

Italy - Software

Recurring revenues at 68% of total: almost a utility!

29th September 2020

H1-20 RESULTS RELEASE

RIC: PITE.MI
BBG: PITE IM

A good set of results, consolidating the growing trend of the treasury management business and strengthening the share of recurring revenues. The COVID-19 pandemic temporarily slowed down the clients' acquisition process, although the first months of the year showed increasing demand for Piteco's products and services.

Rating:

Buy

Price Target:

€ 9.40 (€ 7.00)

Upside/(Downside): 22.4%

Last Price: € 7.68

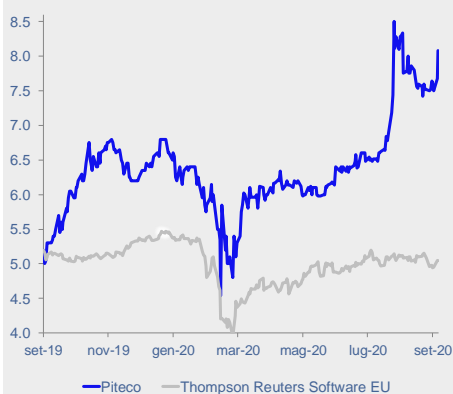
Market Cap.: € 147.7

1Y High/Low: € 8.76/€ 4.54

Free Float: 28.4%

Major shareholders:

Podini Family 63.4%
Management 5.4%



Stock price performance

	1M	3M	12M
Absolute	-1.3%	20.8%	49.1%
Rel.to FTSE Italia	-0.4%	12.6%	39.6%
Rel.to EU Sector	-2.2%	-1.1%	-12.4%

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Results confirm stock resiliency: Buy reiterated, new PT of € 9.40 (€ 7.00)

Interim results were characterised by significant resiliency, thanks to Piteco's business model characterised by a large amount of recurring revenues, services and software sales to captive clients. We updated our model factoring in higher growth and profitability for 2020 and leaving 2021-22 growth rates and margins basically unchanged. The result is a 2.8% and 8.9% average upgrade in Sales and Net Profit, in 2020-22, respectively. We have updated the DCF valuation criteria and brought the Free Risk Rate up-to-date. The combined result is an upgrade in PT to € 9.40/s (€ 7.00/s), 22.4% upside to current prices. We confirm the Buy: in this turmoil, Piteco represents a defensive player.

Revenues grew 7.8% YoY, reaching € 12.0m driven by the parent-co Piteco SpA

H1-20 revenues grew by 7.8% YoY to € 12.0m, driven by the positive performance recorded by the treasury management business. Piteco's sales grew by 10.7% YoY to € 8.2m, thanks to the acquisition of several new customers in the first two months of 2020 only partially counterbalanced by some slowdown in demand stemming from the spread of COVID-19. Nevertheless, the market dynamism at the beginning of 2020 displayed corporate clients' increasing interest in Piteco's products and services. Juniper Payments reported revenues of € 2.3m, broadly in line with H1-19 as a result of not acquiring any new clients in the first half of 2020 mainly because of the uncertainty generated by the rapid expansion of the COVID-19 pandemic. Myrios' revenues totalled € 1.5m, up 3.7% YoY. As of 30th June, recurring revenues increased by 5% YoY (68% of total revenues).

EBITDA up by 11.6% YoY, margin to 40.5% +140bps

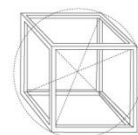
EBITDA increased by 11.6% to € 4.8m, 40.5% margin (vs. € 4.3m, 39.1% margin in H1-19), thanks to operating costs growing less than proportionally to the top line (+5.3% vs. +7.8%) mainly as a result of the operating leverage sustained by higher volumes. The rise in operating costs was attributable to growing personnel expenses due to the recruitment of new resources supporting the launch of new products. Net profit was € 2.3m, 19.3% margin (up by 12.8% YoY).

Massive operating cash flow, 65% of sales and 149% of EBITDA

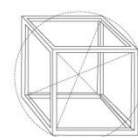
Operating Cash Flow totalled € 7.2m, 65% of net sales and 149% of EBITDA. After 1) dividend distribution of € 3.5m, 2) Myrios' earn-out payments of up to € 2.0m and 3) the € 0.5m acquisition of Everymake, Net Financial Position was negative for € 11.5m, clearly improved compared to € 14.6m in Dec-19. Including the put options for the acquisition of the minority stakes of Juniper Payments and Myrios, NFP reached € 24.4m, o/w at least 50% corresponding to the value of Myrios' put option, to be paid via Piteco shares.

