

Fos	Italy	Euronext Growth Milan	ICT
Rating: BUY (unch.)	Target Price: € 6,50 (prev. 6,35)	Update	Risk: Medium

Stock performance	1M	3M	6M	1Y
absolute	-1,55%	-17,66%	-20,95%	-3,65%
to FTSE Italia Growth	-4,86%	-8,32%	-17,32%	-24,43%
to Euronext STAR Milan	-2,58%	-2,76%	-14,16%	-13,67%
to FTSE All-Share	-3,98%	-8,13%	-19,11%	-5,36%
to EUROSTOXX	-4,12%	-8,13%	-19,00%	-2,34%
to MSCI World Index	-4,68%	-11,97%	-23,09%	-9,93%

Stock Data

Price	€ 3,17
Target price	€ 6,50
Upside/(Downside) potential	105,1%
Bloomberg Code	FOS IM EQUITY
Market Cap (€m)	€ 20,17
EV (€m)	€ 18,44
Free Float	36,20%
Share Outstanding	6.362.562
52-week high	€ 4,30
52-week low	€ 2,94
Average daily volumes (3m)	10.900

Key Financials (€m)	FY21A	FY22E	FY23E	FY24E
VoP	17,6	19,5	21,5	23,5
EBITDA Adj.	3,1	4,2	4,6	5,1
EBIT	1,6	2,6	3,0	3,4
Net Profit	1,1	1,9	2,1	2,4
EPS (€)	0,17	0,29	0,33	0,38
EBITDA Adj. margin	17,9%	21,3%	21,4%	21,5%
EBIT margin	9,1%	13,1%	13,7%	14,3%

Main Ratios	FY21A	FY22E	FY23E	FY24E
EV/EBITDA (x)	5,9	4,4	4,0	3,7
EV/EBIT (x)	11,5	7,2	6,2	5,5
P/E (x)	18,8	10,9	9,6	8,4

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Stocks performance relative to FTSE Italia Growth



FY21A Results

The value of production stands at € 17.60 million, compared to a value of € 15.80 million pro-forma recorded at the end of 2020 and € 17.00 million estimated in our previous report. EBITDA, equal to € 3.14 million, recorded an increase compared to the € 2.80 million pro-forma of the previous fiscal year and is in line with our expectations of € 3.20 million. The EBITDA Margin is equal to 17.9%, compared to 17.7% in 2020 and 18.8% estimated. Net profit stands at € 1.07 million in line with the expected € 1.15 million. The NFP shows a significant improvement from € -1.55 million to € -1.73 million.

Estimates Update

We estimate 2022E value of production of € 19.50 million and EBITDA of € 4.15 million, corresponding to a marginality of 21.3%. For subsequent years, we expect the value of production to increase up to € 23.5 million (CAGR 21A-24E: 10.12%) in 2024E, with EBITDA of € 5.05 million (corresponding to an EBITDA margin of 21.5%), up from € 3.14 million in 2021A (corresponding to an EBITDA margin of 17.9%). In terms of the Balance Sheet, we estimate a cash positive NFP for 2024E equal to € 5.42 million.

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 € 44.7 million. The equity value of FOS using market multiples is € 38.0 million (including a discount of 25%). The result is an average equity value of approx. € 41.4 million. The target price is € 6.50, rating BUY and MEDIUM risk.

