Piteco

H1 results

Business portfolio generates solid growth

Software & comp services

Piteco generated solid organic revenue and EBITDA growth in H1 (+7/+8%) and benefitted strongly from recent acquisitions. We expect organic growth to continue for Piteco Spa and we forecast acceleration for Myrios and Juniper. We see balance sheet headroom for further M&A, which could strengthen the growth outlook (albeit with execution risks). Piteco continues to trade at a discount to Italian and international software peers.

Year end	Net sales* (€m)	EBITDA** (€m)	EPS** (c)	DPS (c)	P/E (x)	Yield (%)
12/17	16.4	6.5	30.3	15.0	17.5	2.8
12/18	19.4	8.3	31.5	15.0	16.8	2.8
12/19e	23.9	10.6	38.3	17.5	13.8	3.3
12/20e	26.0	11.7	41.5	20.0	12.8	3.8

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.

Organic growth and recent M&A boost H1 results

Piteco group reported 23/31% H1 revenue/EBITDA growth year-on-year (y-o-y) thanks to organic progress (+7/+8% y-o-y) and the full benefit of the acquisition of Myrios (acquired in October 2018). Overall, we believe H1 revenue and EBITDA are in line with our largely unchanged FY forecasts, while below the EBITDA level the run-rate of D&A was higher than suggested by our forecasts, due to the non-cash impact of the Myrios acquisition (IFRS3 – business combination).

8% two-year revenue CAGR, balance sheet headroom

Our forecasts reflect rather stable organic growth for the corporate treasury core business (Piteco Spa) with an acceleration, already from H219, for recently acquired Myrios (finance and risk management solutions), mainly thanks to recent commercial success with both corporates and bank clients. We expect robust revenue growth (8% CAGR 2019e–21e) for the group to translate into solid earnings progression (we forecast normalised EPS CAGR of 10%). Further acquisitions could strengthen the growth outlook. Based on our FY20 forecasts, we estimate balance sheet headroom of at least €25–30m. Our forecasts for revenue and EBITDA are broadly unchanged whereas FY19e–21e net income declines by an average 8%, reflecting an increase in D&A.

Valuation: At a discount to peers

We believe the key attractiveness of Piteco is its ability to generate high profit margins while providing customers with a flexible and cost-effective solution. The historical growth track record, the earnings growth outlook (10% EPS CAGR 2019e–21e) and sustained cash-flow generation (10% FCF yield) supports further investment opportunities that could strengthen the growth outlook. The stock is trading on 9x EV/EBITDA and 13x P/E for FY20, at a discount to large international software providers as well as small Italian software companies. Our DCF-based valuation is broadly unchanged at €6.7/share.

7 October 2019

Price	**€5.30**
Market cap	**€95m**
Net debt (€m) H119, excl. value of put options	14.8
Shares in issue	17.9m
Free float	27%
Code	PITE
Primary exchange	Borsa Italiana

Share price performance

%	1m	3m	12m
Abs	2.9	3.9	17.8
Rel (local)	3.9	7.1	14.7
52-week high/low		€5.75	€3.60

Business description

Piteco is Italy's leading company in designing, developing and implementing software for treasury, finance and financial planning management. In addition to the core corporate treasury software (Piteco Spa), the product offering has increased thanks to the acquisitions of Myrios (finance and risk management) and Juniper (digital payment and clearing house).

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FY results	March 2020

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Solid growth in H119

Piteco generated solid organic revenue/EBITDA growth in H1 (+7/+8%) and strongly benefitted from recent acquisitions. Overall, we see H1 revenue and EBITDA as consistent with our marginally updated FY expectations. We expect organic growth to continue for Piteco Spa, while we forecast an acceleration for Myrios and Juniper. We see balance sheet headroom for further M&A, which could strengthen the growth outlook (albeit with execution risks). Piteco continues to trade at a discount to Italian and international software players.

Organic growth and Myrios acquisition drive H1 results

Piteco reported strong revenue and EBITDA growth for H1 thanks to organic development and the full benefit of the acquisition of Myrios (October 2018). Overall, we believe H1 revenue and EBITDA are in line with our FY forecasts, while below the EBITDA, the run-rate of D&A was higher than our expectations. Respectively, H1 revenues and EBITDA represent 45% and 41% of our largely unchanged FY forecasts, which we believe makes sense as historical results for Piteco have been skewed towards H2 (as most projects are completed and billed in H2 and the sale of new licences is concentrated in Q4, when clients have more visibility on their budgets). We provide more detail on the H1 results key trends below.

