

UPDATE

Fos

EQUITY RESEARCH

SIM
INTEGRÆ

Euronext Growth Milan | ICT | Italy

Production 14/10/2024, h. 06:30 pm

Publication 15/10/2024, h. 07:00 am



Rating

BUY

unchanged

Target Price

€ 5,70

prev. € 5,80

Risk



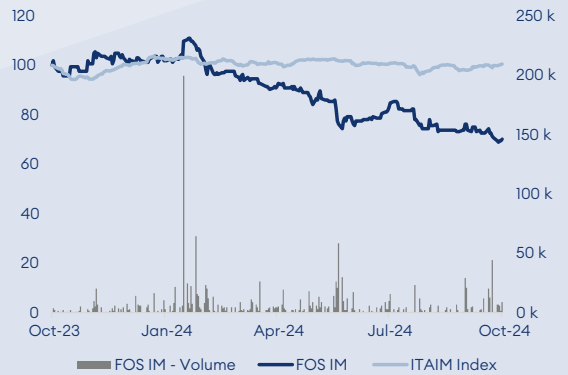
Medium

Upside potential

152,0%

Key Financials (€/mln)	FY23A	FY24E	FY25E	FY26E
VoP	26,40	29,00	32,30	36,00
EBITDA Adj.	4,63	4,60	6,05	7,00
EBIT	2,26	2,05	3,45	4,35
Net Profit	1,27	1,15	2,15	2,75
NFP	(0,34)	2,00	(0,05)	(2,65)
EBITDA Margin	17,5%	15,9%	18,7%	19,4%
EBIT Margin	8,6%	7,1%	10,7%	12,1%
Net Income Margin	4,8%	4,0%	6,7%	7,6%

Stocks performance relative to FTSE Italia Growth



Stock Data

Price	€ 2,26
Target price	€ 5,70
Upside/(Downside) potential	152,0%
Ticker	FOS IM
Market Cap (€/mln)	€ 15,46
EV (€/mln)	€ 15,11
Free Float	36,54%
Share Outstanding	6.839.384
52-week high	€ 3,74
52-week low	€ 2,22
Average daily volumes (3 months)	4.701

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Stock performance	1M	3M	6M	1Y
Absolute	-9,6%	-16,9%	-24,7%	-31,1%
to FTSE Italia Growth	-12,0%	-16,9%	-24,1%	-31,6%
to Euronext STAR Milan	-12,9%	-13,1%	-23,3%	-42,0%
to FTSE All-Share	-13,0%	-16,6%	-26,2%	-51,6%
to EUROSTOXX	-15,4%	-18,2%	-26,1%	-51,0%
to MSCI World Index	-14,3%	-19,9%	-33,9%	-58,8%

Main Ratios	FY23A	FY24E	FY25E	FY26E
EV/EBITDA	3,3x	3,3x	2,5x	2,2x
EV/EBIT	6,7x	7,4x	4,4x	3,5x
P/E	12,2x	13,4x	7,2x	5,6x

1H24A Results

As of June 30, 2024, revenues amounted to € 11.91 million, marking a growth of 5.5% compared to the € 11.28 million recorded in the first half of 2023. The EBITDA for the period amounts to € 2.38 million, in line with the 1H23A figure, which was € 2.34 million. The EBITDA margin stands at 17.4%, compared to the 17.1% recorded in 1H23A. EBIT stands at € 1.36 million, showing a slight decrease compared to € 1.46 million in 1H23A. Net Income is € 0.86 million, up 7.5% compared to € 0.80 million in 1H23A. The NFP as of June 30, 2024, shows a worsening, reaching € 1.76 million in debt, compared to the cash-positive position of € 0.34 million recorded at the end of FY23A.

