

Piteco

FY20 results

Resilient performance

In FY20, Piteco SpA generated good revenue and EBITDA growth of 5%. The resilience of the business model is clear, with 64% of revenues originating from recurring fees. Group revenues were up 3% and EBITDA margin remained above 40% despite the coronavirus pandemic. Juniper and Myrios witnessed a slowdown in orders, as expected, and concentrated their efforts on developing innovative solutions, which will help to accelerate growth as the market recovers. The RAD acquisition, initially announced in October, provides a further platform for growth of the business. At 12.8x FY21 EV/EBITDA, Piteco continues to trade at a discount to its international software peers.

Year end	Net revenue (€m)	EBITDA* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/19	22.8	10.2	33.5	15.0	31.8	1.4
12/20	23.5	9.9	30.0	15.0	35.5	1.4
12/21e	36.7	18.0	62.7	17.5	17.0	1.6
12/22e	39.3	19.6	69.8	17.5	15.3	1.6

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Continued growth, albeit at a lower level

During FY20 Piteco Group reported 3% revenue and -3% EBITDA growth. Group EBITDA margin was 40.2% during the period, and recurring fees made up 64% 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, although we expect the group to catch up on this in FY21 and beyond.

The underlying business model is strong

FY20 demonstrated the strength of the corporate treasury core business (Piteco), while Myrios (finance and risk management solutions) and Juniper (digital payments) slowed down due to some new and existing contracts being delayed. The acquisition of EveryMake (during H1) has been integrated and RAD was acquired during H2 (with a further 10% bought in February 2021). The latter should find itself in the sweet spot over the next few years as unlikely to pay (UTP) management becomes increasingly regulated. We have updated our forecasts to incorporate the acquisition of RAD, which lifts our revenue and EBITDA forecasts materially.

Valuation: €13.0/share

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 (6.8% CAGR 2021–23e) to translate into solid earnings progression (normalised EPS CAGR of 11% 2021–23e). The 12.8x EV/EBITDA and 17.0x P/E for FY21 are at a discount to large international software providers. Our DCF-based valuation rises to €13.0/share (from €8.20 previously).

Software & comp services

31 March 2021

Price €10.65

Market cap €214m

Net debt (€m) FY20, excluding value of put options 40.3

Shares in issue 20.1m

Free float 27%

Code PITE

Primary exchange Borsa Italiana

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (2.7) 13.1 100.9

Rel (local) (9.8) 2.1 37.6

52-week high/low €12.00 €5.75

Business description

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

Next events

AGM 29 April 2021

H121 results 28 September 2021

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FY20 resilient despite the pandemic

During FY20 Piteco was the strongest performer within the Piteco Group. It generated revenue and EBITDA growth of 5%, as the business continued to deliver good growth and to benefit from recent acquisitions. While the COVID-19 pandemic slowed growth somewhat, we expect Piteco to return to its prior growth trajectory in FY21 if there are no further lockdowns in its main markets. Piteco continues to trade at a discount to Italian and international software players.

Piteco was the star performer

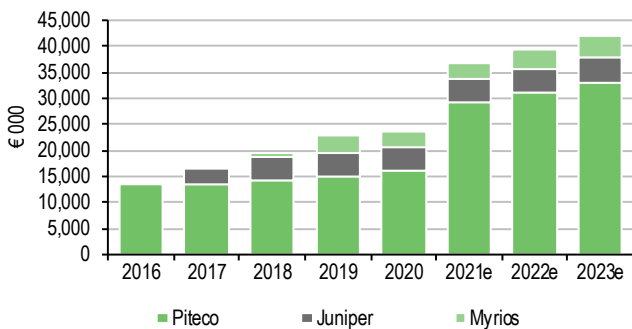
Piteco Group reported strong revenue and EBITDA growth during FY20. We provide more detail on the key takeaways from the results below. The COVID-19 pandemic temporarily slowed growth in the banking digital payments segment and, hence, Juniper, as customers postponed projects and hence there were fewer new customers. This business witnessed a revenue decline of 5% versus FY19. Myrios also witnessed a sector slowdown in the financial risk management segment, and hence its revenues were down 15% in FY20.

- Group revenues grew 3% y-o-y to €24.7m, with the growth principally stemming from subscription fees, which in H120 accounted for 64% of total revenues.
- EBITDA decline of 3% y-o-y to €9.9m.
- Pre-tax profit of €7.3m was up 97% y-o-y, (though included a €3m gain due to a revaluation in put option value), and net income of €7.1m was up 135% versus FY19.
- Net debt (excluding put options) was €40.3m at the end of FY20, from €14.6m at end FY19. The increase was due to the two acquisitions made during FY20, Everymake (€0.5m) and 70% of Rad Informatica (€34.8m). Including the value of put options, net debt was €65.0m.

