

Fos	Italy	FTSE AIM Italia	ICT
Rating: BUY (unch.)	Target Price: € 6,00 (prev. 5,30)	Update	Risk: Medium

Stock performance	1M	3M	6M	1Y
absolute	6,27%	16,86%	20,79%	0,00%
to FTSE AIM Italia	-0,75%	-0,38%	-8,54%	-30,83%
to FTSE STAR Italia	1,68%	8,09%	-3,12%	-67,12%
to FTSE All-Share	0,34%	6,54%	-7,82%	-44,40%
to EUROSTOXX	0,55%	6,92%	-1,91%	-40,61%
to MSCI World Index	5,50%	11,80%	2,30%	-51,40%

Stock Data

Price	€ 3,05
Target price	€ 6,00
Upside/(Downside) potential	96,7%
Bloomberg Code	FOS IM EQUITY
Market Cap (€m)	€ 18,98
EV (€m)	€ 17,43
Free Float	35,08%
Share Outstanding	6.221.500
52-week high	€ 3,45
52-week low	€ 2,11
Average daily volumes (3m)	25.000

Key Financials (€m)	FY19A	FY20A	FY21E	FY22E
VoP	12,2	15,8	17,0	19,5
EBITDA Adj.	2,4	2,8	3,3	4,3
EBIT	1,2	1,5	1,8	2,7
Net Profit	0,7	1,0	1,2	1,8
EPS (€)	0,12	0,17	0,18	0,29
EBITDA Adj. margin	19,7%	17,7%	19,4%	21,8%
EBIT margin	9,9%	9,6%	10,6%	13,8%

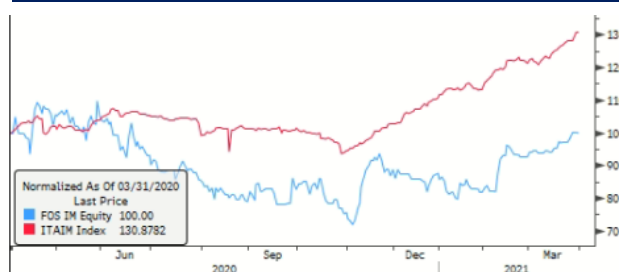
Main Ratios	FY19A	FY20A	FY21E	FY22E
EV/EBITDA (x)	7,3	6,2	5,3	4,1
EV/EBIT (x)	14,5	11,5	9,7	6,5
P/E (x)	26,4	18,3	16,5	10,5

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Stocks performance relative to FTSE AIM Italia



FY20A Results

The value of production amounts to € 15.8 million pro-forma (€ 13.6 million without considering InRebus Technologies), compared with a value of € 12.2 million recorded at the end of 2019 and € 12.80 million estimated in our previous report. The growth compared to 2019 was possible mainly thanks to the amplification of positioning and customer base in all revenue lines, to the amplification of IT outsourcing services, to the diversification of the areas of intervention for the Communication Technology line, to new projects in the field of Engineering and Research and Development and to the new line of revenue for Automation activated during 2020. EBITDA, equal to € 2.8 million pro-forma (€ 2.67 million without InRebus Technologies).

Estimates Update

In the light of the results published in the annual report for 2020A and the completed acquisition, we modify our previous estimates both for the current year and for the coming years. We estimate 2021E value of production of € 17.0 million and EBITDA of € 3.2 million, corresponding to a marginality of 18.8%. For subsequent years, we expect the value of production to increase up to € 21.5 million (CAGR 20A-23E: 10.81%) in 2023E, with EBITDA of € 4.60 million (corresponding to an EBITDA margin of 21.4%), up from € 2.80 million in 2020A (EBITDA margin of 17.7%).

Valuation Update

We have conducted the valuation of FOS's equity value based on the DCF methodology and market multiples of a comparable companies sample. The DCF method (which in the calculation of the WACC includes for prudential purposes also a specific risk of 2.5%) provides an equity value of € 39.6 million. The equity value of FOS using market multiples is € 35.1 million (including a discount of 25%). The result is an average equity value of approx. € 37.3 million. The target price is € 6.00 (prev. € 5.30), we confirm BUY rating and MEDIUM risk unchanged.

