

FOS

BUY

Price (Eu):

2.62

Target Price (Eu):

4.10

SECTOR: Industrials

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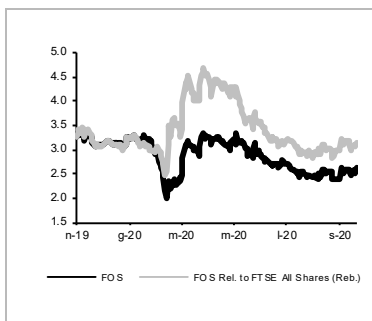
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Leveraging On Broad Digital Expertise

- **An innovative Italian company operating in the digital services arena.** Founded in 1999, FOS is an innovative Italian company operating in the digital services arena, primarily dealing with the design, development and commercialisation of digital solutions for the management and protection of data. The Group stands out from the field thanks to the scientific know-how of its technical personnel, who can draw on solid experience gained in the design and realisation of software in order to offer clients innovative solutions: these combine technologies from the best players on the market in order to build a portfolio of solutions, exploiting the complete service lifecycle (network integration and application development). Bearing in mind the nature of the work, the skills built up by Group technical personnel are its most important asset.
- **A profitable and scalable business.** The group is focused on pursuing a business strategy aimed at generating a scalable and profitable model. On the one hand, the company focuses its offering on responding to demand "on the ground", staying in close touch with locally-specific requirements, while on the other, it seeks to replicate the model in specific innovative sectors. The mix of market-oriented commercial activity and innovation propelled by new demands enables the company to maintain the added value of its offering at a high level. Innovation encompasses the consolidation of alliances with global big tech firms capable of providing technologies for which the Group supplies recurring services: these are enjoying a steep rise in demand due to growing reliance on digital platforms and infrastructure. Furthermore, thanks to its solid financial position, the company will be in a position to pursue external growth opportunities in Italy and further afield.
- **Likely material growth of turnover and EBITDA in coming years given underlying digital market trends.** We estimate a 12.3% revenue CAGR at Group level for the 2019-23 period, entirely organic, and which incorporates the benefit that could come from marketing new products developed at the Engineering division: commercialisation could start as early as 2021 (Microcosmo). Profit-wise, for 2019-2023 we estimate a 14.8% CAGR for adj. EBITDA, with the EBITDA margin expanding from 19.7% in 2019 to 21.5% in 2023 thanks to: 1) lower incidence of raw materials (Communication Technology business); 2) personnel costs increasing less than revenues thanks to rising productivity, which is partly due to the shift from "on-premises" to remote working ; 3) a better product mix. At the bottom line, we forecast net profit growth from Eu0.7mn in 2019 to Eu2.0mn in 2023, a 28.0% CAGR.
- **We initiate coverage with a BUY rating; target Eu4.1.** We consider an investment in FOS to be attractive as the company's unique offering in a rapidly growing sector such as digital sets it apart from other operators. The company boasts solid and lasting relationships with its main customers and a deep-rooted presence in the territories in which it operates, key factors that define group competitive positioning also in regards to larger global rivals. From a financial point of view, we appreciate the group's high profitability and balance sheet solidity, which will allow FOS to continue to invest in R&D and pursue any external growth opportunities that may arise. We initiate coverage on FOS with a target price of Eu4.1, which offers considerable upside of 56% and therefore demands a BUY rating.

Key Figures	2018A	2019A	2020E	2021E	2022E
Sales (Eu mn)	10	12	13	15	17
Ebitda (Eu mn)	2	2	2	3	4
Net profit (Eu mn)	0	1	1	1	2
EPS - New Adj.(Eu)	0.087	0.138	0.167	0.211	0.251
EPS - Old Adj.(Eu)					
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
Ratios & Multiples	2018A	2019A	2020E	2021E	2022E
P/E Adj.	30.3	19.0	15.7	12.4	10.5
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Ebitda Adj.	10.4	6.5	5.6	4.6	3.6
ROCE	29.3%	20.5%	19.5%	27.6%	32.1%

FOS - 12m Performance



RATING: New Coverage

TARGET PRICE (Eu): New Coverage

Ch. in Adj.EPS est: 2020E 2021E

STOCK DATA

Reuters code: FOS.MI
Bloomberg code: FOS IM

Performance	1m	3m	12m
Absolute	3.6%	-3.1%	--
Relative	4.4%	-2.2%	--
12 months H/L:	3.39/2.00		

SHAREHOLDER DATA

No. of Ord. shares (mn):	6
Total No. of shares (mn):	6
Mkt Cap Ord (Eu mn):	16
Total Mkt Cap (Eu mn):	16
Mkt Float - ord (Eu mn):	6
Mkt Float (in %):	35.7%
Main shareholder:	
BP Holding Srl	64.3%

BALANCE SHEET DATA

	2020
Book value (Eu mn):	8
BVPS (Eu):	1.34
P/BV:	2.0
Net Financial Position (Eu mn):	1
Enterprise value (Eu mn):	15

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FOS - KEY FIGURES

		2018A	2019A	2020E	2021E	2022E
	Fiscal year end	12/12/2018	12/12/2019	12/12/2020	12/12/2021	12/12/2022
PROFIT & LOSS (Eu mn)	Sales	10	12	13	15	17
	EBITDA	2	2	2	3	4
	EBIT	1	1	1	2	2
	Financial income (charges)	(0)	(0)	(0)	(0)	(0)
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	1	1	1	2	2
	Taxes	(0)	(0)	(0)	(1)	(1)
	Tax rate (%)	42.4%	32.0%	32.0%	32.0%	35.0%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	0	1	1	1	2
	Total extraordinary items	(0)	(0)	(0)	0	0
	Ebitda excl. extraordinary items	2	2	3	3	4
PER SHARE DATA (Eu)	Ebit excl. extraordinary items	1	1	2	2	2
	Net profit restated	1	1	1	1	2
	Total shares out (mn) - average fd	6	6	6	6	6
	EPS stated fd	0.071	0.114	0.134	0.211	0.251
	EPS restated fd	0.087	0.138	0.167	0.211	0.251
	BVPS fd	0.288	1.206	1.340	1.551	1.801
	Dividend per share (ord)	0.000	0.000	0.000	0.000	0.000
CASH FLOW (Eu mn)	Dividend per share (sav)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
	Gross cash flow	2	1	2	2	3
	Change in NWC	(1)	(0)	(0)	(1)	(0)
	Capital expenditure	(3)	(2)	(1)	(1)	(1)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	(2)	(1)	1	1	1
	Acquisitions, divestments & others	(0)	0	0	0	0
BALANCE SHEET (Eu mn)	Dividend	0	0	0	0	0
	Equity financing/Buy-back	(0)	5	0	0	0
	Change in Net Financial Position	(3)	4	1	1	1
	Total fixed assets	4	5	5	5	5
	Net working capital	2	2	2	3	3
	Long term liabilities	(1)	(1)	(1)	(1)	(1)
	Net capital employed	5	7	7	8	8
	Net financial position	(3)	1	1	2	3
ENTERPRISE VALUE (Eu mn)	Group equity	2	8	8	10	11
	Minorities	0	0	0	0	0
	Net equity	2	8	8	10	11
	Average mkt cap - current	16	16	16	16	16
RATIOS(%)	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(3)	1	1	2	3
	Enterprise value	19	16	15	14	13
	EBITDA margin*	19.1%	19.7%	20.1%	20.3%	20.9%
GROWTH RATES (%)	EBIT margin*	12.0%	11.7%	12.3%	13.1%	14.2%
	Gearing - Debt/equity	170.4%	-8.5%	-15.3%	-22.1%	-30.2%
	Interest cover on EBIT	4.4	7.6	9.2	14.9	21.7
	Debt/Ebitda	1.80	nm	nm	nm	nm
	ROCE*	29.3%	20.5%	19.5%	27.6%	32.1%
	ROE*	26.7%	15.3%	10.6%	14.6%	15.0%
	EV/CE	5.7	2.7	2.2	1.9	1.7
	EV/Sales	2.0	1.3	1.1	0.9	0.7
	EV/Ebit	16.6	11.0	9.1	7.1	5.2
	Free Cash Flow Yield	-13.9%	-8.3%	3.9%	5.3%	7.7%
	Sales	9.5%	25.5%	10.2%	14.3%	12.5%
GROWTH RATES (%)	EBITDA*	11.3%	29.5%	12.5%	14.9%	16.1%
	EBIT*	10.0%	22.2%	16.5%	21.3%	22.5%
	Net profit	-6.8%	60.2%	17.6%	56.7%	19.1%
	EPS restated	-21.0%	59.7%	21.0%	25.9%	19.1%

* Excluding extraordinary items

Source: Intermonte SIM estimates

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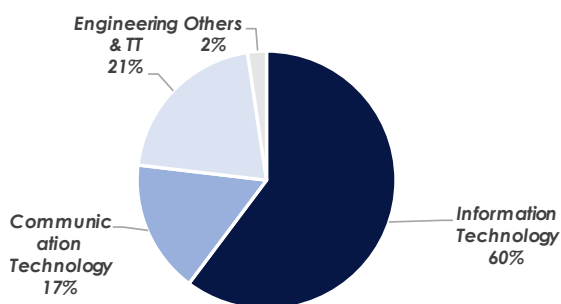
Executive summary

An innovative Italian company operating in the digital services arena

The company at a glance.

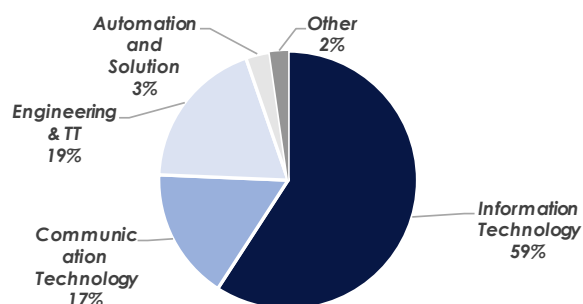
Founded in 1999, FOS is an innovative Italian company operating in the digital services arena, primarily dealing with the design, development and commercialisation of digital solutions for the management and protection of data. The Group stands out from the field thanks to the scientific know-how of its technical personnel, who can draw on solid experience gained in the design and realisation of software in order to offer clients innovative solutions: these combine technologies from the best players on the market in order to build a portfolio of solutions, exploiting the complete service lifecycle (network integration and application development). Bearing in mind the nature of the work, the skills built up by Group technical personnel are its most important asset.

Value of Production Breakdown 2019



Source: company data

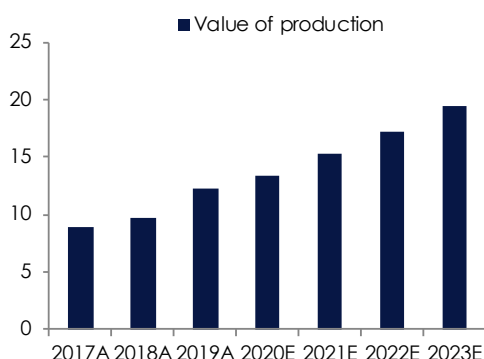
Value of Production Breakdown 1H20



Source: company data

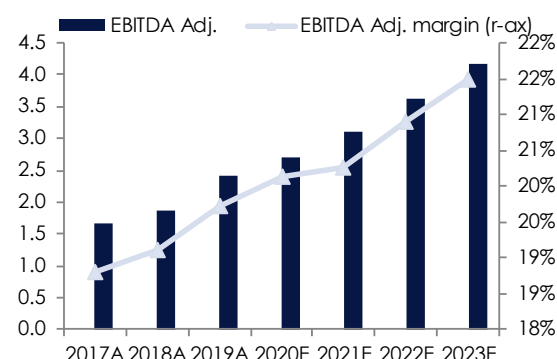
In 2019, the company recorded value of production of Eu12.2mn and adj. EBITDA of Eu2.4mn, both increasing strongly on previous years, as the company was able to ride the wave of digital investments in the Italian market (almost 100% of turnover is registered in the country). In the past three years, the company's three established businesses contributed positively to the performance of the Group; starting from 2020, the fourth business, Automation and Solutions, is expected to contribute as well.

Value of production trends (2017A-23E)



Source: company data

EBITDA adjusted trends (2017A-2023E)



Source: company data

A profitable and scalable business. The group is focused on pursuing a business strategy aimed at generating a scalable and profitable model. On the one hand, the company focuses its offering on responding to demand "on the ground", staying in close touch with locally-specific requirements, while on the other, it seeks to replicate the model in specific innovative sectors. The mix of market-oriented commercial activity and innovation propelled by new demands enables the company to maintain the added value of its offering at a high level. Innovation encompasses the consolidation of alliances with global big tech firms capable of providing technologies for which the Group supplies recurring services: these are enjoying a steep rise in demand due to growing reliance on digital platforms and

infrastructure. Furthermore, thanks to its solid financial position, the company will be in a position to pursue external growth opportunities in Italy and further afield.

Likely material growth of turnover and EBITDA in coming years given underlying digital market trends.

We estimate a 12.3% revenue CAGR at Group level for the 2019-23 period, entirely organic, and which incorporates the benefit that could come from marketing new products developed at the Engineering division: commercialisation could start as early as 2021 (Microcosmo). Profit-wise, for 2019-2023 we estimate a 14.8% CAGR for adj. EBITDA, with the EBITDA margin expanding from 19.7% in 2019 to 21.5% in 2023 thanks to: 1) lower incidence of raw materials (Communication Technology business); 2) personnel costs increasing less than revenues thanks to rising productivity, which is partly due to the shift from "on-premises" to remote working ; 3) a better product mix. At the bottom line, we forecast net profit growth from Eu0.7mn in 2019 to Eu2.0mn in 2023, a 28.0% CAGR.

