

Avio

The US Move De-risks the Business Model and Improves Visibility

Avio's decision to proceed with a EUR 400M capital increase demonstrates that the initiative to grow in the US' SRM niche is strong and accelerating. Avio will become more American and, we believe, more visible and appealing to US investors. We have decided to use a SOTP along with our 'traditional' DCF model. The SOTP gives us a EUR 82 Fair Value, while the DCF gives us a EUR 51 Fair Value. Accordingly, we set a new EUR 66.5 'post money' target price, drawn from the average of the two valuations.

The 2025-2035 plan, deemed realistic, envisages strong and profitable growth

Avio expects its top line to grow at a 2025-35 CAGR of over 10%, with revenues set to exceed EUR 1.2Bn in 2035; reported EBITDA is expected to post a high-teens CAGR, exceeding EUR 120M in 2035; the plan's EBITDA target implies a ~10% margin in 2035 (+360 bps vs 2025E) and a 12% incremental margin across 10 years; we deem this target relatively cautious.

Growth in the US defence de-risks the business model and improves margins

The 2025-35 plan envisages an interesting de-risking of the business model, expected to improve in terms of product and geographic mix. Avio can evolve from a nearly pure Space company concentrated in Europe into a more balanced player, almost evenly exposed to Space and Defence and with better balance between Europe (~66% of 2035 revenues) and the US (~33% of 2035 revenues).

The SOTP valuation (Fair Value: EUR ~82) captures the value of the US initiative

The SOTP approach is the ideal tool to value the European business and the US initiative separately, based on 'local multiples'. We factored in both the EUR 400M capital increase and the new shares issued in connection, assuming that they are placed at a EUR 50 price. We value Avio's European operations based on Chemring's EV/Sales 2025E and EV/EBITDA 2025E multiples (~3.1x and ~17.0x respectively), while we used the Rocket Lab, Firefly Aerospace and Karman Holdings 2030E EV/Sales and EV/EBITDA multiples (~7.5x and ~24x respectively) to value the US initiative.

The DCF valuation (Fair Value: EUR ~51) is more conservative

We did not change the assumptions of our DCF, with the only exception of the MRP (-25 bps). We kept our β unchanged at 1x even though the de-risking granted by the US initiative suggests lowering this parameter; if we assume a 0.75x β , the Fair Value goes up to EUR ~64, while if we assume a 0.5 β (the Bloomberg β is 0.44), the Fair Value goes up to EUR ~90.

Avio – Key data

Y/E Dec (EUR M)	2023A	2024A	2025E	2026E	2027E
Revenues	338.7	441.6	560.1	648.3	741.6
EBITDA	20.51	25.82	38.32	51.86	65.86
EBIT	5.23	8.38	17.39	29.79	41.91
Net income	6.49	6.09	12.14	30.98	39.87
Adj. EPS (EUR)	0.45	0.36	0.41	0.94	1.18
Net debt/-cash	-76.13	-90.09	-511.0	-501.8	-410.1
Adj P/E (x)	20.2	31.2	NM	58.3	46.1
EV/EBITDA (x)	8.3	8.9	37.0	27.5	23.1
EV/EBIT (x)	32.8	27.3	81.6	47.9	36.3
Div ord yield (%)	2.6	1.3	0.2	0.5	0.6
FCF Yield (%)	1.3	8.3	1.3	-0.3	-4.3

Source: Company data and Intesa Sanpaolo Research estimates. Priced at 03/10/2025

8 October 2025: 7:28 CET
Date and time of production

BUY

Target Price: EUR 66.5
(from EUR 34.5)

Italy/Aerospace & Defence
Company Update

EXM-STAR

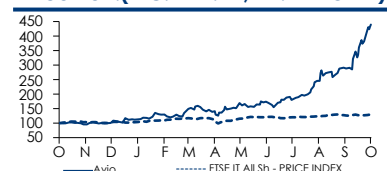
Avio - Key Data

Price date (market close)	03/10/2025
Target price (EUR)	66.5
Target upside (%)	21.79
Market price (EUR)	54.60
Market cap (EUR M)	1,439.2
52Wk range (EUR)	54.6/11.9

EPS – DPS changes

(EUR)	2025E	2026E	2025	2026
EPS ▼	EPS ▼	chg%	chg%	
Curr.	0.405	0.936	-33.77	-9.14
Prev.	0.612	1.030	-	-
DPS ▼	DPS ▼	chg%	chg%	
Curr.	0.107	0.273	-35.97	-9.00
Prev.	0.167	0.300	-	-

Price Perf.(RIC: AVI.MI, BB: AVIO IM)



Source: FactSet and Intesa Sanpaolo
Research estimates

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Take-Aways from the Recent Calls with Management

Below are the take-aways from the call held on **12 September**:

- The management continues to see a growing momentum in the US and European defence; opportunities are bigger than expected earlier; the commercial pipeline is very dense; other Tactical Propulsion opportunities are expected to materialise soon;
- The EUR 400M capital increase will support a more ambitious-than-anticipated growth plan; the US addressable market for Solid Rocket Motors (SRM) is estimated at USD 1.7Bn, expected to post an ~8% 2024-2030 CAGR and possibly more;
- Avio has secured a production contract in the US in August and is holding talks with other 3 US clients; it has identified a site to build the new SRM plant on which it has an option, and which is expected to have a ~700 tonnes capacity/year and be operational by the end of 2028;
- The bulk of the EUR 400M of the capital increase will be dedicated to the new US SRM plant, the rest will be used for strengthening the European infrastructure and for possible M&A deals to secure the supply chain, for instance;
- The balance between Space and Tactical propulsion revenues will approach 50-50 by the end of the decade; by 2030, Avio will have a better quality of earnings, being more balanced between Space and Tactical Propulsion, Europe and the US;
- The +10% 2025-2035 CAGR revenue target does not discount M&A deals; depending on market conditions, Avio may post a better EBITDA CAGR than the +15% mentioned in the plan;
- The cadence of the Vega and Ariane launches is expected to grow to 6 and 10 in 2/3 years; Vega launches might grow further to 8. Avio may also be able to improve prices, considering that the market for launchers is tight and that it can offer a flexible service to clients.