1. Economics & Financials

Table 1 – Economics & Financials

CONSOLIDATED INCOME STATEMENT (€/mIn)	FY18A	FY19A	FY20A*	FY21E	FY22E	FY23E
Sales	7,89	9,66	13,00	15,00	17,20	19,00
Other Revenues	1,83	2,53	2,80	2,00	2,30	2,50
Value of Production	9,72	12,19	15,80	17,00	19,50	21,50
COGS	0,81	1,66	1,85	2,00	2,30	2,50
Use of Asset owned by Others	0,17	0,14	0,15	0,20	0,30	0,30
Services	2,44	3,03	3,75	4,00	4,50	5,00
Employees	4,43	4,99	7,00	7,30	7,90	8,65
Other Operating Expenses	0,17	0,19	0,25	0,30	0,35	0,45
EBITDA	1,69	2,19	2,80	3,20	4,15	4,60
<i>EBITDA Margin</i>	<i>17,4%</i>	<i>17,9%</i>	<i>17,7%</i>	<i>18,8%</i>	<i>21,3%</i>	<i>21,4%</i>
Non Recurrent Financial Charges	0,16	0,22	0,00	0,10	0,10	0,10
EBITDA Adj.	1,86	2,40	2,80	3,30	4,25	4,70
<i>EBITDA Margin Adj.</i>	<i>19,1%</i>	<i>19,7%</i>	<i>17,7%</i>	<i>19,4%</i>	<i>21,8%</i>	<i>21,9%</i>
D&A	0,69	0,98	1,28	1,40	1,45	1,50
EBIT	1,00	1,20	1,52	1,80	2,70	3,10
<i>EBIT Margin</i>	<i>10,3%</i>	<i>9,9%</i>	<i>9,6%</i>	<i>10,6%</i>	<i>13,8%</i>	<i>14,4%</i>
Financial Management	(0,23)	(0,15)	(0,17)	(0,10)	(0,05)	(0,05)
EBT	0,77	1,05	1,35	1,70	2,65	3,05
Taxes	0,33	0,33	0,32	0,55	0,85	1,00
Net Income	0,44	0,72	1,04	1,15	1,80	2,05
CONSOLIDATED BALANCE SHEET (€/mIn)	FY18A	FY19A	FY20A*	FY21E	FY22E	FY23E
Fixed Asset	4,11	5,23	6,09	6,60	7,15	7,65
Account receivable	2,81	4,38	5,99	6,30	7,20	7,85
Inventories	0,40	0,42	0,41	0,40	0,40	0,40
Account payable	1,38	2,60	2,61	2,80	3,20	3,50
Operating Working Capital	1,82	2,20	3,78	3,90	4,40	4,75
Other Receivable	2,57	3,48	2,61	4,00	4,60	5,00
Other Payable	2,47	2,89	4,14	4,00	4,55	5,00
Net Working Capital	1,93	2,79	2,26	3,90	4,45	4,75
Severance Indemnities & Provision	1,19	1,15	1,38	1,60	1,75	2,00
NET INVESTED CAPITAL	4,85	6,87	6,96	8,90	9,85	10,40
Share Capital	1,00	1,56	1,56	1,56	1,56	1,56
Reserves and Retained Profits	0,35	5,24	5,92	6,95	8,10	9,90
Net Profit	0,44	0,72	1,04	1,15	1,80	2,05
Equity	1,79	7,51	8,51	9,66	11,46	13,51
Cash and Cash Equivalent	1,25	4,67	7,22	6,46	7,41	9,31
Short-Term Financial debt	0,13	1,50	0,90	1,20	1,50	2,00
ML Term Financial Debt	4,18	2,53	4,77	4,50	4,30	4,20
Net Financial Position	3,06	(0,64)	(1,55)	(0,76)	(1,61)	(3,11)
TOTAL SOURCES	4,85	6,87	6,96	8,90	9,85	10,40
CONSOLIDATED CASH FLOW (€/mIn)	FY18A	FY19A	FY20A*	FY21E	FY22E	FY23E
EBIT	1,00	1,20	1,52	1,80	2,70	3,10
Taxes	0,33	0,33	0,32	0,55	0,85	1,00
NOPAT	0,67	0,87	1,20	1,25	1,85	2,10
D&A	0,69	0,98	1,28	1,40	1,45	1,50
Change in receivable	(0,67)	(1,57)	(1,61)	(0,31)	(0,90)	(0,65)
Change in inventories	(0,00)	(0,02)	0,02	0,01	0,00	0,00
Change in payable	0,15	1,22	0,01	0,19	0,40	0,30
Other Changes	0,33	(0,49)	2,11	(1,53)	(0,05)	0,05
Change in NWC	(0,19)	(0,86)	0,53	(1,64)	(0,55)	(0,30)
Change in Provision	0,04	(0,04)	0,23	0,22	0,15	0,25
OPERATING CASH FLOW	1,21	0,95	3,24	1,22	2,90	3,55
Investments	(3,42)	(2,10)	(2,13)	(1,91)	(2,00)	(2,00)
FREE CASH FLOW	(2,21)	(1,15)	1,11	(0,69)	0,90	1,55
Financial Management	(0,23)	(0,15)	(0,17)	(0,10)	(0,05)	(0,05)
Change in Payable to Banks	1,63	(0,27)	1,63	0,03	0,10	0,40
Change in Equity	(0,19)	5,00	(0,04)	0,00	0,00	0,00
FREE CASH FLOW TO EQUITY (FCFE)	(0,99)	3,42	2,54	(0,76)	0,95	1,90

