EDISON

Piteco

FY19 results

An excellent year

Software & comp services

Piteco Spa generated solid organic revenue and EBITDA growth in FY19 of 7% and 9% respectively and continued to benefit strongly from recent acquisitions. FY20 started very well, although the COVID-19 pandemic is likely to affect growth. It is still early days and Piteco is not directly affected. Indeed, its products can help steer financial and treasury decision-making at times of crisis. A potential global recession would be likely to cause a softening in the demand for Piteco's products. Piteco continues to trade at a discount to Italian and international software peers.

Year end	Net sales* (€m)	EBITDA** (€m)	EPS** (c)	DPS (c)	P/E (x)	Yield (%)
12/18	19.4	8.3	31.5	15.0	16.8	2.8
12/19	22.8	10.2	31.6	15.0	16.8	2.8
12/20e	24.6	10.5	36.1	17.50	14.7	3.3
12/21e	26.4	11.7	40.2	20.00	13.2	3.8

Note: *Excludes the capitalisation of development costs, change in work in progress and other revenues (largely expenses charged back to customers). **Normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

FY19 showed excellent underlying growth

During FY19 Piteco Group reported 19% revenue and 24% EBITDA growth, with a full benefit of the acquisition of Myrios (acquired in October 2018). Piteco Spa reported organic growth of 7% and 9%, respectively. Group EBITDA margin was an impressive 43% for the year. The underlying results were largely in line with our forecasts. Headline pre-tax and net profit were down heavily: this was due to the increased value of the Myrios put option and earnout causing higher non-cash P&L financial costs. As a reminder, the acquired asset cannot be revalued, and hence the excellent performance of Myrios – which has led to its increased value – is only reflected via the higher P&L financial cost. Excluding this non-cash charge, the net profit was up 8% in underlying terms.

Good underlying growth but COVID-19 caution

Our forecasts reflect relatively stable organic growth for the corporate treasury core business (Piteco Spa) with strong growth for Myrios (finance and risk management solutions), mainly thanks to recent commercial success with both corporates and bank clients. The acquisition of Everymake should enable cross-selling opportunities, and we believe further acquisitions are likely. Based on our FY20 forecasts, we estimate balance sheet headroom of at least €25–30m. We cut our revenue and EBITDA forecasts by 6% and 10% respectively to reflect the COVID-19 emergency. In a worst case scenario, we believe FY20 revenues could be 3% lower than in FY19, with EBITDA 7.5% below the FY19 level.

Valuation: At a discount to peers

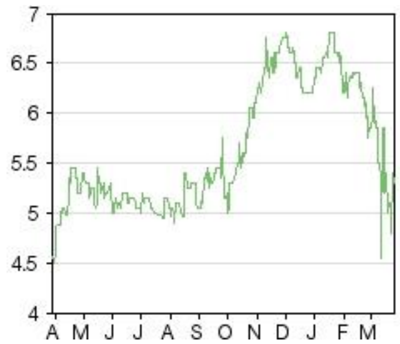
We believe the key attractiveness of Piteco is its ability to generate high profit margins while providing customers with a flexible and cost-effective solution. The stock is trading on 10x EV/EBITDA and 15x P/E for FY20, at a discount to large international software providers and small Italian software companies. Our DCF-based valuation falls to €6.0/share (from €6.7 previously).

26 March 2020

Price	**€5.3**
Market cap	**€95m**

Net debt (€m) FY19, excl. value of put options	14.6
Shares in issue	17.9m
Free float	27%
Code	PITE
Primary exchange	Borsa Italiana
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(13.1)	(14.5)	18.8
Rel (local)	16.7	19.1	46.8
52-week high/low		€6.8	€4.4

Business description

Piteco is Italy's leading company in designing, developing and implementing software for treasury, finance and financial planning management. Piteco Spa is core corporate treasury software, Myrios specialises in finance and risk management, and Juniper in digital payments and clearing houses.

Next events

AGM	29 April 2020
H120 results	29 September 2020

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Edison profile page

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FY19 a good year

During FY19, Piteco Spa generated solid organic revenue and EBITDA growth of 7% and 9% respectively and strongly benefitted from recent acquisitions. While we previously expected organic growth to continue for Piteco Spa and an acceleration for Myrios and Juniper, we take a more cautious view in light of the COVID-19 pandemic. It is still too early to gauge its full impact, but we have cut our revenue forecasts by 7–8%. However, we see balance sheet headroom for further M&A, which could strengthen the growth outlook (albeit with execution risks). Piteco continues to trade at a discount to Italian and international software players.

