

Powersoft

Sector: Industrial

Sound experience

Powersoft is a leading global R&D driven player in professional audio amplification technologies, advanced signal processing and unique transducer systems. The reference market should recover in 2021/22 from 2020 slowdown and it is structurally supported by the experience economy. Expansion in adjacent products/segments, share gain in US/China and software solutions should secure 14% 2020-23E top line growth. Cash generative business and strong BS pave the way for M&A and/or attractive dividend policy. We initiate with BUY and TP of Eu6.9/share (>40% upside)

- A world leader in professional audio amplification technologies.** Powersoft is a global leader in high-end power amplifiers for the professional audio sector (90% of sales). Products are used in fixed audio systems of venues (estimated at 70% of sales) and touring transportable audio systems (30%) for live events. Powersoft has a flexible business model (internal production of high value-added products, external strategic partners for the rest) and a solid and diversified distribution set-up on a global scale (>95% of sales outside Italy, almost 50% outside Europe).
- Growing reference market driven by the experience economy.** Professional power rack amplifier market almost halved in 2020, hit by the pandemic. Forecasts point to a strong growth over the coming years (double digit FY20-25 CAGR), mainly driven by the mounting relevance of the experience economy. This is triggered by the structural higher disposable income and consumer habits of millennials and post-Covid-19 desire to join live events. In addition, an expected wave of new venues and renovations should drive the fixed installations market, as people look at immersive experiences, powered by advanced technologies.
- Strong competitive positioning protected by patented technology and R&D investments.** Within a fragmented industry, we estimate a global market share of 5% for Powersoft. Main competitors are part of large multi-brand conglomerates or mono-brand integrated groups. R&D is the engine of the business model: total R&D on sales at 7-8% over the last 5y; 31 employees in R&D (around 30% of total). The IP is protected by international patents. The group pioneered the launch of class D audio amplifiers (the industry standard today), and currently supplies top players in the sector (Pioneer, Bose, Panasonic, d&b Audiotechnik, L'Acoustics). The strong competitive positioning is summarised by the outstanding ROCE (>30% in 2016-19).
- New market segments, products, geographies and solutions.** Powersoft has outperformed the reference market over the last few years and in 2020. We believe that the group will continue to do so, leveraging on: (i) a leading positioning and continuous innovation in product offering; (ii) penetration of 4 identified (with support of the new marketing manager) vertical markets in fixed installations, with an enlarged product offering; (iii) direct presence and distribution focus on two high potential geographies (US and China); (iv) launch of value added 4.0 services. We expect 5% 19-23E CAGR (14% in 20-23). Regained production volumes and cost efficiencies should trigger EBITDA margin expansion from 14.5% in 2020 to 16.9% in 2023.
- Strong BS to support M&A and/or cash returns.** Powersoft combines a strong BS (Eu10mn net cash in 2020) with a cash generative / asset light business model. M&A can optimize the capital structure, enhance the growth profile and further improve the competitive positioning. We estimate a fire power of around Eu20mn (and equity injections are potentially on top to fund M&A deals). Dividend policy could be significantly enhanced on top or as an alternative to M&A.
- Undiscovered high quality reopening name. Initiation with BUY and TP of Eu6.9/share.** Listed in Dec 2019, the stock is up ca 35% from IPO and has outperformed the main comparable group B&C Speakers. However, at 6.6x 2022 EV/EBITDA, Powersoft trades at >50% discount versus peers. We set a TP of Eu6.9/share based on the average of DCF and EV/EBITDA-EBIT of B&C Speakers (after 10% discount). We believe that increase in the free float, stronger relations with institutional investors, potential M&A deals, optimisation of the financial leverage and delivery on the expected growth should contribute to close the valuation gap.

BUY

New Coverage

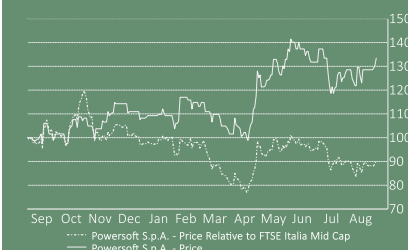
TP 6.9

New Coverage

Target price upside: 42%

Ticker (BBG, Reut)	PWS IM	PWS MI
Share price Ord. (Eu)	4.9	4.9
N. of Ord. shares (mn)	11.1	11.1
Total N. of shares (mn)	11.1	11.1
Market cap (Eu mn)	54	54
Total Market Cap (EU mn)	54	54
Free Float Ord. (%)	14%	14%
Free Float Ord. (Eu mn)	8	8
Daily AVG Liquidity Ord. (Eu k)	15	15

	1M	3M	12M
Absolute Perf.	4.7%	-2.8%	33.5%
Rel. to FTSEMidCap	0.4%	-8.6%	-14.1%
52 weeks range		3.5	5.2



	FY20A	FY21E	FY22E
Sales	31	33	40
EBITDA adj.	4.5	4.4	6.3
Net profit adj.	1.5	1.4	2.8
EPS adj.	0.131	0.126	0.255
DPS - Ord.	nm	0.000	0.000
EV/EBITDA adj.	8.1x	9.7x	6.6x
P/E adj.	24.6x	30.3x	14.2x
Dividend yield	0.0%	0.0%	0.0%
FCF yield	-3.3%	7.9%	4.2%
Net debt/(Net cash)	(9.7)	(13.6)	(15.5)
Net debt/EBITDA	nm	nm	nm

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Financial Summary

P&L account (Eu mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Value of Production	38.3	31.4	33.0	40.0	46.5
Gross margin	na	na	na	na	na
EBITDA reported	6.4	4.5	4.4	6.3	7.9
D&A	(1.9)	(2.0)	(2.0)	(2.0)	(1.9)
EBIT reported	4.0	2.0	1.9	3.8	5.5
Net financial charges	0.0	(0.6)	(0.1)	(0.1)	(0.1)
Associates	0.0	0.0	0.0	0.0	0.0
Extraordinary items	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	4.0	1.4	1.9	3.8	5.4
Taxes	(1.0)	0.3	(0.5)	(0.9)	(1.4)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued activities	0.0	0.0	0.0	0.0	0.0
Net profit reported	3.0	1.7	1.4	2.8	4.1
EBITDA adjusted	6.4	4.5	4.4	6.3	7.9
EBIT adjusted	4.0	2.0	1.9	3.8	5.5
Net profit adjusted	3.0	1.5	1.4	2.8	4.1

Margins (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Gross margin	na	na	na	na	na
EBITDA margin (adj)	16.7%	14.5%	13.4%	15.7%	16.9%
EBIT margin (adj)	10.4%	6.5%	5.8%	9.6%	11.8%
Pre-tax margin	10.5%	4.5%	5.6%	9.4%	11.7%
Net profit margin (adj)	7.9%	4.6%	4.2%	7.1%	8.8%

Growth rates (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Sales	8.5%	-17.8%	5.0%	21.2%	16.3%
EBITDA	19.5%	-29.0%	-2.5%	42.0%	25.1%
EBITDA adjusted	19.5%	-29.0%	-2.5%	42.0%	25.1%
EBIT	17.6%	-49.0%	-6.1%	100.7%	43.3%
EBIT adjusted	17.6%	-49.0%	-6.1%	100.7%	43.3%
Pre-tax	14.5%	-64.8%	31.2%	103.4%	43.8%
Net profit	19.6%	-42.2%	-20.1%	103.4%	43.8%
Net profit adjusted	19.6%	-51.9%	-4.1%	103.4%	43.8%

Per share data	FY19A	FY20A	FY21E	FY22E	FY23E
Shares	11.074	11.074	11.074	11.074	11.074
N. of shares AVG	11.074	11.074	11.074	11.074	11.074
N. of shares diluted AVG	11.074	11.074	11.467	11.467	11.467
EPS	0.272	0.157	0.126	0.255	0.367
EPS adjusted	0.272	0.131	0.126	0.255	0.367
DPS - Ord.	0.000	0.000	0.000	0.000	0.000
DPS - Sav.	0.000	0.000	0.000	0.000	0.000
BVPS	1.720	1.896	2.022	2.277	2.645

Enterprise value (Eu mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Share price Ord. (Eu)	4.5	4.1	4.9	4.9	4.9
Market cap Diluted	49.8	45.5	55.7	55.7	55.7
Net debt/(Net cash)	(11.0)	(9.7)	(13.6)	(15.5)	(18.3)
Adjustments	0.8	1.0	1.0	1.0	1.1
Enterprise value	39.6	36.8	43.1	41.3	38.6

Cash flow (Eu mn)	FY19A	FY20A	FY21E	FY22E	FY23E
EBITDA reported	6.4	4.5	4.4	6.3	7.9
Net financial charges	0.0	(0.6)	(0.1)	(0.1)	(0.1)
Cash taxes	(1.0)	0.3	(0.5)	(0.9)	(1.4)
Ch. in Working Capital	0.5	(4.0)	2.4	(1.1)	(1.4)
Other operating items	(0.7)	(0.4)	(0.0)	0.0	0.1
Operating cash flow	5.2	(0.2)	6.3	4.2	5.2
Capex	(1.5)	(1.4)	(1.9)	(1.9)	(1.9)
FCF	3.7	(1.5)	4.4	2.3	3.4
Disposals/Acquisitions	0.0	0.0	0.0	0.0	0.0
Changes in Equity	0.6	0.2	0.0	0.0	0.0
Others	(1.7)	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
Ch. in NFP	2.7	(1.3)	4.4	2.3	3.4

Ratios (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Capex/VoP	3.9%	4.3%	5.7%	4.7%	4.0%
Capex/D&A	0.8x	0.7x	0.9x	0.9x	1.0x
FCF/EBITDA	58.1%	-33.2%	99.9%	36.9%	42.7%
FCF/Net profit	123.4%	-86.6%	318.3%	82.0%	82.6%
Dividend pay-out	0.0%	0.0%	0.0%	0.0%	0.0%

Balance sheet (Eu mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Working capital	4.8	8.9	6.5	7.6	9.0
Fixed assets	4.0	3.4	3.2	3.1	3.1
Provisions & others	(0.8)	(1.0)	(1.0)	(1.0)	(1.1)
Net capital employed	8.0	11.3	8.8	9.8	11.0
Net debt/(Net cash)	(11.0)	(9.7)	(13.6)	(15.5)	(18.3)
Equity	19.0	21.0	22.4	25.2	29.3
Minority interests	0.0	0.0	0.0	0.0	0.0

Ratios (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Working capital/VoP	12.7%	28.4%	19.8%	19.1%	19.4%
Net debt/Equity	nm	nm	nm	nm	nm
Net debt/EBITDA	nm	nm	nm	nm	nm

Valuation	FY19A	FY20A	FY21E	FY22E	FY23E
EV/CE	4.5x	3.0x	4.4x	3.8x	3.2x
P/BV	2.6x	2.2x	2.5x	2.2x	1.9x
EV/Sales	1.0x	1.2x	1.3x	1.0x	0.8x
EV/EBITDA	6.2x	8.1x	9.7x	6.6x	4.9x
EV/EBITDA adjusted	6.2x	8.1x	9.7x	6.6x	4.9x
EV/EBIT	10.0x	18.1x	22.6x	10.8x	7.0x
EV/EBIT adjusted	10.0x	18.1x	22.6x	10.8x	7.0x
P/E	16.5x	20.5x	30.3x	14.2x	9.2x
P/E adjusted	16.5x	24.6x	30.3x	14.2x	9.2x
ROCE pre-tax	47.1%	19.1%	17.2%	37.2%	47.8%
ROE	15.8%	6.9%	6.2%	11.2%	13.9%
EV/FCF	10.6x	-24.4x	9.7x	17.8x	11.5x
FCF yield	7.5%	-3.3%	7.9%	4.2%	6.0%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%

Strengths

Pioneer in the development of class D professional amplifiers
R&D driven business model
Established production and distribution set-up and strong links with top clients

Opportunities

Expansion of the product portfolio and addressed market segments
Market share gain in US and China
Selective M&A to increase market share in amplifiers and/or expand in other products

Weaknesses

Many competitors are part of larger and more diversified groups
Lower than average market share in US and China
Inefficient capital structure (strong cash pile)

Threats

Technological obsolescence
Potential disruptions in the supply chain of key components
Change in consumer habits with reduction of live events

Key shareholders

Evolve S.r.l. 85.66%

Management

Carlo Lastrucci - Chairman
Luca Lastrucci - CEO
Claudio Lastrucci - R&D
Antonio Peruch - Production Engineering
Luca Giorgi - Sales and Business Development
Gianmaria Guarini - Operation
Akira Mochimaru - Global Marketing
Massimo Ghedini - Finance and IR

Next events

29th Sep - 1H results

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Executive Summary

Powersoft is a leading global R&D driven player in professional audio amplifiers. The reference market should recover in 2021/22 from 2020 slowdown and it is supported by the experience economy. Expansion in adjacent products / market segments, share gain in US/China and added value services should secure above market medium term growth. Cash generative business and strong BS pave the way for M&A and/or attractive dividend policy.

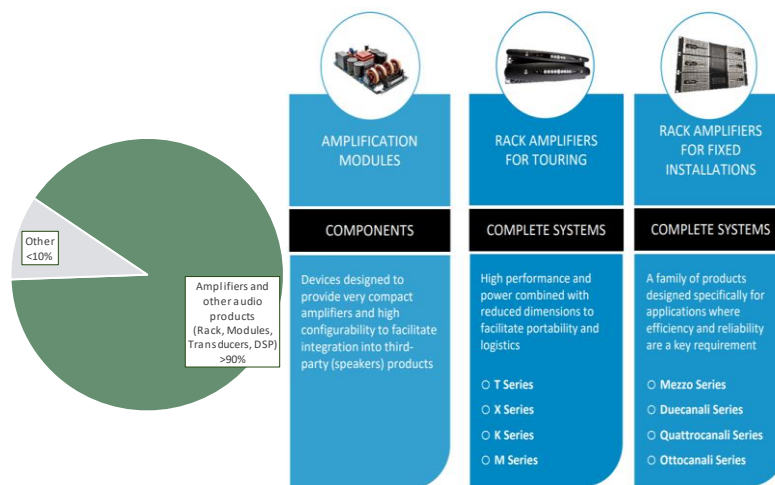
We initiate our coverage with BUY rating and TP of Eu6.9/share. Powersoft is a quality and still undiscovered reopening name in our view. At 6.6x 2022 EV/EBITDA, the stock trades at huge discount (>50%) versus our overall panel of comparable companies and B&C Speakers.

Excellence in professional audio amplifiers

Founded in 1995, Powersoft is a global leader in the design and manufacturing of professional audio amplification technologies, advanced signal processing and unique transducer systems (estimated at >90% of sales). Powersoft key products are rack amplifiers (systems) and amplification modules (components). Products are used in (i) fixed audio systems of venues like stadiums, cinemas, theatres, railway stations, airports, theme parks, resorts and hotels, congress and shopping centres, museums and places of worship; and (ii) touring transportable audio systems for live events (i.e. concerts, sport events). We estimate exposure to live / non-live events at roughly 30% / 70%. The group is strategically focusing on fixed installations and the COVID outbreak accelerated the process. The company built its success on innovation and R&D and pioneered the launch of class D amplifiers, which are today an industry standard. Intellectual property, electronic and mechanical projects, firmware and software are entirely internally developed. Powersoft has a flexible approach to production (internal production of high value-added products, use of external strategic partners for the rest). The group has a solid and consolidated distribution set-up with distribution partners and direct relationships with customers on a global scale (>95% of sales generated outside Italy, almost 50% outside Europe). Powersoft went public in 2018 to gain higher visibility, attract new talents and further increase its M&A firepower. The group has been a growing and high profitable group until the pandemic outbreak, with Eu38mn sales in 2019 (after 10% 2016-19 CAGR) with EBITDA margin at 17% on sales.

Leading producer of pro-audio power amplifiers (FY20 revenue breakdown by product)

Powersoft has historically developed rack amplifiers (systems) to be connected to passive speakers and amplification modules (components) to be assembled into OEM's active speakers



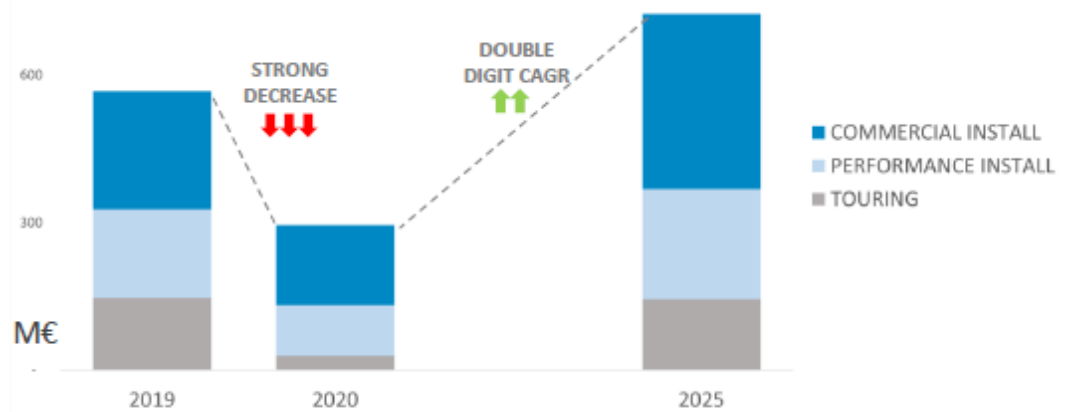
Source: Company presentation, Alantra estimates

Experience economy to drive Professional Audiovisual market growth

Global Professional Audiovisual (Pro AV) industry revenues dropped to USD214bn in 2020, a 17% yoy reduction versus 2019 peak of USD259bn. Latest forecasts from AVIXA, trade association representing audiovisual industry worldwide, see the market still below 2019 in 2021 (USD232bn expected turnover, up 8% yoy) before growing sharply to USD329bn by 2026 (7.4% FY20-26 CAGR). Professional power rack amplifier market targeted by Powersoft almost halved in 2020 being, more exposed to touring than the broader AV market, in our view. Forecasts for this niche point to a strong growth over the coming years (double digit FY20-25 CAGR), mainly driven by the installation segment and the mounting relevance of the experience economy, triggered by the structural higher disposable income of millennials (more interested in services / experiences rather than goods) and post-Covid-19 desire to join live events. In addition, an expected wave of new venues and renovations should drive the installations market, as people look more and more at immersive experiences, powered by advanced technologies.

Pro rack amplifier market targeted by Powersoft

Professional rack amplifiers market almost halved in 2020 and is expected to grow at double digit CAGR by 2025



Data source: Powersoft elaboration based on primary research panels









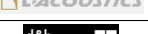





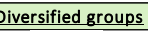


















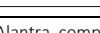
Source: Company presentation

Strong competitive position protected by patented technologies and R&D investments

Within a fragmented industry, we believe that the group is a leading global player with estimated market share of 5% in the core business of rack amplifiers. We struggle to find independent product specialists with a similar positioning. The German group IcePower and the Danish player Pascal are mainly producers of professional module amplifiers. Other competitive brands are part of larger multi-brand conglomerates, including the Swedish Lab.Gruppen (acquired in 2015 by the Philippian group Music Tribe) and Crown (part of the US group Harman, acquired by Samsung in 2016). Other competitors are large mono-brand integrated groups, including Bose Professional, Panasonic, Yamaha, Ashly and QSC. Powersoft's technologies are protected by trademarks. In addition, the group significantly invests in innovation (R&D on sales at 7-8% on average over the last 5 years; 30% of the workforce in R&D). The group has established strong reputation, links and relationships with top clients (Pioneer, Bose, Panasonic, RCF and others) and distributors. Powersoft also supplies module amplifiers to the top loudspeaker brands (L'Acoustics and d&b Audiotechnik). Powersoft has a global reach with around 50% of sales generated outside Europe. The strong R&D driven competitive positioning is summarised by the outstanding ROCE historically delivered by the group (above 30% in 2016-19).

Powersoft's competitive landscape

Fragmented competitive landscape with the presence of product specialists and diversified multi- and mono-brand groups

								
Product specialists	Microphone	Signal processor	Amplifier	Loudspeaker	Client of Powersoft	Home country	Sales 2019 (Eu mn)	Sales 2020 (Eu mn)
	✓					Germany		
			✓			Italy	38	31
			✓			Denmark		
			✓			Germany		
			✓	✓	Yes	France		
			✓	✓	Yes	Germany		
				✓	Yes	Japan	2,582	
				✓		USA		
				✓		Canada		
	(2)			✓		Italy	56	32
		✓				USA		
Diversified groups					Client of Powersoft	Home country		
					Yes	Italy	208	107
						USA	7,722	6,857
						Philippines		
			✓	✓	Yes	USA	3,572	3,157
	✓	✓	✓	✓	Yes	Japan	7,491	6,699
	✓	✓	✓	✓		Japan	3,429	3,015
		✓	✓	✓		USA		
		✓	✓	✓		USA		

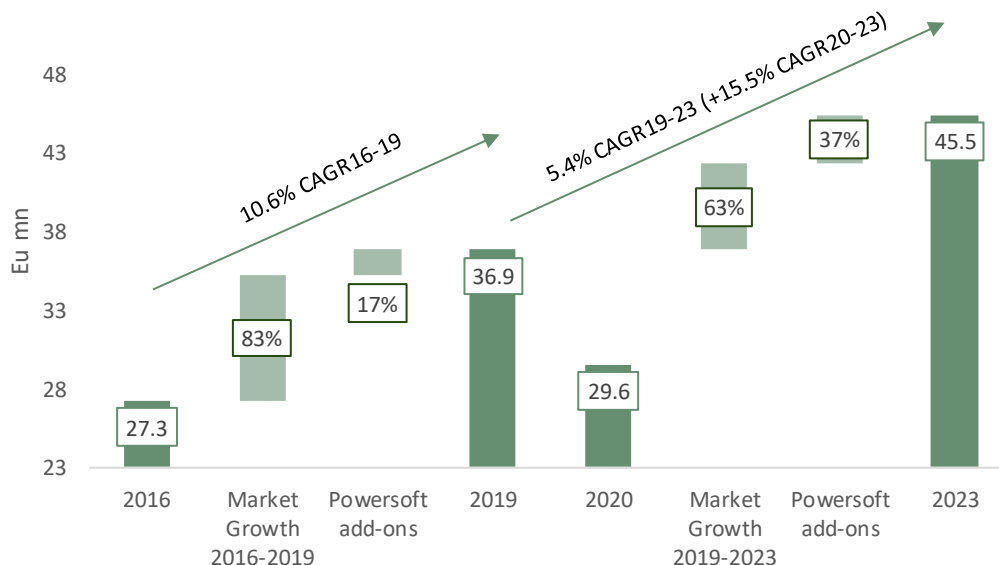
Source: Alantra, companies' websites. (1) Group. Large part of sales is outside professional audio. (2) B&C Speakers is a component maker

Business diversification: new products, business segments and markets

Powersoft has grown faster than its reference market over the 2016-2019 period (10.6% vs +8.9%) powered by continuous R&D investments in product innovation and product offering expansion (e.g., new categories of amplifiers, low frequency transducers and shakers, safety and monitoring systems) and by the strengthening of the global distribution network. In our view, Powersoft should continue to outperform the reference market (expected to grow at +3.5% CAGR over 2019-26E and 7.4% over 2020-26E) in the coming years. We believe that the group should take advantage of: (i) a leading positioning and continuous innovation in product offering in high end professional segment, which should secure growth at least in line with the market; (ii) penetration of 4 identified (with support of the new marketing manager) verticals in fixed installations with an enlarged product offering; (iii) specific distribution focus on two high potential geographies (US and China); (iv) Launch of value added 4.0 services. We expect 5% 2019-23E CAGR (15.5% in 2020-23) on net sales.