1. Economics & Financials

Table 1 – Economics & Financials

CONSOLIDATED INCOME STATEMENT (€/mln)	FY19A	FY20A*	FY21A	FY22E	FY23E	FY24E
Sales	9,66	13,00	14,84	17,20	19,00	21,00
Other Revenues	2,53	2,80	2,76	2,30	2,50	2,50
Value of Production	12,19	15,80	17,60	19,50	21,50	23,50
COGS	1,66	1,85	1,12	1,00	0,95	1,00
Use of Asset owned by Others	0,14	0,15	0,17	0,30	0,30	0,30
Services	3,03	3,75	4,90	5,10	5,70	6,20
Employees	4,99	7,00	8,12	8,60	9,50	10,50
Other Operating Expenses	0,19	0,25	0,14	0,35	0,45	0,45
EBITDA	2,19	2,80	3,14	4,15	4,60	5,05
<i>EBITDA Margin</i>	<i>17,9%</i>	<i>17,7%</i>	<i>17,9%</i>	<i>21,3%</i>	<i>21,4%</i>	<i>21,5%</i>
Non Recurrent Financial Charges	0,22	0,00	0,00	0,00	0,00	0,00
EBITDA Adj.	2,40	2,80	3,14	4,15	4,60	5,05
<i>EBITDA Margin Adj.</i>	<i>19,7%</i>	<i>17,7%</i>	<i>17,9%</i>	<i>21,3%</i>	<i>21,4%</i>	<i>21,5%</i>
D&A	0,98	1,28	1,54	1,60	1,65	1,70
EBIT	1,20	1,52	1,61	2,55	2,95	3,35
<i>EBIT Margin</i>	<i>9,9%</i>	<i>9,6%</i>	<i>9,1%</i>	<i>13,1%</i>	<i>13,7%</i>	<i>14,3%</i>
Financial Management	(0,15)	(0,17)	(0,14)	(0,05)	(0,05)	(0,05)
EBT	1,05	1,35	1,47	2,50	2,90	3,30
Taxes	0,33	0,32	0,40	0,65	0,80	0,90
Net Income	0,72	1,04	1,07	1,85	2,10	2,40
Minorities	0,00	0,00	0,00	0,00	0,00	0,00
CONSOLIDATED BALANCE SHEET (€/mln)	FY19A	FY20A*	FY21A	FY22E	FY23E	FY24E
Fixed Asset	5,23	6,09	6,25	6,65	7,00	7,30
Account receivable	4,38	5,99	6,97	8,00	8,80	9,70
Inventories	0,42	0,41	0,38	0,40	0,40	0,40
Account payable	2,60	2,61	2,86	2,90	3,20	3,50
Operating Working Capital	2,20	3,78	4,49	5,50	6,00	6,60
Other Receivable	3,48	2,61	2,79	3,20	3,50	3,85
Other Payable	2,89	4,14	4,32	4,40	4,80	5,20
Net Working Capital	2,79	2,26	2,96	4,30	4,70	5,25
Severance Indemnities & Provision	1,15	1,38	1,49	1,75	2,00	2,20
NET INVESTED CAPITAL	6,87	6,96	7,71	9,20	9,70	10,35
Share Capital	1,56	1,56	1,59	1,59	1,59	1,59
Reserves and Retained Profits	5,24	5,92	6,76	7,83	9,68	11,78
Net Profit	0,72	1,04	1,07	1,85	2,10	2,40
Equity	7,51	8,51	9,42	11,27	13,37	15,77
Minorities Equity	0,00	0,00	0,02	0,00	0,00	0,00
Cash and Cash Equivalent	4,67	7,21	8,16	8,07	9,97	12,02
Short-Term Financial debt	1,50	0,90	1,38	1,50	2,00	2,50
ML Term Financial Debt	2,53	4,77	5,05	4,50	4,30	4,10
Net Financial Position	(0,64)	(1,55)	(1,73)	(2,07)	(3,67)	(5,42)
TOTAL SOURCES	6,87	6,96	7,71	9,20	9,70	10,35
CONSOLIDATED CASH FLOW (€/mln)	FY19A	FY20A*	FY21A	FY22E	FY23E	FY24E
EBIT	1,20	1,52	1,61	2,55	2,95	3,35
Taxes	0,33	0,32	0,40	0,65	0,80	0,90
NOPAT	0,87	1,20	1,21	1,90	2,15	2,45
D&A	0,98	1,28	1,54	1,60	1,65	1,70
Change in receivable	(1,57)	(1,61)	(0,98)	(1,03)	(0,80)	(0,90)
Change in inventories	(0,02)	0,02	0,03	(0,02)	0,00	0,00
Change in payable	1,22	0,01	0,25	0,04	0,30	0,30
Other Changes	(0,49)	2,11	0,00	(0,33)	0,10	0,05
Change in NWC	(0,86)	0,53	(0,70)	(1,34)	(0,40)	(0,55)
Change in Provision	(0,04)	0,23	0,10	0,26	0,25	0,20
OPERATING CASH FLOW	0,95	3,24	2,15	2,42	3,65	3,80
Investments	(2,10)	(2,13)	(1,69)	(2,00)	(2,00)	(2,00)
FREE CASH FLOW	(1,15)	1,11	0,46	0,41	1,65	1,80
Financial Management	(0,15)	(0,17)	(0,14)	(0,05)	(0,05)	(0,05)
Change in Payable to Banks	(0,27)	1,63	0,76	(0,43)	0,30	0,30
Change in Equity	5,00	(0,04)	(0,13)	0,00	0,00	0,00
FREE CASH FLOW TO EQUITY (FCFE)	3,42	2,54	0,95	(0,06)	1,90	2,05