Estimates Update

In light of the results published in the semi-annual report for 1H24A, we confirm our estimates for both the current year and the coming years. Specifically, we estimate a Value of Production for FY24E of € 29.00 million and an EBITDA of € 4.60 million, corresponding to a margin of 15.9%. For the following years, we expect the Value of Production to increase to € 36.00 million (CAGR 23A-26E: 10.9%) in FY26E, with EBITDA reaching € 7.00 million (corresponding to a margin of 19.4%), up from € 4.43 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 € 39.9 million. Using market multiples, the equity value of Fos was calculated to be € 38.0 million (including a 25% discount). This results in an average equity value of approximately € 39.0 million. The target price is € 5.70, 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	3,00	3,25	3,90
Services	5,86	7,07	7,90	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	12,70	13,50	14,80
Other operating costs	0,13	0,16	0,20	0,20	0,20
EBITDA	3,86	4,43	4,60	6,05	7,00
<i>EBITDA Margin</i>	17,9%	16,8%	15,9%	18,7%	19,4%
Extraordinary items	0,00	0,20	0,00	0,00	0,00
EBITDA Adjusted	3,86	4,63	4,60	6,05	7,00
<i>EBITDA Adj. Margin</i>	17,9%	17,5%	15,9%	18,7%	19,4%
D&A	1,69	2,17	2,55	2,60	2,65
EBIT	2,17	2,26	2,05	3,45	4,35
<i>EBIT Margin</i>	10,1%	8,6%	7,1%	10,7%	12,1%
Financial management	(0,15)	(0,17)	(0,20)	(0,20)	(0,20)
EBT	2,02	2,09	1,85	3,25	4,15
Taxes	0,69	0,82	0,70	1,10	1,40
Net Income	1,34	1,27	1,15	2,15	2,75

CONSOLIDATED BALANCE SHEET (€/mln)	FY22A	FY23A	FY24E	FY25E	FY26E
Fixed Assets	10,12	10,62	10,40	9,90	9,25
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	14,70	14,80	14,95

Share capital	1,71	1,71	1,71	1,71	1,71
Reserves	9,39	10,58	9,84	10,99	13,14
Net Income	1,34	1,27	1,15	2,15	2,75
Equity	12,44	13,55	12,70	14,85	17,60
Cash & cash equivalents	9,67	9,43	7,20	8,65	11,15
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)	2,00	(0,05)	(2,65)
SOURCES	12,40	13,21	14,70	14,80	14,95

CONSOLIDATED CASH FLOW (€/mln)	FY23A	FY24E	FY25E	FY26E
EBIT	2,26	2,05	3,45	4,35
Taxes	0,82	0,70	1,10	1,40
NOPAT	1,43	1,35	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	2,19	4,35	4,80
Capex	(2,67)	(2,33)	(2,10)	(2,00)
FREE CASH FLOW	0,62	(0,14)	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)	(2,23)	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.

TABLE 2 – 1H24A VS 1H23A

€/mln	VoP	EBITDA	EBITDA %	EBIT	Net Income	NFP
1H24A	13,67	2,38	17,4%	1,36	0,86	1,76
1H23A	13,66	2,34	17,1%	1,46	0,80	(0,34)*
Change	0,1%	1,9%	0,3%	-6,6%	7,5%	n/a

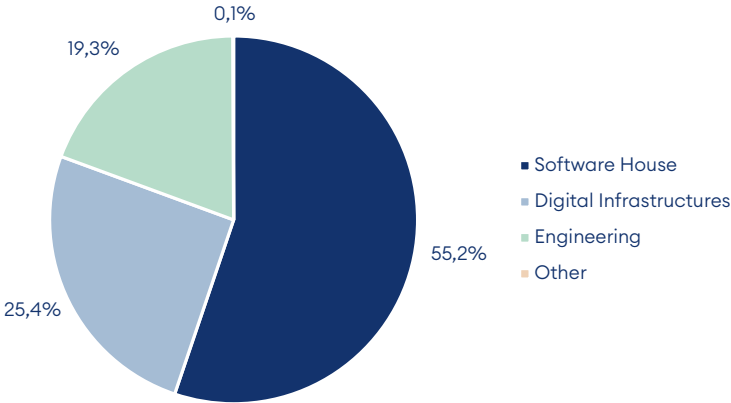
*NFP as of 31/12/2023

Source: Integrae SIM

Through a press release, the CEOs Enrico Botte and Matteo Pedrelli declared: “The first half of 2024 confirms the solidity of our Group, with a 6.0% increase in revenues. This result highlights our ability to respond swiftly to market challenges, thanks to diversification and innovation, particularly in the mobility and healthcare sectors. Despite rising costs due to global dynamics in rates and inflation, and the growing challenge of finding qualified technical personnel, we have maintained solid operating margins and a growing net result. Strategic investments continued without compromising financial stability, allowing us to look to the future with confidence, thanks to our ability to innovate and grow sustainably.”