FOS – Key Financial Highlights

(Eu mn)	2017A	2018A	2019A	2020E	2021E	2022E	2023E
Value of production	8.9	9.7	12.2	13.4	15.4	17.3	19.4
YoY growth		9.5%	25.5%	10.2%	14.3%	12.5%	12.3%
EBITDA Adj.	1.7	1.9	2.4	2.7	3.1	3.6	4.2
EBITDA Adj. margin	18.8%	19.1%	19.7%	20.1%	20.3%	20.9%	21.5%
Net Income	0.5	0.4	0.7	0.8	1.3	1.6	1.9
Net Debt (Cash) at year end	0.4	3.1	(0.6)	(1.3)	(2.1)	(3.4)	(4.9)
Net Debt (Cash)/EBITDA	0.3 x	1.6 x	-0.3 x	-0.5 x	-0.7 x	-0.9 x	-1.2 x

Source: Intermonte SIM (E) and company data (A)

We initiate coverage with a BUY rating; target Eu4.1.

FOS implied valuation @ current prices

	2019 A	2020 E	2021 E	2022 E	2023 E
PE	19.0x	15.7x	12.4x	10.5x	8.5x
PE ex-cash	18.2x	14.4x	10.8x	8.3x	6.0x
EV/SALES	1.3x	1.1x	0.9x	0.7x	0.6x
EV/EBITDA	6.5x	5.6x	4.6x	3.6x	2.7x
EV/EBIT	11.0x	9.1x	7.1x	5.2x	3.8x

Source: Intermonte SIM and FactSet

FOS implied valuation @ our target price

	2019 A	2020 E	2021 E	2022 E	2023 E
PE	37.2x	30.7x	24.4x	20.5x	16.7x
PE ex-cash	31.5x	25.4x	19.5x	15.6x	11.9x
EV/SALES	2.2x	2.0x	1.7x	1.4x	1.2x
EV/EBITDA	11.3x	9.8x	8.2x	6.7x	5.5x
EV/EBIT	19.1x	16.0x	12.7x	9.9x	7.7x

Source: Intermonte SIM estimates. Multiples assume a fully exercise of warrants and the relative cash-in

Company description

The company at a glance

Founded in 1999, the Group deals primarily with the design, development and commercialisation of digital solutions for the management and protection of data. These solutions integrate software, hardware devices, and network infrastructure.

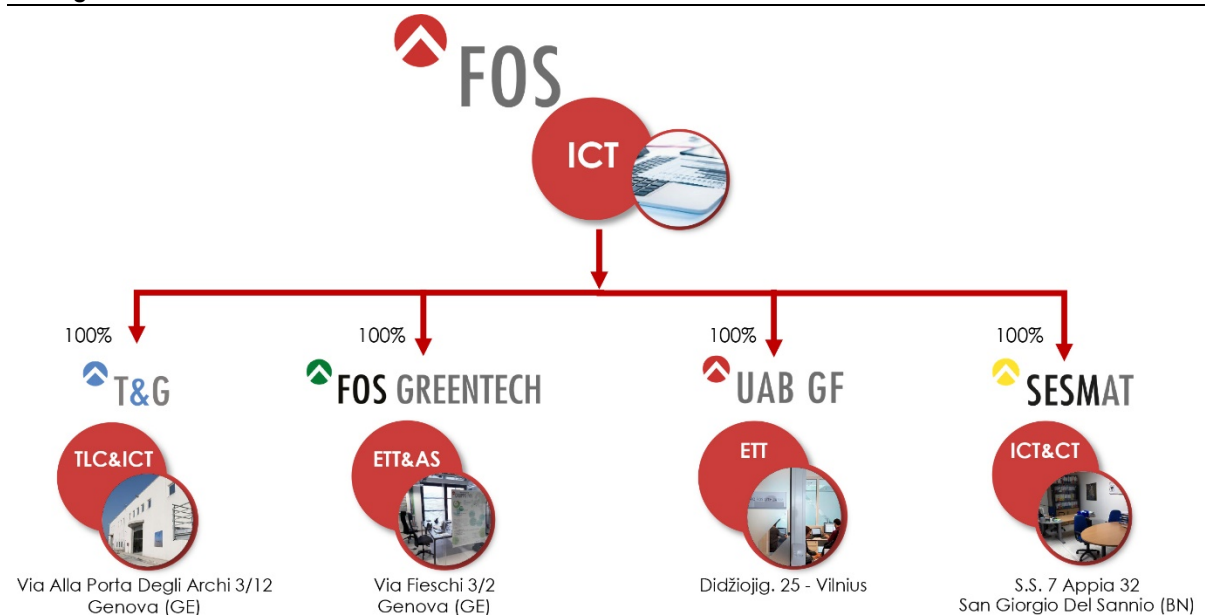
The Group also builds complete IT systems, automation systems and related supporting technological plant, as well as managing these systems or outsourcing their management. The Group's activities also encompass call centres, or centres for marketing, sales, or customer support and / or technical and system support.

The Group stands out from the field thanks to the scientific know-how of its technical personnel, who can draw on solid experience gained in the design and realisation of software in order to offer clients innovative solutions: these combine technologies from the best players on the market in order to build a portfolio of solutions, exploiting the complete service lifecycle (network integration and applications development). Bearing in mind the nature of the work, the skills built up by Group technical personnel are its most important asset. The company boasts a motivated and highly qualified team of IT engineers, developers and technicians, as well as the multi-year experience of its founders.

The Group operates in three areas:

1. **Information Technology:** the Group is specialised in the design and development of IT solutions and offers a range of services focused on: i) development and maintenance of IT applications; ii) technological skills; iii) cybersecurity; iv) cloud computing; v) systems services and support.
2. **Communication Technology:** the Group offers a highly specialised circuit board repair and replacement service for the main national and international telecoms operators. The Group boasts engineering skills in the automated design and maintenance of circuit board hardware, and of firmware writing for micro-controllers.
3. **Engineering and Technology Transfer:** this activity is split into 3 sub-categories: engineering, technological transfer, and networked laboratories (Internet of Things - IoT). The main focus is on the development, prototyping, testing and scaling for industrial production of innovative and highly technologically advanced solutions in various application fields such as agriculture, the environment, health, energy and manufacturing, with the aim of providing innovative solutions to client firms in their core markets.
4. **Automation and Solutions:** a recent addition that focuses on supervision/remote monitoring and process automation services in order to provide, through close collaboration with the current technological leaders on the market, innovative solutions for running and managing plants.

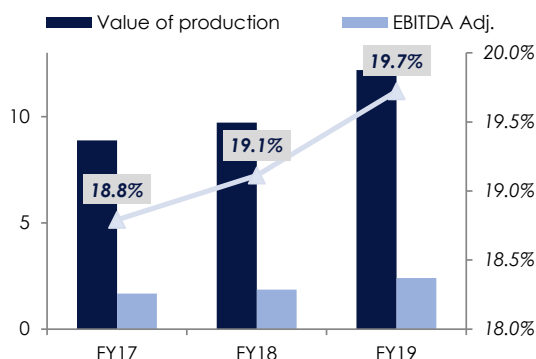
FOS organisational model



Source: Company website

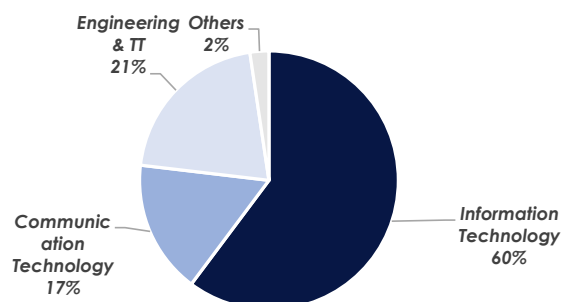
In 2019, the company recorded production value of Eu12.2mn, a 25.5% increase on the previous year that also enabled it to increase its EBITDA margin from 19.1% to 19.7% in one year. Due to the sustained organic growth and new projects launched, the total headcount has increased considerably, with the number of employees rising from 127 in 2018 to 152 in 2019.

Value of production trends (2017A-19A)



Source: company data

Value of production breakdown by business (2019)

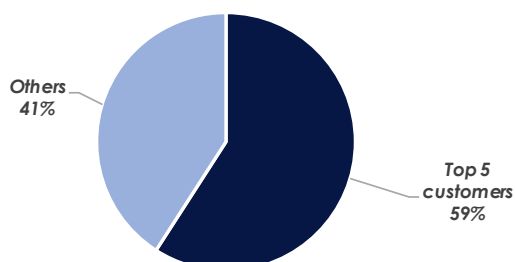


Source: company data

A concentrated but very loyal client base

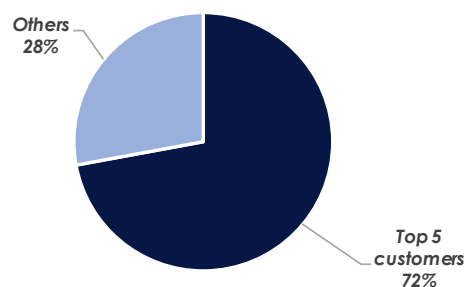
While FOS Group's clientele is still quite concentrated (the top 5 clients in 2019 accounted for 59.1% of turnover), the company has successfully reduced the weight of the top 5 clients in just 12 months, given that only a year ago the top 5 accounted for 72.1% of turnover. While high concentration of the client base is clearly a risk, we highlight the solid, long-standing relationships with the main clients (e.g. the relationship with Leonardo, the first significant client, dates back to 2000), and the fact that 75% of ICT services are supplied on a recurring basis, a percentage that rises to 93% in TLC.

Top 5 clients accounting for 59.1% of turnover in 2019...



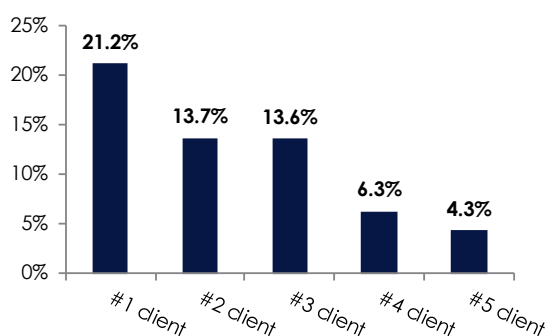
Source: company data

...a strong reduction vs 2018



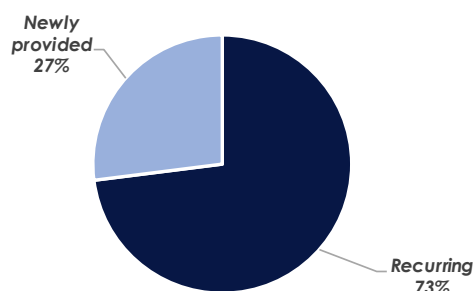
Source: company data

Top 5 clients on Value of Production (2019)



Source: company data

Services breakdown (2019)



Source: company data

FOS is headquartered at Genoa, and has offices at Caserta, Benevento, and Bolzano. The Group also has a subsidiary with labs and commercial offices in Lithuania as well as commercial representation in Belgium, Romania and Bulgaria as shown below.

FOS – Headquarter and geographical presence

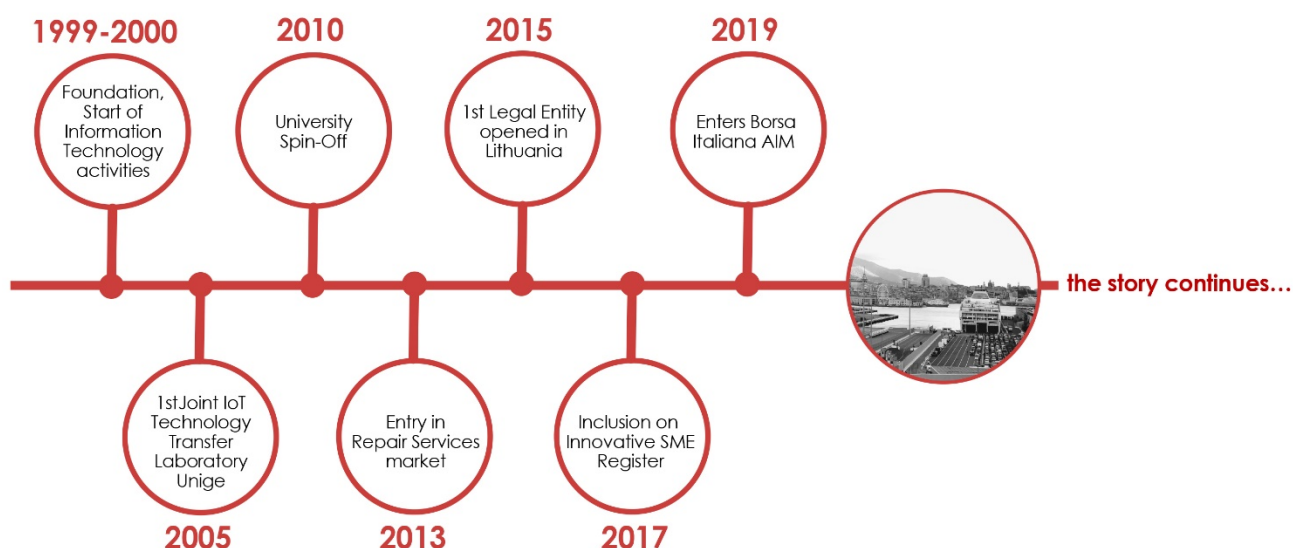


Source: Company data

History

- **1999-2000:** company founded in 1999 by Gian Matteo Pedrelli (20%) and Sesmat (80%), and focused from the outset on the IT sector, where the founding shareholders had gained several years' experience. In 2000, the issuer won its first commercial contract from Finmeccanica (now Leonardo) for a postal automation project.
- **2003:** acquisition of Technology & Groupware S.r.l. (T&G), active in on-site outsourcing services for Finmeccanica S.p.A. and also active today in the telecoms sector.
- **2005:** founding of FOS Greentech to channel resources and investments into new university spin-offs/start-ups in the IT convergence and telecoms sectors. The same year saw the founding by the Issuer together with the University of Genoa of the first joint laboratory, called Wise.
- **2014:** first Group contract from Huawei for a multi-vendor upgrade project on boards for telephone exchanges as part of upgrading to IP architecture, together with decommissioning of exchanges.
- **2015:** Fos sets up its first subsidiary outside Italy, UAB Gruppo FOS Lithuania, in order to grow the Group's international activities through collaboration with important local universities (e.g. Kaunas University of Technology) and establish a permanent commercial presence in the country's capital, Vilnius.
- **2016:** the Group's first industrial patent, regarding the "Microcosm for breeding plants under biotic and abiotic conditioning" developed jointly with Italian public research body ENEA.
- **2017:** acquisition by the Issuer of Sesmat, through which it entered the IT infrastructure support and maintenance services market for leading national and international telecoms operators. On 12th June 2017, the Issuer was recognised as an Innovative SME, and listed as such at the company registrar.
- **2018-2019:** Management buyout and subsequent listing on the AIM Italia market.

