

EQUITY RESEARCH

RACING FORCE SPA

RESULTS REVIEW

Press release

BUY

TP 6.4€ (vs 6.5€)

Up/Downside: 32%

Good Timing

Yesterday, Racing Force released Q3 2023 revenue, landing at €12.6m (+6.1% yoy), below our forecast of €13.3m, bringing 9M revenue to €49.8m (+9.6% yoy). While momentum continues to be strong in the EMEA and APAC regions, the American market is underperforming. Nevertheless, the stock's recent (severe) fall, on the eve of a financial year which will see the first contributions from diversification projects, offers a good entry point, in our opinion.

Racing Force published Q3 revenue figures of €12.6m (+6.1%) bringing 9M revenue to €49.8m (+9.6% yoy). If growth continued, this result would still land below our forecast (€13.3m in Q3) mainly due to weaker dynamics than anticipated in the American market. While the AMER zone showed a decline of -0.6% in H1, this decline amounted to -3.1% after 9M, with a challenging Q3. Restated for currency effects and a one-off order placed in H1 2022, 9M growth would have amounted to 12.5%, lower than the strong performance recorded in Europe (+14.2% yoy) and in Asia (+14.3%). The group is continuing its efforts, particularly from a marketing point of view with discussions concerning future partnerships to promote the group's products in the USA, in order to accelerate the activity in this region, which remains a major growth lever from 2024.

Regarding the breakdown by product and by distribution channel, the figures hold few surprises, with a Driver's equipment category still representing 72% of revenue, growing by 8.8% yoy.

Following this publication, we are slightly downgrading our 2023 scenario, previously counting on revenue of €66m (+12.3% yoy), but now expecting €64.5m (+9.7% yoy). This adjustment leads us to downgrade our TP to €6.4 (vs. €6.5 previously).

Despite slightly weaker momentum than expected, the entry point nonetheless remains interesting for the stock with a drop of more than 20% since 5 September, a drop that we consider severe. On the eve of FY 2024 which, beyond a motorsport industry which seems generally resilient despite current macroeconomic conditions, will see the first contributions from diversification projects, whose timing seems opportune. Therefore, we are reiterating our Buy rating on Racing Force.

Key data

Price (€)	4.9
Industry	Protective Equipment
Ticker	ALRFG-FR
Shares Out (m)	25.699
Market Cap (m €)	124.9
Next event	3 Revenue - January 2024

Ownership (%)

SAYE S.p.A	52.7
GMP Investments Holdings Limited	5.0
Free float	42.3

EPS (€)	12/23e	12/24e	12/25e
Estimates	0.23	0.28	0.31
Change vs previous estimates (%)	-6.60	-8.35	-7.78

Performance (%)	1D	1M	YTD
Price Perf	-0.8	-15.0	-11.6
Rel FTSE Italy	-0.0	-13.6	-25.3



TP ICAP Midcap Estimates	12/22	12/23e	12/24e	12/25e	Valuation Ratio	12/23e	12/24e	12/25e
Sales (m €)	58.8	64.5	70.2	74.4	EV/Sales	1.9	1.7	1.6
Current Op Inc (m €)	8.8	8.5	10.1	11.3	EV/EBITDA	10.6	8.9	7.7
Current op. Margin (%)	15.0	13.2	14.4	15.2	EV/EBIT	14.8	12.1	10.3
EPS (€)	0.32	0.23	0.28	0.31	PE	21.0	17.7	15.6
DPS (€)	0.12	0.09	0.11	0.12				
Yield (%)	2.4	1.9	2.3	2.6				
FCF (m €)	-1.4	0.1	5.8	8.1				