Piteco organic growth and Myrios lead to excellent FY19

Piteco reported strong revenue and EBITDA growth during FY19 thanks to organic development and the full benefit of the acquisition of Myrios (October 2018). We provide more detail on the key trends in the full year results below.

- Group revenues grew 19% y-o-y to €24.0m, with the growth principally stemming from subscription fees, which in FY19 accounted for 60% of total revenues.
- EBITDA growth of 24% y-o-y to €10.2m was driven by strong revenue growth and margin expansion (to 42.6% in FY19 from 40.9% in FY18) also thanks to the higher margins of Myrios.
- Pre-tax profit declined by €2m, to €3.7m in FY19 due to an increase in non-cash charges. Financial costs were up €2.7m due to the one-off impact of the revaluation of the outstanding put options that Piteco granted to the shareholders of Myrios and Juniper.
- Net income of €3.0m versus €5.3m in FY18 also declined due to the increase in non-cash financial charges. Piteco provides an adjusted underlying net income figure of €5.7m, which is 8% higher than in FY18.
- Net debt (excluding put options) reduced to €14.6m (from €15.3m at the end of FY18 and €14.8m at end H119) thanks to free cash-flow generation, partly offset by the dividend payment (€2.7m) and the second tranche of the payment for Myrios (€2.9m). Including the value of the put options, net debt was €27.5m at end FY19 (vs €26.8m at end FY18). As a reminder, 50% of the value of the Myrios put option (hence at least €5.6m) will be paid via new share issuance.

Piteco growth to continue, Juniper to accelerate

In light of the COVID-19 pandemic, we have cut our forecasts. While we previously expected organic growth in the corporate treasury core business (Piteco Spa) to maintain the same trajectory, we now believe growth may slow materially in FY20 as new clients decide to preserve cash and defer spending on their IT and management systems.

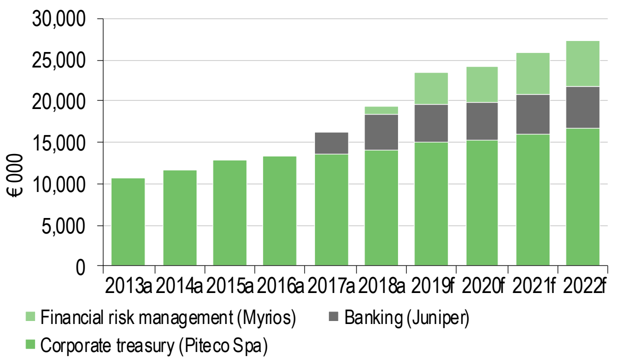
- Piteco Spa is the core corporate treasury business, which includes the group's broad treasury management software activities. This business develops and delivers treasury and financial planning solutions, primarily to the Italian market, but it is also expanding internationally. Piteco Spa signed 40 new clients in FY19, beating the number of new client additions in previous years. We now expect 38 new clients in FY20 (previously 44).
- Myrios offers software solutions for finance and risk management areas, targeted at banks (60% of revenue) and large corporates (40% of revenue). Myrios Switzerland (based in Geneva) was set up in February 2019 to help internationalise Piteco group's existing products. Myrios witnessed extremely strong growth in FY19 (revenues up 33%, EBITDA up 39%). While we would expect the growth to moderate somewhat, we still expect double-digit revenue growth

in the shorter term, as Myrios Switzerland continues to expand internationally and Myrios Srl also widens its client base as well as benefitting from recurring fees from existing clients.

- Juniper Payments (digital payment and clearing house) is a US payments software business focused on the correspondent banking space. FY19 witnessed broadly flat sales as a new client chose to defer its start date. We previously expected a revenue and margin improvement in FY20 following a year of significant investments in several new projects, which resulted in a reduction in EBITDA margin during FY19. We now expect another flat year in FY20 as again new clients may choose to conserve cash and defer projects to FY21.