FOS corporate history

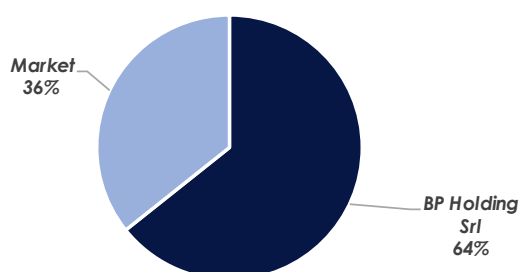


Source: Company Website

Shareholding

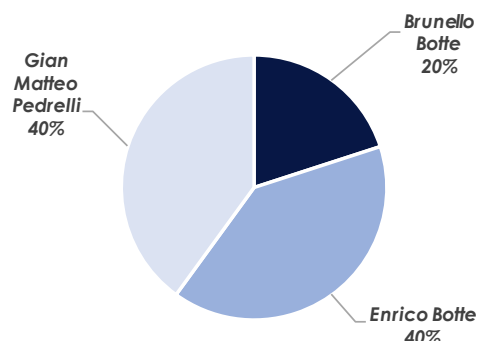
Ordinary shares in FOS were listed for trading on AIM Italia, the Italian Stock Exchange's alternative investment market, on 26th November 2019. The share capital currently consists of 6,221,500 ordinary shares, 64.3% of which are owned by BP Holding, which in turn is owned by the company founders (20% Brunello Botte, 40% Gian Matteo Pedrelli and 40% Enrico Botte), while the remaining 35.7% is traded on the market. At the time of the IPO, the main shareholder subscribed a lock-up agreement valid for 18 months from the first day of listing.

FOS – Shareholding Structure



Source: 2019 Annual Report

BP Holding – Shareholding Structure



Source: 2019 Annual Report

Moreover, at the time of the listing, warrants were assigned to shareholders at a ratio of 1 warrant for every 4 shares owned. Warrant holders have the right to subscribe 1 share for every warrant owned at a price equal to the IPO price plus a 10% premium on an annual basis in the following windows:

FOS warrants

Exercise period	Exercise price
from 01/09/2020 to 30/09/2020	IPO price increased by 10% = Eu2.475
from 01/09/2021 to 30/09/2021	Exercise price period 1 increased by 10% = Eu2.723
from 01/09/2022 to 30/09/2022	Exercise price period 2 increased by 10% = Eu2.995

Source: Company data

Management team








Brunello Botte, Chairman of the Board of Directors: born at Vitulano (BN) on 3rd July 1945, he graduated in Electrical Engineering at University of Naples Federico II in 1969. His professional career began in 1970 as a production engineer at Italtel S.p.A. (production of telecoms equipment). From 1978 to 1990, he was managing director of Italdia S.p.A. at Avellino. From 1991 to 1997, he was group vice president of Eltag Bailey and vice president of S. Giorgio System Technology in Genoa (automation). In 1998, he became M&A manager of Siemens S.p.A. and managing director of Siemens FM in Milan (automation sector). In 2001, he became commercial purchasing manager, wireline for Telecom Italia in Rome (telecom services). From 2003 to 2007, he held various posts in Rome: at Enel S.p.A., as director of the smart metering division, and chairman of Enel-si and Enel Romania (all active in energy services). In 2008, he became chairman of Energetica Solare in Naples (engineering design and execution of renewable energy solutions). The same year, he became chairman of FOS S.p.A., a post he continues to hold today.

Gian Matteo Pedrelli, Vice-Chairman & CEO: born in Genoa on 21st November 1967, he graduated in Economy and Business at the University of Genoa in 1993. Prior to that, from 1991 to 1992 he worked at the export management division of Siccma France S.A. at Saint-Étienne. From 1992 to 1995, he was an area manager for Sonoko S.C.R.L. of Bologna (consumer electronics and home appliances) with direct management of large retailers, purchasing groups for major retail chains, and the agent network for traditional distribution. From 1995 to 1996, he worked as a consultant for Vassiliak S.A. of Athens for the development of a JV project and for Pieffe S.r.l. of Rimini for the development of an innovative venture capital product in the domestic appliance sector. From 1996 to 1998, he was assistant project manager at Eltag Bailey Finmeccanica at Genoa for the development of postal facilities in Chile and South Korea. In 1997, he took part in the SDA Bocconi course in key account management and trade marketing. In 1998, he became one of the founding shareholders of FOS Group, in which he is now vice-chairman and CEO.

Enrico Botte, CEO: born in Naples on 6th February 1976. Following a degree in Humanities from the University of Genoa in 2001, he graduated from the first Italian online master's in Net Business Administration at Milan Polytechnic University in 2002. Active in the Genoa branch of Confindustria, he is currently vice-president of the IT Section. He was president of the Genoa Young Entrepreneurs Section in Confindustria from 2015 and 2018, and vice-president of the Small Industry Committee, acting vice-president of the Regional Committee of Young Entrepreneurs Sections, delegate to the Innovation Hub project, advisor to the IT Section, the Robotics Hub, Assinform (National IT Companies Association), and a committee member of project incubator GHT. He is currently a member of the Unicredit Advisory Board North West. Among the founders in 1998, Enrico Botte is today CEO of FOS Group.

At the time of this report no stock option plan exists.

Fos – Management team

			
Brunello Botte	Gian Matteo Pedrelli	Enrico Botte	
Presidente	Vice Presidente & CEO	CEO	
			
Matteo D'Amico	Giorgio Allasia	Marco Signoretti	Mauro Montanaro
Chief Operating Officer	Chief Operating Officer	Chief Operating Officer	Chief Operating Officer

Source: Company website

Group Business

the Group deals primarily with the design, development and commercialisation of digital solutions for the management and protection of data. These solutions integrate software, hardware devices, and network infrastructure.

The Group also builds complete IT systems, automation systems and related supporting technological plant, as well as managing these systems or outsourcing their management. The Group's activities also encompass call centres, or centres for marketing, sales, or customer support and / or technical and system support.

The Group stands out from the field thanks to the scientific know-how of its technical personnel, who can draw on solid experience gained in the design and realisation of software in order to offer clients innovative solutions: these combine technologies from the best players on the market to build a portfolio of solutions, exploiting the complete service lifecycle (network integration and applications development). Bearing in the mind the nature of the work, the skills built up by group technical personnel are its most important asset. The company boasts a motivated and highly qualified team of IT engineers, developers and technicians, as well as the multi-year experience of its founders.

The group operates in the following four areas:

1. **Information Technology:** the Group is specialised in the design and development of IT solutions and offers a range of services focused on: i) development and maintenance of IT applications; ii) technological skills; iii) cybersecurity; iv) cloud computing; v) systems services and support. This area represents the Group's main source of orders and is therefore the key area of the business for revenue generation. In 2019, production value for this area was c. Eu7.3mn (+23.9% YoY).
2. **Communication Technology:** the Group offers a highly specialised circuit board repair and replacement service for the main national and international telecoms operators. The Group boasts engineering skills in the automated design and maintenance of circuit board hardware, and of firmware writing for micro-controllers. In particular, T&G, the Group company active in the management and provision of telco services, is a golden partner of Huawei Technologies for the repair of electronic devices, and can point to know-how and collaborations with all the main vendors such as Ericsson, Alcatel, Siemens, Marconi and Nokia.
3. **Engineering and Technology Transfer:** this activity is split into 3 sub-categories: engineering, technological transfer, and networked laboratories (Internet of Things - IoT). The main focus is the development, prototyping, testing and scaling for industrial production of innovative and highly technologically advanced solutions in various fields of application such as agriculture, the environment, health, energy and manufacturing, with the aim of providing innovative solutions to client firms in their core markets. In order to carry out projects with highly technological and innovative content, for which R&D is mainly financed by public-sector bodies such as central government, the regions, provinces and universities, the Group relies on collaboration accords with university and public-sector research centres. These involve the setting-up and activation of so-called Joint Laboratories or Research Centres, where a plurality of skills and human and financial resources are brought together for the purpose of transferring technology to the market, as well as developing and generating economic value from the results of scientific and technological research. Engineering is the Group's least developed area in terms of order intake and revenue generation, even though the intellectual property and registered patents from this area offer the greatest potential for the Group to tackle the market for innovation, which is undergoing continual development.
4. **Automation and Solution:** FOS has recently decided to widen its range of services by opening a new business line dedicated to the world of automation. A new team of professionals has been put together with expertise in automation, especially human-machine interfaces / supervisory control and data acquisition (HMI / SCADA). The business provides supervision/remote monitoring and process automation services in order to offer, through close collaboration with the current technological leaders on the market, innovative solutions for running and managing plants.

Business Model

The Group business model, which is scalable and profitable, aims to offer the market and clients a Data Partner capable of acting as a Digital Enabler for the transformation of company processes. The company deploys its offering on the market via four revenue lines: Information Technology, Communication Technology, Engineering and Technology Transfer, and Automation and Solutions. These revenue lines make it possible to reach out to clients with digital transformation and data management needs, taking advantage of multiple opportunities:

- Digital Transformation: client requirements related to more consolidated sectors of Information Technology (HW, SW, IT Services, Engineering, Telecommunications (vendor repairs) and Automation (SCADA);
- Technological Convergence: "integrated" requirements related to digital solutions that involve convergence between IT and Telecoms, areas in which company is completely at home and thus able to offer one-stop shop support for transformation of the TLC sector as well as the convergence taking place with IT services;
- Digital Enabler: requirements related to innovative solutions on the emerging technologies market, in particular Cloud and High Performance Computing, Internet of Things, and Artificial Intelligence;
- Innovation: disruptive demands with solutions that are not yet available on the market (patents, innovations).

The synergies developed amongst the revenue lines (know-how, equipment and processes), the diversification of the business sectors, and the Group's significant capacity for R&D provide a competitive advantage in qualitative (innovative offering) and quantitative (high profitability) terms to face the challenges of IT/TLC convergence and digital transformation in future technological scenarios. The Group mainly provides recurring services billed monthly and paid on average 130 days from the invoicing date. Solutions and products are invoiced in their entirety on receipt of the order; settlement usually involves a down payment followed by the balance paid in one of two ways: i) on delivery or ii) based on works progress (the latter mode also used for payment of projects).

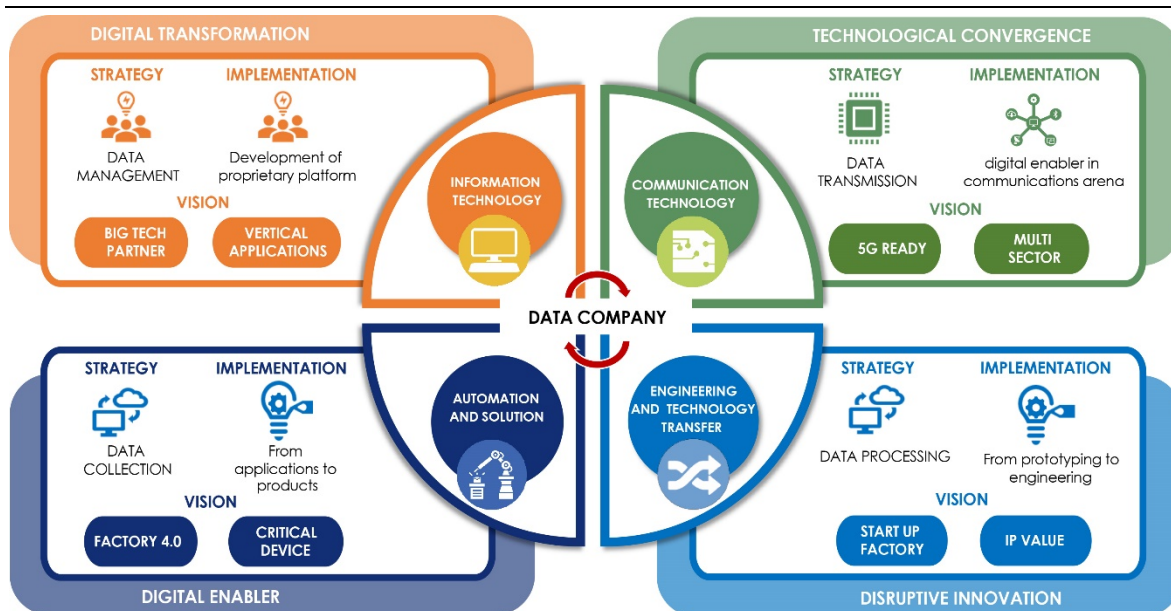
Commercial development at the Group is based on direct selling by directors and senior managers, and indirectly through partnerships with technological vendors.