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

Source: FOS and Integrae SIM estimates

1.1 FY21A Results

Table 2 – Actual VS Estimates FY21A

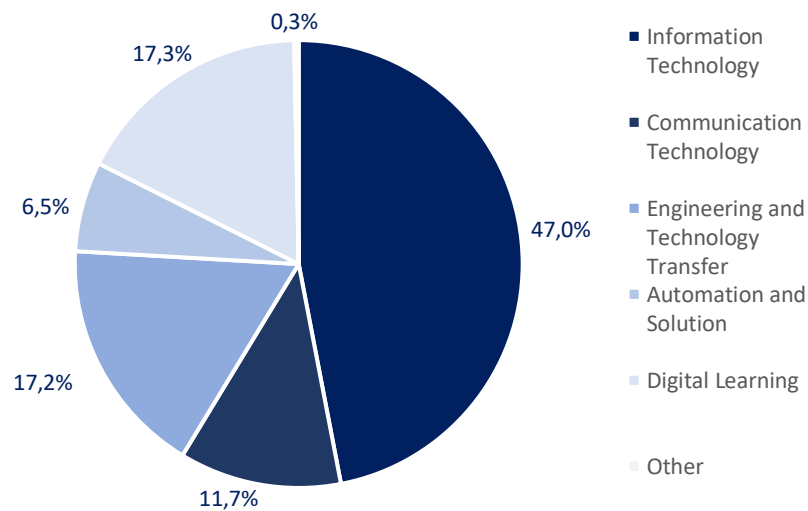
€/mln	VoP	EBITDA	EBITDA %	EBIT	Net Income	NFP
FY21A	17,60	3,14	17,9%	1,61	1,07	(1,73)
FY21E	17,00	3,20	18,8%	1,80	1,15	(1,36)
Change	3,5%	-1,8%	-1,0%	-10,8%	-6,9%	N.A

Source: Integrae SIM

Through a press release, the Company, commenting on the annual results, declares: *"Our company consolidates a robust growth path, doubling volumes in two years and always maintaining high marginality and cash flow. [...] 2021 was a year of great satisfaction. The business model of recurring technology services, with the expansion of revenues across all business lines, the increase in revenues from proprietary digital platforms, and the launch of three new start-ups to enhance intellectual property, allow us to look to the future with confidence. We believe that we need to work even harder on acquiring human capital, which is a major challenge for the digital sector in the coming years. The experience of our corporate Academy allows us to guarantee our customers specialized dedicated teams. We consider 2022 a promising year for further healthy and sustainable growth for our Group. "*

The value of production stands at € 17.60 million, compared to a value of € 15.80 million pro-forma recorded at the end of 2020 and € 17.00 million estimated in our previous report. The growth compared to 2020 was possible mainly thanks to the strengthening of the positioning and expansion of the customer base in all revenue lines, the expansion of services in SaaS and IT outsourcing mode, the diversification of the areas of intervention for the Communication Technology line, new projects in the field of Engineering and Research and Development, and the new Digital Learning revenue line.