The following are the take-aways of the call held on **30 September**:

- The US' SRM market sees a relatively modest competition; in particular, the new entrants such as Anduril, Ursa Mayor and X-Bow have a relatively weak proposition and/or are in the early stage of development; they do not pose a real threat to Avio;
- Avio's current production capacity in Italy stands at 500/600 tonnes of solid propellant/year, utilised at ~60% for Vega's smaller boosters and tactical propulsion; the theoretical capacity is ~2,000 tonnes/year, but there are some bottlenecks that can be removed with limited investments (EUR 50-100M between 2030 and 2035). The current capacity in the French Guyana is ~6,000 tonnes/year, utilised at ~33% in 2025 (expected to grow to ~64% in 2026);
- The new US plant will require overall investments of EUR ~600M (including EUR 150-200M of leases); Avio will have the possibility to increase production capacity by up to 100% from the initial 700 tonnes/year in case of strong demand, with additional capex of EUR ~300M. The company will leverage the expertise matured when it built the French Guyana P120 booster plant (2018/2021), similar to the new US facility under many aspects;
- The new US plant is expected to: 1) start operations in 2H28 (previous indication: end of 2028/beginning of 2029) and 2) reach full capacity by 2032; Avio is confident that it will

be able to get grants in connection with the US initiative; it may get as much as EUR 180/200M in grants, possibly before the start of the US plant operations;

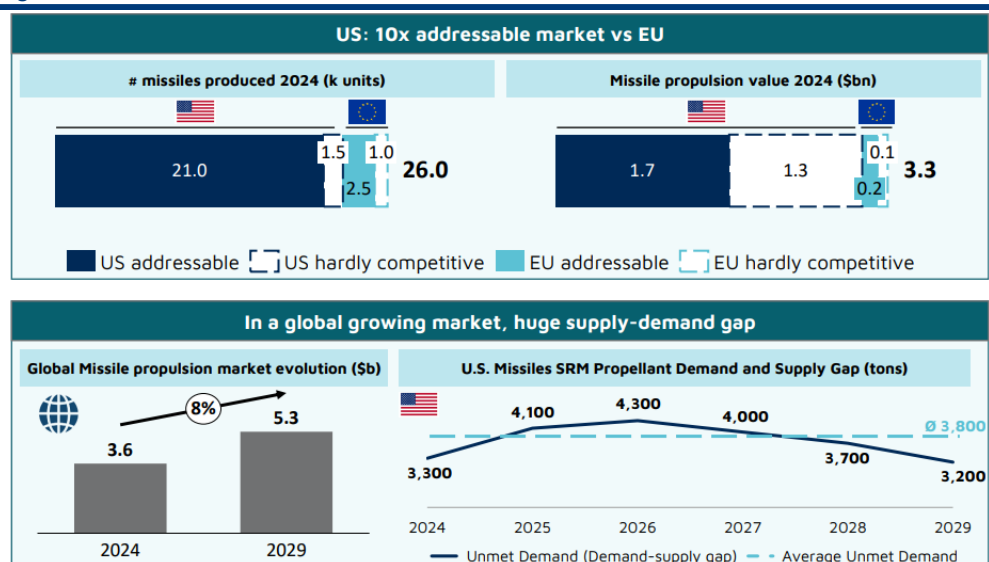
- Theoretically, Avio is 100% able to produce the GEM/T SRM that equips the Patriot PAC2 missile bought – among others - by Germany (1,000 units for EUR 5.1Bn); its production has been awarded to Bayern Chemie (MBDA group), but the company might lack the necessary expertise; this situation may create an interesting opportunity for Avio;
- The new US plant is expected to work on SRM solutions for ~10 different platforms; it will be able to produce relatively big SRMs; it will be focused on military propulsion (tactical and even strategic), simpler and much more remunerative than space propulsion (more complex and less remunerative than SRMs); space propulsion in the US is not in the cards/in the plan;
- Management expects the US payment conditions to virtually mirror those experienced in Europe: the defence OEMs do not move if they don't get an advance payment; the same should apply to the supply chain (i.e. Avio); at run-rate (around 2035), the cash conversion rate on EBITDA is expected to exceed 100%.

We deem the messages from the two calls positive: the SRM market is tight and offers plenty of opportunities on both sides of the Atlantic; the sector is short of capacity/competencies; last but not least, there's a certain sense of urgency that puts the few SRM players in an even more interesting position.

Update on the US Opportunity

The US' total addressable market for SRMs is estimated at USD ~1.7Bn, expected to post an ~8% CAGR between 2024 and 2030 and possibly more.

Figure 1 – Features of the US' SRM market



Source: Company data and Intesa Sanpaolo Research

In this context, Avio already signed a production contract with a US government service in August (worth ~EUR 100M, according to our estimates) and it is going ahead with the development of solutions for Raytheon (we understood that the production contract could materialise in 2H25/1H26). Importantly, the Italian company is holding talks with another two US prospect clients.

Figure 2 – New US plant: where we are



Source: Company data and Intesa Sanpaolo Research

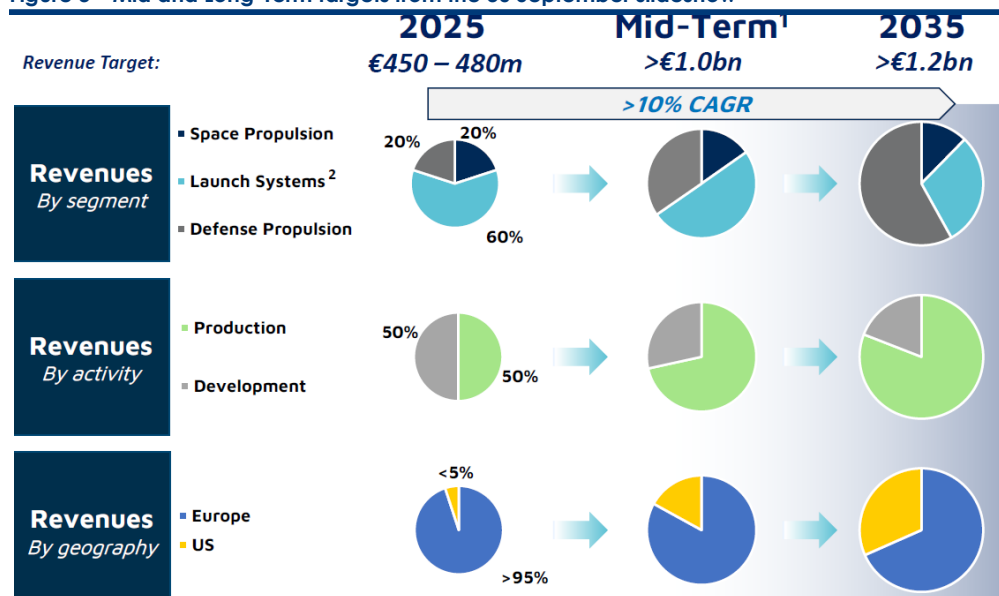
The company expects to sign further contracts before the US plant starts production, i.e. before the end of 2028. It will be able to qualify the production processes by then, also leveraging the existing Italian footprint.