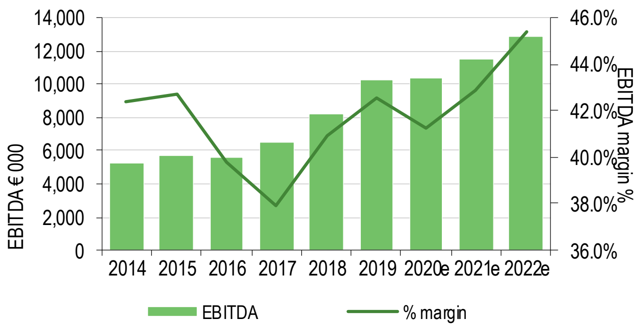
We expect robust group revenue growth (6% CAGR 2020e–22e) to translate into solid earnings progression (normalised EPS CAGR of 10%). Favourable business mix should continue to help drive EBITDA margin improvement (Myrios has higher margins and a higher growth rate than the Piteco base business). Our forecasts only reflect organic growth for the group but we believe further acquisitions could strengthen the outlook. As discussed above, we have cut our FY20 revenue forecasts by 7% to reflect the potential effects of the COVID-19 pandemic. We have left growth rates in subsequent years broadly unchanged at this stage.

Exhibit 1: Revenue breakdown by business



Source: Company data, Edison Investment Research

Exhibit 2: Group EBITDA and EBITDA margin



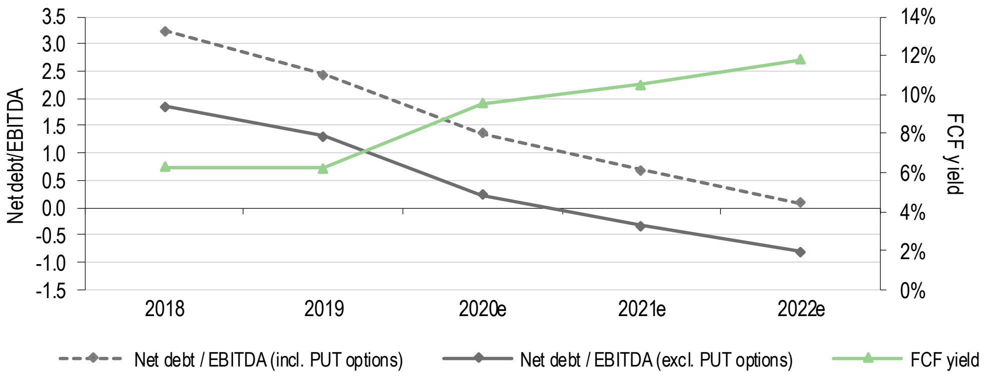
Source: Company data, Edison Investment Research

Everymake the latest addition, but balance sheet headroom remains for further acquisitions

Piteco Group has expanded significantly via acquisitions over the last few years with three deals in four years (Centro Data in 2015, Juniper in 2017 and Myrios in 2018). With good cash flow generation (10% FCF yield 2019) leverage ratios well below the covenant thresholds and the prospect of further organic growth in the next few years, we expect the company to consider further acquisitions.

Existing bank loans have the covenants of net debt/EBITDA <3x and net debt/equity <1x. Hence, based on our FY20 forecasts, both covenants suggest a net debt ceiling of c €30–40m (assuming no new EBITDA contribution from acquisitions) versus our year-end FY20 forecast of c €10.5m net debt (assuming full conversion of outstanding convertible bonds by FY20 and excluding the value of the put options related to Myrios and Juniper, which are not considered in the covenant calculations), leaving at c€25-30m of balance sheet headroom.

Exhibit 3: Leverage and FCF yield



Source: Company data, Edison Investment Research

Everymake

Piteco announced the acquisition of a branch of Everymake on 19 March. The acquired business produces cloud software for data matching, mainly of financial products. It offers vertically-integrated solutions across a number of sectors including utilities, financials, consumer credit, financial leasing and factoring. The acquired business is complementary to Piteco's existing business and will allow cross-selling opportunities. The acquisition is expected to close on 31 March 2020 and Piteco will pay the first tranche of the acquisition price, which is €0.55m in cash. The potential second tranche will be determined at 31 December 2022, based on Everymake's EBITDA performance, and will be structured as an earn-out.

Forecasts: Revenue and EBITDA cuts

We have cut our revenue and EBITDA forecasts in light of the COVID-19 pandemic. It is still too early to determine the full impact of the pandemic given we do not know how long the disruption will last, nor the ultimate cost to the global economy. We recognise that Piteco's business is not directly affected by the coronavirus outbreak; indeed, its products can help steer financial and treasury decision making at times of crisis. That said, a potential global recession would be highly likely to cause a softening in demand for Piteco's products, as new and existing customers choose to conserve cash and delay upgrading their internal systems. As a reminder, Piteco's customers are medium- and large-scale corporates, so are less likely to face a longer-term liquidity crisis. In addition, its customers do not operate in the sectors that are most affected by the temporary restrictions, such as leisure and tourism.