Powersoft – 2016-19 and 2019-23E Net Sales bridge

We forecast Powersoft to grow at 5.4% CAGR in 2019-23E (15.5% CAGR 2020-23E) and to keep outperforming its reference market



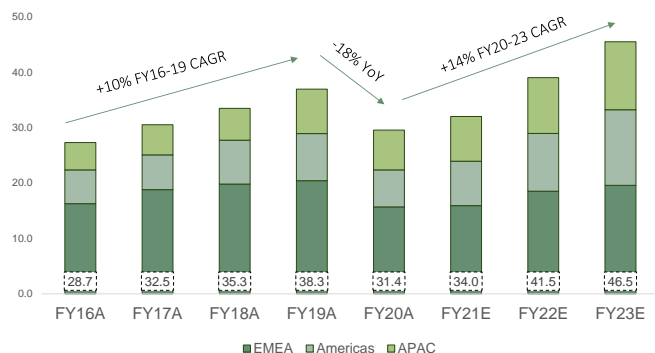
Source: Alantra

Top line growth above market average and EBITDA margin expansion

As pure player in a high-quality niche, Powersoft was able to overperform its reference market over FY16-19 period and to be more resilient in 2020 during the covid outbreak (-18% yoy top line growth, in line with the overall pro AV market and much better than targeted rack amplifier market). 2021 should be still impacted by business headwinds (we expect Powersoft top line up only 5%): first, professional live audio performance (mainly live events) has been and should continue to be under pressure, as new variants are leading to the postponement of concerts and live events; second, electronic components shortage is widening lead-times and this could cause some loss of revenues for the company, as some deliveries could be postponed to 2022. Looking forward, we see a 14% revenue CAGR over FY20-23 with Americas and APAC being the best performers. Regain of production volumes and costs efficiencies should translate into EBITDA growing faster than revenues and EBITDA margin expanding from 14.5% in 2020 to 16.9% in 2023.

Powersoft – VoP (FY16-23E)

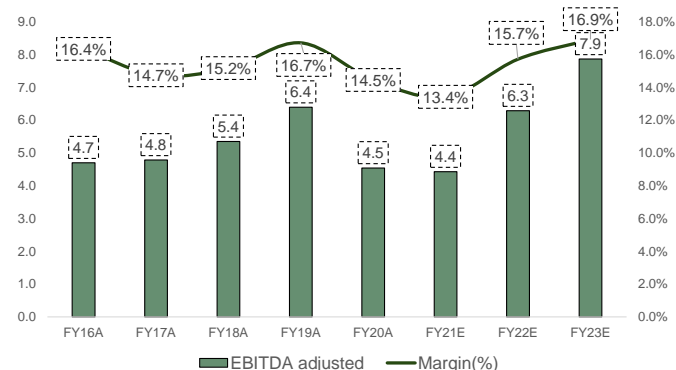
We see a 14% VoP CAGR over FY20-23 with Americas and APAC being the best performers



Source: Powersoft data as for 2016-2020, Alantra Estimates

Powersoft – Adj. EBITDA and margin (FY16-23E)

Regain of production volumes and costs efficiencies should translate into EBITDA margin expansion: from 14.5% in 2020 to 16.9% in 2023



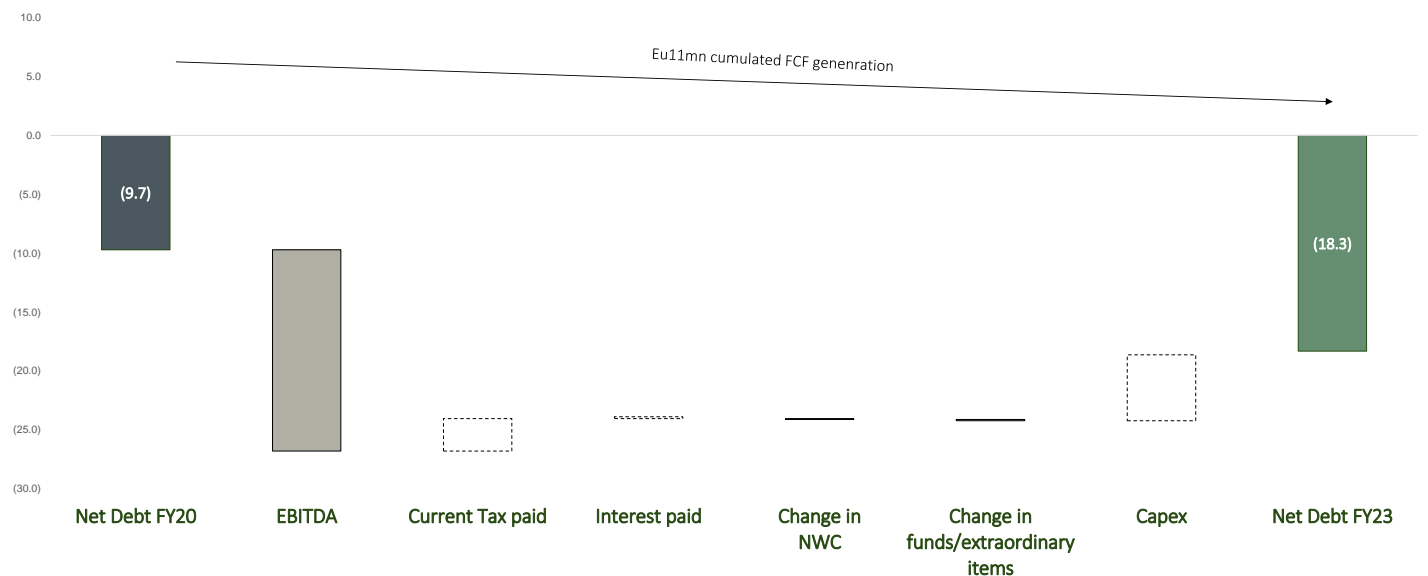
Source: Powersoft data as for 2016-2020, Alantra Estimates

Strong BS and CF generation pave the way for M&A

Powersoft runs an asset light business model: invested capital is almost entirely made up of working capital (at less than 20% of revenues), while fixed assets are mainly represented by intangibles (as only assembly phases are made internally). The company has invested approx. Eu10mn in R&D over FY17-20 period, o/w approx. Eu3.3mn capitalized (ca 70% of total capex). An efficient management of receivables/payables and a make-to-order production layout have allowed the group to manage the business with a low NWC and to post a good combination of cash generation and business growth. In 2020 cash generation was hampered by an inventory build-up of electronic components to face possible shortages. Over the coming years, we expect working capital to normalize, while capex should continue to be skewed on R&D, as the company continues to work on new products launches. Overall, we expect Eu9mn cash generation over 2021-23 period. This should lead Net Cash to grow up to Eu18mn. Powersoft can use M&A to optimize the capital structure, enhance its growth profile and further improve the competitive positioning. We estimate a fire power of around Eu20mn. Powersoft might also be a prey, as other independent amplification specialists, although we rule out this scenario in the short term. Dividend policy could be significantly enhanced in addition and as an alternative to M&A (no dividends are included in our estimates).

Powersoft – Net Debt bridge

An efficient working capital management and limited capex needs should lead to a Eu9mn FCF generation over the forecasting period)



Source: Powersoft data as for 2016-2020, Alantra Estimates

Eu6.9/share Target Price

Listed in December 2018, the stock is up ca 35% from IPO and has outperformed the main comparable group B&C Speakers. However, Powersoft maintains a huge discount versus B&C Speakers (50% on 2022 EV/EBITDA), other Italian SMC involved in electronic products (70% discount on 2022 EV/EBITDA) and our broad sample, which also includes other players exposed to sound products and live events (ca 70% discount on 2022 EV/EBITDA). The undervaluation is confirmed by our DCF approach (Eu6.9/share in the base case). We set a TP of Eu6.9/share based on the average of DCF and EV/EBITDA – EV/EBIT multiples of B&C Speakers after 10% discount. We believe that different factors could contribute to bridge the valuation gap and reduce the discount we apply to our valuation: increase in the free float; stronger relations with institutional investors (including international funds); potential M&A deals and optimisation of the financial leverage. We also believe that delivery on the expected top line growth and margin expansion could be another positive trigger for the stock price, considering that Powersoft has a short market history (in large part impacted by the virus outbreak) and needs to build investors' confidence.

TP of Eu7.0/share based on the simple average of multiple based and DCF valuation

Method	Equity Value		
	(Eu mn)	(Eu per share)	Weight (%)
DCF	79.4	6.9	50%
Peers multiples	79.4	6.9	50%
Weighted AVG	79.4	6.9	
N. of shares (mn)			11.5

Source: Alantra

Main risks

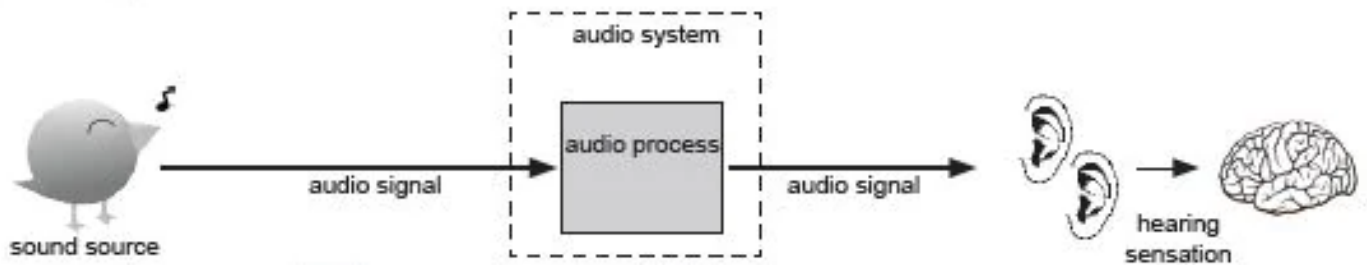
We believe that the main risks related to Powersoft's business can be summarised in the following factors: 1) Technological obsolescence; 2) Change in consumer habits with reduction of live events; 3) Currency risk (mismatch between costs and revenues in USD); 4) Economic cycle and pandemic risk; 5) Disruptions in procurement of key components; 6) Failure in the penetration of new market segments.

Powersoft in the professional audio value chain

An audio system processes (transports, changes and/or stores) audio signals coming from a sound source (human voice, musical instrument or any phenomenon that generates an audio signal) and sends the output to human ears.

Audio system diagram

An audio system processes audio signals coming from a sound source and sends the output to human ears



Source: Yamaha

A professional audio system differs from a home (consumer) system in many ways. First, the purpose: professional systems are used in **large venues** and should be capable to run thousands of channels in parallel, while home systems are used in small places. Second, the power: professional systems achieve **very high levels of power** in terms of voltage or watts. Third, reliability: professional audio systems are **built to last**. Fourth, line level and impedance. Professional systems are usually designed to handle a **wide range of signal levels**. Quality of the output: while a consumer product is more likely to produce an output that is good to hear but not necessarily accurate, a professional equipment has the main purpose to **sound accurate**.

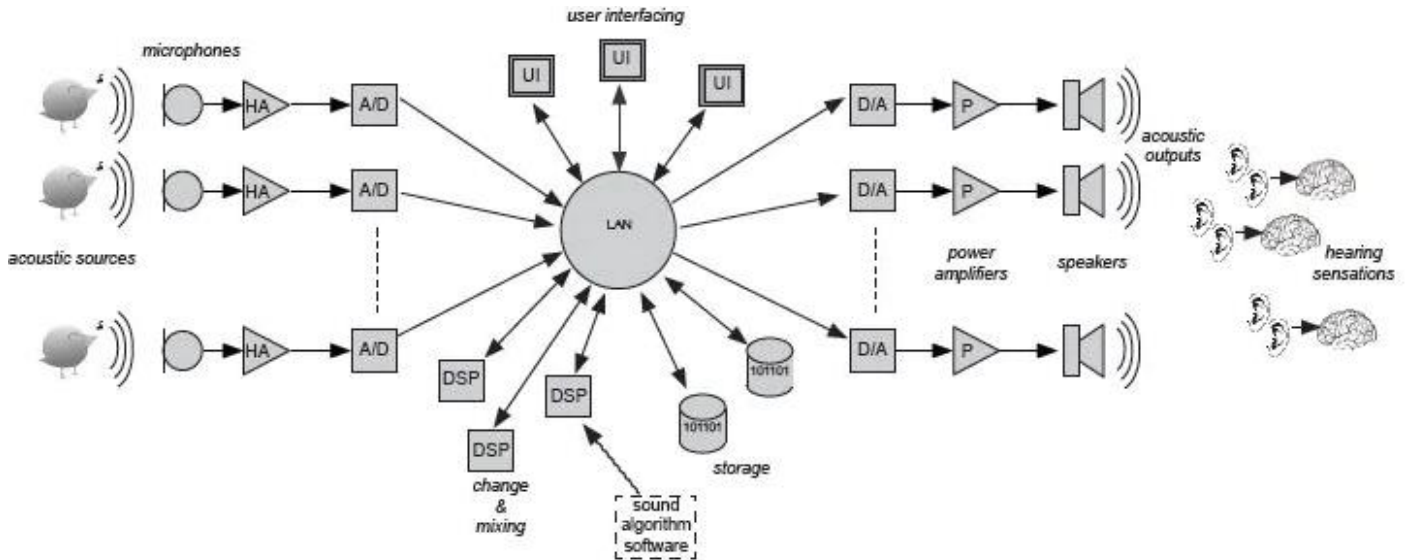
A professional audio system is composed of different basic components:

- Microphone. It converts the acoustic signal coming from an acoustic source into electric analogue signals
- Head amp (HA). It is a microphone pre-amplifier, which amplifies signals generated by microphones before entering further electronic circuits
- A/D converter. It converts electrical (analogue) signals to digital data for further processing in digital audio systems
- LAN (Distribution Network). It is a collection of components used to transfer data from and to all physical locations in the audio system
- DSP (Digital Signal Processors). They are used to perform real-time change and mixing of different audio signals
- Storage. A digital audio system can process audio in real time, but it also can store audio streams on media such as hard disks, memory cards, CD, DVD for later processing or playback
- D/A converter. It converts digital audio data to electrical (analogue) signals to be sent to power amplifiers
- Amplifier. It increases an audio signal voltage to a higher level at a low impedance to drive energy into loudspeakers. Modern power amplifiers use high frequency switching output stages to directly drive loudspeakers (class-D). Some power amplifiers have distribution interfaces, DSP (for speaker processing) and D/A converters built-in. There are two main types of amplifiers: Rack amplifiers are stand alone and usually mounted on a rack. Module amplifiers are integrated with loudspeakers in one product

- Loudspeaker. It converts electric signals into acoustic signals. High quality loudspeaker systems use multiple transducers to generate a combined acoustic output, each delivering a separate frequency range. Loudspeakers integrated with module amplifiers in one product are called active speakers and differ from passive (non-integrated) speakers

Audio system example

A professional audio system is composed of different basic components



Source: Yamaha

In a more simplified representation, the value-added components of an audio system are microphones, Digital Signal Processors & Mixers, amplifiers, control software and loudspeakers. Powersoft's core business is the production of professional amplifiers both rack (standalone) and modules (integrated with loudspeakers). Powersoft's amplifiers are already integrated with digital signal processors.

Powersoft in the professional audio value chain

Powersoft's core business is the production of professional amplifiers both rack and modules



Source: Alantra

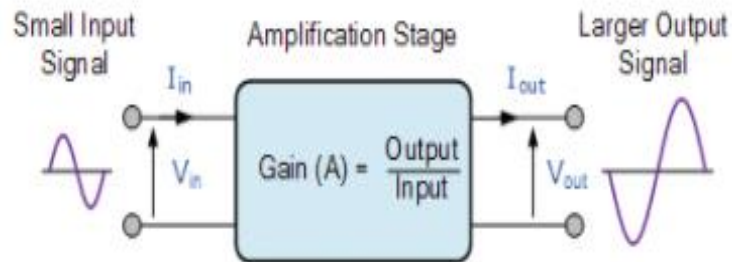
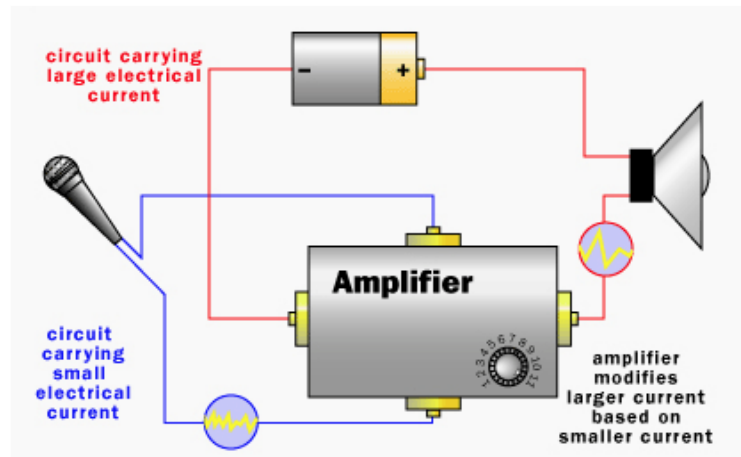
How an amplifier works

The amplifier works by receiving an electrical sound signal from a source. The input signal usually has a low voltage. The amplifier draws energy from the electrical network and makes the signal stronger, making it reach a higher voltage. This electrical voltage is called sound pressure, and it is different from acoustic power, which is expressed in Watts. To obtain acoustic power, the amplifier transforms electrical voltage into audio waves.

The many possible implementations for audio systems include Classes A, AB, B and D. With the first three designs, the output-stage power dissipation is large in even the most efficient linear output stages. With **Class D** there are significant advantages in many applications because the lower power dissipation produces less heat, saves circuit board space and cost, and extends battery life in portable systems.

Amplifier – Basic functioning

Amplifiers allow to amplify small input signal into much larger ones keeping the same waveform



Source: <https://www.youtube.com/watch?v=7X7EqVv9aA8>, <https://electrical-engineering-portal.com>

Excellence in professional amplifiers

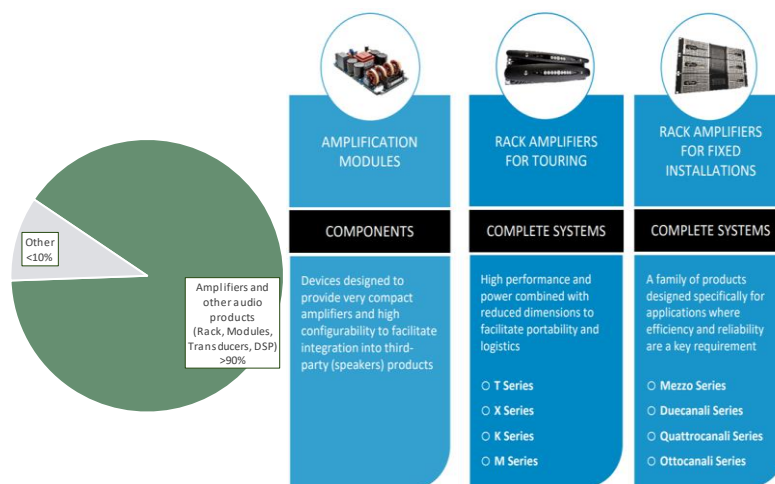
Founded in 1995, Powersoft is a global leader in the design and manufacturing of high-end power amplifiers for the professional audio sector and other audio products (estimated at >90% of sales). Powersoft key products are rack amplifiers (systems) and amplification modules (components). Products are used in (i) fixed audio systems of venues in hospitality, retail, higher education and houses of worship; and (ii) touring transportable audio systems for live events (i.e. concerts, sport events). We estimate exposure to live / non-live events at roughly 30% / 70%. The group is strategically focusing on fixed installations and the COVID outbreak accelerated the process. The company built its success on innovation and R&D and pioneered the launch of class D amplifiers, which are today an industry standard. Intellectual property, electronic and mechanical projects, firmware and software are entirely internally developed. Powersoft has a flexible approach to production (internal production of high value-added products, use of external strategic partners for the rest). The group has a solid and consolidated distribution set-up with distribution partners and direct relationships with customers on a global scale (>95% of sales generated outside Italy, almost 50% outside Europe). Powersoft went public in 2018 to gain higher visibility, attract new talents and further increase its M&A firepower. The group has been a growing and high profitable until the pandemic outbreak, with Eu38mn sales in 2019 (after 10% 2016-19 CAGR) with EBITDA margin at 17% on sales.

Leading supplier of professional audio amplifiers for touring and fixed installations

Powersoft is a global leader in the design and manufacturing of high-end patented technologies and solutions for the professional audio sector. The group is specialized in the production of pro-audio power amplifiers, which represent a key part of an audio system (the electronic circuits that increase the power of the electric signal that drives loudspeakers). Powersoft key products are rack amplifiers (systems) - for both touring and fixed installations - amplification modules (components, to be assembled into OEM's active loudspeakers) and other audio products, estimated at >90% of sales. Safety multimedia devices, sound controllers and transducers complement the product offering.

