

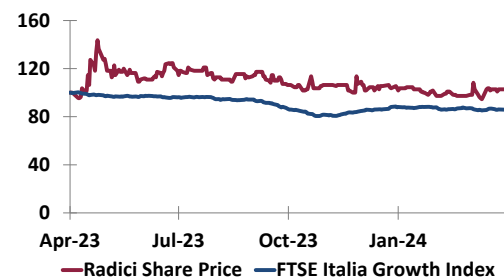


OUTPERFORM

Current Share Price (€): 1.14

Target Price (€): 2.10

Radici – 1Y Performance



Source: S&P Capital IQ - Note: 11/04/2023 (IPO offer price)=100

Company data

ISIN number	IT0005379737
Bloomberg code	RAD:IM
Reuters code	RADIC.MI
Industry	Manufacturing
Stock market	Euronext Growth Milan
Share Price (€)	1.14
Date of Price	10/04/2024
Shares Outstanding (m)	8.8
Market Cap (€m)	10.0
Market Float (%)	24.9%
Daily Volume	0
Avg Daily Volume YTD	4,371
Target Price (€)	2.10
Upside (%)	84%
Recommendation	OUTPERFORM

Share price performance

	1M	3M	6M	1Y
Radici - Absolute (%)	6%	-1%	-3%	9%
FTSE Italia Growth (%)	1%	-1%	2%	-14%
1Y Range H/L (€)			1.58	1.04
YTD Change (€) / %			0.00	0%

Source: S&P Capital IQ

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On the growth path

Trading update: beating the market

After a peak in April 2023, Radici share price hold the line over the last 12 months (+9%) but consistently overperforming the market, as the FTSE Italia Growth index in the same period lost 14%.

FY23: overall financials improving, profitability meeting target

Radici FY23 sales were €56.0m, +4.8% YoY, from €53.5m in FY22, slightly below previous management guidelines (€59.7m, -6%) and our H1 2023 note estimates. Geographical sales breakdown consistent with last year; by industry, the slowdown in Residential&Contract and Sports was offset by a substantial increase in Marine sales. Total revenues at €57.6m, in line with previous year. Profitability improved as per management guidelines: EBITDA €4.9m, close to 9% margin, from €3.7m last year. Period net income of €0.5m, vs €0.2m in FY22, despite higher D&A (now full amortization for intangible assets, after temporary exemption last years) and interest cost. Operating cash flow before capex was €4.4m. Trade Working Capital dynamic roughly in line with sales growth. Net debt position improved at €16m as of December 2023 from €17.4m as of June 2023.

Sustainability driver path

We recall latest management guidelines: sales at €66m (10% margin) in 2024 and over €70m (11% margin) in 2025, net debt respectively at €18m and €15m. Recent Turfrecycler acquisition is part of the sustainability actor strategy and is expected to develop further synergies with the Sports industry; besides low environmental impact products, Radici aims to open two branches in Ryad (Saudi Arabia) and Miami (USA) to cover directly local Residential&Contract and Marine markets.

Target price and OUTPERFORM rating confirmed

In our latest flash note, we aligned our estimates to management guidelines, factoring-in the Turfrecyclers acquisition effect on sales and profitability, the updated revenues mix target and the €5.5m capex plan anticipated for 2024-25, also adding 2026 to our estimate period; now we factor in 2023 costs, capex and working capital dynamics to fine tune our estimates. Our valuation confirms the €2.10 target price per share, +84% on current share price, with OUTPERFORM rating.

KEY FINANCIALS AND ESTIMATES

€m	2022	2023	2024E	2025E	2026E
Sales	53.5	56.0	66.2	70.9	76.1
EBITDA	3.7	4.9	6.3	7.2	7.9
<i>Margin on Sales</i>	<i>7%</i>	<i>9%</i>	<i>9%</i>	<i>10%</i>	<i>10%</i>
Net Income (Loss)	0.2	0.5	1.2	1.6	2.0
Trade Working Capital	21.7	23.5	25.7	26.7	27.7
Net (Debt) Cash	(16.5)	(16.0)	(17.5)	(15.5)	(13.0)
Equity	32.5	32.8	34.0	35.6	37.5

KEY RATIOS

	2022	2023	2024E	2025E	2026E
TWC/Sales	40%	42%	39%	38%	36%
Net Debt /EBITDA	4.5x	3.2x	2.8x	2.2x	1.6x

