Piteco

H120 results

Resilience demonstrated

Software & comp services

Piteco SpA once again generated good revenue and EBITDA growth in H1, of 11% and 24%, respectively. FY20 had an excellent start, although the COVID-19 pandemic subsequently slowed down progress. While Piteco's products can help steer financial and treasury decision-making at times of crisis, at the height of lockdown, the acquisition of new clients slowed. During H1 Piteco acquired EveryMake for an initial €0.55m in cash, which has been integrated into the Piteco SpA business. A new product in the data matching space is planned for launch in H2, and there will also be a major release of Piteco SpA's existing software. At 13.6x FY21 EV/EBITDA, Piteco continues to trade at a discount to its international software peers.

Year end	Net sales* (€m)	EBITDA** (€m)	EPS** (c)	DPS (c)	P/E (x)	Yield (%)
12/18	19.4	8.3	31.5	15.0	24.4	2.0
12/19	22.8	10.2	33.5	15.0	22.9	2.0
12/20e	24.9	11.0	40.4	15.0	19.0	2.0
12/21e	27.2	12.2	45.6	17.5	16.8	2.3

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.

Continued growth, albeit at a lower level

During H120 Piteco Group reported 8% revenue and 12% EBITDA growth. Group EBITDA margin was 41% during the period, and recurring fees made up 68% of net revenues, demonstrating the group's robust business model. While Piteco continued to operate throughout the lockdown, the acquisition of new contracts was pushed back as some customers chose to preserve cash at an uncertain time. This had an adverse effect on Piteco's growth, though we expect the group to catch up on this in FY21 and beyond.

The underlying business model is strong

H120 demonstrated the strength of the corporate treasury core business (Piteco SpA), while Myrios (finance and risk management solutions) and Juniper (digital payments) slowed down due to some new contracts being delayed. The acquisition of EveryMake has been integrated and will enable cross-selling opportunities, and we believe further acquisitions are likely. Based on our FY20 forecasts, we estimate balance sheet headroom of at least €20–30m. We raise our group top line forecasts for FY20–23 by 1–4% as we expect a bounce back from the delayed new contracts.

Valuation: At a discount to peers

We believe Piteco has a strong business model, with its ability to generate high profit margins while providing customers with a flexible and cost-effective solution. We expect robust group revenue growth (7.5% CAGR 2020–23e) to translate into solid earnings progression (normalised EPS CAGR of 16%). The stock is trading on 13.6x EV/EBITDA and 16.8x P/E for FY21, at a discount to large international software providers. Our DCF-based valuation rises to €8.20/share (from €6.0 previously) as we roll forward our DCF to start in 2021 and upgrade our forecasts.

29 September 2020

Price	**€7.68**
Market cap	**€139m**

Net debt (€m) H120, excluding value of put options	11.5
Shares in issue	18.0m
Free float	27%
Code	PITE
Primary exchange	Borsa Italiana
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(1.0)	20.0	49.1
Rel (local)	2.2	19.4	70.2
52-week high/low		€8.50	€4.54

Business description

Piteco is Italy's leading company in designing, developing and implementing software for treasury, finance and financial planning management. Piteco Spa offers core corporate treasury software, Myrios specialises in finance and risk management, and Juniper in digital payments and clearing houses.

Next events

FY20 results	20 February 2021

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Edison profile page

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H120 strong despite COVID-19 pandemic

During H120 Piteco SpA was the star performer within the group. It generated strong revenue and EBITDA growth of 11% and 24%, respectively, as the business continued to deliver good growth and to benefit from recent acquisitions. While the COVID-19 pandemic slowed growth somewhat, the business performed well. Although the economic environment remains uncertain, we expect the business to return to its prior growth trajectory in FY21 if there are no further lockdowns in its main markets. We continue to 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.

Piteco SpA was the star performer

Piteco Group reported strong revenue and EBITDA growth during H120. We provide more detail on the key takeaways from the H1 results below. Piteco SpA confirmed its leadership in the Italian market, with excellent growth (revenues up 11%, EBITDA up 24%). The COVID-19 pandemic temporarily slowed growth in the banking digital payments segment, and hence Juniper. This business grew revenues by only 1% vs H119. Myrios also witnessed a sector slowdown in the financial risk management segment, and hence its revenues were only up 4% in H120.