Leading producer of pro-audio power amplifiers (FY20 revenue breakdown by product)

Powersoft has historically developed rack amplifiers (systems) to be connected to passive speakers and amplification modules (components) to be assembled into OEM's active speakers.




Source: Company presentation, Alantra estimates

Powersoft’s amplifiers find their place into (i) fixed audio systems of venues like stadiums, cinemas, theatres, railway stations, airports, theme parks, resorts and hotels, congress and shopping centres, museums and places of worship; and (ii) touring transportable audio systems for live events (i.e. concerts).

End markets – Powersoft’s case studies


Powersoft amplifiers find their place into (i) fixed audio systems of large venues and (ii) touring transportable systems for live events




TOURING

High power, minimum weight, maximum efficiency and reliability


- World Tours
- Live Events
- Concerts



RED HOT CHILI PEPPERS
WORLD TOUR




SUPERBOWL 50 HALF
SANTA CLARA




HOUSE OF WORSHIP

Uniform distribution of sound, clarity of acoustics, reliability and ease of use

- Churches
- Mosques
- Other places of worship




MECCA
SAUDI ARABIA



VENUES

Power and reliability, audio quality, immersive and multi-zone experience

- Stadiums
- Theaters
- Convention Centres
- Museums
- Clubs



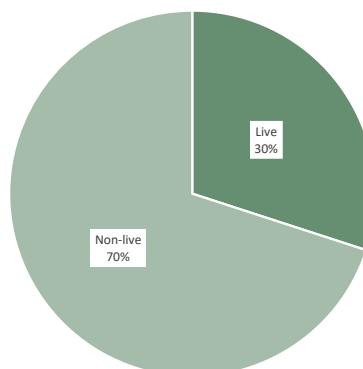
QUEEN ELISABETH HALL
ANTWERP

Source: Company presentation

We estimate an average exposure to live / non-live events at roughly 30% / 70%. The group is strategically focusing on fixed installations and the COVID outbreak accelerated the process.

Exposure to live / non-live

The exposure to live / non-live events is estimated at roughly 30% / 70%



Source: Alantra estimates

R&D driven business model

Powersoft is a global leader in professional audio amplification, thanks to strong R&D and continuous innovation. 30% of the work force (or 31 persons) is in R&D. The three founders and current shareholders Luca Lastrucci, Claudio Lastrucci and their mutual friend Antonio Peruch combined their background in engineering with their passion for music to develop the first amplifier in a small garage in Florence in 1995. They were pioneers in the development of the so-called “switched-mode” technology, which allowed to create smaller and lighter amplifiers, with higher power density, lower power consumption and no sound distortion. Powersoft pioneered the application of the so-called Class D technology in professional sound amplifiers, which has become the industry standard and replaced valves-based technology.

Powersoft history

Powersoft's business model is R&D driven



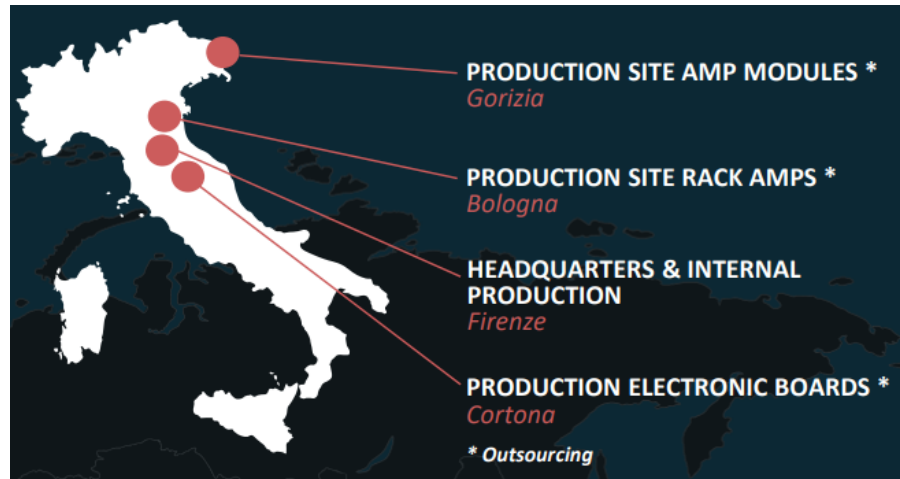
Source: Company presentation

Flexible business model: mixing internalized and outsourced manufacturing

Powersoft's highly skilled and multi-disciplined personnel is engaged in R&D (30% of the workforce), technical assistance, marketing, sales, logistics, and warehouse duties. Intellectual property, electronic and mechanical projects, firmware and software, signal processing, algorithms and testing are entirely developed within the headquarters, both for certification purposes and to assure excellent operations in the most demanding conditions. The group's internal production activity consists in the assembly of components and semi-finished products at its factory located in Scandicci (Florence) following the “lean” methodology. Once the assembly phase is completed, the products go through quality control. It consists of testing the finished product carried out by qualified operators, through the use of measuring equipment designed by the Group. The production process is managed internally by the Group for higher added value products to protect the company know-how. In parallel, the Group makes use of strategic partners for the production of both semi-finished and finished products, which allow a mitigation of the production risk, as well as the possibility to adjust the overall production volume according to the market needs. In particular, for the production of components and for the production of finished products, modules and multimedia units, the group makes use of partners specialized in EMS (Electronic Manufacturing Services). Roughly 60% of finished products are assembled through assembly activities, while the remaining 40% is assembled by specialized partners.

Flexible business model mixing in-house and outsourced manufacturing

The group internally assembled higher added value products to protect know-how, while outsourcing lower value-added products to strategic partners



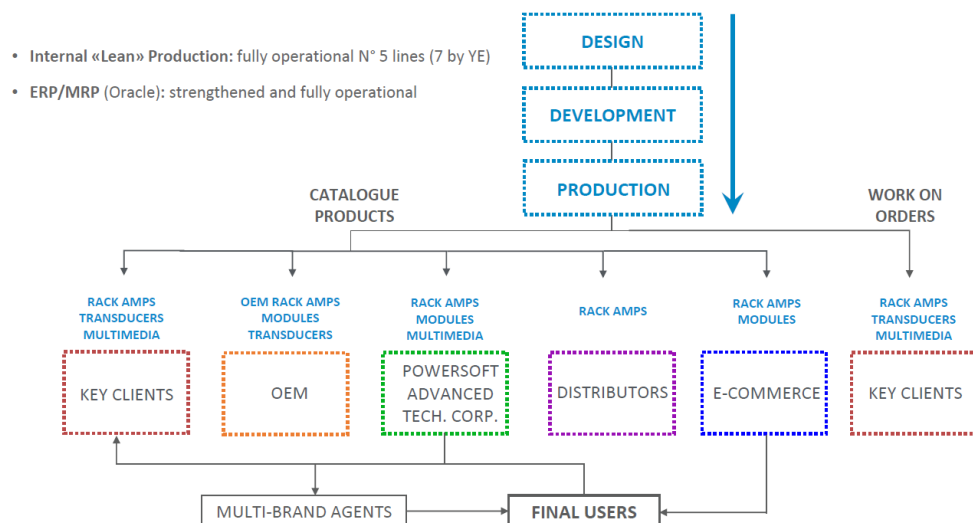
Source: Company presentation

Solid and consolidated distribution set-up

The group does not disclose its revenue breakdown by distribution channel. We believe that most of the group's revenues are attributable to direct sales. They include sales generated by the 100% **owned distribution company in US**, by **key accounts** (large clients served with Powersoft's branded products) and by **OEM** (mainly related to white label module amplifiers sold to active loudspeaker makers). In addition, the group makes use of an articulated network, coordinated by area managers, of **authorized distributors**, to sell its branded products in a specific geographical area. Powersoft provides its customers with consultancy services, tailored solutions and software development to fulfil specific customers' needs, support for integration with 3rd party management platforms, feasibility study for new required features, certification, testing and validation. In addition, the service department provides the after-sales support like configuration setup, online training, maintenance services. Some of the products are co-developed and produced on orders for key clients and special projects.

Powersoft distribution set-up

Powersoft has a solid and consolidated distribution set-up with distribution partners and direct relationships with customers



Source: Company presentation

Consolidated commercial relationships with customers are governed in part by supply framework agreements and in part by individual purchase orders. OEMs include key loudspeaker producers: d&b audiotechnik and L'Acoustics. Key accounts include well-known brands like Bose, Panasonic, Pioneer, RCF and other smaller players. The wholly owned US subsidiary, Powersoft Advanced Technologies Corp., gives direct control of the sale channels in this strategic market. In particular, the activity of Powersoft Advanced Technologies Corp. consists in the sale of rack amplifiers, amplification modules and multimedia systems, both directly and through multi-brand agents, to end customers operating in the markets of installation and touring. The subsidiary is also responsible for the distribution in Canada and CALA, and globally manages the relationships with some key clients. The subsidiary Powersoft Advanced Technologies Corp is also in charge of marketing and technical assistance for the US market.

Key accounts and OEM customers

Powersoft supplies rack amplifiers, amplifier modules and transducers to OEM customers and key accounts



Source: IPO prospectus

Strong international presence: over 95% of sales generated outside Italy and almost 50% outside Europe

Thanks to a widespread network of partners, distributors and authorized service centres, the group markets its products in 110 countries. Europe is the most relevant market and accounted for 51% of FY20 sales (Italy < 5%). The group has already built a significant presence in APAC (24%) and North America (21%), the two most important regions for the professional audio market (China and US are expected to be accounting for over 40% of the total Professional Amplifier market by 2025). The group still has limited exposure to Middle East, Africa and Latin America.

Strong international presence: over 95% of sales generated abroad – 2020

The group has already built a significant presence in APAC (24%) and North America (21%), the two most important regions for the professional audio market (China and US are expected to be accounting for over 40% of the total Professional Amplifier market by 2025)



Source: Company presentation

IPO at the end of 2018 to start the next growth phase of the company

The three founders and owners of Powersoft, who hold key positions in the business and are part of the BoD, recognized the IPO as a key catalyst for Powersoft to evolve from a family business / garage company to a more structured group (e.g. adoption of best practices ERP, IFRS accounting, independent board members), to gain visibility and to attract talents.

Board of Directors

The three founders hold key positions in the business and are part of the BoD



Carlo Lastrucci
Chairman

He graduated in Physics and after more than 40 years as top manager in the telecommunications sector, in 1998 he was co-opted by his sons in the newly formed start-up Powersoft S.r.l. of which he has been President since 1998. Currently he is mainly dedicated to the development of the foreign business.



Antonio Peruch
Executive Board Member - Cost Assessment & Production Engineering Director

Powersoft Co-founder and electronic engineer. He worked on hardware design, production of switching power supplies, and research in the field of digital amplification. In his current role of Production Engineering & Project Management Director, he expresses with his team all Powersoft's creative skills in design optimization for production purposes.



Luca Lastrucci
CEO

He graduated in Engineering with a PhD in AI and a Master in Business Administration. After a research period in Berkeley (CA) and some scientific publications, in 1995 he is co-founder of Powersoft. Until 2001, he was responsible for software development and was responsible for implementing optimization algorithms for the control and management of fleets of mobile vehicles and applications for audio systems. Since 2011, he has taken on the role of CEO, dedicating himself to the growth and organization of the company. Since 2016 he is also Sole Director of Ideofarm, incubator and accelerator of innovative ideas in the field of technologies.



Luca Giorgi - Sales Director
Executive Board Member

After many years of experience in space, telecommunications and manufacturing companies, he joined Powersoft in 2007 coordinating a worldwide distribution network. Former General Manager and, currently, Member of the Board of Directors of Powersoft Advanced Technologies Corp., the Powersoft company that deals with the North American market.



Claudio Lastrucci
Executive Board Member – R&D Director

Electronic engineer and co-founder of Powersoft, from the beginning he occupies the role of R&D Director, focusing on applications for audio amplification, signal processing, applied mechanics, acoustics, transducers design, developing over the years patented technological solutions for today's reference products in the professional audio market.



Lorenzo Lepri
Non-Executive Board Member

He graduated in Business Administration at Bocconi University in 1996. Strong managerial and financial skills acquired in management positions at Mediobanca and Dada SpA, where he is General Manager and Group CFO. Long experience in the way of listed companies.



Paolo Blasi
Independent Board Member

A prominent figure in the academic world. Ordinary of Experimental Physics and Professor Emeritus at the University of Florence, of which he was rector (from 1991 to 2000). He has held senior positions in various institutions. His research activity concerns the study of the properties of the atomic nucleus and of the characteristics of the reactions between the nuclei.

Source: Company presentation

As a matter of fact, in 2021 the company hired as new marketing director: Akira Mochimaru, a professional with 38-year experience in the pro audio sector. He worked at Yamaha Sound System and Altec Lansing. He was general manager of the Pro Systems division of Bose Corporation before joining Powersoft. Mr Mochimaru's duties in the new role will be to "connect the dots" between customers, technology, products, communication and distribution through strategic business planning and guiding implementation. Based in the US, he will also coordinate with Powersoft's New Jersey-based operations to help grow the company's presence in the install market through his knowledge and network of contacts

Recent top hiring

Akira Mochimaru, a professional with 38-year experience in the pro audio sector, has been recently appointed global marketing director

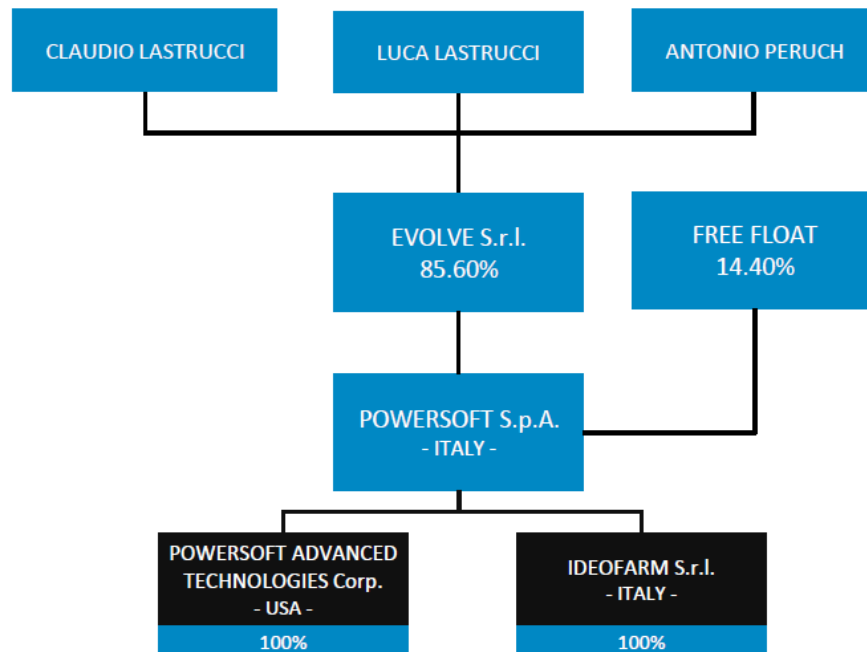


Source: <https://www.proavl-asia.com>

Having already a very solid financial structure, IPO proceeds (Eu5.1mn) represented additional firepower for M&A, although no deals has been finalised so far. Evolve srl, the vehicle that holds 85.6% of the company, is controlled by the three founders Claudio Lastrucci (45%), Luca Lastrucci (45%) and Antonio Peruch (10%).

Shareholding structure and group organization

Evolve srl, the vehicle that holds 85.6% of the company, is controlled by the three founders Claudio Lastrucci (45%), Luca Lastrucci (45%) and Antonio Peruch (10%)

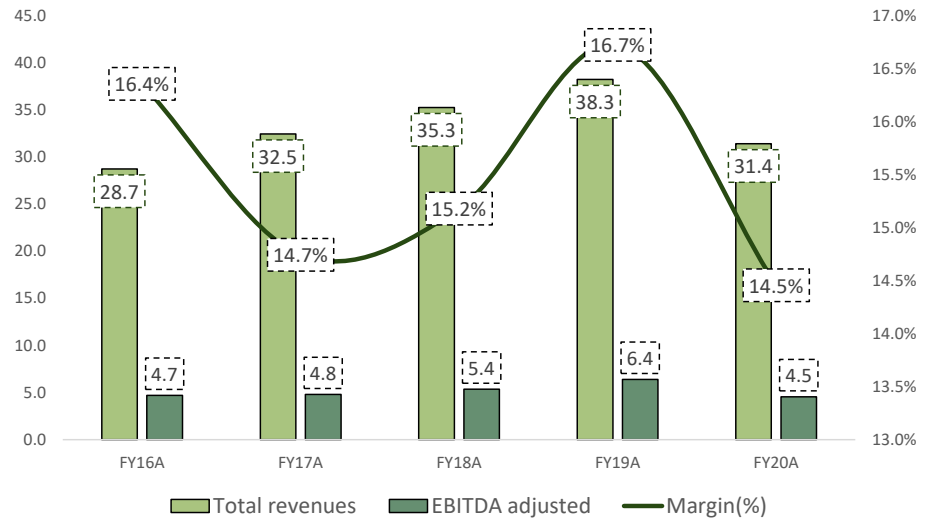


Source: Company presentation

Powersoft has been a growing and high profitable group until the pandemic outbreak, with Eu38mn sales in 2019 (after 10% 2016-19 CAGR) with EBITDA margin at 17% on sales.

Powersoft – Historical financials

10% top line CAGR in 2016-19 with average EBITDA margin above 15%



Source: Powersoft financial reports

Experience economy to drive pro AV market growth

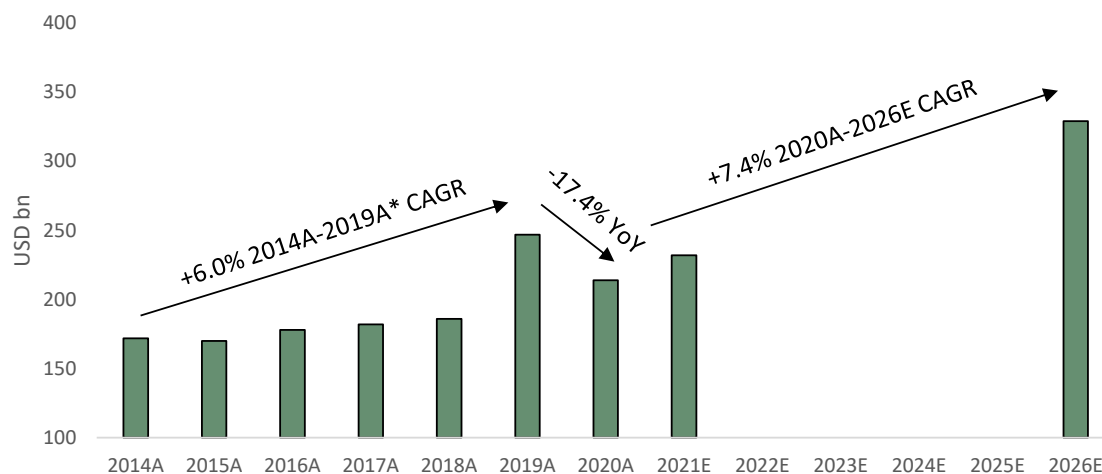
Global Professional Audiovisual (Pro AV) industry revenues dropped to USD214bn in 2020, a 17% yoy reduction versus 2019 peak of USD259bn. Latest forecasts from AVIXA, trade association representing audiovisual industry worldwide, see the market still below 2019 in 2021 (USD232bn expected turnover, up 8% yoy) before growing sharply to USD329bn by 2026 (7.4% FY20-26 CAGR). Professional power rack amplifier market targeted by Powersoft almost halved in 2020 being, more exposed to touring than the broader AV market, in our view. Forecasts for this niche point to a strong growth over the coming years (double digit FY20-25 CAGR), mainly driven by the installation segment and the mounting relevance of the experience economy, triggered by the structural higher disposable income of millennials (more interested in services / experiences rather than goods) and post-Covid-19 desire to join live events. In addition, an expected wave of new venues and renovations should drive the installations market, as people look more and more at immersive experiences, powered by advanced technologies.

Professional AV market should regain soon its structural growth path

Global Professional Audiovisual (Pro AV) industry has grown at a healthy 6% CAGR over FY14-19 period. Covid-19 has halted this growth being particularly severe in some niches and leading to a 17.4% drop in FY20. Latest forecasts from AVIXA, trade association representing audiovisual industry worldwide, see the market still suffering in 2021 (USD232bn expected turnover) before growing sharply to USD329bn by 2026 (7.4% FY20-26 CAGR), recovering the historical growth trend observed over the last decade.

Pro AV Market

Robust recovery over 2021/22 is expected and should realign sector growth to historical levels



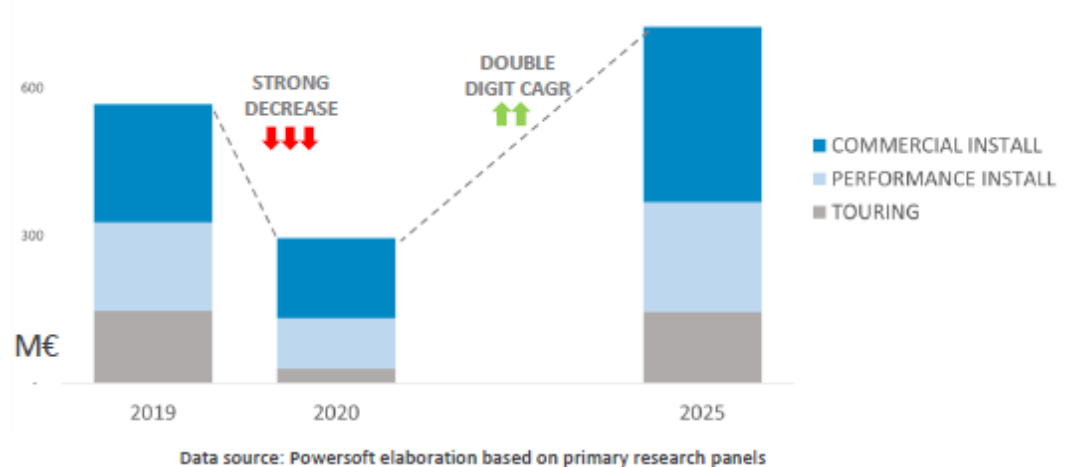
Source: Avixa reports. (*) 2019 and following figures include distributor markup over manufacturer price. Growth is based on adjusted 2019 data to provide a more representative trend

Inside this large market, the niche of professional audio rack amplifiers (estimated at 70% of the group's sales in 2020), targeted by the group, should account for approx. Eu0.6bn (based on Powersoft elaboration on primary research panels).

