

FOS

Sector: Industrials

BUY

Price: Eu4.07 - Target: Eu5.00

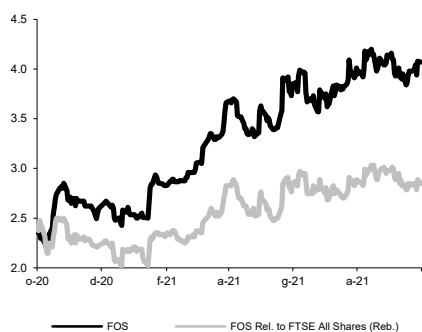
Solid 1H Inspires Confidence on Remainder of Year

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Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 4.60 to 5.00		
	2021E	2022E	2023E
Chg in Adj EPS	-1.8%	-0.9%	0.7%

FOS - 12M Performance



Stock Data

Reuters code: FOS.MI
 Bloomberg code: FOS IM

Performance	1M	3M	12M
Absolute	-1.2%	8.2%	67.1%
Relative	-4.4%	1.5%	27.2%
12M (H/L)	4.20/2.19		
3M Average Volume (th):	23.40		

Shareholder Data

No. of Ord shares (mn):	6
Total no. of shares (mn):	6
Mkt Cap Ord (Eu mn):	26
Total Mkt Cap (Eu mn):	26
Mkt Float - Ord (Eu mn):	9
Mkt Float (in %):	36.2%
Main Shareholder:	
BP Holding Srl	50.6%

Balance Sheet Data

Book Value (Eu mn):	10
BVPS (Eu):	1.52
P/BV:	2.7
Net Financial Position (Eu mn):	2
Enterprise Value (Eu mn):	24

■ **A solid set of results in the first part of the year:** the company published 1H results that showed significant YoY growth, with all areas delivering considerable increases with the exception of the Communications Technology BU, which was flattish YoY. The value of production therefore reached Eu8.6mn, up 49% thanks to the consolidation of Inrebus Technologies, acquired at the end of 2020 (like-for-like growth would nevertheless have come to an excellent +23%). Top line growth filtered through to EBITDA, which was up 43% YoY, with the margin remaining almost flat even though the recently-acquired company reports lower margins than the rest of the group (~12% vs ~18%). Below the line, an increased tax rate brought net income to Eu0.5mn, 15.8% higher than last year. Finally, cash generation in the period enabled the positive NFP to rise from Eu1.6mn at the end of 2020 to Eu2.1mn at the end of June 2021.

■ **InRebus already well integrated:** as previously mentioned, at divisional level robust growth was seen in all BUs with the exception of the Communication Technology line, which recorded a slight contraction (-2% YoY). On the other hand, Information Technology recorded growth of 26% YoY, Engineering and Technology Transfer +20% and Automation and Solutions +76% YoY. Finally, the new Digital Learning business unit born after the acquisition of Inrebus contributed Eu1.5mn to the Value of Production, thus implying growth of about 50% compared to the figure recorded in 1H20 (about Eu1mn), when it was not yet consolidated.

■ **EBITDA up 3.7% on average:** we are revising our estimates upwards to factor in higher organic growth than previously expected, partially offset down the line by higher costs (especially personnel) and D&A. We are then also including the impact of the partial conversion of warrants that occurred in the second available window in September, which led to the issue of 141,062 new ordinary shares and a Eu384k cash-in. Taking into account the dilution, we are revising our EPS slightly downwards by 1.8% and 0.9% for 2021 and 2022 respectively, while the valuation is not affected, as it is already calculated on a fully-diluted basis. Summing up, we now expect the value of production to expand by 34.6% in 2021, of which 15.9% organic, reaching Eu18.3mn and leading to EBITDA of Eu3.5mn, up 30% YoY. As for implicit 2H figures, we expect the value of production to increase by 24%, of which 10.5% organically.

■ **BUY confirmed; target from Eu4.6 to Eu5.0.** We consider an investment in FOS to be attractive as the company's unique offering in the rapidly-growing digital sector 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 make its competitive positioning stand out even when compared 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 confirm our BUY rating on the stock, raising our target price to Eu5.0, thanks to the increase in operating estimates carried out in this report and the re-rating of peers.