- Revenues grew 23% y-o-y to €11.1m. Myrios contributed €1.4m (16%) to revenue growth whereas organic growth was c +7% y-o-y.
- EBITDA growth of 31% y-o-y to €4.3m was driven by strong revenue growth and margin expansion (to 39% in H119 from 37% one year earlier) also thanks to the higher margins of Myrios (51% in H119 vs 38/34% for Piteco Spa/Juniper). Organic growth was 8% y-o-y.
- Net income declined 8% y-o-y due to the increase in non-cash charges (D&A up €0.6m, largely driven by the accounting impact of the Myrios acquisition – IFRS 3 Business Combinations) and, to a lesser extent, an increase in financial costs (+€0.4), which are mostly driven by the one-off impact of the revaluation of the outstanding put options that Piteco granted to the shareholders of Myrios and Juniper. Piteco provides an adjusted net income figure (removing only the increased D&A expense – IFRS 3) of €2.3m, up 3% y-o-y.
- Net debt reduced to €14.8m (from €15.3m at the end of FY18) thanks to free cash-flow generation of €4.0m in H119, partly offset by the dividend payment (€2.8m). Including the value of the put options, net debt was €26.4m.

Piteco growth to continue, Myrios to accelerate

Our forecasts reflect stable organic growth in the corporate treasury core business (Piteco Spa) with an acceleration of growth in the recently acquired Myrios and Juniper.

- We expect growth to continue at sustained pace for **Piteco Spa** (corporate treasury, which includes the group's broad treasury management software activities), in line with the historical trend (we forecast 6% 2019e–21e revenue CAGR vs +5% in 2012–18). This business develops and delivers treasury and financial planning solutions, primarily to the Italian market, but it is also expanding internationally. Due to the flexibility of the solutions offered, the cost-effectiveness, the good company reputation and historical track record, the opportunity to grow the customer base in Italy (with c 1,100 prospects according to the company) and the difficulty for international players to penetrate the Italian market, we expect organic growth to continue at a robust pace. Piteco Spa signed 30 new clients in the first three quarters of 2019 (compared to a portfolio of c 600 clients). If we annualise new client wins (40), the company is on track to beat the number of client additions in FY18 (37) and FY17 (30). It should be noted that a SaaS option is offered to new clients, which is growing very quickly (albeit from a low base). As a result, revenue growth may be more subdued in the short term (as revenues are spread over a number of years) in exchange for more stability in the longer term and a higher overall contract value.

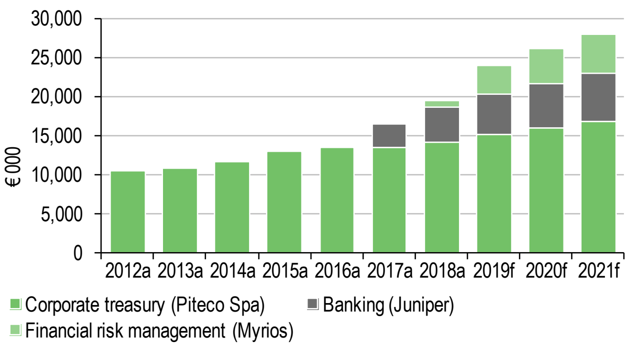
- We expect an acceleration of growth for **Myrios**, which offers software solutions for finance and risk management areas, targeted at banks (60% of revenue) and large corporates (40% of revenue). Myrios's key areas of functionality cover deal management across a broad range of asset classes (FX, debt, commodities and securities), hedge accounting and risk analysis. Significant commercial progress was achieved in 2019 and we expect growth for Myrios to accelerate in H219 and FY20 thanks to new large client additions, both corporate (eg Telecom Italia) and banks (eg Medio Credito Centrale).
- A new subsidiary, Myrios Switzerland (based in Geneva) was set up in February 2019 to help internalise Piteco group's existing products. The unit offers all Piteco's software solutions for treasury management, digital payments and financial risk management. It is too early to assess the success of this commercial effort, but we point out that a pick-up in orders from outside Italy would represent upside to our forecasts for the group – we believe this will be one of the key points to focus on in FY20.
- H1 growth was slower (2% revenue growth year-on-year, despite the recent US dollar appreciation), for **Juniper Payments** (digital payment and clearing house), a US payments software business focused on the correspondent banking space. We expect a revenue step-up in FY20 following a year of significant investments, which led to a significant increase in costs (H1 Juniper operating costs up 14% y-o-y vs revenues +2% y-o-y). We expect to have more visibility on the outlook for this business with the FY19 results.

