Leonardo S.p.A. Valuation

Federico Edoardo Maria Bonilauri

Dissertation written under the supervision of professor José Carlos Tudela Martins

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Abstract

The main purpose of this dissertation is to determine the target price as of 31st December 2024 for Leonardo S.p.A. (LDO.MI), an Italian Company working in the Aerospace, Defence & Security industry and listed on the Milan Stock Exchange.

The company is valued using three intrinsic valuation approaches: the classic DCF method asset side, the APV method and the DCF method equity side, along with a relative valuation approach using trading and comparable transactions multiples.

The analysis recommends a BUY investment, with a target price in the range between €28,11 and €32,32 based on the three intrinsic valuation approaches, respectively representing a 8,4% and 24,6% premium over the stock value at the valuation date.

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Author: Federico Edoardo Maria Bonilauri

Keywords: Leonardo S.p.A.; Equity Valuation; Discounted Cash Flow; Adjusted Present Value; Relative Valuation; Aerospace & Defence; Investment Recommendation.

Resumo

O principal objetivo desta dissertação é determinar o preço-alvo a 31 de dezembro de 2024 da Leonardo S.p.A. (LDO.MI), uma empresa italiana que opera no sector Aeroespacial, Defesa e Segurança e está cotada na Bolsa de Valores de Milão.

A empresa é avaliada utilizando três abordagens de avaliação intrínseca: o método DCF clássico do lado dos activos, o método APV e o método DCF do lado das acções, juntamente com uma abordagem de avaliação relativa utilizando múltiplos de transacções comerciais e comparáveis.

A análise recomenda um investimento de COMPRA, com um preço-alvo no intervalo entre €28,11 e €32,32 com base nas três abordagens de avaliação intrínseca, representando, respetivamente, um prémio de 8,4% e 24,6% sobre o valor das acções à data da avaliação.

Título: Leonardo S.p.A. Valuation

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Palavras-chave: Leonardo S.p.A.; Avaliação de Acções; Discounted Cash Flow; Adjusted Present Value; Avaliação Relativa; Aeroespacial & Defesa; Recomendação de Investimento.

Table of Contents

List of Abbreviations

AD&S	Aerospace, Defence & Security Market
AI	Artificial Intelligence
APV	Adjusted Present Value
BTP	Multi-year Treasury Bonds (“Buoni Poliennali del Tesoro”)
BU	Business Unit
CAGR	Compounded Annual Growth Rate
CAPEX	Capital Expenditures
CAPM	Capital Asset Pricing Model
COGS	Cost of Goods Sold
CRP	Country Risk Premium
CSS&T	Customer Support, Services & Training
D/E	Debt to Equity
DCF	Discounted Cash Flow
DDM	Dividend Discount Model
DES	Defence Electronics & Security
DIO	Days Payables Outstanding
DPO	Days Inventory Outstanding
DPS	Dividends Per Share
DSO	Days Sales Outstanding
EBIT	Earnings before Interest & Taxes
EBITDA	Earnings before Interest, Taxes, Depreciation & Amortization
EBT	Earnings before Taxes
EMH	Efficient Market Hypothesis
EPS	Earnings per Share
EqV	Equity Value
ERP	Equity Risk Premium
ESOC	European Space Operations Centre
ETF	Exchange-Traded Funds

EV	Enterprise Value
FCFE	Free Cash Flow to Equity
FCFF	Free Cash Flow to the Firm
g	Terminal Growth Rate
GDP	Gross Domestic Product
ICR	Interest Coverage Ratio
IoT	Internet of Things
IP	Intellectual Property
IRAP	Regional production tax ("Imposta Regionale sulle Attività Produttive")
IRES	Corporate Income tax ("Imposta sul Reddito delle Società)
IRS	Interest Rate Swap
ITS	Interest Tax Shields
K_D	Cost of Debt
K_e	Cost of Equity
K_{eL}	Cost of Equity Levered
K_{eU}	Cost of Equity Unlevered
LDO	Leonardo
LNCS	Lunar Communication and Navigation System
M&A	Mergers & Acquisitions
MRP	Market Risk Premium
NFP	Net Financial Position
NRRP	National Recovery and Resilience Plan
P/E	Price to Earnings
PV	Present Value
R&D	Research & Development
SGAs	Selling, General & Administrative Expenses
TV	Terminal Value
VAT	Value Added Tax
WACC	Weighted Average Cost of Capital

List of Charts

List of Tables

List of Appendix

1. Introduction

Equity valuation is a complex activity that requires a comprehensive analysis of multiple factors, including financial performance, market positioning, industry trends and macroeconomic factors, to determine a company's intrinsic economic value. The estimation process is inherently complex, as it involves navigating uncertainties related to future profitability and earnings, risk exposure and fluctuating market conditions, which can change in an instant, as seen with the Covid-19 pandemic. As a result, despite the rigorous approaches employed, valuation remains partially subjective.

Over the years, institutional investors, consulting firms and investment banks have developed a variety of valuation models, ranging from fundamental approaches, such as the Discounted Cash Flow, to more sophisticated quantitative techniques, including statistical and machine learning models. These fundamental valuation methods are embedded in financial theory and are widely used in practice due to their rigorous and intrinsic approach to determining a company's fair value, given that even the most advanced models must contend with key challenges, such as forecasting accuracy, discount rate selection, and sensitivity to external shocks. As a result, a robust valuation framework must combine multiple models to cross-verify the results obtained.

This dissertation critically examines the diverse valuation models and the extensive academic and professional literature on the subject. The document's objective is to identify the most effective methodologies to assess the fair value of Leonardo S.p.A. and provide a well-founded investment recommendation based on empirical analysis of historical data, projections of future years and financial insights for buying, holding, or selling the stock.

2. Literature review

The objective of this chapter is to review the extensive research available on equity valuation, discussing the theoretical foundations, valuation methodologies and empirical evidence supporting the various valuation models.

2.1. Theoretical Foundations

Equity valuation is rooted in financial theory, particularly in the concepts of market efficiency, intrinsic value and risk-return trade-offs. According to Fama's 1969 formalization of the Efficient Market Hypothesis (EMH), which was previously developed between the 1930s and 1950s, stock prices represent all available information, indicating that technical or fundamental analysis cannot reliably produce excess returns for investors. This implies that valuation models may have limited predictive power since any mispricing is quickly corrected as new information becomes available. However, this perspective is challenged by behavioural finance, which emphasizes how markets are affected by investor biases, such as overconfidence and loss aversion, and market anomalies, such as value-growth disparities and momentum effects, thus leading to mispricing.

The present value concept, firstly introduced by Fisher in 1930, is at the foundation of most valuation models, asserting that the intrinsic value of an asset is determined by discounting its future cash flow at an appropriate rate. Furthermore, by incorporating systematic risk considerations, the Capital Assets Pricing Model (CAPM), initially presented by Sharpe in 1964 and further developed by Lintner in 1965 and Mossin in 1966, explains how risk and expected return affect stock pricing.

Empirical evidence has shown that CAPM does not fully capture stock returns, leading to the development of multifactor models. The most known is the Fama-French three-factor model, which accounts for observed anomalies in asset pricing by incorporating size and value variables as well as other additional risk premia in the framework. Recently, more modern models have been developed, such as the Fama-French Five-Factor Model, which integrates profitability and investment considerations in the framework, or the Carhart Four-Factor Model which adds momentum as an additional explanatory element. These improvements provide a deeper understanding of the factors influencing stock returns and increase the robustness of valuation estimates.

2.2. Valuation Methodologies

The literature identifies several methods used by investment banks, consulting firms and financial institutions to evaluate a company's value, each with its strengths and limitations. Most valuation methods arose from the necessity of investors, both institutional and private, to routinely set a fair price for a company or investment, thus creating ad-hoc models. With time and the use of these methods, the most suitable approaches and consequent methodologies have been identified depending on the sector the company belongs to and the type of valuation required, thus following a logic that is more comprehensible to the people for whose benefit the valuation is carried out and enabling particular valuation problems, such as third-party interests, to be dealt with effectively and convincingly.

As said by Damodaran in the book "The Little Book of Valuation": "There are dozens of valuation models, but only two valuation approaches: intrinsic and relative" there are two main approaches that can summarize all the existing methodologies: intrinsic and relative. Intrinsic valuation estimates a stock's or a company's value based on the financial notion of the time value of money, forecasting fundamentals such as cash flows or dividends and discounting them using an appropriate discount rate, finding the present value. Relative valuation is primarily used due to its easiness, it is based on the assumption that the market values are correct estimates and are therefore used to find the stock's or company's value using a comparative approach.

Although these two, as said by Damodaran, are the most used and considered methods, they operate under the assumption of going concern, meaning that the company will continue its operations indefinitely. This is why, in recent times, other alternative valuation methods have been developed and are used to account for scenarios where the business may not operate as a going concern or where the traditional methods fail to capture the full complexity of the asset. One of these alternatives is the Liquidity Value Method, which assumes that the company ceases its operation, sells all the assets and settles all its liabilities and is typically used in financial distress situations, where the primary concern is the amount recoverable from the assets rather than the future profitability. The other method is the Contingent Claim Valuation, which applies option pricing models to value a firm's equity and is mainly used in businesses with significant embedded options, such as growth opportunities (startups) or financial distress situations.

These alternatives demonstrate the need for flexibility in equity valuation as no single model can effectively address all scenarios and all of them leave space for subjective judgments.

2.2.1. Discounted Cash Flow (DCF)

Discounted Cash Flow (DCF) is one of the most widely used methodologies for valuing a company. This methodology aims to obtain a company's intrinsic value by discounting its future cash flows using an appropriate discount rate, usually the Weighted Average Cost of Capital (WACC).

The DCF model is typically structured in two phases: forecasting future cash flows over a defined forecast period (usually between three and five years) and discounting them back to the present value using the appropriate discount rate, usually the WACC. The second phase consists in forecasting the terminal value (TV) to capture the value beyond the forecasted period, since companies are assumed to continue operating indefinitely.

To forecast future cash flows, the income statement and the balance sheet must be reclassified, in order to see for example the intermediate margins in the income statement, such as EBITDA, and later produce a forecasted cash flow in order to reach the Free cash Flow from Operations (FCFF or FCFO) or the Free Cash Flow to the Equity (FCFE), which will be then discounted to reach respectively the Enterprise Value or directly the Equity Value.

Estimates are made based on the company's growth forecasts and its expected revenues and expenses. Forecasts are made for the medium to long term, typically for the next five years, and are based on several factors, including the target market and its trends, the products or services offered by the company, competitors, changes in the economic environment, and government policies and laws that may affect the industry. The company's historical data and market trends are used as a basis to make these forecasts. In addition, investors typically integrate their analysis with market research and industry analysis to obtain information on prospects. Based on the company's historical data, forecasts can be made using three techniques:

- Direct forecasts, i.e. by directly estimating the item with its final value.
- Indirect forecasts, i.e. by using a driver, thus calculating, for example, future operating costs by holding constant the ratio between them and sales resulting from historical data.
- Closing the account, calculating the item at the end of the period as the sum of the item at the beginning of the period, increases and decreases in it.

A general frame of reference can be defined that is typically used for forecasting:

1. Operational forecasts

a. Sales revenue is typically estimated using the company's or industry's CAGR (Compound Average Growth Rate), the average revenue growth over a given period, usually equal to years of selected historical data.
b. Operating costs are estimated as a percentage of sales, thus using a historical average of percentages or a target set by the company. This average can be held constant for subsequent years or improved if an increasing trend can be expected, as is the case with economies of scale.

2. Investment Forecasts
    a. Fixed assets are estimated by closing the account, then calculated by adding new investments and subtracting depreciation from the initial value.
    b. New investments can be calculated as a percentage of sales or through business objectives.
    c. Depreciation can be calculated as a fixed percentage of new investments or as the sum of the portions calculated using the assets' useful life.
    d. Net working capital components can be estimated through a driver or held constant to historical data.
3. Forecasts on taxes and other items
    a. Taxes are held constant by following the country's tax system in which the company operates.
    b. Other items, if exceptional, are estimated to be zero.
4. Forecast of net assets
    a. Share capital remains constant, assuming no increase or decrease.
    b. Dividends are estimated as a percentage of profit for the year, based on the historical shareholder remuneration ratio.
    c. Retained earnings are estimated from the entry at the beginning of the period to which earnings are added and dividends are subtracted.
5. Forecast of net financial position
    a. Bank borrowings are estimated starting with the entry at the beginning of the period from which any new borrowings are added and repayments subtracted.
    b. Cash is estimated using the value calculated in the cash flow statement, which is added to the value at the beginning of the year.
    c. The estimates of payables and cash are, in addition, used to calculate interest income and expense, maintaining a constant interest rate equal to the average interest rate of the historical data.

The usual discount rate used, while estimated the Enterprise value (so discounting FCFF) with the DCF model, is the Weighted Average Cost of Capital (WACC), which is equal to:

$$WACC = k_E * \frac{Equity}{Debt + Equity} + k_D * (1 - t) * \frac{Debt}{Debt + Equity}$$

Where k_E represents the cost of equity and k_D is the cost of debt.

The cost of equity is typically estimated using the Capital Asset Pricing Model (CAPM), a theoretical model stating that the expected return on an asset is a linear function of the risk-free return and systematic risk of the asset multiplied by the market risk premium. Therefore, the formula for k_E is:

$$k_E = r_F + \beta_L * (r_M - r_F)$$

In this formula, r_F defines the risk-free return and is often represented by the yield to maturity of government bonds (which are considered to be riskless), or the Interest Rate Swap (IRS) rate. To estimate the cost of equity in the DCF model, the yield of a German Bund with a ten-year maturity is typically used as they are essentially risk-free.

β represents the coefficient that quantifies the risk of the individual firm relative to the market average. If it takes a value of one, the company has a risk profile aligned with the market average and the cost of equity capital will be equal to the expected return on equity in the market. If the value is less than one, the stock follows the same direction as the market with less volatility and, therefore, with less risk, while if it is greater than one, the stock still follows the market but with greater volatility and, consequently, with greater risk, influenced more than proportionally by market trends. In sporadic cases, it may take on values equal to or less than zero, respectively, with the security's performance uncorrelated or correlated in the opposite direction to that of the market.

There are two methods for estimating β, the most widely used being regression analysis. According to the CAPM, in fact, β can be obtained as an estimate of the coefficient of a regression line in which the independent variable is the average market return and the dependent variable is the stock return of the company examined. β is thus given by the ratio of the covariance of the historical stock returns with the historical market portfolio returns and the variance of the historical market portfolio returns ($\beta_j = \frac{Cov(r_j, r_m)}{\sigma_m^2}$). As companies grow and become more mature over time, their β will tend towards market value, i.e. one. Empirical

research (Blume, 1975) has in fact shown that the leveraged ('raw') β estimated through regression analysis after a certain number of years tends to converge towards 1 and that therefore the 'raw' β must be adjusted with a formula hypothesised by Blume: $\beta_L^{ADJ} = \beta_L^{RAW} * \frac{2}{3} + \beta_M * \frac{1}{3} = \beta_L^{RAW} * \frac{2}{3} + \frac{1}{3}$. Both the value of β calculated by regression analysis and the value of the adjusted β can be taken directly from Bloomberg. The second method allows β to be estimated using comparable listed companies. To use this approach, leveraged betas of comparable companies provided by Bloomberg are used and unlevered betas of each company are calculated. This step is done to exclude the additional risk associated with debt, since different companies have different capital structures and, thus, different risks, to see the pure business risk. This step is completed through the use of the Hamada formula, which allows the calculation of unleveraged β (β_U) from the leveraged β (β_L): $\beta_U = \frac{\beta_L}{(1+\frac{D}{E}*(1-t))}$.

The average of the unleveraged β undergoes the reverse procedure and thus the leveraged β is calculated through the inverted Hamada formula, which will be used for the calculation of the cost of equity capital ($\beta_L = \beta_U * (1 + \frac{D}{E} * (1 - t))$. In most cases the current capital structure (D/E) of the company is used in this last step; if there is information that the capital structure might change in the future, β would be recalculated using the target capital structure of the company.

The last element in the cost of equity formula is the equity risk premium (ERP), also known as the market risk premium (MRP), which is defined as the additional return that can be obtained over the risk-free rate by investing in the equity market. The latter is usually estimated as the difference between the market return and the risk-free return ($r_M - r_F$).

A country risk premium (CRP) can be added to the CAPM model, thus incorporating the higher risk associated with investing in a non-risk-free country.

Values of β, MRP and CRP can be found already estimated by some researchers. The two best known are Damodaran (through an implicit method he calculates all the values needed to estimate the average cost of capital) and Fernandez (through a survey of professionals he estimates all the values needed to calculate the cost of capital).

k_D is the cost of borrowed capital, i.e. debt capital, and is equal to the weighted average of the interest rates paid by the company to those who lend money in the different technical forms. It can be estimated using a ratings-based model where $k_D = r_F + spread$. The spread is

calculated using conversion tables provided by databases, mainly that of Damodaran, which associates the interest coverage ratio (ICR) with a spread value. Since interest payments are tax deductible, the cost of debt must be multiplied by (1 - tax rate), which is referred to as the value of the tax shield.

Once having computed future cash flows and the discount rate, to estimate the enterprise value of the company the following formula for the DCF valuation is used:

$$EV = \Sigma_{t=1}^{n} \frac{FCFF_t}{(1+r)^t} + \frac{TV}{(1+r)^n}$$

As said before, with this formula, the enterprise value will be calculated. To compute the equity value, the Net Financial Position (NFP), equal to Debt minus Cash and cash equivalent, needs to be subtracted from the enterprise value:

$$EqV = EV - NFP$$

Otherwise, substituting the FCFF with the FCFE in the formula above and discounting it with just the cost of equity and not by the WACC, the Equity Value will be directly computed.

