SIM INTEGRÆ

March 14, 2016

do IT your way

Equity Update

Sector: IT Services

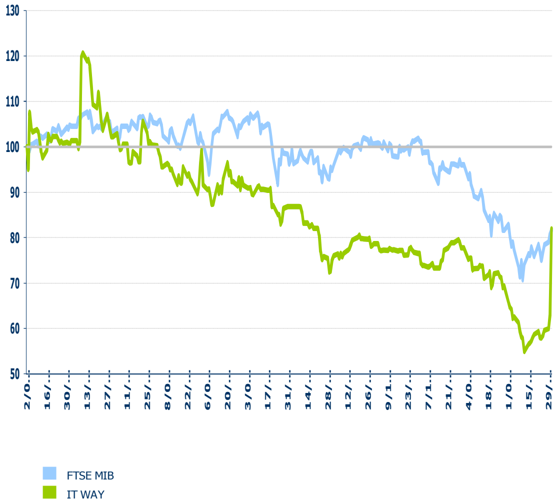
Target Price: €2,53 Rating: Buy

Year	Sales € mln	EBITDA € mln	EBIT € mln	Net profit € mln	Adj P/E €	EV/EBITDA x	EV/EBIT x
2015	98,5	3,3	2,9	0,0	391,5	9,0	10,2
2016F	106,5	3,9	3,2	1,1	10,6	7,6	9,3
2017F	115,1	4,8	4,0	1,7	6,7	6,2	7,5
2018F	124,4	5,8	4,9	2,8	4,2	5,1	6,1

	Old	New
Rating	Buy	Buy
Risk Rating	Medium	Medium
Target Price (€)	2,20	2,53

Market Data (€)		
Close Price (€)		1,63
Share Outstanding (m)		7,20
Market Cap. (€/m)		11,74
Market Float (%)		45,13
Avg daily Vol. (000s)		20,8
Past 12 Months	2,73	1,31

Performance	3 M	12 M
Absolute	10,2	-13,8
Relative	27,4	3,3



The FY15 results were in line with our estimates. Unchanged 2016-18F estimates. Consolidated revenues grew by 12.9% YoY, reaching € 100.6 million, while EBITDA and EBIT grew by 26.4% and 31.6% to € 3.3 million and € 2,9 mln respectively. The positive performance is the first result of the greater focus of the group of segments with higher profitability. Particularly positive was VAD area performance, which saw sales grow by 15.6% to € 76.3 million and EBITDA doubled to € 2.4 million. In geographical terms, sales have recorded an appreciable recovery in Italy, are growing in Turkey and Greece, while the French and Spanish subsidiaries, following the reorganization, show positive results. In VAR area, sales rose 5% YoY to € 24.3 million, while EBITDA fell to € 0.92 million (from € 1.4 million in 2014), due to the closing of some contracts with a low marginality. In other areas, we highlight the establishment of 4Science Srl, company that aims to become a leader in the fields of ICT for Cultural Heritage and Data Curation, whose market has over € 4 billion in Europe and where the specialized actors are about 10 worldwide.

Net financial debt rose to € 20.1 million (from € 17.9 million), as a result of a mix rebalancing between short-term debt (from € 15.4 mn in FY14 and € 14.9 million) due to the issue commercial paper at 6 months and in the medium / long debt (from € 2.5m to € 5.2 million in the FY14), for loans to a leasing company for the lease of offices in Milan.

Own shares renewal purchase. The shareholders' meeting will be called to authorize a new request for purchase of treasury shares (subject to revocation of the previous authorization), with the limitation that the maximum purchase outlay shall not exceed the available reserves resulting from the last approved financial statements.

The valuation TP € 2.53 (from € 2.2), medium risk and buy rating, unchanged. Itway operates in a cyclical industry. The special feature of the operational structure and approach integrated to the customer we deem enables to significantly mitigate the overall cyclicality of the business and, therefore, enterprise risk. We lead the evaluation using two evaluation methods, each at 50%: the DCF and multiples. We applied the equity value resulting from a 20% discount for multiple methodology to take account of the lower liquidity (daily traded securities) compared to peer.