In greater detail, targeted power rack amplifier market almost halved in 2020. Touring business, which represented approx. 25/30% of the market in 2019 was the hardest hit (almost zeroed), while the installation business, both performance and commercial, was more resilient. Starting from a lower bottom, management forecast a stronger growth by 2025 in a scenario where live events and installations regain pace in 2021/22.

Pro rack amplifiers market targeted by Powersoft

Professional rack Amplifiers market almost halved in 2020 and is expected to grow at double digit CAGR by 2025



Source: Company presentation

By geography, China and US are expected to account to over 40% of the total professional rack amplifier market by 2025.

Rack amplifiers market targeted by Powersoft – Geographical focus

China and US leading the recovery after 2020

China + US expected to be accounting over 40% of the total Professional Amplifier market by 2025



China first and fastest Country recovering from Covid, early impact even on the Touring market



USA expected to strongly recover GDP in 2021 due to supporting Rescue Plan driven by the Biden administration, together with an acceleration in the vaccine campaign positively impacting on general economy and construction business

Source: Company presentation

Live events emerging from a pandemic: *first to go, last to come back...*

The global concert industry has historically been a healthy business. Prior to the breakout of the Covid-19 pandemic in March 2020, the market was set to reach new records in terms of economic activity.





However, the touring market has been the most negatively affected area of professional audio during the COVID crisis. A common phrase to describe the challenge faced by the events industry has been “the first to go, and the last to come back;” alluding to the devastating halt to live events early-on and the long-term implications of social distancing for the industry.

Despite the challenges faced by the touring sector, more clarity and confidence is building around the future of live events. The market is still a long way from reaching pre-COVID levels, but a good rate of recovery is expected in the second half of 2021. These projections come alongside rising vaccination levels in some key countries, namely the U.K. and the U.S., as well as clearer timelines from regulators on the return to normality.

Below we have reported some of the largest listed live events companies the FY20 YoY revenues decline and analyst's recovery estimates.

Live Events companies

All major live events companies suffered huge losses in 2020 but analysts' forecasts are pointing to a strong recovery

Live Events companies	FY20 YoY % revenues decline	Analysts FY20-23 Sales CAGR estimates	FY23 vs FY19
	-83.9%	98%	24%
	-82.2%	101%	13%
	-63.0%	162%*	43%
	-82.2%	102%**	8%

Source:Factset

*June21-June23 **FY20-22 and FY22 vs FY19

While a tough market environment should persist in 2021 for live event companies, analyst estimates are pointing to a strong recovery by 2023 with all companies exceeding 2019 levels and realigning to a structural mid-single digit growth CAGR.

Live Nation, world's leading live entertainment company, is expecting for 2022 a pipeline of concerts which should be up double digits from 2019 while analysts see its 2023 revenues exceeding pre-pandemic levels by ca 25%.

Global live music goers survey

Surveys suggest how people want to come back to live events

AMONG LIVE MUSIC GOERS, WHEN EVENT RESTRICTIONS ARE LIFTED...

LIVE MUSIC GOERS' RETURN TO LIVE MUSIC

#1

LIVE MUSIC WILL BE THE MOST LIKELY ATTENDED TYPE OF EVENT (91%), OUTRANKING MOVIES (87%), THEATER (78%), AND SPORTS (75%)

89%

OF GEN X WILL BE LIKELY TO ATTEND LIVE MUSIC EVENTS (92% GEN Y/MILLENNIALS)

CURRENT TICKET HOLDERS' RETURN TO LIVE MUSIC & TIMING

91%

OF LIVE MUSIC TICKET HOLDERS STILL PLAN ON ATTENDING THEIR SHOW

79%

OF ACTIVE FANS EXPECT TO BE BACK AT LIVE MUSIC EVENTS WITHIN 4 MONTHS

VENUE CHANGES

86%

OF ACTIVE FANS DESIRE INCREASED CLEANLINESS AND SANITATION AT VENUES

85%

OF ACTIVE FANS DESIRE HAND SANITIZING STATIONS AT VENUES

LIVESTREAM BEHAVIORS

72%

OF LIVESTREAM VIEWERS SAY WATCHING DIGITALLY MAKES THEM MORE EXCITED TO ATTEND LIVE MUSIC EVENTS

85%

OF LIVESTREAM VIEWERS SAY LIVESTREAMS OR VIDEOS CAN'T REPLACE THE LIVE MUSIC EXPERIENCE

LIVE NATION

Source: Live Nation survey

...but consumption preferences of younger goes in one direction: experiences

Mid-single digit growth expected from 2023 onwards should be supported by the secular tailwind of touring becoming increasingly important to artists' income and especially from the GenZ/Millennials "experience economy" fuelling attendance growth to live events.

According to an Eventbrite study, more than 78% of millennials in US would choose to spend money on a desirable experience or event over buying something desirable, and 55% of millennials say they are spending more on events and live experiences than ever before. 69% of them believes attending live events and experiences make them more connected to other people. This trend should only be further enhanced going ahead in a post-covid environment. According to a recent analysis by VICE media group (US based communication company), >90% of young people (Gen Z and Millennials) plans to return to festivals, concerts, national/world tours, museum etc as soon as it will be possible.

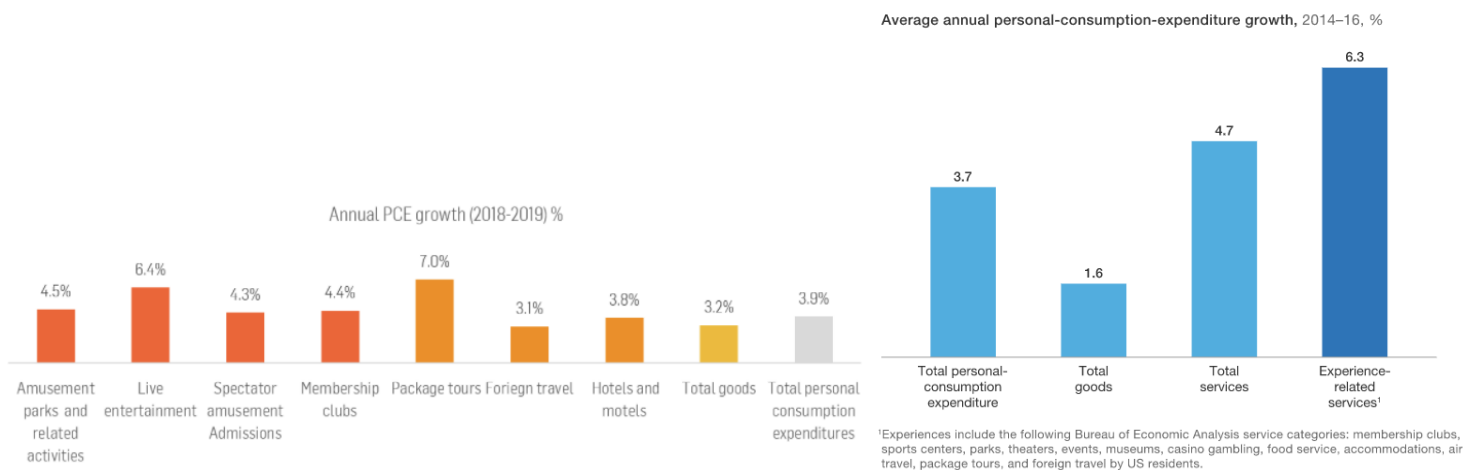
Among driving forces that will continue to build the structural growth of experience economy and in turn of live entertainment are:

- Changing perspective on what leads to happiness: several studies have found that spending money on experiences results in longer-lasting happiness than material possessions (International Journal of Research in Marketing, "Age differences in children's happiness from material goods and experiences: The role of memory and theory of mind")
- Social media accelerates the growing demand for experiences that are sharable: the constant stream of sharable experiences on social media makes other people feel peer pressure to join this trend. This is the so-called fear of missing out (FOMO). (McKinsey; "Cashing in on the US Experience Economy").
- Desire for people of engaging in social interaction: people are more prone to have a conversation over their experiential purchases than their material purchases.

Although millennials may be the pioneers of this trend, older consumer cohorts also put more value on relationships and experiences, for instance, as they enter retirement. Consider baby boomers, who often have enough possessions, and who prefer to spend their money in experiences.

Personal consumption expenditures in US (2018-2019 %)

Expenditures of US consumers for services such as live entertainment grew at a much faster pace than overall personal consumption



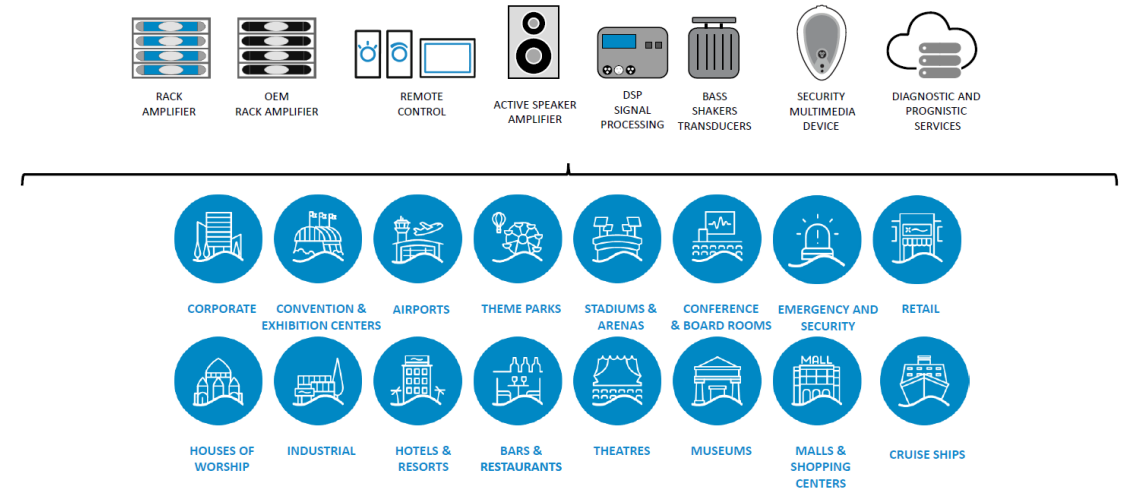
Source: US Bureau of Economics Analysis

Sound installations could benefit from a new wave of renovation

The fixed installation market for professional audio has been an extremely important area for the industry throughout 2020. Although not free from the effects of Covid-19 outbreak, the installation vertical has provided a healthier base of demand, particularly relating to live sound. Larger projects with longer timescales performed better, but even some smaller venues with cash began to re-invest in quality equipment.

Applications in the fixed installations market

The fixed installation market is highly diversified, and it held up relatively well during the pandemic



Source: Powersoft

There are several ongoing projects of large audio immersive venues in different geographies.

Installation market – New venues for a new generation of experiences (1)

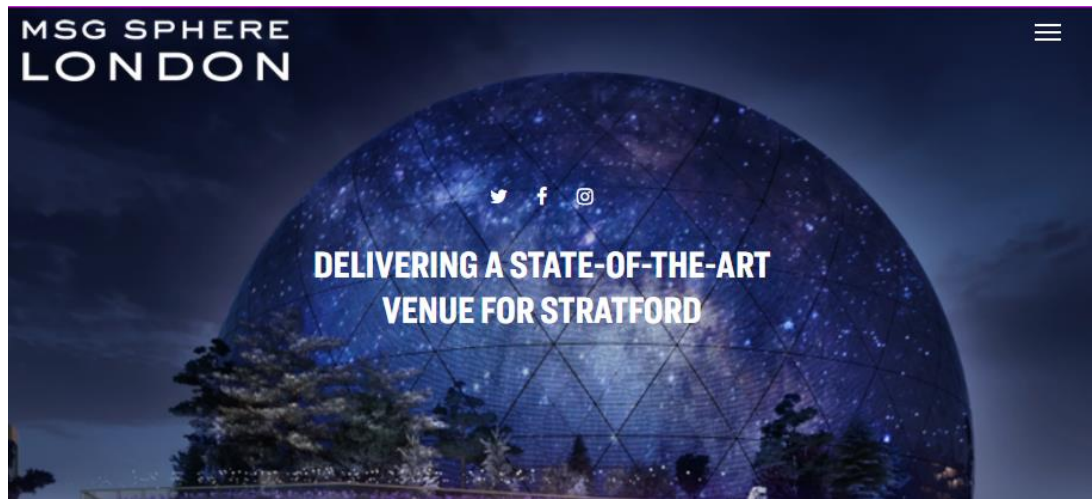
Taiwan / New York



Source: <https://london.msg.com/our-plans/>

Installation market – New venues for a new generation of experiences (2)

London



Source: <https://london.msg.com/our-plans/>

Installation market – New venues for a new generation of experiences (3)

Las Vegas

A promotional slide for the MSG Sphere in Las Vegas. The slide features a list of key features on the left and a cutaway image of the sphere's interior on the right. The interior image shows a large, illuminated arena with a stage and audience seating, all within a geodesic dome structure.

A VENUE FOR THE NEXT GENERATION OF EXPERIENCES
CUTTING-EDGE TECHNOLOGIES THAT ENABLE MULTI-SENSORY ENVIRONMENTS

LARGEST HIGHEST RESOLUTION LED DISPLAY ON EARTH

- 160,000+ square foot display inside the bowl
- Bigger than 3 football fields

CRYSTAL-CLEAR SOUND ENVELOPS AUDIENCE

- World's largest beam forming audio system provides unique directional listening experience

4D TECHNOLOGIES

- Immersive seats with infrasound haptic system

HYPER CONNECTIVITY

- 25+ megabits per second for every guest
- Broader range of content and greater interaction

Source: Madison Square Garden Entertainment May 2021 presentation

Strong competitive position protected by patented technologies and R&D investments

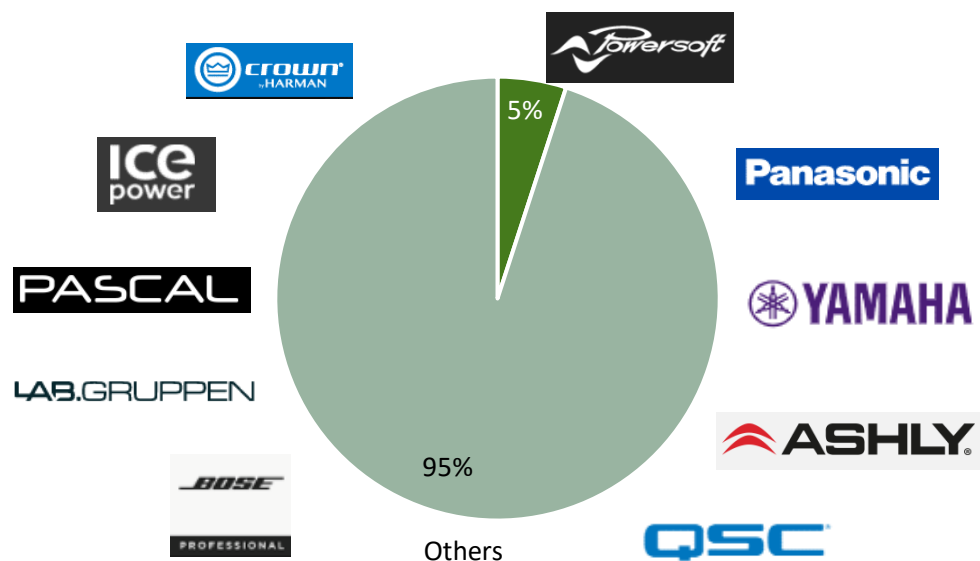
Within a fragmented industry, we believe that the group is a leading global player with estimated market share of 5% in the core business of rack amplifiers. We struggle to find independent product specialists with a similar positioning. The German group IcePower and the Danish player Pascal are mainly producers of professional module amplifiers. Other competitive brands are part of larger multi-brand conglomerates, including the Swedish Lab.Gruppen (acquired in 2015 by the Philippian group Music Tribe) and Crown (part of the US group Harman, acquired by Samsung in 2016). Other competitors are large mono-brand integrated groups, including Bose Professional, Panasonic, Yamaha, Ashly and QSC. Powersoft's technologies are protected by trademarks. In addition, the group significantly invests in innovation (R&D on sales at 7-8% on average over the last 5 years; 30% of the workforce in R&D). The group has established strong reputation, links and relationships with top clients (Pioneer, Bose, Panasonic, RCF and others) and distributors. Powersoft also supplies module amplifiers to the top loudspeaker brands (L'Acoustics and d&b Audiotechnik). Powersoft has a global reach with around 50% of sales generated outside Europe. The strong R&D driven competitive positioning is summarised by the outstanding ROCE historically delivered by the group (above 30% in 2016-19).

5% estimated share in a fragmented market

Rack amplifiers are Powersoft key products. We believe that the group is a global leader in a fragmented market. Assuming a size of around Eu600mn for the targeted global rack amplifier market in 2019 and rack amplifiers at 70% of the group's sales in the same year, we estimate a market share of 5% for Powersoft. We believe that the rest of the market is highly fragmented.

Powersoft's estimated market share in rack amplifiers

We estimate a market share of 5% in 2019 in professional rack amplifiers (the core business of Powersoft)














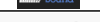




















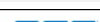
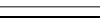
Source: Alantra estimate

Powersoft is one of the few independent product specialists in professional amplifiers

We struggle to find independent product specialists with a similar positioning. The German group IcePower and the Danish player Pascal are mainly producers of module amplifiers. Other competitive brands are part of larger multi-brand conglomerates, including the Swedish Lab.Gruppen (acquired in 2015 by the Philipian group Music Tribe) and Crown (part of the US group Harman, acquired by Samsung in 2016). Other competitors are large mono-brand integrated groups, including Bose Professional, Panasonic, Yamaha, Ashly and QSC).

Powersoft's competitive landscape

Fragmented competitive landscape with the presence of product specialists and diversified multi- and mono-brand groups

								
Product specialists	Microphone	Signal processor	Amplifier	Loudspeaker	Client of Powersoft	Home country	Sales 2019 (Eu mn)	Sales 2020 (Eu mn)
	✓					Germany		
			✓			Italy	38	31
			✓			Denmark		
			✓			Germany		
			✓	✓	Yes	France		
			✓	✓	Yes	Germany		
				✓	Yes	Japan	2,582	
				✓		USA		
				✓		Canada		
 (2)				✓		Italy	56	32
		✓				USA		
Diversified groups					Client of Powersoft	Home country		
					Yes	Italy	208	107
						USA	7,722	6,857
						Philippines		
			✓	✓	Yes	USA	3,572	3,157
	✓	✓	✓	✓	Yes	Japan	7,491	6,699
	✓	✓	✓	✓		Japan	3,429	3,015
		✓	✓	✓		USA		
		✓	✓	✓		USA		

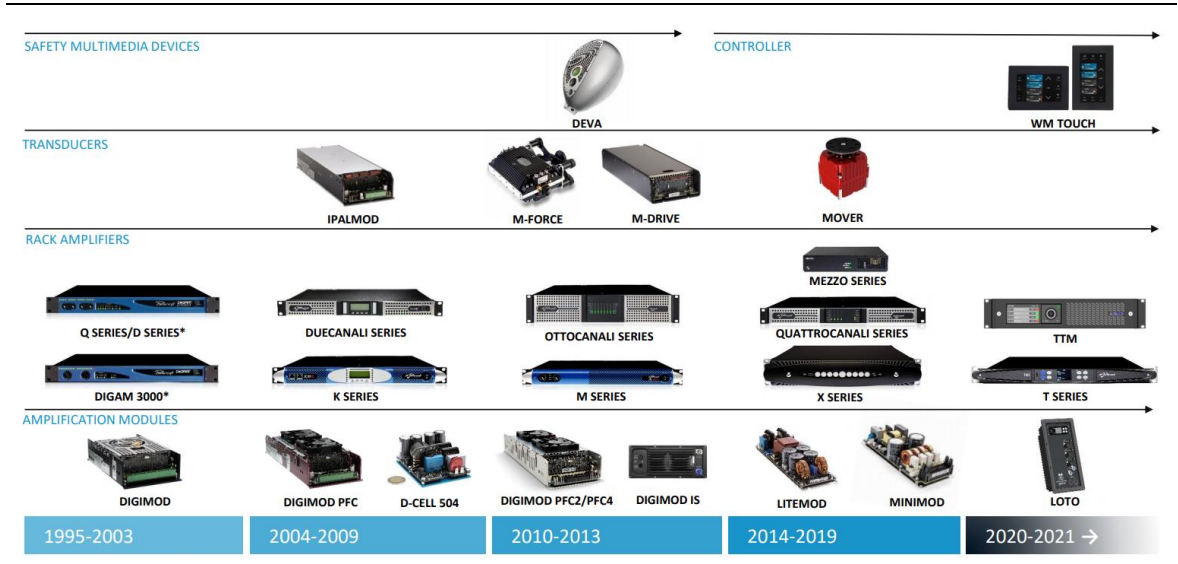
Source: Alantra, companies' websites. (1) Group. Large part of sales is outside professional audio. (2) B&C Speakers is a component maker

Powersoft built its success on innovation and R&D with focus on energy efficiency

Powersoft became a global leader in professional audio amplification thanks to strong R&D and continuous innovation. The three founders Luca Lastrucci, Claudio Lastrucci and Antonio Peruch launched Powersoft in a small garage in Florence in 1995 as pioneers in the development of the so-called "switched-mode" technology, which allowed to create smaller and lighter amplifiers, with higher power density and lower power consumption. These factors are of paramount importance in real-world scenarios, as smaller, lighter, and more powerful amplifier are easier to transport and are more energy efficient. The work done by Powersoft helped to overcome the overall industry perception that switched mode technology was unreliable. During its history, the group has continuously launched new rack and module amplifiers. Powersoft's amplifiers are already integrated with digital signal processors. In addition, the group has developed a proprietary software (Armonia) to support configuration and recording of audio systems. Finally, the product range has been extended to in-house developed safety multimedia devices (DEVA), controllers and transducers for specific applications.