There are two common methods to compute the Terminal Value: the growth in perpetuity approach, where $TV = \frac{FCFF_n * (1+g)}{r-g}$ where g is the perpetuity growth rate and the exit multiple approach, where the TV is estimated based on a market multiple, usually EV/EBITDA.

2.2.2. Adjusted Present Value Method (APV)

The Adjusted Present Value (APV) method is an alternative model, similar to the DCF, where the levered value of a company, i.e. the enterprise value, is computed by first calculating the unlevered value (i.e. the company is entirely equity-financed) and then adding the value of the interest tax shield, thus separating the effects of financing from the core business operations. Therefore, the formula is:

$$V^L = V^U + PV(Interest\ Tax\ Shield)$$

Interest tax shields are computed as marginal tax rate times the annual interest paid. These values are then discounted at the pretax WACC (which is the same formula as WACC but without the (1-t) part) and will be summed at the unlevered value of the company (still discounted at pretax WACC) to find the levered value of the company. By treating the value of financial effects separately, the APV model provides a clearer picture of how a change in

leverage can impact the firm value, and it's beneficial while evaluating a company with significant variations in debt over time.

More sophisticated versions of the APV model have been used recently, such as the version adding the probability of bankruptcy in the formula, reaching a final formula equal to:

$$V^L = V^U + PV(Interest\ Tax\ Shield) - Probability\ of\ Bankruptcy * Cost\ of\ Bankruptcy$$

This version includes the negative consequences of financial distress and is essential in cases where the company carries a significant amount of debt, thus increasing its risk of bankruptcy. This is also done to balance the positive effects of the interest tax shield, as they increase the firm value, but excessive leverage could lead to a distress situation, where the company struggles to meet its obligations, thus facing a higher probability of bankruptcy. A bankruptcy situation brings two types of costs: direct costs, such as legal and administrative expenses, and indirect costs, such as loss of customer confidence, supplier scepticism and managerial distraction. The indirect costs are speculated to be up to 25/30% of the unlevered value (Shapiro & Titman, 1986), even though no direct evidence is provided.

Overall, the APV model is a strong corporate finance model that helps in comprehending how various financial choices impact a company's value as it offers a deeper understanding of a company's actual economic value by breaking down valuation into its operational and financing components.

2.2.3. Dividend Discount Model (DDM)

The Dividend Discount Model (DDM) uses the dividends paid by the company to shareholders as a payoff and calculates the final value with them. It is based on Gordon's growth model (1962) and the value for the constant growth DDM is:

$$P_0 = \frac{D_1}{r - g}$$

This method is most applicable to companies with stable and predictable dividend policies and provides a straightforward valuation for dividend-paying stocks, but has significant limitations, mainly assuming that dividends will grow at a constant rate indefinitely, and being highly sensitive to the assumptions done, growth rate and discount rate, making it crucial to use well-

supported estimates. Variants have been developed, such as multi-stage DDM, which accounts for varying growth phases.

2.2.4. Relative Valuations

The last methodology, even though it is the most used in practice due to its speed of execution and understanding, is the relative valuation. This method of computing the company's value is made by comparing the company with comparable assets traded on the market, providing a market-driven perspective. It assumes that similar companies are sold at similar prices and thus assumes that the value of a company-specific index is the same for similar companies. Comparable companies are then selected and the average or median of the multiples (ratios between the value of the company and a historical figure, usually EBITDA or the value of production) is considered. This approach is typically used to check that the results obtained by other methodologies are reliable and provide a credible estimate of the company's value compared to the market value of similar companies.

2.2.5. Choice of Valuation Methods

To conclude, in this dissertation will evaluate Leonardo using three intrinsic valuation methods: the DCF asset side, based on FCFF, as it is the most widely used and detailed method to evaluate a company; the APV model, which incorporates tax shields and bankruptcy costs in the valuation and the DCF equity side, using FCFE. Additionally, two relative valuations approaches will be employed, trading multiples and recent transactions multiples, to validate the results obtained in the intrinsic models. Eventually, the results will be compared with a professional report by Intermonte, an Italian Investment Bank.

3. Aerospace Defence and Space Market

Leonardo S.p.A. is strategically positioned in the Aerospace Defence & Space (AD&S) market. This market encompasses industries involved in the design, production and maintenance of aircraft, spacecraft and defence systems and it serves various sectors, such as commercial aviation, military operations and space exploration, driving technological advancements and global security.

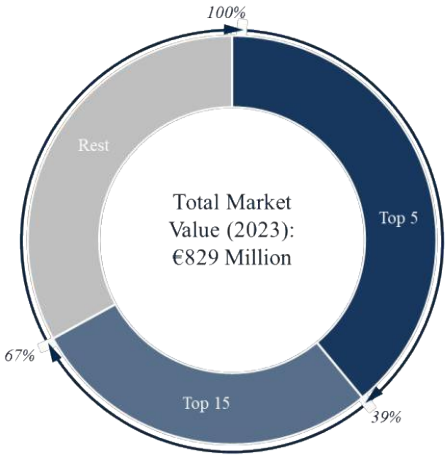
Growing geopolitical tensions, advancements in autonomous systems, and the growing need for environmentally friendly aviation are all contributing to the dynamic change of the AD&S industry, which is a pillar of economic and technological progress and is characterized by highly

complex ongoing transformation processes and an increasing level of competition, amplified by new players' entry. These new players, which are for example, South Korea, Turkey, Iran and Israel, are coming from countries either where the export of defence systems has become a tool of geopolitical and industrial strategy or countries which have been traditionally less active in the AD&S industry and are developing now, posing a threat to current players in the market.

The geopolitical and economic landscape, already strained by the Covid-19 pandemic, has deteriorated further as a result of the Russia-Ukraine conflict and, more recently, by tensions in the Middle East, increasing supply chain vulnerabilities, prompting macroeconomic shifts such as protectionist policies and triggering inflationary pressures, even if these appear to be temporary. In addition, escalating geopolitical and economic tensions in the Indo-Pacific region, as well as the worsening climate crisis, are likely to add further instability to the global scenario. Together, these developments confirm the profound and enduring shift in the pre-existing global dynamics, which began in 2020, marking the beginning of an era of transformative change at a technological, cultural, social and economic level that will continue to shape the AD&S industry for years to come.

The market in 2023 experienced strong growth, with a revenue record of €829 billion, 11% above 2022, exceeding pre-pandemic levels and marking the full recovery from the Covid pandemic. The world is experiencing an increased focus on security and defence issues and major countries stated that they would increase the defence budget compared to recent years. Growth was driven by the commercial aviation sector, which saw double-digit revenue growth for its major components. Despite a 9% increase in the operating margins, performance continues to be impacted by production constraints, consequences of supply chain disruptions due to recent geopolitical tensions, and rising inflation. The military aviation market also performed well, even though less than the commercial one, with an increase of 6% in sales, leading to an increase of 4% in profits in the United States, while in Europe, results were significantly better, with profits up to 22%. In particular, Airbus Defence and Space reported a profit of €466 million, up 85% compared to 2022.

Chart 1 - AD&S Market Composition



The AD&S market is highly concentrated in few players, with the top five players (Boeing,

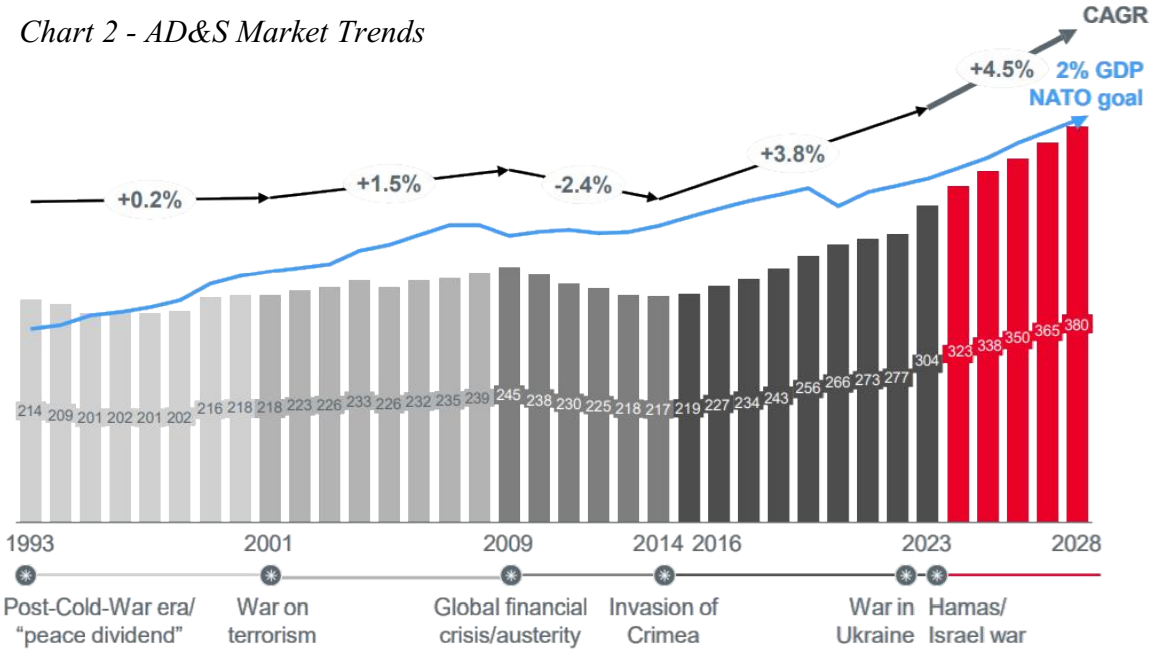
Airbus, RTX, Lockheed Martin and General Dynamics) accounting for 39% of the total market based on annual turnover values. Another 28% of the total market is composed of 10 players from 6th to 15th (here Leonardo positions itself), bringing to a total of 67% of the total market (of €829 million) made up by the top 15 players in the market.

The market is highly correlated with the defence expenditure in NATO Europe, which is, as can be seen in the image below, expected to grow with a $CAGR_{24\text{-}28}$ of 4,5%, fuelled by recent geopolitical trends, such as the war in Ukraine and the Hamas-Israel conflict, as they brought countries to increase their defence budget. The NATO members aim to exceed the 2% GDP goal, forecasting total spending of around $380 billion by 2028, which is significantly higher than pre-2020 levels. This projected increase will significantly impact the AD&S market, fuelling substantial growth across multiple sectors, mainly thanks to accelerated military procurement, which will lead to increased investment in fighter jets and transport aircraft to modernize NATO fleets. Additionally, a higher budget will also be destined for R&D in advanced defence technologies such as hypersonic weapons, missile defence systems, AI-driven surveillance and space-based military capabilities.

Overall, this will result in an expansion of orders for the leading players in the industry, while supply chains for missiles, avionics, radar systems, and cybersecurity solutions will see a surge in demand.

This increase in NATO defence spending is poised to significantly boost the European AD&S market, with European nations committing to higher defence budgets, resulting in an expected

Chart 2 - AD&S Market Trends



benefit for European defence contractors such as Leonardo. Moreover, the European Union is exploring new financial instruments such as defence-focused ETFs to attract private investment in the industry, further enhancing the capital available for defence project.

In conclusion, these developments indicate a robust and sustained growth trajectory for Europe's AD&S industry, driven by increasing spending and strategic initiatives to strengthen defence capabilities.

4. Leonardo overview

Leonardo S.p.A. (LDO.MI) is an Italian company, established in 1948 in Rome, active in the Aerospace Defence & Space market and is nowadays a key player in major strategic programmes at global level, being a technology partner for governments, defence administrations, institutions and companies.

As of 2023, the group was employing more than 53.000 people with more than 110 direct locations worldwide. The Company has a strong presence in Italy, UK, Poland and US and works in more than 150 countries through subsidiaries and joint ventures. The Company operates in seven business sectors, such as Helicopters, Defence and Security, Electronics, Aeronautics, Space, Defence Systems and Other Activities, which will later be analysed in detail in the valuation part.

Leonardo has been listed on the Italian stock exchange since 1993, previously under the name Finmeccanica S.p.A., changed in 2017 to Leonardo S.p.A. As it can be seen from the chart below, the company currently partially owned by the Italian State, with a 30% stake, with the

Chart 3 - Ownership

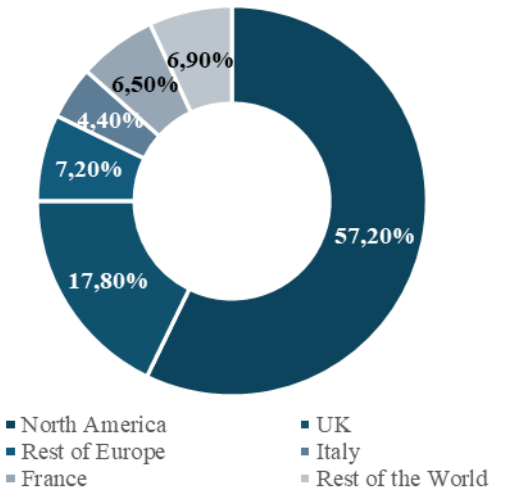
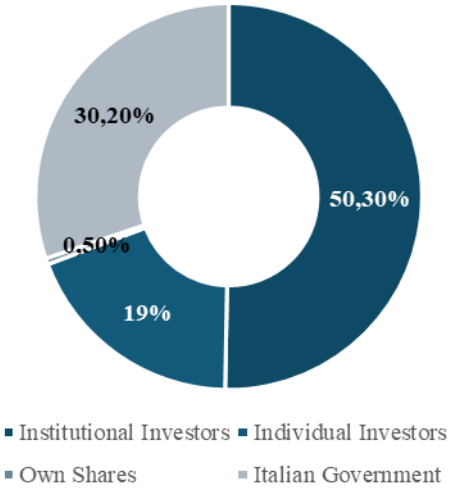


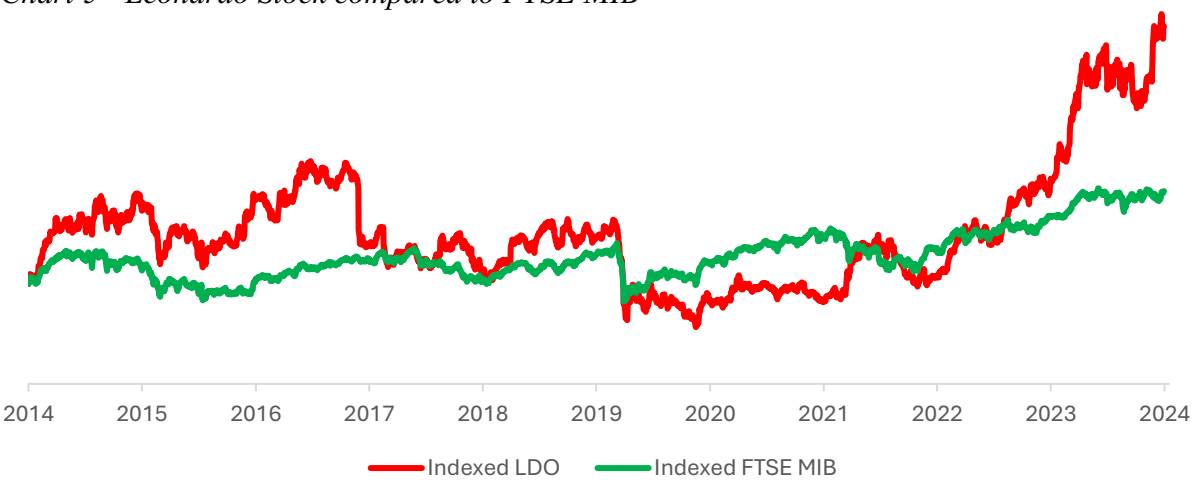
Chart 4 - Institutional Ownership by Geography



majority being hold by mainly North American institutional investors, such as Vanguard and BlackRock.

Leonardo's market performance of the last 10 years, indexed and compared to the FTSE MIB, can be seen in the image below.

Chart 5 - Leonardo Stock compared to FTSE MIB



Leonardo performed well from 2015 onwards, with a steady increase observed, mainly due to the firm diversification policy adopted by the company, highly investing in cybersecurity and advanced electronics, positioning itself in emerging defence sectors. The covid-19 pandemic caused supply chain disruptions and project delays, affecting financial performance, as can be seen by the dip in 2020. After 2021-2022, a significant upward trend can be seen, with a sharp spike in the last two years, suggesting a strong market and financial performance and investor confidence. The recent trends are also highly affected by geopolitical factors characterizing Europe in recent times, such as the war in Ukraine, which is leading to an increase in government spending for defence sector around Europe, following the boosted demand for defence equipment. Overall, the stock performance follows the FTSE MIB performance, which can be taken as a proxy for the Italian market, but in recent years, it is outperforming it due to the geopolitical tensions and conflicts, which are pumping up stock prices.

5. Leonardo Valuation

To conduct Leonardo's valuation, the analysis starts by restating the company financials to better understand the company margins, especially EBITDA and EBIT. The restated account can be found in the appendix ("*Appendix n°1-2-3*").

5.1. Sales Assumptions

Sales will be broken down is five business unit and each business unit will be divided into five geographical area to better capture the different market trends due to the different geopolitical approaches taken by the main players in the industry and by the main countries in which Leonardo operates.

