

UPDATE

EQUITY RESEARCH

SIM
INTEGRÆ

Fos

Euronext Growth Milan | ICT | Italy

Production 10/04/2024, h. 06:30 pm

Publication 11/04/2024, h. 07:00 am



Rating

BUY

unchanged

Target Price

€ 5,80

prev. € 5,80



Risk

Medium

Upside potential

94,7%

Key Financials (€/mln)	FY23A	FY24E	FY25E	FY26E
VoP	26,40	29,00	32,30	36,00
EBITDA	4,43	5,25	6,05	7,00
EBIT	2,26	2,70	3,45	4,35
Net Income	1,27	1,65	2,15	2,75
NFP	(0,34)	1,35	(0,70)	(3,30)
EBITDA margin	16,8%	18,1%	18,7%	19,4%
EBIT margin	8,6%	9,3%	10,7%	12,1%
Net income margin	4,8%	5,7%	6,7%	7,6%

Stocks performance relative to FTSE Italia Growth



Stock Data

Price	€ 2,98
Target price	€ 5,80
Upside/(Downside) potential	94,7%
Ticker	FOS IM
Market Cap (€/mln)	€ 20,38
EV (€/mln)	€ 20,04
Free Float	34,75%
Share Outstanding	6.839.384
52-week high	€ 3,80
52-week low	€ 2,96
Average daily volumes (3 months)	10.207

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Stock performance	1M	3M	6M	1Y
Absolute	-5,1%	-12,4%	-9,1%	-21,6%
to FTSE Italia Growth	-5,7%	-10,7%	-10,4%	-8,3%
to Euronext STAR Milan	-6,7%	-12,7%	-25,3%	-18,9%
to FTSE All-Share	-6,8%	-23,5%	-31,7%	-44,5%
to EUROSTOXX	-5,9%	-24,3%	-30,7%	-37,6%
to MSCI World Index	-6,5%	-21,4%	-28,0%	-45,0%

Main Ratios	FY23A	FY24E	FY25E	FY26E
EV/EBITDA	4,5x	3,8x	3,3x	2,9x
EV/EBIT	8,9x	7,4x	5,8x	4,6x
P/E	16,1x	12,4x	9,5x	7,4x

FY23A Results

The value of production for 2023 amounted to € 26.40 million, an improvement on the FY22A figure of € 21.56 million, in line with our estimate of € 26.50 million. EBITDA, equal to € 4.43 million, saw growth of 14.8% compared to the figure of € 3.86 million reported for the previous year. The EBITDA margin came in at 16.8%, slightly down on the FY22A figure of 17.9%, but in line with the estimate of our previous report (17.0%). EBIT amounted to € 2.26 million (€ 2.17 million in FY22A), substantially confirming our estimate of € 2.30 million. The Net Income was € 1.27 million, in line with the last financial year's result of € 1.34 million. The NFP reached a cash-positive value of € 0.34 million, an improvement on both FY22A's result of € 0.04 million and our previous estimate of € 0.09 million.

Estimates Update

In light of the results published in the FY23A annual report, we have adjusted our estimates for both the current and the following years. In particular, we now estimate an FY24E value of production of € 29.00 million, and an EBITDA of € 5.25 million, corresponding to a margin of 18.1%. In the following years, we expect the value of production to reach € 36.00 million (CAGR 23A-26E: 10.9%) in FY26E, with EBITDA equal to € 7.00 million (corresponding to a margin of 19.4%), up from € 4.63 million in FY23A (corresponding to an EBITDA margin of 16.8%).

Valuation Update

We conducted our valuation of the equity value of FOS on the basis of the DCF method and multiples of a sample of comparable companies. The DCF method (including, for prudential purposes, a specific risk of 2.5% in the calculation of the WACC) returned an equity value of € 40.1 million. Using market multiples, the equity value of FOS was calculated to be € 39.3 million (including a 25% discount). This results in an average equity value of approximately € 39.7 million. The target price is € 5.80, with a BUY rating and MEDIUM risk.

