the Company

can achieve excellent goals and produce successful products. Moreover, Promotica is strongly committed to environmental responsibility. Indeed, in the coming years, the Group is aimed at improving energy efficiency through the construction of the new zero energy impact headquarters, powered by geothermal energy, equipped with a photovoltaic system, with charging points for electric cars and bicycles. Furthermore, the Group's objectives also include its intention to purchase 100% of its energy consumption from certified renewable sources and to reach carbon neutrality.

Statement of risks. One of the main services that Promotica offers to its customers is the returns policy of any unclaimed prizes at the end of each campaign, having a potential impact in the management of Promotica's warehouse. However, thanks to proprietary algorithms, the Company seeks to minimize unredeemed premiums from consumers and the consequent returns at the end of the campaign (historically with an average <10%), also planning their reuse in new campaigns. Moreover, given the higher concentration of large-scale distribution clients, Promotica aims to expand its customer base by entering into new markets (such as Food Delivery) and consolidating its position in markets where the Company is already active, such as Pharmaceutical and Petroleum. Finally, given the key role that suppliers play in Promotica's business model, the Company, thanks to its long-standing relationships, is used to stipulate medium-long term procurement contracts, guarantying thus a minimum volume of products to be delivered.

Company Overview

Promotica

Promotica S.p.A., an Italian company established in 2003 in Desenzano del Garda (BS), is a leader in the Italian loyalty sector.

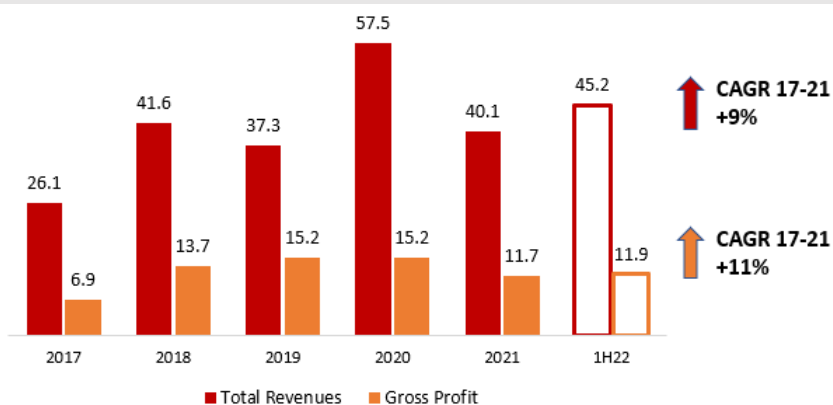
Promotica offers a 360° consultancy service dedicated to promotional planning and development, managing each phase: from the planning to the measurement of results and data management. Promotica, through its promotional campaigns, has the aim to increase its clients' sales: improving "brand advocacy," increasing wallet share, intensifying visitor frequency, and increasing spending volumes.

Promotica's main goal is to propose the most complete and suitable solution to its clients' needs, providing a portfolio of personalized campaigns based on specific customer requests and needs. Indeed, Group offers range from short collection and self-liquidating campaigns to a catalogue of awards.

Over the years, Promotica has boosted its growth also thanks to its M&A track record. Indeed, over the last two years, the Company has completed three strategic acquisitions aimed at expanding its tailor-made offer: i) in 2020, Promotica acquired 100% of Kiki Lab - Ebeltoft Italy, a Company with a consolidated experience in the field of research, training, and services for the retail world; ii) in 2021, Promotica acquired 80% of Grani & Partners, one of the leading global players on the promotional market for products dedicated to children mainly in large-scale organized distribution; iii) in 2022, Promotica acquired the Incentive & Loyalty business unit owned by Giglio Group S.p.A., introducing the use of new softwares and platforms for data management and analysis; and iv) still in 2022, Promotica acquired Mercati S.r.l., an Italian company active in the production and import of household, personal, and leisure items.

Notwithstanding the economic slowdown due to the COVID-19 pandemic, thanks to its management strategy focused on i) expanding Group's product portfolio; ii) broadening its customer base, and iii) innovating constantly its services, since the 2017, the Group has showed a constant and considerable sales growth and profitability. Indeed, Promotica Group's sales grew at a CAGR17-21 of 11%, peaking at €57.5mn in 2020, while the gross profit grew at a CAGR17-21 of 14% recording an average gross profit margin of 31.2%.

Group's Total Revenues, Gross Profit 2017-1H22



Source: KT&Partners' elaboration on Company Data

A Wide Range of Activities and Services Offered

Promotica's main goal is to propose the most completed and suitable solution to its clients' needs, providing a portfolio of personalized campaigns based on specific customer requests and needs. As of today, the Group offer is composed of:



- **Short Collection:** these campaigns refer to short-term programs (average duration of 12 or 16 weeks) that involve the use of stamps and a possible cash contribution from the consumer. Once the customer reaches a minimum spending threshold and multiples of it, a stamp is assigned. Therefore, when the customer owns a predetermined number of stamps, the reward is provided. Usually, in the short collection, a dozen references are generally offered. These initiatives give an immediate and profitable boost with a positive sales return on investment. Short Collection represents a way to influence consumer behaviour, create brand awareness, increase sales in the short term, and build solid relationships between retailer and customer.
- **Self-Liquidating:** these campaigns are also called "Immediate reward campaigns or spend and get," as once a certain level of expenditure has been reached, the consumer immediately gets a reward without a collection of stamps. These activities, compared to the others, imply that the retailer needs to have a greater availability of items ready for delivery at the cash desk. These types of programs have an average duration of 4 or 8 weeks.
- **Catalogue of Awards:** through this campaign, the Company offers products that are in the catalogue (about multi-category 100 references), which the final consumer chooses upon reaching a relative number of points. It is necessary to keep a limited inventory of the products in the catalogue, as the Company restores only after the consumer has chosen the specific reward. This category also includes the "burn-points" activities with now-or-never, having the aim to relaunch long-term campaigns. The average duration is not less than one year but not more than 5 years (legal limit).
- **Competition for prize:** these campaigns can be considered similar to a lottery, where a prize pool is guaranteed by the promoter, but the winnings are tied to the fate. For instance, typically the customer has a ticket with a scratch code and then the win is verified. These campaigns have a variable duration between 1 week and 1 year.
- **Incentive:** Promotica manages digital loyalty and engagement programs, enhancing Promotica's expertise in the Martech area. In addition to the graphic design, the Company creates IT platforms to be combined with the printed catalogue (with a dedicated site, or with the company intranet) where employees can check the balance of points and order prizes. Delivery of the prize is made through an ad hoc logistics network, with the possibility of a customized packaging preparation.
- **Kids Promotion:** thanks to Grani & Partners acquisition, Promotica enriched its offer with promotional activities dedicated to children's world.

Strong M&A Track Record in Consolidated and Attractive Market

Promotica is active in the loyalty program industry, which is known to be a highly attractive market due to its durable demand. Indeed, according to the Q1 2022 Global Loyalty Programs Survey, in recent years, the Industry showed a CAGR 2017-2021 of 12.2%, expecting to reach \$3.45bn in 2022 (+11.8% YoY). However, the Market is expected to show this growth path also in the following year, at a CAGR 2022-2026 of 11.3%, expected to increase from \$3.1bn in 2021 to \$5.3bn by 2026.

Moreover, in the recent years, the Italian Loyalty Program industry was characterized by a high level of concentration, with some of the big international players that have acquired small domestic companies active in this segment. For instance, Volponi has been acquired by Jakala, Eupromotion by L-Founders, and Brandloyalty by Loyalty Ventures.

Nonetheless, the Italian loyalty program industry is becoming even more competitive. In recent years, Promotica gained significant market shares thanks to its last four strategical acquisitions, that had also the aim to strengthen the Group offerings.

In 2020, Promotica started its M&A activity with the acquisition of 100% of Kiki Lab - Ebeltoft Italy, a company with consolidated experience in research, training, and services related to the retail world. The institute offers personalized projects, integrating strategic and operational consulting with surveys, training, and services. Kiki Lab's starting point is always the Customer: understanding their needs and desires, integrating with an ongoing study of trends and scenarios. Kiki Lab provides new projects that make the most of the unique DNA of each company, helping the companies to be successful.

All Kiki Lab activities are based on a deep knowledge of the Retail sector, primarily derived from direct sources: visits to retail areas, meetings with Retailers, discussions with Managers, data analysis, exchanges with our international Partners, but also national and international research on strategic issues (Innovation, Trust, Cross-Channeling), case studies, study of international websites, and blogs. Ki-Library is networked with those of international Partners and includes thousands of Retail cases and over 1 million pictures of retail areas of every sector.

Following the acquisition of Kiki Lab, Promotica has strengthened its offer with strategic consulting services, staff training, and research activities in order to increase the sales and performance of client companies active in the retail sector, helping its clients to "anticipate the future trends."



Ebeltoft Group
Global Brand & Retail Experts

Kiki Lab main clients



Source: KT&Partners' elaborations on Company's data



Following the IPO, Promotica, on 30th November 2021, acquired from Giochi Preziosi 80% of Grani & Partners s.r.l, one of the main players at a global level in the promotional market for products dedicated to the world of children. Grani & Partners acts as a strategic consultant in the conception and realization of every kind of promotional operation conceived to increase sales and loyalty, offering a turnkey project based for specific customers' needs.

Thanks to its consolidated skills in manufacturing and licensing, Grani & Partners is able to create collectible products and premiums keyed to the strongest licenses and brands of the moment. The Company is famous in Italy for the great successes of Gormiti, Cuccioli Cerca Amici, Rollinz, and Flash Heroes. Among the worldwide successes of Grani & Partners are the Stickee sold in 48 countries for 72 loyalty campaigns, for a total of over one billion pieces.

