

Fos	Italy	FTSE AIM Italia	ICT
Rating: BUY (unch.)	Target Price: € 6,50 (prev. 6,00)	Update	Risk: Medium

Stock performance	1M	3M	6M	1Y
absolute	-1,50%	0,00%	22,43%	52,33%
to FTSE AIM Italia	2,20%	-8,29%	-2,95%	-11,11%
to FTSE STAR Italia	3,82%	-5,58%	2,75%	2,27%
to FTSE All-Share	0,81%	-1,48%	17,83%	17,71%
to EUROSTOXX	3,04%	1,07%	20,17%	25,99%
to MSCI World Index	3,10%	0,71%	16,57%	26,00%

Stock Data

Price	€ 3,94
Target price	€ 6,50
Upside/(Downside) potential	64,9%
Bloomberg Code	FOS IM EQUITY
Market Cap (€m)	€ 24,51
EV (€m)	€ 22,96
Free Float	35,08%
Share Outstanding	6.221.500
52-week high	€ 4,30
52-week low	€ 2,11
Average daily volumes (3m)	25.000

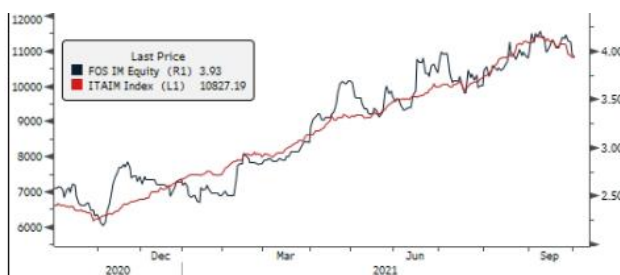
Key Financials (€m)	FY19A	FY20A	FY21E	FY22E
VoP	12,2	15,8	17,0	19,5
EBITDA Adj.	2,4	2,8	3,3	4,3
EBIT	1,2	1,5	1,8	2,7
Net Profit	0,7	1,0	1,2	1,8
EPS (€)	0,12	0,17	0,18	0,29
EBITDA Adj. margin	19,7%	17,7%	19,4%	21,8%
EBIT margin	9,9%	9,6%	10,6%	13,8%

Main Ratios	FY19A	FY20A	FY21E	FY22E
EV/EBITDA (x)	9,6	8,2	7,0	5,4
EV/EBIT (x)	19,1	15,1	12,8	8,5
P/E (x)	34,1	23,7	21,3	13,6

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Stocks performance relative to FTSE AIM Italia



1H21A Results

The value of production amounted to € 8.59 million, an increase of 48.8% compared to the values of the first half of the last year (€ 5.77 million). This was possible thanks to the positive contribution of all revenue lines. EBITDA, equal to € 1.53 million, recorded a significant increase of 43.3% compared to € 1.07 million on June 30, 2020. EBITDA Margin, equal to 17.9%, compared to 18.6% last year. EBIT amounted to € 0.78 million (€ 0.58 million on June 30, 2020) after amortization and depreciation of € 0.75 million. Net profit amounted to € 0.53 million, with a net growth of 42% compared to the result for the first half of 2020 (€ 0.37 million).

Estimates Update

In light of the results published in the half-yearly report for 1H21A, we confirm almost entirely our estimates. In particular, we estimate 2021E VoP of € 17.00 million and EBITDA of € 3.20 million, corresponding to a marginality of 18.8%. For subsequent years, we expect the value of production to increase up to € 21.50 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%).

