

## Italy - Software

## Another jewel in the crown

4<sup>th</sup> November 2020

### ACQUISITION OF RAD

RIC: PITE.MI  
BBG: PITE IM

Piteco buys RAD Informatica, a highly profitable, well-managed, fast growing, cash-flow-generative firm. The company, purchased fairly cheaply, operates in the NPL management software niche. The move adds interesting modules to the Piteco current selling proposition. Once again, the acquisition adds value for shareholders.

#### Rating:

**Buy**

#### Price Target:

**€ 11.30 (€ 9.40)**

Upside/(Downside): 43.0%

Last Price: € 7.90

Market Cap.: € 151.5m

1Y High/Low: € 8.76/€ 4.54

Free Float: 27.1%

#### Major shareholders:

Podini Family 65.2%  
Management 5.1%



#### Stock price performance

	1M	3M	12M
<b>Absolute</b>	-1.5%	21.9%	25.4%
<b>Rel.to FTSE Italia</b>	-0.1%	14.7%	17.5%
<b>Rel.to EU Sector</b>	-2.9%	-3.7%	-18.4%

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#### Another value accretive move – Buy reiterated

The acquisition is EBITDA-, EPS- and value-accretive: the target is more profitable than the Piteco group and the price paid is by far cheaper than Piteco's current market valuation. We revised our model factoring in the consolidation of RAD as of 1-Dec-20. The result of the consolidation is massive and, on the back of the price paid and the profitability of the target, leads to an upgrade in PT to € 11.30/s (€ 9.40/s), 43.0% upside to current prices. We reiterate the Buy recommendation: in this market turmoil, Piteco represents a defensive player, able to catalyse the consolidation of other preys, adding interesting value accretive modules to the group's selling proposition.

#### RAD has a 70% market share in the NPL and UTPL management software

The company, established twenty years ago thanks to the expertise and experience that the founding members had gained in the fields of credit management and software development, today boasts a key know-how in the process of debt collection at legal and extrajudicial levels. The company holds 70% of the market and employs a team of over 50 analysts and developers. RAD has developed a management tool that connects all those interested in the operational management of NPL and litigation, allowing information sharing of, file work progress and all procedural aspects and cooperation in real time.

#### A well-managed, highly profitable, fast-growing company, paid 8.5x EBITDA<sub>19</sub>

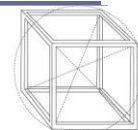
The company is well managed, offers hefty returns, generates huge visible cash flows and is fast growing. In 2019, RAD generated revenues to the tune of € 10.3m and EBITDA of € 5.9m, 57.3% margin and NFP was zero. Piteco is paying € 35m for a 70% stake which corresponds to 8.5x EBITDA<sub>19</sub>. The deal envisages a put/call option mechanism by RAD Holding's shareholders for the remaining 30% stake to be exercised in various time windows following the approval of RAD's financial statements for the years 2023, 2024 and 2025. Furthermore, an additional window is envisaged between 23-31 March 2021 for the sole investment held by a few financial investors of RAD.

#### A value-added element in the group's selling proposition

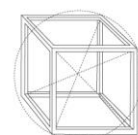
We like the announced move very much. The acquisition represents an important opportunity for the group to increase and develop its business, from a strategic, industrial and management perspective. The acquisition is aimed at consolidating the role of Piteco as a domestic and international leader in the financial software sector, with a distinctive competitive positioning in the sector and with significant prospects for growth and value creation. Piteco's external growth strategy is still in place, envisaging the aggregation with leading software producers. Now Piteco's catalogue comprises 1) Treasury Management Software, 2) Payment Service Software dedicated to banks, 3) Risk Management software solutions and NPL software services.

#### Piteco, key financials and ratios

€ m	2018	2019	2020e	2021e	2022e
Sales	20.2	24.0	26.6	39.0	42.2
EBITDA	8.3	10.2	11.5	18.6	20.7
EBITDA adjusted	8.3	10.2	11.5	18.6	20.7
EBIT	6.4	7.3	8.4	12.8	14.8
Net profit	5.3	3.0	6.2	9.5	11.5
Net profit adjusted	5.1	5.7	6.2	9.5	11.5
EPS adjusted	0.28	0.31	0.34	0.52	0.64
EPS adj. growth	44.5%	12.4%	8.5%	53.6%	21.6%
DPS ord. €/s	0.15	0.15	0.15	0.15	0.20
Dividend yield	1.9%	1.9%	1.9%	1.9%	2.5%
NFP (cash)/debt	26.8	27.5	64.2	49.6	36.3
Free Cash Flow Yield	8.0%	4.7%	7.6%	11.4%	10.7%
PER x	16.4	16.5	24.5	16.0	13.1
PCF x	11.5	13.0	12.9	8.5	9.1
EV/Sales x	5.4	5.0	8.1	5.2	4.5
EV/EBITDA x	13.3	11.9	18.8	10.8	9.1
EV/EBIT x	17.2	16.7	25.7	15.7	12.6