The 10-Year Targets

The following table shows the 2025-2035 targets set by Avio in its 30 September slideshow. When making a comparison with the targets of the 12 September slideshow, we note that the company improved the revenue CAGR estimate (to '>10%' from '~+10%'), as well as its EBITDA CAGR (to 'High-Teens' from ">15%").

We believe that the plan's revenue and EBITDA targets – almost in line with our estimates - are realistic; we remark that the plan's EBITDA target implies a ~10% margin in 2035 and a 12% incremental margin across 10 years; we deem these targets cautious.

Figure 3 – Mid and Long-Term targets from the 30 September slideshow



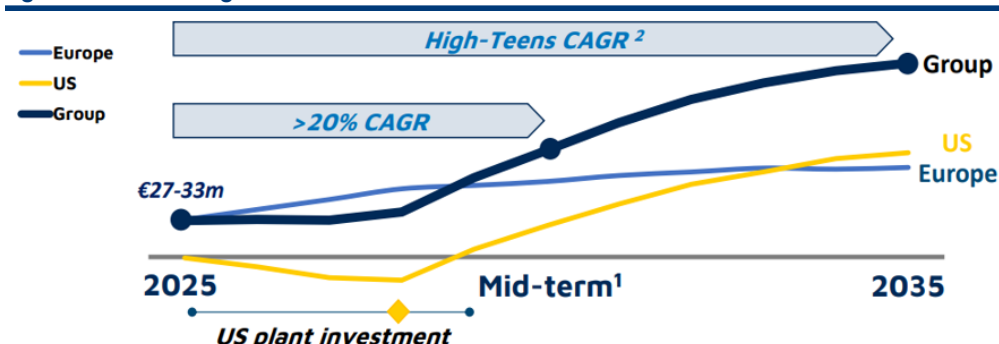
Source: Company data, 30 September 2025

We also highlight that Avio's plan envisages an interesting de-risking of the business model, expected to improve in terms of product and geographic mix: Avio should evolve from a nearly pure Space company concentrated in Europe into a more balanced player, almost evenly exposed to Space and Defense (50-50 balance in 2035) and with better balance between Europe (~66% of 2035 revenues) and the US (~33% of 2035 revenues).

The business and geographic mix evolution is expected to benefit EBITDA since the Defence/SRM business carries much higher margins (~15%) in comparison with the Space business (mid/high-single-digit margins) and, specifically, the US SRM business is expected to carry even higher margins (up to ~20%).

We stress that not only the SRM business is more remunerative than Space, but it is also deemed less complex and thus less risky; in this regard, the decision to focus on SRMs makes a lot of sense under the business/financial point of view.

Figure 4 – EBITDA Long-term evolution



Source: Company data, 30 September 2025

Margin-wise, reported EBITDA is expected to record a ~20% CAGR in the 2025-2030 timeframe to then decelerate a bit in the second part of the plan; the graph shown above seems to suggest that **EBITDA may grow by 5x over the course of the plan, reaching EUR ~150**. This result is ~25% above the EUR ~121M that we draw when assuming a 15% EBITDA CAGR over 10 years. We believe that it is a reasonable assessment that implies a ~13% EBITDA margin at run rate, above the ~10% margin implied in the 'base case' scenario (i.e. revenue CAGR of 10% and EBITDA CAGR of 15% across 10 years). The following table shows the 2025-2035 targets in absolute terms.

Figure 5 - Mid and Long-Term targets in absolute terms, derived from the slideshow

EUR M	2025E	2030E	2035E	CAGR 25-30E	CAGR 25-35E
Revenue CAGR	465	1,000	1,206	16.5%	10.0%
EBITDA reported (implied in the guidance)	30	75	121	20.0%	15.0%
EBITDA margin (implied in the guidance)	6.5%	7.5%	10.1%		
Break-down by segment:					
- Space Propulsion	279	500	369	12.4%	2.8%
- Defence Propulsion	93	375	704	32.2%	22.4%
- Launch Systems (development)	93	125	134	6.1%	3.7%
- Space Propulsion	60.0%	50.0%	30.6%		
- Defence Propulsion	20.0%	37.5%	58.3%		
- Launch Systems (development)	20.0%	12.5%	11.1%		
Break-down by activity:					
- Production	232.5	736.1	971.6	25.9%	15.4%
- Development	232.5	232.5	234.5	0.0%	0.1%
- Production	50.0%	73.6%	80.6%		
- Development	50.0%	26.4%	19.4%		
Break-down by geography:					
- EU	442	819.4	820.8	13.2%	6.4%
- USA	23	180.6	385.3	50.7%	32.4%
- EU	95.0%	81.9%	68.1%		
- USA	5.0%	18.1%	31.9%		

Source: Company data and Intesa Sanpaolo Research

Estimates' Revision

We almost did not change our 2025-2027 P&L estimates above the EBIT level, while we are assuming that the bottom line will benefit from the EUR 400M cash inflow of the capital increase in terms of financial proceeds.

Figure 6 – P&L estimate changes

EUR M	2024	2025E		2026E		2027E	
	Actual	New	Old	New	Old	New	Old
- Space Propulsion	152	231	231	282	282	334	334
Δ% Y/Y		51.7%	51.7%	22.3%	22.3%	18.3%	18.3%
- Defense Propulsion	70	100	100	137	137	177	177
Δ% Y/Y		42.4%	42.4%	37.4%	37.4%	28.9%	28.8%
- Development	219	227	227	229	229	232	232
Δ% Y/Y		3.7%	3.7%	1.0%	1.0%	1.0%	1.0%
Eliminations	1	3	2	0	(1)	0	(3)
Revenues	442	560.1	559.6	648.3	647.1	741.6	739.0
Δ% Y/Y		26.7%	26.6%	15.7%	15.6%	14.4%	14.2%
- Space Propulsion	9	16	16	22	22	28	28
As a % of revenues	5.6%	6.9%	6.9%	7.8%	7.8%	8.3%	8.3%
- Defense Propulsion	7	12	12	20	20	28	28
As a % of revenues	9.5%	12.4%	12.3%	14.4%	14.5%	15.7%	15.7%
- Development	18	18	18	18	19	19	19
As a % of revenues	8.0%	8.0%	8.0%	8.1%	8.1%	8.1%	8.1%
Eliminations	(1)	(5)	(5)	(6)	(5)	(6)	(5)
EBITDA adjusted	31.3	41.3	41.8	54.6	55.4	68.4	69.5
As a % of revenues	7.1%	7.4%	7.5%	8.4%	8.6%	9.2%	9.4%
Non-recurrent	-5.5	-3.0	-3.0	-2.8	-2.8	-2.5	-2.5
EBITDA reported	25.8	38.3	38.8	51.9	52.7	65.9	67.0
As a % of revenues	5.8%	6.8%	6.9%	8.0%	8.1%	8.9%	9.1%
D&A	(17.4)	(20.9)	(18.2)	(22.1)	(18.9)	(24.0)	(19.6)
EBIT reported	8.4	17.4	20.5	29.8	33.8	41.9	47.4
Net financial inc./.(ch.)	(1.6)	(1.0)	(1.0)	9.1	(1.0)	8.1	(1.0)
Pre-tax profit	6.8	16.4	19.5	38.9	32.8	50.0	46.4
Taxes	-0.4	-4.1	-4.9	-7.8	-6.6	-10.0	-9.3
Tax rate	-5.6%	-25.0%	-25.0%	-20.0%	-20.0%	-20.0%	-20.0%
Minorities	(0.3)	(0.2)	(0.15)	(0.2)	(0.15)	(0.2)	(0.1)
Net profit	6.1	12.1	14.5	31.0	26.1	39.9	37.0
Adj. net profit	9.9	14.2	16.6	32.9	28.0	41.6	38.8