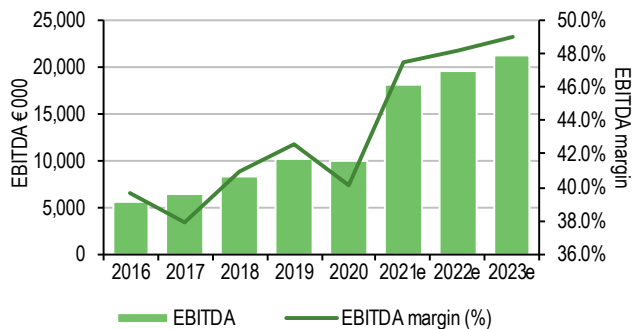
Piteco growth to continue, recovery expected in FY21

We update our forecasts for the acquisition of RAD. 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.

We expect robust group revenue growth (6.8% CAGR 2021–23e) to translate into solid earnings progression (normalised EPS CAGR of 11%). A favourable business mix should help drive long-term 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 in due course could strengthen the outlook. In the shorter term, we do not expect any significant acquisitions, as RAD is being integrated into the business.

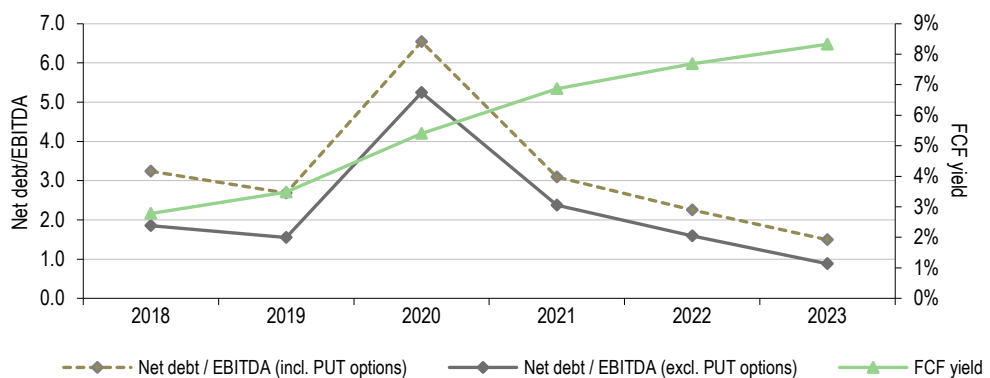
Exhibit 1: Revenue breakdown by business


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, EveryMake in March 2020 and RAD in October 2020). With good cash flow generation, leverage ratios should fall rather quickly, well below the covenant thresholds. We therefore do not expect the company to consider further acquisitions in the short term, but M&A could return to play a part by FY23.

Exhibit 3: Leverage and FCF yield


Source: Piteco data, Edison Investment Research

Forecasts

We raise our revenue and EBITDA forecasts to incorporate the acquisition of RAD. Although there remains uncertainty about any future lockdowns in Piteco's markets, the group 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 have been most affected by the restrictions, such as leisure and tourism.

We assume some growth in FY21, as restrictions are eased during H2. We illustrate the main changes to our forecasts below. We have incorporated the acquisition of RAD announced in October/November. As a reminder, RAD had pro-forma revenues of €10.3m and pro-forma EBITDA of €5.9m in the 12m to June 2020, hence its pro-forma EBITDA margins are higher than the rest of

the Piteco Group. RAD is market leader in software for the management of non-performing loans (NPL) and unlikely to pay (UTP). With greater regulation looming for the UTP segment, we believe software solutions for UTP customers are likely to experience strong growth over the next few years.

Exhibit 4: Forecast changes				
€000s		2021e	2022e	2023e
Net sales revenue	NEW	36,731	39,279	41,947
	OLD	27,247	29,078	30,940
	% change	35%	35%	36%
EBITDA	NEW	18,040	19,560	21,242
	OLD	12,177	13,179	14,250
	% change	48%	48%	49%
Operating profit (before amort. and exceptionals)	NEW	16,141	17,678	19,375
	OLD	10,272	11,330	12,457
	% change	57%	56%	56%
Net income	NEW	12,662	14,081	15,643
	OLD	8,255	9,252	10,313
	% change	53%	52%	52%

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 in the long term that could strengthen the growth outlook. The stock is trading on 12.8x EV/EBITDA and 17.0x P/E for FY21, at a discount to large international software peers, and smaller Italian software peers.