The five business units are:

- Helicopters
- Defence and Security Electronics
- Aeronautics
- Space
- Residual and Other segments

The five geographical areas are:

- Italy
- United Kingdom
- Rest of Europe
- United States
- Rest of the world

The current breakdown, as of 31 December 2023, of revenues by these two lines (sector and geographic area) is as follows:

Chart 6 - LDO Revenue Breakdown by geography

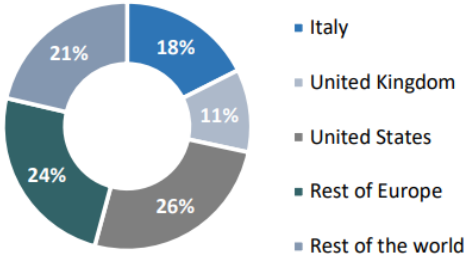
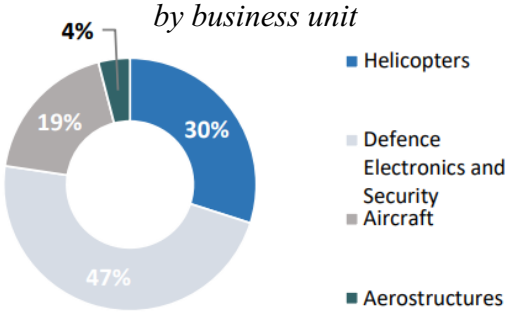


Chart 7 - LDO Revenue Breakdown by business unit



As the two graphs above show, more than 50% of Leonardo's revenues are produced in Europe and the main BU is Defence Electronics and Security, but overall, Leonardo has a well-balanced revenue stream across all geographical areas.

All the forecast assumptions have been made following market trends and Leonardo's outlook for 2024 and onwards. In addition to the main trends characterizing the market, specific trends for each business unit, which will be analysed in the following sections, have been considered.

Together with the geopolitical driver, other market trends are influencing Leonardo's outlook for the following years:

- Big data, AI and security, as new technological techniques will be increasingly important in managing opportunities and risks, flows and sensitive information. The Internet of Things (IoT) market will play a crucial role for Leonardo as once integrated those technologies, these enhance the operations across various sectors, such as aerospace, defence and security, with the IoT security market expected to grow from $19,6 billion in 2023 to $92,4 billion in 2030. IoT and AI can influence Leonardo's operations in various ways, such as enhancing operational efficiency through autonomous system development and improving cybersecurity by leveraging AI-driven analytics to enable proactive defence strategies.
- Digital and Environmental transition: Economy recovery is driven by digital and ecological transitions, accelerated by urgency and extraordinary programs (such as the European Recovery and Resilience Facility, which translates in Italy into the National Recovery and Resilience Plan – NRRP), with the aim of being the engine of new technological development. To foster the ecological transition, Leonardo has developed a sustainability plan, following UN sustainable development goals and a decarbonisation path, with a target commitment of a 50% reduction in scope 1 and scope 2 emissions.
- Reducing strategic dependencies, considering the problems brought by the Russian-Ukrainian conflict regarding the procurement of natural resources and raw materials needed for industrial manufacturing and electronics. For this specific reason, in 2023, the European Union has, for the first time, launched initiatives and allocated funds to encourage the joint procurement of defence solutions and equipment and has begun the development of an industrial strategy dedicated to the defence sector and its industrial base.

- Integrated sustainability and sustainable finance: The AD&S industry is becoming increasingly central to sustainability policies, both for its environmental impact and for its social role. Green Deal and Net Zero strategy are driving companies to integrate sustainability into industrial strategies with new regulations, such as the Corporate Sustainability Reporting Directive, which are affecting access to new finance, especially in the AD&S industry where being ESG compliant requires great commitment and resources. For this reason, the European Defence Agency reiterated the need to avoid discrimination in defence investments by facilitating the attraction of public and private capital.
- New skills and inclusion: Ecological and digital transition will be addressed by investing in new skills, particularly scientific and technological ones, that will be fundamental to maintain competitiveness. There will be a twofold challenge in the coming years: on the one hand, a wave of retirements reducing the traditional workforce and on the other hand, the need to attract young talent with different needs and expectations, including greater job mobility and better economic opportunities. According to McKinsey, the demand for physical and manual skills will decrease by 30%, while technological skills, such as programming, will grow by more than 50%. It will be fundamental for Leonardo to invest in staff retraining, inclusion and more flexible working conditions to build a skilled and competitive workforce in the long term.

Along with the macro trends, there are specific trends related to each business unit.

All assumptions on the sales' projections for each business unit is based on both general and specific market trends. From each business unit the inter-sector revenues have been deducted.

The output tables for each business unit are reported in the appendix. (*Appendix n°4-5-6-7-8)*

5.1.1. Helicopters Business Unit

Leonardo is one of the leading groups in some rotary-wing sectors at global level. The helicopter unit researches, designs, develops and produces helicopters for both civil and defence use. Leonardo's helicopters ensure public utility missions, public order offshore, search and rescue, helicopter rescue and defence on land and sea. The company is committed researching

innovative technologies and platforms for vertical mobility, such as the tiltrotor (an aircraft that generates lift and propulsion by way of one or more powered rotors mounted on rotating shafts, usually at the end of a fixed wing) and remotely piloted helicopters, and in the development of a new generation of light helicopters with hybrid/electric propulsion.

The business unit is therefore impacted by two different sectors: the civil and the defence. Both are expected to be stable in the next years, with the civil one to sustain a 3,1% positive CAGR in the period between 2023 and 2032, driven by new demand related to the need for new sources of energy supply and recovery for the passenger transport segment due to the resumption in the usage of these means of transport and the renewal of related fleet. The defence sector is expected to grow at positive 0,1% CAGR for the same period, remaining more stable as a whole, due to the first half of the period considered, which will be characterized by a fleet replacement process, which is already in progress, and a second half that will experience a gradual decline due to the expected availability of the new generation of medium multi-role machines.

As of 2023, the business unit generated €5.513 million in orders, €4.725 million in revenues and €14.426 million in backlog with an EBITDA of €422 million. The 2023 trends confirmed the solidity of the business, with a positive performance in line with expectations. The aim in the next years is to become the global civil leader and military key player, upgrading the portfolio, pioneering new technologies and exploring strategic partnerships to foster growth.

Table 1 - Helicopters BU sales assumptions

		Year Reference	Actual	Actual	Actual	Actual	Expected	Expected	Expected	Expected	Expected
		Start of Period	01-gen-20	01-gen-21	01-gen-22	01-gen-23	01-gen-24	01-gen-25	01-gen-26	01-gen-27	01-gen-28
		End of Period	31-dic-20	31-dic-21	31-dic-22	31-dic-23	31-dic-24	31-dic-25	31-dic-26	31-dic-27	31-dic-28
2.1 Helicopters											
Revenues:											
Italy	EUR M		705	824	707	1.003					
United Kingdom	EUR M		632	511	518	490					
Rest of Europe	EUR M		1.248	1.172	1.012	1.142					
United States of America	EUR M		381	335	396	459					
Rest of the World	EUR M		1.006	1.315	1.914	1.631					
Total - Revenues	EUR M		**3.972**	**4.157**	**4.547**	**4.725**					
Inter-sector revenues	EUR M		(9)	(8)	(14)	(7)					
Growth - Italy			12,26%	16,88%	(14,20%)	41,87%	14,2 %	13,4 %	12,6 %	11,8 %	11,0 %
Growth - United Kingdom			1,61%	(19,15%)	1,37%	(5,41%)	(0,8%)	(0,8%)	(0,8%)	(0,8%)	(0,8%)
Growth - Rest of Europe			(13,45%)	(6,09%)	(13,65%)	12,85%	(2,3%)	(2,3%)	(2,3%)	(2,3%)	(2,3%)
Growth - United States of America			12,06%	(12,07%)	18,21%	15,91%	8,5 %	8,5 %	8,5 %	8,5 %	8,5 %
Growth - Rest of the World			1,31%	30,72%	45,55%	(14,79%)	12,0 %	11,0 %	10,0 %	9,0 %	8,0 %
Growth - Inter-sector revenues			(40,00%)	(11,11%)	75,00%	(50,00%)	(6,5%)	(6,5%)	(6,5%)	(6,5%)	(6,5%)

As it can be seen from the table above, Leonardo is expected to focus on expanding the Rest of the World area as in Europe they are already the second largest provider. All the geographical areas are estimated on the basis of historical averages, removing eventual outliers and either kept constants for all the projected period or normalized using a decreasing factor in order to align with long-term growth expectations. In the first nine months of 2024, the business unit showed a strong performance, up by 15% compared to the same period in 2023, confirming the

optimal performance in both the government and the commercial areas. This positive trend is primarily driven by the dual-use helicopter lines and the Customer Support, Services & Training (CSS&T) division, which provides technical assistance worldwide on a daily basis. Additionally, the unit's EBITDA increased in line with higher volumes while keeping a similar marginality compared to 2023. Leonardo remains focused on upgrading its product portfolio and pioneering new technologies, reinforcing a positive outlook for sustained growth that can be projected in the business unit.

5.1.2. Defence and Security Electronics Business Unit

Leonardo is a global player focused on defence, aerospace, security and information protection. This business unit develops and integrates systems for air and sea traffic management, border control, secure communications and infrastructure management, including the offer of IT infrastructure as well as data processing for intelligence and cybersecurity purposes. Additionally, they design, develop and produce defence solutions in the air, sea, space and cyber domains, such as naval artillery, armoured vehicles and underwater systems.

The business unit is impacted by two sectors: civil and defence. Firstly, the civil sector is characterized by an ever-growing demand for cybersecurity and secure cloud segments, which will be driven by increasing needs for physical and digital protection and is expected to be highly influenced by the adoption of AI techniques. Secondly in the defence sector, all domains are expected to grow, so air, naval and land are trending toward a multi-domain operation system which will also open up to new developments in the areas of system integration, data fusion and data analysis. The total market is estimated to grow at a CAGR of 5,3% over the projected period.

In 2023, the business unit generated €9.717 million in new orders, revenues of €7.483 million and €16.844 in backlog, with an EBITDA of €852 million. These are the results of growing volumes in all the main business areas and setting the path for 2024 with an increase in volumes and margins, driven by solid contributions from the interests in Joint Ventures, especially in the land and naval defence systems.

Table 2 - Defence & Sec. Electronics BU sales assumptions

		Year Reference	Actual	Actual	Actual	Actual	Expected	Expected	Expected	Expected	Expected
		Start of Period	01-gen-20	01-gen-21	01-gen-22	01-gen-23	01-gen-24	01-gen-25	01-gen-26	01-gen-27	01-gen-28
		End of Period	31-dic-20	31-dic-21	31-dic-22	31-dic-23	31-dic-24	31-dic-25	31-dic-26	31-dic-27	31-dic-28
2.2 Defence and Security Electronics											
Revenues:											
Italy	EUR M		1.574	1.734	1.567	1.805					
United Kingdom	EUR M		826	1.008	1.237	1.220					
Rest of Europe	EUR M		821	989	1.073	1.069					
United States of America	EUR M		2.531	2.653	2.740	2.695					
Rest of the World	EUR M		773	560	595	694					
Total - Revenues	EUR M		**6.525**	**6.944**	**7.212**	**7.483**					
Inter-sector revenues	EUR M		(545)	(636)	(681)	(688)					
Growth - Italy			2,41%	10,17%	(9,63%)	15,19%	4,5 %	4,5 %	4,5 %	4,5 %	4,5 %
Growth - United Kingdom			(8,73%)	22,03%	22,72%	(1,37%)	14,5 %	13,5 %	12,5 %	11,5 %	10,5 %
Growth - Rest of Europe			0,49%	20,46%	8,49%	(0,37%)	9,5 %	9,0 %	8,5 %	8,0 %	7,5 %
Growth - United States of America			(3,51%)	4,82%	3,28%	(1,64%)	14,0 %	11,5 %	9,0 %	6,5 %	4,0 %
Growth - Rest of the World			(5,62%)	(27,55%)	6,25%	16,64%	5,8 %	5,8 %	5,8 %	5,8 %	5,8 %
Growth - Inter-sector revenues			11,00%	16,70%	7,08%	1,03%	8,9 %	8,9 %	8,9 %	8,9 %	8,9 %

As seen in the table above, the group is expected to achieve strong results in the UK area, mainly due to their recent decision to raise the defence budget to 2,25% of GDP and plan on reaching 3% of GDP by 2030, thus investing more than what is the NATO goal of 2%. All the estimates are based on historical growth rates, averaged excluding eventual outliers and decreased over time to reach the long-term growth rate.

As of the 30th of September 2024, the company reported increased volumes compared to the same period of last year, driven by a steady increase in backlog, particularly within the European Component of the Defence Electronics & Security (DES) division, which focuses on advanced defence and security solutions, including radar systems, avionics, electronic warfare, and cyber capabilities for both military and civil applications across Europe, playing a crucial role in Leonardo's operations. The group continues to maintain a strong market position, supported by cutting-edge products, innovative technologies and comprehensive solutions, highlighting the ability to effectively serve key markets and how this unit will be a critical driver for future growth.

5.1.3. Aeronautics (Aircraft & Aerostructures) Business Unit

It was decided to merge the two business units of Aircraft and Aerostructures under one business unit, named aeronautics, for practical forecasting purposes. The aircraft business unit is responsible for designing, developing, producing, maintaining and upgrading commercial, military and training aircraft while the aerostructures one is specialized in supplying major aircraft manufacturers, such as Boeing and Airbus, contributing with fuselage sections and other components for models like Boeing 787.

Both units are affected by civil and military aviation industries, with the civil market experiencing a sharp decline in recent years due to the pandemic but is expected to recover,

driven by the increased demand for aircraft that will consequently lead to an increased demand for the supply of aerostructures and regional transport aircraft. A CAGR of 4,1% is expected for the civil market in the following years. Similarly, the defence market has experienced a slight decrease and is expected now to reach a CAGR of 7,7%, driven by the demand for trainer aircraft, following the switch to next-generation combat aircraft, the progress towards the sixth generation and the introduction of multi-aircraft systems.

Table 3 - Aeronautics BU sales assumptions

		Year Reference	Actual	Actual	Actual	Actual	Expected	Expected	Expected	Expected	Expected
		Start of Period	01-gen-20	01-gen-21	01-gen-22	01-gen-23	01-gen-24	01-gen-25	01-gen-26	01-gen-27	01-gen-28
		End of Period	31-dic-20	31-dic-21	31-dic-22	31-dic-23	31-dic-24	31-dic-25	31-dic-26	31-dic-27	31-dic-28
2.3 Aeronautics											
Revenues:											
Italy	EUR M		260	328	409	570					
United Kingdom	EUR M		-	-	3	6					
Rest of Europe	EUR M		791	897	985	1.252					
United States of America	EUR M		920	606	824	806					
Rest of the World	EUR M		1.422	1.879	1.339	940					
Total - Revenues	EUR M		**3.393**	**3.710**	**3.560**	**3.574**					
Inter-sector revenues	EUR M		(16)	(92)	(97)	(158)					
Growth - Italy			(2,99%)	26,15%	24,70%	39,36%	16,0 %	13,5 %	11,0 %	8,5 %	6,0 %
Growth - United Kingdom			0,00%	0,00%	0,00%	0,00%	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %
Growth - Rest of Europe			(15,58%)	13,40%	9,81%	27,11%	8,7 %	8,7 %	8,7 %	8,7 %	8,7 %
Growth - United States of America			(10,07%)	(34,13%)	35,97%	(2,18%)	(2,6%)	(2,6%)	(2,6%)	(2,6%)	(2,6%)
Growth - Rest of the World			22,38%	32,14%	(28,74%)	(29,80%)	(1,0%)	(1,0%)	(1,0%)	(1,0%)	(1,0%)
Growth - Inter-sector revenues			300,00%	475,00%	5,43%	62,89%	6,0 %	6,0 %	6,0 %	6,0 %	6,0 %

Combined, the two units generated €3.039 million in new orders, resulting in €3.574 million revenues and €9.067 million in backlog with an EBITDA of €268 million. These values are the result of the increased capacity of industrial assets which brought in ready to sell products in all the lines, improving also profitability margins. In 2024 a further increase is expected driven by higher production rates under the Boeing and ATR programmes.

As it can be seen in the table above the Italian and European markets are expected to grow constantly in the next years while US and Rest of the World are expected to decrease in the projected years, as they have been driven by extraordinary orders in the recent years which are not expected to repeat themselves.

In the first three quarters of 2024 compared to the same period of 2023, both business units showed a slight improvement in revenues, partly due to the postponement of key domestic and export orders to the last and final quarter of the year. Despite this delay, there was a solid order intake sustained by the new Eurofighter acquisitions in Italy and Spain, as well as the decision by the Italian Air Force's "Frecce Tricolore" aerobatic team to adopt the M-346 aircraft. Looking ahead, the business unit maintains a positive outlook, even amid challenges, including recent issues faced by primary users of Aerostructures unit services, such as Boeing, thanks to the good positioning of the group to navigate these difficulties while continuing to drive growth.

5.1.4. Space Business Unit

Leonardo is active in the space industry through Joint Ventures, with the most important being Telespazio (67% of Leonardo and 33% of Thales), a company offering services ranging from satellite system design and development to Earth observation and satellite navigation. It was decided to consider this as a stand-alone business unit even if in 2023 it did not generate any revenue. This was done because, until the end of 2023, Telespazio was not consolidated but was reported in the balance sheet using the equity method. From 2024 onwards, it will be incorporated and consolidated in the group's financials. For forecasting purposes, all operations are assumed to be invoiced in Italy even if related to services done in other Europe countries.