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 € 47.3 million. The equity value of FOS using market multiples is € 33.5 million (including a discount of 25%). The result is an average equity value of approx. € 40.4 million. The target price is € 6.50 (prev.€ 6.00), 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	1,30	1,00	0,95
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	4,50	5,10	5,70
Employees	4,43	4,99	7,00	7,50	8,60	9,50
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	3,80	4,60	5,00
Other Payable	2,47	2,89	4,14	4,40	4,55	5,00
Net Working Capital	1,93	2,79	2,26	3,30	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	8,30	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	7,06	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)	(1,36)	(1,61)	(3,11)
TOTAL SOURCES	4,85	6,87	6,96	8,30	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	(0,93)	(0,65)	0,05
Change in NWC	(0,19)	(0,86)	0,53	(1,04)	(1,15)	(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	1,82	2,30	3,55
Investments	(3,42)	(2,10)	(2,13)	(1,91)	(2,00)	(2,00)
FREE CASH FLOW	(2,21)	(1,15)	1,11	(0,09)	0,30	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	(0,16)	0,35	1,90

Source: FOS and Integrae SIM estimates

1.1 1H21A Results

Table 2 – 1H21A vs 1H20A

€/mln	VoP	EBITDA	EBITDA %	EBIT	Net Income	NFP
1H21A	8,59	1,53	17,9%	0,78	0,53	(2,13)
1H20A	5,77	1,07	18,6%	0,58	0,37	(1,55)*
Change	48,8%	43,2%	-0,7%	33,6%	42,0%	N.A

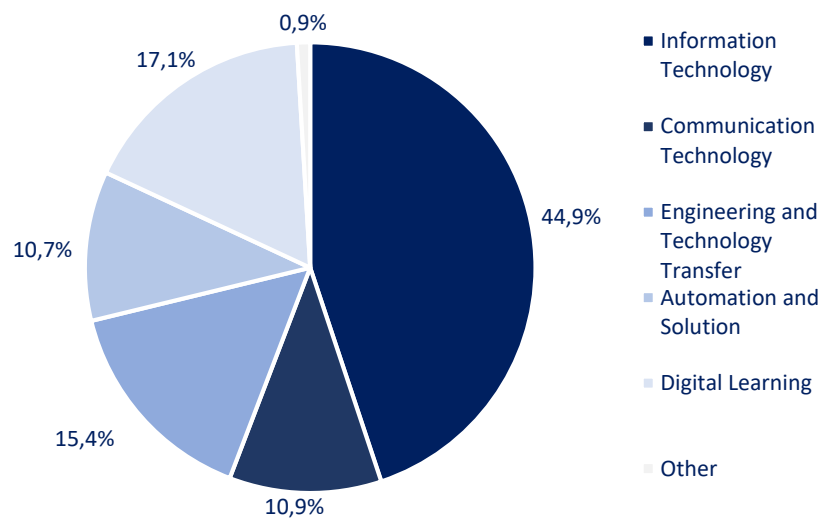
Source: Integrae SIM

*NFP as of 31/12/2020

Through a press release, the Company, commenting on the half-yearly results, states that: *“We close with great satisfaction the 2021 semester in a strong growth. The market appreciates our business proposal that allows customers to build strong and successful businesses over time, "integrating" into their value chain, services, and digital products based on sustainability and continuous innovation. We are very pleased with the strong organic growth, the launch of the startups that we expect will bring value in the future, and the integration of Digital Learning, the result of the acquisition made at the end of 2020. All this leaves us very confident for the continuation of the current year and our growth path.”*

The value of production amounted to € 8.59 million, an increase of 48.8% compared to the values of the first half of the last year (€ 5.77 million). This was possible thanks to the positive contribution of all revenue lines. In particular, this data includes the new Digital Learning business line, deriving from the acquisition of the company Inrebus Srl, which took place at the end of 2020.