Economics & Financials

TABLE 1 – ECONOMICS & FINANCIALS

CONSOLIDATED INCOME STATEMENT (€/mln)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenues	18,40	23,34	25,80	29,00	32,60
Other revenues	3,17	3,06	3,20	3,30	3,40
Value of Production	21,56	26,40	29,00	32,30	36,00
COGS	2,16	3,15	2,95	3,25	3,90
Services	5,86	7,07	7,80	8,70	9,50
Use of asset owned by others	0,36	0,60	0,60	0,60	0,60
Employees	9,20	10,99	12,20	13,50	14,80
Other operating costs	0,13	0,16	0,20	0,20	0,20
EBITDA	3,86	4,43	5,25	6,05	7,00
<i>EBITDA Margin</i>	<i>17,9%</i>	<i>16,8%</i>	<i>18,1%</i>	<i>18,7%</i>	<i>19,4%</i>
Extraordinary items	0,00	0,20	0,00	0,00	0,00
EBITDA Adjusted	3,86	4,63	5,25	6,05	7,00
<i>EBITDA Adj. Margin</i>	<i>17,9%</i>	<i>17,5%</i>	<i>18,1%</i>	<i>18,7%</i>	<i>19,4%</i>
D&A	1,69	2,17	2,55	2,60	2,65
EBIT	2,17	2,26	2,70	3,45	4,35
<i>EBIT Margin</i>	<i>10,1%</i>	<i>8,6%</i>	<i>9,3%</i>	<i>10,7%</i>	<i>12,1%</i>
Financial management	(0,15)	(0,17)	(0,20)	(0,20)	(0,20)
EBT	2,02	2,09	2,50	3,25	4,15
Taxes	0,69	0,82	0,85	1,10	1,40
Net Income	1,34	1,27	1,65	2,15	2,75

CONSOLIDATED BALANCE SHEET (€/mln)	FY22A	FY23A	FY24E	FY25E	FY26E
Fixed Assets	10,12	10,62	10,25	9,75	9,10
Account receivable	10,36	9,44	11,50	12,80	14,40
Inventories	0,98	0,91	1,10	1,25	1,40
Account payable	4,71	2,90	3,15	3,50	3,90
Operating Working Capital	6,63	7,45	9,45	10,55	11,90
Other receivable	3,51	3,56	4,05	4,50	5,05
Other payable	5,76	6,14	6,70	7,45	8,35
Net Working Capital	4,37	4,87	6,80	7,60	8,60
Severance & other provisions	2,10	2,29	2,50	2,70	2,90
NET INVESTED CAPITAL	12,40	13,21	14,55	14,65	14,80
Share capital	1,71	1,71	1,71	1,71	1,71
Reserves	9,39	10,58	9,84	11,49	13,64
Net Income	1,34	1,27	1,65	2,15	2,75
Equity	12,44	13,55	13,20	15,35	18,10
Cash & cash equivalents	9,67	9,43	7,85	9,30	11,80
Short term financial debt	2,68	3,08	3,50	4,00	4,50
M/L term financial debt	6,96	6,00	5,70	4,60	4,00
Net Financial Position	(0,04)	(0,34)	1,35	(0,70)	(3,30)
SOURCES	12,40	13,21	14,55	14,65	14,80

CONSOLIDATED CASH FLOW (€/mln)	FY23A	FY24E	FY25E	FY26E
EBIT	2,26	2,70	3,45	4,35
Taxes	0,82	0,85	1,10	1,40
NOPAT	1,43	1,85	2,35	2,95
D&A	2,17	2,55	2,60	2,65
Change in NWC	(0,50)	(1,93)	(0,80)	(1,00)
Change in receivable	0,92	(2,06)	(1,30)	(1,60)
Change in inventories	0,06	(0,19)	(0,15)	(0,15)
Change in payable	(1,80)	0,25	0,35	0,40
Change in others	0,32	0,07	0,30	0,35
Change in provisions	0,19	0,21	0,20	0,20
OPERATING CASH FLOW	3,30	2,69	4,35	4,80
Capex	(2,67)	(2,18)	(2,10)	(2,00)
FREE CASH FLOW	0,62	0,51	2,25	2,80
Financial Management	(0,17)	(0,20)	(0,20)	(0,20)
Change in Financial debt	(0,55)	0,12	(0,60)	(0,10)
Change in Equity	(0,15)	(2,00)	0,00	0,00
FREE CASH FLOW TO EQUITY	(0,24)	(1,58)	1,45	2,50

Source: Fos and Integrae SIM estimates

Company Overview

FOS is an Italian tech company operating across the digital and engineering space, with a strong drive for the technological transfer of innovations to the market, and the role of systems integrator in the digital and innovative transformation of its clients.