In 2023, Telespazio generated €701 million of revenues and excellent fundamentals are confirmed for the next years, predicting growth in both topline and operating results thanks to a consolidated leadership in Europe and Latin America.

Table 4 - Space BU sales assumptions

		Year Reference	Actual	Actual	Actual	Actual	Expected	Expected	Expected	Expected	Expected
		Start of Period	01-gen-20	01-gen-21	01-gen-22	01-gen-23	01-gen-24	01-gen-25	01-gen-26	01-gen-27	01-gen-28
		End of Period	31-dic-20	31-dic-21	31-dic-22	31-dic-23	31-dic-24	31-dic-25	31-dic-26	31-dic-27	31-dic-28
2.4 Space (Telespazio)											
Revenues:											
Italy	EUR M		535	595	650	701					
United Kingdom	EUR M										
Rest of Europe	EUR M										
United States of America	EUR M										
Rest of the World	EUR M										
Total - Revenues	EUR M		**535**	**595**	**650**	**701**					
Inter-sector revenues	EUR M										
Growth - Italy				11,21%	9,24%	7,85%	15,0 %	15,0 %	14,0 %	12,0 %	10,0 %
Growth - United Kingdom							0,0 %	0,0 %	0,0 %	0,0 %	0,0 %
Growth - Rest of Europe							0,0 %	0,0 %	0,0 %	0,0 %	0,0 %
Growth - United States of America							0,0 %	0,0 %	0,0 %	0,0 %	0,0 %
Growth - Rest of the World							0,0 %	0,0 %	0,0 %	0,0 %	0,0 %
Growth - Inter-sector revenues							0,0 %	0,0 %	0,0 %	0,0 %	0,0 %

In the first nine months, the unit recorded a sustained level of acquisitions, driven by the National Recovery and Resilience Plan (NRRP), such as the order for the preliminary activities under the Lunar Communication and Navigation System (LNCS) program with the European Space Agency and the orders for Engineering Services for the European Space Operations Centre (ESOC), recording a 15% growth rate compared to the first nine months of 2023. Moreover, for the Telespazio subsidiary, higher revenues are expected thanks to the contribution of the Satellite Systems and Operations and Geo-Information Lobs, particularly on institutional programs.

5.1.5. Other Business Units

The remaining revenues are generated by other investments and joint ventures done by Leonardo, such as the revenues resulting from the stake owned in Avio S.p.A.

As seen in the table below, most of these revenues are realized in Europe, with Italy being the leading nation. Due to the high volatility of historical growth rates, it has been decided to project the values on values close to CAGR for the general industry (Rest of Europe), while for Italy the growth rate was kept constant and equal to 2023 values, which are also in line with 2022 results, with a decreasing factor to align with long-term growth.

Table 5 - Other BU sales assumptions

		Year Reference	Actual	Actual	Actual	Actual	Expected	Expected	Expected	Expected	Expected
		Start of Period	01-gen-20	01-gen-21	01-gen-22	01-gen-23	01-gen-24	01-gen-25	01-gen-26	01-gen-27	01-gen-28
		End of Period	31-dic-20	31-dic-21	31-dic-22	31-dic-23	31-dic-24	31-dic-25	31-dic-26	31-dic-27	31-dic-28
2.5 Other											
Revenues:											
Italy	EUR M		398	372	417	465					
United Kingdom	EUR M		-	-	51	5					
Rest of Europe	EUR M		5	4	110	284					
United States of America	EUR M		1	1	1	-					
Rest of the World	EUR M		3	-	-	6					
Total - Revenues	EUR M		407	377	579	760					
Inter-sector revenues	EUR M		(317)	(317)	(393)	(398)					
Growth - Italy			(13,10%)	(6,53%)	12,10%	11,51%	6,0 %	5,0 %	4,0 %	3,0 %	2,0 %
Growth - United Kingdom			0,00%	0,00%	0,00%	0,00%	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %
Growth - Rest of Europe			25,00%	(20,00%)	2.650,00%	158,18%	6,0 %	6,0 %	6,0 %	6,0 %	6,0 %
Growth - United States of America			0,00%	0,00%	0,00%	(100,00%)	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %
Growth - Rest of the World			0,00%	0,00%	0,00%	0,00%	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %
Growth - Inter-sector revenues			11,23%	0,00%	23,97%	1,27%	9,1 %	9,1 %	9,1 %	9,1 %	9,1 %

5.2. Operating Expenses Assumptions

All operating expenses, meaning Cost of Goods Sold (COGS), Research & Development (R&D) expenses, Selling General & Administrative expenses (SGAs) and other operating expenses/income, have been analysed as a percentage of sales in the forecast. Each historical ratio was calculated as cost-to-sales (in percentage) and the forecasting approach was determined based on historical trends, either keeping the ratio constant (with a decreasing factor) or set equal to the three-year average, excluding one outlier year.

Table 6 - Operating Expenses assumptions

	Year Reference	Actual	Actual	Actual	Actual	Expected	Expected	Expected	Expected	Expected
	Start of Period	01-gen-20	01-gen-21	01-gen-22	01-gen-23	01-gen-24	01-gen-25	01-gen-26	01-gen-27	01-gen-28
	End of Period	31-dic-20	31-dic-21	31-dic-22	31-dic-23	31-dic-24	31-dic-25	31-dic-26	31-dic-27	31-dic-28
COGS as a % of sales		60,6 %	61,4 %	61,9 %	61,9 %	61,4 %	60,9 %	60,4 %	59,9 %	59,3 %
Research & development as a % of sales		12,3 %	12,8 %	13,6 %	14,4 %	13,0 %	13,0 %	13,0 %	13,0 %	13,0 %
Other Operating Expense/(Income) - Net as a % of sal		1,0 %	0,4 %	0,7 %	0,5 %	0,5 %	0,5 %	0,5 %	0,5 %	0,5 %
SGAs as a % of sales		16,2 %	15,6 %	13,0 %	12,5 %	12,2 %	12,0 %	11,7 %	11,5 %	11,2 %

As it can be seen from the table above:

- COGS for 2024 were estimated at 61,4% of sales, matching the 2021 values, as the last two years were characterized by unusual cost pressures and from 2025 onwards an improvement in production efficiency and better procurement strategies is expected, reaching a final value in 2028 of 59,3%, going back to pre-2020/2023 values, as, already mentioned above, the period was characterized by unusual cost pressures (including supply chain disruptions, high raw materials prices due to geopolitical tensions, and

inflation) and these effect are expected to normalize in the next years. The long-term gradual reduction indicates also some minor economies of scale that can be reached and automation-driven efficiencies, particularly in personnel costs. This was done in line with the cost-savings plan of the group, which expect to reach €1,8 billion gross savings by 2028.

- To maintain a more stable and representative estimate, R&D expenses are set equal to the average of the 2020-2022 period, excluding 2023 as an outlier. The historical average, 13,0% of sales, is kept constant for all the forecasted period until 2028, indicating that the company expects to maintain a steady investment in innovation while smoothing out any unusual fluctuations, aligning with Leonardo's strategic focus on innovation and efficiency, aiming to optimize the portfolio and concentrate R&D expenses in key areas.
- Other Operating Expenses/Income are set equal to the average of the last three years, excluding 2020 value as an outlier, resulting in a stable 0,5% of sales, indicating that these expenses are expected to scale proportionally with revenues without significant gains or cost-cutting initiatives.
- SGAs expenses are projected to start at 12,2% of sales in 2024, which is 0,25% lower than 2023 value. This gradual reduction of 0,25% per year is applied until 2028, reaching 11,2% by 2028, as a result of the group objective of achieving €1,8 billion gross savings over the plan's duration by enhancing efficiency and reducing costs across the organization.

Based on these projections, the group is expected to reach approximately €1,0 billion in gross savings, estimated as the difference between costs calculated under the assumption of maintaining the 2023 cost structure constant and those computed using the anticipated percentage. This figure is below the group's plan objective, as cost-savings will also stem from economies of scale resulting from M&A activity, especially in the cyber, space and AI domain, where the group remains highly active. The focus of M&A activity will be more on more mature targets to maximize synergies and cost efficiencies. However, given the uncertainty regarding which acquisitions will be successfully completed and integrated, the projected cost-savings have been conservatively estimated below the original plan, allowing flexibility for potential improvements in marginality as synergies are realized.

The output tables for the operating expenses are reported in *Appendix 9*

5.3. Investment Assumptions

Investment assumptions are divided into four sections (as it can be seen by the table below):

Table 7 - Capital Expenditures assumptions

Year Reference	Actual	Actual	Actual	Actual	Expected	Expected	Expected	Expected	Expected
Start of Period	01-gen-20	01-gen-21	01-gen-22	01-gen-23	01-gen-24	01-gen-25	01-gen-26	01-gen-27	01-gen-28
End of Period	31-dic-20	31-dic-21	31-dic-22	31-dic-23	31-dic-24	31-dic-25	31-dic-26	31-dic-27	31-dic-28
Tangible CAPEX as a % of sales		3,1 %	4,1 %	3,7 %	3,4 %	3,4 %	3,4 %	3,4 %	3,4 %
Depreciation rate	18,2 %	15,8 %	15,4 %	15,0 %	15,4 %	15,4 %	15,4 %	15,4 %	15,4 %
Useful life (years)	5,5	6,3	6,5	6,7	6,5	6,5	6,5	6,5	6,5
Intangible CAPEX as a % of sales		4,1 %	3,6 %	2,4 %	2,4 %	2,4 %	2,4 %	2,4 %	2,4 %
Intangibles amortization as a % of BOP Intangibles	2,0 %	2,0 %	2,4 %	2,3 %	2,3 %	2,3 %	2,3 %	2,3 %	2,3 %
Days receivables (DSO)	68	68	68	72	72	72	72	72	72
Days payables (DPO)	133	116	100	103	103	103	103	103	103
Days inventory (DIO)	243	238	223	223	223	223	223	223	223
Other current assets / liabilities as a % of sales	(62,4%)	(63,5%)	(63,2%)	(64,0%)	(63,3%)	(63,3%)	(63,3%)	(63,3%)	(63,3%)

- Tangible CAPEX: forecasted using a methodology similar to that applied to operating expenses by expressing them as a percentage of sales and projected for subsequent years. To establish a reliable base for the forecast, historical data from 2021 and 2023 are considered, while 2022 value is excluded as an outlier, and the average of those two values, equal to 3,4%, is set as a starting point for 2024 and kept constant for all the forecasted period. From 2025 onwards, efficiency improvements, economies of scale and potential strategic initiatives by Leonardo, such as digitalization and technological evolution, are expected to reduce overall CAPEX. However, these savings will be offset by new investments and developments aimed at supporting the strong demand for AD&S products and services. The Group's commitment to innovation and expanding its technological capabilities will ensure long-term growth while balancing cost efficiencies with the need for continuous advancement in product offerings.
- Intangible CAPEX: estimated using the approach as tangible CAPEX and set equal to 2023 level, 2,4% of sales, reflecting recent improvements, and kept constants for all the forecasted periods. The Group's intangible assets are mainly composed of industrial patents, intellectual property rights, concessions, trademarks and goodwill deriving from acquisitions and since Leonardo operates in the high-tech and defence sectors where IP, patents and R&D investments play a crucial role in maintaining competitive advantage and are essential to sustain technological leadership and long-term revenue growth. The growth in intangible CAPEX is projected to outpace the amortization of intangibles, ensuring that the company statements reflect the actual economic contribution of these assets to future revenues, acknowledging that past investments

continue to generate value, justifying sustained capitalization and reinforcing Leonardo's long-term strategic positioning.

Table 8 - Tangible and Intangible Asset projections

			Year Reference	Actual	Actual	Actual	Actual	Expected	Expected	Expected	Expected	Expected
			Start of Period	01-gen-20	01-gen-21	01-gen-22	01-gen-23	01-gen-24	01-gen-25	01-gen-26	01-gen-27	01-gen-28
			End of Period	31-dic-20	31-dic-21	31-dic-22	31-dic-23	31-dic-24	31-dic-25	31-dic-26	31-dic-27	31-dic-28
2.1	**Tangible assets**											
	Beginning of period		EUR M					2.548	2.711	2.825	2.885	2.881
	Tangible capex		EUR M					589	635	681	726	767
	Depreciation		EUR M				(381)	(426)	(520)	(622)	(730)	(844)
	End of period		EUR M				2.548	2.711	2.825	2.885	2.881	2.804
	Existing assets		2.548					(381)	(381)	(381)	(381)	(381)
	CAPEX 2022	2024	589					(45)	(91)	(91)	(91)	(91)
	CAPEX 2023	2025	635						(49)	(98)	(98)	(98)
	CAPEX 2024	2026	681							(52)	(105)	(105)
	CAPEX 2025	2027	726								(56)	(112)
	CAPEX 2026	2028	767									(59)
	Total depreciation							(426)	(520)	(622)	(730)	(844)
2.2	**Intangible assets**											
	Beginning of period		EUR M					8.125	8.353	8.608	8.890	9.197
	Intangible capex		EUR M					416	449	481	512	541
	Amortization		EUR M				(188)	(188)	(193)	(199)	(206)	(213)
	End of period		EUR M				8.125	8.353	8.608	8.890	9.197	9.526

The table above represents the projected values for tangible and intangible assets. It highlights that tangible asset depreciation is expected to slightly outpace tangible CAPEX, resulting in an end-of-period value in line with 2023 levels, expressing the company's desire to improve and upgrade existing infrastructure rather than large-scale investments. On the contrary, intangible assets investments are projected to increase, with intangible assets growing by €1,4 billion by 2028 compared to 2023, due to the company's strategic focus on digitalization, software development, intellectual property and innovation-driven growth. As the AD&S industry increasingly shifts towards high-tech solutions, cybersecurity, and AI-driven advancements, Leonardo is expected to reallocate capital from tangible assets toward intangible assets to strengthen its competitive edge in these areas and adapt to recent industry trends prioritizing digital capabilities and technological advancements.

- DSO, DPO and DIO: assumed to remain constant at 2023 levels, reflecting the expectation that there will be no significant changes in customer payment terms, supplier payment periods or inventory turnover throughout the forecasted period, with the Working Capital subject to changes in other current assets & liabilities.
- Other current Assets & Liabilities: Since historical data show consistency, forecasted values are set equal to the historical average of all four years, from 2020 to 2023, ensuring continuity and stability in projections.

Therefore, Working Capital forecasts result as follows:

Table 9 - Working Capital projections

	Year Reference	Actual	Actual	Actual	Actual	Expected	Expected	Expected	Expected	Expected
	Start of Period	01-gen-20	01-gen-21	01-gen-22	01-gen-23	01-gen-24	01-gen-25	01-gen-26	01-gen-27	01-gen-28
	End of Period	31-dic-20	31-dic-21	31-dic-22	31-dic-23	31-dic-24	31-dic-25	31-dic-26	31-dic-27	31-dic-28
Trade receivables	EUR M	3.033	3.203	3.338	3.685	4.176	4.505	4.832	5.146	5.437
Trade payables	EUR M	(3.619)	(3.372)	(3.054)	(3.268)	(3.674)	(3.931)	(4.182)	(4.413)	(4.621)
Inventory	EUR M	8.941	9.234	8.990	9.329	10.572	11.406	12.234	13.027	13.764
Other current assets & liabilities	EUR M	(8.369)	(8.980)	(9.294)	(9.788)	(10.966)	(11.830)	(12.689)	(13.512)	(14.276)
Deferred taxes	EUR M	860	695	887	945	945	945	945	945	945
Long term provisions	EUR M				(1.087)	(1.087)	(1.087)	(1.087)	(1.087)	(1.087)

From the table above it can be seen how the Working Capital is affected by only the change in other current assets & liabilities, that will result in a small variation in the cash flow, when the delta working capital will be considered.

Deferred Taxes are estimated to remain constant and equal to 2024 value. It must be noted that in this line item, Leonardo includes "real" deferred taxes related to income taxes and reclassifies other balance sheet items, such as provisions for risks and impairments.

5.4. Financing, Tax and other Assumptions

As can be seen from the table below, Earnings per Share (EPS) and Dividend per Share (DPS) are expected to remain stable over the forecasted period, with the EPS aligning to the average of the four historical years while the DPS equal to the average of last three years, from 2020 to 2023, excluding 2021 as an outlier. For 2024, in line with the company's statement, a double DPS has been incorporated in the assumption, with the value for the following years expected to return to the standard €0,14 per share. As a result, the retained earnings will be projected as the sum of the beginning of the period value and the net income of the year, to which the dividends will be subtracted, reaching the end of the period value. Minorities and Share Capital will be kept constant.