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FINANCIAL DATA

Income Statement	12/20	12/21	12/22	12/23e	12/24e	12/25e
Sales	33.7	46.7	58.8	64.5	70.2	74.4
Changes (%)	31.2	38.4	25.9	9.7	8.9	6.0
Gross profit	20.1	27.2	36.8	39.7	43.5	46.4
% of Sales	59.7	58.3	62.6	61.6	62.0	62.3
EBITDA	5.4	7.9	11.7	11.9	13.8	15.2
% of Sales	15.9	16.9	19.8	18.4	19.6	20.4
Current operating profit	2.8	5.5	8.8	8.5	10.1	11.3
% of Sales	8.4	11.8	15.0	13.2	14.4	15.2
EBIT	2.8	5.5	8.8	8.5	10.1	11.3
Net financial result	-0.7	-0.3	-0.1	-0.3	-0.3	-0.3
Income Tax	-0.7	-1.1	-1.2	-2.3	-2.7	-3.1
Tax rate (%)	33.1	20.4	13.4	27.9	27.9	27.9
Net profit, group share	1.4	4.2	7.5	5.9	7.1	8.0
EPS	0.07	0.18	0.32	0.23	0.28	0.31
Financial Statement	12/20	12/21	12/22	12/23e	12/24e	12/25e
Goodwill	5.7	5.7	6.2	6.2	6.2	6.2
Tangible and intangible assets	8.8	13.1	15.5	19.8	20.7	20.0
Right of Use	4.1	2.4	3.1	3.1	3.1	3.1
Financial assets	1.8	0.4	0.3	0.3	0.3	0.3
Working capital	10.0	12.5	19.8	21.3	21.8	22.3
Other Assets	0.2	0.7	0.6	0.6	0.6	0.6
Assets	30.7	34.7	45.6	51.4	52.7	52.6
Shareholders equity group	8.2	29.9	36.5	49.3	54.0	59.2
Minorities	0.3	0.0	0.0	0.0	0.0	0.0
LT & ST provisions and others	1.0	1.2	1.3	1.3	1.3	1.3
Net debt	21.2	3.5	7.8	0.8	-2.6	-7.9
Other liabilities	0.0	0.1	0.0	0.0	0.0	0.0
Liabilities	30.7	34.7	45.6	51.4	52.7	52.6
Net debt excl. IFRS 16	17.0	1.0	4.5	-2.5	-5.9	-11.1
Gearing net	2.5	0.1	0.2	0.0	-0.0	-0.1
Leverage	4.0	0.4	0.7	0.1	-0.2	-0.5
Cash flow statement	12/20	12/21	12/22	12/23e	12/24e	12/25e
CF after elimination of net borrowing costs and taxes	4.0	6.7	11.1	9.3	10.8	11.8
Δ WCR	-1.7	-2.2	-8.0	-1.5	-0.4	-0.5
Operating cash flow	2.4	4.5	3.2	7.8	10.3	11.3
Net capex	-1.1	-5.3	-4.5	-7.7	-4.6	-3.2
FCF	1.2	-0.8	-1.4	0.1	5.8	8.1
Free Cash Flow excl IFRS 16	17.0	1.1	4.5	-2.5	-5.9	-11.1
Acquisitions/Disposals of subsidiaries	0.0	0.0	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0	0.0	0.0
Change in borrowings	5.9	-2.5	-4.4	0.0	0.0	0.0
Dividends paid	-0.0	-1.3	-1.7	-3.0	-2.4	-2.8
Repayment of leasing debt	-0.7	-0.3	-0.7	0.0	0.0	0.0
Equity Transaction	0.5	18.8	0.0	10.0	0.0	0.0
Others	-3.6	-0.4	0.1	0.0	0.0	0.0
Change in net cash over the year	3.3	13.5	-8.1	7.1	3.4	5.2
ROA (%)	3.3%	6.4%	10.7%	7.0%	7.7%	8.2%
ROE (%)	17.5%	13.9%	20.7%	12.0%	13.1%	13.5%
ROCE (%)	7.0%	12.8%	16.8%	12.1%	13.9%	15.7%