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Here follow the main estimate changes when dealing with Asset and Liabilities:

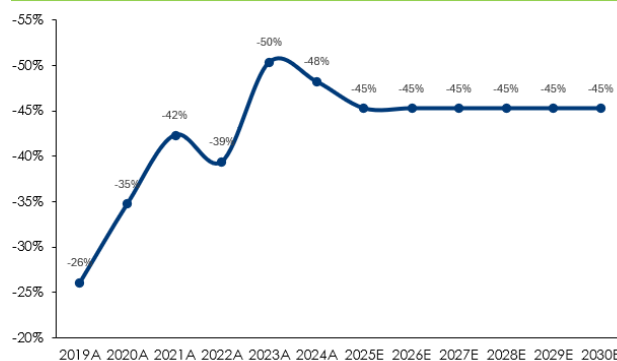
- We factored in the EUR 400M capital increase at the end of 2025; we are assuming that Avio will issue 8M new shares at a EUR 50 subscription price;
- We assumed that Avio will cash in grants for EUR 200M by the end of 2028;
- we improved our assumptions on working capital, now expected to contribute positively to the FOCF for a cumulative EUR ~250M in the 2025-2030 timeframe, following an expected very strong commercial performance; we point out that in our previous estimates we were assuming a very modest cumulative EUR 34M contribution across five years.

Figure 7 – Revenues and Net Working capital assumptions



A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Figure 8 – Ratio NWC/Revenues



A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Under the new assumptions, Avio will keep a very comfortable and positive net cash position even when it starts building the US plant.

Valuation: New EUR 66.5 TP 'Post Money'; BUY Confirmed

Avio's decision to proceed with a EUR 400M capital increase demonstrates that the initiative to grow in the US' SRM niche is concrete and accelerating; this move is going to de-risk the investment case and boost the exposure to the rich US market.

We also note that: 1) the capital increase can improve Avio's visibility and 2) the plan to make the business 'more American' can increase the interest from US investors, an important aspect considering that the US Space and SRM listed players trade at multiples that are 'out of scale' vis-à-vis the current Avio valuations. We point out that Leonardo (LDO), Avio's reference shareholder with a ~29% stake, has not officially determined how to move when dealing with the capital increase (Bloomberg reported that it would not follow the capital increase). In our understanding, Avio is a strategic asset for Italy/Europe, and this explains why LDO took an important stake in it years ago. We believe that today Avio is even more strategic than in the past and we think that LDO should follow the capital increase.

We have decided to use a SOTP along with our 'traditional' DCF model. The SOTP gives us an EUR 82 fair value, while the DCF gives us a EUR 51 fair value. We set a new EUR 66.5 target price, drawn from the average of the two valuations.

SOTP: Fair Value of EUR ~82, post money

We decided to value the stock through a Sum of The Parts to value the European business and the US initiative separately. We factored in both the EUR 400M capital increase and the new shares issued in connection, assuming that they are placed at a EUR 50 price.

We value Avio's European operations based on Chemring's EV/Sales 2025E and EV/EBITDA 2025E multiples (3.1x and 17.0x respectively), while we used the multiples of the US peers Rocket Lab, Firefly and Karman Holdings to value the US initiative (more details below).

Figure 9 – Sum of The Parts

	Sales 2025E	EBITDA 2025E	EV/Sales 2025E	EV/EBITDA 2025E	Enterprise Value	EV /Share	Valuation Method/Comment
- EU operations	532	41.3	3.1	17.0	1,184	34.8	Chemring EV/Sales, EV/EBITDA 2025C
- US operations					1,009	29.6	RKLB US, FLY US, KRMN US EV/Sales, EV/EBITDA 2030E
Enterprise Value					2,193	64.4	
- Tax assets					111	3.3	Avio has tax assets for EUR 87.5M (EUR ~2.6 p/s)
- NFP as @ 31/12/2024					90.1	2.6	Likely to benefit from advance payments
- Cash-in from warrant exercise					10.4	0.3	Last 0.8m warrants exercised on 30/05/2025
- Dividends paid					(3.9)	-0.1	Paid on 06/05/2025
- Minority interests					(10.0)	-0.3	Book Value
- Capital increase					400.0	11.7	Capital increase by the end of 2025
Equity Value					2,791	81.9	
Current price (as of 06.10)					55.2	55.2	
Up/(Down)side potential						48.4%	
Current Number of shares (m)					26.1		Net of treasury shares (2024A)
New shares issued (m)					8.0		New shares are issued @ EUR 50
Number of shares out					34.1		

A: actual; E: estimates; C: Bloomberg consensus; Source: Company data and Intesa Sanpaolo Research

To value Avio's US initiative, we took the company's implied 2030 targets for the US operations (from the company's slideshow we derived that Avio expects the US revenues to hit ~EUR 181M in 2030 with an EBITDA of ~EUR 28M) and applied the average 2030E multiples of US peers Rocket Lab, Firefly Aerospace and Karman Holdings.

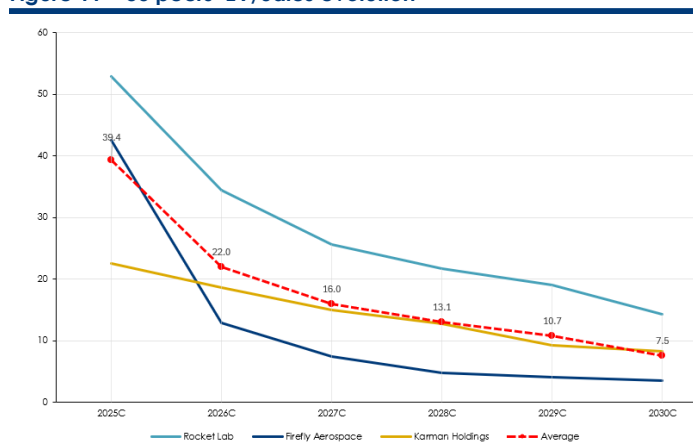
We point out that the US-listed Rocket Lab (RKL US), Firefly Aerospace (FLY US) and Karman Holdings (KRMN US) trade at an average ~39x EV/Sales 2025C multiple when Avio trades at ~2.5x based on our estimates. We remark that RKL and FLY are loss-making, while Karman Holdings boasts a 45-year history and is profitable; it trades at ~77.5x on its 2025C EBITDA.