Grani & Partners main succes



Source: KT&Partners' elaborations on Company's data

The acquisition of Grani & Partners is strategic for Promotica to create new synergies in:

- Kids Promotion: expansion of Promotica's portfolio of promotional campaigns, relying on the best marketing and manufacturing skills currently available in the market in the children's field. Kids Promotions allow Promotica to integrate the offer currently addressed mainly to the Adult market;
- Automotive Loyalty Campaigns: leverage on direct relationships with all the car manufacturers for which Grani & Partners is a licensee, through which to develop campaigns that are currently carried out in the Asian market and that guarantee several million euros of turnover to international loyalty agencies;
- Customer portfolio Industry sector: Growth of the client base by leveraging on the historic relationships of Grani & Partners with numerous international players belonging to different industrial sectors. This opportunity would allow Promotica to extend its promotional campaigns and activities into the industry;
- Internationalization: Leverage the sales structure of Grani & Partners present in America and Asia, and in particular the twenty-year history of relationships with Asian customers developed through the Hong Kong office, to accelerate Promotica's ongoing internationalization process;
- Integration of the sourcing structure: Leverage relationships with suppliers in multiple business areas and establish partnerships with the best factories in Asia of Grani & Partners to strengthen the process of product scouting and selection of producers by Promotica.

At the beginning of March 2022, Promotica acquired the Incentive & Loyalty Business Unit owned by the company E-commerce Outsourcing S.r.l., wholly owned by Giglio Group S.p.A., a company listed on the Euronext STAR Milan segment of the Italian Stock Exchange since 2018. The acquisition allows Promotica to further strengthen its position in the loyalty sector, with new expertise in the Martech area, such as the use of software and platforms for data management and analysis in order to propose tailor made loyalty programs and obtain greater engagement from the communities to which the loyalty operations are addressed.

In June 2022, Promotica continued to strengthen its value chain through the acquisition of the 100% of Mercati S.r.l. The Company, founded in 2005, is specialized in the creation, design, and import of items for the home, the person, and leisure, conceived in an innovative and cosmopolitan way with the right relationship between style and practicality. The proprietary brand, WD lifestyle, has been present on the national and European market mainly in the retail, gift, and loyalty channel. In recent years, the company has devoted itself more and more to the development and production of green and eco-sustainable items. Mercati S.r.l. counts more than 900 customers, of which about 800 are in the Retail category, while the rest are attributable to the Industry sector. Among the main customers there are Vorwerk, Unieuro, Caffè Borbone, Natfood, Terre Ducali, and Stanhome.

WD Lifestyle sample products



Source: KT&Partners' elaborations on Company's data



The synergies resulting from the acquisition of Mercati S.r.l. are many and are mainly linked to the Company's proven expertise in the production and marketing. In particular, the main strengths of Mercati S.r.l. that could generate potentially interesting advantages and synergies for Promotica are:

- Consolidated relationships with players operating in the specialized retail sector: with over 800 independent retailers such as Coin, Rinascente, Stilnovo, and Mercati S.r.l. is active in the entire logistics process, from storage to distribution, through a sales network of multi-firm agents.
- Specialization in the Special Make Up (SMU) market for the Industry and Food sector: Mercati S.r.l. plays an intermediary role for the final customer, i.e., for companies in the food, spirits, cosmetics, and travel sectors. In particular, Mercati S.r.l. identifies producers and creates ad-hoc articles for the end customer, which are then used to incentivize, support, and promote the sale of products already on the market.
- Service import: Markets S.r.l. over the years has established consolidated relationships with the main foreign suppliers, becoming one of the major wholesale importing companies in Italy.
- Far East factories database: The company has privileged relationships with manufacturing companies in the Far East. Promotica could therefore take advantage from the experience of Mercati S.r.l. to improve its presence in this area.
- Twenty-year relationships with production sites: Mercati S.r.l. boasts strong relationships with production sites in Italy and abroad.
- Expertise in the production of items for loyalty operations: Mercati S.r.l. is a manufacturer of different items that are then used as rewards in loyalty operations. This represents for Promotica the possibility to internalize the production of objects and products to be included in its loyalty campaigns.

A Sustainable and Inclusive ESG Company

In June 2022, Promotica published its first Sustainability Report aiming at testifying to the Company's strong sense of responsibility and transparency relating to the ESG thematic.

The 2021 Sustainability Report was prepared in accordance with the GRI Sustainability Reporting Standards (GRI Standards). The reference parameter of the Report is the entire Promotica Group, except for Grani & Partners S.p.A, purchased at the end of November 2021.

Starting with Promotica's Governance, the model used by the Company is inspired by the best standards of transparency and fairness, aiming to create value for shareholders.

Promotica's Board of Directors, composed of 5 members including an independent director, decides the strategic and organizational guidelines of the Group.

Group guidance refers to Universal Declaration of Human Rights and the principles of the International Labor Organization (ILO), which are also contained in the Code of Ethics of Promotica S.p.A and Grani & Partners S.p.A. Indeed, among the main guidance's topics are: respect for human and personal rights, prevention and fight against corruption, respect for privacy, protection of safety, health at work, and environmental protection.

Promotica pays strong attention to creating a welcoming and people-oriented work environment, constantly striving to enhance and develop the professional skills of each employee. For the Company people are at the heart of the Promotica Group's business, as the Group believe that thanks to capable and motivated people is it possible to achieve excellent goals and produce successful products.

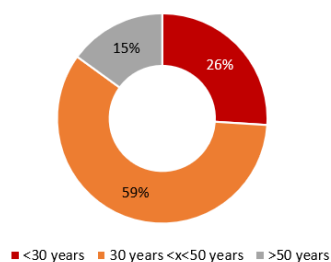
The Group offers a stable employment and aims to create lasting relationships with its employees; indeed, all contracts are permanent, including part-time. As of December 31, 2021, the Promotica Group counted 38 people of which 24 are women and 14 men, with 59% of them having an age between 30 and 50 years.

Promotica's Employees distribution

	Women	Men	Total	% of Women
Managers	2	4	6	33%
Employees	22	9	31	71%
Workers	0	1	1	0%
Total	24	14	38	63%

Source: KT&Partners' elaborations on Company's data

Employee age distribution



Source: KT&Partners' elaboration on Company data

Promotica is very attentive to improve its employees' competence and knowledge, providing specific programs aimed at professional updating and to the acquisition of greater skills. Indeed, during 2021, 964 hours of training were provided, and, on average, each employee benefited from approximately 26.05 hours of training in different areas, including specific in-depth analysis of function, health and safety at work, and language skills.

Promotica has always been active in social initiatives, in details in 2021 the Group:

- 1) donated €85k to the "Nessuno è escluso" project, managed by Emergency Ong Onlus with the aim to help families effected by COVID-19 crisis;
- 2) promoted CHEFS FOR LIFE, a solidarity project that combines haute cuisine events and fundraising;

3) supported 7MILAMIGLIALONTANO, an Italian cultural association of photographers, videomakers, and professional journalists having the aim to raise awareness on social and environmental issues;

4) donated €22k to RSA “MADRE TERESA DI CALCUTTA.”

Moreover, Promotica is strongly committed to environmental responsibility. Indeed, in the coming years, the Group is aiming at improving energy efficiency through the construction of the new zero energy impact headquarters, powered by geothermal energy, equipped with a photovoltaic system, and with charging points for electric cars and bicycles. Furthermore, the Group aims to purchase 100% of electricity from certified renewable sources and to achieve carbon neutrality.

The Group's History

Almost 20 years of experience in Loyalty Program industry

Promotica S.p.A. is one of the leading companies in Italy active in the loyalty sector. The Company has almost 20 years of experience in the retail, food, pharmaceutical, and services sectors. Promotica offers a 360° consultancy service dedicated to promotional planning and development, managing each phase: from the planning of promotional operations to the measurement of results and data management. Promotica promotional campaigns have the aim to increase sales through consumer loyalty, improve “brand advocacy,” increase wallet share, increase visitor frequency, and increase spending volumes.

In 2003 Diego Toscani founded Promotica

In 2003, Diego Toscani, following the expertise gained in the Loyalty Program industry thanks experience in i) Pintinox S.p.A. as Commercial Manager for the management of the GDO and promotional channel and in ii) Recom S.p.A. as Commercial Director, decided to found Promotica, focusing its attention to data analysis and communication.

In 2008 Promotica acquired the creative agency Demo

In 2008, in order to offer the best communication plan to its customers, suitable as much as possible to achieve the set objective and aiming to better build loyalty programs campaigns, the Company acquired the creative agency Demo. Moreover, the Company contributed to enhance Promotica professional skills, with art director, copywriter, and videomakers.

In 2012, with the aim to make the working environment as creative as possible, Promotica inaugurated an exclusive office in the province of Brescia; a large space suitable for hosting all the supplies and advertising material used for the campaigns.

Improving the IT System

In 2017, in order to keep up with its strong growth, Promotica decided to improve the IT system to a higher level with the introduction of the hyperconverged and highly reliable SYNETO infrastructure. Moreover, in order to create, manage, and monitor online contests and loyalty programs for large-scale distribution, Promotica also acquired the development license for the Royalty One Experience platform.

In 2020 listing on Borsa Italiana and acquisition of Kikilab

In 2020, with the aim to expand its tailor-made offer, Promotica acquired Kiki Lab - Ebeltoft Italy, that boasted a consolidated experience in the field of research, training, and services for the retail world. Moreover, in the same year, Promotica acquired the status of Innovative SME and on 27th November completed the stock exchange listing process on the Euronext Growth Milan.

In 2021, acquisition of Grani & Partners

In 2021, following the IPO, the Company strengthened its external growth strategy with the acquisition of 80% of Grani & Partners. Thanks to this acquisition, Promotica enriched its value chain as Grani & Partners is one of the leading global players in the promotional market for products dedicated to the world of children, mainly in large-scale organized distribution worldwide.

In 2022, acquisition of Giglio Incentive & Loyalty business unit

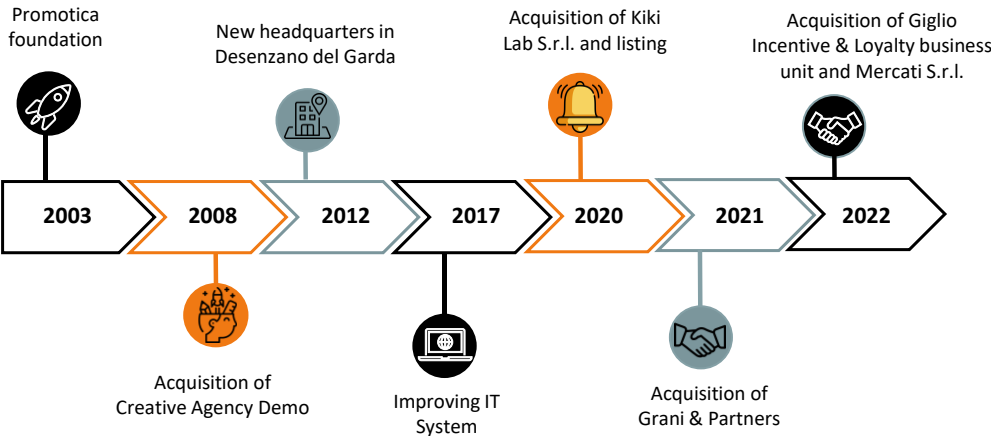
In 2022, in order to boost its future growth and to improve its portfolio offer, Promotica acquired the Incentive & Loyalty business unit owned by Giglio Group S.p.A., a company listed on the Euronext STAR Milan segment of the Italian Stock Exchange since 2018. Thanks to this acquisition, Promotica further strengthen its position in the loyalty sector, through Martech expertise, introducing the use of new software and platforms for data management and analysis.