Profit forecasts overview: Robust organic growth

We expect robust revenue growth (8% CAGR 2019e–21e) to translate into solid earnings progression (normalised EPS CAGR of 10%). Our forecasts only reflect organic growth for the group although we believe further acquisitions could strengthen the outlook. We provide more detail on the key financials below:

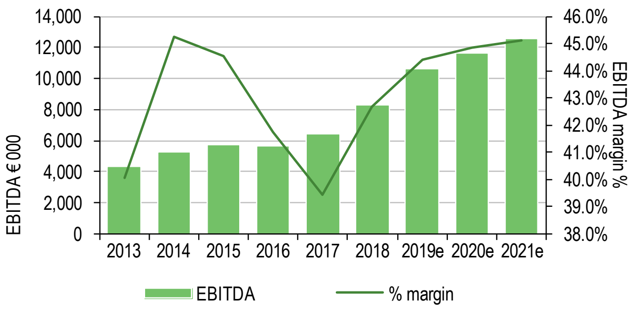
- We forecast 8% revenue CAGR 2019e–21e for the group with the strongest growth rate at Myrios (17% vs 6/8% CAGR for Piteco Spa/Juniper).
- Following an expected expansion of the EBITDA margins for the group in FY19 (mostly reflecting the full-year contribution of Myrios), we factor in a small further expansion in FY20/FY21 thanks to a more favourable business mix (Myrios has higher margins and has a higher growth rate) and economies of scale. We see our forecasts for EBITDA margins as conservative as we see potential for margins to expand. Overall we estimate an EBITDA CAGR of 9%.
- Sustained EBITDA growth, combined with constant D&A in FY20e–FY21e and a decline in financial expenses results in a 10% normalised net income CAGR.

Exhibit 1: Revenue breakdown by business



Source: Company data, Edison Investment Research

Exhibit 2: Group EBITDA and EBITDA margin



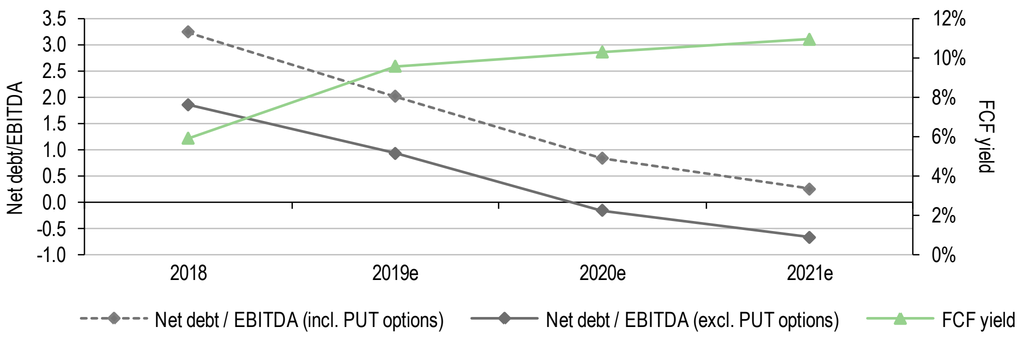
Source: Company data, Edison Investment Research

Balance sheet headroom for further acquisitions

Piteco Group expanded significantly via acquisitions over the last few years with three deals in four years (Centro Data in 2015, Juniper in 2017 and Myrios in 2018). With good cash flow generation (10% FCF yield), leverage ratios well below the covenant thresholds and the prospect of further organic growth in the next few years, we expect the company to consider further acquisitions starting in FY20.

Existing bank loans have the covenants of net debt/EBITDA < 3x and net debt/equity < 1x. Hence, based on FY20 forecasts, both covenants suggest net debt ceiling of c €35–40m (assuming no new EBITDA contribution from acquisitions) vs our year-end FY20 forecast of c €10m (assuming full conversion of outstanding convertible bonds by FY20 and excluding the value of the put options related to Myrios and Juniper, which are not considered in the covenant calculations), leaving at least €25–30m of balance sheet headroom.

