Piteco

Initiation of coverage

Italian software treasure chest

Software & comp services

Piteco is the leading player in the Italian treasury management systems (TMS) market. It has a strong track record of profitability, generates very healthy c 42% operating margins and has excellent cash generation. In July 2015, it raised c €11.5m (gross) in new money and listed on AIM Italia. It plans to use the funds to accelerate growth, both organically (boosting R&D, for example, it has introduced a hosted cloud offering) and through acquisitions (it made a small acquisition in Italy in late 2015 and is investigating other growth opportunities there and the US).

Year end	Net sales revenue* (€m)	EBITDA** (€m)	EPS** (c)	DPS (c)	P/E (x)	Yield (%)
12/14	11.5	5.2	N/A	N/A	N/A	N/A
12/15	12.8	5.7	21.5	10.0	18.2	2.5
12/16e	14.3	6.6	26.1	11.0	15.0	2.8
12/17e	15.4	7.2	28.3	12.0	13.9	3.1

Note: *Excludes the capitalisation of development costs, change in work in progress and other revenues (largely expenses charged back to customers). **Normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Treasury management software specialist

Piteco is the leading provider of corporate cash management and financial planning solutions for large- and mid-cap companies in the industrial and service sectors across Italy. It is a Milan-based software company that has been developing its proprietary software since the 1980s, wants to broaden its growth opportunities into new markets (primarily the US and smaller companies in Italy) and boost revenues from existing clients by establishing greater cross-selling opportunities. The group has a strong pipeline and the TMS market is still relatively young, with the majority of its prospective customers still using inefficient spreadsheets for many processes.

Steady growth with healthy and rising margins

Piteco has generated steady growth over FY08-15, with compound annual turnover growth of c 7% and EBITDA margins rising from 29.6% in FY08 (under Italian GAAP) to 42.7% in FY15. In FY15, turnover grew by 11% to €13.4m and adjusted operating profit rose by 9% to €5.6m. Cash generation was strong with operating cash flow before interest and tax of €5.1m. Net debt fell by €9.7m to €0.3m, however, this includes €4.5m of convertible bonds which convert at 420c up to 2020. We forecast turnover growth to average 9% per year over FY15-18 and for operating margins to rise to 44.1% by FY18.

Valuation: DCF suggests c 23% upside

The stock looks attractive, trading on c 15x our earnings in FY16e, which falls to c 14x in FY17e and to c 13x in FY18e. Our DCF model values the stock at 483c, 23% above the current share price. Our DCF calculation uses conservative assumptions including a 5.3% CAGR in net sales revenue over 10 years, and a long-term operating margin (40%) that is below current levels and a discount rate of 9%. It has also been adjusted for the dilution impact from the convertible bonds.

3 May 2016

Price	**€3.93**
Market cap	**€71m**
Net debt (€m) at end FY15	0.3
Shares in issue	18.1m
Free float	14.7%
Code	PITE
Primary exchange	AIM Italia
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	7.4	6.2	N/A
Rel (local)	4	3.6	N/A
52-week high/low		€3.96	€3.25

Business description

Piteco is Italy's leading company in designing, developing and implementation of software for treasury, finance and financial planning management.

Next event

Interim results	28 September

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Edison profile page

Piteco is a research client of Edison Investment Research Limited

Investment summary: Italian software treasure chest

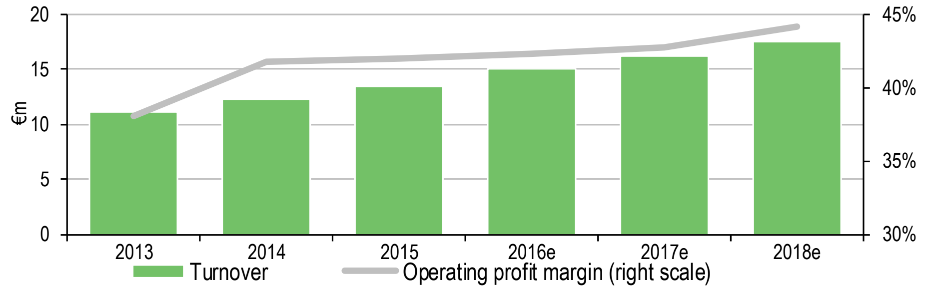
Company description: TMS software specialist

Piteco is the leading provider of cash management, liquidity management, bank transaction, and other treasury management software solutions for medium and large enterprises in Italy. Piteco began its journey over 30 years ago, and today it has more than 600 clients in Italy, operating across 2,500 subsidiaries. Customers include many high-quality Italian names such as Fiat Chrysler Automotive, Finmeccanica, Lavaza, Moncler, Prada, 3Italia and Wind. Clients also include major international groups operating in Italy, such as Carlsberg, DaimlerChrysler and Reckitt Benckiser. Piteco offers its clients a range of 20 software solutions, and continues to expand its offerings through R&D and via acquisitions. The software suite includes two solutions from the recent acquisition of Centro Data, including data-matching capability.

Financials: Bond-like maintenance book plus huge growth

Piteco operates a traditional enterprise software business model, with an upfront perpetual software licence sale, professional services (consulting, implementation and configuration) along with ongoing maintenance which is paid by all active customers. The maintenance book (c €6.2m) represents nearly half of annual net sales revenues and, historically, there has been very low customer churn. Of the balance, c 35% of sales is from upselling to existing clients while c 15% is generated from sales to new clients and the company typically acquires 25-35 new clients per year.

Exhibit 1: Turnover and margin trends



Source: Piteco (historicals), Edison Investment Research (forecasts)

Sensitivities: Budget cuts in an economic downturn

As for the typical enterprise software vendor, there is always the risk of budget cuts in an economic downturn. However, Piteco's typical client has a low default risk, the customer base is broadly spread across large enterprises and the bad debt charge is typically less than 0.5% of turnover. The global financial crisis did not adversely affect the group and the annual maintenance charge is a small cost for its customers. Further, exit barriers are high, as this would require a new project, and the software is embedded in its customers' systems. There is a risk that major enterprise software vendors might take a more proactive interest in the TMS sector. There will be integration risk in the acquisition strategy and increasing currency risk as the company expands abroad.