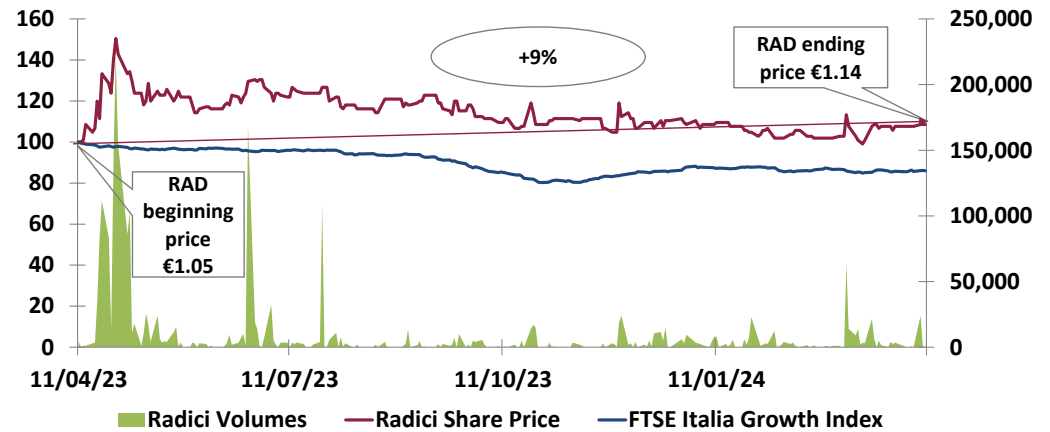
DCF IMPLIED MULTIPLES

	2022	2023	2024E	2025E	2026E
EV/Revenues	0.4x	0.5x	0.4x	0.4x	0.3x
EV/EBITDA	7.1x	5.3x	4.2x	3.6x	3.3x

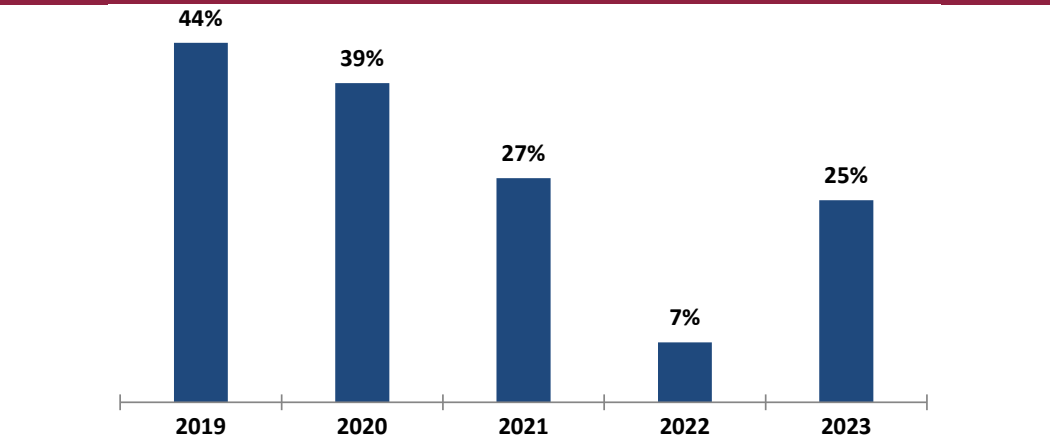
Source: Company data 2022-23A, EnVent Research 2024-26E

Market update

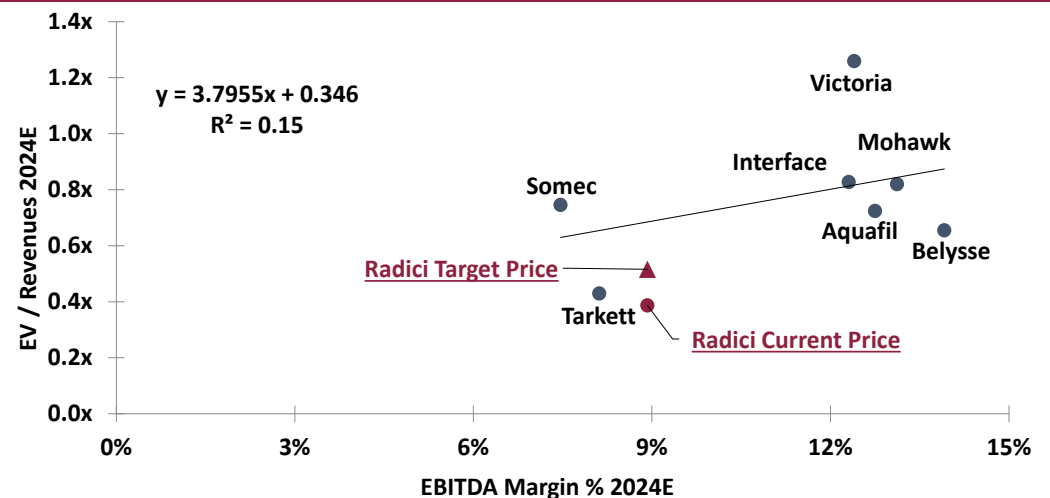
Radici – 1Y Share price performance and trading volumes