Key Figures & Ratios	2019A	2020A	2021E	2022E	2023E
Sales (Eu mn)	12	14	18	21	23
EBITDA Adj (Eu mn)	2	3	3	4	5
Net Profit Adj (Eu mn)	1	1	1	2	2
EPS New Adj (Eu)	0.138	0.190	0.204	0.247	0.313
EPS Old Adj (Eu)	0.138	0.190	0.208	0.249	0.311
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	8.3	5.3	6.9	5.6	4.5
EV/EBIT Adj	14.0	9.6	12.3	9.4	7.0
P/E Adj	29.5	21.4	19.9	16.5	13.0
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	-0.3	-0.5	-0.5	-0.8	-1.1

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FOS – Key Figures						
Profit & Loss (Eu mn)	2018A	2019A	2020A	2021E	2022E	2023E
Sales	10	12	14	18	21	23
EBITDA	2	2	3	3	4	5
EBIT	1	1	1	2	2	3
Financial Income (charges)	-0	-0	-0	-0	-0	-0
Associates & Others	0	0	0	0	0	0
Pre-tax Profit	1	1	1	2	2	3
Taxes	-0	-0	-0	-1	-1	-1
Tax rate	42.4%	32.0%	20.7%	31.0%	34.0%	34.0%
Minorities & Discontinued Operations	0	0	0	0	0	0
Net Profit	0	1	1	1	2	2
EBITDA Adj	2	2	3	3	4	5
EBIT Adj	1	1	2	2	2	3
Net Profit Adj	1	1	1	1	2	2
Per Share Data (Eu)	2018A	2019A	2020A	2021E	2022E	2023E
Total Shares Outstanding (mn) - Average	6	6	6	6	6	6
Total Shares Outstanding (mn) - Year End	6	6	6	6	6	6
EPS f.d	0.071	0.114	0.152	0.204	0.247	0.313
EPS Adj f.d	0.087	0.138	0.190	0.204	0.247	0.313
BVPS f.d	0.288	1.206	1.350	1.525	1.772	2.085
Dividend per Share ORD	0.000	0.000	0.000	0.000	0.000	0.000
Dividend per Share SAV	0.000	0.000	0.000	0.000	0.000	0.000
Dividend Payout Ratio (%)						
Cash Flow (Eu mn)	2018A	2019A	2020A	2021E	2022E	2023E
Gross Cash Flow	2	1	5	3	3	4
Change in NWC	-1	-0	-2	-1	-0	-0
Capital Expenditure	-3	-2	-1	-1	-1	-1
Other Cash Items	0	0	0	0	0	0
Free Cash Flow (FCF)	-2	-1	2	0	1	2
Acquisitions, Divestments & Other Items	-0	0	-1	0	0	-0
Dividends	0	0	0	0	0	0
Equity Financing/Buy-back	-0	5	0	0	0	0
Change in Net Financial Position	-3	4	1	0	1	2
Balance Sheet (Eu mn)	2018A	2019A	2020A	2021E	2022E	2023E
Total Fixed Assets	4	5	6	6	5	5
Net Working Capital	2	2	4	5	6	6
Long term Liabilities	-1	-1	-3	-3	-3	-3
Net Capital Employed	5	7	7	8	8	8
Net Cash (Debt)	-3	1	2	2	3	5
Group Equity	2	8	8	10	11	13
Minorities	0	0	0	0	0	0
Net Equity	2	8	8	10	11	13
Enterprise Value (Eu mn)	2018A	2019A	2020A	2021E	2022E	2023E
Average Mkt Cap		21	17	26	26	26
Adjustments (Associate & Minorities)	0	0	0	0	0	0
Net Cash (Debt)	-3	1	2	2	3	5
Enterprise Value		20	16	24	23	21
Ratios (%)	2018A	2019A	2020A	2021E	2022E	2023E
EBITDA Adj Margin	19.1%	19.7%	21.9%	19.0%	19.5%	20.3%
EBIT Adj Margin	12.0%	11.7%	12.2%	10.7%	11.8%	12.9%
Gearing - Debt/Equity	170.4%	-8.5%	-18.5%	-19.6%	-29.6%	-38.7%
Interest Cover on EBIT	4.4	7.6	8.0	14.6	20.9	37.3
Net Debt/EBITDA Adj	1.6	-0.3	-0.5	-0.5	-0.8	-1.1
ROACE*	29.3%	20.5%	19.8%	26.8%	31.1%	37.9%
ROE*	32.3%	18.5%	14.9%	14.4%	15.0%	16.2%
EV/CE		3.4	2.3	3.3	2.9	2.6
EV/Sales		1.6	1.2	1.3	1.1	0.9
EV/EBITDA Adj		8.3	5.3	6.9	5.6	4.5
EV/EBIT Adj		14.0	9.6	12.3	9.4	7.0
Free Cash Flow Yield	-8.7%	-5.2%	7.8%	1.4%	5.5%	8.1%
Growth Rates (%)	2018A	2019A	2020A	2021E	2022E	2023E
Sales	9.5%	25.5%	11.3%	34.6%	12.3%	11.7%
EBITDA Adj	11.3%	29.5%	23.5%	16.9%	15.3%	16.3%
EBIT Adj	10.0%	22.2%	16.8%	17.7%	23.4%	22.7%
Net Profit Adj	-6.8%	60.2%	32.8%	37.6%	21.0%	26.7%
EPS Adj	-21.0%	59.7%	37.5%	7.4%	21.0%	26.7%
DPS						

