

FOS - KEY FIGURES

		2019A	2020A	2021E	2022E	2023E
	Fiscal year end	12/12/2019	12/12/2020	12/12/2021	12/12/2022	12/12/2023
PROFIT & LOSS (Eu mn)	Sales	12	14	17	20	22
	EBITDA	2	3	3	4	4
	EBIT	1	1	2	2	3
	Financial income (charges)	(0)	(0)	(0)	(0)	(0)
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	1	1	2	2	3
	Taxes	(0)	(0)	(1)	(1)	(1)
	Tax rate (%)	32.0%	20.7%	31.0%	34.0%	34.0%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	1	1	1	2	2
	Total extraordinary items	(0)	(0)	0	0	0
	Ebitda excl. extraordinary items	2	3	3	4	4
	Ebit excl. extraordinary items	1	2	2	2	3
Net profit restated	1	1	1	2	2	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	6	6	6	6	6
	EPS stated fd	0.114	0.152	0.208	0.249	0.311
	EPS restated fd	0.138	0.190	0.208	0.249	0.311
	BVPS fd	1.206	1.350	1.558	1.808	2.118
	Dividend per share (ord)	0.000	0.000	0.000	0.000	0.000
	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%
CASH FLOW (Eu mn)	Gross cash flow	1	5	3	3	3
	Change in NWC	(0)	(2)	(1)	(0)	(0)
	Capital expenditure	(2)	(1)	(1)	(1)	(1)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	(1)	2	1	1	2
	Acquisitions, divestments & others	0	(1)	0	0	(0)
	Dividend	0	0	0	0	0
	Equity financing/Buy-back	5	0	0	0	0
Change in Net Financial Position	4	1	1	1	2	
BALANCE SHEET (Eu mn)	Total fixed assets	5	6	6	6	5
	Net working capital	2	4	5	5	5
	Long term liabilities	(1)	(3)	(3)	(3)	(3)
	Net capital employed	7	7	8	8	8
	Net financial position	1	2	2	3	5
	Group equity	8	8	10	11	13
	Minorities	0	0	0	0	0
Net equity	8	8	10	11	13	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	20	20	20	20	20
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	1	2	2	3	5
	Enterprise value	20	19	18	17	15
RATIOS(%)	EBITDA margin*	19.7%	21.9%	19.2%	19.7%	20.4%
	EBIT margin*	11.7%	12.2%	11.2%	12.3%	13.5%
	Gearing - Debt/equity	-8.5%	-18.5%	-21.6%	-30.5%	-38.7%
	Interest cover on EBIT	7.6	8.0	14.8	21.3	36.7
	Debt/Ebitda	nm	nm	nm	nm	nm
	ROCE*	20.5%	19.8%	27.0%	31.3%	37.3%
	ROE*	15.3%	11.9%	14.3%	14.8%	15.8%
	EV/CE	3.4	2.8	2.5	2.2	1.9
	EV/Sales	1.6	1.4	1.1	0.9	0.7
	EV/Ebit	14.0	11.4	9.4	7.1	5.2
Free Cash Flow Yield	-6.6%	9.8%	2.7%	6.6%	9.6%	
GROWTH RATES (%)	Sales	25.5%	11.3%	28.9%	12.2%	11.5%
	EBITDA*	29.5%	23.5%	13.1%	15.1%	15.5%
	EBIT*	22.2%	16.8%	17.7%	23.4%	22.7%
	Net profit	60.2%	32.8%	36.9%	20.0%	24.7%
	EPS restated	59.7%	37.5%	9.4%	20.0%	24.7%