A history of continuous innovation

Significant R&D efforts were dedicated to the continuous launch of new products



Source: Company presentation (*) Out of order products

Alongside its switched-mode technology Powersoft has introduced other patented technologies that increased the efficiency of its amplifiers. As of today, the company has 30% of its employees (31) involved in R&D activities and boasts >30 international patents, many trademarks registered in over 30 countries and others in registration process. The R&D Director Claudio Lastrucci has international recognition as winner of the Innovation Awards in the Industry Influencer category. Several company products have received sector awards.

Conserving energy has been an integral part of the company's DNA since the birth of Powersoft. Using its own patented technologies, Powersoft's switching mode amplifiers were able to lower carbon footprint by 40% vs traditional amplifiers with same output power by greatly reducing heat dissipation, introducing active recycling of the reactive energy from the loudspeakers, reducing logistic costs due to the decreased weight and volumes of its amplifiers. Powersoft registered its "Green audio power" trademark which identifies environmentally friendly products. Powersoft also launched its own growth incubator/accelerator *Ideofarm* dedicated to supporting new creative projects, and future development of innovative technologies.

Innovation and R&D with an eye on energy efficiency

Several company products have received sector awards

INNOVATOR IN SWITCH-MODE TECHNOLOGY

Class-D reliable and effective

IDEOFARM

- **Accelerator of Ideas** where engineers, designers develop their ideas;
- **Internal Incubator** that provides its expertise, laboratories, equipment;
- Research and development of **innovative technologies**;



PATENTED TECHNOLOGY

- Pulse Width Modulation (PWM)
- Power Factor Correction (PFC)
- Differential Pressure Control (DPC)
- Smart Rails Management (SRM)

GREEN AUDIO POWER

- Environmental sustainability
- Eco-friendly production sites
- Solar power (lower carbon footprint)



AWARDS

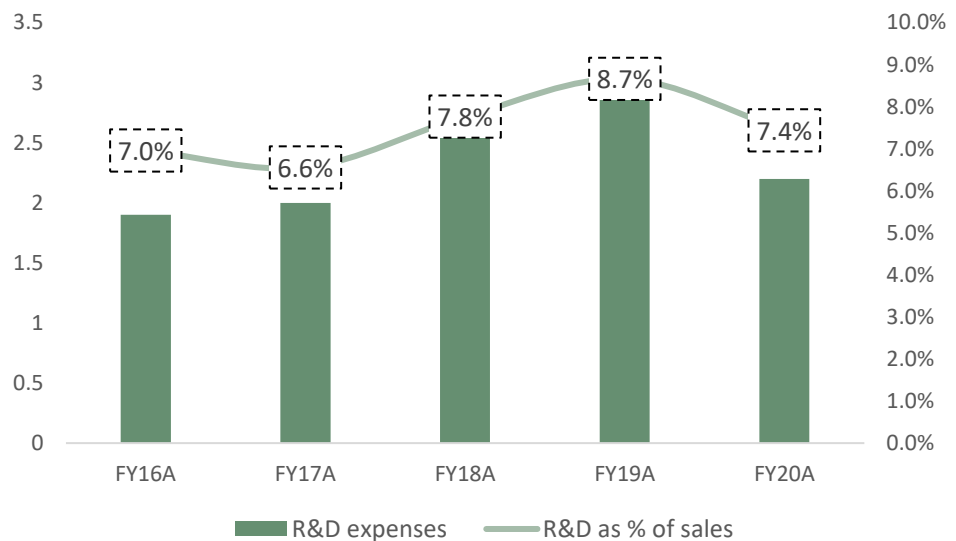


Source: Company presentation

The group significantly invests in innovation (R&D on sales at 7-8% on average over the last 4 years). We believe that a material portion of group's sales are generated by products launched over the last 2 years.

Powersoft's R&D investments

The group significantly invests in innovation (R&D on sales at 7-8% on average over the last 5 years).



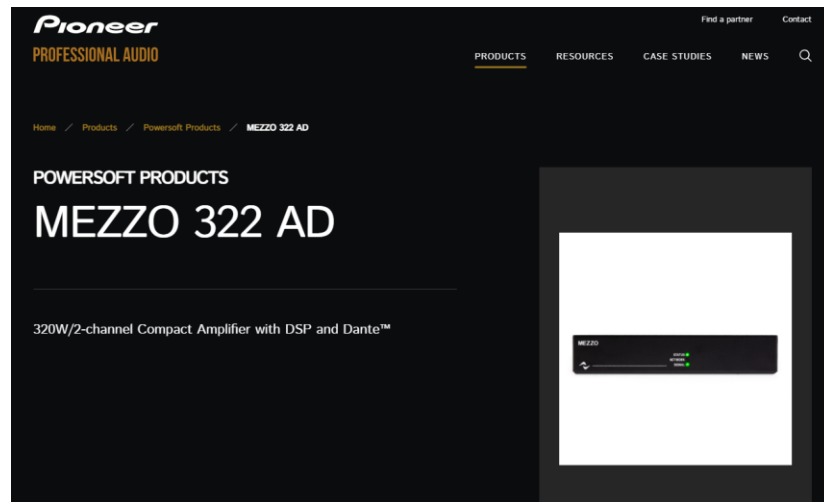
Source: Powersoft's financial reports. Note: including capitalised R&D costs

Links with top pro-audio players and production / distribution set-up complete the entry barriers

Over its 25-year history, Powersoft moved from a garage company to an established player in professional audio. Other players followed the same path in different segments of the industry. We believe that the bar is today very high for potential newcomers. Powersoft has established strong reputation, links and relationships with clients (installation companies, sound engineers, OEMs). Powersoft supplies module amplifiers to the top loudspeaker brands (L'Acoustics and d&b Audiotechnik). Pioneer, another client of Powersoft, directly mentions in its website that some amplifiers in its product offering are powered by Powersoft. The distribution set-up completes the entry barriers. Powersoft has a global reach with around most of sales generated through the direct channel and consolidated relationships with distribution partners.

Powersoft has established strong reputation, links and relationships with clients

Pioneer, a client of Powersoft, directly mentions in its website that some amplifiers in its product offering are made by Powersoft

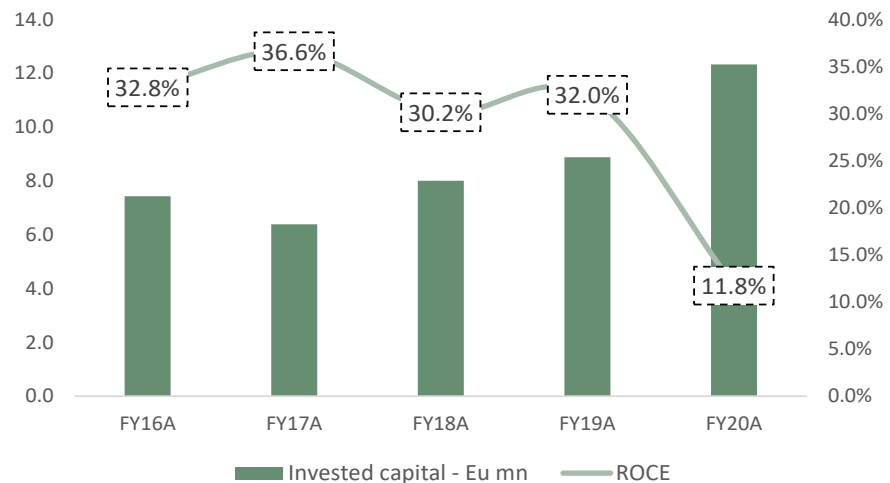


Source: Powersoft's financial reports. Note: including capitalised R&D costs

The strong competitive positioning is summarised by the outstanding ROCE historically delivered by the group (above 30% in 2016-19).

Powersoft's ROCE

Powersoft's strong R&D driven competitive positioning is summarized by its ROCE: above 30% over 2016-19



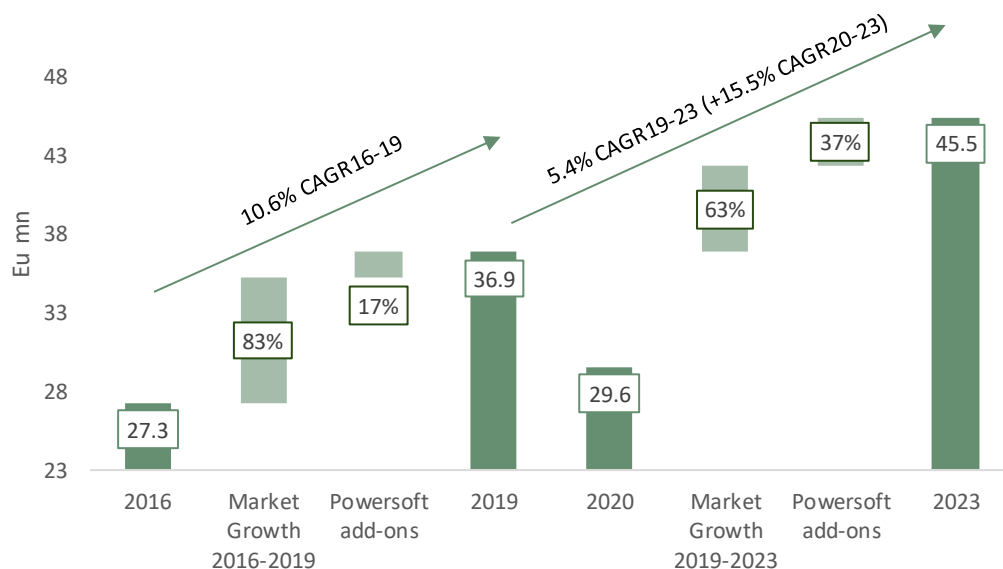
Source: Powersoft's financial reports, Alantra estimates. Note: Invested capital = Fixed assets + Net Working Capital. Normalised tax rate assumed at 28.5%

Ongoing business diversification: new products, business segments and markets

Powersoft has grown faster than its broad reference market over the 2016-2019 period (10.6% vs +8.9%) powered by continuous R&D investments in product innovation and product offering expansion (e.g., new categories of amplifiers, low frequency transducers and shakers, safety and monitoring systems) and by the strengthening of the global distribution network. In our view, Powersoft should continue to outperform the reference market (expected to grow at +3.5% CAGR over 2019-26E and 7.4% over 2020-26E) in the coming years. We believe that the group should take advantage on: (i) a leading positioning and continuous innovation in product offering in high end professional segment, which should secure growth at least in line with the market; (ii) penetration of 4 identified (with support of the new marketing manager) verticals in fixed installations with an enlarged product offering; (iii) specific distribution focus on two high potential geographies (US and China); (iv) Launch of value added 4.0 services. We expect 5% 2019-23E CAGR (15.5% in 2020-23).

Powersoft – 2016-19 and 2019-23E Net Sales bridge

We forecast Powersoft to grow at 5.4% CAGR in 2019-23E (15.5% CAGR 2020-23E) and to keep outperforming its broad reference market



Source: Alantra

Constant innovation should secure growth at least in line with the market

R&D is Powersoft's main growth engine. It has been historically dedicated to product innovation and to the expansion of the product offering inside the professional audio value chain. Product innovation of core products (rack amplifiers, modules, software) between 2019 and 2021 included the launch of new series of rack amplifiers (Mezzo, T Series, TTM), modules (LOTO) and of a new release of the software ArmoniaPlus.

Constant innovation of core products (rack amplifiers and modules)

Product innovation of core products (rack amplifiers, modules, software) between 2020 and 2021 included the launch of new series of rack amplifiers (Mezzo, T Series, TTM), modules (LOTO) and of a new release of the software ArmoniaPlus

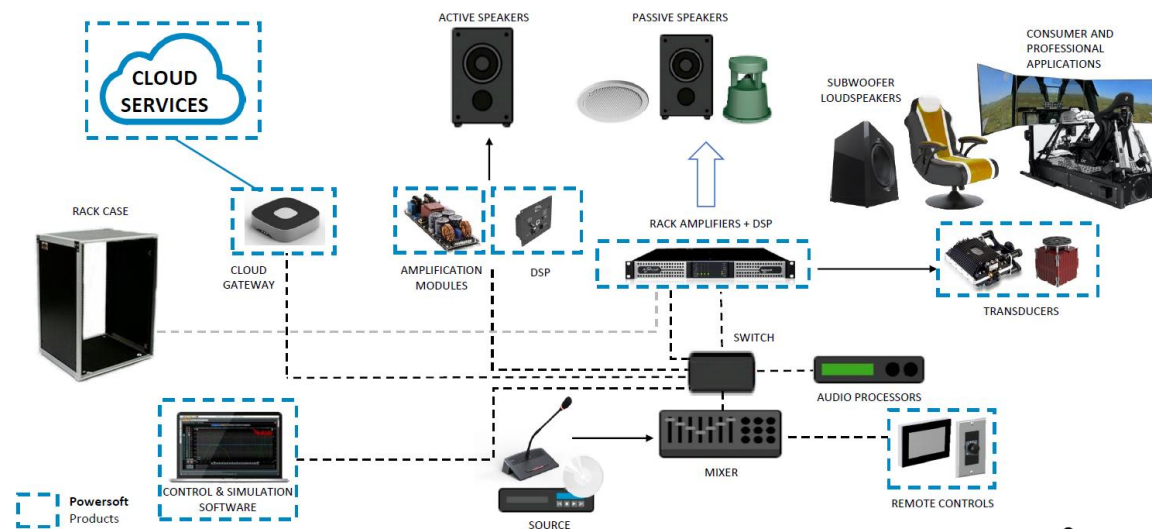


Source: Company presentation

R&D was also dedicated to product offering expansion: between 2019-2020 the company launched a new line of transducers/shakers (Mover) and a new line of controllers (WM Touch). Some of the new products and features launched between 2019-2020 still have unexploited potential in our view, after having suffered a temporary Covid setback.

Expansion of product offering inside the professional audio value chain

Between 2019-2020 the company launched a new line of transducers/shakers (Mover) and a new line of controllers (WM Touch)



Source: Company presentation

Low frequency transducers and shakers. In 2019 Powersoft launched Mover, a small linear transducer based on patented technology, that can be used as a linear motor/shaker for various applications, including 4D cinemas, theme parks, or venues with vibrating acoustic floors. Mover adds the so-called fourth dimension, letting audiences feel the sound through haptic perception by vibrating the surrounding environment; the human body picks up the vibrations coming from the shaker and, through bone conduction, translates them into perceivable frequencies. It can be used to move floors or seats, both to track video content as well as transfer audible frequencies. With the integration of the Mover many experiences such as rides, simulators and movie watching can benefit from fast and accurate movements that are in sync with the complete experience. Despite Covid's temporary setback, Powersoft's Mover has already been selected by large international players to be installed within new projects and boasts relevant growth opportunities related to the "experience economy". In August 2020, Powersoft launched a new line of shakers specifically designed for the home cinema and gaming markets (MeMo), sold also through B2C channels (e.g., Amazon).

Adding the fourth dimension to entertainment

Mover adds the so-called fourth dimension, letting audiences feel the sound through haptic perception by vibrating the surrounding environment



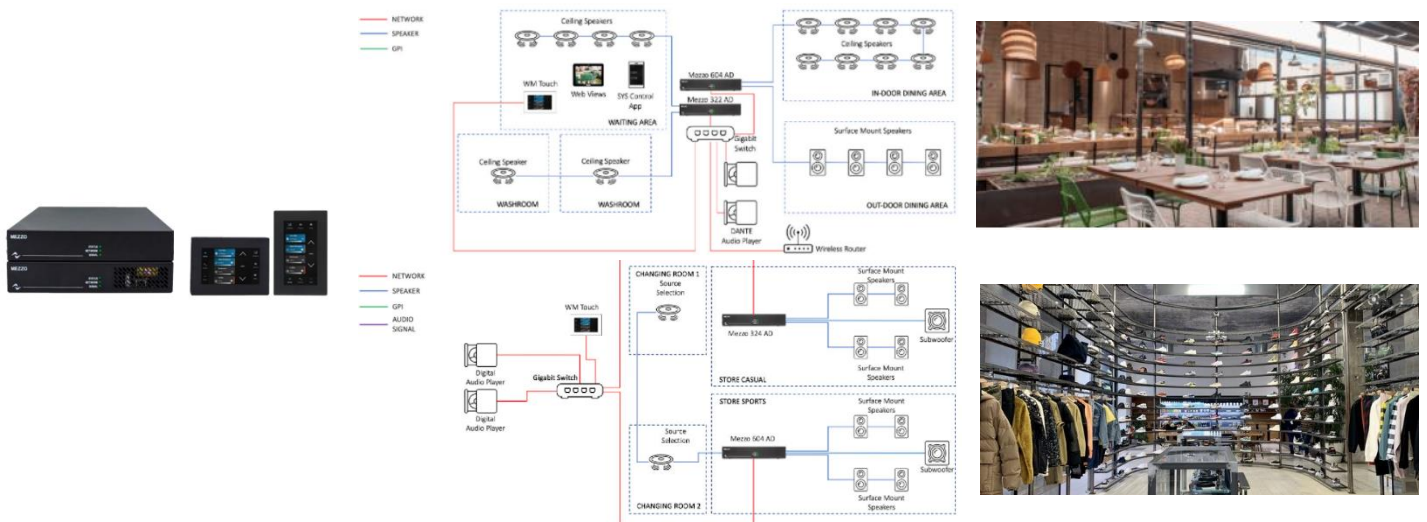
Source: Company presentation

Rollout of new easy to install solutions addressing specific verticals

At the beginning of 2021, with the support of the new marketing director Akira Mochimaru (former general manager of Bose Professional), Powersoft started a new strategic chapter (i) from being just a product supplier to being a solution provider for installers, and (ii) from large installations requiring high power amplifiers to the large addressable market of small commercial installations. The company launched Dynamic Music Distribution, a suite of hardware (“Mezzo” series amplifiers), software (Armonia Plus, mobile app for remote control) and additional tools (internally developed wall mounted remote touch controls) designed to offer system integrators and installers an integrated solution for smaller venues in 4 identified verticals (hospitality, retail, higher education, places of worship) and other corporates verticals. This platform offers system integrators key advantages like (i) reduced installation time, (ii) reduced cable runs, (iii) less equipment, (iv) simple setup and less time to learn and configure the system. Powersoft can leverage on its current distribution network to push the new solution.

Powersoft’s dynamic music distribution solution

Powersoft aims to significantly enlarge the addressable market targeting smaller venues in specific verticals: hospitality, retail, higher education, places of worship



Source: Company website

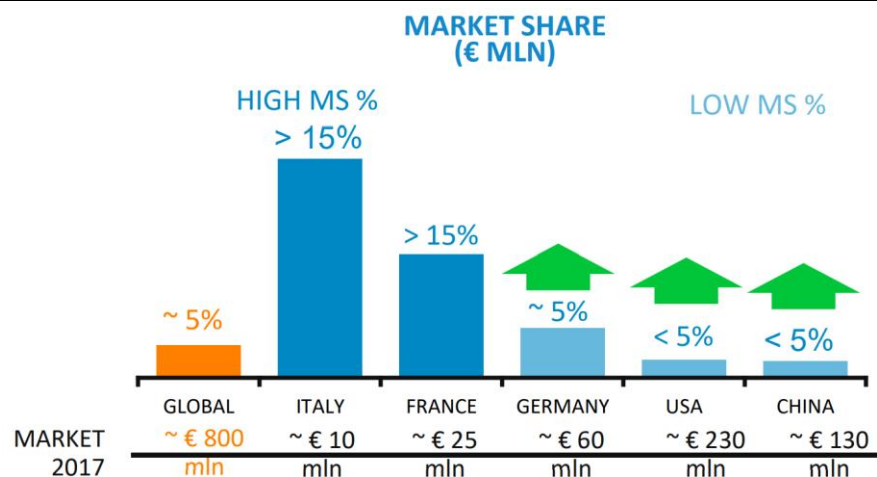
Enhancing distribution in still untapped markets like US and China

Over the last few years, the company has been significantly investing to reinforce its distribution network in US and China, the two largest addressable markets expected to account for over 40% of the total Professional Amplifier market by 2025. These two regions represent untapped markets for Powersoft, where the company had market share below 5% in 2017. In that year, Powersoft started a significant restructuring of its **US** operations, which included relocating the headquarters from the West coast to the East coast, hiring new operational and sales staff, and realigning the entire North American sales network. At the end of 2019 Powersoft hired the former North American business development manager of MUSIC Tribe (Tom Knesel), as new general manager for Powersoft’s North America. Powersoft has also recently hired a new head of sales for the Americas region and is set to hire new professionals to further expand its commercial and technical skills in the region. The US subsidiary is getting the structure to autonomously manage the business with a tailor-made approach to local key clients. In **China** as well, after the opening of a local representative office, the company is searching for new professionals to strengthen the direct commercial presence in the region, alongside the local distributor that is currently selling Powersoft’s products.

To further strengthen global commercial activities, the company has implemented Salesforce as the new company’s CRM and aims to further develop relationships with key accounts.

Powersoft’s professional audio market shares by region (2017)

The company has been significantly investing to reinforce its distribution network in US and China over the last few years,



Source: IPO prospectus

Launch of value added 4.0 services

Powersoft has developed proprietary software tools (Armonía Pro Audio Suite™, Armonía ProManager™) for audio engineers to easily design and configure their audio system, based on Powersoft’s amplifiers. The company has recently introduced new cloud-based features that let audio engineers upload their audio projects into the cloud, allowing Powersoft to carry predictive maintenance and remote diagnostics activities. This is key to have more visibility on the installed base of amplifiers, to develop potential direct to customer upselling and cross-selling activities, and for the development of aftersales and warranty extension business (My Powersoft). The growth potential coming from upselling/cross-selling on Powersoft’s amplifiers installed base is still fully unexploited.