Figure 10 – Key financials of EU, US peers

	EV	Sales			EBITDA			EBIT			Net Profit			FCF		
		2025C	2026C	2027C	2025C	2026C	2027C	2025C	2026C	2027C	2025C	2026C	2027C	2025C	2026C	2027C
Chemring	1,680	538	598	674	99	112	135	75	86	104	53	61	74	-3	36	66
Rocket Lab	29,851	588	900	1215	-91	48	186	-153	-25	96	-215	-67	39	-215	-69	59
Firefly A.	5,572	138	432	770	-191	-49	80	-213	-83	38	-242	-75	43	-235	-107	-18
Karman H.	10,065	456	551	685	130	172	217	85	129	171	32	70	103	19	74	90

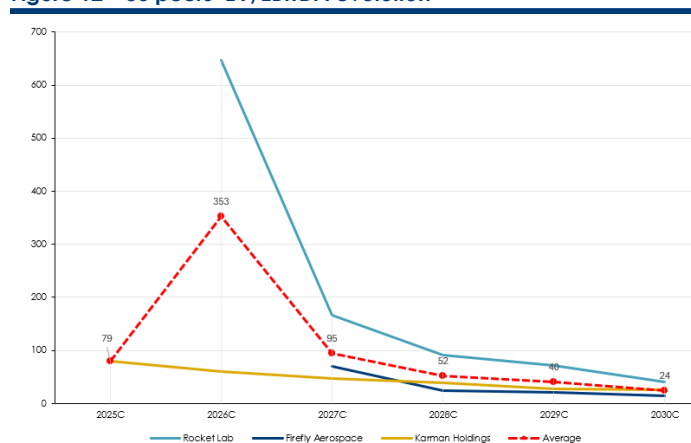
C: Bloomberg consensus; Source: Company data and Intesa Sanpaolo Research

Figure 11 – US peers' EV/Sales evolution



C: Bloomberg consensus; Source: Intesa Sanpaolo Research

Figure 12 – US peers' EV/EBITDA evolution



C: Bloomberg consensus; Source: Intesa Sanpaolo Research

On average, the US peers' EV/Sales 2030C multiple is ~7.5x and their average estimated EV/EBITDA 2030E is ~24x. We estimate that Karman Holdings, probably the most suitable peer to value Avio US' operations, trades at ~7.3x on the 2030E sales and ~22x on the 2030E EBITDA, in line with the average we used.

Figure 13 – Valuation of the US initiative

EUR M	Sales 2030E	EBITDA 2030E	EBITA Margin
US operations (as per Avio plan)	181	28	15.3%
Multiple of US peers (Bloomberg consensus)	7.5	24.0	
Enterprise Value	1,354	665	
Average Valuation	1,009		

Source: Intesa Sanpaolo Research

DCF: Fair Value of EUR ~51, post money

We almost did not change our P&L estimates at operating level, while we improved our assumptions on the net working capital evolution with a positive impact on the expected FOCF; we are now assuming that NWC will contribute positively to the FOCF for a cumulative EUR ~250M in the 2025-2030 timeframe, consistent with the past four years and following an expected very strong commercial performance. We point out that in our previous estimates we were assuming a very modest cumulative EUR 34M contribution across five years.

We did not change the other assumptions of our DCF with the only exception of the Market Risk Premium, lowered by Intesa Sanpaolo Research to 6.0% (-25 bps) at the beginning of September. We kept the β unchanged at 1.0x even though the de-risking granted by the US initiative could have suggested to lower this parameter; **if we assume a 0.75 β (Chemring has a Bloomberg β of ~0.76), the Fair Value goes up to EUR ~64, while if we assume a 0.5 β (Avio's Bloomberg β is ~0.44), the Fair Value goes up to EUR ~90.**

Figure 14 – Cash Flow

CASH FLOW (EUR M)	2023A	2024A	2025E	2026E	2027E	2028E	2029E	2030E	2031E	Norm.year
Net Sales	339	442	560	648	742	814	894	1,020	1,146	1,351
% change	-5.2%	30.4%	26.9%	15.7%	14.4%	9.7%	9.9%	14.1%	12.4%	2.0%
EBITDA	20.5	25.8	38.3	51.9	65.9	75.6	89.1	111.8	134.4	165.0
% margin	6.1%	5.8%	6.8%	8.0%	8.9%	9.3%	10.0%	11.0%	11.7%	12.2%
% change	-4.3%	25.9%	48.4%	35.4%	27.0%	14.8%	17.9%	25.4%	20.3%	22.7%
Depreciation & other provisions	15	17	21	22	24	23	40	40	39	41
EBIT (ADJUSTED)	5.2	8.4	17.4	29.8	41.9	52.1	49.3	71.9	95.4	124.4
% margin	1.5%	1.9%	3.1%	4.6%	5.7%	6.4%	5.5%	7.0%	8.3%	9.2%
Taxes	(0)	(0)	(4)	(8)	(10)	(12)	(10)	(14)	(19)	(25)
Normative tax rate			20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
NOPLAT	5.2	8.0	13.3	22.0	31.9	40.3	39.4	57.5	76.3	99.5
Depreciation & other provisions	15	17	21	22	24	23	40	40	39	41
% sales	4.5%	3.9%	3.7%	3.4%	3.2%	2.9%	4.5%	3.9%	3.4%	3.0%
Gross Operating Cash Flow	20.5	25.4	34.2	44.1	55.9	63.8	79.3	97.4	115.4	140.1
Capex	(38)	(40)	(51)	(100)	(190)	(145)	(120)	(105)	(60)	(40)
% sales	-11.3%	-8.9%	-9.0%	-15.4%	-25.6%	-17.8%	-13.4%	-10.3%	-5.2%	-3.0%
Δ W. Capital (–=increase; +=decrease)	30	42	41	40	42	33	34	53	53	11
Cash Flow to be discounted	11.8	28.3	24.4	-16.0	-91.9	-48.5	-7.1	45.1	108.1	111.1

