

Italy - Software

Another value adding acquisition

9th July, 2018

ACQUISITION OF MYRIOS

RIC: PITE.MI
BBG: PITE IM

Piteco buys Myrios, a well-managed visible cash flow generative firm, bought fairly cheaply. The move adds additional interesting modules to the Piteco current selling proposition. The acquisition is EBITDA and value accretive.

Rating:

Buy

Price Target:

€ 5.80 (€ 6.00)

Upside/(Downside): 26.6%

Last Price: € 4.58

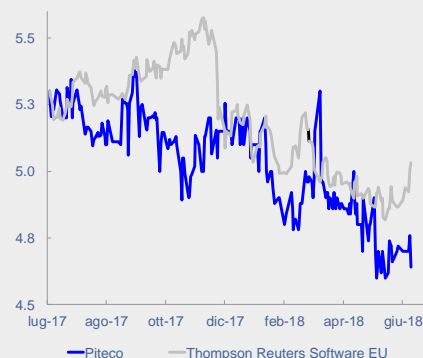
Market Cap.: € 82.7

1Y High/Low: € 5.59/€ 4.58

Free Float: 27.4%

Major shareholders:

Podini Family 64.0%
Management 8.6%



Stock price performance

	1M	3M	6M
Absolute	-0.4%	-7.7%	-12.9%
Rel.to Milan AIM	0.4%	-13.9%	-26.6%
Rel.to EU Sector	4.3%	-2.1%	-1.7%

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An EPS and value accretive move – Buy reiterated

Following the acquisition of Myrios, we have updated our model, factoring in the impact of its consolidation (as from Oct-18). The acquisition is accretive for Piteco at EBITDA and Net Profit level. In addition, on the back of the fairly cheap price paid, the move is value accretive for shareholders too. The result is a 9% and 10% upgrade in EPS in 2019-20. The sharp increase in recent weeks of the free risk rate to 2.6% (1.9% in our previous update) more than counterbalances the value increase stemming from the upgrade in estimates introduced with the Myrios consolidation. The new PT stands at € 5.80 (€ 6.00), 26.6% upside at current prices: we reiterate our positive stance on the shares.

Myrios develops treasury, capital markets, risk management and compliance software

Established in Turin in 2010, the firm has developed Myrios Financial Modelling, a software solution dedicated to the manufacturing and service industries as well as to banks. The solution helps clients with the complex calculations and procedures of the Finance & Risk Management areas. The business model is based on software usage license fees and on methodological-functional advisory, ensuring high revenues leveraged on the consolidated customer portfolio. The firm is very similar to Juniper, Piteco's US subsidiary: more than 90% of the turnover is represented by recurring fees, granting relevant cash-flow visibility. The company is well managed, offers hefty returns (even higher than those of Piteco) and generates huge visible cash flows.

A well-managed, highly visible, cash flow generative firm, paid 8.75x EBITDA₁₇

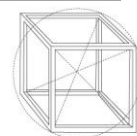
In 2017 Myrios revenues increased by 27% to € 2.8m, EBITDA totaled € 1.5m (+58% YoY, 55% margin) and NFP was positive for € 0.5m (€ 0.2m cash in Dec-16). Piteco is paying € 7.3m for a 56% stake by 15-Oct which corresponds to 8.75x EBITDA₁₇. The deal envisages a further two tranches following an "earn out" mechanism respectively at the approval of 2018 and 2019 accounts, according to a formula considering EBITDA growth, at the same multiple paid for the first tranche. There is also a put option by Myrios shareholders for the remaining 44% stake (Apr-21/Apr-25), with at least 50% of the price paid in Piteco shares.

A value added addition to group selling proposition

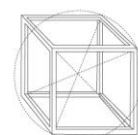
Prior to the acquisition, Piteco had a business relationship with Myrios, which allowed them to distribute a combined Piteco-Myrios software solution able to cover the functional tasks of Finance & Risk Management. With its acquisition, Piteco aims to exploit the synergies and to promote the innovative solution of Myrios FM on the corporate market using existing sales networks and regarding the Banking sector via Myrios and the US subsidiary Juniper.