- Group revenues grew 8% y-o-y to €12.0m, with the growth principally stemming from subscription fees, which in H120 accounted for 68% of total revenues (vs 63% in H119).
- EBITDA growth of 12% y-o-y to €4.8m was driven by strong revenue growth and margin expansion (to 41% in H120 from 39% in H119) as costs were kept under tight control.
- Pre-tax profit of €2.8m was up 23% y-o-y, and net income of €2.3m was up 13% vs H119.
- Net debt (excluding put options) was down to €11.5m at the end of H120, from €14.8m at end H119 and €14.6m at end FY19. Including the value of put options, net debt was €24.4m. The net debt reduction was driven by strong free cash flow generation, partly offset by the dividend payment (€2.7m).

Piteco growth to continue, recovery expected in FY21

We recognise the strength of H1 despite the COVID-19 pandemic and therefore raise our forecasts. While Piteco Group did experience a pandemic-related slowdown across all its divisions, Myrios and Juniper were the most heavily affected, as expected. Their greater exposure to the financial segment resulted in more of the new projects being pushed back and delayed, as detailed below.

Piteco SpA

Piteco SpA is the core corporate treasury business, which includes the group's treasury management software activities. Before the pandemic we expected Piteco SpA to sign 44 new clients in FY20, compared to 40 new clients in FY19. In March we cut our forecast to a conservative 38, and now believe the business is on track to replicate the FY19 result, and hence forecast 40 new clients. We note 21 new clients were signed during H120.

At the height of the lockdown, Piteco's employees were not visiting client sites and all work was either paused or done remotely. Client visits have now resumed. Piteco is gearing up for a major release, with Piteco Evo 5.0 due to be rolled out in H2. Existing clients can request an upgrade to Piteco Evo 5.0, and we believe there will be a sales opportunity, as the upgrade will require a visit by a Piteco team member, who could upsell further services and modules. This could, of course, be disrupted by a second wave of the pandemic requiring further lockdowns. EveryMake was acquired in March and has been fully integrated into Piteco SpA. A new product has been launched recently called Intelligent Data Matching (IDM) aimed at financial companies.

Myrios

Myrios offers financial risk management solutions, with its business targeted at banks (60% of revenue) and large corporates (40% of revenue). Myrios Switzerland was set up in February 2019 to help internationalise Piteco's existing products. Myrios's growth was subdued in H120, with revenues up 4% (vs revenues up 33% in FY19). We expect growth to accelerate in H2 and return to double digits, and a bounce back in FY21 unless there are further lockdowns in Myrios's main markets.

Myrios's growth in the banks business is outstripping that with large corporates, and hence we expect the proportion of business targeted at banks to grow over time. A large number of contracts with banks have been pushed back or put on hold due to the COVID-19 pandemic, and hence we expect a bounce back in FY21.

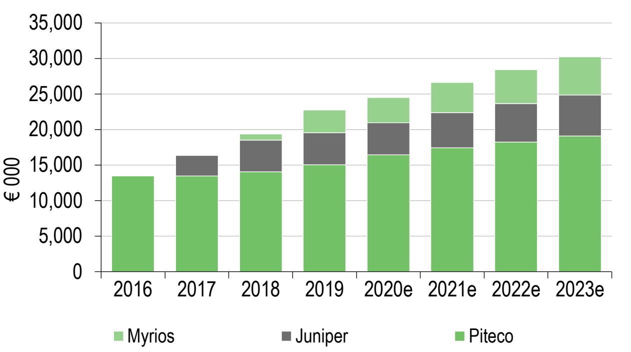
Juniper

Juniper is a US digital payments software business focused on the correspondent banking space. We continue to forecast a flat year in FY20 as new clients choose to conserve cash and defer projects to FY21, but we expect a bounce back in FY21. Similarly to Myrios, a new contract has been pushed back, and hence we expect an element of catch-up in FY21.