Radici – Liquidity analysis and velocity turnover



Textile floor coverings producers – Regression analysis and Radici target positioning



Investment case

Made in Italy since 1950

High-end market segment

Wide geographical coverage

Strategy

Radici Pietro Industries & Brands, listed on Euronext Growth Milan, is an Italian group established in the textile district of Seriana Valley (Lombardy), with over 70 years' history in the production of textile coverings for application in the Residential & Contract, Marine, Sports and Automotive industries. Main products are:

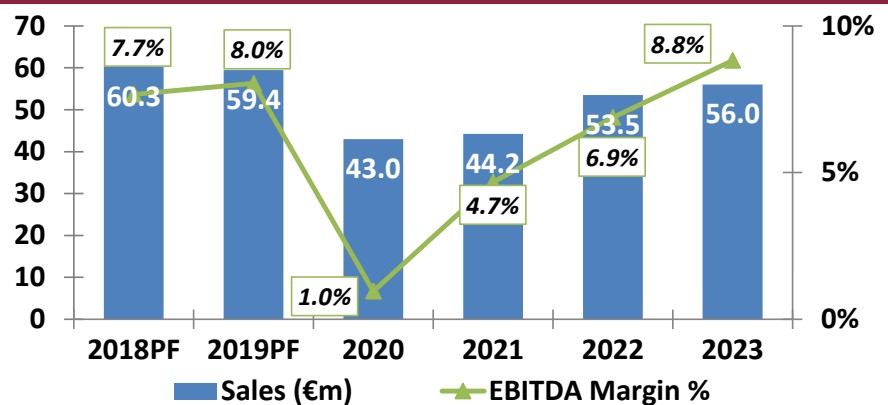
- carpet tufting
- carpet weaving
- artificial turf
- non-woven
- complementary products

Radici reaches over 2,000 customers in 90 countries. The two production sites are in Italy and Hungary, supported by sales and storage branches in the USA, France, Poland and Czech Republic, as well as through a network of distributors covering also other markets. Activities cover key production stages, from raw materials procurement and processing to product testing and distribution.

Main pillars:

- Expansion of sales network of local agents and partners in countries with growth prospects and marketing investments to involve architecture and design firm
- B2C e-commerce channel dedicated to the last generation textile flooring and high-end artificial turf
- Sustainability is cornerstone in product innovation
- M&A taken into consideration for both geographical penetration and organic growth, integrating production chain

Historical Sales and EBITDA



Source: Company data

Note: Consolidated figures; 2018 and 2019 pro forma figures for subsidiary deconsolidation, with EBITDA 2019 adjusted for €2m one-off item

Drivers

Industry drivers

- Innovation and sustainability trend in renovation activities
- Fashion/luxury spaces ongoing renovation, fueled by rising luxury lifestyle expense
- Artificial turf growing popularity
- Cruise market rebound after pandemic
- Quality driven market

Company drivers

- Entering the circular economy
- Superior quality, wide and diversified product portfolio
- Made in Italy textile tradition blended with innovation
- State-of-the-art manufacturing, flexibility and plenty of capacity
- International presence

Challenges

- High rivalry in the flooring industry
- Key role of local experts in suppliers' selection
- Macroeconomic conditions
- Profitability affected by distributors cost

Risk profile

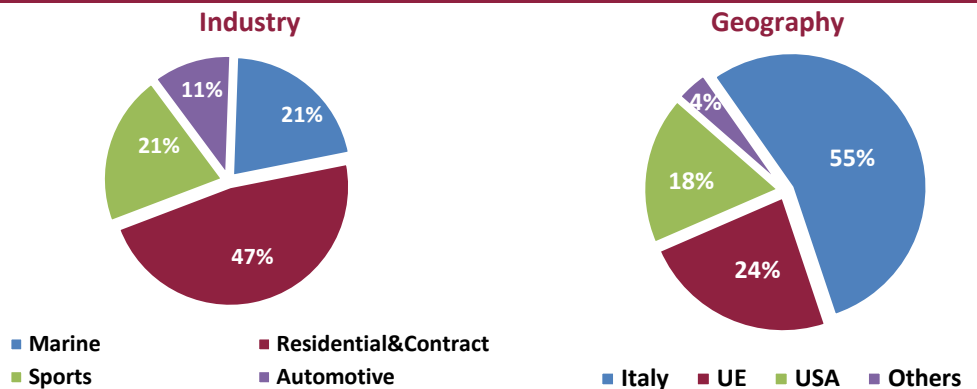
Competitive forces		Materiality of risk map			
Force	Factors				
Competitive rivalry	<ul style="list-style-type: none"> • High competition • Major players also sell non textile products 				Higher risk
Customers	<ul style="list-style-type: none"> • Easy switch for dissatisfaction about price, quality or customer service • Wide availability of market offers 				
Substitutes	<ul style="list-style-type: none"> • Constant technological innovation • Non textile products as alternative 	Lower impact		New entrants	
New entrants	<ul style="list-style-type: none"> • Investments in equipment and product range • Development of sales organization • Marketing cost for customer acquisition 				
Suppliers	<ul style="list-style-type: none"> • Easy access to raw material • Wide range of suppliers 		Suppliers		Lower risk
					Higher impact
					Overall risk profile MEDIUM-LOW