Exhibit 3: Leverage and FCF yield



Source: Company data, Edison Investment Research

Forecasts: Revenue and EBITDA little changed

We have made only small changes to revenue and EBITDA forecasts post the H1 results. However, 2019e–21e EBIT/net income both reduce by an average 8%, mostly reflecting an increase in non-cash expenses (D&A), partly offset by a small increase in EBITDA margins in FY20–FY21. We now forecast total D&A of €2.8m for FY19 vs €1.9m previously. We have also assumed an increasing number of shares to reflect the full conversion of convertible bonds by FY20 and increased the portion of D&A included in the adjusted operating profit and adjusted net income (which results in lower estimates) to better align it with the company definition.

Exhibit 4: Forecast changes

€000s		2018	2019e	2020e	2021e
Net sales revenue	NEW	19,374	23,944	26,030	27,919
	OLD	-	24,042	26,276	28,247
	% change	-	0%	-1%	-1%
EBITDA	NEW	8,266	10,628	11,678	12,600
	OLD	-	10,666	11,677	12,300
	% change	-	0%	0%	2%
Operating profit	NEW	6,399	7,855	8,860	9,836
	OLD	-	8,775	9,751	10,344
	% change	-	-10%	-9%	-5%
Net income	NEW	5,265	6,071	6,894	7,562
	OLD	-	6,794	7,561	7,883
	% change	-	-11%	-9%	-4%

Source: Company data, Edison Investment Research

Valuation: Discount to international and Italian players

We believe the key attractiveness of Piteco is its ability to generate high profit margins while providing customers with a flexible and cost-effective solution The historical growth track record, the earnings growth outlook (10% EPS CAGR 2019e–21e) and sustained cash-flow generation (10% FCF yield) supports further investment opportunities that could strengthen the growth outlook. The stock is trading on 9x EV/EBITDA and 13x P/E for FY20, at a discount to large international software providers and small Italian software companies.

Our DCF-based valuation is broadly unchanged, at €6.7/share. This is based on a 5.1% CAGR for net revenues over 10 years, a long-term EBITDA margin of 43%, a WACC of 9% and terminal growth rate of 2%.

Exhibit 5: Peer valuation metrics

	Share price	Market cap	EV/sales (x)		EV/EBITDA (x)		PE (x)	
	Local currency	€m	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2
Piteco	520.0	93	4.8	4.1	10.9	9.1	13.6	12.5
Large global ERP/accounting software providers								
Microsoft	104.3	736,367	6.0	5.4	14.0	12.3	23.3	20.4
Oracle	47.8	157,760	4.6	4.5	9.8	9.4	14.0	13.0
SAP	89.2	99,911	4.5	4.2	14.3	12.8	20.2	18.3
Intuit	202.7	48,385	7.8	7.1	21.2	18.9	31.0	27.4
Workday	166.2	33,329	12.7	10.2	76.3	54.5	130.6	102.0
Sage	621.0	5,966	3.8	3.6	14.6	13.5	20.8	18.9
Xero	43.0	3,689	12.2	9.3	79.2	46.7	NaN	181.6
Median			**6.0**	**5.4**	**14.6**	**13.5**	**22.0**	**20.4**
Small software companies quoted in Italy								
TXT e-solutions	914.0	118	1.4	1.2	12.6	9.2	48.1	33.0
Neurosoft	82.0	21	NaN	NaN	NaN	NaN	NaN	NaN
Expert System	122.5	44	1.6	1.4	10.2	6.6	NaN	NaN
Tas Tecnologia Avanzata dei Sistemi	174.0	144	NaN	NaN	NaN	NaN	NaN	NaN
Primi Sui Motori	237.0	25	NaN	2.0	NaN	12.7	NaN	NaN
Median			**1.5**	**1.4**	**11.4**	**9.2**	**48.1**	**33.0**

Source: Refinitiv, Edison Investment Research. Note: Priced at 30 September 2019.

The key upside or downside risks to our forecasts are higher or lower customer acquisition at Piteco Spa, stronger or slower than expected revenue acceleration at Myrios or Juniper, higher/lower contribution from international clients (Myrios Switzerland) and higher or lower margins. Furthermore, we believe M&A activity would represent a significant growth opportunity and generate execution risks.