We assume that during FY20 Juniper's revenues are flat, as any potential new customers choose to delay implementing new software to conserve cash. We also assume that Piteco Spa and Myrios gain fewer new customers than previously forecast. As a reminder, c85% of their business is derived from recurring fees from existing clients, while c15% of their business stems from new customers. We assume the recurring fees continue on their previous trajectory. In addition, we incorporate the Everymake acquisition into our forecasts. This results in the forecast changes detailed in Exhibit 4.

We also run a worst case scenario. This assumes no new customers are gained by Piteco Spa and Myrios during Q2 and Q3. In other words, new customer growth for FY20 is halved. Our other assumptions remain unchanged vis-à-vis our base case. Our worst case scenario results in FY20 sales of €22.2m, or 3% below the FY19 level. Our FY20 EBITDA would move to €9.5m, or 7.5% below the FY19 level.

Exhibit 4: Forecast changes

€000s		2019	2020e	2021e	2022e
Net sales revenue	NEW	22,774	24,568	26,450	28,046
	OLD	23,944	26,030	27,919	29,664
	% change	-5%	-6%	-5%	-5%
EBITDA	NEW	10,238	10,484	11,722	13,179
	OLD	10,628	11,678	12,600	14,709
	% change	-4%	-10%	-7%	-10%
Operating profit (before amort. and exceptionals)	NEW	7,255	8,521	9,819	11,335
	OLD	7,855	8,860	9,836	11,998
	% change	-8%	-4%	0%	-6%
Net income	NEW	3,017	6,733	7,693	8,993
	OLD	6,071	6,894	7,562	9,198
	% change	-50%	-2%	2%	-2%

Source: Company data, Edison Investment Research

Valuation: Discount to international and Italian players

We believe the key attractiveness of Piteco is its ability to generate high profit margins while providing customers with a flexible and cost-effective solution The historical growth track record, the earnings growth outlook and sustained cash-flow generation support further investment opportunities that could strengthen the growth outlook. The stock is trading on 10x EV/EBITDA and 15x P/E for FY20, at a discount to large international software providers and small Italian software companies.

Our DCF-based valuation falls to at €6.0/share. This is based on a 4% CAGR for net revenues over 10 years, a long-term EBITDA margin of 42%, a WACC of 9% and terminal growth rate of 2%.

Exhibit 5: Peer valuation metrics

	Share price	Market cap	EV/sales (x)		EV/EBITDA (x)		PE (x)	
	Local currency	€m	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2
Piteco	5.00	93	4.5	4.0	10.5	9.1	13.9	12.4
Large global ERP/accounting software providers								
Microsoft	140.40	1,067,889	7.1	6.3	15.5	14.0	24.7	22.0
Oracle	47.27	149,070	4.4	4.3	9.3	9.0	12.2	11.2
SAP	89.07	110,255	4.0	3.7	11.7	10.5	16.2	14.4
Intuit	225.07	58,628	7.5	6.8	20.5	18.3	29.7	26.3
Workday	113.87	26,418	5.9	4.9	27.1	22.1	50.4	40.3
Sage	579.8	6,562	3.5	3.3	13.7	13.2	19.8	18.2
Xero	63.94	9,064	12.5	9.9	63.7	42.9	738.3	132.3
Median			**5.9**	**4.9**	**15.5**	**14.0**	**24.7**	**22.0**
Small software companies quoted in Italy								
TXT e-solutions	4.63	61	NaN	NaN	12.6	9.2	48.1	33
Neurosoft	0.84	22	NaN	NaN	NaN	NaN	NaN	NaN
Expert System	1.70	68	2.1	1.9	10.2	6.6	NaN	NaN
Tas Tecnologia Avanzata dei Sistemi	1.60	135	NaN	NaN	NaN	NaN	NaN	NaN
Primi Sui Motori	1.65	21	NaN	NaN	NaN	12.7	NaN	NaN
Median			**2.1**	**1.9**	**11.4**	**9.2**	**48.1**	**33.0**

Source: Refinitiv, Edison Investment Research. Note: Priced at 18 March 2020.