*Excluding extraordinary items Source: Intermonte SIM estimates

A solid set of results in the first part of the year: the company published 1H results that showed significant YoY growth, with all areas delivering considerable increases with the exception of the Communications Technology BU, which was flattish YoY. The value of production therefore reached Eu8.6mn, up 49% thanks to the consolidation of Inrebus Technologies, acquired at the end of 2020 (like-for-like growth would nevertheless have come to an excellent +23%). Top line growth filtered through to EBITDA, which was up 43% YoY, with the margin remaining almost flat even though the recently-acquired company reports lower margins than the rest of the group (~12% vs ~18%). Below the line, an increased tax rate brought net income to Eu0.5mn, 15.8% higher than last year. Finally, cash generation in the period enabled the positive NFP to rise from Eu1.6mn at the end of 2020 to Eu2.1mn at the end of June 2021.

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Quarterly results and 1H implied

(Eu mn)	1H19A	2H19A	2019A	1H20A	2H20A	2020A	1H21A	2H21E	2021E
Value of production	5.158	7.013	12.194	5.768	7.830	13.574	8.585	9.681	18.267
YoY growth	17.7%	31.5%	25.5%	11.8%	11.6%	11.3%	48.8%	23.6%	34.6%
EBITDA reported	0.861	1.325	2.186	1.071	1.599	2.670	1.533	1.937	3.471
YoY growth	19.3%	36.4%	29.1%	24.4%	20.6%	22.1%	43.2%	21.2%	30.0%
EBITDA margin	16.7%	18.9%	17.9%	18.6%	20.4%	19.7%	17.9%	20.0%	19.0%
D&A	(0.297)	(0.725)	(1.022)	(0.487)	(0.799)	(1.285)	(0.753)	(0.753)	(1.505)
EBIT reported	0.594	0.608	1.202	0.584	0.776	1.360	0.781	1.185	1.966
EBIT margin	11.5%	8.7%	9.9%	10.1%	9.9%	10.0%	9.1%	12.2%	10.8%
Financial Charges	(0.073)	(0.085)	(0.158)	(0.082)	(0.089)	(0.171)	(0.062)	(0.073)	(0.134)
Financial Income	0.001	0.000	0.001	0.079	(0.078)	0.001	0.008	0.043	0.051
Pretax	0.521	0.524	1.045	0.581	0.609	1.190	0.727	1.156	1.882
Taxes	(0.265)	(0.070)	(0.334)	(0.131)	(0.115)	(0.246)	(0.201)	(0.383)	(0.584)
tax rate	-50.8%	-13.3%	-32.0%	-22.5%	-18.9%	-20.7%	-27.6%	-33.1%	-31.0%
Net income	0.257	0.454	0.711	0.450	0.494	0.944	0.522	0.777	1.299
YoY growth	-17.3%	240.1%	60.2%	75.4%	8.8%	32.8%	15.8%	57.4%	37.6%

Source: Company data & Intermonte SIM Estimates

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Change to estimates

	NEW			OLD			% Change		
	2021	2022	2023	2021	2022	2023	2021	2022	2023
Value of Production	18.267	20.521	22.919	17.499	19.630	21.885	4.4%	4.5%	4.7%
EBITDA	3.471	4.002	4.653	3.360	3.867	4.465	3.3%	3.5%	4.2%
EBIT	1.966	2.446	3.047	1.955	2.412	2.959	0.6%	1.4%	3.0%
Net Income	1.299	1.572	1.992	1.293	1.551	1.934	0.5%	1.3%	3.0%
EPS Adjuted	0.204	0.247	0.313	0.208	0.249	0.311	-1.8%	-0.9%	0.7%
Net Cash/(Debt)	1.900	3.337	5.128	2.093	3.434	5.106	-9.2%	-2.8%	0.4%