Proprietary software solutions allowing for remote diagnostics and aftersales services

Powersoft has developed proprietary software solutions for audio system configuration. New cloud-based features allow for predictive maintenance and remote diagnostics



- **Warranty Extension**
Extension on the standard warranty up to 3 years
- **Service Shield**
Accidental damage protection



Free extended warranty upgrade of 12 months on top of the standard warranty with product registration within 30 days after purchase

Source: Corporate website, corporate presentation

Top line growth and EBITDA margin expansion

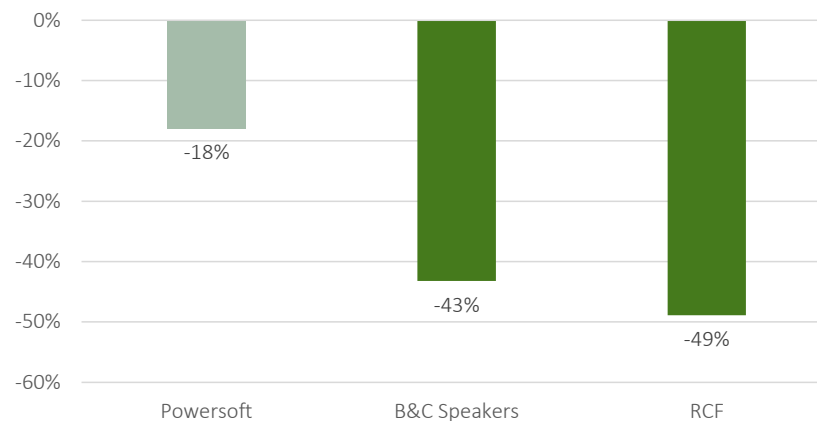
As pure player in a high-quality niche, Powersoft was able to overperform its reference market over FY16-19 period and to be more resilient in 2020 during the covid outbreak (-18% yoy top line growth, in line with the overall pro AV market and much better than targeted rack amplifier market). 2021 should be still impacted by business headwinds (we expect Powersoft top line up only 5%): first, professional live audio performance (mainly live events) has been and should continue to be under pressure, as new variants are leading to the postponement of concerts and live events; second, electronic components shortage is widening lead-times and this could cause some loss of revenues for the company, as some deliveries could be postponed to 2022. Looking forward, we see a 14% revenue CAGR over FY20-23 with Americas and APAC being the best performers. Regain of production volumes and costs efficiencies should translate into EBITDA growing faster than revenues and EBITDA margin expanding from 14.5% in 2020 to 16.9% in 2023.

R&D and commercial push should lead to a 14% FY20-FY23E total revenues CAGR

After growing at a healthy 10% total revenues CAGR over FY16-19, Powersoft suffered a 18% slowdown in FY20, as its reference market was under pressure as covid-19 put on hold concerts and live events. However, the group held-up better than the core reference market (professional rack amplifiers down around 50% yoy in 2020 worldwide) and other Italian sound specialists (sales of B&C Speakers and RCF were down >40% yoy in 2020) due to their strong exposure to live events.

2020 sales versus 2019 – yoy growth (%)

Powersoft held-up better than the sound specialists RCF and B&C Speakers in 2020, as it is less exposed to live events

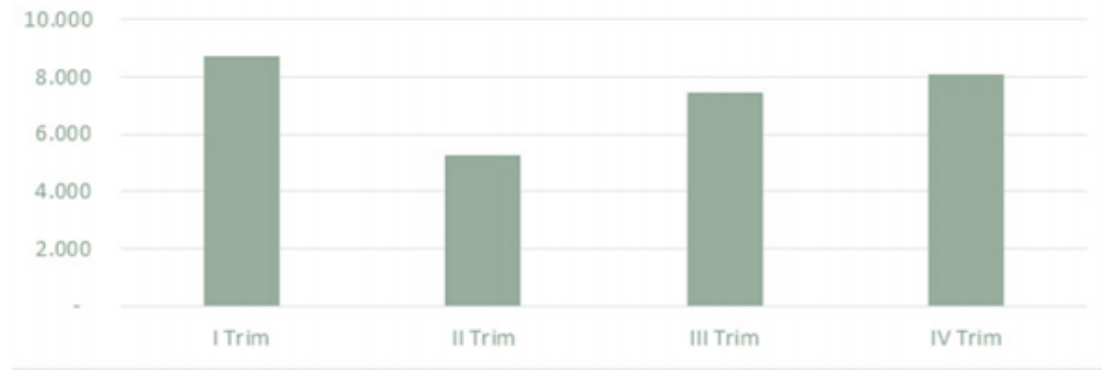


Source: Companies' financial reports

FY21 results should still somehow be impacted by restrictions: while the installation market is bouncing back fast, as venues need to invest in new equipment to offer better and better live experiences to its users, the touring market, which is highly dependent on live events, is still suffering as the spread of new Covid variants is delaying its comeback. While the recovery will be highly dependent on the evolution of the pandemic, first signs of recovery should be visible starting from 2022: as of today, all major rental companies and live events organizers are reporting a number of events for next year comparable to 2019 levels.

Powersoft – 2020 performance by quarter

Revenues started to recover from 3Q

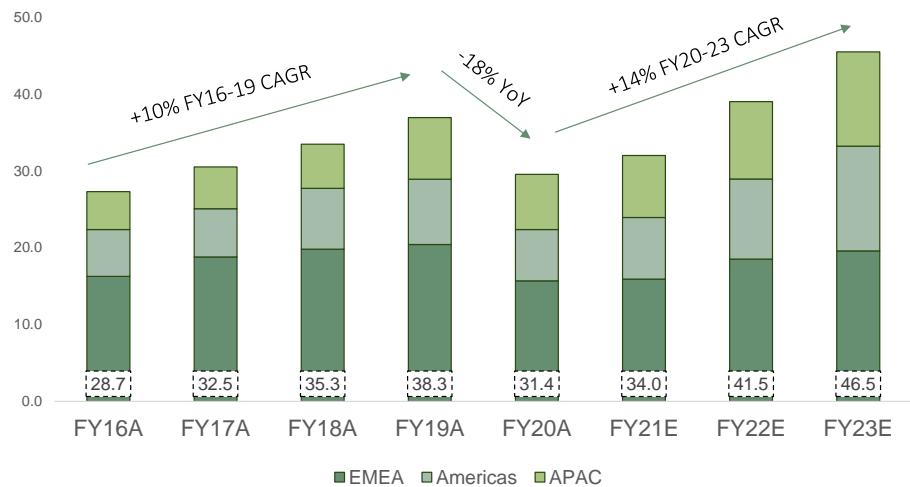


Source: Powersoft 2020 results press release

We expect Powersoft to continue to outperform its reference market given (i) the ongoing shift from product company to solution provider enlarging the reference market also to lower scale venues and commercial activities; (ii) the launch of new products (hardware and software) made possible by its intense R&D activity; (iii) the re-organization of commercial activities and key hirings in some large countries (e.g. US). Overall we expect a 14% total revenues CAGR over FY20-23E period (5% growth in 2021).

Powersoft – Breakdown of 2016-2023 VoP estimates

We expect a 14% total revenues CAGR over FY20-23E period



Source: Powersoft data as for 2016-2020, Alantra Estimates

EBITDA margin expansion driven by volumes recovery and production efficiency

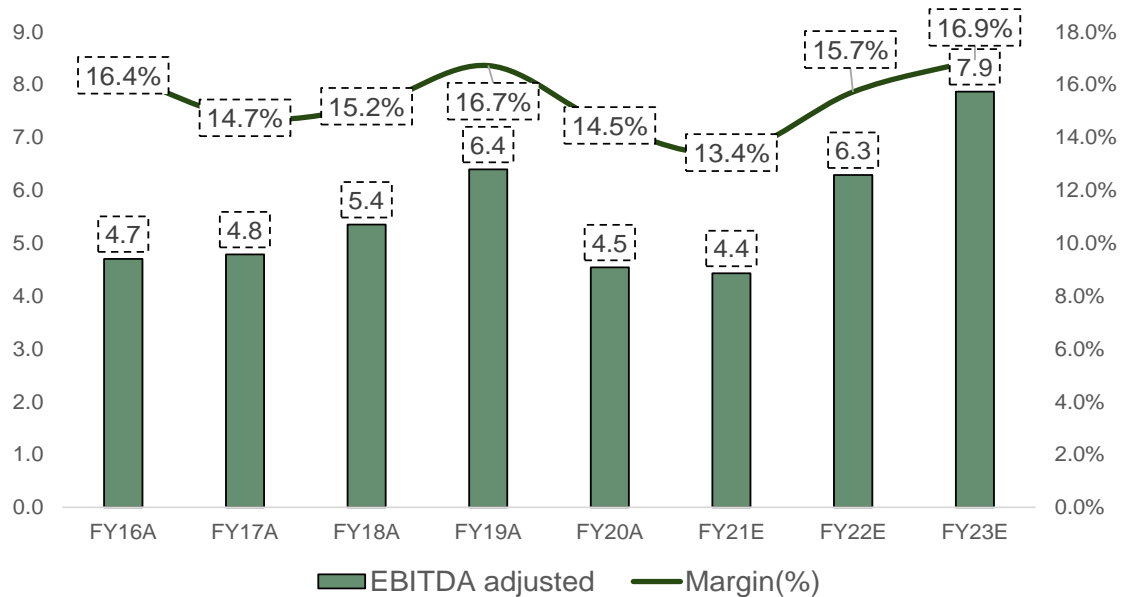
Powersoft has reported an average 15.8% EBITDA margin over FY16-19. In 2020 EBITDA margin declined to 14.5%: the reduction in commercial expenses related to a reduction in travels and international fairs, was more than offset by a lack in operational leverage. 2021 is expected to be significantly impacted by the sharp rise in raw material costs, especially for electronic components, which represent the bulk of Powersoft production costs.

Going ahead, we expect EBITDA margin to expand over 2022-2023: the company is expected to regain a healthy level of production volumes which should allow economies of scale on production and R&D costs; raw materials price is expected to normalize by mid-2022 thus lowering its incidence on revenues over the next year, also helped by the planned increase of selling prices. As the management is highly committed in accelerating growth in large markets (e.g. US and China) also expanding into new business areas (smaller venues and retailers) we expect that the company should invest to strengthen its commercial structure in those countries and verticals.

Overall, we expect EBITDA margin to expand from 14.5% in FY20 to 16.9% in FY23 with EBITDA at Eu7.9mn in 2023 (from Eu4.5mn in 2020).

Powersoft –EBITDA Adj. and EBITDA margin

Spike in raw materials cost should continue to hamper profitability in 2021 before economies of scale and production efficiency kicks in



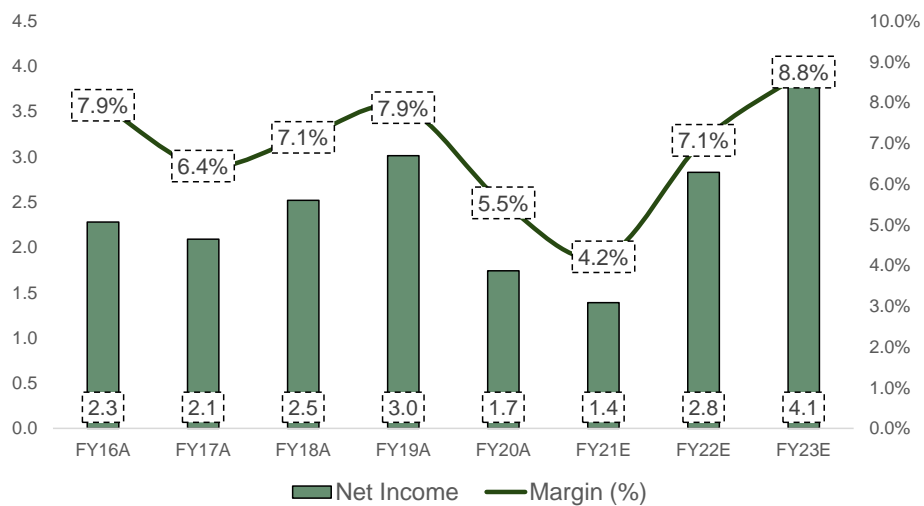
Source: Powersoft data as for 2016-2020, Alantra Estimates

Powersoft enjoys an asset light business model with most of the long-term assets being made of intangibles (capitalized R&D costs), which have a fast-amortizing period. D&A accounted for approx. 6% of Value of Production in FY20 and are expected to account for 5% on average over FY21-23. Interest paid should continue to be almost negligible over coming years (in 2020 a major negative item was related to forex effect).

Assuming a 25% tax rate in the future, net profit is expected to grow from Eu1.7mn in FY20 (5.5% of sales) to Eu4.1mn in FY23 (8.8% of sales). In 2020, net profit benefitted from the application of “Patent box” for approx. Eu0.7mn following the agreement with Tuscany region for the tax relief relative to fiscal year 2016 and 2017-2020. Net of this extraordinary item and an extraordinary loss on forex included in financial charges, adjusted net income in 2020 was equal to Eu1.5mn (4.6% of sales). We are factoring in our estimates only a minor contribution from “Patent box” over the coming years.

Powersoft – Net Reported Profit (FY16A-23E)

EBITDA is largely converted into net profit



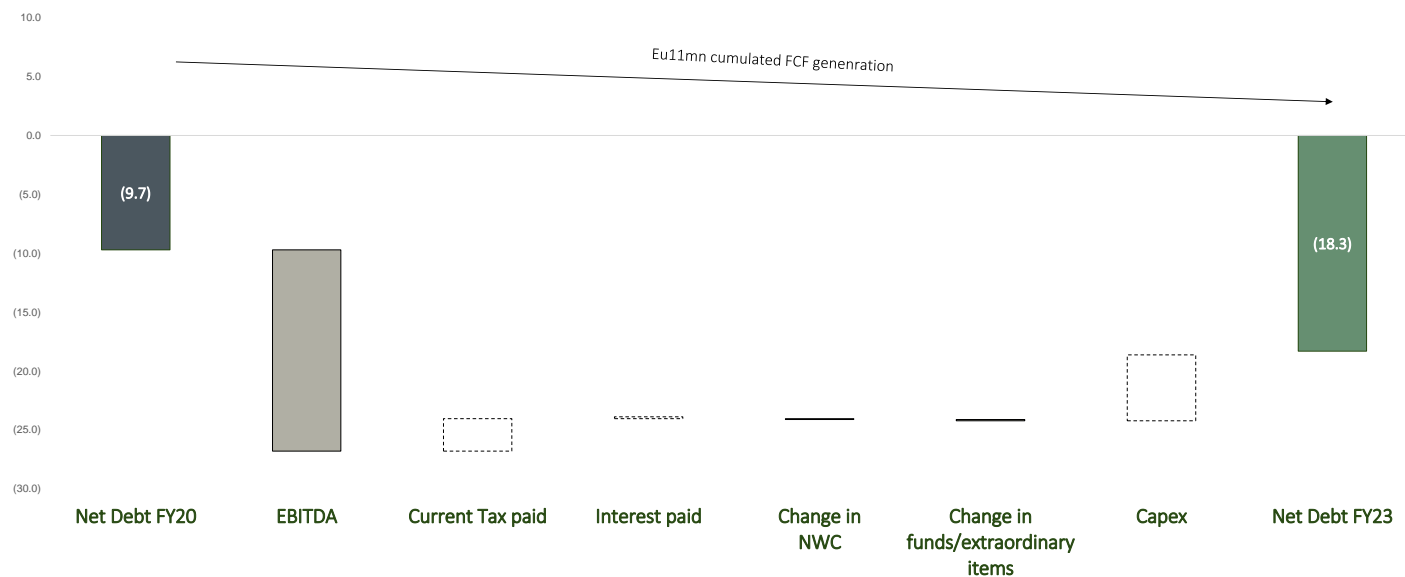
Source: Powersoft data as for 2016-2020, Alantra Estimates

Strong BS and CF generation pave the way for M&A

Powersoft runs an asset light business model: invested capital is almost entirely made up of working capital (at less than 20% of revenues), while fixed assets are mainly represented by intangibles (as only assembly phases are made internally). The company has invested approx. Eu10mn in R&D over FY17-20 period, o/w approx. Eu3.3mn capitalized (ca 70% of total capex). An efficient management of receivables/payables and a make-to-order production layout have allowed the group to manage the business with a low NWC and to post a good combination of cash generation and business growth. In 2020 cash generation was hampered by an inventory build-up of electronic components to face possible shortages. Over the coming years, we expect working capital to normalize, while capex should continue to be skewed on R&D, as the company continues to work on new products launches. Overall, we expect Eu9mn cash generation over 2021-23 period. This should lead Net Cash to grow up to Eu18mn. Powersoft can use M&A to optimize the capital structure, enhance its growth profile and further improve the competitive positioning. We estimate a fire power of around Eu20mn. Powersoft might also be a prey, as other independent amplification specialists, although we rule out this scenario in the short term. Dividend policy could be significantly enhanced in addition and as an alternative to M&A (no dividends are included in our estimates).

Powersoft – Net Debt bridge

An efficient working capital management and limited capex needs should lead to a Eu9mn FCF generation over the forecasting period)



Source: Powersoft data as for 2016-2020, Alantra Estimates

2020 Working Capital was heavier but healthy

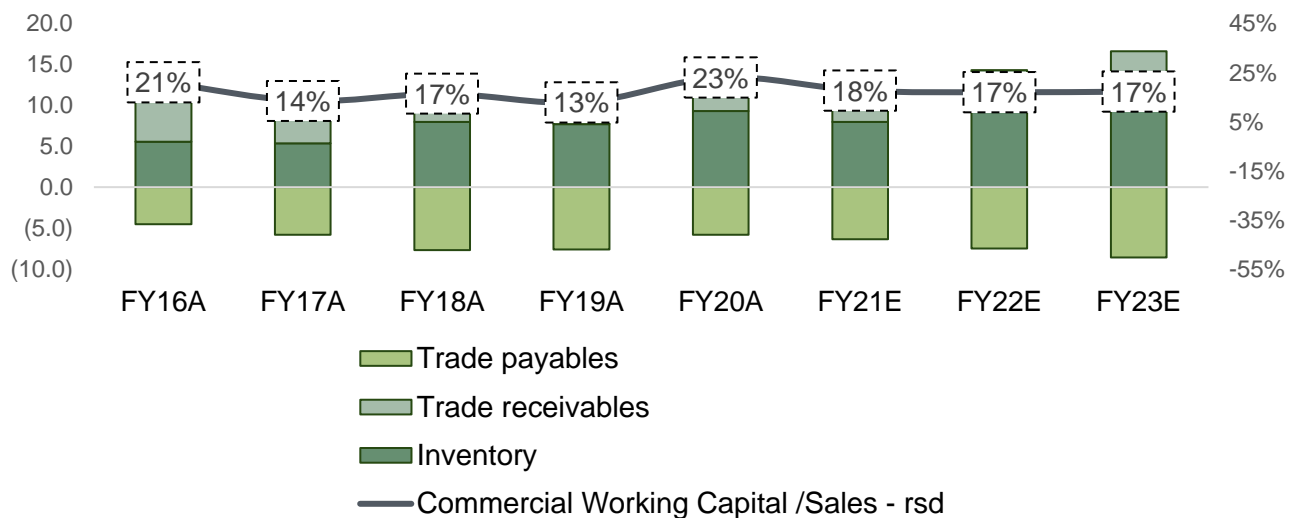
Powersoft capital employed is mostly represented by Working Capital, which accounted to ca. 80% of the overall invested capital in FY20. The group has implemented an efficient working capital management: a positive balance between receivable and payables and a make-to-order production layout, reducing the weight on inventories, allow a very short cash cycle and a limited cash absorption from WC. As the company was forced to increase inventories in 2020 to face an expected shortage in some raw materials, we expect Powersoft's NWC to absorb no cash over FY21-23 period. In greater detail:

DIO at 114 in 2020 expected to improve. We estimate DIO at 114 in 2020: as first signs of the ongoing shortage in raw materials (especially electronic components) were still visible during the last months of 2020, the company oversized purchases for some key component and WIP. While this has translated in some higher cash absorption last year, it is now allowing the company to keep on going with production and deliveries. We expect DIO to normalize from 2021 on as we are forecasting average 85 days over FY21-23 period.

DSO and DPO at 46 and 78 seems sustainable. Powersoft has built long lasting relations with its clients and suppliers and has gradually improved over the past 5Y its cash-in and payments condition. DSO has declined from 66 in 2016 to 46 in 2020; DPO has increased from 68 in 2016 to 78 in 2020. We expect these levels to be sustainable over the coming years.

Powersoft – Commercial Working Capital (FY18-23E)

After some cash absorption in 2020 due to an increase in inventories to face electronic components shortage, we expect WC to normalize over the forecasting period



Source: Powersoft data as for 2016-2020, Alantra Estimates

R&D should continue to be the main investment item

We expect Powersoft to continue to invest in R&D over the coming years. After deploying Eu6.2mn in total capex over 2017-20 period, out of which Eu4.3mn intangibles (Eu3.3mn capitalized R&D costs), we expect Powersoft to continue to push on R&D activities.

As a frontrunner in innovation in the professional audio industry, R&D efforts of the company will be deployed in the development of new products and new solutions for this market. On top the company is now working on different projects to enlarge its product offering as it aims to penetrate new market segments (e.g. commercial, retail, hospitality, smaller venues).

Powersoft – R&D Expenses (FY16-20)

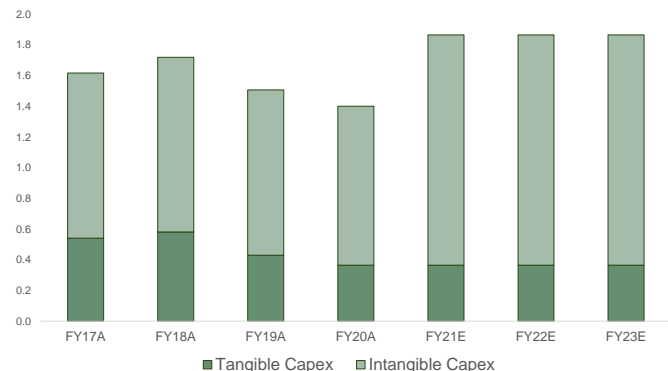
Powersoft invested approx. Eu12mn in R&D over the last 5Y, mostly as opex



Source: Powersoft data as for 2016-2020, Alantra Estimates

Powersoft – Historical and expected total capex

Powersoft should continue to address its capex to intangible items



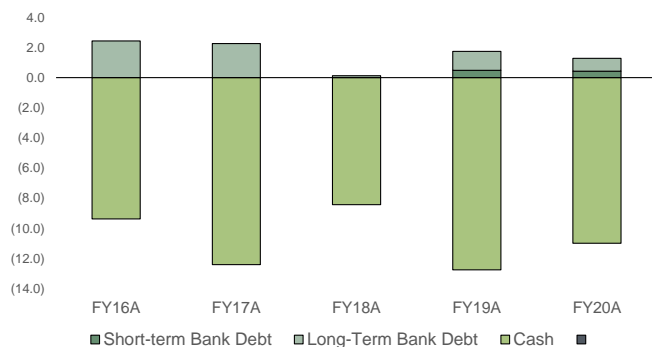
Source: Powersoft data as for 2016-2020, Alantra Estimates

Capital structure has strong room for improvement: M&A is the first option

With a sound BS and good CF generation, Powersoft can use M&A to enhance its growth profile and further improve the competitive positioning.