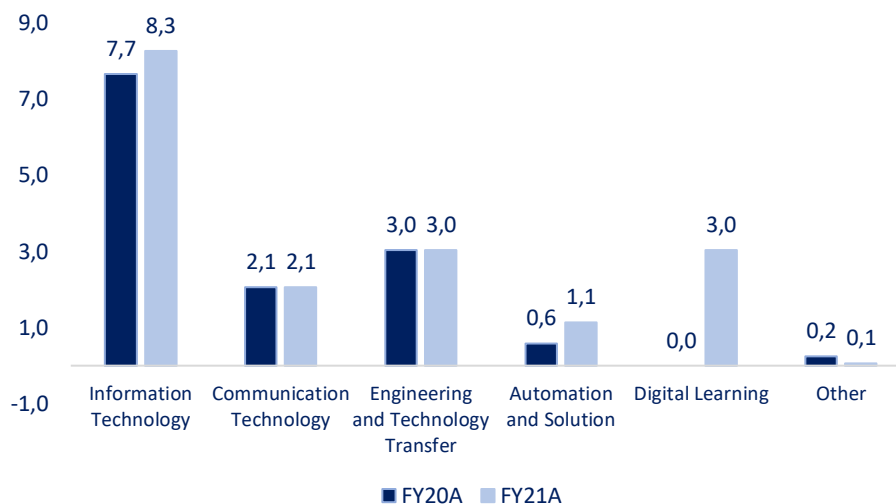
Chart 1 – Revenues Breakdown by Segment



Source: FOS

The Company's value of production, during 2021A, is attributable to the following breakdown: 47.0% Information Technology, 11.7% Communication Technology, 17.2% Engineering and Technology Transfer, 6.5% Automation and Solution, 17.3% from the new Digital Learning line, and the remaining 0.3% linked to other activities.

Chart 2 – Revenues by Segment 2020-2021



Source: FOS

Most of the major lines of the business show an increase in the value of production during the year. The most significant increase is attributable to the Automation and Solution line (created in 2020) which shows a growth of approximately 97.2%. In addition, during the year, the Digital Learning line was activated, which contributed € 3.04 million.

The growth of the Information Technology line is linked to the expansion of the customer base, greater penetration on historical customers, strengthening of the technological level of the company's offer, greater specialization in vertical markets, and, finally, to the expansion of the reference territories monitored. The Communication Technology line has seen the acquisition of new Telco customers, while the performance of the Transport sector is in line with the previous fiscal year. The Biomedical line was also consolidated, with tangible results starting next fiscal year. The growth of the Automation & Solution line is due to the launch of new automation projects in the Transport and Energy sector. For the Engineering & Technology Transfer line, the Group has launched new engineering projects based on experience in the R&D field and has consolidated innovation projects commissioned by direct customers and by research and development partnerships on funded contracts. Finally, the integration within the Group of the Digital Learning line, created in 2021, has allowed the latter to grow both in quantitative and qualitative terms, with the development of a replicable business model.

EBITDA, equal to € 3.14 million, recorded an increase compared to the € 2.80 million pro-forma of the previous year and is substantially in line with our expectations of € 3.20 million. The EBITDA margin is equal to 17.9%, compared to 17.7% in 2020 and 18.8% estimated. The growth in EBITDA is mainly due to geographical positioning, customer loyalty, and the ability to integrate the offer.

EBIT, equal to € 1.52 million pro-forma in 2020, amounts to € 1.61 million after amortization and depreciation of € 1.54 million, compared to our estimates of € 1.80 million. Net Profit stands at € 1.07 million (€ 1.04 million in 2020 considering InRebus Technologies) in line with € 1.15 million expected.

The NFP shows a significant improvement from € -1.55 million to € -1.73 million, taking into account investments in start-up constitutions and the purchase of treasury shares relating to the buy-back plan approved by the shareholders' meeting. The NFP also improves compared to our estimates, amounting to € -1.36 million.

1.2 FY22E – FY24E Estimates

Table 3 – Estimates Updates FY22E-24E

€/mln	FY22E	FY23E	FY24E
VoP			
New	19,5	21,5	23,5
Old	19,5	21,5	N.A
Change	0,0%	0,0%	N.A
EBITDA			
New	4,2	4,6	5,1
Old	4,2	4,6	N.A
Change	0,0%	0,0%	N.A
EBITDA %			
New	21,3%	21,4%	21,5%
Old	21,3%	21,4%	N.A
Change	0,0%	0,0%	N.A
EBIT			
New	2,6	3,0	3,4
Old	2,7	3,1	N.A
Change	-5,6%	-4,8%	N.A
Net Income			
New	1,9	2,1	2,4
Old	1,8	2,1	N.A
Change	2,8%	2,4%	N.A
NFP			
New	(2,1)	(3,7)	(5,4)
Old	(1,6)	(3,1)	N.A
Change	N.A	N.A	N.A