Source: EnVent Research

Business update

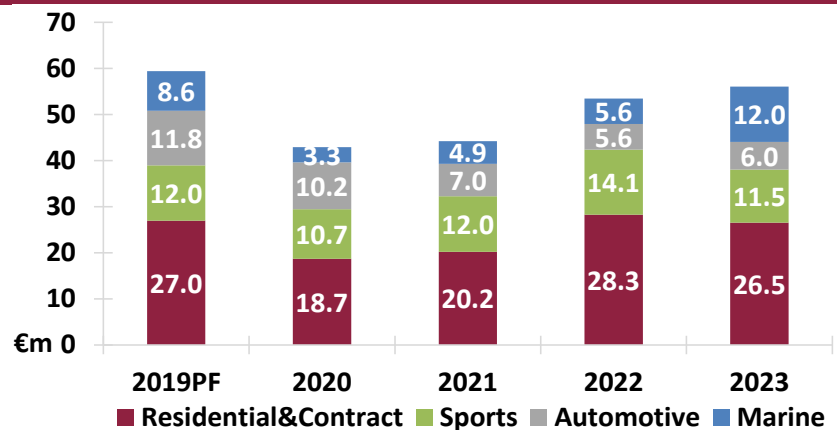
Radici FY23 sales breakdown by industry uncovers unexpected twists and turns: Residential&Contract and Sports didn't match management targets, while Marine and Automotive outperform expectations. Sales growth was led by Marine, with an outstanding +115% YoY and over 20% of sales, catching Sports (-18% YoY) as second reference market. Despite a low decline (-6% YoY), Residential&Contract keeps its position with 47% of sales, while Automotive recorded a moderate growth (+8% YoY), accounting for 11% of sales.

Sales breakdown, 2023



Source: Company data

Sales breakdown evolution by year



Source: EnVent Research on Company data

Industry outlook: cautious optimism

Residential&Contract: sustainability to reverse slowdowns. Renovation activities are facing a slowdown: rising energy prices and cost-of-living are squeezing household resources, combined with higher mortgage costs and weak home sales. According to data provided by the Remodeling Futures Program (source: Joint Center for Housing Studies of Harvard University, *Downturn in home remodeling may bottom out in 2024*, 2024), spending for residential improvements in the USA is expected to shrink for the first time since 2010, falling from \$481b last year to \$450b in 2024. However, renovation market is not experiencing a straightforward decline: homeowners' interest is shifting towards energy efficiency while landscaping work retreats, according to analysis provided by specialized website RIBA (source: RIBA Journal, *Home improvement market faltering despite bullish outlook*, 2023). Market growth is expected to be driven by sustainability and energy factors: many governments support sustainability measures introducing new regulations, and structural high energy prices are an extra trigger. According to commercial bank ING report, energy efficiency measures aimed at improving existing buildings quality are driving growth in the EU renovation sector and the demand for residential energy efficiency upgrades is likely to continue its upward trend (source: ING, *Renovation is taking center stage in the construction sector*, 2023). Sustainability trend also drives rising demand for textile covering: customers are looking for sustainable and eco-friendly options, such as carpets made from natural fibers or recycled materials and extended lifecycle through recycling and reusability. Hotel renovations are now on hold, as owners are facing longer project timelines and rising costs, pushing for sell decisions (source: Hospitality.net, *Hunter Conference 2024 Takeaways*, 2024). Despite net store openings decline over the past two years, according to consulting firm Bain the return of in-person shopping in luxury boosted monobrand stores (+11%), which are expected to further improve their market share until 2030: brands are pushing to increase average store sizes, in order to make room for more experiential shopping journeys (source: Bain, *Long Live Luxury: Converge to Expand through Turbulence*, 2024).