In the Digital market, it operates as a system integrator in two macro business areas: 1) Software House - for the design, development and management of software and applications; and 2) Digital Infrastructures - for the design and management of telecommunications infrastructures.

In the Engineering market, it operates as a system integrator in the two macro areas: 1) Integrated Electronic Systems - the design, development and management of integrated electronic systems; and 2) Research & Innovation - the design and management of research and innovation projects.

FOS's mission is to help customers build strong, successful, durable businesses by integrating digital services and products into their value chain based on sustainability and continuous innovation.

FY23A Results

TABLE 2 – ACTUAL VS ESTIMATES FY23A

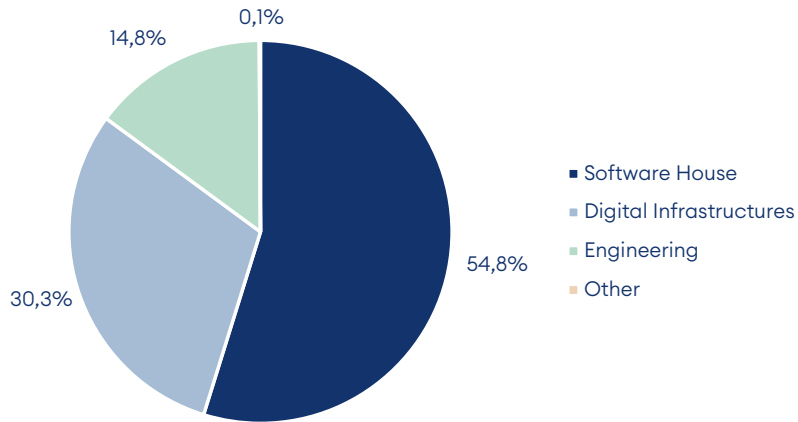
€/mln	VoP	EBITDA	EBITDA %	EBIT	Net Income	NFP
FY23A	26,40	4,43	16,8%	2,26	1,27	(0,34)
FY23E	26,50	4,50	17,0%	2,30	1,50	(0,09)
<i>Change</i>	-0,4%	-1,5%	-0,2%	-1,8%	-15,6%	n/a

Source: Integrae SIM

In the annual results press release, the Group’s representatives stated: *“We are very satisfied with the result of the year. We are continuing on the growth path, with solid financial and equity foundations. Unfortunately, the structural lack of technical resources has limited the delivery of projects and services, though the excellent performance of our Academy is encouraging us to have good confidence in the future. We have started a path of focus on vertical markets, particularly in the Automotive, Aerospace, Public Administration, Healthcare and Mobility sectors, with dedicated technological solutions, and we note an excellent increase in revenues from proprietary platforms. 2024 started well, with direct participation in large CONSIP tenders, and entry into the capital of the company CGI Srl, which manages the information systems of the Port of Genoa. Therefore, we effectively entered the market for digitalization of the logistics and transport sector. We are keeping an eye on external line development opportunities, supported by the excellent performance of InRebus in the Digital Learning field in the Piedmont Region, and by the integration of NAeS Solutions data center services, which increasingly strengthens our presence in the Lombardy Region”.*

The value of production for 2023 amounted to € 26.40 million, an improvement on the FY22A figure of € 21.56 million, in line with our estimate of € 26.50 million. This result was made possible by a strengthening of positioning and increase in customers in the Communication Technology business line, the marketing of Microcosmo and Eye-Trap products, coming from research and development activities, the development of the Building Automation segment, and the consolidation of the economic results of NAeS.