As of June 30, 2024, revenues amounted to € 11.91 million, marking a growth of 5.5% compared to the € 11.28 million recorded in the first half of 2023. This increase is attributable to various factors, including the rise in revenues in the Software House segment, driven by the expansion of project activities in Building Automation solutions, with a particular focus on the Mobility and Healthcare sectors. Additionally, the Engineering segment contributed significantly, particularly thanks to agritech products.

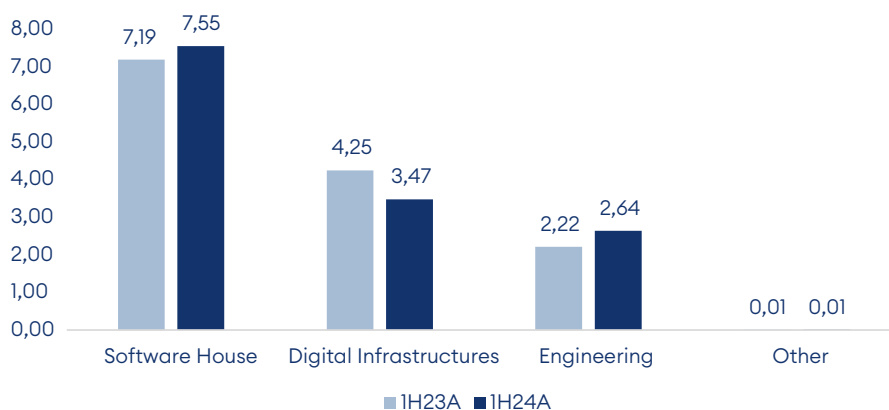
CHART 1 – VOP BREAKDOWN BY SEGMENT 1H24A



Source: Fos

The Group’s Value of Production during 1H24A is attributable to the three main business areas as follows: Software House contributed 55.2%, Digital Infrastructures 25.4%, and Engineering 19.3%.

CHART 2 – VOP BREAKDOWN BY BU 1H23A VS 1H24A



Source: Fos

During the first half of 2024, both the Software House and Engineering areas showed growth, while the Digital Infrastructures area experienced a contraction. More specifically, the Software House segment achieved revenues of € 7.55 million, up 4.9% compared to the same period of the previous year. This growth was driven by technical and commercial investments that consolidated proprietary digital platforms, offering highly specialized and scalable solutions. Particularly in the healthcare sector with the Sanisoft product and in the automotive sector with RIAS, the group strengthened its market position.

The Engineering area contributed € 2.64 million to the Value of Production, a significant increase of 19.3% compared to € 2.22 million in the first half of 2023. This result reflects the group's ongoing commitment to innovation and technology transfer, which materialized in the development of advanced solutions in the industrial, biomedical, and automotive sectors.

Conversely, the Digital Infrastructures area recorded a decline, with a value of € 3.47 million, down from € 4.25 million in 1H23A. Although the group consolidated its activities in the Data Center and Networking sectors, also through the integration of NAeS Solutions Srl, the decrease is mainly attributed to the contraction of activities within NAeS Solutions. This reduction is due to the rescheduling and downsizing of key projects for customers in the Large Organized Distribution (GDO) sector, which was affected by a consumption crisis. This dynamic temporarily impacted operational volumes, causing delays in the acquisition of new contracts in the Data Center area.

EBITDA for the period amounts to € 2.38 million, in line with the 1H23A figure, which was € 2.34 million. The slight growth was the result of prudent operational management, which allowed for the maintenance of satisfactory commercial margins despite cost pressures, partly due to new hires (267 units in 1H24A vs. 253 units in 1H23A). The EBITDA margin stands at 17.4%, compared to the 17.1% recorded during the first half of 2023. Margins were supported not only by cost optimization policies but also by the sales of proprietary platforms and products deri-

ved from the Engineering area's research and innovation activities.

EBIT amounts to € 1.36 million, showing a slight decline compared to the 1H23A figure, which was € 1.46 million. The result is influenced by D&A of € 1.02 million (vs € 0.88 million in 1H23A). Net Income stands at € 0.86 million, up 7.5% compared to € 0.80 million in 1H23A.