* Excluding extraordinary items

Source: Intermonte SIM estimates

Turnover in line, EBITDA and cash generation better. Revenues from pro-forma group sales, i.e. considering the full effect of the InRebus Technologies acquisition that was formally completed on 22nd December 2020, came to c.Eu12.9mn, up 33% vs. the Eu9.7mn posted in 2019. At constant scope, revenues would have come to Eu10.6mn, up 10% YoY and in line with the estimates that we published in our recent initiation of coverage. EBITDA came to Eu2.67mn, higher than our Eu2.39mn estimate thanks to a 19.7% margin, well above our 17.9% assumption, thanks to general cost efficiencies. Following higher than-estimated D&A, EBIT came to Eu1.360mn, still 0.3% above our estimate. Finally, net profit came to Eu0.944mn, above our Eu0.836mn estimate thanks to a lower tax rate. The consolidated NFP as at 31st December 2020 showed a cash position of Eu1.6mn, an improvement on the Eu0.6mn recorded at the end of the previous year, already net of the Eu0.6mn outlay for the InRebus Technologies purchase. The figure was better than expected, as it would have come to Eu2.2mn without the outlay for the acquisition, higher than our Eu1.3mn forecast.

FOS – FY20 results

(Eu mn)	1H19A	2H19A	2019A	1H20A	2H20A	2H20E	A vs E	2020A	2020E	A vs E
Value of production	5.158	7.013	12.194	5.768	7.830	7.666	2.1%	13.574	13.434	1.0%
YoY growth	17.7%	31.5%	25.5%	11.8%	11.6%	9.3%		11.3%	10.2%	
EBITDA reported	0.861	1.325	2.186	1.071	1.599	1.335	19.8%	2.670	2.406	11.0%
YoY growth	19.3%	36.4%	29.1%	24.4%	20.6%	0.8%		22.1%	10.1%	
EBITDA margin	16.7%	18.9%	17.9%	18.6%	20.4%	17.4%		19.7%	17.9%	
D&A	(0.297)	(0.725)	(1.022)	(0.487)	(0.799)	(0.563)		(1.285)	(1.050)	
EBIT reported	0.594	0.608	1.202	0.584	0.776	0.772	0.5%	1.360	1.356	0.3%
EBIT margin	11.5%	8.7%	9.9%	10.1%	9.9%	10.0%		10.0%	10.1%	
Financial Charges	(0.073)	(0.085)	(0.158)	(0.082)	(0.089)	(0.064)		(0.171)	(0.147)	
Financial Income	0.001	0.000	0.001	0.079	(0.078)	(0.059)		0.001	0.020	
Pretax	0.521	0.524	1.045	0.581	0.609	0.648		1.190	1.229	
Taxes	(0.265)	(0.070)	(0.334)	(0.131)	(0.115)	(0.265)		(0.246)	(0.393)	
tax rate	-50.8%	-13.3%	-32.0%	-22.5%	-18.9%	-40.9%		-20.7%	-32.0%	
Net income	0.257	0.454	0.711	0.450	0.494	0.383	29.0%	0.944	0.836	13.0%
YoY growth	-17.3%	240.1%	60.2%	75.4%	8.8%	-15.7%		32.8%	17.6%	

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

Acquisition of the entire capital of InRebus Technologies. FOS signed a binding agreement to purchase the entire share capital of InRebus Technologies, a Turin-based ICT sector company active in projects and digital learning, with a particularly strong presence in the automotive and finance sectors. The company can count on 30 collaborators, and in 2019 it generated Eu2mn in turnover with an adjusted EBITDA margin of c.12% and a positive NFP of Eu42k. The price for 100% was set at Eu1mn, and closing took place on 22nd December 2020. The framework agreement stipulates that the price will be paid mostly in cash (90%) with the remainder coming from the transfer of treasury shares (10%) coming from the buyback launched ahead of the deal; the transferred shares will be subject to an 18-month lock-up. Finally, the agreement stipulates that the selling shareholders, as well as the current CEO of InRebus Technologies, continue to carry out strategic functions after the deal, and in this respect both sellers have committed themselves to the company for three years after the closing date, as well as specific non-competition agreements.