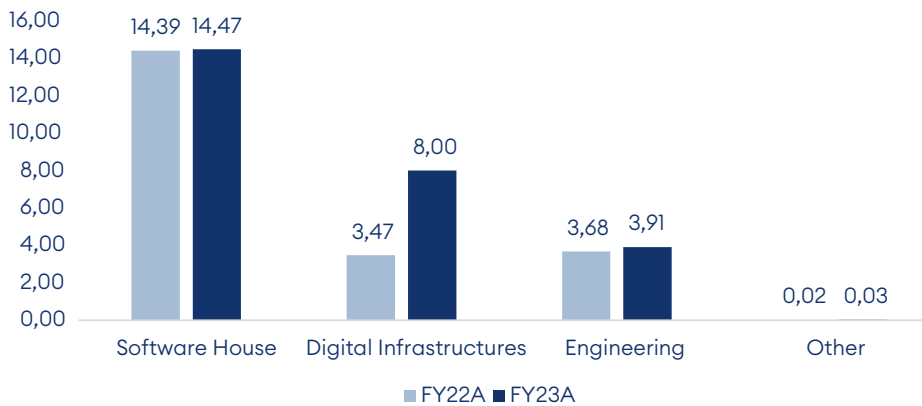
CHART 1 – REVENUES BREAKDOWN BY SEGMENT FY23A



Source: Fos

The company’s value of production, in FY23A, came from 3 main business areas: Software House, contributing 54.8%; Digital Infrastructures, contributing 30.3%; and Engineering, contributing 14.8%.

CHART 2 – REVENUES BREAKDOWN BY BU FY22A VS FY23A



Source: Fos

We note that the growth in the Group’s revenues is mainly attributable to the Digital Infrastructures business area, which saw a growth of 130.2%, up to a value of € 8.00 million. The latter aggregates the results of the Communication Technology business lines and the new Data Center line, established through the acquisition of NAeS.

In 2023, the Group’s Remanufacturing Center expanded into the telecommunications sector, with enhanced diagnostics, interventions and testing of electronic devices. The Group also invested in Industry 4.0 training and advanced equipment, with a view to raising the bar of its

technological competences. Furthermore, a circular economy project was launched, aimed at extending the life of electronic devices and improving sustainability. Finally, Data Center and Networking operations were strengthened through the integration of NAeS, enabling the development of an all-in-one offer, from design and data management through to transmission and use.

The Software House business area recorded a value of production of € 14.47 million, in line with the figure for FY22A (€ 14.39 million). This aggregates the results of the IT, Automation, Solutions and Digital Learning business lines. The Group had to face the challenge of the mobility of technical staff, adapting services to customer needs, and training competent teams, despite the scarcity of specialist technical resources, which limited growth. The Group adapted by expanding in its Building Automation activities, developing its proprietary platforms, and leveraging IT outsourcing and the supply of third-party solutions, maintaining a balance between ongoing services and proprietary projects, with its Cybersecurity, Mobile, CRM, Digital Learning, Datacenter and SCADA expertise. Furthermore, investments continued in digital platforms for the Healthcare (Sanisoft) and Automotive (Skite) sectors, and in the technical and commercial integration of NAeS, aimed at expanding activities in the Lombardy Region.

The Engineering business area recorded revenues of € 3.91 million, slightly up on the € 3.68 million of the previous year. Over the course of 2023, the team significantly increased its commitment to innovative projects, contributing to the development of advanced solutions for Industrial, Biomedical and Automotive sectors. The sale of products and services developed in R&D laboratories in 2023 had a significant impact on turnover, with products achieving success such as Microcosmo and Eye-trap in the Agritech sector, and Edugreen and Scuola 4.0 in the educational sector. Furthermore, marketing of the Aura biofilter, oriented to Smart Cities applications, was launched in the second half of 2023.

EBITDA, equal to € 4.43 million, saw an increase of 14.8% compared to the previous year's figure of € 3.86, in line with the estimate of our previous report of € 4.50 million. Net of extraordinary charges, including settlements with employees, legal expenses related to these transactions, and other non-recurring expenses, Adjusted EBITDA came in at € 4 .63 million. The EBITDA margin was 16.8%, slightly down on the FY22A figure of 17.9%, but in line with the estimate of our previous report (17.0%). This result was made possible by the Group's ability to enrich its offerings through new acquisitions. Furthermore, a fundamental contribution to margins came from the marketing of proprietary platforms and products coming from the R&D activities of the Engineering area.

EBIT, after depreciation and amortization of € 2.17 million, amounted to € 2.26 million (€ 2.17 million in FY22A), substantially confirming our estimate of € 2.30 million. The EBIT margin came in at 8.6%, compared to a value of 10.1% for the previous year. We note that, from January 1, 2023, the Group began to amortize the "BIOMEDICALE" project that was temporarily suspended from the 2020 financial year. Finally, the Net Income was € 1.27 million, in line with the result of the last financial year of € 1.34 million.