Piteco, key financials and ratios

€ m	2018	2019	2020e	2021e	2022e
Sales	20.21	24.04	25.71	26.85	28.25
EBITDA	8.27	10.24	10.96	11.68	12.62
EBITDA adjusted	8.27	10.24	10.96	11.68	12.62
EBIT	6.40	7.26	7.99	8.75	9.67
Net profit	5.27	3.02	5.98	6.72	7.62
Net profit adjusted	5.07	5.69	5.98	6.72	7.62
EPS adjusted	0.28	0.31	0.33	0.37	0.42
EPS adj. growth	44.5%	12.4%	5.1%	12.3%	13.4%
DPS ord. €/s	0.15	0.15	0.19	0.22	0.24
Dividend yield	2.0%	2.0%	2.5%	2.8%	3.2%
NFP (cash)/debt	26.77	27.46	22.37	17.08	11.38
Free Cash Flow Yield	8.0%	4.8%	5.7%	6.0%	6.6%
PER x	16.4	16.5	24.7	22.0	19.4
PCF x	11.4	12.9	16.1	15.4	14.1
EV/Sales x	5.4	5.0	6.6	6.1	5.6
EV/EBITDA x	13.3	11.9	15.5	14.1	12.6
EV/EBIT x	17.2	16.7	21.3	18.8	16.5



Income statement (€ m)	2018	2019	2020e	2021e	2022e
Total revenues	20.21	24.04	25.71	26.85	28.25
Material expenses	0.31	0.15	0.16	0.16	0.17
Change in inventories	0.00	0.00	0.00	0.00	0.00
Personnel expenses	8.12	9.37	9.91	10.01	10.11
Other operating expenses/(income)	3.52	4.28	4.68	4.99	5.35
EBITDA	8.27	10.24	10.96	11.68	12.62
EBITDA adj.	8.27	10.24	10.96	11.68	12.62
D&A	1.87	2.98	2.97	2.94	2.95
EBIT	6.40	7.26	7.99	8.75	9.67
Financial charges/(income)	(0.05)	3.15	1.12	1.02	0.92
Other costs & extraordinary & other	0.72	0.43	0.00	0.00	0.00
Pre-Tax profit	5.73	3.68	6.88	7.72	8.75
Income taxes	0.47	0.66	0.89	1.00	1.14
Net Profit	5.27	3.02	5.98	6.72	7.62
Net Profit Adjusted	5.07	5.69	5.98	6.72	7.62
Balance sheet (€ m)	2018	2019	2020e	2021e	2022e
Net Working Capital	4.14	5.55	5.54	5.71	6.01
Net Fixed Assets	60.40	60.92	59.22	57.06	54.89
Equity Investments	0.00	0.02	0.02	0.02	0.02
Other M/L Term A/L	(6.63)	(7.61)	(7.90)	(8.07)	(8.32)
Net Invested Capital	57.91	58.88	56.89	54.73	52.61
Net Financial Debt	26.77	27.46	22.37	17.08	11.38
Minorities	0.00	0.00	0.00	0.00	0.00
Group's Shareholders Equity	31.14	31.42	34.52	37.65	41.23
Financial Liabilities & Equity	57.91	58.88	56.89	54.73	52.61
Cash Flow statement (€ m)	2018	2019	2020e	2021e	2022e
Total net income	5.27	3.02	5.98	6.72	7.62
Depreciation	1.87	2.98	2.97	2.94	2.95
Other non-cash charges	0.52	2.67	0.24	0.13	0.21
Cash Flow from Oper. (CFO)	7.65	8.67	9.19	9.79	10.77
Change in NWC	(0.79)	(1.41)	0.01	(0.17)	(0.30)
FCF from Operations (FCFO)	6.87	7.26	9.20	9.62	10.47
Net Investments (CFI)	(23.26)	(0.13)	(1.28)	(0.78)	(0.78)
Free CF to the Firm (FCFF)	(16.40)	7.13	7.93	8.84	9.70
CF from financials (CFF)	16.81	(9.65)	(6.01)	(6.40)	(6.56)
Free Cash Flow to Equity (FCFE)	0.42	(2.53)	1.92	2.44	3.14
Financial ratios	2018	2019	2020e	2021e	2022e
EBITDA margin	40.9%	42.6%	42.6%	43.5%	44.7%
EBIT margin	31.7%	30.2%	31.1%	32.6%	34.2%
Net profit margin	26.0%	12.6%	23.3%	25.0%	27.0%
Tax rate	8.1%	18.0%	13.0%	13.0%	13.0%
Interest coverage x	(0.01)	0.43	0.14	0.12	0.09
Net Debt/Ebitda x	3.24	2.68	2.04	1.46	0.90
Debt-to-Equity x	0.86	0.87	0.65	0.45	0.28
ROIC	11.2%	5.2%	10.3%	12.0%	14.2%
ROCE	9.5%	10.7%	11.8%	12.8%	14.0%
ROACE	11.6%	10.7%	11.8%	12.9%	14.1%
ROE	17.2%	9.6%	18.2%	18.6%	19.3%
Payout ratio	51.7%	95.6%	60.0%	60.0%	60.0%
Per share figures	2018	2019	2020e	2021e	2022e
Final N. of shares # m	18.1	19.2	19.2	19.2	19.2
Final N. of shares (fully diluted) # m	18.1	19.2	19.2	19.2	19.2
Average N. of shares (fd)# m	18.1	19.2	19.2	19.2	19.2
EPS stated €	0.29	0.16	0.31	0.35	0.40
EPS adjusted €	0.29	0.16	0.31	0.35	0.40
EBITDA €	0.46	0.53	0.57	0.61	0.66
EBIT €	0.35	0.38	0.42	0.45	0.50
FCFO €	0.38	0.38	0.48	0.50	0.54
FCFF €	(0.90)	0.37	0.41	0.46	0.50
FCFE €	0.02	(0.13)	0.10	0.13	0.16
Dividend €	0.15	0.15	0.19	0.22	0.24