With this deal FOS aims to: 1) give momentum to the growth of InRebus Technologies, integrating its services with those of the Information Technology business; 2) expand the FOS digital offer with a new line dedicated to Digital Learning; 3) establish a new territorial presence for the company's other business lines (Communication Technology, Automation & Solution, Engineering & Technology Transfer). We believe this is an attractive deal, not just for the industrial rationale but also for the financial terms, which involve the payment of multiples of c.0.5x EV/sales and 4.2x EV/EBITDA, both of which are below the multiples at which the company is currently trading.

Change in estimates. We are confirming our estimates at constant scope except for the cash profile, which we are raising to take into account the stronger cash generation recorded in 2H20. In addition, we are adding the contribution of InRebus to our figures, assuming that thanks to cross-selling opportunities with the company's other businesses the growth rate could be higher than the Group's average (we assume 15% turnover growth in the next 3 years). As for profitability, we assume that a larger scale will gradually bring margins up from the current 12%. Overall, we are increasing our EPS estimates for the next 3 years by 11% on average.

FOS – Change to estimates

(Eu mn)	2021E	2022E	2023E
Value of production new	17.499	19.630	21.885
Revenues old	15.353	17.276	19.403
% change	14.0%	13.6%	12.8%
EBITDA	3.360	3.867	4.465
EBITDA	3.109	3.611	4.172
% change	8.1%	7.1%	7.0%
Net profit adj new	1.293	1.551	1.934
Net profit adj old	1.310	1.559	1.911
% change	-1.3%	-0.5%	1.2%
Net Cash new	2.093	3.434	5.106
Net Cash old	2.136	3.389	4.924
% change	-2.0%	1.3%	3.7%

Source: Intermonte SIM estimates

APPENDIX

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.

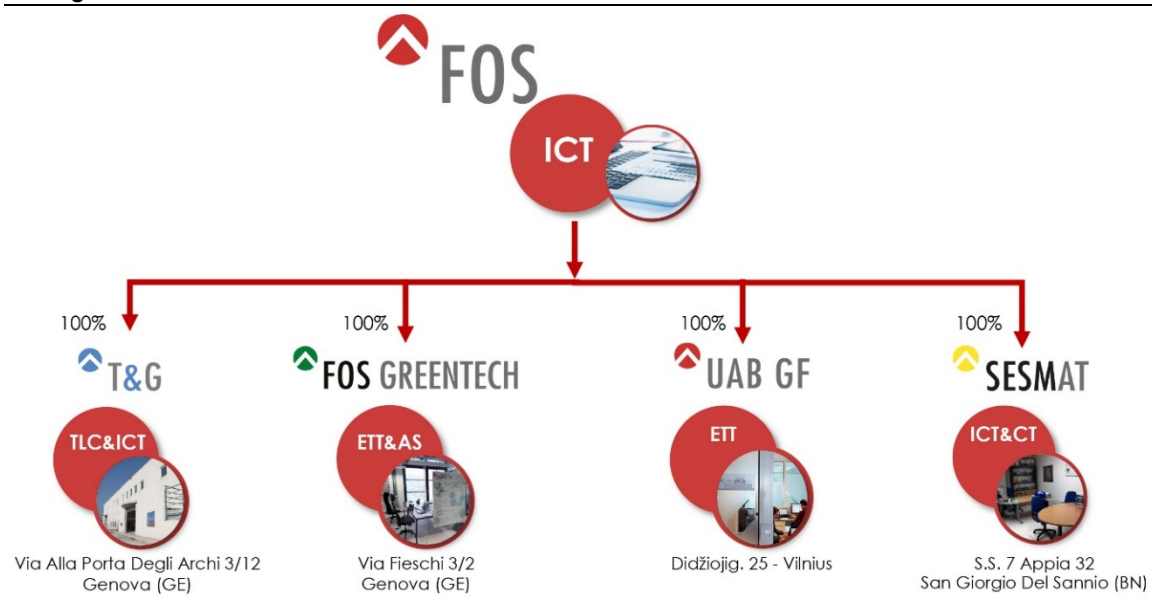
The Group also builds complete IT systems, automation systems and related supporting technological plant, as well as managing these systems or outsourcing their management. The Group's activities also encompass call centres, or centres for marketing, sales, or customer support and / or technical and 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 five 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.
5. **Digital Learning:** The company entered the business through the acquisition of InRebus Technologies, company born in Turin in 2003 as a software house and consulting company, following a development path in the IT sector started in the 90s. A few years ago raised as a challenge the idea of starting a business line devoted to e-learning training alongside the activity of software development.

