

# POWERSOFT

Sector: Industrial

## Good set of 1H results and positive outlook

*Powersoft is a leading global R&D driven player in professional audio amplification technologies, advanced signal processing and unique transducer systems. The reference market is recovering 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. 1H results confirmed the ongoing business recovery and are on track with our FY estimates. Cash generative business and strong BS pave the way for M&A and/or attractive dividend policy. We reiterate our BUY rating and TP of Eu6.9/share*

- **Good set of 1H results.** Powersoft reported 9% yoy top line growth in 1H. Sales are still down versus 1H 2019 (-15%), but confirmed the expected reverse of the negative yoy trend. By geography, we highlight a very strong performance of NAM (up 60% yoy and 17% versus 2019), while Europe (the most important region for the group) was in line with average. EBITDA came out at Eu2.1mn, up 45% yoy but still 38% below the level achieved in H1 2019. Margin was up to 13% from 10% in 1H 2020 thanks to a mix of: 1) volume growth; 2) higher capitalisation of R&D costs; 3) lower commercial costs, amid COVID restrictions. The group generated an operating FCF close to Eu2mn in the semester.
- **Positive outlook on 2H and 2022.** The group mentioned that orders are going up, including also new products. Powersoft has announced few days ago an order of Eu2.8mn from Irwing Seating Company related to Mover (Tactile Sound Transducers) to be used in immersive venues. The order will be delivered from 2022. We believe that the announcement is consistent with the strategy of the group to expand in new products powered by in-house R&D. In our view, additional agreements could follow. Management sees confirmation of the ongoing recovery in 2H and potential achievement of pre-pandemic levels in 2022. Powersoft is increasing operating flexibility and management of inventory to face current business headwinds: shortage of electronic components and increase in logistic costs.
- **We keep our estimates unchanged.** Our FY estimates are consistent with the trend experienced in H1 and the outlook provided by the group. Our figures imply only 2% yoy top line growth in 2H, when the group will face less easy comps, with EBITDA margin roughly in line with 1H.
- **BUY reiterated with TP of Eu6.9/share.** The stock was significantly up in September. However, at 8.8x 2022 EV/EBITDA, Powersoft still trades at significant discount versus peers. We confirm our BUY rating with 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

Unchanged

## TP 6.9

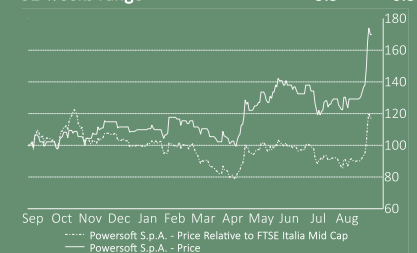
Unchanged

Target price upside 16%

Change in EPS est.	FY21E	FY22E
	0.0%	0.0%

Ticker (BBG, Reut)	PWS IM	PWS MI
Share price Ord. (Eu)		6.0
N. of Ord. shares (mn)		11.1
Total N. of shares (mn)		11.1
Market cap (Eu mn)		66
Total Market Cap (EU mn)		66
Free Float Ord. (%)		14%
Free Float Ord. (Eu mn)		9
Daily AVG liquidity Ord. (Eu k)		22

	1M	3M	12M
Absolute Perf.	26.1%	22.9%	63.9%
Rel. to FTSEMIDCap	30.3%	22.1%	23.7%
52 weeks range		3.5	6.3



	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	12.9x	8.8x
P/E adj.	24.6x	40.3x	19.2x
Dividend yield	0.0%	0.0%	0.0%
FCF yield	-3.3%	6.4%	3.3%
Net debt/(Net cash)	(9.7)	(13.6)	(15.5)
Net debt/EBITDA	nm	nm	nm

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## Summary Financials

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
<b>EBITDA adjusted</b>	<b>6.4</b>	<b>4.5</b>	<b>4.4</b>	<b>6.3</b>	<b>7.9</b>
<b>EBIT adjusted</b>	<b>4.0</b>	<b>2.0</b>	<b>1.9</b>	<b>3.8</b>	<b>5.5</b>
<b>Net profit adjusted</b>	<b>3.0</b>	<b>1.5</b>	<b>1.4</b>	<b>2.8</b>	<b>4.1</b>

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	11.719	11.719	11.719
<b>EPS</b>	<b>0.272</b>	<b>0.157</b>	<b>0.126</b>	<b>0.255</b>	<b>0.367</b>
<b>EPS adjusted</b>	<b>0.272</b>	<b>0.131</b>	<b>0.126</b>	<b>0.255</b>	<b>0.367</b>
<b>DPS - Ord.</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>
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	6.0	6.0	6.0
Market cap Diluted	49.8	45.5	69.7	69.7	69.7
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	57.1	55.3	52.6