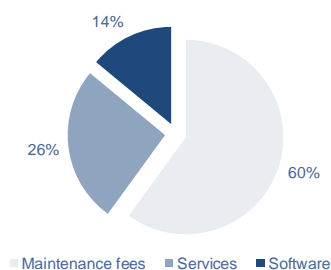


The company at a glance

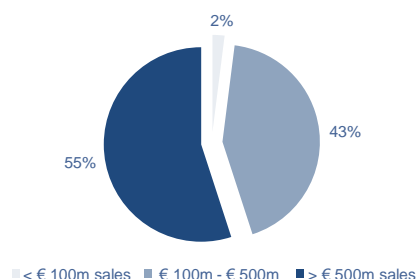
Piteco, more than 4x the size of its closest competitors, is the undisputed domestic leader in corporate treasury management and financial planning software. The company designs, develops and implements proprietary software and solutions for corporate cash and risk management. It focuses on large/mid enterprises operating in all industries except public administration. The Piteco software is 100% proprietary as well as modular (19 different modules), embeddable (it can work within Oracle, Sap or Microsoft environments), customisable (its open architecture allows several combinations of product modules) and available on foreign markets. The group is developing a challenging internationalisation and diversification process, boosted by the recent acquisitions: 1) Juniper Payments enables Piteco to penetrate the huge US market with a well-managed cash flow generative firm, paid for fairly cheaply; 2) Myrios widened the group's offer with a risk management, capital markets and compliance software dedicated to banks (60% of the business line turnover) as well as to large manufacturing and service companies (40%).

FY-19 turnover grew 18.9% to € 24.0m, driven by the increase in recurring revenues, the acquisition of 40 new clients and the Myrios contribution for the entire year. EBITDA declined 5.2% to € 10.2m, 42.6% margin, slightly lower than our estimates, mainly as a result of Juniper's flat performance. Piteco's client base currently comprises some 730 firms operating in over 40 countries: a significant number of them are listed on the Italian stock exchange whereas 98% record a turnover of more than € 100m.

2019 revenues and...



... and client profile (sales) breakdown



Shareholder structure

	%	# m
Podini Family	63.4%	12.2
Dedagroup S.p.A.	52.3%	10.1
Marco Podini	5.4%	1.0
Maria Luisa Podini	5.4%	1.0
Francesca Zanella	0.3%	0.1
Lillo S.p.A.	0.2%	0.0
Management	5.4%	1.0
Andrea Guido Guilleramaz	1.8%	0.3
Riccardo Veneziani	1.8%	0.3
Paolo Virenti	1.8%	0.3
Free Float	28.4%	5.5
Ennismore Fund Management	7.3%	1.4
Treasury shares	2.8%	0.5
Total	100.0%	19.2

Source: Company data

Peer group absolute performance

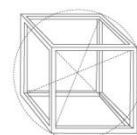
	1D	1W	1M	3M	6M	YTD
Intuit Inc	2.2	5.8	(5.7)	13.1	36.8	24.3
Microsoft Corp	0.8	3.4	(7.1)	5.5	30.7	32.8
Oracle Corp	(0.4)	(2.0)	4.1	8.8	18.3	12.5
Salesforce.com Inc	1.6	0.7	(9.5)	34.5	64.6	51.7
SAP SE	3.6	2.8	(2.4)	10.0	31.8	11.9
Median large players	1.6	2.8	(5.7)	10.0	31.8	24.3
Datalogic SpA	1.3	2.1	6.3	7.9	8.0	(28.8)
Digital Bros SpA	(3.0)	(0.7)	(3.8)	1.2	107.3	71.1
Expert System SpA	(0.2)	(1.5)	(15.1)	(20.8)	9.0	(24.5)
Exprivia SpA	0.3	(7.8)	(15.6)	(22.4)	(8.0)	(23.5)
Reply SpA	2.3	4.4	6.5	38.4	91.6	42.6
TXT e solutions SpA	0.0	(0.7)	(3.8)	(0.9)	18.6	(23.4)
Median small players	0.2	(0.7)	(3.8)	0.1	13.8	(23.4)
Piteco SpA	2.4	2.4	(1.3)	20.8	42.2	20.9

