

Italy - Software

First class software house poised for the next phase

17th October 2019

PARIS MID CAP EVENT

RIC: PITE.MI
BBG: PITE IM

In Paris for a two-days Large & Mid Cap event with the Chairman, meeting more than a dozen key European specialised investors in one-to-one meetings. Main points to take away from the meetings:

Rating:

Buy

Price Target:

€ 8.10

Upside/(Downside): 44.6%

Last Price: € 5.60

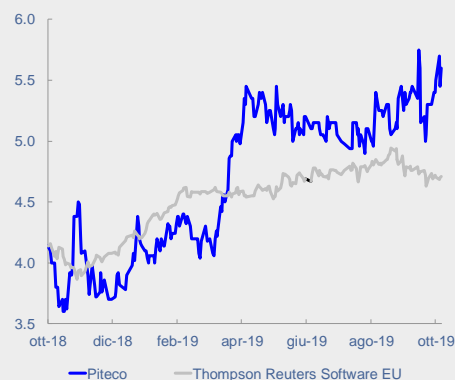
Market Cap.: € 101.4m

1Y High/Low: € 5.90/€ 3.50

Free Float: 27.4%

Major shareholders:

Podini Family 66.9%
Management 5.7%



Stock price performance

	1M	3M	12M
Absolute	3.7%	12.0%	35.3%
Rel.to AIM Italia	4.3%	16.2%	47.0%
Rel.to EU Sector	2.1%	1.5%	12.3%

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Recent M&A underlines Piteco valuation gap

Last Apr-19 Kyriba, the global leader in cloud treasury and finance solutions, a US based comparable of Piteco, was acquired by Bridgepoint in \$ 1.2bn deal. Kyriba exceeded \$ 110m in revenue in 2018 and netted 229 new clients. In a world of increasingly global financial operations, Chief Financial Officers have turned to cloud-based software such as Kyriba for visibility and compliance controls over vast accounting, banking and foreign exchange processes. The deal valued Kyriba 10.9x EV/Sales 2018, well above the 7.1x EV/Sales median multiple for Piteco's large player listed comparables (Intuit, Microsoft, Oracle, Salesforce and SAP) in 2019. The deal highlights Piteco's stock undervaluation at current prices: shares trading at 4.8x and 4.1x EV/Sales 2019 and 2020, less than half compared to a speculative assessment for buy-out or a majority acquisition.

Well on track to add 40 new customers by year-end

YTD, Piteco has added 30 new customers (compared to 37 for the entire 2018), including companies such as Manpower, Marconi Bologna Airport, Miroglio Group and the Spanish insurance company Reale Seguros. In addition, Myrios Srl has started relevant projects with a few new names, among which Telecom Italia and Medio Credito Centrale. Taking into consideration this achievement, Piteco might reach 40 new clients by the end of the year. After two flat years, in 2018 Piteco resumed its organic growth (+4.5% yoy), thanks to a constant increase in recurring revenues and new clients. In the first half of 2019, this trend accelerated, with organic growth for Piteco stand-alone up 8.3%, with elements which can configure a highly likely continuation of this development.

Highly likely STAR up-listing in 2020, after bond conversion

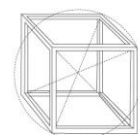
In our opinion, 2020 could be an opportunity for Piteco to move onto the STAR segment of Borsa Italiana, improving the visibility and liquidity of the stock. As a matter of fact, in 2020 the convertible bond "Piteco Convertible 4.50% 2015-2020" will expire and, if all outstanding bonds will be converted into ordinary shares (max. 1.190m new shares), the free float will reach some 32%. The 35% minimum free float required for the STAR segment could be reached via a liquidity event or a minor share disposal.

Shares trade at a discount vs. larger players' median: 11.4x EBITDA₁₉ vs. 18.0x

CFO SIM confirms estimates and stock valuation via DCF based methodology: PT is € 8.10/share, with a 44.5% upside. Shares continue to trade at a discount vs. larger players median: 11.4x and 9.6x EBITDA₁₉₋₂₀ vs. 18.0x and 15.5x of comparables. We reiterate our Buy rating on the shares.