*Pro-forma data: Integrae SIM elaboration based on press releases published by the Company

Source: FOS and Integrae SIM estimates

1.1 FY20A Results

Table 2 – Actual VS Estimates FY20A

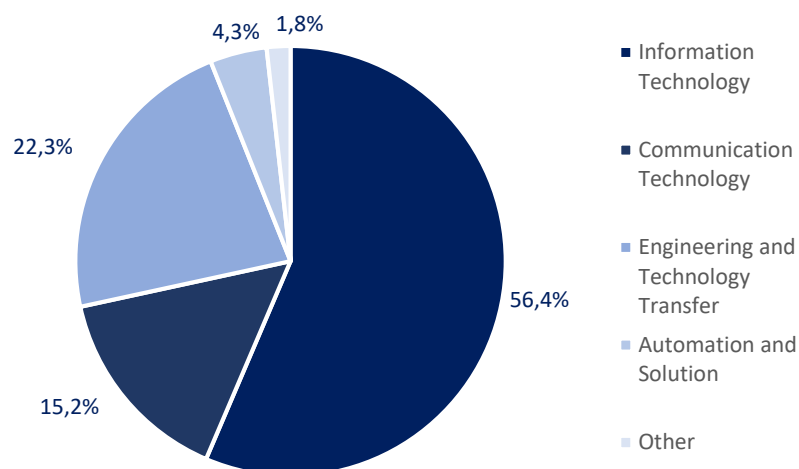
€/mln	VoP	EBITDA	EBITDA %	EBIT	Net Income	NFP
FY20A	15,80	2,80	17,7%	1,52	1,04	(1,55)
FY20E	12,80	2,50	19,5%	1,25	0,75	(1,45)
Change	23,5%	12,2%	-1,8%	22,1%	38,8%	N.A

Source: Integrae SIM

Through a press release, the Company, commenting on the annual results, declares that: *“Our company consolidates the growth path following the listing with a marked improvement in volumes, margins, and cash. Our future programs are focused on pursuing a path of transparency and visibility, oriented toward sustainable success, with growth in turnover and margins based on the solidity of the financial position and balance sheet”.*

The value of production amounts to € 15.8 million pro-forma (€ 13.6 million without considering InRebus Technologies), compared to a value of € 12.2 million recorded at the end of 2019 and € 12.80 million estimated in our previous report. The growth compared to 2019 was possible mainly thanks to the amplification of positioning and customer base in all revenue lines, to the amplification of IT outsourcing services, to the diversification of the areas of intervention for the Communication Technology line, to new projects in the field of Engineering and Research and Development and to the new line of revenue for Automation activated during 2020.