Marine. Positive trend is still ongoing: in 2024 the cruise industry is expected to reach record capacity, with high occupancy rates, longer booking curves and 14 new cruise vessels (of which 8 for premium brands), according to industry report firm Cruise Industry News (Source: Cruise Industry News, *What to Watch For: Cruise Industry Trends for 2024*, 2024). Sustainability trend led the cruise industry to invest in greener technologies, reducing single-use plastics, and collaborating with destinations to minimize environmental impact. Besides incumbents, new brands and startups are going to join the market: cruise lines from Saudi Arabia, China and Japan are set to start service, as well as players willing to offer new innovative concepts, such as residential cruise ships or boutique cruises to explore off-the-beaten-path destinations.

USA: macroeconomics trend hampering residential renovations

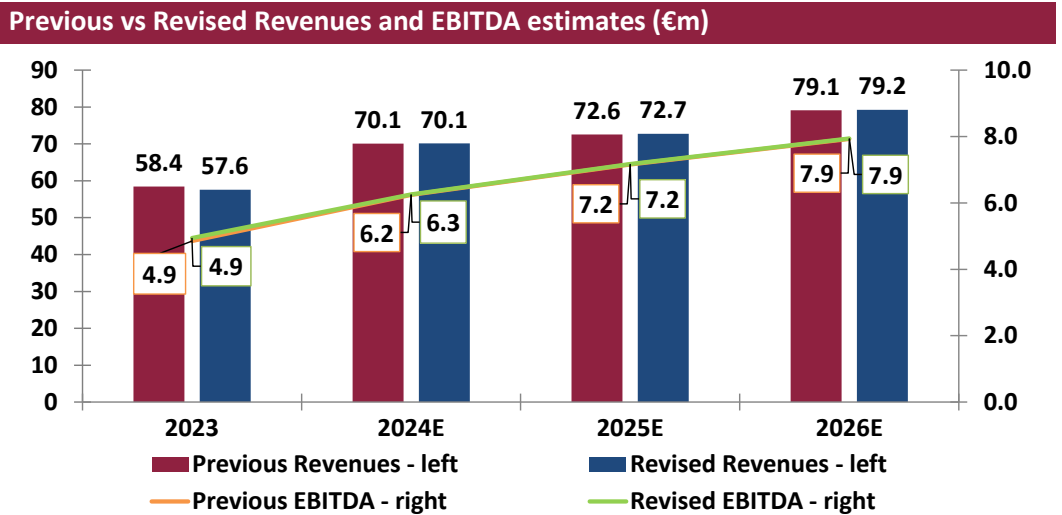
Energy efficiency measures and working from home mitigate a slowing residential improvement market

New players from Asia and Middle East, Radici opening Saudi Arabia branch

Estimates revision

Based on FY23 results and current backlog, we fine-tuned our latest estimates, factoring in current working capital and capex dynamics.

Change in estimates



€m	Revised				Previous				Change %			
	2023	2024E	2025E	2026E	2023E	2024E	2025E	2026E	2023	2024E	2025E	2026E
Sales	56.0	66.2	70.9	76.1	56.1	66.1	70.7	76.0	0%	0%	0%	0%
Revenues	57.6	70.1	72.7	79.2	58.4	70.1	72.6	79.1	-1%	0%	0%	0%
EBITDA	4.9	6.3	7.2	7.9	4.9	6.2	7.2	7.9	2%	0%	0%	0%
<i>Margin</i>	9%	9%	10%	10%	8%	9%	10%	10%				
EBIT	1.5	2.9	3.4	4.0	2.1	3.2	3.8	4.5	-29%	-10%	-10%	-10%
<i>Margin</i>	3%	4%	5%	5%	4%	5%	5%	6%				
Net Income (Loss)	0.5	1.2	1.6	2.0	1.0	1.8	2.2	2.7	-54%	-35%	-30%	-26%
Net (Debt) Cash	16.0	17.5	15.5	13.0	15.9	17.9	15.8	13.3				
<i>Net Debt / EBITDA</i>	-3.2x	-2.8x	-2.2x	-1.6x	-3.3x	-2.9x	-2.2x	-1.7x				