Acquisition of Mercati S.r.l.

Still in 2022, in order to boost its growth in the Loyalty Program segment, Promotica decided to internalize the production of products and articles that can then be used as prizes for campaigns by acquiring Mercati S.r.l., an Italian company active in the production and import of household, personal, and leisure items. The acquisition allowed Promotica also to expand target customer reference.

Finally, in 2022, to prove its commitment to environment, Social and Governance thematic, Promotica released its first sustainability report.

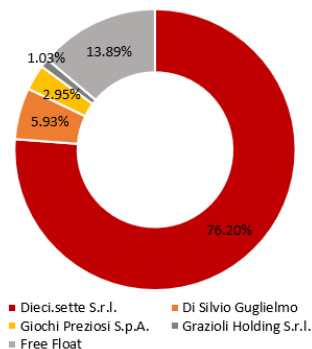
Key Milestones



Source: KT&Partners' elaboration on Company Data

Ownership and Group Structure

Promotica's shareholders



Source: KT&Partners' elaboration on Company data

Before the IPO, 100% of Promotica was held by Diego Toscani. As of today, following the capital increase of the listing, the old investor diluted its stakes with the 13.89% held by the market. However, during the previous years, new strategic shareholders entered in the share capital of Promotica. Indeed, at the beginning of 2022, Dieci.Sette s.r.l., the holding totally owned by Diego Toscani, sold 3% of the Company to Giochi Preziosi.

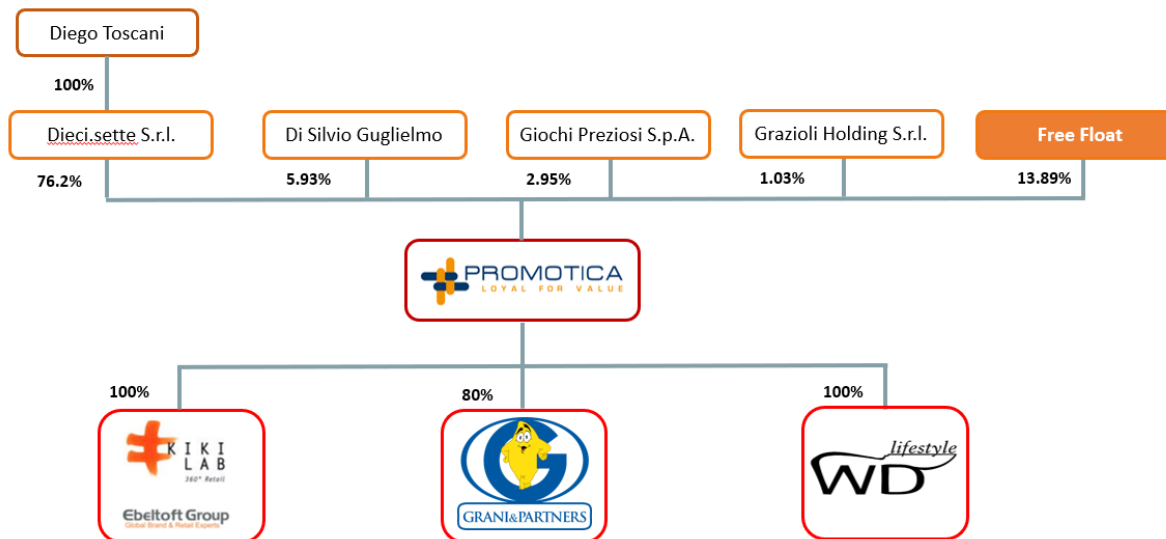
The Company's share capital is composed by 17mn of ordinary shares, 2.4mn of which were newly issued at the IPO on the previous AIM Italia market and 341k shares placed as part of the exercise of the overallotment, with a total capital increase of €4.8mn.

The Company is headquartered in Desenzano del Garda where the administrative offices and the main warehouses are located.

In the last years, Promotica intensified its activity in the loyalty programs in Italian industry, through strategic M&A, gaining new market share in an always much-more concentrated industry. As today, the Group is composed of:

- **Kiki Lab - Ebeltoft Italy:** (100% owned by Promotica) a company with consolidated experience in the field of research, training, and services for the retail world. Focusing on customers, needs, and desires, Kiki Lab offers customized projects, integrating the offer of strategic and operational consultancy in order to "anticipate the future trend," creating paths that can enhance the DNA of each company;
- **Grani & Partners:** (80% owned by Promotica) with a history of over 40 years, is one of the leading global players on the promotional market for products dedicated to the world of children. Grani & Partners operates in the Loyalty & Fidelity sectors mainly in the large-scale organized distribution worldwide. Thanks to its consolidated skills in manufacturing and licensing, Grani & Partners is able to create collectible products and prizes based on the strongest licenses and brands of the moment.
- **Mercati S.r.l.:** founded in 2005 is specialized in the creation, design and import of items dedicated to home design, person, and for leisure, projected in an innovative way by designers capable of realizing items having the right relationship between style and practicality. The Company is also known under its proprietary brand, WD lifestyle, recognized both in a National and International contest. and national and European market since 2005, mainly in the retail, gift, and loyalty channel.

Ownership and Group structure



Source: KT&Partners' elaboration on Company Data

Key people and Group Organization

Diego Toscani – President of the Board of Directors and CEO



Diego Toscani is the President of the Board of Director and CEO of Promotica. He graduated in Economics and Commerce from the University of Brescia, and in 1996 he held the role of Junior Marketing Manager at Groupe Couzon in Thiers (France). In 1997, he became Commercial Manager of Pintinox S.p.A. for GDO and promotional channel. Moreover, in 1998 he founded the "micro-brewery" HOPS!. From 2000 to 2003, he was the Commercial Director of Recom S.p.A. in Trento and in 2003 he founded Promotica. From 2008 to 2014 he was Chairman of ASVT S.p.A. (multi- utility sector). Since 2009, he is President of Propri Immobiliare (real estate). He is also founder and President of Buongusto Italiano and President of Easy Life Srl.

Gabriele Maifredi – Vice President of the Board of Directors and COO



Gabriele Maifredi is the Vice President of the Board of Directors and COO of Promotica. He graduated in Literature and Philosophy in 2004 from the Catholic University of Brescia. He started his career in 2002 as Inventory Manager at Nike Retail Italy in Brescia. From 2004 to 2009 he was Category Manager at Stilnovo, and from 2009 to 2012 he was promoted to General Manager, strengthening his duties and responsibilities in the group loyalty area. In 2013, he was Director of the Market Proposition Area in Promotica, dealing with the design of Loyalty campaigns and the definition of supply and product development agreements. Since 2020 he is also Managing Director of Easy Life Srl.

Michele Grazioli – Board Member



Michele Grazioli is a Promotica Board Member. He is a young entrepreneur in AI applications and is considered among the top experts in AI applied to proactive decision making. In 2019, he entered the Forbes under 30 ranking in the top 5 of the 100 most influential Italian young innovators in Italy. He holds a degree in Economics and Management from Bocconi University. Today he is Chairman and Chief Executive Officer of Vedrai Spa, an innovative startup that deals with the development of platforms for the improvement of the decision-making process, the Director of the Divisible Group and Manager of the Mival Capital Fund, which invests in high- potential SMEs with a hybrid approach involving both the provision of technology and risk capital.

Alvise Gnutti – Board Member

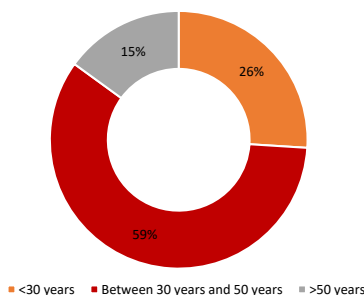


Alvise Gnutti is a Promotica Board Member. He graduated in Economics and Commerce in 1991 from the University of Brescia and in 1992 he has obtained the accountant qualification. Since 1996, he has been a Member of the Register of Auditors and since 2012 he has been a member of the Register of Auditors of local authorities. Moreover, he held positions as Technical Consultant of Brescia Court Office in accounting and fiscal matters. He was Chairman of the Board of Directors of companies controlled by companies listed on the Italian Stock Exchange, and member of the Board of Statutory Auditors of Italian companies. He has gained extensive experience in the field of corporate restructuring, assisting the company as a global advisor in the process of rehabilitation and restructuring.

Michele Andreaus – Independent Director



Michele Andreaus is a Promotica Independent Director. He graduated in Economics and Business in 1990 from the University of Trento and obtained a PhD in Business Administration in 1994. Since 2006, he has been Full Professor of Business Administration at the Faculty of Economics of the University of Trento, where he was also Director of the Department of Computer Science and Business Studies until 2012. In parallel to his academic activities, he has been a member of the Board of Directors and of the Executive Committee of Banca di Trento e Bolzano, as well as a director and vice-president of Cassa del Trentino and Casa Girelli S.p.A.. He is currently a director of La Finanziaria Trentina S.p.A., Fratelli Poli S.p.A., and Banca

Employee age distribution

Source: KT&Partners' elaboration on Company data

Fide, as well as a member of the board of statutory auditors of the San Patrignano Foundation.

At the end of FY21, the company counted 38 employees (of which 24 are women), with 59% of them having an average age between 30 and 50 years. Moreover, 60% of Promotica employees are graduated and the 57% of them are women.