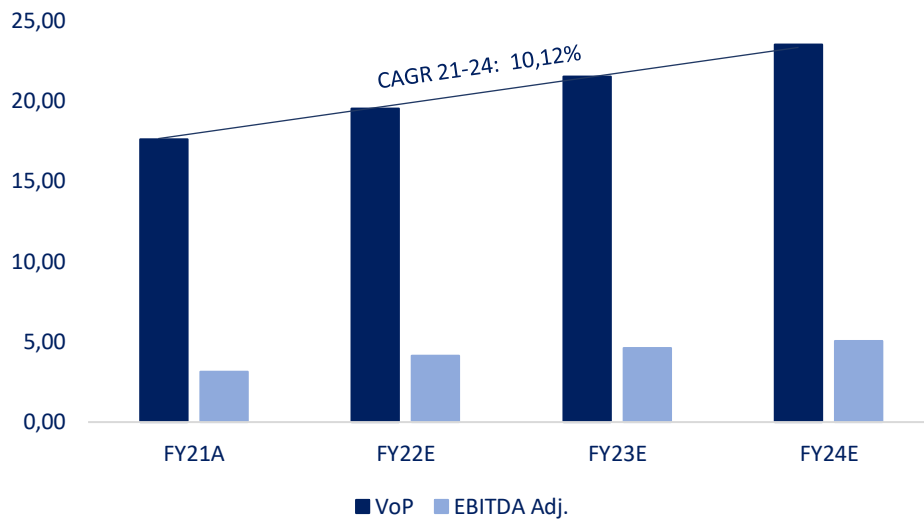
Source: Integrae SIM

In the light of the results published in the 2021A annual report, we confirm almost entirely our previous estimates for both the current year and the coming years.

In particular, we estimate the 2022E value of production to equal € 19.50 million and the EBITDA of € 4.15 million, corresponding to a marginality of 21.3%. For subsequent years, we expect the value of production to increase up to € 23.5 million (CAGR 21A-24E: 10.12%) in 2024E, with EBITDA of € 5.05 million (corresponding to an EBITDA margin of 21.5%), up from € 3.14 million in 2021A (corresponding to an EBITDA margin of 17.9%).

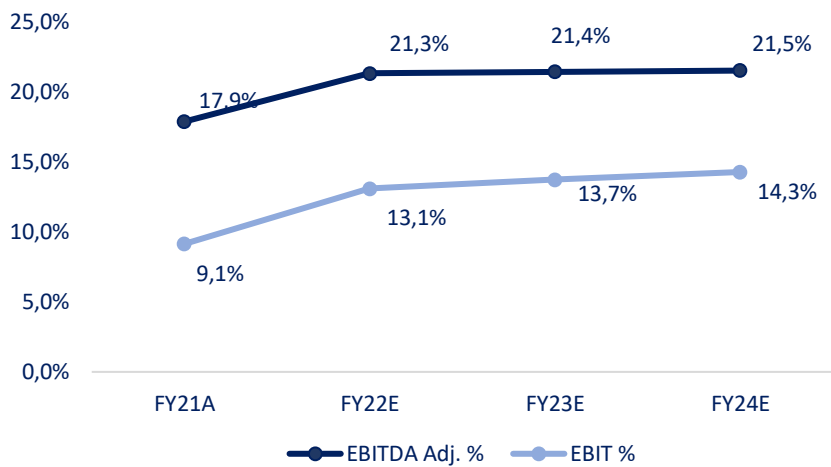
In terms of the Balance Sheet, we estimate cash positive NFP for 2024E equal to € 5.42 million.