Source: Thomson Reuters Eikon

Peer 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	38.2	33.5	35.5	31.5	9.7	8.5	26.1	22.7	27.6	23.8
Microsoft Corp	32.5	28.9	25.2	22.4	9.6	8.5	20.6	18.0	25.6	22.3
Oracle Corp	14.3	13.7	12.7	12.3	5.3	5.1	10.7	10.2	11.6	11.1
Salesforce.Com Inc	66.0	64.0	37.6	36.1	10.5	8.8	35.2	29.3	60.4	47.0
SAP SE	27.2	24.6	22.6	19.8	6.2	5.6	18.5	16.2	21.3	19.2
Median large player	32.5	28.9	25.2	22.4	9.6	8.5	20.6	18.0	25.6	22.3
Datalogic SpA	66.3	19.7	19.5	12.1	1.5	1.3	16.1	9.9	38.5	14.5
Digital Bros SpA	18.7	17.4	9.1	9.4	1.9	1.7	7.2	6.7	12.5	10.8
Expert System SpA	n.m.	n.m.	n.m.	n.m.	4.1	3.3	73.9	n.m.	n.m.	n.m.
Exprivia SpA	(3.0)	6.6	1.7	3.0	0.4	0.4	4.0	4.2	(6.9)	6.2
Reply SpA	34.0	29.9	25.3	22.5	2.8	2.5	18.3	15.8	22.8	19.4
TXT e solutions SpA	29.1	21.5	15.3	13.9	2.1	1.4	17.4	11.6	27.8	16.1
Median small player	29.1	19.7	15.3	12.1	2.0	1.6	16.8	9.9	22.8	14.5
Piteco SpA	24.6	21.9	16.5	15.3	6.6	6.1	15.5	14.1	21.2	18.8

Source: CFO Sim, Thomson Reuters Eikon



Higher volumes boosted margins and Op. Cash Flow

Piteco recorded a good set of 2020 interim results, consolidating the growing trend of the treasury management business and strengthening the share of recurring revenues. The COVID-19 pandemic temporarily slowed down the client acquisition process, although the first months of the year showed increasing demand for Piteco's products and services. Margin improvement was achieved thanks to the operating leverage sustained by higher volumes.

Table 1 – Piteco, H1-20 results summary

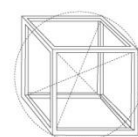
€ m	H1-20	H1-19	% YoY
Turnover	12.0	11.1	7.8
Piteco (treasury management)	8.2	7.4	10.7
Juniper (banking)	2.3	2.3	0.7
Myrios (risk management)	1.5	1.4	3.7
Raw material	(0.1)	(0.2)	
Services & other costs	(2.0)	(2.0)	
Personnel	(5.0)	(4.6)	
EBITDA	4.8	4.3	11.6
% margin	40.5	39.1	
Piteco (treasury management)	3.5	2.8	23.5
% margin	42.7	38.3	
Juniper (banking)	0.7	0.8	(15.6)
% margin	28.6	34.1	
Myrios (risk management)	0.7	0.7	(5.9)
% margin	46.5	51.2	
D&A	(1.7)	(1.4)	
EBIT	3.1	2.9	5.5
% margin	25.9	26.5	
Financials	(0.3)	(0.5)	
Extraordinary	0.0	(0.1)	
Pre-tax Profit	2.8	2.3	23.3
Taxes	(0.5)	(0.2)	
Tax rate	17.4	9.7	
Minorities	0.0	0.0	
Net profit	2.3	2.0	12.8
% margin	19.3	18.5	
NFP excl. PUT Options*	11.5	14.6	(21.2)
NFP incl. PUT Options *	24.4	27.5	(11.0)

Source: company data *H1-20 figure compared to NFP at end-19

H1-20 revenues grew by 7.8% YoY to € 12.0m, driven by the positive performance recorded by the treasury management business (namely the parent-co Piteco SpA).