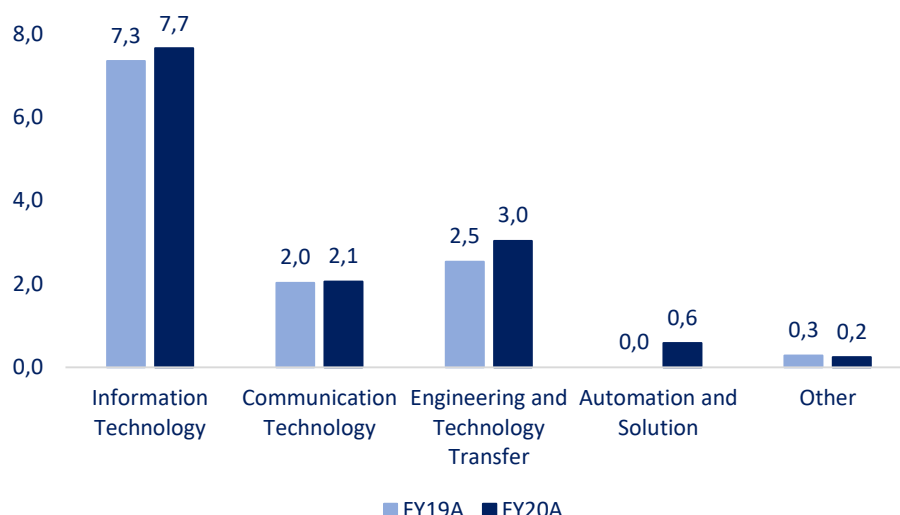
Chart 1 – Revenues Breakdown by Segment



Source: FOS

The Company’s value of production, without considering InRebus Technologies, during 2020A is attributable to the following breakdown: 56.4% Information Technology, 15.2% Communication Technology, 22.3% Engineering and Technology Transfer, 4.3% Automation and Solution, and the remaining 1.8% related to other activities.

Chart 2 – Revenues by Segment 2019-2020



Source: FOS

Each of the main business lines shows an increase in the value of production during the year. The most significant increase is attributable to the Engineering & Technology Transfer line, which shows a growth of about 20%. Besides, the Automation and Solution line was activated during the year.

The growth of the Information Technology line is linked to the expansion of the customer base and to the greater penetration on historical customers, thanks to the greater demand of support for the management of infrastructures and applications, partly linked to the needs of the smartworking. The growth of the Communication Technology line is attributable to the consolidation of the provision of Repair and Refit Multivendor services to Telecommunications operators with the acquisition of new customers, the expansion of services offered to the Gaming and Transport sector, and the start of the Biomedical line. The growth of the Engineering & Technology Transfer line is attributable to the start of new engineering projects born from R&D experience and the consolidation of innovation projects commissioned by direct customers and research and development partnerships. Finally, the Automation and Solution line was activated in 2020 and generated revenues thanks to the start of automation projects linked to new customers in the Transport and Energy sector.

The EBITDA, equal to € 2.80 million pro-forma (€ 2.67 million without considering InRebus Technologies), registered a significant increase compared to € 2.19 million in the previous fiscal year and also up compared to our expectations of € 2.50 million. The EBITDA Margin, equal to 17.7% (19.7% without considering InRebus Technologies), compared to 17.9% in 2019 and 19.5% estimated. The growth of EBITDA, without considering InRebus Technologies, is linked to the expansion of the volume of business, the orientation of the business model toward high added value services, and the efficiency of the processes, generated by cost synergies.

EBIT, equal to € 1.20 million in 2019, amounted to € 1.52 million (€ 1.36 million without considering InRebus Technologies) after amortization and depreciation of € 1.28 million. The value of EBIT also exceeds our expectations, equal to € 1.25 million. As a result, EBIT Margin, equal to 10.0%, without considering InRebus Technologies, also shows an increase compared to last year (9.9%) and our estimates (9.7%). Considering the pro-forma value, EBIT Margin was 9.6%.

Net Profit results to be € 1.04 million (€ 0.72 million in 2019) compared to the expected € 0.75. The value, without considering InRebus Technologies, also increased, amounting to € 0.9 million.