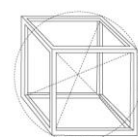
Piteco, key financials and ratios

€ m	2017	2018	2019e	2020e	2021e
Sales	17.05	20.21	25.83	28.90	31.24
EBITDA	6.46	8.27	10.80	12.27	13.70
EBITDA adjusted	6.72	8.27	10.80	12.27	13.70
EBIT	4.97	6.40	8.00	9.52	10.99
Net profit	3.39	5.27	6.05	7.47	8.86
Net profit adjusted	3.51	4.60	6.05	7.47	8.86
EPS adjusted	0.19	0.25	0.33	0.41	0.49
EPS adj. growth	-23.7%	31.1%	31.5%	23.4%	18.6%
DPS ord. €/s	0.15	0.15	0.20	0.25	0.29
Dividend yield	2.7%	2.7%	3.6%	4.4%	5.2%
NFP (cash)/debt	6.50	26.77	22.03	16.14	9.80
Free Cash Flow Yield	4.4%	6.5%	7.6%	9.4%	10.7%
PER x	28.9	22.1	16.8	13.6	11.5
PCF x	22.5	14.8	12.0	9.9	8.8
EV/Sales x	6.3	6.3	4.8	4.1	3.6
EV/EBITDA x	16.7	15.5	11.4	9.6	8.1
EV/EBIT x	21.7	20.0	15.4	12.4	10.1





Income statement (€ m)	2017	2018	2019e	2020e	2021e
Total revenues	17.05	20.21	25.83	28.90	31.24
Material expenses	0.27	0.31	0.39	0.44	0.47
Change in inventories	0.00	0.00	0.00	0.00	0.00
Personnel expenses	7.42	8.12	9.73	10.60	10.91
Other operating expenses/(income)	2.90	3.52	4.91	5.59	6.14
EBITDA	6.46	8.27	10.80	12.27	13.70
EBITDA adj.	6.72	8.27	10.80	12.27	13.70
D&A	1.48	1.87	2.81	2.76	2.72
EBIT	4.97	6.40	8.00	9.52	10.99
Financial charges/(income)	1.64	(0.05)	1.04	0.93	0.80
Other costs & extraordinary & other	(0.13)	0.72	0.00	0.00	0.00
Pre-Tax profit	3.46	5.73	6.96	8.59	10.18
Income taxes	0.07	0.47	0.90	1.12	1.32
Net Profit	3.39	5.27	6.05	7.47	8.86
Net Profit Adjusted	3.51	4.60	6.05	7.47	8.86
Balance sheet (€ m)	2017	2018	2019e	2020e	2021e
Net Working Capital	3.35	4.14	6.15	6.77	7.26
Net Fixed Assets	38.90	60.40	58.33	56.35	54.41
Equity Investments	0.00	0.00	0.00	0.00	0.00
Other M/L Term A/L	(5.84)	(6.63)	(7.98)	(8.67)	(9.18)
Net Invested Capital	36.41	57.91	56.50	54.45	52.48
Net Financial Debt	6.50	26.77	22.03	16.14	9.80
Minorities	0.00	0.00	0.00	0.00	0.00
Group's Shareholders Equity	29.92	31.14	34.47	38.31	42.68
Financial Liabilities & Equity	36.41	57.91	56.50	54.45	52.48
Cash Flow statement (€ m)	2017	2018	2019e	2020e	2021e
Total net income	3.39	5.27	6.05	7.47	8.86
Depreciation	1.48	1.87	2.81	2.76	2.72
Other non-cash charges	(0.46)	0.52	1.61	0.69	0.51
Cash Flow from Oper. (CFO)	4.41	7.65	10.47	10.92	12.09
Change in NWC	0.10	(0.79)	(2.02)	(0.62)	(0.49)
FCF from Operations (FCFO)	4.51	6.87	8.45	10.30	11.60
Net Investments (CFI)	(10.23)	(23.26)	(0.74)	(0.78)	(0.78)
Free CF to the Firm (FCFF)	(5.72)	(16.40)	7.72	9.52	10.83
CF from financials (CFF)	0.01	16.81	(5.98)	(6.57)	(7.12)
Free Cash Flow to Equity (FCFE)	(5.72)	0.42	1.74	2.96	3.70
Financial ratios	2017	2018	2019e	2020e	2021e
EBITDA margin	37.9%	40.9%	41.8%	42.5%	43.9%
EBIT margin	29.2%	31.7%	31.0%	32.9%	35.2%
Net profit margin	19.9%	26.0%	23.4%	25.8%	28.4%
Tax rate	2.1%	8.1%	13.0%	13.0%	13.0%
Interest coverage x	0.33	(0.01)	0.13	0.10	0.07
Net Debt/Ebitda x	1.01	3.24	2.04	1.32	0.71
Debt-to-Equity x	0.22	0.86	0.64	0.42	0.23
ROIC	10.2%	11.2%	10.6%	13.5%	16.6%
ROCE	11.6%	9.5%	11.7%	13.7%	15.4%
ROACE	11.7%	11.6%	11.8%	13.8%	15.6%
ROE	10.9%	17.2%	18.4%	20.5%	21.9%
Payout ratio	80.4%	51.7%	60.0%	60.0%	60.0%
Per share figures	2017	2018	2019e	2020e	2021e
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 €	0.19	0.29	0.33	0.41	0.49
EPS adjusted €	0.19	0.29	0.33	0.41	0.49
EBITDA €	0.36	0.46	0.60	0.68	0.76
EBIT €	0.27	0.35	0.44	0.52	0.61
FCFO €	0.25	0.38	0.47	0.57	0.64
FCFF €	(0.32)	(0.90)	0.43	0.53	0.60
FCFE €	(0.32)	0.02	0.10	0.16	0.20
Dividend €	0.15	0.15	0.20	0.25	0.29