- **Piteco's sales grew by 10.7% YoY to € 8.2m**, thanks to the acquisition of several new customers in the first two months of 2020, only partially counterbalanced by some slowdown in demand stemming from the spread of COVID-19. Nevertheless, the market dynamism at the beginning of 2020 displayed corporate clients' increasing interest in Piteco's products and services.
- **Juniper Payments reported revenues of € 2.3m**, broadly in line with H1-19 as a result of not acquiring any new clients in the first half of 2020 mainly because of the uncertainty generated by the rapid expansion of the COVID-19 pandemic. In other words, Juniper was able to record a steady turnover despite the lack of new clients since almost 100% of its sales are represented by recurring fees.
- **Myrios' revenues totalled € 1.5m, up 3.7% YoY.**

As of 30th June 2020, **recurring revenues increased by 5% YoY accounting for 68% of total revenues.**

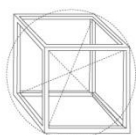


EBITDA increased by 11.6% to € 4.8m, 40.5% margin (vs. € 4.3m, 39.1% margin in H1-19), thanks to operating costs growing less than proportionally to the top line (+5.3% vs. +7.8%) mainly as a result of the operating leverage sustained by higher volumes. The rise in operating costs was attributable to growing personnel expenses due to the recruitment of new resources supporting the launch of new products. **Net profit was € 2.3m, 19.3% margin** (up by 12.8% YoY).

Operating cash flow totalled € 7.2m, 65% of net sales and 149% of EBITDA. After 1) dividend distribution of € 3.5m, 2) Myrios' earn-out payments of up € 2.0m and 3) the € 0.5m acquisition of Everymake, Net Financial Position was negative for € 11.5m, clearly improved compared to € 14.6m in Dec-19.

Including the put options for the acquisition of the minority stakes of Juniper Payments and Myrios for a total amount of € 12.9m, **NFP reached € 24.4m**, o/w at least 50% corresponding to the value of Myrios' put option, to be paid via Piteco shares.

It is worth noting that, as of 31st July 2020, the convertible bond loan "Piteco Convertibile 4.50% 2015-2020" expired, thus most convertible bonds were converted into Piteco shares (except for 77 bonds which were reimbursed), with a positive impact on NFP.



Estimates, valuation and risks

Interim results were characterised by significant resiliency, thanks to Piteco's visible business model characterised by a large amount of recurring revenues, services and software sales – to captive clients. All of this allowed the group to reach a 41% EBITDA margin in the period. As we underlined when FY-19 results were released, since Piteco operates in a **sector that is defensive and resilient** to short-term downturn events, the company was **less impacted** by current market uncertainties compared to other stocks and should be able to **offer certain degree of protection to investors' portfolios**.

On the back of H1-20 numbers our implied estimates for the second part of the year were too conservative also considering the more favourable seasonality in H2. Thus, we have updated our model factoring in higher growth and profitability for 2020, leaving 2021-22 growth rates and margins basically unchanged. **The result is a 2.8% and 8.9% average upgrade in Sales and Net Profit, respectively, in 2020-22.**

We have updated the DCF valuation criteria and brought the Free Risk Rate up-to-date. In particular, the WACC is computed using a 30/70% debt/equity well-sustainable long-term balance sheet structure (previously we used the current ratio, i.e. 13-87%), to factor in the group's potential to further exploit leverage and seize potential acquisition preys.

The combined result is an upgrade in PT to € 9.40/s (€ 7.00/s), 22.4% upside to current prices. **We confirm the Buy:** in this market turmoil, Piteco represents a defensive player even if market volatility should remain high and outlook visibility low in the short term.

Table 2 – Piteco, 2020e new/old estimates

€ m	New	Old	% Diff.	€ m	Diff.
Net Sales	25.7	25.0	3.0	0.7	
EBITDA	11.0	10.4	5.8	0.6	
% margin	42.6	41.5			
EBIT	8.0	7.4	8.2	0.6	
% margin	31.1	29.6			
Net Profit	6.0	5.4	10.0	0.5	
% margin	23.3	21.8			
Y/E net debt (net cash)	22.4	23.0	(2.8)	(0.6)	

Source: CFO Sim

Table 3 – Piteco, 2021e new/old estimates

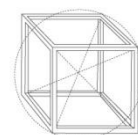
€ m	New	Old	% Diff.	€ m	Diff.
Net Sales	26.8	26.1	3.0	0.8	
EBITDA	11.7	11.0	5.8	0.6	
% margin	43.5	42.4			
EBIT	8.7	8.1	8.0	0.6	
% margin	32.6	31.1			
Net Profit	6.7	6.1	9.5	0.6	
% margin	25.0	23.5			
Y/E net debt (net cash)	17.1	17.9	(4.7)	(0.8)	