Source: Intermonte SIM

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Valuation summary

	Val.	Weight	Weighted val.
DCF valuation (WACC @ 8.0%, g @1.5%)	43.0	50%	21.5
EV/EBITDA 21/22	47.8	17%	8.0
EV/EBIT 21/22	45.1	17%	7.5
PE 21/22	38.7	17%	6.4
SUM			43.4
Discount			10%
Fair value (Eu mn)			39.1
NOSH fully diluted			7.8
Target Price (Eu per share)			5.0

Source: Intermonte SIM

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:

- **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.
- **Communication Technology:** Design, test and inspection, repair&refit for central electronic devices for the main players in Telecommunications.
- **Engineering and Technology Transfer:** Research, development, prototyping, testing and engineering of innovative technological solutions in different application areas.
- **Automation and Solutions:** Development of tools for the management of production facilities aimed primarily at the energy, industry and transport markets.
- **Digital Learning:** Design, development and management of the digital learning system and technical training also at company level. Design and development of apps and games.

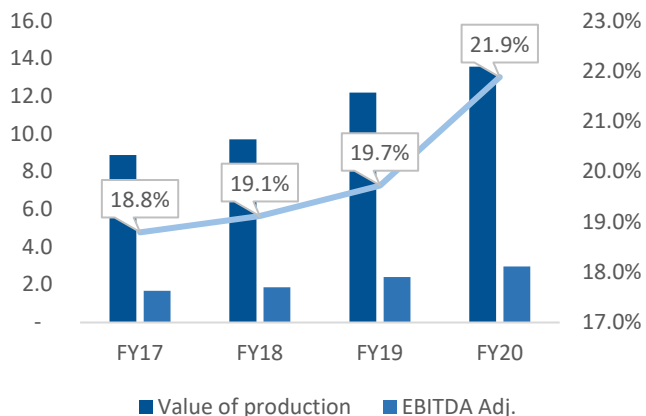
FOS organizational model



Source: Company website

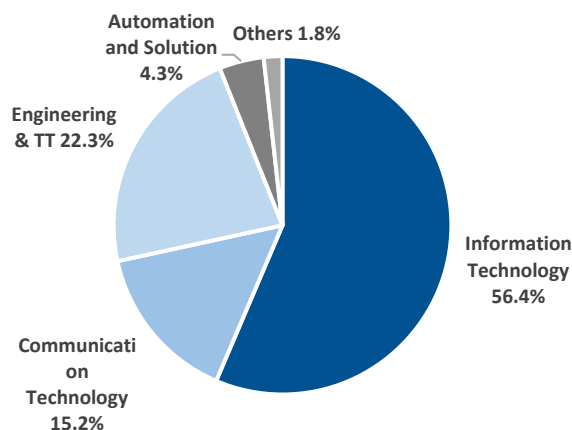
In 2020, the company recorded a value of production of Eu13.6mn, an 11.3% increase on the previous year that also enabled it to increase its EBITDA margin from 19.7% to 21.9% in one year.

Value of production (2017-2020)



Source: Company data

Value of production by business (2020)