Source: EnVent Research

Financial projections

Consolidated Profit and Loss

€m	2022	2023	2024E	2025E	2026E
Sales	53.5	56.0	66.2	70.9	76.1
Change in inventory	2.7	(0.0)	3.0	0.8	1.9
Capitalization of intangible assets	0.0	0.0	0.0	0.0	0.0
Other income	1.8	1.6	1.0	1.0	1.1
Total Revenues	58.0	57.6	70.1	72.7	79.2
YoY %	27.0%	-0.8%	21.8%	3.7%	8.9%
Materials	(29.7)	(27.1)	(34.9)	(35.5)	(38.7)
Services	(15.3)	(15.7)	(18.4)	(18.6)	(20.3)
Personnel	(8.5)	(9.0)	(9.7)	(10.7)	(11.6)
Other operating costs	(0.8)	(0.8)	(0.9)	(0.7)	(0.8)
Operating charges	(54.4)	(52.6)	(63.9)	(65.6)	(71.3)
EBITDA	3.7	4.9	6.3	7.2	7.9
Margin on Sales	6.9%	8.8%	9.5%	10.1%	10.4%
Margin on Total Revenues	6.3%	8.6%	8.9%	9.9%	10.0%
D&A	(2.7)	(3.4)	(3.4)	(3.8)	(3.9)
EBIT	0.9	1.5	2.9	3.4	4.0
Margin	1.6%	2.6%	4.1%	4.7%	5.1%
Interest	(0.7)	(1.2)	(1.2)	(1.2)	(1.2)
EBT	0.3	0.5	1.7	2.2	2.8
Margin	0.5%	0.8%	2.4%	3.0%	3.6%
Income taxes	(0.1)	(0.0)	(0.5)	(0.7)	(0.8)
Net Income (Loss)	0.2	0.5	1.2	1.6	2.0
Margin	0.3%	0.8%	1.6%	2.1%	2.5%

Source: Company data 2022-23A, EnVent Research 2024-26E

Consolidated Balance Sheet

€m	2022	2023	2024E	2025E	2026E
Inventory	21.9	22.4	25.4	26.2	28.2
Trade receivables	11.7	13.8	16.6	16.6	16.5
Trade payables	(11.9)	(12.8)	(16.3)	(16.1)	(17.0)
Trade Working Capital	21.7	23.5	25.7	26.7	27.7
Other assets (liabilities)	(0.2)	(0.9)	(0.7)	(0.7)	(0.8)
Net Working Capital	21.5	22.6	25.0	25.9	26.9
Intangible assets	1.6	1.4	2.1	2.0	1.5
Property, plant and equipment	32.5	30.9	30.8	30.2	29.2
Non-current assets	34.1	32.3	32.9	32.2	30.8
Provisions	(6.6)	(6.1)	(6.4)	(7.1)	(7.2)
Net Invested Capital	49.0	48.8	51.5	51.0	50.5
Net Debt (Cash)	16.5	16.0	17.5	15.5	13.0
Equity	32.5	32.8	34.0	35.6	37.5
Sources	49.0	48.8	51.5	51.0	50.5

Source: Company data 2022-23A, EnVent Research 2024-26E

Consolidated Cash Flow

€m	2022	2023	2024E	2025E	2026E
EBIT	0.9	1.5	2.9	3.4	4.0
Current taxes	(0.1)	(0.0)	(0.5)	(0.7)	(0.8)
D&A	2.7	3.4	3.4	3.8	3.9
Provisions	(0.1)	(0.6)	0.3	0.7	0.1
Cash flow from P&L operations	3.5	4.4	6.1	7.2	7.2
Trade Working Capital	(2.2)	(1.8)	(2.2)	(1.0)	(1.1)
Other assets and liabilities	0.0	0.7	(0.2)	0.0	0.1
Capex	(1.0)	(1.7)	(4.0)	(3.0)	(2.5)
Operating cash flow after WC and capex	0.3	1.6	(0.3)	3.3	3.7
Interest	(0.7)	(1.2)	(1.2)	(1.2)	(1.2)
Equity adjustments	0.5	0.0	0.0	0.0	0.0
Net cash flow	1.0	0.5	(1.5)	2.1	2.5
Net Debt (Beginning)	(17.5)	(16.5)	(16.0)	(17.5)	(15.5)
Net Debt (End)	(16.5)	(16.0)	(17.5)	(15.5)	(13.0)
Change in Net Debt (Cash)	1.0	0.5	(1.5)	2.1	2.5

Source: Company data 2022-23A, EnVent Research 2024-26E

Ratio analysis

KPIs	2022	2023	2024E	2025E	2026E
ROE	1%	1%	3%	4%	5%
ROS (EBIT/Sales)	2%	3%	4%	5%	5%
ROIC (NOPAT/Invested Capital)	1%	2%	4%	5%	6%
DOI	149	146	140	135	135
DSO	66	74	75	70	65
DPO	78	88	90	88	85
TWC/Sales	40%	42%	39%	38%	36%
Net Debt /EBITDA	4.5x	3.2x	2.8x	2.2x	1.6x
Net Debt/Equity	0.5x	0.5x	0.5x	0.4x	0.3x
Net Debt/(Net Debt+Equity)	0.3x	0.3x	0.3x	0.3x	0.3x
Cash flow from P&L operations/EBITDA	94%	88%	97%	101%	91%
FCF/EBITDA	8%	33%	-5%	46%	47%
Basic EPS (€)	0.02	0.05	0.13	0.18	0.23

Source: Company data 2022-23A, EnVent Research 2024-26E

Valuation

We have updated our Radici valuation through the Discounted Cash Flows and market multiples methods.