The NFP as of June 30, 2024, shows a worsening, amounting to € 1.76 million in debt, compared to the cash-positive position of € 0.34 million recorded at the end of FY23A. This negative change is primarily attributable to a series of extraordinary transactions that significantly impacted liquidity during the period. Firstly, the OPA led to an outlay of approximately € 2.00 million, in addition to the payment of the last installment of the deferred fixed price to the former shareholders of inRebus, amounting to approximately € 0.30 million.

Throughout 2024, Fos demonstrated its ability to capitalize on opportunities in the Italian technology market, supported by investments from the PNRR, despite a challenging environment due to geopolitical instability and inflationary pressures. The Group, therefore, while operating in an uncertain environment, is taking proactive measures to preserve its operating margins, through careful cost monitoring and repositioning on high-margin contracts.

Looking ahead, Fos demonstrates its ability to consolidate its financial and capital strength, continuing to improve its competitive positioning and economic results. The company aims to strengthen internal skills through targeted investments in its Academy and enhance turnkey solutions in strategic sectors such as Transport, Cybersecurity, and Building Automation. This approach allows Fos to seize the growing opportunities offered by digitalization, positioning it for sustainable growth in the short and medium term.

FY24E – FY26E Estimates

TABLE 3 – ESTIMATES UPDATES FY24E-26E

€/mln	FY24E	FY25E	FY26E
VoP			
New	29,00	32,30	36,00
Old	29,00	32,30	36,00
Change	0,0%	0,0%	0,0%
EBITDA			
New	4,60	6,05	7,00
Old	5,25	6,05	7,00
Change	-12,4%	0,0%	0,0%
EBITDA %			
New	15,9%	18,7%	19,4%
Old	18,1%	18,7%	19,4%
Change	-2,2%	0,0%	0,0%
EBIT			
New	2,05	3,45	4,35
Old	2,70	3,45	4,35
Change	-24,1%	0,0%	0,0%
Net Income			
New	1,15	2,15	2,75
Old	1,65	2,15	2,75
Change	-30,3%	0,0%	0,0%
NFP			
New	2,00	(0,05)	(2,65)
Old	1,35	(0,70)	(3,30)
Change	n/a	n/a	n/a

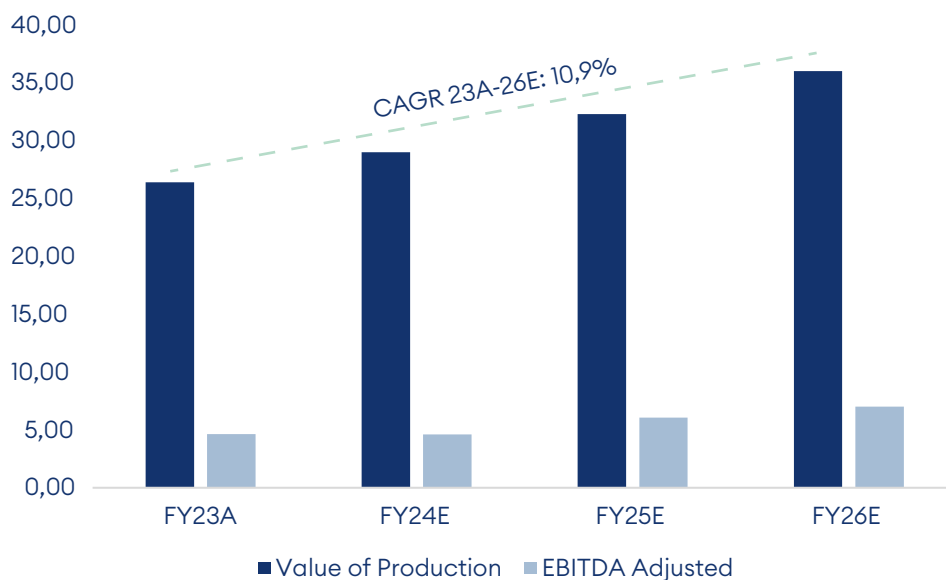
Source: Integrae SIM

In light of the results published in the semi-annual report for 1H24A, we confirm our estimates for both the current year and the coming years.