Valuation: High margins, attractive risk profile

The stock trades on c 15.0x our earnings in FY16e, which falls to c 13.9x in FY17e and to 12.6x in FY18e. In terms of EV/sales, the stock trades on c 5.0x in FY16e, which falls to c 4.6x in FY17e and to 4.3x in FY18e. Our DCF model, (which assumes a long-term margin target of 40% and terminal growth rate of 2%), values the stock at 483c, which is 23% above the current share price. In our view, Piteco's valuation is supported by its healthy operating margins, strong cash generation, stable growth and attractive risk profile.

Company description: TMS software provider

Piteco stands for computerised treasury planning (in Italian – **Pi**anificazione di **Te**soreria **Co**mputerizzata). The company traces its roots back to 1980. However, the modern-day business took its shape in 2008 after it was acquired by management, and a MLBO (management leveraged buyout) took place in 2012. Headquartered in Milan, the group also has offices in Padua and Rome and has c 80 employees, including 10 who joined via the acquisition of Centro Data in mid-2015. We note that historically, the group had very low staff turnover. Following the successful IPO in July 2015, the shares remain very tightly held with management interests retaining 83.3%. Chairman Marco Podini and his sister Maria Luisa Podini directly and indirectly hold nearly 75%, including via Dedagroup (52.3%), which is a large Italian-based ICT company. Additionally, the senior management (CEO, CFO and sales director), all of whom have been with the company for at least 15 years, each hold 2.86%.

Strategy

Piteco raised €11.5m (gross) in new money in mid-2015, via an offering of new ordinary shares (€8.5m new money) and €5m of convertible bonds (of which €3m was new money) and listed on Aim Italia. The public listing should boost the company's profile and help it win new customers. Piteco intends to use the funds to strengthen its leading position in the Italian TMS market for mid- and large sized enterprises and facilitate the group's entry into new markets. Piteco has hired IDC, the market intelligence firm, to investigate international growth opportunities. Following the successful listing on AIM Italia, the plan is to fast track Piteco onto the MTA, the main Italian market, in 2017.

What is a treasury management system?

Treasury management systems (TMS) are software solutions used by corporate treasuries and finance departments to manage transactions and support their decision making. A TMS typically covers front, middle and back-office processes. In other words, the TMS processes a transaction, handles settlement and generates accounting entries. Further, a TMS provides analysis, risk management and reporting of the transactions and the ongoing positions. Historically, these functions were to a large degree handled by spreadsheets, but as with elsewhere in the software world, these are gradually being replaced by built-for-purpose specialist applications using modern technologies. Nearly all large enterprises will have a TMS, while, as you move down the scale to smaller companies, a much greater proportion are still using spreadsheets.

What does Piteco's software do?

Piteco's proprietary TMS software has been developed over many years and uses Microsoft languages Visual Studio and .NET. Piteco has 20 modules in total, including 17 within its flagship product suite, Piteco EVO. Two of these modules were developed in 2015 – Global Financial Reporting and Factoring. In addition to Piteco EVO, there is Corporate Banking Communication (CBC), which is a standalone solution, and two modules from the Centro Data acquisition. Piteco's software is highly customisable with an open architecture and typically functions in conjunction with an ERP backend solution. Virtually all Piteco's customers have an ERP, a custom ledger or similar. However, Piteco's software can also be used stand alone. Some 61% of its clients use SAP ERP, as SAP dominates the ERP space in Europe, while others use Oracle (16%) and Microsoft (2%).

The main applications of Piteco's software are:

- **Cash management:** solutions that are designed to manage cash processes through real-time control of payments and cash inflows and outflows.

- **Financial planning:** this manages economic and financial planning through analysis and customisable reports, with the help of simulation scenarios and projections of both present and future financial situations.
- **Payment factory:** this acts as a centralised mechanism for processing payments initiated by group entities. It collects and coordinates all payment procedures that companies must organise and execute. To integrate the payment processing solution, Piteco offers the Corporate Banking Communication (CBC) module through which corporate agents can securely authenticate, apply the workflow authorisation shared with several banks and digitally sign any payment arrangement.
- **Global liquidity management:** it can handle any type of treasury centralisation, and can support companies where subsidiaries are not on the same ERP system or have different banking relationships. The system can support a variety of implementation models, based on centralisation or de-centralisation of decision making and operations.
- **Matching:** a powerful validation tool with fully automated data reconciliation which is based on matching criteria that involves a complex analysis of the data base.
- **Supply chain finance:** this allows companies to actively manage their supply chain finance processes and working capital dynamics.
- **Hedging:** this is for the management of financial instruments and sureties.

Traditional target market

Piteco has traditionally focused on large- and mid-cap companies in Italy operating in the industrial and services segments. Its client base includes 75 companies listed on the Italian Stock Exchange. Piteco does not target the banking sector, which is a very specialised market. Within its areas of focus, the customer base is diversified across many sectors, with its heaviest weightings in utilities (c 15%), mechanics and steel (c 13%), fashion (c 9%) and construction and tiles (c 8%). Piteco leads the TMS market in Italy, and does not have any significant competition in its home market. 55% of the c 600 corporations using Piteco's software have turnover exceeding €500m, while 98% have turnover exceeding €100m. Piteco's software is already in operation in more than 40 countries, via multinational companies, such as Finmeccanica, which is using Piteco's software in the UK and the US. It has five dedicated sales people, and two members of senior management, (the CEO and sales director) are also involved in sales. The sales team will typically target a company's CFO or treasurer.

Product development

Customers typically require significant customisation. This gives the group a significant advantage over competitors, for example, Piteco argues that the SAP TMS module is more challenging to customise. Customer requests drive the R&D roadmap and the resulting functionality enhancements and new modules are subsequently made available to other customers. Occasionally, Piteco will drive the process itself, as was the case with SEPA functionality. Also, Piteco plans to strengthen its financial planning solution for up-selling. Nearly all R&D is expensed. Since it relates to client requests, virtually all R&D generates revenue in the year it is incurred.