Source: Company data, Alantra estimates from 2021

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
<b>Operating cash flow</b>	<b>5.2</b>	<b>(0.2)</b>	<b>6.3</b>	<b>4.2</b>	<b>5.2</b>
Capex	(1.5)	(1.4)	(1.9)	(1.9)	(1.9)
<b>FCF</b>	<b>3.7</b>	<b>(1.5)</b>	<b>4.4</b>	<b>2.3</b>	<b>3.4</b>
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
<b>Ch. in NFP</b>	<b>2.7</b>	<b>(1.3)</b>	<b>4.4</b>	<b>2.3</b>	<b>3.4</b>

Ratios (%)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Capex/VoP</b>	<b>3.9%</b>	<b>4.3%</b>	<b>5.7%</b>	<b>4.7%</b>	<b>4.0%</b>
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%
<b>Dividend pay-out</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>

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)
<b>Net capital employed</b>	<b>8.0</b>	<b>11.3</b>	<b>8.8</b>	<b>9.8</b>	<b>11.0</b>
<b>Net debt/(Net cash)</b>	<b>(11.0)</b>	<b>(9.7)</b>	<b>(13.6)</b>	<b>(15.5)</b>	<b>(18.3)</b>
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
<b>Working capital/VoP</b>	<b>12.7%</b>	<b>28.4%</b>	<b>19.8%</b>	<b>19.1%</b>	<b>19.4%</b>
<b>Net debt/Equity</b>	<b>nm</b>	<b>nm</b>	<b>nm</b>	<b>nm</b>	<b>nm</b>
<b>Net debt/EBITDA</b>	<b>nm</b>	<b>nm</b>	<b>nm</b>	<b>nm</b>	<b>nm</b>

Valuation	FY19A	FY20A	FY21E	FY22E	FY23E
<b>EV/CE</b>	<b>4.5x</b>	<b>3.0x</b>	<b>5.8x</b>	<b>5.1x</b>	<b>4.3x</b>
P/BV	2.6x	2.2x	3.1x	2.8x	2.4x
EV/Sales	1.0x	1.2x	1.7x	1.4x	1.1x
EV/EBITDA	6.2x	8.1x	12.9x	8.8x	6.7x
<b>EV/EBITDA adjusted</b>	<b>6.2x</b>	<b>8.1x</b>	<b>12.9x</b>	<b>8.8x</b>	<b>6.7x</b>
EV/EBIT	10.0x	18.1x	30.0x	14.5x	9.6x
<b>EV/EBIT adjusted</b>	<b>10.0x</b>	<b>18.1x</b>	<b>30.0x</b>	<b>14.5x</b>	<b>9.6x</b>
P/E	16.5x	20.5x	40.3x	19.2x	12.6x
<b>P/E adjusted</b>	<b>16.5x</b>	<b>24.6x</b>	<b>40.3x</b>	<b>19.2x</b>	<b>12.6x</b>
ROCE pre-tax	47.1%	19.1%	17.2%	37.2%	47.8%
<b>ROE</b>	<b>15.8%</b>	<b>6.9%</b>	<b>6.2%</b>	<b>11.2%</b>	<b>13.9%</b>
EV/FCF	10.6x	-24.4x	12.9x	23.8x	15.6x
<b>FCF yield</b>	<b>7.5%</b>	<b>-3.3%</b>	<b>6.4%</b>	<b>3.3%</b>	<b>4.8%</b>
<b>Dividend yield</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>

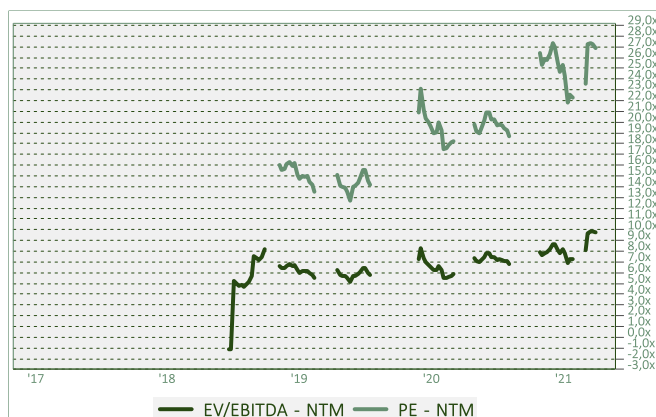
### Share price performance

Strong recent market performance



### Valuation

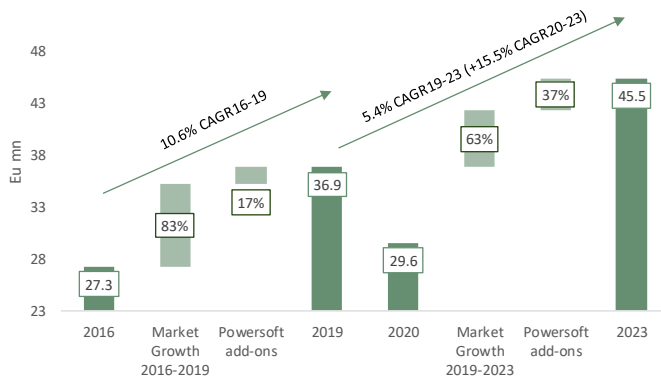
Limited historical availability of consensus estimates