Source: CFO Sim

Table 4 – Piteco, 2022e new/old estimates

€ m	New	Old	% Diff.	€ m	Diff.
Net Sales	28.3	27.6	2.5	0.7	
EBITDA	12.6	12.1	4.7	0.6	
% margin	44.7	43.7			
EBIT	9.7	9.1	6.2	0.6	
% margin	34.2	33.0			
Net Profit	7.6	7.1	7.2	0.5	
% margin	27.0	25.8			
Y/E net debt (net cash)	11.4	12.4	(8.1)	(1.0)	

Source: CFO Sim



DCF

In the valuation via the DCF method explicit estimates until 2024 and long-term growth of 1.5% were used. Cash flows were discounted back at a weighted average cost of capital calculated according to the following parameters:

Table 5 – WACC derived from:

Interest costs, pre-tax	2.5%
Tax rate	25.0%
Int. costs, after taxes	1.9%
Risk premium, incl. small size premium	7.0%
Risk-free (10Y Gov. Bond 200 simple moving average)	1.33%
Beta levered (x)	1.00
Required ROE	8.3%

Source: CFO Sim

Table 6 – Piteco, DCF model

€ m	2020e	2021e	2022e	2023e	2024e	Term. Val.
EBIT	7.99	8.75	9.67	10.64	11.70	
Tax rate	13.0%	13.0%	13.0%	13.0%	13.0%	
Operating profit (NOPAT)	6.96	7.61	8.41	9.26	10.18	
Change working capital	0.01	(0.17)	(0.30)	(0.32)	0.00	
Depreciation	2.97	2.94	2.95	1.00	0.78	
Investments	(1.28)	(0.78)	(0.78)	(0.78)	(0.78)	
Free Cash Flows	8.65	9.60	10.29	9.16	10.18	211.25
Present value	8.52	8.88	8.95	7.49	7.83	162.31
WACC	6.4%	6.4%	6.4%	6.4%	6.4%	
Long-term growth rate	1.5%					

Source: CFO Sim

Table 7 – Piteco, DCF per share derived from:

Total EV present value € m	203.97
thereof terminal value	79.6%
NFP last reported	(26.77)
Pension provision last reported	(1.29)
Equity value € m	175.90
Shares # m (ex. Treasury shares)	18.71
Discounted CF €/s	9.40
<i>Upside/(downside)</i>	22.4%

Source: CFO Sim

The application of the model produces an equity value of € 175.90m, which corresponds to € 9.40/s (€ 7.00), with a potential upside of 22.4%.

The following tables illustrate that sensitivity 1) compared to changes in the terminal growth rate produces an equity value per share of between € 7.86 and € 11.74 (perpetuity range of between 0.50% and 2.50%), while 2) if compared to changes in the free-risk rate it produces an equity value/s of € 8.32 – 10.77 (free-risk range of between 2.13% and 0.53%) and 3) if compared to changes in the risk premium, including small size premium, it results in an equity value/s of € 7.05 – 13.65 (risk premium range of between 9.0% and 5.0%).

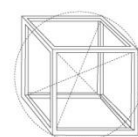


Table 8 – Piteco, equity value sensitivity to changes in terminal growth rate

€ m	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%	2.25%	2.50%
Present value of CF	41.66	41.66	41.66	41.66	41.66	41.66	41.66	41.66	41.66
PV of terminal value	133.44	139.70	146.54	154.04	162.31	171.47	181.67	193.10	206.00
Total value	175.10	181.36	188.20	195.70	203.97	213.13	223.33	234.76	247.66
NFP last reported	(26.77)	(26.77)	(26.77)	(26.77)	(26.77)	(26.77)	(26.77)	(26.77)	(26.77)
Pension last reported	(1.29)	(1.29)	(1.29)	(1.29)	(1.29)	(1.29)	(1.29)	(1.29)	(1.29)
Equity value	147.04	153.29	160.13	167.63	175.90	185.06	195.26	206.70	219.60
Equity value €/s	7.86	8.19	8.56	8.96	9.40	9.89	10.44	11.05	11.74

Source: CFO Sim

Table 9 – Piteco, equity value sensitivity to changes in free risk rate

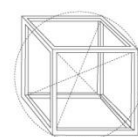
€ m	0.53%	0.73%	0.93%	1.13%	1.33%	1.53%	1.73%	1.93%	2.13%
Present value of CF	42.15	42.02	41.90	41.78	41.66	41.54	41.42	41.30	41.19
PV of terminal value	187.44	180.56	174.10	168.03	162.31	156.91	151.82	146.99	142.42
Total value	229.59	222.58	216.00	209.81	203.97	198.45	193.24	188.30	183.61
NFP last reported	(26.77)	(26.77)	(26.77)	(26.77)	(26.77)	(26.77)	(26.77)	(26.77)	(26.77)
Pension last reported	(1.29)	(1.29)	(1.29)	(1.29)	(1.29)	(1.29)	(1.29)	(1.29)	(1.29)
Equity value	201.52	194.52	187.93	181.74	175.90	170.39	165.17	160.23	155.55
Equity value €/s	10.77	10.40	10.05	9.72	9.40	9.11	8.83	8.57	8.32