We update our DCF to reflect our new estimates, which incorporate RAD. Our DCF-based valuation rises to €13.0/share. This is based on a 5% CAGR for net revenues over 10 years, a long-term EBITDA margin of 50%, a WACC of 8% and a terminal growth rate of 2%.

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	€ 10.65	€ 216	6.3	5.9	12.8	11.8	17.0	15.3
Large global ERP/accounting software providers								
Microsoft	\$231.85	\$1,748,663	10.3	9.1	21.5	19.2	31.1	28.3
Oracle	\$70.55	\$203,433	5.9	5.7	11.6	11.3	15.8	14.6
SAP	\$103.56	\$127,745	5.0	4.8	15.3	14.7	21.8	20.5
Intuit	\$373.66	\$102,323	11.4	9.8	31.7	27.0	44.6	38.1
Workday	\$243.23	\$59,105	11.5	9.8	49.6	40.5	87.2	69.4
Sage	£606.20	£6,646	3.7	3.6	16.0	14.8	26.8	24.4
Xero	A\$126.53	A\$18,569	23.5	18.7	89.1	76.7	339.3	271.7
Median			10.3	9.1	21.5	19.2	31.1	28.3
Smaller software companies quoted in Italy								
TXT e-solutions	€ 7.58	€ 99	0.9	0.8	7.3	6.5	16.5	14.2
Wiit	€ 156.50	€ 417	6.8	6.3	18.1	15.7	43.4	32.8
Expert System	€ 2.96	€ 151	N/A	3.2	N/A	N/A	N/A	N/A
Tas Tecnologia Avanzata dei Sistemi	€ 1.75	€ 147	N/A	N/A	N/A	N/A	N/A	N/A
Reply	€ 107.30	€ 4,031	2.7	2.5	16.6	15.0	29.9	26.6
Sesa	€ 106.60	€ 1,658	0.8	0.7	13.3	11.2	30.2	24.7
IT Way	€ 0.89	€ 7	N/A	N/A	N/A	N/A	N/A	N/A
Exprivia	€ 0.83	€ 43	N/A	N/A	N/A	N/A	N/A	N/A
Techedge	€ 5.38	€ 139	N/A	N/A	N/A	N/A	N/A	N/A
Median			1.8	2.5	14.9	13.1	30.0	25.6

Source: Refinitiv, Edison Investment Research. Note: Priced at 30 March 2021.