Direct commercial activity is aimed at generating business opportunities from visits to clients and participation at fairs / events, where collaborations with clients are initiated. Subsequently, line and account managers undertake in-depth analysis of the proposal made to the client for the purpose of broadening the supply of services and solutions to the client.

Indirect commercial activity involves the generation of business opportunities that flow from vendors to clients. The Group provides post-supply support on technological solutions provided by vendors to their own clients, thus entering into direct contact with the client. As of today, the company has partnerships with vendors that have been active on the market for many years (e.g. IBM, Microsoft, amongst others) as well as innovative firms on the Italian market (such as Nutanix, Cohesity, etc.).

Commercial activity also involves participation in tenders, which may be private or comparable, in terms of regulations and conditions, to public tenders.

FOS – Business model



Source: Company presentation

Information Technology

Main services offered

The main ICT services offered by the group are:

- I. Development and maintenance of IT applications, consisting mainly in implementation of management processes, and resolving related operational and technical problems, support, supervision, and monitoring of IT application systems. The Group also provides business continuity and disaster recovery services, i.e. restoration of systems following disasters, hardware/software failure, or human error.
- II. Software configuration management, software languages and databases, design and development of software systems and database management.
- III. Cyber Security: starting from core international frameworks, the Group is able to offer complete solutions in this area.
- IV. Cloud Computing
- V. System services and support: solutions, support services and hardware maintenance for infrastructure and equipment, including those of a certain level of complexity.

The aforementioned services are provided individually, on client request, or as part of larger, more structured projects involving other activities and which can be sub-divided thus:

- Full outsourcing on proprietary technology: the Group develops the client-commissioned project using the client's technology (implemented during the professional relationship built up with the client over time);
- Fixed-price projects: the Group offers on-demand, made-to-measure projects using innovative technology and solutions such as software, databases, system support, cyber security, cloud computing, digital workspaces and hardware supply via a contract that foresees a predetermined fixed price.

The Group executes services in two distinct ways that can overlap and integrate each other:

- Outsourcing on premises: Group technical personnel carry out maintenance of IT systems and client software at the client's premises in order to upgrade them to the client's business processes; this enables the Group to gain an in-depth understanding of the client's processes and helps it tailor the service offering and implementation to the client's requirements.
- Remote outsourcing: Group technical personnel provide services for the client (IT management, management of client company IT system processes and infrastructure) remotely from Group business premises.

Communication Technology

The Group has built up sophisticated engineering know-how in the automated design and maintenance of circuit board hardware, and of firmware writing for micro-controllers, enabling it to offer its clients repair, testing and logistical services for electronic circuit boards in so-called multivendor telecom equipment.

The Group also provides simulations of the installation of key telecoms equipment in specific networks, and, following acceptance of the simulation by the client, commissioning on-field of the equipment in question.

The group has also created a software platform that can manage all logistical activity, from the arrival of materials on site to their shipment. Indeed, the platform allows monitoring of the entire process chain and the activities carried out, guaranteeing traceability, measuring throughput time, monitoring processing, generating test reports and measuring service levels. This whole process guarantees the quality of the goods provided and compliance with agreed delivery timescales.

The group provides these services according to the following distinct execution models:

- On-premises services: the group provides installation and maintenance services for the telecommunications systems of the leading vendors, within the network of any given player (so-called on-field commissioning);
- Remote services: the group carries out either rapid replacement and repair (SWAP) or normal repair services; in the first case, it supplies the client with an equivalent replacement for a faulty component within 3 days (it then repairs the part at the group's repair centre, to allow it to be reused in the circuit); in the latter case, the client's component is repaired and returned in around 20 days.

Engineering and Technology Transfer

The group boasts experience in the execution of projects in intelligent sensors and wireless networks for data gathering, design and 3D printing for tests and prototypes, design and realisation of environmental and medical monitoring systems, electronic control systems for marine motors and industrial automation panels, and the development of embedded IoT systems and solutions for Industry 4.0.

In the engineering field, the company has designed and developed technologically advanced solutions for the following macro sectors, although these are yet to be placed on the reference market:

- Agriculture: the group is designing solutions to guarantee constant monitoring of crops and their phytosanitary conditions;
- Environment: the group has created a project that allows analysis of the state of health of tree trunks and the risk of falling;
- Health: the group is involved in various sub-sectors, all focused on monitoring the general state of health of patients in order to guarantee improved quality of life and improve the prevention of certain neurodegenerative diseases. For example, a medical device to assess patient health after a stroke and foresee and prevent potential complications;
- Energy: the group is involved in the research and development of highly innovative engineering solutions. It recently conceived and designed a system that allows remote monitoring of energy production and the management and maintenance of photovoltaic plants or multiple installed systems.
- Industrial: FOS has designed and assembled an electronically controlled water dispenser system, which is widely used in companies and professional offices, featuring integration with an RFID reader that allows the implementation of control logic on firmware.

The services offered can be categorised in the following activities:

- Design and technical consultancy: clients are generally companies that need support in the design of new systems/ products/ solutions for their business.
- Prototyping and industrial application of new products: in order to enable clients to assess the functionality and applicability of technologically innovative solutions for their market, the group specialises in creating functional prototypes that already have features suitable for mass production.

The group executes these services by visiting the client and sharing the design specifications of a solution, then develops an initial proof of concept for the project for the client to assess; subsequently the Group implements any adjustments to the system, builds the first prototype for testing by the client, draws up the initial industrial bill of materials and builds the prototype for the final test.

Automation and Solution

The Automation sector at FOS Group offers specialised services for industrial automation, with a particular focus on HMI/SCADA solutions.

Using proprietary technologies and the most appropriate solutions available on the market, the team of professionals at FOS designs and develops:

- systems for the supervision, remote control and monitoring of industrial plants and systems;
- SCADA solutions for centralised control rooms.

FOS is able to offer building management solutions aimed at optimising the functioning and energy efficiency of buildings, including consumption monitoring.

Close collaboration with the engineering sector, which has 10 years' experience in IoT systems, means the unit is able to offer the market innovative solutions of industrial size and strength.

The FOS Group team has also developed particular expertise in the development of efficient asset management solutions in order to optimise the resources necessary for running and maintaining plants.

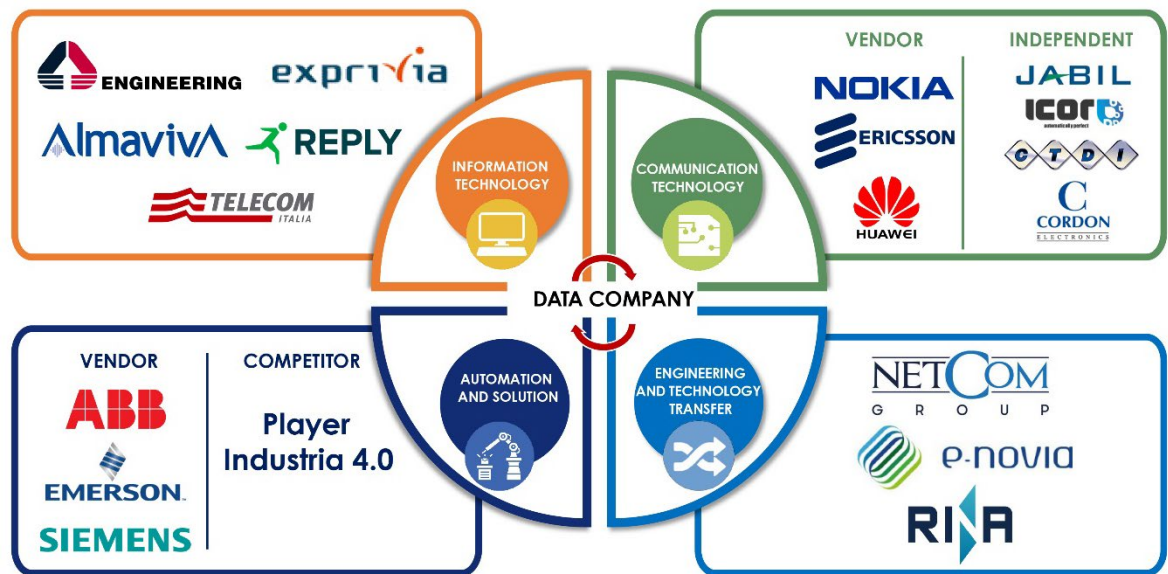
The solutions offered go beyond ordinary and extraordinary maintenance operations to encompass management of personnel and teams (shifts, health&safety, training, etc.), predictive maintenance, and management of parts inventory.

Competitive positioning

The core market in which FOS operates features various players that can be subcategorised by the sectors corresponding to the company's three revenue lines:

- Information and Communication Technology (ICT): the main players in his area are large firms (such as Engineering and Reply) with horizontal integration in the ICT segment;
- Telecommunications (TLC): players can be categorised as:
 - Vendors: Nokia, Huawei, Ericsson.
 - Independents: Cordon Electronics, Jabil, CTDI, Icor.
- Engineering: companies specialised in prototyping, testing and engineering innovative solutions in various fields of application (such as the E-Novia group).
- Automation and Solution: In this market segment FOS competitors are the big and medium system integrator like ABB, SIEMENS, ENGINEERING, SDI, Automation Service.

FOS – Competitive scenario

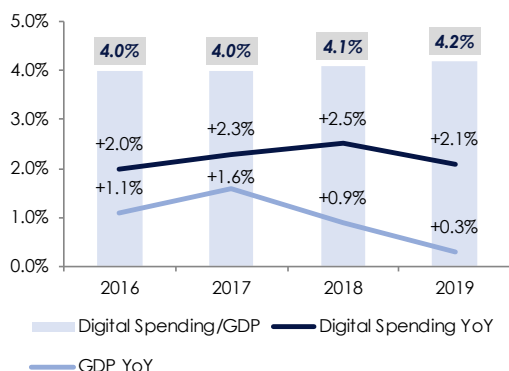


Source: Company presentation

Reference Market

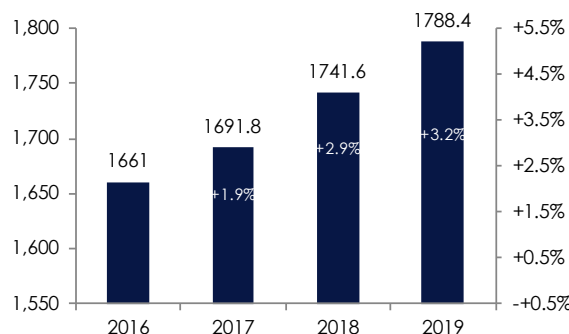
According to the Digital Italy 2020 report ("Il Digitale in Italia" by Confindustria digitale, Anitec-Assinform), in the last four years, digital spending in Italy has grown at a faster rate than GDP. The greater dynamism, driven by the digital transformation in all sectors of use, accelerated further from 2018, the year in which the growth of the digital market was 2.5% versus GDP growth of 0.9% thanks to full implementation of the digitalisation plans and the Industry 4.0 plan. The gap seen between digital market trends and the overall Italian economy is structural, and this is confirmed by the growing weight of the digital market on GDP, which in the 2017-2019 period rose from 4.0% to 4.2%. Observing digital spending per person in employment, with reference just to the business segment, a steady increase can be seen from Eu1,661 in 2016 to Eu1,788 in 2019.