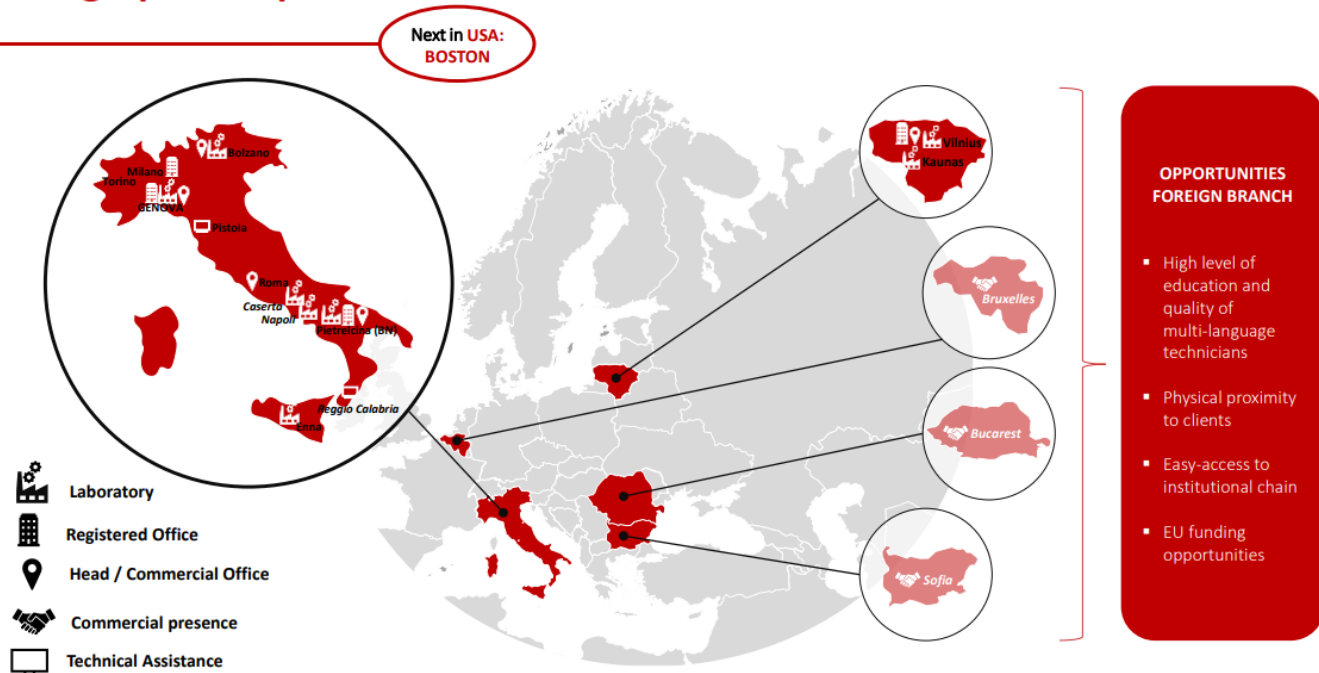


Source: Company data

FOS has its headquarters in Genoa, and has a widespread presence in Italy. 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.

Geographical presence

Geographical Spread



Source: Company presentation

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
- Solid financial structure

Weaknesses

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

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

Threats

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

Source: Intermonte SIM

Peers comparison

Company name	Mkt cap (EU mn)	EV/EBITDA			EV/EBIT			PE		
		2020A	2021E	2022E	2020A	2021E	2022E	2020A	2021E	2022E
ALKEMY	109	7.4 x	13.6 x	11.4 x	13.6 x	17.8 x	14.6 x	56.0 x	23.9 x	18.8 x
BE	323	5.5 x	10.1 x	9.2 x	9.3 x	16.4 x	14.5 x	31.3 x	27.1 x	24.3 x
CYBEROO	73	20.2 x	nm	9.6 x	202.7 x	-197.0 x	13.7 x	nm	nm	21.8 x
RELATECH	106	9.2 x	11.5 x	8.4 x	13.2 x	16.1 x	11.2 x	29.8 x	19.5 x	17.0 x
REPLY	6,207	13.5 x	24.6 x	21.5 x	16.5 x	30.7 x	26.5 x	50.2 x	44.9 x	39.5 x
RETELIT	509	8.3 x	10.1 x	9.2 x	18.0 x	24.4 x	20.4 x	39.7 x	30.1 x	24.4 x
SESA	2,634	6.0 x	9.6 x	15.5 x	8.3 x	13.2 x	20.9 x	64.0 x	45.5 x	34.0 x
TINEXTA	1,987	9.5 x	21.4 x	17.8 x	13.7 x	30.6 x	24.1 x	49.0 x	37.7 x	30.8 x
TXT E-SOLUTIONS	115	8.0 x	8.2 x	6.6 x	18.3 x	13.0 x	9.2 x	23.0 x	21.2 x	15.5 x
WIIT	859	23.3 x	35.5 x	25.7 x	47.0 x	72.7 x	55.6 x	nm	98.4 x	54.5 x
Median		8.7 x	11.5 x	10.5 x	15.1 x	17.1 x	17.5 x	44.3 x	30.1 x	24.3 x

Source: FactSet

DETAILS ON STOCKS RECOMMENDATION			
Stock NAME	FOS		
Current Recomm:	BUY	Previous Recomm:	BUY
Current Target (Eu):	5.00	Previous Target (Eu):	4.60
Current Price (Eu):	4.07	Previous Price (Eu):	3.29
Date of report:	26/10/2021	Date of last report:	13/04/2021

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- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- 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.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 2.5% and a risk premium of 5.0% are being used.