Income statement (€ m)	2018	2019	2020e	2021e	2022e
Total Revenues	20.2	24.0	26.6	39.0	42.2
Raw Material	(0.3)	(0.1)	(0.2)	(0.2)	(0.2)
Services	(3.4)	(4.1)	(4.5)	(6.3)	(6.6)
Personnel expenses	(8.1)	(9.4)	(10.3)	(13.1)	(13.9)
Other Costs	(0.1)	(0.1)	(0.2)	(0.7)	(0.8)
EBITDA	8.3	10.2	11.5	18.6	20.7
EBITDA adj.	8.3	10.2	11.5	18.6	20.7
D&A	(1.9)	(3.0)	(3.1)	(5.8)	(5.8)
EBIT	6.4	7.3	8.4	12.8	14.8
Financial (charges)/income	0.1	(3.1)	(1.3)	(1.9)	(1.6)
Other costs & extraordinaries & other	(0.7)	(0.4)	0.0	0.0	0.0
Pre-Tax profit	5.7	3.7	7.1	10.9	13.3
Income taxes	(0.5)	(0.7)	(0.9)	(1.4)	(1.7)
Net Profit	5.3	3.0	6.2	9.5	11.5
Net Profit Adjusted	5.1	5.7	6.2	9.5	11.5
Balance sheet (€ m)	2018	2019	2020e	2021e	2022e
Net Working Capital	4.1	5.5	7.4	8.3	9.0
Net Fixed Assets	60.4	60.9	112.1	107.6	103.2
Equity Investments	0.0	0.0	0.0	0.0	0.0
Other M/L Term A/L	(6.6)	(7.6)	(12.6)	(17.2)	(18.3)
Net Invested Capital	57.9	58.9	106.9	98.7	93.9
Net Financial Debt	26.8	27.5	64.2	49.6	36.3
Minorities	0.0	0.0	0.0	0.0	0.0
Group's Shareholders Equity	31.1	31.4	42.7	49.2	57.7
Financial Liabilities & Equity	57.9	58.9	106.9	98.7	93.9
Cash Flow statement (€ m)	2018	2019	2020e	2021e	2022e
Total net income	5.3	3.0	6.2	9.5	11.5
Depreciation	1.9	3.0	3.1	5.8	5.8
Other non-cash charges	0.5	2.7	4.9	4.2	1.0
Cash Flow from Oper. (CFO)	7.7	8.7	14.2	19.5	18.3
Change in NWC	(0.8)	(1.4)	(1.9)	(0.9)	(0.7)
FCF from Operations (FCFO)	6.9	7.3	12.4	18.7	17.6
Net Investments (CFI)	(23.3)	(0.1)	(54.3)	(1.4)	(1.4)
Free CF to the Firm (FCFF)	(16.4)	7.1	(41.9)	17.3	16.2
CF from financials (CFF)	16.8	(9.7)	41.0	(9.7)	(9.1)
Free Cash Flow to Equity (FCFE)	0.4	(2.5)	(0.9)	7.5	7.2
Financial ratios	2018	2019	2020e	2021e	2022e
EBITDA margin	40.9%	42.6%	43.1%	47.9%	49.0%
EBIT margin	31.7%	30.2%	31.5%	32.9%	35.2%
Net profit margin	26.0%	12.6%	23.2%	24.3%	27.3%
Tax rate	8.1%	18.0%	13.0%	13.0%	13.0%
Interest coverage x	(0.0)	0.4	0.2	0.1	0.1
Net Debt/Ebitda x	3.2	2.7	5.6	2.7	1.8
Debt-to-Equity x	0.9	0.9	1.5	1.0	0.6
ROIC	11.2%	5.2%	7.5%	9.2%	12.0%
ROCE	9.5%	10.7%	7.1%	10.7%	12.0%
ROACE	11.6%	10.7%	9.0%	10.8%	12.2%
ROE	17.2%	9.6%	16.7%	20.6%	21.6%
Payout ratio	51.7%	95.6%	49.0%	31.9%	35.0%
Per share figures	2018	2019	2020e	2021e	2022e
Final N. of shares # m	18.1	19.2	20.2	20.2	20.2
Final N. of shares (fully diluted) # m	18.1	19.2	20.2	20.2	20.2
Average N. of shares (fd)# m	18.1	18.7	19.7	20.2	20.2
EPS stated €	0.29	0.16	0.31	0.47	0.57
EPS adjusted €	0.29	0.16	0.31	0.47	0.57
EBITDA €	0.46	0.55	0.58	0.92	1.02
EBIT €	0.35	0.39	0.43	0.64	0.74
FCFO €	0.38	0.39	0.63	0.92	0.87
FCFF €	(0.90)	0.38	(2.13)	0.86	0.80
FCFE €	0.02	(0.14)	(0.05)	0.37	0.36
Dividend €	0.15	0.15	0.15	0.15	0.20



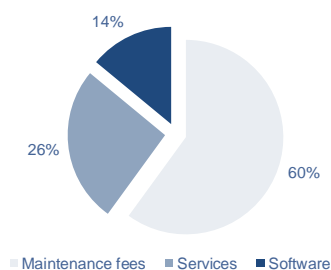


## The company at a glance

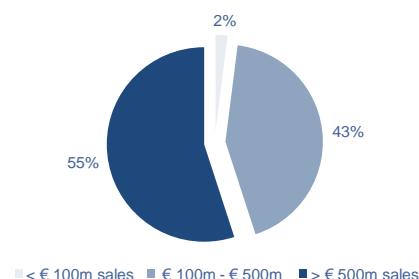
Piteco, more than 4x the size of its closest competitors, is the undisputed domestic leader in corporate treasury management and financial planning software. The company designs, develops and implements proprietary software and solutions for corporate cash and risk management. It focuses on large/mid 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 (post rights issue)