Digital Spending in Italy



Source: Il Digitale in Italia 2020, Anitec-Assinform

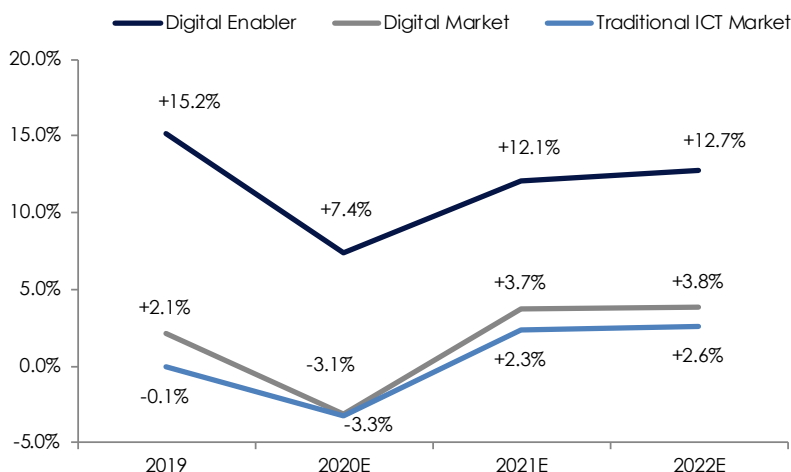
Digital Spending/employed



Source: Il Digitale in Italia 2020, Anitec-Assinform

The performance of the digital market in 2019 confirmed the growing gap between the traditional ICT market and digital enablers. In the face of substantial stagnation of the more traditional market segments, the overall digital market features higher growth, which is even more significant if the so-called Digital Enabler segment is included. In 2019, this segment recorded overall growth of 15.9% thanks to acting as the main lever for implementing digital transformation plans. In 2020, forecasts are clearly influenced by the impact of the pandemic, with an expected overall fall for the market of 3.1%, followed by a recovery in the following two years. Following the slowdown to +7.4% in 2020, Digital Enablers and Digital Transformers, the technologies that make the most direct contribution to company digitalisation, are expected to see a strong recovery to +12.1% and +12.7% in 2021 and 2022 respectively. On the other hand, demand for more established devices and application solutions is suffering; within these, the telecoms segment is in difficulty, mostly due to growing pressure on tariffs; the troubled state of telecoms is one of the main forces driving the contraction of the traditional market, whose recovery from 2021 looks like being far more limited (+2.3%/+2.6% in 2021/22).

Digital market trends



Source: Il Digitale in Italia 2020, Anitec-Assinform

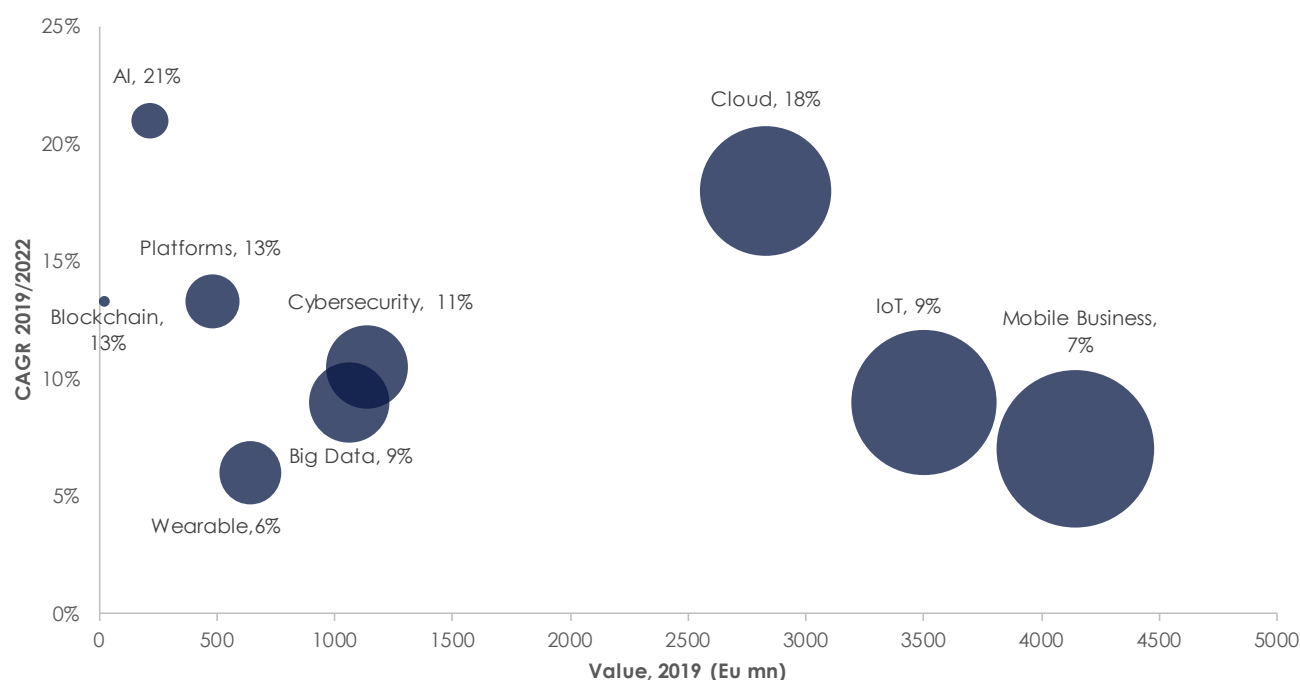
Analysis of the impact of Covid-19 on digital technology investments shows a variation in trends. An acceleration is being seen in the adoption of all digital instruments capable of helping companies to react, enabling new ways of working, optimising internal processes, developing digital channels for customer relations, and supporting the development of the company offering to customers. Spending on Digital Enablers will grow in 2020, although the size of the increase will vary from one segment to another due both to business dynamics and to factors specific to the public health emergency. The following is a list of the main drivers of demand in different segments.

- **Mobile business.** For Digital Enablers, this segment features the highest spending volume, estimated to increase at a 7% CAGR until 2022. Demand is driven by the need to adopt innovative and remote ways of working.
- **IoT.** The adoption of IoT platforms in 2019 constituted a market worth over Eu3.5bn; despite slowing in 2020, it will grow at a 2019/22 CAGR of 9%. The development of this market is driven by: industrial demand for platforms to simulate processes, products, services (digital twins); systems to forecast pinch points and points of failure, and to test future results.
- **Cybersecurity.** Covid-19 has accelerated the digitalisation of processes in all sectors and the extension of the functional perimeter of companies. This is leading to an increase in demand for Cybersecurity solutions; the market, which was worth c.Eu1.1bn in 2019, is expected to grow at a 10.5% CAGR to 2022.
- **Big Data.** companies continue to invest in the organisation and management of data, including of the unstructured variety, in order to enhance customer engagement and care, and to better understand customer requirements. The management of Big Data will increasingly focus on data flows at early stages of the supply chain, and also in this case the effective use and analysis of existing information assets will increasingly be key to the best management of production and distribution capacity. A topic that has always been strategic and whose importance has only been heightened by Covid-19: the market for Big Data solutions, worth Eu1.06bn in 2019, will increase at an average annual rate of 9% to 2022.
- **Web management platforms.** The use of digital channels has further intensified due to the Covid-19 pandemic. The need for business to boost online sales and communicate with customers through digital channels is supporting demand for solutions to manage e-commerce platforms, portals and websites. The market associated with these platforms is set to grow at a 13.3% CAGR between 2019 and 2022.
- **Wearable Technology.** In industry, the use of wearable devices is aimed, above all, at worker health and safety. The pandemic has added mandatory protection of workers from the risk of infection to the list of requirements. In 2019, the market was worth Eu642mn, and it is expected to grow at a CAGR of c.6% to 2022.
- **Blockchain.** This market, worth Eu22mn in 2019 and with a 13.3% CAGR to 2022, is still that of a niche technology that has not yet been used in large-scale projects, with the exception of the banking sector.
- **Artificial Intelligence.** The AI market is seen growing at CAGR for 2019/22 of +21%. The focus on health priorities that has been unleashed will drive the use of AI solutions to support diagnostics, experimentation, and the development of new medicines.
- **Cloud Computing.** This market reached just under Eu3bn at end-2019 and is expected to grow at an 18% CAGR until 2022. The Cloud remains one of the main Digital Enablers as it facilitates worker mobility, the simulation and monitoring of data, and data protection and monetisation.

Other technologies are still very much at the early adoption stage, but could accelerate in the next few years. The following in particular are worth noting: quantum computing in combination with big data and machine learning to support R&D processes in pharma; AR/VR (augmented reality/virtual reality) to support the remote execution of various kinds of production and commercial activities; drones for monitoring and managing crowds.

(see chart on the next page)

The Digital Enabler market



Source: Il Digitale in Italia 2020, Anitec-Assinform

European Recovery fund

On 21 July, the European Commission reached an agreement on **Next Generation EU**, a package of extraordinary measures aimed at tackling the economic crisis in the wake of the Covid-19 pandemic. The NGEU instruments amount to **Eu750bn**, of which Eu360bn in loans and Eu390bn in grants. Italy is one of the largest beneficiaries of the recovery instruments and should potentially receive Eu209bn, of which Eu127bn in grants and Eu82bn in loans. The **Recovery and Resilience Facility (RRF)**, which is the heart of the NGEU, will provide a total of Eu672.5bn to support investments and reforms. Grants worth a total of Eu312.5bn will be provided to Member States under the facility and the remaining Eu360bn will be provided as loans. A hefty proportion of the RRF should be allocated to Italy: Eu191.4bn, of which Eu63.8bn in grants and Eu127.6bn in loans.

Next Generation EU

	Total Funding (Eu bn)	for Italy (Eu bn)
Recovery and Resilience Facility	672.5	191.4
of which grants	312.5	63.8
of which loans	360	127.6
ReactEU	47.5	15.2
Horizon Europe	5	0.5
InvestEU	5.6	
Rural Development	7.5	0.8
Just Transition Fund	10	0.5
RescEU	1.9	0.2
Total Next Generation EU	750	208.6

Source: Intermonte SIM

In order to access RFF funds, each Member State should prepare a **national Recovery and Resilience Plan** setting out its own reform and investment agenda to be implemented up to 2026. The plans should demonstrate how the investments and reforms would address challenges identified in the context of the European Semester, in particular the **green and digital transitions**.

Even if the deadline for submission of plans is 30 April 2021, the Commission is encouraging Member States to submit their preliminary draft plans from 15 October 2020. Pre-financing for the recovery and

resilience facility will therefore be deposited in 2021 and should come to 10% of the total. Given the exceptional circumstances, relevant interventions carried out from 1 February 2020 onwards should be eligible for financing under the REACT-EU plan and the recovery and resilience facility, as long as they are in line with the objectives of the respective programmes. Such payments could be made upon approval of the plan through an implementing decision by the Council and the adoption of the legal commitment by the Commission, meaning that funds could already start flowing in the first half of 2021.

How to deliver the digital transition

Following the guidelines released by the Commission, in order to ensure the effective implementation of the digital transition each Recovery and Resilience Plan should include ca. **20% of expenditure related to digital**. This includes investing in the deployment of 5G and Gigabit connectivity, developing digital skills through reforms of education systems, increasing the availability and efficiency of public services using new digital tools, and promoting the digitalisation of healthcare systems.

Although the Italian Government has not yet released an official draft of the national recovery plan, rumours in recent weeks confirm that: i) ca. Eu75bn of UE funds would go to green projects, ii) ca. **Eu40bn would go to digital**, the majority of which would be targeted at expanding broadband availability; iii) ca. Eu20bn should be allocated to infrastructure, with "High-Speed Italy" projects at the core, extending the high-speed rail network to the south.

Despite it being too early to assess the potential impact from the introduction of these measures, it is clear that this could significantly boost digital spending in the next few years, benefitting companies directly involved in this field such as FOS.

Future Strategy

The group is focused on pursuing a business strategy aimed at generating a scalable and profitable model. On the one hand, the company focuses its offering on responding to demand "on the ground", staying in close touch with locally-specific requirements, while on the other, it seeks to replicate the model in specific innovative sectors. The mix of market-oriented commercial activity and innovation propelled by new demands enables the company to maintain the added value of its offering at a high level. Innovation encompasses the consolidation of alliances with global big tech firms capable of providing technologies for which the Group supplies recurring services: these are enjoying a steep rise in demand due to growing reliance on digital platforms and infrastructure.

Organic growth

The company's future plans are aimed at improving its competitive positioning and consolidating relations with long-standing clients as well as those recently brought on board.

The Group intends to promote integrated ICT outsourcing services as well as storage solutions and cloud for datacentres, which have enabled it to successfully take part in initiatives and tenders run by important national and international companies. The Group also intends to organically increase turnover related to technical consultancy, ICT services and solutions, and smart solutions.

The main areas for organic growth identified by division are:

- **Information Technology:** the strategy is focused on the health sector thanks to applications already developed by the group but not yet launched on the market. Other areas of interest are the cloud and cybersecurity, where thanks to investments in the development and realisation of new remote services the company is aiming to grow its expertise.
- **Communication Technology:** the strategy focuses on maintaining circuit panels in traditional exchanges and in the so-called managed services multivendor segment through beefing-up the Group commercial network and promoting investments in manufacturing under the Industry 4.0 paradigm.
- **Engineering and Technology Transfer:** Enhancing R&D centres through the industrialisation of the IT process aimed at: creating new business opportunities directly for the Group (development of patents, spin-offs, etc.); generating new development opportunities indirectly through the provision of new products developed in the partner/client chain; and launching the company into ITC integration (Internet of things).
- **Automation and Solution:** providing clients with innovative solutions in the everyday important automation field, recovering the slight delay in projects caused by the pandemic.

Furthermore, the company is looking to update platforms that are already available, and bring those that are the fruit of R&D to market.

External growth

In addition to organic growth, FOS is analysing any opportunities that arise to improve its market share in Italy, with a particular view to acquiring companies operating predominantly in the telecommunications and information technology sectors. The selection of potential target companies begins with the identification of companies with a complementary offer that may enable the extraction of cost synergies. Some preliminary assessments are currently under way involving companies operating in Italy (centre and north) with business models that are compatible with the outlined strategy.