The NFP reached a cash-positive value of € 0.34 million, an improvement on both FY22A's

result of € 0.04 million and our previous estimate of € 0.09 million. The Group, thanks to its business results, managed to generate cash despite the buy-back for an amount of € 0.12 million, the outlay to increase the capital of the company Mr. Pot Still for € 0.10 million, and extraordinary charges of approximately € 0.12 million.

FY24E – FY26E Estimates

TABLE 3 – ESTIMATES UPDATES FY24E-26E

€/mln	FY24E	FY25E	FY26E
VoP			
New	29,00	32,30	36,00
Old	29,60	33,00	n/a
Change	-2,0%	-2,1%	n/a
EBITDA			
New	5,25	6,05	7,00
Old	5,50	6,50	n/a
Change	-4,5%	-6,9%	n/a
EBITDA %			
New	18,1%	18,7%	19,4%
Old	18,6%	19,7%	n/a
Change	-0,5%	-1,0%	n/a
EBIT			
New	2,70	3,45	4,35
Old	2,95	3,90	n/a
Change	-8,5%	-11,5%	n/a
Net Income			
New	1,65	2,15	2,75
Old	1,85	2,50	n/a
Change	-10,8%	-14,0%	n/a
NFP			
New	1,35	(0,70)	(3,30)
Old	(0,99)	(2,29)	n/a
Change	n/a	n/a	n/a

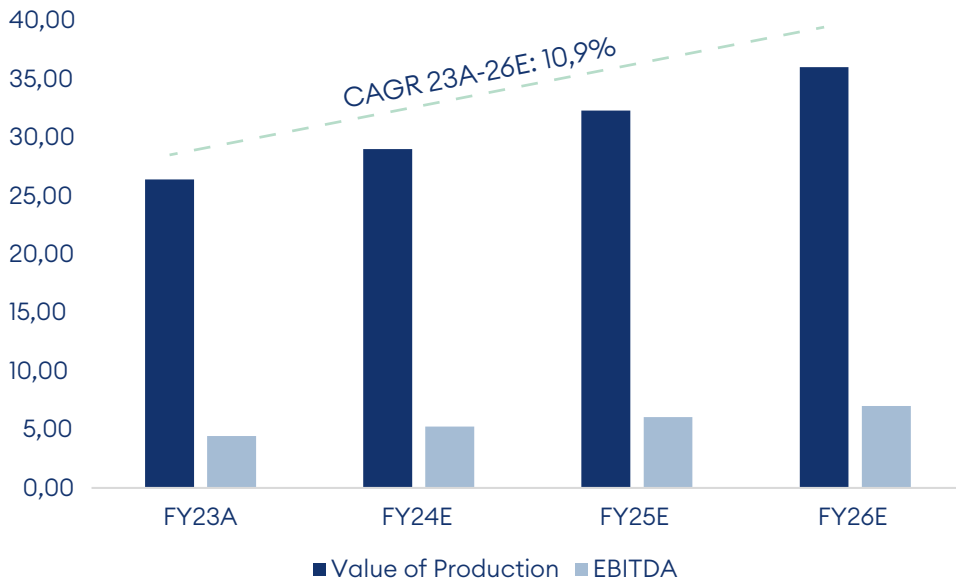
Source: Integrae SIM

In light of the results published in the FY23A annual report, we have adjusted our estimates for both the current and the following years.

In particular, we now estimate an FY24E value of production of € 29.00 million, and an EBITDA of € 5.25 million, corresponding to a margin of 18.1%. In the following years, we expect the value of production to reach € 36.00 million (CAGR 23A-26E: 10.9%) in FY26E, with EBITDA equal to € 7.00 million (corresponding to a margin of 19.4%), up from € 4.63 million in FY23A (corresponding to an EBITDA margin of 16.8%).