	%	# m
<b>Podini Family</b>	<b>65.2%</b>	<b>13.2</b>
Dedagroup S.p.A.	49.8%	10.1
Marco Podini	7.4%	1.5
Maria Luisa Podini	7.4%	1.5
Francesca Zanella	0.2%	0.1
Lillo S.p.A.	0.2%	0.0
<b>Management</b>	<b>5.1%</b>	<b>1.0</b>
Andrea Guido Guilleramaz	1.7%	0.3
Riccardo Veneziani	1.7%	0.3
Paolo Virenti	1.7%	0.3
<b>Free Float</b>	<b>27.1%</b>	<b>5.5</b>
Ennismore Fund Management	7.0%	1.4
<b>Treasury shares</b>	<b>2.6%</b>	<b>0.5</b>
<b>Total</b>	<b>100.0%</b>	<b>20.2</b>

Source: Company data

## Peer group absolute performance

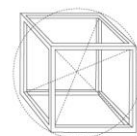
	1D	1W	1M	3M	6M	YTD
Intuit Inc	2.6	(1.7)	(0.2)	4.5	18.3	24.0
Microsoft Corp	2.0	(3.2)	0.3	(3.2)	14.2	30.9
Oracle Corp	0.6	(0.5)	(4.6)	1.4	9.1	7.2
Salesforce.com Inc	2.0	(5.3)	(5.2)	17.7	45.3	45.8
SAP SE	4.2	(3.1)	(28.5)	(30.6)	(13.4)	(21.9)
<b>Median large players</b>	<b>2.0</b>	<b>(3.1)</b>	<b>(4.6)</b>	<b>1.4</b>	<b>14.2</b>	<b>24.0</b>
Datalogic SpA	0.5	3.9	(13.2)	(17.4)	(9.4)	(37.8)
Digital Bros SpA	(0.4)	(5.7)	(20.7)	(27.3)	13.3	32.5
Expert System SpA	2.7	0.2	(8.6)	(25.5)	(30.2)	(30.2)
Exprivia SpA	0.0	4.2	0.0	(8.3)	(11.6)	(23.0)
Reply SpA	2.3	2.1	(0.5)	11.2	51.4	37.7
TXT e solutions SpA	0.8	(4.3)	(3.4)	(4.9)	(7.9)	(24.0)
<b>Median small players</b>	<b>0.7</b>	<b>1.2</b>	<b>(6.0)</b>	<b>(12.9)</b>	<b>(8.7)</b>	<b>(23.5)</b>
<b>Piteco SpA</b>	<b>(0.8)</b>	<b>(1.3)</b>	<b>(1.5)</b>	<b>21.9</b>	<b>27.4</b>	<b>24.4</b>

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	38.4	33.8	35.0	31.4	9.7	8.6	25.8	22.7	27.7	24.0
Microsoft Corp	30.2	27.4	24.2	21.9	9.3	8.3	20.0	17.7	24.1	21.4
Oracle Corp	13.4	13.0	11.9	11.5	5.0	4.8	10.1	9.7	10.9	10.5
Salesforce.Com Inc	62.1	60.1	35.5	33.6	10.0	8.3	33.4	27.5	57.5	44.5
SAP SE	18.5	19.4	16.5	15.7	4.5	4.3	14.0	13.0	15.2	15.3
<b>Median large player</b>	<b>30.2</b>	<b>27.4</b>	<b>24.2</b>	<b>21.9</b>	<b>9.3</b>	<b>8.3</b>	<b>20.0</b>	<b>17.7</b>	<b>24.1</b>	<b>21.4</b>
Datalogic SpA	57.8	17.2	17.0	10.5	1.3	1.1	14.0	8.6	33.5	12.6
Digital Bros SpA	14.8	13.8	7.7	7.2	1.4	1.3	5.9	5.0	9.7	8.2
Expert System SpA	n.m.	n.m.	n.m.	n.m.	4.1	3.3	81.9	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)	6.3
Reply SpA	32.6	28.7	24.2	21.6	2.7	2.4	17.5	15.1	21.8	18.6
TXT e solutions SpA	28.7	21.3	15.2	12.8	1.0	1.1	8.9	9.2	14.2	13.2
<b>Median small player</b>	<b>28.7</b>	<b>17.2</b>	<b>15.2</b>	<b>10.5</b>	<b>1.4</b>	<b>1.2</b>	<b>11.5</b>	<b>8.6</b>	<b>14.2</b>	<b>12.6</b>
<b>Piteco SpA</b>	<b>24.5</b>	<b>15.9</b>	<b>16.3</b>	<b>9.9</b>	<b>8.1</b>	<b>5.1</b>	<b>18.8</b>	<b>10.8</b>	<b>25.7</b>	<b>15.6</b>

Source: CFO Sim, Thomson Reuters Eikon



## Piteco adds NPL software to its selling proposition

Piteco purchases RAD Informatica, a highly profitable, well-managed, fast growing, cash flow generative firm. The company, bought fairly cheaply, operates in the NPL management software niche. The move adds interesting modules to the Piteco current selling proposition. Once again, the acquisition adds value for shareholders.

## The target: RAD Informatica

RAD, established twenty years ago thanks to the expertise and experience that the founding members had gained in the fields of credit management and software development, today boasts important know-how in the process of debt collection at legal and extrajudicial levels. **The company holds 70% of the market** and employs a team of over 50 analysts and developers with consolidated knowledge in the fields of credit recovery and both banking and insurance litigation. In greater details, **RAD has developed a knowledge management tool that connects all those interested in the operational management of NPL and litigation**, allowing information sharing of, file work progress and all procedural aspects and cooperation in real time.. The company is well managed, offers hefty returns, generates huge visible cash flows and is fast growing.