Business Model

Promotica, thanks to its distinctive business model, is an Italian leader in the Loyalty sector. The Company plays a key role in the realization and management of loyalty programs, making exclusive deals with suppliers, guaranteeing the right products volume needed for the campaign. At the same time, Promotica is the ideal partner for its customer, thanks to its tailor-made approach and skills, developed in almost twenty years of experience.

Promotica's business model is mainly divided in four steps:

- Preliminary Analysis;
- Kick-off;
- Execution;
- Logistic;

Promotica's value chain

Source: KT&Partners' elaboration on Company's Presentation

Preliminary Analysis

In this phase, the preliminary contact with the potential customer could be characterized by a:

- Push Approach: the Market Proposition Office, studying the loyalty market's trends, directly approaches the potential customer to propose new promotional campaigns in line with its budget and brand philosophy;
- Pull Approach: the potential customer requests to a group of players to develop a promotional campaign defining precise indication regarding the characteristics of the program, such as type, duration, and budget.

It should be noted that Promotica does not have a sales network of agents, as all the accounts involved in promoting activities are internal.

Following the preliminary contact with the customer, Promotica introduces the project to its client, involving the General Management, the Market Proposition Office, the Project Managers, and the Assortment Managers.

In the case of a Pull Approach, which is the most traditional and typical method, the commercial network receives a detailed brief indicating the period, the budget, and the target to reach through the loyalty campaign. Once the purchasing department receives the brief, it coordinates with the Commercial team to prepare the offer. The choice of the promoter will

be oriented to the loyalty program provider, who will be able to offer the best loyalty program with the most aggressive mechanics.

On the other hand, in the case of a push approach, following the study of new market trends and loyalty activities (carried out by the general management and the product development division), Promotica prepares project's guideline anticipating the possible customer brief. The marketing department prepares Point of Purchase (POP) examples in order to allow the commercial team to sell an idea, and not a product, that is complete in every aspect. The proposal is then refined on customer's requests.

Therefore, in this phase, Promotica defines project's guidelines including the fee, the quantity of products supplied, and the time to market in line with customer's objective.

The project presented by Promotica competes within a selection of other players selected by the customer. The analysis of the projects takes about three months, at the end of which the customer selects the best project and negotiates the price and the expected investment.

Kick-off

In this phase, the Market Proposition Office deals with the drafting of product supply contracts.

In details, for small campaigns, product supply contracts are directly stipulated, including a price that considers all the services offered by Promotica; also the consultancy for the organization of the campaign, the management of the campaign, and the collection and disposal of any returns.

Whereas, for larger campaigns, depending on the customer's bureaucratic needs, a letter of intent (LOI) may be stipulated, first with the central entities of the large-organized distribution systems and then individually with the points of sale or with the Industrial Distribution Centres.

Regarding the documentation related to loyalty programs, Promotica relies on the outsourcing company Pragmatica Plus S.r.l., which prepares the administrative documents and carries out the verification of the legal and fiscal feasibility of the campaign. Furthermore, the sector legislation provides that the drafting of the competition regulation must be filed with the Ministry of Economic Development. According to the Italian law, the loyalty provider has to deposit 20% of the value of the prizes provided by the campaign in the case of Short Collections, 100% for all others.

Moreover, in this phase, the Marketing Office defines the engagement's methods for the final consumer in order to increase his involvement within the campaign, to maximize the shopping experience.

At the same time, the Graphic Office works to define the creative idea behind the campaign and on the creation and production of POP material according to the promoter's needs.

Execution

In this phase, the campaign is managed by the Program Managers, who are responsible to: i) supply the rewards and ii) monitor the campaign and iii) manage the returns.

Once Promotica receives the purchased products from its supplier and the Company sends the prizes to its customers, the promotional campaign is launched. During the entire campaign's duration, Promotica supplies its customer's reference warehouses and invoices the quantity of goods delivered.

On the basis of its carried-out analysis, Promotica indicates to the customer how to distribute the prizes to each single point of sale and is logistically able to guarantee at any time the right availability of prizes, sufficient to meet the requests from end consumers. Promotica is able

to reach this result thanks to an automatic interface with the point-of-sale warehouse, able to constantly monitor the progress of the campaign.

In detail, Promotica collects customer's sales data and prepares a series of reports in order to control the ongoing performance. Promotica monitors the prizes distributed during the campaign and the actual products' returns, measuring the success rate of the campaign and customer feedback. This activity is essential, especially if the actual delivery during the campaign is higher than expected, allowing Promotica to plan in time the supply of additional goods.

At the end of the campaign, any unclaimed prizes are not charged to the customer but are returned to Promotica (historically with an average rate <10%). Specifically, if the products are not reusable, Promotica tries to implement a purchase plan aiming to minimize the returns. On the other hand, if these are products that are at the beginning of their life cycle, Promotica will reuse the returns for future campaigns.

Logistic

The logistics activity is outsourced to DSV S.p.A., based in Ancona, with a minimum warehouse availability of 15,000 square meters, capable to contain a minimum of 5mn pieces, which can be extended to much larger volumes according to Promotica's needs.

DSV is part of the Danish DSV group, among the top global five transport and logistics service providers.

The outsourcing of this phase allows Promotica to reduce fixed costs both in terms of storage areas and employees, obtaining a greater flexibility and a fast delivery. At the same time, Promotica avoids the risk of under-exploited spaces in correspondence with campaigns of lesser importance.

Suppliers

Promotica's suppliers are typically Italian manufacturing excellence active mainly in the household items and home furnishings sector, whose products are in line with new market trends and have a consolidated reputation. The suppliers usually stipulate a medium-to-long-term contract with Promotica, also guarantying a minimum volume of products.

Promotica develops long-standing relationships with suppliers and actively participates in the scouting and development/design of new products that can be appreciated by the market.

In detail, the relationship between Promotica and the supplier could be related to:

- purchase of standard products: Promotica directly chooses the products to offer in its campaigns from a catalogue identified by the reference supplier (this approach is less used).
- partnership with Product Editing: the partnership is managed by an exclusive contract, which extends from the scouting of the product to the identification of the manufacturer first and then of the importer for the supply of the product. In detail, Promotica:
 - participates in fairs to identify references and new market trends, and also select producers and importers;
 - designs the product in close collaboration with the supplier;
 - enters into exclusive contracts, which guarantees the supply of a minimum quantities in a given period.

Promotica's main suppliers



Source: KT&Partners elaborations on Company Data

Market Overview

Promotica is active in the loyalty program industry, managing all phases of loyalty and incentive campaigns, from the design of promotional campaigns to the management of prize deliveries, aiming to increase sales customer sales. Thanks to its disruptive business model, Promotica is the Italian leader in the loyalty program Industry, focused on Large Scale Distribution segment.

A loyalty program is a marketing strategy designed to encourage customers to continue to shop or use the services of a business associated with the program. Today, these programs cover several sectors, each having varying features and rewards schemes, including GDO, banking, entertainment, hospitality, retailing, and travel.

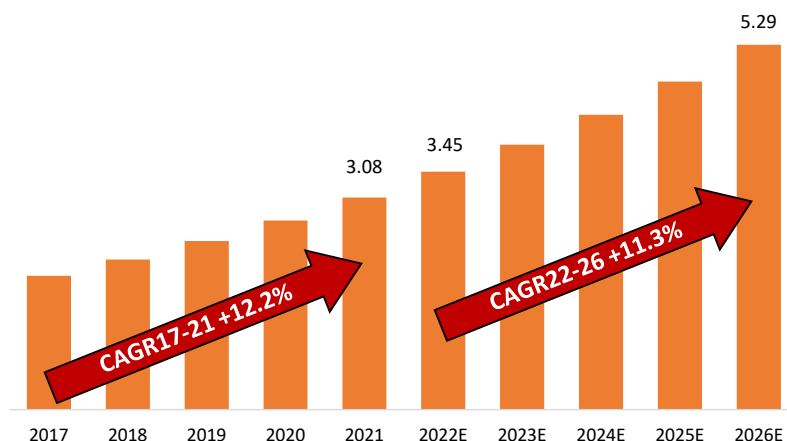
The Italian Loyalty Program Industry

According to the Q1 2022 Global Loyalty Programs Survey, in the recent years the Loyalty Programs Market in Italy showed a growth trend at a CAGR 2017-2021 of 12.2%, expecting to reach \$3.45bn in 2022 (+11.8% YoY). According to the analysts, the Industry also is projected to continue the positive trend in the following years indeed, the Market is estimated to growth at a CAGR 2022-2026 of 11.3%, expected to increase from \$3.1bn in 2021 to \$5.3bn by 2026.

In the following years, the growth of the Loyalty Program Industry is expected to be mainly driven by:

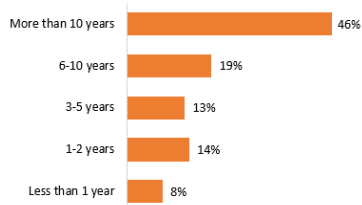
- Companies that are progressively shifting from product-centre toward customer-centered approach, increasing their focus on customer acquisition and retention operations. Customer retention ensures that existing customers can be retained, and new customers can be acquired and turned into loyal customers;
- Suppliers, rather than take a single approach, are also focusing on providing a range of loyalty programs customized to their clients, including loyalty card schemes such as card rewards, affinity programs, cashback programs, and point-based card rewards.
- E-commerce is fuelling the demand for B2C loyalty. This has led to the outsourcing of services to ensure customer loyalty driving down costs;
- Suppliers are investing more in analytics and business intelligence tools to personalize the program for relevant rewards and incentive schemes.
- Suppliers are adopting performance-based metrics to evaluate and monitor both channel and customer loyalty programs;

Italian Loyalty Program Industry 2017-2026E (\$bn)



Source: Q1 2022 Global Loyalty Programs Survey

Years of Loyalty Programs Adoptions 2022



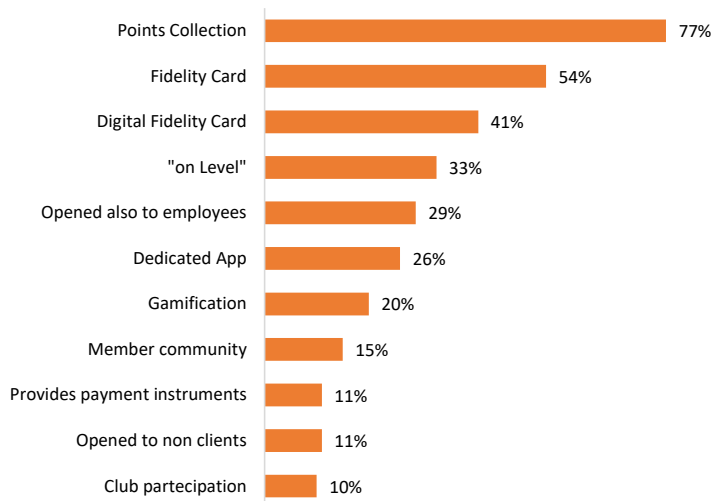
Source: KT&Partners elaborations on Loyalty in Italy, Osservatorio Fedeltà UniPR

According to a survey conducted by Osservatorio Fedeltà of Parma University, in 2022, 69% of B2C of Italian companies carried out Loyalty Programs/Customer Club (with or without a formalized loyalty program) and the 33% of companies that do not already use a loyalty program want to introduce it between 1-2 years. Focusing on the retail sector, where Promotica is primarily active, 91% of B2C companies use a loyalty program to enhance their customers' membership.