Chart 2 – VoP and EBITDA FY21A-24E



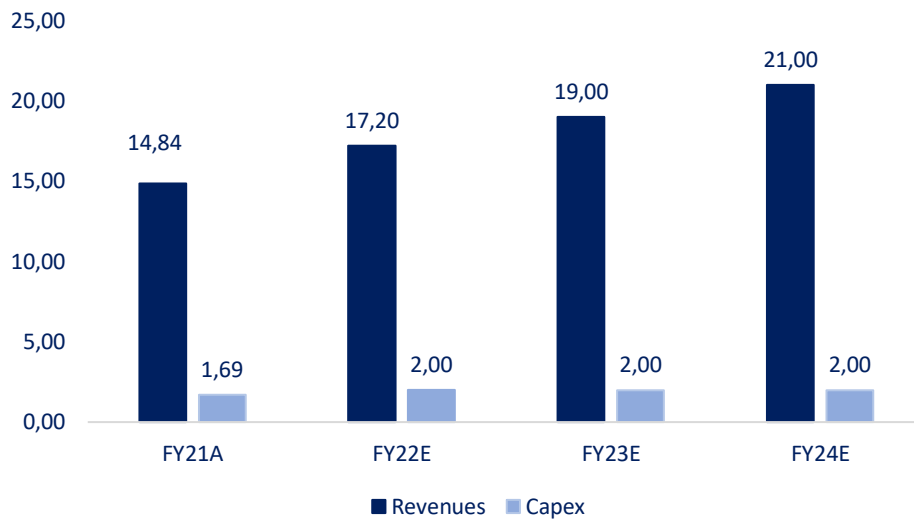
Source: Integrae SIM

Chart 3 – Margin FY21A-24E



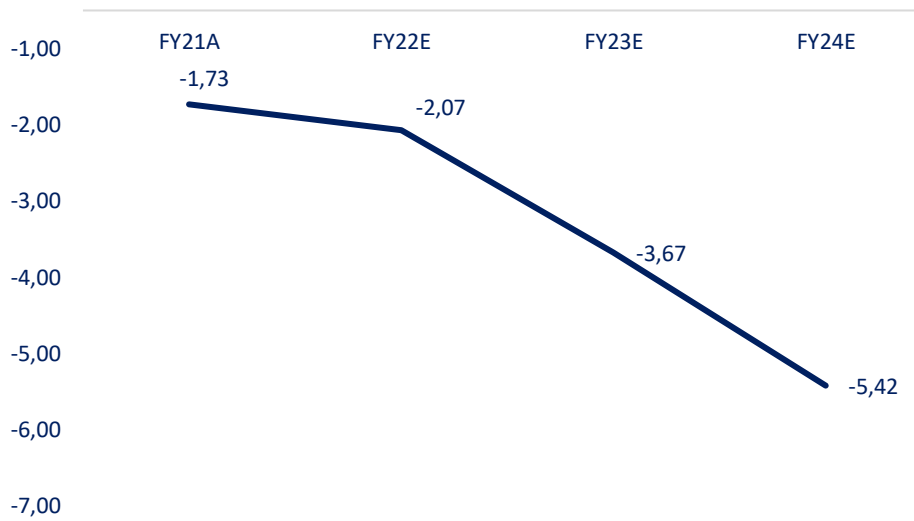
Source: Integrae SIM

Chart 4 – Capex FY21A-24E



Source: Integrae SIM

Chart 5 – NFP FY21A-24E



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		5,70%
Risk Free Rate	0,80% α (specific risk)	2,50%
Market Premium	6,42% Beta Adjusted	0,89
D/E (average)	66,67% Beta Relevered	1,32
Ke	9,01% Kd	1,00%

Source: Integrae SIM

For prudential purposes, we have included a specific risk of 2.5%. The result is a WACC of 5.70%.

Table 5 – DCF Valuation

DCF Equity Value		44,7
FCFO actualized	5,1	12%
TV actualized DCF	37,8	88%
Enterprise Value	43,0	100%
NFP (FY21A)	-1,7	

Source: Integrae SIM

With the above data and taking as a reference our estimates and assumptions, the result is an **equity value of € 44.7 million.**

Table 6 – Equity Value – Sensitivity Analysis

€/mln		WACC						
		4,2%	4,7%	5,2%	5,7%	6,2%	6,7%	7,2%
	2,5%	117,4	90,8	74,0	62,4	54,0	47,6	42,6
	2,0%	92,3	75,2	63,5	54,9	48,4	43,3	39,1
Growth	1,5%	76,5	64,5	55,8	49,2	44,0	39,8	36,3
rate (g)	1,0%	65,6	56,8	50,0	44,7	40,4	36,9	33,9
	0,5%	57,7	50,8	45,4	41,1	37,5	34,4	31,9
	0,0%	51,7	46,2	41,7	38,1	35,0	32,4	30,1
	-0,5%	46,9	42,4	38,7	35,5	32,9	30,6	28,6