Table 10 - Debt and Equity projections

	Year Reference	Actual	Actual	Actual	Actual	Expected	Expected	Expected	Expected	Expected
	Start of Period	01-gen-20	01-gen-21	01-gen-22	01-gen-23	01-gen-24	01-gen-25	01-gen-26	01-gen-27	01-gen-28
	End of Period	31-dic-20	31-dic-21	31-dic-22	31-dic-23	31-dic-24	31-dic-25	31-dic-26	31-dic-27	31-dic-28
EPS		0,05	0,09	0,13	0,08	0,09	0,09	0,09	0,09	0,09
DPS		0,14	0,00	0,14	0,14	0,28	0,14	0,14	0,14	0,14
ST debt as a % of Operating Working Capital		22%	17%	12%	21%	17,9%	17,9%	17,9%	17,9%	17,9%
Bank loans as a % of Fixed Assets		7%	17%	18%	12%	15,7%	15,7%	15,7%	15,7%	15,7%
Effective interest rate for debt			3,0 %	2,7 %	2,4 %	2,7 %	2,7 %	2,7 %	2,7 %	2,7 %
Bonds issuance schedule										
Bonds maturity schedule						(600)	(500)	(500)		
Effective interest rate for cash / overdraft			0,0 %	0,3 %	1,6 %	1,6 %	1,6 %	1,6 %	1,6 %	1,6 %

Short-term loans to sustain operational needs will be maintained constant at the four-year historical average, equal to 17,9% of working capital, ensuring that Leonardo's liquidity and day-to-day financing remain stable, aligned with historical funding patterns. Bank loans will be kept equal to the last three-year historical average of bank loans as a percentage of fixed assets, excluding 2020 values as an outlier, equal to 15,7%, preventing distortions caused by

exceptional circumstances and ensuring stability in financing. Bonds are expected to be repaid according to the scheduled maturities, with no new bond issuances forecasted, leading to a negative debt position, i.e. net cash by the end of the forecasted period. This reflects a stable financial scenario where Leonardo does not rely on bond financing for growth. Additionally, with no exceptional dividend distributions (except double DPS in 2024) and significant improvements in marginality and profitability thanks to cost-savings, the end value of cash and cash equivalents are projected to exceed the gross debt, reaching a negative net financial position.

Taxes and VAT will remain aligned with Italian tax regulations, with VAT set at 22%, IRES (corporate income tax) at 24%, and IRAP (regional production tax) at 3.9%. IRES applies to corporate profits, while IRAP is a tax on business activities calculated on the net value of production rather than profit.

Also, other balance sheet forecasts, such as employee severance, general investments and other non-operational assets/liabilities will be assumed to be constant and equal to 2023 values. Other income will be assumed to be zero.

5.5. Statements Output

Having projected all the assumptions necessary for Leonardo's industrial plan, the next step is to forecast the three financials statements: Income Statement, Balance Sheet and Cash Flow. The tables are reported below in a condensed version and fully in the appendix (*Appendix n° 10-11-12*).

Table 11 - Condensed Income Statement

	Year Reference	Actual	Actual	Actual	Actual	Expected	Expected	Expected	Expected	Expected
	Start of Period	01-gen-20	01-gen-21	01-gen-22	01-gen-23	01-gen-24	01-gen-25	01-gen-26	01-gen-27	01-gen-28
	End of Period	31-dic-20	31-dic-21	31-dic-22	31-dic-23	31-dic-24	31-dic-25	31-dic-26	31-dic-27	31-dic-28
Sales	EUR M	13.410	14.135	14.713	15.291	17.329	18.696	20.052	21.353	22.560
Cost of goods sold (COGS) exc. D&A	EUR M	(8.120)	(8.674)	(9.114)	(9.467)	(10.642)	(11.388)	(12.114)	(12.785)	(13.385)
Gross Profit	**EUR M**	**5.290**	**5.461**	**5.599**	**5.824**	**6.687**	**7.308**	**7.938**	**8.569**	**9.175**
Research & Development	EUR M	(1.646)	(1.803)	(2.003)	(2.201)	(2.253)	(2.430)	(2.607)	(2.776)	(2.933)
Other Operating Exp/(Inc) - Net	EUR M	(137)	(53)	(103)	(74)	(90)	(97)	(104)	(111)	(117)
Selling, general & adminsitrative expenses (S(	EUR M	(2.172)	(2.205)	(1.919)	(1.917)	(2.114)	(2.234)	(2.346)	(2.445)	(2.527)
EBITDA	**EUR M**	**1.335**	**1.400**	**1.574**	**1.632**	**2.230**	**2.546**	**2.881**	**3.237**	**3.598**
Depreciation	EUR M	(366)	(335)	(364)	(381)	(426)	(520)	(622)	(730)	(844)
Amortization	EUR M	(147)	(150)	(187)	(188)	(188)	(193)	(199)	(206)	(213)
EBIT	**EUR M**	**822**	**915**	**1.023**	**1.063**	**1.616**	**1.832**	**2.060**	**2.301**	**2.541**
EBT	**EUR M**	**253**	**753**	**983**	**824**	**1.527**	**1.756**	**2.001**	**2.260**	**2.518**
Income taxes	EUR M	(12)	(166)	(51)	(129)	(429)	(493)	(561)	(632)	(704)
Net income	**EUR M**	**241**	**587**	**932**	**695**	**1.097**	**1.263**	**1.440**	**1.628**	**1.815**

Table 12 - Condensed Balance Sheet

	Year Reference	Actual	Actual	Actual	Actual	Expected	Expected	Expected	Expected	Expected
	Start of Period	01-gen-20	01-gen-21	01-gen-22	01-gen-23	01-gen-24	01-gen-25	01-gen-26	01-gen-27	01-gen-28
	End of Period	31-dic-20	31-dic-21	31-dic-22	31-dic-23	31-dic-24	31-dic-25	31-dic-26	31-dic-27	31-dic-28
Noncash working capital	**EUR M**	**(472)**	**(331)**	**(211)**	**(184)**	**(33)**	**8**	**53**	**106**	**162**
Tangible assets	EUR M	2.015	2.122	2.368	2.548	2.711	2.825	2.885	2.881	2.804
Intangible assets	EUR M	7.174	7.609	7.946	8.125	8.353	8.608	8.890	9.197	9.526
Fixed assets	**EUR M**	**9.189**	**9.731**	**10.314**	**10.673**	**11.063**	**11.434**	**11.776**	**12.078**	**12.329**
Core capital employed	**EUR M**	**8.717**	**9.400**	**10.103**	**10.489**	**11.031**	**11.442**	**11.829**	**12.184**	**12.491**
Surplus assets	**EUR M**	**52**	**246**	**698**	**594**	**594**	**594**	**594**	**594**	**594**
Net capital employed	**EUR M**	**8.769**	**9.646**	**10.801**	**11.083**	**11.625**	**12.036**	**12.423**	**12.778**	**13.085**
Net debt	**EUR M**	**3.491**	**3.191**	**3.102**	**2.522**	**2.128**	**1.360**	**390**	**(800)**	**(2.225)**
Group equity	**EUR M**	**5.267**	**6.428**	**7.183**	**7.800**	**8.736**	**9.915**	**11.272**	**12.817**	**14.549**
Minorities	EUR M	11	27	516	761	761	761	761	761	761
Total equity	**EUR M**	**5.278**	**6.455**	**7.699**	**8.561**	**9.497**	**10.676**	**12.033**	**13.578**	**15.310**
Total funds invested	**EUR M**	**8.769**	**9.646**	**10.801**	**11.083**	**11.625**	**12.036**	**12.423**	**12.778**	**13.085**

Table 13 - Condensed Cash Flow Statement

	Year Reference	Actual	Actual	Actual	Actual	Expected	Expected	Expected	Expected	Expected
	Start of Period	01-gen-20	01-gen-21	01-gen-22	01-gen-23	01-gen-24	01-gen-25	01-gen-26	01-gen-27	01-gen-28
	End of Period	31-dic-20	31-dic-21	31-dic-22	31-dic-23	31-dic-24	31-dic-25	31-dic-26	31-dic-27	31-dic-28
EBIT		822	915	1.023	1.063	1.616	1.832	2.060	2.301	2.541
FCFO			**(23)**	**35**	**380**	**623**	**910**	**1.098**	**1.304**	**1.525**
FCFE			**(324)**	**(1.280)**	**729**	**374**	**572**	**768**	**1.477**	**1.694**
Change in cash			**266**	**(968)**	**896**	**212**	**489**	**685**	**1.394**	**1.611**

The key takeaways from the output statements are:

- Leonardo will reach €22,6 billion in sales in 2028, with an expected $CAGR_{24\text{-}28}$ of 6,8%, aligned with the company goals.
- Marginality will improve, reaching an EBITDA margin in 2028 equal to 15,9%, 5 p.p. higher than the 2023 margin. This will be obtained with the cost optimization described before in the "Operating Expenses assumptions" paragraph and will be in line with the group objective of achieving €1,8 billion gross savings over the plan's duration by enhancing efficiency and reducing costs across the organization.
- Net income is expected to nearly triplicate over the forecasted period, surpassing €1,8 billion by the end of the projection in 2028, reflecting operational performance and financial stability. The resulting net income will be available for distribution, though specific allocation plans are not included in the forecast.
- Noncash Working Capital is expected to remain constant, with the only variation being in other current assets & liabilities.
- By the end of the forecast period, Leonardo is expected to accumulate excess cash, resulting in a negative net financial position (i.e., more cash than debt), due to strong financial performance, the absence of extraordinary dividend distributions (except the double dividend in 2024), and no new bond issuances. Without additional financing, the company will generate and retain significant cash reserves, strengthening its overall liquidity position.

- Gross Cash Flow and Free Cash Flow from Operations (FCFO) are expected to grow in line with revenue expansion over the forecast period while Free Cash Flow to Equity (FCFE) will be negatively impacted in 2024 due to scheduled bond repayments. Despite this temporary effect overall, Leonardo will generate cash, leading to a positive change in cash throughout the forecast period, except for 2024.

With the industrial plan complete, the remaining steps are estimating WACC, computing the Enterprise Value and estimating the Equity Value using the equity bridge.

5.6. Leonardo's WACC

The cost of equity is calculated using the CAPM model. The components are estimated as follows:

- The risk-free rate is assumed to be the yield on a 10-year German government bond (German Bund), which as of 31 December of 2024, the valuation date, was equal to 2,37%.
- The chosen leverage D/E is 13,84%, the Group's leverage ratio at the valuation date.
- Unlevered Beta is calculated as the industry average based on a selected panel of peers and re-levered using the Hamada formula (*Appendix n° 13*), resulting in an unlevered beta of 0,93 and a levered beta equal to 1,03. A regression beta was calculated using data from the last five years, with the FTSE MIB index as the market benchmark for comparison. This yielded a raw beta of 0,96 (0,97 adjusted) and an unlevered beta of 0,88. It was decided to adopt the industry average beta instead of the regression beta, as Leonardo operates globally and is not solely influenced by the Italian market. Since the FTSE MIB index primarily reflects the Italian economy, it may not fully capture Leonardo's exposure to systematic risk in international markets, making the industry average a more representative measure.
- Market Risk Premium is assumed to be equal to the Italian MRP estimated by Fernandez for 2024.
- A Country Risk Premium (CRP) is added and calculated as a weighted average of the CRP indicated by Damodaran of the countries where Leonardo operates, based on the percentage of sales generated in each region. The regions are:

	% of sales	CRP
Italy	18%	2,93%
United Kingdom	11%	0,80%
Rest of Europe (GER)	24%	0,00%
United States of America	26%	0,00%
Rest of the World (JAP)	21%	0,94%

For the Rest of Europe, Germany has been used as a reference country, while Japan has been used for the Rest of the World reference.

Using the CAPM model, the levered cost of equity results equal to 9,52%.

The cost of debt has been estimated using Damodaran's model, incorporating the same risk-free rate used in the cost of equity calculation, along with a credit spread of 0.75%, derived from Leonardo's 2023 Interest Coverage Ratio (ICR) of 9.2x and based on Damodaran's "*Interest Coverage Ratios and Ratings: High Market Cap Firms*" table. This results in a cost of debt equal to 3,1%.

Based on the selected capital structure, the gearing ratio is set at 12,2% debt and 87,8% equity of total capital. Applying these inputs, the Weighted Average Cost of Capital (WACC) is estimated at 8,7%.

WACC computations and support tables are reported in the Appendix (*from Appendix n°13 to n°16)*

5.7. Valuations

Multiple valuations were conducted. The main assumptions used among all methods are:

- Terminal growth rate: 2,00%
- WACC: 8,65%
- Cost of Equity Unlevered: 8,92%
- Cost of Equity Levered: 9,52%
- Cost of Debt: 3,12%
- Theoretical Tax Rate: 27,90%
- Shares Outstanding: 578.150.395

The terminal growth rate is based on Italy's nominal GDP growth, adjusted for inflation and sector-specific market trends, especially given that the AD&S industry tends to outpace general economic growth due to sustained government defence spending, technological advancements and increasing global security demands, justifying a 2% rate. This reflects a balance between long-term economic expansion and industry-specific growth factors, such as rising defence budgets, ongoing innovation in aerospace and cybersecurity, and strong demand for advanced

defence systems. Furthermore, Leonardo's strategic focus on high-growth areas like cybersecurity, space, and AI reinforces the sustainability of a growth rate exceeding GDP.

For all models, net debt used is the estimated value as of 31 December 2024, based on the values reported in the third quarter results and the projections made in the industrial plan. Since surplus assets are not disclosed in the quarterly report, they are assumed to remain constant at their 2023 level for all the forecasted periods. This assumption is also justified by the fact that surplus assets are primarily driven by investments, which, as previously stated, are not projected in this model, due to their high uncertainty.

5.7.1. DCF Asset side (FCFO)

The first valuation method used was the standard DCF approach. The FCFO projections are derived from the company's industrial plan described in the previous sections and discounted at the WACC calculated before to find the present value. For terminal value, the standard Gordon Growth Model formula was applied (FCFO*(1+g))/(WACC-g), yielding a final discounted value of €15.438 million.

The Enterprise Value was determined as the sum of the present value of future cash flows and the present value of the terminal value, which resulted in €19.582 million. To derive the Equity Value, the usual equity bridge was used, therefore subtracting net debt and minorities and adding surplus assets, resulting in a value of €17.286 million, which divided by the shares outstanding, is equal to a target price of €29,90.

Table 14 - DCF Asset Side Valuation

Year Reference	Actual	Expected	Expected	Expected	Expected	Expected	
Start of Period	01-gen-23	01-gen-24	01-gen-25	01-gen-26	01-gen-27	01-gen-28	
End of Period	31-dic-23	31-dic-24	31-dic-25	31-dic-26	31-dic-27	31-dic-28	
		1	2	3	4	5	TV
FCFO		623	910	1.098	1.304	1.525	1.555
Discount factor (WACC)		0,920	0,847	0,780	0,718	0,660	
Present value of FCFO		574	771	856	936	1.007	
Terminal value						23.378	
PV of FCFO	4.143						
PV of TV	15.438						
Enterprise value	**19.582**						
(Net debt)	(2.128)	Estimated Value as of 31/12/24					
Surplus assets (inc. associates & pensions)	594	Estimated Value as of 31/12/24					
(Minorities)	(761)	Estimated Value as of 31/12/24					
Equity value	**17.286**						
Number of shares (NOSH) (m)	578						
Equity value per share (€)	**29,90**						
Implied EV / EBITDA 2023A multiple	12,0x						

Two sensitivity analyses have been conducted to see how the equity value per share and the implied EV/EBITDA multiple changes at changing WACC and terminal growth.

Table 15 - DCF Asset side - Share price sensitivity analysis

WACC \ Perpetual Growth	1,5%	1,8%	2,0%	2,3%	2,5%
7,7%	33,65	34,94	36,33	37,85	39,52
8,2%	30,63	31,70	32,85	34,10	35,46
8,7%	28,03	28,93	29,90	30,94	32,07
9,2%	25,78	26,54	27,36	28,24	29,19
9,7%	23,80	24,46	25,16	25,91	26,71

It can be seen how the equity value per share is highly affected by changes in WACC and terminal growth rate, ranging from a minimal value of €23,80 per share to a maximum of €39,52. These two variables significantly affect the valuation, as higher growth rates increase expected future cash flows, boosting valuations, while higher discount rates lower the present value of future cash flows, thus reducing valuations.

Table 16 - DCF Asset side - Implied EV/EBITDA sensitivity analysis

WACC \ Perpetual Growth	1,0%	1,5%	2,0%	2,5%	3,0%
7,7%	12,5x	13,3x	14,3x	15,4x	16,8x
8,2%	11,6x	12,3x	13,0x	14,0x	15,1x
8,7%	10,8x	11,3x	12,0x	12,8x	13,7x
9,2%	10,0x	10,5x	11,1x	11,7x	12,5x
9,7%	9,4x	9,8x	10,3x	10,9x	11,5x

Affected by the same logic, the implicit EV/EBITDA multiple ranges between a 9,4x multiple and a 16,8x multiple.

5.7.2. Adjusted Present Value (APV)

The second valuation method applied was the Adjusted Present Value (APV). In this approach, the same FCFO and TV used in the DCF valuation above are discounted at the cost of equity unlevered (8,6%), reaching the unlevered value of the company. The tax shield (ITS) value is calculated and added to determine the EV.

Table 17 - Terminal Value of Tax Shields

Terminal tax shield	*2028*	*TV 2029*
Tax shields	5	8
Tax shield on interest expense		*35*
Tax effect of interest income		*(27)*
Gross debt	4.573	4.664
Cash (overdraft)	6.797	6.933

Assumptions	
Terminal growth rate	2,0 %
Cost of debt	3,1 %
Interest income rate	1,6 %
Income tax rate (with interest deductibility)	24,0 %

Tax shields, since the specific cost of debt for each type is unavailable, are derived from the difference between the operational taxes, estimated in the cash flow statement as EBIT multiplied by the tax rate, and income taxes, which are recorded in the income statement and computed partially on EBIT (IRAP at 3,9%) while the majority is computed on EBT (IRES at 24%). The tax shield's terminal value accounts for tax savings on interest expenses and tax costs on interest income. Tax savings are estimated using the projected gross debt for 2029, which is obtained by applying the terminal growth rate factor to the gross debt projected

for 2028. This figure is then multiplied by the cost of debt and tax rate. Tax costs are calculated using the projected cash overdraft, multiplied by the assumed interest income rate (estimated equal to the 2023 level) and the tax rate.

This results in a final value for tax shields of €8 million, which divided by the difference between the cost of debt and the growth rate, results in a discounted terminal value of €592 million.