Piteco Evo

Piteco Evo is the main software suite, consisting of core base cash-management module along with 16 other modules, as outlined in Exhibit 2. The typical customer takes 6.3 modules on average and the most popular modules are Home banking (99% of customers), Financing and deposits (78%), Trade payables (71%), Portfolio effects (56%), Economic and financial planning (49%) and Centralised treasury (45%).

Exhibit 2: Piteco Evo: integrated with 17 modules		
Piteco Evo is a tailored solution to match integrated corporate finance to the more spread ERP		
Cash management	1) Base cash management	Cash management, credit management and sensitivity analysis.
	2) Home banking	Automatic reconciliation of banking transactions.
	3) Management sales stores	Management of banking transactions per sales store, both in an accounting and forecasting manner.
	4) Account receivables	Collection of customer invoices in the accounting system.
	5) Portfolio's effects	Active management of the portfolio effects.
	6) Trade payables	Accounting and financial process management for the payment to the suppliers.
Sources and application of funds	7) Financing and deposits	Analysis of account receivables and deposits towards clients or intercompany and sensitivity analysis.
	8) Mortgages and leasing	Mortgages and lending management with the amortisation schedule and the payments control.
	9) Securities	Operational and accounting management of financial investment instruments, adjusted in € and in foreign currency.
	10) Factoring	Manages the transfer/advance of customer's receivables to factoring company/companies.
Financial control and risk management	11) Sureties	Management of the types of commitment and guarantee (bond, mini-bonds, derivatives, commercial contracts).
	12) Credit options	Credit management for personal details, type of use and cost, and calculating of commission.
	13) Credit accounting	Import-export documentary credit management.
	14) Financial risk management	Management of currency and exchange rate risk of hedging operations.
Economic and financial planning	15) Economic financial planning	Integrated capabilities for the planning of short- and medium-/long-term management.
	16) Centralised treasury	Management of the different structures of centralisation, with also management of the mixed assessment scenarios.
	17) Global financial reporting	Advanced reporting and analysis based on transactional data model of Treasury.
Source: Piteco		

Corporate Banking Communication (CBC)

CBC enables efficient workflow management between companies and their domestic and international banks. It manages information flow coming from any kind of management information system, whether it is an ERP system (SAP, Oracle, Microsoft, etc) or a proprietary solution. Being separate from Evo enables CBC to achieve new market share and compete with generalist operators who do not have TMS solutions. This gives Piteco greater cross-selling opportunities with new customers. Currently, 73 customers take the CBC solution.

Exhibit 3: Corporate Banking Communication (CBC)	
The use of CBC allows:	
Complete automation of authorised workflows	Compliance with procedures and business organisations.
	Streamlining of the traditional permitting procedures.
	Improving the time required for the collection of the authorisations in complex structures.
	Using modern communication and authorisation systems.
Safe management of workflows	Centralisation in a single system for the authorisation procedures of the banking agreements (payments, electronic collections presentations etc).
	Storage in a single database of all workflows transmitted.
	Secure workflow submission to the banking system.
	Use of digital signature on workflows.
Independence from remote banking	Connectors with remote banking for the workflows automation that need to be sent.
	Connectors with the swift network using SWIFT Service Bureau LITE to send or receive workflows.
Source: Piteco	

Centro Data

Piteco acquired a business unit of Centro Data in 2015 for €1.085m, which includes software, trademarks, customers, employees and business supply contracts. The acquired business had 11 employees and generated turnover of c €1.15m in FY14 and was consolidated into Piteco's accounts from 1 July 2015. The acquisition added two modules to Piteco's solution suite – a tool for the matching of financial data, MATCH.IT, and a securities back-office application, AT.PRO. The data-matching solution is especially useful in sectors that generate big data, such as insurance and retail. It automates processes that are typically done manually and it can handle millions of rows of data. The software is complementary to Piteco's solution set, and Piteco will seek to cross-sell the products to its existing customer base as well as selling into the commercial pipeline. Further, many of the acquired business' c 40 customers do not have a TMS, which therefore also provides the opportunity for reverse cross-selling.

Growth drivers

Having successfully established itself as the major player in the Italian TMS market, Piteco is now seeking wider opportunities for growth. We note following growth drivers:

- **Significant market opportunity**. The application software market in Italy is valued at €3.8bn (Assinform/NetConsulting 2014). A small slice of this (Piteco suggests 5-10%) represents the market for treasury and financial planning software. According to IDC, the industry analysts, the worldwide revenue for the risk and treasury applications market was $2.1bn in 2013, representing growth of 4.3% over 2012.
- **Risk management.** The global financial crisis of 2008/2009 has had a dramatic impact on the treasury operations of enterprises and has drawn attention to the need for them to have strong risk-management capabilities. This factor could help encourage companies to purchase more efficient built-for-purpose TMS solutions.
- **Strong pipeline.** Piteco typically adds 25-35 new customers each year. Management believes this can accelerate as product awareness is quite low and every year more companies are becoming open to innovative cash management solutions. They are also attracted to the idea of having a module that is an extension of their ERP, which is what Piteco offers. Piteco has identified almost 2,400 target companies, of which c 1,100 are classified as prospects and it is actively talking with c 660.
- **Strong pricing environment.** Contract sizes have been increasing strongly. The average contract size for new clients in FY14 and FY15 was €65k, which was 18% higher than the €55k in FY13, and 33% higher than the €49k in FY12 (ie, c 10% CAGR over 2012 – 2015).
- **Cross-selling.** Much of the new business each year is achieved through cross-selling, and c 70% of product sales is from existing customers. Piteco has 20 modules to cross-sell to its customers. The acquisition of Centro Data added two modules, along with c 40 customers. Piteco plans to cross-sell these modules to its existing clients while also cross-selling its existing TMS solutions to the c 40 acquired customers. Further opportunities to cross-sell will come from new modules developed or acquired as well as from any customer bases acquired.
- **Cloud/SaaS strategy.** Piteco is planning to offer a standard solution, hosted in the cloud, at a lower price, to the mid-market in Italy. Cloud computing has been slow to gain traction in Italy. Companies have been reluctant to shift to the cloud, largely because they require very specific functionality that will typically need a high level of customisation. Cloud solutions are typically much less flexible. Also, there is concern over security and large clients typically prefer on-premise solutions. Piteco believes it is ahead of the game in the cloud space, due to the infrastructure of the major shareholder Dedagroup, which is compliant with ISO 27001 for information security management. We note that Dedagroup has cloud computing experience in the financial and insurance sectors.
- **Overseas expansion**. A key reason for the IPO fundraising was to expand internationally and in particularly into the US market. Piteco argues that its software is more sophisticated than what is currently available in that market. While the company already has a good number of clients in the US, which are essentially US divisions of its Italian customers, Piteco will need to acquire a local US business to seriously tackle the market. Following the IPO, Piteco has commissioned IDC to investigate the group's international expansion options and this project is close to completion. There expected to be a three pronged strategy to grow internationally: 1) a greenfield approach, beginning operations on a small scale, 2) develop resale agreements with system integrators/partners, and 3) via acquisition. In addition to the US, the group also sees a