Powersoft – Debt Structure

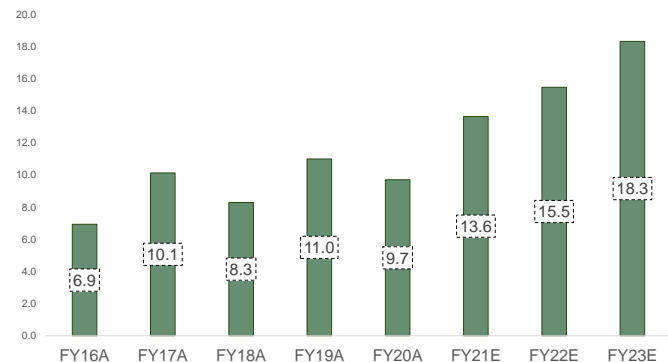
Large cash availability



Source: Powersoft data

Powersoft – Net Cash position

Ample room for acquisitions and/or dividend distribution



Source: Powersoft data, Alantra estimates

One of the key reasons behind the IPO of the group was the use of the proceeds for M&A. Assuming a target post-deal group Net Debt / EBITDA of 1x (we do not think that the BS can be significantly leveraged) and acquisition multiple at 8x 2021 EV/EBITDA of the target (in line with the current multiple of Powersoft), we estimate an M&A fire power of around Eu20mn. The possibility to use equity to partially fund potential deals would enhance the fire power.

Powersoft's estimated M&A fire power

Assuming a target post-deal group Net Debt / EBITDA of 1x and acquisition multiple at 8x 2021 EV/EBITDA of the target (in line with the current multiple of Powersoft), we estimate an M&A fire power of around Eu20mn for 100% debt funded deals

	Acquisition multiple (EV/EBITDA)				
	6.0x	7.0x	8.0x	9.0x	10.0x
EBITDA of the target - Eu mn					
2021	3.6	3.0	2.6	2.3	2.0
Additional Debt (Deals 100% financed with debt) - Eu mn					
2021	21.7	21.1	20.6	20.3	20.1
Target EV/EBITDA of the group post-deals	1.0x				

Source: Alantra estimates

The sector of professional audio equipment is quite active in terms of M&A, with deals finalised by PE and industrial players. Capital market activity is also intense. Powersoft was listed at the end of 2018. RCF tried to IPO in H2 2018. According to several press articles, d&b Audiotechnik (controlled by the French PE Ardian) was planning an IPO at the end of 2019.

Selected M&A deals in the professional AV sector

The sector of professional audio equipment is quite active in terms of M&A, with deals finalised by PE and industrial players

YEAR	TARGET	PRODUCT	BUYER	TYPE OF BUYER
2010	D&B AUDIOTECHNIK	LOUDSPEAKERS	ODEWALD & COMPAGNIE	PE
2013	BLUE MICROPHONES	MICROPHONES	THE RIVERSIDE COMPANY	PE
2013	ALLEN & HEATH	MIXERS	ELECTRA PE	PE
2014	CALREC	MIXERS	ELECTRA PE	PE
2015	LAB.GRUPPEN	AMPLIFIERS	MUSIC TRIBE	INDUSTRIAL
2016	HARMAN	DIVERSIFIED GROUP	SAMSUNG	INDUSTRIAL
2016	D&B AUDIOTECHNIK	DIVERSIFIED GROUP	ARDIAN	PE
2016	CAMCO	AMPLIFIERS	L'ACOUSTICS	INDUSTRIAL
2017	SOLID STATE LOGIC	MIXERS	AUDIOTONIX	INDUSTRIAL
2017	AUDIOTONIX	MIXERS	ASTORG	PE
2017	RCF	DIVERSIFIED GROUP	PALLADIO/AMUNDI	PE
2018	DPA MICROPHONES	MICROPHONES	RCF	INDUSTRIAL
2019	MONTARBO	AMPLIFIERS	RCF	INDUSTRIAL
2021	SFL GROUP	EVENT PRODUCTION, INSTALLATION, DISTRIBUTION	D&B AUDIOTECHNIK	INDUSTRIAL

Source: Alantra estimates

The group has not finalised significant M&A deals and we have the impression that there is nothing hot at the moment. The finalisation of an M&A deal for an independent product specialist can have several consequences on the business evolution and the competitive landscape. Just to mention an example, Pascal (module amplifier producer) decided to buy-out the minority stake owned by the amplifier specialist Camco, when the latter was acquired by L'Acoustics (loudspeaker specialist). As an independent provider of module amplifiers for loudspeaker producers, Pascal wanted to preserve its independence and not to hit relationships with other loudspeaker clients. We also add that Powersoft and some of the potential targets are still owned and managed by the founders. Sometimes, it could be not easy to find the right governance set-up.

We believe that M&A for Powersoft could pursue different strategic intents with M&A:

1. **Market share gain in professional amplifiers.** A merger with another amplifier specialist would increase bargaining power with clients and suppliers. It would also pave the way for the exploitation of cost synergies in R&D and production. It would finally give the chance to achieve revenue synergies with the combination of the distribution networks.
2. **Product diversification.** Powersoft is currently in the process of diversifying its product offer with the target of four specific verticals. M&A could accelerate the process. We believe that the acquisition of a loudspeaker producer could make sense to enlarge the offer of audio systems dedicated to the verticals selected by the group, without significant impact on the relationships with high-end loudspeaker clients.

Powersoft might also be a prey

We believe that Powersoft could theoretically be a target for large multi-brand conglomerates. Powersoft could strengthen and / or complete their product offering. The Italian RCF has acquired a small producer of amplifiers (Montarbo) in December 2019. Music Tribe has acquired the former main independent competitor of Powersoft in the professional amplification business (Lab.Gruppen) in 2015. L'Acoustics acquired the UK amplifier specialist Camco in 2016. However, we do not see a potential deal in the short term. The group is controlled by the founders with a large stake (86%) and they are relatively young, passionate about sound technologies and strongly involved in the day-to-day business.

Selected acquisitions of professional amplifier specialists

Powersoft might be a predator, although we do not see a potential deal in the short term

YEAR	TARGET	PRODUCT	BUYER	TYPE OF BUYER
2015	LAB.GRUPPEN	AMPLIFIERS	MUSIC TRIBE	INDUSTRIAL
2016	CAMCO	AMPLIFIERS	L'ACOUSTICS	INDUSTRIAL
2019	MONTARBO	AMPLIFIERS	RCF	INDUSTRIAL

Source: Alantra estimates

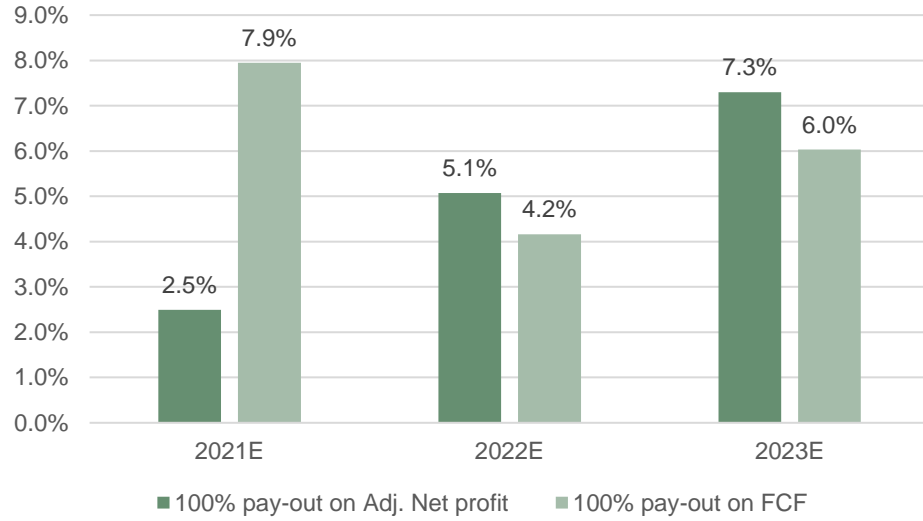
Dividend policy could be significantly enhanced if no M&A materializes

Powersoft has paid out no dividends since its IPO, in a world impacted by the pandemic outbreak. The group has strengthened the BS while looking at potential M&A candidates. We believe that if no deals materialize, management could change the approach to capital allocation. A pay-out of 100% of net profit or FCF on 2022 would imply a dividend yield of 5.1% and 4.2% respectively. The group could also pay-out an extra dividend at some point to optimize its financial leverage in one shot. At the end of 2020 the group has distributable reserves of Eu16.7mn (ca 30% of the market cap).

The introduction of a (less generous) dividend policy and the preservation of the M&A fire power could be a good compromise.

Dividend yields implied by 100% distribution of Net Profit or FCF

A pay-out of 100% of net profit or FCF on 2022 would imply a dividend yield of 5.1% and 4.2% respectively



Source: Alantra estimates

We would rule out the use of cash to buy-back shares, as the stock price is already penalised by a very low free float.

Valuation

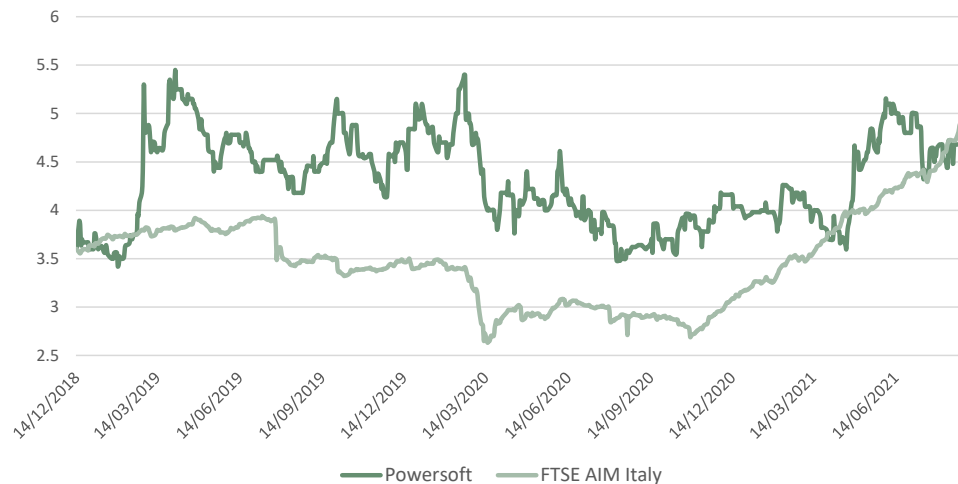
Listed in December 2018, the stock is up ca 35% from IPO and has outperformed the main comparable group B&C Speakers. However, Powersoft maintains a huge discount versus B&C Speakers (50% on 2022 EV/EBITDA), other Italian SMC involved in electronic products (70% discount on 2022 EV/EBITDA) and our broad sample, which also includes other players exposed to sound products and live events (ca 70% discount on 2022 EV/EBITDA). The undervaluation is confirmed by our DCF approach (Eu6.9/share in the base case). We set a TP of Eu6.9/share based on the average of DCF and EV/EBITDA – EV/EBIT multiples of B&C Speakers after 10% discount. We believe that different factors could contribute to bridge the valuation gap and reduce the discount we apply to our valuation: increase in the free float; stronger relations with institutional investors (including international funds); potential M&A deals and optimisation of the financial leverage. We also believe that delivery on the expected top line growth and margin expansion could be another positive trigger for the stock price, considering that Powersoft has a short market history (in large part impacted by the virus outbreak) and needs to build investors' confidence.

Good market performance since IPO...

Powersoft went public in December 2018, issuing 1,350,000 new shares @Eu3.60, with ca Eu5.0mn proceeds and market capitalization at IPO of ca Eu39mn. The IPO included the sale of 67,500 shares via greenshoe, for a free float of 13.0% at IPO. Powersoft stock is up ca 35% from IPO, in line with the FTSE AIM Italy. Powersoft outperformed its main Italian comparable group B&C Speakers since IPO by around 30%.

Powersoft vs FTSE AIM Italy (rebased) since IPO

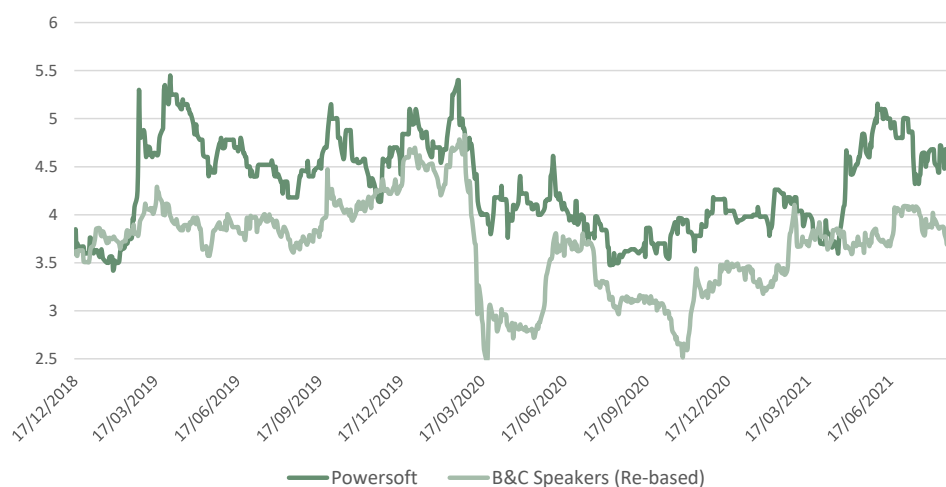
Powersoft is up ca 35% from IPO, in line with FTSE AIM Italy



Source: Factset

Powersoft vs B&C Speakers (rebased) since IPO

Outperformance versus B&C Speakers



Source: Factset

Today the free float is at 14.4% (outstanding shares at 11,074,236) after the dilution from exercised bonus shares and warrants. 549,800 warrants are still outstanding, with last exercise period between 1 Oct – 15 Oct 2021 @ Eu5.48/share. Other potentially dilutive instruments include:

- 2018-2020 stock option plan, with potential issue of 764,000 new shares @ Eu3.25/share. The options are vested until December 2024
- The new 2021-2023 stock option plan, which envisages the issue of further 764,000 new shares @ Eu3.97/share.

For the calculation of the fully diluted market cap, EV and EPS, we apply the treasury share method, to consider the potential dilution implied by the existing instruments.

Calculation of diluted number of shares using the treasury shares method

Instrument	#	Strike Price	In the Money (Y/N)	Additional shares	Net additional shares (only in the money)
Warrants	549,800	5.48	N	549,800	0
Stock option plan 2018 - 2020	764,000	3.25	Y	764,000	764,000
Stock option plan 2021 - 2023	764,000	3.97	Y	764,000	764,000
Total				2,077,800	1,528,000
As % of ordinary shares				19%	14%
Current number of shares				11,074,236	11,074,236
Diluted number of shares				13,152,036	12,602,236
Treasury shares purchased with proceeds from exercise of in-the-money instruments					1,116,615
Number of diluted shares					11,485,621
Market price		4.94			

Source: Alantra

...but huge discount versus B&C Speakers and other comparable groups

We have compared Powersoft with other sound specialists, Italian producers of electronic products and international groups exposed to live events. Sound specialists include: the Italian component maker for loudspeakers (**B&C Speakers**) and the UK producer of music products **Focusrite**. Although these groups are not involved in the same products of Powersoft, they are exposed to similar end-markets. B&C Speakers is more comparable in our view, as it is a pure player in the professional market. Italian producers of electronic products (**Carel**, **Eurotech** and **SECO**) are exposed to completely different end markets, but they share some similarities in terms of characteristics of the products (amplifiers are in the electronic part of the sound value chain). Companies exposed to live events share with Powersoft part of the end market of the group, although Powersoft is less cyclical in our view, thanks strong presence in the diversified market of fixed installations.

Short description of comparable groups

We have selected three different panels of comparable companies for Powersoft

Company	Country	Mkt Cap (Eu mn)	Company Description
Sound peers			
B&C Speakers S.p.A.	ITALY	127	Manufactures and distributes electroacoustic transducers
Focusrite PLC	UNITED KINGDOM	1,223	Engages in the supply of musical hardware and software products
Italian Electronics peers			
Carel Industries SpA	ITALY	2,465	Manufactures controllers for humidifiers, refrigerators, and microprocessors
Eurotech S.p.A.	ITALY	183	Develops electronic computers and software solutions
SECO S.p.A.	ITALY	483	Develops embedded microcomputers, integrated systems and solutions
Live Events peers			
Live Nation Entertainment, Inc.	UNITED STATES	15,954	Provides live entertainment events promotion and production services
CTS Eventim AG & Co. KGaA	GERMANY	5,316	Engages in ticketing and live entertainment event management
Madison Square Garden Sports Corp. Class A	UNITED STATES	3,010	Engages in live sports and entertainment business
GL Events SA	FRANCE	462	Provides events organizing services
Eventbrite, Inc. Class A	UNITED STATES	1,095	Operates a self-service ticketing platform

Source: Factset

Powersoft has lower margins than the Italian comparable groups and Focusrite, but similar growth rates.

Powersoft and comparable companies: profitability and growth rates

Powersoft has lower margins than the Italian comparables and Focusrite, but similar growth rates

Company	Country	Mkt Cap (Eu mn)	FY21E - FY23E average margins					CAGR FY20A - FY23E			
			EBITDA Margin	EBIT Margin	Net Income Margin	Capex / Sales	Dividend Payout	Sales	EBITDA	EBIT	Net Profit
POWERSOFT	ITALY	54	15.4%	9.0%	6.7%	4.8%	0.0%	13.9%	20.1%	39.2%	32.7%
B&C Speakers S.p.A.	ITALY	127	18.4%	14.4%	10.7%	2.0%	72.3%	23.3%	37.5%	54.2%	65.9%
Focusrite PLC	UNITED KINGDOM	1,223	23.1%	20.7%	15.2%	na	13.0%	8.3%	8.4%	13.4%	6.0%
Sound Peers	Average		20.7%	17.6%	12.9%	2.0%	42.6%	15.8%	22.9%	33.8%	35.9%
	Median		20.7%	17.6%	12.9%	2.0%	42.6%	15.8%	22.9%	33.8%	35.9%
Carel Industries SpA	ITALY	2,465	20.8%	16.2%	12.1%	4.0%	30.2%	13.9%	15.7%	19.5%	19.7%
Eurotech S.p.A.	ITALY	183	13.0%	7.8%	5.7%	4.7%	0.0%	13.0%	38.9%	76.6%	324.9%
SECO S.p.A.	ITALY	483	23.1%	17.4%	11.0%	8.0%	0.0%	23.6%	33.7%	45.3%	40.1%
Italian Electronics companies	Average		19.0%	13.8%	9.6%	5.6%	10.1%	16.8%	29.4%	47.1%	128.2%
	Median		20.8%	16.2%	11.0%	4.7%	0.0%	13.9%	33.7%	45.3%	40.1%
Live Nation Entertainment, Inc.	UNITED STATES	15,954	6.9%	-0.1%	-3.3%	2.7%	0.0%	98.5%	nm	nm	nm
CTS Eventim AG & Co. KGaA	GERMANY	5,316	18.0%	10.6%	6.7%	2.3%	31.5%	83.0%	nm	nm	nm
Madison Square Garden Sports Corp. Class A	UNITED STATES	3,010	0.6%	7.1%	2.1%	0.1%	0.0%	8.2%	nm	nm	nm
GL Events SA	FRANCE	462	17.6%	8.8%	2.9%	5.3%	22.8%	28.8%	nm	nm	nm
Eventbrite, Inc. Class A	UNITED STATES	1,095	11.1%	-16.6%	-28.3%	2.8%	na	53.3%	nm	nm	nm
Live events companies	Average		10.8%	2.0%	-4.0%	2.6%	13.6%	54.4%	nm	nm	nm
	Median		11.1%	7.1%	2.1%	2.7%	11.4%	53.3%	nm	nm	nm

Source: Factset

Powersoft trades at huge discount versus the selected companies on all the years and metrics. Discount versus the median of the overall sample is always above 50%. The same is true when comparing Powersoft with B&C Speakers.