Piteco Group

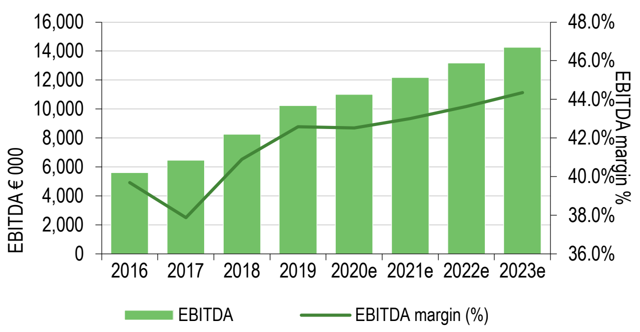
We expect robust group revenue growth (7.5% CAGR 2020–23e) to translate into solid earnings progression (normalised EPS CAGR of 16%). A favourable business mix should continue to help drive EBITDA margin improvement (Myrios has higher margins and a higher growth rate than the Piteco base business). Our forecasts only reflect organic growth for the group, but we believe further acquisitions could strengthen the outlook.

Exhibit 1: Revenue breakdown by business



Source: Company data, Edison Investment Research

Exhibit 2: Group EBITDA and EBITDA margin

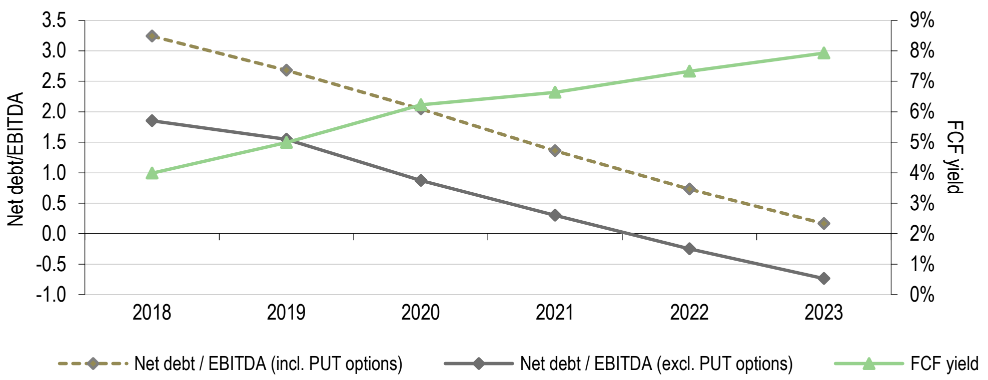


Source: Company data, Edison Investment Research

Piteco Group has expanded significantly via acquisitions over the last few years with four deals in five years (Centro Data in 2015, Juniper in 2017, Myrios in 2018 and EveryMake in March 2020). With good cash flow generation, leverage ratios well below the covenant thresholds and the prospect of further organic growth in the next few years, we expect the company to continue to consider further acquisitions.

Existing bank loans have the covenants of net debt/EBITDA <3x and net debt/equity <1x. Hence, based on our FY20 forecasts, both covenants suggest a net debt ceiling of c €30–40m (assuming no new EBITDA contribution from acquisitions) versus our year-end FY20 forecast of c €10m (excluding the value of the put options related to Myrios and Juniper, which are not considered in the covenant calculations and are worth c€13m), leaving c€20–30m of balance sheet headroom.

Exhibit 3: Leverage and FCF yield



Source: Piteco data, Edison Investment Research

Forecasts

We raise our revenue and EBITDA forecasts. While there remains uncertainty about any future lockdowns in Piteco's markets, the group has fared well in the pandemic. Piteco's business was not directly affected by the coronavirus outbreak; indeed, its products can help steer financial and treasury decision making at times of crisis. That said, the uncertainty of the lockdowns caused a softening in demand for Piteco's products, as new and existing customers chose to conserve cash and delay upgrading their internal systems. As a reminder, Piteco's customers are medium- and large-scale corporates, so are less likely to face a longer-term liquidity crisis. In addition, its customers do not operate in the sectors that were most affected by the temporary restrictions, such as leisure and tourism.