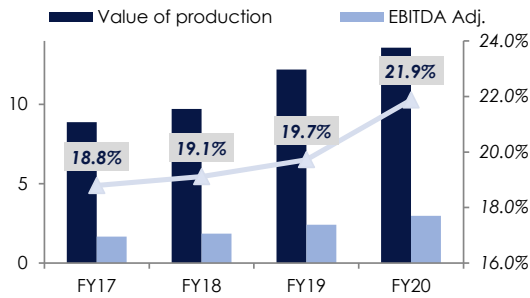
FOS organisational model



Source: Company website

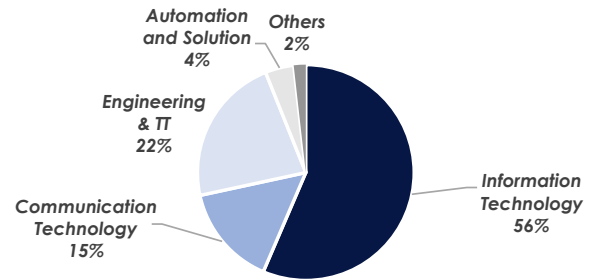
In 2020, the company recorded production value of Eu13.6mn, a 11.3% increase on the previous year that also enabled it to increase its EBITDA margin from 19.7% to 21.9% in one year.

Value of production trends (2017A-20A)



Source: company data

Value of production breakdown by business (2020)

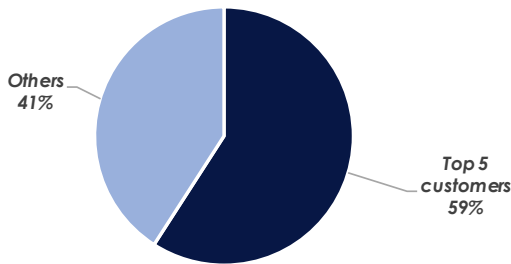


Source: company data

A concentrated but very loyal client base

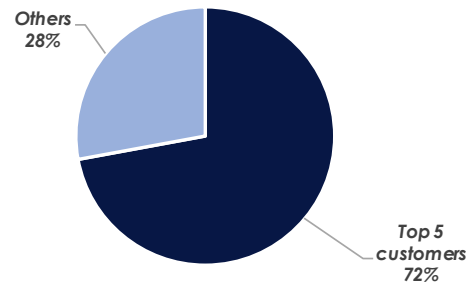
While FOS Group's clientele is still quite concentrated (the top 5 clients in 2019 accounted for 59.1% of turnover), the company has successfully reduced the weight of the top 5 clients in just 12 months, given that only a year ago the top 5 accounted for 72.1% of turnover. While high concentration of 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...