Piteco, key financials and ratios

€ m	2016	2017	2018e	2019e	2020e
Sales	14.13	17.05	20.67	25.83	28.90
EBITDA	5.62	6.46	8.26	10.80	12.27
EBITDA adj.	5.62	6.72	8.26	10.80	12.27
EBIT	5.31	4.97	6.53	8.68	10.10
Net profit	4.50	3.39	4.50	5.82	6.85
Net profit adjusted	4.60	3.51	4.50	5.82	6.85
EPS adjusted	0.25	0.19	0.25	0.32	0.38
EPS adj. growth	45.2%	-23.7%	28.2%	29.4%	17.8%
DPS ord. €/s	0.15	0.15	0.16	0.19	0.23
Dividend yield	3.3%	3.3%	3.5%	4.2%	5.0%
NFP (cash)/debt	(1.95)	6.50	10.52	8.39	4.49
Free Cash Flow Yield	5.0%	5.5%	7.3%	9.6%	10.8%
PER x	18.1	23.7	18.5	14.3	12.1
PCF x	18.4	18.4	13.3	10.1	9.1
EV/Sales x	5.7	5.2	4.5	3.5	3.0
EV/EBITDA x	14.4	13.8	11.3	8.4	7.1
EV/EBIT x	15.2	17.9	14.3	10.5	8.6



Income statement (€ m)	2016	2017	2018e	2019e	2020e
Total revenues	14.13	17.05	20.67	25.83	28.90
Material expenses	0.17	0.27	0.32	0.40	0.45
Change in inventories	0.00	0.00	0.00	0.00	0.00
Personnel expenses	5.98	7.42	8.57	9.73	10.60
Other operating expenses/(income)	2.35	2.90	3.52	4.90	5.58
EBITDA	5.62	6.46	8.26	10.80	12.27
EBITDA adj.	5.62	6.72	8.26	10.80	12.27
D&A	0.31	1.48	1.73	2.12	2.17
EBIT	5.31	4.97	6.53	8.68	10.10
Financial charges/(income)	0.37	1.64	0.63	0.63	0.58
Other costs & extraordinary & other	(0.11)	(0.13)	0.00	0.00	0.00
Pre-Tax profit	5.05	3.46	5.90	8.05	9.52
Income taxes	0.55	0.07	0.77	1.05	1.24
Net Profit	4.50	3.39	4.50	5.82	6.85
Net Profit Adjusted	4.60	3.51	4.50	5.82	6.85
Balance sheet (€ m)	2016	2017	2018e	2019e	2020e
Net Working Capital	3.45	3.35	4.20	5.25	5.87
Net Fixed Assets	29.99	38.90	44.72	45.58	45.16
Equity Investments	0.01	0.00	0.00	0.00	0.00
Other M/L Term A/L	(3.37)	(5.84)	(6.71)	(8.02)	(8.76)
Net Invested Capital	30.08	36.41	42.21	42.82	42.28
Net Financial Debt	(1.95)	6.50	10.52	8.39	4.49
Minorities	0.00	0.00	0.00	0.00	0.00
Group's Shareholders Equity	32.02	29.92	31.70	34.42	37.79
Financial Liabilities & Equity	30.08	36.41	42.21	42.82	42.28
Cash Flow statement (€ m)	2016	2017	2018e	2019e	2020e
Total net income	4.50	3.39	4.50	5.82	6.85
Depreciation	0.31	1.48	1.73	2.12	2.17
Other non-cash charges	(1.11)	(0.46)	0.87	1.30	0.74
Cash Flow from Oper. (CFO)	3.70	4.41	7.10	9.25	9.76
Change in NWC	0.80	0.10	(0.85)	(1.05)	(0.62)
FCF from Operations (FCFO)	4.50	4.51	6.25	8.20	9.14
Net Investments (CFI)	(0.35)	(10.23)	(7.55)	(2.98)	(1.75)
Free CF to the Firm (FCFF)	4.15	(5.72)	(1.30)	5.22	7.39
CF from financials (CFF)	(3.48)	0.01	(3.30)	(3.64)	(4.02)
Free Cash Flow to Equity (FCFE)	0.67	(5.72)	(4.60)	1.57	3.38
Financial ratios	2016	2017	2018e	2019e	2020e
EBITDA margin	39.8%	37.9%	40.0%	41.8%	42.5%
EBIT margin	37.6%	29.2%	31.6%	33.6%	35.0%
Net profit margin	31.9%	19.9%	21.8%	22.5%	23.7%
Tax rate	10.8%	2.1%	13.0%	13.0%	13.0%
Interest coverage x	0.07	0.33	0.10	0.07	0.06
Net Debt/Ebitda x	(0.35)	1.01	1.27	0.78	0.37
Debt-to-Equity x	(0.06)	0.22	0.33	0.24	0.12
ROIC	14.9%	10.2%	11.4%	13.7%	16.1%
ROCE	12.5%	11.6%	14.8%	18.8%	20.6%
ROACE	12.7%	11.7%	15.0%	19.2%	21.2%
ROE	14.7%	10.9%	14.6%	17.6%	19.0%
Payout ratio	60.4%	80.4%	68.7%	60.0%	60.0%
Per share figures	2016	2017	2018e	2019e	2020e
Final N. of shares # m	18.1	18.1	18.1	18.1	18.1
Final N. of shares (fully diluted) # m	18.1	18.1	18.1	18.1	18.1
Average N. of shares (fd)# m	18.1	18.1	18.1	18.1	18.1
EPS stated €	0.25	0.19	0.25	0.32	0.38
EPS adjusted €	0.25	0.19	0.25	0.32	0.38
EBITDA €	0.31	0.36	0.46	0.60	0.68
EBIT €	0.29	0.27	0.36	0.48	0.56
FCFO €	0.25	0.25	0.34	0.45	0.50
FCFF €	0.23	(0.32)	(0.07)	0.29	0.41
FCFE €	0.04	(0.32)	(0.25)	0.09	0.19
Dividend €	0.15	0.15	0.16	0.19	0.23