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Figure 15 – DCF Valuation

EUR M	2023A	2024A	2025E	2026E	2027E	2028E	2029E	2030E	2031E	Norm.year
WACC	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%
Discount Rate factor	0.00	0.00	0.98	0.89	0.82	0.75	0.68	0.62	0.57	0.39
Discounted Cash Flow	0	0	24	-14	-75	-36	-5	28	61	44
Cumulated DCF	0	0	24	10	-65	-102	-106	-78	-17	186

A: actual; E: estimates; C: [INSERT] consensus; Source: Company data and Intesa Sanpaolo Research

Figure 16 – WACC & DCF Analysis

Free Risk Rate (FRR)	3.5%	Cumulated DCF	186	- Net Financial Debt as @ 31-12-24	90.1
Company Risk Factor or Beta (CRF)	1.00			- Minorities (book value)	(10.0)
Mkt Risk Premium (MRP)	6.0%	Perpetual Growth Rate (g)	3.5%	- Pension underfunding	0.0
Cost of Equity (Ke or COE)	9.5%	Normalised Annual CF	111	- Cash-in from warrant exercise	10.4
Cost of Debt (gross)	3.50%	Terminal Value @ 12/Monday	1,916	- Dividends	40.7
Debt tax rate	27.5%	Disc. Rate of Terminal Value	0.39	- Capital increase	400.0
Cost of Debt net (Kd or COD)	2.54%	Discounted Terminal Value	756	- Government grants (discounted)	149.1
Target gearing (D/E) or % Kd	0.0%			Equity Market Value (EUR m)	1,733
% Ke	100.0%	Financial assets	111	Number of shares (m)	34.1
Normative Tax Rate	20.0%	Enterprise Value (EUR m)	1,053	Fair Value per share (EUR)	50.9
WACC	9.5%				

Source: Company data and Intesa Sanpaolo Research

Figure 17 – Fair Value sensitivity (I)

WACC	Perpetual growth rate (g)						
50.9	2.00%	2.50%	3.00%	3.50%	4.00%	4.50%	5.00%
11.0%	40.4	41.2	42.2	43.2	44.4	45.7	47.3
10.5%	42.1	43.1	44.1	45.4	46.8	48.5	50.4
10.0%	44.0	45.1	46.4	47.9	49.6	51.7	54.1
9.5%	46.2	47.5	49.1	50.9	53.0	55.6	58.7
9.0%	48.7	50.3	52.2	54.4	57.1	60.3	64.4
8.5%	51.5	53.5	55.8	58.6	62.0	66.3	71.8
8.0%	54.9	57.3	60.2	63.8	68.2	74.0	81.6

Source: Intesa Sanpaolo Research

Figure 18 - Fair Value sensitivity (II)

WACC	Long-term EBITA margin						
50.9	9.2%	10.2%	11.2%	12.2%	13.2%	14.2%	15.2%
11.0%	38.4	40.0	41.6	43.2	44.8	46.4	48.0
10.5%	40.0	41.8	43.6	45.4	47.2	49.0	50.8
10.0%	41.8	43.9	45.9	47.9	49.9	52.0	54.0
9.5%	44.0	46.3	48.6	50.9	53.2	55.4	57.7
9.0%	46.6	49.2	51.8	54.4	57.0	59.6	62.2
8.5%	49.7	52.6	55.6	58.6	61.6	64.6	67.6
8.0%	53.4	56.9	60.3	63.8	67.3	70.7	74.2

Source: Intesa Sanpaolo Research

Valuation and Key Risks

Valuation Basis

We value Avio based on the average between a SOTP and a DCF; when dealing with the DCF, we use a ~9.5% WACC and a 3.5% "g" rate to factor in the strong growth momentum of the addressable market; we assume that Avio will reach an EBITDA margin of 12.2% from 2032E onwards thanks to higher volumes, better economies of scale and likely lower competitive pressure vis-à-vis the past, considering the current geo-political scenario of de-globalisation; we look at industry multiples to check the DCF valuation.

Key Risks

Company specific risks:

- Launch failures and price competition for both Ariane and Vega, especially for commercial launches
- Lower geo-political tensions may impact the defence industry's multiples
- On the positive: the current geo-political scenario is pushing tactical propulsion
- On the positive: Avio's Space business is recovering from a historical low touched in 2022/2024

Sector generic risks:

- New entrants, also with alternative solutions
- Alternative technologies (re-usable rockets, direct energy weapons)
- On the positive: in the current geo-political scenario Europe is clearly supportive for "domestic" launchers

Company Snapshot

Company Description

Avio is a leading international group engaged in the design and construction of space launchers and solid and liquid motors for space and military applications. The experience and know-how built up over more than 50 years position Avio at the cutting-edge of the space launcher sector, solid, liquid and cryogenic propulsion and tactical propulsion. Avio operates in Italy, France and the French Guyana with 5 facilities, employing ~850 highly qualified personnel, of which ~30% involved in R&D. Avio is prime contractor for the Vega program and a sub-contractor for the Ariane program, both financed by the European Space Agency ("ESA"), placing Italy among the limited number of countries capable of producing a complete spacecraft.

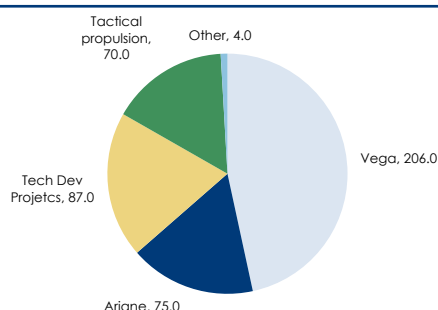
Key data

Mkt price (EUR)	54.60	Free float (%)	NA
No. of shares	26.36	Major shr	Leonardo SpA
52Wk range (EUR)	54.6/11.9	(%)	29.6
Reuters	AVI.MI	Bloomberg	AVIO IM
Performance (%)	Absolute		Rel. FTSE IT All Sh
-1M	50.4	-1M	45.2
-3M	138.9	-3M	120.8
-12M	339.6	-12M	237.8

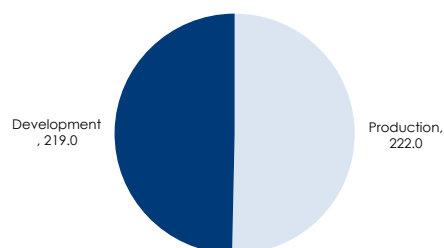
Estimates vs. consensus

EUR M (Y/E Dec)	2024A	2025E	2025C	2026E	2026C	2027E	2027C
Sales	441.6	560.1	515.3	648.3	581.1	741.6	645.4
EBITDA	25.82	38.32	39.40	51.86	50.20	65.86	61.22
EBIT	8.38	17.39	17.77	29.79	29.38	41.91	39.47
Pre-tax income	6.76	16.39	16.27	38.91	27.88	50.03	37.97
Net income	6.09	12.14	11.56	30.98	21.40	39.87	29.26
Adj. EPS (EUR)	0.36	0.41	0.48	0.94	0.82	1.18	1.11