## Key Charts

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

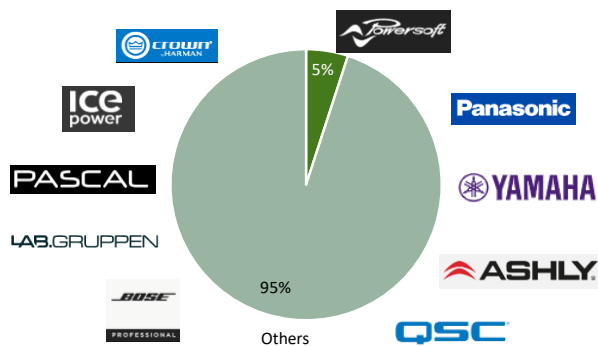
We forecast Powersoft to grow at 5.4% CAGR in 2019-23E (15.5% CAGR 2020-23E) and to keep outperforming its broad reference market



Source: Alantra estimate

### Powersoft's estimated market share in rack amplifiers

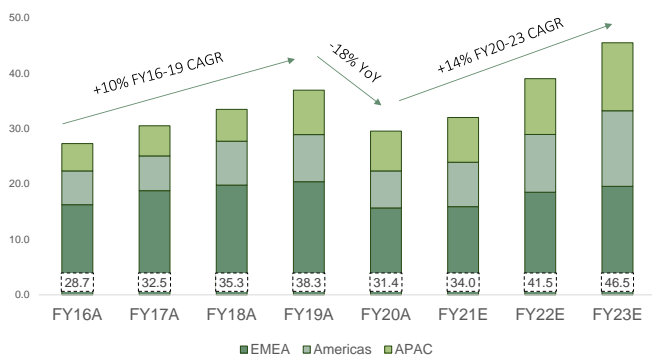
We estimate a market share of 5% in 2019 in professional rack amplifiers (the core business of Powersoft)



Source: Alantra estimate

### Powersoft – VoP (FY16-23E)

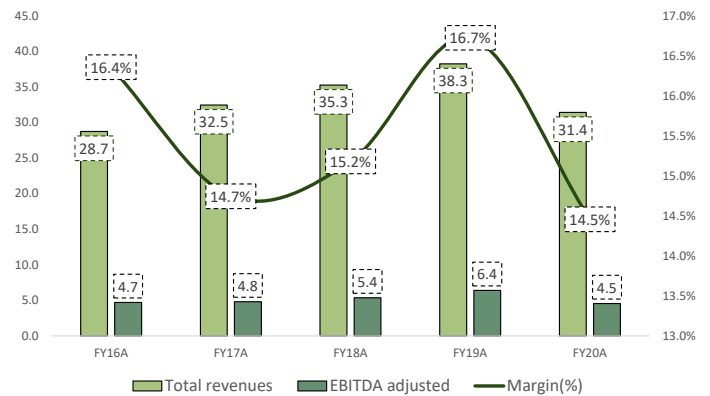
We see a 14% VoP CAGR over FY20-23 with Americas and APAC being the best performers



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

### Powersoft – Historical financials

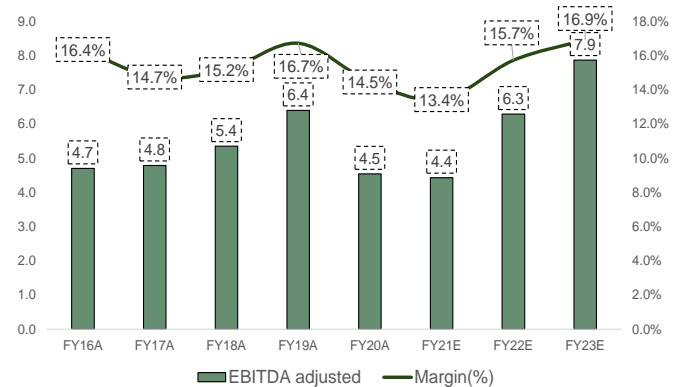
10% top line CAGR in 2016-19 with average EBITDA margin above 15%