Frequency of research: quarterly.

Reports on all companies listed on the S&P/IB40 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.

A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

Explanation of our ratings system:

BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

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

CURRENT INVESTMENT RESEARCH RATING DISTRIBUTIONS

Intermonte SIM is authorised by CONSOB to provide investment services and is listed at n° 246 in the register of brokerage firms.

As at 30 September 2021 Intermonte's Research Department covered 122 companies. Intermonte's distribution of stock ratings is as follows:

BUY:	17,36 %
OUTPERFORM:	52,89 %
NEUTRAL:	25,62 %
UNDERPERFORM	04,13 %
SELL:	00,00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (55 in total) is as follows:

BUY:	30,91 %
OUTPERFORM:	49,09 %
NEUTRAL:	20,00 %
UNDERPERFORM	00,00 %
SELL:	00,00 %

CONFLICT OF INTEREST

In order to disclose its possible conflicts of interest Intermonte SIM states that:

Within the last year, Intermonte SIM managed or co-managed/is managing or is co-managing an Institutional Offering and/or managed or co-managed/is managing or is co-managing an offering with firm commitment underwriting of the securities of the following Companies: BPER, Cyberoo, Luve, Seri Industrial, The Italian Sea Group, Tinexta, WIIT.

Intermonte SIM has provided in the last 12 months / provides / may provide investment banking services to the following companies: Abitare In, Aedes, Aeroporto di Bologna, Alkemy, Ambienthesis, Azimut, Banca Ifis, Cellularline, Creval, Cy4Gate, ePrice, Falck Renewables, Guala Closures, H-Farm, IEG, Iervolino Entertainment, Link Mobility Group (on AMM shares), Mittel, Nova Re, OVS, Retelit, Saes Getters, Somec, SPSI (on Guala Closures shares), Tesmec, TXT, UBI Banca, and WIIT.

Intermonte acts as financial advisor to Ambienthesis in connection with the announced potential transaction with Greenthesis.

Intermonte SIM is Specialist and/or Corporate Broker and/or Sponsor and/or Broker in charge of the share buy back activity of the following Companies: Abitare In, Aedes, Alkemy, Ambienthesis, Aquafil, Avio, Banca Ifis, Banca Sistema, Cattolica, Cellularline, Cyberoo, Cy4gate, DeA Capital, El.En, Eles, Elica, Emak, Esprinet, Falck Renewables, Fimit - Fondo Alpha, Fine Foods, Gefran, Go Internet, Gpi, Gruppo Fos, GVS, IEG, Iervolino Entertainment, IndelB, Luve, Matica Fintec, Notorious Pictures, Nova Re SIQ, Omer, Pharamnutra, Relatech, Reply, Retelit, Saes Getters, Salcef, Sciuiker Frames, Servizi Italia, Sesa, Seri Industrial, Somec, Tamburi, Tinexta, Tesmec, The Italian Sea Group, Txt and WIIT.

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Through its Websim Division, Intermonte SIM acts as a Retail Investor Research Provider on behalf in regard to the following companies: Aedes, Banca Ifis, Banca Sistema, Cattolica Assicurazioni, Cellularline, CFT Group, Circle, Coima RES, Comer Industries, Crowdfundme, Digital Bros, Digital Magics, Elettra Investimenti, Falck Renewables, Fiera Milano, Finlogica, First Capital, FOPE, Gefran, Generali Assicurazioni, Giglio, Go Internet, H-Farm, Ilpra, Indel B, ISI/Salcef, Italiaonline, La Doria, L'venture, MailUp, Maps, Masi Agricola, Molmed, Neodecortech, Piaggio, Portale Sardegna, Primi sui Motori, Retelit, Safe Bag, Somec, SOS Travel, Tinexta, TPS, WIIT.

Through its Websim Division, Intermonte SIM carries out marketing / communication activities on behalf of the following equity crowdfunding 200Crowd, BacktoWork24, Crowdfundme, Opstart and the following issuers: Banca IMI, BNP Paribas, Credit Suisse, Exane, Leonteq, Unicredit, Vontobel, Wisdomtree.

Intermonte SIM SpA holds net long or short positions in excess of 0.5% of the overall share capital in the following issuers:

Emittente	%	Long/Short
AEDES NEW	3,7	LONG
COGEME SET SPA	1,6	SHORT
IKF	0,57	SHORT
OLIDATA	0,74	SHORT

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