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)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Bouvet ASA	15,5x	13,9x	13,0x	18,4x	16,3x	15,1x
Net One Systems Co., Ltd.	9,0x	8,1x	7,8x	10,3x	9,3x	8,1x
CGI, Inc.	10,5x	10,1x	9,8x	13,0x	12,5x	11,9x
Reply S.p.A.	18,1x	16,5x	15,4x	22,0x	19,9x	18,3x
Eurotech S.p.A.	7,2x	4,4x	N/A	9,5x	5,2x	N/A
Citrix Systems Inc.	14,7x	13,8x	13,3x	17,9x	16,7x	16,7x
Median	12,6x	11,9x	13,0x	15,4x	14,4x	15,1x

Source: Infinancials

Table 7.2 – Market Multiples TLC

Company Name	EV/EBITDA (x)			EV/EBIT (x)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Cisco Systems Inc.	10,9x	10,6x	10,3x	12,1x	11,4x	10,9x
Juniper Networks Inc.	11,5x	11,0x	11,2x	14,4x	13,2x	12,4x
F5 Networks Inc.	13,0x	10,7x	9,8x	14,9x	12,5x	11,3x
Accton Technology Corp.	14,2x	10,2x	8,2x	16,2x	11,0x	9,0x
Viavi Solutions Inc.	10,6x	9,9x	N/A	12,2x	12,1x	N/A
HMS Networks AB	32,1x	29,5x	27,1x	37,9x	34,3x	31,2x
Ascom Holding AG	10,7x	8,8x	7,7x	18,2x	13,5x	11,2x
Anritsu Corp.	5,9x	5,3x	4,7x	6,9x	6,4x	5,9x
Spirent Communications plc	12,4x	11,4x	10,7x	14,0x	13,2x	12,2x
Median	11,5x	10,6x	10,0x	14,4x	12,5x	11,2x

Source: Infinancials

Table 8 – Market Multiples Valuation

€/mIn	2022E	2023E	2024E
Enterprise Value (EV)			
EV/EBITDA	50,1	51,8	58,2
EV/EBIT	38,1	39,7	44,1
Equity Value			
EV/EBITDA	52,1	55,5	63,6
EV/EBIT	40,2	43,3	49,6
Equity Value post 25% discount			
EV/EBITDA	39,1	41,6	47,7
EV/EBIT	30,1	32,5	37,2
Average	34,6	37,1	42,4

Source: Integrae SIM

The equity value of FOS using the market multiples EV/EBITDA and EV/EBIT is about € 50.7 million. To this value, we have applied a 25% discount. Therefore, the result is an **equity value of € 38.0 million.**

2.3 Equity Value

Table 9 – Equity Value

Average Equity Value (€/mln)	41,4
Equity Value DCF (€/mln)	44,7
Equity Value multiples (€/mln)	38,0
Target Price (€)	6,50

Source: Integrae SIM

The result is an average equity value of € 41.4 million. **The target price is, therefore, € 6.50 (prev. €6.35). We confirm BUY rating and MEDIUM risk.**

Table 10 – Target Price Implied Valuation Multiples

Multiples	FY21A	FY22E	FY23E	FY24E
EV/EBITDA	12,6x	9,5x	8,6x	7,8x
EV/EBIT	24,7x	15,5x	13,4x	11,8x

Source: Integrae SIM

Table 11 – Current Price Implied Valuation Multiples

Multiples	FY21A	FY22E	FY23E	FY24E
EV/EBITDA	5,9x	4,4x	4,0x	3,7x
EV/EBIT	11,5x	7,2x	6,2x	5,5x

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
04/10/2021	3,94	Buy	6,50	Medium	Update
21/12/2021	3,66	Buy	6,50	Medium	Flash Note
11/02/2022	3,60	Buy	6,35	Medium	Flash Note

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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		

Valuation methodologies (long term horizon: 12 months)

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