Moreover, among the B2C analysed companies, 46% of them have used a loyalty program for more than 10 years and only the 8% for less than one year.

Focusing on the Loyalty Program structure, 77% used points collection, followed by 54% that used a fidelity card, whereas 41% used a digital fidelity card.

Italian Loyalty Program Structure (2022)



Source: KT&Partners elaborations on Loyalty in Italy, Osservatorio Fedeltà UniPR

Regarding on the different benefits within Loyalty Programs, 79% involved discount and offers, 61% Coupon (also digital) to be spent in the store, and 56% special personalized offers.

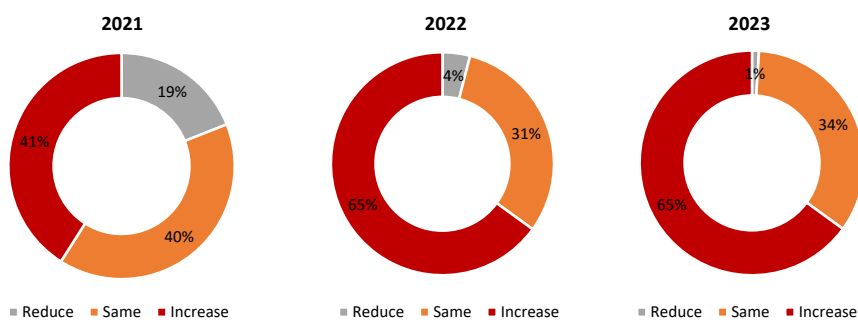
Italian Loyalty Program Benefits (2022)



Source: KT&Partners elaborations on Loyalty in Italy, Osservatorio Fedeltà UniPR

It should be noted that 62% of top management considered loyalty programs as a source of profit, whereas the remaining 38% as cost. Indeed, given the increasing importance of Loyalty Programs, the Italian companies are constantly increasing their attention to Loyalty and Customer Relationship Management and, in 2022 and 2023, 65% (80% in case of Retail) of Italian Companies have declared to raise their investments, more than the 41% registered in 2021.

Investment in loyalty and CRM by Italian companies (2022-2021)

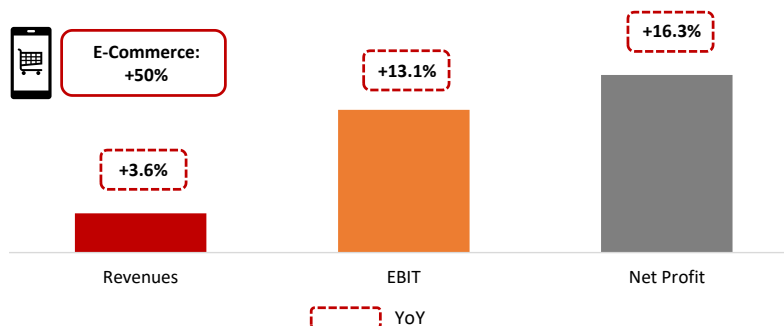


Source: KT&Partners elaborations on Loyalty in Italy, Osservatorio Fedeltà UniPR

The Italian Large Scale Distribution Industry

Looking at Italian Large-Scale Distribution industry, according to Mediobanca, the market showed revenues growth trend at a CAGR2013-2018 of 3%, moving from €72bn in 2013 to €83bn in 2018. However, nonetheless COVID-19 restrictions, during the 2020 the Industry registered a revenues increase due to the intense activity given by the closing of bars and restaurants. Indeed, in 2020, the Large-Scale Distribution industry, showed an increase of 10% YoY. Under these circumstances, in 2021 the market continued its growth path, showing revenues increase by 3.6% YoY, mainly driven by the growth in E-Commerce, that registered a +50% YoY.

Performance of International Players in the Large-Scale Distribution in Italy (2021/2020)



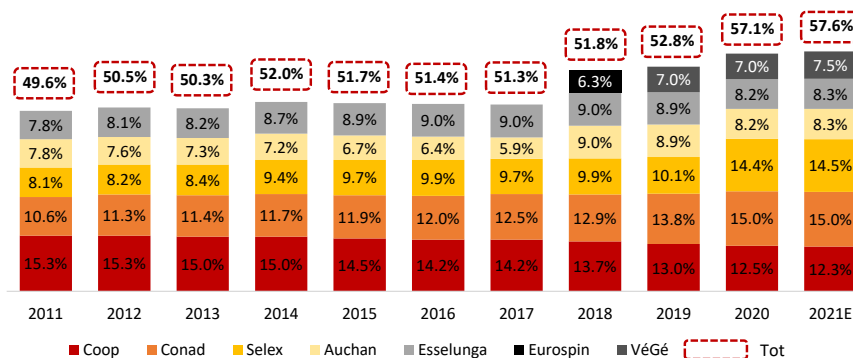
Source: KT&Partners elaborations on Mediobanca GDO Observatory data

The growth of the Large-Scale Distribution Industry in Italy is expected to be driven by the following trends:

- New sales methods (for instance, online platforms, home delivery);
- Increase in the average medium receipt, given by an inclination in the reduction of the frequency to go to the grocery store;
- Increase in the market share of discount chains;
- Acceleration of the consolidation process by the main players.

According to Mediobanca, the Large-Scale Distribution Industry in Italy is one of the most fragmented markets in Europe. Indeed, the market share of the top five main Players is just over half of the market, increasing to 57.1% in 2020 (+4.3pp), projected to reach 57.6% in 2021E.

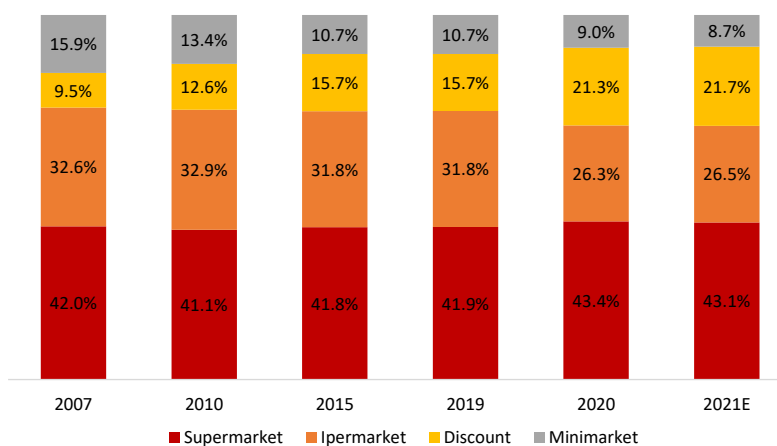
Top 5 Italian market share (2011-2021E)



Source: KT&Partners' elaborations on Mediobanca GDO Observatory data

Moreover, in the past years, the Discounts are gaining more and more market share, demonstrating Italian people's attention to savings, from 9.5% in 2007 to 21.7% expected in 2021, following by Supermarket that seen an increase from 42% in 2007 to 43.1%.

Italian market share by category (2007-2021E)

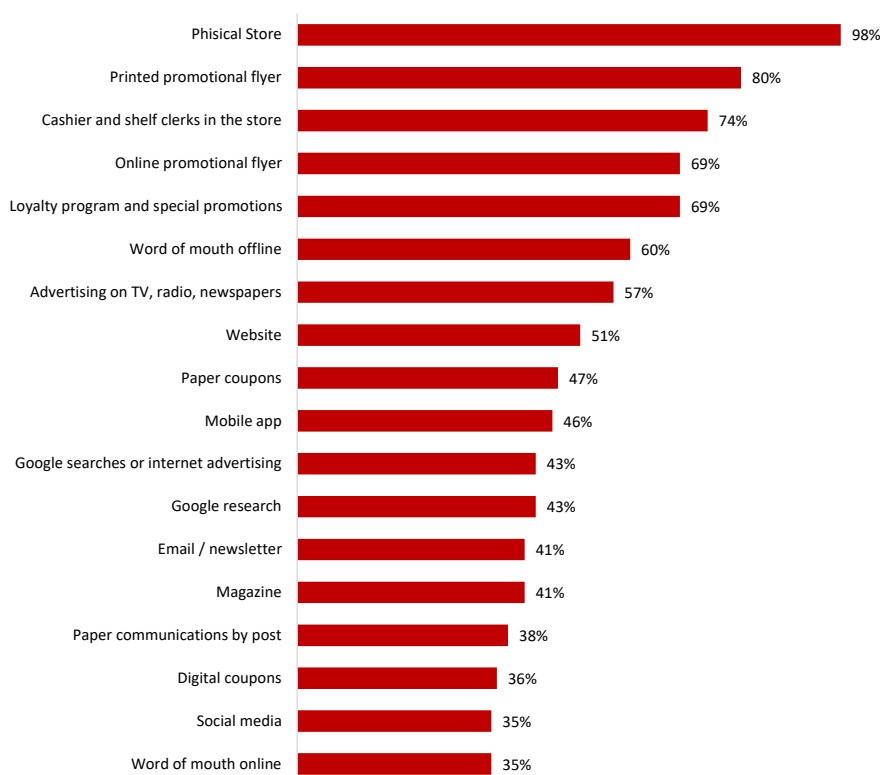


Source: KT&Partners' elaborations on Mediobanca GDO Observatory data

Loyalty in the Supermarket Retail Italian Industry

In December 2020, according to an analysis conducted by the Loyalty Observatory of Parma University, some of the most important Italian Retail managers defined the loyalty program as "one of the main strategic levers of the Large-Scale Distribution." Indeed, Loyalty programs in the supermarket world reaches 79% of Italians families, with the online promotional flyers placing at third place with the 69%, reaching 2 out of 3 Italians.