SWOT Analysis

Strengths

- Twenty years of experience and consolidated relationship with major customers
- Most services are offered on a recurring basis (75% in ICT, 93% in TLC)
- Highly specialised workforce with deep knowledge of the sector
- Scalability of the business model
- Profitability higher than the sector
- Wide network of laboratories and joint research centres for technology transfer in Italy and other European countries (Lithuania, Belgium, Romania and Bulgaria)
- Solid financial structure

Opportunities

- Marketing of products developed in the Engineering business, which has not yet taken place
- Chances to consolidate the Italian market by means of acquisitions, thus gaining market share
- Greater acceleration of digital services among Italian companies, which could undergo a period of acceleration following the Covid-19 lockdown

Weaknesses

- Highly concentrated client base, with the top 5 customers accounting for 59% of total production
- Very limited geographical diversification
- Limited size compared to large competitors

Threats

- TLC market in secular decline
- Execution risk following the intended M&A operations

Source: Intermonte SIM

Financials

Before analysing 1H20 results and outlining our 2020-23 estimates, we would like to point out that the numbers are compiled in accordance with Italian GAAP.

1H20 results

FOS managed to post a positive set of results in a semester afflicted by the Covid-19 pandemic. Value of Production increased by 11.8% YoY thanks to growth at all divisions: Information Technology +7.1%, Communication Technology +2.0%, and Engineering +11.8%. The recently created Automation & Solutions segment contributed Eu0.2mn.

Profitability growth was even more impressive: EBITDA rose 24.4% YoY thanks to a more favourable business mix (value-added services offered in outsourcing) and cost efficiencies resulting from synergies among the different business lines.

The bottom line came in at Eu0.45mn, a 75.4% increase on the previous year, following higher D&A but lower financial charges and a reduced tax rate.

Regarding cash generation, as at the end of June the company had a positive cash position of Eu0.7mn, up from Eu0.6mn as at end-December 2019 thanks to unremitting attention to receivables, enabling collection to accelerate further after the end of the first semester.

FOS – 1H20 results

(Eu mn)	1H19A	2H19A	2019A	1H20A	2H20E	2020E
Value of production	5.158	7.013	12.194	5.768	8.202	13.953
YoY growth	17.7%	31.5%	25.5%	11.8%	17.0%	14.4%
Raw Materials	(0.493)	(1.163)	(1.656)	(0.376)	(1.508)	(1.884)
Service costs	(1.297)	(1.728)	(3.025)	(1.276)	(2.190)	(3.466)
Use of assets owned by others	(0.098)	(0.042)	(0.140)	(0.092)	(0.068)	(0.160)
Other costs	(0.029)	(0.163)	(0.193)	(0.064)	(0.160)	(0.223)
Added Value	3.242	3.916	7.180	3.960	4.259	8.219
Personnel costs	(2.380)	(2.614)	(4.994)	(2.889)	(2.831)	(5.721)
EBITDA reported	0.861	1.325	2.186	1.071	1.428	2.499
YoY growth	19.3%	36.4%	29.1%	24.4%	7.8%	14.3%
EBITDA margin	16.7%	18.9%	17.9%	18.6%	17.4%	17.9%
D&A	(0.297)	(0.725)	(1.022)	(0.487)	(0.563)	(1.050)
EBIT reported	0.594	0.608	1.202	0.584	0.864	1.449
EBIT margin	11.5%	8.7%	9.9%	10.1%	10.5%	10.4%
Financial Charges	(0.073)	(0.085)	(0.158)	(0.082)	(0.066)	(0.148)
Financial Income	0.001	0.000	0.001	0.079	(0.059)	0.020
Pretax	0.521	0.524	1.045	0.581	0.740	1.321
Taxes	(0.265)	(0.070)	(0.334)	(0.131)	(0.265)	(0.422)
tax rate	-50.8%	-13.3%	-32.0%	-22.5%	-35.8%	-32.0%
Net income	0.257	0.454	0.711	0.450	0.475	0.898
YoY growth	-17.3%	240.1%	60.2%	75.4%	4.6%	26.4%

Source: Intermonte SIM estimates (E) and Company data (A)

2020-2023 Estimates

Income statement

Top line trends. We forecast the company's value of production will increase at a 12.3% CAGR in the 2019-2023 period, driven by increases at all divisions, albeit with variations in the order of magnitude. Indeed, we assume Engineering and ICT will be the main growth drivers, boasting CAGRs of 11.7% and 14.0% respectively, outperforming the TLC business, which we expect to show a more limited 6.2%, mainly due to a flat trend expected in 2020; however, we expect a resumption of the growth trajectory in the following years. Finally, we expect the new Automation Solutions division to perform solidly, with the top line growing on average 18% in the period targeted by the analysis.

Value of production includes capitalised costs that derive mainly from the Engineering business and which are related to development costs for projects in progress that are not yet at the commercialisation stage (ca. Eu1mn a year). "Other revenues" includes, *inter alia*, the tax credit for investments in R&D, as well as the company's share of the tax credit for IPO expenses.

We would also highlight that our estimates do not incorporate the benefit that could come from the marketing of the new products developed at the Engineering division: commercialisation could start as soon as 2021 (Microcosmo). Further upside could arise from the launch of the European Recovery Fund (see the paragraph on this point).

Revenue breakdown by business units

	2017A	2018A	2019A	2020E	2021E	2022E	2023E
Information Technology	5.7	5.9	7.3	7.8	9.0	10.1	11.4
YoY growth		3.5%	23.9%	6.0%	15.0%	13.0%	13.0%
on total	64.5%	61.0%	60.2%	58.0%	58.3%	58.6%	58.9%
Communication Technology	1.7	1.8	2.0	2.0	2.3	2.4	2.6
YoY growth		5.5%	14.2%	1.0%	10.0%	8.0%	6.0%
on total	19.0%	18.3%	16.6%	15.3%	14.7%	14.1%	13.3%
Engineering & IT	1.3	1.9	2.5	2.8	3.2	3.7	4.3
YoY growth		49.1%	35.5%	11.0%	15.0%	15.0%	15.0%
on total	14.1%	19.2%	20.8%	20.9%	21.1%	21.5%	22.0%
Automation and Solution				0.5	0.6	0.7	0.8
YoY growth					25.0%	15.0%	15.0%
on total				3.7%	4.1%	4.2%	4.3%
Others	0.2	0.1	0.3	0.3	0.3	0.3	0.3
Value of production	8.9	9.7	12.2	13.4	15.4	17.3	19.4
yoy growth		9.5%	25.5%	10.2%	14.3%	12.5%	12.3%

Source: Intermonte SIM (E) and company data (A)

EBITDA growth. From a profitability standpoint, we estimate a 2019-2023 adj. CAGR for EBITDA of 14.8%, with the adj. EBITDA margin rising from 19.7% in 2019 to 21.5% in 2022 thanks to: 1) lower incidence of raw materials (Communication Technology business); 2) personnel costs increasing less than revenues thanks to rising productivity, which is partly due to the shift from "on-premises" to remote working; 3) a better product mix.

Moving down the P&L, between EBITDA and net profit we assume the following:

- D&A: expected to grow slightly from Eu1.0mn in 2019 to Eu1.2mn in 2023 due to the amortisation of the investments in R&D completed in the period.
- Interest charges: in the period, financial charges are expected to remain very low thanks to a positive cash position coupled to a low cost of debt, which we assume will even go down thanks to refinancing part of the outstanding debt.
- Tax rate: we expect it to remain at the 2019 level in 2020 and 2021 as well thanks to tax benefits related to the IPO costs, which are amortised over 3 years. From 2022, we would expect the tax rate to return to a normalised level in the region of 35%.

Given the aforementioned developments, we forecast net profit growing from Eu0.711mn in 2019 to Eu1.911mn in 2023, a 28.0% CAGR.

FOS – P&L

(Eu mn)	2017A	2018A	2019A	2020E	2021E	2022E	2023E
Value of Production	8.878	9.718	12.194	13.434	15.353	17.276	19.403
YoY growth		9.5%	25.5%	10.2%	14.3%	12.5%	12.3%
EBITDA adjusted	1.668	1.857	2.405	2.706	3.109	3.611	4.172
EBITDA margin	18.8%	19.1%	19.7%	20.1%	20.3%	20.9%	21.5%
EBITDA reported	1.392	1.693	2.186	2.406	3.109	3.611	4.172
YoY growth		21.6%	29.1%	10.1%	29.2%	16.1%	15.5%
EBITDA margin	15.7%	17.4%	17.9%	17.9%	20.3%	20.9%	21.5%
D&A	(0.468)	(0.596)	(1.022)	(1.050)	(1.100)	(1.150)	(1.200)
on net revenues	5.3%	6.1%	8.4%	7.8%	7.2%	6.7%	6.2%
EBIT reported	0.781	0.999	1.202	1.356	2.009	2.461	2.972
EBIT margin	8.8%	10.3%	9.9%	10.1%	13.1%	14.2%	15.3%
Net financial charges	(0.139)	(0.228)	(0.157)	(0.127)	(0.084)	(0.062)	(0.032)
Pretax	0.642	0.771	1.045	1.229	1.925	2.399	2.940
Taxes	(0.166)	(0.327)	(0.334)	(0.393)	(0.616)	(0.840)	(1.029)
tax rate	-25.8%	-42.4%	-32.0%	-32.0%	-32.0%	-35.0%	-35.0%
Minorities/disc. operati	-	-	-	-	-	-	-
Net income	0.476	0.444	0.711	0.836	1.310	1.559	1.911
YoY growth	0.0%	-6.8%	60.2%	17.6%	56.7%	19.1%	22.6%

Source: Intermonte SIM estimates (E) and Company data (A)

Balance sheet and cash flow statement

The company's fixed assets are mainly intangible, the result of investments carried out in previous years, especially in R&D. We assume that fixed assets in the coming years will remain at around Eu5mn, a level that enables the company to maintain relatively limited invested capital, and therefore to achieve a higher return on capital employed than most of its larger competitors (we assume a 29% ROCE on average for 2020-2023).

We forecast investments in R&D amounting to around Eu1mn in the 4-year period, returning to normal after the extraordinary investments carried out in the past years. As for NWC, our estimates imply substantial stability of payment terms and the incidence of inventories, to the extent that we assume NWC increasing just slightly in the period (from 22.8% of sales in 2020 to 25.2% in 2023) to support the strong revenue growth expected.

We assume that the company will continue to retain its earnings in the coming years, preferring to invest in research and development and to pursue potential external growth opportunities rather than pay dividends.

Bearing in mind the foregoing, we would expect the NFP to remain positive throughout the entire period of analysis, reaching Eu5.0mn as at the end of 2023, with the FCF expected to average Eu1.1mn, giving a 6.7% FCF yield at the current price.

FOS – Balance Sheet

(Eu mn)	2018A	2019A	2020E	2021E	2022E	2023E
Tangible Assets	0.193	0.229	0.229	0.229	0.229	0.229
Intangible Assets	3.922	5.005	4.955	4.855	4.705	4.505
Financial Assets	0.000	0.000	0.000	0.000	0.000	0.000
Fixed Assets	4.114	5.234	5.184	5.084	4.934	4.734
Inventories	0.401	0.425	0.450	0.522	0.593	0.672
Trade Receivables	2.808	4.381	4.856	5.630	6.397	7.247
Trade Payables	-1.385	-2.605	-2.859	-3.156	-3.538	-3.890
Total Working Capital	1.824	2.202	2.448	2.996	3.452	4.029
Provisions	(0.195)	(0.123)	(0.123)	(0.123)	(0.123)	(0.123)
Employees benefits	(0.997)	(1.033)	(1.033)	(1.033)	(1.033)	(1.033)
Others	0.101	0.587	0.587	0.587	0.587	0.587
Net capital employed	4.848	6.867	7.064	7.511	7.818	8.194
Total equity	1.793	7.502	8.338	9.648	11.207	13.118
Net Debt	-3.055	0.635	1.274	2.136	3.389	4.924

Source: Company data (A) and Intermonte SIM estimates (E)

Fos – Cash flow

(Eu mn)	2018A	2019A	2020E	2021E	2022E	2023E
Net Profit	0.538	0.711	0.836	1.310	1.559	1.911
Amortization & Depreciation	0.695	0.984	1.050	1.100	1.150	1.200
Change in Working Capital	(0.520)	(0.377)	(0.246)	(0.548)	(0.457)	(0.577)
Change in funds	0.365	(0.523)	0.000	0.000	0.000	0.000
Other	0.000	0.000	0.000	0.000	0.000	0.000
Operating CF	1.079	0.795	1.640	1.862	2.253	2.535
Capex (Tang & Intang)	(3.338)	(2.146)	(1.000)	(1.000)	(1.000)	(1.000)
Acquisitions	0.000	0.000	0.000	0.000	0.000	0.000
Disposals	0.191	0.001	0.000	0.000	0.000	0.000
Dividends	0.000	0.000	0.000	0.000	0.000	0.000
Share Buy-back	0.000	0.000	0.000	0.000	0.000	0.000
Rights Issue/ ipo	(0.180)	4.998	0.000	0.000	0.000	0.000
Other	(0.376)	0.041	0.000	0.000	0.000	0.000
Cash Flow	(2.624)	3.690	0.640	0.862	1.253	1.535
NFP at the beg. of the year	(0.431)	(3.055)	0.635	1.274	2.136	3.389
Cash Flow: Cash/(Debt)	(2.624)	3.690	0.640	0.862	1.253	1.535
NFP at year end	(3.055)	0.635	1.274	2.136	3.389	4.924

Source: Company data (A) and Intermonte SIM estimates (E)

Valuation

Summary

We are setting a target price of Eu4.1 per share for FOS. This is obtained from the simple average of a DCF-based valuation (Eu4.8) and a peer comparison (Eu4.3), to which we apply a 10% liquidity discount. Our target price offers 56% upside to yesterday's close, we are therefore initiating our coverage with a BUY rating.