The key upside or downside risks to our forecasts are higher or lower customer acquisition at Piteco Spa, stronger or slower than expected revenue acceleration at Myrios or Juniper, higher/lower contribution from international clients (Myrios Switzerland) and higher or lower margins. Furthermore, we believe M&A activity would represent a significant growth opportunity and generate execution risks. The COVID-19 pandemic is the largest unknown at present, with the scale and duration of any economic downturn potentially affecting the business.

Exhibit 6: Financial summary

€'000s	2017	2018	2019	2020e	2021e	2022e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue	17,046	20,214	24,039	25,496	27,453	29,098
Net Sales Revenue	16,374	19,374	22,774	24,568	26,450	28,046
EBITDA	6,457	8,266	10,238	10,484	11,722	13,179
Operating Profit (before amort. and except.)	6,110	6,486	7,255	7,255	8,521	9,819
Amortisation of acquired intangibles	(956)	(87)	0	0	0	0
Exceptionals	(1,160)	(327)	(270)	0	0	0
Share based payments	0	0	0	0	0	0
Operating Profit	3,994	6,072	6,985	8,521	9,819	11,335
Net Interest	(537)	(340)	(612)	(600)	(550)	(500)
Fair value adjustments	0	0	(2,694)	0	0	0
Profit Before Tax (norm)	5,573	6,146	6,643	7,921	9,269	10,835
Profit Before Tax (FRS 3)	3,457	5,732	3,679	7,921	9,269	10,835
Tax	(72)	(467)	(662)	(1,188)	(1,576)	(1,842)
Profit After Tax (norm)	5,501	5,679	5,713	6,733	7,693	8,993
Profit After Tax (FRS 3)	3,385	5,265	3,017	6,733	7,693	8,993
Average Number of Shares Outstanding (m)	18.1	18.0	18.1	18.7	19.1	19.1
EPS - normalised (c)	30.3	31.5	31.6	36.1	40.2	44.2
EPS - FRS 3 (c)	18.7	29.2	16.7	36.1	40.2	44.2
Dividend per share (c)	15.00	15.00	15.00	17.50	20.00	22.50
Gross Margin (%)	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA Margin (%)	37.9	40.9	42.6	41.1	42.7	45.3
Op Margin (before GW and except.) (%)	35.8	32.1	30.2	33.4	35.8	39.0
BALANCE SHEET						
Fixed Assets	39,348	60,884	62,088	60,715	59,446	58,275
Intangible assets and deferred tax	37,834	58,763	58,053	58,181	58,307	58,423
Tangible Assets	1,486	2,098	4,015	2,513	1,119	(169)
Investments	28	23	20	20	20	20
Current Assets	9,526	11,171	10,742	18,479	22,174	26,400
Stocks	0	0	0	0	0	0
Debtors	4,096	4,808	6,475	6,682	6,891	7,004
Cash	5,154	5,834	3,754	11,285	14,770	18,883
Current Liabilities	(8,425)	(10,439)	(16,044)	(16,851)	(17,638)	(18,357)
Creditors	(6,100)	(4,360)	(6,308)	(7,115)	(7,902)	(8,621)
Short term borrowings	(2,325)	(6,079)	(9,736)	(9,736)	(9,736)	(9,736)
Long Term Liabilities	(10,533)	(30,480)	(25,367)	(22,555)	(19,742)	(16,930)
Long term borrowings	(9,354)	(26,549)	(21,476)	(18,664)	(15,851)	(13,039)
Other long term liabilities	(1,179)	(3,931)	(3,891)	(3,891)	(3,891)	(3,891)
Net Assets	29,916	31,136	31,419	39,789	44,240	49,388
CASH FLOW						
Operating Cash Flow	5,670	7,223	7,223	10,660	11,856	13,408
Net Interest	(538)	(336)	(612)	(600)	(550)	(500)
Tax	(309)	(648)	(467)	(930)	(1,109)	(1,483)
Capex	(400)	(624)	(547)	(590)	(635)	(673)
Acquisitions/disposals	(9,830)	(10,018)	(2,495)	(1,791)	0	0
Financing	0	0	0	0	0	0
Dividends	(3,094)	(2,698)	(2,707)	(2,710)	(3,264)	(3,826)
Net Cash Flow	(8,501)	(7,101)	396	4,038	6,298	6,926
Opening net debt/(cash)	(1,946)	6,525	26,794	27,458	17,115	10,817
Other	30	(13,168)	(1,060)	6,304	0	0
Closing net debt/(cash)	6,525	26,794	27,458	17,115	10,817	3,891

Source: Company data, Edison Investment Research

Note: net debt includes the value of put options

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