Sales breakdown by product (%)



Sales breakdown by activity (%)



Source: Company data, Intesa Sanpaolo Research estimates and FactSet consensus data (priced at market close of 03/10/2025)

Avio – Key Data

Rating BUY	Target price (EUR/sh) Ord 66.5		Mkt price (EUR/sh) Ord 54.60		Sector Aerospace & Defence	
Values per share (EUR)	2022A	2023A	2024A	2025E	2026E	2027E
No. ordinary shares (M)	26.36	26.36	27.16	35.16	35.16	35.16
Total no. of shares (M)	26.36	26.36	27.16	35.16	35.16	35.16
Market cap (EUR M)	290.24	237.65	308.99	1,919.7	1,919.7	1,919.7
Adj. EPS	0.15	0.45	0.36	0.41	0.94	1.18
BVPS	11.1	11.4	11.1	20.2	21.0	21.9
Dividend ord	0	0.24	0.15	0.11	0.27	0.35
Income statement (EUR M)	2022A	2023A	2024A	2025E	2026E	2027E
Revenues	357.3	338.7	441.6	560.1	648.3	741.6
EBITDA	21.43	20.51	25.82	38.32	51.86	65.86
EBIT	2.24	5.23	8.38	17.39	29.79	41.91
Pre-tax income	1.39	6.64	6.76	16.39	38.91	50.03
Net income	-0.44	6.49	6.09	12.14	30.98	39.87
Adj. net income	4.02	11.75	9.91	14.24	32.91	41.62
Cash flow (EUR M)	2022A	2023A	2024A	2025E	2026E	2027E
Net income before minorities	1.3	6.6	6.4	12.3	31.1	40.0
Depreciation and provisions	19.2	15.3	17.4	20.9	22.1	24.0
Others/Uses of funds	24.3	-10.2	-1.0	1.3	1.3	1.4
Change in working capital	8.9	29.8	42.4	40.7	39.9	42.3
Operating cash flow	53.8	41.5	65.2	75.2	94.4	107.6
Capital expenditure	-23.4	-38.4	-39.5	-35.0	-35.0	-35.0
Financial investments	0	0	0	0	0	0
Acquisitions and disposals	0	0	0	-15.5	-65.0	-155.0
Free cash flow	30.4	3.1	25.7	24.7	-5.6	-82.4
Dividends	-4.6	0	-6.0	-3.9	-3.6	-9.3
Equity changes & Other items	-32.8	8.7	-4.8	398.7	-1.3	-1.3
Net change in cash	-7.0	11.8	14.9	419.6	-10.5	-93.0
Balance sheet (EUR M)	2022A	2023A	2024A	2025E	2026E	2027E
Net capital employed	228.8	234.2	222.8	210.2	246.8	369.1
of which associates	0	0	0	0	0	0
Net debt/-cash	-74.4	-76.1	-90.1	-511.0	-501.8	-410.1
Minorities	9.6	9.7	10.0	10.1	10.1	10.2
Net equity	293.7	300.6	302.8	711.1	738.4	769.0
Minorities value	9.6	9.7	10.0	10.1	10.1	10.2
Enterprise value	225.4	171.3	228.9	1,418.8	1,428.1	1,519.8
Stock market ratios (x)	2022A	2023A	2024A	2025E	2026E	2027E
Adj. P/E	72.3	20.2	31.2	NM	58.3	46.1
P/CFPS	14.2	10.8	13.0	57.8	36.1	30.0
P/BVPS	0.99	0.79	1.0	2.7	2.6	2.5
Payout (%)	0	53	41	26	29	30
Dividend yield (% ord)	0	2.6	1.3	0.2	0.5	0.6
FCF yield (%)	10.5	1.3	8.3	1.3	-0.3	-4.3
EV/sales	0.63	0.51	0.52	2.5	2.2	2.0
EV/EBITDA	10.5	8.3	8.9	37.0	27.5	23.1
EV/EBIT	NM	32.8	27.3	81.6	47.9	36.3
EV/CE	0.99	0.73	1.0	6.7	5.8	4.1
D/EBITDA	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
D/EBIT	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
Profitability & financial ratios (%)	2022A	2023A	2024A	2025E	2026E	2027E
EBITDA margin	6.0	6.1	5.8	6.8	8.0	8.9
EBIT margin	0.6	1.5	1.9	3.1	4.6	5.7
Tax rate	5.2	0.3	5.6	25.0	20.0	20.0
Net income margin	-0.1	1.9	1.4	2.2	4.8	5.4
ROCE	1.0	2.2	3.8	8.3	12.1	11.4
ROE	-0.1	2.2	2.0	2.4	4.3	5.3
Interest cover	2.6	-3.7	5.2	17.4	-3.3	-5.2
Debt/equity ratio	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
Growth (%)	2022A	2023A	2024A	2025E	2026E	2027E
Sales		-5.2	30.4	26.9	15.7	14.4
EBITDA		-4.3	25.9	48.4	35.4	27.0
EBIT		NM	60.4	NM	71.3	40.7
Pre-tax income		NM	1.8	NM	NM	28.6
Net income		NM	-6.2	99.4	NM	28.7
Adj. net income		NM	-15.7	43.7	NM	26.5

NM: not meaningful; NA: not available; Neg.: negative; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

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A stock's coverage cluster is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector or other classification. The list of all stocks in each coverage cluster is available on request.

Equity Rating Key (long-term horizon: 12M)

Long-term rating	Definition
BUY	BUY stocks are expected to have a total return of at least 10% and are considered the most attractive stocks in the analyst's/analyst's team cluster in a 12M period.
NEUTRAL	NEUTRAL stocks are expected to have a total return of at least 0% and are less attractive stocks than BUY rated stocks in the analyst's/analyst's team cluster in a 12M period.
UNDERPERFORM	UNDERPERFORM stocks are the least attractive in a coverage cluster in a 12M period.
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TENDER SHARES (TS)	We advise investors to tender the shares to the offer.
TARGET PRICE	The market price that the analyst believes the share may reach within a 12M time horizon.
MARKET PRICE	Closing price on day prior to issue date of the report, as indicated on the first page, except where otherwise indicated.
Note	Intesa Sanpaolo assigns ratings to stocks as outlined above on a 12M horizon based on a number of fundamental drivers including among others, updates to earnings and valuation models. Exceptions to the bands above may occur during specific periods of market, sector or stock volatility or in special situations. Short-term price movements alone do not imply a reassessment of the rating by the analyst.