Discounted Cash Flows

Updated assumptions:

- Risk free rate: 3.2% (Italian 10-year government bonds interest rate – last 30 days average. Source: Bloomberg, April 2024)
- Market return: 11.8% (last 30 days average. Source: Bloomberg, April 2024)
- Market risk premium: 8.6%
- Beta: 1 (judgmental)
- Cost of equity: 11.8%

- Cost of debt: 6.5%
- Tax rate: 24% (IRES)
- 35% debt/(debt + equity) as target capital structure
- WACC 9.4%, according to above data
- Perpetual growth rate after explicit projections (G): 3.0%
- Terminal Value assumes a 11% EBITDA margin

DCF Valuation

€m	2022	2023	2024E	2025E	2026E	Perpetuity
Revenues	58.0	57.6	70.1	72.7	79.2	81.6
EBITDA	3.7	4.9	6.3	7.2	7.9	9.0
<i>Margin</i>	6.3%	8.6%	8.9%	9.9%	10.0%	11.0%
EBIT	0.9	1.5	2.9	3.4	4.0	6.5
<i>Margin</i>	1.6%	2.6%	4.1%	4.7%	5.1%	7.9%
Taxes	(0.3)	(0.4)	(0.8)	(1.0)	(1.1)	(1.8)
NOPAT	0.7	1.1	2.1	2.5	2.9	4.7
D&A	2.7	3.4	3.4	3.8	3.9	2.5
Provisions	(0.1)	(0.6)	0.3	0.7	0.1	0.0
Cash flow from operations	3.3	3.9	5.8	6.9	6.9	7.2
Trade Working Capital	(2.2)	(1.8)	(2.2)	(1.0)	(1.1)	(2.2)
Other assets and liabilities	0.0	0.7	(0.2)	0.0	0.1	0.0
Capex	(1.0)	(1.7)	(4.0)	(3.0)	(2.5)	(2.5)
Yearly unlevered free cash flow	0.1	1.2	(0.6)	3.0	3.4	2.5
Free Cash Flow to be discounted			(0.6)	3.0	3.4	2.5
WACC	9.4%					
Long-term growth (G)	3.0%					
Discounted Cash Flows			(0.6)	2.5	2.6	
Sum of Discounted Cash Flows	4.5					
Terminal Value						39.2
Discounted TV	29.9					
Enterprise Value	34.5					
Net Debt as of 31/12/23	(16.0)					
Equity Value	18.5					
DCF - Implied multiples	2022	2023	2024E	2025E	2026E	
EV/Revenues	0.6x	0.6x	0.5x	0.5x	0.4x	
EV/EBITDA	9.4x	7.0x	5.5x	4.8x	4.3x	
EV/EBIT	36.7x	23.0x	12.0x	10.1x	8.5x	
P/E	neg	39.7x	16.0x	11.9x	9.2x	
Discount of current market price vs DCF	-24%					
Current market price - Implied multiples	2022	2023	2024E	2025E	2026E	
EV/Revenues	0.4x	0.5x	0.4x	0.4x	0.3x	
EV/EBITDA	7.1x	5.3x	4.2x	3.6x	3.3x	
EV/EBIT	27.7x	17.4x	9.1x	7.6x	6.4x	
P/E	neg	21.6x	8.7x	6.5x	5.0x	

Source: EnVent Research

Market multiples

Company	EV/Revenues			EV/EBITDA			EV/EBIT			P/E		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Aquafil	0.8x	0.8x	0.8x	6.7x	6.0x	5.6x	23.3x	17.3x	14.4x	41.5x	17.8x	13.8x
Somec	0.7x	0.7x	0.7x	10.0x	9.1x	8.3x	28.7x	21.3x	16.6x	78.3x	38.1x	26.0x
Belysse	0.7x	0.6x	0.6x	4.7x	4.2x	4.4x	9.1x	7.1x	7.6x	23.3x	11.3x	6.7x
Interface	0.7x	0.7x	0.7x	5.7x	4.9x	4.2x	7.6x	6.0x	5.3x	7.1x	5.2x	4.2x
Mohawk	0.8x	0.8x	0.8x	6.3x	5.8x	5.2x	10.8x	9.5x	8.1x	9.8x	8.5x	7.2x
Tarkett	0.4x	na	na	5.3x	na	na	12.3x	na	na	14.8x	na	na
Victoria	1.3x	1.2x	1.2x	10.2x	9.2x	8.4x	18.4x	17.0x	14.9x	20.8x	18.2x	14.8x
Mean	0.8x	0.8x	0.8x	7.0x	6.5x	6.0x	15.8x	13.0x	11.1x	27.9x	16.5x	12.1x
Mean w/out extremes	0.8x	0.7x	0.7x	6.8x	6.4x	5.9x	14.8x	12.7x	11.2x	22.0x	14.0x	10.6x
Median	0.7x	0.7x	0.7x	6.3x	5.9x	5.4x	12.3x	13.2x	11.2x	20.8x	14.6x	10.5x