clean opportunity to grow in Mexico, where its parent company, Dedagroup, has a presence in the payment card/credit card market, and management could resell Piteco's solutions to Dedagroup's Mexican customer base. We also note that Dedagroup has significant exposure in the US, having acquired a 70% interest in EPL in Birmingham Alabama. EPL offers a core banking software product for credit unions.

Competitive environment

Piteco is the leading player in the Italian TMS market. There are a number of small local competitors, and Piteco has occasionally lost clients to them. Docfinance is a notable competitor, but it is focused on very small companies, with revenues below €100m. Large international vendors find it a difficult market to penetrate and our understanding is that the two major global TMS players – SunGard and Kyriba – have only won a handful of clients in Italy in recent years. We understand that SunGard has no strategy in Italy in the TMS segment. We also note that SAP, the ERP vendor, offers a TMS module, but we believe that Piteco's module is less rigid, more cost effective and more customisable than SAP's solution.

When new customers sign up, Piteco's software typically replaces one of the following:

- 10% – SAP TMS module
- 30% – another TMS solution
- 60% – spreadsheets

The main competitors in the US are SunGard, the software giant, which sells to large corporates and banks, and Kyriba, which is a mid-sized multi-tenant SaaS company. Another competitor, GTreasury, is smaller than Piteco. In our view, Oracle, the leading supplier of ERP systems in the US, does not have as strong a treasury management solution as SAP, which Piteco competes with in Italy. Also, Wall Street Systems is not seen as a direct competitor, as its focus is more on corporate finance and risk management rather than cash management. According to Kyriba, in 2013 c 75-80% of US mid-market companies' (revenues of $100-800m) treasurers and CFOs used excel spreadsheets for cash forecasting, cash allocation and risk management. However, according the Kyriba/Association of Corporate Treasurers 2015 Treasury Survey, spreadsheets are in rapid decline, with 31% of companies overall using spreadsheets as their primary treasury management tool in 2015, compared to 42% in 2014.

Management: All with company for at least 15 years

Piteco has a highly experienced and stable management team, and its senior management team have all been with the company for at least 15 years. These senior directors own all the shares.

Chairman: Marco Podini, who is a successful technology entrepreneur. He founded Dedagroup in 2001 and remains its president. He is CEO of Sequenza (logistic outsourcing) and, with his sister Maria Luisa Podini, is the majority shareholder in Lillo. He is chairman of ICT companies Dexit, Derga Consulting, DDWay and Sinergis.

Chief executive officer: Paolo Virenti has been CEO of Piteco since 2012. He was general manager of Piteco from January 2004 and chairman of the board and its legal representative from 2006.

Chief financial officer: Riccardo Veneziani has been chief financial officer and customer account executive of Piteco since January 2004.

Sales director: Andrea Guillermaz is sales and marketing manager and adviser to Piteco. He is responsible for the acquiring of new customers, sales strategies and marketing.

The three other members of the board of directors are:

Gianni Camisa (director) is an experienced IT professional with over 12 years' experience at IBM in various high-level positions. He has been CEO of Dedagroup (Piteco's parent company) since 2008. Prior to joining Dedagroup, he was CEO at AlmavivA.

Maria Luisa Podini (director) is the sister of Marco Podini. Ms Podini plays key roles in the various parent companies of Dedagroup. She is president of Sequenza's board and vice-president of Elma's board. She is a major shareholder in Lillo.

Anna Maria Di Ruscio is the independent member of the board. Ms Di Ruscio spent four years at Gartner Research and before that worked with Nomos. She co-founded NetConsulting (an ICT consulting business) when she was 32 years old.

Financials: Bond-like maintenance book plus growth

Business model: Traditional enterprise software licence model

Piteco operates a traditional enterprise software business model, with an upfront perpetual software licence sale, professional services (consulting, implementation and configuration) along with ongoing support and maintenance.

A typical implementation is €65k (€35k licence paid upfront and €30k services). However, an implementation can range from €20k to €500k, with pricing related to the modules taken, services required and the number of users.

The annual maintenance charge is 15-20% of the initial software licence, and is billed on 1 January each year. The average new maintenance contract is currently €13k, and this number has been trending higher as licence sizes increase. The ongoing maintenance charge is also increasing as new modules and extra users are added, and the contract is inflation adjusted. A maintenance contract usually has a one-year term, though some have three-year terms. Churn on the maintenance book is very low and hence customers have a long duration.

Cost are predictable with c 81 employees and an average cost of €67k, for c €5.4m in total staff costs representing c 43% of sales. Administration, general and other overheads total €2.2m (c 17% sales) and the normal depreciation charge is small. Cash flows are also predictable, with minor capital investment and there are typically inflows from working capital, reflecting the cash-generative business model.