Source: Powersoft financial reports

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

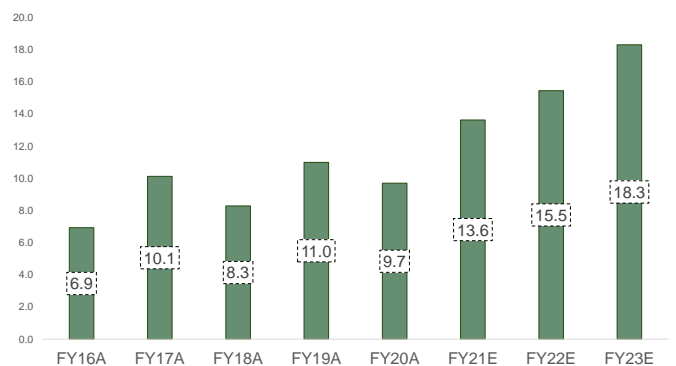
Regain of production volumes and costs efficiencies should translate into EBITDA margin expansion: from 14.5% in 2020 to 16.9% in 2023



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

### Powersoft – Net Cash position

Ample room for acquisitions and/or dividend distribution



Source: Powersoft data, Alantra estimates

## Profile

<b>Background</b>	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.
<b>Positioning</b>	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).
<b>Growth</b>	Powersoft has grown faster than its reference market over the 16-19 period (10.6% vs +8.9%) powered by continuous R&D investments in product innovation and product offering expansion and by the strengthening of the global distribution network. Powersoft should continue to outperform the reference market (expected to grow at +3.5% CAGR over 19-26E and 7.4% over 20-26E) in the coming years. 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 23.
<b>Strategy</b>	At the beginning of 2021, 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. 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. 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. Dividend policy could be significantly enhanced in addition and as an alternative to M&A. 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 and penetrate new markets.

### 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

## 1H21 Results

### 1H21 Results

Good set of 1H results

Eu mn	1H20A	2H20A	FY20A	1H21A	2H21E	FY21E
Revenues	14.1	15.4	29.6	15.6	16.4	32.0
YoY	-22.0%	-18.1%	-20.0%	10.5%	6.3%	8.3%
As % of Total	95.1%	93.1%	94.0%	96.7%	97.2%	97.0%
Other revenues	0.7	1.1	1.9	0.5	0.5	1.0
on sales %	4.9%	6.9%	6.0%	3.3%	2.8%	3.0%
<b>Total Revenues / Value of Production</b>	<b>14.9</b>	<b>16.6</b>	<b>31.4</b>	<b>16.1</b>	<b>16.9</b>	<b>33.0</b>
YoY	-21.4%	-14.4%	-17.8%	8.6%	1.8%	5.0%
on sales %	105.2%	107.4%	106.3%	103.4%	102.9%	103.1%
<b>EBITDA Reported</b>	<b>1.4</b>	<b>3.1</b>	<b>4.5</b>	<b>2.1</b>	<b>2.3</b>	<b>4.4</b>
YoY Growth	-57.7%	3.5%	-29.0%	45.5%	-24.7%	-2.5%
Ebitda Margin %	9.7%	18.7%	14.5%	13.0%	13.9%	13.4%
<b>EBIT Adjusted</b>	<b>0.4</b>	<b>1.7</b>	<b>2.0</b>	<b>0.9</b>	<b>1.0</b>	<b>1.9</b>
YoY Growth	-84.6%	1.0%	-49.0%	140.5%	-37.5%	-6.1%
Ebit Margin %	2.4%	10.1%	6.5%	5.3%	6.2%	5.8%
<b>Net Profit</b>	<b>0.8</b>	<b>0.9</b>	<b>1.7</b>	<b>0.9</b>	<b>0.5</b>	<b>1.4</b>
YoY Growth	-47.8%	-35.8%	-42.2%	7.4%	-46.3%	-20.1%
Net Profit Margin %	5.7%	5.4%	5.5%	5.7%	2.8%	4.2%
<b>NFP at year end</b>	<b>10.2</b>	<b>9.7</b>	<b>9.7</b>	<b>11.4</b>	<b>13.6</b>	<b>13.6</b>

Source: Company data and Alantra estimates

## Disclaimer

**Explanation of Ratings:** Alantra Capital Markets Sociedad de Valores SAU (Italian Branch) ("Alantra CM (Italian Branch)") Research Department provides six core ratings: BUY, HOLD, SELL, NOT RATED, UNDER REVIEW and SUSPENDED, based on the expected performance over the next 12 months.

**BUY:** The stock is expected to generate returns of over 10% during the next 12 months.

**HOLD:** The stock is expected to generate returns of 0-10% during the next 12 months.

**SELL:** The stock is expected to generate negative returns during the next 12 months.

**NOT RATED:** The stock is not covered.

**UNDER REVIEW:** An event occurred with an expected significant impact on our target price and we cannot issue a recommendation before having processed that new information and/or without a new share price reference.

**SUSPENDED:** Alantra CM (Italian Branch) is precluded from providing an investment rating or price target for compliance reasons.

Due to share price volatility, ratings and target prices may occasionally and temporarily be inconsistent with the above definition.

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