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Methodology

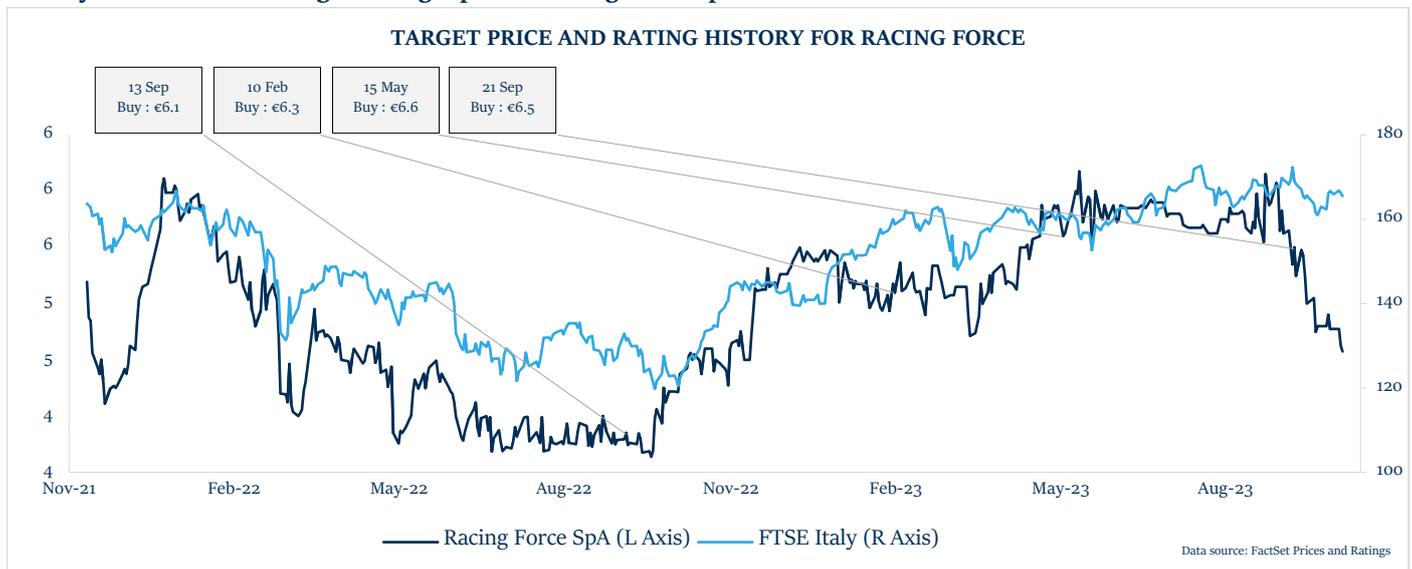
This Report may mention evaluation methods defined as follows:

1. DCF method: discounting of future cash flows generated by the company's operations. Cash flows are determined by the analyst's financial forecasts and models. The discount rate used corresponds to the weighted average cost of capital, which is defined as the weighted average cost of the company's debt and the theoretical cost of its equity as estimated by the analyst.
2. Comparable method: application of market valuation multiples or those observed in recent transactions. These multiples can be used as references and applied to the company's financial aggregates to deduce its valuation. The sample is selected by the analyst based on the characteristics of the company (size, growth, profitability, etc.). The analyst may also apply a premium/discount depending on his perception of the company's characteristics.
3. Assets and liabilities method: estimate of the value of equity capital based on revalued assets adjusted for the value of the debt.
4. Discounted dividend method: discounting of estimated future dividend flows. The discount rate used is generally the cost of capital.
5. Sum of the parts: this method consists of estimating the various activities of a company using the most appropriate valuation method for each of them, then realizing the sum of the parts.

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History of investment rating and target price – Racing Force SpA



Distribution of Investment Ratings

Rating	Recommendation Universe*	Portion of these provided with investment banking services**
Buy	81%	63%
Hold	16%	42%
Sell	2%	0%
Under review	1%	100%

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Buy: Expected to outperform the markets by 10% or more over a 6 to 12 months horizon.

Hold: expected performance between -10% and +10% compared to the market over a 6 to 12 months horizon.

Sell: Stock is expected underperform the markets by 10% or more over a 6 to 12 months horizon.

The history of ratings and target prices for the Issuers covered in this report are available on request at <https://researchtpicap.midcapp.com/en/disclaimer>.

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