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Fig. 1 – P&L

€m Data	2014	2015	2016F	2017F	2018F
Sales	**86,2**	**98,5**	**106,5**	**115,1**	**124,4**
Value of production	**89,1**	**100,6**	**108,7**	**117,5**	**127,1**
Raw Materials	-68,3	-76,7	-82,6	-88,8	-95,5
Personnel costs	-10,3	-11,7	-12,6	-13,6	-14,6
Other operating charges/Write off	-7,9	-8,9	-9,7	-10,4	-11,2
Total costs	-86,5	-97,3	-104,8	-112,8	-121,3
EBITDA	**2,6**	**3,3**	**3,9**	**4,8**	**5,8**
EBITDA margin%	**3,0%**	**3,4%**	**3,7%**	**4,2%**	**4,6%**
Depreciations	-0,4	-0,4	-0,7	-0,8	-0,9
EBIT	**2,2**	**2,9**	**3,2**	**4,0**	**4,9**
EBIT margin %	**2,5%**	**2,9%**	**3,0%**	**3,5%**	**3,9%**
Net Financial Charges	-1,5	-1,8	-1,5	-1,3	-1,1
Currencies Net	0,0	0,0	0,0	0,0	0,0
Extraordinaries/Others	-0,3	-0,4	0,0	0,0	0,0
Pre-Tax Profit	**0,4**	**0,7**	**1,7**	**2,7**	**3,8**
Taxes	-0,9	-0,7	-0,6	-0,9	-1,0
tax-rate	-248,5%	-95,7%	35,0%	35,0%	35,0%
Minorities	0,0	0,0	0,0	0,0	0,0
Net Profit	**-0,5**	**0,0**	**1,1**	**1,7**	**2,8**
Adjusted Net Profit	-0,5	0,0	1,1	1,7	2,8

Source: Itway Group and Integrae SIM forecasts. (2014 adjusted for extraordinary personnel costs)

Fig. 2 – A&L

€m Data	2014	2015	2016F	2017F	2018F
Net Working Capital	12,6	14,8	15,8	17,0	18,3
% on sales	14,6%	15,0%	14,8%	14,8%	14,7%
Net Fixed Assets	17,6	16,4	15,3	13,2	12,3
Net investments	30,2	31,2	31,1	30,3	30,6
Pers Sev. and Tax Funds	-1,8	-0,6	-0,5	0,5	0,5
NET CAPITAL EMPLOYED	**28,4**	**30,6**	**30,6**	**30,8**	**31,1**
Shareholders' equity	10,5	10,5	11,6	13,4	16,2
Minorities	0,0	0,0	0,0	0,0	0,0
Net debt	17,9	20,1	19,0	17,4	15,0
COVER	**28,4**	**30,6**	**30,6**	**30,8**	**31,1**

Source: Itway Group and Integrae SIM forecasts. (2014 adjusted for extraordinary personnel costs)

Fig. 3 – Cash Flow Statement

€m Data	2014	2015	2016F	2017F	2018F
N.F.P. at year beginning	-16,6	-17,9	-20,1	-19,0	-17,4
Cash Flow	1,0	1,8	2,6	3,0	3,9
NWC Change	0,1	-2,2	-1,0	-1,3	-1,3
PSF and Tax F. Allocations	0,0	0,0	0,0	0,0	0,0
Operating Cash Flow	**1,1**	**-0,3**	**1,6**	**1,8**	**2,6**
Capital Expenditures	-1,4	-1,0	-0,4	0,6	0,6
Financial Investments	-0,5	-0,5	0,0	0,0	0,0
Sale of Fixed Assets	0,0	0,0	0,0	0,0	0,0
Free Cash Flow	**-0,8**	**-1,8**	**1,2**	**2,4**	**3,2**
Dividends	0,0	0,0	0,0	0,0	0,0
Change in Equity	0,0	0,0	0,0	0,0	0,0
Others	-0,5	-0,3	-0,1	-0,8	-0,8
Change in NFP	-1,3	-2,1	1,1	1,6	2,4
N.F.P. at year end	-17,9	-20,1	-19,0	-17,4	-15,0

Source: Itway Group and Integrae SIM forecasts.

Valuation

Itway operates in a cyclical industry, but we believe that the gradual set up of an integrated approach to the customer and the shift of the revenue mix toward those with higher added value, make it possible to mitigate significantly the overall cyclicality of the business and hence risk enterprise. In other words the average duration of contracts, together with the possible operational synergies unexpressed, should allow in the coming years, a volatility of lesser results than the main comparables.

Business visibility and risk related, are two very important elements as evaluating a company, especially in an economic situation like the current one that sees companies struggling with a much higher business risk than the average of the past five years.