Source: CFO Sim

Table 10 – Piteco, equity value sensitivity to changes in risk premium

€ m	5.00%	5.50%	6.00%	6.50%	7.00%	7.50%	8.00%	8.50%	9.00%
Present value of CF	42.89	42.58	42.27	41.96	41.66	41.36	41.07	40.78	40.49
PV of terminal value	240.53	215.55	194.79	177.28	162.31	149.37	138.09	128.17	119.38
Total value	283.42	258.13	237.06	219.24	203.97	190.74	179.16	168.95	159.87
NFP last reported	(26.77)	(26.77)	(26.77)	(26.77)	(26.77)	(26.77)	(26.77)	(26.77)	(26.77)
Pension last reported	(1.29)	(1.29)	(1.29)	(1.29)	(1.29)	(1.29)	(1.29)	(1.29)	(1.29)
Equity value	255.35	230.06	209.00	191.17	175.90	162.67	151.09	140.88	131.81
Equity value €/s	13.65	12.30	11.17	10.22	9.40	8.70	8.08	7.53	7.05

Source: CFO Sim



Market multiples

In the sample we have included 11 peer groups, operating in the global software and digital technology arena. Our sample comprises larger global players and smaller local actors. Sizes differ significantly amongst the panel, in particular between smaller and global firms, and so does profitability. Piteco offers one of the highest **EBITDA margins**, lower only than those of Oracle and Microsoft, which however provide a different service. In addition, Piteco offers **higher earnings growth** compared to the peer groups. On the other hand, Piteco is amongst the **smallest** firms in terms of market value and **liquidity** (free float 28.4%, i.e. € 41.7m).

Table 11 – Piteco, peer group summary table

€ m	Country	Mkt Cap	Sales FY1	EBITDA FY1	EBITDA margin	Sales CAGR ₁₉₋₂₂	EBITDA CAGR ₁₉₋₂₂	EBIT CAGR ₁₉₋₂₂	EPS CAGR ₂₀₋₂₂	NFP /EBITDA
	USA	73,072	7,098	2,634	37.1%	9.1%	17.1%	18.9%	12.1%	(1.7)
	USA	1,358,858	134,269	62,379	46.5%	8.9%	10.9%	11.0%	13.3%	(1.2)
	USA	153,607	33,627	16,661	49.5%	0.7%	4.5%	8.8%	5.4%	1.4
	USA	192,447	17,617	5,274	29.9%	16.8%	47.5%	127.7%	13.9%	(1.3)
	Germany	164,947	28,250	9,461	33.5%	5.9%	12.7%	17.4%	11.5%	1.0
Median large player		164,947	28,250	9,461	37.1%	8.9%	12.7%	17.4%	12.1%	(1.2)
	Italy	700	474	44	9.2%	-2.1%	-5.9%	-5.4%	107.6%	0.0
	Italy	304	153	40	26.2%	n.a.	n.a.	n.a.	n.a.	(0.4)
	Italy	116	32	2	5.5%	14.7%	-26.7%	155.7%	10.7%	8.5
	Italy	33	169	19	11.2%	-33.0%	-21.1%	-11.9%	n.m.	2.3
	Italy	3,695	1,246	192	15.4%	7.8%	7.6%	8.4%	12.8%	(1.0)
	Italy	96	66	8	11.9%	10.2%	1.8%	n.a.	23.1%	5.3
Median small player		116	153	19	11.9%	9.0%	-9.6%	8.4%	12.8%	2.3
Piteco SpA		148	26	11	42.6%	5.5%	7.2%	10.1%	12.8%	2.0