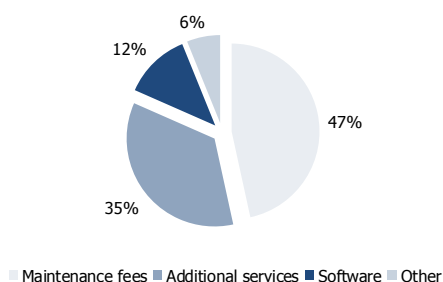


The company at a glance

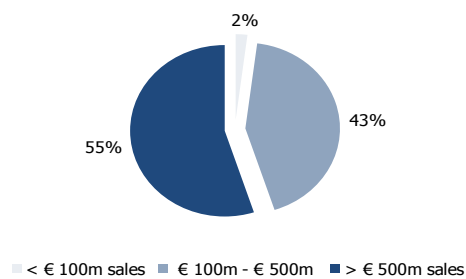
Piteco is the undisputed domestic leader, more than 4x the size of its closest competitor, in the niche of the corporate treasury management and financial planning software. The company designs, develops and implements proprietary software and solutions for corporate cash management. It focuses large/mid enterprises operating in every industry except banks and public administration. The software is 100% proprietary and is modular (19 different modules), integrable (can work within Oracle, Sap or Microsoft environments), customisable (open architecture allows relevant combinations of the product's modules) and available for foreign markets. The recent acquisition of Juniper Payments allows Piteco to penetrate the huge US market with a well-managed cash flow generative firm, paid fairly cheap.

FY-17 turnover grew 20.7% to € 17.0m, slightly lower than our forecast, almost entirely driven by the eight months consolidation of Juniper Payments, acquired in Apr-17, whilst EBITDA increased 14.8% to € 6.5m, 37.9% margin vs. € 5.6m and 39.8% margin in FY-16. The data was affected by € 261k sales accounted as lower purchase consideration: EBITDA adj. increased 19.5%. CAGR 2014-17 is +11.5% and +8.7%, respectively. Client base currently comprises 654 firms, of which almost 80 listed in the Italian stock exchange, with turnover exceeding € 100m for 98% of them and operating in more than 40 countries. The numerosity of the customer list and the widespread presence in a vast variety of industries, narrows significantly the dependency on a key client/sector.

2017 revenues and...