Specifically, we estimate a Value of Production for FY24E of € 29.00 million and an EBITDA of € 4.60 million, corresponding to a margin of 15.9%. For the following years, we expect the Value of Production to increase to € 36.00 million (CAGR 23A-26E: 10.9%) in FY26E, with EBITDA reaching € 7.00 million (corresponding to a margin of 19.4%), up from € 4.43 million in FY23A (corresponding to an EBITDA Margin of 16.8%).

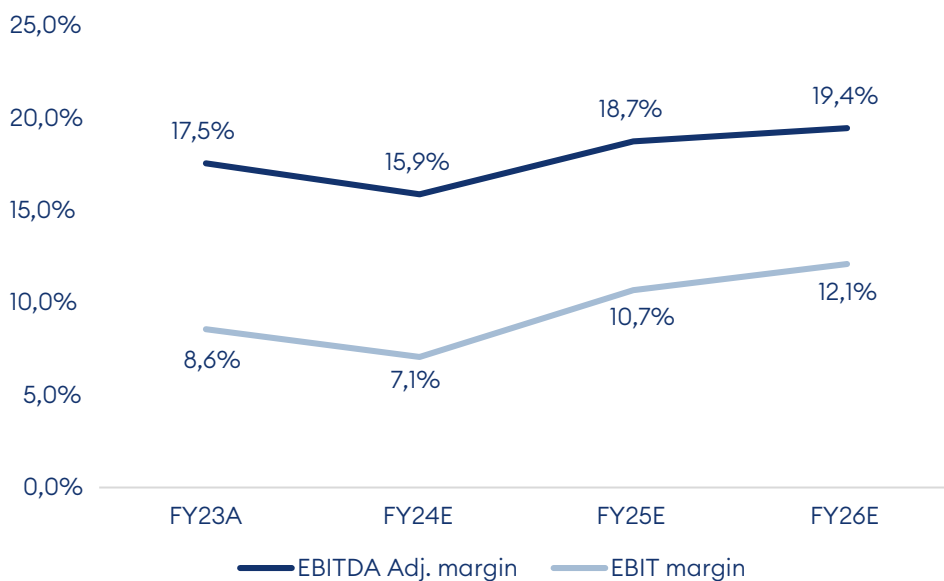
On a financial level, we estimate a cash-positive NFP of € 2.65 million for FY26E.