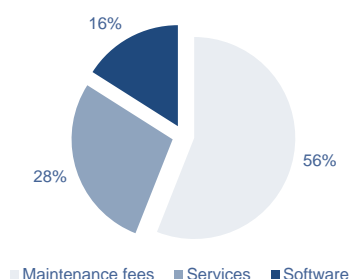


The company at a glance

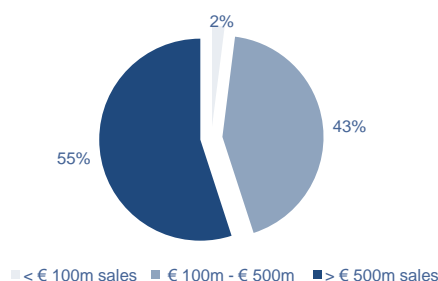
iteco is the undisputed domestic leader, more than 4x the size of its closest competitor, in the niche of corporate treasury management and financial planning software. The company designs, develops and implements proprietary software and solutions for corporate cash management. It focuses on large/mid 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-18 turnover grew 18.6% to € 20.2m, bang in line with our forecast, driven by the increase in recurring revenues and new clients, the Juniper payments contribution for the entire year and Myrios contribution for 2.5 months. EBITDA increased 28.0% to € 8.3m, 40.9% margin vs. € 6.5m and 37.9% margin in FY-17. Client base currently comprises some 650 firms, of which a relevant number listed on 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.

2018 revenues and...



... and client profile (sales) breakdown



Shareholder structure

	# m	%
Podini Family	12.2	66.9%
Dedagroup	10.1	55.3%
Lillo SpA	0.0	0.2%
Marco Podini	1.0	5.7%
Maria Luisa Podini	1.0	5.7%
Management	1.0	5.7%
Andrea Guido Guillermaz	0.3	1.9%
Riccardo Veneziani	0.3	1.9%
Paolo Virenti	0.3	1.9%
Free Float	5.0	27.4%
Ennismore Fund Management	1.4	7.7%
Treasury shares	0.2	1.2%
Total	18.2	100.0%

Source: Company data

Peer group absolute performance

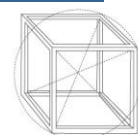
	1D	1W	1M	3M	6M	YTD
Intuit Inc	(1.6)	2.0	0.3	(4.1)	5.0	36.7
Microsoft Corp	(0.8)	1.6	1.4	3.0	15.3	38.2
Oracle Corp	(0.8)	2.5	6.3	(3.6)	2.6	23.8
Salesforce.com Inc	(3.8)	(0.1)	(3.8)	(7.1)	(5.4)	7.3
SAP SE	1.0	10.1	7.5	(2.8)	17.4	34.2
Median large players	(0.8)	2.0	1.4	(3.6)	5.0	34.2
Datalogic SpA	(0.6)	0.4	(6.4)	(20.1)	(40.9)	(36.6)
Digital Bros SpA	2.3	5.8	(4.8)	14.1	31.3	110.9
Expert System SpA	(0.3)	7.7	(11.9)	(8.1)	86.7	153.2
Exprivia SpA	(0.1)	(0.2)	(2.7)	(15.6)	(26.8)	4.0
Reply SpA	1.5	3.4	10.2	(5.0)	(0.2)	30.2
TXT e solutions SpA	0.1	(0.5)	(0.5)	(1.8)	(13.0)	0.1
Median small players	0.0	1.9	(3.8)	(6.5)	(6.6)	17.1
Piteco SpA	2.8	3.7	3.7	12.0	5.7	43.6