Powersoft and comparable companies: multiples

Huge discount versus peers

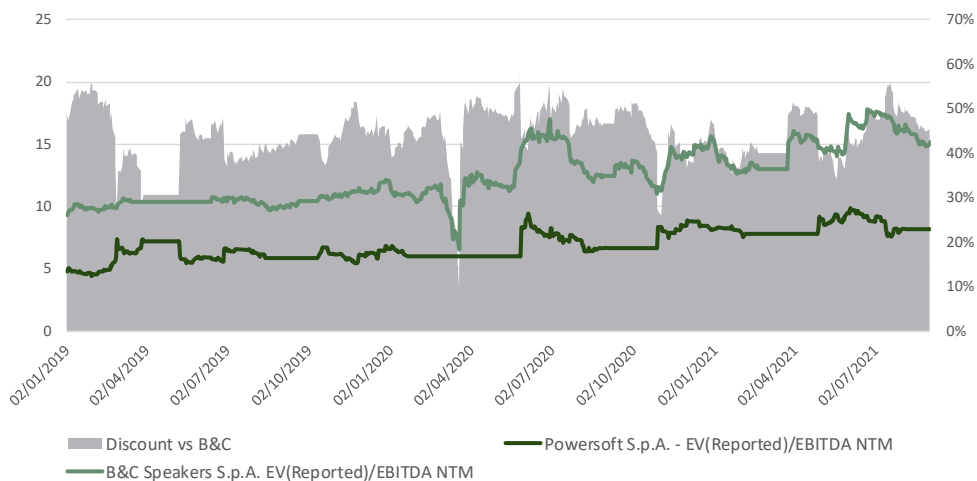
Company	Country	Mkt Cap (Eu mn)	EV/Sales			EV/EBITDA			EV/EBIT			PE			
			FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	
POWERSOFT	ITALY	54	1.3 x	1.1 x	0.9 x	10.0 x	6.8 x	5.1 x	23.3 x	11.1 x	7.3 x	31.2 x	14.7 x	9.5 x	
Premium (discount) to Peers' Median			-77%	-74%	-71%	-66%	-66%	-68%	-34%	-60%	-65%	-38%	-67%	-70%	
PEERS			Average	5.7 x	3.9 x	3.3 x	79.7 x	26.7 x	19.2 x	50.4 x	29.4 x	23.0 x	89.1 x	83.4 x	44.15
			Median	6.0 x	4.1 x	3.0 x	29.1 x	19.9 x	15.9 x	35.3 x	27.8 x	20.8 x	49.9 x	44.7 x	31.8 x
B&C Speakers S.p.A.	ITALY	127	3.2 x	2.5 x	2.2 x	21.9 x	13.2 x	10.1 x	32.9 x	16.4 x	12.0 x	44.2 x	20.9 x	15.8 x	
Focusrite PLC	UNITED KINGDOM	1,223	5.9 x	6.8 x	6.3 x	22.6 x	32.0 x	28.5 x	26.8 x	34.0 x	30.9 x	35.0 x	52.2 x	45.8 x	
Sound Peers			Average	4.6 x	4.6 x	4.2 x	22.3 x	22.6 x	19.3 x	29.8 x	25.2 x	21.4 x	39.6 x	36.5 x	30.8
			Median	4.6 x	4.6 x	4.2 x	22.3 x	22.6 x	19.3 x	29.8 x	25.2 x	21.4 x	39.6 x	36.5 x	30.8 x
Carel Industries SpA	ITALY	2,465	6.2 x	5.6 x	5.1 x	29.1 x	27.3 x	24.9 x	38.0 x	34.9 x	31.5 x	49.8 x	46.5 x	41.1 x	
Eurotech S.p.A.	ITALY	183	2.5 x	2.0 x	1.6 x	31.3 x	14.9 x	9.2 x	144.0 x	23.9 x	12.2 x	279.4 x	35.3 x	17.0 x	
SECO S.p.A.	ITALY	483	6.0 x	4.8 x	3.9 x	26.2 x	21.0 x	16.8 x	37.8 x	27.8 x	20.8 x	50.0 x	37.5 x	27.3 x	
Italian Electronics Peers			Average	4.9 x	4.1 x	3.6 x	28.8 x	21.1 x	16.9 x	73.3 x	28.8 x	21.5 x	126.4 x	39.8 x	28.4 x
			Median	6.0 x	4.8 x	3.9 x	29.1 x	21.0 x	16.8 x	38.0 x	27.8 x	20.8 x	50.0 x	37.5 x	27.3 x
Live Nation Entertainment, Inc.	UNITED STATES	15,954	4.3 x	1.6 x	1.4 x	151.6 x	18.8 x	14.9 x	na	38.3 x	27.6 x	na	141.4 x	66.0 x	
CTS Eventim AG & Co. KGaA	GERMANY	5,316	8.6 x	3.7 x	2.9 x	62.3 x	18.8 x	14.0 x	na	24.2 x	16.9 x	na	44.7 x	31.8 x	
Madison Square Garden Sports Corp. Class A	UNITED STATES	3,010	11.3 x	6.4 x	6.0 x	na	82.8 x	52.1 x	na	54.8 x	47.5 x	na	357.2 x	142.3 x	
GL Events SA	FRANCE	462	1.5 x	1.0 x	0.8 x	8.6 x	5.5 x	4.4 x	22.8 x	10.2 x	7.7 x	76.0 x	14.5 x	10.3 x	
Eventbrite, Inc. Class A	UNITED STATES	1,095	7.3 x	4.4 x	3.0 x	363.2 x	32.6 x	17.2 x	na	na	na	na	na	na	
Live Events Companies			Average	6.6 x	3.4 x	2.8 x	146.4 x	31.7 x	20.5 x	22.8 x	31.9 x	24.9 x	76.0 x	139.5 x	62.6 x
			Median	7.3 x	3.7 x	2.9 x	107.0 x	18.8 x	14.9 x	22.8 x	31.3 x	22.2 x	76.0 x	93.0 x	48.9 x

Source: Factset

Powersoft has historically traded at discount versus the Italian peer B&C Speakers. However, the gap is today close to record highs.

Powersoft vs B&C Speakers since IPO on NTM EV/EBITDA consensus estimates

The valuation gap versus B&C Speakers is now close to record high



Source: Factset, Alantra

DCF valuation confirms the undervaluation

The undervaluation of the group is confirmed by our DCF, which is useful to consider the cash generative business model of the group. Our DCF is based on our detailed estimates until FY 2023. We have then modelled a period of additional 3 years assuming 8% core top line growth and EBITDA margin at 17%. We highlight that the reference market, supported by experience economy, new installations and renovations should enjoy a positive structural trend.

We calculate a terminal value based on 2% perpetual growth rate. Our WACC (at 9.2%) is based on 7% ERP for the Italian market and 1.4 unlevered beta for Powersoft. Under all the above-mentioned assumptions, we derive a valuation of Eu6.9/share. At our DCF valuation, the stock would trade at 10.3x 2022 EV/EBITDA.

DCF Valuation

We use 9.2% WACC and terminal growth rate at 2.0%

(Eu mn)	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	TV
EBITDA	5.4	6.4	4.5	4.4	6.3	7.9	8.5	9.2	9.9	9.2
taxes on EBIT	(0.9)	(1.0)	0.5	(0.5)	(1.0)	(1.4)	(1.5)	(1.7)	(1.8)	(2.1)
Non recurring Cash-out	0.0	0.0	(0.4)	(0.0)	0.0	0.1	0.1	0.1	0.1	
NWC Change	(0.8)	0.5	(4.0)	2.4	(1.1)	(1.4)	(0.7)	(0.8)	(0.8)	(0.2)
Capex	(1.7)	(1.5)	(1.4)	(1.9)	(1.9)	(1.9)	(1.9)	(1.9)	(1.9)	(1.8)
Capex/Revenues	-4.9%	-3.9%	-4.3%	-5.7%	-4.7%	-4.0%	-3.7%	-3.4%	-3.2%	-3.0%
Free cash flow				4.5	2.4	3.4	4.5	5.0	5.4	70.9
Disc. Free Cash Flow				4.5	2.2	2.8	3.4	3.5	3.5	45.6
Year				0.0	1.0	2.0	3.0	4.0	5.0	5.0
Total Disc. FCF	25.1									36%
Terminal value	45.6									64%
Total EV (Eu mn)										70.7
NFP FY20E (Net of conversion of Shareholders loan)										9.7
Adjustments FY21E										(1.0)
TOTAL Equity Value										79.4
# of shares (mn) diluted										11.5
Equity Value per share (Eu)										6.9

Implied multiples	FY21E	FY22E	FY23E
EV/ Adj. EBITDA	15.1 x	10.3 x	7.9 x
EV/Adj. EBIT	35.1 x	17.0 x	11.4 x
P/Adj. E	48.0 x	23.0 x	15.3 x

Source: Alantra

DCF Valuation – Sensitivity to WACC and Terminal growth rate – Eu/share

		Wacc				
		8.2%	8.7%	9.2%	9.7%	10.2%
Term. Growth	1.0%	7.2	6.8	6.5	6.2	6.0
	1.5%	7.4	7.0	6.7	6.4	6.1
	2.0%	7.8	7.3	6.9	6.6	6.3
	2.5%	8.2	7.6	7.2	6.8	6.5
	3.0%	8.6	8.0	7.5	7.1	6.7

Source: Alantra

Our TP is the average of EV multiples of B&C Speakers after 10% discount and DCF

We use the EV/EBITDA and EV/EBIT multiples of B&C Speakers to set a multiple based valuation of Powersoft. We would look mainly at EV/EBITDA and EV/EBIT multiples, as P/E is biased by the suboptimal financial structure of Powersoft and EV/Sales multiples by its lower profitability. We believe that a valuation discount versus B&C Speakers is deserved today, on the back of the larger size and higher trading volumes. We derive an average valuation of Eu6.9/share.

Multiple based valuation

We use EV/EBITDA – EV/EBIT multiples of B&C Speakers and apply 10% discount

Eu mn	B&C Speakers		
	FY21E	FY22E	FY23E
Average Peers' Multiple valuation	80.6	78.1	79.7
Eu Per Share	7.0	6.8	6.9
EBITDA reported	4.4	6.3	7.9
EV/EBITDA Peer Group	21.9x	13.2x	10.1x
Discount	10%	10%	10%
EV based on multiples	87.4	74.5	71.7
Net Financial Position	9.7	13.6	15.5
Adjustments FY21E	(1.0)	(1.0)	(1.1)
Equity Value on EV/EBITDA	96.1	87.1	86.0
Eu Per Share	8.4	7.6	7.5
EBIT reported	1.9	3.8	5.5
EV/EBIT Peer Group	32.9x	16.4x	12.0x
Discount	10%	10%	10%
EV based on multiples	56.4	56.6	58.9
Net Financial Position	9.7	13.6	15.5
Adjustments FY21E	(1.0)	(1.0)	(1.0)
Equity Value on EV/EBIT	65.0	69.1	73.3
Eu Per Share	5.7	6.0	6.4

Source: Alantra

Our TP of Eu6.9/share is based on the simple average of multiple based and DCF valuation.

TP of Eu6.9/share based on the simple average of multiple based and DCF valuation

Method	Equity Value		
	(Eu mn)	(Eu per share)	Weight (%)
DCF	79.4	6.9	50%
Peers multiples	79.4	6.9	50%
Weighted AVG	79.4	6.9	
N. of shares (mn)			11.5

Source: Alantra

What could close the valuation gap?

The valuation discount of Powersoft versus the Italian peer B&C Speakers has been historically high. We believe that some factors could contribute to close the gap in the future. Some of them could actually materialize at the same time:

- **Higher free float.** Powersoft has a free float of only 14%. The rest of the shares is owned by the founders. We believe that two events could contribute to increase the free float: 1) a placement by the main shareholders. We do not rule out this scenario; 2) A capital increase dedicated to institutional investors to fund a large M&A deal;
- **Higher trading volumes.** Trading volumes of the stock are very low: daily average of the last year at only Eu15k. On top of the low free float, we believe that the group has had limited access to institutional investors so far, international funds in particular. B&C Speakers has a much broader shareholders' base.
- **M&A.** We expect Eu9mn cash generation over 2021-23 period. This should lead net cash to grow up to Eu18mn in 2023. Powersoft can use M&A to optimize the capital structure, enhance its growth profile and further improve the competitive positioning. We estimate a fire power of around Eu20mn assuming a target post-deal leverage at 1x EV/EBITDA.

- **Optimisation of the financial structure.** Apart potential M&A deals, we believe that the group could use dividends to optimize the financial leverage. Powersoft has paid out no dividends since its IPO, in a world impacted by the pandemic outbreak. A pay-out of 100% of net profit or FCF on 2022 would imply a mid-single-digit dividend yield. The group could also pay-out an extra dividend at some point to optimize its financial leverage in one shot. At the end of 2020 Powersoft had distributable reserves of Eu16.7mn (ca 30% of the market cap).

We also believe that delivery of the expected top line growth and margin expansion could be another positive trigger for the stock price, taking into account that Powersoft has a short market history and needs to build investors' trust.

Main risks

We believe that the main risks related to our estimates, rating and target price are:

Technological obsolescence. Powersoft's amplifiers are based on class D technology, which is an industry standard today. The development of more advanced new technologies by other players could create product obsolescence and loss of market share over time. We highlight that Powersoft invests a significant portion of its sales in R&D (7-8% on average over the last few years) and it is at the forefront in product innovation in the industry. In addition, although Powersoft competes with much larger diversified groups, it is a leader in professional audio amplifiers and we rule out that other players are in the position to invest much more resources than Powersoft in product innovation in the segment.

Change in consumer habits with reduction of live events. One of the key drivers of the market of professional audiovisual equipment is the increasing spending power of new generations and their focus on experiences. This could change in the future. However, we do not believe that a structural change of consumer habits is foreseeable at the moment. If any, it could take many years before producing material effects on the group's reference market.

Currency risk (mismatch between costs and revenues in USD). The group mainly produces in Italy and generates almost 50% of sales outside Europe. Powersoft faces a currency mismatch and it is mainly exposed to fluctuations of the Eu/USD exchange rates. Powersoft does not use to hedge its currency exposure. We highlight that the group has a partial natural hedge: some components are purchased in USD and the US distribution company has costs in USD. In addition, the group can adjust its price lists over time and try to partially incorporate forex movements. Finally, exposure to currencies is a symmetric risk, with possible negative and positive effects.

Economic cycle and pandemic risk. Although Powersoft's reference market is supported by structural trends (experience economy), it is exposed to economic cycles and, as seen in 2020, pandemic events. However, we have seen that in 2020, the group has been able to hold-up better than the industry and other Italian players, thanks to its business diversification.

Disruptions in procurement of key components. Powersoft procures key electrical components from third parties. A shortage could penalise the ability of the group to deliver on time and/or could translate in a loss or postponement of revenues. The advent of electrical cars and roll-out of 5G technology are exacerbating the trend.

Failure in the penetration of new market segments. Powersoft has historically outperformed its reference market and we expect the group to continue to do so in the near future. The company could experience problems with the implementation of its strategy and deliver growth below expectations. In particular, the group is planning the entrance in a market of smaller venues in some identified verticals with a broader product offering. However, the new strategy has been assessed and it will be implemented with support of a new global head of marketing, a manager with long and strong track record in the industry.

Appendix 1

Powersoft – P&L

Eu mn		FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Revenues		33.5	36.9	29.6	32.0	39.0	45.5
Other revenues		1.8	1.3	1.9	1.0	1.0	1.0
Value of Production		35.3	38.3	31.4	33.0	40.0	46.5
	<i>YoY change</i>		8.5%	-17.8%	5.0%	21.2%	16.3%
Cost of raw materials		(19.3)	(19.8)	(16.6)	(17.8)	(21.4)	(24.9)
	<i>YoY Growth on sales %</i>		2.2%	-16.1%	7.6%	20.1%	16.3%
Commercial expenses		(1.7)	(2.3)	(1.5)	(1.7)	(2.0)	(2.3)
	<i>YoY Growth on sales %</i>		35.1%	-36.7%	12.9%	21.2%	16.3%
Personnel		(7.0)	(8.2)	(7.1)	(7.4)	(8.8)	(9.8)
	<i>YoY Growth on sales %</i>		17.2%	-13.0%	4.7%	18.5%	11.0%
G&A		(2.8)	(2.5)	(2.5)	(2.5)	(2.5)	(2.8)
	<i>YoY Growth on sales %</i>		-10.6%	1.3%	-2.3%	0.2%	12.5%
Capitalized R&D expenses		0.9	0.9	0.8	0.8	1.0	1.1
	<i>YoY Growth on sales %</i>		-3.5%	-10.8%	5.0%	21.2%	16.3%
		-2.5%	-2.2%	-2.4%	-2.4%	-2.4%	-2.4%
Total Costs		(29.9)	(31.9)	(26.9)	(28.6)	(33.7)	(38.6)
	<i>YoY Growth on sales %</i>		6.5%	-15.6%	6.3%	18.0%	14.6%
		-84.8%	-83.3%	-85.5%	-86.6%	-84.3%	-83.1%
EBITDA adjusted		5.4	6.4	4.5	4.4	6.3	7.9
	<i>YoY Growth on sales %</i>		19.5%	-29.0%	-2.5%	42.0%	25.1%
		15.2%	16.7%	14.5%	13.4%	15.7%	16.9%
Extraordinary items		0.0	0.0	0.0	0.0	0.0	0.0
EBITDA		5.4	6.4	4.5	4.4	6.3	7.9
	<i>YoY Growth on sales %</i>		19.5%	-29.0%	-2.5%	42.0%	25.1%
		15.2%	16.7%	14.5%	13.4%	15.7%	16.9%
D&A		(1.5)	(1.9)	(2.0)	(2.0)	(2.0)	(1.9)
	<i>YoY Growth on sales %</i>		33.7%	1.3%	2.8%	-2.8%	-3.7%
		-4.1%	-5.1%	-6.3%	-6.1%	-4.9%	-4.1%
Provisions		(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
	<i>on sales %</i>		1.2%	1.7%	1.5%	1.3%	1.1%
		1.5%	1.2%	1.7%	1.5%	1.3%	1.1%
EBIT		3.4	4.0	2.0	1.9	3.8	5.5
	<i>Var. YoY on sales %</i>		17.6%	-49.0%	-6.1%	100.7%	43.3%
		9.6%	10.4%	6.5%	5.8%	9.6%	11.8%
Interest expense		0.1	0.0	(0.6)	(0.1)	(0.1)	(0.1)
	<i>YoY Growth</i>		-70.4%	-1762.2%	-91.9%	0.0%	0.0%
	<i>As a % of Debt (ST+LT)</i>		2.1%	-48.0%	-3.9%	-3.9%	-3.9%
		96.2%	2.1%	-48.0%	-3.9%	-3.9%	-3.9%
Pre-Tax Profit		3.5	4.0	1.4	1.9	3.8	5.4
	<i>YoY Growth on sales %</i>		14.5%	-64.8%	31.2%	103.4%	43.8%
		9.9%	10.5%	4.5%	5.6%	9.4%	11.7%
Taxes		(1.0)	(1.0)	0.3	(0.5)	(0.9)	(1.4)
	<i>Tax rate</i>		24.9%	-23.1%	25.0%	25.0%	25.0%
		28.1%	24.9%	-23.1%	25.0%	25.0%	25.0%
Net Profit		2.5	3.0	1.7	1.4	2.8	4.1
	<i>YoY Growth on sales %</i>		19.6%	-42.2%	-20.1%	103.4%	43.8%
		7.1%	7.9%	5.5%	4.2%	7.1%	8.8%

Source: Company data, Alantra estimates from 2021

Appendix 2

Poweraoft – Balance Sheet

Balance Sheet		FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Intangible assets		1.2	1.2	1.2	1.5	1.5	1.6
	<i>As a % of Revenues</i>	3.3%	3.1%	3.7%	4.4%	3.9%	3.4%
PP&E		1.2	1.1	1.0	0.5	0.3	0.3
	<i>As a % of Revenues</i>	3.3%	2.9%	3.2%	1.6%	0.9%	0.6%
Financial assets		0.1	0.1	0.0	0.0	0.0	0.0
Fixed assets		2.4	4.0	3.4	3.2	3.1	3.1
Inventory		8.0	7.7	9.3	8.0	9.2	10.7
	<i>Days Inventory</i>	86	75	114	90	83	83
Trade receivables		5.5	4.9	3.8	4.2	5.1	5.9
	<i>Days Receivable</i>	59	47	46	46	46	46
Trade payables		(7.7)	(7.6)	(5.8)	(6.3)	(7.5)	(8.6)
	<i>Days Payable</i>	93	86	78	80	80	80
Commercial Working Capital		5.8	5.0	7.3	5.9	6.8	8.1
Other assets		2.1	1.9	2.8	2.0	2.4	2.8
	<i>As a % of rev.</i>	6.1%	4.9%	9.0%	6.0%	6.0%	6.0%
Other liabilities		(2.3)	(2.0)	(1.2)	(1.3)	(1.6)	(1.9)
	<i>As a % of rev.</i>	6.6%	5.2%	3.7%	4.0%	4.0%	4.0%
NWC		5.6	4.8	8.9	6.5	7.6	9.0
	<i>As a % of rev.</i>	16.0%	12.7%	28.4%	19.8%	19.1%	19.4%
Funds and provisions		(0.9)	(0.8)	(1.0)	(1.0)	(1.0)	(1.1)
Other LT Assets/Liabilities		(0.9)	(0.8)	(1.0)	(1.0)	(1.0)	(1.1)
Capital Employed		7.1	8.0	11.3	8.8	9.8	11.0
ST liabilities		0.0	0.5	0.4	0.4	0.4	0.4
LT liabilities		0.1	1.3	0.8	0.8	0.8	0.8
Cash & equivalents		(8.4)	(12.7)	(11.0)	(14.9)	(16.7)	(19.6)
NFP		(8.3)	(11.0)	(9.7)	(13.6)	(15.5)	(18.3)
Shareholders' equity		15.4	19.0	21.0	22.4	25.2	29.3
Total Source of Funds		7.1	8.0	11.3	8.8	9.8	11.0

Source: Company data, Alantra estimates from 2021

Appendix 3

Powersoft – Cash Flow

Cash flow statement	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Net income	2.5	3.0	1.7	1.4	2.8	4.1
Taxes	1.0	1.0	(0.3)	0.5	0.9	1.4
Interest expenses	(0.1)	(0.0)	0.6	0.1	0.1	0.1
D&A and provisions	2.0	2.0	2.5	2.0	2.0	1.9
Non monetary items	2.8	3.0	2.8	2.5	3.0	3.3
<i>Δ on NWC</i>	<i>(0.8)</i>	<i>0.5</i>	<i>(4.0)</i>	<i>2.4</i>	<i>(1.1)</i>	<i>(1.4)</i>
Interests paid	0.1	0.0	(0.6)	(0.1)	(0.1)	(0.1)
Tax paid	(1.0)	(1.0)	0.3	(0.5)	(0.9)	(1.4)
Use of funds	(0.3)	(0.3)	(0.4)	(0.0)	0.0	0.1
Cahs Flows from Operating Activities	3.4	5.2	(0.2)	5.8	3.7	4.7
Tangible Capex	(0.6)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Intangible Capex	(1.1)	(1.1)	(1.0)	(1.5)	(1.5)	(1.5)
Financial investments	0.0	0.0	0.1	0.0	0.0	0.0
Cahs Flows from Investment Activities	(1.7)	(1.5)	(1.4)	(1.9)	(1.9)	(1.9)
New short term debt	(2.1)	0.0	0.0	0.0	0.0	0.0
New M/L term debt	(0.1)	(0.5)	(0.5)	0.0	0.0	0.0
Remboursement	0.0	0.0	0.0	0.0	0.0	0.0
Change in shareholders equity	3.5	0.6	0.2	0.0	0.0	0.0
Dividends	(7.0)	0.0	0.0	0.0	0.0	0.0
Other items	(0.0)	(1.7)	0.0	0.0	0.0	0.0
Change in NFP	(1.8)	2.7	(1.3)	3.9	1.8	2.9
NFP at year beginning	10.1	8.3	11.0	9.7	13.6	15.5
NFP at year end	8.3	11.0	9.7	13.6	15.5	18.3

Source: Company data, Alantra estimates from 2021

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