Exhibit 6: Financial summary

€'000s	2017	2018	2019e	2020e	2021e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	17,046	20,214	24,850	27,004	28,952
Net Sales Revenue	16,374	19,374	23,944	26,030	27,919
EBITDA	6,457	8,266	10,628	11,678	12,600
Operating Profit (before amort. and except.)	6,110	6,486	8,705	9,710	10,686
Amortisation of acquired intangibles	(956)	(87)	(850)	(850)	(850)
Exceptionals	(1,160)	(327)	0	0	0
Share based payments	0	0	0	0	0
Operating Profit	3,994	6,072	7,855	8,860	9,836
Net Interest	(537)	(340)	(750)	(600)	(550)
Profit Before Tax (norm)	5,573	6,146	7,955	9,110	10,136
Profit Before Tax (FRS 3)	3,457	5,732	7,105	8,260	9,286
Tax	(72)	(467)	(1,034)	(1,367)	(1,723)
Profit After Tax (norm)	5,501	5,679	6,921	7,744	8,412
Profit After Tax (FRS 3)	3,385	5,265	6,071	6,894	7,562
Average Number of Shares Outstanding (m)	18.1	18.0	18.1	18.7	19.1
EPS - normalised (c)	30.3	31.5	38.3	41.5	44.0
EPS - FRS 3 (c)	18.7	29.2	33.6	37.0	39.5
Dividend per share (c)	15.00	15.00	17.50	20.00	22.50
Gross Margin (%)	0.0	0.0	0.0	0.0	0.0
EBITDA Margin (%)	37.9	40.9	42.8	43.2	43.5
Op Margin (before GW and except.) (%)	35.8	32.1	35.0	36.0	36.9
BALANCE SHEET					
Fixed Assets	39,348	60,884	58,686	56,493	54,399
Intangible assets and deferred tax	37,834	58,763	58,069	57,372	56,666
Tangible Assets	1,486	2,098	594	(902)	(2,290)
Investments	28	23	23	23	23
Current Assets	9,526	11,171	16,078	25,140	29,114
Stocks	0	0	0	0	0
Debtors	4,096	4,808	5,639	5,827	5,947
Cash	5,154	5,834	9,910	18,783	22,638
Current Liabilities	(8,425)	(10,439)	(11,370)	(12,141)	(12,824)
Creditors	(6,100)	(4,360)	(5,291)	(6,062)	(6,745)
Short term borrowings	(2,325)	(6,079)	(6,079)	(6,079)	(6,079)
Long Term Liabilities	(10,533)	(30,480)	(29,168)	(26,355)	(23,543)
Long term borrowings	(9,354)	(26,549)	(25,237)	(22,424)	(19,612)
Other long term liabilities	(1,179)	(3,931)	(3,931)	(3,931)	(3,931)
Net Assets	29,916	31,136	34,225	43,136	47,147
CASH FLOW					
Operating Cash Flow	5,670	7,223	10,889	11,965	12,893
Net Interest	(538)	(336)	(750)	(600)	(550)
Tax	(309)	(648)	(467)	(955)	(1,275)
Capex	(400)	(624)	(575)	(625)	(670)
Acquisitions/disposals	(9,830)	(10,018)	(2,495)	(1,241)	0
Financing	0	0	0	0	0
Dividends	(3,094)	(2,698)	(2,707)	(3,162)	(3,731)
Net Cash Flow	(8,501)	(7,101)	3,895	5,382	6,667
Opening net debt/(cash)	(1,946)	6,525	26,794	21,406	9,720
Other	30	(13,168)	1,492	6,304	0
Closing net debt/(cash)	6,525	26,794	21,406	9,720	3,053

Source: Company data, Edison Investment Research. Note: *FY18 'Other' represents Myrios and Juniper acquisition liabilities. Acquisitions: FY18 – the initial payment for 56% Myrios, net of cash acquired. FY19 – payment for 5% of Juniper and second payment for 56% of Myrios, both reversed from acquisition liabilities. FY20: Third payment for 56% of Myrios, reversed from acquisition liabilities. FY20 'Other' also includes the assumed conversion of all outstanding convertible bonds.

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