CHART 3 – VOP AND EBITDA ADJ. FY23A-26E



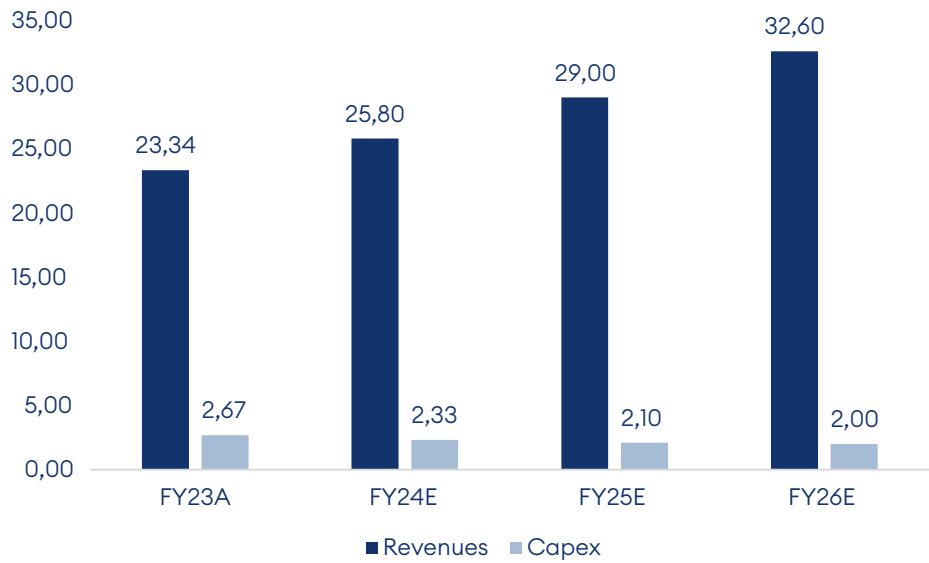
Source: Integrae SIM

CHART 4 – MARGIN FY23A-26E



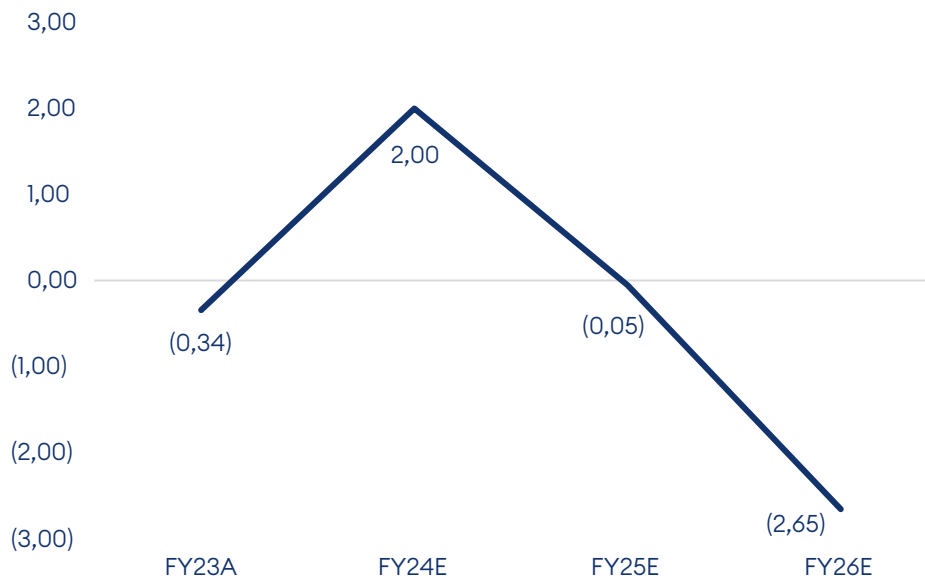
Source: Integrae SIM

CHART 5 – CAPEX FY23A-26E



Source: Integrae SIM

CHART 6 – NFP FY23A-26E



Source: Integrae SIM

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			8,02%
D/E 81,82%	Risk Free Rate 2,74%	β Adjusted 1,16	α (specific risk) 2,50%
K_d 2,50%	Market Premium 6,80%	β Relevered 1,23	K_e 13,11%

Source: Integrae SIM

For prudential purposes, we included a specific risk of 2.5%. The result is therefore a WACC of 8.02%.

TABLE 5 – DCF VALUATION

DCF	% of EV	
FCFO actualized	4,7	12%
TV actualized DCF	34,8	88%
Enterprise Value	39,5	100%
NFP (FY23A)	(0,3)	
Equity Value	39,9	

Source: Integrae SIM

With the above data and taking our estimates and assumptions as a reference, the result is an **equity value of € 39.9 million**.

TABLE 6 – EQUITY VALUE – SENSITIVITY ANALYSIS

€/mIn		WACC						
Growth Rate (g)		6,5%	7,0%	7,5%	8,0%	8,5%	9,0%	9,5%
	3,0%	71,7	62,8	55,8	50,3	45,8	42,0	38,8
	2,5%	63,4	56,4	50,8	46,2	42,4	39,1	36,3
	2,0%	57,0	51,3	46,7	42,8	39,5	36,7	34,3
	1,5%	51,8	47,1	43,2	39,9	37,0	34,6	32,4
	1,0%	47,6	43,6	40,3	37,4	34,9	32,7	30,8
	0,5%	44,1	40,7	37,8	35,3	33,1	31,1	29,4
	0,0%	41,1	38,1	35,6	33,4	31,4	29,7	28,1

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	12,3 x	10,0 x	11,0 x	15,1 x	14,1 x	13,2 x	19,1 x	17,8 x	16,6 x
Net One Systems Co., Ltd.	11,2 x	10,4 x	9,7 x	13,1 x	11,8 x	11,1 x	19,0 x	17,2 x	16,1 x
CGI, Inc.	11,6 x	12,5 x	9,0 x	15,8 x	15,3 x	14,5 x	20,8 x	19,1 x	17,7 x
Reply S.p.A.	12,7 x	11,7 x	10,7 x	15,6 x	14,1 x	12,8 x	23,5 x	21,2 x	19,2 x
Eurotech S.p.A.	9,4 x	5,9 x	5,8 x	n/a	8,2 x	11,5 x	n/a	11,6 x	9,3 x
Peer median	11,6 x	10,4 x	9,7 x	15,4 x	14,1 x	12,8 x	20,0 x	17,8 x	16,6 x