Important Note: The current rating system has been in place since 22 November 2024. On 7 April 2025, the rating names were subsequently updated to BUY (previously BUY), NEUTRAL (previously HOLD) and UNDERPERFORM (previously SELL) on an unchanged rating methodology. Please refer to the ISP Equity Rating informative note of 22 November, subsequently updated on 7 April 2025, for further details at the following link:

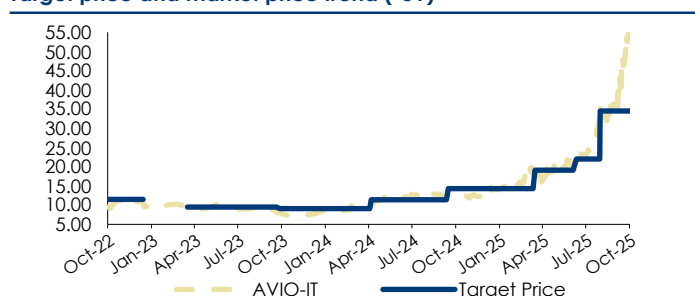
<https://group.intesasnpaolo.com/it/research/equity—credit-research>. Intesa Sanpaolo had previously used an absolute rating system based on the following ratings: BUY (if the target price is 10% higher than the market price), HOLD (if the target price is in the range 10% below or 10% above the market price), SELL (if the target price is 10% lower than the market price). After 22 November 2024, analysts review and assign ratings on their coverage according to the rating system presented above. For additional details about the old rating system, please access research reports dated prior to 22 November at <https://cardea.intesasnpaolo.com/homepage/#/public> or contact the research department.

Historical recommendations and target price trends (long-term horizon: 3Y)

The 3Y rating and target price history chart(s) for the companies currently under our coverage can also be found at Intesa Sanpaolo's website/Research/Regulatory disclosures: <https://group.intesasnpaolo.com/en/research/RegulatoryDisclosures/tp-and-rating-history—12-months->.

Avio:

Target price and market price trend (-3Y)



Historical recommendations and target price trend (-3Y)

Date	Rating	TP (EUR)	Mkt Price (EUR)
5-Aug-25	BUY	34.5	33.9
16-Jun-25	BUY	22.0	21.2
21-Mar-25	NEUTRAL	19.1	17.5
20-Sep-24	BUY	14.3	12.3
11-Apr-24	HOLD	11.4	10.0
29-Sep-23	HOLD	9.1	8.1
22-Mar-23	HOLD	9.5	9.4
21-Dec-22	Under Review	Under Review	9.6

Important Note: On 7 April 2025, Intesa Sanpaolo renamed the following terms of its rating key: BUY (previously BUY); NEUTRAL (previously HOLD) and UNDERPERFORM (previously SELL); the rating key methodology behind the ratings assigned remains unchanged (see section above).

Equity rating allocations (long-term horizon: 12M)

Intesa Sanpaolo Research Rating Distribution (at July 2025)

Number of companies considered: 178	BUY	NEUTRAL (PREV. HOLD)	UNDERPERFORM (PREV. SELL)
Total Equity Research Coverage relating to last rating (%)*	63	34	3
of which Intesa Sanpaolo's Clients (%)**	59	42	40

* Last rating refers to rating as at end of the previous quarter; ** Companies on behalf of whom Intesa Sanpaolo and the other companies of the Intesa Sanpaolo Group have provided corporate and investment banking services in the last 12 months; percentage of clients in each rating category

Equity Research Publications in Last 12M

The list of all recommendations on any financial instrument or issuer produced by Intesa Sanpaolo Research Department and distributed during the preceding 12-month period is available on the Intesa Sanpaolo website at the following address:

<https://group.intesasnpaolo.com/en/research/RegulatoryDisclosures/archive-of-intesa-sanpaolo-group-s-conflicts-of-interest0>

Our Mid Corporate Definition

Italy is characterised by a large number of non-listed and listed micro, small and medium-sized companies. Looking at the revenues of these Italian companies, around 5,000 companies eligible for listing have revenues below EUR 1,500M based on Intesa Sanpaolo elaborations. We define these companies as 'Mid Corporate'. Looking more specifically at Italian listed companies, we include in our Mid Corporate segment all STAR companies and those with a market capitalisation of around EUR 1Bn.

Company-specific disclosures

Intesa Sanpaolo S.p.A. and the other companies belonging to the Intesa Sanpaolo Banking Group (hereafter the "Intesa Sanpaolo Banking Group") have adopted written guidelines "Organisational, Management and Control Model" pursuant to Legislative Decree 8 June 2001 no. 231 (available at the Intesa Sanpaolo website, <https://group.intesasnpaolo.com/en/governance/leg-decree-231-2001>) setting forth practices and procedures, in accordance with applicable regulations by the competent Italian authorities and best international practice, including those known as Information Barriers, to restrict the flow of information, namely inside and/or confidential information, to prevent the misuse of such information and to prevent any conflicts of interest arising from the many activities of the Intesa Sanpaolo Banking Group, which may adversely affect the interests of the customer in accordance with current regulations.

In particular, the description of the measures taken to manage interest and conflicts of interest – related to Articles 5 and 6 of the Commission Delegated Regulation (EU) 2016/958 of 9 March 2016 supplementing Regulation (EU) No. 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest as subsequently amended and supplemented, the FINRA Rule 2241, as well as the Financial Conduct Authority Conduct of Business Sourcebook rules COBS 12.4 - between the Intesa Sanpaolo Banking Group and issuers of financial instruments, and their group companies, and referred to in research products produced by analysts at Intesa Sanpaolo S.p.A. is available in the "Rules for Research" and in the extract of the "Corporate model on the management of inside information and conflicts of interest" published on the website of Intesa Sanpaolo S.p.A.

At the Intesa Sanpaolo website, webpage <https://group.intesasnpaolo.com/en/research/RegulatoryDisclosures/archive-of-intesa-sanpaolo-group-s-conflicts-of-interest> you can find the archive of disclosure of interests or conflicts of interest of the Intesa Sanpaolo Banking Group in compliance with the applicable laws and regulations. The conflicts of interest published on the internet site are updated to at least the day before the publishing date of this report. Furthermore, we disclose the following information on the Intesa Sanpaolo Banking Group's conflicts of interest.

- One or more of the companies of the Intesa Sanpaolo Banking Group plan to solicit investment banking business or intends to seek compensation from Avio in the next three months
- One or more of the companies of the Intesa Sanpaolo Banking Group are one of the main financial lenders to Avio and its parent and group companies
- Intesa Sanpaolo acts as Specialist relative to securities issued by Avio

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