The NFP shows a significant improvement from - € 0.64 million to - € 1.55 million. The improvement is even more significant considering that this value includes the expenditure of € 0.6 million for the acquisition of InRebus Technologies Srl. Moreover, NFP improved compared to last year despite the significant investments in R&D aimed at launching innovation projects for technology transfer to the market.

1.2 Significant Events

Following our latest publication, the Company announced:

- On 22/12/20, to have carried out the closing of the acquisition transaction of 100% of the share capital of InRebus Technologies Srl. Through this acquisition, *“FOS aims to strengthen the growth of InRebus Technologies by integrating the activity of IT services in the Piedmont territory into the Information Technology business line; expanding the digital offer of FOS with a new line dedicated to Digital Learning; activating a new territorial presence as a foothold for other business lines”*. The agreed purchase price is € 1.0 million;
- On 23/12/20, to have completed the merger for incorporation of the wholly-owned Companies, Sesmat Srl and Fos Greentech Srl, with effective date 1 January 2021. The operation is part of the wider process of corporate redefinition of the Group aimed at simplifying its structure and making better use of any operational, administrative, and corporate synergies;
- On 28/01/21, the creation of an innovative start-up called “Piano Green Srl” active in the agro-technological field by the subsidiary Fos Greentech Srl (which holds 65% of the share capital) and Santagata 1907 Spa (which holds 35% of the share capital);
- On 18/02/21, to have received, through its subsidiary T&G, the approval, by the Ministry of University and Research (MUR), for the Geo-Archeo project, dedicated to the digital development of the cultural heritage represented by the geo-archaeological sites (G.A.S.). The project is carried out in collaboration with Grafica Metelliana SpA, Euphorbia Srl, Sapienza University of Rome, and the University of Sannio of Benevento, and involves a total investment of € 3.370 million, financed by the Ministry of Education, University and Research with a non-refundable aid of € 1.613 million. Fos’s investment, through its subsidiary T&G, amounts to € 0.792 million, with a non-refundable aid of € 0.396 million in thirty months.

1.3 FY21E – FY23E Estimates

Table 3 – Estimates Updates FY21E-23E

€/mln	FY21E	FY22E	FY23E
VoP			
New	17,0	19,5	21,5
Old	15,0	17,7	N/A
Change	13,3%	10,2%	N/A
EBITDA			
New	3,2	4,2	4,6
Old	3,1	4,0	N/A
Change	3,2%	3,8%	N/A
EBITDA %			
New	18,8%	21,3%	21,4%
Old	20,7%	22,6%	N/A
Change	-1,8%	-1,3%	N/A
EBIT			
New	1,8	2,7	3,1
Old	1,9	2,9	N/A
Change	-5,3%	-6,9%	N/A
Net Income			
New	1,2	1,8	2,1
Old	1,2	2,0	N/A
Change	-4,2%	-7,7%	N/A
NFP			
New	(0,8)	(1,6)	(3,1)
Old	(2,9)	(4,3)	N/A
Change	N.A	N.A	N/A

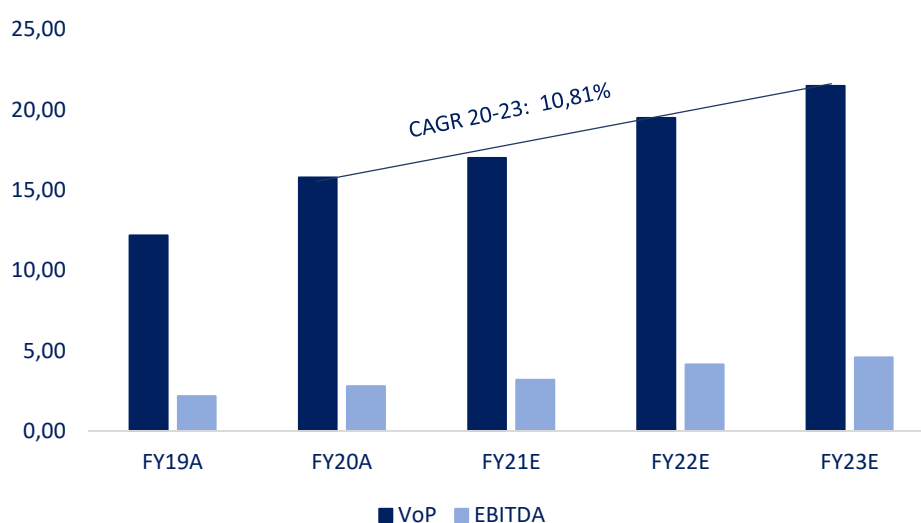
Source: Integrae SIM

In the light of the results published in the annual report for 2020A and the completed acquisition, we modify our previous estimates both for the current year and for the coming years.