... and client profile (sales) breakdown



Shareholder structure

	%	# m
Podini Family	63.98	11.60
Dedagroup S.p.A.	55.44	10.05
Marco Podini	2.97	0.54
Maria Luisa Podini	2.97	0.54
Fago60 srl	2.60	0.47
Management	8.58	1.56
Andrea Guido Guillermaz	2.86	0.52
Riccardo Veneziani	2.86	0.52
Paolo Virenti	2.86	0.52
Free Float	27.45	4.98
Treasury shares	-	-
Total	100.0	18.13

Source: Company data

Peer group absolute performance

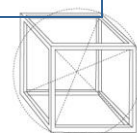
	1D	1W	1M	3M	6M	YTD
Intuit Inc	1.5	2.0	0.9	24.1	26.8	31.9
Microsoft Corp	1.4	2.6	(0.5)	12.1	14.7	18.3
Oracle Corp	1.3	4.9	(4.5)	2.6	(5.1)	(2.7)
Salesforce.com Inc	1.2	4.6	5.9	21.8	30.8	38.3
SAP SE	0.3	0.5	(1.0)	15.0	3.1	6.4
Median large players	1.3	2.6	(0.5)	15.0	14.7	18.3
Datalogic SpA	(0.2)	(0.2)	3.3	18.8	(3.8)	2.5
Digital Bros SpA	1.5	3.1	(6.7)	0.6	(15.0)	(11.8)
Expert System SpA	0.0	1.2	7.2	8.1	(9.6)	(11.6)
Exprivia SpA	0.0	2.5	7.1	(5.6)	(16.6)	(13.4)
Reply SpA	0.7	(2.2)	7.7	27.2	17.7	23.2
TXT e solutions SpA	0.2	0.8	(3.8)	6.4	13.8	19.3
Median small players	0.1	1.0	5.2	7.3	(6.7)	(4.5)
Piteco SpA	(2.6)	(2.6)	(0.4)	(7.7)	(10.2)	(11.1)

Source: Thomson Reuters Eikon

Peers group multiples table

Price & EV multiples x	PER FY1	PER FY2	PCF FY1	PCF FY2	Sales FY1	Sales FY2	EBITDA FY1	EBITDA FY2	EBIT FY1	EBIT FY2
Intuit Inc	36.5	31.1	31.3	27.4	8.7	7.7	23.6	20.7	26.4	22.9
Microsoft Corp	26.0	24.9	19.2	18.1	6.6	5.9	16.0	14.0	20.9	18.3
Oracle Corp	13.2	12.7	12.1	11.2	4.3	3.9	9.0	7.9	9.6	8.7
Salesforce.Com Inc	58.2	48.2	40.0	35.2	7.6	6.1	34.1	27.2	47.0	34.9
SAP SE	23.9	21.5	20.2	18.4	5.0	4.6	15.6	14.1	17.7	15.8
Median large player	26.0	24.9	20.2	18.4	6.6	5.9	16.0	14.1	20.9	18.3
Datalogic SpA	26.4	23.2	21.0	18.9	2.7	2.5	16.1	14.2	19.2	16.7
Digital Bros SpA	(67.7)	8.0	22.6	5.6	1.7	0.8	20.5	4.5	(143.4)	5.8
Expert System SpA	(16.0)	(78.6)	12.6	7.2	1.9	1.7	13.9	7.9	(25.9)	109.2
Exprivia SpA	11.2	9.6	6.1	5.6	0.6	0.6	5.6	5.0	7.8	6.7
Reply SpA	23.0	20.2	19.8	17.6	2.0	1.8	14.0	12.2	15.7	13.5
TXT e solutions SpA	66.1	49.9	34.6	29.9	5.5	5.1	52.1	44.6	96.9	72.6
Median small player	17.1	14.9	20.4	12.4	2.0	1.7	15.1	10.0	11.7	15.1
Piteco SpA	18.4	14.2	13.3	10.4	4.5	3.5	11.3	8.4	14.3	10.5

Source: CFO Sim, Thomson Reuters Eikon



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DATE	TARGET PRICE	RATING
09/07/2018	€5.80	BUY
21/03/2018	€6.00	BUY
29/09/2017	€5.60	NEUTRAL

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