Trading history: Healthy revenue growth and rising margins

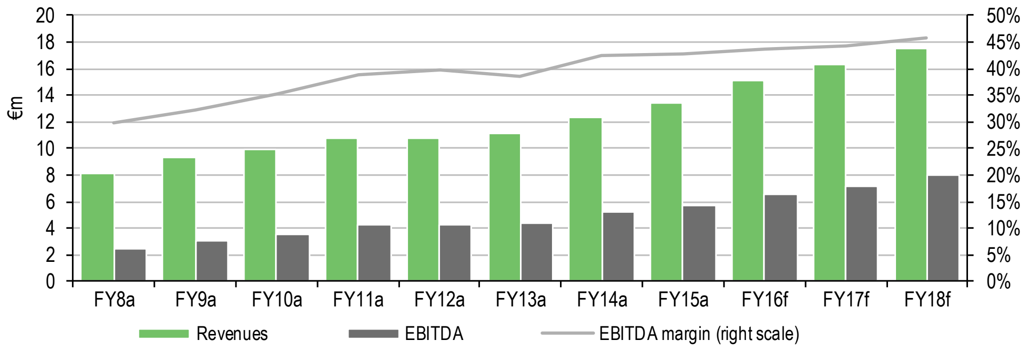
Piteco has reported steady growth since 2008. Total turnover has risen from €8.1m in FY08 (Italian GAAP) to €13.4m in FY15. This reflects a 7.4% CAGR, and c 65% total growth, despite the financial crisis of 2008/2009. FY15 turnover includes net sales revenues of €12.8m, changes in work in progress of €12k, and other revenues of €534k. The group began capitalising development costs in FY14, and €201k of capitalised development costs are included in FY15's other revenues. The €333k balance of other revenues mainly represent expenses that have been charged back to customers. We note that contracts can either be inclusive or exclusive of expenses (mainly travel and subsistence); when they are excluded, they are charged back to the customer. Piteco gained 30 new customers in FY15, which, along with c 45 inherited with Centro Data, took the total to 598.

The group has modest fixed costs, and its only significant cost is its people. EBITDA rose from €2.4m in FY08 to €5.7m in FY15, for a 43% EBITDA margin (based on the total turnover). Capital investment (apart from software development) is typically very small. R&D is typically driven by client requests rather than the company launching new products. Operating cash flow was €5.1m in

FY15. While cash conversion (in relation to EBITDA) typically exceeds 100%, it dipped to 88% in FY15 due to an extraordinary loss of €342k and a small working capital outflow. The group ended 2015 with cash of €10.2m, bank debt of €6.1m and convertible bonds of €4.5m, leaving net debt of €0.3m. There is a pension deficit of €1.1m that takes the adjusted net debt to €1.4m. There are 1,189 convertible bonds with a nominal value of €4,200 (debt book value €3,771). Each bond pays 4.5% annual interest and can convert into 1000 new ordinary shares at 420c up until 24 July 2020.

Depreciation and amortisation has exceeded investment in recent years, because in 2008 €3.5m of the group's proprietary software was capitalised, and this was fully amortised in FY15.fdgdfhfdg

Exhibit 4: Historical turnover and margin trends



Source: Piteco

Forecasts: We expect 11% net sales growth in FY16

We forecast 11% y-o-y growth in net sales revenues in FY16 to €14.3m, which includes organic growth of c 6% along with a full period contribution from the acquired Centro Data assets. We note Piteco has already signed eight new clients in FY16 so far. We forecast net sales revenues to rise by 8% in each of FY17 and FY18 to €15.4m and €16.6m respectively. Our forecasts are based on the group's traditional markets and do not include any assumption for new growth opportunities.

We have conservatively assumed a customer churn of 2% per year.

Sales to new clients: we assume there are 35 new clients in FY16, rising to 39 in FY17 and to 43 in FY18. We assume a stable licence size of €35k and projects of €30k. In all, we forecast revenues from new clients rise to €2.3m in FY16 and to €2.5m in FY17 and to €2.8m in FY18.

Upselling to existing clients: we assume that 95% of clients are upsold new modules and licences in FY16, rising to 100% in FY17 and to 105% in FY18, which reflects the increase in modules from 16 to 20, with some clients taking more than one additional module. We assume clients on average spend €9k, of which 40% is spent on licences and 60% on spent projects. In all, we forecast upselling revenues from existing clients to rise to €5.1m in FY16, to €5.6m in FY17 and to €6.1m in FY18.

Maintenance revenues: we conservatively assume average revenues per customer of €11.5k in FY16, rising 2% per year. In all, maintenance revenues rise by 11% to €6.9m in FY16, partly reflecting the acquired Centro Data client base, and by 6% in each of FY17 and FY18 to €7.3m and €7.7m respectively.

Exhibit 5: Revenue model

	2016e	2017e	2018e
New clients			
Number of new clients	35	39	43
Growth (%)	16.7	11.4	10.3
Average licence (€000's)	35	35	35
Average projects (€000's)	30	30	30
Software licence revenue (€000's)	1,225	1,365	1,505
Projects revenue (€000's)	1,050	1,170	1,290
Revenues from new clients (€000's) (A)	2,275	2,535	2,795
Growth (%)	16.7	11.4	10.3
Existing clients			
Total existing clients (start of period)	598	621	648
Growth (%)	11.2	3.8	4.3
Percentage of clients upsold	95	100	105
Number of clients upsold	568	621	680
Average licences (€000's)	3.6	3.6	3.6
Average projects (€000's)	5.4	5.4	5.4
New modules / customised software (€000's)	2,045	2,236	2,448
Projects (€000's)	3,067	3,353	3,672
Upselling revenue (€000's) (B)	5,112	5,589	6,120
Growth (%)	24	9	10
Average maintenance per client (€000's)	11.5	11.7	11.9
Growth (%)	-	2.0	1.7
Maintenance revenue (€000's) (C)	6,877	7,284	7,730
Growth (%)	11.2	5.9	6.1
Total continuing revenues (€000's) (A+B+C)	14,264	15,408	16,645
Growth (%)	16.4	8.0	8.0

Source: Edison Investment Research

Other revenues: We have included capitalised development costs (see R&D below) and other revenues (essentially expenses that have been charged back to customers) calculated at 3.5% of net sales revenue.