In particular, we estimate 2021E value of production of € 17.0 million and EBITDA of € 3.2 million, corresponding to a marginality of 18.8%. For subsequent years, we expect the value of production to increase up to € 21.5 million (CAGR 20A-23E: 10.81%) in 2023E, with EBITDA of € 4.60 million (corresponding to an EBITDA margin of 21.4%), up from € 2.80 million in 2020A (corresponding to an EBITDA margin of 17.7%).

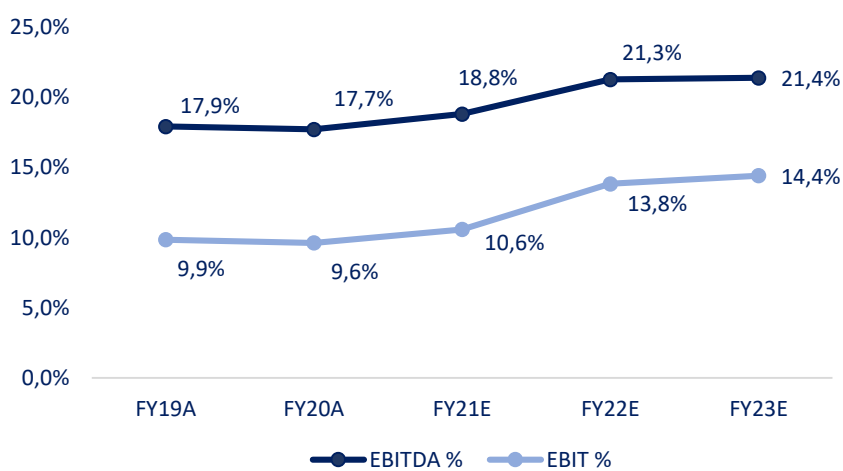
In our current estimates, we considered higher Capex, which affected both EBIT and Net Income (due to higher amortizations), and NFP. Despite this, we believe that the Company can improve its NFP during the years of the plan.