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. 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	2018	2019	2020	2021e	2022e	2023e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT							
Revenue		20,214.0	24,038.6	24,719.5	37,965.8	40,589.2	43,334.6
Net sales revenue		19,374.0	22,773.6	23,545.5	36,730.6	39,279.5	41,947.2
Cost of Sales		534.0	1,119.0	791.0	646.9	680.9	716.0
Gross Profit		20,748.0	25,157.6	25,510.5	38,612.7	41,270.1	44,050.6
EBITDA		8,266.0	10,237.6	9,930.5	18,040.2	19,559.5	21,242.3
Normalised operating profit		6,471.0	7,301.6	6,377.5	16,140.9	17,678.0	19,375.5
Amortisation of acquired intangibles		(67.0)	0.0	0.0	0.0	0.0	0.0
Exceptionals		(5.0)	(47.0)	(64.0)	0.0	0.0	0.0
Share-based payments		0.0	0.0	0.0	0.0	0.0	0.0
Reported operating profit		6,399.0	7,254.6	6,313.5	16,140.9	17,678.0	19,375.5
Net Interest		(340.0)	(612.0)	(507.0)	(885.4)	(713.1)	(528.9)
Fair value adjustments		(327.0)	(270.0)	(1,584.0)	0.0	0.0	0.0
Profit Before Tax (norm)		6,131.0	6,689.6	5,870.5	15,255.4	16,964.9	18,846.6
Profit Before Tax (reported)		5,732.0	3,678.6	7,257.5	15,255.4	16,964.9	18,846.6
Reported tax		(467.0)	(662.0)	(157.0)	(2,593.4)	(2,884.0)	(3,203.9)
Profit After Tax (norm)		5,664.0	6,010.6	5,743.5	12,662.0	14,080.8	15,642.6
Profit After Tax (reported)		5,265.0	3,016.6	7,100.5	12,662.0	14,080.8	15,642.6
Net income (normalised)		5,664.0	6,010.6	5,743.5	12,662.0	14,080.8	15,642.6
Net income (reported)		5,265.0	3,016.6	7,100.5	12,662.0	14,080.8	15,642.6
Basic average number of shares outstanding (m)		18	18	19	20	20	20
EPS - basic normalised (€)		0.31	0.33	0.30	0.63	0.70	0.78
EPS - normalised fully diluted (c)		31.49	33.47	30.01	62.73	69.76	77.50
EPS - basic reported (€)		0.29	0.17	0.37	0.63	0.70	0.78
Dividend (c)		15.00	15.00	15.00	17.50	17.50	20.00
Revenue growth (%)		18.3	17.5	3.4	56.0	6.9	6.8
Gross Margin (%)		102.6	104.7	103.2	101.7	101.7	101.7
EBITDA Margin (%)		40.9	42.6	40.2	47.5	48.2	49.0
Normalised Operating Margin		32.0	30.4	25.8	42.5	43.6	44.7
BALANCE SHEET							
Fixed Assets		60,884.0	62,088.0	125,270.0	122,611.3	119,918.0	117,184.5
Intangible Assets		58,301.0	56,900.0	120,518.0	120,118.6	119,637.1	119,070.3
Tangible Assets		2,098.0	4,015.0	3,931.0	1,671.7	(540.1)	(2,706.8)
Investments & other		485.0	1,173.0	821.0	821.0	821.0	821.0
Current Assets		11,171.0	10,742.0	19,428.0	30,090.3	43,283.6	59,185.9
Stocks		0.0	0.0	0.0	0.0	0.0	0.0
Debtors		4,808.0	6,475.0	6,951.0	8,352.5	8,929.6	9,533.6
Cash & cash equivalents		5,834.0	3,754.0	11,825.0	21,085.8	32,696.6	45,077.3
Other		529.0	513.0	652.0	652.0	1,657.4	4,574.9
Current Liabilities		(10,439.0)	(16,044.0)	(18,847.0)	(13,562.2)	(12,134.5)	(12,298.3)
Creditors		(972.0)	(927.0)	(2,329.0)	(2,077.0)	(2,220.5)	(2,370.7)
Tax and social security		(3,388.0)	(5,381.0)	(6,804.0)	(1,771.2)	(200.0)	(213.6)
Short term borrowings		(6,079.0)	(9,736.0)	(9,714.0)	(9,714.0)	(9,714.0)	(9,714.0)
Long Term Liabilities		(30,480.0)	(25,367.0)	(81,852.0)	(81,852.0)	(81,852.0)	(81,852.0)
Long term borrowings		(26,549.0)	(21,476.0)	(67,083.0)	(67,083.0)	(67,083.0)	(67,083.0)
Other long term liabilities		(3,931.0)	(3,891.0)	(14,769.0)	(14,769.0)	(14,769.0)	(14,769.0)
Net Assets		31,136.0	31,419.0	43,999.0	57,287.3	69,215.1	82,220.1
Shareholders' equity		31,136.0	31,419.0	43,999.0	57,287.3	69,215.1	82,220.1
CASH FLOW							
Op Cash Flow before WC and tax		8,266.0	10,237.6	9,930.5	18,040.2	19,559.5	21,242.3
Working capital		(93.0)	(887.0)	4,127.0	(1,149.5)	(720.7)	(754.2)
Exceptional & other		(1,286.0)	(1,758.0)	(2,237.0)	0.0	0.0	0.0
Tax		(648.0)	(336.0)	(935.0)	(2,593.4)	(2,884.0)	(3,203.9)
Net operating cash flow		6,239.0	7,256.6	10,885.5	14,297.3	15,954.8	17,284.2
Capex		(758.4)	(396.0)	(247.2)	(759.3)	(811.8)	(866.7)
Acquisitions/disposals		3.0	262.0	(35,000.0)	0.0	0.0	0.0
Equity financing		0.0	0.0	0.0	0.0	0.0	0.0
Dividends		(2,698.0)	(2,688.0)	(2,871.2)	(3,532.2)	(3,532.2)	(4,036.8)
Other		(2,366.6)	(7,172.0)	35,478.2	0.0	0.0	0.0
Net Cash Flow		419.0	(2,737.4)	8,245.3	10,005.8	11,610.8	12,380.7
Opening net debt/(cash)		6,497.1	26,794.1	27,458.0	64,972.2	55,711.4	44,100.6
FX		(1.0)	0.4	(0.5)	0.0	0.0	0.0
Other non-cash movements		(20,715.0)	2,073.0	(45,759.0)	(745.0)	0.0	0.0
Closing net debt/(cash)		26,794.1	27,458.0	64,972.2	55,711.4	44,100.6	31,719.9

Source: Edison Investment Research, company data

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