Operating costs: opex largely relates to headcount. We forecast total opex to rise 11% in FY16 to €8.5m, by 7% in FY17 to €9.1m and by 5% in FY18 to €9.5m.

R&D: €201k of development costs were capitalised in FY15, representing 1.6% of net sales revenues. We forecast that 2.0% of net sales revenues are capitalised each year, and these are amortised over the subsequent five years.

Interest: €7m debt was successful refinancing in late 2014 at a significantly reduced interest rate (Euribor +2%) which resulting in net interest expense tumbling in FY15 to €600k. The convertible bonds pay annual interest of €225k and the group also has a large, and rising, cash position. Hence we forecast net interest to continue to decline, falling to €300k in FY16, to €200k in FY17 and to €100k in FY18.

Taxation: we assume a 22% tax rate in FY16, rising to 24% in FY17 and to 26% in FY18. The rate reflects the Italian corporate tax rate of 31.4% and the benefits from new “patent box” tax rules in Italy.

Exhibit 6: Forecasts

	2013	2014	2015	2016e	2017e	2018e
Revenues (€'000s)						
Software	2,170	2,144	2,820	3,270	3,601	3,953
Services	3,115	3,675	3,822	4,117	4,523	4,962
Maintenance	5,503	5,731	6,196	6,877	7,284	7,730
Net sales revenue	10,787	11,550	12,838	14,264	15,408	16,645
Capitalisation of dev'ment costs		255	201	285	308	333
Change in work in progress	19	29	12	0	0	0
Other revenues	380	500	333	499	539	583
Turnover	11,186	12,334	13,384	15,049	16,256	17,561
Growth (%)		10.3	8.5	12.4	8.0	8.0
Operating expenses before depn	(6,865)	(7,105)	(7,665)	(8,480)	(9,065)	(9,539)
EBITDA	4,321	5,229	5,719	6,569	7,191	8,022
Normal depreciation	(64)	(80)	(70)	(100)	(120)	(122)
Amortisation of development costs			(29)	(100)	(125)	(150)
Depreciation & amortisation	(64)	(80)	(99)	(200)	(245)	(272)
Adjusted operating profit	4,257	5,149	5,620	6,369	6,946	7,750
Operating margin (%)	38.1	41.7	42.0	42.3	42.7	44.1
Growth (%)		21.0	9.1	13.3	9.1	11.6
Net interest	(1,189)	(1,011)	(585)	(300)	(200)	(100)
Profit before tax norm	3,068	4,139	5,035	6,069	6,746	7,650
Amortisation of acquired intangibles*	(623)	(623)	(157)	0	0	0
Exceptional items (net of tax)	29	17	(323)	0	0	0
Profit before tax	2,474	3,532	4,555	6,069	6,746	7,650
Taxation	(819)	(1,090)	(1,130)	(1,335)	(1,619)	(1,989)
Net income	1,655	2,443	3,426	4,734	5,127	5,661
Statutory EPS			18.9	26.1	28.3	31.2
Adjusted EPS (c)			21.5	26.1	28.3	31.2
P/E - Adjusted EPS			**17.6**	**14.6**	**13.4**	**12.2**

Source: Piteco (historics), Edison Investment Research (forecasts). Note: Revenue types from FY12-14 are from Italian GAAP accounts. * Amortisation of acquired intangibles has been added back to depreciation & amortisation and shown separately, and we estimated the number for FY13.

Sensitivities

As for the typical enterprise software vendor, there is always the risk of budget cuts in an economic downturn. However, Piteco's typical client has a low default risk, the customer base is broadly spread across large enterprises and the bad debts charge is typically less than 0.5% of turnover. We also note the global financial crisis did not adversely affect the group. In fact the financial crisis has highlighted the importance that enterprises need to have an effective TMS in place to ensure strong internal controls and risk management capabilities. Further, exit barriers are high, as switching systems would require a new project. The software is embedded in its customers' systems and the annual maintenance charge is a relatively small cost for its customers. We highlight the following sensitivities:

- Economic slowdown – financial sector IT budgets are subject to pressure in an economic slowdown.
- Competitive environment – products are at risk of being surpassed by competitors. Existing competitor rivalry may put pressure on pricing. However, we note that less than 1% of Piteco's turnover has been lost to switching over the last four years. There is a risk that major enterprise software vendors might take a more proactive interest in the TMS sector.
- Acquisition risk – implementation risk in the acquisition strategy and risks associated with expanding into new territories.
- Moving into new countries – while this increases opportunities, it also increases complexity and potential liabilities, and adds currency exposure.

- Stock overhang – the chairman's family owns a significant stake in the company, and following the successful IPO may wish to reduce its stake further.

Valuation: High margins, attractive risk profile

Piteco has built up an excellent track record of delivering steady revenue growth, healthy margins and strong cash generation, despite having had to cope with a very challenging economic backdrop. The group's turnover growth has outpaced Italian GDP in each of the seven years to 2015, and its turnover has expanded in aggregate by more than 65% over the period when Italian GDP has fallen by 8%. Piteco has a strong pipeline and growing brand awareness and is now seeking to accelerate growth through acquisition and international expansion. The investment profile is attractive, with a resilient maintenance book ensuring 50% recurring revenues, and with healthy growth prospects from the pipeline, cross-selling, a broadening end market (geographically and into smaller businesses) and via acquisitions.

- **Cash flow:** Piteco generated €5.7m operating cash flow in FY14, and €5.1m in FY15. Free cash flow (FCF) in the respective years was €3.5m and €3.0m. However, we note that these FCF numbers are after significant interest costs, largely relating to €7m debt that has been refinanced at a much lower interest rate (Euribor +2%), and the interest cost on this debt has subsequently reduced significantly. We forecast the group to generate FCF of €5.0m in FY16, rising to €5.5m in FY17 and to €6.1m in FY18.