Our target price is calculated on the fully diluted number of shares (7.8mn) given that the target price resulting from our analysis would be above the highest exercise price of the outstanding warrants.

Valuation Summary

	Val.	Weight	Weighted val.
DCF valuation (WACC @ 8.0%, g @1.5%)	37.6	50%	18.8
EV/EBITDA 20/22	35.1	17%	5.9
EV/EBIT 20/22	36.8	17%	6.1
PE 20/22	29.7	17%	4.9
SUM			35.7
Discount			10%
Fair value (Eu mn)			32.2
NOSH fully diluted			7.8
Target Price (Eu per share)			4.1

Source: Intermonte SIM estimates

FOS implied valuation @ current prices

	2019 A	2020 E	2021 E	2022 E	2023 E
PE	19.0x	15.7x	12.4x	10.5x	8.5x
PE ex-cash	18.2x	14.4x	10.8x	8.3x	6.0x
EV/SALES	1.3x	1.1x	0.9x	0.7x	0.6x
EV/EBITDA	6.5x	5.6x	4.6x	3.6x	2.7x
EV/EBIT	11.0x	9.1x	7.1x	5.2x	3.8x

Source: Intermonte SIM estimates

FOS implied valuation @ our target price

	2019 A	2020 E	2021 E	2022 E	2023 E
PE	37.2x	30.7x	24.4x	20.5x	16.7x
PE ex-cash	31.5x	25.4x	19.5x	15.6x	11.9x
EV/SALES	2.2x	2.0x	1.7x	1.4x	1.2x
EV/EBITDA	11.3x	9.8x	8.2x	6.7x	5.5x
EV/EBIT	19.1x	16.0x	12.7x	9.9x	7.7x

Source: Intermonte SIM estimates. Multiples assume a fully exercise of warrants and the relative cash-in

Peer comparison

We have identified a panel of 9 peers in the Italian Tech arena, which is the core market for FOS. The companies in our panel are all based in Italy and covered by the Intermonte Equity Research team. Despite differences in company size and business model, the core market is the same, so we believe valid comparisons can be made.

Alkemy Founded in May 2012 by a group of entrepreneurs from diverse but complementary backgrounds ranging from strategic consultancy through digital advertising to technology services, Alkemy assists client companies in the development, implementation, and management of business transformation projects.

BE Founded in 1987, Be engages in information and communications technology (ICT) consulting in the financial services sector. It operates through the Business Consulting and ICT Solutions business segments. The Business Consulting segment supports the financial services industry in the implementation of strategies and programs for improvement. The ICT Solutions segment includes management for life and non-life insurance companies, solutions and systems for utility companies; integration of payment systems and card processing; and software for document management.

Cyberoo Founded in 2008, Cyberoo is a managed service provider in the IT outsourcing segment with a strong focus on cybersecurity services. The company is part of the SEDOC group (a private company) and has been listed on the AIM segment of the Italian stock exchange since its IPO on 7th October 2019. Cyberoo serves over 600 corporate clients, mostly in Italy. It employs over 100 people across Italy and the Ukraine.

Reply specialises in the design and implementation of solutions based on new communication channels and digital media. Reply is a network of highly specialised companies that supports key European industrial groups (operating in telecoms, media, industry, services, banking, insurance and public administration) with the definition and development of business models enabled for the new paradigms of big data, cloud computing, digital media and the Internet of Things. Reply services include consulting, system integration and digital services.

Retelit specialises in building tailor-made digital transformation projects, executed on entirely Group-managed platforms. It is the partner for businesses and the public sector seeking to tackle the challenges of innovation head-on, thanks to a range that covers the entire value chain of ICT and digitalisation services. The combination of Retelit's proprietary assets (a comprehensive fibre-optic network in Italy and across the world, and a nationwide Data Centre network) and the innovation and digital expertise of PA Group (part of the Retelit Group since 2020) has created a player able to offer integrated digital solutions from infrastructure to data management and from networks to applications.

Sesa Founded in 1973, the company provides value-added information technology solutions. It operates through the following business areas: VAD IT Value Added Distribution, SI System Integration, and Corporate. The VAD IT Value Added Distribution business area focuses on software house and system integration. The SI System Integration business area offers enterprise system integration services. The Corporate business area provides corporate services such as cloud computing, logistics, marketing, human resources, planning and control, finance, mergers and acquisitions, legal, and information and communication technology and operations.

Tinexta is one of the leaders in Italy in its three areas of business: Digital Trust, Credit Information & Management and Innovation & Marketing Services. The Digital Trust Business delivers products and services for digitisation, electronic invoicing, certified e-mail (PEC) and digital signatures as well as services for professionals, associations and SMEs. The Credit Information and Management division offers services to support decision making such as corporate financial statements and real estate information, aggregate financial reports, synthetic ratings, decision models, credit ratings and credit recovery, while RE Valuta offers real estate appraisals and evaluations. Finally, at the Innovation & Marketing Services business, Warrant Hub is the leader in consultancy for obtaining subsidised financing and undertaking industrial innovation, while Co.Mark furnishes temporary export management consultancy to SMEs to assist their commercial expansion.

TXt e-solutions Founded in 1989, TXt e-solutions is an international, specialised provider of engineering software solutions supporting customers in high-tech markets in their mission- and business-critical core processes and throughout their product lifecycles. TXt e-solutions is focused on two main business areas: 1) specialised software products and advanced engineering software solutions for the aerospace, aviation and automotive industries; and 2) software quality services, credit management and risk management solutions for banking and finance.

Wit is a pure provider of critical cloud computing services for enterprises, mostly under hosted private cloud and hybrid cloud models. Wit has gained a leading position in the management of ERP systems (SAP, Oracle, Microsoft), and assembled an outstanding portfolio of references (60 active clients). Wit has two data centres, one of which is certified Tier IV (the highest certification available).

FOS peers: financial metrics (1/2)

Company name	Mkt cap (EU mn)	Sales growth			EBITDA Adj. margin %			EBIT adj. margin %		
		2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
ALKEMY	31	-5.3%	13.6%	6.0%	7.3%	8.3%	9.1%	4.7%	5.6%	6.6%
BE	154	7.2%	6.5%	5.0%	16.9%	17.3%	17.8%	10.3%	10.9%	11.6%
CYBEROO	38	24.2%	59.0%	51.8%	33.3%	39.9%	48.1%	10.1%	24.8%	37.7%
REPLY	3,883	5.2%	10.4%	8.3%	15.2%	16.0%	16.0%	12.4%	13.1%	13.1%
RETELIT	394	100.0%	16.0%	5.2%	31.1%	31.9%	32.8%	11.4%	13.0%	14.6%
SESA	1,325	14.5%	11.4%	10.1%	5.3%	6.1%	6.4%	3.9%	4.6%	4.7%
TINEXTA	900	0.7%	7.9%	6.3%	29.1%	30.1%	30.3%	20.1%	21.9%	22.6%
TXT E-SOLUTIONS	104	12.2%	10.3%	7.4%	11.9%	12.7%	13.4%	8.2%	9.6%	10.5%
WIIT	459	50.6%	39.7%	9.8%	35.8%	38.3%	40.3%	19.1%	22.2%	25.5%
Median		12.2%	11.4%	7.4%	16.9%	17.3%	17.8%	10.3%	13.0%	13.1%

Source: Intermonte SIM

FOS peers: financial metrics (2/2)

Company name	Mkt cap (EU mn)	EPS growth %			CAPEX/Sales			Net Debt/EBITDA		
		2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
ALKEMY	31	97.3%	62.3%	51.9%	1.2%	2.0%	2.0%	-2.5 x	-1.8 x	-1.3 x
BE	154	61.7%	16.1%	12.3%	2.9%	2.7%	2.6%	-0.3 x	0.0 x	0.2 x
CYBEROO	38	-7.7%	241.2%	130.7%	42.1%	17.3%	11.4%	2.0 x	1.2 x	1.0 x
REPLY	3,883	-5.1%	15.3%	9.4%	1.8%	2.0%	2.0%	0.9 x	1.2 x	1.5 x
RETELIT	394	11.2%	41.7%	24.3%	16.9%	15.1%	14.8%	-2.7 x	-1.9 x	-1.4 x
SESA	1,325	31.1%	37.7%	15.2%	0.9%	1.1%	1.4%	0.6 x	0.6 x	0.8 x
TINEXTA	900	3.9%	16.7%	9.7%	5.0%	4.6%	4.3%	-1.4 x	-0.8 x	-0.2 x
TXT E-SOLUTIONS	104	637.3%	37.2%	17.8%	1.5%	1.5%	1.5%	4.7 x	4.7 x	4.5 x
WIIT	459	20.0%	33.0%	32.4%	11.7%	11.2%	10.2%	-4.5 x	-2.7 x	-2.0 x
Median		20.0%	37.2%	17.8%	2.9%	2.7%	2.6%	-0.3x	0.0x	0.2x

Source: Intermonte SIM

FOS peers: market multiples

Company name	Mkt cap (EU mn)	EV/EBITDA			EV/EBIT			PE		
		2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
ALKEMY	31	7.9 x	6.0 x	4.9 x	12.2 x	8.9 x	6.8 x	18.4 x	11.4 x	7.5 x
BE	153	5.8 x	5.1 x	4.5 x	9.6 x	8.1 x	6.9 x	15.5 x	13.4 x	11.9 x
CYBEROO	40	12.2 x	6.2 x	3.1 x	40.4 x	10.0 x	3.9 x	62.3 x	19.6 x	8.5 x
REPLY	3,868	19.3 x	16.2 x	14.6 x	23.9 x	20.1 x	17.9 x	35.8 x	31.1 x	28.4 x
RETELIT	398	10.4 x	8.4 x	7.4 x	28.3 x	20.6 x	16.6 x	32.9 x	23.2 x	18.7 x
SESA	1,350	13.9 x	10.7 x	9.1 x	19.2 x	14.4 x	12.3 x	32.8 x	23.8 x	20.7 x
TINEXTA	909	13.3 x	11.5 x	10.3 x	19.3 x	15.8 x	13.8 x	23.3 x	20.0 x	18.2 x
TXT E-SOLUTIONS	103	8.4 x	6.4 x	5.3 x	12.0 x	8.5 x	6.7 x	27.9 x	20.3 x	17.3 x
WIIT	459	29.6 x	19.5 x	16.5 x	55.3 x	33.6 x	26.1 x	57.5 x	43.2 x	32.7 x
Median		12.2 x	8.4 x	7.4 x	19.3 x	14.4 x	12.3 x	32.8 x	20.3 x	18.2 x

Source: Intermonte SIM

FOS – Peers comparison

	2020	2021	2022		2020	2021	2022
Peer Group median EV/EBITDA	12.2 x	8.4 x	7.4 x	Peer Group median EV/EBIT	19.3 x	14.4 x	12.3 x
EBITDA	2.7	3.1	3.6	EBIT	1.7	2.0	2.5
fair EV	33.1	26.1	26.7	fair EV	32.0	28.9	30.2
Net Debt	1.3	2.1	3.4	Net Debt	1.3	2.1	3.4
Cash-in from warrants	4.2	4.2	4.2	Cash-in from warrants	4.2	4.2	4.2
Fair Equity Value	38.6	32.5	34.3	Fair Equity Value	37.5	35.3	37.8

	2020	2021	2022
Peer group median P/E	32.8 x	20.3 x	18.2 x
Net profit	1.0	1.3	1.6
Fair Equity Value	34.1	26.6	28.4

Source: Intermonte SIM estimates

DCF Valuation

Our DCF model has a 4-year explicit forecast period and yields a fair value per share of Eu4.8. The basic assumptions in our model include:

- WACC of 8.0% (2.5% risk-free rate; 5.5% risk premium);
- Terminal growth rate of 1.5%.

Given that the target price resulting from our analysis would be above the highest exercise price of the outstanding warrants, we assume full dilution from the warrants. As a consequence, the NOSH increases from 6,221,500 to 7,776,875, while the proceeds for the company will be between Eu3.8mn and Eu4.7mn, depending on the exercise price (we are assuming the mid-range).