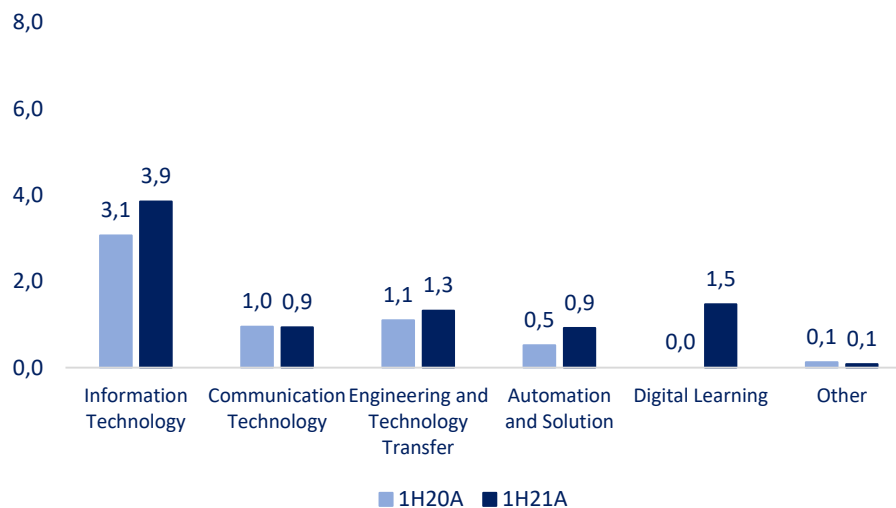
Chart 1 – Revenues Breakdown by Segment



Source: FOS

The main source of revenue, during the first half of 2021, was the Information Technology business line which generated a share of revenues equal to approximately 44.9% of the total. The remaining revenues are divided as follows: 17.1% from the Digital Learning line, 15.4% from the Engineering and Technology Transfer line, 10.9% from the Communication Technology line, and 10.6% from the Automation and Solution line.

Chart 2 – Revenues by segment 1H20A vs 1H21A



Source: FOS

The product lines that contributed most to the increase in revenues were: Information Technology, which amounts to € 3.90 million, with an increase of 25.8% compared to € 3.10 million on June 30, 2020, Engineering and Technology Transfer, which recorded revenues of € 1.30 million (an increase of 20.3% compared to € 1.10 million in the first half of 2020), and Automation and Solution, which recorded revenues of € 0.90 million (an increase of 76.2% compared to € 0.50 million in the first half of the previous year). It is also specified that starting from 2021 a new industrial approach has been carried out to expand the Hardware sale, which goes from the Information Technology line to total management of the Automation and Solution line.

EBITDA, equal to € 1.53 million, recorded a significant increase of 43.3% compared to € 1.07 million on June 30, 2020. This result highlights the strength of the Group's business model, thanks also to the efficiency improvement of the processes deriving from cost synergies developed between the revenue lines. EBITDA Margin, equal to 17.9%, compared to 18.6% last year.

EBIT amounted to € 0.78 million (€ 0.58 million on June 30, 2020) after amortization and depreciation of € 0.75 million.

Net Profit amounted to € 0.53 million, with a net growth of 42% compared to the result for the first half of 2020 (€ 0.37 million).

The NFP is cash positive for € 2.13 million, an improvement compared to December 31, 2020, (cash positive for € 1.55 million). The improvement was achieved thanks to intense monitoring and credit management activity, which led to a better regularity of collections.