We now assume that FY20 growth is stronger than we had feared back in March. We still forecast a reduced growth rate compared to FY19, but H1 has amply demonstrated Piteco's capability of weathering the COVID-19 pandemic. We also raise our FY21 forecasts as we expect the business to bounce back. We illustrate the main changes to our forecasts below, with the strongest upgrade to FY21 as we expect it to benefit from the contracts that were delayed during FY20.

Exhibit 4: Forecast changes

€000s		2020e	2021e	2022e
Net sales revenue	NEW	24,917	27,247	29,078
	OLD	24,568	26,450	28,046
	% change	1%	3%	4%
EBITDA	NEW	11,016	12,177	13,179
	OLD	10,484	11,722	13,179
	% change	5%	4%	0%
Operating profit (before amort. and exceptionals)	NEW	9,053	10,272	11,330
	OLD	8,521	9,819	11,335
	% change	6%	5%	0%
Net income	NEW	7,311	8,255	9,252
	OLD	6,733	7,693	8,454
	% change	9%	7%	9%

Source: Piteco 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, earnings growth outlook and sustained cash-flow generation support further investment opportunities that could strengthen the growth outlook. The stock is trading on 13.6x EV/EBITDA and 16.8x P/E for FY21, at a discount to large international software peers, and smaller Italian software peers. We have updated our Italian software peer group to better reflect Piteco's competitors.

Our DCF-based valuation rises to €8.20/share as we raise our forecasts and also roll forward our DCF to start in FY21. This is based on a 5% CAGR for net revenues over 10 years, a long-term EBITDA margin of 42%, a WACC of 9% and a terminal growth rate of 2%. We have revised and adjusted our cash flow assumptions based on Piteco's strong track record on cash conversion.

Exhibit 5: Peer valuation metrics

	Share price	Market cap	EV/sales (x)		EV/EBITDA (x)		P/E (x)	
	Local currency	Local currency	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2
Piteco	€ 7.68	€ 147	6.7	6.1	15.1	13.6	19.0	16.8
Large global ERP/accounting software providers								
Microsoft	$209.44	$1,584,969	9.7	8.6	20.6	18.2	32.2	28.1
Oracle	$59.58	$179,167	5.2	5.1	10.5	10.3	14.1	13.0
SAP	$134.66	$164,947	6.2	5.8	18.1	16.6	26.6	23.5
Intuit	$325.55	$85,231	9.9	8.9	26.1	23.5	38.4	34.1
Workday	$220.34	$52,221	12.0	10.2	48.2	42.8	86.7	73.9
Sage	£727.60	£7,898	4.3	4.3	17.0	17.2	27.7	27.1
Xero	A$101.37	A$14,479	18.3	15.6	81.4	63.9	352.8	199.8
Median			**9.3**	**8.4**	**19.9**	**17.6**	**31.1**	**27.2**
Smaller software companies quoted in Italy								
TXT e-solutions	€ 7.40	€ 96	0.9	0.8	7.2	6.5	23.7	19.0
Wiit	€ 175.50	€ 464	9.4	6.7	26.3	17.8	64.7	48.1
Expert System	€ 2.31	€ 116	3.7	3.5	70.4	N/A	N/A	N/A
Tas Tecnologia Avanzata dei Sistemi	€ 1.59	€ 132	N/A	N/A	N/A	N/A	N/A	N/A
Reply	€ 99.05	€ 3,695	2.9	2.6	18.6	16.2	34.0	29.9
Sesa	€ 83.00	€ 1,282	0.7	0.6	10.7	9.3	26.0	22.6
IT Way	€ 0.82	€ 6	N/A	N/A	N/A	N/A	N/A	N/A
Exprivia	€ 0.64	€ 33	1.6	1.5	13.8	14.6	N/A	7.1
Techedge	€ 5.38	€ 138	N/A	N/A	N/A	N/A	N/A	N/A
Median			**2.2**	**2.1**	**16.2**	**14.6**	**30.0**	**22.6**

Source: Refinitiv, Edison Investment Research. Note: Priced at 28 September 2020.

The key upside or downside risks to our forecasts are higher or lower customer acquisitions at Piteco Spa, stronger or slower than expected revenue acceleration at Myrios or Juniper, higher or lower contributions 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. The COVID-19 pandemic is the largest unknown at present, with the scale and duration of any further lockdowns – and related economic downturn – potentially affecting the business.