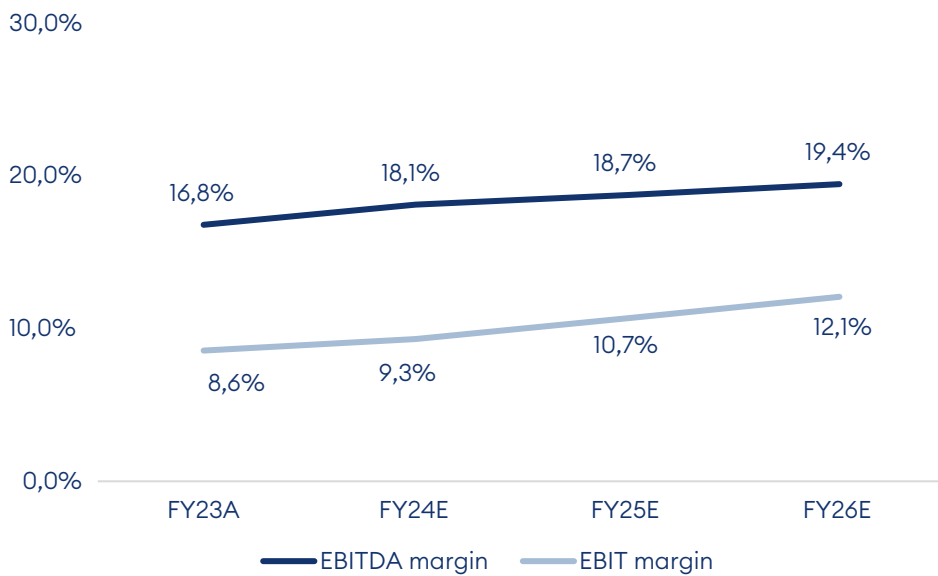
On the balance sheet, we estimate a cash positive NFP of € 3.30 million for FY26E.

CHART 3 – VOP AND EBITDA FY23A-26E



Source: Integrae SIM

CHART 4 – MARGIN FY23A-26E



Source: Integrae SIM

CHART 5 – CAPEX FY23A-26E

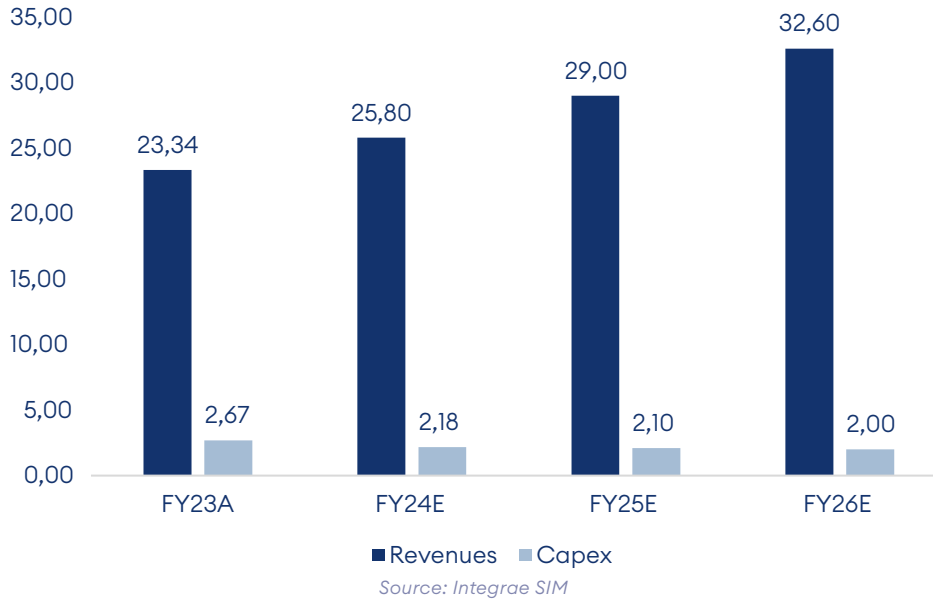
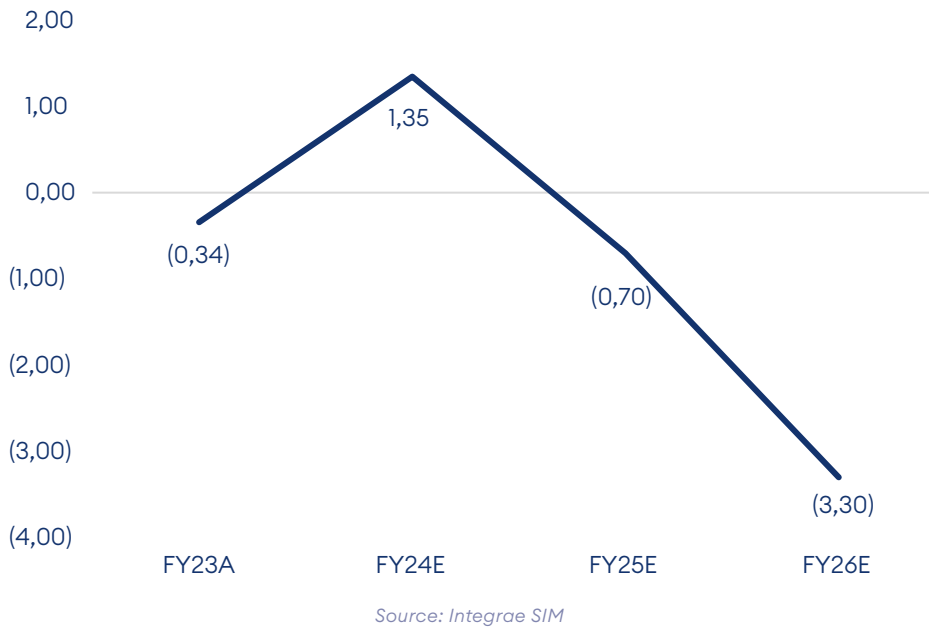