Chart 2 – VoP and EBITDA FY19A-23E



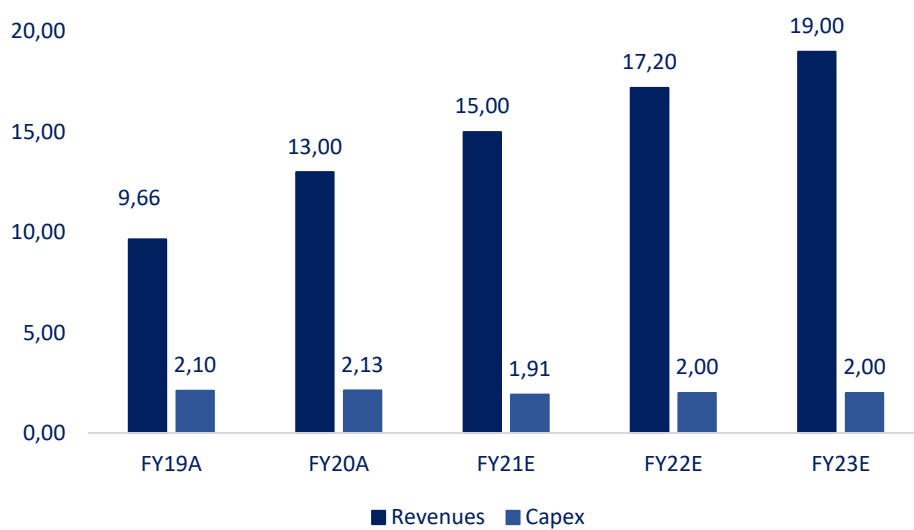
Source: Integrae SIM

Chart 3 – Margin FY19A-23E



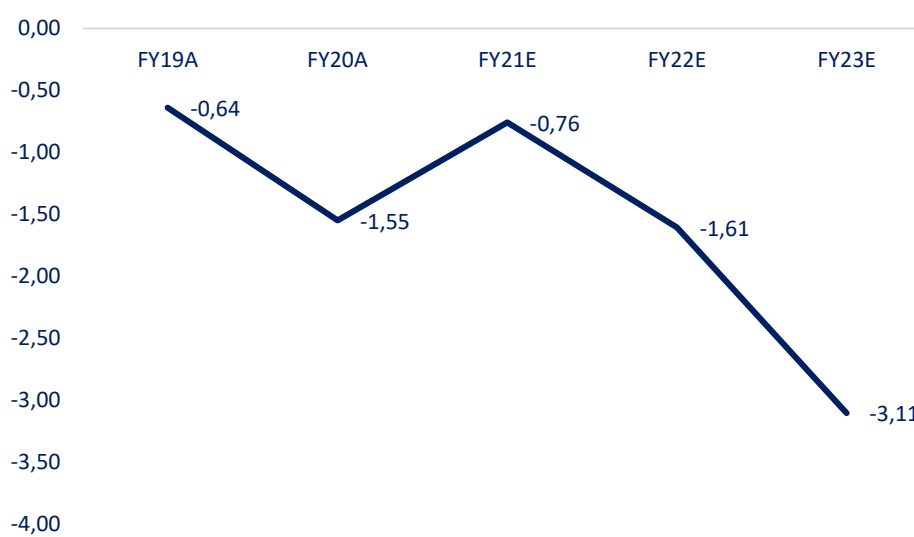
Source: Integrae SIM

Chart 4 – Capex FY19A-23E



Source: Integrae SIM

Chart 5 – NFP FY19A-23E



Source: Integrae SIM

2. Valuation

We have conducted the valuation of FOS's equity value based on the DCF methodology and market multiples of a comparable companies sample.

2.1 DCF Method

Table 4 – WACC

WACC		5,10%
Risk Free Rate	-0,13% α (specific risk)	2,50%
Market Premium	6,85% Beta Adjusted	0,82
D/E (average)	66,67% Beta Relevered	1,22
Ke	8,01% Kd	1,00%

Source: Integrae SIM

For prudential purposes, we have included a specific risk of 2.5%. This results in a WACC of 5.10%.

Table 5 – DCF Valuation

DCF Equity Value		39,6
FCFO actualized	3,7	10%
TV actualized DCF	34,3	90%
Enterprise Value	38,0	100%
NFP (FY20A)	-1,6	

Source: Integrae SIM

With the above data and taking as a reference our estimates and assumption, the result is an **equity value of € 39.6 million.**

Table 6 – Equity Value – Sensitivity Analysis

€/mln		WACC						
		3,6%	4,1%	4,6%	5,1%	5,6%	6,1%	6,6%
Growth rate (g)	2,5%	140,6	96,6	73,5	59,4	49,8	42,9	37,7
	2,0%	98,2	74,8	60,4	50,7	43,6	38,3	34,1
	1,5%	76,1	61,4	51,5	44,3	38,9	34,7	31,3
	1,0%	62,5	52,4	45,1	39,6	35,3	31,8	28,9
	0,5%	53,3	45,9	40,2	35,8	32,3	29,4	27,0
	0,0%	46,6	40,9	36,4	32,8	29,9	27,4	25,3
	-0,5%	41,6	37,1	33,4	30,4	27,9	25,7	23,9

Source: Integrae SIM

2.2 Market multiples

Our panels are made up of companies operating in the same sector as FOS, but many of them with higher capitalization. These companies are the same ones used for the calculation of Beta for the DCF method.