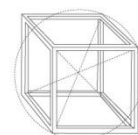
Source: Thomson Reuters Eikon, CFO Sim

Table 12 – Piteco, peer group multiples table

EV & Price multiples x	PER FY1	PER FY2	PCF FY1	PCF FY2	Sales FY1	Sales FY2	EBITDA FY1	EBITDA FY2	EBIT FY1	EBIT FY2
	38.2	33.5	35.5	31.5	9.7	8.5	26.1	22.7	27.6	23.8
	32.5	28.9	25.2	22.4	9.6	8.5	20.6	18.0	25.6	22.3
	14.3	13.7	12.7	12.3	5.3	5.1	10.7	10.2	11.6	11.1
	66.0	64.0	37.6	36.1	10.5	8.8	35.2	29.3	60.4	47.0
	27.2	24.6	22.6	19.8	6.2	5.6	18.5	16.2	21.3	19.2
Median large player	32.5	28.9	25.2	22.4	9.6	8.5	20.6	18.0	25.6	22.3
	66.3	19.7	19.5	12.1	1.5	1.3	16.1	9.9	38.5	14.5
	18.7	17.4	9.1	9.4	1.9	1.7	7.2	6.7	12.5	10.8
	n.m.	n.m.	n.m.	n.m.	4.1	3.3	73.9	n.m.	n.m.	n.m.
	(3.0)	6.6	1.7	3.0	0.4	0.4	4.0	4.2	(6.9)	6.2
	34.0	29.9	25.3	22.5	2.8	2.5	18.3	15.8	22.8	19.4
	29.1	21.5	15.3	13.9	2.1	1.4	17.4	11.6	27.8	16.1
Median small player	29.1	19.7	15.3	12.1	2.0	1.6	16.8	9.9	22.8	14.5
Piteco SpA	24.6	21.9	16.5	15.3	6.6	6.1	15.5	14.1	21.2	18.8
(Disc.)/prem. to large players	-24.4%	-24.0%	-34.7%	-32.0%	-31.1%	-28.1%	-24.9%	-22.0%	-17.0%	-15.9%
(Disc.)/prem. to small players	-15.3%	11.3%	7.2%	26.3%	233.8%	291.0%	-7.7%	42.8%	-6.8%	29.5%

Source: Thomson Reuters Eikon, CFO Sim

Piteco **trades at a discount** vs. larger players' median considering every metric in 2020, 2021 and 2022.



Stock performance

Piteco was listed on the Milan AIM (Alternative Investment Market) on 31-Jul-15 at € 3.30/share, corresponding to a post-money market capitalization of € 58.9m. Since Sep-18, shares and convertible bonds have been traded on the main market of Borsa Italiana. Piteco now trades **well above the IPO price**, and has reached a 1Y maximum price of € 8.76/s on 20-Aug-20 and a minimum price of € 4.54 on 12-Mar-20. The stock comes from a remarkable positive relative performance to indexes.

Table 13 – Piteco, peers group absolute performance

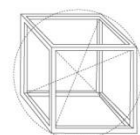
	1D	1W	1M	3M	6M	YTD	1Y
Intuit Inc.	2.2	5.8	(5.7)	13.1	36.8	24.3	23.7
Microsoft Corporation	0.8	3.4	(7.1)	5.5	30.7	32.8	52.1
Oracle Corporation	(0.4)	(2.0)	4.1	8.8	18.3	12.5	10.1
salesforce.com, inc.	1.6	0.7	(9.5)	34.5	64.6	51.7	66.4
SAP SE	3.6	2.8	(2.4)	10.0	31.8	11.9	24.9
Median large players	1.6	2.8	(5.7)	10.0	31.8	24.3	24.9
Datalogic S.p.A.	1.3	2.1	6.3	7.9	8.0	(28.8)	(9.4)
Digital Bros S.p.A.	(3.0)	(0.7)	(3.8)	1.2	107.3	71.1	125.2
Expert System SpA	(0.2)	(1.5)	(15.1)	(20.8)	9.0	(24.5)	(30.8)
Exprivia S.p.A.	0.3	(7.8)	(15.6)	(22.4)	(8.0)	(23.5)	(28.8)
Reply S.p.A.	2.3	4.4	6.5	38.4	91.6	42.6	83.9
TXT e-solutions S.p.A.	0.0	(0.7)	(3.8)	(0.9)	18.6	(23.4)	(9.6)
Median small players	0.2	(0.7)	(3.8)	0.1	13.8	(23.4)	(9.5)
PITECO SpA	2.4	2.4	(1.3)	20.8	42.2	20.9	49.1
Piteco relative to large players	0.8	(0.4)	4.5	10.8	10.4	(3.3)	24.2
small players	2.2	3.1	2.5	20.6	28.4	44.4	58.7
FTSE Italia All Shares	2.3	1.2	(0.4)	12.6	(1.7)	20.9	39.6
EU sector	0.1	0.5	0.9	21.8	27.8	39.0	61.5

Source: Thomson Reuters Eikon

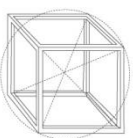
Risks

The principal investment **risks** associated with Piteco include:

- impact on P&L account and balance sheet profiles triggered by a sharp decline in local and global economic growth,
- Dilution on profitability stemming from the acquisition campaign, in particular penetrating the large US market,
- Potential competition arising from smaller local players,
- Departure of one or a few of the key relevant people,
- Impact of the \$/€ currency fluctuation.



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ANALYST CERTIFICATION

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DATE	TARGET PRICE	RATING
29/09/2020	€9.40	BUY
24/03/2020	€7.00	BUY
17/10/2019	€8.10	BUY
30/09/2019	€8.10	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.