The potential bankruptcy costs are subtracted from the computation of the Equity value. These costs are computed starting from the probability of default taken from Refinitiv Eikon structural credit risk model, which is associated with the current company rating, BBB, yielding a probability of default equal to 0,07%. This percentage is multiplied by the bankruptcy costs, which are assumed to be 25% of the unlevered firm value, accounting for direct and indirect expenses.

The Enterprise Value calculated under the APV method amounted to €19.431 million. Adjusting this using the same equity bridge as in the DCF analysis resulted in an Equity Value of €17.136 million, equivalent to €29,64 per share.

Table 18 - APV Model Valuation

Year Reference	Actual	Expected	Expected	Expected	Expected	Expected	
Start of Period	01-gen-23	01-gen-24	01-gen-25	01-gen-26	01-gen-27	01-gen-28	
End of Period	31-dic-23	31-dic-24	31-dic-25	31-dic-26	31-dic-27	31-dic-28	
FCFO		623	910	1.098	1.304	1.525	1.555
Discount factor (kEU)		0,918	0,843	0,774	0,711	0,652	
Present value of FCFO		572	767	850	927	995	
Terminal value						22.483	
PV of FCFO	4.111						
PV of TV	14.667						
Unlevered value	18.778						
Accounting yealry tax shields		21	18	14	10	5	8
Discount factor (kD)		0,970	0,940	0,912	0,885	0,858	
Present value of TS		21	17	13	9	5	
Terminal value						689,9	
PV of TS	65						
PV of TV	592						
Value of tax shields	656						
Probability of Default (EIKON model | BBB- rating)	0,07%						
Bankrupcty costs (as % of Unlevered Value)	25%						
Bakruptcy Costs	(3)						
Enterprise value	**19.431**						
(Net debt)	(2.128)	Estimated Value as of 31/12/24					
Surplus assets (inc. associates & pensions)	594	Estimated Value as of 31/12/24					
(Minorities)	(761)	Estimated Value as of 31/12/24					
Equity value	**17.136**						
Number of shares (NOSH) (m)	578						
Equity value per share (€)	**29,64**						
Implied EV / EBITDA 2023A multiple	11,9x						

The result reached with the APV is slightly lower than the one obtained with the DCF, and this is primarily due to the projected financial strategy, which is not issuing any new bonds, maintaining bank loans in line with fixed assets and increasing short-term financial debt in line with working capital needs. However, this effect is partially offset by the accumulation of cash, driven by strong growth margins and a conservative dividend distribution policy, in line with the current group policy. Consequently, the group is unable to fully capitalize on tax shields, leading to a slightly lower valuation under the APV method.

Testing the APV model against the cost of debt with a sensitivity analysis needs to model only higher cost of debts since the current group cost of debt is already low and more importantly, because lowering the cost of debt to a level closer to the terminal growth rate would make the terminal value of the tax shield meaningless (the perpetuity divides by a factor equal to cost of debt minus g). Therefore, as it can be seen in the sensitivity table above, by varying cost of debt and cost of equity unlevered, the equity value per share reaches a minimum value of €24,73 and a maximum value of €35,54.

kEU \ Cost of Debt	3,1%	3,4%	3,6%	3,9%	4,1%
7,9%	35,54	35,34	35,21	35,11	35,03
8,4%	32,36	32,16	32,02	31,92	31,85
8,9%	29,64	29,44	29,30	29,20	29,13
9,4%	27,29	27,09	26,95	26,85	26,78
9,9%	25,24	25,04	24,90	24,80	24,73

Table 19 - APV Model - Share price sensitivity analysis

5.7.3. DCF Equity side (FCFE)

Table 20 - DCF Equity Side Valuation

Year Reference	Actual	Expected	Expected	Expected	Expected	Expected	
Start of Period	01-gen-23	01-gen-24	01-gen-25	01-gen-26	01-gen-27	01-gen-28	
End of Period	31-dic-23	31-dic-24	31-dic-25	31-dic-26	31-dic-27	31-dic-28	
Noncash FCFE		342	536	725	1.421	1.620	1.652
Discount factor (kEL)		0,913	0,834	0,761	0,695	0,635	
Present value of FCFE		313	447	552	988	1.028	
Terminal value						21.959,9	
PV of FCFE	3.327						
PV of TV	13.935						
Equity value from continuing operations	**17.262**						
Cash	885	Estimated Value as of 31/12/24					
Surplus assets (inc. associates & pensions)	594	Estimated Value as of 31/12/24					
(Minorities)	(761)	Estimated Value as of 31/12/24					
Equity value	**17.980**						
Number of shares (NOSH) (m)	578						
Equity value per share (€)	**31,10**						
Gross debt	4.005	Estimated Value as of 31/12/24					
Enterprise value	**21.267**						
Implied EV / EBITDA 2023A multiple	13,0x						

The third valuation model used is the DCF from the equity perspective, so starting from the projected FCFE, discounted by the levered cost of equity, and adding the discounted terminal

value which is computed with the standard Gordon growth model (($FCFE_{2028}$*(1+g)/(K_{eL}-g)). This yields in an equity value derived from continuous operations equal to €17.262 million.

Unlike the traditional DCF method, this approach treats cash as an asset outside of the discounted FCFE: while the FCFE calculation includes interest income from cash holdings, it does not account for the "investment" in cash, represented by the change in cash across two years. To correct this, all cash effects are excluded, meaning that interest income (net of taxes) is deducted to determine the non-cash FCFE used in the valuation. Since this model's FCFE excludes the change in cash and the change in minorities, their contribution to value still has not been embedded. To obtain the final group Equity value, cash is added back and minorities are deducted. Similarly, surplus assets, considering that they neither generate profit and loss nor require reinvestment in forecasts, are not captured in the discounted FCFEs, therefore it needs to be added/subtracted. This approach yields an Equity value of €17.980 million, equivalent to €31,10 per share.

This approach results in a higher valuation, compared to the two previous models analysed, for two main reasons: firstly cash treatment, as this method explicitly adds back cash holdings and since the group is expected to accumulate cash in the projected period, this will result in a higher valuation, and secondly tax shields are not considered, avoiding the APV model limitation as they are not fully utilized.

Table 21 - DCF Equity Side - Share price sensitivity analysis

kEL \ Perpetual Growth	1,0%	1,5%	2,0%	2,5%	3,0%
8,5%	32,42	34,22	36,29	38,71	41,56
9,0%	30,22	31,75	33,51	35,53	37,89
9,5%	28,27	29,60	31,10	32,82	34,79
10,0%	26,55	27,70	28,99	30,46	32,14
10,5%	25,01	26,02	27,14	28,41	29,84

The same two sensitivity analysis as in the asset side DCF have been conducted, leading to similar results, as the dynamics are the same. The equity value per share ranges between a minimum of €25,01 and a maximum of €41,56.

Table 22 - DCF Equity Side - Implied EV/EBITDA sensitivity analysis

kEL \ Perpetual Growth	1,0%	1,5%	2,0%	2,5%	3,0%
8,5%	13,5x	14,1x	14,9x	15,7x	16,7x
9,0%	12,7x	13,3x	13,9x	14,6x	15,4x
9,5%	12,0x	12,5x	13,0x	13,6x	14,3x
10,0%	11,4x	11,8x	12,3x	12,8x	13,4x
10,5%	10,9x	11,2x	11,6x	12,1x	12,6x

The implicit EV/EBITDA multiple ranges between a 10,9x multiple and a 16,7x multiple.

5.7.4. Trading Multiples

Following the above-mentioned models, a comparable analysis was performed using the current trading multiples of publicly traded companies. The selected companies were:

- Rolls-Royce Holdings PLC (RR.L) – A prominent U.K.-based aerospace and defence propulsion leader, specialized in aircraft engines for military and commercial aviation, strongly aligning with Leonardo's aeronautics division.
- BAE Systems PLC (BAES.L) – One of U.K. major defence contractor focused on military aviation, naval systems and cybersecurity solutions, with significant overlaps with different Leonardo's business unit, such as avionics and military aircrafts, with also a shared involvement in European defence collaborations.
- Safran SA (SAF.PA) – Leading French aerospace and defence player, specialized in propulsion, avionics and defence electronics, strictly aligned with Leonardo's business units.
- Dassault Aviation SA (AM.PA) – Key French military and business jet manufacturer, with a similar focus on military aviation to Leonardo's, providing a relevant benchmark in European defence aerospace.
- Northrop Grumman Corp (NOC) – Major U.S. defence contractor with a strong defence electronics and avionics portfolio, making it a key benchmark for Leonardo's high-tech defence sector.
- Lockheed Martin Corp (LMT) – World's largest defence contractor, based in U.S. and specializes in military aircraft, missiles and defence systems, overlapping Leonardo's operations in these markets, with both companies serving NATO and international defence markets.
- L3Harris Technologies Inc (LHX) – U.S. defence technology firm, known for avionics, surveillance and secure communications systems, they are direct competitor of Leonardo in those business units.
- Textron Inc (TXT) – Diversified U.S. aerospace and defence manufacturer producing military and commercial aircraft, helicopters and unmanned systems, with a similar focus on rotary-wing aircraft and unmanned solutions to Leonardo.

These firms operate in aerospace, defence, avionics, and military technology, which are Leonardo's core sectors. They offer a geographically diverse benchmark, covering European (UK, France) and U.S. defence markets, where Leonardo competes. However, none perfectly

mirrors Leonardo's diversified portfolio, highlighting a key limitation of this valuation approach: while useful for comparative analysis, trading multiples may not fully capture Leonardo's unique business mix and market positioning.

Table 23 - Current Trading Multiples of Selected peers

All figures are in Euro millions	Country	Currency	Market. cap.	EV	EV / Sales Actual	EV / EBITDA Actual	EV/EBIT Actual	P/E Actual
Rolls-Royce Holdings PLC	UK	EURm	58.428	61.019	2,5x	14,4x	20,0x	32,0x
BAE Systems PLC	UK	EURm	41.730	44.431	1,6x	11,6x	16,9x	21,4x
Safran SA	France	EURm	89.852	89.364	3,2x	16,6x	22,5x	32,6x
Dassault Aviation SA	France	EURm	154.990	147.881	1,5x	9,0x	21,9x	23,7x
Northrop Grumman Corp	US	EURm	65.616	75.354	2,0x	14,0x	18,4x	16,9x
Lockheed Martin Corp	US	EURm	110.483	124.996	1,9x	15,5x	19,0x	16,4x
L3Harris Technologies Inc	US	EURm	38.248	49.607	2,4x	14,2x	22,0x	19,2x
Textron Inc	US	EURm	13.489	15.023	1,2x	12,9x	18,4x	12,0x
Average					**2,0x**	**13,5x**	**19,9x**	**21,8x**
Median					**1,9x**	**14,1x**	**19,5x**	**20,3x**

The actual multiples can be seen in the table above. The analysed multiples are EV/Sales, EV/EBITDA, EV/EBIT and P/E. Those multiples, in general, result higher than the ones estimated with the three models previously discussed. This is the result of recent trends in the sector, with prices of defence companies that are increasing after recent geopolitical events. Mainly the increased European Defence spending, with European companies boosting their defence budgets in response to escalating regional tensions and potential reductions in U.S. military support. Moreover, except for Textron, whose values align with Leonardo's estimates, the selected peers are larger in size and market capitalization. This results in higher valuations driven by liquidity and scale effects.

As it can be seen in the table below, the equity value per share ranges between €25,70, using the median P/E actual multiple, and €49,87, using the average EV/Sales actual multiple. The average equity value per share is €35,53, which indicates that Leonardo's stock value is underpriced compared its peers and therefore the company stock price has room to increase and align with market values.

Table 24 - Leonardo valuation based on trading multiples

Method	EV / Sales Actual Average	EV / Sales Actual Median	EV / EBITDA Actual Average	EV / EBITDA Actual Median	EV / EBITDA Actual Average	EV / EBITDA Actual Median	P/E Actual Average	P/E Actual Median
corresponding metric	Sales 2023 Actual	Sales 2023 Actual	EBITDA 2023 Actual	EBITDA 2023 Actual	EBIT 2023 Actual	EBIT 2023 Actual	Net income 2023 Actual	Net income 2023 Actual
corresponding metric	15.291	15.291	1.632	1.632	1.063	1.063	695	695
Multiple	2,0x	1,9x	13,5x	14,1x	19,9x	19,5x	21,8x	20,3x
Enterprise value	31.129	29.340	22.076	22.975	21.128	20.689		
(Net debt)	(2.128)	(2.128)	(2.128)	(2.128)	(2.128)	(2.128)		
Surplus assets (inc. associates & pensions)	594	594	594	594	594	594		
(Minorities)	(761)	(761)	(761)	(761)	(761)	(761)	(761)	(761)
Equity value	28.834	27.045	19.781	20.680	18.833	18.394	15.898	14.858
Shares Outstanding	578	578	578	578	578	578	578	578
Equity Value Per share	49,87	46,78	34,21	35,77	32,57	31,82	27,50	25,70
Net debt							2.128	2.128
(Surplus assets (inc. associates & pensions))							(594)	(594)
Minorities							761	761
Enterprise value							18.798	17.757
Implied multiples - DCF asset side	1,3x	1,3x	12,0x	12,0x	18,4x	18,4x	28,2x	28,2x
Implicit multiples - DCF equity side	1,1x	1,1x	10,6x	10,6x	16,2x	16,2x	24,8x	24,8x
Implicit multiples - APV	1,3x	1,3x	11,9x	11,9x	18,3x	18,3x	28,0x	28,0x
Average	1,2x	1,2x	11,5x	11,5x	17,6x	17,6x	27,0x	27,0x
Max	49,87							
Min	25,70							
Average	35,53							

5.7.5. Comparable Transaction

The last valuation method used is recent comparable transactions. It was performed searching for recent deals in the sector on Mergermarket database. Nine successful transactions that happened after October 2018 have been selected and the average and median EV/EBITDA multiples are respectively 12,1x and 10,9x, resulting in an Equity Value per Share of €30,3 and €26,7.

As can be seen in the table below, these valuation figures are slightly higher than those obtained from the previous valuation approaches, except for the above-mentioned trading multiples, primarily due to the nature of the selected transactions since four out of the nine transactions were public offers, which typically include substantial acquisition premiums paid by buyers to secure control of the target companies. These premiums reflect strategic synergies, competitive bidding, and control benefits, driving transaction multiples above those observed in a standard DCF valuation. As a result, the higher implied valuation from this approach should be interpreted with caution, considering the potential overstatement of intrinsic value when compared to a purely fundamental valuation framework. However, this method remains relevant for estimating a fair value for Leonardo, mainly since it is publicly listed, and privatization would likely require a public offer from another company or a fund. Consequently, while this approach provides valuable insights into potential acquisition pricing, it should

complement other valuation methodologies to ensure a balanced and comprehensive assessment.

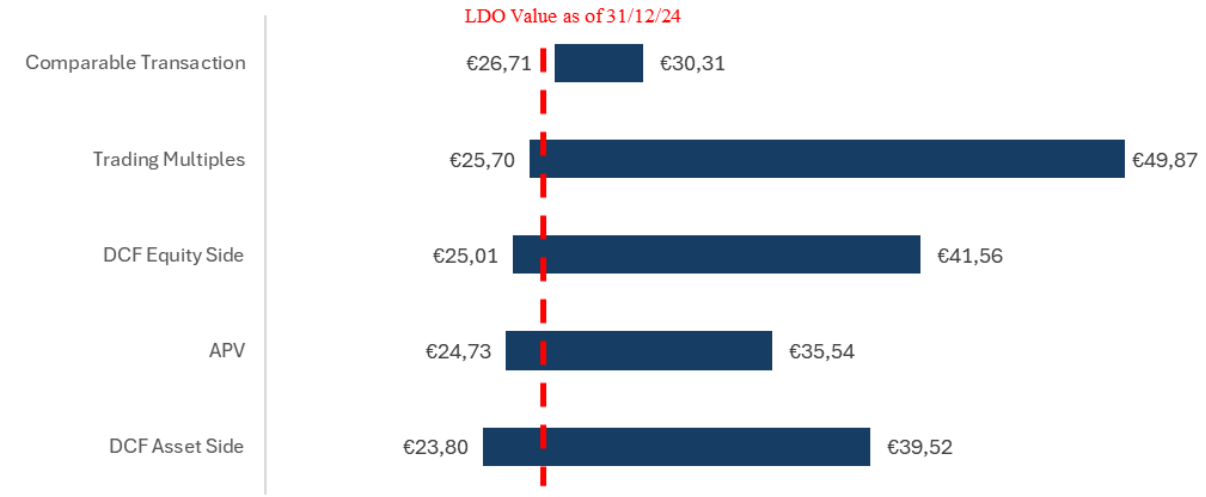
Table 25 - Leonardo valuation based on comparable transactions multiples

Method	EV/EBITDA	EV/EBITDA
	Average	*Median*
	EBITDA 2023	EBITDA 2023
corresponding metric	Actual	Actual
corresponding metric	1.632	1.632
Multiple	12,1x	10,9x
Enterprise value	**19.819**	**17.737**
(Net debt)	(2.128)	(2.128)
Surplus assets (inc. associates & pensions)	594	594
(Minorities)	(761)	(761)
Equity value	**17.524**	**15.442**
Shares Outstanding	**578,2**	**578,2**
Equity Value per share	**30,3**	**26,7**
Implicit multiples - DCF asset side	***11,9x***	***11,9x***
Implicit multiples - DCF equity side	***13,0x***	***13,0x***
Implicit multiples - APV	***11,9x***	***11,9x***

All transactions details can be found in the appendix (*Appendix n° 17)*

5.7.6. Football Field Valuation Summary

Table 26 - Football Field Valuation Summary



The football field chart above shows a comprehensive summary of Leonardo's valuation using multiple approaches, including Comparable Transactions, Trading Multiples, Discounted Cash Flow (DCF) methods, and Adjusted Present Value (APV), highlighting a significant upside potential, particularly when comparing market multiples. Notably, the Trading Multiples approach suggests a valuation range of €25,70 - €49,87, the highest upper bound among the

methodologies applied. In contrast, the DCF methods, both Equity Side, €25,01 - €41,56 and Asset Side, €23,80 - €39,52, suggest a more conservative but still promising outlook, the Comparable Transactions approach, with a valuation range of €26,71 - €30,31, implies a more modest valuation, whereas the APV method falls in between with €24,73 - €35,54.