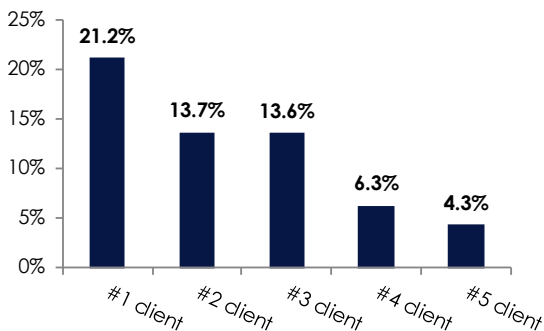
Source: company data

...a strong reduction vs 2018



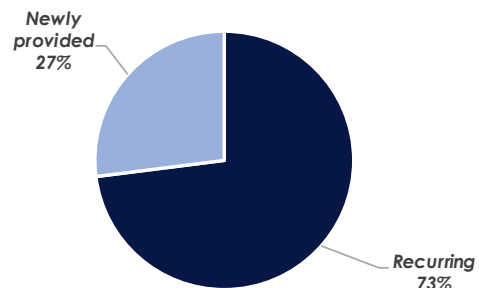
Source: company data

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

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

FOS Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
FOS	3.29	EUR	20	14.4%	31.6%	27.5%	23.2%	9.7%	1.2%
ALKEMY	10.60	EUR	57	10.4%	51.4%	83.4%	49.7%	147.7%	-11.7%
BE	1.55	EUR	209	4.6%	3.6%	41.1%	6.3%	55.2%	38.6%
CYBEROO	5.92	EUR	57	2.1%	-1.7%	46.2%	-0.7%	63.1%	36.6%
REPLY	110.30	EUR	4,126	16.7%	14.1%	9.4%	15.7%	78.0%	91.7%
RETELIT	2.32	EUR	380	4.8%	1.3%	-4.7%	5.0%	51.1%	50.3%
SESA	111.00	EUR	1,720	0.2%	12.7%	30.0%	7.8%	170.7%	302.9%
TINEXTA	23.94	EUR	1,108	10.1%	18.8%	37.6%	14.0%	142.6%	115.7%
TXT E-SOLUTIONS	7.29	EUR	95	4.1%	-5.2%	-8.3%	-7.5%	9.1%	-21.1%
WIIT	156.60	EUR	415	4.4%	-1.2%	-7.3%	-3.9%	57.9%	233.2%
Mean performance				7.2%	12.5%	25.5%	11.0%	78.5%	83.7%
Italy FTSE Mib	24,457.2	EUR	0	1.4%	8.0%	24.0%	10.0%	38.8%	11.9%

Source: FactSet

FOS Peer Group - Multiple Comparison

Stock	Price	Ccy	Mkt cap	EV/Sales	EV/Sales	EV/Ebitda	EV/Ebitda	EV/Ebit	EV/Ebit	P/E	P/E	Div Yield	Div Yield
				2021	2022	2021	2022	2021	2022	2021	2022	2021	2022
FOS	3.29	EUR	20	1.1	0.9	5.5	4.4	9.4	7.1	15.8	13.2	0.0%	0.0%
ALKEMY	10.60	EUR	57	0.8	0.7	9.0	7.2	12.8	9.6	18.8	12.8	0.0%	0.0%
BE	1.55	EUR	209	1.2	1.1	6.6	5.9	10.7	9.3	17.6	15.7	2.3%	2.5%
CYBEROO	5.92	EUR	57	4.0	2.3	12.5	4.8	24.7	6.1	40.6	11.3	0.0%	0.0%
REPLY	110.30	EUR	4,126	2.7	2.4	16.5	14.6	20.6	18.0	30.9	27.7	0.5%	0.6%
RETELIT	2.32	EUR	380	2.7	2.5	8.0	7.3	19.4	16.2	22.5	18.2	1.4%	1.4%
SESA	111.00	EUR	1,720	0.8	0.7	13.5	11.1	18.3	15.0	29.8	24.8	0.9%	1.0%
TINEXTA	23.94	EUR	1,108	3.3	2.9	12.6	10.6	18.0	14.6	21.7	18.5	1.4%	1.6%
TXT E-SOLUTIONS	7.29	EUR	95	0.9	0.8	7.2	5.9	10.7	8.5	17.6	14.8	0.9%	1.1%
WIIT	156.60	EUR	415	7.2	6.3	18.7	15.8	35.6	27.0	43.2	31.9	0.7%	0.9%
Median				2.7	2.3	12.5	7.3	18.3	14.6	22.5	18.2	0.9%	1.0%

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:	BUY
Current Target (Eu):	4.60	Previous Target (Eu):	4.10
Current Price (Eu):	3.29	Previous Price (Eu):	2.62
Date of report:	13/04/2021	Date of last report:	15/10/2020