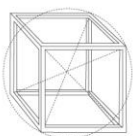
Piteco buys the asset transferred by RAD Holding to RAD, a newly established vehicle. In 2019, RAD generated **revenues to the tune of € 10.3m, EBITDA of € 5.9m, 57.3% margin and NFP was zero.**

**The market is growing.** According to Banca IFIS's projections, in the hypothesis of a timid macroeconomic recovery in 2021, the default rate, i.e. the performing loans that switch to non-performing, should be 2.8% compared to 1.3% of 2019. The total stock, adding together bad loans (NPL) and unlikely to pay loans (UTP) still present in the bank balance sheet and those already sold, is estimated to reach € 338bn in 2020 (+ 5% YoY), while in 2021 impaired exposures could rise to € 385bn and undergo a further increase in 2022.

## The deal structure

**Piteco is paying € 35m for a 70% stake which corresponds to 8.5x EBITDA<sub>19</sub> and 4.9x Sales<sub>19</sub>**; this compares to the current 15.5x and 6.6x multiples of Piteco. The price is paid in two instalments: € 4m for an 8% stake at the time of the deal announcement (15-Oct) and € 31m for the remainder by the end of November. The deal envisages a put/call option mechanism by RAD Holding's shareholders for the remaining 30% stake to be exercised in various time windows following the approval of RAD's financial statements for the years 2023, 2024 and 2025. Furthermore, an additional window is envisaged between 23-31 March 2021 for the sole stake held by a few financial investors of RAD.

Piteco finances this move via 1) new **6Y 2.5% bank facilities for a total consideration of € 27m**, and 2) a **capital increase of € 8m**. The price for the rights issue has been fixed at € 8.45 per share, a level that implies a 21.1% premium over the volume weighted average price of Piteco's shares over the last 6M prior to the date of approval of the rights issue, a 11.5% premium over the last 3M and a 6.5% premium over the last month. The **capital increase is reserved for directors and shareholders Marco Podini and Maria Luisa Podini**. According to the company, the reserved capital increase is particularly convenient for Piteco in terms of timing and certainty as to its positive outcome. Having said that, **we would have rather preferred a more market friendly move, i.e. open to the totality of the existing shareholder base.**



New shares represent 4.9% of the share capital. Following the full subscription of the reserved capital increase, **the dilution rate of the other shareholders will be equal to 4.7%.**

**Table 1 – Piteco, old shareholder structure**

€ m	%	# m
<b>Podini Family</b>	<b>63.4%</b>	<b>12.2</b>
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
<b>Management</b>	<b>5.4%</b>	<b>1.0</b>
Andrea Guido Guillermaz	1.8%	0.3
Riccardo Veneziani	1.8%	0.3
Paolo Virenti	1.8%	0.3
<b>Free Float</b>	<b>28.4%</b>	<b>5.5</b>
Ennismore Fund Management	7.3%	1.4
<b>Treasury shares</b>	<b>2.8%</b>	<b>0.5</b>
<b>Total</b>	<b>100.0%</b>	<b>19.2</b>

Source: company data

**Table 2 – Piteco, new shareholder structure**

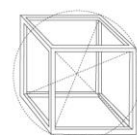
€ m	%	# m
<b>Podini Family</b>	<b>65.2%</b>	<b>13.2</b>
Dedagroup S.p.A.	49.8%	10.1
Marco Podini	7.4%	1.5
Maria Luisa Podini	7.4%	1.5
Francesca Zanella	0.2%	0.1
Lillo S.p.A.	0.2%	0.0
<b>Management</b>	<b>5.1%</b>	<b>1.0</b>
Andrea Guido Guillermaz	1.7%	0.3
Riccardo Veneziani	1.7%	0.3
Paolo Virenti	1.7%	0.3
<b>Free Float</b>	<b>27.1%</b>	<b>5.5</b>
Ennismore Fund Management	7.0%	1.4
<b>Treasury shares</b>	<b>2.6%</b>	<b>0.5</b>
<b>Total</b>	<b>100.0%</b>	<b>20.2</b>

Source: CFO SIM elaboration on company data

## The deal rationale

**We like the announced move very much.** The acquisition makes a lot of sense and represents an important opportunity for the group to increase and develop its business from a strategic, industrial and management perspective. The acquisition is aimed at consolidating the role of Piteco as a domestic and international leader in the financial software sector, with a distinctive competitive positioning in the sector and with significant prospects for growth and value creation. Piteco's external growth strategy is still in place, envisaging the aggregation with leading software producers.

**Now, the selling proposition of Piteco comprises 1) Treasury Management Software** with Piteco, historical core business of the group (48% of pro-forma consolidated revenues for 2020e), 2) **Payment Service Software**, dedicated to banks via Juniper Payments (13% of pro-forma consolidated revenues for 2020e), 3) **Risk Management software** solutions with Myrios (10% of pro-forma consolidated revenues for 2020e) and **NPL software services** with RAD (30% of pro-forma consolidated revenues for 2020e).