The red dashed line in the chart represents Leonardo's value as of 31 December 2024, emphasizing that the current valuation sits on the lower end of multiple valuation methodologies and signalling a considerable opportunity for growth, particularly when viewed against the potential upside suggested by the Trading Multiples approach. Overall, the valuation analysis underscores Leonardo's potential for price appreciation, making it an attractive consideration for investors looking at its future prospects.

Therefore, based on the results outlined above, which lead to an average estimated stock price in the range between €28,11 and €32,32 based on the three intrinsic valuation approaches, respectively representing an 8,4% and 24,6% premium over the stock value at the valuation date, the recommendation is BUY.

The valuation range was determined by first computing the average of the three intrinsic valuation approaches and then adjusting it based on Leonardo's monthly stock volatility over the past year (7,0%). The upper and lower bounds were set by proportionally increasing and decreasing this average by the volatility.

6. Comparison with IB Report

The chosen IB report is conducted by the equity research team of Intermonte, an Italian investment bank, now operating under the Generali group, following the recent acquisition.

They estimate key figures for 2024 and 2025, values that are slightly lower than the one projected in the industrial plan used for the DCF and APV approaches. They expect Leonardo to reach €16.894 million in 2024, with an EBITDA of €2.045 million, and €17.758 million for 2025, with an EBITDA of €2.256 million. In the model the group is projected to reach €17.329 million and €18.696 million in 2024 and 2025 respectively, with EBITDA of €2.230 million and €2.546 million respectively.

These differences result from the incorporation of Leonardo's third-quarter results into the industrial plan, as well as recent developments that have led to an upward revision of the

projections. The Intermonte report, dated July 31, 2024, only includes data from the first half of the year, which explains the variance in estimates.

As it can be seen in the image below, the target price reached by Intermonte analysis is of €25,4, based on market prices for DRS and Helsoldt, and assuming a valuation of Leonardo's assets ex DRS/Helsoldt/MBDA/Space at 7.5x EV/EBITA 2024E.

Table 27 - Intermonte's Valuation

STUB	EV/EBITA	
Leonardo STUB (mkt price)	**2023E**	**2024E**
Eu mn		
Shares oustanding mn		578
Price per share		**22.71**
Mkt cap		13130
Net debt + Pension funds		2375
Group EV		**15505**
of which 72.3% of DRS		5095
of which 22.8% of Hensoldt		913
of which 25% of MBDA		2200
of which Space sector		1340
Group EV ex DRS/Hensoldt /MBDA/Space		**5957**
Group EBITA		1446
of which DRS		265
of which Hensoldt		37
of which MBDA		110
of which Space		35
EBITA ex DRS/Hensoldt/MBDA/Space		**1000**
LDO's EV/EBITA ex DRS/Helsoldt/MBDA/Space		**6.0**

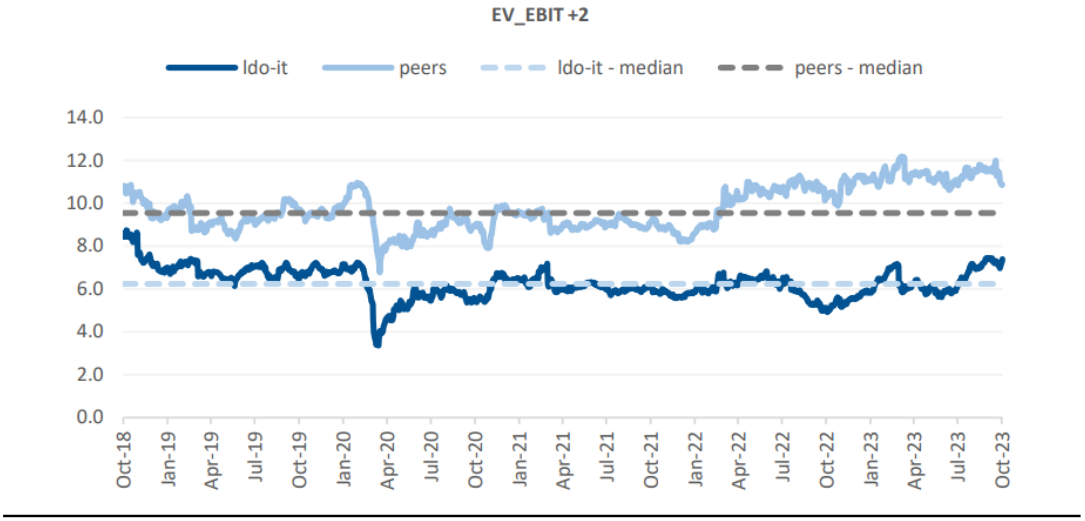
SOTP	
Leonardo SOP	**2024E**
Eu mn	
Leonardo EBITA ex DRS/Helsoldt/MBDA/Space	1000
Value of Leonardo ex DRS/Helsoldt/MBDA/Space	**7498**
EV/EBITA target for LDO ex DRS/Hensoldt/MBDA/Space	**7.5**
DRS EBITA	265
Value of Leonardo stake in DRS (mkt price in Eu mn)	5095
Value of Leonardo stake in Hensoldt (mkt price in Eu mn)	913
Value of stake in MBDA (estimates Eu mn)	2200
Value of LDO's Space Sector (estimates Eu mn)	1340
Group EV	**17046**
Net debt + Pension funds	2375
Fair Value of Equity	14671
Shares oustanding mn	578
Fair value per share	**25.4**

Source: Facset, Intermonte Sim

Although this fair price is derived using a different approach and the third quarter results are not incorporated, the outcome of the two analysis is the same. In both cases the stock is expected to outperform the current market prices, resulting in a BUY recommendation, signalling the positive momentum of the stock and the positive market trends.

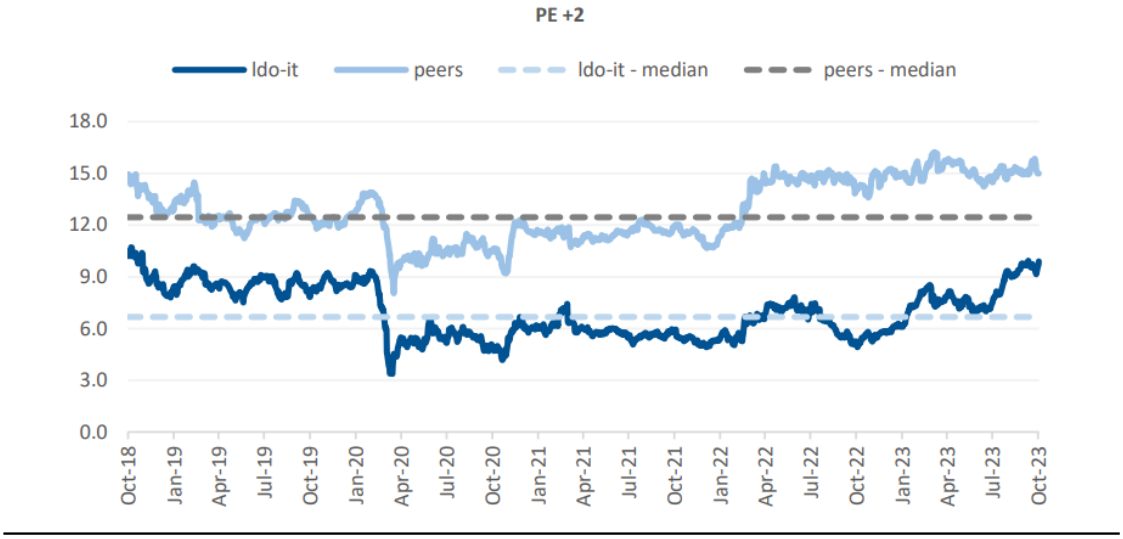
Moreover, Intermonte conducts a comparative analysis of Leonardo's valuation relative to its peers, focusing on two key multiples: EV/EBIT and P/E, highlighting the importance of carefully interpreting multiples when assessing a company's valuation.

Chart 8 - Leonardo EV/EBIT multiple compared to peers



Source: Facset, Intermonte Sim

Chart 9 - Leonardo P/E multiple compared to peers



Source: Facset, Intermonte Sim

As it can be seen from the two graphs above, Leonardo consistently trades below the average of its peers while closely following the same market trends, having the same up and downs.

This analysis highlights the need to consider sector-specific dynamics, company fundamentals, and market conditions when using multiples for valuation purposes.

7. Appendix

Appendix 1 - Historical Income Statement Restatements

RESTATEMENTS		Year Reference	Actual	Actual	Actual	Actual
		Start of Period	01-gen-20	01-gen-21	01-gen-22	01-gen-23
		End of Period	31-dic-20	31-dic-21	31-dic-22	31-dic-23
1 . Income Statement						
Sales	EUR M		13.410	14.135	14.713	15.291
Growth	% pa			5,4 %	4,1 %	3,9 %
Cost of goods sold (COGS) exc. D&A	EUR M		(8.120)	(8.674)	(9.114)	(9.467)
Gross Profit	**EUR M**		**5.290**	**5.461**	**5.599**	**5.824**
Research & Development	EUR M		(1.646)	(1.803)	(2.003)	(2.201)
Other Operating Expense/(Income) - Net	EUR M		(137)	(53)	(103)	(74)
Selling, general & adminsitrative expenses (SGAs)	EUR M		(2.172)	(2.205)	(1.919)	(1.917)
EBITDA	**EUR M**		**1.335**	**1.400**	**1.574**	**1.632**
Margin	% pa		10,0 %	9,9 %	10,7 %	10,7 %
Depreciation	EUR M		(366)	(335)	(364)	(381)
Amortization	EUR M		(147)	(150)	(187)	(188)
EBIT	**EUR M**		**822**	**915**	**1.023**	**1.063**
Margin	% pa		6,1 %	6,5 %	7,0 %	7,0 %
Interest income	EUR M		3	1	5	32
Interest expenses	EUR M		(168)	(137)	(116)	(147)
Other income / expense	EUR M		(404)	(26)	71	(124)
EBT	**EUR M**		**253**	**753**	**983**	**824**
Income taxes	EUR M		(12)	(166)	(51)	(129)
Net income	EUR M		**241**	**587**	**932**	**695**
Margin	% pa		1,8 %	4,2 %	6,3 %	4,5 %
Dividend distribution	EUR M		81	-	80	83
Retained portion	EUR M		160	587	852	612

Appendix 2 - Historical Balance Sheet Restatements

RESTATEMENTS	Year Reference Start of Period End of Period	Actual 01-gen-20 31-dic-20	Actual 01-gen-21 31-dic-21	Actual 01-gen-22 31-dic-22	Actual 01-gen-23 31-dic-23
2 . Balance Sheet					
Trade receivables	EUR M	3.033	3.203	3.338	3.685
Trade payables	EUR M	(3.619)	(3.372)	(3.054)	(3.268)
Inventory	EUR M	8.941	9.234	8.990	9.329
Other current assets & liabilities	EUR M	(8.369)	(8.980)	(9.294)	(9.788)
Deferred Tax	EUR M	860	695	887	945
Long term provisions	EUR M	(1.318)	(1.111)	(1.078)	(1.087)
Noncash working capital	**EUR M**	**(472)**	**(331)**	**(211)**	**(184)**
Tangible assets	EUR M	2.015	2.122	2.368	2.548
Intangible assets	EUR M	7.174	7.609	7.946	8.125
Fixed assets	**EUR M**	**9.189**	**9.731**	**10.314**	**10.673**
Core capital employed	**EUR M**	**8.717**	**9.400**	**10.103**	**10.489**
Investments	EUR M	1.303	1.426	2.253	2.336
Employee severance	EUR M	(400)	(362)	(315)	(301)
Other non-operational assets/liabilities	EUR M	(851)	(818)	(1.240)	(1.441)
Surplus assets	**EUR M**	**52**	**246**	**698**	**594**
Net capital employed	**EUR M**	**8.769**	**9.646**	**10.801**	**11.083**
ST financial debt	EUR M	1.824	1.558	1.082	2.044
Bank loans	EUR M	660	1.631	1.903	1.254
Bonds and securities	EUR M	3.220	2.481	1.628	1.631
Gross financial debt	**EUR M**	**5.704**	**5.670**	**4.613**	**4.929**
Excess cash & equivalents	EUR M	(2.213)	(2.479)	(1.511)	(2.407)
Net debt	**EUR M**	**3.491**	**3.191**	**3.102**	**2.522**
Share capital	EUR M	2.498	2.499	2.499	2.499
Retained earnings	EUR M	2.769	3.929	4.684	5.301
Group equity	**EUR M**	**5.267**	**6.428**	**7.183**	**7.800**
Minorities	EUR M	11	27	516	761
Total equity	**EUR M**	**5.278**	**6.455**	**7.699**	**8.561**
Total funds invested	**EUR M**	**8.769**	**9.646**	**10.801**	**11.083**

Appendix 3 - Historical Cash Flow Statement Restatements

RESTATEMENTS	Year Reference	Actual	Actual	Actual	Actual
	Start of Period	01-gen-20	01-gen-21	01-gen-22	01-gen-23
	End of Period	31-dic-20	31-dic-21	31-dic-22	31-dic-23
3 . Cash Flows					
EBIT		822	915	1.023	1.063
(Operational taxes)		(229)	(255)	(285)	(297)
NOPAT		593	660	738	766
Depreciation		366	335	364	381
Amortization		147	150	187	188
Gross cash flows		**1.106**	**1.145**	**1.289**	**1.335**
Change in noncash WC			(141)	(120)	(27)
Tangible CAPEX			(442)	(610)	(561)
Intangible CAPEX			(585)	(524)	(367)
FCFO			**(23)**	**35**	**380**
Tax shields			89	234	168
Interest income			1	5	32
Interest expenses			(137)	(116)	(147)
Other income			(26)	71	(124)
Change in gross debt			(34)	(1.057)	316
Change in surplus assets			(194)	(452)	104
FCFE			**(324)**	**(1.280)**	**729**
Dividends			-	(80)	(83)
Other movements in group equity			574	(97)	5
Change in minorities			16	489	245
Change in cash			266	(968)	896

Appendix 4 - Helicopters BU Sales Output

		Year Reference	Actual	Actual	Actual	Actual	Expected	Expected	Expected	Expected	Expected
		Start of Period	01-gen-20	01-gen-21	01-gen-22	01-gen-23	01-gen-24	01-gen-25	01-gen-26	01-gen-27	01-gen-28
		End of Period	31-dic-20	31-dic-21	31-dic-22	31-dic-23	31-dic-24	31-dic-25	31-dic-26	31-dic-27	31-dic-28
1.1 Helicopters											
Revenues:											
Italy	EUR M		705	824	707	1.003	1.145,4	1.299,0	1.462,7	1.635,3	1.815,2
United Kingdom	EUR M		632	511	518	490	486,0	482,1	478,2	474,3	470,5
Rest of Europe	EUR M		1.248	1.172	1.012	1.142	1.115,8	1.090,1	1.065,0	1.040,6	1.016,6
United States of America	EUR M		381	335	396	459	498,1	540,6	586,7	636,7	691,0
Rest of the World	EUR M		1.006	1.315	1.914	1.631	1.826,7	2.027,7	2.230,4	2.431,2	2.625,7
Total - Revenues (Net)	**EUR M**		**3.972**	**4.157**	**4.547**	**4.725**	**5.072,1**	**5.439,4**	**5.823,0**	**6.218,1**	**6.619,0**
Inter-sector revenues	EUR M		(9)	(8)	(14)	(7)	(6,5)	(6,1)	(5,7)	(5,3)	(5,0)
Total - Revenues	**EUR M**		**3.963**	**4.149**	**4.533**	**4.718**	**5.066**	**5.433**	**5.817**	**6.213**	**6.614**
Total - Revenues (Growth)				4,69%	9,26%	4,08%	7,37%	7,26%	7,07%	6,80%	6,46%

Appendix 5 - Defence, Sec. & Electronics BU Sales Output

		Year Reference	Actual	Actual	Actual	Actual	Expected	Expected	Expected	Expected	Expected
		Start of Period	01-gen-20	01-gen-21	01-gen-22	01-gen-23	01-gen-24	01-gen-25	01-gen-26	01-gen-27	01-gen-28
		End of Period	31-dic-20	31-dic-21	31-dic-22	31-dic-23	31-dic-24	31-dic-25	31-dic-26	31-dic-27	31-dic-28
1.2 Defence and Security Electronics											
Revenues:											
Italy	EUR M		1.574	1.734	1.567	1.805	1.886,8	1.972,3	2.061,7	2.155,2	2.252,9
United Kingdom	EUR M		826	1.008	1.237	1.220	1.396,4	1.584,3	1.781,7	1.985,9	2.193,6
Rest of Europe	EUR M		821	989	1.073	1.069	1.170,9	1.276,6	1.385,4	1.496,6	1.609,3
United States of America	EUR M		2.531	2.653	2.740	2.695	3.072,3	3.425,6	3.733,9	3.976,6	4.135,7
Rest of the World	EUR M		773	560	595	694	734,0	776,2	820,9	868,2	918,1
Total - Revenues (Net)	**EUR M**		**6.525**	**6.944**	**7.212**	**7.483**	**8.260,3**	**9.035,1**	**9.783,7**	**10.482,5**	**11.109,6**
Inter-sector revenues	EUR M		(545)	(636)	(681)	(688)	(749,6)	(816,7)	(889,7)	(969,4)	(1.056,1)
Total - Revenues	**EUR M**		**5.980**	**6.308**	**6.531**	**6.795**	**7.511**	**8.218**	**8.894**	**9.513**	**10.053**
Total - Revenues (Growth)				5,48%	3,54%	4,04%	10,53%	9,42%	8,22%	6,96%	5,68%