Source: Infinicals

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.	9,8 x	10,0 x	9,6 x	11,4 x	11,2 x	10,5 x	14,5 x	15,2 x	14,1 x
Juniper Networks, Inc.	13,7 x	12,6 x	10,5 x	16,1 x	14,2 x	12,7 x	24,0 x	19,4 x	17,7 x
Accton Technology Corp.	15,2 x	13,4 x	11,7 x	19,5 x	14,5 x	11,5 x	25,9 x	20,7 x	17,5 x
Viavi Solutions Inc	9,3 x	7,1 x	5,4 x	12,5 x	8,7 x	7,8 x	25,2 x	17,0 x	15,3 x
HMS Networks AB	24,1 x	17,6 x	15,0 x	33,4 x	21,6 x	18,1 x	42,7 x	29,5 x	25,6 x
Spirent Communications plc	20,5 x	16,7 x	13,8 x	40,3 x	26,0 x	18,3 x	39,9 x	28,6 x	23,1 x
Peer Median	14,5 x	13,0 x	11,1 x	17,8 x	14,4 x	12,1 x	25,6 x	20,0 x	17,6 x

Source: Infinicals

TABLE 8 – MARKET MULTIPLES VALUATION

€/mln	FY24E	FY25E	FY26E
Enterprise Value (EV)			
EV/EBITDA	59,92	70,69	72,83
EV/EBIT	34,00	49,04	54,05
P/E	26,19	40,66	46,97
Enterprise Value post 25% discount			
EV/EBITDA	44,94	53,01	54,62
EV/EBIT	25,50	36,78	40,54
P/E	19,64	30,50	35,23
Equity Value			
EV/EBITDA	42,94	53,07	57,27
EV/EBIT	23,50	36,83	43,19
P/E	19,64	30,50	35,23
Average	28,70	40,13	45,23

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 € 38.0 million**.

Equity Value

TABLE 9 – EQUITY VALUE

Average Equity Value (€/mln)	39,0
Equity Value DCF (€/mln)	39,9
Equity Value multiples (€/mln)	38,0
Target Price (€)	5,70

Source: Integrae SIM

The results give an average equity value of approximately € 39.0 million. **The target price is therefore € 5.70 (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	8,7 x	8,4 x	6,4 x	5,5 x
EV/EBIT	17,1 x	18,8 x	11,2 x	8,9 x
P/E	30,8 x	33,9 x	18,1 x	14,2 x

Source: Integrae SIM

TABLE 11 – CURRENT PRICE IMPLIED VALUATION MULTIPLES

Main Ratios	FY23A	FY24E	FY25E	FY26E
EV/EBITDA	3,3x	3,3x	2,5x	2,2x
EV/EBIT	6,7x	7,4x	4,4x	3,5x
P/E	12,2x	13,4x	7,2x	5,6x

Source: Integrae SIM

Disclosure Pursuant to Delegated Regulation UE n. 2016/958

Analyst/s certification

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Date	Price	Recommendation	Target Price	Risk	Comment
15/02/2024	3,20	Buy	5,80	Medium	Breaking News
11/04/2024	2,98	Buy	5,80	Medium	Update
25/07/2024	2,68	Buy	5,80	Medium	Breaking News
08/08/2024	2,44	Buy	5,80	Medium	Breaking News

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Upside Potential (for different risk categories)			
Rating	Low Risk	Medium Risk	High Risk
BUY	Upside $\geq 7.5\%$	Upside $\geq 10.0\%$	Upside $\geq 15.0\%$
HOLD	$-5.0\% < \text{Upside} < 7.5\%$	$-5.0\% < \text{Upside} < 10\%$	$0\% < \text{Upside} < 15.0\%$
SELL	Upside $\leq -5.0\%$	Upside $\leq -5.0\%$	Upside $\leq 0\%$
U.R.	Under Review		
N.R.	Not Rated		

Valuation methodologies (long term horizon: 12 months)

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