## Estimates, valuation and risks

**The acquisition of RAD is EBITDA-, EPS- and value-accretive:** the target is more profitable than the Piteco group and the price paid is by far lower than Piteco's current market valuation. We revised our model factoring in the consolidation of RAD as of 1-Dec-20. We left Piteco TMS, Myrios and Juniper assumptions unchanged vs. our prior publication and we added RAD's P&L. Obviously, in 2020 we pictured the full impact of the acquisition on the balance sheet but only for 1/12 on the P&L account. **The result of the consolidation of the acquisition is massive** and highlighted in the tables below.

**Table 3 – Piteco, 2020e new/old estimates**

€ m	New	Old	% Diff.	€ m	Diff.
<b>Net Sales</b>	<b>26.6</b>	<b>25.7</b>	3.5	<b>0.9</b>	
<b>EBITDA</b>	<b>11.5</b>	<b>11.0</b>	4.7	<b>0.5</b>	
% margin	43.1	42.6			
<b>EBIT</b>	<b>8.4</b>	<b>8.0</b>	4.9	<b>0.4</b>	
% margin	31.5	31.1			
<b>Net Profit</b>	<b>6.2</b>	<b>6.0</b>	3.2	<b>0.2</b>	
% margin	23.2	23.3			
<b>Y/E net debt (net cash)</b>	<b>64.2</b>	<b>22.4</b>	187.0	<b>41.8</b>	

Source: CFO Sim

**Table 4 – Piteco, 2021e new/old estimates**

€ m	New	Old	% Diff.	€ m	Diff.
<b>Net Sales</b>	<b>39.0</b>	<b>26.8</b>	45.1	<b>12.1</b>	
<b>EBITDA</b>	<b>18.6</b>	<b>11.7</b>	59.6	<b>7.0</b>	
% margin	47.9	43.5			
<b>EBIT</b>	<b>12.8</b>	<b>8.7</b>	46.7	<b>4.1</b>	
% margin	32.9	32.6			
<b>Net Profit</b>	<b>9.5</b>	<b>6.7</b>	41.2	<b>2.8</b>	
% margin	24.3	25.0			
<b>Y/E net debt (net cash)</b>	<b>49.6</b>	<b>17.1</b>	190.2	<b>32.5</b>	

Source: CFO Sim

**Table 5 – Piteco, 2022e new/old estimates**

€ m	New	Old	% Diff.	€ m	Diff.
<b>Net Sales</b>	<b>42.2</b>	<b>28.3</b>	49.3	<b>13.9</b>	
<b>EBITDA</b>	<b>20.7</b>	<b>12.6</b>	63.7	<b>8.0</b>	
% margin	49.0	44.7			
<b>EBIT</b>	<b>14.8</b>	<b>9.7</b>	53.5	<b>5.2</b>	
% margin	35.2	34.2			
<b>Net Profit</b>	<b>11.5</b>	<b>7.6</b>	51.4	<b>3.9</b>	
% margin	27.3	27.0			
<b>Y/E net debt (net cash)</b>	<b>36.3</b>	<b>11.4</b>	218.9	<b>24.9</b>	

Source: CFO Sim

**The move does not stretch the balance sheet at all**, also thanks to the € 8.0m announced rights issue: the NFP/EBITDA ratio in 2021 (the first year with the full effect of the RAD consolidation on Piteco's P&L account stands at 2.7x and drops to 1.8x in 2022. However, we have to consider that NFP includes the put options for the acquisition of the minority stakes in Juniper Payments (unlikely to be exercised) and Myrios (o/w at least 50% corresponding to the value of Myrios' put option, to be paid via Piteco shares).

We believe **the company could continue in its external growth campaign** aimed at implementing interesting targets to its software proposition. In addition, the market would certainly follow the major shareholders in any future new capital requests they might need to seize large targets.

The new addition changes Piteco's growth profile and adds lucrative margins, even better than Piteco alone. **RAD represents 31% of turnover and 37% of total revenues and EBITDA in 2021**, becoming the group's second business segment in size.

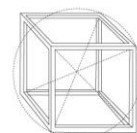
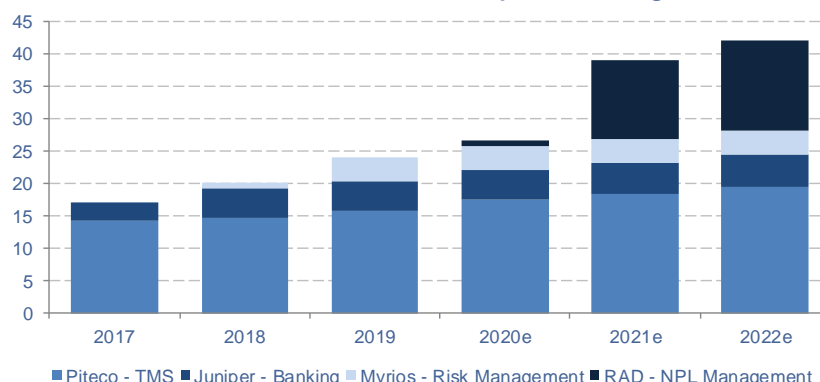
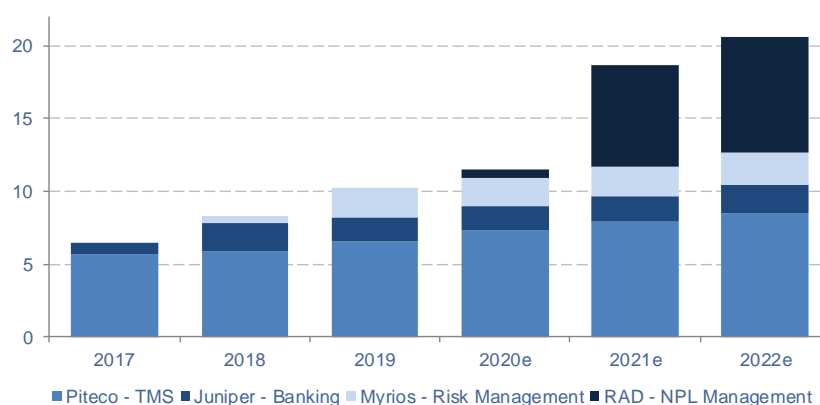