DCF sensitivity

		Terminal Growth				
		1.00%	1.25%	1.50%	1.75%	2.00%
% WACC	7.0%	5.1	5.2	5.4	5.5	5.7
	7.5%	4.8	5.0	5.1	5.2	5.4
	8.0%	4.6	4.7	4.8	4.9	5.1
	8.5%	4.4	4.5	4.6	4.7	4.8
	9.0%	4.3	4.4	4.4	4.5	4.6

Source: Intermonte SIM estimates

APPENDIX

Joint research centres:

- Wise Laboratory: formed in Genoa in collaboration with the city's University, more specifically the Electrical, Electronics and Telecommunication Engineering and Naval Architecture Department (DITEN), the Wise Laboratory's activity focuses on designing and developing new technological solutions in Wireless Sensor Networks and RFID.
- Tripode laboratory: in Portici (Naples province) the group founded the Tripode laboratory in conjunction with ENEA (National Agency for New Technologies, Energy and Sustainable Economic Development), a publicly funded Italian research institute. The laboratory is accredited by and under the supervision of the Ministry of Economy Development. Its research activity centres around feasibility studies for the integration of new semiconductor materials into electronic devices and circuits and sensor technology in general. One of the main achievements of the laboratory is the patented "Microcosmo" system, which can simulate a natural field for agricultural cultivation and generate clean air. The patent, which is entering industrial production, is a potential solution to problems in agriculture and environmental sustainability linked to climate change and pollution, and is therefore attracting a lot of media attention.
- Joint laboratory with University of Bolzano: the joint laboratory with the University of Bolzano's Department of Agricultural and Agro-Environmental Sciences with the support of the semi-autonomous region's Innovation, Development and Marketing institute, which facilitates economic development in the Alto Adige region, providing services with the aim of favouring sustainable development of the local economy and consequently enhancing the competitiveness of its companies. The laboratory's mission is to integrate agro-forestry and ICT technologies to allow the development of agriculture 4.0 solutions.
- Biotech laboratory: In Kaunas, Lithuania, the group has founded the Biotech laboratory in conjunction with researchers at the Kaunas University of Technology, which carries out research and development activity in biomedical engineering for the improvement and re-engineering of existing products, equipment and software. The laboratory's work has led to the creation of a prototype of a helmet for the prevention of strokes, for which a patent request is being filed.
- Dibris laboratory: In another partnership with the University of Genova, the group has created the Dibris laboratory in Genoa to design IT platforms within the scope of Industry 4.0. The laboratory's activities are focused on the creation of software prototypes that can be vertically integrated with the company's Wise IoT hardware platform. The IT platforms dedicated to the receipt, archiving, initial processing and provision to other applications of the data acquired through IoT are a key element of a portfolio of application solutions; in this respect, the activity of Druidlab allows the research of state-of-the-art solutions and testing of their applicability in various situations, prioritising areas where they can be put to use immediately.
- "Kore" - joint laboratory with the University of Enna: the group has set up a joint laboratory with the University of Enna to carry out (i) research activity, with the aim of enhancing the use of renewable energy in ICT and artificial intelligence, participating in regional and national tenders of mutual interest; (ii) processing degree theses; (iii) post-degree internships; (iv) training activity, for the achievement of a specialist professional qualification for degree students based on the group's requirements and finally (v) technological transfer, to enhance opportunities to exploit the scientific expertise acquired during the collaboration period.

Engineering Projects 2020

ISAAC (Microcosmo): the project sets out to develop new technology for the cultivation of plants in confined anthropic spaces in residential, commercial and service environments. The 3-year project, undertaken from 2017 to 2020 for an overall investment of Eu1.9mn and external funding of Eu0.9mn was 90% complete as at 30 June 2020.

NEUROGLASS: the goal is to design and develop a wearable device for continuous bio-medical data gathering suitable for the early diagnosis of neuro-degenerative illnesses through the use of prescription spectacles incorporating batteries, sensors, data storage, and data processing and signal transmission capabilities. The project objective consists in realising a tested prototype capable of leading to new neurological clinical research and the development of new business activities. The project was launched in September 2018 with an expected duration of 2 years; as at 30 June 2020, it had achieved 95% of the progress envisaged at its inception. The overall investment is Eu252k and external funding amounts to Eu132k.

RIPE: the project objective is to develop instruments capable of supporting new care models to respond to growing demand from the health system for managing chronic illnesses. The specific goals are:

- Establishing evolutionary models of chronic illnesses based on the analysis of patient data;
- Using the models to forecast the progress of the illness and risk stratification;
- Using the risk stratification to optimise the use of health resources.

The project, initiated in August 2018 with an expected duration of 2 years, is now 98% complete; the overall investment is Eu233k and external funding amounts to Eu125k.

LIGURIA4PHEALTH: the project aims to develop an innovative personal/mobile healthcare solution based on the semantic management of clinical data acquired by means of wearable/ambient sensors and processed using predictive algorithms in order to draw up effective recruitment, care and rehabilitation plans. The system will be run from the Cloud using apps to encourage a participatory patient/caregiver relationship, with analysis to support health service providers in the provision of suitable chronic care. The project was begun in July 2018 and was set to run for 2 years; it is now 98% complete. The overall investment is Eu246k and external funding amounts to Eu131k.

GENOVA SICURA: the project aims at the realisation of a prototype Security Centre able to support the safety and security of city dwellers by acting as a defensive system against terror/criminal attacks and extreme hydrogeological events. The platform, which integrates various specialised systems and technologies, is able to provide advanced services to support environmental monitoring and management of the municipal and/or regional emergency response. The project, which began in July 2018 and had a forecast duration of 2 years, is 98% complete; the overall investment is Eu328k and external funding amounts to Eu174k.

BLUESLEMON: the "BT Beacon and Unmanned Aerial System technologies for Landslide Monitoring" project aims to set up a system of automatic monitoring of areas susceptible to landslides based on Bluetooth (BT) Beacon, RFID, and a remotely piloted multi-role/multi-objective aerial system. The project aims to increase the capability to prevent landslide damage through continuous and comprehensive monitoring of vulnerable areas. The objective is to find highly reliable monitoring solutions in order to deal with a problem that is becoming of vital importance. Begun in September 2019 with an expected duration of 3 years, the project is now 45% complete; the overall investment is Eu268k and external funding amounts to Eu134k.

AURA: the project goal is the creation of a new generation of street furniture called 'gGreen & smArt urban furniture' through the development of technology in the ITC domain. Begun in October 2019 with an expected duration of 3 years, it is 15% complete; the overall investment is Eu1,173k and external funding amounts to Eu579k.

STROKE - Multi-modal System for personalized management of post-stroke recovery through technological developments in the electronic and bio-medical domains. In particular, the project encompasses the following:

- Devices for measuring patients' neuro-physiological parameters;
- Sub-system for measuring patients' cardiovascular parameters;
- Sub-system for measuring neuro-muscular activity;
- A virtual reality-based sub-system for managing patient rehabilitation.

The project, initiated in April 2019 with a scheduled duration of 2 years, is 60% complete; the overall investment by FOS Group is Eu739k and external funding amounts to Eu531k.

CYMON – Digital Twin of the Genoa San Giorgio Bridge. The Cymon project in collaboration with Cetena SpA (Fincantieri Group) envisages the realisation of a digital twin to replicate the structural and environmental conditions in real time of a road bridge thanks to sensors and augmented reality, enabling optimisation of maintenance (also already employed on the new Polcevera viaduct). FOS' involvement in the project is the development of prototype platform software for data acquisition and rule management. The FOS investment amounts to ca. Eu241,000, including a ca. Eu68,000 grant from the Start 4.0 Competence Centre. Begun at the start of June 2020, by the end of the same month the project was 5% complete.

Microcosmo Feasibility Study to evaluate the possibility, and the models for so doing, of making available a development of the Microcosmo system (already patented by FOS together with ENEA) to agricultural research laboratories, groups of producers and innovation centres. The recipients would learn by themselves how to manage and improve output or the performance of an experiment. Above all, the study should determine the technical feasibility, through the application of new and innovative technologies, of integrating the IoT and AI paradigms in the current Microcosmo system so as to advance to Microcosmo 2.0.; the Microcosmo 2.0 system will be enabled for connection and management via IoT, either directly or with the aid of AI algorithms aimed at optimising the expected results.

The costs amount to Eu45,200, with an externally funded grant of Eu27,120. As of 30 June 2020, the project was 20% complete.

Drone on Trap – DIVA. A European funded project, "DIVA - Boosting innovative digitech value chains for agrofood, forestry and environment" was presented by the Bolzano research centre in collaboration with MAVTech SRL, which specialises in the production and personalisation of drones. The project will be 100% financed with a voucher for the realisation of the demonstrator worth Eu36,000. As of 30 June 2020, the project was 17% complete.

SAFE 4.0. Initiated in June 2020, the project in collaboration with the Liguria Region Technological and Industrial District (SIIT), and companies such as Smart Track S.r.l. and Novigo Technology S.r.l. with co-financing from the Start 4.0 Competence Centre, is a response to one of the most important social challenges posed by the fourth industrial revolution: using new technologies to increase worker health and safety. The goal is to boost health and safety for workers at industrial plants by automating risk prevention through the use of AI and IoT, resulting in "Connected Workers". The project hinges on integrating innovative methods into the product for analysing the worker's vital signs via wearable IoT devices suitable for the risks involved in the work being performed. In this context, T&G deploys its know-how in IoT with the aim of researching and offering innovative safety solutions. The investment allowed for the project is Eu151,500 with a grant of Eu71,024. As of 30 June 2020 the project was 9% complete.

As well as the aforementioned projects, during previous financial years, three projects for internal innovation were initiated in order to test and improve new features on the company technological platforms in the IoT, biomedical and Industry 4.0 realms. These R&D projects are not financed from public funds and involve the IoT platform, the biomedical domain (development of systems to monitor the functional state of vulnerable people through parameters acquired using ambient and wearable devices) and, last but not least, Industry 4.0 (intelligent factories: the development and integration of IoT systems for automation).

FOS Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
FOS	2.62	EUR	16	3.6%	-3.1%	-12.4%	-17.9%	-19.4%	-19.4%
ALKEMY	5.80	EUR	31	-1.7%	-4.6%	33.0%	-34.1%	-46.5%	-44.8%
BE	1.13	EUR	153	2.5%	-1.2%	10.8%	-10.2%	6.6%	30.9%
CYBEROO	4.16	EUR	40	-1.7%	-3.7%	10.6%	6.1%	16.5%	-4.0%
REPLY	103.40	EUR	3,868	5.0%	41.4%	61.9%	48.9%	85.6%	103.5%
RETELIT	2.42	EUR	398	11.8%	29.8%	56.1%	52.2%	56.1%	79.1%
SESA	87.10	EUR	1,350	16.1%	50.4%	106.2%	82.8%	114.5%	256.2%
TINEXTA	19.64	EUR	909	12.1%	39.3%	89.9%	69.3%	55.9%	225.2%
TXT E-SOLUTIONS	7.91	EUR	103	2.7%	4.1%	18.9%	-18.1%	-3.2%	-5.9%
WIIT	173.00	EUR	459	18.9%	35.7%	71.3%	88.5%	189.3%	322.0%
Mean performance				6.9%	18.8%	44.6%	26.8%	45.5%	94.3%
Italy FTSE Mib	19,607.7	EUR		-0.9%	-1.4%	11.7%	-16.6%	-11.3%	1.8%

Source: FactSet

FOS Peer Group - Multiple Comparison

Stock	Price	Ccy	Mkt cap	EV/Sales 2020	EV/Sales 2021	EV/Ebitda 2020	EV/Ebitda 2021	EV/Ebit 2020	EV/Ebit 2021	P/E 2020	P/E 2021	Div Yield 2020	Div Yield 2021
FOS	2.62	EUR	16	1.1	0.9	5.6	4.6	9.1	7.1	15.7	12.4	0.0%	0.0%
ALKEMY	5.80	EUR	31	0.6	0.5	7.9	6.0	12.2	8.9	18.4	11.4	0.0%	0.0%
BE	1.13	EUR	153	1.0	0.9	5.8	5.1	9.6	8.1	15.5	13.4	2.6%	3.0%
CYBEROO	4.16	EUR	40	4.1	2.5	12.2	6.2	40.4	10.0	62.3	19.6	0.0%	0.0%
REPLY	103.40	EUR	3,868	3.0	2.6	19.3	16.2	23.9	20.1	35.8	31.1	0.5%	0.6%
RETELIT	2.42	EUR	398	3.2	2.7	10.4	8.4	28.3	20.6	32.9	23.2	0.9%	0.9%
SESA	87.10	EUR	1,350	0.7	0.7	13.9	10.7	19.2	14.4	32.8	23.8	0.0%	1.2%
TINEXTA	19.64	EUR	909	3.9	3.5	13.3	11.5	19.3	15.8	23.3	20.0	1.1%	1.3%
TXT E-SOLUTIONS	7.91	EUR	103	1.0	0.8	8.4	6.4	12.0	8.5	27.9	20.3	1.2%	1.7%
WIIT	173.00	EUR	459	10.6	7.5	29.6	19.5	55.3	33.6	57.5	43.2	1.1%	1.4%
Median				3.0	2.5	12.2	8.4	19.3	14.4	32.8	20.3	0.9%	1.2%

Source: Intermonte SIM estimates for covered companies, FactSet consensus estimates for peer group

DETAILS ON STOCKS RECOMMENDATION

Stock NAME	FOS		
Current Recomm:	BUY	Previous Recomm:	--
Current Target (Eu):	4.10	Previous Target (Eu):	--
Current Price (Eu):	2.62	Previous Price (Eu):	--
Date of report:	15/10/2020	Date of last report:	--

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- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
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- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

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Frequency of research: quarterly.

Reports on all companies listed on the S&P500 Index, most of those on the MIBEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

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NEUTRAL: stock performance expected at between +10% and -10% compared to the market over a 12 month period;

UNDERPERFORM: stock expected to underperform the market by between -10% and -25% over a 12 month period;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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BUY:	07.44 %
OUTPERFORM:	52.07 %
NEUTRAL:	33.88 %
UNDERPERFORM	06.61 %
SELL:	00.00 %

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BUY:	11.54 %
OUTPERFORM:	59.62 %
NEUTRAL:	28.84 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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