Touchpoints with greater reach in the food retail sector (2022)



Source: KT&Partners' elaborations on Osservatorio Fedeltà UniPR data

Furthermore, in their evolution and modernization, loyalty programs are more and more becoming a “constellation of touchpoints.” Nowadays, loyalty programs offer many elements with which the customer can interact; for instance, app, website, printed catalogue, games, posts on social media, and more.

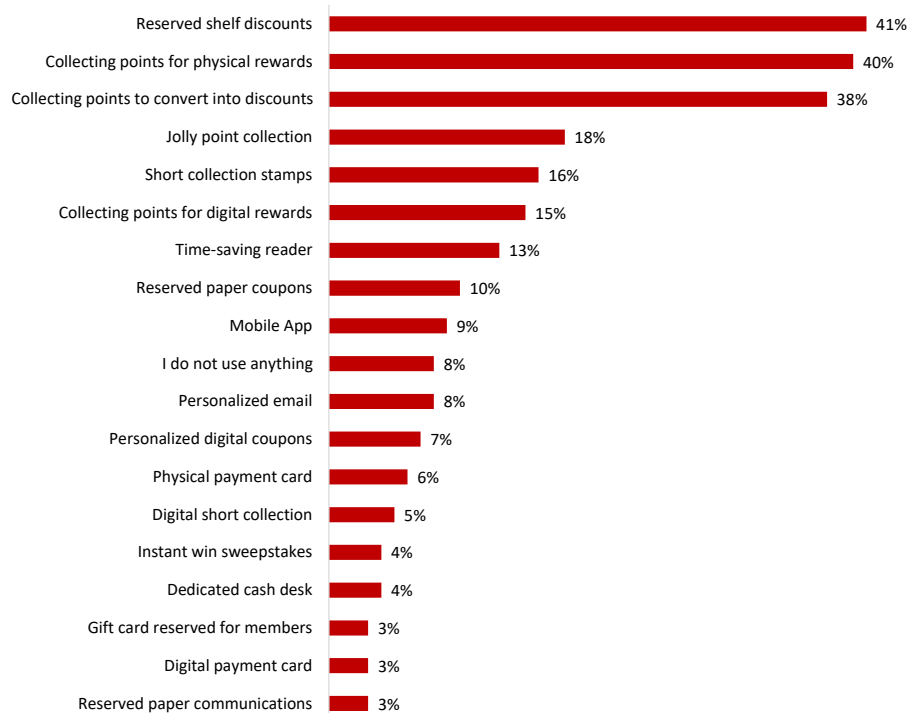
However, to better exploit the effectiveness of loyalty programs, it is mandatory to analyse its power of engagement. Accordingly, the Loyalty Observatory of Parma University, 91% of customers use the fidelity card and it is interesting to note that 35% of clients change their purchase habit to make benefit of a Loyalty Program advantage.

Satisfaction of Italians with the loyalty program of their large-scale distribution (2022)



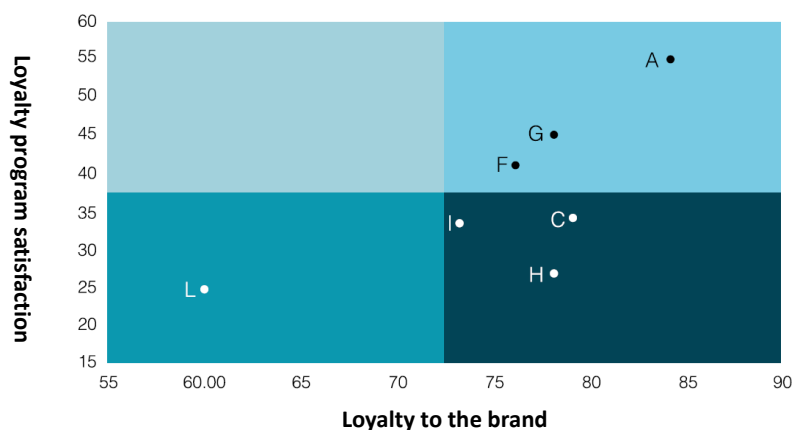
Source: KT&Partners’ elaborations on Osservatorio Fedeltà UniPR data

However, loyalty programs are becoming more and more articulated, mainly due to the match with technology that is playing a key role in loyalty industries. Indeed, compared to the "classic" loyalty programs, such as Reserved Discounts, Fidelity Cards, and Catalogue, the large-scale introduced Apps, personalized newsletters and emails, payment cards, and gift cards, besides the fact that many touchpoints are present in both physical and digital versions.

% of customers per type of loyalty program (2021)

Source: KT&Partners' elaborations on Osservatorio Fedeltà UniPR data

Moreover, the Loyalty Observatory carried out an analysis about the level of loyalty expressed by Italian families toward their main supermarket, comparing the level of satisfaction of the loyalty program offered by their supermarket. The results of the analysis revealed a clear positive relationship between the two variables, confirming that loyalty programs influence the supermarket selection.

Relationship between loyalty to the brand and satisfaction of the loyalty program (2021)

Source: KT&Partners' elaborations on Osservatorio Fedeltà UniPR data

Focusing on Covid-19 impact on the Loyalty Industry, according to the Loyalty Observatory, during the lockdown, almost 7mn Italian families, that represent the 27% of the total Italian families, have changed their supermarket for various reasons. Examples are: i) the proximity of the store, ii) the economic convenience, and/or iii) new habits during the lockdown.

This trend forced Italian brands to redesign their customer retention and loyalty strategies. With the Italian customers' changing tastes and preferences, Italian brands are designing loyalty programs to drive customer engagement based on the following strategies:

- Companies should integrate a mix of loyalty programs to drive growth in the business;
- Brands should understand the psychology and behavioural science before designing any loyalty program;
- Desirable reward attracts customers; therefore, loyalty programs should award customers with attractive rewards.
- The use of gamification technology to interact with the customers will help the companies to retain customers;
- The introduction of personalization in the loyalty programs might also help the company in the longer run.















Market Positioning

Promotica, thanks to its disruptive business model, has become one of the top leading players in the Italian loyalty program industry, competing with both international and Italian companies.

In order to define Promotica's competitive arena, we analyzed the top players, both international and domestic, active in the Italian loyalty programs market, that are focused on the large-scale distribution market.

Among the international and domestic players active in the loyalty program Italian industry we found: i) Jakala spa; ii) Tcc; iii) L-Founders; iv) Payback; v) Coro Marketing; and vi) Brandloyalty.

Promotica competitive arena

Company	Head Quarter	Revenues 2021	EBITDA 2021	EBITDA Margin 2021	PFN 2021
 PROMOTICA LOYAL FOR VALUE		€40.1mn	€2.0mn	5.1%	€12.4mn
 JAKALA DATA DRIVEN PERFORMANCE		€250.9mn	€20.6mn	8.1%	€208.7mn
 tcc a world more loyal		€574.5mn	€30.6mn	5.3%	n.a.
 L Founders of loyalty		€78.8mn	€3.9mn	4.9%	n.a.
 PAYBACK		€17.6mn*	-€12.0mn	-0.1%	-€8.1mn
 CORO MARKETING Loyalty Experience Since 1996		€14.2mn	€0.8	5.2%	-€1.4mn
 BL		€19.8mn*	€1.3mn	6.4%	-€15k

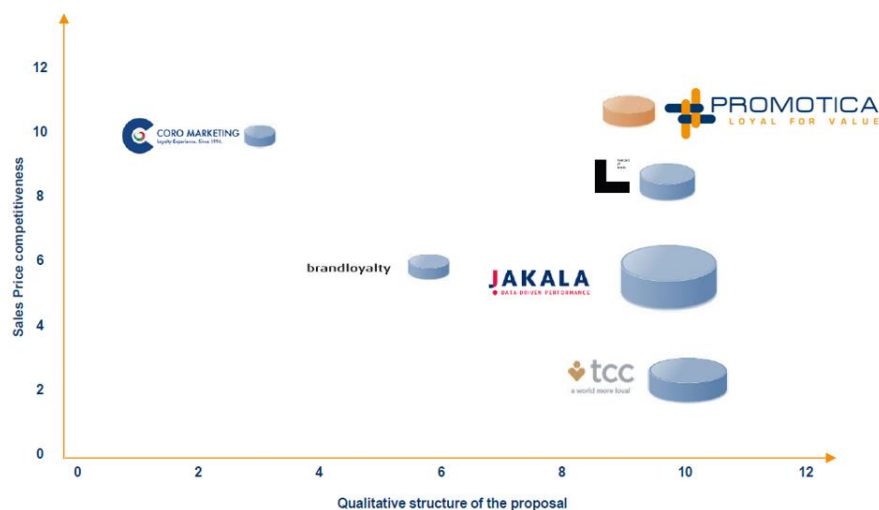
Source: KT&Partners' elaborations on AIDA and Orbis data

Analyzing Promotica's competitive arena, the Company proposes one of the most original products, thanks to its disruptive business model structure and Promotica's strong market knowledge. Indeed, thanks to its agreement with Pipoli, one of the most important Market Research institutes, the Company is able to anticipate future trends for the next months, always proposing the best Loyalty Program suitable for its clients.

Moreover, it emerged that the Group is also well-positioned in term of profitability, reporting an EBITDA margin slightly above the sample’s average (5.1% vs 5.0%), confirming Promotica’s ability to generate a significant sales volume and convert it into operating profit.

Moreover, analyzing the Competitive positioning of Promotica assigning values to the variables Competitiveness of the sales price (y) turnkey campaign and the Qualitative structure of the Proposal (x) in terms of personalization, and brand and breadth of the offer presented, Promotica results are the most competitive in the Italian Loyalty Program industry.

Promotica competitive arena



Source: Promotica Investor Presentation

It should be noted that in recent years some of the main Italian players have been acquired by major international Groups. For instance, Volponi has been acquired by Jakala, Eupromotion by L-Founders, and Brandloyalty by Loyalty Ventures. This makes the Italian loyalty program industry even more competitive for Promotica, which has to compete with players having high international standing. However, nonetheless the increasing market concentration, Promotica is gaining market share also thanks to its three last strategical acquisitions: i) Grani & Partners srl; ii) Mercati s.r.l.; and iii) Incentive and Loyalty’s Giglio business unit.