Chart 1 – Piteco, 2017-22e revenues breakdown by business segment



Source: Company data, CFO SIM estimates

Chart 2 – Piteco, 2017-22e EBITDA breakdown by business segment



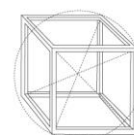
Source: Company data, CFO SIM estimates

Table 5 – Piteco, 2017-22e Revenues and EBITDA by business segment

% on total	2017	2018	2019	2020e	2021e	2022e
Piteco - TMS	83.1	73.3	66.0	65.9	47.5	46.2
Juniper - Banking	16.9	22.6	19.0	17.2	12.0	11.6
RAD - NPL Management	0.0	0.0	0.0	3.4	31.1	33.0
Myrios - Risk Management	0.0	4.2	15.0	13.5	9.4	9.1
<b>Total Revenues</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Piteco - TMS	88.2	71.7	64.4	63.9	42.3	41.0
Juniper - Banking	11.8	22.6	15.5	14.0	9.3	9.3
RAD - NPL Management	0.0	0.0	0.0	4.5	37.4	38.9
Myrios - Risk Management	0.0	5.7	20.1	17.5	11.1	10.8
<b>Total EBITDA</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company data, CFO SIM estimates

The result of RAD's consolidation, on the back of the price paid and the profitability of the target, is an upgrade in PT to € 11.30/s (€ 9.40/s), 43.0% upside to current prices. **We reiterate the Buy:** in this market turmoil, Piteco represents a defensive player, able to catalyse the consolidation of other preys, adding interesting value-accretive modules to the group's selling proposition.



## 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%
<b>Int. costs, after taxes</b>	<b>1.9%</b>
Risk premium, incl. small size premium	7.0%
Risk-free (10Y Gov. Bond 200 simple moving average)	1.33%
Beta levered (x)	1.00
<b>Required ROE</b>	<b>8.3%</b>

Source: CFO Sim

**Table 6 – Piteco, DCF model**

€ m	2020e	2021e	2022e	2023e	2024e	Term. Val.
EBIT	8.4	12.8	14.8	17.5	21.0	
Tax rate	13.0%	13.0%	13.0%	13.0%	13.0%	
<b>Operating profit (NOPAT)</b>	<b>7.30</b>	<b>11.16</b>	<b>12.92</b>	<b>15.24</b>	<b>18.29</b>	
Change working capital	(1.9)	(0.9)	(0.7)	(0.1)	(0.0)	
Depreciation	3.1	5.8	5.8	3.0	1.4	
Investments	(54.3)	(1.4)	(1.4)	(1.4)	(1.4)	
<b>Free Cash Flows</b>	<b>(45.8)</b>	<b>14.7</b>	<b>16.7</b>	<b>16.8</b>	<b>18.3</b>	<b>379.1</b>
Present value	(45.3)	13.7	14.6	13.8	14.1	293.0
WACC	6.4%	6.4%	6.4%	6.4%	6.4%	
<b>Long-term growth rate</b>	<b>1.5%</b>					

Source: CFO Sim

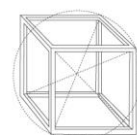
**Table 7 – Piteco, DCF per share derived from:**

Total EV present value € m	303.9
<i>thereof terminal value</i>	96.4%
NFP last reported including RAD acquisition outlay + PUT valorisation	(79.8)
Pension provision last reported	(1.3)
<b>Equity value € m</b>	<b>222.8</b>
Shares # m (ex. Treasury shares)	19.65
<b>Discounted CF €/s</b>	<b>11.30</b>
<i>Upside/(downside)</i>	43.0%

Source: CFO Sim

The application of the model produces an equity value of € 222.8m, which corresponds to € 11.30/s (€ 9.40), with a potential upside of 43.0%.

The following tables illustrate that sensitivity 1) compared to changes in the terminal growth rate produces an equity value per share of between € 8.69 and € 15.35 (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 € 9.48 – 13.68 (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 € 7.31 – 18.59 (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	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9
PV of terminal value	240.9	252.2	264.5	278.0	293.0	309.5	327.9	348.6	371.9
<b>Total value</b>	<b>251.8</b>	<b>263.1</b>	<b>275.4</b>	<b>288.9</b>	<b>303.9</b>	<b>320.4</b>	<b>338.8</b>	<b>359.5</b>	<b>382.7</b>
NFP last reported	(79.8)	(79.8)	(79.8)	(79.8)	(79.8)	(79.8)	(79.8)	(79.8)	(79.8)
Pension last reported	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)
<b>Equity value</b>	<b>170.7</b>	<b>182.0</b>	<b>194.3</b>	<b>207.9</b>	<b>222.8</b>	<b>239.3</b>	<b>257.7</b>	<b>278.4</b>	<b>301.7</b>
<b>Equity value €/s</b>	<b>8.69</b>	<b>9.26</b>	<b>9.89</b>	<b>10.58</b>	<b>11.30</b>	<b>12.18</b>	<b>13.12</b>	<b>14.17</b>	<b>15.35</b>