CHART 6 – NFP FY23A-26E



Valuation

We conducted our valuation of the equity value of FOS on the basis of the DCF method and multiples of a sample of comparable companies.

DCF Method

TABLE 4 – WACC

WACC				8,44%
D/E 81,82%	Risk Free Rate 3,14%	β Adjusted 1,05	α (specific risk) 2,50%	
K_d 2,50%	Market Premium 7,81%	β Relevered 1,08	K_e 13,87%	

Source: Integrae SIM

For prudential purposes, we included a specific risk of 2.5%. The result is therefore a WACC of 8.44%.

TABLE 5 – DCF VALUATION

DCF		% of EV
FCFO actualized	5,1	13%
TV actualized DCF	34,7	87%
Enterprise Value	39,7	100%
NFP (FY23A)	(0,3)	
Equity Value	40,1	

Source: Integrae SIM

With the above data and taking our estimates and assumptions as a reference, the result is an **equity value of € 40.1 million**.

TABLE 6 – EQUITY VALUE – SENSITIVITY ANALYSIS

€/mln	Growth Rate (g)	WACC						
		6,9%	7,4%	7,9%	8,4%	8,9%	9,4%	9,9%
	3,0%	68,9	61,0	54,7	49,6	45,4	41,8	38,7
	2,5%	61,8	55,4	50,2	45,9	42,3	39,1	36,4
	2,0%	56,1	50,8	46,5	42,8	39,6	36,9	34,5
	1,5%	51,4	47,0	43,3	40,1	37,3	34,9	32,7
	1,0%	47,6	43,8	40,5	37,7	35,3	33,1	31,2
	0,5%	44,3	41,0	38,2	35,7	33,5	31,6	29,8
	0,0%	41,5	38,6	36,1	33,9	31,9	30,2	28,6

Source: Integrae SIM

Market multiples

Our panels are made up of companies operating in the same sector as FOS, but many with larger capitalizations. These companies are the same used to calculate Beta for the DCF method. The panels were made up by:

TABLE 7.1 – MARKET MULTIPLES IT

Company Name	EV/EBITDA			EV/EBIT			P/E		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Bouvet ASA	11,8 x	10,0 x	10,3 x	14,8 x	13,3 x	12,6 x	19,1 x	17,2 x	16,3 x
Net One Systems Co., Ltd.	10,5 x	9,6 x	n/a	12,0 x	10,9 x	10,0 x	16,3 x	14,7 x	13,4 x
CGI, Inc.	11,8 x	11,5 x	9,0 x	14,9 x	14,0 x	13,6 x	18,9 x	17,2 x	16,2 x
Reply S.p.A.	13,1 x	12,0 x	11,0 x	16,0 x	14,5 x	13,2 x	23,3 x	21,1 x	19,2 x
Eurotech S.p.A.	14,1 x	7,5 x	7,2 x	n/a	16,2 x	13,7 x	n/a	16,2 x	13,8 x
Peer median	11,8 x	10,0 x	9,7 x	14,8 x	14,0 x	13,2 x	19,0 x	17,2 x	16,2 x