Historical Financials

Promotica Group's key financials for FY21 are:

- Total revenues at €40.1mn;
- EBITDA at €2mn, with FY21 EBITDA margin at 5.1%;
- EBIT at €1.5mn;
- Net income at €1.4mn;
- NFP at €12.4mn.

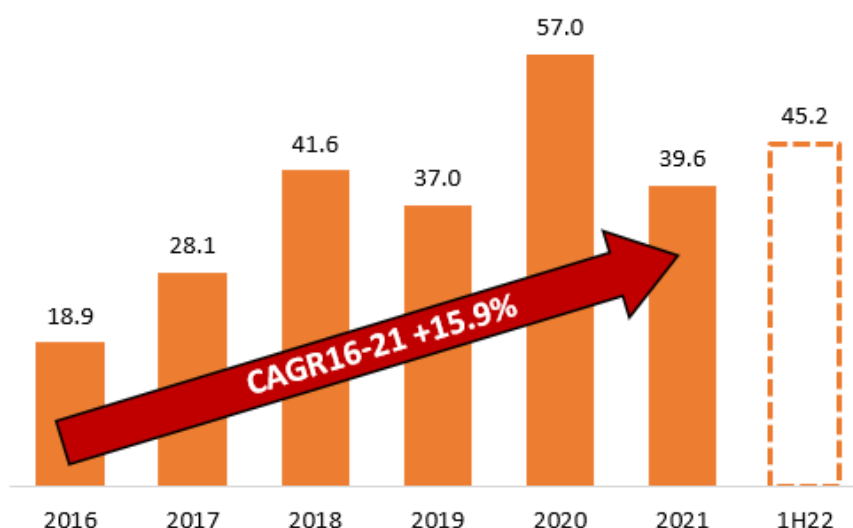
Revenues Breakdown

Promotica's business is characterized by a cyclical nature, mainly related to the start and end dates of loyalty's campaigns. Without regard to this typical Industry trend, over the years Promotica's revenues showed a strong increase, with a CAGR2016-2021 at 15.9%, peaking with €57mn of revenues in FY20.

In 2021, the cyclical nature of Promotica business, mixed with lockdowns imposed by governments to mitigate the spread of COVID-19 and the consequent closure of ports and companies in China, have forced the postponement of some loyalty campaigns. Indeed, Promotica registered FY21 revenues at €39.6mn, showing a decrease of 30.6% compared with the previous year.

However, in 1H22 the Company showed a strong recovery with sales at €45.2mn (+93.3% YoY). It should be noted that 1H22 revenues also include €11.3mn of sales deriving from the acquisition of Grani & Partners. Nonetheless, excluding the acquired Company, Promotica would have registered a revenue increase of 45% YoY, confirming its organic growth path, mainly driven by the national 2022 Premium Catalog campaign of Selex Commercial Group (€7.5mn).

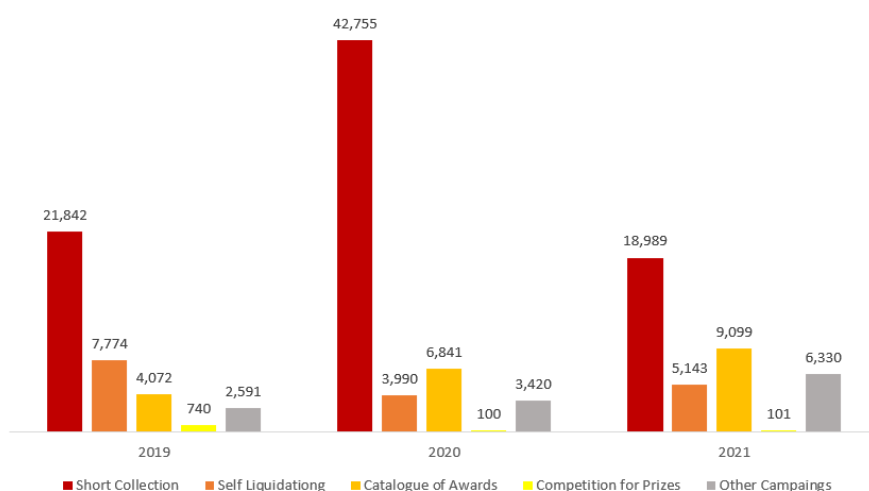
2016-2021 Sales Revenues (€mn)



Source: KT&Partners' elaborations on Company data

Looking at revenues' breakdown per type of loyalty campaigns, over the precedent years, the Short Collection contributed to the majority of sales with €19mn in 2021, representing the 48% of Promotica's sales revenues, followed by Catalogue with the 23% of FY21 sales.

2019-2021 Revenues per Loyalty Campaign (€k)



Source: KT&Partners' elaborations on Company data

Profitability Analysis

The impact of COVID-19 in the last two years and the consequent increase in transport and raw material costs has made some product categories, which usually represent the prizes of promotional campaigns (in particular, those produced in China, such as luggage) not convenient, invalidating the possibility of carrying out some campaigns scheduled for the 2H21. Obviously this had impacted Promotica's margins, as it was not possible to transfer the cost increases to end customers. Therefore, in FY21 the EBITDA decrease at €2mn with a margin of 5.1% from that registered in FY20 (€6.8mn with a margin of 11.9%).

Following the rapid revenue growth, in 1H22 Promotica reported an EBITDA higher than FY21 at €2.8mn. However, margins resulted still affected by the generalized increase of item costs, such as raw materials, transport, and energy. Promotica only partially transfers some costs to end customer; indeed, for 1H22, EBITDA margin stood at 6.1%, reporting a decrease of -7.4 pp compared with that showed in 1H21.

Following D&A at €0.5mn, FY21 EBIT came to €1.5mn, decreasing from the €6.3mn reported in FY20, with a margin of 3.7% (11.9% in FY20). Focusing on 1H22, the EBIT registered an increase of 8% YoY standing at €2.2mn.

Finally, FY21 net income amounted to €1.4mn, decreasing by 20% YoY, with a net margin at 3.4% (-4.1pp compared to FY20). Whereas, in 1H22, the net income stood at €1.3mn (-3% yoy).

2019A-2021A Consolidated Income Statement

€ Millions	FY19	FY20A	FY21A
Sales Revenues	37.0	57.0	39.6
Other Revenues	0.3	0.5	0.6
Total Revenues	37.3	57.5	40.1
Products and Raw materials	(22.1)	(42.3)	(28.4)
Gross Profit	15.2	15.2	11.7
<i>Gross Margin</i>	<i>40.9%</i>	<i>26.5%</i>	<i>29.2%</i>
EBITDA	3.9	6.8	2.0
<i>EBITDA margin</i>	<i>10.3%</i>	<i>11.9%</i>	<i>5.1%</i>
D&A and Provisions	(0.3)	(0.5)	(0.5)
EBIT	3.5	6.3	1.5
<i>EBIT margin</i>	<i>9.4%</i>	<i>10.9%</i>	<i>3.7%</i>
Financial Income and Expenses	(0.4)	(0.3)	0.1
Extraordinary items	-	-	-
EBT	3.1	6.0	1.6
Taxes	(1.0)	(1.7)	(0.2)
<i>Tax Rate</i>	<i>30.9%</i>	<i>28.1%</i>	<i>11.3%</i>
Net Income	2.2	4.3	1.4
<i>Net margin</i>	<i>5.8%</i>	<i>7.5%</i>	<i>3.6%</i>
Minorities	-	-	0.0
Net Income attributable to the Group	2.2	4.3	1.4
<i>Net margin</i>	<i>5.8%</i>	<i>7.5%</i>	<i>3.4%</i>

Source: KT's elaborations on Company data

Capital Structure Analysis

As for the balance sheet, following the acquisition and consolidation of Grani & Partners, Promotica's FY21 fixed assets amounted to €8.8mn, increasing from the €2.8mn reported in 2020.

Over the period 2020-2021, net working capital increased from €12.7mn to €17.3mn, mainly due to the Company's stockpiling to mitigate the increase of product costs. The incidence of the net working capital on sales increased to 44% from 22% registered in 2020, also given the Grani & Partners consolidation.

Finally, in FY21 Promotica registered a NFP of €12.4mn, increasing from the €3.1mn seen in FY20. The increase in net financial debt is linked to the acquisition of Grani & Partners occurred without the activation of dedicated credit lines and the financing of the working capital necessary to cope with the next royalty campaigns acquired and to be carried out in 2022.

Focusing on 1H22, Group Net Financial Position, increased to €24.5mn, mainly due to i) the financing of working capital (increasing inventories to cope with the launch of new contractual campaigns), ii) the increased resources available for the payment of €4.5mn for the acquisition of Mercati S.r.l. concluded in August.

2019-2021 Consolidated Balance Sheet

€ Millions	FY19A	FY20A	FY21A
Fixed Assets	4.2	2.8	8.8
Trade receivables	13.8	18.2	11.7
Inventory	9.2	11.4	18.8
Trade Payables	(9.3)	(16.3)	(13.8)
Trade Working Capital	13.7	13.3	16.8
Other assets and liabilities	(3.6)	(0.6)	0.5
Net Working Capital	10.0	12.7	17.3
Net Capital Employed	13.7	14.8	24.8
Total shareholders' equity	5.3	11.8	12.4
Short-term debt / Cash (-)	6.2	(1.7)	8.6
Long-term liabilities	2.2	4.8	3.9
Net Financial Position	8.4	3.1	12.4
Sources	13.7	14.8	24.8

Source: KT's elaborations on Company data

Group's Strategy

Promotica's strategy is based on a dual approach aimed at promoting both organic and external growth. In the next years, Promotica's goal is to keep expanding and consolidating its loyalty programs offer, strongly focusing on i) expanding into new markets both in terms of geography and industries; and ii) strengthening big data analytics processes.