Exhibit 7: Cash flow

Cash flow	FY13	FY14	FY15	FY16e	FY17e	FY18e
Adjusted operating profit	4,257	5,149	5,620	6,369	6,946	7,750
Depreciation*	64	80	70	100	120	122
Amortisation of development	0	36	29	100	125	150
Adjusted EBITDA	4,321	5,265	5,719	6,569	7,191	8,022
Working capital	537	549	(340)	285	154	166
Exceptional items/misc	(48)	(75)	(323)	0	0	0
Operating cash flow	4,809	5,739	5,056	6,854	7,344	8,188
Net interest	(1,189)	(1,011)	(585)	(300)	(200)	(100)
Tax paid	(809)	(973)	(1,146)	(1,130)	(1,214)	(1,484)
Purchase tangible assets	(19)	(18)	(129)	(114)	(123)	(133)
Software development	0	(255)	(201)	(285)	(308)	(333)
Free cash flow	2,793	3,482	2,996	5,025	5,499	6,138

Source: Piteco (historics), Edison Investment Research (forecasts). *FY13 depreciation estimated.

- **Discounted cash flow valuation:** Our DCF model (which assumes a conservative 5.5% pa growth in net sales revenue over 10 years, a long-term operating margin [against net sales revenues] target of 40%, a WACC of 9% and terminal growth rate of 2%) values the stock at 483c, 23% above the current share price. In calculating this number, we have included the dilution impact from exercising the convertible bonds and reversed them from the adjusted net debt, which in aggregate reduces the valuation by 7c from 490c to 483c.
- **DCF scenario analysis.** In Exhibit 8, we show the sensitivity of valuations to changes in WACCs, margins and growth assumptions. Starting from our base scenario (5.5% total net sales revenue growth), a WACC of 9% and operating margin of 40%, the table shows that a 5% increase in the margin assumption increases the valuation by 7% from 483c to 516c, while a 2% rise in the growth assumption increases the valuation by18% to 571c, and a 1% reduction in the WACC boosts the valuation by 16% to 559c. We note that the outperformance scenario implies organic revenue growth of c 7.0%, which is roughly in line with the CAGR revenues growth from FY08. Further, the FY15 operating margin in relation to net sales revenues was 43.8%, ie, above our 40% default assumption.

Exhibit 8: DCF Scenario analysis (valuation of equity, before the fundraising, under a range of scenarios)

		WACC 8%			WACC 9%			WACC 10%		
		Long-term operating margin targets								
Revenue scenarios (see notes below)		30.0%	40.0%	45.0%	30.0%	40.0%	45.0%	30.0%	40.0%	45.0%
	Out-performance	572.2c	662.6c	708.5c	499.1c	570.5c	607.0c	443.4c	501.3c	530.8c
	Base scenario	482.5c	559.2c	600.0c	422.3c	483.1c	515.8c	376.5c	426.0c	452.9c
	Under-performance	380.5c	451.4c	485.3c	332.3c	389.6c	416.9c	295.9c	343.5c	365.9c

Revenue scenarios as follows:	
Out-performance	Out-performance. Compound group net sales revenue growth of 7.5% over FY15-FY25, fading thereafter as with base scenario.
Base Scenario	Compound group net sales revenue growth of 5.5% over FY15-FY25 and growth fading thereafter to 2%.
Under-performance	Compound group net sales revenue growth of 3.5% over FY15-FY25, fading thereafter as with base scenario.

Source: Edison Investment Research. Note: WACC is weighted average cost of capital. Long-term operating margin targets are against net sales revenue (equivalent margins against turnover, for the above 30%, 40% and 45%, are 28.4%, 37.9% and 42.7%)

- **Peer analysis.** Noting that none of Piteco's direct competitors is quoted, we have compared the company with quoted global ERP/accounting software providers, which are predominantly large companies, and also with a selection of software companies quoted in Italy, which are small companies. We would expect Piteco to have a significantly higher rating than its Italy-quoted software peers, in terms of EV/sales and EV/EBITDA, given its healthy margins, strong track record of growth and cash generation, and its leading position in the Italian TMS market.

Exhibit 9: Peer group analysis

	Share price	Market cap	Market cap	EV/sales		EV/EBITDA		PE	
	Local curr	Local curr (m)	€m	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2
Piteco	**393.0**	**71**	**71**	**5.0**	**4.6**	**10.8**	**9.9**	**15.0**	**13.9**
A) Large global ERP/accounting software providers									
Microsoft	50.6	397818	343993	3.7	3.6	9.9	9.5	18.9	17.5
Oracle	40.3	167240	144612	4.2	4.2	9.4	9.2	15.4	14.4
SAP	68.9	84669	73213	4.0	3.8	11.6	11.2	17.3	16.0
Intuit	102.2	26250	22698	5.9	5.4	16.3	13.6	29.2	23.6
Workday	75.5	14783	12783	8.6	6.6	99.1	89.0	3429.5	262.9
Netsuite	81.6	6564	5676	6.7	5.3	81.2	58.6	204.5	114.9
Sage	592.0	6390	5019	4.4	4.1	15.3	14.2	22.2	20.3
Xero	16.1	2198	1333	9.4	6.1	N/A	N/A	N/A	N/A
Medians				**5.2**	**4.7**	**15.3**	**13.6**	**22.2**	**20.3**
B) Small software companies quoted in Italy									
TXT e-solutions	7.5	98	98	1.3	1.2	12.0	10.5	18.8	16.2
Noemalife	7.4	61	61	1.3	1.1	6.4	5.5	33.4	20.4
Expert System	2.1	54	54	N/A	N/A	N/A	N/A	N/A	N/A
Neurosoft	1.5	39	39	N/A	N/A	N/A	N/A	N/A	N/A
CAD IT	3.9	35	35	N/A	N/A	N/A	N/A	N/A	N/A
Tas Tecnologia Avanzata dei Sistemi	0.5	21	21	N/A	N/A	N/A	N/A	N/A	N/A
Primi Sui Motori	1.8	10	10	N/A	N/A	N/A	N/A	N/A	N/A
Medians				**1.3**	**1.2**	**9.2**	**8.0**	**26.1**	**18.3**

Source: Bloomberg. Note: Prices at 3 May 2016.