Appendix 6 - Aeronautics BU Sales Output

		Year Reference	Actual	Actual	Actual	Actual	Expected	Expected	Expected	Expected	Expected
		Start of Period	01-gen-20	01-gen-21	01-gen-22	01-gen-23	01-gen-24	01-gen-25	01-gen-26	01-gen-27	01-gen-28
		End of Period	31-dic-20	31-dic-21	31-dic-22	31-dic-23	31-dic-24	31-dic-25	31-dic-26	31-dic-27	31-dic-28
1.3 Aeronautics											
Revenues:											
Italy	EUR M		260	328	409	570	660,9	749,9	832,0	902,4	956,1
United Kingdom	EUR M		-	-	3	6	6,0	6,0	6,0	6,0	6,0
Rest of Europe	EUR M		791	897	985	1.252	1.360,7	1.478,9	1.607,3	1.746,9	1.898,6
United States of America	EUR M		920	606	824	806	785,0	764,6	744,7	725,3	706,4
Rest of the World	EUR M		1.422	1.879	1.339	940	930,5	921,2	911,9	902,7	893,7
Total - Revenues (Net)	**EUR M**		**3.393**	**3.710**	**3.560**	**3.574**	**3.743,2**	**3.920,5**	**4.101,9**	**4.283,3**	**4.460,8**
Inter-sector revenues	EUR M		(16)	(92)	(97)	(158)	(167,5)	(177,5)	(188,2)	(199,5)	(211,4)
Total - Revenues	**EUR M**		**3.377**	**3.618**	**3.463**	**3.416**	**3.576**	**3.743**	**3.914**	**4.084**	**4.249**
Total - Revenues (Growth)				7,14%	-4,28%	-1,36%	4,68%	4,68%	4,56%	4,35%	4,05%

Appendix 7 - Space BU Sales Output

		Year Reference	Actual	Actual	Actual	Actual	Expected	Expected	Expected	Expected	Expected
		Start of Period	01-gen-20	01-gen-21	01-gen-22	01-gen-23	01-gen-24	01-gen-25	01-gen-26	01-gen-27	01-gen-28
		End of Period	31-dic-20	31-dic-21	31-dic-22	31-dic-23	31-dic-24	31-dic-25	31-dic-26	31-dic-27	31-dic-28
1.4 Space											
Revenues:											
Italy	EUR M		535	595	650	701	806,2	927,1	1.056,9	1.183,7	1.302,1
United Kingdom	EUR M										
Rest of Europe	EUR M										
United States of America	EUR M										
Rest of the World	EUR M										
Total - Revenues (Net)	**EUR M**		**535**	**595**	**650**	**701**	**806,2**	**927,1**	**1.056,9**	**1.183,7**	**1.302,1**
Inter-sector revenues	EUR M										
Total - Revenues	**EUR M**		**535**	**595**	**650**	**701**	**806**	**927**	**1.057**	**1.184**	**1.302**
Total - Revenues (Growth)				11,21%	9,24%	7,85%	15,00%	15,00%	14,00%	12,00%	10,00%

Appendix 8 - Other BU Sales Output

		Year Reference	Actual	Actual	Actual	Actual	Expected	Expected	Expected	Expected	Expected
		Start of Period	01-gen-20	01-gen-21	01-gen-22	01-gen-23	01-gen-24	01-gen-25	01-gen-26	01-gen-27	01-gen-28
		End of Period	31-dic-20	31-dic-21	31-dic-22	31-dic-23	31-dic-24	31-dic-25	31-dic-26	31-dic-27	31-dic-28
1.5 Other											
Revenues:											
Italy	EUR M		398	372	417	465	492,9	517,5	538,2	554,4	565,5
United Kingdom	EUR M		-	-	51	5	5,0	5,0	5,0	5,0	5,0
Rest of Europe	EUR M		5	4	110	284	301,0	319,1	338,2	358,5	380,1
United States of America	EUR M		1	1	1	-	-	-	-	-	-
Rest of the World	EUR M		3	-	-	6	6,0	6,0	6,0	6,0	6,0
Total - Revenues (Net)	**EUR M**		**407**	**377**	**579**	**760**	**804,9**	**847,6**	**887,5**	**923,9**	**956,5**
Inter-sector revenues	EUR M		(317)	(317)	(393)	(398)	(434,3)	(473,9)	(517,1)	(564,3)	(615,7)
Total - Revenues	**EUR M**		**90**	**60**	**186**	**362**	**371**	**374**	**370**	**360**	**341**
Total - Revenues (Growth)				-33,33%	210,00%	94,62%	2,39%	0,84%	-0,90%	-2,89%	-5,24%

Appendix 9 - Operating Expenses Output

	Year Reference	Actual	Actual	Actual	Actual	Expected	Expected	Expected	Expected	Expected
	Start of Period	01-gen-20	01-gen-21	01-gen-22	01-gen-23	01-gen-24	01-gen-25	01-gen-26	01-gen-27	01-gen-28
	End of Period	31-dic-20	31-dic-21	31-dic-22	31-dic-23	31-dic-24	31-dic-25	31-dic-26	31-dic-27	31-dic-28
COGS	EUR M	(8.120)	(8.674)	(9.114)	(9.467)	(10.642)	(11.388)	(12.114)	(12.785)	(13.385)
Research & development	EUR M	(1.646)	(1.803)	(2.003)	(2.201)	(2.253)	(2.430)	(2.607)	(2.776)	(2.933)
Other Operating Exp/(Inc) - Net	EUR M	(137)	(53)	(103)	(74)	(90)	(97)	(104)	(111)	(117)
SGAs	EUR M	(2.172)	(2.205)	(1.919)	(1.917)	(2.114)	(2.234)	(2.346)	(2.445)	(2.527)

Appendix 10 - Output Income Statement

	Year Reference	Expected	Expected	Expected	Expected	Expected
	Start of Period	01-gen-24	01-gen-25	01-gen-26	01-gen-27	01-gen-28
	End of Period	31-dic-24	31-dic-25	31-dic-26	31-dic-27	31-dic-28
Sales	EUR M	17.329	18.696	20.052	21.353	22.560
Growth	% pa	13,3 %	7,9 %	7,3 %	6,5 %	5,7 %
Cost of goods sold (COGS) exc. D&A	EUR M	(10.642)	(11.388)	(12.114)	(12.785)	(13.385)
Gross Profit	**EUR M**	**6.687**	**7.308**	**7.938**	**8.569**	**9.175**
Research & Development	EUR M	(2.253)	(2.430)	(2.607)	(2.776)	(2.933)
Other Operating Exp/(Inc) - Net	EUR M	(90)	(97)	(104)	(111)	(117)
Selling, general & adminsitrative expenses (SGAs)	EUR M	(2.114)	(2.234)	(2.346)	(2.445)	(2.527)
EBITDA	**EUR M**	**2.230**	**2.546**	**2.881**	**3.237**	**3.598**
Margin	% pa	12,9 %	13,6 %	14,4 %	15,2 %	15,9 %
Depreciation	EUR M	(426)	(520)	(622)	(730)	(844)
Amortization	EUR M	(188)	(193)	(199)	(206)	(213)
EBIT	**EUR M**	**1.616**	**1.832**	**2.060**	**2.301**	**2.541**
Margin	% pa	9,3 %	9,8 %	10,3 %	10,8 %	11,3 %
Interest income	EUR M	41	47	56	73	98
Interest expenses	EUR M	(130)	(124)	(116)	(115)	(120)
Other income / expense	EUR M	-	-	-	-	-
EBT	**EUR M**	**1.527**	**1.756**	**2.001**	**2.260**	**2.518**
Income taxes	EUR M	(429)	(493)	(561)	(632)	(704)
Net income	**EUR M**	**1.097**	**1.263**	**1.440**	**1.628**	**1.815**
Margin	% pa	6,3 %	6,8 %	7,2 %	7,6 %	8,0 %
Dividend distribution	EUR M	162	83	83	83	83
Retained portion	EUR M	936	1.180	1.357	1.545	1.732

Appendix 11 - Output Balance Sheet

	Year Reference Start of Period End of Period	Expected 01-gen-24 31-dic-24	Expected 01-gen-25 31-dic-25	Expected 01-gen-26 31-dic-26	Expected 01-gen-27 31-dic-27	Expected 01-gen-28 31-dic-28
Trade receivables	EUR M	4.176	4.505	4.832	5.146	5.437
Trade payables	EUR M	(3.674)	(3.931)	(4.182)	(4.413)	(4.621)
Inventory	EUR M	10.572	11.406	12.234	13.027	13.764
Other current assets & liabilities	EUR M	(10.966)	(11.830)	(12.689)	(13.512)	(14.276)
Deferred Tax	EUR M	945	945	945	945	945
Long term provisions	EUR M	(1.087)	(1.087)	(1.087)	(1.087)	(1.087)
Noncash working capital	**EUR M**	**(33)**	**8**	**53**	**106**	**162**
Tangible assets	EUR M	2.711	2.825	2.885	2.881	2.804
Intangible assets	EUR M	8.353	8.608	8.890	9.197	9.526
Fixed assets	**EUR M**	**11.063**	**11.434**	**11.776**	**12.078**	**12.329**
Core capital employed	**EUR M**	**11.031**	**11.442**	**11.829**	**12.184**	**12.491**
Investments	EUR M	2.336	2.336	2.336	2.336	2.336
Employee severance	EUR M	(301)	(301)	(301)	(301)	(301)
Other non-operational assets/liabilities	EUR M	(1.441)	(1.441)	(1.441)	(1.441)	(1.441)
Surplus assets	**EUR M**	**594**	**594**	**594**	**594**	**594**
Net capital employed	**EUR M**	**11.625**	**12.036**	**12.423**	**12.778**	**13.085**
ST financial debt	EUR M	1.984	2.146	2.308	2.465	2.612
Bank loans	EUR M	1.732	1.790	1.843	1.891	1.930
Bonds and securities	EUR M	1.031	531	31	31	31
Gross financial debt	**EUR M**	**4.747**	**4.467**	**4.183**	**4.387**	**4.573**
Excess cash & equivalents	EUR M	(2.619)	(3.107)	(3.793)	(5.186)	(6.797)
Net debt	**EUR M**	**2.128**	**1.360**	**390**	**(800)**	**(2.225)**
Share capital	EUR M	2.499	2.499	2.499	2.499	2.499
Retained earnings	EUR M	6.237	7.416	8.773	10.318	12.050
Group equity	**EUR M**	**8.736**	**9.915**	**11.272**	**12.817**	**14.549**
Minorities	EUR M	761	761	761	761	761
Total equity	**EUR M**	**9.497**	**10.676**	**12.033**	**13.578**	**15.310**
Total funds invested	**EUR M**	**11.625**	**12.036**	**12.423**	**12.778**	**13.085**

Appendix 12 - Output Cash Flow Statement

Year Reference Start of Period End of Period	Expected 01-gen-24 31-dic-24	Expected 01-gen-25 31-dic-25	Expected 01-gen-26 31-dic-26	Expected 01-gen-27 31-dic-27	Expected 01-gen-28 31-dic-28
EBIT	1.616	1.832	2.060	2.301	2.541
(Operational taxes)	(451)	(511)	(575)	(642)	(709)
NOPAT	**1.165**	**1.321**	**1.486**	**1.659**	**1.832**
Depreciation	426	520	622	730	844
Amortization	188	193	199	206	213
Gross cash flows	**1.779**	**2.035**	**2.306**	**2.595**	**2.889**
Change in noncash WC	(151)	(41)	(45)	(52)	(56)
Tangible CAPEX	(589)	(635)	(681)	(726)	(767)
Intangible CAPEX	(416)	(449)	(481)	(512)	(541)
FCFO	**623**	**910**	**1.098**	**1.304**	**1.525**
Tax shields	21	18	14	10	5
Interest income	41	47	56	73	98
Interest expenses	(130)	(124)	(116)	(115)	(120)
Other income (expense)	-	-	-	-	-
Change in gross debt	(182)	(280)	(285)	204	186
Change in surplus assets	-	-	-	-	-
FCFE	**374**	**572**	**768**	**1.477**	**1.694**
Dividends	(162)	(83)	(83)	(83)	(83)
Other movements in group equity	(0)	0	(0)	0	(0)
Change in minorities	-	-	-	-	-
Change in cash	**212**	**489**	**685**	**1.394**	**1.611**

Appendix 13 - Peers for WACC Calculations

Source: Refinitiv *Data as of 31-12-2024*

		Country	Currency	Price Close	Shares Outstanding (m)	Market Cap.	Net Debt	Minorities	EV	Leverage	Raw beta	Adj. Levered Beta	Tax Rate	Unlevered Beta
Rolls-Royce Holdings PLC	RR.L	UK	EURm	6,87	8.503	58.428,26	2.599,78	-9,20	61.018,85	4,5%	1,90	1,60	21,0%	1,55
BAE Systems PLC	BAES.L	UK	EURm	13,88	3.007	41.730,13	2.605,55	95,46	44.431,14	6,2%	0,53	0,69	21,0%	0,65
Safran SA	SAF.PA	France	EURm	212,10	424	89.852,47	-564,00	76,00	89.364,47	(0,6%)	1,40	1,26	28,0%	1,27
Dassault Aviation SA	AM.PA	France	EURm	197,20	786	154.990,45	-7.109,12	0,00	147.881,32	(4,6%)	0,88	0,92	28,0%	0,95
Northrop Grumman Corp	NOC	US	EURm	453,29	145	65.615,89	9.738,18	0,00	75.354,07	14,8%	0,34	0,56	19,0%	0,50
Lockheed Martin Corp	LMT	US	EURm	469,37	235	110.482,95	14.513,48	0,00	124.996,43	13,1%	0,47	0,65	21,0%	0,59
L3Harris Technologies Inc	LHX	US	EURm	203,11	188	38.248,32	11.385,52	-26,83	49.607,01	-	0,74	0,83	25,0%	0,83
Textron Inc	TXT	US	EURm	73,88	183	13.488,78	1.534,08	0,00	15.022,86	11,4%	1,27	1,18	21,0%	1,08
Average			*** For calculation purpose all value are in EURm**							**5,6%**				**0,93**
Leonardo			EURm	26	578	14991,44	2128,06	761	17.881	14,20%	0,96	0,97	24,0%	0,88

Appendix 14 - Cost of Equity Calculations

D/E - Market equilibrium (industry) leverage	5,60%
Market cap (MV of equity) at the valuation date	14.991
Net debt at the valuation date (with MV of bonds)	2.075
D/E - Historical Leonardo leverage at the valuation date	13,84%
Chosen leverage D/E:	13,84%
Risk Free Rate (German Bund)	2,37%
Unlevered Beta (Industry average)	0,93
Tax Rate	24,00%
Re-Levered Beta (Hamada)	1,03
Market Risk Premium (Source: Italian Fernandez 2024)	6,20%
Country Risk Premium	0,80%
Levered cost of equity	9,52%
Unlevered cost of equity	8,92%

Appendix 15 - Cost of Debt Calculations

Risk Free Rate (Weighted average rate, based on % sales)	2,4%
2023 interest coverage	9,2x
Spread on debt (Source: Damodaran's model)	0,8%
Cost of debt	3,1%

Appendix 16 - WACC Calculations

D/(D+E)	12,2%
E/(D+E)	87,8%
WACC	8,7%

Appendix 17 - Comparable Transactions Summary

Source: Mergermarket *All values in EURm*

All figures are in Euro millions	*Announcement date*	*Target Country*	*Buyer*	*EV*	*EBITDA*	*EV / EBITDA Actual*
Kaman Corp	19-gen-24	United States	Arcline Investment Management LP	1.800,0	95,5	18,9x
OHB SE | OHB	07-ago-23	Germany	KKR & Co Inc | KKR	1.068,4	56,1	19,0x
PTB Group Ltd | PTB	18-ago-22	Australia	Precision Aviation Group Inc	144,0	12,1	12,0x
Figeac Aero SA | FGA	16-giu-22	France	TIKEHAU ACE CAPITAL	587,8	36,9	15,9x
Ashot Ashkelon Industries Ltd | ASHO	21-ott-21	Israel	First Israel Mezzanine Investors Ltd - FIMI	114,3	6,7	17,1x
Cobham plc	17-gen-20	United Kingdom	Advent International Corp	4.464,0	648,0	6,9x
Latecoere SA	20-dic-19	France	Searchlight Capital Partners LP	417,8	55,6	7,5x
ASCO Industries	26-ott-18	Belgium	Spirit Aerosystems Holdings	546,0	61,0	9,0x
Compania Espagnola de Sistemas Aeronauticos	01-ott-18	Spain	Heroux-Devtek	137,0	14,0	9,8x
Average						**12,1x**
Median						**10,9x**

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