Source: Infinancials

TABLE 7.2 – MARKET MULTIPLES TLC

Company Name	EV/EBITDA			EV/EBIT			P/E		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Cisco Systems Inc.	9,0 x	9,4 x	9,2 x	10,2 x	9,9 x	9,5 x	13,1 x	12,8 x	12,2 x
Juniper Networks Inc.	11,2 x	10,7 x	10,3 x	13,7 x	12,4 x	12,2 x	16,6 x	15,1 x	14,8 x
Accton Technology Corp.	16,5 x	13,4 x	10,6 x	18,2 x	14,5 x	11,4 x	23,7 x	19,4 x	15,1 x
Viavi Solutions Inc.	11,0 x	10,2 x	9,1 x	16,4 x	12,2 x	10,5 x	23,4 x	15,8 x	13,4 x
HMS Networks AB	27,0 x	23,8 x	21,0 x	36,6 x	27,9 x	24,2 x	48,5 x	36,9 x	31,9 x
Spirent Communications plc	18,0 x	16,2 x	13,5 x	27,3 x	20,8 x	16,3 x	30,7 x	24,2 x	19,0 x
Peer Median	13,9 x	12,0 x	10,4 x	17,3 x	13,5 x	11,8 x	23,6 x	17,6 x	14,9 x

Source: Infinancials

TABLE 8 – MARKET MULTIPLES VALUATION

€/mln	FY24E	FY25E	FY26E
Enterprise Value (EV)			
EV/EBITDA	67,39	66,63	70,29
EV/EBIT	43,37	47,42	54,34
P/E	35,08	37,33	42,82
Enterprise Value post 25% discount			
EV/EBITDA	50,54	49,97	52,72
EV/EBIT	32,53	35,57	40,75
P/E	26,31	28,00	32,12
Equity Value			
EV/EBITDA	49,19	50,67	56,02
EV/EBIT	31,18	36,27	44,06
P/E	26,31	28,00	32,12
Average	35,56	38,31	44,07

Source: Integrae SIM

The equity value of FOS was calculated using EV/EBITDA, EV/EBIT and P/E market multiples. After applying a 25.0% discount, the result is an **equity value of € 39.3 million**.

TABLE 9 – EQUITY VALUE

Average Equity Value (€/mln)	39,7
Equity Value DCF (€/mln)	40,1
Equity Value multiples (€/mln)	39,3
Target Price (€)	5,80

Source: Integrae SIM

The results give an average equity value of approximately € 39.7 million. **The target price is therefore € 5.80 (prev. € 5.80). We confirm a BUY rating and MEDIUM risk.**

TABLE 10 – TARGET PRICE IMPLIED VALUATION MULTIPLES

Multiples	FY23A	FY24E	FY25E	FY26E
EV/EBITDA	8,9 x	7,5 x	6,5 x	5,6 x
EV/EBIT	17,4 x	14,6 x	11,4 x	9, x
P/E	31,4 x	24,1 x	18,5 x	14,4 x

Source: Integrae SIM

TABLE 11 – CURRENT PRICE IMPLIED VALUATION MULTIPLES

Main Ratios	FY23A	FY24E	FY25E	FY26E
EV/EBITDA	4,5x	3,8x	3,3x	2,9x
EV/EBIT	8,9x	7,4x	5,8x	4,6x
P/E	16,1x	12,4x	9,5x	7,4x

Source: Integrae SIM

Disclosure Pursuant to Delegated Regulation UE n. 2016/958

Analyst/s certification

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12/10/2023	3,28	Buy	5,80	Medium	Update
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Equity Total Return (ETR) for different risk categories			
Rating	Low Risk	Medium Risk	High Risk
BUY	ETR \geq 7.5%	ETR \geq 10%	ETR \geq 15%
HOLD	-5% < ETR < 7.5%	-5% < ETR < 10%	0% < ETR < 15%
SELL	ETR \leq -5%	ETR \leq -5%	ETR \leq 0%
U.R.	Rating e/o target price Under Review		
N.R.	Stock Not Rated		

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