Source: CFO Sim

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

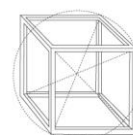
€ m	0.53%	0.73%	0.93%	1.13%	1.33%	1.53%	1.73%	1.93%	2.13%
Present value of CF	11.6	11.5	11.3	11.1	10.9	10.7	10.5	10.3	10.1
PV of terminal value	338.2	325.8	314.2	303.3	293.0	283.3	274.1	265.4	257.2
<b>Total value</b>	<b>349.8</b>	<b>337.3</b>	<b>325.4</b>	<b>314.3</b>	<b>303.9</b>	<b>294.0</b>	<b>284.6</b>	<b>275.8</b>	<b>267.4</b>
NFP last reported	(79.8)	(79.8)	(79.8)	(79.8)	(79.8)	(79.8)	(79.8)	(79.8)	(79.8)
Pension last reported	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)
<b>Equity value</b>	<b>268.8</b>	<b>256.2</b>	<b>244.4</b>	<b>233.3</b>	<b>222.8</b>	<b>212.9</b>	<b>203.6</b>	<b>194.7</b>	<b>186.3</b>
<b>Equity value €/s</b>	<b>13.68</b>	<b>13.04</b>	<b>12.44</b>	<b>11.87</b>	<b>11.30</b>	<b>10.83</b>	<b>10.36</b>	<b>9.91</b>	<b>9.48</b>

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	12.8	12.3	11.8	11.4	10.9	10.4	10.0	9.5	9.1
PV of terminal value	433.6	388.7	351.4	319.9	293.0	269.7	249.4	231.6	215.7
<b>Total value</b>	<b>446.4</b>	<b>401.0</b>	<b>363.2</b>	<b>331.3</b>	<b>303.9</b>	<b>280.1</b>	<b>259.4</b>	<b>241.1</b>	<b>224.8</b>
NFP last reported	(79.8)	(79.8)	(79.8)	(79.8)	(79.8)	(79.8)	(79.8)	(79.8)	(79.8)
Pension last reported	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)
<b>Equity value</b>	<b>365.4</b>	<b>320.0</b>	<b>282.2</b>	<b>250.2</b>	<b>222.8</b>	<b>199.1</b>	<b>178.3</b>	<b>160.0</b>	<b>143.7</b>
<b>Equity value €/s</b>	<b>18.59</b>	<b>16.28</b>	<b>14.36</b>	<b>12.73</b>	<b>11.30</b>	<b>10.13</b>	<b>9.07</b>	<b>8.14</b>	<b>7.31</b>

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 27.1%, i.e. € 43.2m).

Table 11 – Piteco, peer group summary table

€ m	Country	Mkt Cap	Sales FY1	EBITDA FY1	EBITDA margin	Sales CAGR <sub>19-22</sub>	EBITDA CAGR <sub>19-22</sub>	EBIT CAGR <sub>19-22</sub>	EPS CAGR <sub>20-22</sub>	NFP /EBITDA
Intuit Inc	USA	72,596	7,010	2,642	37.7%	9.8%	18.5%	19.6%	14.4%	(1.7)
Microsoft Corp	USA	1,332,693	136,032	63,170	46.4%	10.2%	11.5%	12.5%	12.9%	(1.1)
Oracle Corp	USA	145,852	33,973	16,838	49.6%	0.7%	4.7%	8.7%	4.4%	1.4
Salesforce.Com Inc	USA	184,262	17,710	5,312	30.0%	16.6%	47.4%	127.9%	13.6%	(1.2)
SAP SE	Germany	114,718	27,497	8,887	32.3%	1.6%	5.5%	9.8%	0.1%	1.1
<b>Median large player</b>		<b>145,852</b>	<b>27,497</b>	<b>8,887</b>	<b>37.7%</b>	<b>9.8%</b>	<b>11.5%</b>	<b>12.5%</b>	<b>12.9%</b>	<b>(1.1)</b>
Datalogic SpA	Italy	609	474	44	9.2%	-2.1%	-5.9%	-5.4%	107.6%	0.0
Digital Bros SpA	Italy	234	151	37	24.7%	n.a.	n.a.	n.a.	n.a.	(0.4)
Expert System SpA	Italy	107	31	2	5.0%	14.3%	-27.6%	136.6%	75.9%	12.9
Exprivia SpA	Italy	33	169	19	11.2%	-33.0%	-21.1%	-11.9%	n.m.	2.3
Reply SpA	Italy	3,555	1,245	193	15.5%	8.0%	7.9%	8.8%	13.1%	(0.9)
TXT e solutions SpA	Italy	95	67	8	11.7%	15.5%	4.8%	n.a.	34.8%	(3.1)
<b>Median small player</b>		<b>107</b>	<b>151</b>	<b>19</b>	<b>11.7%</b>	<b>11.2%</b>	<b>-8.1%</b>	<b>8.8%</b>	<b>34.8%</b>	<b>(0.4)</b>
<b>Piteco SpA</b>		<b>151</b>	<b>27</b>	<b>11</b>	<b>43.1%</b>	<b>20.6%</b>	<b>26.4%</b>	<b>27.0%</b>	<b>36.6%</b>	<b>5.6</b>