- **Internationalization.** Following the first Promotional Campaigns in: i) Serbia with First kids' program for the big international client Delhaize; ii) Croatia with Alessi Dinnerware program for SPAR; and iii) Baltics with Circle K and Viada, Promotica aims to strengthen its international presence entering in new markets such as Hong Kong and Bulgaria. Promotica's geographical expansion will be also boosted by i) M&A activities, scouting for partnership with major actors in the loyalty market in North/Eastern Europe and by ii) hiring a new internal sales representative for foreign markets.
- **Product Diversification.** Thanks to Promotica's last acquisitions, the Company has the right instruments to expand its product portfolio offer by extending its services through kid campaigns, entertainment campaigns, and marketing plans, but also with new licenses.
- **Service Diversification.** Given the high concentration of clients related to the Large-Organized-Distribution, Promotica aims to expand its customer base entering in new markets (as Food Delivery) and consolidating its position in markets where the Company is already active such as Pharmaceutical and Petroleum.
- **Specialization in National Campaigns.** Considering the importance that National Campaigns has in Promotica's business, the Company aims to increase the offer and participation in tenders by: i) pushing commercial strategy; and ii) Improving chances to win tenders, increasing the offer through exclusive agreements with famous brands and suppliers.
- **Business Intelligence Enhancement.** Promotica aims to strengthen its big data analytics processes in order to improve the knowledge of consumer purchasing decisions by i) acquiring specific software platforms; ii) hiring new employees in the BI area; iii) strengthening new partnerships with leading market research players; and iv) M&A activities Horizontal integration with active targets in the Artificial Intelligence, big data, analysis processing skills, and market research.

Deconstructing Forecasts

Our financial projections over the 2022E–25E period are based on Promotica's business model and strategy. No impact from future M&As has been taken into account.²

Starting from the top line, we anticipate sales revenues growing at a CAGR21A–25E of 28.7%, reaching €108.5mn in FY25E. We projected sales considering: i) Promotica's expansion in new geographical markets and in new industries; ii) Promotica's offer straightening also through new partnerships with leading international players; iii) the consolidation of its last three acquisitions (Grani & Partners, Incentive & Loyalty – Giglio Group, Mercati S.r.l.).

We anticipate gross profit to be €24.6mn in FY22E, reaching €34.7mn by FY25E and experiencing a +31.2% CAGR21A–25E, following the revenues growth trend. We forecast gross margin to slightly increase in the period 2022E–2025E, mainly driven by a better incidence in terms of raw material costs, reaching 31.8% in FY25E from 29.2% in FY21.

At EBITDA level, we expect an increase over the FY22E–FY25E compared to FY21, mainly driven by a better incidence in terms of raw material costs and a lower incidence of personnel expenses nonetheless the introduction of new key figures essential to drive Promotica's growth. We therefore expect EBITDA to experience a CAGR21A–25E of +54.2%, reaching €11.5mn in FY25E, with an EBITDA margin at 10.6% in FY25E (from 5.1% in FY21A).

Looking at the bottom line, we project net income at €7.6mn in 2025E, growing at a CAGR21A–25E of +53.3%, and a net margin of 7%. We note that in our projections we assume a tax rate in line with previous years at 25%.

2019A-2025E Consolidated Income Statement

€ Millions	FY19	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Sales Revenues	37.0	57.0	39.6	83.2	94.9	101.5	108.5
Other Revenues	0.3	0.5	0.6	0.5	0.5	0.5	0.5
Total Revenues	37.3	57.5	40.1	83.7	95.4	102.0	109.0
Products and Raw materials	(22.1)	(42.3)	(28.4)	(59.1)	(66.0)	(70.0)	(74.3)
Gross Profit	15.2	15.2	11.7	24.6	29.4	32.0	34.7
<i>Gross Margin</i>	40.9%	26.5%	29.2%	29.4%	30.9%	31.3%	31.8%
EBITDA	3.9	6.8	2.0	6.4	8.2	9.8	11.5
<i>EBITDA margin</i>	10.3%	11.9%	5.1%	7.7%	8.6%	9.6%	10.6%
D&A and Provisions	(0.3)	(0.5)	(0.5)	(0.8)	(1.2)	(1.2)	(1.3)
EBIT	3.5	6.3	1.5	5.6	7.1	8.5	10.3
<i>EBIT margin</i>	9.4%	10.9%	3.7%	6.7%	7.4%	8.4%	9.4%
Financial Income and Expenses	(0.4)	(0.3)	0.1	(0.1)	(0.1)	(0.1)	(0.1)
Extraordinary items	-	-	-	-	-	-	-
EBT	3.1	6.0	1.6	5.5	6.9	8.4	10.2
Taxes	(1.0)	(1.7)	(0.2)	(1.4)	(1.7)	(2.1)	(2.5)
<i>Tax Rate</i>	30.9%	28.1%	11.3%	25.0%	25.0%	25.0%	25.0%
Net Income	2.2	4.3	1.4	4.1	5.2	6.3	7.6
<i>Net margin</i>	5.8%	7.5%	3.6%	4.9%	5.5%	6.2%	7.0%
Minorities	-	-	0.0	-	-	-	-
Net Income attributable to the Gr	2.2	4.3	1.4	4.1	5.2	6.3	7.6
<i>Net margin</i>	5.8%	7.5%	3.4%	4.9%	5.5%	6.2%	7.0%
<i>Growth %</i>	-84.2%	99.1%	-67.9%	198.0%	26.6%	21.3%	20.8%

Source: Company data (2019–2021), KT&Partners' estimates (2022–2025)

² Financial projections have been prepared by KT&Partners independently of Promotica S.p.A. Projections and forecasts involve risks and uncertainties and are subject to change. Therefore, actual results may differ materially from those contained in the projections and forecasts.

As for the Group's balance sheet, we expect Trade Working Capital to increase from €16.8mn in FY21A to €23.6mn in FY25E, mainly following Promotica's business growth and Mercati s.r.l. consolidation.

Over the 2022E-2025E period, we estimate €3.1mn of CAPEX, to support the business intelligence expansion, indeed most of the investments are related to intangible assets.

Looking at Promotica's financial soundness, we expect NFP to increase to €21.5mn in FY22E, from the €12.4mn in FY21, mainly following the consolidation of the last's acquisitions. However, in the following years, Promotica turning into a cash positive NFP at FY25E, with a net cash of €6.5mn.

2019A–25E Consolidated Balance Sheet

€ Millions	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Fixed Assets	4.2	2.8	8.8	12.8	12.1	11.4	10.7
Trade receivables	13.8	18.2	11.7	27.7	30.1	30.4	30.8
Inventory	9.2	11.4	18.8	20.8	20.6	21.4	22.3
Trade Payables	(9.3)	(16.3)	(13.8)	(19.6)	(23.4)	(26.3)	(29.5)
Trade Working Capital	13.7	13.3	16.8	28.9	27.2	25.6	23.6
Other assets and liabilities	(3.6)	(0.6)	0.5	0.5	0.5	0.5	0.5
Net Working Capital	10.0	12.7	17.3	29.4	27.7	26.1	24.0
Net Capital Employed	13.7	14.8	24.8	40.6	37.8	35.0	31.8
Total shareholders' equity	5.3	11.8	12.4	19.2	24.4	30.7	38.3
Short-term debt / Cash (-)	6.2	(1.7)	8.6	17.5	9.6	0.5	(10.3)
Long-term liabilities	2.2	4.8	3.9	3.9	3.9	3.9	3.9
Net Financial Position	8.4	3.1	12.4	21.4	13.4	4.3	(6.5)
Sources	13.7	14.8	24.8	40.6	37.8	35.0	31.8

Source: Company Data (2019-2021), KT&Partners' estimates (2022-2025)

Valuation

Overview

Following the projections of Promotica's future financials, we carried out the valuations of the company by applying DCF valuation method which capture Promotica's business and the future Group synergies arising from the integration of the latest acquisitions.

We do not rely on Market Multiples model since there are no listed companies that have: i) a business model and ii) growth rates similar to Promotica.

According to our valuation method, our estimated fair value is equal to €95.73mn or €5.64ps.

DCF Valuation

We conducted our valuation using a four-year DCF model, based on 14.2% cost of equity and a target capital structure of 69% equity and 31% debt. The cost of equity is a function of the risk-free rate of 4.2% (Italian 10y BTP, last 3 months average), 5.1% equity risk premium (Damodaran for the mature market) and a premium for size and liquidity of 3.1%. We, therefore, obtained 10.5% WACC.

We discounted 2022E–25E annual cash flows and considered a terminal growth rate of 2%; then we carried out a sensitivity analysis on the terminal growth rate (+/- 0.25%) and on WACC (+/- 0.25%).

DCF Valuation				
€ Millions	2022E	2023E	2024E	2025E
EBIT	5.6	7.1	8.5	10.3
Taxes	(1.4)	(1.8)	(2.1)	(2.6)
D&A	0.8	1.2	1.2	1.3
Change in Net Working Capital	(5.9)	1.7	1.7	2.0
Change in Funds	0.4	0.4	0.4	0.4
Net Operating Cash Flow	(0.6)	8.5	9.7	11.4
Capex	(1.6)	(0.5)	(0.5)	(0.5)
M&A capex	(9.4)			
FCFO	(11.5)	8.0	9.2	10.9
g	2.0%			
Wacc	10.5%			
FCFO (discounted)	(11.5)	7.2	7.5	8.0
Discounted Cumulated FCFO	11.3			
TV	131.2			
TV (discounted)	96.8			
Enterprise Value	108.1			
NFP FY21 Adjusted	12.3			
Minorities FY2021A	0.1			
Equity Value	95.7			
Current number of shares (mn)	17.0			
Value per share (€)	5.6			

Source: Company Data, KT&Partners' Elaboration

Sensitivity Analysis – Growth rate and WACC – (€mn)

€ Millions		WACC				
Terminal growth Rate		11.0%	10.7%	10.5%	10.2%	10.0%
	1.5%	83.7	86.7	89.9	93.2	96.8
	1.8%	86.2	89.4	92.7	96.3	100.0
	2.0%	88.9	92.2	95.7	99.5	103.5
	2.3%	91.7	95.2	98.9	102.9	107.1
	2.5%	94.7	98.4	102.3	106.5	111.0

Source: Company Data, KT&Partners' Elaboration

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- ADD - FOR A FAIR VALUE > 15% ON CURRENT PRICE
- HOLD - FOR A FAIR VALUE <15% o >-15% ON CURRENT PRICE
- REDUCE - FOR A FAIR VALUE < -15% ON CURRENT PRICE



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