Exhibit 10: Financial summary

€'000s	2013	2014	2015	2016e	2017e	2018e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Turnover	11,186	12,334	13,384	15,049	16,256	17,561
Net Sales Revenue	10,787	11,550	12,838	14,264	15,408	16,645
EBITDA	4,321	5,229	5,719	6,569	7,191	8,022
Adjusted Operating Profit	4,257	5,149	5,620	6,369	6,946	7,750
Amortisation of acquired intangibles	(623)	(623)	(157)	0	0	0
Exceptionals	29	17	(323)	0	0	0
Share based payments	0	0	0	0	0	0
Operating Profit	3,663	4,543	5,140	6,369	6,946	7,750
Net Interest	(1,189)	(1,011)	(585)	(300)	(200)	(100)
Profit Before Tax (norm)	3,068	4,139	5,035	6,069	6,746	7,650
Profit Before Tax (FRS 3)	2,474	3,532	4,555	6,069	6,746	7,650
Tax	(819)	(1,090)	(1,130)	(1,335)	(1,619)	(1,989)
Profit After Tax (norm)	2,250	3,049	3,905	4,734	5,127	5,661
Profit After Tax (FRS 3)	1,655	2,443	3,426	4,734	5,127	5,661
Average Number of Shares Outstanding (m)	0.0	0.0	18.1	18.1	18.1	18.1
EPS - normalised (p)	0.0	0.0	21.5	26.1	28.3	31.2
EPS - FRS 3 (p)	0.0	0.0	18.9	26.1	28.3	31.2
Dividend per share (p)	0.00	0.00	10.00	11.00	12.00	13.00
Gross Margin (%)	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA Margin (%)	38.6	42.4	42.7	43.7	44.2	45.7
Op Margin (before GW and except.) (%)	38.1	41.7	42.0	42.3	42.7	44.1
BALANCE SHEET						
Fixed Assets	32,727	29,303	30,055	30,254	30,440	30,635
Intangible assets and deferred tax	30,829	27,442	28,522	28,707	28,890	29,073
Tangible Assets	1,522	1,455	1,421	1,435	1,438	1,449
Investments	376	406	112	112	112	112
Current Assets	6,978	6,005	14,846	16,807	18,927	21,983
Stocks	0	0	0	0	0	0
Debtors	3,818	4,013	4,494	4,993	5,394	5,827
Cash	3,049	1,862	10,208	11,671	13,390	16,012
Current Liabilities	(6,750)	(4,994)	(5,408)	(6,119)	(6,930)	(7,817)
Creditors	(5,230)	(3,794)	(3,688)	(4,837)	(5,648)	(6,535)
Short term borrowings	(1,519)	(1,200)	(1,720)	(1,282)	(1,282)	(1,282)
Long Term Liabilities	(13,859)	(12,052)	(10,114)	(8,801)	(7,051)	(5,739)
Long term borrowings	(12,789)	(10,694)	(8,825)	(7,513)	(5,763)	(4,450)
Other long term liabilities	(1,070)	(1,359)	(1,289)	(1,289)	(1,289)	(1,289)
Net Assets	19,097	18,262	29,379	32,141	35,386	39,061
CASH FLOW						
Operating Cash Flow	4,810	5,739	5,056	6,854	7,344	8,188
Net Interest	(1,189)	(1,011)	(585)	(300)	(200)	(100)
Tax	(809)	(973)	(1,146)	(1,130)	(1,214)	(1,484)
Capex	(19)	(273)	(330)	(399)	(431)	(466)
Acquisitions/disposals	0	0	(972)	0	0	0
Financing	0	(2,265)	7,671	0	0	0
Dividends	0	0	0	(1,813)	(1,994)	(2,175)
Net Cash Flow	2,793	1,217	9,695	3,212	3,469	3,935
Opening net debt/(cash)	14,042	11,249	10,032	337	(2,876)	(6,381)
Other	0	()	0	0	()	0
Closing net debt/(cash)	11,249	10,032	337	(2,876)	(6,381)	(10,344)

Source: Piteco (historics), Edison Investment Research (forecasts).

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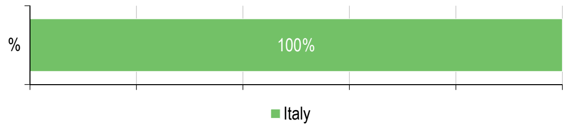
Revenue by geography



Management team

Chairman: Marco Podini

Mr Podini is a successful entrepreneur in the ICT sector and a partner of Piteco. He is president of Dedagroup, having founded this Italian ICT group in 2002. Along with Piteco, he is also chairman of ICT companies Dexit, Derga Consulting, DDWay and Sinergis. Mr Podini is CEO of Sequenza (logistic outsourcing) and, with his sister Maria Luisa Podini, is the majority shareholder in Lillo, the holding company for the Italian discount store chains LD Market and MD Discount.

CEO: Paolo Virenti

Mr Virenti joined Piteco as general manager in January 2004. He became chairman of the board and its legal representative from 2006 and CEO in 2012. Prior to Piteco he was director of product development at Met Sogeda.

CFO: Riccardo Veneziani

Mr Veneziani has been chief financial officer and customer account executive of Piteco since January 2004. He is a member of the board of directors.

Sales director: Andrea Guillermaz

Mr Guillermaz joined Piteco in January 1996. As sales and marketing manager and adviser of Piteco, he is responsible for generating new business, sales strategies and marketing.

Principal shareholders	(%)
Dedagroup SpA*	52.33
Sequenza SpA*	13.88
Marco Podini*	5.24
Maria Luisa Podini*	5.24
Andrea Guido Guillermaz	2.86
Riccardo Veneziani	2.86
Paolo Virenti	2.86
Free float	14.73

**Podini family interests.*

Companies named in this report

Microsoft, Oracle, SAP, Intuit, Workday, Netsuite, Sage, Xero, TXT e-solutions, Noemalife, Expert System, Neurosoft, CAD IT, Tas Tecnologia Avanzata dei Sistemi, Primi Sui Motori

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