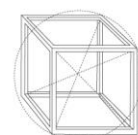
Source: Thomson Reuters Eikon, CFO Sim

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
Intuit Inc	38.4	33.8	35.0	31.4	9.7	8.6	25.8	22.7	27.7	24.0
Microsoft Corp	30.2	27.4	24.2	21.9	9.3	8.3	20.0	17.7	24.1	21.4
Oracle Corp	13.4	13.0	11.9	11.5	5.0	4.8	10.1	9.7	10.9	10.5
Salesforce.Com Inc	62.1	60.1	35.5	33.6	10.0	8.3	33.4	27.5	57.5	44.5
SAP SE	18.5	19.4	16.5	15.7	4.5	4.3	14.0	13.0	15.2	15.3
<b>Median large player</b>	<b>30.2</b>	<b>27.4</b>	<b>24.2</b>	<b>21.9</b>	<b>9.3</b>	<b>8.3</b>	<b>20.0</b>	<b>17.7</b>	<b>24.1</b>	<b>21.4</b>
Datalogic SpA	57.8	17.2	17.0	10.5	1.3	1.1	14.0	8.6	33.5	12.6
Digital Bros SpA	14.8	13.8	7.7	7.2	1.4	1.3	5.9	5.0	9.7	8.2
Expert System SpA	n.m.	n.m.	n.m.	n.m.	4.1	3.3	81.9	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)	6.3
Reply SpA	32.6	28.7	24.2	21.6	2.7	2.4	17.5	15.1	21.8	18.6
TXT e solutions SpA	28.7	21.3	15.2	12.8	1.0	1.1	8.9	9.2	14.2	13.2
<b>Median small player</b>	<b>28.7</b>	<b>17.2</b>	<b>15.2</b>	<b>10.5</b>	<b>1.4</b>	<b>1.2</b>	<b>11.5</b>	<b>8.6</b>	<b>14.2</b>	<b>12.6</b>
<b>Piteco SpA</b>	<b>24.5</b>	<b>15.9</b>	<b>16.3</b>	<b>9.9</b>	<b>8.1</b>	<b>5.1</b>	<b>18.8</b>	<b>10.8</b>	<b>25.7</b>	<b>15.6</b>
(Disc.)/prem. to large players	-18.9%	-41.9%	-32.7%	-54.9%	-12.8%	-37.6%	-6.1%	-39.1%	6.4%	-26.9%
(Disc.)/prem. to small players	-14.9%	-7.2%	7.4%	-6.2%	491.2%	318.6%	63.5%	25.7%	80.7%	24.1%

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 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 remarkably positive relative performance to indexes.

**Table 13 – Piteco, peer group absolute performance**

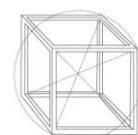
	1D	1W	1M	3M	6M	YTD	1Y
Intuit Inc.	2.6	(1.7)	(0.2)	4.5	18.3	24.0	27.8
Microsoft Corporation	2.0	(3.2)	0.3	(3.2)	14.2	30.9	42.8
Oracle Corporation	0.6	(0.5)	(4.6)	1.4	9.1	7.2	2.4
salesforce.com, inc.	2.0	(5.3)	(5.2)	17.7	45.3	45.8	50.5
SAP SE	4.2	(3.1)	(28.5)	(30.6)	(13.4)	(21.9)	(22.2)
<b>Median large players</b>	<b>2.0</b>	<b>(3.1)</b>	<b>(4.6)</b>	<b>1.4</b>	<b>14.2</b>	<b>24.0</b>	<b>27.8</b>
Datalogic S.p.A.	0.5	3.9	(13.2)	(17.4)	(9.4)	(37.8)	(33.0)
Digital Bros S.p.A.	(0.4)	(5.7)	(20.7)	(27.3)	13.3	32.5	61.8
Expert System SpA	2.7	0.2	(8.6)	(25.5)	(30.2)	(30.2)	(27.1)
Exprivia S.p.A.	0.0	4.2	0.0	(8.3)	(11.6)	(23.0)	(22.5)
Reply S.p.A.	2.3	2.1	(0.5)	11.2	51.4	37.7	62.0
TXT e-solutions S.p.A.	0.8	(4.3)	(3.4)	(4.9)	(7.9)	(24.0)	(15.4)
<b>Median small players</b>	<b>0.7</b>	<b>1.2</b>	<b>(6.0)</b>	<b>(12.9)</b>	<b>(8.7)</b>	<b>(23.5)</b>	<b>(19.0)</b>
<b>PITECO SpA</b>	<b>(0.8)</b>	<b>(1.3)</b>	<b>(1.5)</b>	<b>21.9</b>	<b>27.4</b>	<b>24.4</b>	<b>25.4</b>
<b>Piteco relative to large players</b>	<b>(2.8)</b>	<b>1.8</b>	<b>3.1</b>	<b>20.5</b>	<b>13.2</b>	<b>0.4</b>	<b>(2.4)</b>
<b>small players</b>	<b>(1.4)</b>	<b>(2.4)</b>	<b>4.5</b>	<b>34.8</b>	<b>36.1</b>	<b>47.9</b>	<b>44.4</b>
<b>FTSE Italia All Shares</b>	<b>(2.1)</b>	<b>0.1</b>	<b>(0.1)</b>	<b>14.7</b>	<b>7.9</b>	<b>24.4</b>	<b>17.5</b>
<b>EU sector</b>	<b>(3.7)</b>	<b>(2.7)</b>	<b>1.4</b>	<b>25.6</b>	<b>18.7</b>	<b>43.8</b>	<b>43.8</b>

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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