1.2 FY21E – FY23E Estimates

Table 3 – Estimates Updates FY21E-23E

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

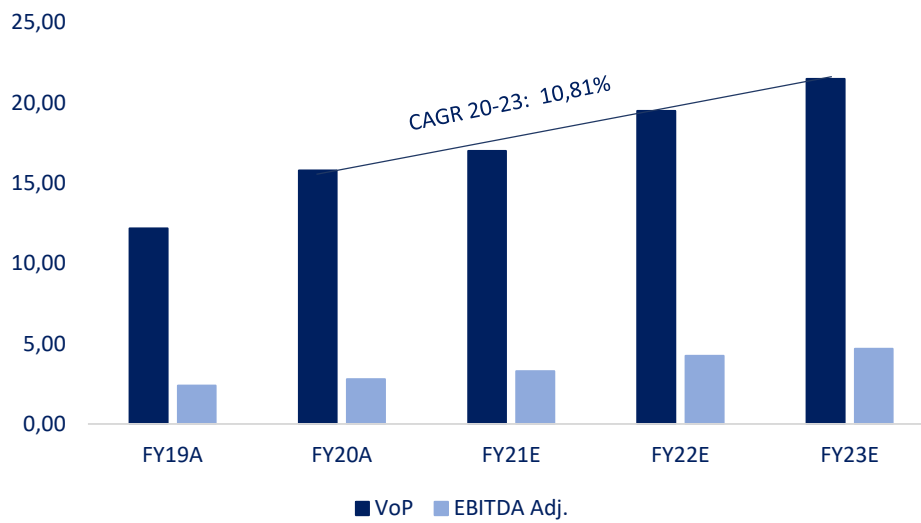
Source: Integrae SIM

In light of the results published in the half-yearly report for 1H21A, we confirm almost entirely our estimates for both the current year and the coming years.

In particular, we estimate 2021E value of production equal to € 17.00 million and EBITDA of € 3.20 million, corresponding to a marginality of 18.8%. For subsequent years, we expect the value of production to increase up to € 21.50 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%).

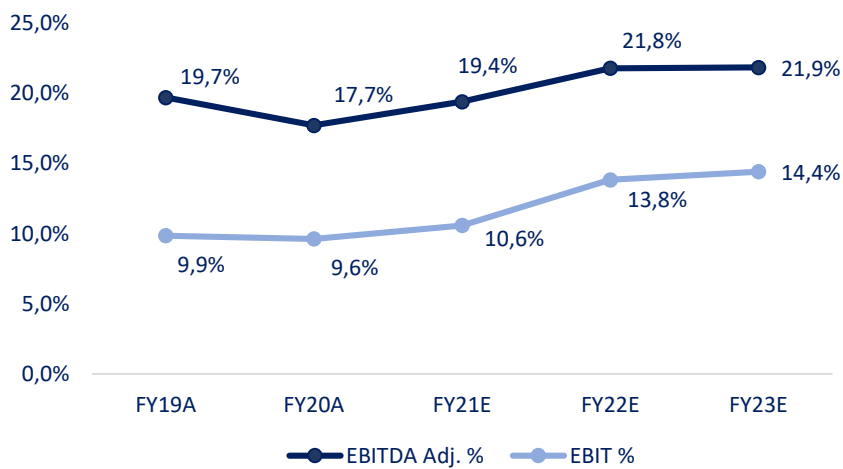
Regarding the Balance Sheet, we estimate a cash positive NFP level for 2023E equal to € 3.10 million.