Table 7.1 – Market Multiples IT

Company Name	EV/EBITDA (x)			EV/EBIT (x)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Bouvet ASA	15,4x	14,0x	13,1x	19,1x	17,3x	15,7x
Net One Systems Co., Ltd.	12,6x	11,6x	10,1x	14,4x	13,3x	11,4x
CGI, Inc.	11,5x	11,0x	11,1x	14,7x	14,0x	13,3x
Reply S.p.A.	16,4x	14,9x	13,7x	20,5x	18,2x	16,7x
Tata Consultancy Services Limi...	20,3x	18,3x	N/A	22,1x	19,9x	17,3x
Eurotech S.p.A.	10,7x	8,5x	7,2x	17,4x	10,8x	8,8x
Citrix Systems Inc.	15,3x	14,0x	13,1x	17,6x	16,0x	14,0x
Median	15,3x	14,0x	12,1x	17,6x	16,0x	14,0x

Source: Infinitals

Table 7.2 – Market Multiples TLC

Company Name	EV/EBITDA (x)			EV/EBIT (x)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Cisco Systems Inc.	11,4x	11,2x	11,0x	12,4x	11,8x	11,4x
Juniper Networks Inc.	9,6x	8,8x	9,4x	12,3x	11,2x	10,6x
F5 Networks Inc.	13,7x	12,4x	12,1x	15,3x	13,7x	12,4x
Accton Technology Corp.	17,5x	14,3x	12,1x	19,4x	15,4x	13,3x
Viavi Solutions Inc.	12,4x	11,8x	N/A	14,1x	14,0x	N/A
HMS Networks AB	30,5x	26,7x	24,7x	38,4x	33,7x	30,5x
Ascom Holding AG	16,1x	11,7x	9,8x	29,4x	17,3x	13,5x
Anritsu Corp.	10,9x	10,3x	8,8x	13,5x	12,5x	10,3x
Spirent Communications plc	13,7x	12,8x	12,0x	16,0x	14,7x	13,9x
Median	13,7x	11,8x	11,5x	15,3x	14,0x	12,9x

Source: Infinitals

Table 8 – Market Multiples Valuation

€/mln	2021E	2022E	2023E
Enterprise Value (EV)			
EV/EBITDA	47,7	54,7	55,4
EV/EBIT	29,6	40,5	41,7
Equity Value			
EV/EBITDA	48,4	56,3	58,5
EV/EBIT	30,4	42,1	44,8
Equity Value post 25% discount			
EV/EBITDA	36,3	42,3	43,9
EV/EBIT	22,8	31,6	33,6
Average	29,5	36,9	38,7

Source: Integrae SIM

The equity value of FOS using the market multiples EV/ EBITDA and EV/EBIT is equal to € 46.8 million. To this value, we have applied a 25% discount. Therefore, as a result, **the equity value is € 35.1 million.**

2.3 Equity Value

Table 9 – Equity Value

Average Equity Value (€/mln)	37,3
Equity Value DCF (€/mln)	39,6
Equity Value multiples (€/mln)	35,1
Target Price (€)	6,00

Source: Integrae SIM

The result is an average equity value of € 37.3 million. **The target price is, therefore, € 6.00 (prev. €5.30). We confirm BUY rating and MEDIUM risk.**

Table 10 – Target Price Implied Valuation Multiples

Multiples	FY20A	FY21E	FY22E
EV/EBITDA	12,8x	11,2x	8,6x
EV/EBIT	23,5x	19,9x	13,2x

Source: Integrae SIM

Table 11 – Current Price Implied Valuation Multiples

Multiples	FY20A	FY21E	FY22E
EV/EBITDA	6,2x	5,3x	4,1x
EV/EBIT	11,5x	9,7x	6,5x

Source: Integrae SIM

Disclosure Pursuant to Delegated Regulation UE n. 2016/958 and Consob Regulation n. 20307/2018

Analyst/s certification

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Equity Total Return (ETR) for different risk categories			
Rating	Low Risk	Medium Risk	High Risk
BUY	ETR >= 7.5%	ETR >= 10%	ETR >= 15%
HOLD	-5% < ETR < 7.5%	-5% < ETR < 10%	0% < ETR < 15%
SELL	ETR <= -5%	ETR <= -5%	ETR <= 0%
U.R.	Rating e/o target price Under Review		
N.R.	Stock Not Rated		

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