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	35.0	31.1	30.9	28.7	8.8	7.8	23.8	21.3	26.3	22.8
Microsoft Corp	26.5	23.6	20.0	17.7	7.1	6.3	16.2	14.2	20.7	18.1
Oracle Corp	14.1	13.5	12.8	11.9	4.9	4.8	10.4	9.9	11.2	10.9
Salesforce.Com Inc	52.5	43.8	37.2	35.6	7.4	5.7	32.8	27.1	44.7	32.0
SAP SE	25.8	23.0	22.9	20.1	5.6	5.1	18.0	15.5	19.7	17.1
Median large player	26.5	23.6	22.9	20.1	7.1	5.7	18.0	15.5	20.7	18.1
Datalogic SpA	13.9	12.9	9.9	9.5	1.2	1.1	7.6	7.0	9.9	8.9
Digital Bros SpA	14.1	14.9	7.1	n.a.	1.0	0.9	6.5	n.a.	11.1	9.8
Expert System SpA	n.s.	139.6	23.9	14.7	3.8	3.2	20.6	15.3	n.s.	122.2
Exprivia SpA	n.s.	8.9	2.0	1.8	0.5	0.4	6.5	5.3	13.4	9.6
Reply SpA	20.9	19.0	16.7	15.2	1.7	1.6	12.1	10.6	14.3	12.4
TXT e solutions SpA	29.5	26.1	17.6	15.8	2.7	2.4	26.3	20.4	n.a.	n.a.
Median small player	17.5	16.9	13.3	14.7	1.5	1.3	9.9	10.6	12.2	9.8
Piteco SpA	16.8	13.6	11.4	9.9	4.8	4.1	11.4	9.6	15.4	12.4

Source: CFO Sim, Thomson Reuters Eikon



ANALYST CERTIFICATION

This publication was prepared by **LUCA ARENA**, Head of the Equity Research Department of "Corporate Family Office SIM S.p.A." ("CFO SIM") and **GIANLUCA MOZZALI**, Equity Analyst of CFO SIM. This is to certify that the views expressed on the companies mentioned in this document reflect the analysts' personal opinions and that no direct or indirect recompense has been, or will be, received by the analyst further to the views expressed herein.

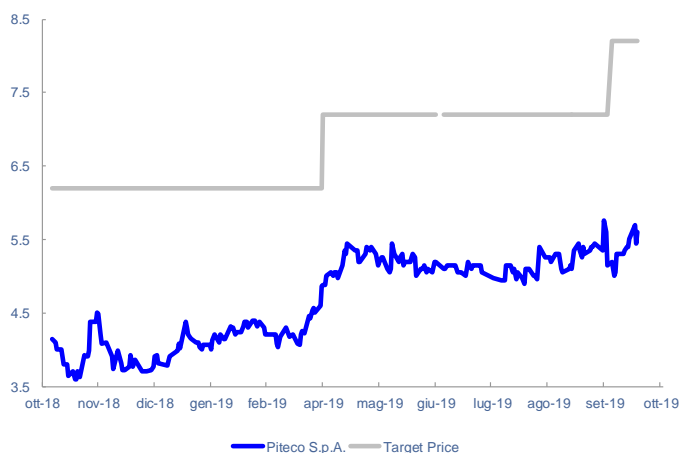
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DATE	TARGET PRICE	RATING
17/10/2019	€8.10	BUY
30/09/2019	€8.10	BUY
21/05/2019	€7.20	BUY
03/04/2019	€7.20	BUY

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- a **BUY** rating is assigned if the target price is at least 15% higher than the market price;
- a **SELL** rating is assigned if the target price is at least 15% lower than the market price;
- a **NEUTRAL** rating is assigned if the difference between the current price and target price lies within the +/-15% bands identified using the preceding criteria.

The rating is determined on the basis of the **expected absolute return 12 months forward** and not on the basis of the estimated out/underperformance relative to a market index. Thus, the rating can be directly linked with the estimated percentage difference between current price and target price. The prices of the financial securities mentioned in the report (also used for the calculation of market capitalisation and market multiples) are the reference prices of the stock market trading day preceding the publication date of the report, otherwise stated.