Chart 3 – VoP and EBITDA Adj. FY19A-23E



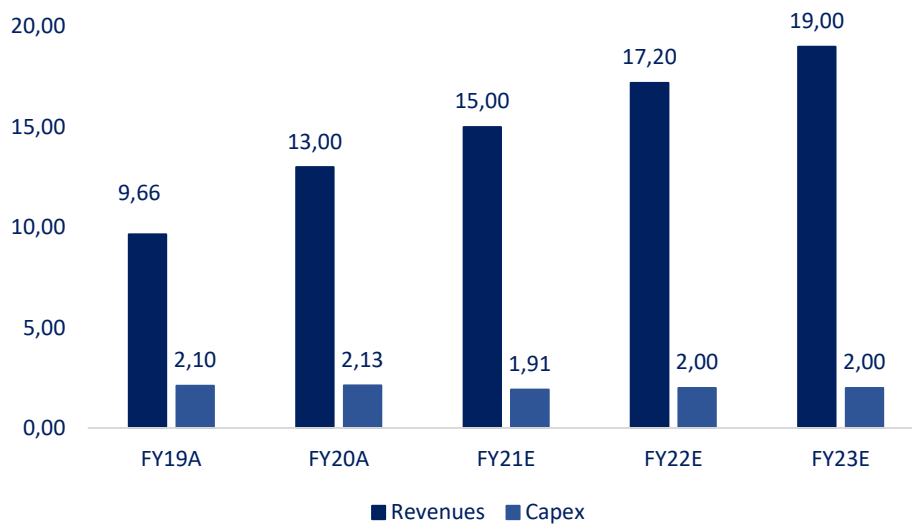
Source: Integrae SIM

Chart 4 – Margin FY19A-23E



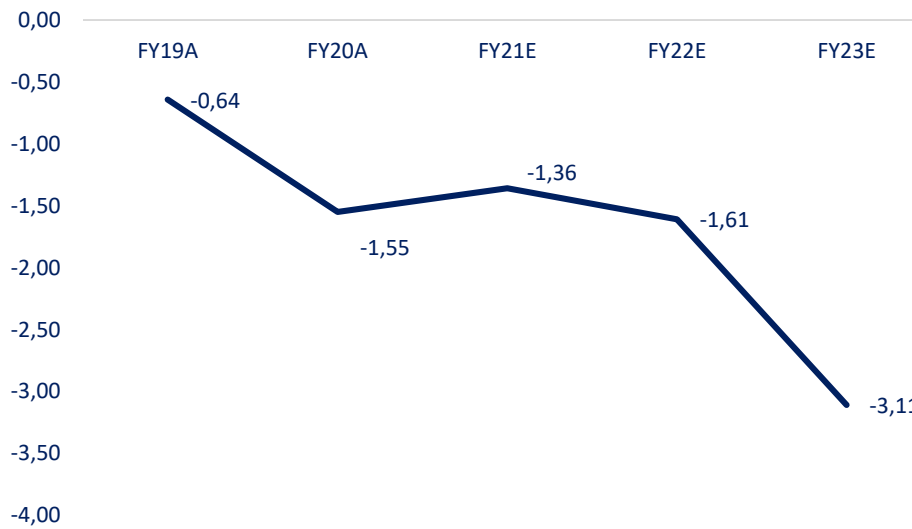
Source: Integrae SIM

Chart 5 – Capex FY19A-23E



Source: Integrae SIM

Chart 6 – 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		5,21%
Risk Free Rate	-0,19% α (specific risk)	2,50%
Market Premium	6,85% Beta Adjusted	0,86
D/E (average)	66,67% Beta Relevered	1,28
Ke	8,21% Kd	1,00%

Source: Integrae SIM

For prudential purposes, we have included a specific risk of 2.5%. This results in a WACC of 5.21%.

Table 5 – DCF Valuation

DCF Equity Value		47,3
FCFO actualized	3,9	9%
TV actualized DCF	41,8	91%
Enterprise Value	45,8	100%
NFP (FY20A)	-1,6	

Source: Integrae SIM

With the above data and taking as a reference our estimates and assumptions, the result is an **equity value of € 47.30 million.**

Table 6 – Equity Value – Sensitivity Analysis

€/mln		WACC						
		3,7%	4,2%	4,7%	5,2%	5,7%	6,2%	6,7%
Growth rate (g)	2,5%	157,8	111,7	86,4	70,5	59,5	51,5	45,4
	2,0%	113,4	87,7	71,5	60,4	52,2	46,0	41,1
	1,5%	89,0	72,6	61,2	53,0	46,7	41,7	37,7
	1,0%	73,7	62,1	53,7	47,3	42,3	38,2	34,8
	0,5%	63,1	54,5	48,0	42,9	38,8	35,3	32,5
	0,0%	55,3	48,7	43,5	39,3	35,8	32,9	30,5
	-0,5%	49,4	44,1	39,9	36,3	33,4	30,9	28,7

Source: Integrae SIM

2.2 Market multiples

Our panel is 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. Panels are composed of:

Table 7.1 – Market Multiples IT

Company Name	EV/EBITDA (x)			EV/EBIT (x)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Bouvet ASA	14,5x	13,4x	12,2x	17,6x	16,2x	14,7x
Net One Systems Co., Ltd.	12,5x	11,2x	10,3x	13,8x	12,5x	11,3x
CGI, Inc.	12,2x	11,7x	11,5x	15,6x	14,8x	14,0x
Reply S.p.A.	25,8x	23,5x	21,3x	32,4x	28,9x	25,8x
Tata Consultancy Services Limi...	25,6x	23,2x	21,1x	27,8x	24,9x	22,7x
Eurotech S.p.A.	23,3x	9,2x	8,4x	18,9x	11,8x	10,5x
Citrix Systems Inc.	12,4x	11,4x	10,7x	15,4x	16,0x	11,4x
Median	14,5x	11,7x	11,5x	17,6x	16,0x	14,0x

Source: Infinancials

Table 7.2 – Market Multiples TLC

Company Name	EV/EBITDA (x)			EV/EBIT (x)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Cisco Systems Inc.	12,1x	11,5x	11,0x	13,4x	12,7x	11,9x
Juniper Networks Inc.	10,3x	9,6x	10,3x	13,1x	12,0x	11,4x
F5 Networks Inc.	12,8x	11,6x	11,3x	14,3x	12,8x	11,5x
Accton Technology Corp.	18,3x	14,0x	11,7x	20,4x	15,3x	12,5x
Viavi Solutions Inc.	11,2x	10,3x	10,6x	12,9x	11,9x	13,1x
HMS Networks AB	35,9x	33,8x	31,0x	44,0x	40,3x	37,7x
Ascom Holding AG	16,4x	12,1x	10,6x	28,2x	18,3x	15,0x
Anritsu Corp.	8,2x	7,7x	6,6x	10,1x	9,3x	7,7x
Spirent Communications plc	16,3x	15,3x	14,5x	19,2x	17,9x	16,8x
Median	12,8x	11,6x	11,0x	14,3x	12,8x	12,5x

Source: Infinancials

Table 8 – Market Multiples Valuation

€/mln	2021E	2022E	2023E
Enterprise Value (EV)			
EV/EBITDA	45,0	49,5	52,9
EV/EBIT	28,7	38,9	41,0
Equity Value			
EV/EBITDA	46,3	51,1	56,0
EV/EBIT	30,1	40,5	44,2
Equity Value post 25% discount			
EV/EBITDA	34,7	38,3	42,0
EV/EBIT	22,5	30,4	33,1
Average	28,6	34,3	37,5

Source: Integrae SIM

The equity value of FOS using the weighted average of market multiples EV/EBITDA and EV/EBIT is equal to € 44.70 million. To this value, we have applied a 25% discount. **Therefore, as a result, the equity value is € 33.50 million.**

2.3 Equity Value

Table 9 – Equity Value

Average Equity Value (€/mln)	40,4
Equity Value DCF (€/mln)	47,3
Equity Value multiples (€/mln)	33,5
Target Price (€)	6,50

Source: Integrae SIM

The result is an average equity value of € 40.40 million. **The target price is, therefore, € 6.50 (prev. €6.00). We confirm BUY rating and MEDIUM risk.**

Table 10 – Target Price Implied Valuation Multiples

Multiples	FY20A	FY21E	FY22E
EV/EBITDA	13,9x	12,1x	9,4x
EV/EBIT	25,6x	21,6x	14,4x

Source: Integrae SIM

Table 11 – Current Price Implied Valuation Multiples

Multiples	FY20A	FY21E	FY22E
EV/EBITDA	8,2x	7,0x	5,4x
EV/EBIT	15,1x	12,8x	8,5x

Source: Integrae SIM

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

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The table below, shows INTEGRAE SIM's recommendation, target price and risk issued during the last 12 months:

Date	Price	Recommendation	Target Price	Risk	Comment
29/09/2020	2,63	Buy	5,30	Medium	Update
01/04/2021	3,05	Buy	6,00	Medium	Update

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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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