Exhibit 6: Financial summary

€'000s	2016	2017	2018	2019	2020e	2021e	2022e	2023e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT								
Revenue	14,122.5	17,046.1	20,214.0	24,038.6	25,909.0	28,315.8	30,207.7	32,132.3
Net sales revenue	13,477.4	16,374.1	19,374.0	22,773.6	24,916.8	27,247.5	29,077.9	30,940.4
Cost of Sales	481.8	405.0	534.0	1,119.0	834.9	896.4	946.3	996.8
Gross Profit	14,604.2	17,451.1	20,748.0	25,157.6	26,743.9	29,212.1	31,154.0	33,129.1
EBITDA	5,606.3	6,457.1	8,266.0	10,237.6	11,015.9	12,177.2	13,179.4	14,250.1
Normalised operating profit	5,309.3	6,110.1	6,471.0	7,301.6	9,052.9	10,272.3	11,330.3	12,456.6
Amortisation of acquired intangibles	0.0	(956.0)	(67.0)	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	(180.0)	(5.0)	(47.0)	0.0	0.0	0.0	0.0
Share-based payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported operating profit	5,309.3	4,974.1	6,399.0	7,254.6	9,052.9	10,272.3	11,330.3	12,456.6
Net Interest	(364.5)	(537.0)	(340.0)	(612.0)	(452.0)	(327.0)	(182.8)	(30.7)
Fair value adjustments	105.6	(980.0)	(327.0)	(270.0)	0.0	0.0	0.0	0.0
Profit Before Tax (norm)	4,944.8	5,573.1	6,131.0	6,689.6	8,600.9	9,945.3	11,147.6	12,425.8
Profit Before Tax (reported)	5,050.4	3,457.1	5,732.0	3,678.6	8,600.9	9,945.3	11,147.6	12,425.8
Reported tax	(547.2)	(72.0)	(467.0)	(662.0)	(1,290.1)	(1,690.7)	(1,895.1)	(2,112.4)
Profit After Tax (norm)	4,397.6	5,501.1	5,664.0	6,010.6	7,310.8	8,254.6	9,252.5	10,313.4
Profit After Tax (reported)	4,503.2	3,385.1	5,265.0	3,016.6	7,310.8	8,254.6	9,252.5	10,313.4
Net income (normalised)	4,397.6	5,501.1	5,664.0	6,010.6	7,310.8	8,254.6	9,252.5	10,313.4
Net income (reported)	4,503.2	3,385.1	5,265.0	3,016.6	7,310.8	8,254.6	9,252.5	10,313.4
Basic average number of shares outstanding (m)	18	18	18	18	18	18	18	18
EPS - basic normalised (€)	0.24	0.30	0.31	0.33	0.40	0.46	0.51	0.57
EPS - diluted normalised (€)	0.24	0.30	0.31	0.33	0.40	0.46	0.51	0.57
EPS - basic reported (€)	0.25	0.19	0.29	0.17	0.40	0.46	0.51	0.57
Dividend (€)	0.15	0.15	0.15	0.15	0.15	0.18	0.18	0.20
Revenue growth (%)	5.0	21.5	18.3	17.5	9.4	9.4	6.7	6.4
Gross Margin (%)	103.4	102.4	102.6	104.7	103.2	103.2	103.1	103.1
EBITDA Margin (%)	39.7	37.9	40.9	42.6	42.5	43.0	43.6	44.3
Normalised Operating Margin	37.6	35.8	32.0	30.4	34.9	36.3	37.5	38.8
BALANCE SHEET								
Fixed Assets	30,090.5	39,348.0	60,884.0	62,088.0	59,865.9	57,394.7	54,941.5	52,505.3
Intangible Assets	27,690.8	37,416.0	58,301.0	56,900.0	56,537.0	56,132.1	55,683.1	55,189.5
Tangible Assets	1,365.3	1,486.0	2,098.0	4,015.0	2,155.9	89.6	(1,914.6)	(3,857.2)