Radici	0.4x	0.4x	0.3x	4.3x	3.8x	3.4x	8.3x	7.0x	5.9x	6.7x	5.1x	4.1x
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Source: EnVent Research on S&P Capital IQ, 11/04/2024

We have applied to our 2024-25 estimates the median EV/Revenues and EV/EBITDA from the peer group. In our view, in a framework of limited comparability of peers, we deem more reliable the valuation through the fundamentals on which is based the DCF.

Multiples application

€m					
Radici		Multiple	EV	Net Debt	Equity Value
2024E Sales	66.2	0.7x	49.4	(16.0)	33.4
2025E Sales	70.9	0.7x	52.9	(16.0)	36.9
Mean					35.1
2024E EBITDA	6.3	6.3x	39.1	(16.0)	23.1
2025E EBITDA	7.2	5.9x	42.1	(16.0)	26.1
Mean					24.6

Source: EnVent Research

Target Price

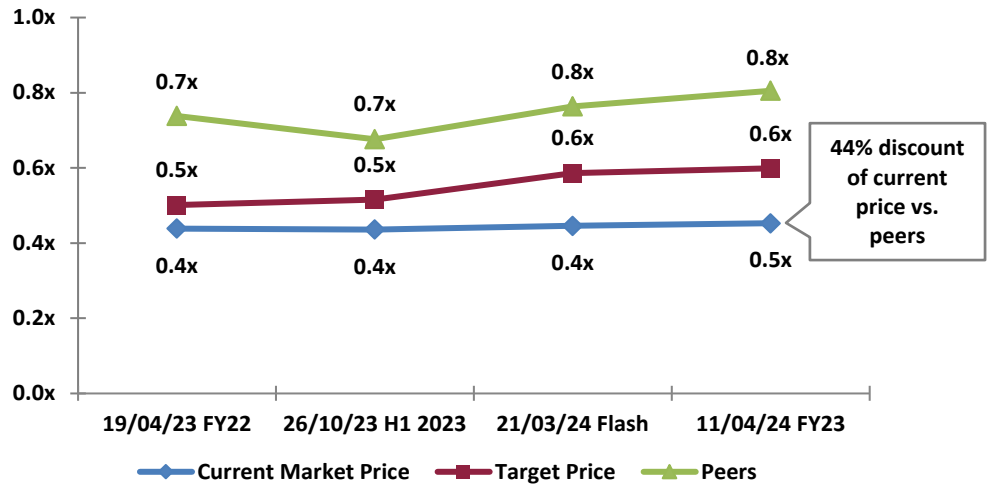
Our updated estimates and DCF valuation confirm the previous €2.10 target price, implying an 84% upside on current stock price, and OUTPERFORM rating on the stock.

Please refer to important disclosures at the end of this report.

Radici Price per Share	€
Target Price	2.10
Current Share Price (10/04/2024)	1.14
Premium (Discount)	84%

Source: EnVent Research

Implied EV/Sales vs current market price



Source: EnVent Research on S&P Capital IQ, 11/04/2024

Radici Share Price vs EnVent Target Price



Source: EnVent Research on S&P Capital IQ, 11/04/2024

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Rating system and rationale (12-month time horizon):

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UNDERPERFORM: stocks are among the least attractive in a peer group, with the target price 10% below the current market price;

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Date and time of Production: 10/04/2024 h. 7.00pm

Date and time of Distribution: 11/04/2024 h. 7.30pm

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of which EnVent clients % *		85%	50%	na	na	na	na

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Date	Recommendation	Target Price (€)	Share Price (€)
17/10/2022	OUTPERFORM	1.71	0.93
19/04/2023	OUTPERFORM	1.71	1.26
26/10/2023	OUTPERFORM	1.71	1.13
21/03/2024	OUTPERFORM	2.10	1.14
11/04/2024	OUTPERFORM	2.10	1.14

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