We lead Itway valuation through two evaluation methods: the DCF and multiples. For the DCF we have taken our point estimates up to 2017F and then assumed a growth rate of 5% of revenues up to 2019F.

Below our input data:

Fig. 4 – Main input data

Main Input	
BTP 10 years gross yield	1,3%
Beta levered	0,80
1-T=t (tax rate)	34,1%
Debt/D+E	70,0%
Equity/D+E	30,0%
Rm-Rf=risk premium	8,6%
Ke=cost of capital=Rf+beta*(Rm-Rf)	8,2%
1-t	65,9%
interest rate	3,5%
Kd=cost of debt=(1-t)*interest rate	2,3%
LT growth	1,00%
WACC	**4,07%**

Source: Itway Group and Integrae SIM forecasts

- the risk-free rate is the average gross yield Rendistato (Bank of Italy) of bonds maturing between four years and seven months and six years and six months related to the period March 2015 - February 2016;
- the market premium is calculated by Prof. A. Damodaran for Italy, 8.6% (updated January 2016);
- The unlevered beta used is equal to 0.552. The same has been determined based on the average for the same sample of comparable securities Beta used for the equity value determination with multiple methodology. Please note that the choice of time period (five years) and the frequency of observations (weekly) was chosen as a function of maximizing the significance of linear regression expressed by the parameter R2. The Beta unlevered resulting from the linear regression (0.331) has been corrected on the

basis of the following formula: Adjusted Beta = 0.331 * 0.67 * 0.33 + 1 (See EJ Elton, Gruber MJ, SJ Brown, WN Goetzmann - Modern Portfolio Theory and Investment Analysis - John Wiley & Sons, 2009), coming to determine the unlevered beta equal to 0.552. The same was then levered based on the average D/E normalized so coming to determine the Beta levered, 0.80.

- Long term growth of 1% conservative rate, consistent with the cyclical nature of the business and only providing the long-term recovery of inflation.

This results in a WACC of 4.07%. Following our model:

Fig. 5 – DCF Model

Discounted cash flow (Eur mln data)	2016F	2017F	2018F	2019F	2020F	TV
Sales	106,5	115,1	124,4	133,1	143,8	
EBIT	3,2	4,0	4,9	5,2	5,6	
EBIT margin	3,00%	3,46%	3,92%	3,92%	3,92%	
Tax rate	31,4%	31,4%	31,4%	31,4%	31,4%	
Taxes	2,2	2,7	3,3	3,6	3,9	
NOPAT	**1,0**	**1,3**	**1,5**	**1,6**	**1,8**	
Depreciations	0,7	0,8	0,9	0,9	0,9	
Gross operating cash flow	**1,7**	**2,1**	**2,4**	**2,5**	**2,7**	
Net working capital change	-1,0	-1,0	-1,0	-1,0	-1,0	
Net operating cash flow	**0,7**	**1,1**	**1,4**	**1,5**	**1,7**	
Capex	-0,3	-0,3	-0,2	-0,2	-0,2	
Free Cash Flow (FCF)	**0,4**	**0,8**	**1,2**	**1,3**	**1,5**	**1,2**
Discount factor	0,961	0,923	0,887	0,853	0,819	0,819
Discounted free cash flow	**0,40**	**0,69**	**1,09**	**1,14**	**1,20**	**32,0**
Sum of discounted cash flow	4,54					
Terminal value	31,97					
Enterprise value	36,51					
Net financial debt	-20,1					
Equity value	**16,42**					
Equity value per share	2,28					

Source: Integrae SIM forecasts

Our DCF model estimates the equity value (after the financial payables at 31 December 2015) of € 20,1 million, ie € 2,28 per share. Below is a table relating to the sensitivity analysis:

Fig. 6 – WACC and LTG Sensitivity Analysis

	2,57%	3,07%	3,57%	4,07%	4,57%	5,07%	5,57%
0,25%	4,19	2,93	2,06	1,41	0,91	0,51	0,19
0,50%	4,95	3,43	2,40	1,66	1,10	0,66	0,31
0,75%	5,93	4,03	2,80	1,95	1,31	0,83	0,44
1,00%	7,21	4,77	3,28	2,28	1,56	1,01	0,59
1,25%	8,98	5,72	3,87	2,67	1,84	1,22	0,75
1,50%	11,58	6,98	4,60	3,14	2,16	1,46	0,93
1,75%	15,77	8,70	5,52	3,72	2,55	1,73	1,13

Source: Integrae SIM forecasts

We also carried out an analysis of the multiples of a number of listed European companies. Our sample consists of European companies operating in different sectors of activity in which Itway work, the assumption that the average of the calculated ratios, also fall those Itway same.