Investments & other	1,034.4	446.0	485.0	1,173.0	1,173.0	1,173.0	1,173.0	1,173.0
Current Assets	15,531.1	9,526.0	11,171.0	10,742.0	16,202.3	22,534.5	29,632.4	37,071.7
Stocks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debtors	4,523.7	4,096.0	4,808.0	6,475.0	6,995.4	7,362.1	7,551.9	7,711.8
Cash & cash equivalents	10,869.6	5,154.0	5,834.0	3,754.0	8,693.9	14,659.4	21,567.5	28,847.0
Other	137.8	276.0	529.0	513.0	513.0	513.0	513.0	513.0
Current Liabilities	(5,022.9)	(8,425.0)	(10,439.0)	(16,044.0)	(16,922.5)	(17,893.9)	(18,741.3)	(19,617.4)
Creditors	(392.4)	(746.0)	(972.0)	(927.0)	(1,299.1)	(1,719.8)	(2,134.7)	(2,570.7)
Tax and social security	(2,911.2)	(5,354.0)	(3,388.0)	(5,381.0)	(5,887.4)	(6,438.1)	(6,870.6)	(7,310.7)
Short term borrowings	(1,719.3)	(2,325.0)	(6,079.0)	(9,736.0)	(9,736.0)	(9,736.0)	(9,736.0)	(9,736.0)
Long Term Liabilities	(8,576.3)	(10,533.0)	(30,480.0)	(25,367.0)	(25,367.0)	(25,367.0)	(25,367.0)	(25,367.0)
Long term borrowings	(7,204.2)	(9,354.0)	(26,549.0)	(21,476.0)	(21,476.0)	(21,476.0)	(21,476.0)	(21,476.0)
Other long term liabilities	(1,372.1)	(1,179.0)	(3,931.0)	(3,891.0)	(3,891.0)	(3,891.0)	(3,891.0)	(3,891.0)
Net Assets	32,022.3	29,916.0	31,136.0	31,419.0	33,778.7	36,668.3	40,465.6	44,592.6
Shareholders' equity	32,022.3	29,916.0	31,136.0	31,419.0	33,778.7	36,668.3	40,465.6	44,592.6
CASH FLOW								
Op Cash Flow before WC and tax	5,606.3	6,457.1	8,266.0	10,237.6	11,015.9	12,177.2	13,179.4	14,250.1
Working capital	199.6	586.0	(93.0)	(887.0)	(892.6)	(787.3)	(604.7)	(595.9)
Exceptional & other	(690.5)	(2,392.0)	(1,286.0)	(1,758.0)	0.0	0.0	0.0	0.0
Tax	(944.0)	(187.0)	(648.0)	(336.0)	(1,290.1)	(1,690.7)	(1,895.1)	(2,112.4)
Net operating cash flow	4,171.4	4,464.1	6,239.0	7,256.6	8,833.2	9,699.1	10,679.6	11,541.9
Capex	(21.0)	(9,807.0)	(758.4)	(396.0)	(259.1)	(566.3)	(604.2)	(642.6)
Acquisitions/disposals	0.0	(17.0)	3.0	262.0	0.0	0.0	0.0	0.0
Equity financing	0.0	(375.0)	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	(1,813.0)	(2,719.0)	(2,698.0)	(2,688.0)	(2,714.8)	(3,167.3)	(3,167.3)	(3,619.8)
Other	(1,665.5)	2,737.0	(2,366.6)	(7,172.0)	0.0	0.0	0.0	0.0
Net Cash Flow	671.9	(5,716.9)	419.0	(2,737.4)	5,859.3	5,965.5	6,908.1	7,279.5
Opening net debt/(cash)	346.8	(1,956.1)	6,497.1	26,794.1	27,458.0	22,518.2	16,552.7	9,644.6
FX	(0.6)	1.5	(1.0)	0.4	(0.5)	0.0	0.0	0.0
Other non-cash movements	1,631.7	(2,737.7)	(20,715.0)	2,073.0	(919.0)	0.0	0.0	0.0
Closing net debt/(cash)	(1,956.1)	6,497.1	26,794.1	27,458.0	22,518.2	16,552.7	9,644.6	2,365.1

Source: Company data, Edison Investment Research

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