Fig. 7 – Comparables

Company	P/E			EV/EBITDA			EV/EBIT		
	2015F	2016F	2017F	2015F	2016F	2017F	2015F	2016F	2017F
SYNNEX Corporation		14,2	12,9		8,1	7,5		9,3	8,4
EMC Corporation	14,4	14,1	13,4	7,4	7,1	6,8	9,9	9,7	9,2
Positivo Informatica S.A.							n.a.	n.a.	n.a.
Digital China Holdings Limi									
HP Inc.		6,8	6,6		6,3	6,0		6,6	6,7
TOTVS S.A.									
Average	14,43	14,17	13,17	7,42	7,58	7,14	9,95	9,46	8,78

Source: Integrae SIM forecasts and Infinancials

We calculate the equity value through the methodology of multiple, ad a € 25.0 mln. Then we have applied a discount of 20%, reaching a value of € 20.0 million, slightly higher than that resulted from the method of the discounted cash flow, DCF (€ 16.4). The average of the values resulting from different methodologies, is the target price: € 2.53 (from € 2.2) per share (excluding treasury shares).

The assessment of the reasonableness of the discount was calculated with regard to the lower liquidity (daily traded securities) compared to comparables. In this respect, account was taken also of the study by W. L. Silber (Discount on restricted stock: the impact of liquidity on stock prices in Financial Analysis Journal, vol. 47, 1997, pp 60-64, more recently confirmed by JD Finnerty, the impact of transfer restriction on stock prices, Working paper, Analysis Group / Economics, Cambridge, in October 2002, which identified an average variable discount of between 15% and 25%). The liquidity discount, unlike the minority discount, it is not necessarily incorporated into market prices (T. Onesti, minority discounts and cash discounts, Cedam, 2001). Customers should note that this study, which has found great application in the United States, was also recently called up by science Italian business as a tool for the evaluation of the discount for "lack of marketability" for listed securities characterized by low trading volumes such as not to render efficient price formation (so-called thin titles) (See Landa, Zacchini, Onesti, evaluation of Companies, Giappichelli 2013, p.531 and ss.gg.).

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29/5/2015	Buy	2,37	Medium	1Q15 Results
14/9/2015	Buy	2,10	Medium	1H15 Results
16/12/2015	Buy	2,20	Medium	9M15 Results

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Risk Total Return – ETR – for different risk and rating 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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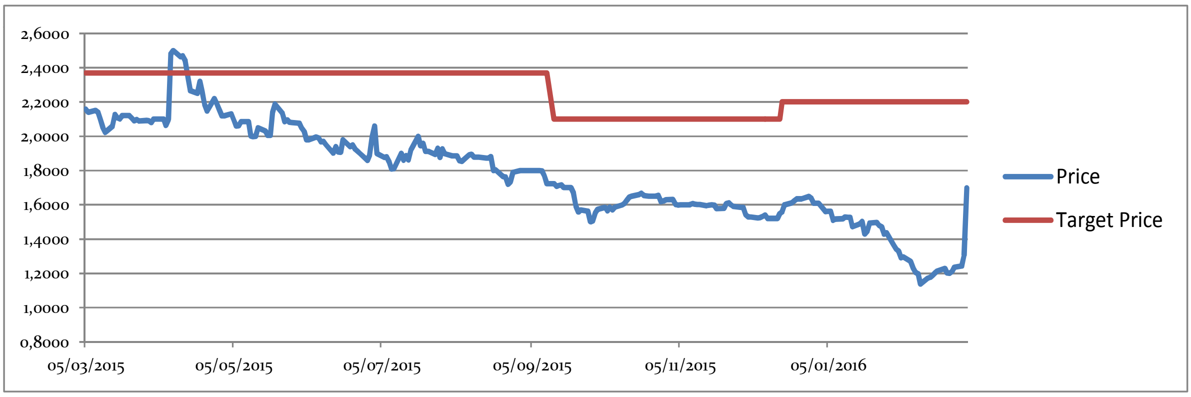

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